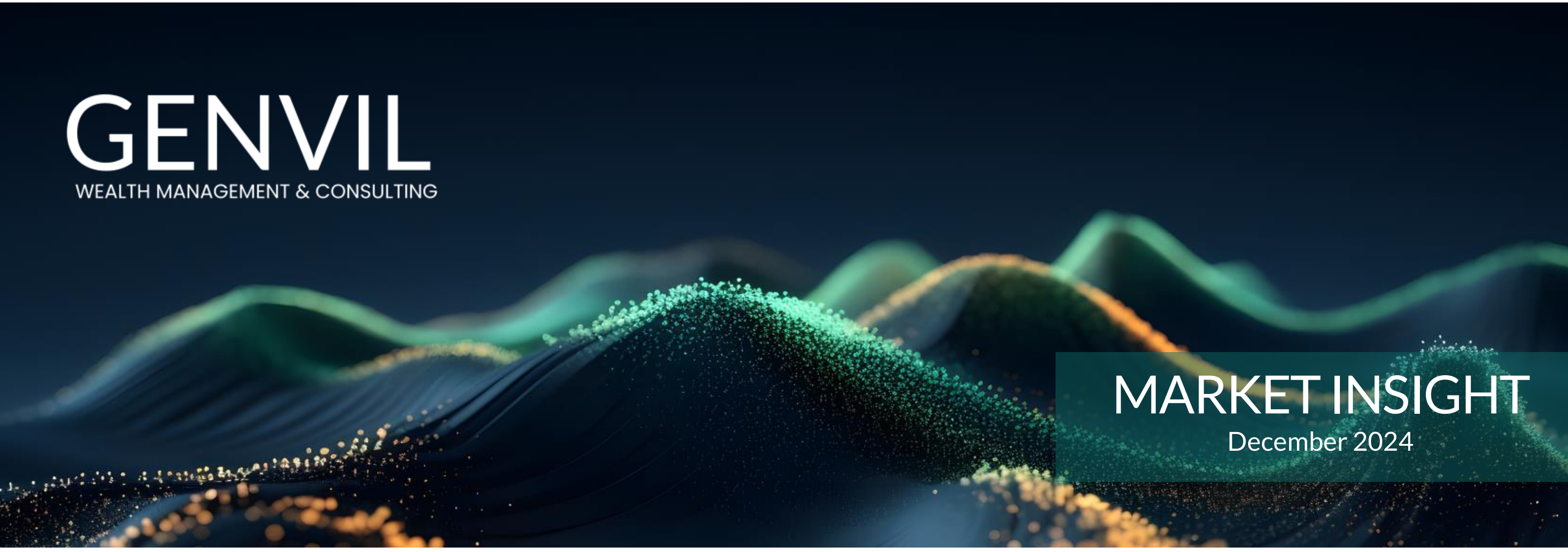
MARKET INSIGHT

December 2024

GENVIL
WEALTH MANAGEMENT & CONSULTING



Heading into 2025, with an euphoric mood in the financial markets!

For investors, the transition to the new year should be met with cheer, especially for those who favored stocks in their investments (with a more than 20% increase in the MSCI World Index). However, this does not mean that more conservative profiles haven't benefited from the favorable financial environment that prevailed in 2024, considering the performance of other assets (gold, credit).

The fact that volatility has remained very contained also helped avoid unnecessary periods of "mental stress" during the last few quarters. This allows us to approach the holiday season with a (relatively) serene mindset. One could even talk about a certain "euphoria," a term that always calls for caution when it comes to financial markets...

As is the case at the end of every calendar year, it is time to reflect on the work done and look forward to the inevitable questions related to the future.

The transition of power in the United States starting in January, the German elections in February, and the political instability in France, to name just a few examples, serve as reminders that the challenges ahead will be present as early as the first quarter of 2025. And this does not take into account geopolitical developments, which could surprise us at any moment!

We all know that the world is in constant change and that financial markets are highly adaptable to this; however, we should not overlook the fact that the new Trump administration could be a factor of "acceleration of history" in many respects, which could test the "serenity» currently shown by investors.

« Recent developments have not prompted us to change our asset allocation. »

FRANÇOIS SAVARY, CHIEF INVESTMENT OFFICER

GENVIL SA

In our letter from last month, we revisited the main guidelines for our asset allocation. Let's say it right away: the economic and financial developments of the past few weeks have not prompted us to change course.

Satisfactory economic and earnings prospects, along with continued interest rate cuts by central banks, provide support for equity markets in 2025.

While we keep high-rated debt in this segment, we have a bias in favor of lower-rated issuers (high yield) in our exposure.

Our desire to control the total risk of our portfolios continues to lead us to maintain an overweight in liquid alternatives, including gold.

As a reminder, we recommended using the consolidation on gold, around USD 2550, to strengthen exposure. The past few weeks have proven the relevance of this suggestion. We continue to foresee a test of USD 3000 per ounce in 2025.

« Questions about the sustainability of the low volatility environment for risky assets »

However, the risks associated with a rise in long-term U.S. yields and a relatively expensive valuation of U.S. indices remain risk factors that we factor into our thinking, especially after the excellent performance of stock markets in November.

Our moderate overexposure to equities is justified by questions about the sustainability of the low volatility environment for risky assets in the coming months.

This does not mean we think the bull market is near its end! Indeed, the overall macroeconomic conditions do not support such an idea. However, we do not wish to accumulate too much risk in the current conditions, where a form of euphoria seems to have settled.

The decision not to increase the duration of bond portfolios, despite post-election upward pressure on yields, remains unchanged.

We want more visibility on: 1) the economic action plan of the Trump administration, and 2) the priority order that will prevail in the implementation of its key policies: deregulation, tax cuts, and tariff policy.

The generalized slippage on public debt and economic conditions still lead us to favor corporate debt in our bond allocation.

Gold remains an attractive asset despite the lack of yield, in an uncertain geopolitical context and due to the continued diversification of foreign exchange reserves by central banks.

Our exposure to long/short equity strategies is strengthening, and a "relative value" strategy on bonds complements our alternative pocket.

We maintain cash to take advantage of potential opportunities, due to the volatility rebound we expect starting in the first quarter of 2025. However, this exposure remains limited in scope.

As mentioned earlier, economic conditions have not radically changed in recent weeks, and the central scenario of a soft landing for the global economy remains favored.

A reduction in the probability of this scenario in favor of other alternatives (increased inflation or a stronger global recovery) will depend on economic announcements from the Trump administration and possible new stimulus measures in China. We should quickly get clarity on these two fronts.

As for Europe, the economic developments on the Old Continent are not likely to change our assessment of global economic prospects; a slight upward shift in European growth is possible in 2025, while convergence toward the ECB's inflation target is unlikely to be undermined.

As mentioned in the introduction, everyone is entitled to have their list of questions about the immediate future.

We do not wish to engage in "games" of predictions about the potential surprises we might face in the coming months. However, to help you understand our mindset in managing your assets, we present a few random questions that occupy our thoughts as the new year begins.

Has the **disinflationary trend** of the last 15 months been definitively established? The corollary of this question is twofold: is a new phase of more marked inflation at the global level possible, and/or will we see a differentiation in price movements between different regions of the world?

Does a divergent inflation trend between major monetary blocs **make our scenario of a retreat of the U.S. dollar against European currencies unrealistic?**

In general, the behavior of prices will not be without consequence for financial assets as a whole. Thus, **could a return of U.S. 10-year yields to the 5% mark**—a likely scenario **in our view—leave stocks unaffected?**

Do the **threats to the independence of the Federal Reserve,** which some of D. Trump's statements have raised, have a chance of becoming a reality, or should they be dismissed as fantasies?

Is the re-evaluation of interest rate cut scenarios by major central bankers at the end of 2025 (less positive in the U.S. and the opposite in Europe), **finished**? Do investors now have a correct and stable perception of the trajectory of monetary policies, or will expectations continue to be erratic?

What will be the priority order in the implementation of D. Trump's economic agenda? Will the positive aspects (taxes, deregulation) outweigh the less favorable ones (tariff wars) for the development of the economic cycle?

Will concerns about over-investment in the artificial intelligence revolution be dispelled in the coming quarters? History teaches us that major technological revolutions have sometimes been associated with financial "bubbles," even if their implementation in the "real" economy has not been questioned.

Can 2025 be the year of a rebound for the European project? Diagnoses of the ailments affecting the economic potential of the Old Continent are numerous, as shown in the recent Draghi report. Whether we like it or not, Europe will have to undergo deeper integration (banking union, continental capital markets, common bond issuance, etc.) if it is to give new life to a project that has clearly lost its ability to mobilize energy.

Will cryptocurrencies experience another year of euphoric performance following the gains of 2024? Is the price surge driven by the "institutionalization" of these assets, which seems to be unfolding across the Atlantic, (really) irreversible?

After several years of growing power and "reasoned management" of geopolitical tensions, can **2025 be the year for a return to a more collaborative mode?** This question does not mean that we believe in a naive return to the state of affairs that prevailed before the escalation. It asks whether the different parties, who have clearly asserted their “no go areas”, can enter a negotiation process that limits the emergence of new hotspots.

This list is, of course, not exhaustive. The worst is always possible, but not necessarily probable. It is with this mindset that we approach 2025. Without naïveté but with a capacity to question our assumptions when necessary.

We do not wish to succumb to the euphoria that seems to have taken hold of the markets in recent weeks, that’s for sure! Conversely, we must not ignore reality, which does not justify excessive fears for financial markets.

We aim to remain alert, flexible, and guided by an open mind in 2025!

The entire Genvil team joins me in wishing you Happy Holidays. We send you our Best Wishes for happiness, health, and success in 2025.

Geneva, December 5, 2024

GENVIL
WEALTH MANAGEMENT & CONSULTING

Cédric Mondada
Fondateur

cmondada@genvil.ch
+41 22. 716. 03. 02.
+41 79. 817. 96. 87.

François Savary
Fondateur

fsavary@genvil.ch
+41 22. 716. 03. 01.
+41 79. 658. 08. 64

GENVIL Wealth management & Consulting S.A
Rue Claudine-Levet 7
1201 Genève
www.genvil.ch