Syconvictions

FEBRUARY 2025

At a glance

Diversification could be the key to success

Credit carry strategies offer a very attractive risk/return combination

Unfairly overlooked, Europe is a **fountain of opportunity**

Message from the CIO

In January, European equity markets started the year with a bang despite investor pessimism on the region's future, while the launch of DeepSeek shattered AI investment hopes in just a few hours. We feel that 2025 has begun how it means to go on, both exciting and confusing.

To navigate the series of unexpected events and deliver positive outcomes, we have just one watchword: diversification, diversification, diversification. Our key convictions:

- *The geopolitical and macroeconomic environment will remain conducive to risk assets. The key will be to remain invested while looking out for asymmetrical developments that could surprise investors, such as the European equity rally in January, for instance. Investors have understood that they should not underestimate the resilience of Europe's companies.*
- *AI is now close to achieving "AGI" (Artificial General Intelligence), which should materialise during 2025. It is crucial to position portfolios on companies able to keep up with the fast pace of technology development within the sector. January 27th, when several Tech stocks corrected sharply, proves this point.*
- *The consensus around the economic and political environment is (too?) widespread. As a result, any change in circumstances - even minor - can cause violent and unpredictable impacts on capital markets. To prepare for all eventualities, investors will have to rely on active strategies and identify potential catalysts (end of the conflict in Ukraine, massive Chinese stimulus plan, etc.).*

Pierre-Alexis Dumont,
Chief Investment Officer

Market weather

EQUITIES
- European
- American
- Asia

SOVEREIGN BONDS
- European
- American

CORPORATE BONDS
- Investment Grade
- High Yield

CASH

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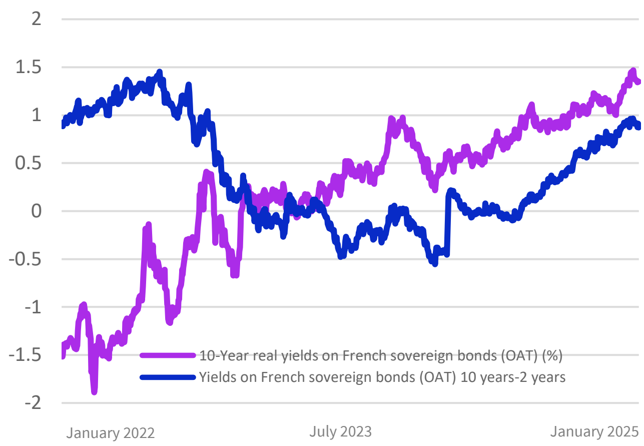
Market environment

Despite key rate cuts by the Fed and the ECB, **yields on sovereign bonds have risen in recent months** (almost 100 basis points for 10-year US Treasuries for example). This move stems from a steepening yield curve, combined with rising real interest rates.

Investors' concerns over the trajectory of public deficits and the cost of servicing debt naturally command an additional term premium. In the United States, the expected cyclical upturn - enabled by extended tax cuts and the Trump administration's determination to deregulate - should allow the US economy to withstand these rising bond yields.

The situation is different in **Europe**, where **rising real interest rates could weigh on the region's economy.** In all likelihood, the ECB will therefore push on with its monetary easing cycle. Against this background, we have taken advantage of the market environment to increase the duration of our asset allocation portfolios.

10-YEAR GOVERNMENT BOND YIELD - FRANCE



Source: Bloomberg. Data as of January 20th, 2025.

The implications for equity markets are less immediate; however, **the return to a yield curve** that is closer to the historical norm **should boost financial stocks** on either side of the Atlantic.

Asset allocation strategy

With a core "no landing" scenario for the United States, pro-growth measures, and a revolution underway – AI, which should drive substantial productivity gains, **the environment will remain constructive for risk assets in 2025**. However, market prices assume the successful roll-out of this disruptive programme, leaving little room for disappointment. Forecasts will remain highly volatile and shifts in stock market leadership are to be expected. **In our view, diversification will be the key to success in 2025.**

We are convinced that within equity markets, **growth, investment and innovation will remain the big winners.** The United States will continue to play an important role in our allocations, but we shall be wary of volatility.

In this environment, we believe that **credit carry strategies offer a very attractive risk/return combination.** Furthermore, duration risk could be more mitigated in 2025, notably to offset the equity risk.

As a diversification tool, identifying poorly anticipated asymmetrical developments appears crucial to us. With pessimism now sweeping over Europe, the region is a fountain of opportunity. **Companies exposed to the US economy, to global mega-trends (electrification, digitalisation etc.) and the healthcare sector should perform well in our opinion.** Monetary policy support from the ECB, combined with possible stabilisation on the geopolitical front, could also lift valuations.

Key dates

2025

February 23rd
German general election

ECB meeting
March 5th and 6th

March 18th and 19th
Fed meeting