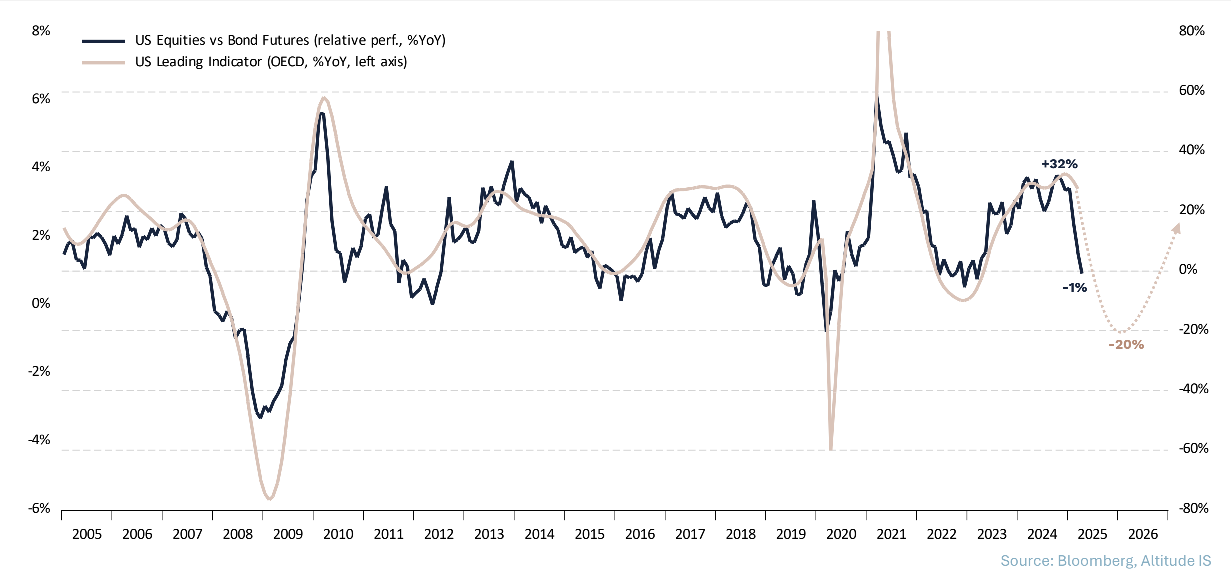
weekly investment focus

The flexiweekly that reaches new heights - published on 14 April 2025

"IS TRUMP A FUSION OF THE WORDS TRADE & SLUMP?"

- The trade war has definitively confirmed the scenario of recession
- Investors will soon have only one word on their lips: stagflation
- Central banks will act more aggressively than expected by the consensus
- Rotation between the main asset classes will minimise damage

CHART OF THE WEEK: "It's the economy, stupid"



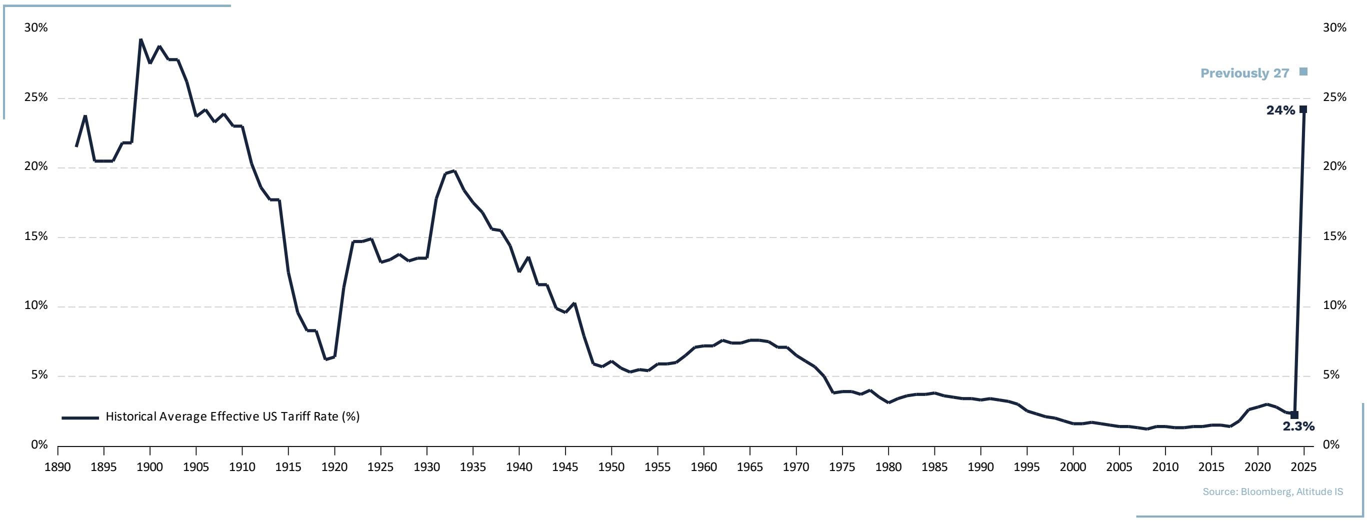
Source: Bloomberg, Altitude IS

FINANCIAL MARKETS ANALYSIS

The nightmare that investors have been living through since February has one (very small) advantage: the scenario of a recession is now unanimously accepted. Certainty, even a negative one, is precious in an unstable future. No market strategist dares to anticipate a no-landing or soft-landing in the United States. For the record, the assumption of a sharp contraction in activity in 2025 was our central scenario, as the labour market would show major weaknesses. Since the introduction of tariffs and their recent deceptive suspension, the probability of a major crisis has become so strong that it has become consensual. This information is crucial, as **it accentuates rotation between the main asset classes** and, within them, between different sectors, segments and geographical areas.

Initially, the deterioration in the labour market was not attributable to tariffs. It was the result of excessive hiring after the Covid-19 pandemic, productivity gains achieved through the deployment of artificial intelligence in businesses and, more recently, the dismissal of civil servants by the Department Of Government Efficiency (DOGE). **The application of customs duties will add insult to injury.** These taxes will lead to a significant increase in prices: directly for goods imported from the rest of the world, indirectly for goods produced in the United States but which will face a shortage of supply. The weakness of the dollar will accentuate the inflationary impact, since anything bought abroad will seem all the more expensive as the greenback depreciates. Households' loss of purchasing power will force them to reduce their consumption and, in anticipation, increase their precautionary savings. Faced with atrophied demand, companies will produce less, forcing them to curb investment and hiring. The labour market is therefore likely to deteriorate more severely than expected.

Fig. 2 - Evolution of customs duties in the United States



On 9 April, D. Trump announced a readjustment of his trade policy. Analysts dubbed it the "Trump Pivot" and investors the "Trump Put", suggesting that the worst of the economic consequences had passed and that the markets had reached a low point. Did they misunderstand? This inflection should only marginally lower the average rate of customs duties, from 27% to 24%, compared with 2% previously (see Fig. 2). This limited reduction can be explained, on the one hand, by the maintenance of a minimum tariff of 10% on the majority of imported products, which continues to put the brakes on free trade. Secondly, since China is the main source of consumer goods imported into the United States, the increase in tariffs applied to it, to 145%, virtually wiped out the beneficial effect of the relief granted to other countries. The announced change in tariff policy therefore looks more like a minor adjustment than a U-turn. It is not a renunciation of protectionism, but rather a targeted hardening towards China. **As a result, the positive impact for the American consumer will be almost nil.**

Some will argue that the tariffs are only temporary, since they are intended as a negotiating tool for D. Trump. This is only partially true. Admittedly, once certain trade rebalances have been achieved and certain economic or political advantages obtained, the tariffs will be reduced. But they will not disappear. D. Trump, S. Bessent and S. Miran are clear: some tariffs will remain. This means that the globalisation of trade, which has been the leitmotiv for the last 80 years, will be continually slowed down. History may remember Trump as a fusion of the words trade & slump. Let's hope it doesn't become as well-known as brunch or Brexit.

The vast majority of economists agree that this radical change in world trade is not only inflationary, but also recessionary. According to the International Monetary Fund (IMF), an across-the-board 10% increase in US tariffs, accompanied by retaliation from China and the Eurozone, **would reduce US GDP by 2.1% and world GDP by 1.1% by 2026** (see Fig. 3). Significantly, a small half of the impact is attributed to tariffs, while the majority is linked to the uncertainty generated by such trade policies. Economics remains a social science: the climate of confidence (or mistrust) among economic agents plays an important role.

Fig. 3 - Impact of tariffs on growth

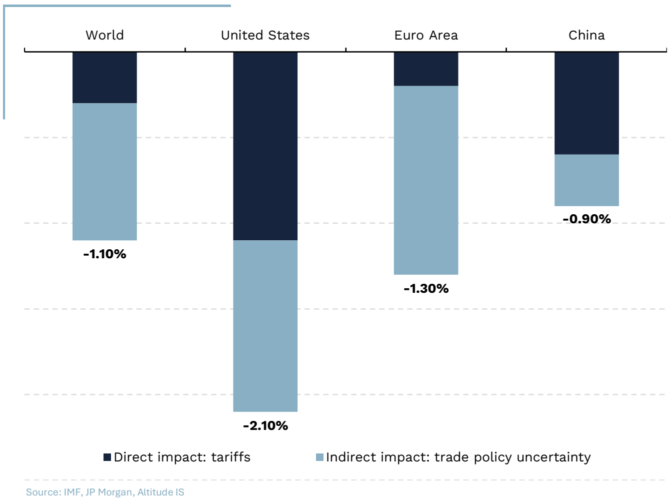
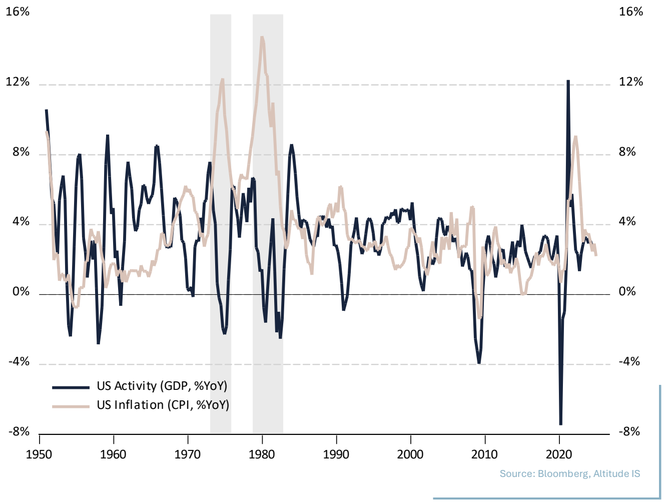


Fig. 4 - Period of stagflation in the United States



Over the coming months, investors will have only one word on their lips: stagflation. Yet this situation of zero economic growth and virulent inflation has only occurred twice in modern history: in the second half of the 1970s (see Fig. 4). At that time, the world economy was experiencing a double oil shock and was emerging from a period of strong economic growth and rising living standards, the post-war boom. The dynamics of the labour market were so strong that employees' bargaining power had generated a wage-price spiral, despite the economic crisis. All the other periods when stagflation was mentioned the term was misused. It was simply a lag of 12 to 18 months between the cyclical slowdown in Gross Domestic Product (GDP) and that in inflation. Once this lag had been bridged, investors realised each time that these were in fact very classic periods of recession and disinflation. The same will be true in 2025 and 2026**: wage stagnation will prevent inflation from being self-sustaining.**

The central banks have mastered this subject perfectly. They **will therefore be able to soften their stance and step up their key rate cuts.** The US Federal Reserve, which has had to fight inflation more than any of its peers, will change its tone significantly. Investors still seem to have their doubts. They are expecting a rate of 3.75%, or even 3.50%, for the cost of money between now and December. The conclusions of our econometric estimates, at 2.00%, seem unreachable. They may be exaggerated in view of the persistence of inflation, but they have the advantage of clearly indicating the potential for a fall in rates, and therefore for positive bond performance.

Fig. 5 - Yield curve

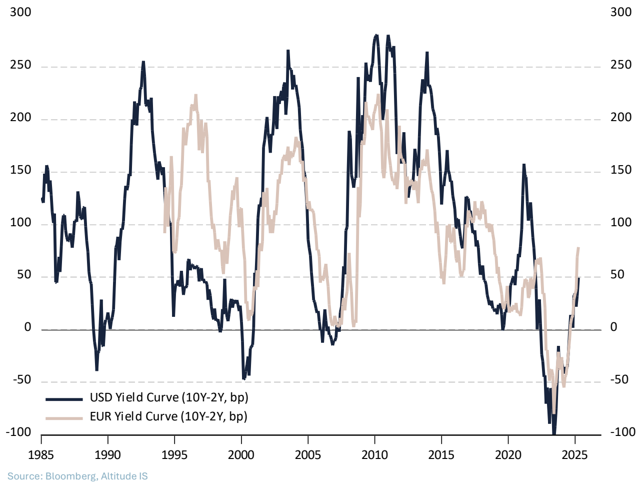
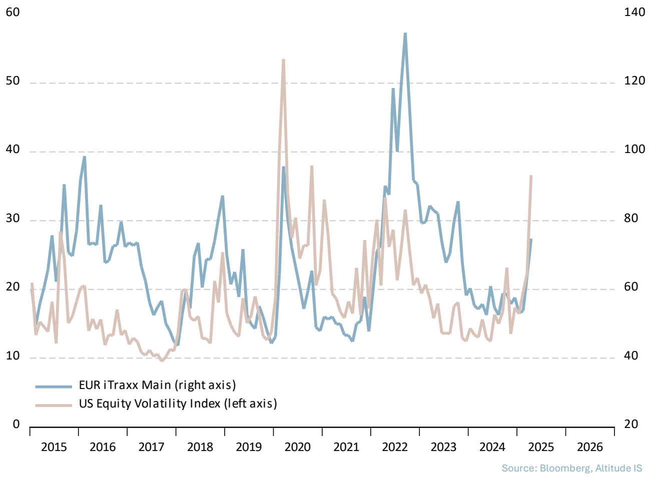


Fig. 6 - Bond default risk & equity volatility



While sovereign bonds, duration and yield curve steepening strategies (see Fig. 5) **have the upper hand, corporate bonds should continue to be heckled.** This is normal in times of crisis. Both bond and stock market investors are concerned. Given the recent levels of equity market volatility, the cost of protecting against the risk of bond default could temporarily soar, as was seen in 2022 (see Fig. 6). Similarly, yield spreads between corporate bonds and their government counterparts are at a level that is not commensurate with the risk of recession, and therefore of increased bankruptcies (see Figs. 7 & 8).

Fig. 7 - Spread of European IG corporates

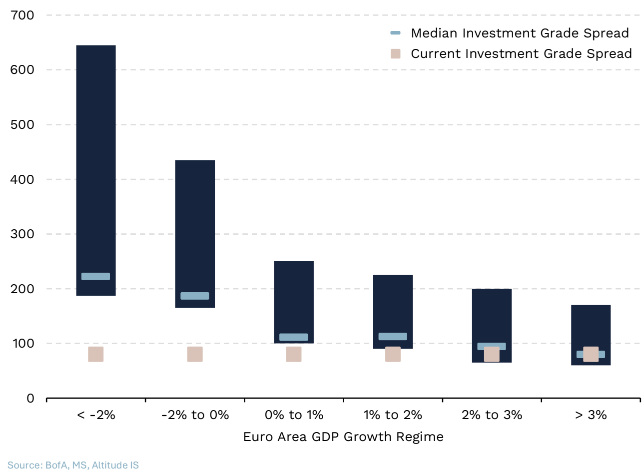
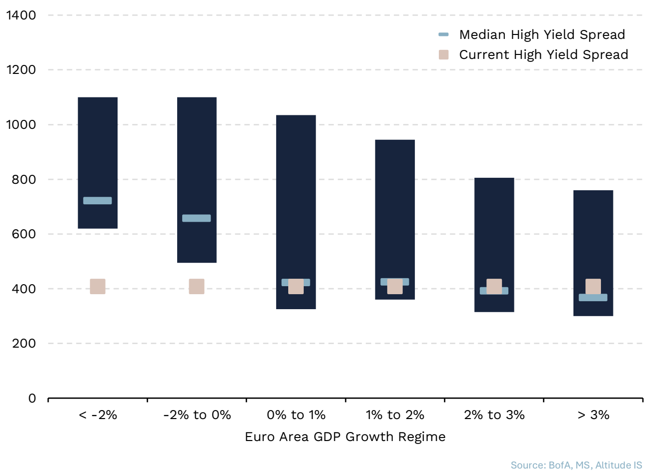


Fig. 8 - Spread on European HY corporates



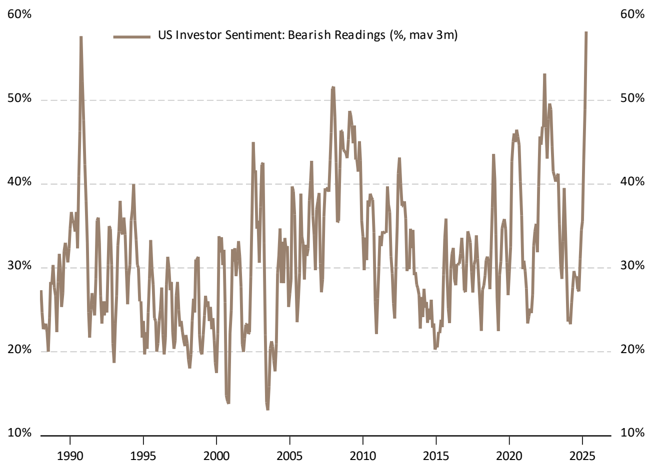
On the equity markets, the start of the bear market was swift and brutal. Cyclicals and small caps suffered more than defensives and large caps. **After one of the worst stock market setbacks in history in three trading days** (see Fig. 9)**, a significant rebound was expected.** It happened on the first piece of good news, on 9 and 10 April. The rebound of the stock market indices was rapid and spectacular, reflecting the stress and pessimism that investors had endured (see Fig. 10). The stocks that had corrected the most performed the best.

Fig. 9 - Worst stock market corrections

Date	Event	3-Day Fall
10.19.1987	Black Monday	-26.34%
07.21.1933	Great Depression	-20.90%
10.29.1929	Crash of 1929	-20.66%
10.20.1987	Black Monday	-20.55%
11.13.1929	1929 Crash Fallout	-16.62%
09.14.1932	Great Depression	-16.00%
05.14.1940	WWII Invasion	-15.18%
10.28.1929	Crash of 1929	-14.51%
10.09.2008	Great Financial Crisis	-13.91%
06.01.1932	Great Depression	-13.89%
10.10.1932	Great Depression	-13.13%
09.13.1932	Great Depression	-13.04%
03.16.2020	COVID Pandemic	-12.96%
10.07.1932	Great Depression	-12.80%
05.21.1940	WWII Invasion	-12.79%
09.12.1932	Great Depression	-12.46%
11.12.1929	1929 Crash Fallout	-12.35%
03.09.2020	COVID Pandemic	-12.25%
07.20.1933	Great Depression	-11.99%
10.30.1929	1929 Crash Fallout	-11.98%
10.26.1987	Black Monday	-11.89%
10.18.1937	Recession	-11.88%
03.29.1938	Recession	-11.73%
05.15.1940	WWII Invasion	-11.73%
08.31.1998	Russian/LTCM	-11.71%
04.07.2025	**Trump Tariffs**	**-10.74%**

Source: Bloomberg, Altitude IS

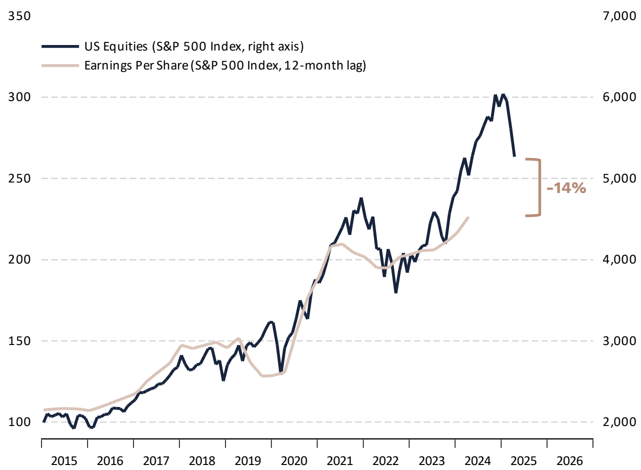
Fig. 10 - Percentage of pessimistic investors



Source: Bloomberg, Altitude IS

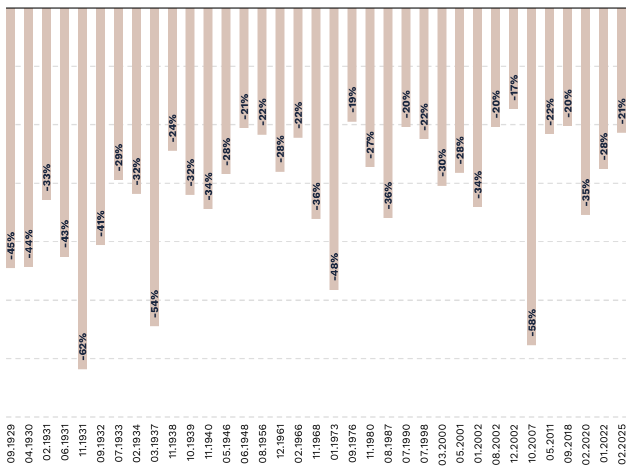
From now on, the bear market should resume its course. Before we can hope for a new bull market, we will have to reconcile the level of the indices with the earnings of the companies that make them up. In the case of the S&P 500, an additional correction of -14% is needed (see Fig. 11). Once the $4,520 level has been reached, investors with an economic recovery scenario will be able to gain exposure to the stock market with peace of mind. On the other hand, if earnings contract or investors become more wary of risky assets, the drop could be as low as $3,500. A bear market of -43% from the peak reached on 19 February 2025 would sadly be in line with the worst examples in history (see Fig. 12). Fortunately, it would not be a straight line, but, as always, it would be interspersed with rebounds of more than +20%.

Fig. 11 - Earnings of listed companies in the US



Source: Bloomberg, Altitude IS

Fig. 12 - History of bear markets in the US



Source: Bloomberg, Altitude IS

So, even in a prolonged correction scenario, everyone will have the opportunity to reduce their positions on temporary market rebounds and, even more, **to deploy parachutes that have not yet been activated: defensive sectors and geographical areas, exposure to volatility and dispersion. There are structures to suit every situation.**

Fig. 13 - Trends in the dollar against its main

Currencies are also fluctuating sharply. The dollar has fallen across the board, not only because in the main some investors are questioning its safe-haven status, but also, and above all, because it has become very expensive (see Weekly Investment Focus of 24 February 2025). The greenback has just broken through a number of technical supports (see Fig. 13). On the other hand, **the appreciation of alternative currencies follows a relatively predictable hierarchy: the Swiss franc, the euro, British pound and the Canadian dollar.** Significantly, the Chinese yuan, whose movements are largely managed by the authorities, has just hit a 17-year low of 7.42 against the greenback. In its trade war with Washington, Beijing has had to resort to old tricks to keep its exporters competitive.

Conclusion:

US tariffs have not been abolished, quite the contrary. Recession is becoming the consensus, but it will not be stagflation. Central banks will have to take action, giving bonds an additional advantage over equities. The bear market will come in waves, but it will favour defensive sectors, segments and areas. The depreciation of the dollar and the yuan will allow other currencies to shine. The secret of performance definitely lies in asset rotation.

RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2025 Year-to-Date (%)	2024 (%)	2023 (%)
Equities							
World (MSCI)	790.6	41.73	3.5%	-4.1%	-5.5%	18.0%	22.8%
USA (S&P 500)	5 363	44.21	5.7%	-3.6%	-8.5%	25.0%	26.3%
USA (Dow Jones)	40 213	44.79	5.0%	-2.8%	-5.0%	15.0%	16.2%
USA (Nasdaq)	16 724	44.85	7.3%	-4.0%	-13.2%	29.6%	44.7%
Euro Area (DJ EuroStoxx)	499.3	35.82	-1.3%	-8.6%	-0.6%	10.2%	19.5%
UK (FTSE 100)	7 964	36.44	-1.0%	-5.9%	-1.3%	9.6%	7.7%
Switzerland (SMI)	11 240	30.54	-3.2%	-10.5%	-1.5%	7.5%	7.1%
Japan (Nikkei)	34 251	40.82	-0.6%	-8.0%	-15.1%	21.3%	31.0%
Emerging (MSCI)	1 045	39.30	-3.8%	-5.4%	-2.1%	8.0%	10.2%
Brasil (IBOVESPA)	127 682	48.23	0.3%	3.4%	6.2%	-10.4%	22.3%
Mexico (IPC)	51 499	45.03	0.1%	0.1%	4.4%	-11.0%	22.4%
India (SENSEX)	75 157	47.99	-0.3%	1.4%	-3.6%	9.6%	20.3%
China (CSI)	3 761	40.28	-2.9%	-4.8%	-4.5%	18.2%	-9.1%
Com. Services (MSCI World)	117.9	42.36	4.0%	-4.9%	-5.3%	31.9%	38.1%
Cons. Discretionary (MSCI World)	372.1	40.97	2.3%	-5.2%	-11.5%	20.7%	29.5%
Cons. Staples (MSCI World)	287.7	55.52	2.4%	0.6%	6.1%	4.7%	3.2%
Energy (MSCI World)	224.9	34.17	-1.6%	-7.3%	-5.5%	2.9%	6.0%
Financials (MSCI World)	178.2	40.92	2.9%	-2.6%	-0.1%	25.1%	16.4%
Health Care (MSCI World)	342.5	33.48	0.0%	-6.4%	-1.3%	1.5%	4.1%
Industrials (MSCI World)	369.8	43.82	4.2%	-4.1%	-1.3%	12.8%	22.5%
Info. Tech. (MSCI World)	657.0	44.32	7.4%	-4.7%	-14.4%	31.9%	51.4%
Materials (MSCI World)	306.2	43.92	3.4%	-4.5%	0.9%	-7.7%	12.6%
Real Estate (MSCI World)	919	39.51	-0.3%	-5.2%	-3.5%	-0.4%	5.3%
Utilities (MSCI World)	168.2	52.54	1.4%	1.7%	5.4%	13.0%	1.6%
Bonds (Bloomberg)							
World (Aggregate)	3.66%	61.45	-0.4%	1.1%	3.8%	-1.7%	5.7%
USA (Sovereign)	4.29%	40.50	-2.4%	-0.7%	1.6%	0.6%	4.1%
Euro Area (Sovereign)	2.76%	62.93	0.2%	2.1%	-0.3%	1.9%	7.1%
Germany (Sovereign)	2.22%	66.40	0.5%	2.8%	-0.4%	0.6%	5.6%
UK (Sovereign)	4.62%	47.72	-1.8%	0.2%	0.8%	-3.0%	5.6%
Switzerland (Sovereign)	0.56%	67.72	0.2%	2.8%	-0.6%	5.4%	7.9%
Japan (Sovereign)	1.05%	60.12	-0.6%	1.8%	-0.7%	-2.1%	0.9%
Emerging (Sovereign)	7.43%	22.15	-1.1%	-3.5%	-1.3%	7.0%	11.0%
USA (IG Corp.)	5.55%	30.25	-1.4%	-1.9%	-0.2%	2.1%	8.5%
Euro Area (IG Corp.)	3.33%	50.33	0.3%	0.6%	0.0%	4.7%	8.2%
Emerging (IG Corp.)	7.17%	19.02	-1.0%	-2.4%	-0.2%	7.0%	6.7%
USA (HY Corp.)	8.58%	25.66	0.3%	-2.5%	-1.4%	8.2%	13.4%
Euro Area (HY Corp.)	6.48%	35.55	0.5%	-1.7%	-1.0%	8.2%	12.1%
Emerging (HY Corp.)	9.44%	18.44	-0.4%	-4.2%	-2.3%	14.9%	13.1%
World (Convertibles)	436.2	42.28	1.2%	-1.8%	-0.9%	9.4%	12.3%
USA (Convertibles)	572.5	40.06	1.3%	-2.8%	-4.3%	10.1%	14.6%
Euro Area (Convertibles)	251.9	48.41	0.7%	0.7%	8.2%	14.7%	7.3%
Switzerland (Convertibles)	266.1	77.99	2.8%	6.8%	10.5%	-10.5%	5.8%
Japan (Convertibles)	222.7	43.19	0.1%	-1.4%	-1.7%	6.4%	7.6%
Hedge Funds (Bloomberg)							
Hedge Funds Industry	1 600	72.49	n.a.	-1.4%	-0.7%	11.1%	7.8%
Macro	1 333	63.40	n.a.	-1.0%	-0.7%	7.4%	1.6%
Equity Long Only	2 126	60.00	n.a.	-1.9%	-3.8%	12.0%	15.9%
Equity Long/Short	1 658	69.76	n.a.	-2.1%	-1.1%	14.0%	7.7%
Event Driven	1 713	69.74	n.a.	-1.8%	-0.7%	8.7%	7.3%
Fundamental Equity Mkt Neutral	1 670	96.73	n.a.	0.1%	1.2%	12.4%	6.6%
Quantitative Equity Mkt Neutral	1 673	81.12	n.a.	-1.0%	0.5%	9.8%	7.8%
Credit	1 608	88.97	n.a.	-0.9%	0.8%	8.5%	8.1%
Credit Long/Short	1 640	100.00	n.a.	0.2%	0.8%	10.0%	11.2%
Commodity	1 837	87.55	n.a.	1.9%	2.7%	14.7%	7.3%
Commodity Trading Advisors	1 321	55.67	n.a.	-0.1%	-1.5%	7.9%	-3.6%
Volatility							
VIX	37.56	58.31	-17.1%	39.5%	116.5%	39.4%	-42.5%
VSTOXX	39.56	62.60	15.6%	62.8%	132.7%	25.3%	-35.0%
Commodities							
Commodities (CRB)	545.4	n.a.	0.5%	0.7%	1.6%	5.1%	-8.0%
Gold (Troy Ounce)	3 225	n.a.	8.1%	8.1%	22.9%	27.2%	13.1%
Silver (Troy Ounce)	31.83	n.a.	5.8%	-5.8%	10.1%	21.5%	-0.7%
Oil (WTI, Barrel)	61.50	n.a.	-0.8%	-7.2%	-14.2%	0.1%	-10.7%
Oil (Brent, Barrel)	65.83	n.a.	-3.1%	-7.5%	-11.2%	-4.6%	-4.5%
Currencies (vs USD)							
USD (Dollar Index)	99.71	23.11	-3.4%	-3.9%	-8.1%	7.1%	-2.1%
EUR	1.1378	76.61	4.3%	4.6%	9.9%	-6.2%	3.1%
JPY	142.92	69.10	3.4%	4.0%	10.0%	-10.3%	-7.0%
GBP	1.3115	62.40	3.1%	1.4%	4.8%	-1.7%	5.4%
AUD	0.6303	54.45	5.3%	-0.3%	1.9%	-9.2%	0.0%
CAD	1.3861	71.23	2.8%	3.6%	3.8%	-7.9%	2.3%
CHF	0.8171	79.89	5.2%	8.3%	11.1%	-7.3%	9.9%
CNY	7.3077	42.53	0.2%	-1.0%	-0.1%	-2.7%	-2.8%
MXN	20.257	51.49	2.2%	-1.6%	2.8%	-18.5%	14.9%
EM (Emerging Index)	1 756.7	54.46	0.0%	0.1%	1.7%	-0.7%	4.8%
XBT	84 681	n.a.	1.8%	0.6%	-9.6%	120.5%	157.0%

Source: Bloomberg, Altitude Investment Solutions

Total Return by asset class (Negative \ Positive Performance)

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