

VIEWS FROM THE DESK

GLOBAL ECONOMIC AND MARKET OUTLOOK APRIL 2025



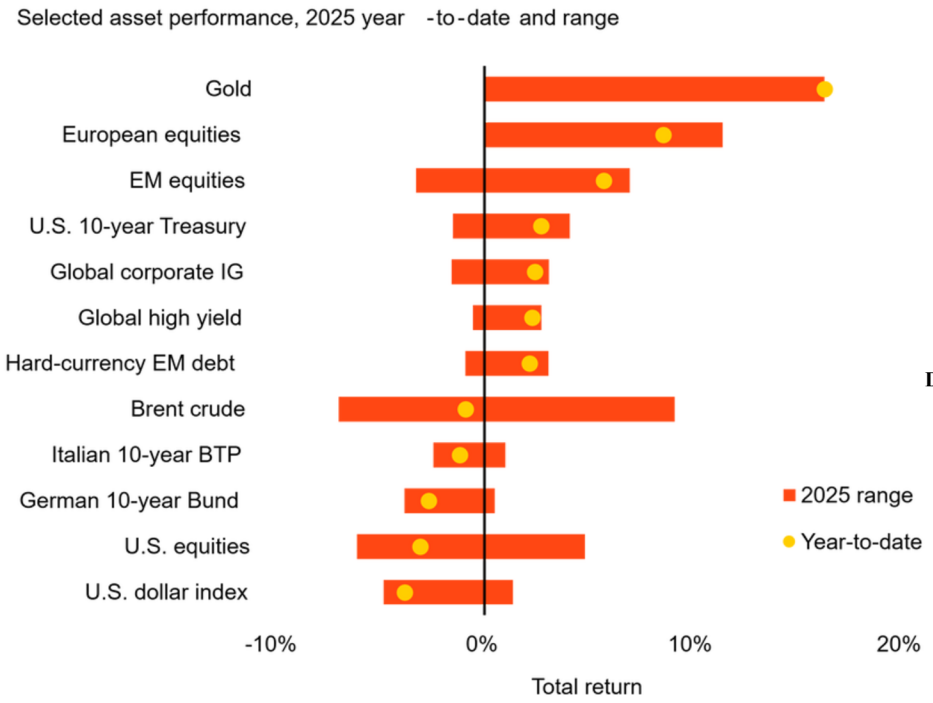


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Introduction



Sources: BlackRock Investment Institute, with data from LSEG Datastream as of March 27, 2025.

As we enter the second quarter of 2025, the global macroeconomic environment is being decisively shaped by an aggressive and unpredictable shift in U.S. policy direction. Under the reinstated Trump administration, we are witnessing a return to high-velocity decision-making—a "move fast and break things" approach that has already begun to send ripples through global markets. Nowhere is this more evident than in trade policy, where threats of steep, sweeping tariffs—initially directed at Canada and Mexico and now extended to a broader cohort of U.S. trading partners—have triggered a wave of volatility.

The policy landscape remains in flux. In just the first few weeks of the administration's new term, we've seen a rapid succession of announcements, reversals, and retaliatory proposals—amplifying uncertainty and propelling the Federal Reserve's U.S. Policy Uncertainty Index to its highest level in years.

These developments have had a tangible impact on markets. U.S. equities have experienced sharp swings, the dollar has meaningfully weakened, and while initial inflationary pressures from labor tightness and new tariffs persist, they've been tempered by broader concerns over economic fragility and geopolitical instability.

In contrast, select international markets—particularly in Europe and parts of Asia—have shown relative resilience, buoyed by local stimulus measures, sector-specific tailwinds, and more stable policy environments.

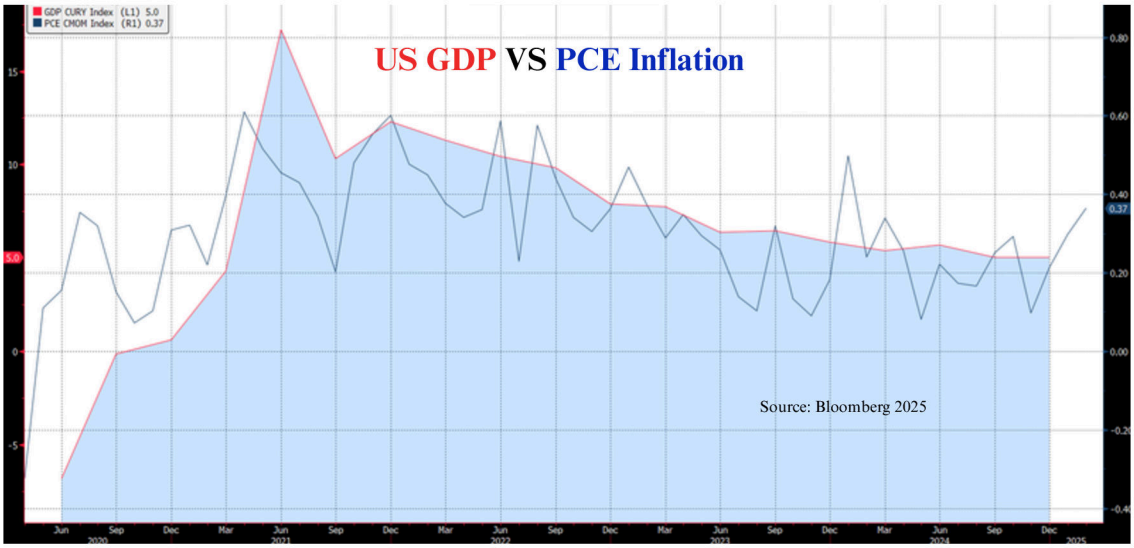
Yet not all signals point to risk. The U.S. labor market remains a pillar of strength. Unemployment continues to hover near historic lows, job creation remains steady, and wage growth—though moderating—continues to support consumer spending.

In this environment of elevated volatility and policy-driven inflection points, our role is not merely to react, but to anticipate. As always, we remain focused on preserving capital, identifying asymmetric opportunities, and positioning portfolios with precision and purpose.



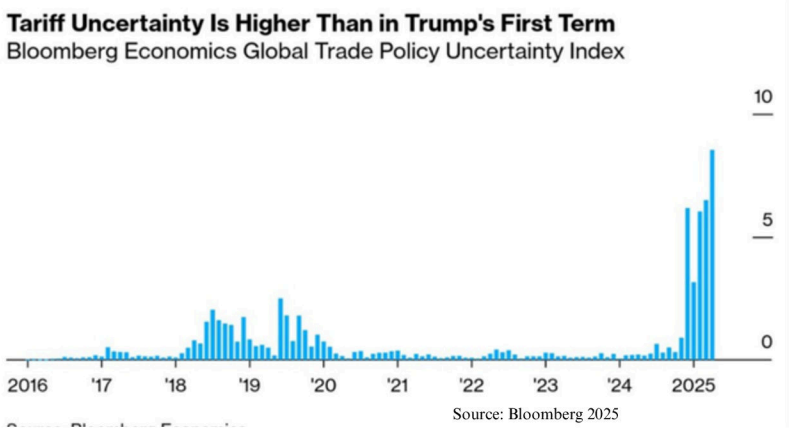
Sandeep Jadwani - Head of Investment Advisory

GLOBAL MACRO OUTLOOK: TRADE SHOCKS, DIVERGING POLICIES, AND A RECALIBRATING WORLD



As Q2 begins, the global investment landscape is defined by heightened uncertainty. Markets are contending with a macro environment shaped by persistent inflation, slowing growth, and escalating geopolitical friction. Most notably, U.S. President Donald Trump's "Liberation Day" tariffs—effective April 2—introduce reciprocal levies on up to 25 nations, including major trading partners such as China, the EU, India, and Japan. For global investors, this signals a return to the trade fragmentation of 2018–2019, now layered atop already fragile global demand.

According to Goldman Sachs, these tariffs could lift U.S. core inflation to 3.5% in 2025, reduce GDP growth to 1.0%, and push unemployment to 4.5%. The probability of a recession has risen to 35%. Meanwhile, the Federal Reserve remains on hold at a policy rate of 4.25–4.5%, signaling two potential rate cuts this year—yet constrained by incoming inflation data and the growing risk of stagflation.



The U.S. economy is clearly losing momentum. Q1 2025 GDP growth is projected at just 0.3%, down sharply from 2.5% in Q4 2024. Core PCE inflation remains elevated at 2.9%, driven by shelter costs and persistent services inflation. The Fed's dual mandate is increasingly at risk: inflation is not falling fast enough, while real growth is approaching stall speed.

Labor markets remain resilient. Weekly jobless claims are steady at 223,000, and the unemployment rate is holding near 4.1%. However, wage growth has plateaued, and consumer confidence is deteriorating amid tariff-driven price shocks. Industrial production surprised to the upside in March, rising 0.7%, yet leading economic indicators (LEI) have now declined for 17 consecutive months.

Market expectations are divided. Some investors anticipate policy easing, while others brace for a prolonged pause if tariffs reaccelerate inflation. The 10-year Treasury yield remains anchored near 4.1%, as bond markets await clearer signals on the Fed's next move.

Across developed markets, policy divergence is widening. The European Central Bank is holding rates steady while tracking softening inflation.

The Bank of Japan is preparing to normalize policy for the first time in decades, while China and emerging Asia lean toward stimulus.

Currency and bond volatility are expected to rise as rate differentials drive capital flows.

CHINA: STIMULUS, SOFT EXPORTS AND FX PRESSURE

China Manufacturing PMI VS CNY/USD



Source: Bloomberg 2025

China Investment Outflows



China's economy began Q1 with a modest rebound. March manufacturing PMI rose to 50.5—its highest level in a year—driven by strong domestic orders and front-loaded exports ahead of incoming U.S. tariffs. However, industrial profits still declined 0.3% year-over-year, and renewed trade barriers are expected to weigh on Chinese exporters throughout Q2.

The yuan (CNY) has weakened past 7.30 against the dollar, increasing the risk of capital outflows. In response, the PBoC has introduced targeted easing measures, but policymakers are treading carefully—balancing financial stability with the need to support growth. Fiscal stimulus remains modest, the real estate sector remains fragile, and high youth unemployment continues to suppress consumption.

Looking ahead, investors should closely monitor China's next policy moves. A major stimulus package could ignite a global risk rally, while escalating trade tensions may cap upside for equities and commodities.

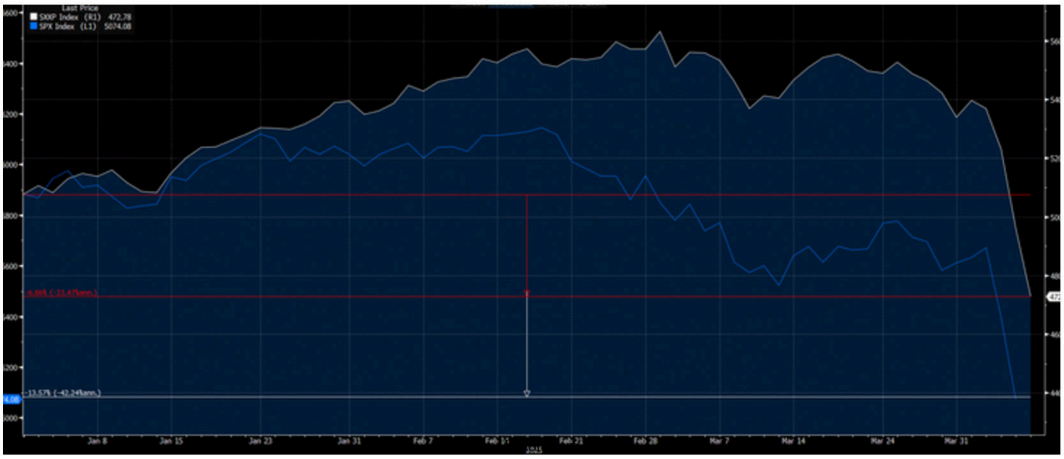
EUROZONE: SHORT TERM GAINS, LONG TERM FRAGILITY

The Eurozone outperformed the U.S. in Q1, with the STOXX Europe 600 rising 4.2%, buoyed by stronger fiscal spending, easing inflationary pressures, and gains in the defense and infrastructure sectors. However, this momentum stalled after the U.S. imposed a 25% tariff on all EU auto imports in late March.

Germany's DAX dropped 1.9%, while France's CAC 40 declined 1.6% in response. German inflation slowed to 2.3% in March—slightly below expectations—providing the ECB with some leeway to maintain its current policy stance. Still, manufacturing data remains weak, and investor sentiment is deteriorating amid concerns over potential retaliatory measures.

The euro remains near 1.07, as global capital flows increasingly favor the U.S. dollar and Swiss franc. Investment-grade EU credit has held relatively steady, but equities with high exposure to exporters and cyclical sectors could face pressure if trade tensions continue to escalate.

SPX VS Eurozone



Source: Bloomberg 2025

INDIA AND GCC: BRIGHT SPOTS IN A FRAGMENTED WORLD

India continues to outperform on both macroeconomic and market fronts. PMI readings remain above 55, real GDP growth is holding steady above 6%, and inflation is well-contained. The equity market is buoyed by strong domestic demand, sustained infrastructure investment, and solid earnings across key sectors such as banking, automotive, capital goods, and industrials.

Meanwhile, GCC markets—particularly the UAE and Saudi Arabia—offer a combination of fiscal stability, currency pegs, and strong investor confidence. Oil prices remain around $75 per barrel, and recent IPO activity in the energy and banking sectors has attracted both regional and international capital. While the MSCI GCC Index is flat year-to-date, forward-looking indicators suggest underlying strength.

Both India and the GCC are shaping up as structural overweight candidates for 2025 portfolios, offering a compelling mix of growth, resilience, and policy clarity amid an increasingly uncertain global backdrop.

COMMODITIES & CREDIT: MACRO-SENSITIVE AND TACTICAL

Commodities continue to deliver mixed signals. Gold has surged past $3,100 per ounce—up more than 18% year-to-date—driven by central bank accumulation, inflation hedging, and heightened geopolitical uncertainty. Copper briefly crossed the $10,000 per tonne mark before pulling back as renewed concerns over global growth emerged. Oil remains steady around $75 per barrel, supported by OPEC+ supply discipline and ongoing geopolitical risks.

In fixed income, Asia USD high-yield bonds present a distinct opportunity. New issuance in 2024 is at its lowest level in a decade, while default rates are expected to decline from 4.7% this year to 3.0% in 2025. At the same time, regional monetary easing and a weakening yuan are pushing local investors toward USD-denominated cash flows. These bonds also carry low duration, offering a degree of insulation from global interest rate volatility.

GCC (MXGCC) vs India (NFTY) vs



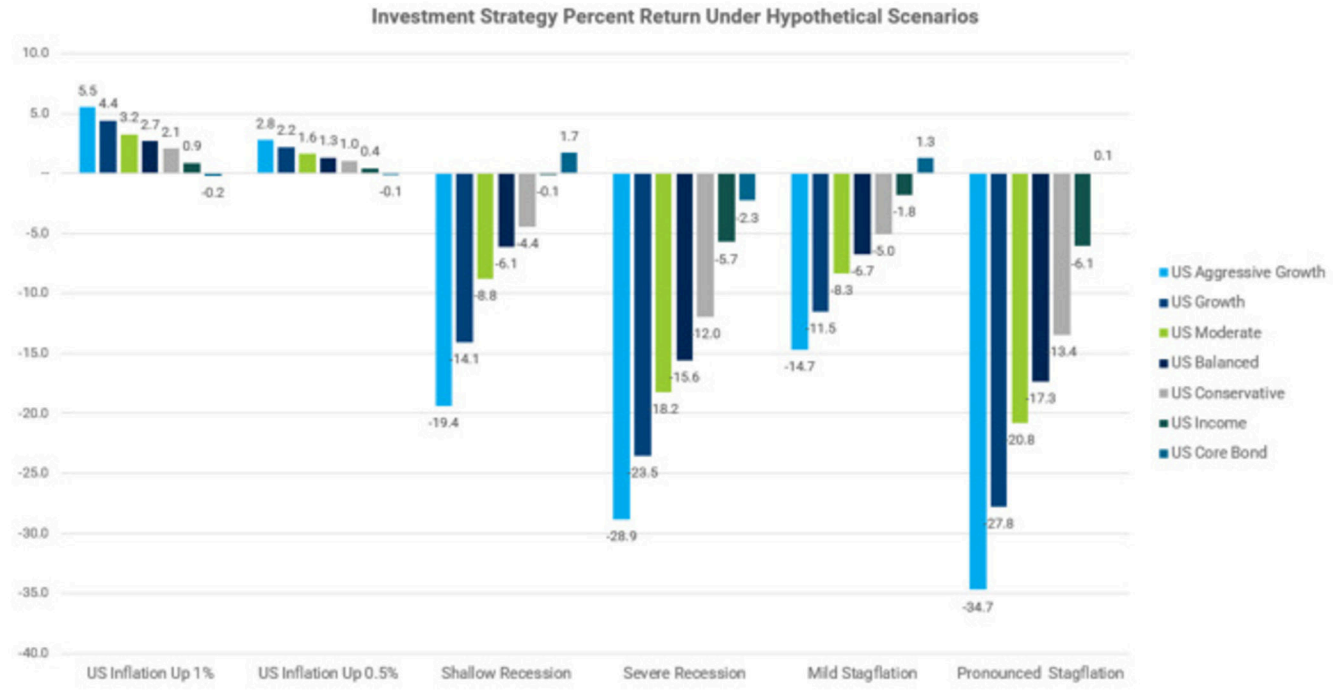
Source: Bloomberg 2025

Asset Allocation Views

Asset Class	Sub-Class	Strategic Allocation	Tactical Allocation
Main Asset Class	Equities	▲	=
	Fixed Income	=▲	=▲
	Commodities	=▲	=▲
	Currencies	=▲	=▲
Equities	USA	▲	=
	EU (Ex UK)	=	=
	UK	=	=
	EM (Ex MENA, India & China)	=	=
	MENA	=▲	=
	Japan	▲	=
	India	▲	=
	China	▼	=
Fixed Income	US Treasuries	=▲	▲
	Euro (Bunds)	▼	▼
	UK Gilts	▼	▼
	US IG	=▲	=▲
	US HY	=▲	=▲
	Europe IG	▼	▼
	EM	=▲	=
Commodities	Oil	=	=
	Precious Metals	=	=▲
Currencies	USD	=▲	=
	EUR	=	=
	GBP	=	=
	EM	=	=

Overweight = Neutral Weight Underweight ■ **Positive Tilt** ■ **Negative Tilt**

SCENARIO ANALYSIS: TESTING PORTFOLIO RESILIENCE



Source: FactSet

In today's uncertain policy environment, it is critical to evaluate how portfolios might perform under different macroeconomic stress scenarios. We have developed models based on three primary themes, each with its own variants:

1.) **Rising Inflation**

This scenario assumes that inflation accelerates further due to tariff-induced cost pressures and a tight labour market. In this environment, asset prices adjust as investors seek inflation hedges.

2.) **Recession (2 Variants)**

• **Shallow Recession:** A modest economic contraction where consumer spending and business investment decline moderately. Under this variant, equities may drop around 15%, while high-yield bonds decline about 10%, and Treasuries could see a modest gain.

• **Severe Recession:** A deeper downturn characterized by a sharper contraction in economic activity. Here, equities could fall by approximately 30%, high-yield bonds by 20%, with Treasuries outperforming further.

3. **Stagflation (2 Variants)**

This scenario combines stagnant or contracting economic growth with rising inflation.

• **Mild Stagflation:** Where inflation rises by about 1.5% while growth remains sluggish, resulting in moderate asset declines.

• **Severe Stagflation:** A more pronounced case, with higher inflation combined with a significant drop-in economic activity, leading to sharper negative impacts on most asset classes.

Scenario	Equities	High Yield Bonds	IG Corporates	Treasuries	Gold	Commodities	Strategy Focus
Rising Inflation	+ to Neutral	- to –	Neutral	Neutral	++	++	TIPS, Gold, Short Duration, Energy
Shallow Recession	-15%	-10%	+	+2%	+	-	Defensive Sectors, IG Bonds, Cash
Severe Recession	-30%	-20%	-7%	+3%	+	-	Treasuries, Minimal Risk Equities, Increased Liquidity
Mild Stagflation	-15%	-9%	Neutral	+2%	++	++	Barbell: TIPS + Gold + Cash
Severe Stagflation	-30%	-11%	-2.5%	+4.5%	+++	+++	TIPS, Gold, Commodities, Real Assets

• Rising Inflation: Prioritize assets that hedge against price increases—TIPS, gold, and short-duration fixed income are key.

• Recession: In a shallow recession, defensive equities and high-grade bonds provide stability, while in a severe recession, a heavier tilt toward Treasuries and cash is advised.

• Stagflation: With sluggish growth and rising prices, a barbell approach combining inflation hedges (TIPS, gold) and liquidity can protect capital and capture distressed opportunities.

Investment Strategies Percent Return Under Hypothetical Scenarios

	Weight	US Inflation Up 1%	US Inflation Up 0.5%	Shallow Recession	Severe Recession	Mild Stagflation	Pronounced Stagflation
US Aggressive Growth	100	5.5	2.8	-19.4	-28.9	-14.7	-34.7
US Growth	100	4.4	2.2	-14.1	-23.5	-11.5	-27.8
Bonds	20	-0.0	-0.0	1.4	-0.5	0.3	0.0
Equities	80	4.4	2.2	-15.5	-23.1	-11.7	-27.8
US Moderate	100	3.2	1.6	-8.8	-18.2	-8.3	-20.8
Bonds	40	-0.1	-0.0	2.8	-0.9	0.5	0.0
Equities	60	3.3	1.7	-11.6	-17.3	-8.8	-20.8
US Balanced	100	2.7	1.3	-6.1	-15.6	-6.7	-17.3
Bonds	50	-0.1	-0.0	3.6	-1.1	0.6	0.0
Equities	50	2.8	1.4	-9.7	-14.4	-7.3	-17.4
US Conservative	100	2.1	1.0	-4.4	-12.0	-5.0	-13.4
Government	20	-0.1	-0.0	0.5	0.5	0.3	0.4
Bonds	40	-0.1	-0.0	2.8	-0.9	0.5	0.0
Equities	40	2.2	1.1	-7.7	-11.5	-5.9	-13.9
US Income	100	0.9	0.4	-0.1	-5.7	-1.8	-6.1
Government	40	-0.1	-0.1	0.9	1.0	0.7	0.8
Bonds	40	-0.1	-0.0	2.8	-0.9	0.5	0.0
Equities	20	1.1	0.6	-3.9	-5.8	-2.9	-6.9
US Core Bond	100	-0.2	-0.1	1.7	-2.3	1.3	0.1

Source: FactSet

CONCLUSION

This is not a crash - it's a recalibration. Markets are adjusting to new policy risks, rethinking inflation trajectories, and repricing geopolitical uncertainty. The winners of 2025 will be the investors who remain flexible, focused, and bold enough to shift when the data demands it.

As we enter a critical quarter, now is the time to:

1. **Stay global but not broad**
2. **Stay risk-aware but not risk-averse**
3. **Stay diversified—but with deliberate conviction**
4. **Monitor the Fed and ECB policy pivot windows carefully**
5. **Hold 5–10% in cash to stay opportunistic allocation to UK, China and broader EM Ex India**
6. **Position for increased volatility in Q2 due to trade and election risks**
7. **Use FX hedging for EUR, JPY, and EM FX exposure**

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