Written on January 2, 2025

MARKET OVERVIEW JANUARY 2025

By Dominique Marchese, Head of Equities and Jean-Philippe Vanderborght, Head of Fixed Income

OUR VIEWS FOR THE YEAR 2025

Before describing the challenges and prospects for the year 2025 in terms of the economy, inflation, interest rates, currencies and stock market indices, we summarize the highlights of the year that has just ended.

2024: A VINTAGE FULL OF SURPRISES

The vintage that is coming to an end was full of surprises. The United States displayed its "exceptionalism", as it is now customary to describe an economy whose performance has far exceeded the most optimistic expectations. Economic growth in volume (excluding inflation) will probably reach +2.7% in 2024, a slightly lower rate than the previous year. As a reminder, towards the end of 2023 the consensus predicted growth of barely 1.3%. The reality was thus very different from the central scenario. Supported by the resilience of the job market and the wealth effects resulting from the financial markets and disinflation (favorable impact on real incomes), household consumption remained solid while the investment cycle accelerated sharply (consequence of federal programs such as the *Inflation Reduction Act*). Reflecting productivity gains that have made it possible to contain unit production costs on a trajectory of 2% per year, despite wages increasing by more than 4%, the profit margins of American companies are close to their historic peak. The main stock market indices have quite logically recorded new records, in particular the technology indices propelled by the deployment of generative artificial intelligence (AI) and its promises of boosting potential growth in the longer term. **While the American economy has surprised by its dynamism, activity has remained modest in the eurozone,** despite the hopes raised by the leading indicators in the spring, penalized by the political crisis in France (dissolution of the National Assembly last June) and the German industrial crisis (questioning of Germany's mercantilist model, loss of competitiveness in the automobile sector). **The Chinese authorities have tried to restart the machine while the real estate crisis is aggravating deflationary pressures. While Beijing has managed to restore some colour to Chinese stock indices, Europe is still suffering from a high political risk premium.** The damning report by Mario Draghi, former president of the European Central Bank (ECB, 2011-2019) and of the Council of Ministers of Italy (2021-2022), on the competitiveness of the European Union (EU), was an opportunity to recall the structural weaknesses of the Old Continent with regard to the United States and China. While the challenges linked to the technological revolution and the energy transition are immense, it is the political choices of the EU over the last twenty years that are being questioned. Brussels embodies the bureaucratic passion for the standard, when the United States innovates and China produces.

In terms of the interest rate environment, 2024 was synonymous with a general easing of monetary policies as part of the pursuit of disinflation, even if price indices are now having more difficulty in achieving the central bankers' objectives (resistance to falling prices in services impacted by wages). However, economic agents' inflation expectations have continued to normalize, to the great satisfaction of the main central bankers.

The year 2024 has not been short of political surprises, starting with the unexpected return to power for many and resounding in more ways than one of Donald Trump, a victory hailed by the financial markets despite the inevitable controversies sparked by his program deemed rather inflationary. The political suicide of Emmanuel Macron allowed France to conquer the highly unenviable trophy of "the sick man of Europe", and above all further weakened the European project lacking leadership. In the Middle East, the collapse of the Shiite "axis of resistance" under Iranian authority, a resounding success for the Sunni monarchies, Turkey and Israel, reshuffles the cards in a region that aspires to peace. We highlight in this regard the great phlegm of the financial markets with regard to recent geopolitical crises, particularly with regard to energy prices. The war in Ukraine, mired in its 3rd year , seems to be at an impasse. Western unity against Russia is clearly weakened (fatigue and caution of the protagonists, arrival of Donald Trump at the White House). The logistical support provided to Ukraine is barely sufficient to allow it to hold the front, and could force kyiv to compromise.

Equity indices recorded strong performances in 2024, with nevertheless large divergences between geographical areas (the prize obviously going to the American indices), between sectors, and between large and small stock market capitalizations. Legitimate concerns about the valuation of American stocks and the high concentration of the main stock market indices (overwhelming weight of the "Magnificent Seven") did not prevent the markets from continuing their progression throughout the year, apart from a short period of consolidation during the summer, fueled by a brief moment of panic related to the monetary policy of the Bank of Japan (brutal correction of the Tokyo stock exchange accompanied by a strong appreciation of the yen), and doubts (unjustified) about the ability of the

Pure Capital S.A., société de gestion régulée par la CSSF (Luxembourg)
www.purecapital.eu | info@purecapital.eu

Siège social Luxembourg
2 rue d'Arlon, L-8399 Windhof | T : +352 26 39 86

Succursale Belgique
Sneeuwbeslaan 20, B-2610 Wilrijk | T: +32(0)3 246 04 65

American economy to avoid the recession scenario. The high level of uncertainty for the year 2025, however, led to a slight consolidation of the main stock indices towards the end of December.

2025: MACROECONOMICS, INFLATION, INTEREST RATES & CURRENCIES

Economy

The contours of a **soft landing for the** global economy have been drawn in 2024, with resilient growth combined with moderating inflation allowing the major central banks – with the notable exception of the Bank of Japan – to launch a cycle of monetary easing. A continuation of this positive momentum seemed likely for 2025, but an **unusually high degree of uncertainty** has surrounded any projection since the US elections in November. **The nature, scale and timing of the policies that the new Trump administration will pursue remain unclear and could strongly influence the fate of the US economy and the rest of the world.** Given the solid fundamentals in the private sector, normalized labor markets and favorable financial conditions, **the global economy should be able to absorb a "moderate" version of Donald Trump's program** (targeted and/or limited tariffs on China, fight against illegal immigration, extension of the 2017 tax cuts, etc.). And this is the basis on which our central scenario for the coming year is structured. However, the forces set in motion are multiple, complex and sometimes contradictory. Investors must therefore keep in mind that an excessive dosage (generalized trade war, mass deportation of illegal immigrants, out-of-control budget deficits, etc.) could destabilize global economies and financial markets.

Bonds

Bond markets have again had a **fairly volatile run in 2024** , with long-term interest rates oscillating within a fairly wide range. The end of the year saw a return of long-term dollar rates towards the top of this range, **as market participants attempted to factor in the implications of the Republican landslide in the US elections in terms of inflation and paper supply, as well as the less accommodative rhetoric from the Federal Reserve (Fed) at its December meeting.** After cutting key rates by 100 basis points (1%) in three months, its chairman Jerome Powell tempered expectations and suggested a significantly slower pace of easing in an uncertain environment. **Conversely, the ECB seems more confident that inflation will return to its target in 2025 in a context of downside risks to already modest growth. We maintain a positive stance on government debt** in a favorable central scenario including a still comfortable margin of monetary easing before reaching a more neutral zone for key interest rates. A rather high level of yield compared to the post-financial crisis history, less competition from money market products and decorrelating power within diversified portfolios should constitute sufficient attractions for investors. **We expect positive *returns* fueled by carry and a slight decline in long-term rates** (towards 4.00% for the 10-year US sovereign rate and 1.90% for its German equivalent). **Credit markets remain supported by the solid fundamentals of companies** and the fairly conservative management of their balance sheets in the post-covid period. **However, risk premiums (credit *spreads*) have narrowed significantly in 2024** to be around the low points recorded since the financial crisis. In the absence of a major shock, we believe that credit can continue to outperform through carry, but current levels leave little margin for error. Given the uncertain environment, we therefore favour investment *grade* **debt** for new investments. Continued attention will remain required for stock selection and diversification.

Currencies

After a bout of weakness during the summer, the **US dollar** rebounded in the last quarter to emerge as **the strongest major currency in 2024.** In the United States, the ballot boxes offered the most favorable verdict possible for the greenback. **The Republican candidate's rather reflationary proposals are likely to maintain the American advantage in growth and interest rates.** Moreover, a trade war would hit the European and Chinese blocs at a delicate time when their domestic demand is weak. **The euro thus seems vulnerable** given the high degree of openness to international trade and the budgetary straitjacket limiting the possibilities of recovery... unless German fiscal conservatism is relaxed after the February elections. **Pending clarification on the real intentions of the new American administration, the dollar should remain firm. But it should be noted that it has already been carried by quite pronounced speculative positioning and that its valuation levels are already high.** We believe that a sustained break in the parity would require very tough measures in the US (such as generalized tariffs) and a European recession. If these extremes are avoided, a modest rebound in the euro towards $1.05-1.10 seems plausible in the second half of the year on the back of a decline in uncertainty and central banks moving closer to stabilizing rates. **However, we maintain a small exposure to the dollar in our portfolios because it remains an interesting hedge against certain types of cyclical and geopolitical risks.**

EQUITY MARKETS IN 2025: DIVERSIFYING OUTSIDE THE "MAGNIFICENT SEVEN"

US stocks, which account for about two-thirds of global indices, are historically expensive, something that no one in the financial community dares to deny. Unfortunately, for investors looking for high-performance forecasting models, market valuation has never been a relevant indicator of performance over a twelve-month horizon. At best, it allows for estimating very long-term returns on investment.

Pure Capital S.A., société de gestion régulée par la CSSF (Luxembourg)
www.purecapital.eu | info@purecapital.eu

Siège social Luxembourg
2 rue d'Arlon, L-8399 Windhof | T : +352 26 39 86

Succursale Belgique
Sneeuwbeslaan 20, B-2610 Wilrijk | T: +32(0)3 246 04 65

Comparing the current situation with that which prevailed at the end of the 1990s, before the bursting of the internet bubble, does not make much sense either. **While the question of the monetization of AI by technology leaders is legitimate, it is difficult to deny that we are in the presence of a real technological revolution that will radically transform companies and support productivity gains.** As a reminder, according to a 2021 OECD study, confirmed by others, AI could add 1% to 2% of additional annual economic growth by 2030 (the current global trajectory is close to 3% per year in volume), depending on the speed and depth of its diffusion. For the United States, in 2023 Goldman Sachs estimated the impact at 1.5% to 2% per year over the next decade. The price-to-earnings ratio of the American market expected at twelve months (22) exceeds its historical average of the last five years (19.5), but the gap is mainly explained by the weight of the "Magnificent Seven" (35% of the market). The high valuation of *hyperscalers (cloud* leaders) also reflects their central role in the AI ecosystem. During 2024, we have often stressed the considerable investments required by the deployment of AI, which are formidable barriers to entry for technology leaders, but which also benefit the entire value chain - including the energy sector - as part of a technological revolution that will unfold over many years. The main risk incurred by hyperscalers *is* in reality rather regulatory, as evidenced by the numerous legal actions brought against positions deemed dominant on both sides of the Atlantic. **We therefore reiterate our advice for greater diversification of portfolios compared to ultra-concentrated indices - and therefore riskier in absolute terms - by focusing on the sectors that benefit directly from the AI revolution** : suppliers of electrical equipment to *data centers , semiconductors, electricity producers, data* infrastructures , application developers, etc., which still offer reasonable valuations. **In the longer term, we must not forget the sectors whose financial performance will be driven by the rapid growth of AI use cases** (health, insurance, materials science, etc.).

Before Donald Trump's victory, the consensus forecast was for US market earnings growth of around 15% in 2025 (compared to +9% last year), and close to 10% excluding the "Magnificent Seven". A priori, the policy of the new Administration in charge in Washington will be resolutely focused on growth and support for businesses. Consequently, the combination of an effective supply policy and the broader deployment of AI could strengthen the pace of earnings growth. Only an unexpected shock seems capable of disrupting the trajectory of the "Corporate America" rocket. In this context, even if the risks of a resurgence of inflation cannot be excluded (possible budgetary slippage, migration policy, tariff war), it is risky to take bets against the US stock market. We therefore favor diversification to build portfolios capable of absorbing potential volatility shocks.

Outside the United States, no salvation? In recent years, American markets have continued to attract global savings, to the detriment of European and Chinese markets in particular. There is no point in going over the well-known reasons that explain investors' disenchantment with continents in the midst of economic slump. However, everything has a price. **Many of the most internationalized European companies, with a solid base of production assets in the United States (a hedge against a possible tariff war), compare favorably with their American competitors in terms of financial performance or development potential.** Investors would be wrong to exclude Europe from their radar, valued at only 14 times estimated results in 2025 (expected earnings growth of +8%), especially since the EU has shown itself capable of closing ranks and providing effective solutions in times of crisis (pandemic, war in Ukraine, energy crisis, even if everything was not perfect, far from it). The acceleration of the decline of European industry now requires appropriate and courageous responses from policymakers. **As for emerging countries, valuations remain generally attractive. However, their stock market performances will depend a lot on Donald Trump's decisions on customs duties, the scale of the Chinese authorities' fiscal stimulus plan, and the possible recovery in raw material prices.**

CONCLUSION

After a year full of surprises, 2025 should offer investors its share of challenges and uncertainties. This is precisely why financial markets offer risk premiums that are supposed to properly remunerate their level of unpredictability (additional return required compared to interest rates deemed risk-free). Our task is precisely to estimate to what extent these risk premiums are sufficiently attractive. In the framework that we have described in this first monthly letter of the year 2025, **we believe that the markets offer a wide range of opportunities to investors, provided that they remain faithful to the two basic principles of financial asset management: rigor in the calculation of theoretical prices and optimal diversification to best control risks.**

Hoping that the new vintage will bring you the greatest satisfaction in your investments, we take advantage of this letter to wish you a very happy new year 2025.

DISCLAIMER

The above content has been produced and is distributed by Pure Capital SA. It is provided for information purposes only and aims to present the management activities of the company Pure Capital SA (hereinafter "Pure Capital") as well as to provide information about its investment strategies. The information or data (including texts and photo media) contained in this document are protected by copyright and any reproduction or distribution thereof to third parties, in whole or in part, without the prior approval of Pure Capital is prohibited.
Pure Capital reserves the right to modify or change the data contained in this document at any time without prior notice.
This document should not be construed as an offer to acquire/sell a financial instrument or any canvassing or solicitation activity to buy or sell financial or investment instruments. All information published herein is provided for information purposes only and does not constitute investment advice. However, no guarantee can be given as to its accuracy or completeness. This information has not been prepared in accordance with legal requirements promoting the

Pure Capital S.A., société de gestion régulée par la CSSF (Luxembourg)
www.purecapital.eu | info@purecapital.eu

Siège social Luxembourg
2 rue d'Arlon, L-8399 Windhof | T : +352 26 39 86

Succursale Belgique
Sneeuwbeslaan 20, B-2610 Wilrijk | T: +32(0)3 246 04 65

independence of investment research and should therefore be considered a marketing communication. Although this content is not subject to any prohibition on use prior to its dissemination (for example, to execute orders), Pure Capital does not seek to profit from it.
For further details regarding the investment products, the official sales documents (the Key Investor Information Document, the prospectus, the half-yearly report and the annual report) are available free of charge upon request from Pure Capital SA (hereinafter "Pure Capital") (tel.: +352 26 39 86) or by consulting the website www.purecapital.eu.
The information contained in this document is provided in good faith and cannot engage the responsibility of Pure Capital.
There can be no guarantee that investment objectives will be achieved. Past performance is not a reliable indicator of future results. Performance may vary over time. The net asset value of the portfolio depends on market trends. Any investment fund is therefore subject to market fluctuations and the investor may get back less than the amount invested.
Annual custody fees, or custody fees, may be charged by your account holder. They vary from one institution to another. To find out what they are, please inquire.
This document is provided to you on the condition that it will not constitute a primary basis for any investment. Any investment should be the result of a sufficiently informed and informed decision.

Pure Capital S.A., société de gestion régulée par la CSSF (Luxembourg)
www.purecapital.eu | info@purecapital.eu

Siège social Luxembourg
2 rue d'Arlon, L-8399 Windhof | T : +352 26 39 86

Succursale Belgique
Sneeuwbeslaan 20, B-2610 Wilrijk | T: +32(0)3 246 04 65