Outlook
First Semester
2025

January 2025

Executive Summary

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- The global macro backdrop in 2024 has been characterized by steady growth with major players balancing each other, sticky inflation and slow easing by central banks. In general, the combination of steady growth and sticky inflation has led markets to price in fewer rate cuts. As the economy defied forecasts, risky assets rallied, though progress has not been linear. US stocks have climbed to all-time highs thanks to the technology sector for a second year in a row, while cyclicals gained traction since mid-September amidst optimism about the economic outlook. Strong gains for tech stocks have been fueled by market focus on artificial intelligence and investors preferring quality given high macro and market uncertainty. Rates volatility, sticky inflation, uncertainty around the Fed's rate cutting path and US fiscal and debt sustainability have defined the year for fixed income.

- H1.2025: We maintain our up-in-quality bias as there is little room for error as uncertainty overhang. Within equity, we stick to higher quality stocks, those presenting robust balance sheets, earnings growth and competitive advantage. We also expect continued positive returns in developed market equities, but at a more moderate pace, with earnings growth driving most returns. In fixed income, we keep favoring quality over yield and suggest neutral duration vs benchmark.

- The main risks to our scenario are the implications of a "higher for longer" environment in US. While some of the incoming administration's measures reinforce the idea of persistent inflation in the medium term, interest rates might stay above pre-pandemic levels). Geopolitics remains a prominent source of volatility, and both the US debt trajectory and fiscal policy are of increasing concern. This shall translates into higher long-term yields as investors demand more term premium.

Macro & Asset Class Overview

2024 in review: bumpy path

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- **The US economy significantly outperformed expectations coming into the year, with growth again surprising the consensus to the upside, labor markets continuing to generate robust employment gains and inflation moving down at a slower pace than the consensus expected.**
- The US economy saw surprisingly robust growth with real GDP on track to expand at 2.5% annual growth in 2024. The biggest driver of this strength has been consumer spending, which contributed an average 78% of real GDP growth in the first three quarters. In the year ahead, continued progress in real wage growth should broadly support consumers, but consumption is likely to contribute less to growth going forward as the tailwind of pent-up savings and debt has largely faded.
- **However, market internals moved from pricing a reflationary outcome in Q1, to a growth risk scenario in Q2, to a reaccelerating growth backdrop in Q4.The market went into 2024 with high expectations in terms of monetary policy rate cuts.**
- At the end of January, the FED funds rate was expected to fall 137 bps during the year. The first quarter has been all about pricing those cuts, until the end of Q2 brought back the 'hard vs soft landing' discussion, along with some labor market concerns. Again rate cuts were back on the table. The yield of the 10-year US Treasury bond fell from over 4.7% to 3.6%, until the Fed started the cutting cycle with a 50bps step in September. In the last quarter, growth worries disappeared, at least in the US, and the focus shifted toward the US election. The looming Trump sweep lifted the yield level up again on aggregate, without reaching the highs seen earlier this year. By year end, the Fed cut an additional 25 bps but delivered an overall hawkish message via the new projections signaling a slower pace of rate cuts ahead. The yield of the 10-year US Treasury bond reached again highs seen in May.
- **The Federal Reserve lowered the target range by 100 bps in 2024, from 5.25%-5.50% to 4.25%-4.50%, motivated by progress on inflation and a slowdown in the labor market. This raised the risks of policy remaining too restrictive for too long.** Three months since the Fed first cut rates, the 10-year Treasury yield is 86 bps higher, moving from 3.66% up to 4.52%. This is very different behavior than the start of previous cutting cycles where the 10-year Treasury yield either moved lower or stayed roughly the same.

FIGURE 1. **US economy surprised to the upside again in 2024...**

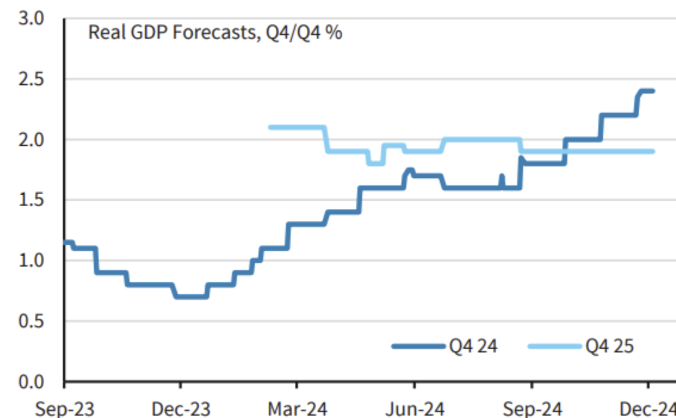

FIGURE 4. **Inflation was somewhat sticky**

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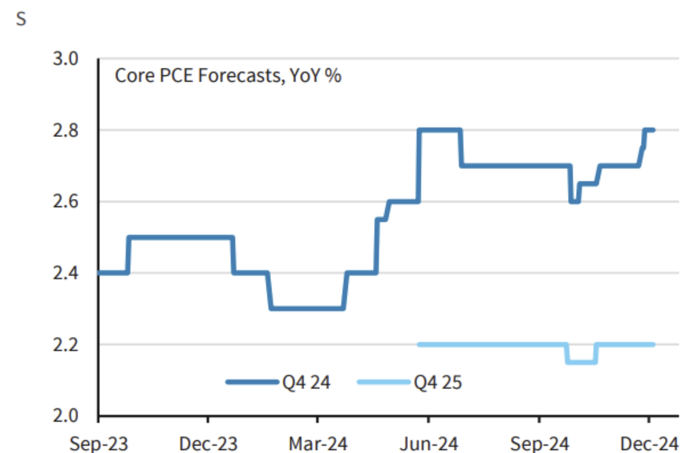


Source: Bloomberg, Barclays Research

UBS, Morgan Stanley, JPMorgan, BlackRock, Barclays

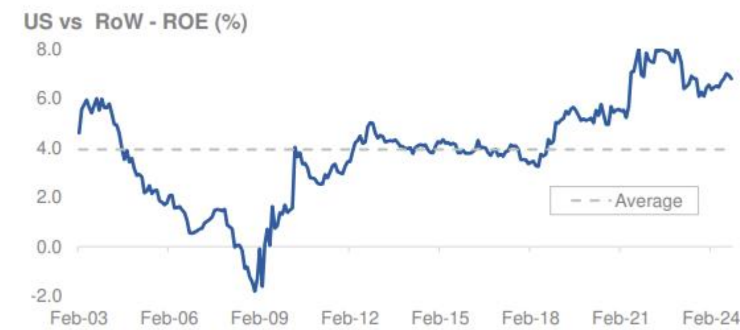
2024 in review: bumpy path

- **A data-dependent Fed suggests the outlook for further easing remains uncertain. A fully controlled Republican government, the potential for tariffs and fiscal thrust in 2026, could lead to an early end to the cycle. Looking into 2025, the market is pricing a little over one rate cut.**
- **Risky credits outperformed in 2024**. Credit spreads have drifted lower, most decisively in the last quarter. Consequently, corporate credit has outperformed, government debt performance has been positive (short- mid duration), although the capital loss has eaten up part of the coupon, and emerging markets have remained a top performer.
- **Despite a flurry of risk events - a tense US presidential election, Middle East renewed tensions, Ukraine persistent instability, European governments shakiness - equity volatility hit its lowest annual average since 2019. It has been a strong year for equities, driven by central bank rate cuts, steady economic growth, and enthusiasm for generative Artificial Intelligence (AI), with quality growth stocks (especially mega-cap information technology) outperforming and cyclicals gaining traction since mid-September amidst optimism about the economic outlook.** Encouragingly, 45% of S&P 500 companies outperformed their index over the past six months, a significant improvement from just 20% in mid-July. The “Magnificent 7” accounted for 63% of S&P 500 returns in 2023, and that share has stepped down to 47% in 2024. Market breadth has also improved in Europe, with 52% of STOXX 600 stocks outperforming their index, compared to 38% in late June. **Roughly half of the year returns of developed market equities can be attributed to earnings growth, which experienced a comeback after a year of flat growth in 2023.** Meanwhile, the other half of the performance this year can be attributed to a further rerating in global stock prices.
- The S&P 500 has hit 57 all-time highs this year, the 5th most in history. At 5,900, the S&P 500 is now 500 points above the highest 2024 year-end price target from Wall Street strategists and 21% above the average target (4’861).

Exhibit 13: High grade bonds have very attractive carry compared to history

Source: Bloomberg, Morgan Stanley Research

Exhibit 11: ROE differential for US versus ex US stocks sits well above historical averages



Source: MSCI, Datastream, Refinitiv Eikon, Morgan Stanley Research; Note: 'US' is represented by MSCI US, and 'RoW' by MSCI ACWI ex US.

UBS, Morgan Stanley, JPMorgan, BlackRock

2024 in review: bumpy path

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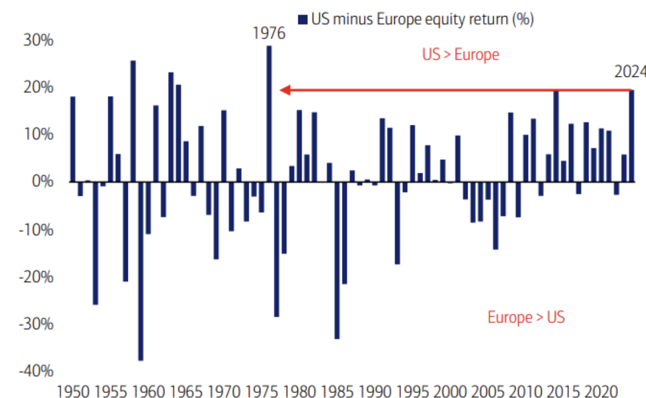
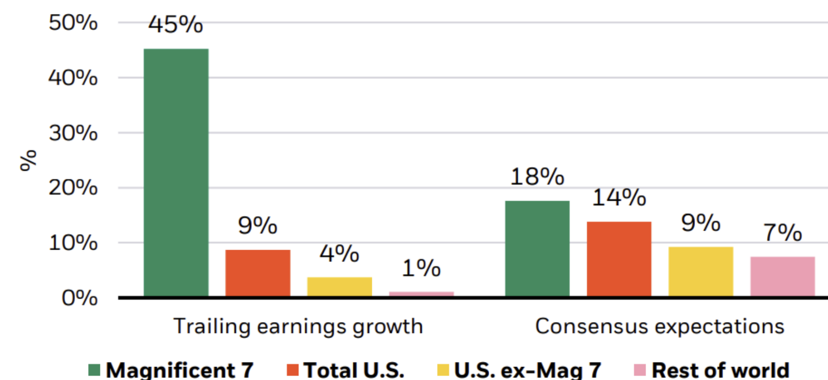
- **The S&P 500 is now on track to outperform global stocks for the 14th year out of the last 15. This is the longest streak in at least 75 years.** The S&P 500 climbed about 27% in 2024, making numerous record highs, and largely outpaced the MSCI World Ex-USA Index. The valuation gap has also widened with US stocks now trading at a record 60% premium to international peers based on forward P/E ratios. US stocks now make up 65% of the global equity market, their highest weighting in history. This is more than 11x bigger than the second largest country by market cap (Japan at 5.5%). While US valuations look rich, US macro fundamentals beat other major economies coupled with higher exposure to AI-related stocks, and ~60% of S&P 500 companies have positive EPS growth in Q3.24 versus ~50% in Q1.23. Europe is still struggling, with Q3 marking just its second straight quarter of earnings growth. The U.S. has posted 9% earnings growth in the last 12 months compared with just 1% for the rest of the world, LSEG Datastream data shows. Earnings for around half of European sectors are still in decline.
- **Considering alternative investments, the Bitcoin was a notable winner closing a second year with returns over 100%. Gold driven by geopolitical conflicts and high demand from central banks, with a rise of over 26%.** This is its highest annual increase in more than a decade; as it recorded 40 record highs throughout the year.





Forward looking estimates may not come to pass. Source: BlackRock Investment Institute, with data from LSEG Datastream, November 2024. Notes: The chart shows 12-month trailing earnings and consensus 12-month forward earnings expectations for the U.S., both including and excluding "magnificent seven" stocks, and the rest of the world ex-U.S. The magnificent seven includes Alphabet, Amazon, Apple, Microsoft, Nvidia, Meta Platforms and Tesla.

UBS, Morgan Stanley, JPMorgan, BlackRock, Bank of America

2024 in review: bumpy path

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Real Estate 15.89	Japan Equity 9.94	Latam Equity 31.04	Emerging Markets Equity 37.28	UST 0.86	USA Equity 31.47	Gold 25.12	USA Equity 28.68	Commodities 13.75	Latam Equity 32.71	Gold 27.22
USA Equity 13.67	USA Equity 1.37	High Yield Corp 17.13	Japan Equity 25.71	Gold -1.56	Europe Equity 26.84	Japan Equity 24.74	Real Estate 27.21	Latam Equity 8.92	Europe Equity 27.27	USA Equity 25
IG Corp 7.46	EM USD Corp + Sov 1.29	USA Equity 11.95	Europe Equity 25.44	High Yield Corp -2.08	Real Estate 23.06	USA Equity 18.39	Commodities 27.05	Alternatives 1.06	USA Equity 26.26	Balanced Allocation 10.53
UST 5.05	UST 0.84	Commodities 11.4	Latam Equity 23.74	EM USD Corp + Sov -2.46	Japan Equity 22.41	Emerging Markets Equity 18.31	Europe Equity 15.58	Gold -0.28	Japan Equity 21.86	Alternatives 9.87
EM USD Corp + Sov 4.76	Real Estate 0.05	Emerging Markets Equity 11.19	USA Equity 21.82	IG Corp -2.51	Balanced Allocation 19.34	Balanced Allocation 13.22	Balanced Allocation 11.21	High Yield Corp -11.19	Balanced Allocation 16.56	Japan Equity 8.68
Alternatives 4.13	IG Corp -0.68	EM USD Corp + Sov 9.88	Balanced Allocation 16.4	Alternatives -3.19	Emerging Markets Equity 18.42	IG Corp 9.89	Alternatives 8.23	UST -12.46	High Yield Corp 13.45	High Yield Corp 8.19
Balanced Allocation 3.2	Alternatives -0.71	Gold 8.14	Gold 13.53	USA Equity -4.39	Gold 18.31	UST 8	High Yield Corp 5.28	Europe Equity -13.97	Gold 13.1	Emerging Markets Equity 7.5
High Yield Corp 2.45	Balanced Allocation -1.78	IG Corp 6.11	Real Estate 11.42	Real Estate -4.74	Latam Equity 17.46	High Yield Corp 7.11	IG Corp -1.04	EM USD Corp + Sov -15.26	Real Estate 10.85	EM USD Corp + Sov 6.58
Gold -1.44	Europe Equity -3.6	Japan Equity 5.87	EM USD Corp + Sov 8.17	Balanced Allocation -5.71	IG Corp 14.54	EM USD Corp + Sov 6.52	EM USD Corp + Sov -1.65	IG Corp -15.76	Emerging Markets Equity 9.83	Europe Equity 4.67
Emerging Markets Equity -2.19	High Yield Corp -4.47	Balanced Allocation 5.34	High Yield Corp 7.5	Latam Equity -6.57	High Yield Corp 14.32	Alternatives 6.36	UST -2.32	Balanced Allocation -17.38	EM USD Corp + Sov 9.09	IG Corp 2.13
Japan Equity -4.16	Gold -10.41	Real Estate 4.99	Alternatives 7.12	Japan Equity -8.54	EM USD Corp + Sov 13.11	Europe Equity 6.05	Emerging Markets Equity -2.54	USA Equity -18.13	IG Corp 8.52	Real Estate 2
Europe Equity -7.86	Emerging Markets Equity -14.92	Europe Equity 1.76	IG Corp 6.42	Commodities -12.99	Alternatives 9.31	Commodities -3.5	Gold -3.64	Japan Equity -18.54	Alternatives 5.83	UST 0.58
Latam Equity -12.3	Commodities -24.7	Alternatives 1.25	UST 2.31	Emerging Markets Equity -14.57	UST 6.86	Real Estate -8.18	Japan Equity -4.39	Emerging Markets Equity -20.09	UST 4.05	Commodities 0.12
Commodities -17.04	Latam Equity -31.04	UST 1.04	Commodities 0.75	Europe Equity -15.45	Commodities 5.44	Latam Equity -13.8	Latam Equity -8.1	Real Estate -24.41	Commodities -12.55	Latam Equity -26.38

Bloomberg as of 31.12.2024

2025: Stable growth and easing inflation

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- **Global GDP growth is expected to reach 3.2% this year, and 3.3% in both 2025 and 2026.** The delayed effects of tighter monetary policy on growth are continuing to diminish, and further cuts in policy rates, as inflation declines, are anticipated to support interest-sensitive spending in 2025-26, particularly private investment. Ongoing disinflation will contribute to stronger growth in real household incomes, and in some countries, there is room for a further reduction in household savings ratios, which will support private consumption growth.

- **In OECD economies, GDP growth is projected to remain modest compared to the pre-pandemic period, at 1.9% in both 2025 and 2026, but in line with estimated underlying potential output growth**. In non-OECD economies, overall growth is expected to ease slightly, with emerging Asia continuing to be the main driver of global growth.

- **In the United States, GDP growth is projected to be 2.8% in 2024, 2.4% in 2025, and 2.1% in 2026. Growth in the euro area is expected to rise from 0.8% this year to 1.3% in 2025 and 1.5% in 2026, with spare capacity being fully absorbed by the end of 2026.** In China, economic growth is projected to gradually slow from 4.9% in 2024 to 4.7% in 2025 and 4.4% in 2026. Investment growth will benefit from monetary policy easing and increased government spending, with the local government special bond quota raised in November and recently announced stimulus measures likely to provide support

Table 1.1. Global GDP growth is projected to remain broadly stable over the next two years

	Average 2013-2019	2023	2024	2025	2026	2024 Q4	2025 Q4	2026 Q4
				Per cent				
Real GDP growth[1]								
World[2]	3.4	3.2	3.2	3.3	3.3	3.3	3.3	3.2
G20[2]	3.5	3.6	3.3	3.3	3.2	3.3	3.2	3.1
OECD[2]	2.3	1.8	1.7	1.9	1.9	1.8	2.0	1.8
United States	2.5	2.9	2.8	2.4	2.1	2.5	2.2	2.0
Euro area	1.9	0.5	0.8	1.3	1.5	1.1	1.4	1.5
Japan	0.8	1.7	-0.3	1.5	0.6	0.6	1.3	0.3
Non-OECD[2]	4.4	4.4	4.4	4.4	4.3	4.5	4.3	4.3
China	6.8	5.2	4.9	4.7	4.4	4.7	4.6	4.3
India[3]	6.8	8.2	6.8	6.9	6.8			
Brazil	-0.4	2.9	3.2	2.3	1.9			
OECD unemployment rate[4]	6.5	4.8	4.9	4.9	4.8	4.9	4.9	4.8
Inflation[1]								
G20[2,5]	3.0	6.1	5.4	3.5	2.9	4.4	3.1	2.8
OECD[6]	1.7	7.1	5.4	3.8	3.0	4.7	3.3	2.7
United States[7]	1.3	3.8	2.5	2.1	2.0	2.5	2.1	2.0
Euro area[8]	0.9	5.4	2.4	2.1	2.0	2.3	2.0	2.0
Japan[9]	0.9	3.3	2.6	1.9	2.1	2.3	1.7	2.1
OECD fiscal balance[10]	-3.1	-4.8	-4.8	-4.6	-4.4			
World real trade growth[1]	3.4	1.0	3.5	3.6	3.5	4.1	3.4	3.5

Figure 1.1. Global growth has been stable with services outperforming manufacturing activity

Note: In Panel A, annual growth denotes the change over the year to the quarter shown. Quarterly growth at a.r. denotes quarter-on-quarter growth at an annualised rate.
Source: OECD Economic Outlook 116 database; S&P Global; and OECD calculations.

OECD (December), OECD Economic Outlook, Volume 2024 Issue 2 – December 2024, OECD Publishing, Paris,

2025: Stable growth and easing inflation

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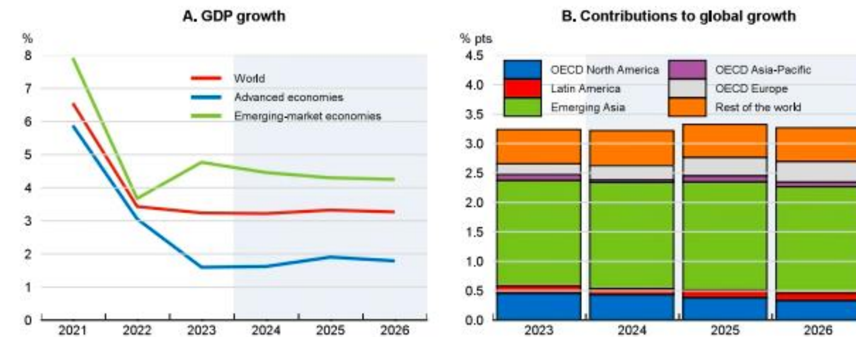
- Headline inflation has continued to decline in most countries throughout 2024, primarily driven by further reductions in food, energy, and goods price inflation. **In the median OECD economy, annual inflation dropped from 3.8% in October 2023 to 2.3% by October 2024.**

- **However, inflation in services prices remains persistent, standing at 4% in the median OECD economy in October.** Many countries have seen a prolonged shift in demand towards services since most pandemic-related restrictions were lifted in early 2022. This strong demand for services compared to goods, along with labour shortages in certain service sectors, has contributed to relatively rapid increases in service costs and prices.

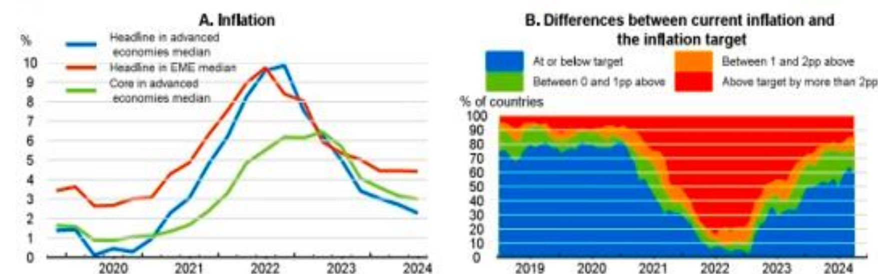
- **Housing costs, which are a part of services price inflation, have consistently put upward pressure on inflation in numerous countries, despite variations in how they are measured in national price indices.**

Figure 1.17. Global growth is projected to remain stable



Note: In Panel B, Emerging Asia comprises China, India, Indonesia and the Dynamic Asian Economies (Hong Kong (China), Malaysia, the Philippines, Singapore, Chinese Taipei, Thailand and Viet Nam). Latin America comprises Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico and Peru. Contributions calculated using moving PPP shares of global GDP.
Source: OECD Economic Outlook 116 database; and OECD calculations.

Figure 1.8. Inflation has continued to decline to be increasingly in line with central bank targets



OECD (2024), OECD Economic Outlook, Volume 2024 Issue 2 – December 2024, OECD Publishing, Paris,

Outlook Summary:
main providers

Outlook summary: main providers

	Fixed Income										Equities				Alternatives		
	Government			Investment Grade			High Yield										
	US	EU	Focus	US	EU	Focus	US	EU	EM	Focus	US	EU	EM	Focus	HF	CO	Focus
JPM Asset Mgmt	▼	▼	OW high-quality duration in securitized markets	▬	▬		▲	▲	▬		▲	▬	▬	OW Japan, India and Taiwan,	-	▬	
BlackRock	▬	▬	OW intermediate maturities	▼	▼	Prefer Europe over the US. OW short duration	▬	▬	▬	Prefer Europe HY over US.	▲	▼	▬	OW US large cap growth, quality. OW China & Japan	-	-	
Julius Baer	▼	▲	Broad exposure across the yield curve	▲	▲	Focus on BBB	▲	▼	▲	EM HC with quality bias	▲	▬	▬	OW quality and high free cash flows. IT, financials, HC & industrials	-	▬	Bullish copper, gold & silver
Morgan Stanley	▲	▲		▬	▬	Prefer Europe over the US. OW leverage loans & securitized	▼	▬	▲	EM HC	▲	▬	▼	Cyclical & secular-growth. OW Japan & India	-	▬	Selectively bullish in metals with a tactical bias in Brent
UBS	▬		OW intermediate maturities & OW Agency MBS	▲	▲		▬	▬	▬		▲	▬	▬	OW Asia ex-Japan, Eurozone S&M caps, and Swiss high-dividend stocks.	-	▬	OW gold & oil
Barclays	▬	▬	OW securitised credit	▲	▲	Neutral duration.	▬		▬	Focus on short-dated BB	▲		▬	OW high-quality, cash generative & conservatively capitalised. OW EW index	▼	▬	OW gold

Executive Summary: uncertainty overhang drives a wide bull-bear range as which policies are implemented by the incoming administration. However, moderate growth, disinflation, deregulation and monetary policy easing are all favorable for risk assets - especially equities. After underestimating the stock market's strength over the past two years, strategists are OW US equity over the rest of the world on strong fundamentals and the ability to produce free cash flow and healthy shareholder payouts. Neutral duration and OW towards the most protective segments of fixed income remain.

- **Fixed Income**: Most are overweight fixed income corporate vs government due to uncertainty of the US monetary policy rate path. Favoring quality (investment grade &securitized) and neutral duration. Emerging markets is neutral to OW, waiting for the implementation of proposals of the upcoming US administration.

- **Equity**: Expect continued positive returns in developed market equities, but at a more moderate pace, with earnings growth driving most returns. Quality and income segments will be best positioned to grow earnings in a slowing global economy. Japanese and Indian stocks are a consensus OW. Within sectors, financials is an OW on the grounds of deregulation. Prefer S&P 500 EW over MW as earnings broaden.

Our Main Scenario

Our main scenario

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<u>Central scenario</u>

The 2025 global economy is set to be mostly influenced by the implementation of US policies of the incoming administration. 2025 is expected to be another year of unbalanced growth, characterized by US outperformance- slowing but still resilient economy- and policy uncertainty, which will impact the Euro area and China the most. The Euro area should continue to see weak domestic demand, a drag on investment from global uncertainty and little help from global trade. China's growth is expected to underperform, lowering the overall emerging market outlook. Policy rates globally should also diverge, as the last mile of inflation convergence to targets will be bumpy and country specific. Nascent inflationary pressures and broad policy uncertainty spark greater Fed caution and sticky inflation means policy rates will settle well above pre-pandemic levels. Significant uncertainty around (geo)politics, the path for interest rates, and policy uncertainty may trigger bouts of market volatility.

<u>Impact to our allocation</u>

We maintain our up-in-quality bias as there is little room for error and uncertainty overhang. Within equity we stick to higher quality stocks - those with robust balance sheets, earnings growth, competitive advantage-. In fixed income, we keep favoring quality over yield.

- **Cash & equivalents**: Cash is still providing positive yield. However, as the yield curve shape continues to normalize toward its steeper slope, reinvestment risk is real on ultra short-duration bonds;
- **Fixed income**: Advanced economic cycle and monetary policy surprises might translate into fixed income volatility. We expect 2025 to be a year of carry (i.e. coupons clipping), without less capital gains. Fixed income continues to provide attractive yields even though spreads remain tight. A neutral duration stance seems appropriate, and investors should be on the lookout for rate volatility as a signal to extend duration selectively. For the last 40 years, over 80% of bond returns in the Bloomberg Aggregate Bond Index can be attributed to duration. As the yield curve shape continues to normalize toward its steeper slope, reinvestment risk is real on ultra short-duration bonds.
- **Equities:** We expect continued positive returns in developed market equities, albeit a deceleration from '23-24's pace, with earnings growth driving most returns. Nevertheless elevated valuations leave little room for error. Risk-on sentiment can persist thanks to the prospect of corporate tax cuts and deregulation. The S&P 500's near-record-high valuations are justified by the also-high ROE and better growth profile -the definition of high quality-. Hence quality metrics for the S&P 500 are much stronger than for non-US indices. The earnings growth differential between mega cap Tech and the rest of the index is expected to narrow, which should support a broadening of market leadership. Consensus expects 96% of companies in the S&P 500 to grow EPS by Q4.25, a record high. With the S&P 500 up ~50% over the last two years, history suggests more modest index gains going forward. Returns were most frequently in the 0-10% range following periods where the index was up 40-50% over a two-year period.
- **Diversification**: Diversification provides a more defensive stance to portfolios as investors will likely contend with volatility around shifting interest rates, geopolitics and elections. Therefore, we will keep on adding liquid alternative investments and protection tactically to provide portfolios with volatility cushion to absorb short term shocks.

Main risks to our scenario

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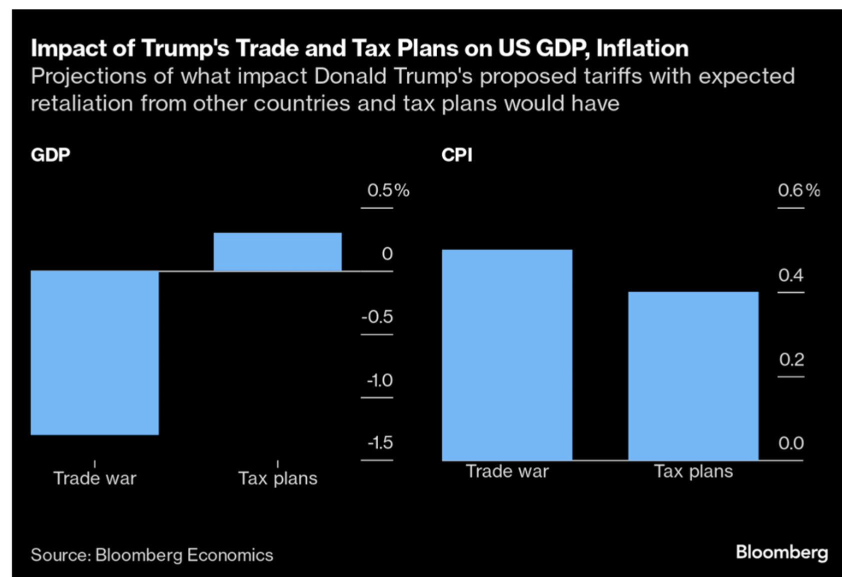
Higher for longer environment

- Some of the incoming Trump administration's measures reinforce the idea of **persistent inflation in the medium term and interest rates staying above pre-pandemic levels. Sticky inflation may prompt central banks to stop cutting rates** earlier in the cycle. If such an outlook spurs markets to flip-flop in their pricing of interest rates, bonds may not effectively hedge against any stock selloffs.

- The economic cycles advances highlighting differences in main developed markets, central banks are likely to adjust monetary policy at different speeds and possibly in different directions. **If they get too far out of sync with the Fed, that risks driving down their currencies, raising import prices and undermining progress in getting inflation towards target**.

- Despite the start the easing cycle, analysts point out advanced economies are facing an era of higher interest rates. There is a growing view in markets that the upcoming new US administration policies imply a higher terminal rate as well as a higher natural rate - a theoretical level of borrowing costs that neither stimulates nor slows growth - than what markets had been pricing for a long time.



Main risks to our scenario

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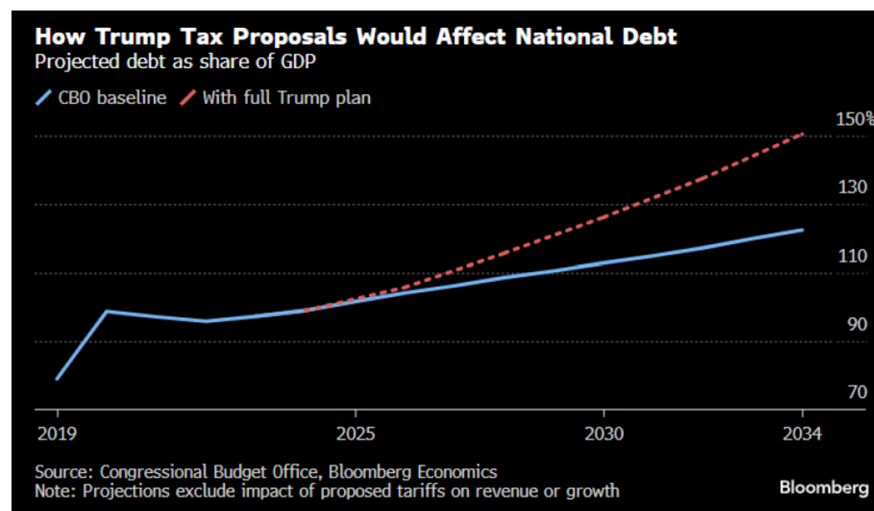
US fiscal policy & debt sustainability

- Persistent budget deficits is one factor behind higher long-term U.S. Treasury yields. **Investors demand more term premium, or compensation for the risk of holding duration**, given sticky inflation, persistent fiscal deficits and greater bond market volatility.

- The US debt trajectory and fiscal policy are of increasing concern. The fiscal outlook is highly uncertain, given the conflicting nature of Trump's policy proposals, **and could create significantly wide ranges for bond yields.**

- Trump's policy proposals would imply significant additional deterioration of the already weak fiscal position. **Trump's campaign plans would drive up the government budget deficit by as much as USD 7.75 trillion** over a decade, according to estimates by the Committee for a Responsible Federal Budget. That's more than quadruple the current size of the deficit.

- Treasury debt outstanding currently totals USD 27 trillion, more than six times the size of the US government debt market in mid-2007. The Congressional Budget Office projects that chronic deficits will lift the US debt pile to about USD 50 trillion by the end of 2034. **Interest costs on the debt, which stands at close to 125% of GDP, are on track to approach 60% of discretionary spending by 2030**.



Main risks to our scenario

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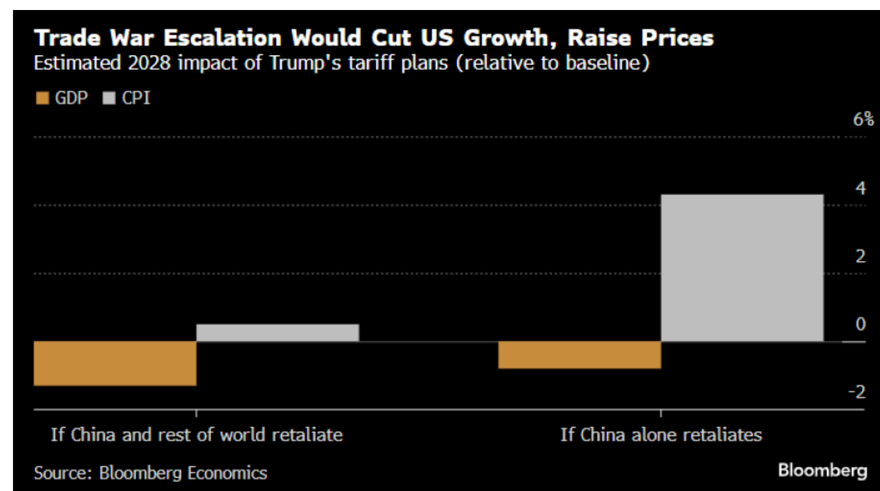
Geopolitics: prominent source of volatility

- The year 2024 was poised to be a landmark year for elections, with voters in countries representing half the world's population scheduled to participate (countries representing more than 60% of GDP going to the polls). Some of these contests turned out as expected. However, many of them surprised, some sharply as India and Turkey. Regardless of whether election outcomes were in line with polls or surprised, they had one broad theme in common: **voters overwhelmingly voted for change. In fact, 2024 was the first time on record that every governing party facing election in a developed country lost vote share**. As the excitement of the 2024 elections contests fades, 2025 will be the year when they translate into policy and, thus, become consequential.
- **Geopolitics will remain a prominent source of volatility in 2025, given the inherent conflict-proneness of the current multipolar world order and the growing degree of polarization**.
- With political polarization being the rule rather than the exception, changes in leadership bring associated significant changes in policies and, in turn, implementation risks. And when those policy changes originate in core countries, the implications can reverberate across the global economy.
- If implemented, the upcoming US administration policies could reinforce geopolitical fragmentation and economic competition. Tariffs are the most important global growth risk. The tariffs being proposed are much larger than those in ‘18/’19. US demand for the 2018/2019 tariffed goods has fallen by twice as much as the tariff rate. The economic impact of tariffs is, however, highly uncertain.



UBS, JPM, Barclays

Main Asset Classes

SunPartners

Asset Class	UNDERWEIGHT		NEUTRAL	OVERWHEIGHT		RATIONAL
Cash		●				We are positioned underweight (UW) in Cash & Equivalents to increase exposure to short-duration fixed income, as the Fed has started its rate-cutting cycle. However we still have liquidity in case opportunities arise in fixed income or equities.
Fixed Income				●		We continue to favour Investment Grade, MBS, and Treasuries, as they offer an attractive total expected return in a soft landing scenario. However, since spreads are tight, we are overweight (OW) but not to the highest extent. In High Yield, we prefer to focus on BB-rated bonds and quality. We favour holding an average mid-term duration and tactically increasing it during periods of volatility.
Equities			●			We have increased equity to neutral as we believe the strength of the American economy, together with Trump's victory and the reduction of rates may allow stocks to continue to rise for the next few months. We recommend having growth stocks and also defensive stocks such as HealthCare, Utilities or Consumer Staples. We suggest having broad market exposure with global stocks.
Commodities			●			Commodities remain a hedge for geopolitical risks. China demand growth will also play an important role in prices. We recommend gold as a diversifier to portfolios, while central banks continue to increase their positions.
Alternatives		●				Overall liquid alternative investments should continue playing the diversification role, specially during volatility spikes. We keep our cautious view of illiquid strategies

Sub Asset Classes – Fixed Income

Sub Asset Class	UNDERWEIGHT		NEUTRAL	OVERWEIGHT		RATIONAL
US Government bonds				● (previous)		In an environment of stable growth, high yields and tight corporate spreads we recommend to have a position in treasuries.
US Credit				● (previous)		IG provide interesting stable returns and income. Spreads are tight but in case credit spreads widen, IG should suffer less than HY.
US High Yield		● (previous)				We prefer to focus on higher quality, specially BB, short duration and senior secured bonds.
EUR Government bonds			●	(previous)		Europe started to decrease rates earlier and yields are lower than in other developed countries
EUR Credit				● (previous)		Credit spreads are wider in Europe than in US and there is an opportunity for blue chips IG companies.
EUR High Yield		● (previous)				Expecting default rates to rise, be selective. There are opportunities in specific sectors.
EM Bonds				● (previous)		Emerging markets offer an interesting spread relative to advanced economies. There are opportunities in both local and hard currency. Latam HY still atractive.
Perpetuals / Convert		●	(previous)			Perpetuals could provide an extra cashflow, be selective in the quality of the issuer and reset terms. Nonetheless, spreads are tight and could widen.
Alternative bonds			● (previous)			Liquid long/short and FX strategies still provides diversification within a traditional fixed income allocation

Sub Asset Classes – Equity and Alternatives

Sub Asset Class	UNDERWEIGHT		NEUTRAL	OVERWEIGHT		RATIONAL
US Equity			●			We increased our position in US equities as we expect earnings growth and a favorable environment for corporations with Trump's victory. We favour S&P500 equally weight vs S&P500 as valuations are more attractive.
EUR Equity			●			We remain neutral on Europe, given better relative valuations compared to other developed markets. However, Europe is facing numerous macroeconomic challenges.
EM Equity			●			Valuations are more attractive than other regions and growth is expected to be above DM. The trade war and tariffs between the US and China will have a significant impact.
Alternative Equity			●			Liquid long/short strategies help to manage Beta of portfolio and provide diversification and partially absorb volatility
PE / Real Estate	●					High rates do not contribute to leverage in Private Equity and Real Estate markets.

Sources: all sources have been mentioned on the presentations. Views are issued from the yearly research of each bank or asset manager respectively.

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