APRICUS FINANCE

WEALTH MANAGEMENT

Note post 'Liberation Day'

What happened

- April 2nd tariffs announcement is an exogenous shock with potentially severe consequences for the world economy.
- Tariffs were higher than expected. Tariffs on specific sectors such as pharma have yet to be announced.
- High tariffs of 46% on 'friendly' Vietnam, where many US and foreign companies reshored after the first Trump administration were a surprise to most. It is probably viewed as a 'collateral' damage done on China by the White House.
- Nobody believes that the importer or the producer will pay the new duties to finance the tax cuts. The Chinese producer/importer of the 5 USD plastic garden chair is unlikely to have a profit margin allowing him to pay the 54% tariff.
- Therefore, it will be a tax on already strained middle and lower-income US consumers.

Economic Impact on the US

- It is likely to push the US into recession and inflation higher: this will complicate the central bank's job.
- From stocks, (lower earnings or margins), to rates, to Gold and to commodities such as crude oil the markets went on to price that probability.

A shift in World Trade in sight

- It could result in the formation of 'new' economic zones: 'rivals' India and China just signed a historic bilateral agreement, likely in anticipation of Trump's tariffs.
- We could also see strengthened ties between Europe and this new 'India-China' axis.

Europe: ECB and fiscal spending

- The European Central Bank will continue to cut rates, in Europe the inflation, unlike the US, is under control.
- European countries will likely increase fiscal spending even more. Countries with, in theory, limited financial room like France will find ways to do it. Brussels will not stop them.

Reactions from the World

- The announced tariffs could be revised higher, in case countries do retaliate. China just did so. Europe gave itself until the 15th for an answer: we believe it is essentially giving Trump 10 days to rethink his actions, before retaliating. An obvious target could be big US tech companies. An esay target might be the new trump supporters – the tech titans.
- We believe if Trump doesn't change idea, Europe will retaliate. Unity in Europe will be essential. One or two 'US friendly' countries such as Hungary or Poland disagreeing and not joining the retaliation will not be seen as significant.

Market Positioning

- Institutional investors are not panicking: from prime brokerage data from Goldman Sachs and JP Morgan we know that institutionals and Hedge Funds have been reducing equity exposure in March. They are therefore 'light' in equities.
- In March Apricus Finance decided to go underweight US technology.
- At a certain point, rebalancing towards equities by these financial actors could provide some support for the market.
- For retail investors the situation is different: they might be panicking as until recently they bought the 'dips' every time they presented themselves.

Looking forward

- Exogenous shocks normally have a temporary effect on financial markets. However, this time is different as it is politically driven.
- It means its trajectory is uncertain, and therefore the regime of 'uncertainty' might continue, impacting markets further. While uncertainty prevails, financial markets do not know where the 'new' equilibrium level lies.
- Markets' volatility is likely to stay higher for longer.

A US Central Bank put?

- We could have another variable: The US Federal Reserve coming to the rescue of the stock market. As of yesterday, there was little chance that the Fed might lower rates at its upcoming May meeting. At the time of writing the market is discounting a 100% chance of a rate cut in May, some probability of an emergency rate cut earlier, and 1.25% of rate cuts for 2025 alone.

Our positioning

- We decided not to change our current positioning. The uncertainty is too high to take radical decisions.
- We are underweight equities. We have a large underweight US versus Eurozone. We are underweight US technology mega caps.
- In 2025 we improved the quality of our fixed income exposure, and extended duration.
- We own a position in short-dated US inflation-linkers.
- After currency hedging, we have a limited 5% exposure to the USD.
- We have a Gold position of 5 to 7% in the portfolios.