BIL Investment Outlook 2025

TIDES OF CHANGE

Written as at 13th December 2024

INTRODUCTION

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

Lionel De Broux
GROUP CHIEF
INVESTMENT OFFICER, BIL

2025
INVESTMENT OUTLOOK
SUMMARY

01

Macroeconomic Outlook

- Global growth is expected to remain steady at around 3%, though with greater divergence between regions; this will be reflected in central bank policies
- The US economy is driving global growth and that is expected to continue. Only a mild slowdown is expected in 2025 as consumption patterns adapt to a cooler labour market
- While Trump's policies might create tailwinds for growth, they also threaten to rekindle US inflation. Trade tariffs, or even the threat of them, could weigh on growth prospects elsewhere
- Stagnation is expected in Europe with risks tilted to the downside. The economic situation in both Germany and France is marred by weak demand as well as political uncertainty
- China is struggling to meet its 5% growth target and expectations for next year are muted. Stimulus measures have lathered up market optimism but have yet to catalyse a meaningful rebound in consumer confidence and demand

02

Central Bank Outlook

- The ECB is expected to deliver sequential 25bp rate cuts until it reaches its terminal rate
- For the Fed, much depends on how Trump implements his platform. If the key items (tax cuts, broad tariffs and an immigration crackdown) are rolled out quickly, we could certainly see a return to a "higher-for-longer" rate environment

03

Equities

- The year ahead calls for more discretion and less complacency as financial markets adapt to a new regime of greater volatility, uncertainty, and divergence in market performance. **Active strategies** could help shield against concentration risk while professional managers may also have more opportunity to generate alpha
- **US equities** remain attractive for the time being, with companies still delivering on the earnings front. **Small caps, financials** and **industrials** are noteworthy. **AI** should be considered as a strategic play, with overcrowding into the theme creating the risk of a short-term pullback
- Discernment within the **utilities** sector is advisable. Renewable energy is clearly not a priority for Trump, while other subsectors are poised to benefit from structural growth in electricity demand
- Defence is rising up government agendas and the sector merits renewed consideration
- Eurozone stocks are expected to continue trailing their US peers due to the widening gap in economic growth between the two regions. A defensive strategy is advisable there, focusing, for example, on **utilities** and **healthcare**
- The Chinese equity market needs further catalysts from the policy sphere. Steep valuation discounts keep the region on our radar

04

Fixed Income

- Lower rates create a tailwind for fixed income, while quality bonds have re-established their inverse relationship with equities, offering diversification benefits for cross-asset portfolios
- **Corporate bonds** offer attractive carry and fundamentals remain healthy
- **Structured credit** can still deliver excess returns in an environment where defaults are unlikely to be a major drag. Rich valuations mean it will be important to spot brewing trouble early and remain nimble enough to exploit cross-regional or cross-asset opportunities

05

Oil

- In an environment of weak global growth, we predict **that oil markets will remain in a situation where supply outstrips demand in 2025**

06

Gold

- In the short-term, consolidation could continue, given the run that the precious metal had in 2024. **However, over the medium-to-long term, we remain constructive on gold** and don't perceive the USD 3,000 mark as an unreachable mirage on the horizon

CHARTING THE MACRO LANDSCAPE

We expect global growth to remain steady at around 3%, though with greater divergence between countries which, in turn, will be reflected in central bank policies.

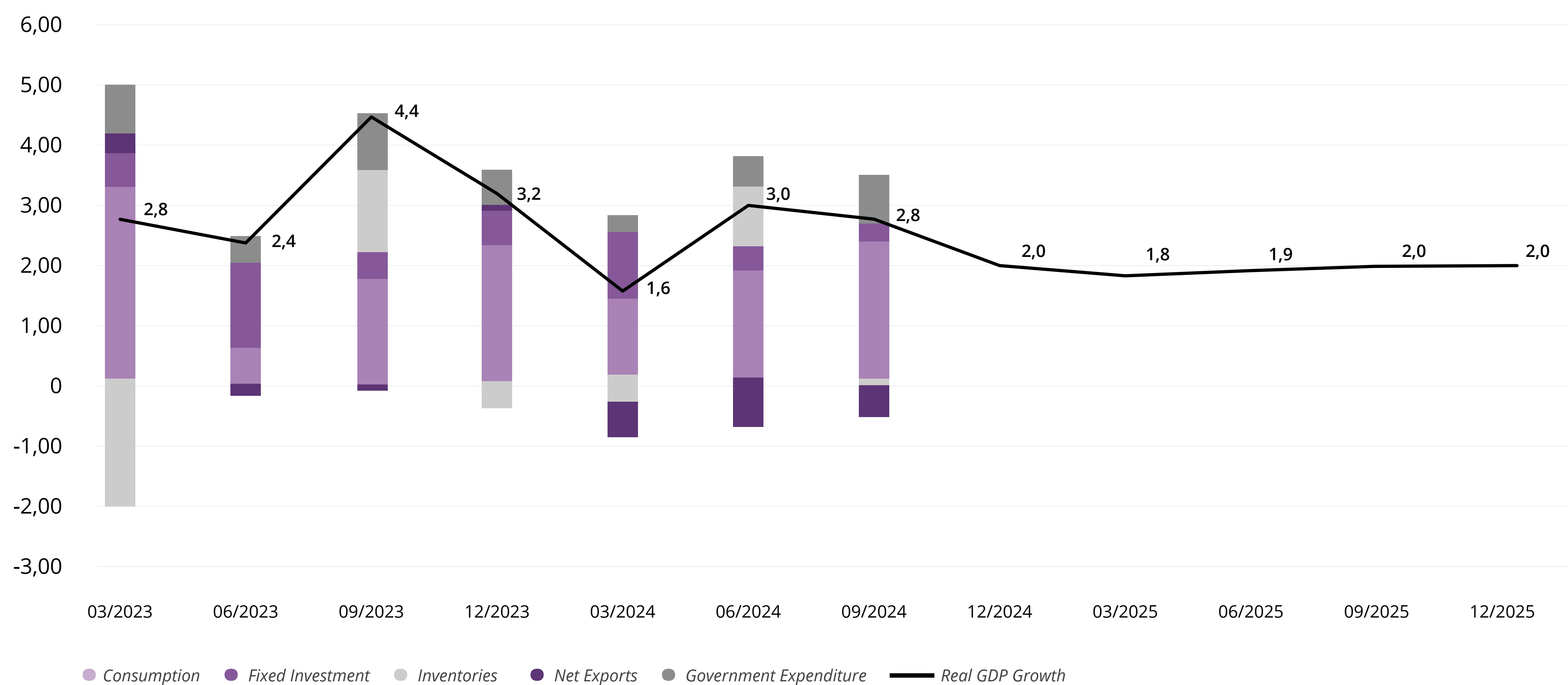
In 2025, we expect global growth to remain steady at around 3%, though with greater divergence between countries which, in turn, will be reflected in central bank policies. At a global level, the crosscurrents of shrinking labour markets, lacklustre productivity, increasing nationalism, and fiscal tightening, suggest that we will have to get used to more moderate growth in the years ahead. Productivity gains from AI could lean against this, though widespread application is still some years away, and will depend on automation and global AI adoption rates.

THE US – STEADY AS SHE GOES, BUT WITH POLICY UNCERTAINTY

- Throughout the course of 2025, we envisage a mild slowdown as consumption patterns adapt to a cooler labour market
- Corporate activity is expected to compensate part of that slowdown
- “Higher-for-longer” is resurfacing

The US economy has been the tugboat, pulling the global economy along, and that is expected to continue - especially if fresh pro-growth policies are forthcoming under the new Trump administration.

US GDP Growth, Actual & Expected (%, QoQ)



Source: Bloomberg, BIL as of 2nd December 2024

The health of the labour market is critical for the broader consumption outlook.

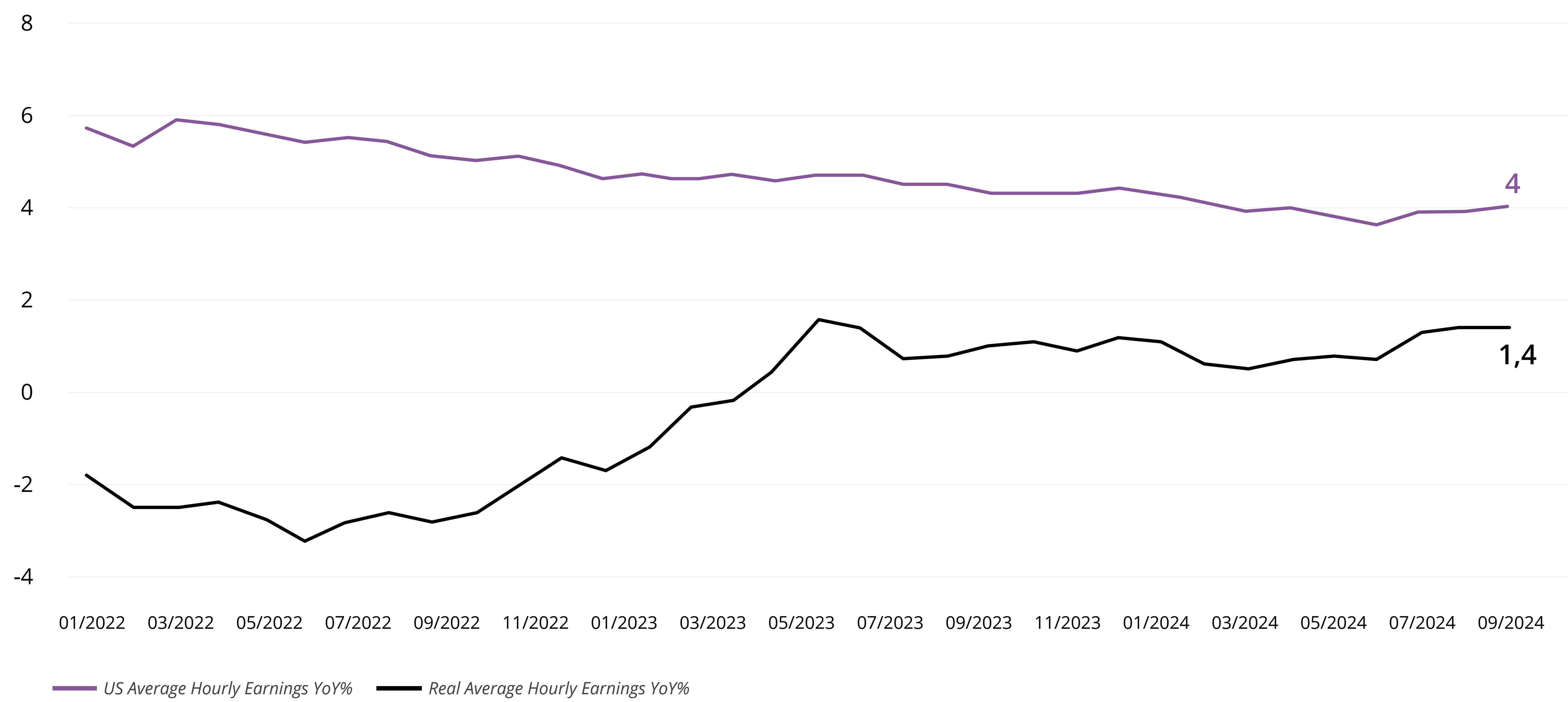
Its enduring strength is largely thanks to **consumption**, which accounts for roughly two-thirds of overall activity. Despite depleted excess savings and high borrowing costs, Americans have continued spending, even if they are more selective in what they buy.

This is expected to continue in the near-term with consumer confidence on the up. Rising stock markets also give way to more spending with around 60% of US households owning stocks. In fact, each additional dollar of stock wealth increases spending by 32 cents in the US economy. There are other tailwinds too; positive effects of the Fed's prior easing are still to be felt in the real economy, debt servicing costs are contained (on aggregate), and real wages are still rising.

Pay growth will likely slow down, however, as the labour market loosens, leading to a moderation in spending.

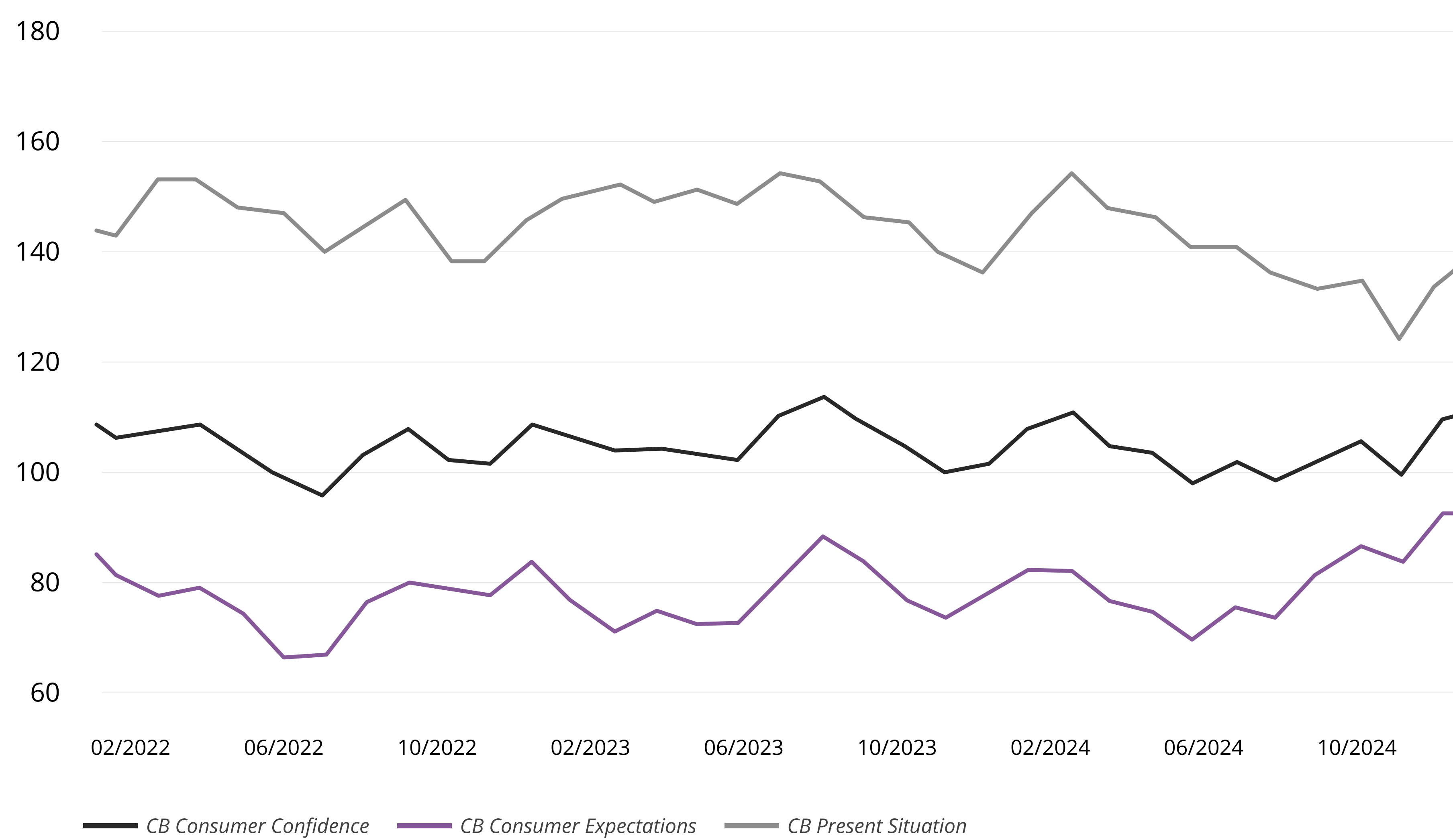
The overall health of the labour market is critical for the broader consumption outlook. Up until now, a cooling labour market has been characterised by slowing job growth, fewer vacancies and reduced working hours. There is the risk that widespread layoffs follow – something the Fed is eager to avoid. Such a scenario would likely push the savings rate up closer towards its long-run average, curtail spending and put a sizeable dent in overall economic growth.

US real wage growth remains positive



Source: Bloomberg, BIL as of 2nd December 2024

Consumer confidence ticked up following Trump's election



Source: Bloomberg, BIL as of 2nd December 2024

Looking to corporate America, the outlook for the coming year is benign. Profits continue to rise moderately, and earnings are the key driver of business spending, making them an important leading indicator for the wider economy. Slowing inflation, lower interest rates and a more favourable labour market (with power shifting back to employers) stand to reduce expenses, leaving more capital for investment. Indeed, business surveys show an uptick in capex spending intentions as of late.

The Republican red sweep has fuelled hopes of tax cuts and deregulation. Some analysts expect a post-election surge in investment.

The Republican red sweep has fuelled hopes of tax cuts and deregulation. Some analysts expect a post-election surge in investment given executives should now have a better idea of how the land lies. We are cautiously optimistic on that front; many of Trump's plans still lack detail and it is difficult to differentiate between bluster and true policy intentions.

However, trade policy is perhaps the greatest unknown for 2025, with Trump stating that "tariff" is his favourite word. For America's trading partners, the mere sight of fins circling and waiting to take a bite out of margins, could be enough to affect corporate activity and decision-making. The last Trade War in 2018/19 showed that just the threat of tariffs hurts growth.

Tariffs also bring risks for the domestic economy in that they could rekindle inflation.

But tariffs also bring risks for the domestic economy in that they could rekindle inflation, with the costs borne by US buyers, rather than foreign manufacturers. The Fed has fought a hard battle to bring inflation back towards the 2% target, but sticky services inflation is making the last mile tricky. Add in an immigration crackdown (which could push up wages), increased spending on the back of tax cuts, and inflation could conceivably move higher again. With the recent upsurge in prices still fresh in the collective memory, renewed price pressures could become embedded more easily, with corporations and consumers moving quicker to defend their margins and purchasing power.

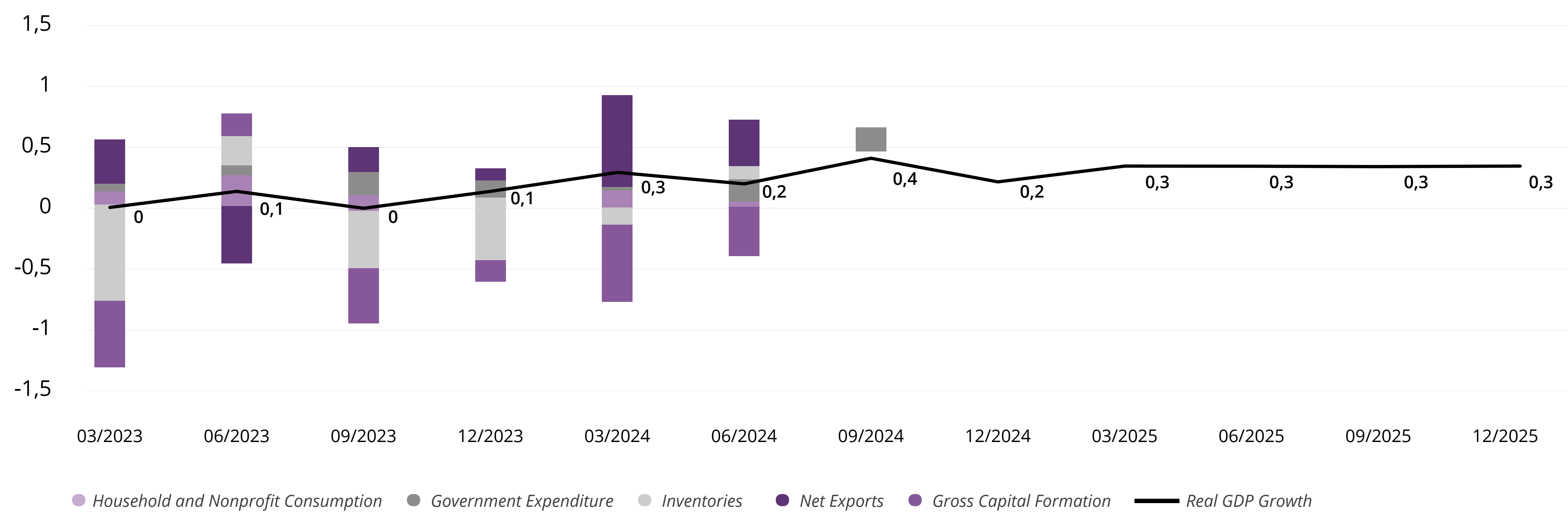
As such, optimism about the Fed's easing cycle has faded, with the idea of "higher-for-longer" rates resurfacing.

EUROPE – LACKING DIRECTION

- Stagnation expected with risks tilting to the downside
- Political uncertainty in France and Germany leaves the bloc with weakened leadership as Trump enters the White House
- ECB easing should keep the economy afloat

Leading indicators suggest stagnation, or perhaps worse, lies ahead for the Eurozone. In a reversal of fortunes, it is southern economies like Spain, that are demonstrating greater resilience, thanks to their well-developed services sectors. Both France and Germany continue to struggle with weak demand and a protracted industrial downturn.

**Eurozone GDP Growth, Actual & Expected (%, QoQ)
and percentage point contributions**



Source: Bloomberg, BIL as of 2nd December 2024

Part of the Euro area's problem is a lack of investment in infrastructure and in boosting productivity. However, most countries already have high debt burdens and the focus for next year will be reigning those in. Meanwhile, hurdles remain when it comes to joint funding. The European Recovery Fund is expected to provide fiscal support in 2025 but not enough to fully offset the contraction in national fiscal spending.

It is estimated that a potential 10% tariff on all US imports would lower Euro area growth by 1 percentage point.

As such, there are no obvious growth catalysts for the bloc, and risks are clearly tilted to the downside: the war in Ukraine persists and Trump is likely to push the bill for ongoing defence spending in Europe's direction, while trade tariffs would hit Europe's export oriented economy disproportionately. Note that the US accounts for roughly one-fifth of EU exports; it is estimated that a potential 10% tariff on all US imports would lower Euro area growth by 1 percentage point.

Turning to price pressures, Eurozone inflation has been on a downward trend, and is projected to return to a sustainable 2% rate by the end of next year as services price pressures decelerate. Historically, too little rather than too much inflation has been the ECB's problem and it could re-emerge as a challenge. Given the growth outlook, the ECB is now expected to deliver sequential rate cuts until it reaches its terminal rate, which the market currently estimates at around 1.7%. From our viewpoint, this seems a little low unless the recession fog horns start sounding next year (not currently the case), compelling the ECB to become more accommodative.

Monetary policy easing should tide the economy over. We already see money supply growth firming and loan growth shows that while the credit impulse is still subdued, it is strengthening. Moreover, term deposit growth is slowing; this implies a falling saving rate and tends to be one of the more accurate leading indicators for GDP growth.

The potential for a consumption upturn offers a glimmer of hope. Consumer confidence has been making a tentative attempt at recovery.

Linked to that, the potential for a consumption upturn offers a glimmer of hope. Consumer confidence has been making a tentative attempt at recovery with households finally recovering their purchasing power after the real income shock that they experienced in the wake of the pandemic. Note that Europeans, unlike Americans, still have their pent-up pandemic savings, estimated at around EUR 1 trillion.

CHINA – WILL STIMULUS MEASURES PUT WIND IN THE SAILS

- China is struggling to meet its 5% growth target and expectations for next year are muted
- Stimulus measures have lathered up market optimism but have yet to catalyse a rebound in consumer confidence and demand

China is struggling to meet its self-imposed 5% growth target this year and momentum is set to slow further in 2025, with full-year growth projected to come in just a fraction above 4%.

Beijing has unveiled a package of monetary and market stimulus measures in an attempt to revive economic activity.

Beijing has unveiled a package of monetary and market stimulus measures in an attempt to revive economic activity. While those were favourably received by markets, the real estate sector is still under immense pressure, the outlook for jobs and incomes looks shaky, and consumer confidence remains in the doldrums. Disinflationary pressures persist and domestic demand is sluggish, while threats to external demand are mounting (via rising protectionism and a reconfiguration of supply chains).

Whether China can avoid Japanification (described as a protracted period of deflation, economic sluggishness, property market declines and financial stress amid deleveraging efforts) is yet to be seen. Whether it does, will largely depend on the ability and willingness of Beijing to use broad-brush fiscal stimulus. If it does take that route, Chinese equities could become increasingly interesting, especially given steep valuation discounts.

INVESTMENT STRATEGY

EQUITIES

After a period of relative calm on markets, we are preparing for a return of structural volatility in 2025.

After a period of relative calm on markets, we are preparing for a return of structural volatility in 2025. This anticipated change in conditions could mean that passive investment strategies, which have been successful in recent years, begin to face challenges. At the same time, active management and careful stock selection could reveal new opportunities amid the choppiness: A rough sea allows skilled sailors to prove their mettle.

US EQUITIES - BUT LOOK BEYOND THE USUAL SUSPECTS

Pockets of opportunity still exist, particularly in small-cap stocks. Pressures stemming from inflation and tight monetary policy are only now beginning to ease for smaller companies, enabling them to improve their performance and potentially close the gap with larger firms.

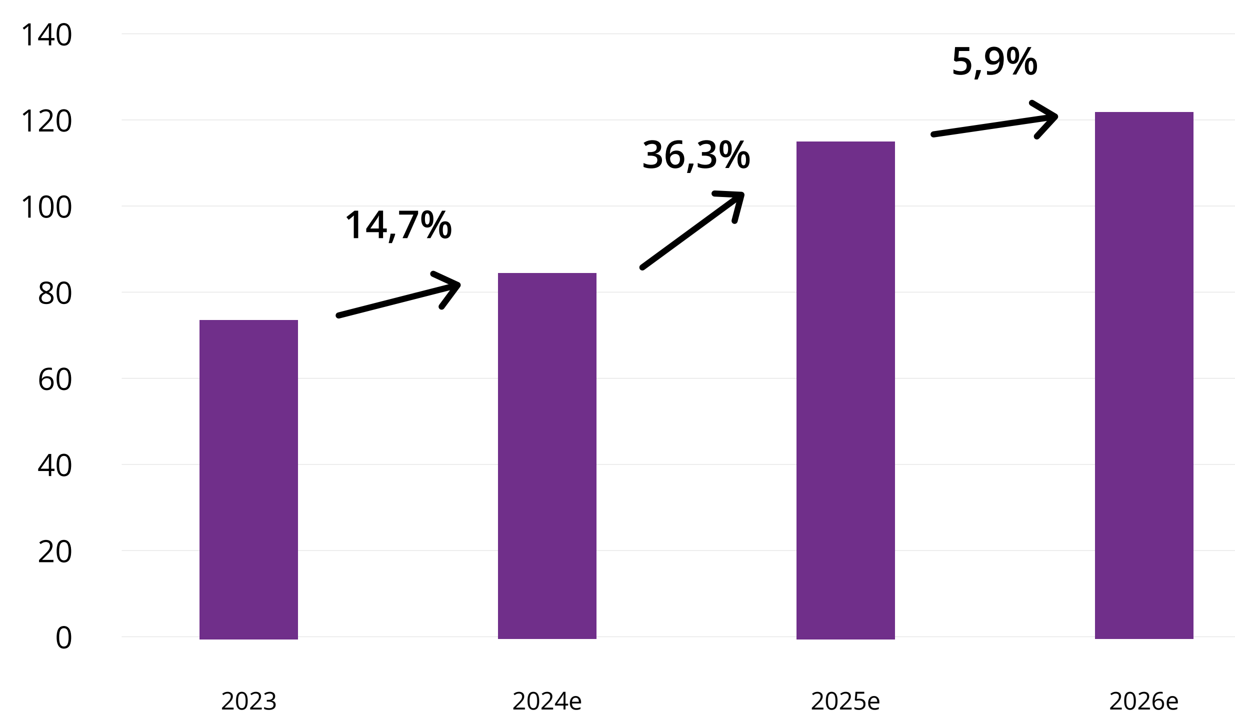
Current economic conditions and strong earnings are expected to keep the US market supported through the first half of the year. That said, potential risks are becoming more pronounced, including greater volatility, whether it be from further repricing of Fed policy, higher bond yields, or [geo]politics.

On top of that, having sailed from new high to new high, further upside the current bull market does look limited. The S&P 500's price-to-earnings (P/E) ratio stands at 22.3, exceeding its five-year average of 19, indicating that valuations are stretched and profit-taking may be on the horizon.

Nevertheless, pockets of opportunity still exist, particularly in **small-cap stocks**. Pressures stemming from inflation and tight monetary policy are only now beginning to ease for smaller companies, enabling them to improve their performance and potentially close the gap with larger firms. Moreover, small-cap companies tend to generate revenue domestically, making them less vulnerable to trade disputes and dollar strength. Small businesses which have fewer resources to manage regulatory complexities (including regional banks), would also be key beneficiaries of an anticipated deregulation drive under the new Trump administration.

Small cap earnings are poised to play catch-up

Russell 2000 –EPS & expected growth



Source: Bloomberg, BIL as of 18th November 2024

AI, BUT AS A STRATEGIC PLAY

IT remains as one of our top sector calls as we move into the new year. The sector tends to do well in a slow Fed cutting cycle while buybacks should also lend support. The tech industry's growth has been fueled by its capacity for expansion, and AI is set to enhance this further, potentially mirroring the internet's impact in the 2000s. A Bain & Company study predicts that the AI market could grow from USD 185 billion in 2023 to between USD 780 billion and USD 990 billion by 2027.

But like other groundbreaking innovations, AI will produce both winners and losers. Currently, the market may be overly optimistic on a handful of players, making them susceptible to corrections if competition intensifies or if they fail to surpass high expectation hurdles.

Like other groundbreaking innovations, AI will produce both winners and losers. Currently, the market may be overly optimistic on a handful of players.

Investors are advised to adopt a long-term perspective and avoid concentrating investments on a singular play, such as semiconductors. The convergence of hardware and software in the AI space presents a less obvious but promising investment opportunity, as leading companies adapt to capture value across the entire technology stack.

SECTORS: FINANCIALS AND INDUSTRIALS FLOAT TO THE TOP OF OUR PREFERENCES

Beneath the surface, the presidential election has substantially changed the outlook for certain sectors.

US domestic industrials have become a lot more eye-catching.

Firstly, **US domestic industrials have become a lot more eye-catching**. Trade tariffs would likely increase costs for US consumers, ultimately leading to reduced import volumes. This scenario would favour domestic manufacturers, as they would face less competition from foreign imports. Additionally, tariffs may encourage international manufacturers to establish factories on US soil to get inside the protectionist wall. "I want German car companies to become American car companies", Trump said at one rally. The construction of those new factories will provide additional tailwinds for the industrial sector.

Financials stand to benefit if Trump pushes through deregulation and adopts a more lenient stance on antitrust regulations.

Financials also stand to benefit if Trump pushes through deregulation and adopts a more lenient stance on antitrust regulations. A robust economy may lead to increased confidence among CEOs and more corporate consolidation and IPO activity. These developments would help financial firms involved in trading and dealmaking. At the same time, Trump policies could be inflationary which means rates could stay "higher-for-longer", boosting banks' interest rate income.

The outlook for utilities is mixed, primarily due to the fact that renewable energy is clearly not a priority for the President-elect.

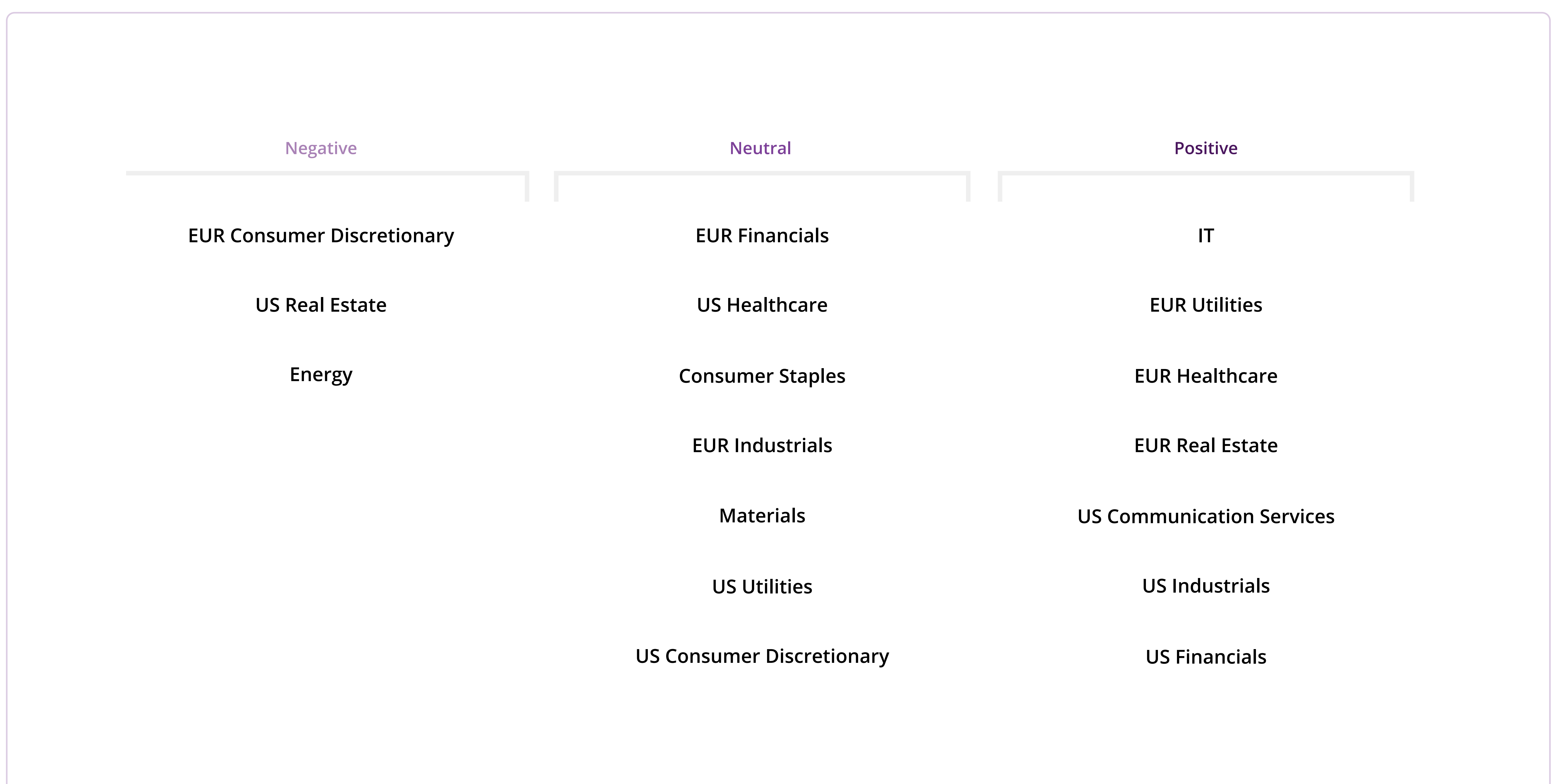
The outlook for **utilities** is mixed, primarily due to the fact that renewable energy is clearly not a priority for the President-elect. "Higher-for-longer" rates would also be negative for the sector. However, demand for electricity is expected to grow significantly due to the proliferation of data centers and electric vehicles, reversing years of stagnation. By 2030, it is estimated that AI data centers will more than double their electricity consumption, representing 8% of the total electricity output in the US. Certain utilities firms stand to benefit from this structural demand growth.

UNDERWEIGHT EUROPE: FOCUS ON DEFENSIVES

The benchmark STOXX Europe 600 Index has trailed the S&P 500 Index in eight of the past 10 years, and the year 2024 is no exception, with the index on track to record its worst relative performance since 1995. Looking forward, we expect Eurozone stocks to continue to trail their US peers in 2025, due to the widening gap in economic growth between the two regions. The relative growth underperformance is likely to translate into continued earnings lag in Europe.

Investors who are looking for exposure to European equities, are advised to focus on defensive sectors such as utilities and healthcare.

In light of these challenges, investors who are looking for exposure to European equities, are advised to focus on **defensive sectors** such as **utilities** and **healthcare**. These tend to be less sensitive to economic fluctuations and they are also receiving tailwinds from long-term structural trends like decarbonisation and demographic shifts. The healthcare sector, in particular, is poised for growth, as the UN projects that the global population will reach 9 billion by 2040, with seniors making up over 10% of that total, an increase from 8% currently. This demographic shift is expected to drive higher demand for medicines and healthcare services.



Again, we reiterate the benefits of an active approach in European equity space in order to identify good companies that (a) are relatively insulated from the broader economic slowdown, (b) that could be less impacted by trade tariffs (for example, smaller companies with more local business models) and (c) that are better placed to navigate currency fluctuations (some companies will benefit from the euro's depreciation as it will render their export prices more competitive).

A NOTE ON DEFENCE

Whether it's for exposure to potential growing revenues as defence spending shifts higher, or as a hedge against geopolitical shocks, investors cannot ignore potential exposure to defence related stocks.

Following a significant decline in defence budgets after the Cold War, many European nations have struggled to meet NATO's target of 2% of GDP for defence spending, a point emphasised by President Trump. This underinvestment has left European military inventories at low levels, prompting expectations for a substantial increase in defence budgets across Europe.

Linked to that, of the EU's EUR 392 billion cohesion fund allocated for 2021 to 2027, only 5% has been utilised. Current regulations prevent these funds from being used for defence equipment or military funding, but Brussels is now changing the rules, a move that could potentially redirect tens of billions of euros towards defence and security.

In the US, military spending continues to rise, particularly in light of the ongoing Russia-Ukraine conflict. A notable sub-thematic is the growing importance of cyber security, which is anticipated to experience double-digit growth over the next decade.

FIXED INCOME

We expect the Federal Reserve and the European Central Bank to continue easing policy, though at a more gradual pace as the year progresses and with a widening gap between the two.

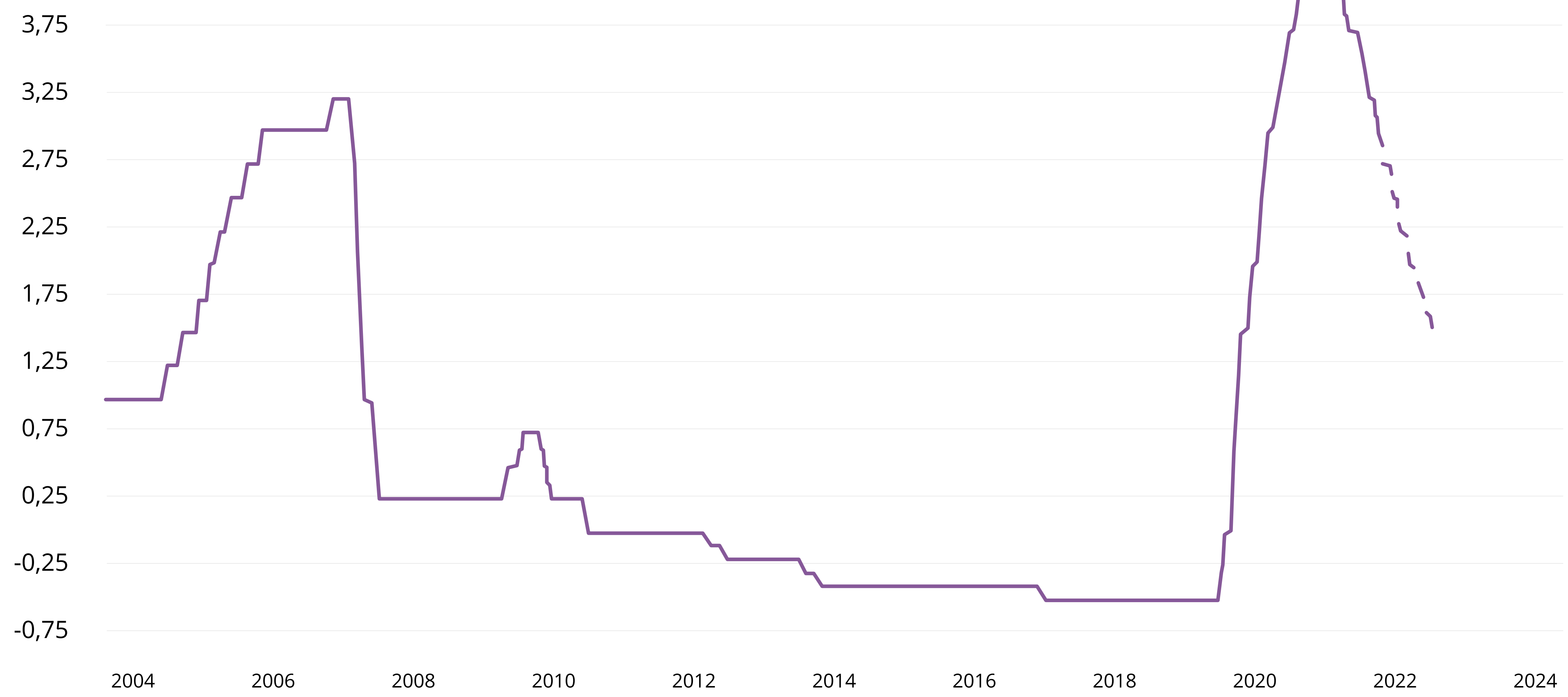
In 2025, monetary policy will continue to be a key driver of the fixed income market. We expect the Federal Reserve and the European Central Bank to continue easing policy, though at a more gradual pace as the year progresses and with a widening gap between the two.

Inflation in the US has proven somewhat stickier than expected and significant uncertainties remain around both the timing and magnitude of the impact of Trump's policies. This leaves room for a wide range of outcomes, not least when it comes to the monetary policy response as the Fed has already confirmed it will not try to front-run any changes in the fiscal outlook. A reacceleration of economic activity would limit the room for rate cuts, ushering in a new era of "higher-for-longer". This, along with fresh concerns about the US deficit, is already exerting upwards pressure on the US yield curve.

Policymakers in Europe have shifted their focus away from inflation towards growth as the expected economic recovery has failed to take hold. The prospect of tariffs on exports to the US has alarm bells ringing as they would significantly raise the risk of a Euro area recession. With that in mind, markets are pricing a much lower terminal rate for the ECB than for the Fed, and we think this is the right call.

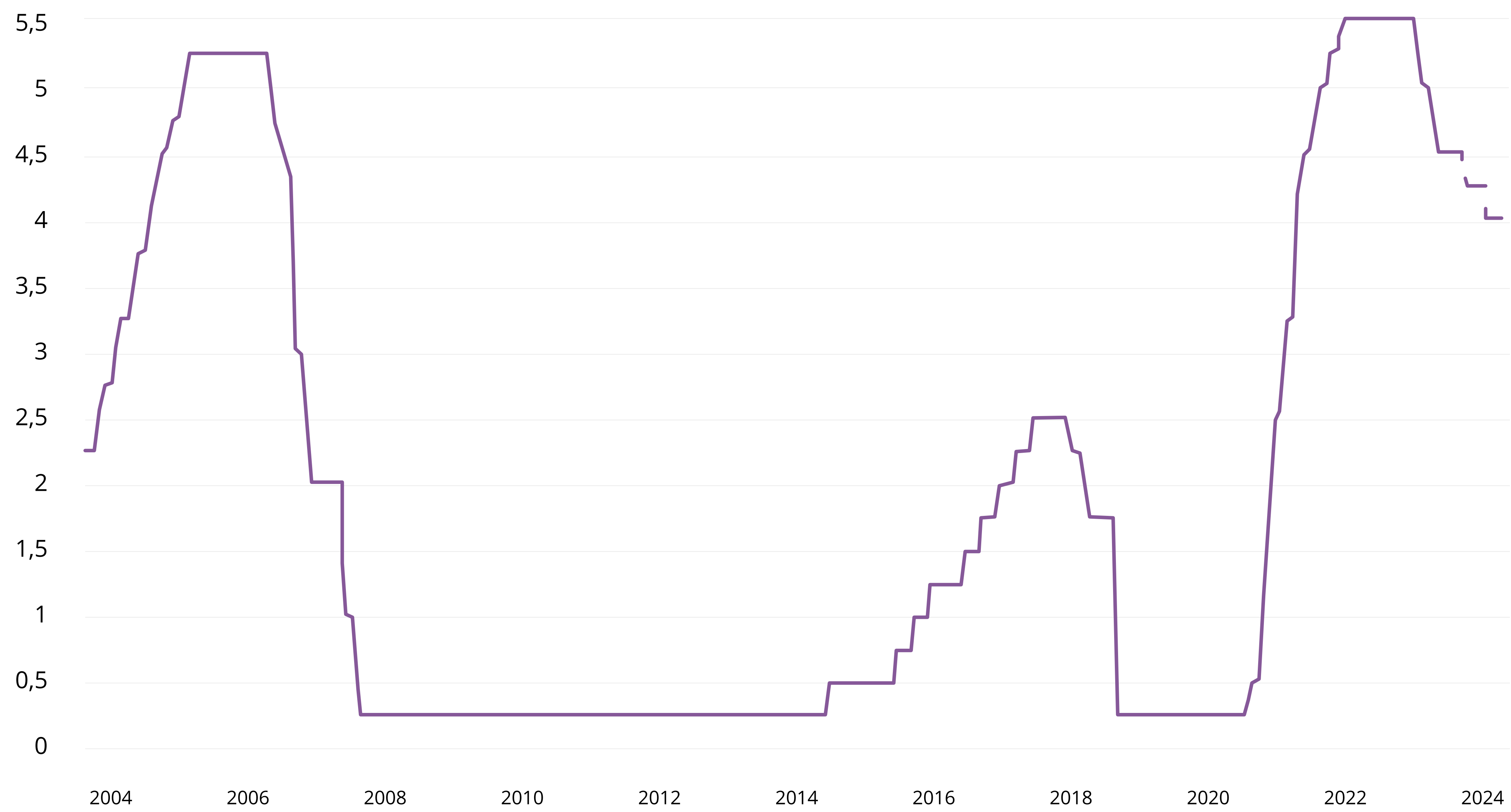
BIL 1856

ECB Deposit rate and expectations (%)



Source: Bloomberg, BIL as of 12th December 2024

Fed Funds Target Rate - Upper Bound and expectations (%)



Source: Bloomberg, BIL as of 12th December 2024

BIL 1856

SOVEREIGN BONDS TO ANCHOR PORTFOLIOS

While sovereign bonds deserve a place in a diversified portfolio, curve positioning should be flexible, especially across regions as central bank policies and growth prospects diverge.

While **sovereign bonds** deserve a place in a diversified portfolio, curve positioning should be flexible, especially across regions as central bank policies and growth prospects diverge. As of now, investors might feel more comfortable adding duration in the European Government bond space, because Trump's uncertain political agenda, inflation uncertainty and fiscal concerns could exert upwards pressure on the long-end of the US curve. For those looking for US exposure, short-dated Treasuries may be the preferred option for attractive carry and potential price gains from a moderate easing cycle by the Fed (when yields fall, prices rise).

INCOME STREAMS VIA CORPORATE BONDS

In 2024, corporate bond spreads experienced a notable tightening, as moderating growth, lower inflation, and the onset of monetary policy easing created the ideal environment for credit. While these levels may seem rich, they are justified by improving fundamentals amidst a supportive macro backdrop: barring any growth shocks, the US is poised to sustain a robust growth trajectory, while the Euro area could still evade a contraction. Default rates have remained low, and the proportion of distressed bonds - historically a reliable harbinger of future defaults - has steadily diminished.

Favourable technicals and the persistent quest for yield should enable credit to continue to do well.

As we look ahead to 2025, favourable technicals and the persistent quest for yield should enable credit to continue to do well, with the asset class also benefitting from ongoing rate cuts, as they come in the context of policy normalisation, rather than as emergency measures to counter a looming recession.

However, excess returns may be less pronounced than in 2024, given already-tight spread levels, particularly in dollar bonds. Consequently, **euro credit** may emerge as a more enticing option, despite a weaker macro environment. In any event, we believe that fundamentals will not deteriorate sufficiently to trigger a significant widening of spreads in the first half of the year. Additionally, **excess returns break-evens in EUR credit offer a more substantial buffer against any potential widening for both investment-grade and high-yield bonds.**

Investors seeking to enhance income might also consider selectively targeting high-yield exposure.

Investors seeking to enhance income might also consider selectively targeting high-yield exposure, a segment where valuations are not as extreme as those in investment grade. With spread compression becoming less of a driving force in 2025, **the higher carry available in lower-rated debt will be key for returns**. One area where we favour dollar exposure is in loans. The valuations available in **US loans** are far less stretched than in other segments, presenting the potential for superior excess returns. As floating-rate instruments, loans should also demonstrate resilience in a higher-for-long scenario and benefit from enhanced carry as the year commences.

Credit can still yield excess returns in an environment where defaults are unlikely to exert a significant drag and carry remains elevated.

Overall, **credit** can still yield **excess returns** in an environment where defaults are unlikely to exert a **significant drag and carry remains elevated**. That said, with valuations as **rich** as they are, it will be imperative to **spot brewing trouble early** and remain **agile enough to exploit cross-regional or cross-asset opportunities**.

OIL

Oil markets are expected to remain in imbalance next year, with supply exceeding demand.

Oil markets are expected to remain in imbalance next year, with supply exceeding demand. This situation is largely influenced by weak growth in China, the world's largest oil importer, and the potential negative effects of trade tariffs. Concurrently, production from non-OPEC countries is on the rise, and US policies under President Trump, which promote increased drilling, are likely to contribute to this supply growth.

Geopolitical factors will, however, play a crucial role in shaping future market conditions, with any escalation of conflicts in the Middle East potentially altering the trajectory of prices by impacting supply dynamics.

GOLD

Gold adds a layer of protection to portfolios and if risk assets enter choppier waters, as we suspect they might, it could act as a stabilising force.

Over the medium-to-long term, we remain constructive on gold.

The consolidation, which began following Donald Trump's election, may offer a favourable buying opportunity for investors. Over the medium-to-long term, we remain constructive on gold, and don't view the USD 3,000 mark as an unreachable mirage on the horizon, with support coming from lower interest rates and central bank buying.

Gold gained around 30% in 2024, hitting a series of new all-time highs

Source: Bloomberg, BIL as of 2nd December 2024

PRIVATE MARKETS

In an environment of slowing economic growth, southbound interest rates and potentially more volatility on public exchanges, private markets are worth consideration as we enter 2025.

In the **private equity** space, transactions started to pick up in the second half of 2024 after a two-year lull. We expect that central bank rate cuts and increasing liquidity will render more projects attractive, encourage deal flow and ultimately facilitate more middle-market deals and exit activity, potentially make 2025 a good vintage.

Infrastructure is one sub-theme that looks particularly interesting as interest rates retreat.

Infrastructure is one sub-theme that looks particularly interesting as interest rates retreat. The sector is underpinned by structural forces such as digitalisation, decarbonisation and defence. Here in Europe, Mario Draghi has called for an additional EUR 800 billion per year to be spent on those three activities and with government deficits already stretched thin, private capital will be an essential aspect of the funding mix. This could mean ample opportunities for investors to put capital to work in the future.

Private credit offers diversification benefits while the segment might offer enhanced returns compared to traditional fixed income assets.

Private credit offers diversification benefits (the asset class tends to have a low correlation with equity markets), while the segment might offer enhanced returns compared to traditional fixed income assets. Investors in private credit benefit from a diverse array of borrowers and investment opportunities across various sectors, including impact investing. However, it is important to note that private credit investments usually entail lower liquidity and greater opacity, necessitating thorough due diligence by investors before committing capital.

CONCLUSION

Founded in 1856, Banque Internationale à Luxembourg is the oldest private bank in the Grand Duchy. Having stood beside our clients for generations, we know that great things are built over time. With regard to investing, we also think long-term, and our objective is to help our clients realise the beauty of BIL – **B**eing **I**nvested **L**ong-term – in order to harness the powerful force of compounding.

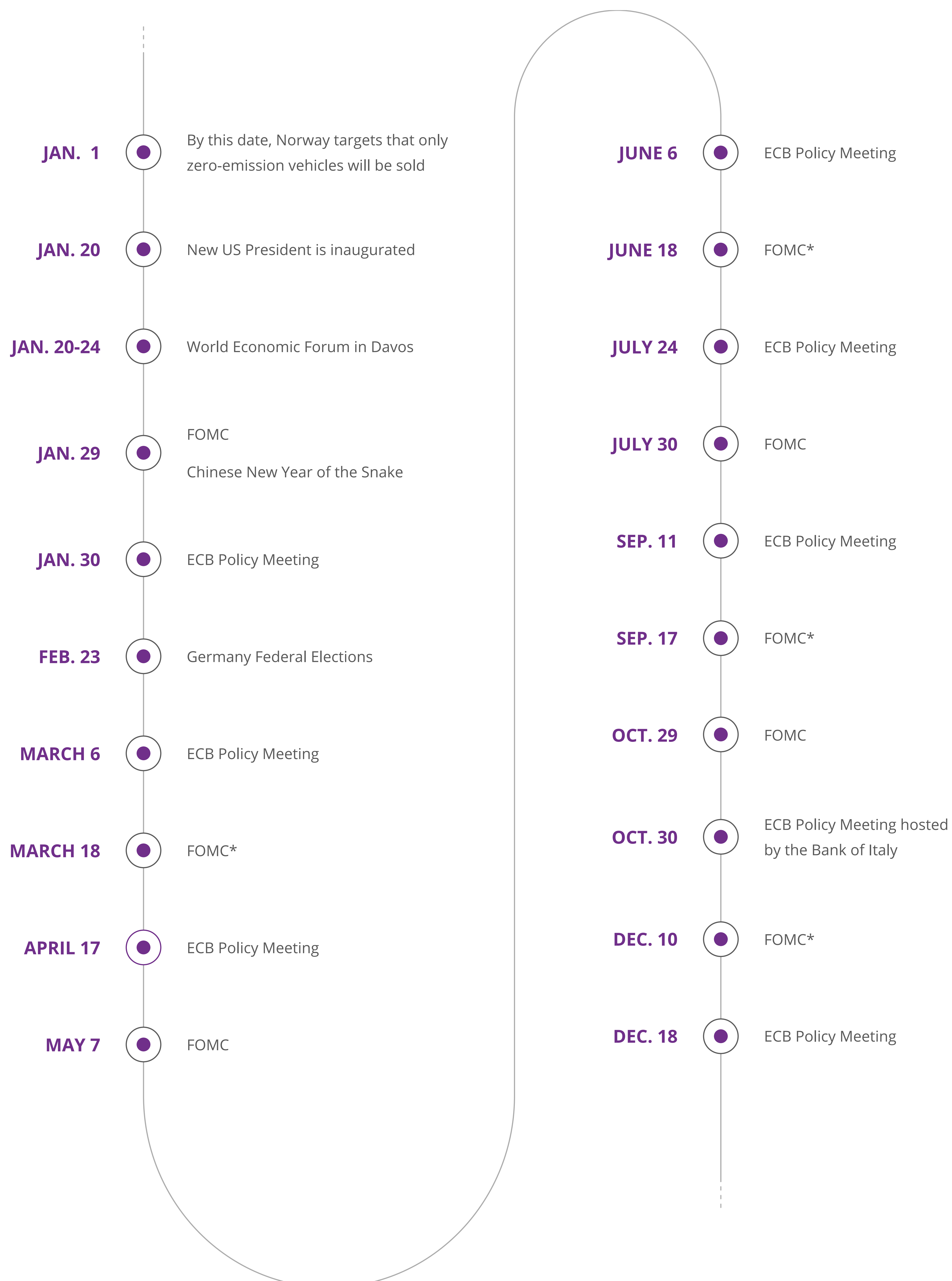
As we enter 2025, against an increasingly complex backdrop and stretched valuations, it might be tempting for investors to wade in the shallows or try to time their exit before a correction comes. However, attempting to time the market is highly speculative and can negatively impact long-term returns: just missing a few of the market's best days can significantly change investment outcomes. As such, we aim to help clients remain invested while making tactical shifts as necessary to ride the waves: The return of structural volatility might actually bring opportunities for professional asset managers to demonstrate their skills.

In this spirit, we enter the year advocating for active management. The US continues to be our preferred corner of the equity market, but we are turning our focus to less-crowded sectors and also small-caps. We add ballast with sovereign bonds and some gold, while seeking income streams in both the investment grade and high-yield segments of the credit market. Above all, we iterate that we are proactively analysing the environment on our clients' behalf, waiting to shift gears or direction should the tides take a turn.

BIL 1856

APPENDIX

2025 - IMPORTANT DATES



** Meeting associated with a Summary of Economic Projections*

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