TELOMERE | Capital

Market **Update**

Tariff-ied Markets

January 2025

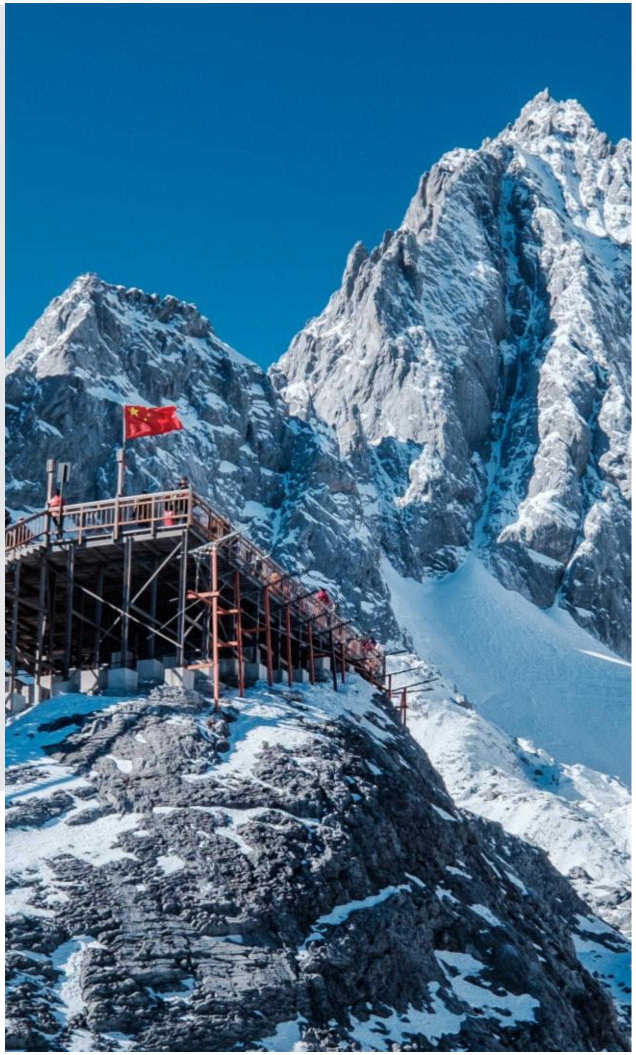
Editorial

The year begins against the backdrop of strong stock market performances in 2024, but recent developments have introduced volatility and a more subdued sentiment. Markets ended 2024 on a weaker note, with December seeing declines as investors digested signals of slower monetary easing from the Federal Reserve.

The global economic environment is marked by divergence. The U.S. continues to lead with robust growth, buoyed by resilient consumer spending and corporate earnings. However, inflationary pressures and potential policy shifts under the Trump administration (such as tariffs) add layers of unpredictability. In contrast, Europe struggles with weak domestic demand and competition from subsidized Chinese exports, while China's economy remains under pressure despite an export boom.

While optimism persists for moderate growth in corporate earnings and economic activity, we are entering 2025 with a more cautious tone than in previous years. We will remain focused on key events such as upcoming earnings reports and potential policy changes under the new U.S. administration.

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	3,707.8	19.2%	-2.6%
MSCI ACWI	841.3	18.0%	-2.3%

United States			
Dow Jones Industrial	42,544.2	15.0%	-5.1%
S&P 500	5,881.6	25.0%	-2.4%
NASDAQ 100	21,012.2	25.9%	0.5%
Russell 2000	2,230.2	11.5%	-8.3%

Europe			
Euro STOXX 600	507.6	9.6%	-0.4%
Euro STOXX 50	4,896.0	11.9%	1.9%
DAX	19,909.1	18.8%	1.4%
CAC 40	7,380.7	0.9%	2.1%
FTSE 100	8,173.0	9.6%	-1.3%
Swiss Market Index (SMI)	11,600.9	7.5%	-1.4%

Sectors (US)			
Communication Services		39.5%	2.3%
Consumer Discretionary		29.2%	2.2%
Consumer Staples		15.4%	-5.0%
Energy		6.3%	-9.0%
Financials		33.8%	-5.5%
Health Care		2.7%	-6.1%
Industrials		18.6%	-7.6%
Materials		0.2%	-10.6%
Real Estate		4.9%	-8.6%
Technology		34.4%	1.0%
Utilities		22.9%	-7.9%

Commodities & Metals	Last	YTD	MTD
Gold (XAU)	2,624.50	27.2%	-0.7%
Silver (XAG)	28.90	21.5%	-5.6%

Currencies (USD)			
EUR	1.04	-6.2%	-2.1%
CHF	0.91	-7.8%	-3.0%
JPY	157.2	-10.3%	-4.7%
BTC	93,714.0	123.5%	-3.8%

Fixed Income			
US Treasury	2,290.24	0.6%	-1.5%
EUR Treasury	245.91	1.9%	-1.4%
Global Corporate	3,289.50	2.1%	-1.9%
Global EM USD	1,248.13	6.6%	-1.2%
Global High Yield	1,661.86	9.2%	-0.6%

Interest Rates (US)		Last month	End 2023
3 Months	4.31%	4.49%	4.31%
12 Months	4.14%	4.28%	4.14%
5 Year	4.38%	4.05%	4.38%
10 Year	4.57%	4.17%	4.57%

Price / Earnings Ratios		End 2023	End 2022
S&P 500	26.47	23.01	18.30
Euro STOXX 50	14.33	12.81	11.50
Swiss Market Index (SMI)	18.50	18.44	15.31

Data at close of 31/12/2024

Macroeconomic **Indicators**

Central Banks Targets Rates	Last	Q4 2024	Q3 2024	Q2 2024
United States	4.38%	4.38%	4.88%	5.38%
Eurozone	3.15%	3.15%	3.65%	4.25%
Switzerland	0.46%	0.48%	0.97%	1.23%
Canada	3.25%	3.25%	4.25%	4.75%
Japan	0.11%	0.18%	-0.05%	-0.09%
China	0.35%	0.35%	0.35%	0.35%
India	6.50%	6.50%	6.50%	6.50%

Inflation (CPI - YoY)	Last	Q4 2024	Q3 2024	Q2 2024
United States	2.70%	N/A	2.40%	3.00%
Eurozone	2.20%	N/A	1.70%	2.50%
Switzerland	0.70%	N/A	0.80%	1.30%
Canada	1.90%	N/A	1.60%	2.70%
Japan	2.90%	N/A	2.50%	2.80%
China	0.20%	N/A	0.40%	0.20%
India	5.48%	N/A	5.49%	5.08%

Unemployment	Last	Q4 2024	Q3 2024	Q2 2024
United States	4.20%	N/A	4.10%	4.10%
Eurozone	6.30%	N/A	6.30%	6.40%
Switzerland	2.60%	N/A	2.60%	2.40%
Canada	6.80%	N/A	6.50%	6.40%
Japan	2.50%	N/A	2.40%	2.50%
China	5.00%	N/A	5.10%	5.00%

Gross Domestic Product (YoY)	Last	Q4 2024	Q3 2024	Q2 2024
United States	2.70%	N/A	2.70%	3.00%
Eurozone	1.30%	N/A	1.30%	0.90%
Switzerland	2.00%	N/A	2.00%	1.50%
Canada	1.90%	N/A	1.70%	1.50%
Japan	2.90%	N/A	2.90%	2.20%
China	4.60%	N/A	4.60%	4.70%
India (Real GDP)	5.36%	N/A	5.36%	6.65%

Producer Price Index (PPI - YoY)	Last	Q4 2024	Q3 2024	Q2 2024
United States	2.00%	N/A	-0.80%	1.70%
European Union	-0.90%	N/A	-1.60%	0.10%
Switzerland	-1.50%	N/A	-1.30%	-1.90%
Canada	2.15%	N/A	-1.02%	2.90%
Japan	3.70%	N/A	3.10%	2.60%
China	-2.50%	N/A	-2.80%	-0.80%
India	1.89%	N/A	1.91%	3.43%

Purchasing Managers' Index	Last	Q4 2024	Q3 2024	Q2 2024
United States	49.3	49.3	47.2	48.5
Eurozone	45.1	45.1	45	45.8
Switzerland	48.4	48.4	49.9	43.9
Canada	52.2	52.2	50.4	49.3
Japan	49.6	49.6	49.7	50
China	50.1	50.1	49.8	49.5
India	56.4	56.4	56.5	58.3

Core Inflation (Core CPI - YoY)	Last	Q4 2024	Q3 2024	Q2 2024
United States	3.30%	N/A	3.30%	3.30%
Eurozone	2.70%	N/A	2.70%	2.90%
Switzerland	0.90%	N/A	1.00%	1.10%
Canada	1.90%	N/A	2.40%	2.90%
Japan	1.70%	N/A	1.70%	1.90%

Consumer Spending (PCE - YoY)	Last	Q4 2024	Q3 2024	Q2 2024
United States	2.82%	N/A	2.66%	2.63%

Data as of 06/01/2025
N/A: Not yet reported or Public Holiday

December **Macro News**

- **Central banks globally continued easing monetary policies.** The Federal Reserve cut its target rate by 25 basis points to 4.25–4.50%, signaling caution with further reductions. The European Central Bank (ECB) also reduced rates by 25 basis points, citing progress in disinflation, while the Swiss National Bank (SNB) and Bank of Canada (BoC) implemented larger 50 basis point cuts.
- **Political turbulence in Germany and France** weighed heavily on European markets. German Chancellor Olaf Scholz's coalition collapsed, prompting early elections, while the French government faced a no-confidence vote, further destabilizing the region.
- **President-elect Donald Trump proposed aggressive trade tariffs**, including 100% tariffs on BRICS nations and additional levies on EU imports. This announcement raised fears of a trade war, contributing to a 2.5% decline in US equities for the month. Global equity markets also lost momentum, declining by 1.5% as concerns over trade and higher US rates grew.
- **Despite global uncertainties, US economic activity remained resilient** with steady GDP growth and robust consumer spending. However, global growth forecasts for 2025–2026 were revised downward due to expected trade tensions and less accommodative financial conditions.

2024 **Wrap-Up**

2024 was a year of resilient global growth, easing monetary policies, and strong equity markets. Central banks cut rates to support cooling economies, while political shifts, including Trump's re-election, influenced sentiment. Despite volatility in yields and currencies, optimism around a soft-landing propelled markets, with gold and tech leading gains.

Macroeconomics

Global economic growth was resilient, driven by the services sector, while manufacturing lagged. **The US economy outperformed**, despite occasional recession fears from weak labor data. Europe showed mixed results, with Germany dragging overall growth. China's growth met its 5% target but remained subdued due to property sector issues. India led emerging markets.

Disinflation continued but flattened in developed markets by year-end as labor markets cooled.

Central banks began cutting rates

- **Fed**: Delivered 100bps cuts by year-end, starting with a 50bps cut in September.
- **ECB**: Cut rates four times (25bps each), maintaining a cautious approach.
- **SNB**: Reduced its policy rate from 1.75% to 0.5%.
- **BoJ**: Exited negative interest rate policy.
- **PBoC**: Continued easing monetary conditions.

Equities

Global equities returned nearly 20%, driven by:

1. Early-year AI optimism and strong corporate earnings.
2. A late-year rally on soft-landing optimism and Trump's re-election.

Emerging markets benefited from China's policy support, with the technology sector leading gains globally.

Fixed Income

Yields surged early in the year but fluctuated amid:

1. Hawkish Fed rhetoric and inflation surprises.
2. US recession fears in Q3, followed by a rebound on Fed confidence and political developments.

Credit spreads tightened across USD and EUR markets due to risk-on sentiment.

FX

CHF experienced volatility, as the Swiss National Bank's (SNB) interest rate cuts and reduced FX interventions diminished its appeal as a safe-haven currency.

The USD rallied on shifting Fed rate expectations and election uncertainty.

GBP remained relatively stable, while EUR weakened on dovish ECB policy. JPY struggled despite BoJ policy changes.

Commodities

Oil prices declined after Q1 gains due to weakening demand; OPEC+ delayed production hikes.

Gold surged (+27%) to record highs, supported by central bank purchases, geopolitical uncertainty, and debt concerns.

Current **Environment**

- **The global economy in 2024 was shaped by intensifying geopolitical tensions, monetary policy shifts, and economic uncertainty,** which collectively underscored the fragility of growth and heightened volatility. Prolonged conflicts in Ukraine and the Middle East, alongside U.S.-China trade frictions, disrupted supply chains, fueled inflationary pressures, and weakened investor confidence. Central banks responded by initiating rate cuts to stabilize growth, while emerging markets accelerated gold purchases to hedge against currency risks and geopolitical fragmentation.

- **These macroeconomic dynamics were mirrored in gold's remarkable performance.** The metal surged by over 27%, reaching record highs of during the U.S. presidential election period. Gold's rally reflected its role as a safe-haven asset amid geopolitical turmoil and monetary easing. Central bank buying from countries like China and India further supported prices. This interplay between macroeconomic uncertainty and gold's rise underscores the interconnectedness of global risks and financial markets.

- **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 and consumer spending remains fairly stable, which is particularly reassuring for the future of the US economy.

- **A 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

- **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.

Volatility in **280 Characters or Less**

Donald Trump's return to the presidency has already begun to stir financial markets, and investors should prepare for heightened volatility across asset classes in his second term.

During his first presidency, Trump's frequent use of social media to announce policy decisions or make provocative statements introduced a new level of unpredictability to markets. His tweets often triggered immediate reactions in equities, currencies, commodities, and bonds, with effects lasting from minutes to days. This pattern appears poised to repeat itself.

Since his re-election, Trump has already demonstrated his ability to move markets through social media. Recent posts regarding tariffs on Mexico, Canada, and China caused notable currency devaluations in those countries and heightened concerns about potential trade disruptions. In addition, U.S. bond yields have risen amid expectations of higher deficits under Trump's fiscal policies.

What to Expect During His Second Term

As Trump prepares for his inauguration later this month, we need to be prepared for renewed market turbulence driven by:

- **Policy Announcements via Social Media**: Trump's direct-to-market communication style is likely to continue, creating unpredictable short-term volatility.
- **Trade and Tariff Policies**: His protectionist "America First" stance could disrupt global supply chains and impact sectors like automotive, technology, and agriculture.
- **Broad Asset Class Reactions**: Beyond equities, expect significant movements in commodities (e.g., gold), currencies (e.g., USD strength), and bonds (e.g., steeper yield curves

These sudden market jumps may not be easy to hedge without paying additional risk premiums, so **diversification remains critical** given the potential domino effects across equities, fixed income, commodities and currencies.

Spreads Shrink, **The Curve Steepens**

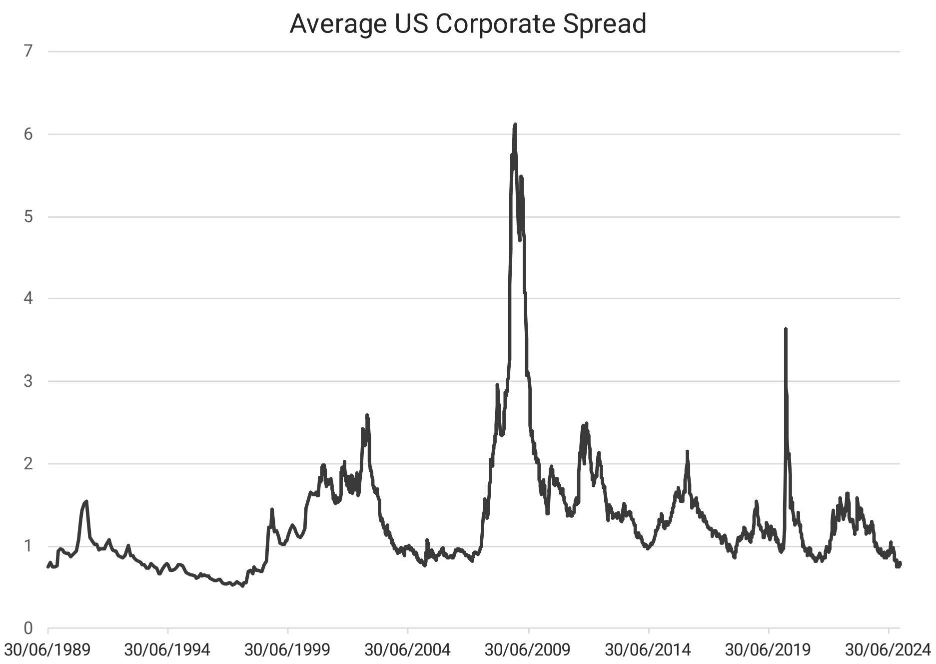
U.S. high-grade credit spreads have recently tightened to their lowest levels since 2005, reflecting strong investor confidence and robust economic conditions. As of end 2024, the average spread on investment-grade corporate bonds compared to U.S. Treasuries narrowed to just 80 basis points. On the other hand, the yield curve has un-inverted.

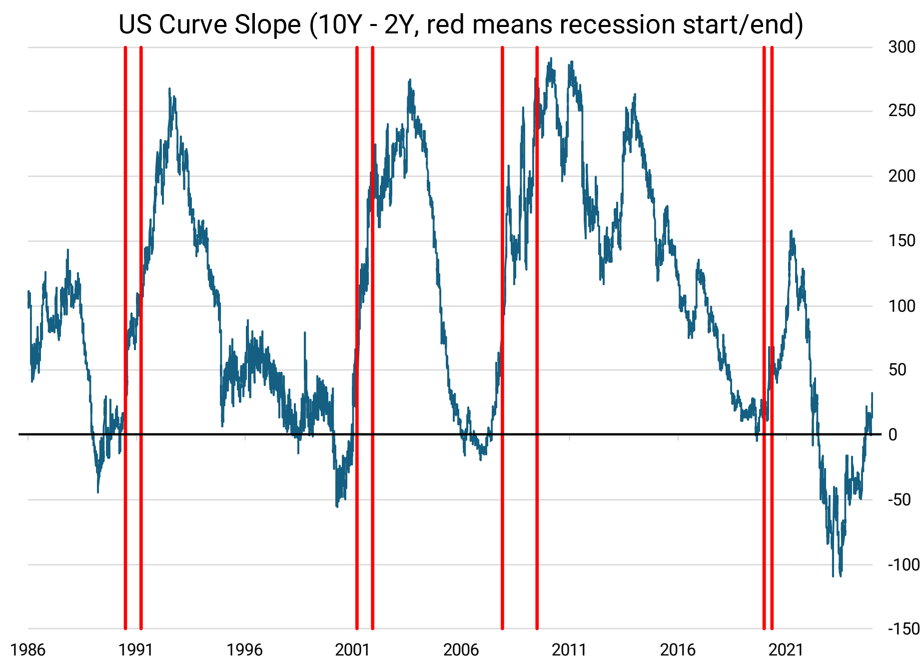
Tighter credit spreads indicate reduced compensation for the additional risk of holding corporate bonds over government securities. While this reflects optimism about economic stability and corporate solvency, it also limits the potential for generating excess returns for investors.

Historically low spreads suggest that current valuations leave little room for further tightening, raising concerns about whether investors might be underestimating potential risks, such as a potential economic slowdown or geopolitical uncertainties

The un-inversion of the yield curve often reflects improving economic sentiment or expectations of monetary easing. However, history shows that an un-inversion following a prolonged yield curve inversion has often preceded recessions.

For example, in the last four U.S. recessions (1990, 2001, 2007, and 2020), economic downturns began three to six months after the curve un-inverted.





The Fed **has talked**

The Federal Reserve's December 2024 decision to cut its benchmark interest rate by 0.25 percentage points, lowering the federal funds rate to a range of 4.25%-4.50%, reflects a cautious recalibration of monetary policy amid mixed economic signals.

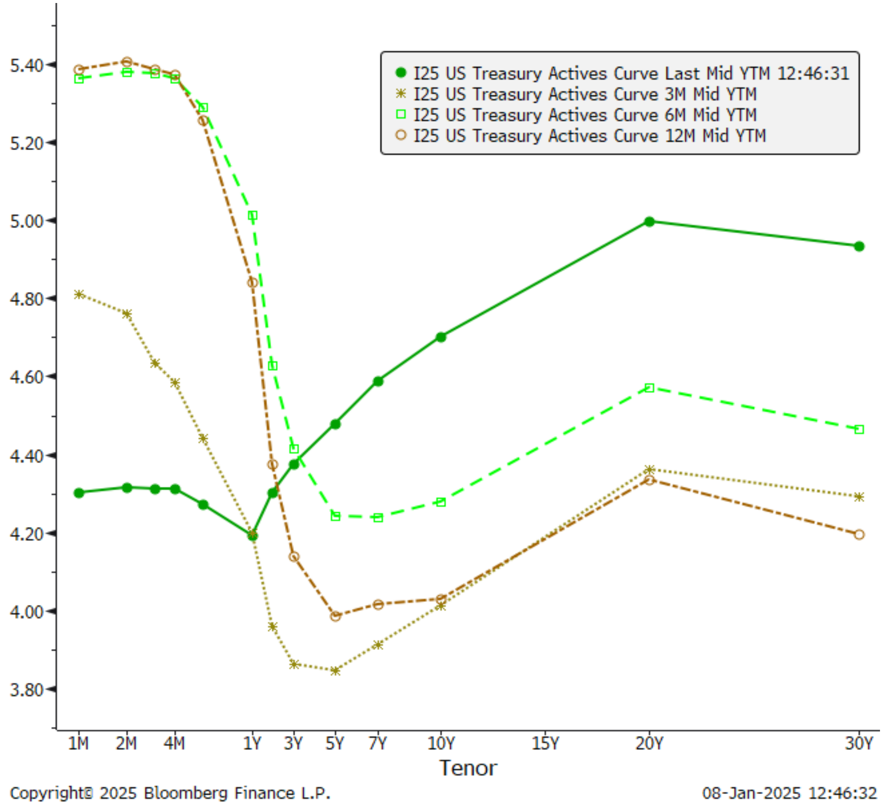
This marks the third consecutive rate cut since September, bringing the total reduction to one percentage point over the past four months. However, the Fed signaled a slower pace of cuts in 2025, citing persistent inflationary pressures and robust economic growth.

Economic Context and Fed's Rationale:

- The U.S. economy remains resilient, with GDP growth projected at 2% over the next few years and a stable labor market, though unemployment has risen slightly to 4.2%.
- Inflation has eased but remains above the Fed's 2% target, with core PCE inflation at 2.8% in November. This somewhat "sticky" inflation prompted the Fed to adopt a more cautious approach to further easing.
- Chair Jerome Powell emphasized that while monetary policy is now less restrictive, the Fed must balance risks to ensure neither excessive easing nor undue tightening undermines progress on inflation or economic stability.

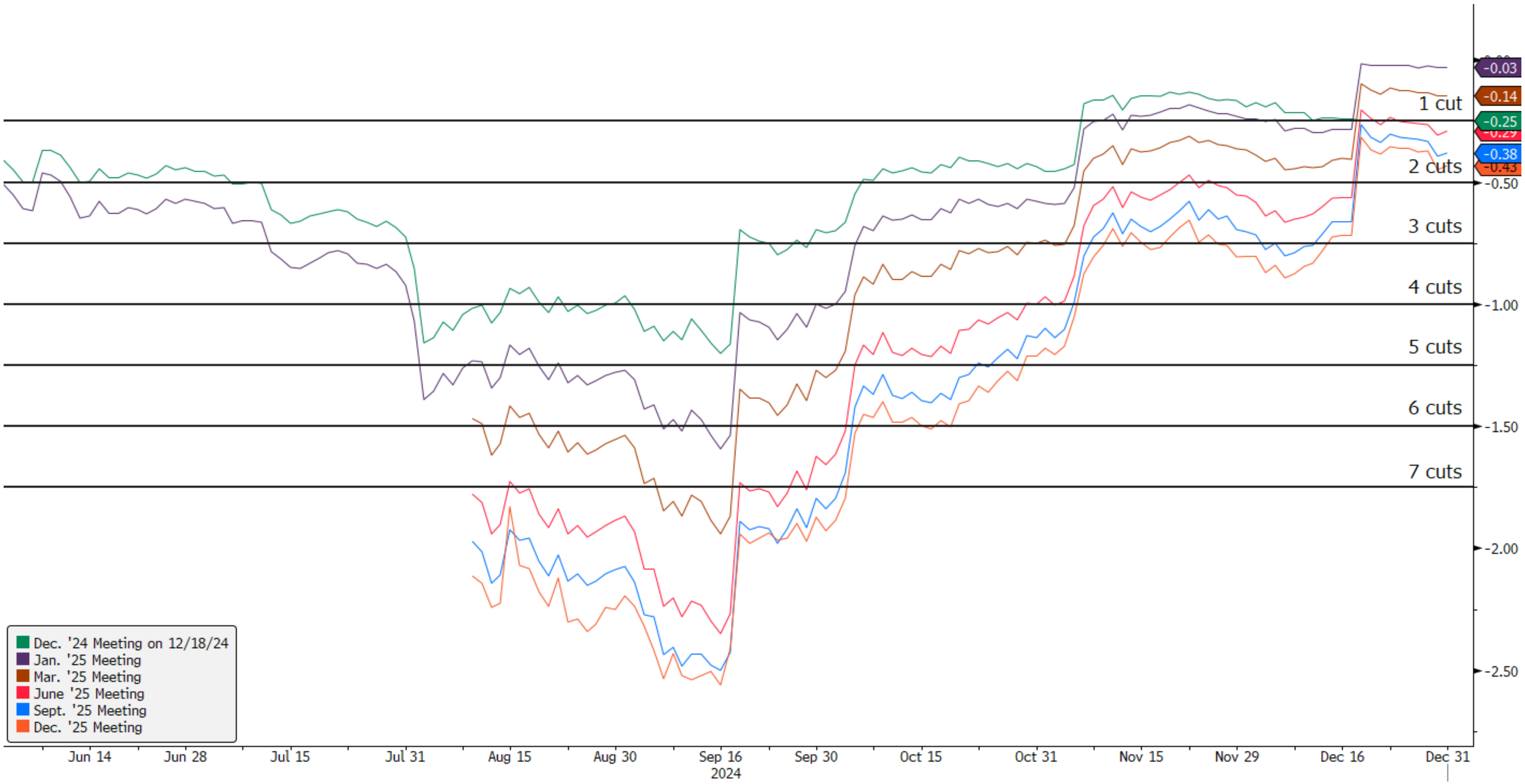
Market Reactions:

- Financial markets reacted cautiously to the announcement. Stock prices fell, and Treasury yields rose as investors adjusted expectations for fewer rate cuts in 2025.
- Futures pricing now anticipates only one or two additional cuts in 2025, down from earlier projections of four cuts. This reflects concerns that persistent inflation could limit the Fed's flexibility.



Short Term Rates **Expectations**

Due to the robust economic data and outlook, the Federal Reserve has adopted a more "hawkish" stance in recent weeks of 2024, shifting from a "dovish" approach. Following multiple rate cuts, market expectations now anticipate two additional cuts by the end of 2025, as depicted by the orange line in the attached plot.



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 and within the broader policy dynamics of central banks in developed markets, 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**

Currently, high-yield bonds are offering relatively limited additional yield compared to investment-grade bonds and treasuries, despite their higher risk profile. This tight spread reduces the compensation for taking on the extra credit risk, making it an opportune time to reassess these positions.

Asset **Allocation**

		Underweight		Neutral		Overweight
Asset classes				Cash		
					Fixed Income	
				Equities		
		Alternative				
Fixed Income						Investment Grade
			High Yield			
			Sovereign			
		Inflation Linked				
				Emerging Markets		
Equities				Switzerland		
					United States	
				Eurozone		
			United Kingdom			
			China			
			Japan			
			Emerging Markets			
Sectors				Information Technology		
				Healthcare		
				Financials		
				Consumer Discretionary		
				Industrials		
				Consumer Staples		
				Communication Services		
				Energy		
				Materials		
				Utilities		
		Real Estate				

Fixed-income allocation

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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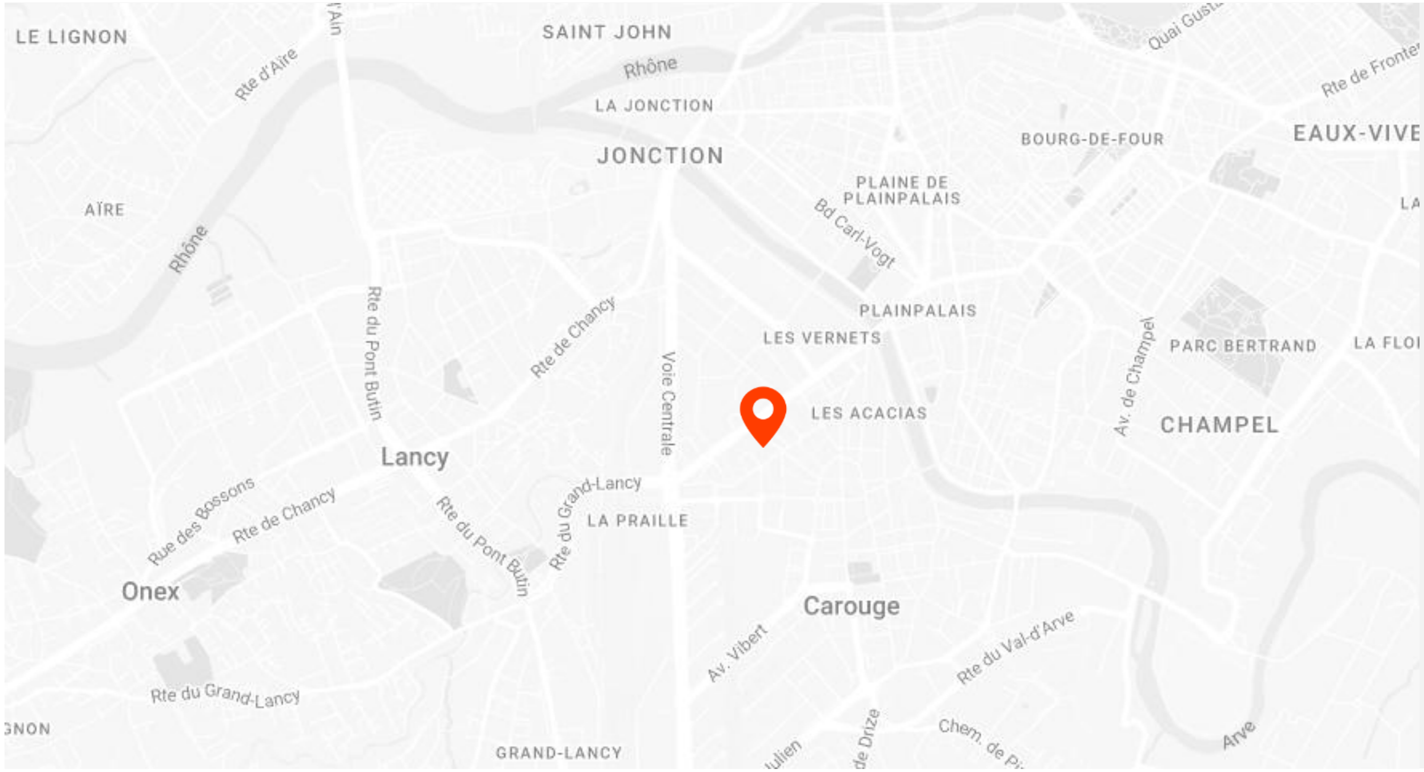
A DIFFERENT APPROACH TO WEALTH MANAGEMENT



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