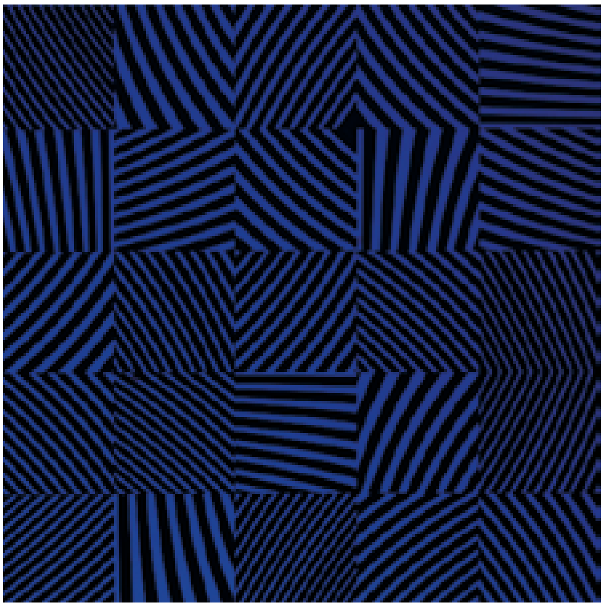
Quarterly Insight 2Q25

Creativity within Excellence

CBH | Investment Management



Vera Molnar
Coupé collé 57-12-A1
Diptyque
Peinture sur toile

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Please Remain Seated: We Are Experiencing Some Turbulence

In a Nutshell

- The arrival of Donald Trump has heightened market volatility, confirming our initial expectations.
- US equity valuations, elevated at the start of the year, have suffered amid political uncertainty.
- The Fed provides some support by slowing Quantitative Tightening, but inflation risks remain.
- Market leadership has shifted towards Europe, value stocks, and China.
- Asymmetric strategies remain essential to navigate persistent volatility.
- A “wall of worry” looms as trade tensions rise and global order is challenged.
- Protection strategies helped cushion the impact of the correction.

As 2025 takes flight, markets have encountered the expected turbulence. The return of Donald Trump to the global stage has delivered a sharp jolt to investor confidence, injecting exactly the kind of volatility we had anticipated for the early months of the year. And turbulence it is—not only because of the unpredictability of presidential announcements or trade decisions, but because of their timing: they hit a US equity market flying at high altitudes, with stretched valuations and little margin for error.

From the outset, we integrated protective strategies into our positioning—via put options and volatility management—to mitigate the risks of this turbulent takeoff. These tools proved critical in weathering the initial market drawdowns. The message is clear: in uncertain skies, having a parachute pays.

The global investment landscape is now facing a new “wall of worry.” Geopolitical frictions are escalating, multilateral norms are being upended, and domestic policy in the United States has taken a more erratic turn. Trump’s tariff threats—at times sudden and inconsistent—are already undermining corporate confidence and delaying investment decisions. Inflation, once a fading concern, could be reignited by trade disruptions, particularly as imported goods become more expensive. This is not lost on US households, who are beginning to feel the pinch.

Unlike his first term, Trump no longer seems to view the stock market as the ultimate scoreboard of his presidency. The so-called “Trump Put”—an implicit assumption that the administration would act to support the markets—now seems a relic of another era. Instead, investors are left looking to the Federal Reserve, which has provided some reassurance by signaling a slower pace of balance sheet reduction. But with the labor market still robust and inflation risks mounting, the Fed’s capacity to deliver a meaningful safety net remains limited, at least for now.

This shifting backdrop has triggered a forceful market rotation. The US growth darlings—tech stocks that led the charge over the past two years—have stumbled as their earnings momentum plateaus. Meanwhile, European equities, Chinese stocks, and value-oriented names have regained altitude. In China, a flurry of positive developments around artificial intelligence—especially the breakthrough associated with “DeepSeek”—has reignited investor enthusiasm. Europe, too, is showing resilience, embracing a more unified response to global instability, from defense spending to fiscal flexibility. Like many investors, we have been struck by the brutality of the rotation out of US equities in favor of Europe. But even taking into account the structural shifts now underway in Germany—particularly the loosening of fiscal constraints and the renewed investment in strategic sectors—we remain cautious regarding the durability of this trend. We have seen such violent yet short-lived rotations before, none of which have been sufficient to dislodge the long-standing structural leadership of the US equity market. Whether this time truly is different remains to be seen.

As we navigate this choppy airspace, not all signs point to danger. Employment remains strong, credit spreads are historically tight, and consumer demand is holding up. These are not the indicators of a system on the verge of failure. In fact, they reinforce our constructive central scenario: the world economy remains on a positive path, even as it flies through clouds of uncertainty.

But the message for investors is clear. We are no longer cruising. We are flying through unstable weather, and the seatbelt sign is firmly on. It is not the time to panic, nor to abandon course, but rather to remain calm, stay belted in, and adapt the flight plan when necessary. The role of portfolio construction becomes all the more vital in such an environment. Asymmetric strategies—through options, structured products, or hedge funds—remain essential in smoothing the ride and taking advantage of episodic dislocations.

Ultimately, our goal is to ensure the smoothest possible journey, even in turbulent skies. As investment pilots, we cannot control the wind, but we can adjust the sails—and remain focused on delivering our passengers safely to their destination.

Macro Outlook – United States

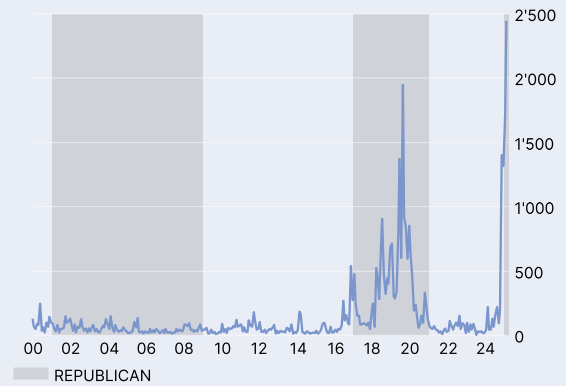
Key Takeaways

- The downside risks to US GDP growth have increased. The US is expected to gradually slow but remain resilient.
- Increased uncertainties related to Trump policies are affecting consumer and business sentiment.
- After a rapid decline driven by fears of an economic slowdown, long-term yields are expected to rise, driven by structural factors.
- The Fed should remain cautious.

Considerable policy uncertainty poses a risk to U.S. economic growth. Donald Trump's return to the White House raises questions about US exceptionalism. Since his return to power, his erratic decisions and rhetoric have heightened uncertainty. Analysts and markets have begun to doubt the strength of the economy. However, while prolonged policy uncertainty could weigh on growth, economic indicators do not currently signal a recession.

Trade Policy Uncertainty Index

United States



Source: LSEG Datastream/ CBH Investment Management

After expanding at a strong pace in 2023 and 2024, U.S. GDP growth is expected to gradually slow in 2025 and 2026. This robust outlook is accompanied by significant uncertainties. The U.S. economy entered 2025 with strong fundamentals, but growing downside risks are emerging. Private consumption is projected to remain resilient, supported by a robust labor market and real wage increases. However, consumer confidence fell sharply at the beginning of the year. Amid heightened policy uncertainty, households have become increasingly pessimistic about employment prospects and future inflation. Meanwhile, the stimulus from falling interest rates is being partly offset by the financial strain on households and businesses that locked in low interest rates during the pandemic and now face higher refinancing costs.

Since the pandemic, investment growth has remained robust despite elevated interest rates, particularly in intellectual property products. This trend reflects the strength of US investment dynamics and broader structural changes, including the AI revolution, which have been bolstered by the industrial policies introduced under the Biden administration. Meanwhile, higher interest rates have weighed on residential investment. Looking ahead, business confidence appears sensitive to policy uncertainty, particularly regarding trade tariffs, policy reversals and erratic rhetoric that could disrupt supply chains and fuel inflation.

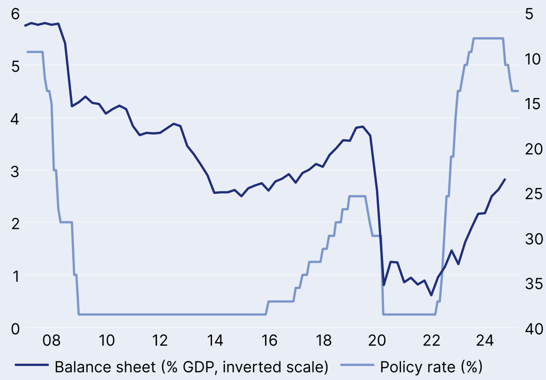
> **There is considerable uncertainty due to erratic government policy.**

The imposition of a 20% across-the- board tariff on Chinese imports, with similar measures expected for European imports on April 2, is expected to dampen U.S. economic growth. Tighter immigration policies are projected to weigh on potential growth, while deregulation of key sectors of the economy could act as a catalyst for expansion. Public debt remains a concern as Trump's proposals point to an expansionary budget. While he has promised to cut taxes, significant uncertainties remain.

Inflation has continued to decline and has moderated significantly over the past two years, driven by the Federal Reserve's restrictive policy stance, higher immigration and the easing of pandemic-related supply constraints. However, it remains above the central bank's target. Persistent labor market tightness, resilient demand and strong wage growth continue to exert upward pressure on prices. In addition, rising trade tariffs are expected to contribute to higher import costs. In this context, short-term inflation expectations have risen recently, with both consumers and businesses increasingly citing tariffs as a key factor.

In this context, the Federal Reserve has signaled caution, with a gradual pace of rate cuts expected through 2025 and 2026, targeting a neutral rate that neither restrains nor stimulates growth. At the same time, the Fed will slow the pace of balance sheet unwinding, aligning its two different monetary policy tools in the same direction. The decline in US yields in the first quarter was primarily driven by concerns about a potential economic slowdown. However, higher inflation expectations, structural factors such as an aging population and the ongoing AI revolution - which will require substantial investment and fiscal spending - coupled with the trajectory of public debt, are likely to push 10-year US Treasury yields back towards 4.5%.

The US Federal Reserve's policy tools
United States



Source: LSEG Datastream/ CBH Investment Management

Macro Outlook – Euro area

Key Takeaways

- Hopes for a ceasefire between Ukraine and Russia, along with a potential shift in German fiscal policy, are raising expectations for an improved economic outlook.
- In the near term, multiple headwinds remain, including weak confidence, uncertainty around U.S. trade policy, low productivity and structural inefficiencies.
- The ECB has adopted a more accommodative monetary policy. Looking ahead, the uncertain environment calls for a cautious approach.

After years of excessive pessimism about the euro area, mainly due to structural inefficiencies and lack of investment, especially in Germany, **the first quarter of 2025 has raised expectations of an improved economic outlook for the euro area.** Expectations of a ceasefire between Russia and Ukraine, along with a potential decline in energy prices and the pressing need for a substantial increase in defense spending, are expected to support economic activity. In addition, Germany has introduced a €500 billion infrastructure fund and a plan to allow unlimited borrowing for defense, indicating a more flexible approach to its debt brake. This policy shift should reshape the economic landscape and provide a significant boost to the German economy, which has faced prolonged underinvestment and sluggish growth. However, the impact of this spending and its multiplier effect on the economy will largely be realized in 2026 and 2027.

Lower energy prices, particularly for gas, will support the European economy, which continues to struggle with high costs compared to the pre-pandemic era and the United States. Lower energy costs could benefit European manufacturing companies, many of which face competitive challenges. However, it is important to recognize that Europe's structural inefficiencies are deeply entrenched. Transforming the European economy will require major structural reforms, including changes in capital markets.

Europe faces risk of rising US protectionism

Meanwhile, Europe will suffer from U.S. trade tariffs and continued uncertainty around U.S. trade policy. The United States is a major destination for EU merchandise exports. In 2023, it overtook the United Kingdom to become the EU's largest trading partner. In addition, the European Union has a substantial trade surplus with the United States. The impact of U.S. protectionist trade policies will depend not only on the size of the tariffs, but also on the level of uncertainty that Trump's policies may create in Europe and globally. The confidence shock could have an even bigger impact than the tariffs themselves.

The ECB's policy easing - marked by a 185-basis point cut in the refi rate since June 2024 - has started to stimulate credit demand, driven by falling interest rates. However, corporate borrowing remains subdued, reflecting continued weak economic conditions and low confidence. Ongoing trade uncertainties are exacerbating this sluggish

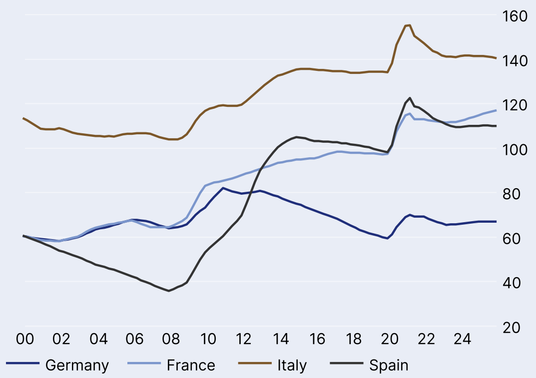
Euro area: Consumer confidence
Net balance

Source: LSEG Datastream/ CBH Investment Management

sentiment. Meanwhile, falling interest rates are supporting demand for housing loans. However, European consumer confidence remains weak, weighing on consumer spending despite the resilience of the labor market.

Domestic demand is expected to expand at a modest pace in 2025, with a more pronounced pick-up in 2026 as the German spending plan begins to take effect. Elsewhere in the euro area, increased defense spending could provide additional support to growth. However, some countries, notably France and Italy, face high levels of public debt and may need to make trade-offs to accommodate higher defense spending.

Public debt
% GDP



Source: LSEG Datastream/ CBH Investment Management

The region will continue to face several headwinds. In France, the government's fragility stemming from the lack of a parliamentary majority will persist. As a result, the country is likely to face prolonged political, fiscal and regulatory uncertainty, hampering the implementation of reforms essential for economic transformation.

Given the turbulent environment, the inflation outlook has become increasingly uncertain. As a result, the ECB is likely to be cautious and maintain a data-dependent approach. Services inflation and wage growth remain elevated, while productivity remains weak. Moreover, the euro area remains vulnerable to external and idiosyncratic shocks, including the impact of US trade policy and its repercussions.

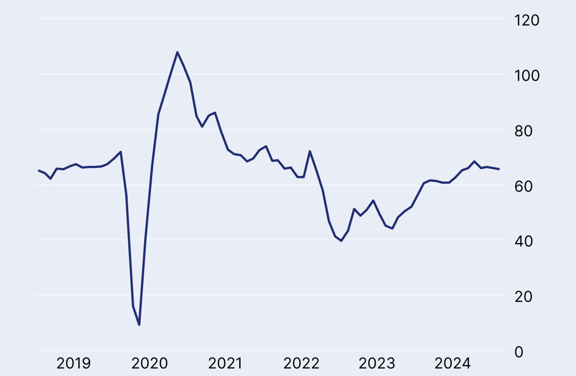
Macro Outlook – Other advanced economies

Key Takeaways

- UK economy expected to gain momentum in 2025, but fiscal space remains constrained.
- As a highly open economy, Switzerland is vulnerable to the uncertainties surrounding the future of U.S. trade policy.
- Japan remains vulnerable to trade tariffs, while consumer demand faces conflicting forces: rising incomes versus increasing prices.

The UK economy is expected to gain momentum in 2025 thanks to a loosening of the policy mix. This will be evidenced by a strong rebound in credit demand, with mortgage approvals for house purchase returning to pre- crisis levels. However, the Bank of England's interest rate cuts will be gradual and monetary policy will remain in restrictive territory throughout 2025 before reaching neutrality in 2026. At the same time, the government will maintain a more restrictive fiscal stance. However, this approach will be accompanied by measures aimed at stimulating growth, notably through a program to support investment and education. However, fiscal space remains limited and the UK economy - like the rest of the world - remains vulnerable to uncertainties stemming from the rise of US protectionism.

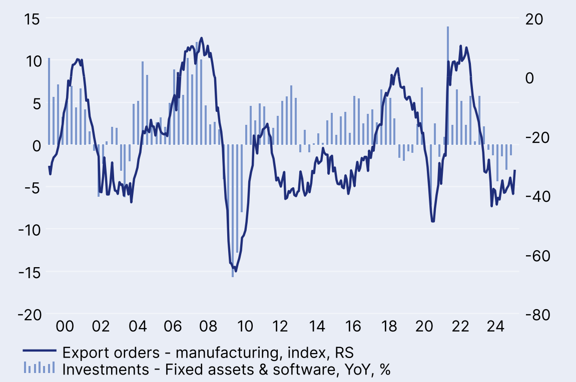
UK: approvals for house purchase
Monthly, Thousands



Source: LSEG Datastream/ CBH Investment Management

Switzerland has extensive trade relations with the global economy. At the start of 2025, the manufacturing sector faces significant challenges, notably rising protectionist measures in the United States and subdued demand in Germany. While uncertainties and downside risks associated with the Trump administration have intensified, the shift in German fiscal policy could provide a stimulus to the Swiss economy, especially from 2026 onwards. However, heightened uncertainty could weigh on investment momentum. Despite the recent depreciation of the Swiss franc, the strength of the currency is undermining Switzerland's competitiveness, even though Swiss exports, with their high value added, are less sensitive to price fluctuations. In addition, the appreciation of the franc has contributed to the deflationary pressures that Switzerland is currently experiencing. Meanwhile, consumer demand is expected to remain resilient, supported by a robust labor market, rising real wages, low inflationary pressure, and the easing of monetary policy.

Switzerland: investments & export orders
Investment follows a full order book



Source: LSEG Datastream/ CBH Investment Management

Inflation has declined from 0.7% in November 2024 to 0.3% in February 2025, while both short- and long-term inflation expectations remain well anchored. Against this backdrop, the Swiss National Bank (SNB) lowered its key interest rate by 25 basis points at its March meeting. Looking ahead, the likelihood of further rate cuts has diminished significantly, with most analysts assessing that SNB policy has now reached a neutral stance.

Japan is not immune to the growing risk of a global trade war. The United States, Japan's largest trading partner, has begun imposing tariffs that threaten the competitiveness of Japanese exporters. The automotive sector in particular will be subject to 25% tariffs. Additional levies may be imposed on other sectors. In addition, demand from China, Japan's second-largest export destination, is expected to remain weak despite ongoing stimulus measures. Amid heightened uncertainty, companies are likely to delay investment decisions.

Meanwhile, private consumption - the main driver of GDP growth - is projected to strengthen in 2025, supported by rising disposable income. However, consumer demand faces opposing pressures: while households benefit from wage increases, they are also weighed down by rising prices, in particular record-high rice prices.

Macro Outlook – Asia

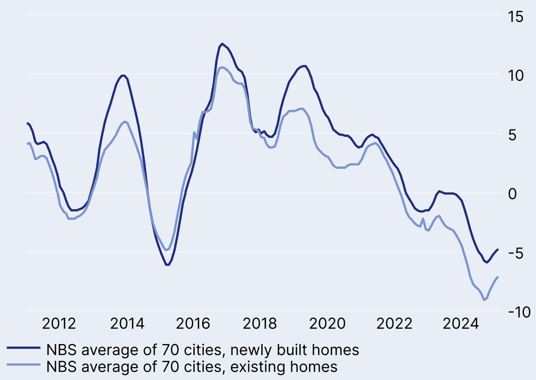
Key Takeaways

- China's outlook remains clouded: tech sector shows significant improvement, but households remain fragile and trade. Contribution will suffer from US protectionism.
- India's potential still constrained by structural weaknesses.

The Chinese authorities are implementing measures to support economic activity and have reaffirmed their commitment to a GDP growth target of 5% by 2025. However, rising protectionist policies, particularly from the United States and potentially the European Union, pose a risk to external demand.

Private consumption remains subdued, constrained by ongoing structural headwinds. The protracted property downturn has significantly eroded household wealth, with house prices falling 17% since 2021, putting downward pressure on consumer confidence. In addition, high youth unemployment and sluggish wage growth continue to weigh on discretionary spending. While recent policy interventions, including interest rate cuts and government subsidies, have provided short-term support, their impact on aggregate demand has been limited.

China: House prices
Annual change, %



Source: LSEG Datastream/ CBH Investment Management

New monetary and fiscal easing, coupled with targeted consumption stimulus measures, are expected to provide some impetus to household spending. However, these efforts remain modest in scale and largely temporary, and are not sufficient to address deeper structural imbalances. Persistently high household savings rates underscore the inadequacy of social safety nets, while the high costs of healthcare, housing and education constrain consumption growth. While Beijing has acknowledged the need for comprehensive social welfare reforms, implementation has been low, limiting their effectiveness in supporting a sustained recovery in domestic demand.

In this context, China's economic growth remains heavily dependent on external demand. However, the escalation of US tariffs poses a significant risk to China's trade strategies. While Beijing continues to diversify its trade partnerships and shift production, the scale of these new protectionist measures is expected to outweigh the effectiveness of previous defensive measures. As a result, external demand is likely to come under significant pressure, limiting its contribution to GDP growth.

The sudden emergence of DeepSeek highlights the dynamism of the private sector and the strength of China's technology sector.

The outlook for the technology sector appears more positive. The authorities are working to reassure private sector actors, in particular by stabilizing and clarifying the legal environment. Recent presidential statements in support of private entrepreneurship, along with promises of strategic support for technology companies, signal a shift in policy from the regulatory tightening of 2020-2022. If sustained, this shift is expected to boost innovation and investment, as well as job creation, particularly in high-paying positions for recent graduates.

These changes come at a time when the launch of Deep Seek has reaffirmed China's position on the global technology stage, underscoring its ability to innovate despite the challenges posed by U.S. sanctions.

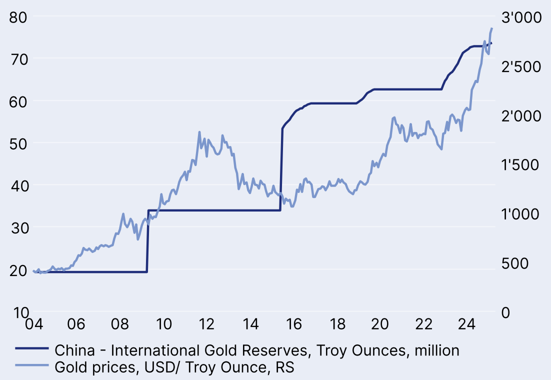
India remains the fastest growing major economy. India's economic activity is decelerating but still growing at a robust pace. The slowdown in India's economy can be largely attributed to a notable deceleration in manufacturing and construction activity. Activity in the services sector has remained robust, though it has experienced a slight deceleration. The only sector that has seen a rebound is agriculture. On the demand side, all components, aside from government spending, have slowed down. The international economic environment is not conducive to investment, both domestic and foreign, although the direct impact of a potential increase in U.S. tariffs on India's economic growth would likely be limited.

Despite the possibility that India may be less directly affected by the Trump administration's policies, it is unlikely to benefit significantly from a redirection of trade flows destined for the United States. The prevailing uncertainties surrounding U.S. trade policy are likely to deter the investment required to shift these trade patterns. In addition, while India's labor costs remain significantly lower than those of other Asian countries and its logistics performance is comparable to that of Vietnam, structural impediments continue to hinder the growth of its manufacturing sector and limit foreign direct investment (FDI). Despite the efforts of Prime Minister Modi's government, FDI inflows, while substantial, continue to face significant barriers to sustained growth.

Macro Outlook – Commodities

Gold once again took center stage in the first quarter, rising above $3,000 an ounce. The precious metal continues to benefit from its safe-haven status and the growing demand from emerging central banks in an environment of heightened volatility following Donald Trump's return to the White House, ongoing trade and geopolitical uncertainties, and growing concerns about the sustainability of U.S. public debt. In addition, the weakening dollar and falling interest rates have added to gold's appeal.

Prices of gold & Chinese institutional demand



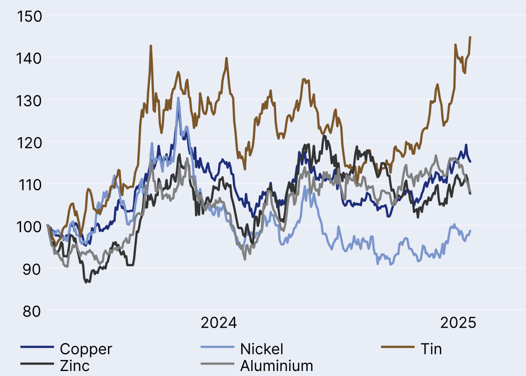
Source: LSEG Datastream/ CBH Investment Management

Despite concerns about a slowdown in the US economy, base metals have rallied. Since the beginning of the year, tin prices have risen 21%, mainly due to significant supply disruptions. In addition to the shutdown of the Man Maw mine (Myanmar) in August 2023 due to local conflict, which has severely reduced the supply of tin concentrate, particularly affecting Chinese smelters, and the drop in Indonesian exports due to regulatory delays in approving production plans, the ongoing conflict in the Kivu (DRC) region has led to the suspension of operations at the Bisie mine, which accounts for 6% of global tin supply, further tightening the market. At the same time, demand for tin remains strong, particularly in electronics and renewable energy applications, putting further upward pressure on prices.

Commodity markets have not been immune to the trade war launched by the United States. Aluminium and steel products entering the U.S. are now subject to a 25% import tariff. In addition, all products originating in China are subject to a 20% tax. China plays a dominant role in the metals supply chain due to its vast domestic natural resources, significant investments in Africa and along the Silk Road, and refining capacity.

London Metal Exchange base metal prices

Cash, rebased to 100=31/12/2023

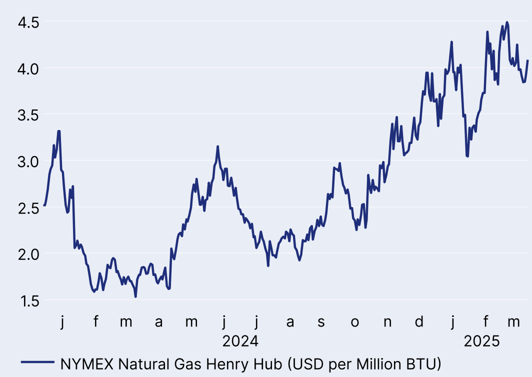


Source: LSEG Datastream/ CBH Investment Management

Meanwhile, concerns about the impact of trade disputes on global economic activity and hopes of a ceasefire between Ukraine and Russia weighed on oil prices. The black gold is caught between opposing forces with the increase of production from OPEC+ countries from April, new sanctions on Iran and Russia and decline in Venezuelan supply from April, when Chevron's General License to operate in the country expires. Overall, the International Energy Agency prices forecasts that global oil supply may exceed demand by around 600kd/d in 2025 thus prices are expected to fluctuate close to their current level.

U.S. gas prices spiked in the first quarter as severe

US: Natural gas price



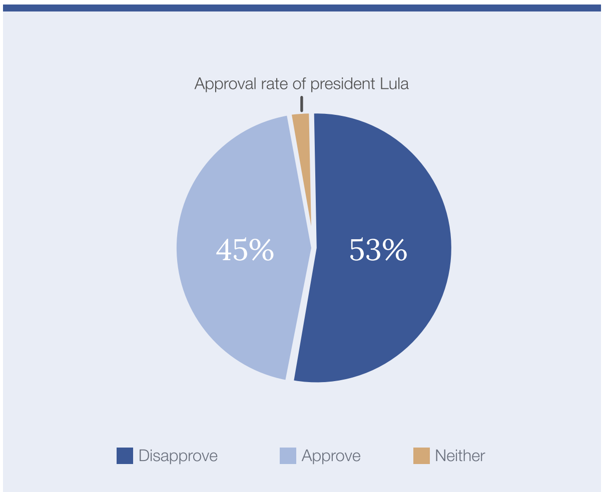
Source: LSEG Datastream/ CBH Investment Management

weather conditions, particularly in the U.S., led to increased demand. The extreme cold also created production challenges, while storage levels remained below the five-year average, further exacerbating supply constraints.

Quarterly Report from 1618 Investimentos Brazil

The macroeconomic outlook for Brazil in the current quarter reveals a complex picture, marked by a severe fiscal deterioration that establishes a direct antagonism with the contractionary monetary policy implemented by the Central Bank of Brazil (BCB). This unfavorable conjuncture manifests itself in a perspective of an increase in the debt-to-GDP ratio, exerting pressure on the sovereign risk assessment.

The persistence of an expansionary fiscal policy is intrinsically linked to a left-leaning political agenda, with the primary objective of revitalizing the government's electoral base, whose current disapproval rating is at an elevated level of around 50%. This political scenario, however, can also be interpreted as a window of opportunity for the rise of the right-wing in the 2026 elections, which has historically been associated with a positive performance of domestic risk assets.



Additionally, domestic economic activity has shown a cooling trend since the end of 2024, and projections suggest that GDP could be up to 1.4 percentage points lower in 2025 compared to 2024 (3,4%). This deceleration movement, resulting from the BCB's contractionary policy, is partially counterbalanced by the expectation of record agricultural production, which should boost growth in the first quarter of 2025. The median of market expectations sees 2025 GDP around 2%.

Despite the expected moderation in GDP growth, the labor market remains tight, with nominal wages showing growth above inflation, while labor productivity showed modest growth of 0.1% in 2024. This phenomenon contributes to the deterioration of inflation expectations, notably in the labor-intensive services sector. Furthermore, household consumption remains resilient for the same reason and also contributes to the persistence of inflationary pressures.

Inflation, in fact, remains above the established target, with the averages of the inflation cores orbiting between 5% and 6%. Inflation expectations, in turn, are de-anchored, situated considerably distant from the upper band of the target established by the BCB (4.5% and official target of 3%).

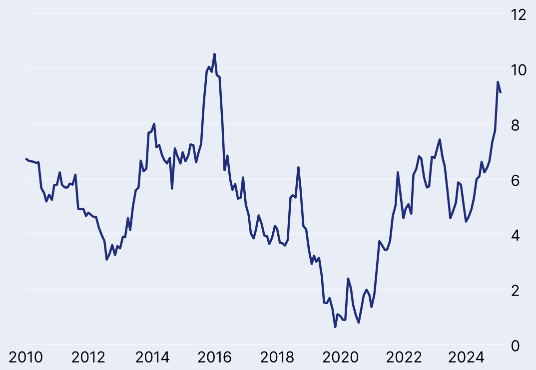
In this context, it becomes imperative for the Central Bank of Brazil to regain credibility, which has been partially compromised due to the conduct of fiscal policy. To re- establish a macroeconomic equilibrium, maintaining high interest rates for a prolonged period ("higher for longer") appears to be a necessary strategy. The BCB itself has signaled that there is still significant work to be done in the monetary policy. The Monetary Policy Committee (Copom) projection for third-quarter 2026 inflation, set at 3.9%,suggests that the space for easing the Selic rate in the short term is limited, corroborating the need for higher interest rates for an extended period.

Overall, the current political context reveals a government facing significant challenges in forming a support base in Congress, especially given the growing autonomy of the legislature in controlling part of the budget through parliamentary amendments, whose destination is not very transparent. This dynamic makes it difficult to approve structural reforms and implement a consistent economic agenda. Additionally, the president's popularity has fallen, motivated by factors such as new taxes and, mainly, by persistent food inflation. However, the record harvest and the fall in the dollar price may be factors in decelerating the level of food prices, as the domestic supply of these items should increase. It is also valuable to mention that the polarization of the population, exacerbated by the political fragmentation between right and left, contributes to a high level of uncertainty and may influence the economic debate and expectations for the 2026 elections.

In summary, the Brazilian macroeconomic scenario presents significant challenges, with persistent inflation and fiscal deterioration as central points of concern. The carry opportunity in real interest rates remains relevant, given the high domestic interest rate compared to peers. Risky assets, after going through a period of significant discount in recent years, may now present a relevant upside, especially due to expectations of changes in the political scenario in 2026, but should remain discounted while interest rates remain historically high and the political landscape remain uncertain.

Brazil: 10-year real interest rate

%, Deflated by long-term inflation



Source: LSEG Datastream/ CBH Investment Management

Key Macro Data & Forecasts

	Annual				2024			
	2023	2024	2025e	2026e	Q1	Q2	Q3	Q4
United States								
Real GDP	**2,9**	**2,8**	**1,9**	**1,7**	**1,6**	**3,0**	**3,1**	**2,5**
Private consumption	2,5	2,8	2,4	2,0	1,9	2,8	3,7	4,0
Investment	2,4	3,7	1,9	1,8	1,2	1,2	1,2	1,2
Domestic demand (contribution, %pt)	2,8	3,2	2,4	1,9	2,8	2,9	3,8	3,1
Inventories (contribution, %pt)	-0,4	0,1	-0,4	0,0	-0,5	1,1	-0,1	-0,9
Net exports (contribution, %pt)	0,5	-0,4	-0,2	-0,2	-0,7	-1,0	-0,6	0,3
Inflation (CPI, %yoy)	4,1	3,0	2,8	2,5	3,2	3,2	2,7	2,7
Unemployment rate (%)	3,6	4,0	4,2	4,2	3,8	4,0	4,2	4,1
Euro area								
Real GDP	**0,5**	**0,8**	**1,1**	**1,5**	**0,5**	**0,5**	**1,0**	**1,2**
Private consumption	0,6	1,0	1,6	1,6	1,0	0,6	1,1	1,5
Investment	2,0	-2,0	1,2	1,6	-1,0	-3,2	-1,6	-2,1
Domestic demand (contribution, %pt)	1,0	0,7	1,4	1,5	0,7	0,3	0,9	0,9
Inventories (contribution, %pt)	-0,8	-0,3	-0,1	0,0	-0,7	-0,9	0,0	0,2
Net exports (contribution, %pt)	0,3	0,4	-0,3	-0,0	0,5	1,2	0,0	-0,0
Inflation (HICP, %yoy)	5,5	2,4	2,2	2,0	2,6	2,5	2,2	2,2
Unemployment rate (%)	6,6	6,4	6,4	6,5	6,5	6,4	6,3	6,2
China								
Real GDP	**5,4**	**5,0**	**4,8**	**4,5**	**1,5**	**0,9**	**1,3**	**1,6**
Unemployment rate (%)	5,1	5,1	5,1	5,1	5,2	5,0	5,1	5,1
Inflation (CPI, %yoy)	0,2	0,2	0,6	1,3	0,0	0,3	0,5	0,2
Trade	0,7	3,4	3,2	3,3				

Forecasts – Rates

	Actual	Target		Last 5 years	
Policy rate	04/25	3M	12M	High	Low
Fed funds (upper)	4,50	4,25	3,75	5,50	0,25
ECB deposite rate	2,50	2,00	2,00	4,00	-0,50
10-year rate					
Us Treasury	4,21	4,50	4,50	4,91	0,54
German Bund	2,73	2,60	2,50	2,84	-0,62
FX					
EUR/USD	1.08	1,07	1,10	1,22	0,98
EUR/CHF	0,96	0,97	0,95	1,11	0,93
USD/JPY	149,96	145,00	140,00	160,86	103,26
GBP/USD	1,29	1,27	1,30	1,42	1,12

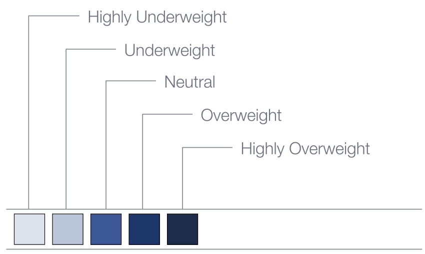
Asset Class Views

These asset class views have a 3 to 12 month horizon.

Where there has been a change since the last Quarterly Insight, the dot (•) indicates the previous view. These views should not be regarded as portfolio recommendations. This summary of our individual asset class views indicates the strength of conviction and relative preferences across a broad range of assets, but is independent of portfolio construction considerations.

Fixed Income			■		
Government Bonds			■		
Corporate Investment Grade			■		
Corporate High Yield			■		
Emerging Market Debt Local Currency	■				
Emerging Market Debt Hard Currency			■		
Duration			■		
Equities			■		
United States of America			■		
Europe		•	■		
UK		•	■		
Switzerland		•	■		
Japan			■		
Emerging Markets ex-China		•	■		
China	•	■			
Alternatives				■	
Hedge Funds					■
Gold			■		
Commodities		■			
Currencies (against USD)					
EUR		•	■		
CHF			■		
GBP			■	•	
JPY			•	■	

How to read the table?



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Asset Allocation

2025: a year to stay agile and adapt strategy

Key Takeaways

- President Trump's policies emerged as a key disruptive factor wreaking havoc with markets.
- Rates volatility bodes for neutral duration, while yields in certain credit segments remain attractive.
- Managing concentration risk in US equities has regained utmost attention.
- Underperformance of U.S. growth and technology stocks likely to be temporary.

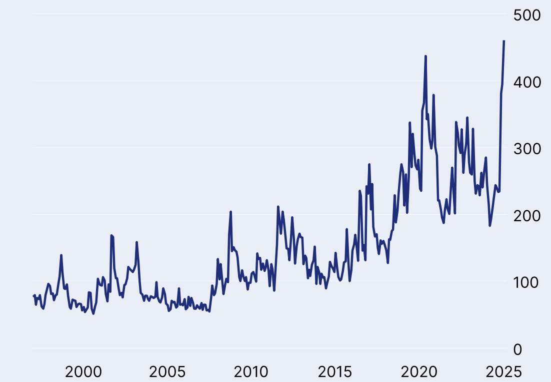
Three words can summarize the first quarter of the year: uncertainty, rotation, and concentration. In our view, successfully navigating such a backdrop requires agility and flexibility in portfolio management.

Navigating uncertainties with agility

As anticipated in our 2025 outlook, President Trump's policies and rhetoric have significantly heightened global economic and geopolitical uncertainties, pushing them to levels not seen in decades. Unlike his first term, it has become evident that Trump no longer views a strong U.S. equity market as a key measure of his success. The "Trump put" has disappeared, and instead, he appears willing to accept short-term economic pain in pursuit of longer-term economic and political objectives. The implications of his policies—tariffs, immigration controls, and DOGE-related cost cuts—are likely to drive up costs and prices, creating near- term headwinds to growth and upward pressure on inflation. Combined with heated rhetoric, these factors have fueled uncertainty and unease among investors. We expect this environment to persist, continuing to weigh on financial markets in the coming quarters. In response to this evolving landscape, global investors have naturally sought to reduce risk. While we began the year with a neutral stance on equities, we took advantage of low volatility in early February—near this year's peak in U.S. indices—to hedge our exposure. This progressively reduced our equity allocation by 25% as U.S. benchmarks began to correct. More recently, in mid-March, we reversed course and capitalized on heightened volatility by selling it to capture an attractive yield.

Global Economic Policy Uncertainty Index

Trump pushing policy uncertainties to a 30-year high



Source: LSEG Datastream/ CBH Investment Management

Temporary shift or structural change?

So far in 2025, U.S. equities have underperformed, while European and Chinese offshore stocks have led global returns, marking a sharp reversal from the previous year. The key question for market participants now is whether Trump's tariff policies justify a full rotation out of last year's market leaders and into prior laggards. While we aim to smooth market fluctuations, our asset allocation remains anchored to medium- term fundamentals. At this stage, we view this shift in leadership as temporary rather than structural and do not believe it warrants a major portfolio rotation. The U.S. economy, though slowing after two years of strong growth, remains resilient, supported by robust middle-class consumption. While earnings expectations for U.S.

mega-cap technology stocks leave little room for disappointment, the sector is still projected to deliver the highest earnings growth this year. In Europe, the economic outlook is improving, driven by Germany's fiscal stimulus, yet challenges persist, and the recovery is likely to be uneven. In China, policy support and the "DeepSeek effect" have stabilized the economy and stock market, but domestic headwinds remain, including weak consumer confidence and an unresolved downturn in the property sector.

Managing concentration risk

We have consistently highlighted the concentration risk in U.S. equities, particularly within the Magnificent 7. As long as these stocks led the market, the opportunity cost of underweighting them seemed higher than the associated risks for most investors. However, the recent sharp underperformance of mega-cap growth stocks has validated our concerns. In our view, the recent market rotation boils down to two factors. First, economic growth concerns—largely triggered by President Trump's policies—have raised fears of a slowdown. Second, the growing competition in artificial intelligence from China, with the so-called "DeepSeek effect", has emerged as a serious challenge to the U.S.'s dominance in this space. As investors started to cut risk, they begun to take profits from high-flying tech stocks with stretched valuation, rotating into lagging and more value segments of the market. To mitigate concentration risk, we began broadening our U.S. equity exposure last September by increasing our allocation to mid-cap stocks. This segment offers attractive valuations and strong profitability, and we expect mid-caps to benefit from upcoming tax cuts and deregulation in key industries. Although mid-caps have underperformed year-to-date, they are outperforming the Magnificent 7 by approximately 10%.

The year of the carry is unfolding

In fixed income markets, uncertainties are primarily complicating the outlook for interest rates. Consequently, we maintain duration close to benchmark. Credit remains expensive but continues to be well supported by demand factors and a benign macro backdrop. While credit has seen some spread widening, the magnitude was moderate by historical standard, and we hold our strategy of clipping income with attractive carry levels in short-term high yields and emerging debt. However, we remain cautious about the potential for a more significant tightening of spreads if economic conditions change. As a result, we continue to favor select segments where we see the best risk-adjusted returns while keeping a close eye on potential market shifts.

Equities

Time to explore the world beyond the Magnificent 7

Key Takeaways

- Policy and technology uncertainties drove strongest rotation in the cyclical bull market.
- U.S. Technology companies expecting to continue delivering high earnings growth.
- Eurozone re-rating, while significant, might have gone ahead of itself.
- Japan reforms expected to narrow the profitability gap with developed markets.

U.S. equities shaken by policy storms and AI rivalry

U.S. equities, particularly growth and cyclical stocks, have been the driving force behind the current bull market since late 2022, led by the dominance of the Magnificent 7. Meanwhile, European and Emerging markets have struggled, prompting investors to question whether last year's laggards could emerge as this year's leaders. The recent U.S. market correction has been primarily driven by policy shifts under the new administration, which have elevated global uncertainties to levels not seen in decades. This has negatively impacted both business and household confidence, leading to weaker capital expenditure and personal spending intentions. Rising inflation expectations have further weighed on consumer behaviour.

Given the strong rally since October 2022 and the elevated valuations, a temporary pullback was to be expected. However, we do not believe this warrants a significant rotation out of U.S. stocks in favour of European equities, nor a shift from growth stocks to value stocks at this stage. We maintain a positive outlook on U.S. equities, even as other global markets improve. The U.S. economy, while moderating, remains resilient, supported by a strong middle-class benefitting from healthy balance sheets, rising real disposable incomes, and a robust wealth effect. Earnings growth expectations for 2025 and 2026 remain in double-digit territory, with the technology sector still leading the way. Additionally, the long-term structural impact of AI continues to be a major driver, reinforcing the strength of the U.S. market, which remains heavily weighted toward technology and AI-related stocks.

However, the recent correction in the Magnificent 7 serves as a reminder of the concentration risk within U.S. equities. This supports our long-standing view that investors should diversify beyond a narrow set of mega-cap tech stocks. As a result, we continue to maintain exposure to mid-cap stocks and select thematic opportunities, broadening our U.S. equity allocation to mitigate risk while still capturing growth potential.

Eurozone's adrenaline shot

At the time of writing, Eurozone equities (MSCI Euro) are outperforming U.S. equities (S&P 500) by approximately 13% year-to-date, marking their strongest relative performance in a decade. This sharp rebound has primarily been driven by Germany's sudden policy shifts, which are expected to enhance the region's long-term growth potential. The pace and scale of this re-rating, however, have been significantly influenced by three factors: attractive relative valuations, deeply bearish sentiment toward the Eurozone economy, and a historically large underweight positioning in European equities by global investors. As a result, capital inflows have predominantly benefited large-cap stocks, particularly banks and defence companies, while small caps have lagged behind.

Despite the recent rally, we remain cautious about

Relative Performance of Eurozone vs U.S. Stocks
A Strong Rebound Within a Structural Underperformance Trend

Source: LSEG Datastream/ CBH Investment Management

the sustainability of this outperformance in the medium term. Since the 2008 global financial crisis, similar relief rallies in Eurozone equities relative to U.S. markets have occurred four times, lasting between four to twelve months, with relative price gains ranging from 9% to 22%. While the current outperformance is meaningful, historical patterns suggest that this may be a short-term reaction within a broader structural downtrend. Additionally, while Eurozone equities are still attractively valued, the recent re-rating has significantly reduced their previous deep discount relative to the U.S. market. The relative price-to-earnings (P/E) ratio has moved from below two standard deviations to just above one standard deviation from its 10-year average, limiting the potential for further multiple expansion unless supported by stronger fundamental drivers. Furthermore, consensus estimates forecast earnings per share (EPS) growth of only 6% for the Eurozone in 2025, notably lower than the 12% expected for U.S. equities.

Relative Valuation of Eurozone vs U.S. Stocks
The Deep Valuation Discount Has Disappeared

Source: LSEG Datastream/ CBH Investment Management

From a macroeconomic perspective, growth expectations for the Eurozone remain subdued, with earnings growth continuing to lag behind other key regions like the U.S., Japan, and Emerging Markets. Germany's fiscal stimulus, focused on infrastructure and defence, offers long-term positive potential, but its impact on economic data will take time to materialize. In contrast, in the short term, Eurozone equities could face immediate challenges from potential U.S. tariffs, which may undermine confidence and the economic momentum.

However, there are short-term catalysts that could benefit Eurozone stocks. First, earnings revisions for Eurozone equities are trending upward, while U.S. earnings estimates are being revised downward. Second, the market may have overestimated the potential impact of U.S. tariffs on European equities. While Europe remains exposed to trade tensions, the potential effect of U.S. tariffs appears limited, with less than 10% of sales for European-listed companies at risk after accounting for local production and services in the U.S.

Given these dynamics, we anticipate a period of consolidation unless macroeconomic indicators show substantial improvement. To sustain outperformance, the Eurozone will need a clearer path toward stronger economic growth and earnings upgrades, which are not yet evident. For now, we remain neutral on Eurozone equities for Q2 2025.

Japan corporate reforms entering a new stage

While we maintain a neutral stance on Japan equities, we are cautiously optimistic about the medium-term prospects, as we believe the market stands to benefit from several tailwinds. Japan is exiting a prolonged period of deflationary pressures, which we expect to lead to a stronger macroeconomic backdrop. This improvement is likely to reflect positively in corporate performance and valuations going forward. A key indicator of this change is the acceleration in nominal wage growth, which reached 4.8% year-on-year in December 2024, marking the largest increase since 1997. In a further sign of the country's economic shift, the Bank of Japan (BoJ) hiked rates in January to their highest level in 17 years, pointing to a "virtuous cycle between wages and prices continuing to intensify".

Japan has delivered superior earnings growth over the past decade despite relatively modest economic growth. This outperformance can largely be attributed to corporate reforms that have fostered operational improvements. Given the still low level of profitability in Japan, room for additional operational improvements remain widespread. Return to shareholders can also be enhanced through balance sheet management given Japanese corporate balance sheets remain overcapitalized. Corporate seem to have entered a new stage, as the management of listed companies seem now to have endorsed the need to improve ROE and shareholder's return, as evidenced by the 75% surge of buybacks in 2024. Other encouraging signs of reform include the intensification in the unwinding of cross holdings.

The Japanese market is currently trading below one standard deviation of its 10-year average, making it relatively inexpensive compared to other developed markets. Fundamentals remain solid, with strong balance sheets, offering investors a solid margin of safety. The reshoring trend is improving Japan's competitive edge, while robust hedging programs employed by these companies help protect them from currency fluctuations. Additionally, Japan is the developed market least correlated to U.S. and global equity indices, offer an attractive diversification opportunity from a portfolio construction perspective.

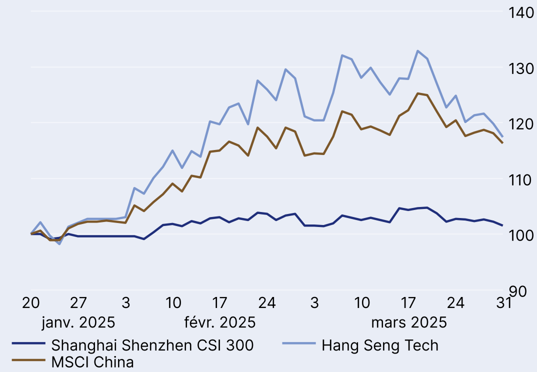
China flexing its AI muscles

Chinese equities have staged a strong rebound this year, largely fuelled by the January 20th release of DeepSeek-R1, which highlighted China's advancements in artificial intelligence. Many global investors began the year underweight in Chinese equities and were caught off guard by the rally, prompting a sudden shift toward high-beta, growth-focused AI stocks. International capital flowed into a concentrated group of AI stocks, while mainland investors led the charge into Hong Kong-listed names, boosting the offshore market's performance. This raises the question whether it is time to overweight Chinese equities.

We observe that the onshore China A-share market, dominated by traditional cyclical sectors like banks and consumption remains unenthusiastic and only increased by 5% since January 20th, while the offshore market (MSCI China) climbed by 25% and a proxy for Chinese Tech (KraneShares CSI China Internet) surged by 30%. In our view, this reflects scepticism about China's economic recovery.

Performance of Chinese Equity Indices

"DeepSeek Effect" Mostly Benefitting Offshore Chinese Tech



Source: LSEG Datastream/ CBH Investment Management

For now, we remain cautious about a potential further re-rating of Chinese equities and maintain a neutral exposure. First, the recent rally has been largely concentrated in tech and AI-related stocks, driven primarily by international capital flows and a shift in global sentiment rather than a fundamental improvement in China's macroeconomic outlook. Second, investor optimism may be overstating AI's near- term impact, with consensus already anticipating earnings growth from AI adoption this year. In our view, these elevated expectations risk leading to disappointment if growth materializes more slowly than expected. For instance, major investments such as Alibaba's $52 billion AI spending plan may take years to yield meaningful returns. Moreover, external risks, including higher tariffs and tightened U.S. restrictions on chip exports, could further impede China's AI progress, potentially undermining the current market optimism.

To take a more constructive stance on Chinese equities, we would need to see a broader economic recovery, particularly in key sectors such as consumption and property, which are essential to overall economic health. Additionally, clear evidence of sustainable earnings-per-share growth—something largely absent over the past decade—would be crucial. As we navigate this volatile market, we believe that structured products with buffers and downside protection can offer enhanced portfolio resilience during this period of uncertainty.

Fixed Income

Keeping the flight plan on track to harvest carry

Key Takeaways

- U.S. yields under pressure from growth scare induced by Trump's policies.
- EU yields propelled higher by the Germany's large fiscal "bazooka".
- Credit spreads widening contained despite cross asset volatility.
- Harvesting attractive yields in specific credit segments remains our focus.

Rates volatility amid mounting uncertainties

In Q1, U.S. yields initially rose until mid-January before declining sharply through early March, largely driven by growing economic uncertainty. The muted response at the short end of the curve reflects the Fed's reluctance to cut rates, while the longer end has been more sensitive to fiscal concerns. Market expectations for the Fed's policy trajectory have evolved alongside the economic and inflationary impact of Trump's policies. Initially, fears of higher inflation dominated, but more recently, concerns over weaker growth have taken centre stage. This shift has led to a significant repricing of rate expectations, with the implied policy rate for year-end falling by more than 40 basis points from its mid-February peak.

The Fed's decision to hold interest rates steady while lowering its 2025 growth forecast and raising inflation projections highlights the negative effects of tariffs on the economy. This leaves the central bank in a challenging position—while labor market weakness could justify rate cuts, persistently rising medium term inflation expectations may delay them. As a result, we believe the market will struggle to price in more than the currently expected 70 basis points of easing for the remainder of the year.

Given ongoing market volatility, an active approach to duration management remains crucial. For now, we maintain a cautious stance, staying close to our benchmark. Technically, the 4.10% level remains a key support for the 10-year Treasury yield, and a breakdown below this threshold could pave the way for a move toward last year's low near 3.6%. This is not our base case scenario, barring mounting recessionary fears.

In the Eurozone, Germany's fiscal policy has undergone a significant shift, with parliament easing the constitutional debt brake to allow for increased defence spending and the creation of a €500 billion infrastructure fund. This has driven a sharp rise in German Bund yields, which have surged more than 50 basis points since early March and 90 basis points since December.

While Germany's fiscal plans hold promise, they will require market funding at higher interest rates, adding to national debt and increasing interest costs. This raises concerns about long-term debt sustainability, particularly for countries like Italy. Following these announcements, yields have already risen by 40-50 basis points, with Italian 10-year bond yields still hovering around 4%.

Although these measures could improve the Eurozone's growth potential in the medium term, the near- term outlook remains uncertain due to structural challenges and the risk of U.S. tariffs. Given these headwinds, we expect the ECB to continue its rate-cutting cycle with two additional cuts this year. Consequently, we are more optimistic about duration risk for our euro fixed income exposure.

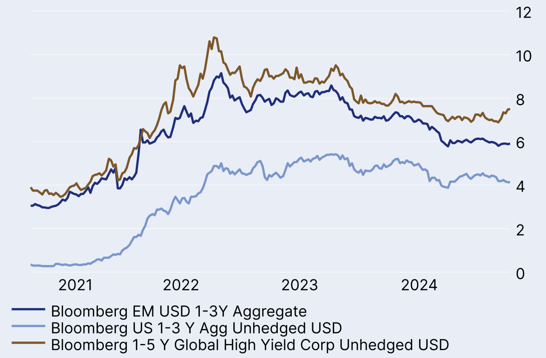
Credit: continued focus on carry strategy

Since the new US administration took office, US credit spreads have bounced off the lows, as policy uncertainty is a clear negative for global spread markets. However, it remains to be seen how much of the recent weakening in economic sentiment will feed through into weaker 'hard' activity data. For the time being, the recent spread widening has not been meaningful enough to change our allocations and we continue to favour short-term carry across the segment. We hold positions in short-term high yield and emerging debt across the board, and we are more selectively exposed to corporate hybrids and CLOs. The attractive carry continues to have the potential to absorb a large portion of a further spread tightening even though we maintain our benign outlook for credit spreads.

Hard currency emerging market debt (EMD) started the year on a strong note, year, primarily fuelled by a rally in core interest rates, with EM spreads remaining relatively stable. Carry continues to be a significant contributor to returns, accounting for nearly half of the total performance. The EM hard currency market is in a favourable position after a period of intense restructurings, leaving the more vulnerable issuers in a stronger state, which is expected to continue supporting carry.

Yield to Worst for Credit Benchmarks

Attractive Yields Bode Well for Carry Strategies



Source: LSEG Datastream/ CBH Investment Management

Forex

U.S. Exceptionalism questioned

Key Takeaways

- Trump has significantly clouded the outlook for the U.S. dollar.
- As the U.S.-EU growth and yield differential narrow, the USD is losing its shine.
- The yen is a top performer in 2025, and we maintain our moderately positive outlook.
- We expect GBP to remain influenced by fiscal concerns and economic data.

Trump 2.0 weighing on the greenback

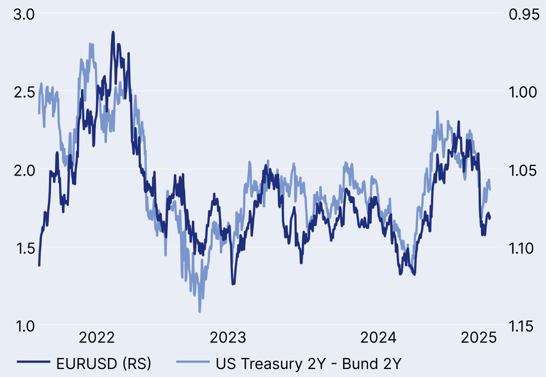
The U.S. dollar began the year on a strong footing, reaching a two-year high on a trade-weighted basis. However, a sharp reversal has since unfolded, driven by three key factors. First, escalating tariffs have introduced significant policy uncertainty and market volatility, with growing investor concerns about their potential to weaken economic growth. Second, a series of unexpectedly weak U.S. economic data releases, particularly declining consumer confidence, has amplified fears of a slowdown or even stagflation. While the U.S. may still demonstrate absolute economic outperformance, the relative growth differential with the rest of the world is expected to narrow over the coming year and into 2026. This shift raises doubts about the long-standing narrative of U.S. economic exceptionalism, which has been a key pillar of the bullish dollar outlook in recent months.

EUR/USD also received a significant boost from Germany's fiscal stimulus, particularly in infrastructure and defence spending. This has raised expectations for stronger economic growth in the Eurozone and significantly narrowed the interest rate differential, pushing EUR/USD higher. The speed and magnitude of the move were exacerbated by extreme bearish positioning on the euro, which left markets caught off guard. Moreover, the strong outperformance of European assets has led to substantial capital inflows, further strengthening the euro.

Looking ahead, Germany's fiscal expansion is set

EUR/USD vs Yield Differential

The Direction of EU-US Yield Differentials Remains a Key Driver



Source: LSEG Datastream/ CBH Investment Management

to drive medium-term growth, but the short-term outlook remains uncertain due to the potential impact of U.S. tariffs. While we expect EUR/USD to trade within the 1.06–1.10 range in the coming weeks, our medium-term view on the dollar has turned more cautious as the two key pillars of U.S. exceptionalism—yield and growth differentials—continue to narrow. Increasing evidence suggests that U.S. economic momentum is slowing, making a further contraction in growth differentials with global peers more likely. This shift reduces the probability of a more hawkish Federal Reserve and weakens the yield-driven support for the dollar. Speculation about additional Fed rate hikes, which was compelling late last year and early this year due to U.S. economic outperformance, persistent inflation, and anticipated expansionary fiscal policies, now appears outdated, with discussions shifting back toward potential rate cuts. Additionally, as the current source of global uncertainty is centred on the U.S., international investors are increasingly looking to reduce their exposure to dollar-denominated assets. Furthermore, Donald Trump appears willing to engineer a weaker dollar, as he views the currency's strength as an impediment to U.S. economic competitiveness.

BoJ set to continue rate hikes

We entered 2025 with a bullish outlook on the Japanese yen (JPY), projecting that USD/JPY would trade below 150 in H1 2025 and that the 10-year yield differential between the U.S. and Japan would narrow to 3%—both of which have largely materialized. JPY is currently the third-best performing G10 currency, trailing only the Scandinavian currencies.

The Bank of Japan (BoJ) maintained its policy trajectory, raising the policy interest rate in January to 0.5% as real wages improved, which contributed to a shift in the yield differential in favor of the yen. Additionally, a growth scare in the U.S., driven by the impact of Trump's policies, led to a significant decline in U.S. yields, further strengthening JPY against the dollar.

Looking ahead, we expect the BoJ to continue gradually normalizing interest rates as large pay increases and surging food prices are stoking consumer prices, making the BoJ increasingly confident it will secure its 2% target. Addditionally, Japanese investors may begin repatriating foreign assets, providing additional structural support for JPY. Overall, we maintain a constructive medium-term outlook on the yen, expecting policy normalization and capital flows to drive further appreciation. This view is reinforced by the fact that JPY remains the most undervalued G10 currency. USD/JPY dropped below 147 in mid-March before rebounding above 151. In the short term, we expect the 153 resistance level to hold and continue to see a high probability of the pair trading sustainably below 150 in the coming months.

GBP to muddle through fiscal woes

The British pound avoided a renewed fiscal scare at the end of March as Chancellor Rachel Reeves sought to reassure markets by implementing a fiscal tightening measure close to the expected £10 billion. This followed updated forecasts from the Office for Budget Responsibility (OBR), which halved its 2025 GDP growth projection from 2% to 1%, while inflation is expected to average 3.2% in 2025 before returning to 2% by 2027. Slower economic growth, persistent inflation, and geopolitical risks prompted the government to tighten fiscal policy without raising taxes. The Spring Statement 2025 upheld the tax policies set in the Autumn Budget 2024 while introducing spending cuts, primarily targeting overseas aid, welfare benefits, and select departmental budgets, all while maintaining capital investment. By prioritizing fiscal discipline and national security, the government aimed to reassure markets and manage debt effectively.

The market reacted positively, with GBP/USD remaining stable, while 10-year gilt yields reversed lower. We view these developments as supportive for the pound, as higher gilt yields could pressure budget assumptions and sterling. However, US tariffs present a key risk—according to the OBR, a 20% increase in US tariffs on the rest of the world (RoW) could reduce UK GDP by 1% and erase any projected fiscal surplus. As a result, GBP should not be considered a relative winner from trade tensions given the fiscal implications. For now, we believe GBP/USD has formed a local top around 1.30 and expect the pair to gradually decline toward 1.26 during Q2.

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