M.M.WARBURG & CO
BANK

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Turbulence on the US stock market

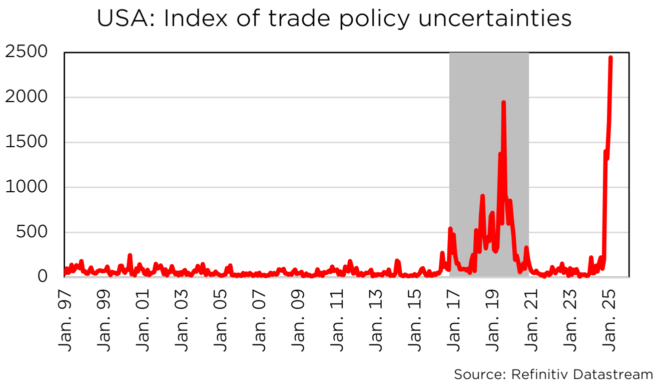
It wasn't that long ago: on February 19, the S&P 500 reached a new record high of 6,144 points. However, in the past three weeks, US equities have gone into reverse, with technology stocks in particular coming under pressure. This development has now led to all US indices showing a negative performance since the beginning of the year. The S&P 500 is down five percent, while the Nasdaq technology exchange has lost ten percent since the beginning of the year. The shares of the “Magnificent 7”, which were previously the focus of many investors, have even lost an above-average 15% of their value. For euro investors, the depreciation of the US dollar by around four percent is also making itself felt.

In contrast, share prices in Europe and China have risen this year. Hopes for a swift formation of a government in Germany, an expansive fiscal policy with higher spending on defense and infrastructure as well as a possible ceasefire between Ukraine and Russia led to an outperformance of the DAX, Euro Stoxx and other European share indices rarely seen on this scale. Chinese shares also benefited from hopes of extensive economic stimulus measures by the government in Beijing. However, the main reasons for the regional divergences were political risks, growth concerns and trade policy distortions resulting from the measures taken by the new US government.

Price falls such as those currently observed in the USA are not unusual, even on this scale, and occur on the equity markets almost every year. Last year, for example, there was a sharp price correction from mid-July to early August. In 2023, prices fell sharply from the beginning of September to the end of October. In most cases, there are no signs of an impending price slide in advance and the arguments for this are found afterwards.

US equities under pressure: three key factors

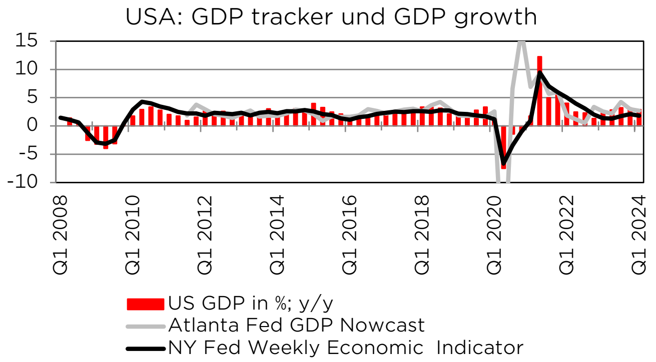
1. Tariff escalation and political risks



US President Trump's decision to introduce tariffs on goods from Canada, Mexico and China as well as general import duties on steel and aluminum of 25% from March 2025 has so far weighed on US equities in particular. By contrast, the Canadian stock market has only fallen slightly since the beginning of the year, while Mexican shares have even risen. This is surprising in that both countries are likely to face considerable economic difficulties if the USA imposes tariffs on goods from Canada and Mexico over a longer period of time. Both countries export around 80 percent of their exports to the USA. In addition to the announcement itself, the very erratic communication has led to great uncertainty. The unpredictable implementation of the announced measures led to a valuation discount on the US markets, while share prices in other regions of the world benefited as a safe haven. The trade policy uncertainty measured for the USA has recently reached a record level.

2. Leading indicators deteriorate

Since Donald Trump's inauguration, a number of leading economic indicators have weakened. In February, the US consumer confidence index fell to its lowest level in eight months. This development reflects consumers' fears of the inflationary price effects of tariffs and an economic downturn. Confidence among smaller US companies, which had risen significantly following Trump's election, has also deteriorated again recently, but is still well above the level prior to the election in November.



Source: Refinitiv Datastream

The regional US Federal Reserve in Atlanta regularly publishes an estimate of real GDP growth in the USA based on various economic data. Based on this model, a negative growth rate of 2.4% is currently forecast for the first quarter, which some economists see as a sign of an impending recession. The main reason for this result is pull-forward effects prior to the introduction of tariffs, which have led to a sharp rise in imports. If imports grow faster than exports, this leads to a negative trade balance and thus to weaker economic growth. Consumer spending and investments, on the other hand, rose in the first quarter according to the available data, so we believe that the US economy is still on the right track. A similarly constructed leading indicator for GDP development from the Dallas Fed does not yet point to a significant decline in economic activity.

3. Growth forecasts under scrutiny - “Trumpcession”?

Some major US banks have recently revised their growth forecasts for 2025 downwards and increased the likelihood of a recession this year; however, such a negative scenario has so far only been seen as an outside chance. Uncertainty has been caused by statements from the US government, which have been interpreted as meaning that policymakers are prepared to accept a significant economic slowdown in order to free the US economy from its previous monetary and fiscal policy dependencies. The US tariffs could trigger a negative domino effect: Higher production costs → falling margins → reluctance to invest → cooling of the labor market.

For the time being, we are sticking to our assessment that the US economy will grow this year and once again show stronger economic momentum than most other industrialized countries. The political uncertainties are having a negative impact and could lead to consumer and investment restraint. However, there is no sign of this in the data available so far. In addition, Trump's policy can certainly show initial successes: Without his escalation strategy towards Ukraine and his NATO partners, a possible ceasefire between Russia and Ukraine would probably still be a long way off and there would probably be little pressure in Europe to do more for its own defense. In addition, many international companies have now announced that they will invest in the USA in order to produce locally. This should benefit both economic growth and the labor market in the USA, even if it will take some time before these effects are reflected in the real economic data.

US equities: Why stay invested?

Donald Trump's erratic and unpredictable policies are unlikely to change any time soon. This means that investors must continue to expect verbal disruptive maneuvers from the US president. Emotionally, many find it particularly difficult to remain loyal to the US and US equities in these times. But emotions are usually a bad guide on the stock market. For us, the fundamental framework conditions are more important, and from today's perspective, these look more promising for the USA than for Europe. The German economy in particular is heavily dependent on the USA as our most important trading partner. Should the USA impose tariffs from April and/or should the US economy weaken more than we expect, this is likely to have a very negative impact on the German economy and therefore on the European economy as a whole. In contrast, counter-tariffs for the USA are likely to have only a limited economic effect. In addition, the appreciation of the euro against the US dollar will have a negative impact on the competitiveness of European companies.

Turnover exposure of DAX companies:

Revenue Exposure By Country/Region

Total LTM Revenue €1,691.2B

	% of Tot. Rev.	% Chg (Y/Y)	3 Yr Trend
United States	25.4	5.1	
Germany+	18.1	3.7	
United Kingdom	5.2	-3.5	
Mainland China	5.2	-29.6	
France	2.9	2.2	
Canada	2.7	-0.2	
Japan	2.6	5.1	
Italy	2.3	2.4	

+Country of Risk | Showing up to 8 of 257 countries
Values are estimated based on FactSet's proprietary algorithm

Turnover exposure of the companies in the S&P 500:

Revenue Exposure By Country/Region

Total LTM Revenue $17,389.6B

	% of Tot. Rev.	% Chg (Y/Y)	3 Yr Trend
United States	59.6	0.7	
Mainland China	6.8	-4.3	
Japan	2.3	-11.5	
United Kingdom	2.2	-0.9	
Germany	2.2	-3.9	
Singapore	1.8	163.5	
Canada	1.8	-3.7	
Taiwan, China	1.5	-11.7	

Showing up to 8 of 257 countries
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In our view, the most important argument that continues to speak in favor of US equities is the earnings outlook for companies. According to corporate analysts' forecasts (source: Factset), US technology companies in particular continue to expect stronger earnings momentum than is the case in other markets. For example, the profits of companies included in the Nasdaq 100 index are expected to increase by 18% in 2025 and 17% in 2026. Growth rates of 12% and 14% are predicted for the S&P 500, while the forecasts for the Euro Stoxx 50 are lower at 7% and 11%.

Of course, it could be that analysts are too optimistic about US companies. But it is not as if they have not yet made adjustments to the more uncertain US scenario. Since the beginning of the year, estimates for corporate earnings in the first quarter for the entire S&P 500 have been lowered by almost four percent. This mainly affects companies in the consumer, industrial and commodities sectors. By contrast, the forecasts for the technology sectors remained largely unchanged. As a result, the valuation of US technology shares appears much more attractive again. This is particularly true when viewed relative to other indices. The Nasdaq Composite Index is currently valued at a P/E ratio of 24.6 based on 12-month expected earnings. This compares to its own historical averages since 2000 of 24.5 and since 2003 of 23.7. The US semiconductor index SOX has also become relatively favorable with a P/E ratio of 22.8 compared to the average value since 2000 of 22.5. In contrast, the DAX, with a P/E ratio of 14.9, is valued more favorably in absolute terms than the US stocks, but is rather expensive compared to its own history (13.5 since 2000, 12.5 since 2003). A comparison of the valuation of the DAX with the valuation of the equally weighted S&P 500, which is not dominated by the large tech companies, shows that German equities have never been as expensive in relative terms since 2009 as they are today compared to their US counterparts.

Despite the current strong headwinds, we therefore consider US equities to be an attractive investment. Even though we do not know what kind of capers US President Trump will get up to in the near future, we believe that the US economy and its companies are robust enough to weather a storm. Only a prolonged (but not entirely unthinkable) low could put the system in trouble. And while there is no reason to gloss over the current situation, the past shows that volatile phases on the capital markets are part of the game, because without risk there is no return. If in doubt, it is better to stay invested than to try to find the optimal entry and exit point. The probability of getting back in at the low point is comparable to that of winning the lottery.

Carsten Klude

Market data

Stock marktes	As of 13.03.2025 16:21	Change versus 06.03.2025 -1 week	12.02.2025 -1 month	12.12.2024 -3 months	12.03.2024 -1 year	31.12.2024 YTD
Dow Jones	41062	-3,6%	-7,5%	-6,5%	5,3%	-3,5%
S&P 500	5566	-3,0%	-8,0%	-8,0%	7,5%	-5,4%
Nasdaq	17495	-3,2%	-11,0%	-12,1%	7,6%	-9,4%
DAX	22594	-3,5%	2,0%	10,6%	25,8%	13,5%
MDAX	28575	-5,7%	5,1%	6,6%	8,2%	11,7%
TecDAX	3712	-4,0%	-3,2%	4,6%	7,2%	8,6%
EuroStoxx 50	5342	-3,2%	-1,2%	7,6%	7,2%	9,1%
Stoxx 50	4591	-2,6%	-2,0%	3,9%	4,6%	6,5%
SMI (Swiss Market Index)	12832	-1,5%	0,9%	9,5%	9,1%	10,6%
Nikkei 225	36790	-2,4%	-5,6%	-7,7%	-5,2%	-7,8%
Brasilien BOVESPA	125287	1,6%	0,7%	-0,6%	-1,9%	4,2%
Indien BSE 30	73829	-0,7%	-3,1%	-9,2%	0,2%	-5,5%
China CSI 300	3912	-1,1%	-0,2%	-2,9%	8,7%	-0,6%
MSCI Welt	3643	-2,4%	-5,3%	-4,8%	7,2%	-1,7%
MSCI Emerging Markets	1111	-1,8%	0,0%	-0,2%	5,9%	3,3%
Bond markets						
Bund-Future	127,08	-139	-507	-827	-605	-636
Bobl-Future	116,85	75	-37	-178	-129	-101
Schatz-Future	106,67	11	-8	-53	91	-32
3 Monats Euribor	2,53	2	-3	-36	-140	-19
3M Euribor Future, Dec 2025	2,11	-3	9	-75	-88	22
3 Monats $ Libor	4,35	1	0	0	-113	-2
Fed Funds Future, Dec 2025	3,68	7	-40	-81	-92	-23
10 year US Treasuries	4,31	2	-32	-1	16	-26
10 year Bunds	2,86	0	40	66	55	49
10 year JGB	1,55	5	21	50	78	46
10 year Swiss Government	0,83	10	40	54	5	55
US Treas 10Y Performance	609,03	-0,1%	2,9%	1,2%	2,9%	2,9%
Bund 10Y Performance	543,65	0,0%	-3,3%	-5,0%	-2,0%	-3,7%
REX Performance Index	447,50	0,1%	-1,3%	-2,0%	1,0%	-1,2%
IBOXX AA, €	3,28	-2	25	44	-3	24
IBOXX BBB, €	3,68	-2	24	41	-22	23
ML US High Yield	7,65	15	16	32	-21	0
Commodities						
MG Base Metal Index	439,89	1,5%	4,4%	4,8%	12,2%	8,5%
Crude oil Brent	70,31	0,7%	-6,8%	-3,2%	-14,8%	-5,9%
Gold	2973,49	2,0%	2,7%	10,8%	37,5%	13,3%
Silver	33,18	1,4%	2,9%	6,8%	36,9%	11,8%
Aluminium	2716,72	0,3%	3,3%	6,2%	22,5%	7,5%
Copper	9751,60	0,0%	4,4%	8,7%	13,9%	12,7%
Iron ore	101,44	0,2%	-5,4%	-3,8%	-10,3%	-2,1%
Freight rates Baltic Dry Index	1559	21,2%	100,9%	47,8%	-32,7%	56,4%
Currencies						
EUR/ USD	1,0860	0,6%	4,7%	3,5%	-0,5%	4,5%
EUR/ GBP	0,8388	-0,1%	0,5%	1,6%	-1,8%	1,5%
EUR/ JPY	160,55	0,8%	0,8%	0,6%	-0,5%	-1,5%
EUR/ CHF	0,9607	0,4%	1,6%	3,1%	0,2%	2,1%
USD/ CNY	7,2427	0,0%	-1,0%	-0,4%	0,8%	-0,9%
USD/ JPY	148,26	0,2%	-4,0%	-2,9%	0,4%	-5,7%
USD/ GBP	0,77	-0,4%	-3,9%	-2,0%	-1,2%	-3,2%

Source: Refinitiv Datastream

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