Allianz Global Investors

03/2025

Market Snapshot

Equity Snapshot

United States

US equities sold off sharply in March, rounding out their worst quarter since 2022 against a backdrop of tariff-related uncertainty and geopolitical tensions. The Nasdaq Composite Index closed the month at a six-month low, while the S&P 500 Index briefly fell into correction territory, having dropped 10% from its early-January peak, as investor sentiment plummeted. Sentiment was further knocked when President Donald Trump refused to rule out a recession, emphasising the possibility that the US will enter "a period of transition", with market jitters continuing into month end in the run-up to the president's self-dubbed "Liberation Day" of sweeping tariffs on 2 April. Overall, value stocks outperformed their growth equivalents during the month as investors rotated into more defensive shares.

Recessionary fears grew. The Federal Reserve Bank of Atlanta's GDPNow running estimate signalled a contraction of 2.8% over the first quarter of 2025, compared with previous estimates of growth. Consumer confidence, in particular, has slumped as higher tariffs and federal job cuts weigh on sentiment. The University of Michigan's consumer sentiment index plunged to 57 in March, the lowest level since November 2022, while one- and five-year inflation expectations surged. More positively, the flash S&P Global US composite purchasing managers' index rose to 53.5 in March from 51.6, its highest level this year, driven by continued strength in services. However, manufacturing activity tumbled to 49.8, nudging back into contraction territory (above 50 signals expansion).

Headline US inflation eased to 2.8% in February from 3.0% in January, slightly below forecasts, while core inflation rose to 3.1%, less than the 3.2% anticipated. In other data releases, retail sales rose by a modest 0.2% in February, rebounding from a downwardly revised fall of 1.2% in January, while non-farm payrolls increased by a weaker-than-expected 151,000 in February. The Federal Reserve kept rates on hold at its March meeting: its latest projections showed officials expected US GDP growth to slow to 1.7% this year while inflation is expected to trend higher than prior forecasts at 2.7%.

Europe

European equities moved lower over March but held up better than US shares. President Donald Trump's withdrawal of US military aid to Ukraine and comments signalling faltering US commitment to NATO and European security initially weighed on sentiment, but shares recovered after the German Parliament agreed to relax its debt brake. The landmark debt reform bill will unleash hundreds of billions of euros for defence and infrastructure spending. However, European markets stumbled further towards month end on heightened uncertainty in the run-up to the president's self-dubbed "Liberation Day" of sweeping tariffs on 2 April. At a sector level, consumer discretionary and information technology shares fell the most, while utilities and energy were the only sectors to post gains.

The flash HCOB euro-zone composite purchasing managers' index (PMI) ticked up slightly to 50.4 in March from 50.2 in February. Services activity slowed modestly but remained in expansion territory, while the manufacturing PMI rose from 47.6 in February to 48.7 in March, a 26-month high. Inflation in the euro zone eased to 2.3% in February from 2.5% in January. The European Central Bank cut its key interest rate by 25 basis points to 2.5%, as expected, and slashed its GDP growth outlook by 0.2% to 0.9% for 2025 in light of the worrying trade tariff backdrop and economic uncertainty.

Asia

March was a weak month for Asia ex Japan equities, with markets continuing to digest erratic tariff news flow and the prospect of a global trade war. Chinese stocks made modest gains in March, despite ongoing trade tensions caused by the Trump administration's tariff policy and a return to deflation. Hopes of fresh stimulus measures from Beijing aimed at boosting consumption in the wake of the country's persistent residential property woes supported markets mid-month. Tech stocks led the way for the first half of the month, continuing to rally after Chinese AI start-up DeepSeek's AI success sparked growing interest in the sector, but closed the month on a weaker note. Elsewhere, Taiwanese stocks fell sharply, dragged lower by weakness in its chip makers. Tech and auto names supported Korean markets for most of March. However, equities ended lower after Trump slapped a 25% tariff on all cars imported to the US. ASEAN markets were mixed against a backdrop of volatility owing to trade war tensions. Equities in Malaysia and Thailand fell, with the Thai stock exchange suspending trading after an earthquake in neighboring Myanmar forced officials to declare a state of emergency in Bangkok during the last week of the March. In contrast, stocks in Singapore rose slightly over the month, while Indonesia and the Philippines posted solid gains.

Bond

Global bond prices were volatile in March, with 10-year US Treasury yields rising to 4.35% before ending little changed from February at 4.21%. Stronger than expected service sector data was countered by growth and inflation concerns regarding the impact of higher tariffs. US Services PMI came in higher at 54.3 compared to expectations of 51. Meanwhile, the Michigan Consumer Sentiment index dropped even further by 6.8 points to 57.9, while one- and five-year inflation expectations surged. On the other hand, European bonds declined sharply as 10-year German Bund yields rose by 33 basis points to 2.7% after Germany relaxed its debt brake to significantly step up its defence spending, the largest one-day sell-off since the fall of the Berlin Wall. The European Commission has also set out spending plans of 150 billion Euros to fortify its defences after US President Trump signalled plans to roll back American defence for the continent. In Japan, 10-year JGB yields continued to rise by 11 basis points to 1.5% on optimism towards future rate hikes by the Bank of Japan. In China, 10-year CGB yields edged higher by 4 basis points to 1.8% amid fading expectations for any near-term rate cuts after remarks from the People's Bank of China. China also returned to deflation in February for the first time in more than a year, with consumer prices falling 0.7% year-on-year.

Outlook

The sweeping US tariffs announced in April 2025 mark a significant escalation in global trade tensions, introducing a material headwind to global growth and sentiment. Tariffs of this scale will pressure supply chains, raise costs, and likely prolong the current period of elevated market volatility. While the risk of recession has undoubtedly risen, particularly if retaliatory measures broaden, history shows that companies that are structurally well-positioned can often adapt.

We have faced similar challenges before, albeit at lower intensity: during the U.S.-China trade war of 2018–2019, global markets corrected sharply but had fully recovered by mid-2019. Companies with strong balance sheets, pricing power, and adaptability managed to outperform, and many diversified their production. Some firms even benefited from reshoring and supply chain investment. While near-term pressure on consumer sentiment and corporate margins is likely, particularly in the U.S., historical precedent suggests that quality businesses with structural growth drivers tend to navigate these environments relatively well.

Importantly, recent comments from the U.S. administration that tariffs may be wound back for countries offering a “phenomenal” deal, and that "the tariffs give us great power to negotiate," suggest that a path toward negotiation remains open. If no further escalation occurs, the announced tariffs could represent the maximum impact, though significant supply chain adjustments will still be necessary. Non-tariff measures, however, will complicate negotiations and prolong uncertainty, which markets tend to dislike. Although unlikely to offset the severity of these tariffs, greater international cooperation among allied countries and accelerated reshoring efforts could help create new demand drivers over time.

Against this backdrop, our high Quality, structural Growth strategy naturally promotes holdings that are fundamentally resilient, with continued earnings growth key to driving stock prices as tariffs evolve — and potentially dissolve. Many of our companies are leaders in essential industries, have pricing power, asset-light models, or domestic market exposure that help buffer against external shocks. Several are also aligned with long-term secular trends such as reshoring, energy transition, and automation, which are likely to be reinforced as global supply chains regionalize.

After three years of derating, valuations for most of our European companies have fallen to, or below, their 10-year historical averages, meaning much of the current uncertainty is already reflected in prices. A lot of heat has also left our Global stocks.

While we intend to remain vigilant to downside risks, we are also focused on selectively adding to high-quality companies where short-term dislocations create long-term opportunities. We believe our disciplined approach and focus on Quality businesses positions us well to navigate this period of heightened uncertainty.

Source: Allianz Global Investors, as of 31 March 2025 unless otherwise stated.

Issuer:
Hong Kong – Allianz Global Investors Asia Pacific Ltd.