Fideuram Asset Management's View

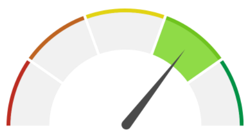
Fideuram Intesa Sanpaolo Private Banking Asset Management

Edition 01.2025

Macroeconomic Scenario

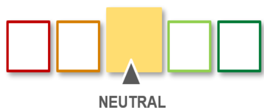
Uncertainty about the new US administration's economic policy choices (notably on tariffs, fiscal expansion and immigration) has been unexpectedly compounded in recent weeks by uncertainty about the fundamentals of the US economy. December's labour market data were much stronger than expected, highlighting the risk of a renewed acceleration in economic activity - an outcome that would be inconsistent with our baseline scenario. For the time being, we maintain our forecast of two more Fed rate cuts in 2025, although we have postponed them to the June and September meetings. In contrast, we believe that the ECB will continue to cut rates in the first half of the year, given the still subdued growth outlook and inflation trending towards the central bank's target.

Equity Markets



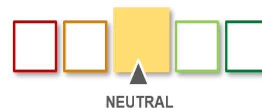
With 2025 expected to bring greater volatility and fewer "exceptional" returns than the past two years, portfolios started the year with equity exposure between neutral and slightly overweight. We confirm this positioning and continue to favour the US market from a geographical perspective. Earnings growth in the US is expected to remain more robust and we believe that this strength could increasingly extend to sectors that have underperformed large-cap technology names in recent quarters, both in terms of market performance and earnings momentum. In more thematic portfolios, we have increased exposure to certain cyclical and value sectors (such as financials), while maintaining a defensive stance through sectors that have lagged in performance but are expected to deliver earnings improvements, such as healthcare. We are neutral in other major geographic areas because expected earnings growth is lower than in the US or because of greater political risk. We are moderately positive on the Japanese market, although we have not yet taken a significant active position.

Europe

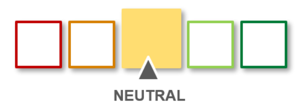


United States

Japan



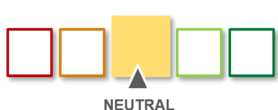
Emerging Markets



Bond Markets

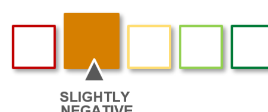
The bond component of the portfolios is positioned with a slightly longer duration than the benchmarks and a preference for high quality credit risk. The weighting of the government bond component is between neutral and slightly overweight, particularly in the Eurozone, where economic weakness suggests that the ECB could cut rates more than the market is currently pricing in. We remain neutral on US bonds as cyclical strength, Trump's policy agenda and heightened uncertainty at this late stage of the Fed's expansionary cycle expose the yield curve to greater volatility. In our baseline scenario of continued disinflation and monetary easing, albeit at a slower pace than previously expected, medium to long-term yields already appear to be at the upper end of their fair value range. We remain overweight in investment grade corporate bonds and subordinated financial debt. However, overall, exposure to credit risk is mitigated by a more cautious positioning on the high yield segment and a broadly neutral positioning on emerging markets.

Government

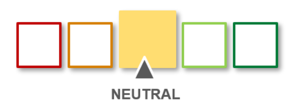


Corporate

High Yield



Emerging Markets

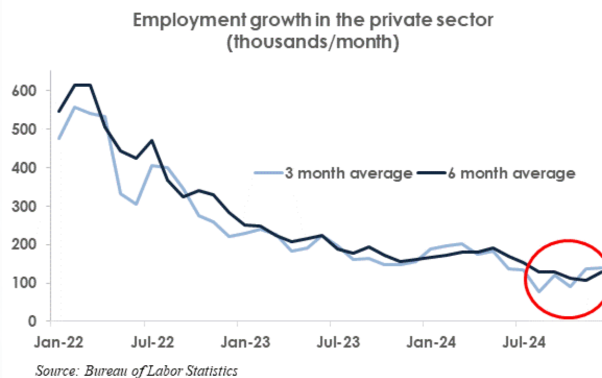


Content updated as of January 30th, 2025

USA: Upside risks to economic activity

In the first few weeks of the year, the uncertainty surrounding the new Trump administration's economic policy decisions was compounded by doubts about the cyclical outlook for the labour market and the broader economy. **Employment growth in December was much stronger than expected**, suggesting that the gradual slowdown in employment that began in early 2022 may have come to an end. If growth proves more resilient than we expect, it will be much harder for the Fed to continue the cycle of rate cuts that began last September. **Nevertheless, we maintain our forecast of two Fed rate cuts in 2025**, but have postponed them to the June and September meetings (instead of March and June).

Gradual slowdown in employment growth paused at the end of 2024



Eurozone: The age of uncertainty

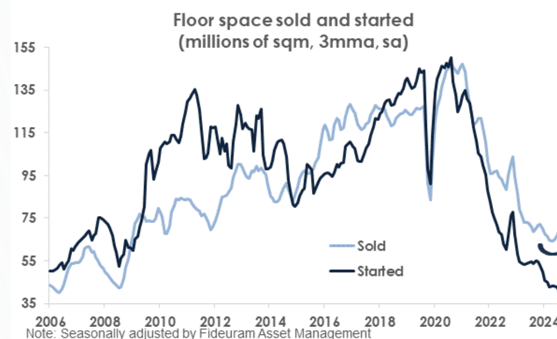
A pick-up in economic activity, as indicated by some cyclical indicators - notably a rebound in the services sector - rules out a near-term deterioration into a recessionary scenario. However, business and consumer confidence remain fragile, unsettled by **high levels of political uncertainty** both inside and outside the Eurozone. While markets await the trade measures that the Trump administration is expected to impose on the European and other global economies, **the German elections on 23 February could remove some of the uncertainty**. The likely formation of a CDU/CSU-led coalition government may seek to ease debt constraints and introduce measures to support investment. Inflation rose to 2.4% in December and remains at 4% in the services sector, although it is expected to slow. The ECB cut rates by 25 bps at the end of January and we expect a further cut in March.

The Eurozone has lost competitiveness in the years following the pandemic

China: The sword of Damocles of tariffs

In 2024, China managed to achieve its 5% growth target, which initially seemed very ambitious. This was made possible by an acceleration to 6.6% annualised growth in the fourth quarter and upward revisions to previous data. **Growth was mainly driven by exports and an improvement in domestic demand, supported by government policies.** Exports are expected to continue to drive growth in the first quarter due to frontloading ahead of tariff increases. However, this momentum is expected to reverse in the middle of the year as new tariffs come into effect, leading to an **average growth rate of 4.6% in 2025.** The current recovery remains fragile and therefore requires continued support from economic policy.

The latest round of expansionary measures to support the real estate market has led to an improvement in sales and prices



Fideuram Asset Management Economic Forecast

	GDP			Inflation			Monetary Policy Rate		
	2024	2025*	2026*	2024	2025*	2026*	2024	2025*	2026*
US	2,8	2,4	2,2	3,0	2,6	2,5	4,38	3,88	3,63
Eurozone	0,7	0,6	0,9	2,4	2,3	1,9	3,00	1,75	1,75
Japan	-0,1	1,1	0,5	2,7	2,3	2,0	0,25	0,75	1,00
China	5,0	4,6	4,0	0,2	0,7	1,2	2,00	1,70	1,70

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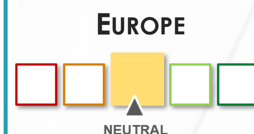
INVESTMENT VIEW

Equity Markets

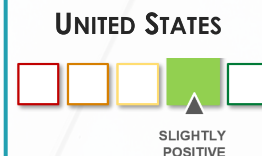
We believe it is still premature to increase the weighting of Europe in portfolios as the cyclical trend remains weak and the risk of tariffs could further weigh on growth. However, corporate earnings remain resilient, valuations are relatively contained and we believe the ECB could cut rates more than the market is currently pricing in. With weaker earnings than in the US, the main driver for a more favourable phase for European equities is the reduction in the risk premium. This will depend on domestic political developments (German elections and possible greater use of fiscal stimulus) or a less penalising impact of tariffs. We have reduced the weight in the English market because the fiscal policy choices of the Labour government lead to uncertainty and volatility on macro developments.

Europe



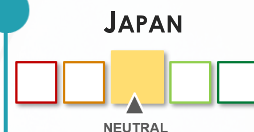
We continue to favour the US market as we expect a more robust and above-average earnings growth trajectory. We do not see room for further valuation expansion, but neither do we anticipate conditions that would lead to significant compression. From a sector perspective, the dispersion of earnings growth is narrowing. While maintaining our exposure to technology, we have broadened our investments to include more cyclical and value-oriented themes, as well as sectors that have underperformed in recent months but are showing improving earnings, such as healthcare.

United States



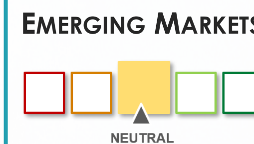
We are moderately positive on the Japanese market due to supportive fundamentals, but have not yet taken a significant active position. In the short term, earnings growth is less impressive than in the US and the Bank of Japan's monetary policy is causing some exchange rate volatility. However, corporate balance sheet restructuring and more favourable inflation dynamics support expectations of increasing margins and earnings. Valuations remain moderate and have room to rise in line with improving corporate profitability.

Japan



Emerging market valuations remain relatively low and there is a continued expectation of fiscal stimulus announcements from the Chinese authorities. However, we believe these will come after initial negotiations with the new US administration. On the international trade front, the prospect of additional tariffs imposed by the United States remains a significant concern.

Emerging Markets



Bond Markets

Government

We maintain a neutral to slightly overweight position in government bonds. We see room for the ECB to cut rates more than the market is currently pricing in, and Bund yields are at the upper end of our valuation range. Spreads in the periphery, while slightly below the levels implied by fundamentals, continue to offer attractive carry. In the US, stronger cyclical momentum and the reduced number of expected Fed rate cuts make Treasuries potentially more volatile.

Corporate

The total return offered by the high-quality corporate bond sector is still attractive thanks to the base rate, which gives a certain degree of defensiveness for the asset class even under more uncertain macroeconomic conditions, and the contribution of spreads that, although relatively narrow and net of short-term movements, can still offer an extra return compared to government bonds in a still constructive scenario.

High Yield

Even with attractive expected returns on a historical basis, we remain underweight as we prefer equities among the risky assets, at least until companies continue to show capacity for growth and an upward revision of earnings, and even to limit the credit risk that may be generated due to the Fed maintaining high rates.

Emerging Markets

In general, we maintain a degree of caution about the more volatile and lower quality components of the bond segment. Emerging market bonds, particularly those denominated in local currency, offer a relatively attractive carry, and this is the reason for the neutral position. However, uncertainty on the political and currency fronts for the potential for additional trade tariffs tempers our enthusiasm.

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EQUITY MARKETS

Strong earnings balanced by higher volatility

Overall equity exposure remains neutral to slightly overweight, with a preference for the US market and a neutral stance on other geographic regions. The outlook remains constructive, supported by resilient earnings that continue to underpin the market and a macroeconomic backdrop that remains supportive. Despite the high valuations of the S&P 500, earnings growth remains strong, driven by a mix of cyclical momentum and accommodative economic policies.

Our overweight position is primarily in US equities, where earnings growth continues to outpace other regions and a greater ability to exceed market expectations. Moreover, the dispersion of earnings growth across sectors has narrowed compared with previous years: technology is still outperforming on average, but the gap with other sectors is narrowing.

On the one hand, this trend is supportive of US equities as it signals a more balanced expansion across industries, with stronger contributions from cyclical and industrial sectors. On the other hand, it is a potential source of volatility: large-cap technology companies are trading at significantly higher valuations than the broader market, but their earnings growth is converging with those of other sectors. If this trend continues, investors may adjust their expectations, leading to sell-offs and sharper swings in highly valued stocks.

While financial conditions remain expansionary, volatility could emerge in response to unexpected macroeconomic developments, the Trump administration's trade stance, new tariffs, shifting interest rate expectations, geopolitical risks or sudden changes in market news flow. A recent example is DeepSeek, the advanced Chinese AI model, which triggered significant volatility in certain technology stocks by increasing uncertainty about the sector's competitive landscape. Given these risks, the portfolio's overall exposure to equity risk has been slightly reduced.

From a geographical perspective, Europe is showing signs of stability, but its upside potential depends on a reduction in political risks and more aggressive rate cuts by the ECB. Japan is experiencing a gradual improvement in macroeconomic conditions and market dynamics, while China remains uncertain due to ongoing tariff risks from the US. Emerging markets, which are heavily influenced by US interest rates and the dollar, require a selective approach.

BOND MARKETS

QUALITY (CREDIT) ALWAYS PAYS

Our bond allocation continues to favour high quality corporate bonds, with a preference for the investment grade segment and subordinated financial debt. While recognising that spreads have little room for further tightening, overall yields remain attractive. The base rate component, which is a significant contributor to total yields, helps to mitigate the impact of a potentially less favourable macroeconomic environment.

On the government bond front, the outlook for the US government bond market remains more challenging than in Europe. The recent rise in yields has improved the attractiveness of government bonds, but in Europe weak economic conditions give the ECB greater flexibility to ease monetary policy, making the path of interest rates more predictable than in the US. By contrast, US rates reflect expectations of an extended economic cycle, but also persistent inflation risks and premiums associated with fiscal and geopolitical uncertainties. This backdrop increases volatility and sensitivity to macroeconomic data, with the Fed's forward guidance less defined than in the past, adding to uncertainty over the future path of the yield curve.

German rates remain particularly influenced by movements in US government bonds, but the ECB could take a more accommodative approach over time, with the possibility that yields can take a downward path being less affected by the “gravitational pull” exerted by the Treasury.

In the corporate segment, we maintain our positive outlook on investment grade credit and financial subordinated debt. While spreads remain tight, current yields are adequate to compensate for any widening of spreads or increases in base rates. In recent years, investment grade corporate bonds have shown lower volatility than government bonds, thanks to the ability of spreads to absorb curve movements. Although this trend may be moderating, we believe lower credit volatility relative to the greater directionality of government bonds will remain a key element in portfolio construction.

We remain neutral on emerging market debt, both local and hard currency, while maintaining an underweight stance on high yield bonds, where we see default rates gradually rising towards historical averages, in favour of a combination of equities and high quality credit, including financial subordinated debt.

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