APRICUS FINANCE

WEALTH MANAGEMENT

February 2025

Trump: Tariffs, Rock N' Roll and Doge

Quote from President Trump on 12.02.2025 on Truth Social: 'Interest Rates should be lowered, something which would go hand in hand with upcoming Tariffs!!! Lets Rock and Roll America!!'

The markets were at first very volatile on an intraday basis, being pulled up and down by Trump's raft of 'executive orders'. Trump's tariff approach so far has been one of rapid escalation and de-escalation. Following Canada, Mexico, and China, we think Europe is likely to be next. But some Southeast Asian countries are also likely to be at risk.

Nevertheless, US equity markets started 2025 on an optimistic note, rising almost 4% during the first weeks of January, as no feared 'blanket' tariffs were announced. Trump first imposed 25% tariffs on Mexico and Canada, on the grounds of illegal immigration and drug exports. The tariffs were withdrawn just a few hours later, as Mexico agreed to send thousands of soldiers to its border. Tariffs, of only 10%, were announced for China.

Several days later though, Trump imposed 25% on all aluminum and steel imports, including those coming from Mexico and Canada. To the rest of the world, he said he would soon announce 'retaliatory' reciprocal tariffs on everybody. Europe is still waiting.

Our readers will also note that Trump could still backtrack on the tariffs on China: the journey for the goods being shipped from China to the US takes a couple of weeks, and what is already 'on water' will not be taxed. So, the taxes will be effective only in a few weeks.

Nonetheless, considering that few things irritate Trump as much as a strong dollar or a falling stock market, we expect the tariff spat to de-escalate relatively quickly. The world can then move on to the next Trump-driven drama.

Then came DeepSeek.

Suddenly, the world woke up with the fact that China, despite all the sanctions to prevent it, is likely to be much more ahead in the AI and, in general, the technology space than what most observers, politicians and technology analysts thought. Chinese startup DeepSeek unveiled a revolutionary AI model that rivals leading US counterparts, such as Open AI's ChatGPT, for a fraction of the cost. This development has led investors to question the considerable investments made by the US tech giants. AI darling Nvidia lost 17% in a single day, or 600 billion dollars in market capitalization.

Immediately, skepticism arose among technology analysts about the effective development costs, and whether the company used and 'illegally surfed' on the back of an open-source AI model such as Llama, (which belongs to Meta). If that was true, then the billions of dollars that the various Meta, Microsoft or Amazon spent and will spend on AI infrastructure and data centers was/is justified.

The timing of the announcement of DeepSeek was highly symbolical: it was announced on Trump's inauguration day. It was only during the following weekend that people like us became aware of the company: it was the most downloaded app. That is why Nvidia fell on the following Monday.

We are not specialists. We cannot judge whether the AI model indeed has really been 'invented' by the Chinese company, or it is merely piggybacking on US companies.
However, we do believe that it is likely, in some

form or another, that, indeed, DeepSeek succeeded in developing the model. The circumstances of its launch have a lot of similarities with another product that sparked similar skepticism among analysts: the launch of the smartphone Mate 60 by Huawei in 2023, during the visit in China by then secretary of state Anthony Blinken. Huawei's smartphone business had been crushed by US sanctions. The Mate 60 was purported to feature a breakthrough in semiconductor chip technology. Despite US sanctions. If true, it would obviously worry Washington. Western analysts' comments ranged from 'they can't produce at scale', to 'they somehow managed to get hold of the 5G chip'.

Many Chinese consumers were eager to show their support for a product that had been accompanied by great nationalistic fanfare.

Well, they did produce at scale. Not only: fast forward 1 year, and Huawei launched the Mate 70. Huawei has now regained the top spot in market share in smartphones in China, ahead of Xiaomi and Apple.

Back then with Huawei, today with DeepSeek it is about national pride and technological prowess: that is why we think that actually a breakthrough in the technology has been achieved by China despite the sanctions. DeepSeek's announcement has been followed by a series of other announcements both in the AI space - Alibaba has announced to also have a competitive model, and in the EV space. This new AI-related catalyst has, in turn, sparked a hunt for beneficiaries from the country's advancement in large language models, and a return of enthusiasm for Chinese technology stocks by domestic investors, with Alibaba becoming the new AI darling.

And remember, China is a state economy, the lines between private and public being even more blurred after the state intervened a couple of years ago to control its mega techs. Whether for civilian or military use, the country has an army of talented engineers that they can put to work on special projects. AI has been identified by the country as a priority.

DOGE

Last month, we said that with this administration anything could happen, and nobody is safe: not the consumer protection bureau, not the department of education, not the IRS and not even the FBI or the army: Musk, DOGE and many in the administration are for the policy of the 'non-state'. We leave it to our readers to judge the methods of DOGE employees to reach their cost-cutting targets. What we do know for now is that their time is limited: by not being federal employees, they can work for the government for only 130 days a year. We will therefore see in 3 months' time the damage inflicted on the state's structure and its departments.

Trump has embraced leaders and donors in the tech industry, and many in Silicon Valley have rallied around him, since he won the presidency, to avoid its ire. With what the Trump administration and DOGE are doing, we might just be left with a crony economy, which is the worse version of an oligopoly from the mega caps, and citizens left to themselves: in some sort of a new Wild West.

From a geopolitical perspective, Trump has shown a taste for imperialism - talking about Canada as the 51st state or taking over the Panama Canal amongst others: this is in stark contrast to the MAGA, whereby the principle was more about 'isolation'.

War in Ukraine

As mentioned in January, we think that the main boost to the European economy from a 'freeze' of the Ukrainian conflict, or even better a truce, would be consumers spending again. The household saving rate in Europe is 20% higher than pre-war and trending higher.

Maybe buy a new car? After reaching 15.3 million cars sold in EU in 2019, last year only 13.2 million were sold, meanwhile the average age of the EU vehicle fleet just surpassed 12 years.

Financial Markets

Even before the potential 'truce' pushed by Washington, which obviously provided an extra-kick, Eurozone markets were clearly outperforming US ones, on the back of good results from companies ranging from Siemens to the banks. Unlike last year, when we had to extract Nvidia or all the Magnificent 7 from the S&P 500 to show that Eurozone markets, since late 2022, were outperforming the broader US market, this year we don't.

Year-to-date, there is currently only one Magnificent left: Meta, that, up 24%, is the company which is likely to embed and monetize AI more swiftly into its business model. As a group, the Magnificent 7 are up a mere 0.3%. That compares to the S&P 500, up 4%, US small caps are up 2%. Meanwhile Eurozone equities are up almost 12%, (data as of 13.02), and it is not only banks, (the sector is up 18% so far this year, after two stellar years in 2023 and 2024). For example, industrials are up 11%, and the chemical and car sectors are up 9%.

On a different, maybe fundamental note on Amazon, Microsoft, Alphabet and Meta, (and partially Apple), these companies are battling each other to the tune of billions of dollars of investments - particularly in the cloud and AI space.

For the first time they are competitors! Until just a couple of years ago they each had their monopoly, be it in online sales or internet searches. Now they are battling each other in the same space.

Also, their business models used to be 'CAPEX-light'. It has obviously become CAPEX intensive: the four companies are expected to spend a cumulative USD 325 billion in 2025, a 46% increase on the roughly USD 223 billion those companies reported spending in 2024. So, the questions around the 'Return On Investment' of these companies, and hence their valuations, is legitimate, especially now, if there is much cheaper competition from China - even if it is indeed a copycat.

Gold

Gold continued to rally at a swift pace. While the argument about developing countries' central banks continuing to purchase the metal to diversify their reserves still holds, since election day, US investors have piled into gold futures. On one side, this is due to concerns that Trump's tariffs could eventually extend to raw materials coming into the US, on the other, by portfolio managers and private investors seeing the diversification benefits of having an allocation to the precious metal.

This has led to a doubling of gold inventories at the COMEX exchange. Gold in the US has been trading at a premium since the election and has sparked an arbitrage with physical gold in Europe. As a result, from the word of the Bank of England, the flow of gold to the US has reduced stocks in London. In January more than 150 tons of gold left the capital, according to the London Bullion Market Association. Of this, about 100 tons left the Bank of England's vaults.

As a result, the wait for the withdrawing of gold from the Bank of England has risen from just a few days to between four and eight weeks, (source Financial Times).

Gold is currently up 11% since the beginning of the year, and not even the prospect of at least of a ceasefire in Ukraine has dented its rally.

Economy

US inflation is stubbornly high. Core PCE has stagnated at an elevated level, above 2.6%, for almost one year. The current inflation scare, on the prices of eggs, will not improve the sentiment of the average American consumer that inflation is still too high, and no executive order from the President will change that.

The US Federal Reserve has admitted that it is in no hurry to lower rates, and a realistic scenario is that it is more and more likely that they won't change in 2025. Unless, of course, President Trump steps in, even if legally he has no authority over the Central Bank, we know he doesn't abide to any rules but his own.

In Europe, in contrast, inflation continues to normalize and trend down, and we reassert our forecast that we expect the ECB to cut rates at every meeting until they are sub 2%.

We expect slower but solid US growth. Tax cuts and deregulation may further boost the US economy, while tariffs, depending on their magnitude, will be a headwind for most sectors.

Growth of core Europe will largely depend on Germany's fiscal flexibility after the election, (we mentioned the partial end to the 'debt brake' or Schuldenbremse in the past). Peripheral Europe should continue to outperform. We expect growth, in general, to improve on lower interest rates, while tariffs remain a headwind.

Strategy

As discussed last month, our next move is likely to go underweight the US technology mega caps in favor of the wider US market. We are holding off for the moment and will likely take a decision after the results of the mammoth Nvidia, which will land on our screens towards the end of the month.

Equity

We keep an overweight in Eurozone equities versus the US broader market, while being neutral in the technology sector.

Fixed income

We continue to favor exposure to credit versus duration. We have exposure to investment grade credit, European high yield, hybrids, financials' subordinated debt, US municipal infrastructure and Asian hard currency debt.

Foreign Exchange

The Japanese YEN exposure is mostly hedged, while we do keep a 5% exposure to the US Dollar.

Gold

We continue to keep our allocation to Gold at about 5%. It continues to be a good diversifier in a multi-asset portfolio.

Conclusion

The perspective of lower rates going forward and continuing disinflationary trends are supportive for equity markets, fixed income, and thus a balanced portfolio.

Positioning

Overall Exposure

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

Equity: Neutral

We have an Overweight to the Eurozone and an Underweight in US equities, Slight 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.

Thematic Fixed Income

Long US Municipal Infrastructure Bonds, Long Hybrids, Long Subordinated Financial Credit & Long Asian Bonds in hard currency.

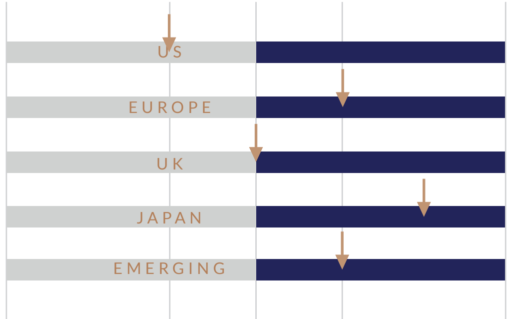
Currencies: Portfolios have a 5 % USD exposure. Long Turkish Lira against Euro.

Commodities: Overweight

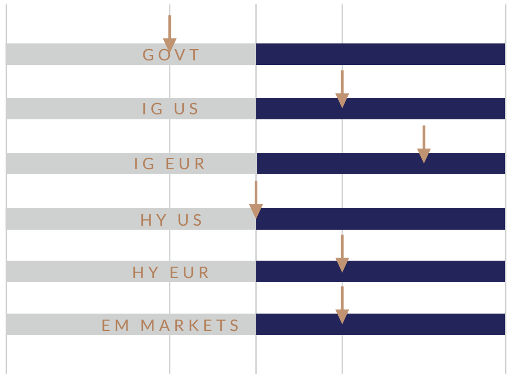
Long Gold.

Conviction thermometer

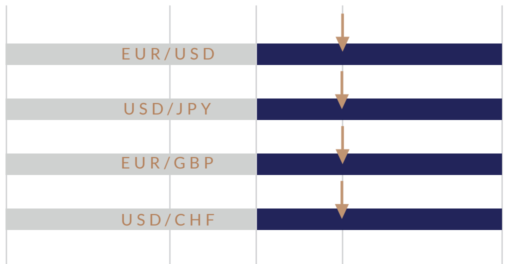
Equities



Bonds



Currencies



Commodities

Negative view Positive view

Market overview as of 31st January 2025

Equities (local ccies)	Level	5D	MTD	YTD
MSCI WORLD	3 836,58	-0,51%	3,55%	3,55%
US S&P500	6 040,53	-0,99%	2,78%	2,78%
NASDAQ 100	21 478,05	-1,35%	2,25%	2,25%
RUSSELL 2000	2 287,69	-0,86%	2,62%	2,62%
EUROPE EURO STOXX 50	5 286,87	1,29%	8,15%	8,15%
GERMANY DAX	19 909,14	1,58%	9,16%	9,16%
FRANCE CAC40	7 950,17	0,28%	7,84%	7,84%
BELGIUM BEL20	4 326,05	1,60%	1,51%	1,51%
SWISS MARKET INDEX	11 600,90	2,52%	8,59%	8,59%
UK FTSE100	8 673,96	2,02%	6,20%	6,20%
JAPAN TOPIX	2 784,92	1,37%	0,14%	0,14%
MSCI EMERGING	1 093,37	0,32%	1,81%	1,81%
BRAZIL IBOVESPA	120 283	3,01%	4,86%	4,86%
CHINA CSI 300	N.A.	-0,40%	-2,78%	-2,78%
HS TECH	N.A.	1,42%	5,72%	5,72%
INDIA SENSEX	77 500,57	1,73%	-0,70%	-0,70%
KOREA KOSPI	2 399,49	-0,77%	4,91%	4,91%
HONG KONG HANG SENG	N.A.	0,79%	1,20%	1,20%
AUSTRALIA ALL-SHARE	4 710,58	2,02%	5,52%	5,52%
SAUDI ARABIA TADAWUL	11679.50	0,50%	3,16%	3,16%

US: Sectors	Level	5D	MTD	YTD
COMMUNICATION SVCS	372,33	2,67%	9,12%	9,12%
CONSUMER DISCRETIONARY	1 911,57	0,84%	4,41%	4,41%
CONSUMER STAPLES	869,70	1,93%	2,04%	2,04%
ENERGY	667,95	-3,75%	2,07%	2,07%
FINANCIALS	855,91	1,25%	6,52%	6,52%
HEALTH CARE	1 710,76	1,74%	6,79%	6,79%
INDUSTRIALS	1 171,34	-1,90%	5,03%	5,03%
INFORMATION TECHNOLOGY	4 474,24	-4,55%	-2,90%	-2,90%
MATERIALS	559,03	-0,22%	5,59%	5,59%
REAL ESTATE	260,37	-0,32%	1,84%	1,84%
UTILITIES	395,93	-2,03%	2,93%	2,93%

EUROPE: Sectors	Level	5D	MTD	YTD
BASIC MATERIALS	2 828,18	-0,46%	3,48%	3,48%
CONSUMER GOODS	3 848,95	3,14%	2,31%	2,31%
CONSUMER SERVICES	1 668,91	1,68%	8,41%	8,41%
FINANCIALS	1 185,88	1,77%	8,63%	8,63%
HEALTH CARE	3 861,64	2,79%	6,23%	6,23%
INDUSTRIALS	4 430,54	-0,47%	6,40%	6,40%
OIL & GAS	1 497,69	1,31%	6,69%	6,69%
TECHNOLOGY	2 084,88	1,91%	8,25%	8,25%
TELECOMS	643,79	5,26%	5,52%	5,52%
UTILITIES	2 038,29	3,46%	2,86%	2,86%

Market overview as of 31st January 2025

Fixed Income	Level	5D	MTD	YTD
Pan-Euro 3-5 yrs IG	213,32	0,73%	0,16%	0,16%
Euro Aggregate	243,70	0,81%	-0,03%	-0,03%
Pan-Euro HY Hedged Eur	456,15	0,48%	0,58%	0,58%
Global Inflation hedged EUR	235,29	0,66%	0,97%	0,97%
US Corp High Yield	2 264,90	0,20%	1,37%	1,37%
EM USD Aggregate TR	1 260,87	0,51%	1,06%	1,06%
EM Aggregate TR Local Ccy	150,91	-0,46%	1,42%	1,42%
EUR Banks CoCo Tier 1	162,37	0,57%	1,53%	1,53%
EU GOVT HEDGED EUR	213,53	0,80%	-0,03%	-0,03%
Global Aggregate	2 554,99	0,11%	0,57%	0,57%

Commodities	Level	5D	MTD	YTD
GOLD	2 798,41	1,00%	6,63%	6,63%
COPPER	427,90	-0,97%	6,27%	6,27%
OIL WTI	72,53	-2,85%	1,13%	1,13%
OIL BRENT	76,76	-2,22%	2,84%	2,84%

Currencies	Rate	5D	MTD	YTD
EURUSD	1,0362	-1,29%	0,08%	0,08%
GBPUSD	1,2395	-0,71%	-0,97%	-0,97%
USDJPY	155,19	-0,52%	-1,28%	-1,28%
USDCHF	0,9109	0,55%	0,39%	0,39%
AUDUSD	0,6218	-1,52%	0,48%	0,48%
EURCHF	0,9441	-0,73%	0,43%	0,43%
USDCNY	N.A.	N.A.	N.A.	N.A.
USDKRW	1 471,95	1,64%	5,35%	14,27%
USDINR	86,6162	0,48%	1,18%	1,18%
USDIDR	16 300,00	0,79%	1,23%	1,23%
USDBRL	6,1774	1,76%	3,45%	-7,55%
USDTRY	35,7448	0,20%	1,10%	1,10%
BITCOIN	102 110	-2,86%	8,96%	8,96%

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