

# Optimal Income Strategies

## Trump-starting the global economy

- Overall U.S. economy remains resilient and poised for steady progress
- European equities are significantly lagging but may be due for a catch-up
- Maintain a bias to add further exposure on Eurozone Government

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### What's happening?

The U.S. economic outlook will largely depend on the implementation of new policies, which may provide a modest boost to growth. However, supply-restricting measures are expected to weigh on economic performance, while inflation is likely to remain stubborn due to the overall inflationary nature of these policies. As a result, we anticipate U.S. GDP growth to slow from 2.8% in 2024 to 2.3% in 2025 and further to 1.5% in 2026.

In the Eurozone, economic activity is expected to remain subdued but should see some gradual improvement despite a weakening global environment. Rate cuts by the European Central Bank (ECB) are likely to support household spending and encourage investment by 2026. However, rising geopolitical uncertainty and political fragility could pose risks to this recovery. We project Eurozone GDP growth at 0.8% in 2024, 1% in 2025, and 1.3% in 2026.

China faces significant internal and external challenges to its growth. Externally, tariffs are expected to dampen activity, while internally, demand remains constrained by an ongoing correction in the property market. To manage this slowdown, the government will likely continue providing stimulus, aiming for a controlled deceleration. We forecast GDP growth in China to slow from 4.9% in 2024 to 4.5% in 2025 and 4.1% in 2026.

Emerging markets, meanwhile, are grappling with a difficult combination of worsening external conditions, tighter global financial environments, and the challenge of managing fiscal and monetary policies effectively. These pressures will require careful navigation to sustain growth.

On the monetary policy front, central banks are expected to adopt a cautious approach to easing. In the U.S., the Federal Reserve has already cut interest rates by 25 basis points in November and is likely to do so again in December. After pausing in March, the Fed is expected to resume easing in the second half of 2024. The ECB is projected to continue with consecutive rate cuts through mid-2024, while the Bank of England will likely ease policy gradually. The Bank of Japan is expected to raise its policy rate in 2025, completing this adjustment by 2026.

Overall, the global economy faces a complex landscape of policy shifts, inflationary pressures, and geopolitical risks. While certain regions may experience modest improvement, growth is likely to remain uneven across the globe.

**Positioning & Performance:**

	GLOBAL OPTIMAL STRATEGY			OPTIMAL STRATEGY			DEFENSIVE OPTIMAL STRATEGY		
	Dec-23	Oct-24	Nov-24	Dec-23	Oct-24	Nov-24	Dec-23	Oct-24	Nov-24
<b>Net Equity</b>	<b>65,5%</b>	<b>69,7%</b>	<b>87,9%</b>	<b>54,1%</b>	<b>72,0%</b>	<b>75,0%</b>	<b>34,4%</b>	<b>34,4%</b>	<b>30,6%</b>
Equities	63,0%	84,6%	81,6%	60,0%	76,1%	75,0%	33,7%	34,6%	36,0%
Equities derivatives	8,6%	3,0%	9,1%	-0,8%	0,5%	0,0%	0,7%	-0,2%	-5,4%
Risk Mitigation Strategies	<b>-6,1%</b>	<b>-17,9%</b>	<b>-2,8%</b>	<b>-5,1%</b>	<b>-4,6%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>0,0%</b>
<b>Fixed Income</b>	<b>21,3%</b>	<b>4,4%</b>	<b>5,0%</b>	<b>33,5%</b>	<b>22,1%</b>	<b>23,3%</b>	<b>28,5%</b>	<b>62,1%</b>	<b>63,3%</b>
Govies	1,0%	0,0%	0,0%	1,0%	0,0%	0,0%	0,0%	0,0%	0,2%
Bond Derivatives	8,1%	59,1%	44,3%	9,4%	31,9%	31,6%	17,5%	28,1%	8,3%
High Yield Credit	1,2%	0,9%	1,3%	3,4%	5,2%	5,5%	10,5%	14,8%	16,2%
Investment Grade	17,3%	3,4%	3,6%	26,5%	16,6%	17,5%	17,9%	46,8%	46,4%
Emerging Debt	1,8%	0,1%	0,1%	2,6%	0,3%	0,3%	0,0%	0,4%	0,4%
<b>Diversification</b>	<b>3,4%</b>	<b>10,4%</b>	<b>7,2%</b>	<b>1,5%</b>	<b>0,9%</b>	<b>1,0%</b>	<b>5,6%</b>	<b>7,1%</b>	<b>5,6%</b>
<b>Cash &amp; Money Market</b>	<b>9,8%</b>	<b>15,5%</b>	<b>-0,1%</b>	<b>10,7%</b>	<b>5,0%</b>	<b>0,8%</b>	<b>31,6%</b>	<b>-3,5%</b>	<b>0,6%</b>

The U.S. economic landscape continues to provide a supportive backdrop for equity markets. The decisive outcome of the presidential election removed a significant source of uncertainty, boosting risk sentiment. In response, we reinforced our tactical positioning to capitalize on this momentum, maintaining an overweight exposure to the U.S. dollar and favouring U.S. equities, particularly in banks and domestic cyclicals. These positions remain largely intact, bolstered by a recent easing in U.S. Treasury yields, which have moved marginally away from the "danger zone" of 10-year nominal yields exceeding 4.5% and real rates surpassing 2%.

Looking ahead to 2025, we expect U.S. equities to continue outperforming global peers. The divergence in transatlantic growth and fiscal policy further strengthens our preference for U.S. equities. However, we remain vigilant, as European equities' prolonged underperformance has reached levels that may signal a potential recovery.

We also foresee a broadening of the U.S. stock market rally in 2025. As the bull market matures, we favour high-quality and low-volatility stocks. A gradual moderation in U.S. growth exceptionalism, coupled with a narrowing earnings growth gap between Tech and other sectors, supports a more balanced market performance moving forward.

Following the U.S. elections, Treasury yields rose due to expectations of reduced monetary easing and larger fiscal deficits, leading to a higher term premium. This has placed slight upward pressure on European yields. However, with the Eurozone's weak economic outlook, the ECB is likely to adopt a more accommodative stance than the FED. In this context, we maintain our position in Eurozone government bonds and are inclined to increase exposure, given their strategic value.

## Outlook

Donald Trump returns as the 47th President of the United States in January 2025. Historically, U.S. presidential elections have had limited impact on financial markets, as noted by our Macro Research in 2016. However, as in 2016, the stark policy divergence between candidates fuelled “Trump trades,” which fluctuated with polls before rallying post-election. The results drove U.S. equities higher, strengthened the U.S. dollar, boosted Treasury yields, and sharply lifted U.S. financials on deregulation prospects.

As 2024 concludes, we assess our position within the economic and market cycles. We believe the bull market that began in late September 2022 remains intact, with global markets up around 60% since then. While this rally is mature compared to historical cycles, it is not extreme. Valuations are elevated, especially among U.S. tech giants, with the top 10 companies trading at nearly 50 times earnings. Despite this, we see broader U.S. equities as more attractive and expect the rally to widen in 2025, with earnings growth across sectors converging significantly.

A renewed Trump presidency further supports our preference for U.S. equities. Historically, overweighting U.S. over European equities has been successful 80% of the time since the Global Financial Crisis, driven by stronger growth differentials and positive investor sentiment. Potential U.S. tariffs and China's likely response via currency depreciation could deepen transatlantic economic divergence to Europe's detriment. While U.S. equities remain in an Expansion phase, supported by above-trend growth, we expect a transition to a Slowdown phase in 2025, requiring a shift toward quality and low-volatility stocks as momentum fades.

In contrast, Europe has likely already entered the Slowdown phase. Growth is expected to remain modest, at or slightly above +1% in 2025. We are tilting our European equity exposure more defensively, favoring interest-rate-sensitive sectors. Additionally, we remain constructive on euro-denominated government bonds, as the European Central Bank aligns its tone with the fragile economic backdrop.

Europe still has potential upside. Valuation gaps between U.S. and European equities have reached unprecedented levels, but mean reversion may take time. Positive catalysts—such as an end to the Ukraine conflict, stronger Chinese stimulus, or a more supportive German fiscal stance after the February elections—could narrow the performance gap. For now, patience is key as we monitor investor sentiment and positioning.

The primary risk remains higher interest rates triggering an equity correction through valuation de-rating. However, we view this as unlikely to be severe, given signs of a global economic slowdown, particularly in China and Europe, and already elevated bond yields. A U.S. recession poses the most significant risk, with lower Treasury yields but equity markets correcting due to earnings downgrades.

We remain confident in multi-asset portfolios to provide diversification and better risk-adjusted returns than single-asset strategies, as they have consistently done over decades.

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