December 2024

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STRATEGY FOCUS

REFLECTIONS ON **2024** & CONVICTIONS FOR **2025**

SOCIETE GENERALE
Private Banking

STRATEGY FOCUS

REFLECTIONS ON **2024** & CONVICTIONS FOR **2025**

A LOOK BACK TO **2024** : ANTOHER GOOD VINTAGE

CONVICTIONS FOR **2025** : A YEAR OF ECONOMIC POLICIES CHOICES

- **Continued economic outperformance by the United States, while Europe remains weak, and uncertainties persist in Asia ;**
- **Trade policies to the fore ;**
- **Monetary policies at different pace ;**
- **Tensions and rivalries on the fiscal/industrial policy front.**

OUR INVESTSMENT CONVICTIONS FOR **2025**

#1 – Equities : towards a broadening of the US performance

#2 – Equities : favourable contagion to the European markets

#3 – Sovereign bonds : Europe and the United States out of synchronisation

#4 – Corporate bonds : European credit still attractive

#5 – Currencies : A dollar still strong

#6 – Currencies : The yen, the only currency that could surprise against the dollar

#7 – Real estate in France : Not enough interest rate cuts to impulse a dynamic

#8 – Private Assets : in the technology sector, prefer the buyout funds segment

(1) Opération financière qui consiste à emprunter dans une devise à faible taux d'intérêt pour investir dans une devise à taux d'intérêt plus élevé ou sur un actif avec un rendement plus élevé.

A LOOK BACK TO **2024** : ANOTHER GOOD VINTAGE

Stable growth in 2024… The world is on track for 3.2% growth in 2024, in line with 2023. Services have again been the main driver while industrial production has languished. Falling inflation has boosted household incomes although consumer confidence remains below pre-pandemic levels in many countries. Labour market pressures have eased without pushing up unemployment. And although real interest rates are still restrictive, recent cuts in nominal rates have brought some early signs of recovery in the housing and lending markets.

…but stability masks deepening regional disparities. The United States economy continued to outperform, growing by an above-potential growth of 2.8%. This is partly down to the ongoing fiscal stimulus, but the healthy state of household and corporate finances is also a factor. In China, growth has slowed to 4.9%, well below its pre-Covid average, hampered by weak domestic demand. The euro area continues to grow below potential, by 0.8%. Germany and Italy are being held back by their reliance on the industry, while the Spanish economy has surprised on the upside. France has grown by 1.1%, helped by a short-term boost from the Olympics, but dogged by still feeble domestic demand.

With inflation falling, central banks look to normalise policy. Inflation is now back near target in most economies and the major central banks have begun to ease rates. Since June, the European Central Bank (ECB) has brought rates down from 4% to 3%. The Bank of England (BoE) and Federal Reserve (Fed) followed suit, cutting from peaks of 5.25% and 5.50% to 4.75% and 4.50%, respectively, and running down the balance sheets built up by non-conventional measures during Covid. Unlike other central banks, Japan's policy normalisation entails raising rates, and the Bank of Japan (BoJ) nudged its policy rate to 0.25%.

(Geo)politics are getting more challenging. Half the world's population went to the polls in 2024, including the European elections which led to a snap general election in France, and the US presidential elections. With polls looming, governments were reluctant to rein in fiscal policy despite high levels of public sector debt. 2024 also saw rising risks of trade conflicts and protectionism as well as worsening geopolitical tensions.

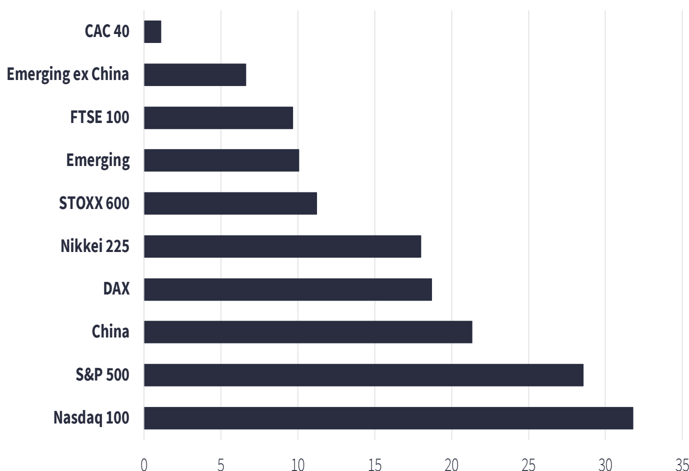
Equity markets surge, particularly in the United States. . The world's main stock markets posted double-digit gains in 2024. The US market remains the standout performer with a year-long rally that added more than 28% in dollar terms. Japan and Europe locked in big gains early in the year (+10% in Europe, +18% in Japan in yen terms). However, the French market rose by just 1%, held back by its reliance on the luxury sector and political uncertainty surrounding the elections. Emerging markets performance proved mixed, especially EM excluding China.

Bond markets made gains amid volatile yields. Over the year, long-dated sovereign yields continued to rise in the US, UK and France but ended up at their beginning of year level in the rest of the euro area. Performance-wise, credit rating hierarchies was respected with high-yield segments outperforming investment grade bonds, themselves outperforming sovereign bonds.

The dollar appreciated again against the major currencies, in line with the performance of the US markets.

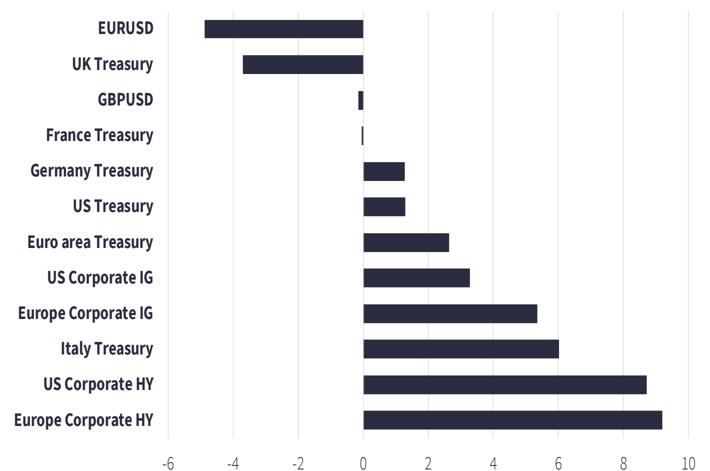
Total return performance of equity indices

In %, over 2024, local currency



Performance of bond indices in total return and currencies

In %, over 2024, local currency



CONVICTIONS FOR **2025** : A YEAR OF ECONOMIC POLICIES DECISIONS

First half-year likely to be a continuation of 2024. The divergent trends in economic growth seen in 2024 should continue for at least the first half of 2025. The US economy can continue to count on its solid fundamentals: high corporate profits and healthy household balance sheets. Strong productivity gains should continue to drive growth without generating much inflation, allowing the Federal Reserve to make (modest) rate cuts. Fiscal policy is likely to remain expansionary in 2025 with the additional prospect of further tax cuts.

In the euro area, which flirted with recession in late 2024, economic growth is likely to remain weak in H1. Political uncertainty has exacerbated existing structural challenges – slump in German manufacturing, weak productivity, etc. – and cyclical problems such as weak demand in China, high savings rates and budgetary belt-tightening. On the other hand, falling inflation and interest rate reductions should push consumers to save less and spend more.

Finally, in China, the problems of the property market are likely to drag on, holding back household spending (property is the main asset for households) and the Chinese economy as a whole.

Second half more uncertain. Following a year of elections in 2024, 2025 will be dominated by new governments making economic policy decisions. The process of implementing campaign promises raises great uncertainty about growth and inflation in the world's key economic blocks.

US: upside risks 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.

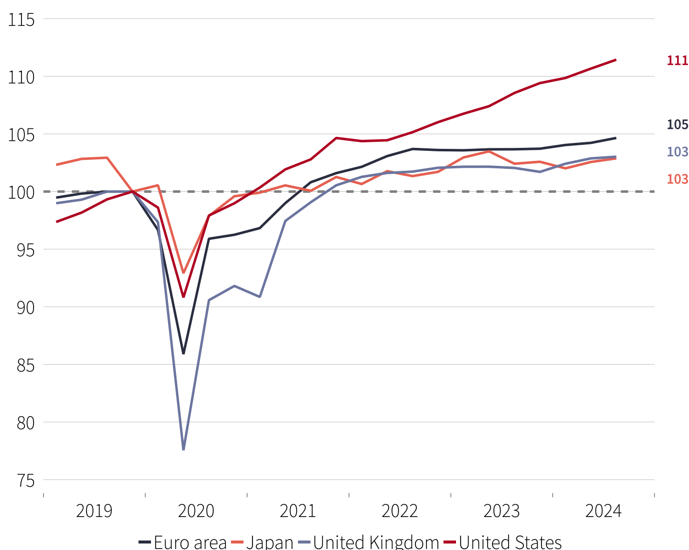
Euro area: fiscal policy in question. Besides US trade policy and weak Chinese demand, fiscal policy is another uncertainty affecting the euro area economy. Italy has started to rein in its deficit but the future for France is unclear. Meanwhile, the German elections on 23 February could result in less tightening or even some loosening of policy via a rise in public sector investment. Finally, the European Commission could propose new European policies to meet the new challenges of US protectionism, Chinese competitiveness, war in the Ukraine, etc.

China: more initiatives on the way. The Chinese authorities have again said they will act decisively to stimulate the economy, focusing on the property, equity and consumer markets. But details so far are sparse, stoking doubts about the health or otherwise of the Chinese economy.

Central banks : at different pace. In this environment, the global monetary cycle looks equally uncertain. But the main central banks are likely to continue cutting rates, albeit at different paces, with the Fed making 3 cuts to near 4% by end-2025, the Bank of England making 4 to 3.75%, and the ECB making 4, mostly in H1, to 2%.

GDP in volume

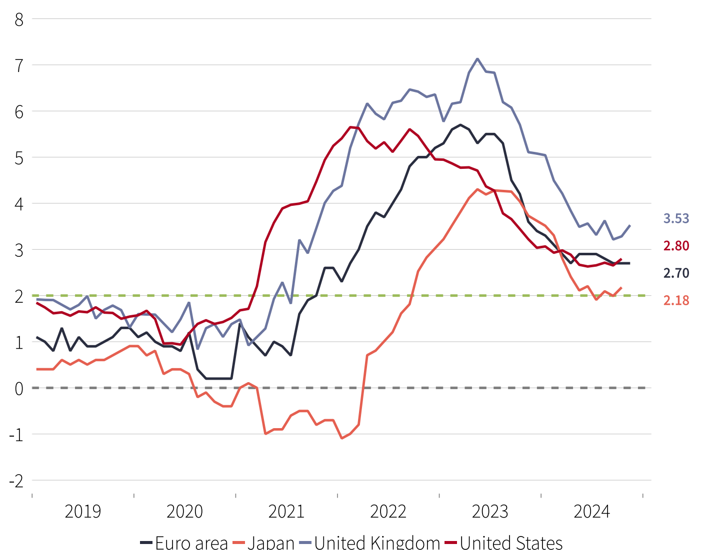
100=31/12/2019



Sources: Société Générale Investment Solutions, Macrobond, INSEE, DESTATIS, Eurostat, Istat, CAO, INE, ONS, BEA, StatCan, ABS 2024 Q3

Core inflation rate

Year-over-year



Sources: Société Générale Investment Solutions, Macrobond, Eurostat, INSEE, DESTATIS, Istat, INE, BEA, ONS, SBJ 11/2024

OUR INVESTMENT CONVICTIONS FOR **2025 :** **EQUITY MARKETS**

#1 – TOWARDS A BROADENING OF THE US PERFORMANCE

2025, a more balanced year in the US. The strong outperformance of the US equity markets in 2024 came with a high concentration in terms of stocks (the magnificent 7), sectors (technology and communications), styles (growth) and sizes (large caps). While these stocks could continue to perform well in 2025, we can expect other stocks to catch up and performances to broaden. The new administration's economic policies could benefit small- and mid-caps, as well as value stocks. Moreover, their valuations are close to their historical averages, unlike growth stocks and large caps, which are clearly overvalued.

A second Trump trade ? Uncertainty about US economic policy is high. When Trump was first elected, the markets experienced a strong rally (Trump trade), which has also kicked in this time. During his previous term in office, Trump focused on tax cuts in his first year (2017) and did not start the trade war until 2018. This time, however, Trump has announced that he wants to raise tariffs (more sharply than in 2018) as soon as he takes office. This different timing and an upside surprise on inflation and the Fed linked to the economic package would be a risk for US and global equity markets.

High earnings growth. Despite these risks, US equity markets could benefit from the deregulation of certain sectors (energy, banking, etc.) and from the prospect of lower corporate taxes. This should continue to keep US corporate profits growing at a sustained pace.

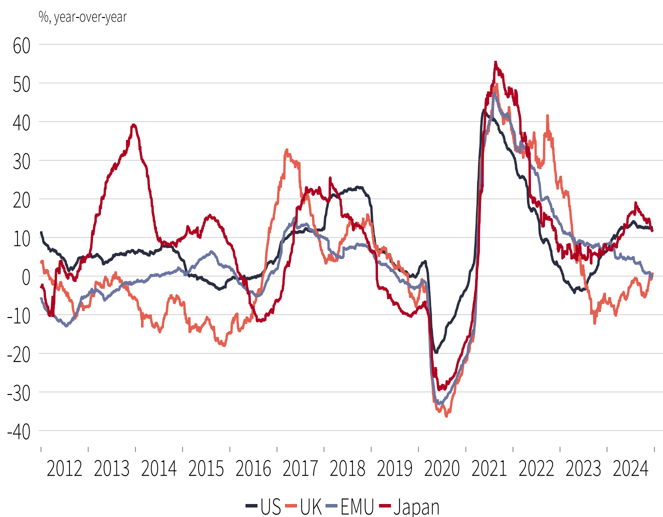
#2 – POSITIVE CONTAGION TO EUROPEAN MARKETS

Europe: exit to the upside? European markets underperformed the US in 2024. Nevertheless, this masks significant divergences between countries, sectors and styles: the Spanish and German markets were in pole position (19% and 21%), while the French market ended the year close to its initial level. In 2025, political instability in France and elections in Germany (23 February), as well as Trump's decisions on tariffs, could continue to limit the European equities upside potential. Nevertheless, as the year progresses - and barring a major shock to international trade - the clouds on the outlook could begin to lift. Firstly, more pro-active economic policy would come on top of sharp rate cuts by the ECB. Secondly, Chinese stimulus measures could lead to a rebound in European exports. Against this backdrop, earnings growth, which has been sluggish, like the economy, could rebound. This should support European markets, against a backdrop of low valuations

China: awaiting stimulus measures. After underperforming for much of the year, the Chinese equity markets rebounded strongly in September, following the announcement of government stimulus measures. They ended the year with a more than respectable performance (18%). However, these measures do not seem to have convinced international investors, who have largely remained under-invested in China. The return of these investors will be an essential element in a more sustainable market rally. For this to happen, further specific measures and early signs of a rebound in domestic demand and an improvement in the property market will probably be needed.

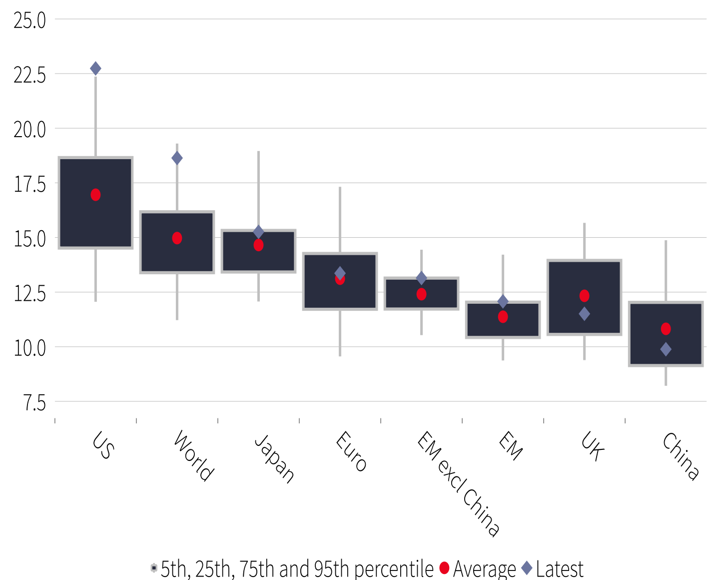
GROWTH IN EARNINGS PER SHARE

Year-on-year



PRICE-TO-FORWARD EARNINGS RATIO

Comparison with 15-year average and percentiles



OUR INVESTMENT CONVICTIONS FOR **2025**: FIXED INCOME MARKETS

#3 – SOVEREIGN DEBT: EUROPE AND US TO DESYNCHRONISE

2024, a year of strong returns. In line with the trend seen since 2020, bond markets had a volatile year in 2024 but ended with a positive performance, particularly in Europe. Disinflation and a weak economy allowed the European Central Bank to cut rates, driving down sovereign yields in the second half of the year, with peripheral countries' doing particularly well as their risk premiums narrowed toward their 2020 lows exaggerating the general downtrend. In France, in contrast, political uncertainty drove risk premiums up.

US and UK sovereign debt also had a highly volatile year. In the United States, disinflation allowed the Fed to begin its rate-cutting cycle, but economic growth continued to beat forecasts. Inflation expectations have also been revised up to reflect some inflationary measures in Trump's programme for government. Slower-than-expected disinflation also explains the underperformance by UK bonds in 2024.

2025, additional rate cuts and transatlantic desynchronisation. The gap between European and US sovereign yields is set to widen in early 2025 as their growth and inflation trends diverge. Europe can expect positive but meagre growth and a steepening decline in inflation early in the year, prompting the ECB to pursue its cycle of rapid rate cuts. But while sovereign yields should therefore come down, they are likely to remain above pre-Covid levels for several reasons. First, nominal growth is likely to remain higher than in the years running up to Covid.

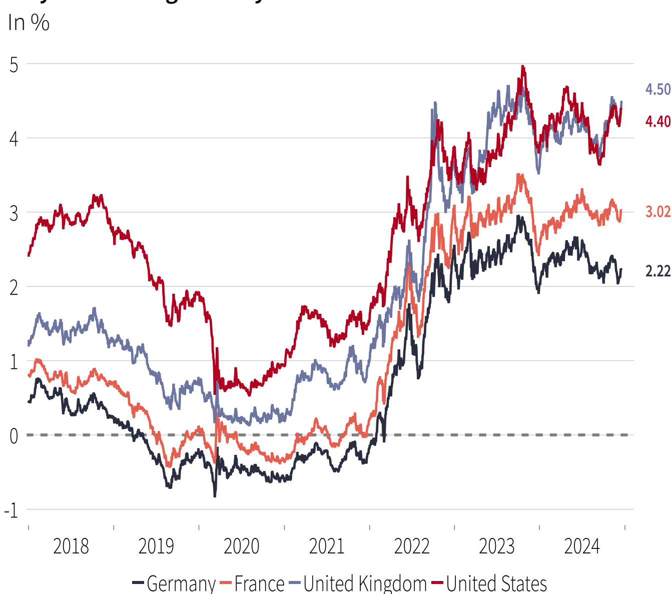
Second, public sector net issuance is projected to rise. France is still running a big deficit and German issuance may increase once the elections are over. Lastly, the ECB continues to shrink its balance sheet which should put a floor under any fall in yields. So, we can also expect further curve steepening.

In the United States, sovereign yields are also expected to fall, but at a slower pace and potentially with high volatility. With growth nearing its estimated potential rate of 2%, disinflation still painfully slow and the Fed taking a more gradual approach to rate cuts, the downside in sovereign yields is likely to be limited. On top of this, deep doubts about how the new administration's economic policies will impact growth, and inflation could keep US yields more volatile than in Europe.

#4 – CORPORATE DEBT: EUROPEAN CREDITS REMAIN ATTRACTIVE

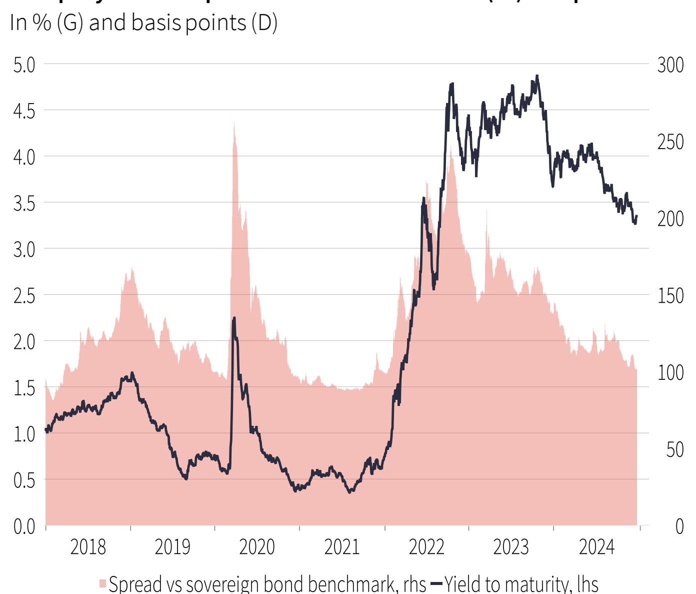
Credits still look attractive. In Europe, investment grade (IG) and high-yield (HY) corporate bonds delivered strong total returns in 2024 – 5% and 9%, respectively – and we expect another good performance in 2025. IG bonds stand to gain from easier monetary conditions and from positive if unspectacular economic growth. Also, corporate debt as a share of GDP has continued to fall, to 57% of GDP in the euro area and 48% in the United States, which should support returns and keep risk premiums close to their historical average. HY bonds meanwhile can count on i) lower duration risk and higher yields, ii) helpful redemption schedules with most repayments due in 2026, iii) a favourable issuer profile with a high percentage of BB-rated firms, and iv) a tailing off of gross issuance volumes.

10-year sovereign bond yields
In %



Sources: Société Générale Investment Solutions, Macrobond, U.S. Treasury, Macrobond 17/12/2024

Europe: yield and spread of Investment Grade (IG) companies
In % (G) and basis points (D)



Sources: Société Générale Investment Solutions, Macrobond, 17/12/2024

OUR INVESTMENT CONVICTIONS FOR **2025 :** CURRENCY MARKETS

#5 – A STILL STRONG DOLLAR

The dollar made further gains in 2024 against key developed and emerging market currencies as the US economy outperformed its peers, rising 5% against the euro, 9% against the Japanese yen, and holding steady against Sterling. Against emerging market currencies, the greenback made big gains vis-a-vis Latin-American currencies – up 20% vs. the MXN and 27% vs. the BRL – but increased by just 3% against the Chinese yuan. Currency markets were also highly volatile amid fluctuating expectations for Fed monetary policy and Trump's electoral prospects.

Ingredients in place for a strong dollar. Since the 2010s, the dollar's effective exchange rate(measured against a basket of currencies) has risen substantially in both nominal and real terms to its highest since 1994. Although currency markets will likely remain volatile, given the interest rate environment and prevailing uncertainties, we expect the dollar to remain strong in 2025.

Trade and geopolitical uncertainty positive for the dollar. One of the big market movements following the US elections was a sharp rally in the dollar. In part, this was because investors expect the interest rate gap between the United States and the rest of the world to widen. But markets are also worried about rising trade tensions and so becoming more risk averse. The targets of this resurgent risk aversion have been economies that depend on exports or run trade surpluses with the United States, which could see a fall in capital inflows or capital flight, weakening their currencies. Also, if the economic slowdown worsens, central banks in these countries are likely to cut interest rates more sharply, which would tip the scales further toward the dollar. So, any rise in trade tensions, such as initiatives from the incoming US administration, would be a real boost for the greenback.

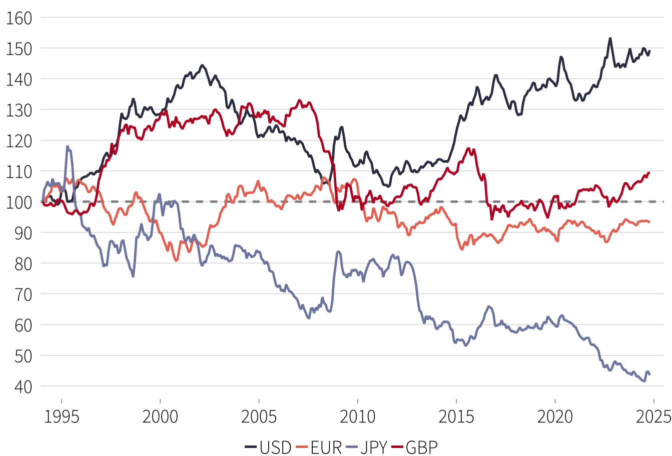
Productivity gap positive for the dollar. One reason for the dollar's global strength is the excellent performance of the US economy compared to other developed economies, with a growing gap in terms of productivity. During the 2010's, Europe's productivity rose by an annual average of 0.7%, Japan's was flat, and US productivity rose by 1.2%. The gap widened further after Covid. The key factors driving this productivity gap are the US's cheaper energy, stronger non-residential investment and specialisation in high-value-added new technologies. These structural factors are also behind the strong dollar status.

Strong demand for dollar assets. Widening balance of payments deficits also play to the dollar's advantage. European and Asian economies continue to run big current account surpluses which recycle as high "demand" for foreign financial assets. On the other side of the equation, the United States has a big current account deficit, which it covers by providing a massive "supply" of dollar-denominated assets. In a world where Asian and European surpluses outstrip the US deficit and the US market remains the world's deepest and most liquid, demand for US assets is likely to remain strong, making it another source of support for the dollar.

#6 – YEN, THE ONLY CURRENCY THAT COULD SURPRISE VS. THE DOLLAR

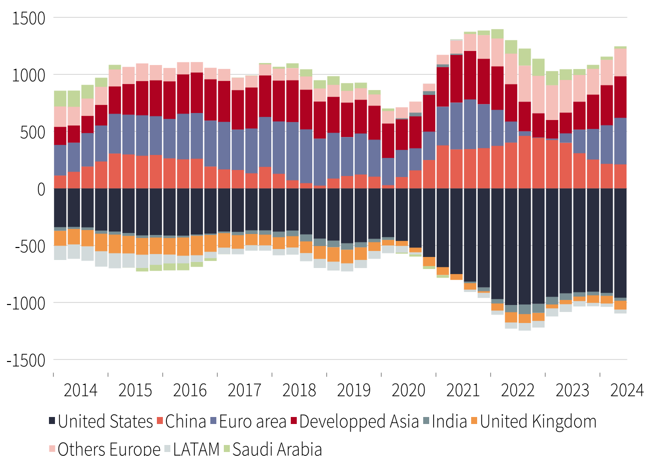
The one currency that could buck the strong-dollar trend is the yen. The world's other main central banks should all continue to cut rates at differing speeds. But the Bank of Japan (BoJ) is set to continue its gradual normalisation of monetary policy, raising its policy rate to an estimated 0.7% by end-2025. This normalisation process, justified by inflation which is holding steady around 2%, should support the yen after years of weakness. However, there is a good chance of high bout of volatility, as seen last summer when the BoJ's hints of further rate rises triggered a rush to unwind speculative yen positions.

Real effective exchange rate of major currencies
100=31/01/1994



Sources: Société Générale Investment Solutions, Macrobond, BIS 10/2024

Current account balances of major economies
USD billion



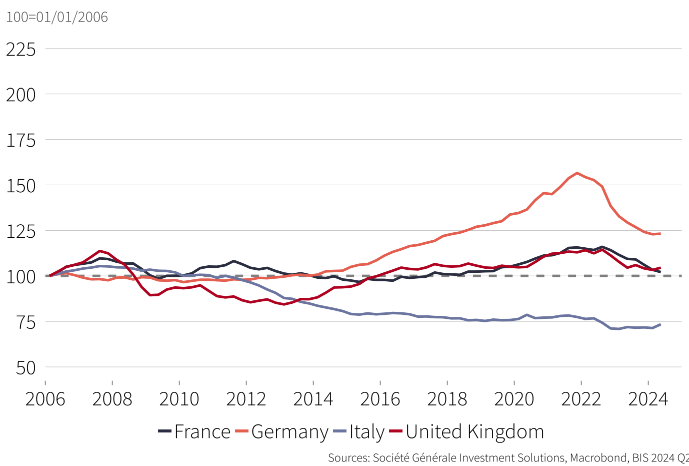
Sources: Société Générale Investment Solutions, Macrobond, sources nationales 2024 Q3

OUR INVESTMENT CONVICTIONS FOR **2025** :
REAL ESTATE MARKETS

#7 – REAL ESTATE IN FRANCE : NOT ENOUGH RATE CUTS TO IMPULSE A STRONG DYNAMIC

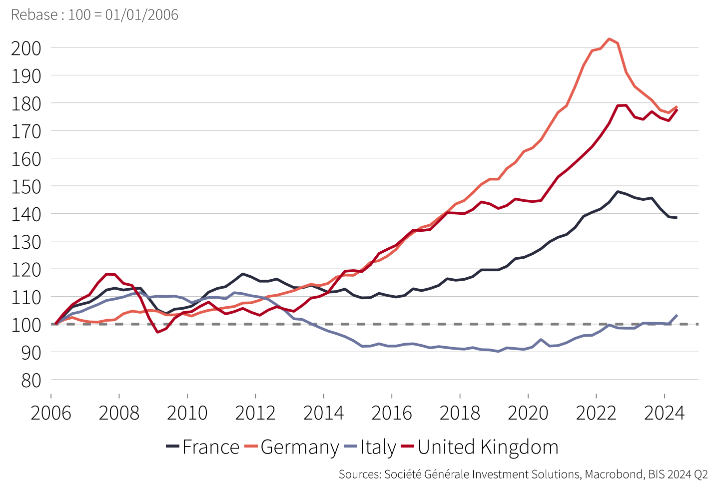
The French real estate market continues to be penalised by the high level of long-term interest rates.
The market continued to be penalised in 2024 by a combination of long-term interest rates that rose slightly, purchasing power that remained constrained and prices that remained high. While prices fell only slightly (-2% year-on-year in Q3 2024), purchase volumes remained low. It should be noted that, while property prices have only made a moderate correction since the sharp rise in inflation (-1.4% since the end of 2021), they have fallen sharply in real terms (-11.7 over the same period). In 2025, the trend of low volumes and falling prices should continue, against a backdrop of still sluggish economic growth and interest rates that are slow to fall. The ECB's easing of short-term interest rates will only be partially passed on to longer-term interest rates, against a backdrop of French government bond yields that remain rocked by French political risk.

Real-estate prices in real terms



Sources: Société Générale Investment Solutions, Macrobond, BIS 2024 Q2

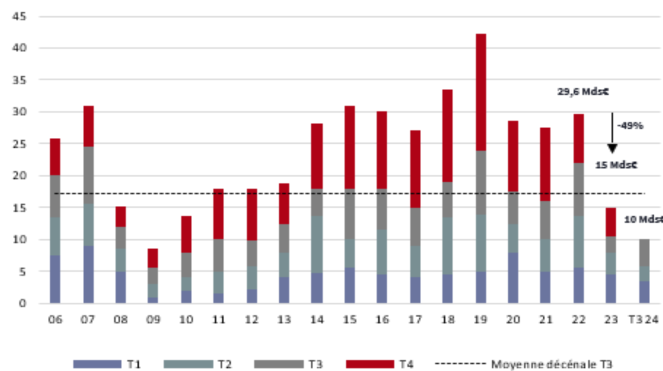
Real-estate prices in nominal terms



Sources: Société Générale Investment Solutions, Macrobond, BIS 2024 Q2

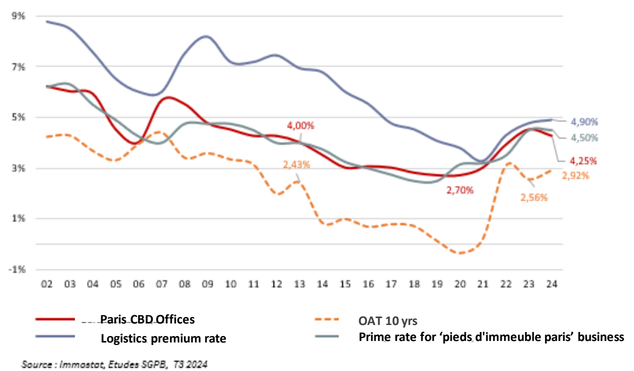
Towards a gradual recovery in the non-residential real estate market.
Since July 2022, commercial property (offices, retail premises, warehouses, etc.) has also been penalised by the rise in interest rates. Investment volumes have fallen sharply in the face of price adjustments and the expectation that appraisal values will stabilise. In Q3-24, only €10 billion was invested in all asset types in France, in line with 2023, a fall of more than 50% compared with 2022. To regain attractiveness, the property risk premium needs to be reconstituted, i.e., the difference between the rental yield on property assets at acquisition and risk-free rates (10-year OAT, at 2.9% in Q3-24). Stabilising inflation and lower central bank interest rates should enable the property sector to regain its competitive edge over the next few quarters by restoring visibility and thus investor confidence.

Investment volume in France, in billions of euros



Source : Immostat, Etudes SGPB, T3 2024

Prime Returns Asset Classes



Source : Immostat, Etudes SGPB, T3 2024

OUR INVESTMENT CONVICTIONS FOR **2025 :** PRIVATE ASSETS

#8 – IN THE TECHNOLOGY SECTOR, PREFER THE *BUYOUT* FUNDS SEGMENT

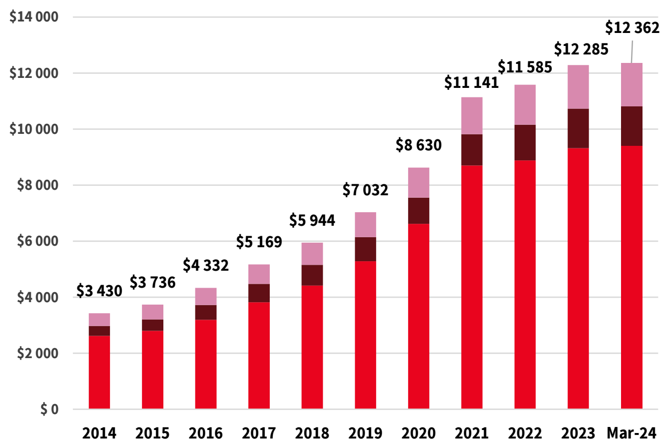
Normalisation on track. Private equity activity, which had slowed in 2023 amid high interest rates, is beginning to recover in 2024. The valuation multiples of private equity funds, which had fallen in 2023, stabilised thanks to lower financing costs. The performance of buyout funds (*) remains on an upward trend, driven by growth in the operating results of the companies held. Yields on Private Debt, still attractive to investors, are nonetheless beginning to ease under the combined effect of falling interest rates and credit margins, under pressure as the bank syndicated loan market reopens. Infrastructure funds have continued to generate steady returns: the sector's income, which is partly indexed to inflation, has helped to offset the impact of rising interest rates since 2022.

Private equity: buoyed by falling interest rates. Investment volumes in buyout strategies (*) should end 2024 higher than in 2023. This momentum is underpinned by the improvement in financing conditions for transactions, thanks in particular to the return of the major banks to the market. The environment is thus tending to brighten in the large-cap segment, which was hardest hit by the rise in interest rates. Activity in this segment should continue to rebound, allowing a rebound in investors' returns. Venture funds (**), on the other hand, are still not showing any significant rebound: fund-raising is less frequent, which is delaying revaluations, and the universe is characterised by a wide dispersion of performance between managers.

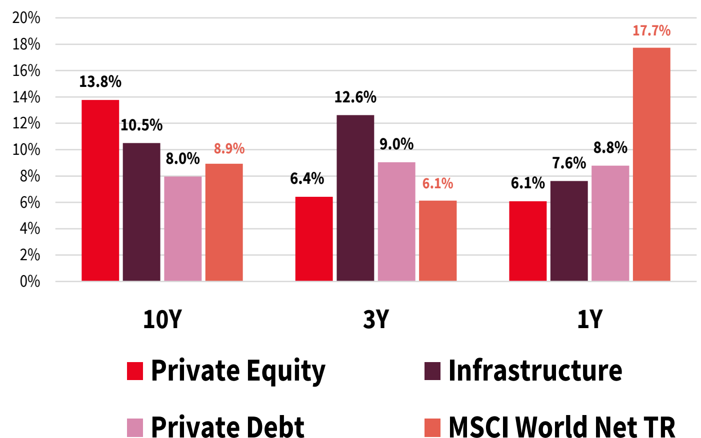
Technology sector - encouraging buyout funds (*) : Within the Technology sector, the segment of profitable companies in which Buyout (*) funds invest is particularly interesting, and especially that of SaaS software for businesses, which offers strong growth prospects. SaaS companies provide software that users can access online. This segment is benefiting from several long-term trends: 1) a shift in corporate spending towards this type of solution, catalysed by falling technology infrastructure costs, 2) the growing integration of Artificial Intelligence, which is broadening the range of activities that can be automated by SaaS companies. Finally, the adoption of this model by technology companies means that revenues can be generated on a more recurring basis, offering greater resilience.

(*) Buyout strategies = acquisition of majority stakes in profitable companies.(**) Venture strategies = acquiring stakes in innovative companies with high growth potential, but which are not profitable. Buyout strategies = acquiring majority stakes in profitable companies.

Outstanding private markets
(Billion dollars, source Prequin)



Annualised performance as of 31/06/2024
(Source Preqin (Private Capital Quaterly Index), Bloomberg



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