MONTHLY REVIEW

MACRO

The American economy is showing contrasting signals as 2025 begins. Job growth remains strong, but inflation, higher than expected, fuels uncertainty over potential interest rate cuts. Meanwhile, economic activity appears to be slowing. Retail sales declined by 0.9%, and the Composite PMI dropped to 50.4, signaling a marked slowdown in growth. While personal income rose by 0.9%, consumer spending fell by 0.2%—its first decline since March 2023. This combination of persistent inflation and weakening consumption reflects an uncertain economic climate, further exacerbated by a recent drop in consumer confidence. For now, the downturn appears limited, but these trends will be closely monitored in the coming months to assess the economy's resilience.

In February, trade tensions escalated as the Trump administration imposed new tariffs. Additional duties were announced on automobiles, while tariffs on Mexican and Canadian imports were reinstated. Toward the end of the month, Donald Trump also expressed his intention to impose a 25% tariff on European imports. These decisions have raised questions about the true objectives of his trade policy. However, investors remain relatively confident, viewing these measures as negotiation tactics rather than a long-term protectionist strategy.

While Europe sees a glimmer of optimism with the prospect of de-escalation in Ukraine, diplomatic dynamics are evolving rapidly. A new agreement between Washington and Moscow has paved the way for peace talks, marking the first in-person meeting between the two nations since 2021. However, a tense discussion between Zelensky and Trump at the White House revealed a major fracture: Trump appears keen on striking a direct deal with Putin, sidelining both European leaders and Ukraine. This unprecedented approach risks marginalizing Europe on the diplomatic stage and limiting its influence over the conflict's resolution. In Germany, the legislative elections resulted in the anticipated victory of the conservative CSU/CDU bloc, which secured 28.6% of the vote. Meanwhile, the far-right AfD made significant gains, reaching 20.8%—a sharp rise from 10.4% in 2021. However, fiscal policy prospects are complicated by the fact that the AfD (152 seats) and the left-wing Die Linke (64 seats) are expected to hold a combined 216 seats in the Bundestag. This could form a potential constitutional blocking minority against key budgetary reforms.

OUTLOOK

We remain positive on equities for the year but have trimmed our allocation as the month draws to a close. The weakening of certain U.S. economic indicators, combined with uncertainties surrounding Donald Trump's tariff rhetoric, led us to take profits on our positions. As a result, we have reduced our exposure to growth and cyclical stocks to mitigate volatility and the persistent uncertainty in equity markets.

On the fixed-income side, our positioning remains unchanged. Our high-yield bond allocation continues to perform well, particularly in Europe. Issuers maintain solid fundamentals, with corporate balance sheets remaining strong and cash positions generally improving. Given this backdrop, we still see carry as attractive, even though historically tight spreads limit the potential for price appreciation.

EQUITY MARKETS

As the year begins, we are witnessing a rotation from growth stocks to undervalued defensive equities. This shift is also driving a geographic reallocation of investments, with capital flowing from the U.S. to Europe. European financials, the pharmaceutical sector, and industrial stocks are posting strong performances. Additionally, the announcement of increased military spending in Europe has propelled defense stocks to record highs. Optimism is also building around peace talks between Russia and Ukraine. Meanwhile, China's tech sector is regaining momentum, fueled by advancements linked to DeepSeek.

On the corporate front, Nvidia continues to deliver impressive numbers, though investor enthusiasm has tempered. The quarterly earnings season is drawing to a close, with 74% of companies surpassing expectations. Earnings have grown by 15.3%, significantly outpacing the initial forecast of 9.6%.

February performance: CAC40 2.03% (YTD 9.90%), SMI 3.23% (YTD 12.10%), Stoxx600 3.27% (YTD 9.77%), Nasdaq100 -2.76% (YTD -0.61%), S&P500 -1.42% (YTD 1.24%), Hang Seng 13.43% (YTD 14.36%),
Topix -3.82% (YTD -3.69%).

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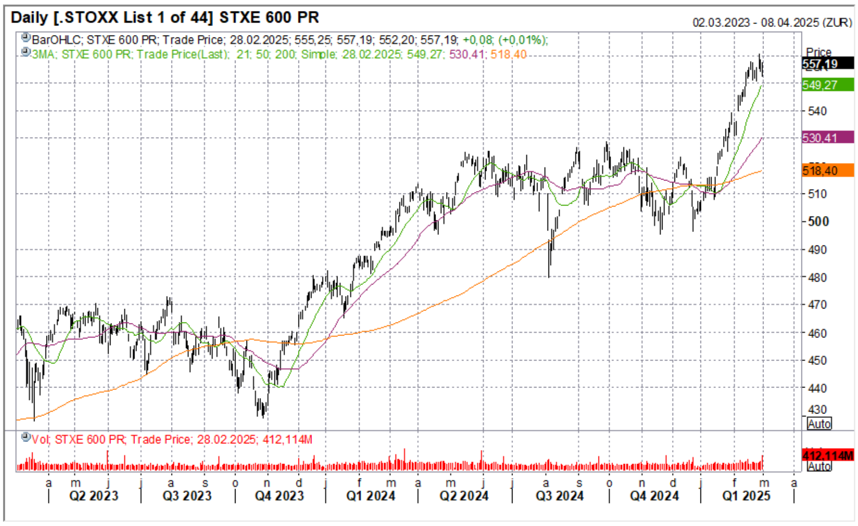

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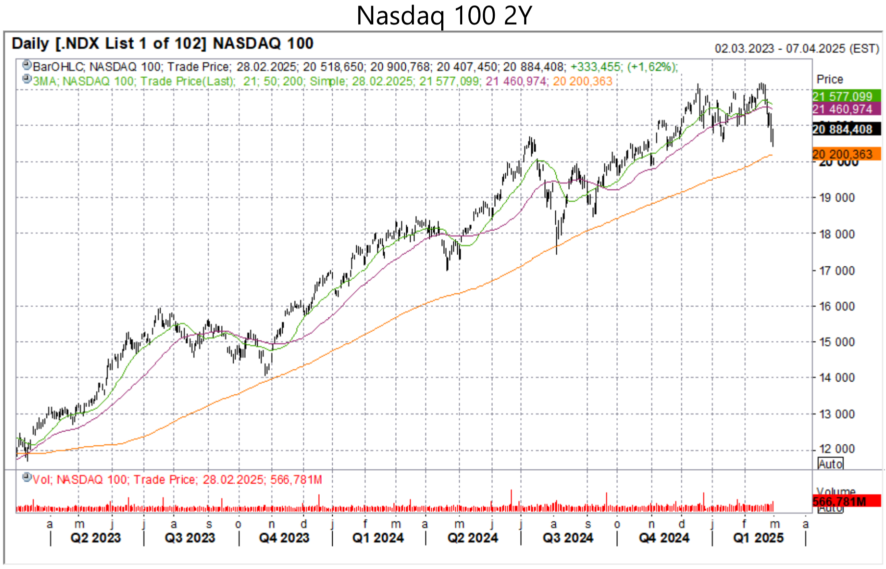


FOREIGN EXCHANGE MARKET

February saw a weakening of the U.S. dollar, with the dollar index dropping from 109 to 106.5—a 2.5% decline over the month. Macroeconomic data, along with uncertainties surrounding Trump's rhetoric on trade and tariffs, weighed on the greenback.

Meanwhile, the euro gained strength, buoyed by optimism around European markets, while the yen appreciated on expectations of interest rate hikes by the Bank of Japan.

EUR USD 1Y

The EUR/CHF pair remains within the 0.94–0.95 channel, once again reaching the technical threshold of 0.95—just as it did in mid-January—before stabilizing at 0.94.

EUR CHF 1Y

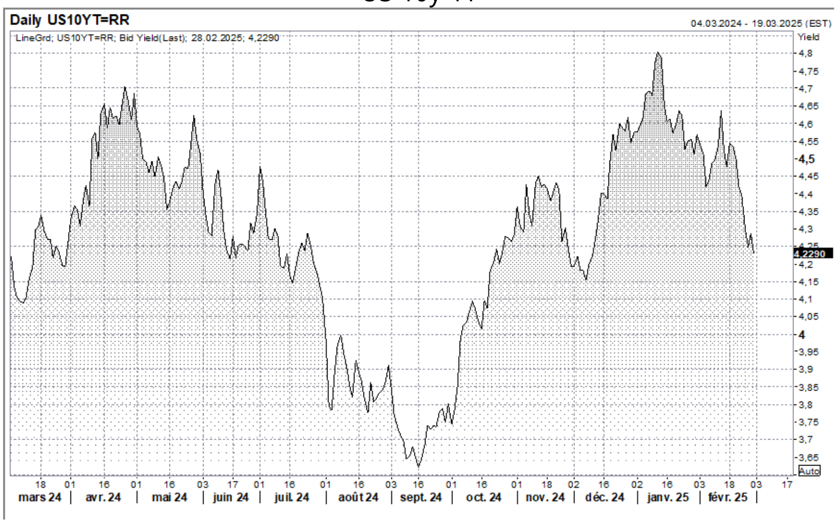
BOND MARKET

Before Congress, Jerome Powell reaffirmed that the Federal Reserve would not rush into monetary easing, emphasizing the resilience of the U.S. economy. In the coming weeks, the Fed will have to navigate conflicting economic signals. On one hand, hard data suggests continued strength, with a robust labor market and persistent inflation. On the other, soft data points to a slowdown, including declining consumer confidence (Michigan Index) and weakening PMI figures in recent weeks. This contrast complicates the Fed's decision-making, as it weighs the need to maintain restrictive policy against the risk of economic weakening.

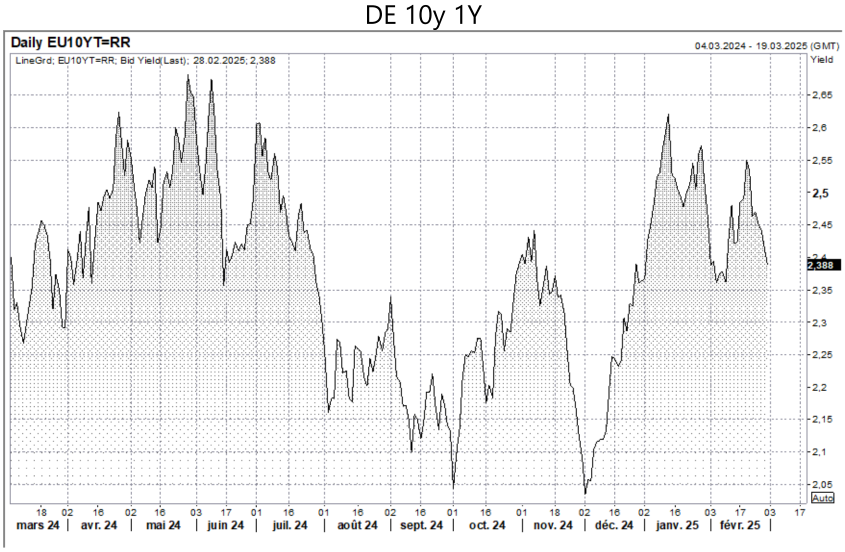
In Europe, the ECB remains on course, though internal divisions persist over the pace of rate cuts. Some policymakers have voiced concerns that reducing rates too quickly may be unnecessary, given still-elevated inflation. Beyond monetary policy, attention is also turning to Germany's fiscal strategy. The new government will need to clarify its measures and their implementation to support Europe's largest economy amid slowing growth.

Yields softened in February, with the U.S. 10-year Treasury yield falling from 4.55% to 4.30%. Meanwhile, European 10-year government bond yields remained stable at around 2.45%.

US 10y 1Y



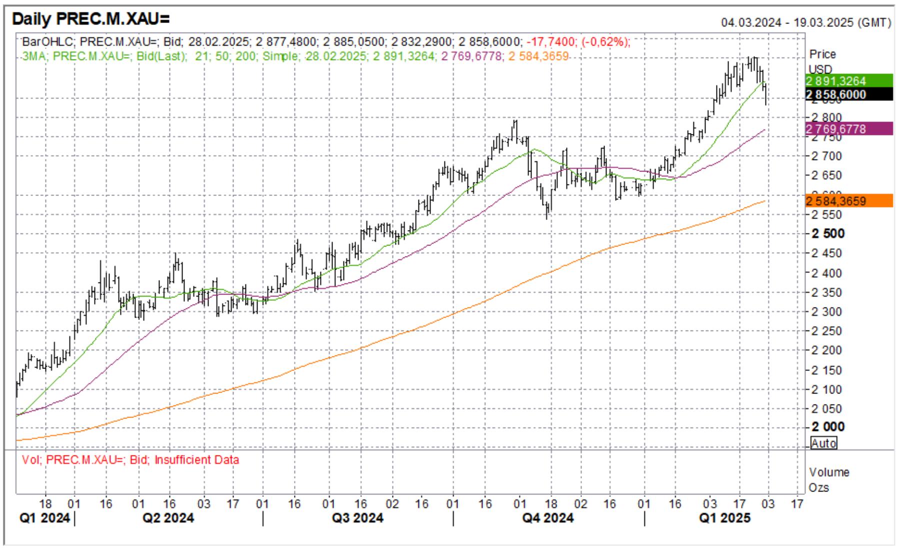
DE 10y 1Y



COMMODITIES

Gold continues its upward trajectory, approaching the $3,000 mark. While the long-term trend remains intact, short-term fluctuations could push prices toward the $2,800 level. A potential agreement between Russia and Ukraine could ease the geopolitical risk premium, and seasonally, physical demand tends to weaken in March and into the second quarter.

Gold 2Y



Oil prices have dropped to $74 per barrel, driven by supply disruptions in Russia, a reduced Middle East risk premium, and the prospect of a potential peace agreement in Ukraine.

Brent 1Y

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