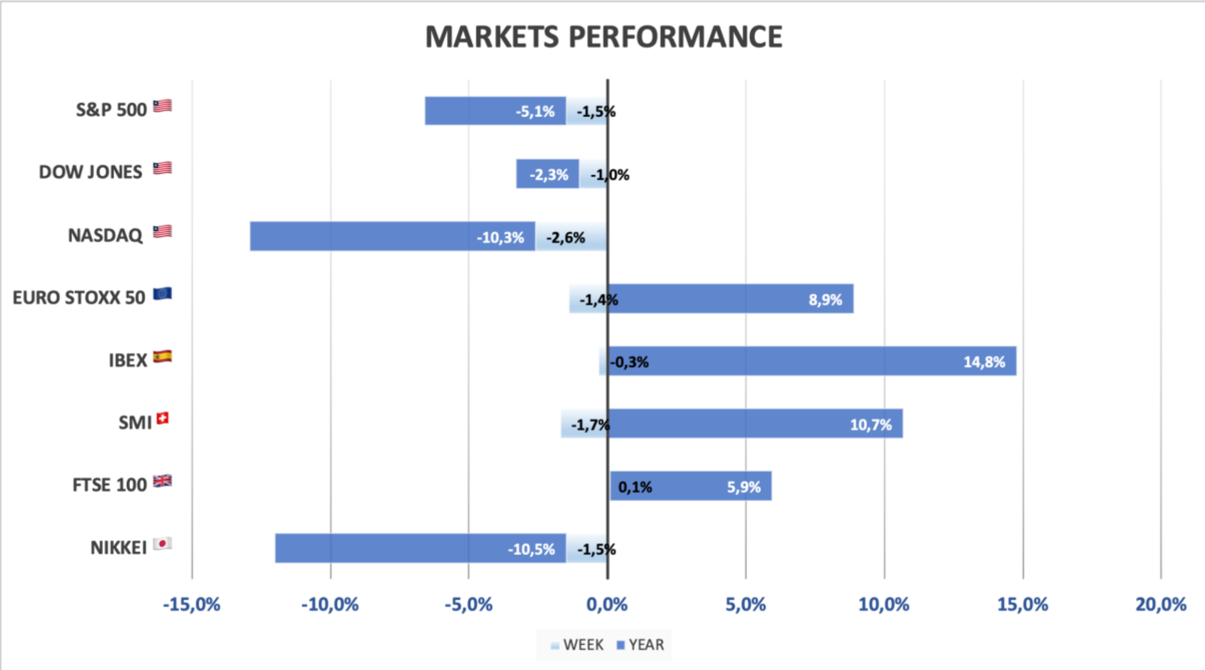
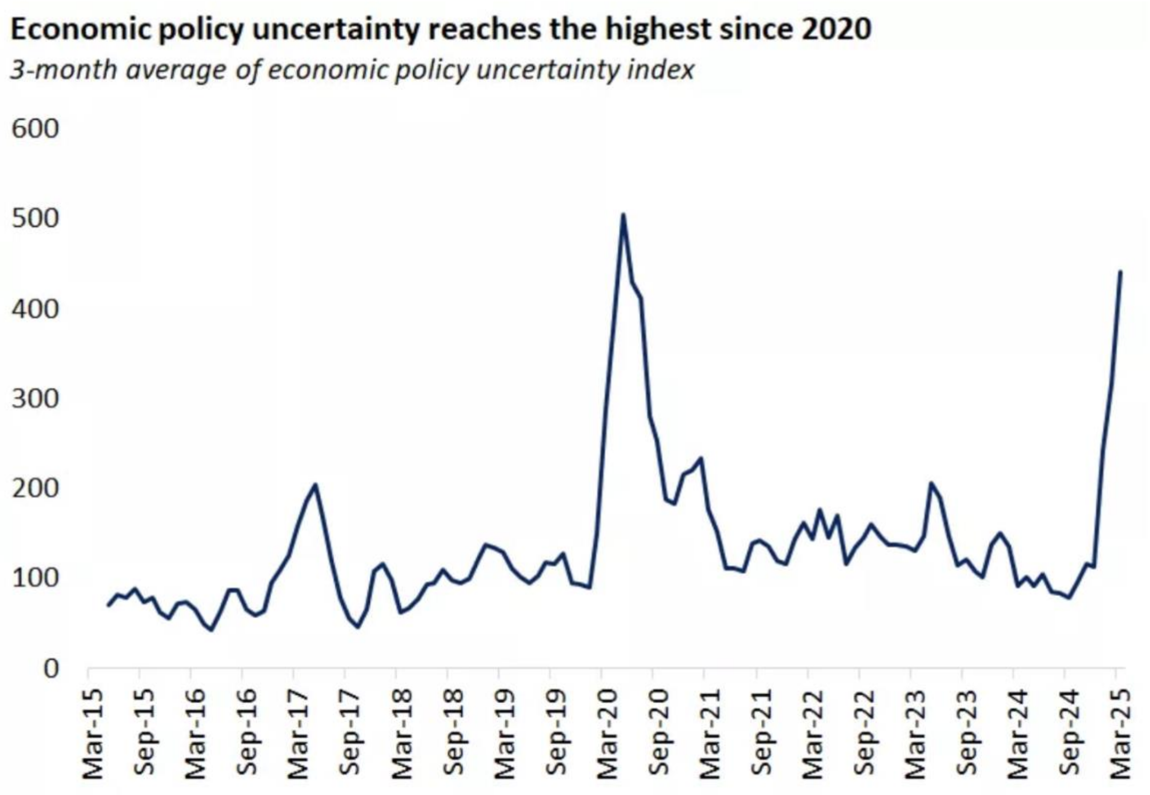
Global markets weekly update

31.03.2025



U.S.

- U.S. indices resumed their decline amid trade policy uncertainty, growth concerns and inflation fears. The information technology and communication services sectors were the most affected, while value stocks outperformed growth shares for the sixth consecutive week.
- President Trump's continued his erratic trade policies. He announced on Wednesday a 25% levy on all non-U.S. made automobiles. The focus will however be April 2 - a date U.S. President Donald Trump has labeled "Liberation Day." He is expected to implement reciprocal tariffs, maybe causing more turbulence.
- The Bureau of Economic Analysis reported that its core personal consumption expenditures (PCE) price index, the Fed's favorite inflation gauge, rose 0.4% in February, up from January's reading of 0.3%, while inflation-adjusted consumer spending rose just 0.1% compared with estimates for a 0.3% rise. On a year-over-year basis, the core PCE rose 2.8%, remaining well above the Fed's long-term inflation target of 2%.
- Adding to these concerns, the Conference Board reported that its consumer confidence index declined for the fourth consecutive month in March to 92.9, down from February's reading of 100.1. The report noted that optimism about future income "largely vanished, suggesting worries about the economy and labor market have started to spread into consumers' assessments of their personal situations."

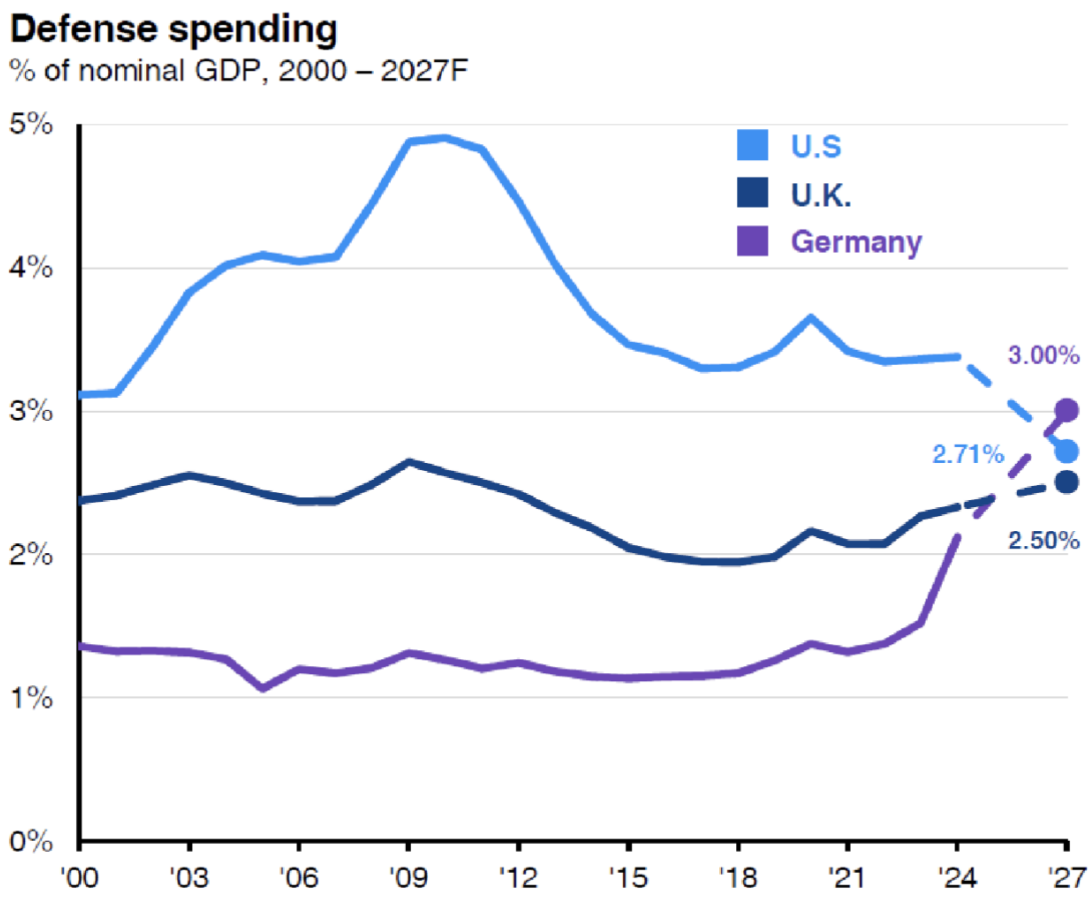


- Similarly, the University of Michigan released the final March reading for its Index of Consumer Sentiment, which plunged 12% month over month to 57.0. The expectations index dropped 18% as “consumers continue to worry about the potential for pain amid ongoing economic policy developments”. Notably, year-ahead inflation expectations increased to 5.0% from 4.3% in February.
- Elsewhere, S&P Global reported that its Flash Composite Purchasing Managers’ Index (PMI) for March came in at 53.5, indicating an acceleration in business activity growth from February as strength in the services sector offset an unexpected decline in manufacturing activity. However, many companies cited “worries over customer demand and the impact of aspects of the new administration’s policies.”

Europe

- The Eurostoxx 600 ended the week 1.4% lower, as Trump announced a fresh round of U.S. trade tariffs. France’s CAC 40 Index gave back 1.6%, Germany’s DAX fell 1.9%, and Italy’s FTSE MIB eased 0.8%. The UK’s FTSE 100 Index ended the week with a 0.1% gain.

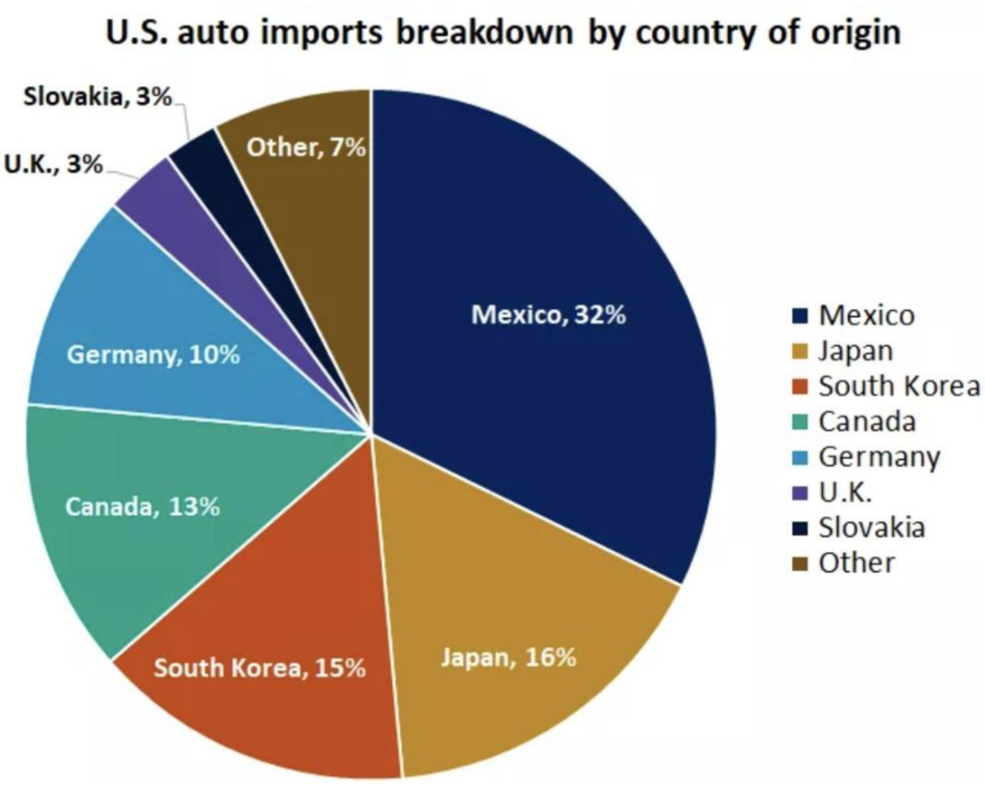
- Fresh trade tariffs hurt European sentiment. Trump announced on Wednesday new 25% tariffs on all autos and auto parts coming into the U.S., commencing next week. Europe had hoped that certain countries might receive an exemption. The U.S. president subsequently threatened further tariffs should the EU retaliate with countermeasures.
- In Germany, the Ifo Business Climate Index rose in March, its highest level since July 2024. Business sentiment has improved thanks to the German parliamentary approval of the government's plans to increase defense and infrastructure spending.



Source: Congressional Budget Office, Goldman Sachs Global Investment Research, HM Treasury, Stockholm International Peace Research Institute, J.P. Morgan Asset Management.

- On the geopolitical front, there were also reassuring developments. Early in the week, Ukrainian President Zelenskyy confirmed that talks between Ukraine and the U.S. had been constructive. A partial ceasefire between Russia and Ukraine was announced on Tuesday, focusing on the suspension of attacks against energy infrastructure.
- British Chancellor Rachel Reeves delivered the annual Spring Statement, confirming a series of further spending cuts. The Office for Budget Responsibility (OBR) also slashed its UK economic growth forecast for 2025 to 1% and foresees higher unemployment and inflation this year. However, the OBR upgraded its economic

growth projections for each year from 2026 through 2029. Another upbeat news was that inflation came in slightly lower at 2.8% in February, down from 3% in January, therefore not excluding the possibility of a May interest rate cut.



Source: U.S. International Trade Administration. 2024 trade in USD.

Japan

- Japan's stock markets retreated, with the Nikkei 225 Index down 1.48%, and the broader TOPIX Index losing 1.67%. Uncertainties about global trade dampened sentiment. Japan is particularly concerned about the Trump administration's decision to impose duties of around 25% on imported cars, as autos make up 1/3 of Japan's total exports to the U.S. The yen weakened to JPY 150 range against the USD, on expectations that the timing of the Bank of Japan's next interest rate hike could consequently be postponed.
- Accelerating rice prices contributed to the rise of the Tokyo-area consumer inflation in March, with the core CPI rising 2.4% year on year during the month, higher than expectations and up from 2.2% in February.

- At its March 18–19 monetary policy meeting, the BoJ kept its short-term policy rate on hold at 0.5%, as expected. BoJ Governor Kazuo Ueda also noted concerns on trade policies as a risk to the outlook. Investors continued to anticipate that the pace of rate hikes by the BoJ would be gradual.
- The most recent data supports the case for further interest rate hikes. Japan's core CPI rose 3.0% year on year in February, ahead of consensus for 2.9% but slowing from January's 3.2%.

China

- Chinese equities ended the week flat. The onshore benchmark CSI 300 Index eked a 0.01%, and the Shanghai Composite Index lost 0.40%.
- Lower industrial profits emphasized the urgency for China to stimulate domestic demand, even more so amid the threat of higher U.S. tariffs. Bloomberg reported that China should seek to raise consumption to 70% of GDP by 2035 from about 55% currently. Consumption should increase between 5% and 8% as a share of GDP over the next five years.
- Boosting consumption is the Chinese government's top economic priority for 2025 as Beijing seeks to counter rising geopolitical tensions and diminishing returns on investment at home. China recently set an annual economic growth target of about 5% for the third consecutive year. Such an ambitious target will most probably require significant stimulus.

Portfolio considerations

Equities

The April 2 announcement will provide some clarity around tariffs, but uncertainty and its corollary (volatility) may stay high as other countries seek to negotiate or retaliate. The U.S. economy is far less reliant on trade, but tariffs will nevertheless hurt economic growth and push inflation higher. We do not anticipate a recession: corporate profits are rising (albeit slower), and the Fed is taking a wait-and-see approach but not considering interest rate hikes. Hopefully, policy agenda may soon shift to pro-growth measures. In the meantime, we recommend again diversification and see opportunities in healthcare and financials, which are less exposed to tariff uncertainty and have attractive valuations.

Fixed Income

U.S. bond yields have declined in recent months due to expectations for more Fed interest rate cuts and slower economic growth. However, the ongoing elevated level of carry remains attractive in portfolios for investors willing to absorb short-term interest rates volatility risks. We continue to prefer intermediate maturity bonds which benefit from steeper curves, have sufficient duration to profit from lower intermediate yields (to come) and have enough carry to provide a cushion against adverse rate moves.

The week ahead

Monday	Tuesday	Wednesday	Thursday	Friday
____________	ISM Manufacturing	ADP Employment	U.S. Trade deficit	Nonfarm payrolls report
	Job openings		ISM Services	
			Weekly unemployment claims	