



Market Compass

Outlook 2025

MARKET OUTLOOK

- The return of Trump implies a higher level of policy uncertainty. Our assumption is that Republicans cannot afford another inflation shock, hence will refrain from embracing full-on Trumponomics.
- Global growth is set to stabilise in 2025, with marked regional differences, e.g. 3 times faster in the US than the Euro Area. The desynchronisation of the growth cycle is set to feed into the inflation one: we see risks balanced in the Euro Area but skewed to the upside in the US.
- Greater policy uncertainty, selected ambitious valuations (SPX, USD), and concentration point towards a rise in financial volatility in 2025. Instead, we see room for rates volatility to normalise further, while it will remain above the pre-Covid lows due to inflation uncertainty.

Edited by
**MACRO & MARKET
RESEARCH TEAM**

A team of 13 analysts based in Paris, Cologne, Milan and Prague runs qualitative and quantitative analysis on macroeconomic and financial issues.

The team translates macro and quant views into investment ideas that feed into the investment process.

US

- + Growth to moderate but remaining well above 2%...
- ...putting upside risks to inflation
- ! Fed to reduce the extent of accommodation
- ! First decision of the new administration especially on trade key driver for 2025 growth

EUROZONE

- Sentiment stays weak, also due to rising political uncertainty (Germany, France)
- Tariff uncertainty to weigh on already feeble growth...
- + ...but monetary easing will start feeding through demand
- + ECB to push down rates to 1.75% by the summer

CHINA

- Low growth and disinflation will remain the key challenges
- + High-frequency indicators are improving
- Tariffs are a key tail risk

JAPAN

- ! BoJ to raise rate by 50 bps this year
- + Domestic demand sustained by strong real wages
- ! Large trade surplus with the US makes Japan a target of tariffs, but GDP impact should be manageable

EMERGING MARKETS (EM)

- + Sound macroeconomic fundamentals will provide shield against the Trump's policies
- ! US tariffs are the main risk, but the impact will be heterogeneous across countries
- ! Trade tensions will lead to more regionalisation

- + Positive
- Negative
- ! Topics to watch

DIRECTION OF TRAVEL

- Small overweight (OW) equity and high yield (HY).
- Keep IG credit OW, and prefer non-financials to financials.
- Maintain underweight (UW) government bonds, especially Euro core, but small long duration tilt on Euro govies on rate cuts and low inflation.
- Overweight USD against Euro due to uncertainties and wide yield gap.

Equity

Bonds

Duration

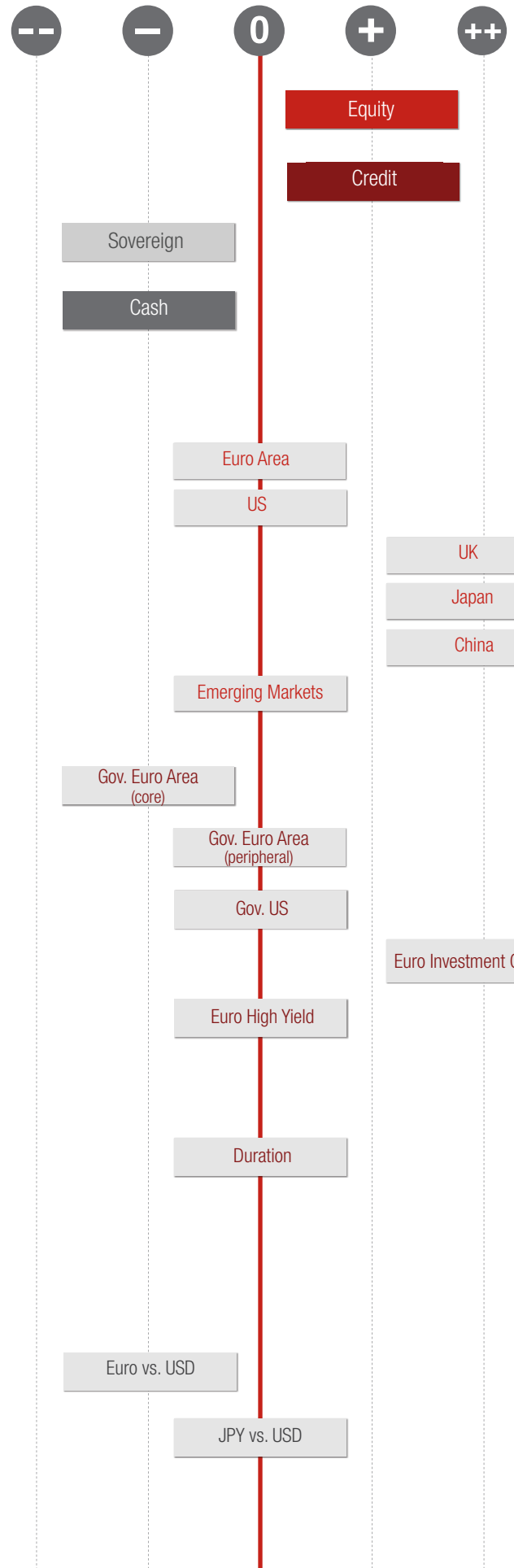
Currencies

- Resolved US election uncertainty adds to a fundamentally driven rotation out of US IT into other sectors and countries.
- EMU is more at risk but also offers much cheaper valuation.
- We see 9-17% TR for EMU and 4-8% for the US over 12 months. Short term we slightly prefer US over EMU.

- US yields still have some upside potential in the short term. Afterwards falling inflation and weaker growth should support a pullback in yields. The trend of retracing Bund yields is likely to continue.
- Given reached levels, however, the momentum will slow; we forecast a decline to 2.0% for 10-year Bund yields by end of 2025.

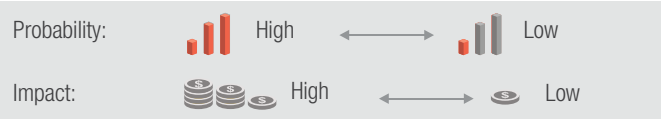
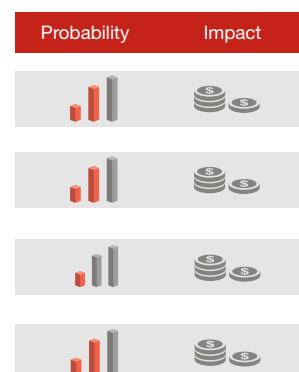
- Neutral duration.

- We see further moderate USD gains over 2025, backed by continued high US productivity. Trade uncertainties also favour the USD bids, as does the sizeable US yield advantage.
- We expect a lower EUR/USD, but a fall below parity would require punitive US tariffs or a deeper political crisis in one of major EMU members.
- The yen may prove the only outperformer against the USD as BoJ tightening contrasts rate cuts elsewhere.



TOPICS TO WATCH

- Inflation risks: higher in the US (due to tight housing and labour market, plus new Trump tariffs), and more balanced in the Euro Area (wage growth is still high in the services sector but goods prices could decline faster due to the knock-on effect of Chinese weakness, which would increase supply).
- Trump swiftly introduces highly punitive tariffs.
- Debt sustainability worries send gov't bond yields sharply higher.
- Geopolitical stress two-sided: escalation risk vs. ceasefire odds (Ukraine, Middle East).



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