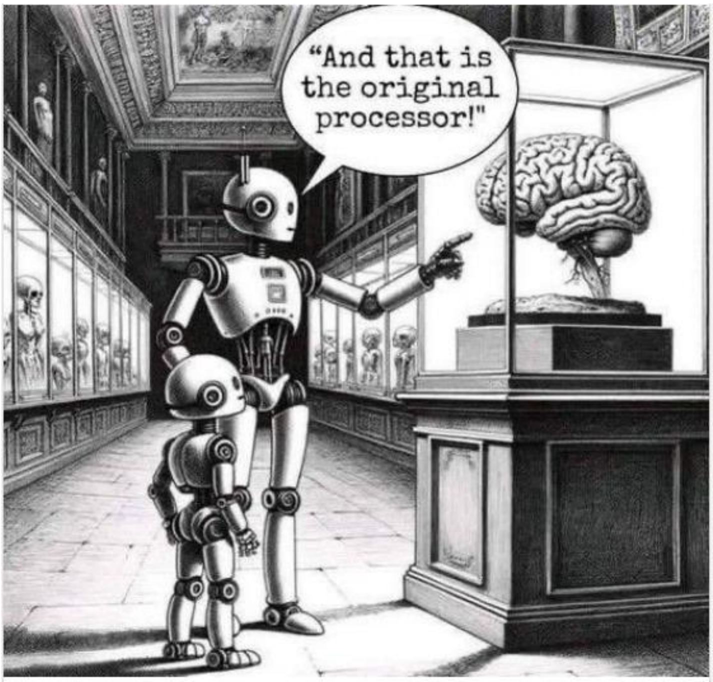
Market review - January 2025



Risky assets have started 2025 with a bang! While the FED's last meeting of 2024 momentarily sent a chill through the markets, it would appear that investors have returned from the festive season in 'risk on' mode. The announcement of the mega-investment project Stargate, a vast programme dedicated to data centres for artificial intelligence, triggered a wave of optimism in the markets. This ambitious project is based on a consortium bringing together the United States and several private players, including SoftBank, Oracle and OpenAI. Ultimately, it is expected to raise $500 billion, illustrating the scale of investment in AI and the enthusiasm of investors for this fast-growing sector. Most stock market indices gained between 2% and 8%, with defensive sectors and European equities outperforming for once. We did see some significant sector rotation, especially at the end of the month following surprise announcement of the rise of DeepSeek, a major new player in artificial intelligence that was virtually unknown until now, which caused a stir in the technology sector. Despite the historic wildfires in California, which have already caused damage estimated by specialists at over $150 billion and could cost insurers more $20 billion, the sector performed rather well, posting a return of 2.3% in the US and 6.6% in Europe. While investors have accepted that US inflation will take time to return to the 2% target and that the FED will therefore not rush to cut rates, they continue to see the glass as half full when it comes to the economic outlook for 2025. President Trump's constant threats to impose new tariffs do not seem to be frightening the markets for the time being. In terms of interest rates, the German 10-year yield rose by 18 basis points to 2.54%, while its US counterpart remained stable at around 4.5%. Most commodities did rather well, such as gold, which gained more than 6% and is slowly but surely approaching the psychological level of $3,000 an ounce.

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Market trends to end-January 2025

End of January	MSCI World	S&P 500	EuroStoxx	CAC	Spain	Switzerland	MSCI EM	CSI 300
			Equities in Local Currencies					
Perf 1 Month	3.47%	2.70%	7.98%	7.72%	6.67%	8.59%	1.66%	-2.99%
Perf 3 Month	5.19%	5.87%	9.51%	8.16%	5.97%	6.82%	-2.34%	-1.90%
Perf YTD	3.47%	2.70%	7.98%	7.72%	6.67%	8.59%	1.66%	-2.99%

End of January	WTI Oil	Brent Oil	Gold	Copper	USD	JPY	GBP	CHF
		Commodities				Currencies vs EUR		
Perf 1 Month	1.13%	2.84%	6.63%	3.19%	-0.09%	1.24%	-1.03%	-0.43%
Perf 3 Month	4.72%	4.92%	1.98%	-4.82%	5.03%	2.92%	0.91%	-0.40%
Perf YTD	1.13%	2.84%	6.63%	3.19%	-0.09%	1.24%	-1.03%	-0.43%

End of January	Global Aggregate	US Aggregate	Euro Aggregate	US 10 Year Treasury	German 10 Year Bund	Global Credit	Global High Yield	Emerging Sovereign $
			Bloomberg Indices Bonds Total returns					
Perf 1 Month	0.57%	0.53%	-0.03%	0.68%	-1.76%	0.59%	1.37%	1.06%
Perf 3 Month	-1.25%	-0.07%	0.87%	-0.59%	-0.84%	-0.96%	1.64%	0.97%
Perf YTD	0.57%	0.53%	-0.03%	0.68%	-1.76%	0.59%	1.37%	1.06%

Source: Bloomberg 31/01/25

As we said in the introduction, investors continue to see the glass as half full, and with good reason. The economic outlook remains stable for 2025, and the global economy is expected to grow in the same proportions as last year. Germany even expected to return to growth. Elections are due to be held on 23 February, which could bring its share of (good) surprises. Indeed, investors are hoping that the debt brake will be lifted thanks to these future changes at the head of the country, which could reinvigorate growth and ensure that Germany regains its status as the locomotive of Europe, even if it may take some time for the new government to become operational.

The main central banks are facing a number of challenges, but they appear to benefit from a good visibility, even if they remain dependent on future economic data. Since the December revisions, the consensus is for the FED to cut rates only twice (it kept rates unchanged at the January meeting), while the ECB is expected to cut rates three times in 2025. In fact, it already made its first rate cut of the year at the very end of January, reducing its key rate by 25 basis points to 2.75%. At the press conference following the meeting, Mrs Lagarde's speech was mixed, with "headwinds" persisting in economic activity and wage pressures still present in certain sectors.

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WORLD ECONOMIC OUTLOOK

Table 1. Overview of the *World Economic Outlook* Projections
(Percent change, unless noted otherwise)

	Year over Year						Q4 over Q4 2/		
		Estimate	Projections		Difference from October 2024 WEO Projections 1/		Estimate	Projections	
	2023	2024	2025	2026	2025	2026	2024	2025	2026
World Output	**3.3**	**3.2**	**3.3**	**3.3**	**0.1**	**0.0**	**3.4**	**3.2**	**3.1**
Advanced Economies	**1.7**	**1.7**	**1.9**	**1.8**	**0.1**	**0.0**	**1.8**	**1.9**	**1.7**
United States	2.9	2.8	2.7	2.1	0.5	0.1	2.7	2.4	2.1
Euro Area	0.4	0.8	1.0	1.4	–0.2	–0.1	1.1	1.2	1.4
Germany	–0.3	–0.2	0.3	1.1	–0.5	–0.3	–0.1	0.8	0.9
France	1.1	1.1	0.8	1.1	–0.3	–0.2	0.7	1.0	1.2
Italy	0.7	0.6	0.7	0.9	–0.1	0.2	0.6	1.0	0.7
Spain	2.7	3.1	2.3	1.8	0.2	0.0	3.2	1.9	2.0
Japan	1.5	–0.2	1.1	0.8	0.0	0.0	0.7	0.8	0.7
United Kingdom	0.3	0.9	1.6	1.5	0.1	0.0	1.7	1.8	1.3
Canada	1.5	1.3	2.0	2.0	–0.4	0.0	1.8	2.1	1.9
Other Advanced Economies 3/	1.9	2.0	2.1	2.3	–0.1	0.0	1.7	2.8	1.7
Emerging Market and Developing Economies	**4.4**	**4.2**	**4.2**	**4.3**	**0.0**	**0.1**	**4.6**	**4.2**	**4.2**
Emerging and Developing Asia	5.7	5.2	5.1	5.1	0.1	0.2	5.6	4.9	5.1
China	5.2	4.8	4.6	4.5	0.1	0.4	4.9	4.5	4.5
India 4/	8.2	6.5	6.5	6.5	0.0	0.0	7.5	6.5	6.5
Emerging and Developing Europe	3.3	3.2	2.2	2.4	0.0	–0.1	2.3	2.9	1.6
Russia	3.6	3.8	1.4	1.2	0.1	0.0	2.7	1.2	1.2
Latin America and the Caribbean	2.4	2.4	2.5	2.7	0.0	0.0	2.6	2.7	2.4
Brazil	3.2	3.7	2.2	2.2	0.0	–0.1	4.1	2.1	2.3
Mexico	3.3	1.8	1.4	2.0	0.1	0.0	1.8	1.4	2.1
Middle East and Central Asia	2.0	2.4	3.6	3.9	–0.3	–0.3	. . .	. . .	. . .
Saudi Arabia	–0.8	1.4	3.3	4.1	–1.3	–0.3	5.0	1.2	4.1
Sub-Saharan Africa	3.6	3.8	4.2	4.2	0.0	–0.2	. . .	. . .	. . .
Nigeria	2.9	3.1	3.2	3.0	0.0	0.0	3.5	3.7	3.8
South Africa	0.7	0.8	1.5	1.6	0.0	0.1	1.7	0.6	2.2
Memorandum									
World Growth Based on Market Exchange Rates	2.8	2.7	2.9	2.8	0.1	0.1	2.9	2.7	2.6
European Union	0.6	1.0	1.4	1.7	–0.2	0.0	1.3	1.5	1.7
ASEAN-5 5/	4.0	4.5	4.6	4.5	0.1	0.0	4.9	3.9	5.0
Middle East and North Africa	1.8	2.0	3.5	3.9	–0.5	–0.3	. . .	. . .	. . .
Emerging Market and Middle-Income Economies	4.5	4.2	4.2	4.2	0.0	0.1	4.6	4.2	4.2
Low-Income Developing Countries	4.1	4.1	4.6	5.4	–0.1	–0.2	. . .	. . .	. . .
World Trade Volume (goods and services) 6/	**0.7**	**3.4**	**3.2**	**3.3**	**–0.2**	**–0.1**	. . .	. . .	. . .
Advanced Economies	0.0	2.2	2.1	2.5	–0.5	–0.3	. . .	. . .	. . .
Emerging Market and Developing Economies	2.0	5.4	5.0	4.6	0.3	0.2	. . .	. . .	. . .
Commodity Prices									
Oil 7/	–16.4	–1.9	–11.7	–2.6	–1.3	1.0	–10.8	–5.0	–2.2
Nonfuel (average based on world commodity import	–5.7	3.4	2.5	–0.1	2.7	–0.9	7.1	0.1	0.5
World Consumer Prices 8/	**6.7**	**5.7**	**4.2**	**3.5**	**–0.1**	**–0.1**	**5.2**	**3.5**	**3.0**
Advanced Economies 9/	4.6	2.6	2.1	2.0	0.1	0.0	2.2	2.1	2.0
Emerging Market and Developing Economies 8/	8.1	7.8	5.6	4.5	–0.3	–0.2	7.6	4.6	3.8

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during October 22–November 19, 2024. Economies are listed on the basis of

So, what is likely to dampen investor sentiment? According to a Bank of America monthly survey of portfolio managers, the main fear is a new trade war. Since the election of Donald Trump, not a day goes by without the Republican president threatening an economic partner with new tariffs if it does not 'submit' to his demands. This attitude is a sword of Damocles hanging over the heads of companies that could be affected by these political decisions. China, which, according to Mr Trump, applies unfair competitive practices towards the United States, is still one of the main targets. Canada, Mexico and most Latin American countries, which are not doing enough to prevent drug trafficking and illegal immigration, are now also in the firing line, as is Europe, most of whose members are not complying with the requirement to invest a minimum of 2% of the annual budget in defence (according to Donald Trump, this requirement should be increased to 5%).

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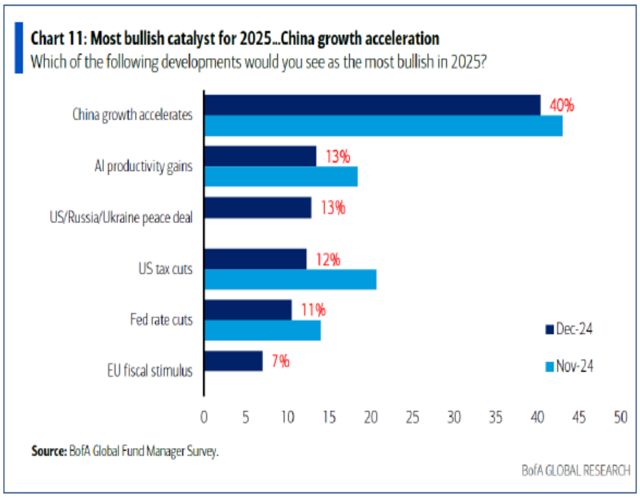
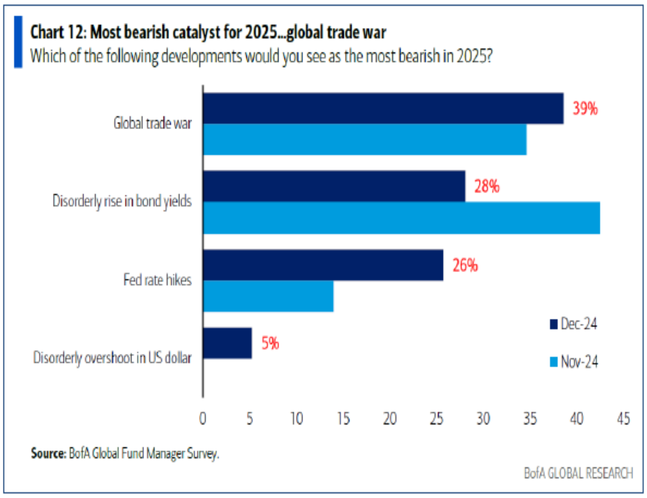
The first announcements were made at the weekend. Imports from Mexico and Canada will be taxed at 25% from 4 February, and those from China will be subject to a 10% increase on the taxes already in force.
Mr Trump has also raised the idea annexing Canada and Greenland and regaining control of the Panama Canal. As you can see, we have entered a new political era in which "threats and blackmail" are likely to take precedence over "diplomacy of the tongue". This mercantilist policy is frightening investors because it raises the spectre of a new wave of inflation that could trigger a correction in risky assets. The US budget deficit is also an issue, but as we have mentioned several times in recent years, as long as confidence reigns and the US finds investors to swallow up its in debt, this risk should not materialise.

Bullish Catalyst 2025



Bearish Catalyst 2025



While the consensus is that there will be no nasty surprises on the macroeconomic front, this does not mean that the year will be a smooth one for risky assets. As a reminder, in 2024 the S&P500 completed its sixth consecutive year with a movement of over 15%, and of those six years, five were positive! With the exception of the 19.4% fall in 2022, the US index gained 28.9% in 2019, 16.26% in 2020 (the year of Covid), 26.9% in 2021 and more than 20% in the last two years. As you no doubt know, the main contributors to these performances are the tech giants, nicknamed the "Magnificent 7". While we can therefore consider the risk of a recession in 2025 to be low, potential sector rotations could lead to a change in leadership. We already had a taste at the end of January of what these shifts could entail. When the name 'DeepSeek' started to circulate, stocks such as Nvidia and Broadcom suffered major sell-offs, dropping more than 17% in one session, while defensive stocks such as Nestlé were sought after by investors. As we said in the introduction, the Chinese company DeepSeek recently announced that it had developed artificial intelligence application along the lines of ChatGPT.
However, according to its founder, Liang Wenfeng, he only needed $6 to finance the project.
Even if these claims remain to be proven (some suspect that OpenAI's intellectual property may have been infringed...), if he is telling the truth, it will change the landscape of the artificial intelligence race. Deepseek is unique in that it is open source (the code is accessible and can be improved by anyone), which differs from the opaque solutions offered by American companies. While this news may not be good for certain American technology giants and their future profits,

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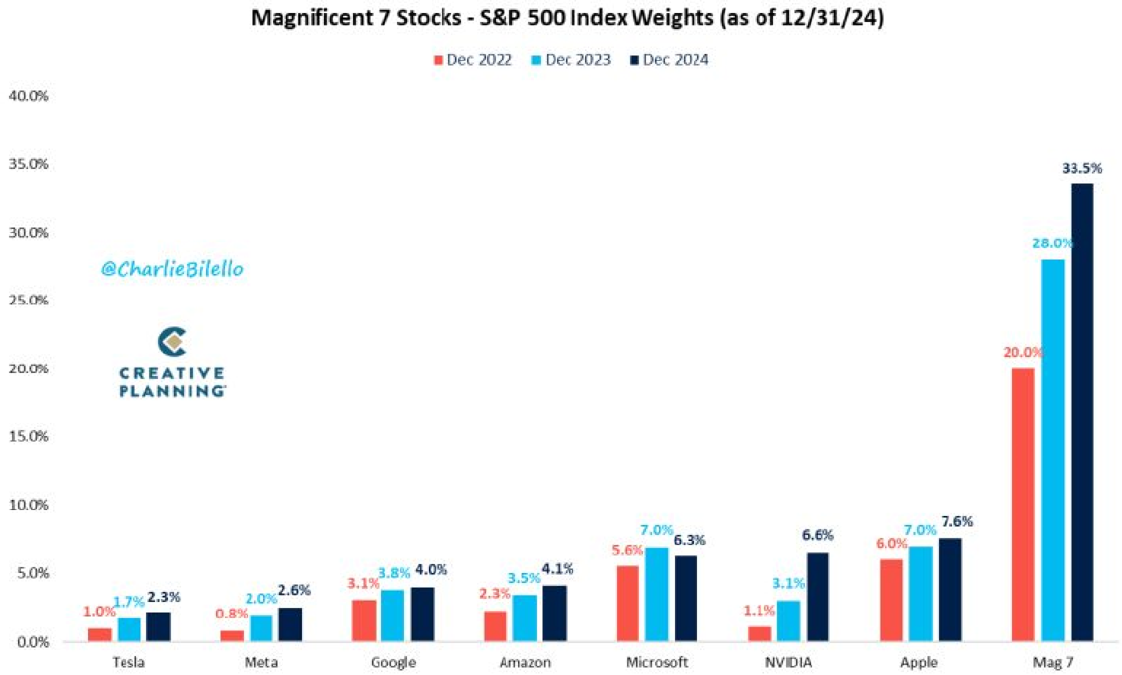
it is good for the economy and for consumers, who should benefit from new, cutting-edge technologies at lower cost.



No one can deny that US equities are trading at historically high multiples. The tremendous productivity of the region over the last fifteen years goes a long way towards justifying these valuations. But as you know, the stock market operates in an environment that values the future, not the past. If the expected growth is actually delivered, there is no catastrophe to be expected, and US equities will maintain their high valuations.

"On the other hand, some companies are priced to deliver perfection. On the other hand, given that some companies are priced to deliver perfection, the slightest disappointment could trigger sell-offs and reallocations to more defensive and less expensively valued sectors... Conversely, most European equities are trading at very low valuations, as are Chinese equities.

Every year, the world's most influential strategists share their conviction. For more than ten years, some of them have been betting on a reversal in the underperformance of European equities relative to US equities... and every year, this bet has failed to pay off. And what if it did this year?

It will happen one day. This American supremacy won't last forever. Relative to the US market, a rebound in European equities cannot of course be ruled out. But in-depth reforms will be needed if European equities are to regain their outperformance trend. A policy of deregulation also seems inevitable.

Increasingly onerous regulations in all sectors are stifling businesses and weighing on their profitability.

For our part, we are not venturing into this kind of gamble and continue to advocate diversification. Our portfolios have held both growth and defensive themes for several years now.

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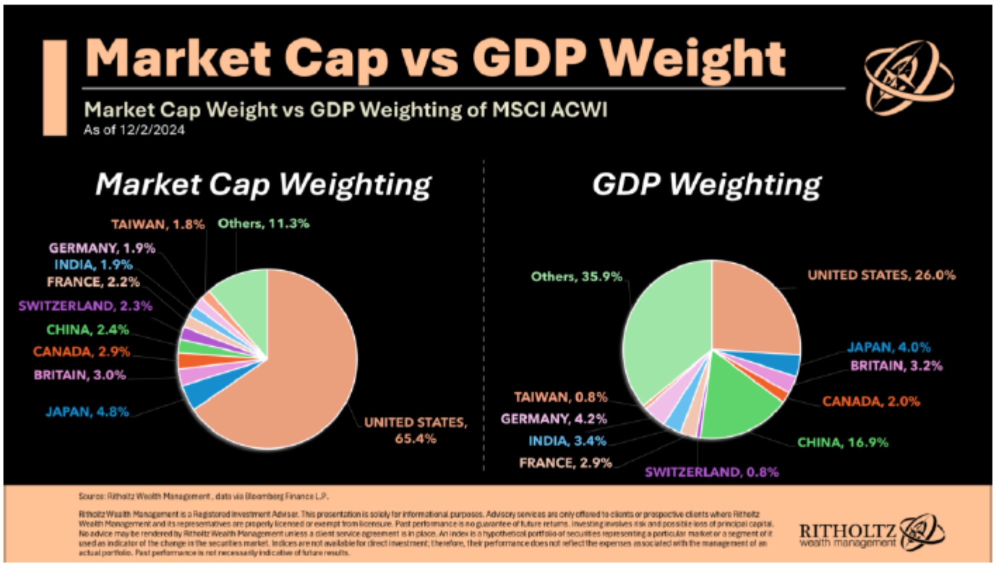
We wish you a wonderful 2025!



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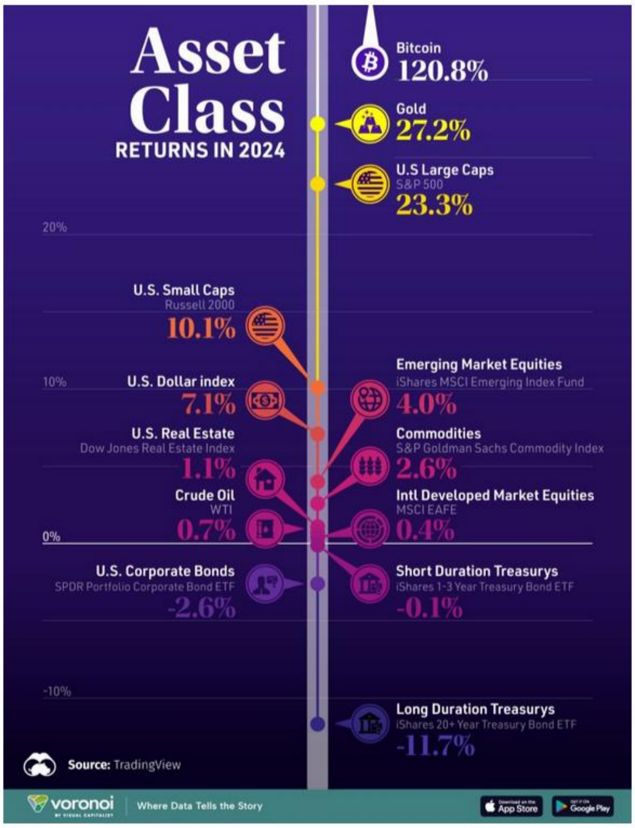

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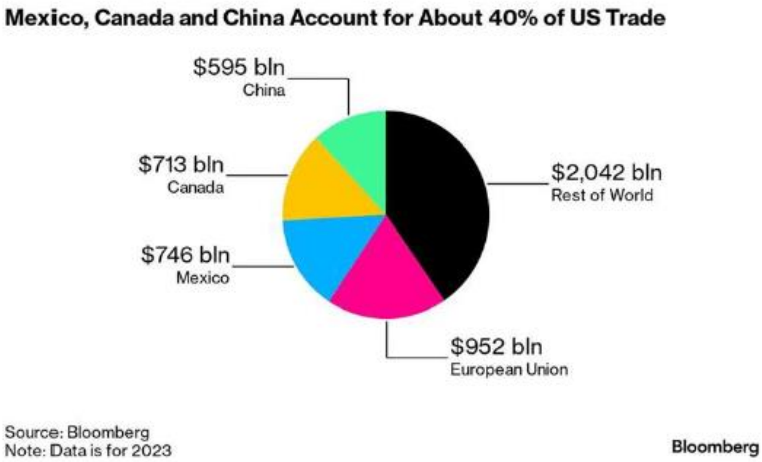

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