

Germany flouts — self-imposed fiscal taboos

Saving you time

BONHÔTE
Bankers since 1815

N°787

10 March 2025

Financial markets are enduring a period of instability, overshadowed by trade tensions and wide-ranging economic measures.

Trade war brewing

The US has moved to impose customs duties of 25% on imports from Mexico and Canada, plus 20% on imports from China, although there has since been a temporary carve-out for goods covered by the North American trade agreement until 2 April. These measures have caused significant disruption to global supply chains and are one of the factors stoking inflation. In response, Canada has applied tit-for-tat tariffs on a specific range of American goods, while China is taxing American farming products. The end result has been more uncertainty in the markets.

As each country tries to outdo the others with their tariffs, some sector rotation has been witnessed. The automotive sector is benefiting from the one-month reprieve in tariffs, which is temporarily mitigating the negative repercussions on what is a strategic segment for the US economy.

In China, the government is forecasting continued growth of 5%, supported by fresh fiscal stimulus. Emphasis has been placed on galvanising consumers and technological innovation, particularly in the field of AI, although the precise details have yet to be worked out. The trade war with the US remains a decisive factor in just how extensive the measures will be.

In the US, despite some resilience by the ISM manufacturing and services indices, economic indicators are showing signs of losing momentum. The trade deficit, which stands at USD 131.4 billion based on latest numbers (up 34% month-on-month and doubling year-on-year), reflects an increase in imports, as a direct consequence of anticipated customs duties. This raises concerns about possible stagflation – that fatal mix of persistent inflation and stagnant economic growth. The jobs market is also slowing, partly due to the uncertainty surrounding the implementation of the radical new economic policies.

Europe intent on making war, not love

Here in Europe, Germany has announced the creation of a special EUR 500 billion fund to finance defence, modernise infrastructure and make the country more competitive on the global scene. But this measure, which marks a reversal of the traditional tight grip on debt, requires the adoption of a constitutional reform, which will depend on achieving a political consensus involving the CSU/SDU coalition, the SPD and potentially the Greens. Changes to the constitution require a qualified majority in order to pass in the Bundesrat. At the same time, the European Commission has unveiled an ambitious project to rearm Europe by allocating EUR 800 billion to strengthen collective defences and support Ukraine, following the withdrawal of US aid.

Last week the ECB continued monetary easing by cutting its benchmark policy rate to 2.50%, at the same time revising its inflation forecasts. Public spending in Europe has potential to stimulate growth, but customs duties could rekindle inflation, leaving the future rate trend in interest territory.

Against this backdrop, equity market volatility has increased significantly, oscillating between periods of panic and rallies. The US 10-year yield ended the week at 4.30% while the return on the German Bund jumped to 2.80%. The S&P 500 shed 0.65% over the week, Nasdaq was down 1.10% and the Stoxx Europe 600 1.74%.

Swiss Market Index (SMI)

Momentum is weakening but remains relatively strong. Some consolidation was seen towards 12900 last week, but overall the foundations seem solid enough to fuel retracement to all-time highs.



Key data

| | USD/CHF | EUR/CHF | SMI | EURO STOXX 50 | DAX 30 | CAC 40 | FTSE 100 | S&P 500 | NASDAQ | NIKKEI | MSCI Emerging Markets |
|--------|---------|---------|-----------|---------------------|-----------|----------|----------|----------|-----------|-----------|-----------------------------|
| Latest | 0.88 | 0.95 | 13'076.68 | 5'468.41 | 23'008.94 | 8'120.80 | 8'679.88 | 5'770.20 | 18'196.22 | 36'887.17 | 1'128.55 |
| Trend | ↓ | ➡ | ↑ | ➡ | ↑ | ➡ | ➡ | ↓ | ↓ | ↓ | ➡ |
| YTD | -3.03% | 1.45% | 12.72% | 11.69% | 15.59% | 10.03% | 6.20% | -1.89% | -5.77% | -7.54% | 4.93% |

(values from the Friday preceding publication)

This document is provided for your information only. It has been compiled from information collected from sources believed to be reliable and up to date, with no warranty as to its accuracy or completeness. By their very nature, markets and financial products are subject to the risk of substantial losses which may be incompatible with your risk tolerance. Any past performance that may be reflected in this document is not a reliable indicator of future results. Nothing contained in this document should be construed as professional or investment advice. This document is not an offer to you to sell or a solicitation of an offer to buy any securities or any other financial product of any nature, and the Bank assumes no liability whatsoever in respect of this document. The Bank reserves the right, where necessary, to depart from the opinions expressed in this document, particularly in connection with the management of its clients' mandates and the management of certain collective investments. The Bank is a Swiss bank subject to regulation and supervision by the Swiss Financial Market Supervisory Authority (FINMA). It is not authorised or supervised by any foreign regulator. Consequently, the publication of this document outside Switzerland, and the sale of certain products to investors resident or domiciled outside Switzerland may be subject to restrictions or prohibitions under foreign law. It is your responsibility to seek information regarding your status in this respect and to comply with all applicable laws and regulations. We strongly advise you to seek independent legal and financial advice from qualified professional advisers before taking any decision based on the contents of this publication.