MONTHLY REVIEW

MACRO

Trump and his team continue to influence the markets, making last-minute tariff announcements and increasing economic uncertainty. The president mentioned a "transition period" for the U.S. economy but did not clarify whether tariffs could lead to inflation and recession, adding to market instability.

In Europe, for over 30 years, investors have been waiting for Germany to take a more active role in financing major projects. Today, this shift seems to be redefining the economic rules of the old continent.

POINTS OF VIEW

For the past two months, the debate over tariffs has taken center stage, making macroeconomic discussions repetitive and unsurprising. The Trump administration appears determined to continue this policy in the coming months. This month, we analyze the actions and economic impacts of the new Trump administration, with a particular focus on its economic team. We examine the views[1] of Stephen Miran, senior economist to the president, who discusses the strategy and tools available to the U.S. to restructure the global system.

Most economists across the board believe that the U.S. dollar is overvalued by about 25%. A 20% depreciation would likely be necessary to achieve Trump's goal of bringing jobs back to the U.S. Stephen Miran explains that the dollar's status as the world's reserve currency creates a structural trade deficit that weakens the American manufacturing sector. This dependence on imports undermines U.S. economic sovereignty, especially in strategic industries like steel, semiconductors, and pharmaceuticals. To correct these imbalances, two major strategies are emerging: on one hand, increasing tariffs as an economic and strategic lever, and on the other, the Mar-a-Lago agreement, often compared to a "Plaza Accord 2.0," which aims to cause a significant depreciation of the U.S. dollar.

The strategy outlined in the "User Guide" includes three punitive measures that the United States could adopt to compel global cooperation under a Mar-a-Lago agreement:

1. Tariffs on exports to the U.S. from countries that do not participate in the Mar-a-Lago Agreement.
2. Removal of the U.S. security umbrella for countries that do not participate (e.g., Europe).
3. Imposition of taxes on interest payments from U.S. Treasury securities held by non-participating central banks (e.g., China).

This policy offers several potential benefits for the United States, including revitalizing the manufacturing industry and reducing the trade deficit. However, it also comes with risks and uncertainties, such as the reactions from trade partners that could lead to retaliation and escalate trade tensions. There is also the risk of inflation if tariffs are not offset by monetary adjustments, potentially triggering a second wave of inflation after 2022, along with slower growth, which could create a negative shock in economies. Most importantly, economists remain divided on this strategy. The majority believe it is likely to fail, arguing that it is too simplistic in the face of the complexities of economic repercussions.

[1] https://www.hudsonbaycapital.com/documents/FG/hudsonbay/research/638199_A_Users_Guide_to_Restructuring_the_Global_Trading_System.pdf

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Miran predicts that the U.S. will impose tariffs on NATO allies and reduce its military budget for the Alliance. In response, Europe will strengthen its own defense capabilities, thus relieving the U.S. burden. This scenario is already taking shape. It will allow the U.S. to refocus on China, seen as their primary economic and security threat. At this point, no marked aggressive actions have been taken against Beijing, but a gradual increase in tariffs may soon be implemented. If this scenario unfolds, the trade war will intensify, shifting the tensions toward China.

The author does not defend any particular policy but highlights the economic levers that could reform international trade and bring manufacturing jobs back to the United States. A major reconfiguration of the global trade and monetary system could emerge, with profound implications for the U.S. and its partners.

OUTLOOK

Following the recent correction, a rebound in the stock markets is possible, but trade tensions and uncertainty advise caution. In Europe, fiscal stimulus and progress in peace negotiations in Ukraine are supporting the markets. In the U.S., we see the support around 5,500 points reached at the end of March as a low point and anticipate a rebound, although volatility will remain high in the coming weeks. The evolution of corporate earnings in Q1 2025 could carry greater significance compared to previous quarters due to a particularly turbulent start to the Trump administration.

On the bond side, we maintain our stance from previous months. Our high-yield portfolio continues to show strong performance, supported by solid fundamentals: corporate balance sheets remain robust, and cash positions are generally improving. Despite some fluctuations in March, spreads remain low, and the attractiveness of yields continues to favor inflows into this asset class.

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EQUITY MARKETS

For the past month and a half, the markets have entered a new phase characterized by caution, recalibration, and sector rotation. March was a turbulent month in the United States. On Monday, March 10, the Nasdaq plunged by 4%, recording its worst session since 2022 and wiping out over $1 trillion in market capitalization, while the Magnificent 7 index dropped by 5.4%. So-called "speculative" stocks were caught in a whirlwind, with unprofitable tech stocks falling 23% from their mid-February highs. In Europe, stock markets were supported by announcements of fiscal stimulus plans. The end of the month was once again marked by nervousness following tariff announcements.

March performance: CAC40 -3.96% (YTD 5.55%), SMI -3.12% (YTD 8.60%), Stoxx600 -4.18% (YTD 5.18%), Nasdaq -8.21% (YTD -10.42%), S&P500 -5.75% (YTD -4.59%), Hang Seng 0.78% (YTD 15.25%), Topix -0.87% (YTD -4.53%).

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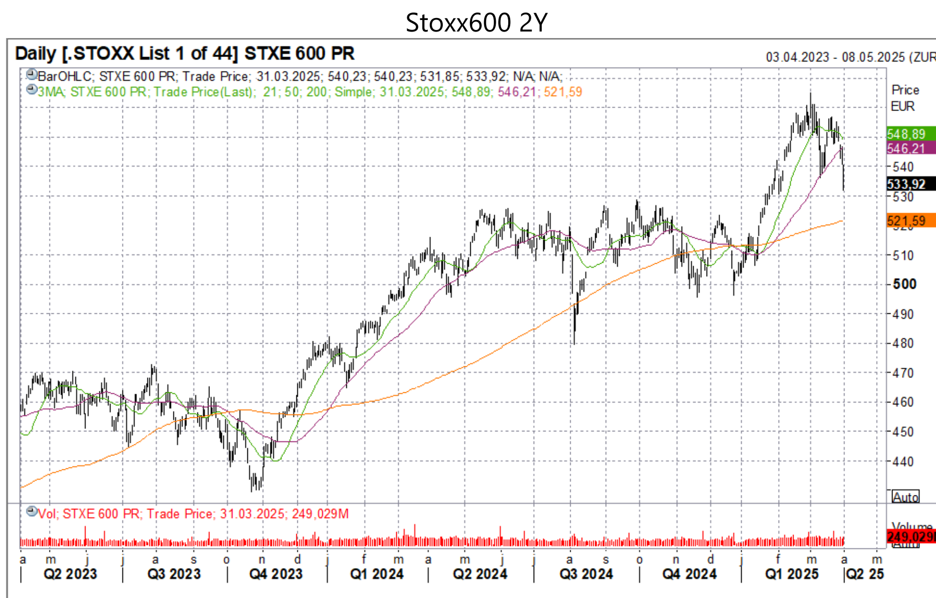
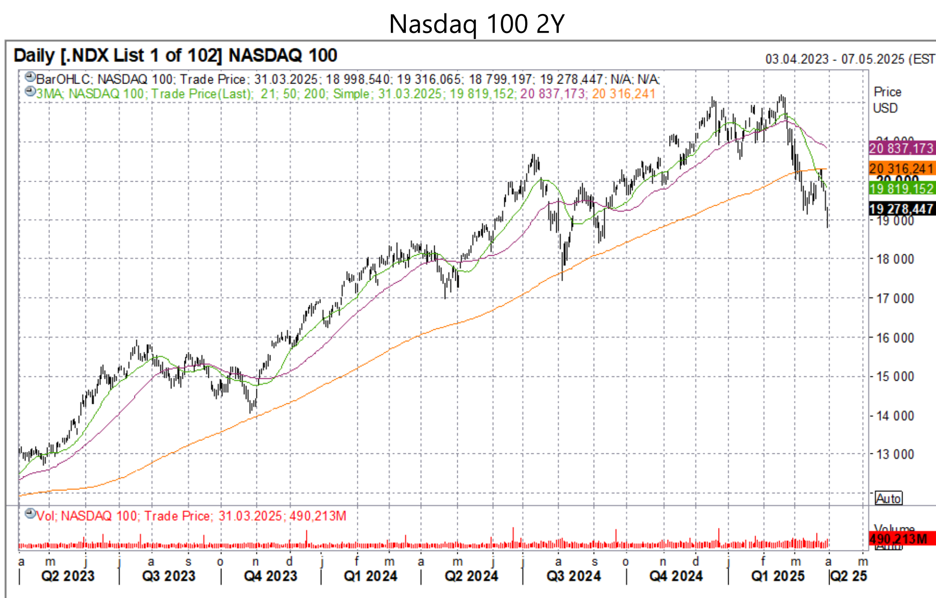


Nasdaq 100 2Y



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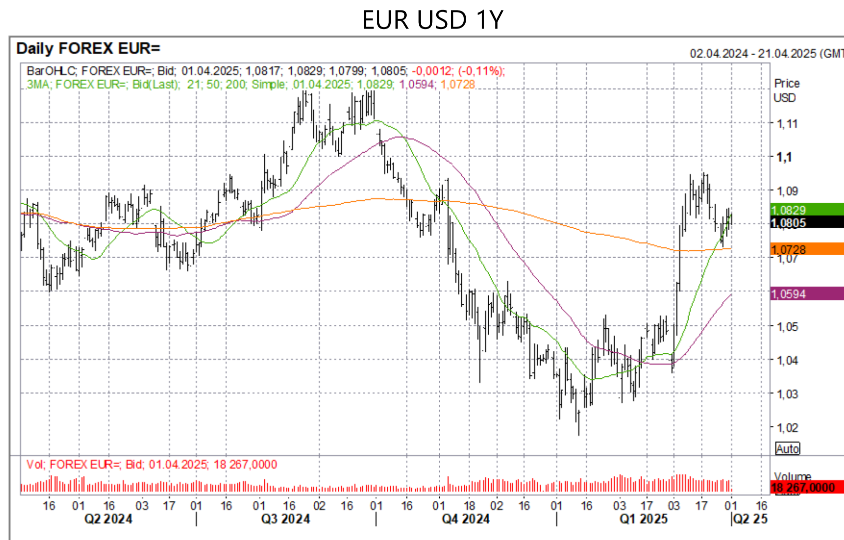
FOREIGN EXCHANGE MARKET

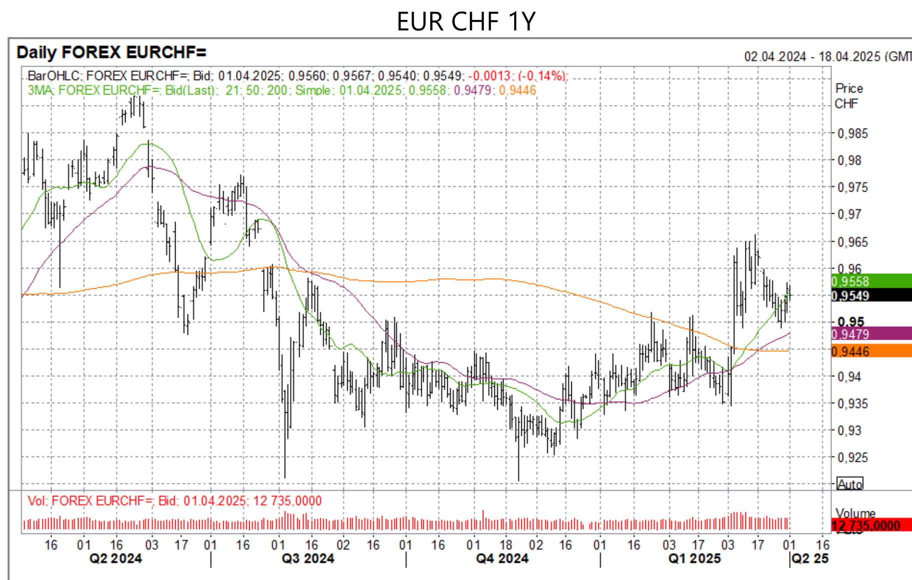
The euro saw a strong rise in March against the dollar, supported by comments from the European Union advocating an increase in defense spending. These measures could stimulate domestic demand and attract repatriation flows into the single currency. As mentioned earlier, growth is key to strengthening the euro, and this momentum is a good example of that. After a 5% jump against the dollar in just ten days, the pair somewhat stabilized at the end of the month, returning to the 1.08 range. With this shift in Germany's stance, the euro is expected to continue strengthening and target the 1.12 threshold, which was reached before Trump's election.

EUR USD 1Y



The same observation holds for the euro against the Swiss franc. Despite instability and tariff threats, demand for the euro pushed the pair towards the 0.9650 levels, equivalent to those of July 2024. The pair strongly resisted below the downward trend line at 0.965 before returning at the end of the month to the 0.95 range. In the short and medium term, the euro could receive further support.

EUR CHF 1Y



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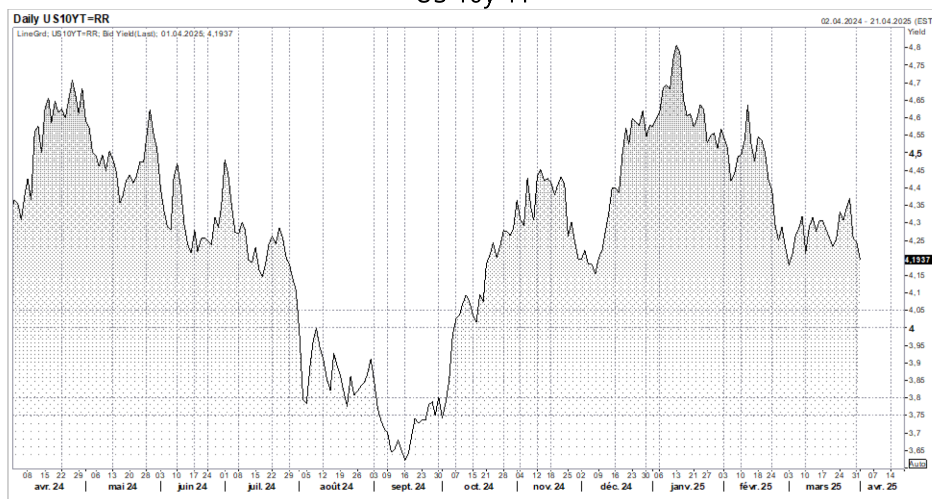
BOND MARKET

The Federal Reserve kept its benchmark rate at 4.25%-4.5% in March while lowering its 2025 growth forecast (1.7% vs. 2.1%). PCE inflation is now expected at 2.7% (up from 2.5%), and unemployment at 4.4% (up from 4.3%). In the bond market, volatility has increased demand for Treasury securities, pushing the 10-year yield down to 4.3%, suggesting expectations of a future rate cut.

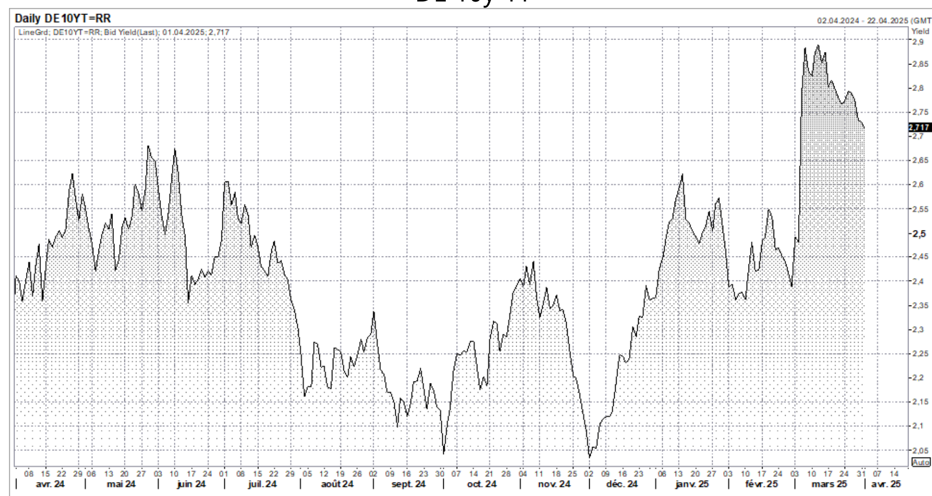
The Swiss National Bank (SNB) lowered its key interest rate by 25 basis points to 0.25%, in line with a controlled inflation environment (0.3% in February). Expected growth for 2024 stands at 1-1.5%, supported by rising real wages and lower rates, although geopolitical uncertainties continue to weigh on the Swiss economy.

The Bank of Japan (BoJ) kept its policy rate at 0.5%, maintaining a cautious stance amid trade and economic policy developments, with more clarity expected in April.

US 10y 1Y



DE 10y 1Y



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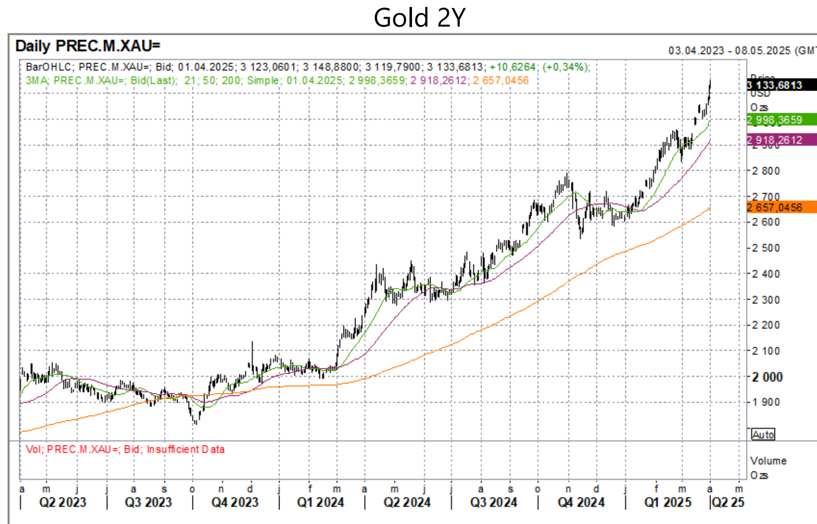
COMMODITIES

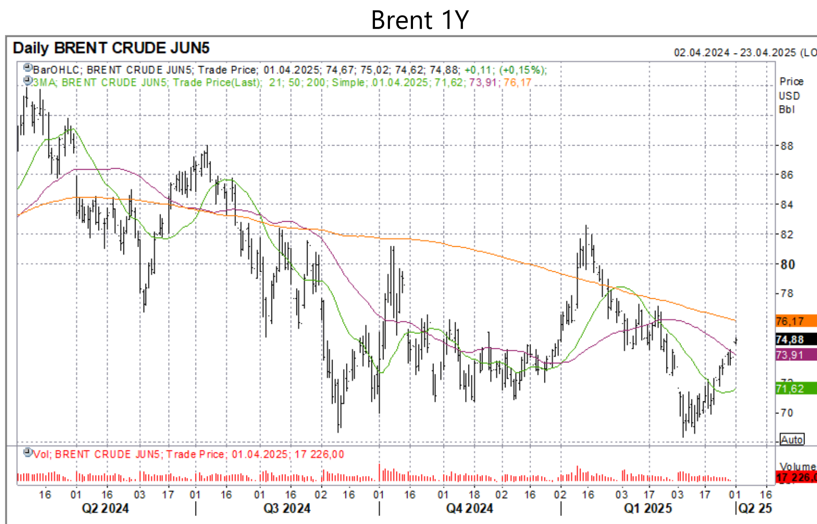
Gold has surpassed the $3,000 per ounce threshold, reaching a historic high due to heightened risk aversion. In another episode of trade tensions, Trump continues his strategy of imposing tariffs as a negotiation tool, unsettling financial markets and boosting gold prices. Notably, he has threatened to impose 200% tariffs on European wine and spirits. Strong demand from ETFs and sustained central bank purchases—particularly from China, which has extended its acquisitions for a fourth consecutive month—are also driving the precious metal higher. Given the current context, a move toward $3,200 remains possible.

Gold 2Y



At the beginning of March, Brent crude oil futures dropped to $70.8 per barrel, nearing a four-month low amid expectations of increased supply. This decline was driven by OPEC+'s decision to raise production in April, marking the first increase of 138,000 barrels per day since 2022. Uncertainty remains due to ongoing trade tensions. Tariffs imposed and then postponed by Donald Trump on key suppliers like Canada and Mexico, along with retaliatory measures from China, are fueling fears of an economic slowdown that could weigh on oil demand.

Brent 1Y



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