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MARKET OVERVIEW APRIL 2025

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WHERE WILL TRUMP STOP?

Stock markets are concerned about the escalation of trade tensions initiated by the White House. Volatility is back as US technology indices suffer from a wave of investor distrust of artificial intelligence (AI). The Magnificent Seven have lost their luster. The European Union (EU) appears to be on the road to recovery under German leadership.

GLOBAL STOCK MARKETS TAKE NOTE OF RISING PERILS

Trump 2.0 is rightly worrying American consumers, manufacturers, and stock markets. Unlike his first term, the early months of his presidency have shed little light on the promised tax cuts and deregulation measures that fueled optimism at the end of 2024. Economic policy to date has focused almost exclusively on protectionist measures and tariffs. Investors, however, saw Donald Trump's rhetoric as a way to force America's trading partners into negotiations. The reality today is somewhat different: the new administration in Washington appears ready to accept the negative effects of higher tariffs expected in the short term on growth and inflation; some presidential decrees are presented as non-negotiable–for example, the 25% increase in vehicle import tariffs. With a few exceptions, the rest of the world appears unwilling to give in to attempts at intimidation. **Wall Street, down about 10% since its February peak, does not appear to be acting as a reminder of the president's protectionist policies, which may have underestimated the importance of the wealth effect in domestic consumption over the past two years.** The weakening of consumer confidence indices is failing to deflect him from his trajectory. The White House's undeniably erratic and frenetic communications are heightening the general level of uncertainty, something investors are not particularly pleased with. **So far, downward revisions to forecasts by economic analysis firms have remained measured.** While the presidential decrees adopted have driven US customs duties to their highest level in the post-war period (an average of 11.5%, an increase of 9 points), the most optimistic economists, who at the beginning of the year predicted real GDP (gross domestic product) growth for the current fiscal year comparable to last year (2.8%), now expect growth closer to 2%. This would, however, be an honorable performance, in line with the growth of the US economy at cruising speed. Because the fundamentals remain solid despite everything. Despite the worrying weakening of confidence indices, the job market remains robust - the effect of layoffs in the federal public sector decided by DOGE (Department of Government Efficiency under the leadership of Elon Musk) remains modest -; corporate profitability is still supported by productivity gains; the financial situation of households and the private sector is not worrying. For the time being, the central scenario is therefore that of a slowdown in the US economy and not that of a recession accompanied by a sustained return of inflation. However, US consumer behavior will remain key, since household spending contributes approximately two-thirds of the country's GDP. The rise in risks has so far had only a modest impact on the earnings consensus: US corporate profits, bolstered by a healthy earnings season, are expected to rise 12% for the current fiscal year, compared to expectations of around +14% at the start of the year, a pace slightly higher than in 2024.

Despite his chaotic communication, Donald Trump considers his message to American citizens to be clear, at least in his own mind: *"short- term pain for long -term gain* " is the maxim that suits him best. In other words, the new Administration is prepared to accept the potentially harmful short-term consequences of its economic policy if the long-term gains are forthcoming, namely the reindustrialization of the United States–while the manufacturing sector accounts for barely 10.5% of GDP, the economy having long been geared toward services (more than three-quarters of GDP), particularly digital services. Making the American consumer pay–because companies will inevitably pass on a large portion of the tariffs in their sales prices–and not just trading partners, is a bold political calculation that could prove to be a losing proposition during the midterm elections in just over eighteen months. **Donald Trump is well aware that Joe Biden and the Democrats were punished at the ballot box by the inflationary shock that occurred after the pandemic. Is he prepared to risk his Republican majority in Congress?** However, the market has abandoned the idea of betting on a very short-term U-turn by the White House. Moreover, investors are rightly concerned about the inconsistencies in Washington's economic policy, particularly regarding the dollar and federal debt held by foreign investors (see the intense debates within the financial community about the President's economic advisor Stephen Miran , whose iconoclastic and often bizarre proposals suggest that Washington is truly playing with fire). The uninhibited use of geopolitical issues and threats to the reality of the defense umbrella enjoyed by allies contribute to reinforcing general anxiety.

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We conclude on this subject with a few words on Europe, whose stock markets have largely benefited from the announcement of the German fiscal stimulus program and the prospect of massive support for the European defense industry backed by the Commission. Economists generally remain measured about the impacts of customs tariffs, even if the economy of the Old Continent is more open to international trade than the United States (especially Germany). **In the current state of known American protectionist measures, the impact on the GDP of the eurozone over the next twelve months would be a few tenths of a percentage point (0.10%), which is not negligible in a context of rather sluggish economic growth. However, the hopes raised by the awakening of Europeans are very real for the coming years** : Berenberg economists estimate that growth in the eurozone should reach 1.5% in 2026 under the full effect of the German budgetary stimulus, the significant increase in defense spending, and the Commission's productivity recovery program, compared to barely 0.7% last year.

WALL STREET SUFFERS FROM DOUBTS ABOUT AI

The worsening of trade and geopolitical tensions with the United States' allies is not, however, the main cause of the correction of the American stock market. The performance of the equally weighted indices (identical weight of each value in the index), slightly negative since the beginning of the year in local currency while the indices weighted by market capitalizations and highly exposed to major American technological leaders are in sharper contraction, clearly indicates that **the main subject of concern for investors is artificial intelligence (AI).** The Magnificent Seven index (Alphabet, Amazon.com, Apple, Nvidia , Meta Platforms, Microsoft, Tesla) has lost almost 20% since January 1 . More generally, the stock market corrections observed within the AI ecosystem (electrical equipment for data centers, semiconductors, *hyperscalers* , electricity producers, etc.) reflect the legitimate questions of investors about the sustainability of the investment cycle in generative AI. Since the announcements by Chinese startup DeepSeek (see the monthly note dated February 3), markets have been concerned about a capital expenditure bubble and the possibility of insufficient profitability. So far, however, forecasts from *hyperscalers* (cloud leaders) for the current fiscal year seem to indicate the opposite: the cloud giants have announced a total spending envelope of around $300 billion for 2025, exceeding consensus expectations and up 60% year-on-year. The race for AI is only just beginning. Technology leaders have no interest in curbing their spending, as AI represents a real threat to some of their traditional businesses. The scenario of a significant drop in the training costs of generative AI models - and therefore also in the energy consumed - would actually be excellent news for the rapid adoption of these new technologies in the economy, by promoting use cases, and in particular the development and larger-scale deployment of AI agents (models offering reasoning and autonomous action capabilities without human intervention). Developers of applications, software and consumer electronics products would be favored in the context of inference (use of AI models). In the best case, hyperscalers *could* save a significant part of their excess available cash flows (*free cash flows*) - around 50% of their investments are currently in GPU-type chips designed by Nvidia . While the stretched valuation reached by the sectors of the AI ecosystem at the end of 2024 called for consolidation and profit-taking, the market's fears today seem exaggerated regarding certain stocks and sub-sectors. **We are only at the beginning of a technological revolution that will shake up all sectors of activity and contribute to significantly strengthening productivity gains and consequently the cruising speed of the economy.** Too many investors still see AI as a simple gadget - which is explained by the fact that the first large-scale uses concerned *chatbots* (conversational agents) and entertaining image generators -; the next step is the development of digital assistants specialized in specific tasks, which will benefit all sectors of business (logistics, customer services, marketing, production and predictive maintenance, R&D, etc.).

CONCLUSION

The trade war initiated by Washington has intensified significantly in recent weeks. Markets are more nervous, but the US stock market correction is primarily hitting sectors that have benefited from the euphoria surrounding AI over the past two years. So far, economists' downward revisions to 2025 estimates remain modest, with hopes of easing tensions as the midterm elections approach. Europe can benefit from the German stimulus package and the massive investment effort in its defense (see the March monthly newsletter). Investors should prioritize a balanced and well-diversified allocation in their portfolios, moving away from ultra-concentrated indices, which are more susceptible to widespread anxiety and the weight of passive management.

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