Syz PRIVATE BANKING

10 surprises 2025

*“I'm not a big planner.
Things always sort of surprise me.”*

John F. Kennedy

As 2024 draws to a close, we maintain an optimistic view for risk assets in 2025, supported by expectations of a resilient global economy, strong double-digit earnings growth for S&P 500 companies, and lower real rates across developed markets.

However, while the outlook is positive, challenges and uncertainties could persist, meaning the road for global equities may not be entirely smooth.

With this in mind, we’ve identified ten potential surprises — both positive and negative — that could significantly influence markets in 2025. But before diving into these, let’s take a look back at the surprises that shaped 2024.

- **Bitcoin soars above $100,000 and enters the wallets of most private banks**
  We are almost there… To the surprise of many, 11 bitcoin (spot) ETFs were approved by the SEC early January. Since launch, they have attracted more than $40 billion net inflows and their cumulated assets under management are almost as large as those held by Gold ETFs. For the first time ever, the US will have a crypto-friendly White House as more than 300 congressmen and senators are favourable to digital assets. Adoption and regulation are on the rise.

- **What if inflation were to rise again in 2024?**
  Although disinflation was a consistent trend throughout 2024, recent data suggests that inflation in the US may be more persistent than anticipated. In October, the Fed’s preferred inflation metric, Core PCE, rose to 2.8%, marking its highest level since April.

- **A third candidate enters the US election race**
  While everyone was expecting a re-match of Biden-Trump, it didn't happen. For health reasons, Joe Biden was replaced by Kamala Harris as the democrat candidate. We know what happened next…

And then there were the REAL surprises, the ones nobody expected:

- Donald Trump survived an assassination attempt and, with Elon Musk's strong support, achieved a landslide victory in the presidential election, leading to a Republican sweep.
- The Fed defied expectations of significant rate cuts, adopting a less dovish stance due to the resilience of the US economy and job market.
- Gold is trading at close to $2,700 despite rising real yields and a stronger dollar. Led by the Mag 7, the S&P 500 market value grew by $10 trillion this year. Equity volatility was unusually quiet with realised volatility of 12.5% for the S&P 500.
- The yield on French debt equals that of Greece. Russian Ruble imploding.
- Argentina's Javier Milei economic "shock therapy" is beginning to yield tangible results. Argentina equity ETF is by far the best performing in 2024.

What surprises could be in store for 2025?

SURPRISE #1: Trump 2.1

PROBABILITY MEDIUM

Donald Trump's renewed focus on tariffs signals a seismic shift that could redefine the global economic landscape, impacting not just the US but every interconnected economy. His sweeping "Trump 2.0" vision includes across-the-board tariffs of 10% to 20% on all imports and a staggering 60% on goods from China. But what if concerns over the inflationary effects of tariffs prompt him to pivot, adopting a more conciliatory approach with trading partners—a shift from "Trump 2.0" to "Trump 2.1

After imposing a new round of tariffs in the early days of his presidency, Donald Trump engages discussions with China on a broad trade agreement between the world's two largest economies.. This time, China is more open to concessions, grappling with weak economic growth and structural challenges like its real estate sector—unlike during Trump's first term in 2017. China has already started to try to rebalance its growth toward domestic demand and a trade agreement with the US can serve this purpose. China is also better positioned as it has reduced its reliance on US exports. Its trade balance with the rest of the world (excluding the US and EU) is now equivalent to its trade balance with the US alone.

Tariffs are removed on several goods, and trade between the US and China increases again. Geopolitical and economic tensions between the US and China ease (Taiwan, intellectual property, role of the US dollar and the Chinese yuan in the global financial system). The EU urges China to negotiate a comparable trade agreement. In the US, easing imported inflationary pressures contribute to a decline in interest rates.

China's equity market regains its appeal for US institutional investors, rebounding after a prolonged period of underperformance.

SURPRISE #2:
The US economy faces “slugflation”

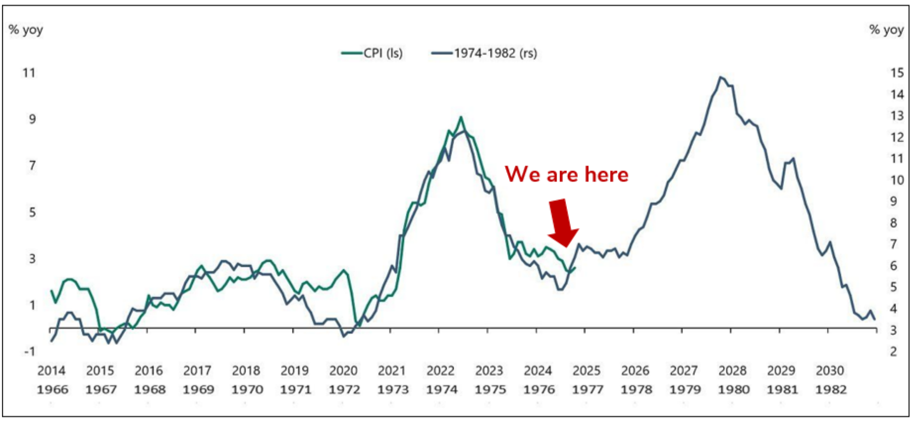
The new US administration’s immigration policy helps keep unemployment below 4.5%, with wages continuing to rise steadily. Meanwhile, China’s economy shows signs of an unexpected rebound, driving commodity prices upward and prompting a gradual yet steady recovery in oil prices. Inflation remains stubbornly high, staying well above the Federal Reserve’s target.

These policy moves and conditions prompt a resurgence in headline inflation, complicating the Fed’s plan to cut rates. Prolonged higher interest rates begin to weigh on domestic growth in the second half of the year.

This “slugflation” (sluggish economic growth, sticky inflation) starts to dent US companies profit margins, sending the S&P 500 into deep correction territory.

A late-year US recession pushes the budget deficit above 10% of GDP. In response to the surge in Treasury issuance, creditors demand higher yields, driving the 10-year Treasury rate to 5.5%. The classic 60-40 portfolio faces significant challenges in the year’s second half, with both equities and bonds experiencing declines.

In Q4, the Fed ends Quantitative Tightening and briefly restarts Quantitative Easing - breaking its word of sticking to its inflation target.



Source: Apollo

SURPRISE #3:
“DOGE” goes global

In January, Elon Musk and Vivek Ramaswamy start to roll out the Department of Government Efficiency (DOGE) measures. Targeting a 25% reduction of the federal government workforce, they decisively put an end to remote work for government employees, triggering a “wave of voluntary resignations” similar to Dell’s recent stance on remote work.

Surprisingly, many governments around the world decide to follow in the steps of US and Argentina. They implement similar measures leading to spectacular results. The quest for efficiency and spending cuts is not limited to the government; companies around the world start to implement their internal “DOGE” equivalent, leading to an improvement in firm’s productivity and a decrease in bond yields. In Europe, these measures lead to a wave of social unrest. In France, Emmanual Macron is forced to resign paving the way for a populist government to take power.

Source: Tomas Cuest, Getty Images

SURPRISE #4:
Germany pushes for fiscal stimulus

Following the German elections on February 23rd, a CDU-led coalition agrees to relax the constitutional rule limiting public deficits. This opens the door to a much-needed stimulus plan to revive the German economy that has been stagnating since 2022.

In this context, Germany also agrees to discuss the issuance of European bonds to finance structural investments designed to improve medium-term growth prospects for Europe, following the recommendations of Mario Draghi's report on the Future of European Competitiveness.

Germany and the Eurozone benefit from this fiscal stimulus, experiencing a boost in growth, as Europe joins the US and China in supporting economic activity with public spending. Public debt in Germany starts rising from its current moderate level, and aggregate public debt in the Eurozone increases from an already elevated level.

Inflationary pressures pick up in the Eurozone due to higher domestic demand.

With higher growth, inflation and public debt ahead, the ECB faces less pressure to ease its monetary policy and stops its rate cut cycle earlier than expected. European sovereign bonds face pressure as EUR yields rise due to stronger growth prospects, increased bond issuance, and higher EUR cash rates.

Source: Bloomberg

SURPRISE #5:
BRICS+ adopt bitcoin as an alternative to the dollar

Early 2024, the "BRICS" (comprised originally of Brazil, Russia, India, China and South Africa), joined forces to create a unified payment system based on the innovative technologies of digital currencies and blockchain. This ambitious move is not just a technological breakthrough; it also represents a strategic manoeuvre aimed at strengthening their financial autonomy, reducing their dependence on dominant currencies such as the US dollar, and bypassing traditional banking networks such as SWIFT, which is a source of vulnerability for these nations due to geopolitical tensions.

Despite the promising aspects of this initiative, major challenges remain. One key issue is ensuring interoperability between different digital currencies and national payment systems. Additionally, as with any digital financial system, securing transactions and protecting user confidentiality are crucial.

After several summits at the start of 2025, the BRICSs decide to adopt bitcoin as an alternative currency to the dollar. Bitcoin ticks all the boxes as a global medium of exchange and reserve currency. It is politically neutral, has an unchangeable monetary policy, ensures strong property rights, and benefits from enhanced functionality through layer 2 solutions like the Lightning Network. Bitcoin is later adopted by other emerging markets. The US, Europe and China decide to accumulate bitcoin as a reserve asset, leading to accelerated adoption by global institutional and private investors. The surge of global demand creates a major supply squeeze, pushing the price of bitcoin to $500,000.

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Source: Kitco

SURPRISE #6: From Mag7 to Lag7

PROBABILITY
MEDIUM

To date, the spotlight has been on the American company Nvidia, known for its graphics processing units (GPUs). These GPUs are key to training massive AI models, such as those developed by OpenAI to power technologies like ChatGPT.

Although Nvidia can still export certain chips to China, the US government has demonstrated its determination to restrict its tech competitor's access to advanced semiconductors and the tools needed to produce them. This has intensified attention on China's domestic efforts to develop semiconductor technology capable of challenging Nvidia and supporting the AI ambitions of the world's second-largest economy.

One of China's key tech players is Huawei, which has a wide range of businesses, including telecommunications infrastructure, consumer electronics, and cloud computing. Its chip design division, HiSilicon, is currently producing the Ascend 910B chip and preparing to launch the Ascend 910C, which, according to the Wall Street Journal, may rival Nvidia's H100 product. Earlier this year, Nvidia's annual report specifically mentioned Huawei as a competitor in AI-focused chips, software, and networking products.

By mid-2025, market sentiment shifts as it becomes evident that Nvidia is facing significant competition from China. This development triggers a sharp decline in Nvidia's stock price, mirroring the broader downturn affecting the other Magnificent 7.

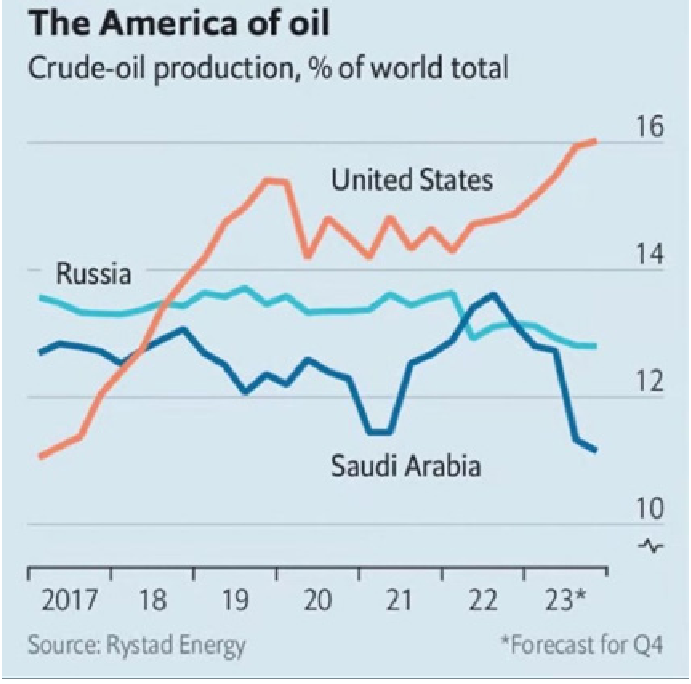
Source: Rich Washburn

SURPRISE #7: A US-OPEC+ clash

PROBABILITY
HIGH

The new US Treasury Secretary Scott Bessent's macro view on what the US economy needs can be summarised with his ''3-3-3'' rule: 1) Cut the budget deficit to 3% of GDP by 2028; 2) Push GDP growth to 3%; 3) Pump out an extra 3 million barrels of oil each day.

Under the Biden administration, OPEC+ was restraining output in a bid to prevent the emergence of a huge supply surplus that could depress prices and hurt the oil-dependent economies of its member states. Meanwhile, US crude production has surpassed every record in history for six years in a row, gaining market share at the expense of the OPEC+.-As Bessent rolls out his new policy, OPEC+ decides to counter-attacking by flooding the market with oil. Consequently, oil drops to USD 50.



Source: The Economist

SURPRISE #8: Near-Zero inflation in Europe; negative rates return in Switzerland

PROBABILITY
HIGH

In 2025, political crises in France and Germany lead to paralysis and a major economic downturn. Inflation in the Eurozone approaches zero, prompting the European Central Bank (ECB) to push interest rates well below their neutral level. The central bank reintroduces a quantitative easing (QE) programme to prevent increasing economic fragmentation, exacerbated by political tensions in France and elsewhere.

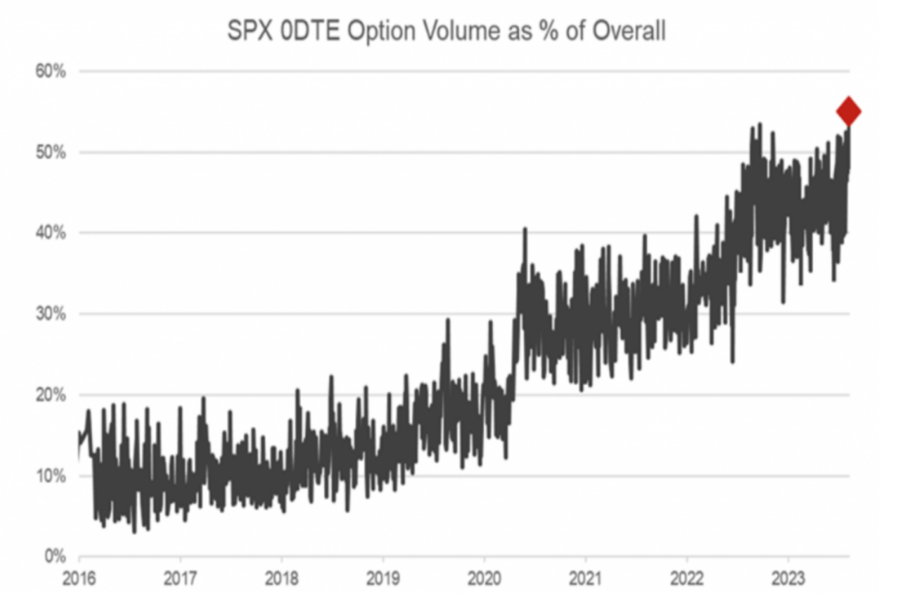
Meanwhile, the Swiss National Bank (SNB) surprises markets by reintroducing negative interest rates to counter the overvaluation of the Swiss franc, as inflation remains far below target. Despite the proactivity of the SNB, the Euro drops to 85 cents against Swiss Franc.

Source: TradingView

SURPRISE #9: A major fund blows up

PROBABILITY HIGH

The combination of concentration risk from the Magnificent 7 stocks, the rise in 0DTE options, unusually low volatility, and strange movements in currency and commodity markets derails some large fund that is caught in the wrong trades. It will begin with one asset price moving in the wrong direction, triggering a chain reaction in other trades within the portfolio, leading to forced liquidations and sparking a volatility event. This could come in the form of a flash crash like 2015, a meltdown similar to LTCM in 1998, or a "Volmageddon" event like in 2018. While these occurrences are rare, the conditions for something similar are in place for 2025.



Source: Nomura

SURPRISE #10: Elon Musk & Georgia Meloni get married; Trump & Musk go from BFF to foes

PROBABILITY LOW

What started as gossip turns into reality. Italy's prime minister Georgia Meloni and Elon Musk make their relationship official and get married. Elon Musk starts to invest heavily in Italy with the ambition to revive the European industrial engine. Italian equity markets soar while BTP-Bund spreads turn negative.

The intrusion of Georgia Meloni in Elon Musk's life starts to weigh on his relationship with Donald Trump. The two leaders split, and Musk leaves the DOGE. Meanwhile, a large part of US government support for Tesla and Space X is withdrawn. Tesla market capitalisation plunges. Musk gets accused of tax evasion and decides to leave the United Sates for good.

Source: EFE/EPA/Filippo Attili/US Palazzo Chigi Press Office Handout

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