



STRATEGY OUTLOOK

January 2025

An aerial photograph of a dam and reservoir. The water in the reservoir is a deep, dark teal color, while the water in the foreground is a lighter, milky blue. The dam structure is visible as a long, low wall of reddish-brown earth and rocks. A large, curved, semi-transparent white overlay covers the bottom right portion of the image.

SUCCESS. TOGETHER.

Key takeaways-

- 2024 - Trump 2.0 begins.
- 2025 – US outperformance and the Year of the Snake.

2024 was, overall, a positive year for portfolios. Politics dominated, the feared recession didn't happen, geopolitics was, at best, just a talking point and the US economy outperformed as Europe and China struggled. Inflation was tamed closer to target; US government spending remained a major prop to growth and authorities kept liquidity around markets free flowing.



Markets since the election have been euphoric. The effective secular stagnation now has the potential to give way to productivity and technology booms. Never have experienced businesspeople been in power in DC. It's almost kin to the Regan years who also was not a professional politician. Javier Milei is the same.

The reality will undoubtedly be different irrespective of the **very credible members of Mr Trump's team, a team that was clearly absent during much of Trump 1.0.** The euphoria will fade but the pace of change is probably going to be swift. But at what price – deregulation, deficit reduction, tariffs, forced

repatriation, culling of Government departments, geopolitics all have costs.

In the Chinese zodiac, from January 29, 2025, to February 16, 2026, it's the year of the Wood Snake. The snake, in Chinese astrology, is known for its wisdom, charm and intuition. The Wood element adds qualities of growth, flexibility, and creativity. You either believe or not I suppose. However, upon my research the writer was born in a previous year of the Snake so, apparently, I should expect significant personal growth and challenges that will help me to rediscover myself!

Overall, 2025 is unlikely to see the asset returns of 2024. Markets will be bumpy, and **we should hope for pullbacks as these are an important sign of a healthy market.** Risk assets should have a positive year with continued US asset outperformance. **What inflation and the USD do are clear questions seeking answers.**

The year past saw the following performance from assets, in USD terms:

- S&P + 23.3%
- Nasdaq +24.9%
- SMI -3.4%
- Euro Stoxx 50 +1.3%
- FTSE 100 +3.7%
- FTSE MIB (Italy) +5.8%
- Japan +5.5%
- China +11.6%
- S. Korea -21%
- India + 5.8%
- Hong Kong +18.3%
- Emerging Markets +5%
- Latin America -28.1%
- Nvidia +171.2%
- Netflix + 83.1%
- Google +35.5%
- Novo Nordisk -16%
- Adobe – 25.5%
- Moderna – 58.2%
- Intel – 60.1%
- Bitcoin +120.5%
- Ethereum +46.6%
- Gold + 27.2%
- Bonds - US government +0.6 %.
- Bonds - US corporate IG +2.1%
- Bonds - US high yield + 8.2%
- Oil WTI +0.1%
- USD Index +8%

Looking forward into 2025

“Economic expansions do not die of old age, they are murdered”

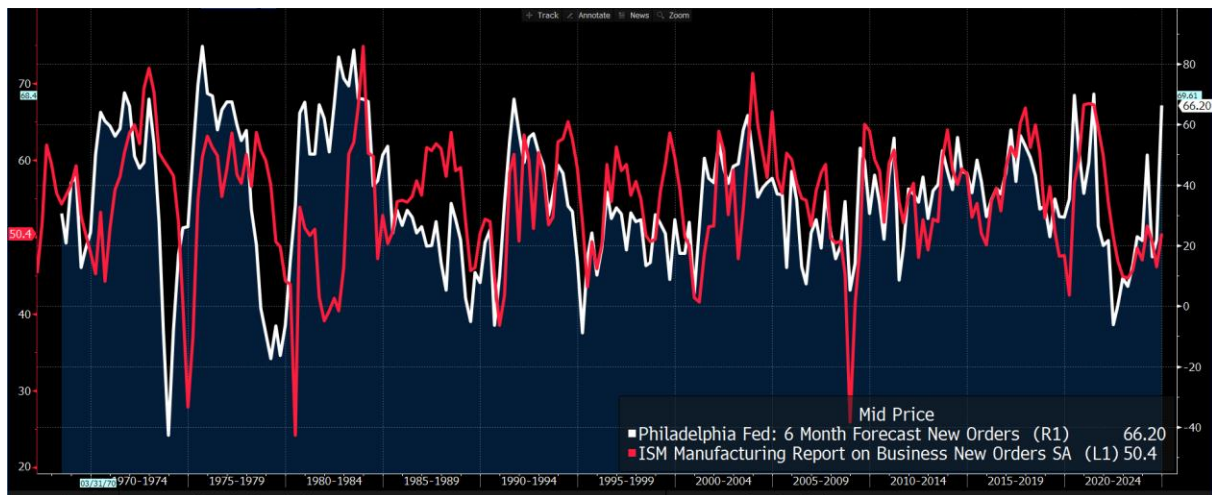
Rudi Dornbusch

With the prospect of such change clearly the risk of murder is high. Under Trump 1.0 we'd probably be pessimistic on the outlook however, again, his team are experienced individuals. **So, like any team, it's whether these successful individuals can work together for the team or not.**

We know the first two years of a new Presidential term tend to be positive but it's going to be tough for 2024 performance to be repeated. **Earnings are the bright light** and should benefit from tax cuts, deregulation, tariffs and a far, far more pro-business outlook. Additionally, the underlying economy is growing at around +2.4% GDP for Q4.

As the below graph highlights the economic data is moving higher. US assets already reflect this optimism and although the underlying fundamentals are strong it does feel like some kind of reversion is due. Markets shouldn't go up in a straight line so this should be welcome.

Over and above the narrative the fact remains **that the value of money is falling by around 8% a year and that's the ultimate benchmark for investors.**



Opportunities in 2025

There are a lot of known unknowns all of which have the capacity to both surprise and disappoint. Ultimately it looks even more like a US centric world where US assets perform, and the USD sees inflows. What will force foreign money to move from the US to China or Europe? For that reason, until we see Fed tightening or cross border outflows the relative and outright strength of US assets can continue. Technology, where the US has a competitive advantage, also seems like something the new Government both understand and are going to fully embrace. **However, reducing the deficit and not causing a recession isn't going to be easy.**

Yet valuations are far from cheap and post the election there is certainly a euphoric feeling within markets. Valuations elsewhere in the world are a lot more 'normal'. China has started stimulating which can support its asset markets during its period of debt deleveraging which cannot be rushed. Latin America looks attractive, but it keeps getting more attractive and Europe continues in the doldrums. Ultimately stocks can continue to move higher powered by earnings. Liquidity is likely to be kept abundant and should help Gold and Bitcoin see further gains. **Gold did a great job in 2024, it rallied 27.2% yet was negatively correlated (-0.45) with US equity markets.**

Bonds can continue to do ok albeit it's tough to see significant interest rate cuts from here. The market already prices in a fall of 100bps in 2025 which, if anything, probably feels a bit excessive.

Corporate spreads are already very expensive yet, ultimately, reflect corporate balance sheet that are very healthy. High yield spreads are a good point of reference for the detection of any reversal.



Where the USD goes will be key. The fundamental story of the US remains clear, yet the new management would certainly prefer some weakness. Ultimately, it'll probably remain on the stronger side, there really aren't any other currencies anywhere near as attractive. The inflation outlook would certainly be helped by a little strength, but time will tell.

So, 2025 is going to be a very interesting year. Let's not forget the US has a huge debt mountain to deal with. It's tough however to see past US assets continuing to outperform as per the above graph. Assets aren't cheap, there is a lot of positivity priced in but earnings and underlying fundamentals are strong and it seems likely risk assets can have another good year.

"time is the most valuable asset you don't own"

M.Cuban

J. Loudoun

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