Rothschild & Co
Wealth Management

Consensus Outlook 2025

Investment and Portfolio Advisory

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DECEMBER 2024

Summary of the Rothschild & Co and the Street's view

In 2025, the global economy and financial markets will be shaped by the speed, order-of-play and magnitude of policy changes implemented by the incoming US administration

Key drivers

2024 has been a strong year for financial market performance across asset classes and most regions, on the back of ongoing economic growth and normalising inflation. The start of a monetary easing cycle across developed economies, with the exception of Japan, has further supported equity and fixed income markets, as have robust corporate earnings. Gold has rallied on the back of heightened geopolitical risk and central bank buying. In the final quarter of the year, Donald Trump's US election win has further supported equity markets, buoyed by his pro-business, low tax, deregulation rhetoric. AI enthusiasm continues to fuel narrow stock market leadership with the Magnificent 7 accounting for more than 40% of the S&P500's year-to-date returns as we write.

At the start of the year, consensus was cautious on equities against a backdrop of high interest rates, slowing growth, expected political volatility in the US and Europe, and ongoing geopolitical tensions in the Middle East and Ukraine. Brokers expected flat to negative equity returns from most regions and started the year neutral or underweight in the asset class. Rothschild & Co's 2024 was more optimistic and maintained an overweight position in equities for most of the year. Whilst Rothschild & Co favoured the US and Europe in its regional equity allocation, consensus was bullish on Japan.

As we transition into 2025, there will be a heightened focus on policy changes in the US across trade, immigration, fiscal, and regulatory policies. These changes could significantly influence outcomes in the US and elsewhere for 2025 and beyond. Alongside this, the business cycle will remain the key driver of markets next year, and the growth and inflation mix looks a little less favourable than it has for the last couple of years. Rothschild & Co and the Street share a more cautious view for the year, with the resurgence of inflationary pressures cited as a key risk. The speed, order-of-play and magnitude of policy changes in the US will be the key determinant of how different scenarios play out.

In monetary policy, all G10 central banks except the Bank of Japan are expected to implement interest rate cuts of 100 basis points or more. These reductions aim to normalize monetary policy as inflation returns to target levels. In Emerging Markets, the expected rate cuts are more varied and modest, averaging 50 basis points. Increased tariffs proposed by the US administration pose two main risks: prolonged inflation and downside risks to growth. This suggests that central banks will proceed cautiously and remain data dependent.

Consensus expects continued US exceptionalism for 2025. Corporate earnings are expected to stay robust in the US, with a more muted outlook for other regions. Additionally, analysts point to continued credit quality and low default rates as supportive for corporate credit. Spreads in both Investment Grade and High Yield are expected to stay tight. Brokers with a more negative view on the implementation of tariffs have a more muted view on corporate earnings and credit quality across geographies.

In terms of asset allocation, brokers remain upbeat on risk assets. Equities are favoured by most, along with corporate credit. Within equities, Rothschild & Co and the Street point to continued US leadership for 2025, favouring the region over Europe and Emerging Markets. On Japan, consensus views are positive.

In commodities, consensus shares a positive view on gold which should continue to be supported by strong central bank demand and falling real yields. For the oil price the outlook is more muted amongst a US-led increase in supply and stable global demand.

The USD is expected to remain strong in 2025, driven by US tariffs, fiscal policies, and continued economic strength. The Euro, Japanese Yen, and British Pound all face headwinds, with the Euro and Yen particularly vulnerable to global trade policy risks. Sterling's outlook remains relatively positive, but the risk of a stronger USD could limit GBP's gains against the USD.

Macro overview: unfinished business

Demand, not just tariffs, may revive inflation risk in 2025

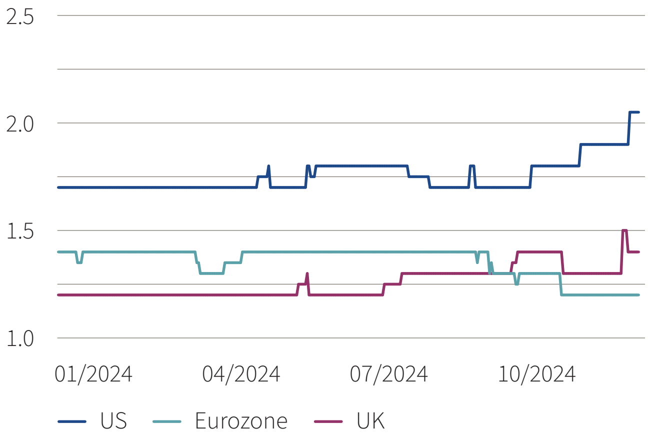
Numerous elections around the world during 2024 have settled some issues, but global tensions remain elevated, two traumatic conflicts are continuing – and political dysfunction may have crossed the Atlantic. Meanwhile, the business cycle has so far been helpful to investors, but may be a little less so in 2025 – not because we expect growth to slump, but because inflation risk may resurface, raising the possibility of another monetary rethink. Both of these concerns are manageable, but after very constructive outcomes in 2023 and 2024, expectations are more elevated now.

Trump's decisive re-election may have clarified US domestic politics, but it has made the world (even) less predictable, at least for a while. Nonetheless, as after 2016, we would warn against becoming overly pessimistic on this account. We know that the economic impact of geopolitical events is not always proportionate to their human importance, and that even the most idiosyncratic US president need not be an economic game changer. Tariffs themselves are bad for businesses and consumers, but it is not clear exactly how far they will rise, and their impact may be muted or reversed by tax cuts and deregulation.

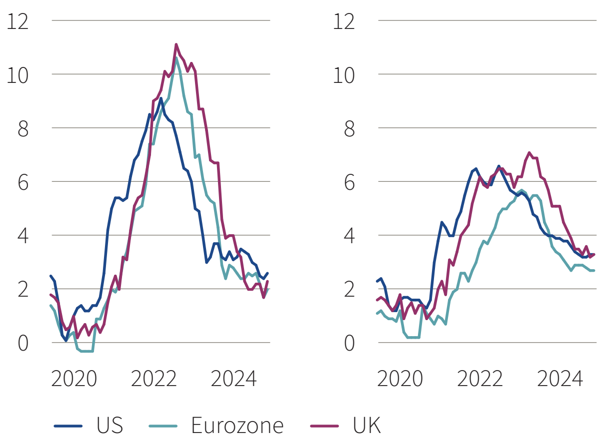
Meanwhile, the business cycle has been very investor-friendly. Lower inflation has allowed interest rates to start falling, while resilient growth (led by the US) has kept profitability healthy. However, the mix may be too good to last. Looking further into 2025, looser fiscal policy may amplify easier monetary policy, and with consumer cashflow healthy to begin with, growth might surprise positively. With the big economies still pretty fully employed, risks may tilt in a more inflationary direction.

Lower interest rates are still likely in the months immediately ahead, but if/when renewed demand-led inflation risk does resurface, central banks may be faster to respond to it than last time. As a result we may need to be alert to signs of a possible reversal in rates at some stage in 2025. This need not mean recession or stagflation: the risks we are braced for would reflect too much demand, not too little. But it may mean that the interest rates needed to contain inflation are higher than markets expect.

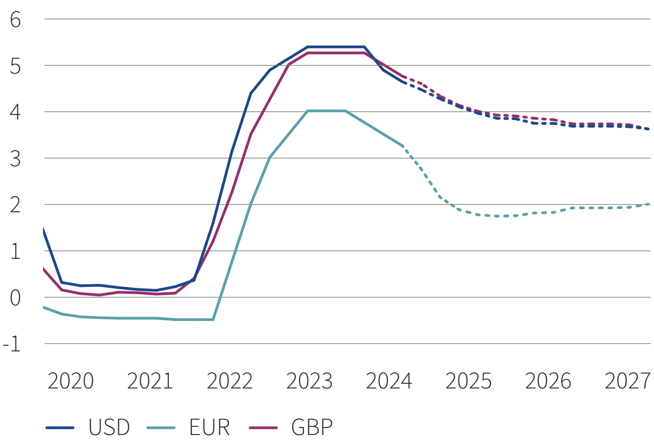
CONSENSUS 2024 GDP FORECASTS (%)



HEADLINE (LHS) AND CORE (RHS) INFLATION RATES (Y/Y, %)



MARKET-IMPLIED POLICY RATE TRAJECTORIES (%)



Asset allocation: a closer call

Relative stock/bond valuations have rarely looked this evenly balanced in recent years

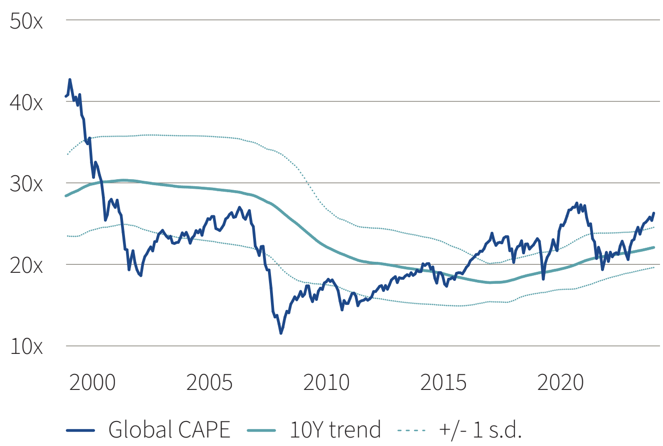
Stocks have had a good run, but valuations are full, a rethink on interest rates might lie ahead, and geopolitical tensions may boost risk aversion this winter. We recently took profits on an overweight position. We used the funds to close an underweight position in liquidity. Bonds are reasonably valued, and might do well in a more dangerous world, but they are also vulnerable to a revival in inflation risk: we remain neutral there.

The friendly mix of falling interest rates with healthy profitability saw stocks hit new highs in 2024. However, the gains far exceeded any notion of trend earnings growth, and as a result valuations have been looking very full. In the US stock market – which usually sets the direction for global stocks – the cyclically-adjusted PE ratio has touched 2021's heights, a level only exceeded materially in 2000.

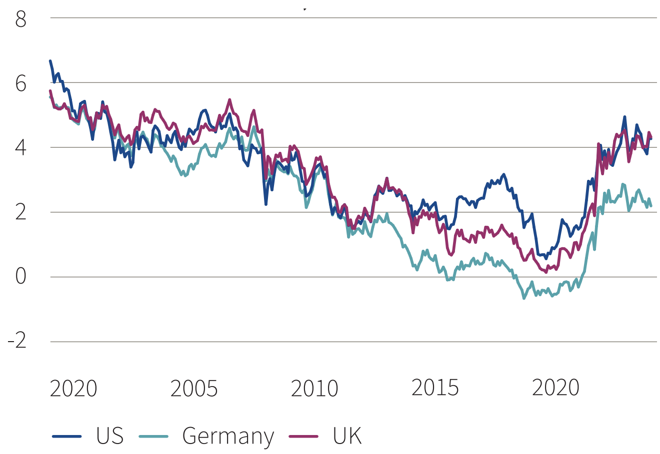
In 2000 of course we were in the middle of dotcom excesses, and for much of the current episodes such froth has thankfully been missing. Recently, however, the claims being made for today's Artificial Intelligence – the driver of a large portion of the overall market's recent gains – sound naïve, and the race to secure the equipment and (increasingly) energy needed to power AI's data-mining threatens to re-materialise technology sector balance sheets. We know that valuations are not a good tactical timing tool, but with interest rate expectations also potentially exposed, as noted above, we recently decided to take some profits on stocks. Plausible long-term returns are still ahead of likely inflation, but by a smaller margin than we've seen in recent years.

Bonds are no longer expensive, but are also vulnerable to that potential rethink on interest rate expectations. As a result, we are holding the funds switched from stocks in liquid form, closing an underweight there. This leaves us tactically neutral on the three main asset classes, which at a time of elevated uncertainty we feel is appropriate. In particular, a full weighting in cash – which even now likely still offers a gross return ahead of short-term inflation – will allow us to respond positively to any tactical opportunities which arise.

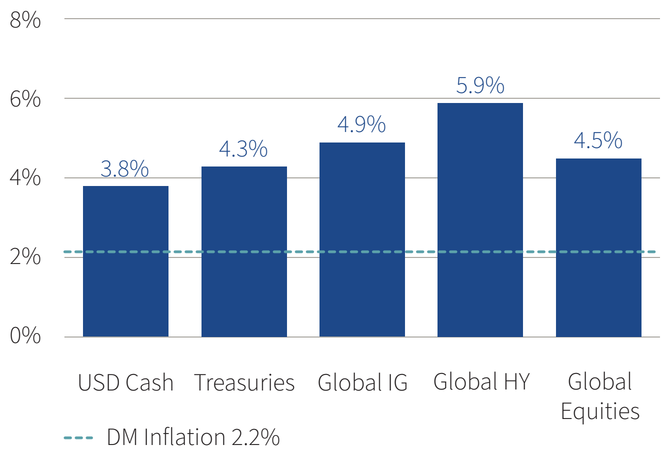
MSCI ACWI CYCLICALLY ADJUSTED PRICE TO EARNINGS (CAPE) RATIO



10-YEAR GOVERNMENT BOND YIELDS (%)



FORWARD RETURNS (NEXT 10 YEARS, ANNUALISED, NOMINAL TERMS)



Source: Rothschild & Co, Bloomberg, Datastream, IMF

Past performance is not indicative of future performance and the value of investments and income from them can fall as well as rise

Regions, sectors, credit, duration, currencies

Take us to your leader

US regional leadership may continue, but we continue to play that via our stock holdings, rather than the currency market. Sector-wise, we still favour a mix of growth and cyclical exposure, despite trimming equity holdings. In fixed income, credit spreads have only been materially smaller before the GFC, and the yield curve now looks less unusual.

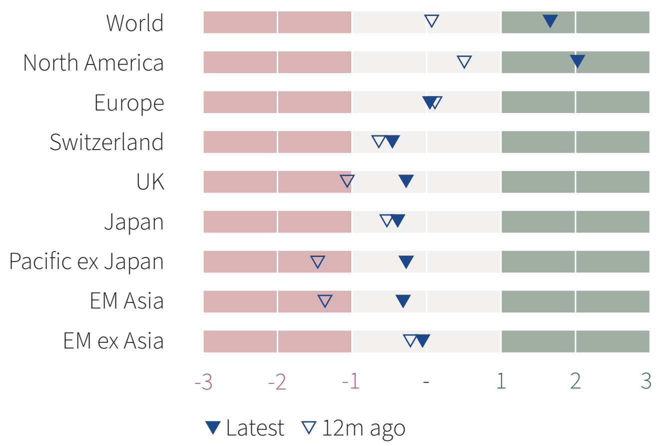
Equity regions and sectors:

Despite trimming our equity positions, we don't yet see the rest of the world outperforming the US in the current geopolitical climate, nor do we see risk aversion yet driving a widespread defensive rotation. We closed a disappointing overweight position in continental Europe, but in favour of closing an underweight in the UK: we stay underweight in super defensive Switzerland. We stay neutral on Emerging Markets, including Asia's, despite trade tensions. Sector-wise, despite some AI froth, we continue to favour technology and communications, and now financials (in place of industrials, which are more vulnerable to tariffs). We stay underweight consumer discretionary, utilities and real estate.

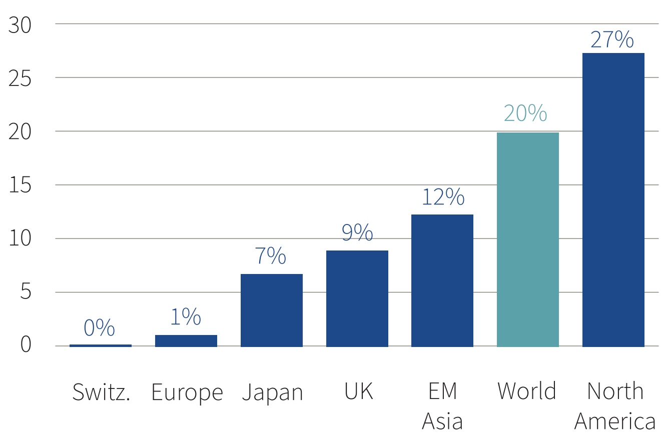
Credit, duration, currencies:

Corporate bonds look expensive, and we favour sovereigns – and longer-dated exposure. A repricing of interest rates in 2025 could reassure investors that central banks can avoid repeating their recent inflation mistake, and long-dated yields now offer reasonable value. In currencies, our regional overweight in US stocks can continue to capture modest USD strength.

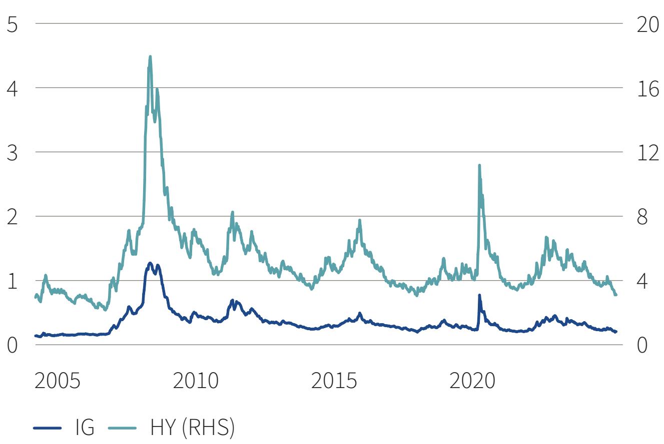
REGIONAL STOCK VALUATIONS (CAPE RATIOS)



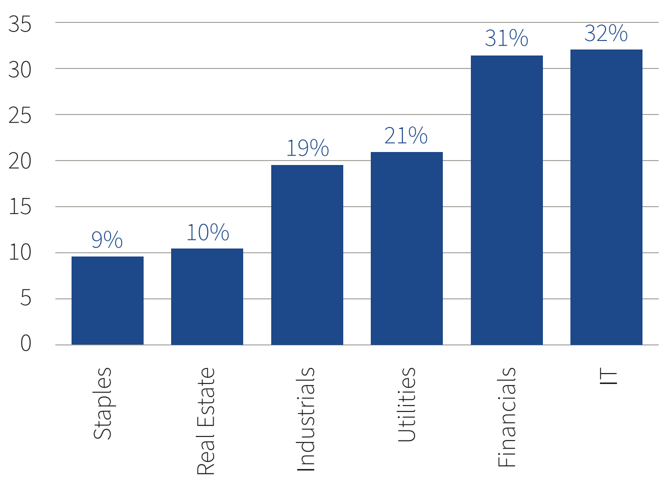
SELECTED REGIONAL RETURNS (USD, YEAR TO DATE %)



GLOBAL CORPORATE CREDIT SPREADS (OAS, %)



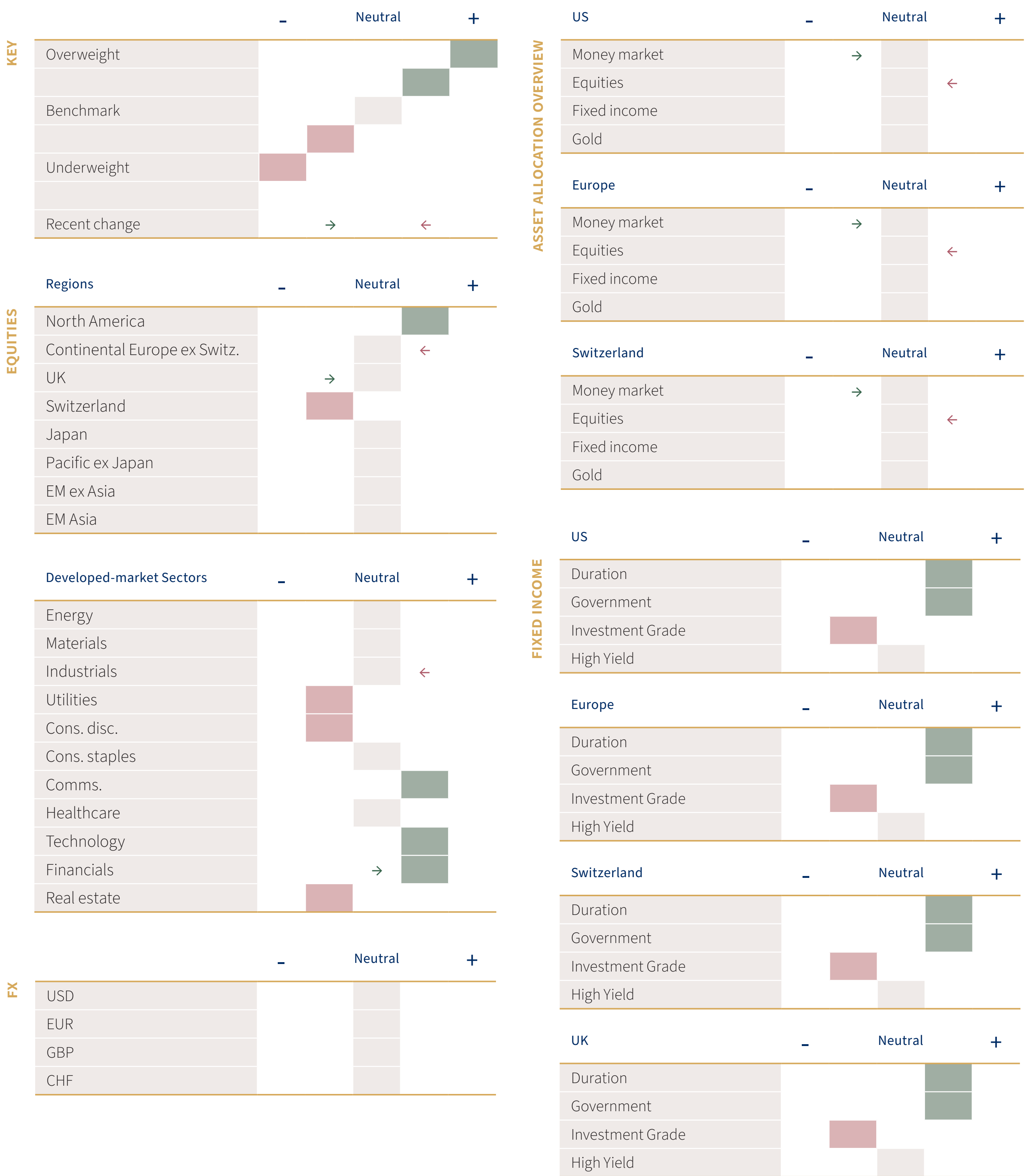
SELECTED DM SECTORS RETURNS (USD, YEAR TO DATE %)



Source: Rothschild & Co, DataStream, Bloomberg. Performance figures as of 11.28.2023
Past performance is not indicative of future performance and the value of investments and income from them can fall as well as rise

Rothschild & Co Asset Allocation

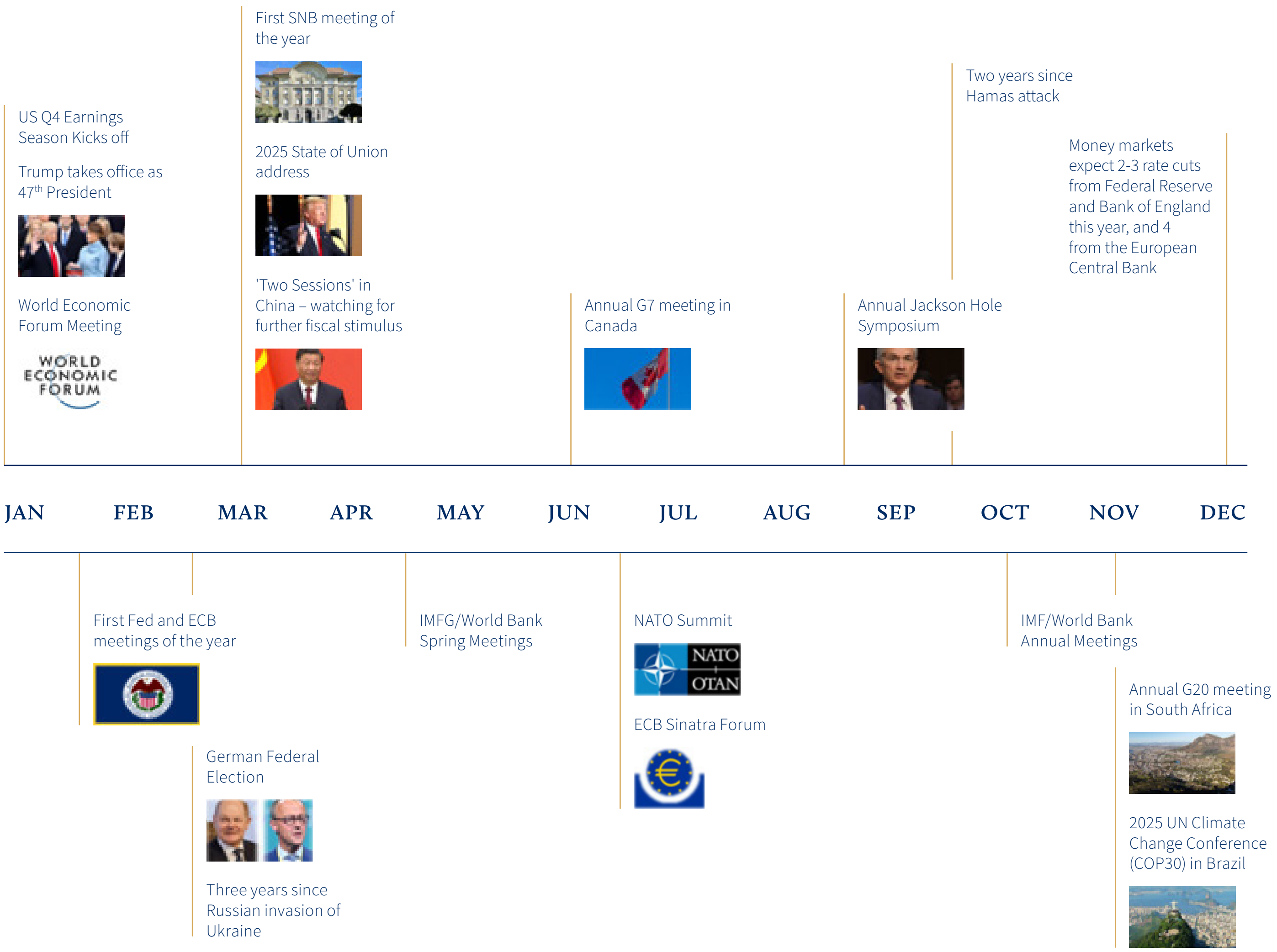
As of December 2024



Source: Rothschild & Co, Bloomberg
Past performance is not indicative of future performance and the value of investments and income from them can fall as well as rise

2025 timeline

Political and economic events calendar



Sources: Rothschild & Co, public domain
Past performance is not indicative of future performance and the value of investments and income from them can fall as well as rise

Street View – United States

US exceptionalism continues?

Rates & Credit

During 2024, US inflation showed progress towards the Fed's 2% inflation target and the labour market moved towards a more balanced level between demand and supply. This rebalancing justified significant rate cuts in the second half of the year. For 2025 and based on a still supportive macroeconomic environment, there is consensus that the Fed will continue with this cycle with further gradual rate cuts, at least during the first half of the year.

Nevertheless, there is also a shared opinion that tariffs and other reforms by the upcoming US administration might influence growth and inflation. As a result, some analysts see a potential pause by the Fed by mid-year, with a possible resumption in the second half of 2026. This pause in rate cuts would reflect the Fed's uncertainty about the effects of tariffs on the economy and might be a source of volatility.

Brokers also see different possible economic scenarios unfolding in 2025, particularly in the second part of the year. These scenarios differ in the extent of the impact of potential trade wars and fiscal policies on growth and inflation. Depending on these scenarios (ranging from overheating to recession) the performance in the various segments of the credit market might differ. In either scenario, however, analysts believe that bonds should outperform cash.

Furthermore, and despite these more extreme considerations, US Fed funds rates are expected to reach around 3.25%-3.50% by year-end in the base case scenarios. The expected forecast for the 10-year US Treasury yields is however very different depending on the respective analyt and lies in the 3.55%-4.25% range for 2025.

The outlook is overall constructive for corporate bonds in the year ahead. Some analysts seem comfortable with an overweight allocation to the lower quality segment of corporates (BBB bonds). Due to improved fundamentals, some other analysts even emphasize their positive stance in favour of the higher quality range of High-Yield bonds (below BBB). Concerning government bonds, a potential fiscal expansion (and its implication in an increased budget deficit) is seen as negative for the Treasury market by pushing yields higher, even if the Fed continues cutting rates in 2025.

As more significant rate cuts are expected during the first half of 2025 than in the second half, consensus also believes that yields will drop much more in the “front end of the curve”. Consensus favours fixed income investments with short to medium term maturities. Some brokers also consider adding positions to protect portfolios against inflation.

Equities

Brokers anticipate the US economic leadership to continue. Resilient economic growth, strong labour markets and monetary policy easing are expected to further support US equity markets.

Against this positive view on the US economy, most brokers remain overweight US equities within their global equity allocation and prefer the US over Europe and Emerging Markets in particular. In fact, there is only one broker reviewed who expects a negative return for the S&P 500 Index in 2025.

On the negative side, valuation is a key concern raised across the board but there is consensus that current valuations reflect strong fundamentals rather that exaggerated investor euphoria. Furthermore, uncertainty around future US policy (immigration, (de)regulation, tariffs, taxation, and fiscal policy) is considered the biggest risk for US equity markets as the timing, the scope and the impact of individual measures remains unknown.

The positive view on the US economy also drives preferred sector allocation where cyclical sectors like financials and AI-exposed utilities are most preferred. Consensus disagrees on the US energy sector which could benefit from deregulation but could also suffer from lower energy prices. Several brokers are underweight consumer discretionary because of the dependence on Chinese imports which may be impacted by tariffs.

Finally, the AI theme, especially the AI infrastructure buildout, is expected to remain a key driver of earnings growth in the US.

Street View – Europe

A difficult year ahead for Europe amongst political uncertainty, trade tensions, and structural challenges to the region's growth

Rates & Credit

Consensus shares an expectation for rate reductions by the ECB and BoE. These anticipated rate cuts are seen as supportive for bonds. Analysts remain therefore optimistic for longer durations in Europe and UK.

In Europe, brokers expect further interest rate cuts amid weaker growth. The ECB might cut consecutively 25 basis points at each monetary meeting. The target rate is projected at 1.75%, with room for further ECB cuts if needed. Some views prefer however German Bunds. Within Europe, analysts highlight differences. For example, among core countries and due to political tensions, French bonds are expected to suffer from pressures on credit spreads. Among satellite countries, Spain's strong economic performance suggests tighter Bonos against Bunds.

Given this weaker growth expectation and the need for continued rate cuts, brokers see European fixed income as attractive and recommend to own longer duration, particularly at the 5-year point, due to better risk-reward considerations. Some brokers favour a strategy which could consider both shorter and longer maturities (known as a "barbell strategy") with an overweight to single-A quality.

In the UK and as inflation should continue to fall, a quarterly path of 25 basis point rate cuts is also anticipated with a target rate of around 2.5%. Gilts are therefore expected to perform better in 2025 compared to 2024. In general, brokers have an overweigh allocation to UK Gilts and longer duration is suggested. Nevertheless, consecutive rate cuts should particularly support shorter maturities ("the front end of the yield curve"). The 10-year gilt yield is forecasted to settle at 3.60% by the end of 2025.

In general, brokers have a preference for eurozone corporates to sovereign bonds due to solid credit fundamentals. Spreads are tight both in Investment Grade and High Yield segments and are not expected to materially widen.

Equities

There is a general agreement that structural economic challenges as well as the risks and uncertainties arising from tariffs are clouding the outlook for European equities, especially compared to the US or Japan. Significant exposure to the Chinese economy is mentioned as another downside risk.

Given these significant risks and due to a combination of persistent growth and earnings downgrades, Eurozone equities are a consensus underweight or a neutral at most. Several brokers consider UK equities the better alternative in Europe as the UK is less sensitive to tariffs downside and given the defensive and high yielding nature of the UK equity market.

The potential for tariffs under a Trump administration is a key concern for European companies, particularly European cyclicals (like consumer discretionary and industrials) exposed to China. Consequentially, there is a preference for ex-China exposure and for companies with strong exposure to the domestic US economy and with production facilities in the US.

On the positive side, brokers mention valuations and investor positioning which are both already depressed. This could provide some downside cushion but also rebound potential once tariff risks, earnings risks and geopolitical risks are fading. Furthermore, monetary policy easing from the ECB is also broadly expected to support European equities.

While not part of the base case expectations, there are several wild cards mentioned that could provide a much more favorable environment for European equities: i) German elections and the potential for the relaxation of the debt rule, ii) a resolution to the war in Ukraine or the extent of US tariffs, ii) a clear trough in manufacturing, iii) a larger policy response from Europe (including fiscal) and iv) concern about US mega-cap tech returns which could trigger a reallocation.

In terms of sector allocation, Telecoms and Real Estate are consensus overweight by the major US brokers, motivated by the outlook of lower policy rates and little exposure to the above cited economic challenges.

Street View - Japan and Emerging Markets

Consensus favours Japanese equities, mixed views on EM

Rates & Credit

In 2024, the Bank of Japan executed its first-rate hike in 17 years and exited its negative interest rate policy. Given inflationary pressures driven by the domestic services component, economists expect another 25-basis point hike in January 2025, followed by semi-annual hikes until the policy rate reaches 1%-1.5% by the end of 2025. The Bank of Japan might also reduce the pace of purchases of JGBs until March 2026. The JGB yield curve is expected to flatten in 2025 from a current steeper shape. Some analysts suggest therefore avoiding shorter maturities in anticipation of yields moving higher more substantially in the "front end of the curve".

Lower US Treasury yields and a more benign inflation environment in general are seen as supportive for fixed income in Emerging Markets. Credit outperformance is expected in the first half of the year. Some analysts see a potential weaker USD in the second half of the year contributing further to EM debt in local currency. Overall, EM local rates are expected to fluctuate around 6%. However, trade tensions, a deterioration of the Chinese economy or even eventually an appreciation of the USD if US rate cuts slow more than expected, could have an impact on EM growth, inflation, fiscal and monetary policy. Therefore, uncertainties in this regard are seen as a clear risk and a potential source for volatility for EM bonds in the year ahead (for EM sovereign in particular). Consensus lacks conviction in this segment.

Equities

Japan and EM are probably the two most extreme broker views: a broad consensus overweight on Japanese equities on the one hand compared to very diverging views on Emerging Markets and China on the other.

For Japanese equities, the consensus conviction is driven by EPS growth, the tailwind of a weak yen, domestic reflation with improving real wage growth, accelerating buybacks and continued corporate reforms. On the international stage, Japanese corporations are expected to benefit from strong demand and favorable currency rates, particularly as the US economy remains robust under a second Trump administration. In addition, Japan seems to be less impacted by the tariff discussions on a relative basis.

While specific views and allocations to Emerging Market equities differ substantially, brokers generally agree that higher-for-longer rates and a strong USD deliver a challenging environment. In addition, EM equities are considered vulnerable to any escalation in the US-China trade outlook. EM equities are likely to react strongly to any announcements on the tariffs front, increasing volatility and capping re-rating upside. Against this challenging backdrop, one broker even considers EM equities the least-favoured market.

With respect to China, brokers disagree on the potential impact from policy stimulus. One broker notes that tariff risks and economic weakness are well priced now, whilst ongoing policy stimulus in China could help support domestic growth, contain financial and asset prices and have modest positive spillovers to the rest of the EM markets. For this broker, this warrants an overweight in Chinese equities. Another research house on the other hand further decreased allocation to China given the over-arching deflationary and low nominal GDP growth environment. One broker maintains a positive view on Chinese internet stocks, which could benefit from potential stimulus measures.

Finally, one broker sees value in diversified Asia ex-Japan, where Korea's and Taiwan's exports, crucial to global supply chains, are less likely to be affected by tariffs owing to their non-substitutable nature. India offers a compelling domestic growth story.

Forecasts - Equities

End-2025 targets

EQUITIES - US AND EUROPE

	US Equities	Upside	European Equities	Upside
J. P. Morgan	6,500	+7%	300	+2%
Goldman Sachs	6,500	+7%	530	+3%
Morgan Stanley	6,500	+7%	2,150	+5%

Forecasts as of November 2024, spot prices as of close **13.12.2024**
For US:
S&P500 Index as of close, spot price = **6,051**
For Europe:
J.P. Morgan uses MSCI Eurozone Index, spot price = **294**
Goldman Sachs uses STOXX Europe 600 Index. Spot price = **516.45**
Morgan Stanley uses MSCI Europe Local Index. Spot price = **2,050**

EQUITIES - JAPAN AND EM

	Japanese Equities	Upside	EM Equities	Upside
J. P. Morgan	3,000	+9%	1,150	+4%
Goldman Sachs	3,100	+13%	1,200	+8%
Morgan Stanley	3,000	+9%	1,100	-1%

Forecasts as of November 2024, spot prices as of close **13.12.2024**
For Japan:
Index used is Topix, spot price = **2,746.56**
For EM:
Index used is MSCI Emerging Markets = **1,107.01**

Forecasts – Rates & Credit

End-2025 targets

	10y US Treasuries	10y Bunds
J. P. Morgan	4.25%	2.05%
Goldman Sachs	4.25%	1.90%
Morgan Stanley	3.55%	1.65%

Current level as of 13.12.2024: 4.39% US 10 year, 2.25% Bund 10 year
Targets as of November 2024
Past performance is not indicative of future performance and the value of investments and income from them can fall as well as rise

CREDIT SPREAD FORECASTS (CURRENT → TARGET)

	US Investment Grade	US High Yield	EUR Investment Grade	EUR High Yield
J. P. Morgan	96 → 80 [1]	308 → 325 [1]	119 → 130 [1]	369 → 400 [1]
Goldman Sachs	82 → 85 [2]	285 → 300 [2]	118 → 125 [2]	332 → 350 [2]
Morgan Stanley	55 → 110 [3]	210 → 425 [3]	80 → 160 [3]	275 → 550 [3]

[1] JP.Morgan. 2025 Year Ahead Outlook. Global Research. 3-December- 2024
[2] Goldman Sachs. 2025 Global Credit Outlook, Pricey, unlikely to cheapen, 19-November-2024.
[3] Morgan Stanley. 2025 Global Strategy Outlook-Timing is Everything, 17-November-2024

2025 TOTAL RETURN FORECASTS PER CREDIT SEGMENT

	Japanese Equities	Upside	EM Equities	Upside
J. P. Morgan	8.0% [1]	5.1% [1]	4.5% [2]	5.0% [3]
Goldman Sachs	5.3% [3]	6.1% [3]	4.3% [3]	5.8% [3]
Morgan Stanley	10.6% [4]	8.3% [4]	5.8% [4]	5.7% [4]

[1] J.P.Morgan: 2025 Outlook, US Fixed Income Markets, 26 November 2024
[2] JP.Morgan. 2025 Year Ahead Outlook. Global Research. 3-December- 2024
[2] JP.Morgan. Strategy 2025, European Credit Outlook, 13 November 2024
[3] Goldman Sachs. 2025 Global Credit Outlook, Pricey, unlikely to cheapen, November-2024. .
[4] Morgan Stanley. 2025 Global Strategy Outlook-Timing is Everything, 17-November-2024

Street View – Commodities

Both the positive and negative macro scenarios illustrated by brokers would be good for gold. A surplus on the oil market could put pressure on oil prices.

Gold has had another strong year, with physical demand and the start of a rate-cutting cycle acting as tailwinds. The gold price has risen +28% since the beginning of 2024, bringing its 2-year performance above +50%.

The consensus view is for an extension of the rally. Central bank demand, especially in Emerging Markets, is expected to remain a positive catalyst for gold, even though one broker with a more nuanced outlook points to the weakening of this major price driver. Falling real yields, with the pursuit of the Fed cutting cycle, would bode well for gold. In this scenario brokers expect inflows into gold ETFs to exacerbate the upward move of the ounce price. Alternatively, in a more disrupted scenario, one or more of the following ingredients – trade tariffs imposed by the US and the resulting trade tensions, sovereign deficit risk, stickier or stronger inflation – could benefit gold as well.

On oil, while the market currently appears close to equilibrium, the prospect of supply growth versus a weakening demand is expected to lead to a surplus configuration in 2025 and 2026. Such an imbalance would be a headwind for the oil price. High spare capacity and additional supply coming from non-OPEC countries could exert pressure on prices. Expected trade tariffs imposed by the US are a source of uncertainty for global demand. Nonetheless, consensus points to oil as a geopolitical hedge should the US adopt a tougher stance towards Iran/Russia, or should tensions in the Middle-East lead to supply disruptions.

2025 FORECASTS

	Q4 25 Target WTI	Upside
J. P. Morgan	$64	-10%
Goldman Sachs	$69	-3%
Morgan Stanley	-	

	Q4 25 Target WTI	Upside
J. P. Morgan	$68	-9%
Goldman Sachs	$73	-2%
Morgan Stanley	$66	-11%

	Q4 25 Target WTI	Upside
J. P. Morgan	$2,952	+11%
Goldman Sachs	$3,000	+13%
Morgan Stanley	$2,600	-2%

Forecasts as of November 2024, spot prices as of **13.12.2024: WTI: $71.29 Brent: $74.49 Gold: $2648**

Street View - Foreign Exchange

Long USD, short EUR

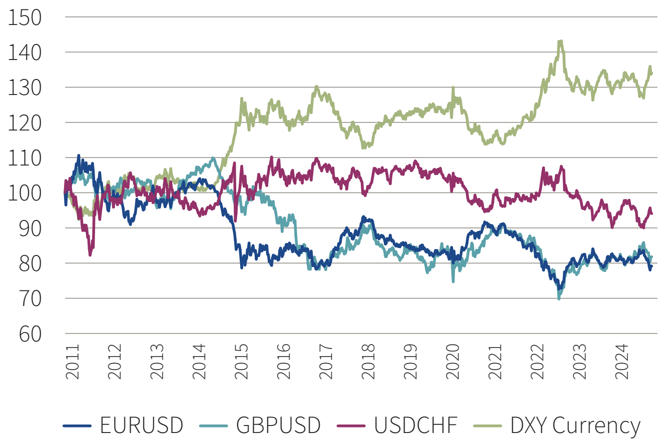
Consensus expects continued USD strength in the first half of 2025, reflecting the ongoing resilience of the US economy. US policy changes, including tariffs and fiscal measures, are further expected to support the USD by increasing the cost of imports while boosting domestic business activity. This shift in policy is expected to make the USD more attractive to global investors, reinforcing its already strong valuation. As tariffs weigh on currencies in Emerging Markets and other major economies, the USD is projected to maintain its strength. One broker cautions that falling real rates in the US would be negative for the USD in H2.

The Euro is expected to face continued downward pressure. The Eurozone's economic vulnerabilities, compounded by uncertainty around global trade policy, are expected to weigh heavily on the currency. Despite a relatively low starting point for the Euro, a shift towards protectionism and further tariff risks could push EUR/USD lower.

The British Pound has been resilient in 2024, supported by a strong UK fiscal policy and sustained growth expectations. The UK's recent budget expansion and growth-driven momentum are expected to continue supporting GBP. However, risks from European growth and global trade policy uncertainty could weigh on Sterling, particularly in relation to the Euro. While the Pound is expected to outperform the Euro due to better UK growth prospects, it may struggle against the stronger USD as the Fed slows its rate cuts and the US economy continues to lead.

The outlook for the JPY is mixed. Some expect the yen to remain under pressure as the US economy outperforms, with higher yields and stronger growth driving further JPY depreciation against the USD. Others see the JPY as a potential outperformer if the Fed turns more dovish and US real rates decline. In terms of risks to the dollar yen cross, analysts cite unexpected US growth concerns and subsequent carry trade unwinds, outweighing the impact of central bank currency interventions or rate hikes. While interventions or a hawkish BoJ moves may trigger short-term rallies, they are unlikely to last without significant changes in the global macroeconomic environment.

EXCHANGE RATE DEVELOPMENT



2025 FORECASTS

	EUR/USD	GBP/USD	USD/CHF	USD/JPY
J. P. Morgan	1.08	1.31	0.90	156
Goldman Sachs	1.03	1.24	0.93	155
Morgan Stanley	1.10	1.24	0.96	146

Forecasts as of November 2024 for J.P. Morgan, Goldman Sachs and Morgan Stanley
Spot prices as of **13.12.2024: EUR/USD 1.05, GBP/USD 1.26**, USD/CHF 0.89, USD/JPY 153
Past performance is not indicative of future performance and the value of investments and income from them can fall as well as rise.

Notes

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Note: We select, when available, the closest target to the end of 2024, depending on the counterparty (stated as end of 2024, 4Q2024, 12-month forecast or, alternatively, 2H2024). Forecasts might be changed by counterparties depending on market circumstances.

Terminology

BoE = Bank of England
BoJ = Bank of Japan
DM = Developed Markets
ECB = European Central Bank
EU = Europe
EM = Emerging Markets
EPS = Earnings per Share
Fed = Federal Reserve
FX = Forex
GDP = Gross Domestic Product
GER = Germany
HY = High Yield
IG = Investment Grade
OPEC = Organization of the Petroleum Exporting Countries
Magnificent Seven Stocks = Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, Tesla
P/E = Price to Earnings ratio
YTD = year to date
Consensus / the "Street" refers to J.P. Morgan, Morgan Stanley and Goldman Sachs only for the purpose of this paper

Important information