Adjusting our **positioning** in a volatile world

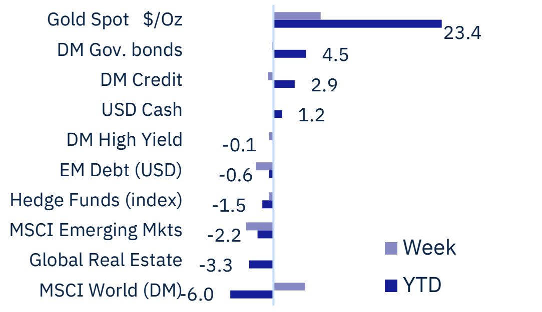
- **Volatility was extreme across asset classes last week, and it probably won't abate anytime soon.**
- **We have made a few adjustments to our tactical asset allocation, but are not outright bearish**
- **The week ahead will provide many corporate and macro data, while US policies will keep center stage**

Last week started with an equity panic, followed by a sharp rebound when a pause was announced in "reciprocal" tariffs. It doesn't feel like it, but US and DM stocks did well, even if their EM counterparts suffered. The most important and worrying fact was that the US dollar fell further, while US Treasury yields materially rose. The only safe haven these days is definitely gold.

We held our monthly Tactical Asset Allocation meeting last Thursday, after having decided to postpone it from its initial schedule (Tuesday) as we didn't want to act emotionally in the middle of the tariff's "tornado" (the Winds of Change are definitely very strong). We decided to make a few changes, which are overall a risk reduction but not a massive one. We are now underweight on stocks from developed markets by 2% across profiles, and still neutral on emerging regions within the asset class. Within fixed income, we have reduced our duration to neutral in government bonds. We have also reduced quality corporate bonds to increase high yield to a 1% overweight. On a tactical horizon, we believe that the asset class expected return pays for its risk. We are thus overall defensively positioned compared to our strategic allocations, but not massively (with a beta around .95).

Saying that visibility is low is obviously an understatement. All we know is that up until Q1-2025, everything was ok for the global economy (including exports) and corporates, which should be confirmed by the upcoming avalanche of quarterly results. Still, as we said repeatedly during our Global Investment Outlook, 2025 is not about 2025 but about the future. To that extent, it seems that the Fed will not let the bond market cross certain limits and that the US administration is more pragmatic than the initial announcements suggest, which is why we're not outright bearish on tactical horizon. We are playing a long-term game. Have a great week.

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



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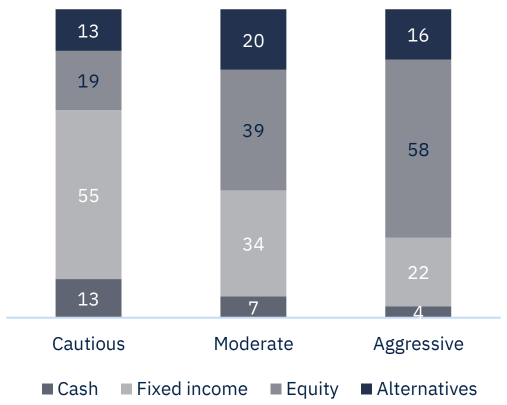
Cross-asset Update

The current trade war is far from making America performance great against the rest of the world. There is a dearth of buyers for US-dollar-centric assets, be it stocks, the dollar, or Treasuries. And while it is understandable to see investors step back from US equities as macro uncertainty grows, the lack of appetite for Treasuries or the dollar is quite concerning, and all the more so for the Washington administration. Under normal market conditions yields would be falling in a spell of extreme volatility as was witnessed in the past week, while the dollar would be well bid. On the other hand, the opposite happened as the US dollar lost almost 3%, meanwhile the yield on the 10-year note ended about 50bps higher on Friday. And the longer end of the curve failed to keep up with fundamentals, since US economic surprises fell deeper into negative territory on disappointing smaller-company and consumer confidence surveys. It seems markets are now trading more on policy than fundamentals, hence investors will need positive news from the authorities to take more risk, or to come back to dollar assets. The spiking economic policy uncertainty, that has reached unprecedented levels under the new tariff regime, is not boding well for Treasury yields, that recently have been rising significantly. So, all eyes will be on the Fed, expected to step in if market turmoil continues, as higher funding costs would be unsustainable for the elevated debt levels. And Governor Collins said that the Fed "would absolutely be prepared" to help stabilize markets.

In case of Fed open-market intervention the US dollar would be the net loser, and gold the beneficiary. Bond purchases, while they would bail markets, they would also point to the Achille's heel of the United States, its debt pile. There is growing speculation that the nuclear option would be for the Fed to revalue the amount of gold in the country's vaults to current market prices. The Treasury then would be able to monetize the huge difference between gold's price and the historical one on the balance sheet and pay off part of the debt held by foreigners. The higher the gold price, the better for the US Treasury, hence speculation that gold prices could at least double from current levels given the positive implications of potential repayment for the Treasury.

In the end, fundamentals are not what matters to value gold now, but rather considerations related to the architecture of the global monetary system as it has been arranged by America, and that is now showing more than one crack.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

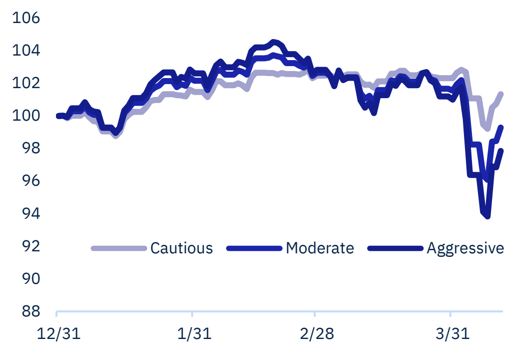


TAA – RELATIVE POSITIONING – MODERATE PROFILE

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

The market mayhem unleashed by tariffs did not take long to spread to the bond markets last week. Within 48 hours, the 10-year treasury yield went up by 60 bps. The move up was dominated by real yields as the long-term inflation expectations remained anchored. There were rumours of the leveraged basis spread blowing up. The 3-year treasury auction on Tuesday was lackluster garnering only 79% allocation to end users, 7% less than last 3 auction averages. US Treasury market depth plunged to the lowest levels since March 2020. The moves in Treasury were exacerbated by client positioning. The JPM Treasury Client Survey showed long positioning was 2.4 standard deviations above the trailing 1-year average.

Markets gained a semblance of calmness only once President Trump announced a hiatus of 90-days on the reciprocal tariffs barring China. The 10- and 30-year auctions that followed the pause were normal with end user allocation in the high 80s in line with past auctions. But it is clear that investors now require more term premium to buy long-term treasury bonds. According to a JPM estimate, foreign holdings are concentrated at the front end of the curve, and they estimate every $300bn decline in foreign official holdings of Treasuries would lead 5-year Treasuries to increase by 33bp. Bond markets continued to be erratic ignoring the favourable March CPI release. The headline number came in at -0.1% dropping below 0 for the first time since May 2024. The Core printed below expectations at 0.1%.

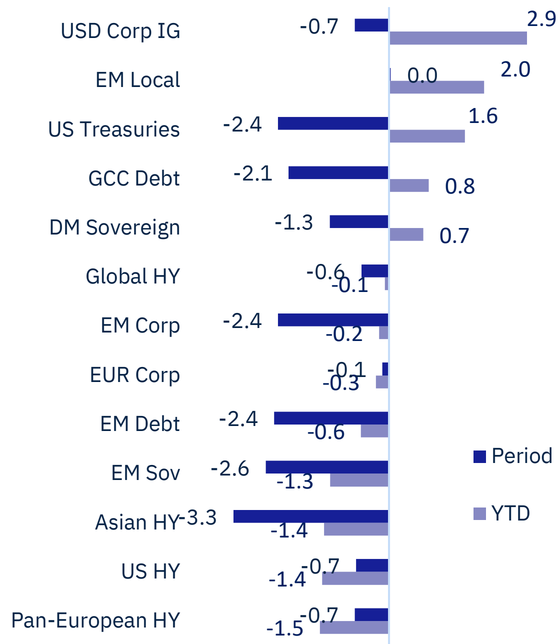
Friday saw a reversal in risk sentiments as Fed's Collins said the central bank is ready to calm down the financial markets, though rate cuts will not the primary tool for this, referring to balance sheet intervention if required. Japan also mentioned this weekend that it will not use its US Treasury holdings as a negotiation tool. However, the chance of the Fed stepping in rate cuts remains low now. Market is pricing in 3 rate cuts with the first one expected in June. Fed will only move in case of a crack in the labour market or any unanticipated black swan event. Fed will be reactive and not pre-emptive. This means they would be behind the curve already.

It was a serendipity that we moved our TAAC meeting by two days to avoid being whipsawed by the markets. We went overweight in High Yield as we repositioned risk in our overall multi-asset portfolio by reducing allocation to equities. The recent sharp move in spreads gives opportunity for looking at the asset class tactically offering high carry and a hope of spread compression in the coming few weeks during the pause in tariffs. Current low default rates, higher quality issuers, strong corporate balance sheets, and a benign maturity profile should keep stress levels limited on the segment. We funded this by taking profit in the Investment Grade Credit going Underweight. We also modify our long duration call and prefer a neutral duration positioning in the portfolios till the uncertainty abates. We also adjusted our DM Government portfolio reducing allocation to US Treasuries while going overweight in UK and Euro Government bonds.

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

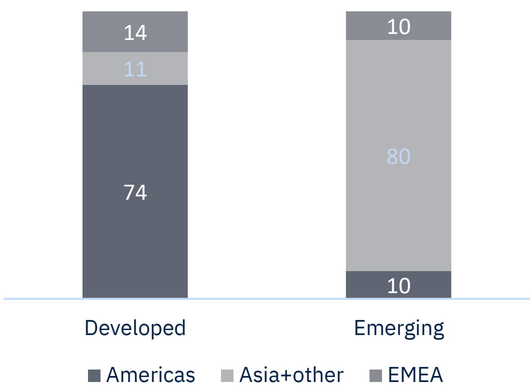
Global equities surged last week, snapping back from one of the most chaotic stretches of the year as markets latched onto a temporary pause in U.S. tariff escalation, even as the underlying fractures in global trade and supply chains grew more visible. The MSCI ACWI gained 3.5%, powered by a 5.7% rebound in the S&P 500 and a broader bid into developed markets. But the relief rally obscured a stark reality: the global financial system is under acute stress, and policy unpredictability is becoming the market's central risk factor. On April 2, President Trump unleashed sweeping new tariffs, most notably a 145% effective levy on Chinese imports. The immediate reaction was brutal: stocks sold off, capital scrambled for safety, and fears of a global recession spiked. The sentiment turned only after Trump announced a 90-day pause on planned tariff hikes for dozens of U.S. trading partners, excluding China. The carve-out spared consumer electronics and key manufacturing inputs from the worst of the damage and triggered a tactical rotation back into risk.

The reaction across regions was anything but uniform. U.S. equities led the global bounce, with tech megacaps roaring back from deep drawdowns. Apple avoided a full-blown crisis, thanks to the tariff carve-out, but management remains wary. Executives had been bracing for a supply shock, with internal scenarios involving emergency shifts of iPhone 17 production to India. Nvidia and Microsoft rallied hard, riding the AI narrative back into favor, even as policy fog continued to thicken. Earnings season added nuance. Major banks posted strong top-line results, but guidance struck a cautious tone. CEOs flagged rising uncertainty around investment, hiring, and capital expenditure. BlackRock's Larry Fink warned that most CEOs now assume the U.S. economy is either already in recession or headed there quickly. JPMorgan and Morgan Stanley echoed the same — noting that while consumer strength persists, it may be front-loaded in anticipation of higher costs.

In Europe, the MSCI Europe index fell 1.8%, dragged down by trade-sensitive sectors and a bleak revision to France's growth outlook. Industrial stocks underperformed, and volatility remained high. Even a sharp midweek rally faded by Friday. China, meanwhile, is entering a new phase of strategic uncertainty. The MSCI China index fell 8%, even as local A-shares stabilized late in the week on stimulus hopes. China's move to restrict magnet and mineral exports has already begun to snarl global manufacturing. Automakers, chipmakers, and defence contractors are scrambling to find alternative supply routes, if they exist. Within Japan, the TOPIX slipped 0.6% for the week, but the Nikkei 225 slumped nearly 3% on Friday as foreign funds sold into yen strength and risk-off sentiment. With magnet exports now under Beijing's control, sectors like autos and robotics face renewed vulnerability. For Tokyo markets, the rebound was short-lived, and concerns of stagflation and export drag resurfaced quickly.

The rally last week wasn't about optimism, it was about reprieve. A break in the tariff escalation cycle gave markets space to breathe. But the structural issues — policy unpredictability, geopolitical fragmentation, and fragile supply chains — remain front and center. The rebound may hold, but it's built on sand. In this market, every calm feels borrowed. And every reprieve, temporary.

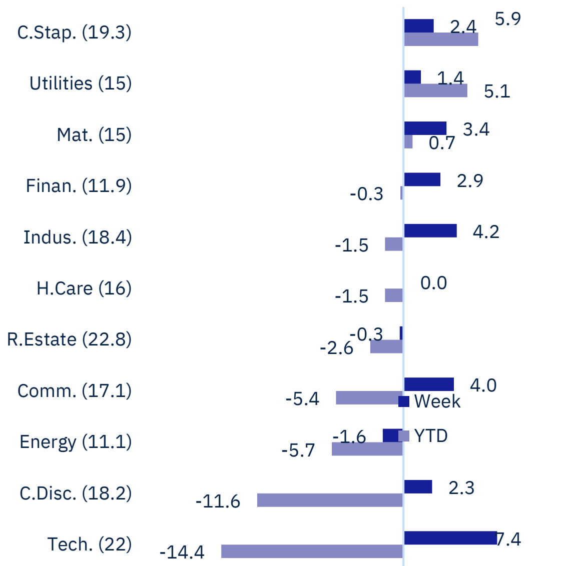
EQUITY RECOMMENDED REGIONAL POSITIONING



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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