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FORUM FINANCE
1994

MONTHLY NEWSLETTER

February 2025

KEY ECONOMIC DATA

- US GDP grew at an annual rate of 2.3% in the 4th quarter. For the year as a whole, the economy grew by 2.8%, compared with 2.9% in 2023.
- The US consumer price index rose 2.9% year-on-year, the highest rate of headline inflation since July.
- Eurozone inflation rose from 2.4% to 2.5% in January, the fourth consecutive increase.
- Core inflation in the Japanese capital hit 2.5%, the fastest annual pace in almost a year and well above the central bank's 2% target.
- China's PMI fell to 49.1 in January from 50.1 previous month. New orders and production also contracted.
- The Chinese government reported that real GDP rose 5.4% in Q4 from a year earlier and 1.6% from the previous quarter.
- The Swiss KOF economic barometer rebounded to 101.5 in January, following an unexpectedly low 99.6 in December.
- The US added 256'000 jobs in December from the previous month, the strongest job growth since March 2024.

As largely expected, the ECB cut rates by 25 basis points in January

+8.4%

PERFORMANCE OF THE SWISS EQUITY INDEX

INVESTMENT PERSPECTIVE

The start of President Trump's second term was undoubtedly at the forefront of investors' minds, particularly his stance and actions on tariffs. The uncertainty did not prevent financial markets from posting significant gains in January, both in equity and credit markets, led by high yield.

Bond yields rose to their highest level since May 2024 following the release of the employment data. Investors were again concerned that the strong US economy would eventually translate into inflationary pressures, leading to an upward revision of inflation expectations. As a result, the 10-year breakeven rate, a measure of expected future inflation, has risen from a low of 2.0% in early September last year to 2.4% at the end of January.

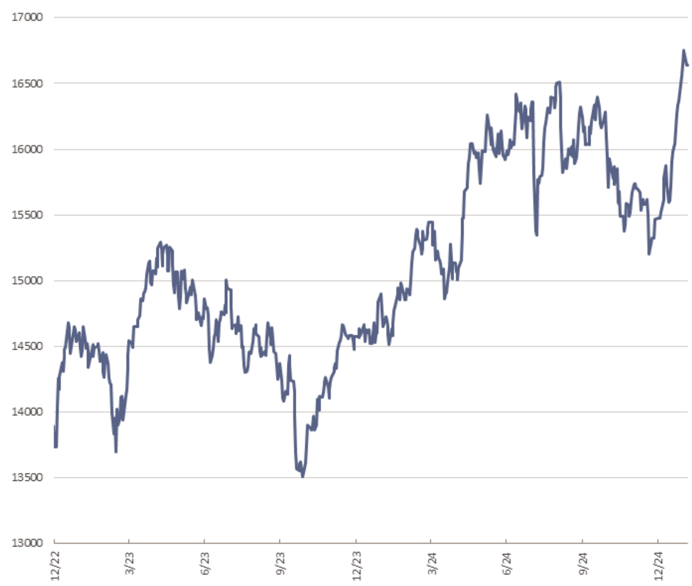
As widely expected, the Fed kept rates on hold. For the rest of the year, the market is now pricing in only one rate cut in 2025, significantly less than a few months ago. In contrast, the European Central Bank (ECB) cut rates for the fifth time, paving the way for further cuts in 2025. Finally, the Bank of Japan (BoJ) raised its key interest rate to 0.5%, the highest level in 17 years.

For many investors, the surprise at the start of the year was undoubtedly the performance of European equities, which had lagged badly until early December due to the region's sluggish growth momentum and trade tensions. As a result, the main European equity index rose by 6.5%, while the Swiss equity market stood out with a gain of 8.5% in the first month of the year.

The US market closed broadly higher, but there was a lot of excitement after DeepSeek unveiled a new version of its large language model, reportedly developed at a fraction of the cost of the leading US models, which appears to be much more economical to run.

The US dollar fluctuated on the new administration's tariff announcements but ended the month flat against the euro and Swiss franc. Gold and silver posted strong gains and remain close to all-time highs as Trump's trade tariffs continue to fuel fears of a global trade war and its impact on US inflation, supporting the safe-haven price of gold.

Swiss Market Index (SMI)



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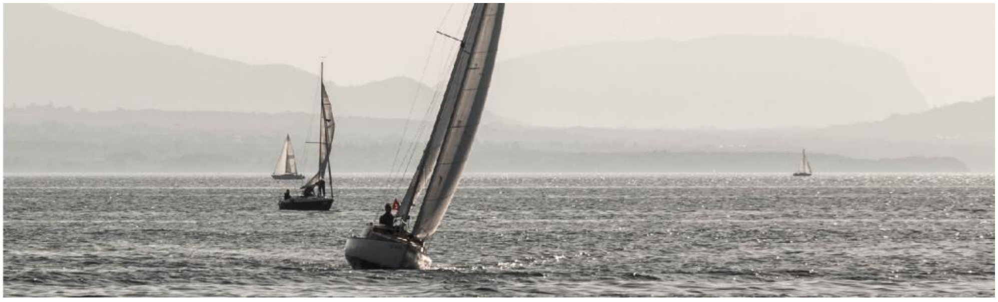

INVESTMENT STRATEGY

As we feared following Donald Trump's re-election to the US presidency, since he was sworn in for this second term, there has been a flood of executive orders.

Although he initially appeared to have temporarily abandoned tariffs, we were reminded of his campaign promises in this area at the end of January.

The announcement of tariffs of 25% on products imported from Mexico and Canada and 10% on those from China (effective 4 February) was immediately followed by retaliation, leading to a temporary suspension until early March. Announcements of possible measures against the European Union are also expected.

According to Goldman Sachs, a 1 percentage point increase in the effective tariff rate raises the core PCE price level by 0.1%, implying a one-off boost to core PCE inflation of 0.5% y/y. If the tariffs on Canadian and Mexican imports are implemented as announced, we should see inflation that could exceed 3.0%.

The consequences of a reacceleration in inflation could mean a premature end to US rate cuts and a major turning point for markets, especially at current valuations.

Against this backdrop, we have taken a more cautious approach to our asset allocation. Although we have reduced our equity allocation, we are maintaining our preference for corporate bonds and favouring European government bonds to take advantage of monetary policy divergences.

Trump Announced Tariffs of 25% on Imports from Mexico and Canada, and 10% on Chinese Imports

PORTFOLIO ACTIVITY

Our positioning at the beginning of the year was very clearly risk-on, with a broad allocation to equity markets and high yield bonds. We have recently reduced our equity allocation but maintained our credit stance and added long-dated eurozone government bonds.

Our expectation of an acceleration in the central bank's accommodative monetary policy confirms our belief in the potential for added value in this segment. On the other hand, we remain much more cautious on US yields, which are still likely to rise due to uncertainties on the inflation front.

Having benefited greatly from our strong allocation to US equities, we began to move back into European equity markets in January, including Switzerland for clients thinking in these currencies. This move proved very profitable in January, given the excellent performance of these markets.

In a scenario of lower European interest rates, we look at interest rate-sensitive assets such as the MDAX (the 50 largest companies after the DAX). Indeed, the pro-business policies proposed by the CDU, currently leading in the polls, would stimulate investment and could mark a turning point for Europe.

Within US equities, we took profits on our Value Exposure, maintained a market-consistent weighting in technology and increased our exposure to small and mid-caps, which should benefit fully from the Republicans' pro-budget policies.

We took advantage of the sharp fluctuations in the US dollar during the month to significantly reduce our position. Following these changes, we are still slightly overweight in US dollars.

We reduced our exposure to Global Macro before exiting the segment altogether to build up a liquidity cushion that could prove useful in the event of excessive volatility.

	31/12/2023	31/12/2024	31/01/2025	Month-to-Date	Year-to-Date
Yields (%)				Δ In basis points	Δ In basis points
US 3-Month	5.33	4.31	4.28	-3	-3
German 3-Month	3.55	2.49	2.48	-1	-1
US 2-Year	4.25	4.24	4.20	-4	-4
German 2-Year	2.39	2.08	2.11	+3	+3
US 10-Year	3.88	4.57	4.54	-3	-3
German 10- Year	2.02	2.36	2.46	+10	+10
Currencies				Δ In %	Δ In %
EUR/USD	1.1039	1.0354	1.0362	0.1	0.1
USD/CHF	0.8414	0.9074	0.9109	0.4	0.4
EUR/CHF	0.9289	0.9401	0.9941	0.4	0.4
GBP/USD	1.2731	1.2516	1.2395	(1.0)	(1.0)
Commodities				Δ In %	Δ In %
Oil (WTI)	$71.7	$71.7	$72.5	1.1	1.1
Copper	$389.1	$402.7	$427.9	6.3	6.3
Gold	$2’063	$2’625	$2’798	6.6	6.6

Source: Bloomberg Finance L.P.