FIDEURAM INTESA SANPAOLO PRIVATE BANKING Asset Management

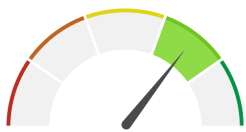
Fideuram Asset Management's View

Edition 02.2025

Macroeconomic Scenario

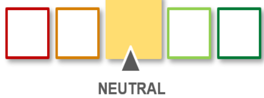
The economic policy decisions of the new Trump administration, particularly on fiscal and trade issues, remain a key focus for markets. Compared to our baseline scenario, current risks appear skewed to the upside on tariffs and to the downside on fiscal expansion. The deterioration in US-European relations is expected to lead to increased defence spending in Europe, while the outcome of the German elections could lead to a fiscal stimulus that may be significant in the medium term. However, we have not made significant changes to our global growth and inflation outlook or to our expectations for upcoming central bank decisions. We expect the ECB to cut rates at its next three meetings and again in September, while we maintain our forecast for two further rate cuts by the Fed this year.

Equity Markets



Equity exposure remains between neutral and slightly overweight. This constructive stance is based on still solid earnings growth expectations, which are gradually extending beyond technology to a number of other sectors. Some adjustments have been made to portfolio positioning, mainly through greater thematic and style diversification within US equities, which remain slightly overweight. However, the extent of this overweighting is limited, reflecting increased uncertainty and the risk of volatility stemming from trade policy developments and labour market dynamics. We remain broadly neutral on other regions, where earnings growth has improved year-on-year but remains below that of the US. Within the overall neutral exposure to emerging markets, the relative preference for China has been confirmed, driven by an improved perception of a lower political risk premium as a result of the government's evolving stance towards the private sector.

Europe

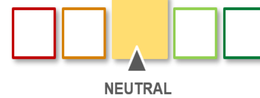


NEUTRAL

United States

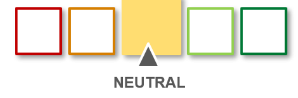
SLIGHTLY POSITIVE

Japan



NEUTRAL

Emerging Markets



NEUTRAL

Bond Markets

The bond component of the portfolios is positioned with a slightly longer duration than the benchmarks and a preference for high quality credit risk, such as investment grade corporate bonds and subordinated financial debt. The positioning in government bonds remains neutral, but we favour the eurozone over the US, given the clearer trajectory of the ECB's monetary policy. Recently, however, we have slightly reduced exposure to the longer end of the European government bond curve in favour of high-quality corporate bonds, reinforcing our relative preference in the balance between credit and government bonds in the Eurozone. This decision reflects early signs of macroeconomic stabilisation in Europe and allows positioning in segments of the curve that are more sensitive to the ECB's rate-cutting path, without altering the overall slight duration overweight. Overall credit exposure remains limited, given our cautious stance on high-yield bonds and our broadly neutral view on emerging markets. We do not believe that asset classes with a higher credit risk are vulnerable to a significant increase in defaults, but the still constructive opinion of the equity market and greater macroeconomic uncertainty make us prefer higher-rated issuers.

Government

NEUTRAL

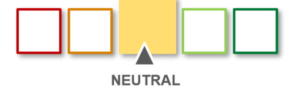
Corporate

SLIGHTLY POSITIVE

High Yield

SLIGHTLY NEGATIVE

Emerging Markets



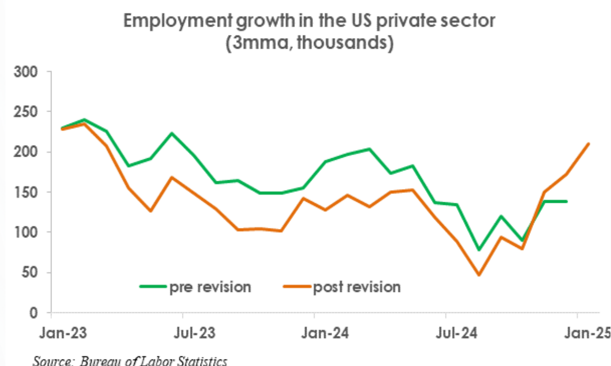
NEUTRAL

Content updated as of february 27th, 2025

USA: America first

The new US administration has been rather frenetic so far, with **fairly aggressive trade policy plans**, although only the 10% tariff increase on China has actually come into effect. On the other hand, the fiscal expansion being worked on by Congress appears to be more modest than expected. **The economy is likely to have slowed somewhat at the beginning of the year**, partly due to temporary factors (such as adverse weather conditions), although labour market indicators have generally been very strong in recent months. Our baseline scenario is still for **two rate cuts by the Fed in the coming months** (at the June and September meetings), but the risk that the Fed may not be able to cut rates at all in 2025 has increased significantly.

Recent revisions to the data suggest that employment growth is clearly accelerating

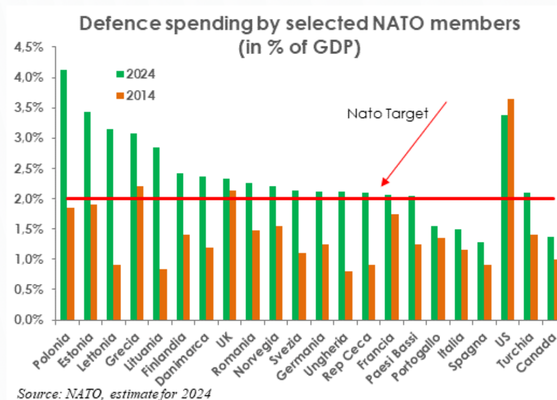


Source: Bureau of Labor Statistics

Euro Area: The moment of reckoning

The US disengagement from European security is **forcing Europe to develop its own defence strategy** and rethink its fiscal policies. The political debate at the European level is intensifying. The German elections have made a two-party coalition (CDU/SPD) possible, although the "centrist" parties fall short of a two-thirds majority. However, the new leadership seems determined to use fiscal policy as a tool. Europe is also awaiting **the "reciprocal" tariffs from the US, due to take effect in April**, which will impact key sectors (such as the automotive industry). At the same time, **a possible resolution of the conflict in Ukraine** could have a positive impact, depending on how it is implemented (whether as a ceasefire or a credible peace agreement). **The ECB will cut rates again at its March meeting**, with further cuts expected in April and June.

The Trump administration is pushing for further increases in defence spending by NATO members

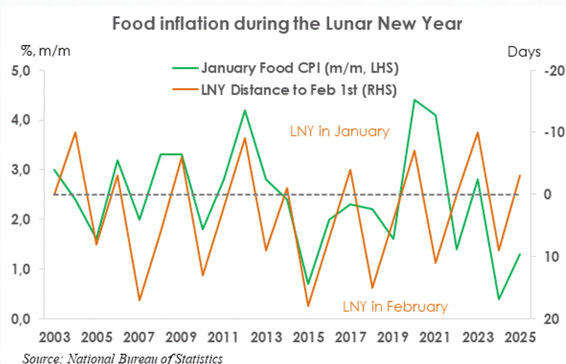


Source: NATO, estimate for 2024

China: the trade war resumes

High-frequency data, in the absence of official figures for the first two months of the year due to the New Year holidays, **confirm the fragility of economic growth.** Business confidence in the manufacturing sector fell below 50 in January for the first time in three months, a much sharper decline than the historical average. **The 10% tariff increase on all exports to the US** from 4 February was lower than expected, but implemented more quickly than anticipated, **with an estimated impact on growth of around -0.5%, partly offset by government measures.** For the time being, we maintain our growth forecast for the year at 4.6%, albeit with significant downside risks related to the US tariff decisions.

The seasonal effect of the Chinese New Year on food inflation has been weaker than in the past



Source: National Bureau of Statistics

Fideuram Asset Management Economic Forecast

	GDP			Inflation			Monetary Policy Rate		
	2024	2025*	2026*	2024	2025*	2026*	2024	2025*	2026*
US	2,8	2,4	2,2	3,0	2,8	2,6	4,38	3,88	3,63
Eurozone	0,7	0,8	1,0	2,4	2,3	1,9	3,00	1,75	1,75
Japan	0,1	1,1	0,7	2,7	2,8	2,0	0,25	0,75	1,00
China	5,0	4,6	4,0	0,2	0,7	1,2	2,00	1,70	1,70

Annual average growth, monetary policy rates are end of period. Depo rate for ECB.

** Fideuram Asset Management Forecasts*

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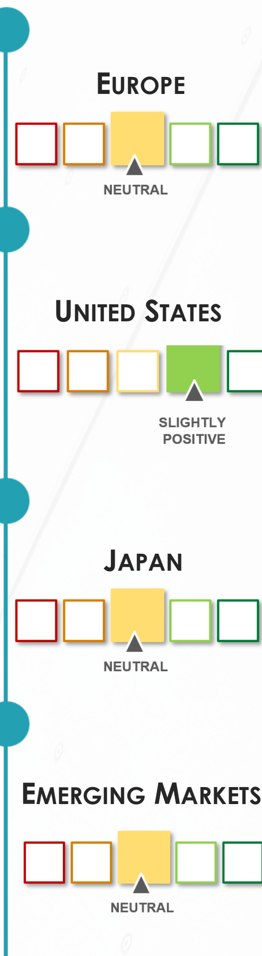
INVESTMENT VIEW

Equity Markets



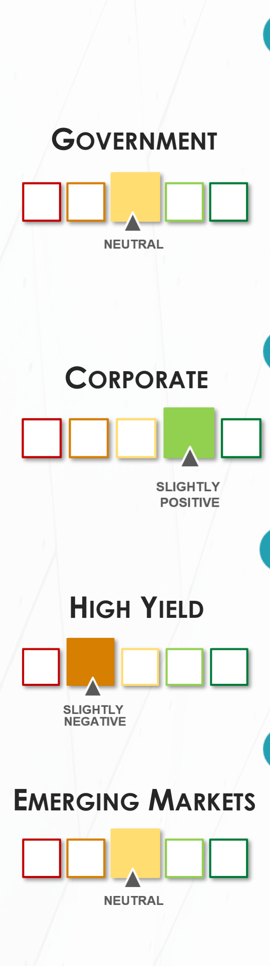
European market valuations are low, with recent euro weakness and ECB rate cuts providing macroeconomic support, while corporate earnings are showing positive signs. The outcome of the German elections has raised expectations of greater fiscal flexibility. However, the economic cycle remains uncertain, with risks related to US trade and tariff policy. We remain neutral but are positive on the financial sector.

We remain positive on the US market as earnings growth is now more broadly based across sectors. However, increased macroeconomic uncertainty suggests only a limited overweight position. We remain ready to increase exposure in the event of a market correction. The broader earnings distribution also leads us to favour a market expansion strategy, reflected in the portfolios through equally-weighted, value-oriented investments or sectors that have lagged in performance but are seeing earnings improvements, such as pharmaceuticals and, sometimes, smaller capitalisation stocks.

The Japanese market is supported by strong fundamentals and a favourable macroeconomic environment. However, we do not hold a significant active position as near-term earnings growth is weaker than in the US. This is despite balance sheet restructuring and a more favourable inflation dynamic, which are expected to lead to higher margins. Valuations are moderate and have room to rise in line with improving corporate profitability.

Overall, we remain neutral on emerging market equities due to the uncertainty surrounding tariffs and, more broadly, the evolution of US trade policy. Within emerging markets, however, we are overweight China - not so much because of expectations of fiscal stimulus announcements or a more favourable macroeconomic and earnings outlook, but rather because of the government's increased support for the private sector, particularly the technology sector, which contributes to a perception of lower risk premiums and improved valuations.

Bond Markets



We maintain an overall neutral positioning with a preference for the Eurozone component, where the cyclical outlook is weaker and we expect the ECB to cut rates more than the market is currently pricing in. In the US, we maintain a neutral stance, as the cyclical strength and uncertainty surrounding the impact of Trump's economic policies leave the yield curve more vulnerable, should macroeconomic data indicate risks of overheating. Nevertheless, our baseline scenario still anticipates a trend marked by disinflation and monetary easing, that despite being slower than our previous expectations, leaves medium to long-term rates within their fair valuation range.

The total return offered by the high-quality corporate bond sector is still attractive thanks to the base rate, which gives a certain degree of defensiveness for the asset class even under more uncertain macroeconomic conditions, and the contribution of spreads that, although relatively narrow and net of short-term movements, can still offer an extra return compared to government bonds in a still constructive scenario.

Default rates, despite the increase in the cost of capital, are still relatively low. However, even with attractive expected returns on a historical basis, we remain underweight as we prefer equities among the risky assets, at least until companies continue to show capacity for growth and an upward revision of earnings, and even to limit the credit risk that may be generated due to the Fed maintaining high rates.

In general, we maintain a degree of caution about the more volatile and lower quality components of the bond segment, preferring equity exposure instead. Emerging market bonds, particularly those denominated in local currency, offer a relatively attractive carry, which is the reason for the neutral position. However, uncertainty on the political and currency fronts for the potential for additional trade tariffs tempers our enthusiasm.

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EQUITY MARKETS

Still favouring the US through broader exposure

Within equities, thematic and style diversification has increased in the US, which is the one market where we remain slightly overweight. Here, the gradual narrowing of the gap in earnings growth between the mega-cap tech stocks (the "Magnificent 7") and the rest of the market, coupled with significant valuation gaps and uncertainty over the returns on large investments in innovative sectors, has favoured a period of geographic and sector rotation towards more value-oriented segments.

While we recognise the resilience of corporate earnings amid a gradual slowdown in the US economy, valuations remain elevated and risks related to monetary and trade policy developments could lead to increased volatility. For this reason, we maintain a limited overweight position, leaving room to take advantage of more attractive entry points in the event of market corrections.

European markets started the year on a positive note, supported by lower valuations compared with the US and positive macroeconomic and corporate earnings surprises. However, tensions with the US administration (over tariffs and the Russia-Ukraine conflict) and political developments in Germany and France lead us to maintain a neutral positioning. The ECB has room to maintain its accommodative stance and a potential resolution of the Ukraine conflict could support cyclical sectors, but the terms of any agreement remain unclear.

In Japan, the consolidation phase continues, with reflationary trends persisting as wages and inflation accelerate, while companies benefit from corporate governance reforms and gradual upward revisions of earnings. Our medium-term view remains constructive, but in the short term we are avoiding significant exposure due to internal macro (GDP growth, Bank of Japan monetary policy) and international (US trade policy) uncertainties.

Emerging markets remain mixed: in Latin America, currency issues and tariff concerns persist, while in Asia we maintain our relative overweight in China where we believe that the Chinese government's more open stance towards the private sector and the rise of open source technologies (such as Deepseek) have contributed to a lower risk premium and upward earnings revisions, particularly in the technology sector. Domestically, upcoming key political events - the Communist Party meeting on 5 March and the Politburo meeting in April - will provide insight into growth targets and potential fiscal approaches. In addition, the issue of trade tariffs is expected to become clearer in the spring.

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BOND MARKETS

CONTINUED SUPPORT FOR (HIGH QUALITY) CREDIT

The positioning of the bond portfolio remains slightly longer in duration than the benchmarks, with a focus on high quality credit (investment-grade corporates and subordinated financial debt) and a neutral exposure to government bonds, with a preference for the European segment.

Our positioning in government bonds remains neutral, with a relative preference for the Eurozone over the US. However, we have limited exposure to the long end of the curve, which seems more prone to volatility.

The clearer path of ECB interest rates and some signs of cyclical stabilisation lead us to express our duration overweight more through high-quality credit, allowing the portfolio to be positioned in segments of the curve that are more sensitive to monetary policy developments.

We believe the intermediate segments are more influenced by trade negotiations, cyclical trends and the direction of ECB policy. The German coalition agreement has not eliminated the risk of a deadlock on potential fiscal reforms, while French and Italian spreads appear to be in line with fundamentals, leaving little room for further tightening.

In the US, the yield curve has been affected by labour market data, the continued, albeit uneven, decline in inflation and the reduction in the fiscal risk premium, driven by expectations of lower public spending. These levels are within our fair valuation range and consistent with our baseline scenario, prompting us to take on a neutral stance.

Within credit, we remain overweight in the investment grade segment, which offers low volatility and a yield pick-up in a segment with a duration aligned with our preferred curve positioning.

The high-yield segment offers historically high yields and fundamentals that have held up despite recent interest rate rises, with only moderate and gradual increases in default rates. However, we prefer to allocate the risk budget to equities, which are more directly correlated to corporate profitability. We therefore maintain a cautious approach, taking into account upcoming refinancing needs and uncertainties regarding the Fed's policy path.

We also remain neutral on emerging market bonds, which remain vulnerable to tariff-related developments, opting instead for less volatile bond components.

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