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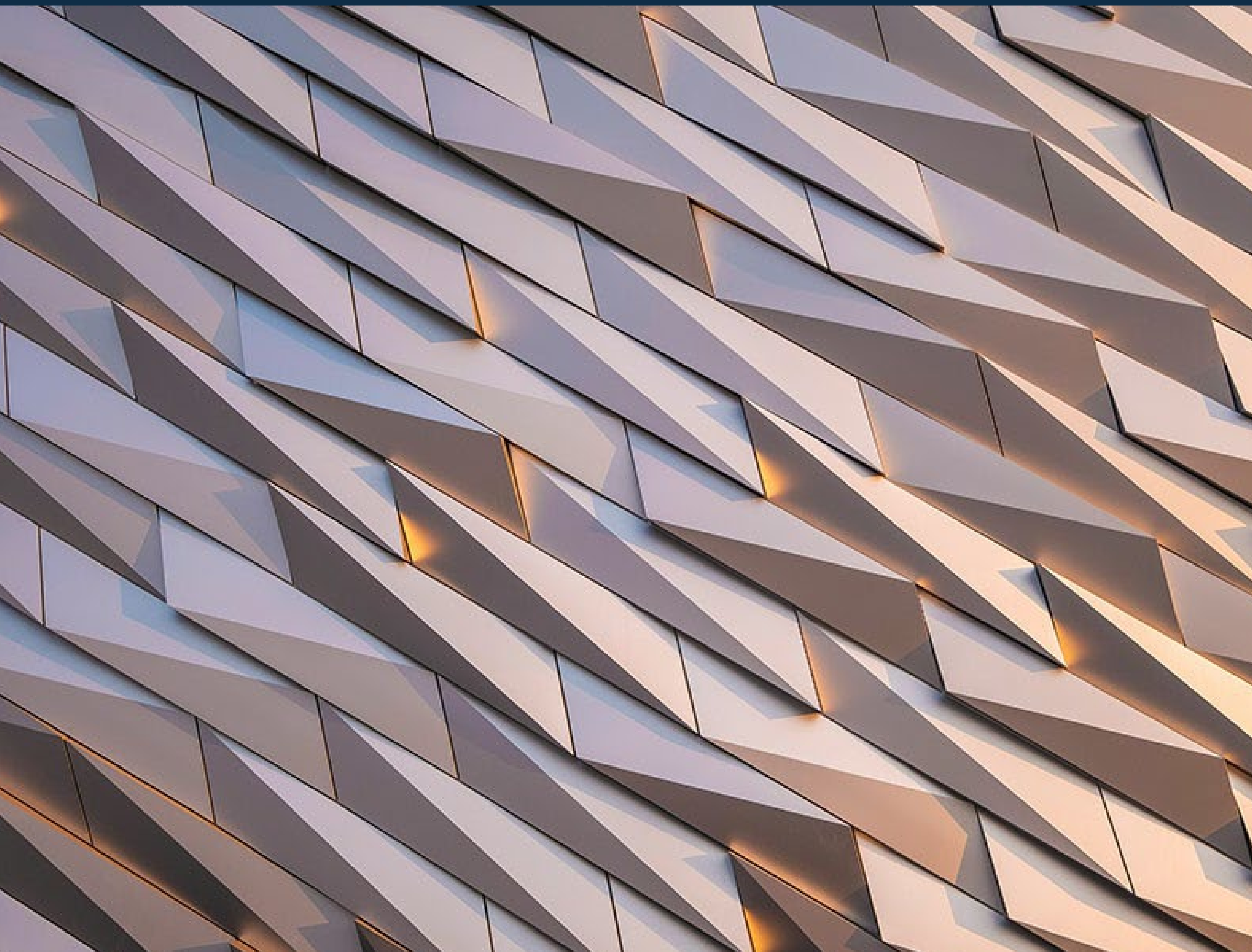
Atlas Monthly Equity Navigator

MARCH 2025



March Madness: US Growth Scare & German Recovery Hope

Trump's tariff tantrum worried Wall Street in March, igniting a new growth scare and sending equity markets lower across the board. Indeed, US equity markets experienced their worst quarter since Q3/2022. Rotational moves continued as Europe drew more attention following massive fiscal spending plans in Germany. In addition to the around €1 trillion German spending plan for infrastructure and defence, the EU unveiled a defence plan called the ReArm Europe Plan, potentially mobilizing up to €800 billion for defence spending. Value stocks continued to outperform, while US mega-cap growth tumbled further. Small-cap stocks also took a beating, while quality firms were up. Among themes, European defence stocks performed well, albeit losing some steam at the end of the quarter. Among major countries and regions, Japan was the top performer, while the US was the clear loser.

1. MEGA – Make Europe Grow Again
   - The whopper German fiscal spending plan of around €1 trillion should lift economic growth starting in 2025, with the larger growth impact expected from 2026.
   - The spillover effect on the rest of Europe is unclear, but defence spending plans in other countries will provide a needed fiscal boost across the region. A possible truce in Ukraine could also improve sentiment and lower energy prices, which would have another positive impact on European growth.
   - The risks for Europe include a potential trade war with the US and a potential global growth slowdown. Regardless, the obvious European equity themes are German domestic and infrastructure stocks, alongside European defence.

2. European Defence – A Growth Story
   - The European defence spending plans, on top of Germany's sizable defence plan, will boost growth in most defence companies in Europe over the following years. European defence firms will also receive a higher allocation from the European spending than before.
   - Less US presence in Europe, increased security concerns and more military support for Ukraine will keep the earnings growth expectations for European defence firms at double-digit levels over the next 3-4 years.
   - Valuations for European defence firms are not cheap, but they never are for future growth themes. Comparing expected growth numbers with current market values, European defence is cheaper than the US defence sector, despite higher growth expected for the sector in Europe than the US.

3. Financials – The New Momentum
   - Banks and other financial firms performed well across Europe, the US, and Japan early in 2025. In Europe, strong earnings, announcements of buybacks and dividends, coupled with cheap valuations, boosted momentum for the region's financial stocks.
   - In the US, hopes for regulatory relief, increased M&A activity, a steepening yield curve, and attractive valuations supported financials. In Japan, rising interest rates, strong loan growth, and corporate governance reforms benefited the sector.

Global Equity Performance

The global equity index was lower for a second month. The US (-9.3%) was the largest negative contributor in euro terms amid a weak dollar. Europe (-3.8%), Japan (-3.3%), and emerging markets (-3.1%) were all down in euro terms.

- Global equities fell 7.6% in euro terms, dragged down mainly by US market weakness

United States

- US equities were dragged down by the meltdown in technology stocks. Additionally, the rotation from US equities, particularly towards Europe, continued to weigh on American stock markets.

- Defensive stocks outperformed as growth and small-cap firms underperformed. Among sectors, energy (3.7%) was the only one showing positive returns.

Europe

- In Europe, utilities and energy sectors were up, while technology and consumer cyclicals were clearly negative.
- Defensives outperformed in Europe during March, while growth stocks were weak.

Emerging Markets

- Emerging markets were down in March, dragged down by technology-heavy South Korea and Taiwan. On the contrary, India and Brazil went against the trend and posted gains during the month.

Themes & Styles

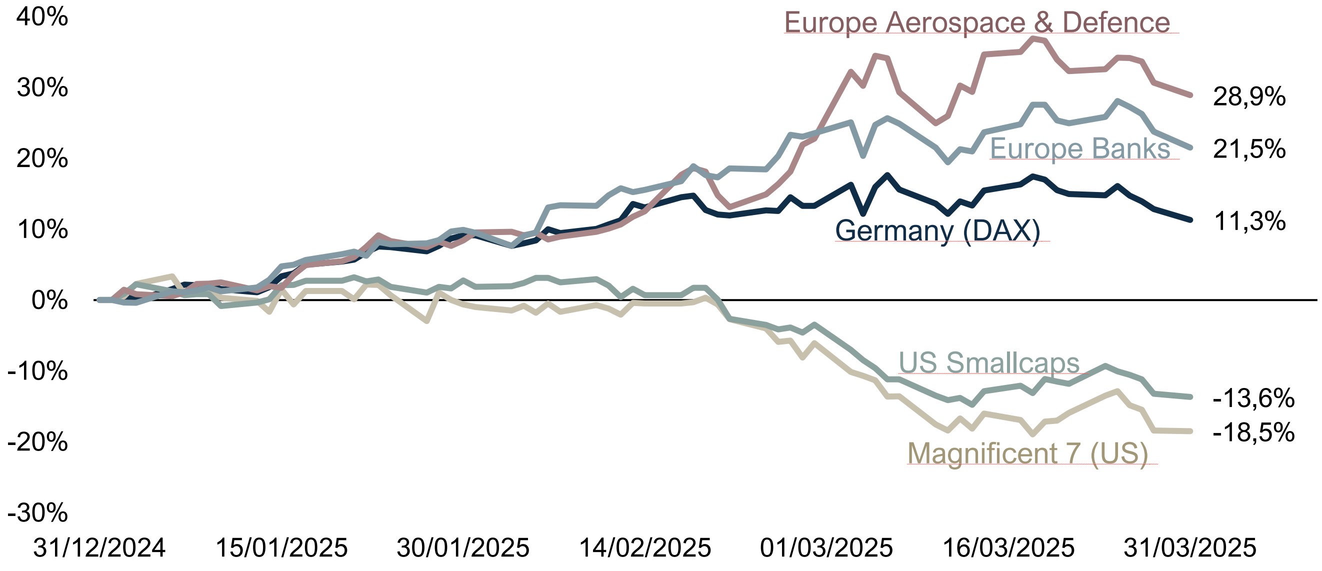
- Europe's Comeback:

There's plenty of skepticism about the potential recovery in Europe, as the stimulus in Germany and defence spending across the region won't fully kick in until 2026. Nevertheless, much of the anticipated recovery hinges on improved economic sentiment. Many countries, such as France, have very little fiscal wiggle room to increase spending due to high debt levels or high deficits. Europe is also in the firing line for potential US tariffs, meaning economic and earnings growth could take a hit if the US raises tariffs in April. Still, Europe offers interesting growth themes, such as the defence sector and German domestic and infrastructure-related stocks.

- Japan's Third Arrow:

Japan's third arrow of economic reforms, part of the "Abenomics" strategy, focuses on structural changes to boost long-term growth. Key aspects include corporate governance reforms, which have led to improved capital efficiency, increased shareholder returns, and record share buybacks. Other key drivers include labor market reforms, reductions in corporate taxes, and deregulation. These structural reforms are creating a more favorable environment for value stocks and banks in Japan, potentially leading to higher profitability and increased investor interest. Furthermore, Japanese equities are trading at lower valuations compared to other developed markets, offering potential upside.

Atlas Equity Chart of the Month: Europe's Comeback vs. US Growth Themes, euro returns in Q1/2025



Source: Evli Atlas Portfolio Technologies; Past performance of these portfolios does not guarantee future results, and the results shown are illustrative only.

Navigating Markets: Trump's Tariff Tantrum

Unfortunately, the US Administration is expected to continue its aggressive trade policy. The negative impact on economic growth depends on the length of the trade war and where the average tariff rate ends up. Hence, investors might want to adjust their equity portfolio to more defensive direction. Also, less correlated themes such as domestic Germany or Japan and European defence might be smart ones in the current uncertain environment. Diversification in equity markets also makes sense again, as average correlation between markets has fallen to historically low levels. Overall Outlook: Although the hard macro data have been decent in early 2025, the downside risks have clearly increased due to the aggressive US trade policy. Only a clear us retreat in tariffs (Trump put) could cause a recovery in equity markets.

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