

December 27, 2024

BIL Investment Outlook 2025 – Tides of change



Introduction from our Group Chief Investment
Officer,
Lionel De Broux



As the oldest private bank in Luxembourg, we've been managing clients' wealth for generations, and we know that the best things are built over time. This belief seeps down into our investment philosophy, which is guided by three key principles: **stability**, **adaptability** and **performance**.

Stability references the fact that we are long-term investors guided by robust strategic asset allocation guidelines, which help ensure adequate diversification at all times. However, that does not mean that we take a laissez-faire or hands-off approach. You have to think of an investment strategy as being like a large tanker ship at sea. If it veers off course even slightly, the ultimate destination could be totally different than intended. As such, our experts are continually scanning the horizon, making sure that we **adapt** our strategy as and when needed, in order to keep moving towards our long-term investment objectives, despite changing conditions. The North Star guiding every investment decision that we take is **performance** for our clients. This is fostered through a process-driven approach, as well as our independent status.

Looking back at 2024, it was an exceptional year on many fronts.

In the macro sphere, global economic growth remained resilient despite higher rates put in place to keep inflation at bay. US exceptionalism persisted, with consumers driving the bulk of

growth, while Europe was left in its wake, caught in a whirlpool of structural and cyclical issues. China, the world's second largest economy, struggled to meet its growth target amid the ongoing real estate downturn and weak domestic demand.

Equity markets have enjoyed an exceptionally prosperous period over the past two years. In 2023, they recorded an impressive performance, rising by around 20%, and this momentum continued in 2024 with a meteoric rise in stock indices. In September, the Fed's bumper interest rate cut marked a watershed moment, allowing the stock market rally to broaden out beyond the usual suspects with an AI halo. Equity indices in both the US and Europe enjoyed new all-time highs, with the S&P 500 crossing the symbolic threshold of 6,000 points.

However, as we enter 2025, a certain nervousness is beginning to be felt among investors.

Valuations are stretched and heightened geopolitical tensions make for choppy waters. Moreover, the election of Donald Trump and the red sweep across the US Congress promises a sea-change in the global macro and market outlook. His proposed trade policies could bring headwinds for key trading partners while rekindling inflation at home, as costs are passed onto US buyers. In anticipation of an inflationary agenda and a larger deficit, traders have already pushed the US yield curve further up above sea level while tempering optimism about the Fed's easing cycle.

This Outlook outlines our investment strategy as we move into the new year, given the context. We explore several investment ideas but from those, we take the opportunity to highlight **three main ports of call** for 2025:

- **US equities**, focusing on small caps, industrials, and financials. AI should be thought of as a strategic play
- **Active management** – given ongoing concentration risk, 2025 could be the year when active equity managers shine relative to passive products. When it comes to fixed income, we advocate active management of duration. The growth landscape differs markedly between the US and Europe and divergent monetary policies on either side of the Atlantic will impact expected returns for fixed income assets, opening up opportunities for arbitrage
- **Credit for income generation** - favourable technicals and the persistent quest for yield should keep corporate bonds supported into the New Year. Investors seeking to enhance income might consider complimenting investment grade exposure by selectively targeting quality high-yield bonds

Read the full document in English:



Or French:



Disclaimer

All financial data and/or economic information released by this Publication (the "Publication"); (the "Data" or the "Financial data and/or economic information"), are provided for information purposes only, without warranty of any kind, including without limitation the warranties of merchantability, fitness for a particular purpose or warranties and non-infringement of any patent, intellectual property or proprietary rights of any party, and are not intended for trading purposes. Banque Internationale à Luxembourg SA (the "Bank") does not guarantee expressly or impliedly, the sequence, accuracy, adequacy, legality, completeness, reliability, usefulness or timeliness of any Data. All Financial data and/or economic information provided may be delayed or may contain errors or be incomplete. This disclaimer applies to both isolated and aggregate uses of the Data. All Data is provided on an "as is" basis. None of the Financial data and/or economic information contained on this Publication constitutes a solicitation, offer, opinion, or recommendation, a guarantee of results, nor a solicitation by the Bank of an offer to buy or sell any security, products and services mentioned into it or to make investments. Moreover, none of the Financial data and/or economic information contained on this Publication provides legal, tax accounting, financial or investment advice or services regarding the profitability or suitability of any security or investment. This Publication has not been prepared with the aim to take an investor's particular investment objectives, financial position or needs into account. It is up to the investor himself to consider whether the Data contained herein this Publication is appropriate to his needs, financial position and objectives or to seek professional independent advice before making an investment decision based upon the Data. No investment decision whatsoever may result from solely reading this document. In order to read and understand the Financial data and/or economic information included in this document, you will need to have knowledge and experience of financial markets. If this is not the case, please contact your relationship manager. This Publication is prepared by the Bank and is based on data available to the public and upon information from sources believed to be reliable and accurate, taken from stock exchanges and third parties. The Bank, including its parent, - subsidiary or affiliate entities, agents, directors, officers, employees, representatives or suppliers, shall not, directly or indirectly, be liable, in any way, for any inaccuracies or errors in or omissions from the Financial data and/or economic information, including but not limited to financial data regardless of the cause of such or for any investment decision made, action taken, or action not taken of whatever nature in reliance upon any Data provided herein, nor for any loss or damage, direct or indirect, special or consequential, arising from any use of this Publication or of its content. This Publication is only valid at the moment of its editing, unless otherwise specified. All Financial data and/or economic information contained herein can also quickly become out-of-date. All Data is subject to change without notice and may not be incorporated in any new version of this Publication. The Bank has no obligation to update this Publication upon the availability of new data, the occurrence of new events and/or other evolutions. Before making an investment decision, the investor must read carefully the terms and conditions of the documentation relating to the specific products or services. Past performance is no guarantee of future performance. Products or services described in this Publication may not be available in all countries and may be subject to restrictions in some persons or in some countries. No part of this Publication may be reproduced, distributed, modified, linked to or used for any public or commercial purpose without the prior written consent of the Bank. In any case, all Financial data and/or economic information provided on this Publication are not intended for use by, or distribution to, any person or entity in any jurisdiction or country where such use or distribution would be contrary to law and/or regulation. If you have obtained this Publication from a source other than the Bank website, be aware that electronic documentation can be altered subsequent to original distribution.

As economic conditions are subject to change, the information and opinions presented in this outlook are current only as of the date indicated in the matrix or the publication date. This publication is based on data available to the public and upon information that is considered as reliable. Even if particular attention has been paid to its content, no guarantee, warranty or representation is given to the accuracy or completeness thereof. Banque Internationale à Luxembourg cannot be held liable or responsible with respect to the information expressed herein. This document has been prepared only for information purposes and does not constitute an offer or invitation to make investments. It is up to investors themselves to consider whether the information contained herein is appropriate to their needs and objectives or to seek advice before making an investment decision based upon this information. Banque Internationale à Luxembourg accepts no liability whatsoever for any investment decisions of whatever nature by the user of this publication, which are in any way based on this publication, nor for any loss or damage arising from any use of this publication or its content. This publication, prepared by Banque Internationale à Luxembourg (BIL), may not be copied or duplicated in any form whatsoever or redistributed without the prior written consent of BIL 69, route d'Esch | L-2953 Luxembourg | RCS Luxembourg B-6307 | Tel. +352 4590 6699 | www.bil.com.