Perspectives
Financial Markets

Swiss Life Asset Managers

April 2025

Interest rates & bonds

Credit spreads widen on tariff uncertainty

Overview of bond yields and investment-grade credit spreads

	10-year government bond yield			Investment-grade credit spread		
	Current	**Mar. 2025***	**Year-to-date***	**Current**	**Mar. 2025***	**Year-to-date***
US	4.4%	19 bps	-18 bps	90 bps	3 bps	10 bps
Eurozone	2.8%	39 bps	43 bps	91 bps	0 bps	-11 bps
UK	4.8%	33 bps	25 bps	105 bps	10 bps	9 bps
CH	0.7%	23 bps	38 bps	67 bps	2 bps	-2 bps

10-year government bond yield eurozone = DE, bps = basis points.
* Change as at 27 March. Source: Bloomberg

USA

- Credit spreads both in high yield (HY) and investment grade (IG) increased in March as US tariff announcements weighed on consumer and business confidence and investors fear weaker growth prospects and rising inflation in the US.
- The Fed held its policy rate unchanged in March but pointed to weaker growth and higher inflation. We still expect four policy rate cuts this year mainly due to the expected economic slowdown.

Eurozone

- Credit spreads in EUR HY widened in March. 10-year rates increased in March on the back of higher sovereign funding needs to increase European defence spending and fund the German fiscal package.
- The ECB cut its policy rate by 25 basis points (bps) in March, and we expect three more cuts this year.

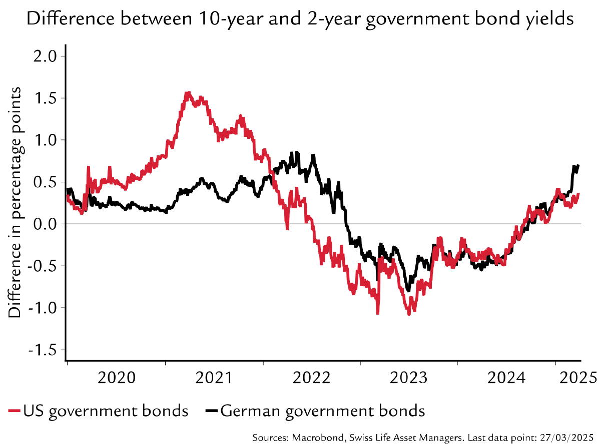
UK

- In March, IG credit spreads were volatile and widened slightly. In tandem with the eurozone, 10-year rates increased over the month.
- The BoE held its rate stable in March but given the weakened outlook on growth and unemployment, we see the BoE cutting its rate four times in 2025.

Switzerland

- Core inflation for February increased more than expected, leading to higher rates and a steeper yield curve in March.
- As expected, the SNB cut its rate by 25 bps in March, and we expect no further cuts for the rest of the year.

Rate curve steepening in euro continued in 2025



Since the end of the rate hike cycle in mid-2023, the difference between 10-year and 2-year yields in USD and EUR has increased, turning positive in late 2024, supported by central bank cuts. Since end-February 2025, the EUR yield curve has steepened more than the USD curve. The shift is driven by Europe's plans for increased spending on defence and the German infrastructure push in response to US President Donald Trump's policies. While these spending plans could lead to higher growth, they also come with higher sovereign debt levels, increased funding needs, persistent inflation risks and thus higher longer-term interest rates in Europe. In the US, Trump's economic policies have created high uncertainty for consumers and businesses, negatively impacting the growth outlook. As a result, credit spreads in USD and EUR indices have widened as the market expects stagflationary trends in the US and inflationary trends in Europe. For April, we expect wider spreads in HY in EUR and in USD due to ongoing uncertainty related to Trump's policies. We are neutral on IG both in EUR and in USD, given relatively solid credit fundamentals. Regarding duration over the next month, we expect lower yields for US 2-year and 10-year government bonds. In Europe, we expect lower 2-year government bond yields but are neutral on 10-year rates. For Swiss government bonds, we have a neutral view across the curve.

Equities

US politics dominate stock market

Overview of equity market performance

	Mar. 2025*	Year-to-date*
USA	-4.1%	-2.8%
Eurozone	-0.3%	10.7%
UK	-0.8%	7.5%
Switzerland	-0.1%	11.3%
Emerging markets	3.3%	5.7%

MSCI net total return indices in local currency.
* Performance as at 27 March. Source: Bloomberg

US

- The US market lost ground in March – both in absolute and relative terms. Over the last two months, all of the main markets outperformed the US, which lost close to 10% against Europe and Switzerland.
- The erratic US politics and the prospects of high tariffs are the main reasons for the weak performance of the US market. Foreigners are selling US stocks.
- Despite the correction, the US market is still expensive.

Eurozone

- The European market together with Switzerland is the best-performing market this year. It outperformed the US market by another 3.5% in March.
- There are strong inflows into European equities, and the big debt package in Germany is a short-term support for the market. Europe will also benefit from a more accommodative central bank policy.
- The valuation of the European market has increased but is still broadly neutral.

UK

- The UK stock market also outperformed the US, but less so than the eurozone and Switzerland.
- The UK market still benefits from a low valuation.

Switzerland

- The Swiss stock market has the strongest performance of all main markets this year. Small caps have underperformed the broad market so far.
- The Swiss equity market valuation is at the upper end of the neutral range.

Emerging markets

- In March, emerging markets significantly outperformed the other markets.
- China (+3.2%) and India (+9.8%) drove the market in March. India recovered after several weak months.

Correction or more?

The US market has lost 2.8% in 2025 and more than 6% since the inauguration of President Trump. From its peak in mid-February, the US market hit its lowest point in mid-March, dropping around 8%, with the Nasdaq falling by more than 11%. The Magnificent 7 stocks lost almost 15% before the recent recovery. This drawdown marks the largest since the bear market of 2022. The sharp decline and underperformance of the US market can be attributed to softer economic data, declining confidence, and uncertainty surrounding Trump's policies. Stock market drops exceeding 10% are usually typically referred to as corrections. Historically, many of these corrections have presented good buying opportunities ("buy the dip"), while others have signalled the beginning of a more significant market downturn. If we define the start of a correction as a downward move of more than 10% from the most recent 52-week high, ending when there are no further declines of more than 10% from the same high, there have been 60 such occurrences since 1928, with an average duration of around 185 days. The current correction has been unusually rapid, only ten other corrections were shorter.

Equity market performance after corrections (USA)

Period	Mean	Median	Max	Min
1M	0.1%	1.8%	11.0%	-24.0%
3M	2.5%	2.7%	19.0%	-26.0%
6M	5.6%	6.8%	24.0%	-27.0%
12M	7.7%	13.8%	41.0%	-38.0%

Data from 1928 to 2025. Source: Deutsche Bank, Swiss Life Asset Managers

After a market correction, prospective returns are on average positive and tend to improve over time (see table). On average, the returns over the following year are comparable to average long-term equity returns. However, the median return is significantly higher at 13.8%, as the average is skewed downward by a few extremely negative cases. Around 45% of past corrections coincided with recessions. Out of the 59 completed corrections, 17 escalated into bear markets, defined as a decline of over 20%. However, most corrections remained within the range of -10 to -20%. Bear markets were most common when corrections occurred just before or at the onset of a recession. In our view, the current correction is unlikely to develop into a full-blown bear market, as we do not anticipate a global recession. We retain our positive view for 2025 and the next three months.

Currencies

USD: tariffs a plus, weak-dollar-policy a risk

Overview of major currencies

	Mar. 2025*	Year-to-date*	1-month view
EUR/USD	3.8%	4.0%	↘
EUR/CHF	1.6%	1.3%	↘
GBP/USD	2.7%	3.2%	↘
USD/JPY	0.2%	-4.0%	→

* Performance as at 27 March. Source: Bloomberg

USA

- The USD continued to weaken in March. All major currencies except JPY appreciated against the USD. A major reason was lower US growth expectations and a better growth outlook for the rest of the world due to fiscal packages in Germany and China.
- We think that this shift in growth expectations is over or could even reverse somewhat, given the announcements of further US tariffs and are therefore taking a positive view on the USD for the second quarter. Also, interest rate differentials, the so-called "carry", remain favourable for the USD.

Eurozone

- The German fiscal package led to a rally of the EUR in March (+2% on a trade-weighted basis).
- As it will take time until the announced fiscal expansion reaches the real economy, we believe that market focus will turn to the intensifying trade war between the US and Europe, which is likely to hurt eurozone growth and weaken the EUR.

UK

- In March, GBP appreciated against USD, but continued to trade in a relatively tight range against EUR.
- For the second quarter, we are taking a negative view on GBP/USD and remain neutral on EUR/GBP.

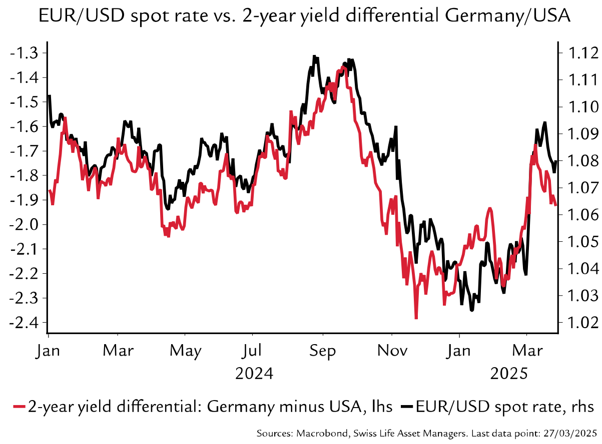
Switzerland

- EUR/CHF briefly moved above 0.96 in March.
- In the second half of March, the euphoria regarding the EUR already started to fade, and we expect further weakness of EUR/CHF over the next months.

Japan

- Contrary to other developed market currencies, the JPY did not appreciate against USD in March.
- We are taking a neutral view on USD/JPY for the second quarter.

Yield differentials continue to drive EUR/USD



Despite a barrage of tariff announcements, the USD has depreciated since President Trump's inauguration, thereby defying textbook assumptions that tariffs should strengthen the currency. Investors identified tariffs primarily as a growth risk for the US economy, which has led to lower US bond yields and a weaker USD. In March, the confirmation of Stephen Miran as Chair of the Council of Economic Advisors added to the weak market sentiment vis-à-vis the USD. Like the president, Miran is a proponent of tariffs and a weaker USD to promote US re-industrialisation. He mentions very problematic unilateral approaches such as a "user fee" for foreign central banks or sovereign wealth funds if they invest in US Treasuries or outright foreign exchange purchases by the US, which would stoke inflation fears. In terms of multilateral approaches, he cites the idea of a potential "Mar-a-Lago Accord" to orchestrate a USD devaluation. One problematic idea is to force large foreign holders of reserve assets to throw part of their US Treasuries on the market to weaken the USD and to swap their remaining Treasuries into 100-year government bonds in order to reduce refinancing flows into the US that are blamed for "persistent USD overvaluation". In our view, these propositions represent a medium-term tail risk. In the short term, we actually see room for a USD rebound. A lot of negativity is priced in, and the introduction of reciprocal tariffs in April could lead investors to dial back non-US growth prospects as well and reverse some of the euphoria for Europe that was induced by the German fiscal package. The euphoria led to a narrower yield differential between the US and the eurozone and consequently a spike in EUR/USD in March (see chart).

Asset allocation

Non-US equities lose a little momentum

Review

- While global equities had a negative return in March, this was mostly due to US stocks, while Europe and emerging markets were more stable.
- Government bonds suffered from higher yields, especially in Europe. Returns were therefore negative. Corporate bonds performed better, but mainly because of their lower interest rate sensitivity as spreads were stable or widened a little.
- After a relatively quiet period, uncertainty linked to the ongoing trade war is increasing again.

Current asset allocation views

Asset class	Active weight
Global government bonds	overweight
Global investment-grade credit	underweight
Emerging market bonds	underweight
Global equities	overweight

Source: Swiss Life Asset Managers

- We have adjusted our asset allocation and increased the weight of government bonds at the expense of corporate bonds in all forms.
- Our view that global equities excluding the US have more potential than bonds remains unchanged, but we see increasing risks as we approach a crucial period for the discussion on tariffs and the initial enthusiasm for the fiscal impulse in Europe fades.
- Our response is to increase our exposure to government bonds, as yields are quite high, even after considering inflation risks.
- Credit spreads have only changed moderately over the last month. We therefore find corporate bonds unattractive relative to equities in markets like Europe and the emerging economies.

A Pyrrhic victory for the European equity market?

Global equity market returns in March were negative, mainly due to significant corrections in US equities. As the initial enthusiasm for Germany and the EU's large fiscal plans fades, markets are shifting their focus to the challenges of implementing these investments, the impact of resulting budget deficits on interest rates, and the implications of US trade policy. This raises the question: was the strong first quarter for European equity markets a Pyrrhic victory?

We believe the current momentum for non-US equities in general and the European markets in particular still has legs for two main reasons: 1) Fundamentally, the US equity market remains overvalued, and the current US administration is creating an environment of economic uncertainty, which is prompting companies and consumers to be more cautious. 2) Europe has a unique opportunity to relaunch its economy and correct some of the problems of the last few years. The current situation might even create opportunities, as Europe may attract talent and capital that previously went by default to the US.

Still, the current momentum is likely to weaken at least in the short term and unforeseen events could still arise. As a result, we are making tactical adjustments to our asset allocation by increasing our exposure to government bonds while reducing our exposure to all types of corporate credits accordingly. The goal is to create a small "airbag" in our allocation, as we prefer to keep our equity exposure for now. Government bond yields have not moved much since the beginning of the year. However, yields in eurozone countries have risen significantly in response to the announced increase in fiscal spending. We view the current levels as elevated, even when accounting for inflation risks and the possibility of faster economic growth. Consequently, these bonds could cushion the impact of a potential equity market correction.

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