ODDO BHF

MONTHLY INVESTMENT *Brief*

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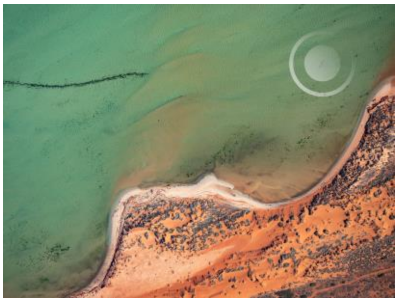
Habemus Donald Trump for another 1,300 days



> *There are 1,300 days to go until the next US presidential election. After 100 days, it is fair to say that the twists and turns have been much greater than initially expected*

"Move fast and break things" – in his second term, Donald Trump seems to be adopting the motto of his friends in the technology industry. This style of government is generating frenzied media coverage and great uncertainty among investors and consumers. But what has really changed since his inauguration on 20 January? Beyond the exaggerations and executive orders, there are a handful of measurable changes that the US President can claim credit for after the first 100 days of his second term: $18 billion in revenue from tariffs (based on April 2025 figures), $165 billion in savings from the Department of Government Efficiency (vs. a target of $1000 billion) and a drop in immigration numbers (300k entries in the 4 first months of 2025 vs. 3.1 million in full-year 2024 and 4.3 million in full-year 2023) . However, investors and companies are paying the price for these early successes in implementing Trump's agenda, which are modest compared to the volatility it creates in financial markets across almost all asset classes.

Alea jacta est with Trump's inauguration 100 days ago

The uncertainty triggered by the back-and-forth in trade policy has affected US equities since Trump's inauguration. Technology stocks, heavily reliant on China for manufacturing, supplies and sales, have underperformed. In contrast, losses in Europe have been limited. Alongside China, Germany's DAX stock index has been one of the best-performing worldwide, gaining almost 10% year-to-date on the back of rising expectations for infrastructure and defense spending. Nevertheless, the quest for security in an era of erratic decision-making has made gold the safe-haven currency and the winner of Trump 2.0's first 100 days, with prices rising by almost +20%.

However, concerns about the impact of higher tariffs are also increasing in the real economy: US consumer sentiment has deteriorated, sending Donald Trump's approval ratings to a historic low for this stage of a presidency. The Fed also faces a dilemma in the face of looming stagflation: Easing monetary policy to support the economy could raise the risk of inflation. If it keeps interest rates stable, it may not be able to reduce the growing risk of recession. The Fed has not yet given up hope of a soft landing, but the risks of a wait-and-see approach are increasing.

Trump ex-machina at Liberation Day!

If the Fed cannot help, what could boost the economy and the markets? The tax cuts (Trump stated that he intended to reduce the corporate rate to 15% for companies that manufacture in America) and deregulation bonanza (a useful tool to spur innovation in the US and unlock tremendous growth potential) promised during the election campaign are clearly overshadowed by the tariffs rollercoaster. Although the losses suffered after the "Liberation Day" on April 2nd have since largely been recouped, the outlook for US equities remains fragile. However, a sell-off has not materialized. One important reason for this is Trump's response to the market turmoil triggered by his rhetoric and decrees. In the tariff dispute, for example, he has kept hopes of de-escalation and deals alive. And even though he has not refrained from levelling unfounded criticism at Fed Chairman Powell, he denies wanting to fire him. It therefore seems that there is a "Trump Put", aiming at restoring the "US assets as a safe haven" story, which has been (temporarily?) undermined for both rates and equities. There are also glimmers of hope from a macroeconomic perspective: hard data stay quite strong at the moment in both Europe and the US, the economy remains stable, and a US recession is not for sure, supported by cheaper oil and the reduced risk of interest rate hikes. Lastly, the micro narrative is holding out. Only a few companies issued profit warnings in the first quarter, management tone is not overly bearish, and earnings forecasts have since been adjusted in anticipation of slower economic growth. However, the high-yield market has yet to fully absorb the tariff shock: spreads have narrowed only slightly for investment grade and to a limited extent for high yield.

Fluctuat nec mergitur for the US

Besides the short-term challenges for financial markets, there are also long-term risks. An increasing number of observers are questioning whether Trump's unilateral protectionism is jeopardizing the exceptional position of the US in the world. This position is based on four factors: the unchallenged status of the US dollar as the global reserve currency; the worldwide acceptance of US government bonds as a safe haven; the substantial US current account deficit, which allows the rest of the world to earn USD and purchase US assets; and the guarantee of global stability through military might. Trump's policies are weakening this foundation in some areas. His tariff policy is hurting US technology companies (among others), while China is catching up in the race for artificial intelligence. His isolationism calls the global security architecture into question and is forcing countries such as Germany to embark on debt-financed spending programs. This creates alternatives to the US for investors, who could gradually be switching from MAGA ("Make America Great Again") to MEGA ("Make Europe Great Again"). Conversely, the US remains supreme in key areas. In the short term, the US dollar will not lose its role as the reserve currency, as alternatives such as the euro and the renminbi lack the necessary institutional framework, and cryptocurrencies are too volatile to serve as substitutes for currency. The US is also the only economy with the scale and depth to recycle global savings. For example, Eurozone equities have a market capitalization of just €5 trillion vs. $50 trillion in the US. Eurozone bond markets (sovereign and corporate bonds) stand at €22 trillion, well below the $62 trillion for the US. The free float of German government bonds is only at €2 trillion compared to the $27 trillion in marketable US public debt. Lastly, the US economy is far ahead of others in terms of productivity. If productivity can be increased further through AI applications, this lead could be extended even further. Whether the first 100 days of Trump 2.0 will mark a turning point in world history or will be remembered as a mere footnote remains to be seen.

Vade retro Satana?

It is difficult to know whether we will see more white smoke than black smoke in the next 1,300 days before the next US presidential election. Rather than making big guesses, let's take a look at the near future for some clues about a positioning to "escalate the descalation".

- **Grey smoke for Equities**: Despite the current earnings' season being slightly better than expected (Q1 2025 EPS growth at +3% yoy in Europe and +11% in the US yoy), the foggy macro environment coupled with a swift stock market retracement (main equity indexes are back above the 2nd April levels) and high valuations (more than 21x for the US and 14x in Europe), calls for a pause in equity exposure. In this context, we recommend taking tactical short position in equities, with a slight preference for non-US assets, especially in some emerging markets and in Europe, in spite of a Euro/USD which is hurting exporters already affected by tariffs. We favour European companies with a domestic bias and high dividends, and banks in the eurozone still offering considerable potential. We continue to position ourselves in secular growth themes like artificial intelligence and European defense.

- **Grey smoke for Duration:** We move to a slightly short duration position, especially via US Treasuries. Given the long-term inflationary impact from tariffs in the US, market expectations for rates cuts from the Fed might be a bit too complacent. For core Europe, we stick to a slightly long duration position due to the ongoing disinflation process and a supportive ECB.

- **Black smoke on High Yield**: We remain cautious on credit risk. As spread levels are still relatively low, the compensation for the increased uncertainty, market volatility, and recession risk is insufficient, particularly for long duration high yield. In contrast, short duration investment-grade and high yield should continue to benefit from still attractive yields and their relatively low drawdown potential.

- **White smoke on Euro, Oil, and Gold:** We maintain our long Euro/USD position in line with our view that the EUR will strengthen against the USD, while also diversifying into local emerging currencies. We also maintain exposure to oil and gold.

There are ,300 days to go until the next US presidential election. After 100 days, it is fair to say that the twists and turns have been much greater than initially expected. Cautiousness on risky assets will not last *ad vitam aeternam*. If *audaces fortuna juvat* in financial markets, *carpe diem* and patience seem to be a wiser motto in the very short term if we are to see an immaculate white smoke.

READ THE PRESENTATION

ODDO BHF Asset Management SAS (France)
A portfolio management firm certified by the French Financial Markets Authority (AMF) under n° GP 99011.
Established in the form of a simplified joint-stock company with authorised capital of €21,500,000.
Entered into the Paris Register of Trade and Companies under number 340 902 857.
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