



March 2025 Quarter in Review

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EQUITIES DIVERGE BY TARIFF FEARS



Global equities diverged in the first quarter (Q1) of 2025. US stocks fell, while European and emerging market (EM) equities rallied, reflecting the respective changes in regional growth outlooks. The Trump administration's vacillation over US tariff policy has created increased uncertainty among consumers and businesses alike, dimming the growth outlook for the world's largest economy.

Government bond prices fell during the period as yields rose. This change was particularly notable in Germany, where debt issuance is set to increase markedly to fund spending plans under presumptive Chancellor Friedrich Merz. The monumental fiscal package, designated for defence and infrastructure spending, has improved the medium-term growth prospects for Germany.

Lenny McLoughlin

Chief Investment Strategist, Irish Life Investment Managers Limited (ILIM)

US

The Trump administration's unpredictable stance on tariff policy was the dominant theme of Q1. Global economic activity held up reasonably well, but sentiment indicators suggested widespread concern over the potential impacts of US trade policy, including rising expectations for costs and inflation and risks to global growth.

President Trump signed several executive orders after his inauguration in January. These included undoing some of former President Biden's policies, such as revoking the offshore oil drilling ban as well as freezing funds for projects related to Biden's flagship Inflation Reduction Act. An additional 10% tariff was implemented on all Chinese imports in February, with China retaliating with tariffs of 10%-15% on specific items from the US.

Trump noted in his March State of the Union speech that new tariffs would result in "a little disturbance" for the US economy, while also indicating that tax cuts would be forthcoming. Numerous tariffs were announced during the month, including a 25% tax on imports from key trading partners Canada and Mexico. Trump subsequently announced one-month delays to the levies, and investors struggled to work out the likely direction of travel.

The policy flip-flopping raised business and consumer uncertainty. The Conference Board index of consumer confidence fell by more than forecast in March due to concerns about "the impact of tariffs" while inflation expectations rose to the highest level in nearly two years. PMIs for March indicated that the US services sector continued to expand while suggesting deteriorating conditions in manufacturing, with companies citing increased input costs due to "the impact of tariff policies."

A further 10% tariff on Chinese imports was also implemented, as well as a 25% levy on all steel and aluminium imports. Retaliatory tariffs were subsequently imposed by some of America's trading partners.

The Federal Reserve left its key rate at the target range of 4.25-4.50% as expected at its March meeting, but lowered its growth forecasts and increased inflation projections due to the potential impact of tariffs, stating that "uncertainty around the economic outlook has increased." The median projection of the rate-setting committee is for 1.7% y/y GDP growth in 2025, down from a 2.1% estimate in December, and for core inflation of 2.8% y/y this year, up from a previous projection of 2.5%.

For now, US economic conditions remain healthy and inflation somewhat controlled. Q4 GDP rose by an annualised 2.4% q/q, supported by a robust 4.0% rise in consumption and a 3.1% increase in government spending. Robust job creation has continued, with 151,000 non-farm jobs added in February, while unemployment rose marginally to a still-low level of 4.1%. Although inflation as measured by consumer prices was slightly below expectations in March, the Fed's preferred measure of inflation, core Personal Consumer Expenditures (PCE) rose by more than expected to 2.8% y/y.

Europe

Eurozone activity showed signs of improvement during Q1. Q4 GDP figures were released, showing an acceleration to 1.2% y/y – from 1.0% in Q3 – driven by a strong expansion in Spain (3.5% y/y), though this was somewhat offset by a mild contraction in Germany (-0.2%) and lacklustre growth in France and Italy (both 0.6%). Business sentiment has also been positive so far in 2025, with the Eurozone composite PMI staying in expansionary territory at 50.4 in March, while manufacturing PMI rose to 48.6 amid an increase in the output subcomponent to 50.7, its highest level in over three years.

The German federal election in February gave the Christian Democrats (CDU/CSU) the highest share of votes (28.6%). CDU leader Friedrich Merz is set to become the new chancellor, and has said he will prioritise improving Europe's security. With some parties failing to meet the 5% threshold needed for parliamentary seats, the CDU/CSU and Social Democrats are expected to form a "grand coalition" that will hold a majority of seats in the Bundestag (lower house of parliament). In March, the incoming government proposed a momentous fiscal package targeted at defence and infrastructure spending. Total spending over the next 10 years is expected to amount to €1 trillion+ (20%+ of German GDP). The plan, which included a reform of the "debt brake" limit on the structural fiscal deficit, was approved in March.

Growth in Europe is expected to be muted in 2025, supporting the European Central Bank's (ECB) decision to cut its deposit rate by 25bps to 2.50% at its March meeting. The ECB reduced its GDP growth forecasts for the region to 0.9% this year and 1.2% in 2026 amid ongoing policy uncertainty. ECB President Lagarde said the central bank's analysis indicated that US tariffs and retaliation from Europe would lower Eurozone growth by 0.5% in the first year of implementation and raise inflation by the same magnitude. She added that the inflationary impact of Germany's fiscal package was "not that significant" according to ECB calculations. This suggested that further rate reductions should be forthcoming in 2025, supported by falling inflation. Headline consumer prices rose by 2.2% y/y in March while the rate of growth in core prices decelerated to a 2.4%, the slowest in over three years.

China

China announced it would target growth of "around 5%" for a third consecutive year in 2025 and raised its budget deficit target to 4% of GDP, indicating further stimulus to support activity. The government also said it plans to "vigorously boost consumption", illustrating its focus on bolstering growth this year. Separately, the January release of a new artificial intelligence (AI) model from Chinese tech company DeepSeek made headlines and illustrated China's AI progress. Reports suggest that DeepSeek's models are already being implemented by numerous Chinese companies and across industries.

MARKET ROUND-UP

Equities

Global equities, as represented by the MSCI All Country World Index (ACWI) declined by 2.0% (-5.3% in euro terms) in Q1, dragged lower by a 4.5% (-8.5% in euro terms) fall in the MSCI USA due to policy uncertainty. Meanwhile, Germany's fiscal stimulus announcement pushed the MSCI Europe ex-UK up by 6.4% (6.3% in euro terms).

Small cap equities fell by 4.9% (-7.6% in euro terms) and underperformed large caps amid concerns that ongoing US policy uncertainty could hamper domestic economic activity.

EM equities rose by 2.7% (1.3% in euro terms). The asset class gained on the Chinese government's efforts to support the domestic economy, along with hopes for efficiency benefits from the implementation of DeepSeek's new AI model. The MSCI China index rallied by 15.0% (10.3% in euro terms) over the period.

Bonds

The ICE BofA 5+ Year Euro Government bond index returned -2.4% as 10-year yields on German Bunds rose by 35bps to 2.70% due to the substantial fiscal easing announced and expectations for a resultant increase in debt issuance.

European investment-grade (IG) corporate bonds returned 0.1%, with yields rising by 8bps to 3.34%, while spreads narrowed by 6bps to 94bps over the period. Global high-yield bonds returned 1.0% in Q1, supported by income payments that more than compensated for capital losses from higher yields – there was a 16bps increase in yields in Q1 (to 6.74%) while spreads widened by 43bps to 278bps.

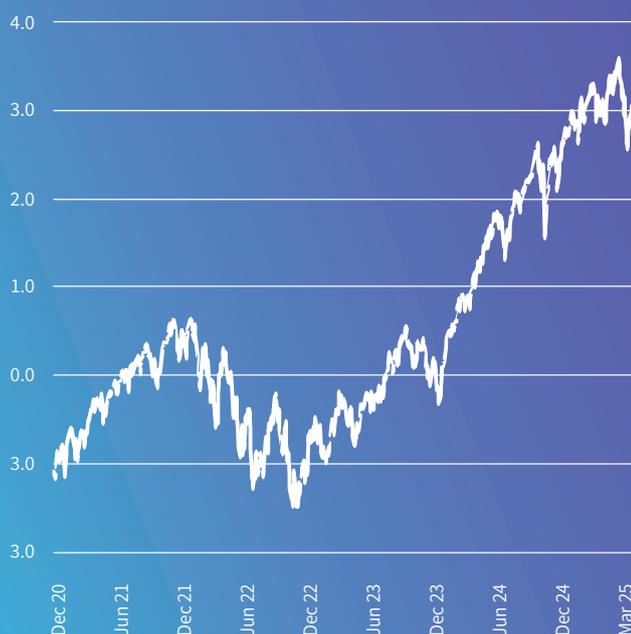
EM local debt returned 0.4% in Q1, with yields falling by 10bps to 6.35%. EM hard debt returned 1.7% as the asset class was supported by a weaker US dollar, which reduces debt repayments in local currency terms, as well as a 6bps fall in yields over the period (to 6.93%).

Meanwhile, peripheral Eurozone bond spreads narrowed as German yields rose by more than those elsewhere in the region due to the expected large increase in government debt issuance. Italian 10-year spreads over equivalent German Bunds fell by 2bps to 114bps, while spreads for Spanish government bonds were down by 4bps to 65bps. French spreads fell by 10bps in Q1 to 73bps.



CHARTS OF THE QUARTER

Global equities



Source: ILIM, FactSet. Data is accurate as at 31 March 2025.

Bonds – German 10-year yield



Source: ILIM, FactSet. Data is accurate as at 31 March 2025.

MARKET SNAPSHOT

Market returns (EUR)

Equity Markets (EUR)	QTD Return (%)	YTD Return (%)	2024 Return (%)
MSCI Ireland	11.5	11.5	22.8
MSCI United Kingdom	5.2	5.2	14.7
MSCI Europe ex UK	6.3	6.3	7.7
MSCI North America	-8.2	-8.2	32.9
MSCI Japan	-3.7	-3.7	15.9
MSCI EM (Emerging Markets)	-1.3	-1.3	15.3
MSCI AC World	-5.3	-5.3	25.9
10-Year Yields	Yield last month (%)	2024 Yield (%)	2023 Yield (%)
US	4.21	4.57	3.88
Germany	2.70	2.35	2.02
UK	4.67	4.56	3.54
Japan	1.52	1.09	0.61
Ireland	3.01	2.63	2.38
Italy	3.84	3.51	3.69
Greece	3.53	3.23	3.06
Portugal	3.25	2.84	2.66
Spain	3.34	3.04	2.99
FX Rates	End last month	2024 Rates	2023 Rates
U.S. Dollar per Euro	1.08	1.04	1.10
British Pounds per Euro	0.84	0.83	0.87
U.S. Dollar per British Pounds	1.29	1.25	1.27
Commodities (USD)	QTD Return (%)	YTD Return (%)	2024 Return (%)
Oil (Brent)	0.1	0.1	-3.1
Gold (Oz)	19.0	19.0	27.1
S&P Goldman Sachs Commodity Index	4.9	4.9	9.2

Source: ILIM, Bloomberg. Data is accurate as at 1 April 2025.

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THE ILM VIEW – LOOKING AHEAD

The fundamental backdrop for global equities on a 12-month view remains positive despite uncertainties relating to the implications of US policy. Steady growth, strong consumer balance sheets, rate cuts and eventual corporate-friendly policies should provide a positive environment for the asset class. Divergence within regional equity performance, however, is likely to remain a feature as policies in the US and the rest of the world remain in flux.

Global equities valuations are above long-term averages, trading on a 12-month forward P/E multiple of 17.2x against a long-term average of 16.1x. However, with a positive growth and earnings backdrop, multiples can remain close to current levels. The 12-month forward P/E for the MSCI USA is 20.3x against a long-term average of 16.4x. Equities outside the US offer better relative value. Europe ex-UK equities trade at a multiple of 14.7x against a long-term average of 13.4x; Japanese equities trade at 13.9x versus a long-term average of 15.1x; UK equities trade at 12.1x against a long-term average of 12.5x; and EMs are trading at 12.3x against a long-term average of 11.4x. Equities remain expensive against both bonds and cash given the high yields currently available on the latter assets.

Earnings are forecast to rise over the next 1-2 years, which should be supportive. Additional rate cuts in a positive fundamental backdrop can also contribute to further gains. Over the medium term, the rollout of AI should boost efficiencies and earnings across the whole market and allow equities trade at higher valuation levels. Any short-term volatility in markets is likely to be offset by the above factors, resulting in positive returns on a 12-month time frame.

Sovereign bond yields have been volatile over the past year amid somewhat sticky inflation, but both German and US 10-year yields are below their October 2023 highs. With inflation having fallen significantly and central banks suggesting policy is still above neutral levels, rates are likely to be cut further through 2025, enabling bond yields to decline over the next 12 months.

On a 12-month view, our base case is that German and US 10-year government bond yields fall from current levels of 2.70% and 4.21% to 2.50% and 4.00%, respectively. We believe fixed income offers a strong risk-reward profile at this stage in the cycle, with the potential to offer protection if the economy slows. The asset class is attractive from an income perspective while also providing potential for capital gains via falling yields. We believe that the risks of materially higher bond yields have reduced and, if the economy falters, major central banks will be able to cut rates to support growth. In that scenario we would expect bonds to outperform to a greater extent.



THE MONTH AHEAD

APRIL

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
	<p>01</p> <p>Japan Unemployment Rate China Caixin Manufacturing PMI Australia Interest Rate Decisions French, German, Spanish Manufacturing PMI Euro Area Inflation Rate YoY Flash, MoM Flash; Unemployment Rate, Manufacturing PMI US ISM Manufacturing PMI, JOLTs Job Openings</p>	<p>02</p> <p>Brazil Industrial Production MoM US Factory Orders MoM</p>	<p>03</p> <p>US Balance of Trade, Exports, Imports, Initial Jobless Claims, ISM Services PMI Australia Balance of Trade China Caixin Services PMI Canada Balance of Trade</p>	<p>04</p> <p>US Non-farm Payrolls, Unemployment Rate, Average Hourly Earnings MoM, Average Hourly Earnings YoY UK Construction PMI Canada Unemployment Rate</p>
<p>07</p> <p>Germany Balance of Trade, Exports MoM, Industrial Production MoM</p>	<p>08</p> <p>France Balance of Trade, Exports, Imports Canada PMI</p>	<p>09</p> <p>Japan Consumer Confidence India Interest Rate Decision US FOMC Minutes</p>	<p>10</p> <p>Korea Unemployment Rate UK House Price Balance China Inflation Rate YoY, MoM, PPI YoY Italy Industrial Production MoM US Core Inflation Rate MoM, YoY; Inflation Rate MoM, YoY US Monthly Budget Statement</p>	<p>11</p> <p>UK GDP MoM, Goods Trade Balance, Industrial Production MoM, Manufacturing Production MoM, Balance of Trade Brazil Inflation Rate MoM, YoY US PPI MoM, Core PPI MoM, Michigan Consumer Sentiment (Preliminary) Russia Inflation Rate MoM, YoY</p>
<p>14</p> <p>Singapore GDP Growth Rate QoQ</p>	<p>15</p> <p>Germany Wholesale Prices MoM, YoY; ZEW Economic Sentiment Index UK Unemployment Rate, Average Earnings, Employment Change Canada Housing Starts; Inflation Rate YoY, MoM</p>	<p>16</p> <p>China House Price Index YoY; GDP Growth Rate YoY, QoQ; Industrial Production YoY, Retail Sales YoY UK Inflation Rate YoY, MoM; Core Inflation Rate YoY, MoM US Retail Sales MoM, Industrial Production MoM Canada Interest Rate Decision, Monetary Policy Report</p>	<p>17</p> <p>Japan Balance of Trade, Exports YoY Germany PPI YoY Turkey Interest Rate Decision Euro Area Interest Rate Decision US Housing Starts, Initial Jobless Claims, Philadelphia Fed Manufacturing Index</p>	<p>18</p> <p>Japan Inflation Rate YoY Italy Balance of Trade</p>
<p>21</p> <p>Indonesia Balance of Trade</p>	<p>22</p> <p>Turkey Consumer Confidence Euro Area Government Budget to GDP, Debt to GDP, Consumer Confidence Flash</p>	<p>23</p> <p>Manufacturing and Services PMI Flash for Australia, Japan, India, France, Germany, UK, Euro Area, US Composite PMI Flash for India, Germany, Euro Area, US Balance of Trade for Euro Area and US US 30-year Mortgage Rate, New Home Sales Canada New Housing Price Index MoM, YoY Korea Business Confidence</p>	<p>24</p> <p>Korea GDP Growth Rate QoQ, YoY EU New Car Registrations YoY France Consumer Confidence Germany Business Climate UK Business Optimism, Industrial Trends Orders US Durable Goods Orders MoM, Initial Jobless Claims, Existing Home Sales</p>	<p>25</p> <p>UK Retail Sales MoM, YoY France Business Confidence Canada Retail Sales MoM US Consumer Sentiment Final</p>
<p>28</p> <p>Spain Unemployment Rate France Unemployment Benefit Claims Mexico Balance of Trade, Unemployment Rate Dallas Fed Manufacturing Index</p>	<p>29</p> <p>Germany Consumer Confidence Spain GDP Growth Rate QoQ Flash, YoY Flash; Inflation Rate MoM Preliminary, YoY Preliminary Turkey Unemployment Rate Italy Business Confidence Euro Area Economic Sentiment US Goods Trade Balance Advance, Retail Inventories ex Autos MoM, Wholesale Inventories MoM Advance, Home Prices YoY, JOLTs Job Openings</p>			

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Figures referenced herein have been sourced from ILIM and Bloomberg. Forecast figures have been prepared by ILIM based on reasonable assumptions, internal data and data sourced from Bloomberg.

Contact us

Phone (01) 704 1200

Fax 01 704 1918

Website www.ilim.com

Write to Irish Life Investment Managers, Beresford Court, Beresford Place, Dublin 1

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