MARKET INSIGHT

November 2024

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Trump 2.0: a super powerful President!

The victory of Donald Trump in the presidential election is much clearer than what market participants had anticipated. Furthermore, the Republicans also won both chambers of Congress. As a result, the President will have a free hand to implement his agenda once it is clearly defined. The coming weeks should help clarify the main lines of his actions, which he could then begin to implement as early as January 2025.

Regardless of one's opinion on the electoral outcome, the clarity of the American people's choice is indisputable! This is a positive development for the markets. Indeed, this is what the stock markets, the dollar, and Bitcoin have already factored in since Trump's victory was secured. The outlook for economic growth and corporate earnings has been strengthened, considering his campaign platform of tax cuts, deregulation, and tariff increases.

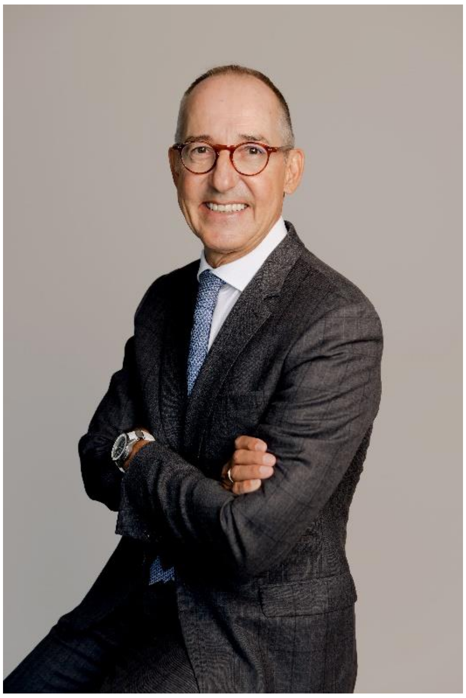
The behavior of the bond market is the only "cloud on the horizon" post-election. The immediate rise in long-term yields confirms ***a shift in consensus expectations for the medium-term economic outlook.***

In recent months, the scenario of a soft landing for the U.S. economy had become widely accepted, given strong economic data despite a slight slowdown (GDP growth of 2.8% in Q3 compared to 3.0% in Q2). However, the clear popular choice for Trump and the Republicans has led to:

1) ***An upward revision of inflation risk***, following the likely implementation of additional tariff barriers and the effects of tax cuts,

2) A recognition of the potential ***for further deterioration in U.S. public finances,*** and

3) A revision of expectations ***for Federal Reserve interest rate cuts*** by the end of 2025.



"The clarity of the Americans' choice is undeniable! A good thing for the markets."

FRANÇOIS SAVARY, CHIEF INVESTMENT OFFICER

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Thus, we increase the probability of ***a "no landing" scenario*** from 5% to 10%, and that of an ***inflationary rebound*** from 10% to 20%.

Our central scenario of a ***soft landing*** has taken a hit, dropping from 60% to 45%. Nonetheless, it remains the dominant scenario, as we have not changed the probabilities for other scenarios (***recession*** at 15% and ***stagflation*** at 10%).

So, what direction are we talking with our asset allocation?

Equity assets should benefit from favorable economic conditions and solid earnings growth over the next few quarters. ***While expected interest rate developments could slow stock market progress, they are unlikely to reverse the upward trend.*** However, a rebound in equity market volatility seems likely, not only because of our bond market outlook but also because stocks are far from "cheap," particularly in the U.S.

« The adjustment of expectations regarding the economic cycle seems legitimate. »

In general, ***we have not changed the main lines of the latter***, which already factored in a high probability of a Republican victory in the presidential elections.

Regarding bonds, our recommendation for caution on portfolio duration remains relevant. The inflationary potential of certain measures under a Trump 2.0 presidency, along with the deteriorating state of U.S. public finances — largely overlooked during the campaign — pose risks for the long end of the yield curve.

In this context, we believe the Fed's rate cuts could stop around 3.75% in 2025. As a result, the U.S. 10-year yield could range between 4% and 5% over the next 12 months, rather than in the 3.5%-4.5% range many market participants had expected not long ago.

We continue to favor corporate debt over sovereign debt. Although the tightening of yield spreads in recent months has limited the capital gains potential of these assets, their attractive yields, in light of likely economic developments, justify holding them.

Equities continue to be favored over bonds, regardless of the risk profile of a portfolio, with a neutral to slightly overweight allocation relative to our benchmark (***45% in a balanced profile***).

The collapse of the German ruling coalition introduces new uncertainty for the Old Continent. Elections were due by November 2025 at the latest, but an anticipated election in early 2025 comes at a bad time for Germany. Economic growth is struggling to recover, and the electoral campaign in Germany is likely to delay any discussion at the European level regarding the Draghi report.

This is a harmful development, especially as risks to globalization and international trade become more pronounced following the U.S. election result.

Given that European equities are cheaper than their U.S. counterparts, combined with some signs that economic activity will improve in 2025 and the continued rate cuts by the ECB, does this justify overweighting European stocks? We believe so, but without creating too much of an imbalance between the U.S. and Europe.

Trade uncertainties lead us to avoid "chasing" Chinese stocks, which are already suffering from weakened economic conditions (deflation risk) and unclear macroeconomic policies from the authorities. This decision leads us to focus on emerging market stocks but with limited exposure to Chinese equities.

Our expectation of a rebound in global equity volatility over the next 3-6 months leads us to maintain a solid allocation to alternative investments, including gold.

The pullback in gold following Trump's victory does not overly concern us. Overbought conditions and the pressure on interest rates largely explain this consolidation move.

A return to levels of USD 2550 seems, at this stage, an attractive entry point to position in gold. In fact, a test of USD 3,000 could be on the cards by the end of 2025 due to persistent geopolitical uncertainties and ongoing diversification by investors away from the U.S. dollar.

This brings us to our views on currencies.

The post-election strength of the dollar seems excessive even though a test of 1.05 against Euro is quite possible; however, it is unlikely to persist over the next 6-12 months. The greenback appears overvalued, and the growing concern over U.S. debt is a worry. Moreover, the drive for diversification away from the dollar, which has emerged since the war in Ukraine and amid a more tense global climate, seems unlikely to subside.

A target of 1.12-1.14 against the euro seems reasonable by the end of 2025. Nothing major, however!

Low inflation is an advantage for the Swiss economy and our currency, even though it complicates the task of the Swiss National Bank. In this context, the SNB could bring its key rates to 0.50% by spring 2025, with two further 0.25% cuts, if inflation remains sustainably below 1%.

The geopolitical situation and strong fundamentals relative to Europe should keep the Swiss franc under upward pressure in the coming quarters. A target of 0.92 against the euro could be achievable in the medium term.

We overweight cash, including bonds with maturities of up to 12 months, in our allocation.

Given that bond prospects are not particularly attractive, and with our expectations of increased volatility in equities, ***we want to keep some dry powder to take advantage of any opportunity that may arise over the coming months, particularly in equities but also in bonds.***

In conclusion, the uncertainty surrounding the U.S. presidential election has been resolved. However, it would be wrong to assume that risks have disappeared.

A soft landing for the global economy remains the most likely scenario, despite a slight reduction in its probability in favor of less favorable outcomes.

The "potential dangers" of fully implementing Trump's plans are pointing toward bonds, which could suffer more than equities. However, the tension between economic and earnings growth on the one hand, and upward pressure on interest rates on the other, cannot continue indefinitely without consequences for the stock markets.

Bullish markets for equities do not appear threatened, but increased volatility is likely in the coming months. We maintain our bias in favor of equities over bonds, while holding cash and alternatives to avoid excessive volatility in portfolio performance in the event of erratic movements in the markets.

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