BANQUE
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1. EDITORIAL

A VERY TR(I)UMP(HANT) PRESIDENT!

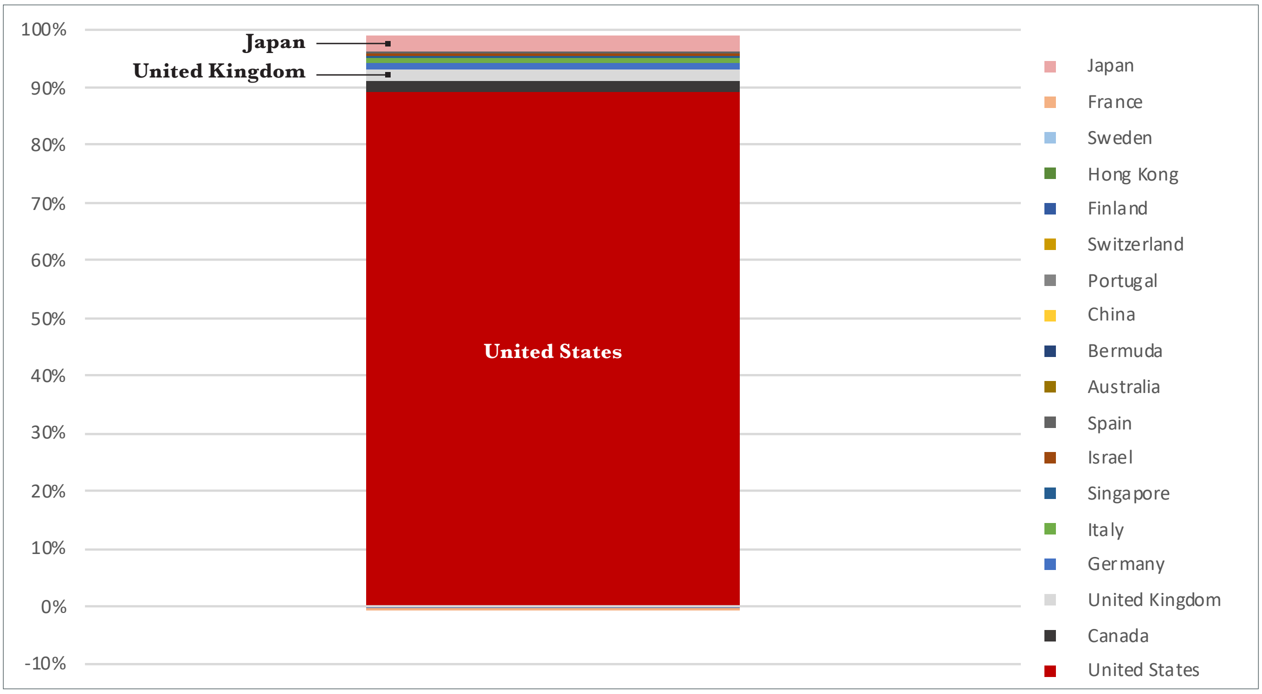
Donald Trump's inauguration was barely two weeks ago, but the US President had already stolen the show, saturating the media over the past two months. On both social and economic issues, Donald Trump was everywhere and the markets, although quick to anticipate, sometimes struggled to keep up.

The overwhelming predominance of the United States is nothing new, and a breakdown of the performance of the world markets last year leaves us in no doubt about it: almost all of the 2024 performance was due to US stocks! Even if we summed up all the European countries' contributions together into a single line, it would barely appear in the graph below. "USA, what else?"

With a 3.0% increase in January, the S&P500 seems to be galloping along at last year's frenetic pace. What's new, however, is that Europe and France are stealing the show, with gains of 6% and 7.5% respectively. However, the enthusiasm of European markets cannot be attributed to the resident investors euphoric mood: in France and Germany, sentiment is at half-mast. The ZEW and IFO, the two major German confidence indicators, continued to fall.

So to what do we attribute this European stock market revival? In light of US news, this might be attributed to less violent tariff hikes than initially feared, with the actual President proving to be less 'tough' than the candidate – at least for the time being... But this is probably a little light as an explanation.

G1 : 2024 CONTRIBUTION TO GLOBAL EQUITIES' PERFORMANCE BY COUNTRY



Source: Banque Eric Sturdza , Bloomberg, 2024, contributions base 100

A more detailed analysis of investor flows shows a sudden and large rebound in appetite for European stocks from investors.

To us it seems that the reason for this rather sudden infatuation has more to do with an excessive valuation gap between US and European stocks. Never before has the gap between the S&P500 and the STOXX600 been so wide. The difference in the composition of these indices goes some way to explaining this: Nvidia, Apple and Tesla have no European equivalents, and the average valuation multiple of US indices is obviously driven upwards by these stocks, the famous Magnificent 7. However, a closer look at European stocks with high exposure to the US markets (such as Ericson, Sanofi and Schneider) shows that in this smaller, more comparable universe, the geographical discount remains significant. A custom basket made of all these stocks highlights the European 'anomaly'. On average, these stocks have earnings growth of 16% and trade at 15 times earnings, while their US equivalents are valued at more than 20 times for slightly lower earnings growth. In short, the market pays more of a premium for a US-listing than for the real growth of companies.

The undervaluation of these European Blue Chips can sometimes become too obvious to be ignored: the good results released by the Richemont group was greeted by a 17% up move on the day, a single day appreciation rarely observed with this type of stock.

There is no doubt that Trump and his "First Buddy" Elon Musk will continue to occupy the media landscape, but as far as financial markets are concerned, markets fond of renewed "narratives", it looks to us like the "Trump trades" are losing their momentum. (And to say that the momentum was powerful would be an understatement: Despite a dip in recent days Tesla and Bitcoin have still gained more than 35% since the US election!)

The new story is perhaps closer to home. According to the Blackrock CEO Larry Fink, speaking at the Davos forum, *"There is too much pessimism about Europe"*. This "narrative" is gaining traction and should be a source of opportunity over the coming months, as the bout of risk aversion triggered by trade tensions may also prove.

2. FIXED INCOME
BACK TO SQUARE ONE

TIPS rally and consequences for the break-even inflation rate.

As January 2025 comes to an end, two things stand out. Firstly, nominal rates are back to their year-end levels or even slightly lower. However, January proved to be volatile, with yields climbing in the first half of the month. On January 13th, the US 10-year exceeded 4.8% and we seemed to be getting dangerously close to the key 5% threshold, which 20- and 30-year yields had already passed ahead of. Inflation is easing slightly and Donald Trump is now truly in the White House. Interest rates can take a breather, if only temporarily, and occasionally even regain their safe-haven status during events such as DeepSeek/tech in the US. On the other hand, real rates measured by TIPS yields have eased and as a result, the inflation break-even rate has risen back above 2.5%. This means that long-dated TIPS are of little interest today, while nominal rates leave us wanting more.

The first central bank meetings

Japan set the ball rolling on January 24th by raising its key rate to 0.5%. The Anglo-Saxon specialist media claimed that the BoJ had become "hawkish". However going from 0.25% to 0.5% does not mean that the BoJ's policy has gone into a restrictive mode. It is simply a little less accommodative, moving a little further away from the zero interest rate policy because the current levels of Japanese inflation no longer justify it.

The Fed has wisely and unanimously opted for a "wait and see" approach, which seems logical given three figures: core inflation at 2.8%, growth above 2.5% and unemployment stabilised at 4.1%. Add to this 4 major uncertainties listed by Jay Powell: tariffs, immigration, taxation and regulation. We are expecting a prolonged status quo, and it is worth noting that the phrase "inflation is making progress towards our objective" has not been mentioned this time. Money markets are likely to compete with bonds, at least during the first half of the year.

Quite logically, the ECB made its 5th rate cut (the 4th in a row). The disinflation process is on the right track, but the economy is still suffering from headwinds. The next decisions will be "data dependent", but at Davos, François Villeroy de Galhau stated that he saw the ECB rate going to around 2% as early as this summer.

The monetary policies of the Fed and the ECB are therefore both slightly restrictive above the neutral point. But while the Fed is likely to remain in 'wait and see' mode for longer than expected, its Frankfurt counterpart is likely to move rapidly into accommodative policy. However, the forthcoming monetary easing is already factored into the yield on the 10-year German Bund at 2.5%.

3. EQUITY

EUROPE AND ASIA FACED WITH TRUMP'S "KNOWN UNKNOWNS"

Donald Trump had barely been inaugurated when a deluge of presidential executive orders set the tone and priorities for his term ahead in office. From this point of view, the fight against immigration or the use of tariffs as negotiating tools are, in the end, fairly consistent with his campaign manifesto. More surprising are the first victims: Canada and Mexico, historic partners and allies of the United States. China, scorned during the election campaign, fared better – at least for the time being – as had the European Union, although the pressure for the latter is undoubtedly mounting. This seems a good time to take a closer look at the implications of a Trump administration from Europe and China

A Trump moment for Europe?

For Europe, the new administration comes with many "known unknowns" (the scale of tariff increases, future NATO support, the truce in Ukraine, and yes....Greenland!). As always, what will matter most for investors is likely to be the completely unexpected (which is not priced in), though one should not underestimate the fact that this election looks likely to fully entrench a shift in the global world order from free-market globalization to mercantilism. Short term, a lot is at stake on tariffs though. It is, however, the case for both sides. While the trade deficit with the EU rose by $60 billion since Trump's first term started in 2017, US goods exports to the EU hit a record high of $370 billion in 2023. The EU-US trade relationship remains the largest bilateral trade and investment partnership globally. Far from a quick resolution or an all-out breakdown of transatlantic relations, our prefered scenario remains that of a "managed mess." While selected and gradual tit-for-tat tariffs are likely, further escalation from both sides is not.

From a long-term perspective, the US election and the aforementioned shift away from free-market globalization to mercantilism and from multilateralism to war-economics could well act as an overdue wake-up call for Europe. On that note, the Draghi report also stressed the need to simplify rules, reduce regulatory burdens and prevent excessive de-industrialisation – points that are as urgent for Mr Draghi as they are for Mr Musk and his DOGE. Taking inspiration from the US model, affirming European sovereignty via self-sufficiency in Defense could be another worthy goal, and one likely to provide long-term support to industrial domestic jobs. Finally, and this time in a clear departure from the US's stated objectives, Europe has a unique opportunity to cement its lead in the US administration's obvious blind spot, by fostering industrial innovation in decarbonization and energy efficiency. Climate threats are likely to far outlive a 4-year presidential tenure and look like an arguably better destination for private R&D than a battered automotive sector still swallowing a third of European R&D spending.

From an investor's point of view, it is also important to remember that European companies are not just about European macroeconomics or transatlantic geopolitics: the European equity market is rich in world-class companies with unrivalled competitive advantages. From a valuation point of view, they are also far from being in bubble territory, unlike some pockets of the US market.

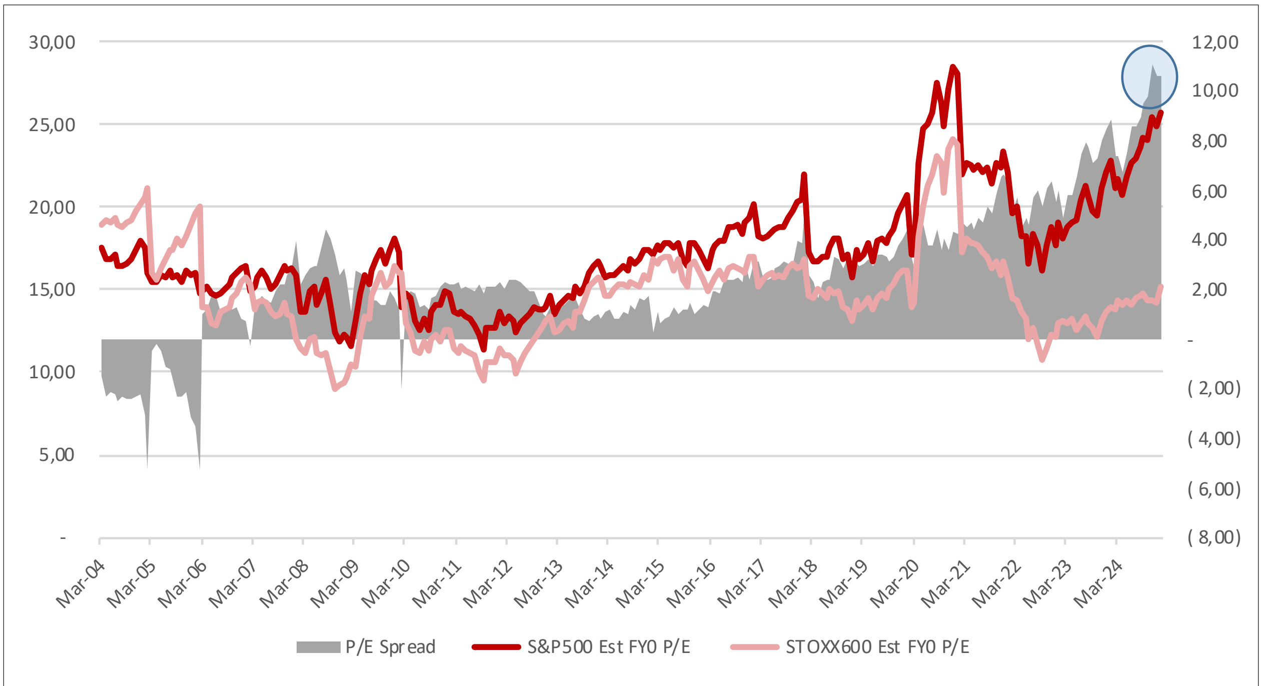
Asia and China charting their course

On the Asian side, with the notable exception of the Philippines, which has clearly sided with the United States, the majority of Asian countries do not want to be forced to take sides. It is good to do business with both giants, not to mention the rapid growth in intra-Asian trade, which now contributes the majority of the region's trade. On the Chinese side, after a long period of structural adjustment and challenges in the property sector, the Chinese economy looks poised for a rebound in 2025. The Chinese government has worked to rebuild economic confidence through targeted policy measures, including real estate stabilization, capital market reforms, and most recently, a pledge to loosen monetary policy. With pent-up household savings over last a few years, there is potential for consumer spending and investment to drive GDP growth beyond the government's 5% annual target. Concerns of a prolonged trade war will persist, however, government stimulus will be precisely targeted, focusing on restoring the trade balance and stock market confidence. Continued growth in high-tech manufacturing sectors such as electric vehicles, batteries and semiconductors highlights China's global leadership in many manufacturing areas.

The latest example in the field of AI, the DeepSeek R1 opensource model, has demonstrated its ability to compete on an equal footing with the latest Open AI models, and even to surpass them in terms of advanced coding, mathematics and general knowledge, at a minimal operating cost. By wiping out nearly 1 trillion worth of the market capitalisation of US tech giants in a single session, this announcement showed that China matters in the AI and Tech fields and that the AI theme prospects are also a function of valuation multiples and where expectations are set.

From the point of view of diversification at the dawn of Trump's second term in office, We feel that investors would be well advised to look beyond the 70% of world market capitalization currently represented by US equities.

G2 : S&P500 & STOXX600 EST FY0 P/E (LHS) AND P/E SPREAD (RHS)



Source : Bloomberg Banque Eric Sturdza, 2004-2024

5. PERFORMANCES

EQUITIES	30.01.25	CURRENT	1 M	3M	6M	YTD	2024	2023	2022	2021	2020
MSCI WORLD	MSCI WORLD	3 853	3,9%	5,7%	7,9%	3,9%	17,0%	24,4%	-17,7%	22,4%	16,5%
	MSCI WORLD GROWTH	5 938	2,9%	8,8%	11,4%	2,9%	25,1%	37,3%	-29,0%	21,4%	34,2%
	MSCI WORLD VALUE	3 859	5,0%	2,5%	4,3%	5,0%	9,0%	12,4%	-5,8%	22,8%	-0,3%
WORLD & US	DOW JONES	44 882	5,5%	7,5%	9,9%	5,5%	12,9%	16,2%	-6,9%	20,9%	9,7%
	S&P 500	6 071	3,2%	6,4%	9,9%	3,2%	23,3%	26,3%	-18,1%	28,7%	18,4%
	S&P500 EW	7 399	4,2%	3,6%	6,4%	4,2%	10,9%	13,8%	-11,5%	29,6%	12,8%
	NASDAQ 100	21 508	2,4%	8,1%	11,1%	2,4%	24,9%	55,1%	-32,4%	27,5%	48,9%
	RUSSELL 2000	2 307	3,5%	5,0%	2,3%	3,5%	10,0%	16,9%	-20,5%	14,8%	19,9%
EUROPE	STOXX 600	539	6,2%	6,6%	4,0%	6,2%	6,0%	16,6%	-9,9%	25,8%	-1,4%
	FTSE 100	8 647	5,8%	6,6%	3,3%	5,8%	5,7%	7,7%	4,6%	18,4%	-11,4%
	CAC 40	7 942	7,6%	8,0%	5,4%	7,6%	-2,2%	20,1%	-6,7%	31,9%	-5,0%
	DAX	21 781	9,4%	14,2%	17,7%	9,4%	18,8%	20,3%	-12,3%	15,8%	3,5%
	SWISS MARKET	12 657	9,1%	7,3%	2,8%	9,1%	4,2%	7,1%	-14,3%	23,7%	4,3%
	SPI SWISS	16 811	8,7%	7,0%	2,8%	8,7%	6,2%	6,1%	-16,5%	23,4%	3,8%
ASIA	MSCI EM	1 096	1,9%	-2,1%	1,0%	1,9%	5,1%	10,2%	-19,8%	-2,3%	18,8%
	TOPIX	2 789	0,1%	3,5%	-0,2%	0,1%	17,7%	28,3%	-2,5%	12,8%	7,4%
	HANG SENG	20 225	0,8%	-0,5%	16,6%	0,8%	17,7%	-10,5%	-12,6%	-11,8%	-0,2%
	CSI 300	3 817	-3,0%	-1,9%	10,9%	-3,0%	14,7%	-9,1%	-19,8%	-3,5%	29,9%
FX & COMMODITIES	**30.01.25**	**CURRENT**	**1 M**	**3M**	**6M**	**YTD**	**2024**	**2023**	**2022**	**2021**	**2020**
CURRENCIES	EUR-USD	1,039	0,4%	-4,5%	-4,0%	0,4%	-6,2%	3,1%	-5,9%	-6,9%	8,9%
	EUR-CHF	0,945	0,6%	0,5%	-0,6%	0,6%	1,2%	-6,1%	-4,6%	-4,0%	-0,4%
	USD-CHF	0,910	0,3%	5,3%	3,6%	0,3%	7,8%	-9,0%	1,3%	3,1%	-8,4%
	USD-JPY	154,3	-1,9%	1,5%	2,9%	-1,9%	11,5%	10,5%	13,9%	11,5%	-4,9%
	USD INDEX	107,80	-0,6%	3,7%	3,6%	-0,6%	7,1%	-2,1%	8,2%	7,0%	-7,3%
COMMODITIES	Gold	2794,59	6,5%	1,8%	14,2%	6,5%	27,2%	13,1%	-0,3%	-4,2%	25,0%
	Silver	31,60	9,3%	-3,3%	8,9%	9,3%	21,5%	-0,7%	2,8%	-13,6%	48,7%
	WTI Crude Oil	72,73	1,4%	5,0%	-6,6%	1,4%	0,1%	-10,7%	6,7%	59,1%	-21,5%
	Natural Gas	3,05	-16,1%	12,6%	49,7%	-16,1%	44,5%	-43,8%	20,0%	46,9%	16,0%
	Copper	9008,68	4,1%	-3,9%	-1,0%	4,1%	2,2%	0,9%	-14,1%	25,7%	26,0%
FIXED INCOME	**30.01.25**	**CURRENT**	**1 M**	**3M**	**6M**	**YTD**	**2024**	**2023**	**2022**	**2021**	**2020**
RATES	US 10 year gvt	4,52	(0,05)	0,23	0,49	(0,05)	69 bps	0 bps	237 bps	60 bps	-100 bps
	German 10 year gvt	2,52	0,15	0,13	0,22	0,15	34 bps	-54bps	275 bps	39 bps	-38 bps
BONDS	Global Aggregate USD hdg.	582,4	0,4%	0,8%	1,7%	0,4%	3,4%	7,1%	-11,2%	-1,4%	5,6%
	US Treasuries	2304,5	0,6%	-0,2%	-0,1%	0,6%	0,6%	4,1%	-12,5%	-2,3%	8,0%
	US TIPS	352,2	1,2%	0,0%	0,5%	1,2%	1,8%	3,9%	-11,9%	6,0%	11,0%
	US IG Corporates	3314,3	0,8%	0,1%	1,0%	0,8%	2,1%	8,5%	-15,8%	-1,0%	9,9%
	US High Yield	2719,9	1,4%	2,1%	4,9%	1,4%	8,2%	13,4%	-11,2%	5,3%	7,1%
	Euro Government	241,8	-0,6%	0,3%	1,1%	-0,6%	2,0%	7,1%	-18,2%	-3,4%	4,7%
	Euro IG Corporates	258,1	0,1%	1,2%	2,5%	0,1%	4,7%	8,2%	-13,6%	-1,0%	2,8%
	Euro High Yield	480,4	0,3%	1,8%	4,7%	0,3%	9,1%	12,8%	-11,1%	4,2%	1,8%
	EM USD Aggregate	1262,2	1,1%	1,0%	3,5%	1,1%	6,6%	9,1%	-15,3%	-1,7%	6,5%

Source: Bloomber, 30/01/25

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