MONTHLY REVIEW

MACRO

In the eurozone, activity remains fragile despite some signs of stabilization. The services sector is experiencing a rebound, and confidence in the manufacturing industry is improving slightly. However, Germany, the region’s economic engine, recorded a 0.2% contraction in 2024—the second consecutive year of decline. Domestic demand is stagnating, and uncertainty related to the trade war is weighing on outlooks.

In the United States, despite some volatility at the beginning of the year, several factors have reassured observers. Inflation in the U.S. has shown signs of moderation, the labor market is not slowing down, and consumer spending remains a strong pillar of demand.

The earnings results of major corporations continue to show strong figures. However, at the end of the month, the emergence of DeepSeek, the Chinese AI platform, slowed this momentum. The company launched an AI model capable of rivaling OpenAI's, using creative engineering techniques that require less computing power and significantly lower financial costs.

To conclude, at the time of writing, President Trump has imposed a series of tariffs targeting Canada, Mexico, and China, further intensifying his aggressive economic approach. He declared that the United States will "definitely" impose trade tariffs on the European Union. This trade offensive has shaken equity markets, causing a daily drop of 2%.

OUTLOOK

Earnings growth will remain a key driver of stock market performance, and we are already seeing the first positive signs. Corporate earnings reports are strong, giving new momentum to equities. This trend is expected to continue in the coming weeks. However, other external factors, such as trade negotiations and inflation trends, should not be overlooked, as they could influence markets and increase volatility.

The Investment Grade (IG) bond market will remain under the influence of central bank decisions and expectations of rate cuts in response to inflation trends and labor market developments, particularly in the U.S. In the medium term, we remain positioned on credit. While corporate bond spreads have fallen to near-historic lows, corporate balance sheets remain solid, supported by abundant cash reserves. As such, we consider carry to be attractive, though the current low spreads limit price appreciation potential.

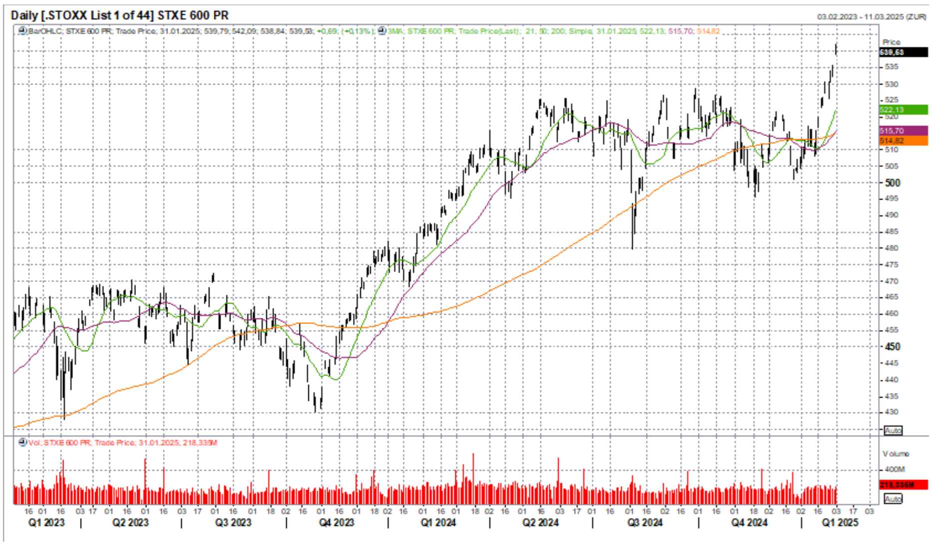
EQUITY MARKETS

Unusually, the beginning of the year has put European equities in the spotlight. They have benefited from renewed enthusiasm and remain undervalued compared to U.S. stocks. This environment has attracted significant buying flows from active managers.

From a sectoral perspective, financials, industrials, and pharmaceuticals performed particularly well. On the stock side, the month was marked by a spectacular drop in Nvidia following the launch of the competing Chinese AI, causing a 17% plunge in a single day and wiping out $600 billion in market capitalization—a record. Conversely, Richemont jumped 15%, buoyed by excellent results, particularly strong Cartier sales.

January performance: CAC40 7.72% (YTD 7.72%), SMI 8.59% (YTD 8.59%), Stoxx600 6.29% (YTD 6.29%), Nasdaq100 2.22% (YTD 2.22%), S&P500 2.70% (YTD 2.70%), Hang Seng 0.78% (YTD 0.78%),
Topix -2.32% (YTD -2.32%).

Stoxx600 2Y



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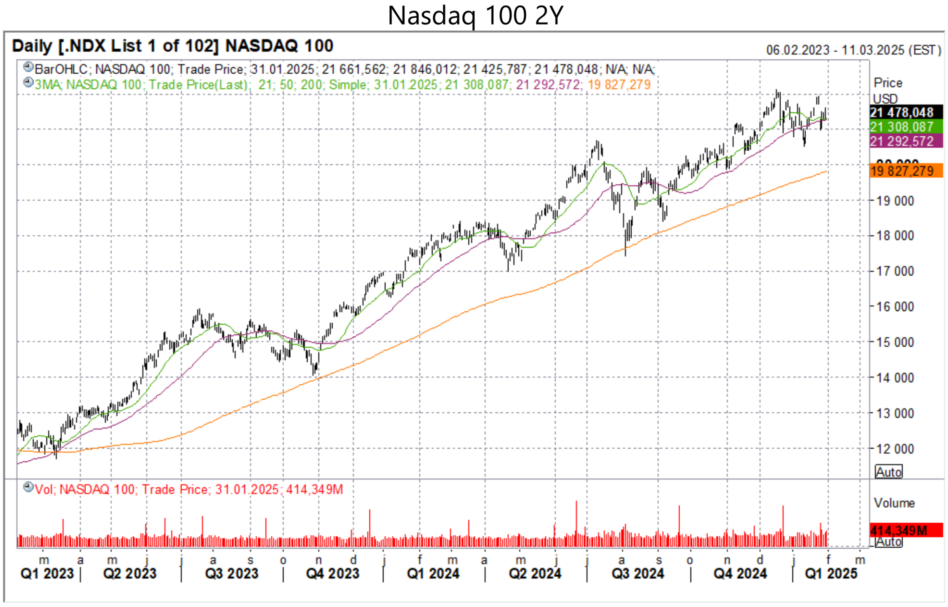
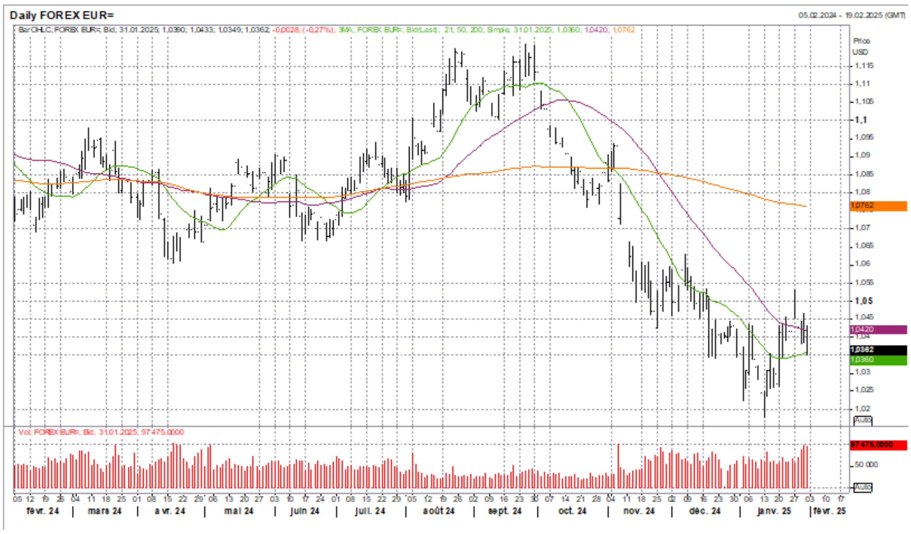


FOREIGN EXCHANGE MARKET

The euro also experienced a marked recovery, driven by optimism in European markets. The eurozone composite PMI index reached 50.2, signaling the first expansion in private sector activity since August 2024. This growth was mainly supported by the services sector, highlighting the importance of European economic growth in sustaining the single currency.

At the same time, after rising continuously since October, the dollar took a pause due to investor profit-taking.

EUR USD 1Y



The euro's strength was also evident against the Swiss franc, reaching 0.95—its highest level since last September. However, the euro faced resistance at the 200-day moving average, a key short-term threshold. Only solid economic data from Europe could further strengthen the single currency in the medium term.

EUR CHF 1Y

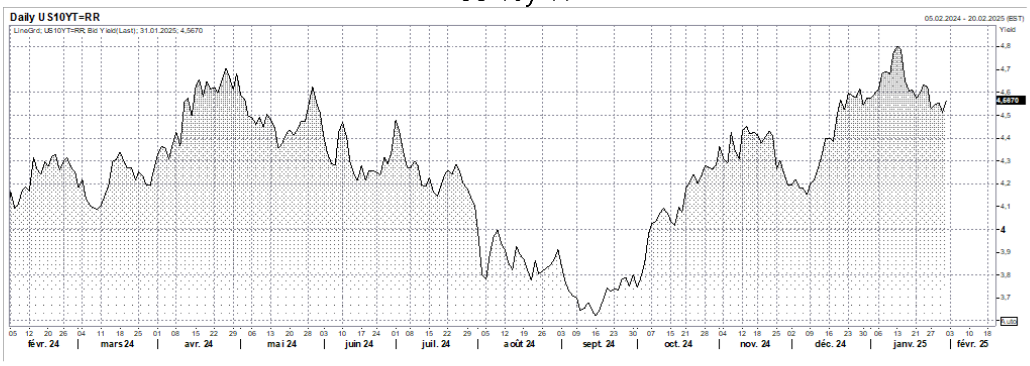
BOND MARKET

We are witnessing a true divergence in monetary policy between the Fed and the ECB, driven by economic data. In the U.S., strong consumer spending, a resilient labor market, and persistent inflation are pushing the Fed to remain cautious. It prefers to take a wait-and-see approach rather than rush into rate cuts. In Europe, the situation is quite different. Economic indicators are more mixed, and the key growth engines—Germany and France—are struggling to recover. For once, these countries need the ECB's support, while Southern Europe, which had long been in difficulty, has become the "good student." The economy is evolving rapidly, and the ECB will need to continue its accommodative policy this year to try to revive disappointing growth.

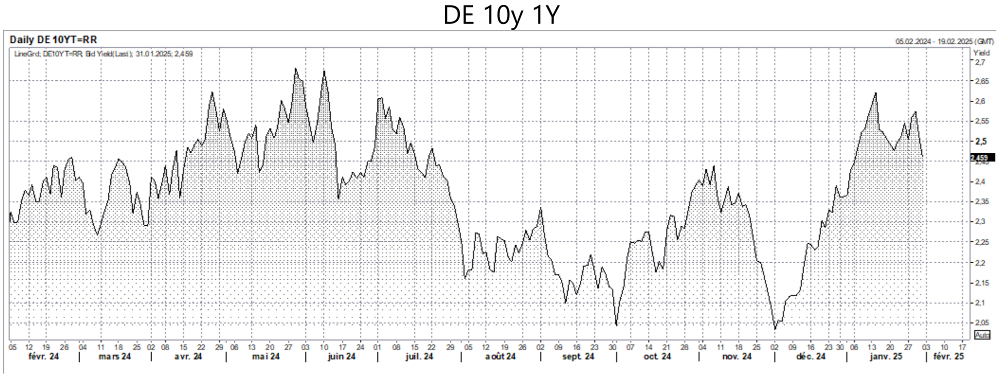
The Federal Reserve kept its interest rates at 4.25–4.50% as expected, with a unanimous decision. The statement did not mention that inflation had progressed toward the 2% target, unlike in December. During his press conference, Fed Chair Jerome Powell stated that there was no need to rush in adjusting monetary policy and that the Fed was not on a predetermined path. He added that reducing monetary policy constraints too quickly could hinder progress.

The European Central Bank (ECB) decided to cut its key interest rates by 25 basis points, lowering the rate from 3% to 2.75%. The decision was unanimous and widely anticipated. This marks the fifth rate cut in this monetary easing cycle and the fourth consecutive one. During her press conference, Christine Lagarde stated that although domestic inflation remains too high, all indicators monitored by the ECB point to declining inflation, particularly its wage tracking indicator.

US 10y 1Y



DE 10y 1Y



COMMODITIES

After a decline in December, gold has resumed its upward trajectory, nearing its all-time high at $2,800. Demand remains strongly supported by the BRICS nations. Seeking to reduce their dependence on the U.S. dollar, these countries continue to buy large quantities of gold. Annual demand in 2024 exceeded 1,000 tons, double the level of 2021.

Gold 2Y

The month was also marked by U.S. sanctions against Russian oil, further exacerbating tensions in oil supply. This initially propelled oil prices up by 9% in the first two weeks. However, this surge was followed by a pullback, with prices ultimately returning to the $76 range.

Brent 1Y

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