Deutsche Bank
Chief Investment Office

PERSPECTIVES

ECONOMIC AND ASSET CLASS OUTLOOK

June 2025

MACROECONOMICS
Bilateral reset & deficit spending

FIXED INCOME
Fiscal drivers to the fore

EQUITIES
Rebound complete; upside remains

Letter to Investors

New impetus for investors

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Global CIO

Robust economic dynamism, moderate inflation prospects, and solid domestic consumption: not so long ago all these attributes would have been associated with the U.S. in particular. But times have changed: the world's largest economy is now facing multiple challenges of its own making. By contrast, the outlook for the Eurozone has improved somewhat – although there too, and especially in Germany, exports are likely to be hit by higher U.S. tariffs.

While peak uncertainty about future U.S. trade policy should be behind us, its concrete impact on economies and capital markets is far from clear. Against this background, we expect the pace of growth in Europe and the U.S. to converge from different directions. While there are no winners in global trade disputes, the U.S. is likely to be hit particularly hard by its self-imposed import tariffs.

A more balanced view in capital markets is emerging: all major stock indices have managed to rebound from the losses they incurred as a result of President Trump's declaration of "reciprocal tariffs" in early April, following their temporary reduction that was announced just a week later. The same is true of the U.S. stock market, which is characterised by high tech earnings momentum and is less burdened by tariffs than the real economy. Looking ahead over the next 12 months, we expect to see further gains in the mid-single-digit percentage range in equity markets in the U.S., Europe, Japan and the global emerging economies, albeit with continued high levels of volatility.

And what does this complex set of factors mean for investors? Basically, we think it might make sense for them to reconsider the composition of their portfolios. This is because the strong capital inflows into the U.S. market in recent years are likely to slow and thus provide scope for broader regional diversification of investments – for example, within the framework of a long-term, strategic asset allocation including active duration management. The focus could be, for example, on stocks from Germany and tech stocks from the U.S., as well as EUR corporate bonds with good credit ratings.

Let us systematically develop your personal strategy.

Christian Nolting

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Macroeconomics: Bilateral reset & deficit spending

- Growth: U.S. economy slowing, Eurozone catching up.
- Tariffs: Still little clarity, no winners, but U.S. consumer bearing the brunt.
- Fiscal policy: Not the time for austerity.

In Q1, the **U.S. economy** shrank at an annualised rate of 0.2%, a sharp reversal from last year's solid 2.8% growth. A surge in imports contributed to the downturn as businesses and consumers stockpiled goods in anticipation of higher tariffs. Peak uncertainty over trade policy is likely behind us, but clarity on its economic impact is still lacking. Weakening sentiment among households and businesses due to President Trump's on-off tariffs suggests slowing momentum going forward. Following promising preliminary trade agreements with the UK and China, there have been disagreements in talks with other key trading partners recently. Moreover, attention has shifted to President Trump's budget bill. If passed by Congress, deficit spending is expected to help stabilise GDP growth at 1.2% in 2025 and 1.3% in 2026.

As higher tariffs feed through, we project price pressures to increase in H2 2025. This could push CPI inflation to 3.3% in 2025 and hold it at 3.2% in 2026. Assuming the labour market remains robust, the Fed should remain cautious (to tame inflation expectations and prevent second-round effects) and gradually lower its policy rate to 3.25%-3.50% by the end of June 2026.

Q1 GDP in the **Eurozone** grew by 0.3% QoQ. Solid domestic demand supported by easing inflation and lower borrowing costs should continue to lay the groundwork for further growth. While tensions in the bilateral trade reset between Brussels and Washington are weighing on business sentiment, fiscal expansion due to the EU defence initiative and Germany's relaxation of fiscal constraints are expected to gradually kick in over the next quarters, boosting GDP growth to 1.1% in 2025 and 1.4% in 2026. Lower energy costs and a stronger EUR should help keep inflation close to the ECB's 2% target this year and next, allowing for two more cuts over the next four quarters, i.e. lowering the deposit rate to 1.75%.

Japan's economy is expected to recover slowly for the remainder of the year. Robust wage growth should bolster domestic demand and offset a decline in foreign demand. We project a 0.9% increase in GDP and 3.0% CPI inflation for 2025, enabling the BoJ to raise its policy rate from 0.5% to 1.0% by mid-2026. Higher borrowing costs should help reduce inflation to 2.0% in 2026 – at the expense of slower GDP growth (0.7%).

In **China**, the recent de-escalation of the trade dispute has fuelled hopes for a final deal with Washington. To mitigate the impact of higher U.S. tariffs and bolster domestic consumption, Beijing is counting on deficit spending and moderate monetary easing. However, these measures will likely hinder efforts to reduce the oversupply of goods and limit price and growth dynamics. Against this backdrop, reaching this year's 5% growth target appears challenging. We expect real GDP growth to decline to 4.0% in 2025 and slow further to 3.8% in 2026.

Fixed Income: Fiscal drivers to the fore

- Sovereign yields to stay high amid fiscal strain and rising term premiums.
- Credit markets holding firm with solid fundamentals and appealing yields.
- EM spreads may widen as geopolitical risks remain underpriced.

U.S. Treasury yields have been elevated as the latest fiscal bill being debated in the U.S. confirms the government's inability to curb deficits, raising long-term debt concerns. Bond vigilantes are expected to stay active, pushing yields higher in response to high fiscal deficits. Elevated rates volatility adds further uncertainty, clouding monetary policy expectations. Meanwhile, the term premium has begun to rise, reflecting increased compensation demanded by investors for holding longer-duration debt amid fiscal and inflationary risks. These dynamics suggest continued elevated yields and a more volatile environment for Treasury markets (June 2026, 10-year yield target: 4.50%; 2-year yield target: 3.75%).

Strong currency hedged yields available to U.S. investors on long-duration **German Bunds** along with lingering doubts about U.S. Treasuries as the "global safe haven" may prompt international investors to reallocate toward Bunds. However, Bund yields will continue to remain elevated from increased issuance to finance fiscal spending on defence, infrastructure and transformation initiatives (June 2026, 10-year yield target: 2.50%; 2-year yield target: 1.60%).

Italian bond yields will continue to benefit from strong EU cooperation amid geopolitical tensions. Along with a resilient domestic economy, the outlook remains stable, supporting low risk premiums for Italian debt.

The **investment grade (IG)** credit market has recovered well from tariff-related spread widening. Attractive yields and strong technicals continue to support USD IG. In Europe, EUR IG remains appealing amid robust growth outlook, especially in Germany. Both markets are well-supported, with investor sentiment buoyed by stable fundamentals and the high quality of this space. The attractive income opportunity should remain highly valued by investors.

The **high yield (HY)** market has rebounded post-Liberation Day, with strong issuance and demand in both the U.S. and Europe. USD HY is supported by 7.5% yields and manageable maturities, while EUR HY faces political and sector-specific risks. Default rates are expected to rise modestly. While spreads may widen from current tight levels due to macro uncertainty, yields remain historically attractive.

EM Sovereign spreads remain vulnerable as President Trump's unpredictable tariff policy introduces persistent geopolitical and economic uncertainty. The current spread levels appear too tight to reflect near-term risks, suggesting potential for widening as investors reassess fundamentals and the direction of policy.

Equities: Rebound complete; upside remains

- Market outlook remains positive but volatile.
- U.S. earnings strong, with record buybacks and AI-driven capex.
- Global upside in Europe, EM and Japan – mostly on earnings.

Major stock markets have rallied strongly since the U.S. government paused its so-called reciprocal tariffs on April 9. Reduced risk of a tariff-driven downturn, improved financial conditions, lower stock market volatility, and a solid earnings season prompted investors to shift from underweight to neutral equity positions. In the meantime, all major indices have rebounded from their losses triggered by "Liberation Day".

We see further upside over the next 12 months, though the path may be volatile, with risks from a renewed escalation of the trade conflict and a resurgence of recession fears if hard data weakens significantly. Investors should therefore be prepared for turbulent markets in the coming weeks and months. Current valuations do not reflect any major growth concerns. Accordingly, we see little scope for further multiple expansion. That said, the recent rise in consumer confidence illustrates the fragile situation can go either way. We therefore recommend a diversified equity allocation across regions and sectors.

In the U.S., corporate earnings once again demonstrated resilience in Q1. **S&P 500** earnings grew 14% YoY, beating expectations by 6.5 ppts, with three out of four companies surpassing estimates. Many firms reaffirmed capex plans, particularly hyperscalers, who not only maintained but in some cases expanded their AI-related investments. Strong financial positions also led to record share buybacks. In the space of three months a total of USD500bn worth of buybacks were announced. We are therefore confident that S&P 500 companies can post high-single-digit earnings growth over the next 12 months, and we raise our target to 6,100.

European equities have outperformed year-to-date, driven by improving economic momentum, ECB rate cuts, falling energy prices, and expectations of increased fiscal spending. We see further upside, especially as European stocks are still trading at steep discounts to their U.S. peers – which we believe are no longer justified. Our new target for the **STOXX Europe 600** is 570 points.

Emerging Markets also offer upside potential, supported by a weaker USD and more trade deals with the U.S. We forecast the **MSCI Emerging Markets** to reach 1,220 points within 12 months. Moving over to Japan, which has led global earnings revisions recently, we see a more subdued upside ahead. We believe the headwinds from JPY appreciation, rising government bond yields and higher inflation will partially offset the upside from the earnings strength of Japanese corporates. We therefore see a mild rise in **MSCI Japan** to our 1,720-point target.

Commodities: Gold holding its ground

- Gold bolstered by trade conflicts and concerns about public debt.
- Trade concerns weighing on copper's upside potential.
- OPEC+ scaling back its voluntary cuts, but oil prices reaching a floor.

After reaching a record high of USD3,500/ounce on April 22, the **gold** price dropped by about 12% when a temporary de-escalation occurred in the trade conflict between the U.S. and China. In particular, long positions on U.S. futures markets were significantly reduced. However, strong demand from central banks and Asian investors continues. The ongoing uncertainty about the U.S. tariffs that can be expected following the 'tariff pause' and their impact on the global economy, as well as the recently heightened concerns about the sustainability of public debt, particularly in the U.S., continue to attract investment funds seeking a "safe haven". In the future, there may still be occasional profit-taking and short-term price setbacks. However, gold's function as a hedge against downturns in other segments of the financial markets is likely to keep demand high. Our forecast is USD3,700/oz for June 2026.

Copper prices have become significantly distorted in recent months as potential tariffs on copper imports to the U.S. have prompted prices at U.S. exchanges to trade higher than benchmark LME copper. These anomalies aside, copper prices at LME have been trading under the shadow of the potential growth impact from U.S. trade restrictions despite the physical demand indicators pointing to strong underlying demand at present. The weaker USD and tight supply bode well for the price (June 2026 Copper target: USD9,590/t).

Oil prices remain subdued as the demand growth outlook has been weakened by the upheaval in global trade caused by the U.S. tariffs. OPEC+ has added to the pressure on prices as it rolls back its additional voluntary production cuts of around 2.2 mbbl/d with monthly additions to output quotas. However, oil prices have now fallen to breakeven levels for a large portion of the U.S. oil producers, significantly suppressing their ability to expand output. This should slow non-OPEC+ supply growth from the extremely robust levels seen last year. Nevertheless, this is unlikely to prevent oversupply in the global oil market this year and next year. Iranian supply remains a known unknown with newsflow recently balanced between a positive and negative outcome for its oil production (June 2026 Brent target: USD63/bbl).

Just like other risk assets, **carbon** prices also came under significant pressure in the aftermath of April 2 as fossil fuel prices declined. However, we expect the price to slowly tick upwards from current levels in preparation for next year when the surplus supply of credits is likely to start receding as the sectors covered by the carbon border adjustment mechanism will see their free allocation phased out. In addition, the phase-in period for the maritime sector will end and they will have to surrender 100% of their allowances (instead of 70% previously).

Currencies: Headwinds for the USD persist

- USD under pressure due to tariff policy and fiscal concerns.
- EUR in demand despite trade conflict with the U.S.
- JPY remains a “safe haven”. China resisting strong CNY depreciation.

USD: Counterintuitively, the USD did not strengthen after the implementation of the U.S. tariffs. Concerns about the negative impacts of the tariffs on consumer sentiment and the U.S. economy outweighed the potentially higher inflation rates. In addition, there is the U.S. tax reform, which, if implemented as planned, would significantly increase the U.S. national debt. Investors have therefore increasingly demanded a higher risk premium on long-term U.S. Treasuries. The yield on 30-year USTs rose to 5.15%. The narrative in the financial markets is that the U.S. would prefer a weaker USD to stimulate exports, and that foreign investors could therefore reduce their holdings in U.S. Treasuries.

The **EUR** could benefit from this diversification. In addition, hopes for a stronger economic upturn in the Eurozone from 2026 are emerging as a result of the German infrastructure package. It is neither to be expected that the USD will lose its role as “the world’s reserve currency” in the foreseeable future, nor that there will be an extreme depreciation of the USD. However, the strong inflows into the USD in recent years are likely to give way to a stronger diversification effort by investors. We see EUR/USD at 1.18 at the end of June 2026.

GBP: In the UK, Q1 economic data exceeded market expectations, but inflation is also proving more persistent than the market had forecast. The BoE is therefore likely to act cautiously with regard to further rate cuts. The UK was also the first country to agree on a trade deal with the U.S., which has reduced the risks of an escalation in the tariff conflict. Looking ahead to June 2026, GBP should appreciate to GBP/USD1.40.

JPY: As Japan is one of the countries that could be hit hardest by U.S. import tariffs an agreement in this matter would therefore be important. Robust wage increases, record tourism revenues and the highest inflation rate of any G10 country at present would argue for further interest rate hikes by the BoJ. However, its recent comments remained very cautious. Meanwhile, the yields on 30-year and 40-year JGBs reached a record high. This could result in Japanese investors potentially repatriating funds from the U.S., which could exert additional upward pressure on the JPY alongside its status as a “safe haven” currency. We forecast USD/JPY at 130 at the end of June 2026.

CNY: China prevented a strong devaluation of the CNY, even during the phase when the U.S. imposed 145% import tariffs on Chinese goods. Apparently, Beijing does not want to alienate foreign investors. Recently, the CNY recovered to a six-month high. The economic data remains mixed, which is why Beijing is likely to launch further fiscal stimulus in the coming months. The CNY should depreciate mildly, nevertheless. Our target for the end of June 2026 is USD/CNY7.30.

Appendix

Macroeconomic forecasts

	2025	2026	Consensus 2025 (BBG*)
GDP growth rate (%)			
U.S.[1]	1.2	1.3	1.4
Eurozone	1.1	1.4	0.8
Germany	0.3	1.6	0.0
France	0.6	1.2	0.9
Italy	0.4	0.8	0.8
Spain	2.2	2.0	1.8
Japan	0.9	0.7	1.0
China	4.0	3.8	4.2
World	2.8	2.9	2.8
Consumer price inflation (%)			
U.S.	3.3	3.2	3.2
Eurozone	2.1	2.0	2.1
Germany	2.3	2.1	2.2
Japan	3.0	2.0	2.7
China	0.0	1.0	0.4
Unemployment rate (%)			
U.S.	4.4	4.7	4.4
Eurozone	6.3	6.3	6.4
Germany	6.1	5.8	6.3
Japan	2.4	2.4	2.5
China[2]	5.3	5.1	5.1
Fiscal balance (% of GDP)			
U.S.	-6.8	-6.8	-6.5
Eurozone	-3.4	-4.0	-3.3
Germany	-2.5	-3.2	-2.9
Japan	-3.5	-3.0	-3.6
China[3]	-9.0	-8.0	-5.6

*Bloomberg consensus. [1] For the U.S., GDP growth Q4/Q4 % is 2.2% in 2025 and 1.7% in 2026. [2] Urban unemployment rate (end of period), not comparable to consensus data. [3] China fiscal deficit refers to IMF general public sector deficit. It is not comparable with the consensus.

Source: Deutsche Bank AG, Bloomberg Finance L.P. Data as of May 27, 2025.

Appendix

Asset class forecasts for June 2026

Sovereign bond yields (%)

United States (2-Year U.S. Treasury)	3.75
United States (10-Year U.S. Treasury)	4.50
United States (30-Year U.S. Treasury)	4.70
Germany (2-Year German Bund)	1.60
Germany (10-Year German Bund)	2.50
Germany (30-Year German Bund)	3.00
United Kingdom (10-Year UK Government)	4.20
Japan (2-Year Japan Government)	1.00
Japan (10-Year Japan Government)	1.80

Benchmark rates (%)

United States (federal funds rate)	3.25-3.50
Eurozone (deposit rate)	1.75
United Kingdom (repo rate)	3.50
Japan (policy rate)	1.00
China (1-year lending rate)	2.60

Currencies

EUR vs. USD	1.18
USD vs. JPY	130
EUR vs. JPY	153
EUR vs. CHF	0.95
EUR vs. GBP	0.84
GBP vs. USD	1.40
USD vs. CNY	7.30

Equity indices

United States (S&P 500)	6,100
Germany (DAX)	25,600
Eurozone (EURO STOXX 50)	5,600
Europe (STOXX Europe 600)	570
Japan (MSCI Japan)	1,720
Switzerland (SMI)	12,500
United Kingdom (FTSE 100)	8,800
Emerging Markets (MSCI EM)	1,220
Asia ex, Japan (MSCI Asia ex Japan)	790
Australia (MSCI Australia)	1,600

Commodities (USD)

Gold (oz)	3,700
Crude Oil (Brent Spot, bbl)	63
Copper (t)	9,590
EU Carbon Allowances (Carbon Spot, t)	75

Corporate & EM bond spreads (bps)

EUR IG Corp	90
EUR HY	360
USD IG Corp	90
USD HY	350
Asia Credit	150
EM Sovereign	360

Source: Deutsche Bank AG. Data as of May 27, 2025.

Appendix

Historical performance

	28.05.2020-28.05.2021	28.05.2021-28.05.2022	28.05.2022-28.05.2023	28.05.2023-28.05.2024	28.05.2024-28.05.2025
Performance					
S&P 500	38.8%	-1.1%	1.1%	26.2%	11.0%
STOXX Europe 600	26.3%	-1.1%	3.9%	12.5%	5.8%
MSCI EM	47.1%	-23.3%	-6.7%	11.8%	7.0%
EURO STOXX 50	31.5%	-6.4%	13.9%	16.0%	6.9%
SMI	15.1%	1.9%	-1.8%	3.7%	2.8%
DAX	31.7%	-6.8%	10.5%	16.9%	28.7%
FTSE 100	12.9%	8.0%	0.6%	8.2%	5.7%
MSCI Japan	25.2%	-2.7%	13.2%	30.4%	-1.2%
MSCI Australia	23.4%	0.3%	-0.6%	9.9%	7.2%
MSCI Asia ex Japan	47.2%	-22.3%	-6.5%	11.6%	7.7%
2-Year U.S. Treasury	0.2%	-2.3%	-0.8%	3.5%	5.7%
10-Year U.S. Treasury	-5.7%	-9.0%	-4.7%	-2.2%	4.9%
30-Year U.S. Treasury	-14.8%	-15.2%	-13.6%	-7.7%	-1.1%
2-Year German Bund	-0.8%	-1.7%	-2.3%	2.0%	3.7%
10-Year German Bund	-1.9%	-9.5%	-10.8%	2.3%	-4.2%
30-Year German Bund	-9.8%	-20.8%	-31.5%	0.5%	-4.2%
10-Year UK Government	-5.3%	-8.1%	-16.2%	5.6%	1.3%
2-Year Japan Government	-0.1%	-0.2%	0.0%	-0.5%	0.0%
10-Year Japan Government	-0.4%	-1.1%	1.8%	-4.8%	-3.3%
EUR vs. USD	10.1%	-12.2%	0.1%	1.4%	3.9%
USD vs. JPY	2.0%	15.8%	10.6%	11.6%	-7.7%
EUR vs. JPY	12.3%	1.6%	10.7%	13.3%	-4.1%
EUR vs. CHF	2.8%	-6.5%	-5.4%	2.1%	-5.7%
EUR vs. GBP	-4.3%	-1.2%	2.2%	-2.0%	-1.5%
GBP vs. USD	15.1%	-11.2%	-2.1%	3.5%	5.5%
USD vs. CNY	-10.9%	5.2%	5.4%	2.6%	-0.7%
Gold (oz)	10.0%	-2.3%	4.8%	21.4%	40.0%
Crude Oil (Brent Spot. bbl)	97.3%	71.5%	-35.6%	9.4%	-22.9%
Copper (t)	93.2%	-7.8%	-14.3%	28.1%	-7.4%

Source: Deutsche Bank AG, Bloomberg Finance L.P., LSEG Datastream; Data as of May 28, 2025.

Glossary

The **Bank of England (BoE)** is the UK central bank.

The **Bank of Japan (BoJ)** is the central bank of Japan.

Breakeven point refers to the level at which the costs and returns of a product are equal.

Brent is a grade of crude oil used as a benchmark in oil pricing.

Bunds are federal bonds, i.e. German government bonds.

The **carbon border adjustment mechanism (CBAM)** is a policy tool being introduced by the EU to prevent carbon leakage by imposing a carbon price on imported goods from countries with less stringent climate policies. It ensures that imported products bear a cost similar to those covered under the EU's emission trading scheme (ETS).

CHF is the currency code for the Swiss Franc.

CNY is the currency code for the Chinese yuan.

The **consumer price index (CPI)** measures the price of a basket of products and services that is based on the typical consumption of a private household.

The **DAX** is a blue-chip stock-market index consisting of the 40 major German companies trading on the Frankfurt Stock Exchange; other DAX indices include a wider range of firms.

An **emerging market (EM)** is a country that has some characteristics of a developed market in terms of market efficiency, liquidity and other factors, but does not meet all developed market criteria.

EUR is the currency code for the euro, the currency of the Eurozone.

The **European Central Bank (ECB)** is the central bank for the Eurozone.

The **EURO STOXX 50 Index** tracks the performance of blue-chip stocks in the Eurozone and includes the super-sector leaders in terms of market capitalization.

The **Eurozone** is formed of 20 European Union member states that have adopted the euro as their common currency and sole legal tender.

The **Federal Reserve (Fed)** is the central bank of the United States. Its **Federal Open Market Committee (FOMC)** meets to determine interest rate policy.

The **Fed funds rate** is the interest rate at which depository institutions lend overnight to other depository institutions.

The **FTSE 100 Index** tracks the performance of the 100 major companies trading on the London Stock Exchange.

The **G10** comprises of Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States.

GBP is the currency code for the British pound/sterling.

Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

High yield (HY) bonds are higher-yielding bonds with a lower credit rating than investment-grade corporate bonds, Treasury bonds and municipal bonds.

Hyperscalers are very large-scale data centres that that use distributed computer systems to provide companies with business services in a flexible and scalable way.

An **investment grade (IG)** rating by a rating agency such as Standard & Poor's indicates that a bond is seen as having a relatively low risk of default.

JGB refers to Japan Government Bond i.e. a bond issued by the government of Japan.

Glossary

JPY is the currency code for the Japanese yen, the Japanese currency.

The **London Metal Exchange (LME)** is a major centre for industrial metals trading.

The term **long position** describes what an investor buys when buying a security or derivative in the hope that its value will increase.

The **MSCI Asia ex Japan Index** captures large- and mid-cap representation across 2 of 3 developed-market countries (excluding Japan) and 8 emerging-market countries in Asia.

The **MSCI Australia Index** tracks the performance of large- and mid-cap stocks in Australia.

The **MSCI EM Index** captures large and mid cap representation across 23 emerging markets countries.

The **MSCI Japan Index** measures the performance of around 323 large and mid-cap stocks drawn accounting for about 85% of Japanese market capitalization.

The **Organization of the Petroleum Exporting Countries (OPEC)** is an international organization with the mandate to "coordinate and unify the petroleum policies" of its 12 members. The so-called **OPEC+** brings in Russia and other producers.

The **S&P 500 Index** includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

Second-round effects (in the context of inflation) refer to the indirect effects of a rise in prices, for example on future wage levels.

A **spread** is the difference in the quoted return on two investments, most commonly used in comparing bond yields.

The **Stoxx Europe 600 Index** includes 600 companies across 18 European Union countries.

The **Swiss Market Index (SMI)** includes 20 large and mid-cap stocks.

The **term premium** measures the difference in yield to maturity of a longer-term bond compared to a shorter-term one.

Treasuries are bonds issued by the U.S. government.

U.S. is the United States.

USD is the currency code for the U.S. dollar.

Volatility is the degree of variation of a trading-price series over time.

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Publication date: June 2, 2025

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