

DE PURY PICTET TURRETTINI

Outlook

1st Quarter 2025

January 2025

Looking Back at 2024

The year 2024 stood out for its complex challenges and notable opportunities amid contrasting economic and financial trends. Geopolitical tensions and armed conflicts escalated alongside major technological breakthroughs, particularly in artificial intelligence (AI). At the same time, a record number of elections worldwide culminated in Donald Trump's re-election as President of the United States. From a market perspective, 2024 will be remembered as a rewarding year for investors who favored U.S. equities and anticipated the historic performance of gold.

The year 2024 was defined by the continuation of American exceptionalism, both economically and in financial markets. While consensus a year ago projected U.S. growth at just 1,2%, it ultimately exceeded expectations, reaching 2,7% (based on preliminary estimates ahead of fourth-quarter data). This strong performance was driven by robust consumer spending and a resilient labor market. However, the economy's resilience slowed the pace of inflation reduction. In November, the core Personal Consumption Expenditures (PCE) index still recorded a 2,8% annual increase, compared to just over 3% a year earlier.

The U.S. Federal Reserve (Fed) initiated its rate-cutting cycle with a 0,50% reduction in September, soon followed by two additional 0,25% cuts. Simultaneously, policy rates were also lowered in Europe and China, where the economic outlook remains significantly gloomier. In the Eurozone, growth is expected to reach around 0,8%,

supported by southern European economies, while Germany remains in recession. China's growth reached 4,6% in the third quarter, weighed down by the struggling real estate sector, falling short of the authorities' 5% annual target. Although domestic demand showed signs of recovery, export growth remained weak, and consumer confidence continued to waver.

Equity markets saw mixed performances in 2024. In the U.S., the S&P 500 surprised analysts with a 23% annual gain, marking its two best consecutive years since the dot-com boom of the 1990s. The surge in interest around artificial intelligence boosted major tech giants — the "*Magnificent Seven*" — including Apple, Nvidia, Amazon, Alphabet, and Meta Platforms. These companies captured a disproportionate share of the index's gains, driven by soaring demand for cutting-edge technology and solid earnings.

Evolution of the main markets as of December 31st, 2024

Equities	Price	Ann. Var. as of 31/12*	Quart. Var. as of 31/12*	Other Asset Classes	Price	Ann. Var. as of 31/12*	Quart. Var. as of 31/12*
World				Sovereign Yields			
MSCI World All Countries	456.0	17.5%	-1.0%	Switzerland 10 years	0.3260	-0.38bps	-0.09bps
Europe				Germany 10 years	2.3670	0.34bps	0.24bps
SMI (Switzerland)	11 600.9	4.2%	-4.7%	France 10 years	3.1940	0.64bps	0.28bps
Euro Stoxx 600	507.6	6.0%	-2.9%	United States 10 years	4.5690	0.69bps	0.79bps
CAC 40 (France)	7 380.7	-2.2%	-3.3%	Bonds			
DAX (Germany)	19 909.1	18.8%	3.0%	BB Barclays EU IG TR	200.3	1.3%	-1.2%
United States				BB Barclays EU HY TR	238.0	1.9%	-2.0%
S&P 500	5 881.6	23.3%	2.1%	BB Barclays US IG TR	464.8	8.9%	0.6%
Dow Jones	42 544.2	12.9%	0.5%	BB Barclays US HY TR	339.9	5.1%	-1.5%
Nasdaq	21 012.2	24.9%	4.7%	BB Barclays EM USD TR	191.9	4.5%	1.0%
Japan and Emerging Markets				Currencies			
Nikkei 225 (Japan)	39 894.5	19.2%	5.2%	EUR vs. USD	1.0349	-6.3%	-7.2%
CSI 300 (China)	3 934.9	14.7%	-2.1%	EUR vs. CHF	0.9396	1.1%	-0.2%
Hang Seng China Entr. Index	7 289.9	26.4%	-2.9%	USD vs. CHF	0.9078	7.9%	7.5%
MSCI AC Asia Ex-Japan	612.2	10.2%	-8.2%	Commodities			
MSCI Latam	470.6	26.4%	-15.8%	Oil (WTI)	71.7	3.0%	6.5%
				Gold	2 624.4	27.2%	-0.6%

*Annual Var.: from 31/12/2023 to 31/12/2024

**Quarterly Var.: from 30/09/2024 to 31/12/2024

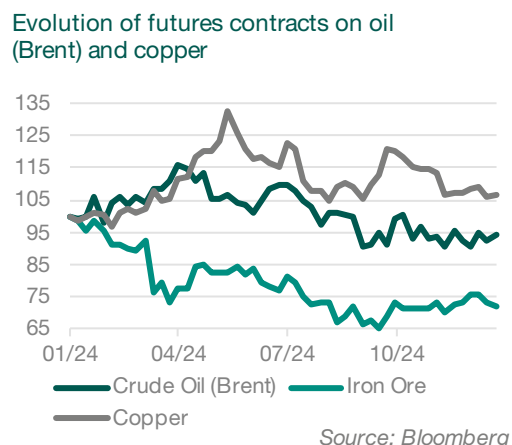
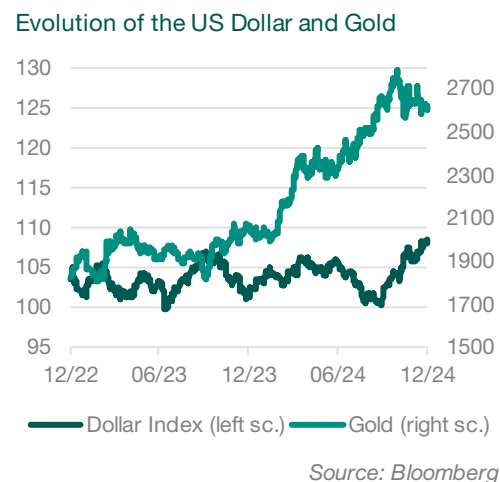
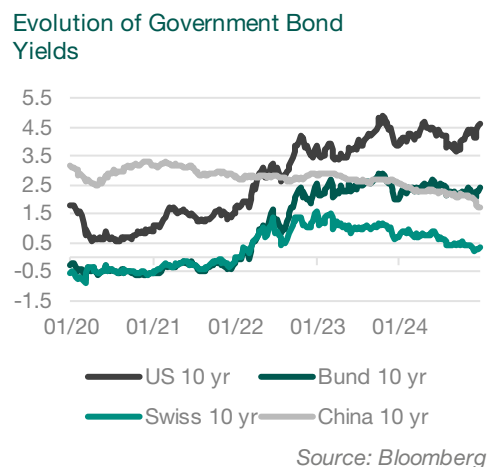
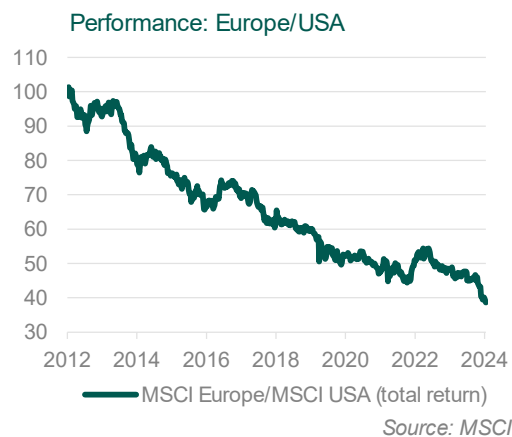
Source: Bloomberg, PPT Calculation

The election of Donald Trump and the anticipation of pro-growth economic policies, such as tax cuts and increased deregulation, further fuelled investor optimism. In Europe, equity markets posted more modest gains, held back by the structural weaknesses of Germany's industrial sector and political uncertainties in both France and Germany. The CAC 40 ended the year down 2,2%, dragged down by cyclical sectors such as luxury goods and automotive, which were impacted by the economic slowdown in China and weak international demand. In contrast, Chinese equities showed signs of stabilization toward the end of the year, supported by government stimulus measures. The HSCEI index rose by 26%, buoyed by a technical rebound in the second half of the year.

Bond markets, however, were disappointing in 2024. In the U.S., the 10-year Treasury yield rose by nearly 0.7 percentage points, reaching approximately 4,6% by year-end. This increase led to a decline in the prices of more defensive bonds. Meanwhile, short-term U.S. rates (2-year) remained steady despite the Fed's rate-cutting cycle. The reasons behind this included more persistent inflation than expected, uncertainty surrounding the Trump administration's fiscal and trade policies, and more cautious messaging from the Fed toward the end of the year. Corporate bonds, especially in the high-yield segment, performed better, benefiting from narrowing credit spreads. In Europe, sovereign bonds provided more stability, supported by expectations of further rate cuts by the ECB. In Switzerland, 10-year Confederation bond yields dropped to 0,29%, driven by declining inflation and an accommodative monetary policy.

Gold was the standout performer among commodities in 2024, surging by an impressive 27%. Supported by the Fed's monetary easing, geopolitical risks, and massive central bank purchases, gold outperformed despite a strong dollar and rising real yields, which are typically unfavourable. In contrast, industrial metals such as copper and iron ore suffered from the economic slowdown in China, where the construction sector remains in crisis. Oil prices fluctuated between \$68 and \$82 per barrel throughout the year. Geopolitical tensions in the Middle East and shifting global demand forecasts, particularly from China, contributed to heightened volatility.

Finally, Bitcoin had a historic year, surpassing the symbolic \$100,000 mark for the first time. The approval of Bitcoin exchange-traded funds (ETFs) in the U.S. in January triggered massive adoption, attracting over \$100 billion in investments. Trump's election also boosted the crypto market, with promises of support for the industry and the appointment of Paul Atkins as SEC Chair, signalling a strategic pivot in U.S. cryptocurrency regulation.



Outlook – First Quarter 2025

World Economy – Towards Continuing Current Trends

Economic growth in the United States is expected to remain robust, driven by strong household consumption, resilient labour markets, and favourable fiscal policies. In contrast, Europe and China are likely to continue recording growth at the lower end of expectations, constrained by structural challenges and weak external demand. U.S. trade policy remains one of the key sources of uncertainty, alongside the trajectory of inflation in the U.S. — both factors that could further widen the divergence in monetary policies among major central banks.

Global economic expansion is projected to persist in 2025, with growth dynamics continuing to favor the United States, which is set to benefit from the "America First" policies of Trump's second administration. The main uncertainty at the start of the year lies in U.S. tariff policy, which Donald Trump aims to use both to control goods flows and as leverage in negotiations.

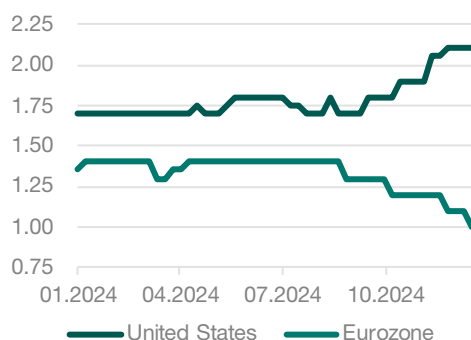
In our baseline scenario, we expect significantly higher tariffs only on imports from China and very likely also from countries that have strongly increased their exports to the US in recent years, especially Vietnam and Mexico. Tariffs will be differentiated by product category and country of origin with the aim of not visibly impacting the US economy via higher prices on imported consumer goods. Products that are difficult to source elsewhere, such as iPhones primarily produced in China, may face low or no additional tariffs. Tax cuts, in part financed by tariffs on imports, along with lighter regulation, will also shape the US economy. A temporary, moderate increase in the prices of U.S. goods is anticipated, although history suggests that most of the 2018 and

2019 tariff hikes were absorbed by importers. Private consumption and corporate investment are projected to remain key drivers of strong economic growth.

In Europe, U.S. tariffs do not pose an immediate threat, although some increase in US tariffs on European imports remain a distinct possibility. Despite reluctant consumers, a positive real wage trend and a less restrictive fiscal policy compared to 2024 argue in favour of continued moderate but positive economic growth in Western Europe. Europe's export sector will likely feel the effects of China's weaker economy (exports to China account for around 1.5% of the euro areas' economic output, while exports to the US account for around 3%). The risk scenario for Europe's economy is a deterioration of the general business climate, driven by an escalating trade conflict with the US.

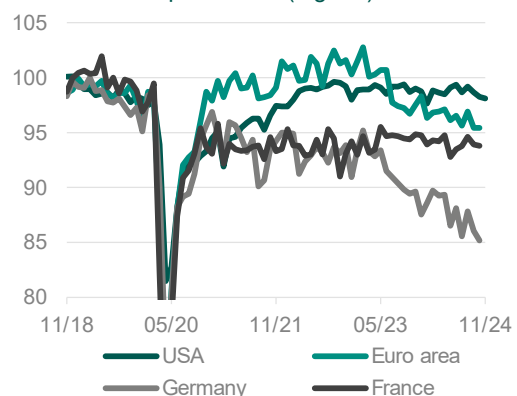
In China, consumers and the financial system remain structurally burdened by falling property prices. The export economy will take some hit from higher US tariffs in 2025. Government stimulus measures, however, will limit the growth dent.

Expected GDP Growth Evolution
US and Eurozone (consensus)



Source: Bloomberg

Industrial production (aligned)



Source: Fed, Eurostat, Statist. Bundesamt, INSEE

U.S. – China Trade Conflict: Ongoing Since 2018

The United States has started to increase import tariffs on Chinese products in several steps starting in early 2018 during Trump’s first presidency, with the Biden administration continuing on this path. While the overall U.S. trade deficit relative to its economic output has changed little in recent years, the deficit with China has narrowed. However, deficits with other countries, particularly Vietnam, Mexico, and Canada, have risen in the wake of the expected circumvention strategies. The decline in the global industrial purchasing managers index in 2018 and 2019 was likely related to the uncertainties associated with the tariff increases.

Since then, the U.S. has intensified its use of tariffs as a tool for trade and economic policy. One consequence has been increased supply chain diversification among U.S. companies, though this has led to occasional cost spikes and logistical delays. By 2024, these measures expanded to target not only China but also third-party countries perceived as indirect beneficiaries of supply chain relocations.

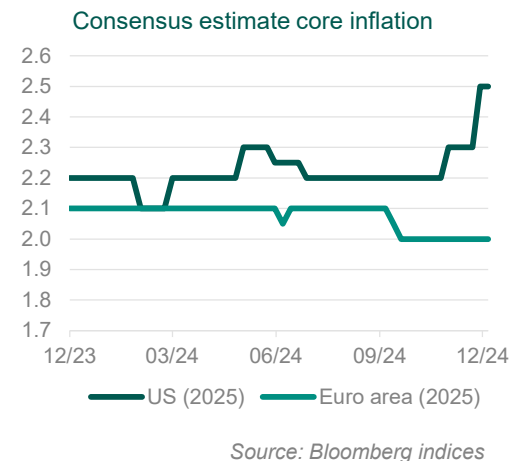
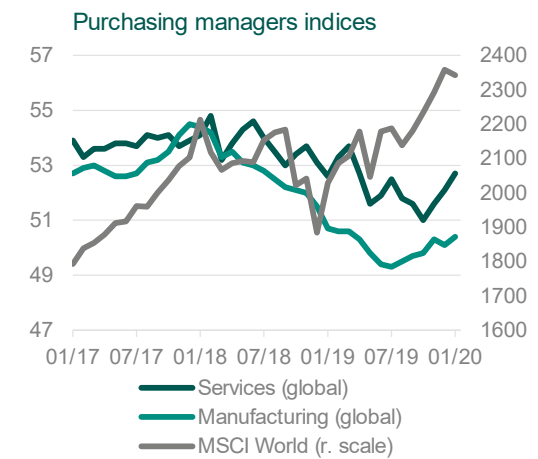
Expected Effects of Tariff Increases

Tariff adjustments are likely to lead to temporary price increases, reducing purchasing power. However, currency adjustments may offset these effects for exporting countries. For example, a 10% depreciation of the euro against the dollar could neutralize an equivalent tariff increase.

In the medium term, global economic growth may slow as higher tariffs, similar to those in 2018 and 2019, could weaken business confidence. Structural adjustments are also probable, particularly in China’s export sector. Over the longer term, reduced competition may dampen U.S. prosperity compared to a free-trade regime. Consumers may face higher prices for goods, while some industries initially protected by tariffs could lose competitiveness over time due to reduced incentives for innovation or global competition.

Monetary Policies: Diverging Paths

The leading Western central banks are in the process of lowering interest rates. That interest rates will continue to fall is justified by the historically very high real interest rates. The European Central Bank (ECB), after a modest 0,25% rate cut in December 2024, is expected to continue significant reductions to address economic weakness and slowing inflation. The Swiss National Bank (SNB) is likely to maintain a similar easing policy to prevent excessive appreciation of the Swiss franc. In the U.S., fewer rate cuts are anticipated due to higher-than-expected inflation and economic resilience. In China, further rate cuts are probable to support the economy.



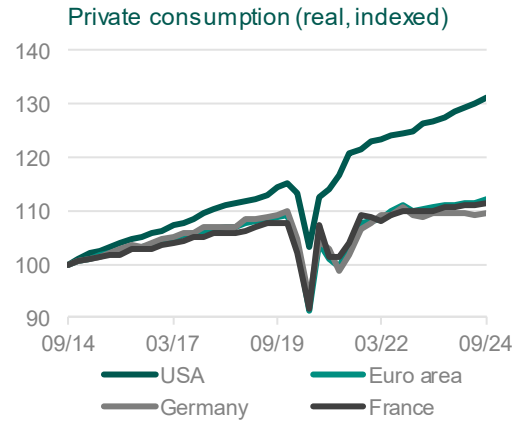
Regional Perspectives

As in previous quarters, the **U.S.** economy is expected to continue growing in 2025, supported by private consumption and corporate investment spending. Current indicators, such as strong consumer confidence and low initial jobless claims, reinforce this positive trend. Despite still high interest rates, the residential construction sector has shown more resilience than in previous high-rate periods. A decline in service sector inflation, particularly in housing-related components like rents, is essential for the Federal Reserve to achieve its target of overall inflation close to 2%. Overall trends, including wage growth, are moving in the right direction. However, recent data indicates that inflation has plateaued, which is not entirely surprising given the economy's strength.

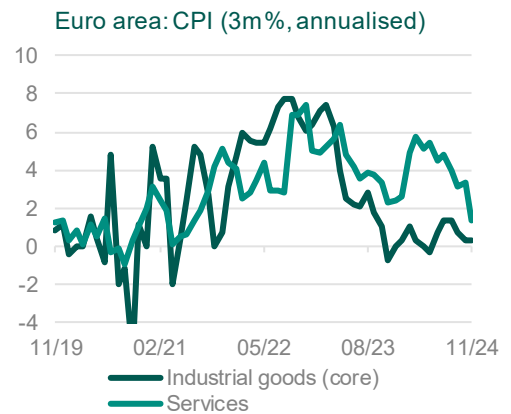
In **Europe**, the conditions for slightly positive economic growth are in place. Service sector trends are mildly favourable, although confidence indicators remain below pre-pandemic levels. Consumers' purchasing power continues to improve due to rising real wages, which supports household spending. Additionally, unlike in 2024, fiscal policy is not expected to weigh on economic activity in 2025. After significant progress in 2023, the pace of disinflation has slowed, but the eurozone's overall inflation rate remains near the ECB's 2% target. Recent increases in negotiated wages are unlikely to impede further inflation reduction, given the overall sluggish economic environment.

Switzerland's economy shows stronger growth compared to the rest of Europe, supported in part by demographic factors. The unemployment rate has risen slightly from its historic low in the spring of 2023. Inflation — including core inflation, which excludes energy and food prices — continued to decline in 2024. In this context, additional interest rate cuts are expected.

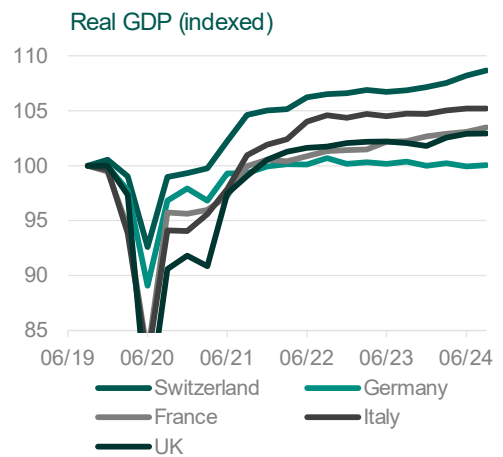
In **China**, recent economic data indicates moderate improvement, with stronger retail sales and positive economic surprise indices. The anticipation of upcoming U.S. tariff hikes is currently prompting American importers to replenish inventories, which benefits Chinese exports in the short term. However, China will face ongoing challenges in the coming years: declining real estate prices will not only dampen consumer sentiment but also strain the financial system due to mortgage defaults and non-performing loans. Higher U.S. tariffs on Chinese imports are expected to weigh on exports and, consequently, on economic activity in 2025. The Chinese government has already announced plans to counter these pressures with stimulus measures. An even more accommodative monetary policy is also anticipated, along with potential retaliatory actions against U.S. tariffs.



Source: Bureau of Economic Analysis, Eurostat



Source: European Central Bank



Source: Eurostat



Source: Bloomberg Intelligence

Equities – Positive Performance Expected in 2025 Despite Short-Term Caution

We maintain a constructive 12-month outlook for equity markets, supported by robust earnings growth projected to reach double digits. We continue to favour U.S. equities, which benefit from positive economic momentum, while maintaining exposure to high-quality European and Swiss companies that have recently underperformed. In the short term, however, risks have increased, particularly due to already significant investor positions in the market, high valuations of U.S. stocks, and the potential for an unexpected slowdown triggered by the protectionist measures of Trump’s new administration.

After a 2024 marked by moderate earnings growth — stable in Europe (+3%) and up nearly 10% in the U.S. — the 2025 outlook points to gradual improvement. U.S. corporate earnings are expected to grow steadily (+14% according to consensus), while the outlook in Europe remains more uncertain, although some recovery is anticipated after a lacklustre 2024.

The U.S. stock market continues to exhibit the strongest fundamentals. In contrast, many large European companies remain heavily reliant on a stable global economic environment, making them more vulnerable to downside risks. Current equity valuations reflect these divergences. In the U.S., the market-cap-weighted S&P 500 index shows elevated valuation levels, largely driven by the dominance of the "Magnificent Seven" tech giants, which continue to experience strong growth.

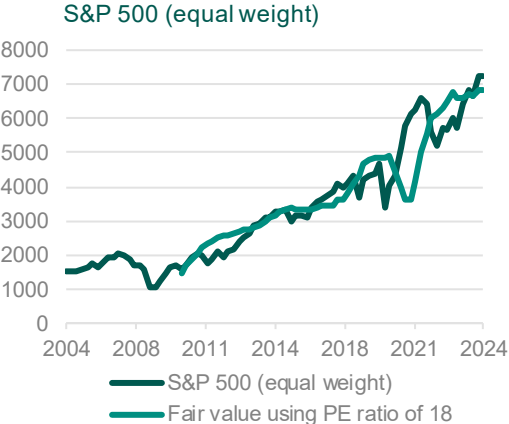
We are maintaining our overweight position in U.S. equities for now, as we assume that economic policy in the US will be shaped in such a way that the stock market will not be negatively impacted in the short term. In the case of China and Asian equities, the main uncertainty, besides the well-known structural challenges, surrounds the implementation of U.S.

tariff policies, which are expected to primarily target China.

In Europe’s subdued economic environment, quality growth stocks, high-dividend-yield securities, and companies generating a significant portion of their revenue in the U.S. (preferably with local production) offer attractiveness.

From a sector perspective, demand for technology remains structurally positive. Artificial intelligence is expected to continue playing a key role in 2025, though its influence may gradually diminish compared to the previous two years. This underscores the need for greater diversification beyond the "Magnificent Seven," whose relative appeal could begin to wane.

Regarding stocks deemed beneficiaries of Donald Trump’s re-election, a cautious approach is warranted. Banks with significant U.S. operations may benefit from more relaxed regulations, but the impact on profits is expected to be modest. In the energy sector, stock performance will largely depend on oil and gas price trends, which could face downward pressure due to increased domestic production.



Source: Standard & Poor’s



Source: ISM, S&P Global, own calculations

Bonds – Attractive Interest Rate Levels but Greater Selectivity Required

As central banks continue their interest rate-cutting cycles, bond markets are expected to benefit from an overall favourable environment. However, divergences in monetary policies and varying valuation levels call for a more selective approach. Our key convictions for 2025 include a preference for intermediate-term U.S. bonds, high-quality corporate bonds, and heightened caution in the "high yield" segment due to historically low credit risk premiums.

Major central banks will maintain accommodative policies in 2025, though at different paces. In the U.S., the Federal Reserve is lowering interest rates more slowly than expected, offering still-attractive bond yields around 4.5%. In Europe, the European Central Bank (ECB) is expected to continue rate cuts in 2025, though the impact on bond yields will be more limited due to already low levels. This divergence supports a preference for U.S. bonds, particularly those with intermediate maturities of 3 to 7 years. Longer durations may prove volatile due to significant U.S. government refinancing needs—approximately \$7 trillion in Treasury securities are set to mature this year—and the risk of higher-than-expected inflation due to Trump's tariff policies and the resilience of the U.S. economy.

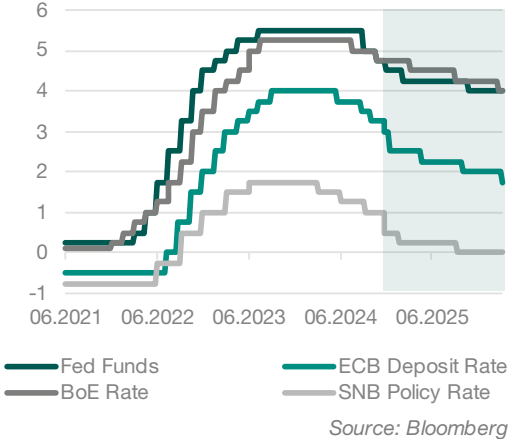
Investment-grade corporate bonds remain an appealing option due to strong balance sheets and controlled default rates. These securities offer attractive yields, particularly in a context of moderate but stable economic growth. However, we remain cautious regarding the high-yield segment, where credit spreads are notably low and may not

sufficiently compensate for risks linked to potential economic slowdowns or deteriorating financing conditions. Historically, in the U.S., when the spread of high-yield bonds falls below 3% relative to risk-free rates — as is the case today — performance has often turned negative.

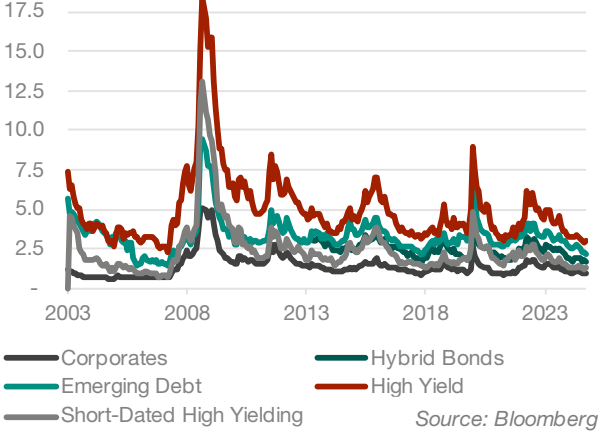
In the medium term, inflation-linked bonds can play a diversification role within bond allocations, offering total returns comparable to standard government bonds. This segment currently presents attractive valuations due to elevated real yields in the U.S. and, to a lesser extent, positive real yields in Germany for 10-year bonds.

Emerging market bonds offer attractive opportunities, particularly in regions where yields exceed those of developed markets. However, these securities remain sensitive to geopolitical tensions and protectionist policies, such as U.S. tariffs, which could raise their financing costs. We recommend a selective approach, focusing on issuers with strong fundamentals and well-managed risk profiles.

Evolution of Key Central Bank Rates



Credit Spread (in %)



Our Positioning

The outlook for equities and credit markets remains favourable over the next 12 months, supported by a robust U.S. economic environment strengthened by Donald Trump's re-election. His "America First" agenda, focused on tax cuts, increased deregulation, and enhanced support for American business growth, is expected to continue boosting investor confidence. However, risk factors such as tariff policies, geopolitical tensions, and inflationary pressures will require close monitoring. At the start of the year, a balanced asset allocation strategy appears prudent, especially as the strong risk appetite observed at the end of last year may be tempered by increased volatility ahead of Trump's inauguration.

Supported by favourable economic momentum over the past two years, equity markets have reached levels consistent with late-cycle positive fundamentals. In terms of economic dynamics and earnings growth, the U.S. stock market continues to display the strongest fundamentals. In Europe, it is important to note that many large corporations have a global footprint, making their performance less dependent on the continent's relatively slow economic growth. Additionally, many European companies offer dividend yields higher than those of high-quality bonds, reinforcing the medium-term attractiveness of equities.

The U.S. remains the focal point, despite ongoing uncertainties in the Middle East and Ukraine. After the inauguration of the new U.S. administration on January 20, markets will closely watch the implementation of campaign promises, particularly regarding tariffs. Our baseline scenario does not anticipate major changes to economic and inflation forecasts outside of China, although the range of potential outcomes remains broad. These uncertainties, combined with elevated valuations in the U.S. market and already significant investor

positioning, call for more caution in the short term.

Despite central banks' interest rate cuts, the room for further yield declines—and, consequently, for bond price increases—appears limited. Corporate bonds remain attractive as long as economic growth shows no signs of slowing. Furthermore, given the relatively more restrictive monetary policy in the U.S. compared to Europe, the U.S. dollar is expected to remain well-supported.

We also maintain our exposure to gold, which benefits from strong structural tailwinds. A key factor is the role of central banks, which, after two decades of net sales, have become net buyers of gold. This shift represents a significant reconfiguration of the global financial architecture, reinforced by events such as the seizure of Russian assets in 2022. Such interventions have increased gold's appeal as a safe-haven asset outside the traditional financial system. Additionally, a potential increase in global liquidity, combined with sustained demand from institutional and private investors, is expected to continue driving bullish momentum for gold in 2025.

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