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BILBoard April 2025 – Tariffs, turbulence and tactical shifts



Written as at April 1

The first quarter of 2025 was anything but smooth. Market volatility surged, equity markets diverged, bonds offered little in the way of refuge, and investors were reminded just how quickly sentiment can shift when policy uncertainty meets geopolitical strain. This edition of the BILBoard focuses on how we're interpreting the current landscape and positioning portfolios for what lies ahead.

MARKET RECAP: A VOLATILE QUARTER DEFINED BY TRADE TENSIONS

Thus far, 2025 has been characterised by elevated volatility and notable equity declines—particularly in the US. At the heart of the turbulence lies a familiar theme: trade uncertainty.

Tariffs, often introduced or reversed with little warning, have amplified unpredictability for global

businesses and investors. The rapidly evolving policy landscape presents operational challenges for companies and renewed pricing concerns for US consumers—many of whom no longer have a pandemic-era savings buffer.

Amid rising stagflation fears in the world's largest economy, **US equities** saw their sharpest quarterly drop in nearly three years. The S&P 500 fell 4.6%, while the Nasdaq slid more than 10%.

In contrast, **European equities** gained around 5%, boosted by optimism around a potential resolution in Ukraine and the announcement of large-scale fiscal spending—particularly favouring aerospace and defence stocks.

What boosted equities was extremely painful for bond investors. Defence spending plans across the EU (with a EUR 800Bn package now in the pipeline), and the fiscal policy pivot in Germany, exerted strong upwards pressure on yields. **German government bonds** experienced their worst sell-off in decades.

In a quarter that contained more questions than answers, one asset stood out: **gold**. As a traditional safe haven, it surged to as USD 3,128 a troy ounce, a fresh record.

MACRO VIEW: SLOWING GROWTH, SHIFTING POLICY

Eurozone growth forecasts remain subdued, with defence spending unlikely to deliver an immediate impact given the time it will take to scale up domestic defence production. At its latest monetary policy meeting, the ECB lowered its growth forecast for this year from 1.1 to 0.9%, citing increased uncertainty. At the same time, it hinted it may be near the end of its easing cycle, as inflation cools and governments prepare to open the spending taps.

In the **US**, while soft data has been volatile, hard data remains relatively resilient for the time being, with the labour market still exhibiting residual strength. The impact of tariffs remains uncertain, but pro-growth policies are still expected. Officials have commented that the revenue from tariffs will be used to “give the largest tax cut in American history” and other supportive measures are forthcoming, such as the recent Executive Order aimed at increasing American production of critical minerals like uranium, copper, potash and gold. The Fed foresees slower growth this year (1.7%) and higher inflation (PCE at 2.7%), while its dot-plot continues to show two more rate cuts before the end of 2025. Aggressive trade tariffs could alter that pathway if price pressures continue to heat up.

In **China**, measures announced to boost consumption are thus far perceived as insufficient to cushion the economy against the potential impact from rising trade tensions.

INVESTMENT STRATEGY

At the heart of our investment strategy lies a consistent philosophy—**stability** in our convictions, while being flexible enough to **adapt** to evolving markets.

EQUITIES

Firstly, we maintained our overweight on **US equities**, and actually **rebalanced our exposure upwards** in order to maintain our target weights after the market correction. After several years of unusually low volatility, a return to historical norms can be unsettling—but also creates opportunity. Insofar as now, fundamentals remain sturdy enough to comfort us in our stance. Moreover, the earnings hurdle for US companies is now lower, and we also note that company insiders are buying the stocks of their firms at the fastest pace unseen since June. We also note our **hedging strategy**, initiated at the end of last year proved beneficial, as it expired on 20 March in the money, at one of the S&P 500's low points of the year so far.

When it comes to **European equities**, after strong performance, we locked in gains and reduced positions back to our neutral target—believing much of the good news is already priced in. Tariffs are clearly a major overhang.

Within our **Sector preferences**, we have made the following updates to reflect the shifting environment:

- **US Consumer Staples:** *Upgraded to Neutral*
Supported by a weaker USD and solid earnings. Valuations are attractive, though trade risks remain a concern.
- **European Consumer Discretionary:** *Upgraded to Neutral*
Signs of recovery in luxury and autos, with improving sentiment and economic data. Some tariff risk is already priced in.
- **European Communication Services:** *Upgraded to Positive*
Strong regulatory tailwinds and less exposure to tariffs make this a compelling defensive play, with 5G and digital infrastructure as growth drivers.
- **European Financials:** *Upgraded to Positive*
Yield curve steepening and ongoing buybacks are strong tailwinds. Despite lower dividend yields, the sector remains robust.
- **European Industrials:** *Upgraded to Positive*
Buoyed by improving PMIs and government investment in defense and infrastructure—especially in Germany.
- **European Healthcare:** *Downgraded to Neutral*

Taking profits after strong performance. Headwinds include currency shifts, US policy uncertainty, and patent expirations.

- **European Real Estate:** *Downgraded to Neutral*

Rising bond yields and a market shift toward infrastructure make the near-term outlook challenging.

- **European Utilities:** *Downgraded to Neutral*

Electrification trends remain supportive, but higher yields present a headwind for this rate-sensitive sector.

FIXED INCOME

European **Investment Grade** bonds continue to serve as the cornerstone of our fixed income allocation. This proved beneficial during recent market turbulence – while US credit spreads widened in tandem with the equity market sell-off, European spreads were relatively stable. European credit still exhibits strong technicals and fundamentals. Looking ahead, the segment should be supported by new fiscal spending plans. Within Investment Grade, we see **financials** and **corporate hybrids** as the most attractive niches.

We compliment this exposure with a helping of **high-yield** to boost income in portfolios, whilst being diligent when it comes to credit risk. In that sense, we prefer the more defensive nature of **European high-yield**. In the **US, loans** look better poised than plain-vanilla high-yield.

Believing that pressure on European rates could remain due to the new fiscal stance in the Eurozone, we **reduced Sovereign exposure** in Defensive, Low and Medium profiles. The proceeds were allocated to **Emerging Market Debt** (EMD). We like hard currency bonds which have performed better, benefiting from substantial spread tightening and attractive carry, particularly among weaker countries. By increasing our exposure to EMD, we also increase exposure to the US curve. With the Fed slowing the pace of its balance sheet drawdown, some pressure on Treasury yields should ease.

FINAL THOUGHTS

While it was well known that tariffs were among President Trump's favoured policy tools, the manner in which trade measures are now being introduced—often abruptly and without consultation—has taken both allies and adversaries by surprise. Investors, too, have been caught off guard, not only by the policy shifts themselves, but by the administration's apparent willingness to tolerate market volatility and even risks to US economic growth.

The Q1 sell-off reflects a rising risk premium as markets adjust to this new, less predictable

environment. Yet, amid the uncertainty, our philosophy remains clear: **we remain focused on fundamentals and lean into our convictions, while staying agile and adaptive.**

From rebalancing regional equity exposures and increasing our allocation to Emerging Market Debt, to refining our sector positions in response to macro and policy shifts, we continue to navigate 2025 with both vigilance and confidence—**remaining alert to risk, but equally attuned to opportunity**



Lionel De Broux

Group Chief Investment Officer



Jade Bajai

Macro Strategist / Investment Communication Manager

Asset Class	DEFENSIVE			LOW			MEDIUM			HIGH		
	Strategic Weight	Tactical Allocation		Strategic Weight	Tactical Allocation		Strategic Weight	Tactical Allocation		Strategic Weight	Tactical Allocation	
		Previous	New		Change	Previous		New	Change		Previous	New
Equities												
Fixed Income	100,0%	97,0%	97,0%	⇒ 0,0%	30,0%	30,0%	30,0%	⇒ 0,0%	50,0%	50,0%	50,0%	⇒ 0,0%
Cash & cash equivalents	0,0%	0,5%	0,5%	⇒ 0,0%	65,0%	63,0%	63,0%	⇒ 0,0%	42,0%	43,0%	43,0%	⇒ 0,0%
Other	0,0%	2,5%	2,5%	⇒ 0,0%	0,0%	1,0%	1,0%	⇒ 0,0%	0,0%	1,0%	1,0%	⇒ 0,0%
					5,0%	6,0%	6,0%	⇒ 0,0%	8,0%	6,0%	6,0%	⇒ 0,0%
Equities												
USA					12,0%	16,2%	16,2%	⇒ 0,0%	20,0%	27,0%	27,0%	⇒ 0,0%
Europe					12,0%	9,0%	9,0%	⇒ 0,0%	20,0%	16,0%	16,0%	⇒ 0,0%
Japan					3,0%	1,8%	1,8%	⇒ 0,0%	5,0%	3,0%	3,0%	⇒ 0,0%
China					1,0%	0,8%	0,8%	⇒ 0,0%	2,0%	1,0%	1,0%	⇒ 0,0%
Emerging Markets Ex-China					2,0%	2,2%	2,2%	⇒ 0,0%	3,0%	3,0%	3,0%	⇒ 0,0%
Fixed Income												
Government Bonds - Developed	50,0%	30,0%	27,0%	↓ -3,0%	30,0%	20,5%	18,5%	↓ -2,0%	20,0%	17,0%	16,0%	↓ -1,0%
Emerging Market Debt	7,0%	4,5%	7,5%	↑ 3,0%	5,0%	3,0%	5,0%	↑ 2,0%	3,0%	2,0%	3,0%	↑ 1,0%
Corporate - Investment Grade	33,0%	44,5%	44,5%	⇒ 0,0%	23,0%	29,5%	29,5%	⇒ 0,0%	14,0%	18,0%	18,0%	⇒ 0,0%
Corporate - High Yield	10,0%	18,0%	18,0%	⇒ 0,0%	7,0%	10,0%	10,0%	⇒ 0,0%	5,0%	6,0%	6,0%	⇒ 0,0%
Other												
Oil					0,0%	0,0%	0,0%	⇒ 0,0%	0,0%	0,0%	0,0%	⇒ 0,0%
Gold					5,0%	3,5%	3,5%	⇒ 0,0%	8,0%	3,5%	3,5%	⇒ 0,0%
Total Return	0,0%	2,5%	2,5%	⇒ 0,0%	0,0%	2,5%	2,5%	⇒ 0,0%	0,0%	2,5%	2,5%	⇒ 0,0%
USD	0,0%	5,0%	5,0%	⇒ 0,0%	12,0%	18,2%	18,2%	⇒ 0,0%	20,0%	28,0%	28,0%	⇒ 0,0%

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