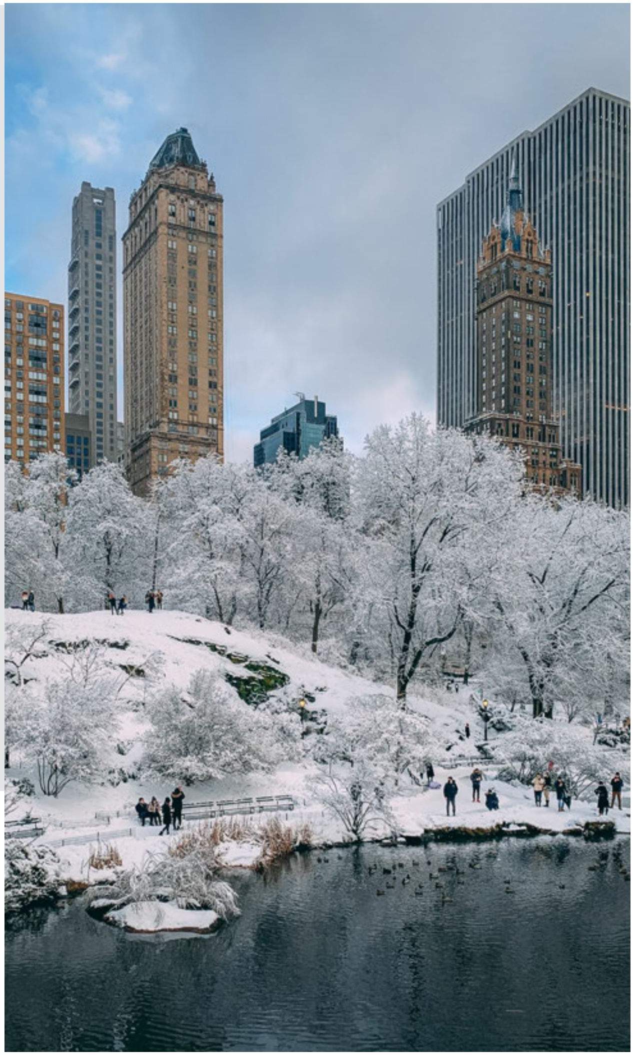
TELOMERE | Capital

Market **Update**

Global Divergence

December 2024

Editorial



The US elections have introduced new dynamics, with the Republican victory leading the market to expect stronger growth, higher inflation, and as a result less interest rate cuts. This shift in expectations has contributed to significant gains in global stock markets, with major stock indices reaching their "all time high" levels.

Central banks have continued easing their policies, with the Federal Reserve implementing its second rate cut. However, the path forward remains uncertain, as policymakers balance the need for economic support against the risk of reigniting inflationary pressures.

Geopolitical tensions have escalated in the latter half of 2024, potentially impacting global supply chains and trade relations. The new US administration's emphasis on protectionist policies and strategic repositioning may further complicate the international economic landscape.

In Europe, France faces a significant political and economic crisis centered around its 2025 budget, causing volatility in financial markets and raising questions about long-term fiscal sustainability.

We hope you enjoy reading and find these updates helpful for the month ahead.

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Global **Markets**

Global	Last	YTD	MTD
MSCI World	3,810.1	22.4%	4.6%
MSCI ACWI	862.5	20.9%	3.8%

United States			
Dow Jones Industrial	44,910.7	21.2%	7.7%
S&P 500	6,032.4	28.1%	5.9%
NASDAQ 100	20,930.4	25.3%	5.3%
Russell 2000	2,434.7	21.6%	11.0%

Europe			
Euro STOXX 600	510.3	10.1%	1.2%
Euro STOXX 50	4,804.4	9.8%	-0.3%
DAX	19,626.5	17.2%	2.9%
CAC 40	7,235.1	-1.2%	-1.5%
FTSE 100	8,287.3	11.0%	2.6%
Swiss Market Index (SMI)	11,764.2	9.1%	-0.2%

Sectors (US)			
Communication Services		36.3%	4.3%
Consumer Discretionary		26.4%	13.6%
Consumer Staples		21.4%	4.7%
Energy		16.8%	7.1%
Financials		41.6%	10.9%
Health Care		9.4%	0.1%
Industrials		28.4%	7.9%
Materials		12.0%	1.8%
Real Estate		14.8%	3.8%
Technology		33.0%	5.0%
Utilities		33.5%	3.4%

Commodities & Metals	Last	YTD	MTD
Gold (XAU)	2,643.15	28.1%	-3.7%
Silver (XAG)	30.63	28.7%	-6.2%

Currencies (USD)			
EUR	1.06	-4.2%	-2.8%
CHF	0.88	-4.7%	-2.0%
JPY	149.8	-5.8%	1.5%
BTC	97,460.4	132.4%	39.4%

Fixed Income			
US Treasury	2,326.08	2.2%	0.8%
EUR Treasury	249.37	3.3%	2.3%
Global Corporate	3,354.42	4.1%	1.3%
Global EM USD	1,263.15	7.9%	1.1%
Global High Yield	1,671.09	9.8%	0.8%

Interest Rates (US)		Last month	End 2023
3 Months	4.49%	4.54%	5.33%
12 Months	4.28%	4.27%	4.76%
5 Year	4.05%	4.16%	3.85%
10 Year	4.17%	4.28%	3.88%

Price / Earnings Ratios		End 2023	End 2022
S&P 500	26.98	23.01	18.32
Euro STOXX 50	14.00	12.81	11.50
Swiss Market Index (SMI)	18.76	18.44	15.31

Data at close of 29/11/2024

Macroeconomic **Indicators**

Central Banks Targets Rates	Last	Q3 2024	Q2 2024	Q1 2024
United States	4.63%	4.88%	5.38%	5.38%
Eurozone	3.40%	3.65%	4.25%	4.50%
Switzerland	0.97%	0.97%	1.23%	N/A
Canada	3.75%	4.25%	4.75%	5.00%
Japan	0.09%	-0.05%	-0.09%	N/A
China	0.35%	0.35%	0.35%	0.35%
India	6.50%	6.50%	6.50%	6.50%

Inflation (CPI - YoY)	Last	Q3 2024	Q2 2024	Q1 2024
United States	2.60%	2.40%	3.00%	3.50%
Eurozone	2.30%	1.70%	2.50%	2.40%
Switzerland	0.60%	0.80%	1.30%	1.00%
Canada	2.00%	1.60%	2.70%	2.90%
Japan	2.30%	2.50%	2.80%	2.70%
China	0.30%	0.40%	0.20%	0.10%
India	6.21%	5.49%	5.08%	4.85%

Unemployment	Last	Q3 2024	Q2 2024	Q1 2024
United States	4.10%	4.10%	4.10%	3.80%
Eurozone	6.30%	6.30%	6.40%	6.50%
Switzerland	2.60%	2.60%	2.40%	2.30%
Canada	6.50%	6.50%	6.40%	6.10%
Japan	2.50%	2.40%	2.50%	2.60%
China	5.00%	5.10%	5.00%	5.20%

Gross Domestic Product (YoY)	Last	Q3 2024	Q2 2024	Q1 2024
United States	2.70%	2.70%	3.00%	2.90%
Eurozone	1.00%	N/A	1.00%	0.30%
Switzerland	2.00%	2.00%	1.50%	0.40%
Canada	1.60%	1.60%	1.50%	0.80%
Japan	2.90%	2.90%	2.00%	2.50%
China	4.60%	4.60%	4.70%	5.30%
India (Real GDP)	5.40%	5.40%	6.70%	7.76%

Producer Price Index (PPI - YoY)	Last	Q3 2024	Q2 2024	Q1 2024
United States	0.70%	-0.70%	1.70%	1.80%
European Union	-1.50%	-1.50%	0.10%	-1.20%
Switzerland	-1.80%	-1.30%	-1.90%	-2.10%
Canada	1.11%	-1.02%	2.90%	-0.40%
Japan	3.40%	3.10%	2.60%	0.90%
China	-2.90%	-2.80%	-0.80%	-2.80%
India	2.36%	1.84%	3.43%	0.26%

Purchasing Managers' Index	Last	Q3 2024	Q2 2024	Q1 2024
United States	46.5	47.2	48.5	50.3
Eurozone	45.2	45	45.8	46.1
Switzerland	48.5	49.9	43.9	45.2
Canada	51.1	50.4	49.3	49.8
Japan	49	49.7	50	48.2
China	50.3	49.8	49.5	50.8
India	56.5	56.5	58.3	59.1

Core Inflation (Core CPI - YoY)	Last	Q3 2024	Q2 2024	Q1 2024
United States	3.30%	3.30%	3.30%	3.80%
Eurozone	2.70%	2.70%	2.90%	2.90%
Switzerland	0.80%	1.00%	1.10%	1.00%
Canada	2.30%	2.40%	2.90%	2.90%
Japan	1.60%	1.70%	1.90%	2.20%

Consumer Spending (PCE - YoY)	Last	Q3 2024	Q2 2024	Q1 2024
United States	2.80%	2.65%	2.63%	2.98%

Data as of 02/12/2024
N/A: Not yet reported or Public Holiday

November **Macro News**

- **The Republican party won the US elections**. This win led investors to expect stronger growth, higher inflation, and the potential for increasing interest rates.
- **In line with expectations, despite some cooling in the job market, inflation data on both headline and core levels ticked higher**, pushing the core PCE inflation rate back to 2.8% and the inflation rate at 2.6% year-on-year.
- **The US Federal Reserve cut interest rates for the second time**, reducing them by 0.25% to a range of 4.50 - 4.75%. While the Fed indicated that they would take a more gradual approach to changing interest rates going forward, data suggests they are “not in a hurry” to return interest rates to their pre-pandemic levels.
- **Global stock markets posted their most significant gains in six months**, with the MSCI World Index increasing by 4.6%. This surge was primarily fueled by the US stock market, which reached new all-time highs following the elections. Investors seemed to overlook concerns regarding potential tariffs imposed by the US, instead concentrating on the resilience of corporate earnings and the expected advantages of the new administration's promised tax cuts, fiscal spending, and deregulation.
- **Global bonds faced headwinds** due to the election outcome and shifting rate cut expectations. While central banks continued to lower rates, concerns about potential inflationary pressures from proposed fiscal policies under the new US administration led to higher Treasury yields.

Current **Environment**

- **Inflation appears to be globally slowing.** All the main sources of global inflation are showing figures that are down or in line with expectations. However, a closer look reveals that inflation in services remains a concern, making it difficult for central banks to normalize monetary policy. At the same time, the global labor market remains fairly stable, which is particularly reassuring for the future of the US economy.

- **The soft landing remains the most likely scenario, supported mainly by data from the US.** Indeed, the US economy continues to demonstrate remarkable resilience, with a 3Q 2024 GDP growth of 2.7% Y-o-Y. The labor market is expected to remain resilient, supporting continued income growth. Strong productivity growth is anticipated to keep inflationary pressures muted, which should benefit real disposable incomes

- **The major central banks moved in tandem and started their cycle of rate cuts.** Policymakers are adopting a dovish tone, and the ECB has continued its easing cycle. These moves confirm a shift towards a more accommodative monetary policy stance, with further rate cuts expected in the coming months. However, recent developments point to the beginning of a divergence between different regions, where we could see some central banks pausing in their strategy to avoid a policy mistake.

- **Employment data is becoming increasingly important as it provides insight into the health of the wider economy**. Recent figures have been reassuring, but this apparent strength in the labor market could be misleading as many workers are taking multiple part-time jobs due to the high cost of living and inadequate unemployment benefits. In addition, jobless claims, which are usually a reliable indicator of unemployment, have become less reliable as more unemployed workers exhaust their benefits and become ineligible to claim.

- **Geopolitical uncertainties have risen** in the latter half of 2024, which could have a detrimental impact on global supply chains. This could lead to higher commodity prices and a decline in global economic growth should these concerns materialize. Some trade issues could affect the global economy. There is a chance that the EU and China will argue more over electric vehicles. There is also a chance that countries will become more protectionist, which could affect trade and harm productivity.

Impact of **Trump's Key Appointments**

The new administration emphasizes protectionist trade policies, deregulation, and increased defense spending, signaling a pivot towards domestic economic prioritization and strategic global repositioning.

These measures are expected to bolster U.S. industries in the short term but may heighten global trade tensions and economic uncertainty.

Position	Appointee	Political Plan	Consequences for U.S. Economy	Consequences for Global Economy
Treasury Secretary	Scott Bessent	Implement aggressive tariffs, particularly on China, Mexico, and Canada; pursue a "3-3-3" strategy to boost economic growth, oil production, and reduce the budget deficit.	Potential short-term revenue increase from tariffs; risk of higher consumer prices and retaliatory tariffs affecting U.S. exports; possible stimulation of domestic oil industry.	Increased trade tensions; potential disruptions in global supply chains; possible slowdown in global trade growth due to protectionist measures.
Secretary of State	Marco Rubio	Adopt a hawkish foreign policy stance, particularly towards China; strengthen alliances with traditional partners.	Potential for increased defense spending; possible strain on economic relations with China, affecting trade and investment.	Heightened geopolitical tensions; possible realignment of global alliances; impact on international trade agreements.
Secretary of Commerce	Howard Lutnick	Support implementation of significant tariffs; advocate for deregulation to stimulate business growth.	Potential boost to domestic industries due to protectionist policies; risk of trade wars leading to economic volatility.	Global market instability; potential retaliatory measures from trade partners; disruptions in international commerce.
U.S. Trade Representative	Jamieson Greer	Oversee trade negotiations with a focus on imposing tariffs and renegotiating existing trade agreements to favor U.S. interests.	Potential reshoring of manufacturing jobs; increased costs for imported goods; challenges in export markets due to retaliatory tariffs.	Strains in international trade relations; possible fragmentation of global trade systems; shifts in global supply chains.
Chairman of the SEC	Paul Atkins	Reduce regulatory burdens, especially in capital markets and fintech; promote cryptocurrency innovation and facilitate regulatory clarity for digital assets.	Easing financial rules to promote innovation and growth in the financial sector; increase IPO activity and investment flows driven by a pro-market regulatory stance.	U.S. regulatory relaxation may pressure other jurisdictions to adopt looser financial rules to stay competitive; deregulation could attract foreign investments, impacting capital flows in emerging markets.

Impact of **Trump's Key Appointments**

Position	Appointee	Political Plan	Consequences for U.S. Economy	Consequences for Global Economy
Director of National Intelligence	Tulsi Gabbard	Focus on non-interventionist policies; reassess intelligence priorities to align with administration's foreign policy objectives.	Potential reduction in overseas military expenditures; reallocation of resources to domestic priorities.	Changes in global intelligence-sharing dynamics; potential gaps in addressing international security threats.
Attorney General	Pam Bondi	Emphasize law and order policies; focus on immigration enforcement and combating drug trafficking.	Increased federal spending on law enforcement and border security; potential legal challenges affecting business operations.	Potential diplomatic tensions with neighboring countries; impact on cross-border trade and labor mobility.
Secretary of Defense	Pete Hegseth	Strengthen military capabilities; advocate for increased defense budget; focus on counterterrorism.	Boost to defense industry; higher government spending potentially increasing national debt; possible redirection of funds from social programs.	Potential escalation in global arms race; shifts in international security dynamics; impact on global peacekeeping efforts.
Health and Human Services Secretary	Robert F. Kennedy Jr.	Reevaluate health policies; potential rollback of vaccine mandates; focus on alternative health approaches.	Changes in public health strategies; potential impact on healthcare industry regulations; possible increase in health-related controversies.	Variations in global health policy collaborations; potential challenges in managing international health crises.
Department of Government Efficiency	Elon Musk & Vivek Ramaswamy	Reduce government spending; streamline federal bureaucracy; implement technological innovations in government operations.	Potential cost savings; improved efficiency in government services; possible job cuts in federal workforce.	Influence on global governance models; potential shifts in international collaborations on technology and innovation.

Trump's cabinet picks signal a shift towards policies that could reshape various sectors of the economy and financial markets. Combined with the President-elect's broader policy agenda, this could lead to inflationary pressures and ultimately a more hawkish Federal Reserve stance, potentially strengthening the dollar in the short term but posing risks for fixed income investments. The market has already reacted, with the 10Y Treasury yield rising to a 4-month high of 4.45% and the US dollar index gaining 1.7% in November.

On the other hand, small caps and financials could benefit from deregulation and potential tax cuts. The energy sector, particularly oil and gas companies, could benefit from a more favorable regulatory environment, while technology companies could see mixed results due to potential supply chain disruptions from increased tariffs.

US **Restrictions on China**

Under President Biden, the U.S. has expanded trade bans targeting China's chip technology, prohibiting the sale of specific types of chips and manufacturing equipment to China. With President-elect Donald Trump set to take office, there is potential for even stricter measures.

In early December, the U.S. government unveiled its most comprehensive set of restrictions to date, aimed at limiting China's access to advanced technology. The new restrictions prohibit the sales of certain types of chips and machinery to China and add more than 100 Chinese companies to a restricted trade list. The move marks the third major update over the past three years to a set of rules that have tried to cut China off from the world's most advanced technology.

The implications for both economies are significant:

- U.S. Economy: Increased tariffs and trade barriers could lead to higher costs for American consumers and businesses that rely on Chinese imports. While these measures aim to bring manufacturing jobs back to the U.S., they might also harm U.S. competitiveness and disrupt supply chains. Additionally, restrictions on investment could limit growth prospects for U.S. firms looking to expand in China.

- Chinese Economy: The restrictions could exacerbate existing economic challenges in China by limiting access to critical technologies needed for growth in sectors like semiconductors and AI. This may contribute to a broader "chilling" effect on the Chinese economy, deterring foreign investment and affecting China's export growth.

Japan and the Netherlands have agreed to implement similar export controls, though the timeline remains uncertain.

China has strongly opposed these new restrictions, calling them a "serious threat" to global supply chains.

These recent developments represent a significant escalation in U.S.-China technology competition, with implications for global trade and technological advancement.

French **Volatility**

France is currently facing a significant political and economic crisis centered around the 2025 budget. Here's an overview of the current situation and its implications.

Prime Minister Michel Barnier has invoked Article 49.3 of the French constitution to force the 2025 budget through parliament without a vote. This controversial move comes after failing to secure support from opposition parties, particularly the far-right National Rally (RN) led by Marine Le Pen.

The budget standoff is causing volatility in financial markets:

a) **Bond Yields**: French 10-year sovereign bond yields have surged to 2.89%, with the spread against German bonds widening to 88bps, the highest since September 2012. If that persists, it would mean a hit to French GDP of 0.5%, according to Bloomberg Economics. "The risk is that spreads widen even more, hitting growth harder and further straining the public finances."

b) **Stock Market**: The CAC 40, France's benchmark stock index fell and is underperforming other eurozone markets. French banking stocks have been particularly affected, with shares sliding as investors price in potential risks.

If the government does not collapse over the social security law, opposition parties could still propose a separate no-confidence motion. Barnier also faces the risk of being ousted over the upcoming votes on the End of Year Finance Bill and the 2025 Budget.

If Barnier's government falls, it's likely that Macron will appoint a new prime minister. But forming a government might take a while.

While the situation is serious, it's important to note that France maintains strong market access, recently raising €8.3 billion at relatively modest yields. The crisis is viewed primarily as a French political issue rather than a broader eurozone threat, unlike previous European crises. However, long-term sustainability questions remain, as France hasn't balanced its budget in over 50 years.

Source: Bloomberg

US Dollar **Strength & Risk**

The market is currently displaying a significant bias towards the dollar, supported by a deteriorating backdrop in other major economies. However, it is important to monitor the US dollar closely, as there may be some pressure on the currency if the Federal Reserve cuts rates more than expected and even more if it signals further easing measures to come.

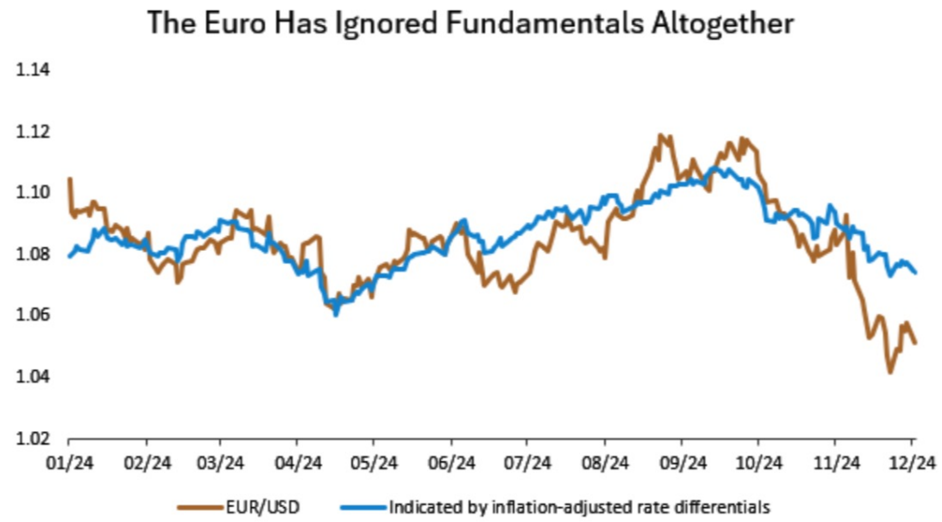
The US dollar is benefiting from political and economic uncertainties in Europe, particularly in France, where the government faces instability. Additionally, the US economy has shown resilience with robust manufacturing data, which contrasts with weaker economic indicators in Europe and other regions.

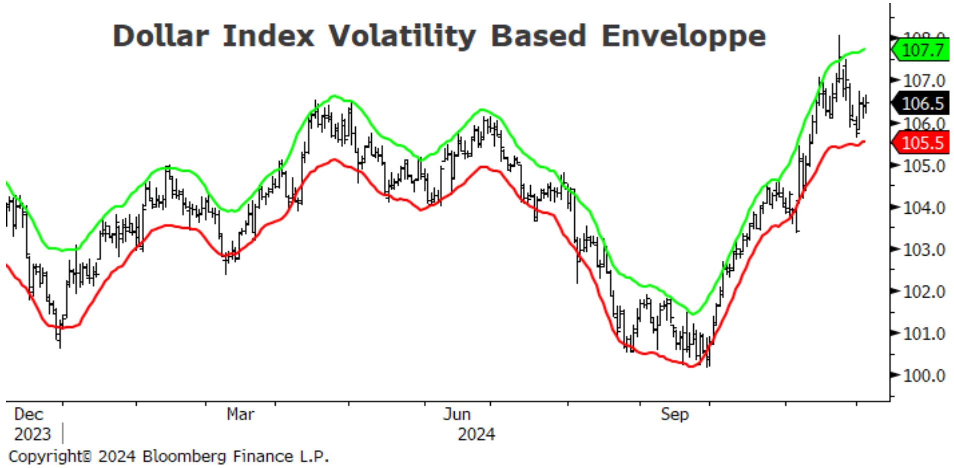
The Federal Reserve has recently cut interest rates to support the US economy amid cooling inflation, but there is speculation that further rate cuts could occur if economic conditions warrant it. This potential easing could exert downward pressure on the dollar if markets perceive it as a sign of weaker economic prospects.

The US Dollar Index (DXY) has shown both upward and downward potential, with key resistance and support levels being closely watched by traders.

For its part, the EUR/USD may be trading below its fundamentals, as the market is pricing in a high probability of deep ECB rate cuts. Even with high political risk, the market's pricing of the currency may be overestimating how far the ECB is willing to go to address the weakness in the Eurozone economy.

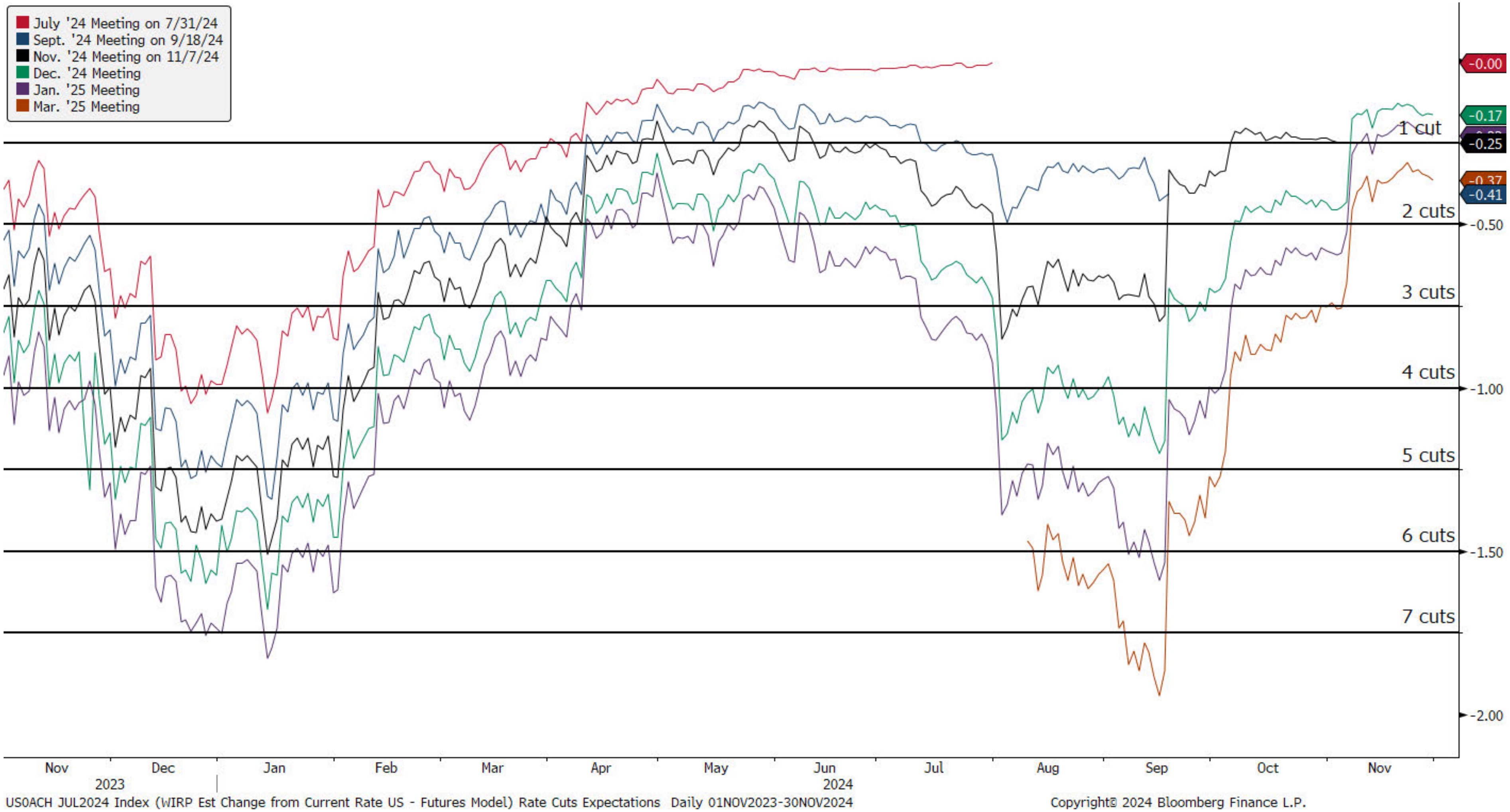
In this context, we recommend taking a balanced approach to the dollar and hedging some of the downside risk in portfolios denominated in other currencies.





Short Term Rates **Expectations**

US rate cut expectations have evolved significantly over the course of 2024, shifting from expectations of gradual easing to more aggressive cuts by the Federal Reserve, driven by improving inflation data and concerns about economic growth. Markets are currently pricing either one or no cut of interest rate for the December '24 meeting (green line).



Equity **Valuations Multiples**

While the S&P 500's current P/E ratio suggests some overvaluation relative to historical averages, the interpretation of this metric is becoming increasingly difficult. The index is driven by a small number of stocks, leading to concerns about "bad breadth". This narrow lead can make the market more susceptible to fluctuations in these few companies.

The Magnificent Seven stocks have significantly higher P/E ratios than the rest of the index. Their elevated valuations, driven by tech enthusiasm and the prospects of AI, carry the risk of lower long-term returns. We recommend diversifying portfolios beyond these large-cap tech stocks to reduce the idiosyncratic risk associated with the Magnificent Seven.

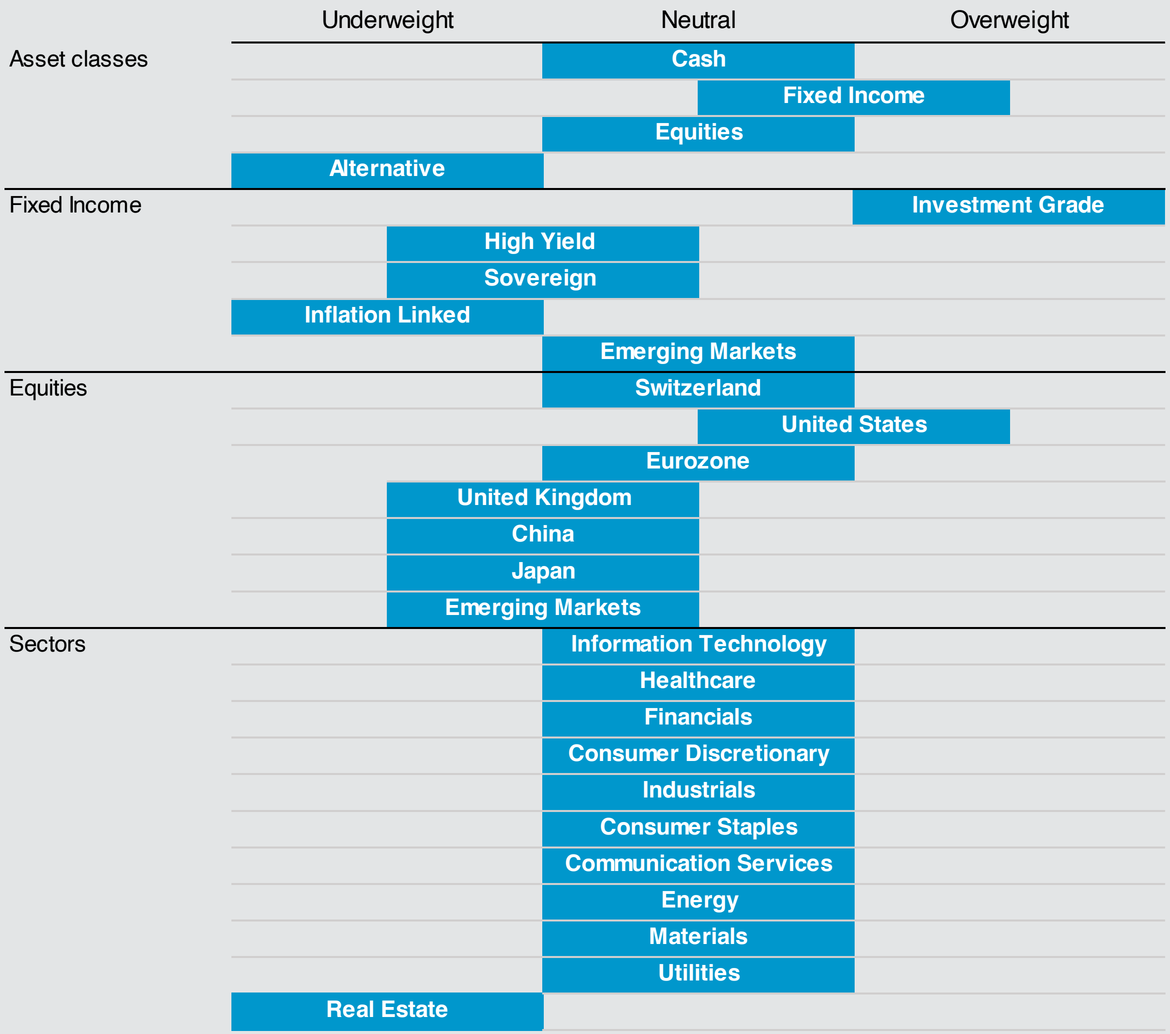
Key **Investment Themes**

- Uncertainty over interest rates and the volatility spikes that can accompany disappointing market releases on top of high valuations reinforce our conviction that **diversification is a core strategy -** particularly important as geopolitical uncertainties persist, whether in the Red Sea, the Middle East, Ukraine or Taiwan.
- The inflation target could well become the floor in this new economic cycle, with core inflation expected to remain above the 2% target by the end of 2024.
- Our recommendation is to focus on **quality stocks** with solid balance sheets and a long-term vision.
- On the **fixed-income** side, corporate bonds are facing higher interest costs overall, and potentially refinancing difficulties in the high-yield segment. Our preference at this stage of the cycle is for **higher-rated companies** rather than high yielding issuers. Note that we recently increased the duration of our selection.
- In the current interest-rate environment, our approach remains focused on carry strategies via bonds. We therefore maintain an **underweight in the alternative class,** capitalizing on the stability and predictable returns offered by bond instruments. However, we remain attentive to the opportunities offered by alternative investments, with their potential for returns uncorrelated with traditional markets.

Our preference for **Investment Grade**

On the fixed income side, corporates are facing higher interest costs and potential refinancing difficulties in the high yield segment. At this stage in the cycle, we prefer higher-rated companies rather than high-yield issuers, which we believe are not worth the risk.

Asset **Allocation**



Fixed-income allocation

Our flagship allocation for 2024, we expect yields to fall in the medium term and the yield curve to "heal" in the US and Europe. Our selection focuses on the highest-quality issuers offering extremely attractive risk-adjusted returns. Recently, we increased the duration of our selection.

Equities

The different scenarios lead us to a more neutral approach to equities, where sector and regional diversification is more necessary than ever. The resilience of the United States leads us to a greater allocation to that country. We keep a neutral stance on the domestic equities in Europe and Switzerland.

Alternative investments

In the current interest rate environment, our approach remains focused on carry strategies through bonds. We thus maintain an underweight allocation to alternative investments, capitalizing on the stability and predictable returns offered by bond instruments. Nevertheless, we remain attentive to opportunities offered by alternative assets, given their potential for returns uncorrelated with traditional markets.

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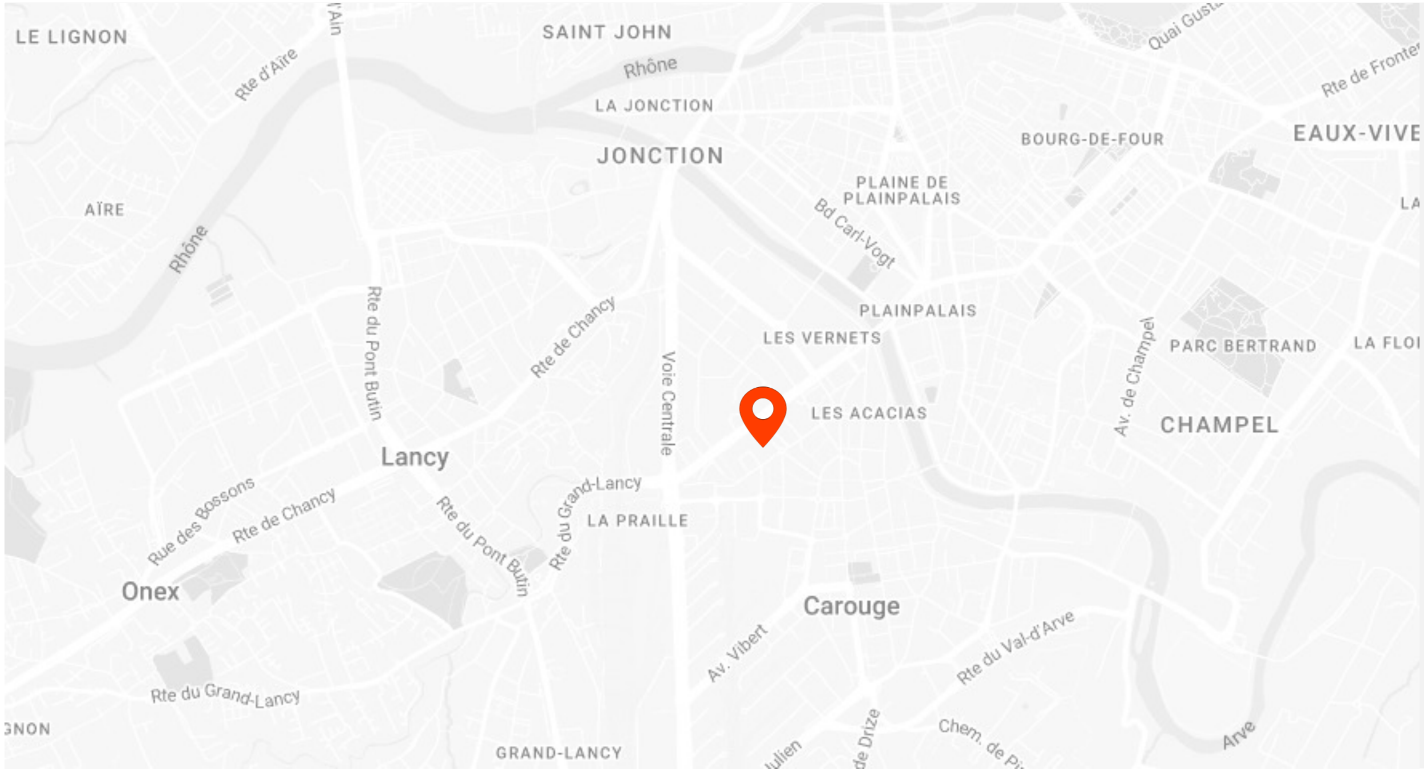
A DIFFERENT APPROACH TO WEALTH MANAGEMENT



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