Extraordinary forecast adjustments

The U.S. president's policies are forcing us to revise our growth and market forecasts downwards. Regardless of how U.S. tariff policy develops, enough confidence has already been destroyed to make consumers, investors and companies more cautious. We expect markets to remain volatile in the short term but in our core scenario anticipate declining uncertainty and positive equity returns for the 12 months to come.

IN A NUTSHELL

- We had expected Donald Trump's second term to be turbulent. However, we did not expect the U.S. to pursue its isolationist policy so uncompromisingly.
- We believe that the U.S. administration's actions to date have caused sufficient damage to confidence that we must expect economic activity to be impacted negatively.
- Within a few months the U.S. has gone from being virtually the compulsory market in which to invest to a market for which investors are compulsively seeking alternatives. In our core scenario we assume that the element of shock has peaked but this does not rule out further market moving headlines.
- Trump's U-turn on Fed Chair Jerome Powell might, optimistically, be interpreted as a sign that he is responding to market signals. But we would not go as far as to refer to this as a Trump put.
- We are lowering our forecasts but still believe that investors with a broad regional and sectoral exposure can achieve positive returns over the next 12 months.

Trump’s style of government alienates investors

When making long-term investment decisions, investors and company managers alike need maximum planning security and a reliable legal framework. The sudden way in which the U.S. government has upended its tariff policy in particular means this is certainly not the case at present. It is also extremely difficult when announcements seem not to be based on any comprehensible model, so that the 180 countries suffering punitive tariffs have no idea how they can avert them. Whether comprehensive and sustainable trade agreements can be negotiated within 90 days (the duration of the pause on individual tariffs) with so many countries is highly questionable. In any case, some damage likely to be caused by the universal tariff of 10% that will in all probability remain in place will persist.

From an investor perspective, it is important to distinguish between negative developments and negative surprises. We believe that, especially after ‘Liberation Day’ on April 2, the U.S. government will hardly be able to shock investors as negatively again. But the negative effects from policy so far mean that we expect the U.S. economy to weaken significantly this year, suffering at least one quarter of negative growth. And our forecast U.S. growth rate for 2026 has been halved from 2.2% to 1.1% – the sharpest cut we have made in any region. At the same time, we have raised our inflation forecast -- which explains why we do not believe that the U.S. Federal Reserve (the Fed) will counter the economic downturn with earlier and sharper interest rate cuts.

It is quite possible that our core scenario will prove too pessimistic in twelve months' time. However, a worse outcome than we forecast is just as possible. We are in uncharted territory. For the first time in many decades, the Western security architecture is up for grabs, investors are questioning the safe status of U.S. assets on a large scale, and globalization is facing a prolonged setback. However, there is still hope that companies will once again prove to be surprisingly adaptable, as they did during the Covid pandemic and the war in Ukraine.

Our main forecast changes by asset class

Fixed Income & Currencies:

Compared with our 12-month forecasts in March, we have slightly lowered our U.S. and German government bond yield forecasts and are now essentially not far from today's levels. The sideways movement is the result of opposing forces affecting yields: in the U.S., the economic slowdown (and the three interest rate cuts we expect) on the one hand, and the enormous refinancing needs and loss of confidence in U.S. Treasuries on the other. In Germany the trillion-euro infrastructure package is helping to counteract weaker-than-expected economic growth. On the currency front we do not see any recovery for the dollar and expect it to weaken further slightly.

Equities:

Given the uncertain environment, we have decided to reduce both our earnings estimates and target valuation price-to-earnings multiples for equities slightly – which implicitly means that we are not modeling a deeper economic downturn here. We consider further setbacks over the coming months to be realistic, but there are also good reasons to stick with equities: they're not only a potential hedge against a renewed flare-up in inflation, they also offer upside potential should U.S. policy prove more conciliatory after all. We prefer Europe to the U.S., as the U.S. valuation premium remains very high, and Europe should benefit from a shift in investor funds out of the U.S.

Alternatives:

Oil: Due to reduced demand and high supply from OPEC+ countries, we have lowered our oil price forecast (per barrel of Brent) to USD 63 at the end of March 2026. By contrast, the gold price is continuing to rise due to unchanged high demand from central banks and private investors; we now see USD 3,600/ounce as possible in March 2026.

Macro forecasts

GDP growth (in %, year-on-year)

Region	Old 2025F	New 2025F
United States	2.0	1.2
Eurozone	1.0	0.8
Japan	1.2	0.9
China	4.5	4.0

Inflation, CPI (in %, year-on-year)

Region	Old 2025F	New 2025F
United States	2.6	3.2
Eurozone	2.3	2.1
Japan	2.6	2.0
China	0.5	0.5

Asset-class forecasts

Rates	Current[1]	March 2026F
U.S. Treasuries (2-year)	3.87%	3.95%
U.S. Treasuries (10-year)	4.38%	4.30%
German Bunds (2-year)	1.75%	1.60%
German Bunds (10-year)	2.50%	2.50%
Japanese gov. bonds (2-year)	0.70%	1.00%
Japanese gov. bonds (10-year)	1.34%	1.70%

Spreads	Current[1]	March 2026F
Italy (10-year)[2]	113bp	110bp
U.S. Investment Grade[3]	99bp	110bp
U.S. High Yield[3]	371bp	450bp
Euro Investment Grade[2]	105bp	90bp
Euro High Yield[2]	371bp	400bp
Asian Credit	212bp	145bp

Equities	Current[1]	March 2026F
United States (S&P 500)	5,376	5,800
Europe (Stoxx Europe 600)	517	550
Eurozone (Euro Stoxx 50)	5,099	5,400
Germany (Dax)	21,962	23,500
Emerging Markets (MSCI EM[4])	1,096	1,160
Japan (MSCI Japan Index)	1,570	1,690

Currencies	Current[1]	March 2026F
EUR vs. USD	1.13	1.18
USD vs. JPY	143	135
USD vs. CNY	7.29	7.50
Commodities (in Dollar)		
Gold	3,228	3,600
Oil (Brent)	66	63

F refers to our forecasts as of 4/23/25
bp = basis points
[1] Source: Bloomberg Finance L.P.; as of 4/23/25
[2] Spread over German Bunds
[3] Spread over U.S. Treasuries
[4] MSCI Emerging Markets Index

Glossary

Brent crude is a grade of crude oil dominant in the European market.

The Chinese yuan (CNY) is legal tender on the Chinese mainland and the unit of account of the currency, Renminbi (RMB).

The consumer price index (CPI) measures the price inflation as a percentage, year over year, of a basket of products and services that is based on the typical consumption of a private household.

The Dax is a blue-chip stock-market index consisting of the 40 major German companies trading on the Frankfurt Stock Exchange.

The Euro Stoxx 50 is an index that tracks the performance of blue-chip stocks in the Eurozone.

The Eurozone is formed of 19 European Union member states that have adopted the euro as their common currency and sole legal tender.

The gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

High-yield bonds are issued by below-investment-grade-rated issuers and usually offer a relatively high yield.

Inflation is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

Investment grade (IG) refers to a credit rating from a rating agency that indicates that a bond has a relatively low risk of default.

The Japanese yen (JPY) is the official currency of Japan.

The MSCI Emerging Markets Index captures large- and mid-cap representation across 23 emerging-market countries.

The MSCI Japan Index is designed to measure the performance of the large- and mid-cap segments of the Japanese market.

A multiple is a ratio that is used to measure aspects of a company's well-being by setting various of the company's metrics against each other and thereby building indicative ratios.

OPEC+ is an informal alliance of OPEC members and other oil-producing countries, led by Russia, aiming to coordinate their production strategies.

The price-to-earnings (P/E) ratio compares a company's current share price to its earnings per share.

The S&P 500 is an index that includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

The Stoxx Europe 600 is an index representing the performance of 600 listed companies across 18 European countries.

A tariff is a tax imposed by one country on the goods and services imported from another country.

Treasuries are fixed-interest U.S. government debt securities with different maturities: Treasury bills (1 year maximum), Treasury notes (2 to 10 years), Treasury bonds (20 to 30 years) and Treasury Inflation Protected Securities (TIPS) (5, 10 and 30 years).

The U.S. Federal Reserve, often referred to as "the Fed," is the central bank of the United States.

A valuation premium is the excess a buyer is willing to pay for one asset relative to other assets.

Yield is the income return on an investment referring to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

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