MARKET INSIGHT

April 2025

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The Time for Negotiations Begins in a World That Has Definitely Changed!

The first quarter of 2025 will go down in history for several reasons, starting with the acceleration of the bullish momentum on the yellow metal. Gold has gained nearly 20% since the beginning of the year and almost 10% in the month of March alone.

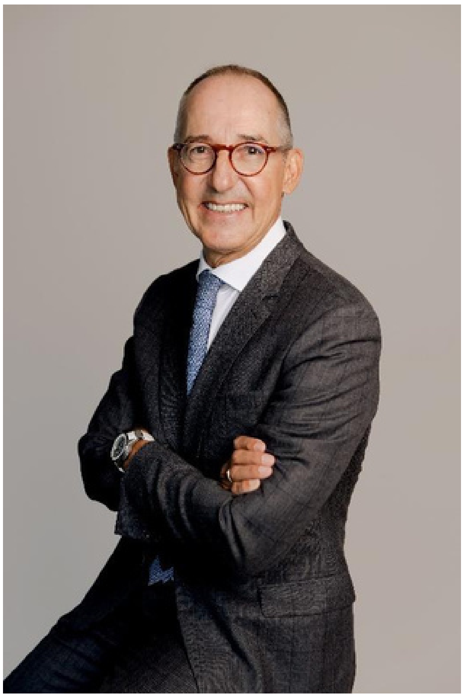
At the same time, U.S. stocks experienced one of the fastest corrections (-10%) in history, while erratic movements in U.S. Treasury bonds became more frequent.

The combination of these factors, along with the worst relative performance of U.S. stocks compared to their international counterparts since 2009, has contributed to the feeling of a deep and rapid destabilization of investor confidence.

We entered the new year with a U.S. stock market that "priced" perfection and expected the Trump 2 administration to be similar to the first. However, it turned out very differently, much like the "Liberation Day" on April 2!

It is the choices made by the new leadership team in Washington to engage in a tariff conflict and streamline the administrative apparatus across the Atlantic from the start of its tenure that have fueled a massive increase in uncertainty. In such a context, the behavior of financial markets can be explained by the significant reduction in visibility on the economic cycle.

Because we were uncomfortable with the commercial developments, we decided (not sufficiently, in hindsight) to reduce our exposure to stocks in February, while once again reiterating our positive view on the yellow metal in our last monthly letter. At that time, we set a target of USD 3100 for gold by the end of 2025.



"We remain heavily invested in the yellow metal."

FRANÇOIS SAVARY, CIO

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The developments of the past weeks and the heightened uncertainty, which reached its peak with the introduction of the highest U.S. tariff rate since the 1930s, have led us to raise our target for gold to USD 3200 in the coming months.
This is to say that the recent developments, which are unsettling investors, will not dissipate quickly given the ongoing geopolitical changes (defense, international trade, etc.).

On the macroeconomic front, while real data is slightly declining, it remains of better quality than surveys on U.S. consumer and business sentiment. This environment, however, points toward an increased risk of stagflation in the U.S., especially after the recent tariff decisions.

sustained return of volatility in the markets has been part of our outlook for several months.

- While some institutions, such as Goldman Sachs, have significantly increased the probability of a recession, we do not have sufficient statistical data to justify such pessimism. On the contrary, we can say that the market consensus has significantly adjusted downwards on economic prospects; in other words, the "damage is largely done" to the stock markets, although we cannot rule out a test of the 5200-5300 level on the S&P500 in the very short term.

« We cannot exclude that the lack of political and economic visibility is close to its peak."

In this regard, our assessment of possible scenarios for the global economy now implies an increased probability of U.S. stagflation (from 20% to 25%), to the detriment of any better scenario than our central view of a "soft landing" (50%) for the economy. However, we have not changed our estimate of the risk of recession (25%).

We are thus confronted with a deteriorated alternative for the future of the global economy compared to just a few months ago.

As a result, we have revised our potential for U.S. stocks downwards to 6200 (from 6450 previously) by the end of 2025.

However, we have not reduced our exposure to stocks in the past few weeks. Several factors explain this choice:

- The correction in stocks, especially U.S. stocks, was swift, coinciding with a sharp increase in negative sentiment among traders.
- The rise in volatility did not surprise us, given the complacency of investors at the start of the year, a phenomenon we had mentioned several times. The
- Furthermore, while the U.S. has announced its "massive trade attack" plan, it seems reasonable to think that we have reached the most acute phase of this crisis, which has pushed the average U.S. tariff rate to record levels in a century. Washington will likely pursue a negotiation strategy from a strong position in the coming months.
- We must not make the same mistake twice! If investors refused to see the tariff risk at the end of January, despite clear proposals during the election campaign, we must keep in mind that D. Trump's action plan also includes tax cuts, which could be a potential support factor for risky assets in the medium term.

In other words, while we do not deny the negative effects of the stock market correction on portfolio performance, it does not seem wise to reduce their weighting under the current conditions.

Although our target of 5500 on the S&P500 was tested twice in the past few weeks, we still do not recommend making purchases on weakness.

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The scale of the damage to sentiment, induced by questioning American exceptionalism and the new international order taking shape, cannot be erased quickly.

A stabilization in the leading market appears to be a prerequisite for any recovery of the bullish trend in the stock markets in the more distant future.

The Fed's resumption of interest rate cuts in the second half of the year, coupled with progress on fiscal matters in Congress, should provide support for stocks in the medium term.

In short, we cannot exclude that the lack of political and economic visibility, which has increased significantly since February 1, may be close to its peak. This is a central hypothesis that explains our decision to maintain an unchanged weighting in stocks.

On the currency front, the dollar has clearly broken the stabilization zone between 1.00 and 1.05 against the euro, following the U.S. trade decisions (a nearly 6% decline in the USD since the end of February).

As a reminder, we have always advocated a scenario of moderate depreciation of the greenback by the end of 2025. We reaffirm this, especially as expectations of rate cuts by the Fed are strengthening, while those for the ECB are tending to decrease. We are raising our target for the EUR/USD pair to 1.12-1.15 over the next 12 months.

We recommend taking advantage of any short-term periods of strength to reduce the dollar exposure of portfolios.

The Swiss franc also suffered from renewed interest in the European currency in March, regardless of the Swiss National Bank's decision to lower its key interest rate. In this regard, we reaffirm the idea that the Swiss authorities should not resort to negative interest rate policies in the coming quarters.

Due to budgetary stimulus announcements in Germany and the common defense spending plan, we are raising our Euro/CHF fluctuation range to 0.92-0.97 for the coming months. Our target for the end of 2025 remains 0.92.

In an environment where safe-haven assets remain in demand, having good exposure to the Swiss franc is opportune. In this regard, we introduced Swiss real estate positions in our allocations in March.

On the bond front, the decline in long-term U.S. rates has accelerated due to trade tensions, facilitating positive performance for global bond indices in USD. Indeed, despite tensions on spreads, corporate debt has progressed in March.

The change in probabilities regarding economic scenarios leads us to revise our target range for the 10-year U.S. Treasury to 4.50% by the end of the year.

This suggests that the "air pocket" in U.S. growth should be temporary. Moreover, it is important to note that any progress towards an extension of the 2017 tax cuts could result in a reduction in tax receipts of USD 4.6 trillion compared to projections over the next 10 years.

In a high budget deficit context, this factor should caution against overestimating the potential for U.S. yield reductions. This is especially true since foreigners hold nearly a quarter of this debt.

In an environment of heightened international tensions, it still seems appropriate to limit holdings of government debt and maintain a moderate duration.

We have favored corporate debt in our bond strategy for several quarters. While we maintain this bias, we are making marginal adjustments due to our cyclical evaluation and tariff developments. If we maintain a short to medium duration approach, we also advise a heightened focus on debtor quality.

In conclusion, we are fully aware that we are living through a troubled period of profound changes in the architecture of international, economic, and geopolitical relations.

The rise of fears has led to violent movements in financial assets, penalizing portfolio performance.

Can the horizon clear up? We believe there are reasons for hope, but we maintain our judgmental attitude based on facts, which led us to reduce equity risk and increase liquidity in February. Certainly, the movement could have been more pronounced...

The financial market warning shot should not lead us to deviate from certain long-term conclusions (risk on government debt, caution on the dollar, search for safe assets) while navigating tactically based on the facts and beyond excessive fears/optimism.

Our choice to maintain our exposures as they are stems more from our assessment that the peak in investor fears may have been reached.

Furthermore, we must not forget that certain support factors for stocks (tax cuts and interest rate cuts) could allow for stabilization and then a recovery in stock prices.

Staying the course is never easy, but it is even more difficult when financial assets enter phases of sharp and rapid correction.

While we have decided to refrain from increasing risk for now, we do not rule out adopting a more constructive stance on equities in the coming months, depending on the concrete elements we face.

At the same time, we remain committed to our gold investments to face stock market volatility, regardless of the fact that the yellow metal has soared from record to record.

Geneva, April 2, 2025

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