



STRATEGY UPDATE • MARCH 2025

Shifting Market Momentum, Global Divergences, and Policy Adjustments

KEY TAKEAWAYS

- European equities gained momentum, supported by fiscal policy shifts and defense spending, though structural challenges leave the rally's durability uncertain.
- Chinese equities rebounded on AI advances and policy optimism, creating tactical opportunities despite persistent economic and demographic headwinds.
- US equities lagged as inflation and fiscal concerns weighed on sentiment, with elevated interest rates limiting near-term scope for monetary easing.
- We remain constructive on equities, with selective diversification into European industrials, high-quality credit, and gold to balance growth opportunities and portfolio resilience.

MARKET OUTLOOK:

February was marked by significant market movements, with **European equities** showing strong performance, bolstered by optimism surrounding a potential peace deal in Ukraine, shifts in fiscal policy following the German elections and the defense sector. The Euro Stoxx 50 Index approached its all-time high last seen in March 2000, driven by a historically low valuation relative to US equities. However, despite this rally, structural headwinds remain, including an aging workforce, high labor and energy costs, and

European defense stocks are soaring



Source: Bloomberg

limited technological innovation. Investor sentiment is showing signs of improvement, and it's favoring European equities after years of underperformance. While this trend has been encouraging, it remains to be seen whether it is sustainable given Europe's longstanding economic challenges.

EMERGING MARKETS

Emerging markets also delivered positive performance in February, supported by recovering cyclical momentum and improved investor sentiment. The MSCI Emerging Markets Index rose steadily, buoyed by policy support in China and resilient economic activity in key markets such as India and Brazil. Looser monetary policies across several emerging economies, combined with stabilizing commodity prices, have provided an additional tailwind. The renewed optimism surrounding emerging markets is, however, tempered by geopolitical uncertainties and external risks, particularly in relation to global trade and currency fluctuations.

The month also saw renewed strength in **Chinese equities**, which have climbed more than 10% year-to-date amid growing investor optimism. The unveiling of DeepSeek's large-language AI model has fueled a resurgence in Chinese technology stocks, challenging the dominant position of US firms in artificial intelligence. Market sentiment has also been buoyed by a subtle shift in tone from Beijing, where President Xi Jinping has signaled a more business-friendly approach through direct engagement with private sector leaders. Investors are watching closely to see whether these signals translate into substantive policy changes, as China remains constrained by its balance-sheet recession. While a more accommodative fiscal stance may provide a temporary boost, long-term economic growth remains in question, with demographic challenges and structural inefficiencies weighing on future prospects.

US EQUITIES & POLICY

In contrast, **US equities lagged behind their European and emerging market counterparts** in February, reflecting concerns over persistent inflation and the Federal Reserve's more restrictive stance. While major indices such as the S&P 500 and Nasdaq remained resilient, their upward momentum slowed compared to the rally in Europe and China. The expectation that **US interest rates will remain elevated** for longer weighed on market sentiment, particularly in rate-sensitive sectors such as technology and real estate. The US market remains in a complex position as inflation hovers closer to 3% than the Federal Reserve's 2% target. This persistent **inflationary pressure** has reduced the likelihood of further rate cuts in the near term. The strong labor market and steady economic growth have reinforced the Fed's cautious approach, creating an environment where investors must carefully assess risk and opportunity. Additionally, investor concerns over the **sustainability of fiscal policy** and **growing government deficits** have added another layer of uncertainty to the US market outlook. The ongoing **fiscal stimulus** in the US has played a key role in sustaining market strength, though concerns about prolonged deficits and government spending continue to mount. The divergence between US public and private sector balance sheets has become increasingly evident, with the latter remaining resilient while the former faces growing fiscal strain.

Shifts in **geopolitical dynamics** have also played a role in market adjustments, with Washington's apparent pivot toward improved relations with Moscow adding another layer of complexity. The prospect of reduced geopolitical tensions has introduced a degree of optimism in global markets, particularly in Europe, where economic reforms have long been hindered by political uncertainty. At the same time, indications of a policy shift in China suggest that Beijing may be looking to stimulate private sector activity through targeted fiscal support.

INVESTMENT OUTLOOK

With February now behind us, investors must carefully assess the evolving landscape. While short-term opportunities exist, long-term structural challenges persist across multiple regions. European equities have rebounded but still face headwinds, Chinese markets present tactical opportunities tempered by underlying economic concerns, and the US remains in a period of fiscal uncertainty. Despite these uncertainties, **we remain constructive on equities**, supported by resilient corporate earnings, continued central bank flexibility, and improving investor sentiment.

Within this backdrop, new investment themes are emerging. The **European industrial sector**, for example, is gaining traction, benefiting from increasing defense spending, ongoing infrastructure investment, and the broader economic rebound facilitated by the ECB's accommodative policies. While challenges remain, the potential for sustained industrial growth presents a compelling case for selective investment in this sector. Diversified exposure through vehicles such as the Amundi STOXX Europe 600 Industrial Goods & Services UCITS ETF allows investors to capitalize on this theme while mitigating single-stock risks.

FIXED INCOME & GOLD

At the same time, fixed income continues to offer relative stability, particularly in high-quality credit, as central banks balance inflation concerns with the need to support growth. Gold also remains a key defensive asset, providing protection amid geopolitical uncertainties and shifting macroeconomic conditions. Against this backdrop, maintaining a diversified and adaptable approach remains essential for navigating the current investment environment.

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