Quarterly Investment Letter

Q1 2025

ameliora WEALTH-MANAGEMENT

Review – Tariff Countdown Spurs Risk-Asset Exodus

The anxiously awaited 'Liberation Day' has shaken world financial markets and the US dollar has sold off like rarely ever before. Sceptics are afraid that the higher-than-expected new tariffs, announced by the White House, will temper growth around the world and counter-tariffs by US trading partners will most likely contaminate international relations even more. Growth and inflation outlooks have been negatively impacted any several large banks are now forecasting a recession later this year.

There is also considerable uncertainty regarding America's position with regards to Russia and Ukraine. While President Trump has been transparent about his reluctance to provide further financial and military support to Ukraine, his sympathy for Russia has left Europe in a state of paralysis. This dynamic could represent a pivotal moment for the European Union, potentially leading to the finalization of its integration regarding a shared fiscal and defense policy. On March 18th, German lawmakers approved a €500 billion budget for defense and infrastructure, a notable shift from their usual fiscal conservatism, with the aim of providing additional support to the European economy and mainly its defense sector.

Equity and Fixed Income

European equities performed well in both local and USD terms, with the German Dax gaining 11.3% (15.8% in USD), the Swiss Market Index up 10.0% (12.6% in USD) and the EuroStoxx 50 Index up 7.7% (12.5% in USD).

The S&P 500 fell 4.3% during the quarter and is down about 10% from its February peak. The Nasdaq 100 fell about 13% from its peak and is down 8.1% for the quarter. The drawdown in U.S. equities follows a multi-year period of strong outperformance versus global peers, resulting in higher valuations. Higher valuations make US equities more vulnerable to a change in the earnings outlook, which is currently tilted to the downside given all the uncertainties on tariffs and trade.

USD bond markets were up about 2.8%, while Euro bonds were down following the announcement of very large defense and infrastructure investment programs in Germany which might put upward pressure on future inflation.

While we anticipated higher volatility at the beginning of the year and have reduced our equity position by 5%, the rise of European stocks came a little surprising after all. In our opinion it is the result of a reduction of foreign investments in the US due to valuation and political uncertainty and not necessarily US investors going abroad.

Commodities and Currencies

Commodity markets have been dominated this year by price gains in base metals, but more so in precious metals, where gold rose nearly 20% in the quarter. Most analysts continue to support the case for higher gold prices amid global uncertainties. We have increased our allocation to gold last year which certainly increased our diversification benefits.

After a strong US dollar year in 2024, the greenback began to weaken against most of its counterparts. Although the US administration has not clearly stated that they prefer a weaker dollar to support US exports, it is quite obvious to us that this is the goal. As a consequence, import prices will go up. Together with additional tariffs certainly bad new for inflation.

Market Data

in US Dollars as per March 31, 2025

Equities		YTD%
World		-1.2
USA 500		-4.3
USA 500 Equal Weighted		-0.6
Europe 50		+12.5
Swiss 30		+12.6
Asia 50		+6.7
Japan		+2.2
Bonds		YTD%
Global Aggregate (unhedged)		+2.6
U.S. Aggregate		+2.8
Pan Euro Aggregate		-0.8
Global High Yield		+1.8
Interest Rates		in %
U.S. 3 months		4.3
U.S. 10 years		4.2
Euroland 3 months		2.3
Euroland 10 years		2.7
Passive Global Portfolios	YTD%	
25% Eq. / 75% Bonds		+1.7
40% Eq. / 60% Bonds		+1.1
50% Eq. / 50% Bonds		+0.7
75% Eq. / 25% Bonds		-0.3
Commodities		YTD%
BB Commodity Index		+7.7
Gold oz		+19.0
WTI Crude Oil		+2.0
Copper		+23.9
Currencies		YTD%
EUR in USD	1.0816	+4.5
CHF in USD	1.1309	+2.6
GBP in USD	1.2918	+3.2
JPY in USD	149.97	+4.8
Economies		
GDP Growth Estimate		2025%
USA		1.9
Euroland		0.9
Global		2.9
Inflation		12M%
USA		2.8
Euroland		2.2
Switzerland		0.3

Portfolio Updates and Themes

Our equity themes India (INDA) and energy infrastructure (GRID) performed in line with the market while our energy equity theme (XLE) outperformed the index. Long-term growth themes such as Nasdaq (QQQ) or Russell Growth (IWY) underperformed in the first quarter. However, the valuations of the Magnificent Seven now look more fairly priced at 26x forward earnings.

Outlook 2nd quarter and beyond

Our investment committee met for an emergency meeting on April 3rd, after this quarterly letter was already finalized the day before and ready to be sent out. 'Liberation Day' was a true shocker for all financial market participants. America First sounds a lot like America Alone now, with all of its consequences. The additional tariffs that were announced are far beyond what most experts anticipated and JP Morgen quickly announced that they now expect a recession later this year.

Economic indicators had been weakening since the beginning of the year. Consumer spending increased by a mere 0.1% in February, following a decline in January that many analysts attributed to inclement weather. Notably, in February, Americans reduced spending on services for the first time in three years in the fact of higher prices. Given that consumers account for approximately 70% of total U.S. GDP, these trends are of significant importance. We will closely monitor upcoming figures to gain insight into the economy's near-term trajectory.

Inflation is persistently high, with the core rate (excluding food and energy) at 2.8%, which limits the Federal Reserve's ability to reduce interest rates in the near future.

Consumer sentiment reached a 2.5-year low, likely influenced by concerns regarding impending inflation. According to the University of Michigan's Survey of Consumers, released in February, long-term inflation expectations reached 3.5%, marking the highest figure since 1995.

Following President Trump's election, there was a surge in business optimism and expectations for capital spending. However, due to uncertainty surrounding tax legislation and tariff announcements, these expectations have since shifted to a wait-and-see mode.

Consequently, many firms are postponing their investment plans, which is contributing to a tempering of expectations for economic growth this year. This is due to a general uncertainty among executives regarding the tax and trade environment.

Surveys indicate a decline in capital-spending intentions, with small businesses and manufacturers with supply chains in tariffed countries expressing the highest levels of uncertainty, contributing to a "dense fog" in the business investment climate.

We would also like to share with you a less-known indicator known as the 'Ferguson Law'. Adam Ferguson, a renowned Scottish historian and philosopher, observed that throughout history, major global powers have experienced irreversible decline when interest expenses on federal debt exceeded defense spending. The United States is currently approaching this critical juncture. The term "US exceptionalism" is misleading when considering the excessive government spending in previous years, which led to a 7% government deficit. We fully support Trump's plan to reduce the deficit by reducing government spending, but it might prove challenging to implement because non-defense discretionary expenditures account for only 12% of federal spending, or about 3% of GDP. In 2019, prior to the onset of the pandemic, US federal outlays amounted to $4.4 trillion, while today that figure stands at over $7 trillion.

US markets have started a correction in mid-February and ‘Liberation Day’ is adding fuel to the fire. We therefore decided today to further reduce our equity exposure drastically, moving to the very low end of our long-term defined strategies for the various investment goals. Alternatively, we will add to our gold position and keep a higher cash allocation for now.

With the potential of a US or even global recession looming, asset protection is the name of the game. Trade wars have in the past hurt all involved countries and it is hard to believe that this time will be different. We fully understand the US government’s position with regards to foreign trade and they have every right to force certain bad actors to come clean but to declare ‘war’ with the whole world is a highly risky strategy that might backfire badly. The wounds caused by ‘Liberation Day’ will not heal quickly, even it some tariffs will be back-pedaled later.

We wish all of our readers a beautiful spring time. As always, please don't hesitate to contact us with any questions you may have.

Ameliora Wealth Management Ltd.

Investment Office