Syconvictions

MAY 2025

At a glance

Our **view on risk assets remains constructive**

We **lowered** the **duration of our bond portfolios**

We have strengthened exposure to **HY** and **European equities**

Message from the CIO

April 2025 is set to be a milestone in stock market history. While periods of uncertainty are inherent to market life, the fact that several of the fundamentals that enable financial markets to function properly - including the currency reserve, free trade, the independence of the Fed and the safe-haven status of Treasuries - were simultaneously called into question is unprecedented.

Nevertheless, we believe that challenging these factors can be economically legitimate. These issues are witness to a series of deep and unsustainable imbalances: the funding of the world's most advanced economy by all the other countries, the half-finished European construction, the debt burden on future generations, and the societal consequences of de-industrialisation in Western economies.

Efforts to address these long-term issues have been repeatedly pushed back. Providing some answers may not necessarily lead to chaos, quite the opposite.

We are not giving in to pessimism and are keeping a constructive view on risk assets. We advocate broader diversification and a very strict valuation discipline. Going against the consensus can be a winning strategy.

Though challenged in recent years, these guiding principles have continued to govern our investment approach and have enabled us to end this very unusual month on a positive note.

Pierre-Alexis Dumont
Chief Investment Officer

Market weather

EQUITIES
- European
- American
- Asian

SOVEREIGN BONDS
- European
- American

CORPORATE BONDS
- Investment Grade
- High Yield

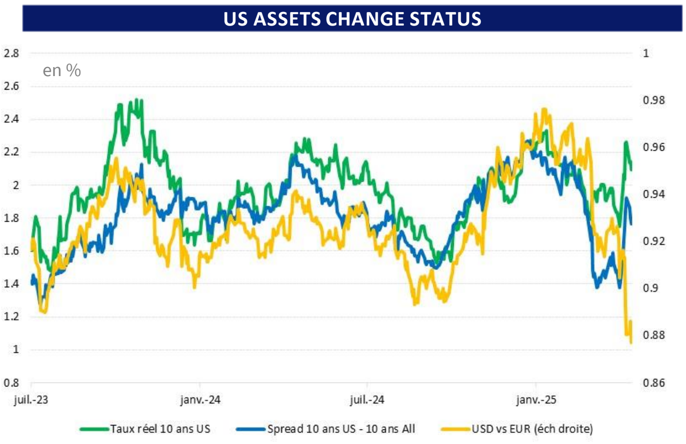
CASH

sycomore

Market environment

In physics, a material that is temporarily subject to intense deformation does not always recover its original state. This asymmetry - known as “hysteresis” - could also apply to the global economy after the Trump administration’s protectionist offensive. A shock to confidence on this scale, amid maximum uncertainty and never-ending turnabouts, will have a durable impact on the behaviour of economic players, investors included.

US assets, including stocks, the dollar, sovereign bonds - or Treasuries, that were seen as the ultimate haven in financial markets, were the first to be impacted. **American exceptionalism took a major blow** following the under-performance of large technology stocks, the weakness of the greenback, and rising real interest rates (which is rather uncommon in periods of equity corrections).



Source: Bloomberg; data at end April 2025.

In terms of regional allocation, lack of confidence in the United States has allowed other regions, and notably **Europe and Emerging Asia**, to **attract fresh investor attention**. The market now offers genuine **alternatives to the sacrosanct S&P500**. Similarly, among the consequences of this new regime of uncertainty and fragmentation, the dominance of indices, delivering steady gains (i.e. with high Sharpe Ratios), could become history. **Equities have a bumpy road ahead**, with more returns to the mean across the stock market and a weaker concentration of profits. This can be either bad or good news - as **active managers will have access to more opportunities, notably for stock picking.**

Asset allocation strategy

The end of April saw more optimism on tariff negotiations, but markets are expected to remain tentative until the situation begins to stabilise. The time has not come yet for us to extend our investment horizons and increase risk substantially within the portfolios. Our views are unchanged. We are more **constructive on Europe and China** and remain **flexible** via tactical adjustments to our positioning. In April, we took advantage of the market trough to **strengthen our High Yield positions** on the credit side, as well as our **European equities**, notably via financials and stocks exposed to the German infrastructure plan. In the United States, poor visibility on the economy has prompted us to trim cyclical domestic stocks and to remain exposed to the more defensive end of this segment.

In the aftermath of the correction, we are seeking to identify **companies likely to deliver positive earnings surprises in their Q1 publications**. This is the case for the agri-food value chain, medical equipment suppliers and several technology stocks. Generally speaking, our investment ideas draw from asymmetrical situations that have factored in the worst-case scenario, while benefiting from tailwinds.

At the end of the month, we trimmed positions that had excessively benefited from short-term market dynamics. **We also lowered the duration of our bond portfolios** after the sharp correction on European rates.

Key dates

2025

May 6th and 7th
Fed meeting

Presidential election in Romania
May 18th

May 18th
Presidential election in Poland

ECB meeting
June 4th and 5th