

Fragmented Resilience

UBP INVESTMENT OUTLOOK 2025

MARKETING COMMUNICATION



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A stylized, handwritten signature in white ink, consisting of several overlapping, sweeping lines that form a unique, abstract representation of the name.

Fragmented resilience

The global economy has once again skirted recession for a second consecutive year, with disinflation capturing investors' attention in 2024. Yet, the year ahead may bring additional challenges as growth becomes increasingly fragmented, albeit with certain pockets of resilience.

In the United States, Donald Trump's return to the White House looks set to deliver a stronger economic boost than anticipated. Outside the US, we expect growth to remain resilient, fuelled by a broad-based recovery across Asia with China's policymakers having seemingly placed a floor under economic growth. This supports the merit of a prudent and risk-managed strategy for investment in China's expected recovery for 2025, which we explore further in the dedicated section.

More specifically in Europe, the path forward remains complex as economies face another crossroads in their ongoing effort towards a closer union. Elections will once again take centre stage this year – potentially in France in the summer and in Germany in late February – as nations seek consensus on Europe's direction, a topic we examine in depth. For investors on the continent, Switzerland, Scandinavia, and the global pharmaceutical sector offer exposure to both resilience and innovation.

However, this growth landscape carries its own set of challenges. The celebrated victory over inflation in 2024 may be short-lived, as we outline in a focused piece. Wage and service inflation may re-emerge by late 2025, which could again bring concern about rising bond yields to the fore, underscoring the need for active risk management.

As geopolitical tensions become a more prominent feature of today's landscape, how can we invest in this fragmented global economy? Tackling this crucial question in our Outlook, we highlight that defence companies are well positioned to benefit from this new environment, while gold remains a vital component of portfolio risk management.

We look forward to working alongside you to preserve and grow your wealth in 2025.

Fragmented economy, resilient growth drivers



- Global economic growth looks resilient but also fragmented.
- A renewed pro-business policy should boost nominal growth in the US.
- Chinese growth remains at risk, as does the recovery in France and Germany.
- Fiscal policy will support activity in the US and China while continuing rate cuts will underpin global economic resilience.

Growth in 2025
will be driven by
the US, Asia, and
a few European
countries

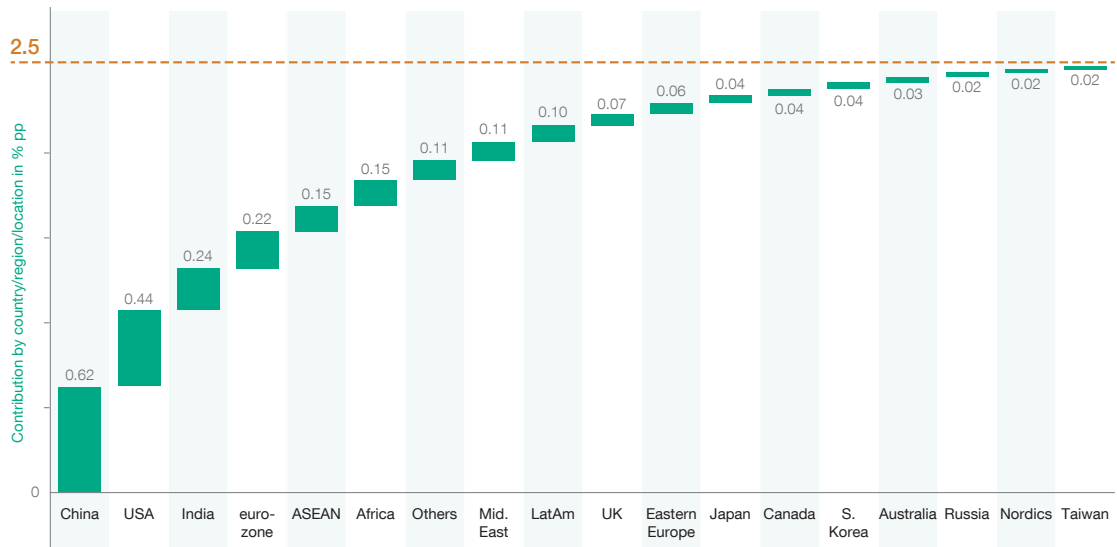
In 2024, global economic growth (around 3.3%) has been driven by the US, which has avoided recession through strong consumer spending, expenditure on new technologies, and ongoing fiscal stimulus.

In 2025, we expect the growth of the world economy to remain close to 3.1% (at purchasing power parity, 2.5% in nominal dollar terms). US growth should trend in a 2–2.5% range. A renewed pro-growth policy is likely to be adopted by the new Trump administration, which should favour investment and the corporate sector. The rest of the world should continue to recover, but will be challenged by the new tensions on trade. Separately, China is still far from being a stable source of growth, but authorities have put a floor under domestic growth and are trying to strengthen its housing sector.

World growth in 2025 will be more fragmented but momentum should still be positive in some areas outside the US. Asia is expected to be a major driver, with growth of 3.8%. Although China's contribution – set to stabilise at 4.7% due to ongoing support from the authorities – remains at risk, Asia's resilience will be helped by growth in India (6.5%) and the recovery in the Association of Southeast Asian Nations (ASEAN) region. Those countries are relatively less exposed than China and Mexico to the US tariff war and, during the first Trump mandate, they negotiated reciprocal agreements directly with the US administration.

In Europe, growth is expected to be limited to 1.0% in the eurozone and 1.6% in the UK. Growth rates will be disparate, with ongoing momentum in southern economies – such as Spain (2.0%) and Portugal

2025 world nominal GDP growth contribution by location



Source: UBP, based on world nominal GDP in current USD and UBP scenario

Accommodative monetary policies will make the global economy more resilient

(1.9%) – whereas Germany (0.7%) and France (0.8%) could continue to lag behind, held back by fiscal policies, their delay in pivoting towards new growth industries, and political instability. Europe will have to face renewed trade tensions not only with the US but also with China.

Inflation will vary: a distinction will be drawn between countries experiencing strong growth and stubbornly high inflation (the US, the UK) and those seeing weak growth and deflation risks (France, Germany and China). The rebound in US demand risks reigniting inflationary pressures, while a trade war between the US, China, and Europe would raise costs and prices, and ultimately hurt growth.

The resilience of the global economy will be determined by the economic policy measures underpinning growth in some regions. In countries seeing strong economic trends, it will not be necessary to bring key interest rates below their neutral level, and relaxing the constraints on lending should be enough to shore up growth by supporting investment. For other countries, emerging from stagflation could be a slow process, especially where there is no fiscal room for manoeuvre.

Overall, fiscal policies will not be too restrictive in 2025. The new US administration will focus aid on corporates. In China, fiscal stimulus, although still looking chaotic, is the most effective way of ensuring a recovery. In the eurozone, the biggest spenders – France and Italy – will have to tighten their belts, but the region still has the means to tackle climate transition and technological challenges using its EU funds.

Against this growth backdrop, economic and political fault lines between north and south, and between developed and emerging countries, are on course to widen, and geopolitical risks could continue to affect the global economy’s trajectory in 2025.

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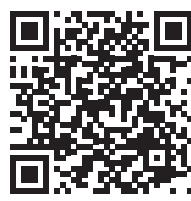


Is the victory over inflation final?

In the second half of 2024, financial markets and central banks have been celebrating victory over inflation, which is expected to fall to 2% in 2025. This scenario would take inflation back to its pre-pandemic level, and the markets are betting on aggressive rate cuts by central banks.

However, there are four factors that threaten this welcome fall in inflation. Inflation in the service sector will remain stubbornly high because of strong structural demand. Wage growth will slow, but wage costs will remain high and deflation in industrial goods and commodity prices will come to an end. Fiscal support measures in the US and China will underpin demand, but also keep up the pressure on services. Lastly, an upward spiral in tariffs in the US and other regions will raise import costs and prices for end consumers.

This means the victory over inflation is only a temporary one. In late 2025, inflation in developed countries could be between 2.5% and 3%, so central-bank rate cuts will be less aggressive than the financial markets are expecting.



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Europe at another crossroads



- Europe's core countries face yet another year of political uncertainty.
- This should drive investors to Switzerland and Scandinavia, which provide 21st-century growth and innovation opportunities.
- Select financials and UK equities offer cyclical recovery prospects within Europe in 2025.

Look to Scandinavia and Switzerland for European innovation and resilience

Since the end of the Cold War, Europe has faced a series of crossroads on its journey towards a closer union. 2025 finds the continent at yet another critical juncture as growing polarisation sets in within its largest economies.

Elections in Germany at the end of February and potentially in France in the summer will seek stronger coalitions that, along with leaders in Brussels, take up the challenges best laid out by former Italian Prime Minister Mario Draghi in his roadmap on the future of European competitiveness. Until this is done, Europe as a whole will remain ill-suited to the 21st-century landscape.

Yet investors can still find resilience and innovation within Europe, namely in Switzerland and Scandinavia. Over the past decade, investors in Europe would have weathered both the Global Financial Crisis and the euro crisis better by sheltering in Scandinavia (+6.8% compound annual growth rate) and Switzerland (+7.9%) rather than traditional safe haven Germany (+4.7%).

This results from Scandinavian and Swiss companies' average 14–16% return on equity compared with the 11.7% delivered by Germany's vaunted corporate sector over the past decade. While all these countries are characterised by corporate efficiency, Scandinavia and Switzerland offer investors the tailwind of exposure to 21st-century innovative growth segments which Germany does not.

Moreover, while traditional industrial sales to China continue to struggle, the resurgence of Europe's homegrown defence sector



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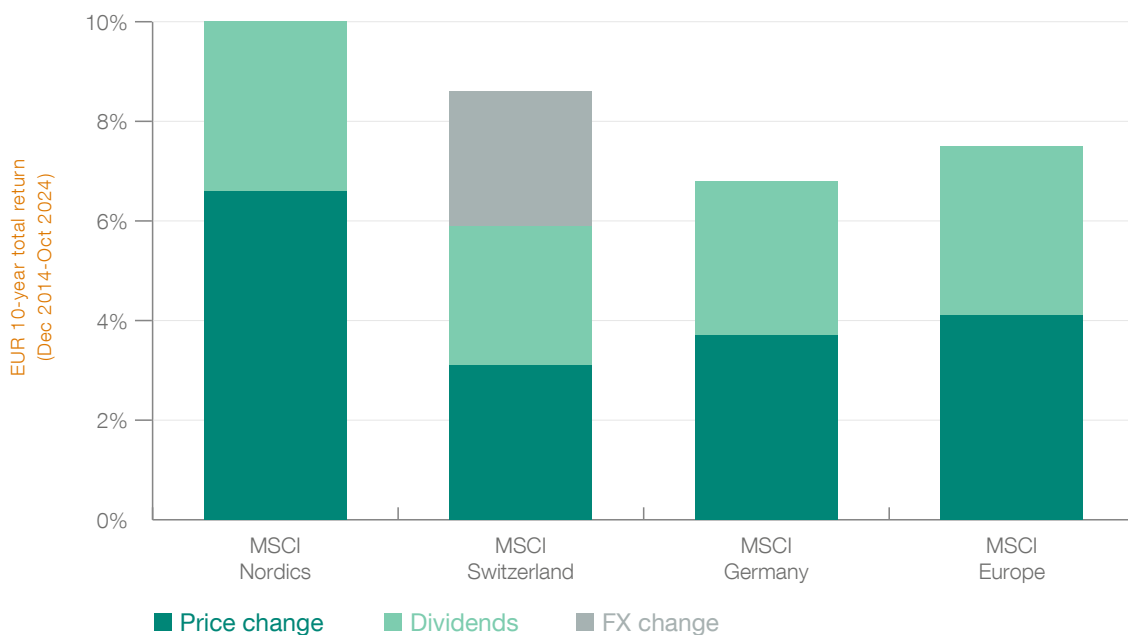
offers a source of growth for investors on the continent (see pp. 10–13 for more detail).

Indeed, even investors looking to position for Europe’s 2025 economic recovery can find prospects beyond its historical core. Budgetary constraints likely mean fiscal support will be more limited on the continent than in the UK, for example, which should see benefits from a new domestic investment cycle.

In addition, select European financials can benefit from the cyclical recovery on the continent. Trading at valuations seen only during the 2011–12 eurozone crisis and the 2020 global pandemic, banks look well positioned for a cyclical pickup in activity, while insurance companies are delivering 5% dividend yields supported by strong business momentum.

On balance, 2025 will be a pivotal year as German and French citizens elect governments that will shape the path forward for the continent as a whole. Investors may want to avoid the prospect of yet another year of political turmoil within Europe’s core and instead look to Switzerland, Scandinavia, and defence for 21st-century growth, innovation and investment, and to financials and the UK for cyclical recovery prospects in the new year.

Scandinavia and Switzerland offer premium returns within Europe



Sources: MSCI, Bloomberg Finance L.P. and UBP

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China: Whatever will it take?



The ultimate ceiling for China's equity market will depend on the pace and magnitude of the next policy steps

- Will China's policymakers' shift be sufficient to boost growth?
- Exposure to capital-protected China equity and ASEAN countries can help investors.

In late 2024, China's policymakers began important shifts in their response to the structural and growing cyclical challenges outlined in our 2024 Investment Outlook.

The measures announced to add capital to the banking system amount to less than 1% of the gross domestic product, well short of the 2.5–3% seen in China's own 1998 bank recap and of those taken in Japan (2002) and the US (2008). It remains to be seen whether China will follow its 1998 playbook by completing the effort to purge bad real-estate loans and have banks focus on commercial lending opportunities, which gave rise to China's 21st-century entrepreneurs.

As its real estate sector is reformed, China needs a new economic driver. So its moves to support consumer spending are a small, though important, step towards a greater role for consumers in China's economy.

For investors, stimulus measures are intended to place a floor under the equity market and provide opportunities to reduce leverage in the economy. However, the ultimate ceiling will be determined by the pace and magnitude of the next policy steps and whether China will once again be bold and lay the foundations for the next stage of its growth.

Indeed, last time China embarked on large-scale policy stimulus prior to the pandemic was in the face of the 2018–19 trade war with the US under then-President Donald Trump. With him back, renewed trade tensions may galvanise China.

Capital-protected China equity exposure can help manage the risks around a historic policy pivot of this kind. Alternatively, such a shift should be good news for specific commodities including copper and aluminium, and for Singapore and broader ASEAN equities, which are likely to benefit from the return of a stable and growing Chinese economy.

For more details, please see our Headline piece, *China: A path towards 'whatever it takes'*, published in November 2024.

Tariff tactics and the dollar



Look to GBP, AUD, select EM currencies, gold and silver as the US dollar weakens

- The USD should remain elevated in the short term on the Trump agenda.
- High-beta currencies could struggle until tariff uncertainty is resolved.
- Gold and silver are set to power forward in 2025.

Coming into 2025, the FX market is likely to be driven by US tariff discussions and subsequent policy implementation. Until markets have greater clarity about the eventual level of tariffs, investors will receive still elevated US front-end yields – benefitting the USD.

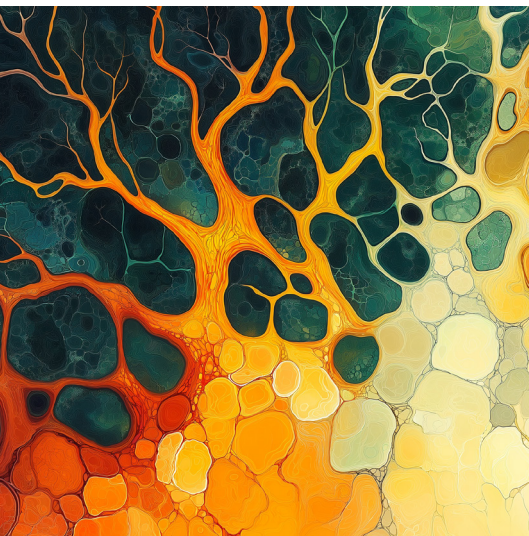
The 2018 and 2019 US tariff policies weighed on those currencies with the highest trade exposure to the US, although the scale of the negative impacts declined over time. We can expect a similar reaction in 2025 – with tariffs initially weighing on the likes of CNY, MXN, CAD and to a lesser extent the EUR. The prospect of looser US fiscal policy implies that the USD will not weaken in the short term, despite the Fed's ongoing rate-cutting cycle.

Emerging market currencies are likely to post a mixed performance. CNY will display a relatively weak profile, consistent with the Chinese central bank's rate-cutting cycle and the need for further easing in domestic financial conditions. Higher-yielding currencies such as TRY, BRL, and MXN will benefit from robust levels of real and nominal carry – once there is greater certainty regarding US tariff policies, likely from the end of Q1 onwards. SGD will fare well in our view, with the Monetary Authority of Singapore unlikely to recentre its Singapore Dollar Nominal Effective Exchange Rate (\$SNEER) trading band in the short term.

We maintain a highly constructive stance on gold, reflecting heightened levels of geopolitical uncertainty, and strong physical demand from central banks and retail investors. A move towards levels of at least USD 2,800 per ounce is feasible in 2025. We also remain positive on silver. Gold's up move will propel silver towards higher levels – historical gold/silver ratios indicate that silver can rise to around USD 40/oz.

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Pockets of resilience in a fragmented recovery



- Investors should seek resilience in pharma and defence as a secure foundation for their portfolios in a fragmented global economy.
- There are cyclical opportunities in Singapore, copper and aluminium, which stand to benefit as economic recovery emerges in the US and China.
- Rising bond yields are the key risk in 2025.
- Hedge fund strategies can offer shelter for investors.

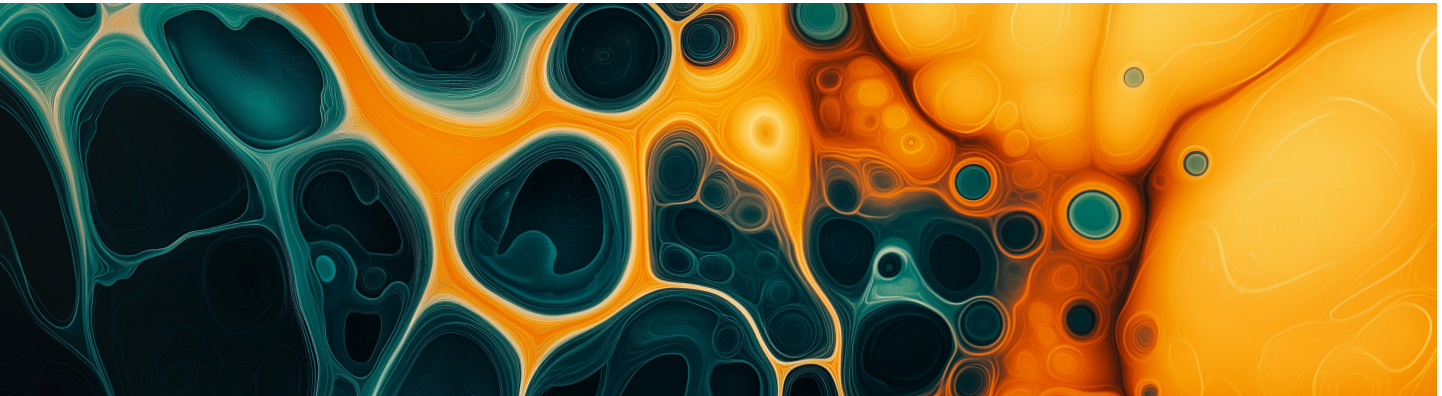
Pharma and biotech firms offer resilience and accelerating growth in 2025

In a fragmented global economic recovery, investors should seek resilience as the foundation for their investment portfolios in 2025, which can be found in the earnings of the healthcare and defence sectors.

Healthcare has historically been an adaptable sector, to the extent that its companies have traded at a premium to the broad market. However, US healthcare reform championed in 2015 by then US presidential candidate Hillary Clinton sought to undermine one of the sector's attractions, i.e. strong pricing power. This created a major source of uncertainty for the sector, and valuations that were previously at a premium now show a 15% discount to the market as a whole.

In 2024, the Inflation Reduction Act finally unveiled the renegotiated pricing framework for key drugs. This has proven less disruptive than feared and should allow the sector to regain its reputation for resilience and earnings visibility. Indeed, we anticipate accelerating earnings-per-share (EPS) growth in 2025 compared with 2024 across most healthcare subsectors, primarily as a result of new growth drivers, including effective obesity drugs and the end of post-Covid destocking.

We see compelling opportunities in large-cap pharma and biotech firms that offer not only earnings strength but also accelerating growth



European defence underinvestment is the most significant since the Cold War

in 2025. As investors focus on this kind of resilience, a rerating of valuations is likely, providing another driver for investors' returns.

Not only is the global economy increasingly fragmented, but the global order appears more and more divided. As a result, large-scale warfare in Europe and rising tensions across key geopolitical hotspots have emerged as a key characteristic of the landscape facing investors.

Indeed, underinvestment in global defence has never been greater since the end of the Cold War in Europe, and national leaders have only just begun to reverse the estimated EUR 1.8 trillion 'peace dividend' lavished upon the continent since 1991 as leaders have realised the urgent need to boost spending.

The sector offers investors an opportunity to tap into the emerging secular rise in Western and particularly European defence spending. Indeed, the shift is expected to drive consistent 6–9% annual growth in defence spending, but valuations are still failing to reflect the decade of growth in store for the industry.

Pockets of cyclical recovery will also be evident around the world in 2025. Investors may want to position themselves to capture these opportunities, while managing the associated risks.

As noted in our 'China: whatever will it take?' section (p. 8), China's policymakers appear to have put a floor under the local economy, though it remains uncertain how high the ceiling of its recovery will be. Faced with this cyclical uncertainty, investors can look to Singapore, at the core of the wider ASEAN region, for cyclical exposure while managing the risk of disappointment from China.

Singapore has long been a play on the global economy and US monetary policy, and should stand to benefit even if only the Fed's actions provide support. However, Singapore equities are only trading just above lows seen in the 2008 crisis and 2020 pandemic, and are near the valuations seen during China's devaluation/restructuring in 2015. As a result, they offer an attractive risk/reward profile for investors against the global easing backdrop, as well as providing a gateway to the growing economies in India and Southeast Asia.

Investors may need to contend with higher bond yields in 2025

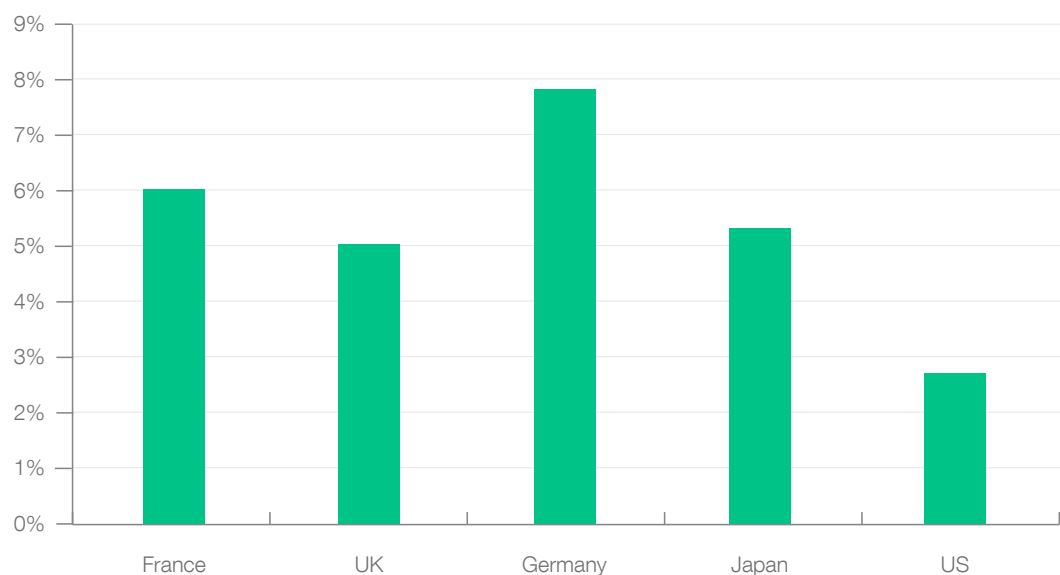
Aluminium and copper should likewise benefit from US economic resilience, with China stimulus as an additional potential catalyst for investors. Though the tight supply in both metals is well known, the easing cycles in the world's two largest economies offer a potential boost for demand that has previously been consistently absent.

Moreover, growing recognition of the power demands of AI, along with the green transformation, means that US investment spending should resume in 2025 having paused ahead of the 2024 election. China's green spending should also benefit from fiscal stimulus, providing the demand needed to drive both commodity prices and profitability. The world is realising that the supply of these critical metals for ongoing growth and transformation efforts in the 21st century relies on increased incentives (i.e. higher prices).

Though opportunities exist in an increasingly fragmented global economy, investors must be wary of risks as well. As outlined in 'Is the victory over inflation final?' (p. 5), a potential rebound in US inflation to 2.5–3.0% in late 2025 poses a threat to bond yields. Indeed, assuming that the Fed will fall short of its 2025 rate-cutting guidance from September, we estimate that US 10-year yields could rise to 5% in 2025. If inflation proves stickier than the Fed expects or if substantial Trump-related stimulus take shape, equity and bond investors alike will have to contend with the possibility of yields rising even further than that in 2025.

Hedge funds can offer investors respite against such risks. Relative value/arbitrage strategies have historically delivered bond-like carry without the same degree of interest-rate volatility as bonds, while macro and long-short strategies can offer an alternative to the greater volatility in equities that may lie ahead.

Defence spending CAGR* 2024-2030



Sources: Vie Publique, France; HM Government, UK; Reuters; Nippon.com; Statista.

* Compound annual growth rate

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The AI monetisation cycle

2024 has been a good year for artificial intelligence hardware.

Nvidia's chips provide the foundation for the computing power behind AI, and the firm has seen its data centre revenue grow 11-fold since 2022, reaching a projected USD 110 billion in 2024. Due to the significant upfront costs, most companies are opting to rent AI computing capacity in the cloud, and so cloud computing providers have seen faster revenue growth in 2024.

In 2025, although AI hardware/infrastructure buildouts will continue, margin pressure may cause near-term earnings volatility for investors.

Within the sector, software has lagged behind in the adoption of generative AI. However, the introduction of new AI agents – systems performing tasks without human intervention – is likely to accelerate software growth in the coming year.

Indeed, the use cases for software automation should rise with the arrival of AI models that have enhanced reasoning abilities (e.g. OpenAI's 4o). This suggests that investors should broaden their AI portfolios to include software, in order to continue to benefit from what is expected to be the most disruptive technology of the next decade.



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Group Chief Investment Officer & Co-CEO Asset Management

Michaël Lok elaborates the investment processes and strategy, and develops the range of investment solutions dedicated to Wealth Management. Michaël has over 30 years of experience in wealth and asset management, which includes developing UCITS funds and UHNWI mandates.



Norman Villamin

Group Chief Strategist

Norman Villamin is responsible for elaborating the Bank's long-term investment strategy and developing investment convictions for the Bank's Global Investment Committee. He has over 20 years of experience managing wealth on both an advisory and a discretionary basis.



Patrice Gautry

Chief Economist

Patrice Gautry heads the Bank's Economic and Thematic Research department which provides the macroeconomic and market background analysis for the Bank's experts. He has over 35 years' experience with a strong grounding in investment strategy and institutional asset management.



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Global Head of Advisory & Asset Allocation

Nicolas Laroche, who has over 18 years of experience in wealth management and financial markets with a focus on advisory, manages a team of fixed income and equity investment specialists as well as being a member of UBP's Global Investment Committee.



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Global Head of Forex Strategy

Peter is a member of UBP's Asset Allocation Committee and also sits on UBP's Global Investment Committee. He has nearly 20 years of foreign exchange and fixed income experience, with extensive derivative and structured product expertise.



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