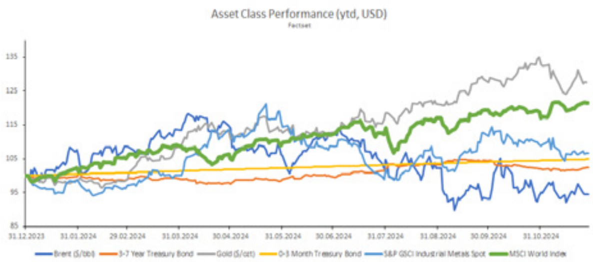
EQUITIES

Stay invested!

We remain positive on equities going into 2025 as we expect the global economy to continue to grow with the government of the two largest economies, the US and China, who are both implementing supportive and stimulating policies.

Global equity markets have been strong in 2024 with US equities leading and even Chinese equities up. This reflected a resilient economic activity in the US and Europe, the expectation of looser monetary policies by central banks, and reasonable valuation in aggregate.

Absent a major macro shock or a recession, equities should continue to perform better than most traditional asset classes, as they did in 2024.



Source: FactSet

Looking ahead to 2025, we expect continued growth in the US economy, with economic activity broadening as the cycle matures and the new administration implements pro-growth policies. On the other hand, the activity in Europe will continue to slow, but we expect the central bank to cut rates to counteract this slowdown. Finally, China will continue to support its economy as it digests the housing malaise. This, coupled with a higher but contained inflation globally, means positive global nominal economic growth and therefore higher corporate earnings.

Source: FactSet

Earnings - positive

Overall, earnings are expected to grow in all regions in 2025, but at a different pace and with a different path. In the US, earnings will grow faster in 2025 at approximately 14%, as the economic activity broadens and more sectors such as industrials, financials or materials enjoys faster growth than in 2024. In Europe, despite the challenging conditions, earnings will grow as well but at a more moderate pace and are at risk of negative revisions. Chinese equities in aggregate should also grow earnings but at a modest 4-5%, decelerating significantly compared to 2024.

Regions	2024 EPS Gr	2025 EPS Gr
S&P 500	9.7%	14.7%
STOXX Europe 600	3.0%	8.6%
Hang Seng Index	14.9%	5.4%

Source: Factset

Valuation – some cautiousness

While the economic and earnings outlook offer a positive picture, valuation is a different story, particularly for the largest capitalisations in the US.

As shown below, for the S&P 500, we began 2023 and 2024 with reasonable or slightly expensive valuation multiple that kept expanding throughout the year and enhanced returns. In 2025, we do not expect the same contribution as multiple are already full. However, outside the largest market capitalisation, valuation multiples are lower.

Europe appears to offer lower valuation multiples at first glance, but its growth outlook, profitability and exposure to structural trends such as AI are comparatively weaker.

Source: FactSet

Thus, we continue to favour US equities and maintain a preference for the technology sector, while also adopting a broader market exposure through strategies like equal-weight or mid-capitalisation approach. In Europe, we remain defensive starting 2025, but we will be looking at adding exposure should the government and the central bank get aligned to stimulate the economy.

Sectors and themes

In terms of market themes or sectors, we continue to like the development of AI as we move from building the infrastructure to the use of such technology notably via more powerful software. In the US, after a couple of years of high inflation, consumption should improve while the pro-growth policies will support the industrial activity that has been in recession for the past two years. In Europe, we keep a more defensive bias as the crisis of the automotive sectors will have a large impact, including on employment. As the ECB will be forced to reduce interest rate as the economy slows, it will create a less favourable environment for the banks. In China, we remain cautious overall as the US tariff risk looms and, despite the stimulus, consumer confidence remains low. However, Chinese equities are not expensive, but we are not seeing a trigger for a re-rating in the short-term.

What to watch?

Investors should always look for things that could surprise positively or negatively. On the negative side, too strict trade barriers imposed by the US could negatively impact global growth. Inflation is also worth monitoring as financial conditions remains loose and a spike in inflation would have a negative effect on equity valuation. On the positive side, a pragmatic approach by the US administration with tariffs would limit the bad consequences and improve sentiment. In Europe, a more responsive central government could implement measures that would boost growth. Any pick-up in Chinese consumers would be a positive too.

To conclude, in a world of fiat currency debasement and economic growth, investors should keep exposure to equities.