Asset Allocation

TESTING TRUMP'S TURMOIL TOLERANCE

Andrea Cicione

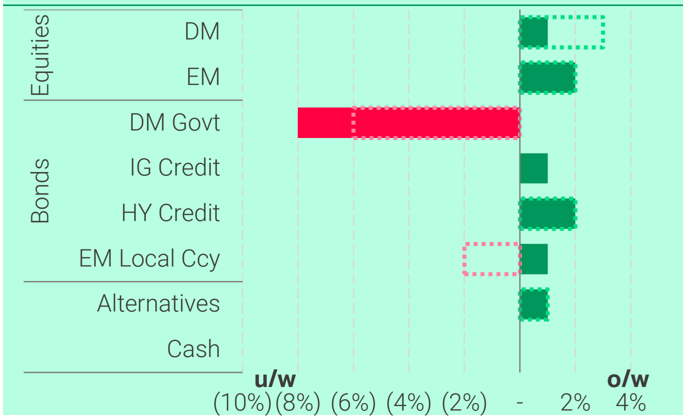
MULTI ASSET Concerns over a potential US recession in 2025 are growing as investors reassess the economic impact of Trump's tariffs. Investors assume a Trump put would prevent a major selloff; however, his administration's tolerance for market declines appears higher than in his first term. Moreover, a Fed put may not be forthcoming amid tariff inflation risk.

Fiscal spending in Germany and EU defence investments remain long-term growth drivers, while Trump's pro-growth policies could eventually support the US economy once tariff adjustments are over. But in the near term, policy and market risks could dominate, prompting us to tactically lower risk.

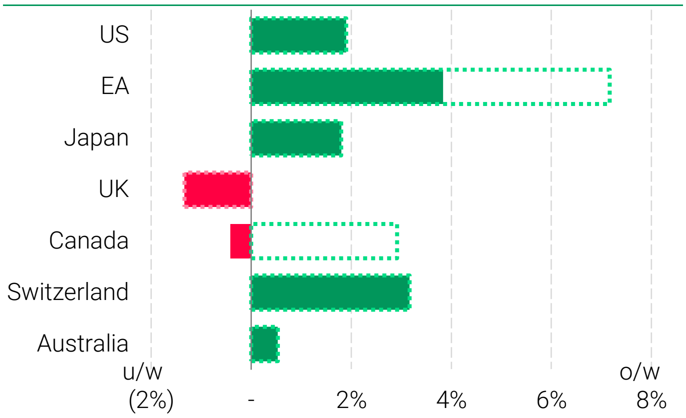
ASSET ALLOCATION We keep a small positive risk bias this month but reduce Equities (albeit remaining overweight) and increase exposure to Fixed Income. We leave Alternatives at a small overweight and cut all our currency hedges. **Our model portfolio's beta declines to 1.05 from 1.13**.

MACRO OUTLOOK Concerns about the impact of Trade War 2.0 on global activity are clouding the cycle amid signs of slowing US growth. Volatility in markets has picked up, which risks triggering reflexivity, sending corporate and consumer confidence plummeting. Meanwhile, Europe is having its fiscal "whatever it takes" moment and Beijing is taking steps to sustain economic momentum.

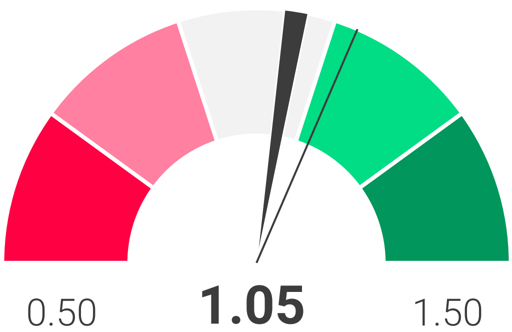
Global asset allocation*



DM Equities asset allocation*

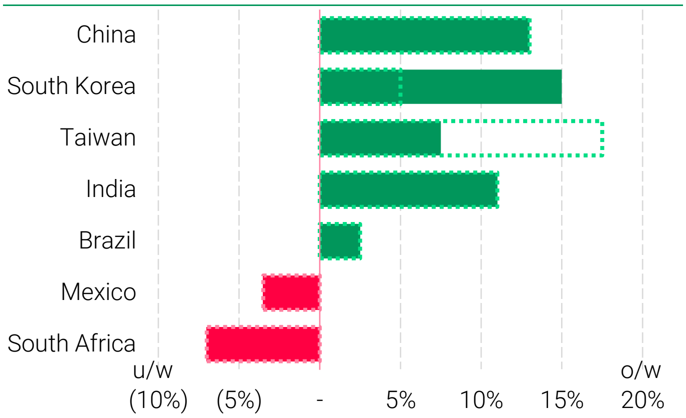


Model portfolio beta vs benchmark



Thin line represents last month's beta

EM Equities asset allocation*



(*) Dotted lines represent last month's allocation

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ASSET ALLOCATION

3- to 6-month view. Previous ratings in brackets. Monetary policy outlook changes in bold. Rationale on next page.

	Equities	Govt Bonds	FX vs. USD	Monetary policy
Developed Markets				
North America				
US	0	0		**On hold for now**
Canada	0 (+1)	0	0	25-50bp of easing in 2025
Developed Europe				
UK	0	+1	+1 (0)	3.5% by yearend
Switzerland	+1		0	Risk of ZIRP growing
Euro Area			+2 (-1)	2% terminal – for now
Germany	+1 (0)	-1 (0)		
France	+1	-1 (0)		
Italy	+1	0 (+1)		
Spain	+1	0 (+1)		
Asia Pacific				
Japan	0	-1	0	1.00-1.25% by yearend
Australia	+1	0	0	**One more cut this year**
Emerging Markets				
Asia				
China	+1	-1	0 (-1)	30bp rate cut and 100bp RRR cut in 2025
India	+1	+1 (0)	-1	25bp cut in April, then further easing
Korea	+1 (0)	-1	0 (-1)	**25bp cut in April, another 25 by yearend**
Taiwan	0 (+1)	0	0 (+1)	On hold, hawkish bias
Latin America				
Brazil	0	+1	+1	+100bp in March, rates to 15% this year
Mexico	-1	+1	-1	50bp cut in March, then further easing
Europe & Africa				
South Africa	0	0	0	25bp cut in Mar, another 25 by yearend

Alternative Assets	
Real Estate	0
Energy Commodities	0
Industrial Metals	+1
Precious Metals	+1

Corporate Bonds	IG	HY
US	0	0
UK	+1	
Euro Area	+1	+1

Key to recommendations

+2 = strongly positive | **+1** = positive | **0** = neutral | **-1** = negative | **-2** = strongly negative

Recommendations based on expectations of normalized local-currency total returns. FX returns include carry.
Model portfolio on p. 11.

Summary of key recommendation changes

	From	To	Rationale
EUR vs USD	0	+2	The European defence spending push and Germany's departure from the debt brake make us outright bullish on the euro.
Germany Equities	0	+1	German commitment to large-scale fiscal spending is a game changer. Looking beyond the near-term risk of tariffs and the complex negotiations to secure the supermajority needed for constitutional changes, the outlook for German equites is brighter.
Korea Equities	0	+1	Receding political risks will set the stage for new elections and fiscal expansion that is not yet priced into equity markets.
India Government Bonds	0	+1	We expect the RBI to continue targeting growth and more rate cuts are likely to follow.
GBP vs USD	0	+1	Labour market data are no longer deteriorating outright, while Sterling will benefit from the sentiment towards European markets.
Canada Equities	+1	0	Souring trade relations with the US pose a risk for Canada in the near term and beyond, as they threaten to thwart investment. However, reasonable valuations and positive EPS trends suggest that a neutral, rather than negative, outlook is appropriate.
Taiwan Equities	+1	0	Taiwan exports remain strong, but equities are under pressure from rotation out of US Tech, while the tariff threat and geopolitics weigh on sentiment.
Italy & Spain Government Bonds	+1	0	Peripheral yields will rise but good carry + roll should attenuate the drag from higher core yields.
CNY vs USD	-1	0	The PBoC is showing a clear commitment to defend RMB with tighter rates. A softer dollar and US activity will help FX management.
KRW vs USD	-1	0	We upgrade KRW to neutral on the expected resolution of the domestic political turmoil.
TWD vs USD	+1	0	We downgrade TWD to neutral as Tech equity outflows are likely to offset continued strength in Taiwan's current account surplus.
Germany & France Government Bonds	0	-1	The renaissance in European defence spending and Germany's departure from the debt brake will structurally lift yields as rates markets price in more reflation.

Summary of model portfolio changes

	1-month chg	O/W (U/W)	Comments
DM Equities	-2%	1%	We cut Canada, Italy & Spain by 1% each, add 1% to Germany.
Government Bonds	-2%	(8%)	We reduce EA markets by 1% each, add to UST and Canada.
IG Corporate Bonds	+1%	1%	We increase US IG by 1%
EM Bonds	+3%	1%	We add 2% to India and 1% to Mexico.

Full model portfolio composition and performance from p. 11.

Contents

MULTI ASSET

Andrea Cicione

- Fiscal spending and pro-growth policies are dominated by near-term tariff risk
- Rising macro risk suggests ongoing volatility, unless Trump/Fed put is triggered
- We tactically reduce risk as we wait for tariff uncertainty to dissipate

Go to Asset Allocation and portfolio changes

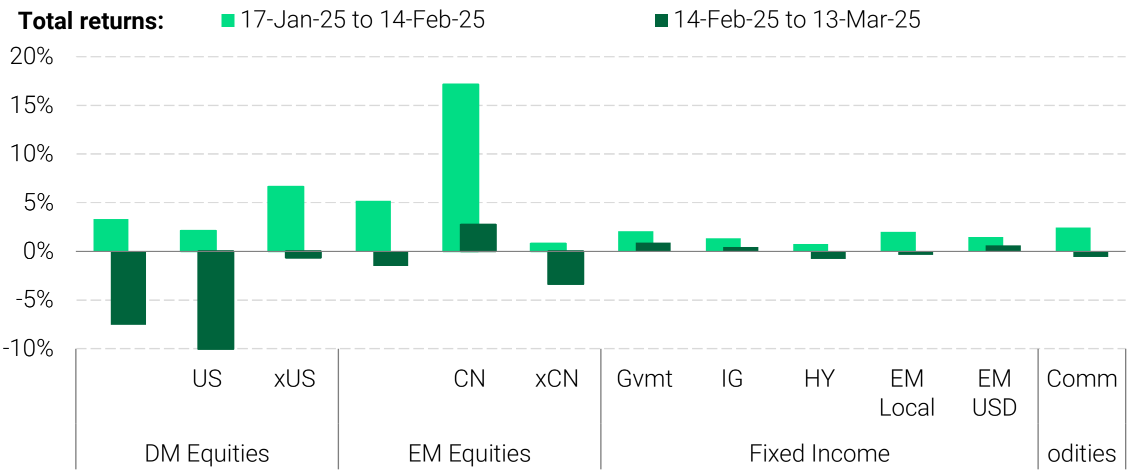
Rising US recession fears. Concerns over a potential US recession in 2025 are growing as investors reassess the economic impact of Trump's tariffs. While tariffs alone should not be enough to cause economic contraction, the risk is that market volatility triggers reflexivity, sending corporate and consumer confidence plummeting.

US unexceptionalism. Outside the US, economic data have been more positive, particularly in Europe and Emerging Markets. Germany's potential large-scale investment plan and China's fiscal spending could boost growth, but both remain vulnerable to US tariffs. Unlike in the 2018 trade war, US equities are now significantly underperforming global markets, as investors reconsider the notion of US exceptionalism.

Testing Trump's turmoil tolerance. Investors assume a Trump put would prevent a major selloff. However, his administration's tolerance for market declines appears higher than in his first term. If Trump does not step in, investors may look to the Federal Reserve for support, although uncertainty over tariff-led inflation could delay any intervention.

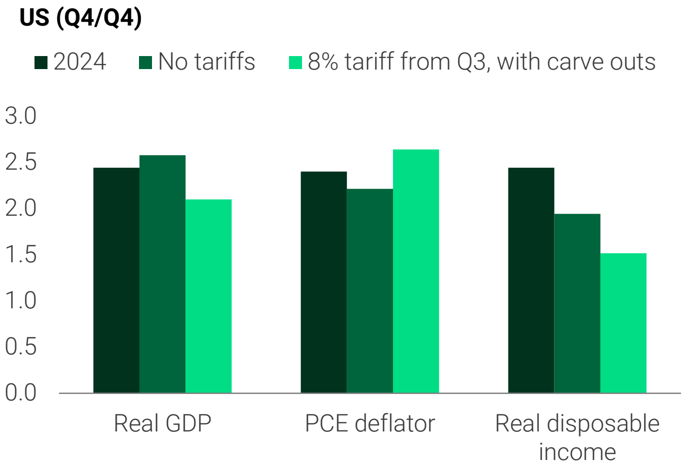
We tactically reduce risk. Fiscal spending in Germany and EU defence investments remain long-term growth drivers, while Trump's pro-growth policies could eventually support the US economy once tariff adjustments are over. But policy and market risks could dominate in the near term, and for that reason we tactically lower risk. We reduce Equities while remaining overweight and increase exposure to Fixed Income. We leave Alternatives at small overweight and remove our currency hedges. **Our model portfolio's beta declines to 1.05 from 1.13.**

US Equities were the main underperformers in the last month



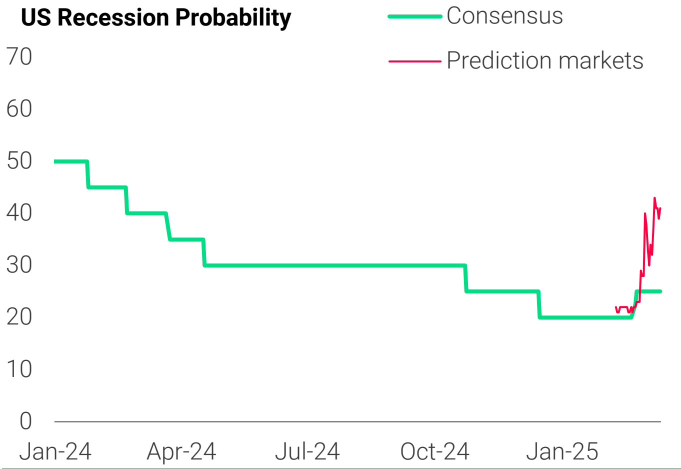
Sources: Bloomberg, GlobalData TS Lombard.

Tariffs could take 0.3—0.4% off GDP



Sources: GlobalData TS Lombard.

US recession probability is rising



Sources: Polymarket, Bloomberg, GlobalData TS Lombard.

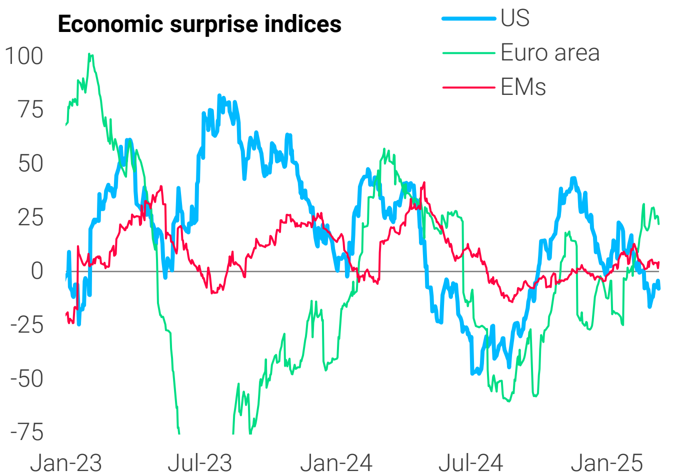
Fiscal spending vs tariff risk

US recession fears are rising. Investors are reassessing their initial assumption that Trump tariffs would not meaningfully impact growth. This moment of reckoning is happening at the same time as US data are disappointing. As a result, consensus – as well as prediction markets – are marking up the probability of a US recession in 2025.

Market volatility may tip the scale. For the time being, we think that fear of a US recession is unwarranted, but the policy mix Trump is pursuing could lead to the resulting uncertainty having a significant impact on consumer and corporate behaviour – especially if that translates into prolonged market volatility.

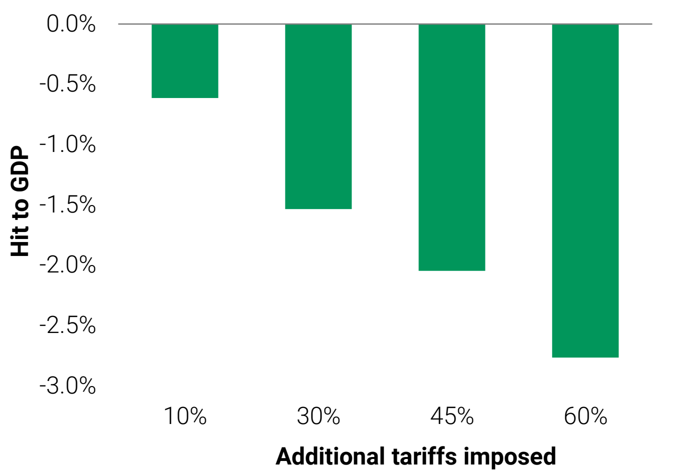
Fiscal spending to boost ex-US economic growth, but tariffs are a near-term threat. Outside the US, data have been more benign, with economic surprises positive in the Euro Area and Emerging Markets. The outlook for Europe is going to be defined by Germany's possible large investment plan in the medium term, but the risk of US tariffs looms large in the near term. Similarly, China has committed to significant fiscal spending this year, but here, too, US tariffs could adversely affect the outlook.

Macro data have been faring better in EA and EM



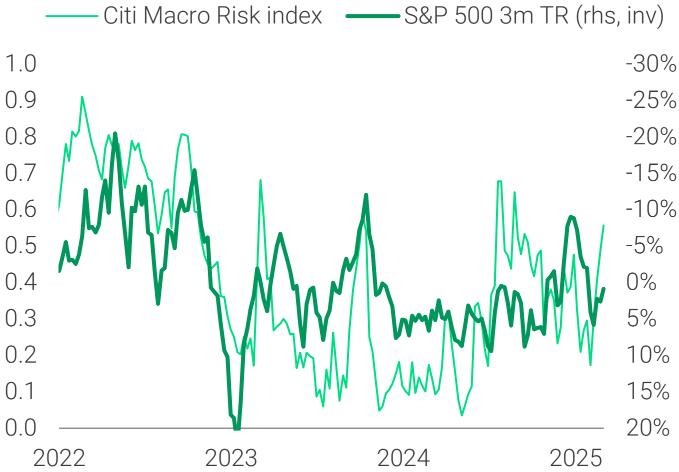
Sources: Citi, GlobalData TS Lombard.

Higher tariffs would significantly affect China GDP



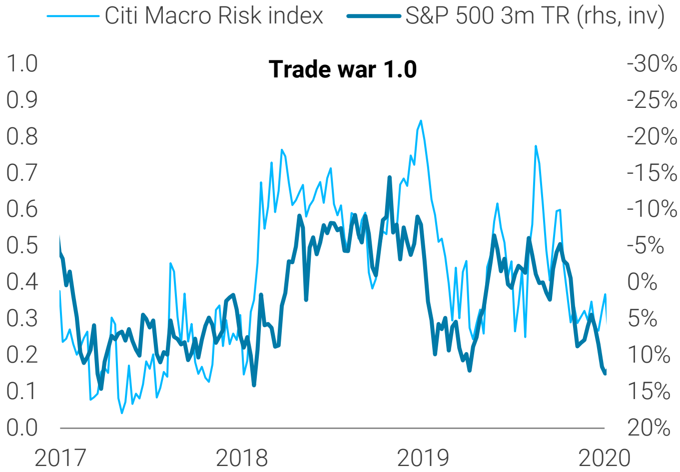
Sources: Macrobond, GlobalData TS Lombard.

Rising macro risks are weighing on US equities…



Sources: Citi, Bloomberg, GlobalData TS Lombard.

…just as they did during Trump's first term



Sources: Citi, Bloomberg, GlobalData TS Lombard.

Macro uncertainty => market volatility

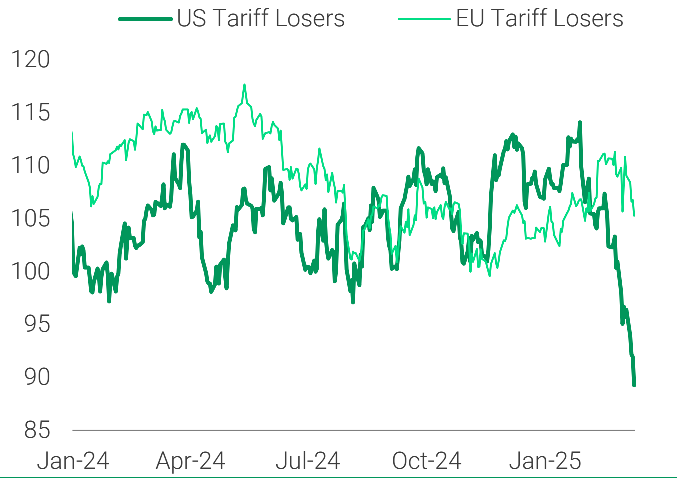
Macro uncertainty and market volatility are closely related. Just like in 2018, when US equities performance stuttered under Trump's first trade war, so stocks are suffering again this time. If uncertainty persists for longer, further downside seems not just possible but likely.

US equities underperforming RoW. Unlike in 2018, however, US equities are significantly underperforming other markets, despite other countries being at the receiving end of Trump's tariffs. This is because US stocks never really priced in those levies, while other markets traded at a significant discount to the US for this very reason – at least in part.

The end of US exceptionalism? Investors favoured US equities not just because of tariffs but also because of the heavy weight of tech companies in the S&P 500. This resulted in widespread positive sentiment towards the US and negative towards Europe and China. The reassessment of assumptions on US exceptionalism are reversing years of inflows into US stocks.

Complacency is now high in Europe. While European equities priced in tariff risk more than their US counterparts, we think Europe's outperformance this year (which we anticipated) has now left the Old Continent's stock market in a state of complacency of its own.

Investors seem complacent about EU stocks

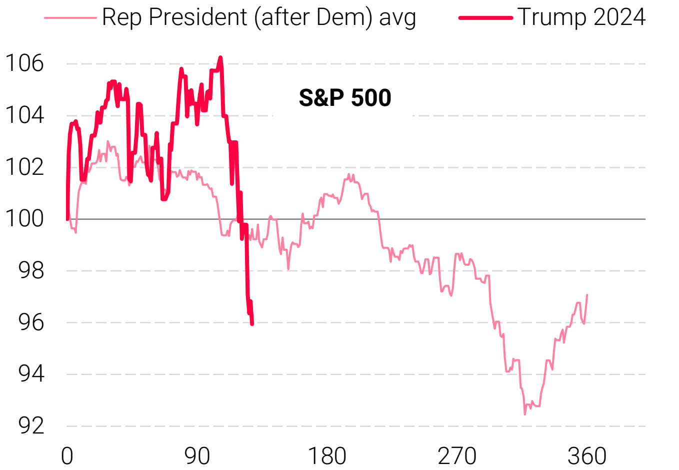


Sources: Bloomberg, GlobalData TS Lombard.

EA outperformance looks stretched near term

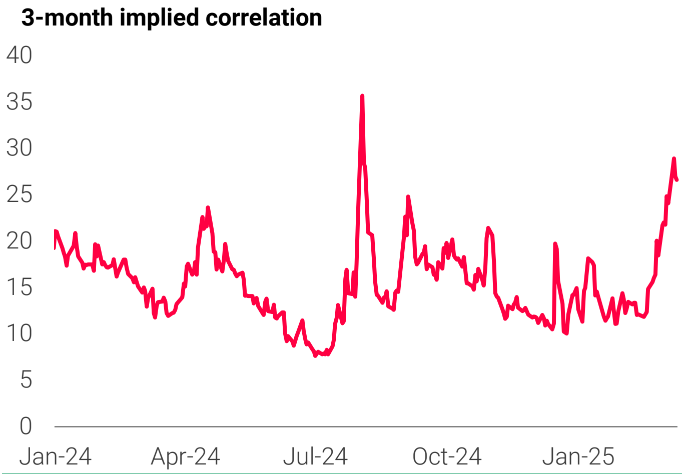
Sources: Bloomberg, GlobalData TS Lombard.

US stocks lagging Republican president average



Sources: Bloomberg, GlobalData TS Lombard.

Rising implied correlation is a red flag



Sources: CBOE, Bloomberg, GlobalData TS Lombard.

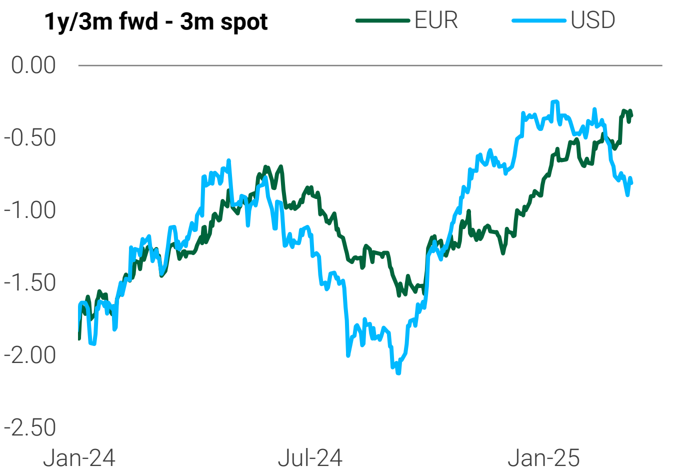
Testing Trump's turmoil tolerance

No Trump put? Trump always has regarded the performance of the stock market as a measure of his political success. Hence investors assumed that the President would not allow a selloff to go too far and that a "put" would be triggered at some point. However, the administration's tolerance for market pain may well be higher than it was in Trump's first term. Several members of Trump's team have indicated this is the case, though political posturing cannot be ruled out. But it is a fact that Trade War 2.0 has started early in Trump's second Presidency, allowing him to blame Biden for a possible recession and take credit for the subsequent recovery.

What about the Fed put? If indeed there is no Trump put, it is still possible that the Fed would intervene should markets become unruly and would cut rates to support them. However, here, too, there are risks that there would be no intervention, perhaps because of the uncertainty that tariffs cast on price stability. We think the Fed would act to support the job market , but the Fed put may indeed take longer than usual to materialize.

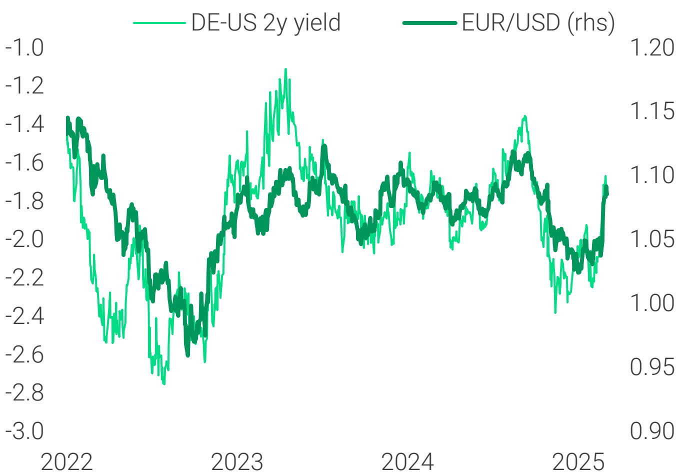
It is impossible to say for certain how far the ongoing correction will go. Last summer, a similar volatility spike roiled the market, but the recovery was swift and powerful. The underlying macro and policy conditions, however, appear less conducive to a swift bounce this time round.

Diverging monetary policy expectations…



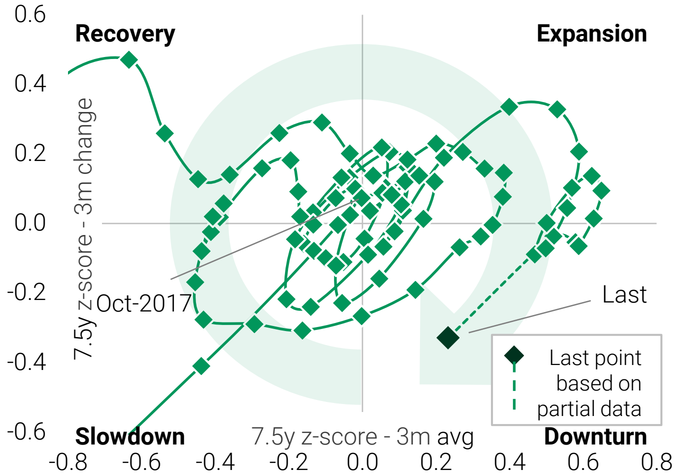
Sources: Bloomberg, GlobalData TS Lombard.

…are helping EUR gain vs USD



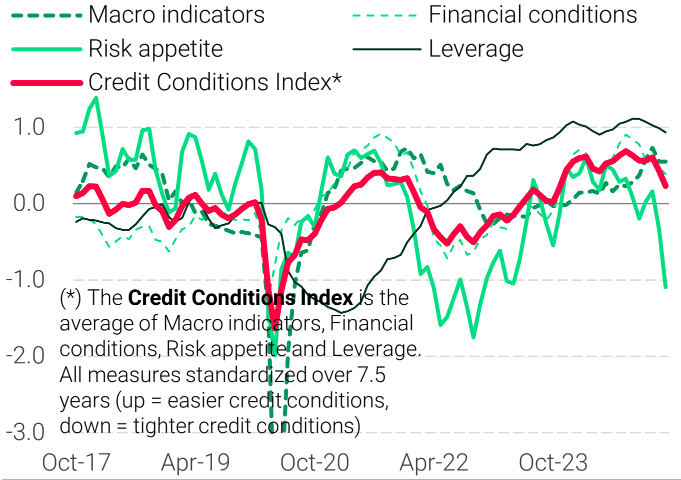
Sources: Federal Reserve, GlobalData TS Lombard.

CyclQEST signalling imminent downturn?



Sources: Bloomberg, GlobalData TS Lombard.

CCI drop mainly owing to Risk Appetite



Sources: Bloomberg, GlobalData TS Lombard.

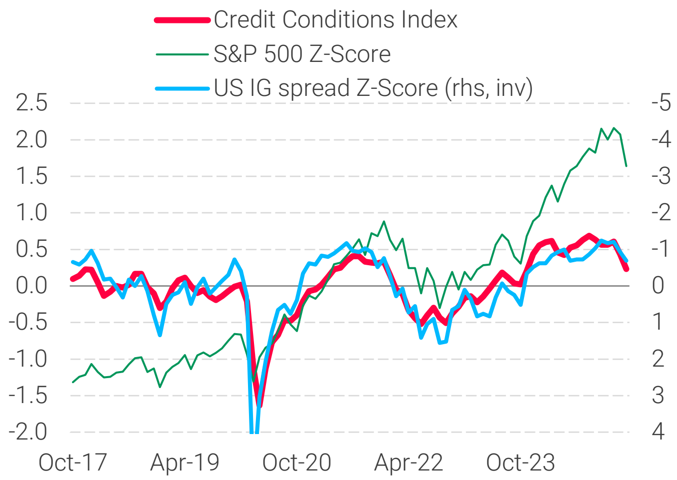
Asset allocation and portfolio changes

Short-term risks dominate long-term growth drivers. Given the current uncertainty over US policy and macro, we think it is appropriate to take some risk off the table. We consider this a tactical adjustment rather than a fundamental attitude change towards risk. We believe the prospect of sizable fiscal spending in Germany and the need by the EU to invest in defence to be strong reasons for being constructive on European growth over the medium term. The US, too, should benefit from Trump's pro-growth policies once the tariff adjustment phase is over, but it is difficult to say when that will be.

We rotate from Equities to Fixed Income. We reduce Equities in our model portfolio but remain overweight overall. We decrease our DM Government Bond exposure and go further underweight, but we add to IG Corporate Bonds and EM Bonds, resulting in a net addition to Fixed Income assets. We make no changes in Alternative Assets, where we retain a small overweight. Finally, we cut our currency hedges following the upgrade of EUR and GBP to positive.

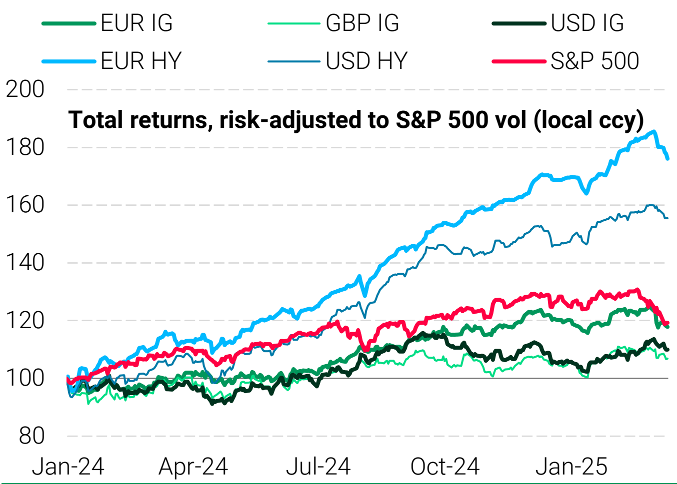
Model portfolio beta decreases to 1.05 from 1.13. As a result of these changes our model portfolio's beta declines to 1.05 from 1.13.

Credit Conditions Index correlates with risk assets



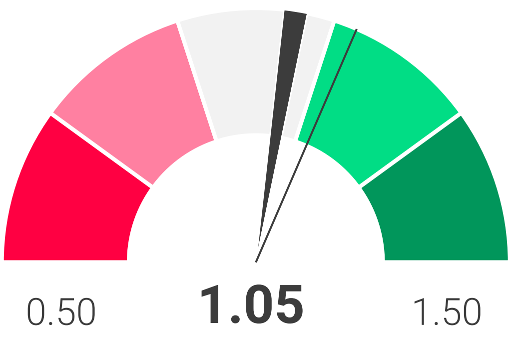
Sources: Bloomberg, GlobalData TS Lombard.

HY risk-adjusted returns still dominate



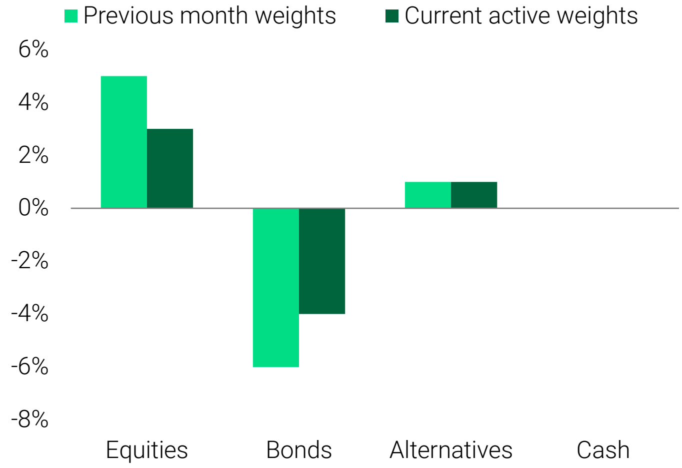
Sources: Bloomberg, GlobalData TS Lombard.

Model portfolio beta to benchmark



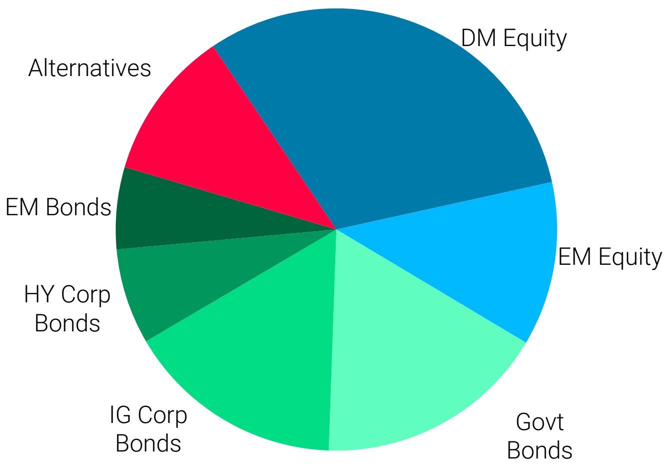
Source: GlobalData TS Lombard. Thin line = last month

Model portfolio changes



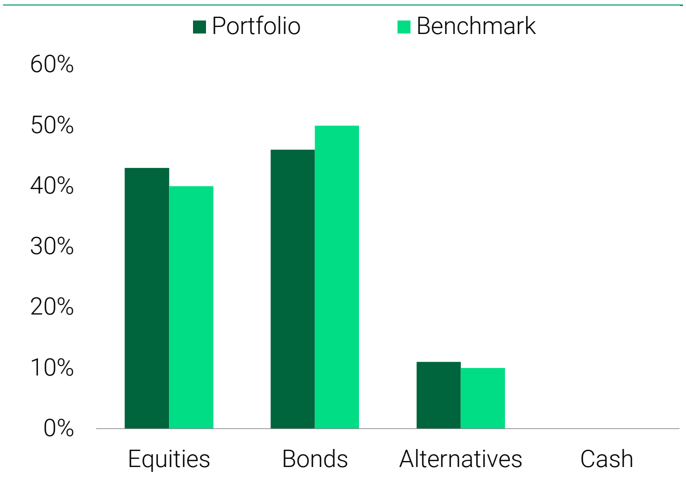
Source: GlobalData TS Lombard.

Model portfolio composition



Source: GlobalData TS Lombard.

Model portfolio vs benchmark



Source: GlobalData TS Lombard.

Multi Asset Dashboard

	Total Return LC			Volatility			Sharpe Ratio			1Y Correlation			3Y Beta		
	1y	3y	5y	1y	3y	5y	1y	3y	5y	LI	Infl.	Rates	LI	Infl.	Rates
DM Equities	9.0	11.1	16.3	11.3	13.9	16.3	0.3	0.5	0.8	37.0	-18.1	-45.4	29.5	-1.9	-5.2
EM Equities	12.6	6.5	9.1	12.3	13.4	14.8	0.6	0.2	0.4	38.7	-19.9	-47.8	26.8	-1.9	-5.2
DM Govt Bonds	2.2	-2.0	-1.6	5.2	6.6	5.9	-0.6	-1.0	-0.7	39.1	-39.5	-84.3	16.4	-2.5	-6.0
DM Corp Bonds	3.8	0.5	0.8	6.7	9.0	8.9	-0.2	-0.4	-0.2	31.6	-36.6	-79.8	16.9	-2.9	-7.0
EM Bonds	4.5	4.1	2.2	5.3	6.2	6.7	-0.1	-0.1	-0.1	52.6	-39.2	-71.1	22.8	-2.6	-5.2
Energy	0.0	-0.5	18.7	24.3	31.3	39.6	-0.2	-0.2	0.4	-35.1	41.2	14.5	-37.8	6.4	2.5
Industrial Metals	12.2	-6.8	10.3	17.3	19.1	19.2	0.4	-0.6	0.4	57.5	1.9	-20.6	55.1	0.3	-3.1
Precious Metals	34.9	12.9	13.3	16.3	15.2	17.1	1.8	0.6	0.6	52.9	-3.2	-45.4	23.5	-0.3	-4.8
DM Currencies	2.4	2.5	1.7	6.2	7.4	6.8	-0.4	-0.2	-0.1	55.0	-36.0	-69.2	20.9	-2.0	-4.2
EM Currencies	1.0	-53.0	-50.8	1.7	31.6	24.6	-2.4	-1.8	-2.2	41.9	5.6	7.8	9.1	1.2	1.9

All figures % except 3Y Beta.

MODEL PORTFOLIO

Andrea Cicione

- We reduce our Equities overweight to 3% by cutting exposure to Euro Area, Canada
- We reduce DM Government Bonds by 2% but add 1% to IG Credit and 3% to EM Debt
- Our model portfolio's beta declines to 1.05 from 1.13

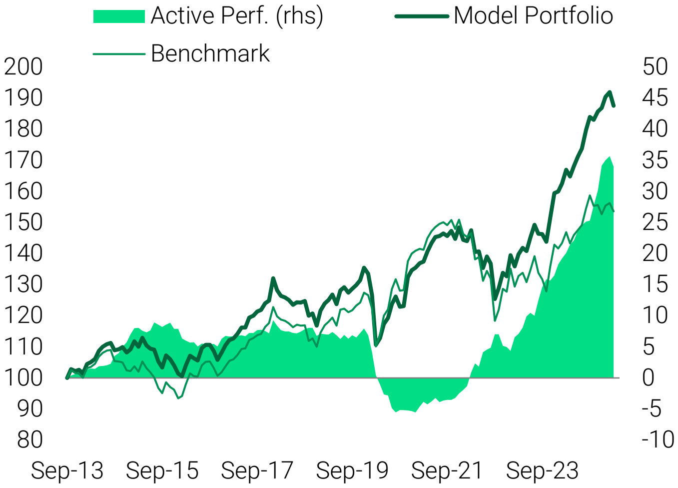
- **We reduce our equity exposure to a 3% overweight.** We reduce Canada, Italy and Spain by 1% each and add 1% to Germany. In the Euro Area, we are now benchmark weight Germany and France and overweight Italy and Spain. We remain slightly overweight US. We make no changes to EM overall and remain 2% overweight, but we rotate 1% from Taiwan to Korea.
- **We reduce DM Government Bonds by 2%.** We increase our DM Government Bonds underweight to 8% as we cut each European Government Bond market by 1%. We partly offset these reductions by adding 1% each to UST and Canada Bonds.
- **We increase IG Credit by 1% and EM Bonds by 1%.** In Credit, we add 1% to US IG and go back to a small overweight. In EM Debt, we add 1% to Mexico and 2% to India.
- **We cut our currency hedges.** Following the upgrade of EUR to +2 and GBP to +1, we remove all our currency hedges.
- **Our portfolio beta goes down to 1.05 from 1.13.** These changes reduce the overall portfolio risk stance, with its beta to the benchmark declining to 1.05 from 1.13.
- **Our portfolio lagged the benchmark by 38bp last month.** Performance was mixed last month, with our allocation beating the benchmark in DM Equities and Alternatives but lagging in EM Equities and Government Bonds. The biggest drag, however, came from our currency hedging, where we lost 42bp of active performance, outweighing the gains from the Assets section of the portfolio.

Model portfolio statistics

	Model Portfolio	Benchmark
Returns (since Sep-13)	87.6%	53.6%
2025 (ytd)	0.4%	0.6%
2024	17.2%	6.8%
2023	20.2%	11.9%
Annualized return	5.6%	3.8%
Volatility	9.0%	9.4%
Sharpe Ratio	0.56	0.34
Sortino Ratio	1.00	0.66
Beta	0.92	
Alpha	2.1%	
Tracking error vol	2.6%	
Information ratio	0.69	

Sources: Bloomberg, GlobalData TS Lombard.

Model portfolio performance



Sources: Bloomberg, GlobalData TS Lombard.

	Portfolio	Benchmark	O/W (U/W)	1m change
DM Equities	**31%**	**30%**	**1%**	**-2%**
US	18%	17.4%	0.6%	-
Canada	1%	1.1%	(0.1%)	-1%
UK	2%	2.4%	(0.4%)	-
Switzerland	2%	1.1%	1.0%	-
Germany	1%	1.1%	(0.1%)	+1%
France	1%	1.1%	(0.1%)	-
Italy	1%	0.3%	0.7%	-1%
Spain	1%	0.4%	0.6%	-1%
Japan	3%	2.5%	0.5%	-
Australia	1%	0.8%	0.2%	-
Others	-	1.8%	(1.8%)	-
EM Equities	**12%**	**10%**	**2%**	**-**
China	4%	2.7%	1.3%	-
South Korea	3%	1.5%	1.5%	+1%
Taiwan	2%	1.3%	0.8%	-1%
India	2%	0.9%	1.1%	-
Brazil	1%	0.8%	0.3%	-
Mexico	-	0.4%	(0.4%)	-
South Africa	-	0.7%	(0.7%)	-
Others	-	1.9%	(1.9%)	-
Government Bonds	**17%**	**25%**	**(8%)**	**-2%**
USTs	8%	10.0%	(2.0%)	+1%
Canada	1%	0.4%	0.6%	+1%
Bunds	1%	1.7%	(0.7%)	-1%
Gilts	3%	2.1%	1.0%	-
JGBs	-	4.4%	(4.4%)	-
OATs	1%	1.9%	(0.9%)	-1%
BTPs	2%	1.9%	0.1%	-1%
BONOs	1%	1.0%	0.0%	-1%
Australia	-	0.4%	(0.4%)	-
Others	-	1.4%	(1.4%)	-
IG Corporate Bonds	**16%**	**15%**	**1%**	**+1%**
US	9%	8.6%	0.5%	+1%
EA	4%	3.0%	1.0%	-
UK	3%	1.1%	2.0%	-
Others	-	2.4%	(2.4%)	-
HY Corporate Bonds	**7%**	**5%**	**2%**	**-**
US	3%	2.8%	0.3%	-
EA	4%	0.9%	3.1%	-
Others	-	1.3%	(1.3%)	-
EM Bonds	**6%**	**5%**	**1%**	**+3%**
China	-	1.0%	(1.0%)	-
Brazil	2%	0.5%	1.5%	-
Mexico	2%	0.5%	1.5%	+1%
India	2%	0.5%	1.5%	+2%
Taiwan	-	0.5%	(0.5%)	-
South Africa	-	0.5%	(0.5%)	-
South Korea	-	0.5%	(0.5%)	-
Others	-	1.1%	(1.1%)	-
Alternative assets	**11%**	**10%**	**1%**	**-**
Real Estate	5%	5.0%	-	-
Energy Commodities	3%	3.5%	(0.5%)	-
Industrial Metals	2%	0.3%	1.7%	-
Precious Metals	1%	0.2%	0.8%	-
Other commodities	-	1.0%	(1.0%)	-
Currency Hedging	**-**	**-**	**-**	**+10%**
JPY	-	-	-	-
GBP	-	-	-	+2%
EUR	-	-	-	+8%
AUD	-	-	-	-
Cash	**-**	**-**	**-**	**-**

EQUITIES

Andrea Cicione

- Rotation into Europe & China equities is warranted by fiscal impulse, cheap valuations
- But in the near term, the threat of US tariffs risks overshadowing these positives
- We upgrade Germany and Korea to +1 and downgrade Canada and Taiwan to 0

US unexceptionalism. Since shortly after the election of President Trump last year, we have been sceptical of how far the narrative of US exceptionalism could be pushed. Markets are catching up with this view and have been recently punishing US equities – much more than they have their European and Chinese counterparts.

Tariff risk in the price? Ex-US equities are outperforming for the simple reason that investors were – and quite possibly still are – significantly underweight. Cheaper valuations (especially at the start of the year, less so now) have shielded European and Chinese stocks from tariff risk to a degree, as this was already in the price.

Complacency creeping in for European stocks. However, the strong performance of European and Chinese stocks year to date and their relative resilience to Trump's tariffs betray a sense of complacency towards the risks still faced by Euro Area equities as US trade announcements have focused so far on China, Canada and Mexico and less so on Europe.

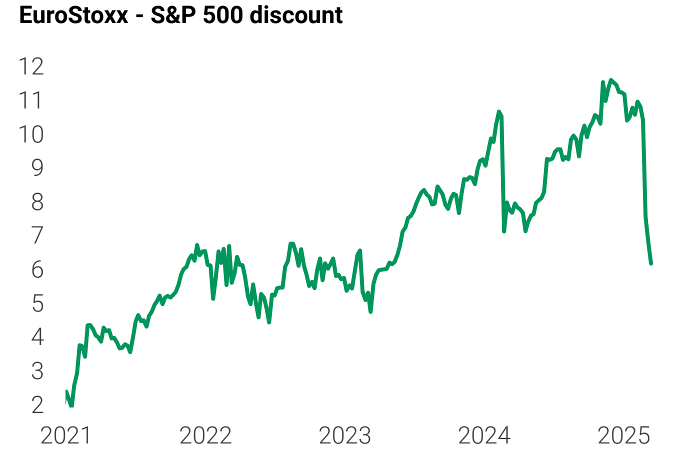
US growth scare… Tariffs are bad not just for countries on which their imposed. Our estimates suggest that US GDP would shrink by ~0.4 percentage points if the average tariff rate rose to 8% (with carve-outs). Following the lofty 2025 GDP and EPS growth expectations at the start for the year, the reassessment of those assumptions is a key reason for the recent market volatility.

…or recession scare? From here, however, further de-rating of US equities would require something more – namely, a recession scare. We think it is too early to worry about that. Although the US administration is showing a strong tolerance for this risk, it may change its mind should the prospect become likely.

Europe's outperformance is only getting started…

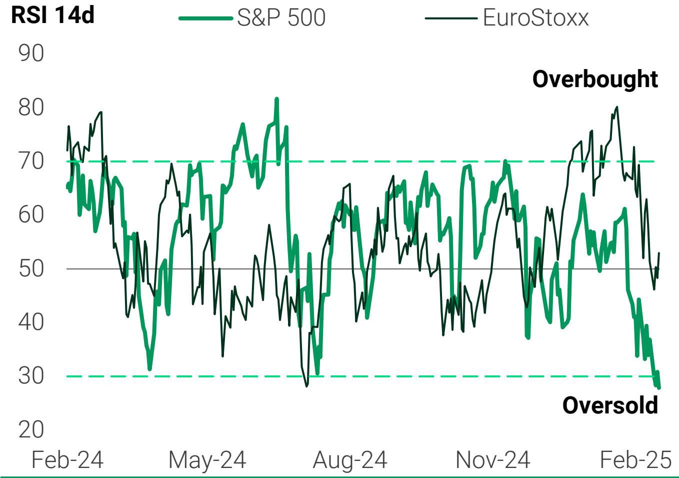
Sources: Bloomberg, GlobalData TS Lombard.

…but the US-EA relative discount is normalizing…



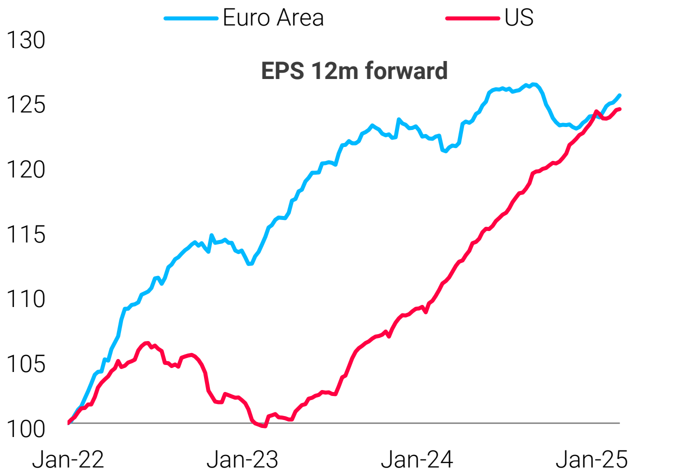
Sources: Bloomberg, GlobalData TS Lombard.

...and the sentiment gap widening



Sources: Bloomberg, GlobalData TS Lombard.

EA EPS will have to do the heavy lifting from here



Sources: Bloomberg, GlobalData TS Lombard.

Tactical risk reduction. Because it is still the early stage of Trade War 2.0 and Trump has been only marginally focused on Europe so far, we think it is prudent to take some risk off the table for the time being. We do this only tactically, however, as we believe that the longer-term prospects for stocks remain positive.

Beyond the short term, pro-growth policies are encouraging. While tariff risk is likely to continue to dominate in the near term, equities should benefit over the longer run from a wide range of global pro-growth policies: in the US, corporate tax cuts, deregulation and reshoring of manufacturing; and in Europe, German fiscal spending and investment in defence; in China, fiscal stimulus on consumption and investment.

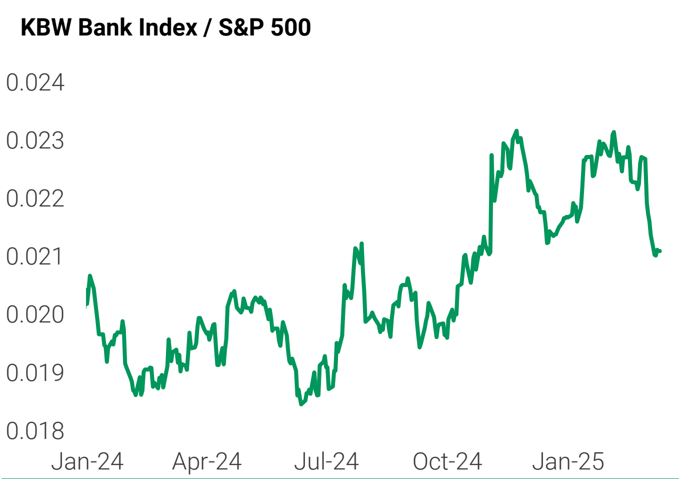
Europe and China remain our picks. We cut the weight of equities in our model portfolio this month, while staying overweight overall. We continue to prefer Euro Area and China equities but reduce our exposure somewhat.

Playing defence. We have been bullish on defence since at least 2023, and we continue to believe that the sector will carry on performing strongly for the foreseeable future. Trump policies have already prompted Europe to commit to large-scale defence spending, and we expect more to come, in terms not just of common procurement but also, potentially, of common financing.

Underperforming CNY => tariff scare

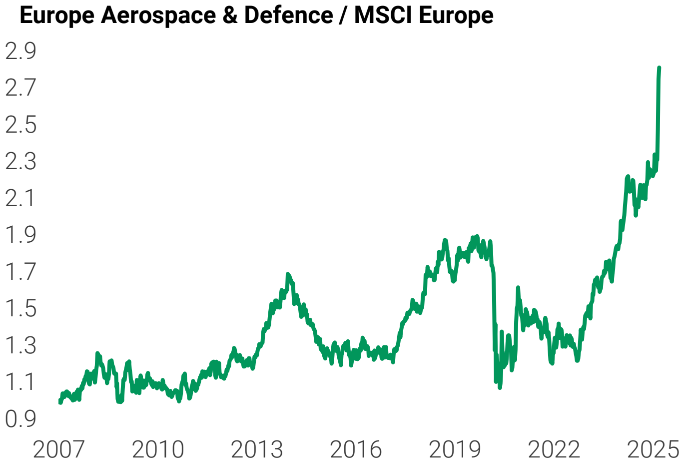
Sources: Bloomberg, GlobalData TS Lombard.

Underperforming US Banks => growth scare



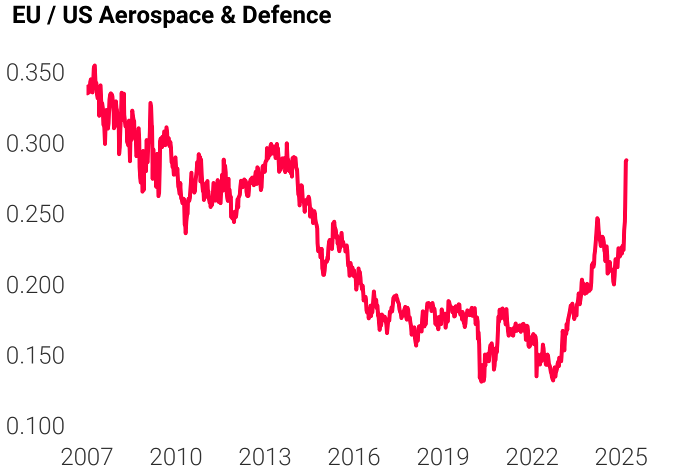
Sources: Bloomberg, GlobalData TS Lombard.

Europe's A&D sector has come a long way



Sources: Bloomberg, GlobalData TS Lombard.

US A&D to benefit from EA defence spending



Sources: Bloomberg, GlobalData TS Lombard

European defence spending to benefit the US. Europe's defence sector is simply too small to absorb spending of several percentage points of GDP per year. Although European capacity will expand to accommodate surging demand, US companies will inevitably benefit from Europe capital flows, too.

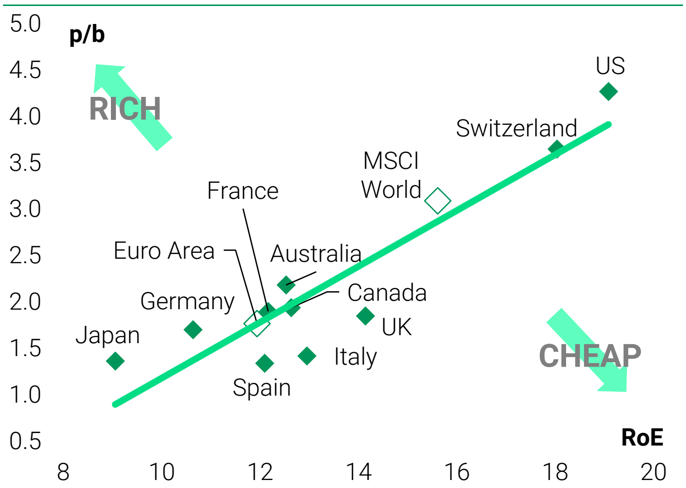
Recommendation and portfolio changes

Germany upgraded to +1 from 0. German commitment to large-scale fiscal spending is a game changer. Looking beyond the near-term risk of tariffs and the complex negotiations to secure the supermajority needed for constitutional changes, the outlook for German equites is brighter.

Canada cut to 0 from +1. Souring trade relations with the US pose a risk for Canada in the near term and beyond, as they threaten to thwart investment. However, reasonable valuations and positive EPS trends suggest that a neutral, rather than negative, outlook is appropriate.

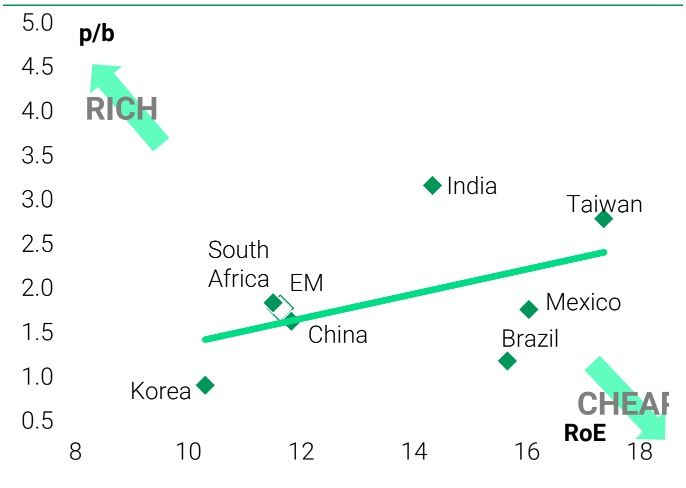
Korea upgraded to +1, Taiwan cut to 0. In Korea, receding political risks will set the stage for new elections and fiscal expansion that is not yet priced into equity markets. Taiwan exports remain strong, but equities are under pressure from rotation out of US Tech, while the tariff threat and geopolitics weigh on sentiment.

DM price-to-book ratio vs RoE



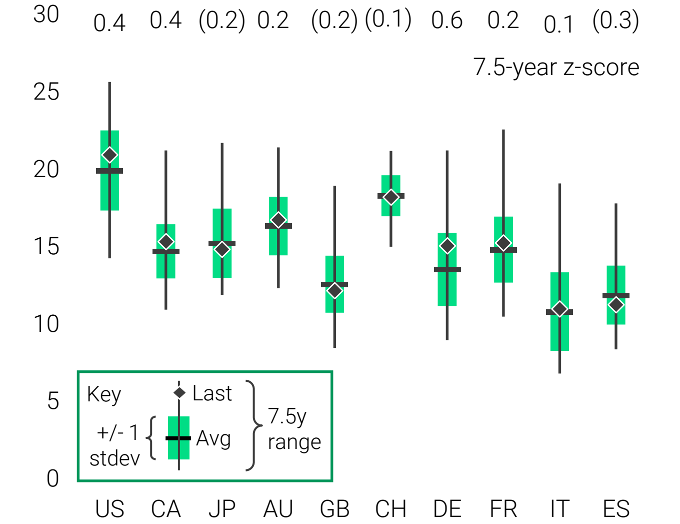
Source: Bloomberg.

EM price-to-book ratio vs RoE



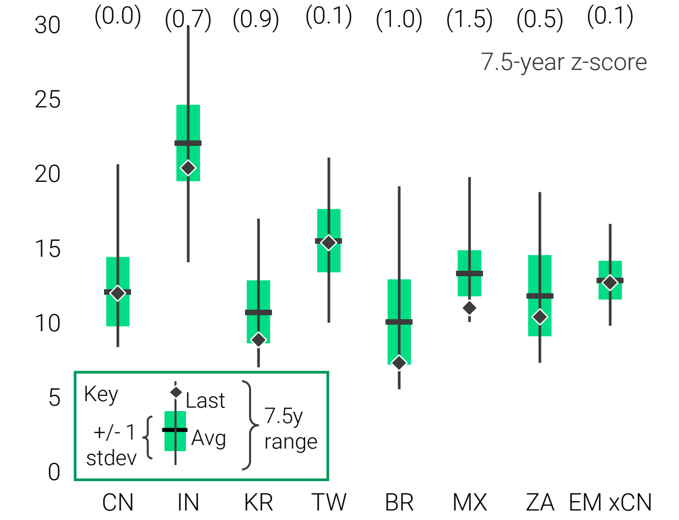
Source: Bloomberg.

DM price-to-earnings ratio vs cycle



Sources: Bloomberg, GlobalData TS Lombard.

EM price-to-earnings ratio vs cycle



Sources: Bloomberg, GlobalData TS Lombard.

Equities dashboard

		MktCap	Total return LC			P/E (x)			P/B (x)			RoE			EPS growth		Dividend yield		
	Memb.	(US$)	1m	ytd	2024	Trail.	Fwd	ZScr	Trail.	Fwd	ZScr	Trail.	Fwd	ZScr	Fwd	3m	Trail.	Fwd	ZScr
World (AC)	2559	75,432	-6.7	-2.0	18.0	20.4	17.8	0.4	3.2	2.9	1.3	14.1	15.2	1.1	9.2	-0.6	1.9	2.0	-1.1
United States	576	48,244	-10.0	-6.1	25.1	24.4	21.0	0.4	4.8	4.3	1.0	18.0	19.1	1.1	9.0	-1.1	1.4	1.4	-1.0
Canada	82	2,044	-5.9	-1.8	22.9	18.0	15.4	0.4	2.1	2.0	1.0	10.6	12.7	0.5	5.0	-1.3	2.9	3.0	-1.0
Japan	183	3,763	-3.0	-3.8	21.1	14.9	14.9	-0.2	1.5	1.4	0.7	9.7	9.2	0.6	0.5	1.4	2.3	2.6	0.8
Australia	48	1,118	-8.6	-4.2	13.1	17.8	16.8	0.2	2.3	2.2	0.7	12.2	12.7	0.0	2.8	1.1	4.1	3.8	-0.9
UK	74	2,570	-1.4	5.7	9.4	12.7	12.2	-0.2	1.9	1.8	0.9	10.9	14.1	0.8	1.8	-1.6	3.7	3.8	-1.5
Switzerland	42	1,724	-0.7	10.4	6.3	19.9	18.2	-0.1	4.0	3.6	1.4	15.9	17.8	1.4	7.2	0.2	2.8	3.0	-0.4
Germany	54	1,754	-0.4	13.0	18.4	16.7	15.1	0.6	1.8	1.7	1.5	9.5	10.8	0.4	9.1	-0.3	2.5	2.8	-1.3
France	58	2,016	-2.5	7.7	1.8	17.2	15.3	0.2	2.0	1.9	1.0	10.3	12.1	0.8	7.6	-1.7	3.0	3.2	-0.7
Italy	26	526	0.1	11.9	20.3	10.7	11.0	0.1	1.5	1.4	1.9	12.4	12.8	0.6	-2.2	-0.1	4.8	5.4	0.4
Spain	17	522	0.6	14.4	19.0	10.4	11.3	-0.3	1.5	1.4	2.0	13.6	12.7	1.5	-5.1	4.6	4.1	4.6	-0.3
Euro Area	216	6,065	-1.8	9.1	10.4	15.3	14.5	0.1	1.9	1.8	1.4	11.1	12.0	0.8	4.2	-0.1	3.1	3.3	-0.4
DM ex-US	777	19,311	-0.2	7.3	5.3	16.2	14.9	0.0	2.0	1.8	1.3	11.0	11.9	0.8	6.8	1.4	3.0	3.2	-0.5
China	568	2,484	7.0	16.8	19.0	13.4	12.1	0.0	1.6	1.5	0.1	11.4	11.9	0.2	-4.3	0.4	2.5	2.3	-0.2
India	156	1,355	-3.3	-8.0	15.7	23.1	20.5	-0.7	3.6	3.5	0.4	15.8	15.9	0.7	12.2	-2.4	1.3	1.5	0.3
Korea	81	733	0.1	7.2	-12.0	11.1	8.9	-0.9	0.9	0.9	-0.5	8.1	10.3	0.4	16.7	-8.6	2.3	2.5	0.3
Taiwan	88	1,410	-7.8	-6.5	44.2	18.3	15.5	-0.1	2.9	2.6	0.9	15.7	16.8	0.7	17.9	0.4	2.4	2.9	-1.2
Brazil	43	334	-2.2	4.1	-11.4	11.3	7.4	-1.0	1.6	1.4	-1.2	12.4	18.3	0.2	61.9	1.5	7	7	0.5
Mexico	23	148	-2.9	5.6	-10.2	14.6	11.1	-1.5	1.8	1.7	-0.7	13.8	15.9	1.2	28.9	-2.8	4.0	4.8	0.9
South Africa	29	244	0.0	7.0	10.7	16.4	10.5	-0.5	1.9	1.8	-0.1	9.1	18.2	1.0	-8.4	-3.1	3.2	3.7	-0.1
EM ex-China	638	5,393	-3.6	-2.0	4.0	15.6	12.8	-0.1	1.9	1.8	0.7	12.3	14.3	0.8	19.4	-3.6	2.9	3.2	-0.4

ZScr is the number of standard deviations from the 7.5-year avg (numbers below -1 and above 1 highlighted). All figures % unless stated otherwise.
P/e, p/b, RoE and DY ZScr are over 7.5y on 12m forward measures. EPS growth is forward / trailing. EPS 3m growth is on forward earnings.

MSCI sector weights

%	US	Canada	Japan	Australia	UK	Switzerland	Germany	France	Italy	Spain	Euro Area	Brazil	China	Taiwan	India	Mexico	South Africa	Korea	DM	EM
Industrials	8.7	11.5	23.2	6.0	14.2	9.6	23.2	27.8	6.9	9.2	19.3	10.0	4.1	2.3	8.6	15.2	1.8	16.4	11.2	6.3
Energy	3.5	17.2	0.9	3.6	11.4			6.7	7.5	2.8	3.4	17.2	2.5		8.9			1.4	3.9	4.3
C. Discr.	10.4	3.4	18.2	7.1	4.9	6.3	10.2	17.0	18.2	16.6	12.7	0.9	32.0	1.3	12.4		20.2	8.8	10.2	14.5
Healthcare	11.2		7.5	9.1	14.7	35.5	5.8	11.9	2.2	0.6	7.3	1.1	3.3	0.3	5.8		1.5	7.7	11.2	3.3
Financials	13.8	36.4	16.8	39.5	23.1	20.0	21.4	11.6	47.1	43.1	23.0	36.5	17.0	12.0	28.8	16.7	38.5	11.9	16.9	23.9
Real Estate	2.3	0.3	2.3	6.1	0.6	0.5	1.5	1.2			0.8		1.8	0.1	1.5	4.5	1.8		2.1	1.7
Utilities	2.4	3.0	1.0	1.5	4.2		3.1	2.9	15.9	20.5	5.4	10.5	2.0		3.9			0.5	2.6	2.5
Tech	30.2	10.8	13.4	2.2	1.1		18.5	3.4			12.0	0.9	8.7	78.3	10.9			41.3	24.0	22.7
Communications	9.5	1.1	7.7	2.3	2.5	0.9	8.2	2.5	1.2	7.1	4.7	1.8	22.1	2.3	4.6	8.8	6.4	6.3	8.1	10.4
Materials	2.2	12.1	3.7	18.7	6.6	8.8	6.1	6.6			4.9	14.2	2.7	2.2	7.9	19.7	22.1	3.8	3.4	5.8
C. Staples	5.8	4.2	5.3	3.8	16.6	17.1	2.1	8.5	0.7		6.4	6.9	3.7	1.2	6.7	35.0	8.2	1.9	6.4	4.7

Largest three sectors for each market highlighted

Sector price-to-earnings ratio (12-month trailing)

	US	Canada	Japan	Australia	UK	Switzerland	Germany	France	Italy	Spain	Euro Area	Brazil	China	Taiwan	India	Mexico	South Africa	Korea
Market	24.7	18.3	14.3	17.1	15.4	23.6	16.9	17.5	11.6	10.2	15.6	11.1	12.5	17.7	21.9	12.3	10.2	9.5
Industrials	24.9	25.8	13.7	31.1	26.5	26.5	23.4	23.8	22.0	11.3	22.3	25.1	8.8	7.4	35.3	14.7	12.2	17.2
Energy	14.6	16.0	7.5	8.0	15.9			8.9	14.5	8.5	9.6	9.4	6.5		13.6		5.1	13.4
C. Discr.	29.2	18.9	12.1	30.6	24.6	29.4	6.9	24.4	16.3	24.0	15.1	3.1	19.8	12.4	31.2		6.8	4.5
Healthcare	31.0		24.8	30.0	28.4	27.0	32.6	30.3		21.4	33.1	16.2	16.7	64.2	33.5		18.3	114.2
Financials	15.7	13.6	10.8	17.2	9.6	18.4	13.6	8.2	9.4	7.0	9.3	10.0	5.4	11.3	16.0	7.8	9.6	5.7
Real Estate		32.8	13.6	25.3	34.8	22.6	75.0	15.2					9.4	5.5	42.4	5.9	8.1	
Utilities	20.1	20.9	6.7	18.5	15.6	11.7	10.7	10.2	11.4	15.1	11.9	7.2	8.3		16.9			4
Tech	38.1	46.5	24.4	113.4	36.3	24.3	69.2	19.4			37.2	28.6	40.2	20.0	27.1			9.1
Comms	21.2	16.7	16.1	41.0	13.3	18.2	10.3	13.2	36.5	227.3	13.9	14.8	22.2	26.1	29.8	28.2	42.3	20.4
Materials	22.2	27.5	13.0	10.3	11.8	24.8	26.0	27.4			28.3	9.9	12.0	33.5	26.9	10.6	10.5	30.5
C. Staples	24.4	20.5	22.3	22.2	17.7	22.0	20.2	24.5			22.0	12.9	19.7	15.6	46.0	16.5	21.8	11.5

Sector 12-month total returns (local currency)

%	US	Canada	Japan	Australia	UK	Switzerland	Germany	France	Italy	Spain	Euro Area	Brazil	China	Taiwan	India	Mexico	South Africa	Korea
Market	8.6	14.5	2.7	4.8	14.2	10.9	25.4	1.7	19.8	30.1	11.5	-16.3	39.0	16.5	1.6	-18.6	25.0	-8.8
Industrials	6.7	-4.6	7.7	17.5	16.9	8.4	41.5	13.4	52.4	22.2	22.2	-8.7	20.0	12.6	0.9	-0.7	-1.6	5.1
Energy	0.3	12.0	10.1	-13.5	1.2			-4.0	0.2	-17.1	-6.4	-8.6	-1.4		-12.7	0.0	7.8	5.8
C. Discr.	7.8	7.9	-1.6	14.4	1.4	10.3	-8.1	-19.5	-22.8	9.1	-10.9	-40.7	42.7	-2.3	3.3		43.7	-11.5
Healthcare	0.0		-5.3	-9.4	8.8	17.9	-5.9	21.8		28.3	16.9	-33.9	2.7	69.3	10.1		-12.5	12.9
Financials	17.6	18.6	27.3	17.1	44.0	18.2	42.4	27.6	60.0	49.4	39.8	-20.9	50.5	17.6	8.2	-25.9	25.9	4.5
Real Estate		-5.9	2.4	1.8	-14.1	24.2	-1.3	15.8					20.8	12.8	-11.4	-28.3	1.5	
Utilities	26.4	25.8	-7.9	14.4	3.2	0.0	6.2	17.6	18.4	38.3	19.9	-8.5	5.4		-7.5			-8.9
Tech	7.2	15.8	-11.6	2.2	7.5	0.0	28.9	-30.4			-7.3	-6.6	92.0	19.2	-4.9		0.0	-18.3
Comms	17.2	-11.8	8.0	8.4	11.6	9.9	59.2	3.6	9.2	9.3	27.0	-14.3	53.0	9.4	25.0	-26.2	35.4	7.1
Materials	-3.9	40.3	-14.6	-7.4	-8.5	4.8	22.1	3.9	0.0	0.0	6.5	-17.3	16.6	-23.0	6.5	-9.2	24.6	-31.9
C. Staples	10.2	3.3	0.4	-4.3	14.1	-2.6	2.2	-13.5			-4.0	-20.9	2.4	7.0	-5.1	-22.2	4.1	3.3

FIXED INCOME

Daniel von Ahlen

- We upgrade EM debt to overweight on a softer dollar and anchored US bond yields
- We downgrade Bunds and OATs to -1 from 0 and downgrade BTPs and Bonos to 0 from +1
- We upgrade India to +1 from 0 as more RBI cuts will likely follow

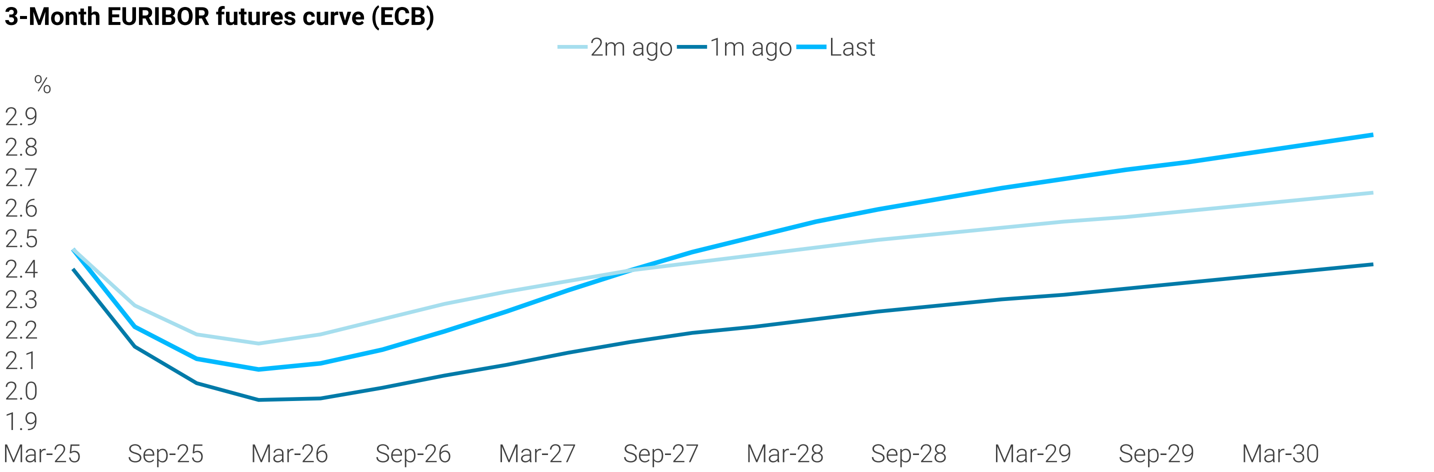
Regime change in European fixed-income markets

Be prepared for higher EGB yields. European bonds have come under pressure following the EU's announced commitment to increase defence spending and Germany's departure from the debt brake. Bund yields have shot up to 2.9% and we think the risk is for higher yields owing to the reflationary sentiment that has taken hold in Europe. We move to a negative stance on Bunds and OATs, while upgrading Bonos and BTPs as good carry + roll still give cover for the periphery.

ECB tolerance isn't great for duration. While a strong, protracted German fiscal stimulus implies a hawkish recalibration of the monetary policy trajectory in the medium term, many factors – including, crucially, US tariffs against the EU – suggest that the ECB will retain its easing bias, with a 2% deposit rate still possible this year. ECB policy will likely be relatively accommodative on average over the next two years, which means the "easy policy" pursued by the ECB could see markets price in additional risk premium and steeper curves.

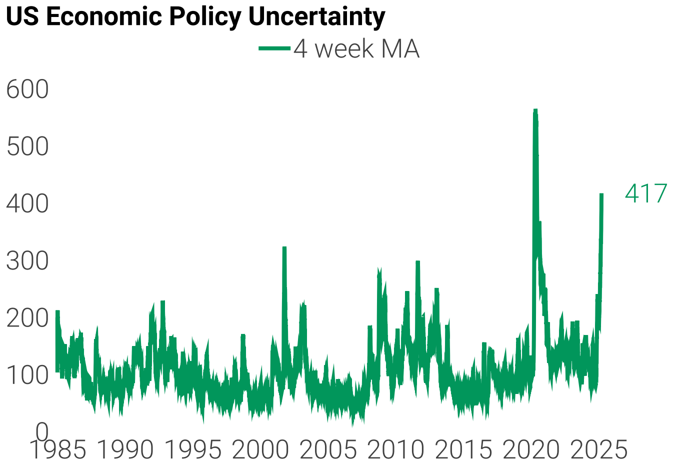
Throwing in the towel on our 5% US bond yield call. We no longer see Treasuries climbing back towards the 5% mark this year. While we forecast higher yields in last month's Asset Allocation, we highlighted the risks to growth from the Trump policy mix that would see bond yields fall; and this is the case now firmly in motion. DOGE job cuts amid a weak JOLTS hiring rate will test the resilience of the labour market, a higher effective tariff rate will weaken consumers' purchasing power, the crackdown on immigration risks removing what has been a key pillar of support of the post-Covid US economy and the chaotic communication around US economy policy will likely

Regime change in European rates



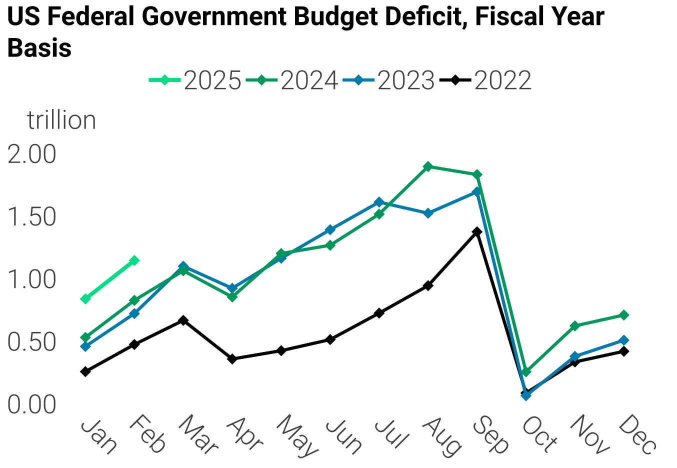
Sources: Macrobond, GlobalData TS Lombard.

Uncertainty around US economic policy has surged



Sources: Macrobond, GlobalData TS Lombard.

US federal deficit is still tracking higher



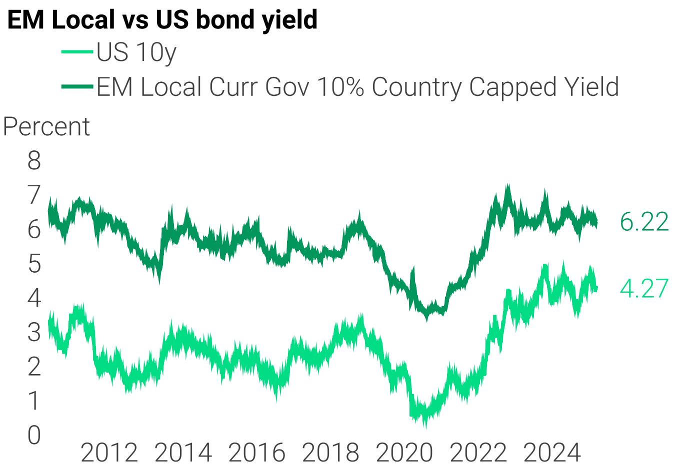
Sources: Macrobond, GlobalData TS Lombard.

disrupt firms' hiring and investment intentions. **This all means that downside risks to consensus growth expectations loom large and the stellar run of the US economy post-Covid appears to be at risk.** On a more positive note, a contraction in the US deficit is nowhere to be seen in the data, while private credit growth is gathering steam, which is a reason to remain cautiously optimistic on US economic activity once the uncertainty around US economic policy starts to subside.

EM local debt to overweight. This month we move EM local rates to an overweight position. The combination of a softer dollar, relatively anchored US bond yields (amid the rise of US recession fears) and the lacklustre growth momentum in emerging markets warrants a positive stance.

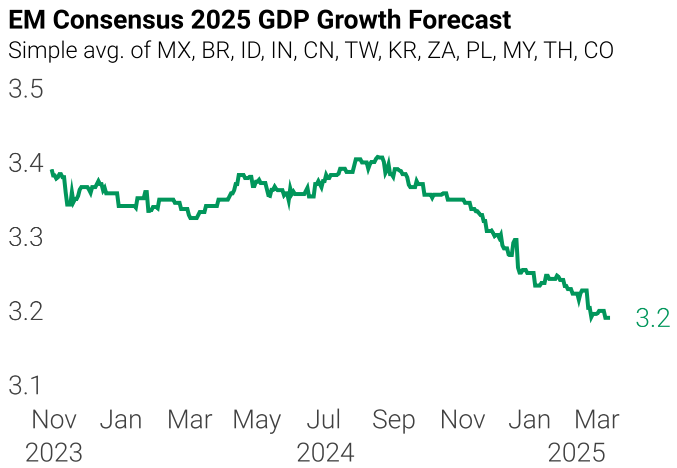
Staying neutral on US HY – for now. We stay neutral on US HY credit this month **but expect spreads to drift higher, targeting 400bps as the next level of resistance.** That said, spreads would have to blow out to remove the carry as the duration of the index is relatively low (=3.5). Past spread blowouts in the low-grade segment were either precipitated by systemic stress events (GFC, Covid, Euro crisis) or triggered by large-cap sector blow-ups, such as Telecoms in the Dotcom bubble or Energy in the 2015–16 default cycle. The index looks more diversified at the current juncture, making a credit event less likely.

EM yield gap to USTs has become more attractive



Sources: Bloomberg, Macrobond, GlobalData TS Lombard.

Downside momentum in EM growth forecasts

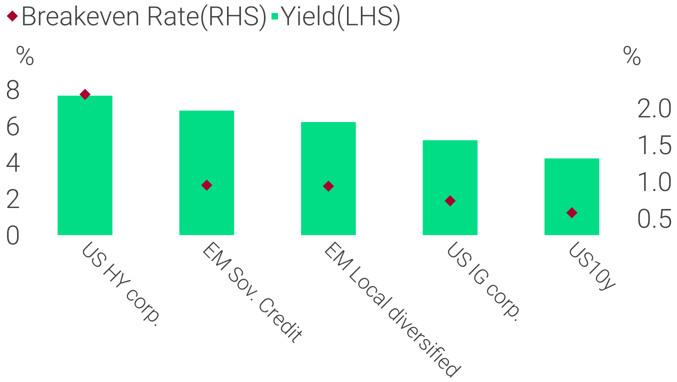


Sources: Bloomberg, GlobalData TS Lombard.

US HY has a cushion against rising spreads

Global Fixed Income Breakeven Rates

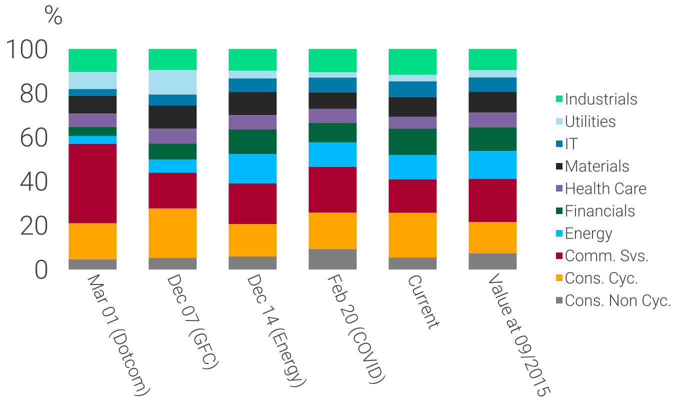
Breakeven rate = Yield / Modified Duration --> By how much yields can increase before investors incur a negative 12m total return



Sources: Bloomberg, Macrobond, GlobalData TS Lombard.

The energy sector could be a source of fragility

Bloomberg US HY Index Sector Composition in previous default cycles



Sources: Bloomberg, GlobalData TS Lombard.

The decline in the oil prices is something to watch, though, as Energy companies are still dominant in the US HY market and a further decline could put pressure on balance sheets, especially as Trump's tariffs on aluminium and steel will drive up costs for oil producers.

Playing it defensive. Our pecking order within Fixed Income changes to EM local debt > USTs > IG credit > HY credit as downside risks to US growth are material. We are no longer outright bearish on duration owing to the change in the US growth risk balance. However, flat curves and a Fed that is still constrained by above-target inflation (which tariffs are likely to exacerbate) means we do not expect a rally in USTs to take shape either.

Recommendation changes

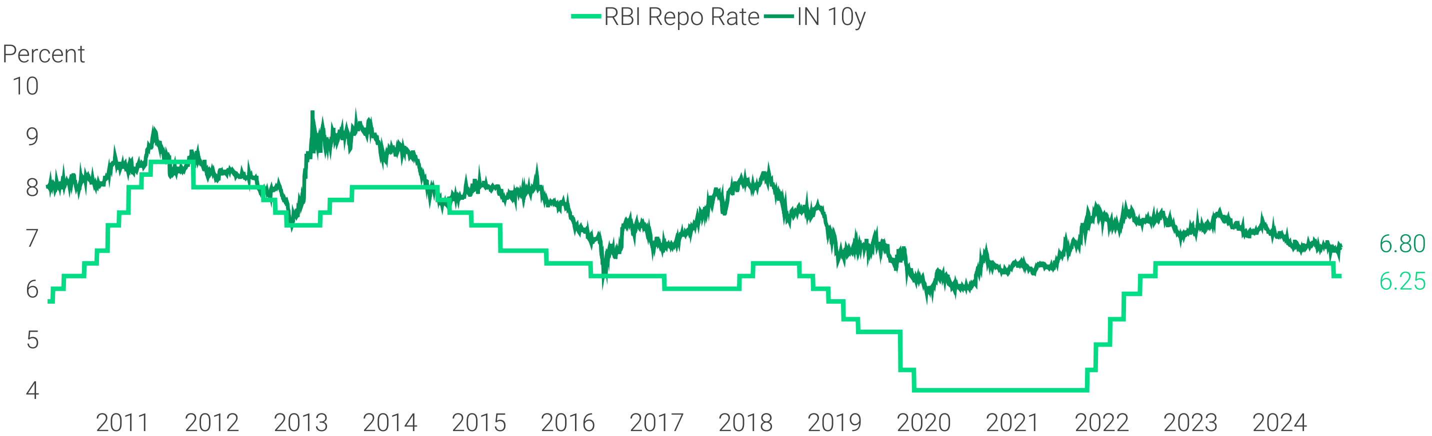
Germany and France to -1 from 0. The renaissance in European defence spending and Germany's departure from the debt brake will structurally lift yields as rates markets price in more reflation.

Spain and Italy to 0 from 1. Peripheral yields will rise as well but good carry + roll should attenuate the drag from prospective higher core yields.

India to +1 from 0. We expect the RBI to continue targeting growth and more rate cuts are likely to follow.

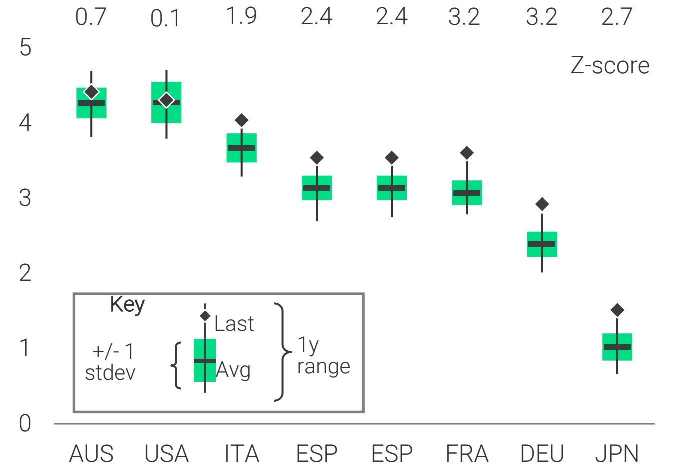
First RBI rate cut in five years will likely be followed by more as the RBI targets growth

India Repo Rate and Bond yield

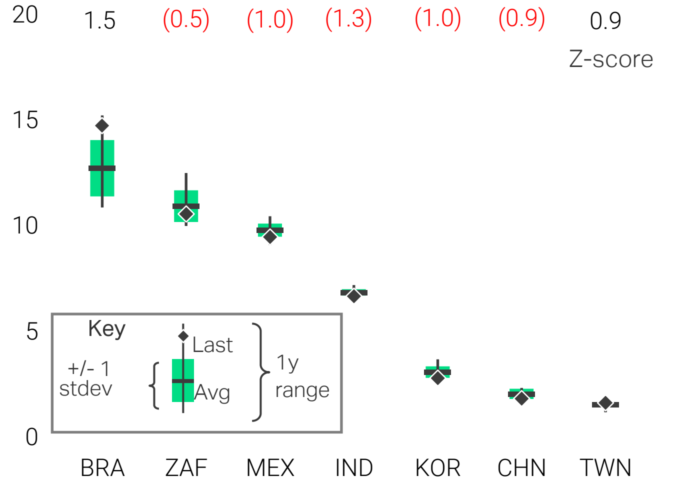


Sources: Macrobond, GlobalData TS Lombard.

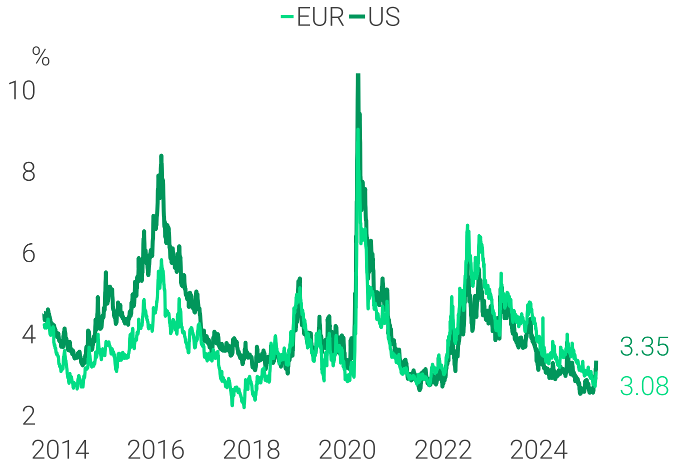
DM bond yields (%)



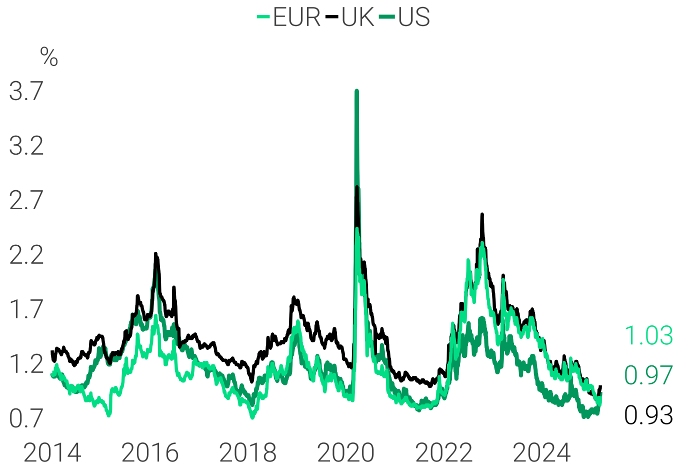
EM bond yields (%)



HY corporate spreads



IG corporate spreads



Fixed income dashboard

	Policy	Inflation		2y yield		10y yield		7-10y total return			5y CDS (bp)		Money grth		Budg	Debt	GDP
	rate	Rate	Target	Last	Zscore	Last	Zscore	1m	ytd	2024	Last	StDev	Narrow	Broad	%GDP	%GDP	y-y
US	4.50	2.6	2.0	3.99	0.9	4.30	1.3	1.5	3.6	-1.1	42	-0.4	22.9	3.9	-7.2	115	2.5
Canada	2.75	1.9	1.0-3.0	2.57	0.3	3.05	0.9	0.7	2.8	2.2	40	-1.0	8.5	6.2	-0.7	62	2.6
Japan	0.50	4.0	2.0	0.84	3.7	1.52	3.3	-0.7	-3.0	-2.1	16	-0.6	-1.8	1.2	-1.8	216	1.1
Australia	4.10	2.4	2.0-3.0	3.75	1.2	4.42	1.4	1.0	0.9	1.5	15	-1.3	-21.6	5.2	-2.5	58	1.3
UK	4.50	3.0	2.0	4.19	1.3	4.69	1.7	-0.1	1.0	-3.4	20	N.A.	N.A.	4.1	-2.3	138	1.4
Germany	2.50	2.4	<2.0	2.20	1.1	2.89	1.7	-2.7	-2.7	-0.2	14	0.2	2.7	3.6	-2.6	64	-0.2
France	2.50	2.4	<2.0	2.35	1.1	3.58	1.8	-2.0	-1.3	-1.5	34	1.3	2.7	3.6	-5.5	98	0.6
Italy	2.50	2.4	<2.0	2.47	0.8	4.02	1.2	-2.3	-1.9	5.5	51	-1.3	2.7	3.6	-7.2	132	0.6
Spain	2.50	2.4	<2.0	2.38	1.0	3.52	1.4	-2.1	-1.8	3.0	31	-1.1	2.7	3.6	-3.5	109	3.5
China	3.10	-0.7	3.0	1.54	-1.7	1.84	-2.2	-1.8	3.0	0.0	N.A.	N.A.	9.7	7.0	-4.5	111	5.4
Brazil	13.25	5.1	2.5-6.5	14.48	1.7	14.78	2.1	-1.4	12.4	-22.8	177	-0.3	6.3	12.0	-8.1	84	3.6
Mexico	9.50	3.8	2.0-4.0	8.75	0.4	9.50	1.1	-63.6	-62.8	-1.1	128	0.3	10.8	10.6	-2.0	45	0.5
India	6.25	3.6	4.0	6.55	0.4	6.69	-0.3	0.3	0.1	6.8	N.A.	N.A.	6.4	9.6	-4.9	47	6.2
Taiwan	2.00	1.6	5.0	0.00	N.A.	1.62	1.7	-77.8	-77.3	-1.1	N.A.	N.A.	6.8	5.5	-0.1	36	2.9
S Africa	7.50	3.2	3.0-6.0	8.30	1.7	10.60	0.6	0.6	0.8	17.2	204	-0.4	26.4	7.1	0.2	76	0.9
Korea	2.75	2.0	2.0	2.65	0.4	2.82	0.3	-0.4	3.8	-7.0	32	-0.3	6.0	5.8	1.7	51	1.2

Zscore is number of standard deviations from the 7.5-year average (numbers <-1, >1 highlighted). All figures % unless stated otherwise.

CURRENCIES

Daniel von Ahlen

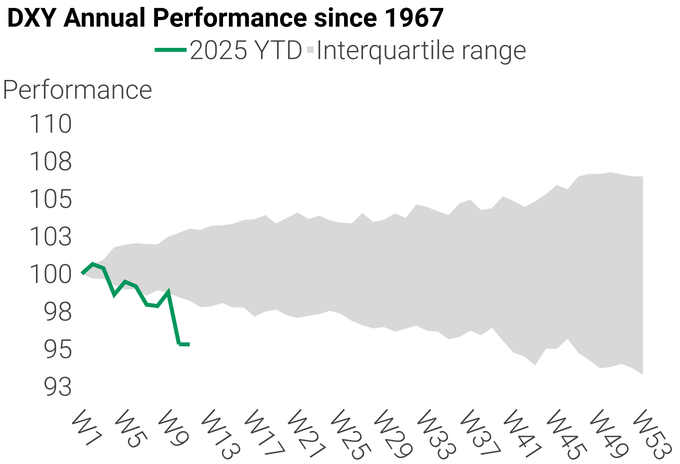
- USD bear trend may just be getting started
- We upgrade the Euro to +2 from -1 and Sterling to +1 from 0
- We also upgrade CNY and KRW to 0 from -1 and downgrade TWD to 0 from +1

Dollar bear trend beckons

Over the past couple of weeks we have been flagging that the dollar looks at risk amid the breaking of the "US exceptionalism trade" and the "monetary policy divergence with the Fed" themes. Germany's stimulus announcement and China's doubling down on its 5% growth target have reinforced the USD bear case and the middle of the USD smile is no longer elusive. Despite the sell-off, the dollar remains richly valued and the current combination of RoW stimulus and fading US exceptionalism are powerful catalysts for undervalued currencies to catch up. While sentiment (risk reversals) has already turned bearish on the greenback, positioning indicators still show ample long positioning, suggesting the rotation may just be getting started. Let's face it, there's little to get excited about in US markets right now. Trump's pro-market tax cuts and deregulation push are completely overshadowed by the chaotic trade policy, DOGE austerity and the crackdown on immigration. Put on your hedges.

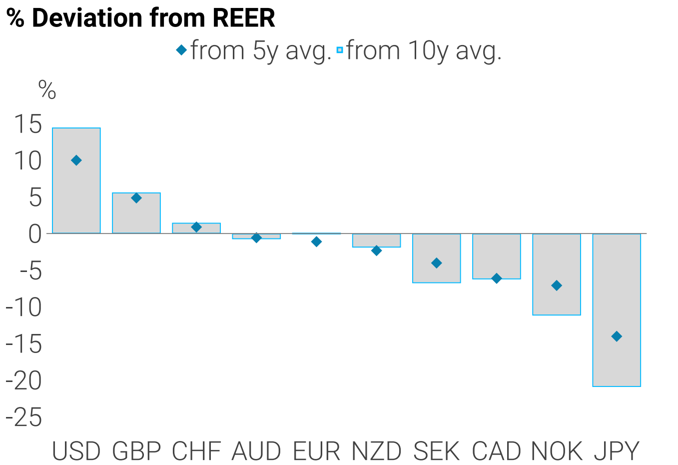
Past EU policy announcements have been major EUR/USD drivers. Bloomberg Intelligence's BEER model puts EURUSD fair value at 1.18; and given the extent of the sentiment shift that has taken place, EUR/USD could well come close to that estimate as the year progresses. Indeed, major European policy announcements have typically sent EUR/USD higher – both Draghi's "Whatever it takes" moment in 2012 and the announcement of the European Recovery Plan in 2020 saw EUR/USD increase by around 10% within six months. We believe Germany's departure from the debt brake is a similar landmark moment for the European economy and could push EUR/USD to 1.15 by yearend, especially as positive dollar catalysts have become scarce as the

Historically bad start to the year



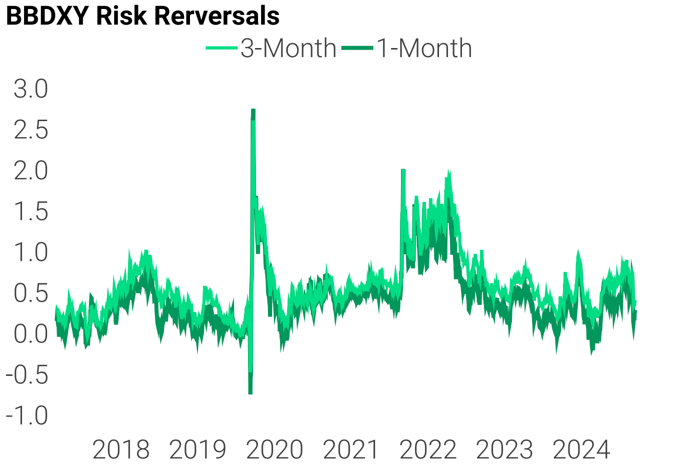
Sources: Macrobond, GlobalData TS Lombard.

Greenback remains richly valued



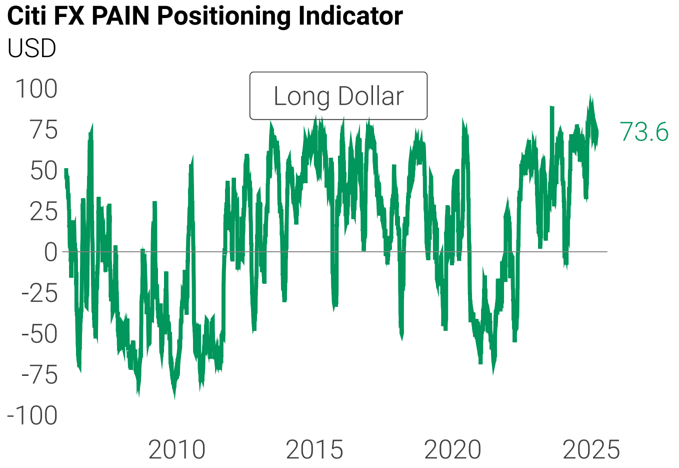
Sources: Macrobond, GlobalData TS Lombard.

Bullish USD sentiment has rolled over



Sources: Bloomberg, GlobalData TS Lombard.

Positioning still very long dollar

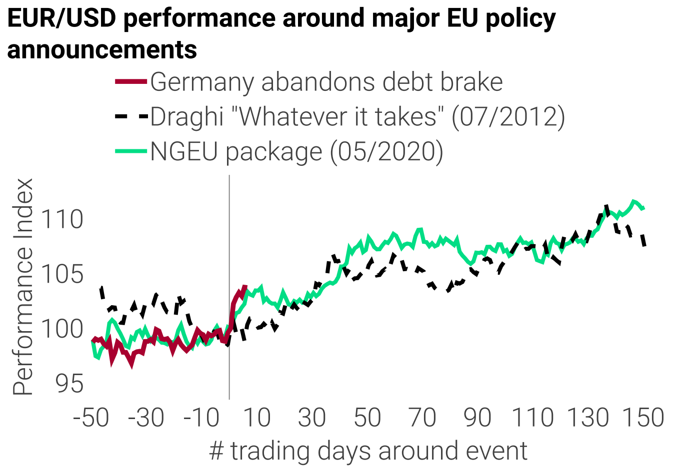


Sources: Bloomberg, GlobalData TS Lombard.

US exceptionalism trade unwinds and macro surprises favour the Euro. Tariffs remain a risk factor, but we do not think it would derail the bull case for the euro.

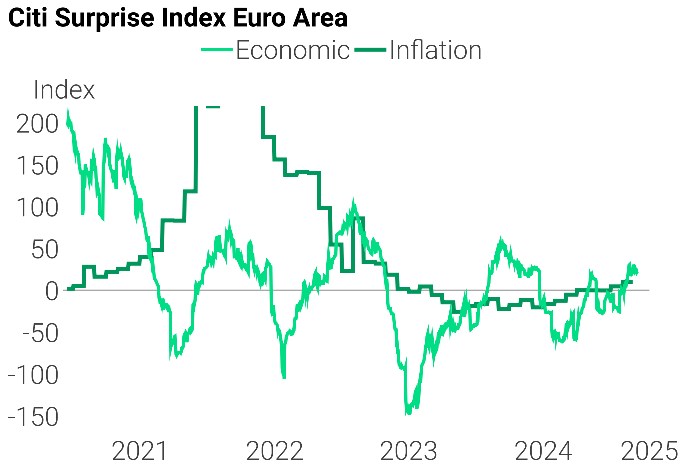
Bullish sentiment towards Europe is a tailwind for Sterling, too. Our bullish view on the Euro means we shift towards a positive view on Sterling as well, which will benefit from improved sentiment towards European markets. We entered a long GBP/USD in our 19 February 2025 Macro Strategy; and while Sterling has rerated from its January lows, there could still be room to run. Positioning remains bearish at a time when UK real incomes are growing at a healthy clip (even after factoring in a pickup in CPI inflation in the coming months), the labour market data are no longer deteriorating outright, and the BoE will likely tread more carefully in H1. Moreover, the UK would be more insulated in the event of further trade escalation thanks to its goods trade surplus with the US.

Be prepared for more EUR/USD upside



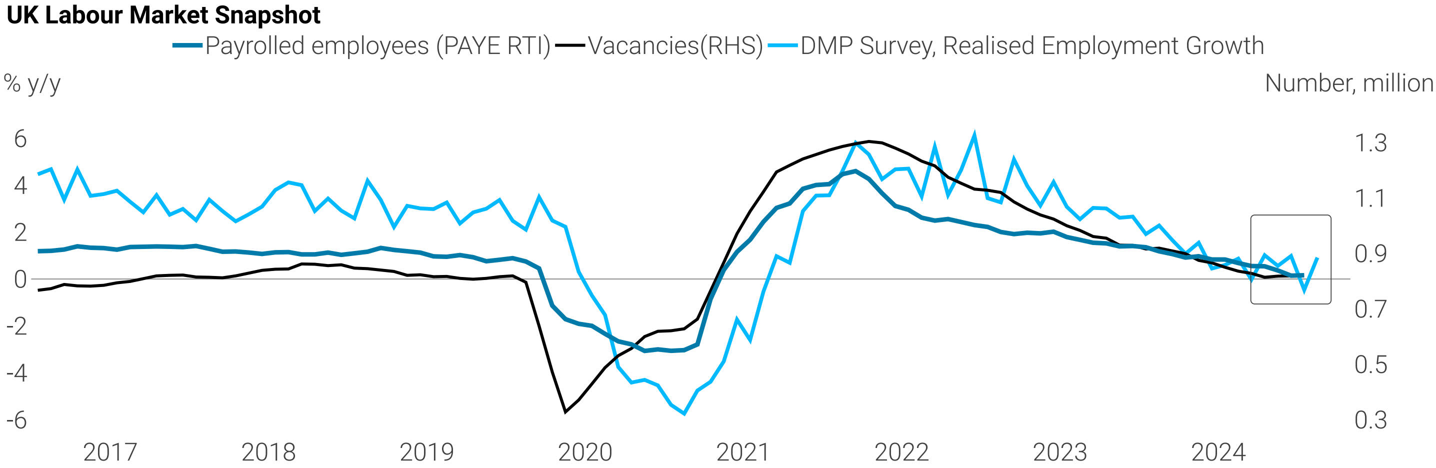
Sources: Macrobond, GlobalData TS Lombard.

Hawkish macro surprises in the Euro Area



Sources: Macrobond, GlobalData TS Lombard.

UK labour market data are no longer deteriorating



Sources: Macrobond, GlobalData TS Lombard.

Recommendation changes

EUR to +2 from -1. The European defence spending push and Germany's departure from the debt brake make us outright bullish on the euro.

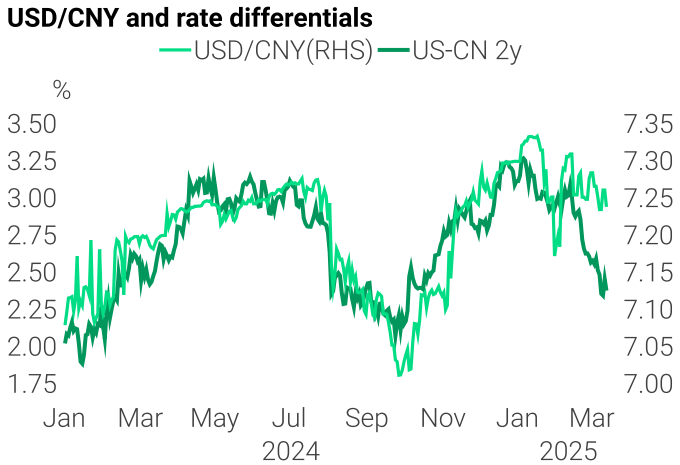
GBP to +1 from 0. Labour market data are no longer deteriorating outright, while Sterling will benefit from the sentiment shift towards European markets.

CNY to 0 from -1. We upgrade CNY to neutral as the PBoC is showing a clear commitment to defend RMB with tighter rates. A softer dollar and US activity will help FX management.

KRW to 0 from -1. We upgrade KRW to neutral on the expected resolution to domestic political turmoil.

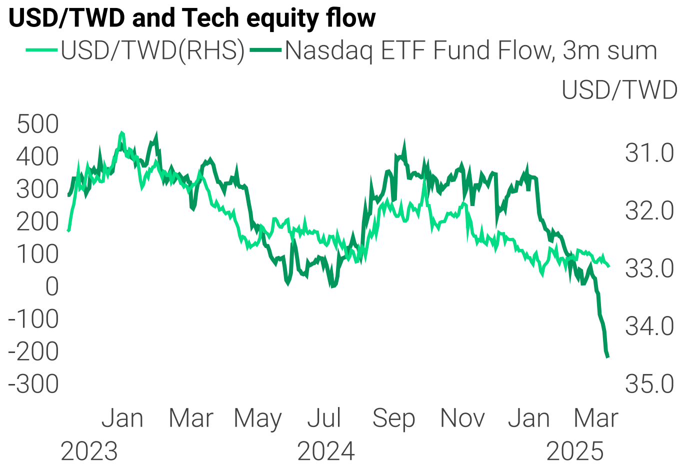
TWD to 0 from +1. We downgrade TWD to neutral as tech equity outflows are likely to offset continued strength in Taiwan's current account surplus.

CNY looks cheap on rate differentials



Sources: Macrobond, GlobalData TS Lombard

Tech slump to weigh on Taiwan dollar



Sources: Macrobond, Bloomberg, GlobalData TS Lombard

Currencies Scoreboard

(Scoreboard primer)

FX RANK		Momentum dir	Momentum accel.	Carry 3m chg	Surprise Index level	Surprise Index 1m chg	Valuation REER level	Valuation 1y chg	Positioning level	Positioning 1m chg	NTM GDP f/c 3m chg	CA 1y chg
1	SEK											
2	CHF											
3	EUR											
4	NOK											
5	USD											
6	NZD											
7	CAD											
8	AUD											
9	JPY											
10	GBP											

As of: 14-Mar-25

Currencies dashboard

	FX spot	12m fwd	Spot chg ytd	Spot chg y-y	REER chg ytd	REER chg y-y	REER chg ZScr	Policy Rate	Inflation Rate	Inflation Target	CA %GDP Last	CA %GDP ZScr	ToT Last	ToT ZScr	Money grth Narrow	Money grth Broad	Budg. %GDP	Debt %GDP	GDP y-y
USD	103.74	–	-4.37	0.37	1.5	7.2	2.1	4.50	2.8	2.0	-3.6	-1.0	-13.2	-0.2	22.9	3.9	-7.2	115	2.5
EUR	1.087	1.108	5.02	-0.08	-1.1	-2.0	-0.5	2.50	2.4	<2.0	2.8	0.7	-7.4	0.2	2.7	3.6	-3.6	88	1.2
JPY	148.6	143.2	-5.48	0.17	-1.0	-2.1	-1.4	0.50	4.0	2.0	4.8	1.6	-23.9	0.2	-1.8	1.2	-1.8	216	1.1
GBP	1.293	1.291	3.3	1.4	-1.8	1.5	1.6	4.50	3.0	2.0	-2.3	0.3	4.6	-0.9	–	4.1	-2.3	138	1.4
CAD	1.439	1.416	0.04	6.33	-1.0	-5.2	-2.4	2.75	1.9	1.0-3.0	-0.5	0.8	10.4	0.1	8.5	6.2	-0.7	62	2.6
AUD	0.632	0.633	2.08	-4.01	-0.8	-3.0	-0.1	4.10	2.4	2.0-3.0	-1.9	-0.9	37.8	0.2	-21.6	5.2	-2.5	58	1.3
CHF	0.886	0.851	-2.40	0.22	-1.2	-3.8	0.8	0.50	0.3	<2.0	5.7	0.2	-10.1	-0.8	-6.0	1.6	0.4	18	1.5
SEK	10.133	9.947	-8.5	-2.00	-0.1	-4.1	-1.2	2.25	1.3	2.0	7.4	1.2	-7.8	-0.4	-1.5	1.6	-0.6	37	2.4
NOK	10.661	10.683	-6.37	1.00	-0.1	-4.1	-1.5	4.50	3.6	2.5	17.1	0.5	82.8	0.3	-1.5	5.1	12.6	37	2.0
SGD	1.335	1.313	-2.25	-0.07	-0.9	0.5	1.5	N.A.	1.2	–	17.5	0.6	-7.2	-0.1	9.3	5.9	8.6	150	5.0
CNY	7.238	7.058	-0.85	0.60	0.4	0.3	-1.4	4.35	-0.7	3.5	2.3	1.1	-22.2	0.0	9.7	7.0	-4.5	47	5.4
BRL	5.731	6.249	-7.17	14.85	1.8	-16.4	-0.9	13.25	5.1	2.5-6.5	-2.9	-0.9	8.6	0.4	6.3	12.0	-8.1	84	3.6
INR	87.01	88.92	1.63	5.01	-2.0	1.4	0.8	6.25	2.3	2.0-6.0	-0.7	0.3	-38.4	0.1	6.4	9.6	-4.9	47	4.7
ZAR	18.19	18.79	-3.46	-2.90	-1.9	4.8	-0.6	7.50	3.2	3.0-6.0	-0.6	0.0	24.6	1.1	26.4	7.1	0.2	76	0.9
MXN	19.90	20.83	-4.4	19.2	-1.3	-14.4	0.5	9.50	3.8	3.5	-0.1	0.4	11.4	0.2	10.8	10.6	-2.0	45	0.5
KRW	1454	1427	-1.69	10.30	0.3	-5.5	-1.7	2.75	2.0	2.0	5.4	1.3	-27.1	0.1	6.0	5.8	1.7	51	1.2
TWD	32.98	32.04	0.58	4.68	0.1	-1.2	-0.2	2.00	1.6	–	14.4	0.6	-14.3	0.0	6.8	5.5	-0.1	36	2.9
HKD	7.773	7.738	0.05	-0.64	0.6	2.5	1.5	4.75	2.0	–	12.0	1.3	4.3	2.3	1.8	4.5	N.A.	N.A.	N.A.
PHP	57.25	57.76	-1.26	3.33	1.1	-0.1	1.2	5.75	2.1	3.0-5.0	-3.9	-1.0	-11.4	0.6	17.7	23.7	-2.0	40	5.2
PLN	3.837	3.890	-7.10	-2.71	1.2	4.9	2.2	5.75	4.9	1.5-3.5	-2.0	-0.7	-5.9	0.1	10.6	9.4	-5.3	51	3.2
CZK	23.01	22.82	-5.50	-0.65	0.9	-2.6	1.1	3.75	2.7	1.0-3.0	1.1	0.7	-8.4	0.1	12.3	9.4	-3.8	35	1.8
HUF	367.2	375.3	-7.61	0.99	1.3	-5.6	0.3	6.50	5.6	3.0	2.4	1.1	-5.3	0.0	0.1	9.0	-6.7	76	0.4
TRY	36.676	48.459	3.7	14.1	4.2	22.5	0.6	42.50	39.1	5.0	-0.8	0.7	-25.4	-0.8	N.A.	N.A.	1.5	35	3.1
IDR	16350	16651	1.35	4.94	-1.5	-2.1	-0.6	5.75	-0.1	3.5-5.5	-0.6	0.2	-0.4	0.2	8.8	5.9	-1.8	45	5.0
THB	33.62	33.00	-2.12	-6.03	0.5	5.4	0.5	2.00	1.1	0.5-3.0	2.0	-0.2	-17.9	0.5	6.6	3.6	0.3	61	3.2
MYR	4.443	4.392	-0.64	-5.18	0.6	8.0	0.3	3.00	1.7	–	1.7	-1.3	-7.5	-0.5	3.8	3.3	-4.4	60	5.0
CLP	933.6	940.1	-6.31	-0.75	-0.5	-3.4	-0.9	5.00	4.7	2.0-4.0	-2.8	0.9	43.2	1.2	4.9	5.9	-0.3	24	2.3
COP	4113	4325	-6.65	5.68	3.1	-2.2	0.5	9.50	5.3	2.0-4.0	-1.8	1.5	64.4	0.8	N.A.	N.A.	-5.4	70	2.0

ZScr is the number of standard deviations from the 7.5-year avg (numbers below/above -1/1 highlighted). All figures % unless stated otherwise.

MACRO OUTLOOK

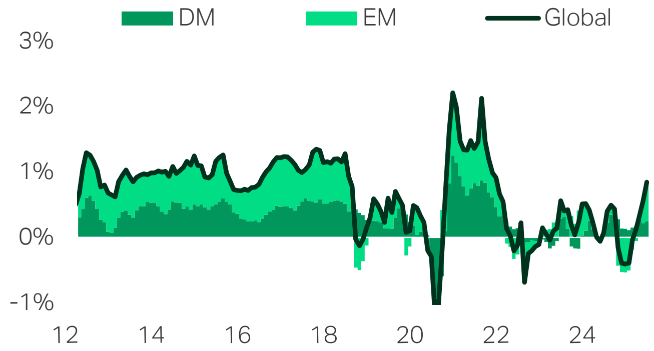
Global Team

- Concerns about the impact of "trade war" dynamics on global activity are clouding the cycle amid signs of slowing US growth while Europe has its fiscal "whatever it takes" moment and Beijing takes steps to sustain economic momentum.
- Elevated uncertainty around the specifics/implementation of US tariffs is injecting volatility in financial markets, begging the question of whether the rotation away from US equities – which has gone hand in hand with a weaker dollar – is about to give way to a broader wave of risk-off price action.
- Against this backdrop, commodities have been stealing the show, outperforming both stocks and bonds through various risk/rate/dollar configurations over the past quarter.

Read more in the latest Global Macro Monthly

Global macro at-a-glance

TSL Global leading indicator



TSL Global growth forecasts

	2024	2025
US	2.7	3.0
China*	5.0	**4.75↑**
EA	**0.8↑**	**1.0–1.2**

Bold indicates changes from last month

Finding alpha amid chaos

- Our call for US growth in 2025 with the Fed abstaining from rate cuts remains in place. January and February were not months from which to project a whole year.
- Beijing locks in a growth pivot – now comes the hard part.
- Strong fiscal action eliminates the left tail risk of deep ECB cuts below 2%.
- Weak UK supply-side dynamics keep the MPC tied to the mast of gradualism in the face of sluggish demand and deteriorating employment.
- The BoJ is keeping at it with monetary normalization as real wage dynamics improve.

Major risks

- Aggressive Trump tariff policies derail the cycle.
- Fed easing amid loose financial conditions and large fiscal deficits fuels another flare-up in inflation, bringing back the spectre of rate hikes.
- Simultaneous strength in bond yields, USD and oil derails the "soft landing" macro narrative.
- Resurgent "hard landing" fears set off a negative feedback loop between falling asset markets and souring job market dynamics.

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