Quarterly Pulse – December 31st 2024

Comprehensive Market Analysis and Investment Strategy

Clarus Capital Group AG

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TOP 50 IAMs 2024

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Economical Outlook 2025

2024 Financial Markets Recap

Equity markets delivered robust gains in 2024, driven by central bank rate cuts, resilient economic growth, and enthusiasm for generative AI. Mega-cap tech stocks led performance, while U.S. equities outperformed globally due to strong growth, with European equities lagging amid stagnant growth and political uncertainties. Market-cap-weighted indices significantly outperformed equal-weighted counterparts, with the MSCI World Index returning 19.2% in USD and the S&P 500 gaining 25%. Valuation-driven returns dominated, pushing valuations to levels last seen during the late-1990s tech bubble.

In the bond market, quality bonds delivered positive returns in 2024, with investment-grade bonds returning near 3% year-to-date. The 10-year U.S. Treasury yield, initially projected to fall to 3.5% by year-end, reached 3.6% by September. However, stronger economic growth data and inflation expectations under the new U.S. administration pushed yields higher, ending the year at approximately 4.4%.

US Economic Outlook

The U.S. economy continues to demonstrate resilience, defying expectations of a sharp slowdown due to higher interest rates. In 2024, GDP growth is estimated at 2.7%, supported by strong nonfarm payroll gains and robust consumer spending driven by healthy incomes and moderate savings rates. GDP growth in 2025 is projected to remain robust, with falling inflation and anticipated interest rate cuts by the Federal Reserve likely to ease pressure on households and businesses. Tax cuts and deregulation under President Trump could provide additional tailwinds. However, risks such as potential broad-based tariffs, limits on migration, and long-term fiscal imbalances pose challenges. A persistent budget deficit and slower labor supply growth may lead to inflationary pressures and constrain further expansion.

Policy and Trade Risks

Proposed tax reforms and deregulation focus on stimulating domestic productivity, particularly in Financials, Manufacturing, and Energy sectors. However, tariff policies targeting imports, especially from China, could disrupt supply chains, reduce corporate profits, and exacerbate sectoral disparities. While "America First" policies may support domestic growth, trade tensions and geopolitical uncertainties remain key risks.

Eurozone Outlook

The Eurozone economy shows mixed signals, with third-quarter GDP growth surprising at 0.4% quarter-on-quarter, driven by recovering consumer spending as real incomes improve and savings rates decline. While investment and manufacturing remain weak, a gradual rebound is expected as interest rates fall and global trade improves. Inflation is projected to return to target gradually, with disinflation supported by moderating wage growth and easing services prices, despite potential volatility from fading fiscal support and energy base effects

Switzerland Outlook

Switzerland's economy is set to see gradual improvement in 2025, with GDP growth expected to align with its long-term trend of 1.5%, supported by stronger Eurozone demand boosting exports and resilient private consumption. While third-quarter 2024 growth was below potential at 0.2% quarter-on-quarter (adjusted for sports events), improved global growth momentum and potential rate cuts could bolster the economy further, particularly if the Swiss franc weakens. Inflation is projected to continue its downward trend, falling to 0.4% in the first quarter of 2025, aided by reduced electricity prices, marking a sustained disinflationary environment below the Swiss National Bank's expectations.

2025 Economic Projections by Region (data source: NAIRU & Vanguard, 2025)

	GDP growth	Unemployment rate	Core inflation	Monetary Policy		
	2025	2025	2025			
Region	Trend	Trend	Trend	Year-end 2024	Year-end 2025	Neutral rate
US	2.70%	4.50%	2.50%	4.50%	4.00%	3.50%
Euro area	1.20%	6.5%-7%	1.90%	3%	1.75%	2%-2.5%
UK	1.20%	4%-4.5%	2.40%	4.75%	3.75%	3%-3.5%
China	4.20%	5%	1.50%	1.40%	1.20%	4.5%-5%
Japan	1.00%	2.5%-3%	2.10%	0.50%	1.00%	0%

Fixed Income

Rising Yields and Steepening Curves

For nearly two years, investors, ourselves included, had been anticipating the Federal Reserve's return to rate cuts. However, once the Fed began to deliver on these expectations, the rally quickly came to an end, and much of the previously realized performance had to be relinquished. For Fixed Income in 2025, the 10-year US Treasury yields have risen back to levels last observed in April 2024, currently standing at 4.65%. This comes after hitting a low of 3.6% in September 2024. Additionally, the 2-10 year yield curve has started to steepen once again. This recent shift in the yield curve is not a result of the Federal Reserve's actions, but rather due to political changes in the White House. Once it became increasingly likely, around September 2024, that Donald Trump could secure a victory in the upcoming presidential election, yields began to rise.

U.S. 2 – 10 Yr Yield Spreads (data source: Baha, 2025)

Cautious Outlook for Treasuries Amid Inflation Risks

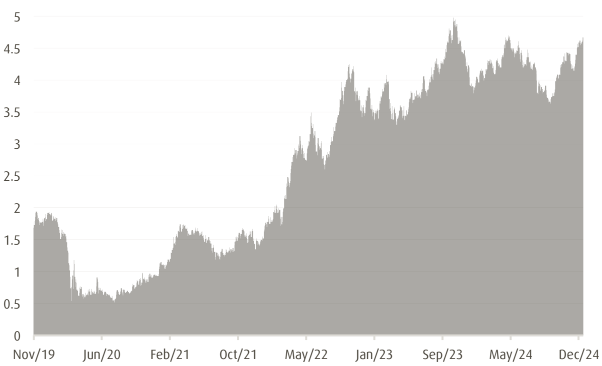
The outlook for Treasury bonds has thus weakened considerably. Investors are now bracing for the impact of Trump's proposed economic measures, which are expected to fuel inflation and place a greater financial burden on the federal government. Although Trump is not yet in office, it remains highly uncertain how these measures will unfold, and this uncertainty is clouding market expectations. While the effects of such policies are more likely to be felt over the long term, maintaining caution is prudent. A resurgence of inflation would be particularly challenging for markets to digest, given the current economic environment. At present, markets are adjusting to these shifting expectations. Specifically, the outlook for future interest rate cuts has softened, and the yield curve has started to steepen once more. We believe this trend is likely to continue over the next quarter, as the uncertainty surrounding future policies remains high. As a result, investors are seeking higher premiums for longer-term bonds.

Assuming an inflation rate of between 2.5% and 3%, we estimate that the neutral federal funds rate could fall within the 3.5% to 4% range. Given this, the 2-year Treasury yield may be expected to remain at comparable levels, while the potential for significant movement in the 10-year yield appears limited. In fact, a 50-100 basis point premium between the 2-year and 10-year Treasury yields would not be unreasonable, translating to a 10-year yield in the range of 4.5% to 5%. However, this scenario is likely on the more optimistic side, in our view.

Focusing on Short Duration and Credit Quality

Given the current outlook, we recommend caution when considering duration bets. Investors should remain mindful of the potential risks associated with long-term interest rates, particularly in light of the ongoing uncertainties. We prefer to focus on High-Grade Corporate bonds with maturities in the 3 to 5-year range, as they present a more attractive risk-return profile given current market conditions.

While High Yield and Emerging Market debt delivered strong returns last year, we continue to hold positions in these segments, as they are less sensitive to duration risks. The prevailing risk-on sentiment persists, with a recession not currently appearing imminent, and leverage levels remaining comfortably below long-term averages. We remain constructive on these asset classes for the time being.



U.S. 10 Yr Treasury Yields (data source: Baha, 2025)

Equity

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Diverse and Complex Global Environment

This year, global equity markets are expected to face a challenging and dynamic environment with various factors influencing performance. The main topic for the year will be greater diversity in how stocks, sectors, styles, countries, and themes perform. This diversity should create more opportunities and improve conditions for active investment managers, especially after a period of limited and unbalanced market leadership. Differences in central bank policies, uneven progress in reducing inflation, and advancements in technology will cause economies to develop at different rates worldwide. Additionally, rising geopolitical tensions and changes in government policies are adding complexity to the outlook. Investors will need to stay open-minded and adaptable to navigate these uncertainties successfully.

U.S. Leadership and Challenges in Europe and Emerging Markets

The U.S. economy may face some challenges and higher market volatility this year due to policy changes, but the positives are expected to outweigh the risks. Deregulation and a more business-friendly environment could drive productivity and investment, with the U.S. continuing as the primary engine of global growth. Key strengths include a strong labor market, increasing spending on AI technologies, and opportunities in capital markets and business deals. In contrast, Europe will struggle with structural problems, and Emerging Markets will face pressure from high interest rates, a strong USD, and trade challenges.

U.S. stocks are likely to outperform Eurozone and Emerging Market stocks for quarters to come. However, as the year progresses, there could be a shift toward global markets as valuation gaps and performance differences, even out provided there's more clarity on trade and geopolitics. Until then, U.S. equities remain again our top choice, after 2023 and 2024. In the below table, we highlight the sector impact from potential U.S. policy changes under the Trump Administration and which sectors should provide good returns:

Germany and France, the two biggest economies in the Eurozone, are starting the year without stable governments. At the same time, under the leadership of President Trump, the trade relationship between the U.S. and Europe is facing uncertainty. This uncertainty is causing people and businesses in Europe to hold back on spending and investment, which will likely slow down economic growth.

Investors are keeping a close eye on rising government debt in Italy and France. With the current political situation, it seems unlikely that these countries will reduce their budget deficits anytime soon. In Germany, the focus will likely return to debates about relaxing strict debt rules, especially given the country's need for infrastructure investment. However, analysts do not expect significant changes in policy if Friedrich Merz leads the government. Overall, fiscal policies in the Eurozone are expected to provide less economic support than in the past.

We advise to be cautious about investing in Emerging Markets, and avoid heavy exposure to China, as trade tariffs remain a significant risk. Although interest rate cuts by the U.S. FED have often helped Emerging Markets in the past, it is uncertain how much further the FED can lower rates compared to what the market already expects (today). Additionally, the strong USD continues to limit the growth potential for Emerging Market stocks. At least for the next one or two quarters we think.

In conclusion, we remain cautiously optimistic about equities and maintain our neutral stance. The U.S. exceptionalism narrative this year underscores a dynamic and opportunity-rich environment, driven by structural advantages and innovation leadership. While challenges may arise from policy transitions and global uncertainties, the overall outlook remains constructive, with a strong foundation for growth and investment opportunities. Hence, we prefer to overweight U.S. over Eurozone, i.e. growth stocks with a bias to technology and artificial intelligence.

Sector Impact from Potential Policy Changes (data source: JPM, 2025)

S&P 500 Sectors	Trade / Tariff	Immigration	Domestic Manufacturing Tax Cut	Regulation	Government Efficiency	Foreign Policy Resolution
Energy	-	-	↑	↑↑↑	-	↓↓
Materials	-	-	↑	↑↑	-	↓
Industrials	↓↓	↓↓	↑↑↑	↑↑	↓↓	↓
Discretionary	↓↓↓	↓↓↓	↑	-	↑	-
Financials	-	-	-	↑↑↑	-	-
Technology	↓↓↓	-		↑	↑↑	-
Communication	↓↓	-	-	-	↑	-
Healthcare	↓	↓	-	-	↓	-
Consumer Staples	↓↓↓	↓↓	-	↓	-	-
Utilities	↑	-	-	↑	↑	-
Real Estate	↓	↓	↑	↑↑	↑↑	-
SMID	↓↓	↓	↑↑	↑↑↑	↑↑	-

Alternatives

Gold Outlook

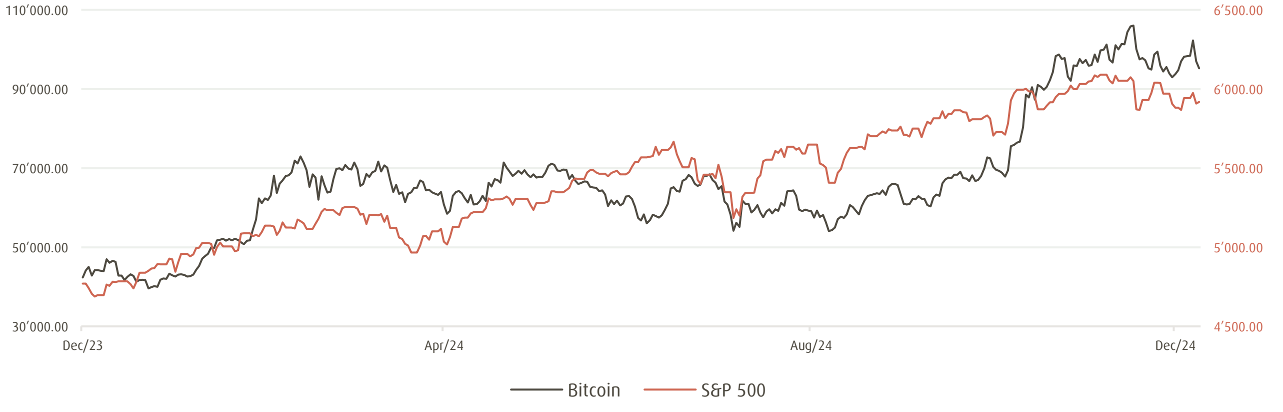
In 2024, gold prices surged by over 26%, driven by elevated geopolitical risks and market volatility. Looking ahead to 2025, forecasts suggest a continuation of this upward trend, with strong central bank demand and long-term fiscal concerns reinforcing gold's role as a hedge.

The policies of President Trump introduce a range of potential outcomes for precious metals. Pro-growth initiatives could bolster the U.S. dollar and bond yields, presenting short-term challenges for gold and silver. Conversely, escalating trade tensions may enhance the appeal of these metals as safe-haven assets. Central banks continue to be significant buyers of gold, driven by a desire to diversify reserves away from the U.S. dollar. This structural demand is expected to support gold prices over the long term. Analysts project that gold could reach approximately $2,850 per ounce by year-end, with some estimates even suggesting potential highs around $3,000.

Bitcoin Outlook

Bitcoin is poised for significant growth in 2025, supported by increasing institutional adoption and favorable macroeconomic conditions. The approval of spot Bitcoin ETFs in 2024 brought over $24 billion in inflows, demonstrating robust demand from mainstream investors, including public pensions and endowments. Bitcoin's narrative as "digital gold" continues to strengthen, with its scarcity reinforced by the 2024 halving and growing interest as a hedge against geopolitical and economic risks. Regulatory clarity under a pro-crypto U.S. government is expected to further drive adoption, including the potential for stablecoin legislation and expanded crypto ETFs.

As blockchain technology matures, Bitcoin is expanding its utility beyond a store of value, with programmability advancements enabling tokenization and decentralized finance applications. While challenges such as global economic shocks and competition from other assets could create volatility, Bitcoin's integration into traditional finance and the broader digital economy positions it as a cornerstone of the growing $10 trillion crypto market.



BTC vs S&P500 (data source: Baha, 2025)

Foreign Exchange

US-Dollar

The USD remains robust, supported by its safe-haven status, structural advantages in global trade, and strong political and economic fundamentals. Its position is bolstered by superior corporate profitability and a favorable interest rate differential against currencies like the EUR and JPY. Additionally, recent political stability contributes to confidence in the currency. However, long-term risks include rising trade and fiscal deficits, which could challenge its dominance.

EURO

The EUR faces headwinds from a weak economic backdrop, disinflationary trends, and reduced international competitiveness. Ongoing political and trade uncertainties within the eurozone further weigh on its appeal. Despite these challenges, factors such as hedging activity by European investors and potential trade surpluses could offer partial support to the currency in the medium term.

Swiss Franc

The CHF retains its strength as a safe-haven currency, driven by fundamentals such as low inflation, a current account surplus, and fiscal stability. Its reliability during periods of financial stress continues to attract investors. However, the Swiss National Bank’s dovish monetary stance and easing measures may limit the currency's appreciation in the near term, while global economic vulnerabilities pose additional risks.

Market Overview

Market overview as of 31st Dec 2024, COB (data source: Bloomberg, 2025)

Fixed Income

	Rate	Δ 1m	Δ 3m	Δ ytd		Δ 1m	Δ 3m	Δ 6m	Δ ytd
USD Overnight	4.49	-0.33	-0.56	-0.22	**USD Deposit 1m**	-6.2%	-11.2%	-20.9%	-20.5%
USD 1y Swap	4.16	-0.02	0.08	-0.13	**USD Aggregate 1-3y**	0.2%	-0.1%	2.8%	4.3%
USD 3y Swap	4.04	0.04	0.22	0.07	**USD Aggregate 3-5y**	-0.5%	-1.6%	2.3%	3.1%
USD 5y Swap	4.02	0.07	0.24	0.14	**USD Aggregate 5-7y**	-1.3%	-3.0%	1.8%	1.8%
USD 10y Swap	4.05	0.08	0.21	0.17	**USD Aggregate 7-10y**	-2.1%	-4.3%	1.5%	0.3%
EUR Overnight	2.90	-0.09	-0.15	0.00	**EUR Overnight**	0.3%	0.8%	1.8%	3.8%
EUR 1y Swap	2.33	-0.01	-0.12	0.14	**EUR Aggregate 1-3y**	0.0%	0.6%	2.9%	3.6%
EUR 3y Swap	2.19	0.06	-0.01	0.18	**EUR Aggregate 3-5y**	-0.3%	0.3%	3.5%	3.2%
EUR 5y Swap	2.24	0.08	0.02	0.17	**EUR Aggregate 5-7y**	-0.8%	0.0%	3.9%	3.0%
EUR 10y Swap	2.36	0.09	0.01	0.17	**EUR Aggregate 7-10y**	-1.3%	-0.5%	3.8%	2.4%
CDX Xover 5y	3.11%	0.06	-0.06	0.01%	**US Corp. HY**	-0.4%	0.2%	5.3%	7.9%
iTraxx Xover 5y	3.13%	0.05	-0.01	-0.01%	**EUR HY**	0.8%	1.9%	4.5%	6.7%

Equity

	Price	P/E	D. Yield	FCF yield		Δ 1m	Δ 3m	Δ 6m	Δ ytd
MSCI World	11'731	67.56	1.8%	3.5%	**MSCI World**	-2.6%	0.8%	4.6%	17.1%
S&P 500	5'882	24.94	1.3%	2.8%	**S&P 500**	-2.5%	3.0%	6.0%	21.0%
NASDAQ	21'012	33.38	0.7%	2.5%	**NASDAQ**	0.4%	5.9%	4.0%	22.2%
Euro Stoxx 50	4'896	14.42	3.3%	5.2%	**Euro Stoxx 50**	1.9%	-1.4%	-1.4%	8.0%
SMI	11'601	17.56	3.3%	5.3%	**SMI**	-1.4%	-4.4%	-3.5%	4.1%
FTSE 100	8'173	11.95	3.9%	7.2%	**FTSE 100**	-1.4%	-1.4%	0.0%	5.5%
DAX	19'909	15.00	2.8%	5.1%	**DAX**	1.4%	3.8%	8.0%	17.3%
Japan	2'785	15.12	2.3%	5.4%	**Japan**	3.8%	4.9%	-3.1%	16.3%
MSCI Asia Pacific	182	14.88	2.6%	5.1%	**MSCI Asia Pacific**	-1.0%	-7.5%	-0.5%	7.0%
FTSE China A50	13'513	11.73	3.3%	8.3%	**FTSE China A50**	2.5%	3.3%	10.3%	16.1%
MSCI Emerging Market	1'075	13.46	2.8%	5.6%	**MSCI Emerging Market**	-0.3%	-9.9%	-1.6%	4.9%
PH Semiconductor	4'980	41.06	1.0%	1.9%	**PH Semiconductor**	1.1%	-2.4%	-12.7%	17.6%

Alternatives

	Price	FCST 25	FCST 26	Δ Future		Δ 1m	Δ 3m	Δ 6m	Δ ytd
Gold	2'641.00	2650	2539	-3.1%	**Gold**	-0.6%	-0.2%	10.9%	24.3%
Bitcoin	93'413.90	n/a	n/a	n/a	**Bitcoin**	-4.2%	44.0%	44.9%	79.9%
Silver	29.24	31.00	32.50	-0.9%	**Silver**	-6.2%	-10.0%	-8.2%	14.6%
Platinum	910.50	1050.00	1113	des	**Platinum**	-4.5%	-10.2%	-9.6%	-8.8%
Palladium	909.80	1050.00	1056.5	10.9%	**Palladium**	-9.0%	-12.1%	-13.5%	-23.3%
Crude Oil	71.72	69.95	70	-1.1%	**Crude Oil**	5.7%	3.8%	-10.1%	3.0%
Brent Oil	74.64	73.25	71	-1.0%	**Brent Oil**	4.3%	2.1%	-11.2%	0.7%

Foreign Exchange

	Price	FCST 25	FCST 26	Δ Spot		Δ 1m	Δ 3m	Δ 6m	Δ ytd
EUR/USD	1.03	1.05	1.08	4.3%	**EUR/USD**	-2.2%	-6.5%	-4.2%	-6.5%
GBP/USD	1.25	1.28	1.29	3.0%	**GBP/USD**	-1.7%	-5.8%	-1.9%	-1.7%
USD/CHF	0.91	0.89	0.91	0.2%	**USD/CHF**	3.0%	6.6%	0.8%	7.6%
USD/JPY	157.37	145.00	140.00	-11.7%	**USD/JPY**	4.9%	7.5%	-2.6%	11.0%
EUR/CHF	0.94	0.94	0.96	2.2%	**EUR/CHF**	0.8%	0.1%	-3.4%	1.1%
GBP/EUR	0.83	0.82	0.82	-0.8%	**GBP/EUR**	-0.5%	-0.7%	-2.4%	-4.8%

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