MARKET INSIGHT

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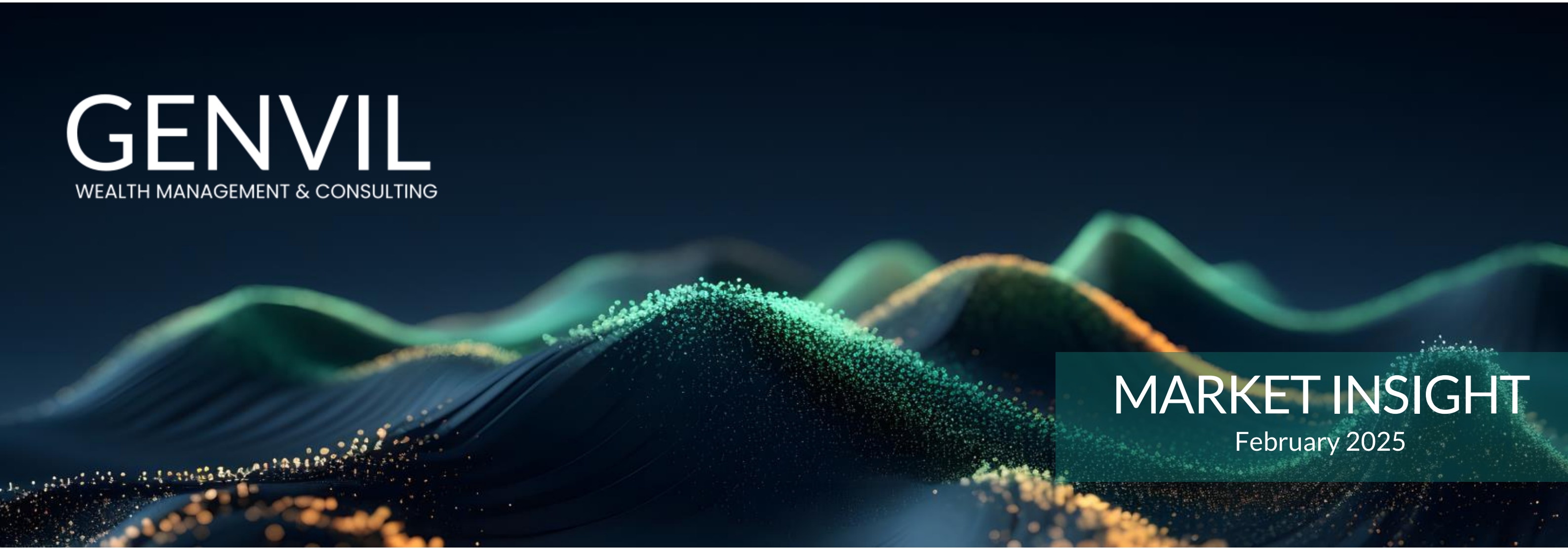
WEALTH MANAGEMENT & CONSULTING



Has Donald Trump Broken the Spell?

At first glance, everything seemed to be going well in the best of all possible worlds for financial markets—until the U.S. President "surprised" investors by introducing tariffs on Canadian, Mexican, and Chinese goods.

This perception must be put into perspective!

First, because the first weeks of 2025 were anything but smooth for the markets, justifying our concerns about increased volatility after a calm 2024 in this regard.

In fact, erratic movements in both bonds and equities largely characterized January; sharp fluctuations in U.S. 10-year yields have "set the tone" for all financial assets since January 1st.

It was, in fact, the release of "good" U.S. inflation data for December that facilitated a decline in yields and new record highs for the flagship U.S. index (S&P 500) in the second half of the month.

Furthermore, the issue of tariffs did not emerge out of nowhere; this topic has been on investors' minds since D. Trump's reelection.

The real problem lies elsewhere: the market's inability to "read" the signals sent by the White House. Because investors had too quickly bet on Trump's willingness to be more moderate on this issue, they were caught off guard by recent announcements, which dashed hopes for a more tempered second term.

For months now, we have been concerned about the issue of tariffs and, more broadly, the timing of Trump's economic policy implementation (see December's Market Insight). The decision to put the trade issue on the table so quickly could prove to be a dangerous choice for the real economy and investor sentiment.

« Sound management means not overexposing ourselves to equity risk. »

FRANÇOIS SAVARY, CIO

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First, because the effects of these measures on the American consumer—the main driver of domestic economic growth—could be negative (something Trump himself has acknowledged) in the short term, both in terms of purchasing power and the inflationary risk they create.

Second, because the President does not yet have certainty, despite his claims, that he will be able to convince Congress to pass the tax cuts he promised during his campaign—an important pillar of his plan to strengthen the U.S. economy in the medium term.

Finally, because this "aggressive" policy—interpreted by some as an attempt to negotiate from a position of strength rather than a definitive measure—could plunge the world into a trade war, the outcome of which is uncertain but whose negative short-term consequences on economic activity are undeniable.

The resurgence of market volatility, especially in equities, is therefore entirely logical in the increasingly uncertain environment of the past few months.

Adding concerns about short-term economic and earnings growth—when investors are already navigating uncertainty regarding monetary policy and long-term U.S. interest rates—reinforces our conviction that we will face heightened market volatility in 2025.

This is especially true given that the "Deepseek shock" raises questions about American exceptionalism and, more importantly, the risk of overinvestment by the "Magnificent 7" in artificial intelligence infrastructure.

All of this suggests that current conditions are not conducive to adding risk to portfolios.

Following the logic of our message last month, which emphasized our intent to manage market volatility in 2025, we do not believe that recent developments have created an opportunity to buy equities on weakness.

Without recommending a defensive stance on stock markets, we reaffirm our advice not to overexpose portfolios to equities—particularly in the U.S., where valuations are unappealing.

Regionally, we indicated last month our intention to seize opportunities in European stocks. We acted accordingly in recent weeks.

The outperformance of European stock markets in January is therefore a source of satisfaction. However, Europe has much to fear from U.S. tariff actions, which will eventually be implemented.

« Gold continues to provide strong returns. »

Therefore, we see a continuation of European stock outperformance as less likely until we have greater visibility on the U.S. trade measures targeting the Old Continent.

In an environment where trade tensions tend to support the U.S. dollar, we recommend limiting exposure to emerging market equities, which have everything to lose from a slowdown in global growth and rising inflation risks. A stagflationary shift could further constrain the Federal Reserve's ability to manage its monetary policy.

Bonds, Currencies, and Gold

On the bond front, we still do not rule out a test of 5% on the U.S. 10-year yield. If the Trump administration’s protectionist measures are confirmed, we believe they would increase the likelihood of such a development.

As a result, we have not increased portfolio duration since our last publication, despite an initial test of the 4.80% zone on U.S. sovereign yields.

Given the shape of the yield curve and the rising economic uncertainties caused by U.S. trade measures, we are maintaining a short-duration strategy for fixed-income assets.

On the currency front, our dollar targets, revised last month, remain valid. A test of parity in the Euro/USD exchange rate is possible in the coming months. However, we maintain our view that it will be wise to reduce long-dollar exposure if the U.S. currency approaches these levels in the short term.

Despite its recent consolidation against the Euro, the Swiss franc remains an attractive investment amid growing uncertainties and the prospect of heightened financial market volatility.

Maintaining good exposure to the Swiss currency seems like a wise choice.

Finally, gold continues to provide strong returns. Beyond temporary consolidation phases, gold prices are clearly in an uptrend, reinforced by January's excellent performance (+7%).

For several months, we have set a target of USD 3,000 for gold in 2025. We are approaching this target, but the current climate—favorable to safe-haven assets—should persist.

We maintain substantial positions in gold within our investment strategy. At this time, we are not adjusting our price target.

Conclusion: Keeping Calm in Market Volatility

Remaining calm during January's erratic movements proved to be a good approach for our strategies, which are clearly in positive territory year to date.

Have Trump's initial tariff measures broken the spell of the "bull market" of the past 24 months?

That is a difficult question to answer definitively.

However, it is reasonable to consider that his decision to implement his "America First" agenda—focusing on illegal immigration and trade policy—demonstrates that, like Margaret Thatcher in her time, Trump has no intention of backing away from his campaign promises. This is something to keep in mind.

By alternating between aggressive and conciliatory trade rhetoric, the American leader has intensified concerns about a key factor for stock market prospects in 2025: economic and earnings growth.

Since investors had come to see the soft-landing scenario as a certainty and double-digit earnings growth as a given, the shock of tariff announcements was bound to have consequences.

Our targets for the leading U.S. stock index (S&P 500) remain reasonable (6450) compared to a much more optimistic consensus. Recent developments do not encourage us to revise them upwards.

Last month, we emphasized the need to manage volatility in 2025. The first weeks of the year have been a real-world test of what this means, with one key takeaway: staying calm and avoiding impulsive actions.

The economic and financial environment has not become any clearer, due to both the Deepseek shock and (potential) trade policy developments.

Bonds remain the most at risk in the event of a stagflationary shift in the global economy, justifying our cautious stance on this asset class.

Finding diversification vehicles and/or safe-haven assets (gold) remains a wise option in investment strategy. We overweight these assets in our allocation.

Finally, **a prudent approach to risk management leads us not to overexpose portfolios to equity risk.**

The shock of Trump's protectionist announcements did not particularly surprise us. It would be incorrect to say they have completely broken the stock market's bullish trend.

Rather, they serve as a **warning shot**—one that should encourage vigilance, flexibility, and, most importantly, avoiding overly optimistic assumptions about stock market potential in 2025.

Moreover, we should not let tariff threats distract from the Deepseek shock, which has potentially significant structural consequences for the future of artificial intelligence. This development could challenge the "Magnificent 7's" ability to perpetually drive the stock market higher.

Diversifying U.S. equity exposure from a market cap-weighted approach to a more equal-weighted strategy was already part of our tactical bias, as was strengthening the small- and mid-cap segments (which are more domestically focused).

We reaffirm these choices in light of January's market developments.

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GENVIL
WEALTH MANAGEMENT & CONSULTING

Cédric Mondada
Founder

cmondada@genvil.ch
+41 22. 716. 03. 02.
+41 79. 817. 96. 87.

François Savary
Founder

fsavary@genvil.ch
+41 22. 716. 03. 01.
+41 79. 658. 08. 64

GENVIL Wealth management & Consulting S.A
Rue Claudine-Levet 7
1201 Genève
www.genvil.ch