FEBRUARY 2025

HOUSE VIEWS

Make Europe Investable Again

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

Tailwinds beat uncertainty...

European equity markets are off to a strong start this year. This improvement contrasts with the global political uncertainty and the fragility of economic activity in the region. It can be explained by the return of investors - particularly foreign investors - who had largely abandoned the region since the start of the war in Ukraine. They appear to be lured by attractive valuations and the anticipation of supportive factors that could last. Firstly, listed European companies are benefiting from the fall in the euro and the buoyant economic activity in southern Europe and the United States, to which they are exposed. Secondly, interest rates in the euro area are moving further out of sync with US rates. Finally, the US offensive on trade policy could encourage European unity on certain projects, such as defence, artificial intelligence and energy. The German elections on 23 February could further reinforce this trend.

... which lead us to increase our overexposure to European equity markets

We are maintaining our overweight in the equity markets, increasing our exposure to European markets to benefit from the favourable momentum. We favour companies and sectors exposed to US activity, but with limited risks in terms of trade restrictions. We also remain overweight to the US equity market, favouring sectors and styles that would benefit from favourable industrial policy and withstand the high-interest rate environment. On the other hand, we remain underweight to emerging equity markets, with China specifically targeted by trade restrictions

Overweight dollar and yen

The desynchronisation of monetary policies is being confirmed, with a wait-and-see Federal Reserve on the one hand, a Bank of Japan (finally) raising its rates and central banks in Europe continuing to lower theirs. The dollar and yen are likely to benefit from these more favourable interest rate trends.

While retaining a clear strategic focus, we are maintaining a highly diversified allocation, with continued exposure to the bond markets (European credit in particular) and gold. In the current political and geopolitical climate, market volatility will remain the order of the day.

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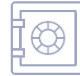
OUR MAIN CONVICTIONS

Economic trends are likely to remain favourably oriented overall, particularly in the United States. Against this backdrop, we are maintaining our risk appetite and our overweight in the equity markets.

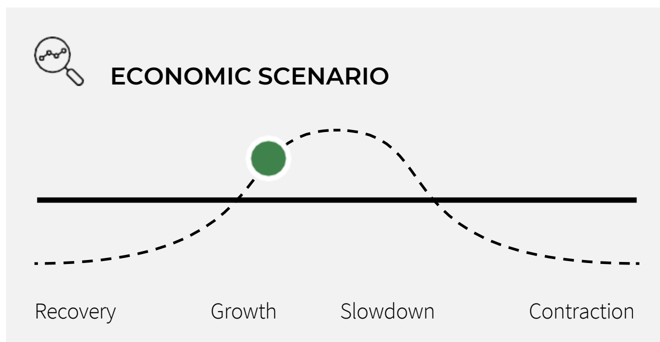


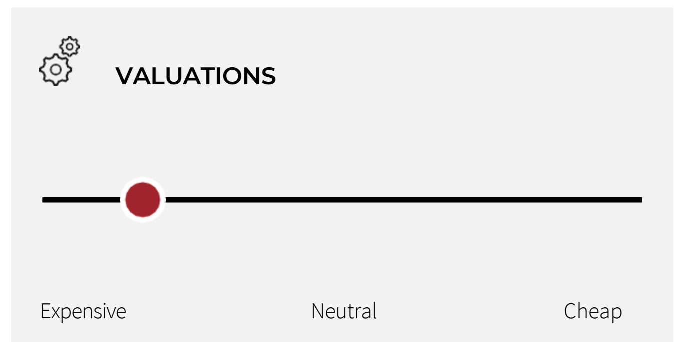
Bond markets are likely to evolve differently on the two sides of the Atlantic. In the United States, the risk of higher inflation could prolong the uptrend in long-term yields, while in Europe, weak economic activity should support the ECB in its rate-cutting cycle, which would weigh on European sovereign bond yields.

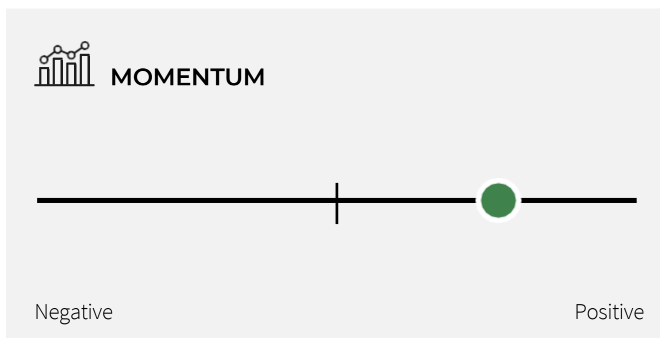
We are increasing our overweight to European equity markets in order to benefit from the positive momentum. We are maintaining our overweight in US equities (buoyant activity) and keep a constructive stance on corporate credit. Despite the good start to the year for Chinese equities, we remain underweight emerging markets, which remain particularly vulnerable to trade tensions.

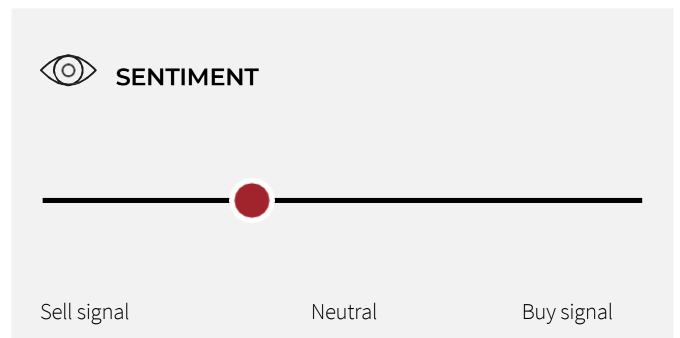
We are now overweight the yen against the dollar in response to the Bank of Japan's rate hike. On the other hand, we remain overweight the dollar against other currencies, given the still positive fundamentals (strong growth, higher interest rates, protectionist policy).

The main building blocks of our analytical framework









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OUR ASSET ALLOCATIONS

Overview of views

	Strong Underweight	Underweight	Balanced	Overweight	Strong Overweight	Changes since last commitee in january
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	Pas de préférence	
Euro area		●
United Kingdom		●

FIXED INCOME: ALLOCATION BY DURATION

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

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ECONOMIC FOCUS

A longer pause for the Fed

While inflation has fallen in 2024 in the main developed economies, it is once again showing signs of nervousness in the United States.

There are two explanations for these tensions: still robust activity and fears about the inflationary effects of the new administration's measures. The Federal Reserve will likely wait for inflation expectations to moderate before changing its monetary policy. In Europe, on the other hand, inflation expectations remain well anchored and would allow central banks to continue easing their key rates.

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 United States, the economy should continue to benefit from solid fundamentals (corporate profit margins elevated, healthy household balance sheets and high productivity gains).

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 (real-estate being the households' main asset) 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 targeted countries with a blowback impact on US growth if these countries retaliate.

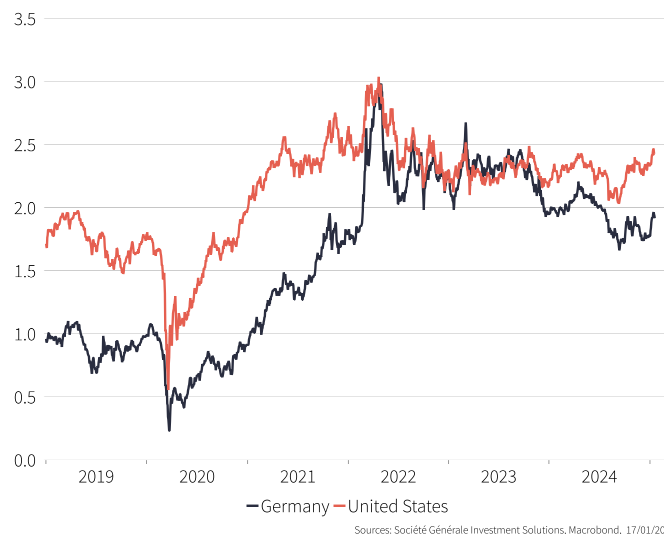
Euro area: fiscal policy in question? In addition to the uncertainties surrounding US trade policy and Chinese demand, uncertainty over fiscal policy hangs over the euro area economy. The February 23 elections in Germany could result in either less tightening or a slight easing, via an increase in public investment. Finally, the European Commission could propose new European programmes to meet new challenges (US protectionism, Chinese competitiveness, the war in Ukraine, artificial intelligence, 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. Additional details should be unveiled early March but the uncertainties about the ability of the Chinese economy to rebound markedly persist.

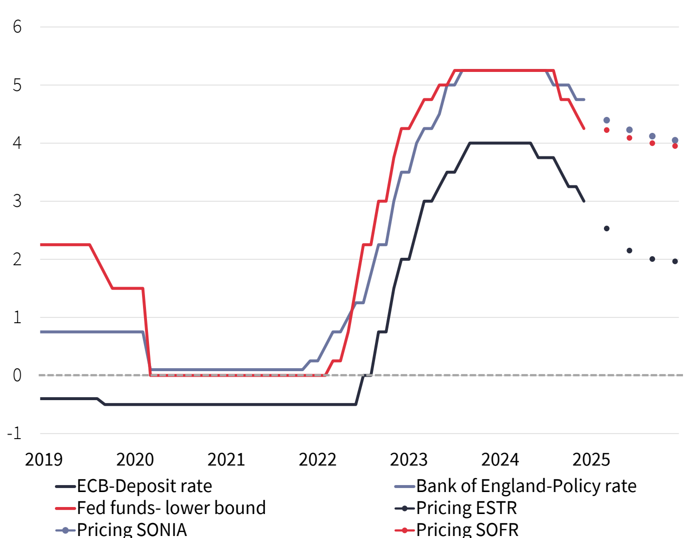
Central banks: at different pace. Against this backdrop, the global monetary cycle also looks uncertain. The US Federal Reserve could remain in a wait-and-see mode for longer, with only a rate cut expected at the end of the year, if inflation expectations normalise. The European Central Bank (ECB) and the Bank of England are expected to continue to ease their monetary policy, with 3 cuts of 25bp expected in the coming months.

INFLATION MARKET EXPECTATIONS

10Y bond inflation breakeven



MARKET EXPECTATIONS OF CENTRAL BANK RATES



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EQUITY MARKETS

Overweight developed equities

Despite the uncertainties surrounding the Trump administration's tariff policy, global equity markets have rallied since the start of the year (by 4.8%). Economic growth remains solid in the United States, and the earning season is pointing to continued strong US corporate earnings and an improvement in Europe. We are increasing our overweight to European equity markets in order to benefit from the positive momentum. We are maintaining our overweight in US equities. Despite the good start to the year for Chinese equities, we remain underweight emerging countries, which remain particularly vulnerable to trade tensions.

UNITED STATES

The US equity market slightly underperformed global markets last month (and since the end of 2024). This can be explained by uncertainties over economic policy (tariffs and the Fed), high valuation levels and the poorer performance of the Magnificent 7. Nevertheless, solid US economic growth and historically high profit margins should continue to support the equity market. Corporate earnings for Q4 2024 illustrated this point, with earnings both ahead of expectations and still growing strongly - which is true in both cases in most sectors. The prospects of corporate tax cuts and deregulation could also work in favour of the US market, to which we remain overweight. We are maintaining a balanced position on styles.

EURO AREA

European equities is one of the star markets at the start of the year, rising by almost 11% since the end of 2024, despite persistently sluggish economic growth. There are several reasons for this strong performance. Firstly, underperformance over the last two years and relatively cheap valuations have attracted some investors. Secondly, the rate cut cycle and the fall in the euro supported the markets. In addition, the prospect of a rebound in activity following the German elections and the possibility of a resolution (albeit partial) to the Ukrainian conflict may have played a role. Finally, Q4 corporate earnings showed a slight improvement, particularly in the industrial, communications and banking sectors. In our view, these supportive factors should continue, encouraging new investors to return to European equity markets, to which we are increasing our overweight exposure.

UNITED KINGDOM

In line with its European peers, the UK equity markets performed strongly last month and since the end of 2024. The market's attractive valuation, low exposure to the domestic economy (and the risks of recession) and the move to lower key interest rates (and hence the depreciation of sterling) explain this trend. In addition, local corporate earnings growth has rebounded sharply. We are therefore increasing our overweight in this market.

JAPAN

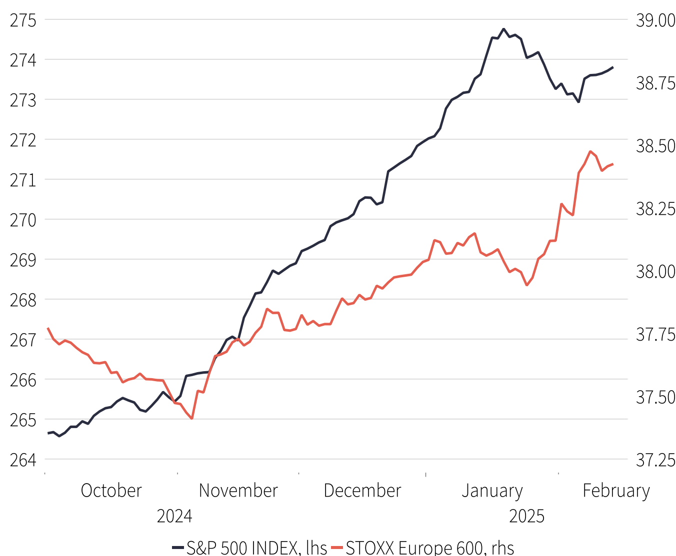
The Japanese equity market has markedly underperformed over the past month and has been declining since the end of 2024. We remain balanced on this market. On the one hand, improved corporate governance (larger shareholders payout), strong earnings growth and the end of deflation should support the market. On the other, the Bank of Japan's gradual normalisation (raising short rates and lifting the ceiling on long bond yields) and the expected appreciation of the yen could weigh on prices, as a large proportion of Japanese companies' profits are made abroad.

EMERGING COUNTRIES

Thanks to the surge in the Chinese market, emerging markets have performed strongly over the past month (by 5.2% and by 2.8% since the start of the year). As in Europe, attractive valuations combined with relative underperformance in the past have helped these markets. Nevertheless, we remain underweight emerging markets, which are among the most vulnerable to possible announcements of new US tariffs. The persistent sluggishness of the Chinese economy (property market in particular) also prompts us to remain cautious.

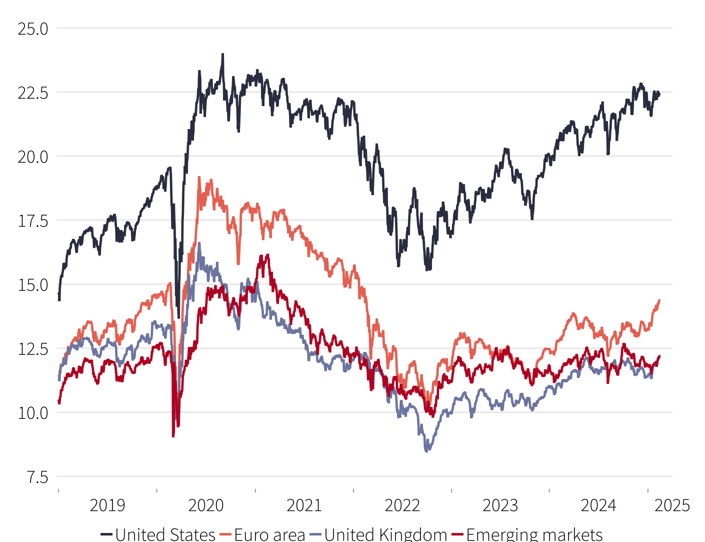
EARNINGS PER SHARE

12-month forwards



Sources: Société Générale Investment Solutions, Macrobond, 14/02/2025

EQUITY MARKETS: FORWARD PRICE-TO-EARNINGS RATIO



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FIXED INCOME MARKETS

Balanced

We are maintaining a balanced position on bonds, while maintaining a difference stance between US and European markets. US yields are likely to remain under pressure as disinflation slows and inflation expectations rise due to trade tensions. In Europe, long-term yields are likely to continue their downward trend, against a backdrop of ongoing disinflation and the ECB's rate-cutting cycle. We are maintaining an Overweight on European IG credit, which benefits from an attractive carry and solid companies' balance sheets

UNITED STATES

US sovereign yields remain at high levels against a backdrop of solid growth and rising inflationary uncertainty. The 2-year Treasuries rate, a proxy for expectations of the Fed's rate at the 1-year horizon, has remained at around 4.3% since the start of the year. The 10-year Treasuries rate has remained close to 4.5% since the beginning of the month and has fallen slightly since the start of the year. These bond yields levels are explained in the first place by activity that remains very buoyant, with growth expected to remain above 2% this first quarter and the labour market still robust. Secondly, the pace of disinflation has slowed significantly in recent months, with underlying inflation stabilising at 3.3% year-on-year. Finally, inflation expectations have risen against a backdrop of tariff hikes and a very restrictive migration policy. The combination of these three factors has led the Federal Reserve to maintain its key rate at 4.5%, and we believe that the institution will maintain a very cautious tone, with only one rate cut expected in 2025. Against this backdrop, we remain Underweight the Treasuries market, with a preference for short duration.

EURO AREA

The trend in European bond yields was the opposite of that in the US. The 10-year Bund rate has fallen to 2.4% since the beginning of February and has been on a downward trend since the start of the year. The 10-year OAT rate has also fallen to 3.1%. This has been the case since February and has also been on a clear downward trend since the start of the year as political uncertainties have diminished. Risk premiums in peripheral economies have continued to fall, with the Italian spread narrowing to 106bp and the Spanish to 61bp.

This divergence from US rates is explained by a less dynamic growth dynamic, with activity in Germany continuing to stagnate and modest growth in France. Only Spain is showing robust growth among the major economies of the euro area. In addition, disinflation continues, with underlying inflation already below the 2% target in France and Italy, and momentum in line with this target in Germany and Spain. Against this backdrop, the ECB has continued its rate-cutting cycle, reducing the deposit rate to 2.75%, and we expect further easing towards a terminal rate of 2%. We therefore remain balanced on the euro sovereign bond yields market, with a preference for duration and peripheral markets.

UNITED KINGDOM

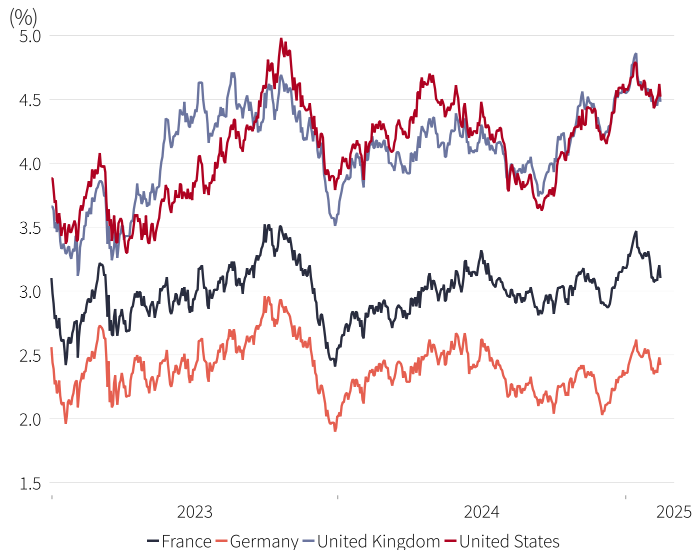
UK yields followed the trend in the euro area, with the 10-year GILTS yield falling to 4.5% as the economic recovery remained moderate and inflation converged towards the BoE's 2% target. The BoE is expected to continue its rate-cutting cycle (we expect up to 3 further rate cuts in 2025). We therefore remain balanced on the GILTS market.

CRÉDIT

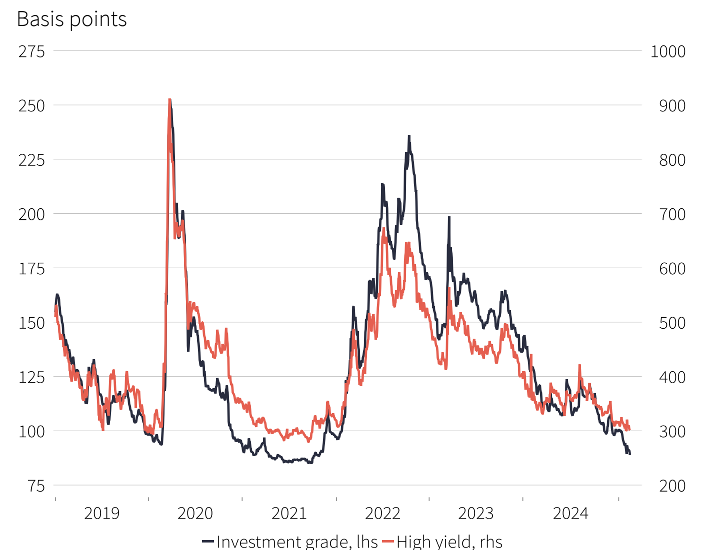
We remain overweight to the European investment-grade corporate bond market (IG). Yields remain attractive at 3.4%, while corporate balance sheets remain solid, and their profitability would benefit from the ECB rate cut. Furthermore, the risk premiums on these bonds remain in line with their historical averages, and they are not very sensitive to the risk of trade tensions, given the sector composition of the IG bond universe (banks in particular).

We remain balanced on the US and European speculative grade (HY) bond markets. The yield on the US HY index is 7.3%, while the yield on the European index is 5.6%, offering an attractive carry with low duration risk.

10Y SOVEREIGN YIELDS



EUROPEAN CORPORATE SPREADS VERSUS SOVEREIGN BENCHMARK



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CURRENCIES

The bull case for the dollar remains

We remain Overweight dollar against the main European and emerging currencies. The growth differential between the US and the rest of the world and rising US inflation expectations, in contrast to continued disinflation elsewhere, should keep the interest rate differential high and support the US currency. In addition, the growing risk of trade tensions also remains favourable to the dollar, with a rise in risk aversion for export economies. We are, however, moving to overweight on the yen, due to further monetary tightening by the Bank of Japan.

DOLLAR

The US dollar has fallen over the past 4 weeks against the main emerging and developed currencies. In Latin America, the CLP was the currency that appreciated the most against the dollar, gaining 6% on the back of rising copper prices. The BRL also recovered some of its losses, appreciating by 4% as Brazil's central bank raised its key rate from 12.25% to 13.25%. In Asia, the main currencies recorded modest gains against the dollar, with the CNY and KRW appreciating by almost 1%. For the time being, these movements reflect a lessening of fears about trade tensions, with Asian economies outside China not being directly targeted by the rise in customs duties.

EUR/USD

The euro remained relatively stable against the US dollar. The EUR/USD exchange rate remains at around $1.04 per euro. This stability is mainly because the threat of increased customs duties by the United States does not affect European exports, apart from steel. However, we remain underweight the euro-dollar exchange rate. On the one hand, the divergence in monetary policies between the ECB and the Fed is favourable for the dollar. On the other hand, the significant growth differential and the continuing threat of tariff hikes are also favourable for the dollar.

GBP/USD

We remain Underweight on GBP/USD. The British currency has appreciated moderately towards a parity of $1.26 per pound. The United Kingdom could also be affected by tariff hikes in the United States, given that the American market is its biggest export market. Furthermore, 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

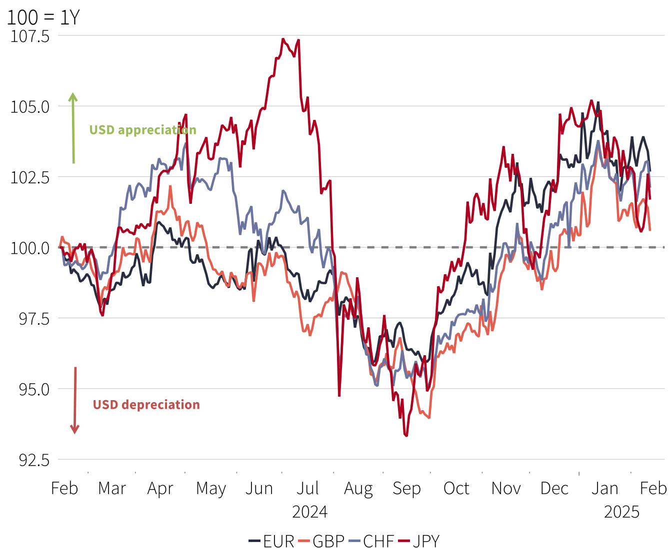
The yen halted its downward trend against the dollar, appreciating by 1.8% to reach a parity of 152 yen to the dollar. Like the euro and Sterling, the absence of any significant measures against Japanese exports has enabled the yen to rise against the dollar. Furthermore, unlike the ECB or the BoE, we expect the Bank of Japan (BoJ) to gradually continue its monetary tightening cycle. The BoJ raised its key rate from 0.25% to 0.50% in January, against a backdrop in which total and core inflation are showing signs of stabilisation around the 2% target. Headline inflation rose significantly to 3.7% year-on-year in January under the pressure of rising food prices. Core inflation has been stable at 1.6% year-on-year since July 2024. We therefore believe that the BoJ should continue its cycle of gradual interest rate tightening, with the key rate expected to be 0.75% at the end of the year, supporting the yen. We have therefore moved from Overweight to Underweight on the dollar/yen exchange rate.

EUR/CHF

The Swiss franc remains at a historically high level against the euro, at 0.94 to the euro. We remain Underweight on this parity. Firstly, political uncertainty in Europe would benefit the Swiss currency, especially in an environment of major geopolitical risks. However, the Swiss National Bank (SNB) is expected to follow the ECB's rate-cutting cycle, against a backdrop where headline inflation in January came in at just 0.4% year-on-year and core inflation at 1%, well below the SNB's target. Finally, Switzerland's large current account surplus (7% of GDP) remains a structural support for the local currency.

EXCHANGE RATE VERSUS USD

100 = 1Y



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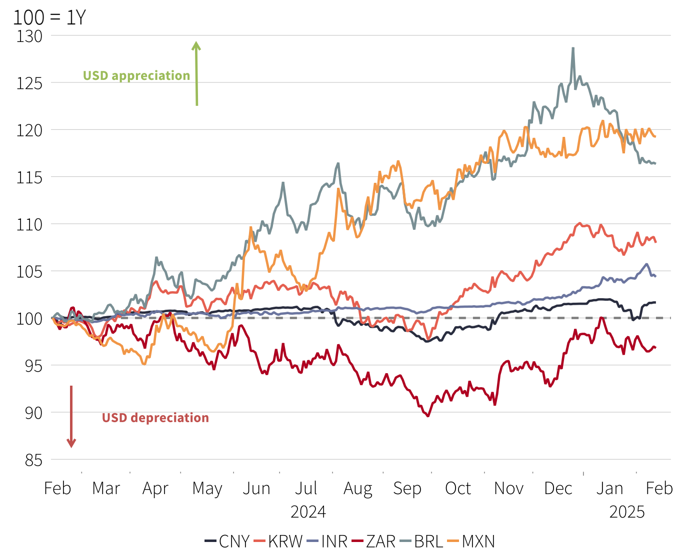

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ALTERNATIVES & THEMATICS

Underweight hedge funds; balanced on gold and industrial metals

High interest rates continue to make hedge funds less attractive. Uncertainties continue to favour gold. We have moved to Balanced on industrial metals. In terms of themes, we are focusing on Europe: European Excellence and the European banking sectors.

COMMODITIES

Over the past month, oil prices has posted a clearly bearish performance, falling back to its levels at the start of the year (around $75). President Trump's call for a price cut to curb inflation, the attitude of OPEC+ members, doubts about the rebound in Chinese activity and the rise in US crude stocks have weighed on the oil price, on which we remain underweight. After continuing to rise, given the cold winter and low European inventories, gas prices have returned to their levels at the beginning of the year thanks to hopes of peace in Ukraine. We are moving to a balanced position on industrial metals, whose momentum would benefit from the recent rebound in the manufacturing sector indicators and the tariffs on steel and aluminium.

GOLD

Gold has had a very positive start to the year, ranking among the best-performing assets (+10.5% since the end of 2024). Given the uncertainties surrounding US economic policy and geopolitical risks, gold's safe-haven status continues to attract investors. In addition, purchases by central banks in emerging countries continue to support gold. So, despite its lack of yield, we remain balanced on this asset.

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

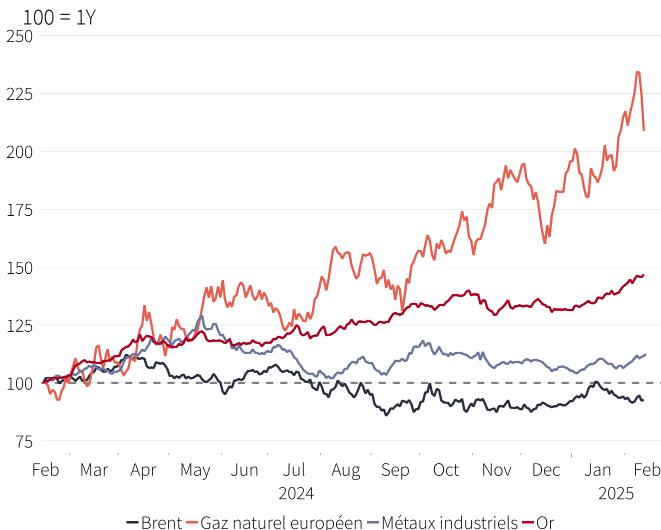
GLOBAL THEMES: ***Artificial Intelligence, Strategies for playing the slowdown, Reshoring, Investment Grade, Made In America and Innovation in Healthcare***

The maturity and potential of AI should allow Artificial Intelligence stocks to remain favourably oriented. In addition, we offer a range of strategies aimed at benefiting from the economic slowdown and key rate cuts (value stocks, defensive sectors, high-dividend equities, safe havens and fixed income assets). Trump's election should strengthen the appeal of reshoring themes. We are also playing a theme, Made in America, which should benefit from the strength of the US economy and the growth in profits of local companies. Finally, the theme of innovation in healthcare remains interesting, benefiting from an ageing population and technological progress, while high-rated corporate bonds could continue to benefit from good corporate fundamentals.

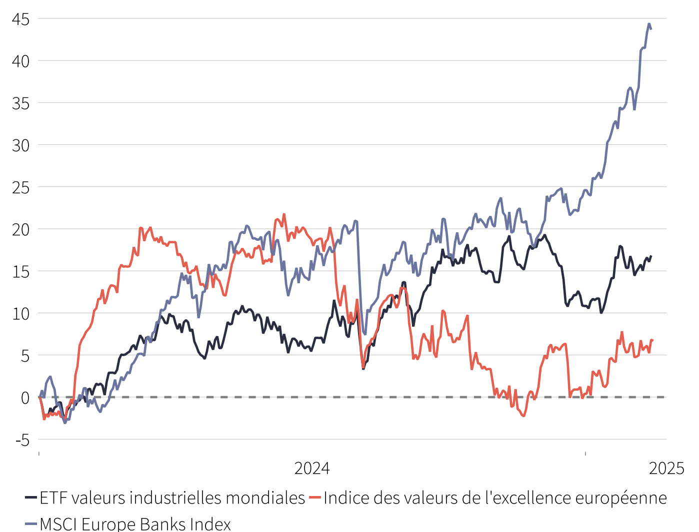
EUROPEAN THEMES: ***European Excellence and European banks.***

We continue to play the European Excellence theme through international companies that are leaders in their markets and have also launched a theme that focuses on European banks whose improved profitability over the last few months/quarters is not yet fully reflected in the share price.

COMMODITY PRICES



PERFORMANCES SINCE LATE 2023



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