FIDEURAM INTESA SANPAOLO PRIVATE BANKING Asset Management

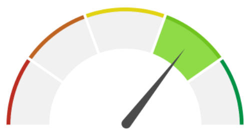
Fideuram Asset Management's View

Edition 03.2025

Macroeconomic Scenario

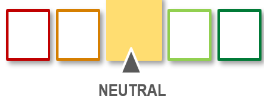
The economic and political strategy of the new Trump administration is also having a significant impact on the rest of the world, as evidenced in particular in recent weeks by Germany's completely unexpected shift in fiscal policy (and Europe as a whole is also preparing to increase its military spending), which has led us to significantly revise our growth estimates for the Euro Area from next year onwards. However, the overall near-term picture remains highly uncertain, and the tariff decisions to be announced by the US administration in early April represent another important element of risk. We have not changed our baseline scenario for Fed and ECB monetary policy, with further cuts expected in the coming months.

Equity Markets



We have taken advantage of the recent market decline to increase the modest overall overweight in the asset class. Geographically, the portfolios continue to favour the United States and, within the overall neutrality towards emerging markets, the Chinese market. In the United States, we have positioned our portfolios in favour of a broader market, moving into segments other than technology. The size of the overweight is limited, reflecting the increased uncertainty and risk of volatility associated with evolving trade policies and labour market dynamics. In Europe, we see signs of an improvement in the macroeconomic outlook, triggered by Germany's shift in fiscal policy. Valuations are already partly reflecting this backdrop and corporate earnings are also showing positive signs. However, there are risks in the short term related to the possible introduction of tariffs by the US administration. Within our neutral positioning on emerging markets, we continue to favour China. This reflects the country's ongoing technological advancements—highlighted by the recent DeepSeek case—and a more constructive government stance towards the private sector.

Europe

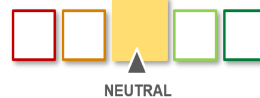


NEUTRAL

United States

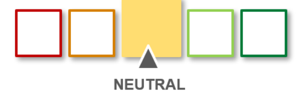
SLIGHTLY POSITIVE

Japan



NEUTRAL

Emerging Markets



NEUTRAL

Bond Markets

We maintain an overweight stance on high-quality credit risk while remaining neutral on government bonds and emerging market debt, with an underweight position in high yield. Ahead of the German elections, we reduced exposure to the longer end of the European yield curve to mitigate pressure from Germany's fiscal developments. The fixed income allocation is now structured with a duration close to neutral, primarily expressed through a preference for high-quality credit risk, such as investment-grade corporate bonds and financial subordinated debt. These segments provide exposure to the intermediate part of the curve, where investors can capture yield pick-up and benefit from greater stability compared to longer-dated maturities. Overall credit exposure is tempered by our cautious stance on high yield and our neutral positioning on emerging market debt. We do not believe that asset classes with a higher credit risk are vulnerable to a significant increase in defaults, but the still constructive opinion of the equity market and greater macroeconomic uncertainty make us prefer higher-rated issuers.

Government

NEUTRAL

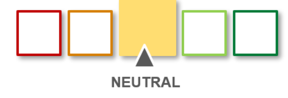
Corporate

SLIGHTLY POSITIVE

High Yield

SLIGHTLY NEGATIVE

Emerging Markets

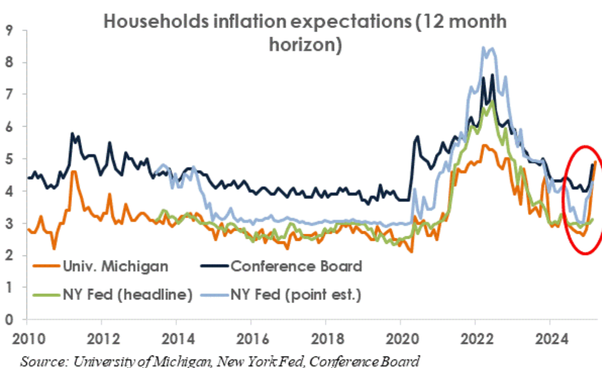


NEUTRAL

USA: Rising uncertainty

Surveys of businesses and households indicate a **significant deterioration in confidence** over recent weeks, likely driven by the new Administration's trade policies and federal spending cuts. **However, hard economic data remain relatively strong for now,** particularly in the labour market, leading us to make only a slight downward revision to our growth forecasts for the year—though the risk of further downgrades remains non-negligible. As widely expected, the Federal Reserve kept interest rates unchanged at its 18-19 March meeting, citing heightened uncertainty in the current economic environment. Our baseline scenario still anticipates **two additional rate cuts in 2025**, with the first expected in June.

Short-term inflation expectations are on the rise

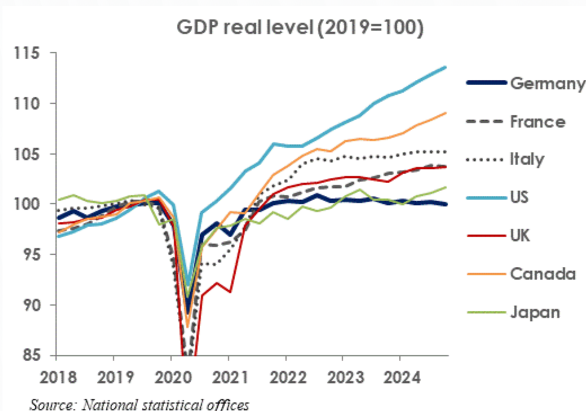


Source: University of Michigan, New York Fed, Conference Board

Euro Area: Germany's Fiscal Bazooka

In an **unexpected policy shift** following the February elections, **Germany** has managed to pass a **substantial fiscal package** through an agreement between the CDU, SPD, and Greens in the previous parliament. The package includes the creation of a €500 billion infrastructure fund over 12 years, increased borrowing capacity for local governments, and the ability to finance defence spending exceeding 1% of GDP through deficit spending. As a result, Germany is once again making significant use of fiscal stimulus. We have **revised our Euro Area GDP growth forecast upwards** by +0.1% this year to 1.0% and +0.3% to 1.3% for 2026. However, downside risks persist, particularly from a potential escalation in the **trade war** with the US. Inflation fell to 2.3% in February, and after the **ECB cut rates to 2.5% in March**, further easing is expected in April.

Fiscal stimulus will help Germany emerge from years of stagnation

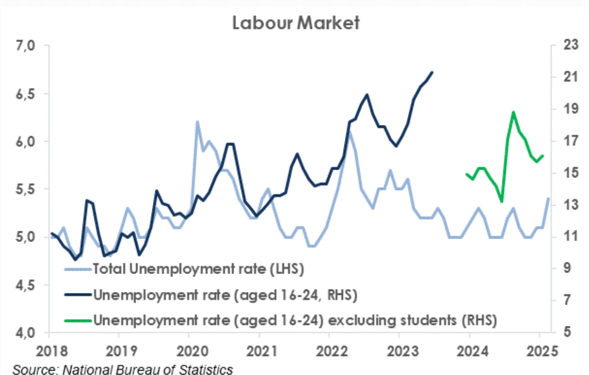


Source: National statistical offices

China: a positive start to the year but uncertainty remains high

The first data releases for January and February have been encouraging, supported by stimulus measures implemented by the authorities. However, they also confirm that long-standing structural issues remain unresolved. Exports – available only as a combined figure for the first two months – have slowed, likely due to tariff increases introduced on 4 February. Meanwhile, after some signs of stabilisation at the end of 2024, both home sales and construction activity deteriorated again in the early months of this year. For now, **we maintain our GDP growth forecast of close to 7% for the first quarter**, in line with the final quarter of 2024, and 4.6% for full-year 2025. However, significant downside risks persist due to uncertainty surrounding trade tariffs.

Rising unemployment rate in the first two months of the year



Source: National Bureau of Statistics

Fideuram Asset Management Economic Forecast

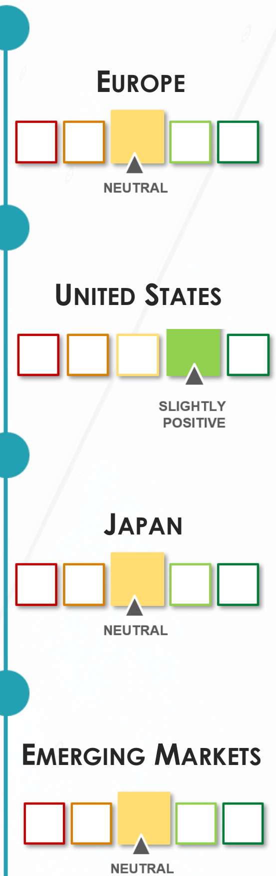
	GDP			Inflation			Monetary Policy Rate		
	2024	2025*	2026*	2024	2025*	2026*	2024	2025*	2026*
US	2,8	2,2	2,2	3,0	2,8	2,5	4,38	3,88	3,63
Eurozone	0,8	1,0	1,3	2,4	2,2	2,0	3,00	1,75	2,00
Japan	0,1	1,2	0,7	2,7	2,7	2,0	0,25	0,75	1,00
China	5,0	4,6	4,0	0,2	0,6	1,2	2,00	1,70	1,70

Annual average growth, monetary policy rates are end of period. Depo rate for ECB.

** Fideuram Asset Management Forecasts*

INVESTMENT VIEW

Equity Markets



In Europe, we see signs of an improvement in the macroeconomic outlook, triggered by Germany's shift in fiscal policy. Valuations have already partially priced in this development, and corporate earnings have also shown positive signals. We have slightly increased our exposure, but remain close to a neutral stance due to the potential introduction of US tariffs in early April.

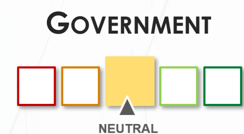
We maintain a positive outlook on the US market, supported by broad-based earnings growth across sectors. However, increased macroeconomic uncertainty suggests a limited overweight. The narrowing gap between the profitability of large tech firms and the rest of the market has led us to position portfolios in favour of broader market exposure, reflected in dedicated investments in equally weighted and value strategies.

The Japanese market benefits from supportive fundamentals and a favourable macroeconomic backdrop. However, we do not hold a significant active position, as near -term profit growth appears less compelling compared to the US. That said, balance sheet restructuring and a more favourable inflation dynamic are expected to drive margin expansion. Valuations are not high and have room to reflect the increase in corporate profitability.

Overall, we maintain a neutral stance on emerging market equities due to uncertainty surrounding US trade policy developments. However, within the emerging market space, we hold an overweight position in China, though not necessarily due to expectations of fiscal stimulus or stronger macro and earnings momentum, but rather due to the government's increasingly supportive stance towards the private sector, particularly the technology industry. This shift reduces perceived risk premium and supports an expansion in valuations.

Bond Markets

Government

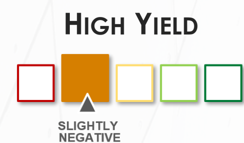


We maintain an overall neutral stance on government bond exposure. Following the outcome of the German elections, we have reduced exposure to the long end of the German yield curve, given the volatility stemming from Germany's fiscal policy decisions. In the US, the 10-year Treasury is pricing in early signs of economic slowdown and a reduction in the fiscal risk premium. Current yield levels remain within our fair value range.

Corporate

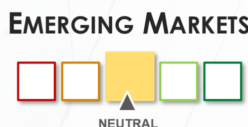
The total return offered by the high-quality corporate bond sector is still attractive thanks to the base rate, which gives a certain degree of defensiveness for the asset class even under more uncertain macroeconomic conditions, and the contribution of spreads that, although relatively narrow and net of short-term movements, can still offer an extra return compared to government bonds in a still constructive scenario.

High Yield



The default rates, despite the increase in the cost of capital, are still relatively limited. However, even with attractive expected returns on a historical basis, we remain underweight as we prefer equities among the risky assets, at least until companies continue to show capacity for growth and an upward revision of earnings.

Emerging Markets



We generally maintain a cautious stance on the more volatile and lower-quality segments of the bond market, favouring equity exposure instead. Emerging market bonds, particularly those denominated in local currency, offer a relatively attractive carry, and this is the reason for the neutral position. However, uncertainty on the political and currency fronts for the potential for additional trade tariffs tempers our enthusiasm.

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EQUITY MARKETS

THE RETURN OF VOLATILITY IN EQUITY MARKETS

We have taken advantage of the recent market decline to increase the modest overall overweight in the asset class. Geographically, the portfolios continue to favour the United States and, within the overall neutrality towards emerging markets, the Chinese market.

Recent market trends have highlighted a weakening of so-called "American exceptionalism," prompting renewed interest in other regions, such as Europe and Asia, which have meanwhile benefited from growing confidence in their respective economic and fiscal policies.

In the United States, markets initially reacted positively to Trump's election, driven by expectations of an economic agenda aimed at stimulating growth through two key channels: expansionary fiscal policy and a broad deregulation plan designed to enhance corporate profitability, investment, and productivity.

However, the early phase of implementation has faced setbacks. The new administration has prioritised the less "market-friendly" aspects of its agenda, including protectionist and tariff measures, immigration policies, and public spending constraints under the Department of Government Efficiency (DOGE).

This initial phase has dampened market confidence, raising concerns about the sustainability of the economic cycle, which is showing early signs of slowing, though not yet to a degree that would indicate imminent recession risks. Should the administration refocus on pro-growth policies in the coming months, the US economy could receive a fresh boost.

In the Euro Area, we see signs of an improvement in the macroeconomic outlook, triggered by Germany's shift in fiscal policy. Valuations have already partially priced in this development, and corporate earnings have also shown positive signals. We have slightly increased our exposure, but remain close to a neutral stance due to the potential introduction of US tariffs in early April.

Similarly, our overall stance on emerging markets remains neutral, with a relative overweight in China, reflecting the country's ongoing technological advancements (as highlighted by the DeepSeek case) and the government's more supportive approach towards the private sector.

BOND MARKETS

Focus on US tariff uncertainty and German fiscal push

We maintain an overweight stance on high-quality credit risk while remaining neutral on government bonds and emerging market debt, with an underweight position in high yield.

Following the German elections, we reduced exposure to the longer end of the European yield curve to mitigate pressure from Germany's fiscal developments. The bond allocation in our portfolios is now set with a duration close to neutrality, primarily expressed through a preference for high-quality credit risk, such as investment-grade corporate bonds and financial subordinated debt. Overall, the bond component has a duration closer to neutral.

The key turning point has been Germany's approval of a fiscal expansion plan exceeding expectations, not only in terms of size but also in terms of speed. This initiative, which has reshaped Euro Area growth expectations, has also had a direct impact on government bond curves.

As a result, government bond yields, particularly the German Bund, rose sharply, approaching the 3% threshold. This movement validated our decision to pre-emptively reduce exposure to the long end of the curve, shielding portfolios from higher-than-expected market volatility.

In the US, Treasuries have already priced in an economic slowdown and a lower fiscal risk premium, driven by expectations of reduced government spending. Current yield levels fall within our fair value range, aligning with our baseline scenario, and we therefore maintain a neutral stance.

We maintain an overweight in high-quality credit, which offers contained volatility and an attractive yield pick-up. Our exposure is concentrated in intermediate maturities, avoiding the longer end of the curve, where volatility remains higher.

The high-yield segment presents a combination of historically high yields and moderate default rate increases. However, we prefer to allocate risk budget to equities, which are more directly linked to corporate profitability.

We also maintain a neutral stance on emerging market bonds, which remain vulnerable to trade policy developments, favouring less volatile fixed income exposures instead.

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