TELOMERE | Capital

Market **Update**

Make Europe Great Again

March 2025

Editorial

February was a challenging month for financial markets, marked by heightened volatility and renewed geopolitical tensions. The US economy, which had led the global recovery narrative, now faces growing uncertainty amid escalating trade disputes triggered by President Trump's protectionist policies. Tariffs imposed on China, Canada and Mexico have triggered retaliatory measures, unsettling investors and raising concerns about disruptions to global trade flows.

Inflation dynamics are increasingly diverging between the US and Europe. While euro area inflation continues its gradual deceleration, US core inflation remains stubbornly elevated. Recent tariffs, combined with robust labor market conditions and pro-growth policies, are fueling fears of more persistent inflationary pressures in the US.

In this environment of heightened uncertainty and volatility, bonds have demonstrated their value as effective diversifiers against equity market losses. Our preference for investment grade bonds over high yield remains intact, given the limited extra yield offered by riskier credits.

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

Joan Bürgy
Investment Specialist

Jérôme Tobler, CIIA
Partner & Senior Financial Advisor

Global **Markets**

Global	Last	YTD	MTD
MSCI World	3,805.3	2.8%	-0.7%
MSCI ACWI	863.0	2.8%	-0.6%
MSCI Emerging Markets	1,097.3	2.3%	0.5%
United States			
Dow Jones Industrial	43,840.9	3.3%	-1.4%
S&P 500	5,954.5	1.4%	-1.3%
NASDAQ 100	20,884.4	-0.5%	-2.7%
Russell 2000	2,163.1	-2.9%	-5.4%
Europe			
Euro STOXX 600	557.2	10.0%	3.4%
Euro STOXX 50	5,463.5	11.9%	3.5%
DAX	22,551.4	13.3%	3.8%
CAC 40	8,111.6	10.0%	2.0%
FTSE 100	8,809.7	8.3%	2.0%
Swiss Market Index (SMI)	13,004.5	12.1%	3.2%
Sectors (US)			
Communication Services		2.9%	-5.4%
Consumer Discretionary		-5.8%	-10.2%
Consumer Staples		7.9%	5.7%
Energy		5.5%	3.6%
Financials		7.4%	0.6%
Health Care		8.4%	1.5%
Industrials		3.0%	-1.8%
Materials		6.6%	0.6%
Real Estate		7.0%	4.7%
Technology		-4.1%	-1.6%
Utilities		4.3%	1.4%

Commodities & Metals	Last	YTD	MTD
Gold (XAU)	2,857.8	8.9%	2.1%
Silver (XAG)	31.2	7.8%	-0.5%
Copper	451.5	12.1%	5.5%
Currencies (USD)			
EUR	1.04	0.2%	0.1%
CHF	0.90	0.5%	0.9%
JPY	150.6	4.4%	3.0%
BTC	84,212	-10.1%	-17.5%
Fixed Income			
US Treasury	2,352	2.7%	2.2%
EUR Treasury	247	0.5%	0.7%
Global Aggregate	473	2.0%	1.4%
US Corporate	3,375	2.6%	2.0%
Global EM USD	1,282	2.7%	1.6%
Global High Yield	1,698	2.2%	0.8%

Interest Rates (US)		Last month	End 2024
3 Months	4.29%	4.28%	4.31%
12 Months	4.08%	4.15%	4.14%
5 Year	4.02%	4.33%	4.38%
10 Year	4.21%	4.54%	4.57%

Price / Earnings Ratios		End 2024	End 2023
S&P 500	25.44	26.51	22.92
Euro STOXX 50	15.90	14.46	12.80
Swiss Market Index (SMI)	19.35	18.45	18.44

Data at close of 28/02/2025

Macroeconomic **Indicators**

Central Banks Targets Rates	Last	Q4 2024	Q3 2024	Q2 2024
United States	4.50%	4.50%	5.00%	5.50%
Eurozone	2.90%	3.15%	3.65%	4.25%
Switzerland	0.50%	0.50%	1.00%	1.25%
Canada	3.00%	3.25%	4.25%	4.75%
Japan	0.50%	0.25%	0.25%	0.10%
China (Req. Depo. Reserve Ratio)	9.50%	9.50%	9.50%	10.00%
India	6.25%	6.50%	6.50%	6.50%

Inflation (CPI - YoY)	Last	Q4 2024	Q3 2024	Q2 2024
United States	3.00%	2.90%	2.40%	3.00%
Eurozone	2.40%	2.40%	1.70%	2.50%
Switzerland	0.40%	0.60%	0.80%	1.30%
Canada	1.90%	1.80%	1.60%	2.70%
Japan	4.00%	3.60%	2.50%	2.80%
China	0.50%	0.10%	0.40%	0.20%
India	4.31%	5.22%	5.49%	5.08%

Unemployment	Last	Q4 2024	Q3 2024	Q2 2024
United States	4.00%	4.10%	4.10%	4.10%
Eurozone	6.20%	6.20%	6.30%	6.40%
Switzerland	2.70%	2.60%	2.60%	2.40%
Canada	6.60%	6.70%	6.60%	6.40%
Japan	2.50%	2.50%	2.40%	2.50%
China	5.10%	5.10%	5.10%	5.00%

Gross Domestic Product (YoY)	Last	Q4 2024	Q3 2024	Q2 2024
United States	2.50%	2.50%	2.70%	3.00%
Eurozone	1.30%	N/A	1.30%	0.90%
Switzerland	1.50%	1.50%	1.90%	1.50%
Canada	2.20%	2.20%	2.00%	1.60%
Japan	4.10%	4.10%	3.00%	2.30%
China	5.40%	5.40%	4.60%	4.70%
India (Real GDP)	6.15%	6.15%	5.58%	6.52%

Producer Price Index (PPI - YoY)	Last	Q4 2024	Q3 2024	Q2 2024
United States	2.90%	2.80%	-0.80%	1.70%
European Union	0.40%	0.40%	-1.50%	0.10%
Switzerland	-0.30%	-0.90%	-1.30%	-1.90%
Canada	5.84%	4.14%	-1.02%	2.90%
Japan	4.20%	3.90%	3.10%	2.60%
China	-2.30%	-2.30%	-2.80%	-0.80%
India	2.31%	2.37%	1.91%	3.43%

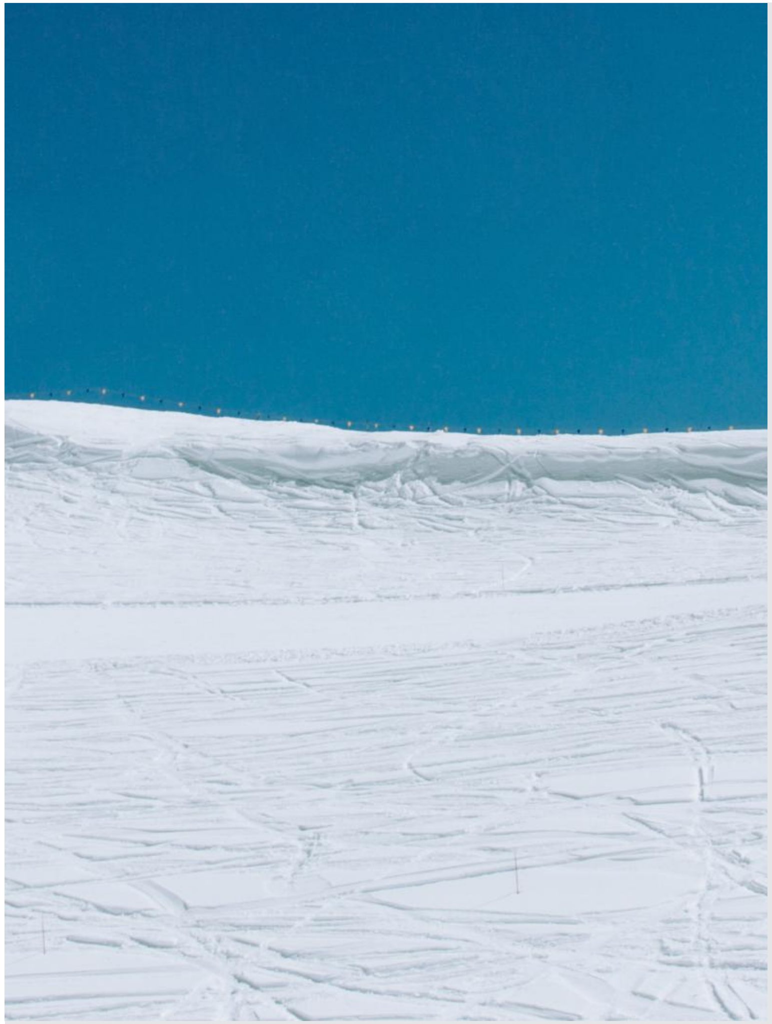
Purchasing Managers' Index	Last	Q4 2024	Q3 2024	Q2 2024
United States	50.3	49.2	47.5	48.3
Eurozone	47.6	45.1	45	45.8
Switzerland	49.6	47	48.9	44.8
Canada	47.8	52.2	50.4	49.3
Japan	49	49.6	49.7	50
China	50.2	50.1	49.8	49.5
India	56.3	56.4	56.5	58.3

Core Inflation (Core CPI - YoY)	Last	Q4 2024	Q3 2024	Q2 2024
United States	3.30%	3.20%	3.30%	3.30%
Eurozone	2.60%	2.70%	2.70%	2.90%
Switzerland	0.90%	0.70%	1.00%	1.10%
Canada	2.20%	2.10%	2.40%	2.90%
Japan	1.50%	1.60%	1.70%	1.90%

Consumer Spending (PCE - YoY)	Last	Q4 2024	Q3 2024	Q2 2024
United States	2.65%	2.86%	2.66%	2.63%

Data as of 04/03/2025
N/A: Not yet reported or Public Holiday

February **Macro News**



- **Concerns are growing about the sustainability of the "soft landing" scenario,** with the US exceptionalism at the center of markets attention. The Conference Board's Consumer Confidence Index dropped sharply in February 2024, falling for the third consecutive month.
- **The inflation path is starting to diverge between the US and Europe**. US Core Inflation remained sticky at 3.3% while Eurozone showed continued slowdown at 2.6%.
- **Bond markets have demonstrated their ability to diversify against equity losses**, with global bonds returning 1.4% in February, offsetting the -0.7% change on the MSCI World Index price.
- **The peace negotiations between the US and Russia over Ukraine** hit a significant roadblock when a White House meeting between President Trump and President Zelensky ended in a heated disagreement.
- **In Europe**, the CDU/CSU won the German elections as expected. At the Munich Security Conference, European leaders called for increased defense spending after the United States took a more hands-off approach.

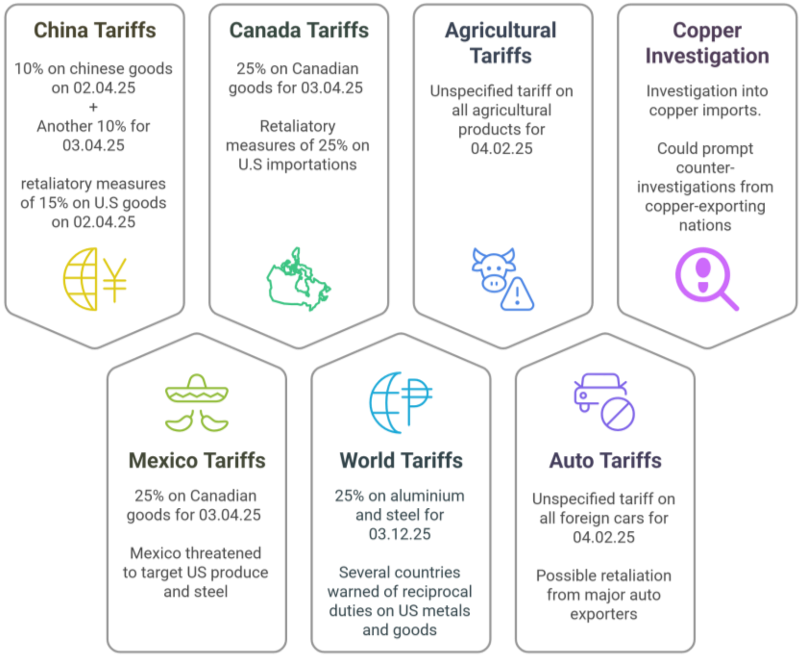
Trump **America First Policies**

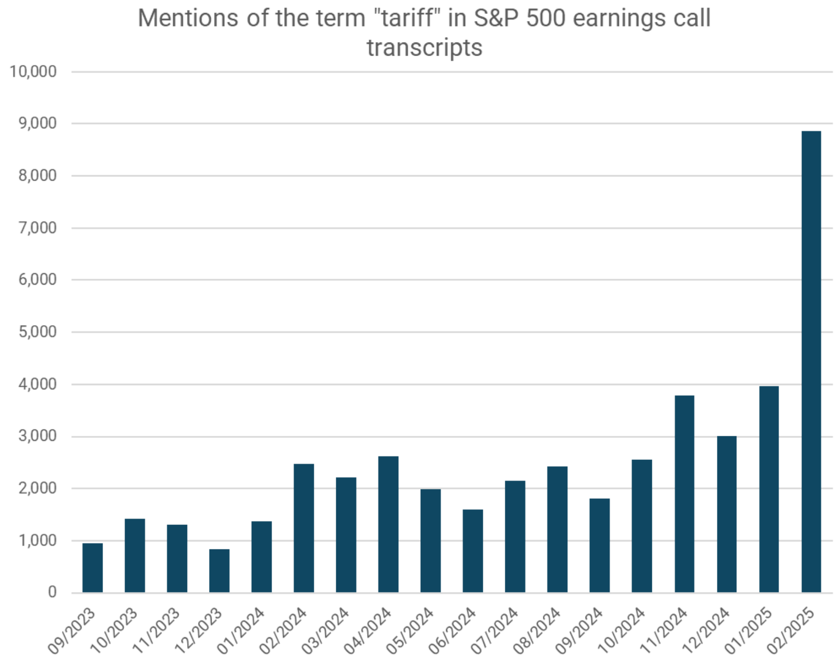
February saw heightened market volatility driven largely by new tariffs and geopolitical tensions stemming from President Trump's policies.

The US imposed a 10% tariff on all imports from China, with an additional 10% tariff scheduled for March. Furthermore, tariffs of 25% were announced on imports from Canada and Mexico, effective from early March. These measures aim to boost American manufacturing and reduce reliance on foreign goods.

However, these protectionist actions quickly sparked retaliatory responses from key trading partners. China responded by imposing a 15% tariff on US exports, while Canada announced tariffs of 25% on approximately $30 billion worth of American products. This escalation in trade tensions has led to increased volatility in financial markets, as investors worry about potential disruptions to global trade and economic growth.

Adding to market concerns were rising geopolitical tensions. US senators openly questioned America's commitments to NATO allies, and President Trump suspended military aid to Ukraine. These developments prompted European countries to increase their defense spending, further contributing to global uncertainty.





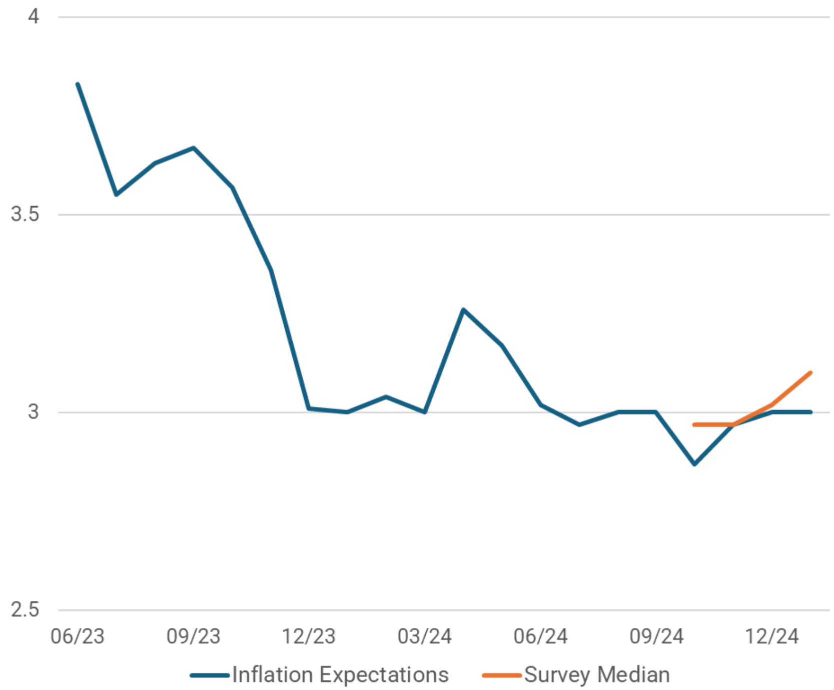
Source: Bloomberg

Inflationary **Pressures**

The recent implementation of tariffs by the Trump administration is likely to contribute to inflationary pressures. While central banks typically disregard one-off price adjustments, the combination of tariffs with pro-growth policies could lead to more persistent inflation.

Inflation risks in the US have increased.

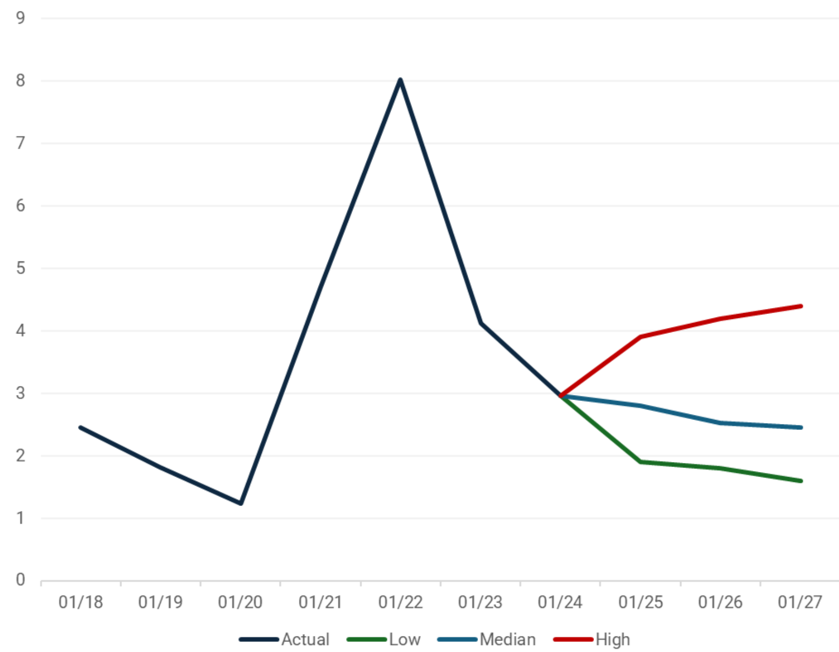
The combination of recent economic data, trade policies, labor market conditions, and shifting expectations has significantly increased inflation risks in the US for the near future.



Source: Bloomberg

TIPS

This shift in expectations can become self-fulfilling, potentially leading to higher actual inflation. In this environment, **short dated Treasury Inflation-Protected Securities (TIPS)** offer a reasonably priced hedge against potential upside inflation outcomes.



Possible **U.S Debt crisis**

While the rising US debt level is a long-term concern that warrants attention, the risk of an imminent crisis or Treasury sell-off appears low. These concerns are understandable, given the growing size of federal debt relative to GDP and its potential implications for economic stability.

However, a paper published in February by economists at the Brookings Institution lays out a couple of scenarios in which a US treasuries crisis could happen, and concludes that none of them are likely to materialize in the near term. The report identifies four main scenarios that could potentially trigger a crisis in Treasury markets:

1

A large Holder of Treasuries Suddenly Selling

Even if China (which holds just 3% of outstanding US debt) were to sell off its holdings abruptly, other global investors would likely step in to absorb the supply without fundamentally altering perceptions of Treasuries' value. Historical examples suggest such sell-offs would have limited impact on interest rates.

2

Failure to Raise the U.S. Debt Ceiling

Political maneuvering over the debt ceiling could theoretically lead to delayed payments on government obligations. However, past episodes show that Congress tends to act quickly in response to market turmoil, and both the Federal Reserve and the Treasury have tools to temporarily stabilize markets.

3

The Federal Reserve Tolerating Higher Inflation

The idea that inflation could be used strategically to reduce the real value of debt is unlikely to succeed. Most U.S. debt is short-term and would quickly be rolled over at higher interest rates, negating any fiscal benefit from inflationary policies. Additionally, such actions would undermine confidence in U.S. institutions and likely trigger broader financial instability.

4

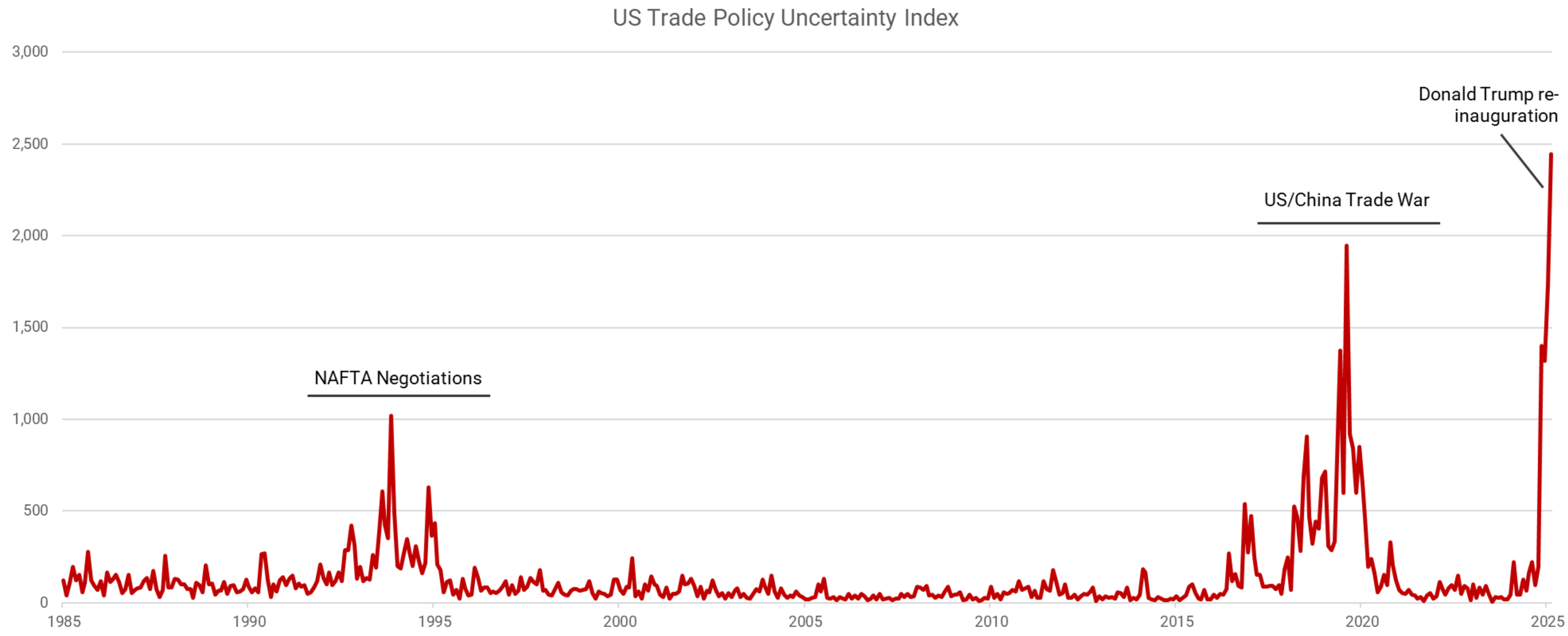
Strategic Default by the U.S. Government

A deliberate default on U.S. debt is considered highly improbable due to its catastrophic consequences. Default would harm domestic investors (who hold 70% of federal debt), destabilize global financial markets, and eliminate access to capital markets for future borrowing.

Trade Policy **Uncertainty Has Soared**

US trade policy uncertainty (TPU) has reached unprecedented levels. Historically, spikes in this index, which measures uncertainty surrounding US trade policies, have been associated with reduced business investment and slower economic activity.

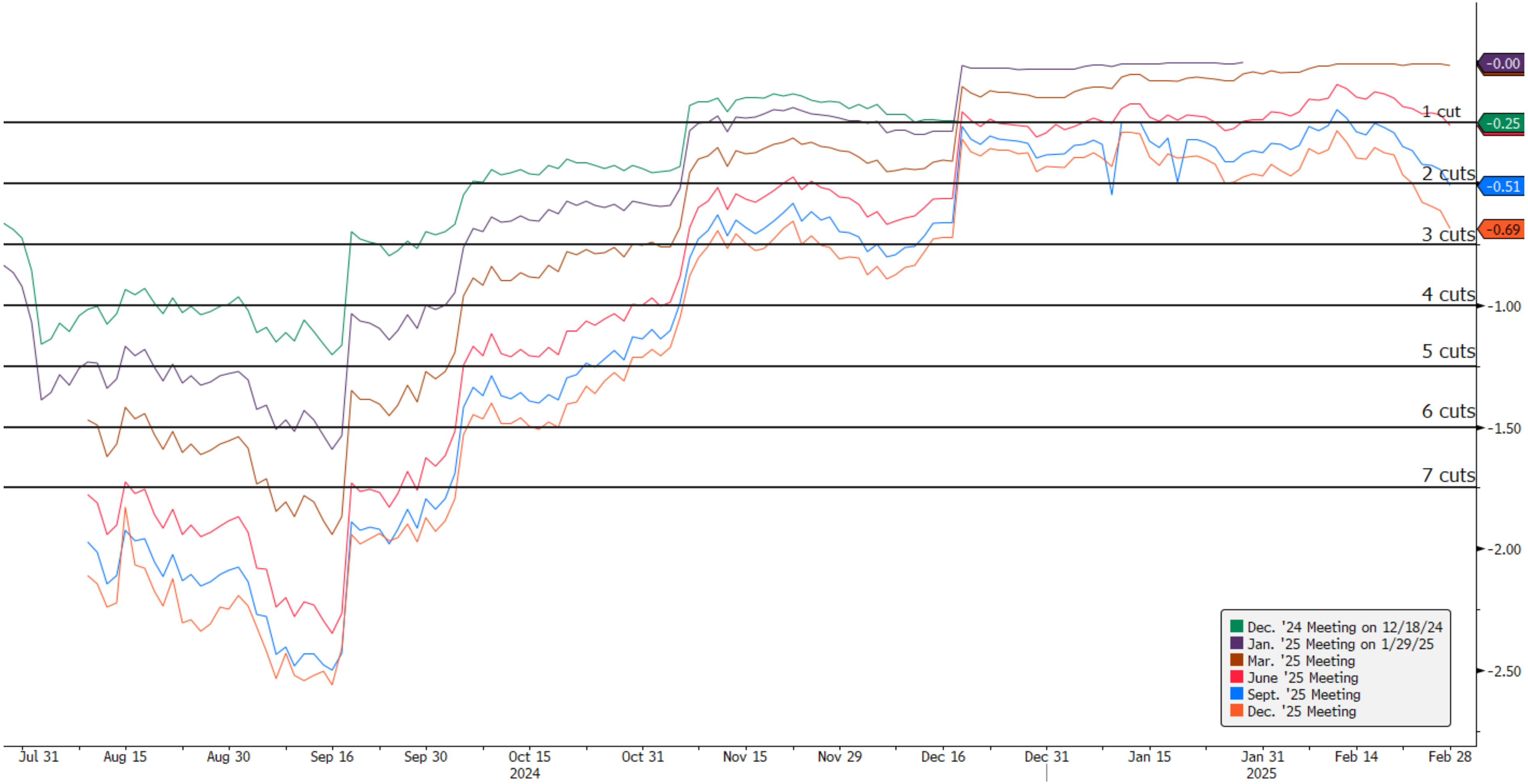
When trade policies are clear, businesses feel confident about making plans. But when they seem unclear or might change suddenly, it's like trying to play a game where the rules keep changing, it makes everyone nervous. This isn't the first time people have been worried about trade. In the past, big events caused similar concerns.



Source: Bloomberg

Short Term Rates **Expectations**

Due to the robust economic data and outlook, the Federal Reserve has adopted a more "hawkish" stance in recent weeks, shifting from a "dovish" approach. Following multiple rate cuts, market expectations now anticipate about three additional cuts by the end of 2025, as depicted by the orange line in the attached plot.



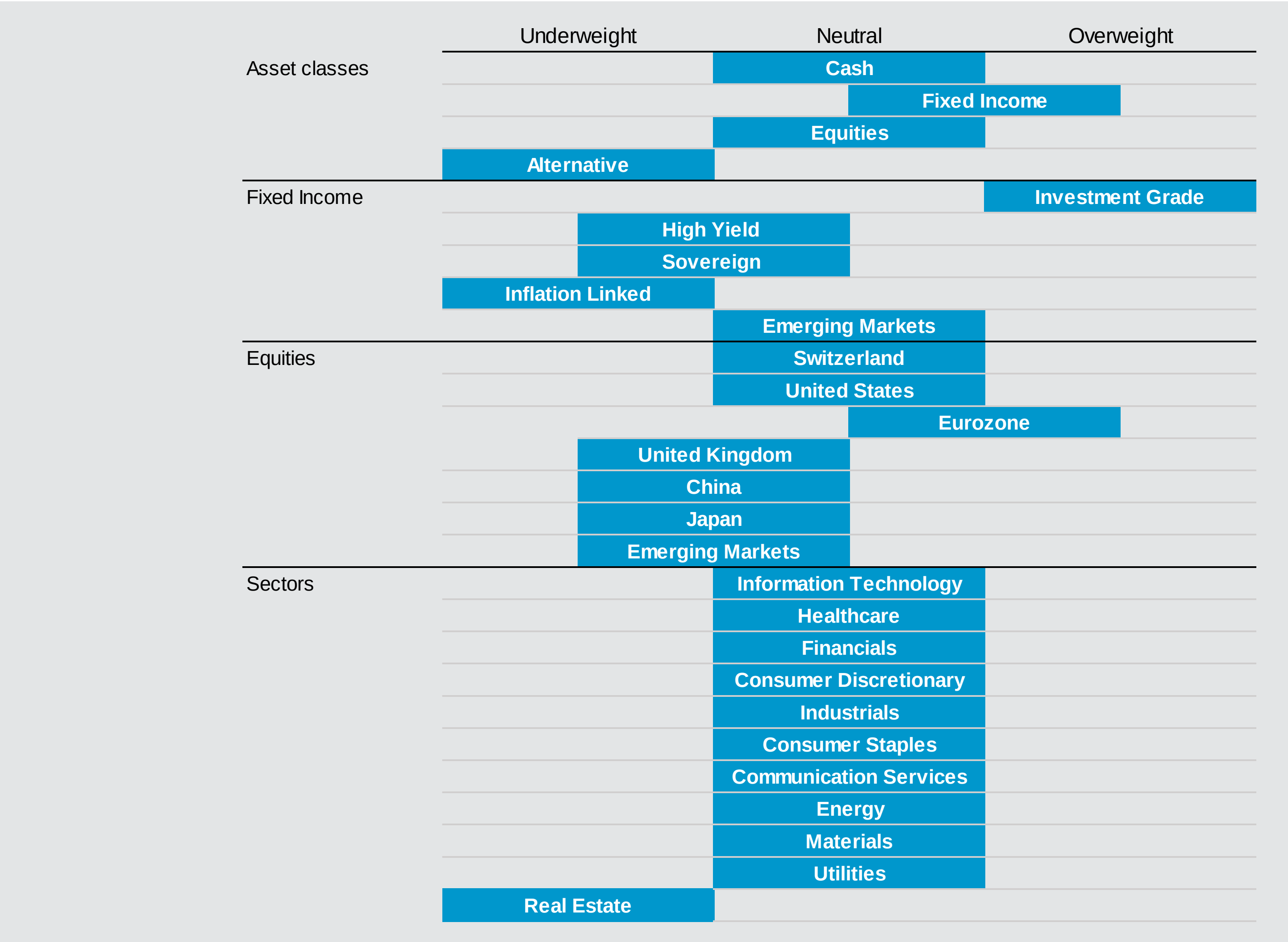
Key **Investment Themes**

- 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.

Our preference for **Investment Grade**

Currently, high-yield bonds are offering relatively limited additional yield compared to investment-grade bonds and treasuries, despite their higher risk profile. This tight spread reduces the compensation for taking on the extra credit risk, making it an opportune time to reassess these positions.

Asset **Allocation**



Fixed-income allocation

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

Equities

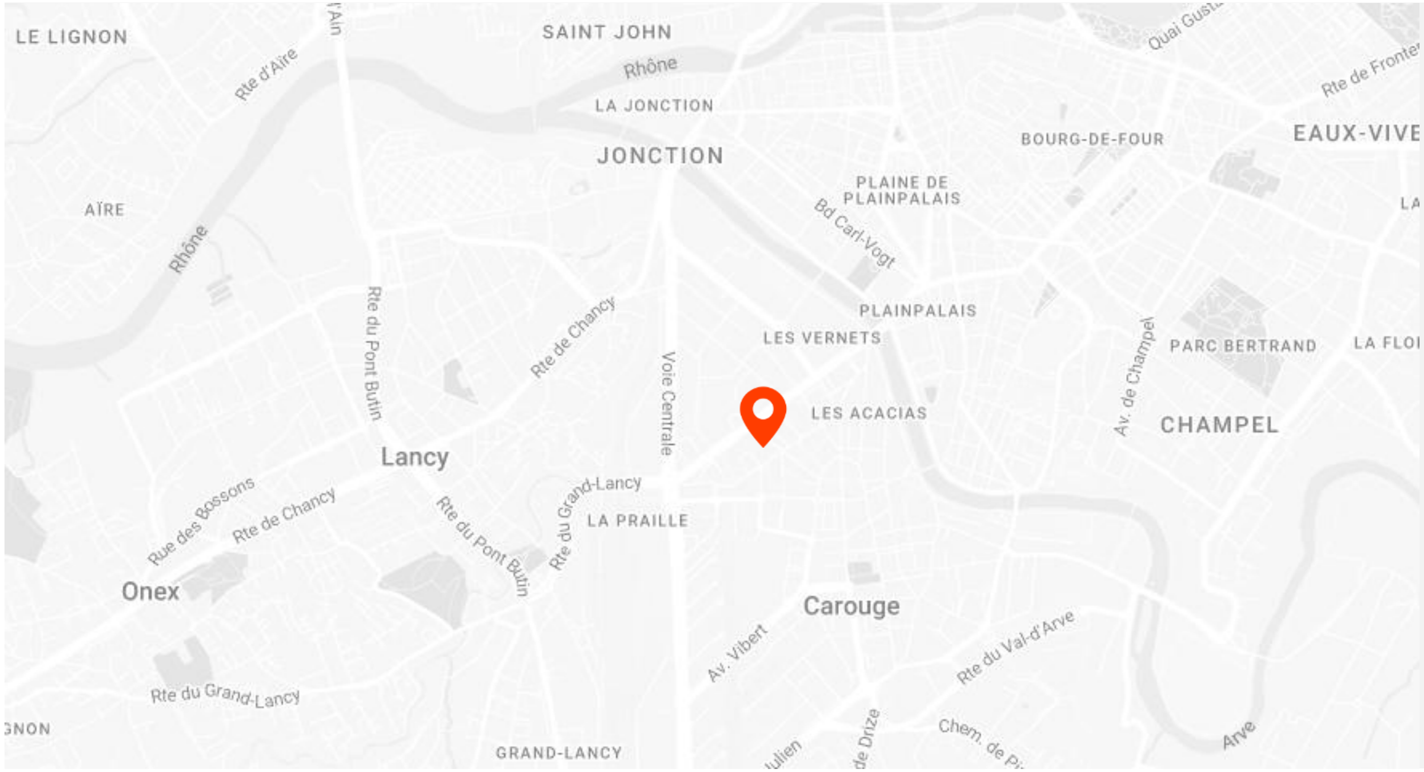
The different scenarios lead us to a more neutral approach to equities, where sector and regional diversification is more important than ever. We return to a more neutral stance on the United States following the turbulence caused by the new administration and increase our allocation to Europe.

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.

Contact

A DIFFERENT APPROACH TO WEALTH MANAGEMENT



Wealth Management
Family Office
Wealth Planning

Route des Acacias 54
1227 Carouge

Geneva, Switzerland
+41 22 318 58 80

Legal **Notice**

This publication constitutes marketing material and is not the result of independent financial research. Therefore the legal requirements regarding the independence of financial research do not apply. The information and opinions expressed in this publication were produced by Telomere Capital SA, as of the date of writing and are subject to change without notice. This publication is intended for information purposes only and does not constitute an offer or an invitation by, or on behalf of, Telomere Capital to make any investments. Opinions and comments of the authors reflect their current views, but not necessarily of other entities or any other third party. Services and/or products mentioned in this publication may not be suitable for all recipients and may not be available in all countries. Clients of Telomere Capital are kindly requested to get in touch with the local Telomere Capital entity in order to be informed about the services and/or products available in such country. This publication has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Before entering into any transaction, investors should consider the suitability of the transaction to individual circumstances and objectives. Any investment or trading or other decision should only be made by the client after a thorough reading of the relevant product term sheet, subscription agreement, information memorandum, prospectus or other offering document relating to the issue of the securities or other financial instruments. Nothing in this publication constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate for individual circumstances, or otherwise constitutes a personal recommendation for any specific investor. Telomere Capital recommends that investors independently assess, with a professional advisor, the specific financial risks as well as legal, regulatory, credit, tax and accounting consequences. Past performance is not a reliable indicator of future results. Performance forecasts are not a reliable indicator of future performance. The investor may not get back the amount invested. Although the information and data herein are obtained from sources believed to be reliable, no representation is made that the information is accurate or complete. Telomere Capital SA, its subsidiaries and affiliated companies do not accept liability for any loss arising from the use of this publication. This publication may only be distributed in countries where its distribution is legally permitted. This information is not directed to any person in any jurisdiction where (by reason of that person's nationality, residence or otherwise) such publications are prohibited. This document may contain information obtained from third parties, including ratings from rating agencies such as Standard & Poor's, Moody's, Fitch and other similar rating agencies. Reproduction and distribution of third-party content in any form is prohibited except with the prior written permission of the related third-party. Third-party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third-party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third-party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content, including ratings. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the market value of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.