LETTER FROM THE CIO AM

MARKET ANALYSIS AND PRINCIPAL INVESTMENT THEMES
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When politics spill over into markets and the economy

DONALD TRUMP IS KEEN TO FORGE AHEAD AND STILL TAKES THE MARKET BY SURPRISE…

The first weeks of Donald Trump's mandate are unfolding at a staggering pace and in chaotic fashion, leaving observers increasingly stunned. And yet, events are proceeding as planned according to his programme. Donald Trump is doing what he said he would. Is it foolish to be surprised? Cynics may have doubted the implementation of his programme as it stands on account of its many inconsistencies. Why initiate a tariff war when US consumers and constituents are still reeling from a wave of inflation? Is the "*drill, baby, drill*" plan - aimed at lowering the price of oil (to around $40) to counter a potential resurgence of inflation - credible if most US producers operate at a loss when oil falls below the $50 threshold? Admittedly, the new geopolitical landscape forged by the Trump administration may cause oil prices to drop, and importantly, 8 members of OPEC+ - including Russia - have just agreed to raise production from April. Nevertheless, the price of oil - at $67 - is currently at the lower-end of the price range observed over the past year, without a genuine change of regime so far. In a bid to reshore production back to the United States, is America ready to pay more for its consumer goods? And are there still enough blue-collar workers available after much of the workforce moved to services, especially if the immigration gates are closed? Is America prepared to bear the cost of the retaliatory tariffs that its first trade victims seem intent on applying (Canada, Mexico… or even China)? Accepting that Trump's programme is to be taken in its entirety implies incorporating these inconsistencies into our investment policy.

ARE MARKETS A BETTER COUNTERWEIGHT THAN AMERICAN INSTITUTIONS? NOT SURE.

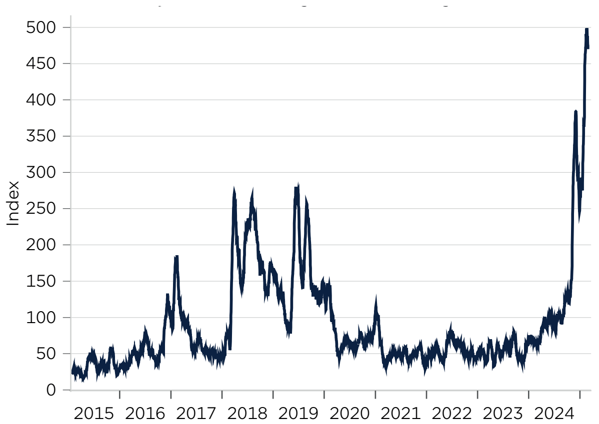
The fact is that Trump gives the impression of adjusting his policy according to market conditions. Cryptos collapse after the Bybit platform was hacked? M. Trump starts disclosing a few details on the cryptocurrencies that will be used in the sovereign fund currently being developed and triggered an equally brutal rebound for cryptos. The White House announces new 20% tariffs on goods imported from Canada and Mexico on March 3rd? He backtracks on March 6th and announces a one-month hiatus as the US stock market shows rising signs of weakness, with the Nasdaq shedding almost 10% from its February high.

Here again, however, the President is not very consistent. Very recently, he acknowledged that his policies could lead to some economic "disruption", that there was a "transition" to be made. This time around, the new administration may well choose to ignore (to a certain extent) the current weakness of the US stock market.

THE U.S. ECONOMY IS WEAKENING, PLAGUED BY UNCERTAINTY

Either way, due to contradictions and uncertainties, these announcements may have already impacted the economy. The positive effects from upcoming plans to deregulate the economy and extend 2017 tax cuts seem jeopardised by the erratic statements on tariffs. To the extent that ISM and PMI survey results are declining in the manufacturing sector, with managers quoting soaring political uncertainty as a qualitative negative factor. Household confidence also seems a little affected, due to rising inflation forecasts. It would be wrong to give too much importance to these initial reactions, just as it would be dangerous to ignore how economic players might respond if faced with substantial changes. From the outset, first quarter growth is likely to be frail, mostly for technical reasons. Indeed, ahead of the raised tariffs, US imports have risen sharply. But looking beyond these short-term factors, the issue at stake is how much the new policy is hindering growth.

UNITED-STATES, TRADE POLICY UNCERTAINTY



Source : Edmond de Rothschild Asset Management, Macrobond

KEEPING OUR INVESTMENT POLICY ON COURSE

Amid rising uncertainty and rather stretched equity valuations, with a low term premium on the US bond market, we have remained slightly under-exposed to equity markets - a move initiated last month - and have kept a neutral position on fixed income markets.

Since the beginning of the year, we have focused on broad regional diversification, choosing to under-weight US equities over their European counterparts despite the doom and gloom that hung over Europe, and to slightly over-weight Chinese equities. Our position is unchanged.

In Germany, news that the CDU and SPD have agreed to a "Bazooka" defence and infrastructure plan to be presented to the Bundestag in the next few days and weighing a total of €1 trillion over the next decade (more than 20% of the GDP) is colossal. While the multipliers for defence spending should be much lower than for infrastructure, the impact on confidence and growth could be a game changer. Since the beginning of the year, the Eurostoxx index has outperformed the S&P 500 by almost 13%. The trend is massive and contradicts the consensus at the start of the year, which was no negative on European equities. While domestic investors have somewhat returned to the market, international investors have remained very underweight on Europe. It is difficult to gauge how the responsiveness of European authorities and fiscal stimulus - at least in Germany - will change how investors perceive Europe, but we are not taking any profits on European equities.

A wind of change is blowing on Chinese equities: the real estate sector, a major deflationary factor, seems to have finally emerged from the crisis. In addition, the country has proven its AI abilities to the world with the launch of DeepSeek; authorities have upped their stimulus plans to support consumer spending, and importantly, have changed their attitude towards the private sector and adopted a pro-business stance. The authorities have maintained their 5% growth target. We have also kept our over-exposure to Chinese stocks despite their outstanding run since the beginning of the year. The big question now is whether a trade agreement can be achieved between the United States and China, as this would allow inflows to resume from many US investors who considered China to be "out of bounds".

We are entering a unique period, with the tectonic plates of History shifting much more unpredictably. While global trade statistics are indicative of slower globalisation rather than de-globalisation, equity market performances are "de-globalising" at a faster pace due to the return of the regional factor - which now also comes with a large political element. Since the beginning of the year, the performance gaps between different regions have been brutal. This environment advocates maintaining broad regional diversification.

European long-term yields Europe have retraced almost 50 bp since the beginning of the month, when the German "bazooka" agreement and plans to relax EU budget rules to allow member states to boost defence spending were announced. Investors have wiped off a 25 bp rate cut by year-end, which seems reasonable to us. We are neutral on bond markets with a preference for credit. Admittedly, credit spreads are no longer attractive. However, the new European stance lowers the risks of a recession - which is so harmful to the credit market - and sovereign issuances are expected to be durably massive. There is every reason to believe the credit market will remain expensive.

TO SUM UP

Amid rising uncertainty and rather stretched equity valuations, with a low term premium on the US bond market, we have remained slightly under-exposed to equity markets - a move initiated last month - and have kept a neutral position on fixed income markets.

Germany's ambitious defence and infrastructure plan marks a major strategic turning point, and could transform the perception of Europe in the eyes of both domestic and international investors.

With the recovery of the Chinese real estate sector, significant advances in artificial intelligence thanks to DeepSeek, and a more favorable stance towards the private sector, we have decided to maintain our over-exposure to Chinese equities.

	Our convictions*	Changes compared to the previous month
ASSET CLASSES		
Equities	★ -	↓
Fixed Income	=	→
Dollar	=	→
Cash	=	→
EQUITIES		
US	+	→
Europe (ex-UK)	=	→
UK	=	→
Japan	=	→
China	+	→
Global Emerging	=	→
SOVEREIGN BONDS		
US	=	→
Euro Zone	=	→
Emerging Markets	+	→
CORPORATE BONDS		
US Investment Grade	+	→
Euro Investment Grade	+	→
US High Yield	=	→
Euro High Yield	=	→

*Range of investment committee ratings on the asset class/geographical zone (from -/- to +/+). Source: Edmond de Rothschild Asset Management (France). Ratings at 10/03/2025.
★Tactical score.

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