BBGI GROUP Global Investments

Investment strategy

April 2025

"THERE IS A BEAUTY THAT REMAINS WITH US AFTER WE'VE STOPPED LOOKING."

CORY RICHARDS,
PHOTOGRAPHER AND EXPLORER, WEARS THE
VACHERON CONSTANTIN OVERSEAS.

VACHERON CONSTANTIN
GENÈVE

ONE OF
NOT MANY.

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TABLE OF CONTENTS

INTRODUCTION

Letter to Investors - Investment Climate

- Trump's deliberately disruptive policies inspired by Project 2025
- In just a few weeks Trump has stunned the world and created a climate of extreme uncertainty
- The return of American protectionism spells the end of globalization
- Disastrous short-term effects for the US economy
- Financial markets take a beating
- Negative short-term outlook

The year 2025 began with rather positive expectations for the financial markets, based on a favorable economic outlook. Investor's sentiment remained constructive, despite the already widespread perception that Donald Trump's political agenda would have potentially inflationary effects when implemented. This impact did not seem likely to affect the economy's growth path and corporate earnings, which were also set to benefit from the tax cuts announced in Trump's program. Bond yields adjusted upwards in anticipation, and the Federal Reserve announced a pause in its normalization cycle, which had barely begun in September. Barely twenty days later, Trump's arrival in the White House has marked the beginning of a complete reversal of perception of his political action. In the space of a few days, it became increasingly clear that Project 2025, of which he had claimed to know nothing, was clearly the main source of inspiration for his new policy. A very high proportion of the presidential decrees signed were in fact considered by expert observers to be measures advocated by this project prepared by the "Heritage Foundation". Appointments to key positions of contributors to Project 2025 also underline the existing links, notably that of the President's trade advisor. From the very first days of his presidency, Trump 2.0's style immediately appeared much more assertive and disruptive than during his first presidency. Now surrounded by collaborators chosen above all for their loyalty, the style immediately asserted itself with a frantic pace of announcements of very clear-cut decisions whose legal and juridical foundations are contested. The least we can say is that in just two months, Trump has created a climate of uncertainty and stupefaction that has spread far beyond American borders to affect the entire world. In a style that is now totally uninhibited, Trump tackles every theme as a president aware of the United States' dominant position and the power at his disposal to achieve his goals. Without any diplomatic formality, he states his truths, wants to dictate his will, aware that his dominant position can enable him to impose his will on weak states in any case. Faced with Canada, Mexico, China and perhaps Europe, he seems to have found adversaries who are already a little tougher and ready to resist him. But despite the domestic resistance he is also facing, the sustained pace of his policy decisions and their foreseeable impact on the political and economic stability of the United States have created a level of anxiety and uncertainty in the country not seen for a long time. Consumer confidence plummeted rapidly, investors began to worry about the financial impact on the country's businesses, and the outlook for growth changed completely. After having hoped for a return to positive GDP dynamics estimated at over +3% at the start of the year, Trump's policies have reversed expectations, which are now worried about the risks of a -3% recession. Abroad, there is also widespread dismay at the brutal, unilateral end to political, economic and military relations based on mutual respect and collaboration between allied countries, which are sometimes even treated more harshly than the United States' "enemies". The latest episode in the tariff saga will mark a historic change in trade relations with the United States. The much-publicized announcement on April 2 of the tariff rates applicable to each country will have stunned the world by the sheer scale of the rates and the amateurishness evident in the announcement. Beyond the shocking anecdotes of uninhabited, yet taxed, areas such as the Heard and McDonald Islands, the list of duties supposedly imposed on American exports is totally unfounded. The example of Switzerland, which Trump pointed out taxed American imports at 61%, is striking since the precise figure calculated by the Swiss Customs Office is 0.1%. The Trump administration is thus shocking the world by not hesitating to create its own alternative reality, arbitrarily defining a new method based on the "trade deficit/imports" ratio. The trade war unleashed will have major repercussions, and is part of a stated desire to put an end to globalization by creating conditions so prohibitive that there will be no other option for companies wanting to access the American market than to set up new factories there. Trump is serious about this, and seems prepared to sacrifice the short-term to achieve his long-term goal. The effects of Trump's political strategy are beginning to be felt, and are likely to be very damaging to the US economy in the short term. Consumers are now fearful of the inflationary impact on their purchasing power, and worried about the risks to their job security. Businesses are losing visibility and worrying about falling sales and profits. The risks of a slowdown are high, and recession scenarios cannot be ruled out in this context. The U.S. economy will bear the brunt of current policy, and is unlikely to be easily rescued by the Federal Reserve, which faces a serious dilemma. It already seems to have chosen to fight the risk of inflation rather than to consider the risk of recession. Financial markets are reeling from the shock, and reacting even more strongly to the declaration of a global trade war and the catastrophic short-term effects on trade, if the announced tariffs are applied, and other countries respond with similar measures. Investors who were betting on the positive effects of Trump's pro-business policies have realized, in recent weeks, that his plan for America is particularly risky and extreme. We consider these risks to be serious, with short-term effects on financial markets that will be positive for bonds, but negative for equity markets. The dollar is unlikely to emerge a short-term winner from this global confrontation. We maintain our cautious recommendation on "risky" assets, and remain constructive on bond markets and gold in particular.

Alain Freymond
Associé & CEO
BBGI Group

BIG PICTURE

Main Convictions

- Project 2025 guides Donald Trump's entire policy
- Trade war will plunge US economy into recession
- The Federal Reserve faces a major dilemma
- Risk-off mode begins for government bonds

Project 2025 guides Donald Trump's entire policy

The 2025 Project developed by the Heritage Foundation is considered a political project aimed at transforming the United States into a form of autocracy in which the president would hold the majority of power. Many legal experts believe that it would undermine the rule of law, the separation of powers and civil liberties. This neoconservative organization was created in the 1970s to support the two candidacies of Ronald Reagan and now leads or coordinates dozens of conservative organizations. Since Trump's arrival at the White House, he has appointed several Project 2025 contributors to government posts. It is estimated that 60% of the first presidential decrees reflect or partially incorporate proposals from Project 2025. The Trump administration appears to be willing to implement proposals that clearly stem from Project 2025, such as those concerning economic and social policies, the role of the federal government and its agencies, the resumption of control of the Department of Justice, the FBI, the Department of Commerce, the Federal Communications Commission, the Federal Trade Commission, the dismantling of the Department of Homeland Security, gender policies, federal hiring, the freezing of foreign aid, the diversion of public school funding to education vouchers to be presented to private schools, the reduction of funding for federal programs, opposition to the right to abortion, the reduction of environmental regulations, tax cuts, the abolition of the Ministry of Education, etc.

Project 2025 had caused controversy during the campaign and Donald Trump had distanced himself from it to avoid being associated with the sometimes extremist positions of the project. But it is clear today that the 900-page program, which certainly had the ambition of preparing a turnkey program for the new Republican president and orienting his action towards more conservative policies, is widely used as the main source of inspiration, if not more, for the action that Trump has been conducting at full speed since January 20.

As far as the "customs duties" aspect is concerned, the relationship with Project 2025 is also obvious. Peter Navarro, Trump's trade advisor, wrote in Project 2025 "America is being fleeced every day" in a contribution entitled "For fair trade", in which he called for the "dogma" of free trade. In particular, he supports the policy of stunning countries with customs duties, which he claims protect their markets with non-tariff standards and regulations. Trump-style protectionism is inspired by President W. McKinley (1897-1901), whose protectionist policy he considers to have been the source of American prosperity at the end of the 19th century.

The publication of the new tariffs, applicable worldwide from April 9, came as a real shock to everyone due to its brutality and scale. It is nevertheless in line with the doctrine set out in Project 2025, which advocates a nationalist and protectionist economic policy in which tariffs are a tool for protecting American industry and reducing the trade deficit. It aims to reduce dependence on foreign supply chains.

Trade war will plunge US economy into recession

There is no longer any doubt that the large-scale trade war will take place, as the United States declared to the world on April 2, 2025. For several months, however, the US presidency had raised the issue of tariffs almost daily, starting with its closest neighbors and partners as well as China. For several weeks, there were severe, aggressive exchanges that were often described as disrespectful and humiliating, particularly by senior Canadian and Mexican government officials. The negotiations between partners whose positions seemed far apart were observed with a certain sense of astonishment. The American president's comings and goings even suggested that his statements were motivated by a real negotiation strategy aimed at first stunning his interlocutor with extreme threats and then bringing him to a discussion on a basis he would never otherwise have considered. Before April 2, the prevailing feeling was that it would probably be possible to negotiate and reach acceptable compromises with Donald Trump. Given the absurdity of the calculations presented, it is becoming increasingly clear that he simply wants to impose his dictat even in the absence of any real basis for it.

In the aftermath of this declaration of war, China has already announced that it will respond to the US tariff increase of 34% by also applying a rate of 34% to Chinese imports of US products. China is sending a clear message to the United States that it will not be intimidated and that it is ready for a tough trade confrontation if the United States so wishes. In Europe, the first statements also seem to be heading towards confrontation. France and Germany are calling for a firm response to President Trump's tariff measures. A firm and powerful response, which could in particular target American technologies and services, is to be expected. German Economy Minister, Robert Habeck, also wants the European response to be proportionate and decisive. A tax on digital services to American companies could be applicable from the end of April. The United States has a trade surplus with the EU in services, and President Macron has also urged EU companies to suspend their investments in the United States in the current tense context. The EU will implement countermeasures of up to 26 billion euros from mid-April. A second list of retaliatory tariffs on US products is being prepared from May 15.

The outbreak of a full-scale trade war will have economic consequences that could appear more quickly than expected. We believe that the first impacts will be measurable above all on consumer confidence. This development has already been noticeable in the United States for several months. Contrary to what may happen in other countries, Trump's policies are so disruptive for the American population that the risk of recession will manifest itself first and foremost in the United States. We believe that the risk of recession is much higher than analysts' current forecasts (35% on average). In an environment of great uncertainty, neither households nor businesses will have sufficient confidence to consume or invest. Therefore, a recession clearly threatens the American economy.

The Federal Reserve faces a major dilemma

The Federal Reserve is once again facing a major dilemma of deciding which objective it considers more important to achieve between inflationary risks and recession risks. Since December 2024, the Fed has been on hold while waiting for a clearer picture of the possible consequences of Trump's new tariffs on US inflation. But it is also probably now considering the risks of recession associated with the expected rise in import and production costs. Fed officials must decide on these two phenomena and their consequences. Should they lower their rates and relax their monetary policy to counter the recessionary effects of Trump's policies or keep their rates at high levels for longer to contain the inflation that is bound to arise in the context of the declared trade war? The effects of higher tariffs will affect a much wider range of products and a larger number of companies than was the case during the 1st Trump presidency. The Fed now considers that any tariff-related inflationary surge will probably be transitory and no doubt wants to rely on this analysis to avoid raising its rates. But if it is wrong about the transitory nature, it will find it difficult to act later to counter a developing trend. On one hand, if the economy weakens and the Fed does not lower its rates quickly enough, there is a risk that the US economy will quickly enter into recession. The Fed is already facing this dilemma. In any case, it will have great difficulty determining how tariffs impact prices, and it will take time to obtain the statistics necessary for any analysis. By then, it will be too late to modify monetary policy effectively. On the other hand, if consumer confidence collapses and companies reduce their investments, the economic dynamic will lose momentum. It is not certain that the Fed is already considering a slowdown serious enough for it to have to intervene and lower its key rates.

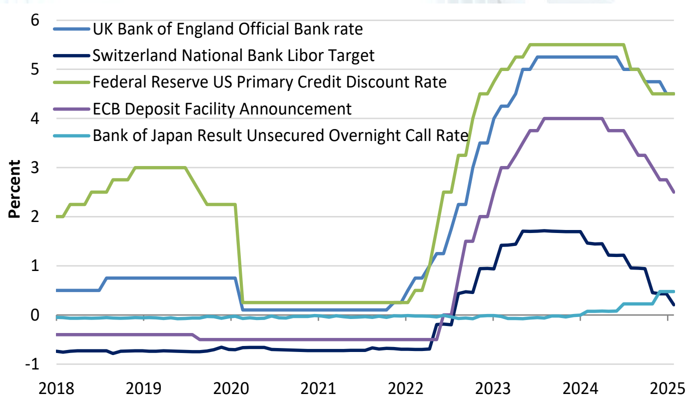
We believe that the Fed is observing these two phenomena without wanting to favor one of the two scenarios for the moment. In a context of growing uncertainty and risk to the two objectives of the Fed's mandate, the committee will certainly favor the status quo for some time to come. The Fed probably still considers that it can be patient and attentive. We believe it should keep its rates unchanged with a restrictive bias to take into account the risk of rising inflation.

The Federal Reserve admits that the Trump administration's new exorbitant tariffs will certainly cause inflation to rise and growth to slow. President Powell has indicated that the repercussions on the economy and inflation will be considerably greater than expected. It seems that the Fed is more concerned with the potential effects on inflation than with the risks of recession. We believe that the Fed will maintain its current position in May. It will certainly not lower its rates until measures and statistics clearly demonstrate that the economy is weakening significantly.

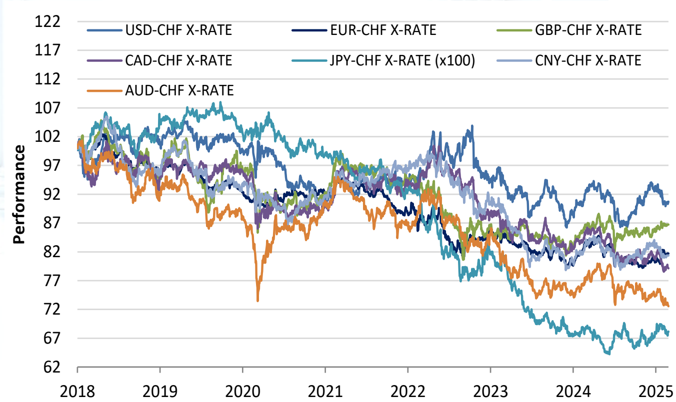
Risk-off mode begins for government bonds

Donald Trump's disruptive policy is completely upsetting the economic and commercial balance, but it is also causing extreme upheavals in many areas. The increase in uncertainty in just a few weeks has been dramatic and threatens the sustainability of economic growth in the United States. American consumers are increasingly at a loss in the face of Trump's disruptive policies. Household confidence is collapsing and the risks of recession have increased so much that the optimism that remained in the equity markets has suddenly vanished at the end of the quarter. The announcement of prohibitive tariffs on April 2 caused a sudden shock of anticipation and reassessment of prospects. The shift to "risk-off" mode by a number of investors is already having massive consequences on the equity and commodity markets. The deterioration of the investment climate affects practically all assets without distinction, with the exception of bonds and in particular government bonds, which are considered to benefit both from the scenario of economic slowdown and from the repositioning of investors away from risky assets towards government bonds, which are considered safer in times of uncertainty. The rise of the recession scenario had already been benefitting US bonds for several weeks, but the realisation has only recently hit the equity markets. The "risk-off" mode is taking hold and could last a little longer this time if nothing changes and the tariffs are settled. If Trump insists on these new tariffs and does not negotiate, we will certainly see a consolidation of risky assets. The Fed may later decide on the aforementioned dilemma and decide to lower its key rates significantly to avoid a stock market crash and an additional negative effect on the sentiment of economic agents. However, it should be noted that potential negative stock market impacts are often more sudden and less lasting than the upward phases. For the time being, we remain convinced that the risks clearly outweigh the opportunities and we still recommend a more cautious exposure to risky assets.

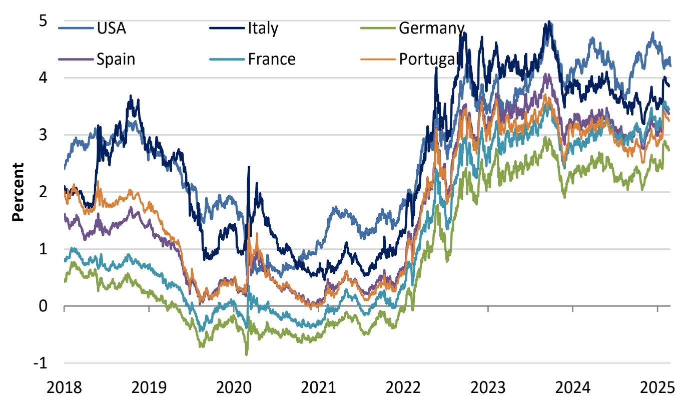
Policy rates (EUR, CHF, GBP, USD, JPY)



7 main currencies against CHF (base 100)



10-year government rates



Graph sources : Bloomberg/BBGI Group

MACROECONOMIC SCENARIO

MACROECONOMIC SCENARIO

Global Outlook

- Trump casts a chill over the global outlook in 2025
- American growth came to a standstill in the first half of the year
- Weakness in Europe in Q1 before an upcoming recovery
- Swiss GDP growth in Q1 2025 limited to +0.2%
- Growing international uncertainty does not support the British economy
- A probably solid first quarter of 2025 in Japan

Trump casts a chill over the global outlook in 2025

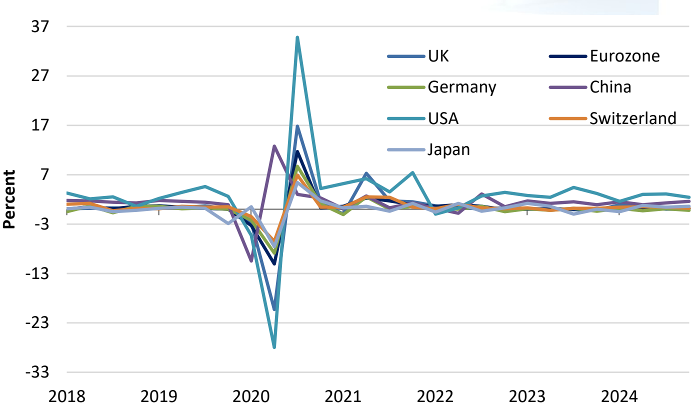
At the beginning of the year, the scenario of strengthening global growth to +4% in 2025 was to be supported by sustainably more accommodative monetary policies in industrialized countries and by an economic support policy in China likely to favor a recovery in global economic activity. Since Donald Trump's successive statements, which have been particularly destabilizing on various levels but especially in terms of new customs duties, the outlook has suddenly darkened at the end of the quarter. The announcements made on April 2 of new rates applicable to imports from the United States have caused a shock wave that has further increased the likelihood of an upcoming recession in the United States. The “reciprocal” tariffs are in fact not reciprocal at all and have been calculated on the basis of a fanciful formula which, if maintained, will provoke reactions from the United States' partners. With a trade war having been declared, the contours and risks for each economy remain to be assessed, starting with the one that will have to endure unprecedented increases in import prices. Between inflation and recession, the Fed will have trouble defining its policy, but, in the meantime, it seems that, as indicated by the activity measure calculated by the Atlanta Fed, GDPNow falling from +3% to -3% in a few weeks, it is likely that global growth is now significantly below expectations at the beginning of the quarter.

American growth came to a standstill in the first half of the year

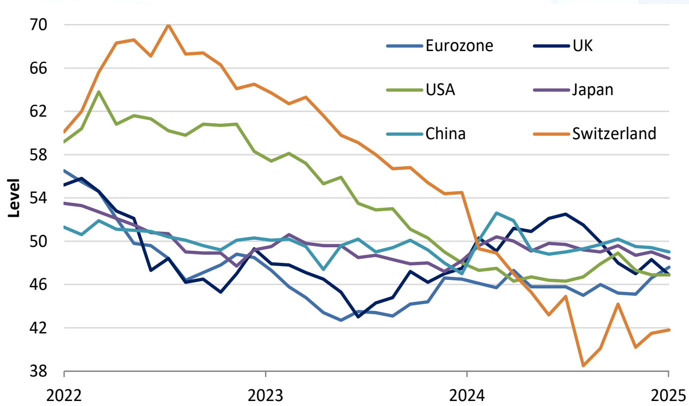
The first quarter and the first few weeks of Donald Trump's presidency were particularly chaotic, and certainly didn't help the various economic agents to approach the quarter calmly. While the consensus at the end of the year was that the year 2025 and the start of the Trump presidency would be generally favorable to business development in a more liberal political and economic context, it soon became clear that Trump's first 100 days would certainly be much more disruptive. If the election of a Republican president seemed favorable to the economy in November 2024, the style and policies pursued by the newly elected president bear no resemblance to the implementation of a “classic” Republican program. Organized chaos, or lack of it, has become the rule, and does not seem to reassure neither the financial markets, nor American consumers, and even less the trading partners who are suffering the wrath of the President and his prevarications, particularly on tariffs. The Trump style worries and upsets, but, above all, it creates uncertainty in the short term, which could well lead the United States into a rapid recession, without the Fed having had time to understand what was going on in the minds of consumers and investors.

The US economy undoubtedly experienced its best short-term performance of the year, supported by anticipated consumer spending and precautionary inventory building ahead of the implementation of import tax hikes in Q2. The collapse of the trade balance between December and February is a perfect illustration of this. The trade deficit fell from -$104 bn in November to -$155 bn in January 2025. Against this backdrop, household confidence has been plummeting since December, and is now at its lowest level since February 2021. Worries have crystallized around tariff fears, but also over federal employee layoffs. There is now nothing to suggest that Trump will change anything about the policy he has only just begun to impose on the American people and businesses, without being able to judge its potentially disastrous effects over the coming months. The Federal Reserve, still overly concerned with inflation, will certainly wait until it is faced with a likely harsh reality before acting, leaving an increased likelihood of an economic shock in the months ahead. Our outlook for the 1st half of the year is rather negative, with a probability of over 50% that the US economy will shrink before the summer.

Quarterly GDP



Manufacturing PMIs



 Graph sources : Bloomberg/BBGI Group

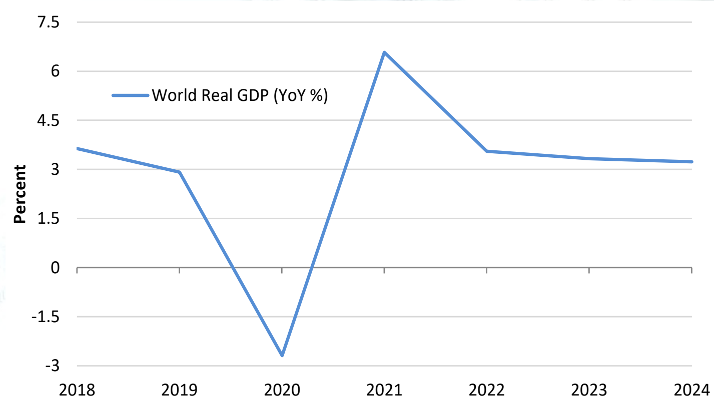
Weakness in Europe in Q1 before an upcoming recovery

Most economists remain particularly cautious about the evolution of GDP 2025, in line with the ECB's lowered expectations. The consensus is also for growth of less than +1% and +0.2% in Q1. Recession risks have risen slightly to 33%. In our view, the most important component of GDP should unfortunately continue to lag at the start of the year, under a variety of influences, the most important of which is undoubtedly the growing uncertainty posed by the threat of a trade war, which could have a significant impact on European economies. Changes in household incomes could also have a negative impact on consumption. However, the ECB's monetary policy has been particularly well adapted to the eurozone's more fragile economic situation. By lowering its key rates again in March, from 0.25% to 2.65%, it is continuing its policy of supporting growth, and can rely on inflation progressing in the expected direction. The risks of the introduction of higher tariffs than those currently in force are real and will certainly weigh on European exports to the USA, although it is still particularly difficult to gauge the real effects and timing at present. At the beginning of the year, we estimated that, before seeing the negative effects of higher tariffs, the eurozone would benefit from a rise in precautionary orders in anticipation of these import cost increases. This has undoubtedly happened, as illustrated by the 14 billion euro trade surplus recorded in January 2025, a result twice as high as that of October 2024 (6.3 billion). This result also shows an increase of almost 50% compared to the January 2024 surplus with the United States, i.e. an increase of +4.2 billion euros. The imminent introduction of new tariffs is likely to weigh on exports to the USA, but the main factor supporting growth in the Eurozone is now likely to be the improvement in household and business sentiment. The latest developments in Germany on the fiscal policy front are potentially an important "game changer" for the assessment of the eurozone's growth prospects. The end of Germany's legendary austerity and an increase in the budget and investment of Europe's largest economy will have potentially exceptional consequences for European economic recovery and household sentiment. In the short term, we remain cautious on the outlook for Q1 and Q2 2025, but we are not overlooking the likely effects of such a paradigm shift in the medium term. On a year-on-year basis, real GDP in the eurozone could therefore come in at +1.1% in 2025, slightly better than the ECB expects, essentially in the event of a recovery in the second half of the year.

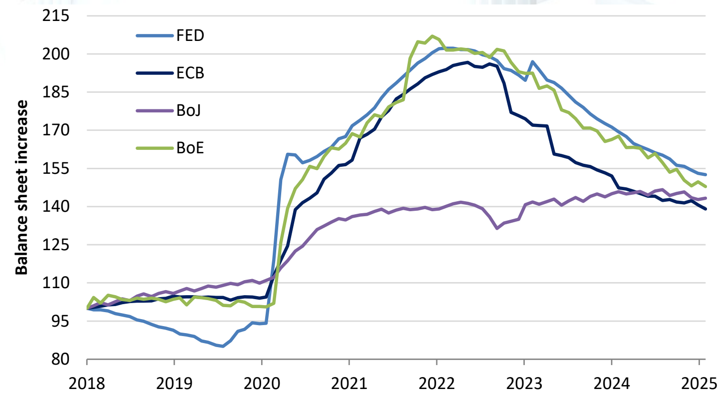
Swiss GDP growth in Q1 2025 limited to +0.2%

Domestic demand should remain resilient in Q1, particularly due to financing costs that are still very attractive and a generally strong labor market. The weakness of the franc against the dollar since the end of September will contribute to a good performance and a possible revival of foreign trade in an international context, which has been particularly uncertain since Donald Trump's arrival at the White House. It would certainly take more than a stabilization of the exchange rate against the euro for this factor to support a revival of Swiss exports to the EU, particularly if the euro zone fails to revive its growth. In our view, the SNB is paying close attention to this situation and is also observing the very favorable trend in inflation in our country, which is now barely +0.3% over one year. With President Trump exerting increasing pressure on his main trading partners through the use of tariffs, the risk of a downturn in world trade is growing. The Swiss economy will continue to be supported mainly by domestic demand and will be weakened by sluggish external demand. Our forecasts predict growth of just +0.2% in Q1 and +1% for 2025.

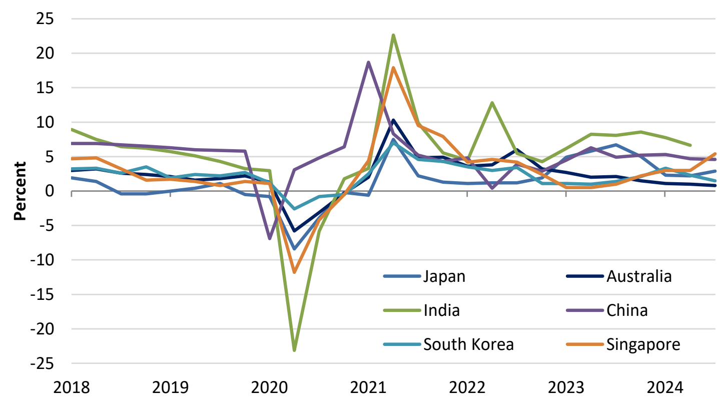
Real growth in the world economy



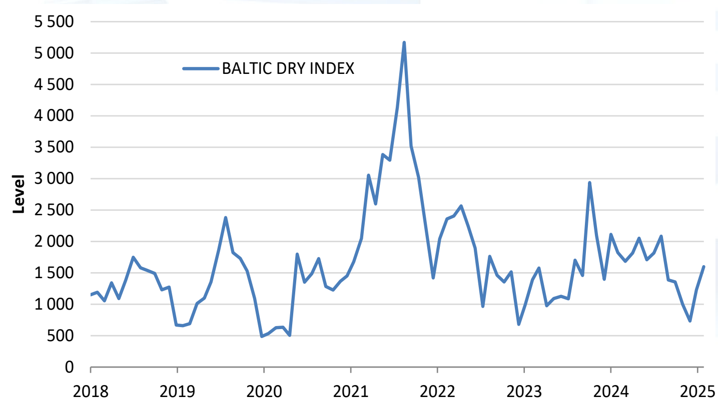
Global liquidity



Growth rates of Asian economies (GDP)



Baltic Dry Index



Graph sources : Bloomberg/BBGI Group

Growing international uncertainty does not support the British economy

The first weeks of Trump's presidency have been far from easy and have also had an impact on British sentiment. The massive rise in uncertainty and the radical change in tone towards the United States' economic and political partners have not been without effect in the United Kingdom. The spectre of a trade war is not sparing the country, which has already been experiencing great difficulties in terms of its foreign trade since Brexit.

While the British economy was supported by public spending at the end of the year, the current economic situation does not, in our opinion, lend itself to a continuation of this support. The risk of recession is still relatively significant at 35% for the next twelve months, while the outlook for the first quarter is still for a 0.2% increase in GDP. The Bank of England had lowered its key rates by 0.25% in January and did not consider it useful to make a further adjustment in March, while inflation rose slightly in February. It still surprised on the upside over twelve months, falling from 3% to 2.8%, perhaps offering the BoE a little more leeway to resume its cycle of rate cuts. Core inflation was also better than expected and will therefore, in our opinion, probably allow the BoE to take action at its next meeting on May 8.

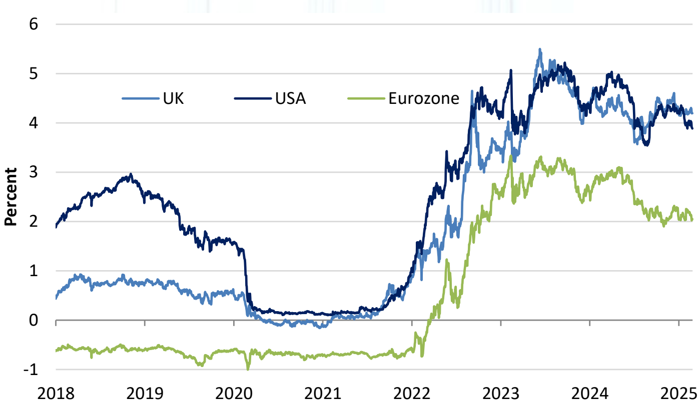
For the year 2025, GDP growth expectations will certainly depend more on international factors than on domestic factors. The evolution in the United States of Trump's policy, particularly with regard to customs tariffs, and the effects on employment of the budget cuts implemented by the DOGE will have indirect effects in the United Kingdom. The currently growing risks of recession will also affect the British economy. In 2025, the British economy is expected to continue on a rather moderate growth path of +1%, without ruling out the ever-possible risk of contagion from a forthcoming recession in the United States.

A probably solid first quarter of 2025 in Japan

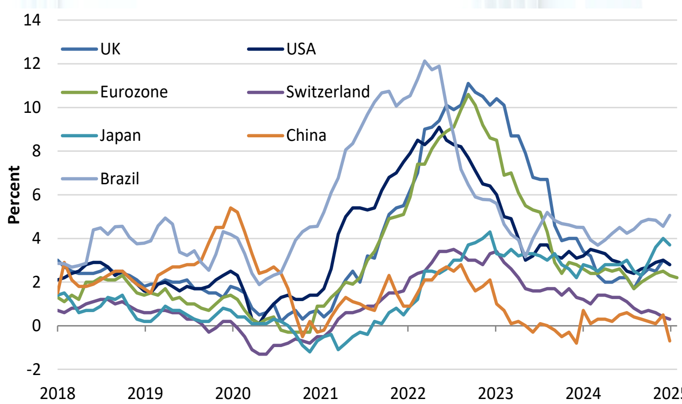
Despite resilient consumption, Japanese GDP remains more than ever overly dependent on international demand, which is still too weak, and on the results of its foreign trade. The expected trend in inflation does not appear to be a positive factor for household consumption at the beginning of 2025. It is likely to remain on a trend that will not allow for a significant improvement in household purchasing power, which could give a clear boost to domestic demand. With the introduction of higher tariffs decided by D. Trump, Japan could suffer a shock to its exports during the course of the year. That said, in terms of Q1 2025 expectations, it is likely that Japanese exports will temporarily benefit from an increase in US demand before the introduction of higher tariffs. January exports, up 7.2%, certainly already reflect this phenomenon of anticipating orders and deliveries, with vehicle exports jumping 21.8% over one month. But imports of computer and communications equipment seem to have exploded, recording an increase of 16.7%, which has reversed the trade balance into negative territory with an unexpected deficit of 18.2 billion dollars. In regional comparison, the increase in American demand (+8.1%) for the reasons mentioned, was not observed with the two other main partners, China (-6.2%) and Europe (-15.1%).

In a context of growing risks for the evolution of world trade, the Japanese economy will have to prepare for a decrease in exports if the announced new customs barriers materialize. GDP will then have to be supported more broadly by domestic consumption and budgetary spending to maintain a positive trajectory. We do not foresee a strong potential recovery in international demand and domestic consumption in the short term. The outlook therefore remains moderate for the Japanese economy in Q2 after Q1, which was still supported by US external demand and a continuation of exceptional car orders. GDP should still grow by +0.6% in Q1 to record an increase of +1% over the year as a whole.

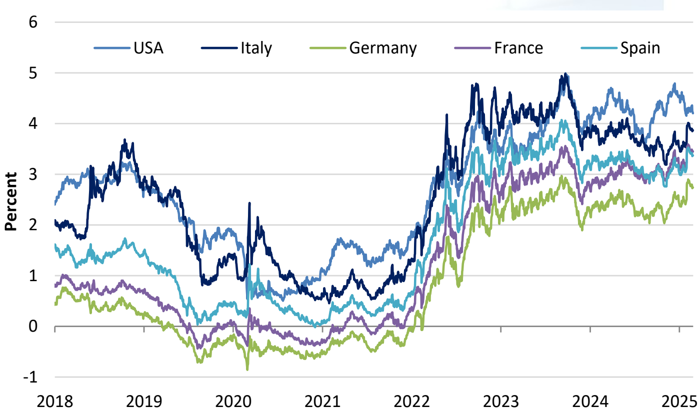
2-year government rates



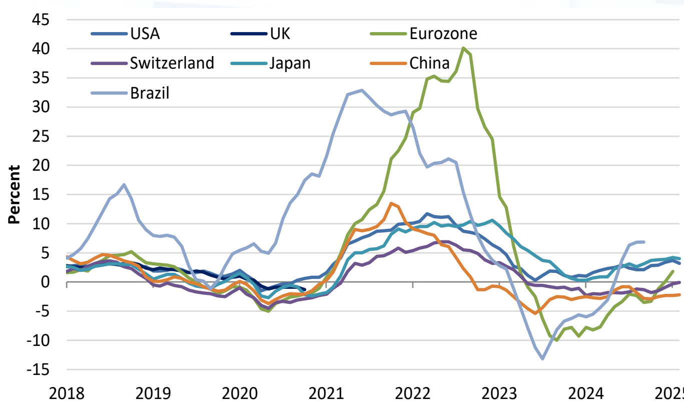
Inflation - CPI indices



10-year government rates



Inflation - PPI indices



 Graph sources : Bloomberg/BBGI Group