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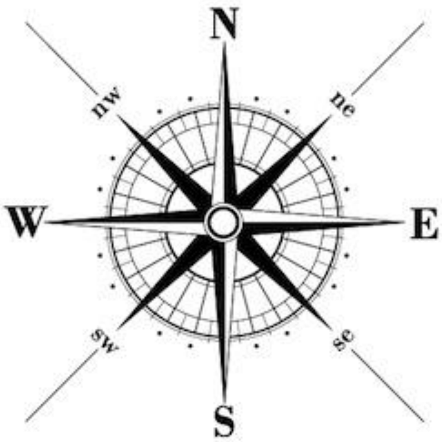

Investment Review : Strategy & Perspectives for 2025

Overviewing 2024

- In the **United States**, **inflation** continued to fall but remained above the 2% target. The Federal Reserve maintained a cautious monetary policy, which tempered pivot expectations. Growth remained resilient, underpinned by consumer spending and the job market. Stock exchanges posted **stellar annual performances**: the S&P 500 exceeded 20% for the second consecutive year by returning 23.3% in 2024 and the Nasdaq Composite climbed even more steeply with gains of 28.6%. **Technology** and **AI** were the main growth drivers sectors.

- In **Europe**, the ECB gradually cut rates to support an economy weakened by rising **energy costs** and an **industrial slowdown** led by **Germany** and **France**. **Inflation** receded to more stable levels but remained above target. European stock exchanges struggled against this backdrop. The Stoxx Europe 600 posted a modest annual return compared to its US equivalents, coming in at 5.9%. France's flagship index, CAC 40 had a difficult year, slipping by 2.1% in 2024 to post its worst performance since the Euro zone crisis.

- In **China**, despite Beijing implementing a **stimulus package** to address challenges in property and infrastructure, the country is struggling to return to pre-pandemic growth levels. While government stimulus provided a boost to the Shanghai Composite index, it remains under pressure.

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European stock market underperformance in 2024 was driven by three main factors: the economic slowdown (absence of AI thematic, Chinese economy-dependent companies), political upheaval (instability in France and snap elections in Germany) and geopolitical risks (Trump tariffs, wars in the Middle East and Ukraine/Russia).

Our Vision for 2025

An agenda dominated by geopolitics …

Trump 2.0: a recipe for volatility?

Trump's economic policy agenda is based on **two pillars: direct support for the economy and higher tariffs.** In terms of direct support, the president-elect plans to extend his 2017 tax overhaul to include additional tax cuts for businesses and individuals, increase public spending and deregulate various sectors, especially energy, with a focus on exploiting natural resources.

In terms of tariffs, president Trump is proposing up to 60% on Chinese imports and 10%–20% on imports from elsewhere. During his first term in office, tariffs on Chinese imports were **gradually raised to 20% without any sudden increases** and remained below the levels he pledged. Although tariff threats inevitably trigger volatility, the president-elect is unlikely to impose dramatic increases, not least because China may retaliate.

Fresh tariffs could penalize European exporters such as the automotive, chemicals and capital goods industries, to which the fund currently has very limited exposure. We are favouring companies whose US sales are generated directly on US soil and will benefit from support while avoiding tariffs.

China: a new dawn in 2025?

Since September 2024, China has unleashed several measures to **stimulate** its economy and revive domestic demand, including **monetary easing** (reserve requirements reduced by 50 bps, rate cuts), **property market support** (interest rate cuts on existing mortgages, lower down payments for first-time buyers), **fiscal stimulus** (special sovereign bonds), **local government support** and **tax incentives** (tax cuts, subsidies).

Although economists were initially unconvinced, recent economic data appear to show that the measures are **delivering results.** The **PMI** index readings are above the 50 threshold and the **construction** subsector moved back into expansion territory to 53.2 compared with 49.7 in November according to the National Bureau of Statistics (NBS). The business expectation index for the **service sector** sat at a lofty 57.6 in December.

The brightest spot in recent data is the **sustained rise in house prices.** The average month-on-month price increase for new housing in 100 major cities came in at 0.37% versus 0.36% in November according to data from property research firm China Index Academy. A healthy property sector is the key to China's economic recovery with households reportedly **storing 70% of Chinese wealth in property**. Stable or growing prices would restore **confidence and visibility** to consumers and combine with the government's tax incentives.

This is good news for the European companies **exposed to Chinese consumer demand, especially luxury goods companies.**

Back in November 2024, we increased our luxury goods weightings in anticipation of China's fundamentals being bolstered by the multiple economic stimulus announcements. We believe that the gradual improvement in China's economy is the most promising investment theme for 2025 despite potential Trump tariffs.

Russia–Ukraine: the third and final year of war?

Three key developments shaped the Russia–Ukraine war in 2024: the Kursk offensive (first foreign military incursion on Russian soil since the Second World War), Russian advances in eastern Ukraine (Novohrodivka, Krasnohorivka and Vuhledar) and the attacks on Kyiv in December 2024.

NATO members spent over €20 billion on Ukraine military assistance in the first half of 2024 and agreed to a **minimum baseline funding of €40 billion over 12 months**, opened a new air defense base in Poland and reaffirmed their support for Ukraine. Allies stopped short of reaching a consensus to invite Kyiv to join NATO.

In May 2023, Donald Trump said he could resolve the Russia–Ukraine conflict **in one day** if he won a second term. In December 2024, he vehemently opposed to Ukraine firing US supplied long-range missiles into Russia. Trump called for an **immediate ceasefire** and negotiations to end the war in Ukraine, highlighting the needless loss of human life.

Although an end to the conflict in the short term is unlikely, Donald Trump seems less inclined to provide as much logistical and military assistance to Ukraine as the Biden administration and is emphasising the need for negotiation. A ceasefire seems plausible and would prompt a significant change in market perception of Europe.

European politics: can stability be restored?

On 16 December 2024, Olaf Scholz lost a vote of confidence in the Bundestag and paved the way for snap elections in **Germany**. On 27 December, President Frank-Walter Steinmeier officially dissolved the Bundestag and called a federal election for 23 February 2025. Opinion polls put Friedrich Merz's Christian Democratic Union (CDU) in the lead with around 31%–33% of voting intentions, followed by the Alternative for Germany (AfD) at 17%–19%, with Olaf Scholz's SPD in third place at 15%–18%. The Greens (11%–14% of voting intentions) nominated Robert Habeck as their official candidate and are willing to form a coalition with the CDU, which is leading the polls.

The most likely scenario is currently a coalition between these two parties. This would be positive for the markets, as the CDU proposes economic reforms to address Germany's structural and cyclical challenges. The elections merit close scrutiny and the outcome could prove very positive for the European economy in the medium term.

In **France**, the recently appointed Prime Minister François Bayrou has had a busy start to 2025. In January, he delivers his general policy speech to the National Assembly to outline his government's priorities and approach.

While we have hope for the German coalition, recent events in France's National Assembly make us **wary over how soon the current political instability can be resolved**. The new government is experienced, but possibly precarious. **We remain selective on French companies that generate most of their revenue in France and prefer more global players until greater political stability is reached. This stability is essential to the confidence of economic stakeholders in France.**

What about fundamentals and the markets?

Europe will continue to grow in 2025

Recent economic developments have prompted downward revisions to growth estimates for Europe in 2025. Economists are forecasting average **growth of 1% for the region**, considering all the issues previously discussed. This recent economic slowdown has also led to **easing inflation**, a positive development for central bankers.

A year of rate cuts

Most central banks will **ease monetary policy** in 2025. **70% of European funding** is granted by banks, mostly as short-term loans, and the ECB set to cut rates further, demand for loans could rise. Indeed, the latest eurozone bank lending survey was relatively optimistic.

Rate cutting cycles are typically accompanied by an improvement in **business confidence** and in turn by an improvement in **economic indicators**, creating a favorable backdrop for European equities.

Real wage growth remains positive

European consumers are still enjoying **positive real wage growth**. Unlike the US, EU consumers have a **high savings rate**. As confidence improves, they may choose to reduce their savings rate in favor of spending.

Negatives are already priced in for European stocks

European companies' **earnings expectations for 2024 and 2025** were **steadily revised downwards** over the course of last year. Most of this occurred in **the run-up to** the third-quarter earnings season, which proved a very **mixed bag**. Since then, estimates for 2025 have **stabilised and in some cases recovered** due to the analyst consensus being **too pessimistic**. This is a supportive factor for European equity markets.

The European stock market is not overheating, and is underinvested

Unlike the US, European stock markets are currently trading at **median** levels that reflect moderate economic growth. **Historic underinvestment** in Europe is being aggravated by Donald Trump's imminent arrival. Currently, **the outlook for Europe is overly negative** and that of the US is overly positive. **Fresh visibility** on just one of the previously discussed issues could result in a hint of upside for European stock markets.

Conclusion for 2025

We step into 2025 with informed optimism.

The key macroeconomic and geopolitical issues have been identified and incorporated into our portfolio allocation. As the year begins to unfold, we remain cautious as to the economic cycle and selective on stocks exposed to France, which could be penalized by lack of confidence. We prefer companies generating significant revenues in the United States. Since the end of November, we take an optimistic view of the upturn in China's economic momentum.

In 2025, we will continue to position the portfolio on long-term growth themes, previously absent from the allocation. This already started in December 2024 with investments in Merlin Properties (a real estate company focused on logistics and data centers), Danieli (an equipment producer for green steel mills) and ERG (a pure player in renewable energies).

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by ***Steven PREVOST***
CIO of La Financière Responsable