

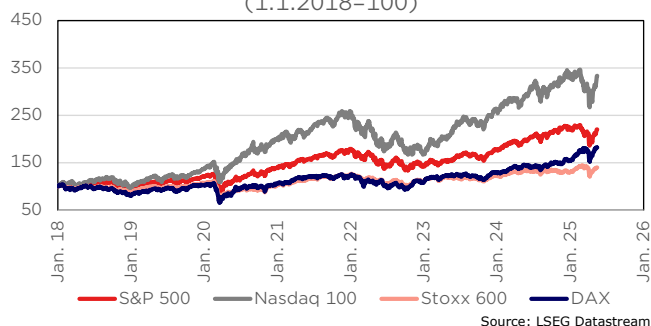
Economic Situation and Strategy

16 May 2025

US stocks: Back in the game?

The first four months of 2025 saw a remarkable development on the international stock markets: Unlike in previous years, in which US stocks generally led, European stocks have performed better so far in 2025. The main reason for this is Donald Trump's erratic and at times chaotic policies, particularly his tariff and trade agenda, which are causing great uncertainty. Following the announcements on April 2, the so-called "Liberation Day," many banks and investment firms lowered their growth forecasts for the US, raised their inflation forecasts, and revised their price targets for US indices such as the S&P 500, Dow Jones, and Nasdaq downwards. Some economists already see the end of the US era of exceptionalism. For Europe, however, a new era of stability and growing importance is expected, as it – unlike the US – presents itself as a reliable partner in foreign and security policy.

Performance of different equity markets
(1.1.2018=100)



Trade war or trade agreement?

Fears of an escalation of trade conflicts following Trump's surprisingly high tariffs, primarily against China, led to sharp losses on the stock markets starting April 2. US and European indices lost around twelve percent within a short period of time, the dollar came under

pressure, and yields on US Treasury bonds rose. Market pressure apparently forced Trump to suspend the planned tariff increases for 90 days starting April 9 – with the exception of China, where tariffs were drastically increased again.

But last weekend saw a major turning point. In Geneva, the US and China agreed to de-escalate the trade war, lifting most of the tariffs imposed in April. Both countries reduced their mutual tariffs from 145 percent and 125 percent, respectively, to ten percent to facilitate negotiations. In addition, there is a 20 percent surcharge related to fentanyl, meaning that Chinese imports into the US are subject to a total import tariff of 30 percent. The temporary lifting of the high tariffs mitigates the risk of an immediate stagflationary shock to the economy. This is very good news, to which the stock markets reacted with strong price gains. The agreement goes further than anyone expected – not least because President Trump, shortly before the negotiations, still said that a tariff rate of 80 percent was "right".

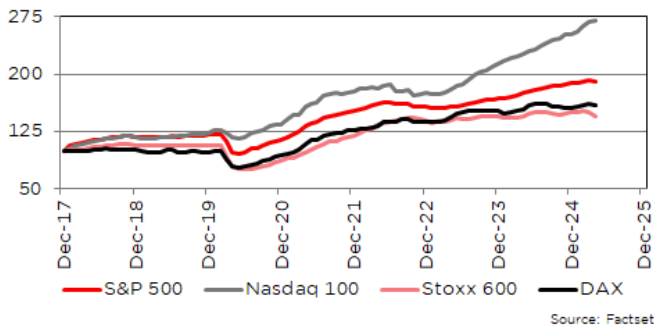
But one thing is also clear: tariffs are unlikely to return to pre-crisis levels. US Treasury Secretary Bessent, previously the voice of reason in the Trump administration, sees tariffs as a tool to force concessions from other countries, especially China. If the US were to use tariffs to open foreign markets, that would be the best trade outcome: The US trade deficit would not decrease because imports collapse, but because exports increase.

US stocks vs. European stocks: Of winning and winners

The superior performance of US stocks in recent years is primarily due to the higher profitability of US companies. Comparing the earnings performance of the DAX or

Stoxx 600 with the S&P 500 or Nasdaq, US companies have been significantly more profitable - the main reason for their better performance. The question is whether this will change in 2025/26.

Stock markets: Development of corporate profits (1.1.2018=100)



A look at analysts' earnings expectations shows: No, that won't change anytime soon. US earnings momentum remains strong. This becomes clear when looking at the results of the current reporting season. More than 450 S&P 500 companies have now presented their figures for the past quarter. While initially appearing to be more subdued, results have recently continued to improve. 78 percent of reporting companies have now exceeded earnings expectations. Before the start of the reporting season, a profit increase of 7.0 percent compared to the previous year was forecast; the actual growth rate is now 13.6 percent.

At the sector level, almost all industries performed better than expected at the end of March. The only exception is the energy sector, where earnings expectations were slightly missed. In contrast, the Communication Services sector significantly exceeded earnings expectations thanks to outstanding results from Alphabet, Meta, and Netflix. Industrial and commodity stocks outside the oil and gas sector also delivered positive surprises. While many sectors benefited from corporate analysts reducing their earnings forecasts ahead of the reporting season, technology stocks performed convincingly despite high expectations, with earnings expectations continuously raised until the end of March.

In Europe, however, the reporting season was rather average, with data quality and quantity being less good than in the US. According to our analysis, 60 percent of the reporting companies in the Stoxx 600 managed to exceed earnings expectations. Therefore, full-year forecasts are more important for a US vs. European comparison.

Declining profit expectations in the US due to tariff policy?

Many analysts attribute the expected decline in US corporate profits to the weaker growth outlook due to tariff policy. However, this is only partially true. The main reason for the negative earnings revisions in the S&P 500 is the weaker profit outlook in the energy sector, which is suffering from the significant drop in oil prices. This is primarily why the expected earnings growth rate for the S&P 500 has fallen from 14 percent to just under 10 percent since the beginning of the year. Earnings expectations for the DAX have fallen from 10 percent to 6 percent over the same period, and for the Stoxx 600 from just over 8 percent to just over 2 percent. In addition to the oil and gas sector, earnings expectations in Europe have been significantly reduced, especially for the automotive sector.

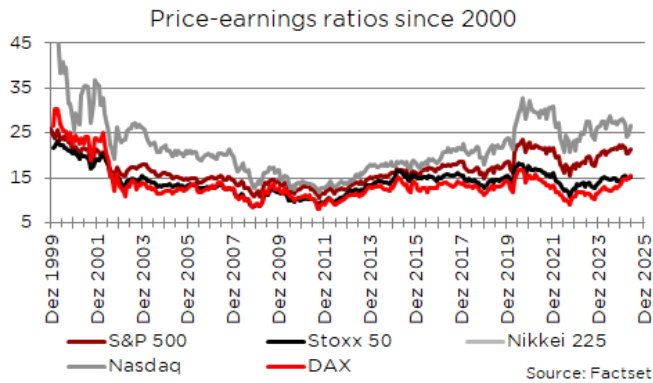
Despite the negative comments, it is clear that earnings momentum in the US will remain significantly stronger than in Europe this year. This becomes particularly clear when looking at US technology stocks: The Nasdaq 100 index of large technology stocks is expected to grow earnings by 17 percent in 2025.

With the preliminary trade agreement between China and the USA, the growth prospects for the USA are improving again. Several major US investment banks, which had already forecast a recession for the USA, have recently backtracked. It would therefore not surprise us if the actual earnings development of US companies once again exceeds expectations. In Europe, however, the situation remains more difficult. The economy is weakening, the tariff risk with the USA has not been eliminated, and the strong euro is weighing on export-oriented companies. Therefore, the motto "America First" is likely to prevail again on the stock markets by the end of the year. Although we recently reduced our year-end forecast for the S&P 500 from 6,600 to 6,100 points, we could imagine that – barring any further bad news from Trump – we could still achieve the old forecast.

In our view, our optimistic assessment of the US stock market does not contradict the currently high valuations of the S&P 500 and Nasdaq. Although US stocks remain significantly more expensive than European stocks based on their price-earnings ratio (P/E), the S&P 500 currently has a P/E ratio of around 21.4, and the Nasdaq 100 even at 26.6. In comparison, the DAX, at 15.5, and the Stoxx 600, at 15.2, appear significantly more attractively valued. The high US valuations can be attributed primarily

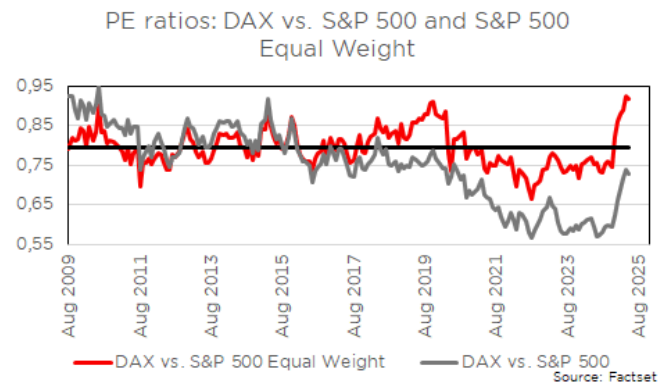
Economic Situation and Strategy

to the dominant tech giants: Their high P/E ratios and their significant weight in the index are driving the average values upwards. However, when looking at the equally weighted S&P 500, the picture is put into perspective – its P/E ratio is only 16.9.



Comparing current valuations with their own historical averages, it becomes clear: European equities – especially the DAX, which has averaged a P/E ratio of 12.5 over the past 20 years – now appear high relative to US equities, and in our view, even too high. Anyone specifically looking for attractively valued stocks in Germany

or Europe should therefore avoid the major indices. In contrast, the MDAX offers more attractive entry points from a valuation perspective. Nevertheless, our focus remains firmly on earnings momentum – and US companies continue to lead the way here. The strong profitability and above-average profit growth of American corporations, particularly in the technology sector, give the US market a sustainable advantage.



Carsten Klude

US stock markets: earning revisions (source: FactSet)

	since 31.12.24				since 31.03.25			
	2025/1C	2025/2C	2025/3C	2025/4C	2025/1C	2025/2C	2025/3C	2025/4C
S&P 500	1,8%	-5,5%	-4,6%	-2,9%	6,0%	-3,4%	-3,8%	-4,0%
ConsDiscr.	-3,3%	-11,8%	-9,7%	-6,1%	5,9%	-7,0%	-7,8%	-8,7%
ConsStpl	-6,2%	-6,6%	-4,0%	-1,6%	0,9%	-4,3%	-2,2%	-1,4%
Energy	-5,7%	-22,1%	-20,4%	-17,7%	-0,7%	-17,4%	-18,0%	-16,9%
Financials	0,8%	-1,5%	-0,3%	1,4%	4,3%	-3,4%	-3,1%	-2,7%
Healthcare	2,2%	-6,2%	-3,7%	-3,6%	5,0%	-3,6%	-3,4%	-4,3%
Industrials	-0,9%	-9,4%	-7,6%	-5,5%	6,7%	-5,1%	-5,2%	-4,5%
IT	1,8%	-2,2%	-2,8%	-1,7%	2,5%	-0,9%	-2,2%	-3,0%
Com Services	19,4%	-1,7%	-2,8%	-1,1%	25,2%	0,3%	-1,4%	-1,8%
Materials	-10,1%	-9,4%	-9,3%	-9,0%	8,2%	-3,7%	-4,0%	-3,9%
Utilities	3,9%	0,1%	-0,4%	1,2%	3,8%	-0,2%	0,6%	-0,4%
Real Estate	-1,2%	-3,9%	-3,8%	-1,7%	2,5%	-0,3%	-0,4%	-0,6%
Mid 400	-7,8%	-11,5%	-7,6%	-5,4%	1,6%	-8,2%	-6,6%	-5,9%
Small 600	-9,5%	-14,9%	-12,0%	-7,7%	5,3%	-7,7%	-7,6%	-6,4%
Nasdaq 100	7,3%	-1,2%	-1,9%	-0,1%	6,4%	-2,4%	-3,6%	-4,2%
Nasdaq Comp	0,9%	-6,2%	-5,4%	-3,7%	6,8%	-2,5%	-3,3%	-3,7%
SOX Halbl.	5,7%	0,6%	-2,2%	-2,4%	-1,8%	-2,6%	-5,2%	-6,4%

Market data

	As of 16.05.2025 07:48	09.05.2025 -1 week	15.04.2025 -1 month	Change versus 14.02.2025 -3 months	15.05.2024 -1 year	31.12.2024 YTD
Stock markets						
Dow Jones	42323	2,6%	4,8%	-5,0%	6,1%	-0,5%
S&P 500	5931	4,8%	9,9%	-3,0%	11,7%	0,8%
Nasdaq	19112	6,6%	13,6%	-4,6%	14,2%	-1,0%
DAX	23696	0,8%	11,5%	5,3%	25,6%	19,0%
MDAX	29826	0,3%	9,4%	7,8%	8,7%	16,6%
TecDAX	3820	2,0%	10,9%	-0,4%	10,3%	11,8%
EuroStoxx 50	5412	1,9%	8,9%	-1,5%	6,1%	10,5%
Stoxx 50	4522	1,3%	6,5%	-3,8%	-0,3%	5,0%
SMI (Swiss Market Index)	12227	1,2%	5,3%	-4,8%	2,8%	5,4%
Nikkei 225	37756	0,7%	10,2%	-3,6%	-1,6%	-5,4%
Brasilien BOVESPA	139334	2,1%	7,8%	8,7%	8,8%	15,8%
Indien BSE 30	82224	3,5%	7,2%	8,3%	12,7%	5,2%
China CSI 300	3887	1,1%	3,3%	-1,3%	7,2%	-1,2%
MSCI Welt	3842	3,5%	9,1%	-1,5%	10,7%	3,6%
MSCI Emerging Markets	1174	3,1%	9,6%	4,3%	8,2%	9,1%
Bond markets						
Bund-Future	129,93	-83	-93	-292	-178	-351
Bobl-Future	118,59	-49	-49	109	135	73
Schatz-Future	107,23	-17	-25	43	190	24
3 Monats Euribor	2,14	2	-12	-38	-167	-57
3M Euribor Future, Dec 2025	1,80	9	8	-20	-82	-10
3 Monats \$ Libor	4,38	4	5	4	-107	1
Fed Funds Future, Dec 2025	3,81		30	-13	-27	-10
10 year US Treasuries	4,42	5	8	-6	6	-15
10 year Bunds	2,61	6	11	22	21	25
10 year JGB	1,46	10	12	12	51	38
10 year Swiss Government	0,44	14	-7	-5	-29	16
US Treas 10Y Performance	607,63	-0,5%	-0,4%	1,4%	3,6%	2,7%
Bund 10Y Performance	557,62	-0,6%	-0,5%	-1,2%	0,9%	-1,2%
REX Performance Index	455,23	-0,5%	-0,6%	0,2%	3,2%	0,5%
IBOXX AA, €	3,12	5	1	15	-24	8
IBOXX BBB, €	3,56	4	-8	19	-37	11
ML US High Yield	7,72	-22	-61	36	-26	7
Commodities						
MG Base Metal Index	418,16	1,6%	3,9%	-2,7%	-7,8%	3,1%
Crude oil Brent	64,59	1,0%	-0,2%	-13,9%	-21,8%	-13,6%
Gold	3218,15	-3,7%	0,0%	11,0%	35,2%	22,6%
Silver	32,54	-0,9%	1,0%	0,4%	11,0%	9,6%
Aluminium	2488,61	3,3%	6,6%	-6,5%	-2,4%	-1,5%
Copper	9616,74	1,3%	5,5%	1,3%	-5,0%	11,1%
Iron ore	100,42	1,9%	0,2%	-6,0%	-13,7%	-3,1%
Freight rates Baltic Dry Index	1305	0,5%	3,3%	64,8%	-30,9%	30,9%
Currencies						
EUR/ USD	1,1212	-0,4%	-1,0%	7,0%	3,5%	7,9%
EUR/ GBP	0,8414	-0,6%	-1,6%	1,0%	-2,0%	1,8%
EUR/ JPY	162,84	-0,3%	0,6%	1,7%	-3,3%	-0,1%
EUR/ CHF	0,9345	-0,1%	1,1%	-1,0%	-4,6%	-0,7%
USD/ CNY	7,1994	-0,6%	-1,6%	-0,8%	-0,4%	-1,5%
USD/ JPY	145,67	0,2%	1,7%	-4,4%	-5,9%	-7,3%
USD/ GBP	0,75	-0,1%	-0,6%	-5,3%	-5,0%	-6,0%

Source: Refinitiv Datastream

Carsten Klude
+49 40 3282-2572
cklude@mmwarburg.com

Dr. Rebekka Haller
+49 40 3282-2452
rhaller@mmwarburg.com

Martin Hasse
+49 40 3282-2411
mhasse@mmwarburg.com

Dr. Christian Jasperneite
+49 40 3282-2439
cjasperneite@mmwarburg.com

Simon Landt
+49 40 3282-2401
mlandt@mmwarburg.com

Jan Mooren
+49 40 3282-2132
jmooren@mmwarburg.com

This article does not constitute an offer or an invitation to submit an offer but is solely intended to provide guidance and present possible business activities. This information does not purport to be complete and is therefore not binding. The information provided should not be considered a recommendation to purchase financial instruments individually but serves only as a proposal for a possible asset allocation. The opinions expressed herein are subject to change without notice. Where statements were made with respect to prices, interest rates or other indications, these solely refer to the time when the information was prepared and do not imply any forecasts about future development, particularly regarding future gains or losses. In addition, this information does not constitute advice or a recommendation. Before completing any deal described in this information, a product-specific consultation tailored to the customer's individual needs is required. This information is confidential and exclusively intended for the addressee described herein. Any use by parties other than the addressee is not permissible without our approval. This particularly applies to reproductions, translations, microfilms, saving and processing in electronic media as well as publishing the entire contents or parts thereof.

This article is freely available on our website.