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Risk assets crash on the back of US "reciprocal tariffs"

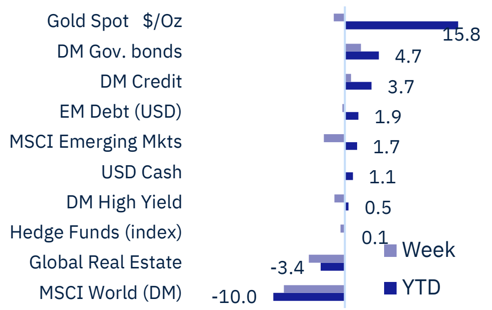
- **The trade tariffs announced by the White House last week are much more severe than anticipated...**
- **... Triggering a sharp selloff in risk assets, which continues unabated as we write this Monday**
- **The worst is never certain, but international responses will be crucial for the short-term**

The US tariffs announcement on 'liberation day' was the single most negative market event since Covid. Cyclical assets plunged last week, from DM stocks to real estate and oil – also affected by the OPEC+ announcement. Safe bonds gained on a -20bps fall in Treasury yields across the curve, but riskier segments saw a spreads widening. Even gold saw a rare profit taking, and the dollar weakened further.

Tariffs include a baseline of 10% on all imports, effective since Saturday. In two days, the rate will increase for many countries to individual levels which appear to be based on trade deficits: 54% for China (34% increase over the current 20%), 20% for the EU, 24% for Japan, to name a few (also Falkland Islands, really?). If these levels are implemented and stay in place, they pose global, critical threats to both growth and inflation, especially if other countries retaliate. China did, increasing tariffs on US imports by 34%, while Japan and India said they won't. The EU is to decide, the risk being a full-blown trade war. Markets as we write this morning continue to lean towards this worst-case scenario with stocks in Asia crashing (-13% in Hong-Kong), Western future falling further and the VIX volatility index on US stocks opening at panic levels, close to those seen during the great financial crisis and the pandemic. A key difference is that back then, the Fed had all reasons to come to the rescue. Not now, as the US economy is currently doing fine. But as we write in our "Winds of Change" outlook, 2025 is not about the present but about the future. Is the US frontloading the (market) pain for future gains in 2026?

Our diversified portfolios are reasonably resilient, thanks to our full allocation to gold and our overweight on government bonds of long duration. The short-term is unpredictable but the medium term is much more balanced, as this could be the beginning of negotiations rather than a brutal reset of global trade. We will hold an investment committee later this week.

ASSET CLASSES USD % TOT.RETURN, LAST WEEK AND YTD 2025



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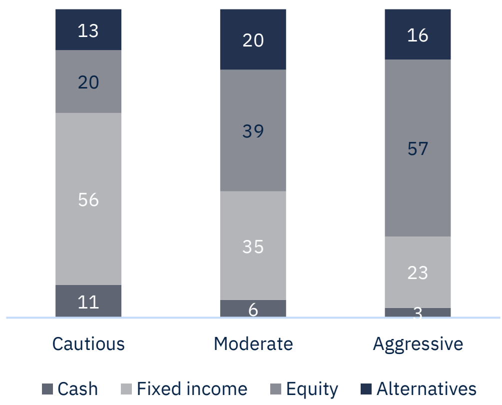
Cross-asset Update

President Trump’s decision to go heavy on tariffs on Liberation Day that roiled markets is rooted in the attempt to create the preconditions to re-industrialise the country. The United States cannot maintain its role as global superpower by incurring an unsustainable debt burden while falling behind in military component, rare earth, semiconductor, and ship production, just to name a few areas where rivals are gaining more than an advantage. The inability to manufacture from scratch means someone else is doing it, creating dependency on the rest of the world. The deindustrialisation process has simply gone too far, implying that the United States has to tackle urgent national security and economic interests, the latter jeopardised by the delocalisation of production. And with excessive imports of goods, there come the high debt levels, enabled by the dollar, a valuable resource accepted globally that has now become a curse. The dollar has allowed the country to run consistent budget deficits without the US incurring the counterbalancing effect of a weaker currency. Overall, the current Washington administration is trying to reduce the dependency of the country on the outer world, both in terms of goods imported, and excessive debt levels sustain such imports. This has become an existential goal, as the failure to re-industrialise would raise the risk of losing the status of leading superpower.

It is now important to jump to the conclusions that come from the above, in terms of the many seismic market impacts we expect. Producing globally at lowest costs and selling in higher-income countries allowed US multinationals to increase their margins, as well as earnings relative to GDP. This process will now be reversed, and US equity multiples will have to contract. Donald Trump wants money in the industrial complex, not in Wall Street or in the services economy, and that means that the age of the Magnificent 7 is over and a new age of value investing in the old economy has been ushered in. Reindustrialising is only possible via a weaker dollar, that will be made less and less available to the rest of the world if the goal of exporting more and importing less is to be achieved. Other nations are already hoarding gold, the new so-called neutral reserve currency, that will be used alongside the dollar in its diminished role. Large swaths of foreign capital will be leaving Wall Street to be repatriated and invested domestically, to support the nascent fiscal impulse meant to spur internal demand in other countries. Indeed, the first reaction in Europe to the global US retreat had been to boost fiscal outlays for infrastructure and defence purposes.

We should have seen the peak of US exceptionalism, as well as the end of globalisation with the new tariff system. Portfolios will have to undergo important strategic changes in terms of allocations and investment styles.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

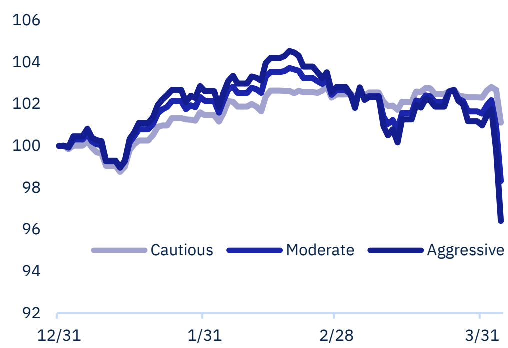


TAA – RELATIVE POSITIONING – MODERATE PROFILE

UW/N/OW: Underweight/Neutral/Overweight

	UW	N	OW
Cash			>
DM Gov.			>>
DM Credit		=	
DM H. Yield		=	
EM Debt		=	
DM Equity	<		
EM Equity		=	
Gold			>
Hedge Funds	<<		
Real Estate		=	

TAA – 2025 INDICATIVE PERFORMANCE



Source: Bloomberg. CIO Office calculation based on TAA applied to market indices, net total return in USD.

Fixed Income Update

Last week showed “Tariff” is the most destructive word in the dictionary. Risk assets have sold off while developed market government bonds have emerged as the clear winner. Our long duration call on treasuries has worked out well with the 10-year treasury prices up 3.7% in the last 10 days providing resiliency to Fixed Income portfolios. The US Treasury curve has bull-steepened with the front-end 2-year spreads down 41bps while the 10 and 30-year treasuries have dropped 30 and 21bps respectively. Markets currently price in a full 4 rate cuts and more than 60% chance of a fifth rate cut.

However, at the moment considering the latest hard data it seems the market is hoping for a quick deterioration in the growth numbers which would impact the employment negatively and force the Fed to cut rates. Currently, investors justifiably are focused on the “stag” part of the stagflation narrative since growth will be the first thing to be impacted. But for the Fed to move we need to see soft employment numbers and hence last Friday’s strong Jobs report was thoroughly ignored. Despite pressures from President Trump, Chairman Powell seemed unfazed last Friday. He changed his tune and seemed more hawkish compared to the post FOMC press event. He indicated that the impact of tariffs would be unusually large and that it would be important for the Fed to not lose sight of inflation.

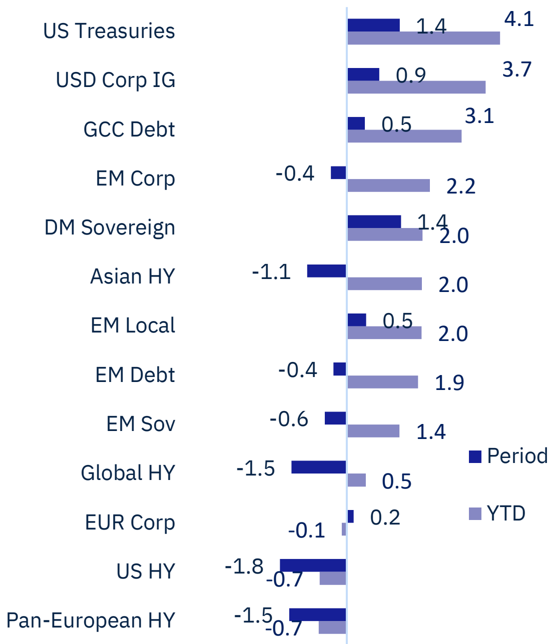
Credit spreads have widened in line with the sell-off in risk assets. Bloomberg Barclays HY index spreads have increased close to 80 bps from the lows of last week with HY returning -1.3% for the week. Despite current spreads being wider to our initial FV estimates, we are hesitant to load up on HY. Even if reciprocal tariffs could be negotiated away, sectoral tariffs would remain in place. This uncertainty and a high recession probability justifies even higher HY spreads probably in the mid-500s. Hence, we would be very cautious on DM HY credit at this point. Even though low default rates, higher quality issuers, strong corporate balance sheets, and a benign maturity profile should keep stress levels limited on the segment. IG is a different story, and we continue to maintain our neutral stance given preference for higher quality and spread widening to be countered by lower treasury yields.

EM Debt spreads similarly widened 30 bps and the segment returned -0.43% last week with spread widening from the lows of around 60 bps. Our recommended list currently has 634 Emerging market securities. The impact of tariffs on our coverage universe remains limited. China (34%), Indonesia (32%), & India (26%) face high tariffs, but exports to the US remain below 5% of GDP, mitigating the effect. Lower tariffs in GCC, Turkey, and Latin America excluding Mexico (10%), coupled with low export dependence on the US, reduce impact of tariffs. The worst affected country in our universe has been Egypt where spreads have widened by 200 to 300 bps depending on duration. Only about 9 of the bonds in our list have lost more than 10% all of which are Egypt long-duration bonds. Egyptian bonds with maturity less than 2029 have lost between 2 to 4%.

FIXED INCOME KEY CONVICTIONS (2025)

DEVELOPED MARKETS
Overall overweight DM FI
OW Government Bonds
Neutral corporate (IG & HY)
EMERGING MARKETS
Neutral EM Debt
Favor quality and selectivity
Including in GCC

FIXED INCOME SUB ASSET CLASS RETURNS (YTD, LAST WEEK)



Source: Bloomberg

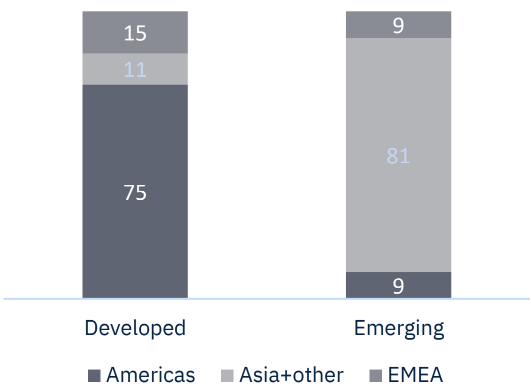
Equity Update

Global equities didn't just falter, they fell headlong into their sharpest weekly plunge since the onset of COVID. A once-theoretical trade war turned very real, igniting a rout that vaporized trillions in market value, throttled IPO pipelines, and shattered market confidence. The MSCI ACWI dropped 7.9%, led by a 9.1% collapse in the S&P 500, with developed markets down 8.5% and emerging markets slid 2.9%, The trigger? Tariffs, historic in scale and swift in consequence. President Trump's imposition of a 10% blanket tariff on all imports, with higher reciprocal rates for China, Japan, and India, unleashed chaos. China responded with a 34% levy on U.S. goods, escalating tensions into a full-blown economic confrontation. U.S. equities felt the brunt of the shift. The Nasdaq 100 entered a bear market, and the Cboe Volatility Index climbed past 45, a level not seen since early 2020. Tech names like Nvidia, Tesla, and Apple led the pullback, while U.S.-listed Chinese firms saw significant declines on renewed delisting concerns and geopolitical stress. Earnings forecasts are being revised, volatility remains elevated, and capital is rotating toward areas that offer consistency over cyclicality. In Europe (-8.3%), equity markets moved lower across the board. Defensives such as utilities and consumer staples showed relative strength, reflecting a broader move toward safety as volatility spiked.

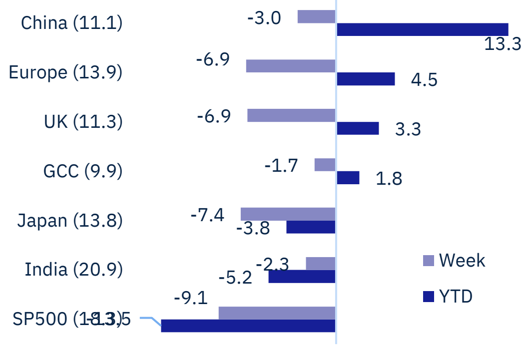
Within Asia, The MSCI Asia Pacific Index logged its worst week in over a year. Japan's TOPIX fell 10%, pressured by yen strength and weakness across financials. Other regional markets followed suit. Overall, risk appetite across Asia remained subdued. U.S.-listed names like Alibaba and JD.com dropped sharply as Beijing's response came sooner and stronger than expected. Elsewhere, global dealmaking took a step back. IPOs were delayed, with companies like Klarna and StubHub putting listings on hold. In the Gulf, equity markets declined as oil prices fell and broader global uncertainty weighed on sentiment. Aramco saw significant pressure as crude retreated. What's taking shape is more than a correction. Markets are adjusting to a shift in narrative, one where geopolitical risk, slower global growth, and changing policy expectations drive positioning.

This is the environment we've been preparing for. Our view has consistently been to stay anchored in sectors less exposed to global trade frictions. We highlight some of the defensives and less internationally exposed segments such as global staples and regulated utilities, supported by stable revenue streams and a more domestically focused orientation. In this climate, preserving capital and focusing on visibility is more important than chasing rebounds. We have been selectively adding to high-quality growth stocks with strong fundamentals, enduring demand, and valuations that now offer long-term entry points. Several of these names have been part of our ongoing recommendations and are starting to reemerge as viable positions for patient capital. Until there is greater clarity on policy direction, inflation trends, and earnings stability, maintaining a defensive allocation and leaning into selective quality remains our preferred approach.

EQUITY RECOMMENDED REGIONAL POSITIONING

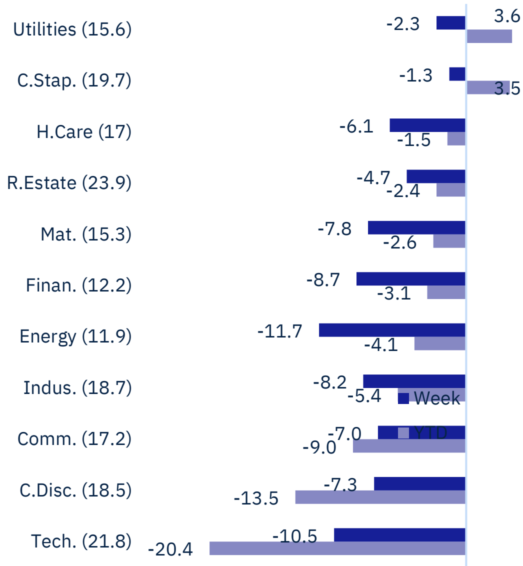


MAJOR INDICES PERFORMANCE (TR, US$), P/E in brackets



Source: Bloomberg consensus. MSCI Indices unless specified.

GLOBAL SECTOR PERFORMANCE (TR, US$), P/E in brackets



Source: Bloomberg consensus. MSCI All Country World sectors US$.

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