VAN LANSCHOT KEMPEN

INVESTMENT MANAGEMENT

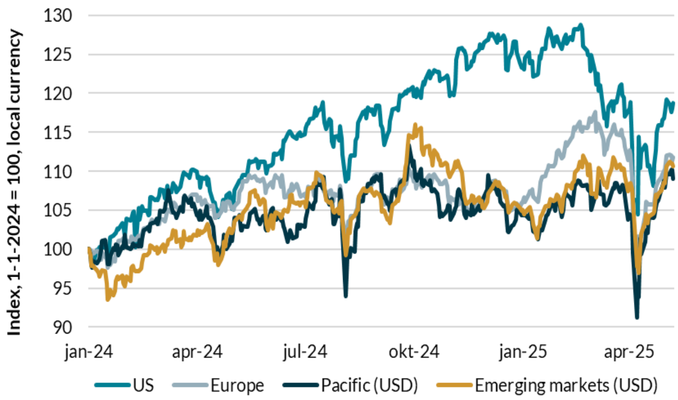
Asset Allocation Outlook

May 2025

- Calm returns to financial markets after trade war paused
- Leading economic indicators worsen
- Cash position reduced in favour of Eurozone government bonds

US import tariffs continued to dominate financial markets in April. Although President Trump quickly scaled back the tariffs he announced on 2 April, uncertainty remained high. This uncertainty raises the question of whether it's still possible to avoid a recession in the US. Confidence indicators have weakened dramatically. Furthermore, equity investors especially are keeping a close eye on earnings data from the US. Their main focus is the results themselves but also the forecasts from companies. These feature a large amount of uncertainty and caution.

Big moves in equities due to the trade war



Source: LSEG, Van Lanschot Kempen

Relief that the draconian tariffs were to be postponed by 90 days from 2 April restored calm to the equity markets. The MSCI global equity index succeeded in earning a plus in US dollars, as did the sub-indices for industrialised nations and emerging markets. These indices were aided by foreign currency effects as the euro and Japanese yen appreciated versus the US dollar. In local currency, the S&P 500 and STOXX 600 indices were down slightly. The decrease in the S&P 500 was much bigger in euros.

In the US, there was turmoil on the interest rate markets but only a minor downturn in 10-year bond yields was visible on balance. Two-year yields dropped more sharply, causing the yield curve to steepen. Germany experienced similar downturns in 2-year and 10-year bond yields, almost cancelling out the upturn following the announcement of fiscal plans earlier this year. Spreads on credits widened slightly again.

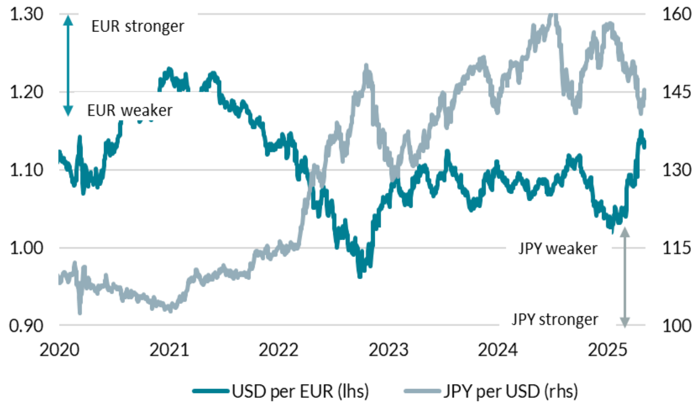
In our investment policy, we have reduced our cash position in favour of Eurozone government bonds. The interest rate cuts by the ECB have made cash less attractive in our opinion. We think that government bonds have priced in the expected monetary policy reasonably well. The attractiveness of this asset class lies mostly in the interest revenue. We've maintained our neutral position in equities.

Trump executes a U-turn

The Trump administration announced draconian tariffs with a great deal of fanfare at a special ceremony on what was dubbed Liberation Day on 2 April. It therefore didn't seem likely that the new policy would be adjusted soon after such a high-profile announcement. Yet the new tariffs were postponed by 90 days on 9 April and replaced by a general tariff of 10%. This is on top of the 25% tariffs on aluminium, steel and cars. The new rates don't apply to China as it immediately announced countermeasures after 2 April, causing the trade war between the US and China to escalate and involving tariffs of more than 100%. The upshot is that the average tariff in the US is still about 20%, while this was just a few percent before the trade war. It therefore still constitutes a negative shock for the US economy.

Trump's U-turn could be negotiating tactics. First show the other side how far you're prepared to go and then create room for negotiation. Yet markets also had their say. The S&P 500 lost 12% between 3 and 8 April, the same amount as the biggest four-day downturn during the dot-com bubble and in the past 30 years only surpassed by downturns during the 2008 financial crisis and coronavirus pandemic. Government bonds generally act as a safe haven when equity markets nosedive. This isn't the case this time though. Government bond prices also fell, especially those of long-term bonds. The resulting upturn in yields was one of the biggest in the last 30 years. Speculation is rife as to the reason for this. It may be that foreigner investors sold their US securities. After all, the US dollar, which likewise normally acts as a safe haven, has decreased in value as well. Another possibility is that investors needed liquidity to cover losses on speculative positions. One pointer to this is the fact that the price of gold, yet another safe haven in turbulent times, declined during this time.

US dollar under pressure



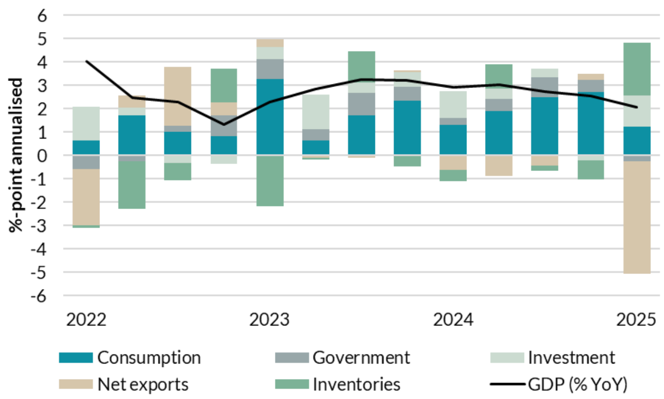
Source: LSEG, Van Lanschot Kempen

Whatever the case, the stress on the financial markets and pressure from influential investors and bankers caused Trump to execute a major U-turn on 9 April. Trump himself said that the U-turn was prompted by people getting jittery. So, it wasn't a negotiating tactic planned in advance. Trump's U-turn brought enormous relief, with the S&P 500 climbing by almost 10% in a single day. This relief might initially seem odd given that the average tariff had barely come down between 2 and 9 April, never mind the escalation between China and the US. Yet the move does pave the way for negotiations. The Chinese government's decision to exclude some categories of goods from tariffs was viewed as a small gesture of goodwill. The US struck a deal with the UK, which included a 10% tariff on most goods, with an exception for steel and aluminium. We may well end up with a general tariff of 10% and a 60% tariff for Chinese imports, potentially including some exemptions. These are the rates Trump named during his election campaign. These would still be quite negative for both the US and China but only have a minor impact on Europe. Uncertainty is still elevated though, as Trump said that he would not be as generous to countries as to the UK. After all, the US have a trade surplus with the UK, not a deficit. Trump also said that the template of 10% ids probable the lowest. Furthermore, US Commerce Secretary Lutnick suggested that trade negotiations with Korea may take significantly more time.

US recession?

Last month we wrote about the disappointing US economic data and doubts about US consumers. Things haven't improved over the past month. According to initial estimates, the US economy shrank in the first quarter of 2025. At a downturn of 0.1% versus the previous quarter the contraction is minimal. Moreover, the picture was greatly distorted by families and businesses anticipating the tariffs. For example, imports were up by 9.0% compared to the final quarter of last year. The minor increase in exports meant that overall foreign trade made a negative contribution of more than 1 percentage point to growth. This is because imports are deducted from consumer spending, investments and government expenditure when calculating the GDP. As a result, higher imports are negative for growth. However, a substantial portion of these imports ended up as stocks, so stocks did contribute positively to growth.

US growth highly distorted by anticipation of import tariffs



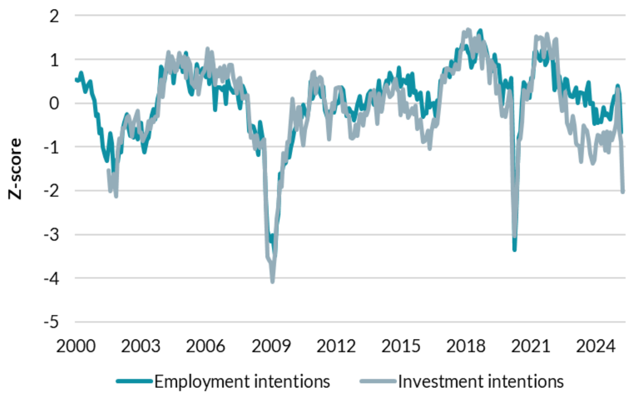
Source: LSEG, Van Lanschot Kempen

If we exclude the effects of foreign trade and stocks, domestic final demand grew by 0.6%. This is lower than in the preceding six quarters but not a poor rate. The effects of anticipating the trade war are nevertheless visible here too. Consumer spending growth slowed to 0.4%, despite car sales soaring in March. And the increase in corporate investment in machinery was also strong considering the state of the economy and uncertain situation.
Apart from domestic growth, other indicators are holding up well too. One example is the robust job growth in March and April. The number of hours worked at companies has

continued to climb. Companies often reduce the hours employees work first before making them redundant but there's no sign of that happening. The decrease in the number of temporary jobs has come to a halt, which is another good sign. Furthermore, new jobless claims have remained low. The growth in hourly wages has slowed somewhat but is generating income growth for households and at labour productivity growth of 2% is compatible with an inflation rate of 2%. Apart from at the government, the number of compulsory redundancies hasn't increased. Orders and shipments of capital goods are displaying a marginally upward trend. And the growth in household income has accelerated over the last month.

Forward-looking indicators are nevertheless painting a more sombre picture. The downturn in consumer confidence continued unabated in April for the fourth month in a row. According to the survey by the University of Michigan, consumer confidence is now comparable to the lows during the financial crisis and coronavirus pandemic. Consumers are worried about rising inflation and the deteriorating job market. Jobseekers are being confronted with fewer unfilled vacancies. So far, the slowdown in the job market has mostly been visible in the decrease in unfilled vacancies but as the number of unfilled vacancies declines, we're approaching the point when the slowdown will lead to higher unemployment. The employment component of the ISM indices shows that large companies are less inclined to take on new staff. This component has fallen to a level that points to a downturn in employment. Small businesses are likewise less inclined to hire new staff. Finally, investment appetite at businesses has been greatly squeezed by the enormous amount of uncertainty.

US companies' employment and investment intentions have fallen



Source: LSEG, Van Lanschot Kempen

With what are generally still sound real indicators and deteriorating leading indicators, we anticipate low levels of growth for the US economy in the coming quarters. Growth data can be severely distorted by significant changes to imports, but on balance stagnation is waiting in the wings. If there's greater clarity on tariffs and these prove to be lower than those announced on 2 April, a recession could be avoided. The lack of major imbalances among consumers and businesses, such as excessive levels of debt or overinvestment, argue against a recession occurring. The weak government finances, with a large budget deficit and rising national debt, do raise questions about tenability, however.

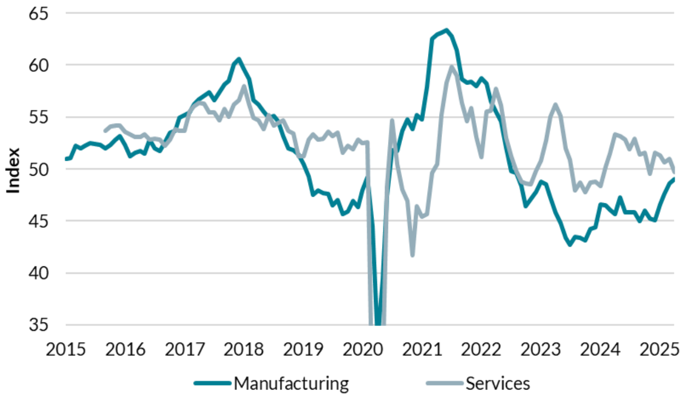
Eurozone growth better than expected

The Eurozone economy grew by 0.4% in the first quarter versus the previous quarter, which was better than expected. The Spanish economy noted particularly sound growth at 0.6%, although this was lower than in preceding quarters. Italy's growth rate of 0.3% was the highest in two years. Germany has been alternating between contraction and growth for almost two years now. This time the economy grew by 0.2% compared to the previous quarter. Yet the German economy continues to be smaller than when it reached its peak in the third quarter of 2022. The French and Dutch economies grew by 0.1% versus the final quarter of last year. This translates into a slowdown in growth in the Netherlands, but at 2.2% growth on an annual basis the Dutch economy has performed relatively well.

There are a couple of reasons to think that the Eurozone's first-quarter growth rate is untenable. Firstly, the rate is above the average that the Eurozone economy is capable of realising in the long term. Secondly, the Irish economy grew at an extremely robust rate, while Irish growth is volatile due to the huge impact of fiscal constructions and furthermore is frequently subject to revisions. Thirdly, a sound rate of exports to the US has probably contributed to the growth. The details of the GDP data haven't yet been published but the individual data show that exports from the Eurozone to the US were up by 15% in January and February versus the final quarter of last year. This is of course in anticipation of the import tariffs and therefore of a temporary nature. The introduction of these tariffs will curb growth in the Eurozone, although we think this will only be by a small amount as long as the tariffs announced on 2 April aren't actually implemented.

Leading indicators offer little reason for hope. Germany's Ifo index noted a minimal plus in April but is still at an extremely low level. The ZEW index, which is much more volatile but always slightly ahead of the Ifo index, plummeted in April. The Economic Sentiment Index fell to below the bandwidth the index has been moving in since the end of 2024, a bandwidth that points to a stagnating economy. The purchasing manager index (PMI) for industry remained almost unchanged in April at 48.7, while the index for the service sector dropped to 50.1. At these levels, both indices are pointing to stagnation. As in the US, companies are less inclined to take on new staff. Finally, consumer confidence fell to its lowest level in over two years in April.

Eurozone PMIs point to stagnation



Source: LSEG, Van Lanschot Kempen

For the Eurozone we were mostly counting on consumers to drive the economy in 2025. With unemployment at a low rate and positive income growth, this could still happen. Yet the downturn in consumer confidence can be regarded as a sign of things to come. We expect the negative effect of the trade war to be smaller in the Eurozone than in the US. In the Eurozone, growth will receive a boost from the fiscal plans in Germany and defence plans in general, but it will take time for these to be implemented. The effects will only be visible later in the year. It's therefore possible that Eurozone growth will follow a similar path in 2025 to that of 2024, while growth in the US will decrease substantially.

China: trade war, structural problems and stimulation

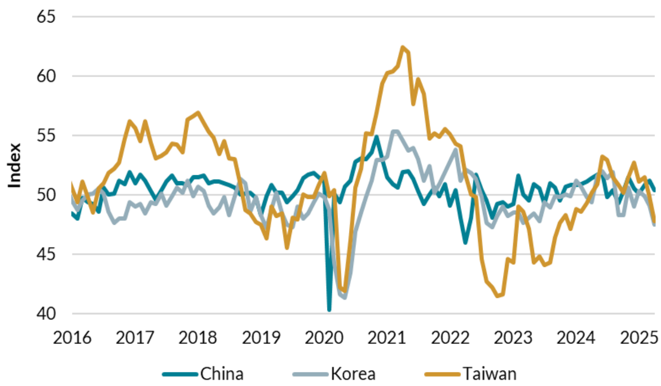
The Chinese economy grew by 5% in 2024, precisely the target rate set by the government. In the final quarter of last year and first quarter of this year, growth was as high as 5.4% on an annual basis. Some measure of scepticism is always due when it comes to Chinese growth data, but it's not that much of a surprise that the raft of stimulatory measures introduced last autumn are starting to have an impact. These measures nevertheless fail to address the structural problems. For example, consumers can receive subsidies if they replace consumer goods. This is leading to higher demand in the short term, but the effect will dissipate as soon as the scheme ends. In addition, more bonds are being issued, mainly to provide local or regional authorities with financial assistance, but investment in yet more infrastructure isn't what China needs right now. Structural measures to bring down the excessively high levels of household savings, such as a better social safety net or easier access to healthcare, are largely absent.

The problems in the property market have abated somewhat. Measures to support project developers financially and in doing so win back the trust of buyers seem to be having some effect. The decline in sales of residential and commercial real estate has almost come to a halt. As far too many properties have been built, construction activity is still decreasing. The number of homes for sale is nevertheless rising slightly. Prices are being squeezed. In March, the average price of a new home was 4.5% lower than a year earlier and the price of an existing home was down by 6.7%. These downturns in price are marginally lower than a few months ago though and this hasn't yet led to a recovery in consumer confidence.

Chinese products are currently subject to exorbitant US import tariffs of 145%. Conversely, China applies a tariff of 125% to US products. The repercussions are already becoming clear. US ports are reporting fewer incoming products from Asia in general and China in particular. Container bookings are reportedly down by 60%. In the US, they're already warning of empty shelves in shops.

Exports from China to the US account for approximately 2.5% of the GDP. This rate has declined in the last few years. Since the last occasion that Trump imposed import tariffs, China has reduced its dependence on the US. On the one hand this has been by expanding to new markets, on the other by shifting a portion of production to other countries. Despite this, at today's enormously high tariffs Chinese growth could easily fall by 1 to 1.5 percentage points. Confidence among businesses in industry and the service sector was down in April too.

Asian purchasing managers more gloomy



Source: LSEG, Van Lanschot Kempen

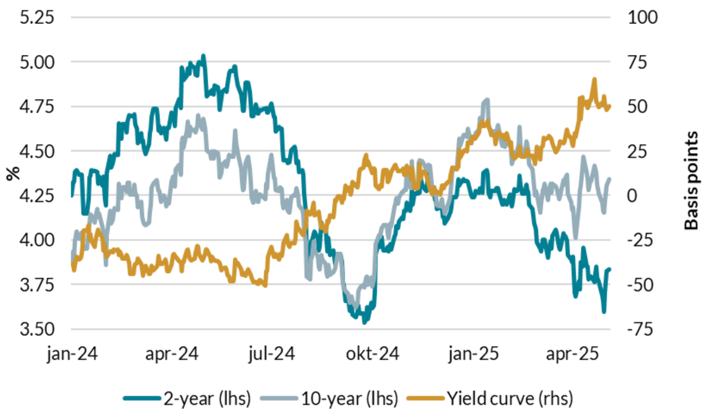
The same goes for other Asian countries. In general, this region is highly dependent on exports and especially to the US. The PMIs for industry in Korea, Taiwan, Indonesia, Malaysia and the Philippines dropped below 50, which points to contraction.

Longer-term bonds more attractive

In the past month, US yields at the short end of the curve came down more than those at the long end of the spectrum. Higher inflation triggered by import tariffs could lead to fewer cuts to interest rates, but weaker growth could result in more cuts. The Fed has adjusted its tone in this respect. In March, Fed Chair Powell was still expecting the inflationary effect of tariffs to be temporary. A rather curious remark given that the Fed also viewed the wave of inflation during the coronavirus pandemic as temporary. Shortly afterwards though, the bank had to raise interest rates to fight that inflation. Recent comments suggest a more wait-and-see attitude from the bank this time. In mid-April, Powell said that the tariffs were higher than anticipated and would lead to higher inflation and lower growth. The inflationary effects could therefore be more stubborn as well. Given these contradictory trends for monetary policy, Powell announced that he was prepared to delay alterations to interest rates until there was greater clarity. The market for futures is nevertheless now pricing in four cuts to the Fed interest rate up to the end of the year in the wake of the negative growth data over the first quarter and lower-than-expected inflation. We think this number is on the high side if the Fed leaves the interest rate policy unchanged over the coming months.

Calm has returned to the bond markets following the panicked reaction in early April when US 10-year bond yields climbed from 4.0% to 4.5% in just a couple of days. During this period of turmoil, speculation was rife that foreign investors would no longer be prepared to invest in US government bonds and that it was the end of the US dollar as the world's key currency.

US bond markets have been volatile, yield curve steepened

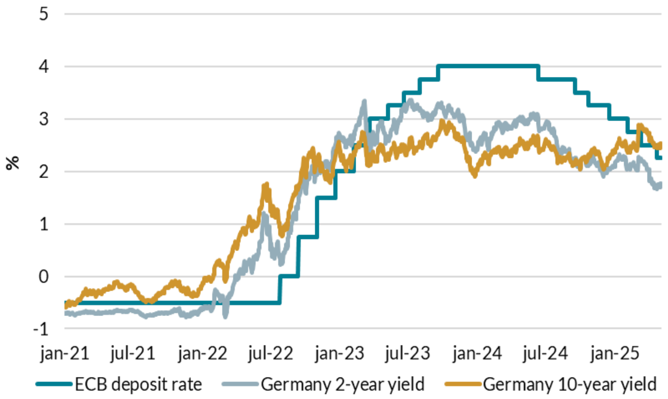


Source: LSEG, Van Lanschot Kempen

We understand the concerns about the US budget deficit. Large deficits, rising yields and the fact that the US government has financed its debt via relatively short-term bonds have quickly pushed interest charges up to more than 20% of the federal government's revenue. Tariffs will put money in the government's coffers. How much is uncertain because the final rates are still unknown, while imports will drop as a result of the tariffs. And if economic growth declines as well, tax revenue will likewise fall. Taking all these effects into account, estimates of the net revenues from an average tariff of 15% range from 200 to 400 billion US dollars per year. This is a sizeable sum but nowhere near enough to plug the federal deficit of 2,000 billion US dollars. Nor is it enough to prolong the tax cuts Trump introduced in 2017. These cuts elapse at the end of this year. If they aren't extended, this will mean a tax increase for US families. According to the Congressional Budget Office, an extension would cost 460 billion US dollars per year. In short, the US budget deficit will remain extremely high in coming years too. This could exert upward pressure on bond yields and raise questions about the status of the US dollar. However, as there are no real alternatives, we believe the doomsday scenarios about a US dollar crisis are exaggerated. We do think there's limited downward potential for US long-term yields for the time being though. Not so much due to concerns about the government's financial situation, but mainly because we don't think the Fed will cut interest rates in the next few months.

In the Eurozone, the ECB is having an easier time of it than the Fed. Economic growth is low and inflation coming down. Headline inflation was unchanged at 2.2% in April, only slightly above the ECB's target rate of 2%. Although core inflation climbed from 2.4% in March to 2.7% in April because of higher inflation in services, this was mostly due to the timing of Easter this year. Easter in late April usually means higher core inflation in that month, after which it drops again in May. A deflationary effect from the trade war in an economy that's growing at a slow pace and slowing wage inflation suggest that inflation will come down further in the service sector. This means that April's rate of inflation won't necessarily worry the ECB. Yet the ECB won't keep cutting interest rates at every policy meeting. The markets are pricing in two more cuts before the end of the year, while five meetings are scheduled. In March, the ECB hinted at a pause in the cuts as the bank had already reduced rates by 150 basis points since the summer of 2024. The increased uncertainty prompted the ECB to cut rates in April anyway and it's keeping all options open. The fact remains, however, that interest rates have already been cut substantially – by 175 basis points – and are therefore less restrictive or perhaps no longer restrictive at all. This therefore means the ECB can reduce rates at a slower pace and introduce pauses.

ECB has already cut rates significantly



Source: LSEG, Van Lanschot Kempen

As we agree with the market's view on interest rate cuts, we believe there's limited potential for further downturns in bond yields, particularly at the long end of the yield curve. And especially because German yields have come down considerably since their peak at the start of March. The upward effect of the new government's fiscal plans has dissipated entirely. Given the downward inflation and slow growth, we think there's little chance of an upturn in yields. It's mostly the latter that has led us to invest a portion of our cash position in Eurozone government bonds. At the end of February, German 10-year bond yields were 10 basis points higher than 3-year yields. This difference has since increased to over 60 basis points. And if, as expected, the ECB cuts interest rates further, we expect this gap between yields to grow. This will make cash even more unattractive in relative terms.

Earnings expectations under pressure

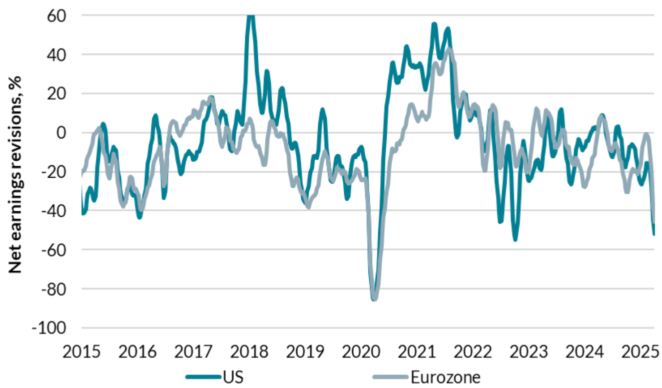
A downturn in the S&P 500 of 0.8% and in the STOXX 600 of 1.2% in April means that both indices are almost back at the same level as before 2 April. It looks as if investors are assuming that everything is back to normal. Hopes that negotiations will lead to significantly lower US import tariffs than those announced on 2 April have been reflected on the equity markets too, even though negotiations so far haven't yielded any tangible results. We understand these hopes though as we don't think the tariffs of 2 April will be implemented either. The damage to economies and on the financial markets would simply be too great. Yet no increases at all to US import tariffs at all would seem extremely unlikely. The range of options in this respect is nevertheless wide.

The question is whether so much damage has already been done that the US economy enters a recession and global economic growth slows substantially. As described above, the trends in many of the economic indicators aren't particularly encouraging. We think a recession could be avoided but it will be close.

In the US, companies are so far reporting robust earnings growth of 12% over the first quarter versus the first quarter of 2024. This is 8 percentage points higher than expected. Earnings have dropped by nearly 20% in the energy and basic industrial sectors and by almost 5% in the consumer staples sector. Earnings are up in the other sectors, varying from 2% in the industrial sector to almost 50% in the healthcare sector. The picture is less rosy in Europe. Here, earnings have so far been nearly 5% lower, driven by the energy, industrial, consumer discretionary and financial services sectors. In general, businesses are displaying caution in their forecasts; the prevailing mood is one of uncertainty. The number of US companies adjusting their outlooks downwards slightly is at about the average for the last few years but there are few companies that are more optimistic.

This mood has also spread to equity analysts. Most are adjusting their earnings expectations downwards. The net percentage of analysts adjusting earnings downwards hasn't yet reached recession levels but is no longer that far above them either. This tells us something about the breadth of the revisions to earnings but not about the extent to which earnings are being adjusted downwards. The latter turns out to be not that much. So far this year, average earnings expectations for 2025 and 2026 have been adjusted downwards by over 3%. On average, apart from coronavirus pandemic year 2020, US earnings have hardly been adjusted downwards in the past ten years up to the end of April, while the figure stands at nearly 1% for Europe. The adjustments are quite widespread though. Adjustments of -3% aren't exceptionally negative. The momentum of the earnings expectations, which we define as the change to expected earnings over the past three months, has decreased to about zero in the US and approximately -10% in Europe. In the event of a recession, earnings would normally be being adjusted downwards even further. All in all, earnings dynamics have deteriorated sharply in the last few weeks, even though equity markets have in fact rallied. This makes equities vulnerable.

Net analyst revisions strongly negative



Source: LSEG, Van Lanschot Kempen

We’ve nevertheless decided to keep our equity position neutral. The reasons in favour of an underweight are the negative signals emitted by leading indicators and the deterioration in earnings dynamics. Real indicators, such as sound US job market data and the absence of major imbalances in the private sector in the US and Europe, argue against an underweight. What also helps is that on average companies are managing to keep their profit margins at about the same level. However, the main argument in favour of a neutral weight is the unpredictability of developments relating to the trade war. Good news could trigger a positive reaction on the equity markets, but bad news could cause markets to nosedive.

Tactical outlook

Asset class	
Equities	**Neutral**

The MSCI global equity index climbed in March and was assisted in this by foreign currency effects. The appreciation of the euro, Japanese yen and a series of emerging market currencies made equities from these countries more expensive in US dollars, which is reflected in the upturn in the global index. This also applies to the index for industrialised nations. In local currency, US and European equities were down slightly, while Japanese equities noted a small plus. Volatility was high. Equity markets plummeted after US President Trump announced draconian import tariffs on 2 April but when a pause was introduced a week later, US equities in particular realised historic gains. Hopes of negotiations on tariffs then helped equities into a slightly upward trend. Meanwhile, dark clouds are gathering over the US economy. Leading indicators are painting a more sombre picture. The Eurozone economy likewise looks likely to stagnate again in the coming quarters. Furthermore, earnings expectations are being adjusted sharply downwards around the world. Corporate earnings growth depends on nominal economic growth. In the Eurozone, a stagnating economy and declining inflation could exert pressure on earnings growth. Inflation will rise in the US, which will help nominal growth, but if this inflation derives from higher tariffs, it will squeeze profit margins. There are therefore multiple reasons to be cautious about equities. We've nevertheless maintained our neutral position. After all, a breakthrough in the trade war could trigger euphoria on the equity markets. It's mostly the uncertainty that prompts us to retain a neutral position.

Government bonds	**Overweight**

US 2-year bond yields fell by nearly 30 basis points, 10-year yields by just 5 basis points in April. This led to the yield curve steepening even more. This steepening was also visible in the UK and Germany, although to a lesser extent than in the US. In the UK, 2-year yields came down by almost 40 basis points, in Germany by 33 basis points. UK 10-year bond yields dropped by 23 basis points, their counterparts in Germany by 29 basis points. Volatility was particularly high on the US interest markets. Especially after the US import tariffs announced on 2 April, the simultaneous downturns in equities, bonds and the US dollar caused serious concerns. It was probably these concerns that prompted US President Trump to introduce a pause, which restored calm to the financial markets. In the US, the Fed has adopted a more wait-and-see attitude to the inflationary effects of the tariffs. Moreover, the pressure Trump is exerting on Fed Chair Powell to cut interest rates doesn't make it any easier for the Fed to do so. This would put the Fed's independence at risk. We think the Fed will leave interest rates unchanged for the next few months and find the number of cuts priced in by the markets on the aggressive side. This also means there's little potential for yields to come down. We're naturally keeping a close eye on the economic slowdown in this respect. Our overweight in US government bonds derives partly from our cautious stance on equities. The position is also the result of the large underweight we hold in US investment grade credits. Taking that position into account, we hold an underweight in US investment grade bonds (government bonds and credits combined) and would therefore profit from an upturn in yields. This isn't something we foresee happening. The overweight in US government bonds is mostly because of the interest revenue. In the Eurozone, we've increased our position in government bonds at the expense of our cash position. We anticipate low growth and declining inflation in the Eurozone and incidentally think that monetary policy has been reasonably well priced in. Here, too, we see little potential for yields to come down, but the steeper yield curve means that we find longer-term bonds more attractive than cash. Given the prospect of further cuts to interest rates by the ECB, we expect the interest revenue on longer-term bonds to become even more attractive.

Investment grade credits	**Underweight**

Investment grade credits held up remarkably well to the turmoil on the financial markets. In the US, spreads on these bonds widened to nearly 100 basis points. They peaked at 121 basis points on 9 April, after which they gradually contracted again towards the end of the month. On balance, this resulted in an increase of 12 basis points. The peak of 121 basis points is low in historical terms and at that level didn't price in a recession. A similar movement was visible in the Eurozone, whereby spreads peaked at 125 basis points and ended up widening by 16 basis points across the month. The spreads on US investment grade credits make them unattractive versus government bonds, especially now that there's a higher risk of a recession. 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.

Asset class	
High yield credits	**Underweight**
Spreads on US high yield credits widened further, by 39 basis points, in April. In the Eurozone, spreads widened by 42 basis points. The movement across the month was comparable to that on investment grade credits, with spreads peaking after tariffs were raised and tightening after the tariffs were paused. The outliers were of course bigger. In the US, spreads reached 461 basis points, in the Eurozone 429 basis points. In a recession, spreads on high yield credits can be as high as 900 basis points or more. These markets therefore hadn't priced in a recession either. At the end of the month, spreads in the US and Europe had tightened to about 370 basis points, slightly lower than the average over the past five years. However, we think the risks are now greater than they have been in the last five years. We anticipate low growth with a heightened risk of a recession. Even if the US and European economies continue 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 for high yield credits than for equities. We view spreads as tight, and this makes this asset class unattractive versus government bonds in relative terms.	
Emerging market debt	**Neutral**
The yield on a commonly used basket of emerging market debt issued in US dollars (EMD HC) climbed to 7.9% in April. This was the result of a small downturn in US government bond yields on the one hand and wider spreads (19 basis points) on the other. Investors receive an additional return of 368 basis points from the spread versus US yields, slightly below the average of the past ten years (408 basis points). Growth in emerging markets is holding up well enough on average but is being squeezed by the trade war. 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 declined marginally to 6.1% in April. Markets were looking at the options open to central banks in emerging markets for cutting interest rates in the event of lower growth. Yet in the case of a marked slowdown in growth, interest rates in these countries could also rise if investors demand higher risk premiums. 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. Yet listed real estate outperformed general equities in April after the market turbulence triggered by trade-related tensions. German yields have fallen by about 0.5% since the start of March, in part due to the concerns surrounding US trade policy that mainly has a deflationary effect on the Eurozone. After the initial turmoil, European listed real estate therefore succeeded in climbing in April. The picture was different in the US, however. The trade policy is causing growth in the US to decline and disrupting import and production chains. The more cyclical sectors such as offices and shops noted downturns, while logistics also had a tough month. We hold a neutral outlook for this asset class. Negotiations on trade policy could trigger a recovery and more countermeasures could lead to further downward adjustments. There's a risk of a stagflation scenario in the US. In Europe, we don't anticipate yields dropping much further from current levels after the earlier announcement of fiscal easing in Germany. 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.	
Commodities	**Neutral**
Commodity prices declined overall in April, even more than equity indices did. While there were hopes of negotiations in the trade war, there was a sharp increase in tensions between the US and China. A slowdown in the Chinese economy and downturn in global trade would be negative for commodities. The Bloomberg general commodity index fell by nearly 5% in April. Oil prices dropped by about 15%, metals by 7%. Gold continues to do extremely well in these uncertain times, with the price of gold up by 6% in April. There's sufficient production capacity for oil. Although demand is weak, OPEC announced that eight members wanted to increase production to over 400,000 barrels per day from June. 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 cited 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 it's mostly the purchases by central banks that are driving up the price of gold and this attracts speculative investors.	

Market review

Equities

	Index	Past month	Past 3 months	From 31-12-2024
Global (MSCI AC)	1134	13.8%	-2.7%	0.5%
Developed markets (MSCI World)	3708	13.9%	-3.3%	0.0%
Emerging markets (MSCI EM)	1134	13.1%	2.3%	5.4%
United States (S&P 500)	5664	13.7%	-6.0%	-3.7%
Eurozone (EURO STOXX 50)	555	11.6%	1.9%	9.8%
United Kingdom (FTSE 100)	8532	7.9%	-1.9%	4.4%
Japan (Topix)	2699	11.0%	-1.4%	-3.1%
Netherlands (AEX)	902	9.5%	-2.4%	2.6%

Government bonds (10-year)

	Yield (%)	Past month (bp)	Past 3 months (bp)	From 31-12-2024 (bp)
United States	4.39	11	-10	-19
Japan	1.32	6	2	24
Germany	2.52	-11	14	16
France	3.23	-16	13	4
Italy	3.59	-27	11	6
Netherlands	2.76	-10	19	16
United Kingdom	4.55	-6	7	-3

Investment grade credit

	Risk premium (bp)	Past month (bp)	Past 3 months (bp)	From 31-12-2024 (bp)
United States	102	-16	18	20
Eurozone	105	-9	14	4

High yield bonds

	Risk premium (bp)	Past month (bp)	Past 3 months (bp)	From 31-12-2024 (bp)
United States	351	-106	84	59
Eurozone	355	-48	59	44
Emerging markets (USD)	345	-41	31	20
Emerging markets (Local currency)	211	-21	16	9

Real estate

		Past month	Past 3 months	From 31-12-2024
Global		12.2%	-0.1%	2.2%
North-America		11.7%	-4.1%	-2.2%
Europe		11.1%	0.6%	3.3%

Commodities

		Past month	Past 3 months	From 31-12-2024
Bloomberg index		4.4%	-2.5%	2.9%
Base metals		6.3%	-5.0%	-0.1%
Brent oil (USD per barrel)	62.86	-0.9%	-15.8%	-15.9%
Gold (USD per troy ounce)	3358	11.8%	16.9%	27.9%

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

Author

Joost van Leenders
Senior investment strategist
j.vanleenders@vanlanschotkempen.com
M +31 6 82 83 11 89

Van Lanschot Kempen Investment Strategy & Tactical Asset Allocation

Pieter Heijboer – Head Investment Strategy
Luc Aben – Chief Economist
Joost van Leenders – Senior investment strategist
Jorn Veeneman – Senior investment strategist
Danny Dekker - Investment strategist

Disclaimer
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VAN LANSCHOT KEMPEN

INVESTMENT MANAGEMENT

Beethovenstraat 300
1077 WZ Amsterdam
Postbus 75666
1070 AR Amsterdam

T +31 20 348 80 00
vanlanschotkempen.com/investment-management