



## Market Compass

April 2025

### MARKET OUTLOOK

- If fully implemented and followed by retaliation, the sanctions announced by the Trump administration would create a self-inflicted stagflation shock for the US economy and severely constrain growth in the Euro Area.
- We expect the Fed to look through the shock to the price level and act quickly to prevent recession. We now expect three rate cuts. We also increase to three the cuts the ECB will implement.
- Hopes of a short-term de-escalation are limited, but are more balanced medium term, especially as the 2026 US mid-term elections approach.
- Rising recession fears should support fixed income assets relative to equity (for which we further reduce overweight), we particularly like Investment Grade (IG) credit. Euro Area spreads should be well behaved as the bulk of the fiscal and military efforts are born by Germany. Neutral duration in Euro Area bonds, small long position in the US.

Edited by  
**MACRO & MARKET  
RESEARCH TEAM**

A team of 13 analysts based in Paris, Cologne, Milan and Prague runs qualitative and quantitative analysis on macroeconomic and financial issues.

The team translates macro and quant views into investment ideas that feed into the investment process.

#### US

- ➖ The new tariffs will drastically cut growth...
- ➖ ...and temporarily push up inflation
- ➖ Political uncertainty likely to damp capex and hiring
- ⚠️ The Fed should cut rates three times this year

#### EUROZONE

- ⊕ Indicators show recovery before tariff hammer
- ➖ Trade war to drag on near term growth ...
- ⊕ ... but German bazooka to cushion fallout
- ⚠️ ECB to keep cutting until July

#### CHINA

- ⊕ Economic activity is bottoming out
- ⊕ Positive sentiment shift with further consumer support
- ➖ But high tariffs to substantially hit growth
- ➖ More fiscal support and monetary easing needed

#### JAPAN

- ➖ Tariffs will hit hard activity...
- ⊕ ... but solid wage gains could soften the blow in the short-term
- ⚠️ Growth slowdown may lead the BoJ to pause rate hikes

#### EMERGING MARKETS (EM)

- ⊕ Sound macro fundamentals but tariffs to hit growth
- ⊕ Weaker USD gives central banks leeway to ease
- ➖ Asia to be vulnerable, LatAm is a relative winner, EMEA neutral

- ⊕ Positive
- ➖ Negative
- ⚠️ Topics to watch

# DIRECTION OF TRAVEL

- Trim already small overweight (OW) equity.
- Keep IG credit OW, marginally preferring non financials.
- Maintain underweight (UW) euro government bonds, especially core, and reduce duration. Go Neutral Treasuries.
- Keep UW Cash.

## Equity

- Slightly underweight equities after Trump's recent decision on tariffs.
- Analysts may continue to slash earnings forecasts before any central bank's reaction.
- For these reasons, the market could experience a prolonged sell-off.
- Neutral EMU vs US. Overweight SMI and UK, India, Poland.

## Bonds

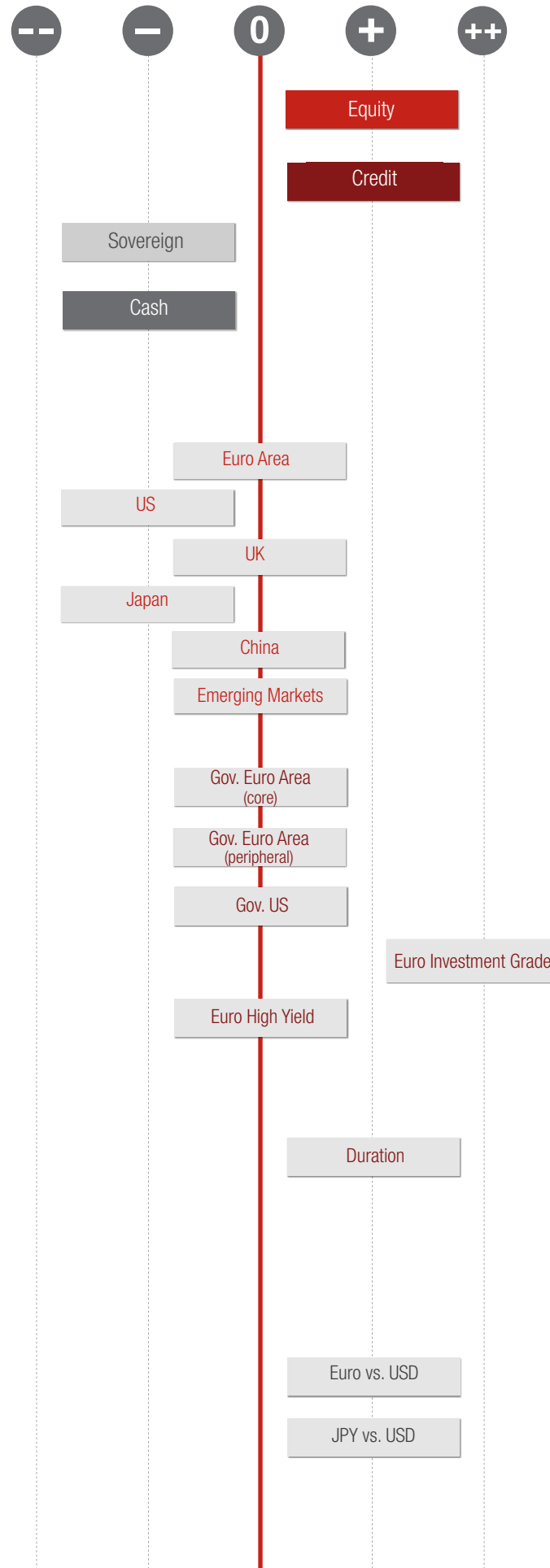
- The fiscal paradigm shift will lead to a higher yield environment in the Euro Area. Regardless, disinflation and ECB rate cuts are seen to trigger lower yields initially.
- The decreasing Bund premium will support other fixed income assets. Low spreads for longer.
- IG performance will be boosted by falling policy rates and very low default risk.

## Duration

- Neutral duration for Euro Area, moderately long duration for US.

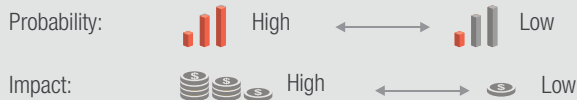
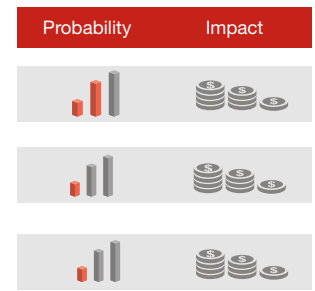
## Currencies

- Fading US exceptionalism and the damage of high US policy uncertainty on domestic growth and the USD safe haven status keep weighing on the greenback.
- Further fiscal support in the Euro Area is bolstering the EUR's outlook.



## TOPICS TO WATCH

- Strong Retaliation to US tariffs leads to a full blown trade war.
- De-escalation in trade tensions as deals are found.
- Geopolitical surprises (Middle East, Ukraine, Taiwan).



This document is based on information and opinions which Generali Asset Management S.p.A. Società di gestione del risparmio has obtained from sources within and outside of the Generali Group. While such information is believed to be reliable for the purposes used herein, no representation or warranty, expressed or implied, is made that such information or opinions are accurate or complete. The information, opinions estimates and forecasts expressed in this document are as of the date of this publication and represent only the judgment of Generali Asset Management S.p.A. Società di gestione del risparmio and may be subject to any change without notification. It shall not be considered as an explicit or implicit recommendation of investment strategy or as investment advice. Before subscribing an offer of investment services, each potential client shall be given every document provided by the regulations in force from time to time, documents to be carefully read by the client before making any investment choice. Generali Asset Management S.p.A. Società di gestione del risparmio may have taken or, and may in the future take, investment decisions for the portfolios it manages which are contrary to the views expressed herein. Generali Asset Management S.p.A. Società di gestione del risparmio relieves itself from any responsibility concerning mistakes or omissions and shall not be considered responsible in case of possible damages or losses related to the improper use of the information herein provided. It is recommended to look over the regulation, available on our website [www.generali-am.com](http://www.generali-am.com). Generali Asset Management S.p.A. Società di gestione del risparmio is part of the Generali Group which was established in 1831 in Trieste as Assicurazioni Generali Austro Italiane.

Find out more:  
[www.generali-investments.com](http://www.generali-investments.com)