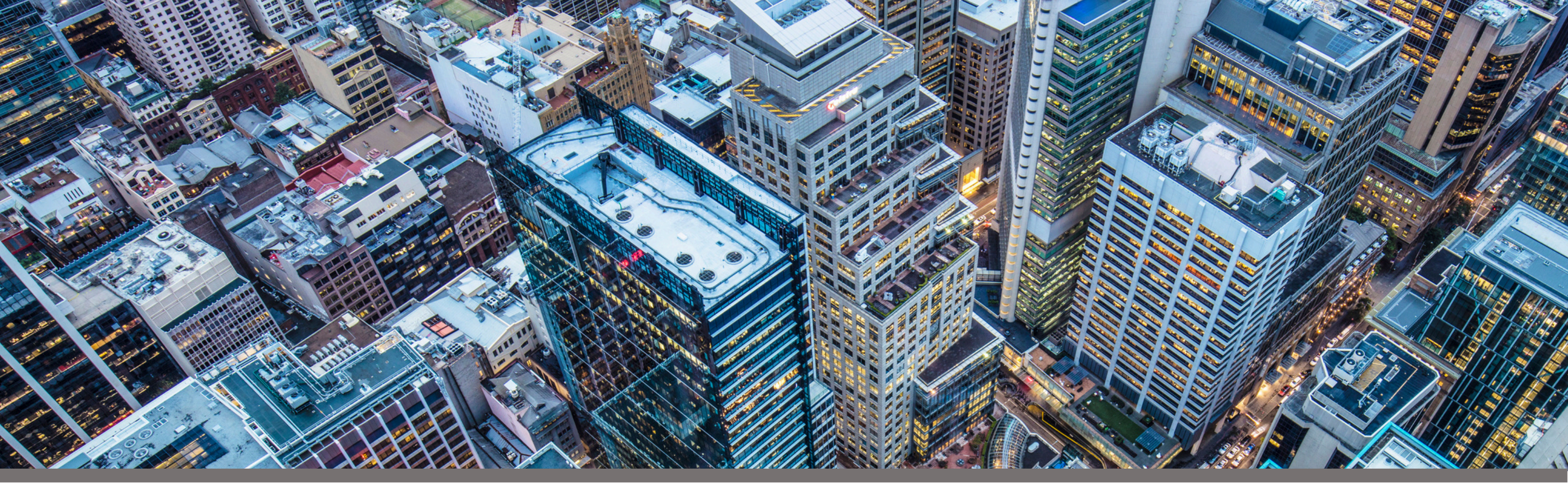


FOUNDED IN	EMPLOYEES	LOCATED IN	ASSETS DIRECTLY UNDER MANAGEMENT	ASSETS HELD BY INVESTEE & AFFILIATED COMPANIES
1988	**80+**	**10+** COUNTRIES	**US$1.1** BILLION	**US$35.9** BILLION

ICM Monthly Outlook

MARCH 2025

Market Review

February and March have been tumultuous months. So much for the good start to the year in January. In February, the S&P 500 fell 1.45%, and in March, it has fallen another c.5.90% so far. Year-to-date, the S&P 500 is negative c.4.80%.

In February, the NASDAQ fell 3.97%, and in March, it has fallen another c.6.30% so far. Year-to-date, the NASDAQ is negative c.9.50%. Since the 16th of December 2024, the NASDAQ has fallen by c.12.80%, which puts it in correction territory.

It is all President Trump’s doing, as far as we are concerned. Investors can’t make head nor tail of President Trump's daily decrees, diatribes, and general lack of clarity. Some investors have found the Trump cards too hard to hold. Markets like certainty, but right now, they have none, forcing some investors to turn risk-off until the dust settles. So, the market’s general euphoria for President Trump’s victory has waned. The President’s own euphoria seems to have waned, given that he has admitted that the U.S. consumer must endure some economic discomfort.

The electorate was probably not expecting this type of discomfort. President Trump’s honeymoon with the electorate will not last forever, and Congress will also tire of his erratic behaviour if it results in a significantly weaker economy.

On any given morning, President Trump threatens his allies with tariffs and then backs down 24 hours later.

President Trump has world leaders on tenterhooks after making an example of Ukraine and President Zelenskyy in the Oval Office. President Trump seems to expect other nations to wilfully change their policies before a public dressing down in the Oval Office, the extension of which is the U.S.’ disproportionate tariff response, or in the case of Ukraine, the withdrawal of military support. For instance, President Trump is using the threat of tariffs on Mexico and Canada to make them more proactive about securing America’s borders and stopping the flow of fentanyl, amongst other things.

The market finds it all very disconcerting. Many people have described it in various ways, including the U.S. Automobile Dealers Association, which described it as a “calamity.” President Trump’s whipsaw policymaking makes long-term decision-making nigh impossible, and it worries everyone.

Market Outlook

Politics
For now, we chose to mute the prattling from the White House and remain focused on the fundamentals, albeit with a little less conviction than three months ago.

Our central case remains that President Trump will come to his senses before any significant adverse unintended consequences. Let us not forget that the equity market, the bond market, and big business in the U.S. looms large over President Trump if he gets too wayward with these policies.

It is worth repeating that President Trump risks talking the U.S. consumer into austerity due to his constant flip-flopping on the threat of tariffs and the lack of certainty for future policy. For example, we will watch with interest the impact of tariffs on aluminium and steel later this month.

Usually, at this stage in the monetary policy cycle, one could expect business and consumer balance sheet expansion thanks to falling interest rates, a pro-business President, a government efficiency drive that slashes bureaucracy and improves productivity (no bad thing), and in anticipation of tax cuts. We cited all these reasons to stay positive and more in our January 2025 letter.

Instead, U.S. businesses and consumers are delaying capital expenditure and hiring, pending greater certainty.

It is not just U.S.-based stakeholders who are frustrated by the lack of certainty. Numerous global Central Bank governors are highlighting the increased uncertainty from President Trump's actions. In Europe, the ECB President, Christine Lagarde, summed it up best when she said, "Risks are all over the place." President Lagarde's assertion includes geopolitical risk, which is disheartening the masses, not only investors. While President Trump might be attempting to rebalance the very finely balanced global economy, he is also igniting new risks for inclusion in the price of risk assets; here's hoping he stops before some depressing, unintended consequences materialise. I am reminded of the management consultant adage that reverses a familiar saying: "Don't just say something; stand there."

So, too, did the U.S. Federal Reserve Chairman Jerome Powell acknowledge the increased uncertainty from U.S. policy but downplayed the risk to the U.S. economy. Chairman Powell remains as reassuring as ever despite a deteriorating backdrop that includes softer retail sales, a slightly below-expectation jobs report, and heightened equity market volatility. For now, the U.S. Federal Reserve Bank will bide its time to assess the impact of President Trump's policies.

The market, of course, never bides its time and has priced in President Trump's impact by increasing the speed and quantum of future interest rate cuts. As of today, Bloomberg's World Interest Rate Predictor indicates between three and four 25 basis point cuts before July 2026. At the start of February, the market priced in between one and two cuts before July 2026. The U.S. dollar index – a measure of the value of the U.S. dollar relative to a basket of foreign currency - fell sharply in the first week of March due to the expectation of lower yields in the U.S. Year-to-date, the dollar index has returned negative 4.5%. President Trump wants a weaker USD to make its exports more competitive.

The market expects the U.S. Federal Reserve Bank will be forced to counteract any Trump-induced economic slowdown by cutting rates and supporting asset values.

It does not have to be this way. Rising real incomes and the unwinding of the rate-tightening cycle that endured between July 2022 and September 2023 should have continued filtering through to the real economy, including risk assets. Instead, heightened geopolitical risks have negated those benefits, for the time being, at least.

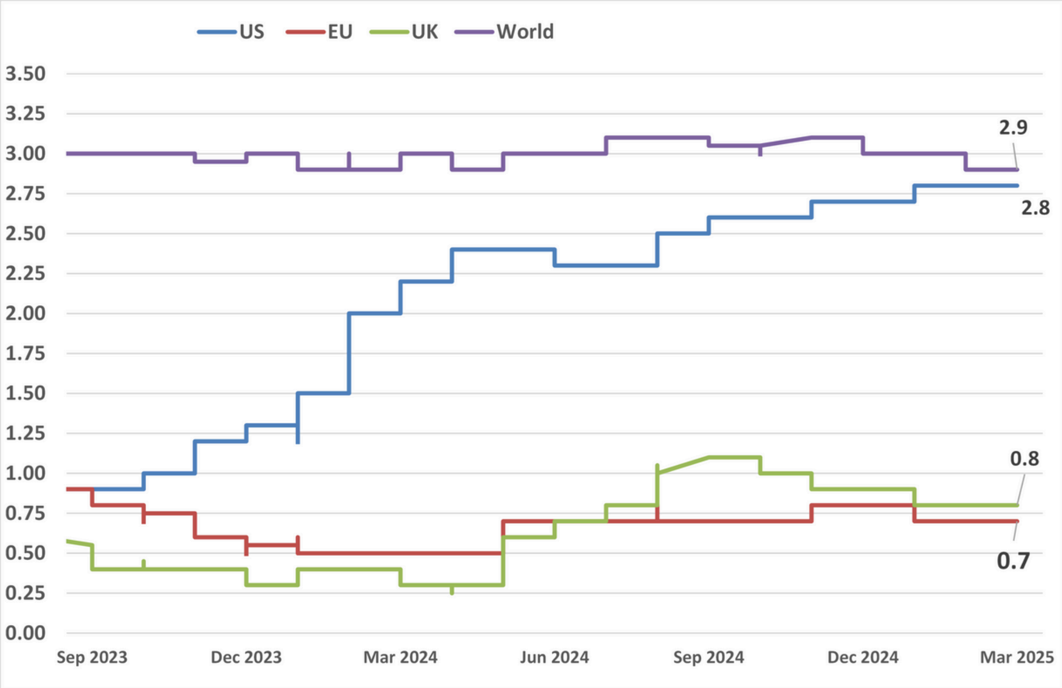
We expect President Trump's behaviour to continue in this way until he strengthens cooperation on key issues. It's a bit churlish to expect nations to allow themselves to be decocted of valuable assets in a manner similar to what President Trump is forcing onto Ukraine. Not all countries have such bad cards as Ukraine.

Reasons to stay positive

Global Growth
The economic data suggests that the Global and U.S. economies remain on trend with real GDP growth humming along at just under 3%. Even growth in the EU and UK is rebounding albeit from very low levels.

.

GDP Growth



Source: Bloomberg

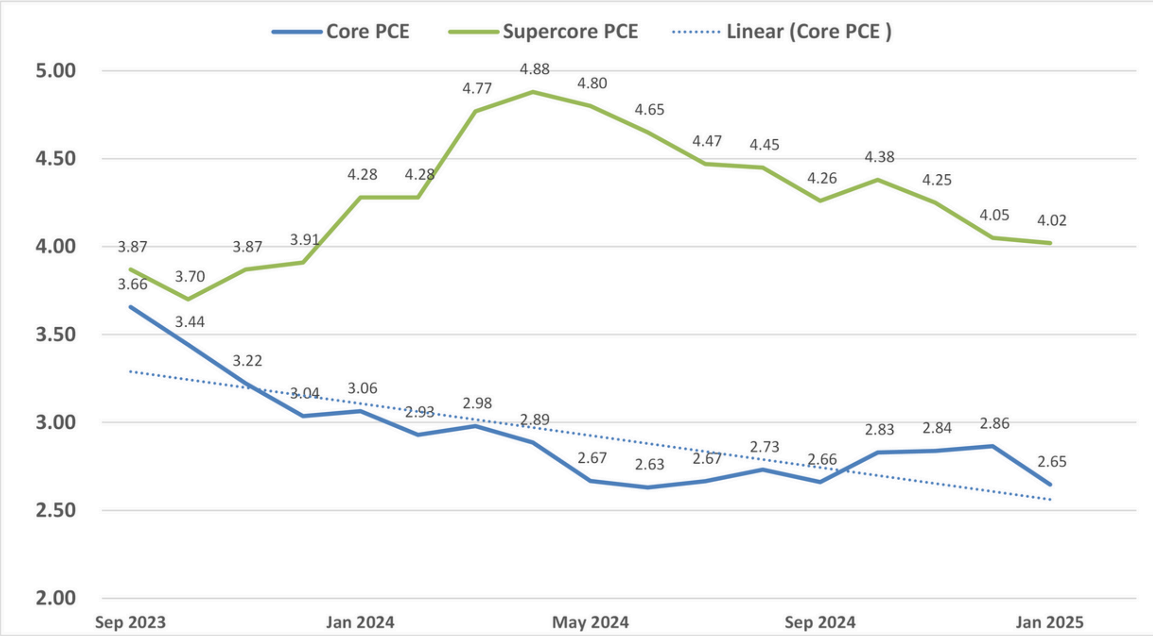
Inflation data

U.S. inflation is slowly trending downward, with service inflation remaining stickiest, especially shelter inflation, which accounts for about 35% of U.S. CPI - the single largest component. However, looking at the leading indicators of shelter inflation, such as the Cleveland Fed New Tenant Rent index, the direction of shelter costs seems to be certainly down. High mortgage rates have also reduced property liquidity. A fall in U.S. rates will free up collateral, stimulate development, and help shelter cost inflation fall further.

Tariffs could reverse the trend in inflation, which is one of the main reasons we still believe that President Trump's bark is worse than his bite. US multinationals, the largest beneficiaries of decades of globalisation, could suffer materially if a full-blown trade war engulfed the global economy. Chinese exports have ensured price stability for decades, long before Trump and COVID-19. A longer-term trade war will either crimp margins or inflate consumer prices, more likely. Some U.S. tech and communication companies, including several Magnificent Seven members, have significant portions of their production abroad. While tariffs will be targeted and may not immediately impact specific sectors, there is the potential for secondary effects, particularly supply chains, and we remember the impact of supply chain disruption after the COVID pandemic. That said inflation fears from higher tariffs are most likely overdone at this stage. It is very possible and probably likely that product and sector exemptions, trade re-routing, domestic product substitution as well as a potential fall in product demand, driven by uncertainty, could completely offset the upward pressures of tariffs leading to a very muted impact on inflation.

Overall we believe our disinflation thesis is still intact and will continue for at least another 6 months which will give the U.S. Federal Reserve bank the flexibility it needs to cut rates further.

Inflation



Source: U.S. Bureau of Labour Statistics. Core PCE excludes food and energy prices. Supercore PCE excludes food, energy, and housing

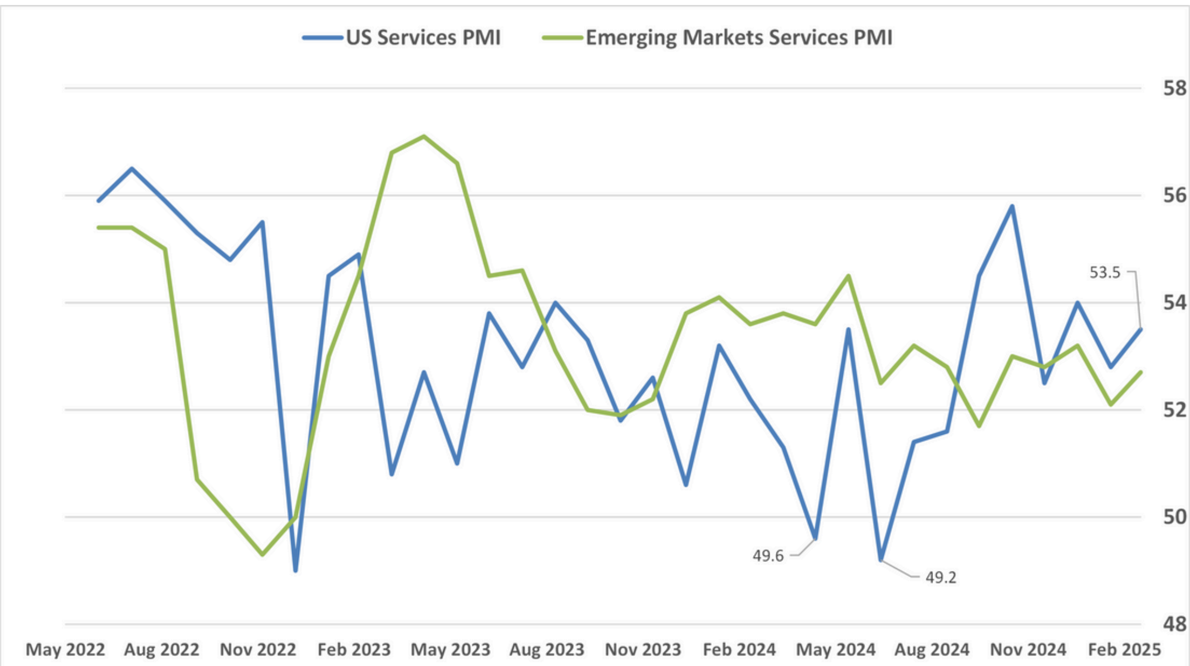
ISM Services

In February, the U.S. Institute for Supply Management's services index rose 0.7 percentage points to 53.5 percent compared to 52.8 in January and 54.0 in December 2023. A number greater than 50 indicates the sector is expanding.

The ISM services index has been greater than 50 for eight consecutive months and for 24 of the last 26 months. The better-than-expected number indicates the U.S. service sector remains resilient, which is one of the reasons the latest inflation number is so slow to return to target.

The U.S. needs a strong service sector to maintain its current GDP growth forecast, with the challenge being to reduce the price of services against a backdrop of higher cost of goods sold, and potentially inflationary policy measures from President Trump. Despite the uncertainty, the services sector remains resilient.

Services Purchasing Managers Index



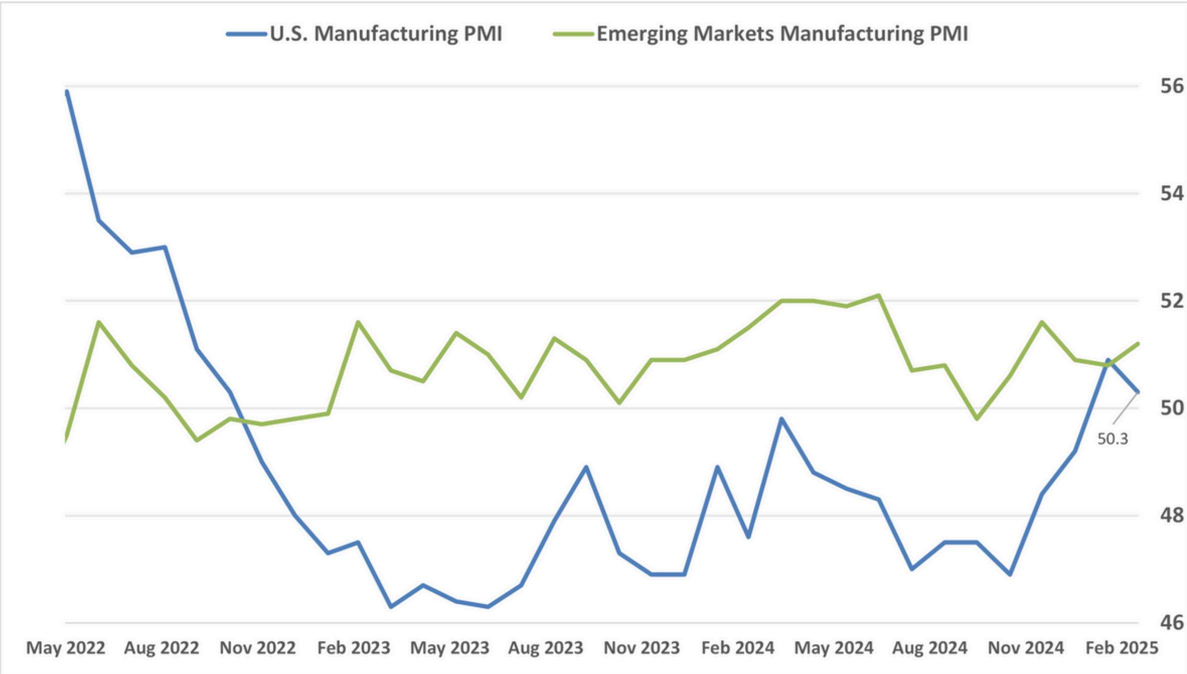
Source: Institute of Supply Management[1]

ISM Manufacturing

February's ISM Manufacturing index fell 0.6 percentage points to 50.3 percent compared to 50.9 in January, which was somewhat lower than expected. Nonetheless, the manufacturing index remains in expansionary territory, having been lower than 50 and in contraction, for 26 of the past 28 months. Again, the manufacturing sector may have been trying to get ahead of President Trump's tariffs, and we'll need to wait a while longer before assessing the final score.

Economic growth could suffer because tariffs will increase the cost of goods sold. Businesses have two choices: pass on the increased cost of goods sold or shrink their margin. Higher prices will be inflationary, and a lower margin will depress valuations. Neither is particularly appealing.

Manufacturing Purchasing Managers Index



Source: Institute of Supply Management

European inflation

Thanks to the trajectory of eurozone inflation, the ECB had sufficient cover to cut interest rates by another 25 basis points. Eurozone inflation was 2.4% at the end of February, with a forecast of 2.5% for 2025, incorporating higher energy prices, which we believe will fall back thanks to increased supply. The current Eurozone GDP forecast for 2025 is consistent with inflation returning to 2% in the coming twelve months. Since President Trump took office, OPEC+ has decided to ramp up production, and the U.S. is expected to increase production by a million barrels in 2025. Furthermore, don't be surprised to see more oil production from Russia if a peace deal in Ukraine can be thrashed out. Like the U.S. Federal Reserve Bank, the ECB has adopted a data-dependency approach to meeting-by-meeting decisions.

Market Implications

Central Bank policy outside the US

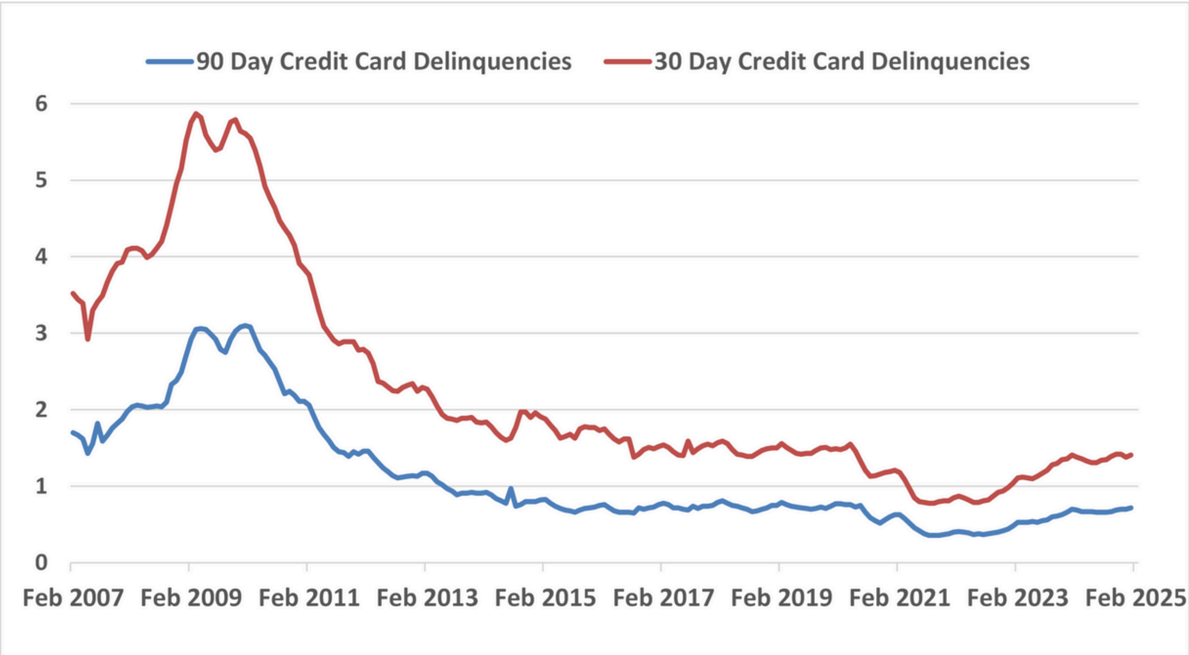
Oh, the drama. Relax. (Famous last words). There's too much anxiety and nervousness.

In the past, we have described the market as a tired bull. It feels the same today, with the caveat that there's a matador juggling swords in the bull ring. It's easier to frame the market as a tired bull with a renascent positive outlook when President Trump settles down by highlighting some indicators that are not front and centre in the media or are not uber-sensitive to excessive valuations.

Remember the Doctor Copper concept? (See ICM's newsletter from June 2024.) This concept goes along the lines that the copper price is a bellwether for the broader economy. The increase in the global copper price this year of over 10% suggests the global economy remains resilient, consistent with the abovementioned GDP growth forecast.

U.S. credit card delinquencies can act as another forerunner for the state of the U.S. economy, and 30-day delinquencies are the same as they have been for the past ten years. 30-day credit card delinquencies are a quick indicator of household stress and are usually correlated to a rise in unemployment, which remains low, too.

Credit Card Delinquencies



Source: Bloomberg

Despite the unease caused by President Trump's vicissitudes, we see tentative signs of increasing demand for commercial and industrial loans (C&I loans) in the U.S., which are essential for businesses to finance expansion. An increase in demand for credit is consistent with companies' reshoring but, equally importantly, is discordant behaviour for those fearing a recession. An increase in demand for project finance will generally boost the overall economy, which should be favourable for markets, especially the financial sector. Strong demand and looser lending standards should be considered lead indicators to easing financial conditions.

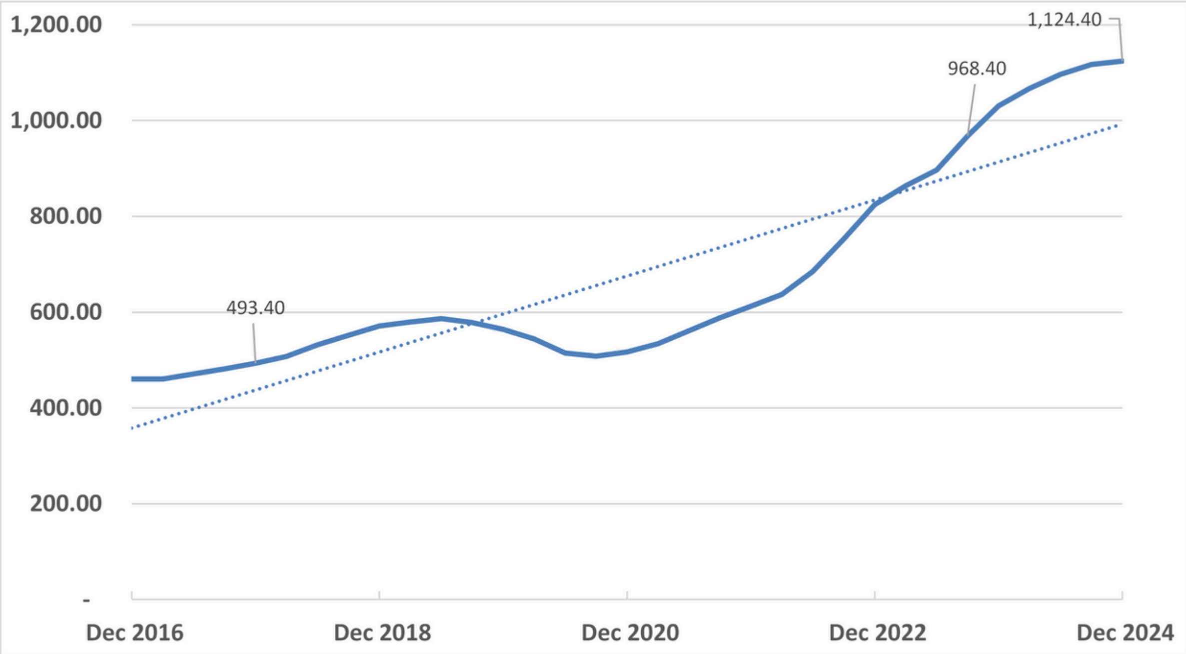
We have also seen an increase in M2[2] money supply, which is typically a lead indicator to high asset prices, as people invest surplus money. The increase in M2 money supply is primarily due to the Chinese stimulus, which we identified months ago as a catalyst for positive returns in 2025. But it will also be boosted by falling U.S. interest rates and a weaker U.S. dollar, with typically benefit emerging market economies.

Bottom line, President Trump still needs inflation to fall and the Federal Reserve to cut rates. To achieve this, he needs lower energy prices, which we mentioned earlier.

And finally, a word of caution, as always

The U.S. government dearly wants interest rates to fall for various reasons, discussed above. A lesser discussed concern is the cost of servicing its own debt stock. The following graph shows the trajectory of the U.S. Federal Reserve Bank's interest bill, which has more than doubled in the past few years, and is on an unsustainable trajectory.

U.S. Government Interest Expense



Source: Bloomberg

Based on previous form, President Trump will blame someone other than himself and his policies if he can't execute his plans, especially if the economy starts to slow down and inflation remains stubborn, which is called Stagflation. Federal Reserve Chairman Powell will be the obvious scapegoat in this scenario. He could soon be in between a rock and a hard place. His mandate is to keep inflation at 2% and provide full employment. However, if inflation stays stubborn or increases from tariffs in the coming months, Chairman Powell may not be able to cut rates.

Be prepared for the wild ride to continue for a while longer.

Have a good month.

Kind regards,

Conor Spencer.

Source Data: ICM, Bloomberg as of 28 February, 2025.

[1] https://www.ismworld.org/supply-management-news-and-reports/reports/ism-report-on-business/

[2] M2 Definition and Meaning in the Money Supply https://www.investopedia.com/terms/m/m2.asp