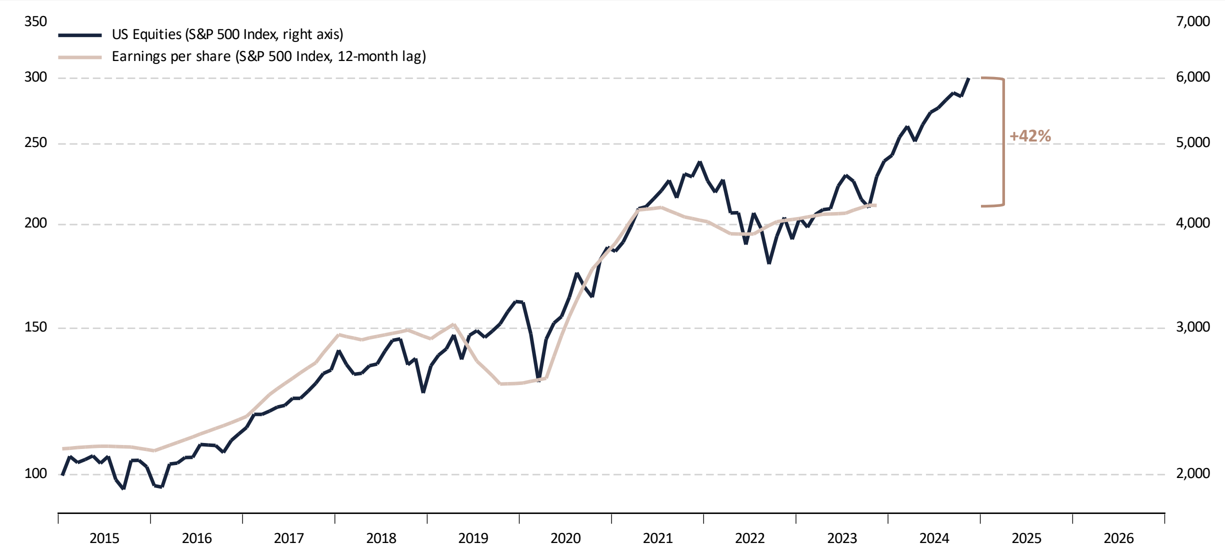
weekly investment focus

The flexiweekly that reaches new heights - published on 2 December 2024

"2025 OUTLOOK: WHERE ARE THE PARACHUTES?"

- The economic cycle is slowing down further
- Rates will continue to fall, giving an advantage to bonds
- Stock markets have been too optimistic over the last two years
- Fortunately, there are numerous, varied and effective protection tools available

CHART OF THE WEEK: "42% earnings growth in 2025, is it possible?"

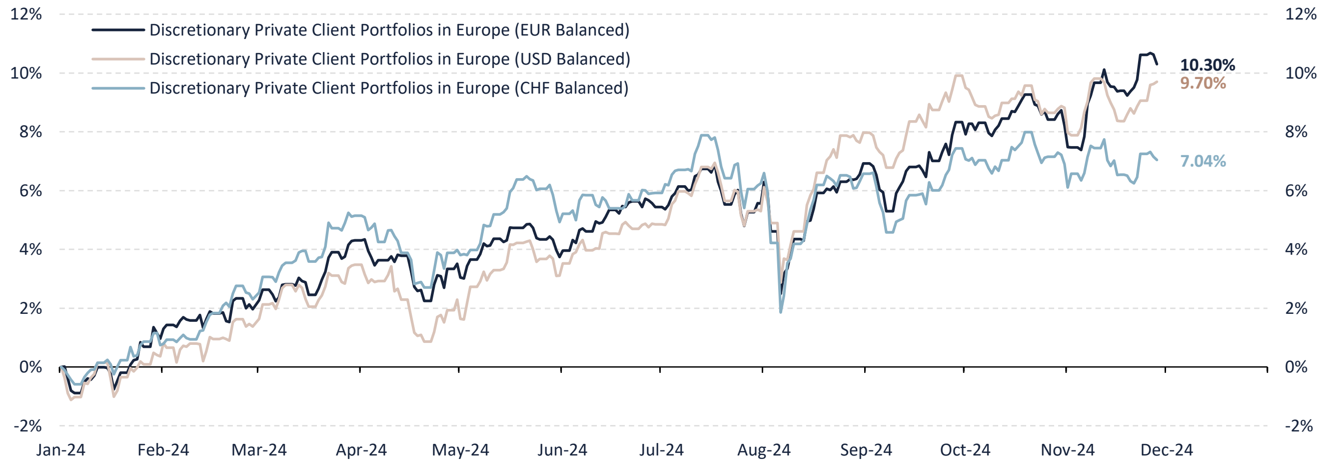


Source: Bloomberg, Altitude IS

FINANCIAL MARKET ANALYSIS

Whereas 2020 was the year of the covid pandemic, 2021 the year of exuberance, 2022 the year of the double bear market, and 2023 the year of recovery, 2024 will have been the year of euphoria. So far, all asset classes have delivered positive returns, with bonds performing poorly and equities and gold performing exceptionally well. Investment professionals have therefore had no difficulty in delivering strong performances. Balanced portfolios were up by an average of 10% (see Fig. 2), as much as last year. **The time has now come to set out the macroeconomic and financial scenario for 2025. Let's get straight to the point: <u>it will be important to know where the parachutes are, because this could well be the year of the big jump</u>!**

Fig. 2 - Performance of balanced portfolios in 2024

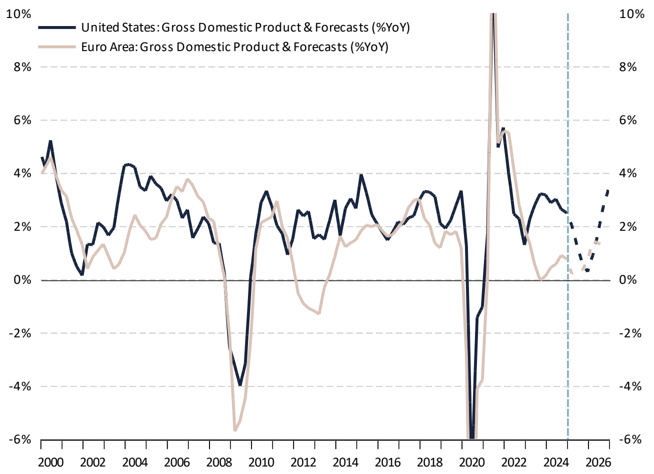


Source: Bloomberg, Altitude IS

To forecast what the coming year holds for investors, we continue to rely on proprietary econometric models. Over the last few years, their estimates have proved imperfect but mostly successful and, above all, profitable. The main advantage of this quantitative approach is that it avoids the behavioural biases inherent in human beings, thus guaranteeing objectivity.

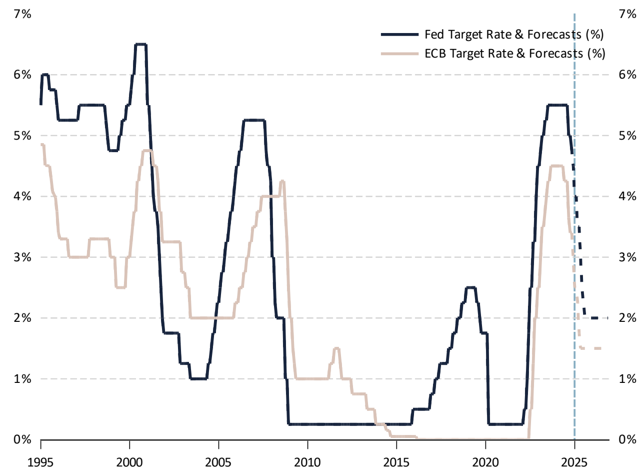
According to this quantitative approach, the economic cycle is in the process of accentuating its slowdown. In the United States, the landing scenario will materialise as employment figures deteriorate. On the Old Continent, activity is even set to contract, leading the main European countries into recession (see Fig. 3). Against this backdrop, it is fair to assume that the easing of central bank monetary policy, implemented in 2024, is not yet over (see Fig. 4).

Fig. 3 - Economic growth



Source: Bloomberg, Altitude IS

Fig. 4 - Key central bank interest rates



Source: Bloomberg, Altitude IS

Rate cuts will continue at least until the end of the first half of the year. They will be useful in combating the economic crisis, but they will probably not offer as powerful a support as in the past. With rates having risen sharply and rapidly, despite the ongoing easing of monetary policy, businesses and households will continue to suffer from a high interest rate environment, the recessionary impact of which will continue to spread to the various sectors of the economy: low order books, a fall in investment, an increase in the number of bankruptcies, destruction of jobs (see Fig. 5), a slowdown in international trade, a contraction in credit and higher interest charges.

Fig. 5 - Unemployment rate

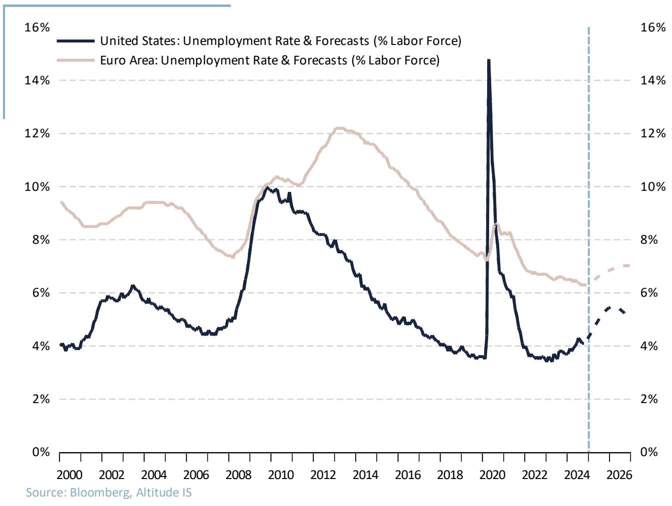
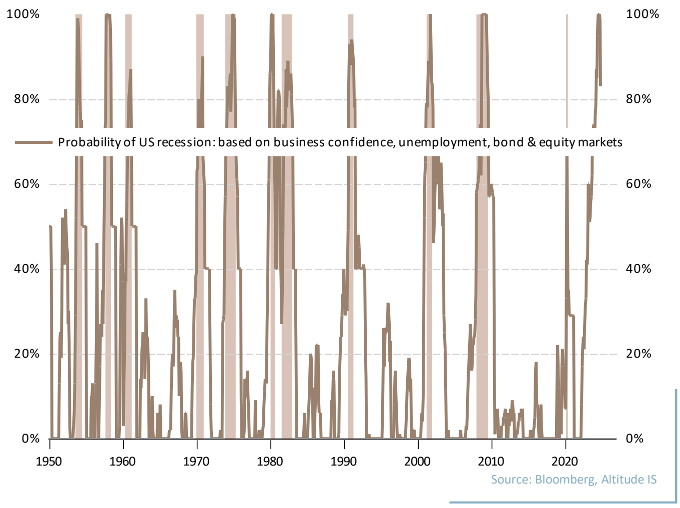


Fig. 6 - Probability of recession in the US



Far from the investor consensus, our econometric modelling paints a crisis scenario for 2025. This outlook may turn out to be too pessimistic, but it does have the advantage of highlighting the main risks for the year ahead. The probability of recession remains extraordinarily high (see Fig. 6). The various leading indicators will have to begin a serious recovery in order to avert this risk, so that a sustainable recovery can be expected in 2026.

Fig. 7 - Valuation and allocation to equities

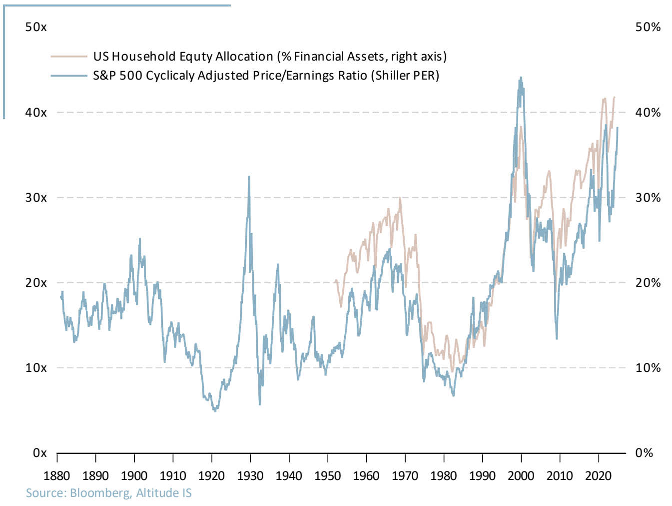
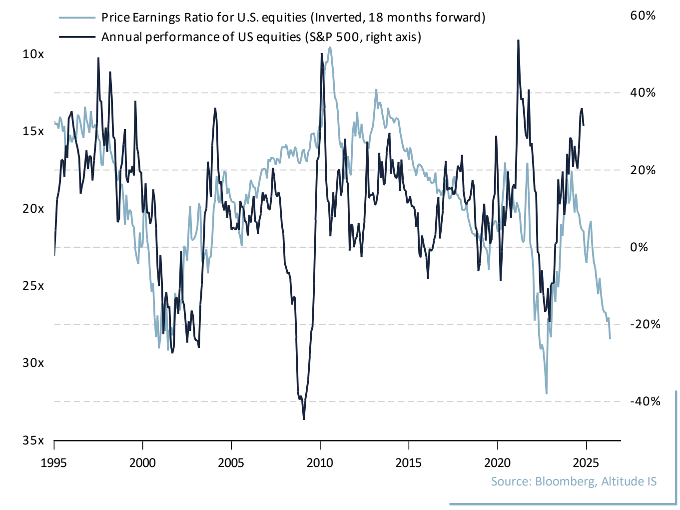


Fig. 8 - Equity performance by valuation



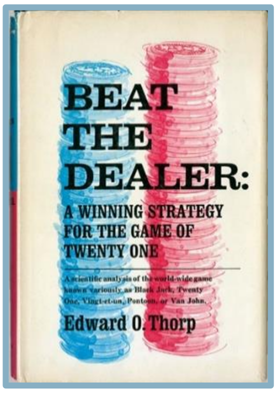
Stock markets have been far too optimistic, rising 50% in two years while earnings have stagnated (see Chart of the Week). With valuations and equity allocations close to all-time highs (see Fig. 7), the risk of a sharp fall is very high (see Fig. 8). Without prejudging the timing of the big jump, **investors would do well to know now where the parachutes are, otherwise the performance of their portfolios is likely to crash in 2025. <u>Fortunately, there are numerous, varied and effective protection tools available</u>:**

reducing equity allocation, overweighting sovereign bonds, lengthening duration, using steepeners, implementing hedging strategies, favouring defensive sectors such as healthcare, consumer staples and promising themes, diversifying into US mid-caps and also Switzerland and the UK, China and Vietnam.

Summary of the 2025 scenario:

- Sharp economic slowdown driven by weak private consumption
- Unemployment rate rises above 5% of the working population
- Inflation stabilises slightly above 2%
- Key rates cut from 4.5% to 2.0% for the Fed, from 3.0% to 1.5% for the ECB
- Long rates oscillate around current levels
- Yield curve steepens towards 100 basis points
- Preference for duration over credit risk
- Stock market correction of -20% between peak and trough
- Rebound in volatility on the various financial markets
- Focus on healthcare and consumer staples sectors, as well as energy, gold mining and anti-obesity drugs, followed by US mid-caps once the recession bottoms out
- Diversification into Switzerland, the United Kingdom and the Nordic countries, as well as China and Vietnam
- Weakening of the dollar to 1.10, then 1.15 for 1 euro
- Swiss franc depreciates slightly against the euro thanks to SNB intervention
- Sterling recovers after several years of weakness
- Stabilisation of the ounce of gold

Conclusion:



Some will criticise us for being too pessimistic. We're almost tempted to agree with them, but our analyses are devoid of emotion. They are based on economic data, mathematics and probabilities. With this objectivity and a little patience, it is possible to make a fortune. This was explained by Edward O. Thorp, the author of the first blackjack card-counting method, when he published his book *"Beat the dealer"* in 1962.

Here's a good idea for holiday reading: well-informed investors will be able to draw parallels with the high probability of economic recession and the excessive valuation of stock markets... Taking the analogy a step further, let's say that most of the high cards have already been drawn in 2023 and 2024. The table is “cold” in 2025!

RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2024 Year-to-Date (%)	2023 (%)	2022 (%)
Equities							
World (MSCI)	862.5	62.20	1.0%	3.8%	20.9%	22.8%	-17.9%
USA (S&P 500)	6 032	65.47	1.1%	5.9%	28.1%	26.3%	-18.1%
USA (Dow Jones)	44 911	69.24	1.4%	7.7%	21.2%	16.2%	-6.9%
USA (Nasdaq)	19 218	61.17	1.1%	6.3%	28.9%	44.7%	-32.5%
Euro Area (DJ EuroStoxx)	498.8	49.40	0.3%	0.1%	8.7%	19.5%	-11.4%
UK (FTSE 100)	8 287	59.88	0.4%	2.6%	11.0%	7.7%	4.6%
Switzerland (SMI)	11 764	48.40	0.4%	-0.2%	9.1%	7.1%	-14.3%
Japan (Nikkei)	38 487	45.95	-0.2%	-2.2%	16.0%	31.0%	-7.3%
Emerging (MSCI)	1 079	32.97	-0.8%	-3.6%	8.1%	10.2%	-19.8%
Brasil (IBOVESPA)	125 668	38.24	-2.7%	-3.1%	-6.3%	22.3%	4.7%
Mexico (IPC)	49 813	35.40	-1.1%	-1.2%	-10.9%	22.4%	-5.8%
India (SENSEX)	79 779	51.56	0.9%	0.6%	11.9%	20.3%	5.8%
China (CSI)	3 933	49.75	1.3%	0.7%	17.5%	-9.1%	-19.8%
Com. Services (MSCI World)	122.4	57.30	1.9%	2.5%	29.1%	38.1%	-35.3%
Cons. Discretionary (MSCI World)	414.2	64.29	2.1%	7.4%	18.4%	29.5%	-31.5%
Cons. Staples (MSCI World)	285.6	60.38	1.6%	2.1%	9.3%	3.2%	-6.0%
Energy (MSCI World)	259.2	53.29	-1.7%	4.3%	10.7%	6.0%	34.5%
Financials (MSCI World)	187.1	70.78	1.0%	6.6%	29.9%	16.4%	-9.2%
Health Care (MSCI World)	371.5	48.46	2.2%	-1.0%	7.9%	4.1%	-5.7%
Industrials (MSCI World)	400.1	61.40	1.1%	4.1%	19.6%	22.5%	-12.6%
Info. Tech. (MSCI World)	761.9	54.56	0.1%	4.3%	30.6%	51.4%	-30.9%
Materials (MSCI World)	332.8	44.58	0.3%	-1.9%	0.2%	12.6%	-11.0%
Real Estate (MSCI World)	1 028	58.50	1.8%	2.4%	7.6%	5.3%	-26.6%
Utilities (MSCI World)	172.2	58.11	1.4%	1.0%	20.6%	1.6%	-3.8%
Bonds (Bloomberg)							
World (Aggregate)	3.52%	58.24	1.8%	0.3%	0.5%	5.7%	-16.2%
USA (Sovereign)	4.22%	61.95	1.4%	0.8%	2.2%	4.1%	-12.5%
Euro Area (Sovereign)	2.53%	73.76	1.2%	2.3%	3.3%	7.1%	-18.5%
Germany (Sovereign)	2.02%	74.19	1.2%	2.4%	2.1%	5.6%	-17.8%
UK (Sovereign)	4.22%	63.09	1.2%	1.8%	-1.2%	5.6%	-17.1%
Switzerland (Sovereign)	0.40%	75.27	0.8%	1.6%	5.8%	7.9%	-12.5%
Japan (Sovereign)	0.83%	41.50	0.2%	-0.8%	-1.8%	0.9%	-2.8%
Emerging (Sovereign)	6.84%	67.44	0.5%	1.9%	8.6%	11.0%	-17.4%
USA (IG Corp.)	5.05%	62.27	0.5%	1.8%	4.1%	8.5%	-15.8%
Euro Area (IG Corp.)	3.06%	73.16	0.5%	1.5%	5.1%	8.2%	-13.6%
Emerging (IG Corp.)	6.38%	62.23	0.3%	0.8%	7.9%	6.7%	-14.9%
USA (HY Corp.)	7.14%	73.09	0.2%	1.1%	8.7%	13.4%	-11.2%
Euro Area (HY Corp.)	5.76%	83.28	0.1%	0.6%	7.5%	12.1%	-10.6%
Emerging (HY Corp.)	8.37%	72.67	0.2%	2.1%	15.3%	13.1%	-12.4%
World (Convertibles)	454.2	73.89	1.0%	4.3%	12.8%	12.3%	-18.2%
USA (Convertibles)	623.0	76.49	0.8%	6.2%	14.6%	14.6%	-20.1%
Euro Area (Convertibles)	232.3	74.14	0.6%	3.6%	14.4%	7.3%	-11.1%
Switzerland (Convertibles)	251.1	33.56	0.0%	-3.7%	-6.7%	5.8%	-19.1%
Japan (Convertibles)	223.1	52.48	0.0%	-0.2%	4.8%	7.6%	-1.3%
Hedge Funds (Bloomberg)							
Hedge Funds Industry	1 584	75.73	n.a.	-0.5%	9.3%	7.8%	-6.9%
Macro	1 323	63.92	n.a.	-1.7%	5.8%	1.6%	1.3%
Equity Long Only	2 212	67.58	n.a.	-2.0%	12.0%	15.9%	-16.4%
Equity Long/Short	1 657	75.40	n.a.	-0.2%	12.7%	7.7%	-10.7%
Event Driven	1 702	73.29	n.a.	-0.4%	7.3%	7.3%	-4.7%
Fundamental Equity Mkt Neutral	1 625	93.26	n.a.	0.7%	10.6%	6.6%	2.3%
Quantitative Equity Mkt Neutral	1 643	81.98	n.a.	-0.4%	8.4%	7.8%	-2.0%
Credit	1 584	87.04	n.a.	0.2%	7.7%	8.1%	-5.0%
Credit Long/Short	1 607	90.14	n.a.	0.5%	8.6%	11.2%	-1.4%
Commodity	1 759	82.25	n.a.	2.4%	12.7%	7.3%	10.5%
Commodity Trading Advisors	1 314	51.95	n.a.	-3.2%	5.6%	-3.6%	5.3%
Volatility							
VIX	13.51	36.12	-11.4%	-41.7%	8.5%	-42.5%	25.8%
VSTOXX	16.96	43.49	-5.6%	-21.9%	24.9%	-35.0%	8.4%
Commodities							
Commodities (CRB)	535.7	n.a.	0.4%	0.3%	5.0%	-8.0%	-4.1%
Gold (Troy Ounce)	2 626	n.a.	0.0%	-4.0%	27.3%	13.1%	-0.3%
Silver (Troy Ounce)	30.16	n.a.	-0.5%	-7.1%	26.7%	-0.7%	2.8%
Oil (WTI, Barrel)	68.72	n.a.	-4.2%	-4.5%	-4.1%	-10.7%	4.2%
Oil (Brent, Barrel)	74.27	n.a.	-2.4%	4.2%	-4.3%	-4.5%	5.5%
Currencies (vs USD)							
USD (Dollar Index)	106.25	56.50	-1.2%	1.9%	4.9%	-2.1%	8.2%
EUR	1.0532	40.42	0.4%	-3.2%	-4.6%	3.1%	-5.8%
JPY	150.36	58.50	2.6%	1.2%	-6.2%	-7.0%	-12.2%
GBP	1.2698	44.45	1.0%	-2.0%	-0.3%	5.4%	-10.7%
AUD	0.6506	43.26	0.0%	-1.2%	-4.5%	0.0%	-6.2%
CAD	1.4024	40.54	-0.3%	-0.9%	-5.6%	2.3%	-6.8%
CHF	0.8841	43.37	0.2%	-2.3%	-4.8%	9.9%	-1.3%
CNY	7.2672	27.35	-0.3%	-2.3%	-2.3%	-2.8%	-7.9%
MXN	20.424	44.42	-0.6%	-1.6%	-16.9%	14.9%	5.3%
EM (Emerging Index)	1 748.6	42.31	0.2%	-0.9%	0.5%	4.8%	-4.3%
XBT	96 353	n.a.	0.0%	38.6%	126.7%	157.0%	-64.3%

Source: Bloomberg, Altitude Investment Solutions

Total Return by asset class (Negative \ Positive Performance)

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