BANQUE
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MONTHLY NEWSLETTER
DECEMBER 2024

CONTENTS
DECEMBER 2024

1. Editorial
Trump 2.0, the revenge?

2. Fixed Income
Markets: Long-term rates signal: inflation is back

3. Equities
Stuck between the hope of recovery and persistent fears

4. Asset allocation
Reserved for Banque Eric Sturdza's clients

5. Performance

1. EDITORIAL
TRUMP 2.0, THE REVENGE?

Hollywood is no stranger to producing more or less successful sequels to successful films. In many ways, Donald Trump's return to the White House is reminiscent of these movie sequels, in which the hero returns in a new plot after a more or less long lapse of time. While it is still too early to assess the economic impact of Trump's second term in office, it is clear that the markets, particularly the US markets, have not remained indifferent to Donald Trump's announced return, appreciating by 6% over the month.

T1 : US TRADE DEFICITS
2023 VS. 2016

Trading Partner	Deficit $M) (2023		
	2023	2016	Var.
China	259.871	327.151	-20.57%
Mexico	204.841	103.862	97.22%
Canada	128.790	55.300	132.89%
Vietnam	99.549	33.397	198.08%
Germany	81.939	66.048	24.06%
Japan	63.705	62.899	1.28%
Ireland	58.606	30.979	89.12%
Italy	45.732	29.816	53.38%
South Korea	44.527	26.543	67.76%
India	40.948	25.424	61.06%
Thailand	37.019	17.389	112.89%
Malaysia	26.414	23.261	13.56%
Switzerland	19.661	12.311	59.71%
Indonesia	15.084	11.884	26.93%
Austria	13.643	7.235	88.64%

Source : Bloomberg, Banque Eric Sturdza

Let's face it, there are some similarities between Hollywood movies and American politics. First of all, there's no such thing as a good sequel without the hero's highly sequenced comeback, a role that suits a vengeful Donald Trump quite well. Secondly, a minimum of suspense is required to make a good film, and from this point of view, the election campaign and the election scenario have provided us with plenty of twists and turns, and we can be sure that D. Trump's ever unpredictable character will guarantee us a few more. Finally, there's no such thing as a good movie without a good story. From this angle, the economic agenda for the second Trump administration has almost everything in it to please financial markets, from promises of tax cuts to a vast deregulation based on the libertarian model supported by Elon Musk, Donald Trump's new "First Buddy"! The "goldilocks" scenario to which these measures are likely to give rise is indeed quite appealing to equity markets. This is less the case for fixed-income investors, for whom the prospect of higher inflation and interest rates is less supportive.

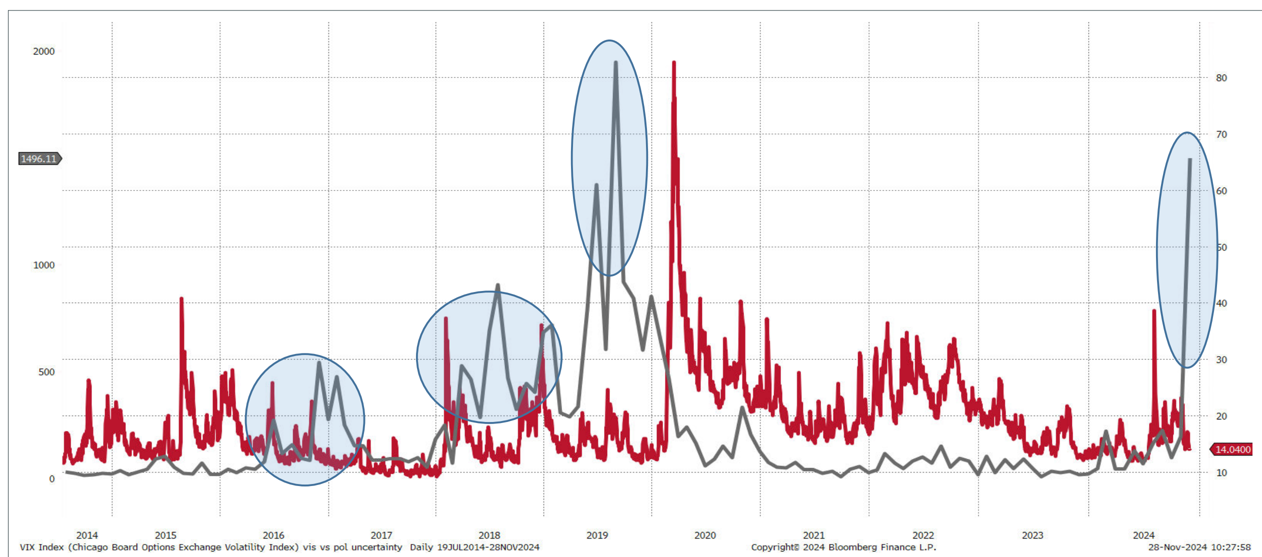
The ambiguity lies in "almost everything", as President Trump's program also includes a protectionist component that could prove disruptive to say the least. Throughout his campaign, President Trump hammered home his desire to impose new tariffs on his main trading partners: up to an additional 60% on products imported from China and 10-25% on imports from other partners. This sequence is reminiscent of the Sino-American trade war during the 1er Trump mandate, and is no stranger to the underperformance of European and Asian markets since the election.

This uncertainty over world trade could weigh on financial markets. In the United States during the 1st trade war, the list of Chinese products subject to tariffs was carefully delineated to limit the inflationary impact on US households and spare some US champions very active in China (such as Tesla and Apple). It's hard to imagine continuing along the same path with a 2nd salvo of tariffs, without affecting US households and companies. At a time in the cycle when inflation is barely under control, the risk of slippage is also significant, and could prove politically explosive for the new Administration.

When it comes to the US's trading partners, the situation may also be more complex than it first appears. For example, while the US trade deficit with China has narrowed in recent years, it has risen sharply with Mexico, Canada, Vietnam and Germany. Not all economies appear to be on the same foot. China has not only diversified its trading partners, it has already committed to spend more next year in order to stimulate its economy and has pledged to do more to offset the detrimental effects of tariffs. Finally, faced with the growing need for the US to finance its budget deficit, countries holding treasury bills have considerable negotiating leverage. For 2025, a trade war is likely to remain a risk factor, as it was during Trump's first term. However the President's transactional approach, the greater preparedness of stakeholders and a certain lassitude from investors suggest that these episodes should only prove episodic yet could potentially become more intense.

With the victory of the Republicans both in the White House and in Congress, the Trump trades from 2016 are finding renewed interest. Among these, one currently has caught our eye: US small and mid caps. In relative terms, this segment of the US market is the least expensive, with deregulation seeming to be the most achievable part of their program and the less costly one to implement. This sector should benefit disproportionally. It is though worth keeping in mind that the first measures will have to wait until the inauguration in January 2025...

G1 : VIX INDEX (RED RHS) VS. US ECONOMIC TRADE POLICY UNCERTAINTY INDEX (GRAY LHS)



Source: Bloomberg, Banque Eric Sturdza, Baker, Bloom, Davies, 2014-2024

2. FIXED INCOME

THE LONG-TERM RATES SIGNAL: INFLATION IS BACK

What if the Fed were to raise rates in 2025?

In September, the Fed made an error in monetary policy that was not expected by financial markets. Today, Jerome Powell insists that there is no urgent need to cut rates. So why on earth did he cut them by 50bp in one shot in September? US long-term rates still haven't recovered. Inflation, or the fear of inflation, has already made a comeback, because nobody wants to put duration back at current rate levels.

The implementation of Trumponomics should encourage a rebound in growth and a little more inflation, within a framework that does not provide for fiscal slippage control. At the same time, Trump continues to take potshots at the Fed, particularly Jerome Powell, for not being dovish enough for his liking. A soft landing still seems to be the markets' favourite economic scenario, but we are increasingly inclined to favour the possibility of no landing. In such an environment of sustained growth and core inflation close to 3%, how could the Fed consider pursuing a suicidally accommodative policy? At the dawn of 2025, we face two possible scenarios. If the Fed doesn't cut rates in December, and suggests that the November 7th cut may have been its last, the risk of a rate hike in 2025 is negligible to non-existent. If, on the other hand, the Fed persists in pursuing its accommodative policy, it will probably be caught out by the dazzling health of the US economy in the first half of the year, and will then be forced to consider the unthinkable: raising rates in the second half of 2025.

The calm before the storm?

Barring a catastrophe leading to a "flight to quality", long-term rates are in any case threatened by a correction. The extent of this correction will depend on how the economy develops under Trump II as well as on the Fed's behavior. We strongly believe that we should not increase the duration of our portfolios until the 10-year nears the key 5% level. With this turbulence ahead, it's best to wait and stick to short duration for now. Hybrid credits that have become expensive but still offer attractive carry, keep TIPS short and ... wait for the storm of 2025 to seize the investment opportunities that will surely arise. Then will be the moment to reconsider long-term government bonds and adding to good quality low duration corporate bonds.

3. EQUITIES

STUCK BETWEEN THE HOPE OF RECOVERY AND PERSISTENT FEARS

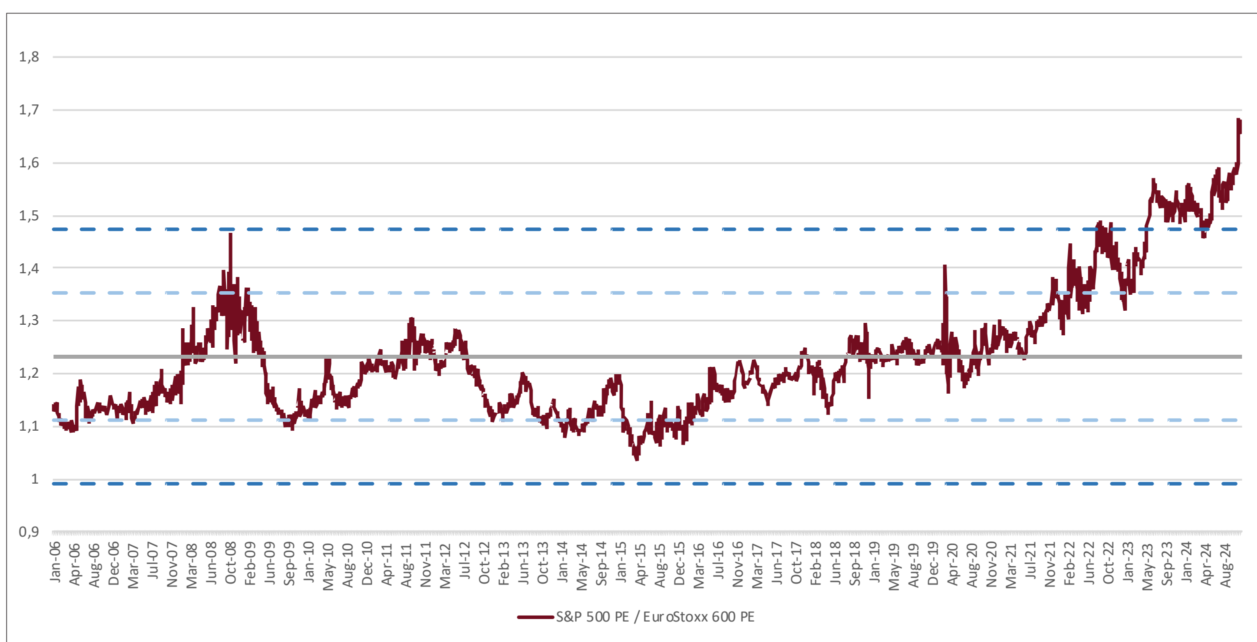
November was marked by the election of Donald Trump to a 2nd term as President of the United States. The market sessions that followed the announcement were revealing, with investors facing a degree of ambivalence.

Donald Trump is seen as a supportive factor for Economic activity, particularly in the US, although synonymous with a substantial increase to federal debt (an additional USD 7.5 trillion over the upcoming decade based on median hypothese). Trump remains determined to impose further taxes on imports from China, Mexico and Canada. It's a safe bet that other countries will be added to that list, especially those with trade surpluses to the US, such as in Europe (primarily Germany and Italy) and South-East Asia.

These protectionist measures and tariffs are inflationary by nature and could affect the US Federal Reserve's monetary policy. On the one hand, the FED has to address the challenges posed by the current economic situation and on the other, factor in the potential impact of Trump's policy on economic activity and price stability.

November was a good month for US equities, quite in contrast to European and Asian ones. The Global index ended the month up +4.5% thanks largely to the S&P500 (+5.7%) and the Nasdaq (+5.2%), while main European and Asian benchmarks respectively lost -0.5% and -2.3%. Investors seem to no longer watch valuation multiples, and the S&P500 index is now trading at x25 current earnings, an extreme level or 2 standard deviations above its long-term average. The market multiple has been

G2: S&P500 P/E VS. EUROSTOXX50 P/E VALUATION GAP



Source: Banque Eric Sturdza, Juin 06 - Octobre 24

at this level or higher in just 3% of observed cases since 1881. On the other side of the spectrum, investors are questioning whether European companies are really only worth the x14 earnings multiple they are trading at. At this stage, the most telling graph is the valuation gap between US and European companies (see graph).

S&P500 EPS growth this year should land close to the initial estimates made in January, that is to say up +8.5% compared to 2023. In Europe, EPS growth has been revised downwards by almost 3% compared the initial estimates, and EPS growth should be flat for the year compared to the 2023 earnings level.

Does the current economic and geopolitical environment justify such an expansion in US valuation multiples?

At the very least we can say that next year's expectations are clearly optimistic, with the EPS growth expected to rise by +12.4% for the S&P500 and by close to +7% for the STOXX600 (Europe generic benchmark) in 2025. However, the starting point between the 2 economies is clearly different. Europe is severely weakened as the region is mired in political uncertainties and with conflit on its borders. European industrial champions are also clearly being challenged. Add to that, Europe's difficult position stuck between the US and Asian economies which is being sorely felt, and we can see that a change of course is urgently required. At this stage, any positive news could quickly have a positive impact on share prices and restore a little visibility at a time when it is definitely lacking.

Will Germany be able to bring some much-needed positive news to Europe by agreeing a fiscal stimulus plan as early as next year?

Global economic growth is expected to remain stable in 2025, with the United States and Asia as potential wildcards.

Over the past few months, we've been focusing on US small- and mid-cap companies and in which we invest through a long/short strategy as the need to be selective is critical on this asset class. US Small & Mid Caps' valuation levels are trading in line with their long-term average level, making them more attractive relative to Mega Caps. The Trump administration's deregulation agenda should also be supportive for the asset class. We keep a fairly a neutral allocation to equities, while keeping a preference for the reference market in each currency profile and balancing geographic exposures (Europe, the US and Asia).

5. PERFORMANCE

EQUITIES	30.11.24	CURRENT	1 M	3M	6M	YTD	2023	2022	2021	2020	2019
MSCI WORLD	MSCI WORLD	3 810	4,5%	4,1%	10,6%	20,2%	24,4%	-17,7%	22,4%	16,5%	28,4%
	MSCI WORLD GROWTH	5 747	5,3%	5,3%	11,9%	24,6%	37,3%	-29,0%	21,4%	34,2%	34,2%
	MSCI WORLD VALUE	3 903	3,7%	2,8%	9,3%	15,8%	12,4%	-5,8%	22,8%	-0,3%	22,8%
WORLD & US	DOW JONES	44 911	7,5%	8,1%	16,1%	19,2%	16,2%	-6,9%	20,9%	9,7%	25,3%
	S&P 500	6 032	5,7%	6,8%	14,3%	26,5%	26,3%	-18,1%	28,7%	18,4%	31,5%
	S&P500 EW	7 590	6,2%	6,7%	13,2%	18,5%	13,8%	-11,5%	29,6%	12,8%	29,2%
	NASDAQ 100	20 930	5,2%	6,9%	12,9%	24,4%	55,1%	-32,4%	27,5%	48,9%	39,5%
	RUSSELL 2000	2 435	10,8%	9,8%	17,6%	20,1%	16,9%	-20,5%	14,8%	19,9%	25,5%
EUROPE	STOXX 600	510	1,0%	-2,8%	-1,5%	6,5%	16,6%	-9,9%	25,8%	-1,4%	27,9%
	FTSE 100	8 287	2,2%	-1,1%	0,1%	7,2%	7,7%	4,6%	18,4%	-11,4%	17,2%
	CAC 40	7 235	-1,6%	-5,2%	-9,5%	-4,1%	20,1%	-6,7%	31,9%	-5,0%	30,5%
	DAX	19 626	2,9%	3,8%	6,1%	17,2%	20,3%	-12,3%	15,8%	3,5%	25,5%
	IBEX 35	11 641	-0,3%	2,1%	2,8%	15,2%	28,1%	-2,0%	10,5%	-12,7%	16,5%
	SPI SWISS	15 672	-0,2%	-5,0%	-2,0%	7,6%	6,1%	-16,5%	23,4%	3,8%	30,6%
ASIA	MSCI EM	1 079	-3,7%	-1,9%	2,8%	5,4%	10,2%	-19,8%	-2,3%	18,8%	18,8%
	TOPIX	2 681	-0,5%	-1,2%	-3,3%	13,3%	28,3%	-2,5%	12,8%	7,4%	18,1%
	HANG SENG	19 424	-4,4%	8,0%	7,4%	13,9%	-10,5%	-12,6%	-11,8%	-0,2%	13,0%
	CSI 300	3 917	0,7%	17,9%	9,4%	14,1%	-9,1%	-19,8%	-3,5%	29,9%	39,2%
FX & COMMODITIES	**30.11.24**	**CURRENT**	**1 M**	**3M**	**6M**	**YTD**	**2023**	**2022**	**2021**	**2020**	**2019**
CURRENCIES	EUR-USD	1,058	-2,8%	-4,3%	-2,5%	-4,2%	3,1%	-5,9%	-6,9%	8,9%	-2,2%
	EUR-CHF	0,932	-0,9%	-0,7%	-4,8%	0,3%	-6,1%	-4,6%	-4,0%	-0,4%	-3,6%
	USD-CHF	0,881	2,0%	3,7%	-2,4%	4,7%	-9,0%	1,3%	3,1%	-8,4%	-1,6%
	USD-JPY	149,770	-1,5%	2,5%	-4,8%	6,2%	10,5%	13,9%	11,5%	-4,9%	-1,0%
	USD INDEX	105,74	1,7%	4,0%	1,0%	4,3%	-2,1%	8,2%	7,0%	-7,3%	1,2%
COMMODITIES	Gold	2643,15	-3,7%	5,6%	13,6%	28,1%	13,1%	-0,3%	-4,2%	25,0%	18,3%
	Silver	30,63	-6,2%	6,1%	0,7%	28,7%	-0,7%	2,8%	-13,6%	48,7%	12,7%
	WTI Crude Oil	68,00	-1,8%	-7,5%	-11,7%	-5,1%	-10,7%	6,7%	59,1%	-21,5%	11,6%
	Natural Gas	3,36	24,2%	58,1%	30,0%	33,8%	-43,8%	20,0%	46,9%	16,0%	-25,5%
	Copper	8891,85	-5,1%	-2,5%	-10,3%	5,1%	0,9%	-14,1%	25,7%	26,0%	3,4%
FIXED INCOME	**30.11.24**	**CURRENT**	**1 M**	**3M**	**6M**	**YTD**	**2023**	**2022**	**2021**	**2020**	**2019**
RATES	US 10 year gvt	4,17	(0,12)	0,27	(0,33)	0,29	0 bps	237 bps	60 bps	-100 bps	-77 bps
	German 10 year gvt	2,09	(0,30)	(0,21)	(0,58)	0,06	-54bps	275 bps	39 bps	-38 bps	-43 bps
BONDS	Global Aggregate USD hdg.	584,7	1,2%	1,0%	5,0%	4,2%	7,1%	-11,2%	-1,4%	5,6%	8,2%
	US Treasuries	2326,1	0,8%	-0,4%	4,1%	2,2%	4,1%	-12,5%	-2,3%	8,0%	6,9%
	US TIPS	353,7	0,5%	0,2%	3,6%	3,5%	3,9%	-11,9%	6,0%	11,0%	8,4%
	US IG Corporates	3354,4	1,3%	0,6%	5,3%	4,1%	8,5%	-15,8%	-1,0%	9,9%	14,5%
	US High Yield	2694,6	1,2%	2,2%	6,9%	8,7%	13,4%	-11,2%	5,3%	7,1%	14,3%
	Euro Government	246,4	2,2%	2,5%	5,5%	3,3%	7,1%	-18,2%	-3,4%	4,7%	6,3%
	Euro IG Corporates	258,9	1,6%	2,5%	5,3%	5,1%	8,2%	-13,6%	-1,0%	2,8%	6,2%
	Euro High Yield	475,5	0,8%	2,3%	5,4%	8,4%	12,8%	-11,1%	4,2%	1,8%	12,3%
	EM USD Aggregate	1263,1	1,1%	1,5%	6,2%	7,9%	9,1%	-15,3%	-1,7%	6,5%	13,1%

Source: Bloomber, 30/11/24

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Sent to press on 30/11/2024

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