Market Review - April 2025

April was a turbulent month...to say the least! The long-awaited tariffs that have been the common thread running through Mr. Trump's campaign were announced at the beginning of the month. Investors (speculators) who had been complaining about the lack of volatility in the markets were well served! While speculation was rife ahead of the announcements, the scenario that finally unfolded took investors by surprise.

In a theatrical ceremony in which the man with the orange hair showed his flair, tariffs of 10% for all trading partners were announced, while exempting certain "systemic products" such as medicines and electronic chips (semiconductors). So far, nothing alarming. But it was the special tariffs against certain countries, and the escalation that followed, that sent Wall Street reeling. A 20% increase was imposed on Europe, +31% on Switzerland, +46% on Vietnam and +34% on China, all the while threatening further increases in the event of retaliation. While most of the targeted countries immediately opted for diplomacy and negotiation, China decided to retaliate by imposing new taxes on imports of American products. In the space of a few days, this cockfight between the two nations raised the stakes to an unimaginable 145%! It's not so much the outlandish level that worries us (it seems unlikely that these taxes will be implemented permanently), but rather the fierce duel between the world's two biggest economic powers.

After panicking the markets for a few days and posting the message "THIS IS A GREAT TIME TO BUY" on his social network Truth on the morning of April 9, the US President announced that he had decided to suspend tariffs for 90 days, in order to offer each country, the opportunity for bilateral negotiation. This historic backtracking caused a massive catch-up effect on stock market indices, which broke decades-old daily performance records.

Some have called this sleight of hand the biggest insider trading in Wall Street's history...we won't debate that in this letter and leave it to the SEC to investigate potential undue enrichment, but it's clear that we can question the fairness of information for all stakeholders during this extraordinary session. The important thing now, for us investors, is to assess what this new environment means for the stock markets. How will each asset class be impacted? We will try to provide some answers, even if, as we experienced during the month of April, everything can change from one minute to the next...

Market trends to end April 2025

			Equities in Local Currencies					
End of April	**MSCI World**	**S&P 500**	**EuroStoxx**	**CAC**	**Spain**	**Switzerland**	**MSCI EM**	**CSI 300**
Perf 1 Month	0.74%	-0.76%	-1.68%	-2.53%	1.16%	-3.82%	1.04%	-3.00%
Perf 3 Month	-4.72%	-7.81%	-2.40%	-4.48%	7.43%	-3.81%	1.78%	-1.22%
Perf YTD	-1.41%	-5.31%	5.40%	2.89%	14.60%	4.45%	3.47%	-4.18%

		Commodities				Currencies vs EUR		
End of April	**WTI Oil**	**Brent Oil**	**Gold**	**Copper**	**USD**	**JPY**	**GBP**	**CHF**
Perf 1 Month	-18.56%	-15.55%	5.29%	-6.02%	-4.52%	0.12%	-1.50%	2.18%
Perf 3 Month	-19.74%	-17.77%	17.52%	0.85%	-8.53%	-0.76%	-1.63%	0.87%
Perf YTD	-18.84%	-15.43%	25.31%	4.07%	-8.61%	0.48%	-2.65%	0.43%

			Bloomberg Indices Bonds Total returns					
End of April	**Global Aggregate**	**US Aggregate**	**Euro Aggregate**	**US 10 Year Treasury**	**German 10 Year Bund**	**Global Credit**	**Global High Yield**	**Emerging Sovereign $**
Perf 1 Month	2.94%	0.39%	1.67%	1.03%	3.66%	2.25%	0.85%	-0.05%
Perf 3 Month	5.05%	2.64%	0.78%	4.23%	-1.27%	4.52%	1.33%	1.21%
Perf YTD	5.65%	3.18%	0.76%	4.93%	-3.01%	5.13%	2.72%	2.29%

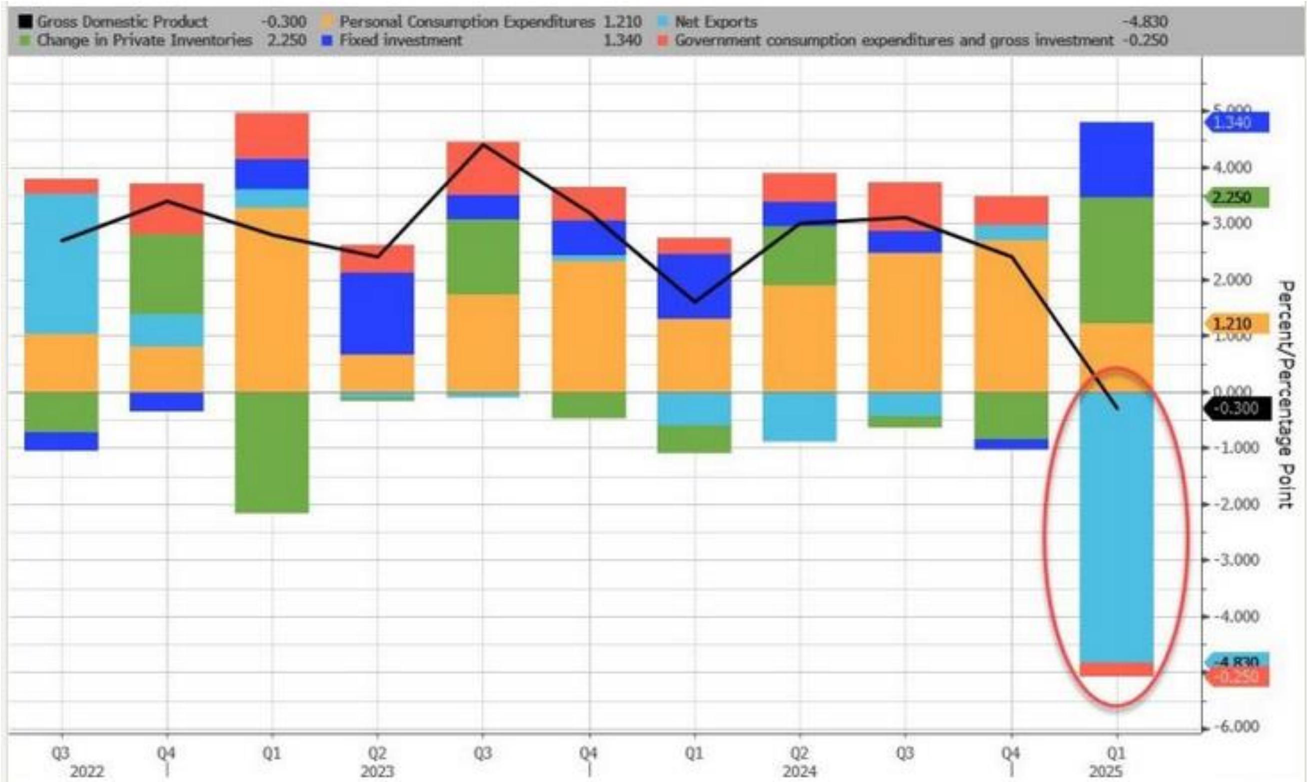
Source: Bloomberg 30/04/25

- **The global economic situation**

It is impossible to anticipate how negotiations between the USA and its trading partners will unfold over the coming weeks. It is therefore impossible to know at what level of tariffs Europe, Japan or China will be hit, and what quid pro quos these countries will have to provide to see their export taxes return to an acceptable level. An open trade war would serve nobody's interests, which is why an agreement would have to be reached with every trading partner, good or bad...

President Trump's "arm-twisting" way of bringing his trading partners to the negotiating table will leave its mark. Trust has been damaged, and it won't return easily. In an interview on ABC News, Treasury Secretary Scott Bessent explained that Mr. Trump was playing the game of "strategic uncertainty", a technique the President has mastered perfectly.

The problem is that investors don't like uncertainty. They need visibility, reliable figures to put into their valuation models in order to make realistic assumptions. While the President continues to hammer home the point that his decisions will make the USA stronger and richer in the medium term, investors see the damage caused in the short term. Tariffs are likely to make imported goods more expensive, putting a strain on US household finances and inevitably leading to a drop-in consumption, while maintaining inflationary pressure. This is reflected in the latest GDP figures for the first quarter. Although the tariffs had not yet been announced, the United States unexpectedly posted a first-quarter decline (-0.3%). While the contribution of domestic consumption remains positive (+1.8%), it is far from the 4% of Q4 2024. The main negative contributor was imports, which literally exploded, most probably in anticipation of customs duties.



There is also a risk that companies will see their profit margins shrink, triggering waves of layoffs that will automatically push up the unemployment rate. If Mr. Trump's gamble does indeed pay off in the long run (time will tell if it does and when), the question is what price will American citizens have to pay.

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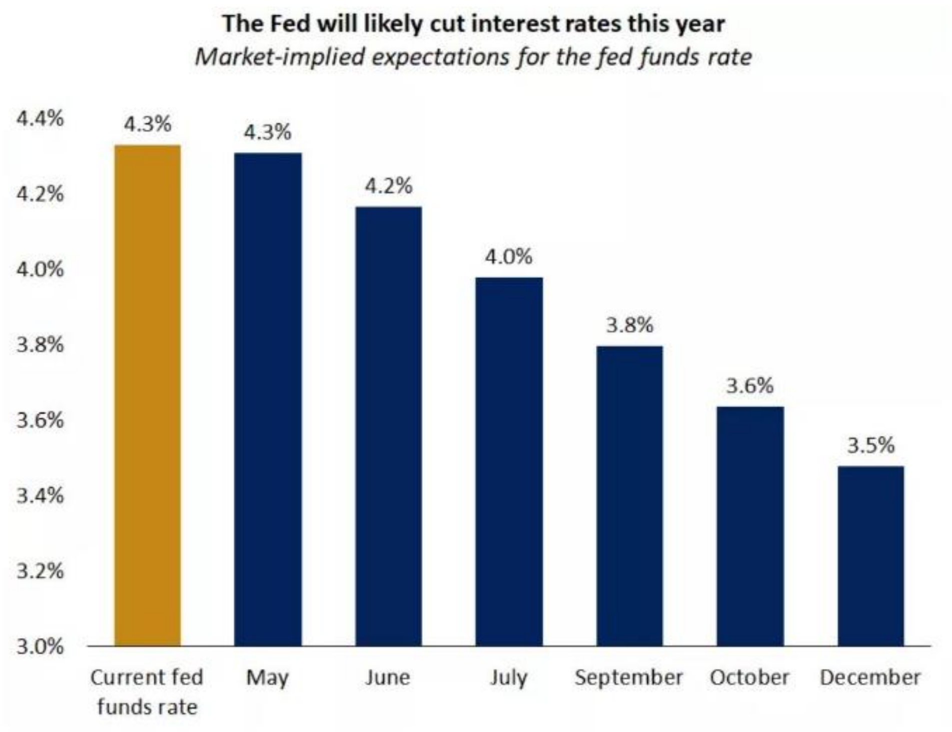
- **<u>Central Banks</u>**

Following its monthly meeting, the ECB announced a further 25 basis point cut in its key rate (the seventh in 12 months) to 2.25%. While this cut was widely expected, investors were eager to learn more about the institution's interpretation of the trade war. As usual, Madame Lagarde gave no clear answer (is it possible to give one at this stage...?) and repeated what we already know: future decisions will depend on economic data ("data dependency").

While Madame Lagarde may not be enjoying her most serene professional period, we can clearly imagine that her American counterpart is not having a peaceful night's sleep either. With the economic environment already complicated enough, fears of a potential monetary policy error that could be devastating to Uncle Sam's economy must be on Mr. Powell's mind. To put even more pressure on him, President Trump has continued to make all kinds of criticisms, suggesting that Mr. Powell will not make it to the end of his term (May 2026). After blowing hot and cold, the occupant of the White House confirmed that he has no plans to fire the current Chairman of the FED. That said, despite all the powers of the American President, he fortunately does not have the latitude to dismiss the Chairman of the Central Bank at will. This unhealthy pressure, which could call into question the independence of the Central Bank adds another layer of uncertainty for investors already fairly disoriented by the tariffs. The market is still expecting three rate cuts between now and the end of 2025, so Liberation Day brought no significant change in this respect. As with the ECB, the Fed's monetary policy remains dependent on future economic data releases. While Mr Powell refused to talk of a "Fed put" in the event of a fall in stock markets due to tariffs, the Fed would inevitably have to act if liquidity were to dry up and endanger the banking system.



Source: Bloomberg, Edward Jones.

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- **Currencies and gold**

We know that gold and the US dollar have been moving steadily in opposite directions since 1971, when the United States ended the dollar's convertibility into gold. When the US economy is growing dynamically, interest rates rise, and this tends to push up the dollar, which offers a higher yield, whereas gold offers no yield at all. Conversely, when the economy slows down and interest rates fall, the dollar tends to fall and gold, which benefits from its safe-haven status, appreciates. We have seen a sharp fall in the dollar over the month of April (-4.55% and -8.31% since the start of the year), despite interest rates remaining stable at high levels. This is largely due to a loss of confidence in American institutions and the desire of certain countries to reduce their dependence on the greenback. During the month, we heard that large holders of US debt, such as China and Japan, had taken positions in Treasuries, but this remains to be proven. Beware, however, of drawing hasty long-term conclusions from short-term movements...

On the upside, the yellow metal momentarily broke through $3,500 per ounce before consolidating. We have repeatedly mentioned the massive buying by central banks, a trend which should continue to support prices.
In recent weeks, we've heard and read that gold is technically overbought... which is possible. But it's important to remember that the buyers who have been driving prices up for several months are not speculators with a short-term time horizon. The main buyers are investors who don't necessarily focus on technique, and who aren't worried about whether gold is overbought in the short term...they are Central Banks who are carrying out a long process of diversifying their foreign exchange reserves, which is far from over. Even if occasional corrections cannot be ruled out (central banks may pause in their buying programs, as happened in Q4 2024), the secular uptrend is well in place and should continue.

The Japanese yen, which benefits from a more restrictive monetary policy on the part of the BoJ, remained relatively stable over the month, while the Swiss franc, which like gold is a safe-haven asset, tended to appreciate, despite the fact that short-term interest rates on the currency with the white cross are once again flirting with negative levels.

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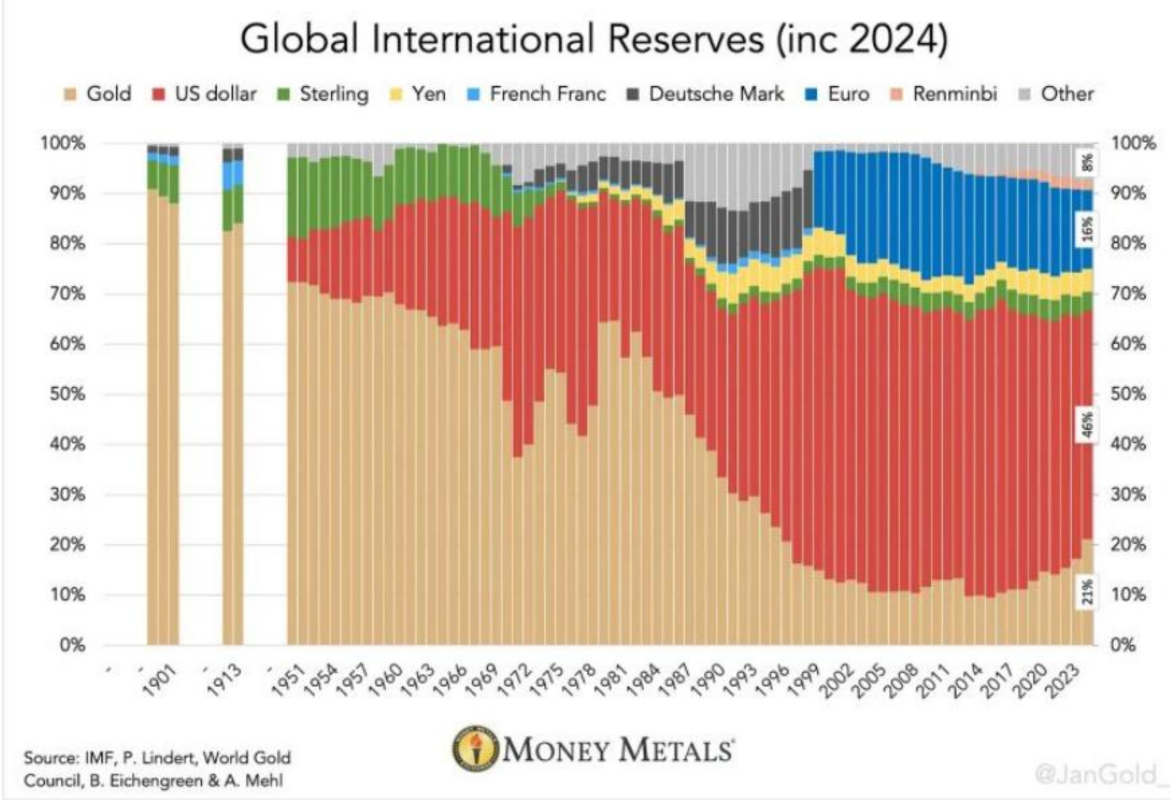
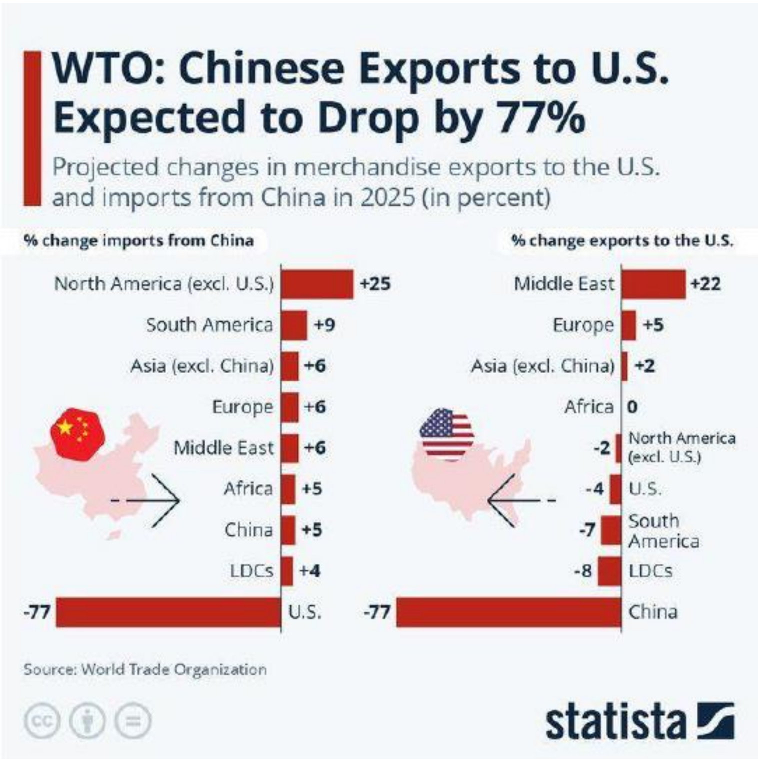


- <u>China</u>



As we said in the introduction, it is mainly the uncertainty linked to an escalation of the trade war and its consequences that are worrying the markets. To date, the proven risks of a potential escalation lie on China's side alone. First of all, although Donald Trump decided on April 9 to suspend for three months the tariffs announced a few days earlier and to open negotiations with the countries concerned, this grace period was not granted to China, which retaliated with retaliatory measures. Secondly, China clearly announced that countries negotiating a deal with the USA at China's expense would face sanctions from the Middle Kingdom. Investors thus find themselves in the middle of a battlefield where a single misstep could have severe consequence.

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In addition to new tariffs on products imported from the USA, China has announced restrictions on exports of rare earths, the cancellation of orders for Boeing aircraft and a ban on its airlines sourcing spare parts from the USA, as well as the suspension of various investments on American soil... In short, as you can see, the potential collateral damage is vast and currently difficult to quantify at present. As we said earlier, it seems hard to imagine that either side will be able to profit from this escalation in the long term.

On the monetary front, China's central bank (PBoC) remains accommodative, with the aim of revitalizing the Chinese economy, which has been slowing down since the real estate crisis. While the real estate sector still appears stagnant, the government has published economic growth of 5.4% for the first quarter of 2025, above the 5.1% expected by consensus. While this figure augurs well, it is of course too early to claim victory and see China once again become the engine of global growth, especially as this figure reflects a past period, i.e. before the announcement of the new tariffs.

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- **Equity indices**

Equities are the asset class that reacts most strongly to major economic news. Unsurprisingly, volatility rose sharply as indices fell. While the latter ended the month close to equilibrium following a strong rebound at the end of the month, they traded at much lower levels between April 2 and 9. Take the S&P500, for example. It lost almost 15% in three sessions following the announcement of the new taxes, before finally rebounding to close the month down just 0.76%. Investors quickly realized that the US economy would be the big loser in this new trade environment, and so penalized US equities more heavily, while European equities held up better. Mr. Trump continues to insist that this strategy will enable the United States to grow stronger...
In any case, the strategists at the major investment banks were quick to revise their projections downwards for the US market as a whole. Not only are companies likely to generate lower earnings over time, but investors who have been disillusioned and are losing confidence are likely to grant lower multiples in the future. This could translate into a double negative effect for all equity indices, and especially for US companies, which, let's not forget, trade on much higher multiples than their European or Chinese counterparts.

As we've said, we don't want to make the mistake of jumping to conclusions, given the complexity of the issues at stake. We will need more time to assess the real consequences of this "Liberation Day" on April 2, and will continue to share our conclusions as we publish. Investors will have to get used to the Trump administration's way of communicating, and the fact that everything can be called into question overnight is not going to help them invest serenely in the future.

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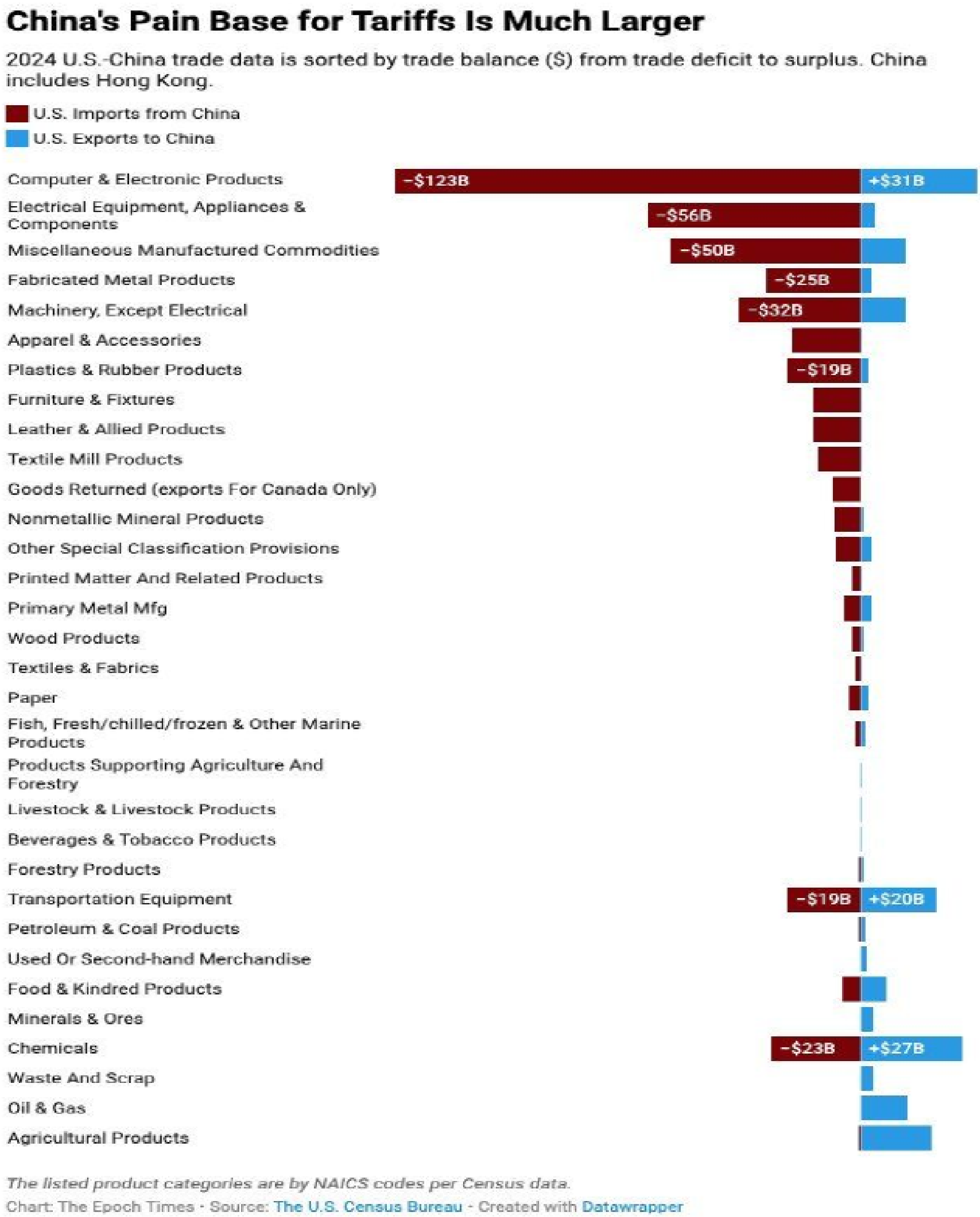
Because sometimes pictures are worth more than words, we've decided not to dwell too long on the subject, but to show you some of the graphs/tables that caught our eye during the month and which, in our opinion, sum up the situation.

We wish you all the best for May, and remain at your disposal to comment on the graphs below if required.



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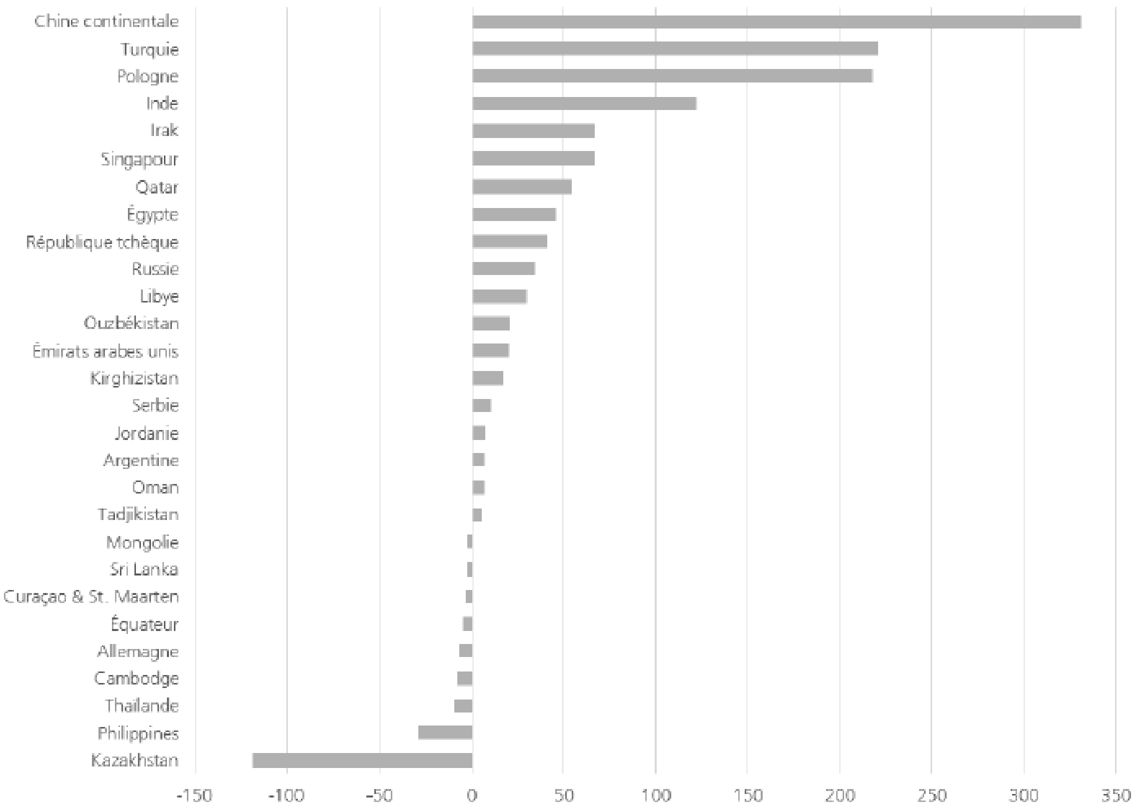
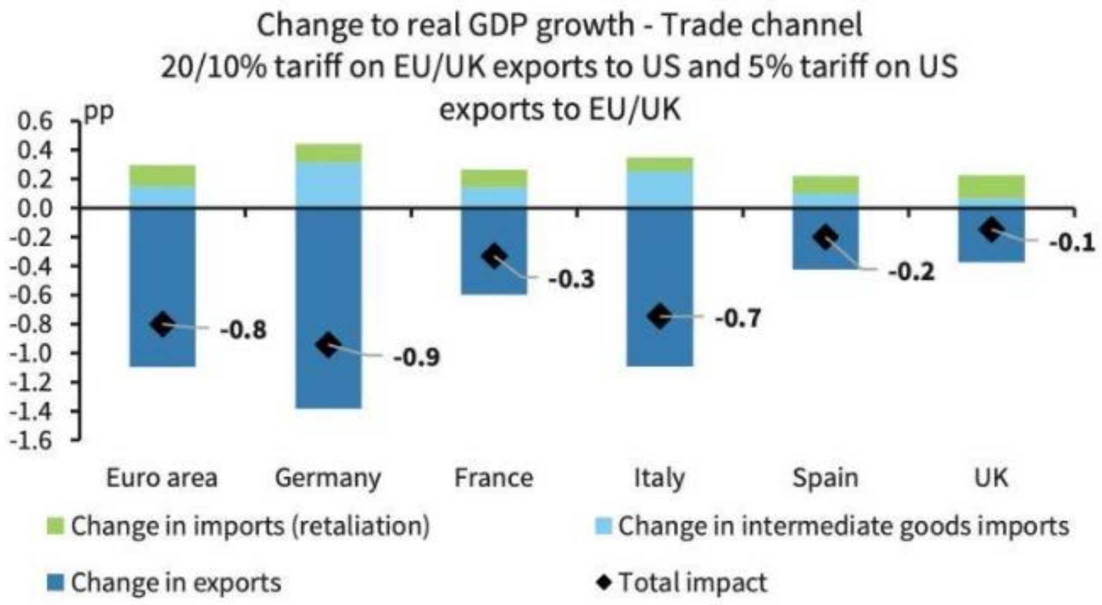
Figures 5: Principaux acheteurs/vendeurs d'or

Activité cumulée depuis 2022, en tonnes



Source: Metals Focus, Refinitiv GFMS, WGC, UBS



Source: Barclays Research

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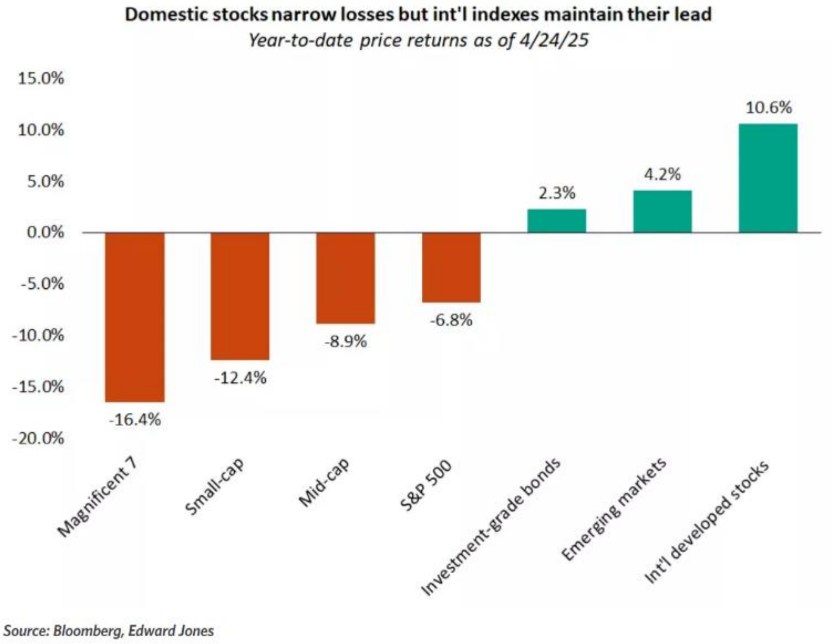

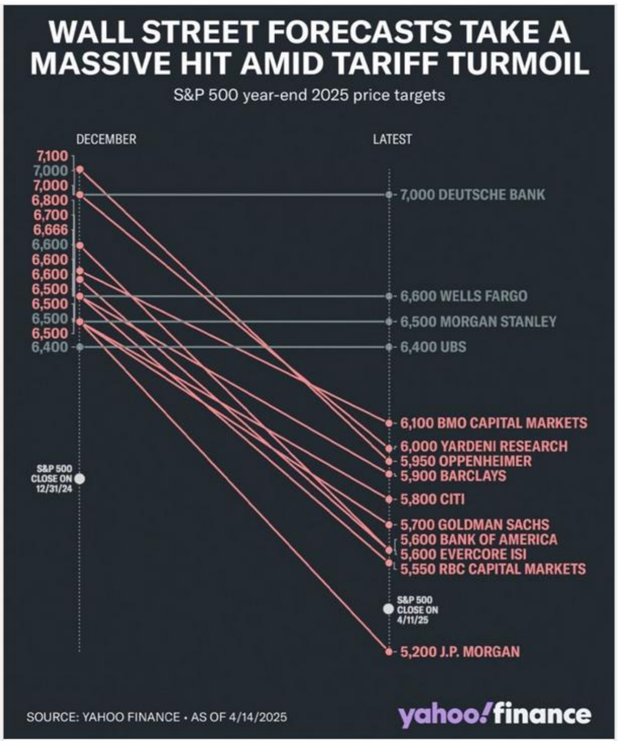

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