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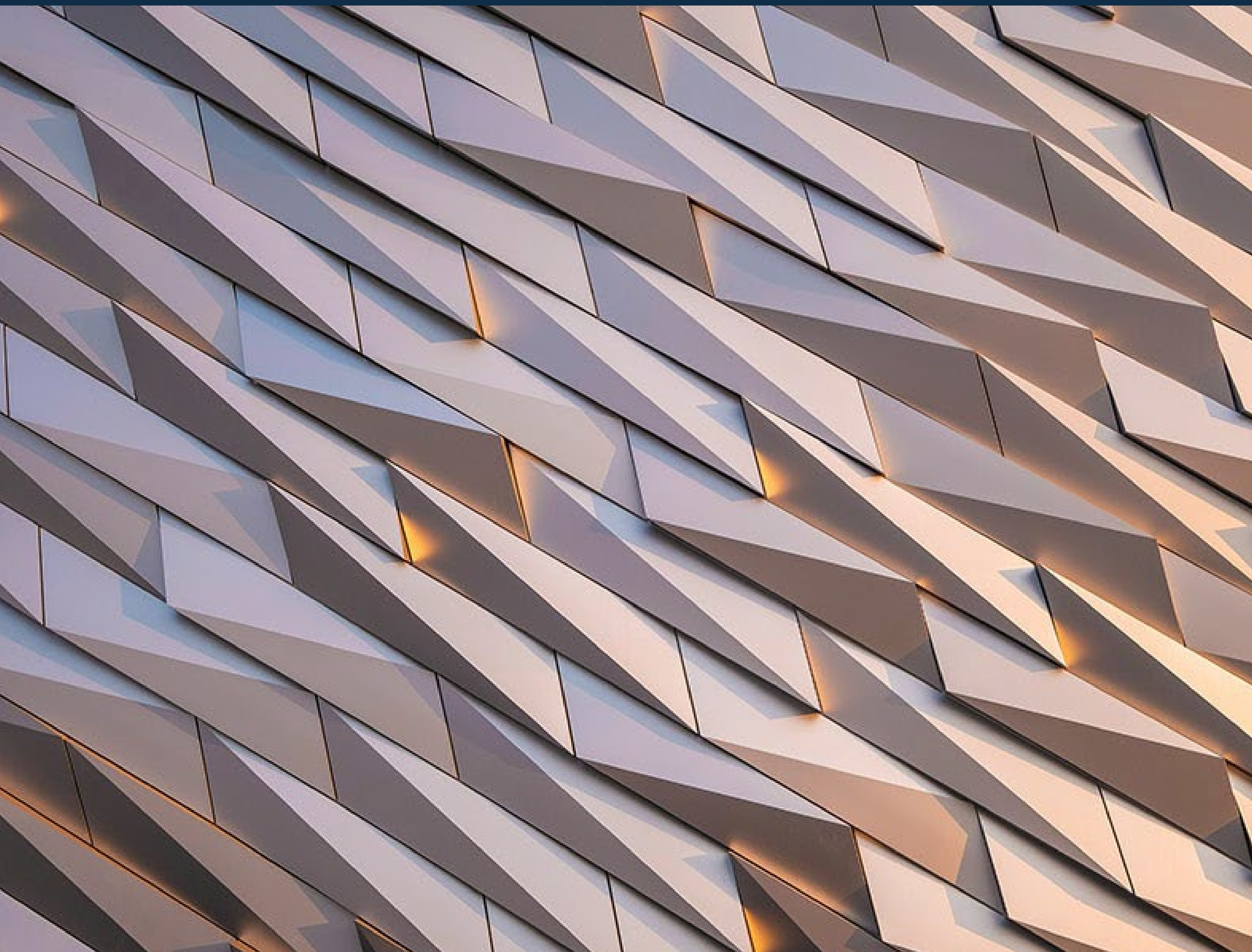
Atlas Monthly Equity Navigator

APRIL 2025



"Liberation Day" Volatility Ignites Recession Fears

President Trump's 'blackmail tactics' regarding tariffs seemed to backfire spectacularly early in the month. US assets went into freefall following the initial announcements around April 2nd, with US equities dropping as much as 15% within just four days (!). The US dollar also took a hit, weakening almost 6% at its lowest point during the month.

This sparked a full-blown crisis of confidence in the US, marked by simultaneous weakness in equities, bonds, and the dollar – a rare and worrying combination. This pressure ultimately led Trump & Co. to delay some of the threatened tariffs. Towards the end of the month, these pauses and exemptions allowed equity markets to recover somewhat as immediate recession fears receded.

However, significant downside risks for the global economy remain high. We believe we've entered an economic downturn – historically a difficult environment for equities. Furthermore, the narrative questioning 'US exceptionalism' is gaining momentum as protectionist agendas take hold. Deglobalization feels less like a buzzword and more like a developing reality. This likely downturn reinforces the defensive stance we've recommended since January. Consequently, we've launched a new 'tariff-proof' defensive European strategy designed to perform relatively well both in a general downturn and specifically in a prolonged, recessionary trade war scenario. It's also worth noting that European defence stocks continued their outperformance in April.

1. Downturn & Trade War – Seeking Defensive Shelter in Europe, Avoiding Tariff Risks
    - **Tariffs bite global exporters:** This makes domestically-focused exposure more appealing right now. Within Europe, companies may get some support from planned German fiscal stimulus and increased EU defence spending, bolstering the case for a European allocation.
    - **Defensives shine in downturns:** Sectors less sensitive to the economic cycle typically outperform, thanks to more stable revenue streams. We're leveraging our Atlas Intelligence AI engine to identify the companies best exhibiting these defensive characteristics in the current climate.

2. The Art of the (Tariff) Deal - Or, How to Dismantle American Exceptionalism?
    - **Shifting perceptions of the US:** President Trump's confrontational approach – including threats against traditional allies like Canada and broad tariff attacks against numerous countries – has raised uncomfortable questions about whether the US role as a predictable cornerstone of the Western democratic order is changing.
    - **The lure of the US market... until recently:** For years, the sheer size of the US economy (around $30 trillion) and its relatively strong recent growth (nearly 3% annually over the past two years) consistently drew investors from Asia and Europe. This inflow boosted US financial markets and pushed the dollar, the world's primary reserve currency, towards stretched valuations. US equities, led by a handful of mega-cap tech firms (the 'Magnificent Seven'), hit record highs, widening the valuation gap compared to Europe and Asia.
    - **A crisis of confidence brewing:** However, the volatility spike in April felt like a potential turning point. The simultaneous pressure on US equities, bonds, and the dollar was highly unusual and pointed towards a brewing confidence crisis.
    - **Reconsidering US allocation:** Consequently, global institutional investors are seriously pondering whether the era of 'American exceptionalism' is drawing to a close. This inevitably leads them to reconsider the standard allocation model that often places nearly two-thirds of global equity exposure in the US market, compared to just one-third for the rest of the world combined.

Global Equity Performance

- Global equities (-3.8%) decreased for the third month in a row. The US markets driven by equities (-0.7%) and the dollar (-4.8% vs the euro) dragged the global index lower. Europe (-0.3%) and Japan (0.3%) were flat during April, while emerging markets (-3.7%) fell in euro terms.

United States

- The volatility following “Liberation Day” caused a historical correction in the following days. Technology and cyclical stocks were most under pressure.
- However, most equities recovered strongly towards the end of the month, amid receding fears of a global recession. For foreign investors, the weak dollar left US equities in negative territory.

Europe

- In Europe, the real estate sector was the strongest as shorter interest rates fell.
- Many defensive sectors outperformed except for healthcare, which was weaker due to tariff risks.

Emerging Markets

- Emerging markets fell in April. China was weak along with some other Asian markets, while India and Brazil rose during the month.

Themes & Styles

- Atlas Europe Trade War Defensives:

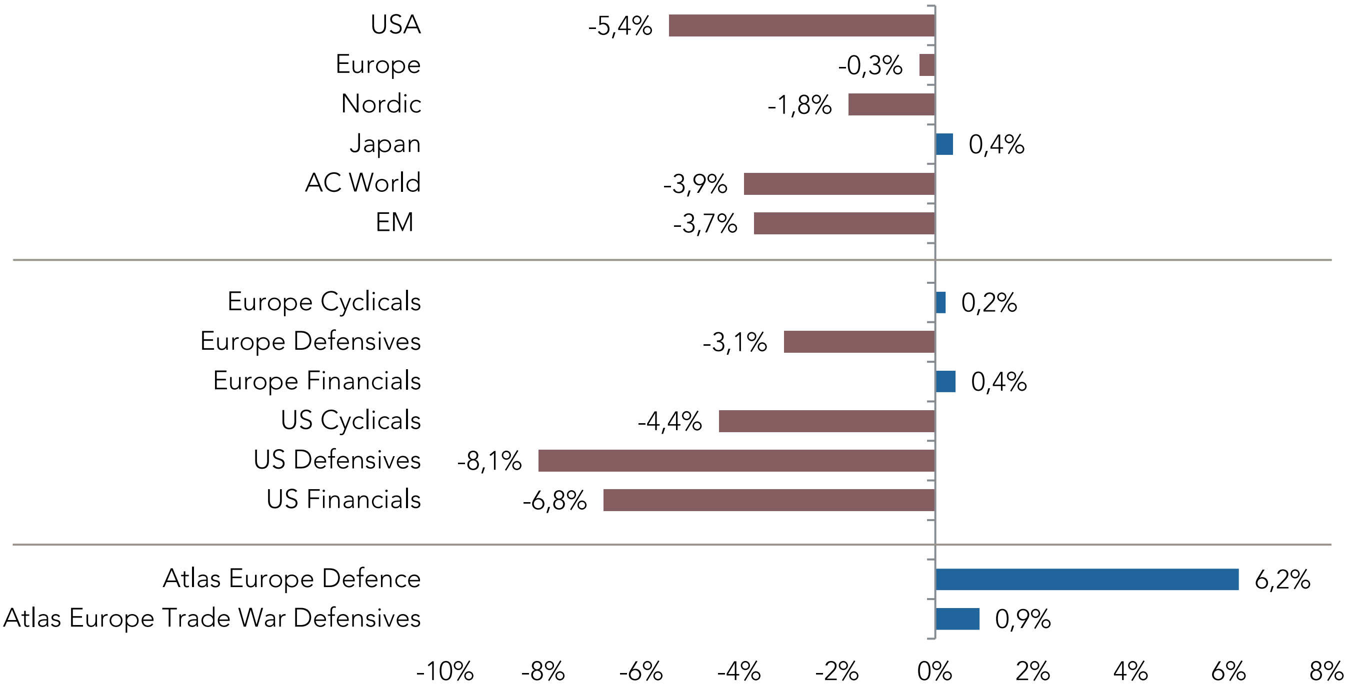
Europe finds itself a target of potential Trump tariffs, casting a shadow over the outlook for the region's export-focused companies. At the same time, Germany is planning fiscal stimulus, including potential corporate tax cuts and other reforms. This creates a contrast: while the US faces potential fiscal tightening through tariffs (which act like a tax hike) and possible spending cuts, Germany and other European countries appear poised to stimulate. Yes, the US administration might plan tax cuts for later, perhaps 2025 or 2026, but it seems plausible that the immediate "tax hike" effect from tariffs could be larger.

In the worst-case scenario, the trade war drags on, increasing the risk of a global recession. In such an environment, we believe investors can find relative safety by focusing on Europe – a region actively stimulating its economy – and selecting non-cyclical companies that are comparatively immune to slower growth and tariffs. Furthermore, focusing on 'quality' companies makes sense, as they tend to be more resilient during uncertainty. With growth likely slowing and inflation risks present, tilting towards reasonably priced 'value' companies adds another layer of fundamental sensibility. The main risk to this strategy? A swift resolution to the trade war, which could shorten any downturn and cause cyclical assets to rebound sharply. .

- Atlas Europe Defence:

Defence spending in Germany and across Europe looks set to grow at double-digit rates over the coming years. Driven by heightened geopolitical tensions, this spending is expected to be less sensitive to economic weakness than in past cycles. Of course, a *prolonged* recession could still slow the pace and affect the timing of these spending plans.
Nevertheless, the combination of rising European defence budgets and a potential allocation shift towards domestic European firms lends a more defensive character to this investment theme. Focusing on 'pure-play' defence firms makes the theme particularly compelling, in our view. While the portfolio might be relatively concentrated, diversification remains key, managed by limiting the maximum position size in any single large-cap stock. Furthermore, applying fundamental screens incorporating quality and growth filters helps create a more robust strategy. Ultimately, we're seeking potential long-term winners within the defence sector, not just companies participating in the trend.

Atlas Equity Chart of the Month: Equity market returns, euro returns in April 2025



Source: Evli Atlas Portfolio Technologies; Total returns in euros.

Navigating Markets: "Fearonomics"

President Trump's erratic policies have introduced a new level of uncertainty to the global economy, as evidenced by comments in recent company transcripts. Ironically, the tariff chaos seems to have boomeranged, hurting US financial markets the most. No wonder Trump is currently retreating from his aggressive tariff plans.

What happens next is difficult to predict, but the fear among companies and households has likely caused both temporary and possibly some permanent damage already. Building an economic wall around the United States and protecting domestic industries would likely isolate the economy, decrease economic and earnings growth, raise inflation, and weaken the dollar.

In this environment, non-US equity themes might prove effective, but given the potential for a global economic downturn, a defensive stance seems prudent. However, if, for some reason, the trade war proves short-lived and US tax cuts and deregulation are further advanced, any resulting downturn might, in the best case, be moderate. In such a positive scenario, investors could consider adding exposure to potential recovery themes, such as Germany, or growth themes like AI.

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