



On a few shoulders

Economic Review and Equities

Global equities declined slightly in the fourth quarter to end the year up approximately 17%. The dominant theme in the quarter was clearly the U.S. presidential election on November 6. Donald Trump's clear victory, against the vast majority of predictions by journalists and analysts, moved markets in November as expectations of less regulation and tax cuts fueled optimism. Meanwhile, inflation remained the main economic concern in most developed markets. Central banks recognized this and acted across the board by cutting interest rates.

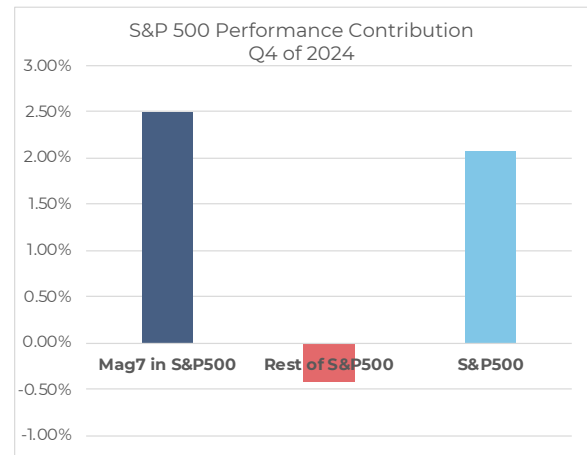
Europe and Switzerland

Eurozone equities fell in Q4 on recession fears, with political instability in France and Germany adding to the concerns. Here, the "traffic light" coalition fell apart after Finance Minister Lindner got sacked by Chancellor Scholz. New elections will therefore be held in Q1/25. In France, Prime Minister Barnier lost a no-confidence vote after the parliament did not support his budget. New elections cannot be held until July. Although the Eurozone PMI rose from 48.3 in Nov to 49.5 in Dec, a reading below 50 still indicates economic contraction. During the quarter, the ECB cut rates by 25bp in Oct and Dec and signaled further cuts in 2025. Swiss equities followed the sentiment and lost 4.3% in the quarter.

USA

Donald Trump's victory and the 'red sweep' in Congress boosted the US market to end the quarter with a solid gain on hopes that his policy program will lift growth and cut taxes. Inflation issues were addressed by the FED with rate cuts in both Nov and Dec. A reduction in the number of expected rate cuts for 2025 triggered a sell-off in December as inflation remains sticky at 2.8%. Still, economic growth was solid at 3.1% in Q3. Some very interesting facts: while the US market gained just over 2% in Q4, it was the large caps that drove the market. US small caps were only up 0.33% (Morningstar). Within the US Large Caps (S&P500), the Magnificent 7 (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla) accounted for more than the entire positive return of the index! In other words, the

remaining 493 stocks were net negative! The reason? AI! The boom in artificial intelligence led to a '24 earnings growth of 33.3% for the Mag 7, while the rest of the S&P 500 grew earnings by just 4.2%. This is expected to converge, however, forecasts for 2025 see these numbers at 21.3% vs. 13%. One final point: the strength of the USD. Since the election, the currencies of major trading partners have lost 5.27% (Euro), 3.89% (Canada), 3.55% (Japan) and 3.43% (Mexico) against the Greenback.



Source: Baha, PWA

Asia & EM

Japan was one of the best performing markets in the quarter, with the Topix gaining 5.4%, also supported by developments in the US. Favourable conditions are expected to persist going into '25, as the Japanese market seems well prepared for the new regime. In Asia, Trump's victory created some headwinds due to concerns about tariffs, especially in the case of China. Other emerging markets also had problems, with Brazil's currency falling on fiscal concerns and South Korea's political turmoil over the impeachment of the acting president. The only markets with positive performance during the period were Singapore and, not surprisingly, Taiwan, which also benefited from the AI boom.



Bonds

Bonds experienced some volatility in the fourth quarter due to geopolitical tensions, central bank actions and persisting inflation concerns. Ahead of the elections, US Treasuries sold off in October on worries about inflation and a Republican victory and what that would mean for the markets. Actions and announcements by the FED saw the 10yr Treasury end 2024 at a yield of 4.57%. Inflation worries also dominated the Eurozone, where the ECB signalled more gradual rate cuts into 2025, despite economic data that was far from strong. The 10-year Bund ended the year with a yield of 2.37% on the back of a weaker Euro. China also responded to weaker economic indicators by announcing various forms of stimulus. In general, high yield bonds outperformed investment grade bonds. Convertibles staged a comeback in the quarter, showing good downside protection in Nov and Dec. New issuance also remained strong, with USD 26.7 billion of new paper coming to market.

Indices in USD	Q4 2024	YTD
Bonds		
Global Bonds	-1.0%	2.7%
Global Government Bonds	-1.1%	2.2%
Global Investment Grade	-4.0%	-2.9%
Global High Yield	-2.6%	2.5%
Emerging Markets	-3.4%	1.7%
Global Convertible	-0.7%	6.9%
Equities		
ACWI World	-1.0%	17.4%
SPI Switzerland	-11.6%	-2.1%
S&P500 USA	2.3%	24.7%
MSCI Europe	-10.2%	2.1%
MSCI Emerging Markets	-7.8%	7.2%
Alternative Investments		
Precious Metals	-3.5%	15.6%
Commodities	-0.4%	5.4%
Hedge Funds	0.2%	5.3%
Currencies		
USD/CHF	6.8%	7.3%
USD/EUR	7.0%	6.2%
USD/JPY	8.6%	10.3%

Alternative investments

The S&P GSCI Index rose in the fourth quarter, with Energy and Livestock being the best performers, while Industrials and Precious Metals both declined. All sub-components in the energy sector posted robust gains. In agriculture, the quarter saw extreme divergence among components. Coffee and cocoa rose sharply, while cotton and sugar fell equally sharply. Safe-haven assets such as gold and silver also declined slightly on optimism following the U.S. election.

Digital Assets - While we do not intend to comment on specific cryptocurrencies, two pivotal events occurred in 2024: the first was the launch of the US Spot Bitcoin ETF in January. The second came in November with the first openly pro-cryptocurrency administration to be in the White House, marking an end to regulatory stagnation. Surely, this was the reason why Bitcoin shot above \$100,000 for the first time ever, before retreating back to the mid-\$90,000s. Interesting times ahead!

Our Investments and Actions

We de-selected a poor performing global equity manager. But what was even more relevant was that the fund did not perform as the philosophy suggested. We now re-allocated to a group of fund managers with a very consistent outperformance of the MSCI World Index. It seems that know-how and incentives to perform are aligned very well here. We also switched our European Small Cap Fund to another manager after a thorough selection process. In thematic investments, we switched from the tech-oriented theme cybersecurity to a value oriented industrial investment which is the electrical grid as discussed in our last newsletter. We were looking to a more stable element in the portfolios that still has good momentum.



Navigating the 1st quarter

Growth will continue in most economies. With equities and gold at all-time highs and corporate spreads at cyclical lows, something has to give.

In our view, these themes will dominate in 2025:

Stepping down – easing of interest rates. Victory over inflation is not yet achieved. Interest rate differentials between markets will be important. Japan is the only market that will raise rates. All others will slowly ease rates. US protectionism will force the EU to cut rates even faster, probably to around 2% this year from the current level.

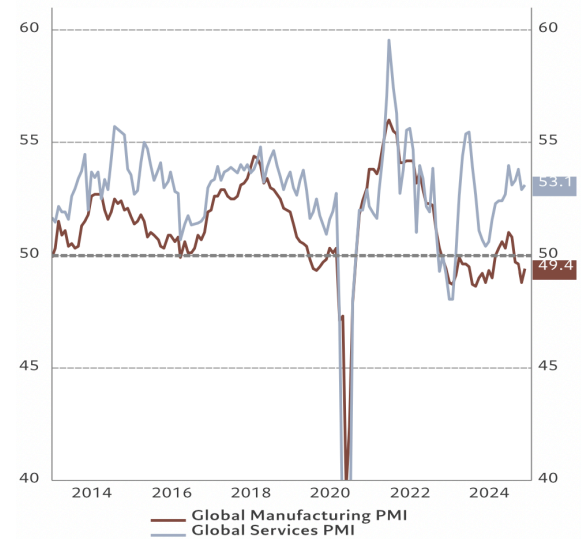
Living on borrowed time – the explosion in government debt and high interest rates are creating high running costs that limit the flexibility and ability of governments - including the new US administration - to deliver on their promises.

Broken bonds – The tone between nations is no better than the tone within them. We are seeing a further fracturing of some of the key benefits of globalization: better competition, lower prices, more choice are being eroded by protectionism and onshoring. This could also be the fuel for unforeseen geopolitical events.

New fuel for the pursuit of prosperity – Birth rates in developed countries are very low. In order to keep prosperity at the current level these countries will seek to compensate for the lack of home-grown labor through technology and AI. This transition comes with the usual turbulence of any transformation process.

Where is the economy heading?

Globally, purchasing managers' indices are pointing to growth, but in an unbalanced way, services are leading the way ahead of manufacturing. It is not clear whether this is a structural shift or only temporary.



Source: Refinitiv DataStream, JPMorgan, Pictet Asset Management. As of October 2024.

In the US, a main focus of the new administration is border control. This is likely to put pressure on labor, as a US economy poised for growth is used to a constant flow of fresh labor forces coming into the country. New tariffs will be imposed more gradually than expected. There is less room for fiscal maneuvers than many believe. The risk of higher inflation is rising. The current cycle is not in the history books: such a spike in inflation has never happened without economic damage. But that just seems to be happening in the US. Low unemployment and good sentiment are and will continue to be the backbone of US economic dominance over the rest of the world.

In Europe, the industrial sector is not stepping up to save the economy, which is additionally burdened by politics. An end to the war in Ukraine could bring some relief. An article in the NZZ asked: "Trump is like a predator, Europe like a social worker. Who do you think will win?" It seems the Europeans have just become too nice (and naïve?), driven by ideology rather than pragmatic politics and protecting the interests of their people. The Eurozone will remain an underachiever.



Currencies and Bonds

Cash and Currencies

The yen is likely to strengthen again, also due to the significant narrowing of interest rate differentials. Other currencies do not give us a clear direction as we expect the USD strength to peak soon. In terms of investments, we continue to like money market funds as they should continue to perform rather well even when interest rates fall.

Bonds

Lower interest rates should finally lift bond prices after a rather disappointing year. We expect our selected bond managers to continue to consistently outperform their markets. The challenge will be to play duration well: short, medium or long - and when to switch. This is a challenge we are happy to delegate to top specialist managers. Above-average yields combined with historically high credit quality in the high yield market support an optimistic outlook.

Alternatives – Stability

Private equity dry powder continues to far exceed the current supply of private credit dry powder. This suggests that private credit has room to grow as it is the primary source of financing for private equity M&A, which we expect to pick up again in 2025.

Equities – Momentum in Q1 still ok

USA – low value, but without alternative

Not much to add to the title. There is no way around US stocks. Once again. In the long run, almost all asset managers expect much lower US stock prices. Momentum suggests it just won't be just yet. Both government and FED policies will help the rich get richer by driving up equity prices. But let's not forget that US equities have healthier corporate earnings than we find elsewhere. Lower interest rates and a broadening of the market will continue to benefit small and mid-cap companies. Passive investing via an ETF has become an active bet on 7 stocks as we have shown above. Warren Buffett is holding 30% in cash after exiting positions in Apple and Microsoft. Earnings revisions need

to be watched closely in order not to miss the point in time to potentially reduce positions. The risk we see here is the comeback of inflation.

Europe and Switzerland – stagnant, except for the periphery

Selection will be key, both at the stock and country level. Europe still has some fantastic world-leading companies, and the periphery looks very resilient. Tariffs will hit Germany the hardest, according to Goldman Sachs. We may at some point rethink our strong overweight in Swiss equities, even though being invested in a position that has outperformed the indices for the 7th year in a row.

Asia and Emerging Markets – a mixed bag

As far as China is concerned, a recovery seems unlikely. There is no plan in sight, real estate prices continue to plummet and there is no reaction from the government. Investors cheered the coordinated monetary and fiscal support in China, but the government has yet to announce full details. Amid a favorable growth outlook in Asia, China's prospects are the least favorable. We currently maintain our overweight in India, Vietnam and Japan.

Alternatives – Classic

While some asset managers have overweight commodities, this would require an economic rebound in China, which we are not seeing.

As for digital assets, Web 3.0 offers an ocean of opportunities - and pitfalls. We stick to a small investment in a) assets that add value as the economy moves online (such as Solana and apps) and b) highly liquid cryptocurrencies (such as Bitcoin), rebalancing positions regularly.



Positioning our portfolios

For 2025, we decided to focus on improving the outcome of our tactical calls, which are based on our market outlook. To improve the process, we will position our portfolios according to our **strategic allocation** and rebalance them regularly. In our newsletters, we will share some thoughts on our strategic allocation rather than our tactical calls.

As a starting point, here is our strategic asset allocation for a **balanced investment portfolio** and some comments on the individual sub asset classes:

Liquidity	5%
Bonds	30%
Global Treasuries	4.5%
Corporate IG Global	4.5%
High Yield Global	4.5%
Emerging Markets	6.0%
Aggregate / Flexible	6.0%
Convertibles	4.5%
Alternatives - stability	10%
Private Credit	3.5%
Structured Income	3.0%
Hedge funds & others stability	3.5%
Equities	45%
Switzerland	13.5%
North America	5.4%
Europe and UK	5.4%
Asia and Emerging Markets	5.4%
Global	10.8%
Thematic	4.5%
Alternatives - classic	10%
Real estate & infrastructure	2.0%
Precious Metals	2.0%
Commodities	2.0%
Digital assets	2.0%
Hedge funds, PE & others	2.0%
low / medium / elevated risk & return	

Liquidity / Cash: Among the major asset classes, liquidity does not offer high returns, but it does offer flexibility and opportunity (in form of dry powder).

Bonds: Global Treasuries are government bonds of developed countries.

IG stands for Investment Grade and generally allows for investments in Bonds rated between AAA and BBB by leading rating agencies.

HY stands for High Yield which are bonds with a rating of BB or below.

In Emerging Markets, government bonds are by far the most dominant bond type. The corporate bond market is not well developed there, but catching up.

Our Aggregate/Flexible sub-asset class allows us to allocate to managers who are flexible across all bond categories. They have a greater ability to know when to allocate to specific asset class and often offer an absolute return approach by looking for undervalued bonds.

Convertibles are a combination of a bond and an option on the stock of the issuer of the bond. At the end of the period, the bond will be converted into the stock if predefined criteria is met. Because of the option element, some managers treat convertibles as alternative investments. The bond element tends to be more dominant, especially in strongly falling equity markets, so we keep it as an interesting risk/reward driver in the bonds category.

Alternatives - stability: We created this asset class separately from other classes when we were facing negative interest rates. We identify lower-risk investments with a more bond-like risk/return profile, but without their interest rate-sensitivity, but rather deriving stable returns from various factors.

More to come.

Wishing you a fun winter and a healthy and successful 2025.

Your PWA Team