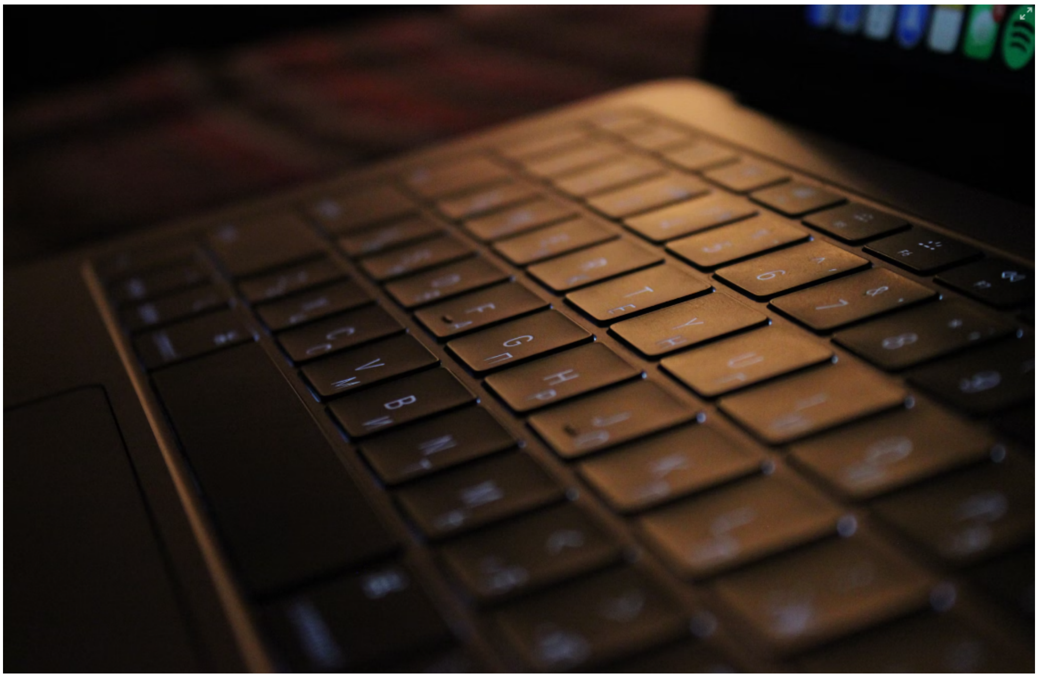
April 7, 2025

Market Update – 7 April 2025



The market sell-off following the announcement of new trade tariffs continues as investors try to assess Trump's next move and the impact on the global economy. We do not advocate kneejerk reactions during moments of market turmoil. History has demonstrated that even after the worst sell-offs (for example during the global pandemic when the entire world was essentially brought to a standstill), equity markets recover, even if it takes time.

The global market sell-off which gained speed last week after the US announcement of reciprocal tariffs has continued, driven by several factors:

- Retaliatory tariffs from China (34%)
- Commentary from Chairman Powell that suggests the Fed is not in a hurry to do anything (the labour market is still fine and tariffs are expected to be inflaionary)
- Rising fears of a US recession and a global growth slowdown
- Comments from President Trump leading to a change in perception that this is not a

negotiation tactic but a more dedicated commitment to reducing trade deficits. Asked about the market falls, Trump told reporters that "sometimes you have to take medicine to fix something"

An equity market rout

- On Thursday and Friday, more than USD 5tn was erased from the S&P 500, capping the worst week for the index since the onset of the coronavirus pandemic in 2020. Futures point to further losses. In percentage terms, the S&P 500 was down 9.1%, small, mid caps, Europe, EM all down similarly
- The Nasdaq 100 has entered bear market or correction of 20%

Commodities

- Commodities are sustaining heavy losses on fears of slower growth
- Oil (Brent) is down to USD 63/ bbl at the time of writing, also in part due to an ill-timed announcement by OPEC+ that it will increase production in May by more than expected
- Copper lost 8% last week, with some analysts predicting further declines are possible because of a tariff war. Copper is used as a gauge of global growth given that it is widely used industrially

Central Banks

- Markets are pricing in 125bp of Fed rate cuts through January 2026 beginning in June on recession fears
- Markets are also now pricing 88bp of ECB cuts this year, beginning in April. The potential impact on Eurozone growth is clearly negative, but the impact on inflation is more ambiguous, adding complexity to the rates outlook. Whilst the reduced growth outlook is a negative, the inflation impact will partly depend on the EU's reaction in terms of reciprocating the US tariffs. Proportional counter-tariffs would mean more upside inflation risk in the near term

Currencies

The USD is weaker, partly due to the fact that US rates have declined more than others, and partly due to foreign investors selling US equities and converting the cash to their domestic currencies

Fixed Income

Investors have grown wary of how tariffs will directly affect borrowers and, in a way, bonds are "catching down" to equities:

- US High-Yield (HY) widened by 87bps over the week. That move was significantly larger than for European HY, where spreads widened by 57bps over the week
- US Investment Grade (IG) spreads widened by 16bps (already repriced some risk in the previous weeks) and EUR IG by a lesser 23bps
- Investors are taking refuge in Government bonds. Since Friday, we have seen the textbook behaviour of Euro Gov with intra-European spreads widening, but not enough to worry the ECB

THE PATH FORWARD

For now, the situation is fluid and we hold tight until we have greater visibility on what will happen next. We see three potential pathways:

1. Trump starts cutting deals and tariffs are reduced – More than 50 countries have reached out to the White House to talk trade, according to the top economic advisor, Kevin Hassett. Today, Israeli Prime Minister Benjamin Netanyahu will become the first leader to meet face-to-face with Trump since the tariff announcement. Israel preemptively scrapped all its remaining tariffs on US imports before the plan was announced, but was still hit with a 17% tariff. The meeting should be a litmus test for markets. Vietnam has offered to remove all tariffs on US imports after Donald Trump announced a 46% levy on the southeast Asian nation.

2. Courts or Congress block the tariffs; Republicans are now joining efforts to reclaim Congress' authority over tariffs. A Senate bill introduced Thursday by Sens. Charles Grassley (Republican-Iowa) and Maria Cantwell (Democrat-Washington), would limit a President's power to impose tariffs, including allowing Congress to vote to end any tariff at any time. It would also require the president to notify Congress within 48 hours of imposing any duty and for Congress to explicitly approve any new tariffs within 60 days.

and/or

3. Trump stays the course, and we see a historic realignment of global trade This could imply a global recession with corporate earnings having to be revised down making today's valuations which have already come down seem less attractive. In such a scenario, sentiment normally overshoots to the downside.

For now, markets are pricing the worst case scenario.

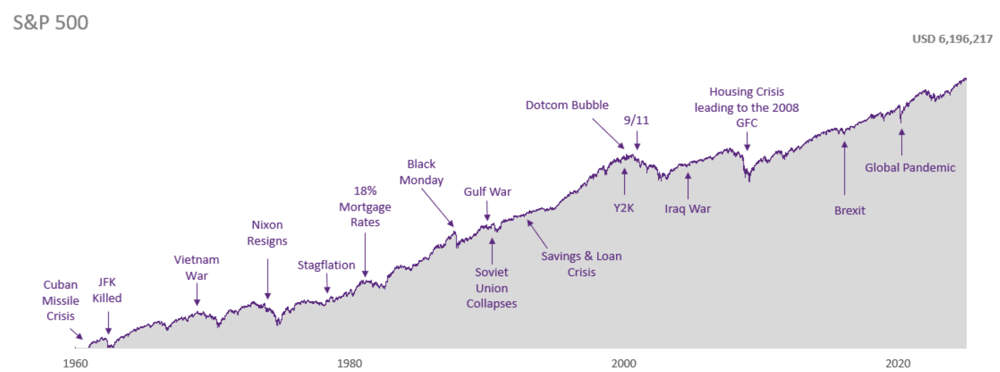
If either of the first two were to come to fruition, stocks are approaching very attractive buying levels. However, given the unpredictable nature of the US administration, we cannot, for now, rule out the third option and hold fire.

From a policy perspective, we can expect to see an increased focus on Congress passing tax cuts and their potential stimulative effects. If this is achieved, in tandem with trade deals, an increased focus on deregulation, and potential cuts/easing by the Federal Reserve, the current market narrative would shift dramatically. Any sign of softening from the Trump Administration, a willingness to negotiate or moves to revoke tariffs in the US government, could already lead to a swift change in sentiment.

What markets and companies need most now is clarity. Uncertainty is corrosive and if it continues for too long, it could have a significant impact on consumer behaviour and corporate investment. There is also the risk that market sell-offs could exacerbate fragilities in the system.

We continue to monitor the situation closely and will keep you informed on any changes we deem necessary in our investment strategy.

Sell-offs can be disconcerting, but history has demonstrated that stock markets have recovered, even from the worse sell-offs



*Source: Bloomberg, BIL, as of 17/3/2025: Log graph of **USD 10,000** invested in the S&P 500 in 1960 (including dividends)*
Note: Past performance is not a reliable indicator of future performance

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