Syconvictions

APRIL 2025

At a glance

Changing narrative on **Europe**

Attractive entry point on **bonds**

Stronger and selective exposure to **U.S. Tech**

Message from the CIO

In recent years, the concept of European construction has been severely called into question by the region's voters due to internal dissent and shortcomings inherent to the EU, which was mainly designed as a legal and normative structure, with no political or industrial strategy. The Draghi report and Trump's election were the two catalysts needed to spur change: we have seen more decisive developments in just a couple of weeks than over the past several years. A European defence is taking shape and a significant stimulus plan focusing on infrastructure was adopted in Germany.

These giant steps have rekindled Franco-German relations, which are essential to push boundaries and accelerate the implementation of projects such as the Savings and Investment Union. This initiative aims to widen access to capital markets for European households and boost corporate funding to allow companies to innovate, grow and create jobs in Europe.

This new narrative explains our changed views on Europe. We are convinced that European financial markets will benefit from this new deal. They will probably attract inflows after 10 years of steady outflows, thereby filling some of the valuation discount.

Alongside these structural factors, investors will have to take into account the potential value created by the upshot of the German spending plan, a possible ceasefire in Ukraine, and greater exposure to China for European companies. Beijing could surprise us in 2025.

Pierre-Alexis Dumont
Chief Investment Officer

Market weather

EQUITIES
- European
- American
- Asian

SOVEREIGN BONDS
- European
- American

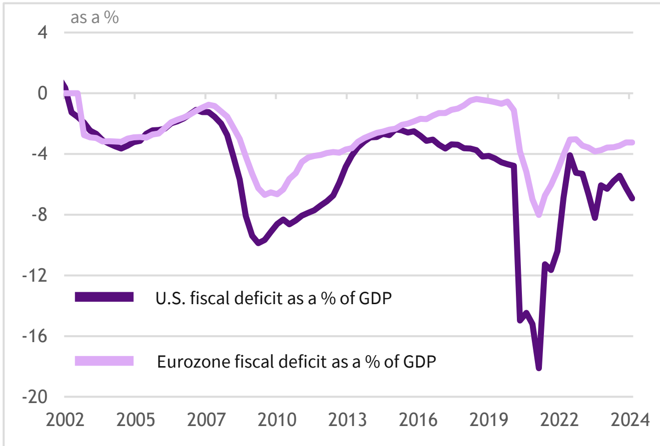
CORPORATE BONDS
- Investment Grade
- High Yield

CASH

Market environment

Have we just witnessed Europe's awakening? The spectacular outperformance enjoyed by European markets over the past few weeks was driven by several factors that suggest, at the very least, that the dominant status of the U.S. stock market is softening. First, in a historic move, **Germany has loosened the "debt brake"** enshrined in the Constitution. Objective of the reform: to fund additional defence spending and create a 500-billion-euro fund for infrastructure, with a particular focus on energy and transport. Unlocking fresh debt is a **major economic turnaround**. Meanwhile, the European commission has unveiled a plan aimed at mobilising 800 billion euros to rearm Europe. The **fiscal impulse gap** on either side of the Atlantic could be partly filled. Beyond the economic impact of the actual investments, the prospect of communally funding these 800 billion euros is a testimony to the pro-active and coordinated attitude from EU member states.

PUBLIC DEFICIT GAPS BETWEEN THE USA AND THE EUROZONE



Source: Bloomberg. Data as of 31/12/2024.

So far, fragmentation had been playing against the Eurozone economy. A better coordination of fiscal efforts is welcome. Naturally, these announcements must deliver positive effects if we are to strengthen the structural competitiveness of the region. The challenge is to **narrow down the large gap in potential growth**, which has been so beneficial to the United States over the past two decades. The German plan's focus on infrastructure spending is promising. As the Old Continent faces the United States and its protectionist turn, **it has been given an opportunity to pull together and recover.** The rebound in Europe's stock markets still has potential for upside.

Asset allocation strategy

The uncertainties around the tariff policy and President Trump's new rhetoric are feeding **volatility** and are starting to dent confidence, notably among U.S. consumers. However, our views have not changed. We feel that the tariff threats are mainly bargaining tools. We also believe that **pro-growth measures will prevail**, while Europe and China will get their act together and defend their interests in this new world order.

Loyal to our allocation guidelines for 2025, our focus is on **flexibility,** and we continue to make adjustments to our portfolio positioning. Our preference is for a **contrarian approach** adapted to the poor visibility on the execution of the political programme in the US.

Our allocation to fixed income was strengthened. The recent rise in yields and the steepening of the yield curve offer **attractive entry points on bonds**, in our view. On the equity side, our preference for the United States has been neutralised as we believe that the potential for a response in Europe and Asia has not been fully factored in by the markets. With news of the German stimulus plan, we have adopted a **more constructive view on "smidcaps"** - notably in Germany - which will be the first to benefit from infrastructure spending. The difficult context in Europe during Q1 does, however, encourage us to remain **selective and opportunistic** in this market segment. In the United States, we have adjusted our contrarian positioning, trimming the winners (defensive sector) to strengthen our exposure to **US technology** selectively.

Key dates

2025

April 16th and 17th
ECB meeting

Fed meeting
May 6th and 7th

May 4th and 18th
Presidential election in Romania

Presidential election in Poland
May 18th

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