Allianz Global Investors

04/2025

Market Snapshot

Equity Snapshot

United States

After the worst quarter since 2022, US equities plunged further on heightened recession risk after President Donald Trump announced sweeping tariffs against the US's trading partners in his 'Liberation Day' announcement on 2 April. The S&P 500 Index recorded one of the most volatile periods on record in the ensuing market meltdown, as hawkish Federal Reserve (Fed) commentary and concerns about weakening fundamentals added to the risk-off mood. US equities were buffeted further after Trump's attack on Fed Chair Jay Powell prompted concern about the central bank's independence. However, equities rallied into month end, rounding out the first 100 days of Trump's second term in office on a brighter note as trade tensions eased, and closed the month only slightly down.

The US economy unexpectedly shrank in the first quarter, with GDP falling 0.3% on an annualised basis, as companies accelerated imports ahead of threatened tariff hikes. The prospect of a technical recession, defined as two consecutive quarters of negative GDP growth, rose as the economic slowdown gathered momentum in April. The University of Michigan's consumer sentiment survey deteriorated further to 52.2 in April, down from 57.0 in March – the lowest reading since July 2022. The survey also revealed that consumers' one-year inflation expectations soared from 5.0% in March to 6.5% in April in the biggest jump since 1981. The flash S&P Global US composite purchasing managers' index (PMI) fell to 51.2 in April from 53.5 in March, with services activity easing but remaining above the 50 level which separates growth from contraction. The manufacturing PMI rose from 50.2 to 50.7, largely driven by an uptick in domestic orders.

Headline inflation fell to 2.4% in the 12 months to March, down from 2.8% in February, while core inflation also eased more than expected, reaching the lowest rate since March 2021. US retail sales for March trounced forecasts, increasing 1.4% and hitting a 26-month high, driven by a meaningful increase in demand for cars as consumers rushed to beat looming tariff-related price hikes. Non-farm payrolls rose by 228,000 in March, up from February's downwardly revised figure of 117,000, with most jobs added in health care. However, the unemployment rate rose to 4.2%, with federal layoffs driven by the Department of Government Efficiency since Elon Musk's cost-cutting announcement in February rising above 280,000.

Europe

European equities closed April broadly flat against a volatile backdrop of escalating trade war tensions. Stocks sold off early in the month amid heightened economic uncertainty following President Donald Trump's 'Liberation Day' of sweeping tariffs, but later recovered after the US president's U-turn effectively paused most tariffs for 90 days. At a sector level, energy was the weakest sector by far, dragged lower by falling oil prices, while real estate and utilities were the best-performing sectors in April.

The euro-zone economy expanded 0.4% in the first quarter. The stronger-than-expected growth rate was driven by easing inflation, lower borrowing costs, renewed optimism following Germany's agreement to relax its debt brake and expectations of increased defence spending in the coming months. However, data for April reflected the threat of higher tariffs, with the flash estimate of the HCOB euro-zone composite managers' index only just managing to stay in expansion territory. The European Central Bank cut its key interest rate by 25 basis points to 2.25%, as widely anticipated, with policymakers citing the deteriorating growth outlook due to rising trade tensions. Inflation in the euro zone eased to 2.2% in March, down from 2.3% in February.

Asia

April was a volatile month for Asia ex Japan equities. Stocks tumbled following President Donald Trump's 'Liberation Day' of sweeping tariffs early in the month, with tariff-related turmoil dominating the headlines throughout the rest of the April. China dragged regional equities lower amid fears that tit-for-tat tariff hikes by the world's two biggest economic powers could signal the start of a full-blown trade war. Hopes of fresh stimulus measures from Beijing and signs of de-escalating trade war tensions brought some relief to equities towards month end. Taiwanese stocks also moved lower, despite index heavyweight Taiwan Semiconductor Manufacturing Company's bullish outlook. During the month, the Taiwanese government deployed a USD 15 billion financial stabilisation fund after Trump's tariff announcement spurred the stock market's biggest loss on record. Meanwhile, tech-heavy Korean equities outperformed most regional peers, supported by strong order flows in the defense and shipbuilding sectors. ASEAN equity markets also rose in aggregate, with central banks in both the Philippines and Thailand cutting interest rates. The Reserve Bank of India (RBI) also cut interest rates, and the Indian equity market recovered strongly in April on the back of better liquidity conditions and the return of foreign inflows.

Bond

Global bonds had a volatile month, driven by shifting economic and political environments. The 10-year Treasury yields fell briefly below 4.0% early in the month, reflecting fears of a looming recession following President Donald Trump's unexpected "Liberation Day" announcements. However, inflation concerns surged as trade tensions with China escalated afterwards, pushing long-term yields higher. The 10-year yield peaked at 4.5% before easing to 4.2% by month end as the political uncertainty around Federal Reserve leadership subsided. Economic data painted a mixed picture: First quarter GDP contracted by 0.3%, raising recession fears, while consumer sentiment fell to its lowest level since mid-2022. Despite easing inflation, retail sales were surprisingly strong. Corporate bonds underperformed as credit spreads widened initially but partially recovered later in the month.

In Europe, bonds rallied on expectations of future central bank support. The European Central Bank cut rates by 25 basis points, fuelling optimism for an easing cycle. German Bunds benefitted from a flight to quality amid US volatility, with 10-year yields dropping from 2.74% to 2.44%. Eurozone growth surprised to the upside, expanding 0.4% in the first quarter, though inflation and trading tensions continue to weigh on sentiment. In the UK, gilts advanced as inflation slowed to 2.6%, boosting expectation of a Bank of England rate cut.

Outlook

Amongst all the noise of tariffs and threats of a pending recession, the half of European companies that have reported their earnings have done so significantly ahead of expectations, averaging earnings growth of 3.8% so far versus estimates of a 1.4% decline. Sales growth is also ahead of estimates overall. At the time of writing, stocks were recovering well and the Stoxx 600 Europe index had returned to its pre-Liberation Day levels. While style factors remain volatile, quality companies with pricing power and operational flexibility are beginning to distinguish themselves, even in sectors under broader macro pressure.

Taking a broader global perspective, China continues to be a drag, and the US economy unexpectedly shrank in the first quarter, with GDP falling 0.3% on an annualised basis as companies accelerated imports ahead of threatened tariff hikes. Nevertheless, corporate earnings in the US remain broadly resilient too, with many global champions delivering stable or growing cash flows and maintaining strong balance sheets. There is a growing divergence between companies with global scale and adaptability—and those more vulnerable to inflation volatility, regulatory shifts, or capital intensity.

In response to the evolving tariff landscape, our high-quality holdings have taken a range of proactive measures and very few have proactively downgraded guidance. Several intend to diversify their manufacturing footprints while others are optimising cost structures through targeted headcount reductions.. Companies with pricing power, (the world leading lock maker Assa Abloy is a prrime example) are selectively raising prices to protect margins. Amazon has negotiated supplier price reductions on China-sourced goods, while some firms such as NVIDIA are expanding US operations to support onshoring efforts. Some portfolio names, particularly in software and semiconductors, or those that have already enabled US production, will see no direct impact. A few leaders such as Thermo Fisher Scientific are signaling opportunities to gain market share.

We believe this backdrop reinforces the importance of a consistent focus on global quality growth equities. Our companies are typically capital-light, cash-generative, and positioned in structurally growing end markets, and are therefore well placed to navigate the current noise and emerge stronger on the other side. With valuations for many quality growth names now sitting at or below long-term averages, and some sectors like semiconductors poised for recovery, the medium-term outlook is increasingly constructive for disciplined investors.

Source: Allianz Global Investors, as of 30 April 2025 unless otherwise stated.

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