

INVESTMENT OUTLOOK

02.2025

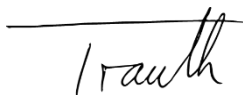
14 April 2025

The first quarter of 2025 began with optimism, fueled by expectations that the Trump administration would implement business-friendly policies to further strengthen the US economy. This sentiment propelled the U.S. dollar to appreciate and led to significant outperformance of US equity markets compared to their global counterparts.

However, by mid-February global markets experienced a reversal. By the end of March, the USD had depreciated against most major currencies, including a 4.5% decline against the euro. The S&P 500 Index fell by 4.6%, and the tech-heavy Nasdaq Composite dropped by 10.4%, while Germany's DAX Index rose by 11.3%.

The situation escalated on April 2, when the Trump administration intensified its tariff policies. This move triggered a sharp global market sell-off, with the MSCI World Index declining over 11% by April 8.

We are deeply concerned about the negative impact of unpredictable U.S. policy decisions and believe that the risk of a recession has increased significantly.

A handwritten signature in black ink, appearing to read "Trauth", with a horizontal line drawn above it.

Thomas Trauth

CEO – IMT Asset Management AG



TRUMPCESSION AHEAD?

Financial markets

The stock markets began the year on a positive note but were increasingly unsettled by the introduction of new tariffs by the Trump administration, leading to declining prices. Notably, European stock markets outperformed US markets, in contrast to the fourth quarter of 2024, when US markets dominated. The S&P 500 Index lost 4.6% in the first quarter, while the German DAX Index gained 11.3%.

European stocks benefited from the announcement by the new German government of a EUR 500 billion infrastructure program. The planned increase in debt led to a rise in 10-year German bond yields by 35 basis points, while US yields fell by 35 basis points over the same period.

The front end of the yield curve rallied during the first quarter, driven by increasing expectations of rate cuts amid mounting growth concerns. In contrast, inflation expectations ticked higher, pushing yields up at the long end of the curve. Notably, 10-year Treasury yields rose by over 40 basis points despite a prevailing risk-off environment—an unusual move that suggests waning investor confidence in US assets. Additionally, credit spreads, which had remained exceptionally tight for an extended period, widened significantly in early April.

Driven by increasing market participant uncertainty and strong central bank purchases, the gold price rose by 19% and is currently quoted at approximately USD 3,230 per ounce. The price of Brent oil was flat in Q1 but lost 13.5% during the first half of April.

Global REITS fell by 3.5% in Q1. Cryptocurrencies also faced downturns in Q1. Bitcoin's price declined by 12%, while Ethereum experienced an even more pronounced drop of about 46%.

The US dollar, which appreciated strongly in 2024, experienced a broad-based decline in Q1, losing 4.5% against the EUR. The EUR and JPY were among the primary beneficiaries of this shift. The CHF saw a significant rally in early April, appreciating over 5% against the USD within a week. This surge occurred despite the SNB reducing its policy rate to 0.25% on March 21, making the CHF less attractive from a yield perspective. The appreciation was driven by increased demand for safe-haven assets amid escalating global uncertainties.

Macroeconomics

In March, US manufacturing activity contracted, with the ISM PMI falling to 49.0. Consumer confidence deteriorated sharply; the Conference Board's Consumer Confidence Index fell to its lowest level in over four years. Long-term inflation expectations have risen, reaching levels not seen in nearly three decades. The labor market showed resilience, with non-farm payrolls increasing by 228,000 in March. However, there is growing concern about the potential impact of tariffs and DOGE's cost-cutting measures.

Central Banks

In Q1 the US Fed kept interest rates unchanged, maintaining its target range at 4.25-4.50%. Jerome Powell emphasized the cautious stance taken noting

that the impact of tariffs on growth and inflation remains uncertain.

In January the ECB cut its deposit rate by 25 basis points to 2.50%, responding to slowing growth and a more favorable inflation outlook. Markets widely anticipate that additional rate cuts will follow in April and potentially again in June.

The Swiss National Bank (SNB) surprised markets in March with a 25 basis points rate cut, lowering its benchmark rate to 0.25%. The move aimed to counter ongoing appreciation pressures on the CHF.

The Bank of England also reduced its key interest rate by 25 basis points in February, citing softening economic growth and despite persistently elevated inflation levels.

In contrast, the Bank of Japan raised its policy rate by 25 basis points in January, bringing it to 0.50%, the highest level since 2008. The decision was driven by rising inflation and solid wage growth and is another step away from its decade long ultra-loose monetary policy.

Outlook

The US tariffs introduced on April 2 exceeded expectations in scope and scale and were historically unprecedented. The markets reacted with a massive sell-off. Although the US government decided on April 9 to partially postpone the tariffs, which could potentially lead to the abolition of the planned tariff regime, we remain concerned about further macroeconomic and financial market developments.

The US economy showed initial signs of weakness even before the tariffs. Consumer sentiment and corporate investment intentions have fallen sharply in recent months and are expected to decline further due to the immense uncertainties regarding future US economic and trade policies.

Additionally, doubts have arisen in recent months about whether the enormous investments in artificial intelligence will be covered by corresponding future revenues. Among other things, the success of DeepSeek has shown that business models may be implemented more efficiently. This has led to the underperformance of some major US technology companies.

Even after the recent stock price losses, US stock market valuations are still unfavourable. Price-to-earnings ratios have fallen from very high levels to pre-Covid levels and thus remain above historical averages. This has happened despite the fact that earnings expectations for 2025, with growth of over 10%, are still highly optimistic and do not yet reflect the recent economic slowdown and the new tariff regime. We expect that earnings expectations for 2025 will need to be reduced by at least 10%, which in turn could lead to further stock market corrections.

Interestingly, both the US dollar and US Treasury bonds, which usually serve as safe havens, have recorded significant losses in recent weeks. The US dollar has lost 6% against the euro since February, and the 10-year US Treasury yield jumped from 4% to 4.4% in early April. Apparently, the political caprices of the Trump administration have led to a loss of confidence among market participants in the US market.

We currently see a significantly increased risk of a US recession and, associated with that, the risk of further sell-offs in the stock markets. Additionally, we expect that the US dollar and the US stock market will continue to underperform in the coming months.

Our defensive portfolio positioning, with underweights in equities, high-yield bonds, and commodities, as well as an overweight in nominal government bonds and insurance-linked bonds, has succeeded in preventing greater losses. In the first quarter, we increased our position in an equal-weighted S&P 500 ETF at the expense of the market-weighted S&P 500

ETF. This further reduced the concentration risk related to the major US technology companies. Apple, Amazon, Nvidia, and Tesla are directly affected by the trade war to varying degrees. The highly service-oriented companies Alphabet, Meta, and Microsoft have as yet been less affected by the new tariffs.

However, it is expected that the anticipated EU countermeasures will directly target the major US technology companies.

ECONOMICS

In March, US manufacturing activity contracted, with the ISM PMI falling to 49.0. Consumer confidence deteriorated sharply; the Conference Board's Consumer Confidence Index fell to its lowest level in over four years. Long-term inflation expectations have risen,

reaching levels not seen in nearly three decades. The labor market showed resilience, with non-farm payrolls increasing by 228,000 in March. However, there is growing concern about the potential impact of tariffs and DOGE's cost-cutting measures.

Fig. 1: PMIs

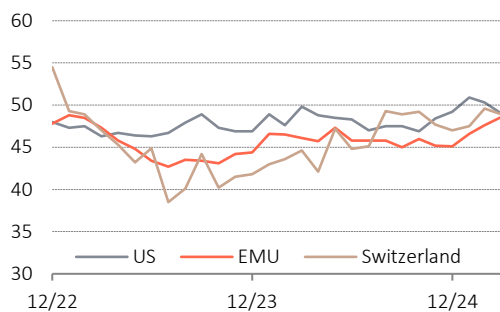


Fig. 2: PMIs

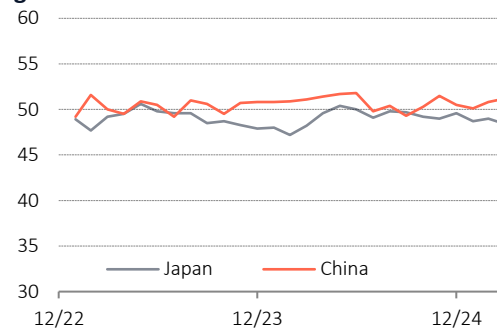


Fig 3: Consumer price inflation, in % YoY

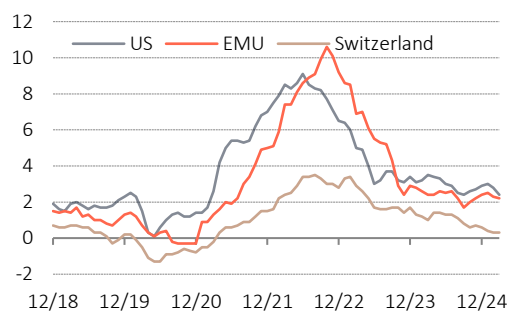


Fig. 4: Consumer price inflation, in % YoY

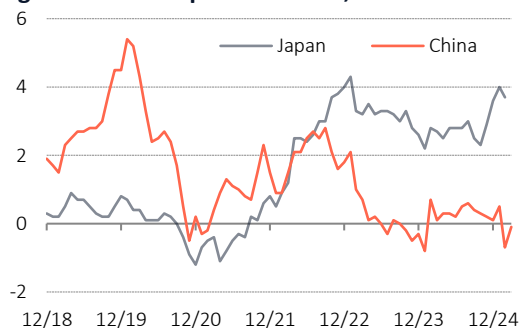


Fig 5: Unemployment rates, in %

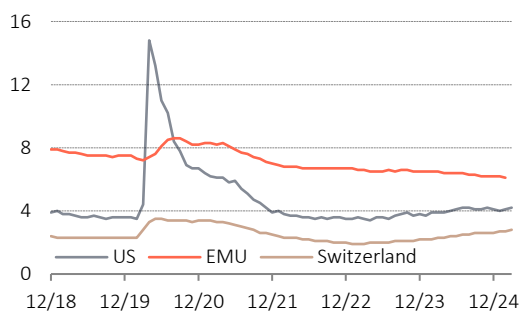
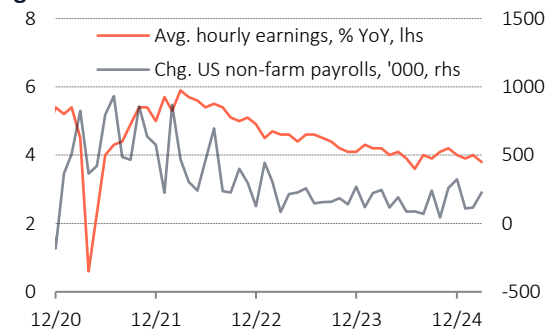


Fig 6: US labor market



FIXED INCOME

The front end of the yield curve rallied during the first quarter, driven by increasing expectations of rate cuts amid mounting growth concerns. In contrast, inflation expectations ticked higher, pushing yields up at the long end of the curve. Notably, 10-year Treas-

ury yields rose by over 40 basis points despite a prevailing risk-off environment—an unusual move that suggests waning investor confidence in US assets. Additionally, credit spreads, which had remained exceptionally tight for an extended period, widened significantly in early April.

Fig.7: 2Y government bond yields

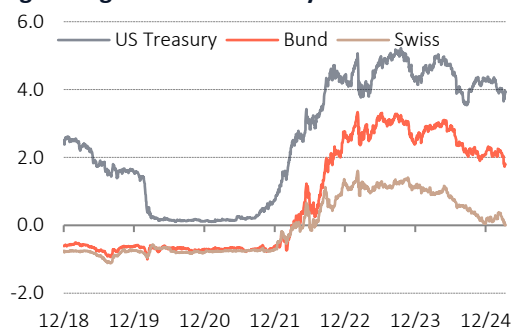


Fig. 8: 10Y government bond yields

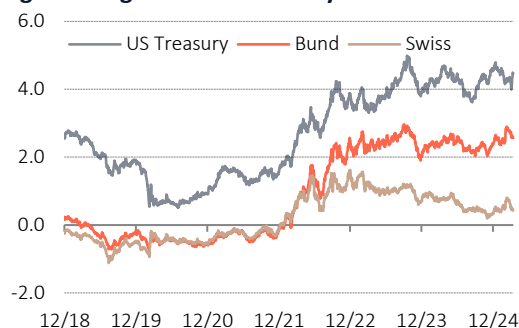


Fig 9: 10Y break-even inflation

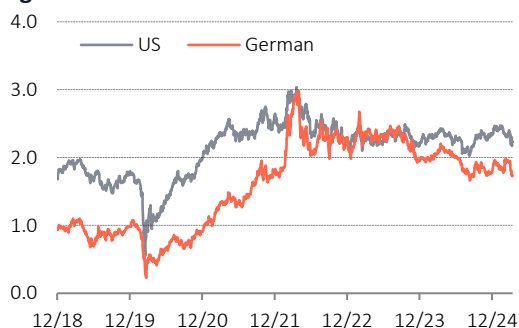


Fig. 10: Credit spreads, 5Y credit default swaps

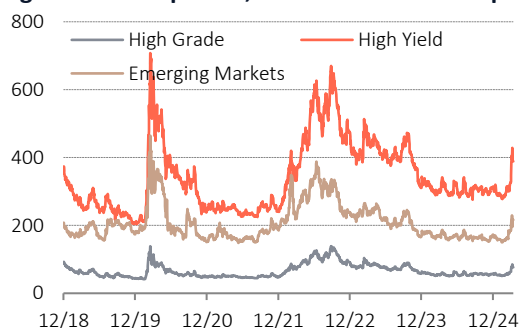


Fig 11: Money market spreads

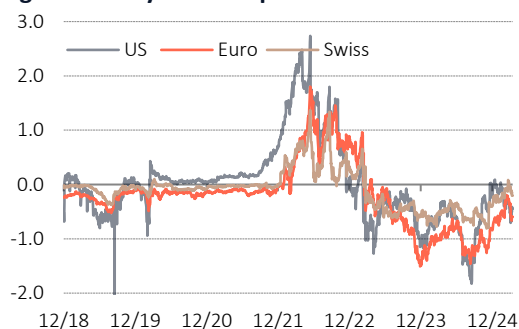
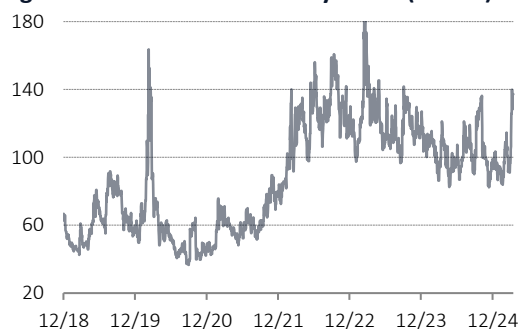


Fig 12: Fixed Income Volatility Index (MOVE)



EQUITIES

The stock markets began the year on a positive note but were increasingly unsettled by the introduction of new tariffs by the Trump administration, leading to declining prices. Notably, European stock markets outperformed US markets, in contrast to the fourth

quarter of 2024, when US markets dominated. The S&P 500 Index lost 4.6% in the first quarter, while the German DAX Index gained 11.3%.

Fig. 13: Equity indices – major regions

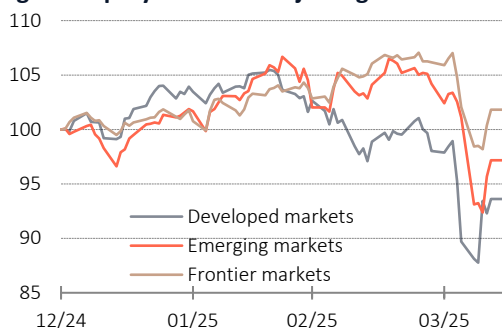


Fig. 14: Equity indices – major developed markets

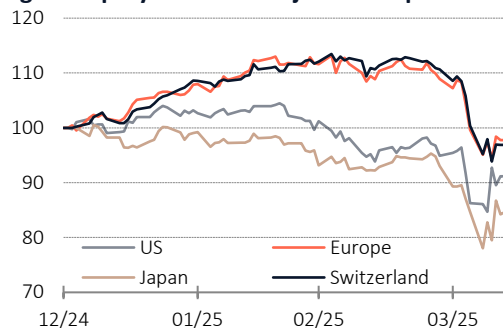


Fig 15: Equity indices – major emerging markets

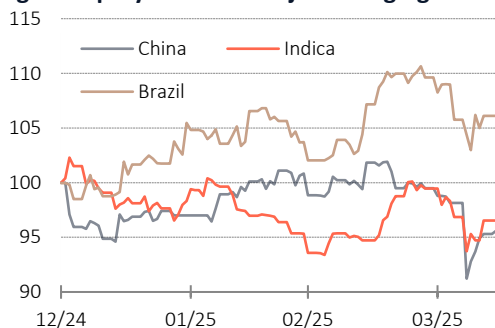


Fig. 16: Sector performances, YTD

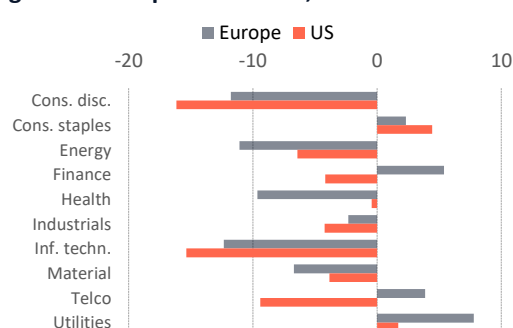


Fig 17: Price-earnings ratios

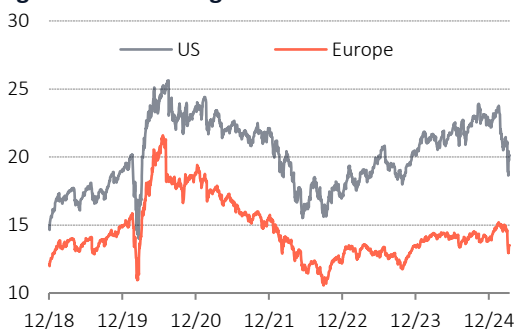
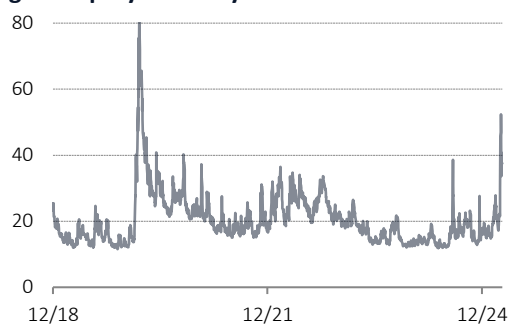


Fig 18: Equity volatility – VIX index



ALTERNATIVE INVESTMENTS

In Q1 gold continued to rally and surged by another 19%. In contrast, most other assets, shown on the graphs below declined due to mounting concerns about economic growth and investors rushing to de-risk their portfolios. The price of Brent oil was flat in

Q1 but lost by 13.5% during the first half of April. Global REITS fell by 3.5% in Q1. Cryptocurrencies also faced downturns in Q1. Bitcoin's price declined by 12%, while Ethereum experienced an even more pronounced drop of about 46%.

Fig. 19: Gold price, USD/oz



Fig.20: Brent oil price, USD/bl



Fig 21: Commodity indices

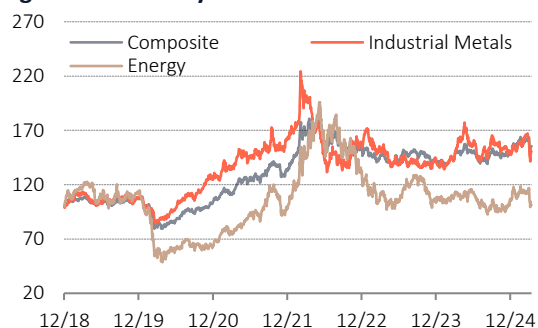


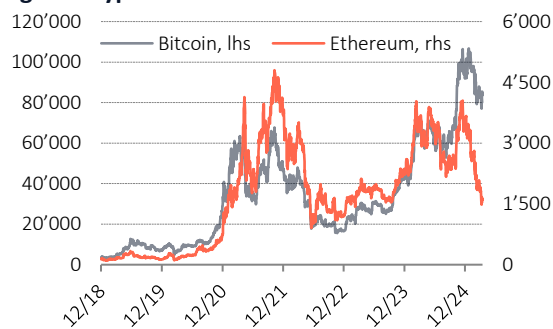
Fig. 22: Global Listed Private Equity



Fig 23: Global REITS



Fig 24: Crypto Assets



CURRENCIES

In Q1 the USD experienced a broad-based decline, losing 4.5% against the EUR. The EUR and JPY were among the primary beneficiaries of this shift. The CHF saw a significant rally in early April, appreciating over 5% against the USD within a week. This surge occurred despite the SNB reducing its policy rate to

0.25% on March 21, making the CHF less attractive from a yield perspective. The appreciation was driven by increased demand for safe-haven assets amid escalating global uncertainties.

Fig. 25: EUR-USD exchange rate



Fig. 26: GBP-USD exchange rate



Fig. 27: USD-JPY exchange rate



Fig. 28: USD-CNY exchange rate



Fig. 29: EUR-CHF exchange rate



Fig. 30: USD-CHF exchange rate

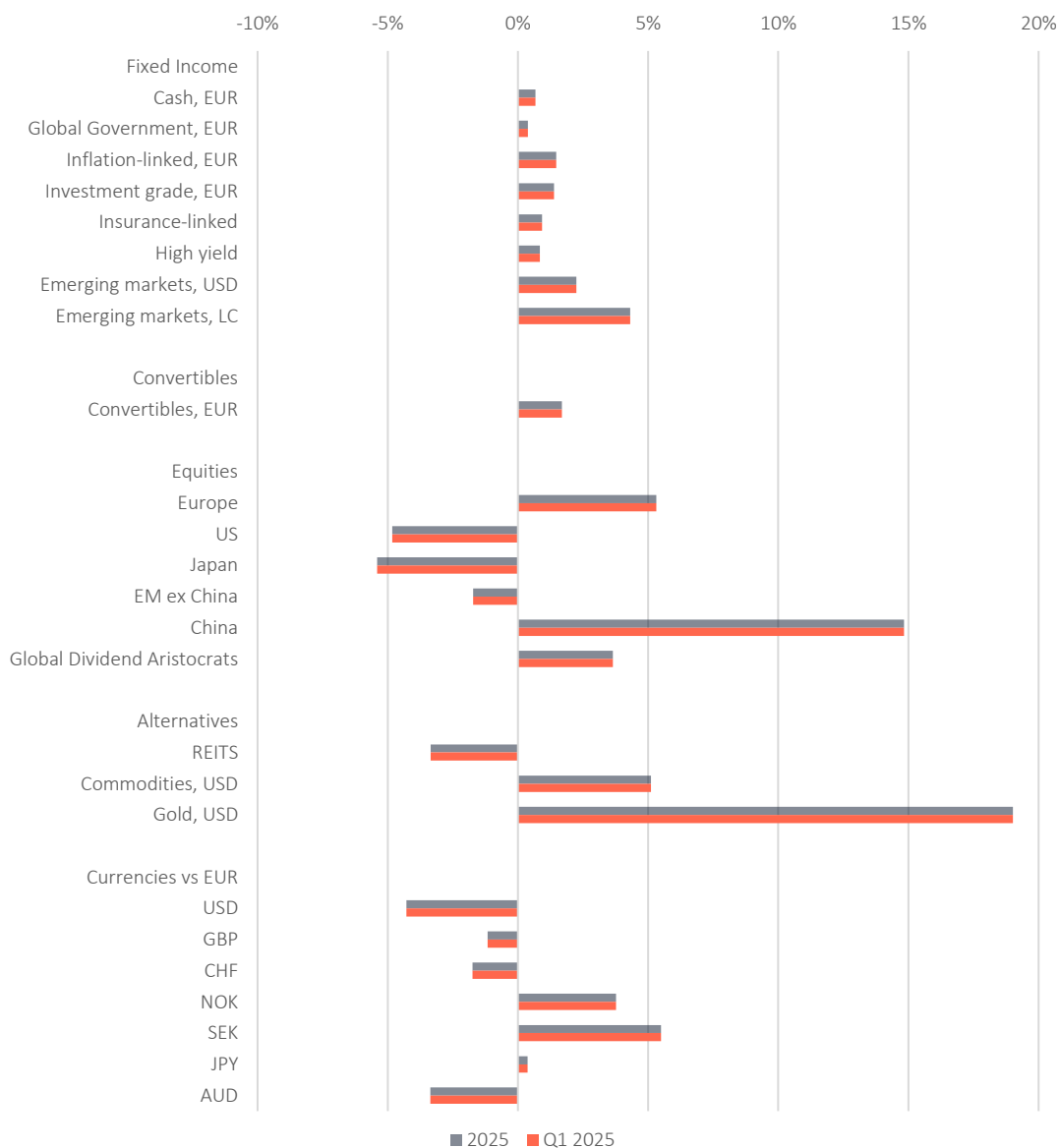


ASSET ALLOCATION

In Q1, fixed income assets delivered positive returns, with emerging market bonds standing out. Equity markets exhibited diverging trends. US and Japanese stocks faced strong headwinds. Chinese and European stock markets performed well. Dividend Aristocrats, including names like Coca-Cola

and Colgate-Palmolive, known for their consistent dividend payouts, provided relative stability amid market turbulences. Gold, as a safe-haven asset, was the clear outperformer in Q1. Global REITS lost about 3.5%. The USD weakened, while the EUR and the JPY strengthened.

Fig. 31: Performance of major asset classes, based on our EUR portfolio strategy



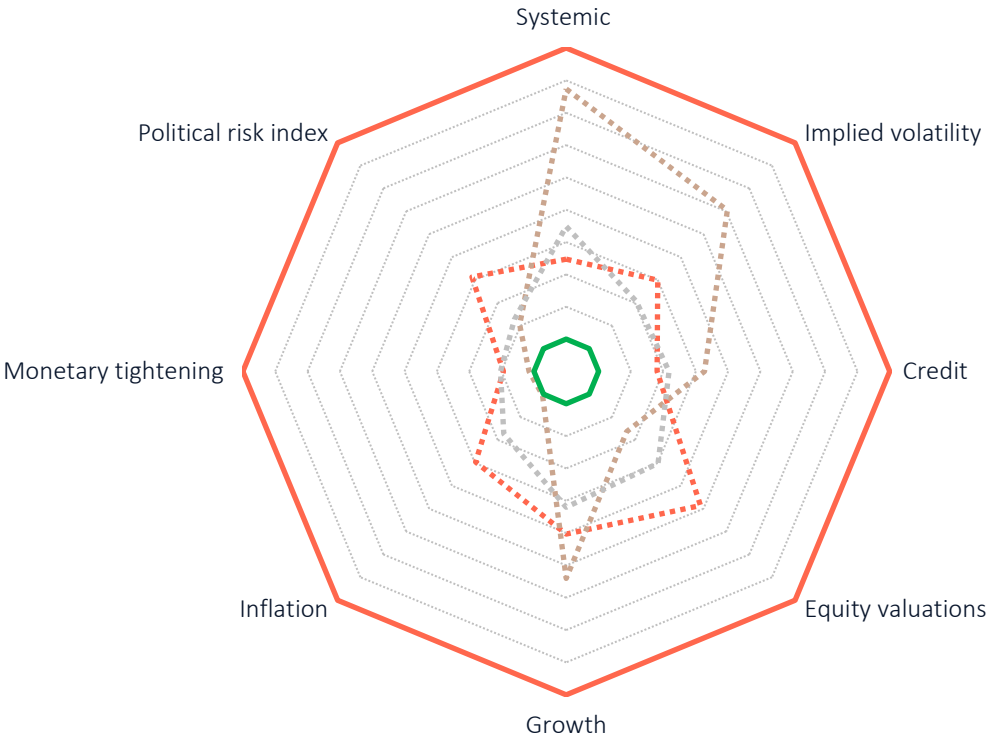
RISK MONITOR

Financial market risks have escalated notably. While risks related to equity valuations and monetary tightening have somewhat diminished, there has been a significant surge in credit, systemic (financial sector), and political risks. In addition, we

observed a sharp increase in implied volatilities (option prices) across various asset classes, indicating heightened investor anxiety.

Fig. 32: IMT Risk Monitor

24-Dec-2018: Growth and monetary tightening fears
23-Mar-2020: Global pandemic



11-Apr-25 23-Mar-20 24-Dec-18 Max risk score: 10 Low risk score: 1

DISCLAIMER

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Source for all graphs: Bloomberg, IMT Asset Management AG.