2025 OUTLOOK

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INDEX

MACROECONOMIC SCENARIO

As was the case in 2023, growth of the global economy in **2024 was stronger than expected thanks solely to the significant outperformance compared to forecasts in the United States**, where growth, albeit slowing down slightly compared to the previous year, remained above potential, whereas in the Eurozone and China, economic performance was largely in line with our estimates and not particularly buoyant. **Inflation was down, as expected**, but slightly less so in the USA, where there were significant upward surprises at the beginning of the year, whereas in the Euro Area, the gradual return to the 2% target was broadly in line with forecasts. **Our scenario for 2025 envisages a moderate reduction in global growth and has not been significantly impacted by the outcome of the recent US elections**, which have given the Republican Party control of both the White House and both houses of Congress. In our opinion, if **Trump's electoral programme is at least partially implemented, this should continue to support the American economy in relative terms, compared to the rest of the world** (and specifically, the Euro Area and China). In this regard, it is very important to note that **Trump's electoral victory adds two significant aspects of uncertainty to the global economic scenario**: the first refers to the extent to which Trump's potentially rather disruptive electoral promises will be effectively applied from the first months of the new Administration if applied literally, and the second, the extent of the impact of these measures once adopted, on the US and global economy, which will also depend on a number of factors that are not easy to quantify (especially in the case of the trade policy).

Our central scenario, regarding the economic programme presented by Trump in the electoral campaign, envisages the following assumptions:

1. **relatively modest fiscal expansion, in addition to the full extension of the tax cuts coming up at the end of 2025**, due to the US public accounts much more precarious conditions, compared to the first Trump Administration.

2. a significant reduction in the flows of migrants, which is already being recorded, but **without pursuing a mass expulsion programme for illegal immigrants**, which could have a significant negative impact on the supply of labour (under conditions still close to full employment).

3. with regard to trade policy, **new duties will be imposed on Chinese imports, but to a lesser extent than the 60%** announced during the election campaign (and in any case, not on products with a very high consumption rate and problematic to substitute), and **duties on specific products will also be applied on imports from the EU** (e.g. cars) and other economies, but "universal" tariffs (of 10% or 20%) **will not be applied on all imports into the USA.**

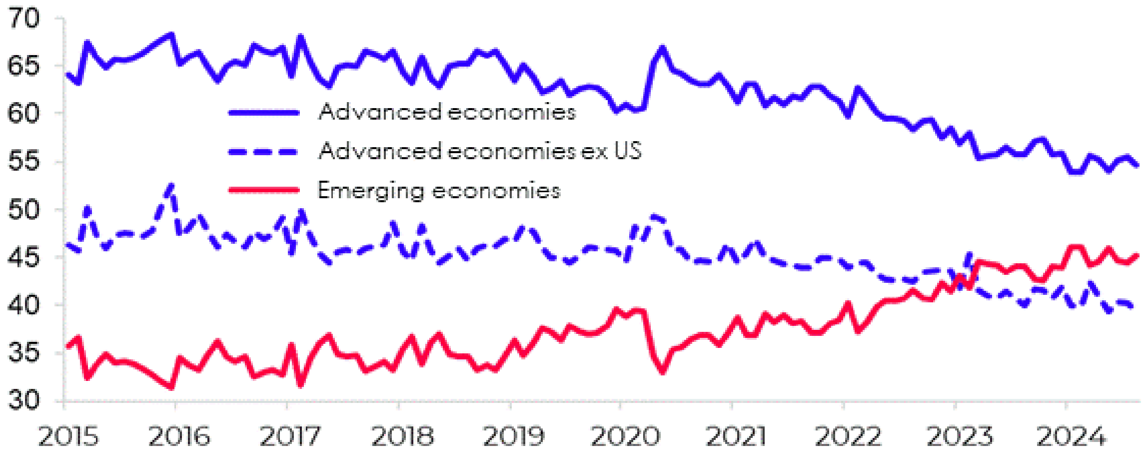
As already noted, it is important to point out the considerable uncertainty surrounding the policy scenario, which we consider central, and the **risks for the tax policy, immigration and tariffs are tending to a more aggressive application than our assumptions** (especially in the case of the trade policy, at least at the beginning of the new Administration). Our scenario also foresees **a positive shock on business confidence in the USA with the new Trump Administration** (especially medium-small businesses, which already seems evident from the most recent data), thanks mainly to the promises of deregulation, whereas **in the rest of the world, the shock would be negative** due to the sharp increase in uncertainty regarding US trade policies (with a significant impact in particular in an area that is broadly exposed to trade such as the Eurozone)

On the basis of these assumptions, we have revised our growth forecasts for the USA moderately upwards in 2025 (+0.2/0.3%) on the basis of the impact of the new Administration's policies; we have however revised estimates downwards, and **more or less to the same extent, for the** Eurozone (-0.3%) and **China** (-0.3/0.4%). Unlike their European counterparts, Chinese policy-makers should be able to offset about half of the negative impact of tariffs on growth (-0.8%), with even more expansionary economic policies than already announced towards the end of 2024. In this regard, it should be noted that in recent weeks **there have already been clear signs of a more proactive attitude on the part of the Chinese authorities**, not only with regard to fiscal policy, but also with regard to monetary policy. In a scenario where tariffs were to be increased in line with Trump's intentions during the election campaign (60% for imports from China in addition to a 10% tariff on all imported goods and very high rates in the case of Mexico), the impact on global growth would be decidedly negative (GDP growth in China, for example, without fiscal compensation measures could be reduced by at least 2%), but there would be a negative effect on economic activity in the USA as well as a non-negligible impact on core inflation, which would probably not be appreciated by American policymakers (and which in our opinion, therefore makes these measures much less attractive).

The Fed and ECB rate cuts will continue during 2025.

In China, monetary policy will become more expansionary, whereas we expect a modest increase in rates in Japan.

China's exports according to destination (share of the total).



Source} FMI

Our baseline scenario expects the Fed and ECB to continue the cycle of rate cuts initiated this year well into 2025. Even in China, monetary policy will become more expansionary, contrasting with Japan, where we expect a further modest increase in rates by the BoJ.

In light of the much more "hawkish" message that emerged from the FOMC meeting on 18 December, we reduced the number of cuts expected by the Fed during 2025, **with our scenario now envisaging two rate cuts of 25 bps** during the first part of the year, with the Fed funds rate expected to reach a minimum ranging between 3.75% and 4.00% in June. A break in the cuts at the beginning of the year also seems highly likely.

With regard to the ECB, our scenario envisages cuts will continue, at the same pace adopted since the September meeting: therefore, 25 bp cuts at each meeting until the beginning of the summer of 2025 and, after a short break, a final 25 bp cut in October, **for a total of 150 bp cuts in 2025 (with the year-end deposit rate at 1.50%)**. In our scenario, growth in the Eurozone (and particularly domestic demand) should in fact remain very low in 2025 for the third consecutive year, thus ensuring the gradual return of inflation for services and reducing pressure on wages.

Given the significantly weak status in the confidence indicators, it cannot be rules out the ECB may proceed with a cut of 50 bps (instead of 25) at the beginning of the year. On the other hand, we believe it is less likely that we will see a significant expansionary shift in fiscal policy (particularly in Germany after the February elections), which could curb the ECB's cycle of cuts as early as the first part of 2025.

Fideuram Asset Management macroeconomic outlook

	PIL			Inflation			Monetary Policy Rate		
	2023	2024*	2025*	2023	2024*	2025*	2023	2024*	2025*
US	2,9	2,7	2,4	4,1	3,0	2,4	5,38	4,38	3,88
Eurozone	0,5	0,7	0,6	5,5	2,4	2,2	4,00	3,00	1,50
Japan	1,5	-0,1	1,1	3,2	2,6	2,1	-0,10	0,25	0,75
China	5,2	4,8	4,4	0,2	0,3	0,8	2,50	1,90	1,60

Average annual growth for GDP and inflation; year-end level for rates. Depo rate for ECB

** Fideuram Asset Management expectation*

ASSET ALLOCATION AND INVESTMENT STRATEGIES

Outlook for 2025

A year ago, we concluded our 2024 Outlook recommending that a high level of investment was maintained with managerial tools and characterised by a high degree of homogeneity of behaviour in relation to market trends (i.e. low tracking error), because the expected long-term yields were higher than in previous years and we thought that corporate profits would continue to grow.

Despite our positive view on the main asset classes, we did not expect equity markets to have an even better year than 2023, which had already been very positive.

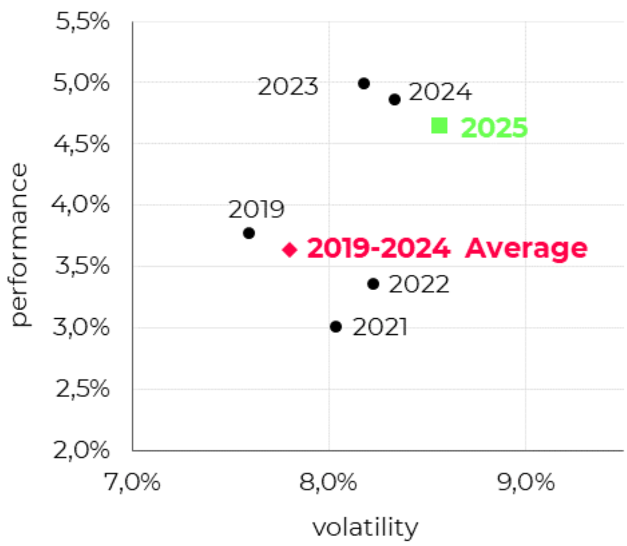
These considerations provide a good starting point for a prospective analysis and some general considerations.

The first consideration is that the long-term expected returns offered by a balanced portfolio remain higher than those of the average in recent years and this suggests that it **is not appropriate to significantly reduce risk exposure, despite the good performances recorded.**

This certainly applies to bonds, where expected returns are attractive on a historical basis and lead us to believe that over the medium-term, performance may be better than in recent years. Even with regard to equities, we do not expect a significant change in prospective returns, because the high valuations achieved by the US market are partly offset by an increase in margins and overall profitability.

The expected returns on the balanced portfolio are higher than the average in recent years.

Long-term expected returns on a balanced portfolio: 2025 vs previous years



Source} in-house processing Fideuram AM

The **second consideration** is that **we believe that it unlikely that equity will grow significantly over the next year** (an expression that we could translate as "to a greater extent than the expected level of growth in profits, taking into account the starting valuations"), after rising over 40% in the last two years. **This suggests that the portfolios are not positioned at the maximum of allowed risk.**

We do believe however that earnings growth will also be positive in 2025, and the likelihood that the US earnings cycle will extend and continue to exceed other geographic regions has increased subsequent to Trump's election. American economic growth is currently still above its potential level and financial conditions are expansionary; this combination reinforces the expectation that profits will continue to rise.

The third aspect refers to the volatility that is expected to be caused by American economic policy and Trump's communication and negotiating style. As already mentioned above, our opinion is that there will be a difference between what was announced in the new American president's electoral campaign and what will effectively be achieved, with more blunt macroeconomic effects than one might have initially thought. But the rate of comparison with political counterparties will be set on more extreme initial positions and will cause positions of uncertainty and volatility in the expectation of finding negotiated solutions.

US elections: relationship with the market

The initial market reaction to the advent of Trump 2.0 has favoured US assets (stocks and the dollar) over the non-US, in the belief that the effects of US economic policy will be expansionary and inflationary. Until late summer, the market was worried about a possible recession (see August correction), **with the extension of the economic cycle based on the expectation of fiscal support and deregulation measures that favour a broadening in the market towards multiple sectors**, not only the technology sector.

Seen from a non-American perspective, however, economic uncertainty increases due to the attempt to rebalance international trade in favour of the US, whereas currencies weaken to offset the risk of tariffs being imposed.

This reinforces the downward trend in European rates because the ECB must deal with a weak macro scenario, where the political fragilities of France and Germany are complicating the situation.

To date, the market continues to favour US stocks compared to the European (and generally, non-US) because profits are better, while the process of reducing official interest rates is more defined in Europe, the dollar is strong and financial conditions are still accommodative.

Our portfolios currently reflect this situation. In fact, they are slightly overweight on equity, with a preference for American shares, and with a slightly longer duration than the benchmarks, mainly in high-quality credit (investment grade corporate bonds and financial subordination) and in European government bonds. In contrast, the dollar is neutral.

The long-term expected returns offered by a balanced portfolio remain higher than the average in recent years.

It is not appropriate to significantly reduce exposure to risk, despite the strong performance recorded.

Valuations of US equities and credit spreads are high (i.e. spreads are narrow), but also supported by falling interest rates and, above all, by the perception of the increased time in which profits can grow before the next recession. A change in this balance is needed to build a negative case for multiples and spreads.

But because we know that the elements characterising the current context will predictably change, we consider it useful to identify certain issues that could lead to changing portfolio choices and conclude by suggesting operational elements in the coming months.

THE THEMES THAT WILL GUIDE OUR INVESTMENT CHOICES

1| AMERICAN EXCEPTIONALISM AND CHANGES IN EUROPEAN POLICIES.

The strong US equity outperformance reflects better earnings growth compared to other geographical areas, but also political and economic policy elements. The spread between multiple shares (and the dollar), in addition to fundamental elements, have also benefited from the political fragility in Europe (first and foremost, France and Germany). Given that even in 2025, American profits will grow more than European profits, European outperformance will be driven by multiples rather than by the income component. This suggests that greater clarity on the political front in Europe may favour an improvement in relative performance compared to the US.

If the German elections should lead to an increase in fiscal spending in Germany, greater stability is achieved in the French political context and tariff negotiations do not prove so penalising, we will enter a phase where we will have to reposition portfolios more in favour of non-US assets. The fact that these events are expected to occur towards the end of the first quarter of 2025 is important.

2| CHINA, TARIFFS AND EMERGING COUNTRIES.

A few months ago, China announced a process to stimulate the economy, with a preference for the monetary channel, while setting aside the fiscal channel. This situation has prevented the Chinese market from continuing on the upward trend it had achieved in autumn.

Our opinion is that China is waiting on dialogue with the new American administration before activating a certain level of fiscal stimuli. This is to avoid making decisions that could later be weakened by the tariffs. We have no idea regarding the extent of the Chinese intervention and do not have high expectations.

It is nonetheless reasonable to believe that greater clarity on the application and extent of the tariffs could be followed by a certain degree of fiscal stimulus, thus creating a more favourable phase for emerging markets. All the more so, because without the uncertainty around tariffs (precisely because at that point the tariffs will have been applied), pressure should ease for emerging currencies.

3 | MONETARY DIVERGENCE AND THE CHOICE BETWEEN CREDIT AND GOVERNMENT BONDS.

As highlighted above, and in line with the market, we expect that the Fed and ECB will continue to cut interest rates in the coming months, with the ECB doing so sooner due to a clearer disinflationary path and cyclical weakness. In the USA, on the other hand, we cannot exclude that the continuing solid macroeconomic period may suggest that the Fed Could slow (or even interrupt) the downward cycle earlier than expected to avoid a further easing of financial conditions, even more so if the dollar were to stop strengthening.

In this case, we would have **three distinctive economic policy paths between the ECB**, the **Fed** and **BoJ**, with implications also for the preference between government bonds and (high-quality) corporate bonds.

It is interesting to note that in 2024, investment grade corporate bonds had a lower volatility than government bonds because the spreads absorbed the base rate movements. We believe that this anomaly may be lower this year, but not necessarily cancel out in the short term, **favouring the choice between the greater directionality of government bonds and the lower volatility of corporate bonds, depending on the scenario.**

4 | THE CORRELATION BETWEEN EQUITY AND BONDS.

In 2024, the ratio between equities and bonds finally decreased, bringing stability back to a balanced portfolio. This is because economic growth has taken on a greater role in Central Bank decisions alongside inflation. The reasoning is that if growth weakens, Central Banks will cut more and this favours a reduction in the correlation.

Looking to 2025, **the perception that the US economic cycle will most probably be extended** (and therefore less cyclical risk), **makes the bond/equity correlation potentially more unstable. The euro would benefit if the risk premium in Europe were to be reduced due to favourable political developments; but if a tightening of financial conditions were to become necessary to avoid possible overheating of the economy, bond yields could rise, with a resulting weakness in equity.**

This is not our reference scenario, but neither is it a risk that we can exclude. This is also one of the reasons why we do not manage our portfolios at maximum available risk levels at this time.

5 | VOLATILITY WITHIN THE STOCK MARKET.

Changes in leadership within the equity market increased during the second part of 2024. This was partly because the differential in earnings growth between technology and the rest of the market narrowed, but also because the election of Trump introduced certain changes and uncertainty in the macro framework. These characteristics will remain valid even during 2025.

Technology, and in particular the higher-capitalisation S&P500 securities, will continue to show higher growth rates than the market, but the gap with the rest of the market is smaller than the average in 2024. On the other hand, the valuation differential between the two groups is higher for fundamental reasons, but also relating to the perception of the duration of the economic cycle, interest rates levels and the impact of tariffs on production chains.

The result is that the average correlation between stocks is low and there may be frequent leadership changes in coming months that the portfolios will have to reflect.

In our portfolios, we have also begun to diversify our exposure in favour of the more cyclical and value sectors, and in certain cases, also in favour of lower capitalisations, mainly compared to the more defensive components (without significantly decreasing technology).

CONCLUSIONS

The different factors analysed and their foreseeable development over time lead us to believe that American exceptionalism over the short-term will continue to be the reasonable reference for the market and the setting of our portfolios, but certain developments are possible in this scenario.

The increased volatility we see for 2025 refers to both political and market factors.

The first includes the methods whereby American and Chinese economic policies will be implemented, the choices made by Central Banks (and in particular, the Fed), the resolution of the political crises in France and Germany, without forgetting the geopolitical issues in the Middle East and Eastern Europe.

Among the market factors, we note the valuation differential between the main indices and equity sectors in the face of a smaller growth gap, the way in which financial conditions will have to respond to macroeconomic developments, such as bond yields, and currencies that will reflect the changes in monetary and tariff policies.

Because medium/long-term returns are still high, **we do not recommend** (and are not implementing) **a reduction in portfolio risk. It is preferable that investment choices are directed in favour of an increase in management delegation and operational flexibility. The percentage of active and diversified investment solutions should increase, even significantly.**

Alongside "core" solutions with limited tracking errors, others with greater active management content and/or in a multi-thematic context must be added so as to introduce additional dimensions of diversification, including on a tactical level, with the use, for example, of total return and alternative strategies and other investment dimensions (stylistic and thematic).

For example, in our portfolios, we are increasing the granularity of choices within the different asset classes because we are aware that the "beta", or directionality that has driven stock markets over the last two years, will leave room for a context of lower returns, characterised by changes in leadership.

Finally, in a potentially more volatile context, solutions with a gradual entry into the stock market and accumulation plans will play an important role, because they mitigate emotionality, especially in situations where there is market weakness.

Tactical choices and investment strategies, other than traditional asset classes, provide less consistency in results compared to the market and must therefore be correctly calibrated in terms of both the entry and exit size and timing. For this reason, they require more guidance in investment choices and a greater component of management delegation in portfolios.

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