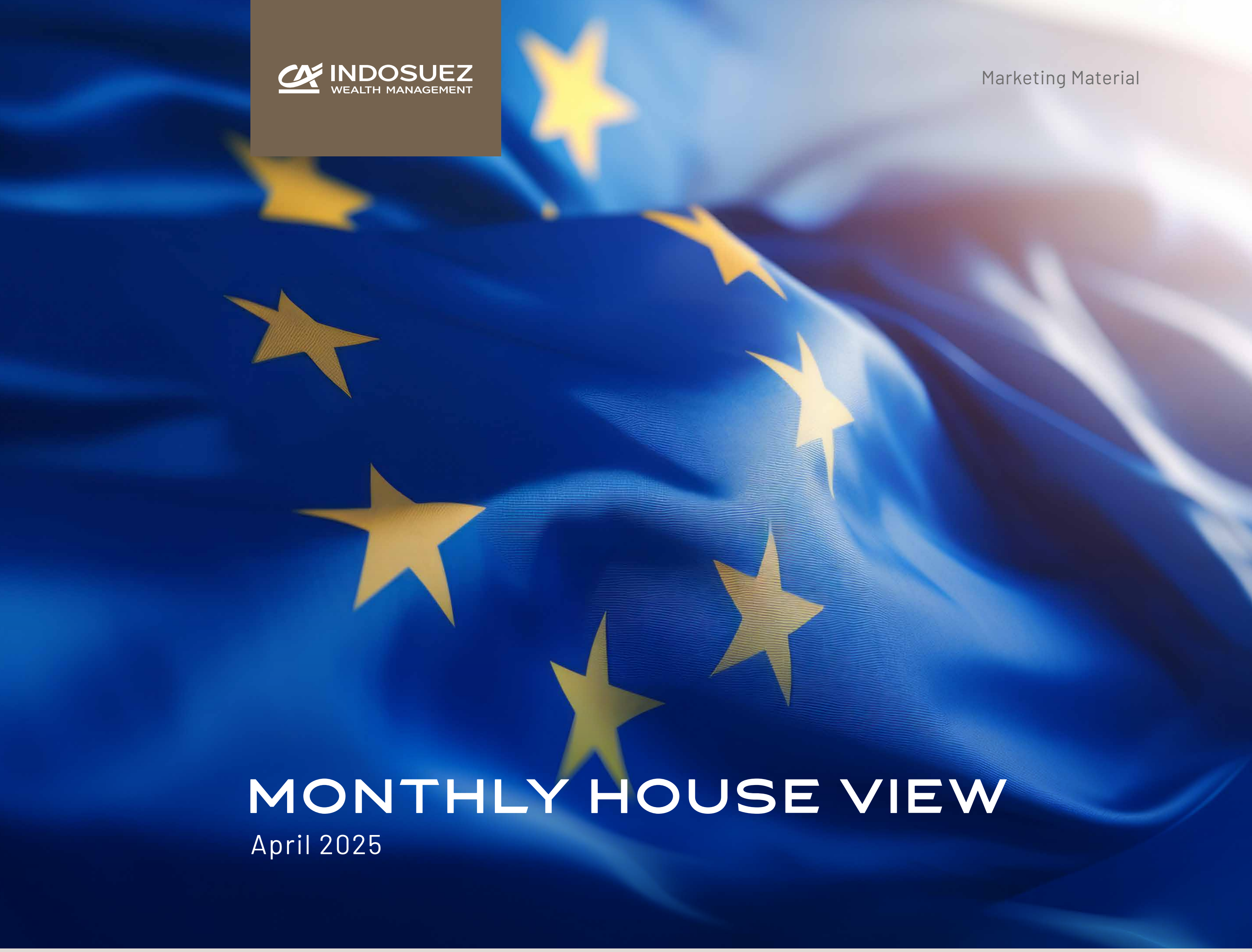
Marketing Material



MONTHLY HOUSE VIEW

April 2025

When the unthinkable becomes reality

Architects of Wealth

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WHEN THE UNTHINKABLE BECOMES REALITY

Delphine
DI PIZIO TIGER
Global Head
of Asset Management

Dear Reader,

Elections often bring about change, and the year 2024, when countries representing half of the world's population went to the polls, is likely be remembered for years to come. "There are decades where nothing happens, and weeks where decades happen". This quote aptly summarises the environment at the beginning of 2025, which witnessed Germany, with its brand-new Chancellor, breaking the debt brake. This is unprecedented since the reunification of Germany following the fall of the Berlin Wall in 1989. German fiscal orthodoxy has been relaxed, and the Maastricht criteria set aside, something Europe has long awaited, and the recent election in the United States has ultimately acted as the catalyst. The unthinkable has finally become possible!

This marks a clear and radical shift for Europe; Germany's mega-plan on defence and infrastructure will pull the country out of two consecutive years of recession and is expected to significantly accelerate its growth over the next three to five years.

In the United States, the tariff policy implemented by the Trump administration is likely to cause a pick up in inflation and hamper global growth. Beyond these negative effects, a major upheaval is underway. Starting this year, the growth dynamic between Europe and the United States is expected to reverse: US growth is set to slow down while European growth is set to accelerate. Consequently, the growth rates of the two regions could converge as early as next year.

During Donald Trump's first term, investors had relegated his unpredictability to the back seat, largely compensated by tax cuts and deregulation, which promised positive effects on the economy. Today, the situation is radically different. The "Trump Put"[1] seems to have vanished, as the administration focuses on the chaotic implementation of tariffs and federal budget cuts affecting more than 100'000 jobs today. With inflation and purchasing power at the forefront of American concerns, a majority now feels the president is not doing enough. Furthermore, the announcement of mass expulsions of illegal migrants, who are primarily employed in agriculture, hospitality and construction, could exacerbate the labour shortage and worsen inflation. Dissatisfaction is now growing: 52%[2] of Americans disapprove of Donald Trump's policies, an increase of 11% in just two months.

In this edition, we highlight Germany's comeback by examining the implications of the debt brake removal. The rise in interest rates and the outlook on equities in the Euro Area breathe new life into investors, particularly those who have neglected this region for too long. We are firmly convinced that diversification remains the most effective strategy to navigate this volatile and unpredictable short-term environment.

The entire team joins me in wishing you an enriching and enjoyable read!

1 - Trump Put: The perception among investors that President Trump's economic policies and statements could influence the stock markets in a way that limits their downside.
2 - Ipsos Poll, 10-11 March 2025.

Bénédicte KUKLA
Senior Investment Officer

Hope is high in Germany as the Bundestag voted the biggest fiscal shift since reunification. We are in early days, 2025 will bring policy adjustments and the risk of a US trade war looms, infrastructure spending will considerably boost growth in 2026 and beyond. Equity markets are rebalancing in favour of Europe, while European bonds should see further volatility.

EUR 500 BILLION
allocated to infrastructure spending

TWO STIMULUS PLANS, TWO IMPACTS

At last! After years of economic underperformance and months of excruciating political uncertainty, Germany's new Chancellor started his mandate with a bang, announcing a stimulus package containing: a special fund worth 500 billion euros (over 10% of GDP) in infrastructure spending over a 12-year period, a suspension of the debt brake[3] for security expenditures beyond the threshold of one percent of GDP (effectively removing the ceiling on defence spending) and allowing federal states (*Länder*) to acquire (small) deficits. On the eve of this groundbreaking German plan, the European Commission introduced its ReArm Europe plan: 650 billion euros in additional fiscal space over four years to allow member states to increase defence spending without triggering the excessive deficit procedure (EDP) and 150 billion euros of European Union (EU) loans to member states for defence investment.

The ReArm Europe plan is expected to have a less significant impact on GDP due to reliance on saturated national spending plans and relative high import content of military equipment. However, we are optimistic about the infrastructure plan, which covers a broad range of sectors including transport, energy, education and digitalisation. Given Germany's weak public infrastructure and growth, the impact of spending should, in theory, be particularly effective. Details on the allocation of funding still need to be clarified, with railway, utility and renewable energy companies already making claims.

THE RETURN OF THE GERMAN GROWTH ENGINE

In the short-term, the first quarter (Q1) of 2025 has yet to see a vast improvement in Euro Area economic data, with French household consumption of goods having contracted over the month of January (-0.5%), while German industrial production grew (+2% over the month, but still down 1.9% over the year). Frontloading of imports in response to tariff threats from the US and energy imports linked to the colder weather will weigh on Q1 2025 growth figures. Imports rose by 7.6% in January, while exports rose by only 3% despite a 16% increase in EU exports to the US as Americans stockpile. We expect to see a vast improvement in confidence surveys, notably in the German industrial sector. It is less clear if this will spread to consumers as anxiety remains high given the geopolitical pressure that prompted these plans and the impending risk of higher tariffs. We remain cautious in our growth forecasts, notably for 2025. The CDU/CSU and SPD parties will have a slim majority in the next Bundestag, which could make it challenging to implement their economic policy agenda. We have revised up our 2026 GDP growth forecasts up 40 basis points (bps) mainly driven by the German infrastructure plan, with risks tilted to the upside given the possible spillovers effects to the rest of Europe, notably the Netherlands and France in view of the integrated European value chain.

LIMITED INFLATION RISK

The moderation in wage growth and service prices should allow inflation to return to 2% in 2025 (2.4% in February). German capacity utilisation is at historical lows (Chart 1, page 5), so we do not expect this plan to lead to any overheating of the economy in our forecast horizon, despite demographic tensions.

3 - A balance budget law in Germany's Constitution designed to restrict structural budget deficits at the federal level and limit the issuance of government debt.

Both plans can be seen as a form of supply shock, and therefore are considered less inflationary than demand-driven stimulus. The biggest inflationary risk to the Euro Area remains trade retaliation with the US, although the recent appreciation of the euro partially mitigates this risk. The European Central Bank (ECB) will feel less compelled to cut rates in this context and could be tempted to adopt a more wait-and-see approach. According to the ECB, after six consecutive rate cuts financing conditions are "meaningfully less restrictive".

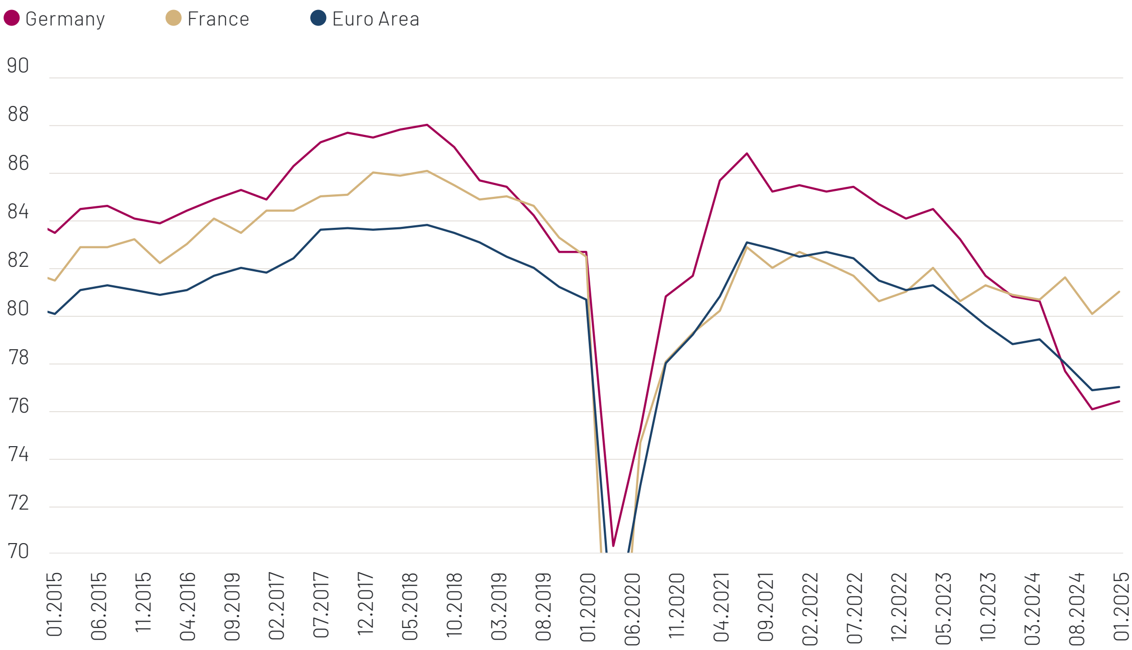
MARKETS PRICED FOR IMPLEMENTATION PERFECTION

Markets have continued to broaden out from US tech stocks, with a rebalancing to European equities in this current supportive context. Fundamentals are also expected to improve with earnings *momentum* to rise from very low levels in Europe. Room for disappointment is high in the current market context. The ZEW indicator of investor morale in Germany climbed to 51.6 in March, compared to 26 in February.

This is also true of the European bond market that appears to have priced the entire stimulus package into German 10-year bund yields overnight, pushing them up almost 50 bps to 2.8%, a level not seen since 2011. This can be linked to better GDP growth prospects. Furthermore, the differential earnings yield between US Treasuries and Bunds is still elevated at 150 bps. Fitch estimates Germany's public sector debt could rise towards 70% of GDP by 2027 (up from 63% in 2024), still low on international standards, but the highest among AAA-rated countries. The demand for German Bunds will remain high and should cover the boom in supply. Nevertheless, we expect a period of volatility on European bond markets as Germany and Europe go through this massive policy adjustment phase.

German
INVESTOR MORALE DOUBLES
in March: from
26 TO 51.6

CHART 1: CAPACITY UTILISATION MANUFACTURING SECTOR (INDEX)



Source: European Commission Surveys, Indosuez Wealth Management.

TRUMP 2.0: THE LONG VIEW AND THE COST OF UNCERTAINTY

Lucas MERIC
Investment Strategist

The “Trump Put” hypothesis is challenged by the administration’s desire to prioritise long-term objectives at the expense of short-term dynamics. These developments weigh on US markets and lead us to revise our growth expectations downwards. However, despite the moderate growth slowdown we now anticipate in 2025, the return of recession narratives in the markets appears exaggerated.

THE DISAPPEARANCE OF THE “TRUMP TRADE”

As eyes were fixed on the risk of an overheating US economy in January, the risk of recession has now returned to the forefront with the S&P 500 correcting by 10% in March. While “recession” has re-entered market discussions, it is probably too early to attribute such market movements to recession expectations. These movements more accurately reflect the unwinding of the famous “Trump Trade”, characterised by market exuberance post-November election driven by pro-growth policy expectations. These optimistic expectations have recently given way to growing uncertainty introduced by Donald Trump’s tariff policy, leading markets to realise that the Trump administration might be more open to short-term economic and financial disruptions to serve long-term goals — a sort of questioning of the pre-eminence of the “Trump Put”, one of the major hypotheses of investors following the US election.

TRUMP 2.0: THE LONG VIEW

In a long-term perspective, two priorities emerge at the beginning of this term: reviving the US manufacturing sector and lowering long-term rates to manage debt sustainability dynamics. For the latter, one of the key measures has been the Department of Government Efficiency (DOGE) led by Elon Musk, aimed at drastically reducing US government spending, with the deficit standing at 1.8 trillion dollars in 2024 (6.4% of GDP).

However, the main point of contention for markets in recent weeks has been tariff policy. Our post-election scenario for Donald Trump was based on two assumptions regarding tariffs: that increases would primarily target China (due to significant Chinese trade surpluses and certain practices deemed unfair by the Trump administration) and that announcements of tariff increases on other trading partners were mainly negotiation tactics. However, it is clear that, in the eyes of the Trump administration, tariff policy is not just about negotiation tactics but serves multiple goals: rebalancing the trade deficit, protecting domestic US companies from international competition, generating revenue to fund certain fiscal measures, and creating leverage for negotiations on both short-term issues (e.g. immigration and drug flows with Canada and Mexico) and strategic subjects like a potential “Mar-a-Lago accord” involving the US negotiating a dollar devaluation with major trading partners in the medium term. The implication of such a hypothesis is twofold: Donald Trump is likely willing to impose more tariffs than expected and favours an omnipresent tariff policy, increasing uncertainty for businesses and consumers, thus weighing on growth dynamics.

1.9%: expected GDP GROWTH IN 2025 (down from 2.3% previously)

THE COST OF UNCERTAINTY

In this context, we expect a significantly more aggressive approach to tariffs to create a sort of "stagflationary" dynamic in the short-term. In early March, we revised our growth expectations for 2025 from 2.3% to 1.9% and inflation from 2.7% to 2.9%. The downward revision in growth reflects a first quarter hampered by a significant increase in imports in anticipation of tariffs, as well as rising uncertainty that we believe will weigh on household consumption dynamics and business investment and hiring plans in the coming months. Thus, we expect moderate slowing in 2025 with annualised quarterly growth sequentially ranging between 1% and 2%.

It is obvious that Donald Trump's focus on policies adverse to growth (tariffs, government spending cuts, reduced immigration) implies that downside risks to our growth scenario persist. However, it is also important to remember that, for now, although surveys have deteriorated in recent weeks, reflecting growing uncertainty, economic data remains resilient. Moreover, in recent years, surveys have not always been effective predictors of actual economic dynamics. Thus, while the risk of recession has indeed increased in recent weeks, the emerging recession narrative in the markets seems somewhat exaggerated to us.

Furthermore, although the beginning of Donald Trump's second term is heavily focused on policies deemed negative for growth, the Trump administration is expected to later turn its attention to more growth-friendly policies (deregulation, tax cuts, attracting foreign investment). In the medium term, this could justify continued solid growth dynamics in the US, reflected in our expectations of 1.9% growth in 2026, while inflation should decelerate to 2.7%, with tariff increases representing a temporary inflationary impact, in our view. This temporary nature supports our key hypothesis that the Federal Reserve (Fed) should proceed with two more rate cuts this year, focusing more on downside risks, employment and growth. In this regard, inflation expectations, which have remained generally anchored for now, will be crucial in assessing the Fed's ability to continue its monetary normalisation cycle in the coming months.

TABLE 1: MACROECONOMIC FORECAST 2024 - 2026, %

● Downward forecasts since March ● Upward forecasts since March

	GDP			INFLATION		
	2024	2025	2026	2024	2025	2026
United States	2.8%	1.9%	1.9%	3.0%	2.9%	2.7%
Euro Area	0.8%	0.8%	1.6%	2.4%	2.0%	2.0%
China	5.0%	4.7%	4.5%	0.2%	1.8%	1.5%
World	3.2%	2.9%	3.0%	-	-	-

Source: Indosuez Wealth Management.

04 • Fixed Income

THE ADVENT OF A NEW CYCLE IN EUROPE

Thomas GIQUEL
Head of Fixed Income

With the contribution
of the Fixed Income Team

German elections have brought their share of surprises to Europe in an international environment unsettled by US foreign policy decisions. The European Commission has announced a joint loan vehicle of 150 billion euros. All these announcements are pushing European interest rates higher, while US rates are falling, in response to the decline in equity markets.

EUR 500 BILLION
to get Germany back on track

The new German Chancellor, Friedrich Merz, surprised the markets on 4 March by announcing a massive 500 billion euro infrastructure investment plan (see our CIO Perspectives of 7 March). Funded by debt, this plan caused German long-term interest rates to surge by more than 45 bps in less than 48 hours. To put this reaction into perspective, one must go back to the country's reunification in the early 1990s to see a market movement of such magnitude. At that time, interest rates were at 7.5%, not 2.5% as they are today! Markets have instantly priced in the full implementation of this investment plan. The full effects are expected by 2027. Yield curves have steepened due to an upward re-evaluation of medium-term growth prospects, leading to a rebuilding of the term premium. This is a beneficial phenomenon for the entire Euro Area as German growth will spread to other countries (Crédit Agricole CIB estimates that France will benefit from 35% of the growth effect, and Italy 25%). Sovereign spreads have tightened since the announcement, indicating that investors are focusing solely on financing needs, not on debt sustainability risks. Indeed, Germany's debt trajectory will still be favourably compared to other countries by the end of this plan.

For once, this is a positive shock for the European Central Bank (ECB)! Inflationary pressures will remain contained if growth does not substantially exceed its potential. The rise in growth and inflation expectations leads to a revision of the ECB's medium-term equilibrium rate.

In the United States, the entire yield curve has shifted downwards in recent weeks due to the significant decline in equity markets and the release of a GDP contraction estimated by the Atlanta Federal Reserve (Fed). Expectations of Fed rate cuts had disappeared, but now the market is reverting to the central scenario of "dot plots": -25 bps in the summer and another -25 bps in the autumn. The outperformance of US rates has led to a compression of the transatlantic spread: the yield gap between the US and German 10-year rates has compressed from 214 to 140 bps in just five weeks (Chart 2, page 9).

A BREATHER IN CREDIT MARKETS

In credit markets, concerns from US equity markets regarding growth and the Trump administration's economic policy have spread to domestic credit markets. Spreads have widened in both investment grade and high yield across all sectors. The transport sector (rail, couriers, freight), being highly Cyclical by nature, has significantly underperformed over the month. The banking sector has outperformed all other sectors. Volatility is slowing the volume of primary issuances: issuers are financing with less enthusiasm in the markets.

In the Euro Area, spreads widened in early March, lagging the US market by a few weeks. High beta segments (subordinated debt, high yield) logically underperformed. About 45 bps of widening were seen on additional tier 1 bonds (AT1s) between mid-February and mid-March: the long-awaited correction has finally materialised in an orderly fashion. Meanwhile, bank stocks continued to outperform, suggesting that this is not a sector-specific risk but rather a healthy correction after a very strong start to the year in terms of issuance. The market still anticipates the exercise of all calls for all callable securities in 2025.

In the coming weeks, it will be important to monitor exchange-traded fund (ETF) flows and fund movements to understand how investors react to rising rates. Performance remains positive year-to-date for investment grade and high yield. The tightening of spreads over the period generates an excess return that offsets the impact of rising rates. This cushion for investors remains relevant. Still supported by good quality fundamentals (at least in the Euro Area), credit markets remain at the mercy of equity market moods.

CHART 2: 10-YEAR YIELD SPREAD US – EUROPE, BPS

Source: Bloomberg, Indosuez Wealth Management.

A NEW "WHATEVER IT TAKES" FOR EUROPE?

Laura CORRIERAS
Equity Portfolio Manager

With the contribution
of the Equity Team

The outperformance of Euro Area markets continues relative to the United States, driven notably by German stimulus and investments in a common European defence, marking a decisive turning point for the Euro Area. After several years, capital flows are finally returning to the Euro Area, where sentiment is improving as new international economic balances emerge. This suggests a more proactive Euro Area, which could finally restart its domestic growth engine and potentially lead to a strategic reallocation of investments towards the region.

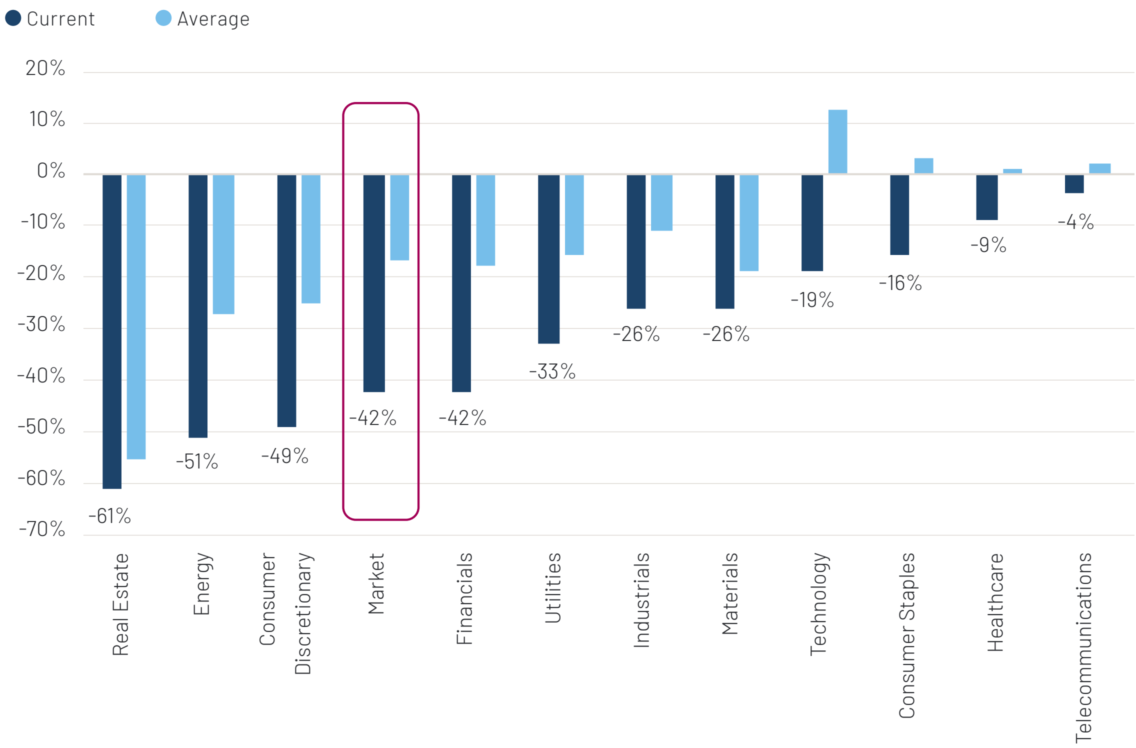
Current
40%
DISCOUNT
of the European versus the US market

EUROPE

The political shift in Europe has begun! Following the announcement of an 800 billion euro plan named ReArm Europe, aimed at strengthening European defence, Germany has completely broken with its fiscal dogma by approving a 500 billion euro package dedicated to infrastructure and security, while also proposing greater fiscal flexibility. This ideological shift by Europe's largest economy is a significant step for the Euro Area.

Beyond sovereignty issues, these announcements aim to stimulate economic growth, which could accelerate corporate earnings dynamics and counter a potential decline in exports due to increased tariffs in the United States. Moreover, this European "renewal", which has been very well received by the markets, could lead investors to reconsider Europe in a more structural manner. Indeed, European equities continue to be very attractively valued compared to their US counterparts (about 40% cheaper, Chart 3), and the region remains generally under-owned by investors after several years of outflows.

CHART 3: HISTORICAL DISCOUNT OF THE EUROPEAN VS. US MARKET, %



Source: Goldman Sachs, Indosuez Wealth Management.

Finally, the potential end of the war in Ukraine, if it occurs, would have a positive impact on the European economy: energy prices should fall, while consumer, investor and entrepreneur confidence could improve. Additionally, the reconstruction of Ukraine would directly benefit the European industrial, materials and construction sectors.

UNITED STATES

A change of tone across the Atlantic. The US markets have continued to correct, although a certain calm has been observed since mid-March. Uncertainties regarding the impacts of Trump's policies (increased tariffs, reduction in migrant labour, cuts in federal spending) are raising the risks of an economic slowdown, or even stagflation. In a negative scenario, these concerns could lead to decreased business and consumer confidence in investments and spending, affecting earnings growth expectations.

Conversely, a reversal by the administration or concrete progress on pro-growth measures promised during the campaign, such as corporate tax cuts or deregulation measures, could change market dynamics and sentiment.

From an earnings growth expectations perspective, the United States remains well ahead of other regions, with the "Magnificent 7" continuing to dominate the market.

ASIA

Against all odds, Chinese stocks continue their ascent, showing over a 24% performance since the beginning of the year. The tariffs announced by Donald Trump have been met with (very moderate) retaliatory measures from China. However, support for domestic consumption has been clearly and explicitly announced by Chinese authorities as their main priority for 2025. To this end, the Chinese government has published a 30-point action plan to stimulate consumption (focusing mainly on increasing incomes, stabilising real estate and stock markets).

Moreover, positive news from Chinese Tech has also contributed to driving flows towards stocks exposed to Artificial Intelligence (AI). The Chinese start-up DeepSeek has been the catalyst for this technological race between the United States and China. Furthermore, the valuation gap between the two markets, especially in the tech segment, is near a historic high. This improvement in global investor sentiment towards Chinese stocks, which can be considered an alternative to their US counterparts, supports the market.

INVESTMENT STYLES

Since the DeepSeek event, AI-related stocks and the broader Growth theme in the United States have faced profit-taking. Investors are questioning the capital expenditures (Capex) of US tech leaders, while growth stocks suffer from uncertainties about economic growth and the attractive valuations of new Asian competitors.

In Europe, the Value style and cyclical stocks in particular continue to be supported by expectations of further monetary normalisation, European rearmament plans and the prospect of a ceasefire in Ukraine. Thus, bank and construction stocks, among others, have taken over from the major Growth stocks.

Finally, despite a mixed start to the year, US small and mid-cap stocks remain an alternative source of diversification, especially in a scenario where the US economy avoids recession and the pro-growth measures promised by Donald Trump are announced.

GREENBACK: SWEPT BY THE WINDS OF CHANGE

Lucas MERIC
Investment Strategist

Contrary to our expectations at the beginning of the year for a strong dollar amidst the omnipresence of tariff policy, the greenback has suffered significantly due to growing investor concerns about US growth and renewed optimism in Europe. While the dollar may continue to face challenges in the short-term, we believe some fears about the US economy are exaggerated, which should support the greenback in the medium-term. Meanwhile, we continue to appreciate gold despite its surge at the start of the year.

USD: TOTAL ECLIPSE OF THE "TRUMP TRADE"

Despite ongoing discussions about the Trump administration's tariff policy, the dollar has significantly weakened in recent weeks, returning to its pre-election levels (Chart 4, page 13), as investors have focused more on the risks of a slowdown in US growth due to Trump's policies, which are seen as negative for the economy. This resurgence of recession fears in the United States has been accompanied by renewed optimism in markets outside of the US, resulting in capital flows, particularly into equities, which have penalised the dollar against other currencies like the euro. Tariffs are expected to remain a key topic in the coming weeks, continuing to fuel dollar volatility, which, after the sharp decline in early March, has priced in much negativity. While the market may continue to question short-term US growth prospects, our scenario, despite now expecting a slowdown in 2025, remains constructive on the US economy. If our assumptions prove correct, this should support the dollar. Moreover, once tariffs are implemented, they could hurt the currencies of targeted countries more than the dollar, which we still see as a key diversification asset in our portfolios due to its low correlation with major asset classes. In the shorter term, we think the dollar could remain vulnerable to deteriorating market sentiment regarding US exceptionalism, as well as to discussions around a peace process in Ukraine.

The DOLLAR HAS RETURNED to its pre-US election levels

EUR: "WHATEVER IT TAKES" 2.0

Conversely, the euro has regained strength in recent weeks, supported by announcements of German and European infrastructure and defence spending plans, as well as hopes for a ceasefire in Ukraine. Additionally, investors started 2025 with a weak positioning in European assets, particularly the euro. The announcement of public spending plans by Germany, a country historically reluctant to incur debt, represents a significantly positive paradigm shift in Europe that could continue to support sentiment towards the region. That said, market movements, particularly in rates and the euro, have been very strong following the announcements, reflecting significant investor optimism about growth prospects in the Euro Area. Such movements would justify some short-term stabilisation, especially as questions remain about the economic impact and implementation of these measures. We thus remain cautious on the euro with a range of 1.07-1.10, which could remain vulnerable in the short-term to the implementation of Trump administration tariff measures targeting Europe, a risk that has not greatly worried European financial markets so far.

CHF: DIVERGING FORTUNES

The Swiss franc has had mixed fortunes, suffering against the euro, reaching its lowest level since July 2024 and rising against the dollar to its highest level in four months. In this context, we expect the dollar to recover in the medium term against the Swiss franc as concerns about US growth subside, while the EUR/CHF should stabilise around current levels.

Generally, unless risk aversion deteriorates in international financial markets, we think the Swiss franc should remain subdued, especially as, if global uncertainty eases, the Swiss franc would remain a preferred funding currency for international investors given the low interest rates compared to other G10 currencies.

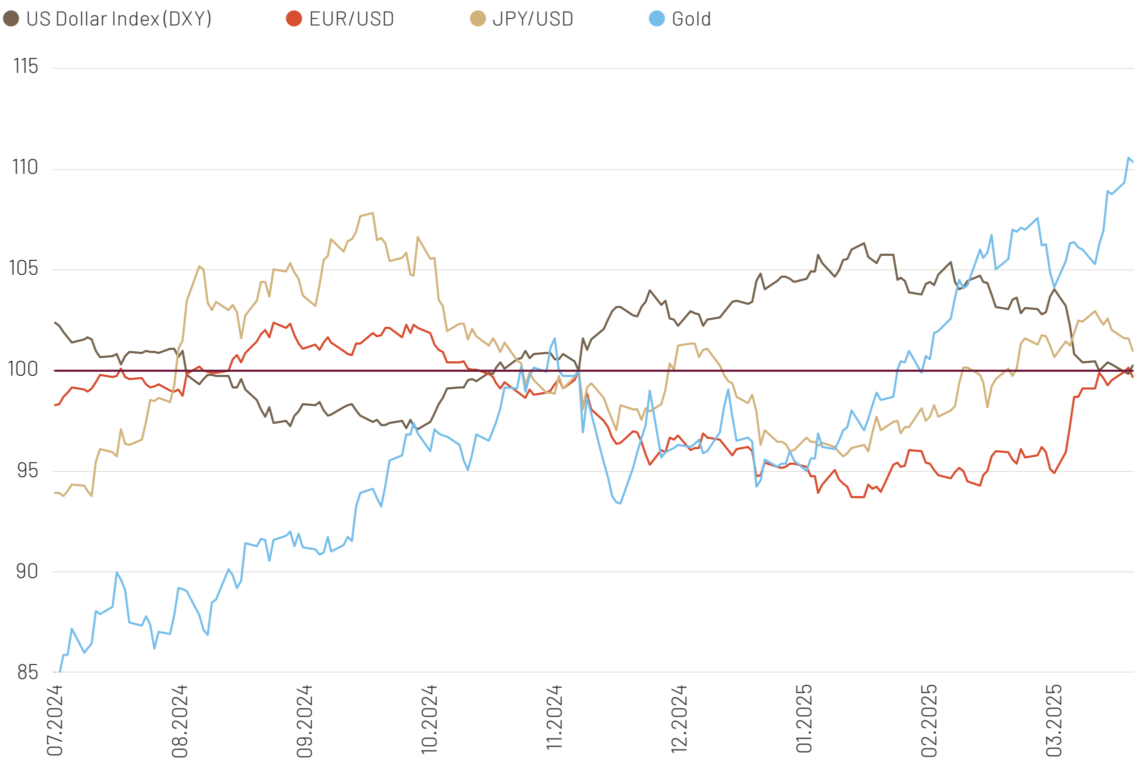
JPY: EMERGING FROM DEFLATION

The yen has also benefited from fears of an US economic slowdown and investor expectations of continued monetary normalisation by the Bank of Japan, with the Japanese 10-year yield reaching 1.5%, its highest level in nearly 15 years. In the medium term, market expectations of an US growth slowdown seem somewhat exaggerated to us, which should support the dollar and weigh on the yen. Still, our view on the yen remains quite balanced and is conditional on the Bank of Japan's ability to continue its rate hike cycle, with wage growth dynamics in Japan remaining a key factor to watch. Additionally, downside risks for the yen seem generally limited, as Japanese authorities are ready to support the yen in the case of a pronounced decline.

GOLD: TOP PERFORMER

Despite gold's strong performance since the beginning of the year (+15% at the time of writing), we maintain a positive view, supported by structural demand from central banks and sustained ETF inflows over the past three months. Moreover, a context combining latent geopolitical risks, exacerbated trade tensions due to Trump's tariff policy and concerns about US growth prospects still appears favourable for the yellow metal. While the signals currently seem positive, it is important to keep in mind that high positioning in gold and continued discussions about peace in Ukraine could pose headwinds in the coming months.

CHART 4: THE DOLLAR IS LOSING GROUND, RETURNING TO ITS NOVEMBER 2024 LEVELS (100 = 05.11.2024)



Source: Bloomberg, Indosuez Wealth Management.

INVESTMENT SCENARIO AND ALLOCATION CONVICTIONS

Grégory STEINER
Global Head of Multi Asset

Adrien ROURE
Portfolio Manager

Political and economic UNCERTAINTIES WEIGH on the US MARKET

INVESTMENT SCENARIO

- **Growth:** Political uncertainty in the United States and the integration of higher tariff levels into our scenario lead us to revise down our growth assumptions for the US to 1.9% for 2025 (-40 bps) and 2026 (-20 bps). In contrast, we are revising up our forecast for the Euro Area to 1.6% (+40 bps) for 2026, taking into account the partial implementation of new German infrastructure and European defence plans. Our assumptions for emerging markets remain unchanged, particularly for China, where encouraging signs of proactive fiscal policy are emerging.
- **Inflation:** In February, we estimated that the disinflation process could be delayed by more aggressive tariff measures. The particularly severe stance of the Trump administration on this issue leads us to raise our inflation forecasts for the US to +2.9% (+20 bps) and +2.7% (+10 bps) for 2025 and 2026, respectively. After raising them last month, our inflation expectations for the Euro Area remain unchanged at 2% for 2025 and 2026.
- **Central Banks:** We continue to anticipate two rate cuts by the Fed in 2025 for a terminal rate of 3.5%. For the ECB, we maintain our forecast of three rate cuts for a terminal rate of 1.75%.
- **Corporate Earnings:** In the current context, earnings prospects are normalising, particularly in the US, except for small and medium-sized companies, whose earnings expectations remain encouraging. We thus foresee a convergence of earnings growth rates between geographical areas and also on a sectoral level between technology stocks and the rest of the market.
- **Risk Environment:** The effective implementation of tariffs represents a significant market risk. The possibility that the Trump administration may opt for a "short-term pain for long-term gain" approach, creating significant uncertainties weighing on economic growth, could fuel episodes of high volatility. Developments in geopolitical conflicts and the perception of public debt also represent risks to be monitored.

ASSET ALLOCATION CONVICTIONS

Equities

- While we maintain a constructive approach to equity markets, given the positive medium-term macroeconomic environment (positive economic growth, solid corporate fundamentals), we are nevertheless reducing our level of conviction due to higher political uncertainty already reflected in sentiment surveys.
- In this context, we downgrade our conviction on US equities to neutral. Excessive pessimism observed in US markets could support a short-term rebound, offering an opportunity to adjust portfolio exposures under better conditions. Meanwhile, we maintain our conviction on US small caps, given their solid earnings prospects and the likelihood of benefiting from pro-business measures (tax cuts, deregulation) in the second half of the year.
- We upgrade our conviction to neutral on European equities, particularly those in the Euro Area, which should continue to benefit from German and Euro Area stimulus plans and positive economic developments. In terms of style, European Value could continue to outperform, being more sensitive to the economic rebound in Europe.
- Lastly, emerging markets remain modestly overweight in our allocations. In particular, Chinese economic prospects are improving with stabilising growth expectations and the government prioritising consumption and investment. We anticipate a broadening of performances beyond the Chinese tech sector and a positive impact on other Asian regions in the coming months.

Fixed Income

- We maintain a cautious approach to duration. However, the excessive reaction of Euro Area government bonds to fiscal support plans prompts us to reduce interest rate underweighting in portfolios. Nevertheless, short-term volatility and debt sustainability issues call for continued caution. US rates are highly sensitive to political uncertainty regarding tariff measures and Fed policy. We believe the long end of the curve remains vulnerable to inflation risk, especially after the significant tightening of the transatlantic spread.
- We believe that high-quality credit remains the most attractive segment in bond markets. Despite tight credit spreads, yields remain attractive, and we do not see an immediate catalyst for significant widening in the absence of external shocks. This asset class should continue to benefit from additional flows related to reinvestment needs of investors and potential reallocation of money market funds.

Forex market

- The upward *momentum* on the euro/dollar could continue if sentiment towards the US economy continues to deteriorate relative to the Euro Area. However, in the short term, the implementation of tariffs remains crucial and could benefit the greenback. If our constructive macroeconomic scenario for the US materialises, the dollar could strengthen. In summary, we maintain a positive bias on the dollar, considering it a key hedging asset within our diversified portfolios.
- We remain strategically positive on gold, as emerging market central banks continue to accumulate reserves at a high pace. The macroeconomic context, marked by significant political and geopolitical uncertainties, also represents a supportive factor.

KEY CONVICTIONS

○ February 2025 ● March 2025

	-	-/=	=	+/=	+
EQUITIES				●	
Europe		○	●		
USA			●	○	
Japan			●		
Emerging Markets				●	
BONDS		●			
Government bonds (EUR)		●			
Corporate IG bonds (EUR)				●	
High Yield (EUR)				●	
Government bonds (USD)		●			
Corporate IG bonds (USD)				●	
High Yield (USD)				●	
Emerging Market bonds (Local Currency)				●	
USD VS. EUR				●	
GOLD				●	

Source: Indosuez Wealth Management.

OVERVIEW OF SELECTED MARKETS

DATA AS OF 20.03.2025

GOVERNMENT BONDS	YIELD	4 WEEKS CHANGE (BPS)	YTD CHANGE (BPS)
US Treasury 10-year	4.24%	-26.84	-33.21
France 10-year	3.48%	21.40	28.60
Germany 10-year	2.78%	24.70	41.50
Spain 10-year	3.42%	27.10	36.70
Switzerland 10-year	0.73%	13.90	40.30
Japan 10-year	1.51%	7.00	42.40

BONDS	LAST	4 WEEKS CHANGE	YTD CHANGE
Government Bonds Emerging Markets	37.63	0.99%	4.27%
Euro Government Bonds	208.37	-0.39%	-0.40%
Corporate EUR high yield	233.59	-0.34%	1.03%
Corporate USD high yield	367.93	0.01%	1.76%
US Government Bonds	322.38	1.43%	2.18%
Corporate Emerging Markets	45.14	0.39%	1.71%

CURRENCIES	LAST SPOT	4 WEEKS CHANGE	YTD CHANGE
EUR/CHF	0.9570	1.49%	1.80%
GBP/USD	1.2967	2.35%	3.60%
USD/CHF	0.8819	-1.78%	-2.81%
EUR/USD	1.0851	3.33%	4.80%
USD/JPY	148.78	-0.57%	-5.36%

VOLATILITY INDEX	LAST	4 WEEKS CHANGE (POINTS)	YTD CHANGE (POINTS)
VIX	19.80	4.14	2.45

EQUITY INDICES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
S&P 500 (United States)	5'662.89	-7.43%	-3.72%
FTSE 100 (United Kingdom)	8'701.99	0.45%	6.47%
STOXX 600	552.98	0.36%	8.94%
Topix	2'795.96	2.24%	0.40%
MSCI World	3'693.55	-5.14%	-0.39%
Shanghai SE Composite	3'974.99	1.17%	1.02%
MSCI Emerging Markets	1'140.69	0.73%	6.06%
MSCI Latam (Latin America)	2'129.04	0.73%	14.92%
MSCI EMEA (Europe, Middle East, Africa)	219.23	-0.31%	7.38%
MSCI Asia Ex Japan	742.03	1.10%	5.39%
CAC 40 (France)	8'094.20	-0.35%	9.67%
DAX (Germany)	22'999.15	3.07%	15.52%
MIB (Italy)	39'188.17	2.46%	14.63%
IBEX (Spain)	13'306.30	2.62%	14.76%
SMI (Switzerland)	13'097.05	2.26%	12.90%

COMMODITIES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
Steel Rebar (CNY/Tonne)	3'130.00	-4.43%	-5.09%
Gold (USD/Oz)	3'044.90	3.60%	16.02%
Crude Oil WTI (USD/Bbl)	68.26	-5.94%	-4.82%
Silver (USD/Oz)	33.79	0.90%	15.54%
Copper (USD/Tonne)	9'936.50	3.90%	13.33%
Natural Gas (USD/MMBtu)	3.98	-4.26%	9.41%

Source: Bloomberg, Indosuez Wealth Management.
Past performance does not guarantee future performance.

MONTHLY INVESTMENT RETURNS, PRICE INDEX

FTSE 100 · Topix · MSCI World · MSCI EMEA · MSCI Emerging Markets · STOXX 600 · S&P 500 · Shanghai SE Composite · MSCI Latam · MSCI Asia Ex Japan

	DECEMBER 2024	JANUARY 2025	FEBRUARY 2025	4 WEEKS CHANGE	YTD (20.03.2025)
BEST PERFORMING +	25.25%	5.92%	13.64%	2.24%	14.92%
	18.17%	4.55%	8.76%	1.17%	8.94%
	15.23%	4.02%	6.78%	1.10%	7.38%
	14.64%	3.66%	6.60%	0.73%	6.47%
	10.30%	3.52%	5.71%	0.73%	6.06%
	5.69%	3.48%	5.37%	0.45%	5.39%
	4.99%	0.64%	4.92%	0.36%	1.02%
	4.78%	-0.27%	4.46%	-0.31%	0.40%
	1.93%	-1.71%	0.13%	-5.14%	-0.39%
− WORST PERFORMING	-29.36%	-3.50%	-0.63%	-7.43%	-3.72%

Source: Bloomberg, Indosuez Wealth Management.
Past performance does not guarantee future performance.

Basis point (bps): 1 basis point = 0.01%.

Blockchain: A technology for storing and transmitting information. It takes the form of a database which has the particularity of being shared simultaneously with all its users and generally does not depend on any central body.

BLS: Bureau of Labor Statistics.

BNEF: Bloomberg New Energy Finance.

Brent: A type of sweet crude oil, often used as a benchmark for the price of crude oil in Europe.

CPI (Consumer Price Index): The CPI estimates the general price level faced by a typical household based on an average consumption basket of goods and services. The CPI tends to be the most commonly used measure of price inflation.

Cyclicals: Cyclicals refers to companies that are dependent on the changes in the overall economy. These stocks represent the companies whose profit is higher when the economy is prospering.

Defensives: Defensives refers to companies that are more or less immune to the changes in the economic conditions.

Deflation: Deflation is the opposite of inflation. Contrary to inflation, it is characterised by a sustained decrease in general price levels over an extended period.

Duration: Reflects the sensitivity of a bond or bond fund to changes in interest rates. This value is expressed in years. The longer the duration of a bond, the more sensitive its price is to interest rate changes.

EBIT (Earnings Before Interest and Taxes): Refers to earnings generated before any financial interest and taxes are taken into account. It takes earnings and subtracts operating expenses and thus also corresponds to non-operating expenses.

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation): EBITDA takes net income and adds interest, taxes, depreciation and amortisation expenses back to it. It is used to measure a company's operating profitability before non-operating expenses and non-cash charges.

ECB: The European Central Bank, which governs the euro and Euro Area member countries' monetary policy.

Economic Surprises Index: Measures the degree of variation in macro-economic data published versus forecasters' expectations.

Economies of scale: Decrease in a product's unit cost that a company obtains by increasing the quantity of its production.

EPS: Earnings per share.

ESG: Non-financial corporate rating system based on environmental, social and governance criteria. It is used to evaluate the sustainability and ethical impact of an investment in a company.

Fed: The US Federal Reserve, i.e. the central bank of the United States.

FOMC (Federal Open Market Committee): The US Federal Reserve's monetary policy body.

GDP (Gross Domestic Product): GDP measures a country's yearly production of goods and services by operators residing within the national territory.

Growth: Growth style refers to companies expected to grow sales and earnings at a faster rate than the market average. As such, growth stocks are generally characterised by a higher valuation than the market as a whole.

IEA: International Energy Agency.

IMF: The International Monetary Fund.

Inflation breakeven: Level of inflation where nominal bonds have the same return as inflation-linked bonds (of the same maturity and grade). In other words, it is the level of inflation at which it makes no difference if an investor owns a nominal bond or an inflation-linked bond. It therefore represents inflation expectations in a geographic region for a specific maturity.

Inflation swap rate 5-Year, 5-Year: A market measure of what 5-Year inflation expectations will be in five years' time. It provides a window into how inflation expectations may change in the future.

IPPC: The Intergovernmental Panel on Climate Change.

IRENA: International Renewable Energy Agency.

ISM: Institute for Supply Management.

Metaverse: A metaverse (portmanteau of meta and universe) is a fictional virtual world. The term is regularly used to describe a future version of the internet where virtual, persistent and shared spaces are accessible via 3D interaction.

OECD: Organisation for Economic Co-operation and Development.

OPEC: Organization of the Petroleum Exporting Countries; 14 members.

OPEC+: OPEC plus 10 additional countries, notably Russia, Mexico, and Kazakhstan.

PMI: Purchasing Managers' Index.

Policy mix: The economic strategy adopted by a state depending on the economic environment and its objectives, mainly consisting of a combination of monetary and fiscal policy.

Pricing power: Refers to the ability of a company or brand to increase its prices without affecting demand for its products.

Quality: Quality stocks refers to companies with higher and more reliable profits, low debt and other measures of stable earnings and strong governance. Common characteristics of Quality stocks are high return to equity, debt to equity and earnings variability.

Quantitative easing (QE): A monetary policy tool by which the central bank acquires assets such as bonds, in order to inject liquidity into the economy.

SEC (Securities and Exchange Commission): The SEC is an independent federal agency with responsibility for the orderly functioning of US securities markets.

Spread (or credit spread): A spread is the difference between two assets, typically between interest rates, such as those of corporate bonds over a government bond.

Secular stagnation: Refers to an extended period of little or no economic growth.

SRI: Sustainable and Responsible Investments.

Stagflation: Stagflation refers to an economy that is experiencing simultaneously an increase in inflation and stagnation of economic output.

TPI: An addition to the Eurosystem's toolkit that can be activated by the ECB to counter unwarranted, disorderly market developments if these pose a serious threat to the smooth transmission of monetary policy across the euro area. The ECB Governing Council approved the instrument on the 21 July 2022.

Trump Put: The perception among investors that President Trump's economic policies and statements could influence the stock markets in a way that limits their downside.

Value: Value style refers to companies that appear to trade at a lower price relative to its fundamentals. Common characteristics of value stocks include high dividend yield, low price-to-book ratio, and a low price-to-earnings ratio.

VIX: The index of implied volatility in the S&P 500 Index. It measures market operators' expectations of 30-day volatility, based on index options.

WTO: World Trade Organization.

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Edited as per 21.03.2025.