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QUARTERLY OUTLOOK / JANUARY / FEBRUARY / MARCH 2025

AN ALL IN BET ON THE US: THE CROWD'S CONFIDENCE IS THE MARKET'S WEAKNESS

SWITZERLAND
WHAT IF HOPES WERE TO OUTWEIGH CONCERNS?

EUROPE
DARK CLOUDS, SILVER LININGS? A SPECTRUM OF POSSIBILITIES

UNITED STATES
"TARIFF IS THE MOST BEAUTIFUL WORD IN THE DICTIONARY" ACCORDING TO DONALD TRUMP

ASIA
THE YEAR OF THE SNAKE: SLITHERING THROUGH THE SHADOWS TOWARDS THE LIGHT

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TABLE OF CONTENTS

EDITORIAL

AN ALL IN BET ON THE US: THE CROWD'S CONFIDENCE IS THE MARKET'S WEAKNESS

FLORIAN MARINI, CFA, CMT / CHIEF INVESTMENT OFFICER

After two outstanding years for stock markets – particularly in the US – during which many participants anticipated a recession, 2025 begins with widespread expectations of continued growth and a low risk of downturn. Contrarian voices do, however, persist: perennially bearish strategists are warning of potential inflationary pressures fuelled by President Trump's policies. Such pressures could force the Federal Reserve (Fed) to adopt an aggressive tightening stance against a backdrop of weakening employment, rising deficits and unsustainable debt levels.

Despite these concerns, we remain constructive on the 2025 outlook. Our base-case scenario foresees solid gross domestic product (GDP) growth, easing inflation and continued support from accommodative central bank policies. That said, we keep a close watch on three pivotal factors that could alter this outlook: the direction of US policy, China's economic stability and Europe's structural challenges.

Global economic growth

As we move into 2025, the global economy continues to exhibit steady growth. Worldwide GDP is expected to expand by 3.1%, in line with its 2024 pace. The US economy should maintain good momentum, posting growth in excess of 2%, while a modest improvement to 1.4% is anticipated for the European GDP, up from 0.9% in 2024. As for China, it aims for 4.5% GDP growth, contingent on effective stimulus measures and the avoidance of an escalating trade war fuelled by potential Trump-era tariffs.

Leading indicators and sector dynamics

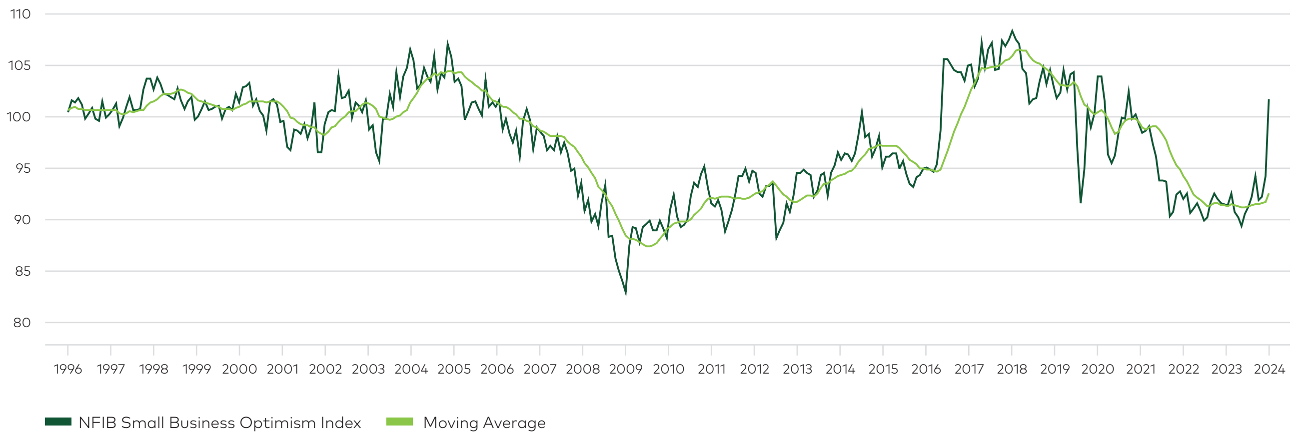
Leading economic indicators support this growth trajectory, though the expansion remains largely driven by the services sector. The global services purchasing managers' index (PMI) lies firmly in expansion territory at 53, while manufacturing has languished in a recessionary environment for over two years. Encouragingly, recent data points to early signs of recovery in global manufacturing activity. With the forthcoming return of Donald Trump to the White House, small business sentiment notably has much improved, likely driven by expectations of deregulation and business-friendly tax policies. After nearly three years of pessimism, the small business outlook has shifted into positive territory – a crucial indicator, given that small businesses account for more than 40% of US GDP.

Monetary policy and inflation

Central banks are likely to maintain an accommodative stance in 2025, as inflation is still largely under control.

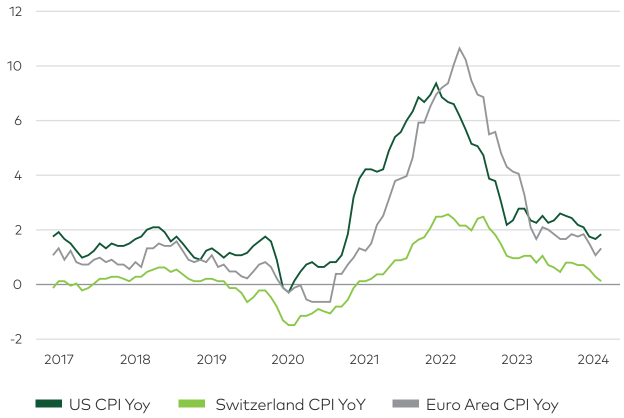
The US President-elect's tariff strategy remains a wildcard. However, we see the threat of sweeping tariffs primarily as a negotiation tactic to secure better trade deals with China and other partners. During the first Trump term, actual tariffs proved less severe than announced and did not cause significant inflation. Given his mandate to fight inflation and to bring prices down, a full-scale tariff war seems unlikely.

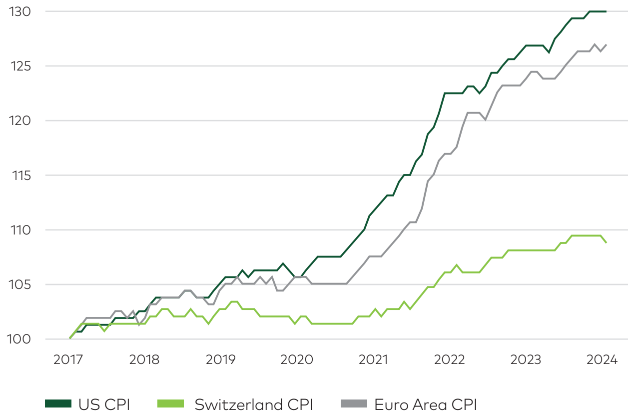
Small business owners' sentiment and outlook have improved significantly



CPI inflation rate (% YoY) vs. price level

It is important to note that while inflation has eased significantly, this does not mean that prices have fallen. US prices remain 30% higher than in 2017 (chart on the right). Trump's mandate is clear: to bring consumer prices down and alleviate persistent cost-of-living pressures.





Historically, accommodative monetary policies have led to manufacturing rebounds, given the sector's sensitivity to interest rates. With over 70% of central banks adopting rate cuts, manufacturing is expected to finally contribute positively to global GDP growth in 2025, complementing the already strong services sector.

China: weakening fundamentals and the Trump factor prompt bold stimulus measures

The Chinese economy faces growing headwinds, with alternative indicators such as electricity consumption, rail freight volumes and loan issuance suggesting a sharper slowdown than what transpires from official data. Reports from US and European exporters to China also point to deteriorating conditions, reflecting the economy's underlying weakness.

In response, Chinese authorities are deploying unprecedented monetary and fiscal measures to stabilise growth and boost consumption. The recent Central Economic Work Conference outlined plans for a record budget deficit of 4% of GDP in 2025, alongside monetary easing through reserve requirement and interest rate cuts. These steps aim to address domestic challenges, mitigate potential impacts from US tariffs and support economic resilience. Additional stimulus measures will likely be announced throughout 2025, as policymakers continue to adapt to evolving economic pressures. Should US-China tensions subside, the Chinese economy could see a potential rebound.

Germany's Schuldenbremse (debt brake): a temporary suspension on the horizon?

While a permanent revision of Germany's Schuldenbremse remains unlikely due to political resistance and public sentiment, the probability of a temporary suspension has increased significantly. Should this suspension indeed occur, it could pave the way for fiscal expansion, offering substantial support to the economy. This would be particularly impactful in the context of European Central Bank (ECB) interest rate cuts, creating a more favourable environment for growth.

Valuations and earnings outlook

Valuations are remarkably uneven across the globe. The S&P 500 trades at a forward price to earnings (P/E) ratio of 22x, but its equal-weighted version – less influenced by the "Magnificent 7" – trades at a more reasonable 18x. In contrast, other regions appear undervalued: the STOXX 600 trades at 14x, Asia ex-Japan at 13x and Japan at 20x.

The valuation discount of US and European small- and mid-cap stocks relative to their large-cap peers stands at a historical record. These segments stand to benefit from lower interest rates, a cyclical recovery and potential deregulation in the US, offering attractive opportunities for investors.

EPS growth is foreseen at 14% for the US and 8% for Europe. While these estimates may be ambitious given uncertainties around tax cuts, tariffs and deregulation, the broadening of earnings participation and firm economic growth expectations provide a solid foundation for equity markets.

Conclusion

Despite risks posed by potential US trade policy, the fragility of China and geopolitical developments, we anticipate steady global growth in 2025. Easing inflation and accommodative central banks should support equity markets, though stretched US valuations and widespread optimism regarding US "exceptionalism" warrants a neutral regional stance.

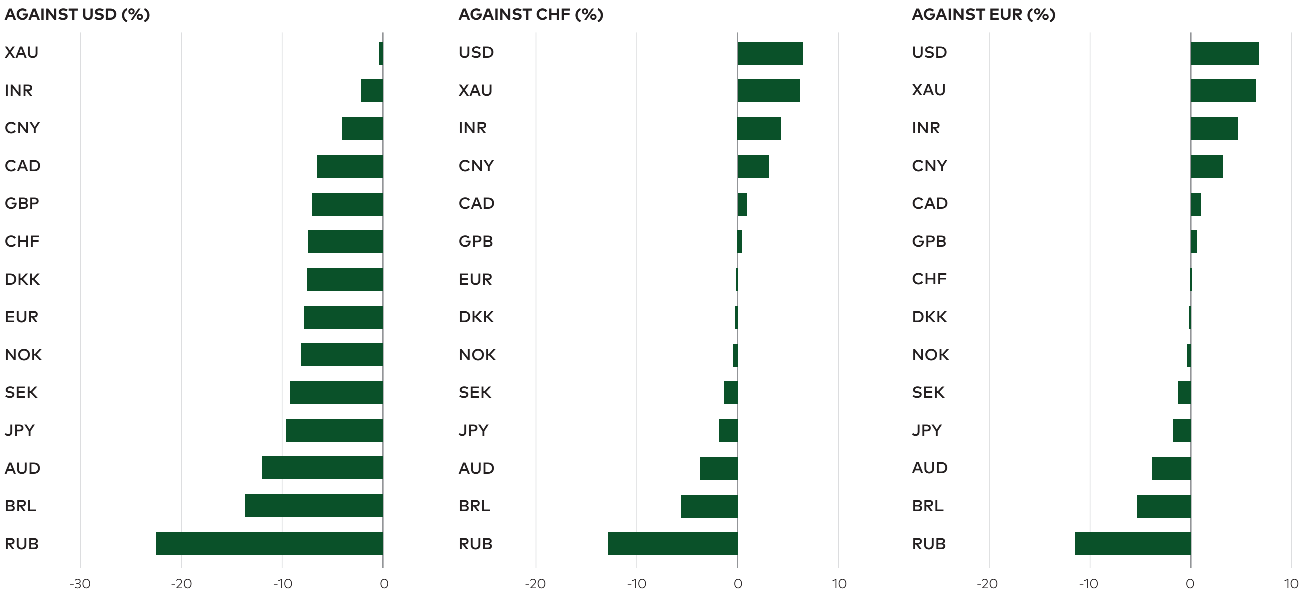
Given the market rally, we recommend buying on dips and increasing diversification, as volatility should make its comeback in 2025.

MARKETS PERFORMANCE

Economic Indicators

	Real GDP %		Inflation %		PMI	Debt % GDP	Current Account % GDP	Budget % GDP	Unemploy-ment %	Interest rates	
	2024	2025	2024	2025	Current	Current	Current	Current	Current	3 Months	10 Years
USA	2,9	2,1	2,9	2,5	49,4	97,3	-3,6	-6,2	4,2	4,3%	4,6%
Euro Area	0,4	1,0	2,4	2,0	45,1	87,4	2,9	-3,4	6,3	2,5%	2,4%
Switzerland	0,8	1,3	1,1	0,7	48,4	17,8	5,7	0,0	2,5	0,4%	0,3%
UK	0,4	1,4	2,5	2,5	47,0	101,0	-2,3	-4,7	4,2	4,7%	4,6%
Asia ex Japan	4,9	4,6	1,5	2,0	-	5,0	1,5	-4,3	4,3	4,5%	3,5%
Japan	1,5	1,2	2,6	2,1	49,6	216,2	4,7	-4,4	2,5	0,2%	1,1%
Brazil	3,3	2,0	4,4	4,3	50,4	61,2	-2,0	-9,2	6,2	-	14,8%
Russia	3,6	1,5	8,3	7,1	50,8	19,5	2,8	-0,6	2,4	-	-
India	8,2	6,5	4,8	4,8	56,4	46,5	-0,7	-4,6	8,5	7,3%	6,8%
China	5,2	4,5	0,4	0,9	50,5	354,6	1,6	-4,5	4,0	3,4%	1,6%
World	3,1	3,0	4,5	3,7	-	-	0,6	-	7,1	-	-

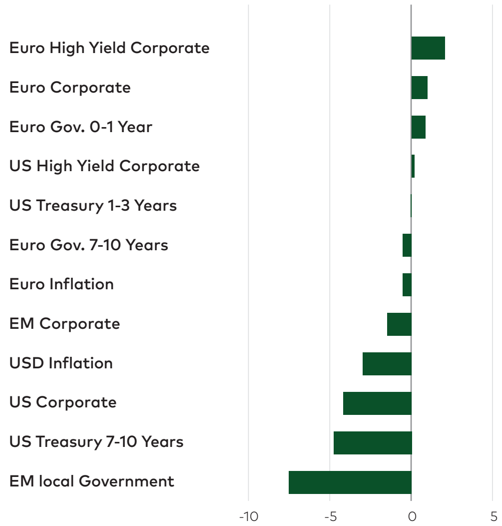
Market Performance (from 30.09.2024 to 31.12.2024)
Exchange-Rates



Stock Markets / Total Return & Valuation (from 30.09 .2024 to 31.12.2024)

	USD	EUR	CHF	GPB	Leading PE	
					LT Median	Current
S&P 500	2,4%	10,3%	10,1%	9,6%	17,9	24,9
Eurostoxx	-8,9%	-1,8%	-2,0%	-2,4%	14,1	14,5
Swiss Perf. Index	-11,1%	-4,7%	-4,7%	-5,0%	19,1	18,5
FTSE 100	-6,8%	0,4%	0,2%	-0,2%	14,3	12,1
MSCI Asia Ex-Jpn	-8,2%	-1,1%	-1,3%	-1,7%	14,7	14,3
Nikkei 225	-4,1%	2,9%	2,8%	2,5%	20,6	19,6
Brazil Bovespa	-19,6%	-13,8%	-13,9%	-14,1%	13,9	7,9
MSCI Russia	-	-	-	-	6,1	-
India SENSEX	-11,3%	-4,5%	-4,7%	-5,1%	20,7	23,5
China CSI 300	-5,5%	1,8%	1,6%	1,1%	15,6	14,3
MSCI World	-0,2%	7,6%	7,3%	6,9%	17,5	21,4

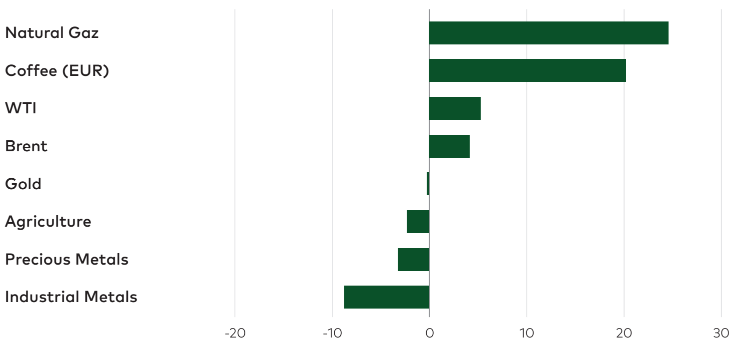
Bond Market



Sectors / Returns & Valuation (Leading PE)

	USA	Europe	World	USA		Europe		World	
				LT Median	Current	LT Median	Current	LT Median	Current
Cons discr.	13,6%	-2,1%	8,5%	21,7	31,2	14,5	16,0	18,8	25,3
Cons. Staples	-3,8%	-6,3%	-6,9%	19,5	20,6	18,4	15,6	19,3	19,0
Financials	7,7%	3,1%	3,6%	14,3	17,8	11,5	9,5	13,6	14,2
Energy	-1,9%	-1,7%	-3,4%	14,3	13,9	11,0	7,3	13,4	12,1
Industrials	-3,2%	-0,2%	-4,6%	18,4	25,6	18,9	21,5	18,3	22,5
Technology	5,5%	0,6%	4,5%	22,2	38,6	25,5	32,9	23,2	37,7
Materials	-11,8%	-10,5%	-14,5%	17,6	21,1	14,6	16,2	16,2	17,4
Utilities	-6,2%	-7,7%	-8,5%	16,8	18,8	14,0	11,9	16,6	15,7
Health Care	-10,6%	-9,1%	-11,6%	19,6	20,2	20,3	17,2	20,3	19,5
Telecom	8,7%	-1,6%	6,5%	17,9	22,4	15,9	17,2	18,2	21,4
Real Estate	-8,4%	-9,7%	-11,5%	44,1	38,3	22,4	14,4	28,2	28,6

Commodities



ALLOCATION GRIDS

Global Asset Classes

	Overweight	Marketweight	Underweight	Main Drivers	Risks
Equities	●			We remain constructive on the 2025 outlook. Our base-case scenario foresees solid GDP growth, easing inflation and continued support from accommodative central bank policies.	The direction of US policy, China's economic stability and Europe's structural challenges are pivotal factors.
Bonds	●			Global bonds offer attractive yields, as inflation drifts lower. Bonds should retrieve their diversification virtues if economic growth drops more than anticipated.	Stickier-than-usual inflation and very expansive fiscal policies.
Gold		●		Receding real rates support gold prices.	Rising real interest rates.
Cash			●		

Equities

	Overweight	Marketweight	Underweight	Main Drivers	Risks
US		●		In 2025, US corporate earnings are projected to grow by 11%, driven by resilient economic activity and improving business sentiment.	A rising interest burden, potential inflationary pressures and reduced expectations for Fed rate cuts highlight ongoing vulnerabilities.
Europe		●		In the face of exacerbated pessimism, a few positive catalysts (fiscal stimulus in Germany, real wage growth, Ukraine) could trigger a fresh start for the European market.	Two major identified risks: an exit from the Goldilocks scenario in the US (overheating or stalling) and a deterioration in the French political situation.
Switzerland		●		A recovery in manufacturing activity in Germany and China, supported by expansionary fiscal policies, could serve as a real driver for the Swiss economy and send a positive signal to the market.	Many uncertainties remain at the onset of 2025, including the potential impact of US tariffs, a persistently fragile European economy and unchecked inflation in the US. Each of these factors could hurt the Swiss economy and market.
Asia Pacific ex-Japan		●		A trade deal with US combined with ongoing monetary easing and fiscal stimulus could open new avenues for growth.	The potential reinforcement of US tariffs under a second Trump administration exacerbates trade uncertainty.
Japan		●		After a contraction in 2024, Japan's economy is set to recover in 2025, driven by domestic demand.	Slowing demand from key trading partners such as China.

Bonds

	Overweight	Marketweight	Underweight	Main Drivers	Risks
Developed Sovereigns	●			Sovereign bonds already reflect the first stage of monetary policy easing. Robust growth in the US and upside inflation risks due to US tariffs and immigration limits will keep sovereigns within a range.	Sticky inflation could further slow central bank easing, and expansionary budget deficits could worsen already elevated debt levels and steepen yield curves.
Corporates (IG)	●			High-quality corporates are fairly priced with tight spreads but high yields; favour medium-term maturities.	A recession, that pressures credit fundamentals and causes financial stress, would widen credit spreads.
High-Yield			●	Caution is warranted, given unappealing spread levels and growing macro uncertatintes . Prefer short-dated high yielding bonds.	High-yield bonds could suffer more during periods of financial turmoil.
Emerging		●		Relative valuations are moderately attractive. The risk of higher US tariffs is offset by supportive global growth.	Emerging countries could come under pressure if a widepsread trade war triggers a global economic slowdown. The rising USD is an additional headwind.

Currencies

	Overweight	Marketweight	Underweight	
EUR vs USD		●		The adjustement of central bank policies, with the ECB leaning dovish and the Fed more hawkish, appears extreme and favours the EUR in the medium term.
EUR vs CHF			●	Given Switzerland's robust economic fundamentals and safe-haven appeal, the CHF should appreciate against the EUR.
USD vs CHF			●	On a medium-term horizon, the USD should continue to depreciate against the CHF.
EUR vs GBP			●	The growing interest rate differential in favour of the GBP should support appreciation against the EUR.
EUR vs JPY			●	Monetary policy divergences among central banks have triggered a significant unwinding of carry trades, which still has room to continue.
USD vs GBP		●		Neutral position due to the significant shift in interest rates favouring the USD.

SWITZERLAND
WHAT IF HOPES WERE TO OUTWEIGH CONCERNS?

ANICK BAUD / SENIOR FUND MANAGER

As a new year begins, despite the various swords of Damocles hanging over the Swiss economy – such as export tariffs, the strength of the franc or the weakness of the Chinese and European economies, which is weighing on manufacturing activity – some wild cards could nonetheless soon reverse the trend and reignite the Swiss economic engine.

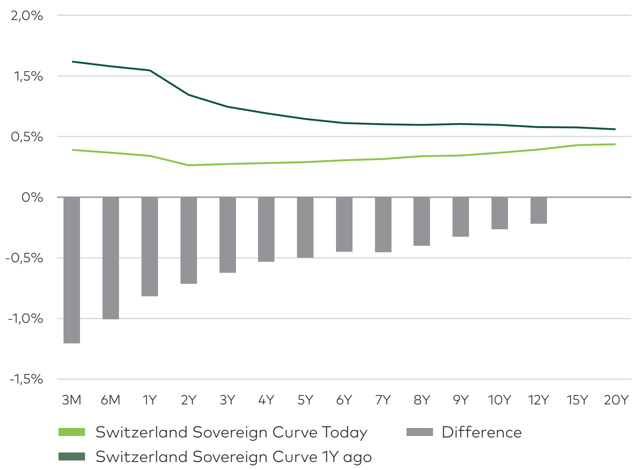
Growth might well accelerate:
as we have been indicating for the past few quarters, amid a struggling manufacturing industry, Switzerland's GDP has been kept afloat by pharmaceutical exports and, even more so, by domestic consumption.

While the PMI index remains in contraction territory, the services sector has shown greater resilience, buoyed by a relatively optimistic consumer. Uncertainty is still high as we move into 2025, but some encouraging signs are beginning to emerge. According to the latest UBS salary survey, wages are set to post real growth of 0.7% in 2025. Also according to UBS, looking back to the past twenty years, an increase in purchasing power of that scale has consistently led to a markedly positive contribution from private consumption.

Such optimism is corroborated by the improvement in the consumer sentiment index, as measured by the State Secretariat for Economic Affairs (SECO). Although still slightly negative, this index is clearly up year-on-year, reflecting households' renewed confidence in their future situation.

In addition, a timid improvement coming out from China, thanks to stimulus measures, and the arrival in February of a new German government that might be willing to release the debt brake somewhat, could also support Swiss exports. This would pave the way for a virtuous circle in the domestic economy.

Driven by inflation well below expectations, Swiss interest rates have fallen sharply over the past year



Still, there is no room for complacency. One major uncertainty remains: what lies in store for Swiss companies that export to the US?

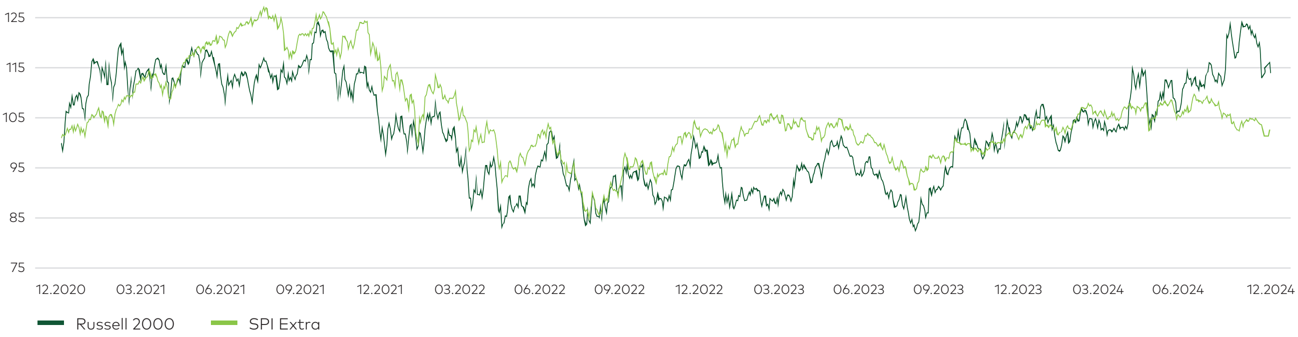
"Swiss Made" to be tested by Uncle Donald:
since President Trump's re-election, the word "tariff" has been on all minds, with every recent economic study mentioning this subject. Like a sword of Damocles hanging over exporting companies, each piece of news is analysed and gauged. At this stage, however, it is only a matter of assumptions; nothing is clear, be it in terms of magnitude or of sectors impacted.

From a Swiss perspective, concerns are legitimate since the US is the country's main export destination. For many listed companies, it is not just a crucial market, but one that has been the growth engine of the past years. A faster GDP pace in the US could support the export economy, but higher import duties would undoubtedly represent an additional burden for Swiss companies.

That said, a large proportion of Swiss firms own local production facilities, which could limit the impact of such measures. Indeed, many pharmaceutical companies and suppliers to the medical sector, such as Roche, Novartis, Alcon, Tecan, Lonza and Straumann, manufacture the products that they sell in the US locally. Similarly, in the industrial sector, companies such as Belimo, ABB, Georg Fischer, Sulzer or Kardex have major production sites in the US.

Furthermore, Swiss groups are often subcontractors or manufacturers of strategic components used in the production of high-tech products. They do not therefore compete directly with US companies in strategic areas, with the notable exception of the luxury goods sector (Richemont or Swatch), which has few genuine US competitors. On the other hand, suppliers to the automotive industry (Komax, Autoneum, LEM) could suffer indirectly if their customers experience a sustained decline in sales. The same goes for companies that have chosen China as their main production centre, such as Lo.

After several years of moving in tandem, US small- and mid-caps have taken a clear lead over their Swiss peers since October



Still, the subject is sufficiently serious for the Swiss National Bank (SNB) to have raised it, in barely concealed terms, during its latest policy speech. Heightened uncertainties regarding the economic outlook were mentioned, particularly in view of "the future direction of US economic policy".

Monetary policy is as expansionary as possible:
once again, the SNB surprised even the most discerning observers by cutting rates more sharply than the market was expecting at its last 2024 meeting, the first under President Thomas Schlegel. This 50-basis point (bp) cut comes against a backdrop of very low inflation (0.7% in November), which the SNB forecasts to fall further next year to 0.3%. A dynamic that stems notably from an expected 10% drop in electricity prices in January, and a probable lowering of the benchmark mortgage rate applicable to lease contracts.

However, the low level of inflation in Switzerland was not the only reason for this decision. Although the SNB made no explicit mention of the Swiss franc's strength vs. the euro, with an intraday low of 0.92063 having been reached at the end of November, it was certainly a decisive factor. Such appreciation feeds the spectre of deflation by reducing the price of imported goods. Questioned on the subject in recent weeks, the SNB reiterated that, in environment of still positive interest rate, monetary policy remains the preferred tool for countering the franc's rise, while interventions in the foreign exchange market are to remain a one-off measures.

In addition, the economic climate is still made of sluggish end of year growth, and considerable political and economic uncertainties among Switzerland's trading partners. These uncertainties could delay the recovery in Europe and China, weighing on Swiss economic momentum.

Against this backdrop, the SNB has very little ammunition left before it will again have to consider resorting to negative interest rates.

Swiss small- and mid-caps are still struggling to catch their breath:
the price performance of Swiss secondary stocks over the last four years makes for a striking picture. Not only have they underperformed the large-cap index by ca. 20%, but their annual return has averaged only 0.7% – and is even strongly negative on a 3-year basis (-5.6% p.a.). Looking back to the 2005-2021 period, when their average annual return exceeded 9%, raises legitimate questions as to the reasons for such a change in trend. Is it structural, or simply due to a combination of various factors that are having a temporary, albeit lasting, impact?

We should start by noting that this underperformance seems to be shared by all developed market secondary stock indices. However, while the US small- and mid-cap index (Russell 2000) moved in sync with the SPI Extra over the past four years, it has clearly taken a different route since the end of October. The Republican victory and forthcoming protectionist policies should undoubtedly favour small US companies, which are strongly focused on the domestic market and likely to benefit from the dissuasive duties imposed on international competitors. That said, their upturn had begun already before the elections, suggesting that it could be the start of a more global move, following years of underperformance. This phenomenon is occurring against a backdrop of steadily falling interest rates and historically low valuations. Such a trend is not yet manifest in Switzerland but improving economic conditions in China and Germany could prove a key catalyst for a recovery in the Swiss market in 2025. These two major economies will likely play a decisive role, acting as true wildcards in this scenario. Indeed, we do not believe that a structural problem lies at the root of the underperformance of Swiss secondary stocks. Such companies have lost neither their competitiveness nor their ability to adapt to the transformations imposed by an ever-changing world.

EUROPE

DARK CLOUDS, SILVER LININGS? A SPECTRUM OF POSSIBILITIES

MALEK DAHMANI / FUND MANAGER

Despite European equities having gained more than 10% in 2024, the mood among investors is much gloomier than it was a year ago. Between challenges and opportunities, what does 2025 hold in store for European markets?

European market at a crossroads – between pessimism and rebound potential

2024 was a positive year for European equities, with the Stoxx 600 index up more than 10%. However, despite this performance, investors remain in a gloomy mood. There are two main reasons for this discrepancy. First, the past year was one of the worst in terms of European equities' relative performance vs. their US counterparts, amid a troubled political context in France and Germany. Secondly, although the European market gained 10%, leading names such as LVMH and ASML, which historically account for a large proportion of investments, clearly underperformed, especially during the second half of the year. By comparison, the US "Magnificent 7" posted gains in excess of 50%.

This gap between overall performance and negative sentiment raises a question: is the current level of pessimism excessive? The market rebound of the end of November-mid December seems to suggest that some investors are tempted to play the "silver lining" theme. But how can the current cloudy skies be reconciled with hopes for a brighter future?

Macroeconomic scenarios for 2025: glass half-empty or half-full?

Discussions among strategists point to a number of possible scenarios for 2025. While the most extreme, such as severe stagflation or an unexpected economic boom, are generally dismissed, two more "median" scenarios tend to be favoured, depending on the author's optimistic or pessimistic bias.

1. **Pronounced slowdown: downward revisions to earnings growth projections, interest rate cuts**
   This scenario is one of a sharper-than-expected global economic slowdown, though not leading to recession, with interest rate cuts to support activity. Should trade wars become more widespread and political tensions persist, European EPS growth would come under pressure.

2. **Goldilocks: accelerating earnings growth, interest rate cuts**
   This optimistic scenario could become reality if the global economic recovery manages to combine controlled inflation and sustained growth. Proponents of such a scenario believe that most of the bad news has already been priced in by the market over the past few months, and that several positive catalysts lie on the horizon, liable to turn the tide for Europe:

   > **Interest rate cuts and manufacturing rebound:** the ECB could pursue its low-rate policy, thereby supporting cyclical activity and encouraging a recovery in manufacturing.
   > **Real wage growth and savings by European consumers:** with inflation receding, Europeans are benefiting from a recovery in real wages, which are partly directed to savings. Additional consumption could boost the European market.
   > **Chinese stimuluss:** Istimulus measures deployed in China could lift European exports, particularly to Asia.
   > **Ceasefire in Ukraine:** a ceasefire in Ukraine could have an immediate positive effect on markets, reducing geopolitical and energy tensions.
   > **Debt brake reforms in Germany:** such reforms could enable Germany to revive the European economy, creating a positive domino effect across all the eurozone.

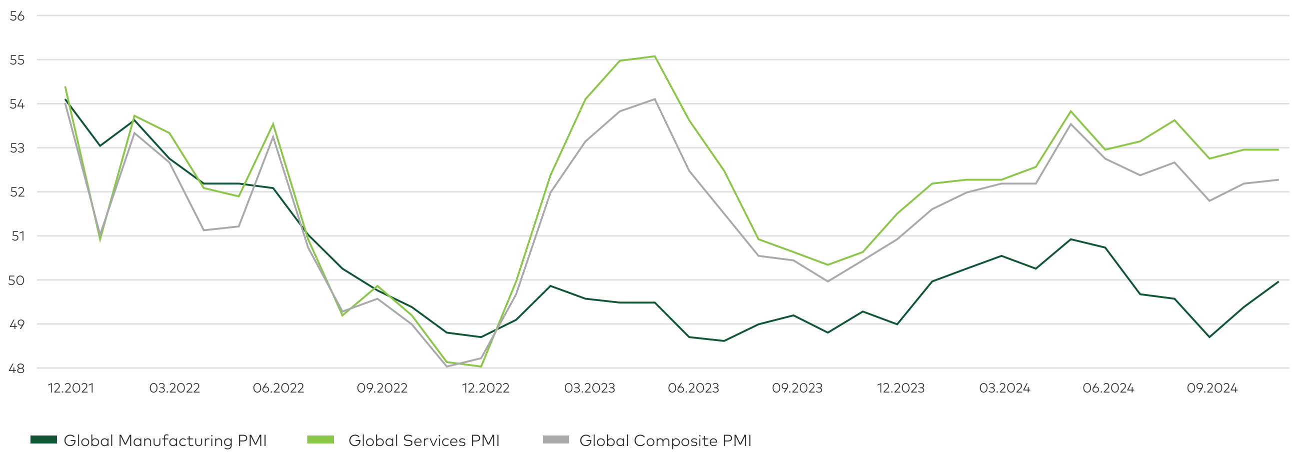
   The outcome could be earnings growth that exceeds current projections of 8%, alongside a multiple expansion induced by lower rates.

While these scenarios are useful for guiding decision-making, reality will likely play out differently. A return objective ranging between 0 and 10% seems too "academic" and median to be credible.

A more lucid assessment of China and changes in Europe

Above all, one needs to take a clearer look at the situation in China: the country has disappointed all too often in recent years. Expected growth has yet to materialise, and it would be naïve to count on a significant rebound to support the European market. While Chinese stimulus may bring some relief, such measures should not be seen as the main catalyst for European stock markets.

Manufacturing rebound will be key for European equities



Where we see greater potential is in Germany and Ukraine. Should Germany succeed in reforming its debt brake and/or a solution be found to the Ukrainian conflict, the European economic and political climate could be transformed, paving the way for a more robust recovery than markets are currently anticipating.

« Every dark cloud may well have its silver lining, but I have come to learn that every silver lining has its dark consequences” Tim O'Brien

The tariff issue

The subject of trade barriers also deserves particular attention. While this dynamic remains negative for the global trade, some of the side-effects are not as bad as they appear. Studies have shown that during the first wave of US tariffs, applied mainly to China, European exports to the US benefited from the situation, replacing part of Chinese exports to the US market and thereby boosting European corporate growth.

At the same time, Chinese producers sought new outlets, particularly in Europe, often with aggressive pricing, creating deflationary pressure in certain European sectors.

If trade barriers materialise for some European products, they could be offset by currency depreciation, notably of the euro and of Scandinavian currencies, thus mitigating the negative impact on exporting companies' margins. What is more, the strong dollar environment remains favourable for certain European sectors, such as luxury goods and tourism, which benefit directly from US consumption.

Key indicators for 2025

The two key macroeconomic indicators for 2025 remain :

> **The US labour market**, which should dictate Fed policy.
> **A possible rebound in global manufacturing activity.**

We also identify two major risks:

> **The high valuation of US equities** leaves little room for disappointment. An earlier-than-expected "pause" by the Fed could lead to a stock market adjustment, which would also impact European markets, despite their marked underperformance.
> **The political situation in France** remains worrisome, with investment and consumption below their potential. Political deadlocks are likely to persist for six to seven months, creating uncertainty that could weigh on investor confidence and put the brakes on crucial economic decisions.

Conclusion

To conclude, we stick to our usual colour palette when looking to 2025, careful to avoid excessive pessimism. Real opportunities lie ahead in an uncertain global context. Finding a balance between export segments, quality growth and tactical positioning, particularly in Germany and peripheral countries, will likely prove the key to capturing the recovery, especially if geopolitical and economic catalysts unfold less pessimistically than anticipated. We believe that an active, focused approach on the right catalysts could enable European equities to surprise positively.

UNITED STATES
“TARIFF IS THE MOST BEAUTIFUL WORD IN THE DICTIONARY” ACCORDING TO DONALD TRUMP

FLORIAN MARINI, CFA, CMT / CHIEF INVESTMENT OFFICER

Over the past three years, many analysts repeatedly predicted an impending recession. However, the US economy has defied expectations, growing at an impressive pace of 2.5% in 2022, 2.9% in 2023, and likely around 2.7% in 2024. This growth occurred even as inflationary pressures continued to ease, moving down from a peak of 9.1% mid-2022 to 2.7% in November 2024.

Despite this strong performance, voters did not credit President Biden for the resilient economy and receding inflation. Instead, they remained focused on the fact that prices are still 20% above pre-pandemic levels. Polls indicate that inflation and cost-of-living concerns were the top issues for voters, leading to the return of Donald Trump to the White House.

President Trump’s “Trick or Treat” economic approach

While it is likely that the Trump administration will introduce tariffs, the prevailing probabilities suggest that these will be used primarily as a bargaining tool to secure favourable trade deals, rather than being deployed in a disruptive manner that could fuel inflationary pressures. Donald Trump’s approach may be unpredictable, but it appears to be strategically driven.

For instance, the same week might see him appoint administration members known for their hard-line economic stance on China – such as individuals who support aggressive trade policies reminiscent of Peter Navarro’s philosophy – while simultaneously extending an invitation to Chinese President Xi Jinping to attend his 20 January inauguration.

Although the Trump policies may be perceived as deficit-expanding and inflationary, the appointment of Scott Bressen as Treasury Secretary could serve as a stabilising counterweight. Bressen, a hedge fund manager with extensive experience of financial markets and economic policy, would lend credibility to the administration’s handling of the US debt market. His presence could help reassure investors and maintain confidence in the country’s fiscal integrity.

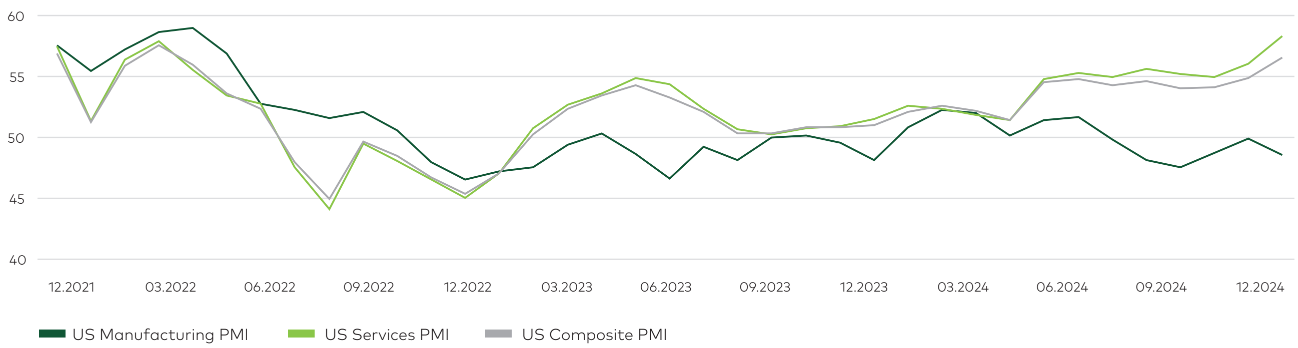
US economy: resilient and broad-based growth

Although the US economy does face notable headwinds – including a weakening employment situation, stable-to-declining real estate markets, as well as unsustainable debt and deficit levels – the overall outlook remains resilient. Notably, the US is projected to incur approximately USD 1 trillion in interest payments on its national debt in 2025, representing slightly more than 20% of federal revenues. This rising debt service burden underscores increasing fiscal vulnerability, but it has not yet derailed the country’s economic momentum.

After three consecutive years of GDP growth exceeding 2%, the US economy is expected to maintain this trajectory, with growth forecasted to be slightly above 2% in 2025.

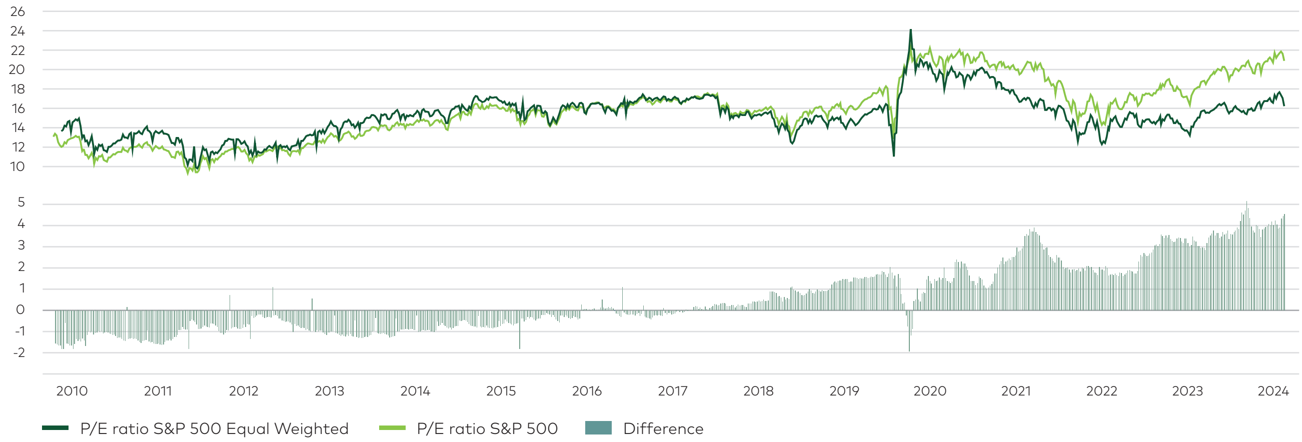
The composite PMI stands at a 30-month high

Services remain strong and manufacturing in contraction territory; lower rates are expected to support manufacturing in 2025



Forward P/E Ratio – S&P 500 vs. equally-weighted S&P 500

When the bias stemming from large IT companies is excluded, valuations appear more reasonable.



Following Donald Trump's election, pro-business policies – such as increased deficit spending, deregulation and support for the energy sector – have already led to upward revisions in growth estimates from 1.9% to 2.1%. Further upward adjustments may follow as these policies take effect.

Leading indicators continue to point to robust growth. At 58, the services PMI remains firmly in expansionary territory, reflecting the strength of the services sector, which accounts for over 70% of the US economy. Meanwhile, the manufacturing PMI has been in contraction territory for more than two years. However, lower interest rates are expected to support a recovery in this sector in 2025. As for the Composite PMI, it has reached its highest level in over two and a half years, reinforcing the scenario of a sustained economic expansion.

Additionally, the NFIB Small Business Optimism index has surged above 100 for the first time in three years, signalling renewed confidence among small business owners. Such optimism reflects expectations for a business-friendly administration and potential deregulation. Given that small- and mid-sized enterprises account for 99% of all US businesses and contribute more than 40% of GDP, a resurgence in this segment could broaden economic growth and fuel further expansion.

Higher growth, lesser Fed rate cuts

In 2025, under a Trump presidency, stronger economic growth is likely, but so too is the risk of greater inflationary pressures. The Fed is unlikely to pre-emptively adjust its policy stance and will remain data-dependent, particularly with regards to inflation trends. Expectations for Fed rate cuts have already been significantly reduced. Before Donald Trump's election, markets anticipated cuts exceeding 200 bp; their expectations have since been revised to below 80 bp for 2025. The Fed's approach will likely balance the need to support growth with vigilant monitoring of potential inflationary risks.

Earnings growth supports equities amid tax cut uncertainty

In 2025, US corporate earnings are projected to grow by 11%, driven by resilient economic activity and improving business sentiment. The President-elect's proposal to cut the corporate tax rate from 21% to 15% could further boost earnings per share (EPS), with analysts estimating such a cut could lift EPS by 5% to 6%.

That said, these tax cuts come with fiscal risks. The Congressional Budget Office estimates that reducing the rate to 15% could add USD 200 billion to the federal deficit by 2035, raising concerns about long-term fiscal sustainability, interest rates and inflation.

Passing these cuts through Congress will not be a simple matter. The Republicans' narrow majority in the House and the need for Senate approval may complicate the process, as political dynamics and potential bipartisan resistance add to the uncertainty of these reforms.

Conclusion

As we enter 2025, the US economy remains resilient despite fiscal challenges. Strong services sector performance, small business optimism and pro-business Trump policies – including potential tax cuts and deregulation – are expected to boost GDP and corporate earnings.

However, risks persist. A rising interest burden, potential inflationary pressures and reduced expectations for Fed rate cuts (less than 100 bp) highlight ongoing vulnerabilities. The S&P 500's stretched forward P/E of 22x leaves little margin for error, though valuations are more reasonable at 17x when the "Magnificent 7" are excluded.

We remain constructive on the US market outlook but, in view of the recent rally and stretched valuations, favour a buy-on-pullback approach.

ASIA

THE YEAR OF THE SNAKE: SLITHERING THROUGH THE SHADOWS TOWARDS THE LIGHT

FLORIAN MARINI, CFA, CMT / CHIEF INVESTMENT OFFICER

China enters the Year of the Wood Snake at a crossroads, where growth opportunities are tempered by significant challenges. While GDP growth is officially projected at 4-5%, weakening domestic consumption casts doubt on the economy's actual strength. The potential reinforcement of US tariffs under a second Trump administration exacerbates trade uncertainty. That said, a trade deal combined with ongoing monetary easing and fiscal stimulus could open new avenues for growth.

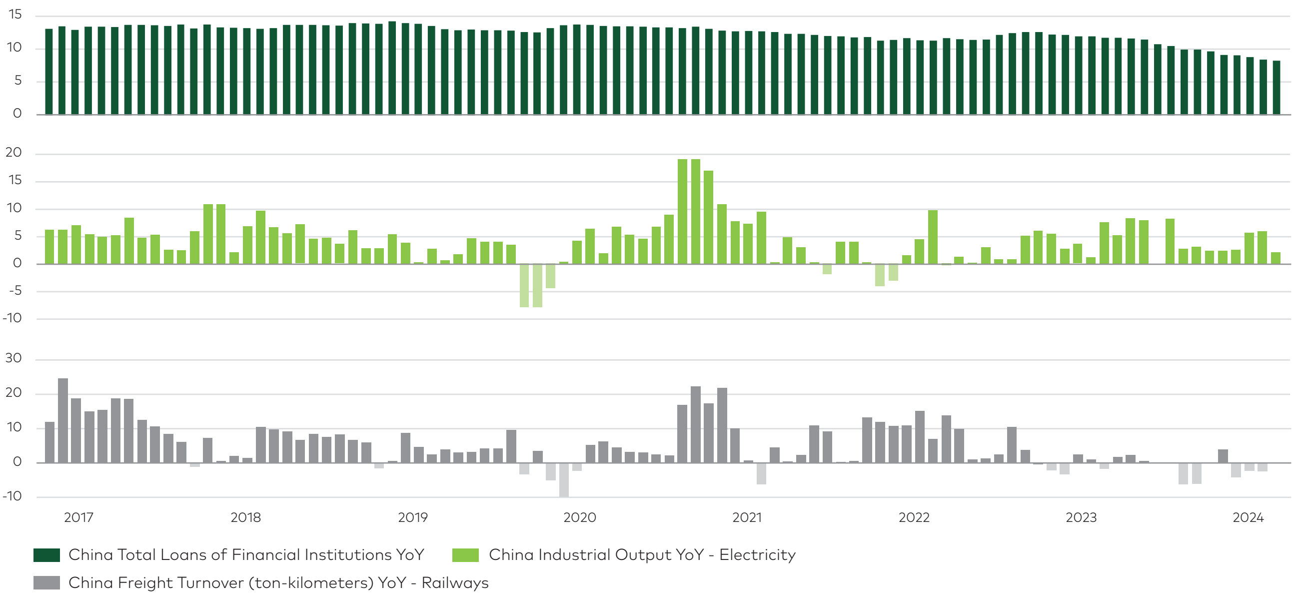
A more fragile reality behind official data

Official GDP figures appear increasingly disconnected from on-the-ground realities. The economic situation is likely far weaker than suggested by headline data. The real estate sector continues to decline, with residential prices falling at an accelerating pace, down 6% year-on-year as of September. Property sales and new project starts present a similarly bleak picture. The only positive development in the sector is the continued drop in the mortgage rate, from 5.5% in 2022 to 3.3% today, which provides some relief for homebuyers.

Despite consumer confidence having posted a 20-year low following the COVID-19 pandemic, consumption remains surprisingly firm, with household expenditure growing at around 5%. Retail and online sales have rebounded but remain below pre-pandemic levels. Consumer savings are, however, at elevated levels, dampening the broader economic momentum. Leading indicators, such as the Caixin manufacturing and services PMIs (hovering slightly above the expansion threshold at 51.5) and the credit impulse index, show limited signs of improvement. The latter, which measures changes in the pace of credit creation relative to GDP, even remains in negative territory, suggesting further weakness ahead.

The Q3 2024 earnings reported by EU and US companies that export to China reinforce these concerns. They pointed to a far weaker domestic environment than portrayed by official GDP estimates and market expectations of 4.8% for 2024 and 4.5% for 2025. Actual growth is probably closer to 3-4%. This scepticism echoes the approach of former Premier Li Keqiang, who, in 2007, expressed doubts about the reliability of official GDP figures, favouring metrics such as railway cargo volume, electricity consumption and bank lending. Using these indicators today reveals a widespread deceleration.

Reliable indicators – loans, electricity and freight – depict slowing growth



EPS dynamics show recovery for the MSCI China and Hang Seng indices

A deflationary drag

Adding to economic fragility, China is hovering on the brink of deflation. CPI inflation stands at just 0.3%, at the lower end of its 10-year range, while producer prices have been in outright deflation for two consecutive years. This deflationary environment underscores weak demand and adds urgency to the government's stimulus efforts.

China's big stimulus plan: revitalising growth amid trade war risks

In response to mounting economic challenges, China has implemented a series of targeted stimulus measures. Notably, 2024 saw a 50 bp cut in the reserve requirement ratio, reductions in key interest rates, and the issuance of CNY 2 trillion (USD 284 billion) in special sovereign bonds to support infrastructure projects. To address local government debt stress, a CNY 6 trillion (USD 839 billion) refinancing plan was rolled out, while the property sector benefited from measures such as lower mortgage rates and down payment requirements. Additional support for private enterprises and consumer subsidies underscored the government's commitment to stabilising growth.

Following the recent Central Economic Work Conference, policymakers signalled a continued emphasis on «proactive fiscal» and «prudent monetary» policies in 2025, balancing short-term stabilisation with long-term structural reforms. Further targeted fiscal spending, particularly in advanced manufacturing, green energy and technology innovation, is anticipated. On the monetary side, the People's Bank of China (PBOC) may allow the yuan to depreciate moderately in order to bolster export competitiveness. Given the subdued inflation, additional rate cuts could reduce real interest rates, amplifying the effectiveness of existing policy measures. These strategies have also been designed with the potential for a renewed tariff war under a Trump administration in mind, aiming to mitigate the risks posed by escalating trade tensions. Policymakers are likely to adopt a cautious approach to managing financial risks, especially in the property sector, which will shape the scope and intensity of future stimulus.

Improving corporate profitability: a positive signal

Amid these challenges, there are signs of recovery in corporate profitability. The MSCI China and Hang Seng indices, and particularly domestic-focused companies in the MSCI China A 50, are showing notable EPS improvements. After a prolonged downtrend from 2018 to 2022, EPS growth turned positive in 2023 and continued to gain momentum through 2024. While Chinese markets have long been undervalued – trading at forward P/E multiples of just 8-9x – the improvement in EPS dynamics adds a new layer of attractiveness for investors.

Conclusion: opportunities amid headwinds

Given the significant deterioration of the Chinese economy, bold stimulus is essential to stabilise growth. The measures announced in 2024 – monetary easing, fiscal support and debt relief – demonstrate the government's commitment to addressing these challenges. In 2025, further monetary and fiscal actions will be crucial to counter economic headwinds. Securing a trade deal with the new Trump administration will also help mitigate tariff risks and restore investor confidence. If successful, these efforts could present attractive opportunities in what is already an undervalued market.

FIXED INCOME

MANUEL STREIFF / ADVISOR

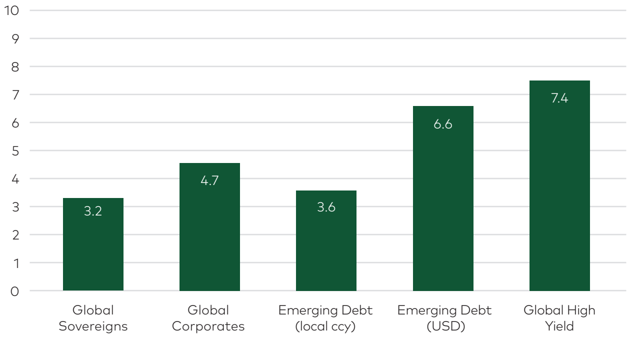
The benign themes that dominated bond markets during the past quarter should be challenged in the early months of 2025. The global monetary policy easing cycle will proceed cautiously, but with a much slower Fed. The incoming US administration stands to disrupt global markets with major policy shift announcements.

The Fed lowered interest rates by a further 0.25% and signalled a few more cuts in 2025. Bond market investors grew more cautious about the pace of future rate cuts and ended the year pricing in less than 2 cuts, or half what was expected at the end of September.

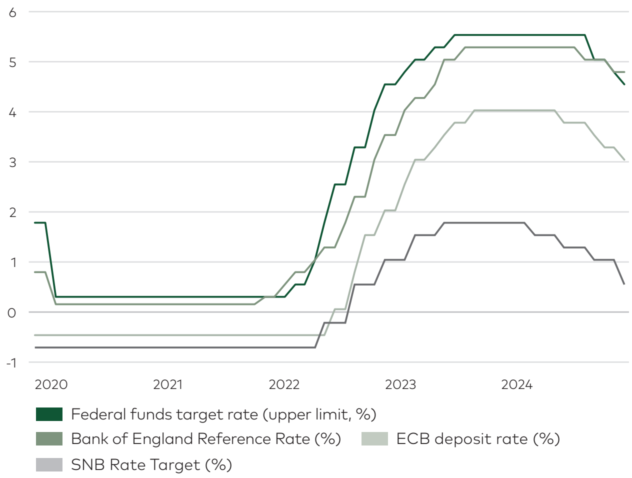
Following signs of economic weakness and receding inflation, the ECB continued its pace of a 0.25% cut per meeting throughout the quarter.

Donald Trump is expected to launch the incoming US administration with a tariff increase, a rapid curtailment of immigration, and deregulation. Fiscal measures will take longer to implement as they need congressional approval. Most of these measures are likely to slow or reverse the decline in inflation.

Yield to maturity per fixed income segments: Sovereigns, Corporates, Emerging debt in local currencies, Emerging debt in USD and High Yield



Key central banks target rates

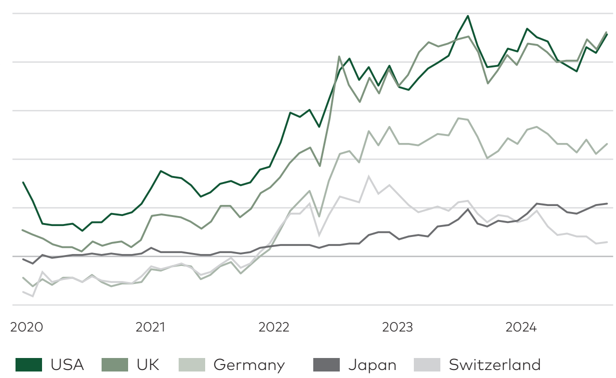


DEVELOPED MARKET SOVEREIGNS

Stronger-than-expected US data and investors pricing in new pro-growth and inflationary policies led to a weakening of US bond markets during the last three months of 2024. Yields rose the most in the US and the UK, but Australia, Europe and Japan also tracked the move. Shorter-maturity yields rose more as investors reduced their expectations of further rate cuts.

Bond markets in Italy and Switzerland defied the global trend. Italian bonds performed strongly thanks to a reduction in the country's risk premium, while their Swiss peers benefited from a much more dovish SNB, which cut rates by 0.5% in December and signalled that it could act faster thanks to very low inflation.

Sovereign yield to maturity (10Y benchmarks)



Our outlook is that bond markets will move within a range, with the threat of higher tariffs and lower immigration offsetting the gradual improvement in inflation. Investors could demand a higher risk premium on longer maturity bonds of countries at risk of running large deficits.

DEVELOPED MARKET CORPORATES

Corporate bonds posted mixed returns over the past quarter. European investment-grade bonds benefited from easier monetary policy, whereas in the US, tighter credit spreads were unable to offset the sharp upmove in yields. High-yield bonds performed positively in both markets thanks to their higher spreads and lower sensitivity to interest rates.

Demand for corporate bonds remained robust, allowing for a near-record amount of issuance.

Short-term, high-yielding debt from issuers with solid financing profiles remains attractive, particularly at the front end of the curve, where total yields are still compelling, even with tighter spreads.

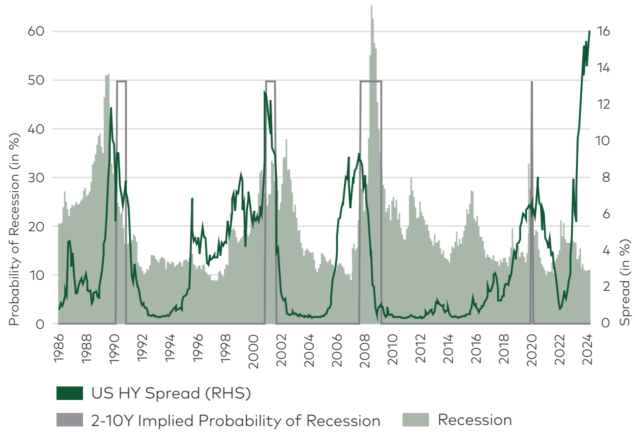
HARD CURRENCY EMERGING MARKET DEBT

Emerging market (EM) hard currency sovereigns underperformed, hampered by their longer duration and tight spreads at the beginning of the quarter.

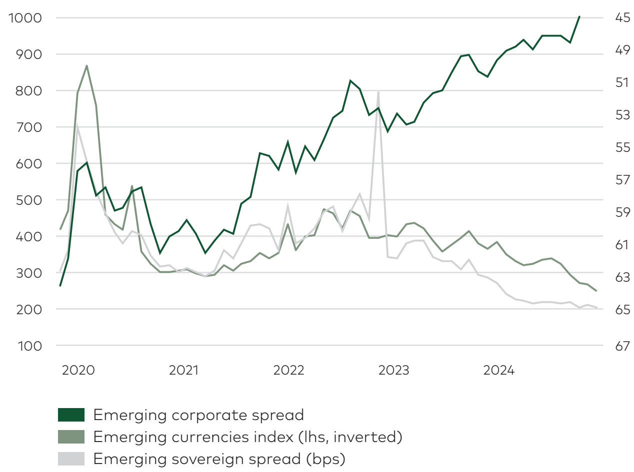
The expected increase in US tariffs will negatively impact some emerging markets, hurting their exports and making their financial conditions tighter.

US and European Corporate Spreads (Investment Grade)

US High Yield spreads and probability of recession, as derived from the yield curve



Emerging Spreads (corporate and sovereign) and emerging currencies index (vs. USD, inverted)

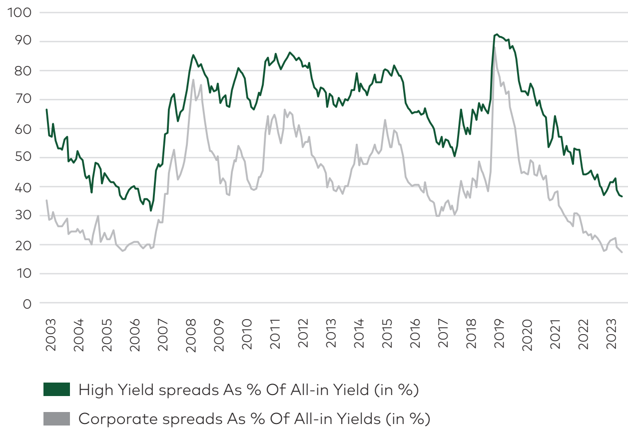


LOCAL CURRENCY EMERGING MARKET DEBT

Local currency EM bonds are particularly threatened by the policy implications – potentially higher tariffs and rates – of the incoming US administration. A strong US dollar is a headwind for EM currency performance, and monetary policy will need to remain tighter for longer, hurting growth.

Asian local currency bonds have underperformed other regions, with their lower yields unable to offset their weaker currencies as China's yuan declines in anticipation of US tariffs.

Credit Spreads as % of all-in Yields



FIXED INCOME PROJECTION

Segments	Yeld (%)			Return View (12m horizon)
	USD	EUR	CHF	
Cash	4,28	2,46	0,30	↘
Short-Term High-Yielding	5,48	3,73	1,06	↗
10y Government Bonds	4,56	2,31	0,31	↗
10y Government Inflation-Linkers	2,27	0,43	n.a.	↗

Segments	Spread over Sovereigns (bps)	Return View (12m horizon)
Developed Corporates	88	↗
Corporate Hybrids	166	↗
Developed High Yield	327	→
Emerging Sovereigns	254	→
Emerging Corporates	208	→
Emerging Local-Currency Debt	n.s.	↗

Source: Bloomberg indices hedged in the respective currency

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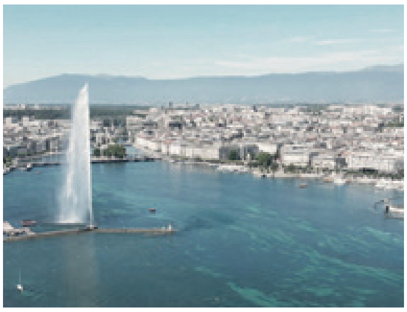

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