Newsletter March 2025
The Boomerang Effect

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Key Take-Aways

- The narrative of "US exceptionalism" is fading, with disappointing economic data, rising inflation expectations, and weaker GDP growth forecasts (1.65% for 2025). The Federal Reserve and other central banks face increased economic uncertainty, with some maintaining a wait-and-see approach. Stagflation risks persist as inflation rises and employment weakens.

- The Trump administration's tariff policies are both economic and political tools, impacting US growth and global markets. Increased tariffs have driven market volatility, weakened US equities, and benefited other markets. Analysts suggest Trump's strategy aims to promote domestic production, but heightened trade tensions could prolong market instability and lead to another bear market.

- The Fed kept rates unchanged at 4.5%, adopting a "wait and see" stance amid trade policy uncertainty, while market expectations for rate cuts in 2025 increased from two to three. The SNB lowered rates by 25bps, with a high probability of reaching zero by year-end. US economic uncertainty is weighing on equities and bonds, with GDP growth expectations for 2026 lowered to 2%.

- Inflation concerns persist as the Fed's preferred measure (Core PCE) rose more than expected, and long-term inflation forecasts increased. Speculation arises that the US administration may be inducing a recession to justify rate cuts, reducing government debt costs and enabling tax cuts. Meanwhile, European bond markets adjust to Germany's fiscal easing, and Japan sees rising inflation breakevens, signaling global bond market shifts.

- Global markets faced significant pressure in March, with U.S. indices like the S&P 500 and Nasdaq dropping 5.7% and 7.7%, respectively, due to new U.S. tariffs on Canada and Mexico. European markets also saw declines, though they continue to outperform their American counterparts over the past year.

- Nvidia, Meta, and Tesla suffered steep losses due to regulatory concerns, slowing growth, and geopolitical tensions. Meanwhile, the probability of a U.S. recession increased from 20% to 35%, prompting a shift toward defensive investment strategies.

- The forex market in April 2025 is expected to experience increased volatility due to macroeconomic events, central bank decisions, and geopolitical developments. The U.S. dollar weakened significantly in March, and the euro is expected to strengthen further, driven by stabilizing Eurozone inflation and optimistic geopolitical expectations. Meanwhile, the British pound remains supported by strong UK economic data.

- The Swiss franc has slightly appreciated against the USD, bolstered by Switzerland's stable monetary policies and low inflation, while the Japanese yen has weakened due to the Bank of Japan's cautious rate hikes. Gold and silver prices have risen, with gold benefiting from its safe-haven status and silver supported by strong industrial demand and supply deficits.

Review

March overview

CSI 300 China	Price	1 day	5 days	MTD	QTD	YTD	EST P/E
S&P 500	5'612	0.56	-2.68	-5.63	-4.28	-4.28	18
Nasdaq	17'299	-0.13	-4.88	-8.14	-10.26	-10.26	21
Russell 2000	2'012	-0.51	-4.56	-6.81	-9.48	-9.48	18
Euro Stoxx 50	5'248	-1.56	-3.04	-3.80	7.67	7.67	14
Stoxx 600 EUR	534	-1.49	-2.50	-3.72	5.94	5.94	13
FTSE 100	8'583	-0.88	-0.50	-2.03	6.11	6.11	11
SMI	12'598	-1.78	-2.42	-1.88	9.99	9.99	16
NIKKEI 225	35'618	-4.05	-4.54	-3.38	-9.95	-9.95	17
CSI 300 China	3'887	-0.71	-1.21	-0.07	-0.99	-0.99	13
MSCI EM Index	1'101	-1.72	-2.99	0.64	2.97	2.97	11

10 yr Yield Bps Change	Price	1 day	5 days	MTD	QTD	YTD
US	4.21	-4	-13	-0	-36	-36
Germany	2.74	1	-3	33	37	37
UK	4.68	-2	-4	19	11	11
SWITZERLAND	0.58	-4	-16	12	25	25
Japan	1.49	-5	-5	11	39	39
US IG Spread	103	2	6	7	16	16
US High Yield spread	352	5	38	58	60	60
EUR High Yield spread	350	9	29	56	26	26

Equity % Change	Price	1 day	5 days	MTD	QTD	YTD	EST P/E
S&P 500	5'612	0.56	-2.68	-5.63	-4.28	-4.28	18
UTILITIES	401	1.07	0.87	0.26	4.94	4.94	16
ENERGY	716	1.07	0.84	3.85	10.21	10.21	13
TELECOM	320	0.24	-5.00	-8.28	-6.21	-6.21	16
CONS STAPLES	893	1.65	2.73	-2.43	5.23	5.23	21
REAL ESTATE	263	1.02	0.05	-2.41	3.58	3.58	19
CONS DISCRET	1'575	-0.18	-4.03	-8.91	-13.80	-13.80	22
MATERIALS	542	1.09	-0.49	-2.62	2.81	2.81	18
HEALTH CARE	1'702	0.91	-0.83	-1.70	6.54	6.54	16
INFO TECH	4'020	0.03	-5.24	-8.83	-12.65	-12.65	25
FINANCIALS	829	1.27	-0.68	-4.20	3.48	3.48	15
INDUSTRIALS	1'110	0.66	-2.44	-3.59	-0.19	-0.19	20

Fixed Income - % Change	Price	5 days	MTD	QTD	YTD
BBG Global Agg Treasuries TR Index UNH $	200	0.58	0.61	2.59	2.59
BBG Global Aggregate TR Index Value $	476	0.49	0.62	2.64	2.64
BBG Global Aggregate Corporate TR $	300	0.32	-0.42	1.76	1.76
BBG Global High Yield $	1'693	-0.59	-0.32	1.85	1.85
BBG US Treasury TR Unhedged $	2'357	0.73	0.23	2.92	2.92
BBG US Corporate TR Unhedged $	3'365	0.40	-0.29	2.31	2.31
BBG EuroAgg Government TR Index UNH €	240	0.31	-1.73	-1.19	-1.19
BBG EuroAgg Corporate TR Index UNH €	258	0.07	-1.04	-0.01	-0.01

Currency % Change	Price	1 day	5 days	MTD	QTD	YTD
DXY	104.21	0.16	-0.05	-3.16	-3.94	-3.94
EUR-USD	1.0816	-0.11	0.14	4.25	4.46	4.46
USD-JPY	149.96	0.08	-0.49	-0.44	-4.61	-4.61
USD-CHF	0.8843	0.40	0.14	-2.08	-2.55	-2.55
EUR-CHF	0.9564	0.28	0.28	2.06	1.73	1.73
GBP-USD	1.2918	-0.17	-0.04	2.71	3.21	3.21
EUR-GBP	0.8372	0.06	0.18	1.49	1.18	1.18
JP EM FX Index	44.62	0.12	-0.53	1.50	4.23	4.23

Commodity % Change	Price	1 day	5 days	MTD	QTD	YTD
BBG Commo Index	106.4	0.57	1.27	3.55	7.74	7.74
Gold Spot $/OZ	3'123.6	1.25	3.74	9.30	19.02	19.02
Crude Oil WTI	71.5	3.06	2.83	2.47	-0.33	-0.33

Volatility	Price	1 day	5 days	MTD	QTD	YTD
VIX	22.3	0.63	4.80	2.65	28.41	4.93

Source: Bloomberg 31/03/2025

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Macro & Rates

Market pessimism fueled by stagflation risks and tariffs

The "end of the US Exceptionalism" narrative gains traction, backed by disappointing data, higher inflation expectations, lower GDP growth perspective. In the meantime, Tariff policies emanating from Trump's administration, its communication and its implementation in April this year is throwing further chaos and raises market pessimism.

American exceptionalism is no more. At least, the return of the US equity market and the sharp softening in US data tend to validate this statement. The inflation picture worsens drastically: The University of Michigan longer-term inflation median actually rose to 4.1% after an initial reading of 3.9%, the highest reading in decades!

The Conference Board reported a headline confidence falling to 92.9 backing the large drop of the Consumer Confidence index and finally, some cracks emerged in the employment front. The U-6 unemployment rate (a broader measure of labor underutilization) jumped to 8%, its highest level since October 2021, as household employment collapsed. In aggregate, all of this points to more downside risk for the first quarter growth estimates. The Bloomberg consensus forecast for 2025 US GDP Growth has fallen to 1.65%. Higher Inflation and lower growth represent a clear Chinese puzzle for the Fed.

The stagflation risk in the United States does not only affect the Fed but also other major Central Banks. The current macro economic environment sets the stage for monetary policy immobilism. While both the Swiss National Bank and the European Central Bank lowered rates by 25bps, the Bank of Japan, the Bank of England and the Federal Reserve remained on hold last month.

The last Fed meeting on March 20 just showed that FOMC members were as perplex as the rest of us: the statement cited explicitly a rise in economic uncertainty. The committee projected much lower growth with higher unemployment and inflation than they did three months ago. However, the FOMC left its median dot-plot projections completely unchanged for the first time since December 2020. Similar message came from other central banks, which may, from now on, switch into a "pause mode".

Tariffs are obviously an economic measure, and if implemented as announced will likely have a significant impact on growth in the United States and in many of its trading partners. Tariff communications, on the other hand, are much more of a political instrument. Trump has already used them as a tool to gain leverage with other countries on issues like border control and immigration, and they are also evidently part of the M&A strategy for TikTok.

The re-emergence of tariff has generated lots of volatility in financial markets, negative US equity returns, a wave of diversification benefitting other markets such Europe, China and others emerging markets and for sure a depreciation of the US Dollar.

Some analysts tend to believe that those consequences and reactions in financial markets could be part of the underlying motivation of Trump's Tariff policy. The reality is that the end goal of Trump trade policy is to persuade domestic and foreign firms to "build it here", especially in sectors deemed key to national security. With some success so far. Being crazy about tariffs is a tactic alongside defence policy and efforts to cheapen the dollar (the so-called Mar-a-Lago accord. We see high probability that tariff turmoil will get worse before it will get better. This may leave us with a continuous high volatile environment and a US equity market on track for the 5th bear market without a recession since World War II.

Fixed Income

Stagflation?

On March 19, the Fed kept interest rates unchanged at 4.5% as expected. After January inflation reading which was above expectations, the February reading published on March 12 showed a slowing MoM and YoY CPI. CPI ex food and energy rose 0.2% MoM (vs. 0.3% expected) and 3.1% YoY (vs. 3.2% expected). With the uncertainty surrounding US trade policy the Fed decided to remain in a "wait and see" mode. Whereas the market priced about 2 rate cuts by the Fed for 2025 at the beginning of the year, it is now expecting closer to three cuts for the year. Meanwhile, the SNB has cut interest by another 25bps to bring the policy rate down to 25bps on March 20. The market now see as higher than 50% chance that interest rates will be cut to zero by the end of the year in Switzerland.

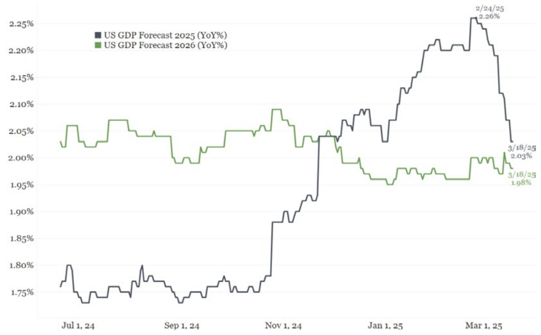
The US policy uncertainty weighs on US equity markets and puts a floor on bond prices as economists have reduced their 2026 GDP expectations for the US. While the 2026 YoY GDP was forecast to grow almost 2.3% at the top the estimate has now fallen to 2%. In this environment Treasuries traded sideways as the yield on the 10-year Treasury remained around 4.2% during the month. Bond investors are torn between the worsening economic outlook in the US and the risk of a potential sudden pickup in inflation stemming from a trade war.

While the US economy remains overall in good shape, there are signs appearing which point to some cracks in the current economic expansion. Could it be that the new US administration wants to induce a recession in the US economy, so that the Fed has to lower interest rates? Indeed, the US government's interest expenses have risen sharply and recently surpassed the annual budge for defense. Trump promised major tax-cuts during his election campaign, but such a bill seems unrealistic given the current size of budget deficit of 7% of GDP. A recession and lower interest rates would reduce the interest expense and could thereby help reducing the deficit which in turn could allow Trump to pass a tax-cut bill during his second term as president and possibly before Republicans lose their majority in the mid-term elections of next year. As the economist Rudi Dornbusch once said: "economic expansions are not dying of old age, they are murdered" – it is well possible that this is the case of what we are witnessing right now in the US.

At the end of the month, the University of Michigan expected change in 5-10 year US Inflation forecast rose to 4.1% vs. an expected 3.9%. On the same day the Fed's preferred measure of inflation, Core PCE, rose 0.4% MoM vs. expected 0.3%. The risks of an upward turn in inflation in the US seems to be real...

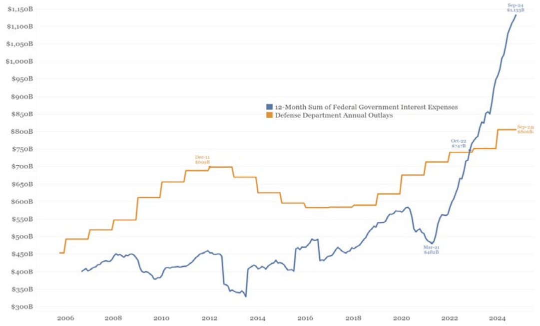
Meanwhile, the European bond market is digesting the fact that Germany embarks on huge fiscal easing. With 10-year German Bund yield rising, the spread to 10-year Treasuries is now as low as 150bps, making the EUR-bond market relatively more attractive again. In Japan, headline inflation is at 3.7% and the 10-year inflation breakeven rate has risen to 1.6% - there is definitively something going on in global bond markets.

US GDP Forecast 2025 (green) and 2026 (black)



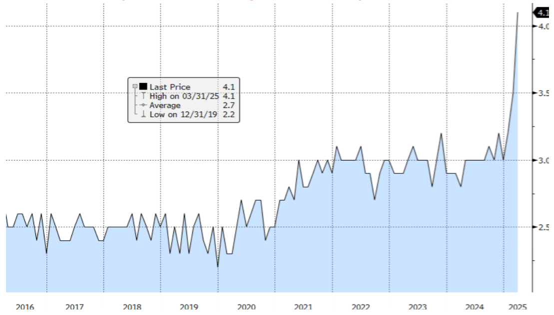
Source: Bianco Research LLC

US Interest Expense (blue line) vs. Defense Outlays (yellow line)



Source: Bianco Research LLC

University of Michigan 5-10yr Inflation



Source: Bloomberg

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Equity

Markets in the crossfire: tariffs, tech slump, and recession fears

Markets under pressure due to new tariff announcements:

March was marked by increased pressure on the markets, characterized by a rise in volatility, with the VIX, the volatility index, peaking at 29.50. This climate of uncertainty was primarily driven by trade tensions related to the Trump administration, along with the announcement of a 25% tariff on products from Canada and Mexico. These measures reignited fears of a potential short-term recession among investors. The S&P 500 and Nasdaq both recorded declines of 5.7% and 7.7%, respectively.

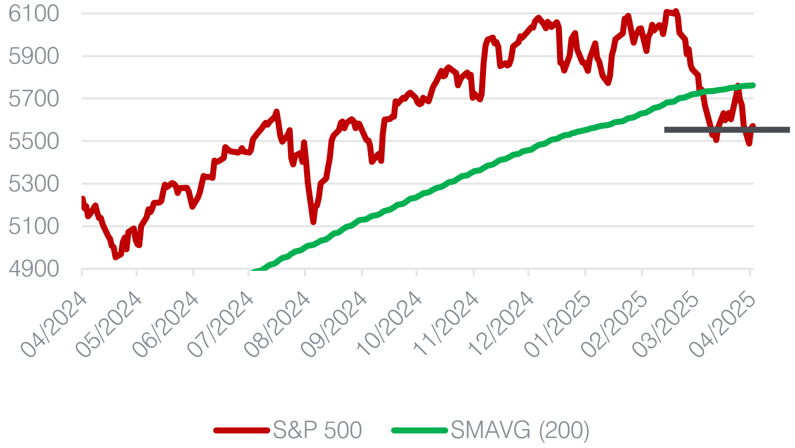
European stock markets also recorded their first monthly decline of the year, marked by a challenging end to the month. The Stoxx Europe 600 index fell by over 4%, while the DAX and CAC 40 lost 2.38% and 4.09%, respectively. Despite the fragility of the situation, there are still positive elements, including the improving situation in Ukraine and the hope for a resolution to the crisis. Initiatives to strengthen defense could also support the markets in the medium term. Despite the decline, European stocks continue to outperform their American counterparts over the past year.

In China, the CSI 300 remained stable, closing at 3,887.31 points, the same level as at the end of February, despite significant daily fluctuations influenced by various economic and geopolitical factors.

Performance of major U.S. companies: Nvidia, Meta, and Tesla heavily penalized by the market:

- Nvidia: Nvidia's stock saw a significant drop of over 13%, marking its largest decline since September 2022. This depreciation is attributed to several factors, including skeptical comments from Chinese leaders about artificial intelligence, which raised doubts about the long-term viability of this technology. Additionally, new U.S. regulations on AI chip exports weighed on the stock. The Trump administration added 80 Chinese companies, including Inspur, a key client of Nvidia, to a trade blacklist, which raised concerns about Nvidia's access to the Chinese market.
- Meta: Meta's stock also suffered heavy losses due to growing concerns about a potential recession, increased competition in AI, and the slowdown in advertising market growth. These factors suggest moderate growth in 2025, which corrected by more than 13%, due to a 36% drop in sales in Europe and a 50% decline in China. This depreciation weakened the stock, already considered overvalued. Additionally, could affect Meta's revenue despite its substantial investments in AI and the metaverse.
- Tesla: Tesla's stock, analyst concerns regarding first-quarter deliveries and Elon Musk's engagement with the Trump administration led to negative reactions.

S&P 500



"The S&P has rebounded on its support, forming a double bottom. A move above the 200-day moving average (MM200) would be positive for the U.S. market."

Rising probability of recession:

The probability of a recession in the U.S. has significantly increased, rising from 20% to 35%, mainly due to the new tariff policies. In the current context, caution is advisable, and it is important to adopt a strategy of geographic diversification while investing in resilient sectors that tend to outperform during recessions, such as utilities, consumer staples, and healthcare.

Forex & Commodities

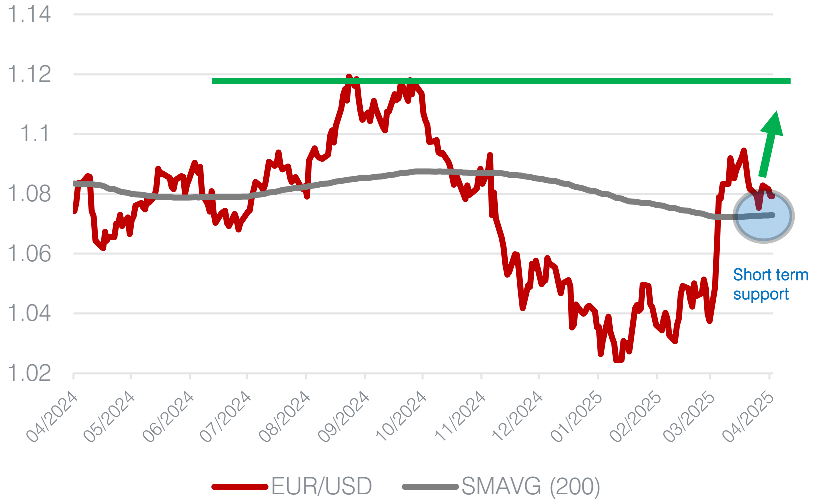
A relief for euro in a climate of uncertainty ?

The forex market in April 2025 is expected to witness heightened volatility, similar to March, driven by key macroeconomic events, central bank decisions, geopolitical developments and the rising uncertainty of new Trump's tariff. A notable emerging trend is the divergence in forecasts among different sources, reflecting the inherent uncertainty surrounding market predictions and geopolitical tensions.

The U.S. dollar weakened significantly in March, with the DXY index declining by nearly 3.20%. The EUR/USD exchange rate began March at approximately 1.08, and if the current trend persists, analysis suggests a potential strengthening of the euro toward 1.11 in April. Despite the European Central Bank's 25-basis-point rate cut in March, the euro has remained resilient. This strength is expected to continue in April, particularly with another anticipated rate cut on April 17. The euro's appreciation is primarily driven by market expectations of stabilizing Eurozone inflation and optimism regarding a potential resolution to ongoing geopolitical conflicts, particularly the war in Ukraine. Additionally, moderate economic growth and renewed investor confidence in European financial markets contribute to the euro's gains against the dollar.

Conversely, the Federal Reserve is expected to maintain interest rates near 4% at its April 30 meeting. While markets anticipate rate cuts starting in June, this expectation has placed downward pressure on the USD, despite the typically stabilizing effect of steady interest rates. From a technical standpoint, the EUR/USD pair is poised to break the psychological resistance at 1.10, potentially entering a new bullish momentum. The key support level remains the 200-day moving average, currently around 1.07.

A Break Above 1.10 For EUR/USD ?



The British pound has remained well-supported due to stronger-than-expected UK economic data. Wage growth and an expanding services sector have bolstered investor sentiment, leading to reassessments of the timing for potential Bank of England rate cuts. As a result, GBP/USD has demonstrated relative stability, with short-term trading expected to fluctuate between 1.28 and 1.30.

Meanwhile, the Swiss franc has shown slight appreciation against the U.S. dollar since the start of the year. The USD/CHF exchange rate hovered around 0.88 at the beginning of April, with forecasts suggesting a short-term stabilization within the 0.87-0.89 range. This strengthening is supported by Switzerland's stable monetary policies and low inflation projections for 2025-2026, reinforcing the franc's status as a safe-haven asset amid global economic uncertainties, enhanced by tariff's threats.

The Japanese yen experienced slight depreciation against the U.S. dollar, with the USD/JPY pair rising from approximately 148 to a projected range of 150. The Bank of Japan's cautious approach to rate hikes has contributed to the yen's weakness. Additionally, shifting expectations surrounding U.S. tariffs policy have played a role in influencing the currency's movement. Too high tariffs and uncertainty, could push again the attractivity of the Yen up as a safe haven investment.

Gold has experienced a moderate upward trend in April, reflecting its role as a safe-haven asset. Prices are projected to range between \$3,000 and \$3,500 per troy ounce, with an average of \$3,270. Central bank purchases and inflation concerns have supported gold's appreciation. Similarly, silver has shown strong growth potential, with prices rising from \$34.36 to a projected high of \$40 per troy ounce by mid-2025. Industrial demand and ongoing supply deficits contribute to silver's bullish outlook.

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