ASSET PULSE

INTRODUCING THE EQUITIESFIRST LIQUIDITY PULSE
A new measure of lending conditions

KEY MARKET AND CAPITAL TRENDS
Timely actionable insights each month

ISSUE 1 JULY 2025

FOR PROFESSIONAL INVESTORS

MONTHLY DIGEST

THE 'SELL-AMERICA' TRADE IS DISRUPTING MARKETS FROM EUROPE TO JAPAN

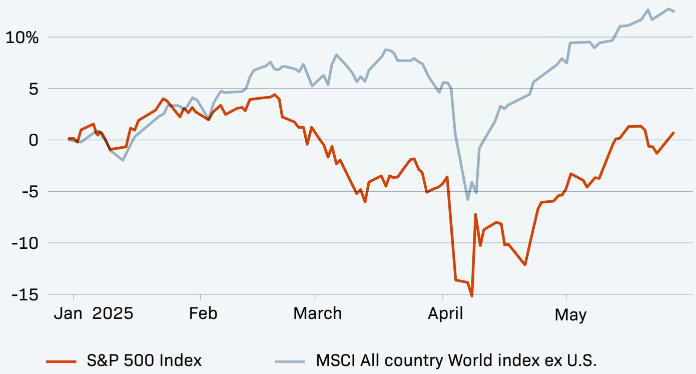
'Sell in May and go away' is a well-worn adage among US investors, warning of seasonal underperformance and thin liquidity over the summer months. But May 2025 was more about "sell America", with three consecutive weeks of outflows from US equity funds adding to the relative underperformance of US markets since the start of the year.[1]

After that kind of underperformance, it's reasonable to ask whether some investors have gone for good. Recent market movements, however, suggest otherwise: risk assets rallied following a ceasefire ending a 12-day war between Iran and Israel.[2] The S&P 500 index has slowly crept up in June and is slightly up from the level at the start of the year.

Still, the relative weakness in US equities this year is a sign that confidence in the long-term performance of US stocks – driven by easy credit, a booming tech sector, and productivity growth — is eroding. Recent policy signals and geopolitical maneuvers from US President Donald Trump have raised fears of stagflation and elevated geopolitical risks.[3]

A GLOBAL REBALANCING

After underpinning U.S. stocks for 15 years, foreign stocks are staging a comeback with strong gains year-to-date



Source: Barron's
Disclaimer: Please note that past performance is not a reliable indicator of future performance.

For a long time, US equities relied heavily on valuation expansion, with stock prices outpacing earnings or dividend growth. Between 2011 and 2024, studies show that multiple expansion accounted for the majority of returns in seven of the 12 years that US stocks outperformed globally.[4] It led to increasing concentration, with the US representing over 70% of developed market capitalization in 2024.[5]

A shift could be underway.

In the first five months of 2025, global investors redirected US$139 billion into emerging markets and global or European stock and bond funds.[6] The US dollar has fallen roughly 9% against both the euro and yen, reducing the appeal of dollar-denominated assets.[7] A survey of more than 70 global central banks in June found that nearly three-quarters expected to hold lower US dollar holdings within global reserves over the next five years, with gold rising in popularity.[8]

Bond markets are also reacting. Tariff-driven inflation and widening deficits are expected to keep US rates elevated, depressing bond prices. In contrast, non-US dollar bonds in many other markets have attracted inflows as investors expect central banks to cut rates to combat a slowdown in global trade.[9]

Japanese government bonds have also been impacted by this shift in global capital flows. A surge in yields in May has raised questions over the yen's status as a traditional haven, as investors scrutinize debt levels and the impact of lower trade on the export-oriented economy.[10]

Broader trends, however, point to continued confidence in risk assets globally. Worldwide equities hit record highs in early June, suggesting that investors remain optimistic.[11]

However, while investors may have come back to US markets since selling some of their exposure in May, the question now is whether the traditional tailwinds behind the US markets have gone – and not just for the summer.

THE EQUITIESFIRST LIQUIDITY PULSE: A NEW MEASURE OF LENDING CONDITIONS

Introducing a proprietary composite index, designed to provide our clients with insights into liquidity conditions around the world.

COMPOSITE LIQUIDITY INDEX

Equal-Weighted, Jan 2006-Mar 2025

INDEX OVERVIEW

INDEX
REFLECTS COST AND AVAILABILITY OF BANK CREDIT

INSIGHTS
INTO GLOBAL LIQUIDITY CONDITIONS

19 YEAR
PERIOD OF TRACKED DATA

EquitiesFirst is pleased to present the EquitiesFirst Liquidity Pulse, a new proprietary composite index that reflects the cost and availability of bank credit, and is designed to provide our clients with insights into liquidity conditions around the world. The index a purely indicative editorial feature: it has no connection to any EquitiesFirst product, it is not tradable, nor is it a benchmark of any kind. The inputs to the index are a mix of lending and market indicators, as described in more detail below.

In this article, we provide an overview of the index, as well as commentary on the period that it covers. And while the available data does not yet cover the recent period of tariff-driven volatility, the Index clearly reflects periods of differing lending conditions in the past, as well as demonstrating that conditions have now plateaued after a post-pandemic rise. In addition, we show that the market indicator components of the index are currently experiencing their most challenged period yet.

COMPOSITION

The EquitiesFirst Liquidity Pulse composite index is made up of a selection of market and lending indicators, with the index providing a composite snapshot of financing conditions based on the availability of, and cost of, credit.

Reflecting the cost of credit and market conditions are the 10-year US Treasury yield, the Federal Reserve's Broad Dollar Index, and the CBOE Volatility Index (VIX). Despite the turmoil of recent months, US Treasury yields still underpin global lending markets, and so serve in our index as a proxy for the underlying cost of borrowing.

The Broad Dollar Index is a trade-weighted measure of dollar strength against a basket of other currencies. The VIX, meanwhile, being a measure of expected equity market volatility, acts as a proxy for broad market conditions and sentiment – and is frequently among the market indicators to react quickest in a crisis.

To reflect the availability of lending, we take measures of outstanding lending across some of the economies that are of particular importance to us and our clients. Today the index includes lending in the UK, the euro area, Singapore, Hong Kong, Japan, and China, although more economies could be added in future.

The three market indicators – 10-year yields, the dollar index, and the VIX – all rise when financial conditions tighten, which is when credit typically becomes scarcer and more expensive. Treasury yields rise to reflect rising interest rates, which in turn can reflect actual or feared inflation. Yields also rise when demand for Treasuries is poor, something that is itself often a cause for concern.

THE EQUITIESFIRST LIQUIDITY PULSE: A NEW MEASURE OF LENDING CONDITIONS CONTINUED

The VIX reflects expected equity market volatility, as derived from the price of S&P 500 index options for the next 30 days. It thus measures investors' fear of future turmoil. A rise in the Broad Dollar Index, meanwhile, indicates tighter global financial conditions, in particular for those emerging market economies that have considerable dollar-denominated debt.

In order to correctly reflect the behaviour of these three series, we invert them before adding them to the index, so that they directionally match the measures of outstanding lending, which naturally rise when conditions loosen. Data for nearly all the indicators is reported monthly. For data that is reported quarterly, we forward-fill for the rest of the period using the most recent datapoint, until the next period is reported. At the time of writing, the data runs through March 2025.

CALCULATION

The period tracked by the Liquidity Pulse starts from January 2006, a decision that is in part a function of the availability of the various data series, but also to allow us to capture the important credit growth period in the lead-up to the global financial crisis in 2008.

The various indicators are converted into index components by z-score normalisation – a standard statistical technique that uses the mean and the standard deviation of each dataset to convert each monthly value into a number that represents that value's distance from the long-term average, either above or below.

This means that, unlike with a typical equity market index, there is no nominal starting value for the Liquidity Pulse. This is because at any point in time, the index is designed to reflect lending conditions relative to the long-term average for the whole period. The zero line reflects that long-term average, with negative and positive index values representing conditions that are respectively tighter or looser than the average.

Additionally, the movement of the composite index line itself reflects movements towards or away from that average. A falling line in positive territory, for example, indicates a tightening of conditions that are still broadly looser than average. And because the long-term average is recalculated when each new set of data is added, the index values are dynamic, with the entire index curve shifting every month to reflect the effect of the latest data on the long-term average.

Finally, the component parts of the index are equal-weighted rather than by GDP or any other factor. This was done to ensure the ability of the index to respond meaningfully to changes in conditions in smaller economies and to avoid an overwhelming bias toward two or three indicators originating from the biggest markets.

THE EQUITIESFIRST LIQUIDITY PULSE: A NEW MEASURE OF LENDING CONDITIONS CONTINUED

COMMENTARY

The path of the EquitiesFirst Liquidity Pulse index so far broadly reflects two distinct loosening periods, two sharp crises, and two additional periods where conditions tightened, albeit less dramatically.

The two years leading up to the explosion of the global financial crisis in September 2008 were marked by strong credit growth, a weaker dollar, and relatively lower volatility. There is a period of slower growth after the crisis, followed by a period of worsening conditions, before another climb towards the end of the 2010s. The last year has trended down slightly.

Two downward spikes can be clearly seen. The first reflects the sudden and violent increase in equity market volatility in 2008, which was also accompanied by relative dollar strength as the ramifications of the crisis spread across the world.

The second spike, of roughly the same magnitude in the Liquidity Pulse, marks the onset of the Covid-19 pandemic in early 2020, with volatility again moving sharply.

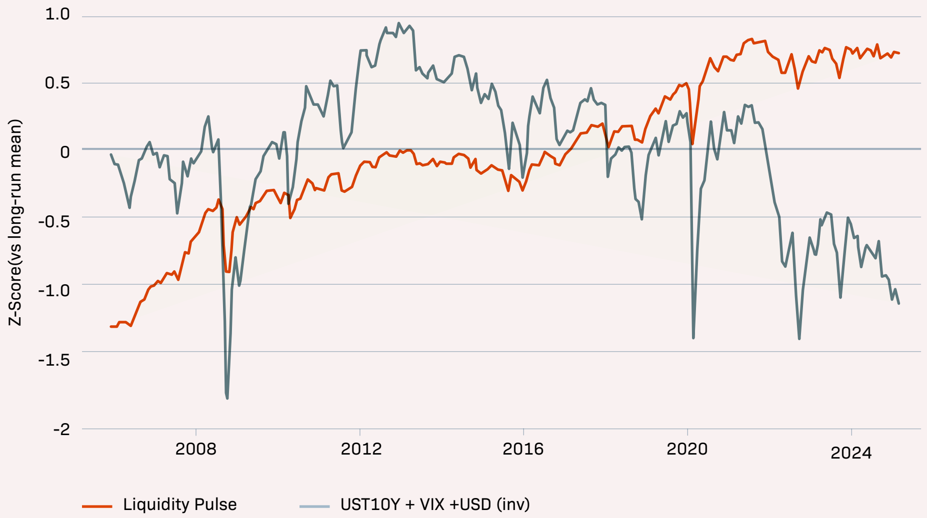
After an initial shock to markets, both crises were characterised by surges in liquidity as governments mobilised to keep credit flowing, often through dramatic interventions and rate cuts. The period of easy money and growth of credit during the two years after the start of the pandemic is especially visible in the chart.

One notable observation can be made from the plot of a composite of just the three market indicators, overlaid onto the overall Liquidity Pulse (Chart 2). The long period of better-than-average conditions is evident, but more striking still is the sharp downturn in 2022. In fact there has been no period in our chart where the market indicators have been so far below the average for as long as they have been in the last three years.

These are the kinds of conditions when alternative sources of credit can prove useful, as conditions tighten in traditional bank lending markets, both in terms of availability and cost. Securities-backed financing offers another avenue for asset owners to tap, and one that can be particularly useful if anticipating a bout of increased equity market volatility.

It remains to be seen to what extent the market indicators trend of recent years is a leading indicator of a downturn in the overall Liquidity Pulse index. But what can already be observed is a plateauing of the index, which has stayed broadly level since the initial pandemic surge. The index currently ends at March 2025, meaning that the tariff-induced trade war and its associated volatility is not yet reflected. The coming months will reveal their effects.

LIQUIDITY PULSE COMPOSITE VS MARKET COMPONENTS



About Liquidity Pulse
Liquidity Pulse is a proprietary composite index that tracks global credit and liquidity conditions across a selection of major economies, drawing on both market-based signals and central bank-reported lending data. It is a purely indicative editorial feature: it has no connection to any EquitiesFirst product, it is not tradable, nor is it a benchmark of any kind.The index runs from January 2006. Market indicators are the US 10-year Treasury yield, the CBOE Volatility Index (VIX), and the Broad Dollar Index, each of which is inverted. Lending data is taken from central banks in six economies: UK (M4 lending), euro area (loans to non-financial corporations), Singapore (commercial bank lending by industry), Hong Kong (loans and advances by licensed banks), Japan (loans and discounts, total of major and regional banks), and China (total loans). Each data series is standardised using z-score normalisation, with index values reflecting deviations from average for whole time period. All indicators are weighted equally.

KEY MARKET AND CAPITAL TRENDS

EquitiesFirst monitors critical market and industry trends relevant to our clients, providing timely and actionable insights each month.

THE ROBOTS ARE COMING. BUT WILL THEY COME FROM CHINA?

As the frenzy around artificial intelligence gives way to the search for commercial applications, robots are once again capturing investors' attention. China appears to be leading the charge, with humanoid robots making headlines and specialized service robots gaining real-world traction. Though the industry faces challenges around precision and safety, powerful factors like automation demand and demographic shifts will fuel further innovation.

READ THE FULL ARTICLE HERE

BUILDING THE DIGITAL INFRASTRUCTURE FOR AN AI-READY ASIA

Amid considerable uncertainty over the future of global trade, investing in Asia's digital infrastructure is emerging as a long-term asset play that offers protection from inflation and less exposure to international policy surprises. Increased demand for digital services by Asia's growing middle class is already leading to the build-out of digital infrastructure attracting some of the world's biggest tech companies.

READ THE FULL ARTICLE HERE

IS AUSTRALIA'S ENERGY TRANSITION ABOUT TO GO NUCLEAR?

The global energy transition is driving increased demand for critical minerals, with uranium emerging as a key beneficiary. As nuclear energy adoption grows, uranium is seeing stronger and more stable demand, making nuclear-themed stocks an attractive option for investors. **Australia, home to 33% of the world's uranium resources**, plays a critical role in this dynamic.

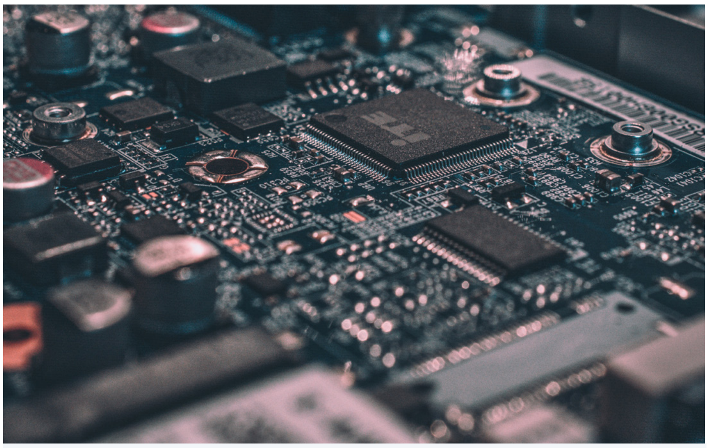
READ THE FULL ARTICLE HERE

KEY MARKET AND CAPITAL TRENDS CONTINUED

HOW INDIA-UAE CONNECTIVITY CAN DRIVE GROWTH IN A DEGLOBALIZING WORLD

While global stock markets are shaken by discussions of tariffs and trade wars, one promising trend is the deepening economic ties between India and the UAE. Capital, investment, and the flow of people, has increased significantly in the past several years between these two countries, resulting in greater numbers of deals and investments. Growth-focused investors who want access to this trend will need to manage their exposure carefully in order to navigate the current volatility in Indian markets, and FX risks with the Indian rupee.

READ THE FULL ARTICLE HERE



DESPITE NEW US TARIFFS, JAPAN REMAINS KEY FOR EAST-WEST HIGH-TECH SUPPLY CHAINS

Growing US-Japan tech cooperation could prove to be a refuge from a global trade war, as these two countries still have a highly symbiotic relationship in technology trade. Japan remains key for East-West high-tech supply chains and there are big opportunities for long-term value creation for the most enterprising Japanese firms in this sector. Navigating this shift in North Asia's economic development will have big implications for wealth creation.

READ THE FULL ARTICLE HERE

TIME TO LET PRIVATE CREDIT FUND PUBLIC GROWTH

As the UK grapples with sluggish growth and rising debt costs, traditional policy solutions may not be enough to kickstart the economy. With tariffs adding pressure and inflation keeping rates high, promoting better access to credit from all sources will be a critical part of the solution. Private credit, including alternative lending backed by real assets and other forms of collateral, could hold the key to unlocking the growth Britain desperately needs.

This article was first published in the Opinion section of UK magazine Investment Week.

READ THE FULL ARTICLE HERE

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NOTES

1 https://www.reuters.com/world/china/global-markets-flows-graphic-2025-06-06/
2 https://www.bloomberg.com/news/articles/2025-06-23/s-p-500-edges-up-as-traders-assess-impact-of-strike-on-iran
3 https://www.wsj.com/economy/central-banking/fed-minutes-highlight-concerns-over-higher-prices-169b36c5
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