Market **Update**

A Whale Called DeepSeek

February 2025

Editorial

January kept investors on their toes, as markets swung from optimism to fear of AI's seismic shift in tech valuations and now delayed US tariffs on NAFTA members.

The Fed doubled down on its fight against inflation, while the ECB prioritised growth and cut rates despite stagnation. Markets revolved around Trump's tariff announcements (delayed but not discarded) and gold surged 6.5% as a barometer of uncertainty.

The DeepSeek shockwave dominated the tech narrative - a $6m open-source AI model upended assumptions about R&D moats, triggering the erosion of $600bn of NVIDIA's market cap overnight. This isn't just a stock story, it's a structural shift that could democratise AI while putting chipmakers under pressure.

Europe's political fractures have deepened, with France and Germany facing leadership vacuums ahead of critical elections. Coupled with Trump's sword of Damocles hanging over EU exports, the bloc's growth prospects dimmed further.

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	3,836.6	3.6%	3.6%
MSCI ACWI	869.0	3.4%	3.4%
MSCI Emerging Markets	1,093.4	1.8%	1.8%
United States			
Dow Jones Industrial	44,544.7	4.8%	4.8%
S&P 500	6,040.5	2.8%	2.8%
NASDAQ 100	21,478.1	2.3%	2.3%
Russell 2000	2,287.7	2.6%	2.6%
Europe			
Euro STOXX 600	539.5	6.4%	6.4%
Euro STOXX 50	5,286.9	8.2%	8.2%
DAX	21,732.1	9.2%	9.2%
CAC 40	7,950.2	7.8%	7.8%
FTSE 100	8,674.0	6.2%	6.2%
Swiss Market Index (SMI)	12,597.1	8.6%	8.6%
Sectors (US)			
Communication Services		8.8%	8.8%
Consumer Discretionary		4.9%	4.9%
Consumer Staples		2.1%	2.1%
Energy		1.8%	1.8%
Financials		6.8%	6.8%
Health Care		6.8%	6.8%
Industrials		4.8%	4.8%
Materials		6.0%	6.0%
Real Estate		2.2%	2.2%
Technology		-2.5%	-2.5%
Utilities		2.8%	2.8%

Commodities & Metals	Last	YTD	MTD
Gold (XAU)	2,798.4	6.6%	6.6%
Silver (XAG)	31.3	8.3%	8.3%
Copper	427.9	6.3%	6.3%
Currencies (USD)			
EUR	1.04	0.1%	0.1%
CHF	0.91	-0.4%	-0.4%
JPY	155.2	1.3%	1.3%
BTC	102,110	9.0%	9.0%
Fixed Income			
US Treasury	2,302	0.5%	0.5%
EUR Treasury	245	-0.2%	-0.2%
Global Aggregate	466	0.6%	0.6%
US Corporate	3,308	0.6%	0.6%
Global EM USD	1,261	1.1%	1.1%
Global High Yield	1,685	1.4%	1.4%

Interest Rates (US)		Last month	End 2024
3 Months	4.28%	4.31%	4.31%
12 Months	4.15%	4.14%	4.14%
5 Year	4.33%	4.38%	4.38%
10 Year	4.54%	4.57%	4.57%

Price / Earnings Ratios		End 2024	End 2023
S&P 500	27.23	26.52	23.01
Euro STOXX 50	15.68	14.37	12.80
Swiss Market Index (SMI)	19.65	18.50	18.44

Data at close of 31/01/2025

Macroeconomic **Indicators**

Central Banks Targets Rates	Last	Q4 2024	Q3 2024	Q2 2024
United States	4.50%	4.50%	5.00%	5.50%
Eurozone	2.90%	3.15%	3.65%	4.25%
Switzerland	0.50%	0.50%	1.00%	1.25%
Canada	3.00%	3.25%	4.25%	4.75%
Japan	0.50%	0.25%	0.25%	0.10%
China (Req. Depo. Reserve Ratio)	9.50%	9.50%	9.50%	10.00%
India	6.25%	6.50%	6.50%	6.50%

Inflation (CPI - YoY)	Last	Q4 2024	Q3 2024	Q2 2024
United States	2.90%	2.90%	2.40%	3.00%
Eurozone	2.50%	2.40%	1.70%	2.50%
Switzerland	0.60%	0.60%	0.80%	1.30%
Canada	1.80%	1.80%	1.60%	2.70%
Japan	3.60%	3.60%	2.50%	2.80%
China	0.10%	0.10%	0.40%	0.20%
India	5.22%	5.22%	5.49%	5.08%

Unemployment	Last	Q4 2024	Q3 2024	Q2 2024
United States	4.10%	4.10%	4.10%	4.10%
Eurozone	6.30%	6.30%	6.30%	6.40%
Switzerland	2.70%	2.60%	2.60%	2.40%
Canada	6.70%	6.70%	6.60%	6.40%
Japan	2.40%	2.40%	2.40%	2.50%
China	5.10%	5.10%	5.10%	5.00%

Gross Domestic Product (YoY)	Last	Q4 2024	Q3 2024	Q2 2024
United States	2.50%	2.50%	2.70%	3.00%
Eurozone	1.30%	N/A	1.30%	0.90%
Switzerland	2.00%	N/A	2.00%	1.50%
Canada	1.50%	N/A	1.80%	1.50%
Japan	2.90%	N/A	2.90%	2.20%
China	5.40%	5.40%	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	2.80%	2.80%	-0.80%	1.70%
European Union	0.40%	0.40%	-1.50%	0.10%
Switzerland	-0.90%	-0.90%	-1.30%	-1.90%
Canada	4.06%	4.06%	-1.02%	2.90%
Japan	3.80%	3.80%	3.10%	2.60%
China	-2.30%	-2.30%	-2.80%	-0.80%
India	2.37%	2.37%	1.91%	3.43%

Purchasing Managers' Index	Last	Q4 2024	Q3 2024	Q2 2024
United States	50.9	49.2	47.5	48.3
Eurozone	46.6	45.1	45	45.8
Switzerland	47.5	47	48.9	44.8
Canada	51.6	52.2	50.4	49.3
Japan	48.7	49.6	49.7	50
China	49.1	50.1	49.8	49.5
India	57.7	56.4	56.5	58.3

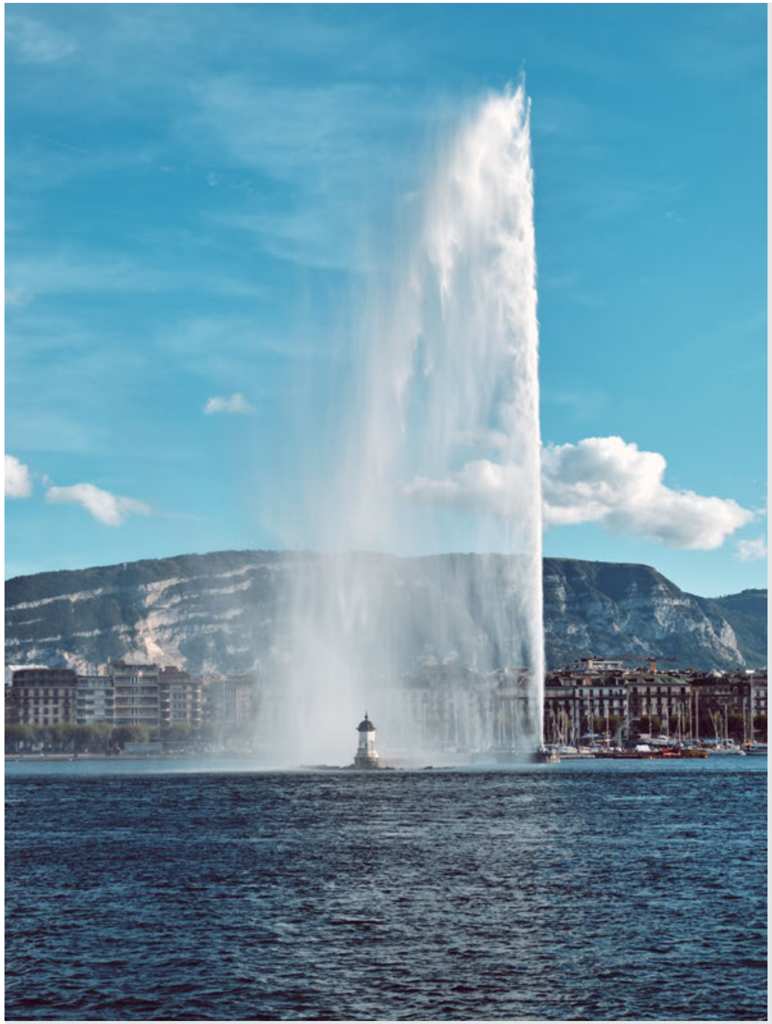
Core Inflation (Core CPI - YoY)	Last	Q4 2024	Q3 2024	Q2 2024
United States	3.20%	3.20%	3.30%	3.30%
Eurozone	2.70%	2.70%	2.70%	2.90%
Switzerland	0.70%	0.70%	1.00%	1.10%
Canada	2.10%	2.10%	2.40%	2.90%
Japan	1.60%	1.60%	1.70%	1.90%

Consumer Spending (PCE - YoY)	Last	Q4 2024	Q3 2024	Q2 2024
United States	2.79%	2.79%	2.66%	2.63%

Data as of 07/02/2025

N/A: Not yet reported or Public Holiday

January **Macro News**



- **The Fed held rates at 4.25–4.50% (no January cut)**, emphasizing "higher-for-longer" stance due to persistent services inflation (core PCE 2.8%). Labor market remained stable (unemployment 4.1%).
- **ECB cut rates by 25 bps to 2.90%** despite stagnant Q4 GDP, prioritizing growth over inflation now at 2.5%. German industrial production remained down by -2.8% YoY, while France is grappling with a high budget deficit.
- **Market sentiment fluctuated** in January 2025 as US President Trump's inauguration and initial executive orders drew significant attention, particularly on trade policy. In late January, President Trump announced plans to impose 25% tariffs on Canada and Mexico and 10% on China. However, these measures were postponed in early February, adding uncertainty to global trade dynamics.
- **Gold surged 6.5% in January 2025**, reaching a record high of $2,812 per ounce. The metal benefited from heightened safe-haven demand early in the month amid US policy uncertainty and further strengthened later due to a weaker US dollar and declining interest rates.

DeepSeek – Rewriting **the AI Rulebook**

Chinese startup DeepSeek dropped a bombshell: DeepSeek-V3, an open-source AI model rivaling ChatGPT, developed for just $6M (vs. OpenAI's $100M+ costs). The implications?

Market Fallout

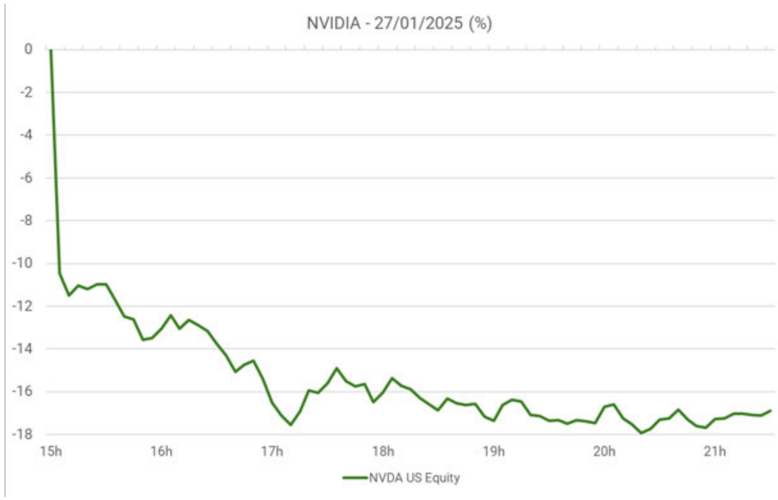
Its low-cost development (estimated at just $5-6 million) has disrupted the market, challenging the dominance of companies like OpenAI and triggering a sharp decline in the stock prices of major tech players such as NVIDIA, which lost nearly $600 billion in market value in a few hours.

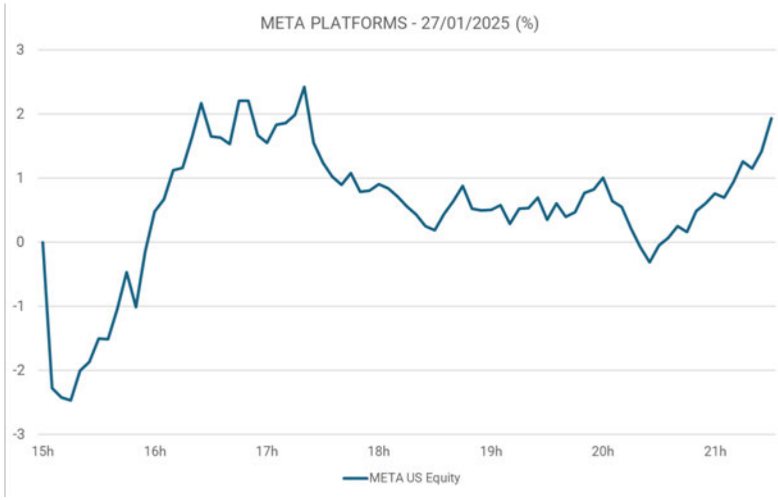
The immediate volatility in tech stocks underscores investor concerns about the potential commoditization of AI technology. Companies heavily reliant on high-end semiconductors and infrastructure, such as NVIDIA and Oracle, face pressure as DeepSeek's efficiency could reduce demand for expensive hardware.

Structural Implications

DeepSeek's emergence was seen as a "Sputnik moment," signaling a shift in the global AI race.

By lowering barriers to entry with its open-source model, DeepSeek could democratize AI adoption across industries, driving innovation while potentially reducing capital expenditures in AI development. This shift may benefit end-users and corporations but could challenge traditional revenue streams for chipmakers over time.





Eurozone **on Thin Ice**

The combination of economic stagnation, political fragmentation in key member states, and external pressures from U.S. trade policies leaves Europe facing significant uncertainty in 2025.

Politics Heating Up

In France, Macron faced a hung parliament divided among left-wing, center-right, and far-right factions. The collapse of his government in late 2024 left the country without an approved budget for 2025, creating a governance vacuum.

Similarly, Germany's coalition government disbanded in November 2024, leading to snap elections scheduled for February 23. This political instability weakened the leadership of Europe's "twin engines," raising concerns about the EU's ability to navigate pressing issues such as economic recovery and geopolitical conflicts.

Trump's Sword of Damocles

Trump's aggressive trade policies included new tariffs on imports from Canada, Mexico, and China, with threats to impose similar measures on the EU.

These tariffs could significantly impact European exports, particularly high-value goods like automobiles and dampen growth prospects further. Analysts estimate that a 10% tariff on EU goods could reduce the bloc's GDP by up to 0.9%, pushing it closer to recession.

	France	Germany	Eurozone
Real GDP Growth QOQ	-0.10%	-0.20%	0.00%
Industrial Production YOY	-1.70%	-2.80%	-1.90%
Unemployment	7.70%	6.10%	6.27%
Inflation YOY	1.40%	2.30%	2.50%
Manufacturing PMI	45	45	46.1
Interest Rates	-	-	2.90%

Trump's **Tariff Tango**

Since Donald Trump's return to the White House in January 2025, his administration has moved quickly to implement sweeping changes, with tariffs taking center stage.

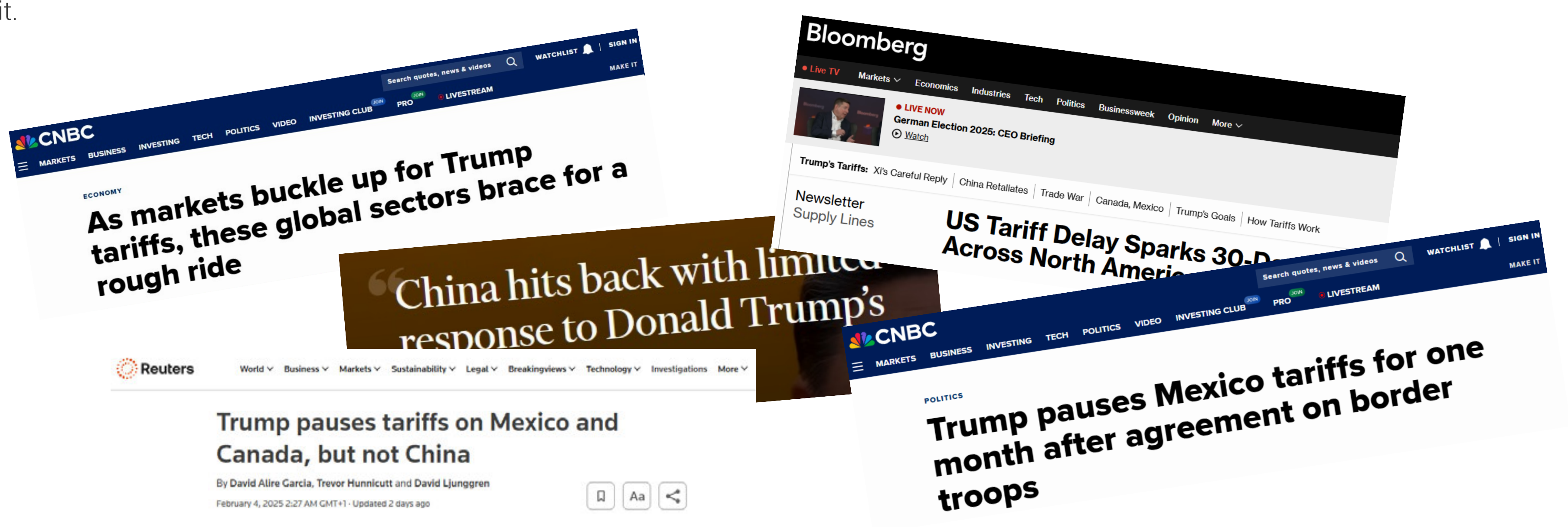
The immediate implications include higher costs for U.S. businesses and consumers, as importers pass on **tariff-related expenses**.

Inflationary pressures could rise, potentially forcing the Federal Reserve to maintain elevated interest rates, which may dampen economic growth. Retaliatory tariffs from Canada, Mexico, and China further threaten to disrupt global supply chains and reduce trade volumes.

Analysts estimate that U.S. GDP growth in 2025 could slow by up to 1 percentage point due to these policies, with global GDP also taking a hit.

On **immigration**, Trump's crackdown includes mass deportations and stricter visa policies. These actions could shrink the labor force, exacerbate worker shortages in key sectors like agriculture and manufacturing, and reduce GDP growth this year.

On **taxation**, Trump has proposed further corporate tax cuts. While this could stimulate business investment and boost corporate earnings, it risks widening the federal deficit significantly. Rising debt levels could push bond yields higher, increasing borrowing costs for both businesses and consumers.



Dot Plot vs **Rates Expectations**

The Fed signals bold cuts ahead, but markets aren't buying it.

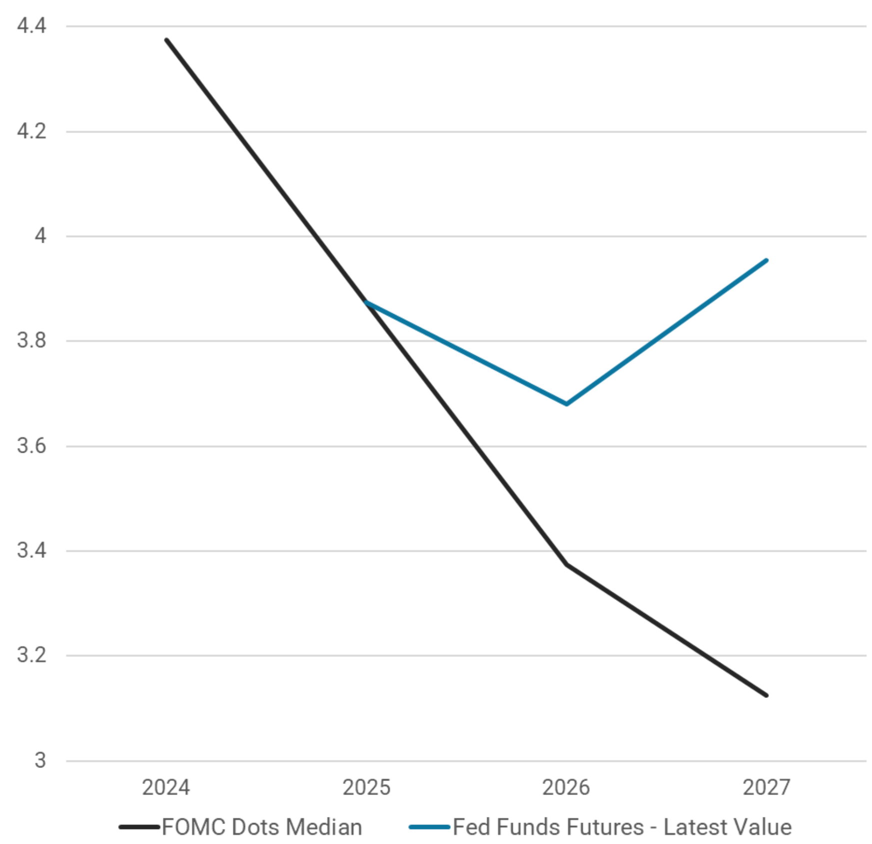
Historically, market expectations have sometimes diverged from Fed projections due to skepticism about the Fed's ability to follow through on its guidance amid changing economic realities.

Recent Fed communications suggest a cautious approach to easing, emphasizing data dependence and inflation control before further cuts. This narrative contrasts with earlier expectations of a smoother path to lower rates, creating uncertainty about the pace of cuts

Divergences between the Fed's dot plot and market expectations are not new:

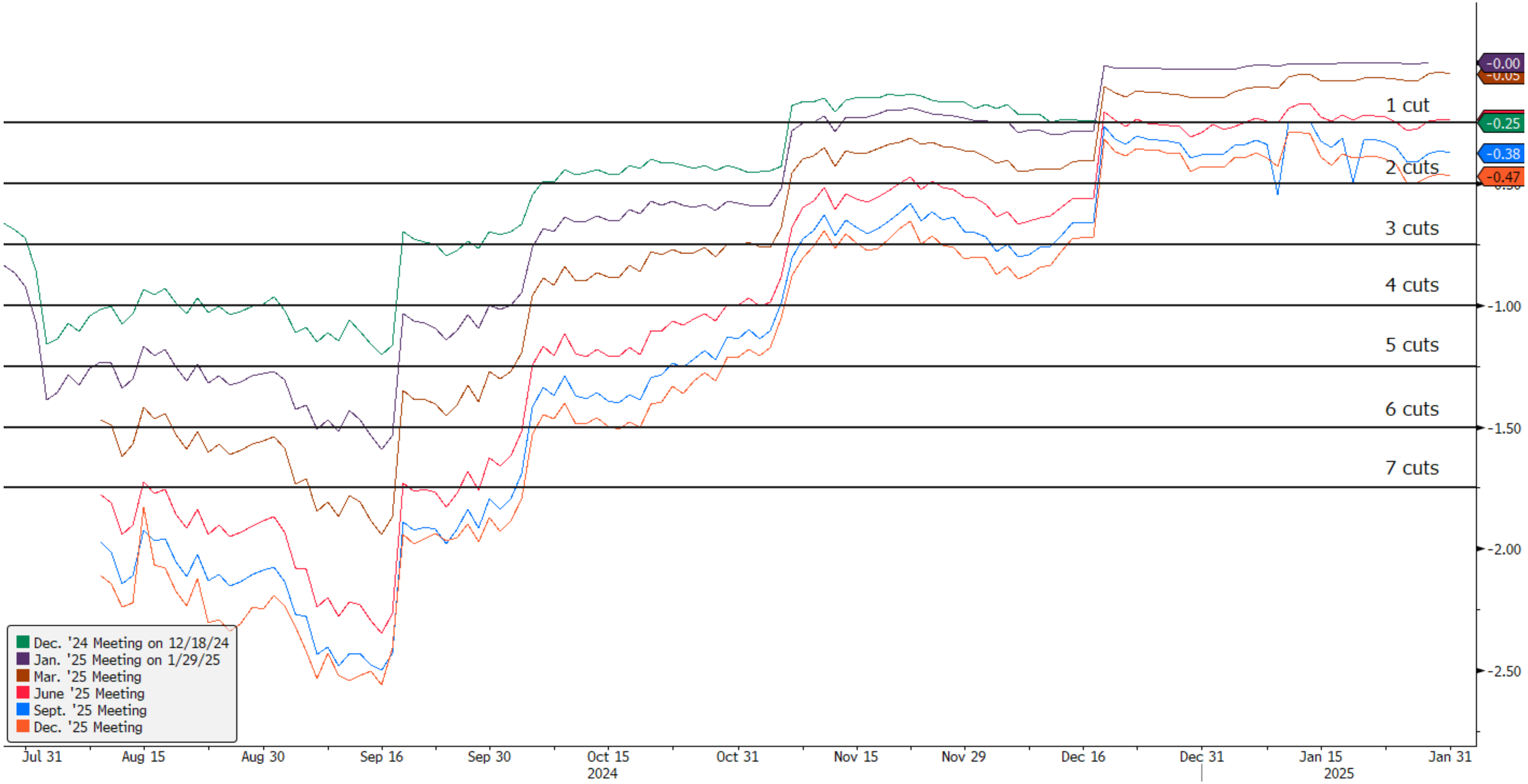
- In 2018, markets anticipated fewer rate hikes than the Fed projected due to concerns about slowing global growth. The market's skepticism about further aggressive tightening proved somewhat accurate.
- In 2021, markets priced in earlier rate hikes than the Fed forecasted as inflation surged post-pandemic. Ultimately, markets were closer to being correct.

One thing is for sure, (at least) one of them is wrong, and only time will tell...



Short Term Rates **Expectations**

Due to the robust economic data and outlook, the Federal Reserve has adopted a more "hawkish" stance in recent weeks, 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.



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 2025.
- 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.

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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

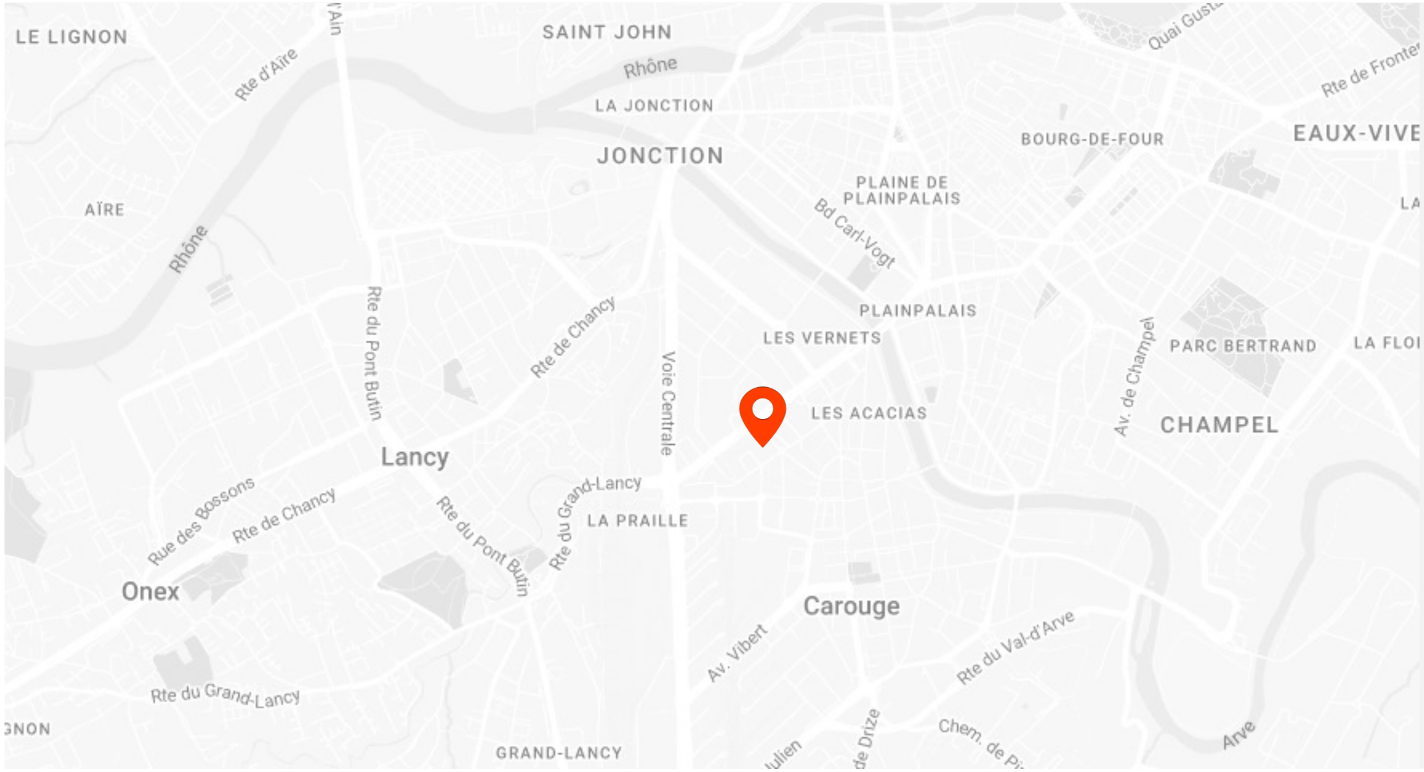
The different scenarios lead us to a more neutral approach to equities, where sector and regional diversification is more necessary than ever. The resilience of the United States leads us to a greater allocation to that country. We keep a neutral stance on the domestic equities in Europe and Switzerland.

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.

Contact

A DIFFERENT APPROACH TO WEALTH MANAGEMENT



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