INDOSUEZ
WEALTH MANAGEMENT

Marketing Material

MONTHLY HOUSE VIEW

February 2025

The world pays the toll

Architects of Wealth

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THE WORLD PAYS THE TOLL

Delphine
DI PIZIO TIGER
Global Head
of Asset Management

Dear Reader,

The financial market adage, "buy the rumour, sell the news," underscores the market's tendency to stay one step ahead. It consistently anticipates future events, though with varying degrees of accuracy. Since the Federal Reserve (Fed) began lowering its key interest rates last September, US 10-year Treasury yields have actually risen by one point, from 3.6% to 4.6%. This reflects the market's initial expectation of monetary easing, which has now shifted towards anticipating higher future inflation, an increased risk premium on long-term bonds tied to future growth, the implementation of tariffs and the debt burden. This shift is part of a broader adjustment in yields. One notable exception is China, which is experiencing structural economic slowdown and struggling to generate price increases.

The main concern for investors is inflation. Although it has decreased globally, from over 10% at the end of 2022 to 4.4% today, it remains difficult to bring it down to the 2% target desired by the major central banks. It is quite complicated to predict how the wind will blow in the United States, considering the opposing effects expected from the implementation of inflationary tariffs and the increase in oil production, which, conversely, should lead to lower prices.

One thing is certain: public debt is on the rise! Governments, faced with ageing societies, increased defence spending, and the energy transition, must also contend with populist resistance to spending cuts. This climate has forced Justin Trudeau, the Canadian Prime Minister, to resign and has also caused governmental instability in France. In the United States, a budget battle looms, with a new president advocating for tax cuts, despite an already high deficit of around 7% of GDP.

The debt-to-GDP ratio of major wealthy economies is approaching 100%, a threshold where a one-point increase in bond yields could cost 1% of GDP annually. This represents more than half of current European defence budgets. Growth is therefore necessary in the debt reduction equation, but at what cost? It is a fact that US productivity has increased by 10% in five years, fuelling American growth. Developments in artificial intelligence (AI) could further boost it. However, as fires in California rage at the time of writing, a turning point in history is being reached. In January, bills aimed at reducing water and electricity consumption for data centres and AI were proposed in California. Until now, agriculture has been the main target of these restrictions, but in the future, AI will increasingly be in the spotlight due to its high-water consumption. The United States currently hosts over 5'000 data centres that require significant amounts of water for cooling as much of the energy they consume turns into heat. California alone has nearly 300 data centres (in comparison, the entire country of China has about 450) that consume several million cubic metres of water annually. Even if no longer driven by political conviction, the realisation that the fires in California could cost the United States up to one point of GDP means that the energy transition is still partly in motion for economic reasons.

In an environment where all countries exporting to the United States could potentially be affected by tariff increases, and with Donald Trump's possible rise to 25% on imports from Canada and Mexico potentially adding up to one point of inflation in 2025, this edition takes a contrarian view to the prevailing pessimism about Europe. We offer an analysis of the catalysts that could reignite the Old Continent.

Wishing you an enjoyable read!

EUROPE: WHAT IF?

Bénédicte KUKLA
Senior Investment Officer

Amid the excitement generated by the resilience of the US economy and the stimulus firepower in China, Europe was clearly the underdog for investors in 2024. However, as we step into 2025, European stocks are showing impressive performance. Let's explore what could be the potential drivers for a more sustained rally.

Europe is facing a visible confidence crisis, exacerbated by political instability in key countries like France and Germany. The Old Continent is also grappling with structural issues that have eroded productivity over time, widening the gap in innovation and competitiveness with the US. Euro Area GDP is expected to grow by less than 1% in 2025 (Chart 1, page 5), with uncertainty weighing on consumption and investment prospects. European stocks are making a strong comeback in 2025, a relief rally after six months of bad news, partly driven by a more lenient Trump on tariffs with Europe. But can this rally last? Here are some potential catalysts for 2025; nothing is set in stone yet.

US TARIFFS: A MORE PRAGMATIC TRUMP?

The tariffs that President Trump has threatened to impose on the European Union (EU) could pose a significant obstacle for a region already facing modest economic growth. The Peterson Institute for International Economics estimated that implementing a universal 10% increase in US tariffs on imports of goods and services would reduce German GDP by one percentage point in 2026. We believe that President Trump's tariffs are more of a negotiating tactic, possibly to secure more American energy or defence equipment imports, and thus it is possible that Europe could still avoid this messy trade war, limiting itself to a few tariff hikes on automobiles. This scenario would be a relief for markets and provide more visibility for corporate investment prospects. The best-case scenario for European exporters, however, would be for the US administration to increase tariffs on all imports except those from the EU – we are watching and waiting for President Trump's decisions.

TRUMP'S TARIFFS:
1 percentage point of German GDP at stake in 2026

GERMAN DEBT BRAKE: CULTURAL CHANGE

The elections on 23 February are crucial for Germany, which has struggled since the pandemic due to a lack of competitiveness stemming from the energy crisis, growing pressure from China, and a deficit of investment and skilled workers, despite the influx of immigrants. The tripartite coalition that was in power since 2021 has failed to agree on the necessary stimulus measures due to the "debt brake", a constitutional rule limiting the deficit to 0.35% of GDP per year. Amending this rule requires a two-thirds majority in parliament, which has not been achievable so far. The centre-right CDU/CSU, recognising the need for reform, is expected to win the most votes, but not a majority, especially as the far-right AfD gains ground with anti-immigration and government-reduction rhetoric.

Reforming the debt brake could be possible if the CDU/CSU, the centre-left SDP and the Greens secure a two-thirds majority. If the reform fails, a "state of emergency" could alternatively be declared in 2025 to create a special fund exempt from the debt brake requirements, aimed at defence and infrastructure spending. This could only require a simple majority in parliament, although it could also spark debates with EU rules. The government could thus release about 5% of GDP[1]. With the budget validated in the summer of 2025, the impacts would be felt in 2026.

1 - Estimated in a 2022 Bundesbank note on the options for the debt brake reform.

In German, the word for "DEBT" also means "GUILT"

The CDU/CSU also proposes deregulation and reducing corporate tax from 30% to 25%. A potential return to nuclear energy to reduce energy costs is also being considered, but stimulating domestic demand remains little discussed. Ending electoral uncertainty and implementing slightly accommodating pro-business fiscal policies could benefit the economy and stock markets. However, large-scale fiscal stimulus remains unlikely due to the conservative stance of the CDU/CSU, and significant progress on joint European debt is seen as politically difficult in the current German context.

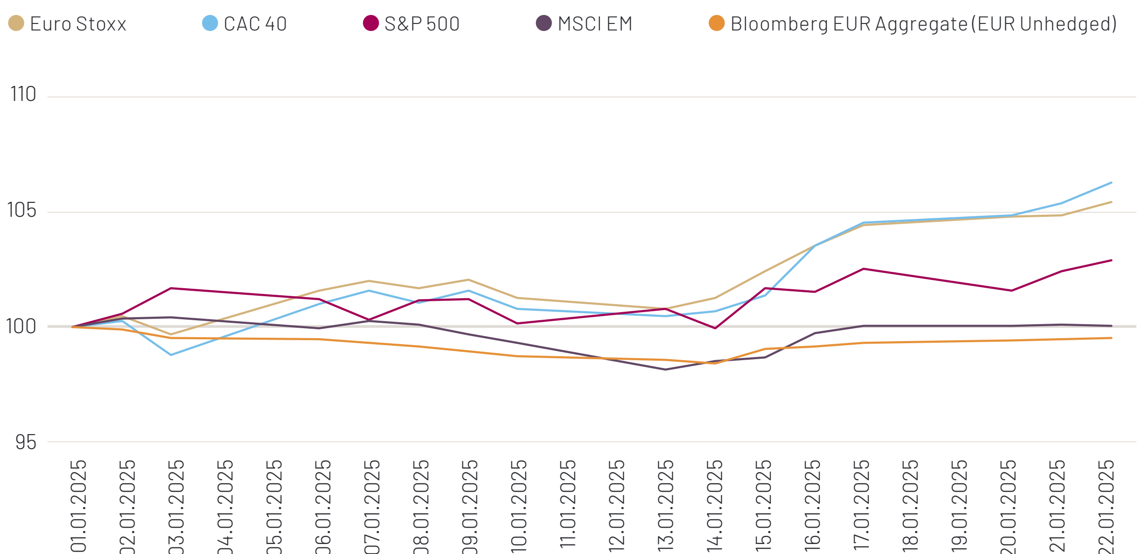
CEASEFIRE IN UKRAINE

The election of Donald Trump has revived hopes for a ceasefire in Ukraine, which could restore confidence in Europe after the long conflict. While energy prices could stabilise, it is unlikely that the energy price competitiveness gap in Europe will disappear, as the region will continue to favour diversified, but more costly energy sources, rather than reverting to energy dependence on Russia. Nevertheless, the question remains as to who will finance the estimated 700 billion dollars needed for Ukraine's reconstruction. This could benefit European construction and equipment industries.

CONCLUSION: A WAIT-AND-SEE APPROACH

Despite still high uncertainties, European stocks are not necessarily cheap. The price-to-earnings ratio is lower than that of the US, but this is mostly explained by the sectoral composition. We maintain our preference for US stocks, which benefit from high economic growth potential. However, Europe can offer an attractive investment opportunity for diversification. We thus focus on stock selection while waiting for the unlocking of certain catalysts and an economic growth recovery expected for 2026.

CHART 1: EUROPEAN STOCK MARKETS BOUNCE BACK IN 2025? NET RETURNS, 100=01.01.2025, POINTS

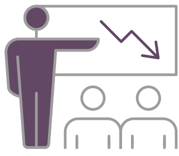


Source: Bloomberg, Indosuez Wealth Management.

THE MACRO-MARKET TANGO

Lucas MERIC
Investment Strategist

American exceptionalism and the rise to power of Donald Trump, whose numerous measures are deemed inflationary, are once again fuelling investors' fears that inflation prospects will not allow the Federal Reserve (Fed) to lower its key interest rates. This development is reminiscent of the significant fluctuations in investors' macroeconomic expectations in recent years, which have so far vindicated inertia.



Is the "GOOD MACRO NEWS" is BAD MACRO NEWS" back again?

ONCE UPON A TIME, A RECESSION

On 18 September 2024, as investor confidence in the US economy took a hit following a series of disappointing employment reports since the summer, the Fed decided to lower its key interest rate by 50 basis points (bps), more than expected, despite an economy growing at nearly 3% (annualised) since April. A surprise for economists, but not for the markets, which at that moment were expecting another eight rate cuts by the end of 2025! Investors' attention was focused on one risk: recession.

Since then, this risk has been brushed aside: a 3.1% growth (annualised) in Q3 2024, a rebound in job creation, and an S&P 500 continuing to flirt with historic highs. Surprisingly, while the start of the Fed's rate-cutting cycle has almost always been followed by a drop in the US 10-year yield, it has since rebounded by 100 bps, approaching the 5% mark by mid-January. Such strong growth and inflation dynamics imply a return to an environment where good macroeconomic data means more rigid inflation, thus a more hawkish Fed, and ultimately a risk to risky asset valuations.

THE PRINCIPLE OF MARKET EXPECTATION FEEDBACK

This evolution reflects the oscillation of investors' macroeconomic expectations in recent years, resulting from a peculiar cycle characterised by strong dependence on Fed and market data, where each cyclical trend can be challenged by a handful of often noisy data points. During the summer of 2023, a major risk: the overheating of the US economy, with the market almost anticipating rate hikes. A few months later, good inflation figures and its immaculate disinflation, with the market anticipating seven rate cuts for 2024.

While financial markets are characterised by their anticipation capacity, in the market paradigm of recent years, these anticipations have tended to become exaggerated based on a few macroeconomic data points pointing in one direction or another. These exaggerations are reflected in the highly variable expectations of the Fed's rate path (Chart 2, page 7), which stands out against the inertia observed in economists' expectations. A cat-and-mouse game between markets and the central bank, reminiscent of Bank of England Governor Lord Mervyn King's early 2000s reference to Diego Maradona's legendary action against England at the 1986 World Cup.

TABLE 1: MACROECONOMIC FORECAST 2024 - 2026, %

● Downward forecasts since November ● Upward forecasts since November

	GDP			INFLATION		
	2024	2025	2026	2024	2025	2026
United States	2.7%	2.3%	2.1%	2.9%	2.4%	2.4%
Euro Area	0.7%	0.8%	1.2%	2.4%	2.0%	2.0%
China	5.0%	4.7%	4.5%	4.5%	1.8%	1.5%
World	3.2%	2.9%	3.0%	-	-	-

Source: Indosuez Wealth Management.

By TIGHTENING financial conditions, the MARKETS are doing the Fed's job

From the middle of the field, the brilliant Argentine dribbled past three English players before scoring the winning goal. Remarkably, while the English defenders took turns anticipating Maradona's direction, he managed to head straight for the goal thanks to his feinting ability.

Indeed, the Fed's projections have been characterised by inertia, allowing market expectations to do the work for it. In this paradigm of oscillating investor macroeconomic expectations, the key enabler is: financial conditions. As the market amplifies its cyclical expectations to extreme levels, it inadvertently creates the conditions for its own reversal.

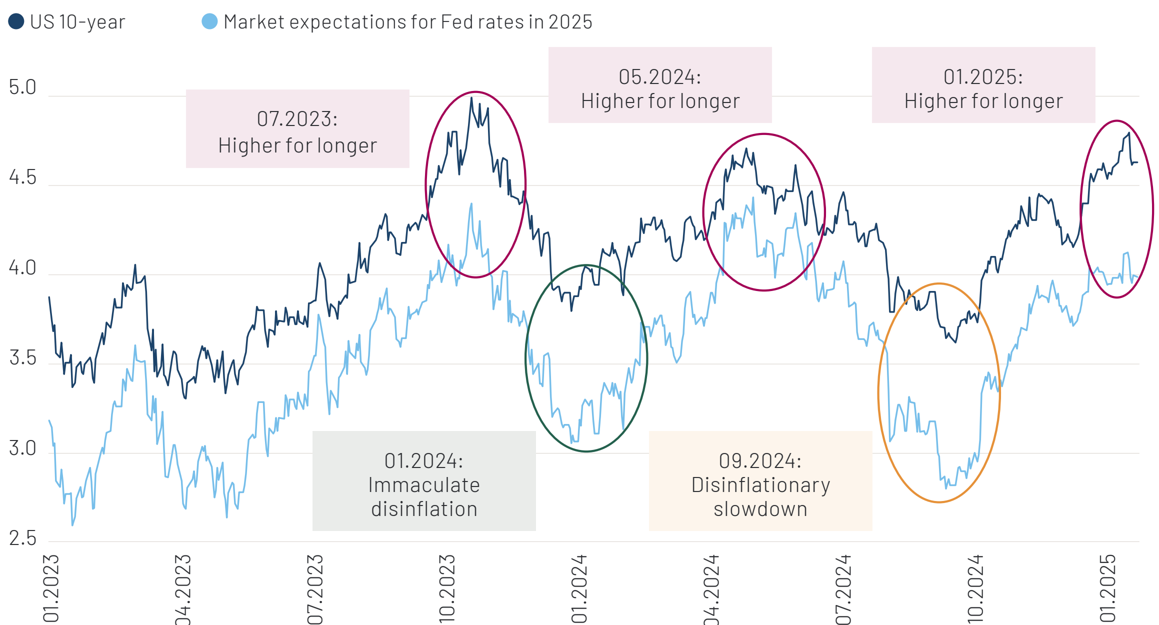
DISINFLATION REMAINS OUR CENTRAL SCENARIO

Thus, since mid-September 2024, the surge in the US 10-year borrowing rate, central to household and business financing in a highly market-financed economy, has resulted in a notable tightening of financial conditions that should ultimately act as a brake on strong US growth and consequently on inflation. At the time of writing, the risk of economic overheating remains in investors' minds as growth and inflation forecasts have been continuously revised upwards in recent weeks, also justified by the election of Donald Trump, deemed reflationary, with the market now anticipating a floor of 4% for Fed rates in the coming years.

The US economy is resilient, and it is not impossible that in the coming weeks, solid macroeconomic data will fuel these inflation fears, weighing on both bonds and risky assets.

Developments that would, in our view, present potential entry points. Indeed, we continue to anticipate sustained disinflation, enabled by a rebalanced labour market, a slowdown in the housing component, and some base effects on services. This dynamic should be accompanied by the tightening of financial conditions, reassuring investors about inflation prospects. If this is the case and considering the mechanisms described above, two scenarios exist for the markets: immaculate disinflation, positive for both equities and bonds, or disinflation enabled by economic slowdown, which would be positive for bonds, possibly also for equities in the short-term, although in this scenario, there remains a risk that the market may exaggerate the slowdown, reintroducing a potential recession into risk scenarios.

CHART 2: HIGH VOLATILITY OF MARKET EXPECTATIONS SINCE 2023



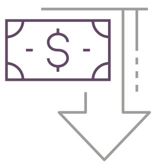
Source: Bloomberg, Indosuez Wealth Management.

BOND MARKETS RECONNECT WITH VOLATILITY

Thomas GIQUEL
Head of Fixed Income

With the contribution
of the Fixed Income Team

Reconstitution of the term premium, strong macroeconomic fundamentals, and rising underlying real rate: These are the three key factors behind the increase in long-term US interest rates. The US yield curve is returning to a conventional shape after years of distortion caused by Federal Reserve (Fed) interventions.



The US CONGRESS anticipates a deficit of USD 1.9 TRILLION IN 2025

The Fed's final meeting of 2024, which took on a relatively hawkish tone, has prompted a rise in long-term US interest rates. Remaining attentive to the latest macroeconomic data in the absence of market shocks or disruptions to the US economy, the Fed continues its "data-dependent" approach. Under this approach, conflicting signals from employment figures (re-acceleration at the end of 2024) and inflation (more moderate than anticipated) are generating volatility in monetary policy expectations. Indosuez Wealth Management's central scenario now anticipates two 25 basis point (bps) cuts in 2025.

This movement has spread across all developed markets. The GILT[2], the symbol of the 10-year British rate, is approaching the psychological level of 5%. One must go back to the summer of 2008 to find this market level. The stress episode of September 2022, which led to the resignation of Liz Truss and her government, is now a distant memory. Without being overly pessimistic, the sustainability of British debt could become a concern for the markets over the course of the year.

In continental Europe, the European Central Bank (ECB) is continuing its policy of reducing interest rates by 25 bps at each meeting. The economic outlook for the Euro Area at the beginning of 2025 remains uncertain. Germany faces political uncertainty with upcoming elections, while France is also experiencing political tensions. Furthermore, after an excellent 2024, Spain and Portugal are seeing their growth slow down. According to Indosuez Wealth Management's central scenario, short-term rates are expected to stabilise at 1.75% in 2025.

Long-term rates are being influenced by the increases described above in the United States and the United Kingdom. Europe is experiencing the effects of the ongoing normalisation in the United States. The ECB has already started to reduce the size of its balance sheet and, consequently, its impact on the markets (Chart 3, page 9). The financing needs of European states are increasing due to public deficits. The combined effect of the ECB's gradual disengagement and sovereign issuances is lengthening the market's duration. The rise in yields in the Euro Area also reflects an adjustment to a new reality.

CREDIT MARKETS

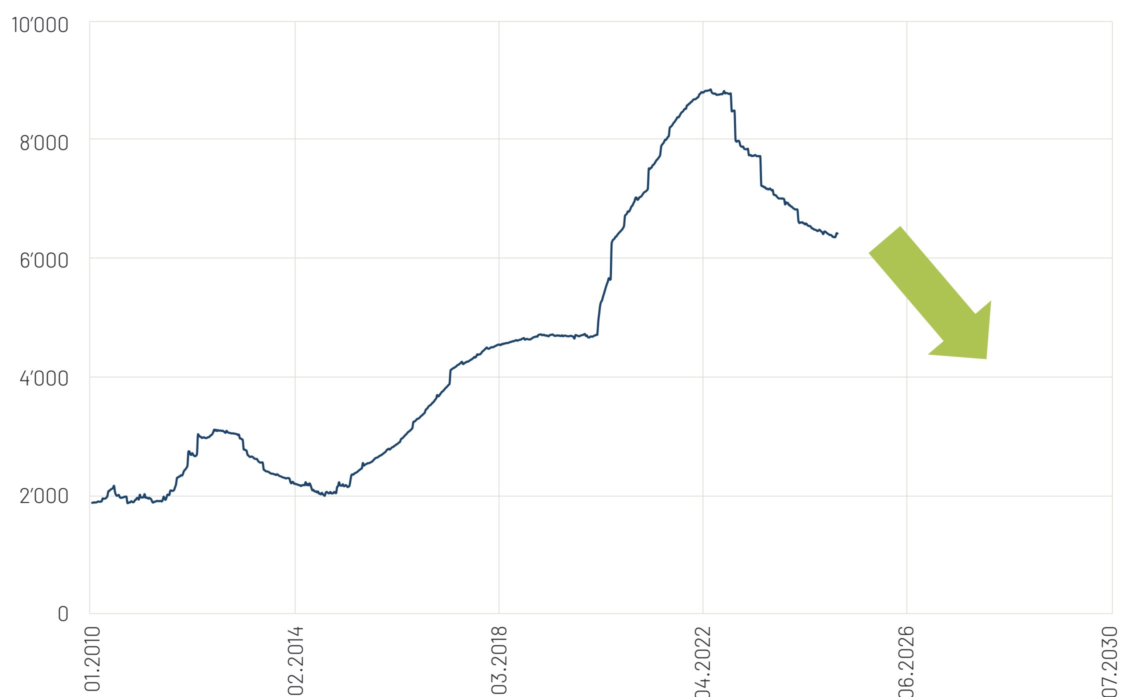
Unsurprisingly, international credit markets are feeling the impact of rising underlying rates while attracting investors seeking higher yields. Across all regions of the globe—Asia, Europe, and the United States — the strong financing needs are met by insatiable demand. Whether institutional or private, investors are locking in current yield rates in anticipation of central bank rate cuts. Activity in the sub-segment of subordinated debt, both financial and corporate, has exceeded expectations at the start of the year. The high-yield market also indicates a promising first quarter, despite significantly lower flows compared to other segments. Default rates, as anticipated by rating agencies, are expected to remain around 3% throughout the year. Given a spread of approximately 300 bps on iTraxx derivative indices at the time of writing, investors are benefiting from an over-remuneration relative to the market's implied default rate of around 5% (based on a long-term recovery rate of 40%).

2 - UK Government liability denominated in sterling.

From a sectoral perspective, the initial results published by US banks are of very high quality, still driven by market activities. The first cost estimates for the Los Angeles fires range between 30 and 50 billion dollars (source: Citigroup). The impact on reinsurance companies, whose activities are by definition global, is estimated to exceed 10 billion dollars. Players in this sector have sufficient financial resources to cope with the situation. In Europe, the ECB has launched its stress-test campaign for 2025, covering 96 institutions.

After a remarkable outperformance in 2024 (455 bps of excess return over the year), the European real estate sector remains a strong investment conviction for 2025. Real estate companies actively managed their liabilities last year and have the capacity to manage their asset portfolios more actively this year. A resurgence in mergers and acquisitions within the sector is likely.

CHART 3: ECB BALANCE SHEET, BILLION EUROS



Source: Bloomberg, Indosuez Wealth Management.

THE TRUMP 2.0 ERA

Laura CORRIERAS
Equity Portfolio Manager

With the contribution of the Equity Team

2025 has started off on the right foot for equity markets. The MSCI World Index has already posted a +2.2% gain since the beginning of the year, with Europe leading the way. However, the arrival of the new president, Donald Trump, at the White House and the intensification of the quarterly earnings season could introduce short-term volatility, even though recent US macroeconomic and microeconomic data have been encouraging.

WEAKNESS OF THE EURO: Beneficial for European companies?

EUROPE

The election of Donald Trump has reignited questions about political leadership in Europe. The return of "America First" with the possible introduction of new tariffs, along with a more isolationist US foreign policy, could undermine the cohesion of the European Union.

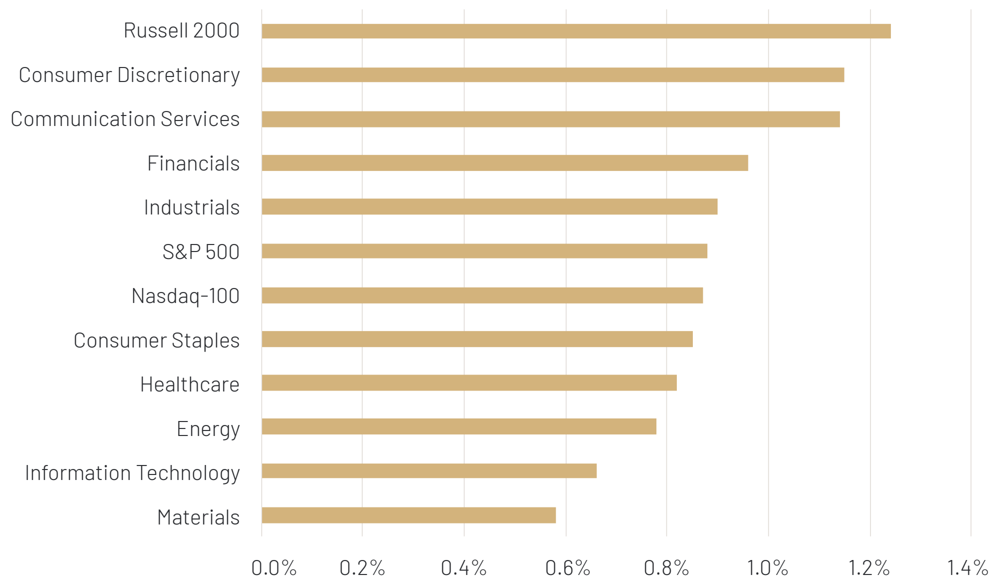
However, the anticipated legislative elections in Germany on 23 February could mark a major political turning point for the region. Unlike the situation in France, the largest economy in the Euro Area has healthy public finances, and a new pro-growth government could repeal the constitutional debt brake (see Focus on page 4). This would provide greater fiscal flexibility, allowing for new support measures to help lift the economy out of stagnation.

In the short-term, the weakness of the euro is beneficial for the competitiveness of European exporting companies. Finally, the expectation of further stimulus measures in China would provide additional support. But at this stage, investor sentiment remains cautious.

UNITED STATES

On 20 January, Donald Trump became the 47th President of the United States. This news has been well received by investors. From a macroeconomic perspective, the new administration suggests a favourable growth environment. The president, seen as "pro-business," aims to ease regulations across all sectors, which could positively impact the business climate and, in the long run, investment decisions (such as a resurgence of mergers and acquisitions).

CHART 4: EPS SENSITIVITY TO A 1 PERCENTAGE POINT CHANGE IN CORPORATE TAX RATE, %



Note: Estimated impact on earnings from a 1 percentage point change in the statutory tax rate.

Source: Goldman Sachs, Indosuez Wealth Management.

One of the campaign promises is to lower corporate taxes, which would be highly beneficial for small and medium-sized enterprises given their domestic focus (Chart 4, page 10).

If Donald Trump's proposal to reduce the corporate tax rate from 21% to 15% were adopted, it would increase the earnings per share (EPS) of companies in the Russell 2000 by an average of approximately 7%. However, caution must be exercised regarding the inflationary risks associated with reindustrialisation measures or the implementation of new tariffs. If such risks materialise, the Federal Reserve's (Fed) ability to continue its monetary normalisation could be constrained, and higher interest rates for a longer period ("higher for longer") could impact equity markets.

15%
EARNINGS GROWTH
for 2025 in the United States

From a microeconomic perspective, earnings growth estimates for the year 2025 are close to +15% in the United States for the MSCI US and around +25% for the Nasdaq technology Index, which is more than double that of Europe (Chart 5).

ASIA

The arrival of Donald Trump increases uncertainties in the Asian region, particularly concerning China, a major trade rival of the United States. However, the extent of future coercive measures against China could differ from electoral declarations. Although Donald Trump has promised high tariffs on Chinese goods (up to 60%), the reality could be more nuanced, with transactional negotiations in exchange for concessions. That said, Asian equities are likely to remain volatile until the new administration's real intentions become clear.

Meanwhile, China is expected to continue focusing on its domestic economy (stabilising the real estate market, boosting domestic consumption) and expanding exports to other Asian countries. India also presents certain attractions, with an economy more focused on the emergence of a middle class, potentially making it more resilient to global trade tensions.

Despite the uncertainty, the fundamentals of Asian emerging markets remain attractive, particularly given the growth differential with developed economies.

INVESTMENT STYLES

The election of Donald Trump has already fuelled a market rebound towards "Value/Cyclical" sectors (financials, industrials, energy) that are expected to benefit from deregulation and reshoring measures. The small and medium-sized enterprise segment has also been widely favoured by investors. Highly undervalued compared to large-cap stocks, they are more sensitive to tax cuts, and their more domestic revenues should be more insulated from potential tariff increases. At the same time, Growth stocks, particularly large-cap technology companies (the "Magnificent 7"), continue to support market earnings growth. Their exposure to secular trends (such as AI, data centres, cloud computing, etc.) justifies maintaining a substantial exposure.

Lastly, quality stocks, particularly in Europe (Healthcare, Luxury, Consumer Staples), which were largely overlooked during the rally, have suffered due to their more defensive bond-proxy nature and intrinsic issues, but could regain appeal if interest rates decline.

CHART 5: EPS GROWTH EXPECTATIONS FOR 2025

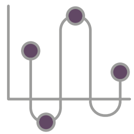
	EPS GROWTH 1 YEAR 2025
MSCI World Index	12.01
MSCI USA	14.70
NASDAQ Composite Index	25.09
MSCI Europe	7.50
MSCI EMU	7.78
MSCI Europe Value	4.73
MSCI Europe Growth	14.07
MSCI Japan	8.03
MSCI EM (Emerging Markets)	13.71
MSCI AC Asia ex Japan	12.50

Source: FactSet, Indosuez Wealth Management.

IN 2025, FASTEN YOUR SEATBELTS

Lucas MERIC
Investment Strategist

2024 was a promising year for macro hedge assets, particularly gold and the dollar. After a year marked by electoral uncertainty, 2025 is expected to be more as a year of economic policy uncertainty, whether in the United States, Europe, or more broadly in terms of monetary policies. This context is likely to bring its share of volatility this year, and in this environment, we continue to favour gold and the dollar for their attractiveness as diversification assets.



2025 is expected to be A YEAR OF VOLATILITY for currencies

USD: THE DOLLAR, THE FED, AND TARIFFS

Riding the *momentum* from late summer, the dollar has continued to outperform since Donald Trump was elected the 47th president of the United States. This dynamic reflects the strong growth and inflation trends in the US, which pushed the Federal Reserve (Fed) to adopt a more hawkish approach at its December meeting. Additionally, various discussions and announcements about potential US tariffs, particularly targeting China, Canada, and Mexico, have also played a role. In a context where any news, whether concrete or speculative, about possible tariffs can lead to significant currency movements, 2025 is expected to be a particularly volatile year for currency markets, with volatility indicators having increased significantly following the US presidential election.

Currently, it seems that the markets have already priced in a hawkish scenario regarding the Fed's rate expectations, which could justify a stabilisation of the US dollar after several months of outperformance. That said, we do not foresee a particular weakness in the greenback in the near future, which should remain supported by the threat of tariffs that the Trump administration could wield in the coming months to negotiate political agreements with foreign countries.

EUR: DESPITE THE DECLINE, PROSPECTS REMAIN MIXED

Across the Atlantic, the euro continues to be penalised by a mixed European macroeconomic dynamic and investor sentiment in an uncertain context, whether from a political standpoint (with budget discussions in France and anticipated elections in Germany) or from the perspective of international trade, with investors fearing that potential tariffs could weigh on European growth.

These obstacles have resulted in a notable increase in the transatlantic rate differential, favouring the United States, dragging the euro to its lowest level since late 2022 in early January.

Without necessarily adopting a positive view on the euro, we believe that the single currency already incorporates a lot of negative factors but could remain under pressure, especially if the new US administration targets Europe with its tariff policies. While this is not anticipated in our central scenario, it remains a significant risk that could push the euro closer to parity, justifying our expectations of a range between 1.00 and 1.05.

CHF: THE RISK OF ZERO RATES

The Swiss franc has not escaped the strong rise of the dollar in recent months, remaining relatively stable against the euro, trading in a range of 0.93 to 0.95 since summer. We maintain a cautious view on the Swiss currency, which remains historically overvalued, particularly against the euro, despite a particularly accommodative Swiss National Bank (SNB), which cut its key rates by 50 bps in December 2024, with inflation below 1%, significantly diverging from trends in other developed economies. Moreover, in a context where the Swiss central bank does not rule out a return to negative interest rates, the Swiss franc appears to investors as a prime candidate for funding carry trades, competing with the yen, a development that could weigh on the Swiss franc.

JPY: THE SUPPORT OF MONETARY NORMALISATION

The yen has been supported at the beginning of the year by market expectations of continued rate hikes by the Bank of Japan, with a narrowing transpacific rate differential that should continue as the Fed lowers its rates, making it less punitive for the yen. This dynamic, considering the volatility of the USD/JPY pair, should further reduce investor interest in the yen as a funding currency for carry trades, which had tended to weigh on the currency in recent years. However, we maintain a neutral view on the yen, which should continue to be influenced by US rate movements while being supported on the downside by potential interventions if the Japanese currency approaches 160.

GOLD: STRUCTURAL TAKE-OFF

In 2024, gold was one of the best-performing assets with a 27% rise, supported by structural factors such as strong demand from central banks in emerging markets and high geopolitical risk. The US election has not changed this, with the yellow metal proving extremely resilient against the dollar, despite a nearly 65 bps increase in US 10-year real rates, a phenomenon that would normally weigh on gold due to the opportunity cost of holding it. In a context combining supportive structural factors and our expectations of a more accommodative Fed than the market anticipates, we continue to view gold as an attractive diversification asset in portfolios.

CHART 6: THE CNY SUFFERED AGAINST THE USD FOLLOWING THE TARIFF ANNOUNCEMENTS IN 2018-2019

Source: Reuters, Bloomberg, Indosuez Wealth Management.

INVESTMENT SCENARIO AND ALLOCATION CONVICTIONS

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Global Head of Multi Asset

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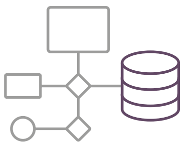
INVESTMENT SCENARIO

- **Growth:** Global growth is expected to reach 3% in 2025, with significant regional disparities. The US economy should remain robust, supported by strong household consumption. The Euro Area, weakened by political uncertainties affecting household and business confidence, will see its activity remain below potential. Emerging markets are expected to show similar growth to 2024, with signs of recovery observed in China's services sector.
- **Inflation:** Disinflation continues, but a faster convergence towards the 2% target is expected in the Euro Area compared to the United States. Across the Atlantic, our inflation scenario includes a pragmatic approach to economic policy under President Donald Trump. We will, however, closely monitor announcements from the Republican administration and their implications for inflation expectations.
- **Central Banks:** The upward revision of growth and inflation forecasts in the United States, combined with a stricter monetary policy from the Fed, leads us to anticipate two rate cuts this year (down from four previously), with a terminal rate still maintained at 3.5% by the end of 2026. In the Euro Area, we expect five rate cuts in 2025 in response to deteriorating economic fundamentals.
- **Corporate Earnings:** Earnings prospects continue to improve in the United States. However, we anticipate a convergence in earnings growth rates between the technology sector and other sectors in the coming quarters. In Europe, downward revisions are expected to continue in the short-term without a macroeconomic catalyst such as the end of the war in Ukraine or the resolution of political uncertainties.
- **Risk Environment:** The focus of the Fed and markets has shifted back to price developments in the United States. Thus, upcoming policy announcements and their impact on long-term interest rates are likely to increase episodes of volatility in equity markets over the coming months. In the medium-term, public debt-related risks remain a concern.



It is crucial to ENHANCE DIVERSIFICATION in equity portfolios

ASSET ALLOCATION CONVICTIONS

Equities

- We start the year with a constructive view on equities, anticipating positive performances for 2025 in a supportive context for the asset class: macroeconomic growth, rate cuts, and strong corporate fundamentals. In the short-term, however, the sharp rise in long-term rates represents a challenge for risky assets, particularly given valuation levels, especially in the United States.
- Within our allocations, we favour US equities, which offer better earnings prospects and should benefit from a more favourable political and economic environment. After an initial phase of AI democratisation beneficial to technology companies, we anticipate a second phase that could benefit other segments of the US market. Therefore, it seems crucial to enhance the diversification of our US equity portfolio in anticipation of potential catch-up in other market segments.
- In Europe, although macroeconomic growth remains modest, it seems largely priced in by the markets with low positioning in the region. Sectoral dispersion offers favourable opportunities for active management. We remain patient but optimistic about European real estate, which should benefit from upcoming rate cuts and continues to offer attractive yields.
- We remain positive on a selection of Asian equities where growth potential is supported by a monetary easing cycle and the prospect of a Chinese stimulus that could serve as a regional catalyst.

Fixed Income

- Since our last edition, the rise in rates has continued with a significant steepening of the yield curve: in the United States, the reconstitution of the term premium has reached the highest levels since 2015. Although we remain cautious in the short-term, we see any rate hike exaggeration as an opportunity to increase the rate-sensitivity of our portfolios. We maintain a preference for short-term maturities (up to 5 years), where risk-adjusted yields remain the most attractive in our view.
- We have recently revised our conviction on Euro Area government bonds positively, given the economic context in Europe and the expectations of ECB rate cuts (markets being, in our view, too conservative in this regard). However, we maintain a slightly cautious bias on long maturities due to supply concerns and a relatively high transatlantic rate differential.
- We maintain a strong conviction in quality credit. Despite low credit spreads, we do not see an immediate catalyst for significant widening in the absence of external shocks. Meanwhile, yields remain attractive, especially compared to those expected this year from money market funds, which should continue to support demand for this asset class.

Forex market

- The dollar remains a preferred hedge asset, with upside potential in a scenario of more aggressive tariff measures. Stabilisation seems possible in the short-term as the market has now re-integrated the re-evaluation of US rate cuts in response to the stronger growth/inflation dynamic. It should be noted that a quick resolution of the conflict in Ukraine represents a risk for the value of the dollar against the euro.
- The Swiss franc appears vulnerable to the prospect of negative key rates and its more frequent use in carry trade strategies. We lower our conviction on the Swiss currency.

KEY CONVICTIONS

	TACTICAL VIEW (ST)	STRATEGIC VIEW (LT)
FIXED INCOME		
GOVERNMENTS		
EUR 2-Year	=/+	=/+
EUR 10-Year	=	=/-
EUR Periphery	=	=
US 2-Year	=/+	=/+
US 10-Year	=/-	=/-
CREDIT		
Investment grade EUR	=/+	=/+
High yield EUR	=	=
Financials Bonds EUR	=	=
Investment grade USD	=	=/+
High yield USD	=	=
EMERGING DEBT		
Hard Currencies	=	=/+
Local Currencies	=	=/+
EQUITIES		
GEOGRAPHIES		
Europe	=/-	=
United States	=/+	=/+
Japan	=	=
Latin America	=/-	=
Asia ex-China	=/+	=/+
China	=	=
STYLES		
Growth	=	=/+
Value	=/+	=
Quality	=	=
Cyclical	=/+	=
Defensive	=/-	=/-
FOREX		
United States (USD)	=/+	=
Euro Area (EUR)	=/-	=/-
Switzerland (CHF)	=/-	=/-
Japan (JPY)	=	=/+
China (CNY)	=	=
Gold (XAU)	=/+	=/+

Source: Indosuez Wealth Management.

08 • Market Monitor (local currencies)

OVERVIEW OF SELECTED MARKETS

DATA AS OF 22 JANUARY 2025

GOVERNMENT BONDS	YIELD	4 WEEKS CHANGE (BPS)	YTD CHANGE (BPS)
US Treasury 10-year	4.61%	2.22	4.19
France 10-year	3.27%	12.80	7.10
Germany 10-year	2.53%	20.90	16.50
Spain 10-year	3.15%	12.70	9.00
Switzerland 10-year	0.43%	11.10	10.10
Japan 10-year	1.19%	12.60	10.60

BONDS	LAST	4 WEEKS CHANGE	YTD CHANGE
Government Bonds Emerging Markets	36.70	1.21%	1.69%
Euro Government Bonds	208.50	-0.36%	-0.34%
Corporate EUR high yield	231.56	0.23%	0.15%
Corporate USD high yield	365.92	1.40%	1.20%
US Government Bonds	315.88	0.38%	0.12%
Corporate Emerging Markets	44.62	0.25%	0.54%

CURRENCIES	LAST SPOT	4 WEEKS CHANGE	YTD CHANGE
EUR/CHF	0.9438	0.82%	0.39%
GBP/USD	1.2316	-1.95%	-1.60%
USD/CHF	0.9069	0.72%	-0.06%
EUR/USD	1.0409	0.02%	0.53%
USD/JPY	156.53	-0.51%	-0.43%

VOLATILITY INDEX	LAST	4 WEEKS CHANGE (POINTS)	YTD CHANGE (POINTS)
VIX	15.1	0.83	-2.25

EQUITY INDICES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
S&P 500 (United States)	6'086.37	0.77%	3.48%
FTSE 100 (United Kingdom)	8'545.13	5.02%	4.55%
STOXX 600	528.04	4.81%	4.02%
Topix	2'737.19	0.12%	-1.71%
MSCI World	3'838.19	1.58%	3.52%
Shanghai SE Composite	3'797.02	-4.73%	-3.50%
MSCI Emerging Markets	1'082.34	-0.32%	0.64%
MSCI Latam (Latin America)	1'962.26	4.47%	5.92%
MSCI EMEA (Europe. Middle East. Africa)	211.65	3.21%	3.66%
MSCI Asia Ex Japan	702.17	-1.24%	-0.27%
CAC 40 (France)	7'837.40	7.62%	6.19%
DAX (Germany)	21'254.27	7.08%	6.76%
MIB (Italy)	35'854.07	6.27%	4.88%
IBEX (Spain)	11'882.70	3.56%	2.48%
SMI (Switzerland)	12'207.89	6.26%	5.23%

COMMODITIES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
Steel Rebar (CNY/Tonne)	3'216	-0.89%	-2.49%
Gold (USD/Oz)	2'756.48	5.33%	5.03%
Crude Oil WTI (USD/Bbl)	75.44	7.62%	5.19%
Silver (USD/Oz)	31.42	4.82%	7.45%
Copper (USD/Tonne)	9'223.50	3.05%	5.20%
Natural Gas (USD/MMBtu)	3.96	0.35%	9.00%

Source: Bloomberg, Indosuez Wealth Management.
Past performance does not guarantee future performance.

MONTHLY INVESTMENT RETURNS, PRICE INDEX

FTSE 100 · Topix · MSCI World · MSCI EMEA · MSCI Emerging Markets
STOXX 600 · S&P 500 · Shanghai SE Composite · MSCI Latam · MSCI Asia Ex Japan

	OCTOBER 2024	NOVEMBER 2024	DECEMBER 2024	4 WEEKS CHANGE	YTD (22.01.2025)
BEST PERFORMING (+)	22.95%	12.37%	25.25%	5.02%	5.92%
	18.42%	1.57%	18.17%	4.81%	4.55%
	17.35%	1.49%	15.23%	4.47%	4.02%
	14.40%	1.10%	14.64%	3.21%	3.66%
	13.63%	1.09%	10.30%	1.58%	3.52%
	12.83%	0.29%	5.69%	0.77%	3.48%
	9.60%	0.17%	4.99%	0.12%	0.64%
	8.08%	0.12%	4.78%	-0.32%	-0.27%
	3.97%	-1.76%	1.93%	-1.24%	-1.71%
WORST PERFORMING (−)	-17.78%	-3.17%	-29.36%	-4.73%	-3.50%

Source: Bloomberg, Indosuez Wealth Management.
Past performance does not guarantee future performance.

09 • Glossary

Basis point (bps): 1 basis point = 0.01%.

Blockchain: A technology for storing and transmitting information. It takes the form of a database which has the particularity of being shared simultaneously with all its users and generally does not depend on any central body.

BLS: Bureau of Labor Statistics.

BNEF: Bloomberg New Energy Finance.

Brent: A type of sweet crude oil, often used as a benchmark for the price of crude oil in Europe.

CPI (Consumer Price Index): The CPI estimates the general price level faced by a typical household based on an average consumption basket of goods and services. The CPI tends to be the most commonly used measure of price inflation.

Cyclicals: Cyclicals refers to companies that are dependent on the changes in the overall economy. These stocks represent the companies whose profit is higher when the economy is prospering.

Defensives: Defensives refers to companies that are more or less immune to the changes in the economic conditions.

Deflation: Deflation is the opposite of inflation. Contrary to inflation, it is characterised by a sustained decrease in general price levels over an extended period.

Duration: Reflects the sensitivity of a bond or bond fund to changes in interest rates. This value is expressed in years. The longer the duration of a bond, the more sensitive its price is to interest rate changes.

EBIT (Earnings Before Interest and Taxes): Refers to earnings generated before any financial interest and taxes are taken into account. It takes earnings and subtracts operating expenses and thus also corresponds to non-operating expenses.

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation): EBITDA takes net income and adds interest, taxes, depreciation and amortisation expenses back to it. It is used to measure a company's operating profitability before non-operating expenses and non-cash charges.

ECB: The European Central Bank, which governs the euro and Euro Area member countries' monetary policy.

Economic Surprises Index: Measures the degree of variation in macro-economic data published versus forecasters' expectations.

Economies of scale: Decrease in a product's unit cost that a company obtains by increasing the quantity of its production.

EPS: Earnings per share.

ESG: Non-financial corporate rating system based on environmental, social and governance criteria. It is used to evaluate the sustainability and ethical impact of an investment in a company.

Fed: The US Federal Reserve, i.e. the central bank of the United States.

FOMC (Federal Open Market Committee): The US Federal Reserve's monetary policy body.

GDP (Gross Domestic Product): GDP measures a country's yearly production of goods and services by operators residing within the national territory.

Growth: Growth style refers to companies expected to grow sales and earnings at a faster rate than the market average. As such, growth stocks are generally characterised by a higher valuation than the market as a whole.

IEA: International Energy Agency.

IMF: The International Monetary Fund.

Inflation breakeven: Level of inflation where nominal bonds have the same return as inflation-linked bonds (of the same maturity and grade). In other words, it is the level of inflation at which it makes no difference if an investor owns a nominal bond or an inflation-linked bond. It therefore represents inflation expectations in a geographic region for a specific maturity.

Inflation swap rate 5-Year, 5-Year: A market measure of what 5-Year inflation expectations will be in five years' time. It provides a window into how inflation expectations may change in the future.

IPPC: The Intergovernmental Panel on Climate Change.

IRENA: International Renewable Energy Agency.

ISM: Institute for Supply Management.

Japanification of the economy: Refers to the stagnation the Japanese economy has faced in the last three decades, and is generally used to refer to economists' fears that other developed countries will follow suit.

Metaverse: A metaverse (portmanteau of meta and universe) is a fictional virtual world. The term is regularly used to describe a future version of the internet where virtual, persistent and shared spaces are accessible via 3D interaction.

OECD: Organisation for Economic Co-operation and Development.

Oligopoly: An oligopoly occurs when there is a small number of producers (supply) with a certain amount of market power and a large number of customers (demand) on a market.

OPEC: Organization of the Petroleum Exporting Countries; 14 members.

OPEC+: OPEC plus 10 additional countries, notably Russia, Mexico, and Kazakhstan.

PMI: Purchasing Managers' Index.

Policy mix: The economic strategy adopted by a state depending on the economic environment and its objectives, mainly consisting of a combination of monetary and fiscal policy.

Pricing power: Refers to the ability of a company or brand to increase its prices without affecting demand for its products.

Quality: Quality stocks refers to companies with higher and more reliable profits, low debt and other measures of stable earnings and strong governance. Common characteristics of Quality stocks are high return to equity, debt to equity and earnings variability.

Quantitative easing (QE): A monetary policy tool by which the central bank acquires assets such as bonds, in order to inject liquidity into the economy.

SEC (Securities and Exchange Commission): The SEC is an independent federal agency with responsibility for the orderly functioning of US securities markets.

Spread (or credit spread): A spread is the difference between two assets, typically between interest rates, such as those of corporate bonds over a government bond.

Secular stagnation: Refers to an extended period of little or no economic growth.

SRI: Sustainable and Responsible Investments.

Stagflation: Stagflation refers to an economy that is experiencing simultaneously an increase in inflation and stagnation of economic output.

TPI: An addition to the Eurosystem's toolkit that can be activated by the ECB to counter unwarranted, disorderly market developments if these pose a serious threat to the smooth transmission of monetary policy across the euro area. The ECB Governing Council approved the instrument on the 21 July 2022.

Uberisation: Term derived from the name of US company Uber which develops and operates digital platforms that connect drivers and riders. It refers to a new business model that leverages new digital technologies and is part of the sharing economy, insofar as it puts customers in direct contact with service providers, at a reduced cost and with lower prices.

Value: Value style refers to companies that appear to trade at a lower price relative to its fundamentals. Common characteristics of value stocks include high dividend yield, low price-to-book ratio, and a low price-to-earnings ratio.

VIX: The index of implied volatility in the S&P 500 Index. It measures market operators' expectations of 30-day volatility, based on index options.

WTI (West Texas Intermediate): Along with Brent crude, the WTI is a benchmark for crude oil prices. WTI crude is produced in America and is a blend of several sweet crude oils.

WTO: World Trade Organization.

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