



STRATEGY UPDATE • MAY 2025

Navigating Policy-Driven Volatility Without Losing Course

KEY TAKEAWAYS

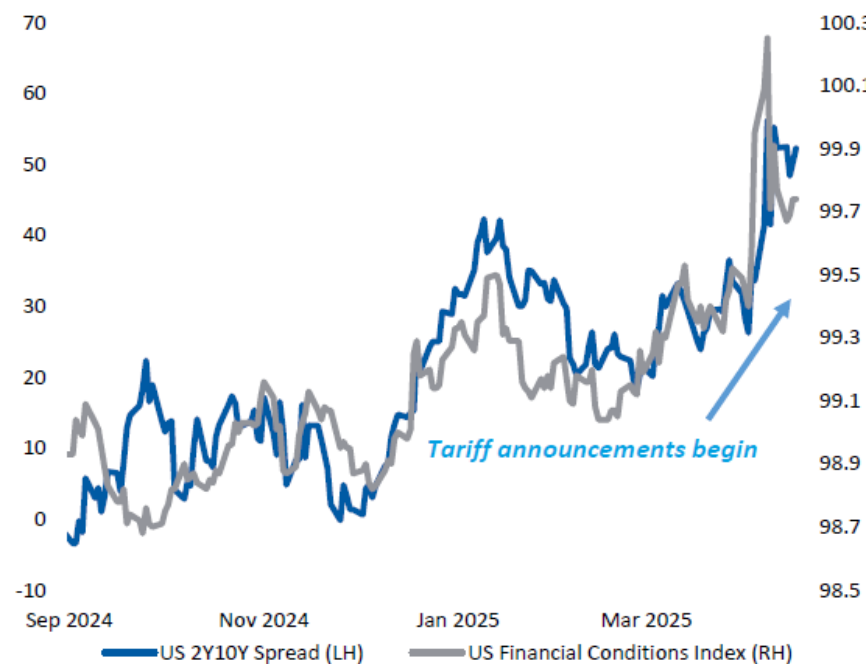
- Markets jolted by tariffs, but discipline paid off – staying invested through policy noise was the right call.
- We face a policy-driven slowdown, not a structural crisis – recession risks are up, but a soft landing remains possible.
- Equities stay central – we remain overweight, with tactical rotation toward Europe and Emerging Markets.
- The USD remains the anchor – short-term weakness doesn't challenge its reserve status.
- Selectivity is critical – focus on quality, duration, and liquidity as policy paths evolve.

MARKET REVIEW

April was a stark reminder that policy decisions – particularly those tied to global trade – can shift market sentiment more abruptly than economic fundamentals. The Trump administration's unexpected and sweeping imposition of tariffs on a broad range of imports led to heightened volatility across asset classes. U.S. equities sold off sharply early in the month, with credit spreads widening and bond yields surging. Correlations between traditionally uncorrelated asset classes spiked as investors rushed to reprice geopolitical risk and policy uncertainty. However, for investors maintaining a diversified, long-term approach, the message of the month was clear: **patience and strategic allocation continue to pay off**. Staying invested through policy-induced shocks, rather than reacting with panic, has again proven to be a sound approach – especially as policymakers globally are already hinting at responses that could support risk assets in the months ahead.

Tariff Uncertainty Has Tightened Financial Conditions...

2Y/10Y spread (LH, basis points), U.S. Financial Conditions Index (RH)



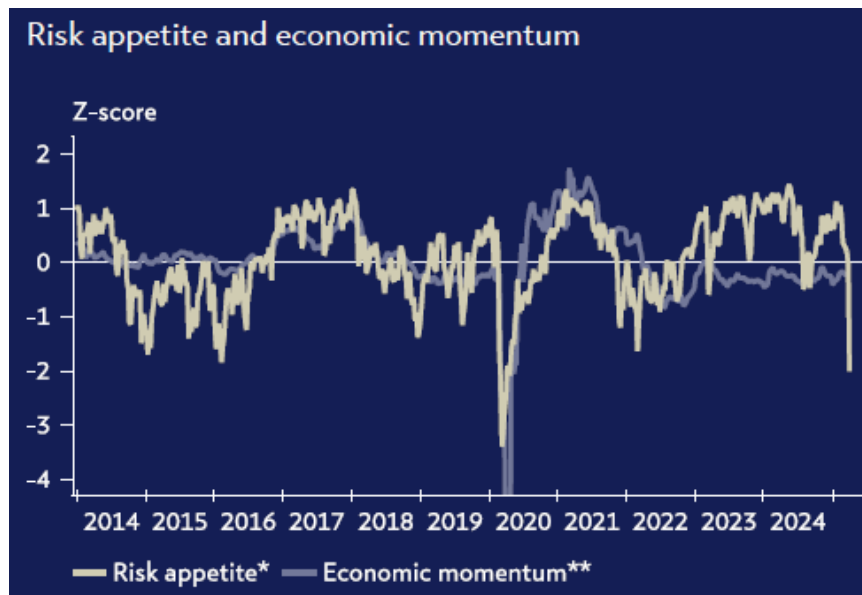
Unlike some interpretations that equate tariffs with structurally higher inflation, our view aligns with the monetary theory of inflation: **tariffs may increase the price of specific goods, but they do not necessarily drive the overall price level higher.** Consumers and businesses adjusting spending to account for costlier imports tend to reduce demand elsewhere, which can leave aggregate price pressures relatively unchanged. The greater risk from tariffs, therefore, lies not in runaway inflation but in **short-term growth weakness** – particularly as businesses hesitate to invest amid shifting trade policy.

MACRO OUTLOOK: A SHIFTING POLICY LANDSCAPE WITH SEVERAL PATHS FORWARD

Markets are currently caught in a tug-of-war between rising short-term risks and the potential for a pivot toward more supportive policy in the second half of the year. While the U.S. economic outlook has dimmed – particularly in the manufacturing sector and among capital-expenditure-sensitive industries – we continue to see this as an event-driven slowdown, not a structural recession.

Three broad macro scenarios are plausible:

- **Optimistic:** The U.S. softens its stance toward key trade partners like Europe and Japan, potentially revisiting or revising China tariffs. The Federal Reserve responds to slower growth and receding inflation by cutting rates in H2. Risk assets rebound, led by global equities, while the USD stabilizes and gold retraces some gains.
- **Moderate** (our base case): Tariffs remain elevated (~10%) with continued tit-for-tat measures between the U.S. and China, but no full-scale trade war materializes. Global growth slows but avoids contraction. Fiscal and monetary policy step in to cushion the blow. U.S. assets underperform, but international markets – especially Europe and emerging markets – offer relative outperformance.
- **Pessimistic:** The U.S. locks into a full ideological trade war, triggering global recessionary pressures. Confidence collapses, and monetary policy responses lag. Markets enter a deeper bear phase, credit spreads widen materially, and safe-haven currencies like the Swiss franc soar.



At this juncture, we believe the moderate tariff scenario is the most likely outcome. While tariffs on key sectors such as autos and metals – particularly those affecting trade with China – are likely to remain elevated, a broader escalation appears less probable. The administration has strong incentives to stabilize sentiment and support economic conditions heading into the 2026 midterm elections and beyond. With market confidence, business investment, and consumer sentiment all closely tied to financial stability, a shift toward pro-growth measures is increasingly likely. We continue to believe that Trump has front-loaded the politically painful measures, with fiscal incentives – such as tax cuts – likely on deck later this year to reinflate sentiment and support markets ahead of a crucial political calendar.

INVESTMENT OPPORTUNITIES: A TIME FOR SELECTIVE POSITIONING, NOT RETREAT

Despite the challenging backdrop, we see several compelling opportunities across asset classes and regions:

Equities: While we expect continued volatility, we maintain an equity overweight. U.S. markets have seen sharp earnings downgrades – 17 consecutive weeks of EPS revisions downward, the longest streak since 2022 – yet valuations remain more resilient than in prior corrections. We favor selective exposure to quality and mid-cap names over broad index positions.

Tactically, diversification outside the U.S. is prudent. German mid-caps are well-positioned to benefit from domestic stimulus and re-industrialization initiatives. Chinese equities are stabilizing and could offer a tactical entry point in H2, assuming continued policy support. In sector terms, we emphasize industrials with strong local supply chains, and U.S. financials, which may benefit from deregulation and still-elevated interest rates.

Fixed Income: The sharp rise in Treasury yields – driven more by technicals than fundamentals – has created opportunities in long-duration bonds as both outright return sources and portfolio hedges. Municipal bonds now offer attractive relative value, and emerging market corporates continue to benefit from favorable technicals and improving fundamentals.

Alternatives: Our gold allocation has been increased to reflect its value as a hedge against systemic risk, policy missteps, and weakening faith in fiat regimes. Hedge funds focused on macro and relative value strategies also offer ways to benefit from market dispersion.

Currencies: The USD remains the world's dominant reserve currency despite short-term weakness. Recent softness reflects capital outflows tied to equity market volatility rather than structural erosion. Safe-haven flows into the CHF and JPY should continue in periods of stress, while commodity currencies and EM FX will depend on the evolution of global trade flows.

ASSET ALLOCATION: BALANCED, BUT CONSTRUCTIVELY TILTED TOWARD RISK

In this complex and rapidly evolving landscape, we recommend an asset allocation that is strategically balanced yet tactically responsive. Within equities, we maintain an overweight position, with an emphasis on geographic diversification and a focus on high-quality exposures. We view recent pullbacks not as indicators of systemic weakness but as opportunities to selectively build positions. In fixed income, we remain neutral on overall duration but see merit in adding longer-maturity instruments when yield spikes offer tactical entry points. Our emphasis is on credit quality, particularly within municipal bonds and select emerging market corporate debt. At the same time, we advise keeping liquidity levels elevated to ensure flexibility in navigating future bouts of volatility and seizing market opportunities as they arise.

April reminded us that markets remain vulnerable to external shocks, but also that resilience, discipline, and thoughtful diversification continue to provide the best roadmap forward. As the policy fog clears, we expect opportunities to emerge – and those who stay invested and positioned for a gradual rebound will be best placed to benefit.

DISCLAIMER

This publication is for information only and reflects Acumentum AG's general market views as of the publication date. It is not investment, legal or tax advice, nor a personal recommendation, offer or solicitation to buy or sell any financial instrument, and it does not take account of any individual's circumstances. Investments involve risks, including the loss of capital; depending on the instrument, these include market, interest-rate, credit, liquidity and currency risk, and complex instruments may not suit every investor. Past performance is no guarantee of future results. Please seek professional advice before investing.

While the information has been obtained from sources believed to be reliable, its accuracy or completeness cannot be guaranteed. The information and views expressed are subject to change without notice.

GENERAL CONTACT · Acumentum AG · Stadthausquai 1 · 8001 Zurich · Switzerland
Tel. +41 43 497 27 42 · Fax +41 43 497 27 43 · info@acumentum.ch · www.acumentum.ch