



1H25 | INVESTMENT OUTLOOK

Navigating Geopolitical Volatility

February 7, 2025

Executive Summary

Trump’s arrival is lifting a new wave of optimism amongst small businesses and consumers. Segments of the US economy carry solid momentum into the new year, having been less sensitive to rate hikes in this cycle, but downside risks factors still need to be monitored to achieve the consensus “soft landing”. The investment landscape heading into the new year is increasingly complex and shaped by policy divergence, shifting economic momentum, and heightened geopolitical uncertainty.

The US administration is adopting a materially tougher stance on trade. Economic statecraft is back in fashion as a foreign policy tool. Tariffs are the biggest wildcard on growth and inflation. The shift in geopolitics could be a major market catalyst with risks of miscalculations or unintended consequences hanging in the balance.

While resilient so far, extremely slow-moving elements threaten the current positive economic momentum. The labor market is back to equilibrium after years of extreme imbalances but cracks are emerging. Consumer credit growth slowed while delinquencies rise. CRE issues percolated from offices to MFH, hotels, and retail.

The synchronized monetary easing cycle from last year is over. The Fed is on pause. The ECB and BOE are proceeding with their easing cycle. The BOJ is tightening policy, marking a clear departure from its decades long easy accommodation. Rates differentials will be a key driver of FX markets and more in the coming year.

Europe continues to grapple with stagnation. The services-driven economic strength out of the US has been a major drag to these intertwined economies relying on goods exports. China, reluctant to implement aggressive stimulus, is no longer the growth reviver it once was and struggles with fragile domestic confidence.

We hold a neutral allocation to equities and overweight sovereign bonds. The macro landscape is shifting, and markets are not adequately priced to compensate for risks ahead. Equity market concentration is at extremes while valuation support is weak. We recommend overweighting defensive sectors over cyclical and mid-caps over large caps despite a higher beta with valuations leaving room for catch-up if momentum remains strong. The relative value in non-US assets is compelling but it requires a turnaround or pickup in global activity. Hence, we maintain a relative overweight to US equities. We remain long USD as tariffs come into effect but expect it to peak sometime in 1H25 as trade policy volatility reaches its apex. We maintain an overweight to precious metals – advising to buy dips until there is clearer evidence central bank demand is waning.

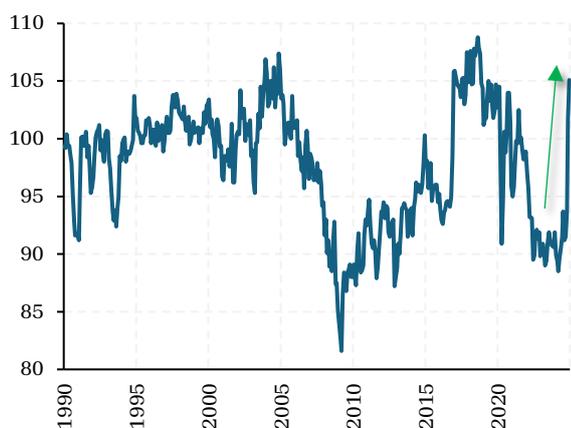
INVESTMENT STRATEGY VIEWS							
	Bearish	Neutral	Bullish		Bearish	Neutral	Bullish
Global Asset Allocation				Fixed Income			
Equities				Governments			
Fixed Income				Corporates			
Commo/Special Opp.				Investment Grade			
Alternatives				High Yield			
Cash				Duration			
Equities				Regions			
Regions				DM			
US				EM			
Europe				Currencies			
APAC				USD			
EM				EUR			
Sectors				JPY			
Communication Services				GBP			
Consumer Discretionary				CHF			
Consumer Staples				SEK			
Energy				Other			
Financials							
Health Care							
Industrials							
Information Technology							
Materials							
Real Estate							
Utilities							
				Legend			
				■ - Current View			

Global Macro Outlook

A New Wave of Optimism

Trump’s arrival is lifting a new wave of confidence. Small business optimism has improved materially since the presidential election period (**Exhibit 1**). Although it is important to highlight NFIB surveys tend to have a heavy GOP respondent base (more optimistic with a GOP White House), the move and sustained optimism is noteworthy. Expected credit conditions ticked to the highest level in decades as business earnings expectations also improved.

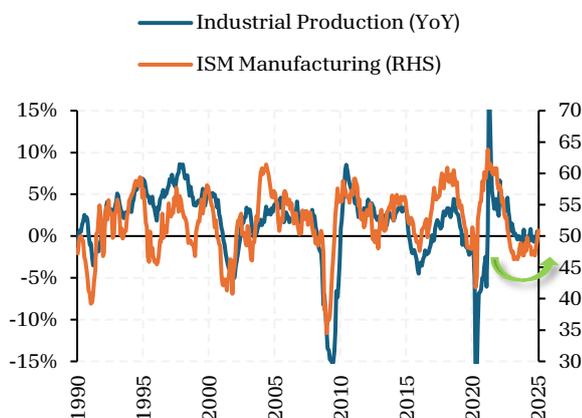
Exhibit 1: US NFIB Small Business Optimism



Sources. MAM Research, NFIB.

After two-plus years of stagnation and contraction, manufacturing activity may also be showing signs of strength. US industrial production is still sitting idle below 0% YoY but is not falling as in past cycles meanwhile ISM manufacturing is ticking up, nearly switching to expansionary (**Exhibit 2**). A pickup in non-services activity is a positive development and can prove supportive to global growth if sustained.

Exhibit 2: US Industrial Production and ISM Mfg.

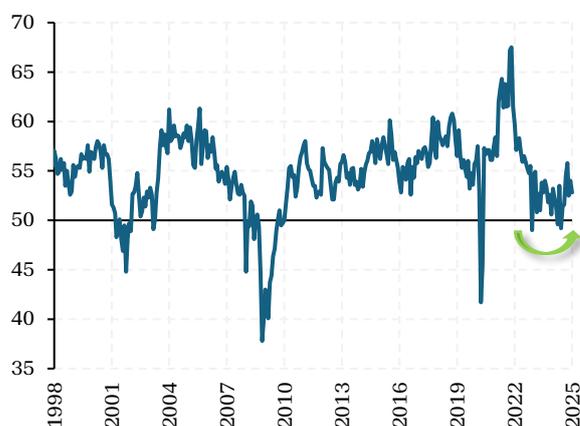


Sources. MAM Research, Fed, ISM.

Services Have Been Less Sensitive to Rate Hikes

Resilience in the service sector has been one of the key explanatory variables in the relative economic strength of the US. ISM services, while flirting with the critical 50-difusion level (**Exhibit 3**) on several occasions in the recent past, remained more often than not above it. Underneath the surface, releases were sometimes contradictory with expansionary headline numbers but in aggregate this segment of the economy, which contributes to an increasingly larger extent to GDP, has been fairly insulated from the current higher rates environment. Still, it is not immune to slowdowns. For instance, new orders, backlogs, and employment data have deteriorated.

Exhibit 3: ISM Services



Sources. MAM Research, ISM.

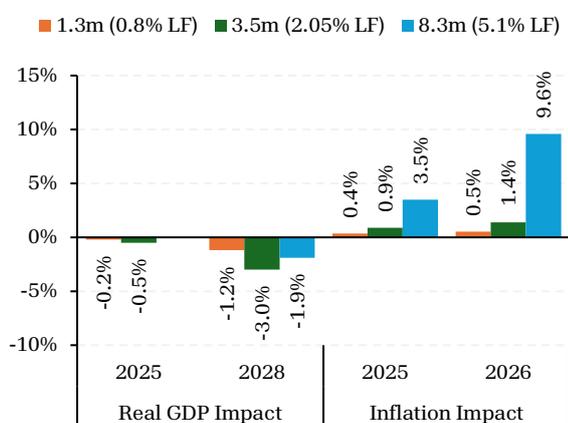
Navigating US Geopolitical Uncertainties

Trump’s inauguration and first month in office was a reaffirmation of policy uncertainty. Although the administration has a volatile agenda, the cardinal reason for Trump’s election remains inflation. As a result, we expect the net impact of his new policies to be neutral-to-deflationary, otherwise making for a very difficult setup heading into the midterms.

Tariffs. Trump held a softer than expected stance on China and a harsher one on Canada and Mexico, suggesting a modulation of tariffs. An average 10% appears largely offsettable via FX adjustments with real risks to growth and inflation revolving around China. As in Trump 1.0, a gradual and negotiated increase in tariffs may smooth out the effects, even if it ultimately still results with lower growth.

Immigration. According to the Census bureau, a net 2.8m people emigrated to the US between 2023 and 2024. The figure amplifies increases observed since the end of the pandemic (2.3m 2022/2023 and 1.7m 2021/2022). While higher immigration helped to alleviate tensions in the labor market, the jobs market remains in a state of full employment. Mass deportation measures could lead to a resurgence in wage tensions from labor shortages in certain sectors. However, it would not be the first time the country carries out a massive expulsion of illegal workers. In 1954, under Eisenhower, the operation Wetback resulted in 1.3m workers (2.05% of labor force) being deported. The precedent provides an order of magnitude for what the administration can do plus its impact on growth/inflation (**Exhibit 4**).

Exhibit 4: Unauthorized Workers Deportation Impact



Sources: Peterson Institute for International Economics (Sep24) BNP CIB, MAM Research. (LB = Labor Force)
 (1) 1.3m = Same number as the Eisenhower wetback operation.
 (2) 3.5m = Same % of LF as Eisenhower wetback operation.
 (3) 8.3m = Estimated total illegal workers.

Energy. Excess production capacity in the global oil market is significant. OPEC+ has repeatedly cut production to support prices. Non-OPEC+ players have taken advantage of it to add capacities. At its recent meetings, OPEC+ announced plans to boost production capacity, putting a lid over oil prices as prospects for accelerating demand remain limited. A decline in oil prices is instrumental to the Trump administration as it facilitates the implementation of its tariffs and immigration campaign promises without triggering a short-term surge in inflation. As breakeven prices declined significantly over the past few years to around 60 USD/bbl. for WTI, US shale producers can cope with these lower prices.

Together, immigration restrictions and energy deregulation may not raise inflation. Instead, tariffs remain the most likely driver for it to re-accelerate.

Economic Policy vs. Economic Statecraft

Inflation (and arguably price levels) is the primary source of concern among consumers. As a result, tariffs are more likely to be used as political tools to achieve economic outcomes instead of catalysts behind a new inflation shock.

Economic statecraft is becoming a defining feature of US foreign policy strategy. Building on historical precedents (i.e., pre-WWII protectionism), the US is leveraging economic tools to pursue geopolitical and national security goals alongside its traditional economic objectives. Such shift reflects a broader “grand macro strategy” where economic measures are integrated with political and military strategies to reinforce US global primacy.

A notable recent example of this approach was the diplomatic standoff between the US and Colombia over the deportation of Colombian nationals. With the latter refusing to allow deportees to return, the US imposed emergency 25% tariffs on Colombian imports, with the threat of doubling them to 50% within days. Additional measures (i.e., travel bans, and enhanced inspections) were used to escalate pressure. The quick resolution of the dispute, with Colombia ultimately relenting and accepting the deportees, underscores the US’s readiness to use economic leverage to secure compliance.

These events, alongside the trade policies outlined by the new administration, emphasize a return to economic statecraft prioritizing US interests and reasserting control over critical trade relationships with the use of tariffs, sanctions, and other tools reflecting a broader intent to restructure global economic dependencies while securing a stronger domestic industrial base as per his campaign.

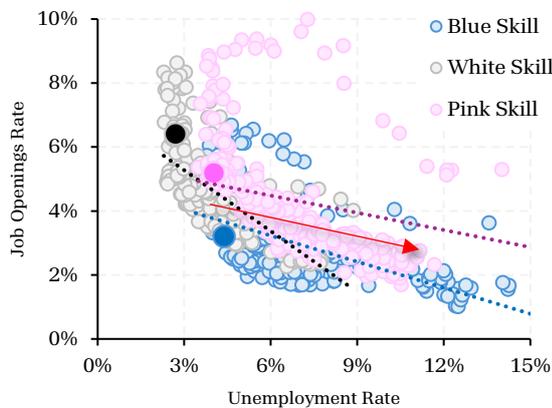
Globally, such policies represent a negative shock as higher interest rates and hawkish tariff policies (or heightened trade volatility) strengthen the USD. Persistently higher rates then spill over to global financial conditions and in a negative fashion. A US economy at its potential, a balanced labor market, and inflation above target anchors our call for the Fed easing to be on pause – for now.

Ultimately, the US economy is walking a very tight rope. The balancing act is becoming increasingly more difficult to accomplish. Cracks have emerged over the past two years and are not going away.

A Labor Market Approaching Its Kink

In 2022, an extreme job opening level insulated the labor market. Virtually anyone who lost their job could walk across the street to find new work, preventing unemployment from rising. Forward to today, job openings retreated close to pre-Covid levels. Job openings stood at 4.5%, nearing the critical kink in the Beveridge curve – a point where further drops in openings trigger a self-reinforcing cycle of rising unemployment (**Exhibit 5**). Blue and pink skills workers are already nearing the kink of the curve. White collar jobs have been resilient to date, but the Services data foresees a deceleration.

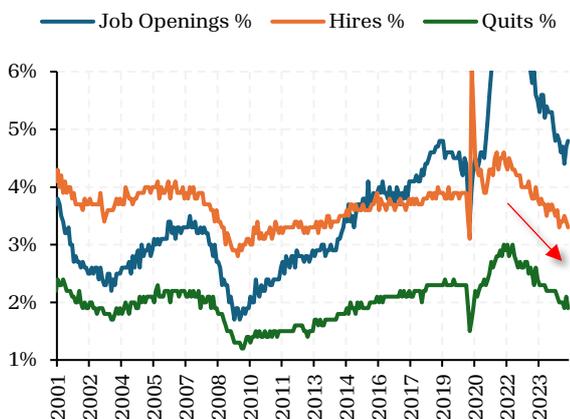
Exhibit 5: US Beveridge Curve



Sources. MAM Research, BLS.

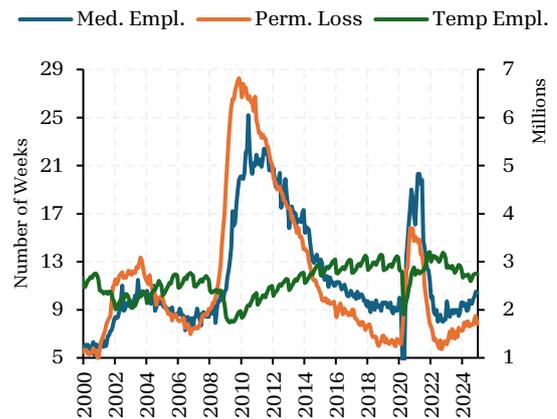
As job openings trend lower and job hirings hit an 11-year low (**Exhibit 6**), it is increasingly difficult for unemployed workers to find work. Permanent job losers (unemployed per loss of permanent jobs) are 33% higher than on the eve of the pandemic. Median unemployment length rose to 10.4 weeks and employment at temp help agencies (leading indicator) edged lower (**Exhibit 7**).

Exhibit 6: US Labor Market Tightness



Sources. MAM Research, BLS.

Exhibit 7: Signs of US Labor Market Weakness



Sources. MAM Research, BLS.

Cooling in the labor market eased price pressures, in turn putting a lid on wage inflation (**Exhibit 8**). Although possible for new immigration policies to disrupt current progress, we see limited odds of it happening. Empirical studies show little evidence of immigration drastically impacting wage growth.

Exhibit 8: US Wage & Employment Cost Growth



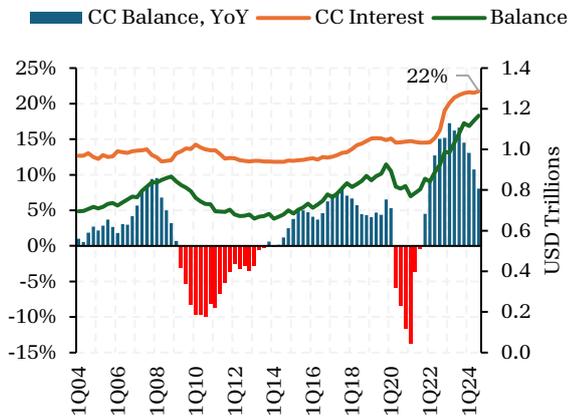
Sources. MAM Research, BLS, Atlanta Fed,

US Consumer Credit Slowing

Despite reaching peak credit tightness in 2023 with recent updates to the Senior Loan Officers Survey (SLOOS) showing improvements, revolving credit growth has slowed to its weakest in three years but the “why” matters. The top-end disproportionately benefited from higher rates and a reflation in asset prices while the relatively more fragile first felt the impact from higher borrowing costs. Excluding the top quintile, all income brackets carry negative net liquid assets (e.g., consumer credit > deposits and money market balances). Excess savings have now dried up and fallen below pre-pandemic level. The surplus observed, until recently, was contained to the top-quintile. Meanwhile, in 1H24, 35% of credit

transitioning into delinquencies carried a 90-100% borrow utilization rate. As such, it is no surprise to see revolving credit growth slowing to its weakest in three years, with the “why” mattering a lot. At 21%+, revolving credit is expensive. Yet, balances have never been as high (**Exhibit 9**).

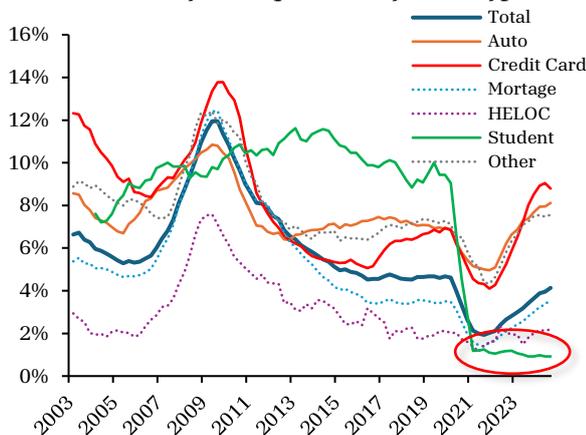
Exhibit 9: Credit Card Balances



Sources. MAM Research, Bloomberg, NY Fed.

We continue to see consumer credit risks rising. Delinquencies in multiple categories (credit cards, auto loans) continue to increase (**Exhibit 10**) while we have yet to see the “true” face of delinquencies with student loan repayments still skewing the picture. The 12-month repayment on-ramp was designed for the most vulnerable borrowers. The on-ramp was automatic, borrowers did not have to take any action to be covered by the protection. From October 1, 2023, to September 30, 2024, any missed payments would not result in delinquency or default and would not be reported to credit or debt collection agencies. With credit delinquencies reflecting condition sets from 60 days ago by the time they are reported, 2Q25 should turn out to be the turning point in the consumer credit cycle.

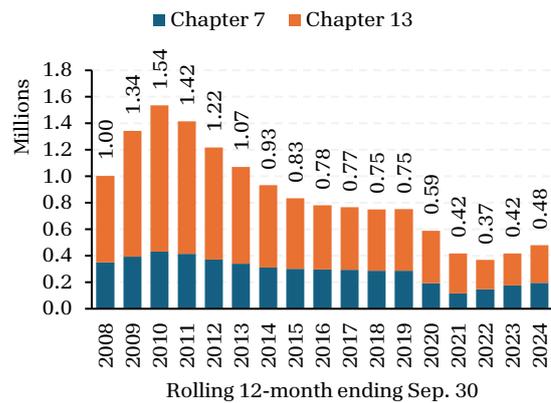
Exhibit 10: 30-Day Delinquencies by Loan Type



Sources. MAM Research, Bloomberg.

The precedent administration went through a great deal to avoid deteriorations in consumer balance sheets. However, as state aids subside, the cycle is slowly coming back afoot. As excess savings erode, credit balances rise, and the cost of credit remains elevated, a rising share of consumers struggle to make ends meet. Although below pre-Covid levels, consumer bankruptcies are edging up (**Exhibit 11**). It will be key to watch in coming months, now that student loans on-ramp expired. As the burden of consumer credit rises, delinquencies will follow.

Exhibit 11: US Consumer Bankruptcies

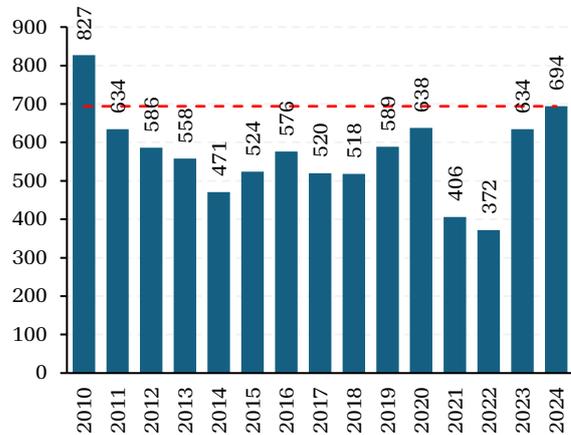


Sources. MAM Research, United States Courts.

Corporate Bankruptcies Rising

Although consumer bankruptcies remain in check, the same cannot be said for corporates. Last year, corporate bankruptcies reached their highest level since the great financial crisis (**Exhibit 12**). Higher rates for longer remain a challenge for the weakest corporate borrowers. For instance, the maturity on high yield but also on investment grade corporates continue to come down as borrowers defer having to refinance with rates as high as they are today.

Exhibit 12: Corporate Bankruptcies by Year

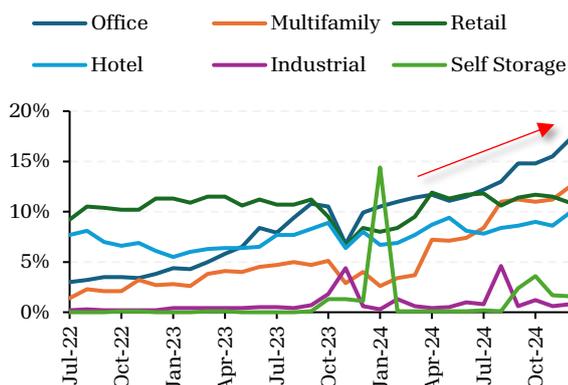


Sources. MAM Research, S&P Global.

CRE Delinquencies Not Going Away

In CRE, the situation continues to deteriorate and expands beyond offices (**Exhibit 13**). Office sector vacancies have climbed to record highs last year. Not only have delinquencies on office-linked loans soared, but delinquencies on other types of CRE loans rose to new cycle highs from apartments and shopping malls to hotels.

Exhibit 13: CRE Delinquency Rates by Segment



Sources. MAM Research, CRED-iQ.

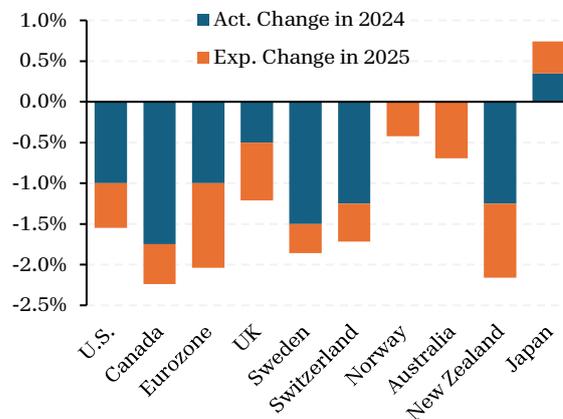
Last year was the year of elections with countries representing more than 60% of global GDP going to the polls. Political polarization was the rule rather than the exception. The leadership changes bring on a wide array of uncertainties, not least of which being policies of the incoming US administration. Countries are not equally prepared to absorb these policy shocks, either cyclically or structurally. The US economy likely stands out as the most resilient. Europe has to deal with a combination of structural problems, confidence crisis, and severe challenges of existing political leadership. China, reluctant to push large stimuli, struggles to boost confidence.

Diverging Monetary Policy Paths Ahead

Although global economies rarely follow the same path, last year showed distinctly different courses. We saw stronger-than-expected growth in the US, still accompanied by rate cuts, standing in sharp contrast with the softer trajectories seen in Europe where recession risks are noticeably higher. Even within regions, similar divergences are noticeable. In Europe, Germany and France are grappling with stagnation while Spain continues to flourish. After an unusually coordinated monetary policy easing, the uneven economic landscape will be prompting varied policy responses going forward. The Fed is reducing the pace of rate cuts after its progress on

inflation slowed and job-market loosening paused. The ECB and BOE, on the other hand, are working to offset weaker economic growth. Breaking from the pack, Japan's BOJ is set to tighten its monetary policy, unwinding ultra-loose policies (**Exhibit 14**).

Exhibit 14: Global Central Bank Policy Rates

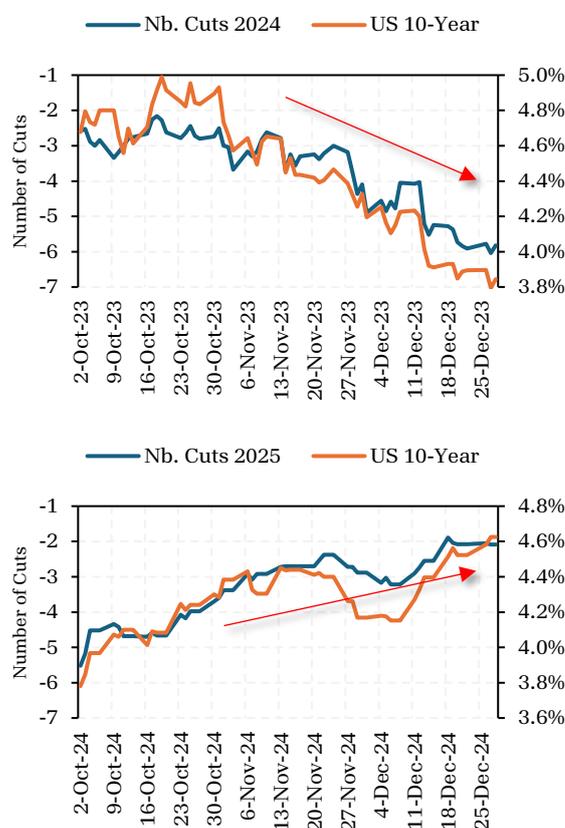


Sources. MAM Research, Bloomberg.

The US Expectations Pendulum

Heading into last year, consensus was anticipating a recession, as were we, with markets pricing less than seven rate cuts in the US. Fast forward a year and we have the exact opposite image (**Exhibit 15**).

Exhibit 15: US Rate Cut Expectations & 10-Year Yields



Sources. MAM Research, Bloomberg.

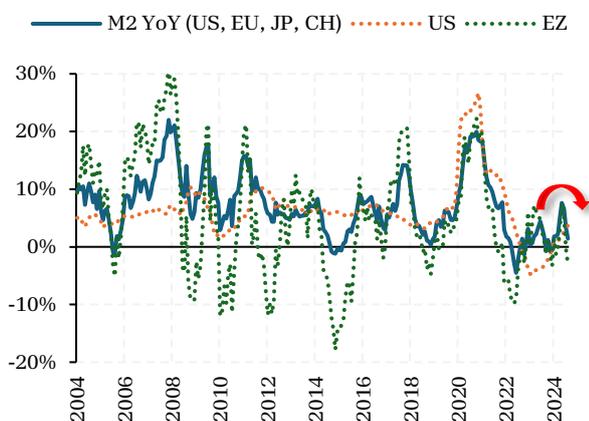
Consensus sees decelerating yet sustained trend-like growth in the US. Inflation expectations have been reset with recent data prints showing slower progress on the path to 2.0%. Concerns over fiscal policy, tariff-led price hikes, and labor shortages (from new immigration policies) are adding fuel to the fire and pushing rate cuts expectations down.

While the US economy is carrying good underlying momentum into 2025, uncertainties are picking up on the horizon. Growth in 1H25 should stay robust but a deceleration in 2H25 is to be expected. There are a lot more downside risks to growth linked to tariffs than markets anticipate. The US economy is in a more precarious position than most realize.

Money Supply Rolling Over, again...

After two years of tight policies, M2 YoY ticked up in 1H24. The pickup in economic activity in 2H24 is likely the result of lagging effects from the easing of financial conditions (**Exhibit 16**), front-running of import purchases ahead of possible tariffs, and increased AI-related spending. However, all three tailwinds should either subside or reverse over the course of 2025, shifting focus back from inflation to growth as central banks become less synchronized in their policy responses, muting global M2 growth.

Exhibit 16: Global M2 Money Supply Growth (YoY)

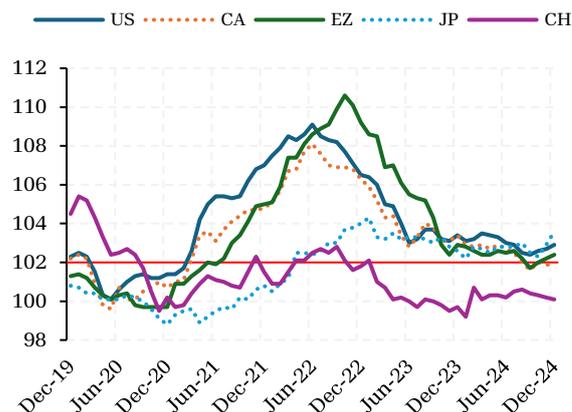


Sources. MAM Research, Fed, ECB, BOJ, PBOC.

...As Disinflation Stalls

Following a synchronized disinflation globally, we observed more heterogeneous dynamics in 2H24 with progress becoming more limited over recent months. Goods disinflation is no longer helping as much while services inflation remains sticky. The result has been a broad-based re-acceleration in inflation trends. However, there are a few notable exceptions with China and Euro Area continuing to fight the deflation trap (**Exhibit 17**).

Exhibit 17: Headline Inflation vs. Jan20 levels (YoY %)

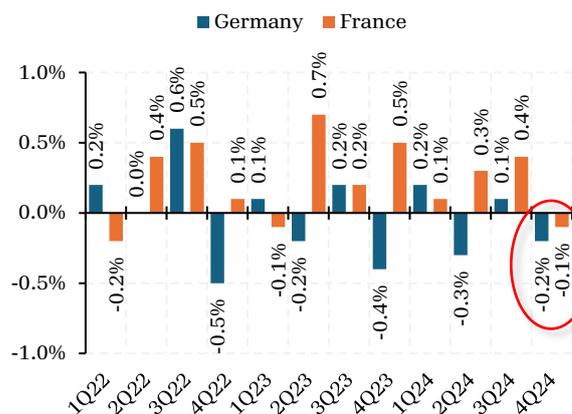


Sources. MAM Research, Bloomberg. (100=0% YoY Inflation)

A Slow Global ex-US Growth Story

The service-driven recovery out of the US did not help Euro area exports. Importantly, weak demand from Asia coupled with higher energy prices also took a toll on export-oriented economies to the like of Germany. The German economy contracted yet again in the fourth quarter (**Exhibit 18**). France’s economy is stagnant with close to 0% 4Q24 growth. Rising unemployment expectations in recent times could drive higher precautionary savings. As such, we should expect sustained sub-1.0% growth out of the region. However, it’s not all doom and gloom. Though weak, growth has room to improve with a mild recovery through consumption as disinflation helps real wage growth and the savings rate peaks.

Exhibit 18: GDP Growth (QoQ)

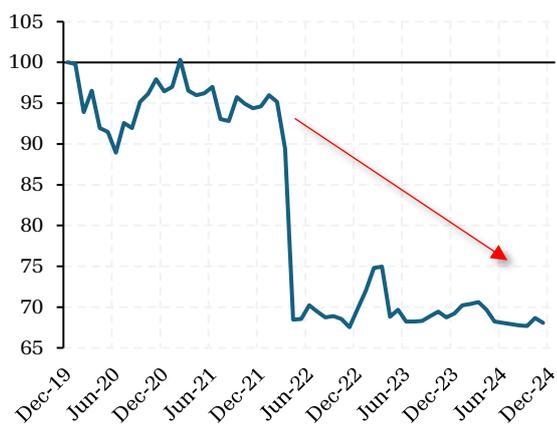


Sources. MAM Research, S&P Global.

In China, the economy showed renewed strength towards the end of last year, but was likely due to front-loaded exports (e.g., in anticipation of tariffs) and “cash for clunkers” programs boosting near-term purchases of white goods (i.e., appliances) or

cars at the expense of future demand. China faces a significant challenge in public confidence, which can be seen in consumer and business metrics. It is coupled with an aging population and a record high youth unemployment. The imbalances in the property market need to be addressed and people worry about another correction in real estate further incentivizing the population to accumulate precautionary savings. Sizeable fiscal stimuli were introduced but more needs to be done to stabilize expectations and restore confidence (**Exhibit 19**).

Exhibit 19: China Consumer Confidence



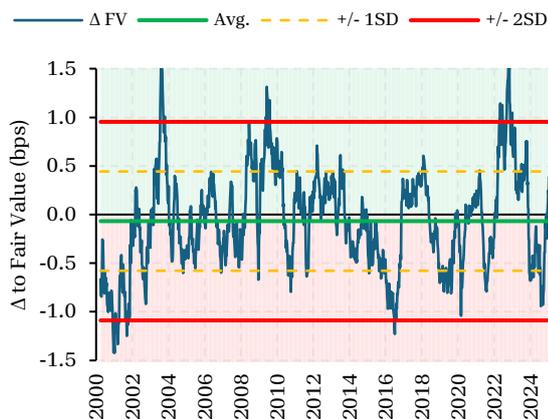
Sources. MAM Research, National Bureau

Asset Class Views

Fixed Income | Bullish Sovereign

Synchronized cutting cycles are being challenged by both diverging fundamentals and trade policies. In 2025, investors will have to differentiate across rate markets. US rates face multiple crosscurrents. A short-term outlook for duration is hard to draw, but the risk reward remains skewed towards lower long-term rates. US growth optimism is priced, but downside risk and macro uncertainty are not. Our models suggest rates are trading above fair value (**Exhibit 20**). Yet, we tend to lean towards neutral duration exposure at the moment (e.g., close to 6) and reduced exposure at the tail end (e.g., 30Y) as we see upside risks to inflation prints near-term. Despite the new UST Secretary being a vocal critic of the last administration for “artificially” keeping longer maturity yields down to affect instruments like mortgages before of the presidential election, he will not deviate from existing policies just yet.

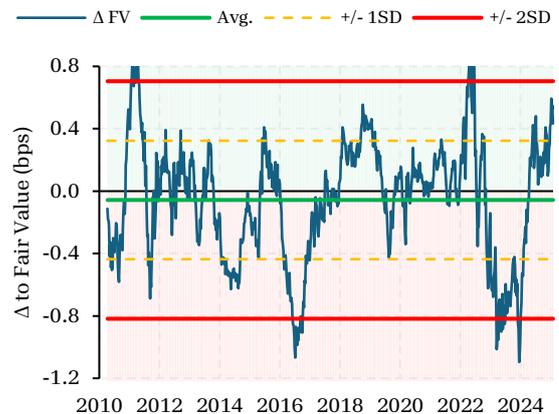
Exhibit 20: US 10Y Deviation from Fair Value



Sources. MAM Research, Bloomberg.

In Europe, growth has been in limbo and inflation is not as much of an issue as it is in the US. Rates are structurally biased lower with the ECB likely to cut rates at an accelerated pace, on a relative basis. We recommend benchmark-to-above benchmark duration (e.g., 6.0 and above) exposure short term. Our models suggest Bund yields have some way to go before reaching fair value (**Exhibit 21**). Upside risks to rates are contained towards 2H25 with the German election and discussions on the debt break being key factors as it may boost economic activity. Meanwhile, other countries must reduce extensive fiscal deficits and return to more responsible fiscal balances, weighing on growth. We favor German Bunds over higher yielding European peripherals.

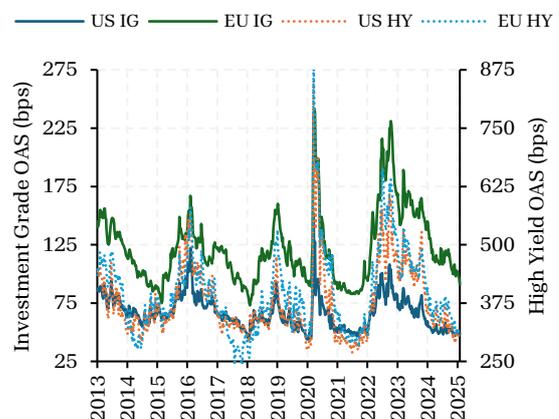
Exhibit 21: German 10Y Deviation from Fair Value



Sources. MAM Research, Bloomberg.

Credit spreads continued to tighten in the wake of the US election, with some segments trading near record-low levels with little room for compression (**Exhibit 22**). The tightening was driven by robust economic growth and strong fixed income demand. Fundamentals remain strong with elevated all-in yields, steep yield curves, and deleveraging across IG and HY universes (excl. lower quality deciles). Given the combination of tight valuations and beta compression, we continue to view corporate credit as unattractive from a risk-reward perspective. In recent months, additionally, the spread tightening came on the back of rising government rates at the long end of the curve rather than a substantial drop in corporate bond yields. Hence, just as there are low risk premia for being in US equities, dynamics in credit suggest there are fewer and fewer places for investors to hide or deploy capital. As expected returns from the current levels are low, we are still recommending underweight allocations to credit.

Exhibit 22: US & EU – IG & HY Credit Spreads



Sources. MAM Research, Bloomberg.

Currencies | USD Pivot

USD strength in the months ahead is largely going to be a function of rates differentials – to which the currency has recently been showing strong rolling correlations – and foreign trade policies. The fiscal stimulus debate may come into play, based on how it affects rates/differentials, but its impact should be deferred to later. Short-term, we see a stronger USD. Long-term, we remain bearish with the dollar 2.0+ Standard Deviations (SD) expensive on a Real Effective Exchange Rate (REER) basis (**Exhibit 23**).

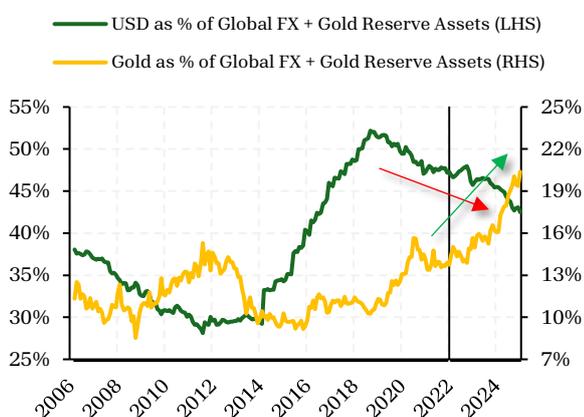
Exhibit 23: US Dollar (REER)



Sources. MAM Research, Bloomberg.

At the same time, we are witnessing a progressive de-dollarization (**Exhibit 24**). Since 2022, official reserves of gold have approximately risen by the same amount as reserves of US dollars have fallen. Central banks seem to progressively be reducing their exposure to fiat currencies such as the dollar, swapping soft assets for hard ones. Sanctions after Russia’s invasion of Ukraine might have been the catalyst behind this regime change. Ultimately, this de-dollarization is bearish for the currency.

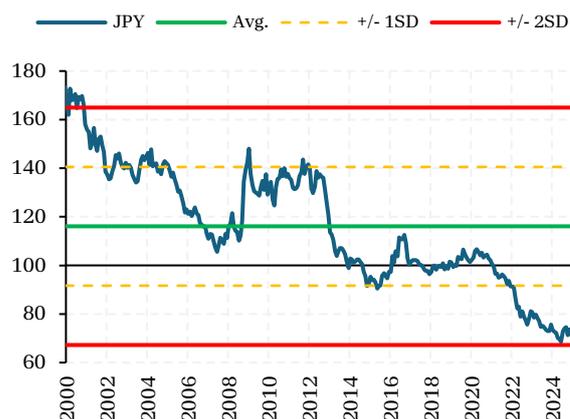
Exhibit 24: USD vs. Gold as % of Global Reserves



Sources. MAM Research, Bloomberg.

JPY is one of the cheapest currencies across the FX space, -2.0 SD cheap on a REER basis (**Exhibit 25**). We remain positive on the currency, particularly against USD and CHF. The BoJ is planning to hike rates further if prices and economic developments come in line with its expectations, being a long way off the range of what it regards as “neutral”. These communications leave room for a higher terminal rate while the policy divergence is very supportive.

Exhibit 25: Japanese Yen (REER)



Sources. MAM Research, Bloomberg.

The Euro (vs. USD) rebounded from a low of ~1.01 on two occasions so far this year. We would likely fade rebounds from here, expecting one last push below parity. The “trade war” between Europe and the US has yet to start, meaning uncertainty has not yet reached its apex. Furthermore, we have yet to see US fiscal negotiations coming to an end. The Trump administration and Congress have both agreed on tax cuts but not spending cuts. The most likely outcome would be lower taxes and minimal spending cuts, sending US rates higher. As a result, rate differentials would work against the Euro. On a REER basis, the Euro is fairly priced (**Exhibit 25**).

Exhibit 26: Euro (REER)

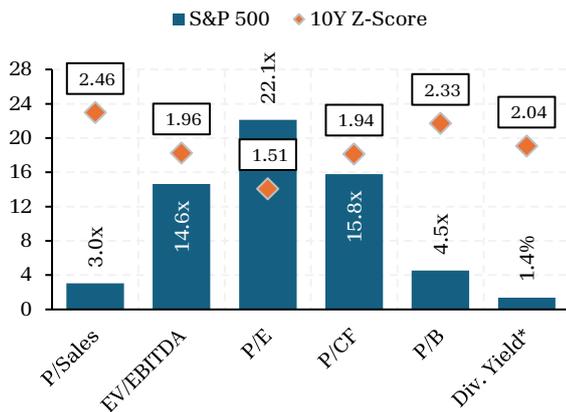


Sources. MAM Research, Bloomberg.

Equities | Neutral

US equity markets are the most concentrated they have been in a century. Valuations are extreme, no matter how we look at them (Exhibit 27). Mega cap dominance, a distorting factor, looks increasingly unsustainable. The return structure of the market is likely to broaden out, favoring equally weighted indices and mid/small caps.

Exhibit 27: US Equities Valuation



Sources. MAM Research, Bloomberg. *Z-Score Inverted

Historically, there has been a strong relationship between an index's NTM P/E ratio and subsequent 3-year returns. Today's multiples suggest inflation adjusted annual returns are close to 3.0% over the next three years, which is significantly lower than its historical 6.4% average. US equity risk premium nears zero (Exhibit 28). Investors are effectively paying to take risks instead of getting paid to do so.

Exhibit 28: US Equity Risk Premium



Sources. MAM Research, Bloomberg.

Though earnings growth had something to do with higher equity prices (c.20%), the lion share of the gains in recent years has been tied to the multiple expansions (c.80%) (Exhibit 29).

Exhibit 29: MSIC World NTM P/E vs. EPS

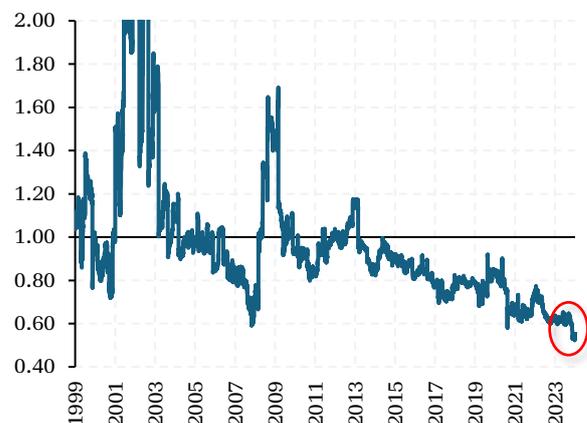


Sources. MAM Research, Bloomberg. Base 100 as of 7/1/2022.

Investors remain significantly overweight equities at the year end. Cash holdings as a share of AUMs stood at 3.9%, the lowest since 2021 and a strong contrarian indicator. A record net 14% of managers are entering the new year underweight cash. With cash holdings this low, subsequent equity returns have typically been negative. Retail investors are also loaded up on stocks, with relatively little cash to spare for marginal buying.

The global policy divergence, whether monetary or fiscal, in 2025 could favor non-US equities – trading at a large discount, on a relative basis (Exhibit 30). While subject to cyclical headwinds, the relative value proposition in European equities and other regions is attractive. We remain neutral on non-US equities but look to rotate exposure sometime this year. A key factor in our decision would be a peak in the dollar and trough in global activity. At the same time, the German snap election set to take place on February 23rd could be a positive catalyst, if the new administration pushes for a loosening of fiscal rules (e.g., triggering of the debt break rule).

Exhibit 30: MSCI World ex-US vs. US Valuation



Sources. MAM Research, Bloomberg.

Momentum and underlying trends are resilient and until we see a reversal or shift in dynamics, we are likely to maintain a neutral allocation to equities while valuations refrain us from being overweight.

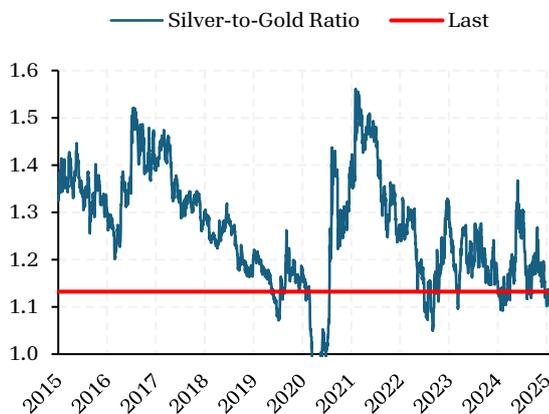
Commodities | Bullish Precious

Heading into the new year, the broad commodities outlook is mixed. Geopolitics, supply constraints, and demand uncertainties all weigh in the balance.

On the energy front, weak global activity and rising production are likely to put a lid on oil prices. The Trump administration has been elected to fight off inflation, incentives are for keeping oil prices low. Outside of the traditional energy spectrum, we are positive on uranium with contracting activity likely to pick up this year and new mine supply coming online more slowly than expected.

Greater than expected rate cuts at the back end of the year, falling real yields, and high uncertainties should prove supportive to precious metals. Gold prices remain supported by sustained central bank buying activity meanwhile China recently resumed purchases. Silver and platinum each have room to outperform in 2025. Atop its safe-haven attributes supporting prices, the physical market deficit for silver will further widen with strong solar demand and limited mine supply recovery. The silver-gold ratio is also at its lowest in five years (Exhibit 31). Platinum moved into a structural deficit, driven by healthy demand while supply is constrained and so through 2027. While in the short-term, the sizeable above-ground stocks could dampen price action, the medium-term outlook is notably constructive, especially in a peak rates and USD environment.

Exhibit 31: Silver-to-Gold Ratio

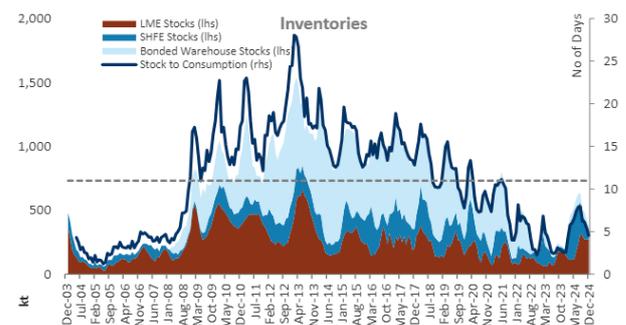


Sources. MAM Research, Bloomberg. XAG rebased (factor=100)

The outlook for industrial metals is relatively more mixed. Copper, key metal in the energy transition,

should appreciate on a multi-year horizon but the short-term dynamics at play are likely to dampen price action. Copper markets look tighter heading into 2025 with slower mine supply growth and less help from scrap as inventories are coming down (Exhibit 32), but demand remains quite dependent on tariffs and growth. Despite the headwinds, we still see room for copper prices to rise to \$10,000/t (+14%) in the short/medium term.

Exhibit 32: Copper Inventories



Sources. MS Research, Bloomberg.

Commodities present a mixed outlook for 2025, with energy prices under pressure but some strong upside potential in uranium, precious metals, and select industrial metals such as copper. Supply constraints and safe-haven demand should drive gains, particularly in silver and platinum.

Appendices

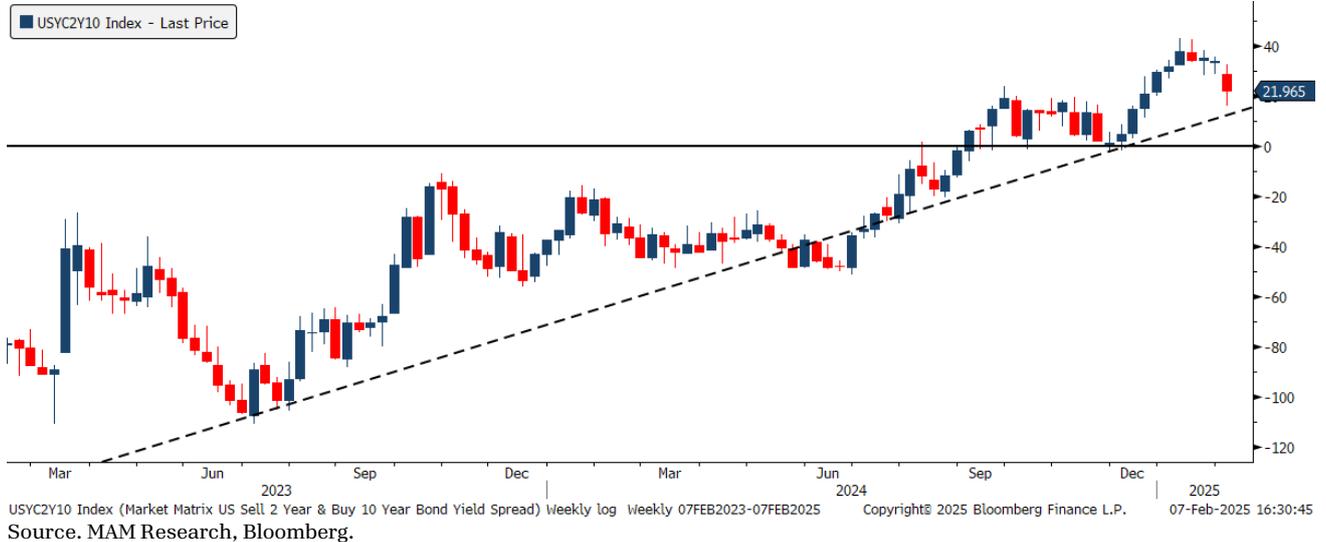
Appendix 1 – US 2Y Yields



Appendix 2 – US 10Y Yields



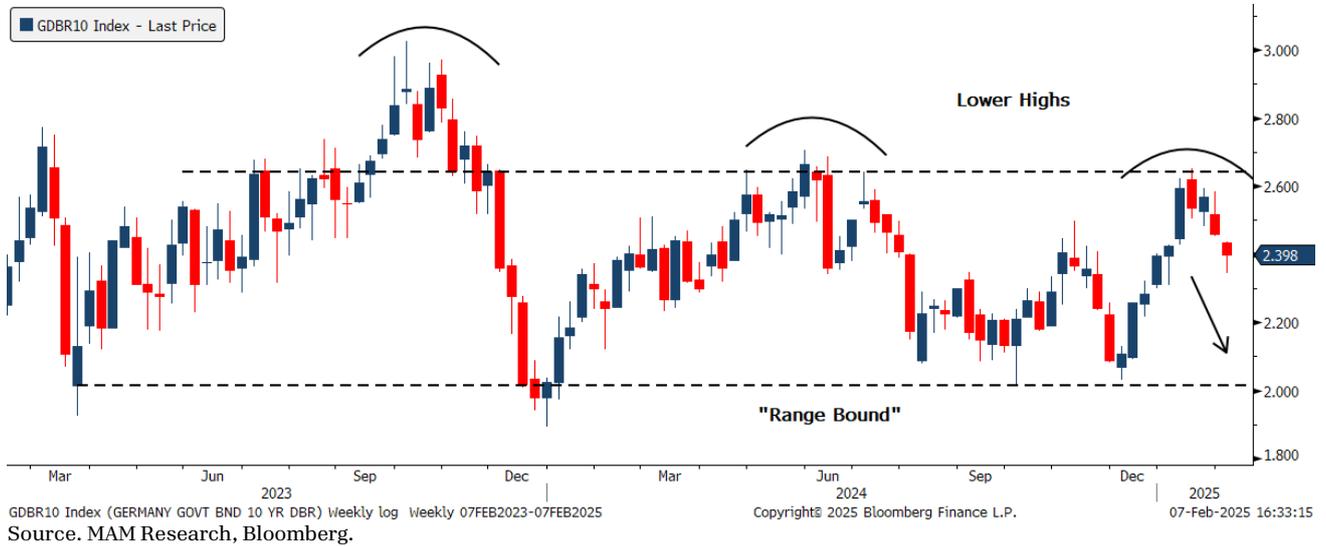
Appendix 3 – US 10-2 Yields Spread



Appendix 4 – German 2Y Yields



Appendix 5 – German 10Y Yields



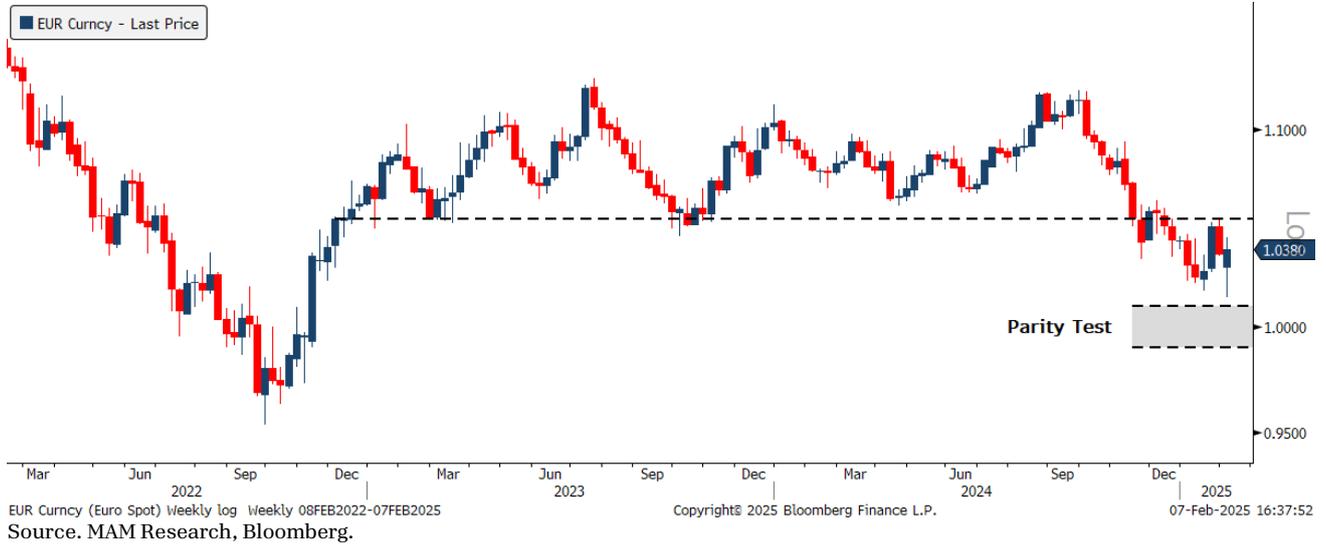
Appendix 6 – USD Dollar



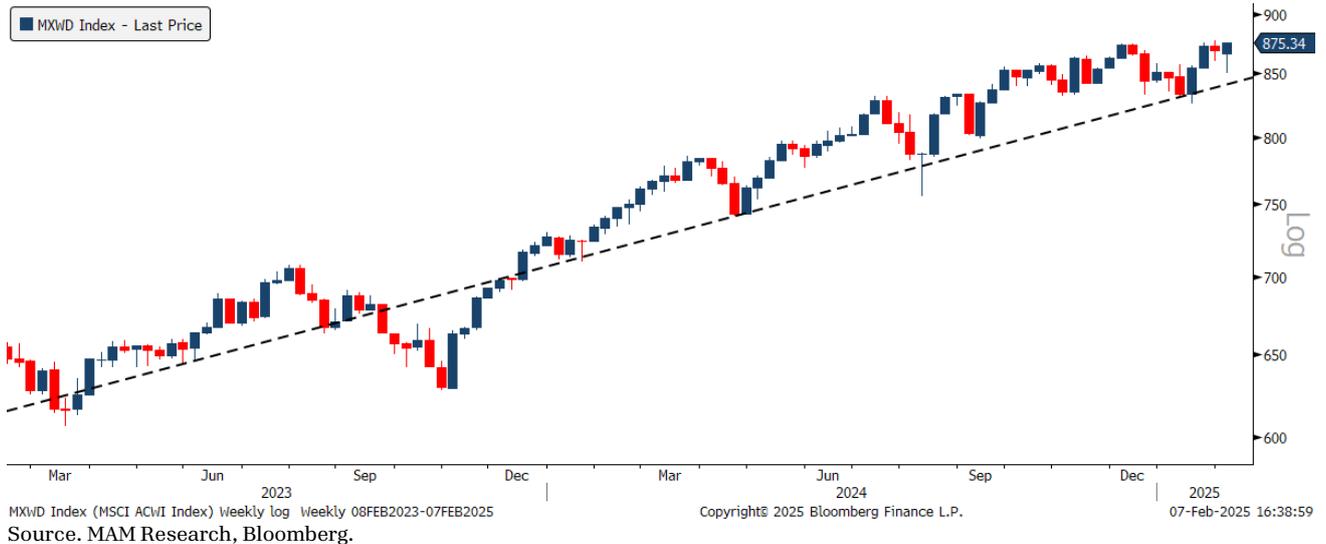
Appendix 7 – JPY vs. USD



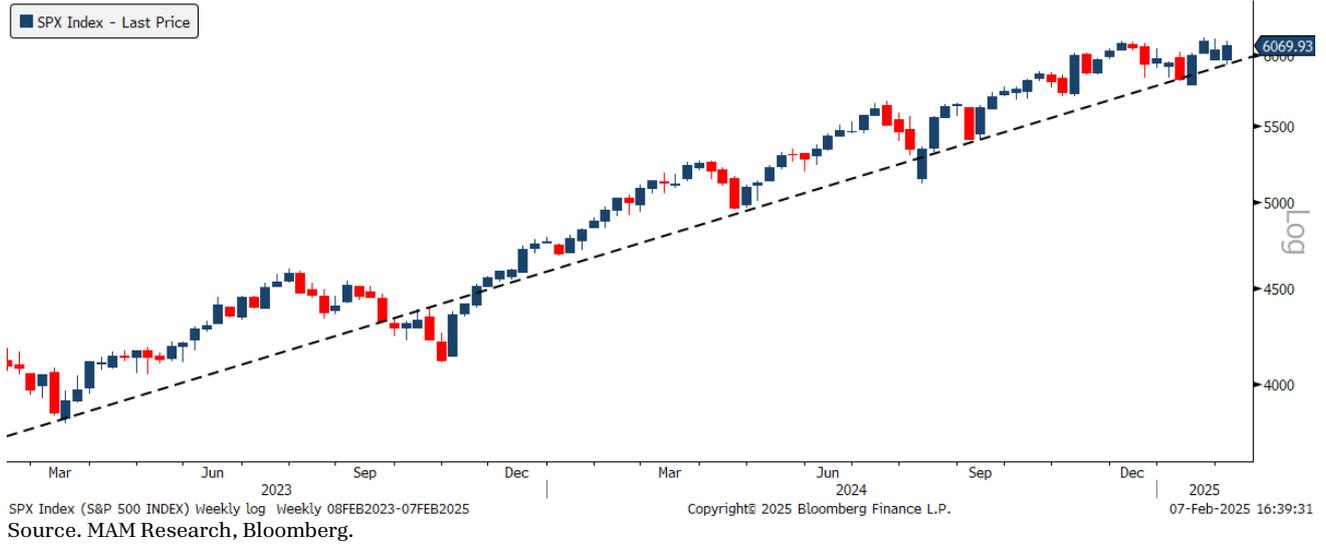
Appendix 8 – EUR vs. USD



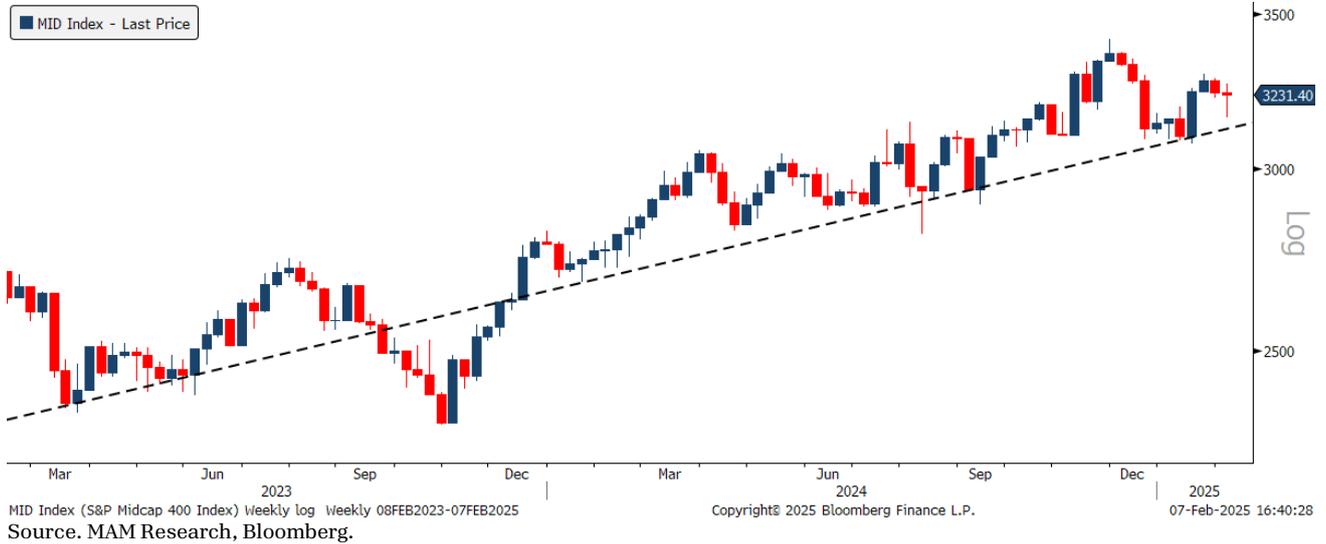
Appendix 9 – MSCI World



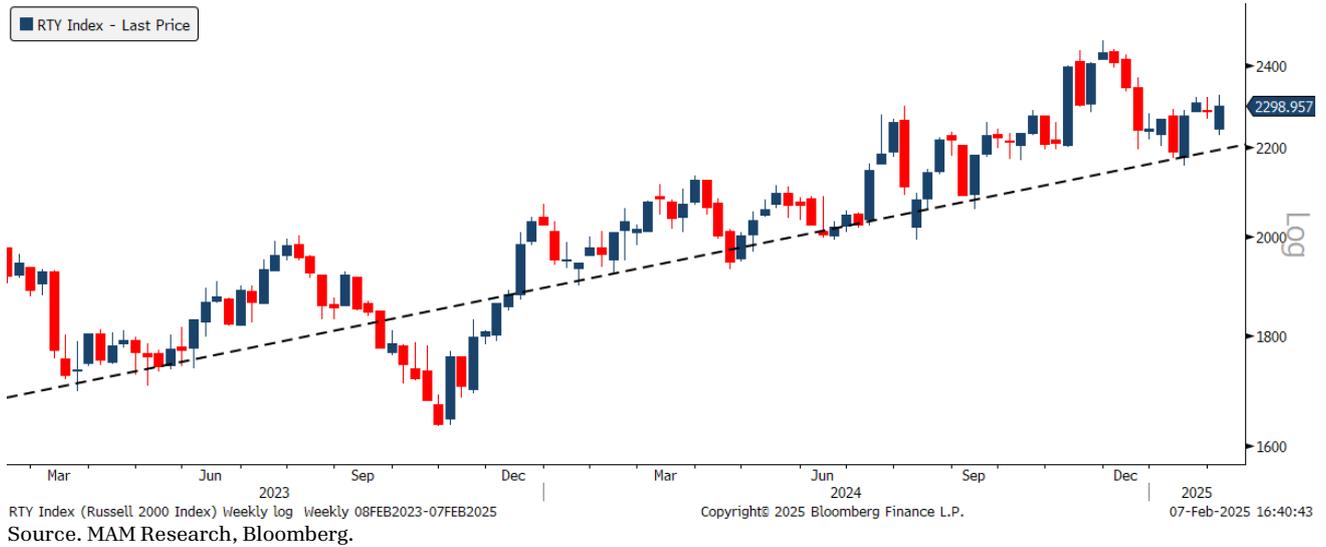
Appendix 10 – S&P 500 (Large-Caps Proxy)



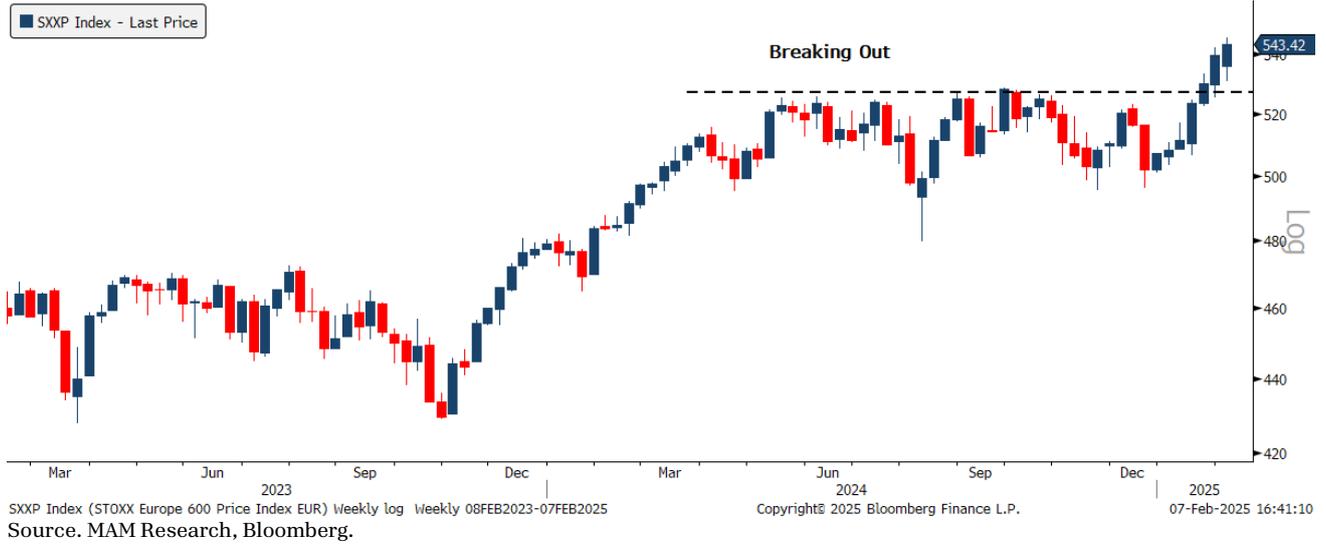
Appendix 11 – S&P 400 (Mid-Caps Proxy)



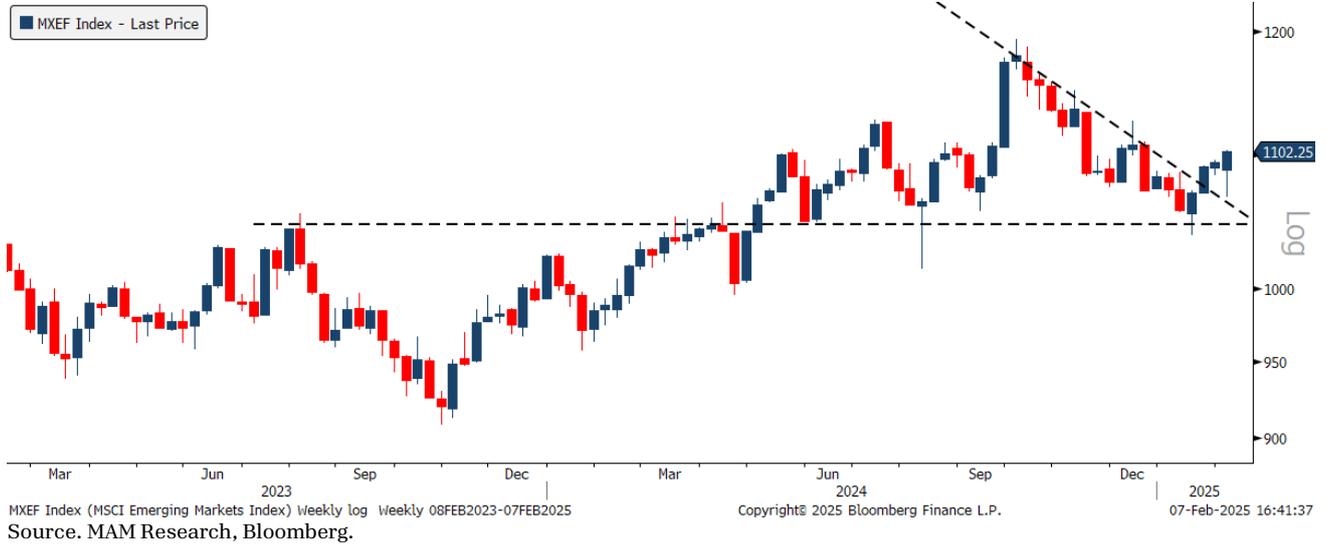
Appendix 12 – Russell 2000 (Small-Caps Proxy)



Appendix 13 – EuroStoxx 600



Appendix 13 – MSCI Emerging Markets



Appendix 14 – Broad Commodity Index



Appendix 15 – Gold (USD Terms)



Source. MAM Research, Bloomberg.

Appendix 16 – Silver (USD Terms)



Source. MAM Research, Bloomberg.

Appendix 17 – Platinum (USD Terms)

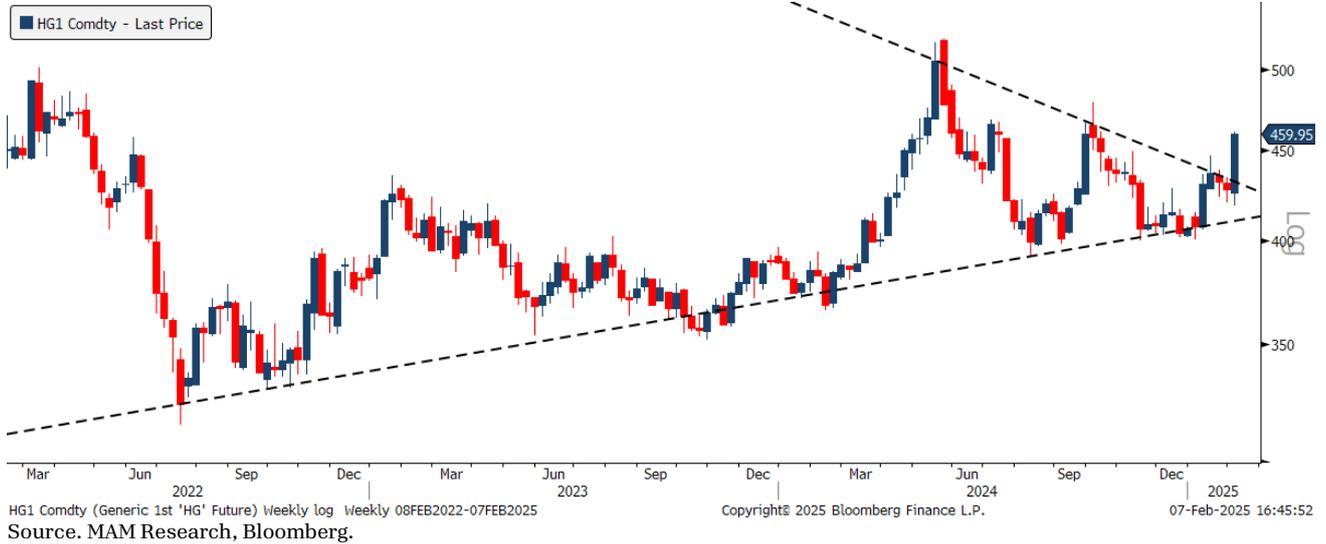


Source. MAM Research, Bloomberg.

Appendix 18 – WTI Crude Oil (USD Terms)



Appendix 19 – Copper (USD Terms)



Appendix 20 – Uranium (USD Terms)

