TRAMONDO
INVESTMENT PARTNERS

NAVIGATOR 2025

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IN SEARCH OF A NEW EQUILIBRIUM

INTRODUCTION

Finally, the die is cast: Donald J. Trump will become the 47th President of the United States in early 2025. Without a doubt, one of the biggest (and most surprising) political comebacks in modern history. Armed with a comfortable majority in Congress, Trump possesses a robust mandate to shape both national and international policies in the coming quarters. Therefore, Trump's political agenda and its implications for global financial markets will inevitably take center stage in investor considerations, particularly during the first half of 2025.

We strongly advise clients not to lean headlessly on the market dynamics of Trump's first term in Washington as there are some big differences to that time. Back then, yields on fixed income markets were not a constraint at all – neither was inflation. When Trump took the Oval Office in early 2017, economic growth was anemic, and investors applauded his pro-growth policies. In 2025, the situation looks different. Economic growth still shows no signs of fatigue despite the unparalleled rate hiking cycle in 2022 and 2023. Indeed, labor markets have been easing most recently, but the odds of an impending recession look rather low. Moreover, inflation is gradually but steadily converging towards the central bank's target. However, during the last four years, the average goods prices in the US have increased by nearly 25%, causing many low- and middle-income households to face a real existential crisis. In that context, we are skeptical whether the US economy really needs another policy-induced sugar boost that may kick-start another disastrous price surge.

While the scope of Trump's political agenda is not yet clear, we expect the administration to put a great emphasis on domestic policy, with people's living costs and immigration being ranked at the top of the to-do list. Indeed, import tariffs may also play a prominent role in the Trump 2.0 era, but the mandate he was given by households is definitely more about improving people's living standards.

Beyond politics, we strongly believe that fundamentals are prone to a comeback in 2025, especially after three years in which central banks mostly dictated daily market action. In a policy-driven, fast-paced market environment, we see fundamental analysis as an unbiased navigator for stormy periods that may lie ahead of us. Our goal for 2025 is to maintain a disciplined focus on reliable, objective data from companies and the real economy rather than being misled by short-term political noise. Otherwise, market participants may be inclined to chase short-term market fluctuations causing their portfolios to deliver poor investment results. Therefore, we stick to our well-proven hybrid investment approach, which combines chart-technical and fundamental analysis to define the tactical positioning of our balanced investment solutions.

In this publication, we address five key questions frequently posed by our investors and clients in recent times. As usual, we do not intend to provide forecasts and strongly advocate for an adaptive and flexible asset allocation. Nevertheless, we aim to provide thought-provoking insights on several key topics that we believe will significantly influence next year's market landscape. With that, we hope the following pages can provide good waypoints for navigating the various market challenges in 2025.

We wish you and your family the best for the upcoming festive season. Furthermore, we hope you will find time to recharge your energy reserves for 2025, a year that certainly will have a few surprises in store again.



Raphael Müller, CEO



Andreas Schranz, CIO

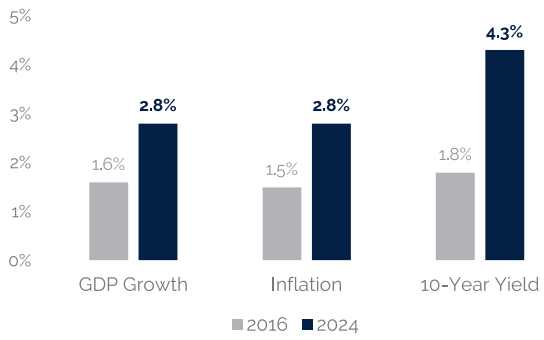
MARKET COMPASS FOR 2025

KEY QUESTION NO. 1:

WHAT DO YOU EXPECT FROM THE TRUMP ADMINISTRATION AND WHAT MIGHT BE IMPLICATIONS FOR ECONOMIC GROWTH?

With the U.S. elections roughly five weeks behind us, it would be presumptuous to make definitive forecasts about Trump's political priorities or their potential impact on the world's largest economy. However, it's reasonable to assert that the Trump 2.0 era will start from a completely different fundamental backdrop compared to late 2016 when Trump took the Oval Office for the first time. In 2016, real economic growth was sluggish at 1.6%, inflation stood at a mere 1.5%, and 10-year U.S. Treasury yields averaged around 1.8%. Given this anemic economic picture, investors warmly welcomed Trump's pro-growth policies sending the S&P 500 up by a remarkable 21.8% in 2017.

USA: Fundamentals 2016 vs. 2024



SOURCE: BLOOMBERG, TRAMONDO.

As we enter the new investment year, economic growth and inflation in the U.S. stand at 2.8%, while long-term yields are trading around 4.3%. From a fundamental point of view, there appears to be no pressing need for additional stimulus from Washington to revitalize the economy. With inflation still slightly above the central bank's target, pro-growth policies could even be counterproductive as they may enable pricing pressure to make an unwelcome comeback in 2025. Therefore, we strongly believe that Trump's political game plan in 2025 will diverge significantly from his first tenure.

Be that as it may, let's start the discussion by analyzing why Donald Trump defeated Kamala Harris by such a wide margin. To put it really simply, there are two reasons: the cost of living crisis and immigration.

Regarding the first, low- and middle-income households, making up nearly 80% of the U.S. population, have faced a difficult environment during the last years as prices of goods and services shot up considerably. Since President Biden assumed office in early 2021, gasoline prices have soared by 40%, used car prices have climbed 35%, and average rents in major U.S. cities

have increased by 20% to 30%. Cumulatively, U.S. prices have risen by approximately 25% since early 2021. While salaries have also increased during this period, with the median salary growing by nearly 15%, U.S. households nonetheless face a significant erosion of their purchasing power.

Regarding immigration, the U.S. experienced an unparalleled influx of immigrants in the last couple of years. It is estimated that nearly eight million undocumented (working) immigrants now reside in the country, constituting approximately 5.5% of the domestic workforce. Despite lacking an economic basis, many Americans have associated their financial hardships with these immigrant flows, leading to growing discontent, particularly among suburban and rural populations. Accordingly, we anticipate that one of Trump's first official acts upon assuming the Oval Office on January 20th 2025, will be to implement measures to curb illegal immigration and enhance border security.

WE BELIEVE THAT TRUMP'S POLITICAL MANDATE OVER THE COURSE OF THE NEXT FOUR YEARS WILL MOSTLY BE ABOUT DOMESTIC POLICY, ESPECIALLY INFLATION (THE COST OF LIVING CRISIS) AND IMMIGRATION.

With that, we believe that Trump's political mandate over the course of the next four years will mostly be about domestic policy, especially inflation (the cost of living crisis) and immigration. While Trump's other main themes on his pre-election agenda – import tariffs and taxation – may also be in the spotlight at the beginning of his tenure, we expect these political discussions to recede into the background gradually.

Overall, we seriously question whether the political priorities illustrated above will have such a growth-stimulating effect as the market consensus currently expects. Taking a short- and medium term view, growth expectations of a Trump 2.0 era may open up some potential for disappointment.

In the short term, lower corporate taxation would undoubtedly benefit Corporate America. For the S&P 500, underlying earnings (EPS) are expected to rise by 4% if the Trump administration lowers the tax rate from 21% to 15%. When combined with import tariffs, the net effect could be fairly neutral if the U.S. imposes a 60% tariff on Chinese goods and a 10% tariff on imports from other countries, as outlined during Trump's election campaign. If other countries retaliated, which is our base case, the net effect could even be negative. Under such a regime, S&P 500 earnings are forecasted to fall 5% to 7%, more than the tax benefit outlined above. Exacerbating the situation, political uncertainty surrounding tariff implementation may lead to reduced capital expenditures in 2025, as companies postpone their capital allocations until U.S. trade policy becomes clearer. Lastly, investors should not forget the negative relationship between the U.S. dollar and S&P 500 earnings. As a rule of thumb, a 1% appreciation in the U.S. dollar lowers S&P 500 earnings by about 0.3%. The USD index, which measures the USD against the currencies of its major trading partners, significantly increased most recently, especially thanks to the Trump election. With the index now up more than 5% since the end of 2023, U.S. companies will face further headwinds, especially in early 2025.

Summing up, despite current (optimistic) market perceptions, we do not believe that Trump's major policy ambitions will provide an additional boost for the U.S. economy in 2025. Taken together, short-term implications should be neutral at best.

In the medium term, Trump's core policy mandate will come to the forefront: enhancing living standards for Americans and adopting a more stringent approach towards illegal immigration. While policies aimed at reducing the cost of living for households might be neutral to slightly growth-prohibitive, mass deportations for illegal immigrants would undoubtedly pose a significant negative impact on the U.S. economy. This action would trigger an unprecedented supply shock to the U.S. labor force, particularly affecting sectors relying heavily on these workers. For instance, it is estimated that over 50% of restaurant employees are undocumented immigrants. Accordingly, mass deportations would lead to a substantial contraction in the labor market, potentially causing certain sectors to experience a veritable collapse. Beyond any doubt, this abrupt mismatch between supply and demand in labor markets will initiate another dangerous spiral in pricing pressure that will once again put low- and middle-income households in an uncomfortable situation.

With that in mind, we are skeptical whether Trump is really able to put forward his threats regarding immigration policy. In the end, we think that Trump, as a businessman, will give his economic goals priority status, especially tackling the cost of living crisis, while softening his stance on immigration – for better or worse.

Regardless of the specific outcomes, as outlined above, medium term implications for a Trump 2.0 era should not be seen as a booster for U.S. economic growth. To make matters worse, fiscal discipline may be put more into the spotlight as Trump's second tenure advances, with the debt-to-GDP ratio shooting up to a record-high 121.6% by the end of Q2 2024. When Trump won the presidential election in late 2016, this ratio stood at 104.0%. As such, one of the key elements of the American growth engine in the last years, expansionary fiscal policy, may not be as stimulating as in the recent past.

On an aggregate basis, we expect U.S. growth dynamics to ease in 2025 as Trump's political roadmap fails to significantly contribute to domestic GDP. Entering the new investment year, the odds of an impending hard landing (recession) seem rather low, with consumption and labor market data remaining fairly robust. However, looking to the second half of 2025, the outlook comes with an increased level of uncertainty, with the (optimistic) market consensus likely due for a recalibration as market participants' Trump 2.0 playbook fails to materialize.

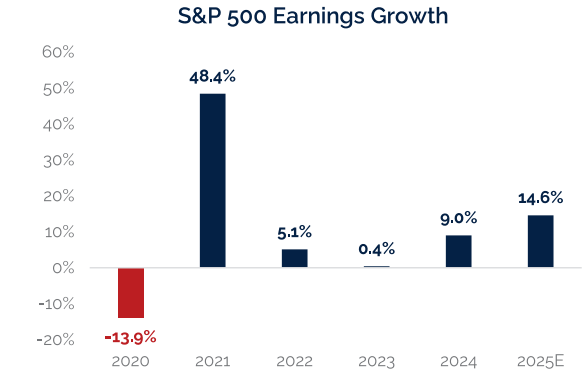
Investment conclusion: While taxation and import tariffs may take a prominent role in the beginning of Trump's second tenure, we expect the Republican government to be focused mainly on domestic policy. In that context, people's living standards and immigration policy will clearly be ranked as top priorities under the Trump 2.0 era. Overall, we think that Trump's political agenda will not brighten up the economic outlook of the U.S., as the net effect of Trump's policies could even be growth-prohibitive, especially in the medium term.

KEY QUESTION NO. 2:

AS WE ENTER THE NEW INVESTMENT YEAR, WHAT IS YOUR TACTICAL POSITIONING FOR A BALANCED PORTFOLIO?

Next year's financial market outlook is fraught with a high degree of uncertainty, particularly concerning geopolitical developments. Given these circumstances, we advocate for a neutral allocation towards global equity markets, reflecting a balanced approach in the current market environment. In the short term, equity markets may have some further room to run as a combination of resilient consumer spending, strong earnings growth, and a supportive monetary policy backdrop may trigger animal spirits among investors. Accordingly, we expect equity markets to take the path of least resistance and continue their upward trajectory in early 2025.

However, this supportive momentum may wane as we move farther into 2025, with risks from decelerating economic growth, geopolitical uncertainties, and delayed effects of higher interest rates becoming more pronounced. For the S&P 500, expected earnings growth for 2025 stands at an optimistic 14.6%, leaving some risk for downward revisions in case some of the illustrated headwinds materialize. With the U.S. equity market trading at a price-to-earnings-multiple of 22.1, the margin for error is small, to say the least.



SOURCE: BLOOMBERG, TRAMONDO.

Furthermore, we anticipate that the Republican administration in the U.S. may fall short of investor expectations, as the Trump 2.0 era may not prove as economically stimulative as many hope. Summing up, we expect equity markets to enjoy a pleasant start to the new investment year while, over the course of the year, market participants may have to recalibrate their (optimistic) expectations.

Given this rather upbeat market narrative, it still makes sense to have at least a reasonable exposure toward high-quality credit paper. We see fixed income as a valuable diversifier in a multi-asset portfolio if the rosy market picture that investors are currently

pricing in fails to materialize. As inflation is expected to continue its normalization trend in 2025, we expect central banks to pursue their easing efforts with respect to monetary policy. In this regard, the outlook for the Federal Reserve (Fed) may be subject to greater uncertainty after the most recent political upheavals in Washington. However, at least in early 2025, we believe that the central bank will hardly deviate from its original plans to bring down policy rates somewhat further.

FIXED INCOME OFFERS VALUABLE DIVERSIFICATION IF THE OPTIMISTIC MARKET CONSENSUS DOES NOT MATERIALIZE.

On a relative basis, we maintain our preference for EUR fixed income as the European Central Bank (ECB) may still have some catch-up potential regarding monetary easing, given the region's easing price pressure and subdued economic growth. Regarding security selection, we advise clients to employ an up-in-quality approach as credit spreads of issuers with higher risk (high yield) have recently fallen to their lowest level in over a decade. As such, these credit spreads hardly compensate for the increased default risk.

Finally, we are sticking with a neutral allocation towards alternative investments. Despite its strong momentum in 2024, we still believe that gold will continue to shine, also in the coming investment year – please refer to key question no. 4 for further details on our bullish outlook for gold. Overall, alternative investments could be of particular interest to Swiss investors. For these investors, it seems reasonable to reallocate some of their domestic bond exposure towards alternative investment strategies as CHF-denominated fixed income can hardly generate a positive real yield. Within the alternative investment landscape, we think that cat bonds, in particular, offer a compelling opportunity set. These instruments, typically issued by reinsurance companies to transfer risks from natural catastrophes such as hurricanes and earthquakes, stand out due to their low correlation to traditional markets and attractive volatility.

Lastly, a word about Trump. We highly recommend that investors not lean headlong into the market dynamics of Trump's first presidency. Following the election, investors swiftly began pricing in a repeat of Trump's initial term in Washington. Market participants anticipate that Republicans will implement a series of policies unleashing growth similar to that seen in 2017. But we believe the market consensus is misguided. In this context, investors appear to focus on the individual rather than the macroeconomic environment. The current economic landscape differs significantly from 2017, as do Trump's political priorities. Economic growth is doing fine and inflation is finally receding, after a longer period in which many households have been groaning under the high cost of living. We therefore doubt that the Trump administration will implement the growth-enhancing policies that the market is waiting for, especially given the risk that these packages could trigger another disastrous price spike. To be fair, some market segments could enjoy a similar boost as in 2017. Among others, domestic small- and midcaps look like a reasonable candidate to perform well in 2025. However, we strongly caution against replicating the broader asset class moves of Trump's first term in office into today's asset allocation.

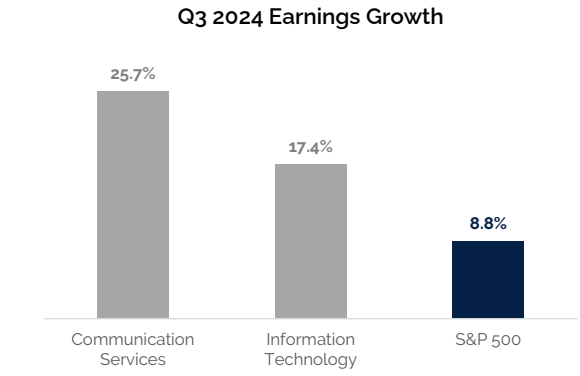
Investment conclusion: We expect equity markets to start the investment year on a solid footing presenting investors with opportunities for additional gains. However, as we progress through 2025, we wouldn't be surprised if the prevailing optimistic market consensus requires adjustment, particularly as Trump's political agenda may fall short of expectations. Furthermore, we remain constructive on high-quality fixed income and gold, both of which have the potential to contribute significantly to portfolio diversification.

KEY QUESTION NO. 3:

WHAT ARE THE KEY CALLS REGARDING YOUR EQUITY STRATEGY?

As we approach 2025, the S&P 500 is trading close to all-time highs and with a rather lofty valuation, to say the least. In such a blue-sky market environment, coupled with great geopolitical challenges ahead, we strongly advise investors to prioritize quality in their portfolios. Market participants should employ an up-in-quality approach that distinguishes companies by their best-in-class earnings visibility and resilience. Beyond that, we strive for businesses with high profitability, strong balance sheets, and a management team with a proven track record.

Regarding our equity sector strategy, we believe that both the information technology and the communication services sector exemplify the quality attributes outlined above. In that context, the earnings season for Q3 2024 underpinned the fundamental qualities of both sectors: the information technology (+17.4%) and communication services (+25.7%) sectors once again reported an earnings growth rate that was significantly higher than the S&P 500 (+8.8%). While we expect earnings growth to normalize somewhat in the coming quarters, mainly due to base effects, both sectors are still backed by structural megatrends that should keep the fundamental story intact through 2025 and beyond.



SOURCE: BLOOMBERG, TRAMONDO.

From a tactical perspective, we identify attractive opportunities in cyclical sectors, particularly industrials, which may benefit from the market's pro-growth narrative following the new political landscape in Washington. However, we believe it is prudent to monitor this sector call closely, as indicators of slowing economic growth may necessitate a reassessment later in the year.

In addition, defensive sectors such as utilities may be poised for a resurgence later in 2025. These sectors offer above-average earnings resilience even in a softening economy and, as beneficiaries of a low-yield environment, attractive price potential as central banks continue to normalize their rate efforts in 2025. From a portfolio construction perspective, defensive sectors also promise decorrelation benefits in an equity-oriented portfolio if the bullish market consensus fails to materialize.

WE STICK TO A WELL-BALANCED BARBELL STRATEGY CONSIDERING CYCLICAL (INDUSTRIALS) AS WELL AS DEFENSIVE SECTORS (UTILITIES), COMPLEMENTED BY HIGH-QUALITY SECTORS (INFORMATION TECHNOLOGY, COMMUNICATION SERVICES).

Overall, we stick to a well-balanced barbell strategy considering cyclical (industrials) as well as defensive sectors (utilities), complemented by high-quality sectors (information technology, communication services) offering above-average growth potential.

From a regional perspective, the U.S. equity market remains our preferred pick within the global universe. While we acknowledge the potential for investor disappointment in the quarters ahead, especially regarding Trump's political agenda, we see no compelling reason why Wall Street's dominance should wane in the quarters ahead. Indeed, European equity markets offer intriguing opportunities in certain sectors. However, investors prioritizing quality and growth will likely find more favorable prospects in the U.S. market.

Beyond the U.S. and Europe, we still stick to a minor allocation towards Emerging Markets. In that context, we rely on a highly selective approach as the world's growing geopolitical fragmentation will draw a clear line between the region's winners and losers, especially in 2025. We believe that Vietnam and India continue to stand out as potential beneficiaries of shifting global production trends. In the last few years, Vietnam has become an increasingly relevant production site for international market leaders such as Apple and Nike, who want to unwind their dependence on China. Further west, India launched its famous "Make in India" campaign over ten years ago to raise its profile as a manufacturing partner for multinational companies. While India's infrastructure is not yet comparable to China's or Vietnam's, the country has made considerable progress in attracting international partners such as Boeing, Samsung, or Siemens.

Investment conclusion: We maintain a neutral equity allocation, balancing short-term upside with potential disappointment later in 2025. We advise investors to stick to a quality-oriented barbell strategy considering cyclical and defensive sectors, complemented by growth stocks. Thanks to this well-balanced approach, investors should do well, even in an environment dictated by geopolitics and short-term market volatility. Finally, the U.S. remains our preferred region in the global equity universe, while Vietnam and India both offer attractive growth opportunities due to global supply chain shifts.

KEY QUESTION NO. 4:

AFTER AN EXCELLENT RUN THIS YEAR, WHERE DO YOU SEE GOLD HEADING IN 2025?

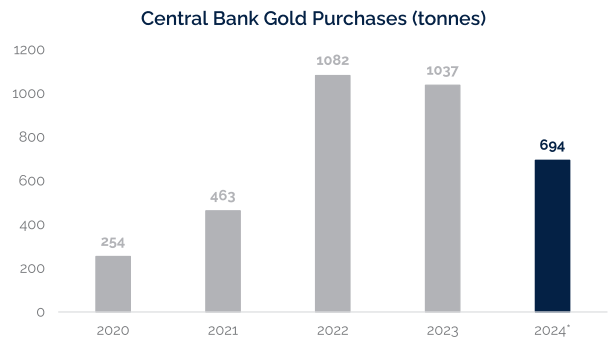
In last year's market outlook, we expressed optimism regarding gold's performance in 2024. The precious metal has surpassed even our most bullish projections, delivering a remarkable 28.7% return year-to-date and outperforming nearly every other asset class. Looking ahead to 2025, we anticipate that gold will again enjoy some tailwinds.

Firstly, we believe that real rates, the single most important factor driving the gold price over the medium term, are poised to decrease in the quarters ahead. Regarding monetary policy, we expect global central banks to continue their rate-cutting cycle in the coming year. As a result, nominal rates are prone to decline in 2025. Beyond that, while Trump's political agenda is yet to be defined, some of the proposed policy initiatives, in particular import tariffs, have the potential to ignite inflationary pressures. Taken together, we see a high likelihood of real rates decreasing over the coming months, which would be a key positive for the precious metal's outlook.

WE SEE A HIGH LIKELIHOOD OF REAL RATES DECREASING OVER THE COMING MONTHS, WHICH WOULD BE A KEY POSITIVE FOR THE PRECIOUS METAL'S OUTLOOK.

Secondly, we expect the U.S. dollar to have reached the final stage of its bullish cycle. While the USD may have some further room to run in the short term, we expect the currency to roll over in early 2025 as investor positioning looks increasingly crowded. Furthermore, we also assume that political factors will pressure the USD, especially as Trump's political agenda may disappoint investors later in the year. From an empirical point of view, a weaker U.S. dollar should support gold.

Thirdly, and perhaps most importantly, Emerging Market central banks are still making great efforts to create some sort of independence from the USD. These "de-dollarization" trends have been ongoing for many years, but large-scale purchases of central banks have been picking up in the last two years. In that context, we do not expect the Trump administration to be able to turn the tide. As a consequence, physical gold demand should be well-supported over the coming quarters, which should limit the precious metal's downside risk.



SOURCE: WORLD GOLD COUNCIL (*2024 AS OF OCTOBER, 30.)

Finally, we still see decent catch-up potential in investor positioning. Empirical studies have shown that the average exposure among large institutional investors is only around 1% to 3%. Hence, we believe the average market participant is still slightly underexposed to the precious metal, especially as geopolitics may dictate next year's market roadmap.

All in all, despite recent pullbacks, the combination of above-illustrated factors points to a positive medium term outlook for

gold. While this year's stellar performance may not be repeated, we strongly believe that gold will continue to shine in 2025, primarily as a hedge to geopolitical and inflation risks.

Investment conclusion: Following gold's exceptional performance in 2024, we believe the precious metal is well-positioned to maintain its positive momentum in the upcoming investment year. We have identified several short to medium term factors likely to drive gold prices up in 2025 and beyond. Given our positive outlook for the precious metal, we advise investors with below-average exposure to increase their gold allocation during extended market selloffs.

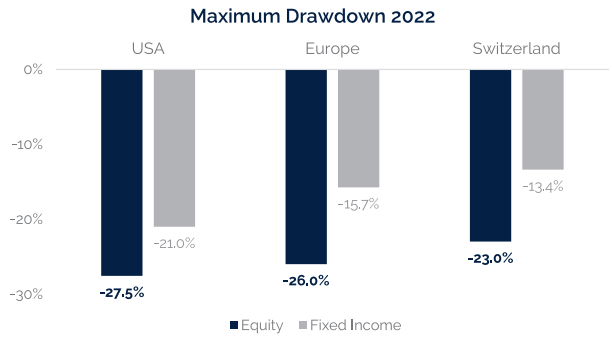
KEY QUESTION NO. 5:

WHAT ARE THE KEY RISKS FOR OUR CURRENT MARKET VIEW?

Naturally, formulating market views at the start of a year always involves inherent risks.

Therefore, we believe it is absolutely essential to challenge these forecasts by examining both upside and downside scenarios relative to our established base case. Since financial markets appear to have already priced in a significant amount of positive news, we will concentrate on potential negative surprises that could undermine our generally constructive market outlook.

One of the biggest threats to financial markets next year could stem from the U.S. Treasury market. In response to Trump's policy agenda, market participants may feel compelled to price in a resurgence of inflation, potentially causing Treasury bond yields to rise sharply. While the risk of a second inflation wave in other regions seems more contained, fixed income markets outside the U.S. would certainly also experience increased market stress. Collectively, this scenario could have dramatic ramifications for both equity and fixed income markets, reminiscent of the market conditions in 2022.



SOURCE: BLOOMBERG, TRAMONDO.

For fixed income markets, a resurgence of inflationary pressures in 2025 would probably bring central banks' efforts to ease monetary policy to an abrupt halt – or even force these monetary institutions to raise rates again to prevent further economic deterioration. As a result, nominal asset prices would fall, especially for long-dated bonds, which are more sensitive to changes in interest rates. In addition, credit spreads are expected to widen, putting further pressure on underlying valuations, especially in market segments with lower credit quality (high yield). In such a challenging environment, fixed income markets could easily lose 5% to 10% in the coming investment year.

A RE-RATING OF BOTH EARNINGS EXPECTATIONS AND UNDERLYING MARKET VALUATIONS COULD SEE THE U.S. EQUITY MARKET DROP BY 10% TO 20%, EVEN IF THE REAL ECONOMY AVOIDS A RECESSION.

In the equity market context, recalibrating underlying inflation expectations would have several adverse effects. On the one hand, corporate profit margins could be eroded due to higher costs stemming from higher wage demands or import tariffs. On the other hand, higher interest rates would depress equity valuations, especially for growth stocks that heavily rely on long-term earnings projections. With the S&P 500 trading at a price-to-earnings-multiple of 22.1, pricing in some further monetary easing in 2025, the pressure on equity markets would be considerable, to say the least. A re-rating of both earnings expectations and underlying market valuations could see the U.S. equity market drop by 10% to 20%, even in case the real economy avoids a recession.

Finally, a word about the upside case. Although many areas of financial markets are almost priced for perfection, we cannot rule out the possibility that 2025 will (once again) surpass our expectations. In 2025, the pro-growth policies of the Trump administration could boost the domestic economy without forcing investors to reprice their inflation expectations. However, this scenario can only materialize if the administration successfully balances fiscal, monetary, and structural factors. The new policies would need to stimulate economic activity in a way that increases productive capacity rather than merely inflating demand, which could trigger higher prices. This undoubtedly presents a challenging task for the new government.

Be that as it may, the upside scenario would most likely be fairly neutral for high-quality fixed income markets. However, issuers with higher credit risk (high yield) could see their credit spreads tighten further, supporting their prices. Equity markets may benefit from positive earnings revisions based on growth-promoting policies, allowing risky assets to rally further in 2025.

Investment conclusion: From our point of view, the biggest risk to our market outlook is the resurgence of inflation due to Trump's policies. This scenario would disrupt equity and fixed income markets, causing a multi-asset portfolio to experience a painful drawdown. Conversely, a balanced and well-defined pro-growth policy might exceed our expectations and raise earnings forecasts, enabling equity markets to perform better than expected.

IN SEARCH OF A NEW EQUILIBRIUM

INVESTMENT CONCLUSION

2025 will mark the midpoint of the current decade. A decade that so far has been rewarding for investors, with the S&P 500 nearly doubling since the start of the 2020s. All that despite unprecedented COVID-19 lockdowns, two devastating wars and the largest inflation spike in over four decades. Looking ahead to next year, it is certainly a bold task to predict whether financial markets can seamlessly build on the outstanding momentum of the past years, as geopolitics will undoubtedly take center stage in 2025. In this respect, Trump's policy agenda is not yet clear – and neither are the implications for financial markets.

After years of record-high inflation and rising interest rates, macroeconomic imbalances have declined markedly in 2024. Inflation has fallen without triggering a global recession (so far), and central banks' efforts to ease monetary policy are finally underway. We expect key policy rates to be lowered further in the coming months before eventually settling at a new equilibrium level that certainly is higher than during the last decade's cycle. Overall, we remain cautiously optimistic that major economies will finally be able to turn into a new era of sustained growth in 2025, as monetary policy should remain a key tailwind.

WE REMAIN CAUTIOUSLY OPTIMISTIC THAT MAJOR ECONOMIES WILL FINALLY BE ABLE TO TURN INTO A NEW ERA OF SUSTAINED GROWTH IN 2025, AS MONETARY POLICY SHOULD REMAIN A KEY TAILWIND.

Having said that, investors should be aware that several significant tail risks could easily knock things off balance. While fundamental expectations leave room to be disappointed, we are also skeptical whether the Trump administration can really deliver the scope of pro-growth policies the market is hoping for. Beyond that, we still cannot rule out any further escalation in the wars in Eastern Europe and the Middle East, with the ability to disrupt global supply chains and commodity prices. In our view, these risk factors are not properly reflected in today's asset prices, so we refrain from joining the super-bullish camp.

From a tactical point of view, we prefer to stick to a well-balanced portfolio construction with a moderate overweight in fixed income and a neutral allocation towards equities. In early 2025, equity markets may continue their march higher, driven by resilient consumer spending, strong earnings growth, and a supportive monetary policy. However, as 2025 progresses, risks such as slowing economic growth, geopolitical uncertainties, and the delayed impact of higher interest rates could weigh on risky assets. With earnings growth of the S&P 500 projected at an optimistic 14.6%, we anticipate at least some risk for downward revisions later in 2025 should these headwinds materialize.

Regarding nominal assets, we believe maintaining reasonable exposure to high-quality credit remains prudent. Fixed income offers valuable diversification if the optimistic market consensus does not materialize. Furthermore, with inflation expected to normalize further in 2025, central banks are likely to continue cutting their policy rates which should support prices of nominal assets. In the US, recent political shifts in Washington definitely added some uncertainty to the Fed's path, but we expect the central bank to proceed with modest rate cuts in early 2025.

GOLD REMAINS AN ATTRACTIVE HEDGE AGAINST INFLATION AND GEOPOLITICAL RISKS IN A BALANCED PORTFOLIO.

Beyond that, we stick to our constructive view on gold. Despite its impressive performance in 2024, declining real rates, a weakening US dollar, and strong demand from central banks are set to support the precious metal. With institutional investors still underexposed, gold remains an attractive hedge against inflation and geopolitical risks in a balanced portfolio.

Summing up, we believe that financial markets in 2025 will offer both, light and shadow. While the first months of the new investment year may promise additional decent returns for equity markets, the anticipated recalibration of investor expectations may favor nominal assets later in 2025. However, independent of the asset class, we advise investors to employ an up-in-quality approach regarding security selection, as some underpriced risk factors may come to the fore as the year advances – leaving some nasty pitfalls for low-quality assets. Finally, in an investment environment marked by short-term (political) noise and increased volatility, we recommend our clients adhere to a disciplined investment process, enabling investors to adapt to a changing market landscape. At Tramondo, we will stick to our proprietary, well-proven investment framework that combines chart-technical and fundamental analysis to guide us smoothly, even in times of increased market stress.

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