GLOBAL MARKETS

APRIL 2025

NAVIGATING VOLATILITY WITH STRATEGY AND PATIENCE

IN BRIEF

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- This broad market sell-off is not driven by a single catalyst, but a convergence of factors that are reshaping the global investment landscape

- We do not believe we are in a 2008-style economic crisis. Instead, it appears to be a cyclical correction, driven by accumulated macroeconomic risks and overvaluation in certain sectors.

- In periods of heightened uncertainty, discipline becomes our strongest asset. We remain committed to our long-term strategic allocation and are avoiding reactionary drawdowns in client portfolios. Additionally, our current gold exposure, through the Absa NewGold ETF, serves as a natural hedge in this climate as well as our fixed income carry

- Market corrections test conviction — but they also create opportunity. We are watching closely, acting cautiously, and staying optimistic. Crises have a way of sharpening portfolios — and revealing the strength of a sound, patient strategy.

What is happening?

On April 2, 2025, as part of 'Liberation Day,' President Trump announced a slew of new tariffs targeting the United States' trading partners. Since then, global financial markets have experienced a pronounced downturn, with major indices across North America, Europe, and Asia posting declines spurred on by investor anxiety.

This comes after two years of strong market growth and record-breaking highs, marking a noticeable shift in upward momentum. While the correction is sharp, it is not without precedent, as market participants reassess priorities in response to policy changes, resulting in increased day-to-day volatility.

Despite these challenges, we remain confident that the structural foundations of the global economy are intact. Accordingly, we maintain a cautious yet optimistic outlook, prioritizing disciplined capital preservation in the short term while strategically positioning assets for sustainable long-term wealth creation.

Why is this happening?

Since mid-February 2025, global equities have entered a sharp correction phase. Key highlights of the downturn include:

- S&P 500 down 12% YTD
- Emerging markets (MSCI EM) faring worse at ~20% drawdowns

This broad market sell-off is not driven by a single catalyst, but a convergence of factors that are reshaping the global investment landscape.

Tariff policy and trade uncertainty: Newly announced tariffs from the Trump administration have reignited fears of inflation and slowed growth. While policy specifics remain in flux, the anticipation alone has added uncertainty to market forecasts. Investors are concerned about the pass-through effects of tariffs on company margins and consumer prices.

Valuation rebalancing: Tech and growth stocks, which led the post-pandemic bull run, had valuations that were priced to perfection. The recent stumble in AI-driven names, especially following the DeepSeek disappointment, has sparked a wider tech revaluation. As AI-driven efficiency gains displace traditional employment and business models, certain industries are seeing earnings revisions turn downward. Meanwhile, overvaluation in "AI darlings" is undergoing a healthy correction.

Sector rotation: Investors are shifting toward defensive sectors, like energy and healthcare. Meanwhile small caps and international equities—particularly in China and Europe—have outperformed relative to U.S. growth names.

Macroeconomic sentiment: Slowing GDP growth in various countries, stickier-than-expected inflation, and evolving labor market data are shaping a more cautious macroeconomic backdrop.

Global geopolitical uncertainty: Renewed tensions in Eastern Europe, rising instability in parts of the Middle East, and U.S.-China frictions over AI and rare earths have introduced significant tail risk premiums across global equities.

Slowdown in global manufacturing and trade: China's post-COVID recovery has underperformed expectations, with weak industrial output and property sector fragility dragging down broader emerging markets.

How long could this last?

We do not believe we are in a 2008-style economic crisis. Instead, it appears to be a cyclical correction, driven by accumulated macroeconomic risks and overvaluation in certain sectors. Historically, such corrections tended to be temporary, with markets rebounding stronger over time. Looking back at the COVID-19 era, long-term investors, who remained committed, were consistently rewarded.

While the possibility of a mild recession remains—Wall Street estimates the probability of this at 30-40%—it is somewhat far from certain. The National Bureau of Economic Research has yet to declare an official recession, and many key indicators continue to show resilience.

Given these dynamics, we foresee three possible scenarios for the near-term market trajectory:

- **Base case:** We expect the correction to persist over the next 1-2 quarters, with market stabilization occurring toward late Q3 2025, as earnings rebase, inflation stabilizes, and central banks hint at policy easing.
- **Bear case:** A protracted conflict or liquidity crunch could extend the downturn into early 2026.
- **Bull case:** Resolution of geopolitical tensions and dovish shifts by central banks could catalyze a sharp rebound by end of 1H2025.

What we are doing – strategy moving forward

In periods of heightened uncertainty, discipline becomes our strongest asset.

No panic selling: We remain committed to our long-term strategic allocation and are avoiding reactionary drawdowns in client portfolios. Additionally, our current gold exposure, through the Absa NewGold ETF, serves as a natural hedge in this climate as well as our fixed income carry.

Selective dollar-cost averaging (DCA): Should the global equity market fall an additional 5%-7%, especially in diversified value sectors or global income-focused funds, we will begin layering in more global equities cautiously. This will be in line with international exposures that align with our risk appetite.

Focus on resilience: Our limited global exposure, relative to the broader portfolios we manage, insulates us somewhat from extreme international volatility. This gives us time and breathing room to make thoughtful reallocations.

General outlook for global stocks and currencies

Global equities: While short-term sentiment is shaky, long-term fundamentals remain intact for certain U.S. large caps, selective European industrials, Asia-Pacific tech and green infrastructure plays. Thus, a diversified exposure to select international markets, value stocks and resilient sectors, like healthcare, will be key.

Currencies: The US dollar will likely remain strong in the near term, due to safe-haven demand and rate differentials. Similarly, while the Ghanaian cedi remains vulnerable, it has demonstrated relative stability in early 2025. This stability has been reinforced by Ghana's tighter and more pragmatic policy shift, which serves as a timely adjustment to mitigate negative external shocks."

Final thoughts – Consistency through cycles

Market corrections test conviction — but they also create opportunity. We are watching closely, acting cautiously, and staying optimistic. Crises have a way of sharpening portfolios — and revealing the strength of a sound, patient strategy.

For more information contact your IC representative

Investment Banking | Business Development & Client Relations

Derrick Mensah
Head, Investment Banking
+233 308 250 051
derrick.mensah@ic.africa

Timothy Schandorf
Head, Client Coverage
+233 308 250 051
timothy.schandorf@ic.africa

Dora Youri
Head, Wealth Management
+233 308 250 051
dora.youri@ic.africa

Corporate Access

Joanita Hotor
Corporate Access
+233 308 250 051
joanita.hotor@ic.africa

Insights

Courage Kingsley Martey
Economist and Head, Insights
+233 308 250 051
courage.martey@ic.africa

Churchill Ogutu
Economist
churchill.ogutu@ic.africa

Kwabena Obeng
Associate, Equity Research
+233 308 250 051
kwabena.obeng@ic.africa

Emmanuel Dadzoe
Analyst, FMCG, OMC, Telecoms
+233 30 825 0051
emmanuel.dadzoe@ic.africa

Investing

Obed Odenteh
Chief Investment Officer
+233 308 250 051
obed.odenteh@ic.africa

Herbert Dankyi
Portfolio Manager, Rates
+233 308 250 051
herbert.dankyi@ic.africa

Clevert Boateng
Portfolio Manager, Risk Assets
+233 308 250 051
clevert.boateng@ic.africa

Hannah Mate
Analyst, Risk Assets
+233 308 250 051
hannah.mate@ic.africa

Operations

Nana Amoa Ofori
Chief Operating Officer
+233 308 250 051
nanaamoa.ofori@ic.africa

Abigail Adu-Darkwa
Head, Business Operations
+233 308 250 051
abigail.adu-darkwa@ic.africa

Kelly Addai
Fund Accountant
+233 308 250 051
kelly.addai@ic.africa

Trading

Allen Anang
Sales/Trader, Global Markets
+233 308 250 051
allen.anang@ic.africa

Johnson Asiamah
Trader, Equities
+233 308 250 051
johnson.asiamah@ic.africa

Samuel Kwame Ofori
Trader, Fixed Income
+233 308 250 051
samuel.ofori@ic.africa

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