EDMOND DE ROTHSCHILD ASSET MANAGEMENT MARKET FLASH: HAS LIBERATION DAY REVERSED?

- **China, being the only country not benefiting from the 90-day truce, faces extremely high tariffs, thereby intensifying trade tensions.**
- **Uncertainties surrounding inflation and growth continue to rise, especially in the United States, heightening fears of a recession.**
- **European retail sales were up in Q1 2025, confirming that business in Europe is holding up well.**

Tariff announcements from the Trump administration created big waves this week.

Beijing's riposte was to match Washington's 34% increase. Donald Trump replied by adding another 50% to take total tariffs to 104% while China raised its tariffs on US imports to 84%. Other countries took a more moderate approach with some Asian countries cooperating. Europe decided on a US import target list to be applied in May and suggested a reciprocal zero percent for some sectors in a bid to encourage talks. The list, however, was a riposte to tariffs on steel and aluminium and not a direct reaction to last week's reciprocal tariffs.

These developments reinforced uncertainty over inflation and growth. Markets radically readjusted expectations, especially for the US, and raised recession probability. Donald Trump initially ignored reactions, including from US business leaders, and denied a 90-day truce was in the offing, only to change tack completely and announce one on Wednesday evening. The postponement concerned country specific tariffs only. In the meantime, a 10% increase is to be applied to all countries concerned and increases on autos, steel and aluminium remain in place. China was excluded and tariffs on its US exports were even raised to 125%. Beijing immediately jacked the tariffs on US imports to China to 125% too.

Donald Trump's about turn eased pressure on markets. Presuming the president sticks with his position, the reasoning behind higher tariffs is now to help fund the campaign promise of lower taxes while confronting China. This reduces the risk that he might use a weak dollar to renegotiate the international monetary system, a project sponsored by his advisor Stephen Miran in the Mar-a Lago agreements.

Extreme risk levels have fallen, but there is still no visibility on the end situation, and there is a risk that the twists and turns as countries try to negotiate will mean no end to volatility.

Meanwhile, European activity improved with retail sales increasing and France proving more resilient with 0.2% in first-quarter growth. This contrasted with the NFIB index on SME confidence in the US which fell from 100.7 in February to 97.4 in March, a bigger drop than expected. On the other hand, overall US inflation came in at 2.4%, with underlying inflation at 2.8% when expectations were for 2.5% and 3%.

In today's volatile markets, we are close to neutral on risk assets. We have turned neutral on China which is the only country not to have been spared Donald Trump's massive tariffs. In fixed income, we are neutral on duration and we have marginally reduced our corporate debt exposure.

EUROPEAN EQUITIES

Europe followed the US lower in highly volatile trading. President Trump's customs tariffs on imports to the US escalated global trade tensions but with several gear changes. First of all, markets tanked when the measures came into force but then rallied massively when a 90-day truce was announced. Europe's riposte was to raise tariffs on US steel and aluminium imports to Europe, matching Donald Trump's previous decision. Sectors with the highest exposure to tariffs like auto and healthcare, naturally underperformed. At the same time, some upbeat macroeconomic data emerged. Retail sales in Europe rebounded by 2.3% in volume in February after rising 1.8% in January. And inflation came in as expected at 2.3%.

As companies began to report on the first quarter, the negative impact of today's economic uncertainty emerged. In autos, **Stellantis** said first-quarter deliveries fell 9% to 1.22 million vehicles, with US deliveries down 20%. In aerospace, **Airbus** delivered 136 planes in the first quarter, or 4% less than in the same quarter in 2024. In tech, **Hexagon** (software and equipment for construction and industry) preannounced sales and margins below expectations, citing soft demand in NAFTA countries and in China in March.

On a more positive note, M&A continued. In the luxury sector, **Prada** agreed a $1.25bn deal to buy **Versace** from **Capri Holdings**, including its debt. The acquisition will take Prada's sales to more than €6bn but Versace is loss-making and the purchase will dilute margins.

US EQUITIES

Stock market swings have reached historic levels since the April 2 tariff announcements. Wall Street lost more ground: the S&P 500 fell 2.3%, the Nasdaq 1% and the Russell 2000 4.1%. Volatility echoed levels seen in 2008. The VIX has doubled since the tariffs were unveiled. However, the decision to delay the tariff increases for 90 days triggered a temporary rally even if China was excluded from the move and had its tariffs raised to 125%.

The rally favoured tech stocks like **Nvidia** (+5.7%) and blue chips like **Microsoft** (+2.2%), **Alphabet** (+1.4%) and **Amazon** (+1.6 %). But **Apple** tumbled again, losing 6.3% because of its exposure to China.

In consumer discretionary, sentiment is still uncertain. **Tesla** fell 5.6 % over the week. Sportswear giant **Nike** shed 2.1% and toy maker **Hasbro** 7.3%. As first-quarter earnings started to trickle in, **Delta** (+1.7%) said it saw demand slowing in this quarter and had decided to be careful and cancel plans to increase capacity.

Consumer staples (-2.8%) failed overall to act as a defensive sector but **Walmart** bucked the trend and gained 3.8%. At its investor day, the group said it expected sales to rise 2-4% this year. For the moment, companies are being cautious but have in no way started to panic.

Healthcare had a bad week and fell 5.7%. The tariff threat hit leading stocks like **Pfizer** (-11.12%), **Eli Lilly** (-8.6%) and **Johnson & Johnson** (-7%).

Gold acted as a safe haven and prices rose to a record $3,200/oz. The dollar went through big swings, ending down 0.6% against the euro at 1.12.

The biggest sector casualty from the current economic and political uncertainty was energy which plummeted 11.3%. **Schlumberger** and **Baker Hughes** ended 17% and 10.3% lower.

EMERGING MARKETS

The MSCI EM index was down 5.43% in USD this week as of Thursday's close. Mexico was up by 0.53%. Korea, Brazil, India, and China were down 0.39%, 2.13%, 3.06% and 8.78% respectively

In **China**, March CPI fell 0.1% YoY, or below the 0% expected, while PPI dropped 2.5%. The trade war between China and the US continued to escalate as the US imposed a tariff of 145% on China. Beijing retaliated with a 125% tariff on US goods on Friday. Premier Li will visit Vietnam, Malaysia and Cambodia in April. The Semiconductor Industry Association issued an emergency notice stating that the origin of chip imports in customs declarations will be determined by where chips are taped out. EU and Chinese authorities have agreed to renegotiate Chinese EV tariffs imposed by the EU last year. Stabilisation funds took action during the week. More than 30 listed companies announced the start of repurchases, and the total amount of funds exceeded RMB 15 billion. **CATL** plans to buy back RMB 4-8bn worth of shares. **BYD** released a positive earnings alert, indicating first quarter earnings had almost doubled YoY. **Shein** gained the UK regulator's approval for a London IPO.

In **Taiwan**, imports in March jumped 28.8% YoY vs. the 14% forecast, while exports also grew 18.6% YoY (8.1% expected). The government aims to triple the US share of LNG in imports to avoid tariffs. **TSMC** quarterly revenue rose 42% YoY, driven by strong demand for AI servers and smartphones.

In **Korea**, US Treasury Secretary Scott Bessent on Tuesday flagged a potential energy investment deal involving Japan, South Korea, and Taiwan. **Samsung**'s quarterly 6.6 trillion won exceeded expectations.

In **India**, the RBI lowered the policy repo rate by 25bp to 6%, or in line with expectations. Airbus plans to increase its sourcing from India to $2b a year by 2030, a 43% jump from current levels. **Delhivery** announced the acquisition of **Ecom Express**, the second largest 3P e-commerce logistics player. **TCS** reported a weak quarter both on revenue and margins. **Titan** reported strong top line growth of 25% YoY.

In **Brazil**, FGV inflation for March fell 0.5% MoM, or in line with expectations. **Novo Nordisk** will invest $1.1bn to expand a production facility. **BYD** asked the authorities for lower import tariffs. **Mercado Libre** will invest $5.8bn in Brazil and hire 14,000 people.

In **Mexico**, March inflation rose 3.8% YoY, or in line with expectations. Sheinbaum met Brazilian President Lula to strengthen trade relations. **Volkswagen** suspended vehicle shipments from Mexico to the US following the enforcement of 25% tariffs on vehicle imports. OMA reported total traffic growth of 11.8% YoY for March 2025, with domestic and international segments increasing 11.9% and 11.5%, respectively.

In **Argentina**, the government renewed a $5bn currency swap line with China for another 12 months. The renewal comes just before US Treasury Secretary Scott Bessent's visit to Argentina. All eyes are on the agreement with the IMF for a $20bn programme (and the elimination of FX controls).

CORPORATE DEBT

CREDIT

Like other markets, corporate debt had a highly volatile week with trading dominated by customs tariff developments.

The Xover ended the period only 6bp wider but traded between 360-440bp and with intraday swings of 50bp. The Main was unchanged over the week at 77bp.

Investment Grade ended the period 0.1% lower with yields up 3bp, while High Yield fell 0.28% with yields rising 12bp. Corporate hybrids dipped 0.40%. CoCos underperformed with yields up 50bp and returns down 1.4%.

The High Yield segment saw significant ETF and fund redemptions with outflows that had not been seen since the Covid crisis. However, the redemptions were well absorbed by the market and liquidity remained satisfactory despite prevailing volatility.

GLOSSARY

• Investment Grade: bonds rated as high quality by rating agencies.

• High Yield: corporate bonds with a higher default risk than investment grade bonds but which pay out higher coupons.

• Senior debt benefits from specific guarantees. Its repayment takes priority over other debts, known as subordinated debt.

• Debt is considered to be subordinated when its redemption depends on the earlier payment of other creditors. To offset the higher risk, subordinated Senior debt has priority over other debt instruments.

• Tier 2 / Tier 3 : subordinated debt segment.

• Duration: the average life of a bond discounted for all interest and capital flows.

• The spread is the difference between the actuarial rate of return on a bond and the rate of return on a risk-free loan with the same maturity.

• The so-called "Value" stocks are considered to be undervalued.

• EBITDA: Earnings before Interest, Taxes, Depreciation, and Amortization.

• Quantitative easing describes unorthodox monetary policy from a central bank in exceptional economic conditions.

• Stress Test: a process which simulates extreme but possible economic and financial conditions so as to assess any impact on banks and measure their resilience to these events.

• The PMI, for "Purchasing Manager's Index", is an indicator of the economic state of a sector.

• AT1s belong to a family of bank capital securities known as contingent convertibles or "Cocos". Convertible because they can be converted from bonds to shares (or depreciated entirely) and contingent because this conversion only occurs if certain conditions are met, such as the issuing bank's capital strength falling below a predetermined trigger level.

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