

# The Way We See It

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## INSIDE THIS ISSUE

1. Review of Developments
  - Global Economies
  - Global Markets
2. Market Outlook
3. The Way We See It
  - Global Markets and Investment Thematics
4. Postscript

*Preliminary U.S. Tariff details are out - Our view on what this means for the U.S. and global economies & financial markets.*

A brief update report which serves to review the recent market development and to offer our outlook for the rest of the year and beyond.

### **Review of Developments**

#### **- Global Economies**

On growth dynamics, the latest official estimate of the U.S. Q1'25 GDP continued to show a modest economic contraction of 1.4% p.a.. This is attributable to disruptive policies implemented by Trump and his radical ministers / advisers. Uncertainties reigned high: business and consumer sentiment collapsed, household spending weakened, inventories accumulated and new CAPEX spending slowed.

Following the recent announcement by the Trump government of a significantly high and punitive reciprocal tariff scheme (April 2<sup>nd</sup>), there is an increasing concern amongst investors that the U.S. and global economy could fall into a recession with rising inflation, i.e. the worst of both worlds.

But, based on the fact that Trump and his dogmatic trade adviser Peter Navarro essentially run the U.S. Tariff policy, the recent liquidation and emerging crisis

in the usually-safe U.S. government bond market caused Trump to blink: with the exception of China, he announced a pause of 90 days relating to the list of key trading nations where reciprocal tariffs are applied. A 10% tariff is levied on all imports in the U.S. while waiting for further negotiations. As China retaliated in the tariff war, the latest tariff applied on Chinese exports to the U.S. currently stands at a punishingly high level of 145%. At this level, assuming that it stays at these levels for a full year, the approximate \$500 billion exports from China to the U.S. could collapse to an insignificant amount. And the more crucial question is which nation(s) can efficiently produce that massive amount of cheap goods in the short term? For instance, how can the popular U.S.-based Walmart supermarket and general retail franchise, which sources up to 60% of its merchandise from China, survive?

## U.S. Recession in 2025?



Source: Polymarket, as of 31/3/2025

In Q1, the European economic bloc was expected to remain mixed (Ukraine war and tariffs are negatives, while rate cuts and disinflation are positives). Japan was projected to continue to grow moderately.

**Increasing chance of U.S. Recession.**

However, the recently-announced higher U.S. tariffs are likely to impact negatively on both the European and Japanese economies. Whether the economic consequences are sufficiently serious to drive them in a recession is unclear at this juncture.

We continue to think that China is likely to take the growth baton this year. In addition to the government's attempt to stabilise the debt crisis in the property sector, recent developments in the AI field (re: DeepSeek and associated technology enterprises) appeared to have sparked a renaissance in the private sector. The government also showed a more harmonious attitude towards the large private conglomerates. In addition, they have pledged to inject more fiscal stimulus to spur consumption. Should these positive trends prevail, there is a good chance of a solid recovery in the domestic economy in China.

The Chinese export sector, on the other hand, may suffer more as a result of extremely high increases in the tariffs recently imposed by the U.S. government's trade hawks. Chinese exports to the U.S. (about 3% of China's GDP) are now effectively frozen, as the punitive 145% (old 20% and new 125%) tariff was imposed by Trump. The latter will undoubtedly impact significantly on the nascent domestic recovery.

Another economic bloc which will be hit substantially is the rest of Asia: owing to their great efficiency and competitive products pricing and the large investments in the construction of modern infrastructure logistics, Asian economies are unfairly treated and particularly hard hit by very high tariffs. For instance, because of the large trade deficit that the US is incurring with Vietnam, the latter now has to cope with a massive 46% tariff on all their exports to the U.S..

On the inflation front, in the case of Europe and other OECD countries, headline and core inflation indicators continued to decelerate, thus raising expectations of further rate cuts. In the U.S., the core inflation rate has not managed to fall below the annual 2.5% for some time. In the short-term, inflation

**China is likely to take the growth baton, despite export sector may suffer in trade war.**

data in the U.S. could be pushed up by higher tariffs on imported goods. Continuing growth, albeit slowing, in the domestic economy and a sticky core services inflation rate meant that the Fed's easing policy will likely remain on hold in the coming months, unless the current weakness in the U.S. Treasury bond market leads to a full-blown liquidity crisis.

In brief, while the global economy has continued to grow on a sub-par basis, as shown by the JPM global composite PMI chart below, unless there are dramatic changes to the Trump government's tariff scheme, the future appears much more gloomy.

**Global economy to grow below par.**

## J.P.Morgan Global Composite PMI™



Source: J.P.Morgan, S&P Global Market Intelligence

Finally, while global geopolitical risks have not gone away, they have definitely improved. The military conflict between Israel versus other warring Arab countries has definitely been cooling down. At the time of writing, the U.S. is attempting to force Ukraine and Russia into accepting the terms of a peace deal.

The most important geopolitical risk is undoubtedly the potentially explosive trade war between the U.S. and the rest of the world. The Trump government has just announced very high reciprocal tariff against Europe, China, Asia and many other countries which have succeeded at achieving high trade surpluses with the U.S.. As a result, unless Trump were to modify

his tariff policy meaningfully, a growing group of economists and top bankers are now raising the probability of a U.S. and global economic recession to 50-60% or higher.

## - Global Markets – review of month of March

Following a weak performance in the U.S. stock market in the month of February, the month of March saw a continuation of the profit-taking and stop-loss selling in leading U.S. Mega-caps and Magnificent-7 stocks. This dragged the whole U.S. market down. Other overseas equity markets fared better, as investors reduced their exposure to the U.S. in order to diversify elsewhere.

At the time of writing in the first half of April, following the Trump government's tariff announcement and subsequent modifications, markets have once again collapsed and then surged again. Intra- and inter-day volatility remained abnormally high.

Pre-April 2<sup>nd</sup> (Tariff Day), positive factors were partially offset by adverse ones, resulting in a more volatile trading environment. Post-April 2<sup>nd</sup>, negative factors dominate investors' minds.

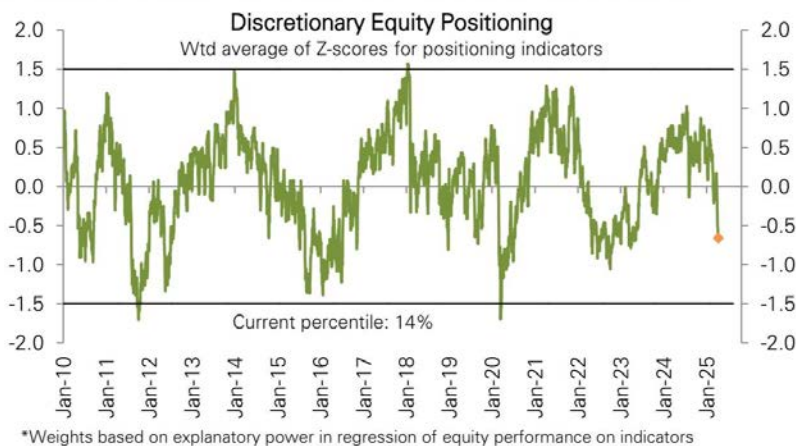
- Pre-April 2<sup>nd</sup>, positive factors include the continuing AI revolution in the U.S., global ex-U.S. upgrades of economic and corporate earnings, hopes for the continuation of the implementation of an easy monetary policy in the U.S. and OECD bloc, and that the big-spending fiscal trend in the U.S. will continue.
- Post-April 2<sup>nd</sup>, negative factors rule. First and foremost, everyone is very concerned about the likely implementation of a series of tariff hikes by the Trump government on all countries U.K. the world, particularly those which have a large surplus with the US. This is expected to not only hurt profit margins of many affected corporations, but also declining sales volumes as consumers became more pessimistic. Moreover, a slightly less but still relatively expensive valuation of U.S. equities (particularly Magnificent-7 and other high-growth

**March saw notable profit-taking / stop-loss especially in U.S. Mega Caps.**

winners) demand a better-than-expected delivery of sales and earnings growth, which did not always meet elevated expectations.

- Furthermore, a number of investors remain concerned that equity ownership amongst retail and institutional investors has risen dramatically over the past few years. While the latest data has shown a significant reduction in this crowded exposure, it begs the question whether most of the good news have been discounted and that the market could still be susceptible to further bad news.

Equity positioning slid sharply to “underweight / short”, wiping out the post-election bump



Source: Deutsche Bank Asset Allocation

**Discretionary and Systematic equity positions both fell sharply to u/w.**

The global equity universe, in USD terms, fell by 4.40% in March, dragged down by the U.S., which corrected by 5.85%. Global ex-U.S. equities declined only slightly, by 0.47%. For the March quarter, the three respective numbers are -1.68%, -4.51% and +6.35%. Essentially, global equities ex-US were the bright star.

## Near-term performance of various asset classes

| Asset Class Index | US Equities<br>MSCI USA | Global Equities<br>MSCI World | Global ex US Equities<br>MSCI World ex USD |
|-------------------|-------------------------|-------------------------------|--------------------------------------------|
| 1 month           | -5.85%                  | -4.40%                        | -0.47%                                     |
| 3 months          | -4.51%                  | -1.68%                        | 6.35%                                      |
| YTD               | -4.51%                  | -1.68%                        | 6.35%                                      |
| FY 2024           | 25.08%                  | 19.19%                        | 5.26%                                      |

| Asset Class Index | US Corporate<br>Bloomberg US Corporate | US Treasury<br>Bloomberg US Treasury | US Aggregate<br>Bloomberg US Agg |
|-------------------|----------------------------------------|--------------------------------------|----------------------------------|
| 1 month           | -0.29%                                 | 0.23%                                | 0.04%                            |
| 3 months          | 2.31%                                  | 2.92%                                | 2.78%                            |
| YTD               | 2.31%                                  | 2.92%                                | 2.78%                            |
| FY 2024           | 2.13%                                  | 0.58%                                | 1.25%                            |

| Asset Class Index | Global Govt Bonds<br>Bloomberg Global TSY | Global Aggregate<br>Bloomberg Global Agg | Global Commodities<br>CBR |
|-------------------|-------------------------------------------|------------------------------------------|---------------------------|
| 1 month           | 0.61%                                     | 0.62%                                    | 2.47%                     |
| 3 months          | 2.59%                                     | 2.63%                                    | 4.24%                     |
| YTD               | 2.59%                                     | 2.63%                                    | 4.24%                     |
| FY 2024           | -3.58%                                    | -1.69%                                   | 12.47%                    |

| Asset Class Index | GEM Equities<br>MSCI EM | Asia ex Japan Equities<br>MSCI AC AxJ | China Offshore<br>MSCI China |
|-------------------|-------------------------|---------------------------------------|------------------------------|
| 1 month           | 0.67%                   | 0.06%                                 | 1.98%                        |
| 3 months          | 3.01%                   | 1.89%                                 | 15.06%                       |
| YTD               | 3.01%                   | 1.89%                                 | 15.06%                       |
| FY 2024           | 8.05%                   | 12.51%                                | 19.67%                       |

Source: GOJI, MSCI, Bloomberg; data as of 31/3/2025

In the Emerging Markets universe (which rose by 0.67%), Chinese offshore equities continued to do well, rising by 1.98%, boosted by the DeepSeek's sensational announcement of its very efficient AI platform. Chinese domestic A-shares only rose by 0.28%. For the March quarter, the three respective numbers were +3.01%, +15.06% and +0.12%.

U.S. Treasuries and other domestic and global fixed income markets achieved a small positive return. Despite concerns over the inflationary consequence of tariff hikes and deportations of low-skilled workers, bonds were the "safe haven" asset class in the month. A combination of weak retail sales data, a collapse in consumer confidence surveys and the potential adverse impact of tariffs on consumer demand raised the probability of a severe slowdown or recession in the U.S. in the first half of the year.

**Global equity was largely dragged by U.S.**

In the first two weeks of April, bond yields have risen significantly as global investors appear to have decided to cut back on both their overweighted US bond and currency exposures.

The USD weakened slightly against its trade-weighted index of currencies, as investors began to price in a potential severe slowdown in the U.S. economy in H1, which may force the U.S. Fed to consider cutting rates a few times this year (from one cut just a month ago).

The Commodities complex rose slightly, helped by a rise in energy and gold prices.

## **Market Outlook**

As our readers and clients are aware, GOJI's Market Outlook is based on our assessment of macro economic developments, forecasts of growth of sales and profits of companies, valuation of key asset classes, and last but not least, investors' positioning and sentiment towards key asset classes, together with their likely resulting flows and the technical charts' trends.

First, depending on how damaging Trump's tariffs are, the macro economic backdrop is expected to be reasonably favourable for economies excluding the U.S.. In the U.S., investors are increasingly concerned that uncertainties relating to the tariffs war, together with the reduction in the migrant workforce and loss of public service jobs, could cause a severe slowdown or recession.

We expect that, depending on the intensity of the global tariff trade war and the potential European / China recovery potential, the global GDP growth rate is expected to be moderately or deeply below their long-term equilibrium. This would allow more rate cuts (even in the U.S.), which will thus make liquidity stay market-friendly.

Second, we expect that while companies will likely, in general, be able to deliver reasonable sales and profit growth, the potential severity of the tariff war

and U.S. economic slowdown could cause analysts to significantly downgrade earnings growth in the overall U.S. (and to a lesser extent, global) investment universe

Third, we note that the U.S. bond market is in turmoil at present. There are both technical and structural reasons to explain this (more below). As a result, we would only advocate to buy US bonds when their embedded risk premium is rising adequately to compensate buyers.

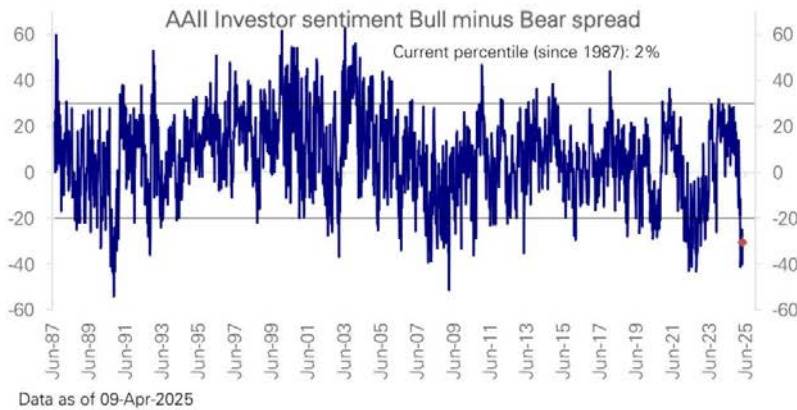
As the long bond yield of many global-ex-U.S. bond markets has already been falling quite substantially, unless there is a deep recession, non-U.S. bond markets no longer offer value.

We note that the historically high valuation of 20x forward P/E on the S&P 500 is no longer outlandish. Hence, as long as their corporates (especially Magnificent-7 and other high-growth stocks) achieve their high sales and profit growth targets, and that the 10-year Treasury Bond yield does not significantly rise above 4.50% p.a., U.S. equities are looking more interesting.

Current high U.S. bond rates at 4.45% p.a., as mentioned previously, were caused by adverse technical as well as structural factors. In previous Goji reports, we question the sustainability of American Exceptionalism. This is exactly what has been happening of late, as foreign investors have been significantly reducing their exposure to both the US Dollar and US bonds and equities. Their chief reason is their reduced trust in the Trump government's political, economic and reliability attributes in terms of guaranteeing their investment in the U.S..

Fourth, the latest data on the equity positioning of Discretionary/Fundamental and Systematic investors in February showed that both types of investors already have significantly reduced their exposure. This is good news for contrarian investors.

## Investor bull minus bear spread

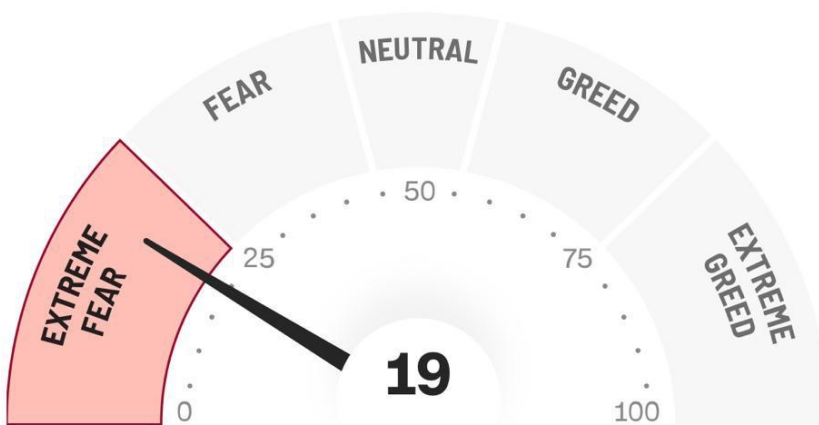


Source: Barron's, Haver Analytics, Deutsche Bank Asset Allocation

In the month, traders and investors' sentiment weakened significantly, oscillating between Fear and Extreme Fear.

## Fear & Greed Index

- What emotion is driving the market now?



Last update April 1 at 8:00:00 PM ET

**Sentiment remains in Fear / Extreme Fear.**

## Short-term Technical Analysis

Finally, a quick assessment of U.S. and global technical charts suggests that the world leading equity indices, Dow Jones Industrials and S&P 500, remain in a long-term bull market, supported by the Golden Cross which was formed in October / November 2023. However, in the shorter-term, the above indices have been weakening and are now situated below the crucial 200 day moving average line.

## S&P 500 Stock Price Index



The latest Investors' Positioning chart shows that both Discretionary / Fundamental and Algo-driven Systematics investors have substantially reduced their equity exposure following Trump's tariff threats. They are currently under-weighted or net short in U.S. equities.

## Consolidated Equity Positioning



Source: Deutsche Bank Asset Allocation

## **The Way We See It**

- Global Markets and Investment Thematics

**At GOJI, we advocate a two-pronged strategy to invest in risk assets.**

**While our shorter-term tactical (3-6 months) and long-term strategic (1-2 years) views may differ substantially, since the end of November 2024, we have been advocating a risk-adjusted stance towards equities. Give the relatively significant correction in US equities since the mid-February peak, we are looking at an opportune time to upgrade this asset class again.**

### **Long-term Risk-Neutral Strategy Rationale:**

As outlined in our Global Investment Outlook for 2025, and our recent monthly reports, it is our belief that both fundamental and quant-driven investors have priced in, positioned for and have been prepared to pay up for a best-case scenario of a pro-growth and pro-equities/-crypto investment scenario under Trump 2.0.

A Goldilocks scenario, but with relatively expensive equity valuations in a still-rising bond yield environment. Hence our hesitation to be overweight equities from a long-term strategic viewpoint.

Thus, our long-term strategy recommendation continues to advocate to hold a neutral exposure to risk assets, with a modest underweight exposure to expensive risky growth assets, and overweight cash and less volatile quality assets.

However, as the U.S. stock market is out of favour in the short-term, should it fall too dramatically in coming months, this could offer long-term investors an opportunity to gradually accumulate solid quality U.S. growth stocks at a reasonable price.

### **Risk-Neutral turning more positive from a Tactical viewpoint:**

**GOJI's LT view remains: neutral to risk assets.**

In early August, we took advantage of the massive fall of risky assets (caused by factors which are well known to all by now - please refer to GOJI's September issue), to recommend to our clients to buy them, and build a moderate overweight exposure in U.S. and global equities. Our tactical bullish view then changed in our November 2024 report, advocating a Risk-Neutral stance.

Now that the U.S. equity market has corrected by 20% from the February peak and that Trump appears to be more prepared to soften his stance towards implementing the April 2<sup>nd</sup>'s punishingly high reciprocal and other tariffs against its largest trading partners (China remains the exception), we are adopting a more constructive stance towards U.S. equities.

A gradual re-investment in U.S. and other global equity markets to a mild overweight position is looking increasingly more attractive.

**GOJI's ST view:  
gradual re-investment  
in U.S. & global equity  
markets.**

## Postscripts

This month's Special Section is focused on the discussion of the likelihood of a Recession or Soft-landing scenario occurring in the U.S., in the coming 6 to 12 months.

### 1. U.S. Recession scenario:

Readers of GOJI monthly reports may recall that we have been arguing that a US recession with high inflation is almost a sure thing should Trump's punitive tariffs get implemented (please refer to our last two monthly reports.

### 2. Soft Landing scenario:

This scenario would only occur if Trump were to substantially reduce the tariff which is being proposed as at April 2<sup>nd</sup>.

The consensus and we are delighted to see Trump offering a 90-day cool-off period during which trading nations can attempt to negotiate a lower tariff level with America, as well as selective tariff exemptions (albeit stated as temporary at present), on certain export items to the U.S..

In our view, should the Rest of World's (excluding China) end up with a 10-15% U.S. tariff and China with a 30-50% tariff, then we most probably can end up with a soft landing in the US and the world.

If so, growth and cyclical stocks can certainly bounce solidly from current distressed levels. Bond rates can also fall as inflation fears are likely to be reduced, helping to lend support to the equity rally.

## Concluding Remarks

In brief, it is our humble opinion that Mr. Trump's strong focus on imposing high tariffs against trading partners, together with deportation of illegal migrant and the on-going reduction of public service jobs (via DOGE), could push the U.S. economy into a mild recession in H1. The market has already started to price this in.

Nonetheless, should Trump and his hawkish trade advisers tone down their punitive tariff levels, the U.S. and world economy and markets will enjoy this positive surprise.

Having stated the above, should the U.S. stock market fall to relatively cheap valuation levels and investors' positioning become too low, we may look to raise the equity exposure from Neutral back to Overweight, adding back the U.S. exposure.

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