QUARTERLY REVIEW OF FINANCIAL MARKETS AND OUTLOOK

2025/Q1

Renalco

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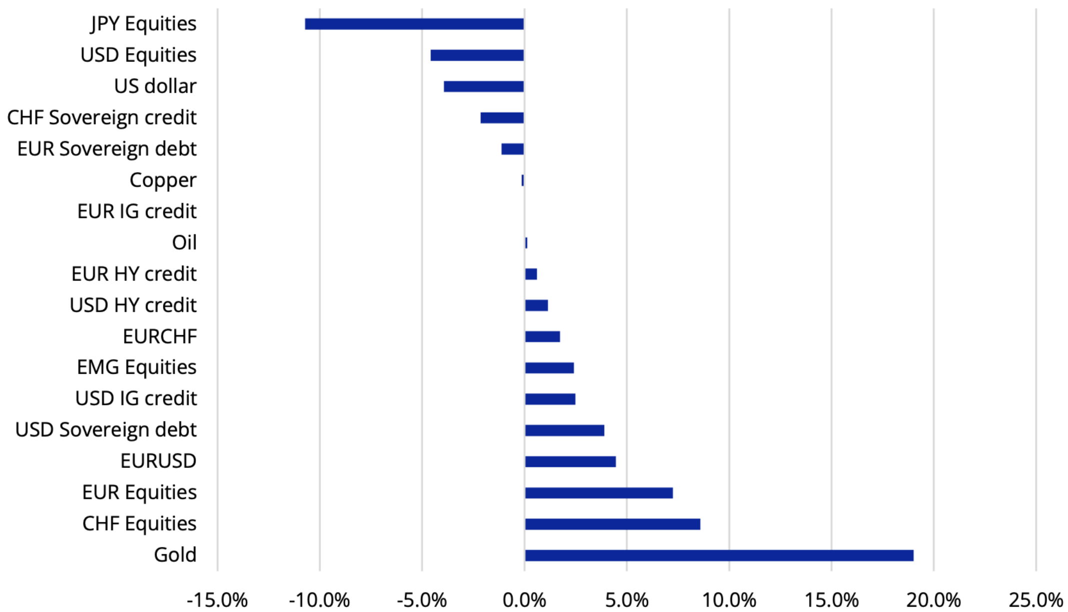
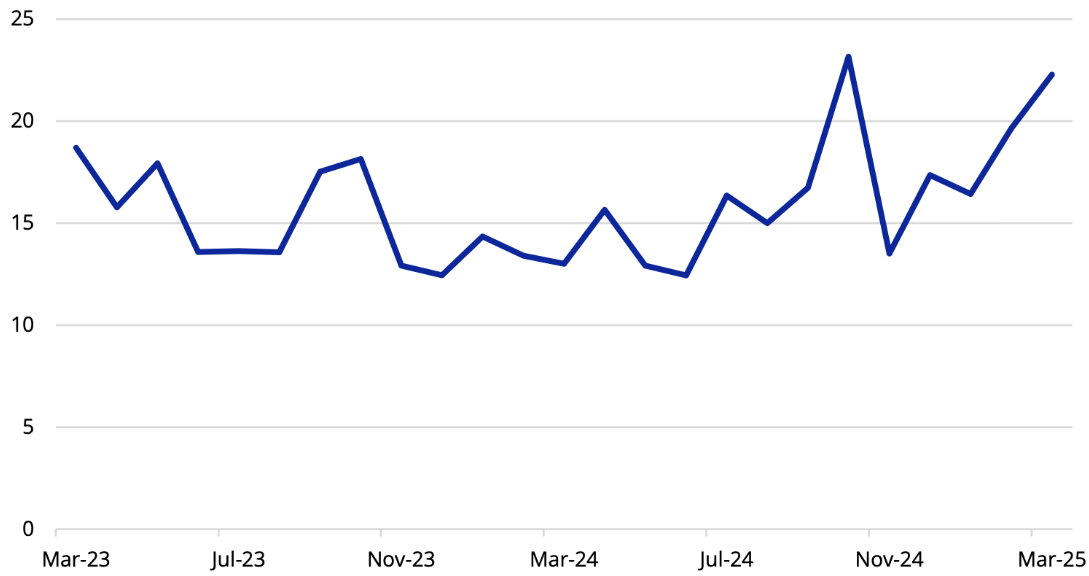
Overview

MAIN ASSET CLASSES
3-MONTHS PERFORMANCE



Source : Bloomberg, 31/03/2025
Past performance is not a guarantee of future performance.

VOLATILITY – VIX INDEX
EVOLUTION OVER 2 YEARS



Source : Bloomberg, 31/03/2025
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Macroeconomics

United States: The return of protectionism risks slowing down the economy

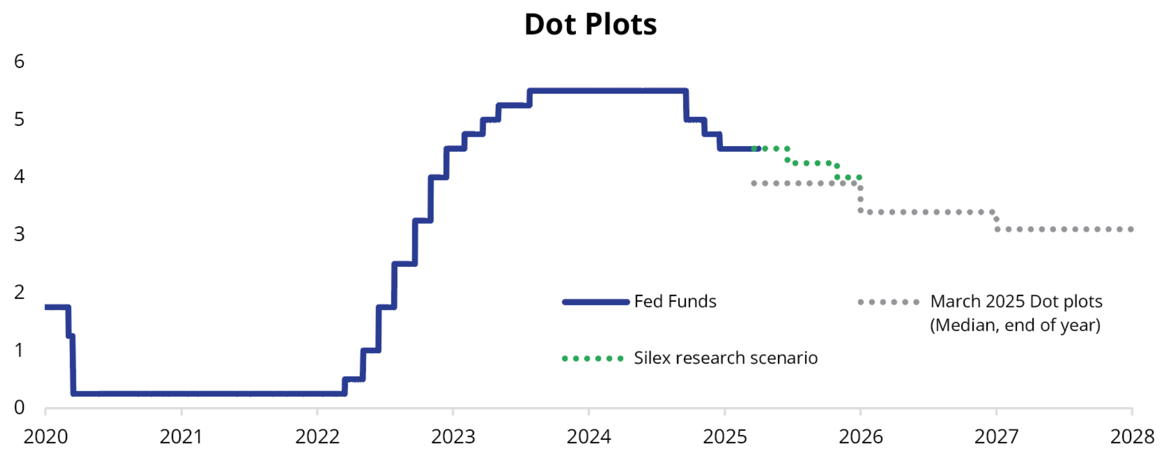
The first quarter of 2025 was marked by the return of Donald Trump to the presidency of the United States and a clear protectionist shift in American economic policy. Immediately following his inauguration, Trump launched a series of symbolic deregulation measures (energy, technology) and, above all, has rekindled the **threats of a commercial war**. Tariffs were quickly increased on China and are on the verge of also being applied to Canada and Mexico. In March, these threats were also extended to the European Union.

Large-scale barriers (+25%) were implemented on key sectors such as automotive, steel and aluminium. This growing commercial uncertainty constitutes a major shock, with visible consequences on confidence and activity indicators. In March, the Conference Board sentiment index fell to its lowest level for 12 years. The PMI also shows a high level of concern.

However, these concerns are only visible at the survey level and not yet in the economic data. The economy remains resilient: +143,000 jobs created in January, +151,000 in February, unemployment stable at 4.0–4.1%, and strong increase in salaries (+4% Y/Y in March). Consumption remains strong, but it is supported by advance purchases linked to the risk of customs duties.

Inflation is not slowing down. The January CPI reached +3.0% (vs expected +2.9%) and the underlying index reaching +3.3%. The February PCE confirmed this trend, with the underlying inflation at +2.8%, still driven by services.

These tensions limit the room for manoeuvre for the Fed, which has maintained its key interest rates unchanged at 4.25–4.5% during its last two meetings of the quarter. The FOMC members have revised their growth forecast downwards for 2025 (+1.7%) and upwards for inflation (+2.7%), while affirming that monetary policy was "in a good position". The markets still anticipate a 50 bp decline by the end 2025, but not immediately.



Macroeconomics (...)

Eurozone: Fragile recovery, more accommodating monetary policy and high hopes

The eurozone economy is showing shy signs of recovery. The GDP of the fourth quarter of 2024 was revised to +0.2% Q/Q, signalling that growth was holding up. **In January, February and March, the PMI indices narrowly crossed the 50 mark** (composite at 50.2 then 50.4), marking a symbolic return to expansion territory, although services are slowing down (50.4 in March compared to 51 in February).

The dynamic remains varied: Germany benefited from the announcement of a budgetary recovery plan, even if its effects will be slow to materialize. Spain overperforms again, while France suffers from persistent political instability which weighs on business confidence (French composite PMI at 44.5 in February). **The turnabout of Germany on the debt brake and the European desire to take charge of its defence with a gradual US withdrawal have raised high hopes on the dynamics of European growth.**

Inflation is gradually falling: +2.4% in March (compared to +2.5% in January), the services component slowing down slightly (+3.7% after +3.9%). Negotiated salaries show a marked deceleration (+4.1% in Q4 2024 compared to +5.4% in the previous quarter). These signs of disinflation have led the ECB to lower its key rates twice: to 2.75% in January, then to 2.5% in March. However, the ECB indicates that monetary policy is becoming “significantly less restrictive”, foreboding a slowdown in rate cuts.

Growth forecasts for 2025 have been lowered to +0.9% (compared to +1.1%), confirming a slow recovery and remaining dependent on the global business environment.

Macroeconomics (...)

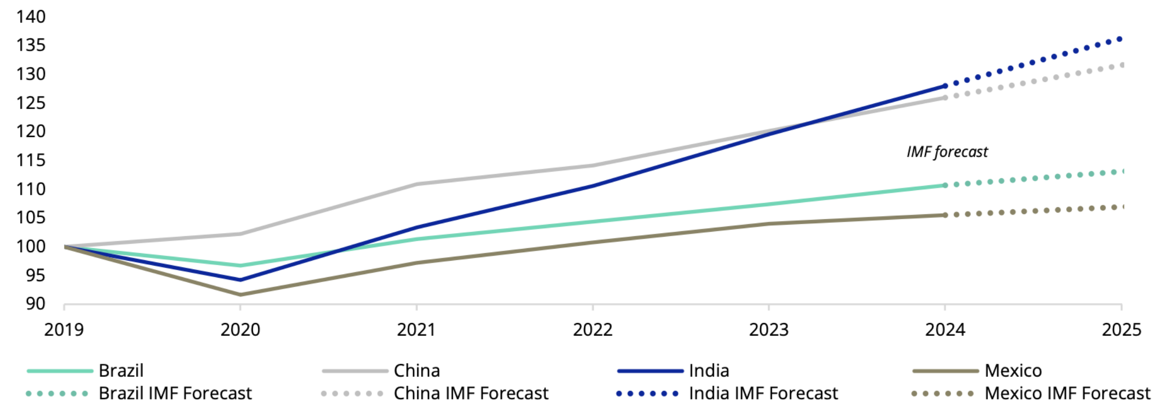
India: The rebound in growth is confirmed

In the first quarter of 2025, the Indian economy showed resilient momentum in an uncertain global context. **GDP growth for the fourth quarter 2024 reached +6.2%** year-on-year (after 5.6% in Q3), rebounding after four quarters of deceleration.

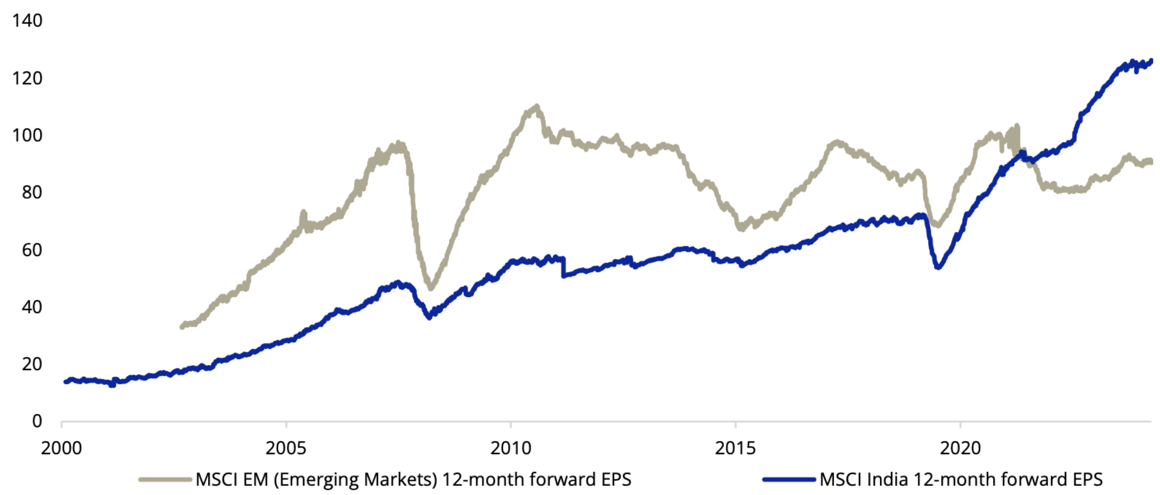
Industrial activity also remains robust, with the **manufacturing PMI index reaching 58.1 in March**, its highest level in eight months, signalling sustained demand and solid expansion of the private sector. In terms of prices, inflation has continued be moderate: the consumer price index fell below the 4% level in February, for the first time in six months, while wholesale inflation remained stable at around 2.3%. **This development allowed the Reserve Bank to India (RBI) to lower its key rate to 6.25% after two years of maintaining the rate at 6.5%**. A cycle of monetary easing appears to lie ahead.

Geopolitically, **relations with the United States have taken centre stage**, specifically with the first official meetings between Prime Minister Modi and President Trump. Despite no major dispute emerging, Washington's unpredictable stance regarding trade remains a source of vigilance for New Delhi, specifically in strategic sectors such as pharmaceuticals, technologies or defence.

GDP BASIS 100
EVOLUTION SINCE 2019



INDIAN EQUITIES
EVOLUTION SINCE 2000



Macroeconomics (...)

China: Good growth surprises but deflation looms

After an end to 2024 supported by an exceptional trade surplus, China starts 2025 with activity on a path to stabilisation. **The government has maintained its growth target at +5%** for the year and raised its forecast of a budget deficit at 4% of GDP, thereby signalling a desire for budgetary support, specifically through subsidies for consumption. Retail sales increased (+4% Y/Y in February) and the Caixin composite PMI remains in expansion territory (51.5).

However, the deflationary threat remains. Inflation has plunged back into negative territory in February (-0.7% Y/Y) and the deflationary spiral of the real estate sector is slowing down, but without reversing. The international environment is also deteriorating with trade tensions with the United States fuelling uncertainty. Monetary measures introduced since September provide limited support and the recovery remains fragile.

Japan: Towards a gradual monetary tightening

Japan is seeing signs of a lasting return to inflation. In March, the CPI excluding energy and fresh products reached +2.6%, above expectations. Overall inflation remains high (+3.7%), fuelled by unprecedented salary increases: the negotiations of March's Shunto resulted in a +5.5% year-on-year wage increase. This price-wage dynamic gives credibility to the idea of a gradual increase in rates. The Bank of Japan raised rates from 0.25% to 0.5% in January. Markets are anticipating a further increase in the second half of 2025.

Growth remains positive, with GDP up +0.6% in Q4 2024, sustained by foreign trade and a weak yen. However, activity has slowed down slightly: the composite PMI fell (48 in March compared to 52 in February), affected by geopolitical and commercial uncertainty.

United Kingdom: Growth is holding up well, but inflation is worrying

The UK's growth was a positive surprise in Q1. After sluggish growth at the end of 2024, the economy avoided recession, with GDP up +0.1% in Q4. At the start of 2025 activity remains modest, but PMIs indicate moderate expansion (composite at 50.5 in February then 52 in March).

Inflation, on the other hand, continues to be a problem. The CPI slowed to +2.8% in February, but core inflation remains high (+3.5%), fuelled by strong wage growth (+5.9%). Unemployment remains stable at 4.4% which limits downward pressure. The Bank of England lowered its key rate of 4.75% to 4.5% in February, then maintained it in March. The tone remains cautious, with 8 members of the Committee of 9 in favour of the status quo. The BoE predicts that inflation will peak at 3.75% in Q3 before falling again.

Macroeconomics (...)

Switzerland: the SNB further lowers its rates

Switzerland recorded robust growth in the fourth quarter of 2024 (+0.5% Q/Q), driven by the chemical and pharmaceutical sectors. The outlook for 2025 remains moderately optimistic (1% to 1.5%), but the Swiss economy remains vulnerable to its external environment. **Inflation remains extremely weak at +0.3% in February**, with a still strong Franc that imports deflation. Import prices are falling and inflation expectations remain at less than 1%.

Faced with this context, the Swiss National Bank lowered its key rate of 0.50% to 0.25% in March. Martin Schlegel raised the possibility of a return to zero rates, even negative ones, if international trade tensions intensify. The SNB aims for an average inflation of +0.4% for 2025, while closely monitoring the risks of rising unemployment linked to an overall slowdown in demand.

Share Markets

The first quarter of 2025 saw the return of volatility on the equity markets largely due to Donald Trump's unpredictable trade policy. **American risky assets recorded their worst quarter since 2022** (S&P 500: -4.6%; Nasdaq: -8.3%).

The successive introduction of customs duties on steel, aluminium, then automobiles, as well as the threat of "reciprocal" measures have seriously shaken investor confidence. Household and business morale collapsed, fuelling a rotation towards defensive sectors such as energy (+9.3%), health (+6.1%) and non-cyclical consumption (+4.6%).

The technology sector, already weakened by the emergence of Chinese AI DeepSeek, has suffered throughout the quarter. The "Magnificent 7" fell 16.1%, which weighed on the communication services (-6.4%) and technology sectors (-12.8%) as well as discretionary consumption (-14.0%).

Against all expectations, Europe stands out (Stoxx 600 Europe: +5.2%). Stocks linked to the defence sector took off, such as Rheinmetall (+114.6%) and Thales (+78.6%), driven by the continent's rearmament ambitions.

Other sectors are benefiting from the announcement of the German recovery plan, in particular energy (+10.0%), public services (+9.5%) and construction (+7.0%). On the other hand, sectors exposed to customs threats are struggling: travel and leisure (-13.9%), automotive (-4.4%), consumer products and services (-3.9%).

Bond Markets

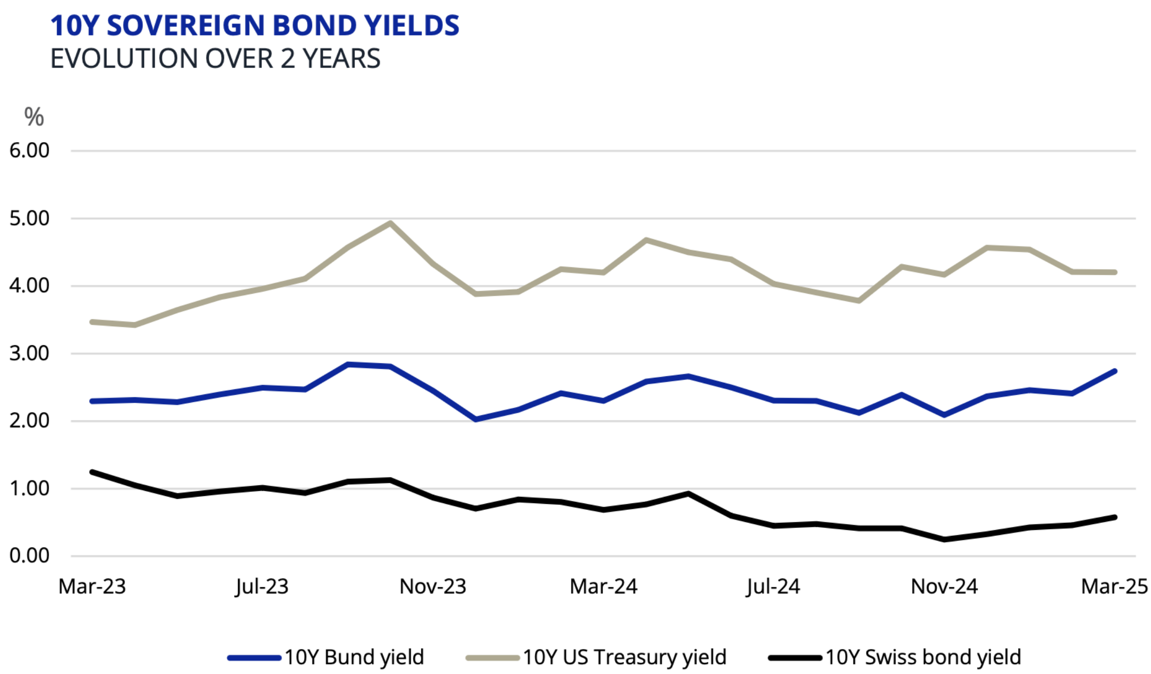
Bond markets began a new cycle in March. Rates have been impacted by rising fears regarding growth, taking precedence on inflation fears. In addition to the US slowdown observed through the latest indicators, slowdown that Powell confirmed during the last FOMC (new US growth forecasts at 1.7% for 2025 vs. 2.1% previously), it was the continuation of trade war threats that caused data to plunge based on surveys and trust in the broader sense (market confidence and US consumer confidence).

With the addition of a movement of aversion to risky assets, 10-year government bonds therefore overperformed in the US and in the second half of March in Europe. The 10-year US ended the month around 4.2%, far from the 4.75% reached at the start of 2025, inflation fears (core PCE still at 2.7% in February) weighing weakly compared to fears of recession.

Same context in Europe: after the peak of volatility linked to the vote on re-indebtedness in Germany, the 10-year Bund moved away from 2.9% to return to around 2.7% at the end of March. **Despite the good trajectory over 10 years, the curves have nevertheless become steeper (70bp on the 2-10y in Europe, 35bp in the US), proof that investors have re-priced a little more favourably the monetary easing of the FED and the ECB.**

On the credit side, spreads have aligned with the stock markets: the spread was marginal on good quality IG credit (+4/5bp in March) but in the riskiest area spreads rebounded by almost 60bp in March in the US (+80bp versus the low point) and +40bp for Europe. Furthermore, HY spreads were not helped by a primary market which accelerated in March with post season results: the influx of new instruments has weighed on the ability to narrow the ranges for issuers.

Finally, it should be noted that the much-heralded dispersion between cyclical and defensive bonds is starting to crystallize in performances.



Source : Bloomberg, 31/03/2025
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Commodities

Oil

In the first quarter of 2025, oil evolved in a context of great uncertainty, torn between excess supply and geopolitical risks (Brent: +1.0%).

On the one hand, the fundamentals remain bearish: structural surplus on the market, increase in South American offshore production, disagreements within OPEC+, quite disappointing Chinese demand, and an American economic slowdown.

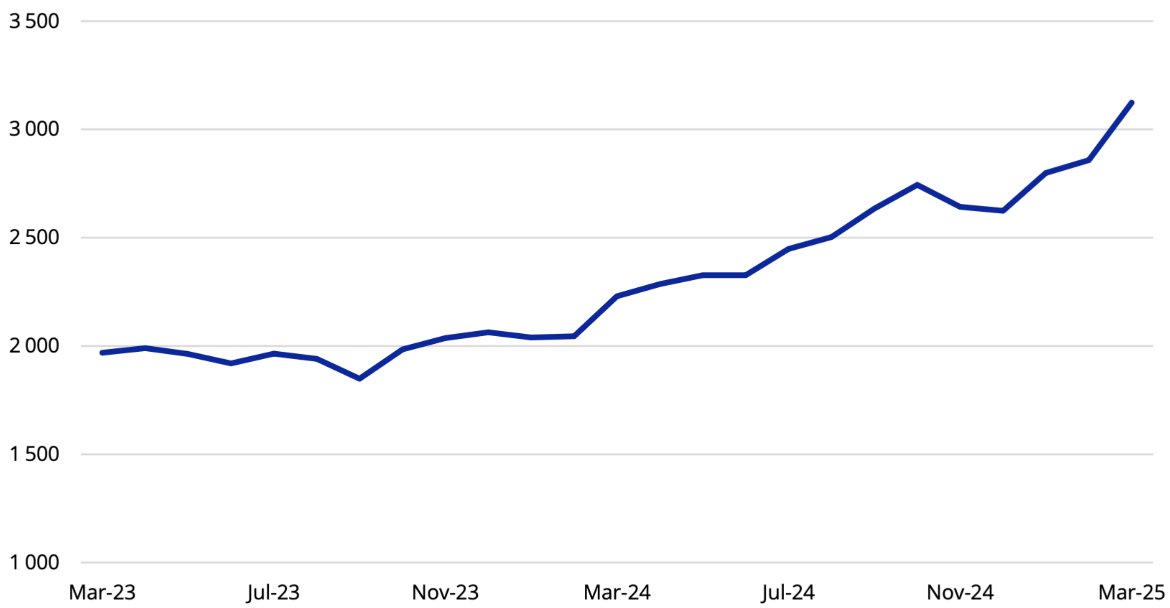
On the other hand, geopolitical tensions have revived fears of disruptions in supply. The Trump administration has imposed tariffs on Venezuelan oil, threatened Iran and toughened its tone with Russia. This aggressive posture supported prices in March after two months of decline. Markets remain divided between downward structural pressures and one-off surges linked to supply risks.

Gold

Q1 2025 was exceptional for precious metals, with a sensational progression for gold (+19.0%). Risk aversion linked to trade wars, geopolitical uncertainty and the collapse of the dollar have propelled gold beyond 3000 $/oz, a record.

The purchases by American investors have been so massive that they partly explain the widening of the country's trade deficit. Gold confirms its safe-haven asset status by excelling in an environment of increased economic and political turbulence. Silver followed the same trajectory (+17.8%).

GOLD
EVOLUTION OVER 2 YEARS



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Document completed on **March 31st, 2025**.

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