THE FIRST DOUBTS OF FEBRUARY

The month of February marked a certain reminder of reality for the stock market euphoria that greeted Donald Trump's second presidential term. The S&P erased the month's gains, before rebounding on the very last day and settling at +1.24%. The Nasdaq failed to return to positive territory and closed with a loss of 2.4%. At the heart of the movement is an important portfolio rotation: the stocks of the new economy linked to bets on artificial intelligence, after the powerful ride of the last two years, have been called to the reality of multiples and margins, which cannot rise indefinitely. China has shaken up Wall Street's benevolent expectations, with a high-impact technological and marketing operation.

On January 10, an unknown Chinese startup floods the world with DeepSeek Chat, a *chatbot* based on an advanced language model, similar to ChatGPT, costing, according to its promoter - Liang Wenfeng, a software engineer active in the world of *hedge funds* - only six million dollars and with an operational approach 1.2 times faster than ChatGPT-4; it is *open source*, the application is free, consumes less energy than the American competitor and was made with Nvidia H800 chips, which are not part of the company's high-end products. On March 1st - a few days after the excellent results of Nvidia, which in any case had to report the difficulty in maintaining its juicy margins (73.5% from 76%) - DeepSeek, in a post on GitHub, declared a theoretical cost-profit ratio of 545%![1]

There are too many timing coincidences not to consider a deliberate direction by China in giving a substantial slap in the face to the rich, now also seen as a spendthrift, Silicon Valley. Especially since this news comes just a day after the public humiliation that Donald Trump imparted to Volodymyr Zelensky and himself.

[1] "China's DeepSeek Reports Theoretical Cost-Benefit Ratio of 545% per Day," *Reuters*, 1. March 2025.

The rotation was not only sectoral, but also geographical. European stock exchanges have significantly outperformed American stock exchanges since the beginning of the year. The Eurostoxx50 rose 11.6%, touching the highs it had not seen since March 2000. The German Dax, despite the problems of the German economy, has even risen by 13% since the beginning of the year. And the Swiss SMI, which has long suffered from a lack of interest in its giants, gains 12%. The subdued assessments were certainly a catalyst, as was a first return to political stability in Germany and France and the hope that a ceasefire in Ukraine may be near. Financial flows have also rediscovered China, thanks above all to technology with Golden Dragons (Alibaba, Baidu, JD.com, Tencent, Pinduoduo, etc.). Hong Kong's Hang Seng is up 14% year-to-date.

In the second half of February, the market began to express some doubts about the belief that the tariffs that Trump wants to impose on many countries, allies and non-allies, may not be just negotiating threats, but dangerous realities. This has tested the risk appetite of many investors. The Investing Sentiment of the American Association of Individual Investors, in the latest survey in February, saw the *Bulls* fall to 19% and the *Bears* rise to 60% (20% the Neutrals). Macroeconomic data for the moment are still broadly positive, although inflation is still sticky.

The bond market, however, did not show any particular fears. Ten-year rates in the United States fell to 4.2%, a sign that those who exit equities do not run away, but wait sitting on good returns. Trump and the Secretary of the Treasury, Scott Bessent, for the moment seem to be able to keep the *bond vigilantes* at bay. The Federal Reserve and the European Central Bank (ECB) no longer seem to be the center of macroeconomic dynamics: monetary policies are becoming secondary in relation to fiscal policies. Pushing the Europeans to arm themselves and the Chinese to launch their domestic market is a way for Trump to force them into fiscal stimulus policies that stimulate global growth for the benefit of the United States. Washington can begin to contain its deficit (also helped by tariffs), keeping inflation, public debt and bond vigilantes at bay, who have already sent some warnings to Trump.