OUTLOOK & CONVICTIONS

ASSET MANAGEMENT | H1 2025

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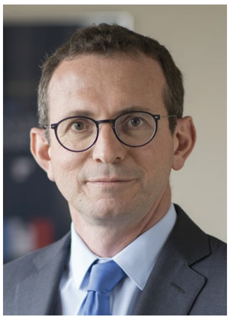
EDMOND DE ROTHSCHILD

ADVERTISING COMMUNICATION

SUMMARY

OPPORTUNITIES IN A FRAGMENTED WORLD

A favourable environment for investment



BENJAMIN MELMAN
Global Chief Investment Officer

The key advantage in today's environment is the position of the US economy in the cycle. The return to reasonable inflation readings, the normalising job market - with no hiccups, and the absence of palpable tensions on corporate margins all point to a strong and well-balanced economy - leaving aside public finance issues and the weakness of commercial real estate. The end of the cycle still seems far away. The Chinese economy should climb out of the rut very gradually, supported by the stimulus package implemented by the country's authorities. And despite the economic and political stalemate in Germany and France, with the latter also in a major fiscal impasse, Europe is not doing so badly thanks to the rather upbeat activity in its southern countries. Unlike France - left choosing between austerity or a Liz Truss-style crisis - Germany has considerable room for manoeuvre to kick start its economy. Policy changes could occur as early as end February and shifts that are already apparent in fiscal policy may alter the dynamics of this large but weakened country.

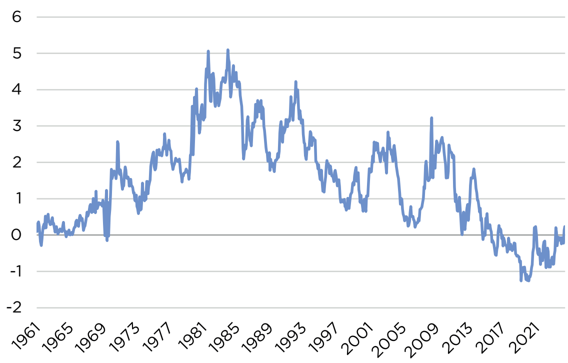
SOME CAVEATS THOUGH...

Equity and bond valuations in the US are no longer attractive. The risk premium has shrunk to the lows observed during the internet bubble. In bond markets, the term premium is not particularly high considering that inflation is still rather elevated, and Donald Trump's return to the White House heralds deeper public deficits and higher inflationary risks (if indeed tariffs are raised and millions of migrants are deported, as announced). These levels seem too low for the market to be able to absorb unexpected shocks without volatility spiralling out of control.

While it seems established that inflation in Europe will resume normal levels and that ECB rates will settle at 2%, or lower, the situation is not as clear-cut for inflation in the US. Assuming a 70% chance of steady disinflation in the US and a 30% chance that it stops: core inflation would still be too high. Let's low suppose there is a 50% chance that the Trump administration deploys its programme and drives inflation forecasts upwards, and a 50% chance that US policy does not fuel higher inflation (either because the programme is party or fully scrapped, or because Trump's measures were somewhat factored in). The odds of a bond rally in the US would be 35%; the odds that US rates remain volatile and with no clear trend would be 50%; and the probability of US bonds resuming a bear market would be 15%. The upshot is a 65% chance that the bond market offers zero support to other risk assets sensitive to US rates. These odds rather alter the intuition that emerged after the rate cutting cycle got off to a flying start with the Fed's 50-bp cut.

US equity risk premium (Fed Model)

US ACM Treasury Term Premium 10Y

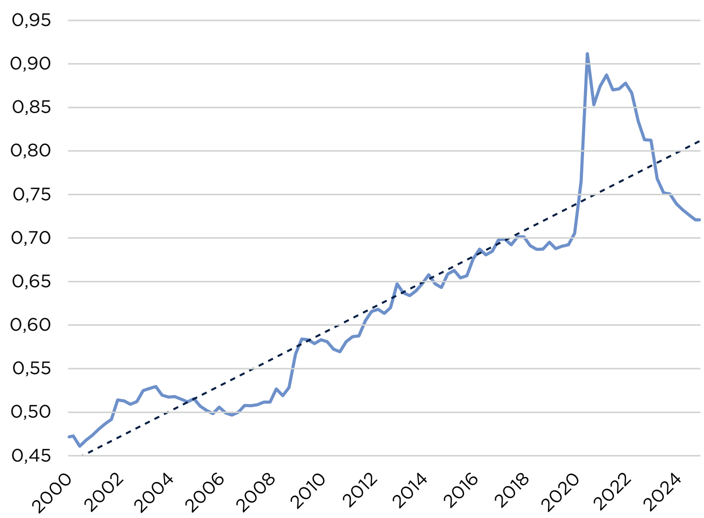


Source: LSEG Datastream. Data as at 18.11.2024. The figures relate to past years and are not indicative of future results.

Liquidity is also drying up in the US, as shown by the M2/GDP ratio and by the virtual disappearance of the Federal Reserve's reverse repo programme assets, which had helped mitigate the adverse impact of quantitative tightening on liquidity. Defining the minimum acceptable level of liquidity for capital markets has always been a tricky task. Unfortunately, it is only found out after the event.

At this point in time, we see no reason for taking major directional risks on equity or fixed income markets for 2025.

Ratio M2/PIB



Source: Bloomberg. Data as at 25.11.2024.
The figures relate to past years and are not indicative of future results.

EQUITIES: HOW FAR CAN THE AMERICAN EXCEPTION GO?

Overweighting US equities has become a consensual choice that nobody can deny today. As it is already widely deployed throughout investors' portfolios, it is fragile. Will the deportation of migrants or tariffs on imports cause it to waver? Or soaring valuations within the AI space, which is now failing to meet investors' high expectations? Following massive capital expenditure in AI, companies will have to start showing more efficiency gains to maintain growth forecasts at current levels. Or a potential stimulus plan in Germany that would reshuffle the cards as Europe seems headed for secular stagnation? A new deal following the Chinese stimulus plan?

We are currently overweight US equities, a position that is likely to change during the year unless disinflation and monetary policy normalisation in the country can stay the course, with no economic or political hiccups.

We are still firm believers in the theme of Big Data, as companies with access to data have an unparalleled advantage to extend their competitive leadership in the era of artificial intelligence. In today's troubled geopolitical context, with a high risk of protectionism, we also favour the theme of economic resilience: investing in companies able to withstand further disruptions to the global production chain and a firmer pursuit of sovereignty and security.

For many investors, Chinese equities are no longer investable. Investors have become wary of the country's political interventionism - which is potentially unsustainable for businesses, and of the major economic turnaround. Threats of US tariffs being raised to 60% also weigh on the outlook for China. Nevertheless, we are seeing signs that the property market is stabilising following the measures implemented over the past few months. And more importantly, in a novel move, the Chinese authorities have unveiled a series of measures designed to bolster the country's deeply undervalued equity market. Household savings sitting idle in current accounts have naturally soared in recent years. But since the stimulus plan was announced, new account openings have surged and liquidity in Chinese equity markets has recovered considerably. So, despite its highly speculative nature, we have no wish to stay away from the Chinese market.

European small caps were unable to take flight in 2024 due to rising political and fiscal risks in France and the collapse of German growth in the middle of the year. We believe that a new fiscal policy in Germany will offer a welcome fresh start for this asset class, which remains deeply undervalued.

BOND MARKETS: AVOID ANY ERRORS BY FOCUSING ON EUROPE

While the outlook for the US bond market remains uncertain, visibility is set to improve in a few months, by which time markets will have confirmed - or not - the continued disinflation process and assessed the measures likely to be implemented by the new Trump administration. Meanwhile, we are unwinding our overweight on emerging bonds, which are overly sensitive to jumps in inflation readings and to US political developments.

We are strengthening our exposure to subordinated financial bonds and corporate hybrid bonds. These are for the most part issued by top rated issuers and callable within the next 5 years - a segment of the yield curve that is less dependent on events in the US, and tied to the decisions made by the ECB, on which we have very few doubts.

Overweighting US equities has become a consensual choice that nobody can deny today. This position is however likely to change during the year.

The theme of resilience, i.e investing in companies able to withstand further disruptions to the global production chain and a firmer pursuit of sovereignty and security, now occupies a central place.

In the bond markets, we are unwinding our overweight on emerging bonds pending the arrival of the Trump administration, and increasing our exposure to subordinated financial bonds and corporate hybrids.

CREDIT MARKETS: ATTRACTIVE OPPORTUNITIES FOR INVESTORS IN 2025!

ALAIN KRIEF
Head of Fixed Income

The year is drawing to close with markets delivering strong returns in euros at end November across the various segments of the credit market: subordinated debt issued by non-financial companies (corporate hybrids) has returned more than 10%; financial subordinated debt and emerging markets more than 9%; European High-Yield close to 8%, and finally Investment Grade bonds, more impacted by risk-free rates, a little over 4%.

Can these performances be replicated in 2025? Possibly, but returns will not be fuelled by the same performance drivers, simply because markets will be entering 2025 on a very different footing to end 2024.

A BRIEF REVIEW OF THE MARKET ENVIRONMENT BEFORE LOOKING AHEAD TO END 2025

The US economy is proving incredibly resilient considering the Federal Reserve (Fed)'s restrictive monetary policy. At end 2024, inflation has retreated to around 3.2% after peaking at over 9% in mid-2022, thanks to substantial monetary tightening and normalising energy prices.

However, several factors could exert pressure on this 'return to normal':
- Donald Trump's economic programme comes with an expansionist fiscal policy, notably tax cuts and massive infrastructure spending. While these measures support growth, they could also stoke inflation.
- US economic growth remains resilient with GDP up 2.8% in Q3 2024,

contrary to expectations and despite key rates ranging between 4.50-4.75%.
As a result, yields on 10-year Treasury bonds have remained high, rising to 4.7-4.8% before easing to 4.25% at the end of November.

A sharp contrast with Europe. Inflation is now under control at around 2.1% at the end 2024 thanks to the normalisation of supply chains and lower energy prices. Nevertheless, the European economy is showing signs of fatigue:
► Growth stands at just under 0.3% in the last quarter of 2024 due to sluggish domestic demand and a contraction in the manufacturing industry.
► The European Central Bank (ECB)'s key rates, currently at 3.25%, should continue to fall during the first quarter of 2025 and with gradual cuts throughout the year, reaching 1.75% at the end of 2025 according to consensus estimates, to boost economic activity.

The ECB is being particularity accommodative and fostering a favourable environment for European bond markets.

MAIN OPPORTUNITIES IN THE CREDIT MARKET FOR 2025

As long-term yields begin to stabilise and central banks adopt a more flexible approach aligned with economic indicators (inflation, growth, unemployment...), despite a complex geopolitical context, credit markets offer attractive opportunities notably within **European High-Yield, financial subordinated debt, and corporate hybrids**.

It would be simple to say that thanks to carry yield, credit will deliver positive returns in 2025. However, pointing out opportunities this year will require digging a little deeper. These opportunities will undoubtedly play out over the short and mid-term.

The European BB High-Yield segment, a strategic opportunity in a stabilising market?

Europe's High-Yield market - and particularly the BB segment - currently offers a compelling blend of generous yields and moderate risks. This segment tends to include companies that are well-established, but not Investment Grade quality. In the current environment, spreads on BB rated High-Yield bonds are hovering around 300 basis points above sovereign yields, returning 4.0% to 6% depending on the issuer. This premium largely offsets the perceived risk, particularly as corporate fundamentals remain robust despite persisting economic challenges. Furthermore, ECB rate cut forecasts for 2025 should ease pressure on borrowing costs and improve investor sentiment.

Automotive, construction and chemicals companies are heavily represented within the BB segment. Despite being cyclical sectors, these companies offer attractive opportunities thanks to stabilised fundamentals and adjusted valuations.

The automotive sector has been under heavy pressure from rising interest rates, that have impacted demand for durable consumer goods, and from the cost of the energy transition including electrification and new environmental standards.

Why have we maintained our positive view for the long term? Several factors support this optimism:
► A rebound in sales: new registrations in Europe have grown 10% in 2024, driven by normalising supply chains and post-Covid pent-up demand.
► Lower fixed costs: larger players such as Volkswagen, Renault and Stellantis have restructured their models and lowered their costs by closing factories and becoming more flexible to address cyclical demand. Large automotive suppliers have also suffered major blows. But more importantly, the pricing of these bonds has adjusted and already reflects the difficulties reported by these companies. Despite tough competition from China, the entire sector is due to benefit from the recovery of volumes within the industry.

The construction sector was impacted by rising financing costs and weaker demand for new projects. Nevertheless, public infrastructure spending (roads, bridges, renewable energy) remains a key driver for demand in Europe, supporting players exposed to public projects. Easing commodity prices (such as steel) in 2024 will also help improve corporate margins.

The chemicals industry, also a cyclical sector, has had a bumpy ride due to rising energy prices in 2022-2023 and weaker demand from industrials and consumers across several segments (plastics, intermediary products). Nevertheless, energy costs are ebbing: the price of European natural gas has fallen back to around €40/MWh after peaking during the energy crisis, thereby easing pressure on margins. Furthermore, the sector is benefiting from broader market opportunities. Indeed, many companies are strengthening their exposure to high-value-add segments (speciality chemicals, battery solutions).

To sum up, European High-Yield bonds, and particularly the BB segment, offer a unique opportunity:

► attractive returns and contained risks, notably within cyclical sectors where companies have restructured and are benefiting from the normalisation of macroeconomic conditions.

► a positive outlook for 2025, with expected rate cuts from the ECB and the stabilisation of the European economy.

A selective approach, with a preference for sector leaders and robust balance sheets, will allow us to unlock value within this segment while keeping risks under control.

Subordinated debt issued by financial companies: A context conducive to Additional Tier 1 (AT1)

These bonds, mostly issued by banks and insurance companies, are benefiting from the stable environment enabled by robust balance sheets in the financial sector.

Additional Tier 1 (AT1) bonds - a key segment within financial subordinated debt - stand out in the current market environment. These hybrid instruments, often referred to as CoCo bonds (Contingent Convertibles) offer very attractive yields, offset by the risk of suspended coupon payments in the event of stress on banks.

Nevertheless, the European banking sector is well prepared and able to absorb potential shocks thanks to higher capital ratios and excess capital:

► European banks have substantially increased their capital requirements, with CET1 (Common Equity Tier 1) ratios reaching 14-15% on average in 2024, which is well above the minimum requirements set by the ECB.

► The Total Capital Requirement (TCR) which imposes prudential capital requirements is met with a comfortable margin, further bolstering balance sheets.

► European banks are holding on to substantial excess capital, with an average excess of 400 to 500 basis points above minimum requirements, allowing them the flexibility to navigate more challenging market conditions.

This trend has been stronger in banks in southern Europe, which are now in a much better position after years of restructuring.

Banks in countries like Italy, Spain and Portugal which used to be perceived as more vulnerable, now display very strong fundamentals. For example, Intesa Sanpaolo (Italy): CET1 ratio of 15.5 % with excess capital above 600 basis points; CaixaBank (Spain): vastly improved profitability and provision levels, with AT1s returning around 8%; Millenium BCP (Portugal): largely improved financial strength, offering AT1s with attractive spreads. These banks are benefiting from structural support from the ECB and from the economy, which is weakened, but stabilised by accommodative monetary policies.

AT1s currently yield between 6% and 9%, which is much more than other bond instruments, notably thanks to high spreads reflecting the residual risk premium associated with their subordinated structure. They also offer sufficient liquidity to allow for tactical adjustments within the portfolios.

To sum up, **investing in this segment is an opportunity that should not be missed**. In a context of stabilising macroeconomic conditions and improved strength within the European banking sector, Additional Tier 1s are a key opportunity for investors seeking superior yields. Banks in southern Europe, which are catching up, offer interesting diversification potential, while larger banks in the Eurozone remain safe bets thanks to their robust balance sheets and excess capital. A selective and tailored approach will allow us to capture value in a segment that is undergoing a major transformation.

Corporate hybrids are also a compelling opportunity in a changing market environment

Corporate hybrid bonds issued by non-financial companies are located midway in the debt stack, between senior debt and equity. They offer attractive yields, often ranging between 5% and 7% as compensation for a slightly riskier structure with specific technical characteristics, including a perpetual maturity (with early call options) and the possibility of suspending coupon payments under certain conditions.

These instruments are particularly interesting in the current environment, with central banks stabilising their interest rates or considering cuts, supporting bond prices over the longer term. In addition, the risk premium on hybrids remains high, notably due to past tensions in sectors such as real estate.

The Real Estate sector, which has issued a large share of the corporate hybrids market, is going through a challenging period but offers attractive investment opportunities. However, despite these many challenges, several factors suggest a high potential for improvement: by lowering borrowing costs, expected rate cuts in 2025 will come as a welcome relief for real estate players. Furthermore, many of these players have intensified the sale of non-strategic assets to strengthen their balance sheets, as property valuations are reaching attractive levels for opportunistic investors.

But hybrids are not restricted to real estate. Companies operating in the energy and utilities sectors also issue attractive hybrids; these include TotalEnergies, which has issued hybrid bonds yielding 5.2-5.5% supported by stable cash-flows, or Enel, whose hybrids yield around 5.8% and is backed by a well-funded energy transition. Thorough selection remains the key to maximise returns and avoid the most vulnerable issuers.

The credit market performance observed in 2024 can be replicated next year, but not with the same performance drivers, as the starting point in 2025 differs markedly from that at the end of 2024.

The European high-yield market, particularly the BB segment, currently offers an attractive combination of high yield and moderate risk.

Financial subordinates are benefiting from a stable environment thanks to solid balance sheets in the financial sector, while hybrid corporate bonds present opportunities in various sectors such as energy and real estate, not least due to falling interest rates.

EUROPEAN EQUITIES: THE DAWN OF A NEW ERA

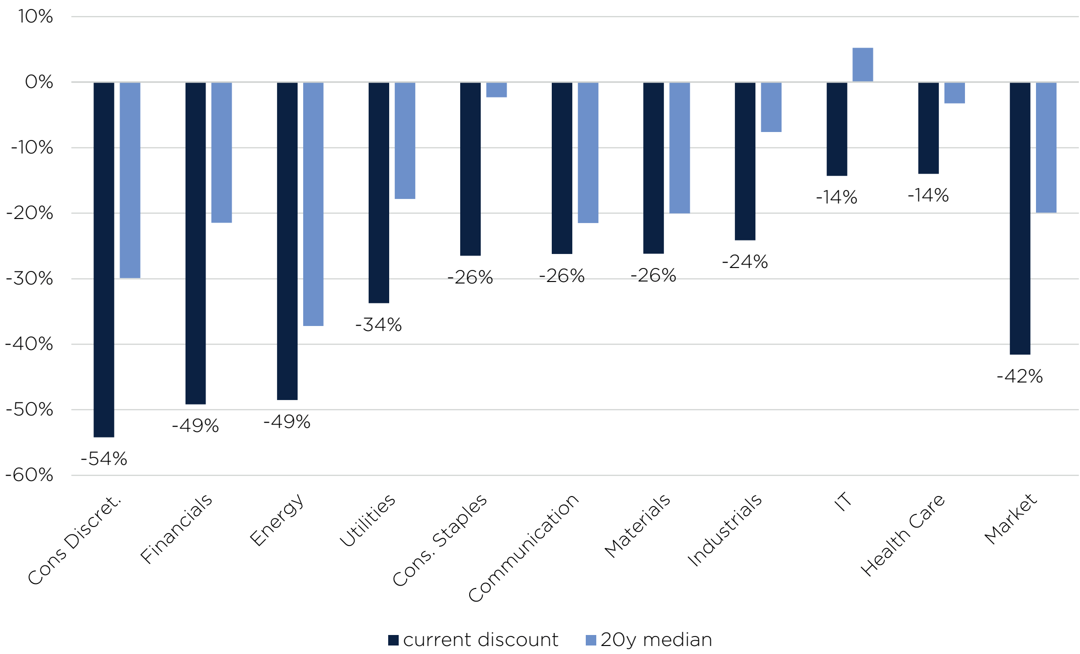
CAROLINE GAUTHIER
Co-Head of Equities

Europe is in the throes of a deep identity crisis blending economic stagnation, structural challenges and political instability. Investor sentiment is now so low that investors can find very good reasons to avoid European equities. Donald Trump's election has accentuated investor scepticism, to the extent that the peak in negativity has either been, or is about to be, reached. And yet shouldn't investors "buy on the sound of cannons" according to the conventional stock adage? Far from being doomed, Europe could surprise to the upside in 2025. The backdrop is less adverse that it seems at first sight, as support factors begin to fall into place. Furthermore, many of the options that could brighten up the outlook are now actually feasible. Admittedly - and this is rarely the case - all these options are political in nature, meaning it is difficult to factor them into a scenario. However, investors who fail to consider these factors run the risk of missing out on a market turnaround in 2025.

A CHALLENGING ECONOMIC ENVIRONMENT, THOUGH ALREADY FACTORED IN BY INVESTORS

Europe's problems today stem from an entanglement of crises: economic, demographic, productivity-related and political. The two largest economies in the Eurozone, Germany and France, are at a standstill. Germany must rethink its business model, hit by the end of cheap energy and over-dependence on exports, while France is struggling with massive public deficits and political instability. In addition, Europe is faced with major geopolitical tensions, notably with the conflict in Ukraine, and uncertainties over the future policies of the Trump administration.

Valuations:
Europe versus US 12m Fwd P/E - Current and historical premiums (discounts)



Source: FactSet, Datastream, Goldman Sachs Investment Research.

These uncertainties include the implementation of tariffs by the US, which are weighing heavily on investor sentiment. Nevertheless, their potential impact may have been overestimated. While MSCI Europe companies generate an average 26% of their revenue in the US, a large share is derived from services or sales delivered by entities present locally. In actual fact, only 6% of the total revenue generated by European companies is derived from goods exported exported to the US from outside the US and would therefore be subject to these tariffs, assuming that all sectors are concerned, which is far from certain. This figure puts into perspective the potential impact of these protectionist measures, often emphasised by gloomy investor expectations.

These negative factors are largely reflected in current market valuations. European corporate earnings were gradually revised downward as recovery forecasts for the European and Chinese economy were pushed back to 2025. Consequently, earnings forecasts in the Eurozone were slashed by 7% for 2024 and 2025. These downward revisions are likely to continue into 2025, in order to fully de-risk expectations. Markets have already factored in this lacklustre growth, which is apparent in rather modest valuations, notably relative to the US market: US equities are trading at a 60% premium over their European counterparts (or 50% if one excludes the "Magnificent 7"). Adjusted to remove sector biases, the European market is trading at a 30% discount relative to the US, which is twice the historical average. And finally, all sectors in Europe are now undervalued relative to their US counterparts. This unprecedented situation therefore offers a potential for rerating in the event of an economic rebound (albeit modest) or a lower political premium.

POLITICAL OPTIONS BRING HOPE

A key factor that could support a more upbeat scenario in 2025 lies within the many political options that have the potential to alter investor sentiment but remain somewhat overlooked. These options, which are all dependent on political decisions, are a brand-new feature in the construction of economic scenarii.

The resolution of the conflict in Ukraine could substantially improve how risks are perceived in Europe and revive flows into equity markets. Meanwhile, a fiscal stimulus plan in Germany - still hypothetical at this stage but credible in light of the early election in February next year and a likely new, pro-business, government - could stimulate domestic demand and cyclical sectors. In China, the announcement of a stimulus plan targeting consumer spending could offer a welcome boost to European companies exposed to this market. Finally, after many years of naivety on the part of Europe and faced with the challenges of a new economic world order, we can only hope that a new European consciousness will emerge, with as a corollary the creation of an integrated capital market. This capital markets union, which has caused much debate, would mobilise surplus private savings to fund long-term investment and ultimately revive our competitiveness.

While these catalysts are difficult to forecast, their realisation - even partial - would be sufficient to support a fast turnaround and create a new momentum. Europe, perceived as an ailing market for some time now, would become a source of unexpected opportunities for investors who are under-exposed to a region that is lagging and trading at a discount.

POSITIVE DRIVERS ARE FALLING INTO PLACE

Alongside these uncertain political options, European equity markets can also rely on other, established, supporting factors. Global economic growth has been revised downwards but remains solid and will bolster the earnings of European companies - which we remind readers are not a proxy for Europe's economy. As these players generate 60% of their revenue outside of Europe, they benefit from a positive outlook, notably from the United States. In Europe, the ECB's accommodative monetary policy, including future rate cuts, will eventually trickle down and stimulate lending (from households and companies), supporting a recovery in consumer spending. In this environment, European equities could deliver decent returns thanks to positive earnings growth (even slight), a shareholder return of 4 to 5% via dividend pay-outs and share buybacks, and modest multiple re-rating consistent with interest rate cuts.

THE IMPORTANCE OF STOCK-PICKING

In this environment, stock picking - or active stock selection - is essential to allow investors to target the most promising sectors against an uncertain backdrop.

Within European indices, the earnings momentum can vary greatly depending on whether companies are exposed to world markets. As such, the most international listed companies, and notably those exposed to the US, should continue to benefit from a robust growth outlook, further supported by a strong dollar.

Our investment choices will also favour sectors and companies poised to gain from the rate cutting cycle initiated in Europe, such as real estate stocks. The monetary easing environment encourages us to continue looking at high dividend companies.

Within the most cyclical sectors, we shall focus on business where sales have already collapsed - such as construction, and where the leverage could be substantial if volumes indeed recover. We also appreciate self-help stories: companies that are rolling out internal reorganisation plans designed to improve efficiency, or unlocking synergies following acquisitions, will be able to display growing margins regardless of the business cycle.

Finally, we also see value in entire market segments that have suffered more than they should have from deep-rooted investor pessimism: French stocks or small and mid-caps, which are currently trading at historic discounts within the European market.

Selection is the key in "value" sectors, where the trick is to avoid "value traps". Indeed, some industries, such as the automotive sector, are suffering from major structural challenges which are hampering their potential for a rebound over the longer term.

To sum up, 2025 could be a pivotal year for European equities. With attractive valuations, supportive monetary policy - expected to increase, and political options that have not yet been factored in, the outlook for European markets is rather appealing. Nevertheless, due to high levels of uncertainty, an active and selective approach is essential. Targeting well positioned companies will enable investors to take full advantage of this transition phase. More than ever, the region is at a crossroads and future optionality means that a European play cannot be ignored.

The spike in negativity has either been or is about to be reached, and any positive news is likely to send fresh capital flowing into the region.

Falling interest rates in Europe and a resilient global economic growth are the two pillars supporting the region.

Different options are possible but difficult to anticipate as they are entirely dependent on political decisions. Their realisation - even partial - would be enough to trigger a fast turnaround and create a fresh momentum.

THEMATICS FOR 2025: LOOKING BEYOND THE TRINITY

JACQUES-AURÉLIEN MARCIREAU
Co-Head of Equities

Momentum, generative AI, and the Trump Trade have reigned over equity markets in 2024. Sector and regional criteria, market capitalisations, and other thematics were relegated to the sidelines and fail to offer adequate means for interpreting the market's performance drivers.

The start of a new calendar year does not mean this will change.

Nevertheless, this trio will only repeat its strong run in 2025 if it can overcome its own unique challenges. We shall examine these aspects in order of resilience, before turning to the possible thematic reading grids that are emerging for 2025.

THE TRUMP TRADE: THE FIRST VICTIM IN 2025?

LThe return of "pro-business America", "deregulation" or "rebalancing world trade" are topics that have galvanised capital markets both before and after the election. The best illustration of the Trump Trade is the soaring rise of Tesla, after the stock performance surged from -40% to +40% during the year - an amplitude of 80% in just a few months. These rallies are fuelled by hopes of a 'literal' application of the promises made during the presidential campaign.

However, inconsistencies between some of the measures and dissent within the Republican group point to future challenges and many disappointments. Furthermore, the Trump Trade also gathered speed under the impetus of retail investors - and they can very swiftly change their positions.

Due to constitutionality issues or political compromise, we expect many of the Trump Trades to be unwound quickly in 2025.

GENERATIVE AI: TORN BETWEEN THE PRISONERS' DILEMMA AND RETURN ON INVESTMENT

Driven by Nvidia, the theme of AI is here to stay. However, there is 7 to 10 times more generative AI capacity installed throughout the world today than there are concrete business applications. If spending continues at the current pace, it will accentuate the over-capacity that is already in the making. As a reminder, large segments of the fibre optics network installed in the United States in 2000 still haven't been activated. Will the same apply to some GPUs? Meanwhile, the R&D efforts deployed by tech giants to achieve technological wonders allow the theme to live on, despite persisting uncertainty over the return on investment. All eyes are now on the upcoming release of Chat GPT 5. Any disappointment with the technological breakthroughs associated with this new generation LLM could trigger a market correction for AI stocks. Signs of erosion have been multiplying since the summer, as leadership within the sector is increasingly concentrated around Nvidia and nuclear energy, seen as essential for powering these new generation data centres.

MOMENTUM: CAN THIS 'RULER' OF US MARKETS RUN OUT OF STEAM?

According to strategists and your own definition of momentum, the style has been enjoying a major comeback and delivered its best performance in over 20 years. Companies that entered 2024 with a strong upside momentum and were able to make steady - even modest - upward revisions to their sales figures have tended to outperform market indices by a huge margin. Already supported by many algorithms, momentum-driven investment styles can also rely on the undercurrent generated by ETFs as they amplify market movements in their favour - for the time being. But momentum investing has the tendency to self-destruct over the long term: expectations mount, as do stock market performances, until it becomes virtually impossible to surprise to the upside. This is when a new momentum appears in another area of the market, sometimes as a result of exogenous factors. While the turnaround cannot be forecast with any certainty, the time bomb keeps ticking and calls for vigilance.

A FEW EQUITY THEMATICS FOR 2025:

Resilience as an investment theme

Geopolitics, climate, populism, inflation: in different areas, risk levels are as high as they've ever been over the past thirty years. In this environment, investors can choose to invest in companies that contribute to the resilience of our societies by addressing these challenges and consolidating the value of their assets over the long term. The goal will not be to deliver the highest performance over a given quarter, but to introduce a thematic brick to portfolio allocations that will be able to prosper even in the most hostile environments.

Never has it been so easy to implement a contrarian strategy

Markets have been concentrated as investors focused on equities - first in the US, and within the US on large caps, and within large caps on the theme of generative AI and Momentum. In this environment, anything that doesn't meet this three-pronged condition instantly becomes a contrarian and diversification play: US small caps, Europe, China, Healthcare and Climate - the peak was reached when Biden was elected, will the trough coincide with Trump's election?

Whatever the contrarian diversification choice you make in 2025 – and beyond considerations of financial optimisation or individual preference – investors should always bear in mind that investing is not just about money, it is also a political act that can either strengthen or strain ecosystems and foster virtuous or vicious investment circles.

EQUITIES

Momentum, generative AI, and the Trump Trade have reigned over equity markets in 2024. The acceleration of the latter was partly driven by retail investors, who were able to change their positions very swiftly.

This trio will have to overcome major challenges including political inconsistencies, the concrete applications of generative AI and the sustainability of Momentum.

The theme of resilience, as well as geographic and sector diversification, should be considered in order to cope with the heightened uncertainties of 2025.

GLOSSARY:

• Investment Grade: bonds rated as high quality by rating agencies.

• High Yield: corporate bonds with a higher default risk than investment grade bonds but which pay out higher coupons.

• Senior debt benefits from specific guarantees. Its repayment takes priority over other debts, known as subordinated debt.

• Debt is considered to be subordinated when its redemption depends on the earlier payment of other creditors. To offset the higher risk, subordinated Senior debt has priority over other debt instruments.

• Tier 2 / Tier 3 : subordinated debt segment.

• Duration: the average life of a bond discounted for all interest and capital flows.

• The spread is the difference between the actuarial rate of return on a bond and the rate of return on a risk-free loan with the same maturity.

• The PMI, for "Purchasing Manager's Index", is an indicator of the economic state of a sector.

• Coco (contingent convertible bonds): subordinated debt format.

• AT1s belong to a family of bank capital securities known as contingent convertibles or "Cocos". Convertible because they can be converted from bonds to shares (or depreciated entirely) and contingent because this conversion only occurs if certain conditions are met, such as the issuing bank's capital strength falling below a predetermined trigger level.

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