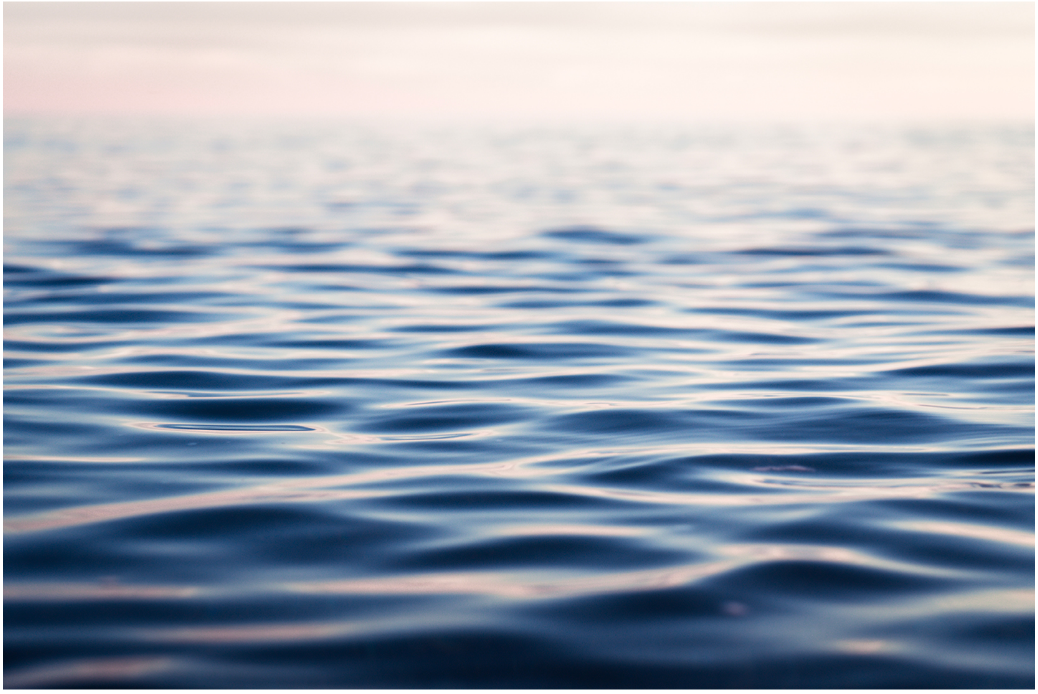
December 27, 2024

BIL Investment Outlook 2025 – Tides of change



Introduction from our Group Chief Investment Officer,
Lionel De Broux

As the oldest private bank in Luxembourg, we've been managing clients' wealth for generations, and we know that the best things are built over time. This belief seeps down into our investment philosophy, which is guided by three key principles: **stability, adaptability** and **performance.**

Stability references the fact that we are long-term investors guided by robust strategic asset allocation guidelines, which help ensure adequate diversification at all times. However, that does not mean that we take a laissez-faire or hands-off approach. You have to think of an investment strategy as being like a large tanker ship at sea. If it veers off course even slightly, the ultimate destination could be totally different than intended. As such, our experts are continually scanning the horizon, making sure that we **adapt** our strategy as and when needed, in order to keep moving towards our long-term investment objectives, despite changing conditions. The North Star guiding every investment decision that we take is **performance** for our clients. This is fostered through a process-driven approach, as well as our independent status.

Looking back at 2024, it was an exceptional year on many fronts.

In the macro sphere, global economic growth remained resilient despite higher rates put in place to keep inflation at bay. US exceptionalism persisted, with consumers driving the bulk of growth, while Europe was left in its wake, caught in a whirlpool of structural and cyclical issues. China, the world's second largest economy, struggled to meet its growth target amid the ongoing real estate downturn and weak domestic demand.

Equity markets have enjoyed an exceptionally prosperous period over the past two years. In 2023, they recorded an impressive performance, rising by around 20%, and this momentum continued in 2024 with a meteoric rise in stock indices. In September, the Fed's bumper interest rate cut marked a watershed moment, allowing the stock market rally to broaden out beyond the usual suspects with an AI halo. Equity indices in both the US and Europe enjoyed new all-time highs, with the S&P 500 crossing the symbolic threshold of 6,000 points.

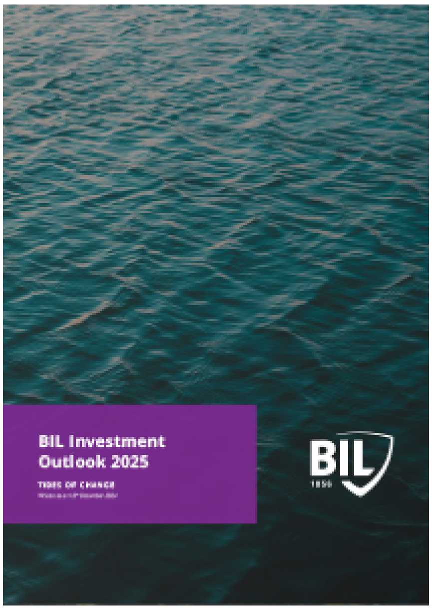
However, as we enter 2025, a certain nervousness is beginning to be felt among investors.

Valuations are stretched and heightened geopolitical tensions make for choppy waters. Moreover, the election of Donald Trump and the red sweep across the US Congress promises a sea-change in the global macro and market outlook. His proposed trade policies could bring headwinds for key trading partners while rekindling inflation at home, as costs are passed onto US buyers. In anticipation of an inflationary agenda and a larger deficit, traders have already pushed the US yield curve further up above sea level while tempering optimism about the Fed's easing cycle.

This Outlook outlines our investment strategy as we move into the new year, given the context. We explore several investment ideas but from those, we take the opportunity to highlight **three main ports of call** for 2025:

- **US equities,** focusing on small caps, industrials, and financials. AI should be thought of as a strategic play
- **Active management** – given ongoing concentration risk, 2025 could be the year when active equity managers shine relative to passive products. When it comes to fixed income, we advocate active management of duration. The growth landscape differs markedly between the US and Europe and divergent monetary policies on either side of the Atlantic will impact expected returns for fixed income assets, opening up opportunities for arbitrage
- **Credit for income generation** - favourable technicals and the persistent quest for yield should keep corporate bonds supported into the New Year. Investors seeking to enhance income might consider complimenting investment grade exposure by selectively targeting quality high-yield bonds

Read the full document in English: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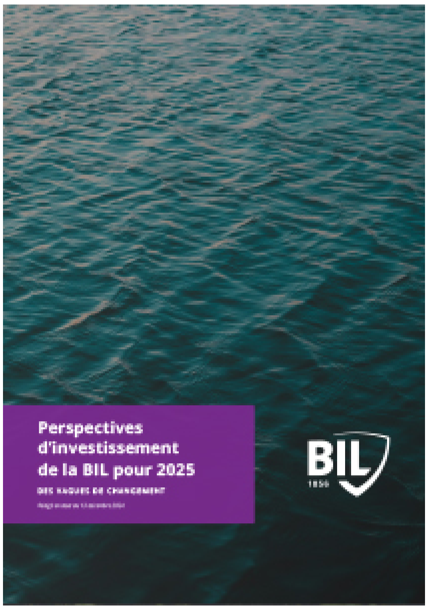
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