

CONVICTIONS FOR 2025 : A YEAR OF ECONOMIC POLICY CHOICES

Economic performance in 2025 is likely to be a continuation of the trends seen in 2024, with the United States outperforming the rest of the world, while Europe remains fragile, and uncertainties persist in Asia. Economic policy choices will then play a decisive role, with competing trade policies, monetary policies moving out of sync, and tensions and rivalries building on the fiscal/industrial policy front.

A first half similar to 2024. The divergences seen in economic growth in 2024 should continue, at least during the first half of 2025. The US economy should continue to benefit from solid fundamentals (high corporate profit margins and healthy household balance sheets). High productivity gains will continue to support dynamic growth without much inflationary pressures, allowing (moderate) rate cuts by the Federal Reserve. In addition, fiscal policy will remain expansionary in 2025, with the prospect of further tax cuts.

After flirting with recession at the end of 2024, economic growth in the euro area is likely to remain weak in the first half of the year. Political uncertainties will add to the challenges. These include structural problems (depressed manufacturing sector in Germany, low productivity, etc.) as well as more cyclical difficulties (weak Chinese

demand, high savings rates, fiscal consolidation). Nevertheless, the fall in inflation and the cut in key interest rates should encourage consumers to save less.

Finally, the difficulties in the Chinese property market are likely to persist, continuing to weigh on household consumption (property being the main households' asset) and therefore on the Chinese economy.

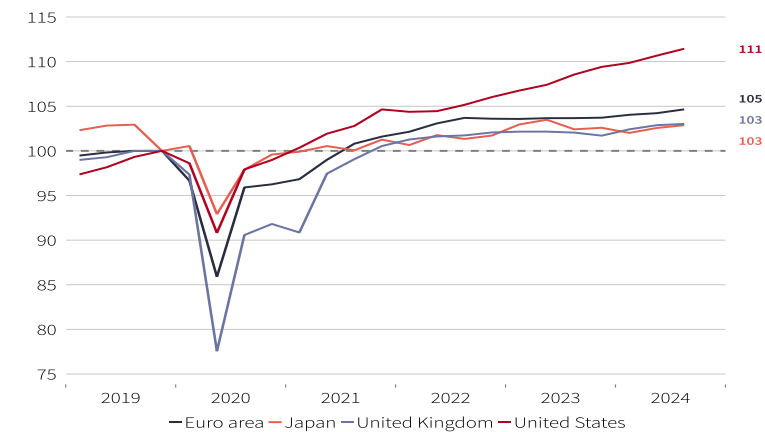
A more uncertain second half. After a busy electoral year in 2024, 2025 will be marked by the economic policy decisions of the new governments. The transition from campaign promises to implementation will produce a great deal of uncertainty for both growth and inflation in the major economic areas

OUR INVESTMENT CONVICTIONS FOR 2025

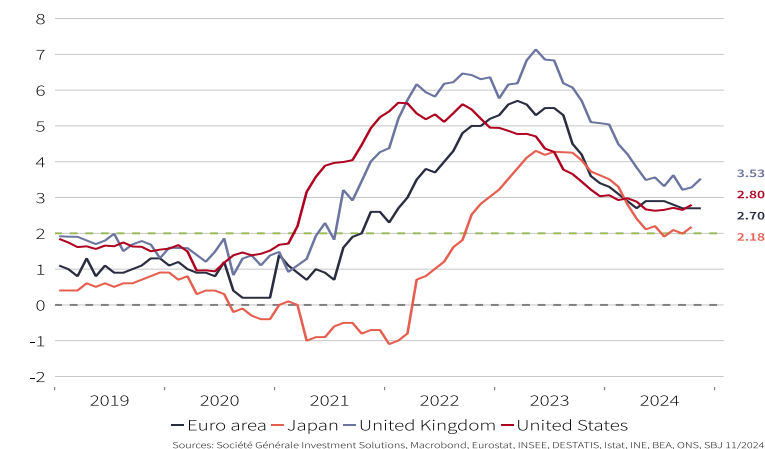
- #1 - Equities: towards a broadening of US performance**
- #2 - Equities: favourable contagion to EU markets**
- #3 - Government bonds: EU/US desynchronisation taking shape**
- #4 - Corporate bonds: European credit remains attractive**
- #5 - Currencies: The dollar remains strong**
- #6 - Currencies: The yen, the only currency that could surprise against the dollar**
- #7 - French real estate: a fall in interest rates insufficient to provide any real impetus**
- #8 - Private assets: a favourable environment for private debt and infrastructure**

More details in our [2025 themes publication](#)

GDP in volume 100=31/12/2019



Core inflation In %, year-on-year



Past performance is not a guarantee of future performance. All data is from Bloomberg, Macrobond as of 12/20/2024, completion date of this publication. In accordance with the regulations in force, we inform the reader that this document is qualified as a promotional document

OUR MACRO COMMENTS

Events of the week

In the euro area : business climate indices remain weak

The composite PMI index for the euro area (weighted average of the manufacturing and services sectors) rose to 49.5, close to the expansion zone, driven by a rebound in the services index and still buoyed by the dynamism of the peripheral economies. The manufacturing sector remains depressed, particularly in Germany, where it came in at 42.5 compared with 43 last month. In France, the composite PMI index rose slightly to 46.7 but was still marked by weak demand. The national business sentiment indices (INSEE for France and IFO for Germany) also fell, moving further away from their long-term averages and signaling downside risks to growth in the euro area.

THE WEEK IN DATA

Country	Data	Actual	Last	Forecast
Germany	Ifo Business Climate	84,7	85,6	85,3
France	INSEE Business Climate	94	97	97
Euro area	PMI Composite	49,5	48,3	48,3
Etats-Unis	Fed monetary policy decision	4,50%	4,75%	4,50%
Royaume-Uni	BoE monetary policy decision	4,75%	4,75%	4,75%
Japan	BoJ monetary policy decision	0,25%	0,25%	0,25%

Source: Macrobond, December 20, 2024. The colors in the 'Actual' column correspond to the difference from the forecast

A hawkish Fed shook up markets, status quo for the BoE

As expected, the Fed cut its key rates by 25 bp to a range of 4.25-4.50%. The key news from the meeting was the hawkish tone that followed, with upward revisions to inflation forecasts and fewer rate cuts predicted by Fed members (only 2 for 2025 out of the 8 meetings). These announcements resulted in a rise in 10-year yields, a reduction in expectations of key rate cuts, a EUR/USD exchange rate that touched 1.03 and a sharp correction in the equity markets.

Also as expected, the Bank of England left rates unchanged at 4.75%, but unlike the Fed, its message was more dovish, with 3 out of 9 members voting for a cut and the recent rise in wages being put into perspective by the BoE.

BoJ: no change in rates before a catch-up year for the yen?

While last summer's 0.25% increase in the Bank of Japan's (BoJ) key rates was followed by the unwinding of speculative positions in the yen (and hence a sharp rise in the Japanese currency), the BoJ has since left rates unchanged. This was the case again this week, even though one of the committee members was pushing for a 25bp rise. Moreover, the tone appeared moderate, with the BoJ stressing that supporting economic growth remained the priority, with inflation in Japan remaining close to target (2.3% year-on-year in October). Nevertheless, the BoJ seems prepared to raise rates gradually over the course of 2025 (two rate hikes according to the markets), which should encourage the yen to appreciate.

KEY EVENTS NEXT WEEK



Monday

United States Consumer confidence November

Tuesday

United States -Durable goods orders MoM November

-New Home Sales MoM November

Thursday

United States Initial Jobless Claims November

Japan -Unemployment rate November

-Retail sales November

MARKET PERFORMANCES

Interbank rates

%	18/12/2024	20/11/2024	20/09/2024	01/01/2024	20/12/2023
US SOFR	4.605	4.74	5.33	5.34	5.34
Euro area €ster	2.917	3.17	3.41	3.88	3.90
UK SONIA	4.700	4.70	4.95	5.19	5.19
Switzerland SARON	0.455	0.96	1.21	1.70	1.70
Japan TONAR	0.226	0.23	0.23	-0.04	-0.01

10Y Government rates

%	18/12/2024	20/11/2024	20/09/2024	01/01/2024	20/12/2023
US Treasuries	4.50	4.41	3.73	3.88	3.86
France OAT	3.05	3.10	2.97	2.55	2.48
Germany Bund	2.24	2.35	2.22	2.02	1.97
Italy BTP	3.40	3.58	3.50	3.70	3.56
Spain Bonos	2.94	3.06	3.01	2.98	2.92
Switzerland	0.29	0.42	0.46	0.66	0.62
UK Gilts	4.53	4.47	3.91	3.60	3.61
Japan JGB	1.07	1.06	0.86	0.62	0.64

Credit

%	19/12/2024	20/11/2024	20/09/2024	01/01/2024	20/12/2023
United States IG	5.35	5.23	4.67	5.06	5.12
United States HY	7.51	7.27	6.98	7.59	7.73
Europe IG	3.42	3.50	3.55	3.72	3.75
Europe HY	5.66	5.79	6.19	6.80	6.85
Emerging FX	6.41	6.29	6.06	6.77	6.80

Equity indices

19/12/2024 vs	-1w	-1m	-3m	01/01/2024	-1y
World	-2.83	-0.586	2.335	19.26	20.545
United States	-3.33	-1.078	3.387	23.52	24.496
Euro area	-1.95	2.244	-0.224	8.80	9.083
France	-1.54	1.415	-2.459	-0.19	-0.314
Germany	-2.34	3.923	4.939	16.07	16.823
United Kingdom	-2.32	0.448	-1.248	8.19	10.100
Japan	-1.20	0.560	3.587	17.04	19.633
Emerging	-1.65	0.358	0.759	13.50	15.767
China USD	-0.86	-0.377	12.297	18.42	20.230
India USD	-2.77	2.928	-7.453	17.34	18.728
Latin America USD	-5.21	-8.850	-14.367	-25.69	-23.308

Foreign exchange rates

	19/12/2024	20/11/2024	20/09/2024	01/01/2024	20/12/2023
EUR/USD	1.04	1.05	1.11	1.11	1.10
GBP/USD	1.25	1.27	1.33	1.27	1.27
EUR/CHF	0.93	0.93	0.95	0.93	0.94
USD/JPY	157.68	155.53	144.37	141.03	143.70
USD/CNY	7.30	7.25	7.05	7.08	7.14

Commodity prices

	19/12/2024	20/11/2024	20/09/2024	01/01/2024	20/12/2023
Brent, USD/BL	73	73	75	77	79
Copper, USD/Metric ton	8,796	9,022	9,395	8,476	8,467
Gold, USD/Troy oz	2,594	2,650	2,622	2,063	2,031
Silver, USD/Troy oz	29	31	31	24	24
Palladium, USD/Troy oz	909	1,033	1,067	1,136	1,221
Platinum, USD/Troy oz	929	970	988	1,000	964

Source : Bloomberg on 20 December 2024, 1W = 1 week change, 3M = 3 month change, 12M = 12 month change, YTD = year to date change, Equities; total return in local currency. Government bonds = 10 year returns. Figures are rounded.

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