

APRIL 2025

Editorial

A New World

Wednesday, April 2, 2025, will go down in the annals of contemporary economic history. That night at 4:00 p.m. local time, the American president announced that he would impose tariffs of at least 10% on all imports into the United States, with higher rates for many countries, including those in the EU (20%) and China (34%). Liberation Day, to use his terminology. With a giant infographic in hand, Donald Trump reviewed the heavy tariffs he had decided to impose on the planet, particularly targeting Asia and the European Union. "Our country has been pillaged, cheated, raped, and devastated by nations near and far, allies and enemies alike," the president explained, before showing his list of affected trading partners. This protectionist offensive by the Republican leader involves an additional 10% minimum tariff on all imports and increases for countries deemed hostile in trade matters. These are reciprocal surcharges. The highest level since the beginning of the 20th century.

Goods from the European Union will thus be subject to a 20% tariff. The rates have been set at 24% for Japan, 26% for India, 31% for Switzerland, and 46% for Vietnam. The bill is particularly steep for China, whose products will be subject to a new 34% import tax, adding to the 20% additional customs duties already implemented by the Trump administration. The United Kingdom, which is negotiating a bilateral trade agreement with the United States, has been relatively spared, with a minimum rate of 10%. It should be noted that neither Russia nor North Korea are included in these announcements. A member of the executive branch justified this absence by explaining that these two countries are no longer significant trading partners.

These announcements by Trump certainly exceed anything expected. In recent days, the Presidency appeared to be considering two options. The first consisted of imposing 20% tariffs on all imports, regardless of country of origin or the type of goods involved. The second was to target certain countries. Ultimately, Trump opted for a combi-

nation of the two. And ultimately, the entire trading system, as it was constructed after World War II, is targeted by this barrage of tariffs. The Japanese government spokesperson was quick to react, declaring: "We have serious concerns about the compliance of US tariffs with WTO rules and the Japan-US trade agreement." It is true that the most-favored-nation clause, a fundamental principle of the World Trade Organization (WTO) that ensures that customs taxes are the same for all states, except in the case of free trade agreements, is singularly undermined by these announcements.

Economists around the world are alarmed by the potentially negative economic consequences that these heavy tariffs could bring. Indeed, the inevitable tariff increases are likely to disrupt value chains, generate price increases, delay purchasing and investment decisions, and ultimately cause significant damage to the economy. Moreover, these announcements reveal a more insidious scourge: uncertainty. The example of semiconductors is very telling. The announcement of a 32% tariff on Taiwan initially caused a minor shock in the tech sector, before the White House clarified that the semiconductor industry was excluded. Similarly, 31% for Switzerland seems steep at first glance, but upon further investigation, it appears that drugs and active pharmaceutical ingredients remain exempt from the new tariffs. The tax framework is highly volatile, and this is far from an ideal situation for business leaders.



Some experts are, in any case, beginning to mention the word recession in their analyses. It's true that between rising prices, disrupted supply chains, the US central bank torn between slowdown and inflation,

	Q1 2025	FY 2025	Close 31/03/25
DOW JONES	-1.28%	-1.28%	42,001.76
S&P 500	-4.59%	-4.59%	5,611.85
FTSE 100	5.01%	5.01%	8,582.81
EUROST.50	7.20%	7.20%	5,248.39
CAC 40	5.55%	5.55%	7,790.71
FTSE MIB	11.31%	11.31%	38,051.99
MSCI EM	2.41%	2.41%	1,101.40
CRUDE OIL	-0.33%	-0.33%	71.48
GOLD	19.02%	19.02%	3,123.57
EUR/USD			1.0816
EUR/CHF			0.9564
EUR/GBP			0.8372
EURIBOR 1M			2.358%

and an American consumer under pressure... the risk is not negligible. We'll see what the situation is in our Special Topic on this subject on page 4. It's worth noting that, following yesterday's announcements, Goldman Sachs now estimates the risk of recession at 35% (compared to 20% previously). For JP Morgan, it's 40% (compared to 30% previously). In this context, it is more than desirable that the tax cuts promised by Trump during his campaign materialize rather quickly.

The global geoeconomic order is definitely changing before our eyes, and at the global level, there is a fear that this will not happen without collateral damage. We will see in the coming days what the attitude of the major affected countries will be. Negotiation? One-upmanship? On Thursday, April 3, the President of the European Commission, Ursula von der Leyen, affirmed on this specific point that Europeans were "ready to react" and were already working on "a new set of counter-measures" in the event that the negotiations with the American administration, as requested by the EU, were to fail.

Donald Trump is shaking things up in Europe, that's undeniable. This was also demonstrated this quarter on defense issues. Already, in February 2024, there was a first warning sign. When asked by a head of state if the United States would come to his country's aid in the event of a Russian attack, even without reaching the 2% defense spending target of GDP, candidate Donald Trump replied: "No, I will not pro-



tect you." This was the first breach in NATO, and not the least, with the outright questioning of Article 5» ... one for all, all for one." Once elected, the now 47th President of the United States upped the ante. Member countries no longer would have to devote 2% of their GDP to defense. Only Poland, at over 4%, can achieve this target, which seems unattainable for many indebted or deficit-ridden countries. In the face of this and given the persistent threat from Russia in the East of the continent, Germany struck a major blow on Tuesday, March 4, by announcing a massive investment plan worth several hundred billion euros, marking an unprecedented break with its traditional budgetary rigor. This is one of the highlights of this quarter, which was not without consequences for the evolution of long-term rates, which immediately tightened in response to this announcement. Under the leadership of future Chancellor Friedrich Merz, the conservatives of the CDU/CSU and the social democrats of the SPD, in the midst of negotiations regarding the formation of a new government, reached an agreement to lift the restrictions of the "debt brake" and release colossal funds intended to finance the country's defense and infrastructure. "Whatever it takes!" declared Friedrich Merz, echoing the famous phrase of former European Central Bank (ECB) President Mario Draghi during the 2012 debt crisis. A powerful symbol that illustrates the radical change Germany has undergone. The Eurozone's largest economy has been struggling for two years. Clearly aware of its situation and keen to recover, Berlin is therefore betting on increased debt. The announcements include a major overhaul of the so-called "debt brake" mechanism, which until now limited the annual budget deficit to 0.35% of GDP. Under the proposed new framework, the rule would be relaxed to allow the state to borrow up to 1.4% of GDP annually, with an adjustable margin if public debt exceeds 60% of GDP. According to the Bundesbank, this paradigm shift could generate up to €220 billion in additional financing by 2030, without compromising budgetary discipline. Defense investment could reach €200 billion to €400 billion. For comparison, the annual German federal budget is approximately €480 billion. Thanks to this fiscal effort, Berlin could quickly reach the threshold of 3% of GDP for its defense spending (compared to 2.1% in 2024). All spending in this area exceeding the

threshold of 1 percentage point of German GDP, or approximately €45 billion, can be approved without taking into account the debt brake mechanism. The other part of the plan concerns the country's infrastructure, which suffers from chronic underinvestment. Conservatives and Social Democrats have agreed on a gigantic public subsidy plan to improve infrastructure in Germany. Friedrich Merz has thus announced his intention to create a new special extra-budgetary fund, which would inject an additional €500 billion into infrastructure investment over the next ten years. This is all colossal and should, if this plan quickly filters into the real economy (which was not the case with the €1,000 billion promised by the European Commission as part of the European Green Deal), support activity in Germany and throughout Europe.

On the geopolitical front, the situation is far from clear at the moment. Trump wants peace quickly in Ukraine. A rare earth deal has been negotiated with Kyiv. All that's missing now is an effective ceasefire. The ball is now in Vladimir Putin's court, who, for the time being, is playing for time, periodically pulling out new demands, and escalating his attacks, instead of actively preparing for peace. It will be interesting to see when and how Donald Trump will raise his voice against the Kremlin leader, who, for the moment, does not seem in any great hurry to move toward the cessation of hostilities so desired by the American president.



The Iranian nuclear issue could also quickly return to the forefront, as this issue is crucial to the very existence of Israel, a staunch ally of the United States in the region. For Israel (and not only for them), it is inconceivable that Iran could possess a nuclear weapon. Is there still time to negotiate on this issue? Or could only a military strike solve the problem? It's difficult to say at this point, but it's undeniably an

issue on the table that could also have economic consequences depending on the potential reactions of Iran and its proxies in the Strait of Hormuz.

In this uncertain world, what should we do with our portfolios?

This quarter wasn't easy for the markets, as uncertainty creates volatility. But it also creates opportunities. While the US stock markets corrected their excesses of the end of last year and posted negative performances in the first quarter (-4.59% for the S&P 500, -8.25% for the Nasdaq), Europe, for its part, has just seen a nice recovery, with a performance of 7.20% over the first three months of the year, driven by the return to favor of somewhat cyclical stocks, banks, and defense stocks.

As usual, we try to keep a cool head and approach events with calm and lucidity. More than ever, the quality of the managers we include in our portfolio and diversification remain key dynamics to avoid significant upheavals. We are present in all major economic zones, trying to be a little counterproductive in the marginal weightings of each. We obviously maintain a substantial weighting in bonds, which should constitute a valuable buffer in the coming months, alongside gold. Furthermore, for certain discerning clients, we are starting to consider something new, like cryptocurrency ETFs, which could prove to be an interesting theme with Donald Trump's executive order in favor of a strategic reserve fund in cryptocurrencies.

Christophe Carrafang



Macro-economy

A decent start to 2025, but questions remain about the rest of the year.

Price index: Further declines in inflation

- In the Eurozone, core inflation fell by -0.2% to 2.4% in March. The decline in the headline index was less pronounced but is closer to the ECB's target of +2.2%.
- In the United States, the trend is the same: +2.8% for February inflation and +3.1% for the index excluding economic factors.
- We are seeing the same trend in the United Kingdom, with inflation falling back below the 3% mark (+2.8%).

Labor market: The months are similar

- The unemployment rate in the Eurozone reached a new historic low of +6.1% in February. With the slowdown in activity, this figure remains surprising and is undoubtedly linked to demographic factors.
- In the US, unemployment claims have been very stable for three years. The same is true for the number of unemployed, whose increase stopped a year and a half ago. Future figures are expected to be impacted by President Trump's tariff and administrative staff reduction policies.

Manufacturing Activity: Relative Stability Worldwide

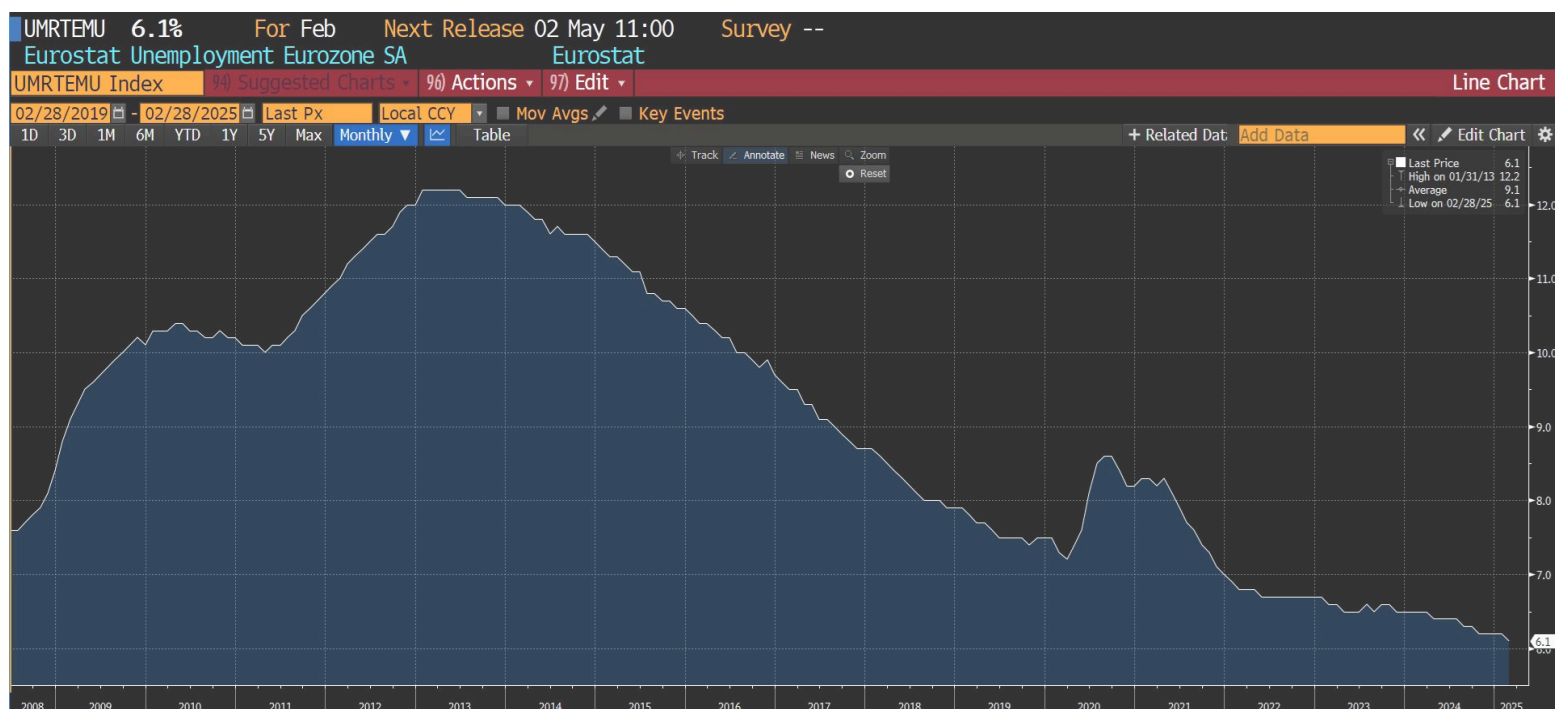
- Slight improvement in the Eurozone, with the indicator rising from 45.1 in January to 48.6 in March.
- In China, the figures also improved to 50.4 and 51.2 at the end of the quarter.
- In the US, the indicator is once again in the contraction zone (49), with weak sub-indicators, prices, jobs, and new orders.

Services Activity: Good Resilience Except in the US

- In the Eurozone, the activity indicator has been stable at around 51 since the beginning of the year.
- Stability is also evident in China, where indicators have been at broadly the same levels since October.
- Since the end of summer 2024, the ISM services index has declined to 50.8 from 55.8 in October. The sub-indicators also show a slowdown, opening the door to rate cuts by the Federal Reserve.

Damien Liegeois

Evolution of the unemployment rate in the Eurozone since 2008





The Big Picture

Is China becoming investable again for global investors?

China has long been a key market for global investors, offering unique growth potential. However, in recent years, markets have retreated under the weight of macroeconomic weakness, the real estate slowdown, and geopolitical challenges, dampening the appetite of foreign investors. Today, with attractive stock valuations, the question arises: is China becoming investable again?

From a fundamental perspective, the low valuations of Chinese stocks may represent an opportunity. The Chinese market, particularly large-cap technology stocks, trades at earning multiples well below those of developed markets, reflecting a high-risk premium. For some contrarian investors, this situation could represent an attractive entry point, provided they accept higher volatility.

A key element of China's economic revival lies in its technological and industrial advancement. BYD, now the world leader in automobile sales ahead of Tesla, perfectly illustrates this rise. The Chinese electric vehicle industry, supported by significant investments in R&D and optimized supply chains, is now essential. Many Chinese companies dominate the battery, electronic components, and renewable energy markets, strengthening the country's attractiveness to investors.

Furthermore, the rise of artificial intelligence plays a strategic role. With players like DeepSeek, China is demonstrating its ability to compete with American giants in artificial intelligence. Beijing is banking heavily on this industry to stimulate its economy and strengthen its technological autonomy. This dynamism, coupled with massive investments in semiconductors and quantum computing, could offer investors attractive long-term growth prospects.

However, the perception of geopolitical risk remains a major obstacle. The rivalry with the United States and the past zero-COVID policy have reinforced the caution of foreign investors. Even if Beijing seeks to reassure investors with economic support measures and regulatory easing, confidence will take time to recover.

In conclusion, China presents undeniable investment opportunities, particularly thanks to its technological and industrial leadership in key sectors such as electric automobiles and artificial intelligence. For the first time in a long time, investors seem open to the idea that the Chinese stock market could continue its upward trend. Faced with the escalation of the potential trade war with the United States, which is expected to impact Chinese exports, we will position ourselves on the theme of a recovery in domestic consumption.

Damien Beasse

Special Topic

Flash : Should we fear a US recession?

With the implementation of US tariffs and international retaliation, questions are being asked about the economic impact of these potential trade disruptions. Whatever happens during these tough negotiations, the impact of a trade war is always negative in the short or medium term. Economic history has shown us that these policies have disappointed us more often than they have impressed us. Let's take a point-by-point look at macroeconomic and financial developments to determine whether current signs point to a recession.

The yield curve: An inverted yield curve often heralds economic difficulties. On a rather positive note, the dollar yield curve, except in the short term, is steepening, meaning that two-year rates are lower than five-year rates, which are themselves lower than seven-year rates, even at the longest maturities.

Default rates: They remain contained; spreads have widened slightly since the end of the year, but they remain at historically low levels.

The equity market: We are currently witnessing relatively healthy market correction in indexes that have performed well in recent years. The next earnings season will tell us a little more about the state of the US economy.

The real estate market: Indicators are quite neutral, with neither deterioration nor improvement. Credit rates have certainly started to decline, but they remain prohibitively high, which poses a challenge for predicting a rebound in the sector.

Manufacturing activity indicators: They are mixed, but the relocation of some companies will help production rebound. However, the manufacturing PMI is expected to decline for March.

Service activity: It is rather robust; consumers are seeing prices fall, which is reassu-

ring, especially since job creation is holding up well, and retail sales rebounded in February. However, recent layoffs in the public sector and fears of inflation picking up again this year are worrying them, resulting in weak confidence indicators.

In conclusion, the answer to this question is not as obvious as it seems; the elements reviewed are quite mixed and the extent of the tariffs finally applied is uncertain, and as they say across the Atlantic "the jury is still out", so let's wait for the verdict. On the other hand, if a recession occurs, two elements would quickly be supportive: the fiscal plan promised by the American president (which will be announced later in the year) and the ability of the Federal Reserve to act quickly on rates. The latter has also reduced its growth expectations for the current year by -0.5% but displays measured optimism on prices by invoking that the impact of customs tariffs on inflation will be transitory.

Damien Liegeois

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