FORECASTS 2025

2025 is set to be a roller coaster year for stocks, driven by the extraordinary concentration of power in the hands of the U.S. president. Geopolitical shifts will present both opportunities and risks. Major Wall Street firms forecast a globally positive year for the markets, with rising stock prices. The focus will be on U.S. growth stocks. However, the generally upbeat investor sentiment at the turn of the year carries a risk of inflated expectations. A wave of new regulations from the White House is likely to set the stage with a rocky start to of the year.

Reflecting on 2024, the cautious mood at the beginning of the year comes to mind. Predictions for the S&P 500 ranged widely, from a bearish 3600 to an optimistic 5300 points. In hindsight, most of us underestimated the positive trajectory. The term "recession" faded as consumer confidence grew. While central banks delayed interest rate cuts until late summer, this hesitant approach, accompanied by vague Federal Reserve statements, led to a four-month consolidation of stock prices starting in July. By the end of 2024, markets were marked by high volatility, driven by the recovery of undervalued sectors, political shifts, and the early phases of the AI boom. And yet, an age-old pattern held true: election years are good for the markets.

At the dawn of 2025, an unusually positive sentiment prevails. While a year ago, most professional investors were sceptical, today roughly 80% of fund managers are optimistic—moderately so until mid-year and more emphatically as we approach year-end. However, comparisons to the 1929 crash or the dot-com bubble of 2000 persist, reflecting the emotional extremes of a fully functioning market.

Elevated balances in money market accounts suggest a sense of caution despite the optimism, ensuring sufficient liquidity for the stock markets. Investments in bonds are becoming less attractive as the interest rate landscape evolves.

The major themes of 2025 revolve around geopolitics, economic structures, supply chains, and the early stages of the AI boom. Quantum computing is set to become more accessible to a broader, selected audience, compelling the industrial and service sectors to make massive investments.

The uncertainties of Trump's presidency are guaranteed to shake things up. Key topics for 2025 include interest rate policy, currencies, and the re-emergence of recession discussions. With the Republicans holding majorities in both the Senate and the House, the White House wields unprecedented power. Markets have already been reacting to Trump's impending administration since November 2024, almost treating it as a shadow government. Trump's administration is expected to bring erratic market volatility—a challenge for nervous investors but a potential windfall for those with a long-term outlook.

Trump's agenda appears to threaten global trade, jeopardizing supply chains, increasing costs for U.S. consumers, and provoking retaliatory measures. China, for example, has hinted at banning the export of rare earths—essential for global high-tech production. Together with Russia, China controls nearly 90% of the rare earths market. While distribution is tightly regulated, China's capacity to bypass technological boycotts with unconventional methods should not be underestimated. Ultimately, global corporations must avoid becoming pawns in a political game. If the White House ignites a global trade war leading to uncontrollable chain reactions, the equity portion of portfolios may need a thorough revision.

Even before taking office, Trump is positioning himself as the "Bitcoin President." Let's hope the US-Treasury doesn't turn into a crypto bank. While the boom in virtual currencies is noteworthy, we don't see them as fitting products for portfolios with controlled risk. Deregulation will also be a key theme. Trump aims to streamline bureaucracy across sectors, including powerful agencies like the SEC and FDA. While this could be a positive signal for Europe, it's unlikely to significantly reduce U.S. inflation.

At the year-end, major central banks, including the Bank of England, ECB, and Swiss National Bank, lowered interest rates again, bringing some back to near-zero levels. While this risks deflationary tendencies in Asia and France, it bolsters improving consumer sentiment. In Germany, the Scholz government has faltered in the face of reality. Economic growth in Europe's largest economy is teetering near zero and is likely to remain in recession until 2026. Higher taxes and levies threaten to create a fiscal trap, stifling economic activity and dampening consumer confidence. Alarmingly, household savings rates are climbing. A new German government may inspire hope and provide positive momentum for the markets. However, the worst-case scenario would be a weak minority government, as is currently a risk in France. Geopolitical crises add to this period of uncertainty, offering both challenges and opportunities for optimism and peace.

Portfolio Strategy for 2025

A significant portion of investments should remain in North America. European stocks should be tilted towards large-cap companies with global reach. Given current economic conditions, the focus should be on growth stocks rather than classic value plays, which often come with unpleasant surprises. Last year, value stocks disappointed, and this classic sector is unlikely to match the performance of growth stocks in 2025.

Growth stocks have been expanding their share of overall profits since 2019:

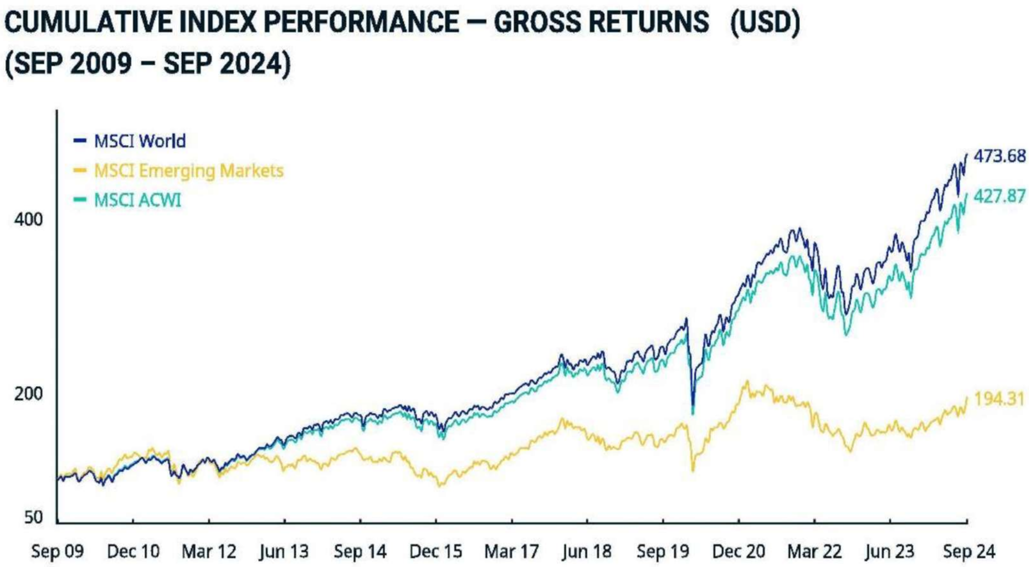
Source: LSEG Datastream

The world of artificial intelligence will dominate media and influence stock prices. The potential of the big players remains underestimated but is gaining momentum. Investor expectations will need to align with earnings to justify high valuations, leading to frequent price swings. The broader commercialization of quantum computing will drive demand for new hardware, making investments in this area increasingly attractive. The major players in cybersecurity will also play a critical role. In the U.S., the IT sector now accounts for 5.2% of the total economy, not to mention its contribution to value creation.

Geopolitical realities also highlight the importance of defence stocks. NATO’s push for member nations to spend 3% of GDP on defence will drive long-term demand for the arms industry, challenging ESG-compliant portfolios. We remain cautious about chemical and traditional industrial stocks. We also pay close attention to the pharmaceutical sector where, state-imposed price regulations pose significant cost challenges. The appointment of Robert F. Kennedy as Trump’s health minister, an anti-vaccine advocate and conspiracy theorist, further complicates matters. Meanwhile, resource and oil markets, as well as Chinese stocks, are likely to experience significant volatility due to U.S. sanctions.

Diversification into emerging markets like India, China, and South America offers little incentive upon closer examination, given the increased risk from currency issues and political instability.

The long-term performance comparison (yellow) with the MSCI World Index (blue) speaks for itself:



ANNUAL PERF

Year	MSCI World
2023	24.42
2022	-17.73
2021	22.35
2020	16.50
2019	28.40
2018	-8.20
2017	23.07
2016	8.15
2015	-0.32
2014	5.50
2013	27.37
2012	16.54
2011	-5.02
2010	12.34

Source: Bloomberg

The USA remains the driving force of the global economy - or perhaps one of two, when factoring in China's impact. Europe, however, is losing momentum, with even Switzerland projected to see subdued economic growth below 1.5%

The high share prices of individual stocks are set to trigger a wave of stock splits in the new year, often followed by positive price movements. We currently consider the market to be fairly valued. Undervaluation is becoming rare.

The most important financial institutions on Wall Street see the broad-based S&P500 stock index at 6100 points by the end of 2025 in a negative scenario and up to 7000 points in a positive scenario.

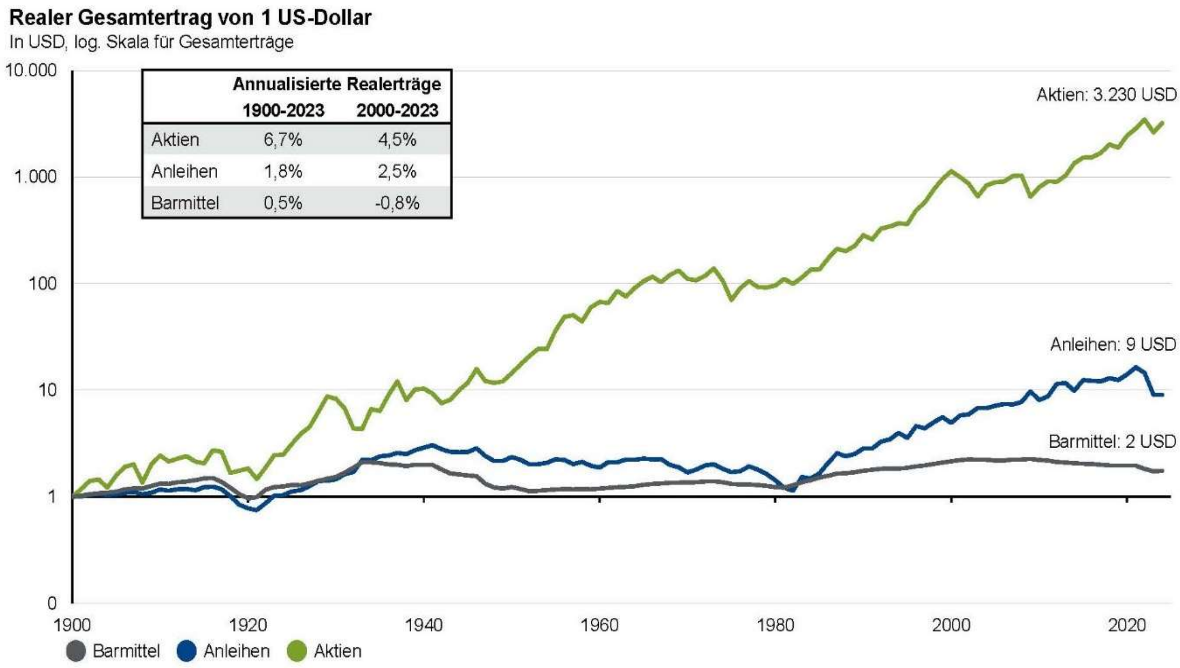
Based on credible data, MPM projects a highly volatile year, with the index closing at approximately 6850 points, a 14% increase. Global economic growth is expected to settle at around 3.1%, leaving room for positive surprises.

With the political shifts in Europe, we consider index calculations of the EU economy to be of little significance. For updates throughout the year, please refer to our quarterly outlooks on our website: www.mpmswiss.com

The potential for an unforeseen Black Swan event remains in 2025: natural disasters, social unrest, autocrats resorting to extreme measures when their backs are against the wall *last but not least,* disrupted supply chains due to political escalations. Keeping a close eye on risks is part of the business.

By focusing on growth stocks with a long-term perspective, we expect better results with significantly reduced timing risk. The concentration on equities as an asset class in the long term compares to this:

Long-Term Investment Returns



Quelle: JPM Quantitative Beta Solution

Just looking at this chart supports our argument for a long-term investment strategy focusing on stocks as an asset class

Just like this year, investors will continue to be inundated with polarising opinions from financial media of all kinds. This means emotionally driven short-term market swings remain a constant possibility. The confusion among many private speculators is reflected in measurable risk appetite. Since mid-2024, the Risk-Z-Score (a measure of market risk appetite and investors' willingness to take risks) has fallen from +1.5 to -0.5 by the start of 2025, now sitting 50% below the neutral average.

The shift from an overly enthusiastic sentiment to a more sober perspective has silenced claims of an unhealthy overvalued market. From a European viewpoint, it is often overlooked that around 60% of the world's population lives in Asia, where trends and risks are assessed differently. For instance, Asia's top three concerns are a trade war, interest rate turmoil, and geopolitical shifts, in that order. In contrast, the Western world prioritises geopolitical tensions, pandemic risks, and cybersecurity. Interestingly, issues such as debt crises and the independence of central banks are less concerning globally. Among the potential wildcards for all forecasts are relaxed sanctions and the rollback of environmental goals outlined in the Paris Agreement, both of which could steer markets in a new direction.

With years of experience, we manage our clients' portfolios with a clearly defined strategy, responsible risk management, a long-term outlook, and, of course, a distinct touch of Swissness.

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