# Compass

1st Quarter 2025

Technology stocks driving the equity market rally

The impact of tariffs on international trade

Make America Great Again 2.0

Your wealth, our responsibility.

# Financial markets 2024 – The calm before the storm?

The year 2024 was characterised by strong financial markets, which generated substantial returns despite geopolitical tensions and economic uncertainties. Technology stocks played a key role, driven by investments in artificial intelligence and digitalisation. US tech companies dominated the MSCI World Index and contributed significantly to global equity market performance. Gold and Swiss real estate benefited from falling interest rates and rising yields, while the materials sector fell short of expectations due to the slow recovery of the Chinese economy.

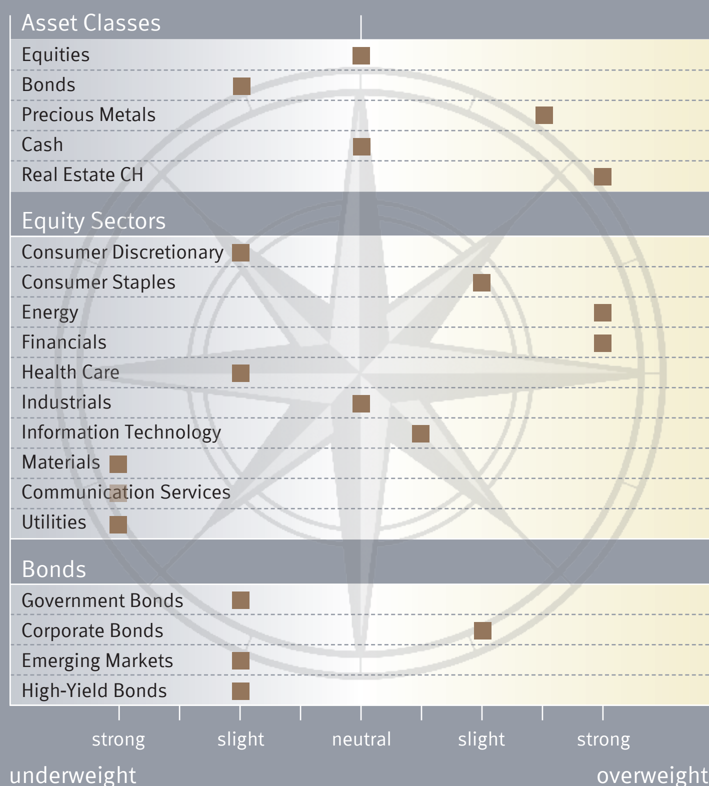
One of President Trump's most important election promises was the introduction and increase of tariffs on various goods. Tariffs raise the prices of foreign products and support domestic companies, but they can also disrupt global supply chains and intensify trade conflicts. Industries that rely on imported intermediate goods, such as the automotive and electronics industries, are particularly vulnerable. New protectionist measures could have a lasting impact on the global economy. While some sectors benefit from deregulation and tax cuts, others are confronted with rising production costs and trade barriers. The balance between protectionism and market stability will be crucial for future growth.

## Investment opportunities in an uncertain environment

While inflation has normalised worldwide, economic conditions remain heterogeneous across countries. The US economy remains robust, while Europe and China are only showing cautious signs of recovery. The moderate slowdown on the US labour market and the normalisation of rents should continue to dampen core inflation. In addition, the probability of a recession in the US in the coming year remains low.
The Federal Reserve's interest rate policy remains restrictive, although market expectations for the Fed Funds Rate are now higher than the Federal Open Market Committee's forecasts. In Europe, political uncertainty, particularly in France and Germany, is causing a reluctance to invest.

Cautious optimism prevails in equity markets despite the high valuations of US mega caps. Selective investment decisions remain key. The positive performance of defensive investments such as gold and Swiss real estate underlines their strategic relevance, particularly in an environment characterised by uncertainty. Within bonds, we continue to recommend high quality corporate bonds. Given the challenging global market environment, defensive positioning with carefully selected, solid investments remains crucial.

Asset allocation recommendation as of January 1st, 2025 for investors with CHF as their reference currency.

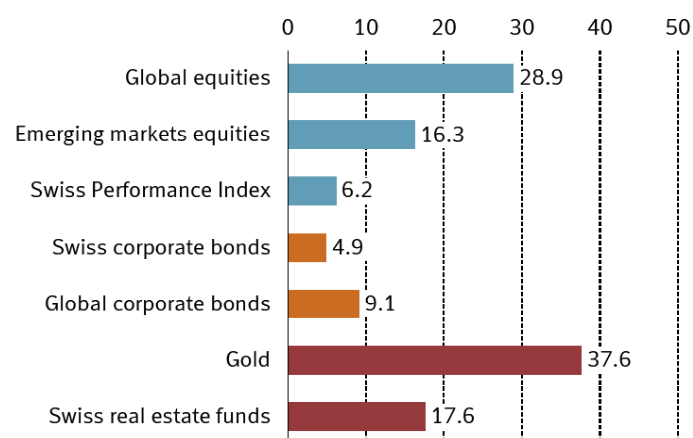


| | strong underweight | slight underweight | neutral | slight overweight | strong overweight |
|---|---|---|---|---|---|
| **Asset Classes** | | | | | |
| Equities | | | ■ | | |
| Bonds | | ■ | | | |
| Precious Metals | | | | | ■ (between slight and strong) |
| Cash | | | ■ | | |
| Real Estate CH | | | | | ■ |
| **Equity Sectors** | | | | | |
| Consumer Discretionary | | ■ | | | |
| Consumer Staples | | | | ■ | |
| Energy | | | | | ■ |
| Financials | | | | | ■ |
| Health Care | | ■ | | | |
| Industrials | | | ■ | | |
| Information Technology | | | ■ (between neutral and slight) | | |
| Materials | ■ | | | | |
| Communication Services | ■ | | | | |
| Utilities | ■ | | | | |
| **Bonds** | | | | | |
| Government Bonds | | ■ | | | |
| Corporate Bonds | | | | ■ | |
| Emerging Markets | | ■ | | | |
| High-Yield Bonds | | ■ | | | |

# Basic Trend:
# Technology stocks driving the equity market rally

## Basic Trend 1:

Performance 2024 by asset class in percent (CHF)

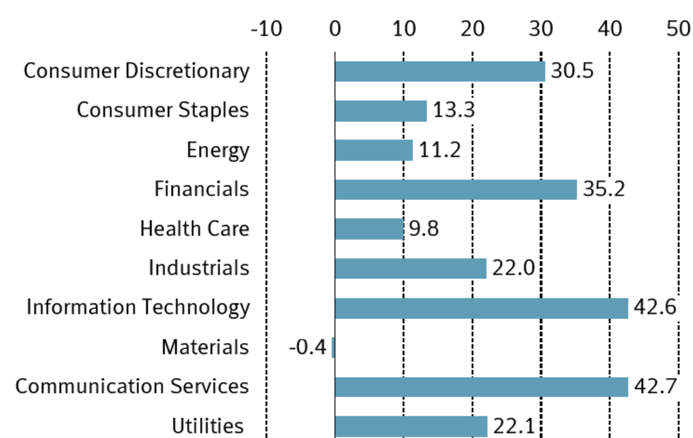



### A strong year despite some challenges

Last year, financial markets built on the positive momentum of 2023. Despite geopolitical tensions and economic uncertainty, interest rate cuts, easing inflation and stable corporate earnings provided tailwinds. Global equities generated an impressive return of 28.9%. Gold benefited from investors' growing concerns about the sustainability of government debt on both sides of the Atlantic. Calculated in Swiss francs, the precious metal recorded its best annual performance since the second oil crisis in 1979 at 37.6%. Swiss real estate also recorded an exceptionally high return of 17.6% as interest rates fell and rental income rose. Swiss corporate bonds rose by around 4.9%, while global corporate bonds gained over 9%.

## Basic Trend 2:

Performance 2024 by equity sector in percent (CHF)

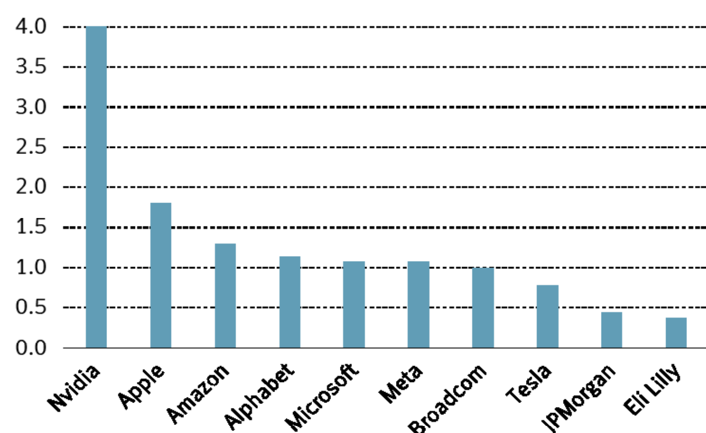



### Technology equities are the main drivers

Over the past year, technology stocks in particular have given a considerable boost to global equity markets, driven by increasing investment in artificial intelligence and ongoing digitalisation. Companies in the information technology and communication services sector generated the highest returns at around 43%. The financial sector was also among the winners. Robust consumer sentiment and a growing willingness to invest led to widespread price gains. The materials sector was the worst performing sector last year. The main reason for this was the hesitant recovery of the Chinese economy, which fell short of expectations despite government stimulus measures.

## Basic Trend 3:

Share in the MSCI World Index performance in percent (CHF)

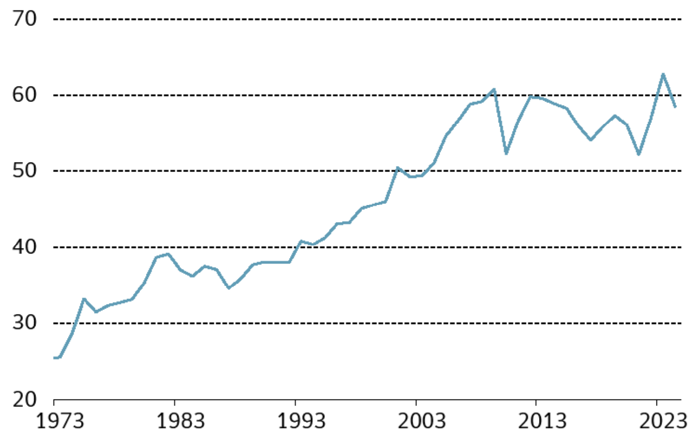



### Performance drivers of the MSCI World Index

The dominant performance drivers in the MSCI World Index were the major US technology companies. Nvidia led the way with a performance contribution of 4% and an impressive total annual return of 193%. Followed by Apple, Amazon, Alphabet, Microsoft, Meta, Broadcom and Tesla. This means that all seven leading US technology companies, the so-called «Magnificent Seven», are among the top ten performance drivers. Together, they account for over a third of the total return of the MSCI World. This illustrates the high concentration of global equity performance on a small number of companies. One of the reasons for this exceptional performance is the market expectation regarding artificial intelligence. Many companies are investing heavily in the new technology, expecting it to stimulate growth and provide long-term strategic advantages.

# Knowledge & Experience:
# The impact of tariffs on international trade

## Knowledge & Experience 1:
Global trade as a percentage of global GDP

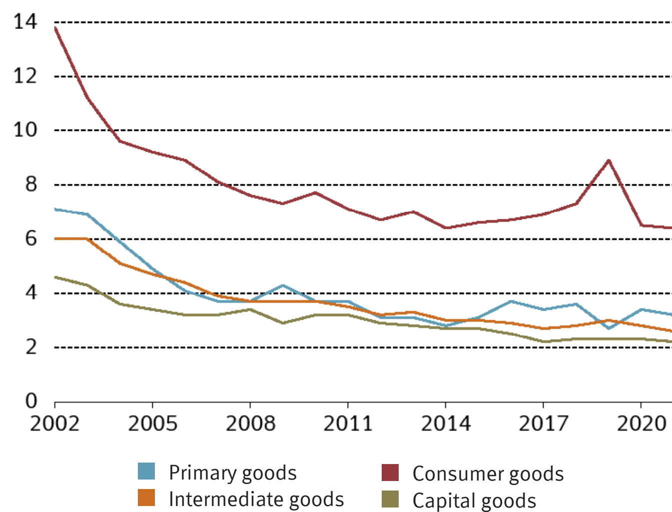



## Tariffs – a double-edged sword

Tariffs are taxes on the import or export of goods. Their purpose is to protect domestic companies by increasing the price of foreign products and thus strengthening the competitiveness of domestic companies and products. At the same time, they generate additional revenue for the government. But tariffs also have some drawbacks: They hurt consumers and companies that rely on foreign raw materials or components. They can also slow down international trade, trigger trade conflicts and weigh on the global economy. In the long run, tariffs can also impede innovation, as protected companies have less pressure to evolve. Tariffs are therefore a double-edged sword – protecting some and harming others.

## Knowledge & Experience 2:
Source: World Bank, WITS

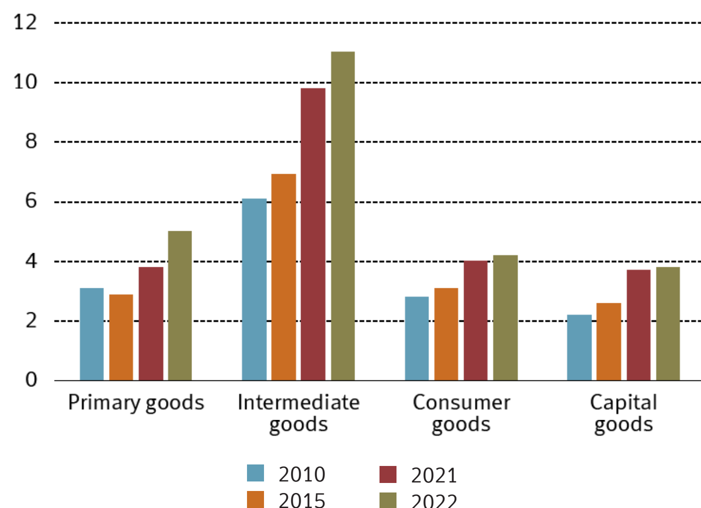
Average import tariffs of the production stages in percent




## Global trade flows

International trade comprises goods at different stages of production: Primary goods, intermediate goods, capital goods and consumer goods. Primary goods, such as raw materials, are linked to the availability of natural resources and are essential for many importing countries. Tariffs therefore often play a subordinate role. Intermediate goods, such as semiconductors and vehicle parts, are key components of global production processes, which is why tariffs can be particularly disruptive. Capital goods such as machinery and equipment, which increase production capacity, are rarely the focus of tariffs. In contrast, consumer goods such as clothing or electronics, which often compete directly with domestic products, are frequently subject to tariffs.

## Knowledge & Experience 3:
Global trade in goods by processing stage in USD trillion




## Impact of US tariffs on sectors

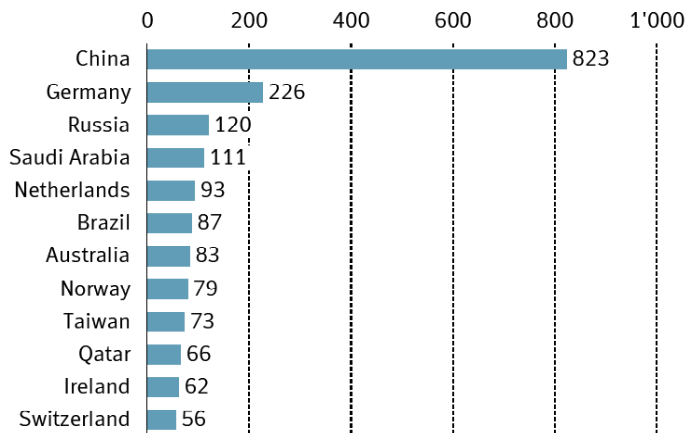
Intermediate goods account for the largest share of global trade and play a central role in the global production process. Some sectors are more dependent on imports of intermediate goods and are therefore more sensitive to the introduction or increase of tariffs than others. Particularly affected are the sectors information technology, consumer discretionary and industrials, which rely on imported inputs for a significant portion of their value creation. By contrast, utilities and financials are less vulnerable as they provide most of their services locally and are less reliant on cross-border supply chains. In general, sectors with low margins and high import quotas are particularly vulnerable to tariffs.

# Current Topic: Make America Great Again 2.0

## Current Topic 1:

Trade balance surplus in USD billion

Source: WTO

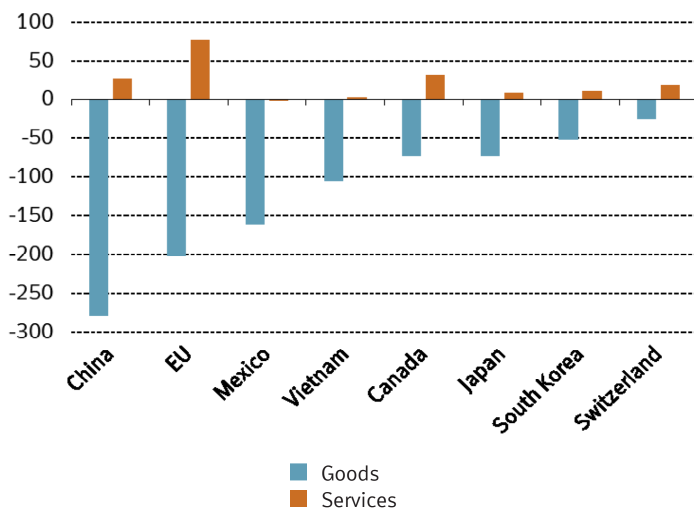



## Trade balances and their significance

The trade balance measures the difference between a country's exports and imports of goods. Countries with a trade surplus are characterised by a strong export economy based on competitive companies or natural resources. However, persistently high surpluses can lead to tensions in international trade, as trading partners with deficits may perceive their position as unfavourable. These countries may find it difficult to export their products, which can weaken their economies and put jobs at risk. Such asymmetries are often at the heart of international trade conflicts and require political and economic action to ensure fair and sustainable trade relations.

## Current Topic 2:

US current account balance in USD billion

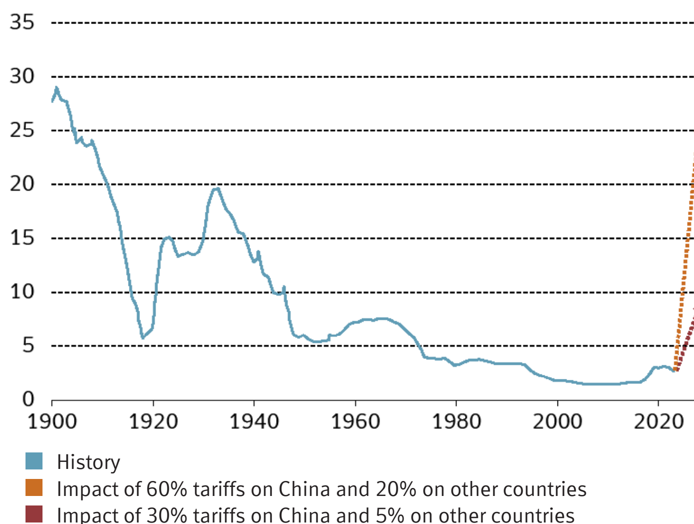



## US current account deficit: a special case

The US has the world's largest current account deficit, which is primarily due to a considerable deficit in trade in goods. Although it has an export surplus in services – particularly in tourism, financial and consulting services – this cannot compensate for the deficit in trade in goods. The deficits with China, the EU and Mexico are particularly pronounced. Given the size of the US economy and the role of the US dollar as the world's reserve currency, the US can sustain this persistently high deficit without major consequences for the time being. Nevertheless, efforts are being made to reduce the imbalances, for example by introducing tariffs.

## Current Topic 3:

Average US tariffs in percent




## Trump must make compromises

In addition to tariffs, Trump announced other policies, including deregulation, a reduction in bureaucracy and tax cuts. These could boost economic growth by reducing costs for businesses and incentivising investment. In contrast, tariffs and mass deportations of people without a residence permit could have inflationary and growth-inhibiting effects by raising import costs and reducing labour supply. However, overly drastic interventions that would slow down the economy are unlikely. This is because Trump sees the equity market as an indicator of his political success and radical measures could trigger negative market reactions. It therefore remains to be seen to what extent he will implement his announcements. Until then, these announcements will serve primarily as strategic negotiating tools.

The prices used in our analysis are end-of-period prices. The figures used for our valuation model are estimates referring to dates and therefore carry a risk. These are liable to change without notice. The usage of valuation models does not rule out the risk that fair valuations over a specific investment period cannot be attained. A complex multitude of factors influences price developments. Unforeseeable changes could, for instance, arise from technological innovations, general economic activities, exchange-rate fluctuations or changes in social values. This discussion of valuation methods makes no claim to be complete.

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Dreyfus Sons & Co Ltd, Banquiers
Aeschenvorstadt 16 | P.O. Box | 4002 Basel | Switzerland
Telephone +41 61 286 66 66

contact@dreyfusbank.ch | www.dreyfusbank.ch