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AXA Investment Managers

Investment Institute Macroeconomics

Monthly Op-ed

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Are we already past "peak Trump"?

Key points

- The "Trump trade" is losing its shine, why European markets are improving. The drawbacks of the new administration's policy platform are more in focus
- Yet, Europe must do more than just offer "predictability". The German elections may help kick-start a proper growth strategy, but obstacles remain
- Central bank overshadowed
- Uncertainty risk for investors
- European equities outperformance may persist

Transatlantic rebalancing?

Since the beginning of the year equity markets have been much kinder to Europe (Eurostoxx rose 11.2% on the year as of 24 February) than to the US (the S&P500 gained a meagre 2%). This does not necessarily reflect a sudden outperformance of the European economy. In fact, some of the best-performing European names owe a lot of their improving earnings to a strong contribution from their activity in the US. The macroeconomic dataflow still points to robust growth in the US: the Atlanta Fed's nowcast puts GDP growth at 2.3% annualised in Q1 2025, slightly above the consensus estimate for trend in the US and at the same pace as in Q4 2024. Meanwhile, business surveys are consistent with near-zero growth in the Euro area. Yet, this rebalancing between the two equity markets may suggest a general change in mood about the relative prospects of the two sides of the Atlantic. While the "Trump trade" may be quickly losing its shine, as the adverse effects of the new administration's policies are getting more in focus, some "old fashioned" aspects of old Europe may become more attractive.

A key problem for the US policy calibration is that the President won the election because his sombre view of the state of the US economy was shared by public opinion…although objectively it was still doing well. The latest figures put job creation at 1.8% annualised, wages are still rising fast and outperforming productivity gains. Unsurprisingly, this is not a great configuration for core inflation to keep on converging towards the Fed's target. A generous reading of price dynamics in the US relying on year-on-year change would conclude at a stabilisation above 3% since the end of last summer. A greater focus on the short-term momentum would even point to a reacceleration in the recent months, when looking at the 3-month annualised change. Policies presented as solutions to deteriorating cyclical conditions – trade tariffs, or crackdown on immigration – would only make things worse in the current environment. Consumers are starting to notice: their inflation expectations, as measured by the University of Michigan survey, have shot up close to their highest historical levels. Political polls until very recently were still very favourable to the US President,

but interestingly consumer confidence is deteriorating even among Republican-leaning respondents, and its absolute level in this group never rose as much as it did at the beginning of his first mandate.

With American households getting circumspect, and the Fed having paused its restriction removal process in the face of insufficient clarity on disinflation, one would expect more caution from the White House. But it seems that, for now at least, Donald Trump is inclined to “double down”. While, among the flurry of tariff hikes initially announced as a first wave, only the 10% surcharge on Chinese products is enforced, it is unclear what could remain of the 25% initially intended on Mexican and Canadian products after the 30 day reprieve, but more fundamentally the pre-announcement of “reciprocal tariffs” could result in a significant distorsion to trade (with a corresponding bump on US inflation) since the US administration also considers VAT rates as tariffs unjustly levied on American products in the EU. Noone knows at this stage how much of this will be implemented – if at all – but there is already a price to pay in terms of lingering uncertainty: the Department of Commerce was given 6 months to report on these reciprocal tariffs. In the meantime, many global businesses will probably choose to sit on their hands and postpone some investment decisions.

The same uncertainty applies to fiscal policy. For now, two versions of a budget proposal co-exist in Congress: one, championed by the Senate Republicans, would proceed with first an expenditure package funding the President’s priorities, for instance in the realm of border control, pushing the tax cuts to later in the year. The other, coming from the House Republicans, would go “all in” on tax cuts immediately. We suspect that the timeline favoured by the Senators reflect some anguish at the prospect of a further deterioration of the federal deficit, when interest rates remain noticeably higher than expected. Investors may start thinking they will be deprived of much of the “fiscal sugar rush” they were expecting.

It is not enough to be boring

In contrast, Europe, for all the mediocrity of its growth performance, looks reassuringly predictable. Its commitment to the “rules of the game”, forcefully expressed by Ursula Von der Leyen in her speech in Davos in January, should be understood as an offer to the rest of the world to plough on with the old multilateral approach to world trade and financial affairs. This would not be enough, though, if there was not at the same time a clear awareness of the depth of the structural flaws hurting the EU economy. Yet, for now the policy priorities – although all laudable – internalise the lack of fiscal space in Europe. Indeed, pushing capital market union, or engaging in a simplification of regulation make sense, but we sense that they are attractive to European governments because they are “free” in terms of fiscal expenditure.

The beginning of the new German government will be crucial. Indeed, Friedrich Merz seems ready to take a more assertive approach to European policies, and, uncharasterically for a traditional conservative politician, he has expressed an openness to departing from his country’s usual restrictive approach to fiscal policy. Lifting defence spending further, in coordination with other European countries and possibly through joint funding, is an avenue which he looks likely to explore. Non-mainstream parties hold a blocking minority in parliament against constitutional change, which could make the necessary reform of the “debt brake”difficult. But this will be the key test. Should Germany – and consequently Europe – succeed to free up new resources, the continent’s prospects will start looking less sombre.

Old reliable

In a world of fiat currencies, central bank credibility is the core foundation of investor confidence. What investors do is deploy savings. The goal is to (at least) maintain and grow the real purchasing power of those savings over time. Fundamental to that is price stability, or at least a low and predictable rate of inflation, for which central banks are responsible. For decades, monetary policy has been central to framing investment decisions. For an economy like the US, which needs to attract capital from overseas, an independent central bank with a clear mandate to control inflation is crucial. Otherwise, foreign savers would not risk seeing their investments debased. We only need to study the recent history of countries like Turkey or Argentina to see the economic chaos that occurs when central banks become politicised, and a stable inflationary environment becomes subordinated to other political ambitions.

Fed stands untouched for now

Being the central bank of the world’s reserve currency, the US Federal Reserve (Fed) has a unique role in global markets. It sets the price of borrowing dollars and through its pursuit of its policy targets – low inflation, low unemployment, and financial stability – helps create an environment conducive to the efficient flow of capital and the functioning of financial markets. While it is normal for economists and investment strategists to try to second guess how the Fed (and other major central banks) implement their policy decisions, and sometimes criticise them for some of those decisions, the fundamental position of the major central banks is

rarely questioned. Thus, assessing monetary policy decisions and how they feed through to markets and the real economy is the bread and butter of global investing. Central bankers tell us what they want to achieve, and offer some guidance on how they will do it, and markets interpret how that evolves through time.

But what if that was challenged? Since the inauguration of President Donald Trump in January, the attention paid to the Fed has been overwhelmed by the focus on the flood of executive orders from the White House. These are disrupting economic and political norms. The administration's policies are impacting the US's international relations, the global trading system and domestic political balances. It is a more centralised policy environment with the executive branch dominating decision making. Some government agencies have seen senior personnel changes, others have been threatened with closure and significant staffing reductions. These include the Pentagon and other security agencies, while scientific, educational and foreign aid activities have been hit. But so far, the new administration has not tried to interfere with the Fed. Hence, the dollar has stayed firm and benchmark US Treasury yields have traded in a narrow range with no indication the market fears a significant undermining of the Fed's position.

Uncertainty risks

Should investors be concerned about the policy uncertainty though? Of course. The US needs capital inflows and if foreign investors are less sure about the policy backstop for their savings, there could be an impact on those flows. We are not at that point yet, even if US equity returns have lagged the performance of European markets so far this year. There may be a lack of clarity and understanding over the implementation methods of the Trump agenda. But investors see the results as being pro-growth, a more supportive tax and regulatory environment for business, and potentially lower government spending. There is no recession on the horizon and that means profit margins and the earnings picture should be supportive. Moreover, the US is too big to ignore given the rest of the world earns dollars from trade and needs to invest in dollar assets. The US stock market's performance in recent years and the leadership role that US companies hold in many sectors suggests the risk of a huge allocation away from the US is small.

However, an aggressive policy approach which disrupts normal relations does pose an uncertainty risk. For now, the Fed is on hold and market rate expectations have been steady. The forward overnight index rate swap market sees policy rates around 4% for the medium and longer-term. The academic argument about whether rates are at neutral will continue but market pricing appears to have settled that for now. Bond investors might not see much capital gains this year but overall yields across fixed income markets should provide steady income returns. This rate stability is welcome, but it reveals some uncertainty within the Fed as well, as its macroeconomic outlook is conditional on what decisions the administration makes in the months ahead - and how it could impact inflation, bond yields and the dollar.

More broadly, investors are having to deal with a global geopolitical regime change. If this means familiar economic and political relationships and trusted institutions are becoming unpredictable, then risk premiums on financial assets must increase. The underperformance of US stocks relative to Europe so far in 2025 might reflect weaker relative earnings momentum and concerns about the continued dominance of US technology companies in artificial intelligence. However, it is conceivable that some investors might be becoming reluctant to commit capital to US assets. Even before Trump, issues like the federal deficit and debt level, the overvaluation of US equities, and the potential for rising defaults in the US high yield market were staples of conversations with clients. The bar is low for investors shifting global allocations away from a market that has done incredibly well but is expensive and now subject to a quite different set of political and policy risks.

Remaining invested in US fixed income looks reasonable for now. However, the dollar should be watched closely as it could be the canary in the coal mine signal of any shift in global preferences. On the equity side, the US outlook has become more complicated. There may be no US recession, but can things really get any better in terms of earnings growth and multiples? Earnings expectations have flattened out and if bond yields are stable and global attitudes are shifting a little, then multiples may even contract a little. In contrast, Europe suffered from weak confidence in 2024 and was overshadowed in terms of earnings growth by the US technology sector. The valuation advantage of Europe and some potential upside developments suggests the outperformance could persist for a while. Suffice to say, the near-term outlook will continue to be determined by political risk and, ultimately, this could be the driver of where investors hold their savings.

Download the full slide deck of our February Investment Strategy

Macro forecast summary

Real GDP growth (%)	2024*		2025*		2026*	
	AXA IM	*Consensus*	AXA IM	*Consensus*	AXA IM	*Consensus*
World	3.2		3.2		2.9	
Advanced economies	1.6		1.7		1.4	
US	2.8	2.7	2.3	2.2	1.5	2.0
Euro area	0.7	0.8	0.9	1.0	1.2	1.4
Germany	-0.2	-0.1	0.2	0.4	0.9	1.3
France	1.1	1.1	0.6	0.7	0.9	1.3
Italy	0.5	0.5	0.3	0.7	0.7	1.0
Spain	3.3	3.0	2.9	2.3	2.5	1.7
Japan	0.1	-0.2	1.3	1.2	0.9	0.9
UK	0.9	0.9	1.0	1.2	1.4	1.5
Switzerland	1.6	1.4	1.5	1.3	1.4	1.6
Canada	1.3	1.2	1.8	1.7	1.7	2.1
Emerging economies	4.1		4.2		3.9	
China	5.0	5.0	4.5	4.4	4.1	4.2
Asia (excluding China)	5.2		5.0		4.9	
India	6.5	6.3	6.5	6.5	6.7	6.6
South Korea	2.1	2.2	1.5	1.8	1.5	2.2
Indonesia	5.0	5.0	5.1	5.0	4.9	5.1
LatAm	2.0		2.0		2.1	
Brazil	3.0	3.3	1.9	2.1	1.8	2.2
Mexico	1.3	1.5	0.6	1.1	1.0	2.0
EM Europe	3.1		2.1		2.2	
Russia	3.8	3.6	1.4	1.6	1.2	1.3
Poland	2.9	2.8	3.1	3.4	2.7	3.5
Turkey	2.8	2.9	2.6	2.5	3.4	3.6
Other EMs	2.8		4.0		3.8	

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 26 February 2025
**Forecast*

CPI Inflation (%)	2024*		2025*		2026*	
	AXA IM	*Consensus*	AXA IM	*Consensus*	AXA IM	*Consensus*
Advanced economies	2.6		2.5		2.4	
US	2.9	2.9	2.8	2.6	3.2	2.3
Euro area	2.4	2.4	2.0	2.0	1.6	2.0
China	0.2	0.2	1.0	1.3	1.6	1.6
Japan	2.7	2.5	3.0	2.0	1.8	1.7
UK	2.5	2.5	3.3	2.3	2.3	2.0
Switzerland	1.1	1.1	0.8	1.0	1.0	1.0
Canada	2.4	2.4	1.7	2.1	1.9	2.1

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 26 February 2025
**Forecast*

These projections are not necessarily reliable indicators of future results

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Forecast summary

Central bank policy Meeting dates and expected changes (Rates in bp / QE in bn)		Current	Q1-25	Q2-25	Q3-25	Q4-25	Q1-26	Q2-26	Q3-26	Q4-26
United States - Fed	Dates	4.50	18-19 Mar	6-7 May 17-18 Jun	29-30 Jul 16-17 Sep	28-29 Oct 9-10 Dec	27-28 Jan 17-18 Mar	28-29 Apr 16-17 Jun	28-29 Jul 15-16 Sep	27-28 Oct 8-9 Dec
	Rates		unch (4.50)	unch (4.50)	unch (4.50)	unch (4.50)	-0.25 (4.25)	-0.25 (4.00)	-0.25 (3.75)	-0.25 (3.50)
Euro area - ECB	Dates	2.75	6-Mar	17 Apr 5 Jun	24 Jul 11 Sep	30 Oct 18 Sep	5 Feb 19 Mar	30 Apr 11 Jun	23 Jul 10 Sep	29 Oct 17 Dec
	Rates		-0.25 (2.50)	-0.50 (2.00)	-0.25 (1.75)	-0.25 (1.50)	unch (1.50)	unch (1.50)	unch (1.50)	unch (1.50)
Japan - BoJ	Dates	0.50	18-19 Mar	30 Apr - 1 May 16-17 Jun	30-31 Jul 18-19 Sep	29-30 Oct 18-19 Dec	Jan Mar	May June	Jul Sep	Oct Dec
	Rates		unch (0.50)	unch (0.50)	+0.25 (0.75)	unch (0.75)	unch (0.75)	unch (0.75)	unch (0.75)	unch (0.75)
UK - BoE	Dates	4.50	20-Mar	8 May 19 Jun	7 Aug 18 Sep	6 Nov 18 Dec	Jan Mar	May June	Jul Sep	Oct Dec
	Rates		unch (4.50)	-0.25 (4.25)	-0.25 (4.00)	-0.25 (3.75)	-0.25 (3.50)	unch (3.50)	unch (3.50)	unch (3.50)
Canada - BoC	Dates	3.00	12-Mar	16 Apr 4 Jun	30 Jul 17 Sep	29 Oct 10 Dec	Jan Mar	May June	Jul Sep	Oct Dec
	Rates		-0.25 (2.75)	unch (2.75)	unch (2.75)	unch (2.75)	unch (2.75)	unch (2.75)	-0.25 (2.50)	-0.25 (2.25)

Source: AXA IM Macro Research - As of 26 February 2025

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Our Research is available on line: www.axa-im.com/investment-institute

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AXA IM manages approximately €859 billion in assets*, and has €480 billion of ESG-integrated, sustainable or impact assets**. Our purpose is to act for human progress by investing for what matters. As a responsible asset manager, we are committed to integrating ESG principles across our business, from stock selection to our corporate actions and culture.

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*As at the end of June 2024, including non-consolidated entities.
** As at the end of December 2023.

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