C WORLDWIDE
ASSET MANAGEMENT

Q1 2025

The Rise of the Nation-State and Regional Allocations

The world is going through significant geopolitical and economic shifts which will have a profound effect on the global investment landscape. In this paper, we analyse the consequences of Donald Trump's second presidential term, which initially has led to the emerging underperformance of US equities, Europe's strategic awakening, and new opportunities in emerging markets such as India. A more fragmented and regional world challenges previous global investment paradigms – and increases the need for active and forward-looking capital allocation.

Key takeaways

- US equities have started to underperform, particularly driven by tech sector weakness and uncertainty from Trump's second term. A radical shift in US trade, defence, and fiscal policy is contributing to this reversal.
- Rise of the Nation-State: Global fragmentation is accelerating. As the US pulls back, other nations are pursuing "Nation First" agendas, boosting regional alliances and national industries, which creates a more multipolar global order.
- US Outlook: Fiscal tightening, reduced deficits, unpredictable tariffs, and an overvalued USD are expected to negatively impact US corporate profits and equity market performance.
- European Renaissance: Europe is shifting from austerity to fiscal expansion. Trump's policies have forced a strategic awakening, trigger-

MARKETING

Morten Springborg
Thematic Specialist
C WorldWide Asset Management

"

Nations will forge stronger economic and financial ties with close strategic and regional allies. These significant changes will impact capital markets, carrying considerable regional implications. As a result, the regional factor is gaining renewed importance for global investors.

ing a redirection of capital towards European infrastructure and defence.

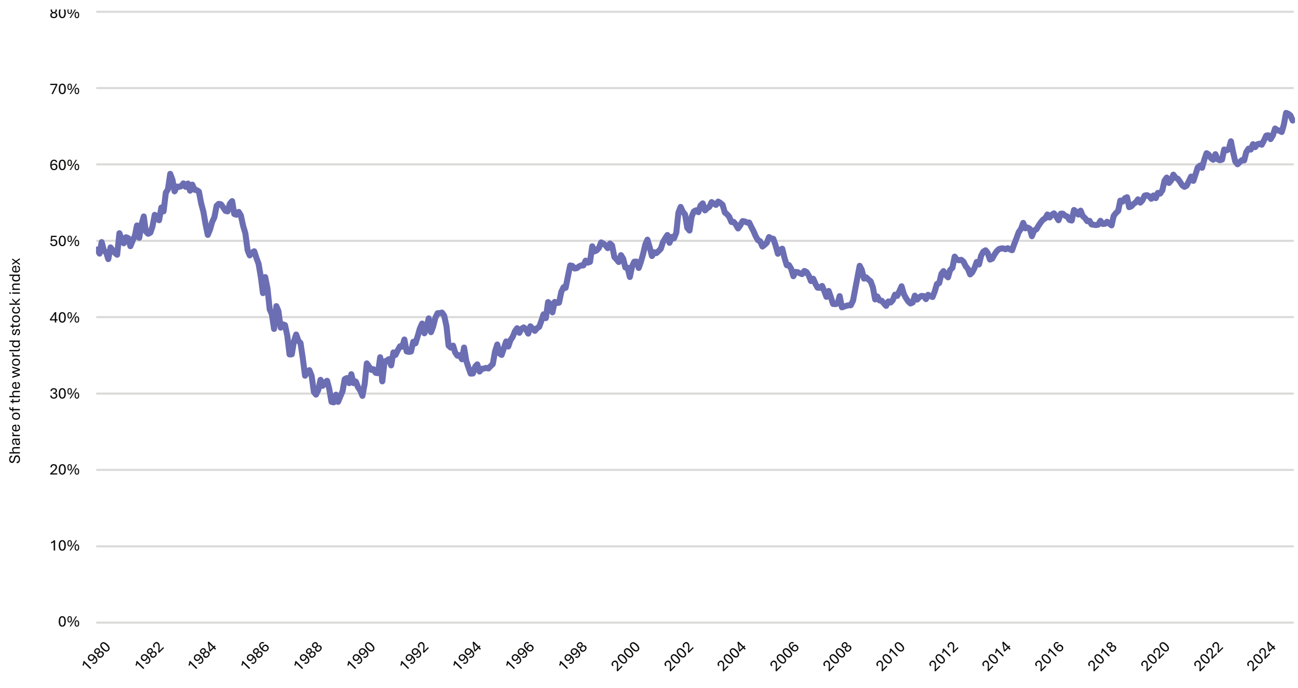
- Emerging Markets & India: Emerging markets, especially India, stand to benefit from USD weakness and a more regionalised world. India's domestic focus and reforms support a strong growth outlook.

- Impact on Multinationals: Global fragmentation challenges global platform companies but benefits multinationals with a strong local presence, which can use tariffs and localisation to their advantage.

The US constitutes 4% of the world's population, 25% of world GDP, and 35-40% of world corporate profits. Recent years of stock market outperformance has taken the US to close to 70% of world equity market capitalisation, see figure 1. However, the domination of US technology and equity markets in recent years is being challenged early in Donald Trump's second presidency. US equity markets have significantly underperformed since Trump's election, and the underperformance has largely been driven by declines in the largest US technology companies.

Figure 1

US weight of global equity markets have increased



Source: MSCI, March 2025

We believe there is an important message in this new and surprising (for most investors) underperformance of US equities.

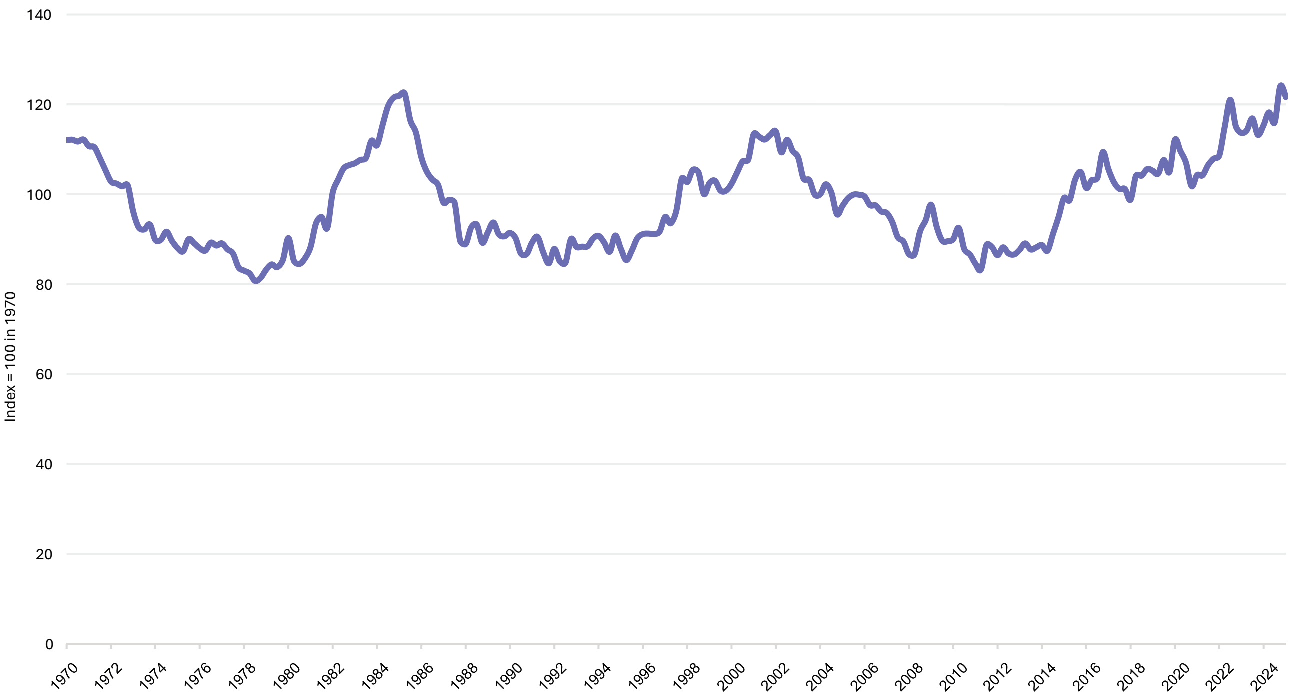
The new Trump administration has moved very fast and embarked on a path that represents a radical break from the past, upending several long-standing pillars of US trade, defence and foreign policy. In the words of Japan's Foreign Minister, "It is no exaggeration to say that we are at a turning point in history." The single most dramatic event in the first quarter was the realisation by many key US allies that they could not fully trust the US military umbrella, prompting Europe to embark on an expensive and difficult path to become more independent from the US. It is hard to overestimate the potential impact of this development.

Most likely, the "America First" agenda will push others to pursue their own domestic "Nation First" agendas. We are likely to see an intensification by other countries to secure their own national interests by protecting domestic industries and taking greater control of their own defence industry, making new alliances, and seeking common ground with new partners. Perhaps more ominously, when it's everyone for themselves, the so-called "rules-based order" could further unravel, leaving behind a vacuum of instability and volatility as we see a continuation of the rise of the nation-state. Nations will forge tighter economic and financial ties to close strategic and regional allies, thereby giving rise to the renewed importance of the regional factor for global investors.

We will not dwell on isolated announcements from the Trump administration but conclude the Trump administration is seeking to completely rewrite the global security, trading and reserve asset framework as detailed by Stephen Miran, head of the Council of Economic Advisors to the White House[1]. At the same time, the Trump

Figure 2

USD Trade-weighted index



Source: Bloomberg, March 2025

1 Stephen Miran 638199_A_Users_Guide_to_Restructuring_the_Global_Trading_System.pdf

> **"Europe is currently undergoing a historically rapid transformation, driven by factors such as the desire for strategic autonomy, Germany's significant fiscal policy shift, and the EU's plan to use defence spending to stimulate the economy and remove internal barriers within the single market.**

administration is focused on shifting the domestic economy away from government-driven growth towards growth from the private sector. Unprecedented changes like this also have the capacity to drive unprecedented changes to capital markets with significant regional effects.

The US

The Trump administration is rightly addressing the unsustainability of fiscal deficits and rising indebtedness as they pose an existential threat to US economic stability. The growth of the US economy and corporate profitability have been unsustainably boosted by high fiscal deficits. Government deficits directly contribute to corporate profits via the Kalecki identity[2]. Large fiscal deficits inject liquidity into the economy, stimulating demand and thereby increasing corporate revenues and profits. This dynamic has been a significant driver of the US equity market's outperformance over the past decade, as no other large economy has been a more prolific spender than the US.

However, should policies aimed at reducing the federal deficit, such as those advocated by Elon Musk and the "DOGE", succeed, the impact on corporate profits could be substantial. A reduction in deficits would decrease the liquidity injected into the economy, potentially in the short to medium term, leading to lower aggregate demand and, consequently, reduced corporate profits. All other things being equal, should the US administration succeed in lowering the deficit from 7% to 3% by 2028, according to the Kalecki identity, US corporate profits would decline in the region of 25%. On top of this, the unpredictability of tariffs has eroded business and consumer confidence. Falling asset prices, first and foremost falling equity markets, could lead to significant consumer retrenchment because of wealth effects since, as reported in a recent Wall Street News article, 10% of the wealthiest individuals are responsible for 50% of US consumption[3].

Finally, the overvaluation of the US Dollar plays a central role in the MAGA view on the reasons for the US predicament. The US Dollar needs to depreciate to balance trade and move manufacturing back to the United States. This analysis has its merits. The US Dollar is as strong (overvalued) as it has ever been since 1985 when we saw the Plaza Accord, see figure 2.

Adding up these factors, one can easily imagine a future where lower earnings and lower capital flows into the US and, therefore, at a lower USD rate combined with a lower equity market multiple, reverse the flywheel that was the basis for US exceptionalism. US equity market share relative to global equity markets could be in the early stages of a "reversal to the mean", which could take the share closer to 50% as opposed to close to 70% currently. C WorldWide's global and international strategies are underweight US equities.

Europe

Europe has been a perennial economic underperformer since the GFC. The continent has been

2 Profits=Investment−Savings+Government Deficit+Net Exports
3 America's Richest 10% Now Account for Nearly Half of All Consumer Spending

caught in private-sector balance sheet repair and self-inflicted public-sector austerity for 15 years. On top of being dominated by sunset industries like chemicals and autos, it is totally missing out in growth industries of the future – or at least that's how the story goes.

Well, this has come to an end. In the wake of the election of Donald Trump, Europe has been jolted into action, that has fundamentally altered its approach to fiscal policy, defence spending, and economic growth. This seismic shift is most dramatically illustrated by Trump, who just two months into his second term, ignited trade disputes with the European Union, hinted at withdrawing from NATO, initiated discussions with Russia regarding Ukraine and halted military assistance to Kyiv. This aggressive stance has compelled European nations to reconsider their long-held assumptions about transatlantic relations and security guarantees that have underpinned European policy since 1945.

Europe is undergoing a rapid transformation driven by 1) the quest to attain strategic autonomy, 2) Germany's fiscal regime shift, and 3) Europe's plan to use defence spending to stimulate the economy and remove internal barriers within the single market, among other factors. This has sparked a surge of capital to flow into European equities at a pace we have rarely seen.

Applying the Kalecki framework, we think Europe's and Germany's lurch towards fiscal spending is a seismic shift for EU equity earnings and valuations. The plan appears to spend nearly 2.2% of GDP annually over the next decade on defence and infrastructure. Separately, Europe's defence spending plan, ReARM Europe, is worth EUR 800bn of potential spending (c.0.5% of GDP annually). Meanwhile, the US's quest for lower deficits, although we are not sure how much will eventually materialise, will be a potential headwind. A narrowing of the deficit gap should allow for a narrowing of the gap in corporate revenue growth and margins between Europe and the US.

Europe is now in a wartime economy, which Ursula von der Leyen describes as "a new era of rearmament." War economies fundamentally reshape national priorities, redirecting resources from civilian consumption to military needs and trashing economic orthodoxy.

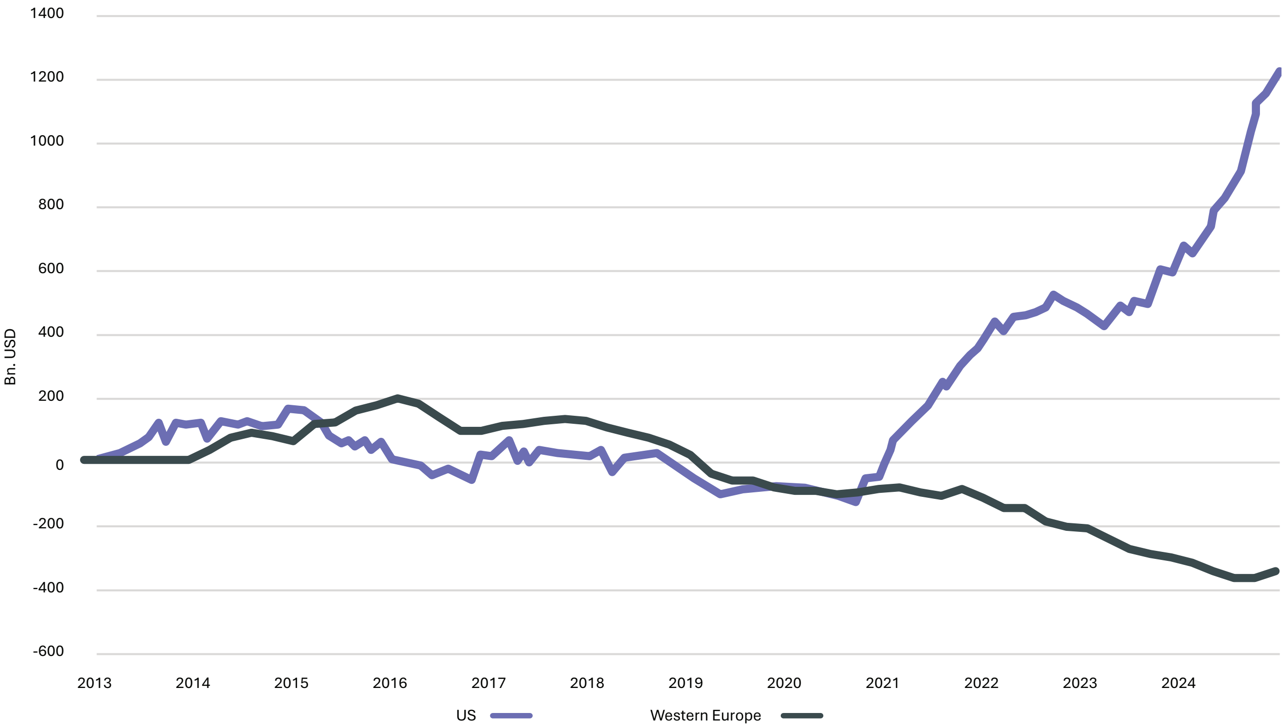
To manage resource allocation effectively, war economies typically see an increase in centralised government control over industries and resource distribution. This stage has yet not been reached, but governments are calling for consolidation amongst private sector defence contractors, and there have been calls for European capital to be invested in European defence and related businesses at the expense of products for private consumption and exports. One example is the uncompetitive European auto industry, which risks being hard hit by tariffs. With the "unintended assistance" from President Trump, we are now on the margin of seeing this capacity shift as auto companies contemplate moving available industrial capacity to the European defence sector[4], see figure 4. Admittedly, this transition will be challenging. However, Europe's situation is far better than many suggest, as the continent can redirect its industrial capacity towards internal demand rather than supplying the American consumer.

The European Commission is working on reducing the outflow of capital from Europe, including stopping hundreds of billions of euros a year going to the US. Both President Macron and Mario Draghi have highlighted the need for the EU to strengthen its financial markets, enhance industrial policy and improve investment conditions to keep European capital within the bloc and support economic growth.

In totality, the picture painted above is one of reduced fiscal profligacy and lower growth in the

Figure 3

Accumulated equity flows to Europe and US



Source: EPFR Global and AB, March 2025

4 Volkswagen Willing to Re-Open Military Equipment Production for Germany

"

Stronger national borders create a barrier to entry for new players, while at the same time offering protection to established ones.

US, while the story in Europe is totally opposite. dition to the fiscal loosening in Europe, the private sector consolidation in Southern Europe since the GFC ended recently. Southern Europe is today the fastest growing region in Europe, with Spain, for example, growing 3.2% in 2024.

Considering the magnitude of capital outflow from Europe to the US in recent years, it doesn't take much reversion to have a significant impact on the much smaller equity markets in Europe. This is what we have started to see in Q1 2025. C WorldWide's global and international strategies are overweight European equities.

Emerging Markets

The emerging dispersion of capital and a weaker USD will most likely benefit emerging markets overall and in turn create a self-reinforcing up-cycle.

Against this macro backdrop, we maintain our overarching preference for Asia's large domestically orientated markets, especially India. In an increasingly chaotic, uncertain and higher trade friction world that furthers regional thinking, a focus on local – in contrast to global – should be preferred. India's equity market has far lower foreign revenue exposure than most other economies. India is also well-positioned to drive global economic growth and become one of the biggest winners in the emerging multipolar world order. Prime Minister Modi's economic reforms to encourage business activity, combined with India's rapid build-out of physical and digital infrastructure along with an expanding middle class, will put the country on a sustained growth trajectory for years to come.

Where does this leave multinationals?

All other things being equal, a more insular, fragmenting and regional world economy is not good for global so-called platform companies, which have thrived in the globalisation of past decades. However, many global companies have understood all along the importance of being local while being global.

A case in point is Swedish Assa Abloy. Assa Abloy is a beacon of globalisation with three decades

of exporting their lock-brands worldwide. Yet rather than a threat, we think fragmentation and deglobalisation will be accretive to Assa's growth simply because national boundaries create a barrier to competition and strengthen the incumbent. Already strong at a local level, we see Assa's manufacturing scale conferring an operational (cost) advantage unavailable to the smaller national players. US tariffs should be a benefit. The US accounts for 47% of group sales, of which ~65% of COGS are made in the USA. Imports are concentrated in residential locks (~85% imported) with the majority likely from Mexico. This seems like a threat and yet Assa's closest US competitor, Allegion, is in a similar position. Hence, with leading brands and greater manufacturing flexibility with room to produce more in the US, Assa's competitive position may be enhanced. Tariffs build moats, which is another way to say they inhibit competition and make the consumer pay more.

Unravelling requires active decisions

We knew that the election of President Trump would stir equity markets, and we have now learned that unpredictability is a key instrument in his political toolbox. As global equity investors, we need to navigate this new reality, which creates a more uncertain market outlook. However, we see our long-term mindset with a focus on structural growth themes and trends of particular value in this environment. You can say that the value of predictability goes up when uncertainty increases, and we have always prioritised investments with high predictability of growth over the magnitude of growth.

That said, the current unravelling will undoubtedly have long-term implications. As mentioned, we have likely seen the peak of US exceptionalism and, as a result, more regional economic and financial flows. This will have implications for long-term asset allocation decisions and affect stock-picking decisions. As an example, we have recently added two purely US domestic-oriented companies to our global portfolio: Progressive, which is a leading low-cost auto insurer, and Republic Services, which is an industry leader in recycling and non-hazardous waste management, both in the US. These are two local industries that are most likely shielded from the current uncertainty. To finance these purchases, we sold Sony, a multinational company that has done well but is now facing higher uncertainty. This is active stock picking valuing higher predictability in an uncertain environment.

EU: This is marketing material. This publication has been prepared by C WorldWide Asset Management Fondsmaeglerselskab A/S (CWW AM). CWW AM is a registered Danish investment firm located at Dampfaergevej 26, DK-2100 Copenhagen, Denmark. CWW AM's Danish company registration no. is 78420510.
The publication is provided for information purposes only and does not constitute, and shall not be considered as, an offer, solicitation or invitation to engage in investment operations, as investment advice or as investment research. Opinions expressed are current opinions only as of the date of the publication.
The publication has been prepared from sources CWW AM believes to be reliable. All reasonable precautions have been taken to ensure the correctness and accuracy of the information. However, the correctness and accuracy is not guaranteed and CWW AM accepts no liability for any errors or omissions.
All figures are based on past performance. Past performance does not indicate future performance. Returns may increase or decrease as a result of currency fluctuations. The publication must not be reproduced or distributed, in whole or in part, without the prior written consent of CWW AM.

US: This is marketing material. This publication has been prepared by C WorldWide Asset Management Fondsmaeglerselskab A/S (CWW AM). CWW AM is a registered Danish investment firm located at Dampfaergevej 26, DK-2100 Copenhagen, Denmark. CWW AM's Danish company registration no. is 78420510. CWW AM is registered with SEC as an investment adviser with CRD no. 173234.
The publication is provided for information purposes only and does not constitute, and shall not be considered as, an offer, solicitation or invitation to engage in investment operations, as investment advice or as investment research. Opinions expressed are current opinions only as of the date of the publication.
The publication has been prepared from sources CWW AM believes to be reliable. All reasonable precautions have been taken to ensure the correctness and accuracy of the information. However, the correctness and accuracy is not guaranteed and CWW AM accepts no liability for any errors or omissions.
All figures are based on past performance. Past performance does not indicate future performance. Returns may increase or decrease as a result of currency fluctuations. The publication must not be reproduced or distributed, in whole or in part, without the prior written consent of CWW AM.

UK: This is marketing material. This publication has been prepared by C WorldWide Asset Management Fondsmaeglerselskab A/S (CWW AM). CWW AM is a registered Danish investment firm located at Dampfaergevej 26, DK-2100 Copenhagen, Denmark. CWW AM's Danish company registration no. is 78420510.
The publication is directed at persons having professional experience of participating in unregulated schemes (investment professionals) and high net worth companies (as defined under art. 14 and 22 of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001). The publication and any investment or investment activity to which it relates is available only to such persons and will be engaged in only with such persons. Any other person should not rely or act on the statements made in the publication.
The publication is provided for information purposes only and does not constitute, and shall not be considered as, an offer, solicitation or invitation to engage in investment operations, as investment advice or as investment research. Opinions expressed are current opinions only as of the date of the publication.

The publication has been prepared from sources CWW AM believes to be reliable. All reasonable precautions have been taken to ensure the correctness and accuracy of the information. However, the correctness and accuracy is not guaranteed and CWW AM accepts no liability for any errors or omissions.
All figures are based on past performance. Past performance does not indicate future performance. Returns may increase or decrease as a result of currency fluctuations. The publication must not be reproduced or distributed, in whole or in part, without the prior written consent of CWW AM.

C WorldWide Asset Management Fondsmaeglerselskab A/S
Dampfaergevej 26 | DK-2100 Copenhagen | Tel: +45 35 46 35 00 | VAT 78 42 05 10
cworldwide.com | info@cworldwide.com