US equities

# US stocks struggle as ‘America First’ bets backfire

European assets were predicted to suffer under Trump but are now surging

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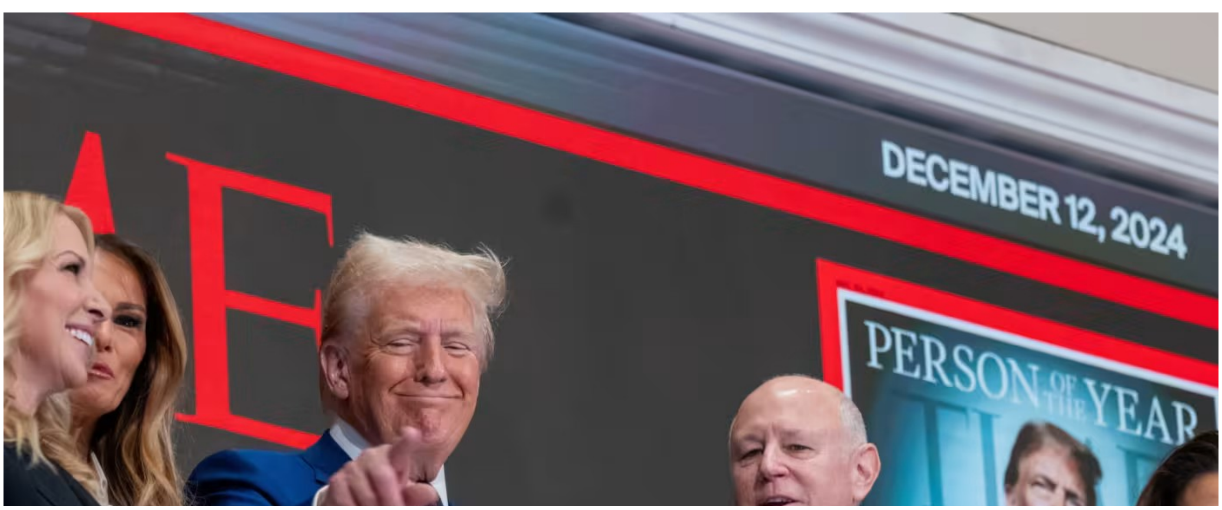
When Donald Trump rang the opening bell at the New York Stock Exchange on December 12, the chants of "USA" from the trading floor epitomised the investor exuberance that had greeted the president-elect's victory and powered US stocks to a series of record highs.

But just a few months later, investors betting that the new president's America First agenda would boost US equities and the dollar, while hitting the currencies and stocks of its trading partners, have been confounded.

Investors now worry that his much-vaunted policy of trade tariffs will hurt domestic growth. Meanwhile, the US's foreign policy has galvanised Europe's politicians into promising a defence spending boom that has lifted the region's assets.

"You'd be hard pressed to find another period where the disparate trends across the Atlantic have switched gears like this so profoundly," said Robert Tipp, head of global bonds at PGIM Fixed Income.

The US had hit a "saturation point" where headlines on tariffs and lay-offs had created a "budding economic pessimism" that had sent investors rushing for haven assets, he added. "Right at that moment, Europe has switched to stimulus."




Donald Trump rings the opening bell on the trading floor of the New York Stock Exchange in December © Spencer Platt/Getty Images

European stock indices have caught up or outstripped Wall Street over the past six months. The S&P 500 is up nearly 6 per cent, matching the UK's FTSE 100, but behind 9 per cent for France's Cac 40 and more than 20 per cent for Germany's Dax. The region-wide Stoxx Europe 600 has jumped 8 per cent.

The euro on Wednesday touched its strongest level against the dollar since early November, after Germany announced a massive spending package to fund its military and infrastructure. That piled pressure on a greenback that has been weakening after a sequence of poor US economic data.

"We have gone from 'all roads lead to the US' to seeing numerous cracks to US exceptionalism," said Alain Bokobza, head of global asset allocation at Société Générale. "At the same time we have seen several game changers in Europe . . . so Europe is back on the agenda."

Tesla, which nearly doubled in value between the US election and mid-December as chief executive and Trump backer Elon Musk became a central figure in the US administration, has now given up nearly all its post-election gains.

In Europe, defence stocks have soared. Germany's Rheinmetall is up 130 per cent over the past six months, and infrastructure stocks have also been big winners in anticipation of greater government spending, with Siemens Energy up 115 per cent over the same timeframe.

Fund managers now say Trump’s Make America Great Again agenda has instead unleashed a Make Europe Great Again trade that is reordering global financial markets.

“With non-US investors for sure, and particularly with European investors, we have seen a kind of Mega motto replacing the Maga one,” said Vincent Mortier, chief investment officer at asset manager Amundi.

The region’s fund managers moved to a bigger than benchmark position in European stocks in January from a negative position in December, according to a widely watched Bank of America survey. Inflows into German equities have hit their highest level in three years, according to Goldman Sachs.

Eight years after his first presidential election victory initially sent investors rushing for havens before they bet he would be a boon for stocks, many fund managers are again wondering how they got Trump so wrong.

This time around, US stocks have been hit by worsening economic data — including manufacturers reporting a steep decline in orders in February — growing concerns about tariffs and a sell-off in the all-important tech sector as the market asks whether the artificial intelligence revolution will prove as profitable as had been hoped.

Despite a robust earnings season, this has prompted investors to turn away from US stocks, whose valuation had moved well above those of international peers and which in January had become their most pricey relative to government bonds in a generation.

Charlie McElligott, a derivatives strategist at Nomura, said US tech stocks were now seen as a "source of funds" for investors wanting to buy European or Chinese stocks.

"Ironically, in a year [where] everyone said America First, other markets, including emerging markets and Europe, might outperform," said David Hauner, global head of emerging markets and FX strategy at BofA. "We may be at the beginning of a bigger shift here."

Rates markets have also moved to reflect dimmer expectations on US growth and a better outlook for Europe.

Swaps traders are now pricing in two quarter-point interest rate cuts from the Federal Reserve this year, with a high chance of a third. At the start of this year less than two

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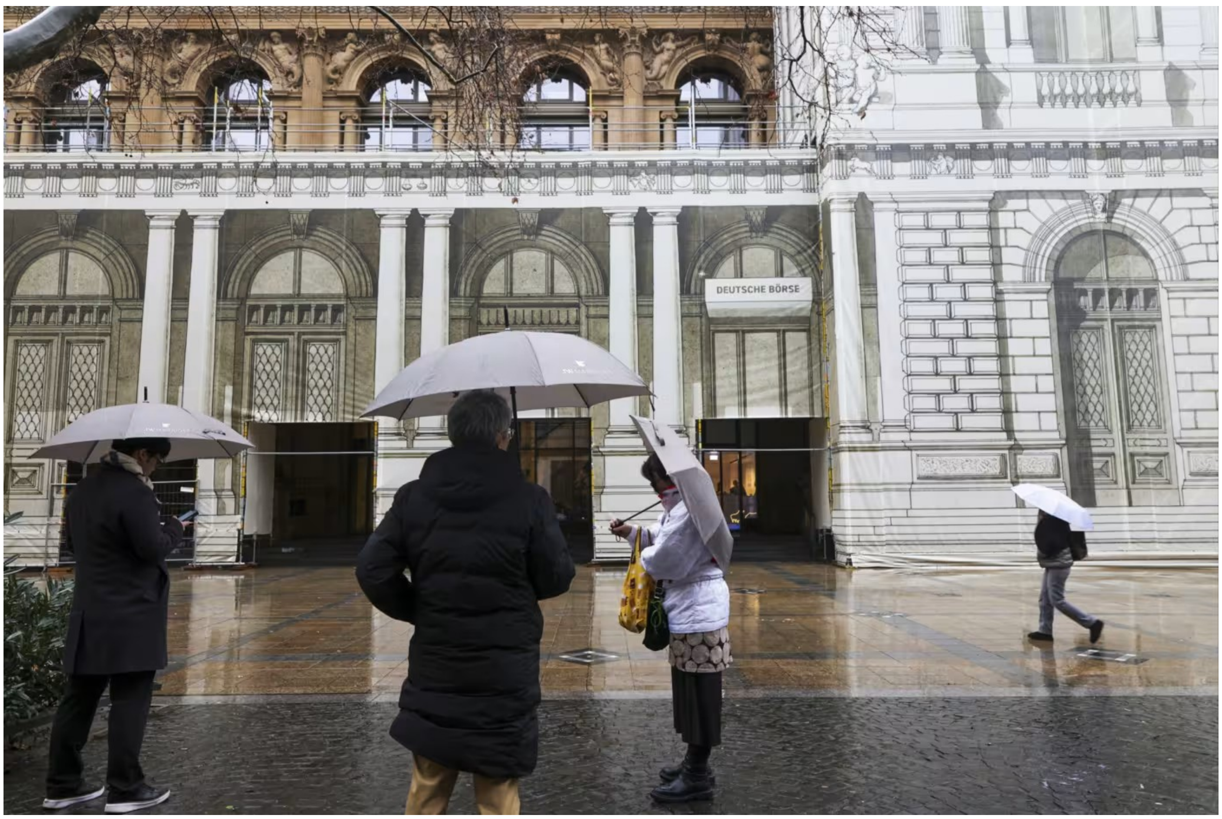
Meanwhile, hopes of stronger European growth have prompted traders to rein in their bets on lower rates, with just two or three European Central Bank cuts now expected, including one on Thursday. Last week, traders were expecting three or four.

This has fuelled a big rally in US Treasuries, taking the 10-year yield down from 4.8 per cent in early January to below 4.3 per cent. German Bund yields, the Eurozone benchmark, jumped to nearly 2.8 per cent on Wednesday, their highest since late 2023.

Some managers say the market had taken the wrong lesson from Trump's first term and focused on stimulative policies yet to come through, rather than the disruption from tariffs today.




In Europe, investors are hoping that growth prospects are finally improving as policymakers turn to big stimulus packages © Alex Kraus/Bloomberg

"The good news of lower taxes and deregulation was factored in quickly," said Trevor Greetham, head of multi-asset at Royal London Asset Management. But it was "hard to factor in the bad news" of tariffs, deportations and the hit to growth from the government's efficiency drive before they started to happen, he added.

In Europe, investors are hoping that growth prospects are finally improving as policymakers turn to big stimulus packages. This, they hope, can help the region's stocks close the long-term performance gap with US markets.

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"Europe is at its best in a crisis," said Karen Ward, chief market strategist for Emea at JPMorgan Asset Management, adding that investors had not realised that Europe would rise to the challenge presented by the US.

"The penny has dropped in Europe that the world has changed, and if we do not galvanise and move together we are going to have all sorts of problems."



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