

INVESTMENT OUTLOOK 01.2025

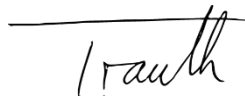
15 January 2024

On behalf of the whole IMT team we wish you a happy, successful and healthy 2025.

Looking back on 2024, it seems that our forecast for the year was somewhat too conservative. A year ago, we saw heightened risks for a US recession coupled with a significant equity market correction. The US economy, however, again proved to be very resilient and the Fed seems to have managed a soft landing – at least so far. It raised interest rates decisively in 2022 and 2023, thereby taming inflation while avoiding a recession. This allowed central banks to start cutting rates in 2024. On the back of this, equity markets rallied remarkably. The rally was mainly driven by the large US tech companies and impressive advances in the field of artificial intelligence.

We remain cautious for now, since US equity valuations have become very rich and the politics of the new Trump administration and its impact on growth and inflation are very hard to predict.

We hope you enjoy reading our Investment Outlook and would welcome any feedback.

A handwritten signature in black ink, appearing to read "Trauth", with a horizontal line drawn above it.

Thomas Trauth

CEO – IMT Asset Management AG



WHAT HAPPED IN 2024?

The year 2024 was marked by falling inflation and several interest rate cuts by the leading central banks. This gave a strong boost to the stock markets. In addition to that, the US technology companies profited from the impressive progress made in the field of artificial intelligence. In 2024 the technology-oriented NASDAQ index soared by an impressive 29.6% and the S&P 500 Index rose by 25.0%, while the MSCI Europe gained only 9.3%.

Although short-term interest rates fell significantly last year, the long-term rates actually increased because of rising national debts and recently emerging concerns about inflation. In 2024 the growth gap between the USA and Europe widened once again. A US growth rate of 1.5 to 2% is expected for 2024, while growth of only 0.5 to 1% is estimated for Europe. Following the election of President Trump and in anticipation of an aggressive America-First policy, the out-performance trend of the US stock markets became even more pronounced and the US dollar gained strongly in value.

Despite severe geopolitical tensions, notably between the USA and China, the war in Ukraine, and the military conflict in the Middle East, energy prices remained relatively stable. The price of gold, however, climbed to an all-time high of almost USD 2,800 per ounce. Trump's statements in favor of cryptocurrency during his campaign for the presidency also pushed the price of Bitcoin to an all-time high of about USD 106,000.

Our last year's predictions

With hindsight we were too cautious on risky assets, since we saw heightened risks of a severe market correction. Our underweight positions in equities and high-yield bonds did not pay off. In 2024 we had three rather small corrections, in April, August and December, which may indicate that nervousness among market participants has somewhat increased.

We were right that the US economy would remain robust, though we could not completely rule out the possibility of substantial weakening. Furthermore, in December 2023 we were right in thinking that expectations for rate cuts by the Fed were exaggerated. We considered it unlikely that the Fed would cut six times, and we did not expect a first cut before June. In fact, the Fed started cutting rates only in September and only by a total of 100 basis points.

We were positive on government bonds and had an overweight position based on our assessment that risk-reward looked attractive. Bond yields rose, however, in 2024, and the return on government bonds has been about flat.

Review of our strategic asset allocation

As we do every year, we have reviewed our strategic asset allocation, and we have decided to make the following changes: In our view, high-yield bonds should offer interesting investment opportunities. For one thing, debtor quality has steadily improved in the past few years, and a further reason is that, since the private bond market has been growing vigorously, this bond category has gone into short supply.

Therefore, we have somewhat increased the proportion of high-yield bonds, and at the same time we have reduced our allocation to high-grade corporate bonds and to convertible bonds.

In the long term, equities offer by far the highest return potential. For this reason, we have increased the strategic equity quota — in our balanced portfolios from 46% to 50%. Conversely, we have reduced the

volatility strategies in the balanced and growth portfolios by 2.5 percentage points.

These changes will rather increase the return potential of our portfolios, while our trend-following and volatility strategies aim to help diminish portfolio losses during negative market phases.

OUTLOOK 2025

Macroeconomics and financial markets

The US economy remains very resilient. Based on the latest, very robust US growth indicators, we think the risk of recession in the next few months has diminished.

The US labor market, however, gives mixed signals. On the one hand, the unemployment rate remains low, and recent non-farm payroll figures showed that the US economy continues to generate enough jobs to keep the unemployment rate constant. However, job openings are falling and unemployment claims are rising.

US inflation dropped significantly from its peak at 9.1% in June 2022 to 2.9% in December 2024. In recent months inflation re-accelerated. Also core PCE remains stubbornly at about 2.8%, clearly above the Federal Reserve's target of 2%. In addition, inflation expectations have risen recently.

Since the US economy is still relatively strong the intended policy mix of the new Trump administration – lower taxes, higher fiscal deficit, higher tariffs, and reducing the labor force – could lead initially to a surge in inflation, the Federal Reserve remaining on hold, and a further increase of bond yields.

This, in turn, could slow down growth and would be a major risk for stock markets. It remains to be seen how Trump would react to such a situation, especially since inflation has been a major concern among voters and helped him to win the election. The US fiscal deficit is already at an elevated level of 6% of GDP and probably already caused some of the recent bond market weakness. 10-year treasury yields have re-

cently reached 4.8%, which increases the debt burden for the government and makes financing more expensive.

The US stock market is valued very richly at a PE ratio of 22x, based on EPS (earnings per share) growth of very ambitious 15% over the next 12 months. There is little upside to those market expectations. Conversely, any earnings disappointments in the tech sector could trigger a sell-off, in our view.

We are currently faced with pronounced economic and asset-price divergencies, especially between the US on the one hand and Europe as well as Asia on the other hand. After the Trump victory this tendency has even increased. As a result, we think that European stock markets, which trade at a PE ratio of only 12x, could benefit from potential upside surprises.

The Chinese equity market may be boosted by a long-awaited fiscal stimulus. The likelihood of such measures may rise if a trade war should start weighing on the already stalling Chinese economy.

The US policy mix is highly uncertain and could lead to an overheating economy with a resurgence of inflation, followed by central bank action and eventually by a recession. At the same time, however, some of the already existing weak spots of the US economy, for example early signs of labor market vulnerabilities, high financing costs, rising loan delinquencies, and a very weak real estate market, could slow the economy down.

We think that the US Fed is unlikely to cut interest rates in the near future, possibly not even during the next 12 months, unless the US economy eventually slows down.

Private markets

Private equity remained in a tough place in 2024. Returns have fallen clearly below long-term averages and deal activity remained very muted. Fund raising proved to be very difficult, as institutional investors in particular scaled back their commitment levels due to a lack of distributions from existing investments. Cash flow (net distributions) from existing commitments have been negative for three years now, starting in 2022. At the same time GPs (general partners) are in possession of an ever increasing inventory of portfolio companies.

The market for venture and growth capital was hit much harder even than the buyout market. Valuations fell more dramatically, although from very elevated levels. Deal valuations in venture are probably just back to fair levels now. Deal activity fell dramatically and some companies even failed to raise sufficient cash to survive. One notable example is the Swedish battery company Northvolt, which raised USD 13 bn of debt and equity from top-tier investors, including VW and Goldman Sachs. Northvolt failed to raise additional capital and recently had to file for bankruptcy.

Towards the end of 2024, we observed an uptick in deal activities, including some successful IPOs. IPOs have been very rare since 2022. Falling interest rates and the expectation that the new US government will considerably loosen regulation explain this boost in activities. The sentiment of the private equity industry has improved a lot. It remains to be seen whether the environment further improves.

Conclusions

We are expecting a very challenging investment year, because political uncertainties have again intensified, not least due to the election of Donald Trump. On the positive side the deregulation and tax cuts he aspires to might invigorate the US economy in particular. On the other hand, the mass deportations he threatens

to carry out, the prospect of trade wars, the still rising US government deficit, and what may be an erratic foreign policy might all lead to market turbulence and increase US inflation.

Furthermore, US stock market valuations have reached very demanding levels, especially in the US tech sector.

For these reasons we see elevated risks of a, possibly significant, stock market correction.

Regardless of the changes in our strategic asset allocation, and in view of the macroeconomic and geopolitical uncertainties described above, we are maintaining our defensive tactical stance. We are underweight in equities, high-yield bonds, and commodities and overweight in nominal government bonds and insurance-linked bonds.

Despite some short-term upward pressure on bond yields, we think that the risk-reward looks attractive for government bonds, especially if either equity markets sell-off or the US economy slows down.

In the last few years, a considerable concentration risk has arisen in the big US technology companies. The weighting of the “Magnificent Seven” in the S&P 500 Index is currently at 25 to 30%. We have therefore decided to switch a proportion of our investment in US equities from an ETF which replicates the market-weighted S&P 500 Index to an ETF which weights all shares in the S&P 500 Index equally. In the event of a correction in the US technology sector, this ETF should be distinctly less affected.

At the same time, we continue to allocate capital to private equity since we think that the current weak environment will provide interesting opportunities over the next couple of years. Valuations have fallen and less capital is chasing investment targets. We currently favor GPs, which either have strong restructuring capabilities or have an edge in exploiting opportunities with over-leveraged companies.

ECONOMICS

In 2024 growth was very unevenly distributed. US growth slowed but remained robust at 1.5 to 2%, mainly driven by the tech and services sector. The manufacturing as well as the real estate sectors, how-

ever, slowed markedly. Also, the economies in Europe and China faced significant slowdowns. Inflation clearly fell, however, though especially US inflation remains clearly above the US Fed's target of 2%.

Fig. 1: PMIs

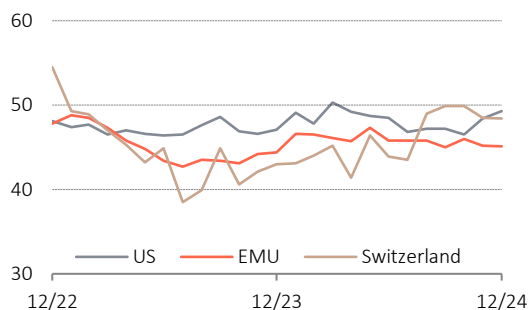


Fig. 2: PMIs

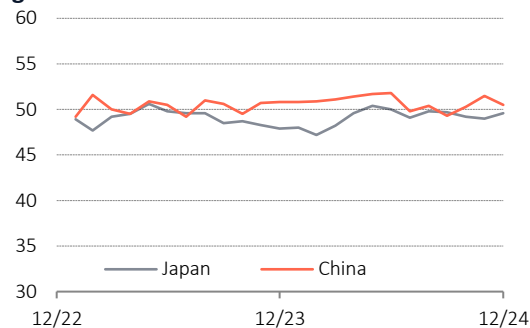


Fig 3: Consumer price inflation, in % YoY

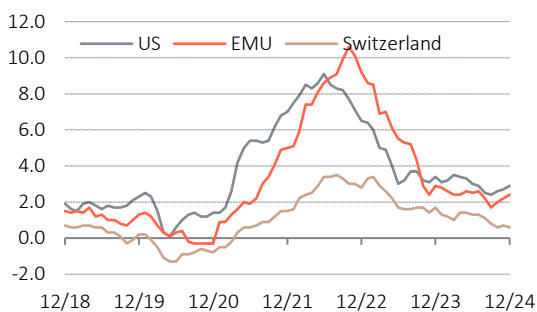


Fig. 4: Consumer price inflation, in % YoY

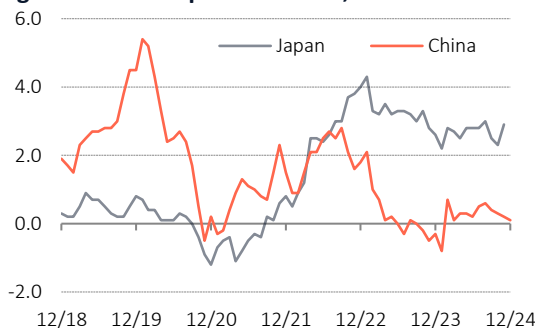


Fig 5: Unemployment rates, in %

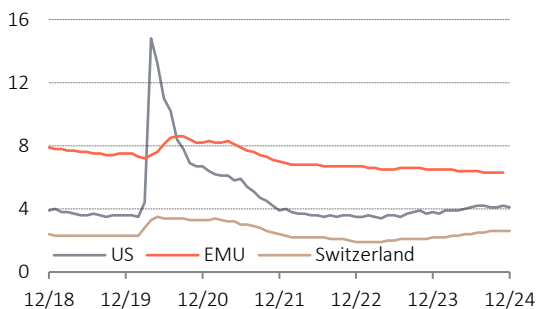
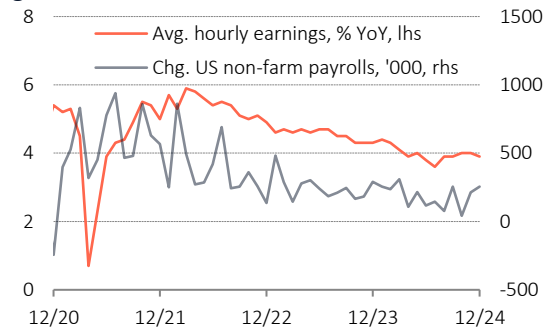


Fig 6: US labor market



FIXED INCOME

In 2024 central banks started to cut rates. The US Fed cut rates by a total of 100 basis points and the ECB by 125 basis points. However, long-term interest rates (10-year bond yields) have risen, by 70 basis points in the US and 35 basis points in Europe, on the back of

high deficit spending and remaining inflation concerns. US break-even inflation, for example, has risen by 35 basis points since September. Credit spreads remained very tight and appear to us to be priced to perfection.

Fig.7: 2Y government bond yields

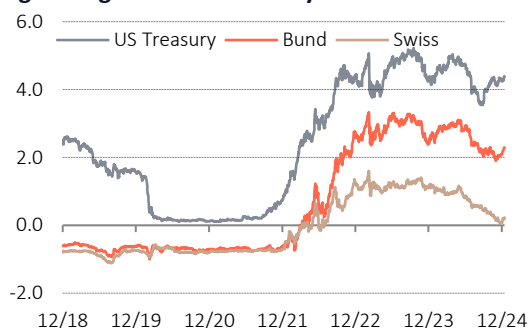


Fig. 8: 10Y government bond yields

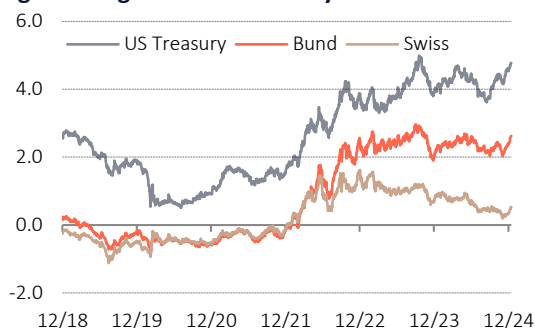


Fig 9: 10Y break-even inflation

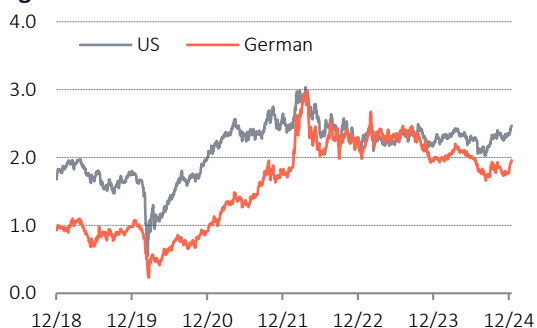


Fig. 10: Credit spreads, 5Y credit default swaps

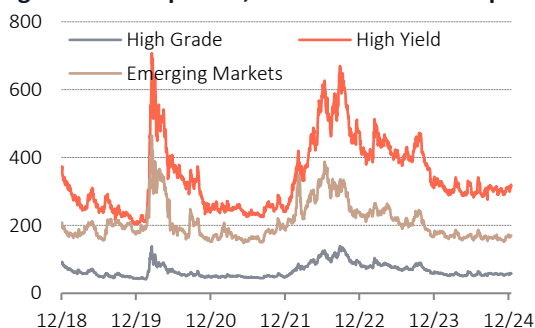


Fig 11: Money market spreads

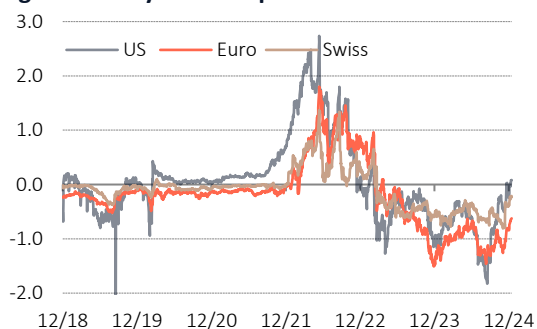
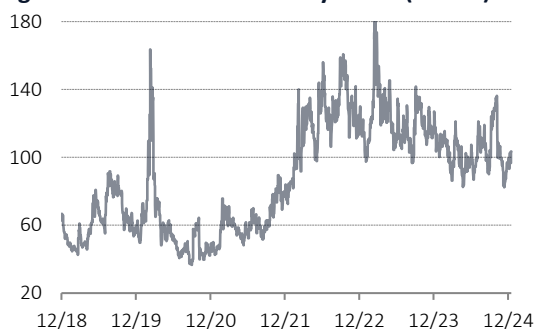


Fig 12: Fixed Income Volatility Index (MOVE)



EQUITIES

Equity markets performed very well in 2024. The magnificent seven, Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta, and Tesla, continued to outperform. Their weight in the S&P500 index grew to 25 to 30% and they accounted for about 75% of its performance in 2024. Nvidia's stock price, for example, rose

by an impressive 180%. The technology-oriented NASDAQ index soared by an impressive 29.6% and the S&P 500 Index rose by 25.0%, while the MSCI Europe gained only 9.3%.

Fig. 13: Equity indices – major regions

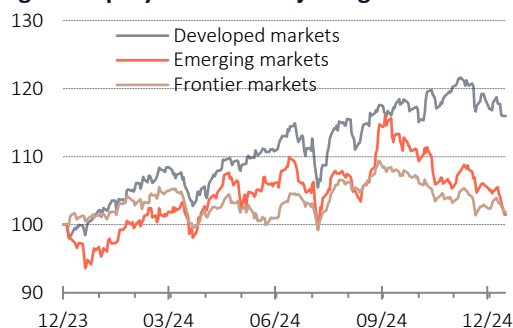


Fig.14: Equity indices – major developed markets

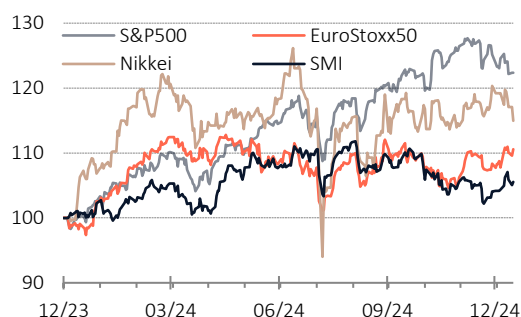


Fig 15: Equity indices – major emerging markets

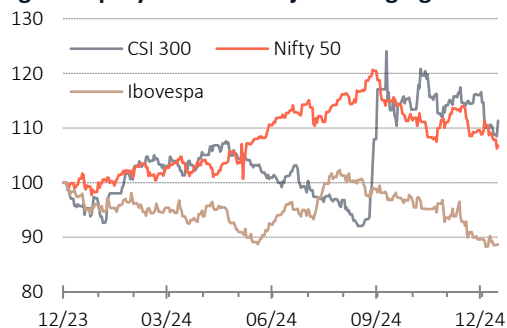


Fig. 16: Sector performance, MSCI Indices, 2024

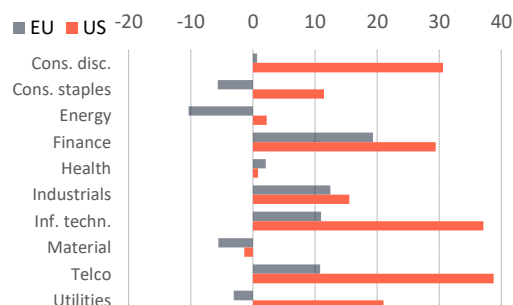


Fig 17: Price-earnings ratios

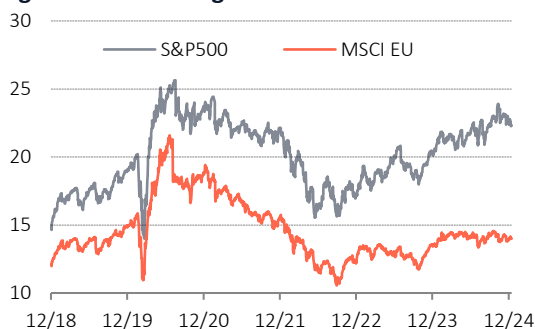
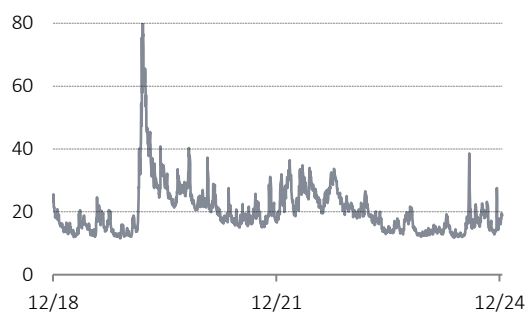


Fig 18: Equity volatility – S&P500 VIX index



ALTERNATIVE INVESTMENTS

Gold continued its rally (+27%) in 2024, despite the strong performance of most risky assets. In contrast, the price for Brent oil fell somewhat, by about 3%. The global REITs index was slightly up in 2024 and gained 4.5%, despite the fact that European REITs fell by 6.5%. Donald Trump's strong endorsement of

crypto assets and the outlook for much lighter regulation triggered near-euphoria. The price for Bitcoin reached an all-time high of USD 106,000, gaining 120%. Ethereum lagged behind, advancing only (!) 47%.

Fig. 19: Gold price, USD/oz



Fig.20: Brent oil price, USD/bl



Fig 21: Commodity indices

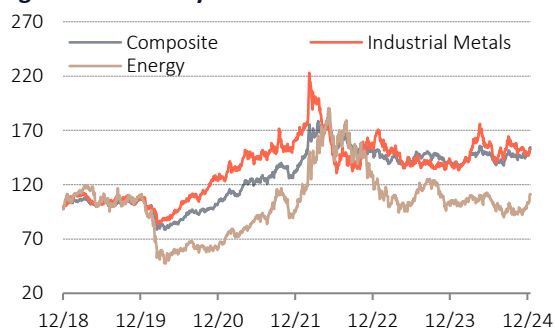


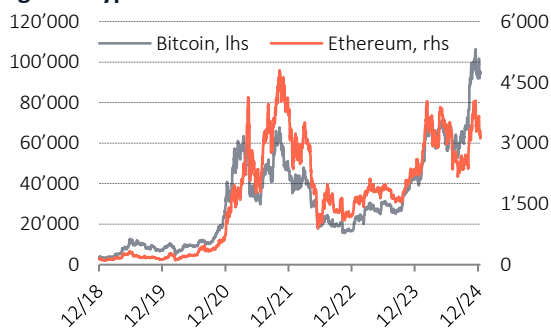
Fig. 22: Global Listed Private Equity



Fig 23: Global REITS



Fig 24: Crypto Assets



CURRENCIES

The US election result triggered a strong broad-based rally of the USD, which gained about 7% vis-à-vis the EUR in Q4 and about 6% in 2024. The SNB's large December interest-rate cut of 50 basis points led to only

a very moderate weakening of the CHF, which softened by about 1% vis-à-vis the EUR.

Fig. 25: EUR-USD exchange rate



Fig. 26: GBP-USD exchange rate



Fig. 27: USD-JPY exchange rate



Fig. 28: USD-CNY exchange rate



Fig. 29: EUR-CHF exchange rate



Fig. 30: USD-CHF exchange rate

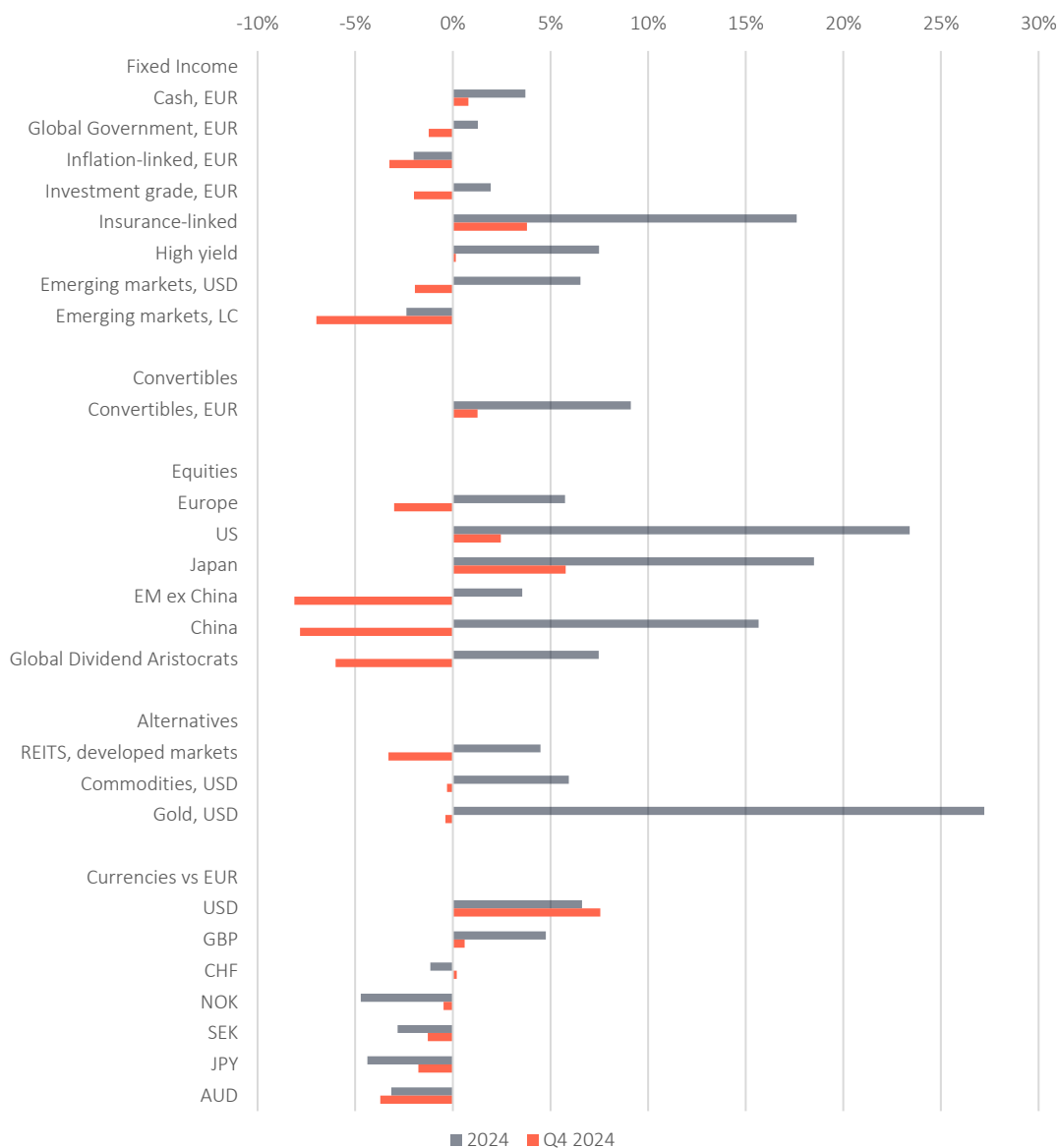


ASSET ALLOCATION

In 2024 most asset classes contributed positively to the performance of multi-asset class portfolios. The exceptions were inflation-linked bonds and local-currency emerging market bonds. EUR-denominated portfolios also benefited from the surge of

the USD. In Q4 we observed a clear divergence between US assets and European / Asian assets. This was driven by expectations of an aggressive America-First policy by the new Trump administration.

Fig. 31: Performance of major asset classes, based on our EUR portfolio strategy



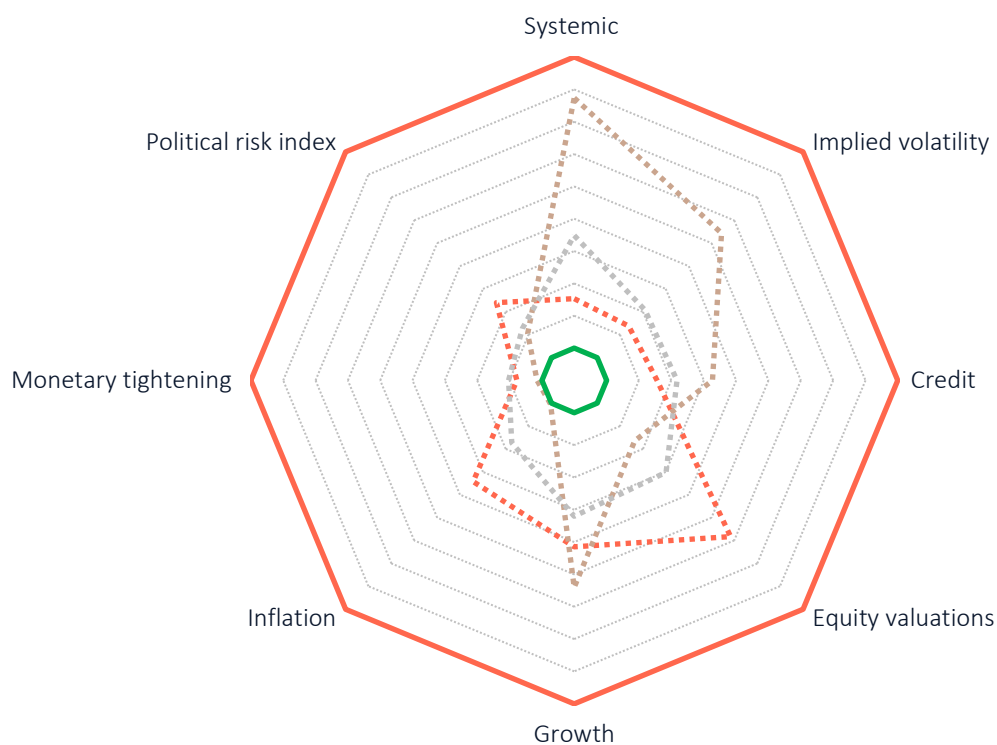
RISK MONITOR

The major risk factors are currently associated with elevated equity valuations and inflation. At the same time, growth risks are declining as the US economy has proven very resilient so far. Geopolitical risks remain a concern. Central banks are

mostly in easing modus, although the US Fed signaled that further rate cuts have become less likely in the coming months. In recent months implied volatilities have risen on the back of heightened political uncertainties.

Fig. 32: IMT Risk Monitor

24-Dec-2018: Growth and monetary tightening fears
23-Mar-2020: Global pandemic



13-Jan-25 23-Mar-20 24-Dec-18 Max risk score: 10 Low risk score: 1

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Source for all graphs: Bloomberg, IMT Asset Management AG.