NORDKINN

ASSET MANAGEMENT

Market Review & Outlook

April 2025

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Market overview

Global overview

Overall, April was clearly dominated by profound geopolitical risks, as markets witnessed a dramatic escalation in trade tensions that created exceptionally high levels of policy uncertainty. On April 2nd, the U.S. introduced the "Fair and Reciprocal Trade Plan ", a day President Trump dubbed "Liberation Day." This plan imposed a minimum 10% tariff on all countries except Canada and Mexico, effective from April 5th. Additionally, higher individual tariffs ranging from 11% to 50% on imports from nearly 60 countries were scheduled to take effect on April 9th. This latter measure was much harsher than anticipated and triggered sharp declines in both equity and bond markets.

In response to the extreme market turmoil, President Trump suspended on April 9th individual tariffs above 10% for all countries except China for 90 days. Tariffs on Chinese imports were raised significantly to 145%, prompting a Chinese retaliatory move to 125% tariffs on U.S. goods.

On April 11th, the U.S. Customs and Border Protection Agency announced a temporary exemption for smartphones, laptops, and televisions from the new tariffs. This decision helped ease market volatility that had been particularly acute in early April. Market sentiment improved further later in the month amid early-stage trade negotiations with some countries and reassuring comments from both President Trump and Treasury Secretary Scott Bessent, who signalled expectations of de-escalation in the U.S.–China trade conflict.

Reflecting tariff rates at levels not seen in a century and an increasingly unpredictable political and economic environment, institutions like the IMF significantly downgraded their global growth forecasts. Data released in April showed weakening business and consumer sentiment, along with a sharp drop in cargo shipments. That said, aside from headline Q1 GDP figures, "hard" U.S. economic data generally remained solid.

Meanwhile, President Trump's efforts to undermine Fed Chair Jerome Powell led to a rush into safe-haven assets outside the U.S., as confidence in U.S. exceptionalism waned. This shift supported the EUR/USD exchange rate and contributed to steeper yield curves in Europe, benefiting our *"Rebuilding Europe"* investment theme in April.

Additionally, growing expectations of central bank responses to the tariff shocks supported short-term global interest rates. This dynamic allowed our global theme, *"Geopolitical tensions impacting growth,"* to also contribute positively to our April performance.

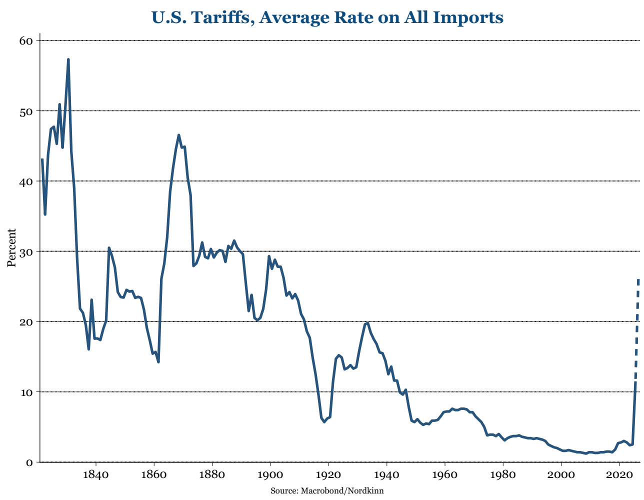
Nordic overview

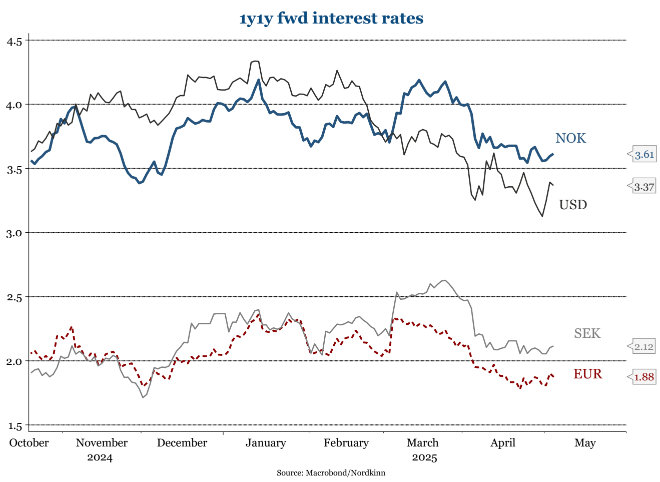
In Sweden, the Riksbank minutes were interpreted as dovish, with the board expressing little near-term concern about inflation, despite underlying inflation remaining well above target and continued pricing pressures highlighted in the Swedish Economic Tendency Survey. All board members appear convinced that the anticipated uptick in inflation at the beginning of 2025 will be temporary, citing the annual adjustment of CPI weights and sharp increases in certain food prices. Supporting this view, CPIF inflation excluding energy surprised to the downside last month, coming in at 3.0% year-on-year, which was 0.2 percentage points below expectations.

Against this backdrop, Swedish interest rates declined sharply in April as markets shifted from pricing in further hikes into anticipating the start of a cutting cycle, leading to outperformance versus Euro Area rates. Meanwhile, Break-Even Inflation rates also eased, reflecting both the inflation surprise as well as deteriorating global growth prospects. These developments weighed on our Swedish theme, *"After cuts come growth,"* which detracted from performance. Additionally, our separate Swedish theme, *"Bond supply set to expand,"* also subtracted from returns, as geopolitical uncertainty and market turbulence led to safe-haven demand for Swedish government bonds. The trade-weighted SEK ended the month roughly flat, following a strong appreciation in Q1.

In Norway, core CPI remained steady at 3.4% year-on-year in March, matching expectations after a surprising spike in the previous month. This stability allowed Norwegian interest rates to ease in line with global trends, though to a lesser extent. However, the NOK exchange rate depreciated significantly during the financial market volatility in early April, further exacerbated by a sharp decline in oil prices with WTI falling from USD 70 to USD 58 per barrel. The NOK is currently around 2.5% weaker than the Norges Bank's assumption in its March Monetary Policy Report.

Our Norwegian theme, *"Path to policy easing,"* benefited from a steepening yield curve as expectations of central bank rate cuts grew. Toward the end of the month, we initiated payer exposure at the front end of the curve, in our firm belief that short-term rates had adjusted too far—this also contributed positively to the fund's performance. Although our positioning for relative outperformance of Norwegian rates versus peer markets detracted in isolation, the theme contributed positively on balance.





Outlook

Global outlook

The Trump Administration's dramatic tariff moves have triggered a broad reassessment of the economic outlook in the U.S. and globally. It is not merely the scale of the trade shock, arguably the largest in modern history, that poses recession risks, but also the heightened uncertainty surrounding trade policy. This unpredictability leaves businesses and consumers hesitant to make spending decisions. As a result, recession risks may persist even if tariffs are eventually reversed, particularly if markets perceive the reversal as temporary rather than permanent.

Indeed, many economists have revised their forecasts to include a tariff-induced U.S. recession, while those who have not instead believe that the risk is finely balanced. Looking ahead, we will be monitoring incoming data closely to assess the extent of damage from both the tariffs themselves and the uncertainty they generate, though we recognise that such uncertainty is inherently difficult to quantify. While survey-based indicators already signal a clear downturn, recent years have shown that "soft" data can give misleading signals. Consequently, markets have become more cautious in interpreting such survey results. Adding to the complexity, front-loaded spending ahead of tariff implementation may temporarily distort "hard" data, reducing its reliability in the near term.

As for interest rate implications, with markets already pricing in significant policy easing by year-end, the front-end of the yield curve could be vulnerable to a pullback in rate-cut expectations—particularly if hard data remains resilient in the short term. Nonetheless, given the elevated risk of recession, we would view any sharp rise in market rates as a renewed opportunity to add or re-enter receiver positions. This view is reflected in our global theme: *"Geopolitical tensions impacting growth."*

Turning to FX markets, we align with the view that U.S. asset returns are likely to become less exceptional going forward. This trend is expected to weigh heavily on the USD, as global asset managers diversify their portfolios away from the U.S. In the near term, existing short USD positions among fast-money investors may temporarily limit further depreciation. However, over the longer term, the substantial stock of unhedged USD assets and a potential reallocation of capital into non-U.S. markets will serve as a wet blanket for an already weakening dollar.

Within our global theme, *"Rebuilding Europe,"* we have held a long EUR/USD position since the announcements of increased infrastructure and defence spending in Europe. The Trump Administration's tariff shock has not only reaffirmed but strengthened our conviction for that view.

Nordic outlook

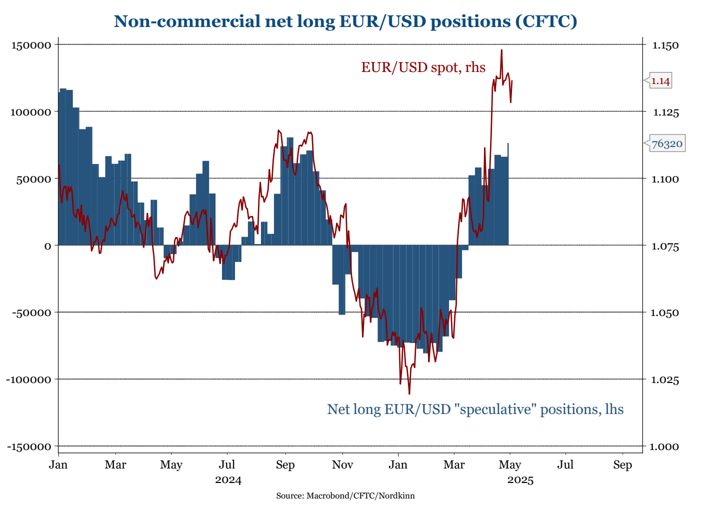
Sweden's economic growth had finally begun to pick up, and the macro-outlook was encouraging—until the Trump Administration announced its tariff plans. Interest-rate-sensitive sectors had gained traction amid lower rates, but consumer confidence suggests that momentum has weakened. Furthermore, a significant portion of Swedish exports is now subject to tariffs, raising questions about the sustainability of the recovery. That said, while uncertainty and downside risks to growth have increased, we still view Sweden's macro-outlook as relatively strong compared to other European countries.

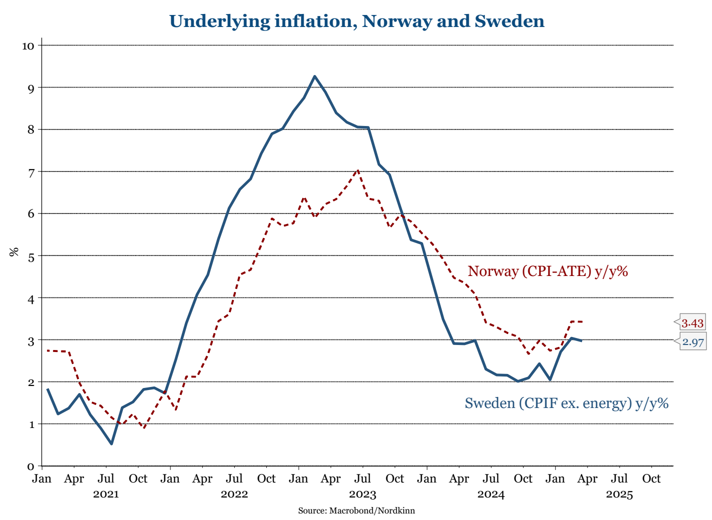
Underlying inflation remains well above the Riksbank's 2.0% target following upside surprises in both January and February. So far, the Riksbank views the rise in inflation as transitory, attributing it to annual weight adjustments of the CPI basket and rising food prices. However, with business price plans now also rising across most sectors, there is a growing risk that the central bank once again is underestimating the persistence of inflation.

Given the elevated starting point for inflation, we cannot rule out the possibility that further upside surprises could prompt the Riksbank to hike interest rates again—even though the stronger SEK and renewed uncertainty around growth make this scenario less likely in our view. Still, we believe current market expectations for rate cuts are excessive and particularly on a relative basis.

Turning to Norway, while the country is less directly affected by higher U.S. tariffs - due to its relatively low export exposure to the U.S. - its status as a small, open, commodity exporting economy makes it vulnerable to slower global growth and lower oil prices. As a result, downside risks to both growth and the labour market have increased, which in isolation would argue for policy easing by Norges Bank later this year.

On the other hand, elevated inflation complicates the central bank's task, limiting the scope for aggressive rate cuts in the near term. That said, we believe the inflation surge observed in Q1 will prove transitory, and we expect underlying inflation to fall back to 3.0% already in Q2. This should allow Norges Bank to begin easing policy gradually. However, we find market pricing for rate cuts in 2025 overly optimistic and expect some of those cuts to be delayed into next year.





About Nordkinn

Nordkinn Asset Management is a fixed income specialist based in Stockholm and Oslo. We invest in the global fixed income and currency markets – with a particular focus on our home markets Norway and Sweden.

Our focus is to generate stable absolute returns that exhibit low correlation to other assets. Our Nordkinn Fixed Income Macro Fund was launched in 2013.

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