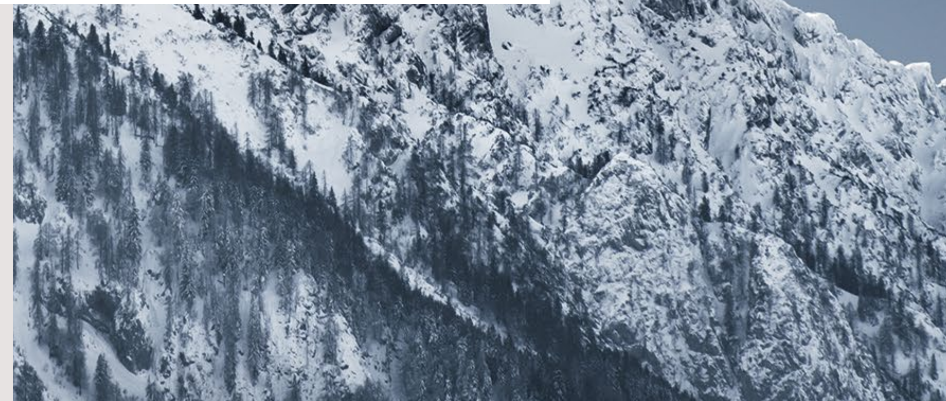
Top 10 Market Investment Themes 2025



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Key Take-Aways

01 The election of Donald Trump has been favourably received by the capital markets. His recent appointments will not only establish an **"America First"** agenda but will also lead to a new policy era of "Business First". This should reinforce the position of US business vs most other regions of the world, with a positive impact in the US for US Infrastructure & Industries, and it should also favour US industry in a tariff war environment.

02 After two years of an inverted USD yield curve, a major bullish steepening will take place in 2025, providing bond investors with decent returns. The choppy ride since the pandemic will be replaced with a **normalisation in Fixed Income Markets**. The longer end of the curve is, however, fraught with risks in the US since Trump's policies, a strong economy and the fiscal situation may push long yields up. In Europe, recession fears will continue to push the entire EUR curve downward.

03 The strong positioning of the US on the capital markets map vs. emerging markets and Europe should see money flows concentrating and promoting a strong dollar. This **Re-dollarisation** as an expression of US economic dominance should lead the dollar to further appreciate.

04 We are in the middle of one of humanity's biggest industrial revolutions. The first steps positioned strong tech leaders such as Apple, NVIDIA and Microsoft. Now this evolution will expand across all industries and see the emergence of information technology sub-sectors. Do you prefer semi-conductor or software companies? The **Digital Transformation continues**, and sub-themes such as AI, Cybersecurity, and Productivity Enhancement will be central to 2025.

05 The emergence of AI-related industries is set to reshape the demand for commodities, creating new channels of commodity demand across various sectors beyond semi-conductors, such as defence, communications and finance. For example, an iPhone contains a specific amount of copper, gold and other raw materials. This growing demand for key commodities driven by AI and technological advancements may signal the **beginning of an AI-related Commodity Super-Cycle**.

06 The growth in the demand for electricity, driven by the increase of data-centres and the economy in general, has forced governments to rethink energy supply. In a period of two years, **Uranium and the Nuclear Play** has become the favoured source of "green" energy leading governments and companies such as Microsoft to consider developing their own nuclear powerplants. If the trend continues, there will be a shortage of uranium, and that could further boost its price.

07 In the US, the anticipated deregulation, reduction of interest rates, and cross-border challenges will lead to consolidation in several industries. This will stimulate **M&A Activity**. We anticipate an increase of mergers, particularly within the healthcare and the information technology sectors.

08 One of the few international winners of the Trump elections will be **Japan**. Over the last 20 years, Japan has invested massively in R&D and made significant technological advances. The positioning of Japan as the 'Silicon Valley of Asia' with strong exposure to China should position the rising sun economy as a strong winner.

09 **Security and Defence** challenges will lead countries to re-focus their defence strategies. The war in Ukraine, the competing alliances of Russia-China vs. US-Europe, and the arrival of new warfare technologies (drones, AI) have already led countries to augment their defence budgets to re-equip their military forces and to develop new-generation cyber-armaments.

10 2024 saw **Crypto-Currencies** in general become mainstream with several major central banks increasing their reserves of Crypto, but also capital markets endorsing them with the launch of 20+ ETFs. The challenge will now undoubtedly be to have these crypto-currencies become more mature and move from speculative vehicles to accepted means of exchange in commerce.

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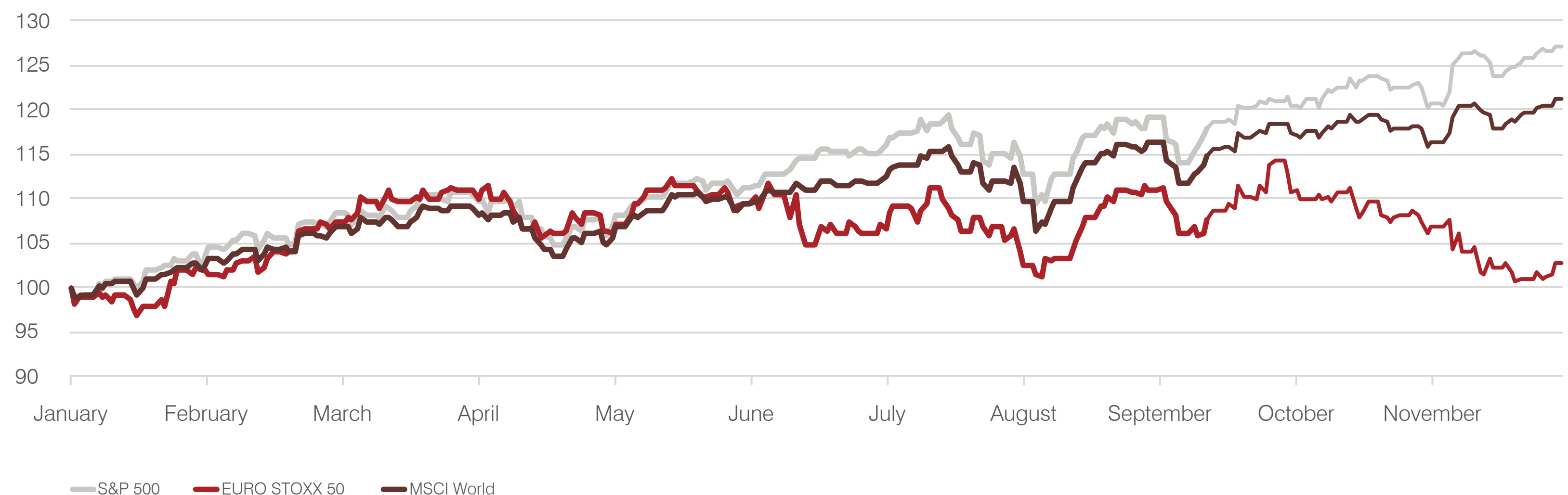
Looking back at 2024, we had a year where the stars aligned to lead global equity markets to produce strong gains, through high dispersion. The policies implemented by governments and central banks across the globe led to cooling inflation. In this context, with contained geopolitical conflicts and a technology revolution that delivers on its promises, equity markets have proven their robustness.

With the global economy growing – driven by the technology revolution – US equity markets ended the year with significant gains, up 27%. The strong performance of US equities relative to other developed markets was driven by their adaptability to higher interest rates, supported by strong corporate earnings and positive economic indicators.

The US represents now more than 70% of the MSCI World index, and US Tech Giants continue to dominate with NVIDIA contributing itself to approximately one third of the S&P500 performance. While China resisted and successfully provided stimulus to try to restore investors' confidence, Europe suffered significantly from its lack of leadership and integration with many countries delivering negative performance.

Figure 1
2024 YTD: S&P500 vs. MSCI EM vs. EURO STOXX 50 Index (USD)



Source: Bloomberg, Cité Gestion, 29.11 2024

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As we enter 2025, the results of the US elections are generating hopes and fears linked to a bi-polarised world. On the one hand, the US will be run by businesspersons, who will implement business-friendly reforms and reposition the US as the leading economy. This will leave the rest of the world with a certain degree of uncertainty, particularly with respect to tariff wars and US intentions to resolve the existing conflicts in Ukraine, Middle East and Taiwan. The US economy, while still under inflationary pressure, remains a focus for investors due to the massive anticipated stimulus, that will follow the arrival of the new Trump administration on 20 January.

Critical to our outlook is the Federal Reserve's monetary policy, with the market and economists currently divided on the number of future rate cuts. This discrepancy adds strategic complexity to the planning of expectations for the coming year.

Therefore, in 2025, the financial focus is expected to remain on the United States, and on the growing Information Technology industry. According to financial experts, key areas of interest should include infrastructure investments, efficiency gains across all major industries, and investments in defence.

The possibility of lower interest rates, with dispersion across regions, could further benefit sectors such as technology and biotechnology, known for their heavy investment in research and development. Finally, this may also put pressure on several commodities, which have become an indispensable input to AI and Semi-Conductors production.

This report provides an in-depth analysis of ten key themes that are currently at the forefront of financial sector discussions. These themes are likely to influence global capital markets, and this document aims to support informed financial strategy decisions for 2025.

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Donald Trump will become the 47th President of the United States. While he will be in place on 20 January 2025, he has already moved into action with the appointment of a team of businesspersons (in particular, Elon Musk and Scott Bessent), who will be instrumental in implementing most of his economic programme. There should be little headwind during the next two years as the Congress and the Senate have a Republican majority at least until the next elections and when the impact of policies should be apparent. The business proactivity has been welcomed by several investors, and we could retain the following elements as representative of the actions expected to move capital markets:

- A favourable corporate tax regime alongside a low regulatory burden should be positive for US corporates and be reflected into US equities. US equities were extending their gains as results came in as a probable indication, or even prediction, of how the market will move in 2025.

- The willingness to simplify the economy and de-regulate many of its components will be favourable to several sectors such as banks, industrials and small caps, who will all be the immediate beneficiaries. Also, smaller companies will be released from all these pressure points – including high interest rate – and should continue their up trend.

- The markets are now all providing better growth outlook for the US that should give cyclical sectors like industrials and quality mid-caps a further boost. Also anticipated declining interest rates and government stimulus will be favourable to infrastructure companies that will be among the biggest beneficiaries of these combined factors.

- A tariff war will undoubtedly protect the US economy that continues to grow its consumption. On the other hand, US partners will suffer, such as neighbouring countries like Mexico and Canada. Across the Atlantic, Europe – caught between a tariff war with China on electric vehicles, a 'cold' war with Russia and now a tariff war with the US – should struggle. In addition, while the US economy will have one clear Republican leadership for two years by the (Presidency, Senate, Congress), Europe seems to enter in a period of instability – 8 years after the Brexit – where one of its two leaders – France – enters a period with fractured political leadership.

- A strong willingness to solve geopolitical conflicts, should be beneficiary to US companies – with reconstruction mandates – and unfavourable to the other players. The ongoing commitment and discussions to engage with Russia to solve the Ukrainian war (living grandly on the current US help) could lead to a peace unfavourable for Europe.

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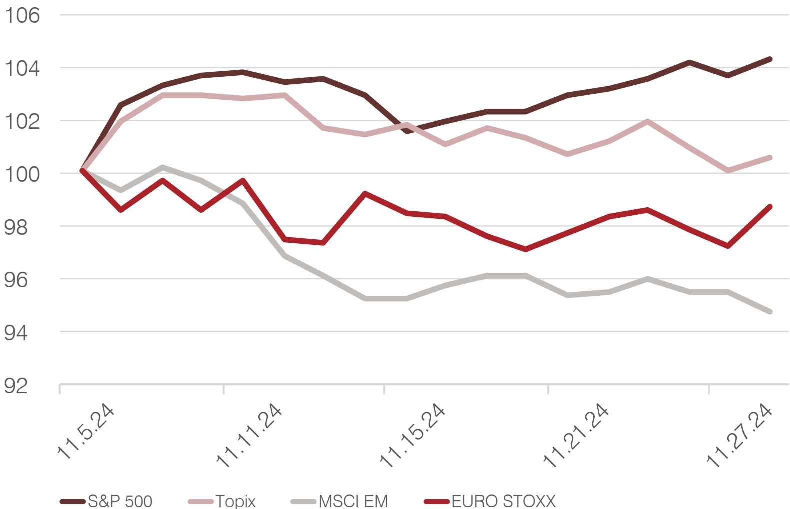
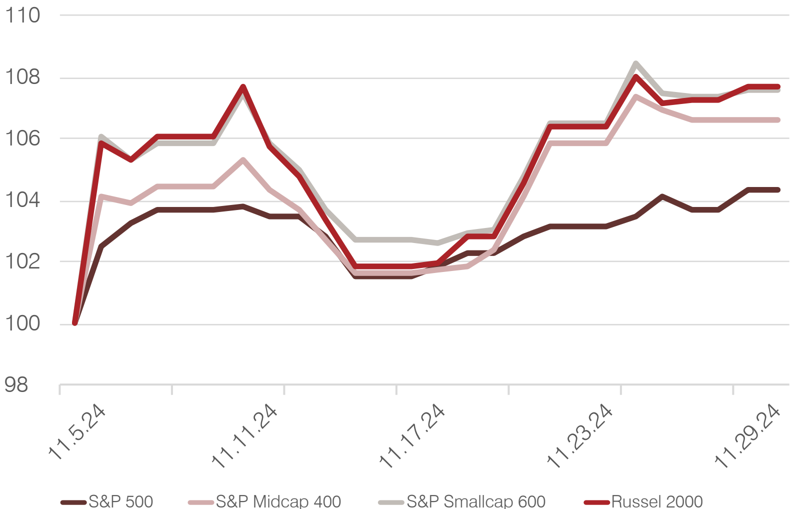
Figure 2
Indices: S&P 500, Euro Stoxx 50, Topix, MSCI EM since Election Day



Source: Bloomberg, Cité Gestion, 05.11 – 29.11 2024

Figure 3
Indices: S&P500, S&P Midcap 400, Small cap 500 since Election Day



Source: Bloomberg, Cité Gestion, 05.11 – 29.11 2024

This combination of above-mentioned factors and US consumers should further boost US Capital markets. Also, in a tariff war, everyone will lose, but the US may have less to lose than their business partners as the US economy is growing, while the rest of the world has still to address further challenges.

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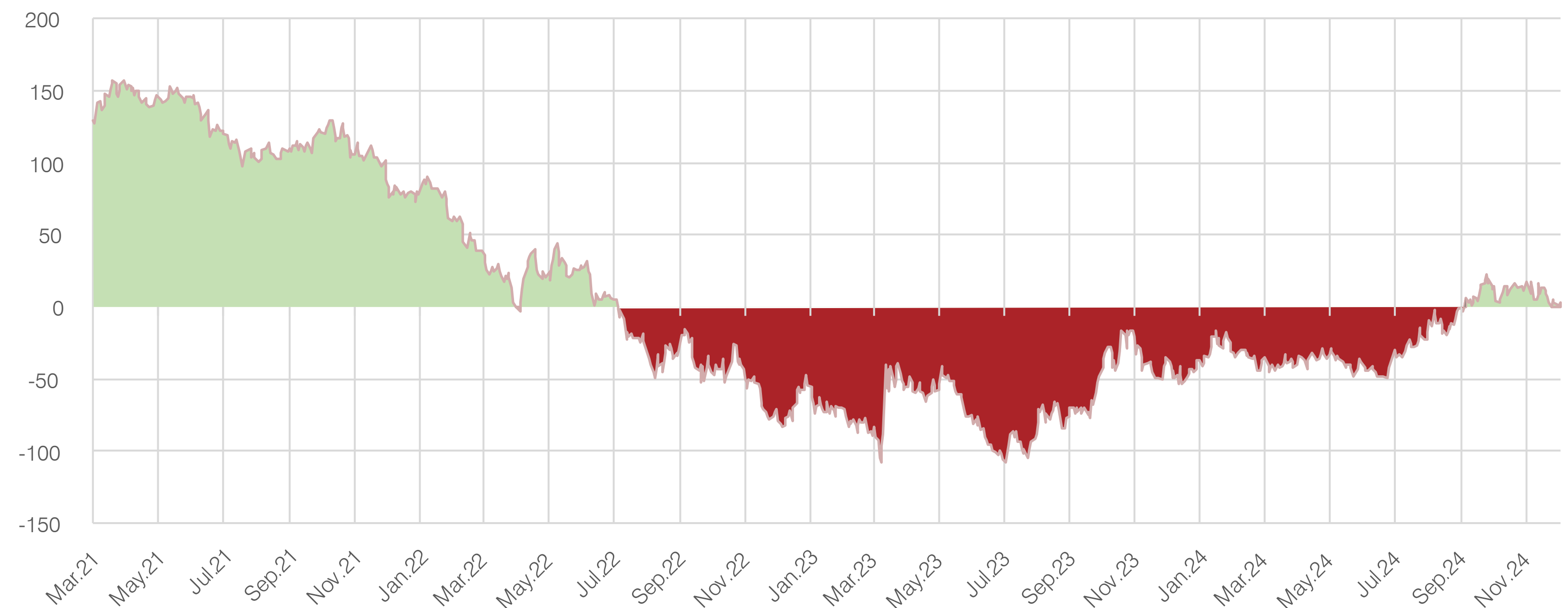
The US yield curve has been inverted since 2022. Historically this has been a good predictor of a recession to come. Not this time: whereas economists estimated in December 2023 that the probability of a recession in the US in the next 12 months was about 1/3, the US economy remained resilient throughout 2024, and the Fed has so far managed to induce a soft landing of the world's largest economy.

Since the monetary easing cycle began in September of 2024, the curve started to dis-invert, which will be the driving force for fixed income markets in 2025. In a typical "bull steepening" situation, the coming year will finally be a good one for fixed income as well as for most interest-sensitive asset classes. As of writing, the Fed is expected to cut rates 3 more times next year, for the ECB it should be even 5 cuts and for the SNB two more. This will gradually bring down the short end of the curve to a level around 3.7% in USD and 1.7% in EUR at the end of next year. After a choppy ride since the pandemic, bond markets will finally begin to normalise.

Recession fears will gradually ebb away, and spreads, which are already tight, may well tighten further in 2025.

Figure 4

10-YEAR TREASURY YIELD MINUS 2-YEAR TREASURY YIELD



Source: Bloomberg, Cité Gestion

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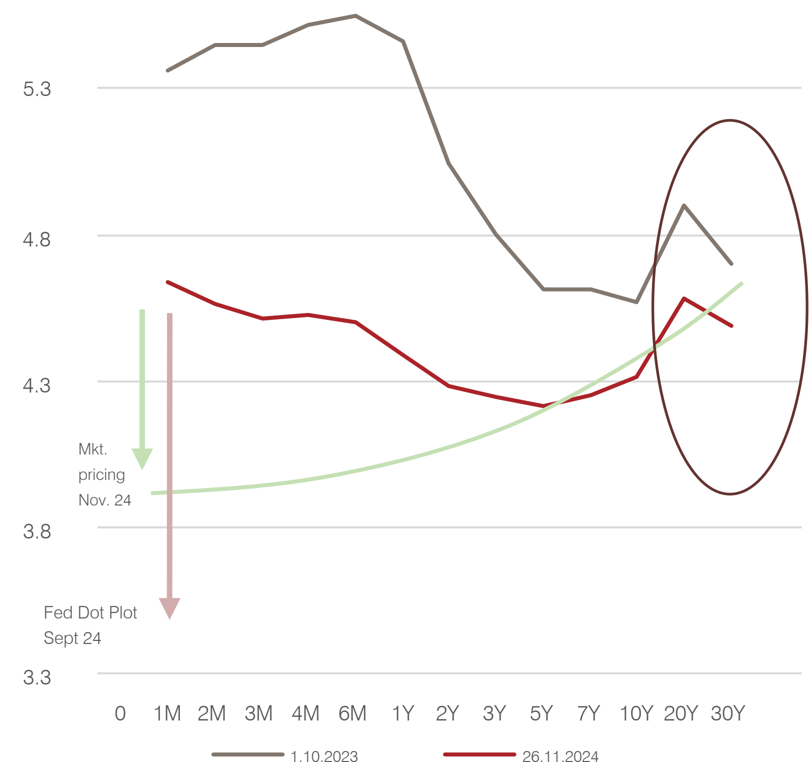
Whereas the short end of the US curve will gradually converge to a level between 3.4% and 3.7%, the future path of the longer end remains uncertain. Influenced by Trump's tariff policies and potential interference with the Fed's independence and hence inflation expectations as well as the deteriorating US fiscal situation, the longer end stands at risk of gradually shifting higher. This, a bear steepening, is the main risk for fixed income markets in 2025, and we therefore recommend to stay with short to medium maturities and to avoid the longer part of the curve and too much duration in portfolios.

If, contrary to expectations, a recession should materialise in 2025, then the longer end of the curve would shift down, thereby providing the best protection and returns for portfolios.

In summary, we have strong convictions that the short and intermediate parts of the US yield curve is a safer bet for 2025. Getting exposure to the long end is a bet with considerable uncertainties.

In EUR and CHF, the positive outlook for quality fixed income is even more evident as monetary policy and recession fears (in the eurozone) will support the asset class throughout 2025.

Figure 5
THE US TREASURY YIELD CURVE



Source: Bloomberg, Cité Gestion

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Over the past two decades, numerous nations, including China and European countries, have pursued de-dollarisation strategies, citing concerns over geopolitical dependence and economic sovereignty. Despite these efforts, we believe that the US dollar remains central to the global economy and is likely to remain a significant theme in future US policies, including those potentially under a second Trump administration.

The dollar's resilience stems from its historical role as the world's primary reserve currency, a status established during the Bretton Woods era. Its enduring appeal lies in the economic stability of the United States, deep and liquid capital markets, and its use in pricing key commodities like oil and gold. While there have been attempts to use alternative currencies in energy and commodity trading, the US dollar has always remained the dominant choice.

Geopolitical turmoil, such as the conflicts in Ukraine and the Middle East, has further underscored the dollar's safe-haven status. While currencies like the euro and the Chinese yuan have gained some traction, they face significant obstacles, including limited global adoption, liquidity challenges and institutional weaknesses tied to relative political instability. Similarly, efforts by BRICS nations to create a dollar alternative remain underdeveloped due to economic and political disparities within the bloc. It is worth noting that the recent BRIC meeting on this subject had zero impact on the USD.

Recent monetary policies by the US Federal Reserve, particularly interest rate hikes, have bolstered the dollar's appeal as a safe-haven and high-yield investment. The dollar further benefited from market expectations surrounding anticipated Trump 2.0 policies, such as tariffs and tax cuts, which stoked inflation concerns and limited the Federal Reserve's ability to cut rates.

An anticipated return of Trump's tariff-focused policies could disproportionately impact the euro, which continues to face downward pressure. European growth, particularly in Germany – the bloc's largest economy – remains vulnerable to these developments. Also, the recent leadership challenges in France are not helping.

Historically, the dollar's resurgence has already been observed in its long-term performance against global currencies. Following a decline in the 1970s, the dollar regained momentum after the 2008 financial crisis. Since then, the Dollar Index (DXY) – which measures the USD against a basket of major currencies – has risen over 50%. Unlike past periods of short-lived dollar rallies, this upward trend has persisted for 16 years, highlighting the dollar's sustained strength.

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Figure 6

Dollar Index: 16 Years of Momentum Trend

Source: Bloomberg, Cité Gestion

Another critical factor behind the dollar's dominance is its entrenched role in global payment infrastructure. The dollar accounts for nearly 50% of SWIFT transactions, compared to the euro at just over 20% and the yuan at a mere 5%. Additionally, approximately 60% of global trade and 90% of foreign exchange transactions involve the dollar. This dollar-centric structure has been leveraged geopolitically, as seen in sanctions against Russia, which weaponised global payment systems to exert financial pressure. The implications of this «re-dollarisation» are profound.

It enhances US geopolitical influence by enabling the country to shape global financial flows. It complicates efforts to establish a multipolar financial system, as alternatives struggle against the inertia of dollar-centric structures.

The conjunction of the US dollar's dominance is set to remain a defining feature of the international economy. Its unparalleled infrastructure, stability and ongoing Trump's presidency should ensure that the dollar will remain central to global finance for the foreseeable future.

Source: Bloomberg, The Bretton Woods Committee, DWS, UBS

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Since the launch of ChatGPT in November 2022, the demand for artificial intelligence (AI) has driven a significant stock market boom. This technological revolution seems to be only beginning, with further changes underway. While AI has been central to the growth of technology companies in the semiconductor sector, the entire AI supply chain is adapting and affecting all industries. So far, key beneficiaries have included semiconductors (e.g. NVIDIA), data centre infrastructure providers (e.g. Amazon), digital advertising (e.g. META, Google), technology consulting (e.g. Microsoft) and equipment manufacturers (e.g. Apple).

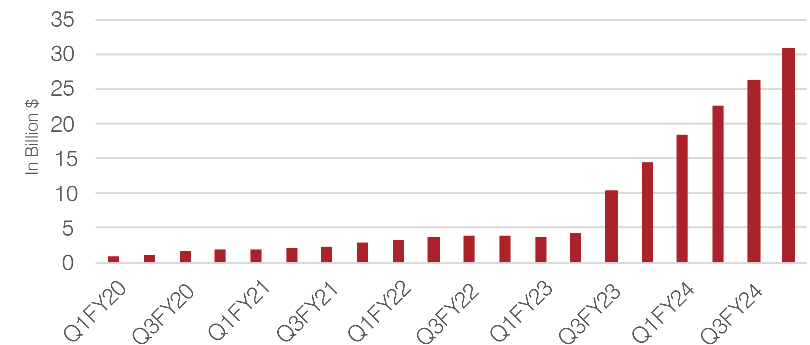
The rapid growth of these technology giants highlights how quickly AI solutions have become mainstream, with notable revenue growth reflecting strong market demand. This momentum raises the question: Who's next? Large-cap tech giants will likely continue to grow, as they are making the largest investments. Their clients and suppliers are doing the same, and emerging tech companies and other market segments utilising or benefiting from AI are poised to grow further. For example, AI is a massive consumer of electricity, which could positively impact many utility companies. The full suite of AI applications is yet to be disseminated across all sectors of the economy, as current applications represent only a fraction of AI's potential. We believe the best way to detect opportunities is to examine the supply chain surrounding AI, as we believe all segments will grow.

Firstly, the development of the infrastructure will continue. To develop all the applications and their speed, data centres will expand at unprecedented levels. The rapid pace of technological advancement will require improved scalability and efficiency. According to experts, the emergence of leading-edge hardware, such as Nvidia's Blackwell GPU, will continue to push the boundaries of performance. According to Bloomberg, tech giants are set to invest over $200 billion in AI infrastructure in 2024, with projections of this figure approaching $250 billion by 2025.

Secondly, the development of AI users and implementors will grow further. With businesses moving towards digital services, investing in cloud infrastructure and Software as a Service (SaaS) platforms is crucial. New solutions will be disseminated across all industries to expand AI, and software companies will play a growing role in unlocking these opportunities.

Figure 7

Nvidia Revenue Trend: Nvidia Data Centre Segment revenues



Source: Q3 Nvidia Quarterly report

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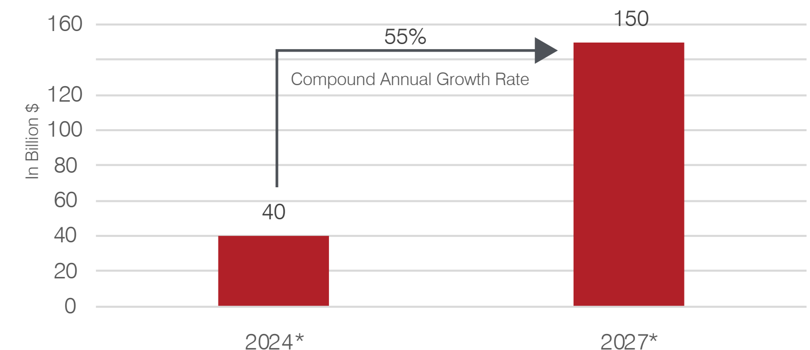
Lastly, AI is unlocking new revenue streams across industries, with advertising leading the charge. According to Global X ETFs, Meta Platforms reported a 19% YoY quarterly revenue growth, driven by AI-powered 7% higher ad impressions and an 11% rise in ad prices. Similarly, Amazon's generative AI for product images has boosted ad performance. This highlights how cloud computing, software, and infrastructure companies, with their strong market presence and access to exclusive data, are poised to capitalise on the rising demand for AI-driven services.

This growth will not only benefit advertising. Organisations across various industries are leveraging unique datasets to create highly customised AI solutions, tailored to their specific business needs. These solutions aim to automate workflows more effectively, by fine-tuning models on domain-specific data, resulting in tools that are significantly more actionable and task-oriented. For instance, financial services use AI to enhance operational efficiency and access to information, while cybersecurity solutions rely on AI to respond to threats in real time. In defence, AI is now deployed in systems such as drones and automated weaponry.

We believe that this trend is likely to accelerate as the cost of AI infrastructure is expected to continue to decline. To capitalise on infrastructure providers, developers and users in their entirety will have to be part of anyone's portfolio.

Figure 8
Generative AI Software and Services Revenue



Source: IDC (Jan. 2024)

*forecasts

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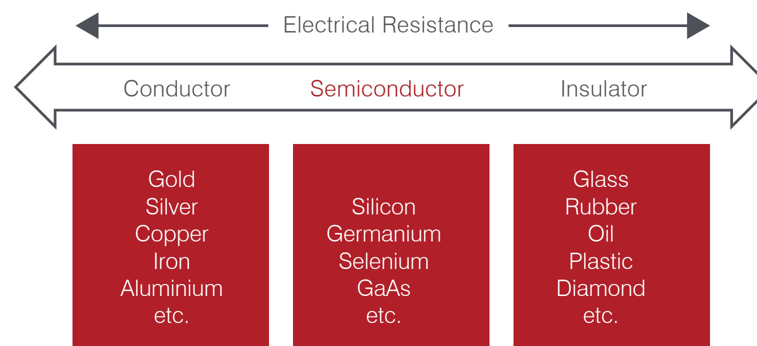
The arrival of the new industries linked to AI and the digital transformation of the economy are reshaping commodity demand. This shift, alongside the recent commitment of several governments and companies in the global energy transition, suggests that there could be an important increase in the prices of several AI-linked commodities. High demand and constrained supply could trigger an AI-related Commodity Super-Cycle.

Historically, «commodity super cycles» are extended periods of above-normal price rises driven by structural changes in demand, or supply disruptions. The usual trend for commodities is seen as cyclical, rising when economic growth is stronger and declining when growth eases.

When demand experiences a sustained positive shock that exceeds what supply growth can deliver, there is a clear positive impact on commodity prices. The current industrial/tech revolution we are experiencing has the potential to trigger such a commodity super cycle, requiring vast infrastructure and resources to replace fossil fuels. On the supply side, Copper, Nickel, Uranium, Silver and many other metals face significant demand growth from the rollout of Digital Infrastructure and the transition to Green Energy. This is creating imbalances between supply and demand for many commodities.

Figure 9
The Commodities linked to semiconductors



Source: Toshiba Electronic Devices & Storage Corporation

Figure 10
S&P Commodity Index vs. S&P 500

Source: Bloomberg, Cité Gestion, 03.12.2024

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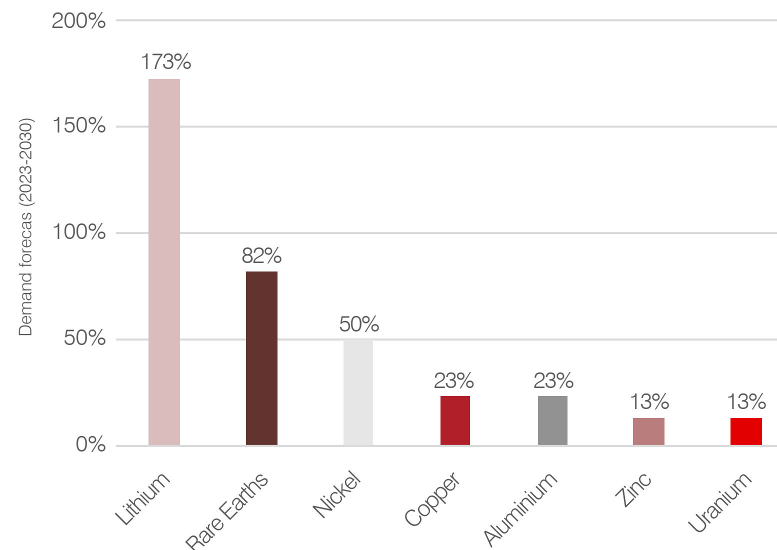
For instance, copper demand is expected to grow persistently, while supply struggles to keep pace. As with the previous super cycle, China is likely to play an important role. China has huge potential for decarbonisation, as it consumes more electricity than any other country in the world and still relies on coal for more than 50% of its electricity. Its decarbonisation efforts are set to have a critical impact on global commodity markets. In the electric vehicle (EV) sector, for example, over 50% of new car sales in China are already electric, and the country could transition entirely to EVs by 2030, significantly impacting demand for AI-related materials.

Access to these commodities is also a strategic focus for policymakers, with the US and EU introducing measures to secure supplies, and China investing heavily in resource-rich regions like Africa, Asia and South America.

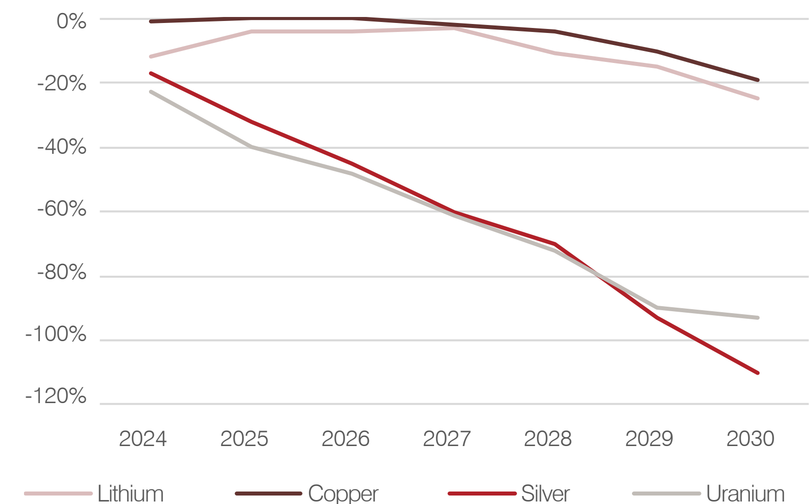
For investors looking to participate in the growth of the energy, technology and decarbonisation sectors, we believe AI-linked commodities should benefit positively to the growing imbalance between supply and demand.

Figure 11
Commodity demand growth forecast



Sources: Bloomberg, Industry reports, BMQ Capital Markets, Canaccord Genuity, Cru, BNEF; 30 August 2024.

Figure 12
Commodity supply forecast



Sources: Baker Steel Capital Managers LLP, Bloomberg, Benchmark Minerals Intell

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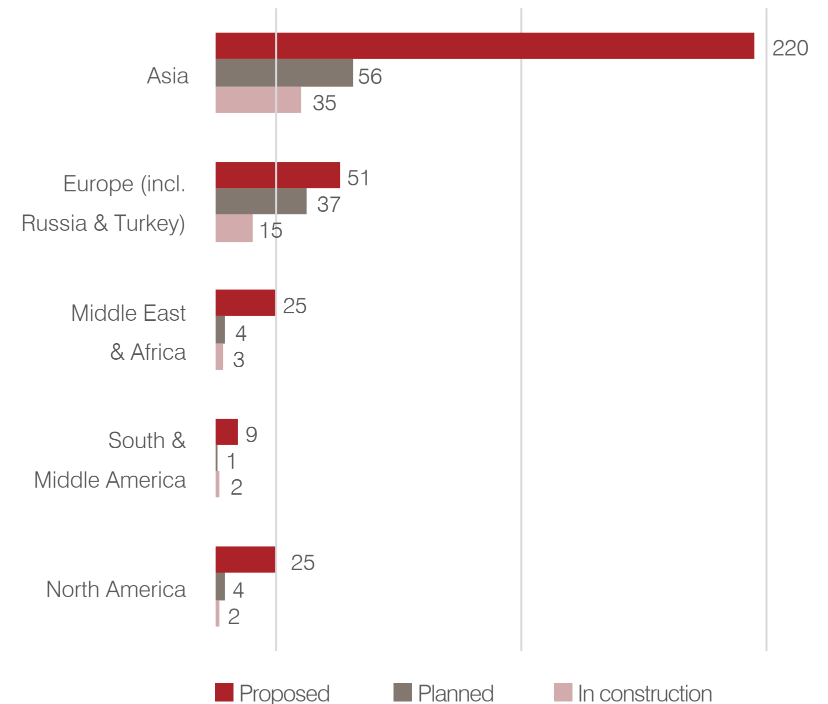
The war in Ukraine has significantly reshaped global energy strategies, prompting governments and companies to reassess their energy sources. The demand for electricity is experiencing a historic surge, growing by 5-6% annually in the US, driven by data centre expansion, industrial electrification and renewable energy adoption. Data centre energy demand is projected to reach 1000 TWh by 2030, necessitating advanced electrical and cooling infrastructure.

In this context, nuclear energy production has gained prominence as a viable and sustainable solution. It is now widely accepted as a clean energy source and is increasingly integrated into many countries' plans to achieve their net-zero objectives.

On the demand side, this evolution has generated sudden and considerable demand for uranium, with countries like China, India and several in Europe expanding their nuclear programs. For instance, the Russia-Ukraine conflict has heightened concerns about energy security, leading to significant investments such as the UK's £196 million uranium enrichment facility, set to begin production by 2031. This facility forms part of the country's ambitious plan to quadruple its nuclear energy capacity by 2050. In addition, tech giants such as Microsoft and Google have announced intentions to develop their own nuclear power plants to secure long-term energy supply. This trend indicates a growing demand for uranium, raising questions about future supply in 2025.

Figure 13
Construction of Nuclear Reactors



Source: Statista.com

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06. Uranium and the Nuclear Play

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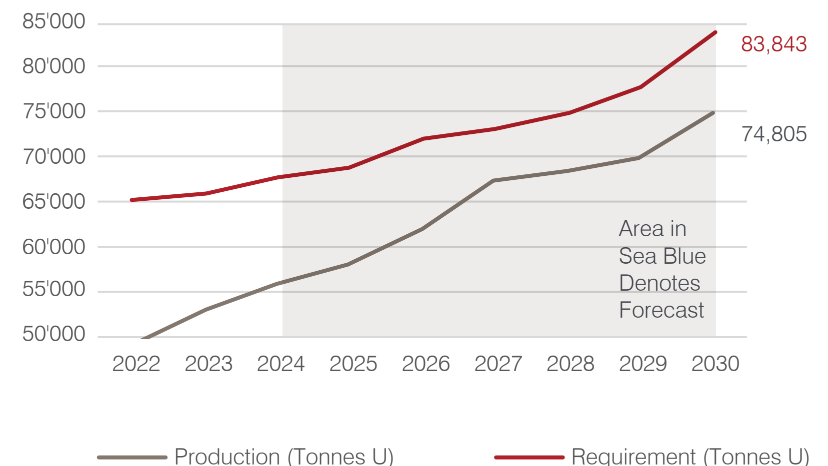
The challenge for the industry is the limited supply of uranium. Constraints remain significant. Major producers have announced production cuts due to project delays and material shortages, further tightening the market. Geopolitical tensions have added to supply uncertainties, intensifying competition for available resources. According to Reuters, Russia, the world's sixth-largest uranium producer, which controls approximately 44% of global uranium enrichment capacity, imposed restrictions on the export of enriched uranium to the United States on November 15, 2024. This move has created supply risks for U.S. nuclear power plants, which last year relied on Russia for a quarter of their enriched uranium imports.

This demand and supply imbalance could lead uranium prices to continue their upward trajectory, with a price at $77.50 on 29 November 2024, below its highest level. The continuous strengthening of demand and the limited number of available mines are driving uranium prices upward. The spot price of uranium increased reaching its highest level in 14 years in February 2024 at $106, compared to less than $25 per pound at the end of 2020.

To conclude, uranium is poised to play a pivotal role in the global energy transition, driven by surging demand for electricity and increasing reliance on nuclear power. The rise of energy-intensive technologies, such as AI data centres, and large-scale nuclear expansion plans by countries like China and the UK, further solidify its importance. Supply constraints and geopolitical tensions may elevate prices, offering attractive investment opportunities for 2025 and beyond.

Figure 14

Global Uranium Supply Deficit To Persist



Source: World Nuclear Association Data

07. M&A Activity will finally pick up

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With the global economy growing, many market participants will look for additional sources of growth. One well-known strategy to achieve this – via market presence expansion, reduce tariff war risks, acquisition of new technologies, or operations streamlining – are mergers and acquisitions (M&A).

M&A activity has always been a measure of the overall health of the economy. Key factors are true representatives of this good health: Firstly, lower interest rates make borrowing cheaper, encouraging companies to finance acquisitions, which is a widely anticipated trend across the globe. Secondly, changes in regulations can encourage M&A activity in many sectors and the willingness of Donald Trump to de-regulate, could be an important stimulus. Additionally, high stock market valuations make it easier for companies to use stock as currency for acquisitions. Lastly, with the rapid pace of innovation and technological advancement drives companies to acquire competitors to keep pace with advancements. The alignment of these factors that are all fulfilled should create ideal conditions for dynamic M&A activity in 2025.

The M&A activity should flourish especially in sectors that will benefit from de-regulation and that are growing (information technology, in particular). AI will be driving significant M&A activities, and we have noticed already a pick-up in this activity in the information technology sector. Recently, Hewlett Packard acquired Juniper Networks to expand its AI infrastructure capabilities, particularly in data centre networking solutions.

Also, Nvidia completed five acquisitions in 2024 – especially Run, a GPU orchestration software provider. This momentum is expected to continue into 2025, as companies across the technology landscape, from hardware to software, look to capitalise on the rapidly evolving AI space, especially with the new Trump administration expected to remain friendly to M&A. In the software sector, valuations are stabilising, allowing buyers and sellers to align. Companies with strong enterprise customer bases and significant margin expansion potential are prime targets, particularly for private equity firms. The biopharma industry is also poised for activity as large-cap companies, facing revenue declines from patent expirations, leverage their strong balance sheets to pursue strategic acquisitions.

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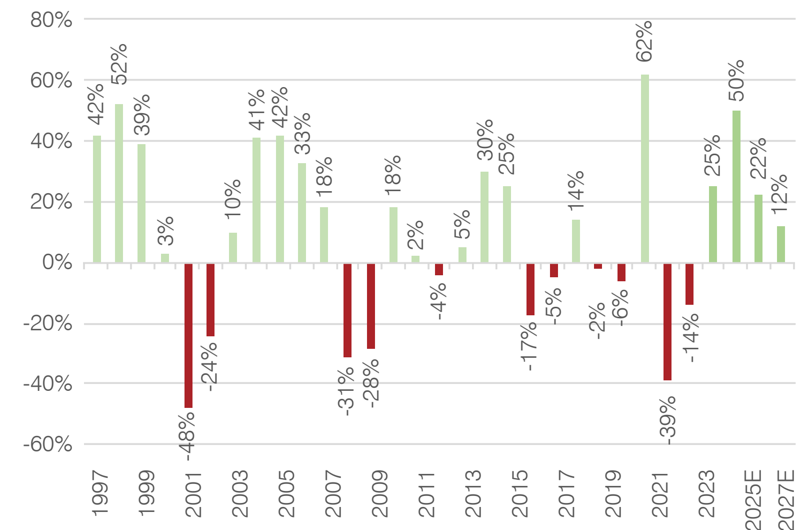
07. M&A Activity will finally pick up

Recently, most of the investment banks have provided positive outlooks for a growth in the number of M&A transactions. More broadly, there seems to be anticipation that deals should happen where the world is changing rapidly and, according to Morgan Stanley, in the areas of autonomous delivery vehicles, industrials reshaping their supply chains, financials and insurance services, AI and its Infrastructure, AI and Software and Healthcare.

Finally, in the energy sector, the transition from cryptocurrency mining to data centres presents new opportunities, with mining sites repurposed for growing data storage demands. The upstream oil and gas sector could be undergoing consolidation as companies focus on efficiency and quality assets, particularly in US shale. Midstream energy players are also driving consolidation to achieve scale and diversification.

We believe that with these dynamics, 2025 is shaping up to be a transformative year, marked by heightened M&A activity across sectors adapting to changing market conditions and technological advancements.

Figure 15
Global M&A Announced Volume Y/Y



Source: Morgan Stanley Research, MS Special Situations Desk

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With the global economy growing, market participants see Japanese companies on track to achieve record-high earnings, with medium to long-term growth prospects comparable to those of other developed markets. The arrival of a new administration in the US – strong business partner of Japan – is anticipated to provide further support. Additionally, the technological advances of Japan in semi-conductors and in the renewable energy are expected to meet growing demand in 2025. To add to this outlook, numerous parameters will be favourable to Japanese equities.

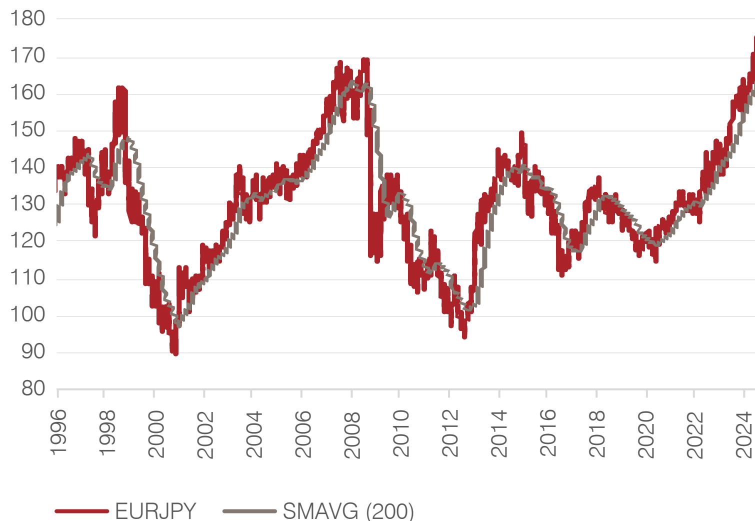
Firstly, continued improvements in corporate governance are set to significantly enhance shareholder returns, with notable trends such as expanded share buyback programmes and dividend increases.

Secondly, many market participants believe Japanese equities remain undervalued relative to most global markets, with valuation multiples near historical lows compared to other developed economies. The combination of attractive valuations and growth prospects of these companies leads us to expect a repricing of these companies.

Thirdly, we observe a shift towards inflationary growth, with Japan gradually emerging from decades of deflation and transitioning to an environment of moderate inflation, which supports both corporate profitability and broader economic stability.

Figure 16

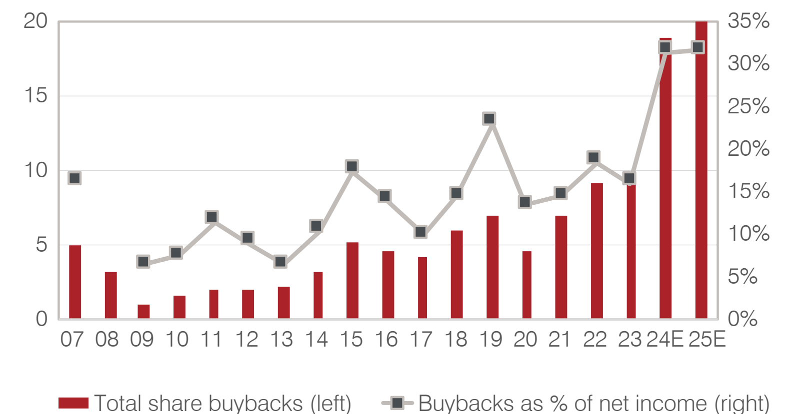
Yen, The yen is near the bottom of its 30-year trading range



Source: Gavekal Research/Macrobond

Figure 17

Share Buybacks



Source: QUICK

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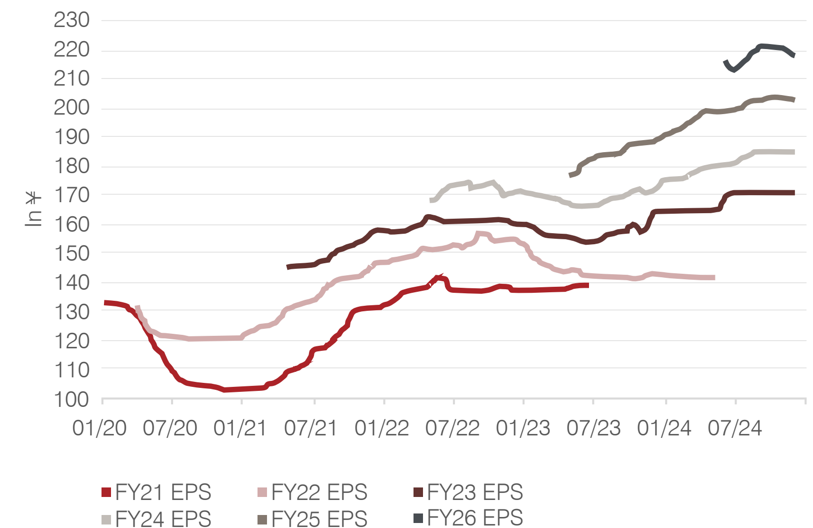
Fourthly, Japanese equities are structurally underweighted in Europe, Australasia and the Far East (EAFE) and global asset manager portfolios, creating a unique opportunity as a complement to diversified developed market allocations. As the second-largest and one of the deepest developed markets globally, Japan also boasts historically low correlations with the MSCI World, enhancing portfolio diversification.

In summary, we believe these four factors will drive positive market performance for Japanese equities. Moreover, we will be able to count on market friendly policies. Indeed, Prime Minister Ishiba is expected to adopt such policies aimed at stabilising investor confidence and supporting economic growth, especially given the current political landscape. Finally, the Japanese yen is poised to appreciate, with potential unwinding of the carry trade acting as a catalyst. The Bank of Japan's policy normalisation, including possible rate hikes, could reduce rate differentials. Moreover, the yen remains significantly undervalued against the US dollar and EUR on a purchasing power parity basis, offering further upside potential.

Figure 18

TOPIX EPS consensus forecasts



Source: LSEG / Bloomberg / November 29th, 2024

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09. Security and Defence

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During recent years, we have seen insecurity growing across the globe. Many reasons explain this trend, and we can summarise them as a combination of de-globalisation, terrorism threats and regional tensions.

Governments have no other choices but to respond to these security challenges by strengthening their protection forces. As one says, "If you want the peace, prepare for war". While the Russia-Ukraine conflict may see a solution in 2025, EU countries realise they must urgently rebuild their military capabilities against their Russian neighbour. The situation is similar in other regions of the globe such as Japan.

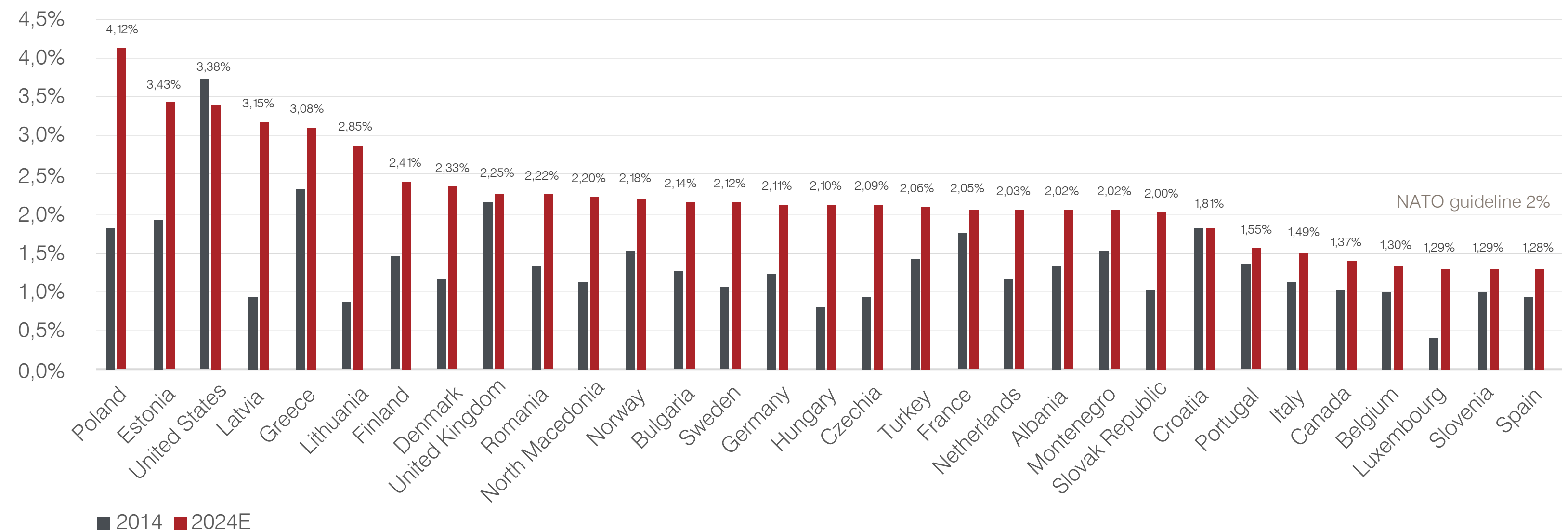
To move with this defence strategy, governments – supported by defence industry lobbies – motivate their increase in military budgets with two major objectives:

Firstly, they need to provide internal protection against terrorism and aggressions with an augmentation of their military and police forces.

Figure 19

Defence Expenditure as a Share of GDP (%)

(based on 2015 prices and exchange rates)



Source: Defense Expenditure of NATO Countries (2014-2024)

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Secondly, on the geopolitical side, the development of a strong military defence will be necessary to reduce the likelihood of a foreign military aggression by another nation. As an example, the United States will continue to maintain robust military forces capable of defending its territories and supporting its key allies, such as Taiwan, Australia and Europe, in accordance with peace treaties.

These defence spending – now supported by the public – will lead to a larger budget allocated to the development of domestic equipment (drones, vehicles, weapons, etc.) and the acquisition of sophisticated technological equipment (fighters, tanks, etc.). In that respect, we can all notice a rapid pace of technological developments, creating a need to regularly upgrade military capabilities. As a demonstration of this, the Russia-Ukraine conflict has shown that not only drones are necessary but also old-style weapons used in the previous centuries. Armies need to be able to fight with soldiers on the ground, but also in the air with planes and drones. The technological revolution requires more options than before, not fewer.

In our view, the leaders in defence – especially US companies – are best positioned to benefit from this global development. The commitment of the new US administration to engage in peace discussions in Ukraine, Middle East and Taiwan should probably be accompanied with large military contract to maintain the benefits from the US military protection. On a smaller scale, the EU sector should also benefit from growing EU spending, but these companies are less likely to benefit easily from spendings of Asian and Middle Eastern countries compared to US companies.

In this context, we believe that an allocation to the growing defence sector should benefit anyone's portfolio – in line with the growing allocation of states to the defence industries. We would also stress that historically, governmental contracts in this industry have always been stable and generators of long-term revenue streams. Finally, in terms of research & development, military spending leads to new technologies that can later be commercialised in the civilian sector (Boeing being a well-known example in history).

10. Crypto will become mainstream

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We believe that 2024 has been a turning point in terms of Cryptocurrencies acceptation and that we will be moving to a period of Cryptocurrency Integration.

The year 2024 marked the transformation of cryptocurrency into a potential fully-fledged asset class. Bitcoin's value surged from $42,500 to nearly $100,000 following the US presidential election. The approval of Bitcoin ETFs in the United States, coupled with global regulatory advancements, positions 2025 as a pivotal moment for mainstream cryptocurrency adoption. Crypto is evolving towards the status of a secure and regulated asset. These developments pave the way for institutional adoption, bringing blockchain technology closer to traditional finance.

Bitcoin's position as a store-of-value asset continues to strengthen. Governments, including the United States and emerging economies like Brazil, are using or are exploring the use of Bitcoin as a strategic reserve. For instance, President-elect Donald Trump proposed the establishment of a Strategic Bitcoin Reserve, involving the purchase of 200,000 bitcoins annually over five years – totalling one million bitcoins, Institutional support, such as investments from Wisconsin and Michigan pension funds, highlights Bitcoin's appeal in the current economic climate. With scarcity exceeding that of gold, Bitcoin offers unmatched potential for asymmetric returns and could emerge as a strategic reserve asset.

There are thousands of cryptocurrencies, and the challenge is identifying which one will form the foundation of the future blockchain community. The year 2025 could witness the emergence of transformative applications, comparable to the rise of social networks during the internet boom. Rapid growth is being observed in sectors such as blockchain-based gaming and the tokenisation of intellectual property. The increasing integration of artificial intelligence promises to further expand the uses and impacts of crypto.

"Crypto" is redefining industries and creating numerous opportunities, from finance to gaming, through tokenisation and decentralised infrastructures. Ethereum's Dencun update has reduced fees and increased transaction capabilities, facilitating the development of innovative Web3 applications that attract a growing user base. Applications like DeFi, stablecoins, and decentralised physical infrastructure networks fully leverage the possibilities of this technology. With favourable macroeconomic trends, institutional momentum, and revolutionary blockchain applications, crypto presents a unique investment opportunity for 2025, potentially delivering exceptional returns in the years to come.

The listing of several companies active in the field has now created a wide acceptation in the investment community of the cryptocurrencies as a new asset class. Numerous hedge funds are trading them, and this growth in exchanging the cryptos will undoubtedly give rise to many investment opportunities in equities, cryptocurrencies or traders of cryptocurrencies.

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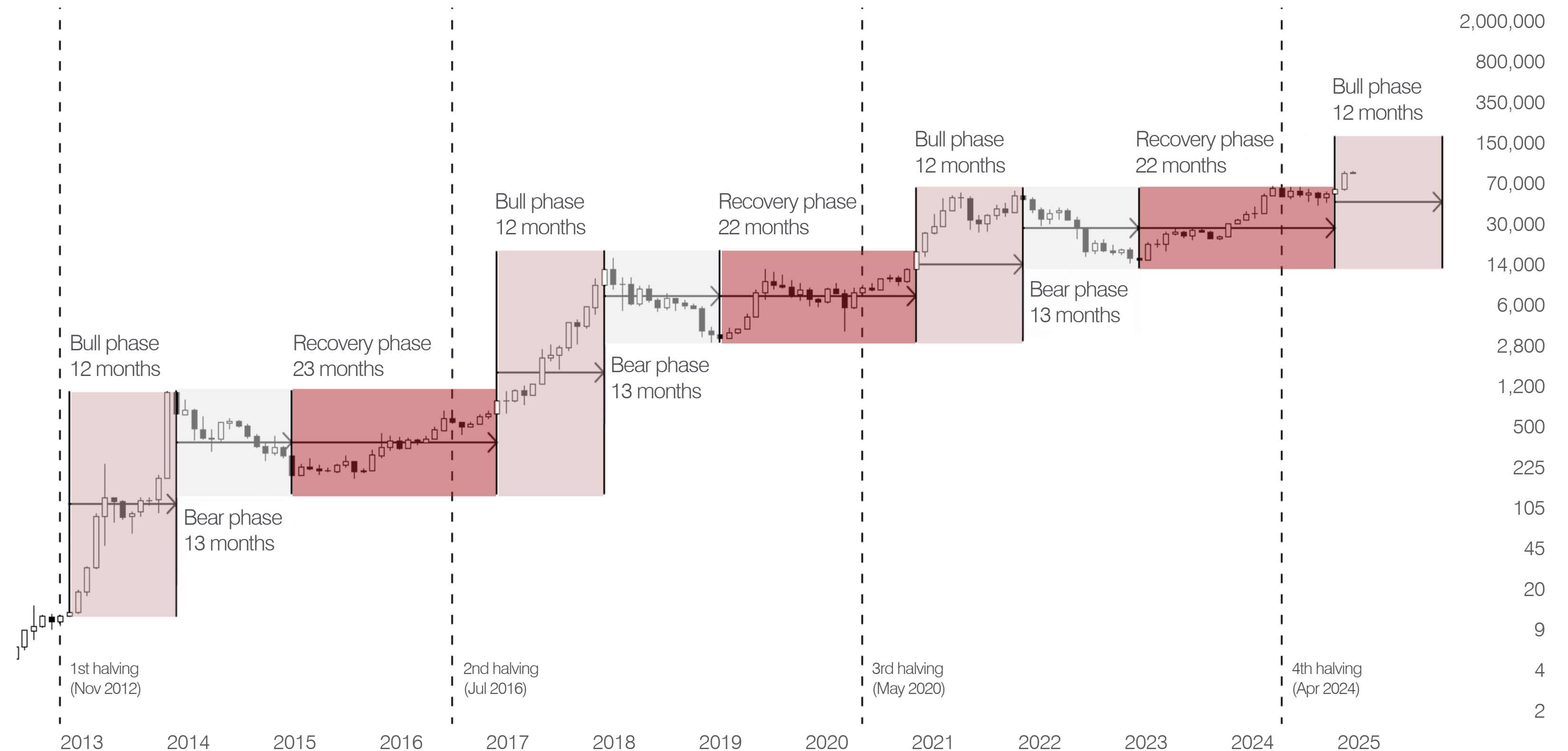
Figure 20
The Bitcoin's Cyclical Phases



Source: TradingView

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Risk Register

While we provide a positive sentiment and outlook for 2025, it is essential to **stay aware of risks**, both in- and outside of the system. In this context – as always – **diversification** remains one of the best strategies to mitigate these risks. Among risk controllers, it is well-known that risk management is all about "predicting the un-predictable".

In this new year, we will closely monitor several risks, that are widely – or discretely – discussed among market participants. Below, we will outline the following risks:

A **regain in inflation**, driven by important economic activity, remains a concern. Such a development could force central banks to revise their recent policy trajectories of reducing interest rates, which were undertaken in 2024.

With Donald Trump cutting taxes, the **US debt and deficit** could become significant risks. A potential downgrade by Moody's, in the event of a deterioration, could create important market instability.

The bankruptcy of Silicon Valley Bank in 2023 triggered global uncertainty in the **financial system**. It marked the first major bankruptcy of an S&P 500 company since the 2008 financial crisis. It reminded us that the interconnected nature capital markets means systemic risks could once again lead to a widespread loss of confidence and panic selling.

With conflicts ongoing in more than 10 countries globally, **geopolitical events** remain a notable risk. Wars, terrorist attacks or political instability can dramatically impact markets, as seen after the 9/11 attacks or the start of the war in Ukraine.

In an increasingly digital world, **cyber-security** risks should not be ignored. From cyber-attacks to bitcoins thefts, as we've seen in 2024, such risks become critical. For instance, Crowdstrike – the cyber-security leader – lost 35% of its market value due to a cyber-security breach in Microsoft systems. This shows that even perceived leaders in cyber-security are vulnerable.

Tail-risk linked to un-expected event, such as **flash crashes** in the markets, that are more and more driven by robots and quantitative models. Our growing reliance on electricity heightens the risk of significant disruptions, such as a major **power outage**. As examples, the Carrington Event of 1859, triggered by solar eruptions, caused global interruptions in telegraph communications. More recently, the 1989, a solar storm in Canada, caused widespread power outages, communication issues and satellite damages. Other events like **earthquakes or hurricanes** impacting economic activity remain a persistent risk, as seen after hurricane Katrina. Lastly, the COVID-19 pandemic demonstrated how global **health crises** can lead to widespread economic shutdowns and severe market disruptions.

In conclusion, while our outlook for 2025 is optimistic, it is essential to maintain a robust risk management., centred on diversification and preparedness for the unexpected.

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Throughout 2024, the rapid expansion of AI has emerged as a defining trend across multiple industries, and we believe it will continue in 2025. To end our outlook, here is a summary of how we perceive the best opportunities in the year ahead and how we will monitor them.

01 America First: can be played by maintaining an overweight position in US Equities, particularly in sectors poised to benefit from the stimulus such as industrials and infrastructure. We will be carefully monitoring Europe, which continues to face multiple internal and international challenges.

02 Normalisation in Fixed Income Markets: can be played by focusing on exposure to the short and intermediate parts of the US yield curve. Investing in the long end of the curve remains uncertain and should be approached cautiously.

03 Re-dollarisation: can be played simply by allocating a higher fraction of your assets in the US-denominated assets.

04 Digital Transformation continues: can be accessed through investments in a broad range of information technology and communication services investment solutions. We will favour companies active in semi-conductors, SaaS and AI-driven advertising.

05 Beginning of an AI-related Commodity Super-Cycle: can be played by investing directly in the underlying commodities through ETFs/ETCs or funds, or by taking positions in mining stocks.

To conclude, we remain confident that the overall spirit in 2025 will be positive, with capital markets poised for further growth. However, it is crucial to keep in mind the many risks that persist within in the system, showing the need for diversification and adaptability in investment strategies.

06 Uranium and the Nuclear Play: can be played by investing directly in the ETFs playing the sector or in uranium mining stocks.

07 M&A Activity: will grow in activity and can be played by investing in targeted companies in sectors such as biotechnology. An alternative could be invested in well-informed hedge fund managers playing the themes.

08 Japan: can be played by building an overweight position in Japan Equities, particularly in sectors, where the Japanese industry has developed international leadership positions.

09 Security and Defence: can be played by investing in companies benefiting from geopolitical risks and de-globalisations. Investing in a defence ETF can prove to give a broad exposure to the sector at low cost. It is a good way to have exposure to an entire sector to capture not only opportunities in the US and EU but also in emerging countries such as India.

10 Crypto-Currencies: can be played either by investing in active managers (hedge funds), who are speculatively trading crypto currencies or simply by maintaining a position in the currencies themselves. Also, the crypto-companies listed on the exchanges could be an alternative.

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One year ago, the world was shaped with challenges that led us to look at the world from a different perspective. It was essentially dominated by uncertainty with respect to interest rates, inflation and the US presidential election, that all led us to 10 investment themes, that worked or didn't. Before moving to 2025, let's have a review of the 2024 themes as of November 29th, 2024.

Description	Measure/ Proxy	Fulfilled
Theme 1. US Policy Rates - 2024 brought significant uncertainty, especially around policy rates and inflation. Inflation remained persistent, easing more slowly than the FED anticipated. Key indicators to monitor included unemployment rate, GDP growth, inflation and Treasury yields, which shaped the FED's policy and market expectations.	Rate Cuts In 2024, we experienced 2 rate cuts so far.	Partly
Theme 2. US Presidential Election - In 2024, US equities rose 27.29%, fuelled by Donald Trump's presidential win over Kamala Harris. The Dow, S&P 500, and Nasdaq hit record highs, driven by expectations of pro-business policies, tax cuts and deregulation, boosting sectors like tech, energy and financials.	S&P 500 Total Return Index +26.47%	✓
Theme 3. Global Conflicts - In 2024, commodity markets have been influenced by a combination of supply disruptions and geopolitical issues, with commodity prices particularly sensitive to developments in Eastern Europe, the Middle East and East Asia. 2024 has seen declines across most categories, except for fertiliser and precious metals. Investors were driven towards gold as a protective asset.	XAU Index 19.72%	✓
Theme 4. ESG - As public awareness of climate change grows; companies are pressured to adopt higher ethical and environmental standards. Nonetheless, the ESG investment theme did not perform as strongly in 2024 as anticipated. This underperformance indicates that despite increased public awareness of climate issues, the anticipated profitability and growth of ESG-aligned sectors did not fully materialise in 2024.	CleanTech ETF -31.39%	✗

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Description	Measure/ Proxy	Fulfilled
Theme 5. Swiss Real Estate - The Swiss Real Estate market remains strong, particularly in listed real estate funds, thanks to stabilising interest rates and continued economic stability. The market for residential properties stayed strong, while commercial real estate showed some signs of weakness.	SXI Index +14.22%	✓
Theme 6. Bitcoin and Cryptocurrency Market - In 2024, BlackRock's Bitcoin spot ETF boosted institutional adoption and liquidity, driving Bitcoin's value as a hedge against inflation. The April halving fuelled further price gains, while Trump's election and support for Elon Musk helped push Bitcoin to a record $80,000 in November.	Bitcoin +131.99%	✓
Theme 7. Artificial Intelligence, Robotics and Cybersecurity - In 2024, AI, robotics, and cybersecurity emerged as key investment themes, fuelled by rapid tech advancements. Generative AI revolutionised sectors like healthcare and finance, while robotics expanded into services and consumer tech. Rising cyber threats spurred demand for AI-powered security solutions to protect critical data.	Nasdaq +24.39%	✓
Theme 8. Emerging Markets - The outlook for emerging markets in 2024 was largely accurate, with lower US interest rates and a weaker US Dollar boosting EM bonds, equities and currencies. Brazil saw significant positive developments due to fiscal reforms and lower interest rates. Emerging Markets experienced a strong recovery, driven by favourable global conditions, and investor sentiment was highly positive.	MSCI EM +5.26%	✓
Theme 9. Biotech - After a period of double-digit negative returns for small- and mid-cap biotech companies, 2024 has emerged as a year of stabilisation. The XBI index is broadly flat at the time of writing, driven by improving access to capital and the beginning of the Federal Reserve's rate cut cycle.	XBI +11.57%	✓
Theme 10. US Credit Rating - Moody's negative outlook on the US credit rating remained valid in 2024. Although there hasn't been a downgrade yet, rising deficits and debt servicing costs heightened risks of a future downgrade.	No rating deterioration	✗

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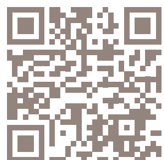

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