GENERALI ASSET MANAGEMENT

Market Perspectives

Testing the limits

May 2025

GenAM Macro & Market Research

'Market Perspectives' provide our monthly macro & market outlook and investment recommendations

- **US President Trump keeps testing the limits of markets and the US economy. While investors seem to be getting used to high US policy uncertainties, the economic fallout from tariffs is still to show up in the hard data.**
- **We favour exposure to Credit as trade deals and tariff exemptions may provide further market relief and peak uncertainty may be behind us. But with US moderate recession risks looming and the Fed constrained by stagflationary forces, we refrain from chasing the global equity market rebound.**
- **Yields remain geared to the downside, though only modestly so after the recent pullback. Any USD respite is likely to prove short-lived as the safe-haven shine of the greenback has been severely damaged and investors are likely to trim strategic US exposure.**

Content

Global View – Testing the limits

Thomas Hempell

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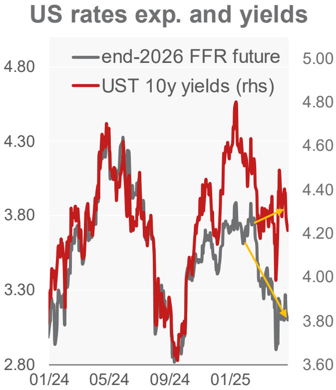
US President Trump continues to test the limits of markets and the economy. The 'Liberation Day' and the escalation of the trade war against China sent equity markets into a tailspin (S&P500 -14% between end-March and 8 April). Liquidity needs and concerns about the USD status contributed to a simultaneous Treasury sell-off, leading Trump to trigger a 90-day pause on 'reciprocal' tariffs, giving way to a market relief rally. The US trade war with China escalated regardless. And just as the markets had stabilised somewhat, Trump lashed out at Fed Chair Powell on 20 April, triggering another setback for equities, the dollar and Treasuries - only to backtrack again.

US rates exp. and yields



Source: Datastream, GenAM calculations

Yield gap and EUR/USD

Source: Datastream, GenAM

Equity markets seem to be getting used to bouts of policy-induced volatility, with the recent rally limiting April's losses in US equities to mere -0.9%. Still, the high level of US political uncertainty will be felt on at least two levels.

First, tariffs and policy uncertainty heavily weigh on the economic outlook. US consumer confidence is tanking amid expectations of the stagflationary hit from tariffs. Business surveys point to falling US new orders and deteriorating CEO sentiment. As the headwinds will show up in the (thus far resilient) hard data only with delay, the Fed is in no rush to cut rates or to come to the rescue of self-inflicted harm by the US administration – though we still have three further Fed rate cuts in our books for H2. Thanks to lower energy prices, a strong EUR and likely limited tariff retaliation by the EU, the case for further ECB rate cuts is more clear-cut.

Second, the US dollar (and to some lesser extent US-Treasuries) may face more lasting damage from the policy uncertainties and Trump's attacks on the Fed. In a rare expression of investors' mistrust against US assets, USD and Treasuries sold off in tandem in early April – a symptom usually seen only among stressed EM, while G10 currencies benefit from higher domestic yields (right chart). A respite for the USD after its 8.5% slump (DXY) year-to-date is possible but will ultimately give way to further weakness as investors trim strategic US exposure. And while Fed rate cuts may support Treasuries, doubts about US policy keep the outlook on US yields more two-sided in the short term.

10-Year Gvt Bonds	Current*	3M	6M	12M
US Treasuries	4.26	4.15	4.00	3.75
Germany (Bunds)	2.48	2.45	2.40	2.45
Italy	3.58	3.60	3.50	3.55
Japan	1.32	1.35	1.35	1.40
Forex				
EUR/USD	1.14	1.15	1.17	1.20
USD/JPY	143	142	140	135
EUR/GBP	0.85	0.86	0.86	0.86
Equities				
S&P500	5513	5500	5635	5900
MSCI EMU	173	170	1755	185

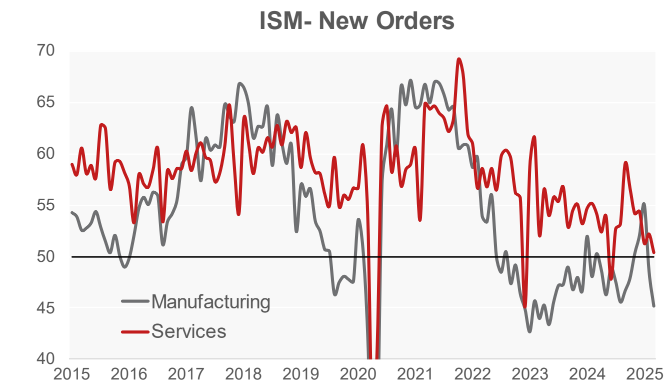
**3-day avg. as of 28/04/25*

Exposure in Credit preferred, still cautious on Equities

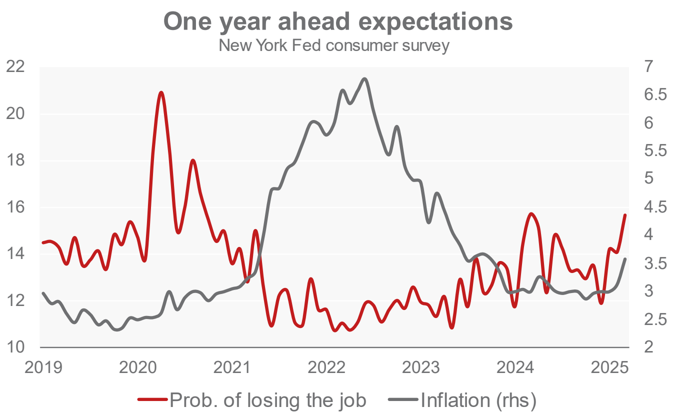
Expect volatility to remain high amid elevated uncertainties about Trump's willingness to soften announced tariffs. Credit may benefit from hopes of further trade deals and tariff exemptions while a recession will be avoided and peak uncertainty is behind us, now that Trump has blinked. That said, the high policy uncertainty and softer economic surveys will keep equities exposed, while the Fed will be constrained in providing support, given the renewed tariff-induced inflation pressure. With the growth outlook burdened, we see yields tilted to the downside but very modestly so after the recent pullback.

United States

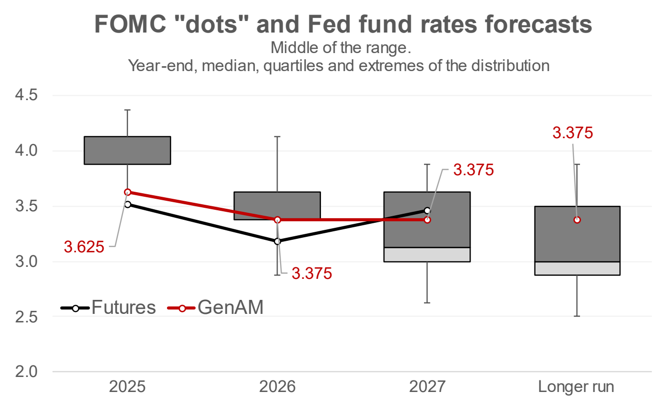
Paolo Zanghieri



Source: ISM, Refinitiv, GenAM



Source: NY Fed, GenAM



Source:Federal Reserve Board, Datastream,GenAM estimates

- **A partial U-turn on tariffs will not be enough to dispel market uncertainty and its negative impact on demand. We expect weak activity in H2 and GDP up by at most 1% in 2025.**
- **Hard data are not yet reflecting the policy turmoil, but both business and consumer surveys point to soaring concerns about both activity and inflation.**
- **We expect the Fed to react in H2, cutting rates three times this year to prevent recession. Risks are balanced, as political pressures may force the FOMC to remain more hawkish.**

The extremely aggressive policy stance taken by the administration on trade and public sectors have shocked business and consumers alike and economic expectation quickly deteriorated. The ISM and most other business surveys show that new orders for the manufacturing sector are in a clearly contractionary territory, and the services sector is approaching that thresholds too. Extreme policy uncertainty is making planning impossible: this starts showing in hard data too. March manufacturing orders were largely supported by large orders received by Boeing and the front-loading of bookings for autos and parts to avoid the tariffs increase scheduled to take effect in April. Consumers revised strongly up their inflation expectations even before the April 2nd tariff announcement and turned particularly sour on employment prospects. In the past the relationship between expectations and actual purchases has been quite loose, but we think that these big swings will have an impact, given also some signs of weakness in consumer credit. The administration is backtracking on tariffs, extending the number of sectors that are exempted and starting negotiations. Some of the Q1 weakening will be recovered in spring. Yet policy uncertainty will put a lid on demand in H2, and our forecast of 1% GDP growth this year is subject to a strong downside risk tilt.

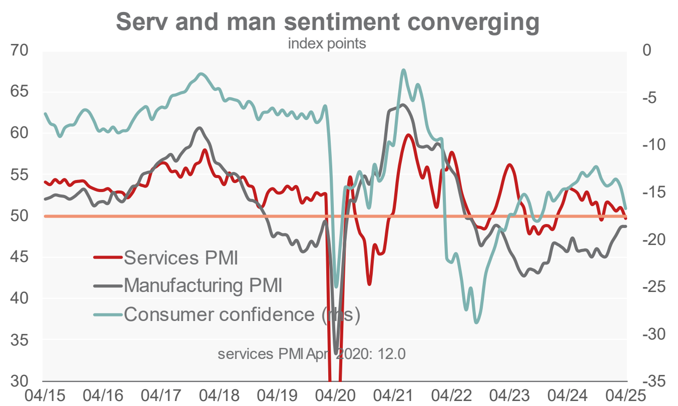
Inflation data for the first months of the year showed some tentative signs of moderation, especially in services, but these will be swamped by the effect of tariffs, even if they will not turn out as destructive as announced on April 2nd. We expect core PCE inflation to go back up to above 3% in the middle of this year.

The Fed will resist to pressure

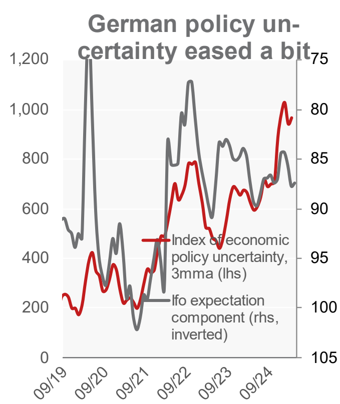
The Fed will look through most the inflationary impact of tariffs and cut rates three times this year. Market pressure forced President Trump to back pedal from his pledge to fire chair Powell, but pressure for sharper cuts will remain. Paradoxically this could lead the Fed to take a more hawkish stance in order not to be seen caving to pressures.

Euro Area

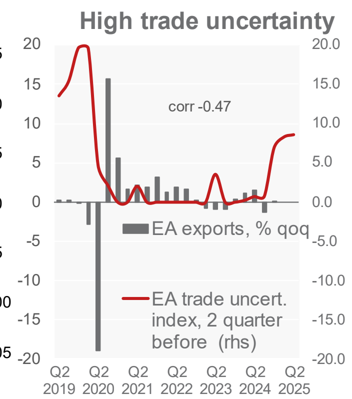
Martin Wolburg



Source: GenAM, Datastream



Source: Datastream, GenAM



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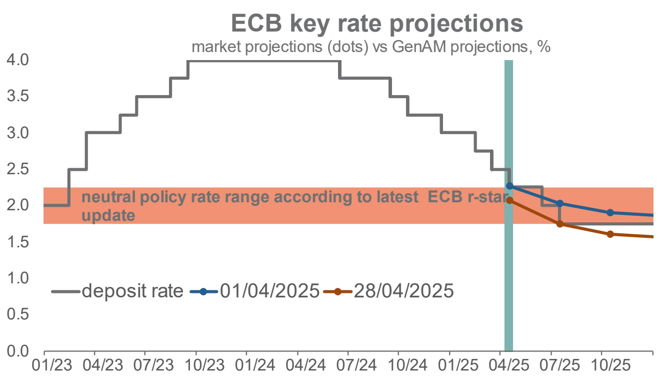


Source: Datastream, ECB, GenAM calculations

- **Following surprisingly strong expansion in Q1, data are in line with our view of stalling activity thereafter, with the trade war being a major headwind.**
- **We expect the trade war fallout to strengthen disinflation which together with increased German fiscal spending will back activity.**
- **In this environment a recession will be avoided, and the ECB is set to cut its key rate by another 50 bps to 1.75%, most likely in June and July.**

After a solid start into the year the global trade war is set to dampen activity in the second quarter and bring output growth to a halt. In Q1, GDP expanded by a surprisingly strong 0.4% qoq according to the flash estimate accelerating to the previous quarter. But the release of the PMIs for April suggests a clear moderation. The composite index fell to 50.1, implying stagnation. While sentiment in the services sector weakened in line consumer confidence, manufacturing sentiment recovered further. We attribute this to tailwinds from the global inventory cycle as the dampening effects from tariffs have not yet fully kicked in.

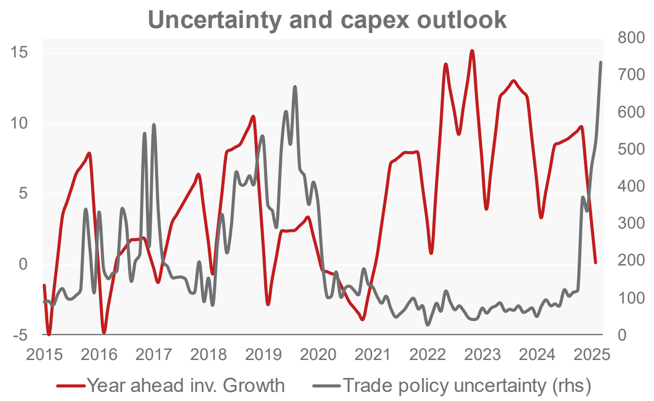
Looking ahead, uncertainty will continue to drag on activity. While policy uncertainty related to Germany will likely recede as the new government takes office in May, trade uncertainty is set to stay and associated with lower exports (see mid-charts) and investment spending. We expect tariffs to be in the end disinflationary due to their negative effects on growth, the re-direction of third-country exports (e.g. Chinese) away from the US to Europe and because EU retaliation will try to tame the effect on domestic prices. We reduced our 2025 inflation forecast to 2.0% (from 2.1%) and see the risks still tilted to the downside. Lower inflation helps to stabilize real domestic activity and so do the German fiscal spending plans that we expect to start become effective in H2. Amid tailwinds from past policy easing and the good Q1 growth data, we expect euro area growth to nevertheless expand by 0.9% in 2025.

ECB reacts with additional easing to tariff woes

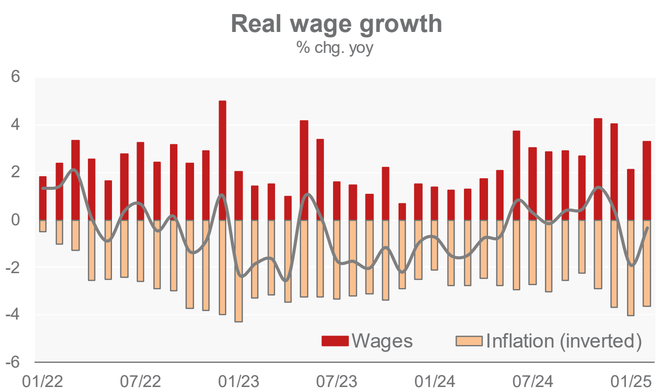
When cutting its key rate to 2.25% in April the ECB also emphasized "*exceptional uncertainty*" and the need to have updated macro projections. As we look for more disinflation from the trade war, we see the ECB to cut by another 25 bps at the June as well as July meeting. We even see the risk that strong global fallout of the tariff war (e.g. pushing US into recession, diminishing Chinese growth strongly) might in the end force the ECB to cut below 1.75% into outright expansionary territory.

Japan

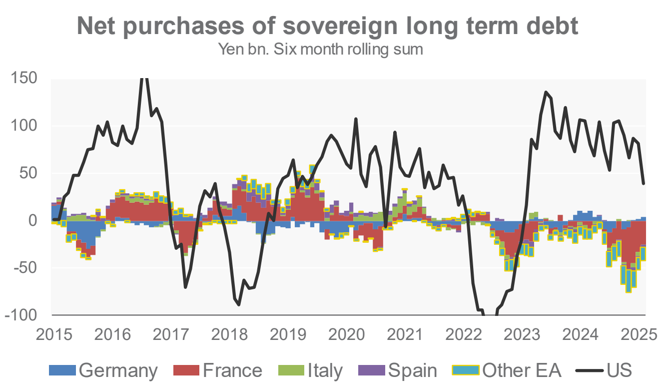
Paolo Zanghieri



Source: BoJ, economicpolicyunvertainty.com, GenAM



Source: Refintiv, GenAM



Source: Bank of Japan, GenAM

- **We downgraded to 0.4% our growth forecast for this year, as tariffs will hit hard the economy, largely offsetting the impulse from strong real disposable income.**
- **We expect inflation to slow down to below 2% yoy by year-end, helped by weaker activity limiting pricing power, a stronger yen and lower commodity prices.**
- **Consequently, the BoJ will face less pressure to increase rates, and we no longer expect any further hike this year.**

The consumption-driven recovery of the Japanese economy will be challenged over the last months by the aggressive US trade policy. While the government stands ready to find a deal with Washington, and will not impose retaliatory restrictions, the universal 10% tariff and separately higher tariffs for autos (passenger cars: 27.5%, trucks: 50%) and steel (25%, quota exemptions removed) will still be applied on Japanese exports to the US. Moreover, we do not expect a full deal to be finalised during the 90-days period for which the 24% reciprocal tariff has been paused; a further postponement is likely, but the persistent uncertainty will lead to a freeze in many capex plans, as shown by the latest reading of the Tankan survey.

For these reasons we cut our growth forecast for this year to a below consensus 0.4%. The expected strong development of real income, as inflation moderates and the effect of the latest rounds of wage negotiation kicks in, will likely provide a limited cushion as weakening confidence will dampen purchases.

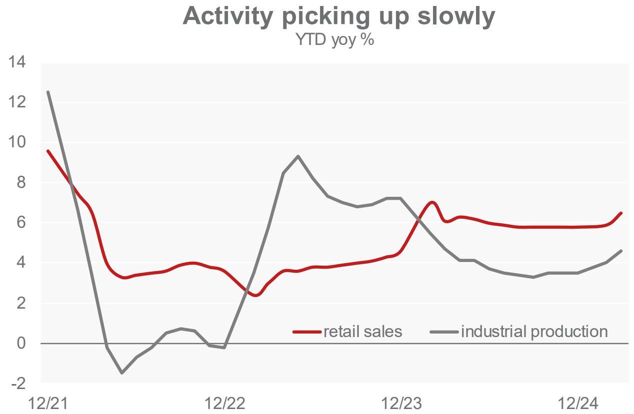
BoJ to delay rate hike to 2026

The recent statements of Governor Ueda have not signalled any change in the monetary policy stance, still we think the downside risks to growth, the huge uncertainty propping up the Yen and the moderation of inflation will convince the BoJ to delay to early next year the 25bp increase in the policy rate we previously pencilled in for the summer.

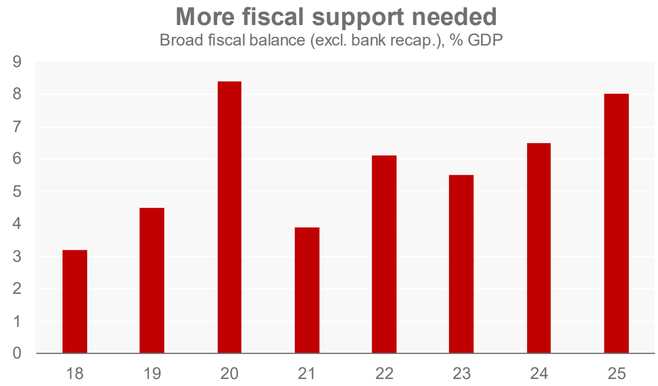
In the first two months of the year, net outflows from EU sovereign bonds have abated, with the notable exception of French OAT. Net purchases of UST weakened significantly, a trend that is likely to have continued up to now.

China

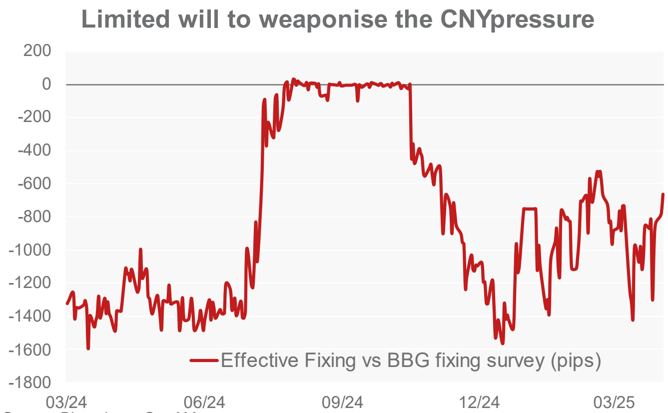
Guillaume Tresca



Source: Bloomberg, NBC, GenAM



Source: MoF, GenAM



Source: Bloomberg, GenAM

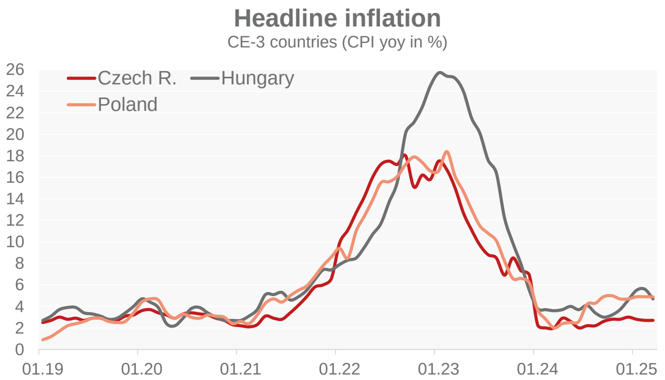
- **China is facing a volatile macroeconomic environment. We revise lower our growth forecast to 4.2% from 4.5% in 2025.**
- **A higher level of tariffs than before the *Liberation Day* will remain as we expect a strategic long-term confrontation with the US.**
- **Activity is bottoming out, but more fiscal and monetary stimulus are needed to offset the tariff impact. The CNY will not be weaponized.**

China has experienced a volatile macroeconomic environment, with better economic data and a positive shift in local sentiment. However, it is facing growing headwinds due to the escalating tariff war with the US. On a positive note, short-term indicators suggest that the economy is stabilising, with the housing market showing signs of recovery and retail sales and production slowly picking up, thanks to the trade-in program implemented at the end of 2024. Credit data has also stopped deteriorating. Policymakers have adopted a more proactive stance, and the March Twin Sessions reaffirmed their commitment to achieving a 5% growth target this year. Similarly, the meeting between President Xi and private investors signals a shift in attitude towards the private sector and significantly boosts local confidence.

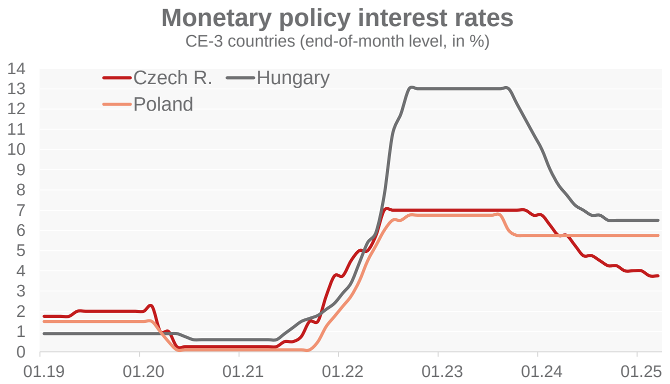
However, China must now respond to the imposition of new tariffs on US imports. This will have a lasting effect on growth in the months ahead. Indeed, further tariff hikes could reduce GDP by more than 1pp in 2025 without additional monetary and fiscal supports. Risks are skewed to the downside, given the potential impact on global demand, which could slow down Chinese exports, as well as the limited ability to circumvent these tariffs through transshipment, as was seen in 2018/19. There is room for discussion, and some agreement on certain products could be reached. However, negotiations could be highly uncertain and difficult, and at the end we expect a higher level of tariffs than before *Liberation Day*, as we anticipate a long-term strategic confrontation with the US. Therefore, we have revised our GDP forecasts down to 4.2% from 4.5% for 2025. At the Politburo meeting in April, policymakers pledged to support consumption further and maintain a loose monetary policy, but no announcements were made. First, they must implement all the measures previously announced, after which further stimulus will likely follow in late Q2, in the form of additional special bond issuance and proper fiscal stimulus. Reserve requirement rate cuts should follow soon, likely to be accompanied by key rate cuts of 30 basis points. The CNY could weaken somewhat, but it is unlikely to be weaponised.

Central and Eastern Europe

Radomír Jáč



Source: www.czso.cz, www.ksh.hu, www.stat.gov.pl, GenAM



Source: www.cnb.cz, www.mnb.hu, www.nbp.pl, GenAM

Main Forecasts

Czech Republic	2023	2024	2025f	2026f
GDP	0.1	1.0	1.8	2.0
Consumer prices	10.7	2.4	2.4	2.0
Central bank's key rate	6.75	4.00	3.25	3.25
Hungary	**2023**	**2024**	**2025f**	**2026f**
GDP	-0.8	0.6	2.2	2.8
Consumer prices	17.6	3.7	4.8	3.6
Central bank's key rate	10.75	6.50	6.00	5.00
Poland	**2023**	**2024**	**2025f**	**2026f**
GDP	0.1	2.8	3.3	3.2
Consumer prices	11.4	3.7	4.3	3.0
Central bank's key rate	5.75	5.75	4.75	3.75

Source: www.cnb.cz, www.mnb.hu, www.nbp.pl, GenAM

- **The US tariffs are expected to have a negative impact on the CE-3 countries‘ GDP growth, while views on the trade war’s impact on inflation remain mixed. CE-3 central banks are thus unlikely to react in a uniform manner.**
- **While the Polish NBP declared readiness to cut rates in May, the Hungarian MNB is unlikely to resume rate cuts before Q3. The Czech CNB is in a fine-tuning mode: we expect rate cuts in May and August.**

The CE-3 region offered a mixed inflation picture in Q1. Czech inflation decreased slightly, to 2.7% yoy in March and stood in the target range set at 2% +/-1pp. Inflation in Hungary was volatile. It reached 5.6% yoy in February and fell to 4.7% yoy in March: above the target set at 3% +/-1pp. Finally: Polish CPI stood at 4.9% yoy in Q1: below the original expectation but above the target set at 2.5% +/-1pp.

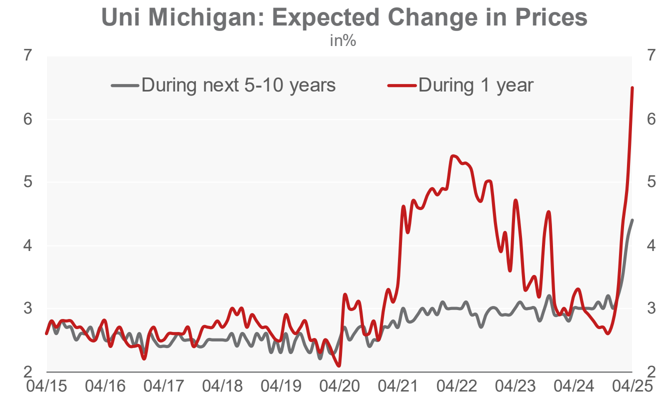
While the prevailing opinion is that tariffs will have only a slight pro-inflationary impact or could be even disinflationary, central banks in Czechia and Hungary are rather cautious in the current environment. The Polish NBP turned dovish due to the worries over the impact of tariffs on economic growth. We revised the CE-3 GDP growth outlook down only slightly, as tariffs may be partially compensated by a higher defence spending, but uncertainties are significant.

Poland: the NBP turned dovish, will cut rates in May

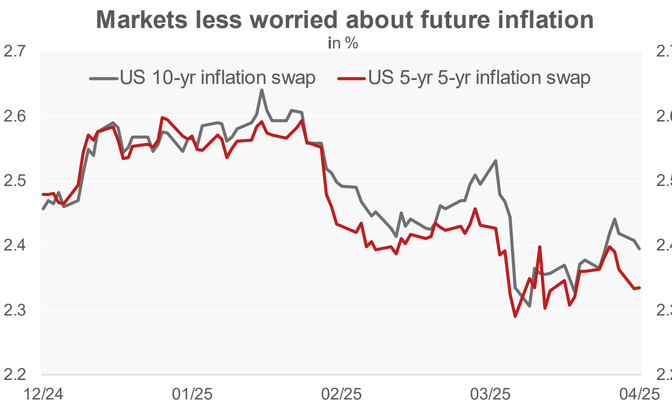
The key news on the monetary policy side was the dovish twist in Poland. While the NBP left the key rate unchanged at 5.75% in April, the MPC signalled a change in policy stance, saying that it may cut rates by as much as 50 bps in May and by about 100 bps (or even more) in the whole 2025. The yield curve currently implies almost 175 bps cumulative cuts for the rest of 2025, which is a too aggressive pricing in our view. The Czech CNB kept the key rate unchanged at 3.75% in March. The next monetary policy meeting is scheduled for May 7 where we expect a 25 bps cut but the central bank did not rule out the possibility of a second on-hold decision in a row. The CNB estimates neutral interest rate level in a 2.75%-3.50% range and adopted a cautious stance towards further policy easing, as the key rate already stands close to the neutral territory. In Hungary, the MNB‘s base rate stands at 6.50% (the last rate cut by 25 bps came in September). While March CPI data came below expectation, the recent volatility of the HUF FX rate is likely to support the MNB in its opinion that interest rates need to stay on hold for a sustained period. We expect rate cuts in Hungary to resume in Q3, by 25 bps per quarter.

Government Bonds

Florian Späte



Source: Bloomberg, GenAM



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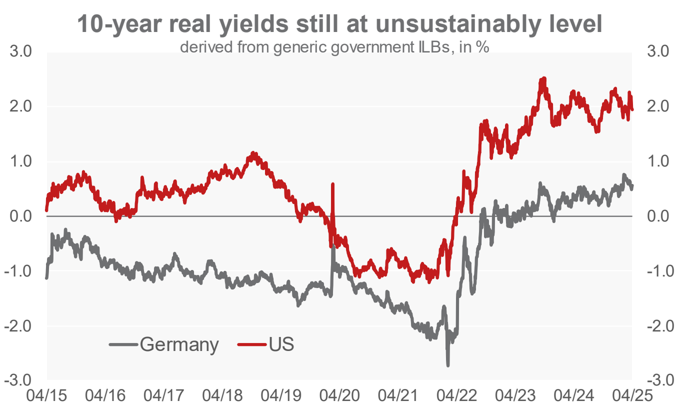


Source: Bloomberg, GenAM

- **Bunds outperformed Treasuries in April, reversing an opposed move in Q1. In particular, a rising risk premium prevented US Treasuries from tracking Fed rate expectations lower.**
- **We expect the downward trend in yields to continue over the next few weeks, but given the levels reached, a lasting rally looks unlikely.**
- **EA non-core government bonds weathered the volatile market environment well, with spreads widening only marginally. We expect spreads to move sideways in the coming weeks, with non-core bonds outperforming core bonds.**

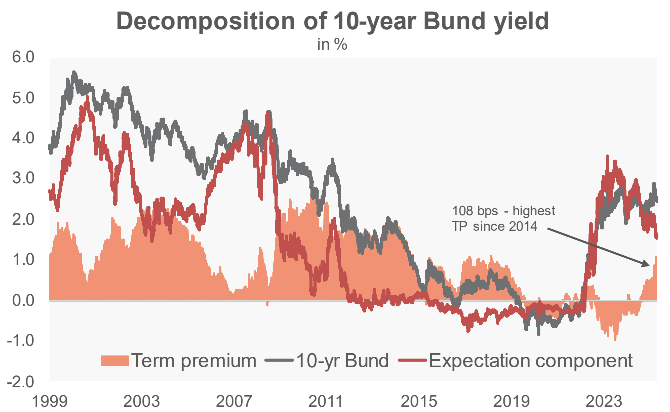
In a volatile market environment characterised by massive tariff increases at the beginning of the month and the subsequent suspension of some tariffs, government bond yields on both sides of the Atlantic trended downwards. The downward movement was stronger in Europe, with the transatlantic yield spread widening across all maturities after narrowing in Q1.

The trend is the result of several factors working in different directions. On both sides of the Atlantic, the increase in tariffs has led to a markedly negative economic sentiment (although tariffs have been partially reversed). The uncertainty will have a negative impact on investment and consumer behaviour. In addition, medium- and long-term inflation expectations as measured by market expectations have also fallen. As a result, the prevailing view among financial market participants is that inflationary trends may emerge in the short term. In the medium and long term, however, the gloomier growth prospects will prevail. In this context, it is worth noting that at least US consumers also see inflationary risks in the future. The expected medium-term inflation rate calculated by the University of Michigan has risen to its highest level since the early 1990s. Market expectations of key rate cuts in 2025 have intensified, contributing to the fall in yields, especially at the short end of the curve. By contrast, medium-term expectations, as measured by the 5y3m OIS, have declined only slightly, particularly in the US.

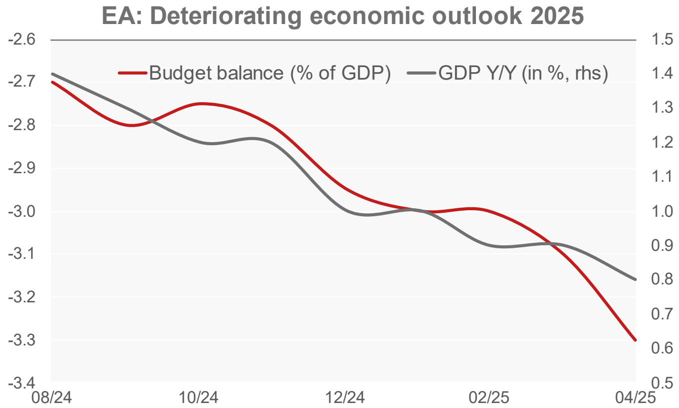
One important aspect that we consider to be very significant in the long term, is that the erratic economic and tariff policies of the US administration have shaken investor confidence in US Treasuries. Investors are demanding a higher risk premium to buy US Treasuries. In fact, this is a development that has been underway for some time and affects all countries whose fundamental fiscal situation is viewed critically by the financial market. The convenience yield, i.e. the premium that investors are willing to pay for a

Government Bonds

Florian Späte



Source: Bloomberg, GenAM



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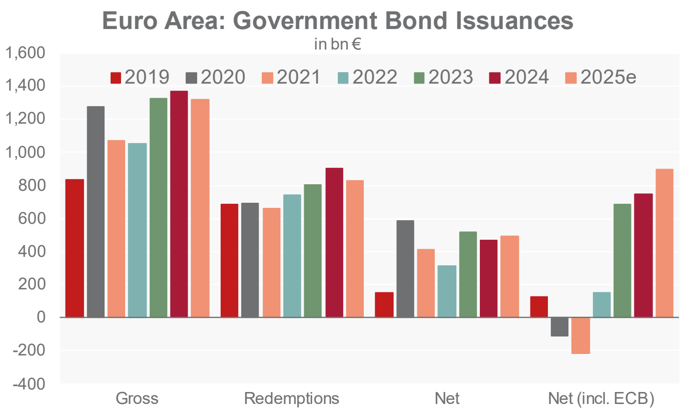


Source: Bloomberg, Datastream, GenAM

safe and liquid bond, has been falling for both Bunds and US Treasuries since at least 2023. While this process accelerated for US Treasuries in April as a result of the US government's economic plans, Bunds benefited at least temporarily as an alternative safe-haven investment.

In the short term, bond market developments will be largely determined by economic policy decisions. Assuming that there is no lasting change in the political situation and that uncertainty about the next steps will at least persist, we see some room for a further yield decline in the coming weeks. Particularly, real yields still appear to be at comparatively high levels against the backdrop of the current difficult economic situation. The Bund term premium has already risen significantly, so the two key rate cuts we expect from the ECB in June and July should support a further decline in Bund yields. Although the Fed is unlikely to act for the time being, given the expected rise in inflation in the short term, the economic slowdown should also contribute to a fall in yields.

However, given the decline in yields that has already taken place, a strong rally in the bond market is unlikely. The expected rise in US inflation in the coming months also argues against this. Over the next three months we see 10-year US yields at 4.15% and 10-year Bunds at 2.45%. On a 1-year horizon, US yields are seen to fall further to 3.75%, while Bund yields are likely to move sideways on balance given the incipient fiscal stimulus.

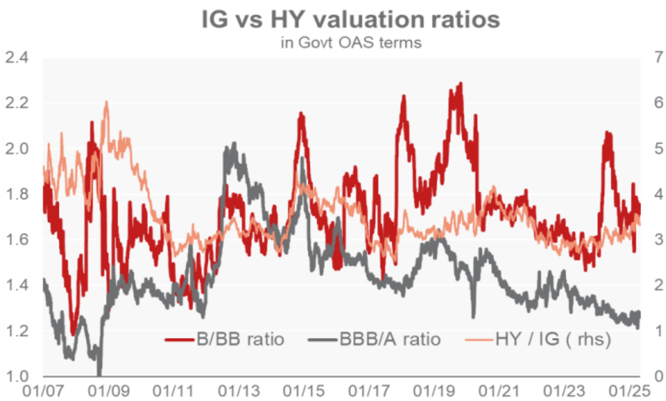
EA non-core bonds remain a haven of stability

Spreads of EA non-core government bonds widened only slightly in April, outperforming other risky fixed income assets. We expect them to remain stable in the future, even in a volatile market environment. The fundamentals of non-core countries have improved. In addition, the entire EA will benefit from the German fiscal stimulus. Finally, the ECB is ready with its enhanced monetary instruments in the event of a shock affecting the entire EA.

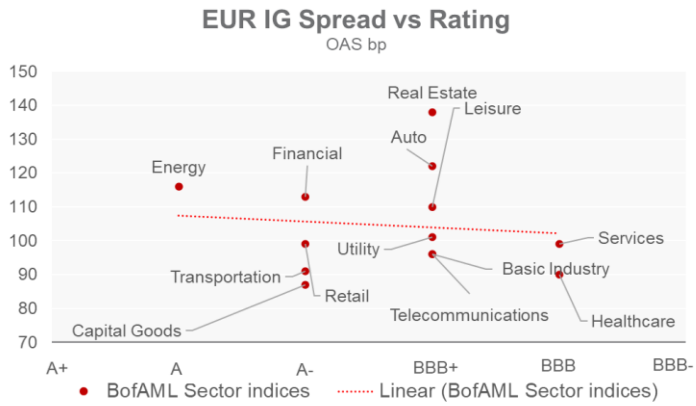
However, there is one caveat. The weak economy leads us to expect an upward revision in EA government bond issuance activity. While we originally expected net issuance of € 440bn in 2025, we have now raised this to € 490bn. While this is partly due to higher issuance in Germany, non-core countries will also respond to falling revenues and rising spending with higher issuance. Overall, however, we expect this to have only a moderate impact on spreads, as investors will increasingly invest in the EA, given the growing mistrust in US Treasuries. Moreover, issuance activity is already well advanced as EA treasuries have already placed a net volume close to € 300bn. This is the highest level ever achieved in the first four months of a year.

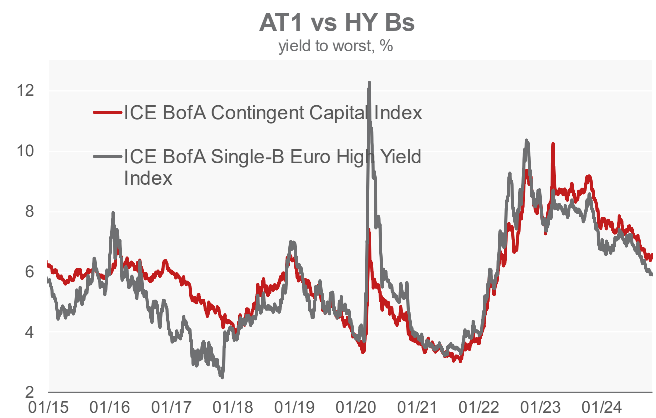
Credit

Elisa Belgacem



Source:Source:Bloomberg, BofAML Indices, GIAM own calculations





- **The persistent strong demand for credit, coupled with anticipated further cuts in central bank rates, supports our long position in investment-grade securities.**
- **High Yield credit has underperformed IG in spread terms since this Liberation day but carry remains elevated and protective, baring a hard recession (less likely as Trump has blinked).**
- **We recommend to extend duration in IG non-financial, the 5-7Y bucket, and prefer subordination risk to credit risk with AT1 and corporate hybrids still more attractive than BBs.**
- **Financials typically have a higher beta than non-financials, but their fundamentals are currently very strong and their exposure to tariffs is lower, hence we keep a neutral stance on financials versus non-financials.**

In recent days, credit spreads have tightened significantly due to concessions on the trade front granted by US president Trump. Indeed, demand remains elevated as investors are drawn to the high all-in yield, and the recession scenario is gradually losing ground.

Rating agencies have begun to adopt a cautious stance on the most cyclical European companies, either by downgrading ratings or revising outlooks downward. This is especially evident in the Automobile sector, where the transition to electric vehicles, intense competition from Chinese manufacturers, and sluggish demand from China are creating significant challenges.

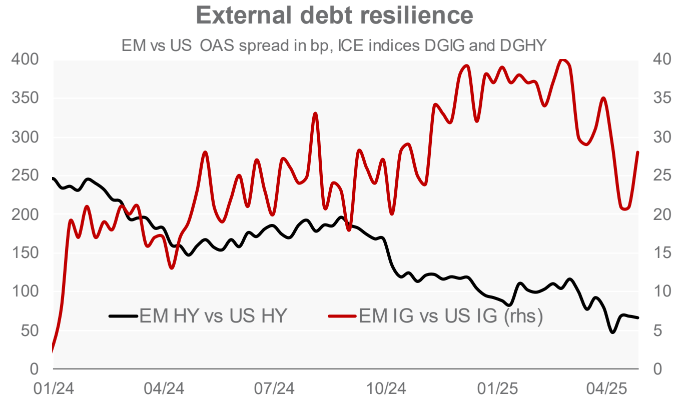
IG is well positioned to perform in a low growth world

Spreads are less appealing, but the carry remains attractive. We expect credit spreads to hover around current levels in the coming months, keeping carry prominent. Valuation considerations also lead to a preference for Europe over the US. We prefer long IG and subordination risk to pure HY (neutral, leaning towards OW). With HY defaults declining but fundamentals under slight pressure, a strategic move would be to leverage IG to enhance credit returns. While extending duration may not be favorable from a spread perspective, a positive view on rates justifies a long position, especially in the 5-7 year bucket. AT1 has been the best-performing asset class within credit year to date. Despite limited spread tightening potential going forward, we continue to favor AT1, particularly versus single-Bs.

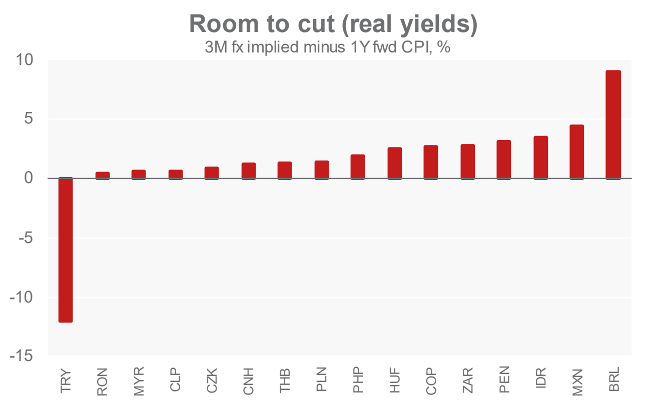
EM sovereign bonds

Guillaume Tresca

Source: Bloomberg, IMF, CPB, GenAM



Source: Bloomberg, ICE, GenAM



Source: Bloomberg, GenAM

- **US tariffs will lead to some EM growth slowdown that will be manageable given the resilient EM macro fundamentals.**
- **We maintain a cautious stance but turn more constructive on EM local debt.**
- **For external debt, we prefer IG and BBs. Returns will remain positive. For local debt, we prefer rates over FX and are highly selective.**

With a high level of uncertainty and the direct impact of US tariffs on EM growth, we maintain a slightly defensive approach to EM fixed income. EM growth will slow due to the new US tariffs. It is too early to accurately assess the impact on growth, given the risk of further retaliation or room for negotiation but EM growth has always depended on global trade, and as in 2018/19, a decline in global trade will follow, affecting EM exports. However, not everything is negative, and there has even been some surprising resilience. We identify three bright spots. First, EM macro fundamentals are stronger than during the first trade war in 2018/19, and EM central banks still have room to ease. Second, the weakening USD will provide more room than in a traditional market sell-off. Third, EMs are currently trading more with each other, with around 60% of EM exports going to other EM countries. To a certain extent, EM can benefit from disenchantment with USD assets, but this is a long-term process. In the short term, it is positive for EM local debt: we are now neutral on external versus local debt..

External debt: preference for IG and BBs

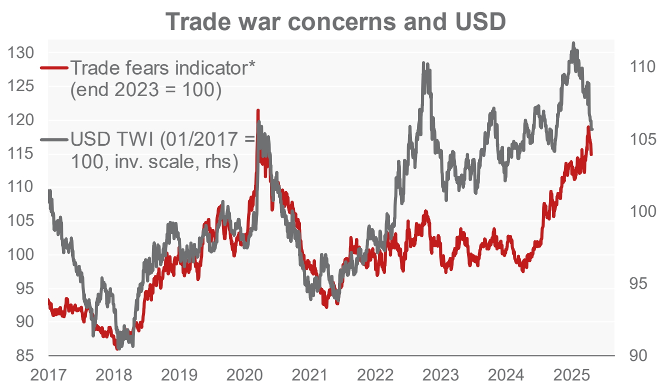
EM credit has partially recovered but risks are skewed towards a more modest widening, given the uncertainties and the growth slowdown. Valuations are still tight and investors may prefer to wait for more favourable entry points. Nevertheless, total return will remain positive, with the positive duration and carry effect offsetting the negative return from spread widening. At the rating level, we prefer IG over HY. EM IG has outperformed US IG, while EM HY is expensive both historically and relative to US credit. We avoid B and distressed names that will decompress and where positions are overcrowded. We focus on BBs where fundamentals are improving (Morocco, Western Balkans).

Local debt: a better outlook

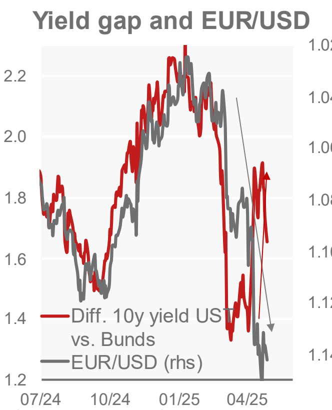
Local debt posted upbeat returns and dynamic will remain positive. Differentiation is of utmost importance Even if EM FX can keep performing, we prefer EM rates as central banks, especially in Asia, have room to ease. Even in CEE, inflation dynamics allow for easing, while in LatAM, especially Mexico, real rates are still high.

Currencies

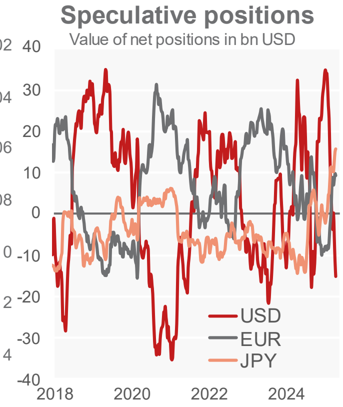
Thomas Hempell



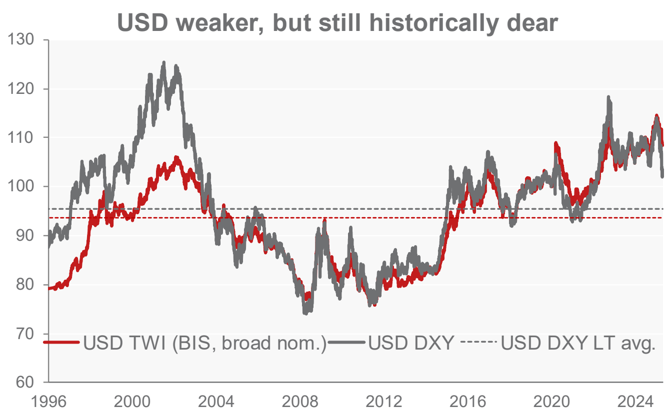
Source: Datastream, GenAM; *equally weighted Stoxx600 vs auto sector, Fathom US China Exposure Index (inv.), JPY/KRW and USD/AUD, end 2017 = 100



Source: Datastream, GenAM



Source: CFTC, Datastream, GenAM



Source: Datastream, GenAM

- **With US exceptionalism eroding, investors' reluctance on USD exposure likely to prove more lasting and severe cracks in the dollar's safe haven status, the greenback is headed for further weakness.**
- **Following the 10% jump year-to-date, however, short-term risks are more two sided for EUR/USD.**
- **The USD may also temporarily benefit from hopes of easing trade tensions with China. In sharp contrast to patterns seen under Trump 1.0., trade worries have been a source of USD weakness since Trump's inauguration.**
- **Given the stagflationary impact of tariffs on the US economy, the Fed is likely to proceed more reluctantly in cutting rates than the ECB, helping to cushion trend weakening of the USD.**

The US dollar should benefit from US tariffs on rising safe haven flows and as a market offset to more expensive US import. This assumption worked well under Trump 1.0 and into the 2024 US elections (top chart).

No longer. Escalating trade worries under Trump 2.0 have coincided with a sliding USD (mid left chart). As trust in the US eroded, April's trade war escalation resulted in a rare joint sell-off in US Treasuries and the dollar (EUR/USD up 5% since April 2). Usually, higher yields benefit an exchange rate – unless fiscal or systemic worries put investors to flight. This symptom is familiar among stressed emerging markets but was also experienced by the hapless PM Truss in the UK in 2022 over her reckless 'mini-budget'. Speculators have shunned the USD in a spectacular move from stretched speculative longs around Trump's inauguration in January to a sizeable net short now (mid right).

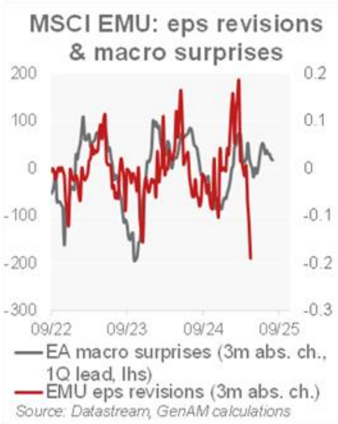
USD weakness has further to run in the medium term

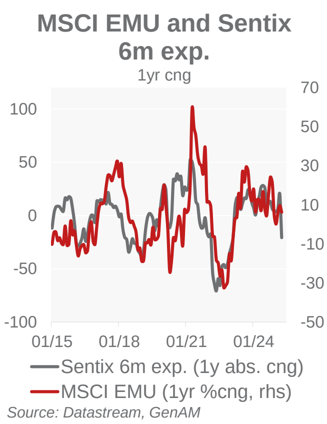
Investors are selling the USD mostly on rising US recession fears. But the simultaneous rise in longer-dated yields suggests that eroding confidence in the US currency has started to bite, too. Following the significant slide by 9% year-to-date short-term risks are more two sided for the EUR/USD. The USD may also temporarily benefit from hopes of easing trade tensions with China. Given the stag-flationary impact of tariffs on the US economy, the Fed is likely to proceed more reluctantly in cutting rates than the ECB.

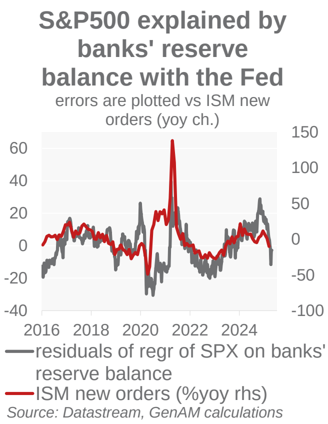
The USD support from these sources will likely provide only a temporary respite. With the dollar still dear (bottom chart), US exceptionalism eroding, Trump's attacks on the Fed's independence continuing and unpredictable tariff policies eroding confidence, investors will rethink their USD exposure more sustainably.

Equities

Michele Morganti and Vladimir Oleinikov







Sector	earnings surprise: Q1 2025 S&P	earnings surprise: Q1 2025 Stoxx	sales surprise: Q1 2025 S&P	sales surprise: Q1 2025 Stoxx	margin trend: Q1 2025 S&P	margin trend: Q1 2025 Stoxx
Energy	5.6%	20.3%	1.7%	-2.3%	3.9%	22.6%
Materials	15.5%	17.5%	2.5%	-0.6%	13.0%	18.1%
Industrials	6.6%	1.5%	0.6%	0.1%	6.0%	1.4%
Cons. Discretionary	1.4%	65.2%	-2.3%	-1.6%	3.6%	66.8%
Consumer Staples	2.7%	-0.5%	0.6%	-7.8%	2.1%	7.2%
Health Care	5.6%	7.2%	1.8%	1.0%	3.8%	6.2%
Financials	7.7%	3.8%	0.6%	1.7%	7.1%	2.0%
IT	8.2%	6.9%	1.8%	-0.5%	6.4%	7.3%
Comm. Services	24.7%	-4.1%	0.9%	-0.2%	23.8%	-3.9%
Utilities	0.2%	-	-0.6%	-	0.8%	N.M.
Real Estate	4.1%	0.0%	0.2%	-3.2%	3.9%	3.2%
Market	**10.0%**	**6.7%**	**0.9%**	**-2.0%**	**9.2%**	**8.7%**
Median (all sectors)	**5.6%**	**5.3%**	**0.6%**	**-0.6%**	**3.9%**	**6.7%**
Median, ex Energy & Materials	5.6%	2.6%	0.6%	-0.4%	3.9%	4.7%

Note: proxy for margin trend = earnings growth - sales growth

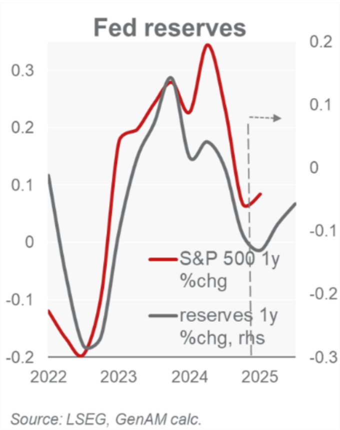
- **In April, investors faced a sharp rise in volatility and a drop in EMU earnings expectations. Protracted trade negotiations will keep uncertainty high.**
- **US firms are reporting resilient Q1 results: the median sector EPS growth is 7.5%, and EPS surprises vs. are positive at +5.6% (5.9% in Q4).**
- **Regarding the economy, if negotiations stall or fric-tions increase, sentiment could further deteriorate, and markets might easily retest previous lows.**
- **However, some positive developments are emerging. Firstly, the trend in M2 and banks' reserve balances with the FED, along with the still positive corporate financing surplus.**
- **Alsop consider the ECB dovish stance and the commitment of both the German and Chinese governments to sustain their economies. Lastly, investors' positioning is low, while policy uncertainty has already reached Covid's levels.**
- **We stay cautious over 3 months (flat-to-slightly pos-itive returns), though we are more construc-tive than in early April and see markets in one year to return low double-digit returns (SPX @5,900), with EU outperforming in a base scenario.**
- **Slightly OW EU vs SPX, OW MDAX & EU small cap, Japan, India, Poland. Diversify US into equally-weighted SPX, Gold firms, AI phase4. EU sectors: OWs: Financials, A&D, Food Ret., Construction, RE, Semis, Utilities. UWs: Cap. Goods ex-A&D, Comm. Prof., Svs., Staples, Materials, Software, Transport.**

Markets are not far from where they were at the end of March, but in the past month, investors have witnessed a plunge in EMU earnings (EPS) revisions and spikes in volatility, which happened only 10 times in the last 35 years.

Most likely, the limit to Trump’s tariffs hikes has been reached (145%), but negotiations will take several weeks, keeping uncertainty high. Downbeat US consumer sentiment, declining Trump approval rates, previous spikes in long rates, and the market slump have set a limit to Trump’s excesses, establishing a lower bound around the 4,900 level for the SPX.

Firms are reporting good Q1 results which only partially reflect the latest trade frictions. After 181 US firms reported, the median sector EPS growth is 7.5%, much higher than the 1.9% in Q4 2024. Sales growth is also higher, though to a lesser extent. Most importantly, EPS surprises vs. consensus are quite positive at +5.6%, very close to the 5.9% registered in the previous quarter.

Equities

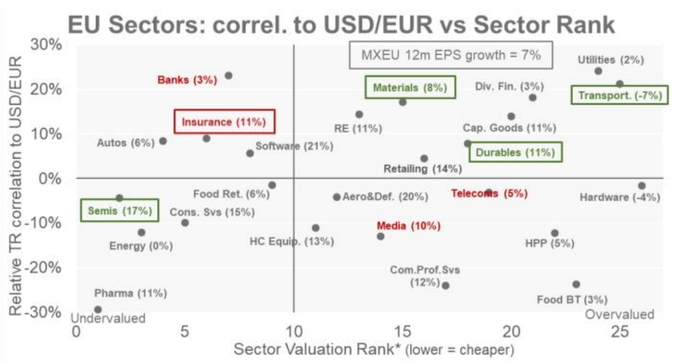


Source: LSEG, GenAM calc.

Source: FRED eco data, GenAM calculations

as of 28/04/2025 Index	2024 EPS growth	2025 EPS growth	12m fwd PE	Avg 12m fwd PE since 1995	% diff	Avg PEG FY3
S&P500	10%	14%	20.1	16.9	19%	1.2
SPX 493 (median)	8%	6%	17.7	17.4	2%	1.7
Mag. 7 (median)	39%	12%	26.8	27.9	-4%	1.5
Global AI 175 Basket	9%	9%	18.7	17.1	9%	1.5
US AI Basket (ex-NVIDIA):	15% →	10%	19.2	17.3	11%	1.4
· Phase 2 - Infrastructure	9%	11%	18.4	16.0	15%	1.3
· Phase 3 - New Revenues	31%	11%	33.0	31.8	4%	1.9
· Phase 4 - Productivity	16%	10%	17.2	18.4	-7%	1.3
MSCI US IT	20%	17%	24.7	21.5	15%	1.1
MSCI China IT	52%	30%	23.7	20.3	17%	0.5
Gold Basket - 21 co's	59%	39%	12.3	18.1	-32%	0.5
Agnico Eagle Mines	90%	37%	20.4	35.6	-43%	1.9
Newmont	116%	25%	12.3	27.3	-55%	1.7
Wheaton Prec. Met.	20%	51%	38.5	26.5	45%	2.7
MSCI EMU	3%	12%	13.8	14.4	-4%	1.2
Russell 2000	40%	42%	23.4	22.6	3%	0.7
MDAX	13%	18%	14.1	15.4	-9%	0.9

Global AI 175 (proprietary) has 175 AI-related firms, 60% US & 40% RoW. US AI (baskets from GS) has 162 firms split in 3 phases: AI infrastructure (utilities, semis, hardw.), new revenues (software), increased productivity (diversified firms). Phase 1 is NVIDIA. Gold Baket is a proprietary basket that includes 21 gold mining companies. Baskets use median values. Avg PEG FY3 = avg PE using FY3 EPS over 3-5y EPS growth and over FY3-FY0 EPS CAGR.



*includes Fed Model gap, exp. TR, PEG adj. (for ROE and COE), Shiller PE, 3-stage EPS growth model, mkt multiples, PE vs hist. avg. excl. bubble years. 12m EPS growth = 12m fwd EPS vs 12m trailing EPS

Green/Red name = positive/negative machine learning (ML) models in (X%): 12m EPS growth

Source: Refinitiv. GenAM calculations as of 25/04/2025 ☐ = Best performing models

The ratio of positive-to-negative surprises is 81% for the median sector vs 75% in Q4. Sales' one is much lower at 58% vs 75%. EU firms (131 reported) show +5.3% EPS surprises, and -0.6% for sales, still for the median sector. So, overall good results, albeit some deterioration is starting to be visible in sales beat. Regarding the economy, sentiment indicators took a hit, albeit less than expected in the euro area (EA). Indeed, the IFO index looks quite resilient, although the Sentix is visibly down, like for the US ISM. If negotiations stall or frictions increase, a further downgrade of sentiment would be triggered, and markets could be easily re-test previous lows.

Having said this, in this uncertain environment, some marginal positives are emerging. Central Banks' liquidity and M2 trend look supportive, along with corporate financing surplus: cash positions net of capex needs is positive, and this should limit an aggressive market sell-off. The ECB is quite dovish and both German and Chinese governments are intent on sustaining their economies, both for structural reasons (declining trend in potential growth) as well as to mitigate the negative effects of US tariffs.

Furthermore, investors' positioning is quite low, and surging policy uncertainty has already reached Covid levels. It should not increase further as tariffs levels have likely reached their peak.

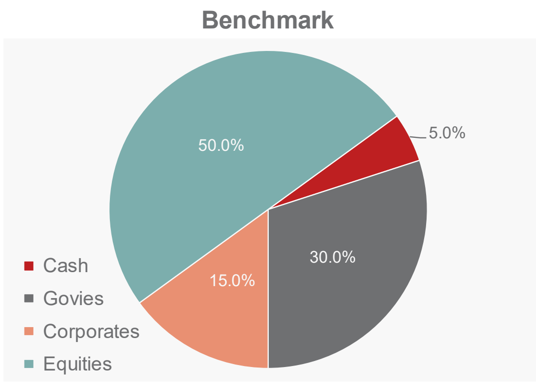
In the end, we stay cautious in 3 months (flat-to-slightly positive returns), though slightly more constructive than in early April. We see markets in one year to return low double-digit returns (SPX @5,900), with the EU potentially outperforming in a base scenario where recession is avoided and tariffs are reduced. We stick to already successful diversification into SPX 493 or SPX equal weight, MDAX, EU small cap, Gold listed firms, AI Phase 4, Poland, India and Japan. MDAX benefits from the German fiscal plan, showing high eps growth and good valuation. We remain neutral on China and China tech (retaliation phase), waiting for better entry point.

European sector allocation: maintain a balanced mix

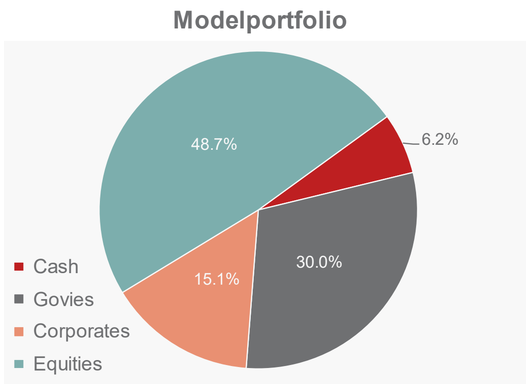
We continue to adopt a balanced allocation as the global cycle faces headwinds, with bets in Financials, A&D, RE, Utilities, Food retail, Construction, Semis and Small cap. Following the correlation with depreciating USD and revisions, we reduced Cap. Goods and Comm. Prof. Svs. (UW). We increase Cons. Svs and Transportation (still UW) and Semis (still OW). UWs: Cap. Goods ex-A&D, Comm. Prof. Svs., Durables, Cons. Svs., Div. Fin., Staples, Materials, Media, Software, Transport. We continue to like gold miners – eps growth in 2025 – and the AI phase 4 (enhanced productivity), which shows lower valuation and high eps growth.

Asset Allocation

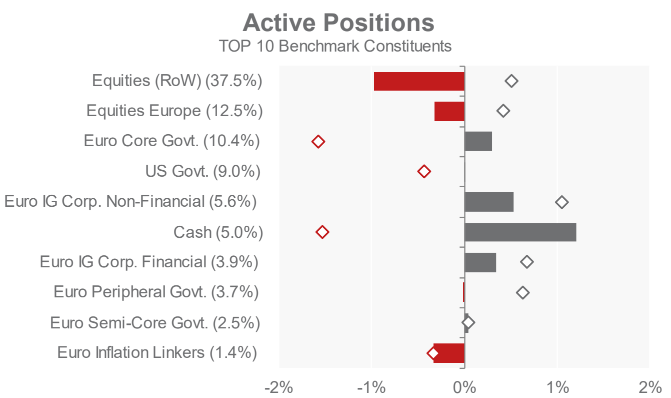
Thorsten Runde



Source: GenAM



Source: GenAM



Source: GenAM; Benchmark weights in parentheses, diamonds indicating prev. recommendations

Note: Active positions shown in graphs reflect mid-April stance, currently under revisions (see text)

- **Long-dated euro area Government bonds outperformed in April 2025 (28.04.25), with core govies, Bonos, and BTPs rendering around +2.5%. Underperformers were MSCI Europe ex EMU (-2.4%) and long-dated US-Treasuries (-1.1%).**
- **On the EA Govie side, the long end of the curve outperformed the short end throughout all markets by +160 bps on average (total return differential). The opposite is true for the US with -170 bps.**
- **We expect volatility to remain high amid the unpre-dictability of President Trump's behaviour. This policy uncertainty and softer economic surveys will keep equity markets exposed, less so HY. We see yields tilted to the downside (though only modestly so after the recent pullback).**
- **Under the impression of Trump's 'Liberation Day', our allocation recommendations from 9 April entailed moderate UWs in Equites and HY Credit. With more evidence of Trump selectively softening his stance, we will be looking to neutralizing the stance on Equities while turning more favourable on Credit, incl. HY.**

The back and forth regarding US' tariffs is generating a high degree of uncertainty which is weighing heavily on financial markets, though they seem to get used to it, considering the recent bounce back on equity markets. With tensions weighing on confidence and further rate cuts in the offing, we see yields tilted to the downside, though only modestly so after the recent pullback

More constructive on Credit, still prudent on Equities

We expect equity volatility to remain high amid elevated uncertainties about Trump's willingness to soften announced tariffs. Credit may benefit from hopes of further trade deals and tariff exemptions while a hard recession will more surely be avoided and peak uncertainty is behind us, now that Trump has blinked. That said, the high policy uncertainty and softer economic surveys will keep Equities exposed, while the Fed will be constrained in providing support, given the renewed tariff-induced inflation pressure. We lean toward neutralizing our UW in Equities (allocation stance shown on the left still from mid-April).

Forecasts

Macro Data

Growth	2024	2025 forecast	2025 Δ vs. cons.	2026 forecast	2026 Δ vs. cons.	2027 forecast
US	2.8	1.0	- 0.4	1.5	- 0.2	2.0
Euro area	0.9	0.9	0.0	1.3	0.1	1.4
Germany	- 0.2	0.0	- 0.0	1.4	0.1	1.4
France	1.0	0.7	0.1	1.2	0.2	1.4
Italy	0.7	0.3	- 0.2	0.6	- 0.2	0.5
Non-EMU	1.0	1.1	0.0	1.9	0.5	1.5
UK	0.9	0.7	0.0	1.9	0.8	1.5
Switzerland	1.4	1.1	0.0	1.5	0.0	1.2
Japan	- 0.1	0.4	- 0.6	0.5	- 0.2	0.6
Asia ex Japan	5.0	4.5	- 0.2	4.6	- 0.0	4.5
China	4.8	4.2	- 0.3	4.1	- 0.1	4.0
CEE	3.3	2.1	- 0.2	2.1	- 0.2	2.3
Latin America	1.8	2.0	0.0	2.1	0.0	2.5
World	**3.2**	**2.7**	**- 0.2**	**2.9**	**- 0.0**	**3.0**

Inflation	2024	2025 forecast	2025 Δ vs. cons.	2026 forecast	2026 Δ vs. cons.	2027 forecast
US	2.9	3.5	0.3	1.8	- 0.9	2.1
Euro area	2.4	2.0	- 0.2	2.0	0.1	2.0
Germany	2.3	2.0	- 0.2	2.2	0.1	2.0
France	2.1	1.2	- 0.1	1.5	- 0.1	2.0
Italy	1.1	1.8	- 0.1	1.8	0.1	2.0
Non-EMU	2.3	2.4	0.0	1.9	- 0.2	1.8
UK	2.5	3.1	0.0	2.1	- 0.3	2.0
Switzerland	1.4	0.4	0.0	0.7	0.0	0.7
Japan	2.7	2.4	- 0.5	1.7	- 0.1	1.8
Asia ex Japan	1.8	2.4	0.7	2.4	0.3	2.5
China	0.4	1.3	0.8	1.5	0.5	2.0
CEE	19.4	13.1	0.9	10.3	2.1	7.3
Latin America	4.7	4.5	0.0	3.8	0.0	3.2
World	**4.0**	**3.6**	**0.4**	**3.0**	**0.1**	**2.8**

Financial Markets

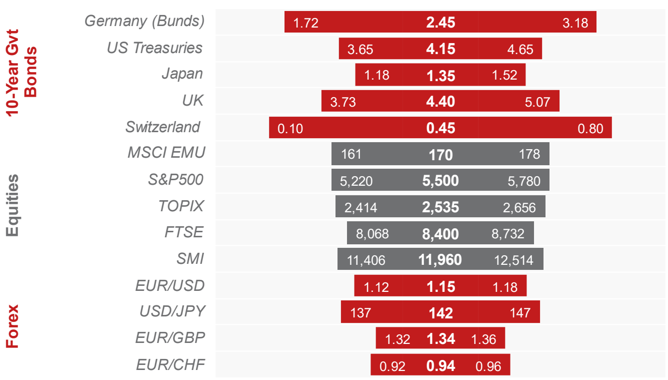
Key Rates	Current*	3M Forecast	3M Fwd	6M Forecast	6M Fwd	12M Forecast	12M Fwd
US (upper bound)	4.50	4.25	*3.97*	4.00	*3.53*	3.50	*3.12*
Euro area	2.25	1.75	*1.78*	1.75	*1.59*	1.75	*1.55*
Japan	0.50	0.50	*0.57*	0.50	*0.64*	0.75	*0.69*
UK	4.50	4.25	*3.94*	4.00	*3.66*	3.50	*3.43*
Switzerland	0.25	0.00	*-0.09*	0.00	*-0.16*	0.00	*-0.14*
10-Year Gvt Bonds							
US Treasuries	4.26	4.15	*4.31*	4.00	*4.34*	3.75	*4.43*
Germany (Bunds)	2.48	2.45	*2.53*	2.40	*2.57*	2.45	*2.66*
Italy	3.58	3.60	*3.63*	3.50	*3.71*	3.55	*3.88*
Spread vs Bunds	*111*	*115*	*110*	*110*	*114*	*110*	*122*
France	3.19	3.20	*3.24*	3.20	*3.29*	3.25	*3.42*
Spread vs Bunds	*72*	*75*	*71*	*80*	*72*	*80*	*76*
Japan	1.32	1.35	*1.41*	1.35	*1.47*	1.40	*1.58*
UK	4.50	4.40	*4.52*	4.35	*4.55*	4.25	*4.65*
Switzerland	0.43	0.45	*0.41*	0.45	*0.43*	0.45	*0.48*

**3-day avg. as of 28/04/25*
***ICE BofA (OAS)*

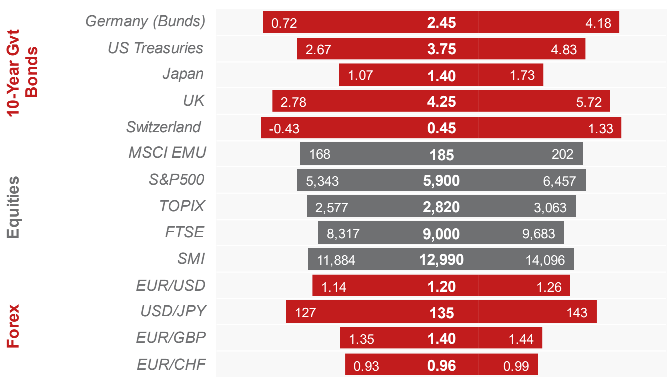
Credit Spreads**	Current*	3M Forecast	3M Fwd	6M Forecast	6M Fwd	12M Forecast	12M Fwd
EA IG Non-Financial	101	90		90		90	
EA IG Financial	113	105		105		105	
EA HY	355	350		350		350	
EM Sov. (in USD)	255	260		260		260	
Forex							
EUR/USD	1.14	1.15	*1.14*	1.17	*1.15*	1.20	*1.16*
USD/JPY	143	142	*142*	140	*140*	135	*138*
EUR/JPY	162	163	*162*	164	*161*	162	*160*
GBP/USD	1.33	1.34	*1.33*	1.36	*1.33*	1.40	*1.33*
EUR/GBP	0.85	0.86	*0.86*	0.86	*0.86*	0.86	*0.87*
EUR/CHF	0.94	0.94	*0.94*	0.95	*0.93*	0.96	*0.92*
Equities							
S&P500	5,513	5,500		5,635		5,900	
MSCI EMU	172.9	169.5		1755.0		185.0	
TOPIX	2,624	2,535		2,700		2,820	
FTSE	8,413	8,400		8,600		9,000	
SMI	11,963	11,960		12,435		12,990	

Forecast Intervals

3-Months Horizon*



12-Months Horizon*



**Forecast ranges of ±1 stdv. centred around point forecasts; based on historical volatilities; length of bars indicative only*

Imprint

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