2025 Perspective

PLURIMI
Wealth Redesigned

Patrick Armstrong, Chief Investment Officer

4 December 2024

As we enter 2025, we remain moderately overweight equities. We do not expect to carry this position for the entire year but supportive global growth and easing monetary conditions should set the stage for higher equity prices in the near term. European equities trade at undemanding multiples and could benefit from much more accommodative policy from the ECB.

The most likely risks to our positive view come from unpredictable policy and elevated multiples in US equities which already discount a very positive backdrop. Investor expectations are also elevated, in a November Conference Board Survey, 51.4% of Americans say they expect stock prices will move higher over the next year. This record bullish reading creates overbought risks for equities.

Unless something breaks the strong employment backdrop, we expect the global economy will continue to grow. Our base case has the US economy in a “No Landing Scenario”, with growth above potential and inflation higher than the Fed target. Europe is in a soft landing, and Asia performing below potential given weakening trade and China growth overhang.

The US economy should remain a source of strength, driven by solid consumption and stimulative fiscal policy. In the US we expect inflationary embers will continue to smoulder throughout 2025. Relatively strong aggregate demand and increasingly nationalistic policies are not conducive for inflation falling to central bank targets. We do not expect the downward trend in inflation to last as restrictive policy is removed.

10-year sovereign bonds do not offer a significant term premium, and lower grade credit spreads are historically tight. Short duration investment grade bank debt continues to offer the best risk adjusted return potential. Steepeners should be profitable as central bank lower rates and longer-term bonds price in fiscal and inflationary risks. Inflation protected Treasuries offer compelling real yields above inflation.

China’s economy should continue to grow but faces several headwinds including; continued property weakness, local government debt issues, youth unemployment, negative demographics, and global trade uncertainty based on a number of geo-political disputes.

The war in the Middle East and Ukraine will remain wild cards for growth. A broadening of conflicts risks curtailed trade, and spiking energy prices which could create a global recession.

2024 Review

Central banks began to loosen restrictive policy. The US economy delivered strong growth, while other major economies delivered positive but lacklustre growth. US equity markets, especially AI related companies pushed to record highs driven by multiple expansion and earnings growth in equal measure.

Asset Allocation *p.9*

We have a small overweight position in equities as we enter 2025. We favour duration through TIPS in fixed income. Attractive yields at front end of the corporate curve and compelling real yields at the long end drive our positioning.

Global Economy *p.4*

We expect continued global growth based on resilient consumer demand and a strong employment backdrop in the US. Europe should see monetary conditions become quite accommodative which may drive a strong second half. The most likely wild cards that could de-rail our positive view.

Central Banks *p.7*

We expect only 1-2 cuts from the Fed in 2025 vs 4-5 from the ECB. We expect the BoJ to continue to loosen its yield curve control policy.

Debt *p.8*

Near record debt levels will begin have consequences as positive real yields prove costly for governments and borrowers but will not pose a major problem as long as nominal growth stays strong.

Equities *p.12*

Monetary stimulus and economic growth pave the path for positive returns in 2025. Mega Cap tech trade at premium multiples that are warranted.

Fixed Income *p.15*

We expect curves to steepen in 2025 as inflationary pressures and bond vigilantes push the 10-year yields above 5%. Short duration bank debt and long duration inflation linked bonds are best options in our opinion.

Commodities *p.17*

The 2025 outlook for key commodities reflects mixed dynamics shaped by supply, demand, and geopolitical factors. We are positive on copper and have a neutral view on oil. Gold prices should benefit from Central Bank demand .

Currency *p.18*

USD should benefit from a stronger economy than Europe and less aggressive cuts from the Fed.

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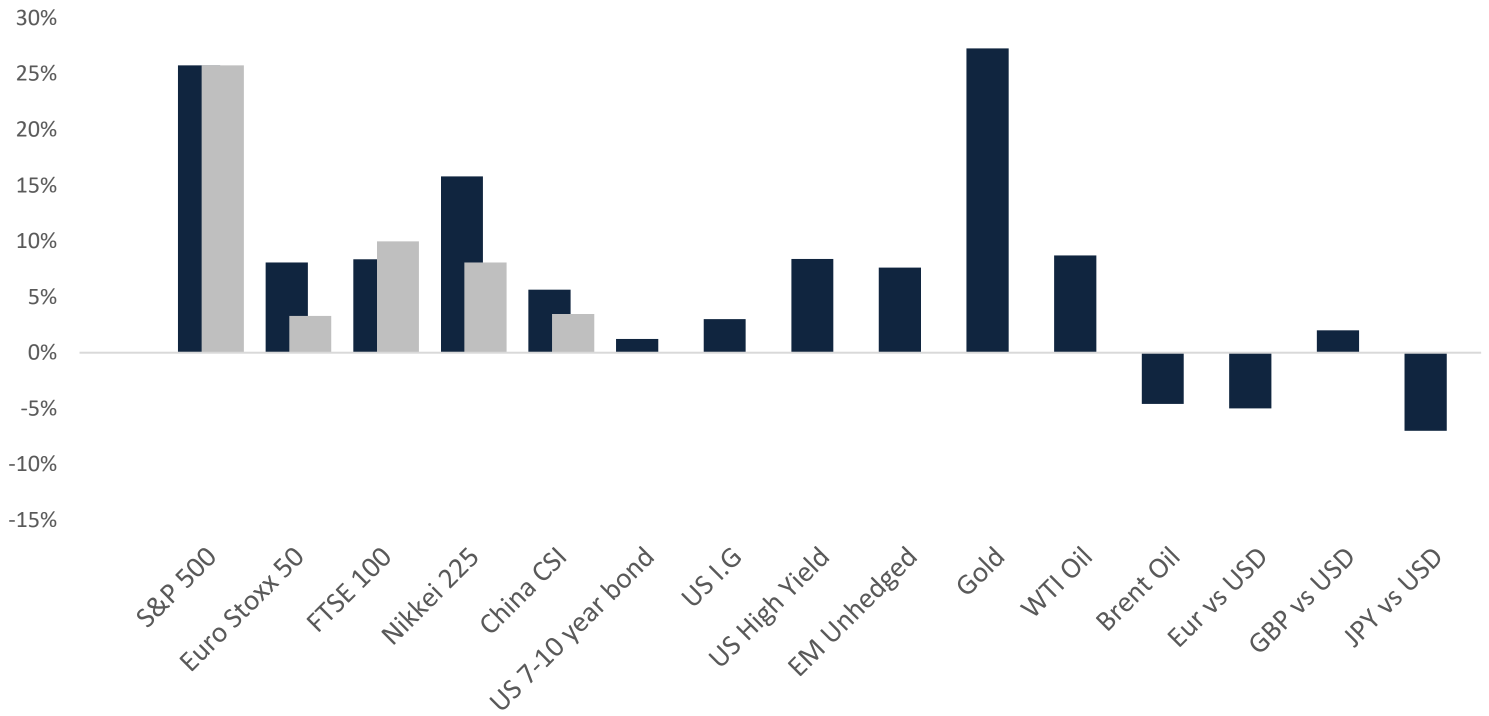
2024 YTD

Year to date performance (% change) to 29/11/2024. (USD Blue, Local Currency Grey)



Source: Bloomberg, Plurimi Wealth LLP

Trends in AI, geopolitical dynamics, and monetary policies have been key drivers of 2024's market outcomes. Strong earnings growth and easing monetary conditions pushed global equities higher by 22% ytd. 85% of this return came from US equities particularly those benefiting from AI developments. The S&P 500 rose 24%, while the MSCI World ex-US rose only 6% in USD terms.

Treasuries lagged as yields moved higher, but the higher coupons on corporate bonds and EM debt led to more meaningful returns.

GBP outperformed the USD, Euro and Yen in 2024 as it recovered from the “Liz Truss Budget” selloff in Q4 2023. The Japanese Yen was the laggard, as the Bank of Japan continued with stimulative monetary policy while other central banks have only begun to unwind restrictive policy.

Oil prices were volatile, ending November 5% below where they were at the beginning of the year.

Rising geo-political concerns, central bank demand drove gold prices higher despite meaningful real yields on other safe havens.

US equities and Gold were the winners of 2024. World ex-US equities delivered subdued returns when measured in USD. Corporate bonds matched cash and Treasuries delivered positive but trivial returns.

2024 MSCI World Sector performance (USD %)

	Return	Contribution
MSCI World	22.3	22.3
Information Technology	30.9	7.3
Financials	32.7	4.9
Communication Services	30.9	2.2
Industrials	19.8	2.2
Consumer Discretionary	18.2	1.9
Health Care	7.7	1.0
Consumer Staples	10.8	0.7
Utilities	22.3	0.6
Energy	11.7	0.5
Real Estate	12.1	0.3
Materials	2.8	0.1

31/12/2022- 29/11/2024

Source: Bloomberg, Plurimi Wealth

Financials, Communications and Technology drove the index higher…and no sector was negative

Global economic dashboard

Indicator	Rate of change (Derivative)		Interpretation & outlook	
	1st	2nd		
Growth				
Global leading economic indicator	-	0	OECD LEI at -0.6%	US Economy Growing above trend , which is a marked differential with rest of world
ZEW/IFO	+	-	ZEW in expansionary territory but weakening	
US ISM manufacturing new orders	-	0	47 but steady	
Consumer confidence	0	+	Low but improving	
Business confidence	+	0	Mildly positive and steady for months	
Global PMI	+	0	Global composite PMI is steady at levels above 50 led by strong services.	
G7 employment	+	-	Unemployment is low but job market is less tight than it has been in years.	
Global trade volume	0	0	Global trade has been curtailed by sanctions, war but has not collapsed. Trump Tariffs a real risk.	
Oil prices	+	0	Spot oil prices have been volatile and weakening	
Policy				
Real policy rate	0	+	US policy on track to be accommodative	Monetary policy should continue to loosen
Nominal GDP-bond yield gap	0	+	Growth more positive than yields	
G7 credit growth	0	0	Credit growth is slow but remains neutral for growth.	
Financial stress	0	+	Credit spreads not showing stress.	
Fiscal thrust	+	0	US Stimulus has been driver of growth and not falling.	
Inflation				
Core CPI	+	-	CPI trending lower	
Wage growth	+	0	Wage growth is high in nominal and real terms	

Source: Bloomberg, Plurimi Wealth LLP

Global Economy

No Landing in US and Soft landing in Europe.

Much like last year our global economic dashboard shows an economy which is not growing rapidly but clearly not in a recession. Leading indicators point to lacklustre growth, but unless something breaks the strong employment backdrop, we expect the global economy will continue to grow meaningfully. The US should remain a source of strength, driven by solid consumption and stimulative fiscal policy. In the US we expect inflationary embers will continue to smoulder throughout 2025. Personal expenditure should continue to expand at an above-trend pace in 2025 based on real wage growth. Consumer confidence surveys show pessimism that actual activity data generally do not. The positive trend in income and corporate profits remain solid, and job security is historically elevated. The global manufacturing portion of the economy is in recession but robust growth in services is more than offsetting this.

Many negatives on the dashboard are offset by a strong employment backdrop and the prospect for real wage growth driving consumption.

Trump's second term will see a range of policy shifts, with tariffs and threats of tariffs as a bargaining chip likely playing an important role. On the pro-growth side; regulatory easing and tax cuts have also been indicated.

China's economy should continue to grow but faces several headwinds including; continued property weakness, local government debt issues, youth unemployment, negative demographics, and global trade uncertainty based on a number of geo-political disputes. The war in the Middle East and Ukraine will remain wild cards for growth. A broadening of conflicts risks curtailed trade, and spiking energy prices which could create a global recession.

Extreme US trade policy, Chinese growth and implications from wars are wild cards that may have better or worse than expected outcomes.

Services Surge, Manufacturing Slumps, Economy Holds Strong

The manufacturing sector is dealing with slow global demand and new order activity has been poor. Potential rate cuts throughout 2025 could stimulate activity in manufacturing, but potential trade wars also create headwinds for these sectors.

Demand for manufactured goods has been subdued. In China, for instance, insufficient domestic demand was a key driver of contraction despite government efforts to boost economic activity through policy measures. The restrictive interest rates aimed at curbing inflation in advanced economies have dampened consumer and business spending, reducing orders for manufactured goods. Manufacturers are responding to weaker demand by cutting costs, which includes reducing employment and purchases of materials. This cost-cutting has led to declines in inventories and production levels. This creates a potential 2025 rebound should demand increase as monetary policy is approaching neutral levels.

Services have been resilient and even strong in many economies throughout 2024 due to several structural and macroeconomic factors. We expect most of these tailwinds to remain in place throughout the coming year. The lingering effects of post-pandemic shifts in consumer behavior have bolstered services. People are prioritizing experiences like travel, dining out, and entertainment over goods purchases.

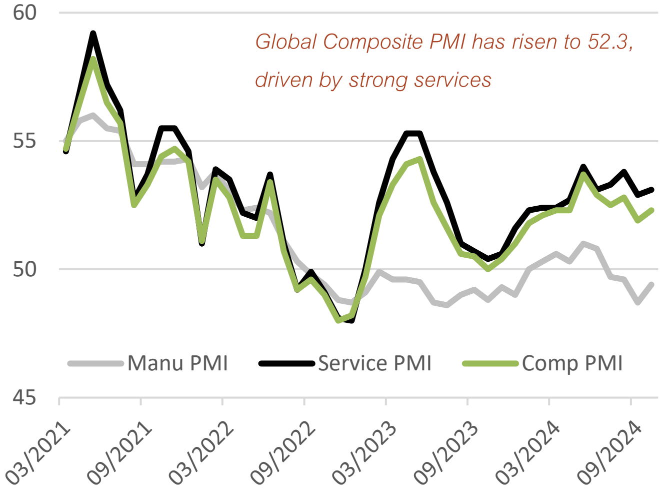
In our view employment is the most important determinant of economic growth. Strong labour markets in advanced economies have maintained household incomes, enabling spending on services. Wage growth is outstripping inflation fueling discretionary spending. Average Hourly Earnings (AHE), the Employment Cost Index (ECI), and the Atlanta Fed Wage Growth Tracker all show wage increases consistently outpacing inflation, boosting real purchasing power and supporting consumer spending.

> *Employment is the most important determinant of growth. Strong labour markets in advanced economies have maintained household incomes*

Consumer spending in 2025 is expected to remain robust due to several key factors, particularly tied to strong personal balance sheets, wage growth, and a resilient labor market. Consumer debt remains manageable for many households, with debt servicing ratios staying relatively low compared to historical averages, despite higher interest rates. Labour shortages in key sectors have driven up wages, particularly in service industries like hospitality, healthcare, and tech. Real wage growth has improved as inflation moderates, increasing disposable income. Unemployment rates in advanced economies remain near historic lows, providing stability and confidence for consumers. The NFIB surveys continue to show the difficulty businesses have filling their job openings. While the labour market is not as tight as it was twelve months ago it remains taut by historic averages.

Services demand should also continue to grow based on Urbanization in emerging markets and a growing middle class that have increased demand for urban-centric services, including logistics, financial services, and telecommunications.

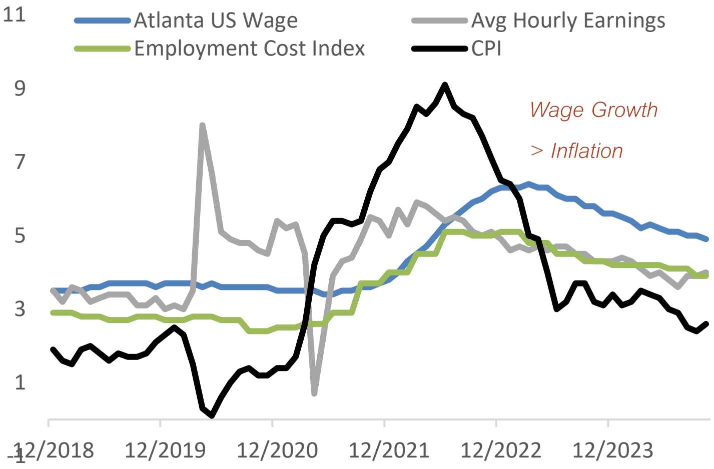
JPM Global PMI



Global Composite PMI has risen to 52.3, driven by strong services

Source: Plurimi Wealth, Bloomberg 11/2024

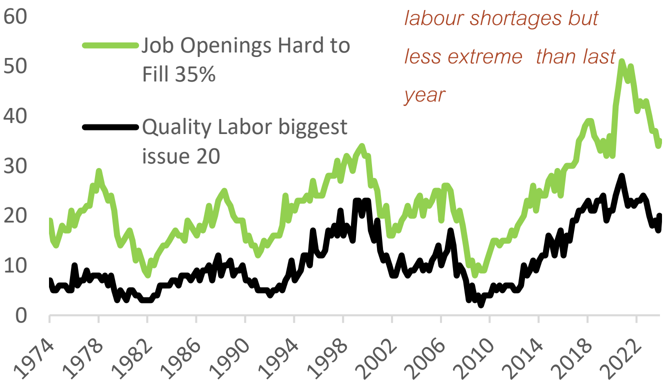
Wage growth indicators (% change yoy)



Wage Growth > Inflation

Source: Bloomberg 11/2024

NFIB Survey (% of respondents)



Business surveys show labour shortages but less extreme than last year

Source: Plurimi Wealth, Bloomberg 11/2024

Consensus growth for developed markets in 2025 is running at just over 2% and Global growth including emerging economies is expected to grow 2.7%, roughly matching 2024. In the US we expect real GDP growth of 2.6% in 2025. Productivity growth through innovation and deregulation should continue, while robust real income growth and easing financial conditions set up our base case of a "no landing" in 2025.

The eurozone will likely continue to deliver sub trend growth. US tariffs may impede an already weak manufacturing backdrop, and high energy prices create another headwind for Europe. Consumption from Southern Europe may be a positive surprise as ECB rates will likely reflect the weak manufacturing environment rather than what is relatively strong consumer demand. Spain, Portugal and Greece have outperformed Northern Europe post-Covid. We expect solid consumption growth to continue based on disposable income growth and a stable labour market.

In the UK we expect moderate growth of 1.3% in 2025 but probably trailing the Bank of England`s 1.5% forecast. We expect more monetary stimulus in the UK than from the Fed, but less cuts than the ECB will need to deliver. The UK Government has limited fiscal room to stimulate growth, and budget math starts to fail if growth comes in below expectations.

Robust real income growth and easing financial conditions set up our base case of a "no landing" in 2025.

Global inflation peaked in 2022 and has steadily declined since. In 2024, core inflation is moderating, with advanced economies nearing central bank targets. Headline inflation remains variable but shows clear downward trends. While the consensus view is for disinflation to continue, solid aggregate demand and increasingly nationalistic policies are not conducive for inflation falling to central bank targets. We do not expect the downward trend in inflation to last as restrictive policy is removed. Persistent risks like labor market tightness and geopolitical tensions could influence inflationary pressures going forward.

The incoming US administration has plans for significant tariffs, reduced net immigration, tax cuts; all of which should boost inflation. The first Trump administration saw tariffs were largely passed on to consumer prices. The chart on the right shows prices in tariffed PCE categories rose by almost exactly the tariff amount, while prices in non-tariffed categories remained on their prior trend.

When the rising debt levels need to be addressed, we do not think austerity will be considered. Populist policies are the winning strategy in politics, and do not show signs of abating. Printing new money to pay off old debt is the likely end game, which is a major reason we expect higher inflation than consensus over the coming decade.

Solid aggregate demand and increasingly nationalistic policies are not conducive for inflation falling to CB targets.

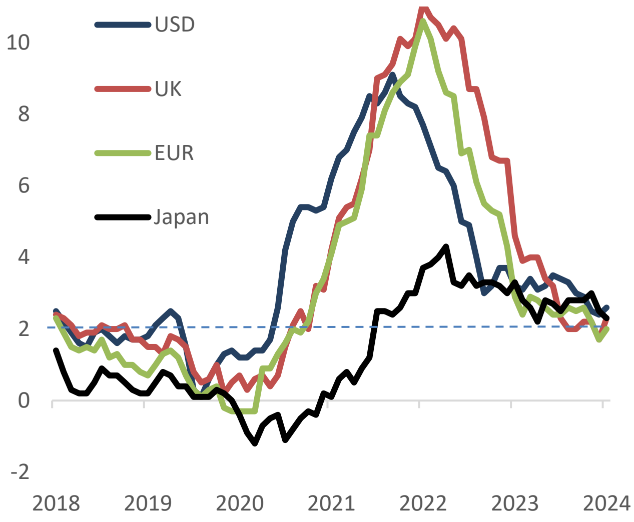
Forecast GDP Growth

	2023	2024e	2025e
World	3.1	2.7	2.7
US	2.9	2.8	2.6
Euro	0.4	0.8	0.9
UK	0.3	0.9	1.3
China	5.2	4.9	4.5
India	7.9	6.7	6.3

Source: Bloomberg, OECD, Plurimi Wealth 11/2024

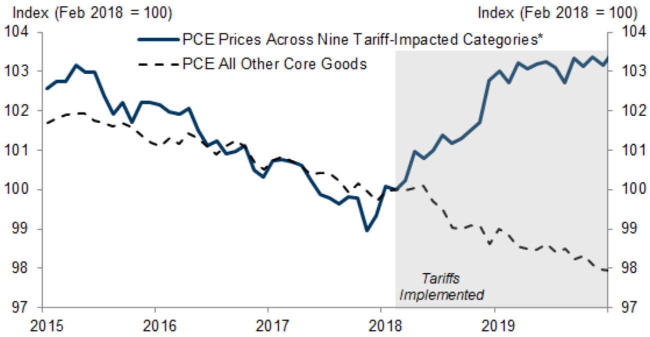
Real disposable household income growth of more than 2% should continue to drive a 2025 economic expansion.

CPI (YoY%)



Source: Bloomberg, IMF, Plurimi Wealth 11/2024

Tariffs Boosted Prices During the Last Trade War



*Includes laundry equipment and other appliances, furniture, bedding, and floor coverings, auto parts, motorcycles, and sport vehicles, housekeeping supplies, and sewing equipment and materials. Weighted by relative importance to headline index.

Source: Department of Commerce, Goldman Sachs Global Investment Research 11/2024

Central Banks

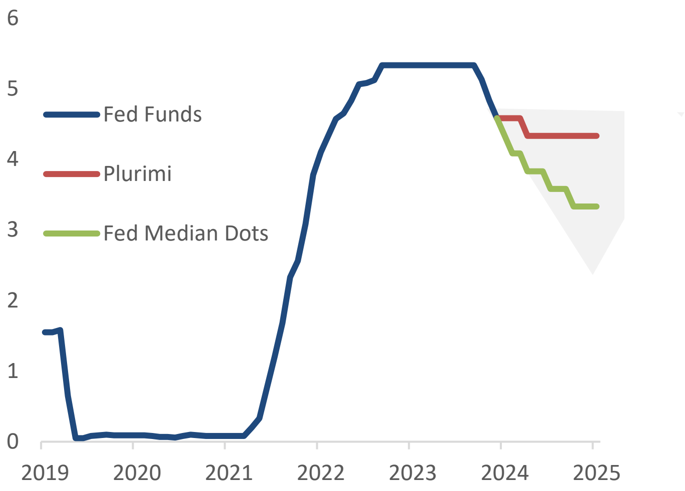
Fed Stays relatively tight, While ECB Gears Up for Five Cuts in 2025

The 2025 outlook for major central banks reflects a mix of easing monetary policies as inflationary pressures have subsided and economies adjust to previous tightening cycles. 2025 is likely to see coordinated rate cuts from the Fed, ECB, and BoE as inflation moderates, while the BoJ moves cautiously toward normalizing its ultra-loose monetary policy. While the direction from the Fed, ECB and BoE will likely be the same, the magnitude will differ. The Fed is likely to prioritize smaller, measured rate cuts, signaling its focus on balancing inflation control with growth support while addressing concerns about its policy framework. This contrasts with the more aggressive rate-cutting paths anticipated for the ECB and BoE.

The Federal Reserve may not cut rates as much as they previously projected due to several factors that complicate its ability to ease monetary policy.

1. Stronger-than-Expected Growth: Persistent economic resilience, driven by robust labor markets and consumer spending, challenges the Fed's projections of slower activity. This strength limits room for aggressive rate cuts
2. US Policy: Tariffs and stimulative fiscal measures, including infrastructure spending and policy initiatives, continue to support demand, which could keep inflation above the Fed's 2% target.
3. Yield Curve Dynamics and Credibility Concerns: A steepening yield curve, reflecting market skepticism about the Fed's inflation commitment, undermines its credibility. If longer-term rates rise faster than expected, the Fed may struggle to justify significant cuts without risking financial instability

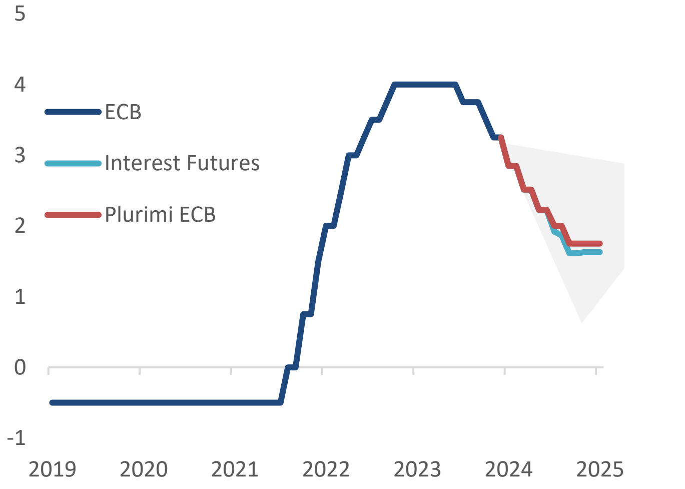
Fed Funds rate, Fed forecasts and Plurimi Estimate



Source: Bloomberg Plurimi Wealth 11/2024

We expect ECB will lower their rates at a much faster pace than other central banks in 2025. Inflation is expected to decline toward its 2% target as the employment market is not overheated. Core inflation is projected at 2.3% in 2025, supported by moderating wage growth. The ECB's policy will remain data-driven, balancing disinflation trends and subdued domestic demand. We expect the ECB will focus on weak German manufacturing rather than strong consumer demand from Southern Europe.

ECB rate, interest rate futures and Plurimi Estimate



Source: Bloomberg Plurimi Wealth 11/2024

The BoE will likely cut four times in 2025 driven by cooling wage and services inflation. Persistent housing market pressures and subdued consumer activity reinforce expectations of easing. Japan's central bank may need to maintain a cautious approach to normalization. Modest rate hikes could occur, with inflation sustained by wage growth and stronger corporate investment, which is inconsistent with the BoJ's low interest rate policy.

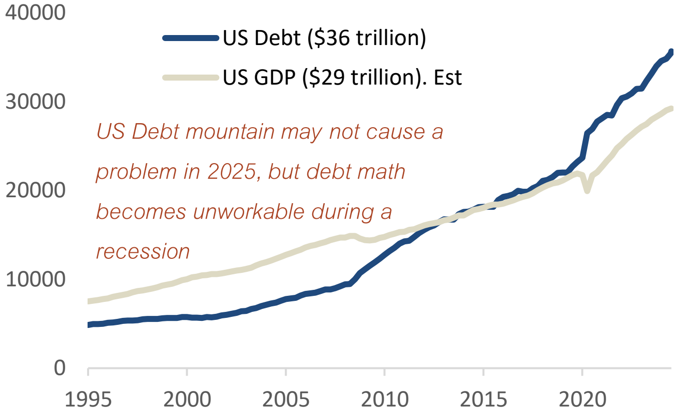
Debt and Deficits

Debt is a two-sided sword. Fiscal stimulus has been a key driver of growth since 2022, but “bond vigilantes” may cause yields to spike making debt become a drag on growth.

High levels of government debt are the consequence of populist policies, and spending following the covid pandemic. The US has been the most aggressive with debt fuelled spending in the G7, and its economy has grown in response. However, while debt can drive short term growth it does have consequences. The U.S. dollar’s global dominance enables borrowing at favorable rates compared to other nations, but national debt has become a focal point of economic policy discussions. Currently the US Government debt stands at approximately 123% of GDP. This figure is projected to grow significantly, reaching 129% of GDP by 2029 based on IMF forecasts. Interest on the debt is also a growing concern. In 2024, the U.S. government will pay a record $1.2 trillion in interest, surpassing spending on defense for the first time. These payments now account for about 2.4% of GDP and are expected to rise to 3.9% within the next decade. High interest payments limit fiscal flexibility, leaving less room for investments in infrastructure, education, and other public goods. While managed borrowing can finance critical programs and counteract economic downturns, supporting growth and stability, excessive government borrowing could drive up interest rates for private sector borrowers, potentially dampening investment.

Since 2014 the US has seen very strong growth in terms of GDP per capita. An unanswered question is how much of this has been debt fueled and will an unwind lead to a period of below trend growth. Over the past decade US debt/GDP has risen from 74% to 123% and Eurozone has remained static at about 89%. At some point debt fueled growth will have significance, but we don’t expect meaningful consequences until the next US recession.

US Debt and GDP ($Billion)



Source: Bloomberg, Plurimi Wealth 11/2024

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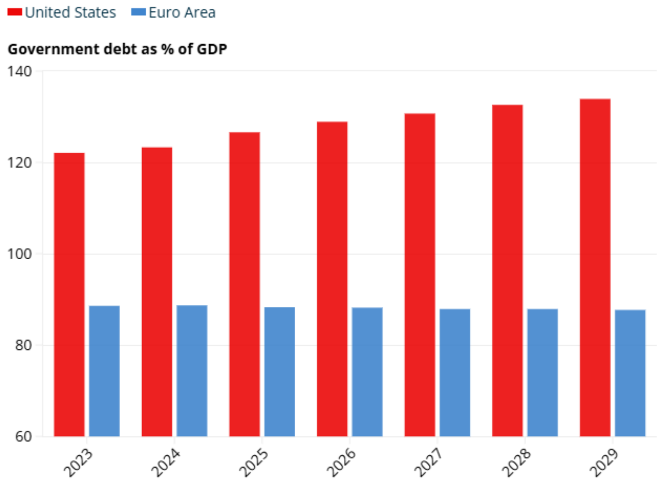
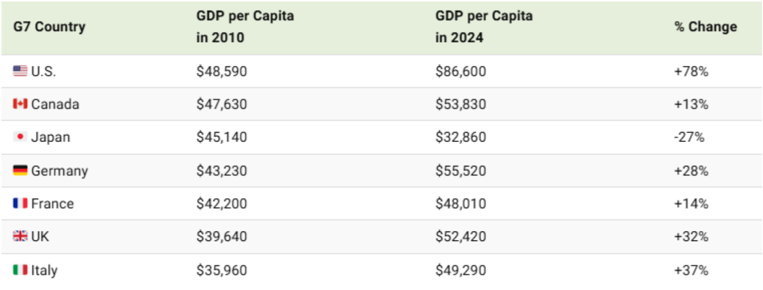
US Debt to GDP (123%) vs. EU (89%)



Source: IMF 10/2024

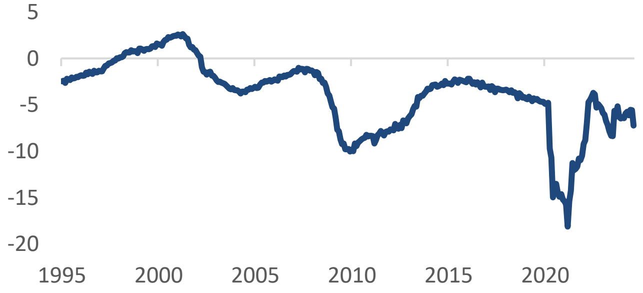
GDP per capita change the past decade



G7 Country	GDP per Capita in 2010	GDP per Capita in 2024	% Change
U.S.	$48,590	$86,600	+78%
Canada	$47,630	$53,830	+13%
Japan	$45,140	$32,860	-27%
Germany	$43,230	$55,520	+28%
France	$42,200	$48,010	+14%
UK	$39,640	$52,420	+32%
Italy	$35,960	$49,290	+37%

Source: Visual Capitalist 11/2024

US Deficit as % GDP (6.9%)



Source: Bloomberg, Plurimi Wealth 11/2024

Asset Allocation Scenarios

Range of scenarios with subjective probabilities

No Landing: Our base case has the US economy in a “No Landing Scenario”, with growth above potential and inflation higher than the Fed target. Europe is in a soft landing, and Asia performing below potential given weakening trade and China growth overhang (50%)

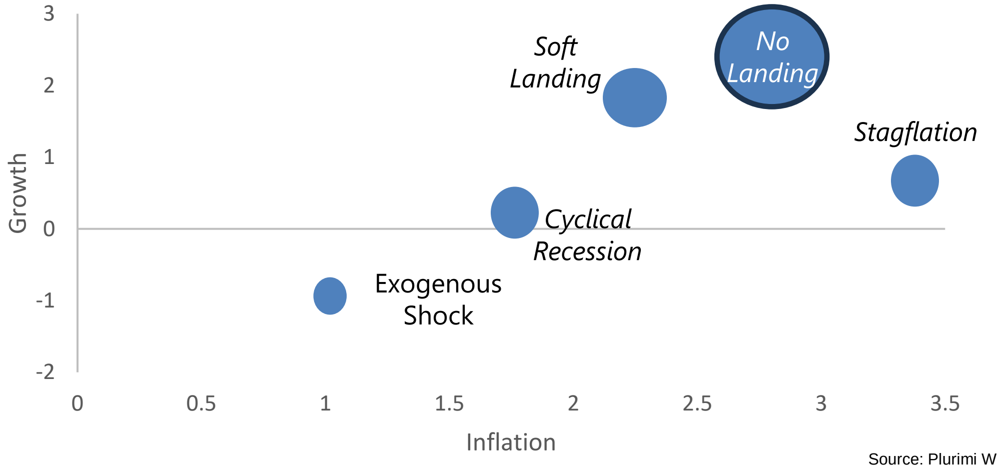
Soft Landing: A scenario where US demand wanes and the government focuses on deficit rather than growth. Tariffs more than offset deregulation and tax cuts. This should see inflation fall to target and allow Fed to cut in line with their forecasts. (20%)

Cyclical Recession: A cyclical recession is still very plausible. The job market looks strong but can be disrupted by confidence and trade wars. Long duration in fixed income would be rewarded. Central Banks would cut aggressively. Equities would struggle with lower margins, growth and falling earnings. Supply is greater than demand for energy leading to negative commodity returns. (15%)

Stagflation (War, protectionism): Most likely triggered by trade wars and/or conventional wars. Economic contraction, and supply side shocks. (10%)

Deflationary Shock: A financial or geo-political crisis causes sharp contraction in demand, and heightened risk aversion. (5%)

Growth and inflation expectations in different scenarios. (Size of bubble probability weighted)



Our base economic case assumes a “no landing” scenario in US and very soft landing in Europe

Source: Plurimi Wealth 11/2024

Expected Returns in different scenarios

	Soft Landing	Cyclical Recession	Reflation (No Landing)	Deflationary Shock	Stagflation	Probality Weighted
Probability	20%	15%	50%	5%	10%	**100%**
Equities	4.0	-5.0	13.0	-15.0	3.0	**6.2**
Treasuries	3.0	9.0	-5.0	16.0	-3.0	**0.0**
Inv. Grade	4.5	6.0	1.0	7.5	2.0	**2.8**
Commodities	5.0	-15.0	13.0	-30.0	16.0	**3.8**
Gold	-3.0	7.0	0.0	11.0	-5.0	**0.5**

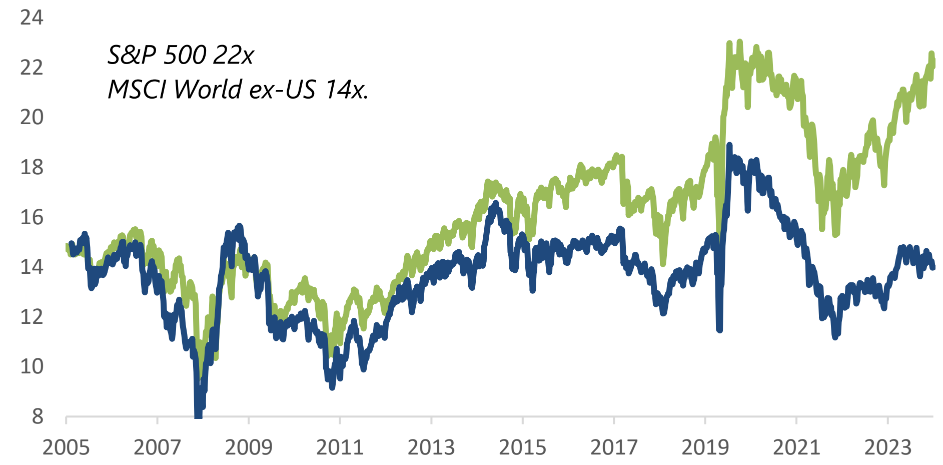
Source: Bloomberg Plurimi Wealth

Asset Allocation

Earnings growth will be needed to offset likely multiple contraction in the US.

We expect a positive 2025 for equities driven by economic growth and accommodative policy. Protectionist policies and elevated multiples partially offset this positive backdrop.

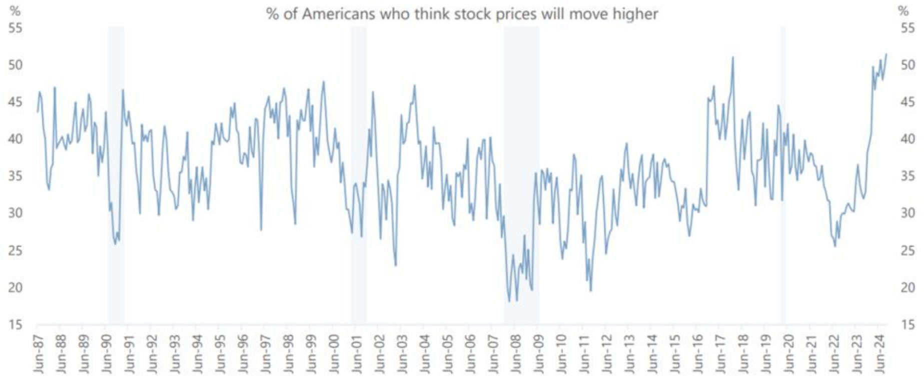
Blended 12-month forward P/E



Source: Bloomberg, Plurimi Wealth

US equities should move higher with economic growth and stimulus, but near record multiples mean there is not much margin for error. Ex-US equities are trading at more attractive multiples which could lead to stronger returns if earnings surprise to the upside.

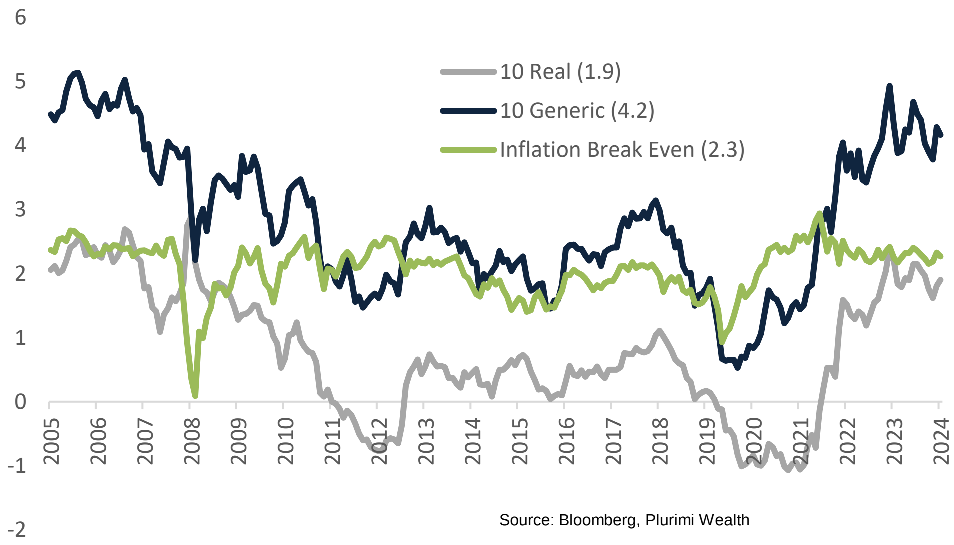
Investor positioning (% of investors who are bullish minus bearish)



Source: Conference Board, Haver Analytics. November 2024

The Conference Board asks US households about their outlook for the stock market, and a record high of 51.4% say that stock prices will move higher. A record bullish reading creates overbought risks for equities.

Real Yields



Source: Bloomberg, Plurimi Wealth

Growing debt issuance, populist and nationalistic policies create a backdrop where inflation may be much higher than the current 2.3% being priced in markets.

TIPS offer more attractive returns than conventional treasuries

Asset Allocation

Our tactical asset allocation is based on a "no-landing" in the US economy and a soft landing in Europe. Monetary policy and continued growth should drive enough earnings growth to offset likely multiple contraction in US equities. Investors can achieve attractive nominal returns in credit and lock in real returns above inflation in TIPS.

Equities: Overweight

Overweight : Consumer Discretionary, Communication, Defense , World Ex-USA.

Underweight: Real estate, Utilities

Fixed Income: Neutral

Short duration investment grade bank debt continues to offer the best risk adjusted return potential.

Steepeners should be profitable.

Inflation protected Treasuries offer compelling real yields above inflation.

Other Asset classes

Commodities:

Positive real yields on 10-year treasuries reduces the appeal of gold, but demand from Central banks looking to diversify reserves should be a positive (particularly China)

Oil prices are likely capped barring a geo-political event. The US should see strong production growth, and OPEC restraint will be needed for higher prices.

Alternatives:

Selling put options as a moderately bullish strategy may be an effective way to mitigate full valuations in expensive stocks.

Long/Short managers should benefit from volatility and a return to fundamentals driving returns rather than liquidity.

Macro managers should be able to profit from divergent growth and policy across countries.

	U/W		Neutral	O/W	
Equity				+	
Information Technology		-			
Financials				+	
Communication Services				+	+
Industrials					
Consumer Discretionary				+	+
Health Care					
Consumer Staples					
Utilities					
Energy					
Real Estate		-			
Materials		-			
Fixed Income					
Short Duration Senior Bank				+	+
Long Duration TIPS				+	+
Treasuries , Gilts, Bunds		-			
Japanese JJB	-	-			
High Yield		-			

Alternatives Worth Considering
Short put options on high quality but expensive equities
Macro Funds
Long Short Funds

Source: Plurimi Wealth 11/2024

Equities World (Overweight)

MSCI WORLD	Current	Percentile	Average	Median
Price Earnings Ratio (P/E)	22.38	71	19.98	18.56
Best P/E Ratio	21.75	84	18.03	17.27
Long Term Price Earnings Ratio	30.69	89	22.85	22.60
Price to Book Ratio	3.53	94	2.54	2.49
Price/EBITDA	12.56	95	8.56	8.17
Price to Sales Ratio	2.36	98	1.44	1.37
Enterprise Value/EBITDA	14.31	92	12.08	12.05
Profit Margin	9.48	92	6.74	6.81
Operating Margin	13.13	95	10.74	10.91
Dividend Yield	1.71	15	2.21	2.17
10Y Yield	4.26	62	3.71	3.81

Source: Bloomberg. Jan 1995 to 27 Nov 2024

We end 2024 with a small overweight in in equities despite them trading at 89th percentile vs. their long-term average multiples. The MSCI World is trading at 2.6x sales, which is back to record highs, and the same level it got to just before the 2022 selloff.

Equities have enjoyed strong returns the past two years. A resilient economy, easing from central banks and AI driven demand have been the drivers of strong returns. All of these drivers remain in place as we begin 2025.

The strongest gains have been concentrated in the "Magnificent 7" (*see page 12*). We expect earnings growth will continue for mega-cap tech, but they are unlikely to benefit from the margin growth and multiple expansion they enjoyed in 2024.

Based on consensus estimates, the S&P 493 may almost match Mag 7 earnings growth by the fourth quarter of 2025.

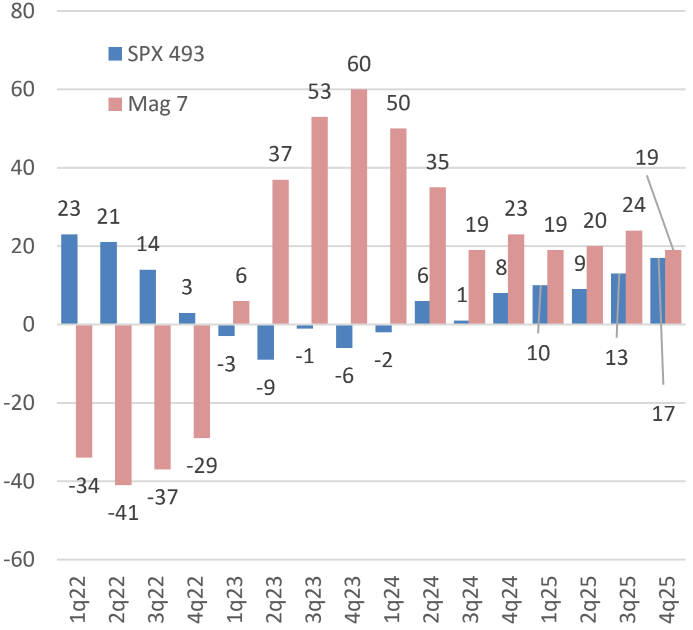
Factors favouring equities

- Stimulative fiscal and monetary policy
- Deregulation
- Global Growth
- Productivity gains

Factors working against equities

- Potential trade wars
- Elevated multiples
- Antitrust regulation to large cap US stocks & geo-political risks.
- Potentially rising bond yields.

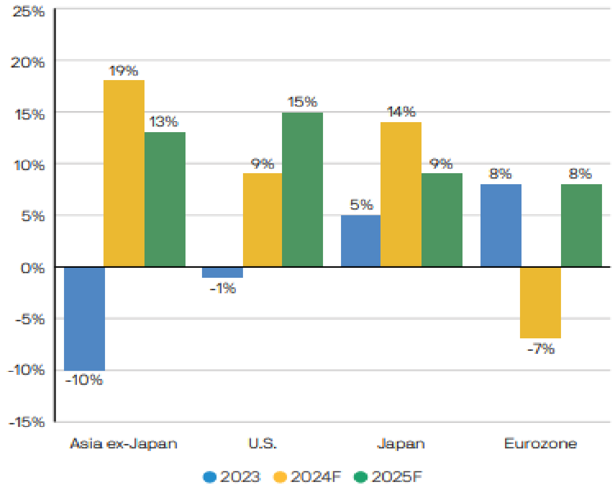
Mag 7 quarterly earnings growth (%) vs. 493 of S&P 500



Source: Bloomberg, JPM, Plurimi Wealth, 11 2024

Earnings growth expected to remain strong next year

Exhibit 6: Next 12 months earnings per share, y/y growth



Source: Bloomberg, JPM, Plurimi Wealth, 11 2024

Equities World Equity *Magnificent 7, and top Contributor/Detractors*

A view on equities requires a view on the *Magnificent Seven* of Apple, Microsoft, Amazon, Nvidia, Alphabet, Meta and Tesla. These stocks make up more than 20% of the MSCI World by weight and with Eli Lilly, Broadcom and JP Morgan have delivered an average return of 51% and accounted for 9.4% of the 22.3% return from the MSCI World in 2024. The other 1600 stocks in the index account for the remaining 13%.

After the strong gains, the *Magnificent Seven* now trade at 30.4x forecast earnings, vs the MSCI World at 22x. On P/Sales they trade at 7.8x, vs the World at 2.3x. These are expensive multiples but the profitability and earnings growth they generate warrant premium multiples.

MSCI World and Contributions from Top 10

	Wgt	Return (%)	Contribution (%)
MSCI World	100.0	22.3	22.3
NVIDIA CORP	3.9	179.2	3.8
APPLE INC	4.6	23.9	1.1
AMAZON.COM INC	2.6	36.8	0.9
META PLATFORMS INC-CLASS A	1.7	62.7	0.9
MICROSOFT CORP	4.5	13.4	0.6
BROADCOM INC	1.0	46.7	0.4
JPMORGAN CHASE	0.9	50.3	0.4
TESLA INC	0.9	38.9	0.4
ELI LILLY & CO	1.0	37.3	0.3
ALPHABET INC-CL A	2.8	21.2	0.6
Top 10	23.8	51.1	9.4

"Mag 7 " in Grey Source: Bloomberg, Plurimi Wealth

	P/E	Best P/E	Best EV/EBITDA	Best P/S	Best PEG	Best ROE	Sales Gr
Magnificent 7	38.1	30.4	19.2	7.2	1.5	55.1	13.9
ALPHABET INC-CL A	21.9	18.6	12.4	6.0	1.2	29.5	14.4
AMAZON.COM INC	43.0	29.8	13.9	3.1	0.8	20.3	11.9
APPLE INC	35.2	31.7	24.1	8.5	2.2	181.5	2.0
META PLATFORMS INC-CLASS A	26.0	22.3	14.4	7.8	1.0	32.0	23.1
MICROSOFT CORP	34.7	30.4	19.4	10.7	2.0	30.5	16.4
NVIDIA CORP	54.4	33.7	27.4	18.4	0.7	80.8	152.4
TESLA INC	163.9	107.6	55.4	9.7	107.6	13.0	1.3

The business models of these companies which scale globally with relatively low marginal costs. They all have competitive advantages like network effects (Meta, Alphabet), technological leadership (Nvidia, Tesla), and brand loyalty (Apple, Amazon, Microsoft). We consider the stocks expensive, but their profitability warrants the multiples they trade at in our opinion.

The broadening rally in 2024 is reflected in the next ten contributors to MSCI World performance. While all are U.S.-based companies, indicating no geographical broadening, they represent a mix of sectors, including financials, energy, technology, and consumer stocks.

Year-to-date, the most significant detractors have been several well-known brands, struggling with higher cost structures, supply chain disruptions, and failures in brand management.

Next 10 largest contributors and 10 largest detractors in 2024

	Wgt	Return (%)	Contribution (%)
WALMART INC	0.5	77.7	0.3
NETFLIX INC	0.4	82.1	0.3
BERKSHIRE HATHAWAY	0.8	35.4	0.3
COSTCO WHOLESALE CORP	0.5	48.1	0.2
ORACLE CORP	0.3	77.5	0.2
GENERAL ELECTRIC	0.3	79.9	0.2
BANK OF AMERICA CORP	0.4	43.9	0.2
WELLS FARGO & CO	0.3	58.8	0.2
PALANTIR TECHNOLOGIES	0.1	290.7	0.2
EXXON MOBIL CORP	0.7	22.0	0.2
LULULEMON ATHLETICA INC	0.1	-37.3	-0.0
CVS HEALTH CORP	0.1	-21.0	-0.0
L'OREAL	0.2	-29.2	-0.1
NIKE INC	0.2	-26.6	-0.1
BHP GROUP LTD	0.2	-19.0	-0.1
ADOBE INC	0.4	-13.5	-0.1
LVMH	0.3	-22.1	-0.1
BOEING CO/THE	0.2	-40.4	-0.1
NESTLE SA-REG	0.4	-22.7	-0.1
INTEL CORP	0.2	-51.5	-0.2

Source: Bloomberg,, Plurimi Wealth 11 2024

Equities

Regional Equity. Extreme US multiples compare to moderate valuations ex-US

	S&P 500	Stoxx 600	FTSE 100	SMI	Topix	CSI
Price Earnings Ratio (P/E)	26.82	14.73	13.18	18.62	14.85	15.98
Best P/E Ratio	25.40	14.28	12.18	17.81	14.68	14.63
Long Term Price Earnings	36.10	20.70	18.38	23.28	22.57	18.07
Price to Book Ratio	5.21	2.01	1.89	3.98	1.39	1.62
Price/EBITDA	15.23	8.01	6.87	9.53	7.20	9.35
Price to Sales Ratio	3.08	1.40	1.30	2.56	0.95	1.31
Enterprise Value/EBITDA	16.72	10.81	7.91	10.64	6.98	16.01
Profit Margin	10.46	8.17	6.97	12.76	6.22	8.31
Operating Margin	13.99	12.15	11.81	15.97	8.47	11.16
Dividend Yield	1.71	3.41	3.80	3.14	2.34	2.67

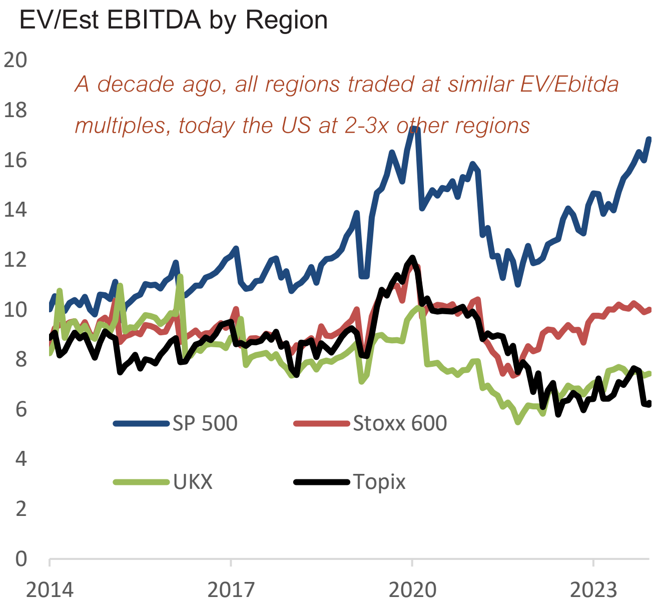
Source: Bloomberg, Plurimi Wealth 11/2024

US equities are priced for very good outcomes in terms of economic growth, central bank policy, and government regulation. Our base case is predicated on this backdrop playing out as expected, but this is in the price for US equities. Other regions have clear issues in their domestic economies, government policies and potential consequences from US trade policy. US exceptionalism is priced to continue in perpetuity, while the rest of the world is priced at valuations that may lead to significant returns on outcomes that are not as bad as expected.

One dollar of earnings from a US companies is worth twice as much market cap as a dollar of earnings in UK. One dollar of EBITDA from a US company is worth more than twice as much Enterprise Value from a Japanese company.

Sentiment, momentum and speculative appetite often drive equity returns over the short and medium term, but entry levels in terms of valuation may be the most important determinant for long term returns. In our opinion the relative attractiveness of valuations in Europe will be unlocked by weaker currencies, improving profitability of multi-nationals, and much more accommodative monetary policy. A steepening yield curve in the US may also lead to multiple compression for higher multiple stocks.

In an environment where yields are falling outside of the US, the healthy share buybacks, dividend yields and more attractive valuations in select Non-US companies should be rewarded.



A decade ago, all regions traded at similar EV/Ebitda multiples, today the US at 2-3x other regions

Source: Bloomberg, Plurimi Wealth 11/2024

Fixed Income

Underweight

We continue to underweight G7 government bonds, based on the long-term valuations. US Bond yields are still too low given the potential for inflation and an almost non-existent term premium. Eventually the years of loose monetary policy and high sovereign debt levels will lead to higher long-term yields. Governments running massive deficits and record debt levels will eventually see debasement as their base case.

The bond market is poised for significant shifts in 2025 as macroeconomic forces drive the fixed income landscape. Our key calls for the year ahead include

1. Rising long-term yields in the US, as a term premium is restored.

We anticipate 10-year Treasury yields climbing to 5%, driven by persistent inflationary pressures, resilient economic growth, and evolving investor expectations. While the Federal Reserve's monetary stance will likely be more accommodative, the long end of the curve could face upward pressure as markets price in greater risk premiums and term premia due to fiscal deficits and geopolitical uncertainties.

2. Japanese Bonds: Unattractive Risk-Reward

Japanese government bonds (JGBs) look unappealing in 2025 due to structural and macroeconomic challenges:

a) End of Yield Curve Control (YCC): The Bank of Japan's (BOJ) recent termination of YCC has introduced heightened volatility and upward pressure on yields, reducing the appeal of JGBs.

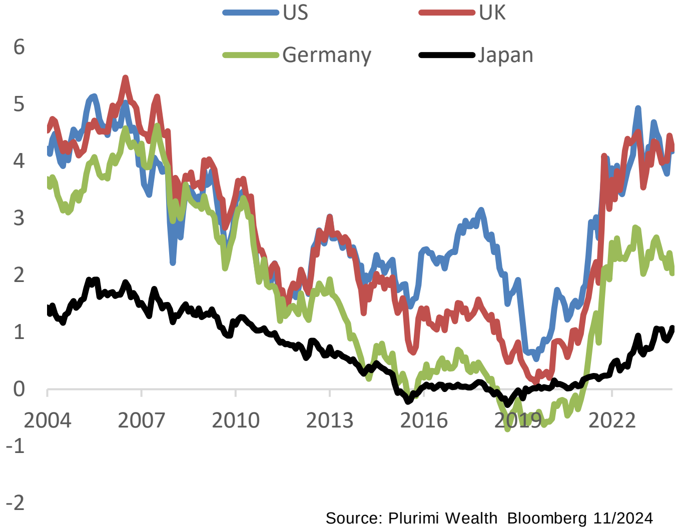
b) Ownership Saturation: The BOJ already holds a significant proportion of the JGB market, limiting liquidity and distorting price discovery. This creates potential risks for foreign and domestic investors, including the likelihood of continued yield repricing.

c)Currency Risks: The yen's vulnerability to global macro trends adds another layer of uncertainty for international investors in JGBs.

3. Credit markets should have supportive economic growth, but near record low spreads do not entice us into lower grade credit. BBB spreads are near 20-year lows at 1.1%. High-yield spreads of 2.9% remain notably compressed relative to historical norms, presenting a risk of widening in 2025. Potential catalysts include an economic slowdown, higher borrowing costs, and tighter liquidity conditions. Investors in high-yield bonds should tread cautiously, as tighter spreads offer less cushion against credit events or macroeconomic shocks. Quality may outperform in a market increasingly discerning about balance sheet resilience.

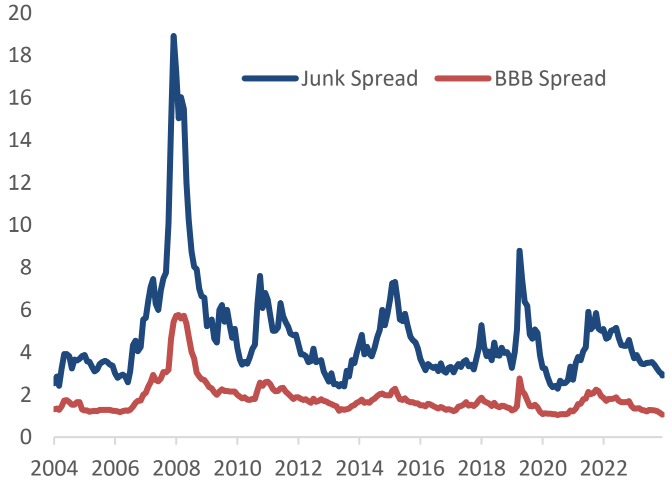
> *We expect the 10-year Treasury yield may move to 5% by year end based on sticky inflation and fiscal concerns and a "normal term premium"*

10-year Sovereign Yields



Source: Plurimi Wealth Bloomberg 11/2024

> *10-year sovereign bonds do not offer a significant term premium, and lower grade credit spreads are historically tight*



Source: Plurimi Wealth Bloomberg 11/2024

Fixed Income

Underweight

4. Real Yields on Treasury Inflation-Protected Securities (TIPS) present a compelling opportunity, with real yields at 2%. These levels offer investors a robust inflation hedge alongside meaningful returns after adjusting for inflation. The combination of elevated real yields and potential upside from higher-than-expected inflation solidifies TIPS as a strategic allocation for portfolios seeking both income and diversification.

5. Short-Duration Bank Debt: Compelling Risk-Reward.

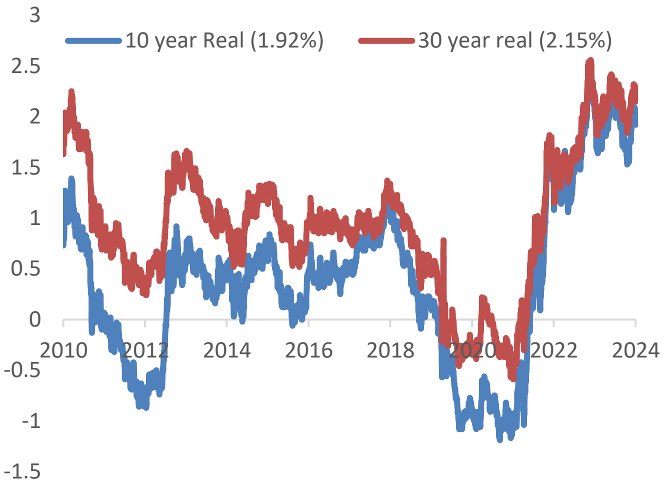
Short-duration bank debt also stands out as an attractive option based on;

a) Banks remain well-capitalized and demonstrate sound balance sheet management, with ample liquidity buffers.

b) Regulatory and Federal Support: The Fed's backstop mechanisms, including facilities like the Discount Window and Bank Term Funding Program, provide a safety net, enhancing stability.

c) Attractive Yields: Short-duration bank debt offers higher yields relative to Treasuries while minimizing duration risk, making it appealing in an environment of rising long-term rates.

10 year & 30 year US Real Yields



Source: Plurimi Wealth Bloomberg 11/2024

2% real yields on TIPS are attractive given the threat of higher than priced inflation

Commodities

The 2025 outlook for key commodities reflects mixed dynamics shaped by supply, demand, and geopolitical factors.

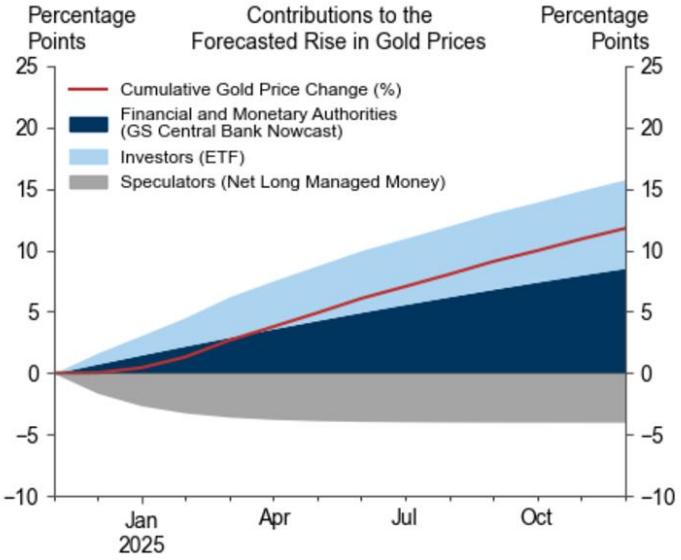
Gold: We expect the demand for to remain robust, driven by central bank purchases, particularly from emerging markets. Central banks, such as those in China, continue to diversify reserves away from the U.S. dollar, supporting gold prices. Additionally, falling central bank rates reduce the opportunity cost of holding gold, encouraging investment.

Copper: The market for copper shows potential for supply-demand imbalances due to the growing needs of the energy transition and electrification efforts, such as renewable energy and electric vehicles. However, a lack of new mining projects and regulatory challenges could constrain supply. These factors, coupled with sustained industrial demand, may lead to tight markets and support higher prices.

Oil: The Oil price faces headwinds as increased production from non-OPEC countries, including the U.S., Canada, and Guyana, is expected to at least match demand growth, potentially leading to oversupply. OPEC+ will likely need strong discipline to maintain price stability. However, global demand should grow, supported by economic activity, though it could be tempered by China's slowdown and the transition to renewable energy.

We are neutral on the asset class as there are not clear supply shortages that may drive spikes.

Goldman Sachs: Gold: Driven by Demand From Financial and Monetary Authorities and Investors, Outweighing the Drag From a Normalization in Speculative Demand



Source: Goldman Sachs November 2024

Currency

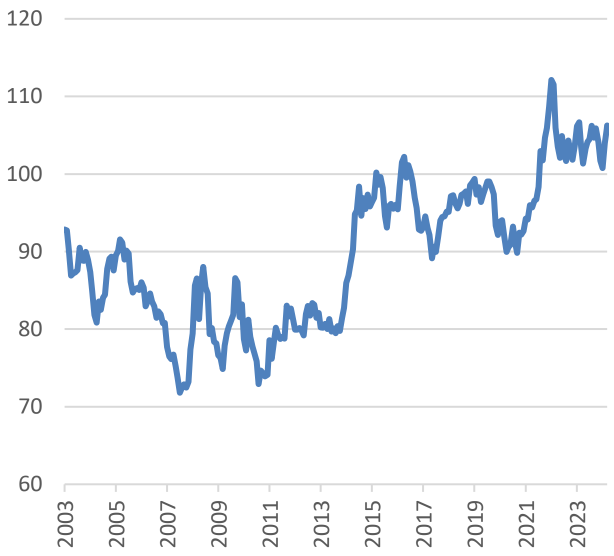
We remain positive on USD vs other major currencies, but we do not expect a major move.

If U.S. economic growth outpaces other major economies, the USD could see additional tailwinds. This is particularly likely in scenarios where global growth concerns intensify, and the U.S. remains a comparatively stable economic environment. The Federal Reserve's anticipated approach of cutting rates more modestly than other central banks should provide a supportive backdrop for the U.S. dollar. This monetary policy divergence is expected to sustain the interest rate differential in favour of the USD, maintaining its relative attractiveness for yield-seeking

The introduction of tariffs could also play a pivotal role in USD performance. Tariffs may dampen demand for foreign goods and services, reducing the need for foreign currencies. As a result, USD demand could remain robust, especially if trade tensions incentivize a "flight to quality" among global investors.

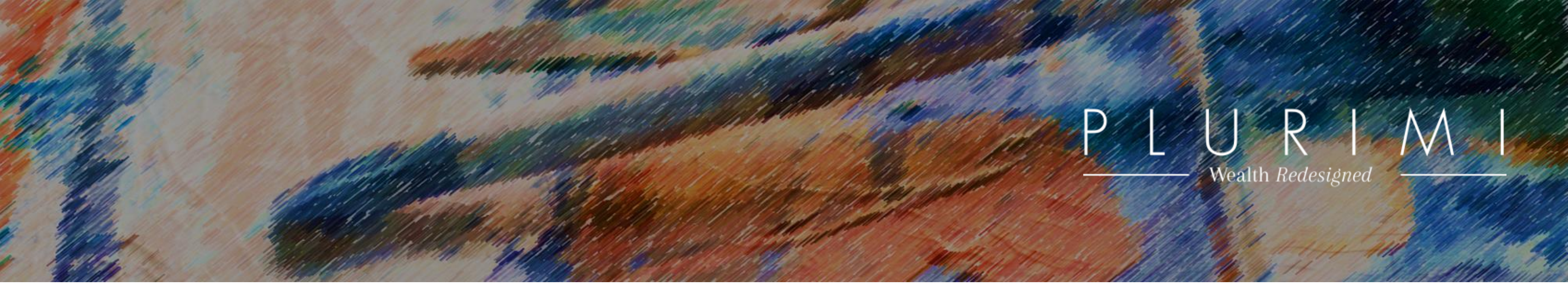
While the outlook for USD strength is compelling, risks exist. A more dovish pivot by the Fed, significant de-dollarization trends, or unexpected improvements in global economic conditions could challenge this base case. Additionally, aggressive fiscal policies or political disruptions in the U.S. might erode investor confidence in the dollar.

DXY Index



Source: Bloomberg 11/2024

We expect less dovish monetary policy from the Fed, a strong US economy, and a possible boost from trade wars will support the DXY index in 2025



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