Newsletter February 2025
Uncertainty on the rise

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Key Take-Aways

Key Take-aways

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- US economic data signals a slowdown, with weak retail sales, declining consumer confidence, and disappointing inflation and services data, while tariffs and DOGE (government shutdown risks) are expected to pressure GDP down by 0.5% and push inflation up by 0.2%, raising stagflation concerns without signaling an imminent recession.

- Markets reflect rising stagflation risks, shifting from US tech/growth to defensive and international assets, as central bank policies diverge (Fed on hold, ECB easing), and volatility rises across asset classes amid geopolitical tensions and US dollar weakness.

- Bond markets saw significant movements in February, with US Treasury yields falling despite strong inflation data, as recession fears and Trump's tariffs outweighed inflation concerns. Japanese yields surged after a BOJ rate hike, and German Bund yields spiked sharply in early March due to a proposed EU defense plan and potential softening of Germany's fiscal rules.

- Credit spreads widened, particularly in US investment-grade and high-yield bonds, while European spreads were more stable. Amid heightened uncertainty, holding long-duration US Treasuries is seen as a safe haven and a hedge against extreme events, as real rates turned positive.

- Global markets show resilience beyond tech, led by Industrials and Defense, as investors rotate into sectors benefiting from infrastructure spending, fiscal stimulus, and geopolitical shifts, while AI-driven tech stocks face volatility.

- Key opportunities ahead lie in Healthcare, Industrials, and Financials, as defensive positioning, reshoring trends, and potential stabilization in trade and interest rate policies could drive performance in an uncertain macro environment.

- The euro's recent gains are expected to reverse, as market optimism fades and fundamentals like ECB rate cuts and U.S. economic resilience reassert themselves, favoring a stronger U.S. dollar in the coming weeks.

- Japanese yen rallies past key levels as the Bank of Japan signals a policy pivot, setting the stage for further appreciation and potential market shifts in Asian FX.

Review

February's overview

Equity % Change	Price	1 day	5 days	MTD	QTD	YTD	EST P/E
S&P 500	5'955	1.60	-0.95	-1.30	1.44	1.44	20
Nasdaq	18'847	1.64	-3.45	-3.91	-2.31	-2.31	28
Russell 2000	2'163	1.11	-1.44	-5.35	-2.87	-2.87	18
Euro Stoxx 50	5'464	-0.16	-0.21	3.48	11.92	11.92	14
Stoxx 600 EUR	557	0.01	0.63	3.43	10.03	10.03	13
FTSE 100	8'810	0.61	1.85	1.99	8.32	8.32	12
SMI	13'004	0.36	0.43	3.23	12.10	12.10	17
NIKKEI 225	37'156	-2.88	-4.12	-6.05	-6.80	-6.80	17
CSI 300 China	3'890	-1.97	-2.22	1.91	-0.92	-0.92	13
MSCI EM Index	1'097	-2.38	-4.30	0.50	2.31	2.31	12

10 yr Yield Bps Change	Price	1 day	5 days	MTD	QTD	YTD
US	4.21	-5	-22	-33	-36	-36
Germany	2.41	-1	-6	-5	4	4
UK	4.48	-3	-9	-6	-9	-9
SWITZERLAND	0.46	-1	-13	3	13	13
Japan	1.38	-2	-5	13	28	28
US IG Spread	96	4	9	10	9	9
US High Yield spread	294	3	14	28	2	2
EUR High Yield spread	292	0	0	-21	-32	-32

Equity % Change	Price	1 day	5 days	MTD	QTD	YTD	EST P/E
S&P 500	5'955	1.60	-0.95	-1.30	1.44	1.44	20
UTILITIES	401	1.56	-1.31	1.69	4.67	4.67	16
ENERGY	690	1.53	0.16	3.97	6.13	6.13	13
TELECOM	349	1.38	-2.54	-6.29	2.26	2.26	18
CONS STAPLES	918	1.34	1.27	5.70	7.85	7.85	23
REAL ESTATE	271	0.81	2.20	4.23	6.14	6.14	19
CONS DISCRET	1'732	1.80	-2.10	-9.37	-5.38	-5.38	24
MATERIALS	558	0.91	0.81	-0.01	5.58	5.58	18
HEALTH CARE	1'734	1.23	1.74	1.49	8.38	8.38	17
INFO TECH	4'411	1.72	-4.01	-1.33	-4.19	-4.19	28
FINANCIALS	867	2.09	2.82	1.41	8.02	8.02	16
INDUSTRIALS	1'153	1.39	1.17	-1.43	3.52	3.52	20

Fixed Income - % Change	Price	5 days	MTD	QTD	YTD
BBG Global Agg Treasuries TR Index UNH $	199	0.29	1.38	1.97	1.97
BBG Global Aggregate TR Index Value $	473	0.41	1.43	2.01	2.01
BBG Global Aggregate Corporate TR $	301	0.82	1.58	2.19	2.19
BBG Global High Yield $	1'698	0.26	0.79	2.17	2.17
BBG US Treasury TR Unhedged $	2'352	1.33	2.16	2.68	2.68
BBG US Corporate TR Unhedged $	3'375	1.05	2.04	2.60	2.60
BBG EuroAgg Government TR Index UNH €	244	0.54	0.71	0.54	0.54
BBG EuroAgg Corporate TR Index UNH €	261	0.25	0.60	1.04	1.04

Currency % Change	Price	1 day	5 days	MTD	QTD	YTD
DXY	107.614	0.35	0.94	-0.70	-0.80	-0.80
EUR-USD	1.0375	-0.22	-0.79	0.13	0.20	0.20
USD-JPY	150.63	0.55	0.91	-2.94	-4.18	-4.18
USD-CHF	0.9031	0.38	0.53	-0.86	-0.47	-0.47
EUR-CHF	0.9371	0.16	-0.27	-0.75	-0.32	-0.32
GBP-USD	1.2577	-0.19	-0.44	1.47	0.49	0.49
EUR-GBP	0.8249	-0.03	-0.36	-1.33	-0.30	-0.30
JP EM FX Index	43.96	-0.53	-1.11	1.05	2.69	2.69

Commodity % Change	Price	1 day	5 days	MTD	QTD	YTD
BBG Commo Index	102.8	-1.46	-3.82	0.45	4.04	4.04
Gold Spot $/OZ	2'857.8	-0.68	-2.66	2.12	8.89	8.89
Crude Oil WTI	69.8	-0.84	-1.16	-3.82	-2.73	-2.73

Volatility	Price	1 day	5 days	MTD	QTD	YTD
VIX	19.6	-1.50	1.42	3.20	13.14	2.28

Source: Bloomberg 28.02.2025

Macro & Rates

A stagflation risk

Recent economic data releases have painted a mixed picture, raising concerns about macroeconomic stability. Softer activity indicators, combined with new tariff announcements, have fueled market uncertainty. US retail sales, consumer confidence, and services PMIs disappointed, and inflation data provided no offsetting positive surprise.

Geopolitical tensions continue to create market noise, but macroeconomic factors remain the primary drivers of asset price movements. The stalled rare earth deal between former President Trump and Ukrainian President Zelenskiy, alongside divergent European positions on the Russia-Ukraine conflict, has heightened tensions.

This month showed that one of the pillars of US exceptionalism is starting to crack. Retail sales recorded the largest decline in nearly two years meanwhile Consumer confidence is falling sharply. The US economy is indeed slowing down, and markets are taking this seriously. The stunning outperformance of European equities vis-a-vis the US, the weakening US dollar on the back of narrowing US-Europe yield spread are signs that in the transatlantic relationship, the US (market and maybe economy) is taking the punch from the Trump administration's hostile policies.

DOGE & TARIFFS both will put downward pressure on GDP meanwhile Tariffs will likely add inflation. This could plunge the Fed into immobilism which will further increase uncertainties in Financial markets.

How significant the impact of these policies will be on the economy depends on the magnitude and duration of each policy. DOGE is one the reason for the recent deterioration in sentiment: Total employment in the US economy is about 160 million. With 3 million federal employees potentially worrying about their jobs and 6 million federal contractors worrying about their jobs, the risks are rising that households may begin to hold back purchases of cars, computers, washers, dryers, vacation travel plans. On the other hand, imposing tariffs increases prices and lowers demand for foreign goods: While it might be temporary, Tariffs will put upward pressure on inflation and downward pressure on GDP.

The bottom line for markets is that this is a modest stagflation shock to the economy but not a recession for now. The impact of tariffs and DOGE on GDP and inflation, is expected to be respectively -0.5% and +0.2% over the coming quarters.

The recent price action in financial markets suggests that the stagflation risk is taken seriously. We observed during the month a shift in market leadership from Tech/growth to defensive (healthcare, real estate, consumer staples) but also a regional shift from US to Europe, China and other emerging markets.

A Central banks decoupling is real with the Fed on hold and the European Central Bank (ECB) easing, creating distinct market dynamics.

Meanwhile the US Dollar depreciation reflects potential policy errors and fears of competitive devaluation, we have also observed some de-risking from high-beta stocks and sectors in favor of commodities, real assets, and alternative investments (inflation hedge).

In this context, volatility across all asset-classes is, as expected, surging.

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Fixed Income

Inflation rising, yields falling?

February was calm in terms of CB decisions as only the BOE announced an expected 25bps cut. Bond markets, however, saw some noteworthy movements. US Treasury yields fell while Japanese yields rose sharply, and spreads began to widen especially in USD.

The January reading of US CPI on 12.2. was well above expectations and showed a widespread uptick in inflation: MoM CPI rose 0.5% (expected 0.3%) and YoY rose to 3.0% (expected 2.9%). The next day US PPI confirmed the upward move in inflation and PPI ex-food and energy rose 0.3% and 3.6% YoY (est. 3.3%). Inflation expectation as measured by TIPS breakeven are now also above the Fed's 2% target.

The upward pressure on Treasury yields following the inflation figures was, however, short-lived. After jumping to 4.65% after the CPI publication, the US 10-year Treasury yield fell to 4.19% at the end of the month. The potential negative impact on the US economy of Trump's tariffs as well as retaliatory measures by America's trading partners seemed to weigh more on bond yields than an uptick in inflation. Clearly, uncertainty is the name of the game and US bond markets are attaching an increasing probability of recession in the US.

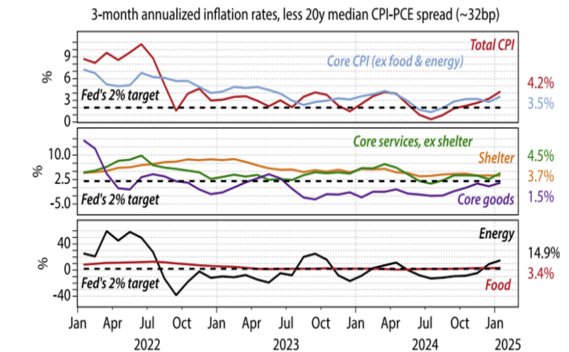
Meanwhile, the rate hike by the BOJ at the end of January continued to put upward pressure on Japanese government bond yields. The 10-year Japanese government bond yield jumped above 1.5% reaching levels not seen since 2008. With the yen appreciating, the JPY-carry trade seems to unwind – for now in a slow and not disorderly manner.

In Europe, the German Bund moved sideways in February. But at the beginning of March, a huge defense-spending plan put forward by the President of the European Commission, Ursula von der Leyen, led to a massive spike in Bund yields. The 10-year Bund yield spiked from 2.36% to 2.93 in a couple of days. This move sent shockwaves through the global bond markets far beyond the EUR-space. The fact that the German CDU/CSU and the SPD are closing-in on negotiations for a "grand coalition" which could potentially soften Germany's fiscal rules is another tectonic shift for Europe with considerable impact on bond markets.

Credit spreads widened mainly in the US where IG rose from 84bps to 97bps and HY from 260bps to 300bps. In Europe, only HY widened while IG moved sideways as demand for quality remained high.

In this context of heightened uncertainty holding duration in the safe haven asset "par excellence", i.e. US Treasuries, makes sense. Adding a little bit of US govies with 10 to 20 years duration to portfolios provides a hedge for extreme events at a fair valuation as real interest rates are again positive.

US Inflation – February reading



Source: Gavekal

Japanese 10-year government bond yield

Source: Bloomberg

USD IG and HY spreads YTD

Source: Gavekal Research

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Equity

America's shift: from euphoria to fatigue, Europe rebound

As we enter March 2025, global equity markets are navigating a turbulent landscape, with volatility particularly pronounced in AI-driven technology stocks. The Nasdaq's early struggles have highlighted investor caution, while sectors such as industrials and defense are demonstrating resilience amid shifting macroeconomic conditions.

United States: industrials shine amid tech weakness

The U.S. equity market is facing challenges this month, with the Nasdaq experiencing declines as AI stocks—particularly Nvidia and its peers—saw sharp selloffs in early March. Competitive pressures, including the launch of China's DeepSeek AI, coupled with profit-taking following an exceptional 2024, have weighed on sentiment. Nvidia's forward P/E ratio has dipped to approximately 30 from its previous highs, reflecting a valuation adjustment.

0.5-0.7%. Should economic conditions allow, another SNB rate cut to 0.25% is possible. The market's trajectory will largely depend on global trade developments and the valuation Despite these challenges, broader market strength remains supported by robust Q4 2024 earnings growth, which posted an 18% year-over-year increase. Meanwhile, uncertainty over tariffs lingers, though delays in Mexico-Canada trade duties have provided some relief to investor sentiment.

Industrials are emerging as a key area of strength. With the tech sector taking a breather, companies like Caterpillar and General Electric are benefiting from increased infrastructure spending and manufacturing resilience, offering value and stability amid the Nasdaq's volatility.

Europe: defense in focus

European markets continue to show resilience despite global uncertainties. The STOXX Europe 600 Index has been buoyed by strong corporate earnings and the performance of defensive stocks.

The European Central Bank's (ECB) recent 25 basis point rate cut to 2.5% is aimed at stimulating growth. Germany's push to relax fiscal rules, particularly for defense and infrastructure spending, has improved market sentiment and helped drive the DAX to new highs. However, concerns persist over potential U.S. trade tariffs under President Trump and Ukraine's geopolitical.

Looking ahead, the outlook for March remains cautiously optimistic. Inflation is expected to stabilize around 2.1-2.4%, and GDP growth should remain modest. However, much will depend on clarity regarding trade policies and how the EU's increased defense spending translates into economic momentum.

Switzerland: strength continues, but currency risks loom

Swiss market is mirroring broader European trends, showing notable strength in early March. Year-to-date, Switzerland's equity market has gained 14.3%, outperforming many developed markets, driven by strong performances from stocks like Swiss Re and Lindt & Sprüngli.

The Swiss National Bank's (SNB) monetary easing in December, following lower-than-expected inflation, has supported this positive trend. Additionally, industrial stocks have performed well, particularly due to recovering demand from Germany. However, a strong Swiss franc remains a headwind for export-driven sectors.

Looking ahead, GDP growth for 2025 is projected at 1.4%, while inflation is expected to range between of the franc, though solid domestic demand and a strong labor market should provide a buffer.

Sector to watch :

- Healthcare, a historically defensive sector, is positioned for a potential rebound in 2025 after underperforming in 2024. Innovation and a favorable risk-reward profile could drive gains, particularly if positive drug approvals or supportive healthcare policies emerge.
- Industrials continue to attract investor interest as infrastructure spending increases and reshoring efforts gain momentum. This sector provides stability in an otherwise volatile market environment.
- Financials, particularly U.S. banks such as JPMorgan, Bank of America, and Citigroup, have been under pressure due to trade war concerns. However, if tariff policies become clearer and economic growth remains steady, the financial sector could see a recovery, particularly benefiting from a higher-for-longer interest rate environment.

Forex & Commodities

Could we anticipate a rebound in the US dollar?

The foreign exchange market has experienced heightened volatility in recent weeks, driven by a complex mix of political developments, shifting monetary policy expectations, and evolving economic data. While the euro has led recent gains against major currencies, including the US dollar, we expect a reversal of this trend in the coming weeks as market fundamentals reassert themselves.

The euro's strength has been underpinned by renewed political cohesion within the European Union, as negotiations over a possible peace deal in Ukraine have brought unity among member states. Accompanying this political stabilization, the EU has committed to a substantial €800 billion investment in defense, while Germany has pledged an additional €500 billion for infrastructure modernization. These measures have bolstered confidence in the euro, contributing to its appreciation. However, this surge is seen as increasingly disconnected from underlying monetary dynamics, especially as the European Central Bank's anticipated 25 basis point rate cut failed to weigh on the currency, reflecting market over-optimism that may soon fade.

Simultaneously, the US dollar has softened in response to signs of an economic slowdown, a trend that former President Donald Trump recently referred to as "temporary." Although US indicators suggest a moderate deceleration, markets may have overreacted to these signals. Importantly, despite growing speculation about Federal Reserve rate cuts later in the year — potentially beginning in May — no change is expected at the upcoming meeting. Even with the possibility of up to three cuts in 2025, the rate differential between the US and other economies should continue to favor the dollar, especially as US growth remains resilient and far from recession territory.

In a significant shift within the Asian FX landscape, the Japanese yen has broken decisively below the key psychological level of 150 against the US dollar. The yen's appreciation comes as the Bank of Japan signals an historic pivot away from its ultra-dovish monetary policy. Clear signs that the BOJ is prepared to renounce its long-standing accommodative stance have fueled a sharp strengthening of the yen, with the currency now regaining lost ground. The JPY is positioned to challenge new resistance levels, and a move toward 140 — the lowest level for USD/JPY in 2024 — appears increasingly likely.

Elsewhere, the Swiss franc (CHF) has experienced mild weakness but remains broadly stable. While some further softening cannot be ruled out, the move appears limited in scope and is not expected to alter broader FX dynamics significantly.

Looking ahead, a constructive view on the US dollar is maintained, anticipating a broad-based rebound against major currencies. As political headlines fade and focus returns to core economic fundamentals, the dollar is expected to regain traction. Our key targets over the coming weeks include EUR/USD returning toward 1.05 and USD/CHF recovering to around 0.90.

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