Quarterly Investment Perspective

Trade, AI, and the Road Ahead

BESSEMER TRUST

Jeffrey Mills
Chief Investment Officer

Executive Summary

- **Market volatility rose meaningfully in the first quarter, driven by heightened policy uncertainty, tariff escalation, and sharp sentiment shifts — in addition to questions about the evolution of U.S.-China AI competition.**
- **Although the probability of a recession has increased, it is not our base case. Fundamentals are currently solid — credit spreads are tight, inflation expectations are anchored, and interest rates have moved lower.**
- **While volatility may persist in the near term, we see a stronger likelihood of sustained market gains in the second half of the year. Portfolio positioning reflects a thoughtful balance between trimming strength, reinforcing core positions, and opportunistically building exposure to high-quality businesses at more attractive entry points.**

Market Volatility Surges to Start the Year

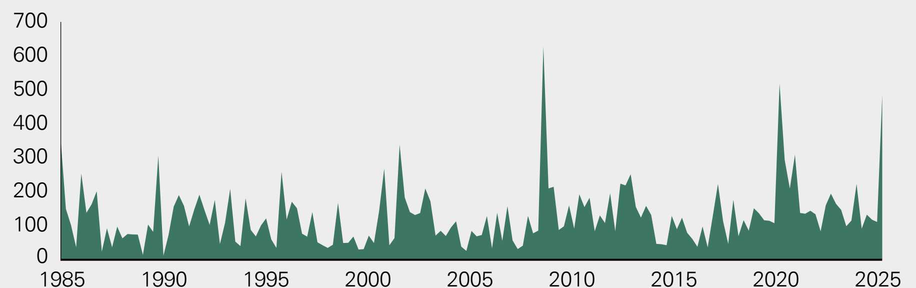
In our recent year-ahead outlook, "2025: A Strong Foundation for a Year of Transition," we wrote that "the new year is set to bring both U.S. political and geopolitical volatility given increased policy uncertainty after the U.S. elections ... this backdrop will surely create periods of heightened anxiety." Indeed, during the first quarter, the United States Policy Uncertainty Index spiked to levels seen only twice before — in 2008, during the Global Financial Crisis, and in 2020, amid the COVID-19 pandemic (Exhibit 1).

Trade policy is now the primary focus of markets, with unprecedented tariffs causing both consumers and businesses to pull back, negatively impacting sentiment. The Conference Board Consumer Confidence Index and the NFIB Small Business Optimism Index have both retreated from their post-election highs as economic uncertainty has grown. Now, with President Trump's Liberation Day announcement providing more detail on tariffs, the probability of a material impact on real economic growth has increased. Financial markets are not waiting for fundamentals to shift, with stocks selling off aggressively to start the second quarter.

A sharp rise in policy uncertainty followed reports that Chinese artificial intelligence (AI) company DeepSeek had launched a large language model (LLM) said to rival OpenAI's ChatGPT in performance — at a fraction of the cost. While the full accuracy of these claims remains in question, the launch underscores China's accelerating progress in AI and intensifies the U.S.-China AI rivalry. DeepSeek's R1 model demonstrated that high-performing LLMs can potentially be trained and deployed more efficiently, requiring fewer GPUs

Exhibit 1: Economic Policy Uncertainty Index

Key Takeaway: Elevated tariff uncertainty has sparked further concerns regarding inflation, interest rates, and their respective economic impacts.



As of March 21, 2025. The Baker, Bloom, and Davis daily news-based Economic Policy Uncertainty Index is based on newspaper mentions of economic policy uncertainty. Source: Baker, Bloom, and Davis; Bloomberg

than models such as ChatGPT-4 and Meta's LLaMA 3. This development has prompted investors to reassess the growth potential of major U.S. technology firms — including Nvidia, Microsoft, and Broadcom — whose stock prices have fallen more than 20% from recent record highs.

We explore both the shifting policy landscape and China's AI advancements in more detail on page 7.

Understanding the Ripple Effect

So far, sentiment has been the primary casualty of these challenges. However, the tariffs proposed on April 2 were much higher than investors anticipated. If left unchanged, they will act as a negative shock to growth. Precise forecasts become even more difficult as proposed tariff rates are likely subject to ongoing adjustments depending on the response of impacted countries. For now, underlying fundamentals remain stable, which supports our view that although the probability of a recession has increased, it is not our base case. In Exhibit 2, we compare soft (survey-based) economic data with hard (measurable) data. The contrast is clear — thus far, uncertainty has weighed on sentiment more than actual economic activity. The strong March jobs report underscored the current health of the U.S. economy. In the near term, however, the market will pay very little attention to fundamentals. The scale of recently proposed tariffs is so large that it will change the current trajectory of the economy if left unchanged, regardless of its prior health. That said, we believe labor market data is important, as the underlying strength of the economy may again become the most important market variable should trade policy abruptly shift — which it could.

Although recent adjustments in trade policy will likely lead to additional downside in markets, opportunities remain for investors willing to look beyond the near term. For context, the S&P 500 has averaged an 11% intra-year decline even during positive years. In 2024, for example, stocks gained 23% despite a 10% pullback in August, driven by recession fears that never materialized. This differs from recession-linked market downturns, which have averaged 36% declines since 1970 and often take years to recover. While economic growth may slow further in 2025, we do not anticipate a recession. Regardless, over the last 20 years, the S&P 500 has experienced three sell-offs of more than 20%, two of which were more than 30%. Still, stocks produced a cumulative return of more than 500% during that period.

Technology stocks have been the worst performer in 2025, with the technology sector falling 12.8% in the first quarter. Elevated valuations and evolving narratives around AI and semiconductor demand have made the sector a clear target for risk reduction. However, the U.S. equity market is far more than just large-cap technology. Although recent trade policy developments have caused broad market pressure, the equal-weighted S&P 500 continues to outperform — consistent with our expectation that earnings growth will continue to broaden, supporting greater market breadth.

Looking Ahead

While the scale and duration of additional tariffs remain uncertain, there will likely be a material impact on S&P 500 earnings growth. Companies will reduce earnings expectations in the coming months, even if simply to hedge against a very uncertain operating environment. That said, earnings were expected to grow about 11% prior to the April 2 tariff announcement, providing reasonable cushion above the 2% average earnings growth that typically precedes recessions. Encouragingly, as of the time of this writing, credit spreads — a key gauge of corporate health — remain tight and are even below the levels seen during last summer's market volatility.

The timing of policy initiatives from the Trump administration has been a challenge for markets with the prioritization of trade, immigration, and Department of Government Efficiency (DOGE) creating the potential for slower economic growth. However, at the March Federal Open Market Committee (FOMC) meeting, Federal Reserve Chair Jerome Powell provided two key reassurances. First, although the Fed raised its inflation forecast for 2025, projections for 2026 and 2027 remained unchanged — suggesting that any tariff-related inflation is likely to be temporary. Second, the Fed reiterated its readiness to support the economy if hard economic data were to show significant deterioration.

We expect investor attention to eventually shift focus toward more pro-growth policies, including potential deregulation and tax cuts. While the Department of Government Efficiency's approach has added to the uncertainty, we believe it is positive that government debt and deficits are now part of the policy conversation. With the 10-year Treasury yield retreating from its recent highs, it eases some pressure on government borrowing costs.

Exhibit 2: Sentiment vs. Economic and Market Data Relative to Their 10-Year Averages

Key Takeaway: Uncertainty is having a more pronounced impact on soft data — e.g., sentiment and survey data — relative to hard economic and market data.

	Indicator	Most Recent	10-Year Average
Sentiment Data	U.S. Economic Policy Uncertainty Index	484.0	135.8
	AAII Bull-Bear Spread	(36.5)%	1.2%
	Consumer Sentiment	57.9	82.7
	NFIB Small Business	100.7	98.1
Economic and Market Data	Real Personal Consumption YoY	3.1%	3.2%
	Non-Farm Payrolls	151.0k	153.3k
	Unemployment Rate	4.1%	4.7%
	Initial Jobless Claims	227.0k	368.5k
	Retail Sales MoM	1.0%	0.5%
	Inflation	2.8%	2.9%
	Wages	4.6%	4.0%
	Industrial Production	0.70%	0.03%
	Corporate Earnings YoY	11.6%	8.6%
	Credit Spreads	0.90	1.21

As of most recent data point for each indicator. Red indicates below 10-Year Average, green above, and yellow in line. Most recent March data point for consumer sentiment, policy uncertainty, AAII bull-bear spread, initial jobless claims, and credit spreads. Remaining data is as of February 28, 2025. Data represented as follows: consumer sentiment is sourced from University of Michigan Consumer Sentiment Index; AAII Bull-Bear Spread represents bullish investors minus bearish investors; initial jobless claims represent the 4-week moving average; corporate earnings are one-year forward earnings expectations; credit spreads are investment-grade credit spreads. Source: Bloomberg

We are likely close to a peak in negative sentiment related to trade, and the negative impact on growth and inflation, although painful in the short term, may be temporary. As this develops, the Fed may resume interest rate cuts, and investor focus will likely shift to 2026 earnings, which are projected to grow by 14% and be less affected by tariffs. While volatility may persist in the near term, we anticipate greater stability and a stronger likelihood of sustained market gains in the second half of the year.

Bessemer Portfolio Positioning

Within Bessemer portfolios, our diversified approach to equity investing continues to add value, particularly as the S&P 500 has come under pressure due to its heavy weighting in technology. While we gradually reduced our technology overweight over the course of 2024, we remain confident in several core holdings within the sector and have selectively added exposure as valuations have become more attractive.

Our international investments have provided meaningful stability, with strong performance across both emerging and developed markets. While we maintain an overweight position in U.S. equities, compelling opportunities abroad led us to reduce that overweight during the quarter. Rising U.S. policy uncertainty, attractive relative valuations, and evolving fiscal policies in Europe could support stronger relative performance in international markets. Over the long term, however, we continue to see a broader set of high-quality U.S. companies with strong secular earnings potential, reinforcing our emphasis on U.S. equities.

In fixed income, we remain focused on high-quality credit and maintaining an above-benchmark duration. We anticipate a downward bias in interest rates as economic growth slows, the Federal Reserve continues to ease policy, and tariff-driven inflation proves temporary.

Overall, portfolio positioning reflects a thoughtful balance between trimming strength, reinforcing core positions, and opportunistically building exposure to high-quality businesses at more attractive entry points. This steady, fundamentals-driven approach aims to enhance the portfolio's resilience while preserving its long-term return potential in an evolving market environment.

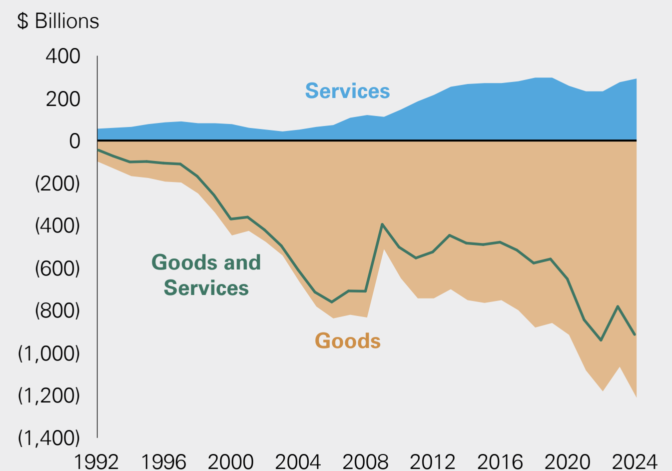
Policy: Investors Faced With Tariff Shock Before Tax Benefits

Bree Sterne, Senior Investment Strategist

President Trump's second term has begun at breakneck speed, marked by a rapid rollout of policy announcements on tariffs, immigration, government efficiency, tax reform, deregulation, and foreign affairs. Crucial to the economic and market impact is the policy mix and sequencing, particularly among trade, fiscal, and regulatory measures. Trump's first term began with deregulation and a significant tax cut, which boosted fiscal stimulus and corporate earnings, before implementing modest tariffs. But Trump 2.0 has reversed that order: The administration has launched swift and aggressive trade and immigration policies first, while the debate over tax cuts, which is primarily focused on extending existing measures, has been deferred to later in the year. As a result, initial optimism around pro-business reforms has given way to concerns about the administration's broader ambition to reshape global trade — even if it is at the expense of near-term economic and market performance.

Exhibit 3: U.S. Trade Balance

Key Takeaway: The total U.S. trade deficit has grown in recent years, a primary concern for President Trump.



As of December 31, 2024. Source: Federal Reserve Bank of St. Louis Economic Database

Tariffs, Growth, and Inflation

Anxiety related to trade policy is, in part, due to the lack of clarity around the administration's key objectives. President Trump's goals appear to include increasing tariff revenue; gaining non-economic concessions, such as enhanced border security with Mexico; protecting domestic industries, often for national security reasons; and challenging the global trade and capital flow system, which he believes has disadvantaged many American citizens.

A primary focus of Trump's trade policy is addressing bilateral trade imbalances, particularly shrinking the trillion-dollar gap between imports and exports (Exhibit 3) by encouraging other countries to purchase more U.S. goods, thereby supporting domestic manufacturing. Early trade actions targeted countries with the largest trade surpluses with the U.S., including Canada, Mexico, the European Union, and China. The administration has also been especially focused on perceived inequities in market access, such as automobiles with the European Union and lumber and dairy with Canada. Other countries with significant bilateral trade imbalances — such as Korea, Taiwan, Thailand, and Vietnam — have seen increased trade with the U.S. as businesses have shifted their supply chains away from China.

In the first quarter, Trump enacted, and in some cases partially rolled back, tariffs on imports from Canada and Mexico, imposed an additional 20% tariff on China, and introduced new levies on steel, aluminum, and automotives. On April 2, the administration announced reciprocal tariffs aimed at addressing unfair trade practices, including trade deficits, currency manipulation, and discriminatory taxes on U.S. companies. We group the administration's trade initiatives into four key categories: USMCA (Mexico and Canada), China, Reciprocal, and Sectoral:

USMCA: Since February's surprise announcement of 25% tariffs on Canadian and Mexican imports, markets have reacted to a series of shifting policies, including delays, partial rollbacks, and exemptions. Ultimately, a reprieve on USMCA-related tariffs was granted. One bright spot of the April 2 tariff announcement was that tariff rates would remain at 0% for USMCA-compliant goods (while a 25% tariff rate remains on non-USMCA-compliant goods). In response to pressure from U.S. producers who rely on integrated North American supply chains, the administration exempted the automotive industry and all goods that comply with USMCA rules.

China: In the past six weeks, President Trump has dramatically increased the tariff rate on China to more than 50%. Tariffs on China appear more permanent, reflecting a growing bipartisan U.S. consensus on China's strategic threat. China's retaliatory measures, including a 34% tariff on all imports from the U.S. and export controls on rare earth minerals, suggest that the trade war between the two countries may escalate in the near term. While a "grand bargain" may be out of reach at the moment, China appears willing to keep the door open for future negotiations that could bring modest tariff relief.

Reciprocal: On April 2, the White House introduced a new tariff framework, including a 10% baseline tariff as well as additional "reciprocal" rates based on the goods trade deficit with each country. The EU is set to face a 20% rate while several Asian countries will also see high tariff rates, including Japan (20%), South Korea (25%), Vietnam (46%), and Taiwan (32%). While the announcement sets the stage for significantly higher tariffs, the actual impact may be tempered by negotiations. Some countries, such as Vietnam and India, have signaled a desire for bilateral discussions. If implemented fully, the reciprocal tariff policy would take the average effective tariff rate from 3% at the start of the year to roughly 20%.

Sectoral: Sector-specific tariffs are expected to expand beyond steel, aluminum, and automobiles to include pharmaceuticals, semiconductors, and minerals. These measures are likely aimed at boosting tariff revenue, reducing deficits with low-duty countries (e.g., Ireland, Denmark), and encouraging the onshoring of critical industries back to the U.S.

Investment and Economic Implications

Uncertainty surrounding trade policy continues to dampen both consumer and corporate sentiment. Notably, small business uncertainty has surged to its highest levels, as firms struggle to navigate often abrupt and unpredictable tariff implementation (Exhibit 4). While this uncertainty hasn't yet translated into economic contraction, it poses meaningful risk to both equity markets and the real economy. If business confidence declines further, it could slow capital investment and dampen growth.

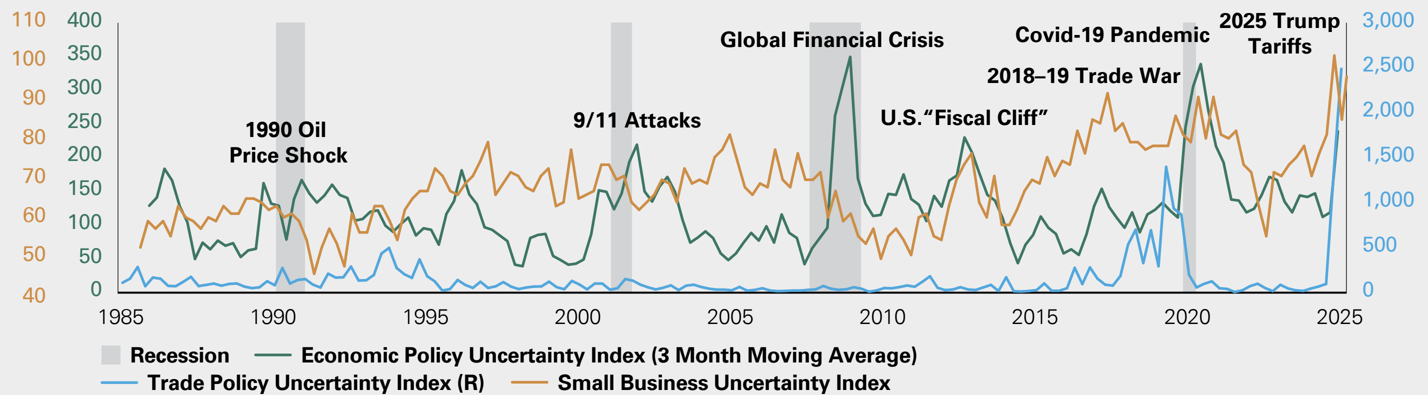
Tariff hikes can push up prices in the short term, though the effect on the inflation rate tends to be short-lived, assuming inflation expectations remain anchored. So far, they have (the five-year U.S. breakeven inflation rate is currently at 2.5%, modestly up from 2.4% pre-election and well below its 2022 peak of 3.7%), but the sheer size of the tariff price shock increases inflationary risks. Fed Chair Powell indicated that the impact of Trump's new tariffs may lead to both higher inflation and slower growth, and the Fed would wait for further clarity on the economic impact of the administration's policies, an adjustment in tone relative to prior comments that indicated the Fed was likely to view tariff-driven inflation as transitory.

Tariffs can weigh on economic growth by reducing trade, raising consumer prices, tightening financial conditions, and delaying capital investment. Their economic impact depends on duration, size, and industry exposure. The U.S., with its consumer-driven economy, is less vulnerable than manufacturing-heavy economies to retaliatory trade shocks. Still, tariffs are likely to exert meaningful drag on GDP growth, and we acknowledge the risk of recession has increased.

Tariffs are likely to impact businesses more than consumers. Imports of capital goods, industrial supplies, auto parts, and other items account for about 16% of corporate GDP, whereas imported consumer goods make up just 4% of consumer spending. Companies facing higher import costs and weaker exports are likely to face margin pressure. Some of these cost increases may be offset by supplier price cuts, foreign exchange rate adjustments, pricing power, or exemptions. We estimate that tariffs could reduce S&P 500 earnings growth from 11% to mid-single digits, while elevated uncertainty could weigh on valuation multiples.

Exhibit 4: Trade, Economic, and Small Business Uncertainty

Key Takeaway: Sustained economic and policy uncertainty could drag on economic growth.



As of March 19, 2025. The Baker, Bloom, and Davis daily news-based Economic and Trade Policy Uncertainty indexes are based on newspaper mentions of economic and trade policy uncertainty. Source: Baker, Bloom, and Davis; Bloomberg; National Federation of Independent Business

The U.S. remains a service-based economy driven by consumption, with imported consumer goods accounting for a small portion of private consumption. The labor market remains a key source of resilience: Private payrolls have held steady, and aside from modest DOGE-related layoffs, there is little evidence of broad employment weakness. However, we stand ready to adjust portfolios should trade tensions materially threaten the jobs market.

In a volatile environment, we believe active management is essential. Bessemer portfolio teams are evaluating companies' exposure to tariffs and adjusting investments accordingly. We've taken steps to reduce exposure to firms likely to be affected — for example, we are underweight Apple, which could be adversely affected by tariffs on China. Companies are also adapting — managing inventory more proactively, hedging currency risk, and enhancing legal, lobbying, and intelligence capabilities to anticipate regulatory shifts.

Lastly, it is important to acknowledge the often-overlooked positive outcomes that may result from trade policy negotiations. If other countries reduce their own tariffs in response, it could provide welcome relief for the stock market and enhance market access for U.S. firms. Countries such as India and Vietnam, for instance, may pursue such concessions. Finally, political pressure and legal challenges suggest the current approach may not be sustained. While Trump won't face voters again, many Republican lawmakers will. Political pressures may lower tolerance for extended tariff battles, and courts could rule that a universal tariff is unconstitutional.

Immigration, DOGE, and the Labor Market

In addition to trade uncertainty, recent shifts in U.S. immigration policy and the actions of DOGE have added to political instability. DOGE's efforts to streamline government operations — including abrupt agency closures, layoffs, and pauses on federal grants and contracts — have sparked legal challenges and disrupted some government functions, though the broader economic impact has been limited so far.

On the labor market front, the effects of both immigration restrictions and DOGE-related layoffs appear modest. Immigration policy tightened significantly in early 2025, with illegal border crossings falling to a 60-year low. While this has slowed the inflow of new labor, deportation rates remain consistent with previous administrations — on par with 2024 levels under Biden and lower than those under Obama — helping avoid a major shock to labor supply.

DOGE has been attributed to the layoffs of approximately 280,000 federal workers. While the cuts have affected certain regions, their overall impact is limited given that federal jobs make up just 2% of total U.S. employment.

Overall, the labor market remains balanced. The combination of slower labor supply growth and softening demand suggests that the labor market can absorb these changes without major disruption. While current DOGE actions are unlikely to tip the labor market out of equilibrium in the near term, we are monitoring the impact that tariffs could have on the labor market.

Together, tariffs and DOGE policies are likely to put upward pressure on short-term inflation and downward pressure on growth. In the coming months, we expect investor focus to shift toward more market-friendly elements of the Trump policy agenda, particularly the extension of the 2017 tax cuts. Given the larger-than-expected tariffs, additional tax cuts beyond an extension of the 2017 tax bill, such as a reduction in the corporate tax rate, are likely to be needed to support growth. While the timeline for these benefits may be slower than hoped, the Federal Reserve is well positioned to act if growth or employment conditions materially weaken.

China Technology: Resurgent Market Presents Opportunities and Complexities for U.S. Investors

Calvin C. Huang, Senior Investment Strategist, and **Bobby Jan,** Portfolio Manager

After a prolonged period of underperformance, driven by regulatory uncertainty, geopolitical tensions, and economic stagnation, China's equity markets are showing signs of renewed investor interest in 2025. Several critical developments have combined to fuel a meaningful shift in investor sentiment toward Chinese equities.

The Chinese government has introduced a series of pro-market reforms aimed at restoring confidence, including enhanced financial reporting transparency, measures to stabilize the real estate sector, and policies to accelerate technological self-reliance. Perhaps the most pivotal catalyst was the breakthrough from AI company DeepSeek, whose advancements have reignited global enthusiasm around China's technological capabilities.

Unpacking the U.S.-China Tech Rivalry: A New Chapter in Global Markets

China has firmly positioned itself as a global leader across several cutting-edge technologies, often outpacing Western counterparts. The country leads the world in fields such as 5G telecommunications, renewable energy, and electric vehicles, and dominates the global production capacity of solar panels and lithium-ion batteries.

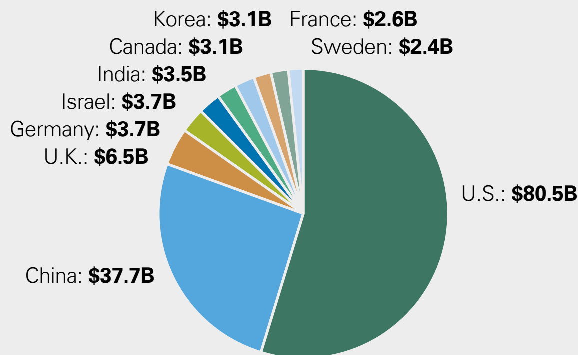
China's swift technological rise has captured Washington's attention, given its national security implications. Many of China's advancements carry dual-use potential, applicable for both civilian and military sectors. At the same time, the country's growing cyber capabilities have raised concerns about the security of U.S. government systems, infrastructure, and corporations.

In response, the U.S. government has designated China as both a strategic competitor and national security threat, with artificial intelligence as the central battleground. Beijing has invested heavily in AI research, infrastructure, and talent, prompting U.S. policymakers to impose export restrictions on semiconductors and cloud technologies. These curbs — impacting companies such as Nvidia and AMD — aim to slow China's progress in developing next-generation AI by limiting access to high-performance GPUs and related technologies. As a result, China has accelerated its domestic semiconductor efforts.

Despite China's impressive strides, the U.S. continues to lead in global technological innovation. U.S. companies remain at the forefront of producing cutting-edge chips essential for AI and high-performance computing, while firms such as Microsoft, Google, and Apple continue to shape the software landscape through advancements in operating systems, AI-driven applications, and cloud-based services.

Exhibit 5: Venture Capital Investment in AI by Country, 2024 (USD)

Key Takeaway: The U.S. has a leading venture capital ecosystem.



As of December 10, 2024. Source: EMSNow

The U.S. also enjoys structural advantages through its established world-class research ecosystem. Anchored by institutions such as MIT, Stanford, UC Berkeley, and Carnegie Mellon, the U.S. is home to seven of the top 10 AI research organizations, compared to two in China and one in the U.K.[1] Moreover, the U.S. is the global leader in venture capital activity — accounting for over half of the world's AI-related venture capital investments (Exhibit 5).

With an open economy, strong intellectual property protections, and adherence to the rule of law, the U.S. continues to attract top global academic and professional talent. While China and the U.S. each produce roughly 25% of the world's elite AI researchers, 57% of these researchers currently work in the U.S., compared to only 12% in China (Exhibit 6). This unrivaled ability to attract global talent has helped the U.S. maintain its leadership in key technologies and quickly close the gap in others.

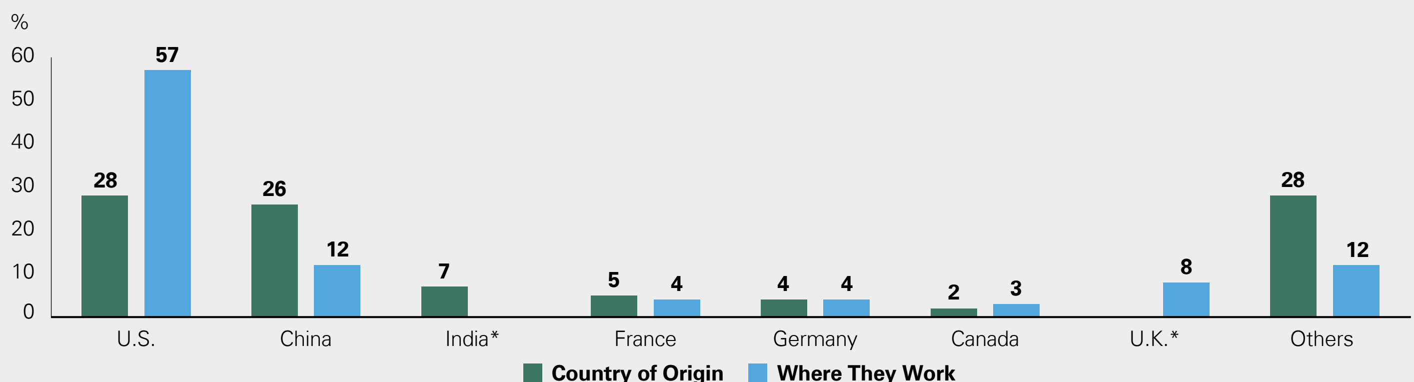
New Frontiers in AI and EVs: Lessons From DeepSeek, Huawei, and BYD

On January 27, 2025, semiconductor powerhouse Nvidia — valued at over $3 trillion one month prior — saw its stock price plummet by 17%, wiping out nearly $600 billion in market value in the largest single-day loss for any U.S. company. The catalyst was DeepSeek's launch of R1, an open-source AI model that challenged U.S. dominance in AI. Built using less powerful Nvidia GPUs, R1 delivered world-class performance, raising concerns that more efficient models could reduce demand for Nvidia's high-end chips.

While disruptive in the short term, DeepSeek's R1 may ultimately fuel further innovation and increase compute demand — an example of Jevons' paradox, which states that efficiency gains often drive greater resource use.

Exhibit 6: Leading Countries of Origin for Elite AI Researchers and Where They Work

Key Takeaway: Although the U.S. and China both produce many elite AI researchers, the majority of the top talent chooses to work in the U.S.



* The percentage of top AI researchers working in India and originating from the U.K. is aggregated in other countries.
As of December 31, 2023. Source: Paulson Institute

[1] Paulson Institute.

Indeed, a February 2025 McKinsey report, released shortly after DeepSeek's announcement, projects that AI data center and GPU demand will grow at a 22% CAGR through 2030 (Exhibit 7). Much like Sputnik's 1957 launch, which spurred American research and the Apollo program, R1 may serve as a new "Sputnik moment" for the U.S., catalyzing transformative breakthroughs and revitalizing technological leadership.

Against this backdrop, investors must cultivate a nuanced perspective on China's technology sector.

Consider Huawei, for example: After facing U.S. sanctions that temporarily allowed Apple to take the lead in China's smartphone market, Huawei rebounded with strong domestic innovation. In 2024, the company generated $118 billion in revenue — a 22% year-over-year increase — and reclaimed the top smartphone spot in its home market, reshaping regional and global competition.

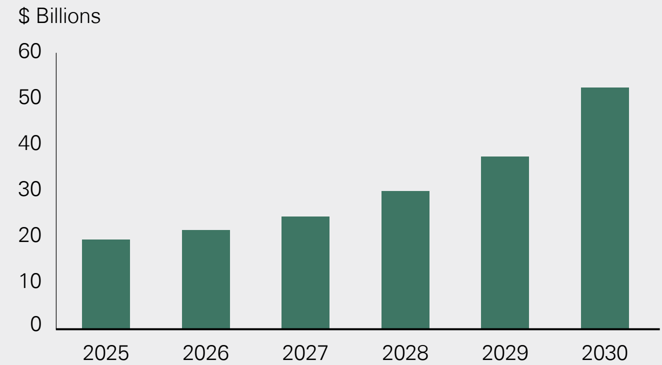
BYD's ascension in electric vehicles offers another compelling example. In 2024, BYD delivered over 4.2 million battery-electric and plug-in hybrid cars worldwide — a 41% jump — while Tesla's deliveries slipped roughly 1% to 1.8 million. The competition intensified in February 2025 with the launch of "God's Eye," BYD's Level 2 self-driving system, offered at no cost for select models, including vehicles priced below $10,000. For comparison, Tesla charges $99 per month for comparable self-driving features. A month later, BYD unveiled a battery capable of delivering 292 miles of range after just a five-minute charge, rolling it out in April on vehicles starting at $37,000. These bold innovations and aggressive pricing strategies are prompting investors to reassess Tesla's market positioning.

Investment Outlook

As Washington considers containment measures, U.S. investors face the challenge of balancing geopolitical risks with compelling return potential. China's equity markets, fueled by technological innovation and supportive government policies, are beginning to regain investor confidence. In response, Bessemer has increased its exposure to select Chinese technology stocks, including Alibaba, aiming to capture opportunities in what appears to be a technology-driven economic resurgence.

Exhibit 7: Estimated Global Demand for GPU-as-a-Service (GPUaaS)

Key Takeaway: Global demand for AI datacenter-related GPUs is still forecasted to grow at a 22% CAGR despite the recent DeepSeek news.



As of February 28, 2025. Source: McKinsey & Company

While technology has driven the current rally, early indications point to a broader economic recovery. In mid-March, data from China's National Bureau of Statistics and a Deutsche Bank survey indicated improving consumer sentiment, with retail sales accelerating and consumer confidence rising significantly in the first quarter. A sustained recovery among Chinese consumers will likely benefit a broader range of Chinese equities, along with U.S. and European companies with significant exposure to the Chinese consumer.

A sustained rally in Chinese stocks could divert capital from U.S. equities, particularly the "Magnificent Seven," which have in recent years powered U.S. performance and the narrative of American exceptionalism. However, that premise is under scrutiny, as these companies have lagged the S&P 500 this year. While near-term market rotations may seem indiscriminate, a deeper review of the Magnificent Seven underscores the importance of focusing on individual fundamentals rather than making broad assumptions.

Among the group, Tesla and Apple have been notably affected by intensifying Chinese competition. Tesla's financial performance has suffered, leading Bessemer's equity teams to adopt a more cautious stance, as it remains a position we have not owned in portfolios. Apple's position

in China has been impaired by Huawei, though the impact has been moderate given Apple's strength in other markets. Still, Huawei's potential international expansion bears close monitoring for both Apple and its rivals.

Meanwhile, Microsoft, Amazon, Alphabet, Nvidia, and Meta appear well positioned to benefit from China's rapid technological breakthroughs — especially in AI. Through Microsoft Azure, Amazon Web Services, and Alphabet's Google Cloud Platform, these companies can harness and distribute emerging innovations, with Nvidia supplying much of the computing infrastructure that powers these cloud services. Each firm also has unique avenues for leveraging Chinese tech developments: Microsoft in enterprise software, Amazon in logistics and e-commerce, Alphabet in search and self-driving vehicles, and Meta in social media and virtual experiences. Moreover, they currently face limited competition from Chinese firms in their core markets, though China's expanding global reach calls for ongoing vigilance.

Examining 2025 Developed International Outperformance

Ryan Feit, Equity Analyst, and **Madeline Simone,** Investment Strategist

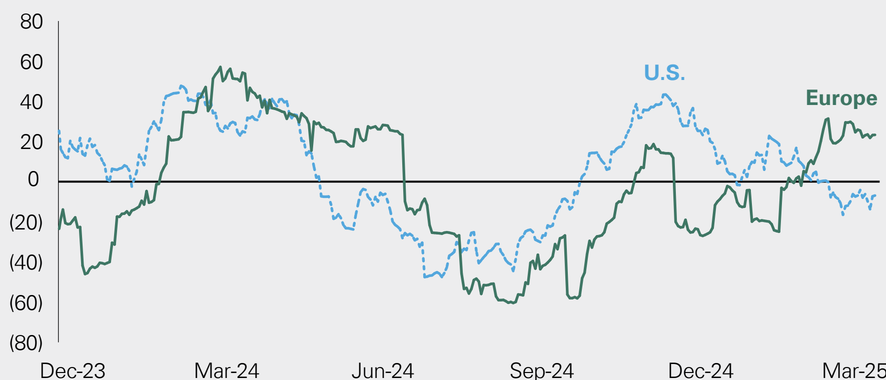
At the start of 2025, the economic and market outlook for Europe was challenged, while expectations for the U.S. were elevated. Thus far, the opposite has played out (Exhibit 8).

Though there are no signs of material weakness in the U.S., sentiment-driven selling, elevated valuations, combined with a spike in relative policy uncertainty, have led to nearly 12% of underperformance by U.S. equities relative to their developed international counterparts.

At the start of the year, only 8% of market participants were anticipating that European equities would outperform. However, fundamentals are improving. Europe's GDP growth is expected to accelerate through 2027, and earnings are projected to be in line with the U.S. — a dynamic last seen in 2022, when Europe outperformed. A €1 trillion fiscal support program in Germany should also help support growth in countries that struggled last year and support key industries including defense, banks, and infrastructure.

Exhibit 8: Economic Surprise Indexes

Key Takeaway: Economic activity has surprised to the upside in Europe, paired with valuations at a historical discount to the U.S.



	U.S.	Europe
GDP Estimates for 2025	2.2%	0.9%
Valuations	20.5x	14.5x

As of February 19, 2025. Source: Bloomberg

Given early signs of improving conditions and cheaper valuations, we have increased our exposure to Europe and are modestly trimming our U.S. exposure. However, we recognize risks to this outlook, as punitive tariffs could hinder economic growth — particularly for export-oriented economies such as Germany — and given the deep economic ties between the U.S. and Europe.

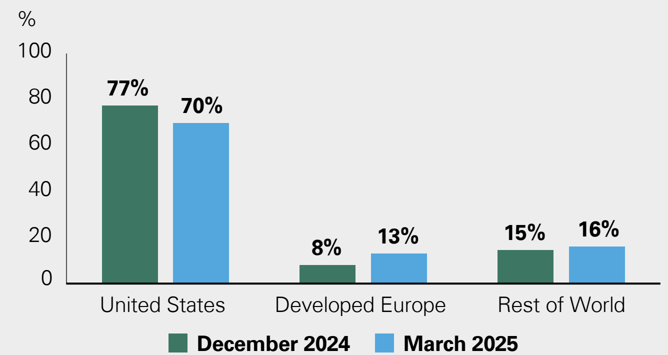
We believe Bessemer holding ING Groep NV is poised to benefit from stronger eurozone growth through increased demand for its banking products, supporting both strong lending and earnings growth.

Furthermore, we have increased exposure to areas of the portfolio that can benefit from increased fiscal and defense spending in Germany, including a German bank that can benefit from stronger economic growth in the country. Additionally, Bessemer holding Rolls-Royce Holdings plc has a historical market leadership position providing engines for wide-body aircraft and can benefit from increased defense spending.

While we've increased international exposure, we remain overweight the U.S. — a reflection of both longer-term structural challenges in several international economies and the continued strength, innovation, and earnings power of high-quality U.S. companies (Exhibit 9).

Exhibit 9: Bessemer All Equity Regional Positioning (Dec. 2024 vs. Mar. 2025)

Key Takeaway: Though portfolios remain overweight the U.S., we have increased our international exposure since the start of the year.



As of March 31, 2025. Source: Bessemer Trust, FactSet

Parting Thoughts

Jeffrey Mills, Chief Investment Officer

Thank you for reading this edition of our Quarterly Investment Perspective. As always, we'll continue to track market and economic developments closely and share our views through written updates, videos, and interactive forums. We welcome your engagement. Please contact your client advisor with any questions you may have.

About Our Authors

Jeffrey Mills
Chief Investment Officer

Mr. Mills oversees the firm's investment research, asset allocation, and portfolio management. He is a member of the firm's Executive Committee and Leadership Council.

Bree Sterne
Senior Investment Strategist

Ms. Sterne performs in-depth macroeconomic research and financial market analysis to deliver customized asset allocation and investment recommendations to clients.

Calvin C. Huang
Senior Investment Strategist

Mr. Huang performs in-depth macroeconomic research and financial market analysis to deliver customized asset allocation and investment recommendations to clients.

Bobby Jan
Portfolio Manager

Mr. Jan works collaboratively with a team of highly experienced analysts and researchers to manage our U.S. Select portfolio.

Ryan Feit
Equity Analyst

Mr. Feit performs in-depth analysis of equities as well as provides investment recommendations for the Large Cap Strategies portfolio.

Madeline Simone
Investment Strategist

Ms. Simone performs in-depth macroeconomic research and financial market analysis to deliver customized asset allocation and investment recommendations to clients.

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