APRICUS FINANCE

WEALTH MANAGEMENT

May 2025

White Smoke From The White House

After pausing tariffs on most countries on April 9th, the Trump administration and China reached an agreement. In a major breakthrough, the two countries struck a pivotal deal to slash reciprocal tariffs in yet another 90-day reprieve: from 145% to 30% for the US, from 125% to 10% for China.

Notably absent during the talks in Geneva was hawk Peter Navarro, the likely architect of those tariffs.

US Treasury Secretary Scott Bessent acknowledged on Monday: «and what had occurred with these very high tariffs ... was the equivalent of an embargo, and neither side wants that. We do want trade.» We agree. Were those tariffs maintained in place, they would have effectively killed any trade between the two countries.

Days later, the Trump administration reduced the 'de minimis' (imported packages) tariff rate from 120 percent to 54 percent. The order retained the USD 100 per-item fee effective May 2 but canceled the scheduled June 1 increase to USD 200.

While the rate reduction is significant in relative terms, the change will do little to alleviate the additional burden on consumers and e-commerce providers, as the cost of importing small parcels valued under the USD 800 de minimis threshold is still far higher than before: they entered duty-free.

With the minimum USD 100 tax per package, obviously the days of ordering those cheap birthday party kits for kids themed 'Lilo and Stitch' or 'PAW Patrol' on Temu or AliExpress are over. And by the way: nobody will produce those items cost-effectively in the US.

The trade war is all about goods. However, US companies do a lot of business domestically in China: they sell American products in China to Chinese consumers.

For example, McDonald's has 6,820 restaurants in China, Walmart operates 364 stores in China, and Apple sold 43 million iPhones in China in 2024.

Calculations from FactSet's Geographic Revenue Exposure Database show that China makes up about 7% of total annual revenue in S&P 500 companies. Comparing the magnitude of the trade deficit with the revenue generated by S&P 500 companies in China shows that US companies made USD1.2 trillion in revenue selling to Chinese consumers, or about four times the size of the trade deficit in goods between China and the US.

The bottom line is that were the US to decouple completely its economy from China, it would result in a significant decline in earnings for S&P 500 companies.

The markets cheered on the news, sending stock indices back above the levels that prevailed ahead of April 2nd 'Liberation Day'. In the US the move was led by the beaten down Mega caps, in China by its own technology and internet leaders, while in Europe the move was more broad-based, even though we found the banking sector yet again leading the pack.

Both countries claimed victory at home. We had no doubt that China wouldn't bow to Trump, if we are in a boxing fight we think China likely won the first round on points.

We have likely been spared financial Armageddon, but Trump's tariff chaos is far from over, it is just suspended.

Perhaps the irony is that financial markets are now higher than on Liberation Day, despite the fact that we are still facing tariffs that just didn't exist just six weeks ago. Even after a massive reduction in China levies, the world's headed for a higher US tariff regime across the board, which will inevitably hit growth, and keep inflation high, especially in the US.

Perhaps more importantly for future American economic growth, the word 'tariffs' substituted 'AI' in companies' quarterly reports. In view of the reigning uncertainty on growth, tariffs, inflation and taxes most companies have adopted a 'wait-and-see' attitude and several withdrew their guidance. As a business, it is almost impossible to make plans for the next 1 or 2 years, let alone for the next 10. Should congress and senate flip in the 2026 mid-term elections, everything would be frozen at the current state; and should a Democrat be elected president in 2028, uncertainties for companies would grow again. Difficult to establish a business plan for the C-suite of a company operating in the US!

The latest example might just be what happened to Apple this week. Trump called up Apple's CEO Tim Cook and told him to stop expanding in India and bring smartphone manufacturing / assembling, for the US market, to the US. (Apple sought to manufacture smartphones in India for the US market). Experts estimate that a domestically assembled iPhone would cost between USD 1500 USD to USD 3500.

As we pointed out last month, the big lessons we learned are: policy remains extremely erratic; policy competence is questioned by markets – with chaotic confusion about the tariffs suggesting the lack of a masterplan.

The US Dollar Mini-Crash in Asia

While the idea of a Mar-a-Lago Accord has probably been set aside, the Trump administration is probably still looking for a weaker USD.

Traditionally, when looking at what potentially could lead the USD to weakness or strength, beyond the USD fundamentals themselves, we would analyze or observe the Japanese YEN, the EURO or the Swiss Franc. Maybe this time around we should look at Asia.

It probably went unnoticed to most Western investors, but certainly to Asians.

At the end of April, in a matter of days the USD crashed against the Taiwanese dollar by over 7%, taking other Asian currencies, such as the Korean Won, along with it. The Central Bank of the Republic of China (CBC, Taiwan's central bank) was forced to intervene, as was the Hong Kong Monetary Authority, to preserve the floor of the Hong Kong Dollar.

In fact, the crash was even worse than it appears, as the forwards moved violently lower as well: 3-months swaps moved lower by over 2%. So, compounded on the forward market, the crash was over 9%.

What happened?

Contrary to European companies, that have their USD exposure mostly hedged, whether operationally or financially, Asian exporters resort mostly to foreign exchange. According to Goldman Sachs and others, until 2021 the hedging ratio was typically around 70-75%: in 2024 it dropped to 50-55%. That means that the region is extremely dollarized.

That was ok as the USD has been rising since 2021. Estimates for the net USD exposure for Asian (Non-Japanese) exporters and investors range from USD 1.5 to 2.5 trillion. According to reports, the crash has been generated by an increase of just 1 to 2% in hedging.

What would happen should we return to the 70-75% hedging ratio?

In case of massive USD selling in Asia, the Euro and the Japanese YEN would likely strengthen as well.

Out of the Woods?

Peak uncertainty and peak tariffs are thus likely behind us. We have prospects of a truce in Ukraine, and we have a truce between Pakistan and India.

So, after the chaos unleashed by the Trump administration, as the Swiss Germans would say: 'ausser Spesen nichts gewesen'? ('nothing but expenses').

Does this mean we are going to see the Trump administration change course? We do not think so, he just tried to temporarily save the 'US exceptionalism' that reigned for the last ten years or so, which gives him leverage on other countries. His focus will continue to be to boost the economic sectors and the states that reelected him in the first place. And thus, he will continue to think about the US economy as if we were in the sixties - reviving the manufacturing sector, with trade (im-)balances continuing to be high on his agenda.

Is it realistic to think that many American white-collar employees will switch jobs, leave the office and go work on an assembly line of a manufacturing company? And all that for half of the salary. We leave it to our readers to answer that question.

Are we back to US exceptionalism? To pre-Trump tariffs?

Recent US economic figures only bring limited visibility:

- Job creation has been higher than expected.
- The collapse of first quarter GDP is entirely attributable to a surge in imports ahead of tariffs.
- Financial conditions eased again thanks to the financial markets' rebound.
- Real monetary conditions remain accommodative.
- Companies' profits remain elevated.
- Lower oil prices support consumer spending.

However, these hard data have been clashing with soft data, which are pointing to economic weakness.

In Europe, economic data has been better than expected. GDP grew 0.4% in Q1, and economic surprises have been positive. 12 EU countries have activated a derogatory clause to the budget rules to boost military spending.

Strategy

We continue to prefer Eurozone equities over US ones.

Four drivers of US equities exceptionalism may be turning:

- Over 40% of US equities outperformance was down to the Mega caps: we not only count the Magnificent 7 but also various stocks such as Berkshire, JPMorgan, Visa or Eli Lilly. We are not calling for a profit recession, however the marginal rate of profit expansion most likely peaked in 2023 for these companies and is slowing. Their valuations haven't.
- The large technology stocks are now very dependent on the consumer and advertising, both very cyclical.
- The US Dollar has strengthened for the last 10 years or so. As we wrote in our last comment, its credibility is now in doubt, real interest rates are narrowing, it will not behave as a safe haven like it has done in the past. The Trump administration seems to want a weaker currency.
- GDP growth might be hampered, not only by uncertainty and tariffs, but also by the massive fiscal deficits, (at 7% of GDP, despite Elon Musk's led DOGE efforts), which are unsustainable medium term.

On the other hand, in Europe:

- The German debt brake ('Schuldenbremse') was effectively preventing any meaningful fiscal support for the wider Europe. For Germany itself it is transformational, as the fiscal support and military spending amount to over 20% of GDP.
- Europe's biggest export market, China, struggled, and now seems to have at least stabilized its economy.
- The prospects of a truce, or de-escalation of the war could have a very positive impact on consumer's mood and thus spending. Lower energy prices would be an added bonus, particularly for German manufacturing.
- Inflation in Europe is under control, and the European Central Bank has the door wide open to cut rates to sub 2% this year.

- After the recent rebound, US equities trade again at a record premium with Europe.
- Flows towards Europe have been positive, not only because of the prospect of better performance, but also for derisking: many financial actors became aware of their portfolios' excess exposure to the US.

The trade war de-escalation is far from a ceasefire that will galvanize bulls and sustain a major US equity rally. Long-term investors have learned to sell risk into any exuberance, as uncertainty about US policy on trade, tax and immigration remains elevated.

This summer, July is potentially the month when it all comes together:

- The end of the 90-day suspension of tariffs on the world minus China, (that happens one month later).
- The debt ceiling issue, and lack of cash at the US Treasury will reappear.
- The tax debate will resurface.

After the agreement on tariffs with China, not only did stock markets move sharply higher - continuing their recovery from 'suspension day' on the rest of the world - but so did long-term rates. 10-year rates in the US moved from around 4.15% to over 4.5%, the USD strengthened, and Gold retreated from its peak in early May by over 7%.

These strong market drifts have thus brought our portfolios back to a broadly neutral position in equities. Which we are currently keeping.

We might well be past 'peak tariffs', but not near 'peak certainty'.

As we wrote last month: the probability of counter-trend rallies or large selloffs is high given low liquidity across asset classes and conflicting news flows. This continues to be the case. A neutral position is therefore warranted.

Equity

We are neutral. We keep an overweight in Eurozone and Asian ex Japan equities versus the US.

Fixed income

We continue to favor exposure to credit versus duration. However, we have increased the quality of our holdings. We have exposure to investment grade credit, European high yield, hybrids, financials' subordinated debt.

Foreign Exchange

The Japanese YEN exposure is mostly hedged.

Gold

We continue to keep our allocation to Gold.

Positioning

Overall Exposure

We are now Neutral Equities, and Neutral Fixed Income, with a Gold position, JPY hedged.

Equity: Neutral

We have an Overweight to the Eurozone and an Underweight in US equities, Underweight US technology, Overweight Nasdaq 100 equal weight, Neutral UK, Neutral Japan, Overweight Asia ex Japan.

Thematic Equities

European Family Holdings, Asian Technology, Health Improving Technologies and Services, European Champions.

Fixed Income: Neutral

Long 1 to 3 years US Treasury Notes. Long 20+ years US Treasuries, Underweight Sovereigns. Overweight Investment Grade EUR and USD Bonds. Overweight High Yield in EUR and Underweight in USD. Long US inflation linker.

Thematic Fixed Income

Long Hybrids, Long Subordinated Financial Credit.

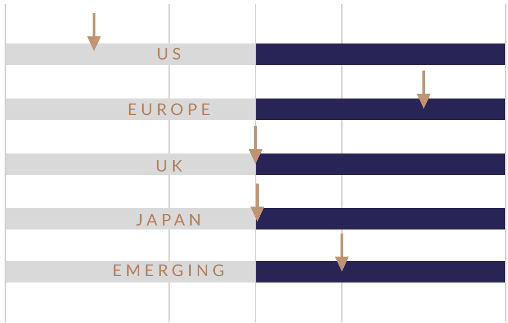
Currencies: Long Turkish Lira against Euro.

Commodities: Overweight

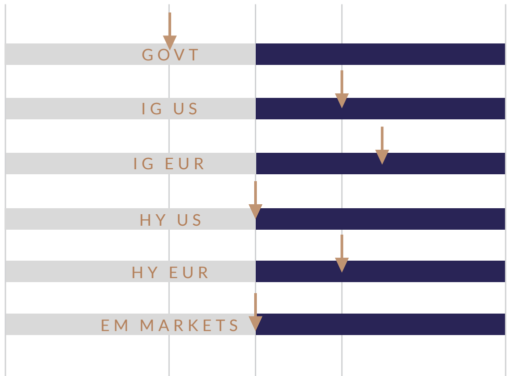
Long Gold.

Conviction thermometer

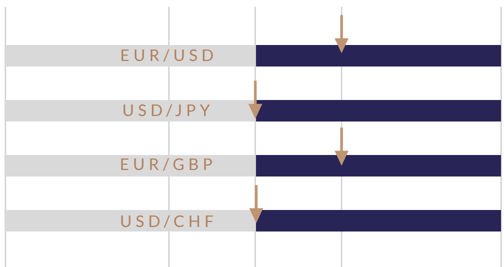
Equities



Bonds



Currencies



Commodities

Negative view Positive view

Market overview as of 30th April 2025

Equities (local ccies)	Level	5D	MTD	YTD
MSCI WORLD HEDGED USD	1 988,90	3,35%	-0,38%	-2,95%
US S&P500	5 569,06	3,60%	-0,68%	-4,93%
MAGNIFICENT 7 (CAP WEIGT.)	144,33	4,79%	0,08%	-14,69%
NASDAQ 100	19 571,02	4,71%	1,55%	-6,65%
EUROPE EURO STOXX 50	5 160,22	1,42%	-1,06%	6,53%
GERMANY DAX	22 496,98	2,44%	1,50%	13,00%
FRANCE CAC40	7 593,87	1,77%	-1,99%	3,69%
BELGIUM BEL20	4 429,51	3,49%	2,31%	4,15%
SWISS MARKET INDEX	12 116,98	2,61%	-2,49%	7,25%
UK FTSE100	8 494,85	1,16%	-0,67%	5,40%
RUSSELL 2000	1 964,12	2,36%	-2,31%	-11,58%
JAPAN TOPIX	2 667,29	3,21%	0,32%	-3,06%
MSCI EMERGING	1 113	1,61%	1,34%	4,37%
MEXICO MEXBOL	56 259,28	0,94%	7,47%	14,18%
HONG KONG HANG SENG	22 119,41	0,39%	-4,01%	11,43%
CHINA CSI 300	3 770,57	-0,39%	-2,86%	-3,82%
INDIA SENSEX	77 414,92	0,18%	3,67%	2,94%
KOREA KOSPI	2 556,61	1,24%	3,12%	7,76%
HANG SENG TECH	5 087,42	0,75%	-5,47%	14,21%
AUSTRALIA ALL-SHARE	4 594,05	1,31%	-0,25%	4,24%

US: Sectors	Level	5D	MTD	YTD
COMMUNICATION SVCS	321,68	3,65%	0,75%	-5,50%
CONSUMER DISCRETIONARY	1 570,08	3,61%	-0,32%	-14,08%
CONSUMER STAPLES	902,34	0,14%	1,23%	6,53%
ENERGY	617,47	-0,99%	-13,65%	-4,83%
FINANCIALS	811,11	2,24%	-2,08%	1,33%
HEALTH CARE	1 637,04	3,54%	-3,70%	2,60%
INDUSTRIALS	1 111,41	4,05%	0,19%	0,00%
INFORMATION TECHNOLOGY	4 083,59	5,84%	1,62%	-11,24%
MATERIALS	529,86	2,90%	-2,17%	0,58%
REAL ESTATE	259,37	2,13%	-1,20%	2,34%
UTILITIES	400,99	0,75%	0,10%	5,04%

EUROPE: Sectors	Level	5D	MTD	YTD
BASIC MATERIALS	2 642,23	0,38%	-2,01%	2,41%
CONSUMER GOODS	4 048,28	0,99%	2,88%	9,46%
CONSUMER SERVICES	1 431,86	1,05%	-1,64%	6,40%
FINANCIALS	1 261,59	1,46%	0,48%	17,83%
HEALTH CARE	3 519,31	4,43%	-3,07%	1,66%
INDUSTRIALS	4 390,51	3,39%	-0,45%	6,55%
OIL & GAS	1 371,01	0,41%	-12,11%	1,31%
TECHNOLOGY	1 861,79	3,15%	-0,31%	3,11%
TELECOMS	677,89	-0,47%	-0,08%	12,96%
UTILITIES	2 312,01	3,08%	5,24%	17,57%

Market overview as of 30th April 2025

Fixed Income	Level	5D	MTD	YTD
Pan-Euro 3-5 yrs IG	216,63	0,33%	1,10%	1,71%
Euro Aggregate	245,61	0,30%	1,67%	0,76%
Pan-Euro HY Hedged Eur	457,49	0,15%	0,25%	0,88%
Global Inflation hedged EUR	236,79	0,99%	0,15%	1,61%
US Corp High Yield	2 264,90	0,45%	-0,02%	0,98%
EM USD Aggregate TR	1 260,87	0,82%	-0,05%	2,29%
EM Aggregate TR Local Ccy	154,86	0,85%	2,43%	4,08%
EUR Banks CoCo Tier 1	161,66	0,41%	-0,41%	1,08%
EU GOVT HEDGED EUR	215,45	0,49%	1,90%	0,87%
Global Aggregate	2 554,99	0,92%	2,94%	5,65%

Commodities	Level	5D	MTD	YTD
GOLD	3 288,71	0,01%	5,29%	25,31%
COPPER	456,00	-5,85%	-9,42%	13,25%
OIL WTI	58,21	-6,52%	-18,56%	-18,84%
OIL BRENT	63,12	-4,54%	-15,55%	-15,43%

Currencies	Rate	5D	MTD	YTD
EURUSD	1,1328	0,11%	4,73%	9,41%
GBPUSD	1,3329	0,57%	3,18%	6,50%
USDJPY	143,0700	-0,26%	-4,59%	-8,99%
USDCHF	0,8258	-0,58%	-6,62%	-8,99%
AUDUSD	0,6402	0,66%	2,48%	3,46%
EURCHF	0,9360	-0,42%	-2,13%	-0,43%
USDCNY	7,2714	-0,22%	0,20%	-0,38%
USDKRW	1 471,95	1,64%	-3,30%	
USDBRL	6,1774	1,76%	3,45%	-7,55%
USDTRY	38,4933	0,49%	1,44%	8,88%
BITCOIN	94 581,18	0,96%	14,75%	0,93%