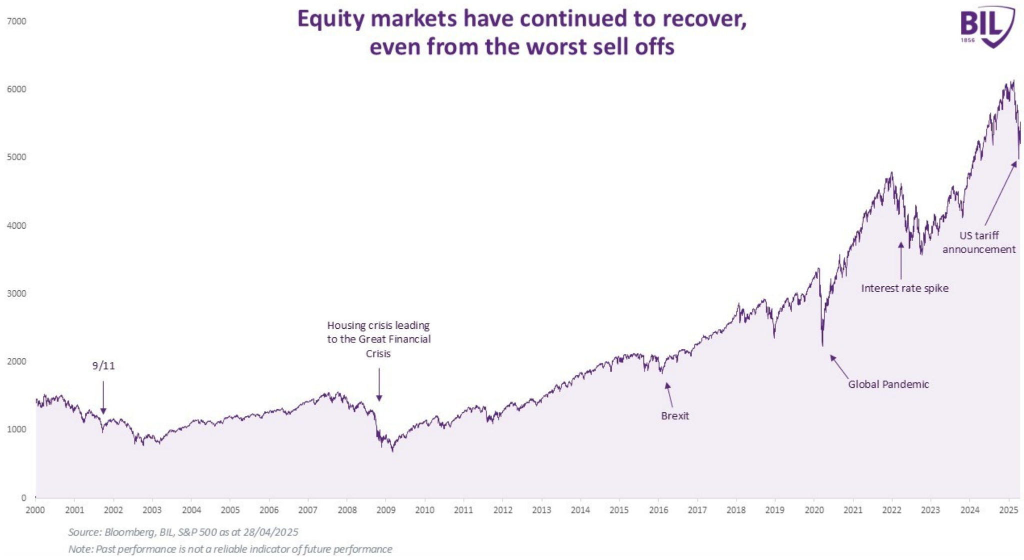
April 30, 2025

BILBoard May 2025 – Staying the course

Waters have been increasingly choppy since President Trump announced his “reciprocal” tariffs on April 2. In the week following the announcement, more than USD 5 trillion was wiped off the S&P 500, the Nasdaq saw a 20% correction, oil prices fell below USD 60 per barrel and the USD fell sharply. Now, central banks and companies around the world have gone into a wait-and-see mode as they try to determine the impact of the tariff announcements.

The many comments and announcements by the US administration continue to create big waves in the markets, leaving investors uncertain about what is to come. To put the recent volatility in perspective, we have to look at the big picture:



Market selloffs create a lot of uncertainty, but history demonstrates that stock markets continue to recover, time and time again. Although it is too early to say whether we have reached the so-called bottom of this correction, we do not expect this to be an exception.

Corporate earnings have, so far, beaten expectations and President Trump has already begun to soften his stance on certain tariffs, announcing exemptions for certain sectors and products. Most recently, Trump significantly adjusted his comments on the trade conflict with China, saying that the world's two largest economies would soon be able to reach a deal. The prospect of a softer stance on tariffs alone is a relief to markets, and it appears that tariffs may be a negotiating tactic after all. While the latest announcements have brought some calm to markets, we expect volatility to persist in the coming months. The tariffs which have already been implemented, and the uncertainty around others, will be negative for economies around the world.

THE MACRO LANDSCAPE

US

Growth expectations for many of the world's largest economies have been revised downwards due to the impact of President Trump's trade tariffs and heightened uncertainty, and the US is no exception. The International Monetary Fund now expects the US economy to grow by 1.8% in 2025, down from its January estimate of 2.7%, all because of the expected impact of tariffs. Consumers, long the engine of US exceptionalism, have brought forward spending to beat the implementation of tariffs. Auto sales in particular picked up in March as Americans rushed to buy the foreign and domestic made cars that will become much more expensive as the tariff pain hits the assembly lines. However, consumer spending is expected to taper off from here as inflation concerns weigh on confidence and wage growth begins to slow, meaning that other areas of the US economy will have to take the wheel to drive growth. There is still hope that business-friendly policies will catalyse an upturn in the corporate sector, supporting economic activity - and employment momentum - in the months ahead. For the time being, we are still waiting for these policies to materialise.

While the US economy is expected to slow as a result of the tariffs, we do not expect this to lead to a US recession this year. Hard data remains relatively robust. Economic activity continues to expand. Although the services sector grew at a slower pace in April than in the previous month, the expansion in the manufacturing sector picked up pace. Inflation cooled to a six-month low of 2.4% in March. The fact that underlying inflation is cooling ahead of tariffs may be a reassuring sign for the Fed, which is expected to keep rates on hold while it assesses the impact of tariffs on the inflation outlook.

Europe

Sailing across the Atlantic, optimism about an economic recovery in Europe seems to be floating further away on the horizon. Despite recent optimism about the potential impact of Germany's abandonment of the black zero debt brake, increased defence spending and a potential ceasefire in Ukraine, the recent market correction has served as a reminder that the lack of structural growth drivers in Europe persists and that tariffs have made the uphill battle of a European recovery even steeper. In Germany alone, exports to the US account for 3.7% of GDP, making the potential hit to growth from tariffs significant. Both the IMF and the German government now expect that the Eurozone's largest economy will see a third year with no growth. Without its former "growth locomotive", the eurozone recovery is fragile and PMIs suggest the bloc is edging back into stagnation territory. The ECB continued its rate cutting cycle in April, bringing the deposit facility rate to 2.25%, and markets expect two to three more 25 basis point cuts this year to support the economy.

China

In China, the economy surprised on the upside at the start of the year, expanding more than expected in Q1, driven by industrial production and exports. However, much of the growth has been attributed to manufacturers frontloading exports to beat tariffs. Factories are already seeing signs of the impact that US tariffs will have on Chinese production, with several factories pausing production and putting employees on temporary leave as they try to assess the impact on their businesses. The challenges that China has faced in recent years, including a lack of domestic demand, the property slump and disinflation risks, remain.

INVESTMENT STRATEGY

Jumping ship in the middle of a storm is never advisable. Being a long-term investor means holding on to your oars, making small adjustments to ensure that the big waves don't push you off course, and making the best of the volatility that the stormy conditions create.

Within our equity exposure, we maintain a **preference for the US** and actually increased our exposure by 2% each in all eligible risk profiles this month. Although tariffs are expected to slow the economy, a US recession is not part of our base case. With this in mind, we feel comfortable allocating to the US following the market drift that has watered down some of our exposure. Although the pro-business policies that were part of President Trump's campaign have yet to materialise, the US House of Representatives passed Trump's budget in April, which includes trillions of dollars in cuts to both taxes and government spending. While there are still steps to be taken before the bill is signed into law, if implemented it could have a positive impact on US companies. If President Trump stays the course and continues withdrawing from the global trade system, the key beneficiaries of globalization – i.e. large American corporates, will suffer. However, we also have to consider an alternative scenario whereby Trump actually boosts globalization as other countries lower trade barriers to appease him.

The purchase of US equities was EUR-hedged in order to protect against FX volatility in the coming months, with downward pressure on the dollar still evident. The trade was financed by the proceeds from the sale of the equivalent weight of floaters in each profile, as we think carry will continue to be eroded as the ECB cuts rates.

We are also benefiting from a **larger allocation to European equities** due to the market drift.

In the **Fixed Income** space, **investment grade** remains the cornerstone of our exposure, complimented by high-yield to boost income. This month, we increased our exposure to **CoCo bonds** in Defensive profiles by 1%, financed by the sale of floaters. CoCo bonds offer a nice pick-up with better risk dynamics, being a niche section of the high-yield market associated with quality issuers.

Staying the course

While market corrections can be unsettling, history reminds us that resilience is a hallmark of equity markets, which have recovered from even the worst crashes. The key to compounding wealth over time is to remain invested, if your risk tolerance and liquidity situation allows. Market volatility can also provide opportunities for long-term investors to add exposure at more attractive entry points, as evidenced by our recent opportunistic addition of US equities. As there is still a lot of uncertainty around US trade policy and announcements continue to rattle the markets, we are sticking to our long-term convictions rather than making knee-jerk changes based on the everchanging newsflow.

Written by Lionel De Broux & Johanna Lindberg

24/04/2025

Asset Class	DEFENSIVE Strategic Weight	DEFENSIVE Tactical Allocation Previous	DEFENSIVE Tactical Allocation New	DEFENSIVE Change	LOW Strategic Weight	LOW Tactical Allocation Previous	LOW Tactical Allocation New	LOW Change	MEDIUM Strategic Weight	MEDIUM Tactical Allocation Previous	MEDIUM Tactical Allocation New	MEDIUM Change	HIGH Strategic Weight	HIGH Tactical Allocation Previous	HIGH Tactical Allocation New	HIGH Change
Equities					30,0%	30,0%	32,0%	2,0%	50,0%	50,0%	52,0%	2,0%	90,0%	90,0%	92,0%	2,0%
Fixed Income	100,0%	97,0%	97,0%	0,0%	65,0%	63,0%	61,0%	-2,0%	42,0%	43,0%	41,0%	-2,0%	10,0%	4,5%	2,5%	-2,0%
Cash & cash equivalents	0,0%	0,5%	0,5%	0,0%	0,0%	1,0%	1,0%	0,0%	0,0%	1,0%	1,0%	0,0%	0,0%	0,5%	0,5%	0,0%
Other	0,0%	2,5%	2,5%	0,0%	5,0%	6,0%	6,0%	0,0%	8,0%	6,0%	6,0%	0,0%	0,0%	5,0%	5,0%	0,0%
Equities																
USA					12,0%	16,2%	18,2%	2,0%	20,0%	27,0%	29,0%	2,0%	36,0%	48,0%	50,0%	2,0%
Europe					12,0%	9,0%	9,0%	0,0%	20,0%	16,0%	16,0%	0,0%	36,0%	31,0%	31,0%	0,0%
Japan					3,0%	1,8%	1,8%	0,0%	5,0%	3,0%	3,0%	0,0%	9,0%	5,5%	5,5%	0,0%
Emerging Markets					3,0%	3,0%	3,0%	0,0%	5,0%	4,0%	4,0%	0,0%	9,0%	5,5%	5,5%	0,0%
Fixed Income																
Government Bonds - Developed	50,0%	27,0%	27,0%	0,0%	30,0%	18,5%	18,5%	0,0%	20,0%	16,0%	16,0%	0,0%	5,0%	0,0%	0,0%	0,0%
Emerging Market Debt	7,0%	7,5%	7,5%	0,0%	5,0%	5,0%	5,0%	0,0%	3,0%	3,0%	3,0%	0,0%	0,5%	0,0%	0,0%	0,0%
Corporate - Investment Grade	33,0%	44,5%	43,5%	-1,0%	23,0%	29,5%	27,5%	-2,0%	14,0%	18,0%	16,0%	-2,0%	3,5%	4,5%	2,5%	-2,0%
Corporate - High Yield	10,0%	18,0%	19,0%	1,0%	7,0%	10,0%	10,0%	0,0%	5,0%	6,0%	6,0%	0,0%	1,0%	0,0%	0,0%	0,0%
Other																
Oil					0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Gold					5,0%	3,5%	3,5%	0,0%	8,0%	3,5%	3,5%	0,0%	0,0%	3,5%	3,5%	0,0%
Total Return	0,0%	2,5%	2,5%	0,0%	0,0%	2,5%	2,5%	0,0%	0,0%	2,5%	2,5%	0,0%	0,0%	1,5%	1,5%	0,0%
USD	0,0%	5,0%	5,0%	0,0%	12,0%	18,2%	18,2%	0,0%	20,0%	28,0%	28,0%	0,0%	36,0%	46,6%	46,6%	0,0%

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