



Market Compass

March 2025*

*Please note that this release precedes the Fed's meeting on 19 March 2025 and does not reflect its impact.

MARKET OUTLOOK

- President Trump's hawkish trade attitude may be testing our assumption that he will want to avoid large negative supply shocks. Political uncertainties in Germany are receding and a substantial fiscal boost to defence is in the offing.
- US-Russian peace talks on Ukraine and the erosion of US security guarantees for Europe are amplifying the global tectonic shifts from US tariff threats.
- US surveys are sending warning signals on growth and disinflation amid US policy turmoil. The risk of a wider trade war keeps a lid on sentiment.
- We maintain a prudent risk exposure, via Investment Grade (IG) Credit and a minimal overweight in Equities. We prefer US duration medium term but see two-sided risks for US yields short term. Higher fiscal spending in Europe has led us to trim the long duration in Euro fixed income.

Edited by
**MACRO & MARKET
RESEARCH TEAM**

A team of 13 analysts based in Paris, Cologne, Milan and Prague runs qualitative and quantitative analysis on macroeconomic and financial issues.

The team translates macro and quant views into investment ideas that feed into the investment process.

US

- Policy uncertainty on tariffs hit confidence and consumption...
- + ...but fundamentals remain strong
- Inflation remains too high
- ! The Fed should cut twice this year, but risks are tilted toward less accommodation

EUROZONE

- + Indicators show slowly improving activity
- + Strong German fiscal push raises growth expectations
- + Underlying inflation fell in Feb
- ! ECB cut as expected, but easing may slowdown

CHINA

- + Surveys and hard data show marginal improvement...
- ... but deflation risks still loom
- + Further fiscal support likely after the March Party Congress
- ! Retaliation to US tariffs set to increase

JAPAN

- Uptick in inflation conducive to another rate hike this year...
- + ... but solid wage gains underpin healthy consumption growth
- ! Sharp rise in JGB yields may lead BoJ to reconsider QE pace

EMERGING MARKETS (EM)

- Looming tariffs threats to curb confidence
- + Ukraine peace talks support EM assets but high uncertainty
- + Still resilient activity but inflation turns to be stickier

- + Positive
- Negative
- ! Topics to watch

DIRECTION OF TRAVEL

- Trim already moderate overweight (OW) equity.
- Keep IG credit OW, marginally preferring non-financials.
- Maintain underweight (UW) euro government bonds, and reduce duration. Neutral treasuries.
- Slightly short on Cash.

Equity

- Tariffs risk undermining the positive factors still at play in develop markets: post-election cycle, dovish Central Banks stance plus the rotation out of US Tech via lower relative earnings per share (EPS) growth
- Neutral EMU vs USA, balancing risks (EMU riskier) with valuation (US expensive).
- Sticky inflation is an additional risk factor

Bonds

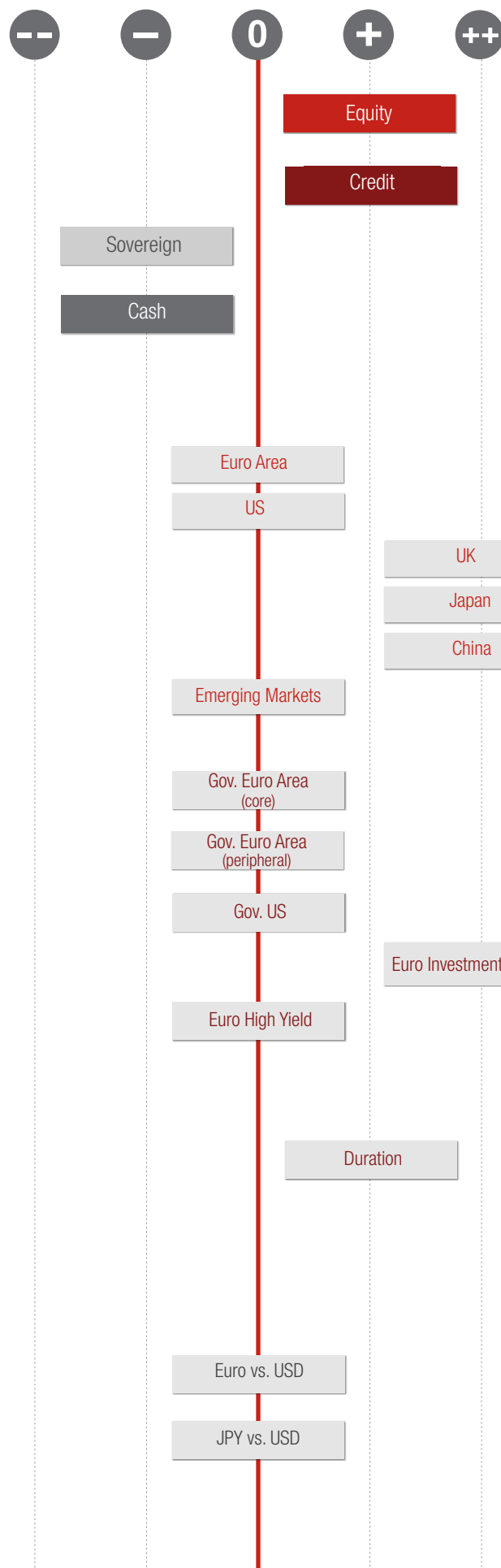
- The transatlantic yield spread has narrowed as expectations of stronger fiscal stimulus (defence spending) in the Euro Area have increased.
- Medium term, yields on both sides of the Atlantic will fall somewhat further as key rates are cut and disinflation continues.

Duration

- Moderately long duration recommended for EU, neutral for US.

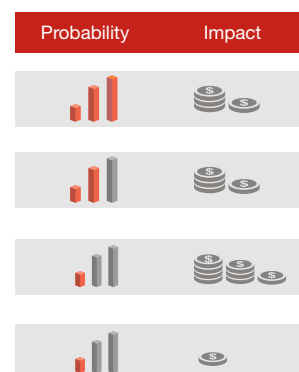
Currencies

- The sizeable US yield advantage and growth outperformance will keep the USD underpinned. Yet, we are turning more cautious on the greenback amid signs of a US growth deceleration.
- The USD-bullish risk of an intensifying trade war somehow offset the impact of hopes of a Ukraine peace deal and ramped up European defence spending.



TOPICS TO WATCH

- Intensified global fracturing (esp. China/US), in case of aggressive «Trumponomics» (punitive tariffs)
- Two-sided risks to disinflation: rising trade wars + sticky wages/services CPI vs. cyclical EA weakness and China deflation
- Geopolitical surprises (Middle East, Ukraine, Taiwan).
- Goldilocks: broader recovery, ongoing disinflation, broadening of the Tech rally



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