
WEISSHORN
ASSET MANAGEMENT SA

Investment Committee Q4

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1. Market highlights

- Despite a fourth-quarter correction in several stock indices, **equities ended 2024 on a second consecutive strong performance.**
- **US equities** once again distinguished themselves by **outperforming the Rest of the World**.
- Despite a bearish start to the year and a slowing economy, **Chinese stock indices** ended the year on a decent rise.
- Central banks' pivot to a **more accommodating monetary policy failed to bring down long rates**. Inflation is to blame, falling less quickly than expected.
- **Credit spreads** remain at historically low levels. Investors' appetite for debt refinancing in certain sectors will need to be monitored.
- Donald Trump was elected the **47th President of the United States** and plans to implement his "America First" policy, which is likely to bring about major changes over the next four years.
- The strength of the US economy has prompted the FED to rethink its plans for future rate cuts. This suggests that **long rates are likely to remain high for longer**.
- **The European economy**, led by Germany, **is lacking in vigor**, prompting the ECB to extend its monetary easing cycle.
- Early **elections in Germany** could reverse the country's economic trend.

1. Market highlights

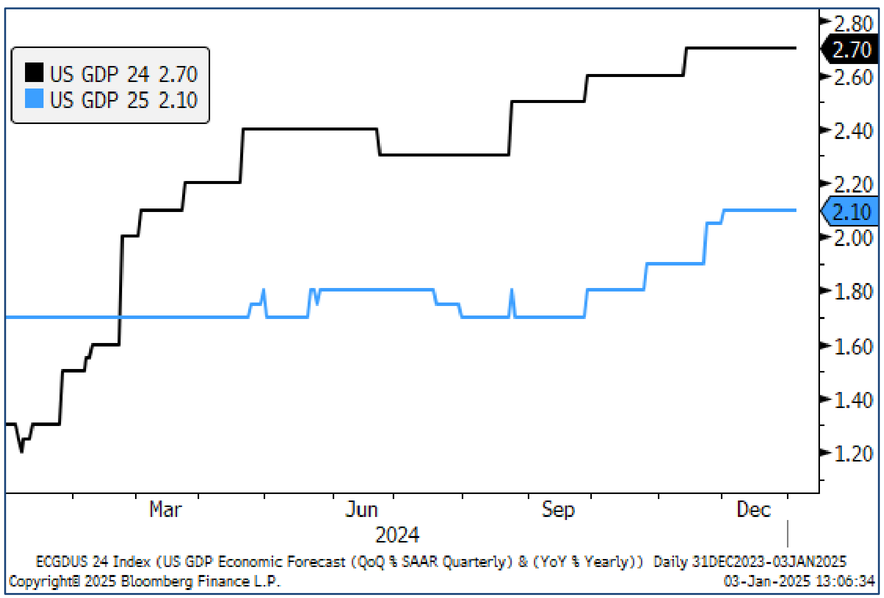
- Rachel Reeves Budget in the U.K seems to have a negative impact on the market which sent the **Gilt to nearly 5%**.
- **Geopolitical conflicts** environment remain unchanged, but their impact on financial assets remains limited for the time being.
- **Gold** continues to benefit from Central Bank purchases and is approaching $3,000 per ounce.
- Bitcoin and most digital assets soared after Mr. Trump's election. **The regulatory risk of these investment themes is fading**.
- Analysts are forecasting earnings growth of over 15% for S&P 500 companies in 2025. **Current valuations leave little room for disappointment**.

2. Macro : GDP Forecast

- The **US economy** continues to demonstrate **remarkable resilience**. Macroeconomists expect GDP growth of 2.7% in 2024, compared to just over 1% in January. Since Mr. Trump's election, expectations for 2025 have increased by 0.3%, rising from 1.8% to 2.1%.

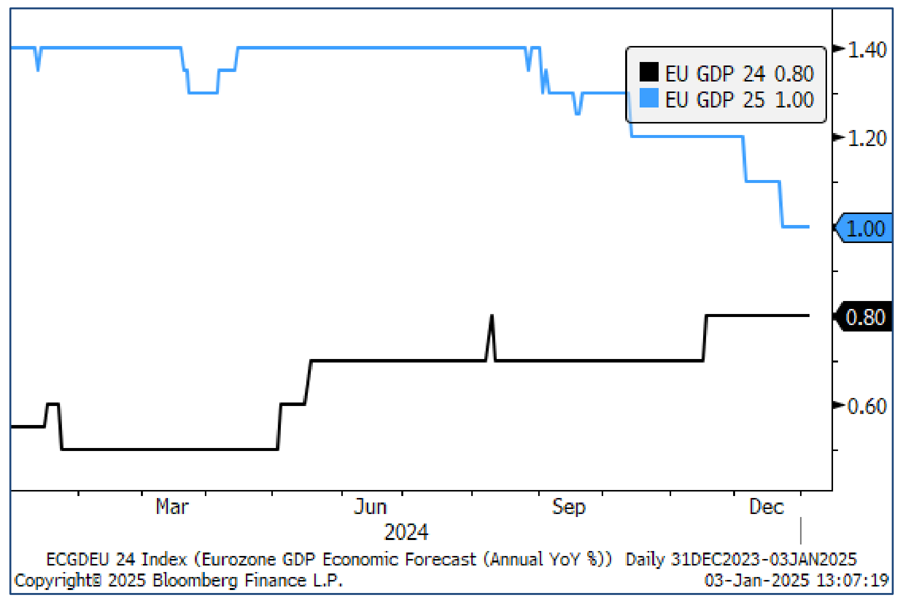
- **In Europe**, the opposite has happened, although growth for 2024 is expected to be slightly above earlier forecasts, **expectations for 2025 have been revised down** by 0.4% since September to 1%.

US GDP Forecast



Source: Bloomberg

EU GDP Forecast



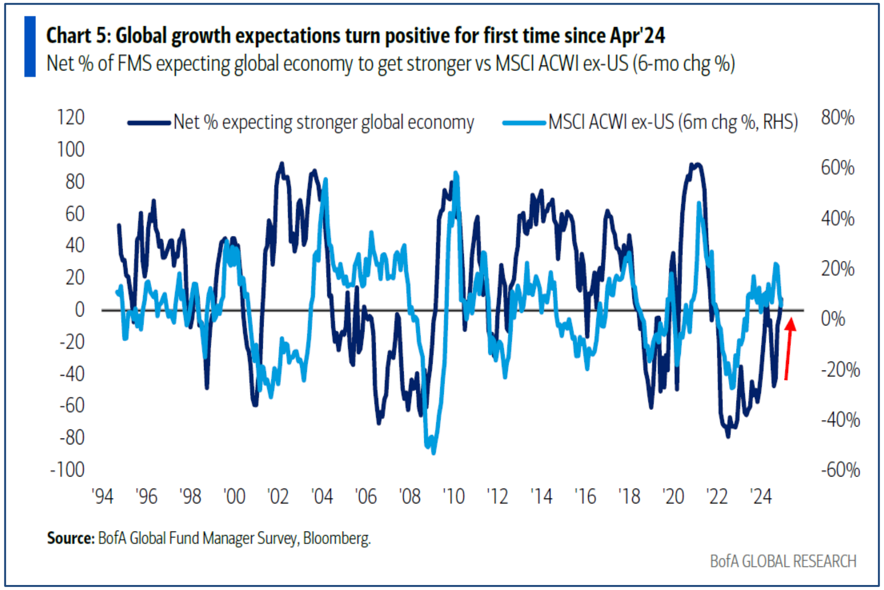
Source: Bloomberg

2. Macro : Economic Survey

- The promises of the new president have restored investor confidence. If Mr. Trump **lowers corporate taxes**, this should allow businesses to generate greater profits.

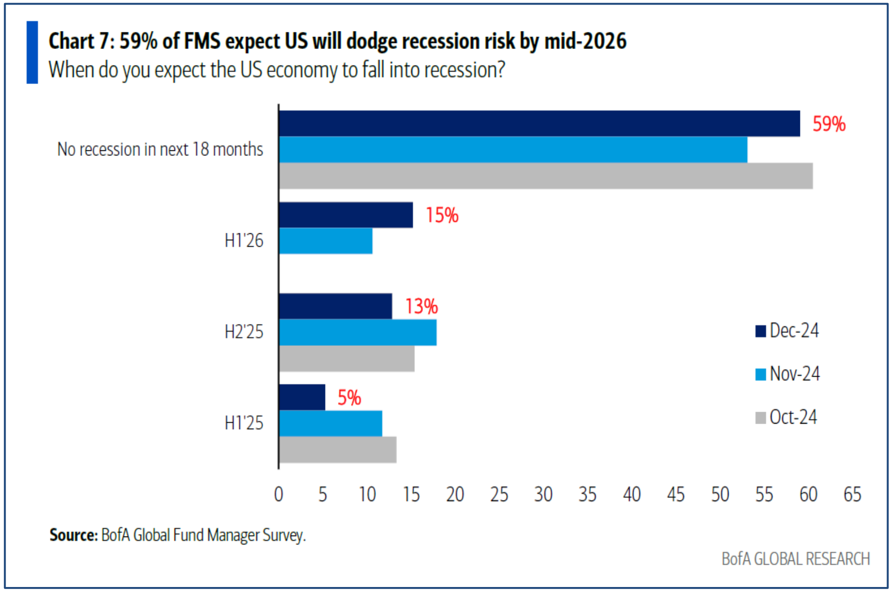
- According to a Bank of America survey of Asset Managers, since Mr. Trump's elections, the market is more convinced that next year's economy will be stronger. Additionally, **nearly 60% of respondents now believe that a recession will be avoided in the next 18 months**.

% Expecting stronger economy



Source: BofA

% Expecting Recession



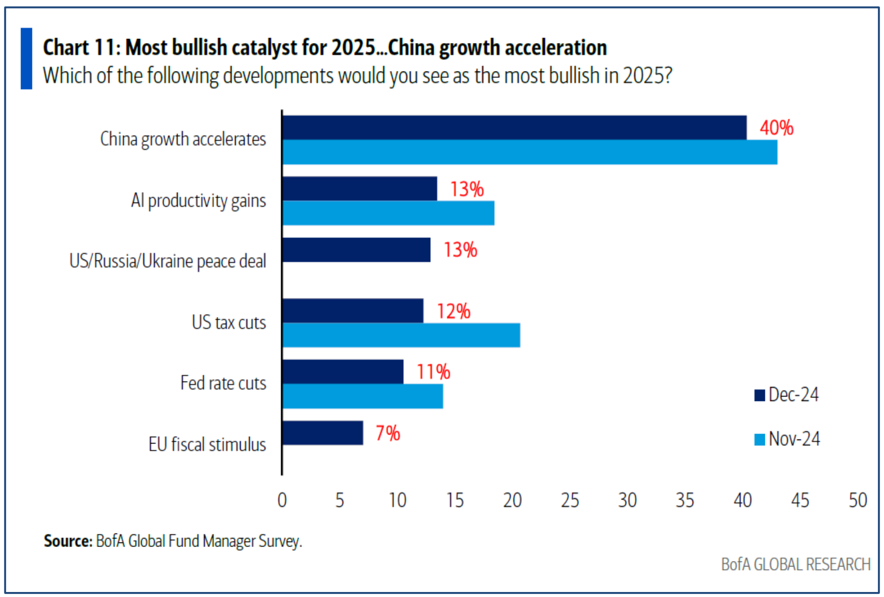
Source: BofA

2. Macro : Economic Survey

- According to the Bank of America survey, investors see the **greatest opportunities in China**, with 40% believing that an acceleration in Chinese growth would be the most positive event for markets.

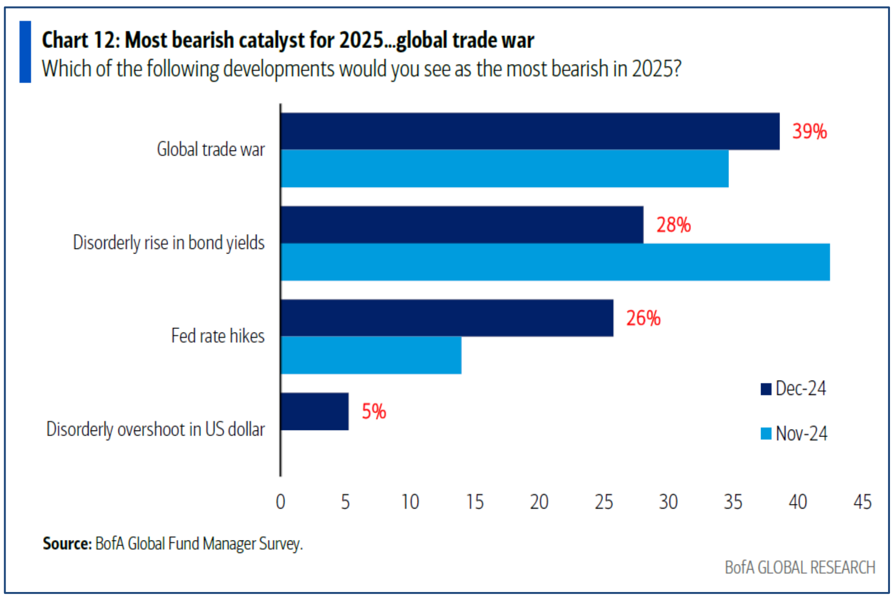
- Conversely, the **Trade war** that Mr. Trump is expected to initiate once in power **is seen as a major risk to the economy**. Additionally, inflationary pressures remain, and as a result, a rise in interest rates could weigh on the markets.

Bullish Catalyst 2025



Source: BofA

Bearish Catalyst 2025



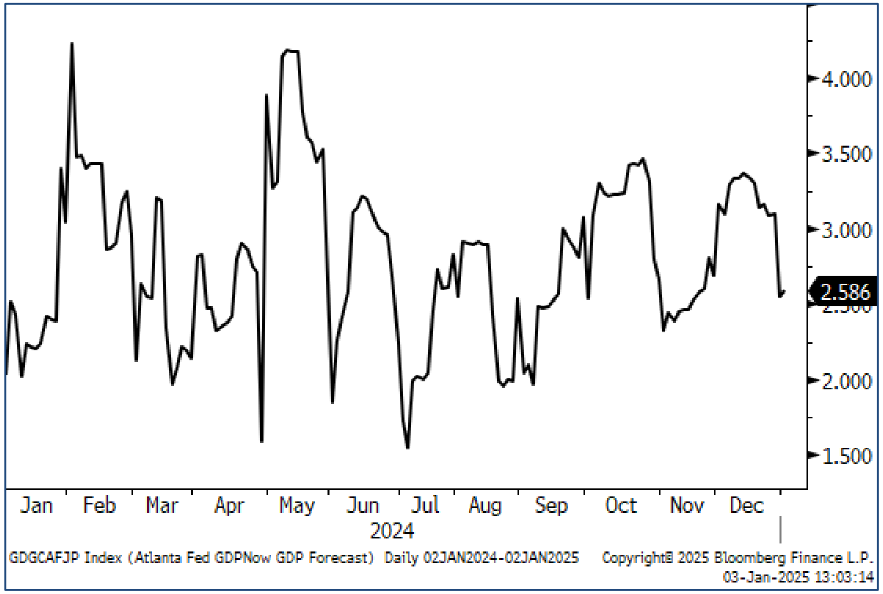
Source: BofA

2. Macro : Macro Indicators

- Economic indicators remain positive in the US. The GDP Now estimate 2.6% growth in Q4 2024.

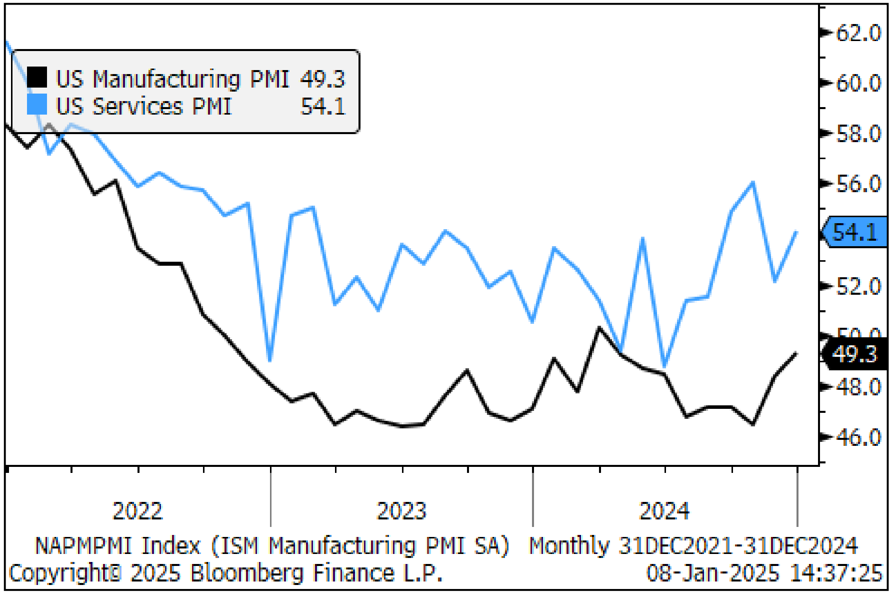
- As for PMIs, it's still the same story, **services have been in expansion territory** for several months now, while **manufacturers have been in contraction** for nearly two years. In December, manufacturing PMIs rebounded to 49.3 and are on track to return to expansion territory.

US GDP Now



Source: Bloomberg

US PMI



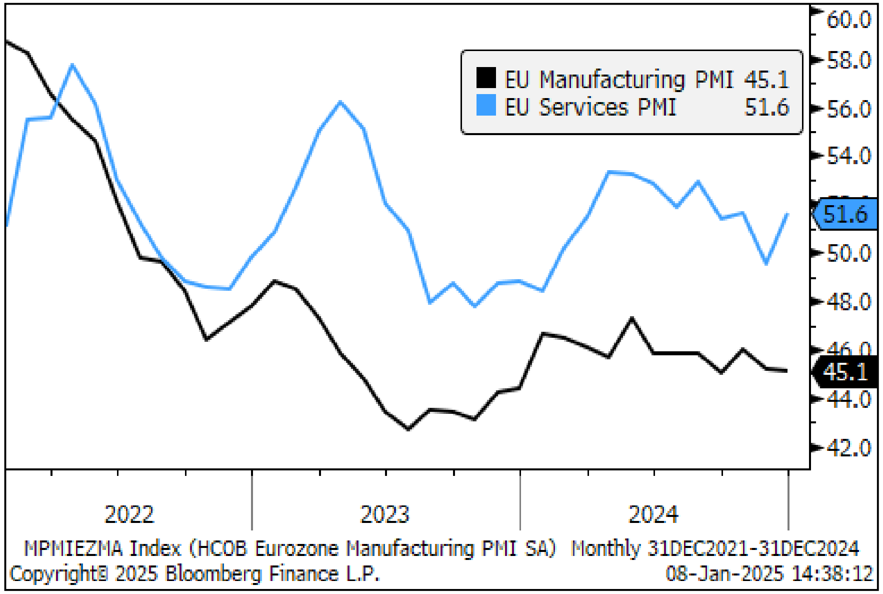
Source: Bloomberg

2. Macro : EU PMI and Germany Budget and GDP

- **In Europe, PMIs tell the same story as in the US**. While services, although weaker than in the US, remain in expansion, manufacturing PMIs have been in contraction for over two years. After reaching a low point in mid-2023, manufacturing PMIs have stagnated between 45 and 47 in 2024. **Interest rate cuts and investments in defense in Europe could help support this sector**.

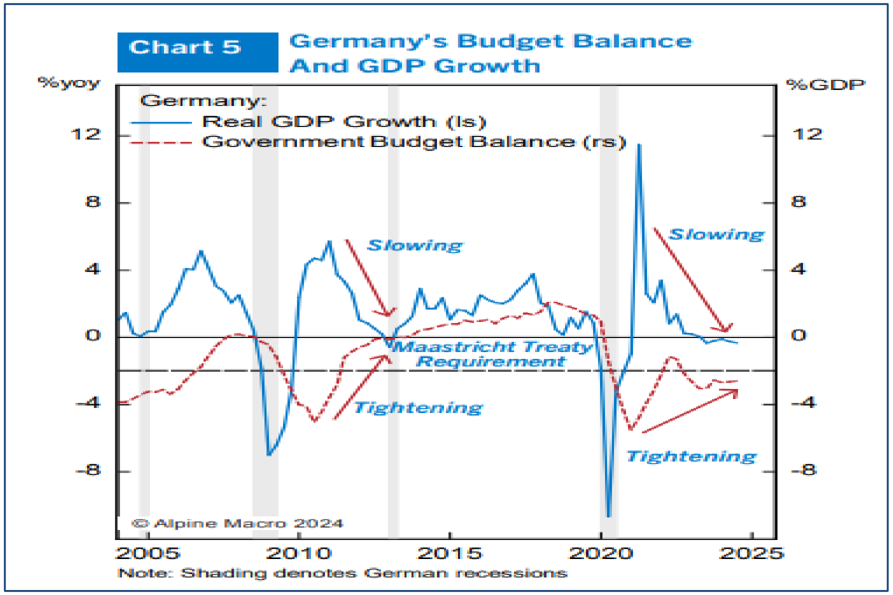
- Germany remains the weak link in Europe, with low growth and equally weak forecasts for 2025. **With new elections upcoming on February 23, pressure will mount on elected officials to revitalize Europe's largest economy**.

EU PMI



Source: Bloomberg

Germany GDP and Budget



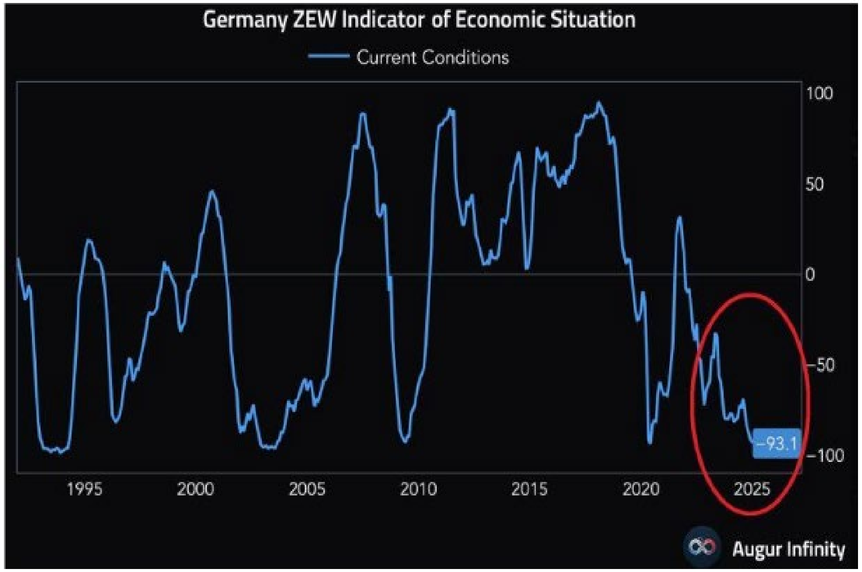
Source: Bloomberg

2. Macro : Germany Sentiment Indicators

- For now, sentiment indicators in Germany depict a gloomy environment. **Most of these indicators are at their lowest levels since the 2020** health crisis and show no signs of recovery.

- Furthermore, the **potential Trade war** with the US, one of Germany's main trading partners, could apply pressure on the country.

ZEW Current Conditions



Source: Augur Infinity

Germany Sentiment Indicators

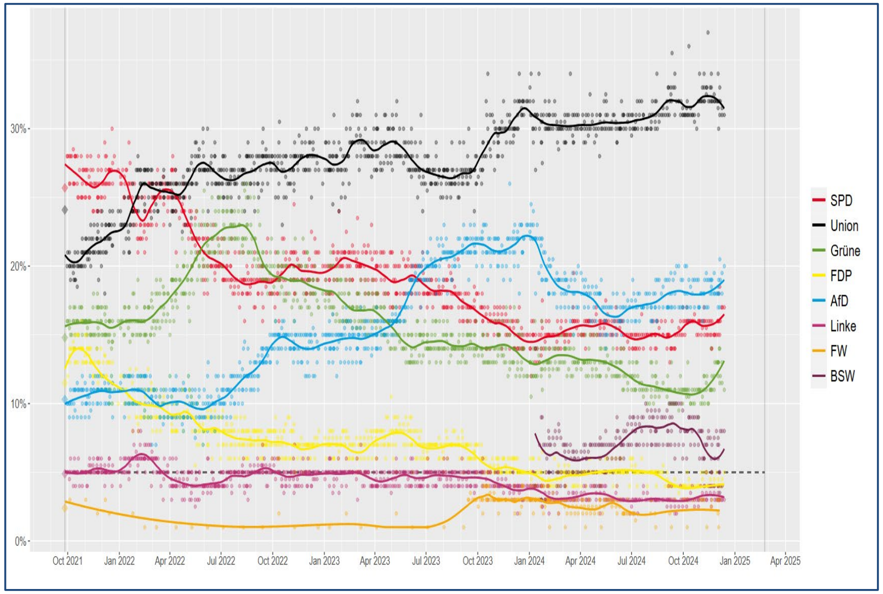
Source: Bloomberg

2. Macro : Germany Elections

- After dismissing his finance minister in early November and losing a vote of confidence in early December, **new elections will be held** to replace Mr. Scholz's government.

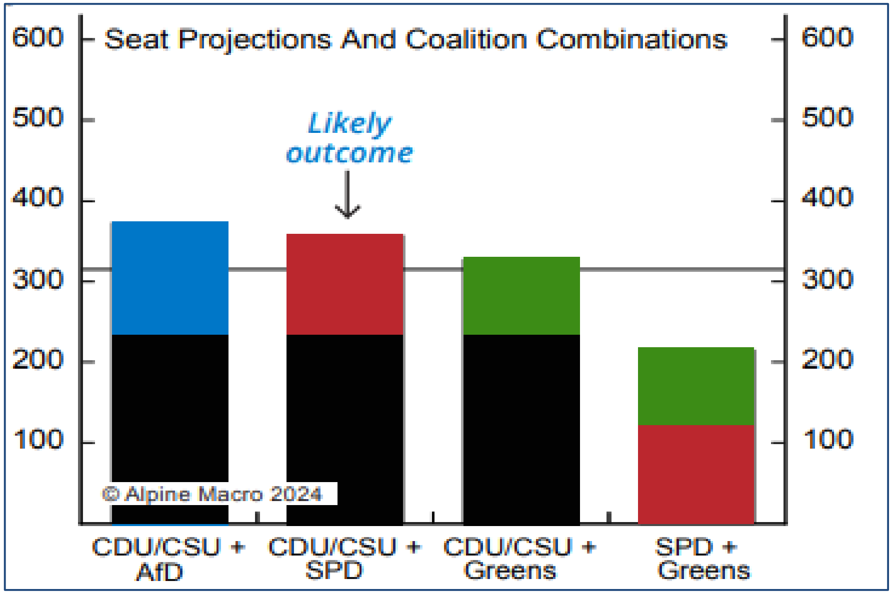
- These elections are scheduled for February 23, and according to polls, the **CDU/CSU is expected to emerge victorious** even though Elon Musk is trying to interfere by giving his support to the AfD. It remains to be seen with whom this party will form a coalition and what their fiscal policy will be. The most important point will be about the debt brake rules which will likely be relaxed.

Germany Election Poll



Source: Wikipedia

Germany Coalition



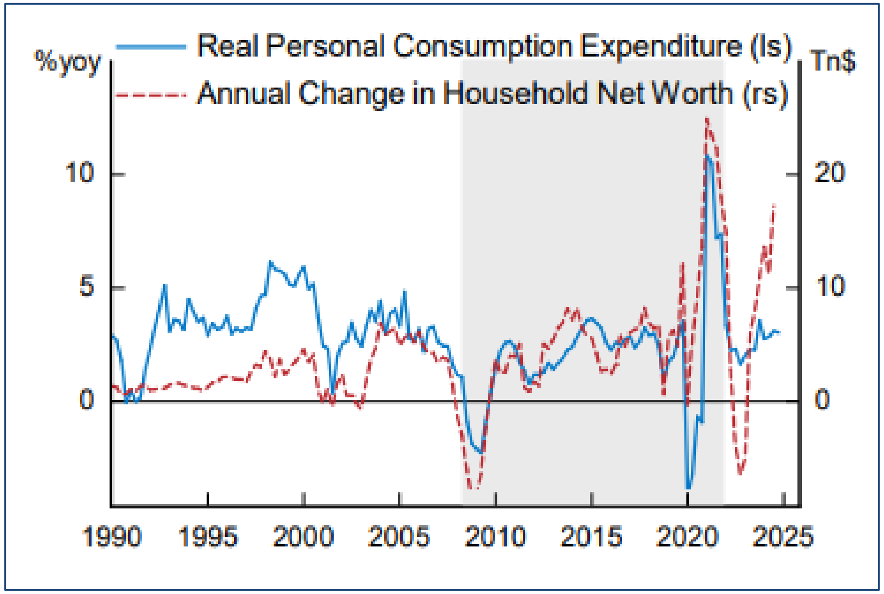
Source: Alpine Macro

2. Macro : US Household Health

- The **financial health of American households continues to be strong**, which partly explains why the US economy is so resilient, given that more than 75% of its GDP depends on consumption.

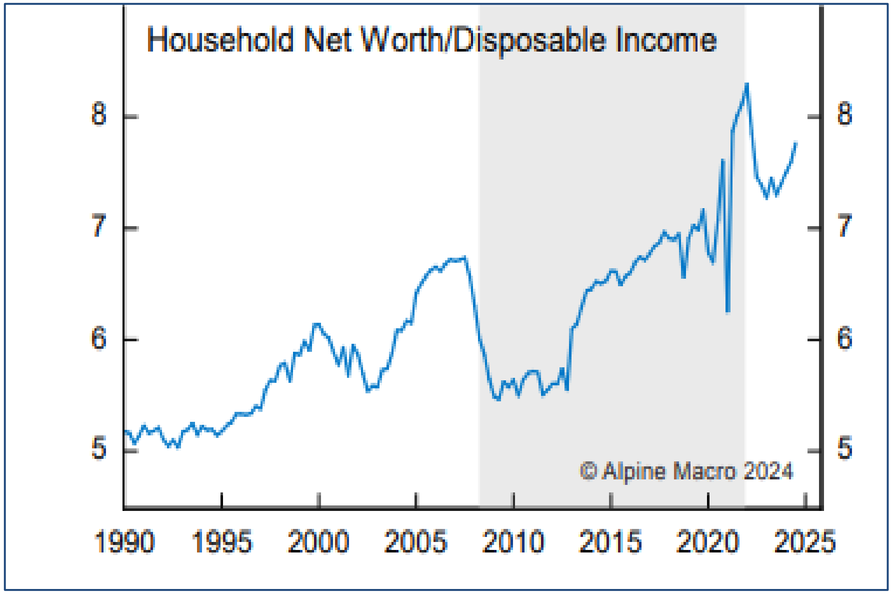
- American households continued to grow wealth in 2024 through **wage increases**, a 25% rise in stock markets, and higher interest rates on their savings. Given the strong health of consumers, it is **difficult to imagine a recession occurring in the coming months**.

US Household Consumption



Source: Alpine Macro

US Household Net Worth



Source: Alpine Macro

2. Macro : US Labor Market and Inflation

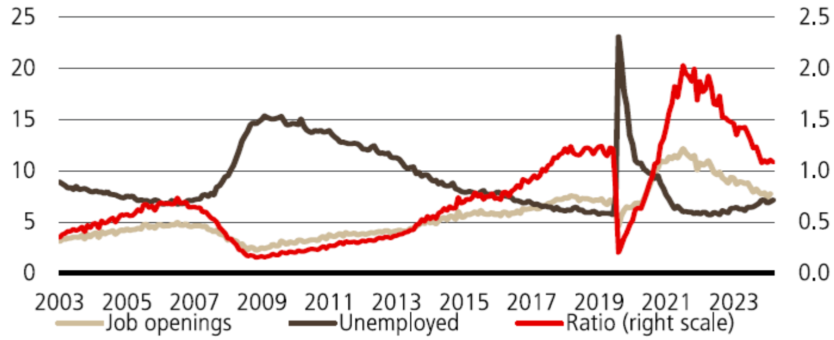
- The **US labor market remains robust**, although it is normalizing after the extremes caused by the COVID crisis. There are still more job openings than unemployed individuals, which suggests that the unemployment rate should remain stable in the coming months. What if Trump engages its massive Latinos deportation ?

- However, **inflationary pressures are still present**. Despite the Fed's interest rate hikes, prices continue to rise faster than the Central Bank's target. Moreover, the tariffs that Mr. Trump will implement could exacerbate these pressures.

US Labor Market

Fig. 2: Labor market slightly softer than in prepandemic period

Job openings and unemployed workers, in millions



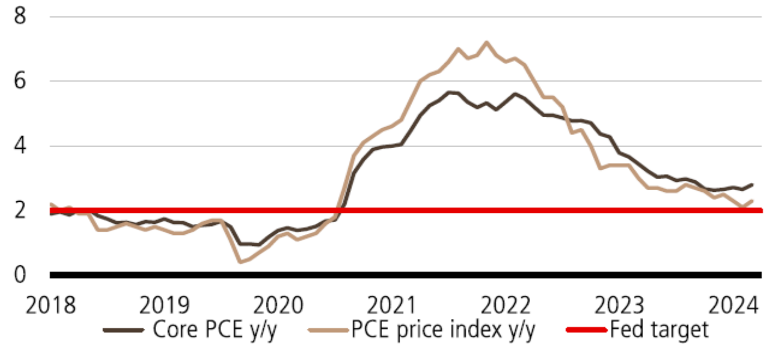
Source: Bloomberg, UBS as of 19 December 2024

Source: UBS

US Inflation

Fig. 3: Headline inflation near target, but core inflation higher

Core PCE and headline PCE inflation, year-over-year change in %



Source: Bloomberg, UBS as of 19 December 2024

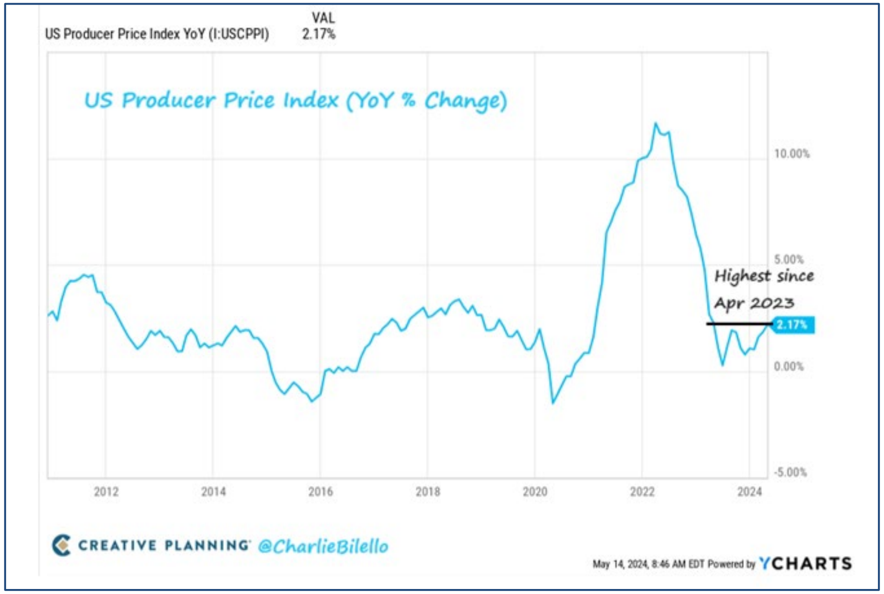
Source: UBS

2. Macro : US Inflation

- Given that inflation is struggling to decline, several scenarios are being considered by economists. **Most expect inflation to continue falling in 2025, though a second wave of inflation, similar to the 1970s, is not an outcome to be ruled out**.

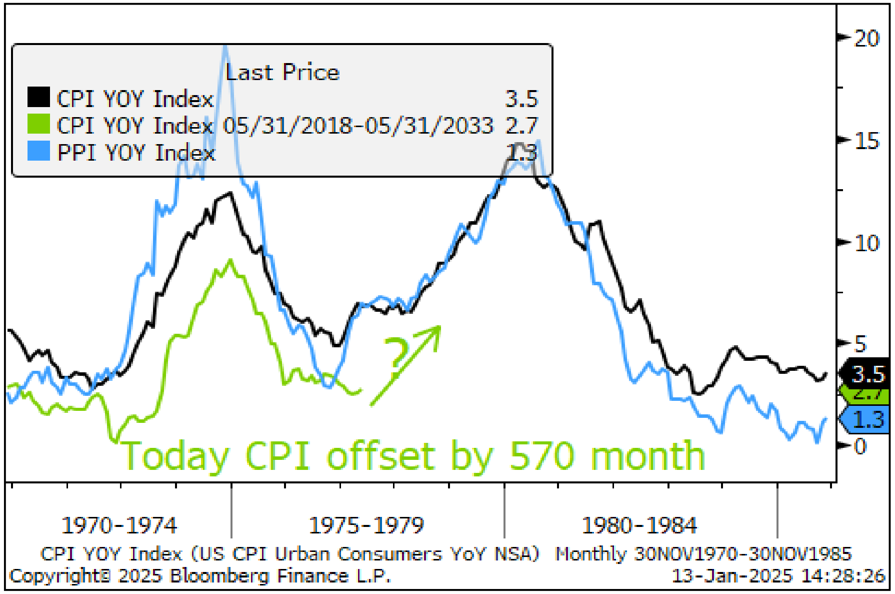
- The PPI (Producer Price Index) is a good indicator of where the CPI is heading, as it takes time for production price increases to affect consumer prices. For now, it shows no signs of inflation rising again, though it remains at high levels.

US PPI



Source: Charlie Bilello

US CPI and PPI 1970



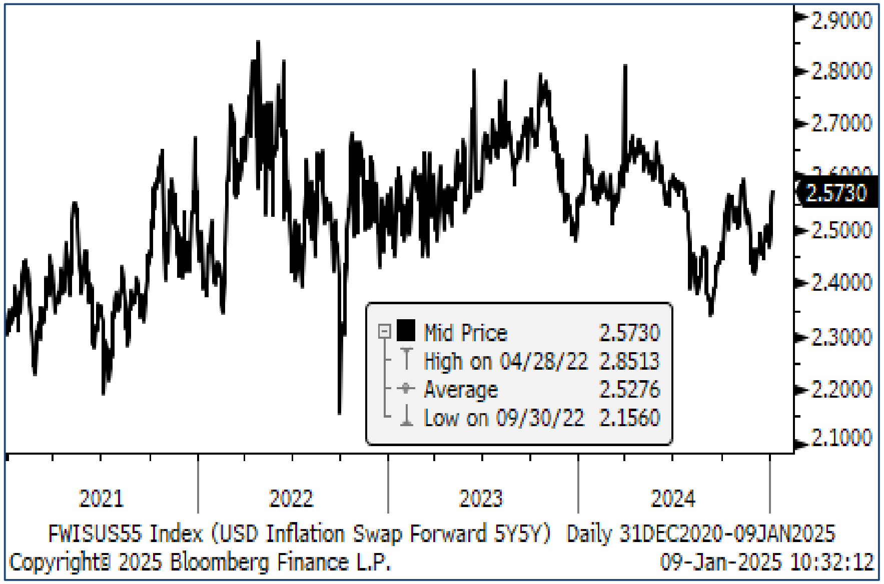
Source: Bloomberg

2. Macro : US and EU Long Term Inflation Expecations

- Although inflation is not decreasing as quickly as the market expected a few months ago, long-term inflation expectations remain stable. In the US, **the 5Y5Y inflation swap is still below 2.6%,** showing that the market expects long-term inflation to be higher than in the past decade.

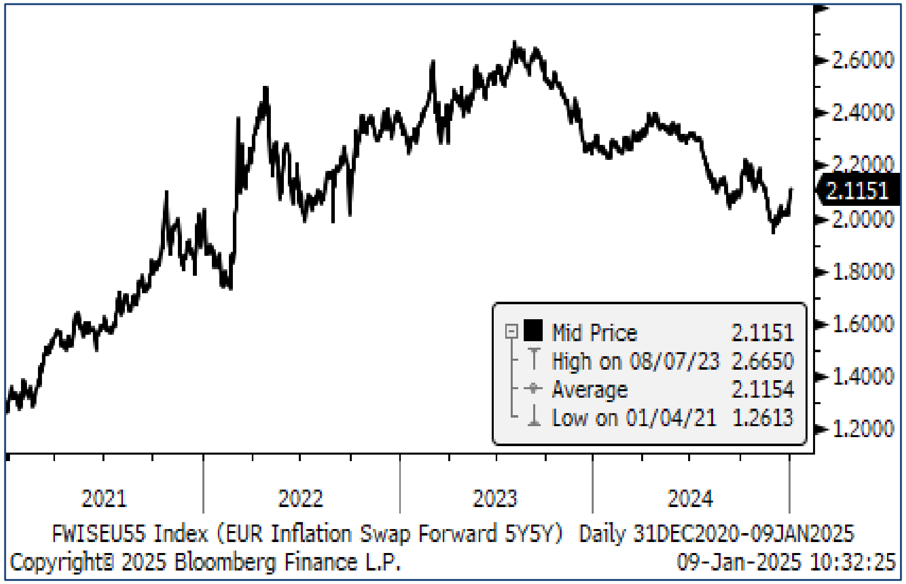
- In Europe, this same rate is slightly above 2%. This is not surprising given the growth issues in Europe, which should result in less inflationary pressure compared to across the Atlantic.

US 5Y5Y Inflation Swap



Source: Bloomberg

EU 5Y5Y Inflation Swap



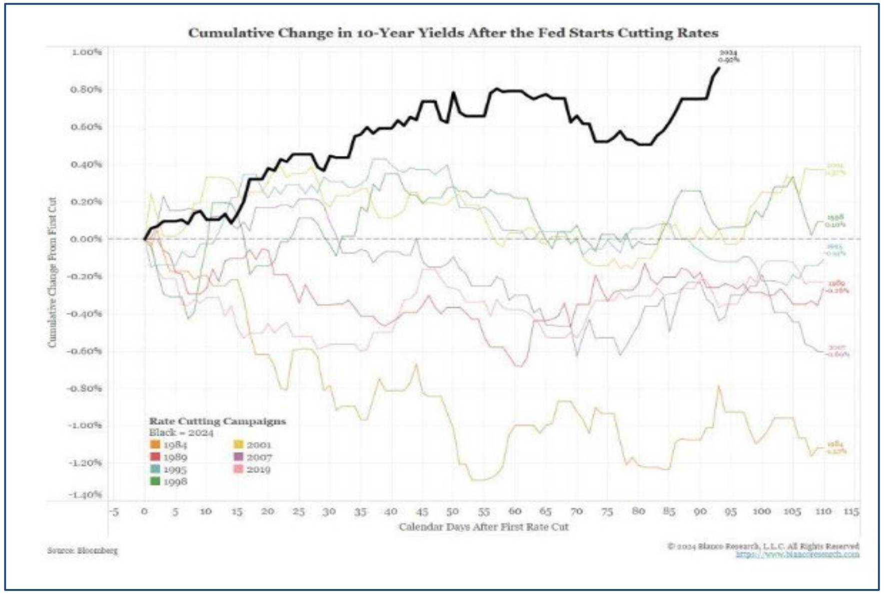
Source: Bloomberg

2. Macro : US Rates

- At the Fed, **interest rate projections were revised upward during the December meeting**. Indeed, with macroeconomic figures stronger than expected and Mr. Trump’s economic policies providing support, the Central Bank has become more patient about the speed at which it plans to lower rates.

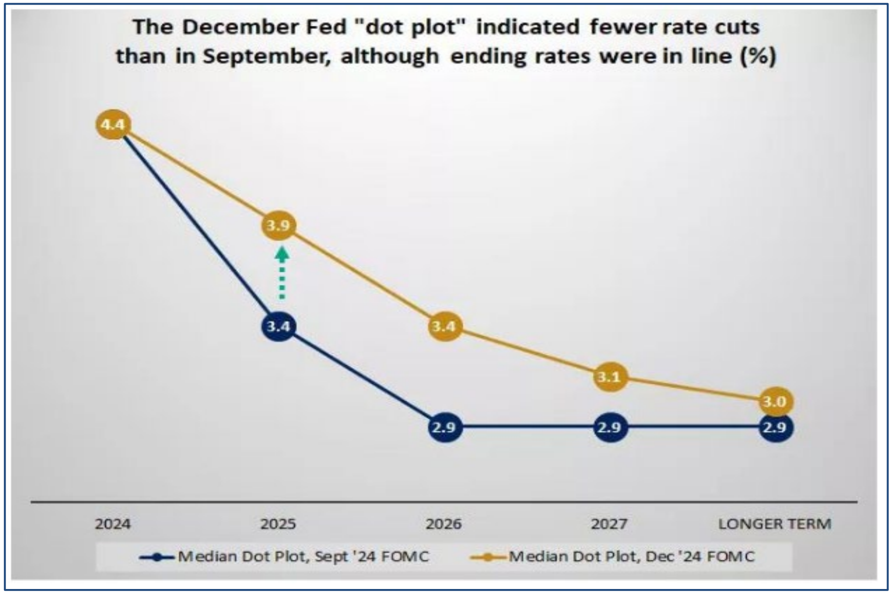
- It is also worth noting **that since the Fed’s first rate cut, the behavior of the 10-year US Treasury has not aligned with market expectations.** It appreciated by nearly 1%, whereas in previous instances, it had tended to decline.

US 10Yr. After 1st cut



Source: Bianco Research

FED Dot Plot



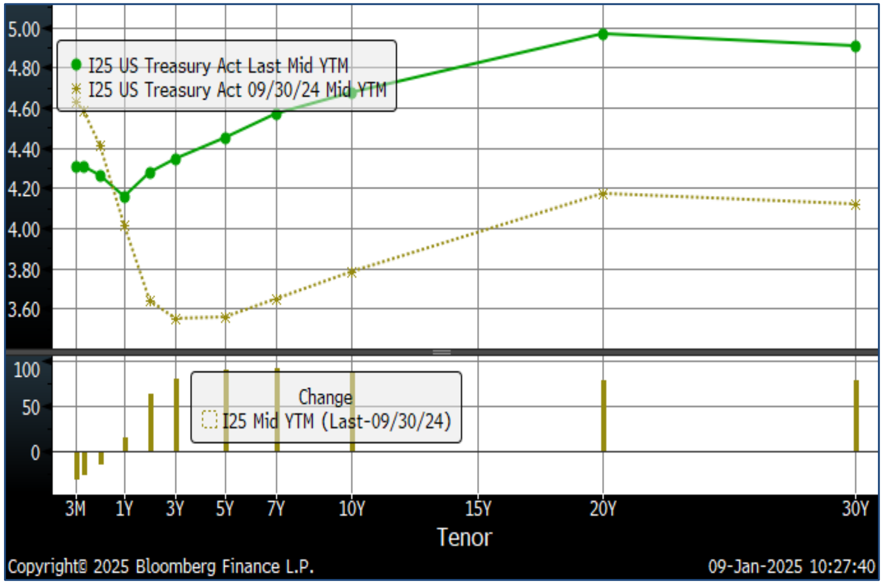
Source: FED

2. Macro : US and EU Rate Curve

- The yield curves have steepened both in the US and in Europe. Generally, when Central Banks cut rates, short-term rates decrease more than long-term rates, causing the curve to steepen, which is known as a bullish steepening.

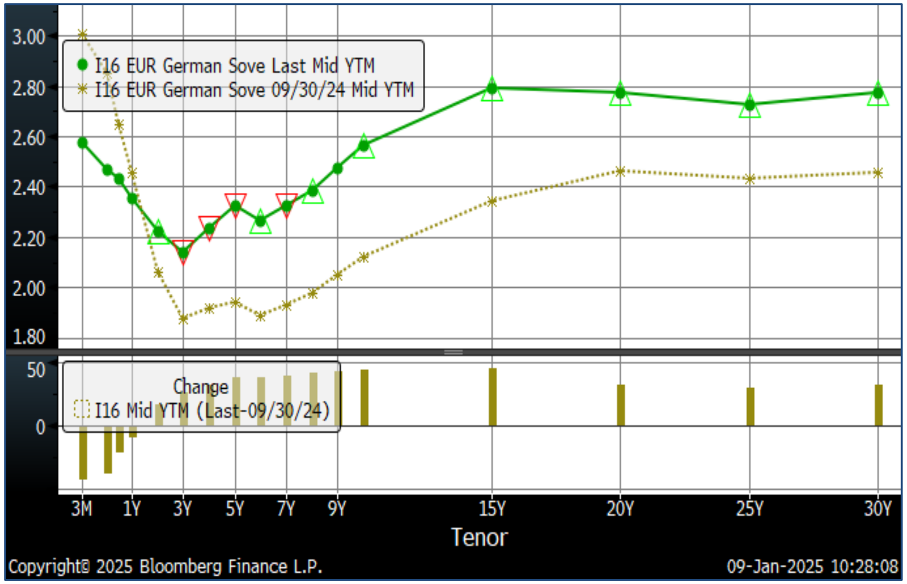
- This time, we witnessed a **bearish steepening**, where short-term rates fell very little while long-term rates increased. This is certainly evidence that **the market had overestimated the extent of rate cuts** and is now forced to adjust its forecasts.

US Rates Curve



Source: Bloomberg

EU Rates Curve



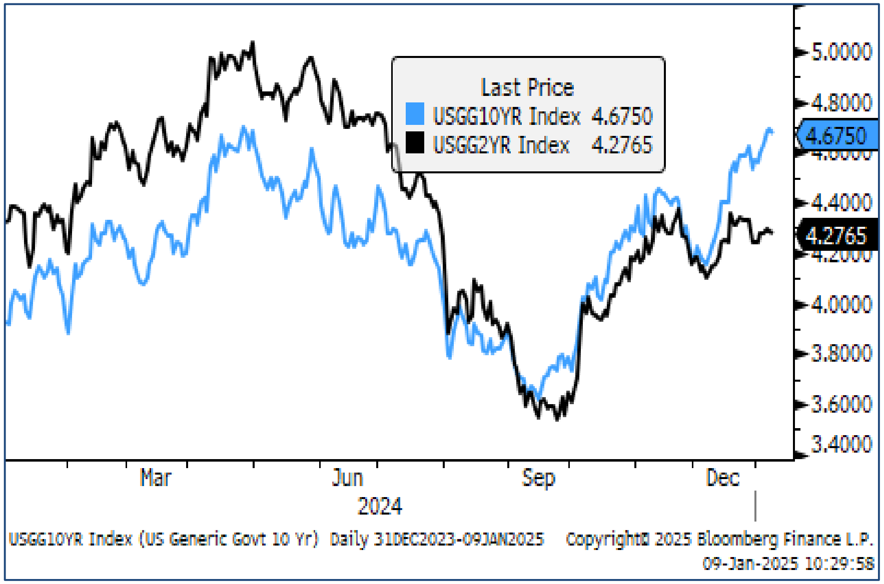
Source: Bloomberg

2. Macro : US Rates

- Both the 10-year and 2-year US Treasury yields rose after the first rate cut. However, it is especially in December that we can observe a decoupling of the two curves. The market does not anticipate a rate hike, so the 2-year yield cannot rise much higher than the spot rates, while the 10-year yield is regaining its term premium.

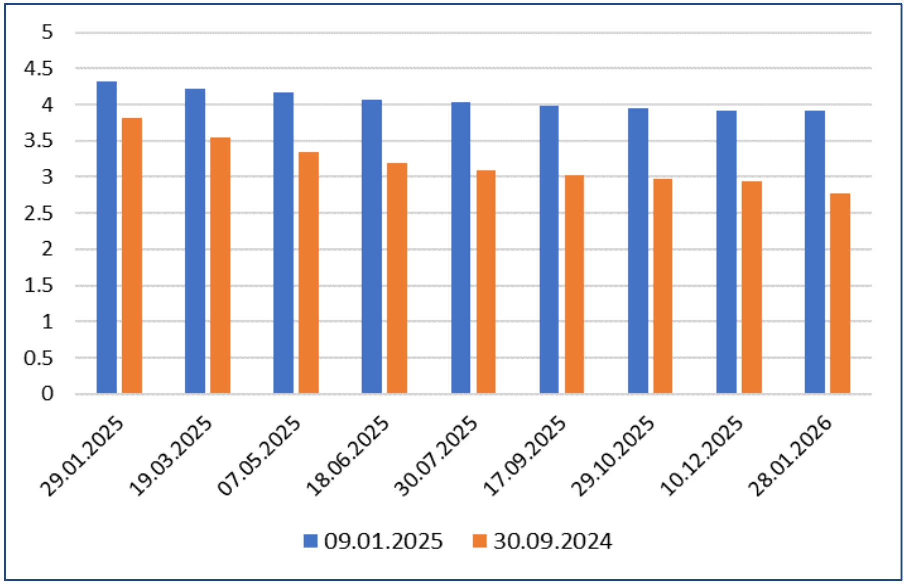
- Expectations for rate cuts have been significantly revised down for Q2. While the market previously expected the Fed to cut rates to between 3.75% and 4% in January, it now expects them to remain between 4.25% and 4.5%. **Terminal rates have also been revised upward, now expected to be around 4% by the end of 2025, compared to 3% just three months ago.**

US 10Yr and 2Yr



Source: Bloomberg

US Rates Expectations



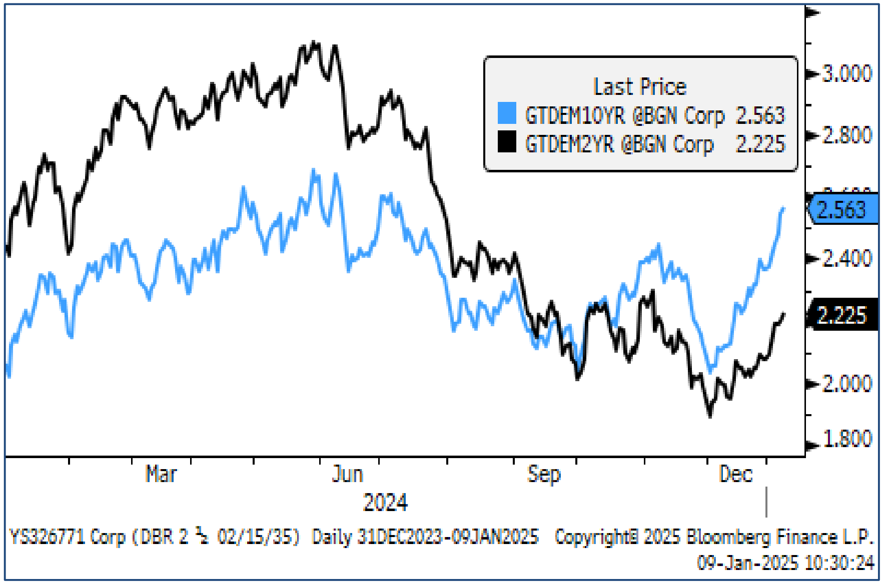
Source: Bloomberg

2. Macro : EU Rates

- In Europe, rates have remained much more stable than in the US. The 2-year yield is trading at the same level as in September, while the 10-year yield has appreciated slightly and contributed to the steepening of the curve.

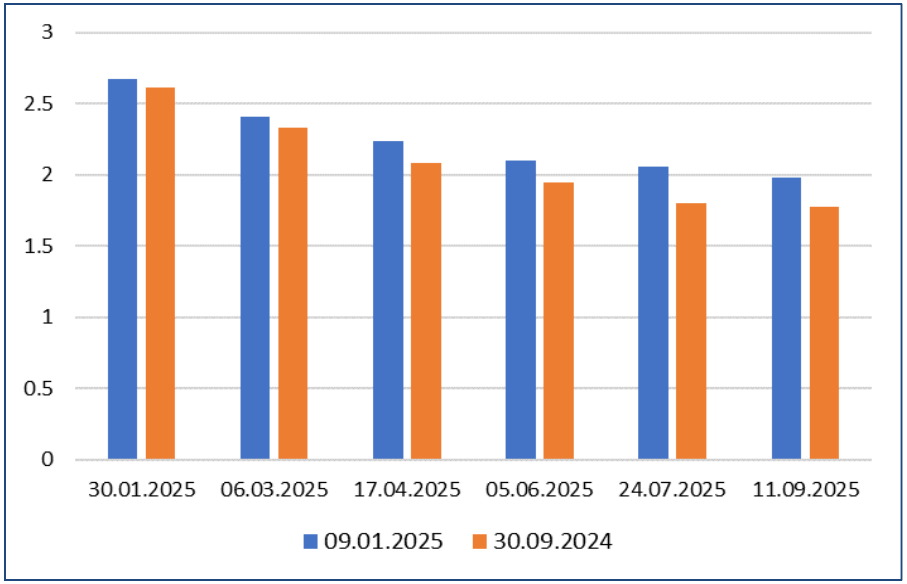
- **Expectations for rate cuts have not changed much**, though there has certainly been some influence from the US, and now the expectations for rates at the end of 2025 are slightly higher than they were three months ago.

Germany 10Yr and 2Yr



Source: Bloomberg

EU Rates Expectations



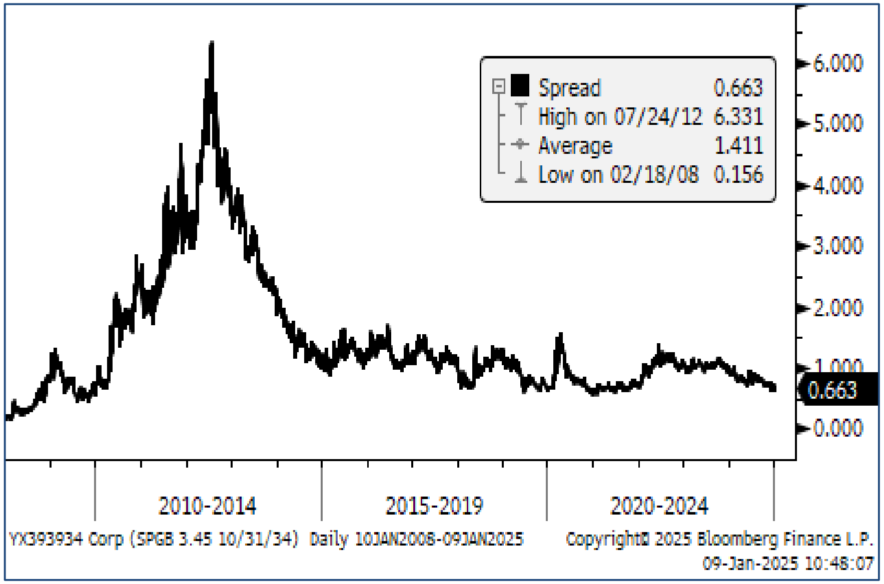
Source: Bloomberg

2. Macro : EU Peripheric Spreads

- On the peripheral spread side, southern European countries are performing better than their northern neighbors. **Spreads** between Germany and Spain, Italy, or Greece **continue to contract** after these countries reported better economic health than their northern counterparts.

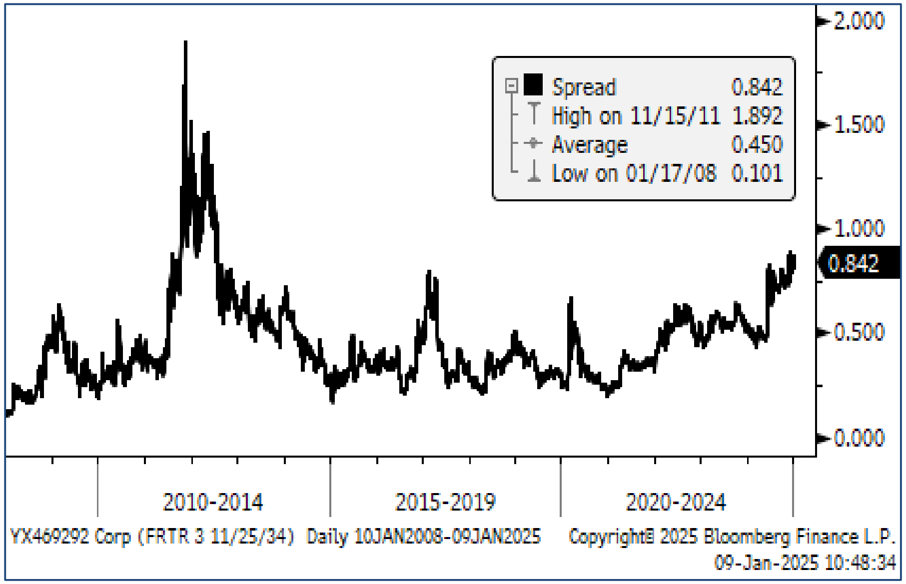
- In France, the ongoing political turbulence has made investors more cautious about the country's debt. **The spread between France and Germany continues to widen** and is now at levels not seen since the European debt crisis.

10Yr Spread Spain vs Germany



Source: Bloomberg

10Yr Spread France vs Germany



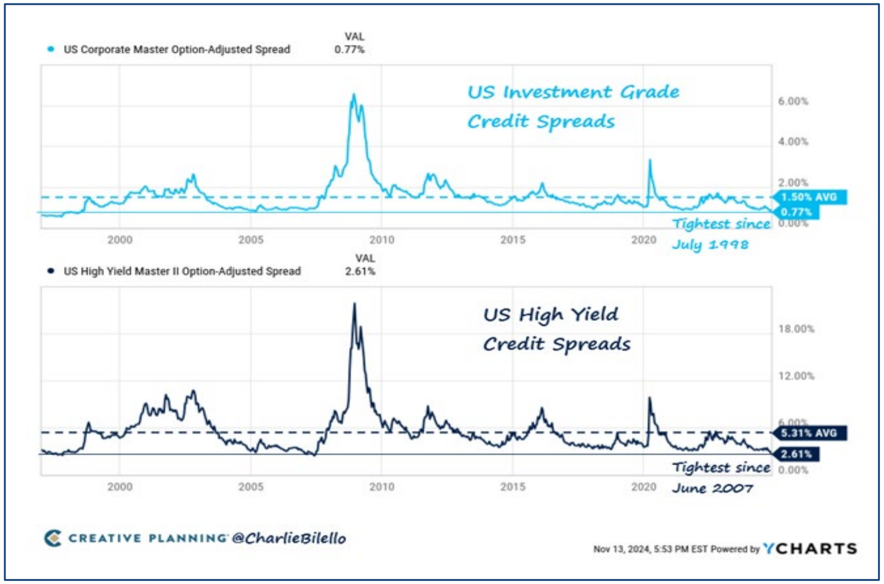
Source: Bloomberg

2. Macro : Credit Spreads

- **Credit spreads on corporate debt continue to tighten** and stabilize at historically low levels. This is true in Europe and the US, for both Investment Grade and High Yield debt.

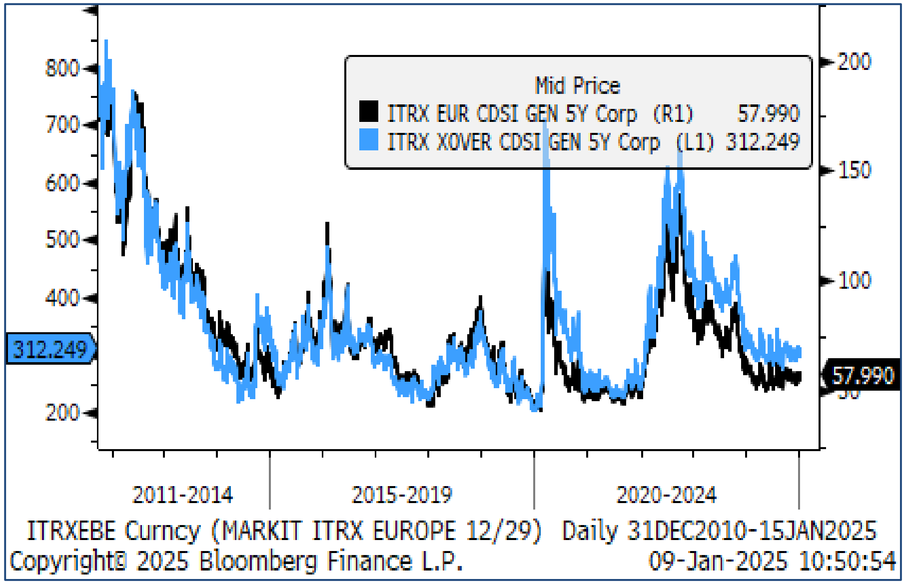
- This also shows that Fixed Income **investors do not anticipate a recession** in the coming months; otherwise, these spreads would be much wider.

US Credit Spread



Source: Charlie Bilello

EU Credit Spread



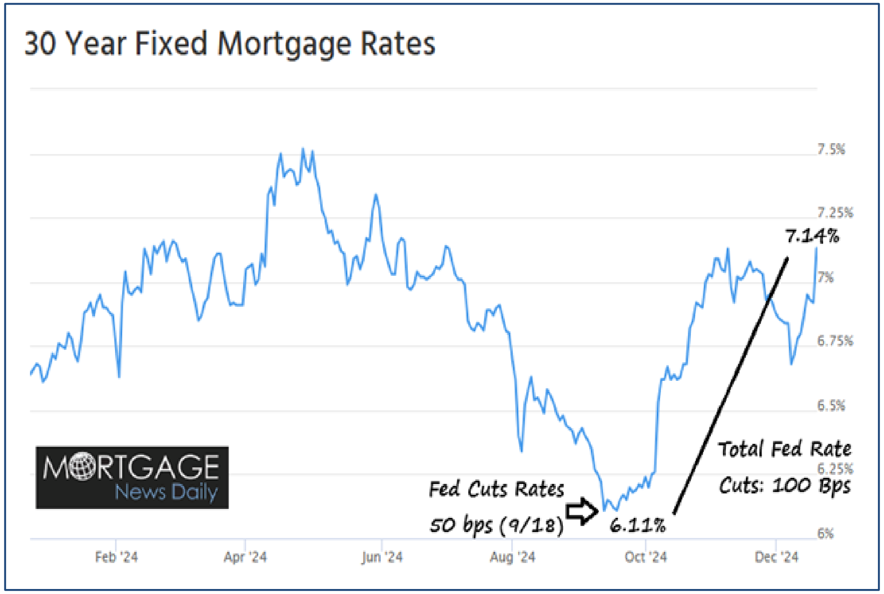
Source: Bloomberg

2. Macro : US Real Estate

- Given that long-term rates have continued to rise after the Fed's rate cuts, this has impacted mortgage rates. **Borrowing rates for home purchases are now around 7.14%.**

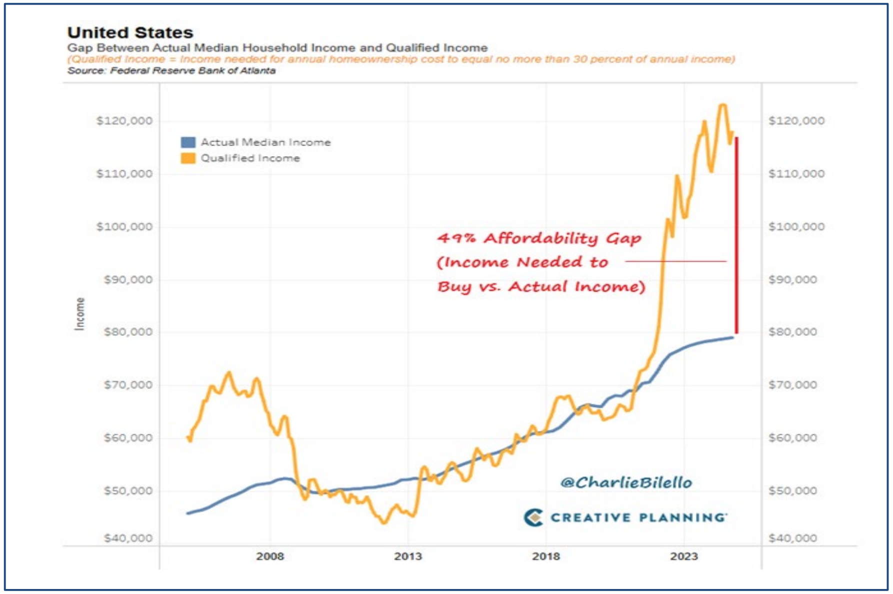
- The combination of high rates and high Real Estate prices has created an enormous gap between the average American wage and the salary required to purchase a property. **Access to homeownership has rarely been this difficult**, which is impacting sales in the sector.

US 30Yr Mortgage



Source: Charlie Bilello

US House Affordability



Source: Charlie Bilello

2. Macro : US Real Estate

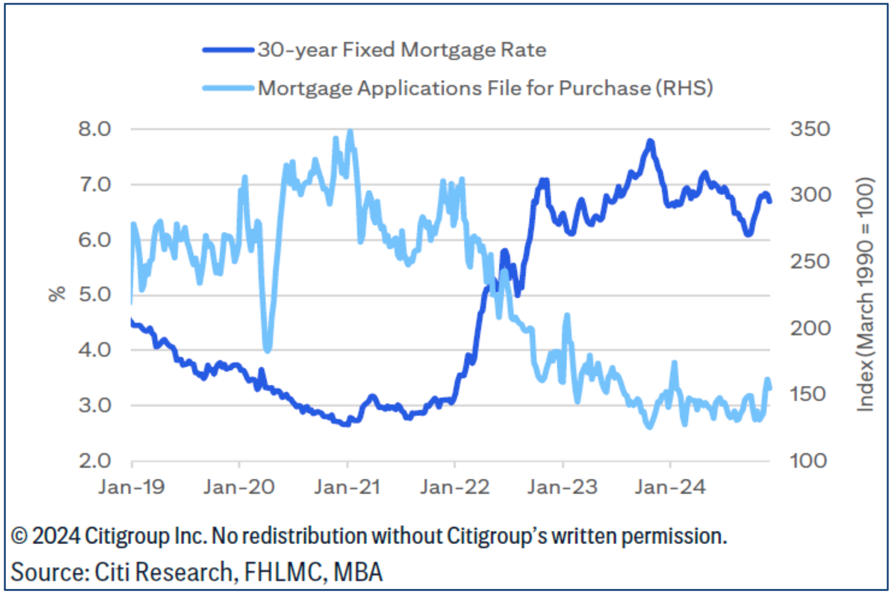
- **The number of new homebuyers** has plummeted since rates started rising in 2022. It seems to have stabilized in 2024 but **shows no signs of rebounding.** For a lasting recovery to occur, we would need either much higher wages, much lower Real Estate prices, or lower interest rates, but none of these conditions are currently in place.

- On the commercial Real Estate side, sentiment is also gloomy. While some companies are trying to bring their employees back to the office, **the office vacancy rate is at a historic high.**

US Office Vacancy Rate

Source: Charlie Bilello

US Mortgage Application

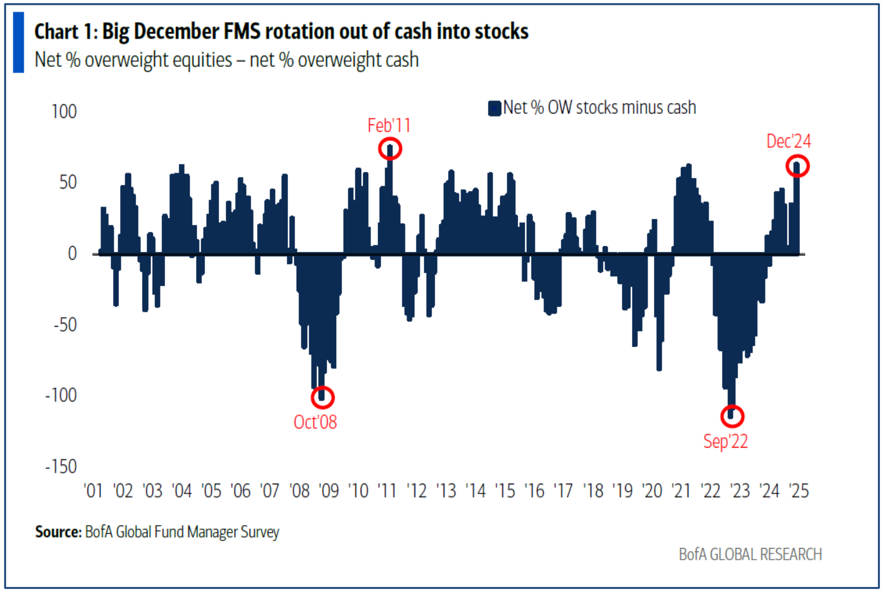


Source: Charlie Bilello

2. Macro : Market Positioning

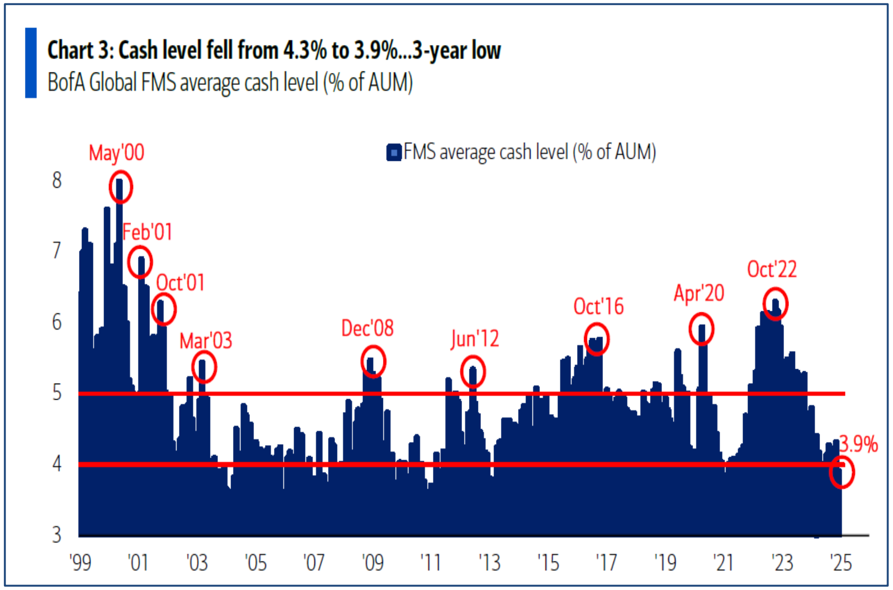
➢ After all the twists and turns with elections and Central Bank speeches, **investors** have begun positioning themselves for 2025. For now, the message is clear, they **are in risk-on mode**. The market is extremely bullish, with a significantly overweight allocation to equities in portfolios compared to cash, which is at levels not seen since the post-Covid rebound.

Cash vs Equity Positioning



Source: BofA

Cash level



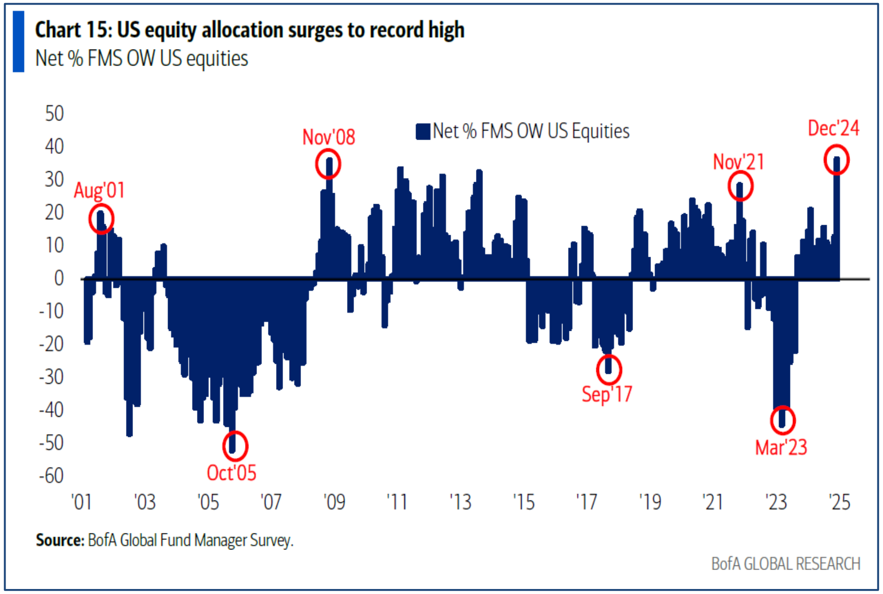
Source: BofA

2. Macro : Market Positioning

- All this **cash** that has been invested has mainly **flowed into US equities.** Mr. Trump's election was viewed positively by the market, and promises of corporate tax cuts are expected to allow US indices to generate higher profits.

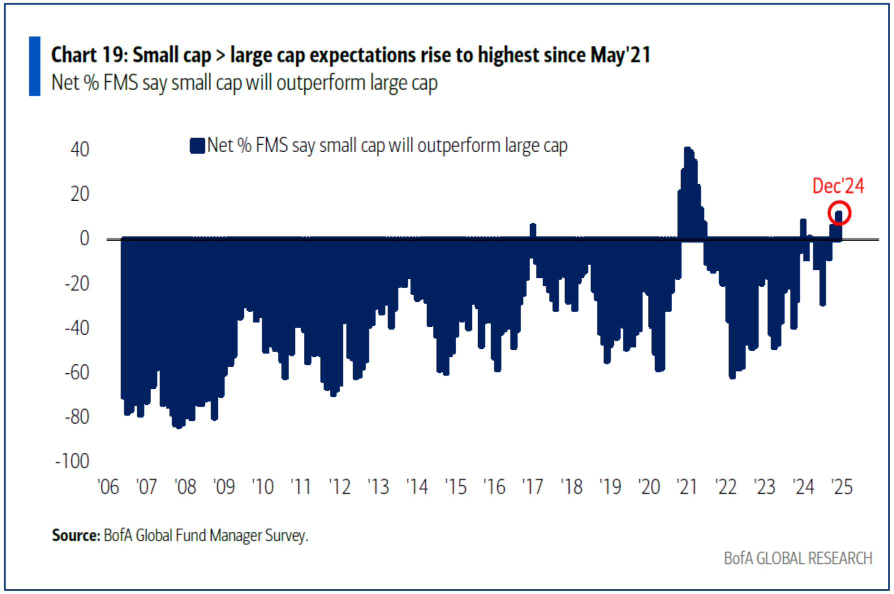
- It's also a rare occurrence that should be highlighted, for the first time since the post-Covid rebound, **investors expect small-cap stocks to outperform large-cap stocks**. This is a rare event and could signal that all stocks will contribute to index performance, not just the "Magnificent Seven."

US Equity Allocation



Source: BofA

Large cap vs small cap expectations



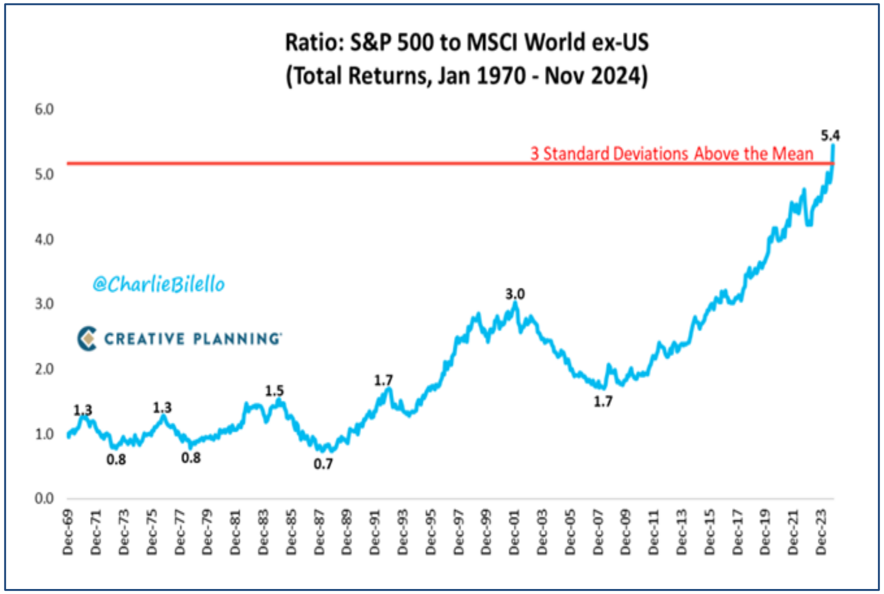
Source: BofA

2. Macro : US vs RoW Equities

- Between China, which is suffering from an unprecedented Real Estate crisis, and Europe, which cannot generate growth, it's not surprising to see **US equities outperforming the rest of the world.**

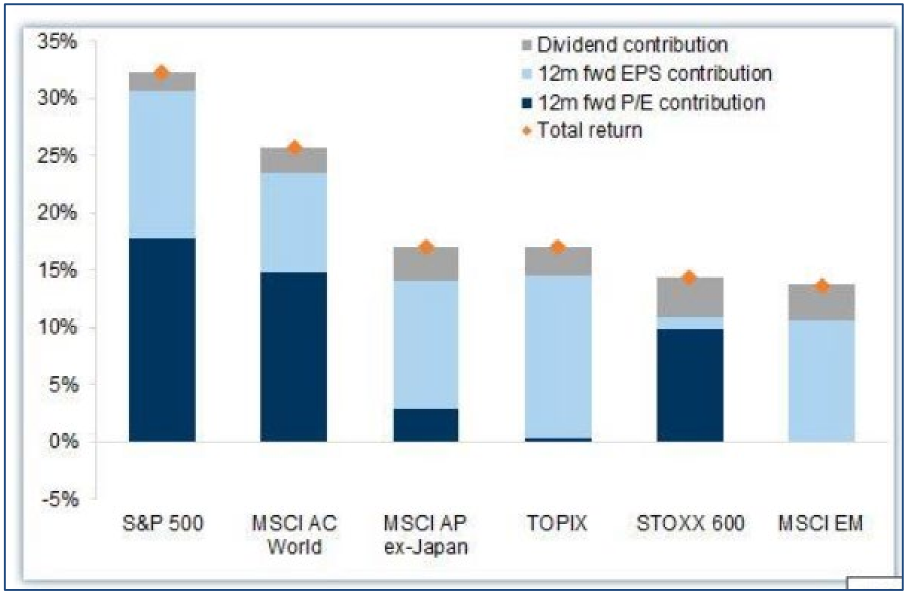
- Moreover, although part of the S&P 500's performance can be attributed to the expansion of multiples, almost half of it comes from profit growth, whereas in an index like the **Stoxx 600**, **two-thirds of the performance comes from the expansion of multiples**.

S&P 500 vs RoW



Source: Charlie Bilello

12M Return Attribution Breakdown



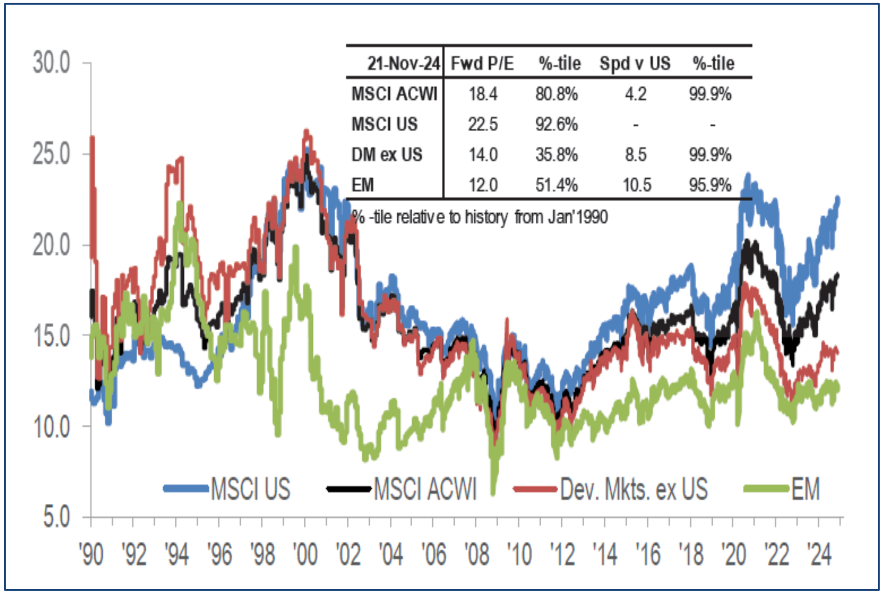
Source: Goldman Sachs

2. Macro : US vs RoW Equities

- In terms of valuation, **the US market remains excessively expensive** compared to its own history and other global indices. With a forward P/E of 22.5, its valuation ranks in the 92.6th percentile, and it has rarely been this expensive in relative terms.

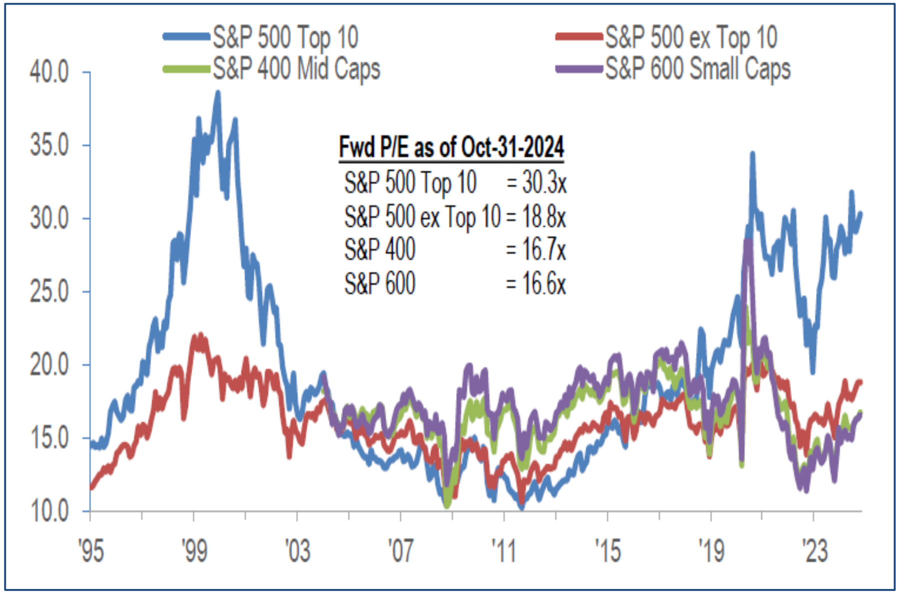
- However, not all the market is excessively expensive. It is mainly the largest stocks that are driving this valuation higher. When we break down the US market by market cap, we quickly see that valuations, although somewhat high, remain reasonable.

World Forward PE



Source: JP Morgan

US PE By Market Cap



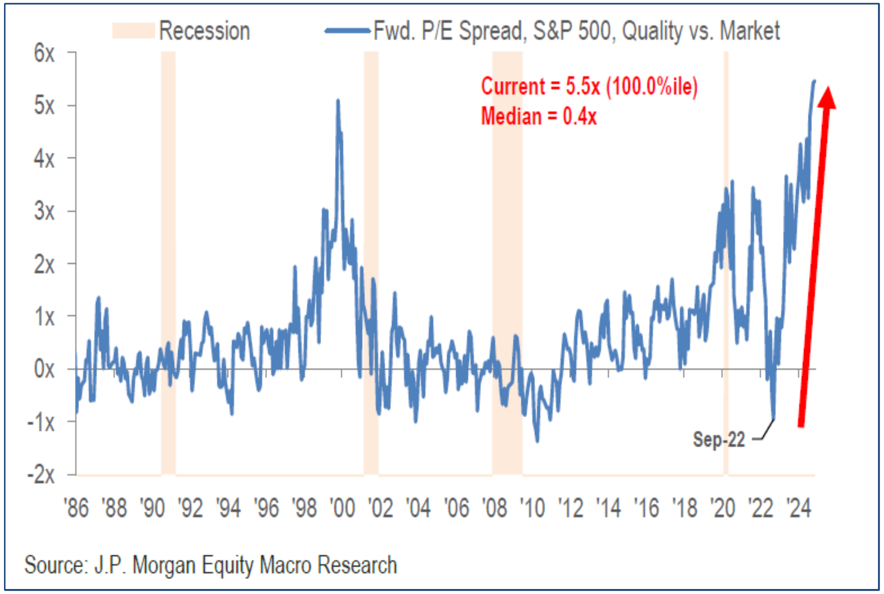
Source: JP Morgan

2. Macro : US vs RoW Equities

- We can observe that certain **styles**, like **quality**, are universally favored by investors. This style consists of stocks with stable or positively growing earnings and margins. The spread between the valuation level of this style and the rest of the market has never been higher, and while there are many arguments for holding such companies in a portfolio, a return to the mean could negatively impact these stocks.

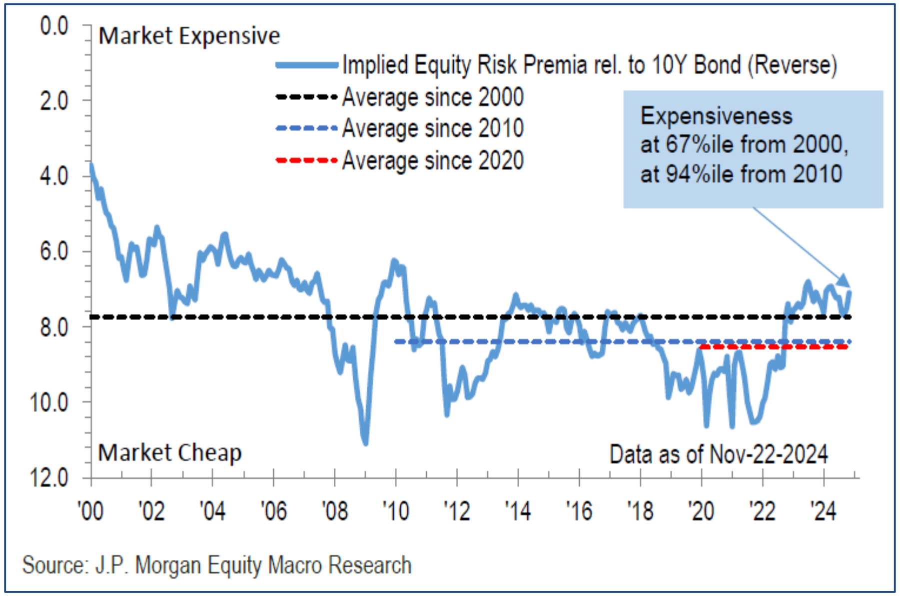
- **Compared to government bond yields**, US equities do not offer the best risk-return ratio. This further underscores that, although the economy is performing well, valuation remains an important factor to closely monitor.

Quality vs Market PE



Source: JP Morgan

US Equity Risk Premium

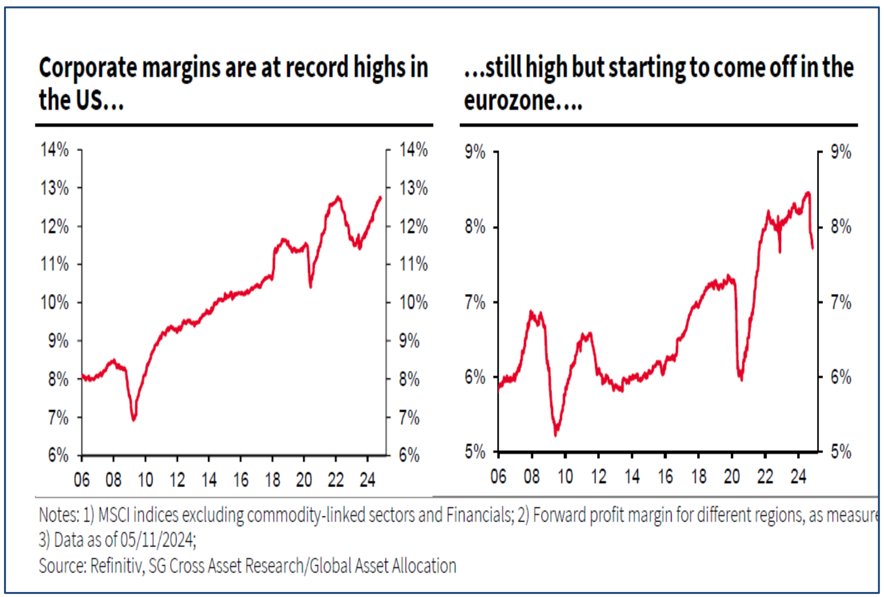


Source: JP Morgan

2. Macro : US vs RoW Equities

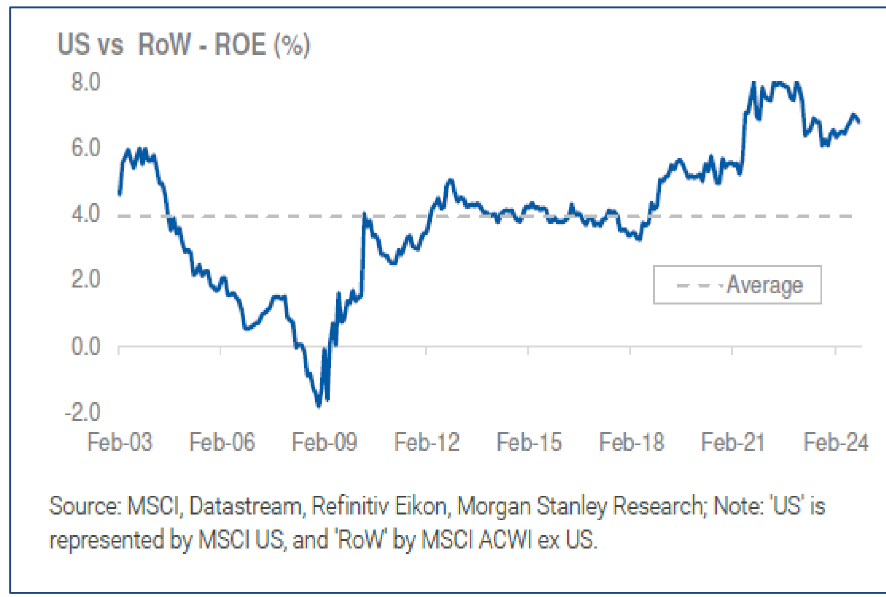
- If investors are so bullish on the US rather than Europe or the rest of the world, this can also be explained by the much higher profitability.
- Indeed, in **Europe, margins peaked a few months ago, while in the US, they are on a positive trend**. In terms of **ROE**, the spread between the US and the rest of the world has rarely been this high. The market is expensive, but quality comes at a price!

US vs Europe Margin



Source: Société Générale

US vs RoW ROE



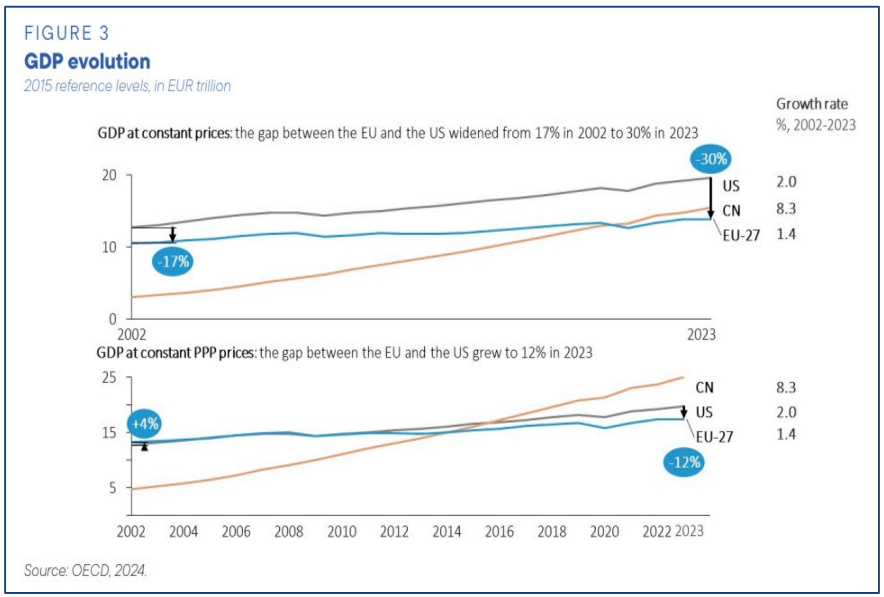
Source: Morgan Stanley

2. Macro : EU Competitiveness

- If investors prefer the US equity market over Europe, it's for good reasons, and Mr. Draghi highlighted some of them. **European growth has stagnated for two decades**, and the gap between the US and Europe has widened, while China has caught up with Europe.

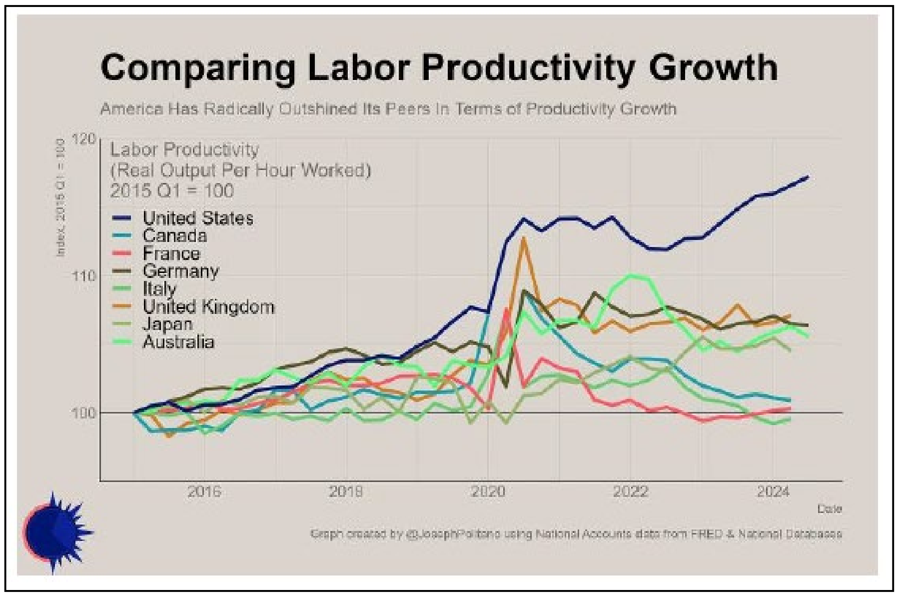
- This low growth is partly due to a **lack of competitiveness in Europe**, which is reflected in significantly **lower productivity** compared to its competitors. It's also important to keep in mind that the European Union is not a country and thus cannot be run like one.

EU GDP vs RoW



Source: Draghi Report

Labor Productivity Growth



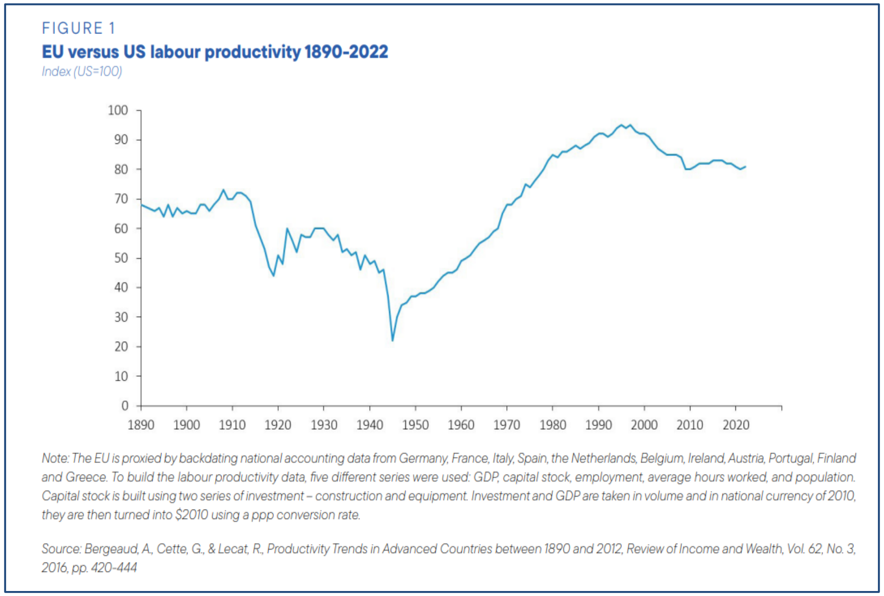
Source: FRED

2. Macro : EU Competitiveness

- Compared to the US, Europe's **productivity has been decelerating since the 1990s and the rise of the internet**. Europe completely missed the train and has been overtaken by other economies.

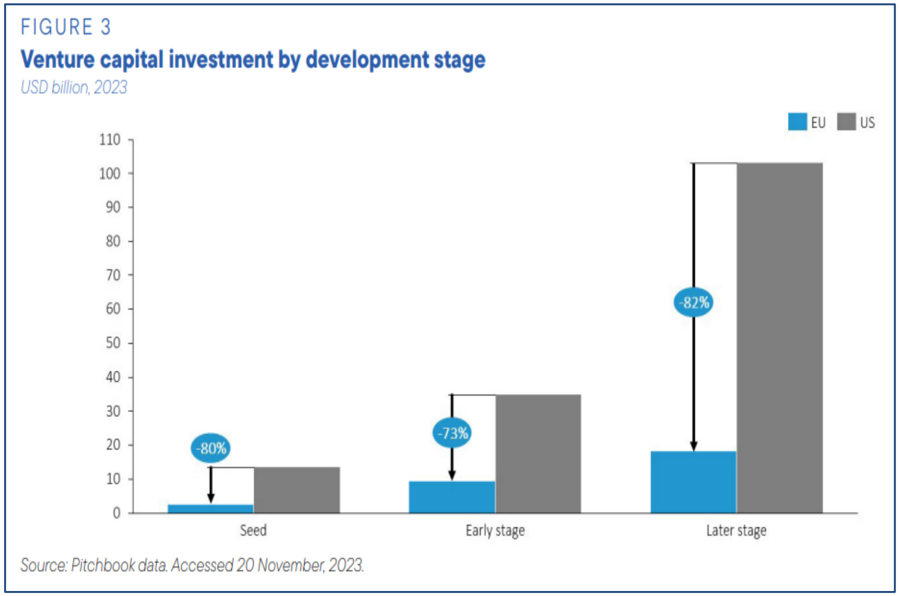
- Furthermore, Europe does not seem ready to bridge this gap. In comparison to the US, **Europe invests much less money** in emerging companies with potentially revolutionary ideas. As a result, most innovations are not happening in Europe.

EU vs US Labor Productivity



Source: Draghi Report

Venture Capital Investment



Source: Draghi Report

2. Macro : EU Competitiveness

- On a global level, Europe continues **to defend itself in terms of exports of goods and services**. It remains first in services but has fallen behind China in terms of goods. Europe cannot compete with China, which offers much cheaper labor. Additionally, as productivity is low, it cannot offset the cost of wages.

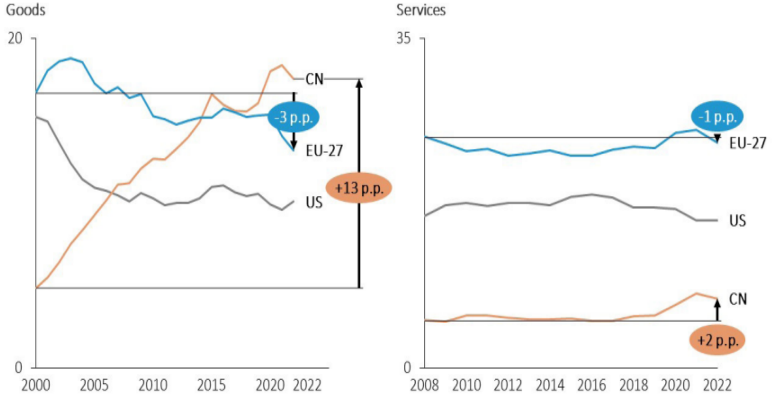
- Since Russia's invasion of Ukraine, another factor has disrupted Europe's manufacturing competitiveness. **Energy costs have soared**, and consequently, these must be reflected in the price of goods if companies want to maintain the same level of profitability.

Share in World trade

FIGURE 5

Share in world trade in goods and services

% of global trade, excluding intra-EU trade



Note: The data refers to goods trade (lhs) and services trade (rhs), excluding intra-EU. The global total is the net of intra-EU trade.

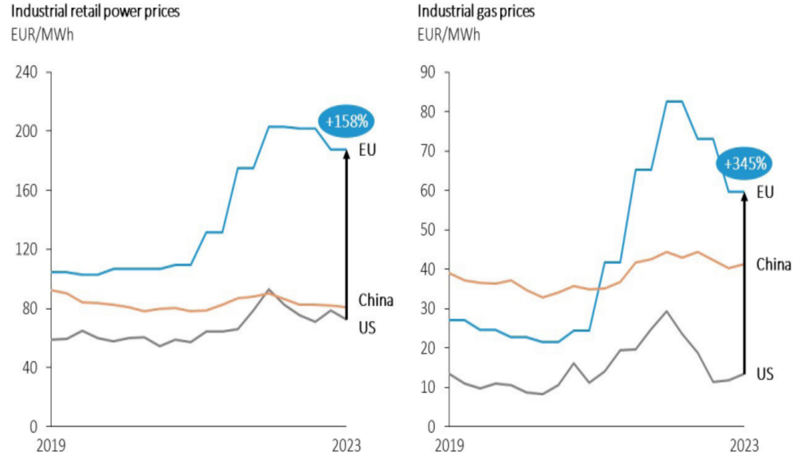
Source: European Commission (JRC). Based on WTO.

Source: Draghi Report

Power Prices

FIGURE 6

Gas and retail price gap for industry



Source: European Commission, 2024. Based on Eurostat (EU), EIA (US) and CEIC (China), 2024.

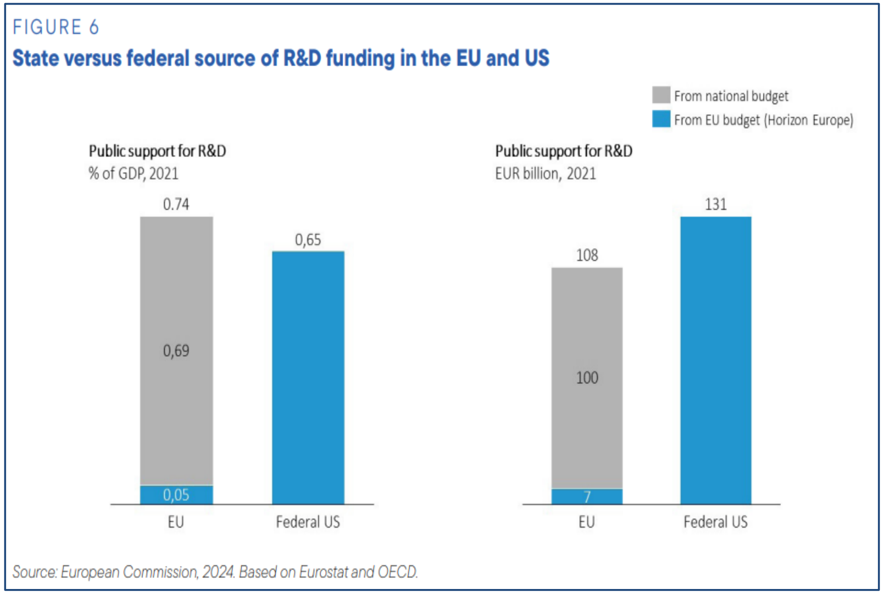
Source: Draghi Report

2. Macro : EU Competitiveness

- One of the other factors affecting Europe's underperformance is its support for R&D. Although spending is comparable to that of the US, it is done at a national level, not at a European level. **This shows that Europe is not yet fully a "Union,"** and because spending is done at the national level, there are likely redundancies in the allocation of resources, which is undeniably inefficient.

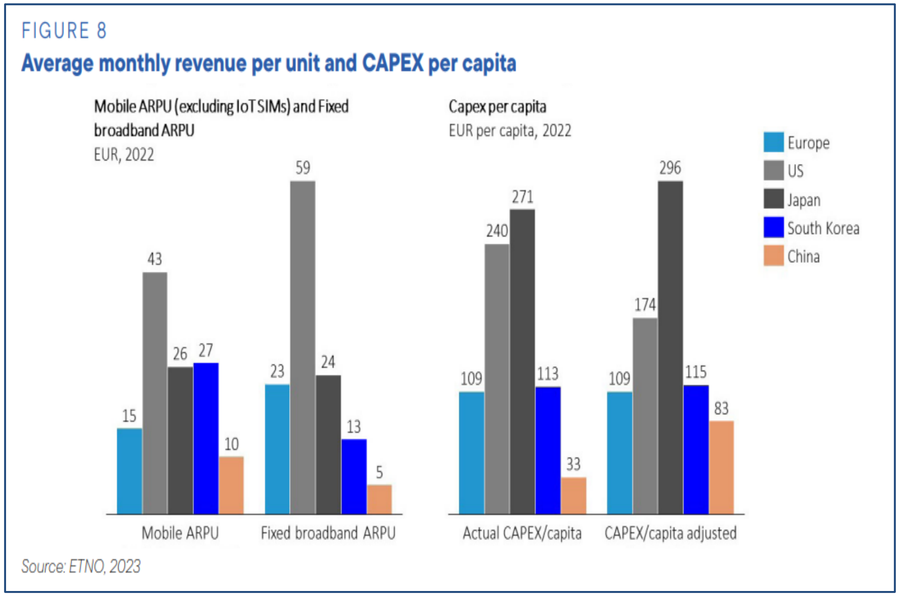
- An example that illustrates this problem is **Telecommunications** in Europe. The market is not consolidated enough, making it more difficult to invest and increase profitability, which is completely the opposite in the US.

Public Support for R&D



Source: Draghi Report

Telecom ARPU and CAPEX



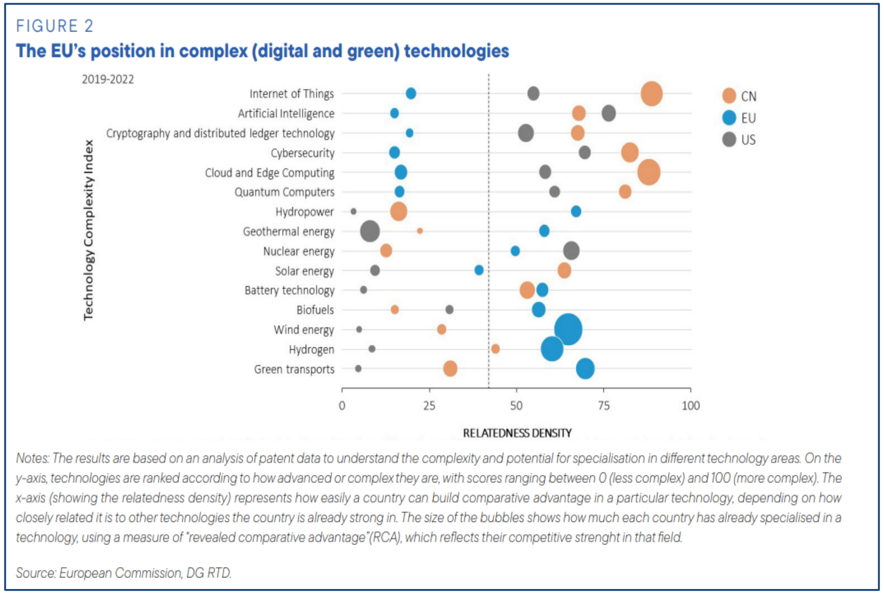
Source: Draghi Report

2. Macro : EU Competitiveness

- Europe's choices can also be questioned. Today, where Europe is technologically ahead is in the **least profitable** sectors that the markets do not care about. Indeed, **Europe has focused heavily on developing renewable energy** technologies while neglecting other important sectors like Semiconductors, artificial intelligence, and cloud computing.

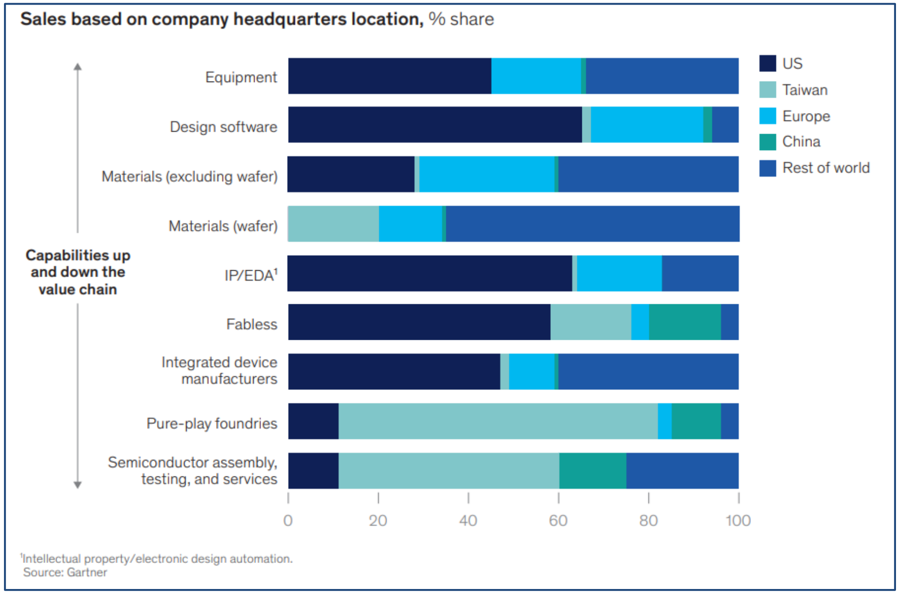
- In the Semiconductor sector, Europe, which was a leader 20 years ago, now represents only 10% of the value chain.

EU Position in Technologies



Source: Draghi Report

Semiconductors Sales By Region



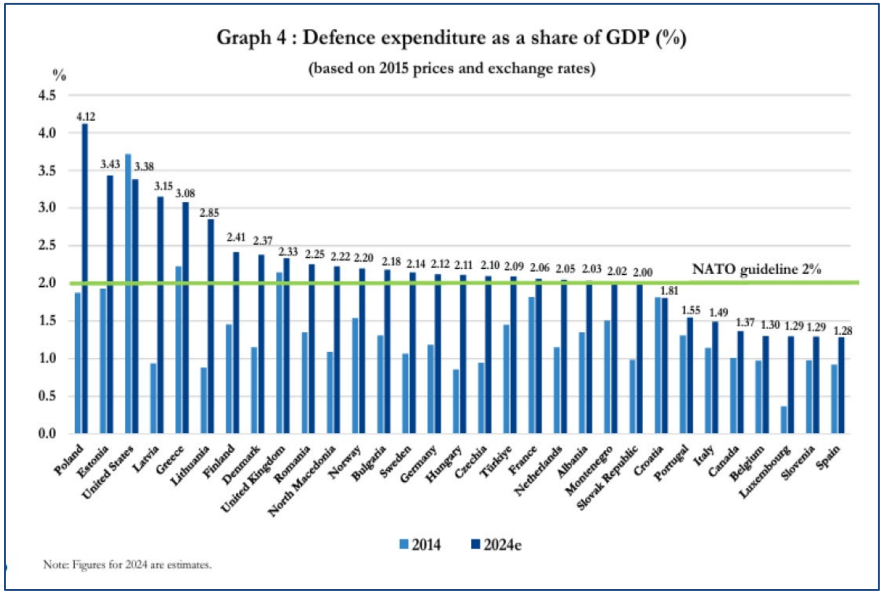
Source: Mckinsey

2. Macro : EU Competitiveness

➢ Today, what could revive Europe’s growth is the defense sector. NATO members are supposed to spend 2% of their GDP on defense, but very few countries meet this target. **Trump wants to increase this target to 5%.** NATO will decide this summer of the final target.

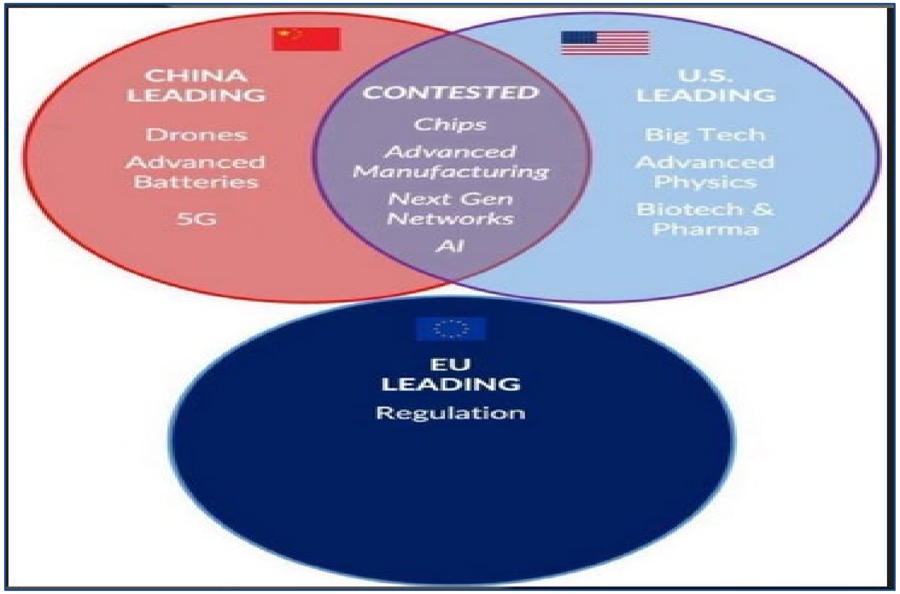
➢ Mr. Trump is already putting pressure on certain countries to increase investments in this sector, which is certainly a boost for Europe’s manufacturing sector.

EU Defense Spending



Source: Draghi Report

EU Leading Position



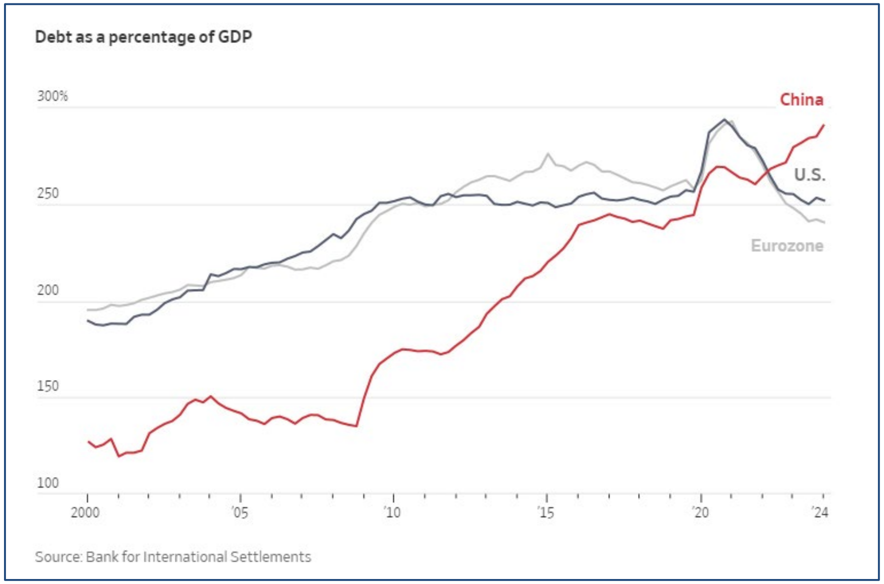
Source: Linkedin

2. Macro : China Debt

- China is still in the midst of its turmoil. Both the state and consumers are heavily indebted. **Total debt as a percentage of GDP has surpassed 280%.** The Chinese Central Bank has cut rates, which should reduce debt costs and thus initiate a rebound in the real estate market.

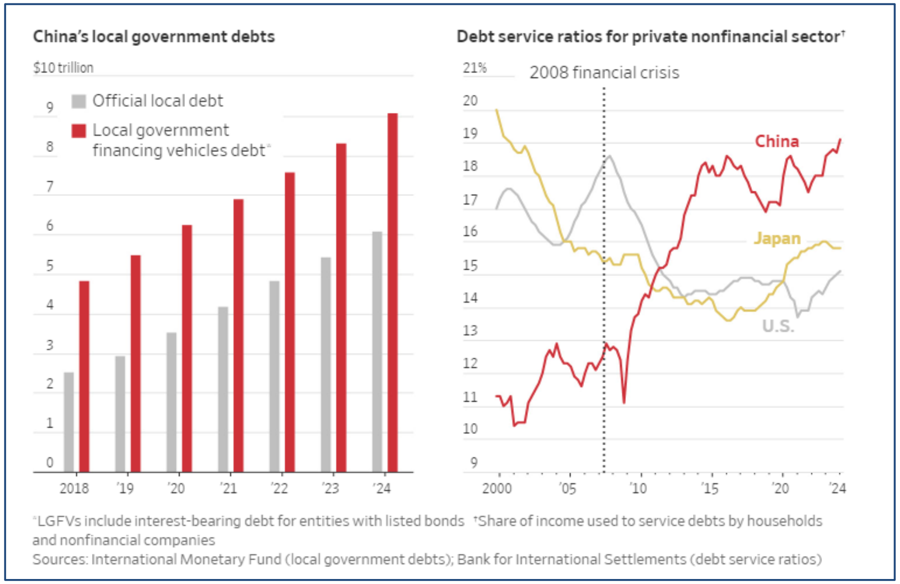
- However, **debt costs will continue to weigh on individuals and businesses**, with a portion of their income going to pay interest.

China Total Debt to GDP



Source: WSJ

Debt and Debt Service Ratio



Source: WSJ

2. Macro : China Real Estate

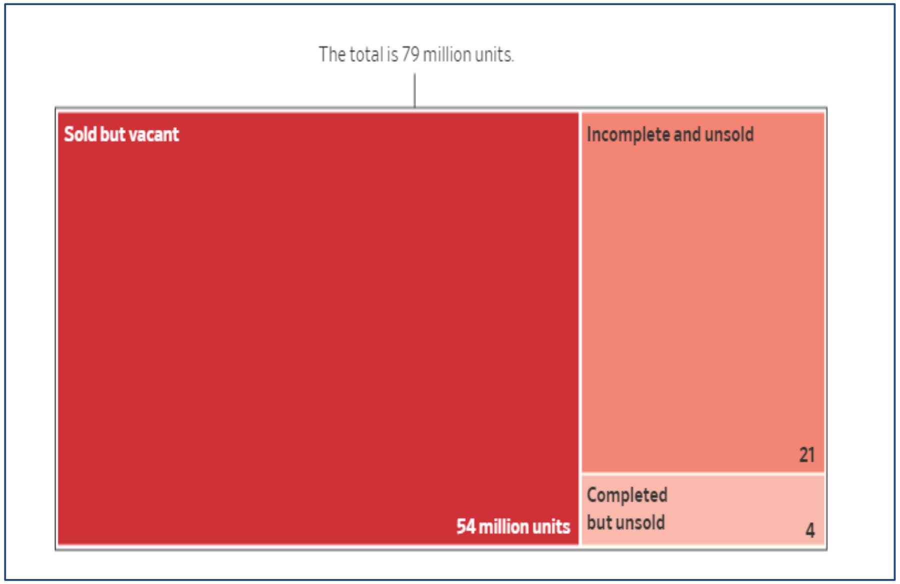
- In the Real Estate sector, the market is not recovering. The number of new constructions has plummeted since 2019, and sales are following the same path. Event though the Central Bank has cut rates, **there's still no visible effect on the Real Estate market.**

- Moreover, **Real Estate achieved and sold remain vacant**, yielding no returns and even costing for maintenance and interest payments. Some constructions are simply unfinished, and a smaller portion is completed but remains unsold. Unsold properties are making it even harder for Real Estate developers to access liquidity.

China Real Estate Construction and Sales

Source: WSJ

China Real Estate State



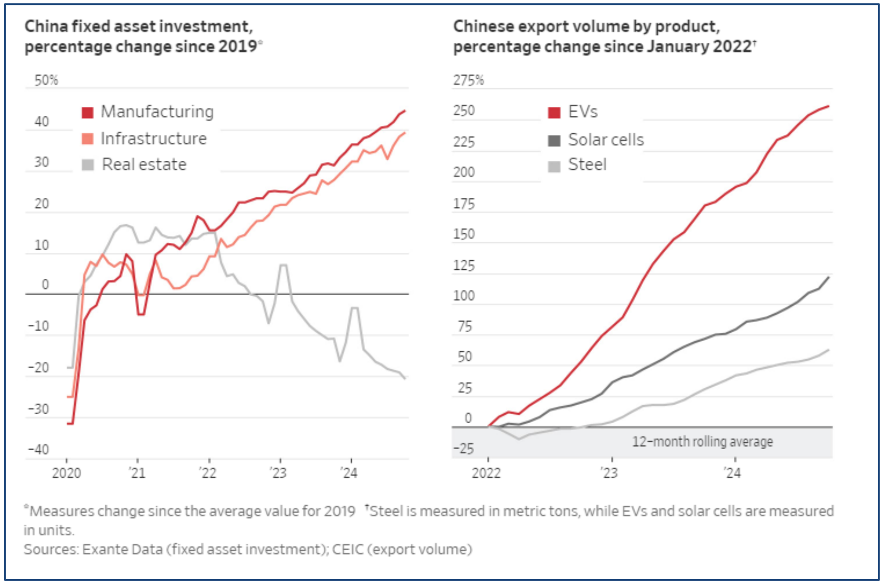
Source: WSJ

2. Macro : China Investment and Manufacturing

- Although the Real Estate sector is under pressure and investments are rare, investments in infrastructure and manufacturing continue.

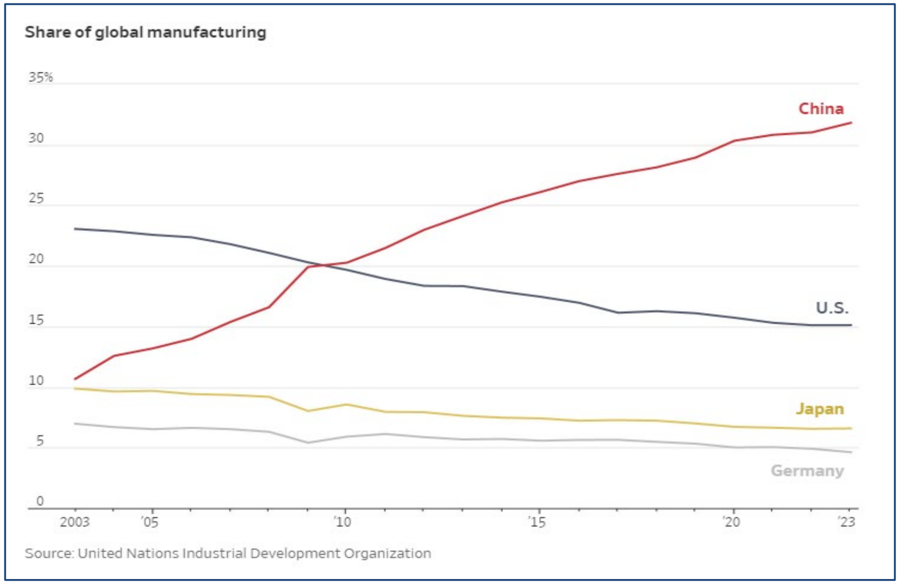
- **China remains the world's largest manufacturing exporter**, with significant leadership in several sectors like electric vehicles and solar panels. However, these sectors benefit from state subsidies, so it remains to be seen how they will perform without state support.

China Investment and Exports



Source: WSJ

Share of Global Manufacturing



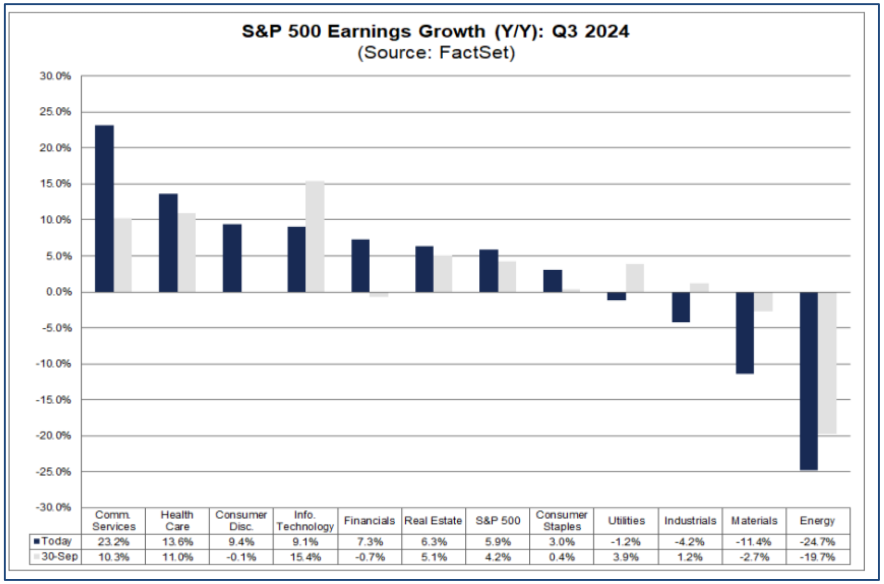
Source: WSJ

3. Micro : US Earnings

- Q3 US earnings growth of 5.9% YoY ended up beating analysts expectation by 1.7%. Communication Services and Health Care were the two sector growing the most whereas Energy and Materials lagged the most.

- At the end of September, analysts were expecting EPS growth of 14.5% for the fourth quarter, but these expectations were reduced to 11.9% over three months. Eight sectors are expected to report lower earnings today (compared to September 30) due to downward revisions to EPS estimates.

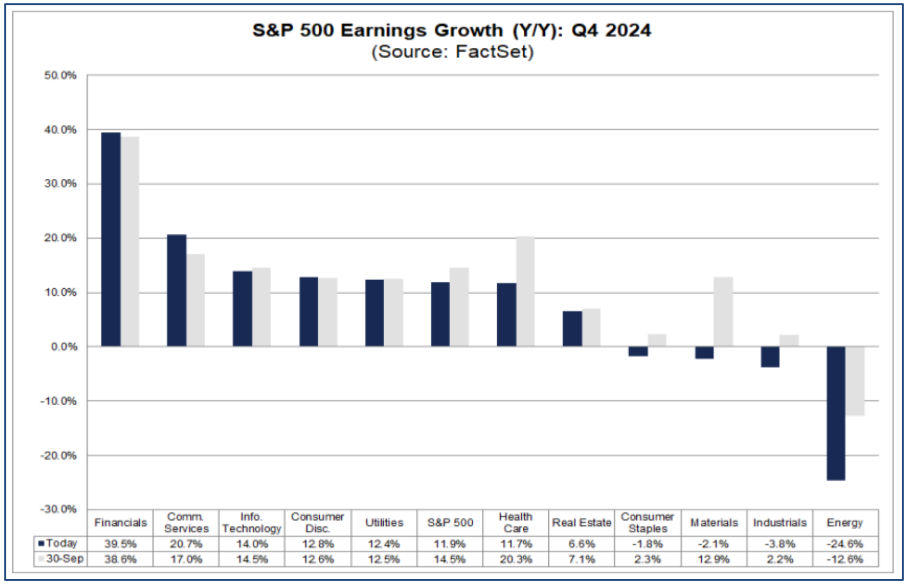
S&P 500 EPS Growth Q3 2024



	Comm. Services	Health Care	Consumer Disc.	Info. Technology	Financials	Real Estate	S&P 500	Consumer Staples	Utilities	Industrials	Materials	Energy
Today	23.2%	13.6%	9.4%	9.1%	7.3%	6.3%	5.9%	3.0%	-1.2%	-4.2%	-11.4%	-24.7%
30-Sep	10.3%	11.0%	-0.1%	15.4%	-0.7%	5.1%	4.2%	0.4%	3.9%	1.2%	-2.7%	-19.7%

Source: Factset

S&P 500 EPS Growth Q4 2024



	Financials	Comm. Services	Info. Technology	Consumer Disc.	Utilities	S&P 500	Health Care	Real Estate	Consumer Staples	Materials	Industrials	Energy
Today	39.5%	20.7%	14.0%	12.8%	12.4%	11.9%	11.7%	6.6%	-1.8%	-2.1%	-3.8%	-24.6%
30-Sep	38.6%	17.0%	14.5%	12.6%	12.5%	14.5%	20.3%	7.1%	2.3%	12.9%	2.2%	-12.6%

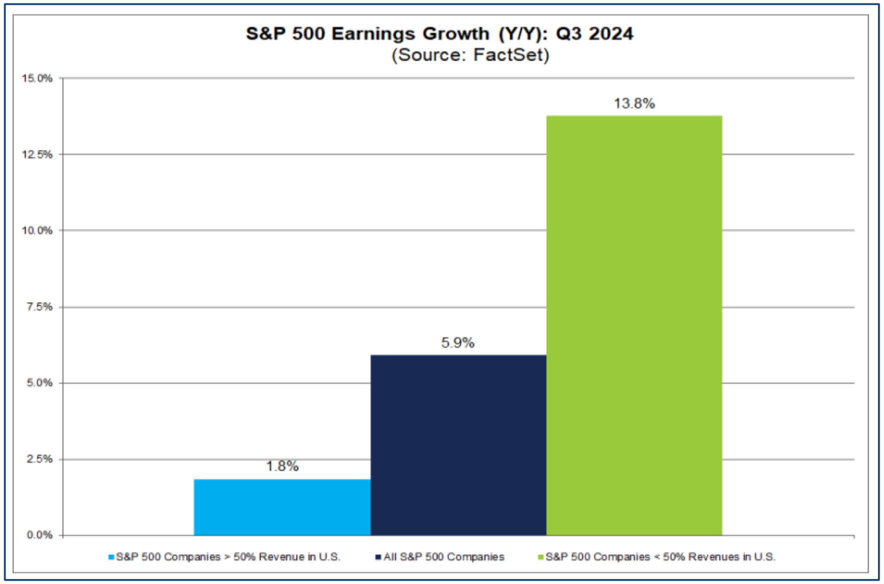
Source: Factset

3. Micro : US Earnings

- In the US, companies that generate the majority of their revenue internationally experienced greater earnings growth compared to the average, and significantly more than those focused solely within domestic borders.

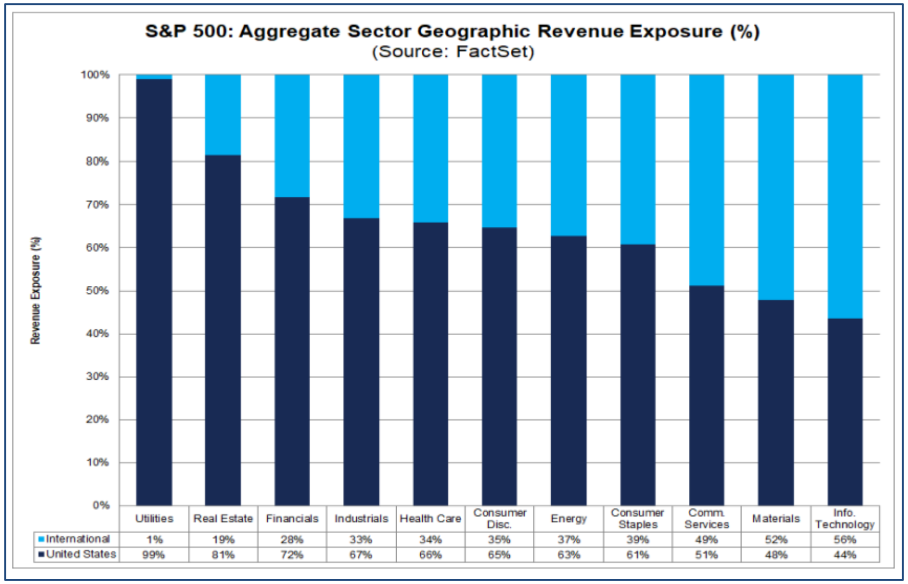
- Utilities and Real Estate are the two sectors with the highest revenue exposure in the US, at 99% and 81% respectively. Conversely, Information Technology and Materials have the lowest exposure, with only 44% and 48% of their revenue derived from the US.

S&P 500 EPS Growth By Geo Revenues



Source: Factset

S&P 500 Geo Revenues By Sector



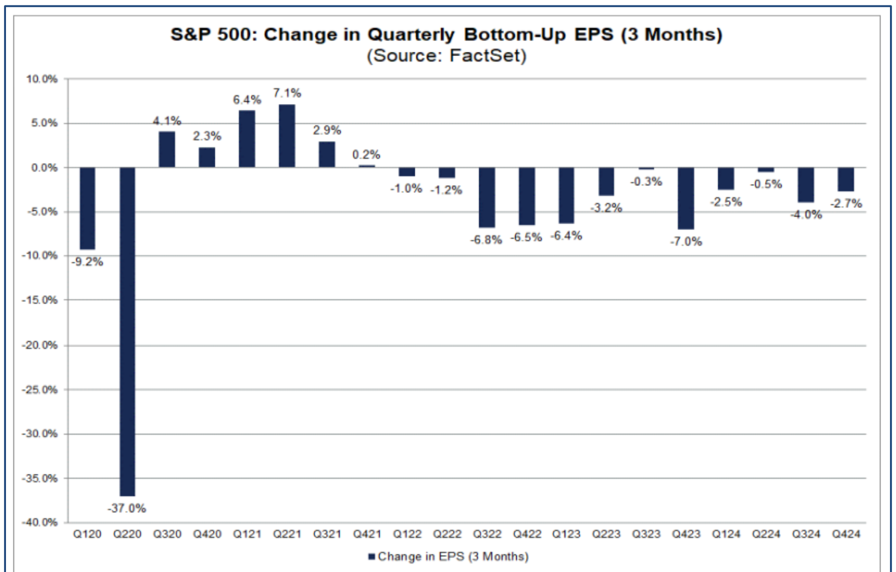
Source: Factset

3. Micro : US Earnings

- In terms of estimate revisions for companies in the S&P 500, analysts lowered earnings estimates for Q4 2024 by 2.7% from September 30 to December 31. This is a smaller than the 5-year average for a quarter of -3.4%.

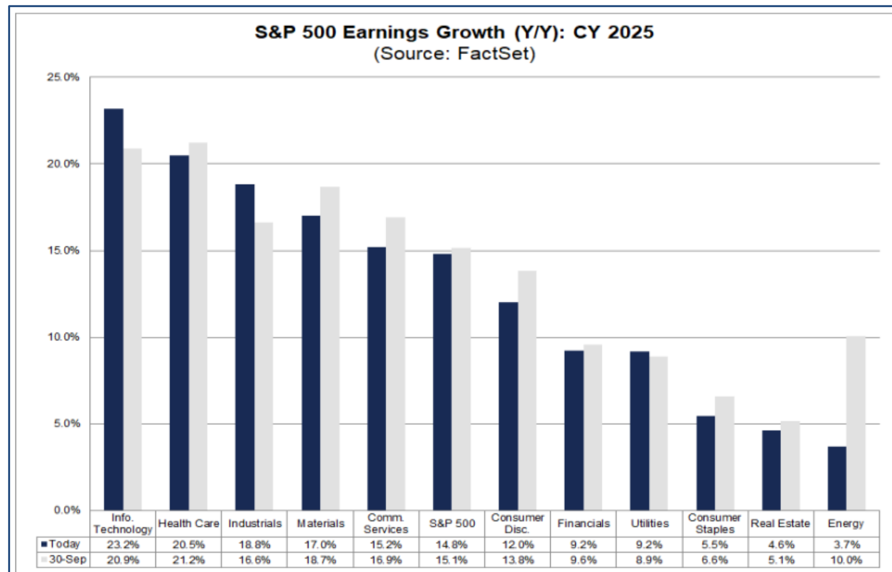
- For next year, analysts expect S&P 500 earnings to rise by 14.8%. This expectation is quite in line with expectations from end of September where they expected a 15.2% growth.

S&P 500 3M EPS Revision



Source: Factset

S&P 500 EPS Growth 2025



Source: Factset

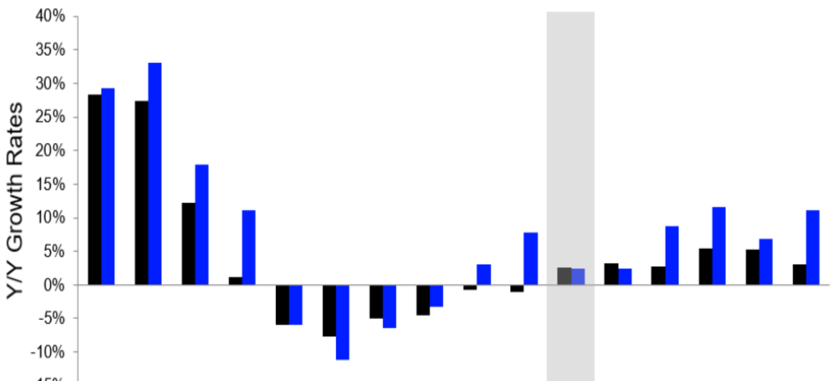
3. Micro : Europe Earnings

- On the European side, for the fourth quarter, revenue are expected to grow by 2.5% YoY and earnings should be up 2.4% YoY.

- Expectations for the fourth quarter have been revised downwards. At the end of October, analysts anticipated earnings growth of more than 8% for the fourth quarter, but this estimate dropped to approximately 3% by the end of December.

Stoxx 600 Revenue and EPS Growth

Exhibit 3A. STOXX 600 YoY Growth Rates



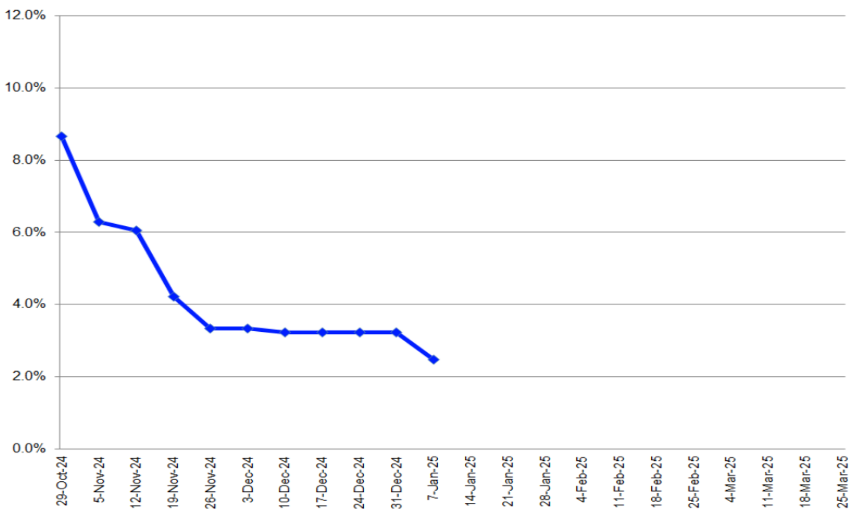
	22Q2	22Q3	22Q4	23Q1	23Q2	23Q3	23Q4	24Q1	24Q2	24Q3	24Q4	25Q1	25Q2	25Q3	25Q4	26Q1
Revenue	28.3%	27.4%	12.2%	1.1%	-6.0%	-7.6%	-5.0%	-4.6%	-0.8%	-1.1%	2.5%	3.3%	2.7%	5.5%	5.2%	3.0%
Earnings	29.3%	33.1%	17.9%	11.1%	-5.9%	-11.1%	-6.5%	-3.3%	3.0%	7.8%	2.4%	2.5%	8.8%	11.6%	6.8%	11.1%

Source: LSEG I/B/E/S

Source: Refinitiv

Stoxx 600 3M EPS Revisions

Exhibit 2A. STOXX 600: Q4 2024 Earnings Growth Estimate



Source: LSEG I/B/E/S

Source: Refinitiv

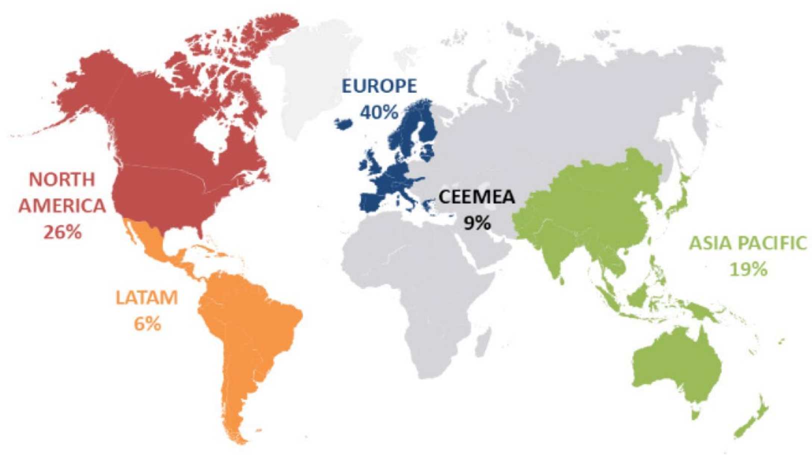
3. Micro : Europe Earnings

- Companies from the Stoxx 600 generate their revenue mainly from Europe and North America, accounting for 40% and 26% respectively.

- When examining exposure by country, we see that the United States is far ahead, representing more than 25% of the Stoxx 600's revenue, followed by the United Kingdom with less than 10%.

Stoxx 600 Geo Revenues By Region

Exhibit 7: STOXX Europe 600 - Geographical Revenue Exposure



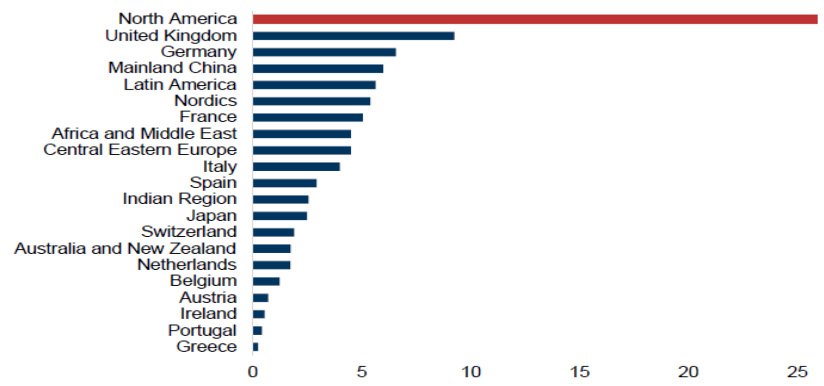
Source: FactSet, STOXX, Goldman Sachs Global Investment Research

Source: Goldman Sachs

Stoxx 600 Geo Revenues By Country

Exhibit 8: SXXP exposure to individual European countries is limited

STOXX Europe 600 - Geographical Revenue Exposure (%)



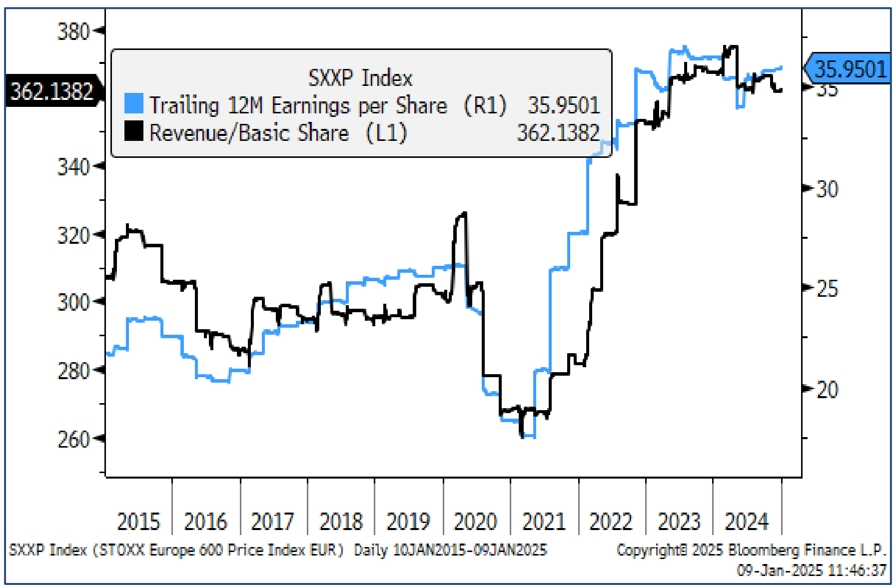
Source: FactSet, STOXX, Goldman Sachs Global Investment Research

Source: Goldman Sachs

3. Micro : US vs Europe Earnings

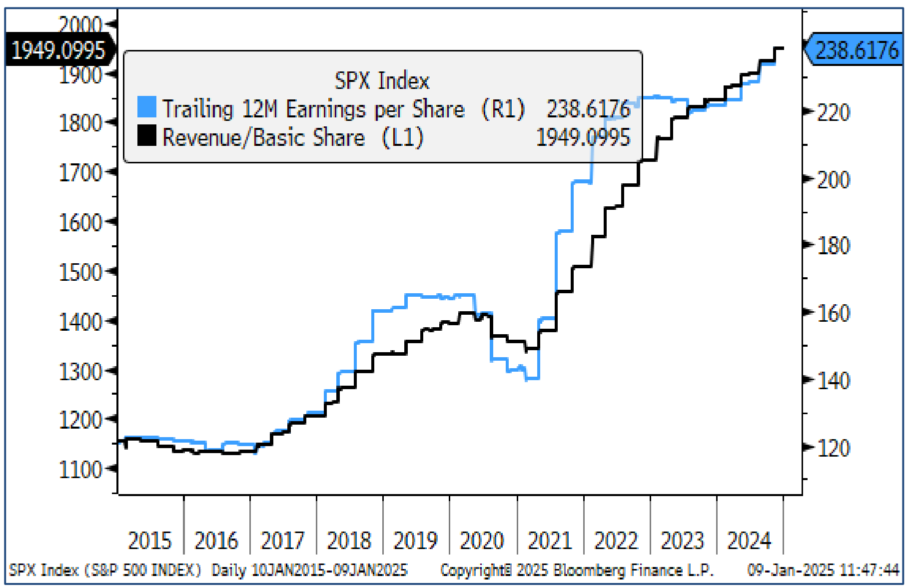
- In Europe, EPS and RPS have significantly recovered from the declines following Covid.
- Similarly, in the USA, EPS and RPS have continued to grow steadily since mid-2021 to the present.

Stoxx 600 EPS & RPS



Source: Bloomberg

S&P 500 EPS & RPS



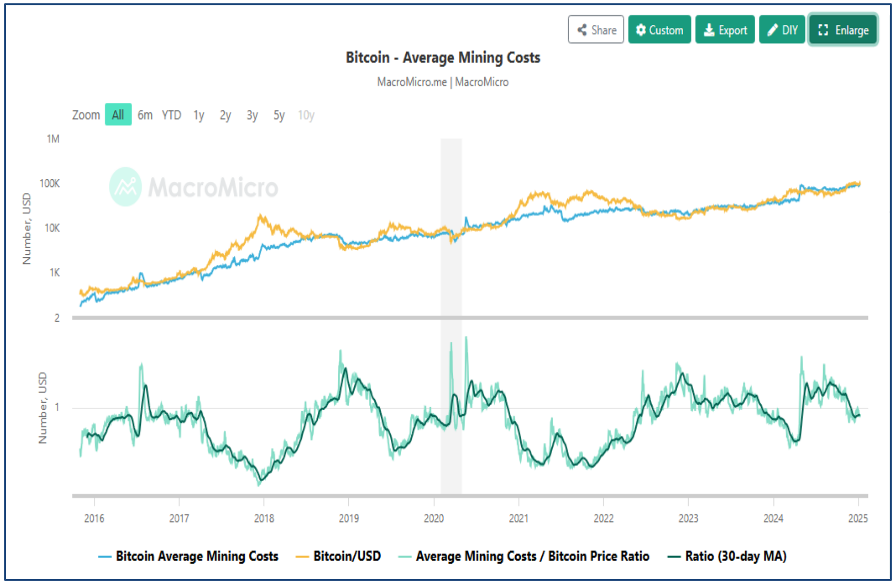
Source: Bloomberg

4. Cross Asset : Bitcoin

- Bitcoin prices tend to follow mining costs. As shown in the chart on the left the ratio of mining costs to Bitcoin price can provide insights into potential price movements. When mining costs are low relative to Bitcoin's price, it often indicates profitability for miners, attracting more participants and potentially driving the price up. The inverse can also be true.

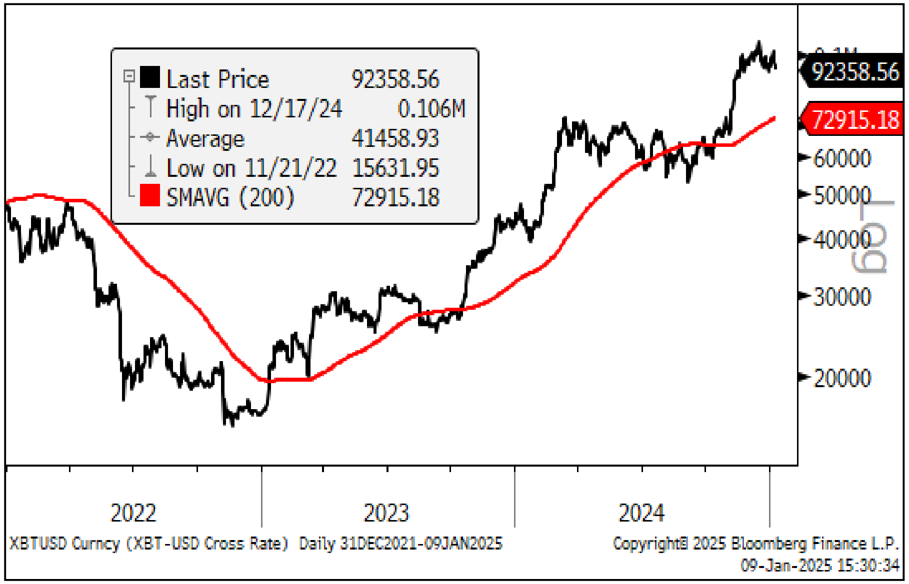
- The shift to a pro-cryptocurrency administration and Congressional representatives in the US potentially marked the end of regulatory stagnation. This optimism propelled Bitcoin from USD 64'000 at the end of September to USD 108'000, before it retraced to USD 92'000 by year-end.

Bitcoin Average Mining Price



Source: MacroMicro

Bitcoin Price



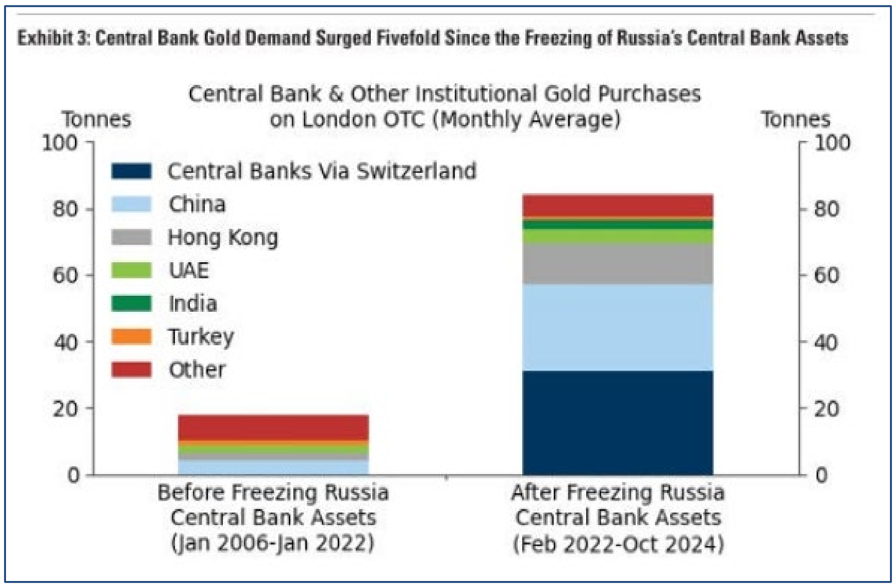
Source: Bloomberg

4. Cross Asset : Gold

- Following the freezing of Russia's Central Bank assets, demand for Gold from Central Banks, led by China, has significantly increased. This resurgence in interest is influenced by various factors, including heightened geopolitical tensions, the possibility of economic fragmentation, and diminishing trust in current international systems.

- Gold led the precious metals sector in the fourth quarter, standing as the only sector member to post a positive performance in Q4 2024. Throughout the year, Gold also outperformed other metals, achieving a 27.47% gain and reaching a new record high, exceeding USD 2'800 per ounce.

Central Bank Gold Purchase



Source: Goldman Sachs

Gold Price

Source: Bloomberg

5. Market Review: Equity Performance

- During Q4, the United States, particularly the Technology sector, led major indexes with a 6.2% performance for the Nasdaq and 2.1% for the S&P 500. Despite a challenging start to the year, China still ended on a positive note, mainly driven by the stimulus announcements made earlier in the year by the Politburo.
- The VIX index concluded the year with a standout performance of 39.4% in USD terms, surpassing both the Nasdaq and the S&P 500. On the other hand, the worst performers were Brazil, France, and Switzerland.

Equity Indices	% YTD in USD	% YTD in EURO	% 3M in USD	% 3M in EURO
MSCI WORLD	17.0%	23.6%	-0.4%	7.1%
S&P 500	23.3%	29.9%	2.1%	9.6%
NASDAQ	28.6%	35.3%	6.2%	13.7%
BRAZIL	-37.6%	-29.7%	-22.0%	-14.1%
Euro Stoxx 50	2.1%	8.3%	-9.1%	-2.1%
Stoxx Europe 600	-0.2%	6.0%	-9.9%	-2.9%
FTSE 100	4.0%	10.2%	-7.2%	-0.2%
CAC 40	-8.4%	-2.2%	-10.4%	-3.3%
DAX	12.6%	18.8%	-4.0%	3.0%
IBEX	8.6%	14.8%	-9.4%	-2.4%
MIB	6.4%	12.6%	-6.8%	0.2%
SMI	-3.7%	3.0%	-12.0%	-4.5%
NIKKEI 225	7.8%	14.7%	-4.2%	3.4%
HANG SENG	18.2%	24.4%	-5.0%	2.0%
SHANGHAI	9.9%	16.4%	-3.5%	3.8%
VIX	39.4%	46.0%	3.7%	11.3%

Source: Bloomberg 31/12/24

5. Market Review : Sector Performance Review

- From a global perspective, only Consumer Discretionary, Financials, Information Technology and Telecommunication Services ended the quarter positively. On a YTD basis Technology showed a strong performance, driven by the frenzy around AI and chips. Financials also performed well, bolstered by strong fundamentals and buoyed by a post-election surge.

- Materials was the main laggards for the quarter and the whole year, primarily weighed by growth slowdown in China and economic worries in the US. Defensive sectors underperformed in 2024 as investors favored high-growth stocks.

Sector performance	Europe % YTD	Europe % 3M	USA % YTD	USA % 3M	World % YTD	World % 3M
Consumer Discretionary	3.4%	-1.8%	29.1%	14.1%	21.5%	8.7%
Consumer Staples	-2.3%	-5.9%	12.0%	-3.8%	5.7%	-6.5%
Energy	-4.9%	-0.8%	2.3%	-3.2%	2.7%	-2.8%
Financials	25.4%	3.6%	28.4%	6.7%	26.7%	4.0%
Health Care	4.3%	-9.0%	0.9%	-10.7%	1.1%	-11.4%
Industrials	14.9%	0.0%	15.6%	-2.7%	13.1%	-4.4%
Information Technology	12.5%	0.8%	35.7%	4.7%	32.8%	4.6%
Materials	-2.4%	-10.4%	-1.8%	-12.8%	-5.5%	-14.3%
Telecommunication Services	14.8%	-1.1%	38.9%	8.6%	33.8%	6.7%
Utilities	0.9%	-7.3%	19.6%	-6.2%	13.0%	-8.1%

Source: Bloomberg 31/12/24

5. Market Review : FX and commodities performance

	Currencies	
	Against USD	
	YTD	3M
EURO	-6.2%	-7.0%
JPY	-11.5%	-9.4%
GBP	-1.7%	-6.4%
CHF	-7.8%	-7.3%
CNY	-2.8%	-4.0%
HKD	0.5%	0.1%
CAD	-8.6%	-6.4%
AUD	-9.2%	-10.5%
	Against Euro	
	YTD	3M
USD	6.6%	7.5%
JPY	-4.5%	-1.8%
GBP	4.6%	0.6%
CHF	-1.2%	0.2%
CNY	3.7%	3.3%
HKD	6.7%	7.1%
CAD	-1.9%	1.1%
AUD	-3.2%	-3.9%
	Against CHF	
	YTD	3M
EURO	1.2%	-0.2%
USD	7.3%	6.8%
JPY	-3.3%	-2.0%
GBP	5.6%	0.4%
CAD	-0.6%	0.9%
AUD	-2.1%	-4.1%
HKD	7.8%	6.9%

- The USD strengthened against all currencies, primarily driven by expectations surrounding Trump's economic policies and their potential impact on the Fed's monetary stance.

- Coffee and Corn were the top performers, while Sugar and Copper saw the most significant declines during the fourth quarter.

	% YTD in USD	% 3M in USD
WTI Crude Oil	0.1%	5.2%
Brent Crude Oil	-3.1%	4.0%
Gasoline	-4.8%	2.0%
Natural Gas	57.7%	4.3%
Gold	27.2%	-0.4%
Silver	21.5%	-7.2%
Platinum	-8.5%	-7.6%
Palladium	-17.1%	-9.0%
Aluminum (LME)	7.0%	-2.3%
Copper (LME)	2.4%	-10.8%
Corn	-2.7%	7.9%
Wheat	-12.2%	-5.6%
Soybean	-22.8%	-5.6%
Coffee	69.8%	18.3%
Sugar	-6.4%	-15.0%
Cotton	-15.6%	-7.0%

Source: Bloomberg 31/12/24

5. Market Review : Fixed Income Performance

- Fixed income markets experienced considerable volatility in the last quarter of 2024, primarily driven by geopolitical tensions, central bank decisions, and fluctuating inflation rates.
- US Treasuries sold off in Q4 amid concerns over potential inflationary policies arising from the Republican victory in the presidential election.
- On the credit front, high yield bonds outperformed their investment grade counterparts.
- Credit Spreads tightened and remained low over the quarter.

	Perf December	Perf YTD	Perf last 3 months	Yield	Duration	Spread
Global						
Global Aggregate	-2.1%	-1.7%	-5.1%	3.8	6.6	55
Treasuries	-2.5%	-3.6%	-6.0%	3.3	7.2	11
Credit	-2.0%	0.7%	-4.2%	4.7	6.1	83
USA						
U.S. Universal	-1.5%	2.0%	-2.7%	5.2	5.9	95
U.S. Aggregate	-1.6%	1.3%	-3.1%	5.0	6.1	33
U.S. Gov/Credit	-1.7%	1.2%	-3.1%	4.8	6.2	29
U.S. Treasury	-1.5%	0.6%	-3.1%	4.5	5.9	0
Government-Related	-1.4%	1.7%	-2.7%	5.0	5.6	48
Corporate	-1.9%	2.1%	-3.0%	5.4	7.0	80
U.S. MBS	-1.6%	1.2%	-3.2%	5.3	5.9	42
Pan Europe						
Pan-Euro Aggregate	-1.1%	2.6%	-0.2%	3.2	6.6	54
Euro-Aggregate	-1.0%	2.6%	0.1%	3.0	6.4	62
Asia Pacific						
Asian-Pacific Aggregate	2.5%	6.5%	3.0%	1.8	7.5	6
High Yield						
Global High Yield	-0.6%	9.2%	-0.4%	7.5	4.0	340
U.S. Corporate High Yield	-0.4%	8.2%	0.2%	7.4	3.5	277
Pan-European High Yield	0.7%	9.1%	2.0%	6.1	3.0	315
Other						
Global Inflation-Linked	-3.1%	-3.7%	-6.7%			
Municipal Bond Index	-1.5%	1.1%	-1.2%	3.8	6.4	
Emerging Markets						
EM USD Aggregate	-1.2%	6.6%	-1.5%	6.7	6.2	214
Sovereign	-1.5%	7.0%	-1.5%	7.1	7.1	245
Corporate	-0.8%	7.0%	-1.5%	6.6	4.9	209
High Yield	-0.3%	14.9%	1.7%	8.4	5.3	386

Source: Bloomberg 31/12/24

5. Long-term Investment Strategy

- We think diversification into long term themes will provide real benefits to traditional sector allocation in the current investment landscape. Many sectors (such as the car market) are disrupted and challenged by Technological developments. Moreover, diversified approaches (style, sector, geographic) have proven to be an effective hedging against tail risk with durable long term performance.

- Short term noise may bring volatility up but we focus on secular trends: implementation of our Innovation societal impact environmental footprint 3 dimensional approach.

- Our equity exposure is centered around: Technology (Robots, Cybersecurity, Artificial Intelligence), BioTechnology, Societal as well as Environmental impacts, mixed with strong balance sheet companies that generate recurring cashflows over time and rewards investors through share buyback programs and high dividend distribution.

- In a context of interest rates normalization, we now believe that Government bonds look attractive.

- Look for decorrelated asset.

6. Current Asset Allocation

➢ Our current allocation is 47.5% Risky Assets*, 24.1% Investment Grade Bonds in our Balanced EUR model.

Asset allocation	**Equity allocation:** neutral. **Bonds:** underweight. **Cash:** neutral. **Alternative:** Overweight.		
		Core allocation	**Tactical allocation**
Equities	**Regions/ sectors**	• Developed Markets (USA and Europe). • Emerging Markets, China & Vietnam.	
	Investment style, stock selection	• Global growth themes. • Quality dividend selection. • Sustainable Investments. • Value stocks.	
Bonds & currencies	**Duration**	• Neutral Duration(short-term HY and medium- term IG in Europe).	
	Bond segments	• Investment Grade USD and Euro, High Yield corporates EURO.	• CAT Bonds.
	Currencies	• Neutral.	• Crypto basket.
Commodities & Alternatives		• Gold & Commodity Basket Energy Transition. • Decorrelated Strategies.	

* Risky Assets = Equities + (High Yield Bonds * 0.6 factor)

7. Conclusion

- Thanks to US economic activity sustained by household consumption, the scenario of a global recession is receding.
- While inflation continues to contract, it is doing so at a slower pace than expected, which complicates the task of Central Banks.
- Credit spreads remain at historically low levels. Beware of unpleasant surprises in corporate debt refinancing.
- Look for decorrelated assets

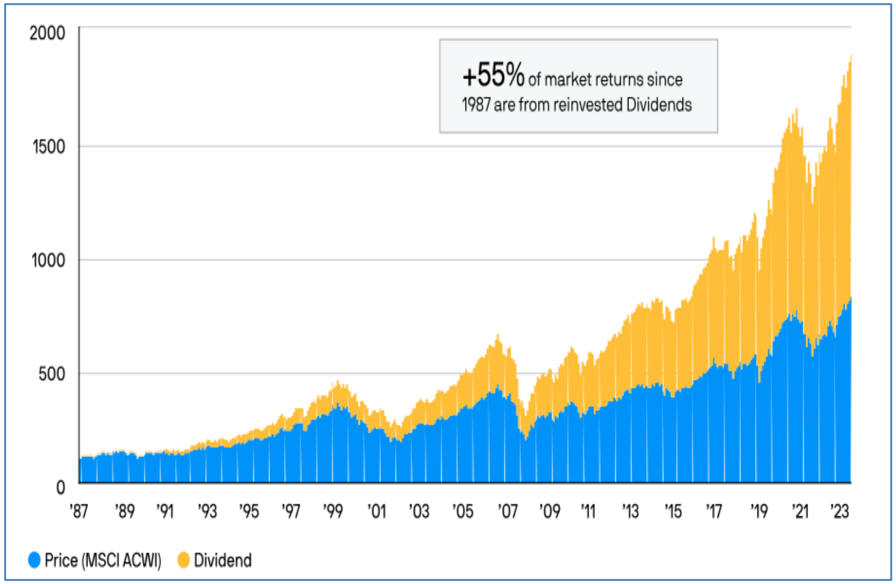
8. Thematic - Dividend

- Dividends have always been a key component of total return. It is all the more important to remind this in a context where this theme has been set aside in favor of capital gains generated by AI, which has taken the spotlight.

- The longer you invest, the more crucial dividends become. Since 1987, approximately 55% of market returns have come from reinvested dividends, highlighting their importance over time.

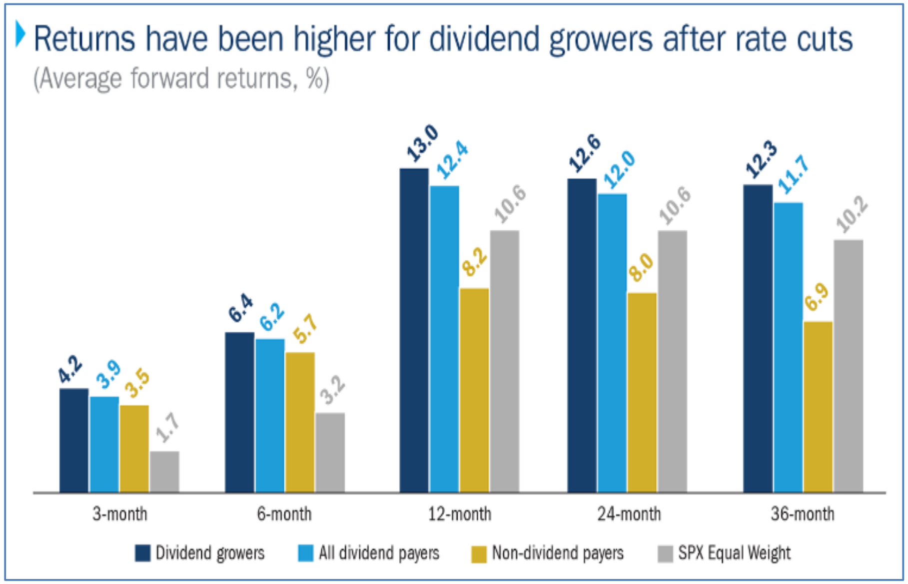
- With declining interest rates, it is worth considering whether investing in this theme could provide a good entry point.

MSCI Total Return Decomposition



Source: JP Morgan

Average Forward Returns after Fed cut

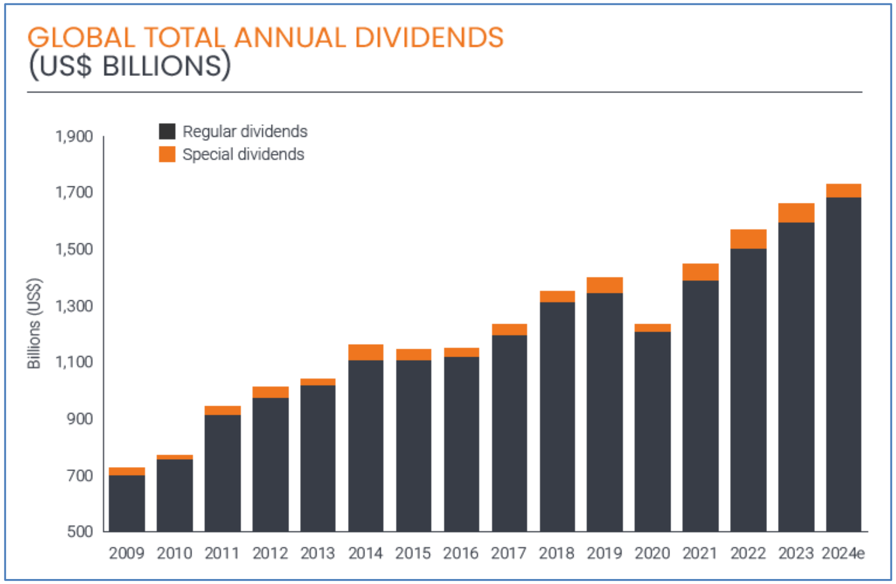


Source: Bloomberg, Columbia Threadneedle

8. Thematic - Dividend

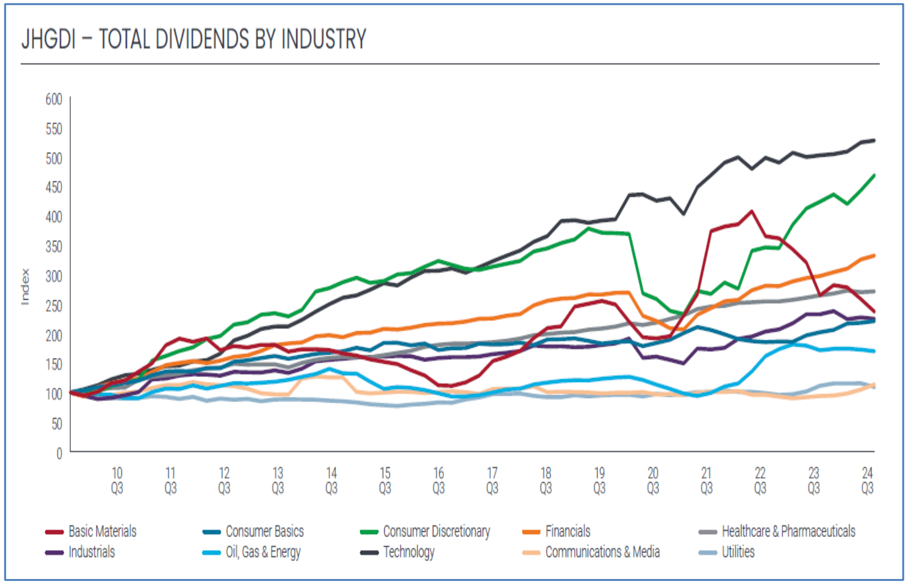
- Global dividends reached a Q3 record of $431.1 billion, up 3.1% YoY. With 88% of companies raising payouts or holding them steady.
- From a sector perspective Banks and Media companies made the largest contribution to growth whereas Mining and Transport sectors saw the biggest cuts.
- Media companies like Meta, Alphabet and Salesforce added a significant boost to global growth.

Global Total Annual Dividends



Source: JHDGI – November 2024

Total Dividends by Industry



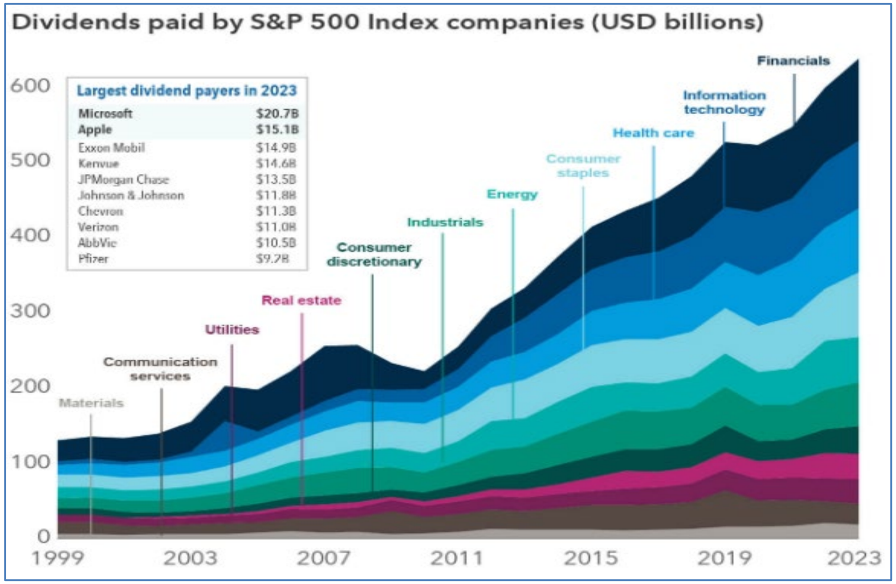
Source: JHDGI – November 2024

8. Thematic - Dividend

- Big tech companies are maturing. They are transitioning from a phase of aggressive expansion to a more measured strategy, emphasizing thoughtful capital distribution and compensating shareholders for their trust in the growth narrative.

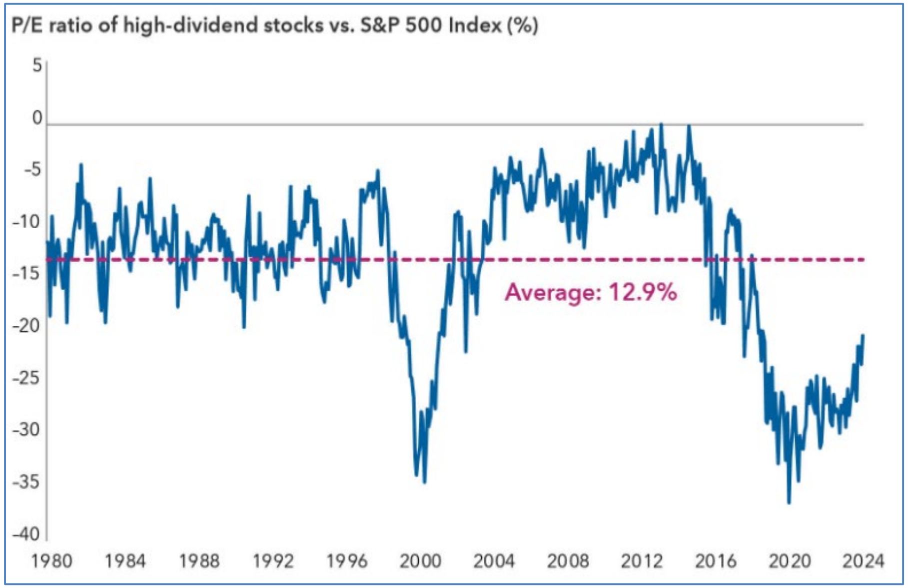
- Market concentration and AI hype have led to unusually depressed relative valuation levels for dividend-paying stocks. This situation presents investors with an opportunity to enter an appealing long-term trend.

Tech's share of Dividends is growing



Source: Factset, Capital Group

P/E high Dividend stocks vs S&P 500



Source: Goldman Sachs

8. Thematic - Dividend

- High dividend paying stocks may offer several advantages:

  - **Intrinsic Value**: Dividends generate cashflows, creating inherent value for investors.

  - **Volatility Buffer**: Dividends can mitigate volatility since the yield increases when stock prices fall, making the stock more appealing.

  - **Indicator of Success**: Dividends often signify a company's successful business model and its ability to generate sustainable cashflow by optimizing financial resources.

  - **Pricing Power**: Dividends grow in line with nominal corporate cashflows, preserving pricing power compared to fixed-payment alternatives. As a result, dividend income can serve as a hedge against inflation.

  - **Defensive Characteristics**: Historically, high dividend stocks have shown favorable downside characteristics, offering a prudent way to add defense and diversification to equity allocations.

  - **Compounding Effect**: As previously mentioned, dividends have a powerful compounding effect, contributing to approximately 50% of total shareholder return over the long term.

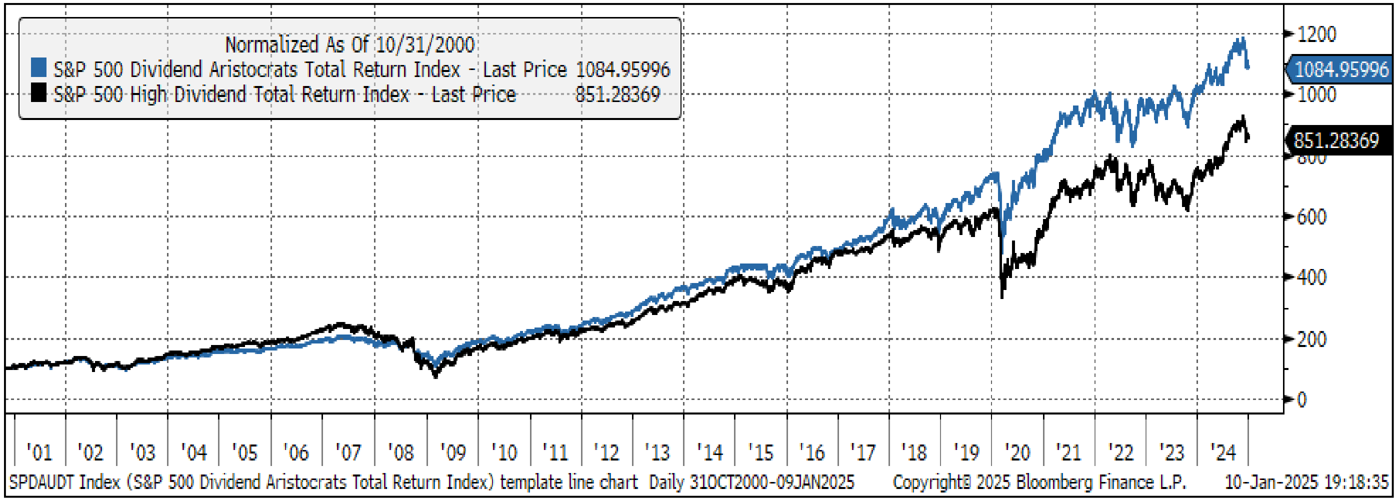
8. Thematic - Dividend

- Desired qualities for company paying dividend:
  - **High-Quality Stocks**: Long-term track record of paying dividends.
  - **Consistent Dividend Increases**: Reflecting the stability of the company's business.
  - **Expanding Business Models**: Strong balance sheets and growing cash flows.

- Relying solely on high dividend screening for investments can be risky. A high dividend yield does not always indicate a healthy and sustainable business model.

- This underscores the importance of active management in a dividend strategy. It is crucial to identify potential pitfalls and to position for a long-term, sustainable investment approach.

S&P 500 Aristocrats vs S&P 500 High Dividend



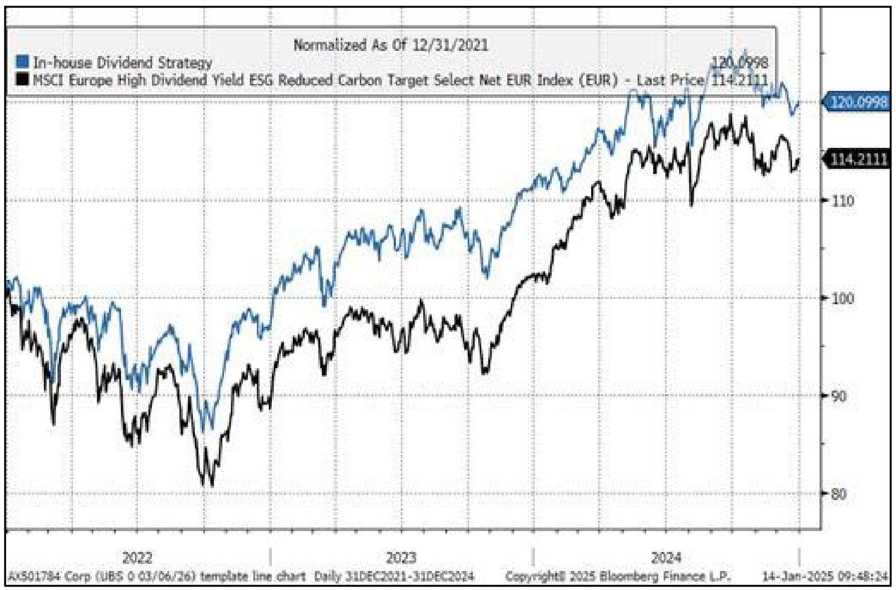
8. Thematic - Dividend

- To better illustrate our point, this in-house strategy is centered on high-quality, dividend-paying companies.

- This strategy is actively managed and employs quantitative filters to evaluate dividend paying entities. Key parameters considered include valuation, solvency, growth, profitability, risk, and momentum ratios.

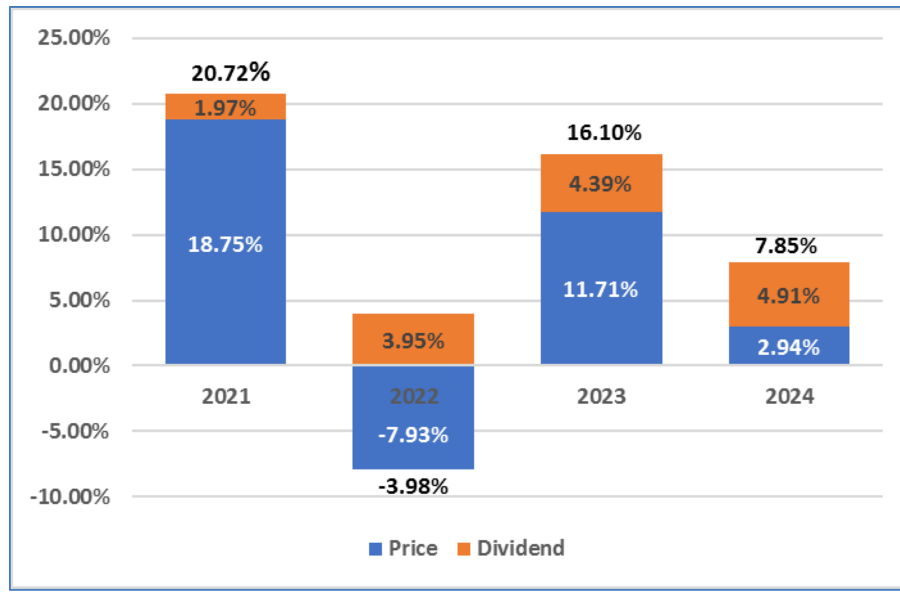
- We particularly appreciate this strategy, especially for the new year.

In-house Dividend strategy vs MSCI EU High Div.



Source: Bloomberg

Annual performance



Source: UBS

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