MARKET INSIGHT

March 2025

GENVIL
WEALTH MANAGEMENT & CONSULTING

GENVIL
WEALTH MANAGEMENT & CONSULTING

MARKET INSIGHT
March 2025

Doubts Arise About Growth in Uncle Sam's Land. Equities Bear the Brunt

A 30-basis-point drop in the U.S. 10-year yield over a few days is not a common occurrence.

We must immediately acknowledge that we were not positioned to take advantage of such a development, given our reaffirmed decision at the end of January not to increase the duration of our bond portfolios.

Investor expectations regarding Federal Reserve rate cuts have strengthened in recent weeks, with two cuts now priced in for 2025. This reflects growing concerns about a potential slowdown in the U.S. economy.

Last month, we wrote:
"By blowing hot and cold on trade policy, the American leader has fueled uncertainty around a key factor for equities in 2025: economic and earnings growth."

The situation has not improved in recent weeks, as the disruptive nature of the new U.S. administration is becoming increasingly evident.

Beyond the unease stemming from the emerging international disorder, investors are on high alert.

Several recent U.S. economic indicators have disappointed across multiple fronts, including retail sales, consumer confidence, the real estate market, and business sentiment as measured by the PMI services index.

« Everyone can see the disruptive nature of the new U.S. administration »

FRANÇOIS SAVARY, CIO
GENVIL SA

Investor nervousness, particularly in U.S. equities, is understandable. The S&P 500 erased all its year-to-date gains in just two weeks.

We had feared that the economy would eventually suffer from excessive activism by the new U.S. administration, and it did not take long for our concerns to materialize. However, we remain cautious about drawing premature conclusions regarding the future of the U.S. economy.

Given our ongoing views on:

1. A structural increase in volatility across risk assets
2. The need for active volatility management in 2025
3. Our skepticism about the "goldilocks" scenario for the U.S. economy

Despite some profit-taking at the end of the month, gold continued its strong start to the year, delivering remarkable absolute and relative performance. We maintain our strategic bias toward the yellow metal.

While ceasefire prospects in Ukraine have improved recently, we remain unconvinced that the overall geopolitical climate has become any clearer.

Additionally, the CDU's victory in the German elections should not overshadow the rise of political extremes, a trend observed globally.

An unstable international system combined with fragmented domestic politics fully justifies maintaining our $3,000 target for gold in the coming months. An extension toward $3,100 now seems plausible, prompting us to adjust our 2025 target accordingly.

"It seems wise not to rush into the duration trade in the U.S."

The accumulation of mixed economic data has led us to adjust our asset allocation.

Specifically, we opted to reduce our equity exposure in mid-February, reallocating part of our portfolios to cash. We locked in profits and brought our equity positioning back to a neutral stance.

This tactical adjustment is based on:

1. The strong equity performance since the beginning of the year, particularly in Europe
2. Market valuations leaving little room for disappointment
3. A geopolitical landscape that lacks clarity

This does not represent a lasting rejection of risk assets but rather a prudent risk management approach aligned with our reasonable year-end 2025 targets for major indices, including an S&P 500 target of 6,450. Cash can be redeployed when attractive opportunities arise.

With declining economic visibility due to U.S. developments and a U.S. dollar struggling to regain momentum, further upside for gold appears likely. Any extended consolidation around $2,800 should be seen as a buying opportunity for investors looking for an entry point.

The U.S. dollar remains within the 1.00-1.05 range we projected for Q1 2025.

We maintain our view of a weaker dollar in the second half of the year, a scenario that could materialize even sooner if U.S. economic data continues to suggest an unexpected slowdown. We continue to recommend using short-term USD strength to reduce portfolio exposure to the dollar.

In Switzerland, slightly stronger-than-expected core inflation figures for January have tempered expectations of a return to negative interest rates on the Swiss franc.

We had expressed skepticism about such a scenario, and we take note that consensus views have now aligned with ours. We maintain our EUR/CHF targets at 0.92 and potentially 0.90 by year-end 2025.
Given the continued appeal of safe-haven assets, maintaining a solid exposure to the Swiss franc remains prudent, particularly in equities and real estate.

As risk appetite declines, the Swiss stock market offers defensive and financial stocks that deserve a place in a diversified portfolio.

Overall, our commitment to diversifying away from U.S. equities and the artificial intelligence theme has led us to seize opportunities in Swiss stocks over recent months. We remain committed to this approach.

The yen has gained 5 percent against the dollar since January 10.

This appreciation is largely due to:

- Increased expectations of interest rate hikes by the Bank of Japan in 2025
- Strong economic data
- Inflation concerns

The Bank of Japan faces a delicate balancing act: preventing a premature reversal of its exit from deflation while ensuring that inflation does not spiral out of control.

We still expect two rate hikes in 2025, and we see 140 as a credible target for USD/JPY in the coming months.

We acknowledged at the outset that we missed the sharp drop in U.S. long-term yields in recent weeks.

While our incorrect duration positioning represents an opportunity cost, the strong performance of fixed-income assets, particularly corporate credit, has benefited our portfolios.
We maintain our bond strategy, focusing on:

- Overweighting corporate debt
- Maintaining moderate duration exposure

Because:

- The inflationary impact of tariffs remains uncertain
- U.S. public finances are deteriorating rapidly

U.S. 10-year sovereign yields do not offer enough risk premium to justify extending duration at this stage.

The fragile U.S. budgetary outlook adds another layer of uncertainty. As deficits widen under the pressure of rising debt interest payments, negotiations on spending cuts to finance tax reductions promise to be complex.

We remain underweight sovereign bonds in favor of credit, given worsening public finances across developed economies.

February was not much different from the previous month. Investors remained cautious about equities despite a solid earnings season with generally conservative outlooks.

The strong rally in gold and the correction in cryptocurrencies highlight investors' risk-management priorities, a view we share.

Duration trades should be approached with caution, despite their February rebound.

Our early 2025 strategy of increasing exposure to European equities over U.S. stocks has paid off, with Europe outperforming by around 4 percent in February.

While February marked a period of growing challenges for the European project, we stand by our tactical preference for European stocks.

As for whether this should be a long-term strategic shift, we are not yet in a position to say. We will closely monitor Europe's ability to implement concrete policy measures in the coming months.

Our decision to reduce exposure to U.S. equities and lessen our reliance on AI-driven themes has been validated by the stronger performance of defensive stocks.

Reducing passive market-cap-weighted exposure, where technology accounts for around 35 percent of the S&P 500, in favor of an equal-weighted ETF has been a winning strategy both year-to-date and in February.

However, our move to overweight U.S. small and mid-caps has not yet been successful, with a 3 percent underperformance in February.

We remain committed to this approach given heightened global trade tensions and a favorable U.S. interest rate environment.
We are currently looking for an entry point into European small and mid-caps via a diversified, growth-style product.

Risk management remains our priority for 2025.
Overweighting gold, the Swiss franc, and alternative strategies has proven beneficial.
We trimmed equity exposure and increased cash holdings.

The shift from technology stocks to more defensive segments aligns with our cautious stance.

We still see upside potential for equities by the end of 2025, but it will be more limited and less linear than in recent years.
Patience and selectivity will be key.
Geneva, March 1, 2025

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