TELOMERE | Capital

Market **Update**

So, there is a put!

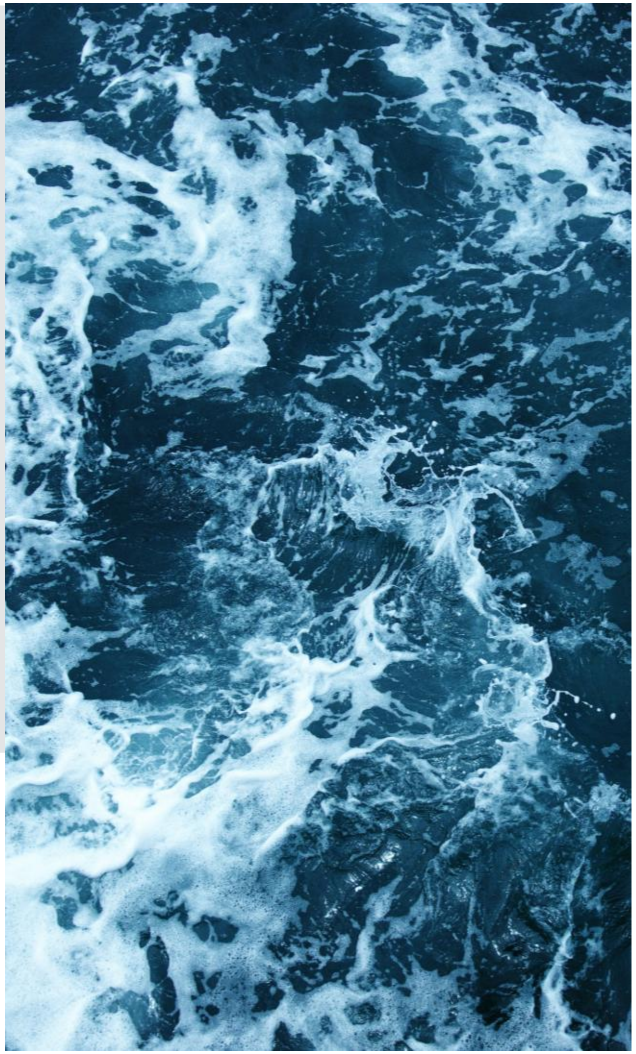
May 2025

Editorial

April 2025 was a dramatic month for global financial markets, with policy shocks and volatility echoing crisis times. President Trump's new tariffs triggered a rapid and severe market sell-off, shaking the confidence and sending all major asset classes lower in a rare "triple sell-off" more commonly seen in emerging markets. While a temporary pause in tariffs helped markets rebound, the episode highlighted the sensitivity of sentiment to policy uncertainty and geopolitical tensions.

The administration's tariff strategy represents a high-stakes gamble that short-term pain will yield long-term economic strength. While proponents envision a multi-phase evolution toward American industrial renaissance, critics warn of inflationary pressures, global retaliation, and potential stagflation. The mid-month pause on most tariffs (except those on China) provided some relief to markets, but significant uncertainty remains as trading partners have already implemented retaliatory measures.

We also highlight the resilience of low volatility strategies and examine what lies ahead for rates and risk assets as markets digest these historic policy shifts. Looking ahead, the coming months will test whether April's bold policy experiments can deliver lasting benefits or whether risks will dominate the narrative for the rest of the year.



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Global **Markets**

Global	Last	YTD	MTD
MSCI World	3,655.5	-0.8%	0.9%
MSCI ACWI	833.5	-0.3%	1.0%
MSCI Emerging Markets	1,112.8	4.4%	1.3%

United States			
Dow Jones Industrial	40,669.4	-3.9%	-3.1%
S&P 500	5,569.1	-4.9%	-0.7%
NASDAQ 100	19,571.0	-6.6%	1.6%
Russell 2000	1,964.1	-11.6%	-2.3%

Europe			
Euro STOXX 600	527.5	5.4%	-0.5%
Euro STOXX 50	5,160.2	6.5%	-1.1%
DAX	22,497.0	13.0%	1.5%
CAC 40	7,593.9	3.7%	-2.0%
FTSE 100	8,494.9	5.4%	-0.7%
Swiss Market Index (SMI)	12,117.0	7.2%	-2.5%

Sectors (US)			
Communication Services		-4.3%	1.7%
Consumer Discretionary		-14.4%	-0.4%
Consumer Staples		6.6%	1.4%
Energy		-4.9%	-13.1%
Financials		0.5%	-1.8%
Health Care		2.8%	-3.5%
Industrials		-0.7%	0.2%
Materials		1.9%	-1.0%
Real Estate		3.4%	-1.0%
Technology		-11.3%	1.7%
Utilities		4.7%	0.0%

Commodities & Metals	Last	YTD	MTD
Gold (XAU)	3,288.7	25.3%	5.3%
Silver (XAG)	32.6	12.9%	-4.3%
Copper	456.0	13.2%	-9.4%

Currencies (USD)			
EUR	1.13	9.4%	4.7%
CHF	0.83	9.0%	6.6%
JPY	143.1	9.9%	4.8%
BTC	94,581	0.9%	14.8%

Fixed Income			
US Treasury	2,372	3.6%	0.6%
EUR Treasury	247	0.6%	2.0%
Global Aggregate	490	5.7%	2.9%
US Corporate	3,364	2.3%	0.0%
Global EM USD	1,277	2.3%	0.0%
Global High Yield	1,707	2.7%	0.9%

Interest Rates (US)		Last month	End 2024
3 Months	4.29%	4.29%	4.31%
12 Months	3.85%	4.02%	4.14%
5 Year	3.73%	3.95%	4.38%
10 Year	4.16%	4.21%	4.57%

Price / Earnings Ratios		End 2024	End 2023
S&P 500	23.83	26.52	22.92
Euro STOXX 50	15.06	14.37	12.84
Swiss Market Index (SMI)	17.97	18.42	18.44

Data at close of 30/04/2025

Macroeconomic **Indicators**

Central Banks Targets Rates	Last	Q1 2025	Q4 2024	Q3 2024
United States	4.50%	4.50%	4.50%	5.00%
Eurozone	2.40%	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	6.00%	6.25%	6.50%	6.50%

Inflation (CPI - YoY)	Last	Q1 2025	Q4 2024	Q3 2024
United States	2.40%	2.40%	2.90%	2.40%
Eurozone	2.20%	2.20%	2.40%	1.70%
Switzerland	0.30%	0.30%	0.60%	0.80%
Canada	2.30%	2.30%	1.80%	1.60%
Japan	3.60%	3.60%	3.60%	2.50%
China	-0.10%	-0.10%	0.10%	0.40%
India	3.34%	3.34%	5.22%	5.49%

Unemployment	Last	Q1 2025	Q4 2024	Q3 2024
United States	4.20%	4.20%	4.10%	4.10%
Eurozone	6.10%	N/A	6.20%	6.30%
Switzerland	2.80%	2.80%	2.60%	2.60%
Canada	6.70%	6.70%	6.70%	6.60%
Japan	2.40%	N/A	2.50%	2.40%
China	5.20%	5.20%	5.10%	5.10%

Gross Domestic Product (YoY)	Last	Q1 2025	Q4 2024	Q3 2024
United States	2.00%	2.00%	2.50%	2.70%
Eurozone	1.50%	N/A	1.50%	1.30%
Switzerland	1.50%	N/A	1.50%	1.90%
Canada	1.60%	N/A	2.10%	2.00%
Japan	4.00%	N/A	4.00%	3.10%
China	5.40%	5.40%	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	0.90%	0.90%	2.80%	-0.80%
European Union	0.80%	N/A	0.50%	-1.50%
Switzerland	-0.10%	-0.10%	-0.90%	-1.30%
Canada	4.69%	4.69%	4.06%	-1.10%
Japan	4.20%	4.20%	4.00%	3.10%
China	-2.50%	-2.50%	-2.30%	-2.80%
India	2.05%	2.05%	2.57%	1.91%

Purchasing Managers' Index	Last	Q1 2025	Q4 2024	Q3 2024
United States	49	49	49.2	47.5
Eurozone	48.7	48.6	45.1	45
Switzerland	48.9	48.9	47	48.9
Canada	46.3	46.3	52.2	50.4
Japan	48.7	48.4	49.6	49.7
China	49	50.5	50.1	49.8
India	58.4	58.1	56.4	56.5

Core Inflation (Core CPI - YoY)	Last	Q1 2025	Q4 2024	Q3 2024
United States	2.80%	2.80%	3.20%	3.30%
Eurozone	2.40%	2.40%	2.70%	2.70%
Switzerland	0.90%	0.90%	0.70%	1.00%
Canada	2.40%	2.40%	2.10%	2.40%
Japan	1.60%	1.60%	1.60%	1.70%

Consumer Spending (PCE - YoY)	Last	Q1 2025	Q4 2024	Q3 2024
United States	2.65%	2.65%	2.86%	2.66%

Data as of 01/05/2025
N/A: Not yet reported or Public Holiday

April **Macro News**

- On April 2, President Trump announced sweeping new tariffs, triggering the largest global market sell-off since the COVID-19 pandemic. Dubbed "Liberation Day," this move targeted almost all major US trading partners, especially China, and led to immediate and severe market volatility.

- US trading partners responded with their own tariffs. For a week, markets experienced panic selling, with US and global equities losing trillions in value and volatility spiking to levels not seen since 2020.

- By mid-April, the US paused new tariffs (except on China) for 90 days. This eased market panic and enabled a partial recovery, but uncertainty lingered.

- The European Central Bank cut interest rates by 25 basis points in April to support growth amid trade tensions. Markets are now pricing in further rate cuts in Europe by year-end.

- While President Trump has pushed for rate cuts, officials have signaled a continued wait-and-see approach. With inflation pressures reaccelerating and significant policy uncertainty (especially around new tariffs and their economic impact) the Fed is widely expected to keep rates on hold for now.

Wall Street Felt Like **an Emerging Market**

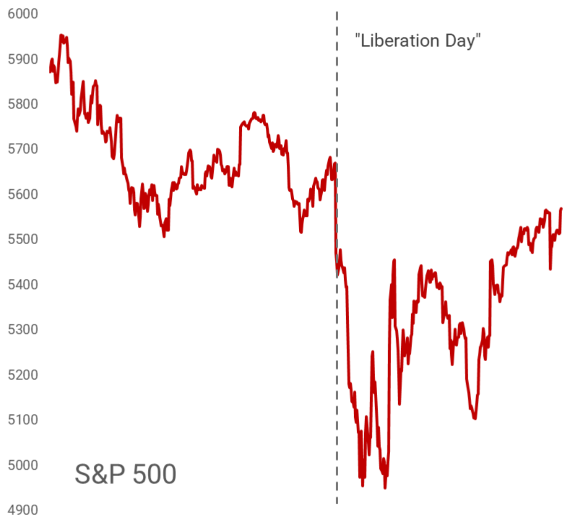
President Trump's announcement of sweeping "reciprocal" tariffs was a stress test for the U.S.'s status as a global safe haven. While the market behavior briefly resembled an emerging market crisis, the subsequent rebound demonstrated that the U.S. retains unique strengths that set it apart-provided policymakers remain responsive to market signals and investor confidence.

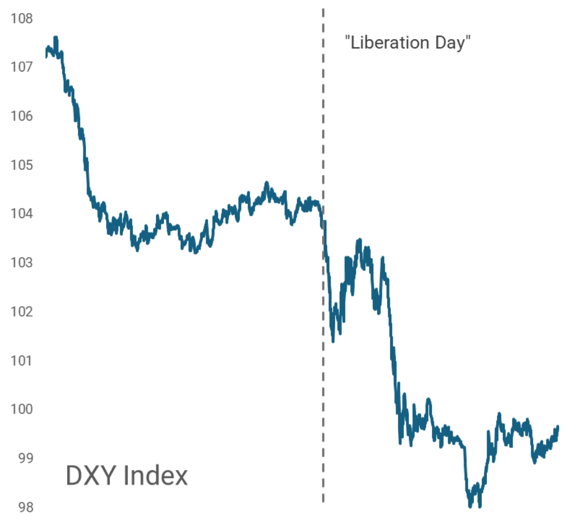
April 2025 was marked by an extraordinary episode in U.S. financial markets, where all major asset classes – U.S. equities, Treasuries, and the U.S. dollar – declined simultaneously. This rare "triple sell-off" is more commonly associated with emerging market crises, where a sudden loss of confidence triggers broad-based capital flight. The events in the U.S. during April 2025 bear striking parallels to such emerging market dynamics, but with important distinctions rooted in the US's global economic role.

Unlike typical risk-off episodes where Treasuries and the dollar serve as safe havens, both asset classes were also sold. The simultaneous decline in equities, bonds, and currency is a classic sign of a confidence crisis, often seen in emerging markets facing sudden capital outflows.

On April 9, President Trump announced a 90-day pause on most tariffs, which sparked a dramatic rebound in risk assets. The S&P 500 posted its largest one-day gain since 2008, and the market began to recover from its lows. This reversal reassured investors that, despite the policy volatility, the U.S. remains fundamentally different from emerging markets due to its economic scale, institutional strength, and the dollar's reserve currency status (at least for now).

The episode can be likened to the concept of a "Trump put", the expectation that, when markets fall sharply, the administration will intervene or adjust policies to stabilize sentiment. Trump's tariff pause and subsequent messaging that his policies would not trigger a deep recession functioned as a de facto reassurance to investors, helping to stem the panic and restore some measure of confidence.





Evaluating the Dual Impact of **Trump's Tariffs**

Trump's new tariff policy is a big change for U.S. trade. It adds a 10% tax on most imports and much higher rates on key trading partners, especially China.

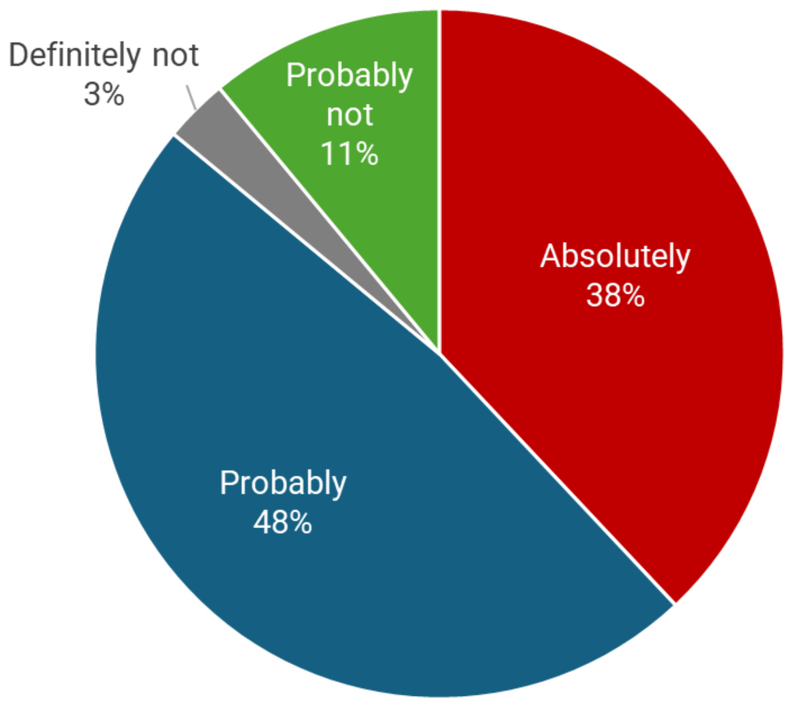
Framed by the administration as a means to revive American industry, reduce the trade deficit and force a renegotiation of global trade rules, these measures represent the most significant protectionist shift in decades.

Financial markets have reacted with extreme volatility and skepticism. Major U.S. indices have plunged while European markets have similarly lost 10 - 12%. Investor sentiment has soured, with fears of recession rising sharply, as reflected in recent surveys and the performance of bank stocks around the world. In addition to roiling equity markets, the uncertainty has led to more cautious corporate guidance and a reassessment of growth prospects across sectors.

Yet the rationale behind these tariffs remains hotly debated. Are they a short-term, politically motivated protectionist measure, or could they be part of a broader, long-term strategy to revitalize U.S. manufacturing and reduce economic vulnerabilities?

In the following sections, we will examine both sides of this pivotal policy shift: first, we explore the potential benefits if the strategy succeeds in strengthening the U.S. economy; then, we assess the significant risks and costs if the tariffs backfire.

"Do you think tariffs will trigger a US recession this year?"



Source: Bloomberg

1. The Potential **Positive Side**

President Trump's tariff policy, while disruptive in the short term, is designed with a business-minded approach: leveraging bold and aggressive tactics to lay the groundwork for future economic strength.

The administration's vision is to use decisive action and calculated negotiations to reshape global trade, revitalize U.S. manufacturing, and secure national interests by reducing dependence on foreign production.

The administration and some market strategists argue this turbulence is a necessary first phase-an initial "shock" that could ultimately catalyze a multi-phase evolution toward a more robust U.S. economy. **The anticipated trajectory could be as follows:**

1. Shock Phase	2. Adjustment	3. Negotiation	4. Recovery	5. Expansion
Market turmoil, inflation concerns, and a flight to safe assets dominate as tariffs take effect. Investors recalibrate portfolios, seeking liquidity and hedging strategies.	As the dust settles, major U.S. firms such as Ford and Apple begin to reshore operations, attracted by tariff incentives and supported by potential Fed rate cuts. This phase favors investment in U.S. infrastructure, automation, and local SMEs, setting the stage for a manufacturing renaissance.	High-stakes negotiations between the U.S., EU, and China lead to new bilateral trade agreements. As trade tensions ease, investor confidence gradually returns, with renewed interest in European and emerging markets-especially those with strong U.S. ties.	With new agreements in place and domestic industry strengthened, the U.S. economy begins to recover. Rising industrial employment, a stronger dollar, and contained inflation support a shift toward more growth-oriented portfolio positions, including U.S. industrials, small- and mid-cap stocks, logistics REITs, and repatriated tech firms.	The new trade order, built on bilateral agreements and reterritorialized supply chains, underpins a sustained market boom. U.S. markets, particularly in value and domestic technology sectors, are expected to outperform as the country reasserts itself as a global industrial leader.
April - June 2025	**Summer 2025**	**Autumn 2025**	**2026**	**2027 - 2030**

While the protectionist shock is undeniably risky and disruptive in the short term, **proponents argue that it could ultimately trigger a robust U.S. industrial renaissance** and a significant global market rebound by late 2025, positioning the country for long-term economic leadership in a transformed global order.

2. The Risks

Tariffs promise strength but could they be sowing weakness instead? While tariffs are promoted as a path to economic strength, the risks of miscalculation are real and potentially far-reaching.

Inflationary Pressures and Consumer Impact

Tariffs function as taxes on imports, and economists universally anticipate pass-through effects on consumer prices. Early signs of inflation are emerging: one-year-ahead inflation expectations surged to 4.9% in March 2025, marking a 28-month high. Foreign companies like Adidas have already signaled plans to raise U.S. prices to offset tariff costs. While the administration argues that domestic production will eventually lower prices, the transition period poses acute risks.

The convergence of stagnant growth and rising prices, stagflation looms as a critical risk.

Global Retaliation and Trade War Escalation

Retaliatory measures have already begun. Major trading partners like China, Canada, and the EU have responded with their own tariffs, hitting US exports and further dampening growth. The threat of an escalating trade war adds another layer of risk for markets and companies.

Strategic Setbacks

Tariffs aimed at reviving manufacturing or supporting strategic industries often backfire. For example, steel tariffs may help a small segment of producers but threaten millions of jobs in industries that rely on affordable steel and aluminum. In technology, higher input costs and supply disruptions could slow US innovation and competitiveness.

Market Instability and Investor Flight

The announcement of new tariffs has triggered sharp declines in global stock markets, with investors fleeing to safer assets like bonds and gold. The uncertainty and volatility have led many global investors to reduce their exposure to US assets, undermining America’s reputation as the world’s investment destination of choice.

Conclusion: A High-Stakes Gamble

The Trump administration’s tariff policy represents a bet that short-term economic pain will yield long-term strategic gains. While reshoring and job growth in select sectors offer glimmers of success, systemic risks, from inflationary spirals to bond market fragility, threaten to outweigh these benefits. The coming months will test whether tariffs can indeed catalyze a manufacturing renaissance or instead deepen the vulnerabilities they aim to resolve.

Factor of the quarter: **Low Volatility**

The low volatility factor has delivered strong performance in 2025, particularly in the context of global equity market declines and heightened volatility.

The low volatility factor has stood out in 2025, particularly during periods of market turbulence. At the bottom of April, global equities were down roughly 12% YTD, yet low volatility stocks have significantly outperformed the broader market, limiting losses and providing superior risk-adjusted returns.

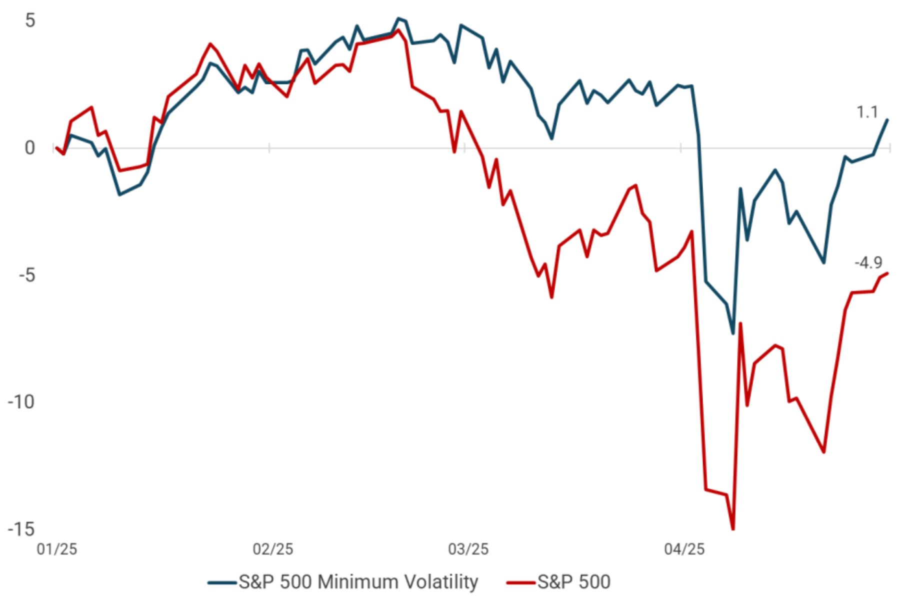
This current outperformance is rooted in the design of low volatility strategies: they systematically select stocks with the lowest historical price fluctuations, often in sectors like consumer staples, healthcare, and utilities. Historically, these stocks have exhibited lower drawdowns.

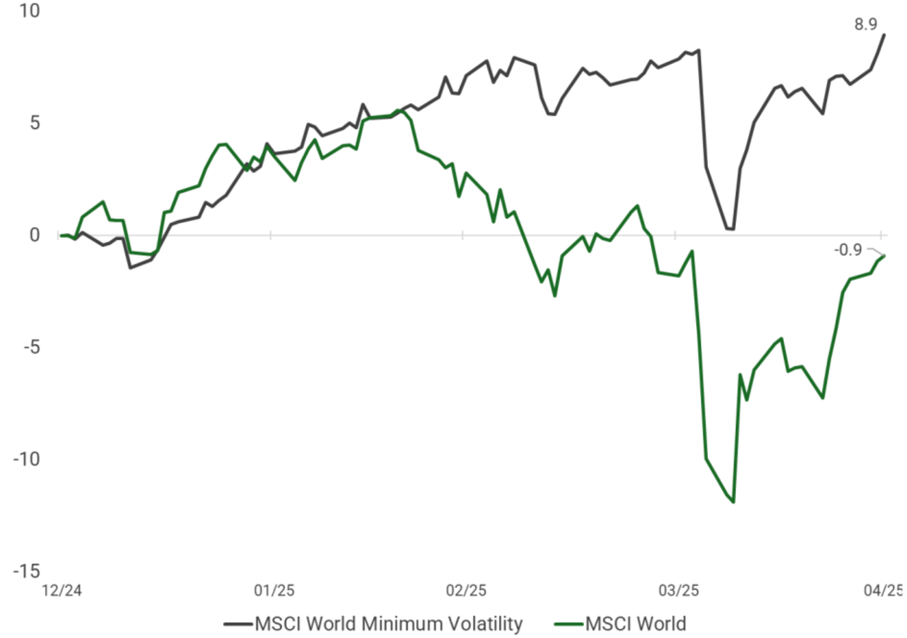
This has been evident not only in 2025 but also in prior episodes of market stress, such as the COVID-19 downturn and other recent corrections.

If market volatility remains elevated and macroeconomic risks persist, the low volatility factor is likely to continue providing downside protection and attractive risk-adjusted returns.

Also, low volatility strategies systematically select stocks with the lowest historical price fluctuations. The "Magnificent Seven" are typically excluded or underweighted in these indices because their share prices have exhibited higher volatility, especially during periods of rapid growth or sharp corrections.

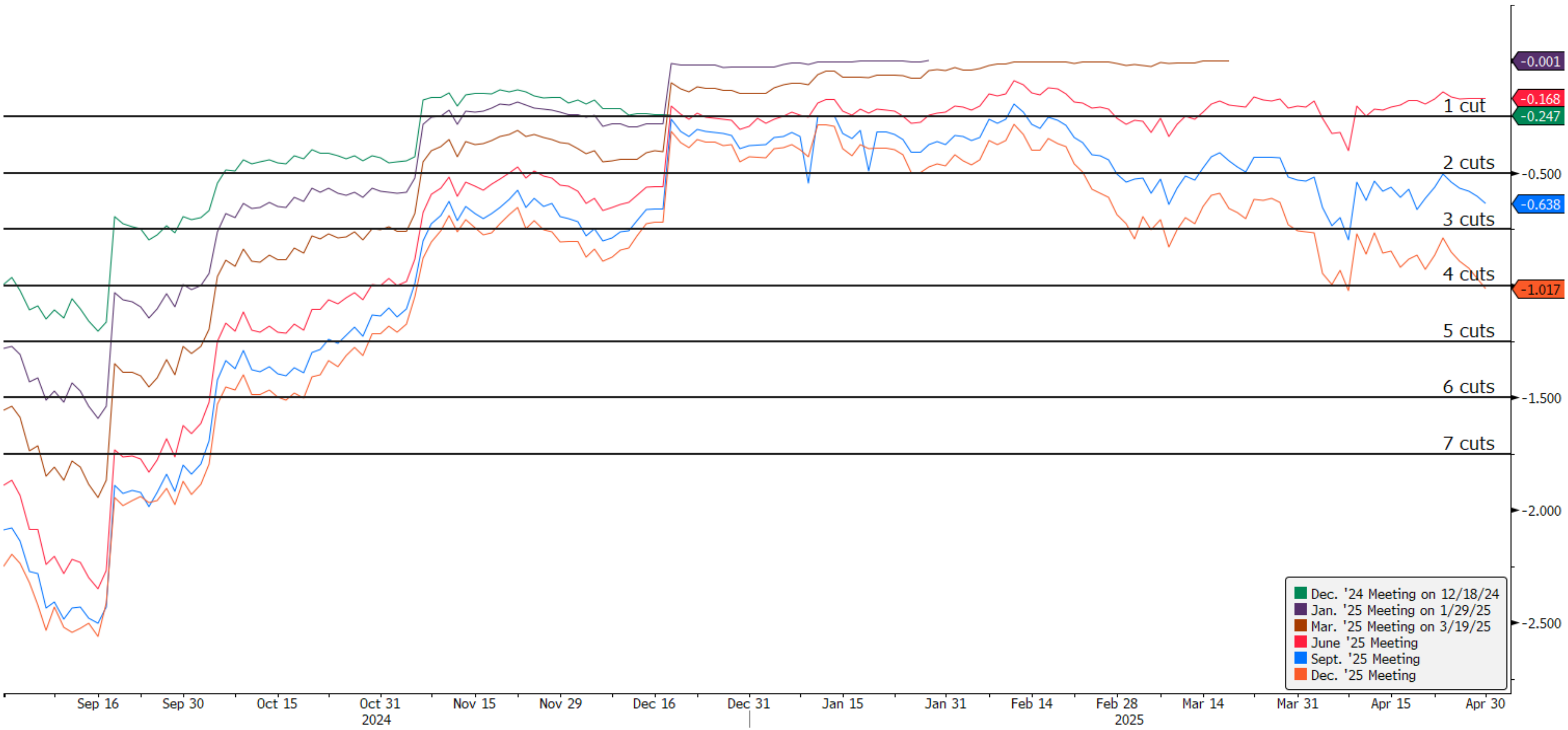
On the other hand, should markets stabilize and return to a strong risk-on environment, low volatility stocks could lag behind higher-beta, growth-oriented sectors, as seen in previous bull markets.





Short Term Rates **Expectations**

No FED meeting in April, although members indicated they would remain in a wait-and-see mode, holding off on rate cuts due to reaccelerating inflation and policy uncertainty, but are expected to consider easing later in the year if growth continues to slow.



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Key **Investment Themes**

- Uncertainty over trades policies 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.

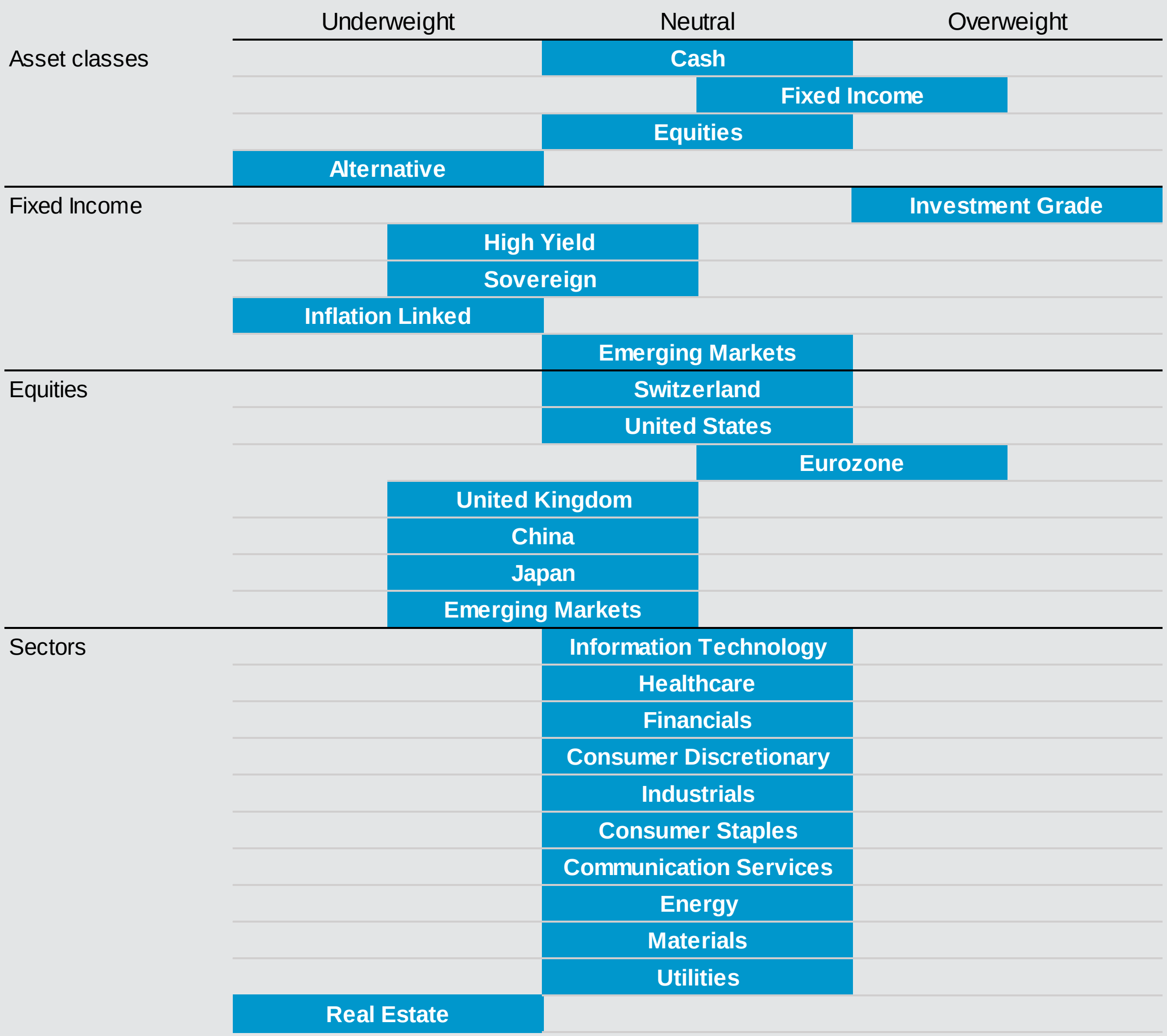
- The inflation target could well become the floor in this new economic cycle, with core inflation expected to remain above the 2% target by the end of 2025 but its trajectory is highly uncertain as it could be revived by the ongoing tariff war.

- 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**



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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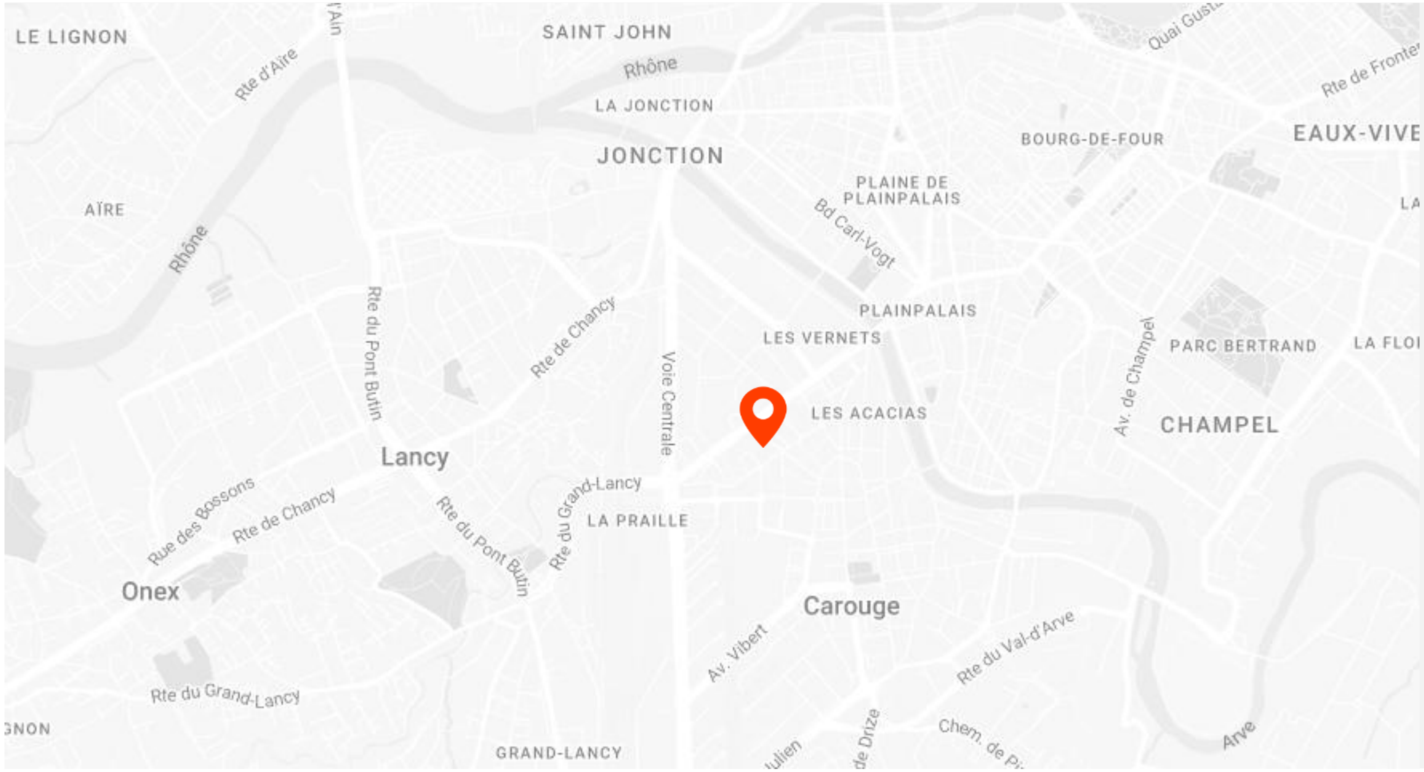
A DIFFERENT APPROACH TO WEALTH MANAGEMENT



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