VAN LANSCHOT KEMPEN

INVESTMENT MANAGEMENT

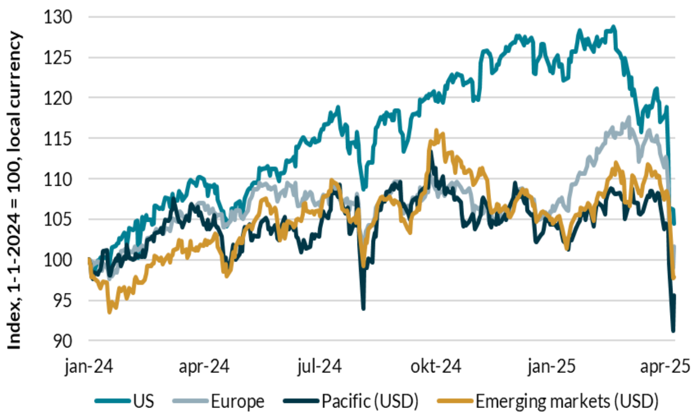
Asset Allocation Outlook

April 2025

- US announces vast array of import tariffs
- Risk-off response from markets
- Equity position now neutral

Uncertainty surrounding US government policies, and especially import tariffs, continued to dominate the financial markets in March. The S&P500 fell by 5.8%. Financial markets' concerns about growth, especially in the US, were reflected in a further downturn in 2-year and 10-year bond yields and wider spreads on credits. Whereas Europe was initially not a target, the introduction of 25% tariffs on steel, aluminium, cars and car parts had a negative impact on equities. The STOXX 600 was down by 4.2%, which is still a better performance than the S&P500. Over the whole first quarter, the outperformance of European equities versus their US counterparts was as high as nearly 10%, the biggest outperformance in ten years.

Trade war causes equities to plummet



Source: LSEG, Van Lanschot Kempen

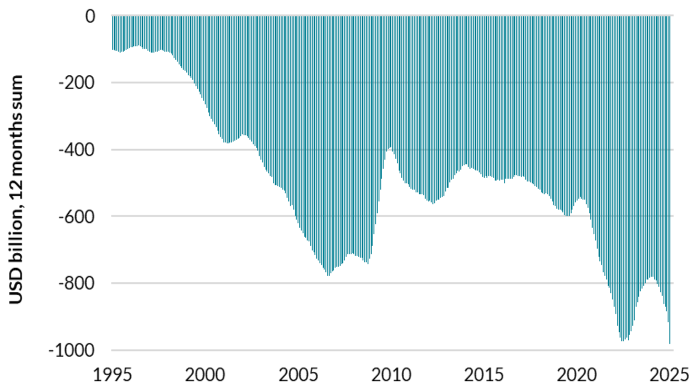
In contrast to the US, German yields climbed, especially at the long end of the yield curve. The sweeping fiscal plans announced by the new German government pushed up 10-year bond yields by 0.35 percentage points. Yields in other Eurozone countries rose by similar amounts.
The picture is highly uncertain going forward. The unfolding trade war is negative for growth around the world. In Europe, this could be partly offset by fiscal expansion, but growth will decrease in the US. A recession can be avoided, although the risk has risen. The uncertainty has led us to adopt a neutral position in equities.

Trade war

Although so far only China has retaliated strongly, we can say with certainty that the US has unleashed a trade war. Up to the end of March, tariffs on Chinese goods had been increased by 20 percentage points. Tariffs on Canadian and Mexican goods have been raised to 25%, although an exemption applies to about 50% of the goods that come under the North American free trade agreement (USMCA). Aluminium, steel, cars and car parts are subject to a tariff of 25%. Canada, China and the European Union have all announced countermeasures. China has increased export restrictions on some rare earth metals and introduced tariffs of 10% to 15% on a small group of US imports. Canada retaliated by imposing a tariff of 25% on a small portion of imports from the US. The European Union is likewise being cautious. Tariffs can be as high as 50% in the EU, but the tariffs only apply to a small and specific number of goods in this case too.

After all these measures, the world took a keen interest in events on 2 April, dubbed Liberation Day by the Trump administration and the day on which the US announced a comprehensive package of measures. In coming up with these measures, the administration had not only looked at the tariffs that the trading partners of the United States apply but also other trade barriers and even VAT rates. The US federal government doesn't itself charge VAT and the Trump administration views this as unfair to the US if other countries do levy VAT. In doing so, the Trump administration is totally ignoring the fact that US states, counties and cities do levy a kind of VAT, a sales tax, and that VAT is levied on both domestic and foreign goods. This means that VAT has no impact on trade flows.

Large deficit in the US balance of trade



Source: LSEG, Van Lanschot Kempen

The announcements on 2 April were on a large scale. A universal tariff of 10% applies to all countries. But 'reciprocal tariffs' are much higher in many cases. A levy of 54% applies to China, 24% to Japan, 20% to the European Union and 10% to the UK. Trump claims he's being nice to his trading partners here. According to those behind the US calculations, the European Union levies the equivalent of 39% tariffs on US imports, which can consist of actual import levies (according to the European Union an average of about 1%), currency manipulation, regulations and requirements relating to products, VAT etc. After some initial confusion about the calculations, it turned out that they are simply based on a country's trade deficit with the US, although they only take trade in goods into account. Trade in services, in which the US often enjoys a trade surplus, has been excluded from the calculations. This method has come in for criticism from a variety of renowned economists. So far, China has retaliated with a 34% import tariff on all US goods, which caused the US to strike back with a 50% additional tariff. So far, there are more signs of escalation than negotiation.

What matters now is the effects of these tariffs. We believe they will be bigger for the US than for the Eurozone. After all, almost all imports to the US will be more expensive, while in the Eurozone and other countries they will only have a negative effect on some exports, i.e. those to the US. In the US, we think the current tariffs can slow growth by 1.5%-point. For the Eurozone, we think the negative impact on growth could be 0.5%-point. The impact on inflation depends on the countermeasures, which could push up inflation. Yet lower demand from the US and changes to trade flows, for example if China directs its exports more towards Europe, could also result in lower inflation. In the US, this takes the average tariff to about 25% compared to 2.3% prior to Trump taking office. This implies upward pressure on inflation, which could again rise towards 5% over the course of the year. The question then is what the Federal Reserve will do: look past this one-off price shock or not? The Fed had already adopted a wait-and-see policy and there's now a higher chance of the bank not making any more cuts to interest rates this year. The impact on growth depends partly on how the revenue from these tariffs is spent. This could be as much as 600 billion US dollars, or more than 2% of the US GDP. If this amount is returned to consumers in the shape of other tax cuts, this could mitigate the damage. At economic momentum that continues to hover at around 1%. It's therefore possible there won't be a recession. Estimates of the impact on Chinese growth vary enormously from a half of one to more than two percentage points.

There was a risk-off response from markets. The S&P500 plunged by 12% in four days, taking the index close to bear market territory, widely defined as a 20% fall, from its peak on 19 February. The STOXX 600 lost 9.3% in four days, closing 14% below its recent peak. Equity markets in Asia also suffered strongly, with the biggest loss in Taiwan. Losses of this magnitude mean that the equity markets aren't fully pricing in a recession. Oil prices tanked in response to the prospect of a downturn in global trade. Yields on government bonds initially fell. Bond markets are reflecting the expected downward adjustments to growth forecasts, especially in the US. There, the ten-year yield was initially down by 25 basis points, after already having dropped considerably in the past weeks. A similar movement is visible in 2-year yields. Markets are apparently estimating higher economic risks for the US than for the Eurozone. Interestingly, the ten-year yield surged after a couple of days. This may be due to capital repatriation by foreign investors, to investors questioning the creditworthiness of the US government or to the need to sell liquid assets to cover losses elsewhere. Tellingly for this last argument is that the gold price also retreated. German long-term yields only declined by 10 basis points, partly due to the potential response from the ECB and the expansionary German budget plan announced and approved in March.

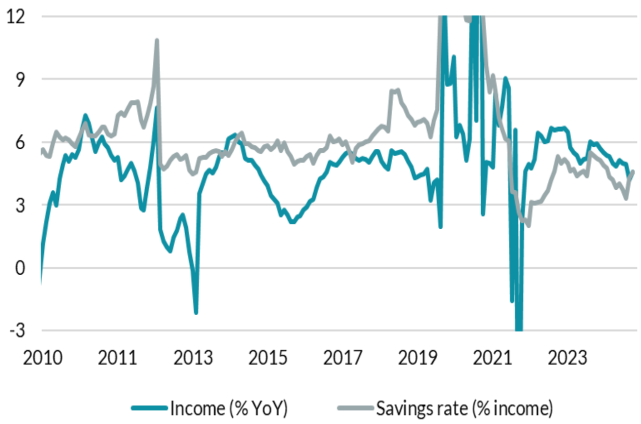
Looking to the future, the question is whether the uncertainty surrounding the trade war has now abated. We don't think it has. We don't know whether and to what extent the recently announced tariffs will prove to be negotiable. If they are, this would be positive. Nor do we yet know the scale of the countermeasures, which could yield a potential blow. And the effects on growth are uncertain too. Calculations often assume linear correlations, while major shocks like these can in fact exacerbate negative processes. Markets aren't excessively pessimistic though.

Doubts about US consumers

US macro-economic data started to deteriorate over the course of the first quarter. At the end of February in particular, a whole series of data were published that were worse than expected. Things have since improved somewhat. This was partly because the data were marginally better but also because US economic forecasts were adjusted downwards slightly.

Consumers are the main source of concern. Both consumer confidence surveys show a sharp drop in confidence in March, and this is on top of considerable downturns in January and February. According to the Conference Board, confidence is now at its lowest level since January 2021 when the world was still in the grip of the coronavirus pandemic. Under the data from the University of Michigan, we need to go back to July 2022 to find consumers more pessimistic than they are now. Consumers are worried about the job market, incomes and especially inflation. However, consumer confidence isn't the main determinant of consumer spending. By far the most important factor is income growth. And income growth has in fact improved marginally in recent months. The lack of confidence has prompted consumers to save more. At lower consumer spending growth, US economic growth looks likely to be much weaker in the first quarter.

US consumer savings up



Source: LSEG, Van Lanschot Kempen

Whether this persists depends on the job market, via income growth. Large companies in the service sector were more positive about employment in February. Small businesses and large industrial companies became more cautious though. The number of unfilled job vacancies is nevertheless still high compared to the period before the coronavirus pandemic. Labour demand and supply are reasonably balanced, as demonstrated by the low and stable unemployment rate and low level of new jobless claims, but job market dynamics are low. For the time being though, they are sufficient to generate income growth for consumers.

The trade war could throw a spanner in the works. It should be remembered here that imported products and services account for about 10% of total consumer spending. Higher tariffs have a negative effect on consumer spending. Relatively small changes only have a minor effect, but the tariffs that have been announced so far will have a palpable impact. Lower consumer spending could be offset to a certain extent by higher investment if companies move production to the US. Yet we currently estimate the negative effect of the trade war on the US to be a reduction in growth of about 1.5 percentage points. The US economy grew by 2.8% in 2024. This year the figure could come out at about 1.5%. This would still be enough to generate sound earnings growth at businesses.

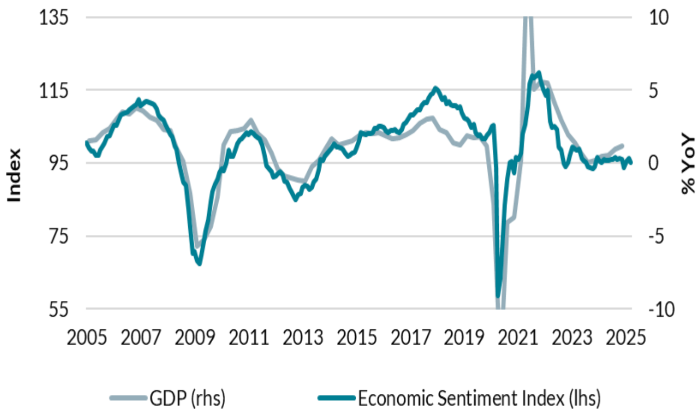
European leading indicators not yet positive

The Eurozone's fiscal plans are on a large scale. Germany is keeping its debt brake - under which the government deficit may not exceed 0.35% of the GDP - but relaxing the rules for the individual states and exempting defence spending above 1% of the GDP. In practice, this means that the debt brake doesn't apply to defence spending. Furthermore, a special fund of 500 billion euros is being set up for investment in infrastructure. This kickstarts fiscal expansion in Germany and could boost growth. The plans are far from being worked out in detail. We don't yet know anything about timing and duration but assume that the effects will gradually become noticeable over the course of this year.

The European Union has proposed increasing defence spending by 1.5% of the GDP, plus jointly raising 150 billion euros on the capital markets. In total, 800 billion euros would be available for defence. If all of this is additional money, this could boost growth in Europe. However, some aspects of the plan are still uncertain. Will all the member states participate? If more is spent on defence, does that mean cutbacks elsewhere? Although the European Commission might then turn a blind eye to government deficits, the financial markets may not be so lenient. Germany's plans have already pushed up bond yields; the restricted fiscal space in France and Italy means yields could rise there too. In the UK, the new budget contained less fiscal space than previously estimated. In short, Europe could use some fiscal expansion, but we need to wait and see how big the boost will be.

Optimism among businesses has barely improved. The Eurozone purchasing manager index (PMI) for industry climbed in March, but the index for services declined slightly. As a result, the index for the whole economy managed a minimal upturn. At a level of 50.4, however, this indicator is barely pointing to growth. The same goes for the Economic Sentiment Index. It has been moving between 93.5 and 96.5 since mid-2023. In March, this index dropped to 95.2. All these levels point to a stagnating economy. Consumer confidence, which had improved considerably up to October last year, has now fallen again slightly. Eurozone incomes are rising, and unemployment fell to a record low of 6.1% in February, which in our view keeps alive hopes of consumer spending picking up.

Eurozone leading indicator still pointing to stagnation



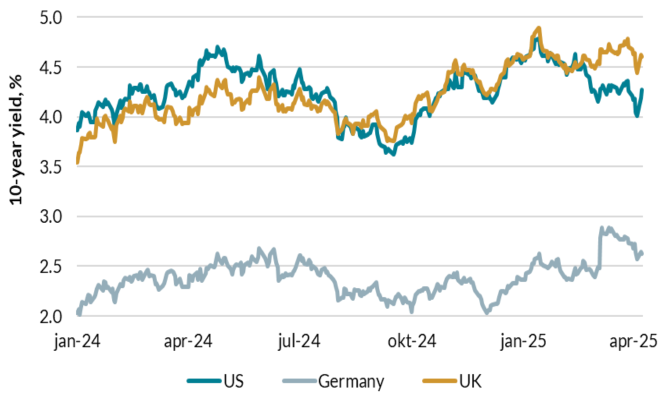
Source: LSEG, Van Lanschot Kempen

Bond markets: lower growth in the US

While import tariffs are inflationary and could therefore push up bond yields, we've in fact seen yields come down in recent weeks. At the start of January, when optimism about the Trump administration was still high, US 10-year bond yields briefly stood at 4.8%. They've since dropped below 4%, before rising back to 4.4% %. Lower yields can point to lower inflation expectations or lower growth forecasts. That US bond markets are assuming lower growth can be seen from the fact that the downturn is mainly visible in real interest rates. Long-term inflation expectations have come down very little. Wider spreads on investment grade and high yield credits likewise point to a more cautious outlook for growth. Spreads on US investment grade credits have widened by just under 20 basis points from almost record lows in February. Spreads on high yield credits have widened by 115 basis points. Incidentally, these are still low at spreads of nearly 120 basis points for US investment grade credits and approximately 460 for their high yield counterparts. And they're far from levels that correspond to a slowdown in growth. We therefore retain our negative opinion of these asset classes.

Short-term inflation expectations for the US have risen. After high 1-year inflation expectations above 5% in 2022, market expectations had dropped to closer to 2% in 2024. Since then, expectations have climbed to over 3%. This is viewed as temporary as markets continue to anticipate three interest rate cuts from the Fed this year. Here, too, the US interest rate markets are mainly assuming a slowdown in growth and are less concerned about long-term inflation. We have our doubts as to whether these three interest rate cuts will materialise and, as a result, think there's limited potential for further downturns in US yields.

Bond markets mostly anticipate lower growth due to the trade war



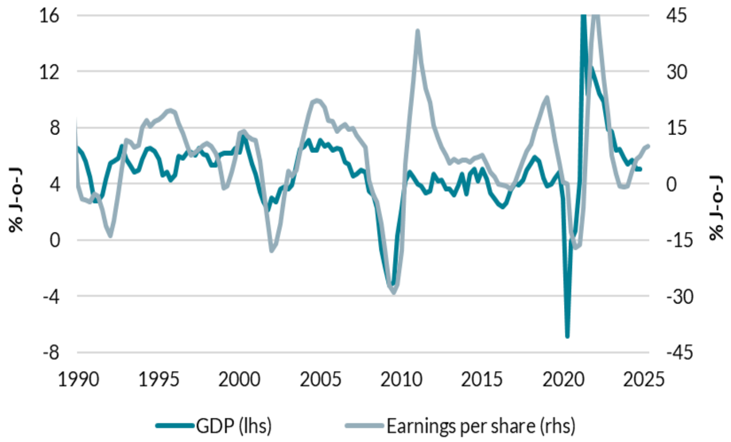
Source: LSEG, Van Lanschot Kempen

In Germany, 10-year bond yields soared to 2.9% at the start of March in response to the government's expansionary fiscal plans, after which they dropped back to 2.6%. The trade war will have less of an impact on inflation in the Eurozone. The higher 10-year yields are mainly driven by the fiscal plans. While US inflation has recently stagnated between 2.5 and 3%, Eurozone inflation came down in March: headline inflation to 2.1%, core inflation to 2.4% and service inflation to 3.4%. The downward trend in inflation gives the ECB capacity to cut interest rates further. We anticipate two further cuts to rates this year. As markets are also still expecting this and growth could pick up marginally, we foresee little further downward movement in long-term bond yields in the Eurozone.

Earnings dynamics positive, equities neutral

The recent downturns on the equity markets are the result of lower valuations. Earnings expectations have held up well. In March, growth in US realised earnings even exceeded 10% versus March last year. In Europe, growth in realised earnings is lower at 3% but still slightly more robust than in 2024. Japan scores best in this respect at earnings growth of over 11%. At 11% in the US and Japan, growth in expected earnings over twelve months is keeping pace with the growth in realised earnings. At nearly 5% in Europe, growth in expected earnings is slightly higher than realised earnings. We are also seeing stronger momentum in expected earnings in the US and Japan. Upward revisions to total earnings in the US are concentrated though. On balance, there are more analysts adjusting their forecasts downwards than upwards. Yet these upward adjustments are larger. The net number of downward adjustments is marginally negative in Europe and positive in Japan. The uncertainty surrounding the effect of the trade war on growth raises the question of whether earnings dynamics can remain positive.

Earnings growth largely determined by nominal GDP growth (US)



Source: LSEG, Van Lanschot Kempen

In our investment policy, we've made two changes to our equity position in recent months. In January, we took partial profit on our overweight in US equities. This was due to the rapid upturn in equities prior to that month and to declining economic growth. In February, we diversified our overweight from the US across industrialised nations. This was prompted by the bigger downside risks in the US, sound economic growth and earnings in Japan, the prospect of stronger growth in Europe in relative terms and attractive valuations in Japan and Europe. Downward equity markets have led to the size of our equity overweight shrinking further. On balance, our positioning in equities is now neutral. We recognise the downside risks of a trade war but have decided not to reduce our equity overweight any further at the moment. If tariffs prove to be negotiable, this would be a bonus, while widespread countermeasures would be a setback. Incidentally, we don't expect the latter to happen. We think it's too soon to expand our equity position, mostly because of the downside risks for US economic growth.

Tactical outlook

Asset class	
Equities	**Neutral**
Global equities declined in March. A sharp drop was visible in industrialised nations, while emerging markets noted a small plus. Equities were down in both the US and Europe, with the US again underperforming. Europe's outperformance versus the US in the first quarter is exceptional in historical terms. Equity markets fell further in early April after the Trump administration announced an extensive package of tariffs. The trade war unleashed by the US has increased uncertainty about growth. The negative impact for the US is likely to be bigger than that for Europe. We anticipate a considerable downturn in growth in the US but no recession yet. In Europe, however, economic data are better than expected, and earnings expectations are stabilising after previous downward adjustments. Japanese companies are profiting from the high nominal growth. Yet there are downside risks in Europe and Japan as well. We've therefore accepted our neutral position in equities that is the result of market movements. Before deciding whether to increase our positioning, we want greater clarity on the potential negotiability and impact of tariffs.	
Government bonds	**Overweight**
US bond yields came down again in March. The downturn in short-term yields was slightly bigger than that in long-term yields, although the movements at both ends of the yield curve were small. In contrast, yield curves in the UK and Germany steepened due to sharper upturns in long-term yields than short-term yields. This mostly occurred after the announcement of large-scale expansionary fiscal plans in Germany. Following the announcement of tariffs, in the US yields fell further in response to the prospect of lower growth. In doing so, US bond markets are ignoring the upward impact from inflation. The number of cuts to interest rates by the Fed anticipated by the market has even risen from two to three. We think this is rather high given the Fed's wait-and-see policy, the prospect of higher inflation and higher short-term inflation forecasts. In this respect, we think there's little chance of a further downturn in long-term yields. The number of expected interest rate cuts from the ECB has likewise increased from two to three. This is more realistic given the better-than-expected rate of inflation, although there will be less need for interest rate cuts if growth can be stimulated by fiscal measures. In the UK, which will be affected to a lesser extent by US tariffs, there's now a marginally higher chance of rates being cut in May or June. We hold a small underweight in Eurozone government bonds. German bond yields are currently at the lower end of the bandwidth we view as reasonable. We hold an overweight in the US. However, given the underweight in US investment grade credits, we still hold an underweight in US investment grade bonds overall. We've recently reduced this underweight though by buying US government bonds.	
Investment grade credits	**Underweight**
Spreads on US investment grade credits widened by 9 basis points in March. Despite this, spreads remain extremely tight. Furthermore, they hardly reflect any slowdown in growth even after the announcement of widespread tariffs. In the Eurozone spreads widened by 5 basis points. Such tight levels make investment grade credits unattractive versus government bonds, especially in the US. We've maintained our underweight in this asset class as we believe the chance of an outperformance is smaller than the risk of an underperformance caused by wider spreads. The Eurozone is fast approaching this point too. Yet spreads are less tight in the Eurozone in relative terms and on top of this spreads account for a larger portion of the total interest compensation. This is why we still prefer investment grade credits to government bonds in the Eurozone. As the underweight in the US is bigger than the overweight in the Eurozone, we hold an underweight overall in this asset class.	
High yield credits	**Underweight**
Spreads on US high yield credits widened further in March, by 68 basis points. This means a slightly more cautious economic scenario has been priced in, but we still think this market is underestimating the risks to growth. In the Eurozone, a widening of spreads by 39 basis points cancelled out the tightening in February. Our outlook for high yield credits remains unchanged. We think spreads are extremely tight, making this asset class unattractive in relative terms versus government bonds. Even if the economy continues to grow over the coming quarters, we still view the spreads as small. This is because companies will face higher interest charges. Furthermore, we know that if the solid sentiment on this market deteriorates, the liquidity of these bonds will quickly dry up and spreads will widen. The tight spreads mean there's also less upward potential in this class than for equities.	

Asset class	
Emerging market debt	**Neutral**
The yield on a commonly used basket of emerging market debt issued in US dollars (EMD HC) climbed to 7.7% in March. This was the result of a downturn in US government bond yields on the one hand and wider spreads (+0.2 percentage points) on the other. Investors receive an additional 3.5 percentage points in return versus US yields, slightly less than the average over the past ten years (3.8%). On average, growth in emerging markets is holding up well enough. The uncertainty for these countries derives primarily from the US government. (The desire for) a weaker US dollar isn't negative, but (additional) US tariffs could lead to weakening growth dynamics and even a severe recession for some countries, such as Mexico. The interest compensation on a basket of emerging market debt issued in local currency remained unchanged at 6.3% in March. The downturn in US yields resulted in wider spreads versus US yields. We think an average return of 6.3% is low in general versus yields in developed countries. Moreover, local currencies could be squeezed by the US import tariffs.	
Listed real estate	**Neutral**
Listed real estate has underperformed versus general equities since 2022-2023 when interest rates climbed. Higher interest rates made rental yields less attractive in relative terms and led to higher interest charges for property companies. Since then, this asset class has moved closely in line with interest rate expectations. Pressure on yields increased in Europe in March because of higher yields in Germany deriving from the expansionary fiscal plans that have now been approved. Yields likewise climbed in the UK and Japan in response to inflation and wage data. Europe is now in the red over 2025 so far, while the US is noting a small plus. With the exception of the office sector, vacancy levels are low, although vacancy levels for logistics and homes have recently risen somewhat in the US. Future rental growth will nevertheless be boosted by the restricted supply, as the number of new construction projects in the individual sectors is low. We hold a neutral outlook for this asset class. Valuations are relatively cheap versus general equities. Versus interest rates, global developed listed real estate is expensive and European real estate has a neutral valuation in our opinion. Transactions increased in 2024 but remain below the ten-year average. Transactions could pick up gradually in 2025, which will create greater clarity on underlying valuations.	
Commodities	**Neutral**
The upturn in the Bloomberg general commodity index occurred across the board in March, with gold leading the way, metals moving roughly in line with the index and oil prices underperforming somewhat. Commodity prices fell following the US administration's announcement of widespread tariffs. A slowing global economy and in particular slowing global trade are negative for commodities. There's sufficient production capacity for oil and several OPEC members would like to increase production. We see little upward potential for oil prices given that stocks are at adequate levels. We don't think Chinese economic growth especially is robust enough for us to take a position in metals. Gold continues to set new records. At present, geopolitical and economic uncertainties can be named as the reasons behind this, but given the high gold price a large amount of uncertainty and/or lower interest rates have already been priced in. Our view is that the demand for gold comes mostly from central banks and this attracts speculative investors.	

Market review

Equities

	Index	Past month	Past 3 months	From 31-12-2024
Global (MSCI AC)	1003	-12.8%	-12.2%	-11.7%
Developed markets (MSCI World)	3254	-13.0%	-12.8%	-12.2%
Emerging markets (MSCI EM)	1003	-11.2%	-6.4%	-6.8%
United States (S&P500)	4983	-13.6%	-15.8%	-15.3%
Eurozone (EURO STOXX 50)	497	-11.8%	-3.2%	-1.7%
United Kingdom (FTSE 100)	7911	-8.9%	-4.1%	-3.2%
Japan (Topix)	2432	-10.2%	-12.2%	-12.7%
Netherlands (AEX)	824	-9.6%	-7.3%	-6.2%

Government bonds (10-year)

	Yield (%)	Past month (bp)	Past 3 months (bp)	From 31-12-2024 (bp)
United States	4.27	-4	-40	-30
Japan	1.27	-24	8	19
Germany	2.63	-21	10	26
France	3.38	-17	3	20
Italy	3.85	-5	17	33
Netherlands	2.86	-13	11	26
United Kingdom	4.61	-4	-19	3

Investment grade credit

	Risk premium (bp)	Past month (bp)	Past 3 months (bp)	From 31-12-2024 (bp)
United States	118	29	35	36
Eurozone	114	31	14	13

High yield bonds

	Risk premium (bp)	Past month (bp)	Past 3 months (bp)	From 31-12-2024 (bp)
United States	457	160	173	165
Eurozone	403	114	96	92
Emerging markets (USD)	386	58	62	61
Emerging markets (Local currency)	231	5	38	30

Real estate

		Past month	Past 3 months	From 31-12-2024
Global		-10.9%	-7.6%	-8.9%
North-America		-14.4%	-11.1%	-12.4%
Europe		-3.6%	-3.9%	-7.0%

Commodities

		Past month	Past 3 months	From 31-12-2024
Bloomberg index		-7.1%	-2.2%	-1.5%
Base metals		-12.6%	-6.5%	-6.0%
Brent oil (USD per barrel)	63.41	-10.3%	-16.8%	-15.2%
Gold (USD per troy ounce)	3003	3.0%	12.7%	14.4%

Returns in local currency
bp = basis point (0.01%)
Data as of 8 April 2025
Source: LSEG, Van Lanschot Kempen

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