Does America First **challenge US exceptionalism**?

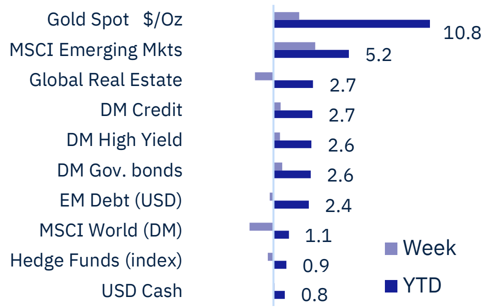
- **Last week was terrible for US assets with both the Dollar index and the S&P500 down more than 3%**
- **Growth concerns combine with policy uncertainty and fears of headwinds from fiscal tightening**
- **Our positioning is unchanged and broadly diversified, but the question of US vs the world is valid**

Not long ago, the year started with a massive consensus for a "happy late cycle" configuration, led by an always exceptional America, with an immense majority of Wall Street strategists setting double digit target returns for the S&P500. Less than a quarter later, US stocks are down, underperforming all others.

Last week was emblematic, with a combination of reasons. First, concerns about the current health of the US economy have been voiced for weeks, with some tepid data releases. To that extent, the latest indicators are reassuring, with a positive surprise in the ISM Services and a tepid yet reassuring NFP job report. Still, America's growth is under a double threat: trade policy with imminent tariffs which are already pressuring consumer sentiment, and fiscal policy, with potential recessionary impact from cuts in government spending. The White House does not deny, talking about a transition period with short-term pain for long-term gain. Meanwhile, China has set an ambitiously stable growth target for 2025 with more public support, and Germany announced a historical relaxation of their budget doctrine to boost infrastructure and defense spending, the latter being echoed by a European plan.

Is it the end of the secular love story between global investors and US assets? The question is valid, at least for the short-term, with an inversion in growth differential meeting a still material difference in asset valuations. For the longer run, there are nuances. The US administration may succeed in "re-privatizing" their economy, as the weight of the government had arguably become too big, with some questionable allocation of capital. This may be positive and reboot US exceptionalism. Second, a hypothetical US recession is usually not good news for the rest of the world. Third and importantly, a multi-asset portfolio has many ways to position around this big question. This is what we will discuss in our monthly investment committee this week.

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



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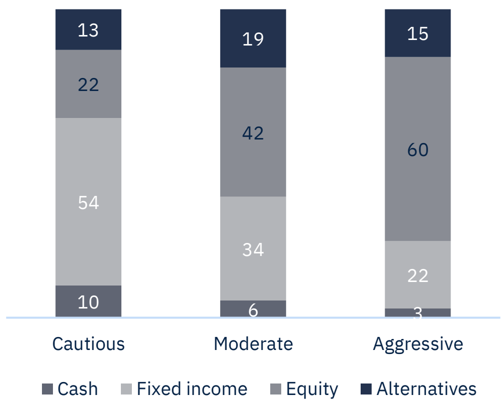
Cross-asset Update

Markets have remained fixated on tariffs and on what Mr. Trump is doing next, even as lots of market-moving stuff is happening outside of Washington's control room. China decided to set a bullish goal for its economy, and Europe to increase defense and infrastructure expenditure big time, that both leverage fiscal policies in a big way, and have growth and inflationary implications. At the same time, the United States is aiming for fiscal austerity, sitting for once on the other side of the fence. Markets have taken stock and performance divergence between Wall Street and the other two markets is growing wider in favor of the latter. Both policy and valuations seem to be offering justification for this new turn of events, where policy becomes the catalyst to take action. And since big fiscal decisions fall under the category of secular factors, what is happening right now would be market-relevant for the medium term. Usually phases of US outperformance have been driven by more stimulus versus rest-of-world as well as by disinflation. It seems both tendencies are starting to reverse. The center of gravity of stimulus has shifted from Washington to Berlin and Beijing, while inflationary pressures are a lingering concern, and the year-to-date commodity outperformance versus equities is doing little to allay them. Shifts in stimulus and commodity resilience have us suspect that the best days of US exceptionalism could be behind us.

China has outperformed year-to-date, and investors may be wondering if it is still worth buying into strength. Visibility in the end remains low and there is reason for both sides of the argument if one looks into stimulus details. But we do not think that it is the best way to decide how to go ahead. Valuations remain tame, and we see no signs of froth in Chinese equities. Historically, the best time to offload positions was when the government stepped in to put an end to excessive euphoria, or when IPOs started flooding the market. There none of that now or in perspective. And, indeed, it is in Beijing's interest that equities deliver a wealth effect boosting consumption, now that the real estate market is stuck. If tariffs are a new factor to be reckoned with, then China has so far decided to respond in a measured manner, being careful to spur internal demand rather than engage is disruptive confrontations. All of this points to an outlook that is still positive for Chinese markets.

Gold has been range-bound for a couple of weeks and may have entered a new consolidation phase. This of course does not put an end to its bull market. Donald Trump needs a weaker dollar to address external imbalances, while central banks have continued to purchase gold to diversify away from the global reserve currency. There remain plenty of reasons for gold strength, and they are structural. Buying on weakness remains the ideal strategy.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

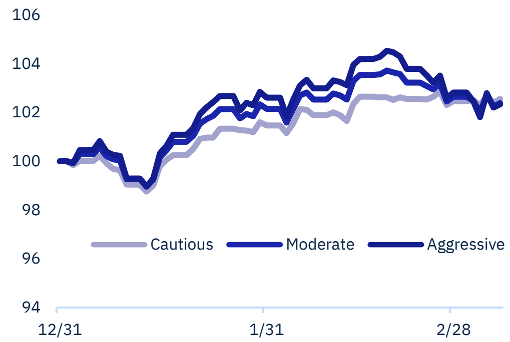


TAA – RELATIVE POSITIONING – MODERATE PROFILE

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.

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Fixed Income Update

The US Treasury yield curve bear steepened last week with the long-end up by 5 to 7 bps while the front-end dipped by 3 to 7 bps as market came to terms with a slower growth paradigm. Overnight swaps now price 3 rate cuts by the end of this year. However, Chair Powell in his latest address told that the Fed is not in a hurry and will be data dependent. This accelerated the sell-off in the treasuries last Friday. We continue to maintain our long-duration stance at the moment. We believe the yields would move lower in the medium term as growth concerns rule over term premium risks. There are near term inflation uptick risks to our view and hence the CPI reports due this Wednesday remain crucial to the short-term direction of the yields.

Meanwhile, Euro-Area government bond yields have increased significantly and currently are trading near September 2023 highs. The sharp sell-off last week was driven by a U-turn in Germany that sharply increases spending on defense and infrastructure. ECB cut rates by 25 bps as expected last Thursday but that turned out to be a non-event since the markets were focused on fiscal developments. We would look for opportunities in long-dated German Bunds as the term premium has risen too fast and some adjustment would be due soon.

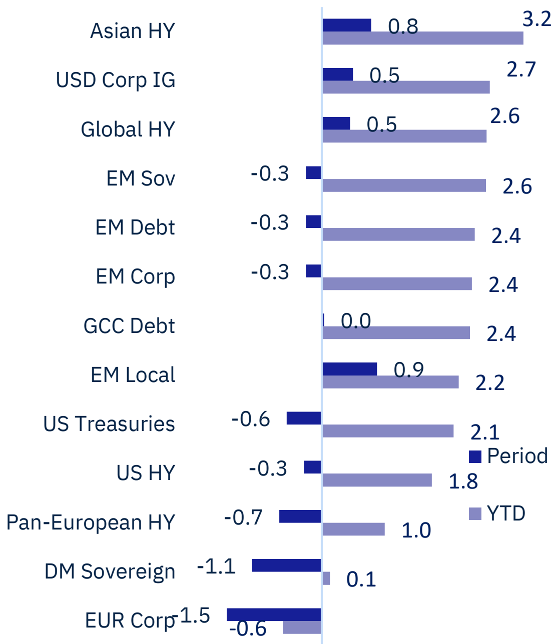
Credit spreads have widened slightly. Ratings trends seeing some cracks with $16bn of Fallen Angels YTD while there have been no Rising Stars so far into the year. Markets currently don't anticipate another rate cut till June. If macro data becomes weaker the Fed could turn dovish. This will be positive for HY spreads. High-yield bond spreads widened for a third consecutive week to trade near YTD highs with US HY spreads approaching 300 bps as a developing global trade war, rising growth concerns, and higher global bond yields continue to weigh on sentiments. Issuance remained robust though with $8.7 Bn new bonds issued last week according to JPM. We would go overweight HY if spreads cross 350 bps as the asset class fundamentals look robust at the moment.

Emerging Markets will continue to see headwinds from the US tariff uncertainty but tailwinds from stimulus in China and increased defense spending in the Euro Area. Spreads remain tight despite the recent widening. We see divergence in regional performance and currencies. We remain overweight in TRY government securities. We like Indian High Yield and GCC short duration subordinated debt. We would avoid ultra long duration GCC IG plays since any weakness in oil prices would affect these negatively. But we like the GCC pipelines space as these issuers offer project finance types of covenants and a secured structure.

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 endured a bruising week, a storm of trade tensions, unraveling tech dominance, and shifting market leadership pulling indexes in opposing directions. The MSCI ACWI fell 1.2%, dragged lower by a 1.7% drop in developed markets, while emerging markets surged 2.9%, powered by a forceful rally in China and renewed momentum in India. The S&P 500 tumbled 3.1%, suffering its worst weekly drop of the year. China's MSCI index soared 6.5% as markets embraced Beijing's growth targets and robust policy support. India climbed 2.5%, drawing cautious flows back after weeks of instability and Japan's TOPIX rose 1.0%.

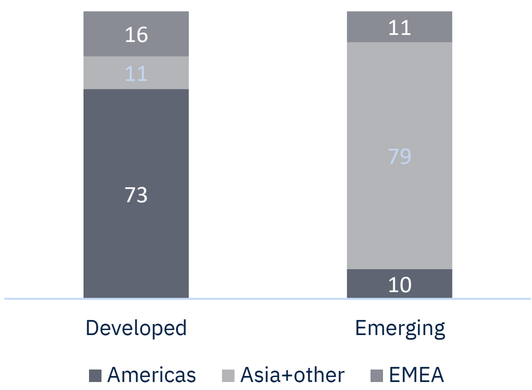
The U.S. market, once defined by an unwavering tech rally, found itself in retreat. The Nasdaq 100 hovered on the edge of a correction as Nvidia led the decline. Trade uncertainty delivered another blow when Washington's decision to delay auto tariffs on Canada and Mexico—but maintain pressure on China and the EU—sent markets scrambling. The S&P 500 briefly slipped below its 200-day moving average before Powell's remarks about economic stability offered a partial reprieve. Momentum broke down, and leadership slipped away from tech's grip. Europe's market rally lost steam as the MSCI Europe index slipped 0.8%, dragged lower by fading strength in luxury stocks. Ferragamo's weak guidance intensified worries that high-end consumer demand was softening. Defense stocks, which had been among the year's biggest winners, were hit after reports suggested that Russia might be open to a temporary ceasefire in Ukraine.

Japan's TOPIX gained 1.0%, lifted by rising wage expectations. Rengo, the country's largest labor union, raised its wage demands to 6.09%. The ongoing weakness of the yen provided an extra boost to exporters, keeping Japan's market in positive territory.

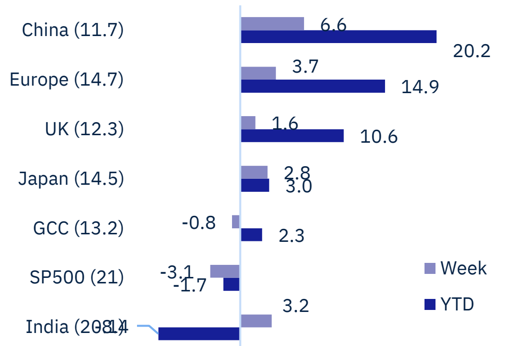
In China, markets surged after the National People's Congress reaffirmed its 5% growth target and pledged deeper support for AI, quantum computing, and advanced industries. Tech stocks, long suppressed by regulatory concerns, roared back. The country's "7 Titans"—top technology firms including Alibaba and Tencent—have now added $439 billion in market value this year, a stark contrast to the losses seen in U.S. tech. Steel stocks joined the rally when Beijing signaled plans to cut excess capacity, and a stronger-than-expected services PMI reinforced signs of an economic recovery. India continued to stabilize, rising 2.5% as foreign capital that had fled in historic volumes began to return, though the echoes of a $1.3 trillion market value wipeout still lingered. Earnings growth and broader economic expansion remain under close scrutiny, keeping the rebound measured.

The broadening of market leadership is now playing out clearly. The equal-weighted S&P 500, a barometer for diverse market participation, has risen 0.9% year to date, in stark contrast to the cap-weighted S&P 500, which has fallen 1.7% over the same period. As expected within our 2025 outlook, this shift away from narrow leadership continues to take shape, reinforcing the view that capital is gradually rotating beyond mega caps and into a more balanced market structure.

EQUITY RECOMMENDED REGIONAL POSITIONING

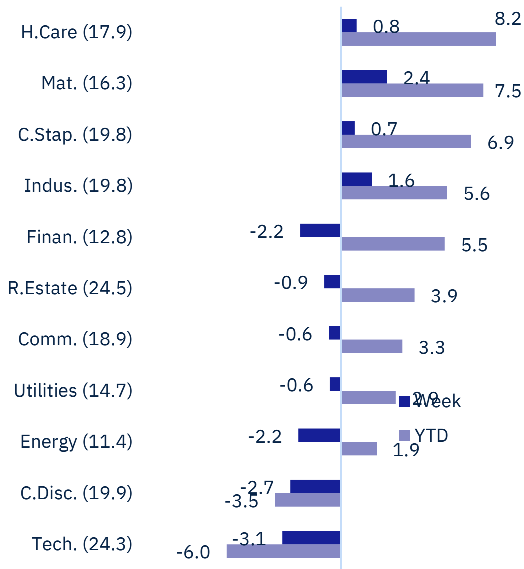


MAJOR INDICES PERFORMANCE (TR, US$), P/E in brackets



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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