Newsletter January 2025

A new trade war?

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Key Take-Aways

- Trump's return brings uncertainty, with economic risks tied to tariffs, trade policies, and volatile markets. Monetary policies are diverging globally, influencing interest rates and market performance.
- European markets outperform the U.S. and Asia, while sectoral shifts show weakness in tech but strength in telecom and healthcare. Gold remains a strong safe-haven asset amid uncertainty.
- Fixed income struggled in 2024, with bonds underperforming cash and major asset classes, but 2025 could see a rebound as central banks cut rates, steepening yield curves and improving returns.
- Monetary easing and inflation trends favor bonds, with real yields at multi-year highs, making fixed income more attractive than in recent years, particularly for short-term Treasuries and interest rate-sensitive assets like REITs.
- Markets showed mixed performance in January, with the S&P 500 gaining 2.8% and the Nasdaq 100 up 1.7%, while European indices outperformed, driven by attractive valuations and reduced tariff fears.
- DeepSeek's rise disrupted the tech sector, causing declines in NVIDIA, Broadcom, Microsoft, and Alphabet, highlighting China's growing AI strength and the limits of U.S. sanctions.
- The USD remains resilient, supported by strong economic fundamentals and expectations of sustained high interest rates, despite volatility from Trump's fiscal policies and Fed rate speculation.
- The EUR and JPY face pressure from central bank policies, with the euro weakening due to ECB rate cuts, while the yen could strengthen as the BoJ diverges from global easing trends.

Review

January's overview

Equity % Change	Price	1 day	5 days	MTD	QTD	YTD	EST P/E
S&P 500	6'041	-0.50	-0.99	2.78	2.78	2.78	22
Nasdaq	19'627	-0.27	-1.63	1.66	1.66	1.66	28
Russell 2000	2'288	-0.85	-0.86	2.62	2.62	2.62	24
Euro Stoxx 50	5'287	0.09	1.29	8.15	8.15	8.15	15
Stoxx 600 EUR	540	0.13	1.79	6.38	6.38	6.38	14
FTSE 100	8'674	0.31	2.02	6.20	6.20	6.20	12
SMI	12'597	-0.06	2.52	8.59	8.59	8.59	17
NIKKEI 225	39'572	0.15	-0.89	-0.80	-0.80	-0.80	19
CSI 300 China	3'817		-0.40	-2.78	-2.78	-2.78	13
MSCI EM Index	1'093	-0.21	0.32	1.81	1.81	1.81	12

10 yr Yield Bps Change	Price	1 day	5 days	MTD	QTD	YTD
US	4.54	2	-8	-3	-3	-3
Germany	2.46	-6	-11	9	9	9
UK	4.54	-2	-9	-3	-3	-3
SWITZERLAND	0.43	-2	-6	10	10	10
Japan	1.25	3	1	14	14	14
US IG Spread	86	-1	1	-1	-1	-1
US High Yield spread	266	1	5	-26	-26	-26
EUR High Yield spread	313	2	1	-11	-11	-11

Currency % Change	Price	1 day	5 days	MTD	QTD	YTD
DXY	108.37	0.53	0.86	-0.11	-0.11	-0.11
EUR-USD	1.0362	-0.28	-1.29	0.08	0.08	0.08
USD-JPY	155.19	0.58	-0.52	-1.28	-1.28	-1.28
USD-CHF	0.9109	0.13	0.55	0.39	0.39	0.39
EUR-CHF	0.9441	-0.13	-0.73	0.43	0.43	0.43
GBP-USD	1.2395	-0.19	-0.71	-0.97	-0.97	-0.97
EUR-GBP	0.8360	-0.09	-0.55	1.04	1.04	1.04
JP EM FX Index	43.50	-0.06	-0.69	1.63	1.63	1.63

Equity % Change	Price	1 day	5 days	MTD	QTD	YTD	EST P/E
S&P 500	6'041	-0.50	-0.99	2.78	2.78	2.78	22
UTILITIES	396	-0.60	-2.03	2.93	2.93	2.93	18
ENERGY	668	-2.73	-3.75	2.07	2.07	2.07	14
TELECOM	372	0.74	2.67	9.12	9.12	9.12	21
CONS STAPLES	870	-0.72	1.93	2.04	2.04	2.04	22
REAL ESTATE	260	-0.22	-0.32	1.84	1.84	1.84	19
CONS DISCRET	1'912	0.09	0.84	4.41	4.41	4.41	30
MATERIALS	559	-0.73	-0.22	5.59	5.59	5.59	21
HEALTH CARE	1'711	-0.35	1.74	6.79	6.79	6.79	18
INFO TECH	4'474	-0.78	-4.55	-2.90	-2.90	-2.90	28
FINANCIALS	856	-0.61	1.25	6.52	6.52	6.52	18
INDUSTRIALS	1'171	-0.71	-1.90	5.03	5.03	5.03	23

Fixed Income - % Change	Price	5 days	MTD	QTD	YTD
BBG Global Agg Treasuries TR Index UNH $	196	0.09	0.58	0.58	0.58
BBG Global Aggregate TR Index Value $	466	0.11	0.57	0.57	0.57
BBG Global Aggregate Corporate TR $	296	0.51	0.61	0.61	0.61
BBG Global High Yield $	1'685	0.15	1.37	1.37	1.37
BBG US Treasury TR Unhedged $	2'302	0.46	0.52	0.52	0.52
BBG US Corporate TR Unhedged $	3'308	0.34	0.55	0.55	0.55
BBG EuroAgg Government TR Index UNH €	243	0.81	-0.17	-0.17	-0.17
BBG EuroAgg Corporate TR Index UNH €	259	0.85	0.44	0.44	0.44

Commodity % Change	Price	1 day	5 days	MTD	QTD	YTD
BBG Commo Index	102.3	-0.43	-1.10	3.58	3.58	3.58
Gold Spot $/OZ	2'798.4	0.14	1.00	6.63	6.63	6.63
Crude Oil WTI	72.5	-0.27	-3.24	1.13	1.13	1.13

Volatility	Price	1 day	5 days	MTD	QTD	YTD
VIX	16.4	0.59	1.58	-0.92	-5.30	-0.92

Source: Bloomberg 31.01.2025

Macro & Rates

Trump 2.0: A new and volatile era

2025 has started with Donald Trump's comeback, and the only certainty we may have is uncertainty. The new president has inherited a solid economy with strong employment, a level of debt deemed "unsustainable" by former U.S. Treasury Secretary Janet Yellen, an erratic inflation path on its way back to 2%, and a U.S. equity market considered to be at extreme valuation levels.

Considering the tariff and tax policies the U.S. administration will implement, we believe the risk of error is somewhat elevated. Adding a potential game-changer in the name of "Deepseek", a new Chinese open-source AI app that can apparently match the performance of OpenAI's best efforts in most circumstances while using significantly less computing power (and therefore much less energy) and at a fraction of OpenAI's cost, and you can expect the beginning of the year to be volatile.

Regarding monetary policies around the world, there is no doubt that divergence will be the starting point. In the U.S., the Fed is taking the recent stickiness of inflation fairly seriously, and given the resilience of the job market and the risk of inflation due to the "new trade war", we should not expect any rate cuts soon. In Europe, both the European Central Bank and the Bank of England have reduced interest rates by 25 basis points, while in Japan, the central bank has raised interest rates by 25 basis points, supported by favorable economic data and rising inflation—thus ending a multi-decade era of deflation and low growth.

Those divergences in both monetary policies and broader economic policies are also creating divergence in financial markets. In equity markets, European markets have climbed 7–8% on average, well above the 2.78% gain in the S&P 500, the -0.8% in the Nikkei, and the -2.78% in China. European indices haven't outpaced their U.S. counterparts by such a wide margin at the start of a year since 2015.

Sector-wise, divergence is also clearly visible, with the U.S. tech sector returning -2.9%, while Telecom and Healthcare have performed at 9.12% and 6.79%, respectively. This is a clear departure from the picture we had in 2024.

In the foreign exchange market, the Canadian dollar and Mexican peso are the most obvious candidates for volatility, as both countries are subject to the largest tariff increases – especially if those tariffs are postponed only 36 hours after the announcement.

In this volatile environment, it is no surprise that gold is performing well given its safe-haven status, and we expect the yellow metal to continue to do well.

*It turns out that **Trump is who we thought he was: unpredictable**. The lesson from 2018 is that **uncertainty, volatility, and trade friction are not conducive to a strong economy or a stable financial market**. While history may not repeat itself, it seems awfully likely to rhyme.*

Key Take-aways

Review

Macro & Rates

Fixed Income

Equity

Forex & Commodities

Fixed Income

Bonds entering the front stage?

In 2024 fixed income was again among the worst-performing asset classes with the Bloomberg US Aggregate Index returning only 1.25% and the Bloomberg Global Aggregate TR Index falling 1.69%. Even holding cash in USD provided better returns, and the return of US Treasury bills was 5.29%. High yield did better, providing 8.19% in USD but was still far behind the 17% performance of the MSCI World Index, the 25% return of the S&P 500 Index, gold (26.6%) and the Bitcoin (120%).

But there are good reasons to believe that in 2025 bonds will again become a «competitive» asset class, returning on average 5% in a USD portfolio. Firstly, major central banks are expected to continue cutting rates with one exception, the BOJ, which is expected to hike one more time in 2025. The market prices currently 4 more cuts for the ECB, two for each the Fed and the SNB and 3 for the Bank of England. Therefore, yield curves should continue to steepen providing decent returns for short to medium maturity bonds.

US Core PCE has fallen from 5.6% in 2022 to 2.8% in November 2024, thereby gradually approaching the Fed's target level. While we shouldn't expect inflation to fall to the pre-Covid average of 1.6%, a stabilization around the current level would confirm the expected path of Fed rate cuts. After pricing up to 9 more cuts for 2025 in September 2024, market expectations of two more cuts this year seem a more realistic assumption.

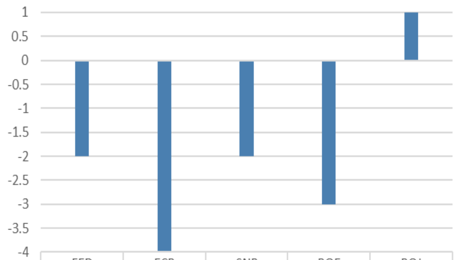
Risks remain especially regarding the longer end of the USD curve. The main source of uncertainty are the policies coming from the new Trump administration. Will millions of illegal immigrants be deported from the US thereby leading to a sharp tightening in the labour market? Will high tariffs disrupt supply chains and push prices up? Not surprisingly, the Fed decided to pause its cutting cycle on 29 January.

Meanwhile, the recent DeepSeek shock to the US AI industry has shown how quickly new technologies could have a deflationary effect. If it is true that US tech companies have massively overspent for results which can be achieved for a fraction of their investments, then this new competition could quickly bring margins and prices down.

In any case, fixed income looks now more attractive than at any point over the last two years. Real yields have reached levels not seen in years and short-term Treasuries provide a higher risk-premium than US equities. Interest rate sensitive asset classes are set to benefit from monetary easing in 2025. US REITS for example have a dividend yield of 4.6% while the S&P 1500 pays 1.4%.

In Switzerland, interest rates will tend to zero pushing institutional investors back into real estate which offers a multiple of the yield on government bonds coupled with tax advantages.

Priced CB hikes/cuts for 2025 (as of 30.1.25)



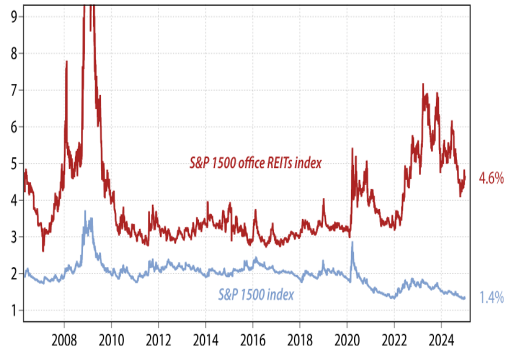
	FED	ECB	SNB	BOE	BOJ
# hikes/cuts	-2	-4	-2	-3	1
final rate	4	2	0	4	0.75
change bps	-50	-100	-50	-75	25

Source: Bloomberg

Fed cuts priced in over the next year

Source: Bianco Research LLC

US office REITs vs S&P 1500 index div. yield



Source: Gavekal Research

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Equity

Market shifts in January: European outperformance, U.S. Tech Turmoil, and the Rise of DeepSeek

In January, U.S. indices recorded gains of 2.8% for the S&P 500, closing the month at 6,040 points, and 1.7% for the Nasdaq 100, closing at 19,654 points. The technology sector was particularly volatile, with NVIDIA and Broadcom experiencing declines of over 15% following the rise of the Chinese startup DeepSeek, which raised significant concerns about competition for US companies in the AI sector. Other giants such as Microsoft and Alphabet also saw declines.

Despite these fluctuations, the outlook for the S&P 500 remains positive, as some analysts predict that the index will reach 6,550 by the end of the year, an increase of approximately 9% from its current level.

Unexpectedly, the standout performers in January were the European markets, which delivered remarkable performances, outperforming their global counterparts. The EuroStoxx 600 reached a record high of 540 points, posting a 6.5% increase over the period. Similarly, the London Stock Exchange closed the month with a strong gain of +6%.

Several factors drove this market shift and fueled Europe's outperformance. Investors were drawn to the reduction of fears related to Donald Trump's tariff policies, as well as much more attractive valuations in Europe.

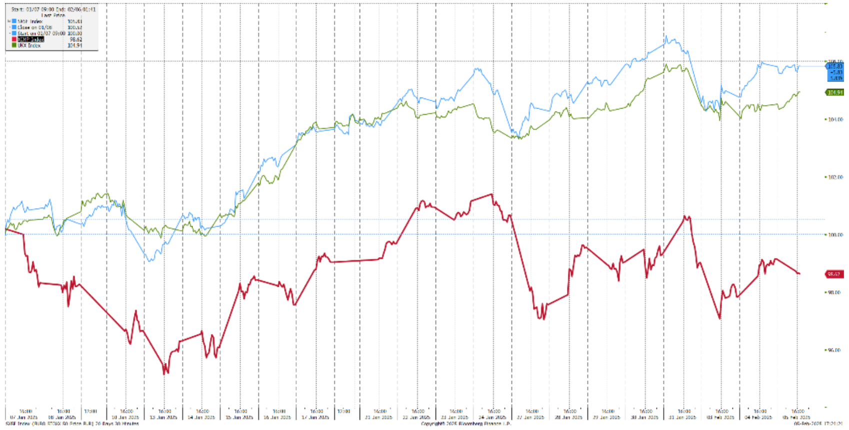
However, significant challenges remain. The threat of new US tariffs and political uncertainties within the European Union could influence European markets. Structural reforms in European fiscal policy will be necessary to support long-term growth.

In Asia, volatility increased in Chinese markets, reflecting internal economic challenges and geopolitical uncertainties. The strong investor interest in Chinese companies specializing in AI was counterbalanced by concerns over trade tensions with the United States. However, Chinese authorities emphasized the resilience of the Chinese economy and reiterated their commitment to implementing proactive macroeconomic policies to support growth.

DeepSeek: A "Game Changer" for the Future?

The emergence of DeepSeek has intensified competition and rivalry between China and the United States. The news disrupted the market and created a brief panic among investors. This underscores the limits of U.S. sanctions in curbing China's AI advancements. It also reveals the growing strength of Chinese companies in this sector. As a reminder, DeepSeek has overtaken ChatGPT as the leading free AI application, with China boasting a development cost 10 times lower.

Nasdaq Composite Index, FTSE 100 & Euro Stoxx 50 January 2025 Total Return Performance Comparison



Nasdaq Composite Index
FTSE 100
Euro Stoxx 50

Forex & Commodities

Tariffs make the dollar great again ?

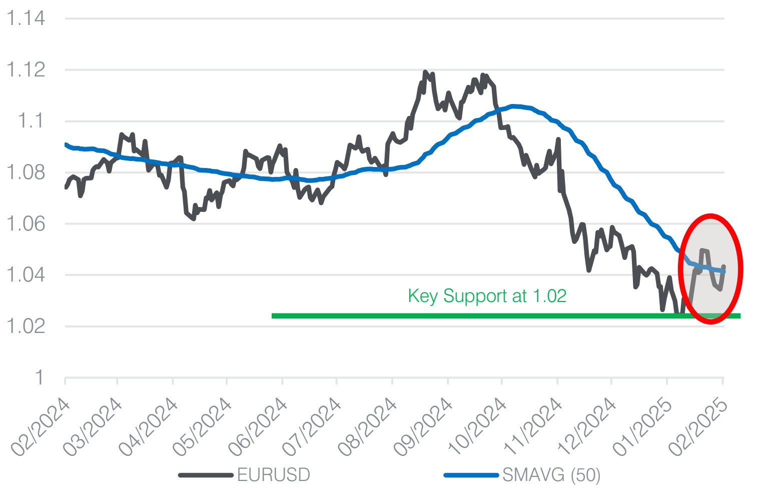
As February 2025 begins, the forex market is bracing for heightened volatility, driven in large part by recent economic policies under the Trump administration. Since the start of the year, the USD has experienced significant fluctuations, influenced by market expectations surrounding Federal Reserve policies. This has sparked debates on whether the dollar has peaked. However, strong economic fundamentals—reflected in robust employment data and persistent inflation trends—suggest that the USD may continue to hold its ground. Trump's fiscal measures, such as potential tax cuts and tariffs, could further fuel inflation expectations, reinforcing the dollar's resilience. Overall, the outlook for the USD remains bullish, supported by solid economic performance and expectations of sustained high interest rates from the Fed.

The Eurozone's economic trajectory remains a focal point, with the European Central Bank taking a dovish stance by cutting interest rates at the end of January. This move has exerted additional pressure on the EUR, intensifying concerns about the currency's sustainability, particularly amid Trump's protectionist policies. Analysts foresee a widening gap in the two-year USD-EUR swap rates, signaling potential underperformance of the euro against the USD in the near term. The EUR/USD pair failed to break its mid-term resistance at 1.056 and is now retreating toward the next support level at 1.02. In the short term, the pair could remain under pressure as long as it stays below the 50-day moving average.

The Swiss franc is expected to remain strong in the short term. So far, a strong CHF has had minimal impact on the Swiss economy, largely due to the resilience of niche exports and the franc's role as a safe-haven asset. However, in line with its monetary policy direction since 2024, the Swiss National Bank is likely to continue cutting interest rates. The SNB may approach zero rates or even consider negative rates if economic conditions warrant such action. While this trajectory has been widely anticipated by markets, additional rate cuts could place downward pressure on the CHF. Nevertheless, given its safe-haven status and the SNB's cautious stance, any depreciation is expected to be moderate and proportional. Technically, the 0.92 level on USD/CHF remains a key resistance that the pair has struggled to break. At the time of writing, the 50-day moving average is acting as support around 0.90. With pressure from both sides, the USD/CHF pair may trade within a tight range in the short term before attempting another breakout above 0.92.

The Japanese yen has seen notable fluctuations due to the Bank of Japan's recent adjustments to its yield curve control policy, resulting in a slight appreciation. The BoJ's cautious approach to rate hikes—at a time when many central banks are cutting rates—could further strengthen the yen, especially if carry trade unwinds intensify. The USD/JPY pair may face downward pressure, particularly if U.S. yields stabilize or decline, making the JPY an attractive option for investors seeking safety.

EUR/USD Could Be Maintained in A Close Range



Source: Bloomberg

USD/CHF Through A Break at 0.92 ?

Source: Bloomberg

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