Market Insights

2025-Q2 Contents

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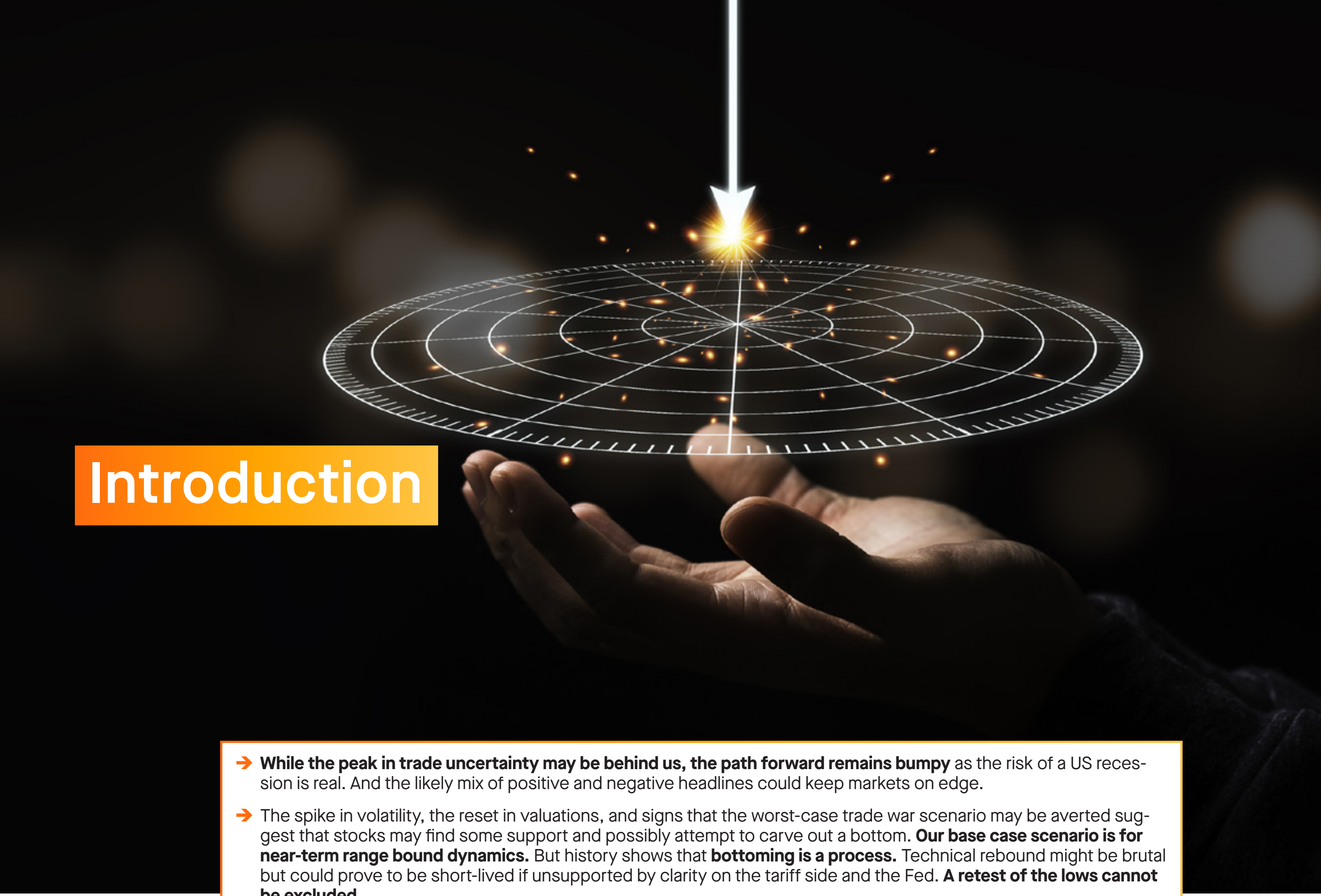
PRIVATE BANKING



Introduction

- **While the peak in trade uncertainty may be behind us, the path forward remains bumpy** as the risk of a US recession is real. And the likely mix of positive and negative headlines could keep markets on edge.
- The spike in volatility, the reset in valuations, and signs that the worst-case trade war scenario may be averted suggest that stocks may find some support and possibly attempt to carve out a bottom. **Our base case scenario is for near-term range bound dynamics.** But history shows that **bottoming is a process.** Technical rebound might be brutal but could prove to be short-lived if unsupported by clarity on the tariff side and the Fed. **A retest of the lows cannot be excluded.**
- **We recommend staying cautious on risk assets and to avoid emotionally charged decisions.** Focus on **diversification, quality investments, and keep a long-term perspective.**

After two years of equity bull markets, 2025 is off to a rocky start – particularly for US assets. Mounting economic policy uncertainty, linked to fears of a global trade war triggered by President Trump's reciprocal tariffs, is driving a broad sell-off of US equities, the dollar, and even long dated US Treasuries. While European and Asian assets have been faring better, they have also been exhibiting high volatility. Meanwhile, gold has surged to record high levels, north of $3,200 an ounce.

President Trump is pursuing a shock therapy for the US economy. It all started with an economic detox. This included halting the US government fiscal stimulus, reducing budget deficits, and imposing deregulation across several sectors: healthcare, finance and housing.

Now, he aims to balance trade deficit, all part of a broader, strategic shift.

The US is no longer shaping policy purely for economic growth, but for geopolitical leverage, particularly in its rivalry with China.

Through tariffs, trade threats, and pressure on allies, the US is forcing global alignment: "us or them." It's a deliberate campaign to weaponise America's role as the world's top consumer.

This shift creates deep market uncertainty. The issue isn't just interest rates or inflation — it's that the rules of the game are changing, and investors can't model what comes next. And the market is working exactly as it should: pricing in regime risk, not just economic risk. Until there's clarity — a deal with China or a defined US strategy — volatility will dominate.

Once the dust settles, there will be plenty of opportunities. Recent market developments like DeepSeek, the fiscal boost in Europe and China, and reciprocal tariffs highlighted the necessity of having broadly diversified portfolios. The new paradigm should also be favourable to stock pickers. For instance, it is key to identify more defensive business models but also companies with localised businesses. Diversification is also the rule of the game at the asset allocation level: investors should include high quality bonds and gold alongside equities within multi-assets portfolios. We entered the quarter with a slightly underweight exposure to equities and aim to redeploy cash into equity markets at a later stage.

6 February 2024

2025 Q1 markets review: 10 charts to remember

Read more on page 1 - Image iStock/deepblue4you

Under-performance of US equities, rebound of European and Chinese markets, gold hitting new highs.

Here are 10 charts that highlight the first three months of the year.

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Chart #1

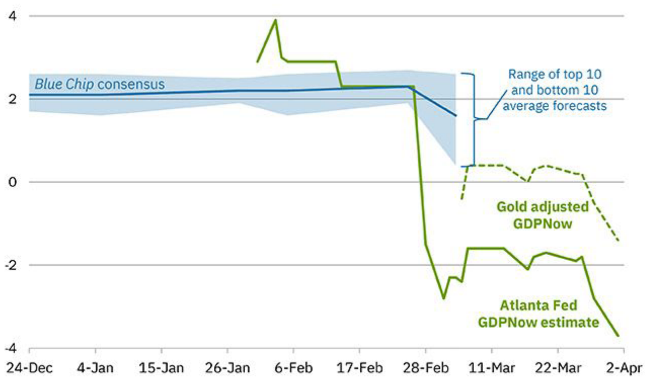
Fear of US stagflation

Trade tensions have escalated in recent months, with the United States imposing tariffs on imports from Canada, Mexico, and China. This is likely to be expanded to a broader range of countries and goods. Trade frictions along with some specific factors such as the surge in US imports of gold bars have fuelled fears of an inflationary spillover. For instance, the US 1-year inflation swap rose by 72 basis points in Q1, reaching 3.25%, the largest quarterly increase in three years. This upward pressure was reinforced by the latest PCE inflation data, the Fed's preferred gauge, which showed the 3-month annualised rate of core PCE at 3.6% in February, its highest reading since March 2024.

The trade frictions also led to a pronounced deterioration in "real-time" gauges of US economic growth. US GDP projections have been revised lower by the Fed and most forecasters, and the recession probabilities, now at 35% according to Goldman Sachs, for the US has increased.

The other driver of the deterioration in Q1 growth estimates has been the drop in consumer sentiment, with gauges of current assessment and expectations falling with fears of higher tariff-driven inflation ahead.

Evolution of Atlanta Fed GDPNow real GDP estimate for 2025: Q1
Quarterly percent change (SAAR)



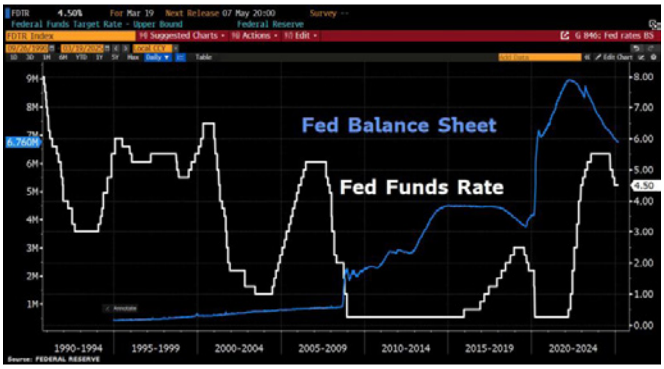
Source: Federal Reserve Bank of Atlanta

Chart #2

Central banks in an elevated uncertainty environment

Given heightened global uncertainty, the Federal Reserve opted to hold rates steady in Q1 and maintained its guidance for just two cuts in 2025, as its December stance. However, the Fed signalled a more cautious approach to liquidity withdrawal by slowing the pace of quantitative tightening, the monthly runoff of Treasury holdings is to be reduced from $25 billions to $5 billion starting from 1 April.

Across the Atlantic, the European Central Bank accelerated its easing cycle, delivering a 25bp rate cuts in both January and March, bringing the deposit rate to 2.50%. Markets are now pricing in an additional 60bp of cuts by the end of 2025. In contrast, the Bank of Japan continued its slow exit from ultra-loose policy, and delivered another rate hike in January, bringing the policy rate to 0.50% and signalling a willingness to pursue further normalisation ahead.



Source: Bloomberg, ZeroHedge

Chart #3

Worst quarterly performance for the S&P 500 since Q3 2022

The first quarter of the year witnessed severe market turbulence in the United States. US equities delivered their worst quarterly performance relative to the rest of the world for 23 years. The Nasdaq-100 plunged -8.1% while the S&P 500 declined by -4.3%, its weakest quarterly performance since Q3 2022.

The so-called «Magnificent 7» had a historically poor start to the year, all members posting double-digit losses: Tesla fell -29.98%, Nvidia -17.77%, Alphabet -16.58%, Amazon -10.66%, Apple -10.59%, Microsoft -9.34% and Meta -0.27% on a year-to-date basis. Yet, the sell-off was concentrated: 7 out of the 11 S&P 500 sectors remained positive YTD, suggesting this was particularly an AI and consumer discretionary correction.

The first catalyst came from the release of DeepSeek's new AI model in January which sparked a sharp sell-off in mega-cap tech names and reignited concerns over the sustainability of U.S. big tech valuations and sparked doubts over the "US tech exceptionalism" narrative. The Nasdaq dropped -3.07% and Nvidia sank -16.97% on January 27 alone.

The broader correction, however, was driven by the wave of aggressive tariffs under President Trump, with trade tensions escalating beyond his first-term scope. Markets remain on edge as reciprocal tariffs are set to take effect in early Q2.

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Q1 '25
Japan TOPIX 54.4%	US S&P 500 13.7%	Japan TOPIX 12.1%	UK FTSE All-Share 16.8%	MSCI Asia ex-Japan 42.1%	US S&P 500 -4.4%	US S&P 500 31.5%	MSCI Asia ex-Japan 25.4%	US S&P 500 28.7%	UK FTSE All-Share 0.3%	Japan TOPIX 28.3%	US S&P 500 25.0%	MSCI Europe ex-UK 6.4%
US S&P 500 32.4%	Japan TOPIX 10.3%	MSCI Europe ex-UK 9.1%	US S&P 500 12.0%	MSCI EM 37.8%	UK FTSE All-Share -9.5%	MSCI Europe ex-UK 27.5%	MSCI EM 18.7%	MSCI Europe ex-UK 24.4%	Japan TOPIX -2.5%	US S&P 500 26.3%	Japan TOPIX 20.5%	UK FTSE All-Share 4.5%
MSCI Europe ex-UK 24.2%	MSCI Europe ex-UK 7.4%	US S&P 500 1.4%	MSCI EM 11.6%	Japan TOPIX 22.2%	MSCI Europe ex-UK -10.6%	UK FTSE All-Share 19.2%	US S&P 500 18.4%	UK FTSE All-Share 18.3%	MSCI Europe ex-UK -12.2%	MSCI Europe ex-UK 17.3%	MSCI Asia ex-Japan 12.5%	MSCI EM 3.0%
UK FTSE All-Share 20.8%	MSCI Asia ex-Japan 5.1%	UK FTSE All-Share 1.0%	MSCI Asia ex-Japan 5.8%	US S&P 500 21.8%	MSCI Asia ex-Japan -14.1%	MSCI EM 18.9%	Japan TOPIX 7.4%	Japan TOPIX 12.7%	US S&P 500 -18.1%	MSCI EM 10.3%	UK FTSE All-Share 9.5%	MSCI Asia ex-Japan 1.9%
MSCI Asia ex-Japan 3.3%	UK FTSE All-Share 1.2%	MSCI Asia ex-Japan -8.9%	MSCI Europe ex-UK 3.2%	MSCI Europe ex-UK 14.5%	MSCI EM -14.2%	MSCI Asia ex-Japan 18.5%	MSCI Europe ex-UK 2.1%	MSCI EM -2.2%	MSCI Asia ex-Japan -19.4%	UK FTSE All-Share 7.9%	MSCI Europe ex-UK 8.1%	Japan TOPIX -3.4%
MSCI EM -2.3%	MSCI EM -1.8%	MSCI EM -14.6%	Japan TOPIX 0.3%	UK FTSE All-Share 13.1%	Japan TOPIX -16.0%	Japan TOPIX 18.1%	UK FTSE All-Share -9.8%	MSCI Asia ex-Japan -4.5%	MSCI EM -19.7%	MSCI Asia ex-Japan 6.3%	MSCI EM 8.1%	US S&P 500 -4.3%

Source: FTSE, LSEG Datastream, MSCI, S&P Global, TOPIX, J.P. Morgan Asset Management. All indices are total return in local currency, except for MSCI Asia ex-Japan and MSCI EM, which are in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 31 March 2025.

Source: World stock market returns, J.P. Morgan Asset Management

Chart #4

Warren Buffett's bet pays off

While the S&P 500 slipped into correction territory in Q1, Berkshire Hathaway's stock defied the trend, outperforming the market and reaching a new all-time high. Its Class B shares now command a market capitalisation of $1.13 trillion, making it the only non-tech company to cross the $1 trillion threshold.

The company's strong positioning is no accident. Warren Buffett had been a net seller of stocks for nine consecutive quarters during the bull markets of 2023 and 2024, amassing a record $334.2 billion in cash. This massive pile of cash has drawn investors in search of safe-haven assets during the current market volatility. Investor confidence was further boosted by February's robust earnings report. The company reported a 70% increase in after-tax operating profits for Q4.

Berkshire Hathaway vs. S&P 500 since 1987

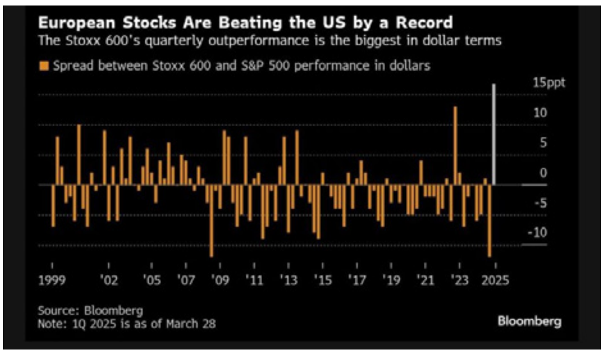
Source: Dividend Talks on YouTube

Chart #5

Make Europe great again

The final trading day of March brought the first monthly loss of the year for the Stoxx 600, down 4.18% according to LSEG data, as global markets reacted to the looming implementation of President Trump's trade tariffs. Despite this dip, the European benchmark continues to outperform the US S&P 500 YTD, buoyed by a surge in defence-related stocks following renewed political momentum around military investment.

Fears that the US may scale back its NATO commitments have triggered a rally in European defence equities. This was further reinforced by European Commission President Ursula von der Leyen's proposal of nearly €800 billions to strengthen the bloc's defence capabilities. The plan includes €150 billion in fresh EU borrowing and €650 billion in additional fiscal flexibility, allowing member states to ramp up military budgets without breaching EU fiscal rules.



Source: Bloomberg

Chart #6

Momentum returns to Chinese markets

After a prolonged period of under-performance, Chinese equities rebounded in Q1, and the MSCI China Index surged nearly 16%. The renewed policy support from Beijing has helped restore investor confidence. Since autumn 2024, Beijing has implemented a series of stimulus measures aimed at stabilising the economy, supporting domestic consumption, and offsetting the weakness in exports. Some of the momentum may also reflect front-loaded manufacturing exports to the US ahead of anticipated tariff hikes.

Adding to the optimism is the breakout debut of DeepSeek's R1, a generative open-source AI model viewed as a potential rival to OpenAI's ChatGPT. Capable of solving complex tasks at a fraction of the cost of Western peers, R1 has reinforced confidence in China's capacity to compete in the AI race.

Source: Reuters

Chart #7

Strong fixed income performance

In the US, rising recession fears and easing inflation expectations drove a rally in government bonds, with Treasuries returning a respectable 2.9%. The 10-year yield fell 36 basis points over the quarter to 4.2%, as investors positioned for potential rate cuts later in the year.

In contrast, European sovereign bonds came under pressure, due to the prospect of increased government spending. German Bunds posted a -1.6% quarterly return, following Berlin's decision to suspend its constitutional debt brake to finance expanded defence spending. The announcement triggered a sharp rise in Bund yields, up more than 30 basis points on the day, marking the biggest quarterly move since 2023 and the first time Bunds have diverged from Treasuries since 2021.

2016	2017	2018	2019	2020	2021	2022	2023	2024	Q1 '25
UK 10.7%	Global 7.5%	Spain 2.5%	Italy 10.6%	Global 9.7%	Japan -0.2%	Japan -5.4%	Italy 9.3%	Italy 5.3%	US 2.9%
Spain 4.1%	US 2.3%	Germany 1.9%	Spain 8.3%	UK 8.9%	US -2.3%	US -12.5%	Spain 6.9%	Spain 3.4%	Global 2.4%
Germany 3.4%	UK 2.0%	Japan 1.0%	UK 7.1%	US 8.0%	Germany -2.9%	Global -16.8%	Germany 5.7%	Germany 1.2%	UK 0.4%
Japan 3.2%	Spain 1.1%	US 0.9%	US 6.9%	Italy 7.9%	Italy -3.0%	Italy -17.2%	Global 4.3%	US 0.6%	Italy -0.7%
Global 1.7%	Italy 0.8%	UK 0.5%	Global 5.6%	Spain 4.3%	Spain -3.0%	Germany -17.4%	US 4.1%	Global -3.1%	Spain -1.1%
US 1.0%	Japan 0.2%	Global -0.7%	Germany 3.1%	Germany 3.0%	UK -5.3%	Spain -17.5%	UK 3.6%	Japan -3.2%	Germany -1.6%
Italy 0.8%	Germany -1.0%	Italy -1.3%	Japan 1.7%	Japan -0.8%	Global -5.8%	UK -25.1%	Japan 0.5%	UK -4.0%	Japan -2.4%

Source: performance des obligations d'État, JPMorgan Asset Management

Chart #8

Gold, the winner of the quarter

Gold, long considered a safe haven asset, surged 18.8%, marking its best quarterly performance since 1986, driven by President Trump's escalating trade war.

As for other commodities, oil prices were relatively volatile, influenced both by supply and demand dynamics and by persistent geopolitical tensions in the Middle East. Copper rose by 11%, as markets feared new tariffs on this strategic industrial metal. In agricultural commodities, raw arabica coffee surged by 18%, almost double that of last year, as severe drought disrupted supply.

Looking ahead, Q2 is unlikely to bring much relief. With geopolitical tensions unresolved and policy uncertainty persisting, commodity market volatility is expected to remain elevated.

Source: Goldsilver

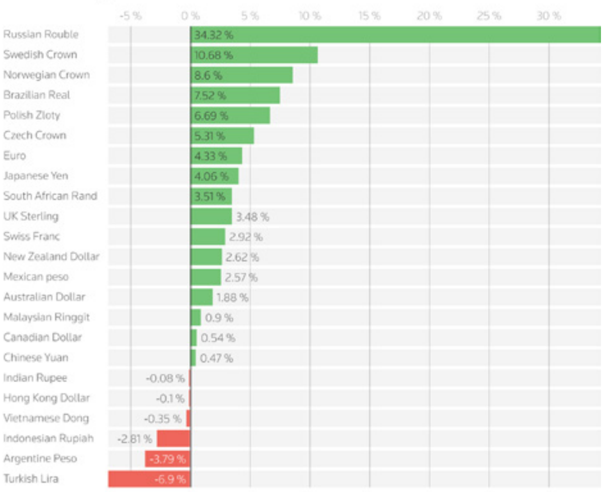
Chart #9

The US dollar under pressure

The US dollar is off to its weakest start to a year since the 2008 financial crisis, the Dollar Index (DXY) fell by nearly 4% in Q1. This broad decline has opened the door for emerging market currencies to outperform.

Even North American currencies, despite being caught in tariff crossfire, posted gains: both the Mexican peso and Canadian dollar ended the quarter in positive territory.

Currencies against the dollar in 2025



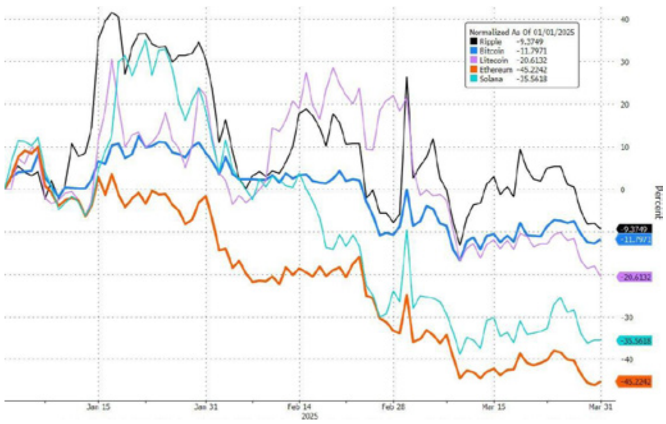
Source: Reuters

Chart #10

A poor quarter for cryptocurrencies

Cryptocurrencies endured a rough ride in Q1. Most major tokens posted losses for the quarter, led by a sharp 45% decline in Ethereum (ETH), which weighed heavily on the broader market.

Bitcoin remained volatile. It initially rallied nearly 20% following President Trump's return to office, reflecting early optimism around his crypto-related agenda. However, that momentum faded quickly after his proposal for a US cryptocurrency reserve failed to convince markets. Bitcoin dropped nearly 30% from its highs and slipped below its 200-day moving average, though it remains above pre-election levels for now.



Source: Bloomberg

Decoding what's at play in Washington

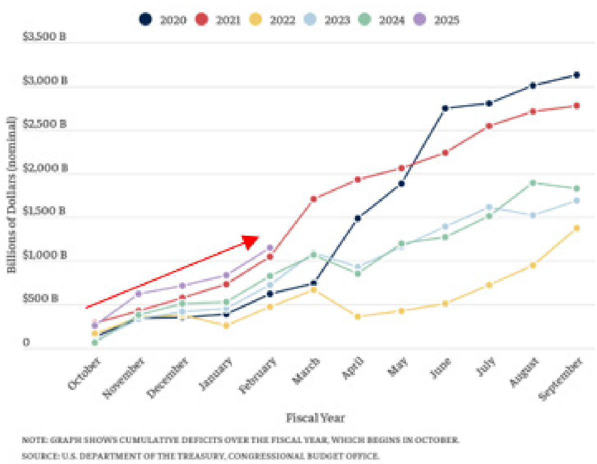
A. A MACRO AND MONETARY POLICY UPDATE: US TARIFFS DOMINATE THE Q2 (MACROECONOMIC OUTLOOK)

We entered 2025 with five key macro themes in mind that we previewed in our annual outlook. These factors have already shaped the first quarter and are likely to remain key considerations moving into the next. In addition, a new theme has emerged: the growing risk of a meaningful slowdown in economic growth during the second half of the year. The potential impacts of President Trump's radical approach on international relations and trade could prove to be more negative than expected, especially for the US economy, where elevated uncertainties and fears of inflation have heavily weighted on business and consumer sentiment since 20 January.

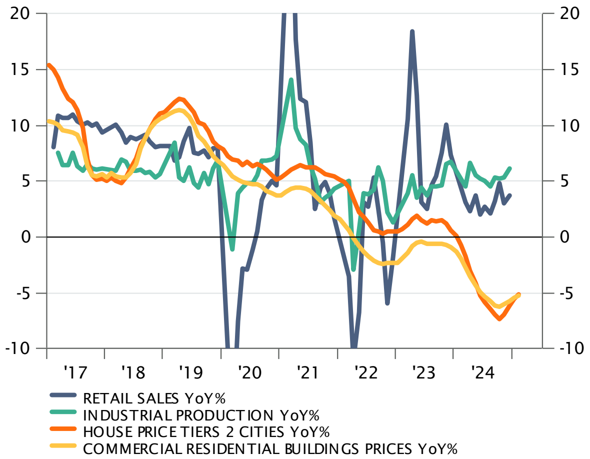
Let's review where we stand and what to expect for our key macro themes of the coming months:

Fiscal policy supports growth in several large economic regions

In the US, the reduction of the federal deficit is one of the economic objectives of the new Trump administration. The new US Treasury Secretary, Scott Bessent, stated a target of bringing the public deficit down to 3% of GDP (vs 7% in 2024), and the spectacular yet controversial initiatives of the Elon Musk-led Department of Government Efficiency are aiming at slashing into US government spendings. However, those measures will take time to produce results, and actual fiscal policy has so far remained supportive for US economic growth: the US public deficit is rising its fastest pace ever so far this fiscal year, outpacing the profligate Covid years in current dollar terms (cf. chart below). Moreover, the tax cuts for corporate and households promised by President Trump have yet to be voted on. As a result, US fiscal policy continues to support economic growth this year, despite emerging headwinds such as tariff uncertainties and inflation concerns.



In China, the fiscal package of September 2024 appears to have helped economic activity to resume a moderate positive dynamic. Industrial production has picked up, possibly also helped by some front-loading of manufactured goods to the US in anticipation of tariff announcements. On the domestic side, activity remains sluggish even if the downward trend in real estate prices shows early signs of stabilisation, helped by an easing in credit conditions. New measures announced in March to specifically support domestic demand can be expected to help balancing the negative impact of higher US tariffs on economic growth. In China too, fiscal policy is and will likely remain rather supportive in the coming months, even if the authorities have so far refrained from unleashing full-blown stimulus directed to consumers.



Banque Syz, ©FactSet Research Systems

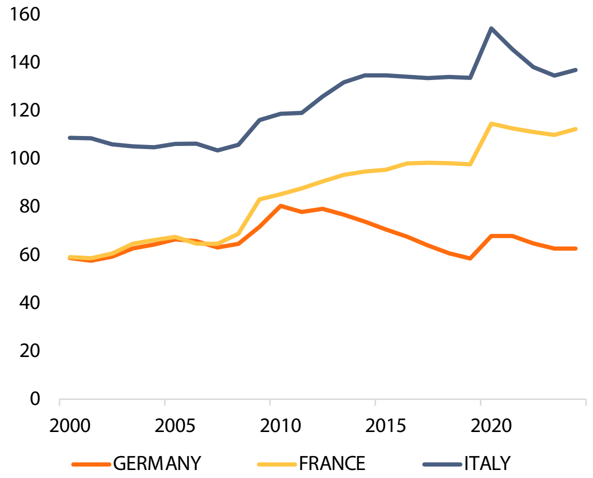
1. Europe faces existential choices

Worryingly, growth dynamics have slowed, and more specifically, Germany's stagnation since 2022 prompted Mario Draghi—former President of the European Central Bank—to sound the alarm last autumn, emphasising that Europe needed to revise its economic policies and invest in long-term growth prospects.

President Trump's emergence and his abrupt shifts in US–Europe economic and geopolitical relations have delivered a shock powerful enough to trigger an unprecedented—and nearly unthinkable—change in Germany's fiscal policy stance. Faced with the sudden realisation that it must takes its destiny in its own hands, Germany is finally ready to do "whatever it takes" on the fiscal side for supporting its defence and its economic competitiveness. In parallel, the European Commission announced measures to facilitate and finance defence spending for EU members, another step on the side from the long-held fiscal conservatism inspired by Germany and northern European countries.

Public debt will rise in Europe to finance defence and competitiveness investments, Germany has room for higher debt, and European joint borrowing might help debt-strained countries to finance the increase.

Public debt-to-GDP ratio



Sorce: Banque Syz, IMF

This marks not only Germany's abrupt shift on fiscal policy, but also a broader European turn toward increased public spending and deficits—embracing joint borrowing and greater budget flexibility to fund defense and competitiveness, even at the cost of rising public debt across the continent. The prospect of US tariffs on European imports will be another test of the capacity for European countries to stand together and take their destiny in their own hands. Faced with structural growth weaknesses, security threats at its eastern border, a damaged transatlantic military alliance, the loss of US security guarantees, and global trade tensions threatening its mercantilist growth model, Europe cannot shy away and procrastinate. Yet, it must deal with elevated public debt levels for most of its members, Germany being the most noticeable exception. 2025 will be a turning point in Europe's history, and it is up to European leaders to ensure that it will be a positive one.

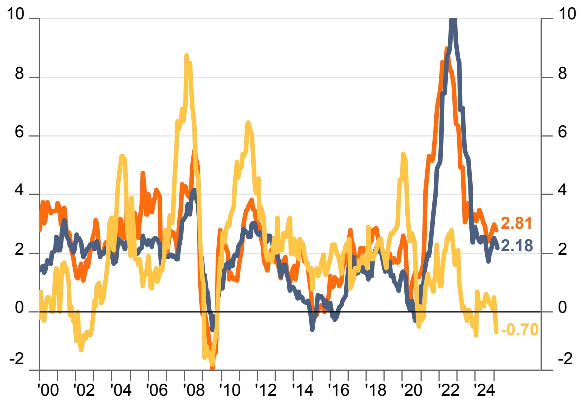
2. Global trade enters more uncertain times

The prospect of US tariffs has been a key feature of the first quarter of the year. The beginning of Q2 was eagerly waited for what President Trump dubbed "Liberation Day" for America, the announcement of specific tariffs for each country. On 2 April, President Trump invoked a national emergency over trade deficits and imposed a 10% tariff on all countries. On top of that, higher tariffs were imposed on countries with which the US runs the largest trade deficits. In this context, countries targeted by the highest tariff increases will have a strong incentive to react with retaliatory measures rather than to try to negotiate a way toward lower tariffs, at least at the start. European and Chinese authorities have already stated that they were ready to take significant measures in response to the US's decision. A reversal in Trump's position cannot be completely ruled out, nor can the notion of the extreme announcements being just a negotiation tactic for preparing some form of Mar-a-Lago Accord.

At this stage, rising US tariffs are likely to further dampen global growth, amplifying the slowdown already underway since the beginning of the year. The magnitude of the slowdown and a potential recession will depend on developments around global tariffs –escalation and trade war? Negotiations and gradual scaling back of some tariffs? — and on the fiscal policy response that governments are willing and able to provide. Potential outcomes range from a full-blown recession in the world's three largest economies to a more neutral scenario of a short-lived slowdown or stagnation of growth in the months ahead. As uncertainties are even higher than in the first quarter, none of those outcomes should be ruled out yet.

3. Upside risks on inflation

Inflation dynamics will likely differ markedly among large regions in the quarter ahead. In the US, the imposition of tariffs on imports can be expected to fuel an acceleration in inflation further away from the Fed's 2% target. US households have been fearing such increase in the recent months, and the resulting loss in purchasing power could drag consumption spending and economic growth lower. As such, those upward inflationary pressures will likely be deemed temporary and dissipate once the impact of tariffs is absorbed. However, potential fiscal support could be a factor fuelling upside pressures on the US inflation rate.



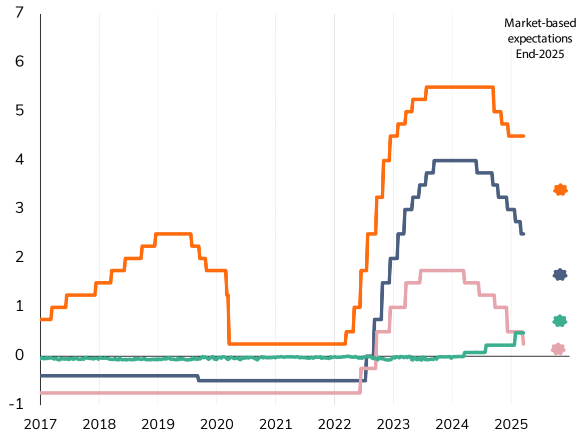
Banque Syz, ©FactSet Research Systems

On the opposite side, short-term upside risks on European inflation have recently receded with an easing in wage growth, the appreciation of the euro, and the risk of economic growth slowdown caused by US tariffs. Additionally, deflationary pressures continue to prevail in China. For the second quarter of this year, upside risks on inflation are now only concentrated in the United States, while they have abated in other key economic areas.

4. Most central banks continue to cut rates, but some less than others

At the end of its March meeting, the Fed had explicitly opted for a "wait-and-see" stance ahead of the major uncertainties surrounding the growth and inflation outlook. Some of these uncertainties may dissipate in the coming weeks if fears about tariffs negatively impacting consumer spending materialise. In such a scenario, the Fed will likely lean toward an easing of its monetary policy stance to shore up deteriorating growth and contain a potential rise in unemployment. The inflationary impact of tariffs is likely to be "looked through" by Fed members, who have already indicated that the direct effect on inflation is likely to be temporary or "transitory", as mentioned by Jerome Powell.

With US monetary policy currently still slightly restrictive, a deterioration in economic activity would warrant the resuming of the rate cut cycle initiated in 2024 to make monetary conditions accommodative for economic activity. The potential for Fed rate cuts in the coming months therefore has increased with recently rising growth concerns. However, the Fed will have to walk a fine line between the likely slowdown in economic growth and risks to the inflation outlook, stemming from tariffs and from potential fiscal support.



Heightened downside risks to the growth outlook also likely shift the balance of risks toward more, rather than less, rate cuts from the ECB. A growth slowdown driven by slowing exports to the US risks endangering the ongoing fragile European growth dynamic. Government intervention can be expected to try to contain the impact, and Germany might be able to provide a decisive answer now having freed itself of its fiscal constraints, but most other European economies have limited room for manoeuvre on the fiscal front given already elevated public deficits and debt levels. The shift toward a more relaxed approach on budget constraints operated in March will support European growth over the medium term. However, it might not be sufficient for most European countries to provide their economies with sufficient support to balance the negative trade impact in the short run. This call for a continuation of the ECB rate cut cycle, especially as the euro appreciation will dampen domestic inflation in the Eurozone. Similar risks surround the outlook for Switzerland, where the blow to its US exports and the strengthening of the Swiss franc following the US tariff announcement may alter the central scenario painted by the SNB in March. Under this scenario, inflation was expected to bottom in the coming months and growth to gradually improve, which would likely have led the SNB to remain on hold at 0.25% after its last March rate cut. On the other hand, upward pressures on the currency and the resuming of deflationary risks could lead the SNB to lower its key rate down to 0% in June, while intervening on the Forex market in case of undue upward pressures on the Swiss franc. As far as the Bank of Japan is concerned, the strength of the Japanese yen will also be a decisive factor in containing inflationary pressures in Japan, and prospects of more rate hikes in the remaining of 2025 are now reduced.

B. THE WEIGHT OF EVIDENCE

Our asset allocation preferences are based on 5 indicators, including 4 macro and fundamental indicators (leading) and 1 market dynamics (coincident). The weight of the evidence suggests refraining from rebalancing portfolios after the recent equity market decline that drove lower the equity allocation (especially the US market allocation). Rising downside risks around the macroeconomic outlook, weak and uncertain earnings prospects along with poor market factors suggest that an underweight allocation to equities is warranted at this stage. Below we review the positive and negative factors for each of them.

Pillar 1: Macro cycle (NEUTRAL with rising downside risks)

For reference, we had downgraded our macro cycle score to neutral last month given softer growth momentum in the US and rising uncertainties surrounding the outlook, especially with the prospect of US tariffs ahead.

The US tariffs announced on 2 April are harsher in their content and form than what was widely expected (cf. Flash Note "US tariffs: The worst-case scenario"). If sustained at those levels for a significant period amid escalation toward a proper and sustained trade war), they will have a clear negative impact on global growth:

- **United States:** higher tariff-driven inflation and lower consumption + lower business confidence and investment given elevated uncertainty around the outlook.
- **Rest of the world:** direct slowdown in sectors hit by US tariffs, lower business confidence and investment given elevated uncertainty around the outlook, and potential increase in unemployment that could ultimately weight on consumption. But lower imported inflation given the sharp appreciation of the EUR, JPY, CHF… that will be a positive for consumers' purchasing power.

At this stage, a neutral stance with risks tilted to the downside is what describes best the current Macro situation:

- The early estimates of the tariff impact on US growth range from -0.5% to -2%, which would still leave US growth positive or just flat compared to expectations before the announcement. A US recession therefore is not the most likely scenario, even if the probability of such scenario has increased (if tariffs are maintained for long and a negative feedback loop consumption/ investment/ employment appears).
- At this stage, the impact of US tariffs on European and Chinese economies via their exporting sectors can be estimated to be negative but not to push those economies into recession. Here too the probability of a more negative scenario has increased (if tariffs are maintained for long and a negative feedback loop starts to appear due to layoffs in some industries) but it remains a downside risk rather than a high probability scenario.

In parallel, some supportive factors must be kept in mind that could balance downside risks in the months ahead:

- Fiscal policy will likely be increasingly supportive in the months ahead for domestic activity in China, in Europe, and in the United States, where tax cuts for corporate and households are due. We expect governments in Europe and China to announce supportive measures for the sectors hit by US tariffs, that may contain the risk of a spillover to their broader economy via a rise in unemployment.
- Monetary policy will become more accommodative than previously thought, with all large central banks expected to cut rate more than what they were planning to do before the announcement:
  - › In the US, the Fed will likely look through the inflationary impact of tariffs as long as there is no evidence that tariff-related price increases are passed through broad price levels (unlikely in a scenario of economic growth slowdown). In parallel, slowing growth and possibly rising unemployment will likely justify an easing of the Fed's monetary policy stance (currently still restrictive) and the rate cut cycle can be expected to resume soon, with some kind of "Fed put" if economic growth/unemployment deteriorates rapidly.
  - › In Europe, the impact of US tariffs is for the time being deflationary, as it could slow down economic growth while the sharp currency appreciation vs the US dollar means that the price of imported commodities and a lot of goods will go down. In that sense, it reduces uncertainties around the continuation of the ECB/BoE rate cut cycle. With slowing growth and lower inflationary pressures, European central banks will continue to cut rates to bring their monetary policy stance into accommodative territory. The SNB could also contemplate a last 25bp cut to bring CHF short-term rates down to 0% given the impact of the CHF appreciation vs USD on Swiss inflation (unlike what could be expected after the March meeting).

Lastly, uncertainty around the implementation, the duration and the final level of US tariffs is still there. While the recent announcements offered limited hopes of a fundamental step back from the Trump administration, negotiations could help lower the level of tariffs in the months to come and reduce the impact on global growth. And a surprise turnaround by President Trump can never be ruled out…

Pillar 2: Liquidity (POSITIVE based on forward-looking factors)

Among the different factors driving global liquidity, some of them remain neutral while others, especially the forward-looking ones, are positive.

Financial condition indices (based on a range of market indicators assessing the availability and cost of credit) have deteriorated recently with the impact of US growth fears and US tariffs on equity and credit markets. However, they remain for the time being around what can be deemed as a neutral level. They are not yet at tight levels. Market-based financial conditions are therefore neutral for the time being, with the decline in interest rates currently balancing the widening in credit spreads and the decline in equity markets.

The pullback of the US dollar since January has allowed global M2 proxies to pick up after the Q4 slowdown, and Global M2 is growing in line with GDP.

Central banks are slowing down the run down of their balance sheets in the US and Europe, and real interest rates are still moderately positive. Prospects of further rate cuts in 2025, likely lower real interest rates in the months ahead and fiscal policies that will likely be supportive for economic activity in the months ahead point to positive liquidity dynamics in the months ahead.

Maintaining a positive view on liquidity therefore appears warranted at this stage, even if the deterioration in market financial conditions warrants close monitoring for the risk of financial instability and disruptions to the global funding market.

Pillar 3: Earnings (NEGATIVE, downgraded from NEUTRAL)

We are downgrading the earnings score to negative as visibility is coming down due to weakening corporate and consumer confidence. The 1Q25 earnings season is likely to be weak due to risk to forward looking guidance.

In the United States, tariffs started having an impact, affecting demand, disrupting supply-chains and shaking corporate confidence. Consumption was led by top earners who are highly sensitive to the stock market and housing price, leading to weaker overall consumer confidence. Tax cuts and deregulation are not yet having an impact. The Trump administration may change course on tariffs at some point but no signs yet while China is retaliating.

- Growth: 2025 EPS gr +11.3% (from +11.8% a month ago) / 1Q25 likely to be weak on forward looking guidance
- Margin: corporate operating margin at cyclical peak (15%), little pricing power faced with lower consumer confidence

In Europe, the major shift in Germany with a EUR 500 billion fiscal spending package over 10y for infrastructure and defence spending will have no impact in 2025 but could be positive sentiment. A cease fire in Ukraine would be a positive but Russia continuing attacking. Tariffs to hit corporate profits and make management cost focused.

- Growth: 2025 EPS gr est. +8.0% (flat MoM) / negative revision (4w chg >1%)
- Margin: near cyclical peak at 13%

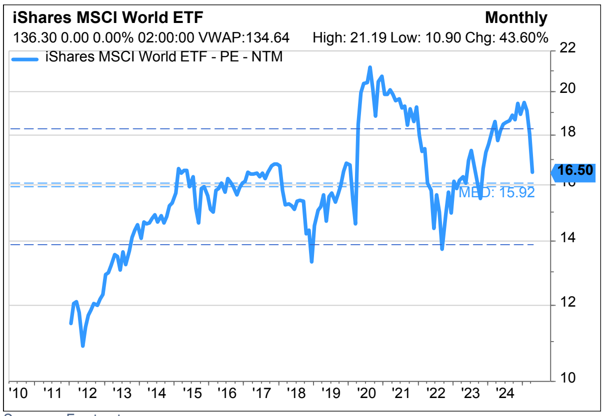
In China, the economy will be under pressure due to punishing US tariffs. The government is likely to step-up stimulus to cushion the demand shock. Structural headwinds remain: demography, debt, trade.

- Growth: 2025 EPS gr est. +2.6% (from +5.4% a month ago) / negative revision (4w chg >1%)
- Margin: cyclical trough at around 16%

Pillar 4: Valuations (NEUTRAL upgraded from NEGATIVE)

Market valuations have generally improved with recent market developments. Price/earnings ratios are now around their 10y median for the world index, for European, China, Japan and EM markets. The US market is also close to its 10y median when looking at the equally-weighted index, but it is still above for the capitalisation-weighted index despite the recent pullback.

Other gauges of equity market valuations continue to point to some richness. The equity risk premium is still low in the US and in Europe, and the ratio of US equity market vs gold also is expensive.



Source: Factset

Pillar 5: Market Factors (NEGATIVE downgraded from NEUTRAL)

Our proprietary indicators signal has been downgraded to negative at 0% allocation to equity.

Market factor indicators have now turned negative both for European and US markets.

INDICATORS REVIEW SUMMARY - OUR FIVE PILLARS

With one pillar signalling an overweight (Liquidity), two in neutral (Macro Cycle and Valuations) and two in underweight (Earnings and Market Factors), the weight of evidence is tilted toward a negative stance for equities.

Recent market developments have led to a decline of the equity allocation in our portfolios below our initial neutral stance. Given the downgrade of our earnings and market factors pillars to negative, we are not ready to rebalance the equity allocation by adding exposure in the current context. We therefore confirm this underweight position in equities into our asset allocation preferences.

5 Pillars	Negative	Neutral	Positive
	-	=	+
		Macro Cycle	
			Liquidity
	Earnings Growth	←	
	→	Valuations	
	Market Factors	←	

C. ASSET ALLOCATION VIEWS

1. Equities

1.1 Overview

As we move through Q2, the overall macroeconomic environment continues to deteriorate, driven by rising trade tensions between the US and the rest of the world. With a new round of tariffs announced, many countries are likely to retaliate, making an imminent trade deal unlikely. Historically, tariffs have negatively impacted global growth, and this time should be no different if they remain in place. The uncertainty surrounding their duration adds another layer of complexity for corporate executives, as business investments are long-term commitments and supply chains cannot be reorganised on a quarterly basis. Thus, tariffs are harmful to businesses, and the unpredictability of their implementation further complicates supply chain management.

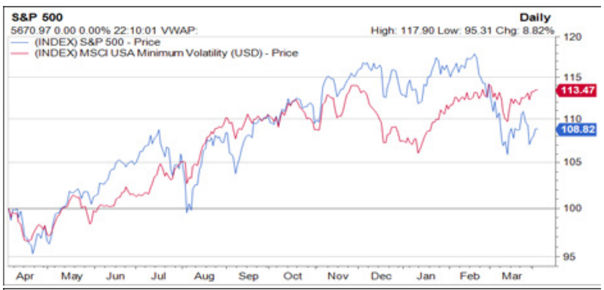
The US administration may use these tariffs as leverage in negotiations with individual countries, potentially leading to revised trade agreements with reduced barriers. The coming months will be critical, and US relations with Europe and China will play a decisive role in shaping the outcome. However, the probability of a quick resolution remains low.

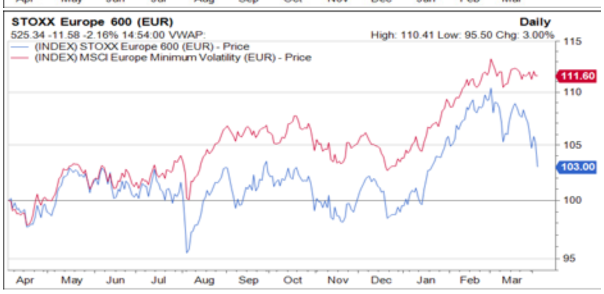
1.2 Regions, sectors and styles

Before the new tariffs were announced on 2 April 2025, signs of deteriorating US consumer sentiment were already evident, driven by rising inflation expectations. Corporate executives' confidence was also declining. This suggests two key points: first, after four years of post-COVID inflation and now depleted savings, consumers are unlikely to tolerate further significant price increases. Second, declining economic visibility is making corporations more cautious with capital expenditures.

At this juncture, it is more relevant to assess which business models are least vulnerable to direct tariff disruptions and potential weaker end demand. This shifts the focus toward defensive sectors rather than specific regions. One key question for investors is whether US equities will maintain their historically defensive characteristics in the current environment. This is difficult to determine, given the increasing concentration of US indices in recent years. Therefore, it may be more prudent to focus on business models and sectors rather than geographic regions.

This analysis is complex, as globalisation has been shaping supply chains for decades, making them highly intricate. Companies with more localised operations are generally more insulated from tariff risks, but it is equally important to consider businesses operating in sectors with resilient demand. As shown in the charts, after a prolonged period of under-performance, defensive equities are now showing improved performance.



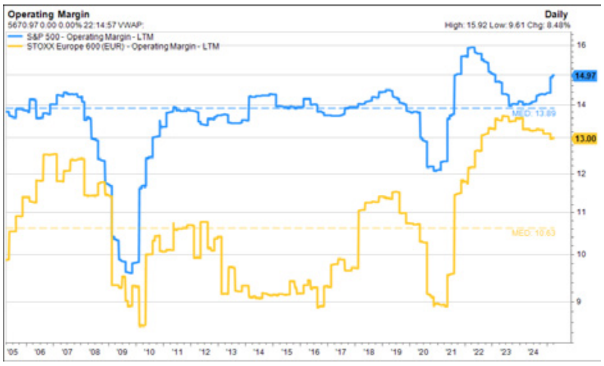


1.3 Earnings – still growing but lower visibility going forward

Wall Street expects EPS growth of 11.6% for 2025 and 14.2% for 2026 in the S&P 500, exceeding the long-term growth trend. While EPS revisions are currently negative—as is typical in the early part of the year—they do not yet reflect a significant slowdown in economic growth.

Additionally, as shown in the second chart, S&P 500 profit margins are at peak levels, and worsening business conditions could put pressure on profitability. A corporate tax cut could help offset margin compression, but with the Q1 2025 earnings season approaching, such a policy change would require significant progress by the new administration in addressing tariffs first.

Therefore, the earnings trajectory remains positive, but the visibility is lower.

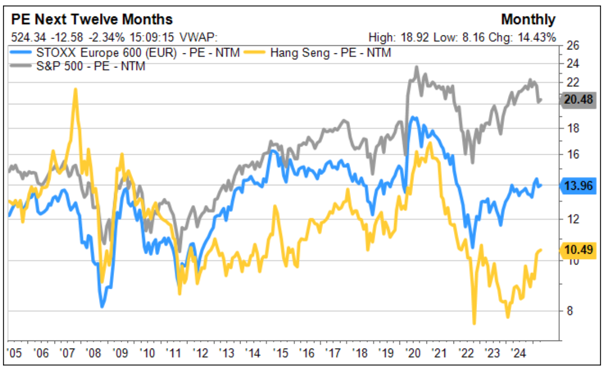


Regions	EPS CY0	EPS CY+1	Gr yoy	1m Chg %	EPS CY+2	Gr yoy	1m Chg %
S&P 500	240.4	268.2	11.6%	-0.3	306.3	14.2%	-0.4
S&P 500 Equal Weighted	386.7	416.6	7.7%	-0.7	472.9	13.5%	-0.6
S&P Mid Cap 400	179.4	193.2	7.7%	-0.7	223.2	15.5%	-0.6
S&P Small Cap 600	75.6	85.5	13.2%	-1.5	102.8	20.2%	-1.2
STOXX Europe 600	35.1	37.5	6.8%	-1.8	41.7	11.1%	-1.6
Euro STOXX Mid	39.7	44.2	11.4%	-2.0	49.0	10.9%	-0.7
FTSE 100	672.8	697.5	3.7%	-2.2	775.7	11.2%	-1.7
Switzerland SPI	39.4	43.6	10.6%	-1.4	48.6	11.4%	-1.1
Hang Seng Index	2'094.4	2'171.7	3.7%	-0.4	2'340.3	7.8%	-0.7
Japan Nikkei 225	1'832.1	2'184.0	19.2%	-0.9	2'392.7	9.6%	13.1

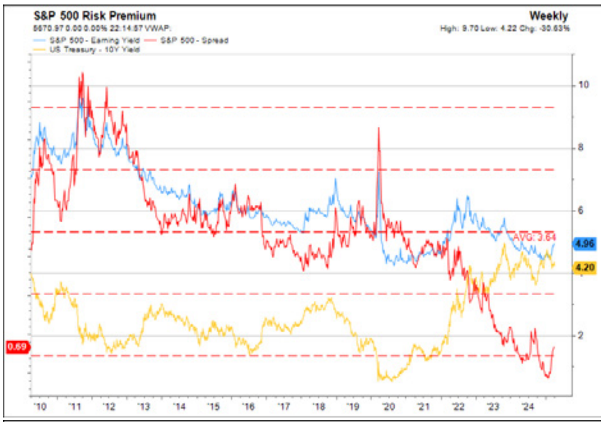
Source: Factset

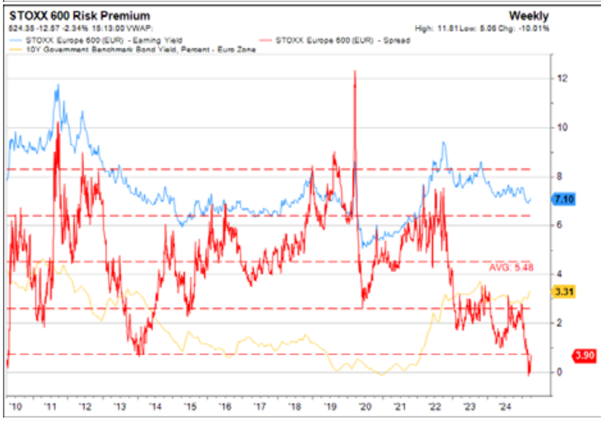
1.4 Valuation – still not cheap

From a valuation perspective, discrepancies exist, with large-cap US stocks trading at higher valuations than small caps and notable regional differences. Historically, the price-to-earnings (P/E) ratio remains elevated for the US, while valuations in Europe and China are more in line with historical norms. While aggressive interest rate cuts could provide valuation support, it is still too early for the Federal Reserve to act.



If we now look at the risk premium of equities versus bonds measured by the differential between the earning yield and the bond yield, we see that both US and European equities are expensive.





2. Fixed income

2.1 Overview

Economic momentum and fiscal trajectories are diverging across regions, forcing investors to rethink duration, credit exposure, and geographical allocation. Fiscal and economic trends are diverging sharply between the US and Europe. While the US embarks on fiscal tightening amid slowing growth and persistent inflation, Europe is boosting public spending just as economic data improves and inflation normalises—reinforcing a growing transatlantic shift in momentum. Taken together, these developments signal a clear inflection point for fixed income strategy.

2.2 Government bonds

After a turbulent 2024, government bond markets are entering a more stable phase. However, beneath the surface, regional divergences in fiscal policy and growth dynamics are shaping rate trajectories.

US Treasuries: duration back in focus

The combination of fiscal tightening and softer growth is putting downward pressure on yields, particularly at the long end. The return of a negative equity-bond correlation reinforces the role of Treasuries as a portfolio hedge. Notably, short interest in long-duration ETFs (e.g., TLT) has reached historic highs, pointing to extremely bearish sentiment. This could lay the groundwork for a tactical rally if economic data underperforms. We upgrade US long-duration Treasuries from underweight to neutral, as the downside risks to growth now balance lingering inflation concerns. Our strongest conviction remains in the 1–10-year segment, where yield and visibility are most compelling.

European sovereigns: long-end pressure mounts

In Europe, continued fiscal expansion—especially rising defence-related spending—is exerting upward pressure on long-term rates. We downgrade long-dated European sovereign bonds, anticipating a steeper curve and persistent supply-side pressures. The US–Germany 10-year yield differential recently broke below its September 2024 lows, reflecting shifting expectations and the growing relative appeal of US rates.

2.3 Credit: selectivity amid repricing

High yield: spreads widening, but opportunities remain

After a prolonged period of tightening, high-yield (HY) spreads are beginning to decompress, reflecting broader market caution. Despite rising volatility, absolute yields remain attractive—especially in the short-dated space. We favour short-duration HY, which offers compelling risk-adjusted returns thanks to stronger visibility on cash flows and lower refinancing risk. Within this space, high-quality subordinated debt offers elevated spreads and favourable compensation, particularly when backed by solid fundamentals. European bank debt continues to stand out with low non-performing loans (2.1%) and solid CET1 capital ratio (15.4%).

Investment grade: valuations limit upside

We maintain a neutral stance on investment grade (IG) corporates. Spreads are at their tightest levels since 2021, contributing less than 20% of the total yield—leaving little margin for error. While balance sheets are sound, and demand remains strong, tight valuations argue for a more cautious, quality-focused approach

2.4 Conclusion

In this evolving environment, fixed income remains a cornerstone of portfolio construction—but demands greater flexibility and precision.

We advocate a barbell allocation, combining:

- A core allocation in high-quality sovereigns and IG credit in the 1–10-year range for resilience and yield stability.
- Satellite positions in selective short-dated HY, subordinated debt, and EM bonds to enhance carry and diversify exposures.

Carry is back! With yields still elevated and interest rate volatility stabilising, carry is once again the dominant driver of fixed income returns. For the first time in over a decade, investors can build resilient, income-generating portfolios across both core and satellite segments.

3. Forex view

The environment is neutral to negative for the US dollar. Softer growth momentum in the US raises the chances of more Fed rate cuts ahead. In parallel, the upheaval in global trade and financial flows triggered by President Trump's tariffs and the US/China confrontation is also weighing on the US dollar. Unpredictability in US economic policies and an ongoing standoff between the world's two largest economies are undermining the dollar's status as the global reserve currency. If extended, it might accelerate a de-dollarisation trend that had already started in the recent years and weaken a powerful structural support of the US dollar versus other G10 currencies.

The euro is also supported by improving medium-term prospects for Europe after the shift in Germany's fiscal stance. We hold a positive view on the EUR vs USD, and a neutral view on CHF, GBP, JPY and EM currencies vs USD.

4. Alternatives

We remain overweight on convertible arbitrage and market neutral strategies, and constructive on macro strategies.

The environment remains favourable for our crypto strategies, with activity expected to stay robust, benefiting our volume-hungry market-neutral strategies. Consequently, we hold a very positive outlook on arbitrage and market making, which are well-positioned to capitalise on dislocations across exchanges. Similarly, we see significant opportunities in volatility arbitrage. The recent approval of new instruments, such as options on IBIT, Blackrock's bitcoin ETFs, will add market depth and open broader derivative trading strategies, further supporting the expansion of alpha. Additionally, we are increasingly optimistic about statistical arbitrage. Greater regulatory clarity is likely to foster the emergence of new projects, each with distinct dynamics. This growing dispersion will expand the toolkit for managers, creating fresh opportunities across the ecosystem.

Private equity remains an essential component of a diversified investment strategy, and a significant driver of returns. We favour "high alpha" segments where returns are derived from complexity and operational improvement with little financial leverage and therefore more downside protection. We favour small cap buyouts where significant returns can be generated under the right stewardship, which means being very focused on partnering with only the very best teams, where access is often restricted. By focusing on platform plays, embracing the digital transformation of IT infrastructure, and exploring opportunities in the secondary market, we aim to deliver resilient and attractive returns for our clients in a shifting global landscape.

Investment conclusion

We downgrade our preference for equities to underweight, via an underweight position in US equities. This downgrade reflects the impact of the post 2 April market movements on portfolios' allocation, that we are unwilling to rebalance for the time being. Prospects for earnings growth are deteriorating, and market dynamics are weak and uncertain, even if valuations have improved. At the sector level, we continue to favour quality.

We maintain a neutral stance on fixed income and on long-term government bonds. Potential downside risks to growth now balance the uncertainties around the inflation outlook. We continue to see value in short to medium term government bonds. We underweight European long-dated government bonds for higher fiscal spending and public debt prospects. We maintain a neutral view on investment grade and high yield credit with short-duration, and on emerging market debt.

We keep our preference stance on gold, which remains a potential inflation hedge and a safe haven. We maintain a neutral stance on commodities.

D. TAA DECISION

- Equity (decreased to UNDERWEIGHT)
- Decrease the US to Underweight.

Tactical Asset Allocation

	Underweight -	Neutral =	Overweight +
ASSET CLASSES			
		Cash	
	Equities		
		Fixed Income	
		Alternatives	
FIXED INCOME			
			Govies 1 - 10 (local)
	Govies 10+ EUR	Govies 10+ (USD, CHF & GBP)	
		Corporate IG (local)	
		High Yield (local / global hdg)	
		EM Debt	
EQUITY			
	United States		
		Eurozone	
		UK	
		Switzerland	
		Japan	
		Emerging Markets	
ALTERNATIVES			
		Hedge Funds	
COMMODITIES			
			Gold
		Commodities	
FOREX (vs. USD)			
			EUR
		CHF	
		GBP	
		JPY	
		EM Currencies	

6 February 2024

The rise of national capitalism

Image source: iStock/mesh cube

As global trust in open markets erodes, national capitalism is emerging as a new strategy where states reclaim control over production, trade, and security to serve sovereign interests.

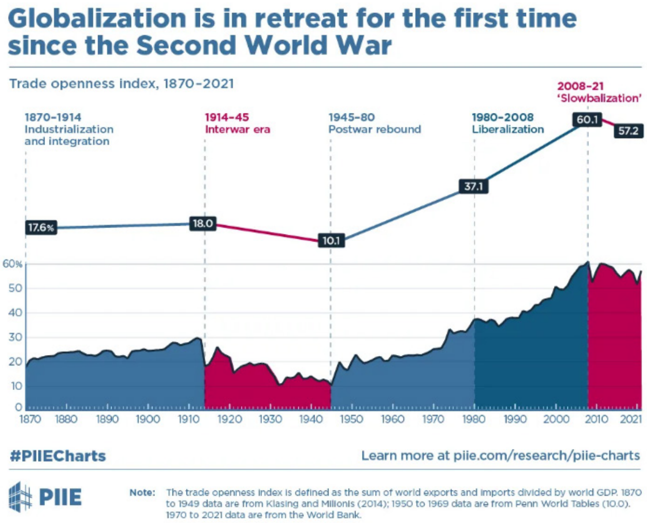
Charles-Henry Monchau
Chief Investment Officer

Hashim Almadani
Intern

Thibault Corfu
Intern

REDRAWING THE RULES: WHAT NATIONAL CAPITALISM REALLY MEANS

National capitalism is an emerging paradigm in which states place national economic interests above global integration. It does not reject capitalism itself but reshapes it around sovereign priorities. In this model, governments actively support domestic production, re-shore strategic industries, and use tools such as tariffs, subsidies, and public procurement to ensure national self-reliance. Sectors like defence, energy, and digital infrastructure are seen not just as economic assets but as pillars of sovereignty. National capitalism contrasts sharply with global capitalism, which favoured multinational supply chains, minimal state interference, and open markets under the oversight of institutions like the WTO and the IMF. The shift is not purely economic—it reflects a broader worldview where economic independence is equated with national security.



Source: Our World in Data, World Bank

WHY IS NATIONAL CAPITALISM RISING?

Global instability, economic discontent, and technological rivalry have exposed the vulnerabilities of globalised capitalism—triggering a shift toward sovereignty, control, and domestic resilience across key sectors.

First, the COVID-19 pandemic exposed the vulnerabilities of hyper-globalised supply chains. As countries scrambled for vaccines, medical equipment, and essential goods, dependence on foreign production was revealed as a critical weakness. In response, governments began prioritising self-sufficiency in areas like pharmaceuticals, electronics, and strategic manufacturing.

Geopolitical fragmentation has only intensified this push. The US–China rivalry and Russia's invasion of Ukraine have recast economic openness as a strategic liability. Access to energy, raw materials, and semiconductors is now treated as a matter of national security, blurring the line between trade policy and defence strategy.

RAW MATERIALS AND THE NEW GEOECONOMIC ARMS RACE

At the heart of national capitalism lies a fierce competition for control over critical raw materials—resources that are not only economic inputs but strategic levers of power. China's dominance in rare earths, controlling over 90% of global processing, has triggered a geopolitical backlash.

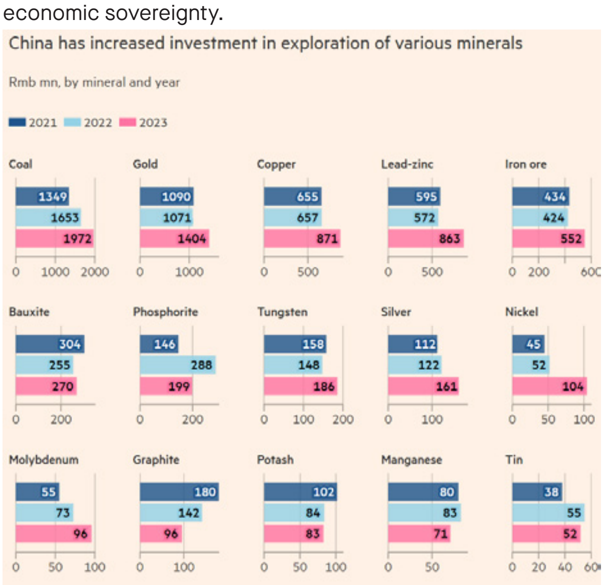
Source: Our World in Data, World Bank

The US, viewing this dependency as a national security risk, is responding with mining subsidies, international deals, and export restrictions to rebuild its own supply chains.

Trump's return has intensified this race. His administration is pushing for access to foreign mineral reserves—from Congo to Greenland—while invoking emergency powers to accelerate domestic extraction. These efforts are framed as essential to defence and technological self-sufficiency, as rare earths underpin everything from missiles to electric vehicles.

Meanwhile, China is doubling down. It has tightened export controls on key inputs like gallium and graphite, expanded state funding for exploration, and is leveraging its position to cement influence over global supply chains.

This scramble has fragmented the global resource landscape. From Ukraine to Australia, producing nations are asserting control through nationalisation and export restrictions. The result is an emerging resource nationalism, where mineral access is becoming a battleground for geopolitical power and economic sovereignty.



Source: China's Ministry of Natural Resources

AI AND TECHNO-NATIONALISM

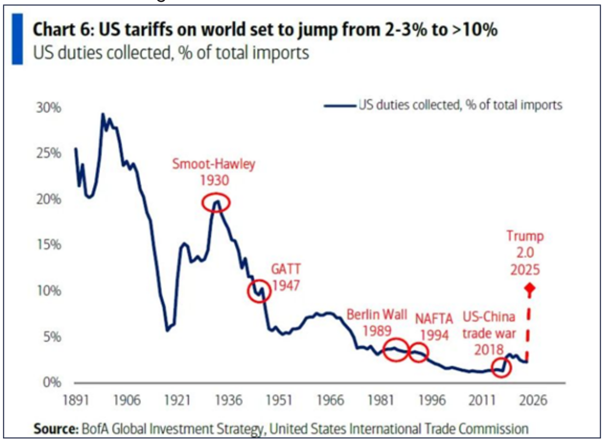
Technology has become a key frontier of national capitalism. Control over data, semiconductors, AI, and digital infrastructure is no longer seen as just an economic advantage—it's a matter of geopolitical power. As trust erodes, governments are distancing themselves from foreign tech giants, particularly those based in rival states.

In the US, the CHIPS and Science Act directs $52.7 billion toward domestic semiconductor manufacturing and R&D. Alongside this, Washington has imposed strict export controls to block China's access to advanced AI chips, citing national security risks tied to military and cyber capabilities. As the US Secretary of Commerce put it, the goal is to "safeguard the most advanced AI technology" from foreign adversaries.

China is responding in kind. Through its $47.5 billion "Big Fund," Beijing is accelerating chip self-sufficiency and tightening its grip on global tech supply chains. The result is a deepening techno-nationalist arms race—an increasingly central dynamic in the national-capitalist model.

SOCIAL FRACTURES AND POPULIST PRESSURE

Political discontent has further accelerated the shift. Years of growing inequality under global capitalism have fuelled populist movements that promise protection, fairness, and economic security. Nationalist leaders have capitalised on this unrest by pledging to safeguard domestic jobs and rebuild local industry—reframing national capitalism as a response to both economic grievance and democratic frustration.



RE-SHORING (OR FRIEND-SHORING)

One of the clearest expressions of national capitalism is the reshoring—or friend-shoring—of industrial supply chains. Governments are relocating the production of critical goods either domestically or to trusted allies, treating supply chain dependence as a strategic vulnerability. Sectors like electric vehicles, semiconductors, pharmaceuticals, and defense equipment are now prioritised for onshore production in both the US and Europe.

In the US, initiatives like "Buy American," the CHIPS and Science Act, and the Inflation Reduction Act provide billions in subsidies to rebuild industrial capacity. Trump's return has further intensified the shift, combining tariffs, executive orders, and new trade barriers in a bid to enforce economic self-reliance. Companies like Caterpillar and Apple are reshoring production, spurred by automation, geopolitical risk, and growing consumer demand for "Made in USA" products. With 270,000 reshored jobs in 2023 alone, the movement has become a core feature of the US industrial revival.

In Europe, reshoring takes a regionalist form. The €800 billion ReArm Europe plan ties defence spending to local production, mandating that 65% of procurement stay within the EU, Norway, or Ukraine. National policies in France and Germany push "Buy European" strategies, while industrial plans like the EU Chips Act aim to localise critical sectors. These efforts signal a broader pivot toward economic resilience and strategic autonomy.

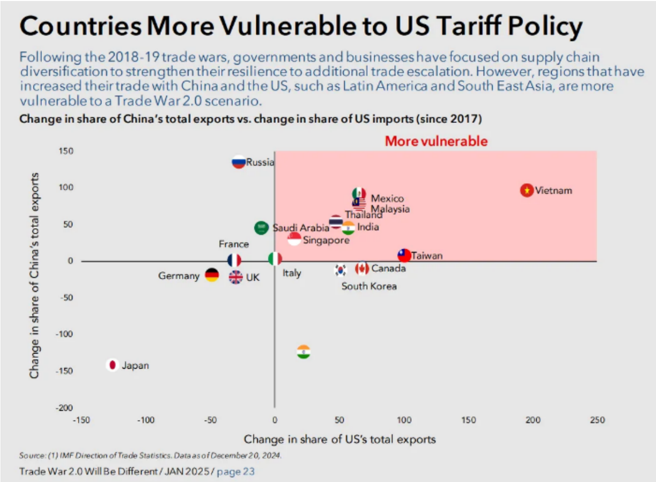
However, reshoring is not without challenges. It requires major investments in infrastructure, streamlined regulatory processes, and a domestic workforce with modern manufacturing skills. Addressing these gaps has prompted new workforce initiatives, apprenticeship programs, and public-private partnerships.

Beyond economics, reshoring revitalises local communities, boosts infrastructure, and strengthens industrial sovereignty. It marks a return of industrial policy as a pillar of national strategy—where security, resilience, and sovereignty take precedence over global efficiency.

PRESIDENT DONALD TRUMP'S LEGACY

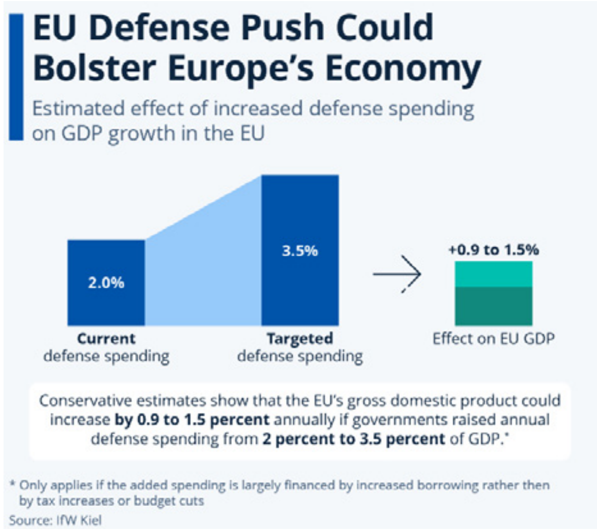
Donald Trump 1.0 economic policies were a direct expression of national capitalism. "America First" was not just political rhetoric—it became a doctrine that reshaped US trade, defence, and industrial policy. During his first presidency, Trump imposed wide-reaching tariffs on imports from China, the European Union, Canada, and Mexico. Trump sidelined multilateral institutions like the WTO in favour of unilateral trade measures, framing trade as a zero-sum game.

In 2025, he is considering invoking emergency powers under the IEEPA to impose sweeping tariffs without congressional approval—even on allies. While justified as essential for national and economic security, critics note these policies have raised consumer costs and failed to deliver the promised industrial revival. Nevertheless, the politics of protectionism remain potent. Even under the Biden administration, many Trump-era tariffs remained in place, and the US has continued to expand industrial subsidies. With Trump back in office, his national-capitalist agenda is driving the US toward deeper trade isolation—marked by sweeping tariffs, aggressive reshoring, and a break from global economic institutions.



EUROPE'S DEFENCE REBUILD: FROM DEPENDENCY TO SELF-RELIANCE

National capitalism is also reshaping Europe—particularly through the lens of defence and sovereignty. The Russian invasion of Ukraine shattered long-held European assumptions about peace, energy interdependence, and reliance on US military power. In response, EU states have dramatically increased their defence budgets. Poland, for example, now allocates over 4% of GDP to defence, with Estonia and Germany not far behind. The European Commission has proposed an €800 billion defence investment program under the ReArm Europe plan, which includes public loans and encourages local defence production. This push goes far beyond short-term military spending. It represents a structural shift toward defence autonomy and domestic industrial capacity. The plan rewards production carried out in the EU or allied nations and includes flexibility on fiscal rules to facilitate national investment. Leaders such as Mitsotakis and Nausėda have called for even more ambitious steps, including joint borrowing facilities and EU-wide grants. The logic is clear: in a national-capitalist world, defence must be sovereign, industrial, and less dependent on external actors—especially the United States. Europe's approach may be more coordinated than President Trump's, but it responds to the same imperative: resilience through autonomy. The plan also includes key fiscal exemptions, allowing countries like Germany to bypass deficit rules for defence spending. Germany alone may expand defence and infrastructure investments by over 4.5% of GDP, supported by a €500 billion infrastructure fund. Though the GDP multiplier for defence is limited (0.4–0.7), Germany's domestic focus on defence R&D could generate long-term productivity gains across Europe—particularly if procurement favours European-made technologies.



THE NEW ECONOMIC PATRIOTISM IN EUROPE

Europe's embrace of national capitalism extends well beyond defence. It is increasingly visible in industrial strategy, investment screening, and targeted trade policies. France and Germany have become vocal advocates of "Buy European" policies, particularly in public procurement and strategic sectors. To shield its economy from foreign influence, the EU is reinforcing its regulatory arsenal—tightening controls on foreign investments through instruments like the Foreign Subsidy Regulation, which curbs unfair competition and Chinese acquisitions.

At the same time, the EU Chips Act and the Green Deal Industrial Plan aim to localise production of semiconductors, clean technologies, and other critical sectors. Brussels also relaxed competition rules to promote the rise of "European champions", which are capable of rivalling American and Chinese giants.

Rather than adopting overt slogans, Europe is quietly building its own form of economic sovereignty—deploying a strategic mix of legal tools, industrial coordination, and financial incentives. This model remains open when advantageous but enforces control when required. In doing so, the EU is shaping a more autonomous and resilient economic order—one that responds to an increasingly volatile and protectionist global environment.

As the US escalates tariffs under Trump's return, Brussels has also begun preparing retaliatory trade measures—underscoring that economic sovereignty now cuts both ways.

CONCLUSION

National capitalism marks a clear departure from the era of globalisation. Faced with geopolitical rivalry, supply chain shocks, and rising inequality, states are reclaiming control over production, trade, and strategic sectors. The US and Europe are reshaping policy around resilience, autonomy, and economic sovereignty.

While this shift carries risks—higher costs, fragmentation, and potential retaliation—it reflects a broader recalibration of power. In a volatile world, national capitalism offers a renewed framework where security and sovereignty take precedence over efficiency and openness.

6 February 2024

The week the safe haven cracked: US Treasuries' worst collapse since 2001

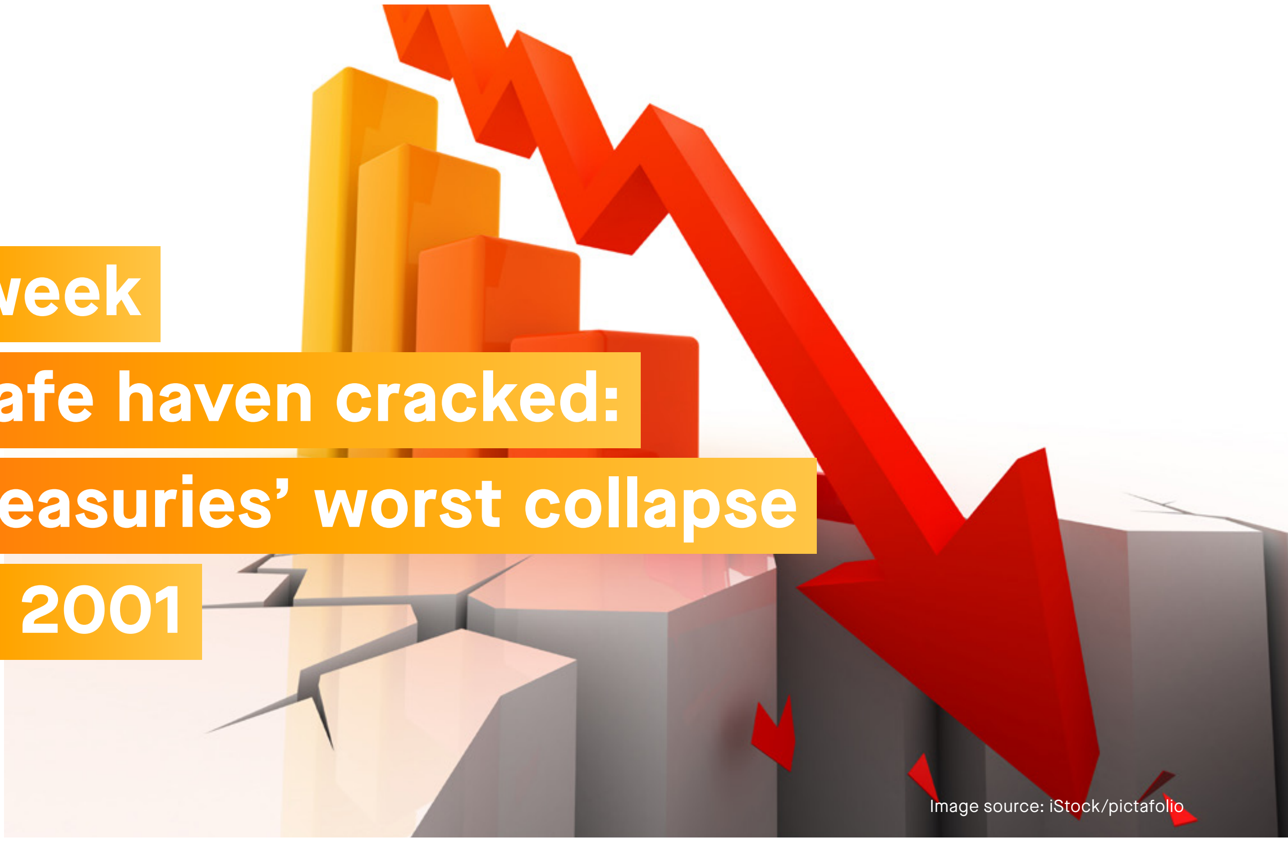


Image source: iStock/pictafolio

Between 4 April and 11 April 2025, the US Treasury market experienced its worst weekly sell-off in over two decades. Long-term yields soared by nearly 50 basis points in just days—a move not seen since 2001—signalling a sudden loss of investor confidence in what's long been viewed as the safest asset class in the world. This violent spike in yields was driven by a perfect storm: an escalating trade war, a dramatic unwinding of leveraged bond trades, rising inflation expectations, and increasing concerns about US policy stability. Even though the market eventually found its footing, the week revealed deep vulnerabilities in both global confidence and market structure.

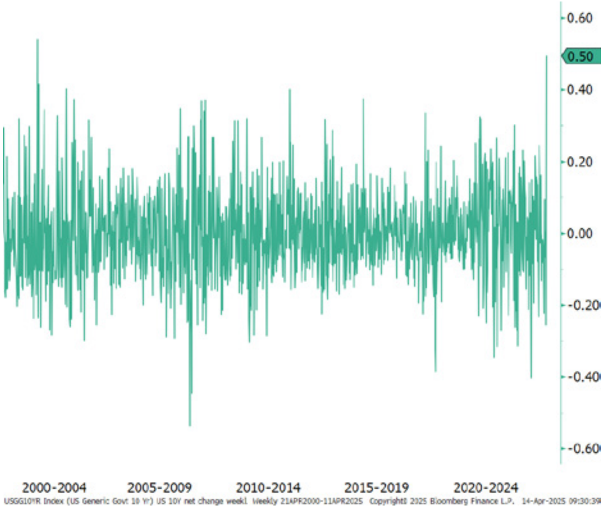
Gaël Fichan
Senior Portfolio Manager –
Head of Fixed Income

WHEN SAFE HAVENS BECOME VULNERABLE

In turbulent times, US Treasuries are typically the ultimate fallback: liquid, stable, and backed by the US government. During this week of turmoil, the playbook flipped. Investors didn't flee to Treasuries—they fled from them.

Even as equity markets trembled and volatility spiked, government bonds were sold off aggressively. Capital poured instead into traditional crisis hedges such as gold, the Swiss franc, and the Japanese yen. The US dollar itself took a beating, hitting a 10-year low against the franc. The message from global markets was unmistakable: trust in US policy direction and economic resilience was faltering.

10-year US Treasuries yield weekly change: +50bps last week!

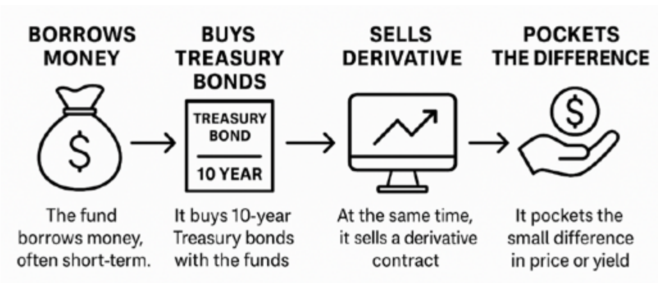


Source: Bloomberg

THE BASIS TRADE BLOW-UP: WHEN TINY MARGINS TURN INTO MASSIVE RISKS

Beneath the surface, the collapse was intensified by a mechanical but dangerous force: the sudden unwinding of massive basis trades, a common but risky arbitrage strategy favoured by hedge funds. Here's how it works: funds borrow heavily—often via short-term repo markets—to purchase physical Treasury bonds while simultaneously selling interest rate futures or entering into interest rate swaps. The idea is to profit from the small difference—or basis—between the cash price of a bond and the price of its synthetic equivalent.

Basis trade: how does it work?



Source: Our World in Data, World Bank

How does the basis trade work, concretely?

1. The fund borrows money
2. With that money, it buys real US government bonds (for example, 10-year Treasury bonds)
3. At the same time, it sells a derivative contract (like a fixed-for-floating interest rate swap or a futures contract on the same 10-year Treasury)
4. The fund pockets the small difference in price or yield between the bond and the derivative

If everything goes smoothly: the price gap (the "basis") narrows over time, and the fund makes a small, steady profit.

But if the market turns...If bond prices move sharply (for example, due to a sudden rise in interest rates):

1. The value of the bonds drops
2. The fund must repay its loan or provide more collateral (margin calls)
3. It's forced to sell the bonds quickly, which pushes prices even lower

This vicious cycle is exactly what helped trigger the spike in yields in April 2025.

In theory, these price gaps should converge over time. In practice, the strategy only works in stable conditions. When bond prices fell sharply, that convergence broke down. The spread widened instead of narrowing. Funds with highly leveraged positions—sometimes 30:1 or more—were hit with margin calls and forced to sell Treasuries to cover losses. These sales pushed yields even higher, triggering more margin calls and more selling. It was a textbook feedback loop. By the height of the dislocation, the spread between 10-year Treasury yields and their swap equivalents exploded to 64 basis points—a level never seen before. Even in the world's most liquid bond market, liquidity vanished. This wasn't just a sell-off. It was a structural tremor.

The 10y swap-Treasury spread can be viewed as a gauge of market risk sentiment, liquidity conditions, and structural pressures in the financial system. This spread can be seen as a measure of several things:

- **Credit and counter-party risk:** swap contracts are between private entities and carry some credit risk, whereas Treasuries are backed by the US government and considered risk-free. The spread often captures this difference in perceived risk.
- **Liquidity conditions:** US Treasuries are among the most liquid instruments in the world. Swaps are less liquid, especially in times of market stress. A wider spread may indicate tighter liquidity in the swap market or strong demand for Treasuries.
- **Supply and demand imbalances:** when there's unusually strong demand for Treasuries (e.g., during a flight to safety), yields can be artificially depressed, widening the spread versus swaps.
- **Funding costs and balance sheet constraints:** swap rates are influenced by interbank funding rates and the cost of collateral. Regulatory changes or balance sheet pressures can cause the swap rate to diverge structurally from Treasury yields.

Difference between the 10-year US Interest Rate Swap and US Treasury yield

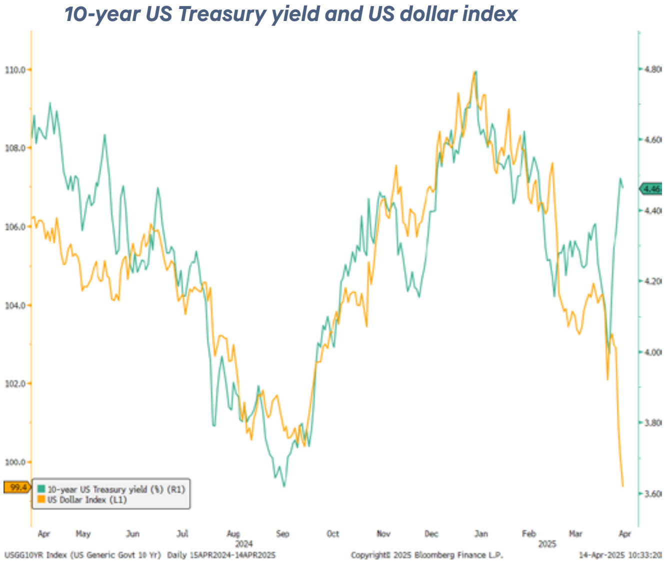
Source: Bloomberg

INFLATION, TRADE TENSIONS, AND A CRISIS OF CONFIDENCE

While leveraged selling magnified the panic, macroeconomic developments lit the match. The week began with a surprisingly strong US jobs report, showing over 220,000 jobs added in March. Instead of boosting sentiment, attention quickly shifted to a far more destabilising force: a full-blown trade war. The Trump administration announced sweeping tariffs on a wide range of imports, including from long-standing allies. China responded with equally aggressive countermeasures. This tit-for-tat escalation ignited fears of a global trade freeze. For the bond market, the implications were immediate. Tariffs raise the cost of imported goods, putting upward pressure on inflation even as they dampen growth. That mix—rising prices and slowing output—evokes the dreaded word: stagflation. Within days, consumer inflation expectations, as measured by the University of Michigan, jumped to their highest level since 1981. When inflation expectations rise, bondholders demand higher yields to preserve real returns. The result was another brutal leg higher in long-end rates.

In normal times, a bond market dislocation of this magnitude would draw a swift policy response, but the Federal Reserve was caught in a bind. Just weeks earlier, markets had priced in rate cuts by summer 2025. But now, with inflation expectations soaring and financial markets destabilised, the Fed couldn't move without risking further credibility loss. Officials chose a cautious path—no emergency cuts or new asset purchases. Instead, they deployed forward guidance, signalling their readiness to intervene if market functioning broke down. Boston Fed President Susan Collins was among those seeking to reassure investors, while Chair Jerome Powell acknowledged the inflationary impact of tariffs without committing to immediate action. It was a balancing act: too much support could anchor inflation fears; too little risked deepening market instability. Beneath it all was a deeper rupture—the erosion of confidence in the US as the default safe-haven. The dollar weakened rapidly, not just due to macro forces, but also amid speculation that China might offload a portion of its vast Treasury holdings in retaliation. Whether or not these rumours were founded, they were enough to move markets. Investors began rotating out of US assets altogether, reallocating capital toward Europe, Japan, and commodities. The dollar was no longer the automatic hedge. This flight from US assets wasn't just a reaction—it was a reallocation of risk in real time.

10-year US Treasury yield and US dollar index



CONCLUSION: A WAKE-UP CALL FOR POLICYMAKERS AND INVESTORS ALIKE

The week of 4-11 April 2025 shattered the illusion that US Treasuries are untouchable in times of crisis. What unfolded was more than just a bond sell-off—it was a shock to investor confidence. A trade war ignited political risk, inflation fears disrupted rate expectations, and the forced unwinding of leveraged trades revealed structural fragilities deep within the financial system. The Federal Reserve managed to avoid a full-blown market meltdown by remaining visible, responsive, and reassuring. Markets found a temporary floor, helped by well-received auctions and signs of political recalibration. Yet the broader lesson is sobering: the perceived safety of any asset—even one backed by the world's largest economy—relies on the credibility and coordination of the institutions that underpin it. Looking ahead, policymakers will need to proceed with caution. Trade and monetary policy cannot operate in isolation—they are inextricably linked through the lens of market trust. For investors, this episode is a timely reminder that in a world shaped by leverage, geopolitics, and real-time repricing, diversification and risk management are not optional—they are essential. The safe haven still stands—but it's no longer invincible.

That said, we do not believe this abrupt repricing will persist. The sharp change in rates is likely to normalise over the coming days and weeks. For investors with limited exposure to US Treasuries, this dislocation may offer a compelling entry point—particularly in the short- to intermediate-duration segments. Inflation-linked bonds (TIPS) could also be attractive, as long-term inflation expectations remained stable throughout the episode, even as real yields spiked by 50 basis points.

6 February 2024

AI infrastructure: the race for data centres rages on

Image source: iStock/piranka

The global competition for AI-related technology is intensifying in 2025.

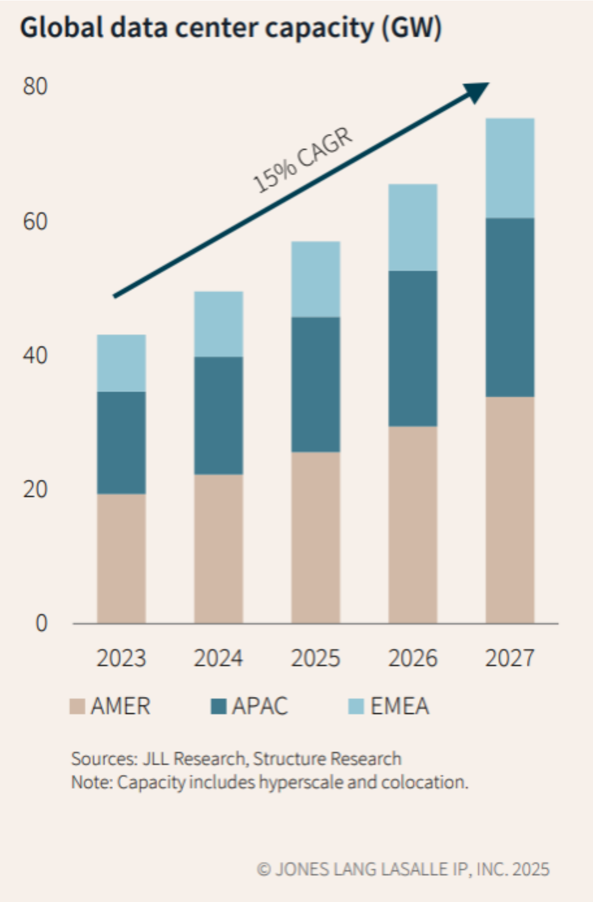
Adrien Pichoud
Chief Economist

Jakub Dubaniewicz
Senior Equity Analyst

Emma Gillioz
Intern

AI is rapidly transforming industries, from finance and healthcare to defence and autonomous systems, making it a focal point of strategic investment and regulation. The US has long sought to build and maintain technology leadership, a stance unlikely to change under Trump. The 'tech war,' particularly in AI, is poised to shape the coming years—if not decades.

Data centres have become a critical asset in this tech race. Countries and companies are investing billions in building and expanding data centre capacity to match the demand for computing power and data storage resulting from the surge in AI adoption. In the United States, tech giants are leading the charge, expanding infrastructure to support AI workloads. In China, the government and state-backed enterprises are investing in domestic data centre expansion to support AI development while countering trade restrictions and semiconductor shortages imposed by the US. Europe, meanwhile, is balancing investment growth with strict data sovereignty laws, sustainability mandates, and efforts to reduce dependency on foreign technology providers.



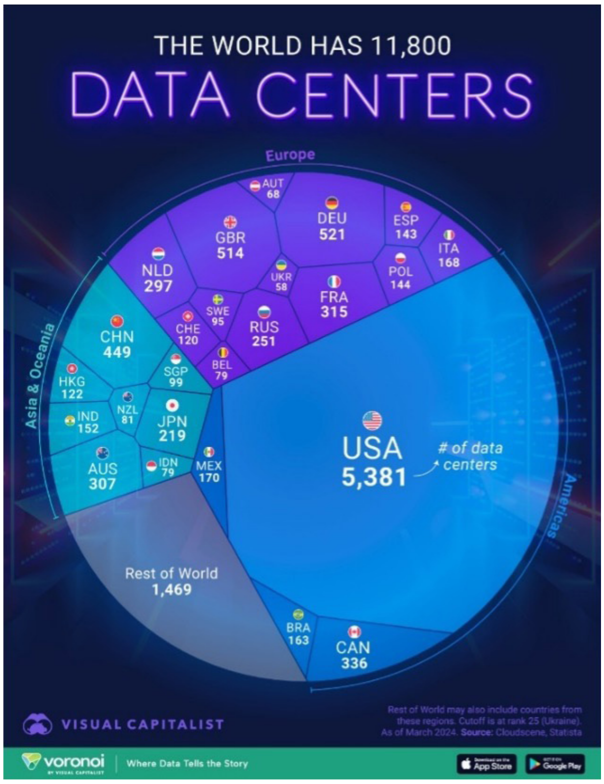
From the Stargate Project in the US to the DeepSeek release in China or the AI Action Summit in Europe, technological breakthroughs and gigantic investments in the AI field are announced almost daily across all major economies. The United States intend to maintain their leadership with a $500bn investment program centred around OpenAI and Oracle. China has become a serious contender and the release of DeepSeek is seen as a technological breakthrough challenging the established US-led framework.

Europe is at risk of being left on the sideline but appears to have finally received the message: a joint declaration from European Central Bank President Christine Lagarde and European Union President Ursula von der Leyen pledges to "do whatever is necessary to bring Europe back on track." The race for building AI infrastructures, data centres and the energy sources required to power them has already started.

The current data centres market

THE UNITED STATES IS LEADING THE RACE

With nearly 5,400 data centres, the US leads the race, prioritising rapid expansion through private investment and large-scale deployment. The most ambitious project to date, Stargate, is a joint venture between Oracle, OpenAI, and SoftBank. Announced by President Donald Trump in January, Stargate aims to build 20 data centres nationwide, with no government funding, for an estimated sum of $500 billion over four years. Along with Stargate – Meta, Amazon, Alphabet and Microsoft – are pouring tens of billions into its AI capabilities, while companies including Nvidia, Dell, and xAI are expanding their US operations.



CHINA IS COVETING THE TOP SPOT

China is making rapid progress in AI, despite currently having fewer than 500 data centres. The government has invested over 43.5-billion-yuan ($6.12 billion) in computing infrastructure and recently launched a 60-billion-yuan ($8.2 billion) AI investment fund. To lower costs and improve energy efficiency, it introduced the "Eastern Data, Western Computing" initiative, setting up eight major data hubs in key regions. By 2030, studies estimate relocating data centres could reduce emissions by 16-20% and bring $53 billion in direct economic benefits.

EUROPE MUST CATCH UP

With Germany hosting around 520 data centres, Europe is not entirely out of the race. The combined infrastructure of all European data centres amounts to less than half of the US and European companies owned less than 5% of the region's data centre capacity as of 2023. However, recent announcements show that significant AI investments are also to be deployed in Europe: Microsoft and Amazon have committed €4 billion in France and €15.7 billion in Spain, respectively. Meanwhile, France announced on February 6 a plan to build Europe's largest AI campus, featuring a vast data centre funded by the UAE, with investments ranging between €30 billion and €50 billion. And the European Commission just launched InvestAI, a plan to mobilise €200 billion for investment in AI.

However, the European Commission is also balancing AI innovation with regulation. It has adopted a legal framework on AI in 2024, the AI Act, and has introduced sustainability rules for data centres. In parallel, it is investing €54 million in Open Euro LLM, an open-source AI project uniting 20 European companies, universities, and supercomputing centres. Still, AI's economic impact will also depend on its adoption and scaling—a key challenge for Europe, where labour productivity has been slowing. According to McKinsey, AI could boost productivity by up to 3% annually through 2030, reinforcing the need for accelerated digital transformation across the continent.

Challenges ahead

TECH IS A BATTLEFIELD FOR CHINA'S CHALLENGE TO US GLOBAL DOMINANCE

The United States has been tightening key technology export restrictions to limit China's AI progress, blocking access to advanced AI chips, high-bandwidth memory (HBM), and semiconductor manufacturing equipment. Despite these efforts, China is making progress in AI model training, chip production, and data centre infrastructure.

In September 2024, China Telecom's AI Institute revealed that its TeleChat2-115B model was trained using tens of thousands of domestically produced chips. Huawei, meanwhile, is shifting supply chains, sourcing memory chips from Chinese companies, such as ChangXin Memory Technologies (CXMT) and Yangtze Memory Technologies Corporation (YMTC), though some models still incorporate chips from South Korea's SK Hynix.

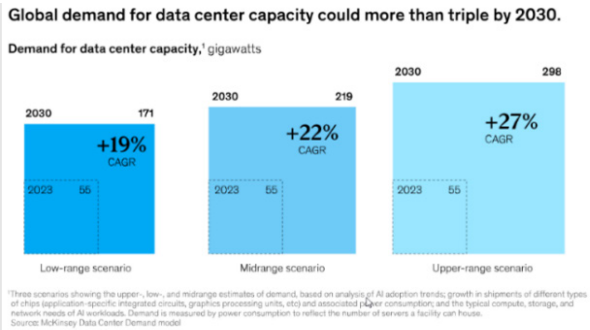
DeepSeek's R1 model has delivered results comparable to OpenAI's latest releases. Its optimised architecture drastically reduces computing power requirements and energy use. The efficiency gains that DeepSeek has achieved are open source, meaning that they will eventually become widely adopted by all industry players. Initially, skeptics suggested that this poses a risk of data centre overinvestment. However, the prevailing view is that more efficient models will drive wider usage, and therefore cloud giants like AWS, Azure or GCP have all stepped up their AI capex plans for 2025.

China's big tech firms are doubling down on AI infrastructure even if they remain far behind their large US competitors. ByteDance, the parent company of TikTok, has pledged $12 billion in AI development for 2025, including $5.5 billion for domestic AI chip production and $6.8 billion to expand model training. Its Doubao 1.5 Pro AI model already reached 78.6 million monthly active users this January, positioning it as a strong competitor, though still lagging behind ChatGPT's 180.5 million monthly active users. Meanwhile, the startup Moonshot AI's model, Kimi k1.5, claims to match or outperform OpenAI's o1 model in math, coding, and multimodal tasks.

GROWING DEMAND FOR DATA CENTRES

DeepSeek has demonstrated that significant efficiency gains are possible in AI, and as technology evolves, more workloads may transfer to smaller data centres, which will be increasingly energy efficient.

McKinsey reported predictions that global data centre demand will triple by 2030, with annual growth rates between 19% and 27%. To keep up, cloud service providers would need to build twice as much capacity as has been constructed since 2000.

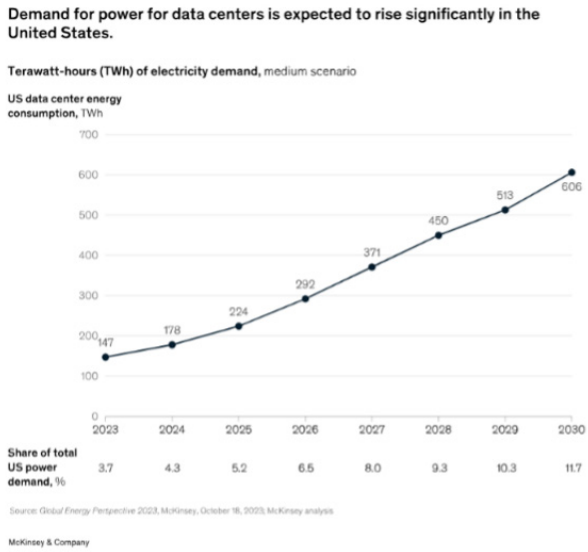


Source : McKinsey

ENERGY CONSUMPTION

The rapid expansion of AI-driven data centres is putting pressure on energy and water resources. As AI workloads become more complex, companies are redesigning infrastructure to lower cooling costs, improve efficiency, and reduce power consumption. Colder regions are ideal for data centres due to lower cooling needs, but proximity to users remains crucial to avoid delays in data transmission.

By 2028, the U.S. Department of Energy estimates that data centres could consume 12% of the country's electricity, up from 4.4% in 2023, with half of new data centres potentially facing power shortages by 2027. To secure their energy supply, tech companies are turning to alternative sources. Google, Microsoft, and a data centre real-estate company Switch have invested in nuclear power, with plans to develop reactors. At the same time, startups like Oklo, backed by Sam Altman, and Radiant, which develops microreactors, are betting on next-generation nuclear technology to provide small-scale, efficient power solutions for AI infrastructure.



Having great ideas is a great idea

Our 10 big ideas 2025

Funds & ETFs

Equity

FROM AI HYPE TO AI REALITY

LOWER AI COSTS TO BOOST ADOPTION

→ **Since the appearance of ChatGPT, large technology companies have embarked in a massive investment cycle pouring money to build data centres for AI. In 2025, big tech is expected to spend$300bn in capex.**

- The infrastructure and data centre build-up began accelerating massively in 2024, and is expected to growth strongly in 2025 again, as large tech companies make massive investments.
- The DeepSeek event in January 2025 shocked markets as it proved it is possible to build AI models at a fraction of the cost of OpenAI or Anthropic.
- While the pace of cost reduction is high, it should not come as a total surprise as the history of technology is about lower costs boosting adoption.
- We believe we are at a stage now where infrastructure is mostly available, and models are becoming inexpensive enough to see a pick-up in adoption rate.

INNOVATION BEYOND THE MAG 7

AUTONOMOUS VEHICLE

Equity

➔ **The autonomous driving market has massive potential due to cost savings, improved safety, consumer demand, technological advancements, and environmental benefits. As regulations evolve and AV technology matures, adoption will accelerate, leading to disruptive changes in transportation, logistics, and urban mobility.**

- Autonomous vehicles (AVs) can reduce labour costs for industries reliant on human drivers such as ride-hailing and logistics.
- Safety is a major advantage of this technology. Waymo (Alphabet) claims 57% reduction in police-reported crash rates.
- AVs can turn travel time into productive time or entertainment time.
- AVs and hail-riding are solutions to the increase total cost of owning a car and can improve mobility of seniors or disabled individuals.
- Projected market value: the global autonomous vehicle market is expected to exceed $1.5 trillion by 2030.

INNOVATION BEYOND THE MAG 7

SPACE: THE USD 1.8 TRILLION ECONOMY

Funds & ETFs

Equity

➔ **The study, "Space: the USD 1.8 trillion economy", by the WEF and McKinsey, estimates that the value of the space economy will triple to USD 1.8 trillion in the next 10 years.**

- Today, there are more commercial reasons to use space than ever. Companies like Meta, Uber, DoorDash or Amazon are looking to utilise satellite infrastructure to support and expand their services.
- Government agencies such as NASA or the European Space Agency are key players in space activities. However, the expertise needed to build "advanced" satellites, launch them into space, and maintain them is more cost-efficient when done by "commercial" companies.
- Government spending in the space sector is expected to shift toward private commercial companies that offer more innovative and cost-efficient solutions over government agencies.
- The servicing, maintaining, and managing of objects once they are in orbit is creating substantial business opportunities for the sector.

THE WINNERS OF DEREGULATION

THE RESURGENCE OF CORPORATE TRANSACTION

Funds & ETFs

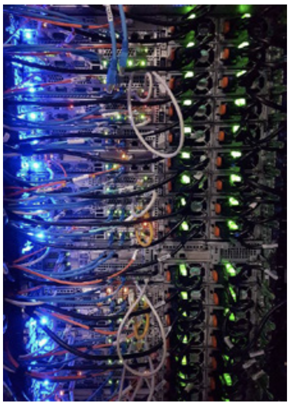
Equity

➔ **A resurgence in various corporate transactions could materialise in 2025, fuelled by a supportive economic outlook characterised by expectations of solid nominal GDP growth in the US. Furthermore, under Trump 2.0, a lighter regulatory environment is expected to prevail, marked by a more hands-off approach from regulators.**

- This shift is likely to create a more favourable environment for deal-making, further fuelling growth in M&A, spinoff and IPO activities as:
  - Companies have strong balance sheets,
  - Confidence among managers remains high,
  - Financing conditions are improving, driven by lower debt costs.
- M&A will emerge as the core strategic option for companies looking for growth in an environment of rising uncertainties.
- Another important trend will be the resurgence of IPO activity. There is growing pressure on private asset managers to both deploy capital and generate returns by harvesting investments..

Funds & ETFs

Equity



GLOBAL INFRASTRUCTURE

INFRASTRUCTURE: THE "THREE DS"

→ **Over the next decades, trillions of dollars will be required to improve global infrastructure, driven by three key trends, known as the "Three Ds": digitalisation, deglobalisation and decarbonisation. These trends reflect the broad transformations reshaping the global economy. They include the shift toward a digital world, and the growing effort to reduce reliance on global supply chains.**

- Digitalisation is the key trend among the three Ds, with AI technology playing a central role in this transformation as it drives the need for fibre networks, towers, and data centres, all of which requiring significant investment in infrastructure.
- As for deglobalisation, it is reflected in the 2022 bipartisan CHIPS Act, aimed at boosting the US semiconductor industry as well as the growing effort to reduce reliance on global supply chains.
- Regarding decarbonisation, with the re-election of President Trump, global decarbonisation efforts may slow, but countries like China will continue progressing..

Funds & ETFs

Equity

EMERGING MARKETS REVIVAL

ASIAN LEADERS

→ Weak and slowing economic growth, the burst of the residential market bubble, and trade tensions between China and the US have contributed to the negative investor sentiment toward China. Nevertheless, the country's long-term prospects appear interesting for investors willing to look beyond the near-term challenges. The recent stimulus package and encouraging announcements for a more supportive economic policy in 2025 suggest that the Chinese authorities are committed to stabilise growth, and potentially engineer a growth rebound driven by domestic demand. Additionally, valuations appear currently attractive.

→ India and Vietnam are another focus due to their favourable demographics, educated labour force, and the trend of global manufacturers adopting a "China plus one" strategy to reduce their exposure to China. Even though both countries are facing potential short-term challenges, such as global flow reallocations toward China and uncertainty over the impact of President Trump's tariffs, their long-term growth prospects remain strong.

Funds & ETFs

Equity

THE NUCLEAR RESURGENCE

BIG TECH SPARKS A NEW ERA FOR NUCLEAR ENERGY

→ **Nuclear energy is experiencing a resurgence as the power consumption of data centres has significantly increased, driven by the widespread use of cloud computing to support generative AI services and other internet-based applications used by billions of people.**

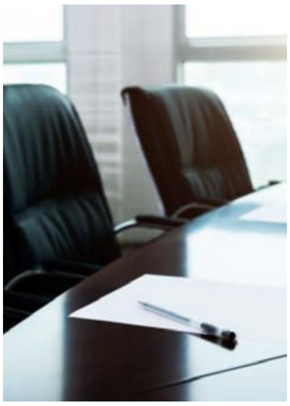
- Hyperscalers (Microsoft Azure, AWS, Meta, Google Cloud, etc.) require a reliable and sustainable energy source to meet the rapidly growing and massive energy demand created by these technologies.
- To address this challenge, tech giants decided to invest in their own nuclear energy production capabilities. As an example, Amazon and Google are now developing their own nuclear power through a new small modular reactors (SMR) technology.
- SMRs are considered as the next generation nuclear energy sources due to their scalability, fast construction, and low cost.

THE G OF ESG

GOOD GOVERNANCE IN THE AGE OF TRUMPIAN LAISSEZ-FAIRE

Funds & ETFs

Equity



→ **For many investors, governance can be seen as intangible and difficult to quantify, especially in a world where intangible assets are growing in importance due to the shift from an industrial economy to a more intangible asset (knowledge based) economy.**

- Good governance leads to better decision-making particularly in areas such as capital management and risk management.
- The principles that derive from good governance could prove even more valuable in an environment –such as the Trump administration– possibly characterised by a combination of trade protectionism and domestic laissez-faire, potentially leading to insufficient regulation.
- Academic research has shown that companies with a strong corporate culture and clear corporate strategy, thanks to the quality of its executive decision-makers, are better equipped to navigate corporate challenges.

MACRO DIVERSIFIERS

GOLD MAINTAINS ITS SHINE

Funds & ETFs

Commodities

→ **Trump's presidency will certainly continue to boost gold's appeal as a safe-haven. Concerns that the Trump administration's proposed trade tariffs and tax cuts could spark inflation, weaken the USD, and fuel the surge in public debt increase the demand for gold as a hedge against global market volatility.**

- Most central banks, including the Fed, are still their easing monetary policies, albeit at a slower pace than expected a few months ago. Furthermore, President Trump's call for immediate rate cuts at the WEF has been adding to the positive sentiment toward gold.
- Longer term, the persistence of massive budget deficits and the ongoing increase in the already record US debt levels may end up undermining the US dollar, making the case for de-dollarisation by major central banks stronger.
- Gold also remains an attractive portfolio diversification.

LOOKING FOR YIELD

SHORT-TERM, HIGH-CARRY INVESTMENTS

Fixed Income

→ **Why incorporate high-carry investments?**

- Secure strong and predictable cash flows – high-carry investments generate stable and substantial income, providing enhanced liquidity and financial security.
- Built-in protection through high buffer – the elevated carry acts as a cushion, mitigating downside risk and reducing volatility.
- Superior yield in a rising rate environment – high-carry strategies offer a compelling alternative to traditional fixed-income assets, outpacing inflation and policy rate hikes.

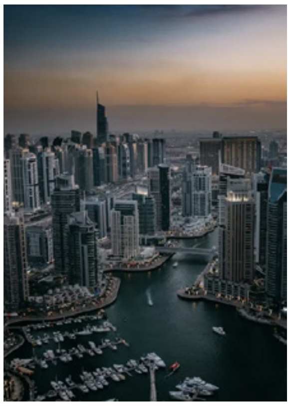
→ **Why opt for short-dated strategies?**

- Enhanced visibility on fundamentals – short-term investments offer better predictability on company performance and financial health.
- Reinvestment advantage and interest rate protection – frequent reinvestment of cash flows enables adaptation to evolving market conditions and rising interest rates.
- Attractive yield premium over money market funds (MMFs) –short-term high-carry strategies deliver a significantly higher return than traditional MMFs.

LOOKING FOR YIELD

WEALTHY NATIONS

Fixed Income



Investing into GCC (Gulf Cooperation Council)

→ **Very low government debt**

- **Saudi Arabia:** 26%-28% debt-to-GDP in 2025-27
- **UAE:** 13%-14% debt-to-GDP in 2025-26 (S&P)

→ **Accelerating economic growth**

- **Saudi Arabia:** GDP is projected to grow by +5.3% in 2025, +4.0%in 2026, and +3.6% in 2027 (2024: +1.4%)
- **Qatar:** +2.3% in 2025, +4.2% in 2026, and +7.5% in 2027 (S&P)

LOOKING FOR YIELD

RELATIVE VALUE IN CREDIT

Fixed Income

1 European banks

European bank earnings proved resilient, with non-performing loans better than feared. Banks also stand to gain from steeper yield curve and fiscal stimulus program.

Spanish banks - stronger economic growth than the Eurozone.

2 Subordinated bank debt fund

High incentive to redeem subordinated debts on the first call date.

An outstanding fund performance.

3 US telecom

US telecom – recurrent revenue domestically, no direct impact from US tariffs.

4 US energy midstream

Benefiting from higher volume of oil and gas, and energy demand from data centres.

Pay-or-take customer contracts to cushion the 15% Chinese tariffs on US LNG which could be directed to Europe.

(LNG: liquefied natural gas)

5 Very selective Argentine corporates

The most resilient Argentine corporates backed by strong shareholders or dollar-denominated revenue.

THE LIQUIDITY DIVERSIFIERS

PRIVATE EQUITY: EUROPEAN BUYOUT AND SECONDARIES

Private Equity

Investing into GCC (Gulf Cooperation Council)

→ **Why European buyout?**

- Europe offers a valuation advantage due to fewer funds relative to the number of SMEs.
- Less competition in the private equity landscape, creating opportunities for outsized returns.
- European Lower Mid-Market demonstrated greater resilience compared to large-cap segments, especially during the 2022-2023 downturn.

→ **Why lower mid-market?**

- Lower mid-market is appealing due to its growth potential, valuation discipline, and opportunities for operational improvements.
- Fragmented sectors like healthcare, or IT services, providing potential for buy-and-build strategies.
- Lower mid-market maintained stable exit activity even during challenging market conditions.

→ **Why private equity secondaries?**

- The secondaries market provides a pathway for liquidity in challenging exit environments.
- The market allows investors to access high-quality assets at potentially favourable valuations, presenting an opportunity for innovative investments.

THE LIQUIDITY DIVERSIFIERS

LITIGATION FINANCE

Offering 25% + truly uncorrelated returns

Legal Assets

➔ What is litigation finance?

- The funder will cover the legal bills of individuals/corporates (the "victim") pursuing legal claims or lawsuits so that the victim can obtain compensation through a court judgement or a settlement.
- In exchange for funding, the fund receives a portion of any financial recovery resulting from the legal action, often referred to as a contingency fee or a share of the damages awarded.

➔ Why do we pursue litigation finance?

- Uncorrelated risk factors: the cash flows behind a legal asset portfolio are based on facts and the law. Rates, inflation, GDP growth or other economic indicators do not influence cash flow drivers.
- All-weather origination: litigious situations arise in all markets. The types of legal assets being originated simply change based on the macro and microeconomic backdrop (e.g., M&A disputes in strong economy, insolvencies in recessions).
- Automatic exit: legal assets do not require an IPO, buyout, refinancing, take-out, or any third party to generate a cash flow event. Exits in market downturns are possible and not uncommon.

THE LIQUIDITY DIVERSIFIERS

CRYPTO HEDGE FUNDS

Attractive uncorrelated returns

Crypto Hedge Funds

➔ Why crypto hedge funds?

- All-weather absolute return profile
- The monthly liquidity coupled with high target returns make crypto hedge funds an attractive asset class to own in a diversified portfolio
- We believe there is unique alpha (excess return) available in the crypto market due to volatility, fragmentation, and inefficiencies
- This is the same opportunity as HFs presented in the 80s and 90s. By backing the good performing managers now, we believe it is now time to find and secure capacity with the future Tudor Jones, Soros and Druckenmillers of crypto
- Additional alpha can be found through on-chain analysis
- Liquid portfolio diversification

THE LIQUIDITY DIVERSIFIERS

HEDGE FUNDS

Access to the best hedge fund managers

Hedge Funds

➔ Why hedge funds?

- Geopolitical uncertainty: hedge funds are often better positioned to capitalise on geopolitical risks by investing in global markets, currency arbitrage, and navigating political changes that may affect asset prices.
- Diversification: hedge funds offer diversification benefits by investing across various asset classes and strategies, potentially reducing overall portfolio risk.
- Opportunistic strategies: in times of economic and political uncertainty, hedge funds can exploit inefficiencies, distressed assets, and special situations that may arise, potentially providing strong returns when traditional markets struggle.

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