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FORUM FINANCE
1994

MONTHLY NEWSLETTER

March 2025

KEY ECONOMIC DATA

- US government reported that the consumer price index rose 3% in January from a year earlier, the biggest annual increase since June 2024.
- The United States is imposing a 25% tariff on all imports of steel and aluminium, regardless of the country of origin.
- Services activity expanded for the eighth consecutive month in February.
- Core consumer prices in Japan's capital rose 2.2% in February from a year earlier, slowing for the first time in four months.
- Second estimate of US growth confirms solid 2.3% annual expansion in the fourth quarter.
- Swiss inflation fell to its lowest level in almost four years. Consumer prices rose by 0.3% year-over-year in February.
- The Conference Board's Consumer Confidence Index fell for the third consecutive month to 98.3, the largest monthly decline since August 2021, as expectations for inflation in the year ahead rose.
- In February, global new business growth slowed to the slowest rate since September last year, rising only very modestly to the second-smallest increase in just over a year.

The ECB cuts interest rates to 2.5% as inflation in Europe is under control

-8.7%

PERFORMANCE OF THE MAGNIFICENT SEVEN

INVESTMENT PERSPECTIVE

The outstanding feature of the beginning of this year has undoubtedly been the remarkable performance of European equities compared with US equities. The former are up 10.3% in euro terms, while the latter are effectively flat.

Investors had emphasised American exceptionalism as a source of explanation for the incredible returns of US equities, leading to a degree of concentration that many considered to be a potentially unsustainable trend.

The rotation in market leadership coincided with a shift in focus from expensive global technology names, which are by nature more global and potentially negatively affected by a full-blown trade war, to cheaper and beaten-down sectors, regions and stocks such as Europe.

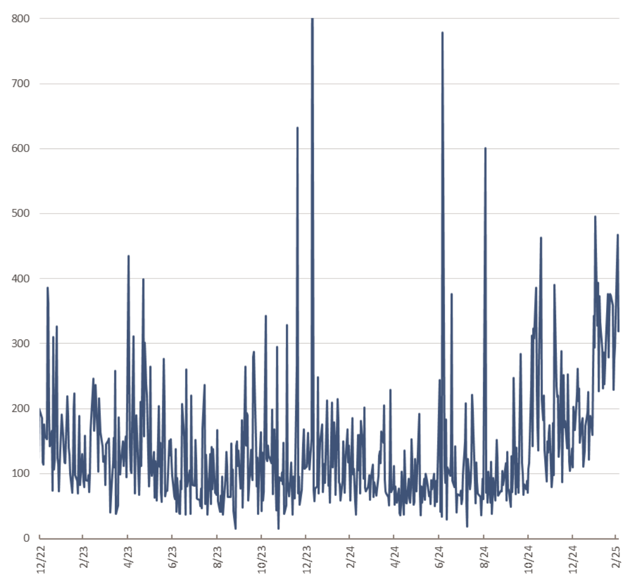
At a macro level, the new US tariff policy of, for example, 25% on Canadian and Mexican imports and 10% on Chinese imports has kept political and economic commentators on their toes. Not only does it mark a clear break with current doctrine, but it is also a major source of uncertainty that could, like Covid, cause significant damage to supply chains.

The announcement of the suspension of US military aid to Ukraine, following the debacle of the White House meeting and the failure to sign an agreement on mining resources, has provoked a wave of indignation from the major European countries, both in style and in substance. The breakdown in transatlantic trust could serve as a signal to Europe. Moreover, it seems that Europe is ready to take up the challenge of a US retreat in the Ukrainian conflict and to reaffirm its unwavering support for the Ukrainian cause.

The outcome of the German elections is a source of optimism. Indeed, we could soon see announcements of a major investment plan and an easing of budgetary constraints. These investments are crucial for Europe's competitiveness and should provide a tailwind for European growth.

In the bond markets, the favourable trend in credit continued, with a slight easing in US 10-year rates. In commodities, oil prices fell by around 3.8% in WTI terms, while gold rose by 2.1% in US dollar terms. The latter remained stable against the major European currencies over the month.

US Economic Policy Uncertainty Index



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INVESTMENT STRATEGY

Merz's conservatives won Germany's election by a comfortable margin over rival parties. The other big winner was the far-right AfD, with a record 20.8% of the vote.

The coalition agreement with the Social Democrats was followed by the announcement of an unprecedented fiscal plan that exempts defence spending from the debt brake and includes a €500bn fund for infrastructure spending over the next 10 years.

While the proposal still needs to be passed by parliament later this month, the historic U-turn on public spending has been felt in financial markets, sending the euro and government borrowing costs higher.

This radical departure from the obsession with debt sustainability, coupled with a clearer ECB policy thanks to moderating inflation and the prospect, albeit still distant, of a ceasefire in Ukraine, continues to support European equities.

The publication of weak US economic figures and a deterioration in consumer confidence, linked to the growing uncertainties associated with the decisions of the new Republican administration, have revived fears in the markets, whether legitimate or not, about economic growth.

These fears about the future health of the US economy have led to a reduction in risk appetite and a flight to quality that has allowed 10-year US government bonds to fall from 4.8% in mid-January to below 4.30% despite persistent inflation.

US Commerce Secretary Lutnick Hints at Possible Tariff Relief After Market Sell-Off

PORTFOLIO ACTIVITY

After convergence, we are entering an era of divergence and disruption in both form and substance.

While nothing can be taken for granted, increased uncertainty will continue to weigh on markets and be a source of significant volatility, both up and down.

Given the increased political uncertainty across the Atlantic, but also the persistence of high geopolitical tensions, we have continued to reduce our equity exposure.

We continue to favour European equities. However, we are aware that the rise in European indices has been rapid and that a pause or a slight correction would be welcome to calmly consider the continuation of the upward trend. We are staying away from Japanese equities and maintaining a neutral stance on emerging markets.

Reducing our exposure to US equities has also allowed us to reduce our exposure to the US dollar. As a reminder, we had more than 35% exposure to the US currency in the fourth quarter of 2024 and have gradually lowered it to around 20%.

To take advantage of potential bouts of volatility, we are holding the proceeds of our equity sales in cash to mitigate the impact of any declines, but also to take advantage of any exaggerations.

These reductions have brought our equity exposure to an underweight position. At the same time, we have increased our allocation to liquid alternative strategies to add resilience to our portfolios.

We remain constructive on European yields, although we are not particularly pleased with the recent movement in German yields. We maintain our preference for European credit, where carry remains attractive, and fundamentals are strong.

	31/12/2023	31/12/2024	28/02/2025	Month-to-Date	Year-to-Date
Yields (%)				Δ In basis points	Δ In basis points
US 3-Month	5.33	4.31	4.29	+1	-2
German 3-Month	3.55	2.49	2.23	-25	-26
US 2-Year	4.25	4.24	3.99	-21	-25
German 2-Year	2.39	2.08	2.02	-9	-6
US 10-Year	3.88	4.57	4.21	-33	-36
German 10- Year	2.02	2.36	2.41	-5	+5
Currencies				Δ In %	Δ In %
EUR/USD	1.1039	1.0354	1.0375	0.1	0.2
USD/CHF	0.8414	0.9074	0.9031	(0.9)	(0.5)
EUR/CHF	0.9289	0.9401	0.9371	(0.7)	(0.3)
GBP/USD	1.2731	1.2516	1.2577	1.5	0.5
Commodities				Δ In %	Δ In %
Oil (WTI)	$71.7	$71.7	$69.8	(3.8)	(2.7)
Copper	$389.1	$402.7	$451.5	5.5	12.1
Gold	$2'063	$2'625	$2'857	2.1	8.9

Source: Bloomberg Finance L.P.