BASE INVESTMENTS SICAV

MARKET VIEW — APRIL 2025

Has the Us lost its safe-haven status?

Since the "Liberation Day" a lot of talks have been made regarding the Us role in the financial system. The first market reaction was "Sell America", with dollar heavily sold, equities down and treasuries failing to work as a safe-haven asset. From April 7th to April 9th, Us Treasury 10-year yield went from a 3.88% low to 4.50%, marking one of the biggest 3-day increases on record, in a context where most people were actually expecting a move in the opposite direction, due to risk adversion and recession expectations. Swap spreads, the difference between swap rate and treasury rate on the same maturity, quickly widened, signalling that investors wanted higher yield in order to hold Treasury bonds. The Us dollar, which usually rally when Us rates go higher, was sold because of foreign liquidation of Us assets. In the following weeks the situation got worse after President Trump increased pressure on the Fed, threatening to fire Powell and to weaken Fed independence.

Our take:

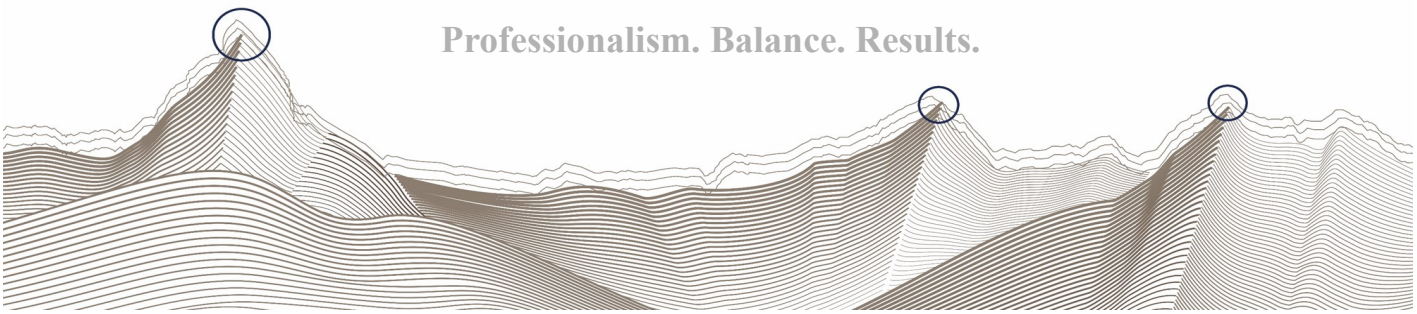
While we think we are at the beginning of a rebalancing that may last for long, we do not think this will lead to a collapse of the system based on a key role of the United Stated and the dollar. It is not in the Us interest to lose completely its grip on the financial system, and to lose foreing creditors willing to hold the massive amount of debt at lower yields. Trump backtracking on some tariffs and on firing the Fed chair shows that bond market can apply strong constraints on the Us administration. The rest of the world has interest as well in keep using the dollar as a reserve currency, because there's no credible alternative at the moment. Anyway, a big confidence damage has been done, and asset allocator around the world will look for more diversification and less dependency from the Us.

Market implication 1: Us treasuries are more risky now, but yields are capped on the upside. We stay long duration on worsening economic outlook.

While we recognise that Us debt has become more risky and less useful for diversification purposes, we think that what happened this month shows that Us politics is somewhat constrained by the bond market. Keeping low rates is a policy priority, given how big is governemtn debt, and in case of economic slowdown the Fed will cut rates. We stay structurally long duration, leaving some room for tactical activity, buying bonds on selloffs which tend to be short-lived.

Market implication 2: Us dollar may keep depreciating even if it stays as a reserve currency. We are long Eur/Usd

Us dollars can be weak without losing is role as a reserve currency, as many cycles in the past decades showed. We already considered Us dollar quite expensive last year, and the damage in confidence caused by Trump policies may be the trigger of a prolonged depreciation in the next months or years. Us administration would like that, as long as the depreciation will be gradual. The most obvious winner may be the Euro, one of the few currency big enough to allow reserve diversification.



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