

JANUARY 2025

## Editorial

### 2024: A year full of twists and turns!

2024 is coming to an end, and we are taking stock, and it is clear that this year will have had its share of surprises and contrasting developments, as much from a stock market point of view as from an economic, political or geopolitical viewpoint.

The American stock markets, like what was observed in 2023, will once again have led the way in 2024, with a performance of +23.84% for the S&P500 index and +25.98% for the Nasdaq-100. This contrasts sharply with the relative sluggishness of the European stock markets, the Eurostoxx50 index only increasing by a modest +7.69%, not to mention the very disappointing decline of -3.04% for the CAC40, a consequence of operators' caution regarding the hexagonal situation, characterized by a blocked parliamentary situation and a sharply increasing public debt; also a consequence of the significant declines observed in important values of finance rating (-45.80% for ST Micro, -22.98% for L'Oréal, -11.73% for LVMH or -9.01% for TotalEnergies). Emerging markets didn't do any better with a small +5.34% over 2024, the Chinese authorities visibly taking their time to reveal all the details of their ambitious plan announced in September (the imminent arrival of Donald Trump at the White House probably factors in that equation). Japan, on the other hand, seems to have done well (+19.22% for the Nikkei), but adjusted for the yen effect, the progression expressed in dollars falls to 6.84%.

Large outperformance therefore of the American stock markets, even if this increase did not occur evenly throughout the year. Schematically, we can say that over the first six months of 2024, it was the mega capitalizations that drove the US stock market and especially the "magnificent 7" (Apple, Microsoft, Amazon, Alphabet, Meta, Nvidia, Tesla). The second half of the year, however, saw other performance drivers kick in. The best example of this two-step evolution lies in Nvidia, revealed by the surge in artificial intelligence. Nvidia grew by +149.46% in the first half, but "only" +8.70% in the second half. Conversely, stocks which had done nothing, or even declined during the first part of the year, such as Carnival Corp or PayPal, woke up during the second half, posting gains of 33.12%

and 47.08% respectively. Regardless, the annual outperformance of American stocks compared to the rest of the world has rarely been so significant, with valuations around 25x earnings while for the time being European and emerging stocks remain locked at the bottom of the historical range, around 14x earnings. It is true that from a macro-economic point of view, the United States showed great resilience with GDP back above 3.00% since last June. And despite a slight rise in the inflation rate over the past 3 months (more details on this subject in our Special Topic on page 4), the American Federal Reserve has deemed it appropriate to lower its key rates three times since mid-September, the Fed Funds rate going from 5.50% to 4.50% presently. Solid growth, US corporate results, more accommodating monetary policy, was the perfect cocktail to justify the increase in multiples on American stocks. Europe, stuck in sluggish growth, problems of competitiveness and political instability, a Franco-German couple at a standstill, was not so lucky and its stock market performance is testimony to this. That being said, the trend is clearly towards the easing of monetary policies almost everywhere in the world. More than 60% of central banks adopted an accommodative bias last year and lowered their key rates at their last monetary policy meetings. This will remain an element of support for stocks in 2025.

In terms of long-term interest rates, developments were also mixed, putting the nerves of bond investors to the test. Over the first 4 months of 2024, the strength of the US economy surprised with continued strong household consumption and a rather resilient manufacturing sector. Add to this the comments of certain members of the FOMC about core inflation potentially higher than expectations and we had the basis for an upward movement on the yield of 10-year US government bonds, from 3.80% at the end of December 2023 to almost 4.70% at the end of April. Then from the beginning of May, there was a decline, driven by soft-landing expectations and the decline in inflation, the CPI index going from 3.50% at the end of March to 2.40% at the end of September. In this context, 10-year yields fell again, going from 4.70% to 3.60% in mid-September. A nice 5-month bond rally but which was to end with operators taking

	Q4 2024	FY 2024	Close 31/12/24
DOW JONES	0.51%	12.88%	42,544.22
S&P 500	2.07%	23.31%	5,881.63
FTSE 100	-0.78%	5.69%	8,173.02
EUROST.50	-2.09%	8.28%	4,895.98
CAC 40	-3.34%	-2.15%	7,380.74
FTSE MIB	0.18%	12.63%	34,186.18
MSCI EM	-8.15%	5.05%	1,075.48
CRUDE OIL	5.21%	0.10%	71.72
GOLD	-0.38%	27.22%	2,624.50
EUR/USD			1.0354
EUR/CHF			0.9401
EUR/GBP			0.8275
EURIBOR 1M			2.845%

into account that inflation would have difficulty falling much lower towards the Fed's 2% objective, given that the American labor market has shown itself to be solid at the start of autumn. Without forgetting the anticipations of victory for candidate Trump, rightly perceived as pro-business, but also as a slightly more "inflationary" profile than his competitor Kamala Harris, especially in a context of trade war and the return of customs barriers. This explains why long-term yields tightened again between mid-September and the end of December, going from 3.60% to 4.60%, thus weighing on bond performances. However, for completeness' sake, let us mention that over the full year, higher beta bond segments (high-yield bonds, subordinated financial debt, corporate bonds from emerging countries) outperformed government bonds, sometimes displaying similar performances at 10%. The more pronounced appetite for risk combined with the attractive backing made it possible to compensate here for the volatility of interest rates in the context of default rates contained around 5% for high-yield debt. Be careful, however, valuations have tightened, especially in the United States and the credit risk premium is now at its lowest level in 10 years, both in the investment-grade and high-yield segments.

Finally, let us point out to conclude this 2024 review that despite the rather risk-on trend on risky assets this year, diversification instruments have performed remarkably well. Swiss franc, precious metals, bitcoin... all these instruments have attracted interest from investors and are trading close to their historical levels. It is true



that the world remains in turmoil with a yet unresolved conflict in Ukraine, now involving North Korean fighters on European soil. Unthinkable just a few months ago. The Middle East, for its part, remains a pressure cooker with two significant issues: Iranian military nuclear power and the new power in Syria, established with the blessing of Turkey. The populist movement is gaining ground throughout Europe, the major geopolitical balances are shifting, new alliances, new axes are being created (Iran-Russia-North Korea), all of this could create a certain anxiety and justify the use of these assets of protection even if stock market performances have been rather good.

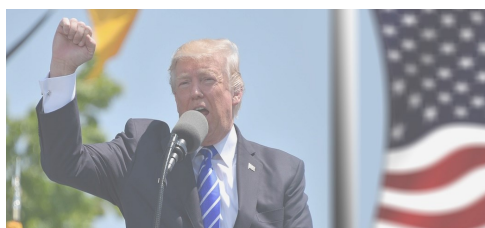
In this very uncertain context, what should we expect for 2025?

Trump's return should initially cause a tightening of trade and migration policies in the United States. But concomitantly with what could be described as a negative supply shock, the anticipation of corporate tax cuts and the announced wave of deregulation should boost domestic demand. The mix of all this should allow the continuation of real growth around 2.5% with more or less the same amount of inflation. The new president should also quickly keep his promises of tax cuts for the middle class and accelerate the reindustrialization effort. It will then have to confront the strength of a dollar boosted by the rise in the Nasdaq. Will he then be tempted, as during his first mandate, to hold a public speech leading to a gradual weakening of the dollar, a way of externalizing the costs of adjusting his policy to the rest of the world? It is probably still a little early to predict, but this is one of the points that will require close monitoring. Scott Bessent, former investment director at Soros, tipped to be the future Treasury Secretary of the new administration, also advised Donald Trump to pursue a "3-3-3" policy: reduce the budget deficit to 3% of GDP by 2028 (which will involve reducing government spending), boost growth towards 3% through deregulation (which should increase tax revenues), and produce 3 million additional barrels of oil per day (in order to reduce energy prices and control inflation).

In the Euro Zone, we will particularly scrutinize France's budgetary trajectory. The stakes are high given the weight of French bonds in global institutional portfolios. It is therefore imperative for Paris to provide an electric shock to correct the drift in public accounts. The current situation,

unfortunately, reveals 25 years of failure of European budgetary surveillance mechanisms. A monetary union cannot function without a minimum of collective discipline at the budgetary level and French excesses should not resurface doubts about the sustainability of the single currency. The current weakness of the euro is certainly partly a reflection of these doubts.

As for China, the world is waiting. In September, the authorities announced a series of stimulus measures intended to revitalize the economy and boost stock prices. However, debt, overinvestment, the housing bubble that is struggling to deflate, sluggish domestic consumption, and international trade pressures continue to fuel structural weaknesses in the Chinese economy that recovery plans cannot resolve alone. It will therefore be interesting to monitor the content of the first discussions between Beijing and Donald Trump as soon as the latter takes office on January 20.



In terms of our portfolios, we remain exposed to American stocks for the time being. The outperformance should continue in the coming weeks given the positive impact of Trump's first measures on confidence and household spending. What's more, if we estimate that 2023 and 2024 constituted the first two years of a classic bull market (which as always started with relative skepticism, even pessimism, not forgetting the beginning of 2023), 2025 could constitute the optimism phase of this long-term bull market, with accelerating positive inflows into stocks and a growing number of optimistic investors in the market. Prudence however, fears relating to inflationary pressures or long-term rates too close to 5% could lead operators to question the objectively very high valuation levels reached by certain sectors of the American stock market.

This is largely why we are not completely losing interest in Europe. Quite the contrary. The now fairly consensual pessimism on the Euro Zone results in the fact that certain quality companies, less exposed to political or economic uncertainty, can be accumulated at prices much lower than those of their American equivalents, thus provid-

ing timely diversification for stock investors. There is little to expect in terms of profit growth in Europe given the lack of dynamism in the region. But the European stock market contains many world leaders whose valuation levels have become very reasonable, whether in the luxury sector, aeronautics, health, or even discretionary consumption.

Reasonable valuations also within emerging stock markets, even with regard to China, it is appropriate, as we have already outlined, to know a little more about the details and timing of the implementation of the Chinese plan. India, endowed with the talent of knowing how to weave and maintain links between the Global North and South, will continue to benefit from robust growth and currently presents more relaxed valuations than 3 months ago. We remain invested in the entire area.

Given the increased importance of the debt burden and national deficits almost everywhere in the world, and especially in Europe, budgetary imperatives will lead central bankers (excluding the United States) to assume the greatest part of economic support in 2025. This should be positive for bond instruments whose yields, particularly after the period of tension on long rates in recent weeks, provide attractive backing, a certain visibility on performance but also a shock absorber to deal with any bad news with relative serenity, whether it is a macroeconomic or geopolitical unforeseen event. It could therefore be another good year for 60-40 balanced portfolios (60% rates, 40% stocks).

Finally, it will be relevant to remain attentive to the major technological upheavals that are coming, whether cryptocurrencies, at the forefront with the election of D. Trump, to which we are devoting the Wide Angle of this issue, or artificial intelligence. Generative AI should indeed continue to be a major theme in 2025, with more and more companies attempting to increase their revenues and profitability through new AI applications.

In this time of great change, we would like to thank you all for your trust and loyalty throughout the past year. We wish you and your loved ones a prosperous 2025, full of successes and happy moments. May this new year be synonymous with prosperity and success for your investments.

*Christophe Carrafang*



## Macro-économie

*Rather resilient global growth in 2024*

### Price index: Stabilization

- In the Euro Zone, inflation is +2.2% with a “core” indicator at +2.7%.
- In the United States, the price change is +2.7%. The decline in the price of oil and, more generally, in energy costs favor an easing of prices. The core index remains stable at +3.3%.
- Chinese inflation is not an issue, quite the contrary, despite the recovery plan it remains sluggish at +0.2%.

### Job market: Demographic factors still at work

- In the Euro Zone, despite slowing economic activity, the unemployment rate remains surprisingly low at 6.3%, a new record (October figure). However, the two largest economies in the Zone saw their unemployment rate increase in 2024 from 7.1% to 7.6% for France and from +5.8% to 6% in Germany.
- In the United States, job creation is less vigorous than last year, and the unemployment rate, after reaching a low of 3.5% in March 2023, is now 4.2%, which remains historically low.

### Manufacturing activity: No improvement in 2024

- The overall indicator remains around 50; despite low stock levels and falling production costs, we do not see any improvement in 2024.
- Activity in the Euro Zone is deteriorating (45.1), the two main economies, Germany and France, have low growth rates and a deleterious political climate.
- In the United States, the index has reached its highest level since April but still below the level of 50 (49.3).
- Chinese activity recovered slightly above 50 in the last quarter of the year.

### Service activity: Good resistance

- The overall index has been stable for several months at 53.1.
- Services activity in the Euro Zone is also stabilizing just above the growth level (51.4); France disappoints: 48.2.
- Chinese indicators are recovering and are close to 52.
- In the USA, the indicator is expected for December at 53.1, a slight increase compared to the previous month.

Damien Liegeois

## The Big Picture

*Will Donald Trump's promises on cryptocurrencies be achievable?*

*The re-election of Donald Trump was one of the main drivers of the cryptocurrency rally at the end of the year. The latter proposed a series of ambitious measures to democratize the world of cryptocurrencies in the United States.*

*He plans on creating a strategic Bitcoin reserve, like oil reserves, with a commitment to never sell these assets.*

*Another promise is to position the United States as a global leader in cryptocurrency innovation and regulation, ahead of countries like China.*

*His administration would work to establish a favorable regulatory framework, reconciling environmental concerns and economic development.*

*Finally, he proposes creating a presidential advisory council composed of pro-cryptocurrency experts to guide these initiatives.*

*All of these proposals require an in-depth analysis of their content and their feasibility. Historically skeptical of cryptocurrencies, Trump's recent statements during his political campaign may reflect a political or economic strategy rather than a fundamental change in position. This raises questions about their feasibility.*

*First, cryptocurrency regulation in the United States is complex and fragmented. If Trump plans to promote their adoption or impose a stricter framework, he will have to navigate among the numerous federal agencies (SEC, CFTC, etc.) and coordinate their actions. This task requires strong political will and a clear strategy, elements often absent in the implementation of electoral promises.*

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(continued from previous page) *The United States is the largest bitcoin miner in the world, with around 40% market share in 2022. To increase this figure, everything will depend on the energy policy that will be put in place by the Republicans: a return to fossil fuels to the detriment of renewable energies, resulting in cheaper and more reliable energy, will undoubtedly have some success. For other less energy-intensive cryptocurrencies, such as Ethereum, the key will be to provide an attractive regulatory and tax environment.*

*Then, the technological and economic question becomes crucial. Promoting cryptocurrencies, for example by facilitating their use or launching a possible "digital dollar," requires significant investments in digital infrastructure, cybersecurity, and financial education. These initiatives are feasible, but they require time, funds, and bipartisan political consensus, which can be difficult to achieve.*

*During his presidential campaign, the Republican candidate announced his intention to create a strategic bitcoin reserve. The United States already holds more than 200,000, obtained during various seizures: a Republican senator, Cynthia Lummis, even defends the idea of setting up a reserve of 1 million bitcoins in order to strengthen the country's financial situation. It is currently difficult to see bitcoin as a store of value given its short history and high volatility.*

*Finally, Trump's promises must be put into perspective with international dynamics. Cryptocurrencies being by nature global, any American initiative will have to take into account the policies of other major powers, such as China or the European Union. An isolationist approach could prove counterproductive, particularly if it slows down innovation or foreign investment.*

*In short, although Donald Trump's promises on cryptocurrencies may be attractive to part of the electorate, their implementation raises significant challenges. Their achievability will depend not only on its ability to mobilize the necessary resources, but also on reconciling divergent interests within the American and international cryptocurrency ecosystem.*

Damien Beasse

## Special Topic

### 2024 inflation assessment and outlook

Six months ago we took stock of inflation in the first part of 2024 and noted that neither of the two dark scenarios was taking place: neither a rapid disinflation which would have been caused by a strong recession, nor an acceleration of the price index on geopolitical outbursts.

At the end of this year, we are seeing an overall stabilization of the price index. At the G7 level, after a low of +2.10% in September, the average inflation rate remains contained at +2.6%. Beyond this figure, however, the geographical realities are diverse.

The American economy, which is doing better than holding up with economic growth of around +3%, is seeing its price index fall to +2.7%, but without economic factors, it has remained stable at +3.3% for several months. Price developments are still beyond the FED's objectives but at a level sufficient to justify three rate cuts since August for a total of -100bp (-1%) and a key

rate reduced to +4.5%. For 2025 they could be lower.

In the Euro Zone, the inflation rate continues to decline, going from +2.6% in June to +2.2% in November and from +2.9% to +2.7% for the "core" index. The ECB's objective has almost been achieved with activity slowing down, particularly in the two main economies of the Zone which are posting disappointing growth rates, with a growing competitiveness gap and political realities that are complex to say the least; we expect +0.7% growth in France in 2024 and a recession of -0.2% for Germany. Ms. Lagarde, president of the European Central Bank, acted, like the FED, by applying rate cuts of -100bp since the summer. The Euro Zone could need further cuts quickly.

For 2025, excluding unpredictable geopolitical elements, several forces could be at work to counter disinflation. On the one hand, the expansionist and protectionist economic policy of the next American president, which will weigh on prices through tax

cuts and customs tariffs. On the other hand, the long-awaited Chinese recovery, despite its still vague contours, which should lead to a resumption of price increases in China with the consequence of an export of inflation to countries importing Chinese products. A final factor to take into account is that the rate cuts around the world, in support of the economy, will, secondly, have a price impact linked to the recovery in consumption and real estate.

Conversely, to see a sharp drop in the inflation rate, economic indicators would have to deteriorate sharply at the start of the year and more monetary interventions and more patience would be needed to begin to fully see the effects of a more accommodating monetary policy.

The balance still tips towards a stabilization/resumption of a certain inflation in 2025 (outside Europe?), however, nothing to do with what we experienced in the post-COVID period of 2021/2023.

Damien Liegeois

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