MONTHLY NEWSLETTER

May 2025

KEY ECONOMIC DATA

- In the first quarter, the US economy contracted by 0.3% - the first decline since 2022 - as companies stockpiled imports ahead of Trump's tariffs.
- US consumer spending rose 0.7% in March after an upwardly revised 0.5% gain in February.
- The US Personal Consumption Expenditures (PCE) Price Index was unchanged in March after rising 0.4% in February.
- The European Consumer Confidence Indicator fell by 1.0 point in the EU and by 0.9 point in the euro area in March.
- China's official purchasing managers' index (PMI) fell to 49.0 in April from 50.5 in March.
- China's factory activity contracted at the fastest pace in 16 months in April.
- In March, Japanese consumer prices were 3.6% higher than a year earlier. Although lower than in the previous two months, it was still historically high and at a level not seen since 2023.
- ⍰ The yield on the 10-year US Treasury note rose to 4.48%, the highest since mid-February, from as low as 3.93% earlier this month.

The IMF has cut its growth forecast for global economic growth this year to 2.8%, compared with 3.3% in January

25.3%

PERFORMANCE OF GOLD SINCE THE BEGINNING OF THE YEAR

INVESTMENT PERSPECTIVE

April will be remembered as the month of tit-for-tat tariffs, with the dramatic announcement of reciprocal tariffs. Indeed, on 2 April, the US President announced the details of these reciprocal tariffs. Although widely expected, they came as a surprise because of their magnitude (10% base tariff from 5 April + additional tariff equal to half the ratio of the US bilateral trade deficit divided by US imports from 9 April).

The announcement of 34% reciprocal tariffs on Chinese imports prompted China to impose 34% tariffs on US goods on 4 April. On 9 April, Trump hit China with an additional 85% levy on all imports, bringing the total to 104%. On the same day, China announced retaliatory tariffs of 84% on imports of US goods, further escalating the trade war between the world's two largest economies. On the same day, Trump raised tariffs on Chinese imports to at least 145% before announcing a 90-day pause on "reciprocal" tariffs, except for China. On 11 April, China raised its retaliatory tariffs on US imports to 125%.

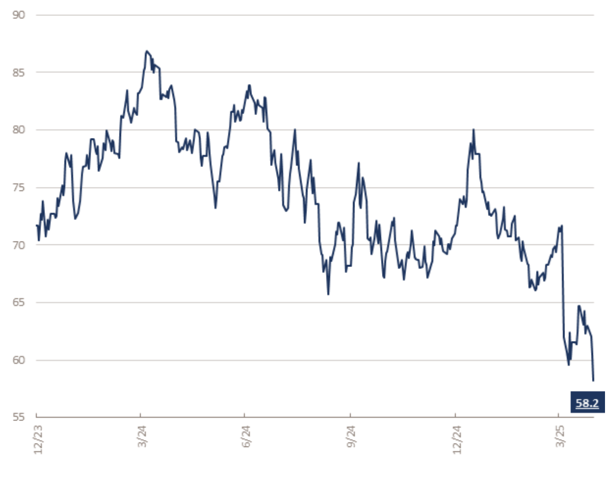
These punitive tariffs are undoubtedly a bargaining chip in negotiations with US trading partners, and the tariffs ultimately imposed after negotiations may be less severe. However, the risk of escalation will ultimately weigh on economic growth and reignite fears of a resurgence in inflation.

This recessionary scenario (more than 60% probability at Goldman Sachs) of tariffs has triggered a sharp downturn in financial markets, with the US dollar being a large casualty. Perhaps in response to the market turmoil caused by the growing risk of recession and a sharp tightening of financial conditions, the US President has announced a 90-day pause on reciprocal tariffs.

The delay in implementation and the possibility of a more favourable negotiated agreement than the announced tariffs allowed markets to breathe a sigh of relief. This return to relative calm after an unprecedented shock allowed the main stock market indices to record a minimal decline of 0.5% for US equities in US dollar terms, with the Magnificent Seven even rising 0.7% over the month, and European equities in euro terms falling 0.8%.

The cut in global growth forecasts led to a sharp fall in the oil price, which fell 18.6% over the month. In contrast to credit and equity markets, the US dollar did not follow this rally and fell 4.5% against the euro in April, following an already 4.1% decline in March.

Crude Oil – West Texas Intermediate (WTI)



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INVESTMENT STRATEGY

After a month of extreme uncertainty, as evidenced by the rise in volatility indices across all asset classes, the month ended on a note of optimism thanks to the de-escalation announcements from the White House.

The disruption caused by Trump's tariff hikes has reduced the potential for American exceptionalism to continue. The attempt to reshape global trade by imposing tariffs on all US imports has increased the risk of a global economic slowdown and the perceived risk of a US recession. Economists have cut their global growth forecasts, with the median down to 2.7% from 3.0% in January.

This turmoil, caused by Trump's policies but also by uncertainty about future relations with an unpredictable administration, sent markets into a sharp correction. In total, the Magnificent Seven lost $2.3 trillion in value since 21 January, the day after Donald Trump's inauguration, with $1 trillion lost on inauguration day alone.

Are we witnessing a bear-market rally (usually fast and sharp), or the start of a new secular cycle following a temporary shock, in this case tariffs, fuelled by a prolonged artificial intelligence cycle?

This is not a trivial question, as a pause in trade tensions has contributed to the recent rally in risk assets. A shift away from the original tariffs could indeed prolong the rally, although the economic impact will be felt in upcoming economic data.

Since 1950, the US equity market has experienced 19 peak-to-trough drawdowns of more than 15%. The current correction is mild compared to previous recessionary periods.

> "Analysts Are Calling for Earnings Growth Rates of 6.4%, 8.8%, and 8.3% for Q2 2005 to Q4 2025"

PORTFOLIO ACTIVITY

After intense activity in the first quarter, which led us to substantially reduce equity and dollar exposure in our portfolios, we decided to leave our positioning unchanged in April. We remain neutral on equities, with a bias towards European assets at the expense of the US. This positioning has helped our portfolios to mitigate the impact of the sharp fall in the US currency, while capturing the strong outperformance of European assets since the beginning of the year.

It should be noted that we may consider reducing this directional bias if a more constructive return on large US technology companies is confirmed. We have started this rotation towards more technology-focused content with a more global positioning, which proved profitable during the rally in the second half of April. We are also encouraged by the results and the constructive commentary accompanying the earnings releases, confirming continued investment and demand in the artificial intelligence sector.

We have maintained our bond convictions, namely a preference for European duration, a clear path to the front end of the curve and a broad credit exposure across all sectors and geographies.

In this uncertain environment, we believe it is essential to seek resilience through a large, uncorrelated and high-performing alternative allocation. While volatility has reached high levels, so too has the dispersion of performance across alternative segments. Our position selection and sizing have been prudent and have been rewarded in terms of performance. We are maintaining our positions and plan to increase the weighting of this type of strategy through new additions.

We recognise the strategic stabilising role of gold but acknowledge that a return to a risk-on market environment and a correction cannot be ruled out, which would offer more attractive entry levels.

	31/12/2023	31/12/2024	30/04/2025	Month-to-Date	Year-to-Date
Yields (%)				Δ In basis points	Δ In basis points
US 3-Month	5.33	4.31	4.29	0	-2
German 3-Month	3.55	2.49	1.88	-23	-61
US 2-Year	4.25	4.24	3.60	-28	-64
German 2-Year	2.39	2.08	1.68	-36	-39
US 10-Year	3.88	4.57	4.16	-0	-41
German 10- Year	2.02	2.36	2.44	-29	+0
Currencies				Δ In %	Δ In %
EUR/USD	1.1039	1.0354	1.1328	4.7	9.4
USD/CHF	0.8414	0.9074	0.8258	(6.6)	(9.0)
EUR/CHF	0.9289	0.9401	0.9360	(2.1)	(0.4)
GBP/USD	1.2731	1.2516	1.3329	3.2	6.5
Commodities				Δ In %	Δ In %
Oil (WTI)	$71.7	$71.7	$58.2	(18.6)	(18.8)
Copper	$389.1	$402.7	$456.0	(9.4)	13.2
Gold	$2'063	$2'625	$3'289	5.3	25.3

Source: Bloomberg Finance L.P.