

Marktupdate

April 2025

## April 2025: As long as smart-phones don't get more expensive

At least April was not a boring month for the markets. This was largely due to the uncertainties surrounding the trade tariffs that US President Trump has imposed on China, among other countries. On April 2, Trump announced import tariffs on virtually every country in the world, but followed this in the days thereafter with 90-day breaks for some countries and exceptions for some products, such as smartphones. Apparently, more expensive smartphones are a bridge too far. In line with these chaotic announcements, financial markets were also quite volatile.

US stocks in April were at one point 13% lower than they were at the end of March, before bouncing back and limiting the April loss to 5% (measured in euros). European equities underperformed, losing around 1% in April. The best performing category was listed real estate, with a yield of over 5%. This category benefited from lower interest rates, among other things.



It was a risk-off month in several respects, with 10-year German government bond yields falling 0.3% in April. Yields on 10-year US Treasuries ended the month flat at 4.2%, after peaking at 4.5% earlier in April. This is striking, as US Treasury yields tend to fall when stock prices fall. It may reflect a dent in the status of US government bonds as a safe haven in times of turmoil, although it is still a little early to draw any strong conclusions. Another big loser last month was the US dollar, which depreciated by almost 5% against the euro.

The returns on the various asset classes were as follows:

Rendementen (total return, in euro's)	april	Q2	2025	12 mths
Bloomberg Barclays Eurozone Staatsobligaties	2.0%	2.0%	0.6%	4.7%
Bloomberg Barclays Euro Bedrijfsobligaties	1.0%	1.0%	1.0%	6.2%
Bloomberg Barclays Euro High Yield Bedrijfsobligaties	0.3%	0.3%	0.9%	7.6%
FTSE/EPRA Europe Onroerend Goed	5.3%	5.3%	3.3%	2.7%
MSCI Europe Aandelen	-0.8%	-0.8%	5.0%	6.9%
MSCI North America Aandelen	-4.8%	-4.8%	-12.9%	5.5%
MSCI Asia Pacific Aandelen	-1.9%	-1.9%	-5.3%	3.2%
MSCI World Developed Markets Aandelen	-3.8%	-3.8%	-9.9%	4.1%
MSCI Emerging Markets Aandelen	-3.3%	-3.3%	-4.7%	2.7%
EUR/USD	4.7%	4.7%	9.4%	6.2%

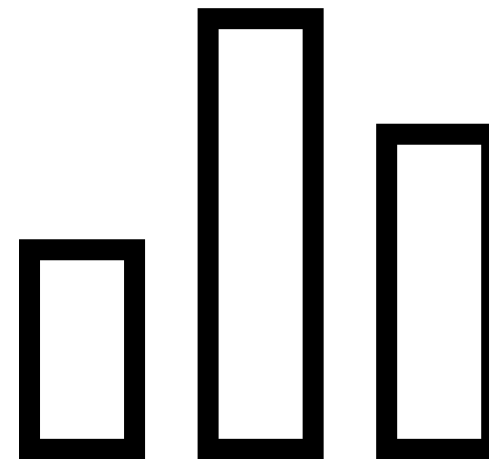
Source: Bloomberg

## A 'Trump slump' for the US economy

The US economy unexpectedly contracted by 0.3% (seasonally adjusted, annualised) in the first quarter of this year. In one sense, this figure by itself gives an overly pessimistic picture of the economy. It is largely driven by a sharp increase in imports, as this contributes negatively to a country's GDP. US imports rose 41.3% in the first quarter, likely in anticipation of Trump's import tariffs. The US labour market also does not seem to be losing momentum – unemployment in the US is still 4.2%, which is historically low. And 177,000 jobs (outside the agricultural sector) were added in the US in April, well above economists' expectations (138,000).

On the other hand, the contraction in Q1 could presage a weak year for the US economy. Uncertainty surrounding Trump's trade policy is particularly acute, which is not good for investment. Furthermore, the purchasing power of US consumers is likely to be affected by import tariffs. Consumption growth was only moderate in the first quarter, at 1.8%. Furthermore, both consumer and producer confidence appear to have been eroded. On consumer confidence, the Conference Board Consumer Confidence index dropped to 86 in April, close to the level at the height of the coronavirus crisis.

In its recently released '[World Economic Outlook](#)', the IMF presented a more bleak picture for the US economy as well. Roughly in line with previous research, the IMF also expects Trump's tariffs to cost the US economy 1% in growth this year and lead to a 1% increase in inflation.





## **The eurozone is growing slightly faster than expected, but there is no reason to cheer**

The eurozone economy grew by 1.2% (year-on-year) in the first quarter of 2025, slightly higher than the forecasts of economists polled by Bloomberg (1.1%). That figure overestimates how well the eurozone economy is actually doing. Ireland accounts for approximately 0.4% off this 1.2%, with the country representing 3.5% of the eurozone economy and growing by 10.9% in Q1. Economic growth figures in Ireland can fluctuate strongly because they are influenced, among other things, by the profits of international companies located there (on paper) due to the favourable tax environment. By contrast, the eurozone's largest economy, Germany, is still in recession with a contraction of 0.2% year-on-year in Q1 2025.

Furthermore, forward-looking measures of economic growth, such as purchasing managers' indices and consumer confidence, are not overly optimistic either. Consumer confidence in the eurozone fell to -16.7 in April. This is below the long-term average (-12) and at its lowest point since the end of 2023. In addition, the purchasing managers' indices for both production (49) and services (49.7) are now at levels indicating a contraction for these sectors.



## **The Chinese economy is also doing slightly better than expected**

The Chinese economy also performed slightly better than expected, growing 5.4% year-on-year in Q1 (the Bloomberg consensus forecast was 5.2%). This was partly due to a sharp increase in exports in the run-up to the US import tariffs. In March, exports grew by 12.4% (year-on-year, measured in dollars). Other figures also support the view that China's economy did not fare badly in the past quarter. For example, industrial production rose by 7.7% in March, compared to a forecast of 5.9%. This could be due to government stimulus and partly to additional production to meet demand for export products (again in the run-up to US import tariffs). Retail sales also increased by 5.9% in March (compared to an expectation of 4.3%), indicating that domestic demand is still increasing. On the other hand, the housing market is still in dire straits. House prices are still falling, down 4.5% year-on-year in March.

## **Inflation remains unchanged in the eurozone and is falling in the US**

Inflation in the eurozone was unchanged in April compared to its level in March (2.2%). The absence of an increase in inflation was largely because the energy component of inflation fell by 3.5%. On the other hand, service inflation rose to 3.9% from 3.5% in March. This also explains why core inflation rose to 2.7% in April, from 2.4% in March. In the coming months, inflation looks as though it is more likely to fall or remain lower than to rise sharply. Any further US trade tariffs could initiate this first outcome. The effect, however, will be reduced to some extent because the euro has appreciated against the US dollar. Meanwhile, wage growth in the eurozone (a key driver of core inflation) is also declining.

According to the '[wage growth tracker](#)' of job site Indeed, wages in the eurozone have increased by 2.8%, compared to 4% on average in the past 3 years. In addition, it seems unlikely that oil demand will rise sharply in the coming period, bearing in mind the uncertainties surrounding Trump's tariffs. In fact, oil prices have fallen by 17% this year, which could have a dampening effect on inflation in the near future. Finally, Trump's tariffs on China could result in increased supply of Chinese goods in Europe, which could put downward pressure on prices in the eurozone.

In the US, inflation also fell to 2.4% in March, from 2.8% in February, while the energy component of inflation has also fallen, by 3.3% (year-on-year). In contrast to the eurozone, services inflation in the US fell to 3.7% in March (from 4.1% in February), which could be a sign of a cooling of the US economy. Wage growth is also slowing: hourly wages in the US grew by 3.8% in April, while the average over the past 3 years has been 4.4%. In line with this, core inflation in the US also fell to 2.8% (from 3.1% in February). However, due to the many import tariffs imposed by Trump, it seems likely that inflation in the US will increase despite weaker economic growth. In addition, the US does not seem to be getting any help from the US dollar, which has weakened (making imports in US dollars more expensive).



## Monetary policy: Tricky for the ECB, even trickier for the Fed

While inflation is falling in both the eurozone and the US, it is not yet clear whether both the ECB and the Fed will continue to cut rates in the coming months. Reductions by the ECB seem to be more likely, as the eurozone economy looks weak and inflation is falling. The picture is less clear for the Fed, especially as it has a dual mandate, price stability and full employment. The US economy appears to be weakening, which advocates interest rate cuts. But import tariffs could drive inflation, which argues for interest rate hikes. On balance, financial markets seem to expect the slowdown to be more important and the Fed to cut its policy rate this year. The market is counting (based on the pricing of overnight index swaps) on three rate cuts this year. Two rate cuts from the ECB are expected this year.

## China still has a number of buttons it can press in the trade war

In the near future, much attention will be paid to how the trade war between the US and China will develop. With a US import tariff of 145% on Chinese goods and a Chinese import tariff of 125% on US goods, trade in goods between the two countries is expected to more or less cease. Still, China has some means at its disposal to pressure the US to cut tariffs or otherwise reach an agreement.

First, China may be able to handle the loss of goods exports to the US better than the US government thinks. In 2024, China exported \$525 billion of goods to the US, or 15% of China's total exports. It is more useful to compare this to China's GDP, which was USD 18.7 trillion in 2024. In other words, goods exports to the US account for less than 3% of the Chinese economy. This does not mean that the US is not important to China. But trade with the US alone does not seem to be on a scale that it could seriously damage China's economy, at least not in the short term.

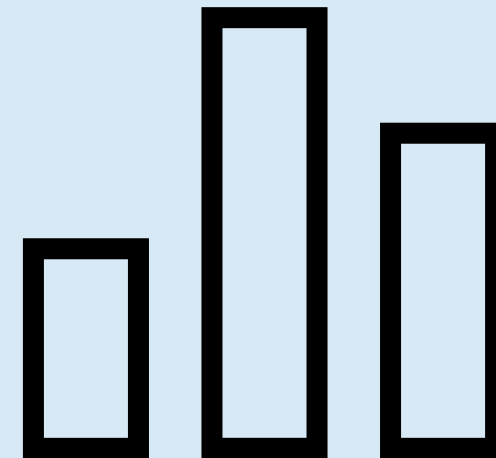
Secondly, Americans like to buy goods from China. For example, 81% of the smartphones that America imports come from China. In a recent [article by the FT](#), journalist Gideon Rachman explains that the fact that the US imports more from China than the other way around creates a dominant position for China. If US-China trade stops, China loses sales, but the US loses access to goods it wants, and in some cases needs. With all of this in mind, it is no surprise that just days after the announcement of his initial import tariffs, Trump decided to make an exception for smartphones and other electronics.

China, on the other hand, is less dependent on the type of goods it gets from the US. The largest export product from the US to China is soybeans. However, China sources 69% of the soybeans it imports from Brazil. This makes it easier for China to get soybeans from other countries than for the US to import smartphones from other countries.

Furthermore, China is more important for global trade than the US, especially in Asia, where in many countries more than 30% of exports go to China. This could mean that China will put more pressure on countries in Asia to impose trade tariffs on the US (though Asian countries currently seem reluctant to take sides).

Finally, China is dominant worldwide in the processing of rare earth metals, which are used in, among other things, the production of smartphones, computer chips and for some military applications. More than 90% of rare earth metals are processed in China. In addition, China is dominant in the production of batteries and their components. According to the [IEA](#), 85% of global battery production capacity is in China, and almost 100% of all graphite (a major component for battery production) is processed in China. It will be difficult for the US to find an alternative in the short term.

There are also other options for China, such as a sale of the large amounts of US government bonds it holds. China owns nearly 10% of all outstanding US government bonds. A 'fire sale' of these bonds could push America's government bond yields higher. But that would also mean that China would have to sell its US government bonds at a (potentially large) loss.





### The death of the dollar is not as certain as it might appear

Since the beginning of 2025, the US dollar has depreciated by more than 9% against the euro. One question that is often asked is whether this is the start of the end of the dollar's dominance. To answer this question, it is good to consider why the dollar is the world's reserve currency at all. Simply put, there is a lot of demand for US dollars. This is due to a combination of factors: (i) many commodities are priced in US dollars (such as oil, steel and copper), (ii) US equities and bonds are a large part of international market indices. For example, 71% of the MSCI World index consists of US equities, (iii) much global currency trading uses dollars, and (iv) the foreign exchange reserves of central banks worldwide are held mainly in US dollars. There are arguments to suggest that all these drivers of demand for US dollars could weaken in the coming period. Indeed, this implies that the dollar will depreciate against other currencies such as the euro in the coming period. However, the fact that the dollar will no longer be important internationally is by no means certain.

Central bank currencies worldwide still largely consist of dollars (58% according to the IMF). Although this percentage fell from 65% in 2016, there is no clear replacement for this. The percentage of the euro, for example, is only 20%, which is barely higher than it was in 2016 (19%). This is also quite understandable. If the largest share of the global stock market consists of US stocks and many commodities are traded in dollars, it is beneficial to hold dollars.



There is also no clear global replacement for US Treasuries, simply because other countries have far less government bonds outstanding. America has about USD 28 trillion in government bonds outstanding, while Germany for instance has only USD 3 trillion (converted). Moreover, a more than 4% yield on AA+-rated government bonds (America's country rating according to S&P) is still attractive enough for many investors.

### **Weaker outlook and high uncertainty call for risk-off positioning**

A macro-economic environment with weak growth prospects and high uncertainty does not argue for high-risk assets such as equities or high yield corporate bonds. Listed real estate could potentially benefit if policy rates fall further. On the other hand, the number of policy cuts in the coming period is rather uncertain and a risk-off sentiment does not advocate listed real estate. In such an environment, government bonds perform better. However, yields on European government bonds have already fallen relatively sharply, making them less attractive than cash, for example.

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