BBGI GROUP Global Investments

Investment strategy

January 2025

"THERE IS A BEAUTY THAT REMAINS WITH US AFTER WE'VE STOPPED LOOKING."

CORY RICHARDS,
PHOTOGRAPHER AND EXPLORER, WEARS THE
VACHERON CONSTANTIN OVERSEAS.

CONTACT US +41 22 580 1755

TABLE OF CONTENTS

Introduction

4 Letter to Investors - Investment Climate

Big picture

5-6 Main Convictions

Economic scenario by region

8-10 Global Outlook
11-15 United States
16-19 Switzerland
20-23 Eurozone
24-26 United Kingdom
27-28 Japan
29-30 China
31-32 United Arab Emirates
33-35 Emerging Market

Prospects and strategies by asset class

38-40 Currencies
41-43 International Bonds
44-45 Swiss Bonds
46-48 International Real Estate
49 Swiss Real Estate
50-52 International Equities - Regions
53 International Equities - Sectors
54 Swiss Equities
55 Swiss Equities - Sectors
56-57 Commodities
58 Alternative Investments - Hedge Funds & Private Equity

Global strategy - Asset allocation

60 CHF Portfolio
61 EUR Portfolio
62 USD Portfolio

Investment theme - Focus

64-66 Positive outlook for crude oil prices and the oil industry in 2025

INTRODUCTION

Letter to Investors - Investment Climate

- A year-end disrupted by the risks of the Trump program
- Announced tariff hikes seen as highly inflationary
- Federal Reserve suggests pause in rate easing cycle
- 100 bp sharp rate reaction penalizes bond and real estate markets
- Serious and growing threats to an already slowing US economy
- Fed should not hesitate to cut rates to counter growing concerns

The last quarter of 2024 was marked by the US presidential elections and by major changes in the perception of political and economic risks that extended beyond the US alone. Donald Trump's return to the White House in January 2025 triggered major changes in people's assessments of possible developments in terms of economic growth, fiscal and budgetary policies, and inflationary risks, linked in particular to his clearly stated intention to raise customs barriers by imposing higher tariffs on China, Mexico and Canada, three countries accounting for 45% of US imports. The first visible reactions in the financial markets were linked to the positive consequences for US equities of a lower tax rate on corporate profits. Earnings forecasts for 2025 were buoyed by this anticipation, and enabled the equity markets to continue their rise of the first nine months, with the S&P500 adding a modest +2.39% in Q4 to end the year on a high of +25%. At the same time, fears of inflationary effects due to rising tariffs rapidly affected expectations of Fed rate cuts, which were abruptly reduced from six expected cuts of 0.25% to just two before June 2025. The Fed chairman made no secret of his concern about the significant risks to inflation posed by Trump's program, suggesting that caution and pause were called for before further rate cuts. Trump's protectionist policy, perceived as inflationary, pushed Fed funds rates for June 2025 up from 3.1% to 4.1% and 10-year Treasury rates from 3.6% to 4.6% in the space of a few weeks. US bond markets plummeted, dragging other Western markets with them for no reason, wiping out the positive performance of the first part of the year. Faced with the sharp rise in interest rates, securitized real estate indices failed to resist and also fell. While Trump's policies are often described as “pro-business”, particularly in view of his lower corporate tax rates and his desire to reduce burdensome regulations, it is no longer certain that their implementation will be conducive to American growth. The latter had already had to withstand the sharpest rate hike in its recent history over the past three years, before the Federal Reserve decided that the risks of an economic slowdown far outweighed the risks of a rebound in inflation, and finally began a phase of monetary easing in September 2024. At that point, it judged the risks of a slowdown to be sufficiently great to lower its key rate significantly by 0.5%. This decision paved the way for a positive cycle of rate cuts, which was to reduce key rates from 5.5% to 3% in 2025, in a context where inflation had already fallen from +9.1% (June 2022) to +2.4% (September 2024) and was approaching the +2% target. Job creation was at an all-time low in September, as was consumer confidence. At the start of 2025, uncertainties abound, once again threatening the equilibrium of financial markets. The creation of the DOGE (Department of Government Efficiency) has raised fears of major shocks for the US economy, while Elon Musk and Vivek Ramaswamy, who will head it up, have announced $2 trillion in budget cuts, suggesting that federal agencies be reduced from 400 to 100 and that up to 75% of federal employees be laid off by July 4, 2026. Such a drastic reduction may never be achievable, but the direction is clearly suggested, with a potentially positive long-term impact on the budget and on the possibility of debt reduction relative to GDP, but with damaging consequences for employment and confidence. The year 2024 therefore ended with potentially worrying prospects for the rapid implementation of Trump's program, which would logically have major repercussions on household confidence, consumption and business investment in the short term. It therefore seems to us that this program has other implications which should be considered more important from an economic point of view in assessing the next evolution of the Fed's monetary policy than just the inflationary risks evoked by J. Powell. If the markets now consider that imported inflation will be high enough for the Fed to change its policy and refrain from cutting key rates, the possible consequence for growth could be very damaging. For if the economy were already showing sufficient signs of weakness in September 2024 to motivate the Fed to reverse its monetary policy, the loss of household confidence in the face of these uncertainties would only reinforce the weakening of economic momentum underway in early 2025. The New York Fed's Q4 growth forecast has fallen from +3% to +1.8%, and is now at an eighteen-month low. The rise in mortgage rates above 7% is already taking its toll on mortgage applications, which are down for the fourth week running. More generally, the sharp rise in financing costs seen in December seems unsustainable for many economic agents, suggesting a likely rise in defaults and bankruptcies. Having probably overestimated the inflationary risk of Trump's policies, financial markets seem to be underestimating the growing risk of a downturn in US activity as early as Q1 2025. While inflationary risks could occur in the 2nd half of the year, the current excessively high level of interest rates is already threatening growth. Perhaps the Fed will realize in time that the risks of recession are increasing, and will then not pause in the current cycle of rate cuts. In our view, the Fed should not hesitate to cut rates on January 29 and March 19, against all expectations, triggering further declines in long-term rates and bringing a little more serenity to a particularly uncertain environment.

Alain Freymond
Associé & CEO
BBGI Group

BIG PICTURE

Main Convictions

- The threat of imported inflation must be kept in check
- The Fed must counter rising uncertainties and growing risks of a slowdown
- Market correlation will also work when rates are readjusted downwards
- Improved investment climate will depend on Trump's clarifications and a rate cut

The threat of imported inflation must be kept in check

Donald Trump's political and economic program comes as no real surprise, in that it is largely a continuation of the action already declared during the campaign and partly already implemented during his first term in office. However, it was not until the run-up to the elections that the spectre of the inflationary effects of Donald Trump's protectionist policy suddenly resurfaced. And yet, while no one really knows how the principle of higher taxes on US imports will be applied, the general perception in the markets is that a serious inflationary impact will be the consequence. While it is true that, in principle, an increase in customs duties, all other things being equal, would raise import costs and potentially production costs, and then consumer prices, it is difficult to measure the likely impact today. To date, the roadmap is not known, either as regards the final list of countries and products, or the scale of the increases concerned. If historical analysis is any guide, it should be remembered that during his first term in office, the rate hikes decided upon were introduced progressively, and did not affect all countries and products, but only a specific selection. Moreover, the CPI index actually remained relatively stable centered around +2% between 2017 and 2020 before falling at the start of the Covid. Even more astonishing, the import price index already at +3% (YOY) at the start of 2017 gradually declined into negative territory in 2019 before the Covid and falling to -7% in 2020. Economic growth was then positive in 2017 before falling from +4.6% to +0.6% at the end of 2018 after the introduction of higher tariffs. During the 1st Trump presidency, the dollar actually fell by -10% in its first year, which should have contributed to a sharper rise in imported inflation. The logic was therefore not so simple in 2017 and 2018. Long rates had initially fallen to land on the level of annual inflation between 2% and 2.5%, before rising back up to 3% and supporting a weakening dollar in 2017. So what are we to make of this main source of uncertainty, namely the anticipation of a return of inflation sufficiently significant to totally call into question the monetary easing policy undertaken by the Fed just three months ago? Is it really reasonable and justified to consider that imported inflation could cause such a disruption to prices that the Federal Reserve would have to put its policy on hold? Over the past three months, the financial markets have decided to scare themselves by anticipating the worst for inflation, forgetting to take into account the fact that current rates are already much higher (200bp) than annual inflation. U.S. imports represent 14% of GDP, and while the three main countries mentioned (China, Mexico and Canada) account for almost half of this, it's premature to assume that all of them will be hit by increases. Finally, it should not be forgotten that a rise in imported prices can also be offset by an appreciation of the dollar, as well as by an improvement in corporate productivity or a reduction in margins. Consequently, we believe that current fears, while not totally unjustified, are potentially excessive, while the 2017-2018 period, which could be a proxy for the next two years, does not show a massive rise in imported inflation and consumer prices justifying a massive rate hike. Inflationary fears seem excessive to us and will have to be reasoned with.

The Fed must counter rising uncertainties and growing risks of a slowdown

The U.S. central bank had embarked on a new program of rate easing, lowering its key rates for the first time since 2022 in September 2024. By international standards, this move came relatively late, with a further postponement of the decision at the June 2024 meeting, only to be followed by a sharper 50-bp cut in September. At the time, the Bank was no doubt convinced that inflation had come down sufficiently for it to loosen its grip on key interest rates, while continuing to reduce the size of its balance sheet. Over the past few months, it had indirectly contributed to tensions in the government bond market by not renewing positions held in maturing Treasury bonds, and by withdrawing more than 100 billion of liquidity per month. Its Quantitative Tightening program enabled it to reduce its balance sheet by 25% in two years, bringing it back to its April 2020 level. However, in the space of a few weeks, the Federal Reserve has significantly modified its assessment of the potential evolution of the US economy in the face of numerous policy statements by Trump and his entourage, notably on tariffs and the risks of a resumption of inflation. By noting that uncertainties were high and that this was enough to justify a cautious approach to rate cuts, the Fed certainly encouraged financial markets to consider that it would pause in its rate-cutting strategy. This was all it took for expectations to adjust, erasing four expected program cuts.

In our view, the 100 bp rebound in Fed Funds is certainly excessive and not based on solid fundamentals, as is the rise in long rates. The Fed should quickly realize that the market expectations of recent weeks are weighing on household and business confidence. After a brief phase of post-election euphoria, uncertainties are clearly on the rise, and economic agents are already reacting negatively to rising rates. The Federal Reserve should observe these factors and perhaps realize that the risks of imported inflation are not so high. By adopting a cautious stance, however, it is allowing a feeling of uncertainty to develop, which could well have a more negative impact on consumption from the start of the year than expected. The central bank has put itself in a difficult position by seeking to ensure sufficient room for manoeuvre in the face of the risks posed by Trump's policies. It has de facto provoked an excessive shift in market expectations, which are now putting the economy's growth path in even more concrete jeopardy. The risks of a slowdown have risen sharply in our view, and need to be quickly contained by more committed Fed stances. In our view, the best way out would be for the Fed to announce the end of its QT at its next meeting on January 29.

Market correlation will also work when rates are readjusted downwards

As is often the case, the correlation of Western bond markets has been very high over the last few months, with very similar increases in long-term government yields between markets with quite different macroeconomic conditions. In the USA, inflation remained relatively stable at between +2.4% and +2.7%, while US Treasury yields jumped by 100 bps on fears of inflationary effects induced by the more aggressive tariff policy. In the UK, ten-year government yields followed suit, rising from 3.8% to 4.8%. Government yields in Canada (+50bp to 3.35%) and Australia (+70bp to 4.5%) also rose to a lesser extent, while in Europe, yields rebounded almost everywhere by the same magnitude. A rapid rise of around 55 bps pushed government yields to 2.55% in Germany, 3.35% in France and 3.65% in Italy, for example. However, the macroeconomic context seemed to be quite different in these various countries, particularly on the inflation front, which should logically be the main parameter for adjusting interest rates. Indeed, during this period, Australian CPI rebounded by just 0.2%, while remaining at 2.3%, very close to the central bank's target. In Canada, the rebound from +1.6% to +1.9% was only +0.3%, while CPI levels stabilized well below +2%. In the eurozone, French inflation edged up from +1% to +1.3%, but remained extremely low. The rise in Italy was certainly stronger, but with an annual CPI of +1.4%, Italian inflation is still clearly under control. The situation in Germany seemed more problematic, with a more marked rise from +1.7% to +2.6%, but for the eurozone as a whole, the inflation aggregate rose back above the +2% target to stand at +2.4% at the end of the year. Inflation in the UK was similar, ending the year on a recovery path at +2.6%.

Overall, therefore, interest rates in most countries underwent greater adjustments than would have been justified by recent year-end price trends in their respective countries. The influence of US interest-rate dynamics was thus decisive in the adjustment of investor expectations, and exacerbated tensions in other countries. The correlation between interest-rate markets is not a new phenomenon, even if it does lead to temporary disconnections between the specific economic reality of certain countries and their interest-rate levels.

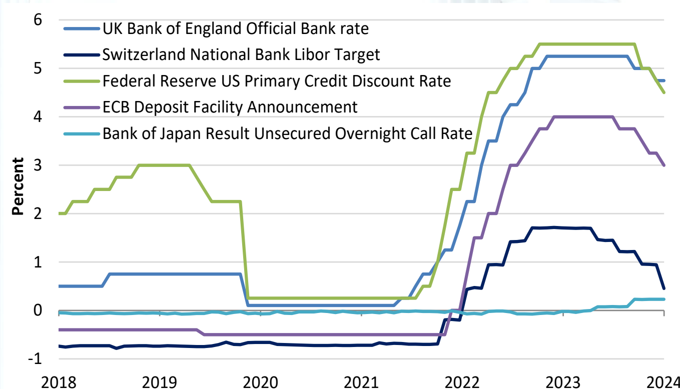
Over the coming months, we expect inflation to improve again in the vast majority of these countries, supporting a downward adjustment in yields. In the case of the United States, in our view it was not the +0.3% rebound in inflation that triggered the 100 bp rise in long rates, but rather the anticipation of the potential inflationary effects of the tariff hike. The next few months should enable us to reassess these risks and reduce current fears and excessive expectations. Against this backdrop, US ten-year yields should fall once again, bringing with them further adjustments in other bond markets.

Improved investment climate will depend on Trump's clarifications and a rate cut

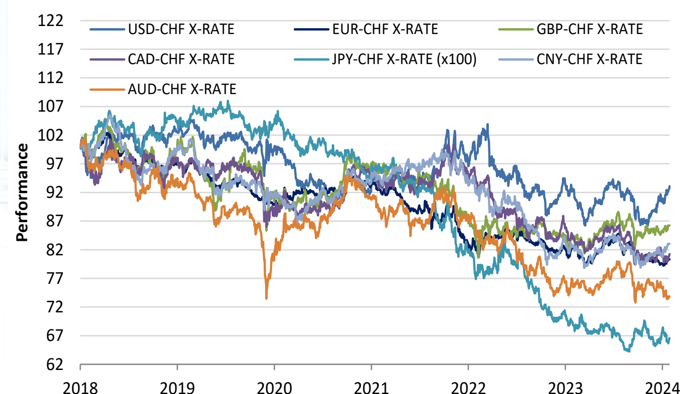
In our view, the deterioration in the investment climate at the end of 2024 is exclusively the result of the sharp rise in uncertainty caused by the positions taken by the future President of the United States prior to his inauguration. Indeed, Donald Trump has not waited until January 20, 2025 to announce new, often extremist political projects on an almost daily basis, the most recent of which have already provoked strong reactions from Canada, Denmark and Panama, which have no intention of allowing themselves to be annexed under various economic or military pressures. Each time, his highly publicized positions surprise observers, who obviously have difficulty determining their concrete reality and possible effects.

It was against this highly uncertain backdrop, in the absence of any concrete evidence of the effects of higher customs duties, that interest rates rose excessively in the 4th quarter and penalized most financial assets at the end of the year.Trump's inauguration should bring the first clarifications of his political intentions and more concrete elements enabling a more accurate assessment of their impact on the economy, inflation, purchasing power and the confidence of economic agents. We believe that the next few weeks should already provide an opportunity to assess the real risks of inflation and a slowdown in economic momentum. An improvement in the investment climate will necessarily require a clearer vision of the duality of these factors. Considering that the immediate inflationary effects are currently overestimated by the markets, and that the risks of a slowdown are underestimated, the forthcoming readjustment of expectations should have a positive impact on interest rates. The US Federal Reserve is expected to announce the end of its QT and continue its program of rate cuts to counter the risks of an economic slowdown before consumer confidence collapses and plunges the economy into recession. A rapidly more favorable interest-rate environment would have direct positive consequences for bond markets, and indirectly for other asset classes.

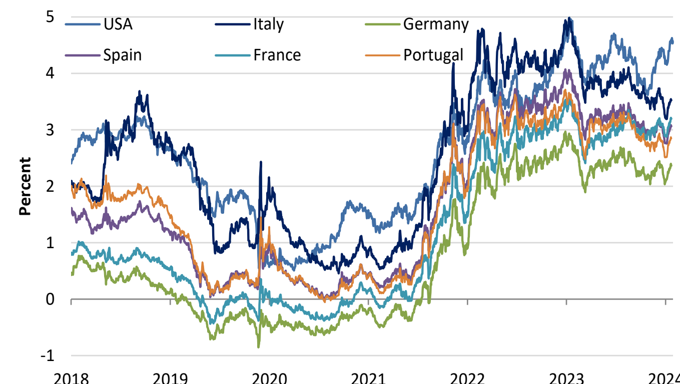
Policy rates (EUR, CHF, GBP, USD, JPY)



7 main currencies against CHF (base 100)



10-year government rates



Graph sources : Bloomberg/BBGI Group

MACROECONOMIC SCENARIO

MACROECONOMIC SCENARIO

Global Outlook

- Global growth threatened by rising interest rates
- Good start to 2025 for US growth (Q1 +2.2%)
- A strong start to 2025 for European exports
- Slight acceleration in Swiss growth to +1.6% in 2025
- Moderate growth path for the British economy
- A recovery in Japanese exports may support GDP

Global growth threatened by rising interest rates

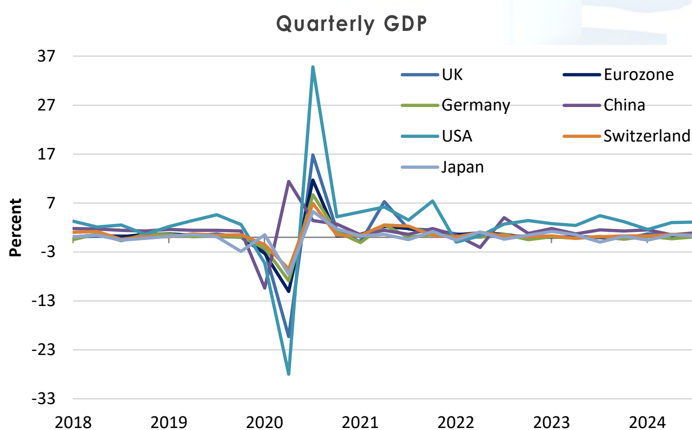
The last quarter of 2024 was the scene of many surprises, often linked to the US presidential election and Donald Trump's return to the forefront. Over the past three months, he has dominated the international media scene, announcing political measures that are often extreme and difficult for most observers and investors to understand. His stated intention to put pressure on a number of economic partners such as China, Canada, Mexico and many others to improve the US trade balance by raising tariffs has proved particularly worrying in several respects. It has clearly raised questions about the future of world trade in the event of excessive import tax hikes, but above all it has raised concerns about the potential inflationary impact on the US economy. The rate hike that resulted from these concerns has already affected the investment climate and penalized the bond and real estate markets. This rise in US rates has spread to other industrialized countries, and is now threatening growth there.

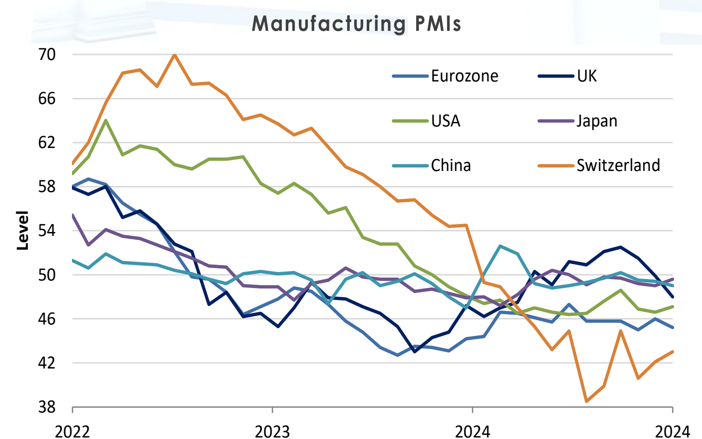
We believe, however, that the next few months will clarify inflationary risks, and that the Fed's monetary policy will be sufficiently far-sighted to counter the risks of an economic slowdown in the USA in good time. Against this backdrop of an expected easing of interest rates in Q1, the growth outlook for 2025 should be maintained. We believe that the first part of the year should also benefit from a rise in US imports, in anticipation of likely tariff hikes. The USA's main economic partners should benefit from this anticipated demand, strengthening their outlook for the 1st half of the year.

Overall, we are maintaining our growth outlook for the world economy in 2025 at +4%, supported in particular by a probable economic recovery in China.

Good start to 2025 for US growth (Q1 +2.2%)

First of all, in the final days of 2024, published statistics and high-frequency indicators had a significant impact on the forecasts of certain models, notably the Atlanta Fed's, which plunged from +3.3% to +2.5% at year-end. Consumer confidence also deteriorated in December, following the change in expectations of rate cuts for 2025. While data on durable goods orders declined by -1.1%, expectations of new investment and CAPEX spending rose with more optimistic expectations of accelerating momentum with the new Trump administration. Companies are undoubtedly more inclined to make new investments in an environment that now appears less uncertain. However, the prospect of higher import taxes is certain to play an important role in the months ahead. The visible increase in new orders by companies, notably in anticipation of higher import costs, should also be seen in household consumption. Anticipated consumption should bolster the statistics for Q1 2025 and support a revival in growth, even in the event of a slowdown in Q4 2024. Household confidence plunged in December for the first time in three months, reaching its lowest level since June. Concerns have crystallized around fears about tariffs and the policies to be pursued by the Trump administration, and the growing prospect of a decline in purchasing power. Uncertainties are high at the start of the year in the absence of a clear vision of the policies that will be pursued by the new administration, certain components of which could adversely affect public spending, household consumption and business investment. We believe, however, that the first quarter should be fairly solid, benefiting from increased anticipated demand before tariff hikes can take effect. After a slightly weaker Q4, Q1 2025 should show annualized GDP growth of over +2.2%.





 Graph sources : Bloomberg/BBGI Group

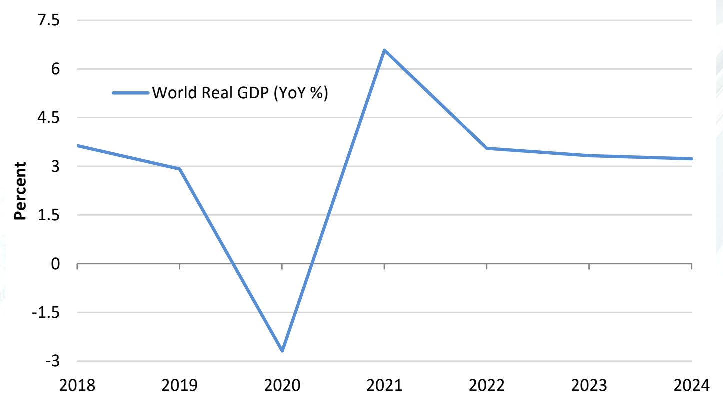
A strong start to 2025 for European exports

Most economists remain particularly cautious about GDP growth in late 2024 and early 2025, which is expected to be just +0.2%. The risk of recession in the Eurozone is still estimated at 30% over the next twelve months, and the consensus is for GDP growth of just +1% in 2025. However, we believe that the ECB, which has cut its key interest rates by 0.25% for the fourth time since May, from 4% to just 3% now, should reduce its key rates further to 2%, in a series of cuts over the coming quarters to 2025. The risks of introducing higher tariffs than those in place today are real, and will certainly weigh on European exports to the USA, although it is still particularly difficult to gauge the real effects and timing at present. We believe that, before seeing the negative effects of higher tariffs, the eurozone should instead benefit from a sharp rise in precautionary orders in anticipation of these import cost increases. The European economy is therefore likely to see a recovery in exports to the USA in Q1 2025. The contraction of the global trade surplus from 12.6 to 6.1 billion euros should give way to an increase in early 2025. The political situation in France and Germany does not seem to be affecting the general sentiment of households in the short term, as they are probably more concerned by the direct effects of the increase in purchasing power induced by the positive differential between rising incomes and inflation. In addition, since the change in monetary policy in June, households have been able to observe a 100 bp fall in key rates and a gradual reduction in financing costs, with ten-year Bund rates falling by 70 bp between the end of May and the end of November. Despite a temporary rebound in rates in December, our central scenario favors a continuation of the current trend without any acceleration over the coming months. Over the year as a whole, real GDP in the eurozone could therefore come in at +1.1% in 2024 and +1.3% in 2025, already buoyed by a first quarter that should surprise on the upside thanks to a combination of rising exports and still-dynamic domestic consumption.

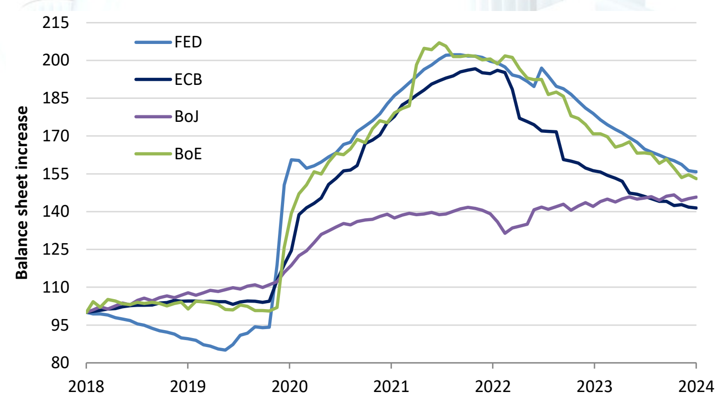
Slight acceleration in Swiss growth to +1.6% in 2025

Domestic demand is likely to remain relatively subdued in Q4, with only a slight increase in value creation in the service sector. In the hotel and catering sector, value added is likely to increase very slightly, as in health, social services, business services and public administration. Financial services, retailing and trade as a whole are likely to continue to decline at a moderate pace. The franc's recent weakness of around 5% since the end of September could be enough to give foreign trade a slight boost towards the end of the year. This could then provide marginal support to GDP growth in the 4th quarter. It will certainly take a little more than this for the weak franc to improve the competitiveness of Swiss products and give Swiss exporters some room to maneuver. In this respect, the SNB's policy is rather positive, as it should enable the franc to weaken by early 2025. The Swiss economy could therefore benefit early in the year from an increase in the competitiveness of exported products, as well as from anticipated US demand for Swiss products prior to the introduction of tariffs. A more positive environment in Europe should also support exports to our main European economic partners. On the domestic front, lower interest rates have reduced the cost of financing the acquisition of durable goods, and are also giving a boost to the real estate sector. Construction should also benefit, while a weaker franc will also make tourism in Switzerland more attractive. While the consensus forecast is for weak growth at the start of the year, these factors should enable GDP to surprise observers with a +0.4% increase in the first quarter and a +1.6% rise for the year as a whole.

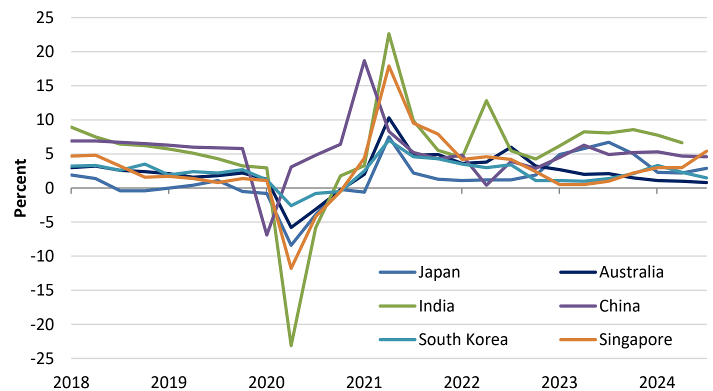
Real growth in the world economy



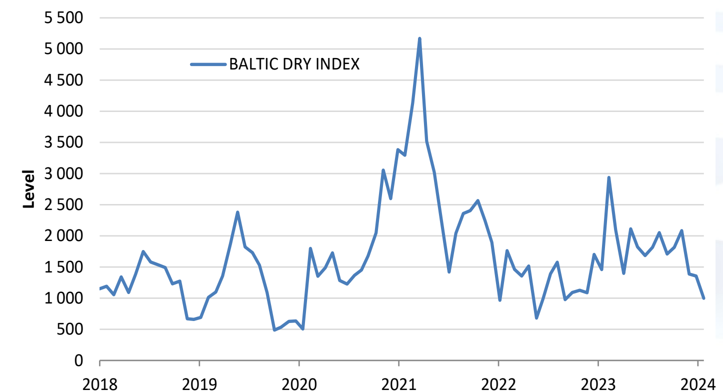
Global liquidity



Growth rates of Asian economies (GDP)



Baltic Dry Index



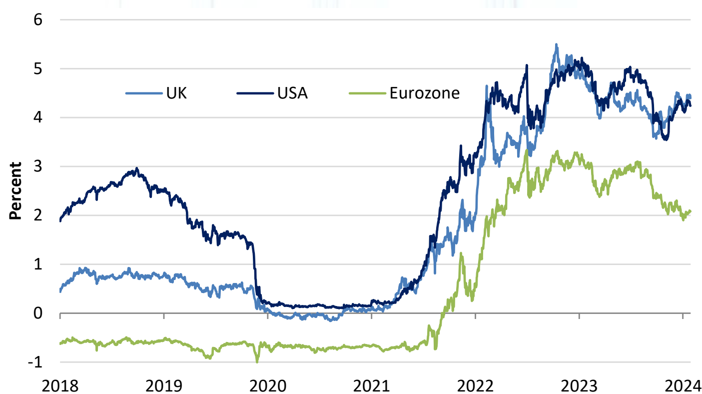
Graph sources : Bloomberg/BBGI Group

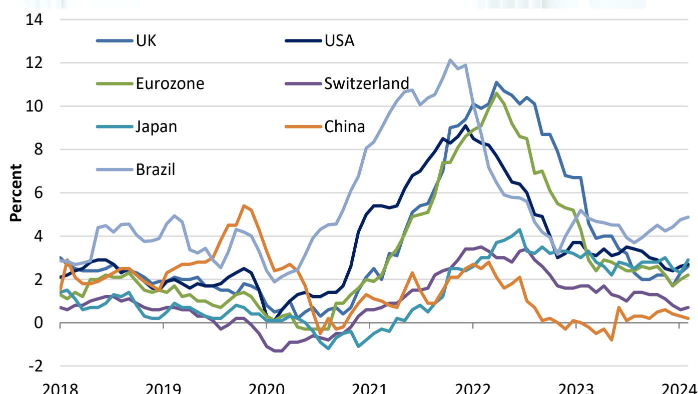
Moderate growth path for the British economy

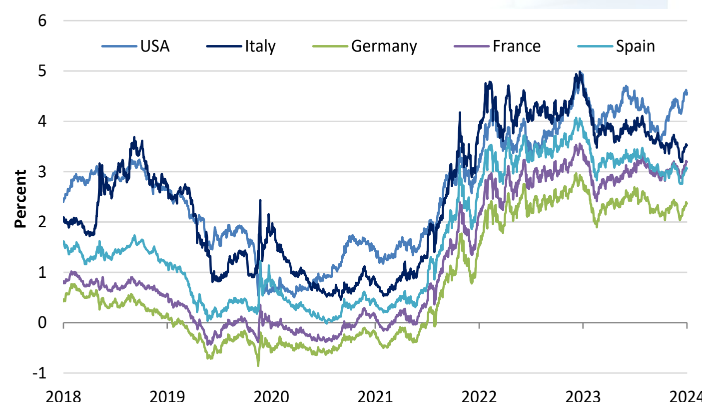
Economic momentum is likely to weaken slightly towards the end of 2024, but full-year GDP growth should ultimately remain close to our target of +1% to +1.1% if GDP rises by +0.2% to +0.3% in Q4. In Q1 2025, we continue to expect further key rate cuts from the UK central bank, which should help create better financing conditions for households and businesses, as well as significantly improve sentiment among economic agents. We expect the BoE to cut its key rates from the current 4.75% to 4% over the next few months. Between now and the end of June, we believe that further cuts are still possible, bringing the BoE's key rate down to 3.5%. Interest rates also rebounded sharply in the UK in Q4, but this should be temporary. Despite a recent rise in year-on-year inflation to +2.6%, the CPI index is following a modest monthly trend (+0.1%), which suggests that inflation will stabilize at a level close to the BoE's target. Consequently, we can consider that the level of interest rates remains very excessive in relation to inflation, justifying the anticipation of further rate cuts in the future. The general trend towards a loosening of BoE policy therefore seems to us still valid, and will support a strengthening of household confidence and leading indicators. The British economy will probably not benefit as much as other more export-oriented economies from an expected stronger US demand in Q1, and will instead have to rely on strengthening domestic demand. Consumers have yet to really assess the extent to which falling inflation and lower interest rates will soon boost their purchasing power and their perception of their situation. We therefore believe that household confidence should continue to improve and support a recovery in consumption over the coming months. In 2025, the British economy should continue on a moderate growth path of +1.2%, underpinned by consumption and a recovery in exports.

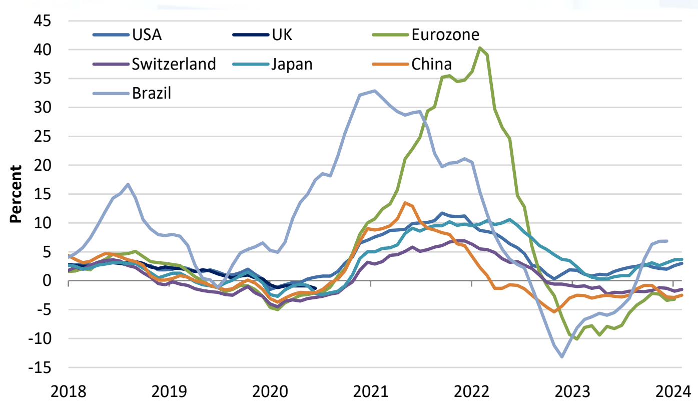
A recovery in Japanese exports may support GDP

Despite particularly resilient consumption, Japan's GDP remains more than ever too dependent on international demand, which is still too weak. That said, Japanese exports have surprised on the upside recently, thanks to a weak yen and a recovery in Chinese and Asian demand, despite a drop in European and American demand. The year-on-year increase of +3.8% remains small by recent standards, but seems to augur well for the future. This result rekindles expectations of a return of global demand, and in particular of a recovery in China. In any case, the Chinese government's stimulus measures have halted the deterioration of the situation in China. The negative trade balance improved with China, Saudi Arabia, the European Union, the UAE and Vietnam, while the trade surplus strengthened mainly in Asia. We remain relatively cautious about the outlook for the final quarter. Japan still needs a recovery in global demand, and in particular an economic revival from China, which at last seems to be showing some new, more positive signs, although we are still waiting for real indications of a genuine recovery. It is also pleasing to note that the recovery in exports had materialized despite the relative strength of the yen, and then continued with the further decline of the Japanese currency. Prior to the US election results, we did not foresee a potential strong recovery in international demand and domestic consumption in Japan in the short term. But the start of 2025 could already be strengthened by positive developments in exports and domestic demand. Japan should be a big winner from the Trump administration's tariff war. Japanese exporters will benefit from a double competitive advantage based on a weak currency and relative selling prices, probably unaffected by an increase in US tariffs. GDP should then grow by an annualized +1.5% in Q4, and continue to do so in 2025, recording a similar rise of +1.5%.









 Graph sources : Bloomberg/BBGI Group