Investment letter

Monthly review of global financial markets

SWISS CAPITAL IB

May 2025

MACROECONOMICS

A month marked by trade war. It was with great pomp and the characteristic emphasis of his personality that Donald Trump reignited his tariff crusade against the rest of the world on Liberation Day, last April 2. **By unveiling "reciprocal tariffs"** whose scale recalls the major protectionist retreats of the 19th century or the 1930s, he dealt a severe blow to his trade partners, whom he holds responsible for the United States' chronic trade deficit in goods. After a phase of panic in the markets, the occupant of the White House partially backtracked on his decision by announcing a 90-day suspension of the reciprocal tariffs, to allow time for negotiation. Only China does not benefit from this exemption, as it declared itself ready to fight "to the end", triggering an unprecedented escalation between the two largest economies in the world, which saw the United States raise its tariffs to 145% on goods from China, while the latter increased them to 125%. In any case, for China and the rest of the world, **a phase of intense negotiations with the United States begins**. President Trump has already granted some sectoral exemptions (semiconductors, electronic products…) insofar as these goods are crucial for the American economy. There remains hope that the breach in the customs wall imposed by Trump will widen a bit more.

But the American economy continues to pay a heavy price for its president's trade ventures. Hard data is starting to falter, as shown by **the contraction of GDP in Q1, at -0.3%** quarter-on-quarter annualized. Foreign trade, largely in deficit, contributed very negatively to GDP. The drop in public spending worsened the picture. **The deterioration of soft data continues**. In manufacturing, stockpiling ahead of the tariffs continues (ISM Manufacturing: 49.3, PMI Manufacturing: 50.7). Uncertainty is slowing activity in services (ISM Services: 50.8, PMI Services: 51.4). Paradoxically, a big rush toward auto purchases is boosting car sales (+5.4% m/m), which in turn drive retail sales (+1.4% m/m vs +1.2% expected). But once again, consumers are trying to equip themselves with durable goods before the arrival of new customs barriers. In reality, consumer morale continues to fall. **The Conference Board survey reports a confidence index at its lowest since the 2020 lockdowns**, while six-month economic expectations are at their lowest since 2012… The University of Michigan survey reports one-year inflation expectations still climbing, due to the tariffs.

This last point confirms to the Fed that the time to further ease monetary policy has not yet come. Asked at the Economic Club of Chicago about the risk of the Fed's two goals (employment and inflation) coming into conflict, Powell reminded that in such situations, the central bank must prioritize the objective furthest from its target. Subtle message: since the March employment report once again showed that the labor market is holding up (+228,000 jobs created and unemployment at 4.2%), **the Fed should remain more attentive to persistent inflation**. Indeed, the March CPI inflation figure would have been reassuring in another context (CPI: +2.4%, Core CPI: +2.8%). But tariffs and their inflationary effects are now on everyone's mind.

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A month marked by trade war

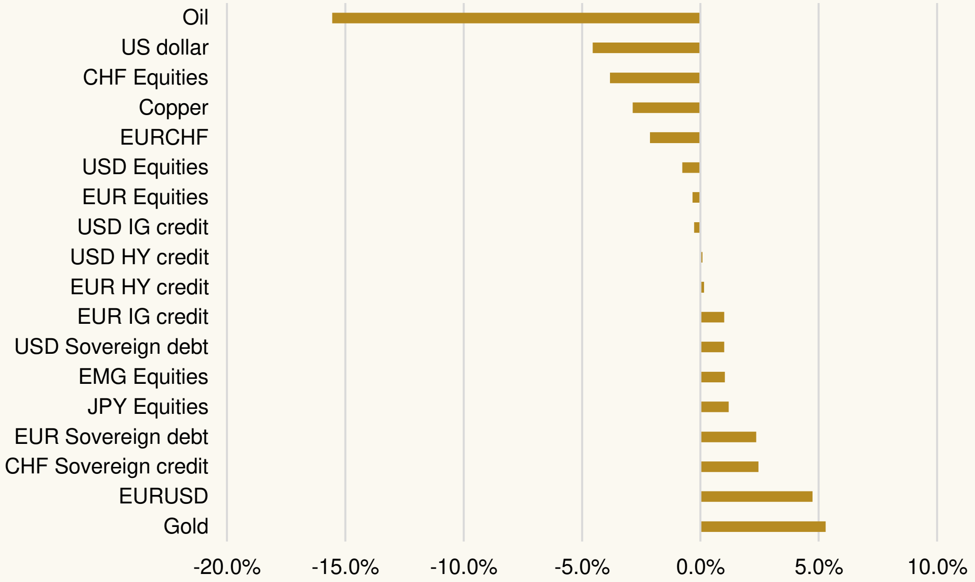
In the euro area, the ECB is further easing its monetary policy by lowering the deposit rate from 2.50% to 2.25%. This is the 7th rate cut of the ECB's easing campaign launched in June 2024, and the 6th in a row. The successive monetary policy easings are starting to take effect, as growth surprised to the upside in Q1 (+0.4% q/q vs +0.2% expected), thanks in particular to Germany (+0.2%) and France (+0.1%) returning to growth.

The central bank's communication leaned on the accommodative side. The March inflation figure was reassuring, at +2.2% year-on-year, with the core component also slowing to +2.4%. The recent surge in the euro and the collapse in oil prices were less anticipated by the central bank but reinforce the disinflationary trend. Tellingly, the reference to a monetary policy having become *"significantly less restrictive"* was removed (it had been introduced in March to prepare the markets for the end of the "one meeting = one rate cut" phase). Lagarde justified this reversal by explaining that qualifying the level of key rates in this way was no longer relevant, as comparing them to a necessarily hypothetical neutral rate is only valid in a "shock-free world," which does not reflect today's turmoil. Indeed, the main growth indicators (Composite PMIs: 50.1) are deteriorating, as the shock that trade barriers could cause to the European economy is cause for concern. **The ECB is thus preparing to respond to the trade war by adopting an accommodative stance.**

The Chinese economy is in murky waters. On one hand, the first quarter was strong in terms of growth (+1.2% q/q, +5.4% y/y), in line with an already above-potential Q4 2024. But it's the future that worries observers. Over the last two quarters, China has rushed its exports to the United States and the rest of the world ($102 billion in total trade surplus in March vs $77 billion expected) ahead of the implementation of customs barriers. If decoupling from the United States becomes real, the Chinese economy will truly need to reinvent itself, which involves rebalancing its mercantilist economic model toward domestic demand. Last month, retail sales largely surprised to the upside (+5.9% y/y vs +4% expected). A first encouraging step, but still far from sufficient.

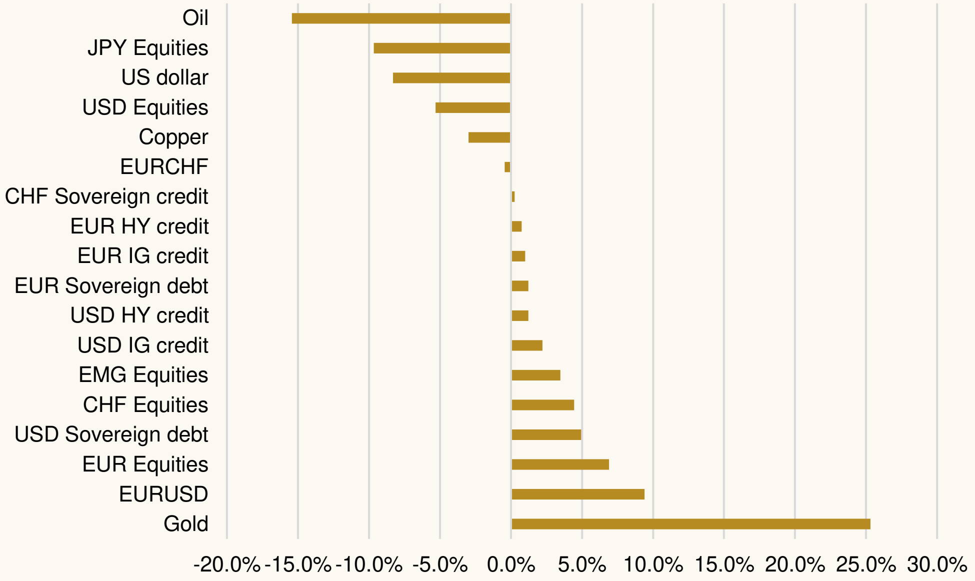
OVERVIEW

MAIN ASSET CLASSES
MONTHLY PERFORMANCE



Source: Bloomberg, 30/04/2025

MAIN ASSET CLASSES
PERFORMANCE YEAR-TO-DATE



Source: Bloomberg, 30/04/2025
Past performance is not indicative of future performance

MACROECONOMICS (CONTINUED)

Japan was among the first countries to rush to the Oval Office to try to sign a trade agreement with the United States. The parties are reportedly considering opening the Japanese market to foreign agricultural imports in exchange for easing the 25% auto tariffs, which are particularly harsh on the Archipelago's economy. Discussions are expected to continue into the summer. Even though inflation remains high (CPI: +3.6%), trade uncertainty threatens Japanese growth, seriously reducing the likelihood that the BoJ will continue raising rates this year.

The British economy is showing signs of slowing. Although growth surprised to the upside in February (+0.5% m/m), bringing growth for the December-January-February period to +0.6%, the coming months look more difficult. PMIs disappointed: unlike continental Europe, the contraction in manufacturing is worsening (PMI Manufacturing: 44). After 17 months of expansion, services are falling into contraction (48.9 vs 51.3 expected). The best news is that headline inflation is slowing to +2.6% (vs +2.8% expected). Core inflation is doing the same (+3.4% vs +3.5% expected). However, let's recall that the BoE is forecasting a rebound in inflation mid-year.

The Swiss economy is under the threat of a global slowdown. The sharp appreciation of the Swiss franc is fueling imported deflation. As a result, the CPI rose only +0.3% in March (vs +0.5% expected). Activity is also slowing despite an improvement in the trade surplus in March (+5.3 billion CHF vs +4.3 billion in February). Retail sales are decelerating (+1.6% y/y after +2.9%). Activity indicators are also losing ground, as shown by the KOF (97.1 vs 102 expected), which fell to its lowest level in 18 months. The Economic Sentiment Index collapsed (-51.6 vs -10.7 expected).

EQUITY MARKETS

An April like few others. Looking at the performance numbers, one might think this early spring was rather dull for equity markets (S&P 500: -0.8%, Nasdaq-100: +1.5%, Stoxx Europe 600: -1.2%). Yet, risk assets are coming out of a turbulent month where the VIX surpassed 50. **Starting on April 2, Donald Trump played yo-yo with risk assets** by imposing a series of so-called "reciprocal" tariffs of historic brutality on U.S. trade partners. The result: widespread panic and a drawdown of over 10% in less than a week from the first of the month...

Realizing the damage caused by his all-out trade war, he partially reversed course by announcing, as early as April 9, a 90-day truce opening the door to bilateral negotiations. The markets needed no more than that to rebound sharply (with nearly a 10% rise, the S&P 500 recorded the 8th best session in its history).

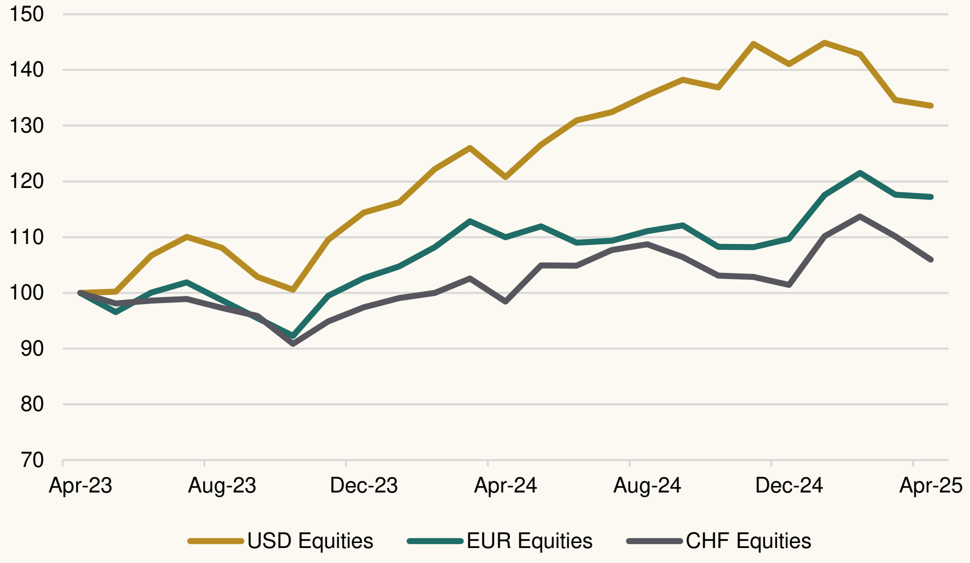
Investors remain very watchful of tensions with China, which are still extreme, as it is the only country to have chosen tariff escalation with the U.S. president. Trump's threats against Jerome Powell also continue to weigh on sentiment. In the final days of the month, the tone from the presidential administration became slightly more conciliatory on both fronts, allowing the S&P 500 to further limit its losses—and even enabling the Nasdaq to claw back a few percentage points, an achievement given the early-month slump!

Donald Trump plays yo-yo with risk assets

The rebound in Technology (+1.6% for the S&P 500 sector) was also welcomed by Wall Street. After being crushed during the downturn (due to lingering DeepSeek effects and concerns around cyclicals), the sector managed to bounce back, led by Palantir (+40.3%) and Vertiv (+18.3%). In this light, the early signs of strength from the "Magnificent Seven" at the beginning of earnings season are encouraging. However, the specter of a trade war is far from gone, as shown by the stellar performances of Netflix (+21.3%)—protected from tariffs due to its service-based model—and Walmart (+10.7%)—a staple consumer giant. The Energy sector (-13.7%) finished dead last, suffering from the collapse in oil prices.

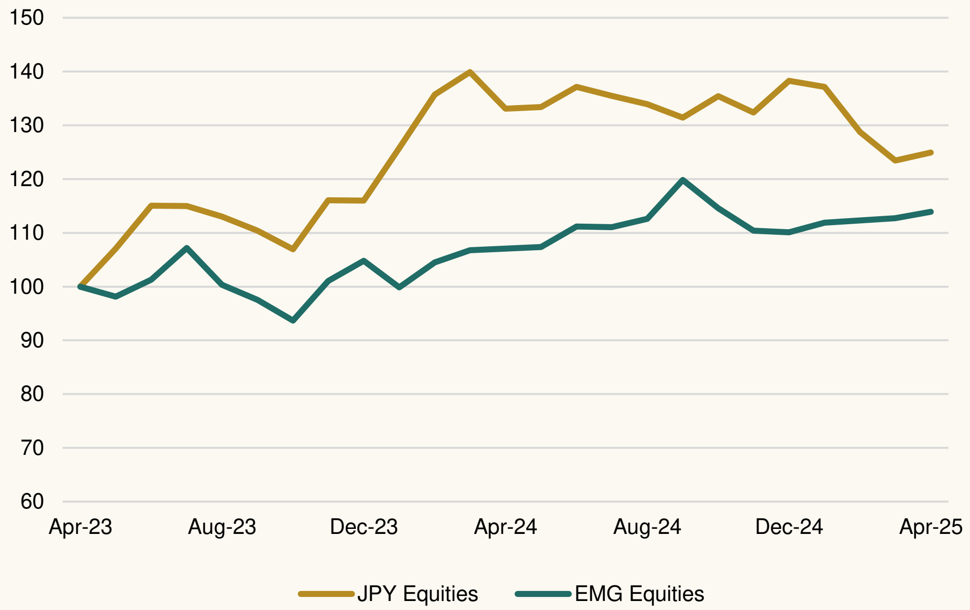
EQUITY MARKETS

EQUITY MARKETS EUR USD CHF
PERFORMANCE OVER 2 YEARS



Source: Bloomberg, 30/04/2025

EQUITY MARKETS JAPAN – EMERGING MARKETS
PERFORMANCE OVER 2 YEARS



Source: Bloomberg, 30/04/2025
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BOND MARKETS

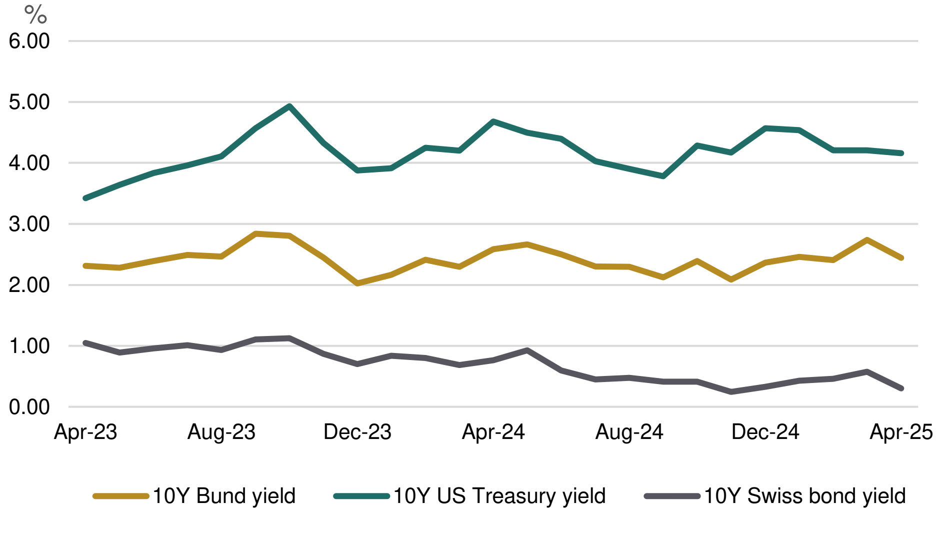
April was marked by the 'liberation day'. Donald Trump's protectionist doctrine and his announcement of massive tariff increases shook the markets, almost pushing the system to its limits: the dollar collapsed, breaking through the 1. 15 against the euro, Treasuries lost their status as a safe haven, 10-year yields rose rapidly by 50bps, and equity volatility settled for a few days at around 40/50, an abnormally high level.

Fortunately, faced with risks to the US economy (supply chain, inflation, unemployment) and mistrust from trading partners (who were far from wanting to return to the negotiating table), **the US president backed down, freezing tariffs for 90 days and urging foreign countries to reach agreements.** The bond markets therefore recovered, with 10-year US yields falling back below 4.2% at the end of the month and credit spreads retracking half of their losses. **It should also be noted that even at the height of the tensions, credit spreads never priced in a recession (HY spreads below 500bp, for example).** The word recession will be on everyone's lips again following the 0.3% contraction in US GDP in Q1 2025, with these fears weighing on short-term rates (hopes of Fed rate cuts) and **further steepening the US curve (2-10y slope now at +55bp).**

In terms of performance (with a third of 2025 now behind us), we have seen a certain degree of consistency across the credit market: high-yield debt is clearly lagging YTD (+0.7% in EUR and +1.3% in the US), while investment grade is performing better (+1.1% in EUR and +2.2% in the US) thanks to the duration effect. **The best performance has been delivered by Treasuries, which have gained 3.5% since the start of the year**, but it should be noted that emerging market debt has also been sought after in this climate of mistrust (+2.2% on JPM's EMBI index in USD).

> **April was marked by the 'liberation day'**

10Y SOVEREIGN BOND YIELDS
EVOLUTION OVER 2 YEARS



Source: Bloomberg, 30/04/2025
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CURRENCIES

Trump's economic policy may be far from a clear success in terms of growth, but he has (at least) succeeded in weakening the dollar (DXY: -4.6%). Fears of a recession following the "Liberation Day" announcements sank the greenback. While this is a prerequisite to encouraging a reindustrialization of the United States, the other consequences of the dollar's decline raise questions about the cost of financing the American economy. The DXY broke a three-year floor. The American president's stated goal to end the U.S. dollar's 80-year role as the linchpin of the global financial system is causing concern. His repeated attacks on Jerome Powell didn't help either.

The euro benefited from the dollar's fall and surged (EURUSD: +4.7%). Still far from being able to assume the role of a global reserve currency, the single currency offers a semblance of stability, far from Washington. Moreover, a European economy that proved more resilient than expected outweighed the impact of the ECB's new rate cut. At 1.13–1.14, the EURUSD is moving back toward its long-term equilibrium level, as estimated by the purchasing power parity model.

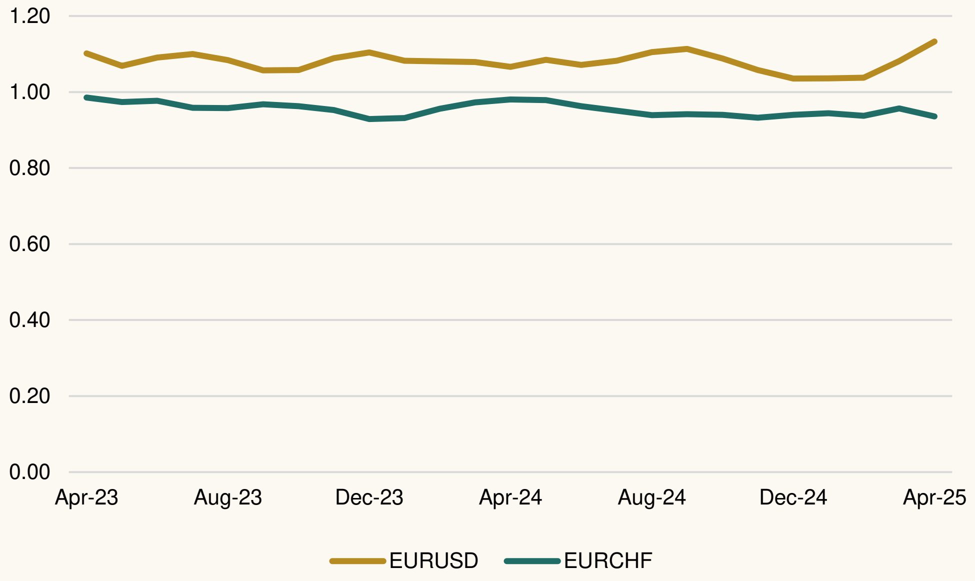
The pound also strengthened, though less than the euro (GBPUSD: +3.2%). PMIs indicate that British growth turned downward in April after a relatively solid start to the year. At 1.34, the GBPUSD pair is testing its highest level since 2022.

The yen continued its strong rally of recent months (USDJPY: -4.6%). The Japanese currency was supported by hopes that trade negotiations with Donald Trump would find a quick resolution. While the BoJ is expected to remain very hesitant about further rate hikes due to global economic uncertainty, markets are anticipating that the yen's chronic undervaluation versus the dollar may end sooner than expected.

The Swiss franc is at its highest level (CHFUSD: +7.1%). In a world marked by uncertainty (and at times panic), the Swiss currency serves as a safe haven for investors worldwide. This time, it reached its highest level in 14 years against the dollar. To try to stem this movement, the SNB is expected to cut rates again in June, potentially returning to negative territory.

Trump succeeds in bringing the dollar down

USD & CHF
EVOLUTION OVER 2 YEARS AGAINST THE EUR



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COMMODITIES

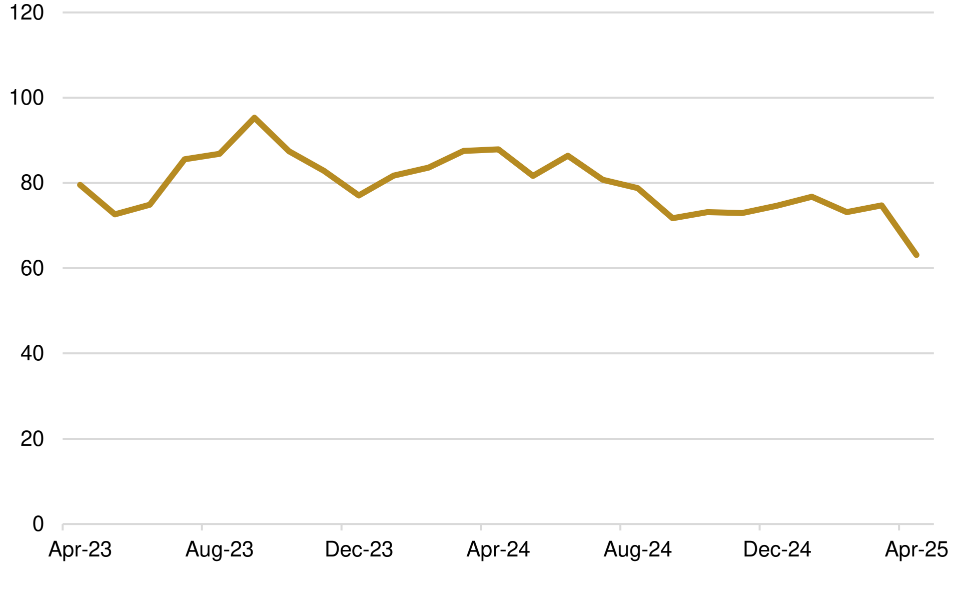
OIL

Oil prices collapsed in April (Brent: -15.6%, WTI: -18.6%). On one hand, fears over global growth logically weighed on crude. On the other, producers seem willing to flood the market with more barrels. In a typically non-cooperative OPEC-style move, Saudi Arabia decided to punish cartel members failing to meet their quotas (chiefly Kazakhstan and Iraq) by increasing its own output to take their market share. The kingdom's resolve played a big part in the alliance's decision to boost production by more than 400,000 barrels/day (vs only 100,000 expected) starting in June. Brent could drop below $60 for the first time in four years.

Oil prices collapse in April

OIL

EVOLUTION OF BRENT PRICES OVER 2 YEARS



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COMMODITIES

GOLD

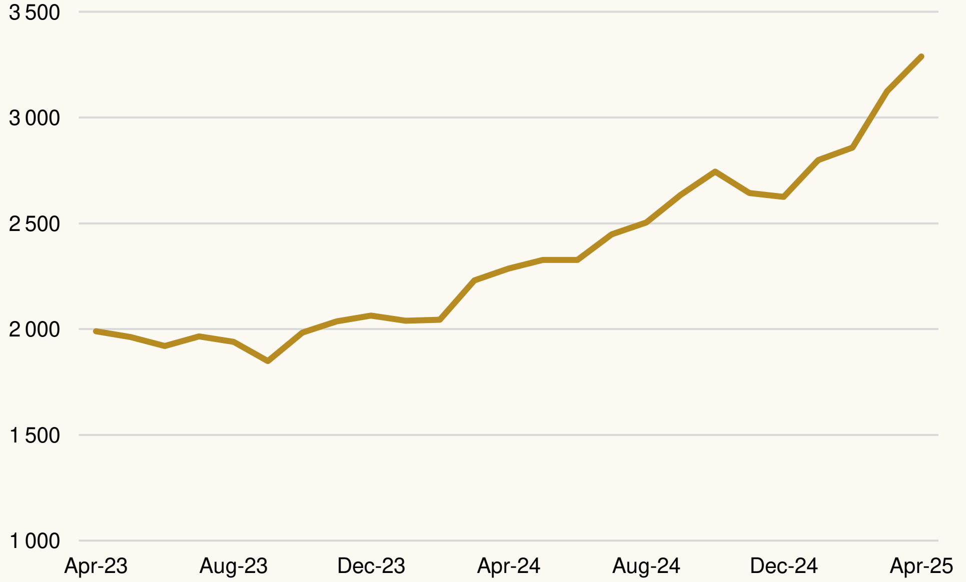
Gold posted a strong April, though unlike previous weeks, its path was not linear (XAUUSD: +5.3%). During the Liberation Day panic, it initially lost ground (sold to cover short-term liquidity needs for margin calls), but then rebounded strongly. Seen as the only credible alternative to the greenback, the yellow metal soared as the perception of the dollar as a global reserve currency weakened, reaching a historic high near $3,500 an ounce. However, it turned lower again at the end of the month, when Trump announced a truce in his attacks on Jerome Powell.

Silver's cyclical nature played a nasty trick on the grey metal (XAGUSD: -4.3%). It collapsed in the market selloff and only managed a feeble rebound. It remains highly dependent on threatened global growth and, unlike gold, does not benefit from central bank buying as an alternative to the dollar.

Gold: a mirror of the dollar

GOLD

EVOLUTION OVER 2 YEARS



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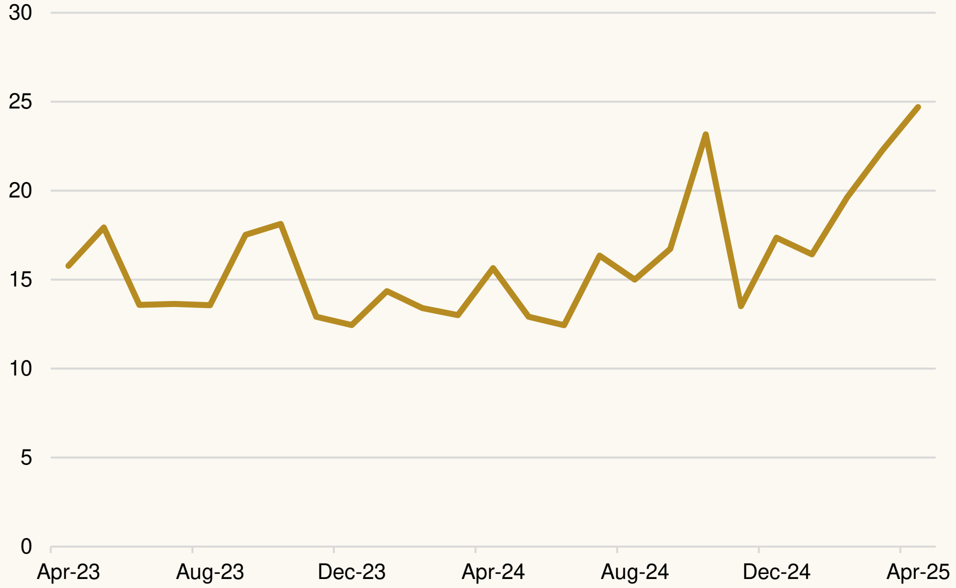
VOLATILITY

VOLATILITY – VIX INDEX
EVOLUTION OVER 2 YEARS



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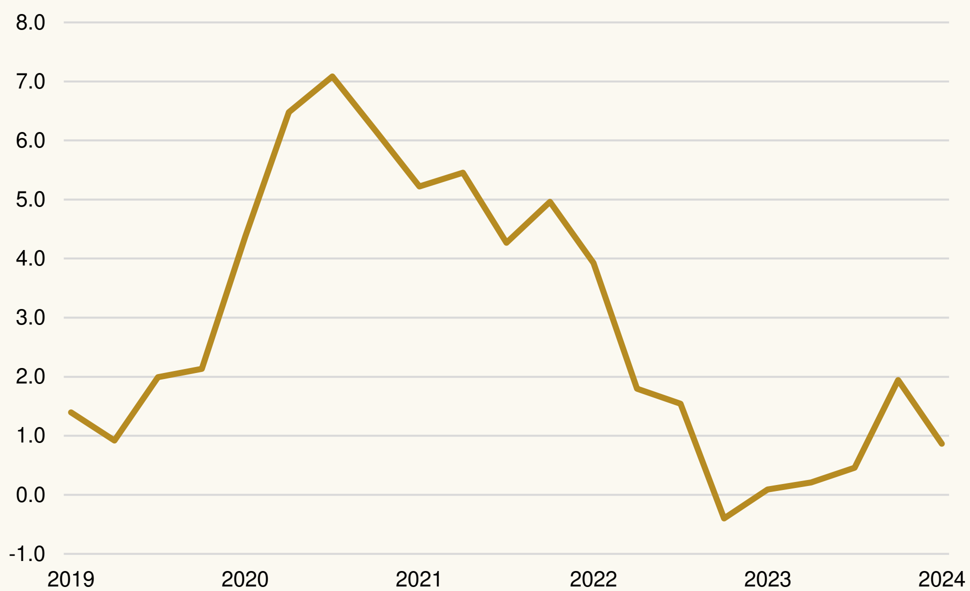
REAL ESTATE

SWISS RESIDENTIAL REAL ESTATE
ANNUAL PRICE CHANGE



Source: Bloomberg, 30/04/2025
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CALENDAR

Date	Country	Economic Data	Period	Previous
05 May	US	ISM Non-Manufacturing Index	Apr-25	50.8
	Switzerland	Inflation (YoY)	Apr-25	0.3
06 May	Eurozone	Markit Services PMI	May-25	49.7
	UK	Markit Services PMI	May-25	48.9
	Switzerland	Unemployment Rate (%)	Apr-25	2.8
07 May	US	Federal Reserve Interest Rate (%)	Apr-25	4.5
08 May	UK	Bank of England Interest Rate (%)	Jun-25	4.5
	Germany	Industrial Production (MoM)	Mar-25	-1.3
09 May	China	Exports (YoY)	Apr-25	12.4
10 May	China	Inflation (YoY)	Apr-25	-0.1
13 May	US	Inflation (YoY)	Apr-25	2.4
	UK	Unemployment Rate (%)	Mar-25	4.4
15 May	US	Industrial Production (MoM)	Apr-25	-0.3
	US	Philadelphia Fed Business Survey	May-25	-26.4
	Eurozone	Industrial Production (MoM)	Mar-25	1.1
	Eurozone	Employment (QoQ)	Mar-25	0.1
	Eurozone	Real GDP (QoQ)	Jun-25	0.4
	UK	Real GDP (QoQ)	Mar-25	0.1
16 May	US	Consumer Confidence	May-25	52.2
	France	Unemployment Rate (%)	Mar-25	7.3
	Japan	Industrial Production (MoM)	Apr-25	-1.1
	Japan	Real GDP (QoQ)	Mar-25	2.2
19 May	China	Retail Sales (YoY)	Apr-25	5.9
	China	Industrial production (YoY)	Apr-25	6.5
21 May	UK	Inflation (YoY)	Apr-25	2.6
22 May	Eurozone	Markit Manufacturing PMI	May-25	49.0
	UK	Markit Manufacturing PMI	May-25	45.4
	Germany	Ifo Business Climate	May-25	86.9
	Japan	Nikkei Manufacturing PMI	May-25	48.7
23 May	Germany	Real GDP (QoQ)	Jun-25	0.2
28 May	US	Fed minutes	Apr-26	
	France	Real GDP (QoQ)	Jun-25	0.1
29 May	US	Real GDP (QoQ)	Jun-25	-0.3
30 May	Italy	Real GDP (QoQ)	Jun-25	0.3
	Switzerland	KOF Leading Indicator	May-25	97.1

LET'S TALK ABOUT IT.

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