

Strategy Update  
Q1 2025

**Foreword by Steffen Bauke, CEO**

Dear Investors,

Think of Q1 2025 as the hangover after the sugar rush of last year. Markets experienced volatility during February, with inflation sticking, tech stocks fizzling, and Trump teasing tariffs like it was just a game. Then he pulled the trigger, in a way and to an extent that surprised everybody. The S&P 500 lost 15%, Nasdaq was flirting with bear-market territory, and even Europe's DAX wasn't spared. The Hang Seng, once hyped as the next big thing, took a punch.

US Treasuries tried to be the hero, with yields jumping to 4.8% before taking a breather, but credit spreads got ugly as investors remembered that "higher for longer" isn't just Fed talk - it's a serious risk. Meanwhile, the USD, which usually holds up during chaos, slid over 4% after the tariff talk ramped up. Gold did its thing before margin calls hit and ended the quarter in the green.

When the tariffs dropped, the world responded. China retaliated hard, Canada slapped a 25% tariff on US cars, Mexico wasn't far behind, and the EU? They're still figuring out their move. But the real mess? The uncertainty. It's like standing in the eye of a storm - no one's making moves. No buying houses, no hiring, no investing in anything. Europe was on a solid path until April 2<sup>nd</sup> hit - unemployment was low, inflation was steady, and things seemed to be clicking. But Trump's tariffs wrecked the vibe. Over in China, they tried to soften the blow with fiscal support, but the damage was done.

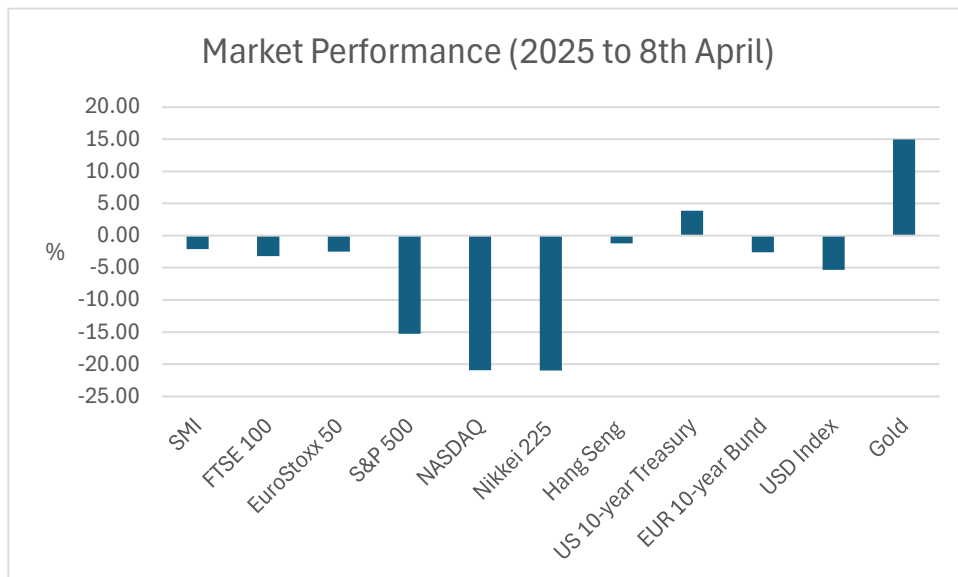
Bottom line? Strap in and stay flexible and nimble. We continue to be highly diversified but prefer a conservative asset allocation, favoring Cash, High Grade bonds and diversified bond funds, safer Equity markets (such as Switzerland) and Sectors (such as Consumer Staples and Utilities), and Gold.

Zurich, April 9<sup>th</sup>, 2025



## Market Review: Q1 2025

If Q1 2024 was a sugar high, Q1 2025 was a salt low. And that even without discounting what would happen just 48 hours from the quarter’s end on April 2<sup>nd</sup>. Equities bled across the board even before “Liberation Day”, as markets digested the triple-whammy of sticky inflation, collapsing tech multiples, and Trump’s early tariff rhetoric (as it was just rhetoric back then, with a strong hint given by the April 2<sup>nd</sup> deadline). And after the announced tariffs, it seems like we live in a different place and time. The S&P 500 is now down 15%, the Nasdaq is in bear-market land, the miracle child of Europe (the German Dax) in correction territory (dropping by more than 10%) and the Hang Seng (by many considered as the missed opportunity of 2025) down almost as much as the Nasdaq. US 10-year Treasury yields came to rescue, spiking first to 4.8% to then retrieve back to just above 4.35% while the German bund moved in the opposite direction, as Europe decided to increase their defense spending, undoing months of rate-cut optimism (still on the table now). Credit spreads widened sharply—particularly in high yield—as investors remembered that “higher for longer” isn’t just a Fed slogan, it’s a default catalyst. The dollar held up well until when the rhetoric on tariff strengthened and, from the end of February, lost over 4%. Gold, in contrast, reclaimed its role as a geopolitical hedge, hitting several all-time highs until when margin calls kicked in (but it’s still one of the few assets in positive territory).



Source: Marketmap, Belvoir Capital AG

## And then came the tariffs...

Trump’s reciprocal tariffs are neither reciprocal nor tariffs. If they were, countries would suffer the same (or similar) duties as those they levy against the US. Not even close. For instance, according to the World Trade Organization, the trade-weighted average tariff of the EU vs. the US is equal to 2.7%. How do we explain a “reciprocal” tariff of 20%? And Switzerland? We charge 1.7% and we get 31% (and we’re lucky: Cambodia feels the largest pain, with a gap of 7.9% vs. 49%). It is now clear how these “tariffs” on the US have been calculated. They are not tariffs, but rather the trade deficit (excluding services) divided by imports from that country. So, how can we explain that some Latin American countries (such as Argentina, El Salvador, Panama, and Guatemala) run a trade deficit with the US and still get a 10% “tariff”? A mystery. Or maybe not so.

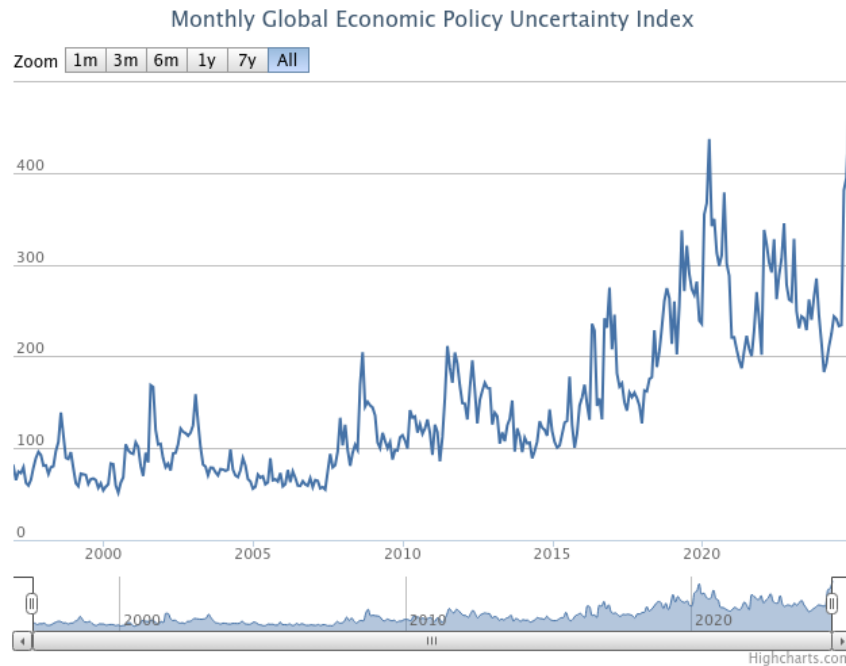
	White House tariffs	WTO weighted average	Difference
Cambodia	97.0%	7.9%	89.1%
Vietnam	90.0%	5.1%	84.9%
Thailand	72.0%	6.3%	65.7%
China	67.0%	3.0%	64.0%
Taiwan	64.0%	1.7%	62.3%
Taiwan	64.0%	1.7%	62.3%
Switzerland	61.0%	1.7%	59.3%
Indonesia	64.0%	5.3%	58.7%
SAfrica	60.0%	5.8%	54.2%
Japan	46.0%	1.9%	44.1%
SKorea	50.0%	8.4%	41.6%
India	52.0%	12.0%	40.0%
EU	39.0%	2.7%	36.3%

Source: The White House, the World Trade Organization

Since December last year, mindful of Trump’s actions during his first term as well as of his 2024 political campaign, we’ve debated why the President is going full-in with new tariffs. We think there are four reasons: three conventional and one ... more surprising. So, let’s start with the first three: repatriation of production, extra revenues for the government, and negotiation tactics.

Firstly, the MAGA motto implies the repatriation of production to the US and the early signs of success include investment pledges from TSMC (Taiwan), Hyundai (South Korea), Volkswagen (Germany), Volvo Cars (Sweden, China-owned), Nissan and Honda (Japan), and even Eli Lilly and

Johnson & Johnson (US). Secondly, Donald Trump needs extra revenues if he intends to finance further tax cuts (besides the DOGE’s efforts to slash non-defense expenditures by USD 1tr from USD 1.8tr by May 2025, target which in our opinion is unattainable). Tariffs are a way to do so. Duty revenues are expected to generate between USD 2tr and USD 3.3tr over the next 10 years. According to our calculation, tariffs just imposed to the top 27 countries amount to over USD 818bn. Lastly, as we have previously written, Donald Trump is a transactional guy. He will use tariffs as a negotiating tool for most countries while, in our opinion, he will keep permanent duties on countries representing an existential threat, the “Non-Reciprocal-Tariff Countries”, such as China. There’s a fourth reason that explains not only tariffs but also all the uncertainty surrounding them: the need for lower refinancing rates. The United States sit on a massive load of debt of roughly USD 36.2tr, with about 25% of it maturing in 2025. In 2024, interest expenditures surpassed the cost for Defense and Medicare at USD 1.126tr (USD 251bn more than in 2023). The US can’t afford to pay as much. Yet, the Fed Chair J. Powell is in “no rush to cut interest rates”. Could today’s uncertainty - and its impact on jobs, sentiment, consumption, and capex - be a tactic to pressure the Fed into cutting faster? We think it’s a key, though not exclusive, reason.



Source: [www.policyuncertainty.com](http://www.policyuncertainty.com)

Nobel laureate Paul Krugman didn’t hold back. The economist lit into Trump’s April 2025 tariff bombshell with a mix of disbelief and exasperation. “Donald Trump burned it all down”, he wrote in his Substack, shaking his virtual head at the 10% blanket tariff and the even steeper penalties slapped on some countries. To Krugman, it wasn’t just bad policy - it was “malignant stupidity”.

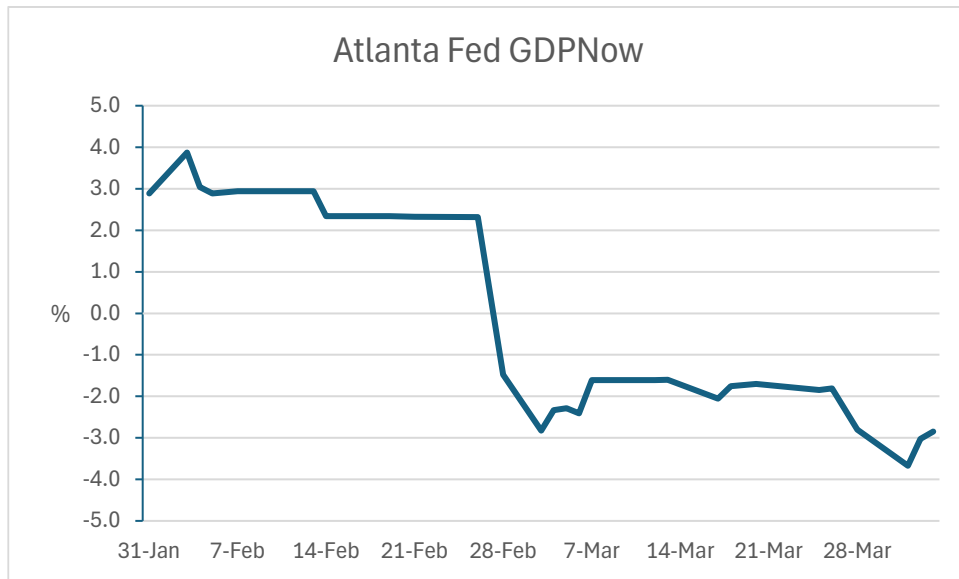
That’s not a term economists throw around lightly. “If this keeps up”, he warned, “the 2020s won’t be remembered for AI or climate policy but for killing the world economy in slow motion”. According to Krugman, what harms most of this policy is not the policy per se, but rather the ripple effect of uncertainty. China responded to the 34% additional tariff (on top of previous 20%) with an equal tariff, to which the US replied with a brand-new 50% duty. Canada imposed a 25% tariff on U.S. cars and trucks, a direct hit to the American auto industry. Mexico took a more measured approach. While they prepared a list of potential tariffs targeting U.S. agricultural products like pork and cheese, they held off immediate implementation. Vietnam is in negotiation mode while the European Union is drafting a package of countermeasures, hoping to be able to avoid them.

This continuous back and forth, 10% and then 200%, Canada and Mexico but maybe not, soybeans and perhaps also pork belly is unnerving to markets for a simple reason: people act based on assumptions about the future and, if the future is utterly uncertain, what do they do? They stay put: they don’t buy houses, they don’t hire new staff, they don’t invest in new facilities, they don’t enroll their children in expensive private schools. In brief: they don’t.

## Economic Overview – Smelling recession

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It is sometimes hard for economists to deal with data, as they are generally neither black nor white. Not this time. The picture is much clearer than in the past: the United States is facing headwinds while Europe is finally showing signs of recovery, at least until a few days ago. Markets were shocked by release of the GDPNow from the Federal Reserve of Atlanta. The indicator estimates the quarterly US GDP based on high-frequency data and it gets more accurate as it approaches the end of the quarter. Well, the readings look like the chart below. The last time the GDPNow predicted an economic contraction was in Q2 2022, when the US economy dropped by 0.6%. So, brace for impact? Yes and no. Today’s data is highly skewed by Trump’s tariffs. As US companies saw tariffs coming (not this high), they front loaded months’ worth of imports in January and February. However, other indicators point in the same direction (employment, consumer sentiment, inflation). Many banks have revised their probability of a recession in the US, most to "close to 50%", but below. All things equal, we think that the US economy is already in recession: it's just that numbers don’t show it yet. How long? How harsh? It’s difficult to say. But even if we are wrong and we won’t see a “technical recession” (two consecutive quarters of negative GDP growth), we believe we will experience a shocking slump in growth.



Source: Atlanta Fed, BlueChip Economic Indicators, Blue Chip Financial Forecasts

Things are different in Europe. Before Trump’s sledgehammer, numbers looked good. Unemployment hit an all-time low of 6.1%, sentiment indicators were pointing at an expansion, and prices had stabilized around 2.2%-2.4%, still above the long-term target of the European Central Bank but heading downwards. And just now we are starting to see the first impact of the new trade policies. It’s like a storm - first, you feel the wind picking up, then comes the heavy rain. Early signs of concern just appeared in the Eurozone Sentix Investor Confidence index, published on April 7<sup>th</sup> but surely referring to the pre-April 2<sup>nd</sup> announcement. The index, showing the 6-month economic outlook of 2,800 investors and analysts, was improving towards expansion and the last reading shows a massive drop to 2023 levels.

While Chinese numbers are less univocal, the recent National People’s Congress meeting confirmed the 5% GDP growth target and delivered a nice package in support of the economy, including a special action plan to boost consumption, new fiscal measures to ignite investments, and social support initiatives. Nothing unexpected, but pleasant. But China’s firepower comes to help after Trump’s mission to fight against its major existential threat.

## Central Banks – The Big Catch-22 in the US

Global Central Banks are likely to intervene (the Reserve Bank of India already acted following Trump's recent actions). We think that the European ECB and the Swiss SNB will continue to support their economies. The strong policy and economic uncertainty fueled by the current trade war will soon infiltrate and twist the numbers. The strong appreciation of the EUR and the CHF against the USD are just exacerbating a projected slowdown in demand and will soon force both Central Banks into action. The same holds true for China. The Asian country is (1) accelerating monetary easing; (2) cutting reserve requirement ratios and interest rates to stimulate demand; (3) increasing special treasury bond issuances; (4) supporting central government-owned enterprises in conducting share buybacks; and much more.

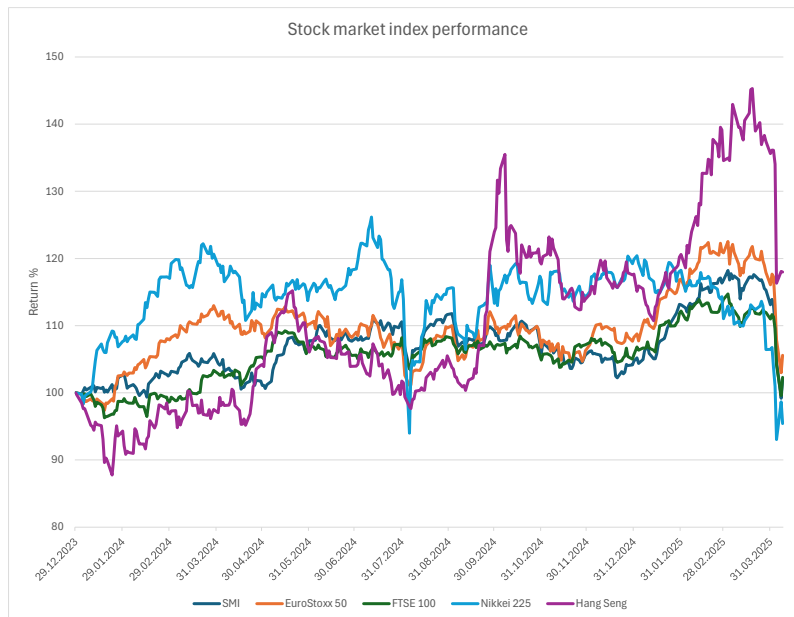
Meanwhile, the Fed faces a typical catch-22 dilemma: growth is clearly slowing and will slow much further in the US, and that is an incentive to cut. However, tariffs might lead to an increase in inflation, and that is an incentive not to cut. As we see it, the Fed will be forced to reduce rates more than the 1-to-2 times implied by the market as inflation won't be a major issue in the next 12 months. Surely, some products will cost more (imported autos are expected to sell at USD 5-15k more and domestic autos between USD 3k and USD 8k more). However, in an economy with rising unemployment and plunging consumer sentiment (among other indicators), we doubt that companies will be able to pass through most of the higher input costs. Instead, they will partially absorb them and accept lower margins.

Central Bank	Reference Rate	Forecast 2025
<b>US Federal Reserve</b>	4.50%	-88bps
<b>European Central Bank</b>	1.65%	-108bps
<b>Bank of England</b>	4.50%	-76bps
<b>Bank of Canada</b>	2.75%	-118bps
<b>Reserve Bank of Australia</b>	4.10%	-70bps
<b>Reserve Bank of New Zealand</b>	3.50%	-100bps
<b>Swiss National Bank</b>	0.25%	-35bps
<b>Bank of Japan</b>	0.50%	+75bps

Source: Marketmap, Bloomberg

## Equity markets – Stay humble

Equity indexes have entered correction-land, after two years of positive performance. Before “Liberation Day”, we have experienced diverging returns, with the US equity markets dropping by 8-12% from 19<sup>th</sup> of February while their European counterparts remaining more resilient, particularly the German DAX. This relative (out)performance back then was explained by improving macroeconomic data, conservative sectors’ focus, and a clear accommodative path of the European Central Bank (while some might argue that Trump’s tariffs will bring much higher inflation for the long term - just to be clear, not our base case – and thus more hawkish Fed, there’s no doubt that the ECB will continue to be nice to markets).



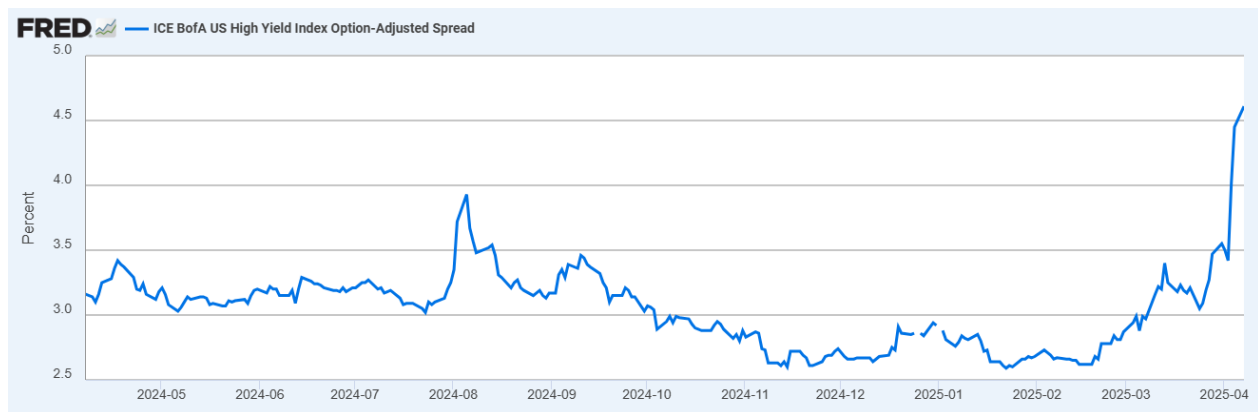
Source: Marketmap, Belvoir Capital AG

2025 will be remembered for experiencing the fourth worst 2-day market drop of over 10%. Before that are only Black Monday (October 1987), Covid-19 (March 2020), and the Global Financial Crisis (November 2008). Have we seen enough? If we look at the past (a dangerous exercise, but still an anchor for judging the current situation), we have seen much worse. The Dot-com bubble (-48.5%), the Lehman Era (-56.7%) and Covid (-33.9%). Have we gone too far? Analysts often look at simple valuation metrics to answer this question, such as the price-to-earnings (or PE) ratio. Three considerations are worth making. Firstly, from a historical standpoint, we are at best around the average or above it and the only “undervalued” markets are to be found in Asia (e.g. Hong Kong, Indonesia, Korea), where policy uncertainties are at the highest. Secondly, while

prices (the numerator) have gone down, earnings (the denominator) have not yet discounted any harsh scenario but could, any time soon. Just as a reference, US earnings growth in the US has been revised downwards from +11.7% to +6.9%. The downside risk to these estimates, in our opinion, is higher than the upside risk. And lastly, the famous ‘90s saying “never catch a falling knife” always applies. Valuations work in the long-term while news flow and momentum apply for the short term (weeks). And both news flow and momentum do not suggest actively trying to time the market.

## Fixed Income Markets – Quality-only

If you want further proof of diverging returns between the US and Europe, take a look at the boring (but not-so-boring anymore) government bond market. When there’s uncertainty, markets tend to find good shelter in US Treasuries. It’s been the case, recently. In just 10 days, the yield dropped from 4.62% to 3.90%, yielding a total return of about over 4% (just for reference, the S&P 500 in the same period lost over 12%, speaking of diversification...). At the time of writing, the 10-year Treasuries yield roughly 4.3%. From a historical perspective, this is a high rate. To find rates between 4.3% and 5% (just like in the last 4 months), we must go back to June 2007. Unless we believe that the US economy is broken (no, we don’t) or that tariffs will bring inflation to 5-6% for a sustainable long period (again, no we don’t), it’s now time to buy US Treasuries (with a duration of about 5-7 years, or longer if you dare some additional volatility).



Source: Ice Data Indices, LLC via FRED®

The recent discussion on the EU fiscal boost in defense and infrastructure is good news, at least from an economic perspective. However, less stringent hurdles require higher reward to buy regional bonds. That's why the German 10-year Bund sold off and its yield went from 2.4% to currently 2.63% in just one month. We recommend keeping it in the portfolio.

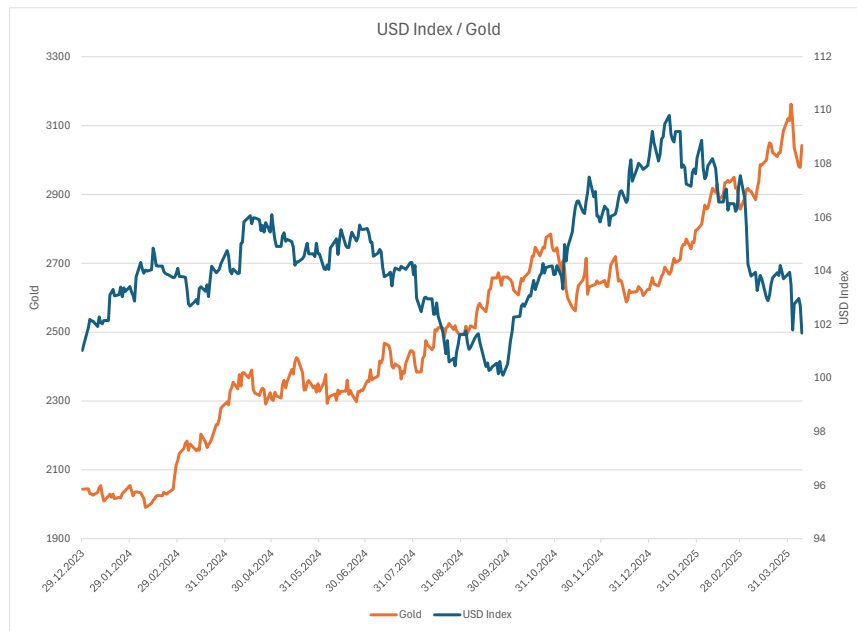
Corporate bonds are a completely different story. Market uncertainty as well as potential deceleration in earnings growth have weighed on Investment Grade and especially High Yield bonds, recently. While the mainstream media remains focused elsewhere, a significant surge in U.S. default rates is flying under the radar. Defaults have reached their highest levels in over 12 years (see chart). Car repossessions are at their peak since the Global Financial Crisis. Credit card debt is at an all-time high. Delinquencies are climbing steeply—now at 7%. What's driving this? While there are many contributing factors, three key points stand out: (1) Inflation may be falling, but consumer price levels have still risen 21.8% since early 2021; (2) In response, many households turned to credit card debt to maintain everyday spending; (3) Unemployment is rising (now at the highest level since late 2021), while interest rates remain just 1% below all-time highs. Given this context, the rise in default rates comes as no surprise. Although the headline numbers don't reflect it yet, we believe the U.S. is heading into a recession—even before considering the potential economic impact of renewed tariffs. As a result, we're actively reducing risk in our portfolios and will continue to do so. We recommend selling the High Yield bonds, even at these levels, while keeping Investment Grade bonds (both US and European), favoring high-quality and shorter durations. It's not the right time to heavily venture into high-risk fields.

## Currency and Commodity Markets – Lows and Highs

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Remember when the USD was considered the place to be when markets correct (just like between January and September 2022, when the S&P 500 lost over 25% and the USD gained over 16%)? Ok, now we can forget that. To be fair, the USD generally acts as a safe-haven shelter but “this time is different”. The uncertainty caused by Trump's flip-flopping, recession fears, higher inflation, and booming fiscal deficit caused a sudden drop in USD. Since February 28<sup>th</sup>, the USD index (a weighted average of six main currencies) lost over 5% (-2% since April 2<sup>nd</sup>) and the greenback shed 7% against the CHF and the EUR. Just like equity markets, we think the reaction is understandable but too swift and too large. It is now too late to sell or hedge (it is getting expensive). Therefore, we recommend moving to reference-currency positions or holding onto the current USD allocation.

J.P. Morgan once said “Gold is money. Everything else is credit”. The yellow metal has not disappointed. Markets and USD drop? Gold comes to rescue, rising as high as 3,166/ounce. Central banks continue to buy it like there is no tomorrow. The usual suspects, such as China and India? Yes, but more than them are accumulated by Poland, Uzbekistan, and Kazakhstan. The most recent downturn was mostly due to liquidating USD-like positions, covering for margin calls, and profit taking. We can’t rule out that speculative positions will be unwound and production hiked (given higher mining margins). However, for now we keep our positions in Gold and do not sell, even close to all-time highs.



Source: Marketmap, Belvoir Capital AG

## Conclusion – Outlook

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We think that markets may face strong headwinds in the next few weeks from several fronts: Liberation Day is and will be followed by retaliations and counter retaliations; macroeconomic data will confirm a global slowdown and possibly a recession in key countries; the earnings season (about to start) will be weaker than Q4 2024's; and geopolitical uncertainties will persist. Let's be clear: we are not expecting the end of the world as we know it. However, it will take more than a few phone calls before negotiations end and the light at the end of the tunnel gets closer.

As we wrote in previous notes, 2025 will be a highly volatile, non-directional year. We need to stay active and seize opportunities as they come, always keeping our long-term allocation in mind. We are reducing our exposure to riskier assets and increasing safer positions. We continue to be highly diversified (as we advocated at the beginning of 2025) but prefer a conservative asset allocation, favoring cash and high-grade bonds, safer Equity markets (such as Switzerland) and Sectors (such as Consumer Staples and Utilities). We are also maintaining our long-held strategic allocation to Gold.

We thank you for your trust and are always available for further information and questions.

Your Belvoir Team

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