Market **Update**

Are the US against us?

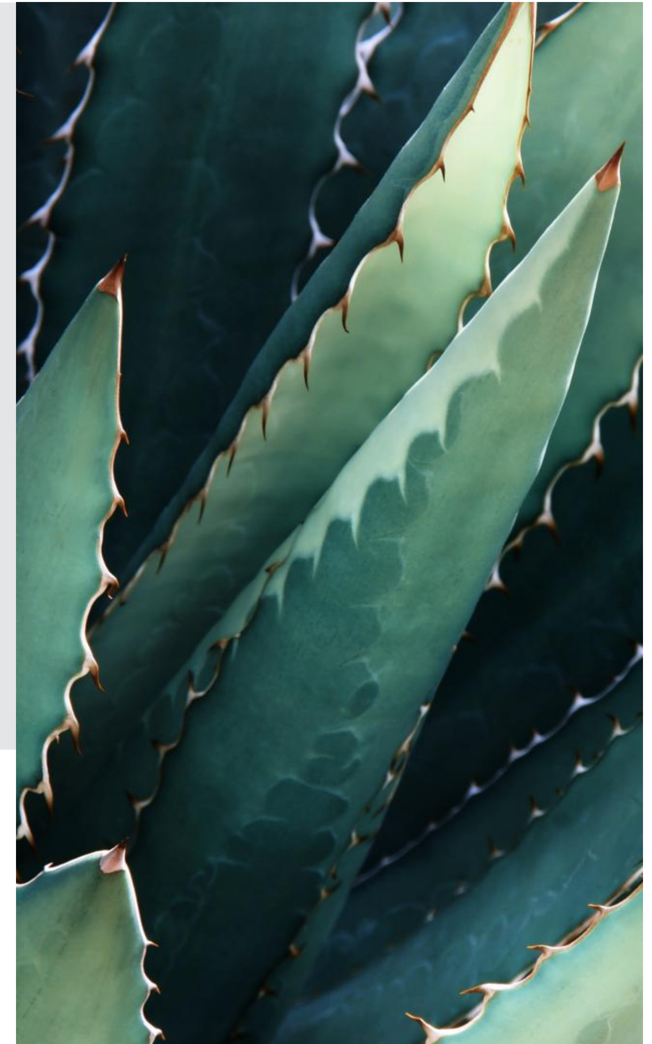
April 2025

Editorial

Financial markets in March were marked by heightened volatility and significant macroeconomic developments, as we tried to assess the impact of new US trade policies and evolving global economic conditions. From the Federal Reserve's cautious stance to President Trump's sweeping tariffs under "Liberation Day", these events introduced fresh complexities for policymakers and market participants alike.

Investor sentiment took a sharp hit, with the US Consumer Sentiment Index plunging to its lowest level in over two years. Trade tensions and tariff announcements have fueled inflationary pressures while dampening growth prospects, creating an environment of uncertainty. Meanwhile, the Euro is emerging as a potential risk-off currency, signaling a shift in investor behavior during periods of market stress. As correlations within U.S. equities remain historically low, defensive strategies may gain traction as investors brace for potential corrections.

We hope you enjoy reading and find these updates helpful for the month ahead.



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Global **Markets**

Global	Last	YTD	MTD
MSCI World	3,628.6	-1.7%	-4.4%
MSCI ACWI	827.2	-1.2%	-3.9%
MSCI Emerging Markets	1,101.4	3.0%	0.6%

United States	Last	YTD	MTD
Dow Jones Industrial	42,001.8	-0.9%	-4.1%
S&P 500	5,611.9	-4.3%	-5.6%
NASDAQ 100	19,278.5	-8.1%	-7.6%
Russell 2000	2,011.9	-9.5%	-6.8%

Europe	Last	YTD	MTD
Euro STOXX 600	533.9	5.9%	-3.7%
Euro STOXX 50	5,248.4	7.7%	-3.8%
DAX	22,163.5	11.3%	-1.7%
CAC 40	7,790.7	5.8%	-3.9%
FTSE 100	8,582.8	6.1%	-2.0%
Swiss Market Index (SMI)	12,598.1	10.0%	-1.9%

Sectors (US)		YTD	MTD
Communication Services		-5.9%	-8.5%
Consumer Discretionary		-14.0%	-8.7%
Consumer Staples		5.2%	-2.5%
Energy		9.5%	3.8%
Financials		2.3%	-4.8%
Health Care		6.5%	-1.8%
Industrials		-0.8%	-3.7%
Materials		3.0%	-3.4%
Real Estate		4.5%	-2.4%
Technology		-12.8%	-9.1%
Utilities		4.7%	0.4%

Commodities & Metals	Last	YTD	MTD
Gold (XAU)	3,123.6	19.0%	9.3%
Silver (XAG)	34.1	17.9%	9.4%
Copper	503.4	25.0%	11.5%

Currencies (USD)	Last	YTD	MTD
EUR	1.08	4.5%	4.3%
CHF	0.88	2.5%	2.1%
JPY	150.0	4.8%	0.4%
BTC	82,421	-12.1%	-2.1%

Fixed Income	Last	YTD	MTD
US Treasury	2,357	2.9%	0.2%
EUR Treasury	243	-1.3%	-1.8%
Global Aggregate	476	2.6%	0.6%
US Corporate	3,365	2.3%	-0.3%
Global EM USD	1,277	2.3%	-0.4%
Global High Yield	1,693	1.8%	-0.3%

Interest Rates (US)		Last month	End 2024
3 Months	4.29%	4.29%	4.31%
12 Months	4.02%	4.08%	4.14%
5 Year	3.95%	4.02%	4.38%
10 Year	4.21%	4.21%	4.57%

Price / Earnings Ratios		End 2024	End 2023
S&P 500	24.00	26.51	22.92
Euro STOXX 50	15.50	14.43	12.84
Swiss Market Index (SMI)	18.69	18.41	18.54

Data at close of 31/03/2025

Global **Markets**

Central Banks Targets Rates	Last	Q1 2025	Q4 2024	Q3 2024
United States	4.50%	4.50%	4.50%	5.00%
Eurozone	2.65%	2.65%	3.15%	3.65%
Switzerland	0.25%	0.25%	0.50%	1.00%
Canada	2.75%	2.75%	3.25%	4.25%
Japan	0.50%	0.50%	0.25%	0.25%
China (Req. Depo. Reserve Ratio)	9.50%	9.50%	9.50%	9.50%
India	6.25%	6.25%	6.50%	6.50%

Inflation (CPI - YoY)	Last	Q1 2025	Q4 2024	Q3 2024
United States	2.80%	N/A	2.90%	2.40%
Eurozone	2.20%	2.20%	2.40%	1.70%
Switzerland	0.30%	N/A	0.60%	0.80%
Canada	2.60%	N/A	1.80%	1.60%
Japan	3.70%	N/A	3.60%	2.50%
China	-0.70%	N/A	0.10%	0.40%
India	3.61%	N/A	5.22%	5.49%

Unemployment	Last	Q1 2025	Q4 2024	Q3 2024
United States	4.10%	N/A	4.10%	4.10%
Eurozone	6.10%	N/A	6.20%	6.30%
Switzerland	2.70%	N/A	2.60%	2.60%
Canada	6.60%	N/A	6.70%	6.60%
Japan	2.40%	N/A	2.50%	2.40%
China	5.40%	N/A	5.10%	5.10%

Gross Domestic Product (YoY)	Last	Q1 2025	Q4 2024	Q3 2024
United States	2.50%	N/A	2.50%	2.70%
Eurozone	1.50%	N/A	1.50%	1.30%
Switzerland	1.50%	N/A	1.50%	1.90%
Canada	2.20%	N/A	2.10%	2.00%
Japan	4.00%	N/A	4.00%	3.10%
China	5.40%	N/A	5.40%	4.60%
India (Real GDP)	6.15%	N/A	6.15%	5.58%

Producer Price Index (PPI - YoY)	Last	Q1 2025	Q4 2024	Q3 2024
United States	2.10%	N/A	2.70%	-0.80%
European Union	1.00%	N/A	0.40%	-1.50%
Switzerland	-0.10%	N/A	-0.90%	-1.30%
Canada	4.90%	N/A	4.14%	-1.02%
Japan	4.00%	N/A	3.90%	3.10%
China	-2.20%	N/A	-2.30%	-2.80%
India	2.38%	N/A	2.57%	1.91%

Purchasing Managers' Index	Last	Q1 2025	Q4 2024	Q3 2024
United States	49	49	49.2	47.5
Eurozone	48.6	48.6	45.1	45
Switzerland	48.9	48.9	47	48.9
Canada	46.3	46.3	52.2	50.4
Japan	48.4	48.4	49.6	49.7
China	50.5	50.5	50.1	49.8
India	57.6	57.6	56.4	56.5

Core Inflation (Core CPI - YoY)	Last	Q1 2025	Q4 2024	Q3 2024
United States	3.10%	N/A	3.20%	3.30%
Eurozone	2.40%	2.40%	2.70%	2.70%
Switzerland	0.90%	N/A	0.70%	1.00%
Canada	2.90%	N/A	2.10%	2.40%
Japan	1.50%	N/A	1.60%	1.70%

Consumer Spending (PCE - YoY)	Last	Q1 2025	Q4 2024	Q3 2024
United States	2.79%	N/A	2.86%	2.66%

Data as of 01/04/2025
N/A: Not yet reported or Public Holiday

March **Macro News**

- **The United States imposed a 25% tariff on imports from Mexico and Canada**, with temporary exemptions later granted for USMCA-compliant goods. In addition, a 10% tariff was imposed on Chinese imports, along with a 25% tariff on aluminum and steel products and a 25% levy on autos and auto parts.
- **The Federal Reserve held rates steady at 4.25–4.50% in March**, citing uncertainties about the economic impact of the Trump administration's policies. Their GDP projection was revised lower, but the median dot plot remained at 50bps of easing in 2025. The extent of the tariffs announced on 2 April further complicates the Fed's policy approach going forward, given the expected boost to inflation coupled with significant headwinds to economic growth.
- **The US Consumer Sentiment Index plummeted** to 57.0 in March, its lowest since November 2022, reflecting anxiety over tariffs, job security, and income prospects.
- **German Chancellor-in-waiting Friedrich Merz successfully passed a landmark reform** to Germany's "debt brake" and secured approval for a historic fiscal package aimed at defense and infrastructure spending.
- **The European Central Bank (ECB) and the Swiss National Bank (SNB) both reduced their policy rates** by 25bps, signaling that they are nearing the end of their respective easing cycles.
- **As geopolitical tensions remain high and inflationary pressures persist**, gold has risen to an all-time high. The rally reflects investor concerns about both recessionary risks and high inflation.

Key takeaways from **Liberation Day**

President Trump declared "Liberation Day," introducing sweeping tariffs to address the U.S. trade deficit and protect domestic industries.

Using emergency powers under the International Emergency Economic Powers Act (IEEPA), he imposed a baseline 10% tariff on all imports, with higher "reciprocal tariffs" for countries with significant trade deficits. The country most affected is China, with 54%, a combination of previous and new tariffs.

Why Is This Important?

The aim is to reduce the US trade deficit by penalizing countries that export more than they import from the US. Note that the so-called "tariffs imposed on the U.S." are very misleading and are calculated by dividing the trade deficit by total U.S. imports from that country.

However, these tariffs could lead to legal challenges, strained international relations, and retaliation from affected nations, especially China.

Economic Impacts

a) Growth Slowdown: Higher tariffs increase costs for businesses and consumers, potentially reducing economic growth by approximately 0.1% for every 1% rise in the effective tariff rate.

b) Inflation Pressure: Similarly, inflation could rise by 0.1% for every 1% increase in tariffs, making goods more expensive.

c) Market Uncertainty: The equity markets may face volatility as businesses adjust to higher costs and disrupted supply chains.

Opportunities for Negotiation

Trump has signaled openness to reducing tariffs if trading partners address non-reciprocal practices and align with U.S. economic and security priorities. The timing and conditions for such adjustments remain unclear for now.

This situation underscores the importance of balancing risk across global markets.

Reciprocal Tariffs

Country	Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
China	67%	34%
European Union	39%	20%
Vietnam	90%	46%
Taiwan	64%	32%
Japan	46%	24%
India	52%	26%
South Korea	50%	25%
Thailand	72%	36%
Switzerland	61%	31%
Indonesia	64%	32%
Malaysia	47%	24%
Cambodia	97%	49%
United Kingdom	10%	10%
South Africa	60%	30%
Brazil	10%	10%
Bangladesh	74%	37%
Singapore	10%	10%
Israel	33%	17%
Philippines	34%	17%
Chile	10%	10%
Australia	10%	10%
Pakistan	58%	29%
Turkey	10%	10%
Sri Lanka	88%	44%
Colombia	10%	10%

Page 1 of the tariff breakdown from the White House

US Manufacturers: **Already Liberated**

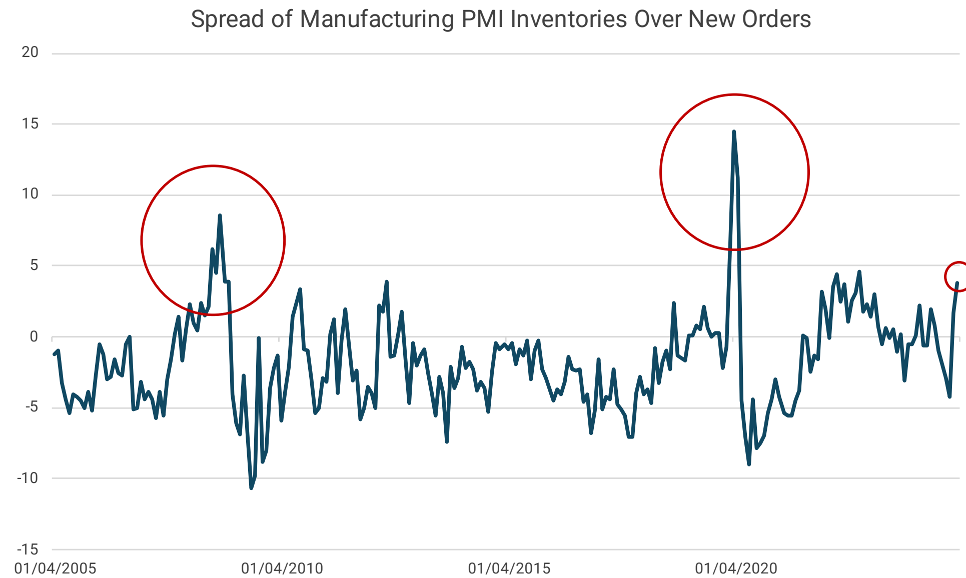
The Liberation Day hype has already had real consequences

Inventories have exceeded new orders by the largest margin in four decades, excluding the global financial crisis and the Covid lockdowns. If companies have excessive inventories but face fewer new orders, they are likely to cut production, which can slow economic activity.

The current inventory build-up is largely due to tariffs. In anticipation of higher import tariffs, companies accelerated their purchases, leading to an overhang of goods. This situation could lead to reduced production in the coming months. Whether this adjustment will prove temporary or mark a lasting shift in trade patterns remains uncertain, but for now it casts a pall over the outlook for manufacturing activity.

Adding to the concern is the rise in input costs for US manufacturers, as reflected in the "prices paid" component of the index. This rise is similar to the inflationary pressures seen in 2021, and is likely driven by tariff uncertainty, which has led to companies competing for materials and pushing up prices. Interestingly, manufacturers outside the U.S. have yet to experience similar cost increases, although retaliation from other countries could change this dynamic.

For now, these challenges make US assets less attractive and raise fears of stagflation - a worrying combination of slow economic growth and high inflation.



Correlations: **Why They Matter**

Correlation within S&P500 members is currently low, which according to historical patterns, could signal challenging times ahead.

Correlation in the stock market measures how much individual stocks move together. When correlation is high, most stocks go up and down at the same time - like friends all deciding to jump or sit together. When correlation is low (like now), stocks move more independently - some go up while others go down.

Since 1980, when correlation was in its lowest range (where we are now), the average future return was only about 6% annually. But when correlation was in its highest range, returns were nearly three times better at 16.8%.

Right now, correlation is extremely low partly because only large tech stocks have been leading the market while small companies, value stocks, and international stocks have been struggling. On top of that, the money supply has been shrinking for 16 consecutive months and interest rates have been higher for longer.

When correlation is low, a more defensive approach might be smarter, and the risk of market corrections or bear markets is higher.

Euro : a new **risk-off currency**

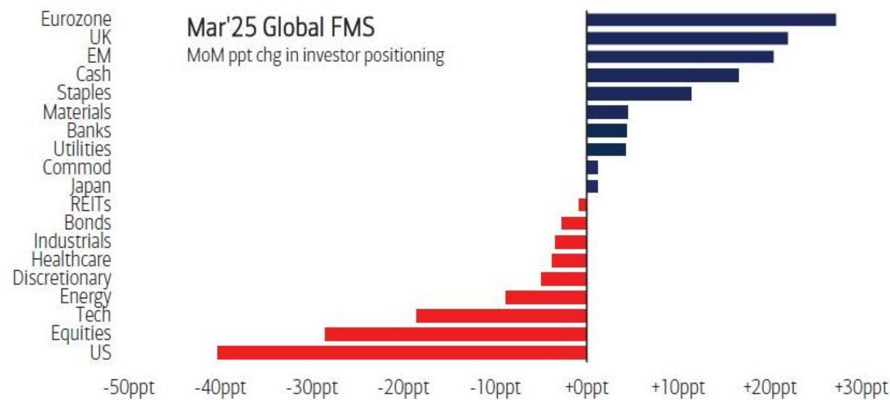
As capital leaves the US market, the euro is becoming less correlated with global risk.

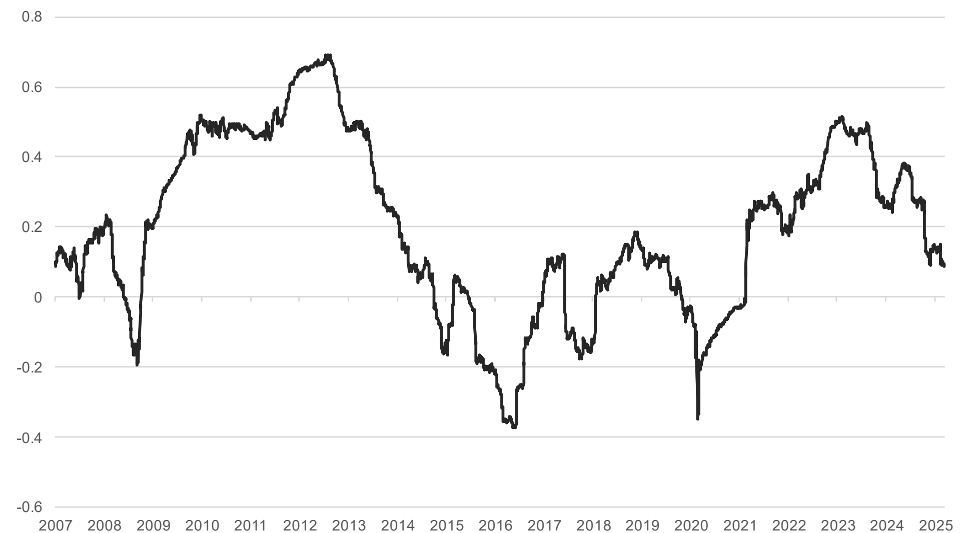
The Euro is increasingly displaying characteristics of a risk-off currency, strengthening during periods of market stress when investors typically seek safety.

For years, the EUR/USD and the S&P 500 maintained a strong positive correlation, often exceeding 0.5, with a weaker dollar typically providing tailwinds for stock market returns. This correlation became established around 2003 following the tech bubble burst, creating a pattern where Euro appreciation often coincided with rising US equity markets.

However, market developments in early 2025 indicate this long-standing relationship is breaking down. The Euro has demonstrated surprising resilience during recent market turbulence, behaving contrary to its traditional pattern.

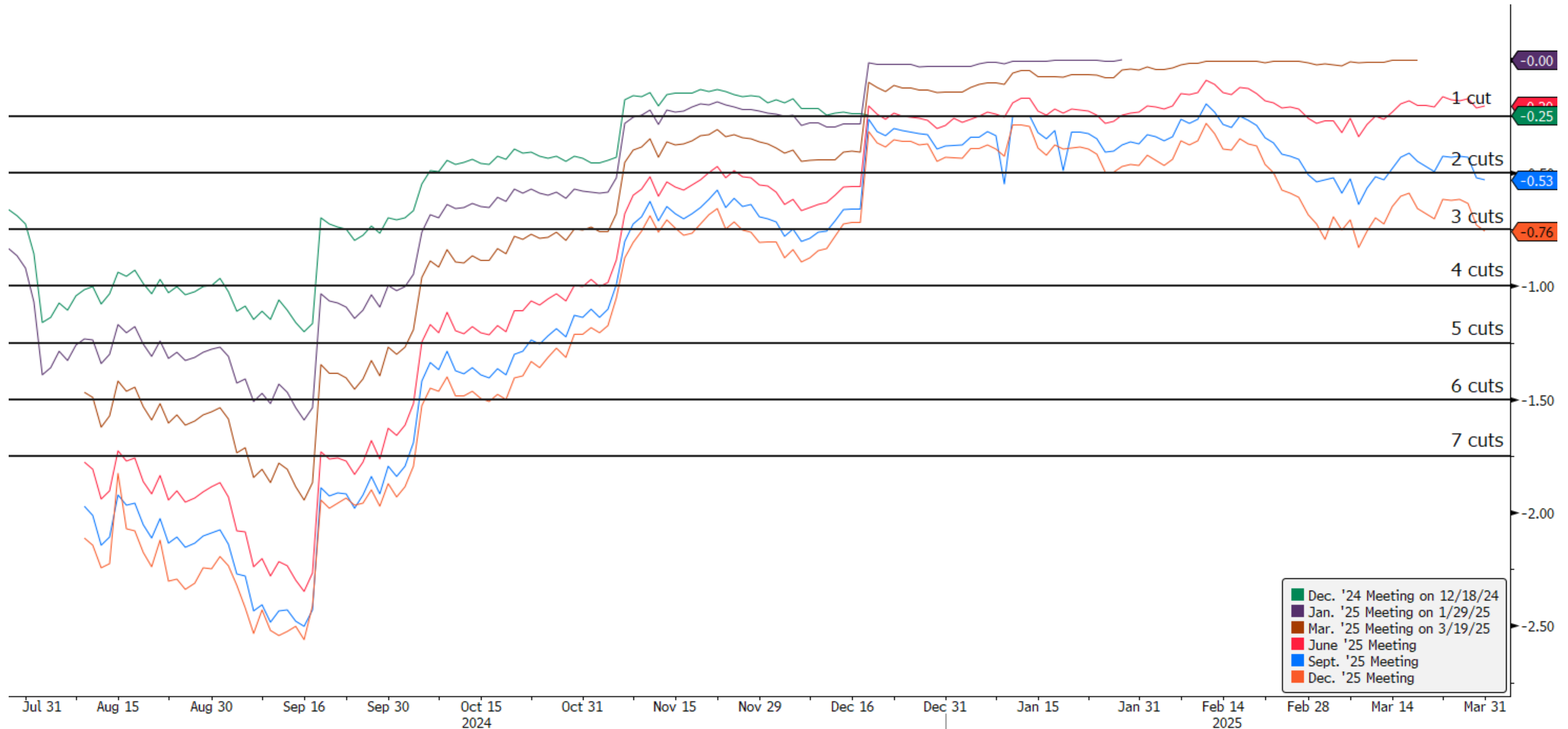
For the Euro to truly cement its status as a risk-off currency, structural improvements in European financial markets would likely be necessary. This includes deepening capital markets, strengthening banking unions, and further policy coordination among Eurozone members.





Short Term Rates **Expectations**

The Federal Reserve held rates steady at 4.25 - 4.50% in March, emphasizing data dependency amid mixed signals. While inflation has moderated, policymakers revised 2025 inflation expectations upward due to tariff impacts. The Fed's dual mandate now grapples with stagflation risks: slowing growth alongside resurgent inflation.



Key **Investment Themes**

- Uncertainty over interest rates and the volatility spikes that can accompany disappointing market releases on top of high valuations reinforce our conviction that **diversification is a core strategy** - particularly important as geopolitical uncertainties persist, whether in the Red Sea, the Middle East, Ukraine or Taiwan.

- The inflation target could well become the floor in this new economic cycle, with core inflation expected to remain above the 2% target by the end of 2025.

- Our recommendation is to focus on **quality stocks** with solid balance sheets and a long-term vision.

- On the **fixed-income** side, corporate bonds are facing higher interest costs overall, and potentially refinancing difficulties in the high-yield segment. Our preference at this stage of the cycle is **for higher-rated companies** rather than high yielding issuers. Note that we recently increased the duration of our selection.

- In the current interest-rate environment and within the broader policy dynamics of central banks in developed markets, our approach remains focused on carry strategies via bonds. We therefore maintain an **underweight in the alternative class**, capitalizing on the stability and predictable returns offered by bond instruments. However, we remain attentive to the opportunities offered by alternative investments, with their potential for returns uncorrelated with traditional markets.

Asset **Allocation**

		Underweight		Neutral		Overweight
Asset classes				Cash		
					Fixed Income	
				Equities		
		Alternative				
Fixed Income						Investment Grade
			High Yield			
			Sovereign			
		Inflation Linked				
				Emerging Markets		
Equities				Switzerland		
				United States		
					Eurozone	
			United Kingdom			
			China			
			Japan			
			Emerging Markets			
Sectors				Information Technology		
				Healthcare		
				Financials		
				Consumer Discretionary		
				Industrials		
				Consumer Staples		
				Communication Services		
				Energy		
				Materials		
				Utilities		
		Real Estate				

Fixed-income allocation

Our selection focuses on the highest-quality issuers offering attractive risk-adjusted returns.

Equities

The different scenarios lead us to a more neutral approach to equities, where sector and regional diversification is more important than ever. We return to a more neutral stance on the United States following the turbulence caused by the new administration and increase our allocation to Europe.

Alternative investments

In the current interest rate environment, our approach remains focused on carry strategies through bonds. We thus maintain an underweight allocation to alternative investments, capitalizing on the stability and predictable returns offered by bond instruments. Nevertheless, we remain attentive to opportunities offered by alternative assets, given their potential for returns uncorrelated with traditional markets.

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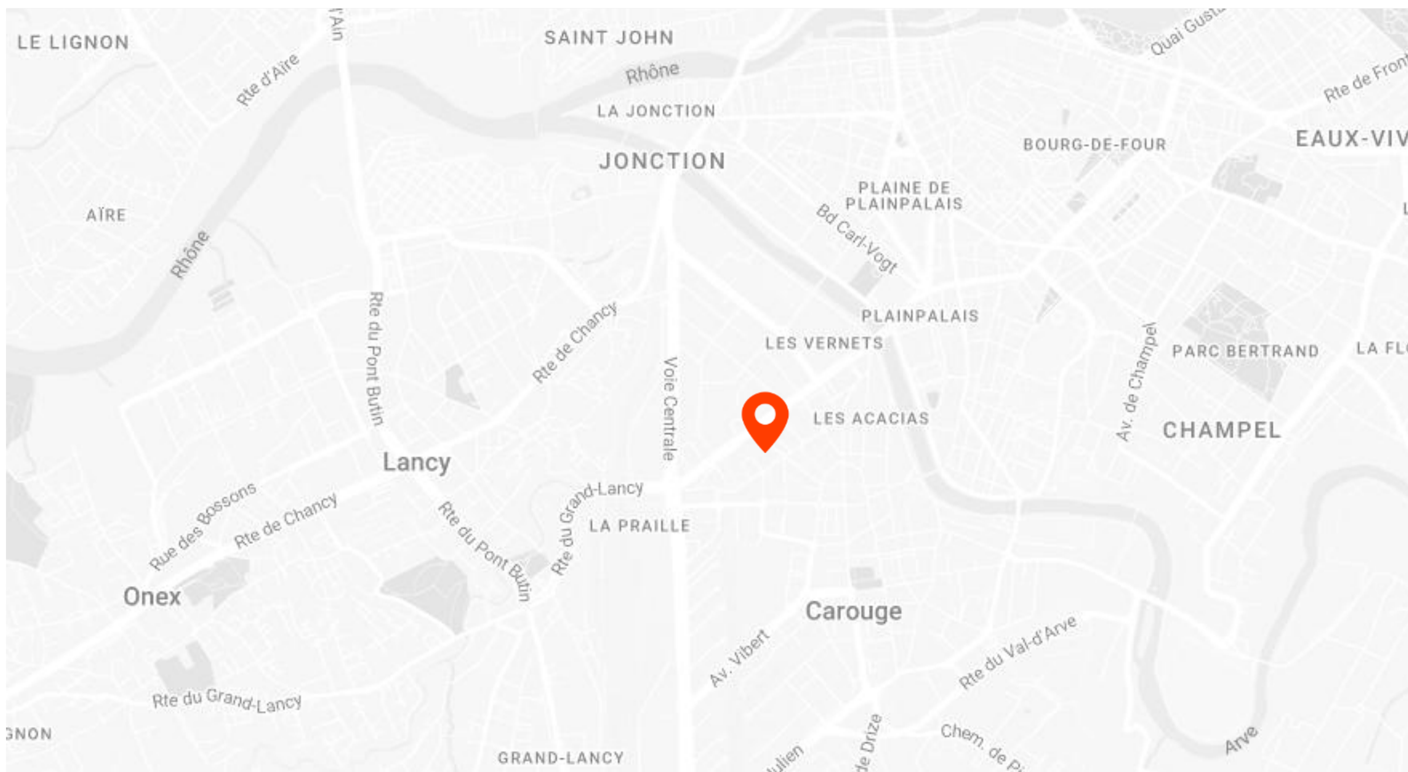
A DIFFERENT APPROACH TO WEALTH MANAGEMENT



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