

Month Overview

This month's dominant economic themes were persistent inflation and volatile trade dynamics. While central banks are grappling with the challenge of controlling inflation, the volatility stems primarily from the US administration's unpredictable trade announcements, spearheaded by President Trump. This strategy, characterized by bold pronouncements followed by potential revisions, creates significant uncertainty in global trade. The administration's approach, aimed to initiate negotiations with its trading partners, has already targeted Canada and Mexico. Other nations in Asia and Europe with trade surpluses with the US are likely to be the next target.

On the geopolitical front, recent discussions on the Ukraine conflict suggest a potential ceasefire. However, rising tensions between the U.S. and its allies by month's end could pose new challenges. While the end of hostilities would be welcome, the economic consequences could be significant.

Although U.S. government decisions and announcements are relevant driver of market sentiment, they are not the only factors influencing current market movements. Slower GDP growth in Q4 and a decline in consumer confidence are adding to market uncertainty, as reflected in the VIX surpassing the 20 mark—the key threshold for market stress. U.S. equity markets are experiencing outflows, with European and select Asian markets benefiting from the shift in capital allocation.

Economic Environment

The disinflation trend observed over the past two years is losing momentum in several countries. Many, including the U.S., reported either marginal increases or flat year-over-year inflation rates. This development is concerning, as it suggests central banks will likely maintain restrictive monetary policies by holding interest rates, potentially hindering future growth. In the U.S., housing costs and service sector wages are key drivers of persistent inflation. Additionally, rising import prices would contribute to a challenging outlook, with limited near-term improvement expected. If economic growth slows while inflation remains elevated or rises, the risk of stagflation could resurface, heightening market uncertainty and investor concerns.

In the medium to long term, higher tariffs may push exporters to adjust by shifting production or investing in efficiency. Some nations might also open their markets by reducing import tariffs, reshaping global competition. While short-term impacts are predictable, long-term effects remain uncertain, with both potential benefits and drawbacks.

Equity

The U.S. equity markets have underperformed compared to their global peers. Both the S&P 500 and NASDAQ posted negative returns this month, with the correction being more pronounced in the NASDAQ, where major stocks like NVIDIA

experienced significant declines. The technology sector has had the worst performance so far. In contrast, European markets, which had a strong start, continued to perform well in February, with many posting double-digit returns after just two months. In Asia, favored markets like India and Japan, which performed well last year, faced another difficult month, accumulating losses. On the other hand, China has been performing better.

Fixed Income

While U.S. Treasury rates could have risen due to persistent inflation, the opposite occurred, with yields declining notably across the curve from the one-year maturity onward. This downward movement was most likely driven by growing concerns over economic growth. The decline in both Treasury yields, and the U.S. dollar may signal a broader shift in market expectations regarding economic growth, monetary policy, and risk sentiment. The U.S. 10-year Treasury yield fell to 4.23% from 4.54%, providing a welcome boost for investors with medium to long-duration exposure. European and U.K. 10-year yields also declined, albeit to a lesser extent, as their movements remain influenced by U.S. rate trends. However, Swiss yields diverged, rising further as investors rotated out of traditionally safe Swiss bonds in favor of other fixed-income assets with stronger return prospects. Year-to-date, both U.S. and European fixed-income markets have delivered superior returns, reflecting a more favorable environment for bond investors paradoxically prompted by heightening concerns.

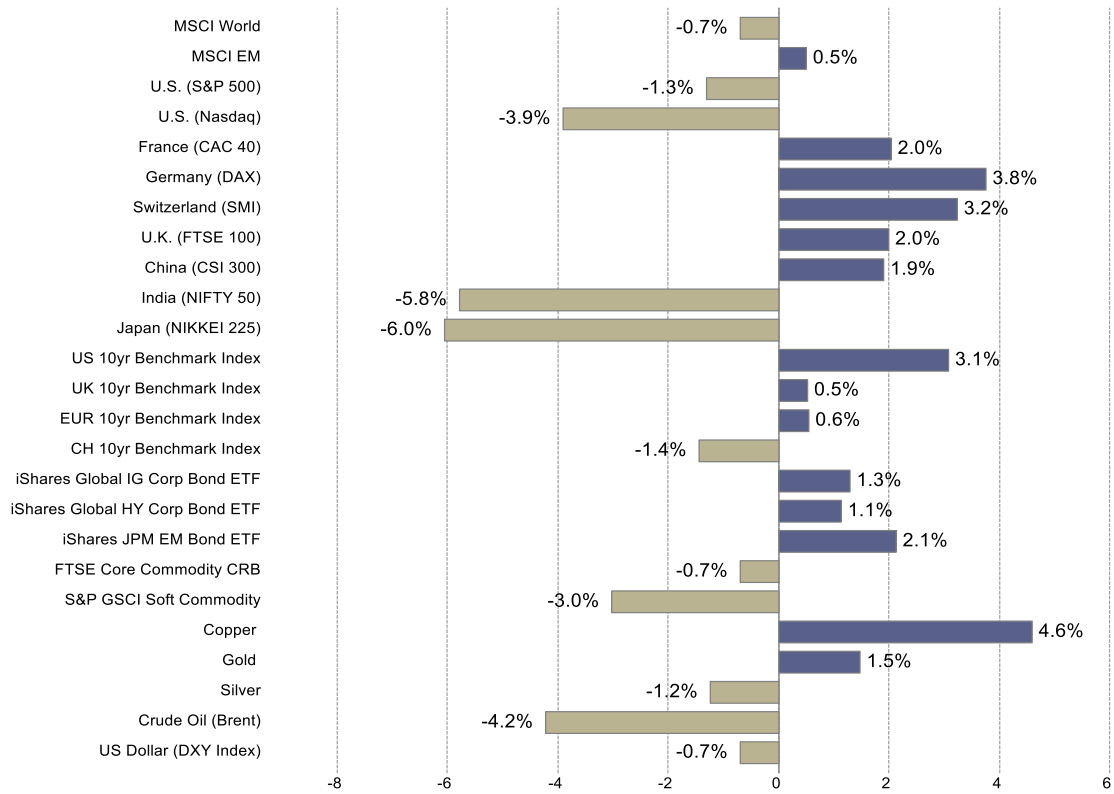
Commodity

Gold prices have reached new highs, driven by ongoing geopolitical tensions and strong demand, with prices approaching \$3,000 per ounce. Inflation risks, solid demand from China and India, and geopolitical uncertainties are the key factors behind this record pricing. Meanwhile, oil prices have fluctuated due to supply concerns and geopolitical developments. After surging above \$80 per barrel in mid-January, prices have now returned to the lower range seen over the past three years, suggesting potentially softer demand moving forward.

Currency

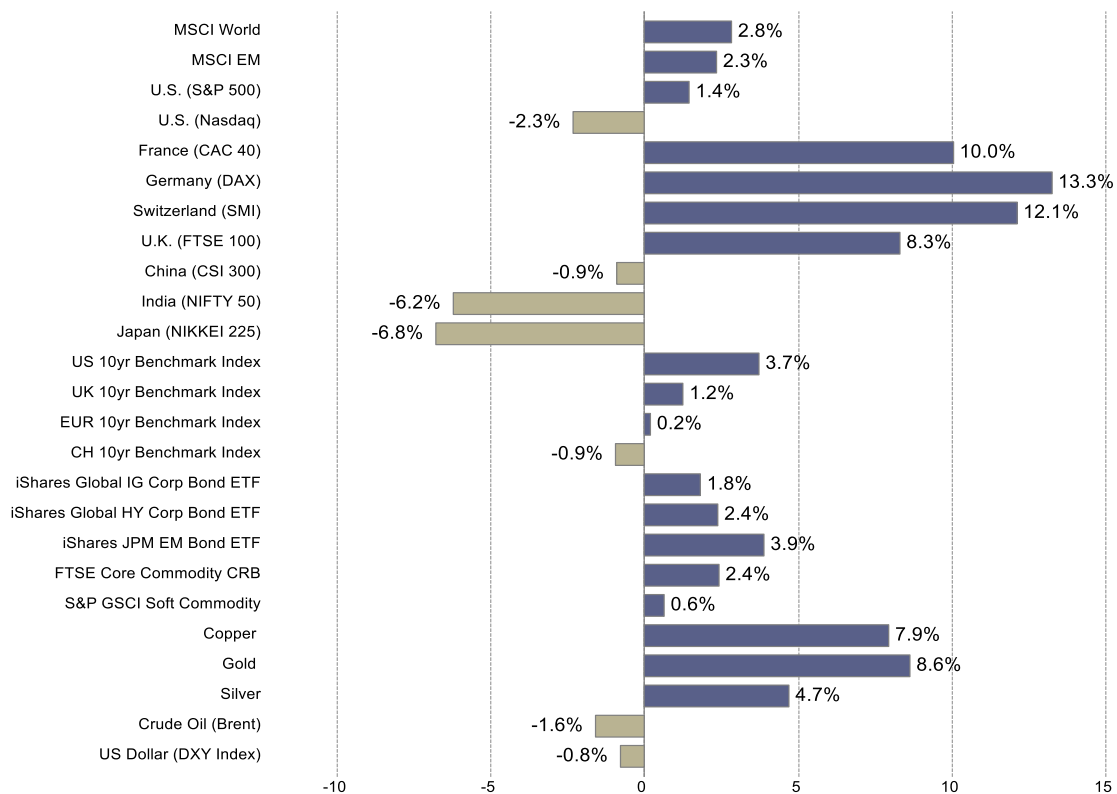
The U.S. dollar has depreciated partly due to persistent inflationary pressures and disappointing economic data. The DXY has declined for the second consecutive month this year, driven by a stronger euro, even though the Eurozone is projected to experience slower economic growth in 2025. Additionally, the rebalancing of equity investments from U.S. to European markets may have contributed to the downward pressure on the U.S. dollar. Looking ahead, the implementation of tariffs in the coming months is likely to introduce further volatility.

February 2025 Performance



Source: LSEG Datastream, Anarosa Asset Management AG

Year-To-Date Performance (until 28.02.2025)



Source: LSEG Datastream, Anarosa Asset Management AG

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