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AIP

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Rotating back into US equities

US equities remain poised to test February's record high as easing trade tensions and President Trump's tax cuts and deregulation help revive earnings estimates and fund flows back to the US. This week, Trump paused tariffs on Europe, while the tariffs themselves are being challenged in court. Meanwhile, US consumer confidence rebounded strongly after the trade truce with China. Tariffs had hurt US equities more than other markets. Their reversal should help US equities outperform. With tariffs easing, bullish view on the US semiconductor sector this month as it continues to benefit from AI-driven demand for high-end chips. bullish on long-term US government bonds. The recent rise in yields having significantly priced the risk of increased bond sales and policy uncertainty.

Equities: Will the outperformance of Euro area equities over US equities persist?

US equities will reverse this trend and catch-up in performance with Euro area equities, driven by the US market's higher weighting in growth sectors. Bullish on the US-listed semiconductor index, following strong AI-related investment and revenue guidance.

Bonds: What is driving the rise in long-dated US government bond yields? Is it a good time to buy US 20-year-plus US government bonds?

Yield premium on long-term bonds has risen on concerns about higher fiscal deficits and government bond sales worldwide and increased policy uncertainty. The recent rise in bond yields have significantly priced in known risks. Hence, bullish on 20-year-plus US government bonds.

Currencies: What is your outlook for the EUR?

Expect EUR/USD to consolidate around 1.14 in the near term. The EUR has positive support from resilient macro data which is likely to keep ECB policy on hold after an expected 25bps rate cut next week. However, flows back to US equity markets are likely to be a drag on the EUR in the near term. Expect these contrasting forces to leave EUR/USD rangebound around 1.14.

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