QUINTET
PRIVATE BANK

NEW HORIZONS

2025 COUNTERPOINT INVESTMENT OUTLOOK

Executive Summary

"we continue to favour a slight equity overweight and, within that, prefer US equities as stimulus, growth and rate cuts are supportive."

Our updated forecasts paint a more 'normal' economic backdrop in 2025. As inflation normalises in the near term, central banks will likely continue to cut interest rates, to around 3.5% in the US and the UK, and 2% for the Eurozone. That said, US economic policies could be inflationary at longer horizons. The US is likely to stay resilient, supported by fiscal stimulus, while the Eurozone and the UK should experience weak growth. US trade tariffs are a key risk for developed and emerging markets, and could generate market volatility. Despite some progress, China is likely to continue to grapple with its structural problems.

More thematically, we're in the early stages of AI's transformative journey: the winners of tomorrow will likely be broader beneficiaries that use AI to gain a competitive edge. Another long-term narrative is that we continue to live in a world that's more fragmented geopolitically. With a more inward-looking US, European countries are likely to bolster their cybersecurity infrastructure and energy supplies, making renewable energy investments a growing necessity.

As the Big Tech companies that dominate traditional indices tend to have more demanding valuations, we recently added an equal-weighted index, which emphasises financials and industrials that could benefit from forthcoming US policies, broadening the rally. We recently adjusted our European equity exposure lower, given downside risks such as higher tariffs, while maintaining our 'insurance' instrument which appreciates when European equities decline (in portfolios where client knowledge and experience, and regulations and guidelines, permit).

In fixed income, we increased our exposure to European government bonds, still preferring short-dated ones, and US Treasuries, while staying underweight on the latter given fiscal concerns. We reduced our exposure to European and US investment grade corporate credit, as we think valuations don't adequately compensate for the risks. We also remain underweight riskier high-yield bonds.

Concerns about trade tensions and tariffs on China (along with a range of unresolved long-term challenges), and inflation and rate hikes in Brazil, are one reason why we currently have no tactical positions on emerging market assets (both equities and debt).

Strategically, while there's a market consensus that US fiscal stimulus is likely to boost economic growth, we think investors haven't focused enough on the potentially inflationary consequences of US policies at longer horizons, so we've swapped shorter-dated US inflation-protected bonds for longer-dated ones.

Three investment horizons and drivers

While accounting for volatile short-term trends, we aim to capitalise on medium- to long-term horizons

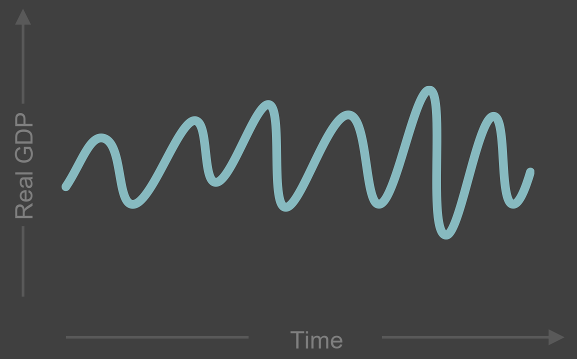
Immediate

Few months

Key driver

Geopolitics, post US elections

More volatility & differentiation across markets



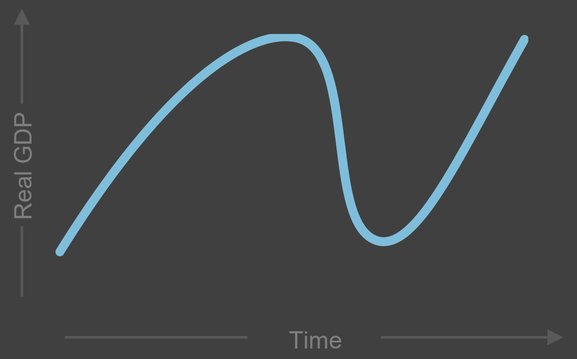
Cyclical

Several quarters

Key driver

Fiscal & monetary policy

Normalisation of economic growth, inflation & interest rates



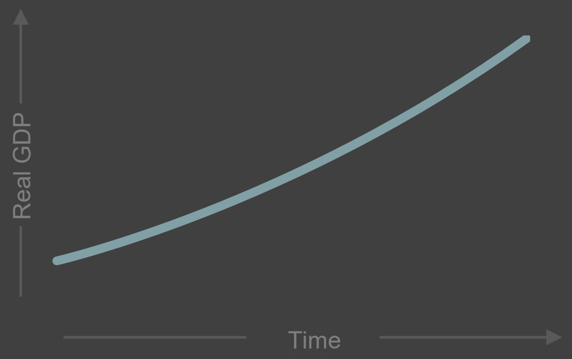
Structural

Many years

Key driver

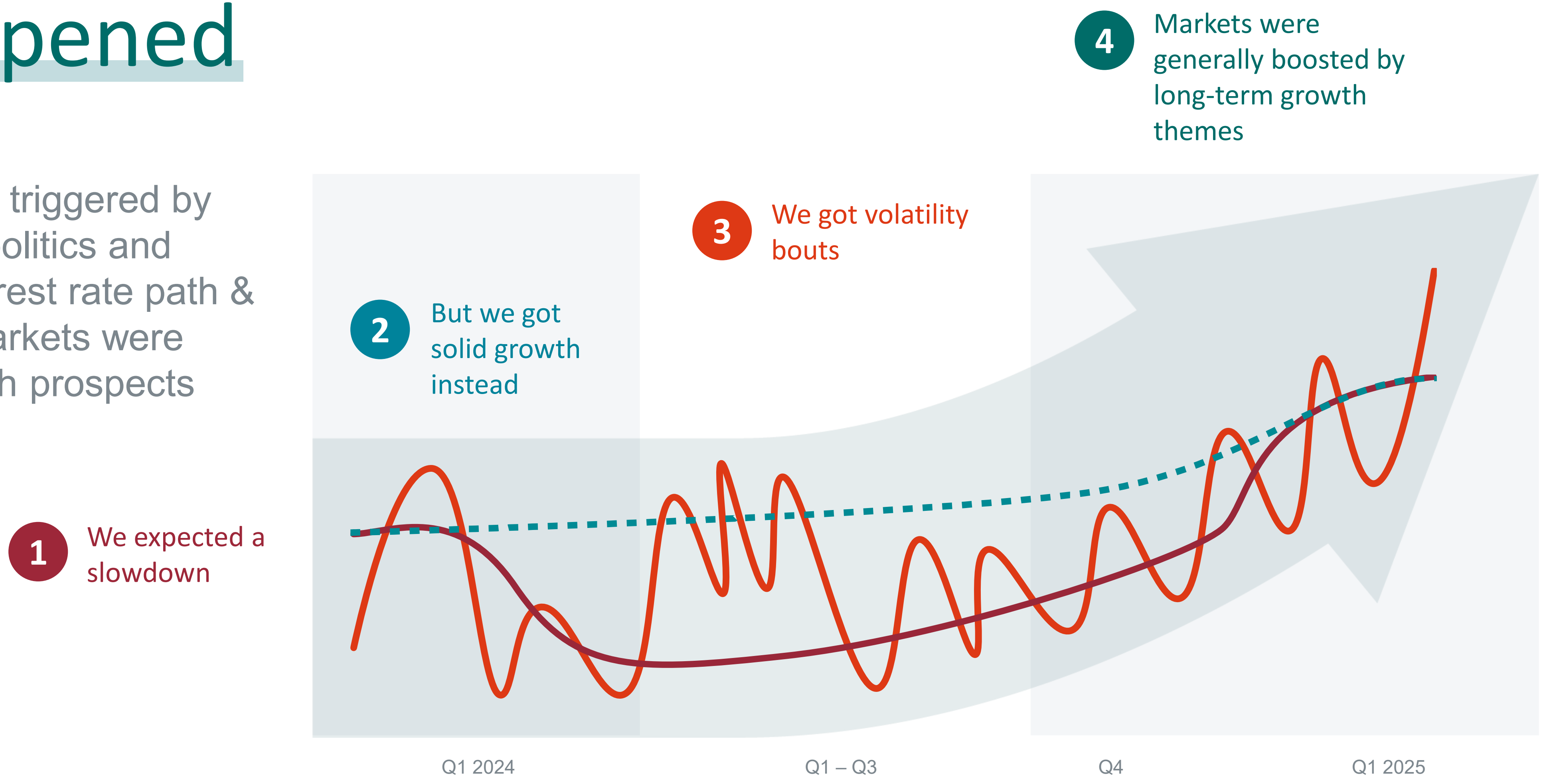
Secular trends

AI & technology creating long-term growth opportunities



2024: The slowdown that never happened

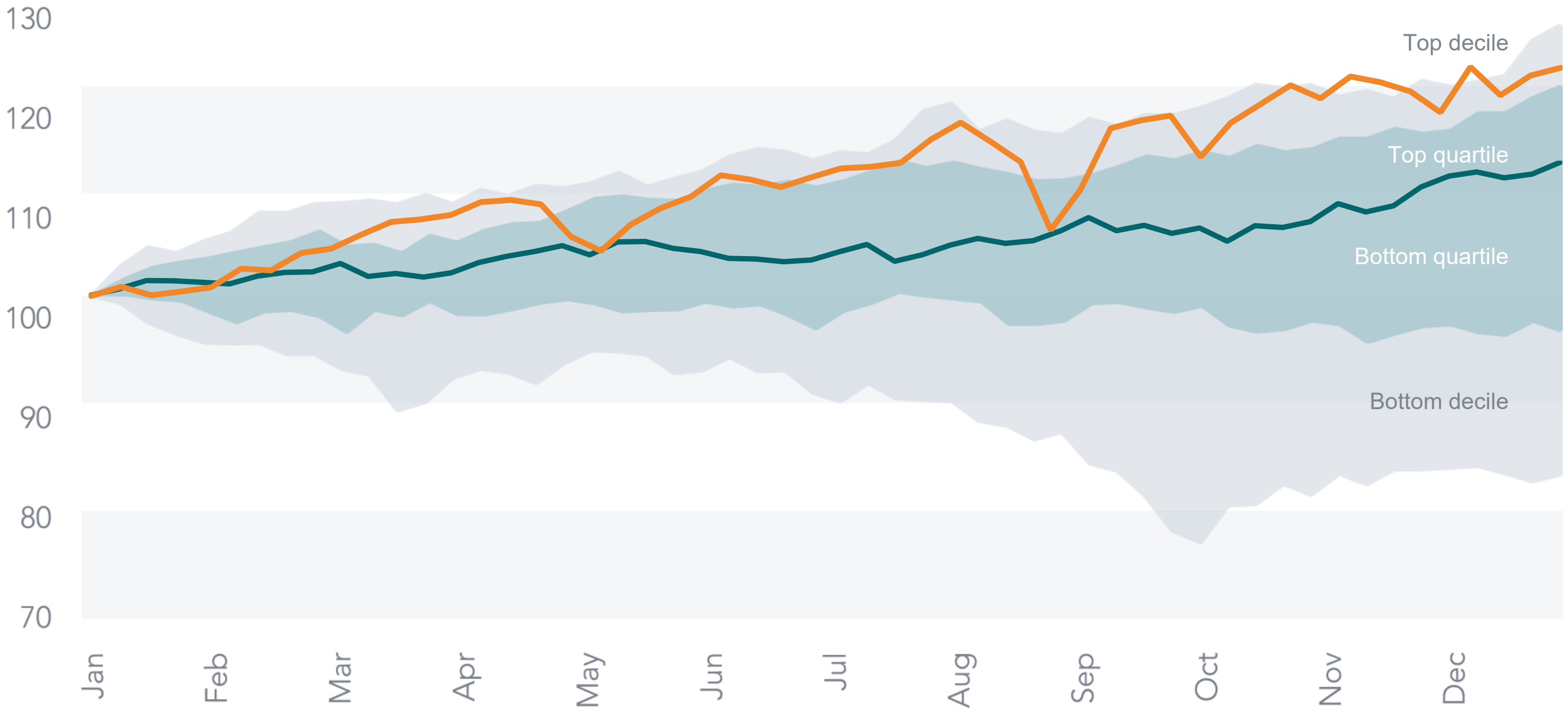
We got volatility bouts, triggered by the US elections, geopolitics and uncertainty on the interest rate path & inflation; but mostly markets were boosted by solid growth prospects and interest rate cuts



2024 was a strong year for equities

Equities performed well despite some headwinds and bouts of volatility

Global Equity Performance



Key:
- Median
- 2024

Source: In-house research, LSEG Datastream. Global equities = MSCI All Country World Index. Data show annual performance since 1989, indexed to January = 100. Past performance is not a reliable indicator of future returns.

What we said was going to happen in 2024 and what happened

Economy

Interest rates set to decline from mid-year

Global recession unlikely in H1	What happened: no global recession	✓
A Eurozone/UK recession & a mild recession in the US	What happened: a mild Eurozone/UK recession, no US recession	✗
A modest recovery in China	What happened: a China recovery at end-2024	✓
Central banks start cutting rates at around mid-year as inflation falls	What happened: central banks started to cut rates from around mid-2024	✓
A market-moving US election	What happened: volatility around the US vote	✓

Markets

We started defensively, then added equities

Moderate preference for bonds vs equities (late 2023/start of 2024)	What happened: equities outperformed bonds	✗
Change: equity overweight (early 2024)	What happened: equities increased in value, though more than we expected	✓
Prefer quality bonds to risky credit (early 2024)	What happened: risky bonds outperformed government bonds & quality corporate bonds	✗
Increase diversification & mitigate downside risks (early to mid-2024)	What happened: Asia-Pacific equities, gold, commodities and instruments to mitigate US & European equity drawdowns reduced volatility	✓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2025 OUTLOOK
WHERE WE’RE HEADING

Our journey from last year's outlook to today

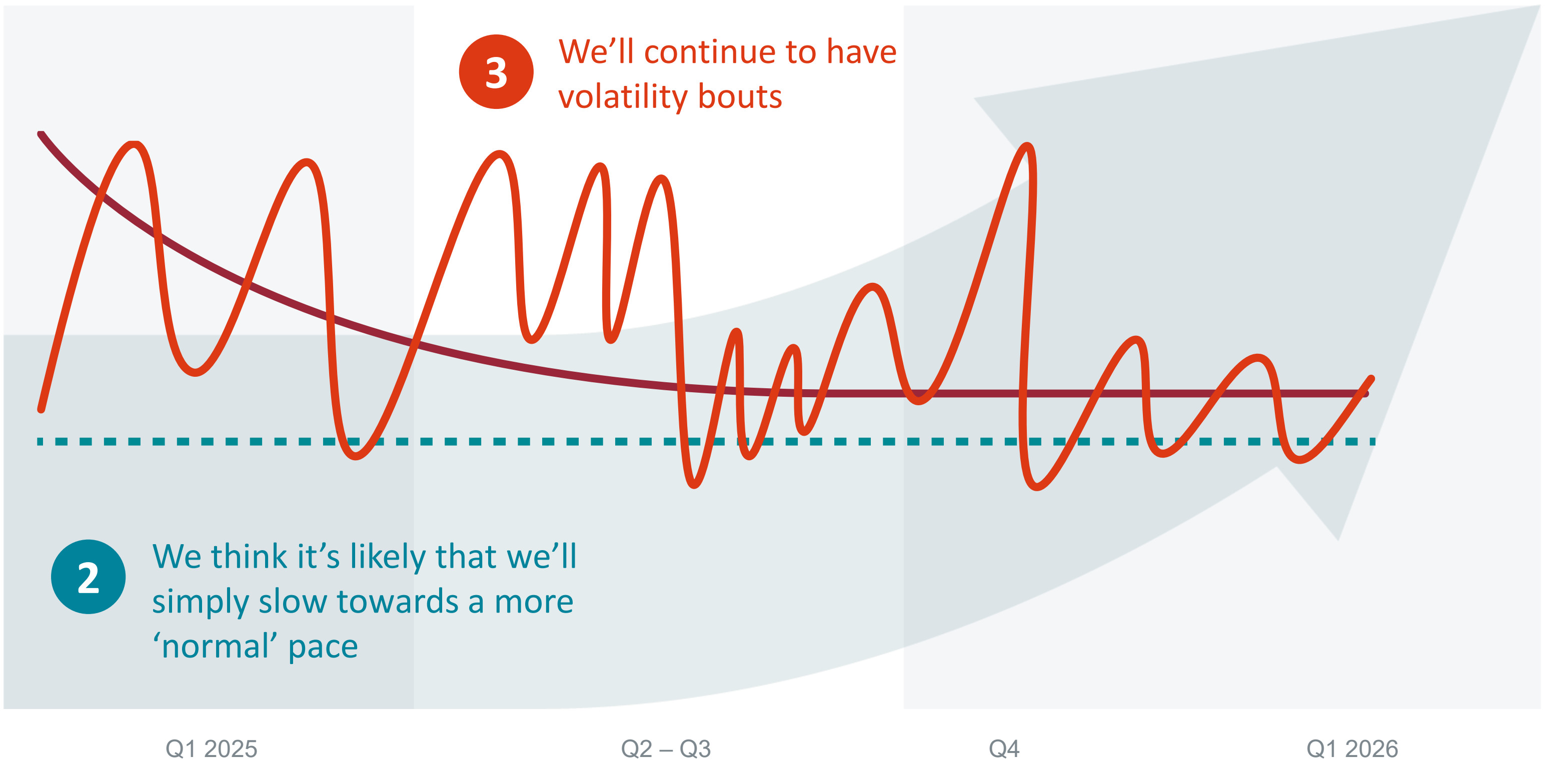
We stay strategically diversified across regions and asset classes, with a tactical overweight US equities & short-dated government bonds. We're neutral investment grade bonds and underweight high-yield bonds

N = neutral weighting of asset class vs strategic (long-term) asset allocation

2025 is all about getting 'back to normal', but with key swing factors

We expect a positive but more normal pace of growth in the near term, while long-term growth themes still play out; US policies and regulations, and geopolitics, could create volatility, risks and opportunities

4 Long-term growth themes will keep boosting markets

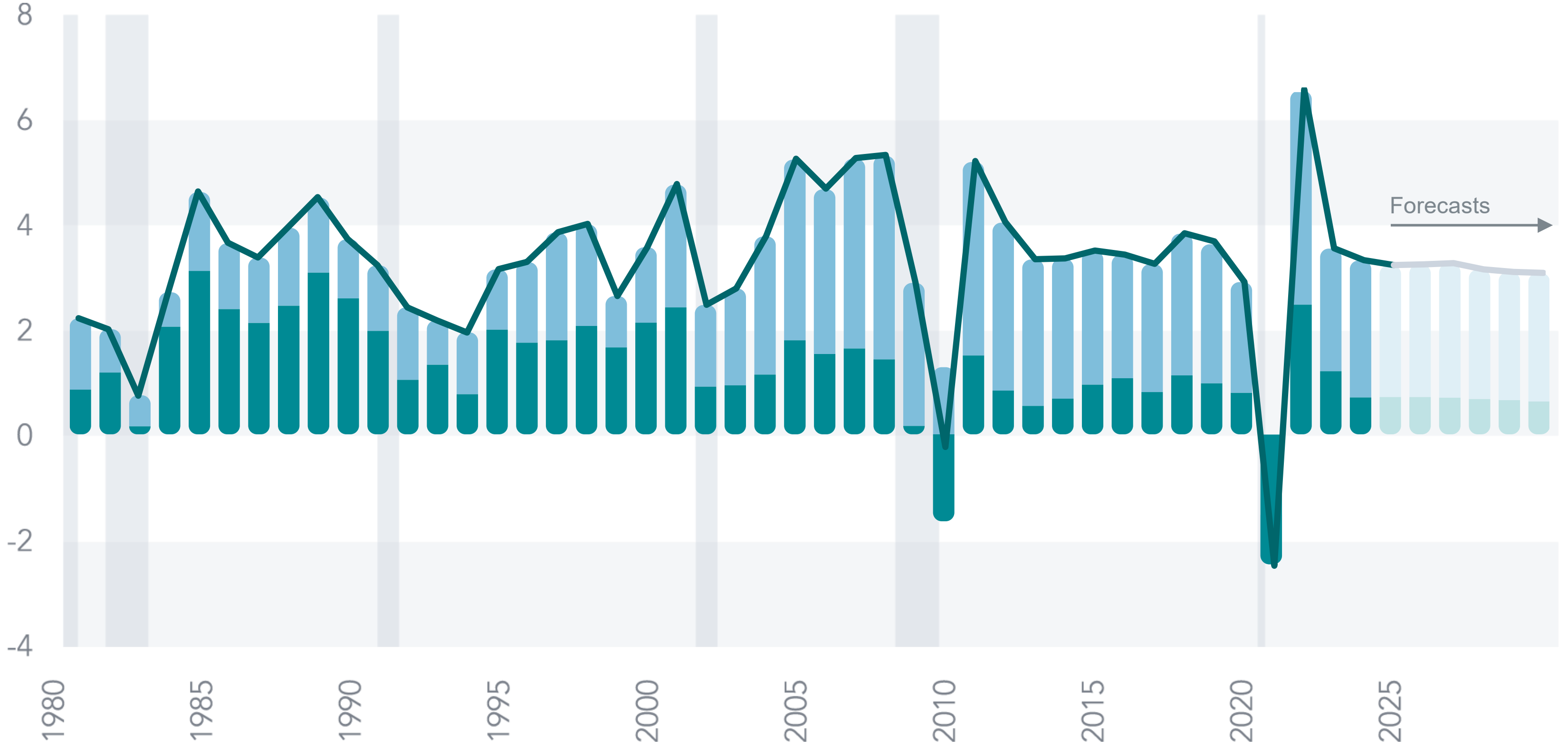


1 The slowdown we didn't get previously should happen this year

Economic growth becomes more normal

We expect stabilisation around the typical pace of growth: the US above, the Eurozone & the UK below

Global GDP (%) & IMF Forecasts



Key:

- Developed Markets Contribution
- Emerging Markets Contribution
- Global GDP Growth

Source: In-house research, LSEG Datastream, IMF. Shaded areas = recessions.

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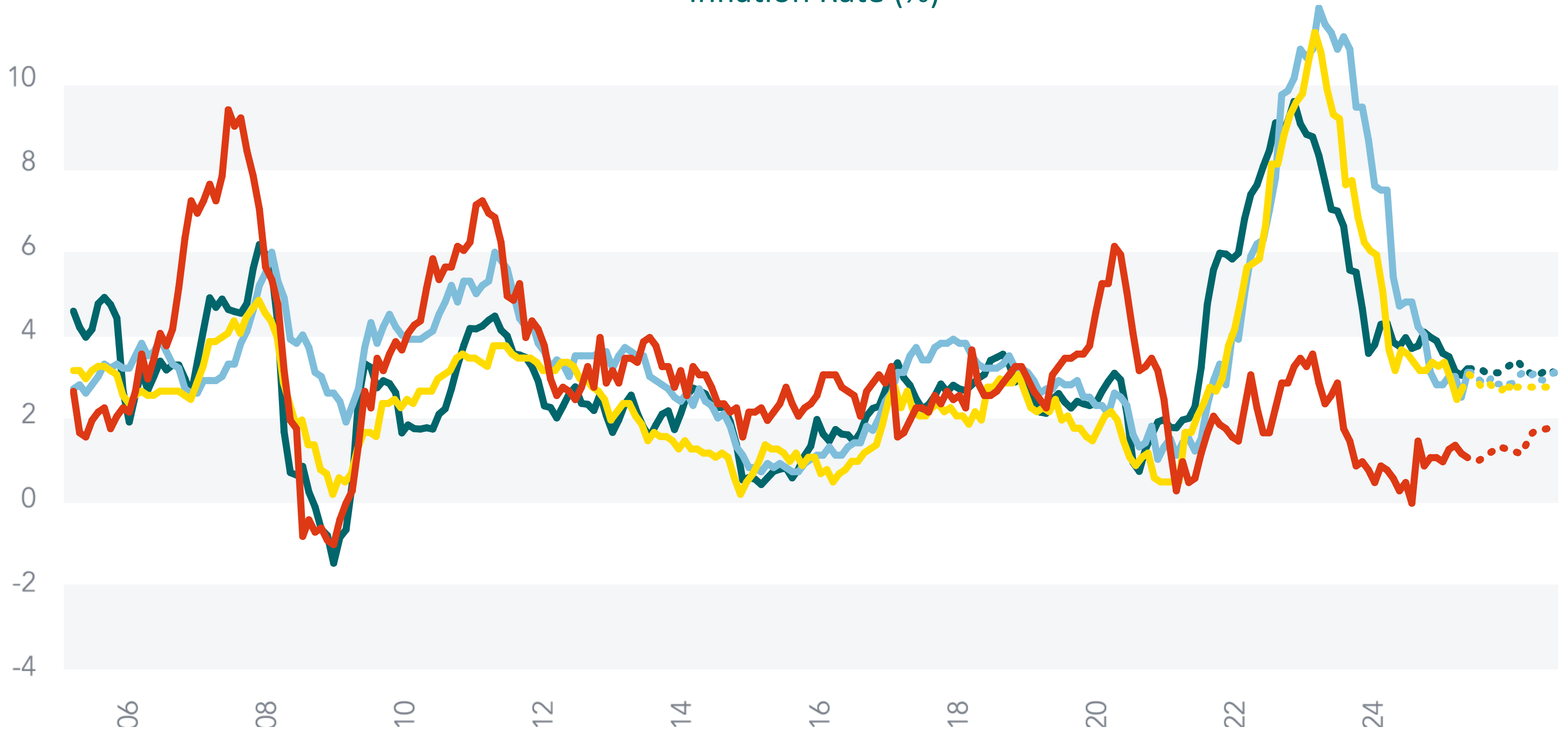
Inflation normalises around Central Banks' target

While inflation is stabilising in the near term, US fiscal stimulus could be inflationary further out

Inflation Rate (%)



Key:

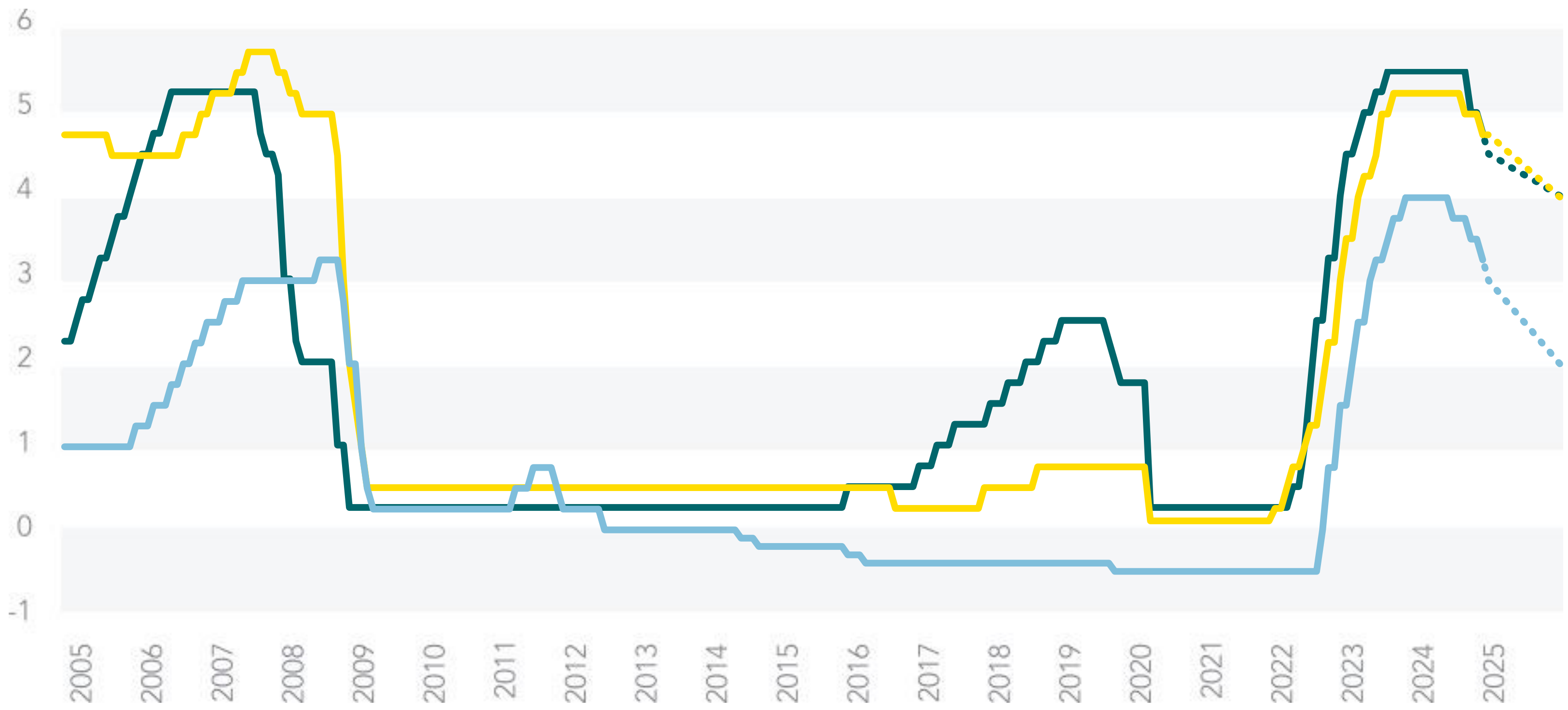
- US
- UK
- Eurozone
- China

Source: In-house research, LSEG Datastream. Dotted lines = in-house forecasts.

Central Banks bring interest rates to normal levels

With more normal growth and inflation, central banks can cut rates further, but don't expect super-low levels

Central Bank Policy Rate (%)



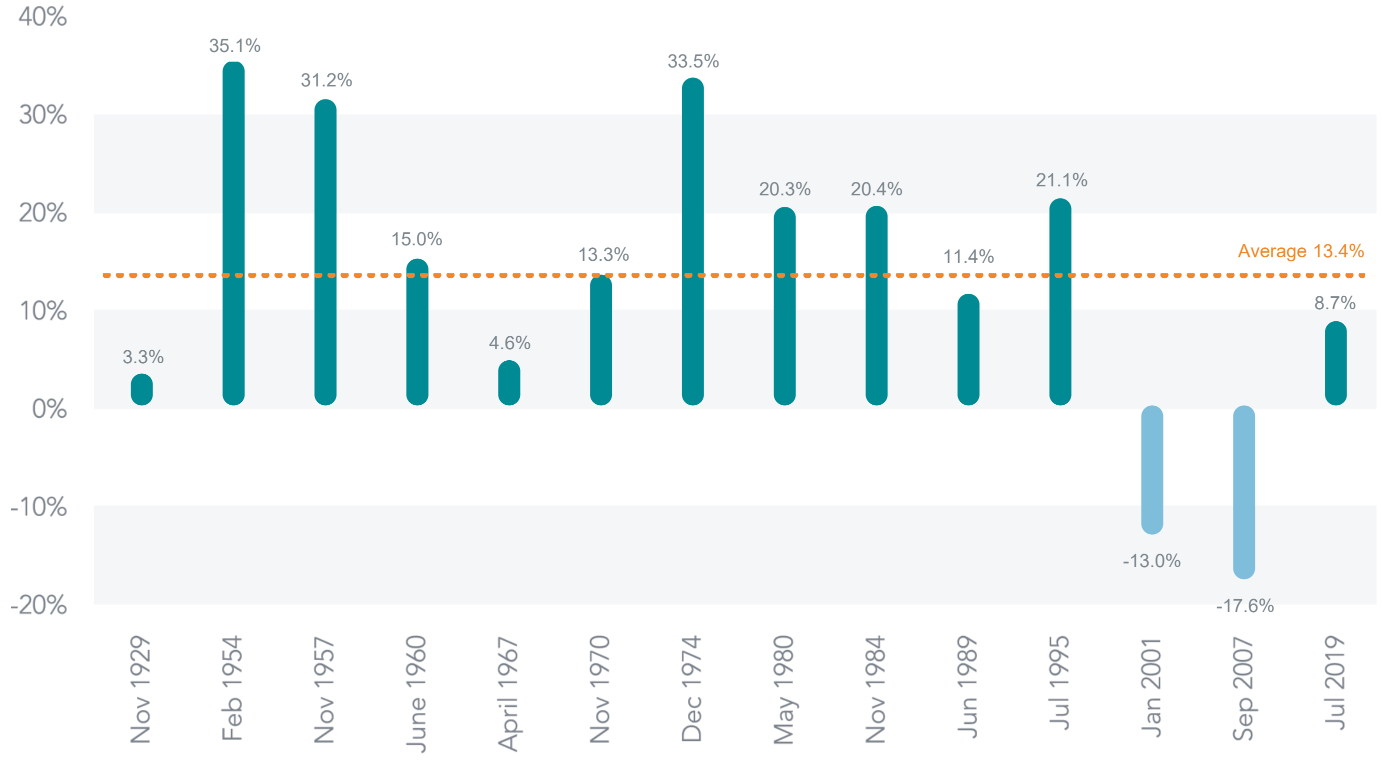
Key:
- Fed
- ECB
- BoE

Source: In-house research, LSEG Datastream. Dashed lines = in-house forecasts.

US equities to benefit from growth & rate cuts

Our strategy: we maintain an equity overweight, with a preference for the US, as we think stimulus will drive economic growth and interest rate cuts are likely to be supportive

S&P 500 return 12 months after first Fed cut



Source: In-house research, LSEG Datastream. Past performance is not a reliable indicator of future returns.

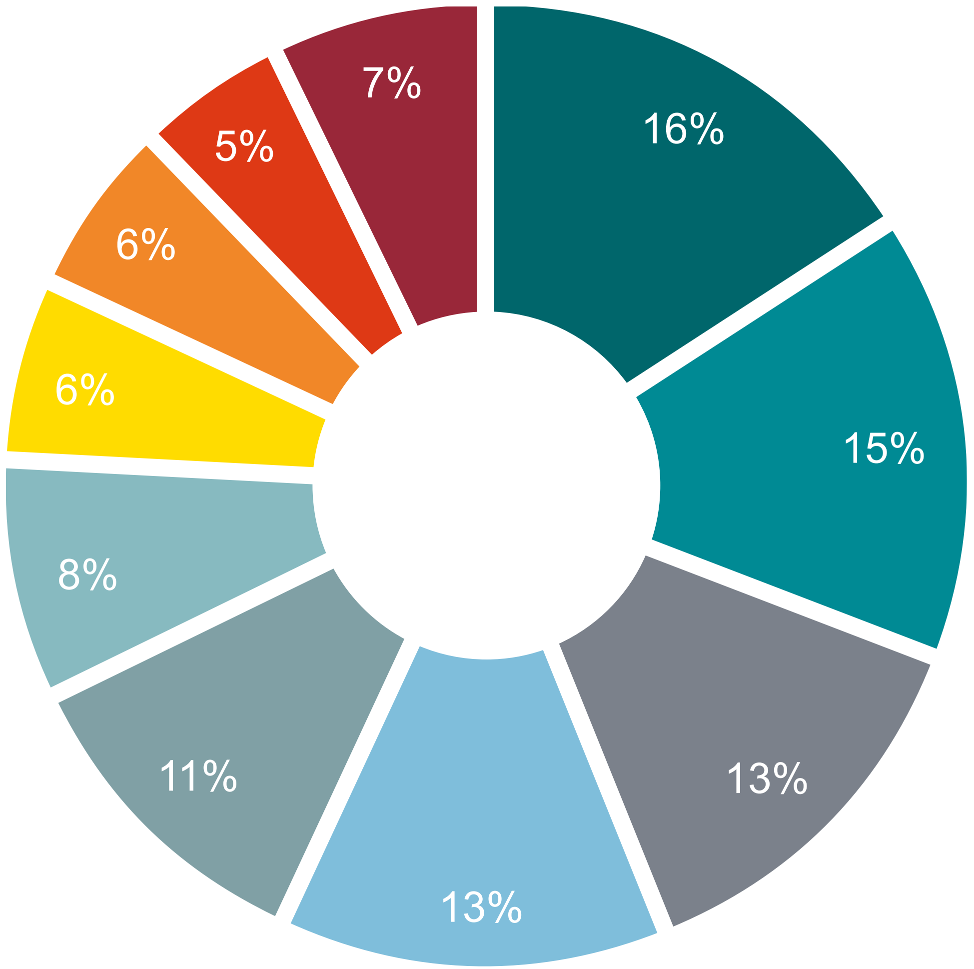
We add to cyclical sectors but still like technology

Our strategy: we bought an equal-weight index as US stimulus benefits cyclical sectors such as industrials & financials, and to mitigate concentration risks in tech, which we still like given solid earnings

Key:

Industrials Financials IT Health Care Consumer Discretionary
Consumer Staples Materials Real Estate Energy Others

Equal-Weight Index Sector Exposure



Source: In-house research, LSEG Datastream.

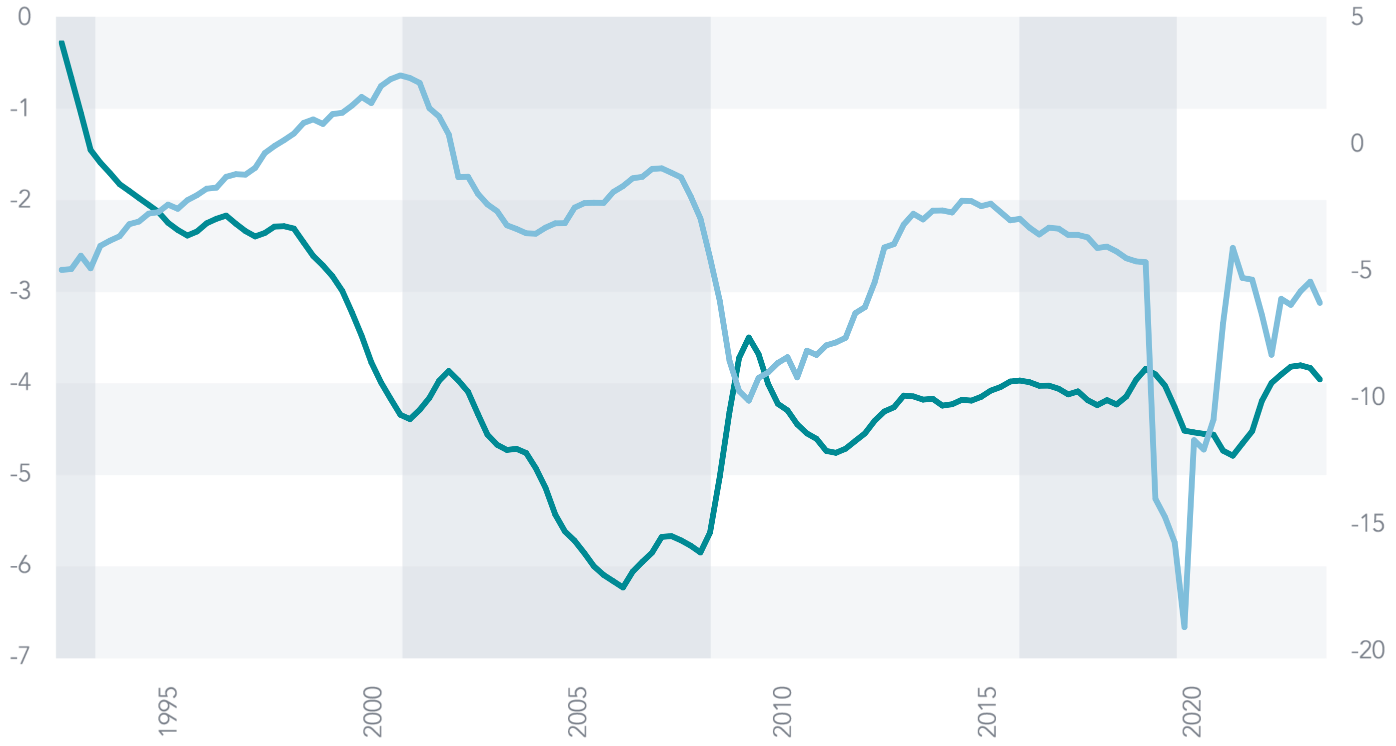
The US election aftermath: Fiscal stimulus & tariffs

Our strategy: fiscal stimulus widens the US budget deficit but also supports US growth; higher US tariffs aiming to close the US trade deficit (exports net of imports) are negative for the rest of the world, so we recently lowered our European equity exposure & don't have tactical emerging market positions

Key:

- Trade Balance (LHS)
- Budget Balance (RHS)

US Twin Deficit (% of GDP)

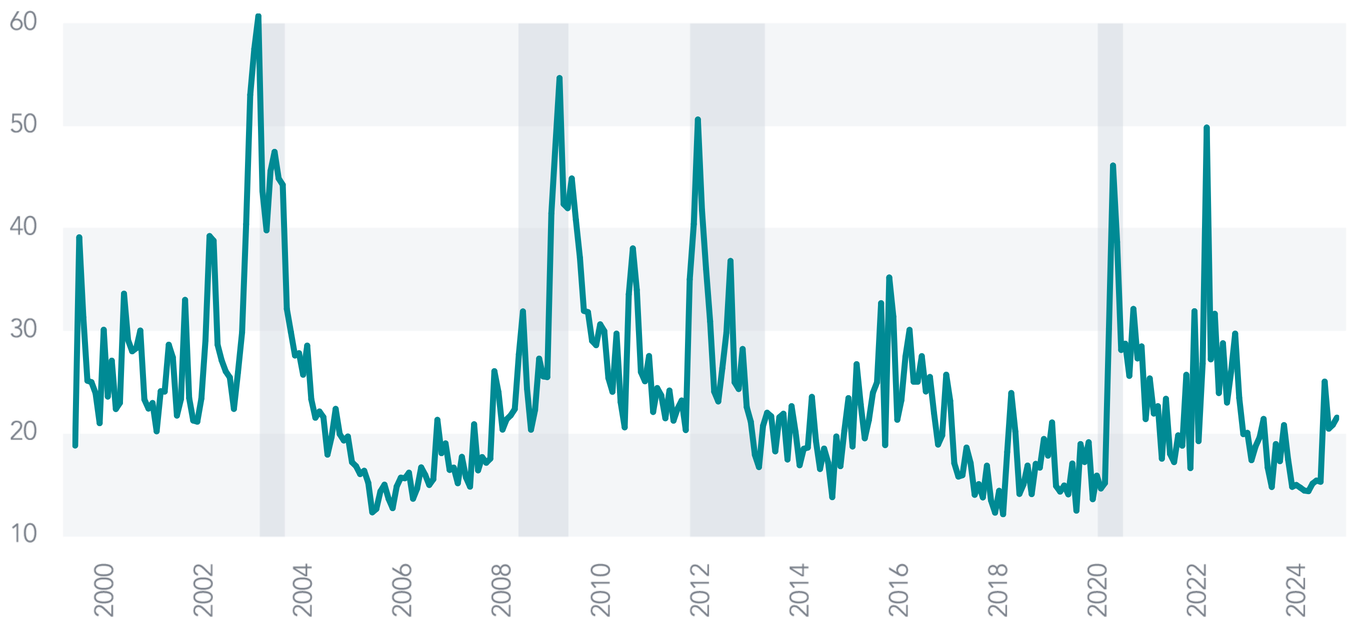


Source: In-house research, LSEG Datastream. Shaded areas = Republican President.

Markets are concerned about the Eurozone outlook

Our strategy: as Eurozone growth remains weak and higher trade tariffs from the US could weigh, we still hold an 'insurance' instrument to mitigate bouts of European equity volatility, and strategically own gold too

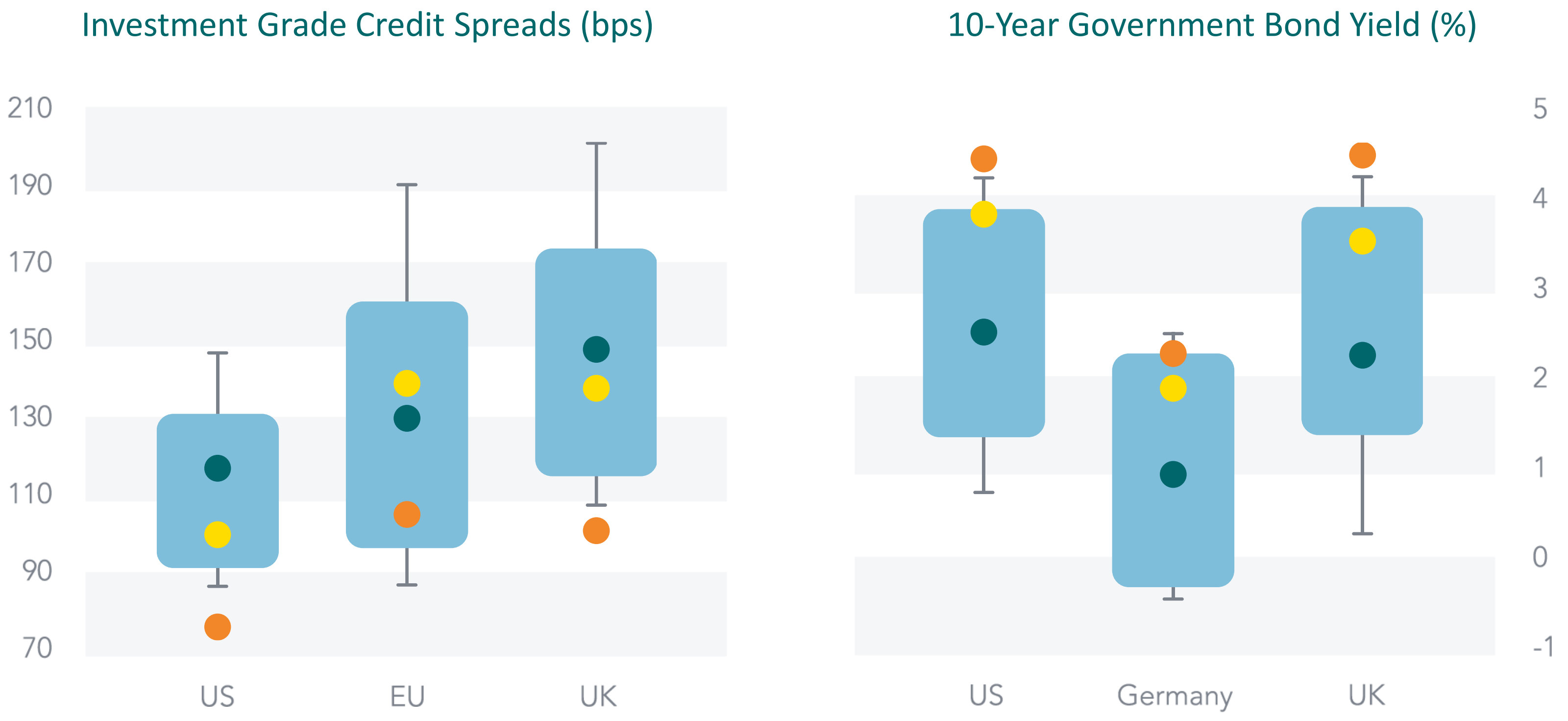
EURO STOXX 50 Volatility Index (%)



Source: In-house research, LSEG Datastream. Shaded areas = recession in the Eurozone.
Past performance is not a reliable indicator of future returns.

Credit market yields are low and not worth the risk, government bond yields are high and more attractive

Our strategy: we took profit on US and European investment grade corporate bonds given demanding valuations; we bought US Treasuries & European government bonds on better valuations

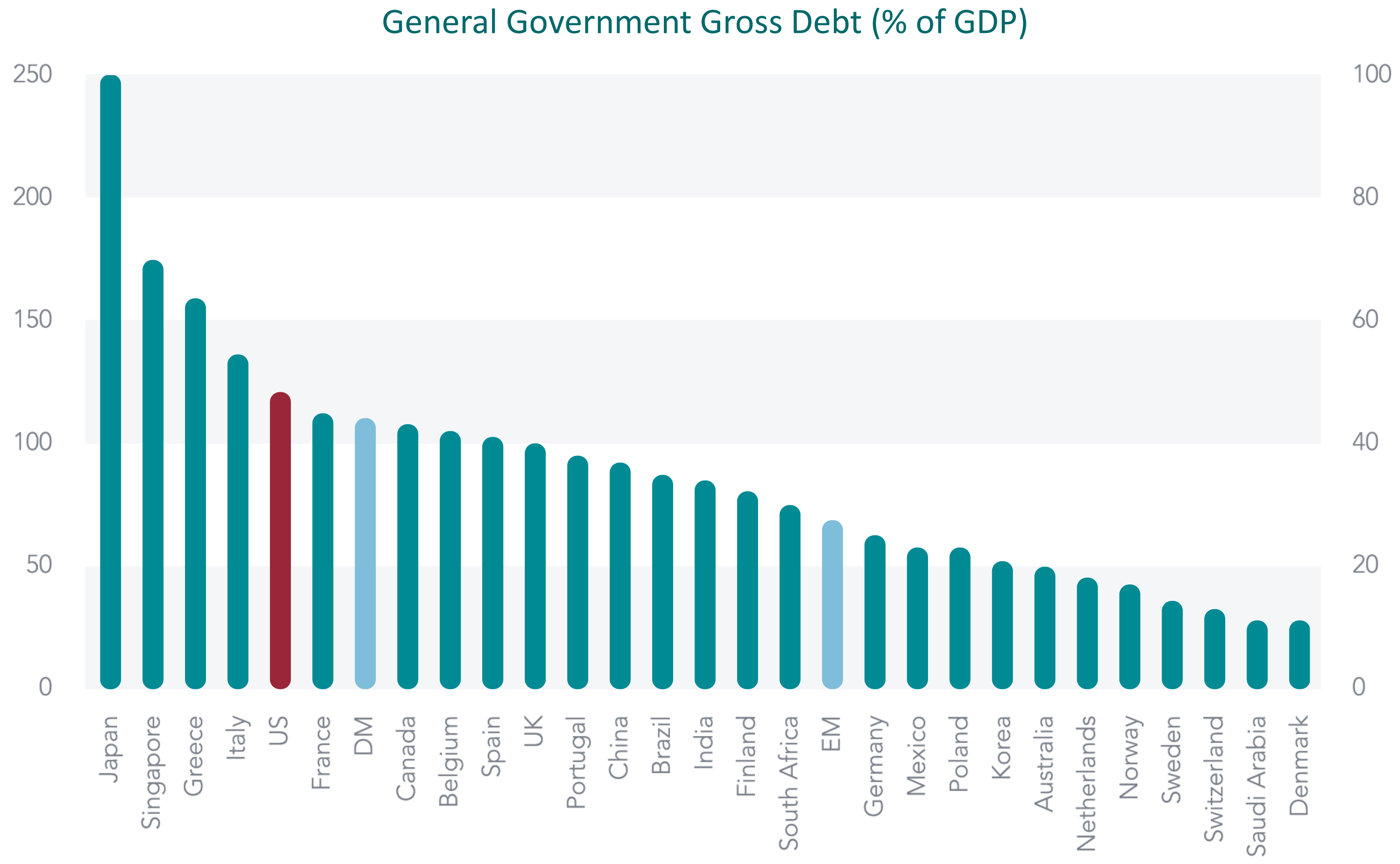


Key:
- Mean
- End of Last Year
- Current

Source: In-house research, Bloomberg. Calculations over the past five years. Min/max readings show the 10th and 90th percentiles respectively, and the blue box the 25th – 75th percentiles. Past performance is not a reliable indicator of future returns.

High debt levels could create market volatility

Our strategy: government bond yields could fall less than normal especially in the US, given a potentially large fiscal stimulus, so we maintain a reduced US Treasury exposure relative to our long-term asset allocation

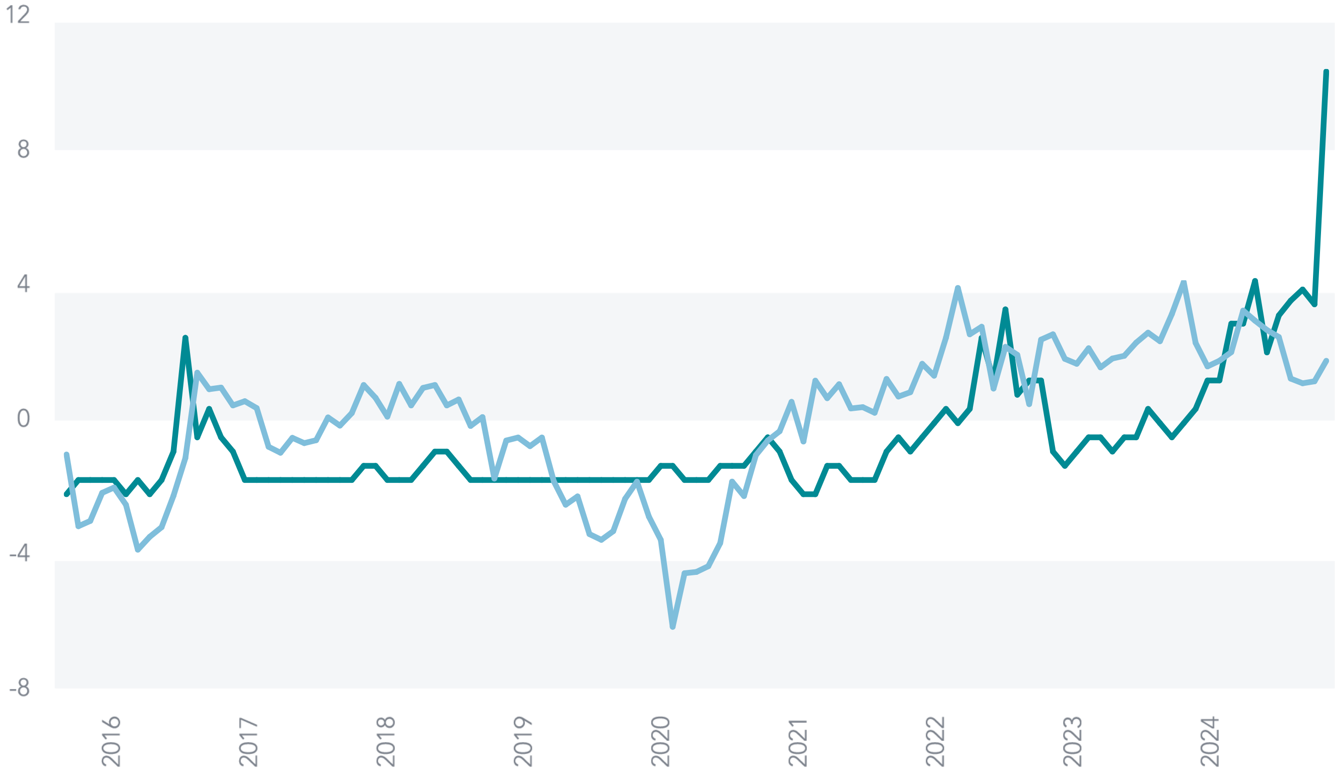


Source: In-house research, IMF

US fiscal stimulus & tariffs could be inflationary

Our strategy: we strategically swapped shorter-dated inflation-protected bonds with longer-dated ones as, like consumers, we think US fiscal stimulus & tariffs could bring back inflation at longer horizons

Google Searches for “Inflation & Trump” & Market Inflation Expectations



Key:
- Google Searches
- Inflation Expectations

Source: In-house, research Google Trends, LSEG Datastream. Standardised measures to ensure comparability. Market inflation expectations = 5-year inflation 5 years ahead. Past performance is not a reliable indicator of future returns.

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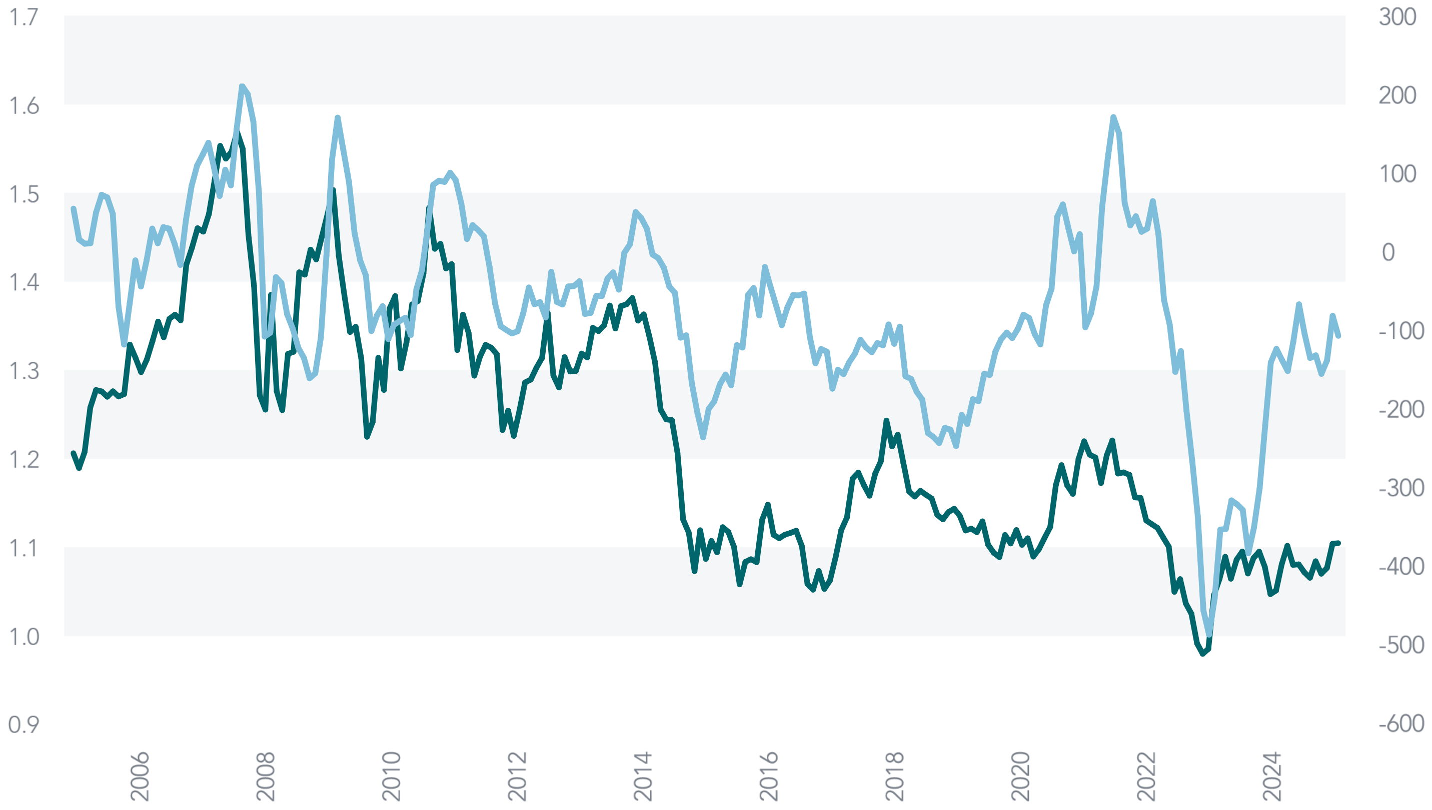
The dollar should stay strong in the near term

Despite inflation-adjusted interest rate differentials pointing to a weaker dollar, we think it's likely to stay strong in the near term vs the euro (and sterling), given better US growth vs the Eurozone (and the UK)

EUR/USD & 10-Year EU-US Real Bond Yield Spread (bps)



Key:

EUR/USD (LHS)

10Y EUR-USD Real Spread (RHS)

Source: In-house research, LSEG Datastream. Past performance is not a reliable indicator of future returns.

The key structural drivers for 2025 and beyond

We identified a handful of key structural drivers that affect investing now – and far in the future. These drivers are poised to create big shifts in profitability across economies and sectors.

Sustainability

Renewables, resource reutilisation

Regulatory waves

Changes to government policies

Demographic & social shifts

Ageing & the emerging market consumer

Geopolitical fragmentation

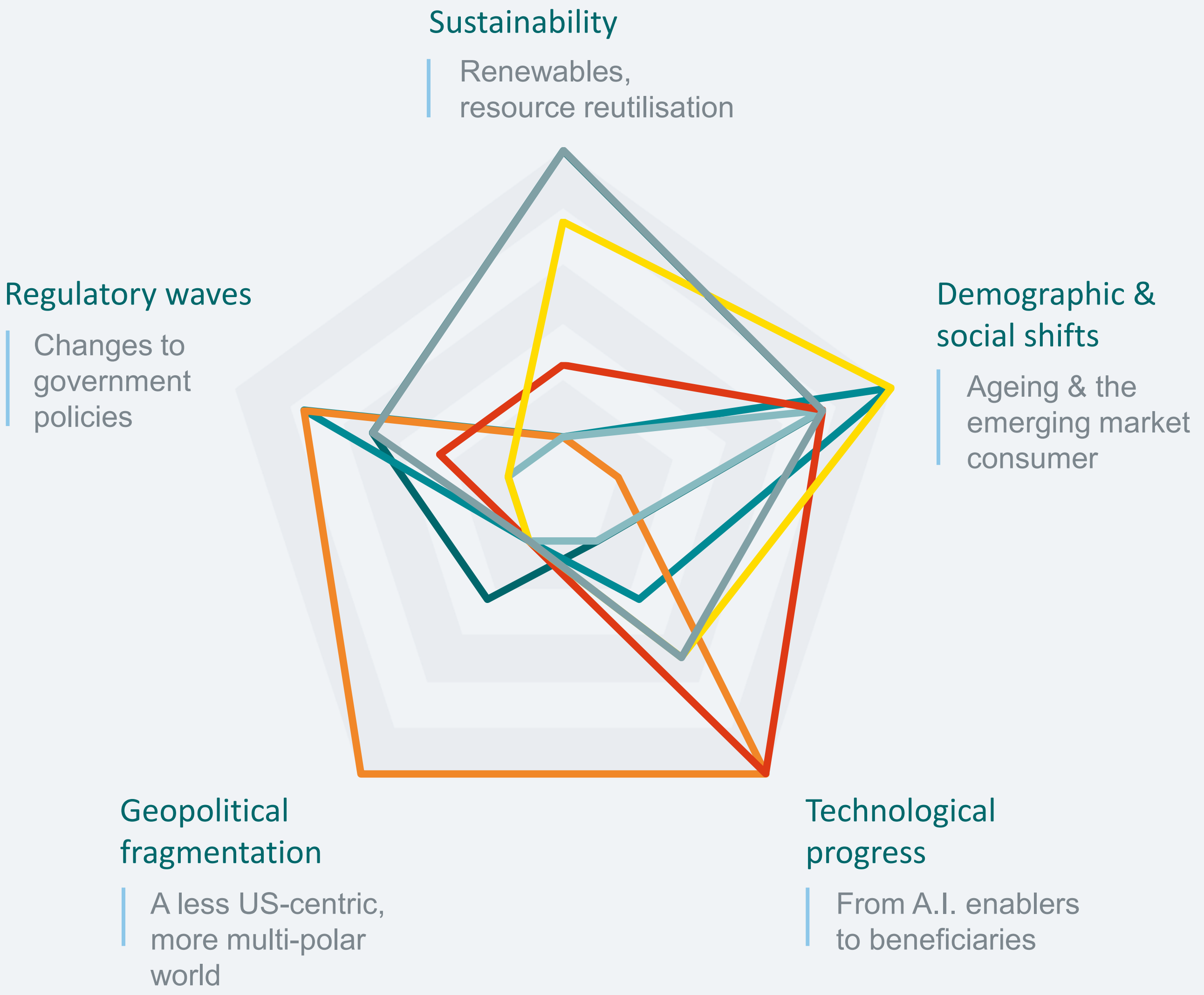
A less US-centric, more multi-polar world

Technological progress

From A.I. enablers to beneficiaries

How the key drivers influence our thematic investing

The structural drivers and the key themes are connected via a web of linkages

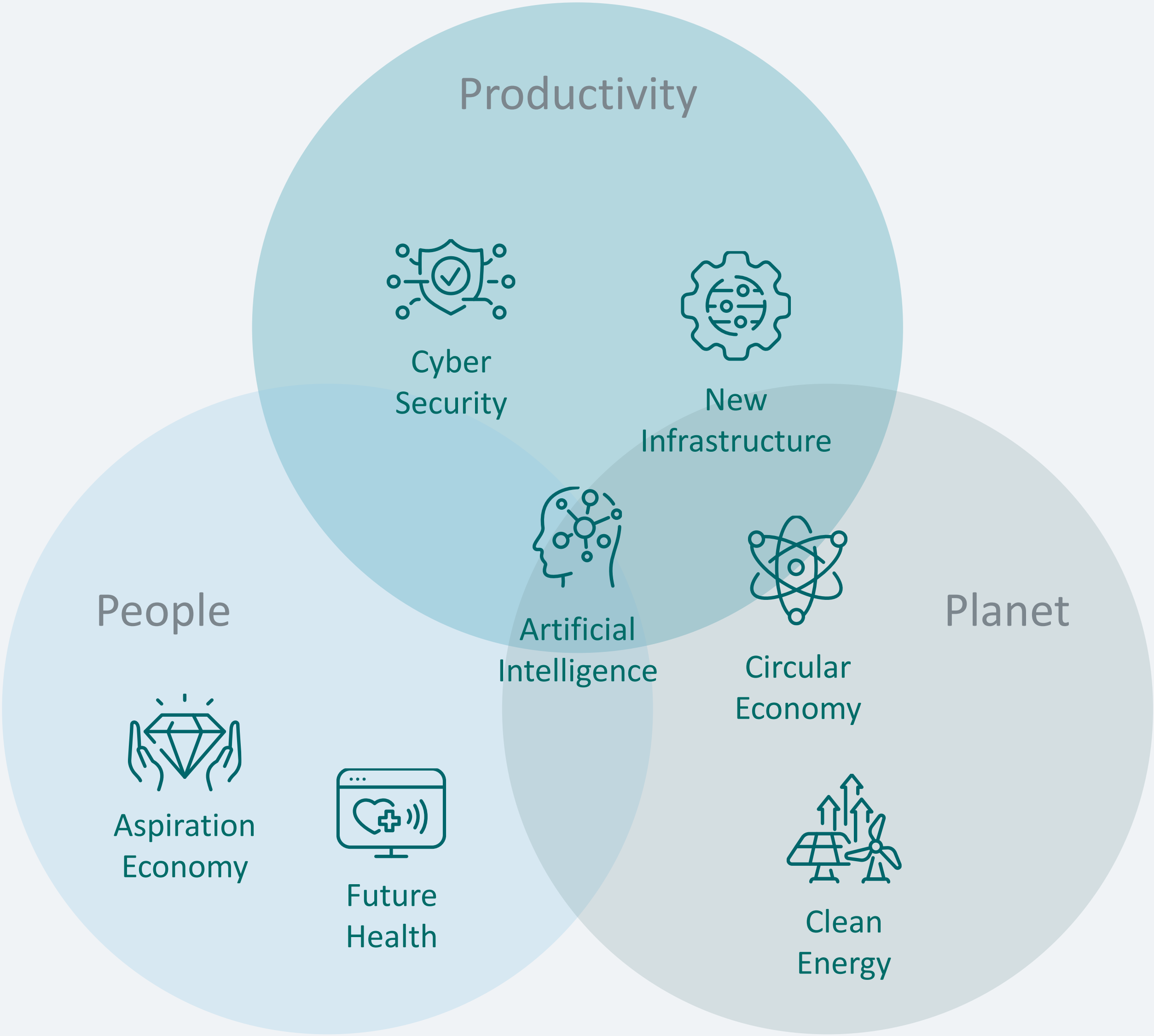


Key:
Clean energy
Future health
Cybersecurity
Circular economy
Aspiration economy
Artificial intelligence
New infrastructure

7 key themes across productivity, people & planet

We identified key technology, consumer and sustainability themes, with AI at the centre of it all.

We are now in the fourth major industrial revolution of modern human history, with technologies blurring the lines between physical, digital and biological world. AI is a catalyst for the 4th industrial revolution, spreading from technological enablers to beneficiaries across industries, and promising new opportunities.



What our preferred themes stand for

Our themes are about innovation in different forms, from technology to consumers to the environment

Artificial Intelligence

Technology that will blur the lines between physical, digital and biological world

New Infrastructure

Data centres, electrification and renewable energy are key for a digital world

Circular Economy

Transitions from a linear economy to a more efficient one

Cyber Security

Data will power A.I. and need to be protected especially in the context of geopolitical fragmentation

Aspiration Economy

Consumer demand for aspirational & luxury goods and services, driven by the long-term rise of the emerging market consumer

Future Health

Demand support for health services from an ageing world population and advance in technology

Clean Energy

Transition from fossil fuels to clean energy, also to ensure alternative supplies in the context of geopolitical fragmentation

Forecasts at a glance

Our economic expectations for 2025-26

GDP Growth (%)	2023	2024	2025	2026
Global	3.2	3.2	3.3	3.2
US	2.5	2.8	2.5	2.1
China	5.2	4.5	4.3	4.1
Eurozone	0.4	0.7	0.8	1.2
UK	0.1	1.0	1.5	2.0
Japan	1.9	0.6	1.0	1.0

CPI Inflation (%)	2023	2024	2025	2026
Global	7.0	6.2	4.6	3.9
US	4.1	3.0	2.5	2.5
China	0.2	0.8	1.2	1.8
Eurozone	5.4	2.4	2.0	2.0
UK	7.3	2.5	2.3	2.1
Japan	3.3	2.5	2.0	1.5

Central Banks (%)	Spot	2023	2024	2025	2026
Fed	4.375	5.375	4.375	3.875	3.375
ECB	3.00	4.00	3.00	2.00	2.00
BoE	4.75	5.25	4.75	4.00	3.75

10Y Bond Yields (%)	Spot	2023	2024	2025	2026
Treasuries	4.50	4.40	4.25	4.25	4.00
Bunds	2.24	2.60	2.20	2.00	2.00
Gilts	4.56	4.20	4.30	4.20	4.00

Foreign Exchange	Spot	2023	2024	2025	2026
EUR/USD	1.05	1.08	1.08	1.10	1.12
EUR/GBP	0.83	0.87	0.84	0.85	0.85
GBP/USD	1.27	1.24	1.28	1.30	1.32

Commodities	Spot	2023	2024	2025	2026
Gold (USD/oz)	2,639	2,065	2,600	2,700	2,700
Oil (Brent, USD/bbl)	74	78	75	75	75
Copper (USD/mt)	8,910	8,464	9,500	9,700	9,800

Note: in green = upward revision, in red = downward revision; rates, bond yields, FX & commodities are for Q4 of each year; ECB uses main refinancing rate. Source: In-house forecasts, IMF, LSEG Datastream (as of 19 December 2024).

Our tactical asset allocation

Our positioning across the major asset classes

	Underweight	Neutral	Overweight
Asset Allocation			
Equities			●
Fixed Income	●		
Commodities		●	
Cash		●	
Equities			●
US			●
Europe ex UK		●	
UK		●	
Japan		●	
Pacific ex Japan		●	
Emerging Markets		●	

	Underweight	Neutral	Overweight
Credit	●		
US Investment Grade	●		
European Investment Grade			●
Global High Yield	●		
Emerging Market Debt		●	
Sovereign Bonds			●
US Treasuries	●		
Euro Sovereign Bonds			●
US Inflation-Linked (TIPS)		●	
Commodities		●	
Gold		●	
Broad Commodities		●	

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