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Trump Blinked First

We have previously stated that President Trump, with his business background, could be expected to pursue a pro-business policy supporting the stock market. While we knew that Trump's policies would create uncertainty and volatility in the markets, we are surprised by how unpredictability has become such a central tool in Trump's arsenal. This is the new reality we must navigate, and it creates uncertainty.

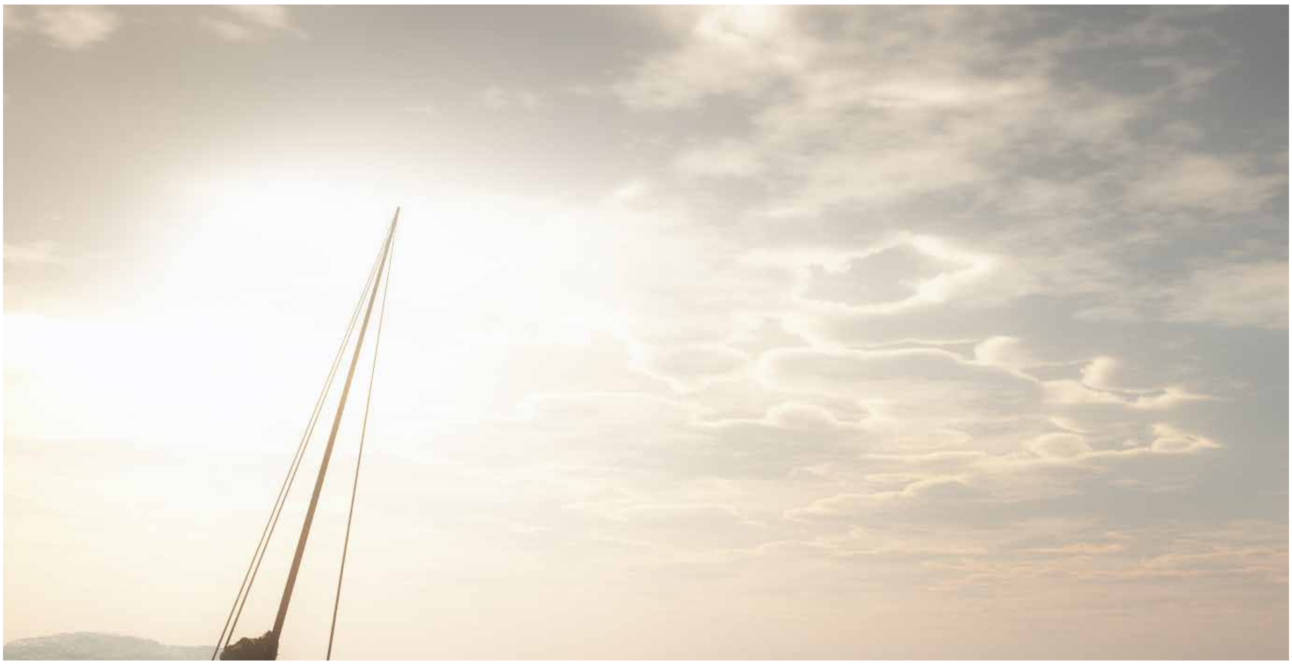
As of April 10, markets have fallen approximately 6% USD this year due to Trump's trade war with the rest of the world. Although negotiations are underway, there is still a risk that tariffs may lead to an escalating trade war, which could result in a global recession. At first glance, it's difficult to rationally understand Trump's motives, which makes it even more challenging for investors to navigate. One motive could be the rising debt burden in the U.S, with interest payments now weighing heavily on the federal budget. This burden is mainly due to Americans having saved too little and consumed too much. However, it is hard to see how a global trade war, where all parties lose, could be the right long-term solution for the U.S.

So, are the current market declines merely a correction and a buying opportunity for long-term investors, or are we heading into a prolonged period of negative markets? The answer depends on the future political direction. In previous crises, such as COVID-19 and the financial crisis, we could look to the policy makers for help through fiscal and monetary stimulus. However, this time the crisis is due to a policy mistake.

> **"The fact that unpredictability has become such a central tool in Trump's toolbox is a surprise.**

Trump is playing a high-stakes game, and his zigzag approach creates nervousness and instability. But even he cannot live with rising bond yields, a global recession, and rising unemployment. That is why

Bo Knudsen
CEO and Portfolio Manager
C WorldWide Asset Management



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Trump has "blinked one eye first" and paused the trade war for 90 days. However, this does not apply to China, which has now become the center of the trade war. If a recession and rising unemployment occur in the U.S., it is also expected that Federal Reserve Chair Powell will "blink," even though tariffs will initially raise domestic prices.

An old adage in the capital markets says you should not "catch a falling knife" (i.e., buying before the market has settled). Therefore, we recommend staying calm and sticking to a long-term investment strategy.

The global world order has been permanently altered over the past few months. In an upcoming article, "The Regional Factor Gains Importance" we explain some emerging trends. Our main conclusions are that the dominance of the U.S. stock market and the dollar have likely peaked, the nation state is becoming even more central, and the world order is becoming more regional – what we refer to as a multipolar world. Europe is now accelerating growth with accommodative fiscal policies and a military buildup. The last 15 years have been dominated by global platform companies, but now we are seeing value in companies that operate in local and regional markets. Finally, a declining dollar is typically positive for emerging markets, and here, countries with strong domestic growth prospects are of particular interest. This includes, for example, India.

**C WorldWide
Asset Management
Fondsmaeglerselskab A/S
Danmark Filial i Sverige**

Box 7648
(Blasieholmsgatan 5)
103 94 Stockholm

Tel.: +46 535 273 00
Web: cworldwide.se
Mail: info.se@cworldwide.se