MARKETING
COMMUNICATION

LETTER FROM THE CIO AM

MARKET ANALYSIS AND PRINCIPAL INVESTMENT THEMES
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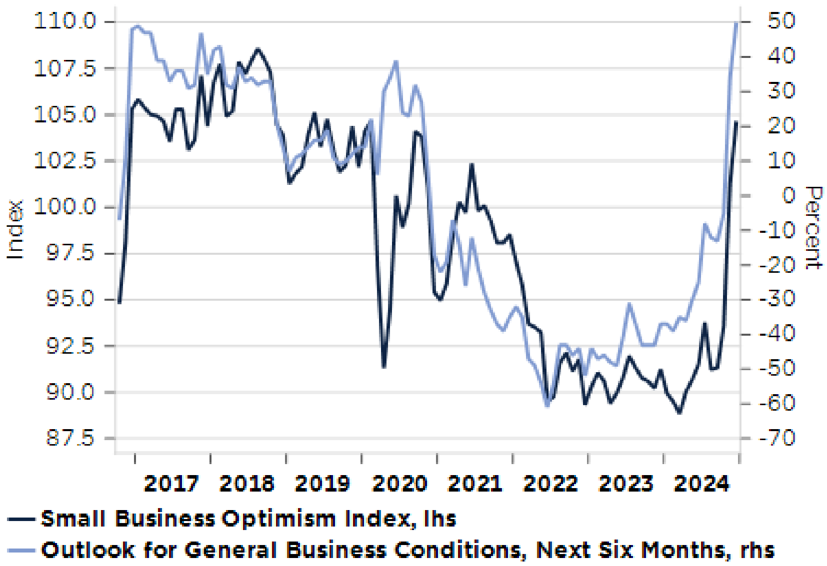
Tectonic movements and a reasonable allocation

Too many uncertainties are currently weighing on markets, amid unfavourable valuations, for us to expose our portfolios unduly to major market risks. In this regard, we have maintained our neutral view on the two main asset classes - bonds and equities - as well as our modest overexposure to Chinese equities. We kept up our equity exposure on account of the fading risk of a recession in the US, now all but removed, and of the stronger-than-expected resilience of the global economy.

INFLATION UNCERTAINTY

As global inflation no longer appears to be retreating, notably in services in the US, and with oil, gas, commodity and agricultural product prices trending upwards in recent months, the new Trump administration has added an extra layer of uncertainty over the future path of inflation with its tariff and deportation policies. Though it would be tempting to ease our concerns by pointing out that tariffs seem to be a negotiating tool to win concessions from the countries concerned, and that technically, mass deportations are difficult to implement on the scale intended, it would be a mistake to draw any conclusions whatsoever only one week into Trump's second term at the White House. Nevertheless, even if Trump were not to apply these inflationary measures, or only on a modest scale, the unleashing of America's "animal spirits" fuelled by hopes of deregulation and tax cuts is a scenario that cannot be dismissed. This would be likely to stimulate the economy and inflation in a more traditional manner, particularly as the economy's output gap is already positive.

A REVIVAL OF THE "ANIMAL SPIRITS "IN THE US?
Survey of US SMEs



Source: Edmond de Rothschild Asset Management, Macrobond

UNCERTAINTIES OVER AI

The disruptive shock caused by a small Chinese company highlighted with DeepSeek the possibility of creating powerful AI tools that rival American offerings at a significantly lower cost, using less energy, and, according to it, without relying on the highest standard chips. This underscores the dangers of an excessive concentration of investments in pure technology, especially when it is subject to rapid changes. Considering the weight of NVIDIA in market indices (more than 4.5% of the MSCI World!) and notwithstanding the impact on other stocks (including those having to address the supposed extra need for power), these disruptions can have major implications for indices. Debates are now focusing on whether this new competition will lower the price of AI to the extent that adoption will be stronger and faster and that volumes would eventually offset the price effect. Investors will realistically wait until they can measure these effects before making any decisions, which should temper NVIDIA's potential return to sky-rocketing market runs. Please note that we feel AI-tech related companies are over-valued, believe in the continued convergence of tools, and prefer companies that own the data and will be able to make a difference using artificial intelligence.

	Our convictions*	Changes compared to the previous month
ASSET CLASSES		
Equities	= / ★	→
Fixed Income	=	→
Dollar	=	→
Cash	=	→
EQUITIES		
US	+	→
Europe (ex-UK)	=	→
UK	=	→
Japan	=	→
China	+	→
Global Emerging	=	→
SOVEREIGN BONDS		
US	=	→
Euro Zone	=	→
Emerging Markets	+	→
CORPORATE BONDS		
US Investment Grade	+	→
Euro Investment Grade	+	→
US High Yield	=	→
Euro High Yield	=	→

*Range of investment committee ratings on the asset class/geographical zone (from -/- to +/+). Source: Edmond de Rothschild Asset Management (France). Ratings at 29/01/2025.
★Tactical score.

EUROPEAN EQUITIES BACK IN FORCE

The January rally enjoyed by European equities - which outperformed their US counterparts by a wide margin - seems largely driven by the correction of excessive doom and gloom about Europe in the wake of Donald Trump's election. Indeed, European economic statistics are not as bad as the current narrative suggests. The composite PMI in the Eurozone stands at 50.2, which is far from recession territory. Furthermore, President Trump has not mentioned Europe in the list of countries threatened by raised tariffs.

Has the rebound potential of European equities already been spent? We believe that the prospect of a new government in Germany following the general election on February 23rd could act as an additional catalyst, in the hope of a more favourable outcome on the fiscal policy front. Meanwhile, the issues raised by DeepSeek could also cool the dynamism of the US market rather more durably. We therefore continue to see no reason to underweight European equities in favour of the US market.

Within equities, we have maintained our modest overweight on China. The market remains speculative and volatile but is due to benefit from the country finally 'digesting' its real estate crisis, which may soon abate, and from the determination of Chinese authorities, clearly intent on revitalising the stock market.

In fixed income markets, we still believe there is more value to be found in Europe, on account of the much higher risks on inflation forecasts in the United States. We have a preference for 'carry' strategies in the current environment, as the yields on money market instruments are expected to fall this year.

TO SUM UP

The global inflation no longer appears to be retreating, notably in the US, due to uncertainties surrounding the Trump administration's programme.

European equities have largely outperformed their US counterparts due to the correction of excessive doom and gloom about Europe in the wake of Donald Trump's election.

In fixed income markets, there is more value to be found in Europe, on account of the much higher risks on inflation forecasts in the United States.

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