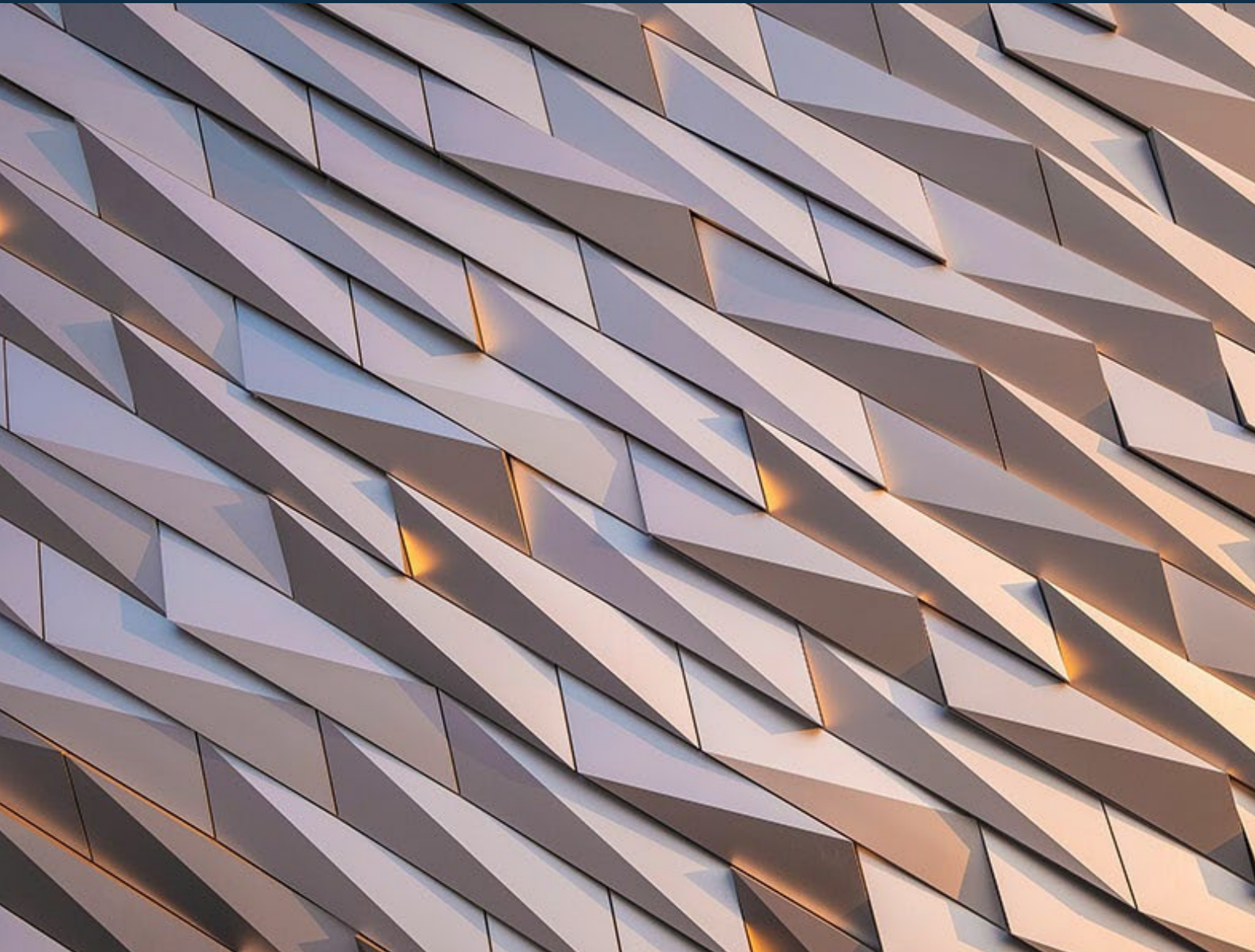


EVLI

# Atlas Monthly Equity Navigator

AUGUST 2025



## The Return of Rotation in August

The earnings season was a major success for AI companies and US mega-cap technology firms, driven by strong reports and record capital expenditure plans extending to 2026. US earnings grew by 12% while European earnings advanced by 3%. Earnings in both regions were notably better than anticipated. The headwinds for European earnings have been stronger currencies and US tariffs, with earnings forecasted to grow by 0% in Q3.

Rate cut hopes also strengthened in the US on expectations for a September move, fueled by very weak employment data over the summer. Inflation fears have also resurfaced, amidst stubborn inflation figures and rising long bond yields. Elsewhere, the macro news has been more of a mixed bag, with weak industrial production and exports globally contrasting with strong capital expenditure growth driven by technology sector investments.

Equity markets also presented a mixed picture, with Japan soaring on renewed optimism for continued market reforms and a recovering economy. Value stocks outperformed in both Europe and the US. Small-caps were negative in Europe, while U.S. small-caps soared. The technology sector was weaker, while banks were strong. Globally, banks are the strongest performing sector this year. Among themes, European Defense is one of the best performing themes in 2025.

### 1. September Seasonal Stress

August did not bring a pause, although momentum moderated for high-flying technology stocks. The lack of new positive catalysts after a strong earnings season could lead to the typical seasonal volatility in September.

- **Global Slowdown May Be Short-lived...:** After a series of weaker US macroeconomic data, including employment growth, markets are pricing in five Fed rate cuts over the next 12 months—historically a positive environment for equities. Furthermore, the slowdown may prove to be short-lived amid less trade uncertainty and the combined effect of fiscal stimulus in Germany and the US, and ongoing monetary stimulus.
- **...But Higher Bond Yields and Inflation Potential Market Risks:** A similar event to late February this year, when rising bond market volatility triggered weakness in equity markets even before “Liberation Day”, could be triggered again. For example, this could occur if the weakening of the Fed’s independence became a bigger concern, or if inflation worries were to intensify further.

### 2. Buy European Comeback on Weakness

- **Europe's Resilient Growth Trajectory:** Europe's economy is poised for a positive shift from external headwinds to strong domestic drivers. Although growth may be soft in the latter half of the current year due to factors like trade tariffs and an appreciating euro, the outlook for 2026 and beyond is optimistic. Fiscal easing, especially in Germany, is expected to take hold and boost growth significantly above trend in the coming years. This domestic strength is the key to overcoming current challenges and securing a robust economic future.
- **Key Drivers of Domestic Strength:** The foundation of Europe's economic resilience lies in a robust labor market, effective monetary policy transmission, and substantial fiscal easing. The labor market, with record-low unemployment, is acting as a “shock dampener,” giving households the confidence to spend. The delayed benefits of easy monetary policy, combined with improved credit conditions, are also set to further support domestic demand.

## Global Equity Performance

August was mostly positive, first driven by the positive earnings season and hopes of rate cuts, but finished the month at a slightly weaker note. Japan was a clear outlier, while the rest of the pack were modestly higher. The weak US dollar dropped US equity returns into negative territory.

- **Japan in its own league in August:** Japan in its own league in August: In euro terms, Japan delivered a 4.6% return, while Nordic markets (3.1%) were not far behind. Europe (0.8%) lagged these, as emerging markets (-0.8%) and the US (-0.4%) lagged the broad world index (0%).

### United States

- **August performance** was all about rotation driven by a comeback in value stocks. “Magnificent 7” (-1.1% in euros) lost some momentum. Among sectors, Materials and Healthcare led the performance.

## Europe

- Also in Europe, Healthcare was a clear winner, while Technology was the worst one in August. Small-cap stocks lost against larger stocks, while value outperformed growth firms.

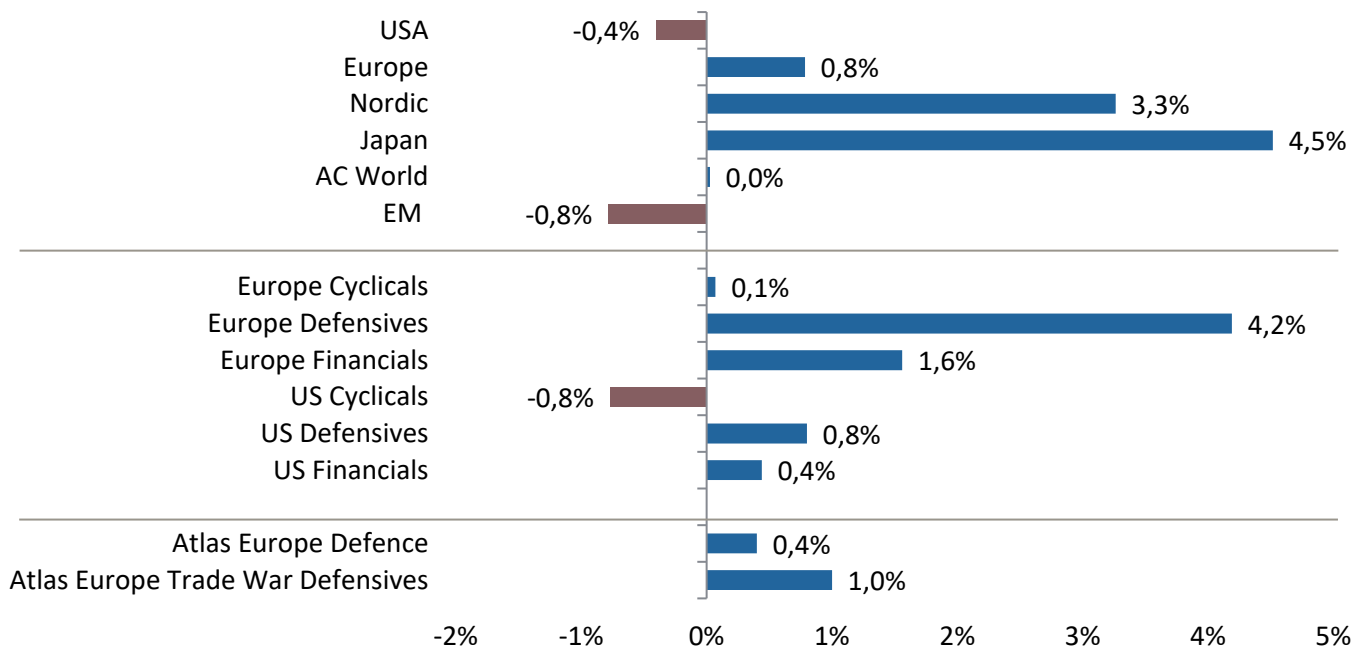
## Emerging Markets

- China and Brazil were up strongly during the month, while India and South Korea were lower. In 2025, South Korea remains the outperformer among major emerging markets.

## Themes & Styles

- **European Themes Update:**
  - **European Banks** have been the strongest sector in 2025, also globally. But the story remains intact: banks are still undervalued, and forward earnings forecasts and profitability continue to grow.
  - **European Defence** firms have taken a break and moved sideways over the summer. The next trigger would be another round of earnings upgrades; hence it remains an interesting theme despite the recent lackluster performance.
  - **Value companies** continue to do well and should do well in a recovery cycle.
  - **Another recovery theme** is small-caps, and is a sensible theme in this cycle, despite underperforming in August.
  - **New theme: Ukraine Rebuild strategy.** The theme builds on peace and stability in Europe, driven by a potential resolution in Ukraine. It presents an interesting investment opportunity to identify high-quality companies best positioned to benefit from both the direct rebuilding of Ukraine and broader European economic normalization.

## Atlas Equity Chart of the Month: Equity market returns, euro returns August 2025



Source: Evli Atlas Portfolio Technologies; Total returns in euros.

## Slowdown Risks Wane as Global Economy Shows Resilience

The highly anticipated slowdown has yet to appear on a broader scale amid robust capital spending and earnings growth. Could better-than-expected growth and sticky inflation become a problem again for the Fed, in a situation where the Trump administration is threatening the independence of the central bank. Bond market volatility may rise, which could be a problem for equity markets. All eyes are now on the US employment and inflation data for August before the Fed meets on September 17th.

Europe feels some tariff hangover, but the good news is that Germany will start its fiscal stimulus already in Q4 according to recent forecasts. Hence, the slowdown in the region may be milder than expected, while the Eurozone will start to get the effects from the easier monetary policy as well as the fiscal stance. Europe stands as a candidate for more positive growth surprises over the coming months. This would support the European Comeback theme further.

The conclusion is that global equity markets have become more interesting in 2025 as there are more attractive themes than AI-related US mega-techs to pick from into one's equity portfolio. Furthermore, the risk of a multi-year depreciation trend in the uber-expensive US dollar makes US equity themes more complex for a non-dollar investor. Global diversification makes sense again.

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### What is Atlas?

Atlas is an intelligent platform empowering investors to build and manage highly personalized equity portfolios. Leveraging data and AI, we craft strategies aligned with your precise investment style, objectives, and sustainability goals—from classic value to emerging themes like AI.

- **True Personalization:** Go beyond generic models. Our AI helps craft strategies that perfectly reflect your vision.
- **Unprecedented Flexibility:** Don't get locked in. Shift from value to growth, or adjust thematic tilts, as your outlook evolves.
- **Powered Customization:** If our expert-designed, ready-made portfolios don't fit, our Atlas team of seasoned portfolio managers, with the help of our proprietary AI engine, will build a unique strategy for you.

**Invest intelligently. Adapt instantly. That's Atlas.**

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