2025 Global Markets Outlook

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JANUARY 2025

2025 Outlook: Trump 2.0 will shape macro and market developments

President Trump and his supporters' goals of reshaping global trade and economic relations to the benefit of the US have gained traction after his election win and the Republican sweep of Congress. Trump has promised minimum 60% import tariffs on China and 10-20% on all other countries as he attempts to increase US manufacturing and raise revenues for a federal budget that recorded a $1.8 trillion deficit in 2024. The question for global markets is whether Trump 2.0 will keep his campaign promises or be more similar to Trump 1.0, with initial tariff threats ultimately leading to trade deals. Investors seem to be assuming that Trump 2.0 will be reasonable and focused on deal-making as he will not want to disrupt financial market performance. While we generally agree, we believe no one should be surprised if Trump decides to do what he has promised, even if this could disrupt financial markets, as the next two years of the incoming Congress offers a once in a lifetime opportunity to change the structure of the US and global economy. Uncertainty about what he will actually implement means high market volatility over the coming year.

"America First" drives continued US outperformance

The US economy has been stronger than most other economies since the pandemic due mainly to robust consumer spending. While growth is expected to slow in 2025 and in the coming years, "America First" policies should mean the US continues outperforming in most scenarios. Our base case assumes Trump implements some tariffs against China and the rest of the world in a strategic manner. Extending the 2017 tax cuts and deregulation boost growth but immigration restrictions and an increase in deportations reduce growth. The net impact is GDP growth around 2.2% in 2025, slowing to around 2% in the years after. More deal-making and less tariffs could mean an upside scenario for the US and the global economy with US growth in the 2.5% range for the coming years, but we believe this is the least likely scenario. On the downside scenario, Trump is more aggressive on tariffs which leads to retaliation by the other countries and ultimately leads to a global trade war. This would likely mean a quick fall into a global recession, depending on the timing of the tariffs.

China will be one of the main targets for tariffs and other trade restrictions. The nearly $300 billion trade surplus with the US will be in focus. But tariffs are not the only concern for China. China is already dealing with a weak housing market, weak consumer spending, and declining population. Trade tensions could lead to even slower growth. The government has already stated that it will be increasing stimulus and we believe it will do whatever is necessary to prevent a crash in the economy. Our base case assumes GDP growth of 4.5% in 2025 and in the 4-4.5% range in later years as an increase in tariffs is offset by large-scale government stimulus.

Europe looks weak in any scenario. Eurozone GDP has grown just 4.7% in total since the end of 2019 compared to the US which has grown 11.5%. Germany has not grown at all during this time. The recent political disruptions with the French government collapsing and Germany set for

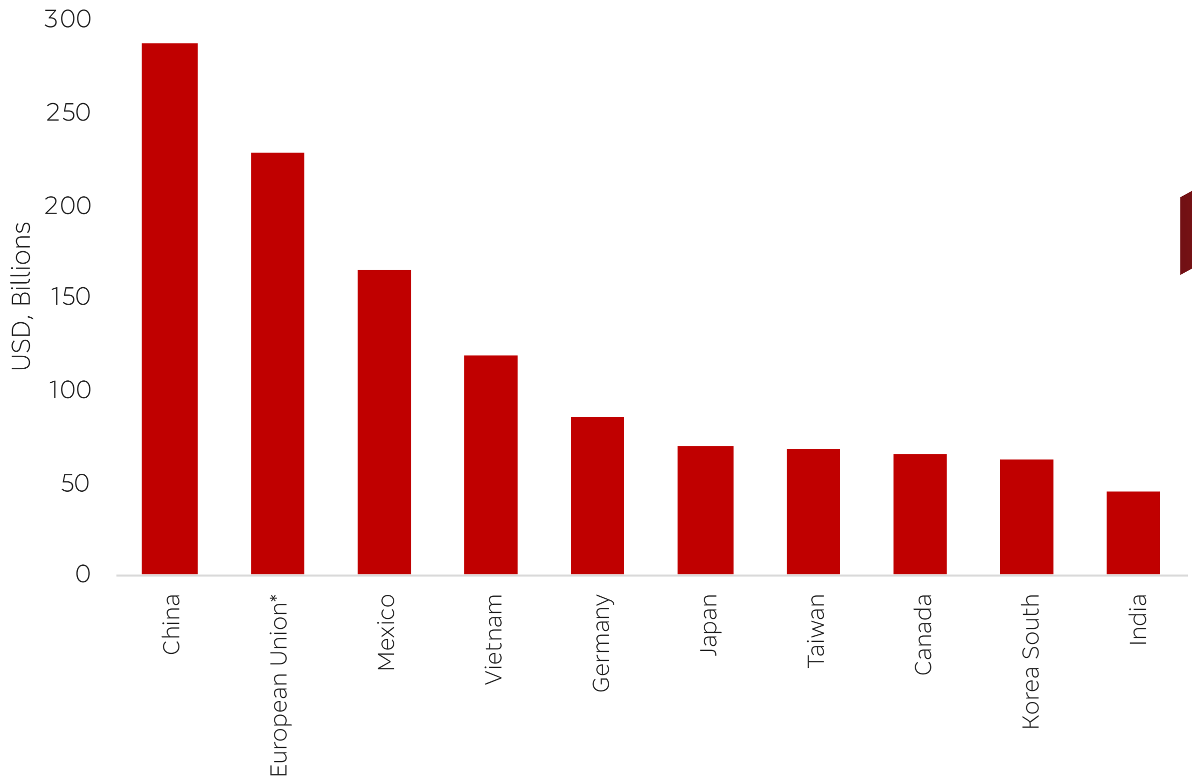
Source: Bradesco, Bloomberg

elections in February show a coordinated response to anemic economic growth is unlikely. Europe will not be spared US tariffs and will also suffer from any weakness in China as it is a key export destination. Trump is also expected to reduce US military commitments worldwide which means Europe will need to spend more for its own defense, leaving less fiscal room for stimulus. Our base case scenario sees Europe growing less than 1% in 2025 and around the 1% range in later years, even in an upside scenario. A downside scenario of a global trade war would hit Europe particularly hard with the lowest growth of any major region.

Other Emerging Market countries could benefit if Trump follows a more measured path. If our base case scenario holds, tariffs could benefit EMs as companies move production away from China and closer to the US, though moving production into new countries could take time and EMs will likely face some tariffs as well. Trump's proposed mass deportation would not only negatively affect the US, but it would also mean less remittances, which can be a vital source of growth for EMs. We expect that Trump will go ahead with some deportations but not to the extent that he initially proposed. In our base case, EMs including China growth averages 4% over the next five years. However, we assume that while China may outpace other EMs over the short-term thanks to stimulus measures, other EMs will do better over the longer-term as China is unable to fully resolve their structural issues.

Trump will seek to rebalance trade with countries with large trade imbalances

(USA net trade deficit, 12 months to October 2024)



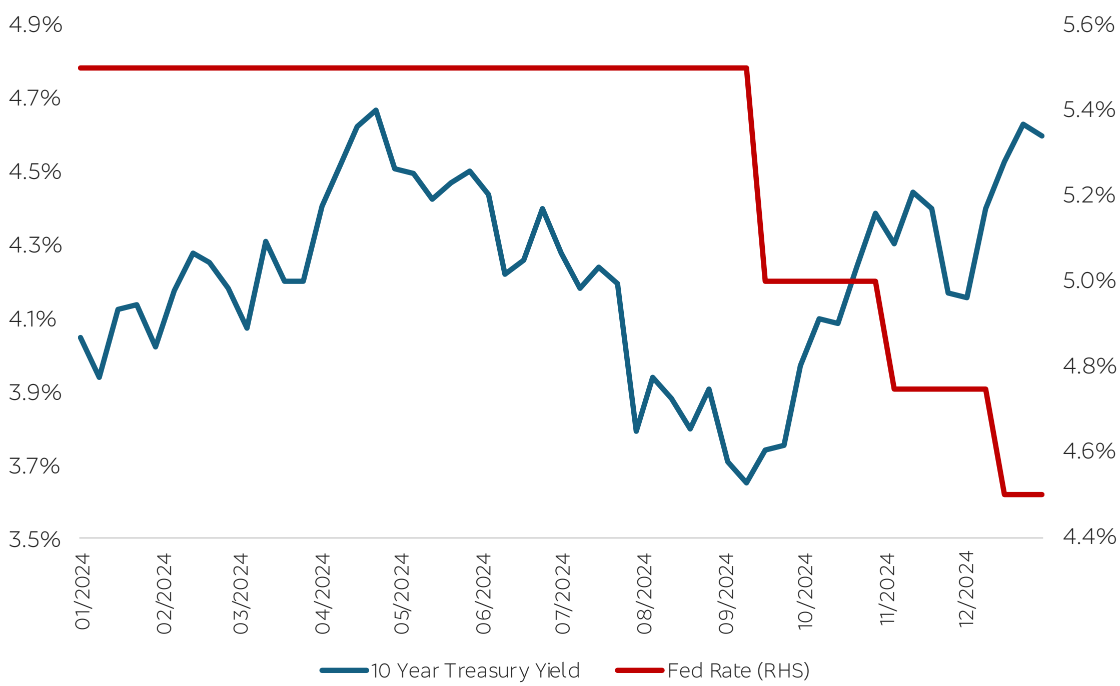
Source: Bradesco, Bloomberg

Higher for longer rates, economic adjustments drive market returns

Global inflation has steadily declined from above 10% in 2022 to around 4.5%, although it has remained steady for the past 4 months. The US followed a similar trend as US Core inflation has declined to the 3% range but has been holding steady since mid-2024. The US Fed indicated that it may cut rates by 0.50% in 2025, down from its previous outlook for 1.0% in cuts, with continued strength in the US economy and concerns about higher inflation as the reasons for the changes. As well as current stubbornly high inflation, Fed officials also seem to be concerned about possible inflationary policies the Trump administration may implement. Our base case assumption is for the Fed to cut rates by a further 0.50% in the first half of 2025 and then pause. This leads to a higher for longer rate scenario and means fixed income yields will not decline as much as previously expected. This offers the opportunity to gain steady returns from the higher yield levels, but also means less potential for price gains on the bonds (falling yields mean rising prices in fixed income).

Short-term notes (USD up to 3 years) should be able to generate close to 4% returns in the coming years as higher yields for longer allows steady income generations. High Yield bonds are still yielding close to 7% returns and this could continue as long as economic growth continues. Returns for Government Bonds and Investment Grade bonds also benefit from higher yield levels but we had previously assumed declining yields would boost returns for these asset classes due to price appreciation. This is no longer the case, and the risk is that yields drift even higher due to rising inflation and this would negatively impact Government and Investment Grade bonds the most.

Treasury yields are increasing despite lower interest rates on inflation expectations



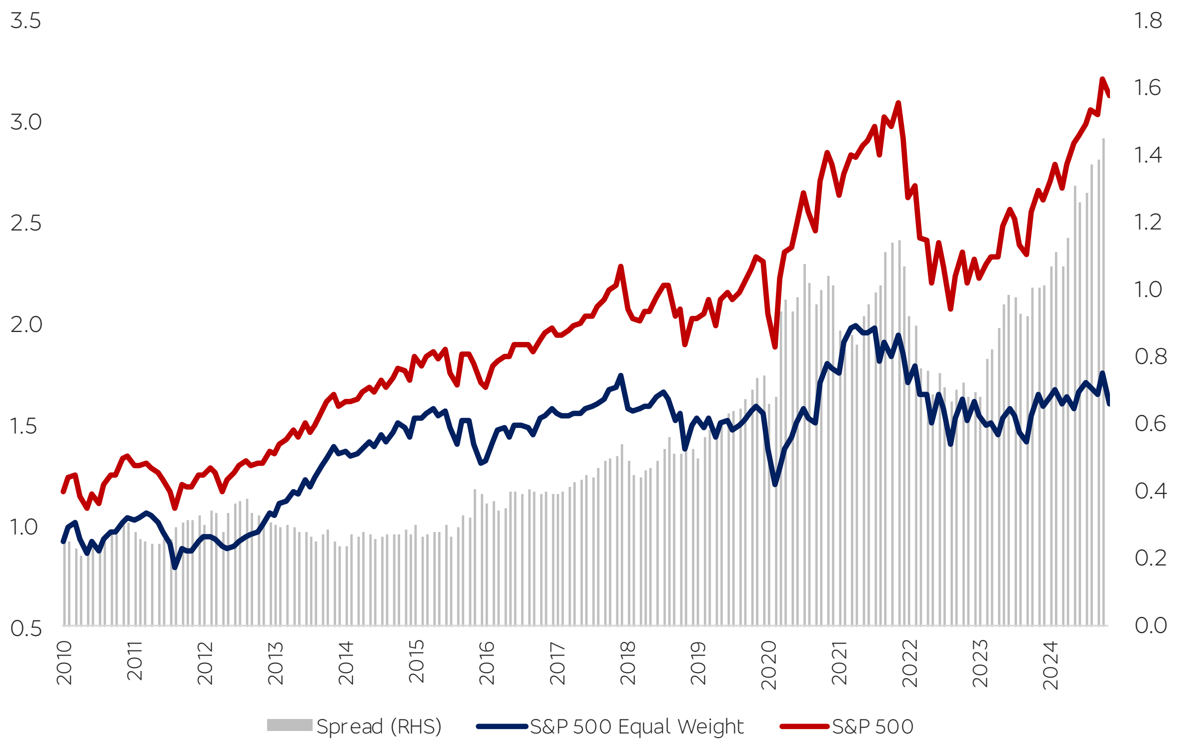
Source: Bradesco, Bloomberg

On the equity side, the focus is on the US equity markets. Most US equity indices are at or near record highs with extremely expensive valuations, but America First means US equity outperformance may continue. US nominal economic growth could be 5% or higher in the coming years which would support continued strong revenue growth for US companies. And while tariffs would have a negative impact on heavily trade dependent companies, domestically focused companies could gain from increased US economic activity.

Overall US equity valuations are expensive with the S&P 500 price/earnings ratio at 24.2x and the price/sales ratio above 3.1x. Much of this is due to the impact of large technology stocks and the so-called Magnificent 7 (Apple, Facebook, Amazon, Tesla, Google, Microsoft, and Nvidia) which have driven the market higher due in large part to the euphoria around artificial intelligence. While at this point, we see no end in sight to the AI boom, we believe there could be a broadening out in equity performance which could offer better investment opportunities. The S&P 500 is a market capitalization weighted index, meaning for example, the Magnificent 7 companies make up one third of the overall weighting of the index and the other 493 companies make up the remaining two-thirds of the index. Looking at the S&P 500 on an equal-weighted basis, where each company accounts for 0.2% of the index shows valuations look more reasonable with both the price/earnings and price/sales still within historic ranges. Looking beyond the large-capitalization companies of the S&P 500 may also offer opportunities. US Small Capitalization companies based on the Russell 2000 index are more domestically oriented and should benefit from US focused economic developments. Valuations here as well are within historic ranges.

S&P 500 looks expensive, but the Equal-Weighted index looks more reasonable

(Price to Sales ratio)



Source: Bradesco, Bloomberg

Asset Allocation adjustments based on the America First outlook

Our analysis of the potential impact of Trump's policies on the US and global economies and then the resulting impacts to the global financial markets has led to adjustments to our international asset allocations.

Within our equity allocations, we are shifting from Developed and Emerging Market equities to US equities. Even though valuations in the US are extremely expensive and valuations in other markets look relatively better, the economic growth outlook favors the US. As noted above, we do not ignore the expensive valuations of the US equity markets which is why we favor equal-weight and small cap areas of the market.

We are also increasing our weightings in short-term notes. Higher rates for longer mean steady returns near 4% are possible and this also acts as protection for the portfolios in case some of the extreme economic scenarios occur. We are also increasing High Yield bond weightings due to overall strong absolute yields and return potential. High Yield spreads are low, meaning these bonds are expensive, but as long as economic growth continues, the return outlook remains strong.

We are reducing the Government bond, Investment Grade bond, and Emerging Marke bond weightings as longer-duration levels mean lower return potential and actually increase risks if inflation should rise. Emerging Market bonds also face a difficult outlook due to US Dollar strength and the likely focus on China and Mexico for tariffs.

President Trump will start his re-alignment of the US economy as he takes office in January. The ultimate policies are highly unpredictable which means financial markets will remain volatile in the coming years as announcements are made and markets react. Our Strategic Asset Allocations have been changed to try to manage these increased risks but we expect to be making various Tactical Asset Allocation adjustments throughout the year as we better understand details of Trump's policies.

Source: Bradesco, Bloomberg

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