BANQUE
ERIC STURDZA

MONTHLY NEWSLETTER
MARCH 2025

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* *Donald Trump*

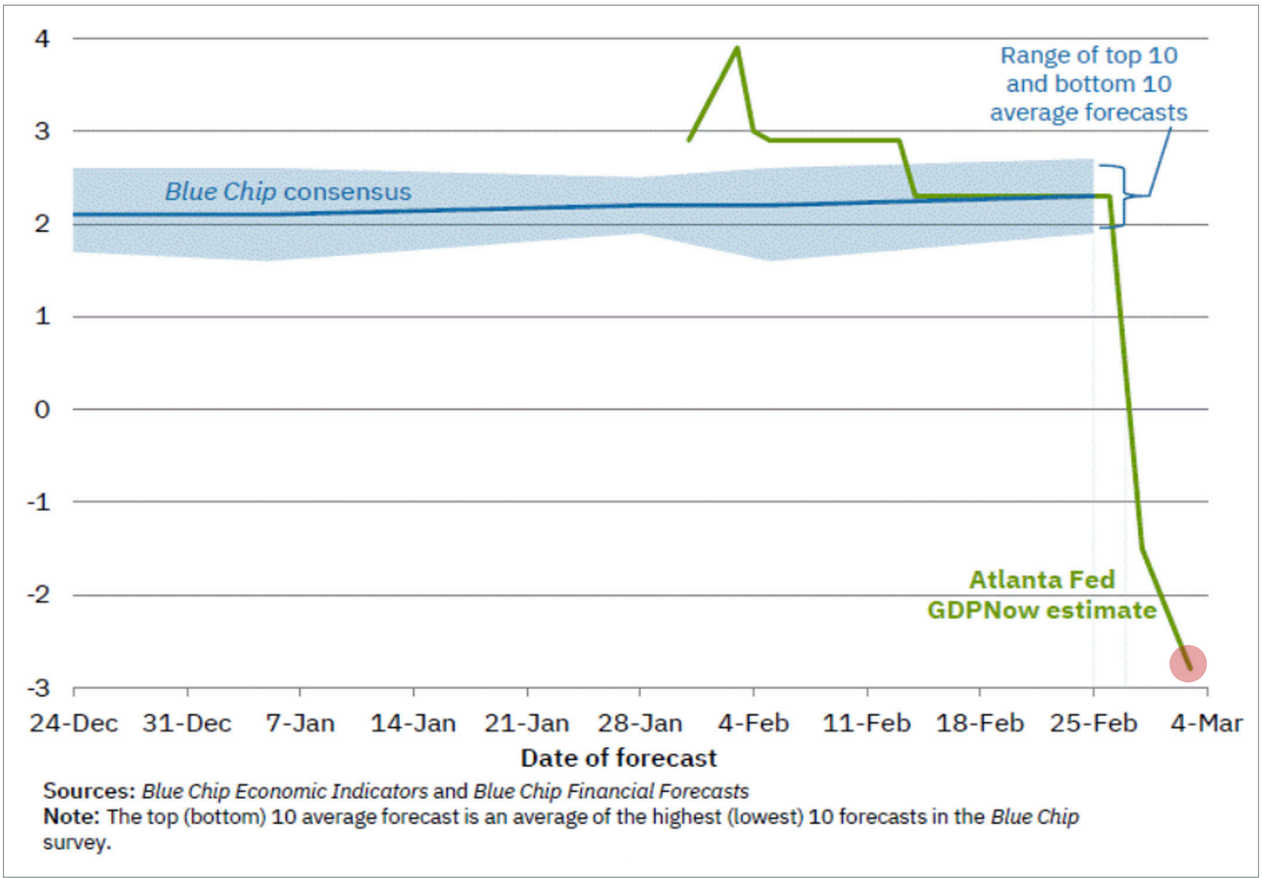
1. EDITORIAL

THE FIRST HUNDRED DAYS

President Franklin D Roosevelt first coined this term in July 1933. The expression became a measure of a President's success and achievements when their power and influence are at their highest point. Rarely has an expression seemed so fitting as in the case of Donald Trump. Since his first days in office he has already signed a consequent number of executive orders and made claims of resolving international conflicts in the Middle East and in Ukraine. He also did not hold back in his efforts to launch a 500 billion AI infrastructure plan and to downsize federal government with the help of Mr Musk and DOGE (the Department Of Governmental Efficiency). For the past month, everybody's eyes have turned on the White House and its occupant. In part stunned and in part worried, already wondering what the remaining 47 months of this Donald Trump presidential term might hold in store...

It must be said that the pace set over the first month has been particularly vigorous and sometimes hard to keep up with. On trade relations, after vehemently threatening to impose 25% tariffs on imports from Canada and Mexico, Donald Trump decided to suspend this for a month (but did not cancel them) in exchange for tighter border controls. Chi-

G1 : NOWCAST PIB USA T1 2025



Source : Federal Reserve Atlanta 01/03/2025 na were warned of a minimum of 60% tariffs on its exports, but then received a meagre 10% instead. As for the Europeans, they have managed to slip through the net for the time being, but their turn will come soon enough. The scenario has been tried and tested, and so are market reactions: Newly announced tariffs tend to bolster the US Dollar, while triggering epidermal reactions on equities before all returns to normal once those tariffs have been sweetened or cancelled. As for the Department of Government Efficiency (DOGE), its Elon Musk-inspired actions have resulted in a few weeks of symbolic cuts to the sprawling US federal budget (e.g. USD 44bn cut for the US AID budget) without any clear indication of the resulting potential legal litigations and loss of soft power. However, without any meaningful cuts in the Medicaid and Medicare programmes as well as in the defence budget, the $2'000 billion reduction target is likely to remain a dead letter. So many reforms that seem difficult to undertake, even in the 100-day period...

The uncertainties created by tariff threats, and to a lesser extent those created in the administration and with civil servants, as well as with private companies under contract to the federal government, are not unrelated to the current 'soft patch' the US economy is experiencing. After several quarters of economic 'out-performance' and a year 2024 marked by significant electoral largesse, the US economy is expected to shrink in Q1 25, a "back-to-normal" scenario that could feel like cold turkey given previous high expectations.

Looking at Donald Trump's major announcements, his first 30 days are characterised by important steps towards the resolution of international conflicts from Gaza to Ukraine.

For the latter, the timing might have its importance as February 2024 marked the third anniversary of the invasion of Ukraine by Russian forces. Donald Trump once again is showing just how unpredictable he can be. Firstly, renewing his ties with Vladimir Putin and voting with him at the UN, secondly excluding the Europeans from the initial negotiations and finally trying to extort a mining 'deal' from Ukraine for the rare earth minerals critical to the production of weapons and technological products.

In Europe, cogs are finally moving. Despite the rise of the German far-right AfD party, Friedrich Merz, who came out on top with the CDU/CSU, is now in a position to form the future governing coalition. Merz is advocating shock treatment (tax cuts, deregulation) to pull Germany out of the recession in which it has been mired for the past two years. His first speeches post-election in which he advocated for an independent European defence shows real commitment to reviving European integration (at least around the concept of European Defence) that could benefit the whole continent. Once again, Europe is making progress once faced with crisis. This momentum, coupled with limited expectations and fund flows turning positive, are probably related to the re-rating European markets are enjoying this year.

Although Donald Trump's first 100 days are still far from over, they are proving to be full of surprises: international issues and the trade war are taking precedence over domestic economic issues (think about inflation) and the tax cuts promised during the campaign. As such, we prefer to stay vigilant about the US market against a backdrop of high valuations and expectations. Although the threat of tariffs remains a short-term risk, the US pullback and the emergence of a new European dynamic represent an opportunity to pursue European integration further. On that note, investors should be wise not to forget the Old Continent and keep also a close eye on Mr Merz's first hundred days!

2. FIXED INCOME

A RATE CUT WITH NO RATE CUT

Interesting FOMC minutes

Last week was once again rich in lessons to learn, but if we had to pick out just one item, it would undoubtedly be the publication of the minutes of the last FOMC meeting. In them, we learnt that the Fed could slow the pace of its Quantitative Tightening (QT) or even decide to take a pause. The main argument used by the central bank is the risk associated with the debt ceiling, against a backdrop of potentially high changes in reserves during this period of uncertainty. The idea is to put the QT on hold until the thorny issue of the debt ceiling is resolved. So will have to pay close attention to this issue on March 19th and May 7th. On the face of it, the Fed is likely to announce a pause in its key rates, but could ease or abandon its QT programme altogether. This would be a way of lowering rates without actually touching the rates. It would also be a rather clever way to support the Trump administration in its desire to see the long end of the curve ease. Any move towards Yield Curve Control first requires a move away from QT.

The importance of Mar-a-Lago? President Trump could force certain non-resident investors in US Treasuries to exchange their short-duration debt for ultra-long-duration Treasuries. This seems unlikely to us, as such an operation would be tantamount to a debt restructuring, and therefore potentially to a technical default. For the time being therefore, it seems unimaginable and commentators insist on Donald Trump's habit of shocking his audience with outrageous statements. This is a subject to be closely followed and it remains part of a wider plan to reduce the dollar's overvaluation.

Avoid TIPS and certain supra-nationals

March has barely begun and we are already preparing our strategy for the 2nd quarter. Let us briefly discuss the two usual major themes of duration via long Treasuries and Credit. The 10-year rate is in the middle of the range, in a 4.2 to 4.6% corridor, with a medium-term downward trend but a short-term risk of a climb towards 4.8%-5%. We are therefore neutral until we have a clearer vision. Loans are expensive but their carry remains attractive. With a duration of 3 to 6 years, it is still possible to construct attractive portfolios. Beware, however, of the spread between A-rated and BBB-rated issuers. The difference is sometimes minimal and it is wiser to give up a handful of basis points in order to invest in higher quality.

Mr Trump and Mr Musk may decide to withdraw United States' contributions to certain leading international financial institutions.

The subject of TIPS (Treasury Inflation Protected Securities) is more complicated. Several weeks ago, we decided to switch from TIPS to their nominal counterparts. Inflation break-evens have risen sharply and as a result real rates are too low compared to nominal rates. Since figures sometimes speak louder than words, let's take the example of Treasuries maturing in April 2026, since in a few weeks' time this will be the one-year rate. Since the start of the year, the yield on the nominal Treasury 15 April 2026 has fallen from 4.24% to 4.23%. The yield on its TIPS counterpart has fallen from 2.02% to 1.16%. The market's inflation expectations have matched ours, and today we prefer to invest at 4.23% rather than at 1.16% real.

The last subject covered in this column is a major one, as it involves a potentially serious black swan. For ages, we have been accustomed to investing in AAA-AA rated supra-national debt in our portfolios, whose investment constraints demand extremely high quality. Today, the potential risk is enormous, because in their quest to economise and rationalise their management, Mr Trump and Mr Musk could decide to withdraw the United States' contribution to certain leading international financial institutions. We are talking about, to name just the three main bodies concerned, potentially 48% of the budget of North American Development Bank/NADB (Aa1/AA), which issues most of its bonds in CHF, 30% of the budget of Inter-American Development Bank/IADB (Aaa/AAA) and 17% of that of International Bank for Reconstruction and Developement/IBRD (Aaa/AAA). Today, the risk is low, no one is talking about it and the possibility of such a cataclysm has not manifested itself in prices. We are assessing the risk so that we can consider precautionary and prudent measures. This is undoubtedly one of our major projects for Spring 2025.

3. EQUITIES

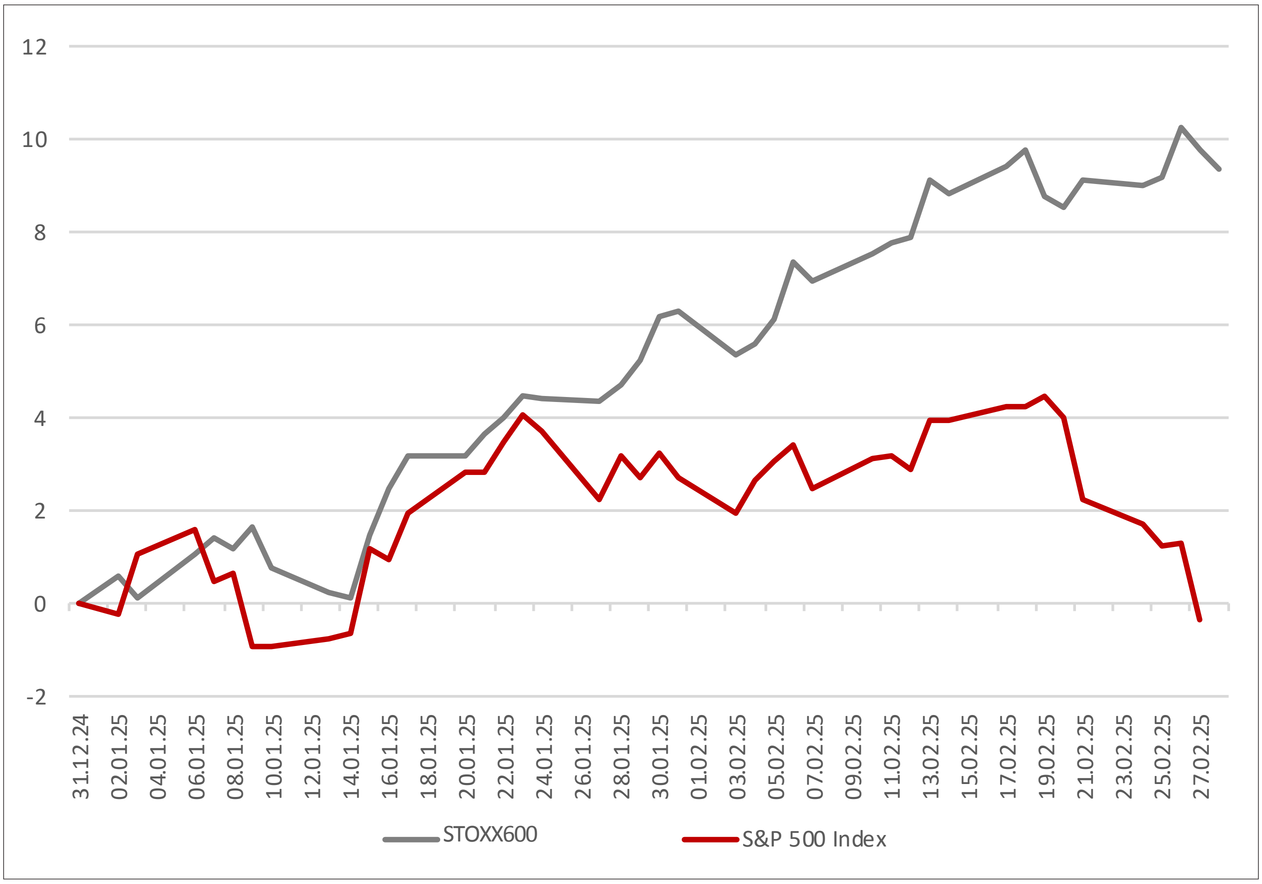
*THE ART OF THE DEAL**

The least we can say is that the world was warned in advance and that he was clear in his intentions. Nothing seems to stop him in his desire to "Make America Great Again". How are supposed to talk about financial markets or even current events while pretending to ignore Donald Trump? The President Trump is running the show and is blowing hot and cold around the world. Even if the course of action is clear, the actions and decisions are not always so. Uncertainty is on the rise, causing perturbation on stock markets.

For example, his trade policy announced in advance, but whose implementation has caused a few surprises in terms of both content and form. A 25% tariff on imports from Mexico and it partner Canada, with advance notice negotiated in exchange for increased border security. For Europe identical tariffs have now been announced, right in the midst of negotiations to end the war in Ukraine. As for China, the new 10% import duty has so far been much more moderate than initially presented.

On the international front, people were flabbergasted to see Trump moving closer to Putin to negotiate a way out of the war, while preparing to tap rare earth minerals in Ukraine. Such rapprochement sparked fierce debate around the world about its geopolitical implications.

G2 : STOXX600 VS S&P500 YTD PERFORMANCES



Source : Bloomberg, Banque Eric Sturdza

** Donald Trump*

The old continent is feeling the full force of the changes in direction of its US strategic partner and realises (better late than never) that the world is in upheaval and that it is time to show its independence.

These factors have a direct impact on the markets, on companies and on micro and macro-economic forecasts.

The valuation of the US markets is still pretty demanding (S&P500 PE 24x) and growth remains highly dependent on the technology giants. Indeed, their results and forecasts now seem less able to justify this premium than they did in 2024. It is hardly surprising to see a degree of normalisation taking place. Our positioning since the end of 2024 in favour of European assets, where we believe the risk/return ratio is more attractive, is bearing fruit.

At present, while the US markets are registering negative YTD performances (S&P500 -0.5%, Nadaq -3.9%), Europe is coming out of the blocks with +9.5% for the Stoxx 600, CAC40 +11%, DAX +13%, SMI +12% (graph 2).

Despite the prevailing instability, bad news seems always being better “priced in” on this side of the Atlantic Ocean (or should we say American Ocean?). Every positive element, or perceived as such, a timid renewed optimism are boosting equities a little further and giving renewed hope for the future positioning of the old continent in a world currently tri-polarised between the United States, Russia and China.

To navigate this shifting environment, which is changing in step with Trump’s announcements, we are maintaining our geographic bets and our preference for active management and asymetric investment solutions. Under such circumstances, we keep well diversified portfolios. Diversification is more important than ever and remains the only “free lunch” in finance.

5. PERFORMANCES

EQUITIES	28.02.25	CURRENT	1 M	3M	6M	YTD	2024	2023	2022	2021	2020
US	DOW JONES	43 240	-2,9%	-3,7%	4,0%	1,6%	12,9%	16,2%	-6,9%	20,9%	9,7%
	S&P 500	5 862	-3,0%	-2,8%	3,8%	-0,3%	23,3%	26,3%	-18,1%	28,7%	18,4%
	S&P500 EW	7 206	-1,8%	-5,1%	1,3%	1,5%	10,9%	13,8%	-11,5%	29,6%	12,8%
	NASDAQ 100	20 551	-4,3%	-1,8%	5,0%	-2,2%	24,9%	55,1%	-32,4%	27,5%	48,9%
	RUSSELL 2000	2 140	-6,5%	-12,1%	-3,5%	-4,1%	10,0%	16,9%	-20,5%	14,8%	19,9%
EUROPE	STOXX 600	557	3,3%	9,2%	6,1%	9,8%	6,0%	16,6%	-9,9%	25,8%	-1,4%
	FTSE 100	8 810	1,6%	6,3%	5,2%	7,8%	5,7%	7,7%	4,6%	18,4%	-11,4%
	CAC 40	8 112	2,0%	12,1%	6,3%	9,9%	-2,2%	20,1%	-6,7%	31,9%	-5,0%
	DAX	22 551	3,8%	14,9%	19,3%	13,3%	18,8%	20,3%	-12,3%	15,8%	3,5%
	SPI SWISS	17 150	2,4%	9,4%	3,9%	10,8%	6,2%	6,1%	-16,5%	23,4%	3,8%
ASIA	MSCI EM	1 124	2,8%	4,2%	2,2%	4,5%	5,1%	10,2%	-19,8%	-2,3%	18,8%
	TOPIX	2 682	-3,8%	0,1%	-1,1%	-3,7%	17,7%	28,3%	-2,5%	12,8%	7,4%
	HANG SENG	22 941	13,4%	18,1%	27,5%	14,4%	17,7%	-10,5%	-12,6%	-11,8%	-0,2%
	CSI 300	3 890	1,9%	-0,7%	17,1%	-1,1%	14,7%	-9,1%	-19,8%	-3,5%	29,9%

FX & COMMODITIES	28.02.25	CURRENT	1 M	3M	6M	YTD	2024	2023	2022	2021	2020
CURRENCIES	EUR-USD	1,039	0,3%	-1,8%	-6,0%	0,3%	-6,2%	3,1%	-5,9%	-6,9%	8,9%
	EUR-CHF	0,937	-0,8%	0,5%	-0,2%	-0,3%	1,2%	-6,1%	-4,6%	-4,0%	-0,4%
	USD-CHF	0,902	-1,0%	2,3%	6,1%	-0,6%	7,8%	-9,0%	1,3%	3,1%	-8,4%
	USD-JPY	150,3	-3,2%	0,3%	2,8%	-4,4%	11,5%	10,5%	13,9%	11,5%	-4,9%
	USD INDEX	107,36	-0,9%	1,5%	5,6%	-1,0%	7,1%	-2,1%	8,2%	7,0%	-7,3%
COMMODITIES	Gold	2844,19	1,6%	7,6%	13,6%	8,4%	27,2%	13,1%	-0,3%	-4,2%	25,0%
	Silver	30,98	-1,0%	1,2%	7,3%	7,2%	21,5%	-0,7%	2,8%	-13,6%	48,7%
	WTI Crude Oil	69,89	-3,6%	2,8%	-5,0%	-2,6%	0,1%	-10,7%	6,7%	59,1%	-21,5%
	Natural Gas	3,87	27,1%	15,0%	81,9%	6,5%	44,5%	-43,8%	20,0%	46,9%	16,0%
	Copper	9381,31	5,1%	5,5%	2,9%	8,4%	2,2%	0,9%	-14,1%	25,7%	26,0%

FIXED INCOME	28.02.25	CURRENT	1 M	3M	6M	YTD	2024	2023	2022	2021	2020
RATES	US 10 year gvt	4,22	(0,32)	0,05	0,32	(0,35)	69 bps	0 bps	237 bps	60 bps	-100 bps
	German 10 year gvt	2,41	(0,05)	0,32	0,11	0,04	34 bps	-54bps	275 bps	39 bps	-38 bps
BONDS	Global Aggregate USD hdg.	587,9	0,9%	0,6%	1,5%	1,3%	3,4%	7,1%	-11,2%	-1,4%	5,6%
	US Treasuries	2341,2	1,7%	0,7%	0,2%	2,2%	0,6%	4,1%	-12,5%	-2,3%	8,0%
	US TIPS	357,8	1,5%	1,1%	1,3%	2,8%	1,8%	3,9%	-11,9%	6,0%	11,0%
	US IG Corporates	3365,0	1,7%	0,3%	0,9%	2,3%	2,1%	8,5%	-15,8%	-1,0%	9,9%
	US High Yield	2737,2	0,6%	1,6%	3,8%	2,0%	8,2%	13,4%	-11,2%	5,3%	7,1%
	Euro Government	244,1	0,6%	-0,9%	1,6%	0,4%	2,0%	7,1%	-18,2%	-3,4%	4,7%
	Euro IG Corporates	260,5	0,6%	0,6%	3,1%	1,0%	4,7%	8,2%	-13,6%	-1,0%	2,8%
	Euro High Yield	487,0	1,2%	2,4%	4,8%	1,7%	9,1%	12,8%	-11,1%	4,2%	1,8%
	EM USD Aggregate	1279,1	1,4%	1,3%	2,8%	2,5%	6,6%	9,1%	-15,3%	-1,7%	6,5%

Source: Bloomber, 28/02/25

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Contributors
Edouard Bouhyer CAIA, CIO
Marc Craquelin, Senior Advisor
Eric Vanraes, Responsable Gestion Taux
Pascal Perrone, Gérant obligataire Senior
Jeremy Dutoit, Responsable Advisory

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Contact
Banque Eric Sturdza SA
Edouard Bouhyer
invest@banque-es.ch
www.banque-es.ch