JANUARY 2025

HOUSE VIEWS

From promises to implementation : where will economic policy go?

In accordance with the regulations in force, we inform the reader that this document is qualified as a promotional document.

Inflation fears = upward pressure on yields

At the start of this year, there is still a great deal of uncertainty surrounding the implementation of economic policy choices. In the United States in particular, the new administration will have to clarify to what extent the policies promised during the campaign will be implemented. These uncertainties are fuelling fears about the inflation outlook, which is generating volatility in long-term bond yields.

This volatility should not, however, detract from the fact that the economic environment remains firm. In the United States, growth remains strong, underpinned by sound households and businesses balance sheets. In Europe, growth appears muted and uncertain, but still positive, underpinned by both easing inflation and lower interest rates. Finally, in China, exports remain very vigorous. But the ailing property market continues to weigh on domestic demand. Details to come on the stimulus package could eventually provide some support.

We are maintaining our overweight on equities and increasing our exposure to US credit markets

We continue to favour the US equity market, in particular sectors and styles that would benefit from the favourable industrial policy and withstand the high-interest rate environment. We are also increasing our exposure to US corporate credit markets, which offer an attractive level of carry and improving fundamentals. In addition, we remain overweight to the European market, favouring companies and sectors that are both exposed to US activity but with limited risks in terms of trade restrictions. On the other hand, we remain underweight to emerging equity markets, with China specifically targeted by trade restrictions.

While maintaining strong strategic orientations, we maintain a very diversified allocation. Market volatility is expected to remain the order of the day in the current political and geopolitical context.

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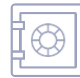
SOCIETE GENERALE
Private Banking

OUR MAIN CONVICTIONS

Economic activity should remain favourable, particularly in the United States, where fiscal policy is likely to support growth. Given this favourable backdrop, we are maintaining our overweight allocation to the equity markets.



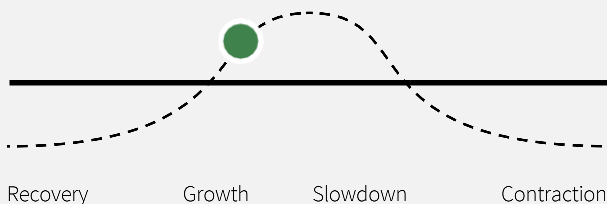
Bond markets are likely to evolve differently on the two sides of the Atlantic. In the United States, the risk of higher inflation could prolong the uptrend in yields. In Europe, weak growth, continued disinflation and lower interest rates should be favourable, leading us to be overweight in the investment grade corporate segment.

We maintain a preference for the US markets, banking on pro-business policies (overweight on the equity market and constructive positioning on corporate credit). European equities should also benefit from favourable momentum, while emerging equities could be penalised by trade tensions.

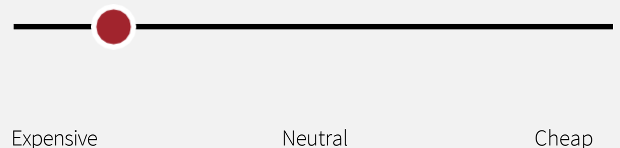
The fundamentals for a strong dollar remain (strong growth, high interest rates, protectionist policy), so we are maintaining our overweight on the dollar.

The main building blocks of our analytical framework

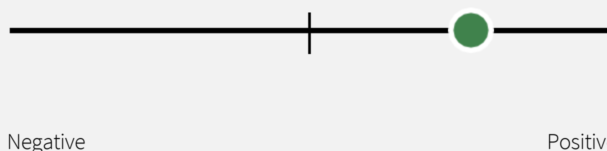
ECONOMIC SCENARIO



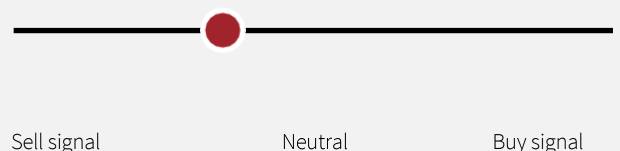
VALUATIONS



MOMENTUM



SENTIMENT



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OUR ASSET ALLOCATIONS

Overview of views

	Strong Underweight	Underweight	Neutral	Overweight	Strong Overweight	Changes since last commitee in december
EQUITIES						
WORLD EQUITIES				●		=
United States				●		=
Euro area				●		=
United Kingdom				●		=
Japan			●			=
Emerging markets		●				=
FIXED INCOME						
SOVEREIGN						
RATES			●			=
United States		●				=
Euro area			●			=
United Kingdom			●			=
Emerging markets debt (USD)		●				=
ENTREPRISES						
US IG			●			+
US HY			●			+
Euro area IG				●		=
Euro area HY			●			=
United Kingdom IG			●			=
FOREIGN EXCHANGE						
EUR/USD		●				=
USD/JPY				●		=
GBP/USD		●				=
EUR/CHF		●				=
ALTERNATIVES						
Commodities		●				=
Gold			●			=
Hedge funds	●					=

EQUITY MARKETS: ALLOCATION BY STYLE

	Growth	Value
United States	No preference	
Euro area	No preference	
United Kingdom	No preference	

FIXED INCOME: ALLOCATION BY DURATION

	Underweight	Neutral	Overweight
United States	●		
Euro area			●
United Kingdom			●

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ECONOMIC OUTLOOK

Fears of renewed inflationary pressures

Although inflation eased significantly in 2024, it has not yet returned to its pre-Covid lows. The strength of economic activity in the United States combined with the announcement of strong economic policies are raising fears that price pressures could quickly be rekindled. We are expecting the first part of the year to be similar to 2024, with growth holding up well without strong inflationary pressures. This will allow the main central banks to continue normalising monetary policy, albeit at different speeds. The second half of the year remains more uncertain, depending on the implementation of economic policies.

First half of the year likely to be a continuation of 2024. The divergences observed in economic growth in 2024 should continue, at least during the first half of 2025. In the US, the economy should continue to benefit from solid fundamentals (high corporate profit margins and healthy household balance sheets). High productivity gains will foster dynamic growth without generating much inflationary pressures, allowing moderate rate cuts by the Federal Reserve. In the euro area, after flirting with recession at the end of 2024, growth is likely to remain marginally positive in the first half of the year. Nevertheless, the fall in inflation and the cut in key interest rates should encourage consumers to save less. Finally, in China, the difficulties in the property market are likely to persist, continuing to weigh on household consumption (property being the main asset of households) and therefore on the Chinese economy.

The second half of the year will depend on the direction of economic policy. After a busy electoral year in 2024, 2025 will be marked by the economic policy decisions of the new governments. The transition from campaign promises to their implementation is producing a great deal of uncertainty about both growth and inflation in the major economic areas.

United States: the risk of a return to inflation. The key source of uncertainty comes from the United States, with implications for the rest of the world. The timing, geographical reach and scale of any rises in US tariffs remain unknown. The same goes for migration policy. These two measures could potentially prompt a resurgence in US inflation, particularly with the US labour market still tight, and could also damage growth in target countries with a blowback impact on US growth if these countries retaliate.

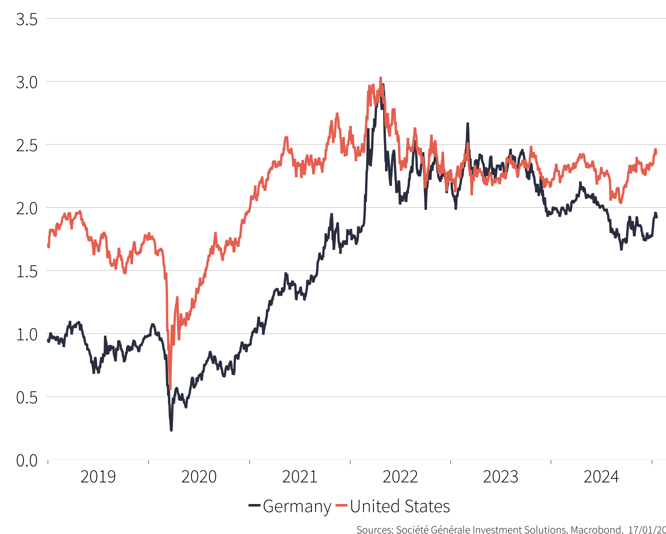
Euro area: fiscal policy in question? In addition to the uncertainties surrounding US trade policy and Chinese demand, uncertainty over fiscal policy hangs over the euro area economy. While fiscal tightening is underway in Italy, it has yet to be determined in France. In addition, the elections in Germany (February 23) could result in either less tightening or a slight easing, via an increase in public investment. Finally, the European Commission could propose new European programmes to meet new challenges (US protectionism, Chinese competitiveness, the war in Ukraine, etc.).

China: new announcements to come. The Chinese authorities have once again pledged to act decisively to revive the economy, targeting the property, equity and consumer markets. But few details have been provided, adding to the uncertainty about the strength (or otherwise) of the Chinese economy.

Central banks: at different pace. Against this backdrop, the global monetary cycle also looks uncertain. The main central banks could continue to cut rates, albeit at different rates, with 2 rate cuts for the Fed (close to 4% by the end of 2025), 4 for the Bank of England (to 3.75%) and 4 for the ECB, most of them in the first half of the year (to 2%).

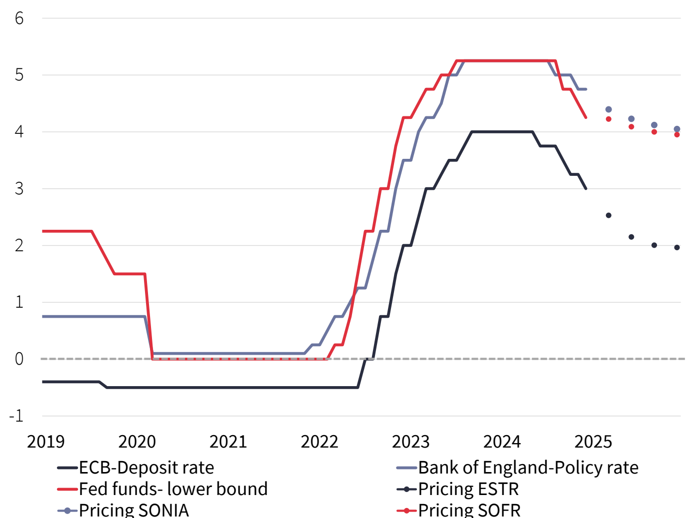
INFLATION MARKET EXPECTATIONS

10Y bond inflation breakeven



Sources: Société Générale Investment Solutions, Macrobond, 17/01/2025

MARKET EXPECTATIONS OF CENTAL BANK POLICY RATES



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EQUITY MARKETS

Overweight developed equities

Global equity markets have been rocked over the past month (-2.4% since early December) by the sharp rise in bond yields. Announcements from the new Trump administration could create volatility in the weeks ahead. However, economic fundamentals in the US remain sound and earnings growth remains high. Despite lacklustre activity, the European markets could perform well thanks to the cut in key rates and the ongoing rebound in earnings growth. Finally, we remain cautious on emerging markets due to the sluggishness of the Chinese economy and the risks of a trade war with the United States.

UNITED STATES

The US equity market has been the epicentre of the poor performance since early December, losing 2%, partly due to the rise in long bond yields. Given the uncertainties surrounding economic policy, the high levels of valuation and the high degree of concentration in the market, volatility could persist. Nevertheless, we remain overweight in this market. Several factors would continue to support the US equity markets: robust economic activity, historically high profit margins and pro-business policies (corporate tax cuts, deregulation, etc.). We are, however, returning to style neutrality: value stocks are more vulnerable to rate rises, while growth stocks are expensive.

EURO AREA

In contrast to the global markets, European equities have risen since the beginning of December (+3.7%), despite a rise in long-term bond yields similar to those in the United States. Technology stocks are the main contributors, followed by financials (rising yields) and the energy sector (rising commodity prices).

This positive performance should continue, thanks to the prospect of rate cuts by the ECB, the fall in the euro and the market's attractive valuation. The upturn in household consumption, thanks to falling inflation and a rebound in purchasing power, should also play a favourable role.

Finally, although earnings growth remains weak, it has shown some signs of improvement recently. We are therefore remaining overweight on European equity markets but choosing sectors and companies that will not suffer too much from the trade war.

UNITED KINGDOM

Thanks to the good performance of value stocks (with a strong presence in this market), British stocks have held up better than global markets (broadly flat since December). We remain overweight on this market, which should continue to benefit from an attractive valuation level, the fall in key rates and an improvement in earnings growth. The strong weighting in energy stocks in a context of rising commodity prices could also continue to be supportive.

JAPAN

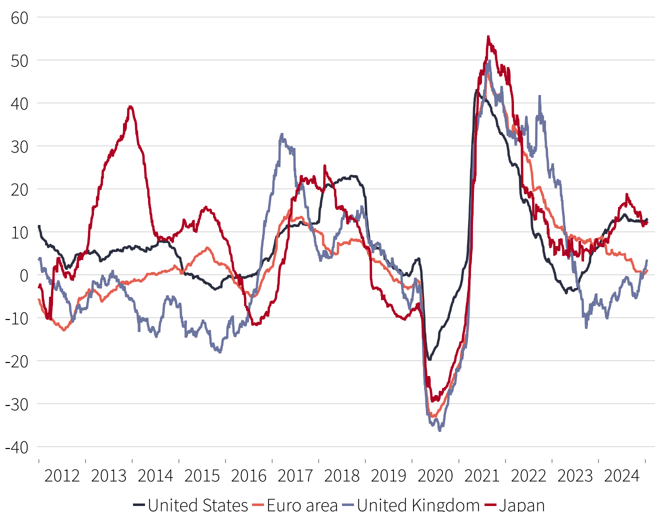
The Japanese stock market has fallen only slightly less than global markets since early December (-2.1%). We remain neutral on this market, which should benefit from the end of deflation, the gradual exit from the zero-interest rate policy as well as improved corporate governance and solid earnings growth. However, the volatility of the yen and the high content of technology stocks could weigh on the local market.

EMERGING COUNTRIES

Emerging markets have underperformed global markets (-2.9% since the beginning of December) due to the sluggishness of the Chinese economy, the prospects of higher US tariffs and the rise in long-term bond yields. We remain underweight on these markets, as the prospects of new announcements of a Chinese economic recovery plan remain more distant than those on US customs duties.

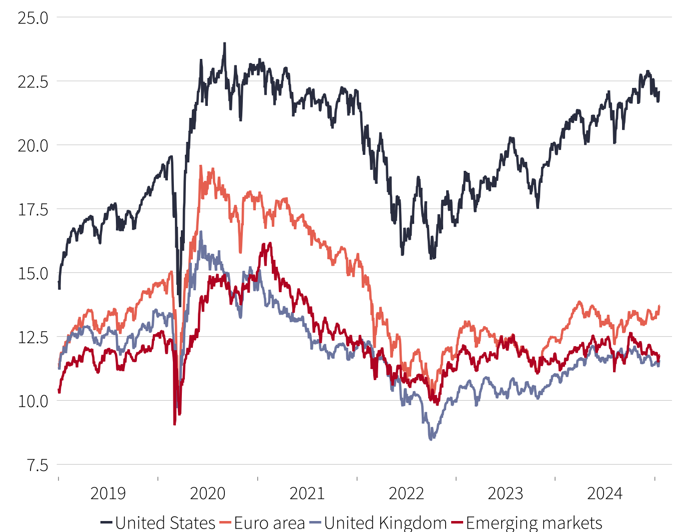
EARNINGS PER SHARE GROWTH

Year-over-Year



Sources: Société Générale Investment Solutions, Macrobond, Macrobond 17/01/2025

EQUITY MARKETS: FORWARD PRICE-TO-EARNINGS RATIO



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FIXED INCOME MARKETS

Geographical and segment differentiation

We remain broadly neutral on the bond markets, with a difference between the US and European markets. US sovereign yields are likely to remain volatile against a backdrop of resilient growth and rising inflation expectations. We are increasing our exposure to US corporate debt, with yields reaching an attractive carry and less duration risk. In Europe, yields are likely to fall as a result of more moderate growth and ongoing disinflation, allowing the ECB to continue its easing. In this environment, we are maintaining our overweight on the debt of investment grade corporates.

UNITED STATES

Since December, Treasuries rates have been on a clear upward trend against a backdrop of still robust growth and rising inflation expectations. The 2-year Treasury rate, a proxy for expectations of the Fed funds rates in one year, rose from 4.1% at the start of December to 4.3% mid-January. The 10-year Treasuries rate followed the same pattern, rising to 4.6% from 4.2% at the start of December. This upward trend is explained in the first place by the continuing strength of the economy, with a buoyant labour market and business surveys showing growth close to 2%. Secondly, the recent rise in oil prices and rising inflation expectations also explain the rise, with markets fearing the inflationary impact of the Trump administration's trade and migration policies. Against this backdrop, although the Fed did cut its key interest rate in December by 25bp to 4.5%, it adopted a cautious stance and revised downwards its expectations of interest rate cuts (only two cuts in the dot-plot in 2025). We remain Underweight on the Treasuries market, with a preference for short duration.

EURO AREA

Bond yields in the euro area followed those of the US, with the 10-year Bund yield rising from 2% at the beginning of December to 2.5% and the 10-year OAT rate rising from 2.9% to 3.3% over the same period. While yields in the peripheral economies also rose, their risk premium remained stable, at 110 basis points for Italy and 63bp for Spain.

This movement mainly illustrates a contagion phenomenon with US yields. While European economic activity remains positive, it is not as dynamic as in the US, with sluggish growth - particularly in Germany. Moreover, inflation is converging more quickly towards the central bank's 2% target, with French and Italian inflation already below it. Against this backdrop, the ECB cut its key rate to 3% at its December meeting, and we expect it to continue its cycle of interest rate cuts at future meetings. We therefore remain Neutral on European sovereign yields, with a preference for long duration. Weak growth should lead to further disinflation, with long-term bond yields falling from attractive entry points.

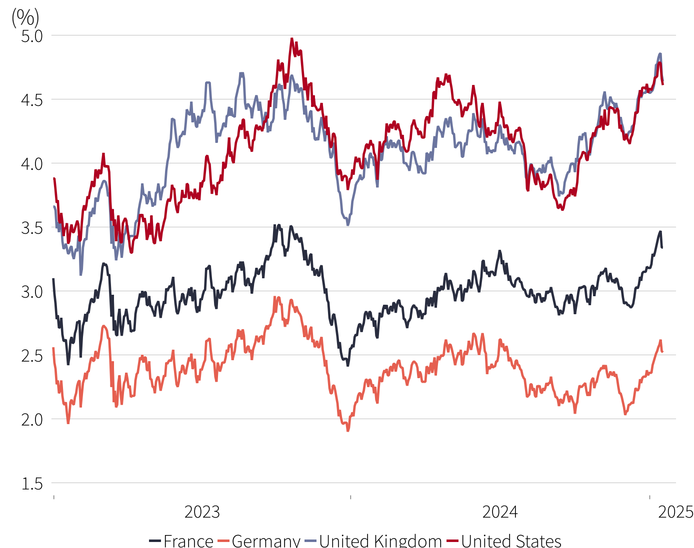
UNITED KINGDOM

UK yields also followed the upward trend in US yields, with the 10-year GILT rising from 4.2% at the start of December to 4.6%. This rise, like those in the euro area, reflects more a contagion effect with US yields, as the economic recovery remains moderate, and inflation converges towards the BoE's 2% target. The BoE is likely to continue its rate-cutting cycle (we expect up to 4 rate cuts in 2025). We therefore remain neutral on the GILTS market.

CREDIT

We move from Underweight to Neutral on US investment grade corporate bonds (IG) and high-yield bonds (HY). The rise in sovereign bond yields has resulted in a sharp rise in US corporate bond yields, with the yield on IG bonds at 5.3% and the yield on HY bonds at 7.3%. These yields are once again attractive against a backdrop of healthy corporate balance sheets, dynamic economic growth and a lower duration risk, particularly for HY bonds, than for sovereign bonds. In Europe, we remain Overweight on IG bonds and Neutral on HY bonds. European corporate balance sheets remain healthy, valuations are in line with their historical averages and the carry remains attractive.

10Y SOVEREIGN YIELDS



EUROPEAN CORPORATE SPREADS VERSUS SOVEREIGN BENCHMARK Basis points

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CURRENCIES

The case for a strong dollar remains

We remain Overweight on the dollar against the major developed and emerging currencies. The growth differential between the US and the rest of the world, and rising US inflation expectations versus continued disinflation elsewhere, should keep the interest rate differential high, supporting the US currency. In addition, the growing risk of trade tensions is also favourable to the dollar, with a rise in risk aversion for exporting economies.

DOLLAR INDEX

The dollar continued to appreciate against the major currencies in December against a backdrop of growth and interest rate differentials favourable to the dollar, and fears of trade tensions. Regarding emerging market currencies, after a highly volatile November, the BRL contained its losses against the dollar thanks to significant intervention by the central bank on the currency market. However, downward pressure on the Brazilian currency remains amid fears over the country's budget path. The MXN has also fallen against the dollar, down 2% since the start of December, reflecting the risk of trade tensions at a time when over 80% of the country's exports go to the United States. In Asia, the CNY has depreciated by 0.6% against the dollar since the start of December amid trade tensions and the prospect of low interest rates in China.

EUR/USD

The euro was the developed currency that depreciated the most against the dollar. Indeed, the EUR/USD fell to 1.03 dollars per euro, a decrease of 2.2%. This decline is explained primarily by the risk of higher customs duties on manufactured products, as several countries in the euro area have the United States as their leading trading partner outside the euro area and several countries also remain dependent on exports as an engine of growth. Secondly, the prospects of a wider interest rate differential between the two regions due to different growth and inflation dynamics favour the dollar against the euro. In this context, we remain Underweight on the euro-dollar parity.

GBP/USD

We remain Underweight on GBP/USD. The British currency fell by c.4% to a parity of $1.22 per pound. The United Kingdom could also be affected by tariff hikes in the United States, given that the US is its biggest export market. In addition, like the euro area, the interest rate differential between the United States and the United Kingdom is likely to widen in favour of the dollar.

USD/JPY

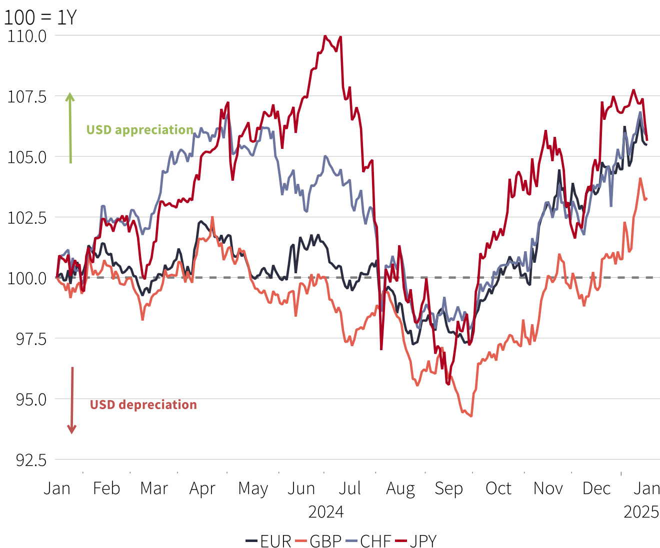
The Japanese currency has resumed its downward trend against the dollar since December, falling by 4% to reach a parity of 155 yen to the dollar. This sharp depreciation reflects both the sharp rise in US sovereign bond yields and continued cautious monetary tightening by the Bank of Japan (BoJ). At its December meeting, the BoJ maintained its key rate at 0.25% in a context where the economic recovery remains weak, and core inflation is gradually rising towards the 2% target (1.7% year-over-year in November). While the BoJ may raise its benchmark interest rate further to 0.4% at the January meeting, we remain Overweight on USD/JPY. Firstly, inflationary pressures remain contained, with core inflation still below 2% and real wage growth slightly positive after years of contraction. Secondly, monetary policy is likely to be tightened only gradually, after several years of unconventional policies.

EUR/CHF

The Swiss franc remains at a historically high level against the euro, at 0.93 to the euro. We remain Underweight on this parity. Firstly, political uncertainty in Europe should benefit the Swiss currency, especially in an environment of major geopolitical risks. Secondly, the interest rate differential between Switzerland and the euro area should remain stable, in an environment where the Swiss National Bank is likely to continue its rate-cutting cycle (currently at 0.5%) due to inflation approaching 1%. Finally, Switzerland's large current account surplus (7% of GDP) should also support the local currency.

EXCHANGE RATE VERSUS USD

100 = 1Y



EXCHANGE RATE VERSUS USD

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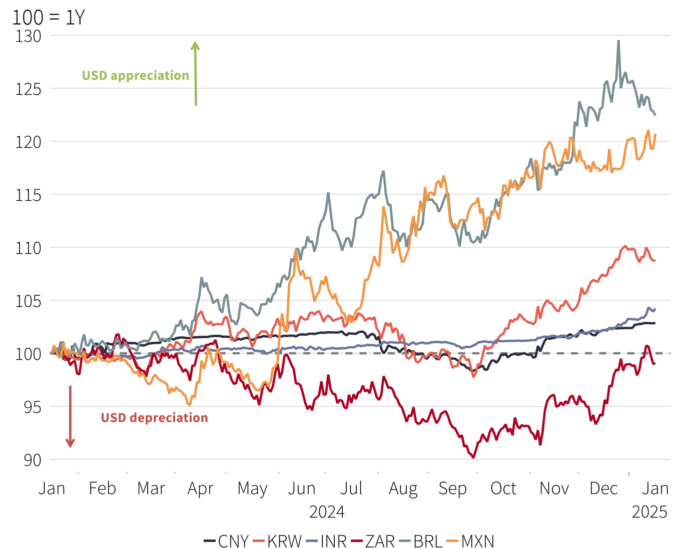

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ALTERNATIVES & THEMATICS

Underweight hedge funds; neutral on gold

High interest rates continue to make hedge funds less attractive. Uncertainties continue to favour gold. In terms of themes, we have added a theme called Made in America and one on European banks.

COMMODITIES

Since December, oil has been one of the best performing assets (+10%). The price of oil remained close to $70/bbl until the end of December, that is the lower end of the range in which it has been oscillating for the past two years ($70-$90). It has risen sharply since the end of December, now close to the middle of this range (around $80/bbl), pushed up by a colder-than-expected winter and new US sanctions on Russian oil. Nevertheless, the doubts about the rebound in Chinese activity and the preponderance of the United States in terms of oil production should limit this rally. We therefore remain underweight on oil. It should be noted that the gas price has also increased due to a cold winter and lower European gas stocks than in 2024.

GOLD

Gold has made a positive start to the year after dropping slightly just after the US election which reinvigorated investors' appetite for risk. An ounce of gold is now trading at around $2710. Trade tensions, (geo)political uncertainties and purchases by emerging central banks are supporting the yellow metal. Even though gold is a non-yielding asset, we remain neutral on gold.

HF-LONG/SHORT EQUITY

Funds in this category following a non-directional strategy could benefit from the current market environment (volatility and dispersion) and positioning in the economic cycle.

HF-EVENT DRIVEN

M&A transactions continue to suffer from the high level of interest rates and the drying up of liquidity. As a result, funds in this category appear unattractive.

HF-FIXED INCOME ARBITRAGE

Some funds positioned in sovereign bonds could benefit from higher interest rates. We continue to show a relative interest in funds positioned on the credit segment.

HF-GLOBAL MACRO / CTA

Commodity Trading Advisors (CTA) funds are generally useful for hedging against market volatility. However, given their recent performance, we do not believe they are sufficiently attractive.

Themes

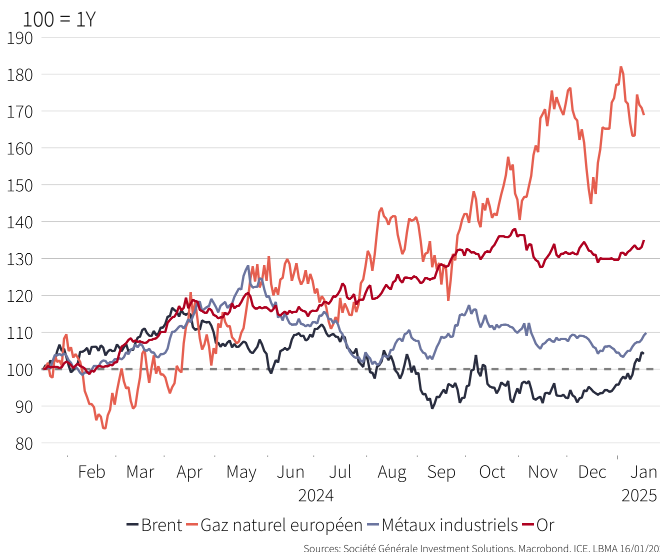
CURRENT THEMES: ***Artificial Intelligence, Strategies for playing the slowdown, Reshoring, Investment Grade, European Excellence and Innovation in Healthcare***

The maturity and potential of AI should enable stocks linked to Artificial Intelligence to continue to perform well. In addition, we are proposing a series of strategies designed to benefit from the economic slowdown and interest rate cuts (value stocks, more defensive sectors, high-dividend stocks, safe havens and bond assets). In addition, Trump's election should boost the appeal of reshoring themes, while highly rated corporate bonds could continue to benefit from good corporate fundamentals. We are also continuing to play the European Excellence theme through international companies that are leaders in their markets. Finally, the Healthcare innovation theme remains attractive, benefiting from the ageing of the population and technological progress.

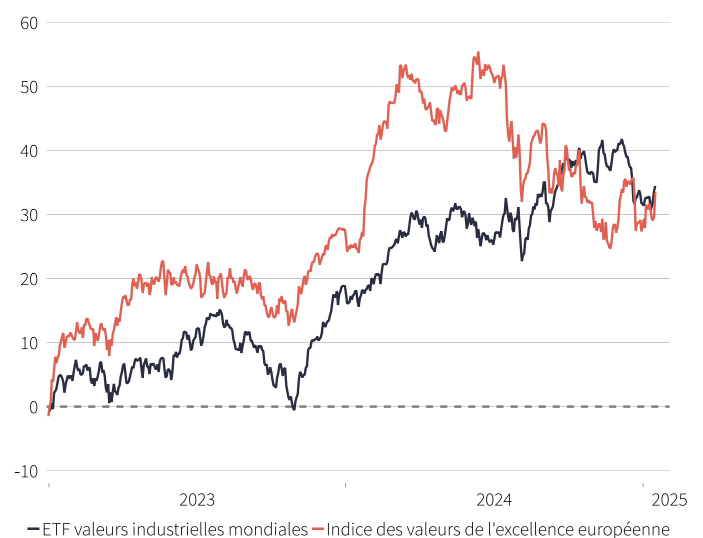
NEW THEMES: ***Made in America and European banks.***

We have launched a new theme, Made in America, to benefit from the strength of the US economy and the growth in earnings of local companies. The second new theme focuses on European banks, whose improved profitability in recent months/quarters is not yet reflected in share prices.

COMMODITY PRICES



PERFORMANCES SINCE LATE 2022



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