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ECONOMIC RESEARCH – APRIL 2025

INVESTMENT INSIGHT USA

- ✓ Fixed income markets benefit from recession risks
- ✓ The context is no longer very favorable for the US dollar
- ✓ Equity markets under Trump's negative influence

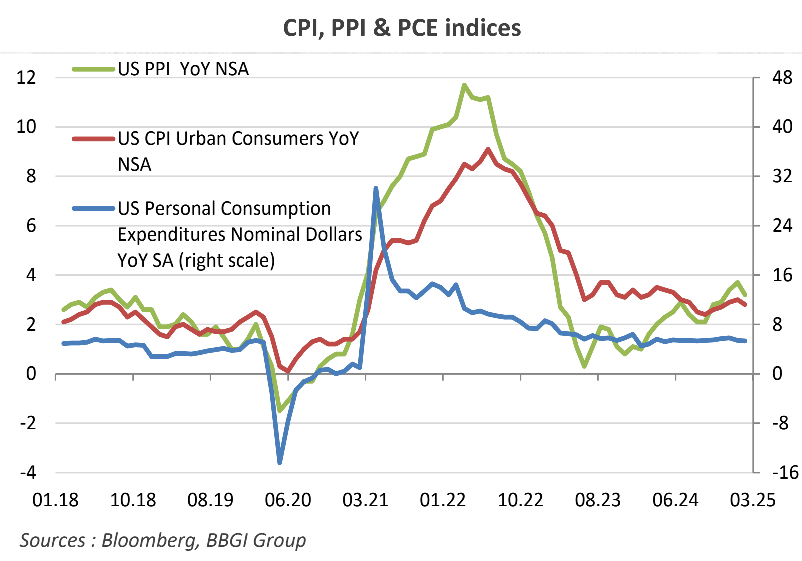
TRUMP'S POLICIES ARE KILLING GROWTH

Fixed income markets benefit from recession risks

While inflationary risks are still present, the U.S. bond market is increasingly benefiting from the heightened risk of an economic slowdown. We believe a more rapid downward impact on long-term rates will materialize in response to economic data showing a clear weakening of consumption and investment. Since the peak of concern around the presidential inauguration, ten-year U.S. Treasury yields have fallen from 4.8% to 4.10%. We have a favorable outlook for USD bonds in the medium term, as this trend is likely to continue before the Fed reacts.

The Dollar faces a less favorable context

The dollar is no longer benefiting from rising long-term rates. The emergence of a slowdown or recession scenario is removing the support that had previously boosted the greenback's value. The trade-weighted dollar has lost most of its recent gains and could continue this new trend if the current political environment persists. The threat of recession is weighing on the US currency, while in Europe, a new paradigm suggests a positive economic recovery. This shift in sentiment is more impactful than the positive yield differential.



Equity markets under Trump's negative influence

The "honeymoon" between investors and the new president was short-lived. U.S. equity markets have reversed their upward trend, with the Nasdaq and S&P 500 experiencing significant declines. The recent drops have erased several months of gains, highlighting the negative implications of the administration's economic policies and trade war rhetoric on American companies. The rise in uncertainty has been so brutal that it has eclipsed any potentially positive effects of tax cuts on corporate profits.

Corporate profits face pressure

While corporate profits showed a strong 5.9% increase in Q4 2024, the start of 2025 is expected to be more mixed. General sentiment is being negatively affected by rising uncertainties, which will likely penalize not only consumption but also corporate margins, which are squeezed by increased import costs. These factors suggest that companies will find it difficult to maintain the positive earnings momentum seen in the previous quarter.

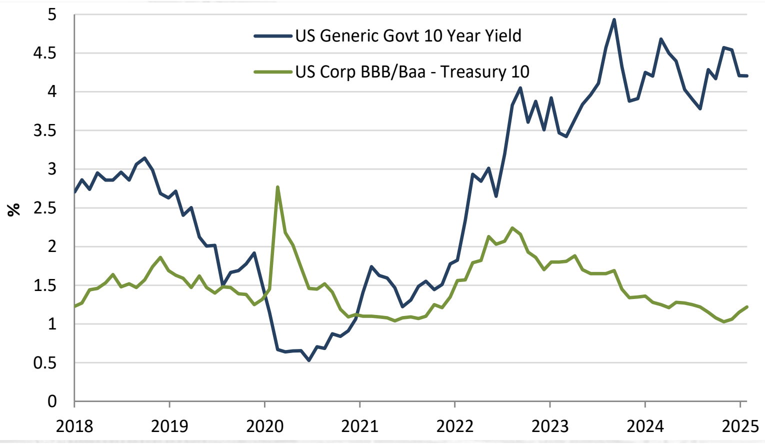
Consumer confidence plummets

Consumer confidence has been in a steep decline since December, hitting its lowest level since early 2021. This plunge in morale is driven by worries over trade tariffs and potential federal layoffs, suggesting a negative outlook for domestic demand in the coming months. A recovery in consumption is unlikely without a significant change in the political climate and policy direction.

The federal reserve's policy challenge

The Federal Reserve is caught in a difficult position. It has been hesitant to cut rates due to persistent inflation concerns. However, the rapidly weakening economic data and increasing risk of a recession may force its hand. We believe the Fed is likely to be behind the curve, and its delay in acting could exacerbate the economic downturn. Its continued policy of balance sheet reduction is also working against a necessary decline in interest rates in a slowing economy, putting a damper on a potential recovery.

Fed funds, key rates and USD (trade weighted)



Sources : Bloomberg, BBGI Group