BANQUE ERIC STURDZA

QUARTERLY OUTLOOK

2ND QUARTER 2025

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2ND QUARTER 2025

1. EDITORIAL

TWO BIRTHDAYS AND A FUNERAL

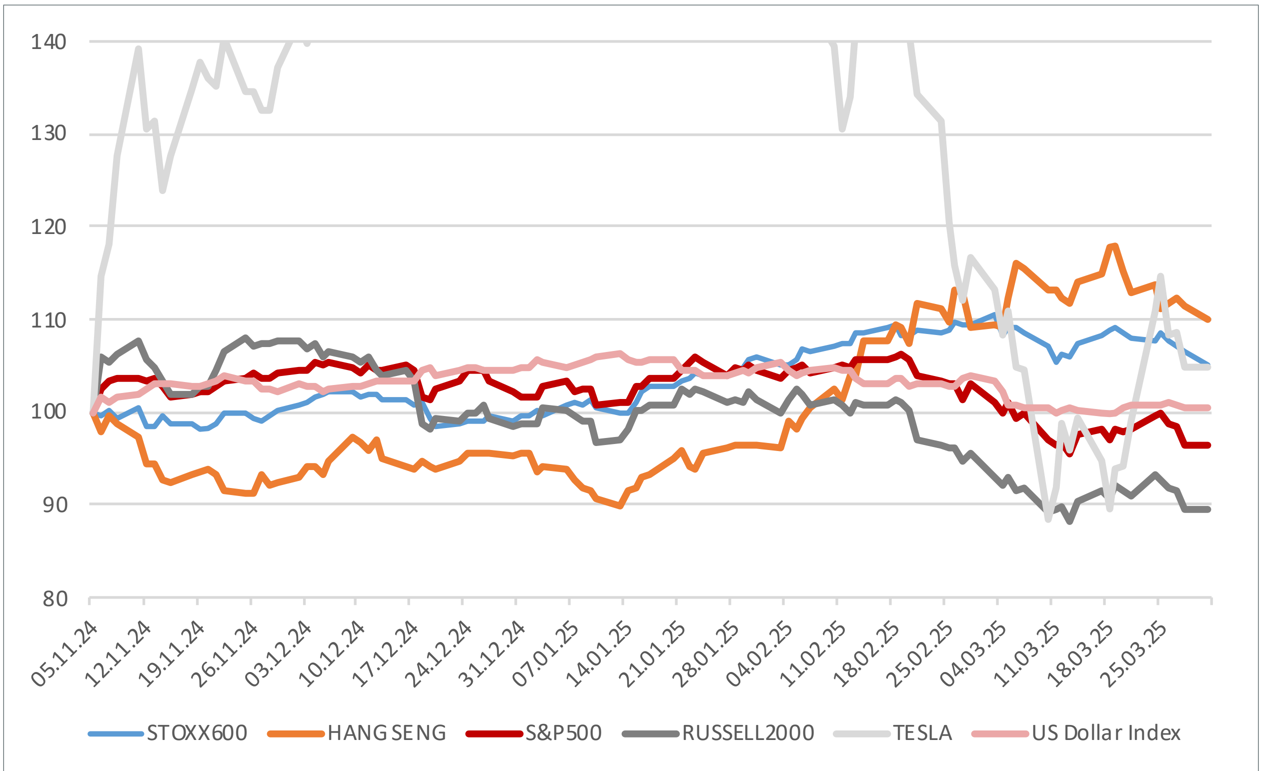
Investors love anniversaries and the spectacular figures that go with them, so we couldn't ignore this double anniversary:

- **Exactly 25 years ago the internet bubble burst (the Nasdaq would lose more than 75% of its value in the two years that followed!).**
- **5 years ago, on 12 March 2020, at the start of the pandemic, the Standard and Poor's index reached a low of 2192 (by the summer of 2021 it had already doubled!) This is a good opportunity to remember the adage "stock investors always underestimate trends!"**

And the funeral? It's that of the Trump-trade, which will have had a very short life for the time being. The election of the 47th President of the United States was expected to benefit the dollar, US assets and US mid-caps, and conversely to penalise the European and Chinese markets. While the expected movements did take place in the weeks following the November election – and often quite violently – none of these trends held. The Chinese and European markets in particular are now outperforming the US market.

The valuation gap already mentioned at the start of the year is enough to justify a market 'catch-up' between the low-value zones and the US market, but there is surely more to it than that.

G1 : PERFORMANCES OF "TRUMP TRADES" SINCE THE 05/11/24 ELECTION



Source: Bloomberg, Banque Eric Sturdza, base 100 as of 05/11/2024 - 26/03/25

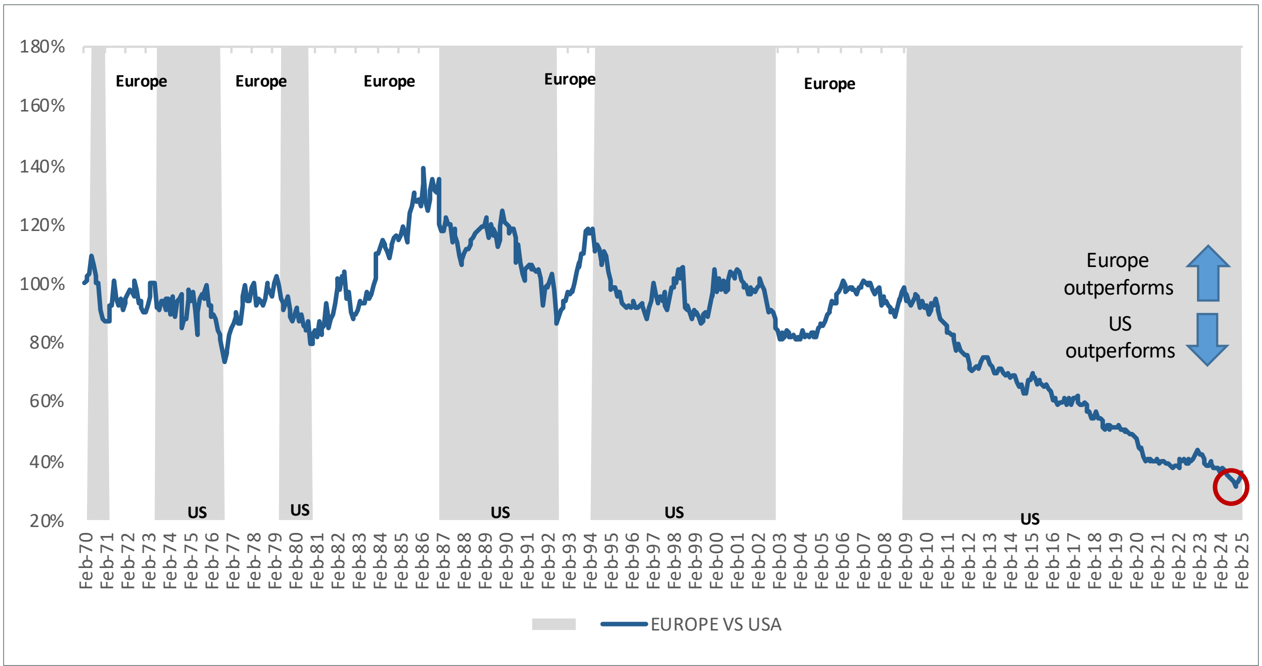
At a time when searches for customs tariffs feature prominently in web queries, and European sectors such as Alcoholic Beverages are under serious threat, how can we analyse Europe's outperformance? A quick look at some of the components of European GDP can help us to take a less pessimistic view of the situation, even in a time of trade war.

Exports from the European zone to the US represent "only" 3.5% of GDP. A rough theoretical calculation based on the announced 20% reciprocal tariff on EU exports to the US leads to a contraction of 0.7% of GDP, which is meaningful (especially considering the tepid growth rate of the Europan Union). However, if there is even a modest improvement in the EU domestic consumption – which accounts for 52% of GDP – this effect can be offset. The radical change in Germany, the military spending programmes, inflation that is now below the rate of wage increases, and a very high savings rate in Europe – all these factors are likely to be more pertinent over the medium to long run than the negative effect of US policies. Those who disagree will argue that the European market catch-up since the start of this year has already incorporated this improvement.

Hindsight suggests that there is still room for more.

In this Europe-US comparison over some 50 years, we can see that European markets have drastically underperformed since 2008, reflecting the growth differential between the two zones and the US supremacy in Tech. Nevertheless we can also see that the recent European market catch-up is ridiculous if we put it into long-term perspective. The stock market adage surely deserves a 2nd reminder: We always underestimate trends…

G2: EUROPE / USA AND PERIODS OF AMERICAN (GREY) OR EUROPEAN (WHITE) DOMINANCE



Source: Bloomberg, Banque Eric Sturdza, 01/01/1970 – 31/03/2025

2. MACRO FOCUS

A RECESSION, NO; A MARKED SLOWDOWN, YES!

As an eventful first quarter draws to a close, we can identify a number of trends and economic prospects.

Heading towards the end of exceptionalism

At the time of our last quarterly outlook, we were concerned about economic issues on which "bad Trump" would get the better of good Trump. In this respect The first two months of Trump's new term in office have not proved very reassuring. The new President has shown himself to be more concerned with introducing tariffs on his neighbours and on products such as steel, aluminium and imported vehicles than with implementing the deregulation agenda promised during his campaign and extending the tax cuts introduced during his first term.

The "Liberation Day" promised by Donald Trump reminded the whole world that the United States were entering a new era of isolationism, expressed notably through protectionism and universal tariffs. Coupled with the DOGE's budget cuts, the trade uncertainty and those tariffs' measures have nonetheless created a climate of uncertainty perceptible by the fall in consumer confidence indices and the "wait-and-see" attitude of the business community towards future investment.

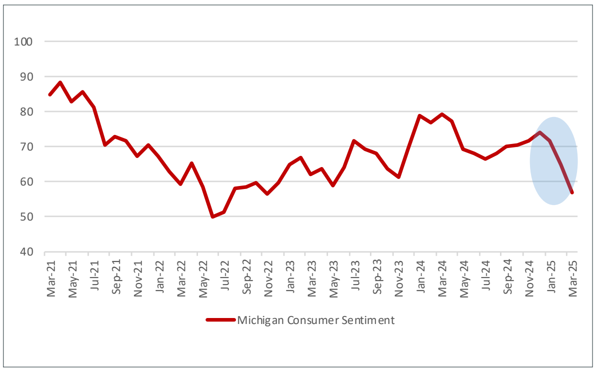
In this environment, it is hardly surprising that growth expectations for the 1st quarter have collapsed, especially as weather conditions have barely helped (fires in California, polar temperatures in the North-East). The contribution of imports is also likely to be highly negative, as many manufacturers have decided to "front-run" possible customs duties by importing the goods they need for their business on a massive scale beforehand. Goods produced in this way swell inventories and disrupt economic activity even further.

It's only a short step from there to recession... but we'll be careful not to take that step. At this stage, main economic indicators are far from pointing to recession, those that are showing signs of weakness are more likely to be soft data, and the weather related events that had an impact on the 1st quarter

G3 : ISM MANUFACTURING – NEW ORDERS COMPONENT

Source : Bloomberg, ISM, BES, 31/3/21 to 31/3/25

G4 : CONSUMER CONFIDENCE INDEX – UNIV. MICHIGAN



Source : Bloomberg, University of Michigan, BES, 31/3/21 to 31/3/25 are by their very nature non-recurrent. The slowdown is nonetheless undeniable, and the announced tariffs will amplify the trend. This scenario is particularly hard to swallow for market participants as they had come had come to believe that the US exceptionalism of the last two years was the norm.

The German awakening

The month of March was also marked by a sequence of European and German announcements on the subjects of defence and fiscal stimulus. The first surprise was undoubtedly the European Union's admittedly belated awakening on defence. Confronted on the one hand by the Russian threat and on the other by American disengagement, the European Commission announced in its ReArm Europe plan that it wanted to devote almost EUR 800 billion between now and 2030 to European re-armament and defence. While the amount is ambitious, the impact of these measures on the region's economic activity could prove more diffuse. Of the 800 bn, EUR 650 bn would correspond to an additional effort of 1.5% of the GDP of each Member State, as authorised by the European Commission. It is nonetheless up to them to do their part.

In parallel with this European effort, Germany has undergone profound upheaval following the recent general election, which saw the victory of the CDU/CSU conservatives led by F. Merz. No sooner had it been elected than the future coalition decided to review the debt brake rule with a view to implementing an ambitious recovery plan to pull Germany out of the recession in which it is mired. The plan is focused on upgrading its infrastructure and energy sovereignty and transition. The set up of a EUR 500bn fund remains the cornerstone of this strategy. In addition to that, the new chancellor is committed to spend more on Germany's defence and plans to add to the already substantial bugets unlocked for beefing up Germany's military capabilities and participate in the European defence's effort.

While realistically the effects of this stimulus policy are more likely to be felt in 20226 rather than 2025, the momentum it created and the signal sent are nonetheless meaningful and could help reviving the German economy and as a side effect could benefit European growth for the years ahead and potentially offset the deleterious effects of US tariff policy.

In this environment, diversification remains a cardinal value and that, more than ever, it is important to stay calm and not overreact to from news announcements and have a second thought on their potential impact.

3. FIXED INCOME

FED, A RATE CUT WITHOUT A RATE CUT

Stagflation is back

Employment figures were not good in March, consumption slowed and sentiment indices were concerning. There was a slight improvement in inflation, but that's not really the problem any more! The markets are now looking elsewhere. Fears of recession have made a comeback. But all the statistics and all the classic leading indicators of an imminent slide into recession are very clear: nothing of the sort is currently conceivable. What is a little less clear and gives cause for doubt is the weight of confidence statistics. If confidence erodes, economic activity falls. The scale of the fall could then trigger a more or less severe slowdown.

The Fed meeting was therefore eagerly awaited. The members of the FOMC are sceptical about the future path of the US economy, with growth prospects largely revised downwards. The scenario of stagflation has to some extent been validated by the central bank and, as we previously announced, quantitative tightening has been scaled back in order to keep the doves waiting during this rate cut without a rate cut. As a result, the US 2-year rate has reached the 4% level, the 10-year rate has stabilised at around 4.25% and, above all, credit spreads have started to widen. In terms of strategy, recent market movements will soon offer us investment opportunities.

The ECB is behind the news

The ECB has cut interest rates, but Christine Lagarde and her colleagues have found themselves behind the news. They took a monetary policy decision based on criteria that have become brutally obsolete. German budgetary orthodoxy, constrained by recent events, is doomed, and one wonders whether the ECB's forthcoming meetings will be of much less importance compared to the developments in the budgetary and fiscal policies of the eurozone's heavyweights, led by Germany and France.

Inflation has not disappeared, and Isabel Schnabel has warned her colleagues against continuing the policy of rate cuts. The frenzied rise in the German 10-year Bund rate, which has brought the 3% target back into focus, is understandable given that the Germans are converting to "whatever it takes". So what will the ECB do next? Where will the Bund and the main 10-year bonds go? Italian BTPs, for example, have broken through the 4% barrier. What do the negative long swap spreads tell us? That's a lot of questions with few immediate answers. We have therefore had to adapt our eurozone strategy, as the situation has changed completely in the space of a few days. We have already bought Bunds at 2.9%, a level we have not seen since the end of October 2023.

4. EQUITIES
THE GREAT EUROPEAN AWAKENING

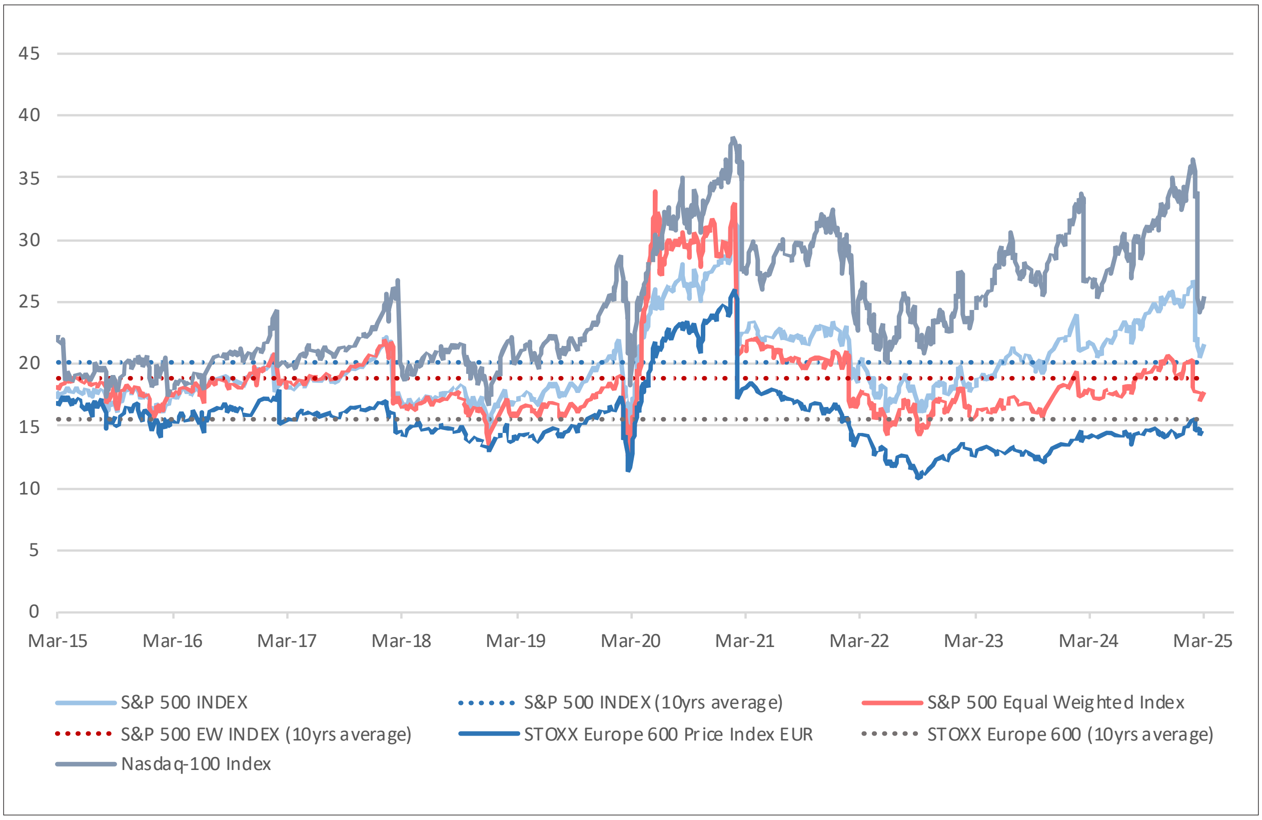
While the US President is using tough rhetoric to impose tariffs (leaving negotiating to afterwards), Europe seems ready to (re) structure itself around two major axis, defence on the one hand and the German fiscal stimulus on the other.

E. Macron's France wants to regain a prominent spot on the European stage and establish itself as a key player in nuclear deterrence and European defence through its army and defence industry.

The Germany of F. Merz, the leader of the CDU-CSU and freshly propelled onto the national stage by his party's victory in the German parliamentary elections, wants to return to growth and investment. Together with his partners, he is leading a reform of the "debt brake" system in order to implement substantial recovery plans (including setting up a EUR 500 billion fund to invest in Infrastructure and the Energy transition) and to regain sovereignty in terms of both energy and defence, as well as its role as the European industrial powerhouse. This should have a positive impact on all partner countries, especially those in Europe.

That was all the markets needed to widen the gap in equity performance between the two sides of the Atlantic. Even though the US market has regained some of its colour since mid-March, the S&P500 is

G5: P/E VALUATION VS. LT AVERAGE



Source: Bloomberg, BES, 20.03.15 – 25.03.25 currently down -5.1% YTD (Nasdaq -8.2% YTD), compared with the DAX, which is in great shape and has rebounded by almost 12% YTD, and the CAC40, which is up 8.50%.

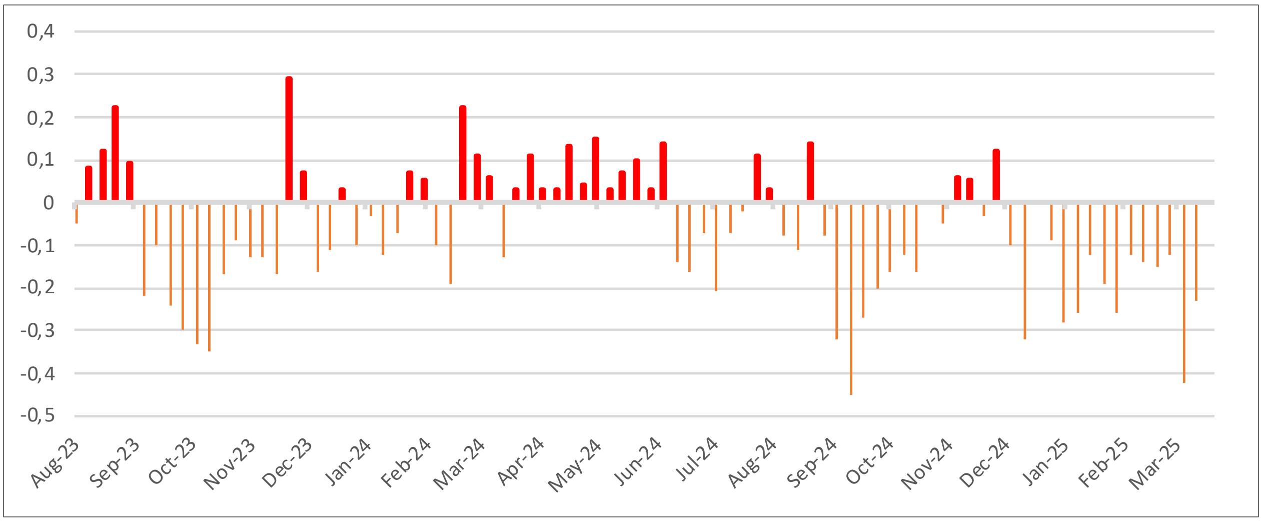
In terms of company valuations (Best PE), the Stoxx Europe 600 is trading at 14.6x, still below its historical average, with the CAC40 in line with the last 10 years at 15.1x and the DAX slightly above at 15.6x. The level in Germany can partly be explained by the concentration of two large stocks in the index: SAP (Best PE: 40.7x) and Siemens (Best PE: 19.2x), which now alone account for 25% of the index.

In the US, the valuation of the S&P500 has returned to a more normalised level, falling from over 26x earnings (Best PE) to 21.5x, still above its 10-year average (20x) (see chart 5). The technology sector is largely responsible for this normalisation of multiples, with the Nasdaq 100 dropping from a multiple of 36x to 25.5x in the space of a few weeks. The downward revision of US corporate earnings expectations could continue to weigh on valuations, further impacting the most expensive sectors (see chart 6). The concentration effect in the flagship US index continues to encourage us to look at the market from another angle, notably the S&P500 Equally Weighted index. Its valuation is now trading at 17.6x, down on its historical average at the end of February.

Some of the events we had been anticipating since the end of last year have now come to pass. Looking at the economic figures from across the Atlantic, we also understand that there is a perceivable conflict between Trump (who is asking the FED to lower its rates) and his tariff policy (which is likely to be highly inflationary). Consumer confidence indicators fell by 10% in February (University of Michigan), the ISM index, which measures manufacturing activity, slowed more than expected, and manufacturers are warning that tariffs could soon hamper production. The balance is fragile. J. Powell left rates unchanged and warned at his last meeting that uncertainty was "unusually high".

In this uncertain environment, diversification takes on its full value. Some of our less obvious investment themes in recent months, such as mining companies active in the production of metals critical to the energy transition and gold mines, are proving to be positive contributors this year, as are our positions in European and Chinese equities.

G6: CITI US EARNINGS REVISION INDEX



Source: Bloomberg, Citigroup

6. PERFORMANCE

EQUITIES	28.03.25	CURRENT	1 M	3M	6M	YTD	2024	2023	2022	2021	2020
US	DOW JONES	41 584	-5,1%	-7,4%	0,1%	-2,3%	12,9%	16,2%	-6,9%	20,9%	9,7%
	S&P 500	5 581	-6,3%	-7,5%	-1,2%	-5,1%	23,3%	26,3%	-18,1%	28,7%	18,4%
	S&P500 EW	6 972	-4,3%	-8,1%	-2,0%	-1,8%	10,9%	13,8%	-11,5%	29,6%	12,8%
	NASDAQ 100	19 281	-7,7%	-7,9%	-1,5%	-8,2%	24,9%	55,1%	-32,4%	27,5%	48,9%
	RUSSELL 2000	2 023	-6,5%	-16,9%	-8,8%	-9,3%	10,0%	16,9%	-20,5%	14,8%	19,9%
EUROPE	STOXX 600	542	-2,7%	6,2%	3,2%	6,8%	6,0%	16,6%	-9,9%	25,8%	-1,4%
	FTSE 100	8 659	-1,7%	4,5%	3,4%	5,9%	5,7%	7,7%	4,6%	18,4%	-11,4%
	CAC 40	7 916	-2,4%	9,4%	3,7%	7,3%	-2,2%	20,1%	-6,7%	31,9%	-5,0%
	DAX	22 462	-0,4%	14,4%	18,8%	12,8%	18,8%	20,3%	-12,3%	15,8%	3,5%
	SPI SWISS	17 097	-0,3%	9,1%	3,6%	10,5%	6,2%	6,1%	-16,5%	23,4%	3,8%
ASIA	MSCI EM	1 121	2,1%	3,9%	1,9%	4,2%	5,1%	10,2%	-19,8%	-2,3%	18,8%
	TOPIX	2 659	-0,9%	-0,8%	-2,0%	-4,5%	17,7%	28,3%	-2,5%	12,8%	7,4%
	HANG SENG	23 120	0,8%	19,0%	28,5%	15,3%	17,7%	-10,5%	-12,6%	-11,8%	-0,2%
	CSI 300	3 887	-0,1%	-0,7%	17,0%	-1,2%	14,7%	-9,1%	-19,8%	-3,5%	29,9%

FX & COMMODITIES	28.03.25	CURRENT	1 M	3M	6M	YTD	2024	2023	2022	2021	2020
CURRENCIES	EUR-USD	1,083	4,3%	2,3%	-2,0%	4,5%	-6,2%	3,1%	-5,9%	-6,9%	8,9%
	EUR-CHF	0,954	1,8%	2,3%	1,5%	1,4%	1,2%	-6,1%	-4,6%	-4,0%	-0,4%
	USD-CHF	0,881	-2,5%	0,0%	3,7%	-2,9%	7,8%	-9,0%	1,3%	3,1%	-8,4%
	USD-JPY	149,1	-1,0%	-0,5%	2,0%	-5,2%	11,5%	10,5%	13,9%	11,5%	-4,9%
	USD INDEX	104,00	-3,4%	-1,6%	2,3%	-4,1%	7,1%	-2,1%	8,2%	7,0%	-7,3%
COMMODITIES	Gold	3122,92	9,3%	18,2%	24,7%	19,0%	27,2%	13,1%	-0,3%	-4,2%	25,0%
	Silver	34,26	10,0%	11,9%	18,7%	18,5%	21,5%	-0,7%	2,8%	-13,6%	48,7%
	WTI Crude Oil	69,77	0,0%	2,6%	-5,1%	-2,7%	0,1%	-10,7%	6,7%	59,1%	-21,5%
	Natural Gas	4,20	9,6%	24,9%	97,6%	15,7%	44,5%	-43,8%	20,0%	46,9%	16,0%
	Copper	9749,69	4,4%	9,6%	6,9%	12,7%	2,2%	0,9%	-14,1%	25,7%	26,0%

FIXED INCOME	28.03.25	CURRENT	1 M	3M	6M	YTD	2024	2023	2022	2021	2020
RATES	US 10 year gvt	4,25	0,04	0,08	0,35	(0,32)	69 bps	0 bps	237 bps	60 bps	-100 bps
	German 10 year gvt	2,73	0,32	0,64	0,43	0,36	34 bps	-54bps	275 bps	39 bps	-38 bps
BONDS	Global Aggregate USD hdg.	586,1	-0,6%	0,2%	1,2%	1,0%	3,4%	7,1%	-11,2%	-1,4%	5,6%
	US Treasuries	2350,6	0,0%	1,1%	0,6%	2,6%	0,6%	4,1%	-12,5%	-2,3%	8,0%
	US TIPS	361,1	0,2%	2,1%	2,2%	3,7%	1,8%	3,9%	-11,9%	6,0%	11,0%
	US IG Corporates	3358,1	-0,5%	0,1%	0,7%	2,1%	2,1%	8,5%	-15,8%	-1,0%	9,9%
	US High Yield	2712,0	-1,0%	0,6%	2,9%	1,1%	8,2%	13,4%	-11,2%	5,3%	7,1%
	Euro Government	240,3	-1,7%	-2,5%	0,0%	-1,2%	2,0%	7,1%	-18,2%	-3,4%	4,7%
	Euro IG Corporates	258,4	-0,9%	-0,2%	2,3%	0,2%	4,7%	8,2%	-13,6%	-1,0%	2,8%
	Euro High Yield	482,8	-0,9%	1,5%	3,9%	0,8%	9,1%	12,8%	-11,1%	4,2%	1,8%
	EM USD Aggregate	1276,4	-0,4%	1,0%	2,5%	2,3%	6,6%	9,1%	-15,3%	-1,7%	6,5%

Source: Bloomber, 28/03/25

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