Desjardins
Global Asset Management

Market Outlook | Top-Down Approach

March 2025

Summary

GLOBAL OUTLOOK	Macroeconomic environment ⬇	Market valuation ⬆	Investor sentiment ⬆
September 30, 2024	- -	- - -	-
December 31, 2024	Neutral	- - -	- -
March 31, 2025	**- -**	**- -**	**+**

REGIONAL OUTLOOK (in relative terms)	Macroeconomic environment	Market valuation	Investor sentiment	Regional valuation
North America	-	- -	- -	- - - - -
Europe	+	Neutral	+	+ +
Asia-Pacific	Neutral	++	Neutral	+ +
Emerging markets	Neutral	Neutral	+	+

Source: DGAM as at March 31, 2025. The first table summarizes DGAM's subjective assessment of the macroeconomic environment, market valuation and investor sentiment with respect to the equity markets in general as at the dates indicated (the assessment can range from triple-negative to triple-positive). The second table presents an assessment of each region in relative terms.

INTRODUCTION

U.S. isolationism and uncertainty spoil the outlook

At the end of 2024, investors' risk appetite was at an all-time high, fuelled by a stock market narrative based on deregulation, planned corporate tax relief and animal spirits. Many analysts assumed that the S&P 500's performance would dictate the tone adopted by the Trump administration and that any stock market selloff would force it to reassure investors.

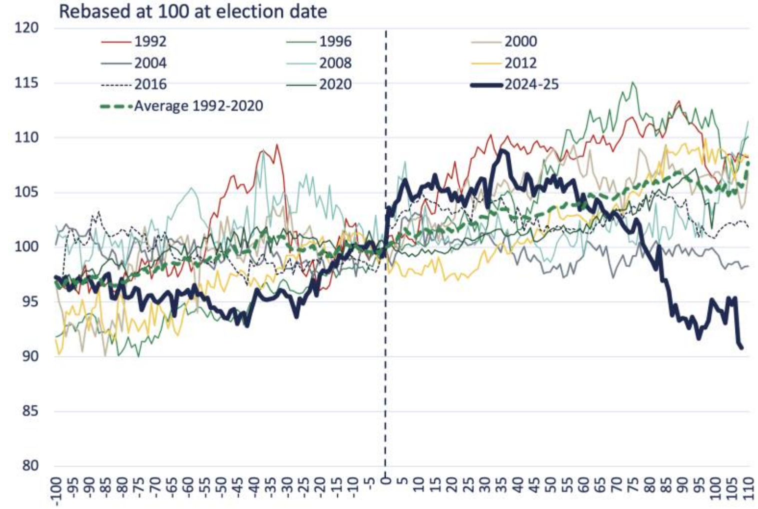
A few months later, we see that this illusory outlook was banished in short order by isolationism and unpredictability. Not only are Trump's tariffs a tax hike for U.S. importers, but without optimization of the global supply chain, their profit margins would not be where they are today. The same can be said of inflation, interest rates and economic growth. Without visibility, a return of animal spirits and investment is unlikely, even if companies are forced to invest in the United States in operations with limited or no profitability, and perhaps only for the duration of the current presidential cycle.

Elsewhere in the world, the rude but necessary awakening for European and North American trading partners could well be good news in the long run. The United States' trading and strategic partners, which are all obliged to rethink their alliances and interdependencies and are being forced to restructure and invest, will perhaps be the winners. That's the message conveyed by the stock markets in the first quarter, as Europe, China and even Canada outperformed the S&P 500.

Trump insists that the United States will come out on top in the long run. But the hypothetical fruits of his measures may not materialize within his four-year mandate, whereas the negative short-term impacts will be very real. His flood-the-zone strategy, designed to keep the opposition in a state of anxiety, affects all economic agents, regardless of their allegiance.

S&P 500 vs. MSCI World ex-United States

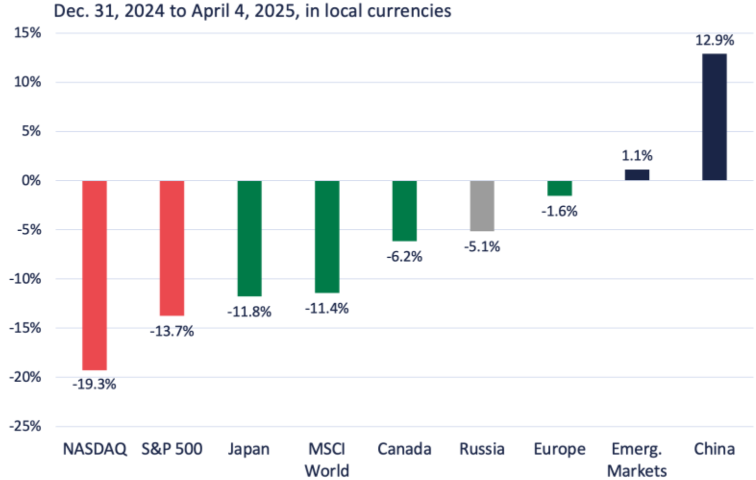
Rebased at 100 at election date



Sources: DGAM, LSEG, April 4, 2025

Stock Market Returns in 2025

Dec. 31, 2024 to April 4, 2025, in local currencies



Sources: DGAM, LSEG, April 4, 2025

More protectionism, less profitability and more inflation

Global supply chain optimization stems from the competitive advantages of trading partners, the quality of their infrastructure and the decisions companies make to take advantage of them. Companies generate higher profit margins and consumers pay less for goods. In this way, international competition helps contain inflation and keep interest rates down.

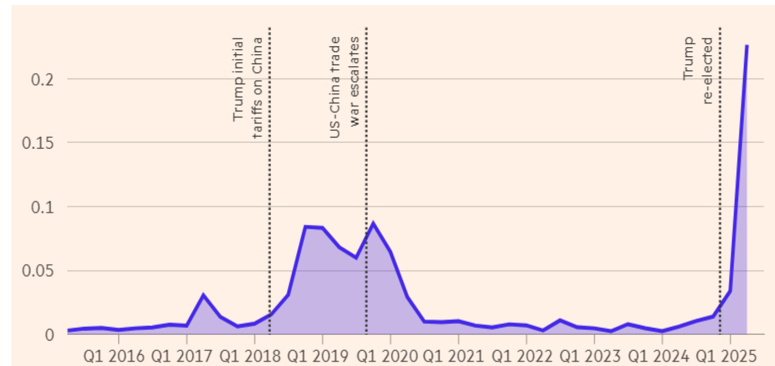
But not everything is perfect. In some countries, sectors that are not competitive on the world stage disappear, along with the direct and indirect jobs associated with them, unless they receive government protection. Tariff measures and generous subsidies can be used to protect or support industries deemed strategic, such as agriculture, aviation, automotive, shipbuilding and, more recently, pharmaceuticals, semiconductors and batteries. But protectionism insulates a country from competition and thus detracts from innovation and long-term prosperity – and was derided by Ronald Reagan in the late 1980s.

Today's labour shortages, especially in the developed countries, constitute a competitive disadvantage that creates a major, if not an insurmountable, obstacle to the reshoring sought by the Trump administration. The United States is at full employment but wants to deport illegal immigrants. Local production therefore implies higher wage costs, lower profitability, government subsidies paid for by taxpayers and import tariffs that are partially passed on to consumers and will drive inflation and interest rates up.

It comes as no surprise that the imposition of tariffs has been decried by the consensus of economists, various industrial lobbies and many unions, including the United Steelworkers, which see jobs threatened by a trade war.

Mentions of Trade-Related Tensions by Companies

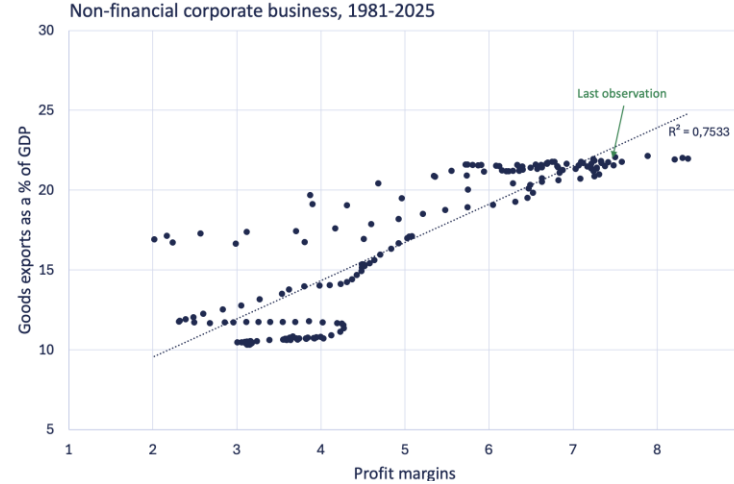
Average number per earnings call



Sources: NL Analytics, Financial Times, March 2025

Global Trade Intensity vs. Profit Margins, World

Non-financial corporate business, 1981-2025



Sources: DGAM, LSEG, March 2025

2025-2026 consensus: growth is revised downward, inflation upward

Economists have revised global economic growth estimates downward for 2025, mainly because of the deteriorating trade relations.

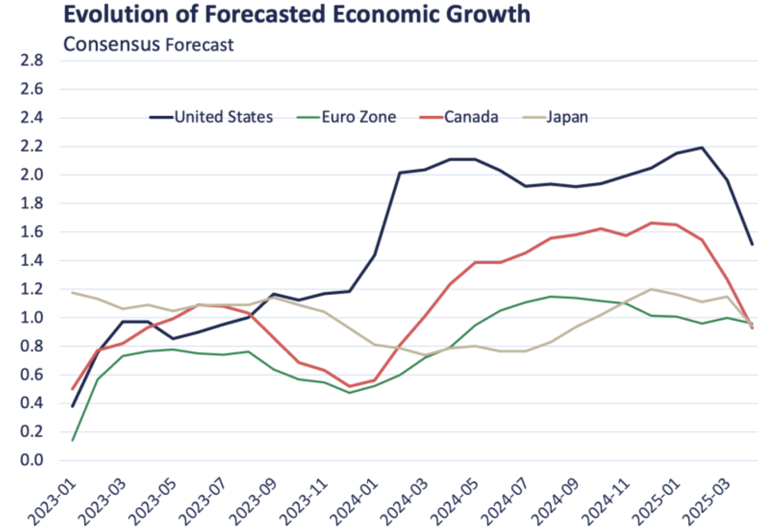
The renewed optimism seen in the United States after the election was short-lived. Economic growth has been revised downward to less than 2% per annum for the next two years. As for the 2025 inflation forecast, it has been revised upward substantially for 2025, from 2.4% to 3.2%, owing to import tariffs.

Canada has undergone a more significant revision. The growth forecasts for 2025 and 2026 are back below 1.0%. Even so, inflation is expected to remain close to the Bank of Canada's 2% target.

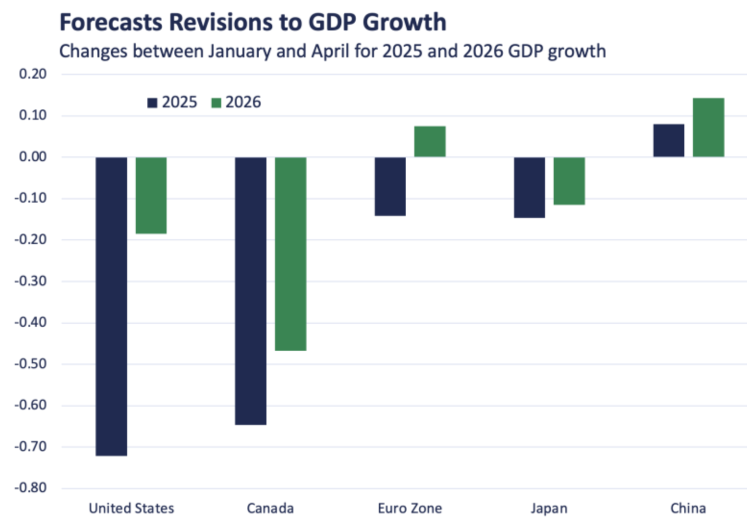
The 2025 growth forecast for Europe is stable at 1%, even after the German stimulus plan was announced. This plan will support medium-term growth in Europe, but US tariffs will undermine growth in the short term.

According to the consensus, Japan's surprising uptick in inflation will moderate this year, although its economic growth is expected to remain above potential. As for emerging markets, China's growth forecast remains at 4.5% for this year. But since the survey was conducted, the government has been stimulating consumption more aggressively. Yet, American tariffs remain a burden on Chinese growth.

The geopolitical context and trade tensions are making forecasting much more difficult for economists this year. It's not a matter of merely simulating the impact of interest rate changes on growth and inflation, but of anticipating the unpredictable behaviour of the leader of the world's largest economy. The more tariffs he imposes, the more downward revisions we will see, and vice versa.



Sources: DGAM, Consensus Economics , LSEG, April 2025



Sources: DGAM, Consensus Economics, April 2025

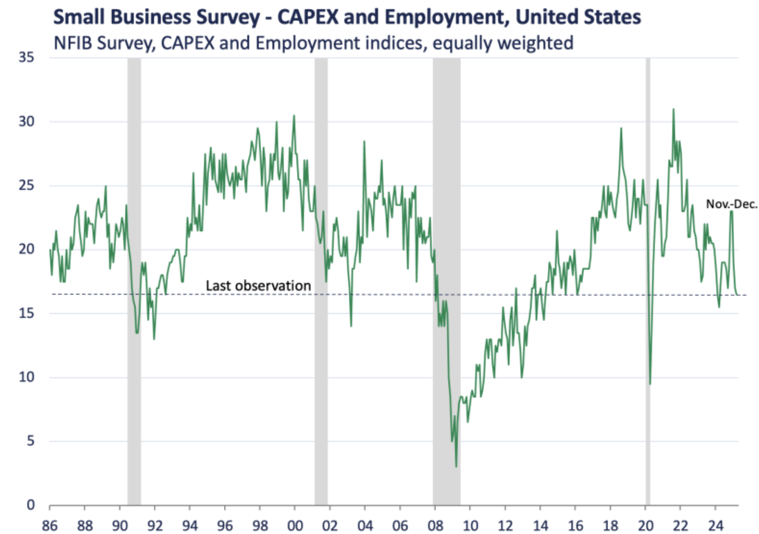
United States: Trump sows' mistrust, even among his supporters

In the wake of the 2024 presidential election, the business climate survey conducted by the National Federation of Independent Business (NFIB)[1], a Republican-leaning organization representing small businesses, rose sharply. That was also the case after Trump's first election in 2016, but this time the celebrations were short-lived. The monthly survey shows that members' uncertainty spiked at the start of the year and that their investment intentions fell, as did their hiring intentions and propensity to increase wages. The impact of unpredictability on the business climate, investment and employment is already pronounced.

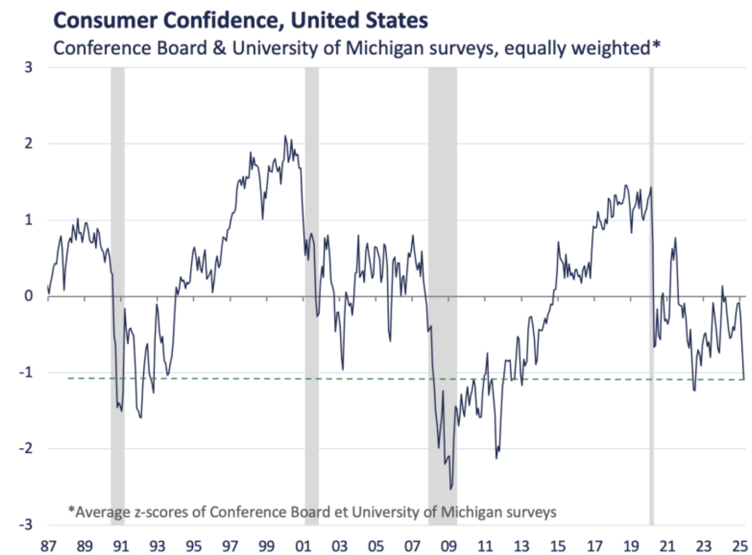
As for consumers, the confidence indices have also deteriorated sharply, although much less so among Republicans. Households' perception of their job security has fallen to a level typically seen in a recession. This uncertainty will dampen the purchase of big-ticket items and the demand for real estate.

Trump's policy of forcing local investment will have to be extremely effective in filling the void left by worried consumers, reduced government spending as a result of DOGE, cooling external demand and declining tourism. It's a challenge fraught with risk. As noted above, U.S. and foreign multinationals will not invest in unprofitable operations for a period as short as a presidential term. That being said, they could bring forward investments already planned or simply announce their intention to do more eventually.

[1] The NFIB claims to be nonpartisan but consistently backs Republican candidates and openly supports Donald Trump.



Sources: DGAM, NFIB, NBER, LSEG, March 2025



Sources: DGAM, Conference Board, U. of Michigan, March 2025

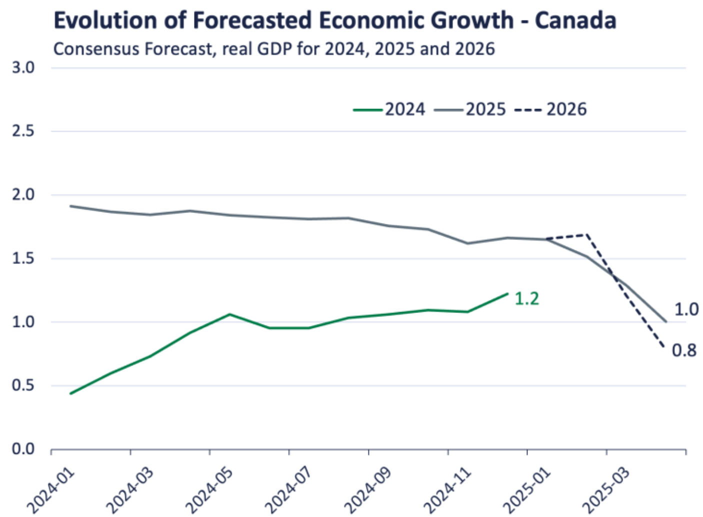
Canada: In the eye of the trade storm

The Canadian economy was more resilient than expected at the end of 2024, partially because of strong consumer spending. But, unlike the Federal Reserve, **the Bank of Canada has room to ease credit conditions pre-emptively** in a bid to temper the economic impact of the deterioration in business sentiment and consumer confidence seen this year. The BoC therefore accelerated its monetary easing with an additional 0.50% interest rate cut in the first quarter of 2025. Its rate cuts over the past year totalled 2.25% as of March 31.

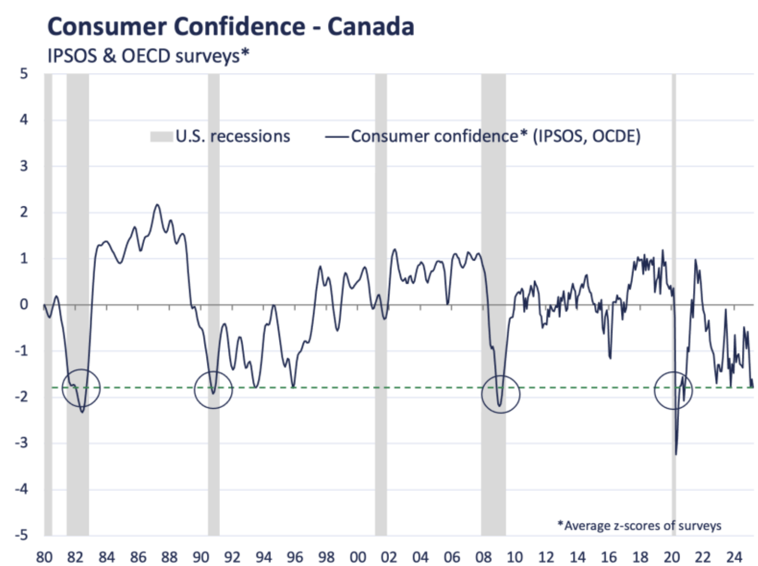
But, barring a major change of tone in trade relations with the United States, a recession will be difficult to avoid. The Trump administration's well-orchestrated strategy of sowing uncertainty by flooding the zone with shocking statements and threats (annexation of Canada, imposition of tariffs, etc.) seems very effective. Surveys on the business climate and household confidence are at an all-time low in the country.

The investment decisions of local and foreign companies in Canada will undoubtedly be affected by tariffs and uncertainty. The mere threat of new tariffs will weigh heavily on the expansion decisions of Canadian-based companies that serve the U.S. market. As for consumers, they could postpone their purchases and increase their savings in the face of such uncertainty and the threat of recession.

On the positive side, **the Canadian government's fiscal position is the best among its peers and will allow it to support the economy and accelerate infrastructure programs**.



Sources: DGAM, Consensus Economics, April 2025



Sources: DGAM, OECD, IPSOS, LSEG, March 2025

Europe rolls up its sleeves

At the start of the 2000s, the German economy stagnated. To get out of the slump, the government undertook a thorough labour-market reform that enabled the country to become more competitive. China's appetite for German cars and industrial products then propelled growth for about 15 years. Today, China is such a fierce competitor that Germany can hardly keep up. The economy has stalled again, and the manufacturing sector is floundering. The new American tariffs will only worsen a precarious situation.

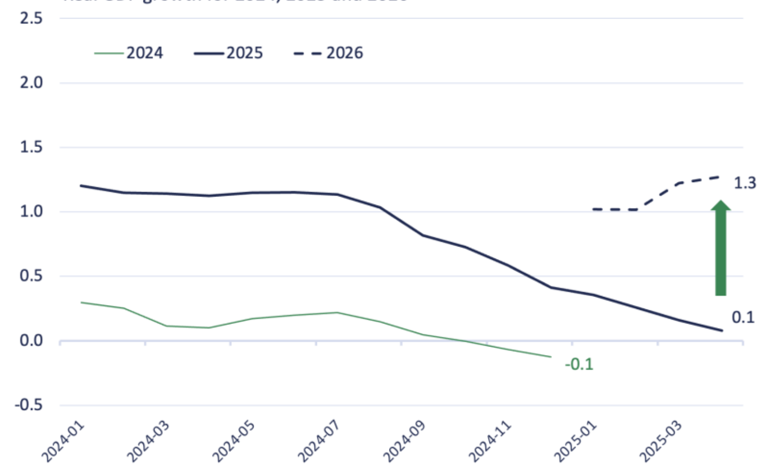
Germany must reinvent itself once again. The war in Ukraine and the United States' disengagement from Europe are the triggers. At €500 billion and 20% of GDP, the proposed recovery plan, which targets rearmament and infrastructure, will be the largest since Germany's reunification. To deploy it, the country will have to ease its debt break. In March, the constitutional amendment needed to finance the plan was approved by the upper house of parliament. The bond market reacted well, with yields rising very little.

A number of countries in the region don't have the wherewithal to follow suit but could benefit from the economic spinoffs of the German plan. French President Emmanuel Macron is promoting a rearmament plan common to the 27 countries in the European Union. He hasn't succeeded yet, but there is more openness today than ever on the part of EU member countries. NATO newcomer Sweden, a country known for its budgetary discipline, has also announced an increase in its military spending, from 2.4% to 3.5% of GDP.

There are political and budgetary obstacles and bottlenecks, but it won't be the first time that Europe has modernized its defence. **Given the extraordinary risk posed by U.S. tariffs, if Europe fails to unite, it probably never will.**

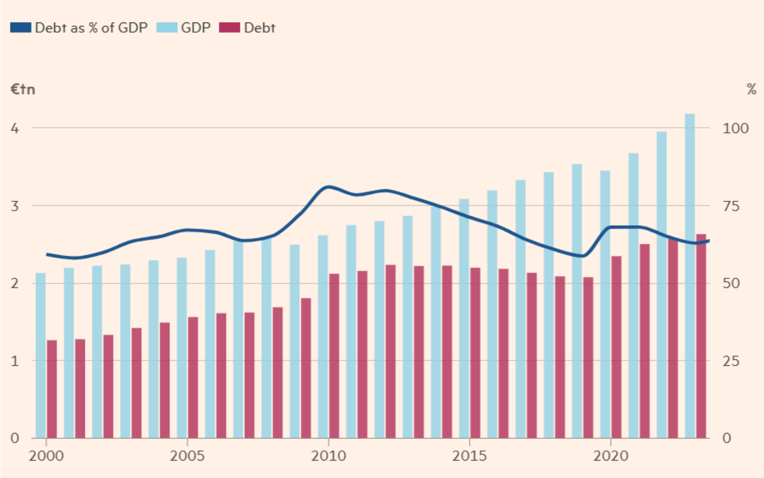
In the short term, U.S. tariffs will detract from growth but, in the medium term, may help revive Europe's growth ambitions.

Evolution of Forecasted Economic Growth - Germany
Real GDP growth for 2024, 2025 and 2026



Sources: DGAM, Consensus Economics, April 2025

GDP and Debt - Germany



Sources: IMF, Deutsche Bundesbank Financial Times, March 2025

VALUATION

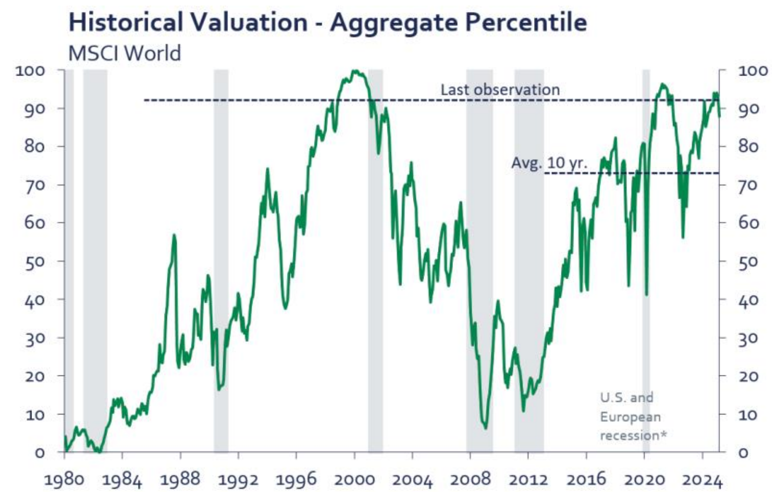
Stock markets were expensive before the April correction

Before the market correction in early April, the aggregate valuation of the MSCI World Index was in the 88th percentile of its historical distribution, down six percentiles from December. The United States was still the most expensive stock market, with the S&P 500's valuation in the top decile, specifically in the 92nd percentile. The rest of the global stock market, in the 62nd percentile, was slightly above the historical median.

Canada, which was a bargain at the beginning of 2024, had a valuation in the highest decile, namely in the 92nd percentile of its distribution. Europe's valuation rose from the 72nd to the 82nd percentile during the quarter, while Asia-Pacific's went from the 70th percentile to the 53rd.

Emerging markets' valuation, in the 77th percentile, was little changed, but China's rose significantly in the first quarter, going from the 53rd percentile to the 74th.

All these markets were very attractive relative to the United States.



Sources: DGAM, LSEG, MSCI, IBES, NBER, *ECRI, Bloomberg, March 31, 2025

MSCI World excl. U.S. Valuation

Metric	March 2025	Per centile	1 Historical percentile 100
Price / forward earnings	14.6	43	
Price / trailing earnings	15.6	38	
Price-to-Book	1.9	60	
Price-to-cash flow	9.9	81	
EV / EBITDA (Ex-financials)	9.4	69	
Price / trailing sales	1.5	95	
Cyclically adjusted P/E (CAPE)	15.5	42	
Aggregate percentile†		62	

Sources: DGAM, LSEG, MSCI, IBES, Bloomberg, March 31, 2025

†Average percentiles for the seven valuation indicators

MSCI World Valuation

Metric	March 2025	Per centile	1 Historical percentile 100
Price / forward earnings	18.6	79	
Price / trailing earnings	21.5	72	
Price-to-Book	3.4	93	
Price-to-cash flow	14.9	93	
EV / EBITDA (Ex-financials)	12.4	96	
Price / trailing sales	2.4	96	
Cyclically adjusted P/E (CAPE)	23.8	76	
Aggregate percentile		88	

Sources: DGAM, LSEG, MSCI, IBES, Bloomberg, March 31, 2025

In absolute terms, bargains were scarce on a regional basis as at March 31

S&P 500 Valuation

Metric	March 2025	Percentile
Price / forward earnings	20.5	84
Price / trailing earnings	25.9	90
Price-to-Book	4.5	94
Price-to-cash flow	17.9	94
EV / EBITDA (Ex-financials)	13.8	98
Price / trailing sales	2.9	92
Cyclically adjusted P/E (CAPE)	32.8	90
Aggregate percentile		**92**

Historical percentile: 1 → 100

MSCI Europe Valuation

Metric	March 2025	Percentile
Price / forward earnings	14.5	63
Price / trailing earnings	15.5	58
Price-to-Book	2.1	78
Price-to-cash flow	10.0	86
EV / EBITDA (Ex-financials)	9.8	73
Price / trailing sales	1.5	94
Cyclically adjusted P/E (CAPE)	18.6	68
Aggregate percentile		**82**

Historical percentile: 1 → 100

MSCI Asia Pacific Valuation

Metric	March 2025	Percentile
Price / forward earnings	14.6	54
Price / trailing earnings	14.7	18
Price-to-Book	1.5	64
Price-to-cash flow	9.0	55
EV / EBITDA (Ex-financials)	8.0	63
Price / trailing sales	1.4	92
Cyclically adjusted P/E (CAPE)	18.9	25
Aggregate percentile		**53**

Historical percentile*: 1 → 100

* Since 2004

MSCI Emerging Markets Valuation

Metric	March 2025	Percentile
Price / forward earnings	12.4	57
Price / trailing earnings	15.1	61
Price-to-Book	1.8	68
Price-to-cash flow	10.3	86
EV / EBITDA (Ex-financials)	9.7	87
Price / trailing sales	1.1	74
Cyclically adjusted P/E (CAPE)	14.2	45
Aggregate percentile		**78**

Historical percentile: 1 → 100

MSCI Canada Valuation

Metric	March 2025	Percentile
Price / forward earnings	15.2	63
Price / trailing earnings	19.6	67
Price-to-Book	2.1	80
Price-to-cash flow	11.9	93
EV / EBITDA (Ex-financials)	9.6	85
Price / trailing sales	2.2	99
Cyclically adjusted P/E (CAPE)	22.0	68
Aggregate percentile		**92**

Historical percentile: 1 → 100

Sources: DGAM, LSEG, MSCI, IBES, Bloomberg, March 31, 2025
†Average percentiles for the seven valuation indicators

If the world has truly changed, valuations still don't reflect it

In 2022, significant monetary tightening by the Federal Reserve and major central banks represented a major shift in the global economic and financial environment, leading to a repricing of risk assets. The S&P 500 fell by more than 25% during the year, and its valuation multiple (forward price-to-earnings ratio) fell from 21.7 to 15.3, a drop of 6.4 points.

A world where the supply chain is no longer optimized as a function of production costs and where the largest consumer market imposes tariffs – import taxes that are collected by the government and significantly increase the tax burden – also constitutes a fundamental change in the environment. It is, in fact, a more profound change with far more lasting impacts than a simple monetary tightening cycle.

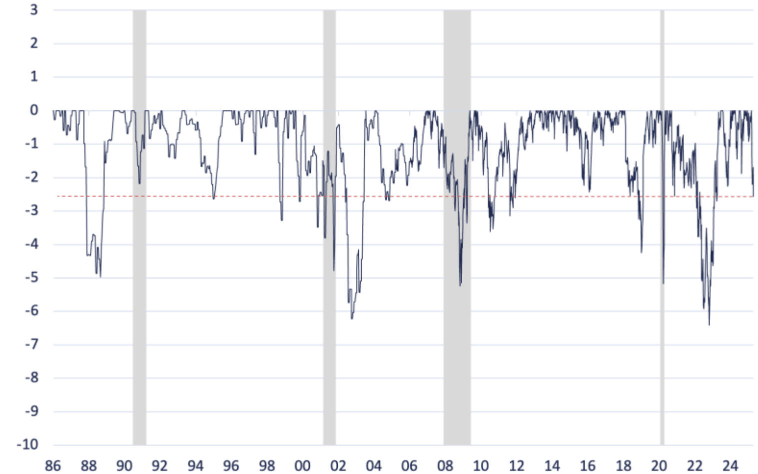
Even so, **this new regime, which will inevitably lead to lower profitability, wasn't reflected in equity valuations at the end of the quarter.** The compression of multiples since their recent highs was only 2.5 points for the MSCI World Index and the S&P 500 Index. And, in absolute terms, the multiples remained above their historical averages.

This apparent structural change hasn't shaken financial analysts' confidence that companies can increase their earnings. At the end of the first quarter, they were still forecasting record earnings per share for 2025 and 2026.

But the tariff announcements of April 2 have probably shaken their confidence.

Multiple Contractions - S&P 500

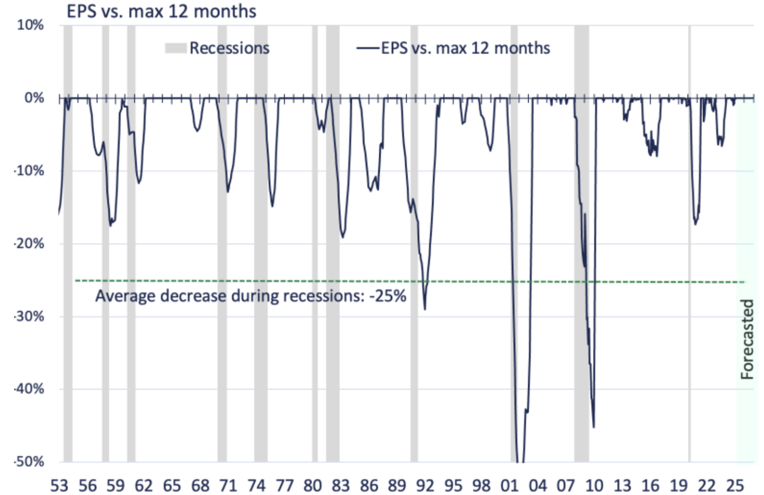
Price-to-forward earnings ratio vs. max 12 months



Sources: DGAM, IBES, April 2025

Realized and Forecasted EPS Drawdowns, United States

EPS vs. max 12 months



Sources: DGAM, IBES, LSEG, Robert J. Shiller, NBER, April 2025

VALUATION

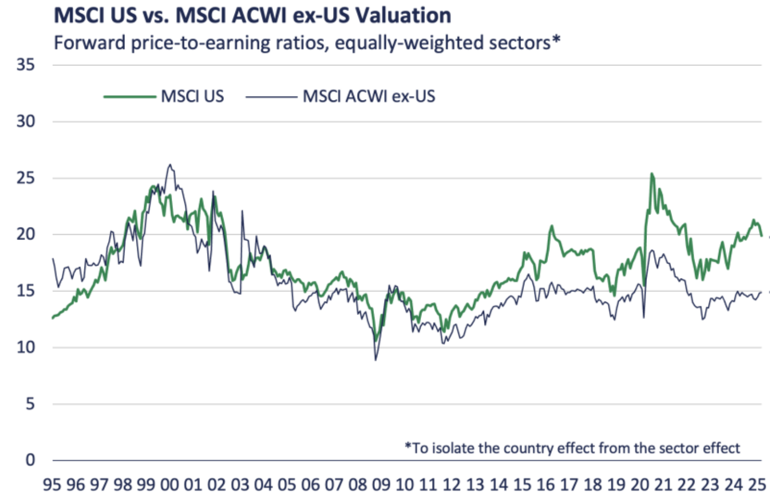
The end of American exceptionalism is not currently priced in

With the arrival of protectionist measures in the United States, the betrayal of trust that they imply, China's technological advances in the car industry and in artificial intelligence, and European announcements of stimulus and modernization packages, the end of American exceptionalism entered the realm of possibility. The agreement reached in March to strengthen trade ties between China, Japan and South Korea – traditional rivals and major manufacturing powerhouses – marks another step in that direction.

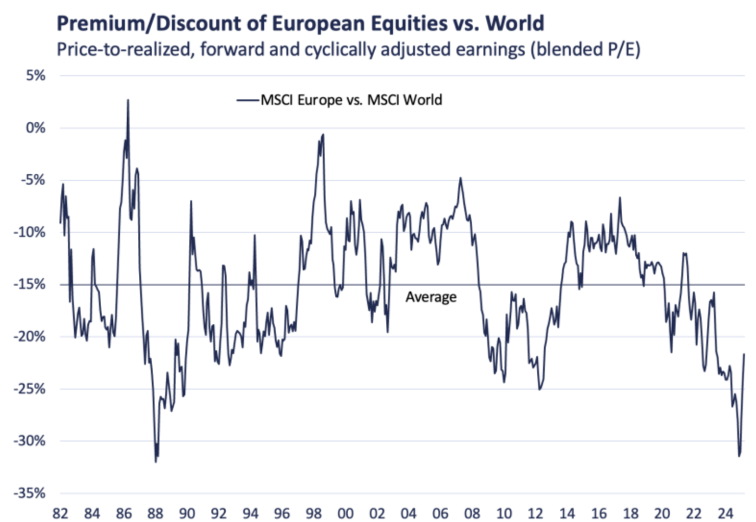
It should be noted that American exceptionalism in terms of economic outperformance was in large part due to a soaring public deficit in a time of expansion and full employment. The prospect of reduced government spending will cause this engine of growth to disappear. In contrast, the easing of fiscal austerity in Europe and China will help drive European and Asian growth.

Even so, the possible end of American exceptionalism isn't reflected in the equity valuation relative to the rest of the world. The U.S. valuation premium declined in the first quarter, partly because the Magnificent Seven recorded a sharp correction, but it remains well above the norm of the past 10 or 20 years.

Nor is the stock market discounting, on a relative basis, a new growth regime in Europe. The region's relative valuation recovered with the announcement of the German stimulus package and the setbacks on the U.S. market, but European equities are still trading at a significant discount to the historical norm. That being said, European companies are highly exposed to the U.S. market and will suffer from tariffs and protectionism. This context could limit the magnitude of a possible revaluation.



Sources: DGAM, LSEG, March 31, 2025



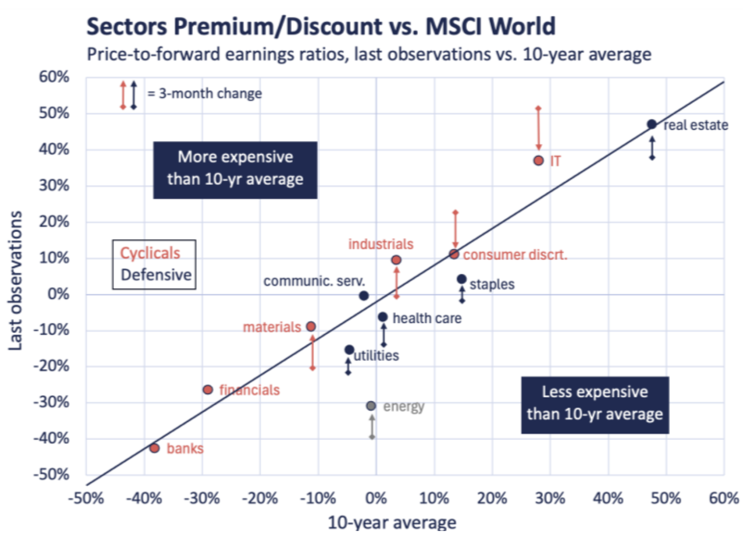
Sources: DGAM, LSEG, March 31, 2025

Magnificent Seven discount and narrowing of sector valuation spreads

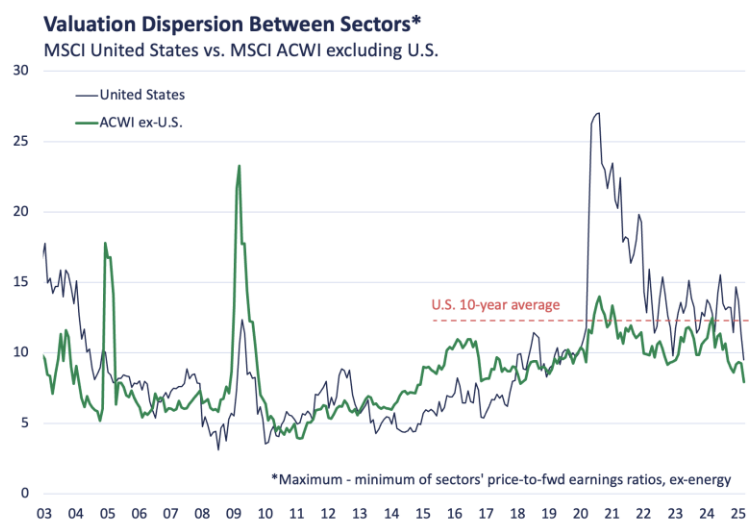
The Magnificent Seven's correction caused the group's aggregate valuation to drop to the bottom of the range observed over the past three years (even excluding Tesla). The forward price-to-earnings ratio fell from more than 40 to less than 30 in a matter of months. But this is neither the largest discount for these stocks nor their biggest price correction. Even so, if we go by analysts' forecasts of continued earnings growth, these stocks are back to being rather attractive, on average.

This correction combined with the upward revaluation of the defensive sectors resulted in a sharp reduction in sector valuation spreads. We also saw this phenomenon in global equities, mainly because of the decline in the tech sector, a slowdown in the AI theme and the expectations of euphoric growth already reflected in prices. **In March, there was less excess in relative valuations across sectors than there had been in December.**

Sources: DGAM, LSEG, April 2025



Sources: DGAM, IBES, MSCI, March 2025

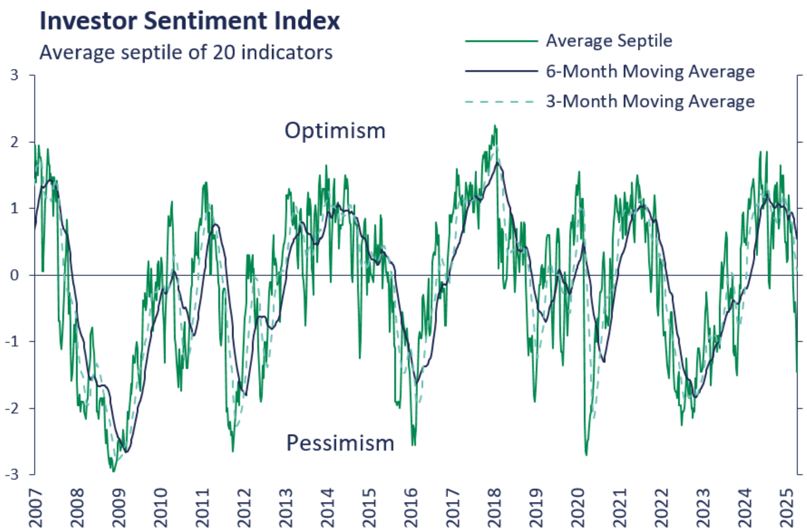


Sources: DGAM, LSEG, March 2025

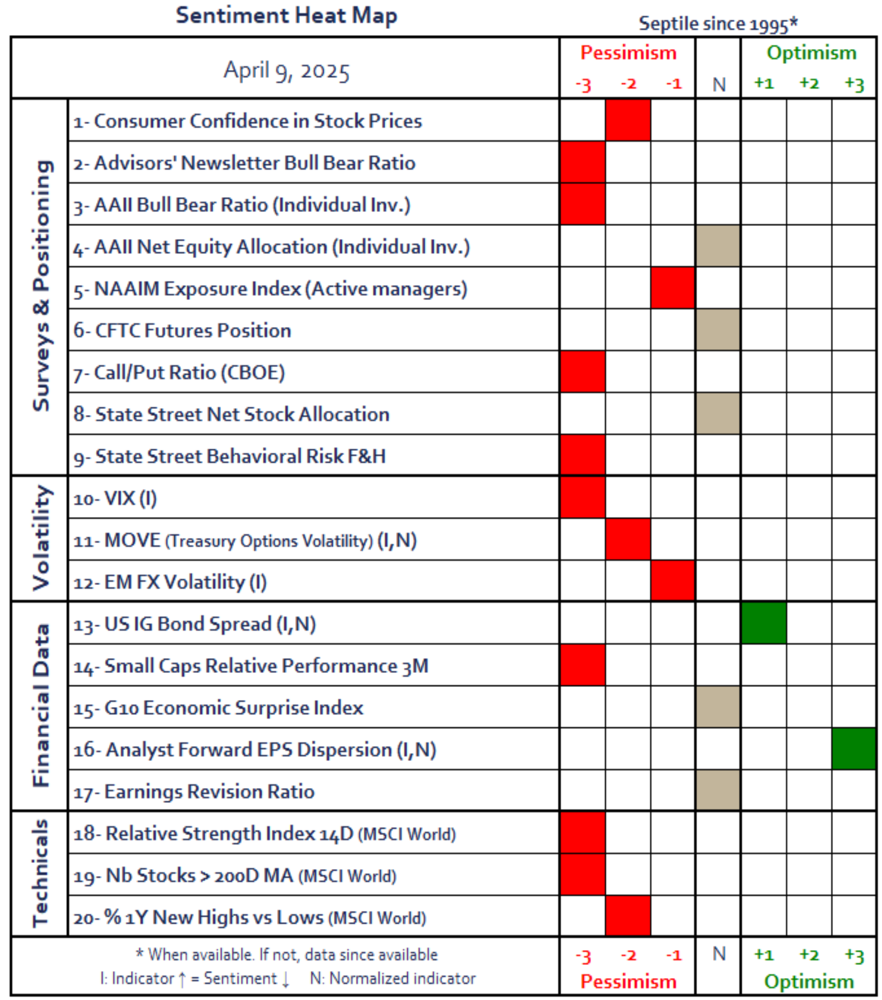
The investor sentiment index falls sharply

At the end of 2024, we pointed out that investors' sense of invincibility was a perilous starting point for a new year. From mid-February to mid-March, their confidence was shaken by a series of events, especially in the AI space. The latest round of U.S. tariffs at the beginning of April then cooled their risk appetite even more.

Our weekly sentiment indicator declined into pessimistic territory at the beginning of the month; however, its three-month moving average remained at the neutral threshold, indicating sentiment was still well above panic levels. All indicator categories in our analysis reflected investor unease amid the prevailing uncertainty in the market environment.



Sources: DGAM, LSEG, Bloomberg, State Street Global Markets, March 2025



Sources: DGAM, LSEG, Bloomberg, State Street Global Markets, March 2025

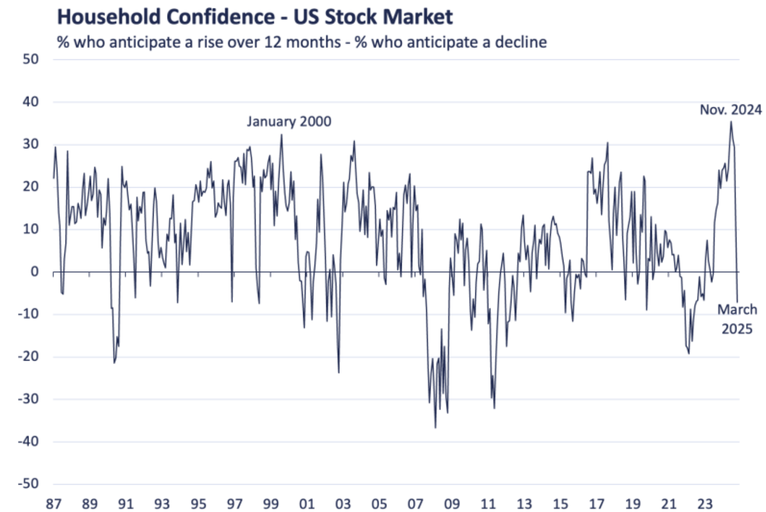
Households have never been more exposed to equities

As we've noted several times in recent quarters, U.S. households have never been more exposed to equities. Even at the height of the 2000 bubble, their enthusiasm for the stock market wasn't as unbridled as it was at the end of 2024. It served them well last year, with the wealth effect being cited as one of the factors that supported consumer spending.

The ease with which small investors have been able to trade on user-friendly, no-cost platforms since the pandemic has been a game changer. **But how will these retail investors react in a context of high volatility and deteriorating job prospects?** This time, they won't be receiving stimulus cheques from the government as they did during the pandemic. The buy-the-dip strategy could, therefore, have less impact on the stock market if fewer people use it.

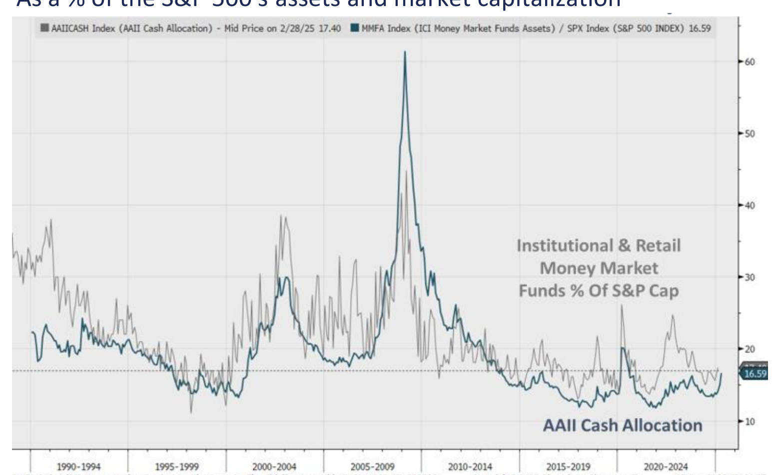
We made the same comment about professional investors, whose exposure to risk assets, including equities, was very high relative to the historical norm. And that was still the case at the end of the first quarter. As a result, they had little cash to spend on potential bargains after a market correction.

In any case, the lack of visibility could well dampen risk appetite for some time. **An exogenous shock brought about deliberately by a single individual whose strategy is one of unpredictability makes any attempt to forecast the markets' behaviour in the short term (market timing) an extremely risky proposition**



Sources: DGAM, Conference Board, LSEG, March 2025

Cash Allocation
As a % of the S&P 500's assets and market capitalization



Sources: AAII, ICI, Bloomberg, April 2025

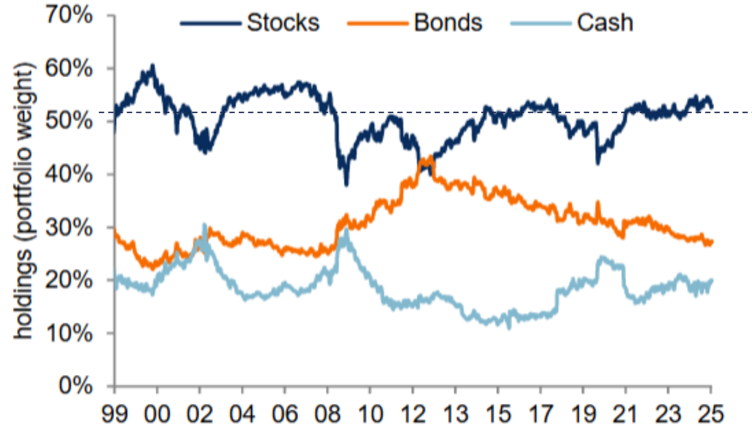
Professionals weren’t ready for a stock market correction

According to State Street data, institutional investors weren’t positioned for a market correction at the end of the quarter – quite the contrary, in fact. **Their allocation to equities was as high as it has been on average over the past four years, despite an expensive market and a geopolitical context that is increasingly hostile for the financial markets.** The solid returns of recent years could be the source of the complacency.

Bank of America’s survey of portfolio managers showed a low level of cash holdings, but a declining allocation to equities. The survey also showed an increase in their level of concern about the deteriorating global macroeconomic backdrop, even before the latest wave of tariffs.

Asset Class Weights

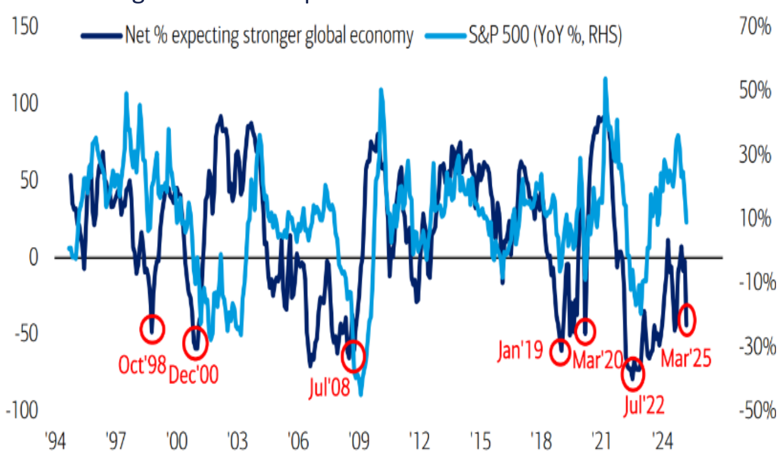
Institutional investors, normalized



Source: State Street Global Markets, April 2, 2025

Global Economic Expectations

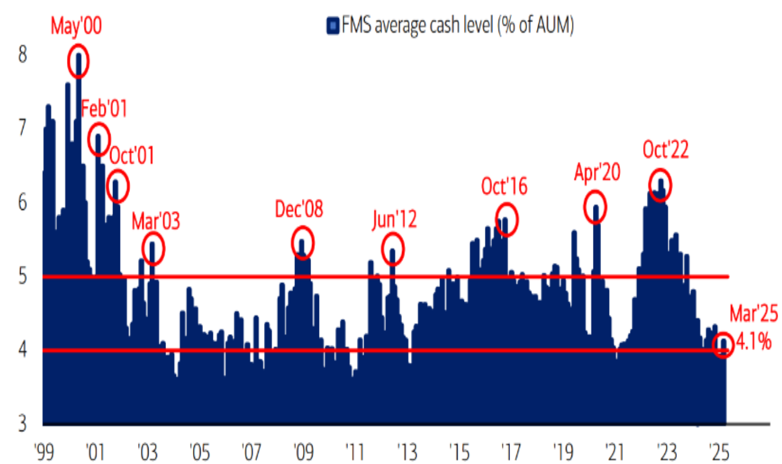
% of managers who anticipate economic acceleration



Source: BofA Global Fund Manager Survey, March 18, 2025

FMS Cash Allocation

% saying overweight - % saying underweight



Source: BofA Global Fund Manager Survey, March 18, 2025

The neglected concept of regional diversification is back

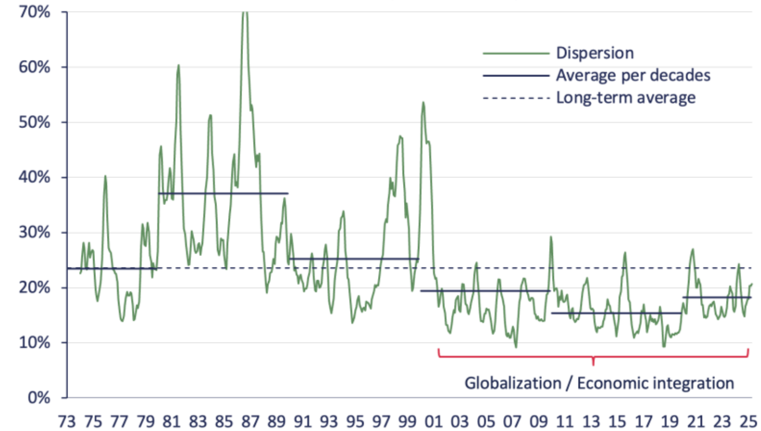
Since China's entry into the World Trade Organization in 2001 and the wave of globalization, the dispersion of stock market returns among the MSCI World countries has been rather limited. In this context, geographical diversification became less useful. The U.S. market's long period of outperformance since 2010 also contributed significantly to investors' lack of interest in international equities. But the regime shift brought about by U.S. isolationism could prompt investors to look elsewhere.

The starting point is very high, in terms of asset allocation and relative valuation alike. U.S. equity positioning is extremely high by historical standards and the relative valuation is at record levels. The outperformance by international equities since the beginning of the year could well mark the start of a long rebalancing. For example, Europeans hold almost as many U.S. stocks as European stocks.

American exceptionalism on the stock markets was justified mainly by superior profitability. The new import taxes will significantly erode this competitive advantage, however. The technological lead held by the United States is also narrowing owing to China's advances. The unpredictability of the Trump administration, or just his shocking statements, will also drive capital away. The greenback's weakness shows how much appeal U.S. financial assets have lost this year.

Return Dispersion Between Countries

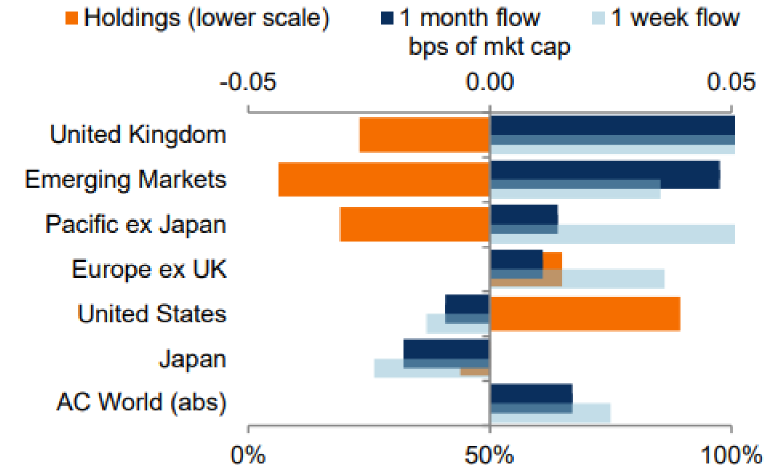
12-month return vs. MSCI World, 1st quintile vs. 5th quintile



Sources: DGAM, LSEG, March 2025

Regional Allocation – Institutional Investors

Flows and holdings, normalized over 5 years



Source: State Street Global Markets, April 2, 2025

CONCLUSION

GLOBAL OUTLOOK	Macroeconomic environment ⬇	Valuation ⬆	Sentiment ⬆
September 30, 2024	-	- - -	-
December 31, 2024	Neutral	- - -	- -
March 31, 2025	**- -**	**- -**	**+**

MACROECONOMIC ENVIRONMENT: THE TRADE WAR IS A DELIBERATE EXOGENOUS SHOCK

In traditional business cycles, monetary authorities adjust credit conditions to dampen or to increase demand in line with changes in inflation and, in the case of the United States, unemployment. Governments and central banks can also respond to exogenous shocks, such as a pandemic. But when the exogenous shock is deliberate and inflationary, and its outcome is unpredictable, the authorities are left in a fog. Is this another example of Trump's strategy of destabilizing his opponents in order to negotiate more effectively, or will he stick to his positions come what may? In either case, the damage will be lasting. A downgrade of the U.S. macroeconomic environment is, therefore, warranted. On a relative basis, trade agreements, supply-chain reorganization, and stimulus and modernization plans in Europe and Asia warrant an upgrade for these regions. That being said, over the next 12 months, uncertainty will weigh on global growth; for that reason, we are lowering the vector for the macroeconomic environment from neutral to double-negative.

MARKET VALUATION: THE U.S. MARKET IS STILL PRICING IN FIRM GROWTH AND LASTING EXCEPTIONALISM

American exceptionalism is still very much in evidence in the absolute valuation of the S&P 500 and the relative valuations of the regions. As at March 31, the U.S. stock market still had an aggregate valuation in the highest decile in its history, and all the other regions were bargains on a relative basis. And there is little chance that the April stock market correction and the inevitable earnings revisions will change this situation significantly. In absolute terms, the aggregate valuation of the MSCI World ex-U.S. was near its historical median. This valuation, while not comfortable, is a less complacent starting point than that of the S&P 500, given the macroeconomic turmoil in store. The valuation of global equities, in the 88th percentile as at March 31, would still justify a triple-negative for the valuation vector. But the subsequent market downturn and the partial data at our disposal have prompted us to raise the vector from triple-negative to double-negative.

INVESTOR SENTIMENT: TIMING THE MARKET IS IMPOSSIBLE AND RISKY

Peak anxiety, whereby uncertainty appears to have reached a climax, has been the most optimistic narrative recently. But an exogenous shock deliberately caused by a single individual whose strategy is based on unpredictability makes any attempt to predict the markets' short-term behaviour (market timing) extremely risky. It's quite likely that this kind of strategy (imposition of tariffs, postponements, pauses, exemptions, threats, shocking statements, etc.) will eventually lead to diminishing returns in terms of investor behaviour and the financial markets, but clearly this isn't yet the case. The level of anxiety is high, but investor positioning doesn't yet reflect it, although investors are transitioning toward caution. Their sense of invincibility has been shaken. As a result, we have raised our sentiment vector from double-negative to single-positive.

Our analysis of the three vectors has prompted us to maintain a defensive bias. The euphoria of 2024 has abated, but the economic environment has deteriorated, and the global equity valuation is still too high, especially in such an uncertain environment.

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