MARKETING MATERIAL

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U.S. confusion and European revival

Since Trump took office, U.S. stocks have plunged – his tariff policy worries many. Now there are doubts about growth in the U.S. but hopes for higher growth in Europe. A trend reversal? Nothing is too certain.

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> "Our main scenario, solid growth in the U.S. economy with Donald Trump supporting stock markets, is threatened. We can no longer necessarily assume that Trump will abandon his most harmful plans if the markets fall. His unpredictable policies are dampening business and consumer sentiment in the United States. And abroad, countries are distancing themselves from the United States. There is much to suggest that we are experiencing a turning point in history. This is also reflected in the fact that institutional U.S. investors are taking an interest in European equities for the first time in many years."

Around four months after Donald Trump's election victory, the S&P 500 has lost some 2%, while Germany's Dax is about 20%[1] up. This is something very few market participants would have expected. It had been assumed that the "animal spirits" rekindled by Trump would drive U.S. stock markets, already boosted by "American exceptionalism,", to new heights. It has turned out differently. The first damper came in the form of a young Artificial Intelligence (AI) company from China, DeepSeek, which shook the AI narrative and its pricing models at the end of January. And then Donald Trump has not had the bullish impact that markets had anticipated. He and several members of his cabinet have signaled their willingness to let the U.S. slide into a recession in the name of a desired realignment of U.S. politics and the economy.

The announcement overload is exhausting everyone

Just as the musings about recession risks coming from the Oval Office, there is a constant news flow hitting market participants by surprise. The strategy of news overload, or 'flood the zone,'[2] is to stun everyone, exciting MAGA fans, bewildering political opponents. But companies can also get bewildered, not least by the non-stop, on, off, back on announcements about punitive tariffs. Introduction, increase, postponement, reduction, abolition. Every day something new. This is worrying, as recent surveys of small and medium-sized companies[3] have shown: confidence is falling and uncertainty has risen to the second highest level ever measured. The disappointment is also reflected in the slump in the Citi Economic Surprise Index,[4] which compares economic data with expert forecasts. Consumer sentiment, too, is deteriorating. Not least because, contrary to Trump's promises, inflation has not been suddenly stopped by the new administration. The poor sentiment has even been reflected in the creditworthiness of the U.S. and the risk premiums on corporate bonds.[5] The markets are increasingly doubting that Trump will pay attention to the warning signals they send.

70 years of post-war security are called into question

The way Trump has conducted his administration so far leaves little visibility or scope for planning. How should companies, investors or even the heads of government of other states deal with the following statements by the most powerful man in the world? 'I think we're going to have it,' referring to Greenland. 'The U.S. will take over the Gaza Strip and we will do a job with it too.' And in the direction of its direct neighbor and trusted ally: "What I'd like to see – Canada become our 51st state." On top of this, there was the public condemnation of Ukraine and of the rest of Europe in the Oval Office while Putin's Russia was judged easier to deal with.

These remarks of Trump are bizarre, but he has gone beyond that with his apparent lack of willingness to back Europe: He has upset the post-war geopolitical order. This is having a direct impact on the capital markets. There are now growth concerns in the U.S., where stock markets have been weakening, while there is a revival in Europe which, led by Germany, is spending enormous sums of money to strengthen its defense capabilities and infrastructure in general. This in turn is likely to have an impact on interest rates, inflation and economic growth. Trump's policies may also lead to other countries avoiding the U.S. in their global trade activities. And investors may increasingly steer clear of dollars and U.S. government bonds as they can never be sure whether they might be used against them for political reasons. Incidentally, Trump-ally Elon Musk has already experienced a very direct negative impact on the business of his various ventures, which is no longer fully trusted by foreign state actors in particular[6], which is why they are cancelling orders placed with his companies.

Core scenario subject to Trump factor

In light of this, we are entering the coming months with great caution. Our core scenario remains that the U.S. government will eventually be swayed by criticism and the markets, and, in particular, will not maintain

[1]Total returns from 11/5/24 until 3/14/25. S&P 500 returns almost identical in USD and EUR terms, as initial dollar strength reversed Feb-ruary onwards. Data source (as for all other market data in this report unless stated otherwise): Bloomberg Finance L.P.; as of 3/14/25.
[2]This strategy (in full: "flood the zone with shit") was propagated by Republican adviser Steve Bannon during Trump's first term in office.
[3]NFIB Survey from 11/03/2025.
[4]It collapsed from 20 to minus 16 within six weeks but has recovered lately to zero.
[5]For example, CDS on US debt rose from 40 to 46, and OAS spreads on HY from 300 to 360bps within two weeks.
[6]In Italy, for example, the opposition has expressed strong reservations about a planned contract between the Italian military and the com-munications company Starlink, which is controlled by Elon Musk.

the level of punitive tariffs it has announced so far. But our confidence is waning rather than growing. Our biggest concern is that uncertainty will persist, with a corresponding impact on companies' investment plans. Together with equally uncertain consumers, this should lead to modest U.S. growth, and we forecast just 2.0% growth in the U.S. for 2025 and 2026.

Europe's surprising comeback could have legs

For Europe, who would have thought it just a few weeks ago, the situation is exactly the opposite. Not least thanks to the German and European fiscal packages, growth prospects in Europe have improved and Anglo-Saxon investors in particular see the de facto suspension of the German debt brake as a turning point. We are skeptical about that as we believe it will take a long time for the fiscal packages to have an impact on corporate earnings. We have therefore only raised our 2025 growth estimates for the Eurozone from 0.9% to 1.0%. But for 2026 from 1% to 1.5%. There is no doubt, however, that the tone and the possibilities have changed in Europe's largest economy.

We prefer a global equity portfolio, diversified across regions, styles and sectors

Even though some sectors (especially defense, construction and infrastructure-related) have already become relatively expensive, we believe that continued reallocations from the U.S. to the European market could continue to drive stock markets. We see the Dax at 24,000 points by March 2026. We see the S&P 500 at 6,300 points in twelve months, which, in view of the recent correction, would imply a potential double-digit return. This may come as a surprise in the current environment. But it should not be forgotten that the index is significantly less cyclical than it used to be. And the big technology companies, as things stand today, should continue to see impressive earnings growth. Therefore, if the U.S. does not slide into a recession, as we expect, we believe the risk for U.S. equities would be not so much a decline in earnings but more a decline in valuations (i.e., lower price-to-earnings (P/E) rates) as a result of deteriorating sentiment[7].

Central banks and bond investors torn between inflation and growth concerns

We expect the U.S. Federal Reserve to cut interest rates twice more during the forecast period (i.e., through March 2026). We expect the European Central Bank (ECB) to cut interest rates only once. This, in addition to the overall sentiment we have already discussed, contributes to our expectation of a weaker dollar (EUR/USD at 1.15 by March 2026). U.S. government bonds are likely to continue to trade in a relatively narrow range as growth and inflation concerns remain high. We see 10-year Treasury yields at 4.5% in March 2026. Despite huge fiscal packages, we see Bund yields in twelve months below the 3% mark, not least due to Germany's low potential growth. In corporate bonds, we prefer investment-grade securities to the high-yield segment.

As an institutional investor, we have to make well-founded assumptions about investment returns for the near and distant future, and have done so again this time. However, we are aware that we might have to make significant changes in as little as three months, depending on U.S. policy. In this environment, a broadly diversified portfolio, in which gold is an integral component, is once again the best investment strategy in our view.

Glossary

Artificial intelligence is the theory and development of computer systems able to perform tasks normally requiring human intelligence.

Bunds is a commonly used term for bonds issued by the German federal government with a maturity of 10 years.

The Citi Economic Surprise Index (CESI) tracks for various locales how actual economic data compares to consensus forecasts.

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

The debt brake limits the German federal government to new borrowing of no more than 0.35% of gross domestic product.

The European Central Bank (ECB) is the central bank for the Eurozone.

The euro (EUR) is the common currency of states participating in the Economic and Monetary Union and is the second most held reserve currency in the world after the dollar.

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

A recession is, technically, when an economy contracts for two successive quarters but is often used in a looser way to indicate declining output.

The risk premium is the expected return on an investment minus the return that would be earned on a risk-free investment.

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

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 U.S. dollar (USD) is the official currency of the United States and its overseas territories.

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

U.S. Treasury yield is the annual return investors can expect from holding a U.S. government security with a given maturity.

[7] On 14 March, the expectations component of the University of Michigan sentiment index had already fallen from 64 to 54.2, when it was expected to be 63.

Important information