April 7, 2025

Market Update – 7 April 2025

The market sell-off following the announcement of new trade tariffs continues as investors try to assess Trump's next move and the impact on the global economy. We do not advocate kneejerk reactions during moments of market turmoil. History has demonstrated that even after the worst sell-offs (for example during the global pandemic when the entire world was essentially brought to a standstill), equity markets recover, even if it takes time.

The global market sell-off which gained speed last week after the US announcement of reciprocal tariffs has continued, driven by several factors:

- Retaliatory tariffs from China (34%)
- Commentary from Chairman Powell that suggests the Fed is not in a hurry to do anything (the labour market is still fine and tariffs are expected to be inflaionary)
- Rising fears of a US recession and a global growth slowdown
- Comments from President Trump leading to a change in perception that this is not a

negotiation tactic but a more dedicated commitment to reducing trade deficits. Asked about the market falls, Trump told reporters that “sometimes you have to take medicine to fix something”

An equity market rout

- On Thursday and Friday, more than USD 5tn was erased from the S&P 500, capping the worst week for the index since the onset of the coronavirus pandemic in 2020. Futures point to further losses. In percentage terms, the S&P 500 was down 9.1%, small, mid caps, Europe, EM all down similarly
- The Nasdaq 100 has entered bear market or correction of 20%

Commodities

- Commodities are sustaining heavy losses on fears of slower growth
- Oil (Brent) is down to USD 63/ bbl at the time of writing, also in part due to an ill-timed announcement by OPEC+ that it will increase production in May by more than expected
- Copper lost 8% last week, with some analysts predicting further declines are possible because of a tariff war. Copper is used as a gauge of global growth given that it is widely used industrially

Central Banks

- Markets are pricing in 125bp of Fed rate cuts through January 2026 beginning in June on recession fears
- Markets are also now pricing 88bp of ECB cuts this year, beginning in April. The potential impact on Eurozone growth is clearly negative, but the impact on inflation is more ambiguous, adding complexity to the rates outlook. Whilst the reduced growth outlook is a negative, the inflation impact will partly depend on the EU’s reaction in terms of reciprocating the US tariffs. Proportional counter-tariffs would mean more upside inflation risk in the near term

Currencies

The USD is weaker, partly due to the fact that US rates have declined more than others, and partly due to foreign investors selling US equities and converting the cash to their domestic currencies

Fixed Income

Investors have grown wary of how tariffs will directly affect borrowers and, in a way, bonds are "catching down" to equities:

- US High-Yield (HY) widened by 87bps over the week. That move was significantly larger than for European HY, where spreads widened by 57bps over the week
- US Investment Grade (IG) spreads widened by 16bps (already repriced some risk in the previous weeks) and EUR IG by a lesser 23bps
- Investors are taking refuge in Government bonds. Since Friday, we have seen the textbook behaviour of Euro Gov with intra-European spreads widening, but not enough to worry the ECB

THE PATH FORWARD

For now, the situation is fluid and we hold tight until we have greater visibility on what will happen next. We see three potential pathways:

1. Trump starts cutting deals and tariffs are reduced – More than 50 countries have reached out to the White House to talk trade, according to the top economic advisor, Kevin Hassett. Today, Israeli Prime Minister Benjamin Netanyahu will become the first leader to meet face-to-face with Trump since the tariff announcement. Israel preemptively scrapped all its remaining tariffs on US imports before the plan was announced, but was still hit with a 17% tariff. The meeting should be a litmus test for markets. Vietnam has offered to remove all tariffs on US imports after Donald Trump announced a 46% levy on the southeast Asian nation.

2. Courts or Congress block the tariffs; Republicans are now joining efforts to reclaim Congress' authority over tariffs. A Senate bill introduced Thursday by Sens. Charles Grassley (Republican-Iowa) and Maria Cantwell (Democrat-Washington), would limit a President's power to impose tariffs, including allowing Congress to vote to end any tariff at any time. It would also require the president to notify Congress within 48 hours of imposing any duty and for Congress to explicitly approve any new tariffs within 60 days.

and/or

3. Trump stays the course, and we see a historic realignment of global trade This could imply a global recession with corporate earnings having to be revised down making today's valuations which have already come down seem less attractive. In such a scenario, sentiment normally overshoots to the downside.

For now, markets are pricing the worst case scenario.

If either of the first two were to come to fruition, stocks are approaching very attractive buying levels. However, given the unpredictable nature of the US administration, we cannot, for now, rule out the third option and hold fire.

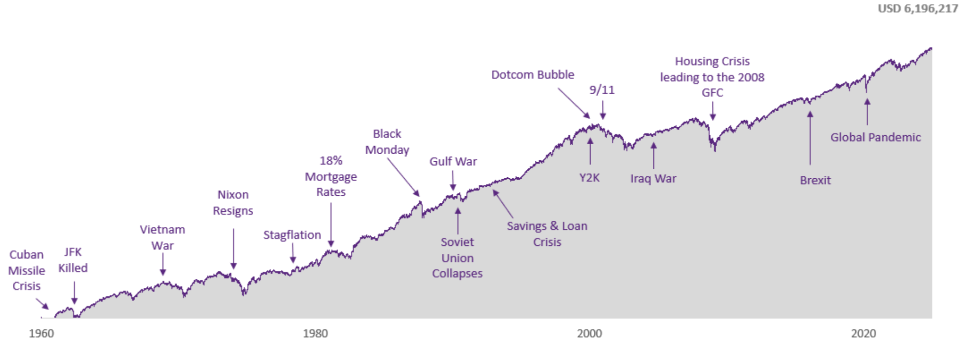
From a policy perspective, we can expect to see an increased focus on Congress passing tax cuts and their potential stimulative effects. If this is achieved, in tandem with trade deals, an increased focus on deregulation, and potential cuts/easing by the Federal Reserve, the current market narrative would shift dramatically. Any sign of softening from the Trump Administration, a willingness to negotiate or moves to revoke tariffs in the US government, could already lead to a swift change in sentiment.

What markets and companies need most now is clarity. Uncertainty is corrosive and if it continues for too long, it could have a significant impact on consumer behaviour and corporate investment. There is also the risk that market sell-offs could exacerbate fragilities in the system.

We continue to monitor the situation closely and will keep you informed on any changes we deem necessary in our investment strategy.

Sell-offs can be disconcerting, but history has demonstrated that stock markets have recovered, even from the worse sell-offs

S&P 500



*Source: Bloomberg, BIL, as of 17/3/2025: Log graph of **USD 10,000** invested in the S&P 500 in 1960 (including dividends)*
Note: Past performance is not a reliable indicator of future performance

Disclaimer

All financial data and/or economic information released by this Publication (the "Publication"); (the "Data" or the "Financial data and/or economic information"), are provided for information purposes only, without warranty of any kind, including without limitation the warranties of merchantability, fitness for a particular purpose or warranties and non-infringement of any patent, intellectual property or proprietary rights of any party, and are not intended for trading purposes. Banque Internationale à Luxembourg SA (the "Bank") does not guarantee expressly or impliedly, the sequence, accuracy, adequacy, legality, completeness, reliability, usefulness or timeless of any Data. All Financial data and/or economic information provided may be delayed or may contain errors or be incomplete. This disclaimer applies to both isolated and aggregate uses of the Data. All Data is provided on an "as is" basis. None of the Financial data and/or economic information contained on this Publication constitutes a solicitation, offer, opinion, or recommendation, a guarantee of results, nor a solicitation by the Bank of an offer to buy or sell any security, products and services mentioned into it or to make investments. Moreover, none of the Financial data and/or economic information contained on this Publication provides legal, tax accounting, financial or investment advice or services regarding the profitability or suitability of any security or investment. This Publication has not been prepared with the aim to take an investor's particular investment objectives, financial position or needs into account. It is up to the investor himself to consider whether the Data contained herein this Publication is appropriate to his needs, financial position and objectives or to seek professional independent advice before making an investment decision based upon the Data. No investment decision whatsoever may result from solely reading this document. In order to read and understand the Financial data and/or economic information included in this document, you will need to have knowledge and experience of financial markets. If this is not the case, please contact your relationship manager. This Publication is prepared by the Bank and is based on data available to the public and upon information from sources believed to be reliable and accurate, taken from stock exchanges and third parties. The Bank, including its parent,- subsidiary or affiliate entities, agents, directors, officers, employees, representatives or suppliers, shall not, directly or indirectly, be liable, in any way, for any: inaccuracies or errors in or omissions from the Financial data and/or economic information, including but not limited to financial data regardless of the cause of such or for any investment decision made, action taken, or action not taken of whatever nature in reliance upon any Data provided herein, nor for any loss or damage, direct or indirect, special or consequential, arising from any use of this Publication or of its content. This Publication is only valid at the moment of its editing, unless otherwise specified. All Financial data and/or economic information contained herein can also quickly become out-of- date. All Data is subject to change without notice and may not be incorporated in any new version of this Publication. The Bank has no obligation to update this Publication upon the availability of new data, the occurrence of new events and/or other evolutions. Before making an investment decision, the investor must read carefully the terms and conditions of the documentation relating to the specific products or services. Past performance is no guarantee of future performance. Products or services described in this Publication may not be available in all countries and may be subject to restrictions in some persons or in some countries. No part of this Publication may be reproduced, distributed, modified, linked to or used for any public or commercial purpose without the prior written consent of the Bank. In any case, all Financial data and/or economic information provided on this Publication are not intended for use by, or distribution to, any person or entity in any jurisdiction or country where such use or distribution would be contrary to law and/or regulation. If you have obtained this Publication from a source other than the Bank website, be aware that electronic documentation can be altered subsequent to original distribution.

As economic conditions are subject to change, the information and opinions presented in this outlook are current only as of the date indicated in the matrix or the publication date. This publication is based on data available to the public and upon information that is considered as reliable. Even if particular attention has been paid to its content, no guarantee, warranty or representation is given to the accuracy or completeness thereof. Banque Internationale à Luxembourg cannot be held liable or responsible with respect to the information expressed herein. This document has been prepared only for information purposes and does not constitute an offer or invitation to make investments. It is up to investors themselves to consider whether the information contained herein is appropriate to their needs and objectives or to seek advice before making an investment decision based upon this information. Banque Internationale à Luxembourg accepts no liability whatsoever for any investment decisions of whatever nature by the user of this publication, which are in any way based on this publication, nor for any loss or damage arising from any use of this publication or its content. This publication, prepared by Banque Internationale à Luxembourg (BIL), may not be copied or duplicated in any form whatsoever or redistributed without the prior written consent of BIL 69, route d'Esch ı L-2953 Luxembourg ı RCS Luxembourg B-6307 ı Tel. +352 4590 6699 ı www.bil.com.