Market Outlook

WHEN WILL THE MUSIC STOP?

H1·2025

Syz PRIVATE BANKING

Market Outlook

H1·2025

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FOREWORD

The good, the bad and the ugly

Welcome to Syz Bank 2025 Global Outlook!

2024 has been a remarkable year for global markets, with equity indices, gold, and bitcoin reaching or nearing all-time highs. As we prepare to step into 2025, the question remains: what lies ahead? Let's review the good, the bad, and the ugly of next year's investment outlook.

The good

The current global macroeconomic and microeconomic landscape is favourable for risk assets, particularly US equities. Here's why:

- Reflation is occurring in the world's largest economies, with both the US and China simultaneously experiencing economic expansion.
- The US administration remains pro-growth, with policies that continue to support business growth and economic activity.
- Real interest rates are expected to decline in most developed economies, providing further economic stimulus.
- Corporate earnings are projected to grow at double-digit rates next year, indicating a strong earnings outlook.

The bad

While the outlook remains positive, much of the good news appears to be already reflected in current market prices. The S&P 500 is trading at nearly 28 times its earnings over the past year, a historically high valuation, and credit spreads have tightened to record lows. While this doesn't necessarily indicate an imminent downturn, it does suggest heightened risks. Any unexpected negative developments could place significant downward pressure on the markets.

The ugly

The US's unique position in the global economy brings its own set of challenges. Government spending continues to climb, with rising debt and fiscal dominance posing long-term risks that cannot be overlooked. Inflationary policies, including tax cuts, tariffs, and restrictive immigration measures, have the potential to drive inflation higher, which could lead to increased long-term bond yields. In turn, these higher yields might trigger a correction in equity markets, adding to the complexity of the economic landscape.

Our 2025 perspective

Overall, we remain positive on risk assets and maintain a long position in US equities. However, we expect volatility to return in 2025. Markets are pricing in "Trump 2.0", but surprises, both positive or negative, could lead to unpredictable outcomes.

With this outlook in mind, here are our top three investment themes for 2025.

1. Beyond the Magnificent 7

The mega-cap tech trade is crowded. We recommend broadening your horizons to capture overlooked opportunities:

- Focus on companies poised to benefit from AI advancements, particularly outside the tech sector.
- Look at US domestic stocks, especially small and mid-caps, that could benefit from lower taxes and deregulation.
- Seek growth opportunities in Northeast Asia and other emerging markets, such as China, India, and Vietnam.

2. Reimagining diversification

As correlations between US Treasuries and equities increase, diversifying portfolios becomes increasingly important. Alternative assets, including hedge funds and private investments, provide opportunities for less liquid diversification. Meanwhile, macro diversifiers such as money markets, gold, precious metals, and even bitcoin continue to serve as strong defensive assets in a balanced portfolio.

3. Crypto & digital assets

For the first time, a crypto-friendly administration in Washington could drive significant advancements in digital assets. Bitcoin, now the seventh-largest global asset, remains under-represented in many portfolios, highlighting untapped potential. Additionally, the expanding crypto ecosystem offers compelling opportunities for forward-looking investors seeking to capitalise on this dynamic sector.

On behalf of our entire investment team here at Syz Bank, we wish you a joyful holiday season and a prosperous New Year.

Together, let's make 2025 a year of growth and opportunity!

Charles-Henry Monchau, CFA,CAIA, CMT
Chief Investment Officer

2024 in the rear view

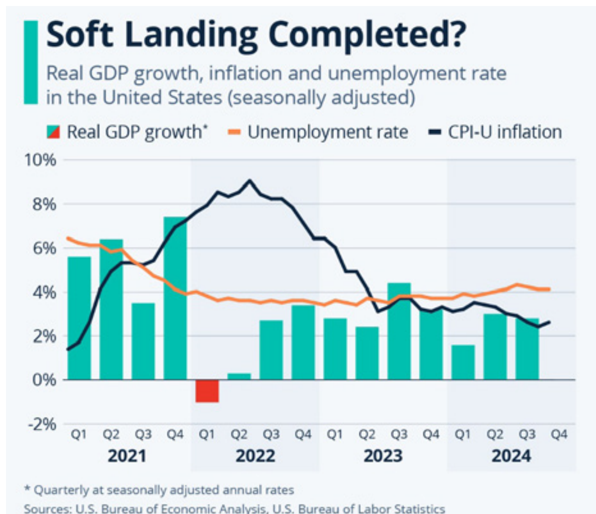
The 2024 season is coming to an end. What an eventful year it has been: the Magnificent 7 rally, the bitcoin halving, Tesla's Cybercab reveal, geopolitical tensions and the US election. Here are ten stories to remember.

Story #1: Soft landing secured?

A soft landing, marked by easing inflation and declining interest rates, remains the baseline scenario for major economies. However, while disinflation has been a consistent trend throughout the year, recent data reveals inflationary pressures may persist longer than anticipated. In October, US headline CPI was 2.6%, near pre-pandemic levels, while core CPI reached 3.3%, and the Fed's preferred Core PCE hit 2.8%, the highest since April. In Europe, euro area inflation rose to 2.0% in October, up from 1.7% in September. In comparison, the rate stood at 2.9% during the same period last year.

Progress in disinflation has allowed central banks to adopt a more neutral policy stance following aggressive rate hikes in 2022 and 2023. Throughout 2024, central banks initiated rate cuts to support economic activity. The SNB led with three cuts, reducing its policy rate to 1%, with another 25-basis-point cut expected in December. The Fed, taking a more cautious approach, started easing in September with a 50-basis-point cut, followed by 25 basis points in November, bringing rates to 4.75%, with another cut likely in December. The ECB also reduced rates three times since June, lowering its policy rate to 3.25% by October, while the BoE cut rates twice, setting its benchmark at 4.75%.

Unlike other major central banks, the Bank of Japan (BoJ) diverged from the global trend of monetary easing by tightening its policy. In March, the BoJ ended its negative interest rate era with a 10-basis-point hike, its first increase in 17 years, followed by another hike to 0.25% in July. These moves aimed to support a weakened yen amid concerns about inflation. Speculation of a December hike to 0.5% has recently strengthened the yen, which had previously declined against the dollar.



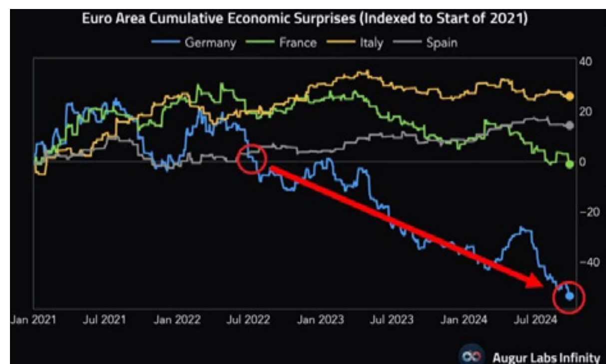
Source: Statista

Story #2: US resilience vs. Europe struggles

The US economy showed resilience, with a healthy 2.8% annualised GDP growth in Q3, and is expected to end up slightly below 3% in 2024, driven by robust consumer spending and increased exports. Advancements in artificial intelligence also contributed to the US economic momentum, by enhancing productivity across sectors.

In contrast, Europe faced intensified economic headwinds. After a near recession in 2023, economic growth had resumed in early 2024 with a pickup in household consumption and exports. Unfortunately, this encouraging dynamic has rapidly lost momentum. The Eurozone's third-quarter GDP showed a modest 0.4% growth, exceeding the 0.2% forecast but most economic indicators have disappointed expectations. This is due to a succession of adverse developments since 2022: sanctions against Russia following Ukraine's invasion, the ensuing cut from Russian gas supply, weaker Chinese demand for manufactured goods, a surge in inflation and the subsequent sharp rise in interest rates. These factors have affected Germany most, due to the structure of its economy. Meanwhile, France is grappling with political paralysis and budget deficit challenges.

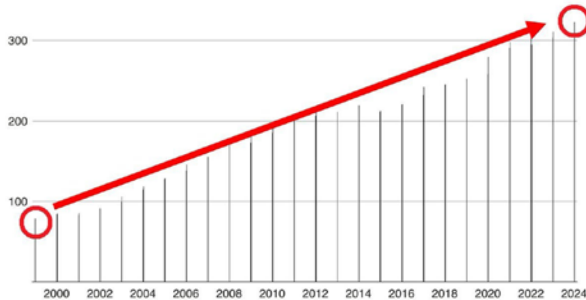
Southern European economies have been less affected by recent challenges, benefiting from resilient service demand, particularly tourism. In 2024, their growth and economic sentiment have trended positively, a stark reversal from a decade ago when "peripheral" economies faced deep recessions and "core" economies drove European growth.



Source: Augur Labs Infinity

Story #3: Global debt has reached unprecedented levels

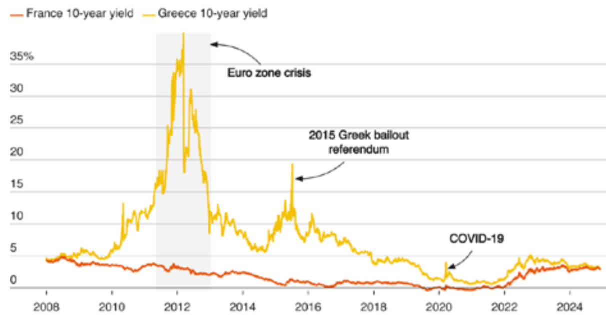
Global debt increased by over $12 trillion in the first three quarters of 2024, reaching a record $322.9 trillion. The global debt-to-GDP ratio fell to 326%, about 30 percentage points below the 2021 record, but remains above pre-pandemic levels. The US budget deficit expanded to $1.8 trillion in fiscal year 2024, marking the highest level outside the COVID-19 era. Since the end of the debt ceiling crisis in June 2023, total US debt has increased by $4 trillion. In other words, the US has taken on an average of $235 billion in debt per month, or $8 billion per day, since June 2023. This surge was driven by federal debt interest payments, alongside increased spending on social security, health care, and the military.



Source: Global Markets Investors

Story #4: France's turmoil

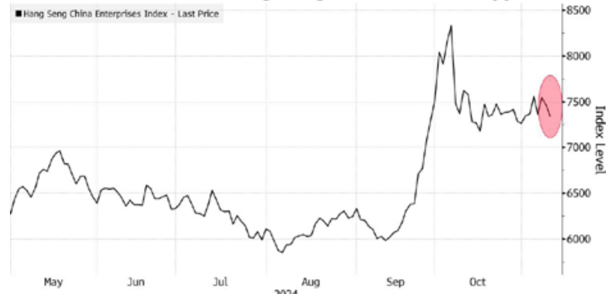
In France, the "Olympic" effect that supported activity in August quickly faded away. The country's state budget deficit has ballooned to €173.8 billion. After a concerning deterioration of public deficits in the past few years, France has no choice but to draw up an "austerity" budget for next year. This will need to be approved through a special procedure due to the government's lack of parliamentary majority. Far from being a stimulus, fiscal policy will be a headwind for growth in France in 2025. In May, S&P downgraded France's credit rating from AA to AA-. Later in October, Fitch and Moody revised France's credit outlook to negative. For the first time in history, the yield on France's benchmark sovereign bond, long considered among the safest in the Eurozone, reached the same level as Greece's for the first time in history. Adding to the challenges, the recent resignation of Prime Minister Michel Barnier following a no-confidence vote has deepened the French political instability.



Source: Reuters

Story #5: China's Year of the Dragon

In China, the government unleashed a "bazooka" stimulus to stabilise its economy, aiming to address the ongoing real estate crisis and stimulate consumption. Initiatives included permitting local governments to use special bonds for purchasing land from troubled developers and hinting at an upcoming debt ceiling adjustment. While the impact remains to be seen, these policy shifts suggest a potential for recovery in 2025, if fiscal and monetary easing continue. The announcement of these stimulus measures had an immediate positive impact on Chinese equities. The CSI 300 Index, which tracks the largest stocks listed in Shanghai and Shenzhen, surged 4.3% on the day of the announcement, marking its best performance since March 2022. However, this initial enthusiasm was short-lived. By the end of the year, the index had relinquished a significant portion of its earlier gains as investors reassessed the effectiveness of the stimulus measures.



Source: Bloomberg

Story #6:
One year of Javier Milei in Argentina

Argentina's Javier Milei's economic "shock therapy" is delivering tangible results. When he took office in December 2023, he inherited staggering challenges: inflation at 230%, the highest in the world, public debt over 60% of GDP, a 200% exchange rate gap, and poverty rate exceeding 40%.

Milei introduced bold austerity measures, including spending cuts, bureaucratic reductions, and a peso devaluation. By October 2024, monthly inflation dropped to 2.7%, its lowest in three years, and Argentina recorded its first budget surplus in 12 years (1.7% of GDP), compared to a 4.6% deficit in late 2023. Sovereign risk, measured by the EMBI index, improved from 1,920 to 984 points.

Financial markets responded enthusiastically. The Global X MSCI Argentina ETF (ARGT) increased its assets sevenfold, from $104 million to $750 million, and delivered a 62.6% year-to-date return, becoming the year's best-performing country ETF.

Global Equity ETFs: 2024 Total Returns (in US $)

Country/Region	Ticker	2024 TR	Country/Region	Ticker	2024 TR	Country/Region	Ticker	2024 TR
Argentina	ARGT	62.6%	United Kingdom	EWU	9.0%	Austria	EWO	0.7%
Israel	EIS	28.5%	Italy	EWI	8.8%	New Zealand	ENZL	0.3%
Peru	EPU	27.9%	Spain	EWP	8.8%	Switzerland	EWL	0.3%
US	SPY	26.9%	UAE	UAE	7.9%	Hong Kong	EWH	-0.2%
Singapore	EWS	23.2%	Japan	EWJ	7.5%	Ireland	EIRL	-0.5%
Total World	VT	19.2%	Colombia	GXG	5.9%	Saudi Arabia	KSA	-1.2%
Canada	EWC	18.0%	Qatar	QAT	5.3%	Sweden	EWD	-1.7%
Taiwan	EWT	17.4%	EAFE	IEFA	5.0%	Poland	EPOL	-2.0%
Malaysia	EWM	17.3%	Greece	GREK	4.8%	Finland	EFNL	-3.9%
South Africa	EZA	14.8%	Belgium	EWK	3.5%	Indonesia	EIDO	-5.7%
China	MCHI	14.3%	Norway	NORW	3.0%	France	EWQ	-6.2%
Turkey	TUR	13.6%	Netherlands	EWN	2.3%	Chile	ECH	-8.3%
India	INDA	12.4%	Philippines	EPHE	2.0%	Vietnam	VNM	-9.3%
Kuwait	KWT	10.8%	Eurozone	EZU	2.0%	South Korea	EWY	-10.4%
Australia	EWA	10.2%	Denmark	EDEN	1.7%	Brazil	EWZ	-19.0%
Germany	EWG	9.5%	Thailand	THD	1.4%	Mexico	EWW	-25.3%

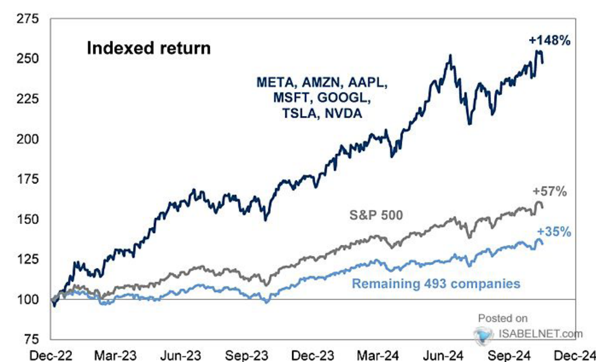
CREATIVE PLANNING — Data via YCharts as of 11/25/24 — @CharlieBilello

Source: Charlie Bilello

Story #7:
S&P 500 market value grew by $10 trillion this year

The S&P 500 delivered an exceptional year-to-date return of approximately 28.4%, adding nearly $10 trillion to the index's market capitalisation. Market volatility was unusually stable, with realised volatility for the S&P 500 averaging just 12.5%.

This exceptional performance of the S&P 500 is largely due to the Magnificent 7, whose gigantic market capitalisations and strong growth have dominated the market. Apple (+30.9% YTD), Microsoft (+74.8%), Alphabet (Google, +26.2%), Amazon (+45.5%), Nvidia (+201.3%), Meta Platforms (+77.2%), and Tesla (+44.1%) lived up to their title in 2024. Without their contribution, the S&P 500's return would have been much closer to the average, still respectable, but far less remarkable.

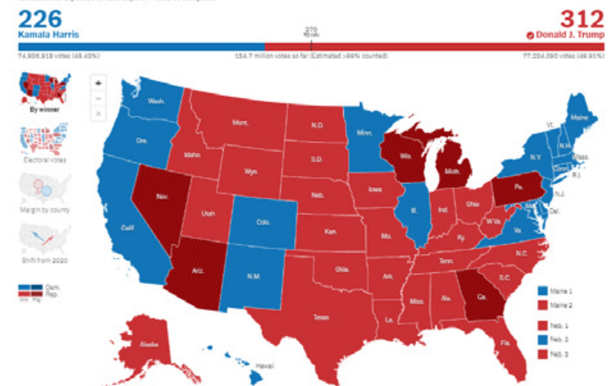


Source: Goldman Sachs, @ISABELNET_SA thru Lance Roberts on X

Story #8:
Trump 2.0

While everyone was expecting a re-match of Joe Biden versus Donald Trump, it didn't happen. For health reasons, Joe Biden was replaced by Kamala Harris as the democrat candidate. Donald Trump, after surviving two assassinations attempts, secured a landslide victory and a Republican "sweep" with the strong support of Elon Musk. Following the election, Trump appointed Musk alongside Vivek Ramaswamy, to head the newly created Department of Government Efficiency (DOGE), a playful nod to Musk's favourite cryptocurrency, Dogecoin. This advisory body aims to streamline government operations by reducing bureaucracy, cutting wasteful spending, and restructuring federal agencies.

The 2024 US presidential election attracted unprecedented attention and investment, as evidenced by record inflows into betting markets and financial instruments linked to the political outcome. Buying Trump-linked securities, such as energy, financial services, defense, and cryptocurrency, and selling Harris-linked ones, such as renewable energy, electric vehicles (excluding Tesla), as well as healthcare, and infrastructure, was a winning strategy in 2024.



Source: The New York Times

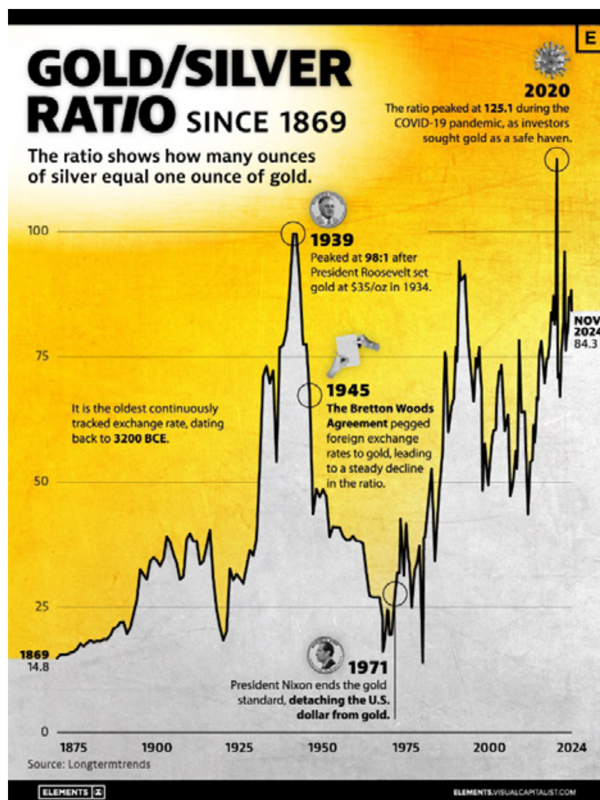
Story #9:
Gold, chocolate and coffee...

Gold had its best year since 1979, emerging among the best-performing assets, with a price increase of approximately 30%, despite rising real yields and a stronger dollar. This rally was driven by central banks' aggressive buying, strong demand from Asia and heightened geopolitical tensions. By the end of the year, some profit-taking emerged.

Silver, the "white metal," delivered its own impressive rally. The price surged from $22 per ounce at the start of the year to over $32, marking its first breakthrough of this level since 2012. This strong performance was driven by robust industrial demand, particularly from the renewable energy and electronics sectors, as well as increased investment interest amid geopolitical tensions.

Oil prices remained under pressure this year. While rising tensions in the Middle East briefly fuelled price volatility earlier in the year, concerns gradually shifted from potential supply disruptions to the broader weakness in global demand.

Coffee prices surged to a nearly 47-year high, driven by concerns over Brazil's crop yields due to drought conditions. Cocoa ends 2024 with an impressive 122% YTD performance. The biggest surge came in April when futures peaked at $12,000 per metric ton, a historic high. This spike was driven by severe supply shortages caused by bad weather in producing regions.



Source: Elements.VisualCapitalist

Story #10: A record year for cryptocurrencies

The overall cryptocurrency market capitalisation approached $3.8 trillion, nearly doubling over the past year. 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. Bitcoin (BTC) surpassed the $100,000 mark for the first time, up over 132% since the beginning of the year. This surge was largely attributed to the election of President Trump. 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. As institutional adoption and regulation are on the rise, the entire crypto ecosystem is gaining recognition and momentum. Since the beginning of the year, ethereum (ETH) has risen by 67%, solana (SOL) by 119%, and ripple (XRP) has surged by 277%. Additionally, the share price of MicroStrategy Inc, climbed by approximately 492% YTD, thanks to its bitcoin accumulation strategy.

Source: Reuters

2024 ends on diverging dynamics

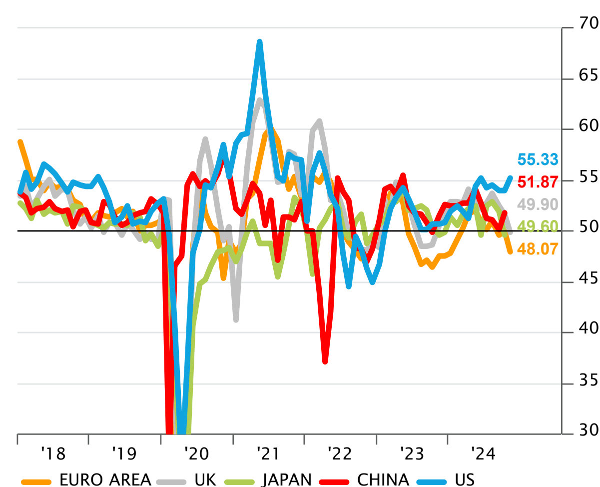
No landing in the US, recession risks in Europe, early signs of pickup in China

As 2024 comes to an end, global economic growth remains positive, but divergences that appeared over the summer remain. The US economy remains remarkably resilient and shows no signs of landing, led by robust consumption and buoyant activity in the service sector, supported by a still strong labour market. US GDP is on track for another quarter of above-potential growth and the prospect of pro-business policies in 2025 under the incoming Trump and Republican administration adds tailwinds to an already roaring economy.

The contrast is striking with the Eurozone, where most recent indicators point to economic stagnation and a deterioration of the labour market, in a complex political environment that makes the possibility of fiscal support a pipe dream for the time being. Europe has already faced significant challenges: the abrupt end of cheap Russian energy, declining Chinese demand for manufactured goods, a shift from conventional cars to EVs, and a sharp rise in interest rates. Now, the added threat of US tariffs on its exports could be the final blow to its growth prospects next year. The Swiss economy returned to growth in 2024, driven by robust domestic consumption and a recovery in external demand from key export markets like the US and China.

However, weak demand in Germany—Switzerland's second-largest export market—and the strong Swiss franc continue to pose challenges as we move into 2025.

Growth dynamics diverge among key economic areas at the end of 2024



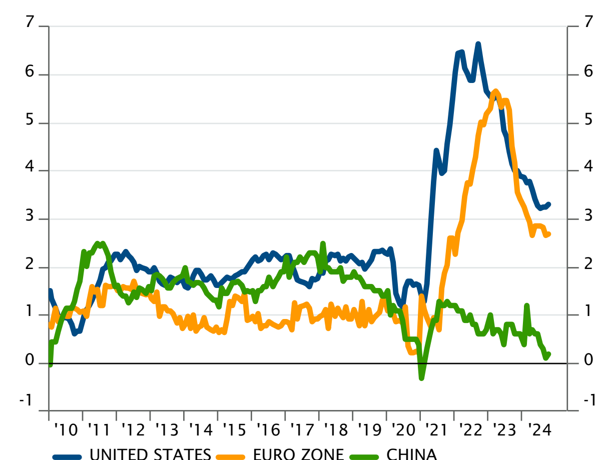
Source: Bank Syz, FactSet

China also is under threat of a significant blow to its export sector next year, as the contemplated increase in US tariffs would be most important on Chinese goods. However, unlike Europe, the authorities can prepare for this coming shock. They have unveiled a comprehensive package of measures to revive economic activity following the summer slowdown. Additionally, the finance minister has committed to implementing a "forceful fiscal policy in 2025," with plans already underway for further countercyclical actions. These efforts aim to offset the negative impact of US tariffs on export-dependent industries.

Upside risks on inflation fuelled by government policies

Divergences are also visible on inflation dynamics in the last part of 2024. In the United States, the disinflationary trend at play throughout the spring has given way to firmer underlying pressures in the recent months that have stopped the slowdown in "core" inflation. The resilience of the employment market is also keeping wage growth above the level consistent with the medium-term inflation target of 2%, and Trump's economic policies will likely add inflationary pressures at least in the short run. This is at odds with inflation dynamics in the Eurozone, that are dampened by the weakness in domestic demand. The deterioration in forward-looking employment indicators points to slowing wage growth ahead, after a surprisingly strong increase in Q3, and inflation will likely reach the 2% target over the course of next year. China has grappled with deflationary pressures over the past two years amid sluggish economic growth, and recent signs show further easing of inflationary pressures. However, a combination of rate cuts, liquidity injections, and fiscal policy easing is expected to reverse this trend, alleviating deflation concerns and steering inflation back on an upward path.

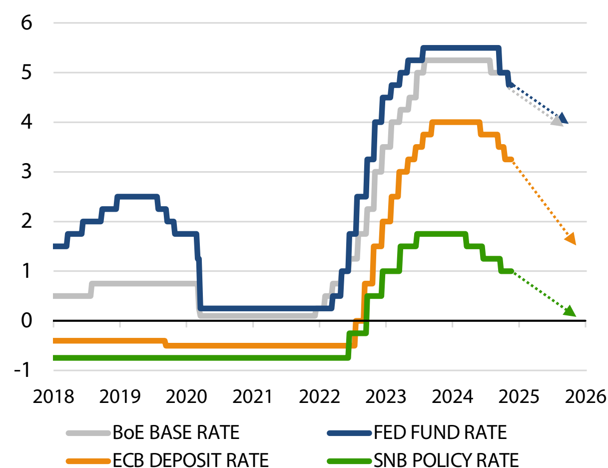
"Core" CPI inflation (YoY%) in the US, the Eurozone and China



Source: Bank Syz, FactSet

Central bank rate differentials widen

Diverging growth and inflation dynamics naturally result in varied monetary policy approaches. Following the synchronised global rate hikes of 2022–23, the anticipated rate cut cycle of 2024 is already proving far less aligned. All major central banks have cut interest rates this year, following the easing in inflationary pressures from their peak. But in these last months of 2024, rate cut expectations are being adjusted in response to differing growth and inflation developments. In the Eurozone, weak activity and slowing inflation warrant the ECB to forcefully cut rates to bring the monetary policy stance toward a neutral (or possibly accommodative) stance. In Switzerland, slowing inflation and upward pressures on the CHF require the SNB to lower rates back toward zero. In contrast, in the US and in the UK, the combination of persisting inflation and prospects of fiscal stimulus next year clearly reduces the need for adjusting monetary policy. As investors look toward 2025, they now expect that the Fed and the BoE will not have to cut significantly their key rate in the coming months.



Source: Bank Syz, FactSet

The global economic cycle is therefore clearly desynchronising in the late part of 2024. The US economy continues to defy expectations of any form of slowdown and will benefit from a pro-growth policy mix in 2025. The fears of a "hard landing" have been dismissed, and even expectations of a "soft landing" are now challenged by the resilience of the activity and the pickup in inflation dynamics. On the contrary, Europe and China have been through a clear slowdown in activity in the middle of 2024. But only China has so far been able to react with a policy package designed to trigger a pickup in activity. Europe remains stuck on a worrying downward trend, plagued by an accumulation of headwinds and by political paralysis in the two largest economies of the continent.

What to expect in 2025?

Our five key macro themes:

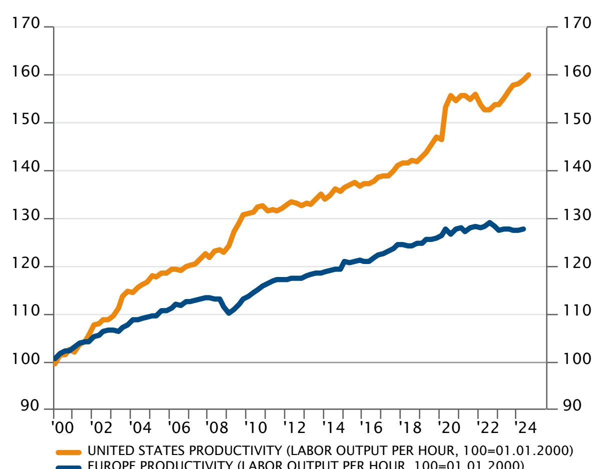
- **Fiscal policy supports growth in several large economic regions**

Government policies in several major economies will actively bolster economic activity in 2025, helping to mitigate potential risks to global growth. In the United States, the exact mix of economic policies under the Trump administration is not known yet but it is already clear that fiscal policy will be supportive of growth. With a Republican majority in both chambers of Congress, President Trump will be able to implement its emblematic economic measures such as lowering the corporate tax rate to 15%, extending the expiring tax reductions for households and introduce new tax breaks. US GDP growth will therefore benefit from a positive fiscal impulse, at the expense of still large, and likely wider public deficits. The anticipated rise in public deficits could be partially offset by reduced government spending under Elon Musk and Vivek Ramaswamy's leadership, along with revenue from import tariffs if formalised into law rather than issued as decrees. However, the upward trajectory of US public debt is likely to continue in 2025. In the meantime, China will also benefit from government policy stimulus, with the combination of increased financing capacity for local governments, support to the real estate and stock markets and the liquidity injections already announced. Direct fiscal support to households and consumption is likely to be added to the policy mix in 2025. These measures will help China's growth rate to pick up and stabilise at a decent level next year, reversing the post-pandemic downward trend and balancing the negative impact of US tariffs on export sectors. With favourable government policies supporting the world's two largest economies, growth prospects for both, as well as for global GDP, gain significant momentum heading into 2025.

- **Europe faces existential choices**

Europe has experienced a second consecutive year of (very) weak growth and ends 2024 on a worryingly negative momentum. The release of Mario Draghi's report on the future of European competitiveness has laid clearly what needs to be done to revive growth on the Continent. It comes at a timely moment, as the aftermath of the Covid pandemic has mostly dissipated, with deteriorating growth now requiring action, and before the European economy faces greater challenges as the global trade order is redefined. Draghi's clear call for urgent and bold action sets a path forward for improving the currently bleak outlook of the European economy. This report also comes in a difficult political context. The European elections have shown a rise of anti-establishment and populist parties across virtually all European countries, reflecting declining popular support for a common European project. Elections in France have led to a political paralysis, along with a shrinking base for pro-European parties that looks unlikely to change if new elections are held next year. In Germany, snap elections have been scheduled for February 2025, with hopes for a potential shift in fiscal policy to support growth depending on the outcome of the future coalition. The ongoing monetary policy easing by the ECB, and an expected rebound in China's demand will likely provide some short-term relief to the struggling European economy, but it is up to European leaders to take bold decisions to improve medium and long-term growth prospects and reverse the ongoing economic decline.

Europe is stagnating, from a growth and competitiveness perspective. Changes in policies must be enacted to resume a positive trend.



Source: Bank Syz, FactSet

- **Global trade enters more uncertain times**

The election of Donald Trump raises uncertainties around the outlook for global trade, as it will likely reinforce a trend that has been at play for some time. Indeed, during Trump's first mandate, tariffs had already been introduced on Chinese exports to the US, as well as on a range of US imports from other countries including Europe. Since then, policies designed to protect the US economy from China's competition have even been reinforced under the Biden administration, and Europe has also taken measures in that direction. But 2025 could see a significant acceleration in that dynamic, as tariffs have been one of the core proposals of Trump's agenda. The new president intends to impose trade tariffs not only on China, but potentially to all countries exporting to the US, including its other major trade partners such as Mexico, Canada or the European Union. Smaller emerging economies with significant trade surpluses with the US could be significantly affected by this approach, and the prospect of US tariffs and likely retaliations from the targeted countries could negatively impact global trade and economic growth in 2025. It remains unclear at this stage whether the new US administration will implement fully and permanently the level of tariffs that has been floated during the electoral campaign, as their threat may prove to be a negotiation tool more than an effective economic policy. In any case, uncertainties on global trade dynamics and the risk of a trade war will likely linger over the first year of Trump's second mandate.

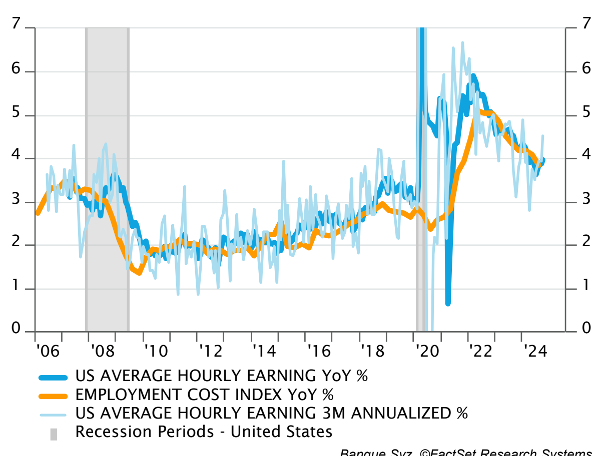
- **Upside risks on inflation**

Inflation in the US has been trending downward in 2024, except for a temporary increase in the early months of the year. On top of lower energy prices, the normalisation of the US labour market and the resulting slowdown in wage growth have helped cooling down underlying pressures on prices. This has given the Fed confidence by the end of summer that it was time to shift to a more neutral monetary policy stance, with risks now leaning toward slower economic growth and higher unemployment. However, economic activity has remained solid in the last part of 2024, the labour market is showing little signs of deterioration, and the recent inflation data have pointed to firmer price pressures, putting the disinflationary dynamic on pause again.

In fact, the conditions are gathering for inflation to start picking up again in 2025, as two developments will likely fuel already resilient inflationary pressures in the US. Firstly, the imposition of tariffs on imported goods from China, but also from other large trade partners such as Mexico, Canada or the European Union, will likely push inflation temporarily higher in the course of 2025. Secondly, supportive fiscal policy under Trumponomics will fuel domestic demand and is likely to prevent inflation from slowing down toward the 2% target. By supporting domestic demand, fiscal policy could even contribute to drive inflation higher next year.

Another aspect of Trump's agenda that could contribute to inflationary pressures, particularly over the medium term, is tighter immigration policies. The potential deportation of illegal immigrants could lead to a resurgence in wage pressures as labour shortages reemerge in certain sectors. Energy prices might help contain the rise in headline inflation, as oil prices appear poised to remain under pressure from elevated global supply and Trump's energy policy. However, after two years of slowdown, the outlook is more balanced for inflation, and upside risks are real for 2025.

Wage growth might remain elevated in 2025 as robust economic growth and immigration policies bring back tensions on the labour market.



Banque Syz, ©FactSet Research Systems

Most central banks continue to cut rates, but some less than others

The global rate cut cycle that started in 2024 will likely continue in 2025. Most central banks must adjust rate levels to the slowdown in inflation that has made monetary policies generally restrictive. Real short-term rates (central bank's rate minus inflation) have reached elevated levels, first led by the global rate hike cycle of 2022/23, and then by the slowdown in inflation that has contributed to making monetary policy increasingly restrictive over the past year. A recalibration of monetary policies toward a more neutral stance appears warranted now that economic conditions have tended to normalise, and all major central banks will likely continue to cut rates in 2025.

However, diverging growth and inflation dynamics could result in significant differences in the evolution of rates. In some economies, typically the Eurozone and Switzerland, restrictive monetary policy is not balanced by supportive fiscal policies and is therefore increasingly weighing on economic growth and inflation. To avoid an unwarranted further deterioration in activity, those central banks will have to rapidly cut rates at least to a neutral level, and possibly even move to an accommodative stance. Real short-term rates will tend toward zero with a reduction of central banks' rates toward the level of inflation experienced in those economies.

In other economies such as the US or the UK, the current monetary policy stance is balanced by accommodative fiscal policies that support economic activity. For those central banks, the scope for rate cuts appears much more limited as lingering inflationary pressures will remain. Maintaining a positive real rate, i.e. a central bank rate above the level of inflation, might be warranted. In parallel, the liquidity drain from central banks' balance sheet will likely come to a halt after two years of normalisation from the pandemic-related liquidity injections. In some cases, central banks might even have to resume asset purchase programmes for reasons specific to their economy's structure.

In Switzerland, the SNB could have to intervene again on FX markets to prevent an undue appreciation of the Swiss franc. In the Eurozone, the ECB could face renewed pressures to intervene on the sovereign bond market in case of volatility triggered by political uncertainty and worrying public debt trajectories. In China, the recent policy shift has released significant liquidities to stem deflationary pressures and the weakness of credit growth. As a result, overall liquidity conditions will likely improve in 2025, with the end of Quantitative Tightening and various forms of liquidity injections in some economies.

ASSET ALLOCATION

When will the music stop?

As discussed in the previous sections, 2024 has been an exceptional year for risk assets. At the time of our writing, the S&P 500 cumulated gain for the last two years is north of 50%, which leads many market participants to ask themselves: *When will the music stop?*

As 2024 draws to a close, one of our secular themes is being hotly debated by market strategists: American exceptionalism.

The dominance of US markets is not a new phenomenon, as evidenced by the continued outperformance of US equities relative to European equities.

Source: Bloomberg

Today, 8 of the world's 10 largest capitalisations are American.

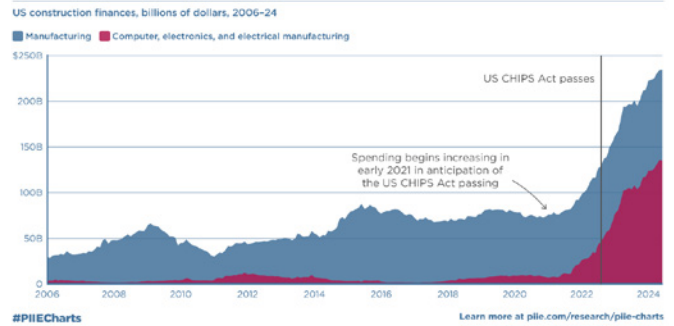
Rank by: Market Cap | Earnings | Revenue | Employees | P/E ratio | Dividend % | Ma

Rank	Name	Market Cap
1	Apple AAPL	$3.673 T
2	NVIDIA NVDA	$3.554 T
3	Microsoft MSFT	$3.252 T
4	Amazon AMZN	$2.293 T
5	Alphabet (Google) GOOG	$2.143 T
6	Saudi Aramco 2222.SR	$1.796 T
7	Meta Platforms (Facebook) META	$1.549 T
8	Tesla TSLA	$1.148 T
9	TSMC TSM	$1.040 T
10	Berkshire Hathaway BRK-B	$1.009 T

Source: companiesmarketcap.com

This "American dominance" is further supported on the economic front, as the U.S. has been strengthening its competitive edge in recent years.

Indeed, in some ways, "Bidenomics" have been mimicking some of Trump's "America first" policies. The CHIPS Act and the Inflation Reduction Act (IRA) have played a key role in reindustrialising the United States, incentivising both American and international companies to establish production facilities on US soil through subsidies.



Source: PiieCharts

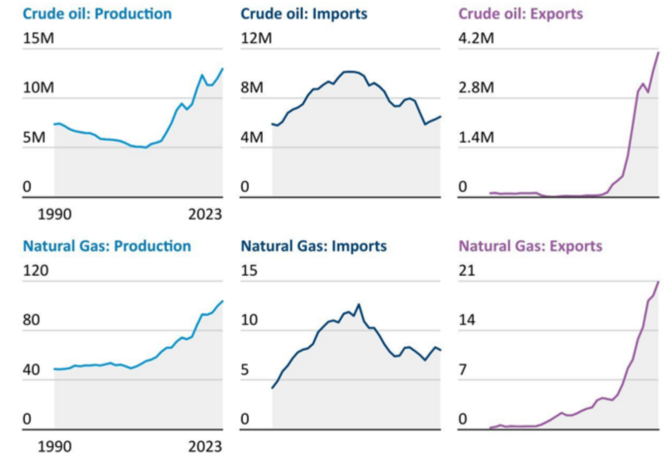
This "America first" and "reshoring" policy is set to continue under Trump during his second term.

The USA is also building its dominance through its energy policy.

Americans have become the world's biggest oil producers, making them a net exporter, and the same goes for natural gas.

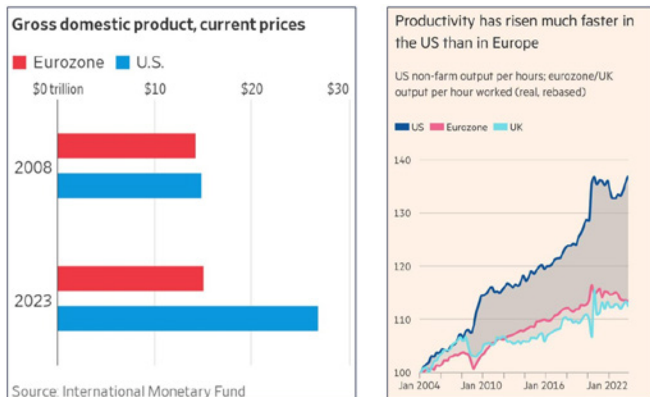
This easier access to energy enables them to run their factories and data centres at a lower cost, with energy prices half of what is paid in Europe.

Of course, this energy policy is likely to continue to thrive during Trump's second presidency.



Source: Bloomberg

As highlighted below, the performance gap between the US and Europe is not just visible in the stock markets. As a reminder, GDP levels were equivalent in 2008. Since then, the United States has outperformed Europe in a considerable way. The same is also true in terms of productivity.



Source: IMF, FT

Could Trump's election reverse the trends depicted above? Nothing is more uncertain.

As mentioned in our macroeconomic outlook, President Trump's policies are resolutely geared towards nominal growth, and should benefit US companies and stocks.

We also hypothesise that Trump 2.0 could add a new dimension to the policies established during Trump 1.0, impacting two key areas :

First, President Trump appears better prepared than in 2016.

Secondly, and more importantly, the Republican Party seems to have taken a libertarian turn, illustrated by the famous DOGE initiative co-led by Elon Musk. This is not a gimmick, but a very serious political project involving less government, focusing on deregulation and economic freedom. This ultra-capitalism is, unfortunately, likely to widen the wealth and income inequality gap. At the same time, it also minimises the risk of capital misallocation. This turn of events is likely to please the financial markets, drawing even more capital to the United States at a time when Europe continues to take the opposite approach: greater government involvement, increased regulation, and the reign of the welfare state. As mentioned in our macroeconomic outlook, Europe is facing existential choices.

Let's keep in mind that American exceptionalism comes at a cost.

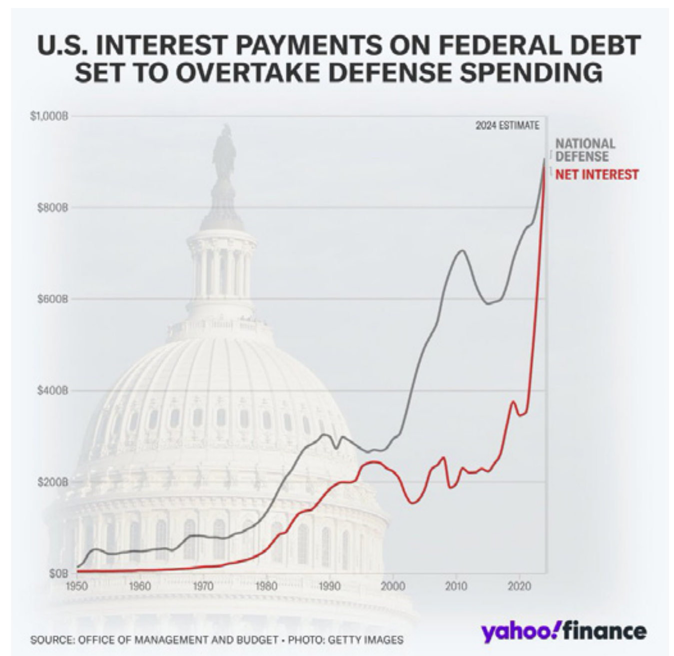
The CHIPS Act, IRAs, etc. led to even more fiscal indiscipline and debt overhang. With $36T of public debt and a debt-to-GDP ratio at 122%, the Fed needs to keep real interest rates artificially low.

Growth depends on fiscal policy. Indeed, US fiscal deficits are lifting both growth and the stock market, a phenomenon known as "fiscal dominance".

As shown in the chart below, more and more extra debt is needed to generate additional GDP growth.

Source: Fred

It is also worth mentioning that US debt is increasingly expensive. For the first time ever, US interest payments on Federal debt is overtaking defence spending.



Source: Yahoo! Finance, Office of Management & Budget

Monetary policy is therefore becoming increasingly dependent on fiscal policy, and lower real interest rates are becoming a necessity.

Real interest rates can be reduced either by lowering nominal interest rates, increasing inflation, or a combination of both.

The risk of a resurgence in inflation must also be taken seriously.

Higher tariffs, tax cuts, and a Federal Reserve reliant on fiscal policy are all factors that could contribute to a re-enactment of the 1970s and 1980s scenario.

US inflation: The 70-80s cycle vs. today

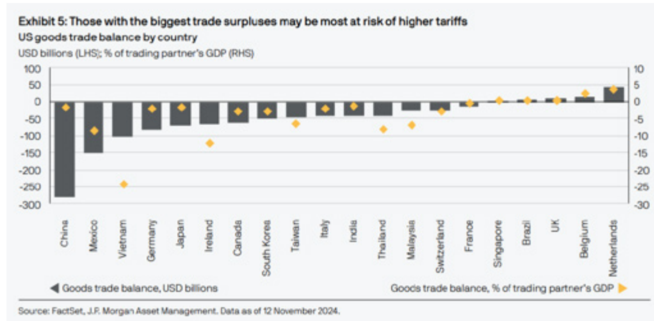
Source: Apollo

What about the rest of the world?

Of course, with President Trump back in office, there is a heightened risk of a new trade war between the United States versus its European and Asian partners.

There could also be some pleasant surprises, as President Trump has previously accustomed the world to using threats and bluff to obtain concessions.

For the time being, everything suggests that we should remain particularly cautious about the countries with the highest trade balances with the USA, including China, Mexico, and even Germany.



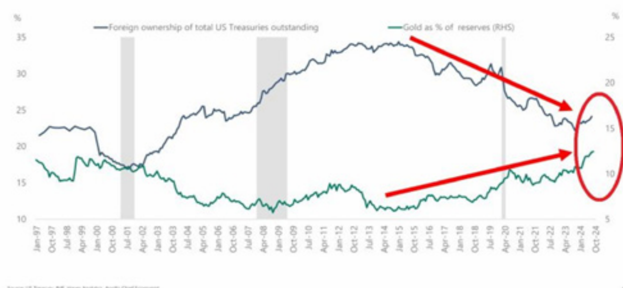
Source: FactSet, JPMorgan

Another of our secular themes is the "East-West divide".

We expect the multi-polarisation of the world will continue under President Trump's second term. Under the impact of sanctions, many countries are seeking to emancipate themselves from the United States and the dollar.

This trend is weighing on demand for Treasuries, at a time when the US is in dire need of them. On the other hand, this trend benefits gold, for which demand remains very strong.

The countries in the South and East are still seeking a neutral currency to diversify their reserves and use another currency for cross-border trade, which explains the recent threats President Trump made to BRICS+ countries.



Source: US Treasury, IMF, Haver Analytics, Apollo

In this context, which asset allocation should we favour for 2025?

Despite the many apparent risks, we maintain a clear preference for equities over bonds, and US equities in particular. Nominal growth should remain strong. Deregulation and lower taxes should benefit US equities. Earnings growth should be on track. Return on invested capital and free cash flow generation are at record levels.

Moreover, unlike the dot-com bubble of the 2000s, the supply of stocks is negative. In other words, share buybacks are outstripping share issuance via IPOs or capital increases.

This is not the case for US Treasuries: US debt overhang leads to record issuance. This comes at a time when investors continue to be wary of US bonds, there are uncertainties over inflation and monetary policy, as well as a declining demand from BRIC countries. In addition, the US government debt bubble is likely to increase the correlation between US equities and Treasuries.

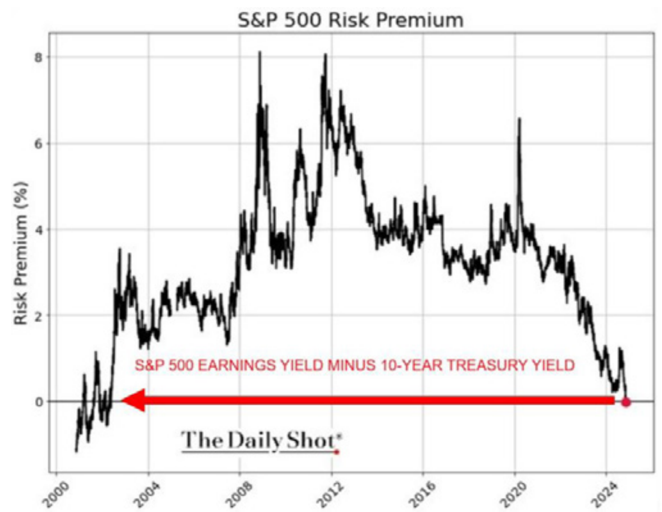
The Asset Allocation dilemma

S&P 500	US Treasuries
• High US GDP nominal growth • Deregulation, Lower Taxes • High Sales & EPS growth • High RoE, High Free Cash Flows • **Negative net supply**	• A less dovish Fed? • Risk of higher inflation • Risk of lower demand from BRICS+ • Higher correlation with US stocks • **Over-supply** due to **ever-rising debt**

Source: Syz Group

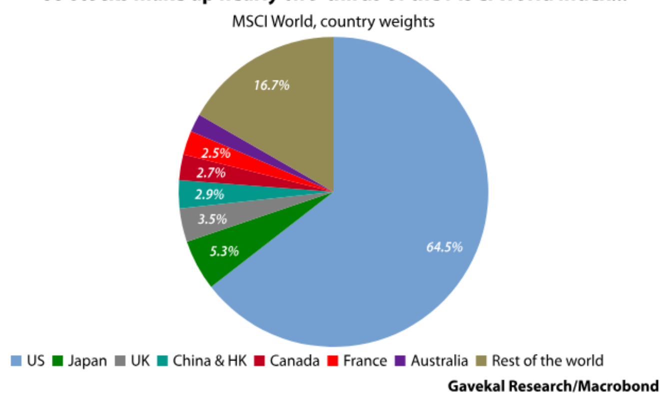
One pitfall of the clear preference for US stocks over US Treasuries, as well as non-US stocks, is that this view has become highly consensus-driven, making the trade very costly.

For the first time in 22 years, the S&P 500 earnings yield is lower than the US 10-year yield.



Source: The Daily Shot

We also note that US equities account for 2/3 of global market capitalisation. The whole world is all-in on US equities.



Source: Gavekal Research/Macrobond

It's crucial to note that the expensive valuation of US stocks and overcrowding of the S&P 500 and the Nasdaq is mainly due to global investor's insatiable appetite for the US mega-cap tech stocks – the famous "Magnificent 7".

How can we gain exposure to risk assets while avoiding a portfolio that is overly concentrated in these highly popular —and expensive— US stocks?

In other words, where can we find diversification?

We see 4 possible types of diversification

- Diversification within global equities
  - From AI hype to AI reality: we include tech stocks such as AI agents and companies which will benefit from productivity gains and higher value added, stemming from the integration of AI.
  - Innovation beyond the Mag 7: space, the $1.8 trillion economy, autonomous vehicle, etc.
  - The winners of deregulation – this includes the resurgence in M&A/corporate transactions, with targets on both sides of the Atlantic.
  - Infrastructure spending as a beneficiary of the "Three Ds" (Digitalisation, Deglobalisation and Decarbonisation).
  - Emerging markets benefiting from a global growth boom e.g. India, Vietnam, GCC countries.
  - Some of our secular themes: nuclear energy, copper, long "good governance"
- Diversification in the income pocket
  - The "wealthy nations" sovereign and quasi-sovereign issuers benefiting from strong macro fundamentals, such as Saudi Arabia.
  - Relative value opportunities within credit (e.g. autos, Banks, Airlines, Energy midstream and services, etc.)
  - Structured products to benefit from volatility.
- Diversification through the illiquidity premium – for investors willing to accept less liquid investments
  - Hedge funds
  - Litigation finance
  - Private equity
- Macro diversifiers:
  - Cash
  - Store of values (gold, bitcoin, etc.)
  - Inflation-protection instruments (TIPS)

To sum up, here's our portfolio positioning at the dawn of 2025:

We stay risk-on equities supported by solid growth and earnings. Real interest rates are likely to move lower, either through rate cuts or rising inflation.

We expect volatility to come back with a vengeance due to unpredictable US policies and/or a rise in bond yields.

Equities: we maintain our preference for US equities and tech. Additionally, we recommend continuing to diversify away from the Mag 7.

Fixed income: we anticipate upward pressure on long-term rates due to higher nominal growth prospects, coupled with rising public deficits and debt.

Forex: mixed effects on the dollar but net-net positive, except for the Swiss franc.

Commodities: there are mixed signals for oil. We remain bullish on gold.

Alternatives: hedge funds and private assets should be considered as portfolio diversifiers.

Cryptos: positive, as President Trump leads the first crypto-friendly administration.

Our five pillar views and asset preferences (as of 15.11.2024 – our last tactical investment committee) are summarised in the table below.

5 pillars (Investment Committee / 15.11.2024)			
			Macro cycle
			Liquidity
			Earnings growth
			Market factors
	Valuations		

Overall, the macro and liquidity conditions are rather positive for risk assets.

While equity market valuations are rich, earnings momentum remains strong as well as market dynamics.

Consequently, we keep our preference for equities over bonds.

Our positive stance on equities, including US equities, reflects the recent strong outperformance of stocks over bonds.

We are negative on Eurozone equities, mainly due to a weakening economic trend. We downgraded our view on emerging markets from neutral to negative. Despite Chinese stimulus, the strong dollar and looming tariffs are clear headwinds for the region.

We decreased our stance on fixed income and rates from neutral to negative. We downgraded Govies 10+ from neutral to negative and upgrade high yield from negative to neutral.

We kept our gold and hedge funds exposure for diversification purposes.

We increased our stance on the dollar from neutral to positive against all currencies except the Swiss franc.

Tactical Asset Allocation	Underweight -	Neutral =	Overweight +
ASSET CLASSES			
		Cash	
			Equity
	Fixed Income		
		Alternatives	
FIXED INCOME			
			Govies 1 - 10 (local)
	Govies 10+ (local)		
		Corporate IG (local)	
		High Yield (local / global hdg)	
	EM Debt		
EQUITY			
			United States
	Eurozone		
		UK	
		Switzerland	
		Japan	
	Emerging Markets		
ALTERNATIVES			
		Hedge Funds	
COMMODITIES			
			Gold
			Commodities
FOREX (vs. USD)			
	EUR		
		CHF	
	GBP		
	JPY		
	EM Currencies		

Final words

To conclude, when will the music stop?

To answer this, it is crucial to observe the strong correlation between M2 growth and the evolution of the S&P 500 and the price of bitcoin. The rise in global liquidities has been a strong support to the performance of those asset classes. M2 dynamic is therefore important for assessing markets' prospects.

Under what conditions could M2 slow down or even decline?

- Higher interest rates, especially at the front end of the curve, that would attract deposits into interest-bearing securities.
- An evolution in saving behaviours from Chinese households, where the savings rate has been hovering around 45% since 2016. A decline in the savings rate would likely result in a visible slowdown in China's M2 growth.
- Tighter lending standards and lending conditions that would reduce the amount of new money created by private entities of the financial sector, including commercial banks, mortgage and lenders.
- A stronger US dollar, that would mechanically lower the USD-equivalent M2 contribution of non-US large economies to global M2 in USD.

At this stage, we don't expect any of those factors to materialise in 2025, at least in a way significant enough to drag global M2 lower.

Instead, we expect global M2 to continue to grow next year, in line with global GDP.

In the US, our core scenario is a modest decline in interest rates.

In China, a potential direct fiscal support to households should lead to an acceleration in savings and therefore in M2 growth, as part of this additional revenue will likely be saved.

Given the current level of consumer confidence in China, it is possible that the saving rate would even increase as households opt for higher precautionary savings in the current uncertain environment.

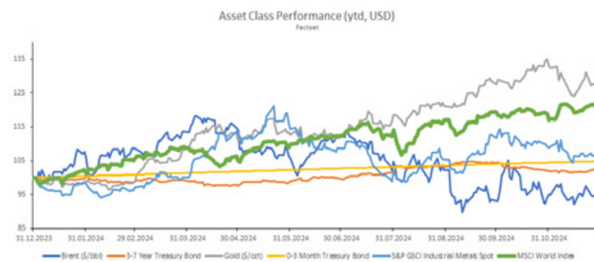
Overall, we predict that the music could continue for a while. Nevertheless, we will monitor liquidity conditions very closely.

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.

FIXED INCOME

A challenging road ahead

As we enter 2025, the fixed income market stands at a crossroads, shaped by the interplay of economic resilience, inflation uncertainty, and persistent interest rate volatility. The past year has underscored the importance of adaptability in portfolio construction, and this principle will remain crucial in the year ahead. While carry on US yields offers a buffer against challenges, fixed income returns are expected to be driven primarily by income rather than price appreciation, with little room for further spread compression. Investors will need to focus on select opportunities across the fixed income spectrum while maintaining a defensive stance in areas of heightened risk.

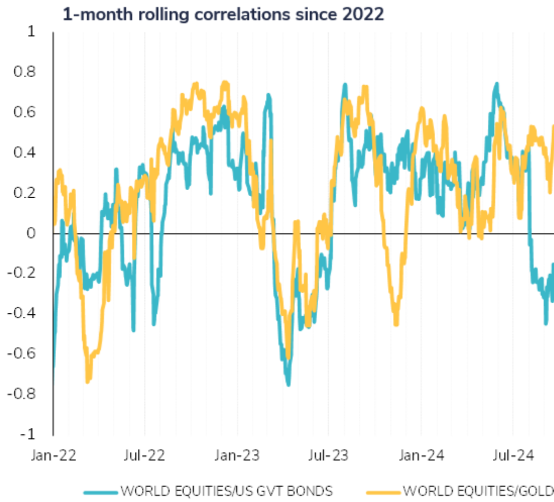
In this context, we recommend a selective approach, prioritising short-term opportunities in US High Yield and Emerging Market (EM) debt for their attractive yield relative to risk. In parallel, we emphasise investments in high-quality bonds rated A- or higher, including US Treasuries, to provide a defensive buffer against volatility. Long-duration bonds remain unattractive, as ongoing supply-side pressures, a flat yield curve, and the potential for rising real yields create significant headwinds.

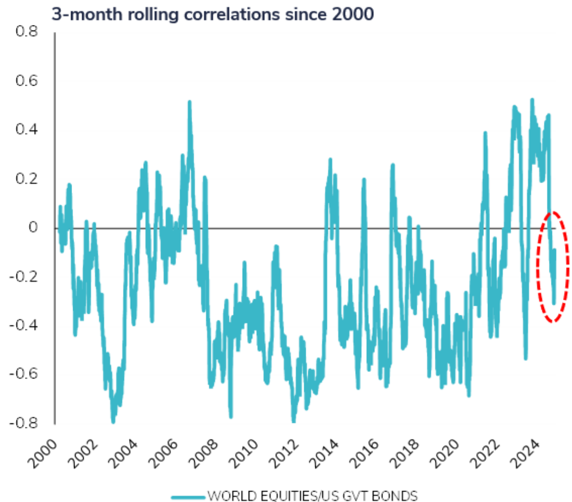
Overview

The global economy begins 2025 on a relatively solid footing, buoyed by resilient growth in major markets, particularly the United States. However, this resilience has complicated the outlook for fixed income, as inflation remains elevated in certain regions, defying market expectations for a quicker decline. Following the US presidential elections and anticipated fiscal measures, concerns over inflation have intensified, creating uncertainty around the pace and trajectory of monetary policy adjustments.

At the same time, interest rate volatility remains high, reflecting shifting investor sentiment and the challenge of reconciling short-term economic strength with longer-term structural risks. While the Federal Reserve is likely to continue its rate-cutting cycle, the potential for slower-than-expected reductions in rates adds another layer of complexity to the fixed income outlook. In this context, carry will become an increasingly important driver of returns, as capital appreciation opportunities are constrained by already tight credit spreads and the persistence of elevated real yields.

Chart: Bond-equity correlation turns negative in August for the first time in a year!





Source: Bloomberg

Government bonds: navigating fiscal shifts and policy dynamics

The outlook for government bonds in 2025 is shaped by the evolving fiscal and economic priorities of the new administration, along with broader structural challenges in the fixed income market. The appointment of Scott Bessent as Treasury Secretary signals a strategic shift in managing the US debt trajectory and economic growth, with his "3-3-3" framework at the forefront. This plan aims to reduce the federal deficit to 3% of GDP by 2028, achieve 3% economic growth through deregulation, and expand daily oil production by 3 million barrels. These ambitious goals present both opportunities and risks for government bond markets.

- Fiscal management and debt issuance: Bessent's focus on deficit reduction could impose greater discipline on federal spending, potentially curbing the supply of newly issued debt. This may provide some stabilisation to yields by reducing the upward pressure caused by recent years of high Treasury issuance. However, achieving this fiscal restraint will depend on the administration's ability to navigate political resistance and balance competing priorities, including infrastructure spending and tax policy reforms.
- Economic growth and inflation risks: the administration's emphasis on deregulation and energy expansion could bolster short-term economic growth, but it also risks reigniting inflationary pressures. These dynamics are likely to create significant volatility in long-term yields. Investors should remain cautious about extending duration, as rising real yields and inflation expectations could undermine the value of long-dated bonds.
- Yield curve and term premium: while the term premium has turned modestly positive, it remains well below historical averages, offering limited compensation for duration risk. The US yield curve also remains flat, reflecting market scepticism on sustained long-term growth and inflation. These factors emphasise the relative attractiveness of short-term bonds, which benefit from strong carry and lower sensitivity to rate volatility.

Positioning in 2025: positive on short term, negative on long term

Short-term bonds (1-10 years) are poised to remain the cornerstone of fixed income portfolios, offering stability and robust carry in an environment of persistent rate volatility. These maturities also provide effective diversification against equity market risks.

Chart: 5-year US real rates (%)

Source: Bloomberg

In contrast, long-term bonds (10+ years) face a less favourable outlook, with pressures from increased supply, inflationary risks, and subdued term premiums dampening their appeal. Investors should remain vigilant to the evolving political and economic landscape, as fiscal and monetary shifts under the new administration will play a critical role in shaping government bond markets throughout the year.

Chart: Interest rate volatility (MOVE index) remains high, limiting investment in long-maturity bonds.

Source: Bloomberg

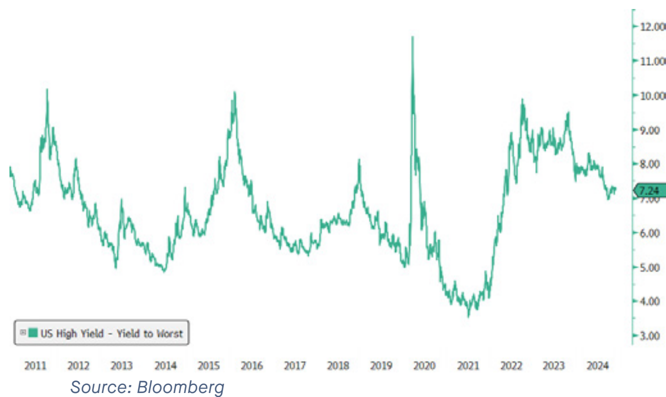
Corporate bonds: seeking balance between yield and quality

The corporate bond market in 2025 presents a nuanced picture, with opportunities concentrated in specific segments. Investment-grade bonds continue to serve as a stable core holding, supported by strong fundamentals and low default risk. However, credit spreads have tightened significantly, leaving little room for further compression. With spreads now trading at historically tight levels, performance in the investment-grade space will primarily rely on carry rather than price gains.

High-yield bonds, particularly in the short-dated segment, offer more compelling opportunities. These bonds provide attractive yields that compensate for their higher risk profile, particularly in a soft-landing economic scenario. However, valuations in the high-yield space remain stretched, and additional spread compression is unlikely. As such, investors should approach this segment with selectivity, focusing on issuers with strong fundamentals and manageable refinancing risks.

Overall, we expect the corporate bond market to deliver modest returns in 2025, driven largely by income. Careful credit selection and an emphasis on quality will be critical to navigating this space effectively, and additional spread compression is unlikely. Future performance will largely depend on income rather than price gains, particularly if volatility increases in the second half of 2025.

Chart: US high yield remains compelling from a historical perspective, supported by low default rates.



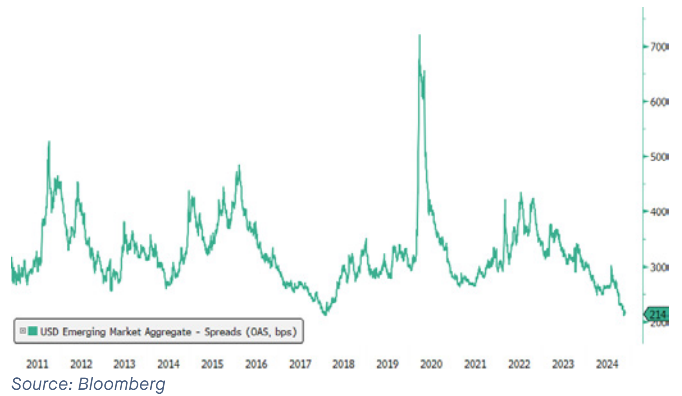
Source: Bloomberg

Emerging Markets

Emerging Market (EM) debt continues to offer a mixed landscape, shaped by both improving fundamentals and external macroeconomic pressures. In 2024, EM corporate spreads have reached historically tight levels, falling below 200bps for the first time since 2007. This milestone reflects improved creditworthiness, declining default rates, and strong balance sheets among EM issuers. However, with spreads already near their historical lows, the potential for further tightening is limited.

Hard-currency EM debt remains a cautious opportunity. While shorter maturities offer favourable carry with reduced duration risk, rising US real yields and the potential for dollar strength could weigh on this segment. These factors underscore the importance of a selective approach, with a focus on issuers and regions that demonstrate robust fundamentals.

Chart: Emerging Market spreads hit historical lows



Source: Bloomberg

2025 Fixed Income outlook in a nutshell:

2025 presents a complex yet manageable environment for fixed income investors. Key themes include:

Carry as the dominant driver: with spreads near historic lows, returns will be increasingly driven by income rather than capital appreciation. The carry on US yields, particularly in short-duration segments, will play a critical role in mitigating downside risks.

Defensive positioning: high-quality bonds rated A- or higher, including US Treasuries, remain essential components of a well-balanced portfolio. These instruments provide stability in uncertain markets.

Avoiding long-duration risks: long-term bonds are expected to under-perform due to structural headwinds, including fiscal pressures, flat yield curves, and potential steepening in response to market conditions.

Selective opportunities in high yield and EM debt: short-dated US High Yield and Emerging Market bonds offer compelling opportunities for yield-seeking investors. However, active management will be crucial to navigate risks and capitalise on localised opportunities.

Conclusion

Fixed income markets in 2025 will not offer easy solutions, but they will reward investors who adopt a targeted and disciplined approach. By focusing on shorter-duration assets, emphasising high-quality investments, and selectively allocating to segments like high-yield and emerging markets, portfolios can achieve robust income generation while managing risk effectively. In a year defined by complexity and uncertainty, active management and strategic flexibility will be the key to success in navigating the fixed income landscape.

2025 Private Equity Outlook

As we approach 2025, the private equity landscape presents both challenges and opportunities for investors. In this outlook, we explore three critical themes shaping the market and how they align with our strategy to deliver value for our clients.

Lower mid-market

The lower mid-market continues to stand out as one of the most compelling segments for private equity investment in 2025. Often overlooked by larger industry participants due to its size and complexity, this segment offers a unique combination of growth potential, valuation discipline, and the opportunity for hands-on operational improvement. In addition, many sectors within this space, such as healthcare services, specialty manufacturing, and IT-enabled services, remain fragmented, offering opportunities for buy-and-build strategies through M&A.

In the lower mid-market segment, both the US and Europe offer attractive opportunities and should be on the map of allocators in 2025. We believe Europe to be particularly interesting as its less competitive due to lower number of funds for an equivalent number of SMEs, offering a valuation advantage. This creates a more favourable environment for outsized returns, particularly when coupled with strategic value creation initiatives.

However, the European lower mid-market has consistently demonstrated greater resilience compared to the more volatile large-cap segment. This distinction became particularly evident in 2022 and 2023, a period marked by record-low distribution levels across the private equity market. In Europe, the slowdown was entirely driven by the large-cap segment, where exit activity nearly halved compared to 2021. In contrast, the lower mid-market maintained stable exit activity, further underscoring its enduring strength even amidst broader market challenges.

In a competitive private equity landscape, the lower mid-market provides an attractive risk-reward balance for disciplined investors. It is a segment where focused strategies and value creation can generate meaningful returns for our clients while supporting the growth of dynamic businesses.

Platform plays and the rise of independent sponsors

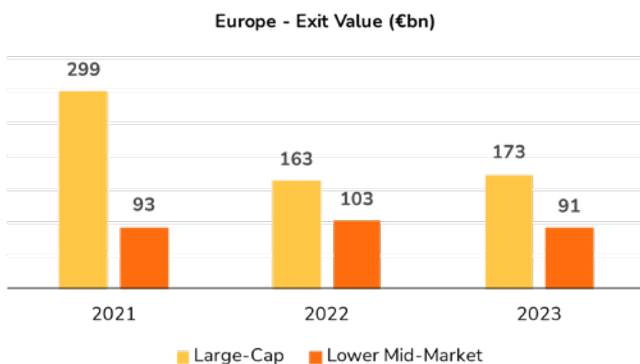
As eluded above, the private equity ecosystem continues to gravitate toward platform investments, particularly in highly fragmented sectors. Platform plays, which involve consolidating a core business and expanding it through additional acquisitions (known as “add-ons” or “bolt-ons”), remain a preferred strategy for driving operational synergies and scaling value creation.

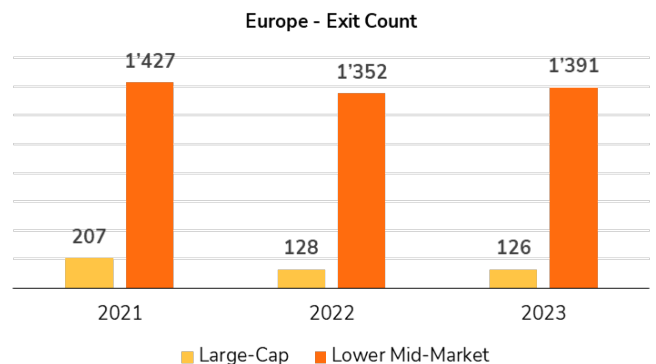
Independent sponsors (i.e. deal-by-deal managers) are playing a transformative role in this shift, bringing tailored expertise and flexibility to complex deals. At Syz Capital, we take pride in contributing to this ecosystem, whether as a lead General Partner (GP) or as a capital partner, collaborating with top-tier operating teams on highly value-enhancing transactions. This model allows us to harness our deep industry insights while maintaining the ability to secure high-potential opportunities for our investors.

The critical role of IT infrastructure

The increasing reliance on digital transformation and technology complexity underscore the importance of IT infrastructure as a core focus for private equity. Demand for Managed IT Service Providers, data centres, and related infrastructure remains robust, fuelled by the exponential growth in data usage and the shift to cloud-native solutions.

Beyond infrastructure, the software and services sector continue to be a fertile ground for investment. Mission-critical software providers, particularly those offering subscription-based models with high customer retention, are likely to remain attractive targets. We are actively monitoring and investing in these sectors to capitalises on their long-term growth trajectory.





Source: "2023 Annual European PE Breakdown" - PitchBook

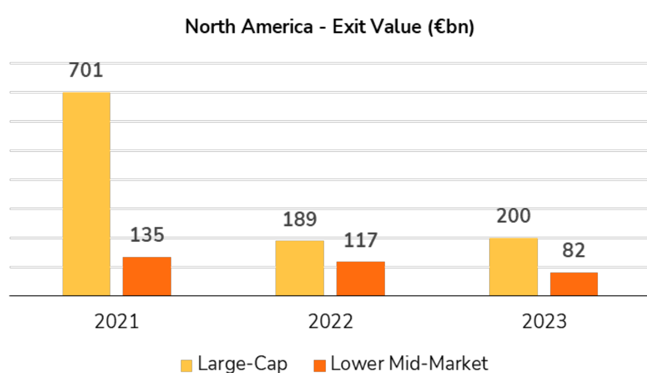
Opportunities in the secondaries market

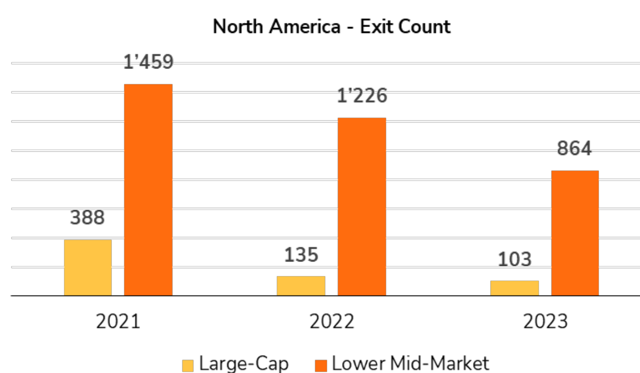
In an environment where Distribution to Paid-In Capital (DPI) remains constrained, the secondaries market remains a compelling avenue for liquidity and innovation. We anticipate growth in niche areas such as distressed secondaries and GP-led transactions, where sophisticated structuring can unlock significant value.

For investors seeking returns amid challenging exit environments, these strategies offer a way to access high-quality assets at potentially favourable valuations.

Looking ahead

As we move into 2025, private equity remains an essential component of a diversified investment strategy, and a significant driver of returns. We favour "high alpha" segments where returns are derived from complexity and operational improvement with little financial leverage and therefore more downside protection. We favour small cap buyouts where significant returns can be generated under the right stewardship, which means being very focused on partnering with only the very best teams, where access is often restricted. By focusing on platform plays, embracing the digital transformation of IT infrastructure, and exploring opportunities in the secondaries market, we aim to deliver resilient and attractive returns for our clients in a shifting global landscape.



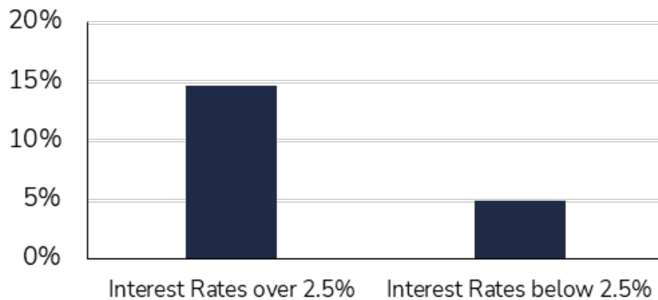


Source: "2023 Annual US PE Breakdown" - PitchBook

Trump's election should favour both traditional and crypto hedge funds

In 2024, **traditional hedge funds** had an excellent year, benefiting from a great environment for alpha generation. We expect this trend to continue. Historically, when US interest rates have been at the current level, the industry has delivered above-average performance (see Graph 1).

Chart 1:
HF annualised returns in high vs. low interest rates



Source: Syz Capital AG, Hedge Fund Index Bloomberg ticker: HFRIFWI index. Since 1990

The Trump election effect:

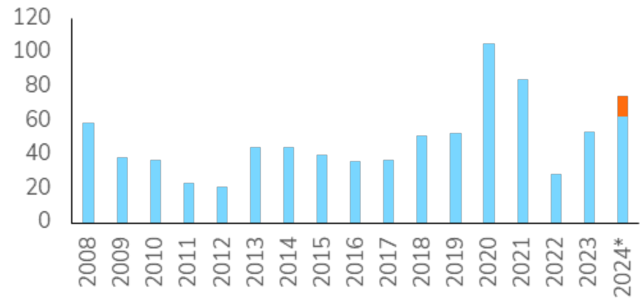
- **Pro-business policies:** these policies are expected to reduce uncertainty for companies, stimulating corporate activity. This enabled us to upgrade our stance on **Merger Arbitrage** to neutral. This strategy faced challenges under the Biden administration. We may consider raising our position to overweight if we see a more deal-friendly environment and an increase in deal volume.
- **Inflationary policy:** according to most economists, if the Trump economic programme is implemented, it is likely to create upward pressure on inflation and stabilise interest rates. As noted earlier, this environment should favour hedge fund strategies.

We remain overweight on Convertible Arbitrage and Market Neutral strategies.

Market neutral strategies: we expect interest rates in 2025 to remain at levels that will sustain strong market dispersion in both equity and credit. This should provide managers with attractive opportunities for alpha generation, on both the long and short side.

Convertible Arbitrage: over the next two years, many corporates will face a "refinancing wall", the effects of which have already begun materialising in 2024, through an increase in convertible bond issuance (see Graph 2). Convertible bonds stand to benefit from this trend, as rising borrowing costs make traditional financing more expensive, prompting Chief Financial Officers (CFOs) to seek cheaper alternatives. The current rates environment is also likely to sustain favourable levels of single-name equity volatility and increase the number of bond restructurings — both of which present strong tailwinds for the strategy.

Chart 2:
New convertible bonds issuance (October 2024 $ bn)



Source: Syz Capital, Calamos investment. *Annualised

We remain constructive in **Macro.** Themes will emerge as the Trump administration takes office and begin making changes. Regional dynamics and divergences in economic cycles should bolster directional and relative value trades, benefiting macro discretionary managers.

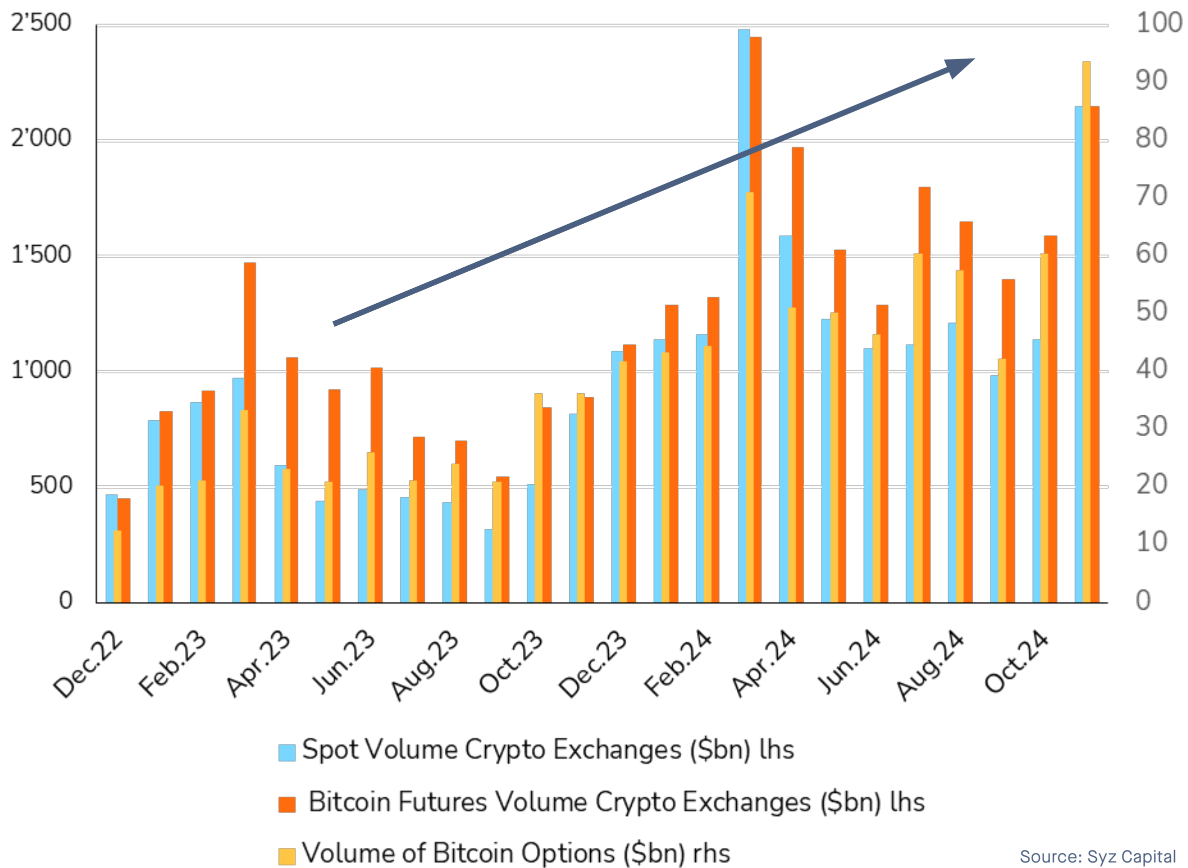
In 2024, the **crypto landscape** experienced significant advancements in both regulatory clarity and market activity. The year began with groundbreaking milestones, notably the approval of bitcoin ETFs in January, quickly followed by ethereum ETFs in March. These approvals have sparked anticipation for other cryptocurrencies to enter the ETF space, further legitimising digital assets in the eyes of institutional investors.

The bitcoin halving in April, a key cyclical event, strengthened interest and participation across the sector, acting as a catalyst for renewed enthusiasm. This momentum was bolstered in November with the election of Donald Trump, ushering in an administration that is explicitly supportive of crypto. Trump's cabinet nominations include prominent crypto-friendly figures like Howard Lutnick, Scott Bessent, James David Vance, Robert F. Kennedy Jr, and Elon Musk, amongst others.

Adding to the optimism, the anticipated resignation of SEC Chair Gary Gensler, slated for early 2025, signals a potential shift in regulatory tone. Gensler, known for his stringent stance on crypto, has faced criticism for policies perceived as stifling the industry. His departure could pave the way for a more balanced and innovation-friendly approach from the SEC.

Amid these developments, bitcoin is nearing the monumental USD $100,000 mark, driving the entire cryptocurrency ecosystem upward. The total market capitalisation has surged to an impressive USD $3.35 trillion, reflecting growing adoption and confidence from both institutional and retail investors.

In summary, 2024 has laid the foundation for a transformative era in the crypto space, with regulatory progress and market growth converging to propel the industry to new heights.



Source: Syz Capital

This environment remains highly favourable for our crypto strategies, with activity expected to stay robust, benefiting our volume-hungry market-neutral strategies. Consequently, we hold a very positive outlook on arbitrage and market making, which are well-positioned to capitalise on dislocations across exchanges.

Similarly, we see significant opportunities in volatility arbitrage. The recent approval of new instruments, such as options on IBIT, Blackrock's Bitcoin ETFs, will add market depth and open broader derivative trading strategies, further supporting the expansion of alpha.

Additionally, we are increasingly optimistic about statistical arbitrage. Greater regulatory clarity is likely to foster the emergence of new projects, each with distinct dynamics. This growing dispersion will expand the toolkit for managers, creating fresh opportunities across the ecosystem.

10 potential surprises for 2025

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.

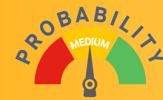
- **A third candidate enters the US election race**
  While everyone was expecting a re-match of Biden-Trump, it didn't happen. For health reasons, Joe Biden was replaced by Kamala Harris as the democrat candidate. We know what happened next…

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



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”

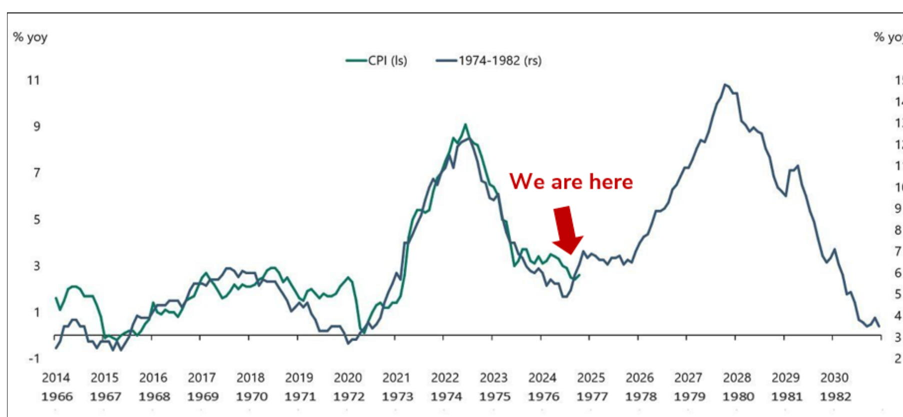
The new US administration’s immigration policy helps keep unemployment below 4.5%, with wages continuing to rise steadily. Meanwhile, China’s economy shows signs of an unexpected rebound, driving commodity prices upward and prompting a gradual yet steady recovery in oil prices. Inflation remains stubbornly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

Source: Kitco

SURPRISE #6: From Mag7 to Lag7

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.

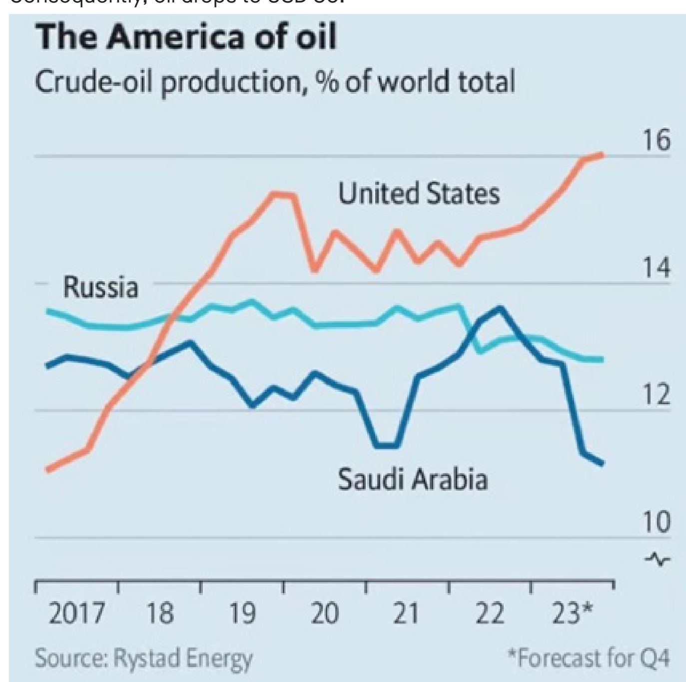
By mid-2025, market sentiment shifts as it becomes evident that Nvidia is facing significant competition from China. This development triggers a sharp decline in Nvidia's stock price, mirroring the broader downturn affecting the other Magnificent 7.

Source: Rich Washburn

SURPRISE #7: A US-OPEC+ clash

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

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.

EURCHF chart›

Source: TradingView

SURPRISE #9: A major fund blows up

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

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

TRADING

ODTE: the risky breakthrough of ultra-speculation

Ultra-short-term options, known as 'Zero Day Options' (or ODTEs), are options that expire on the day they are purchased. Unlike traditional options, which can last from a few days to several months, ODTEs allow investors to bet on market movements over very short periods. For the time being, they mainly concern the major stock market indices, but there is a growing desire to extend them to large caps such as Nvidia or Tesla, which could become a reality in 2025. But what are the risks? Valérie Noël, Head of Trading at Syz Bank, takes a closer look.

What are the advantages of these zero day options?

Used mainly by high-frequency traders and retail investors, these options offer the prospect of almost immediate and relatively high profits, but with an equally high level of risk. The idea is to exploit intraday variations in indices to generate quick profits - a tactic that particularly appeals to those looking to capitalise on sudden movements.

These options have been hugely successful since they first appeared on the markets. Is this still the case?

Since their launch in 2022, ODTEs have seen an impressive success, sometimes accounting for as much as 50% of the total volume of options on the S&P 500, according to JPMorgan data. This success continues to this day, although there are some nuances. For example, when the S&P 500 fell 3% on 7 August, investors preferred longer-term options, seeing them as a more reliable hedge against prolonged volatility. The share of ODTE options in the volume of options traded fell to 26% during this crisis, compared with an annual average of 48%. This phenomenon shows that, despite their popularity, these ultra-short options are not seen as an ideal hedging tool in stressed market conditions.

The original fear was that the extreme volatility of these options would disrupt the proper functioning of the indices concerned. The verdict?

ODTEs are inherently volatile, and some experts fear that they could, in specific circumstances, affect the stability of major indices such as the S&P 500. So far, the disruptions have not been as pronounced as some had feared, but caution is still warranted. Some analysts warn that these options have the potential to amplify volatility in the event of a market crisis. For example, the combination of strong take-up of ODTEs and other products such as ODTE ETFs could trigger a volatility crisis similar to the 'Volmageddon' of 5 February 2018. For the record, that day was marked by a sudden spike in market volatility that resulted in the loss of more than 90% of the value of some short-volatility ETP products. In other words, if these products are used disproportionately in panic situations, they could exacerbate market movements rather than stabilise them.

There is now talk of extending these assets to private companies such as Nvidia or Tesla. Is this a good idea?

Unlike indices, which are diversified by nature, the shares of these companies are more sensitive to sudden fluctuations. The ODTE applied to individual stocks could significantly increase the volatility of these securities, especially for companies already known for their sensitivity to market movements, such as Tesla. A spike in volatility could lead to instability not only in their share price, but also in the markets' perception of them - a crucial factor for large-cap companies that need to maintain investor confidence and a degree of stability. This raises the question of the appropriateness of offering this type of option on individual high-risk securities.

Are there safeguards in place to avoid repercussions for the markets and the target companies? Or is it necessary to create them?

Mechanisms such as limits on trading volume or restrictions on high volatility could help prevent flash crashes or violent fluctuations that could undermine market stability. In addition, regulators could consider imposing limits on the quantity of ODTE that can be traded during periods of extreme volatility to minimise the risk of a snowball effect in the event of a crisis. This would mitigate the potentially destabilising impact of these options on the underlying securities.

At a time when short-termism is already the target of criticism, how is this expansion of ultra-short-termism perceived?

This type of option feeds strategies focused on quick gains and increases volatility, which can make markets more fragile. Critics argue that this accentuates excessive speculation, to the detriment of a long-term view, posing challenges for both companies and investors over the long term. Ultimately, the perception of this trend towards the ultra-short term is mixed: it meets the needs of speculators but worries those who fear that markets are becoming increasingly prone to instability.

Haven't we opened Pandora's box with zero day options, potentially setting the stage for future devastating flash crashes on the markets?

Due to their speed and high leverage, these options could indeed trigger flash crashes under certain circumstances. For example, if a critical mass of investors decides to sell or buy ODTEs in a panic, this could trigger chain reactions in the market. With the rise of high-frequency trading technologies, the risk of snowball effects is heightened, highlighting the importance of increased regulation and oversight of these products. The authorities will probably need to take a closer look at this segment to ensure that innovation does not compromise the overall stability of the financial system.

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