



J. Safra Sarasin

Economic & Geopolitical Dynamics in 2025: Political choices will shape financial market developments

Dr. Karsten Junius, CFA
Chefvolkswirt / Head Economic & Strategy Research
Bank J. Safra Sarasin Ltd

3rd December, 2024
SIX, Zurich



Sustainable Asset Management

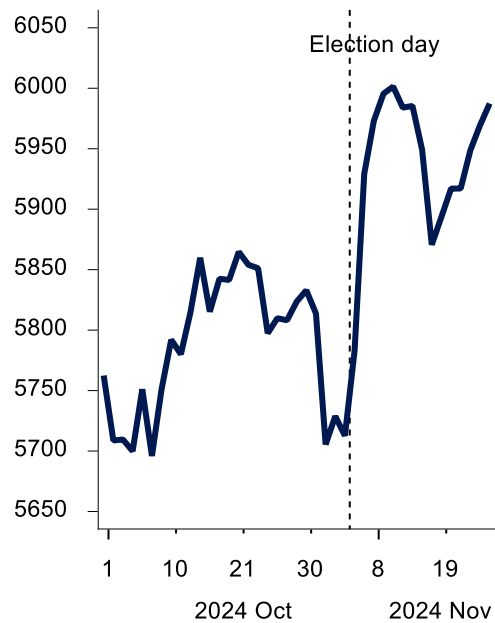
Markets react to US election broadly as expected



J. Safra Sarasin

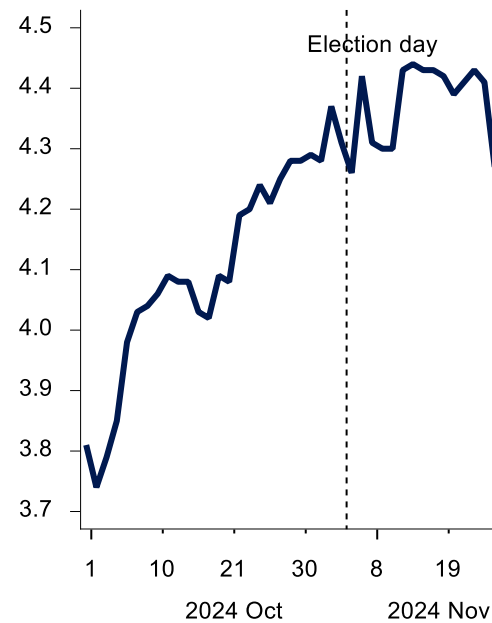
Equities up

S&P 500 index



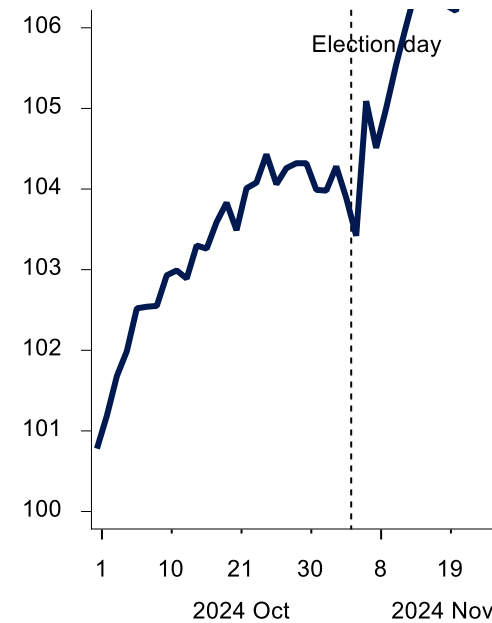
Bond yields up

UST 10y yield in %



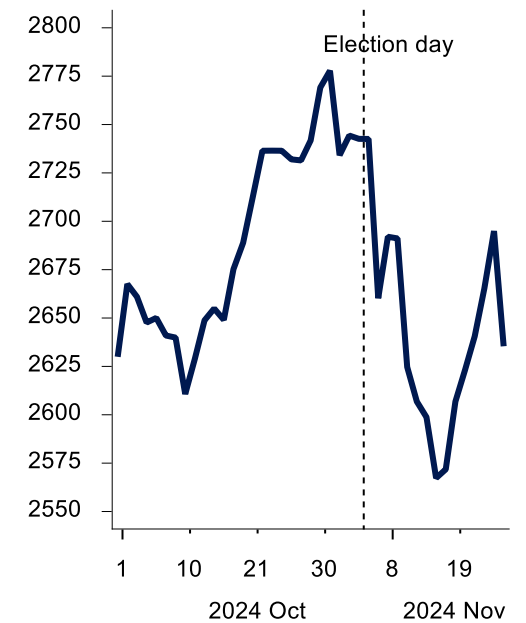
US dollar up

DXY dollar index



Gold down

Gold, USD per ounce



Source: Macrobond, Bank J. Safra Sarasin, 26.11.2024

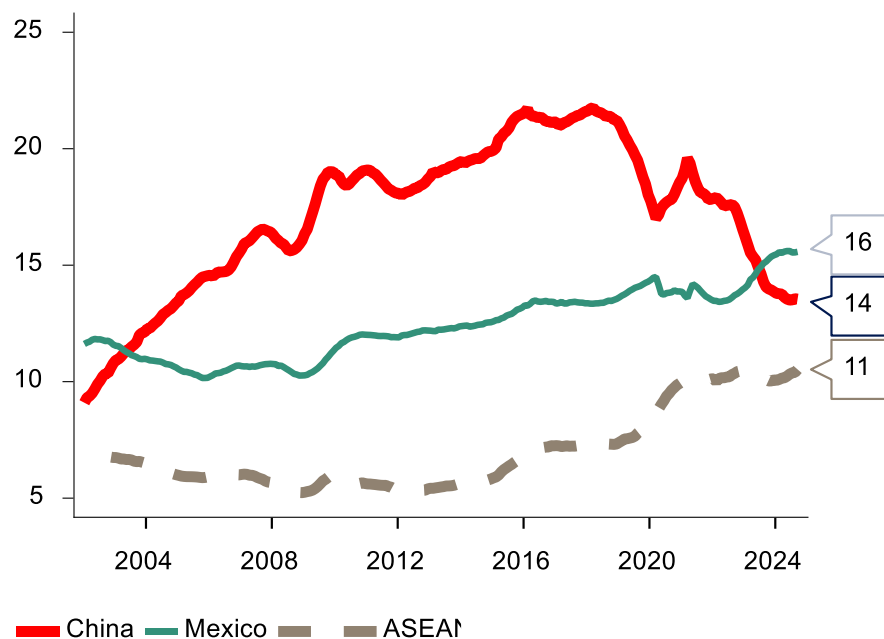


#1 Geo-economic fragmentation: More fragmented trade and direct investment is costly

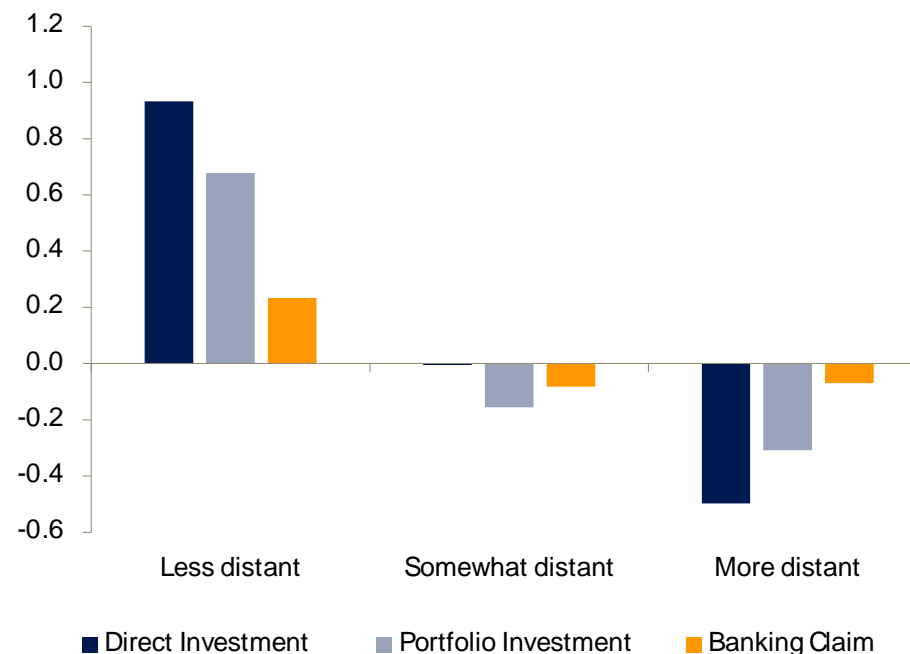
US-China: Longer and less efficient supply chains

Capital is increasingly flowing within groups of allies

US, Share of Total Goods Imports in %



Capital flows, 2009-21 - percentage points, relative to world portfolio



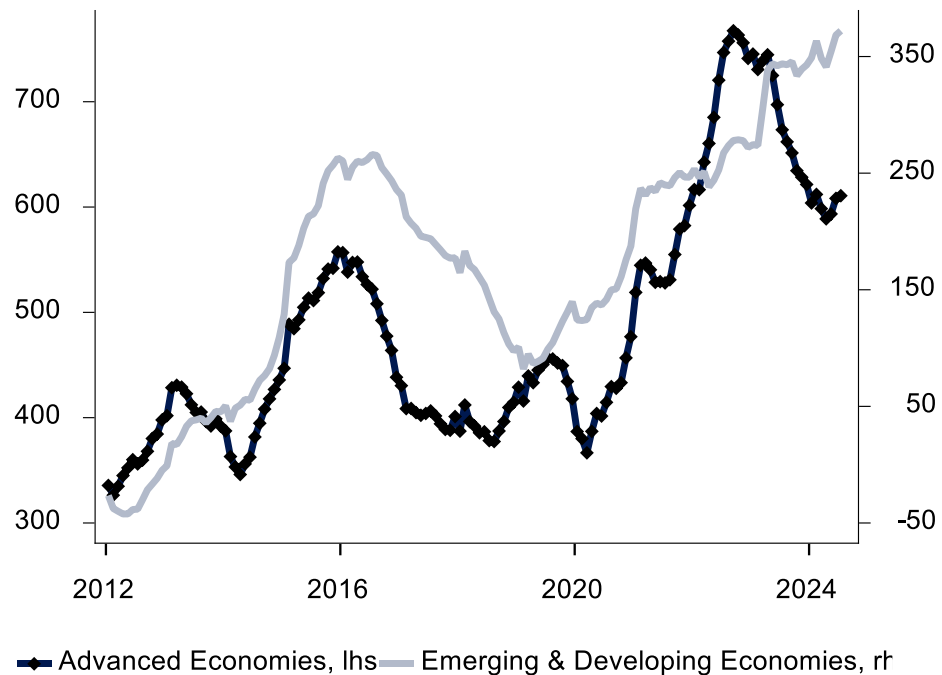
#2 China's economic influence in the Global South increases



J. Safra Sarasin

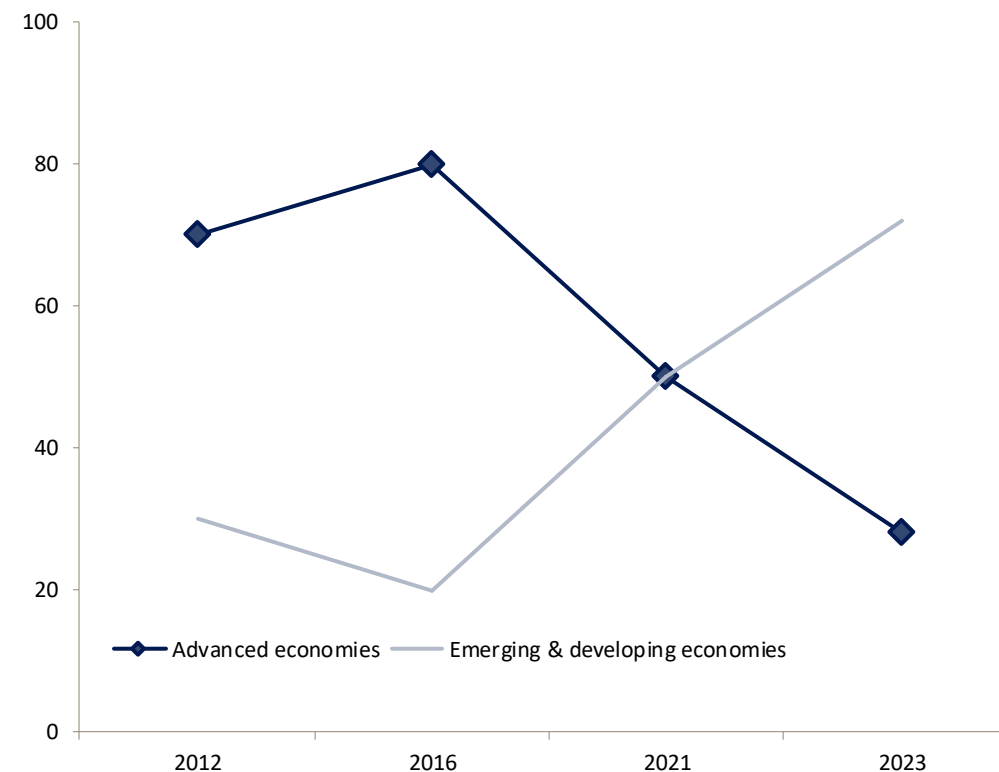
Growing trade surpluses with EM

China, Trade Surplus, 12m Rolling, USD Billion



Strong outbound investment from China to other EM

Share of Announced Chinese Outbound Direct Investment Value, %



Source: Macrobond, Rhodium Group, Bank J. Safra Sarasin, 26.11.2024

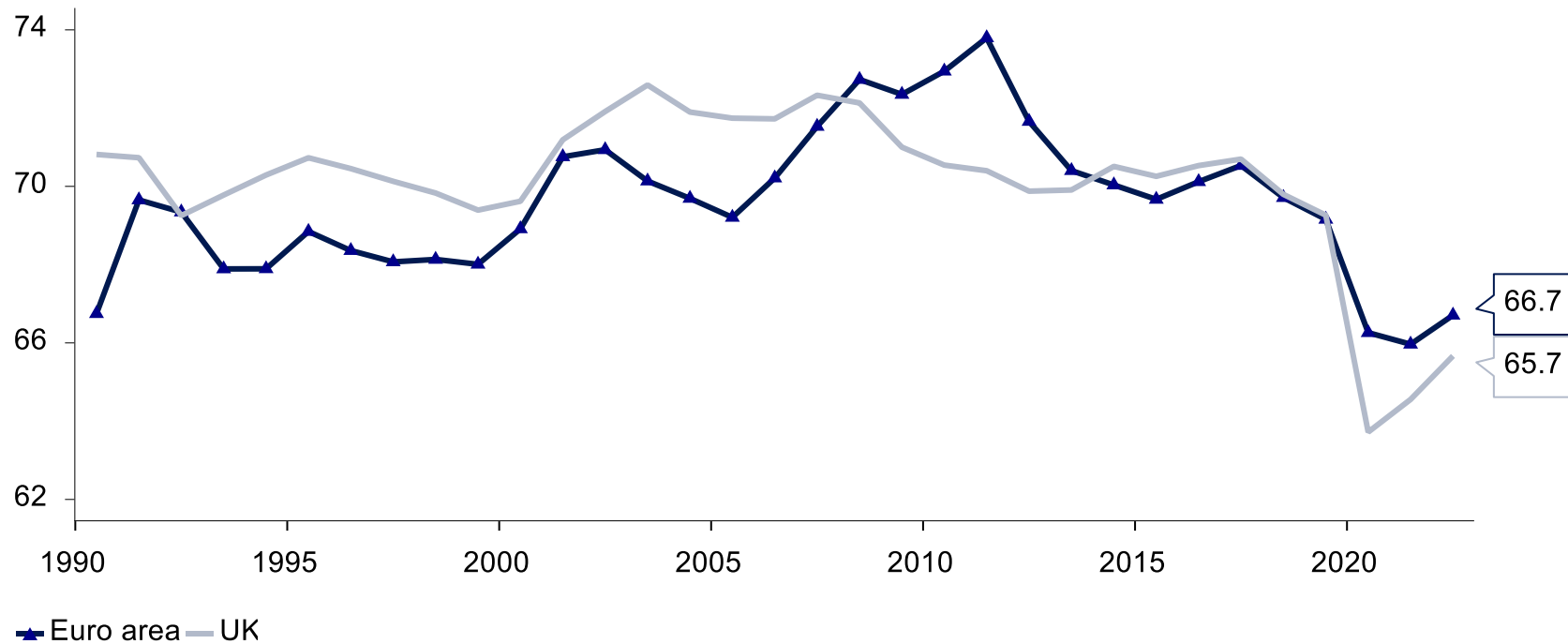
#3 Europe is falling behind



J. Safra Sarasin

Per capita income has been falling to 2/3 of the level in the US

Maddison Project Database, Real GDP per Capita in USD relative to the US, US=100



Source: Macrobond, Bank J. Safra Sarasin, 26.11.2024

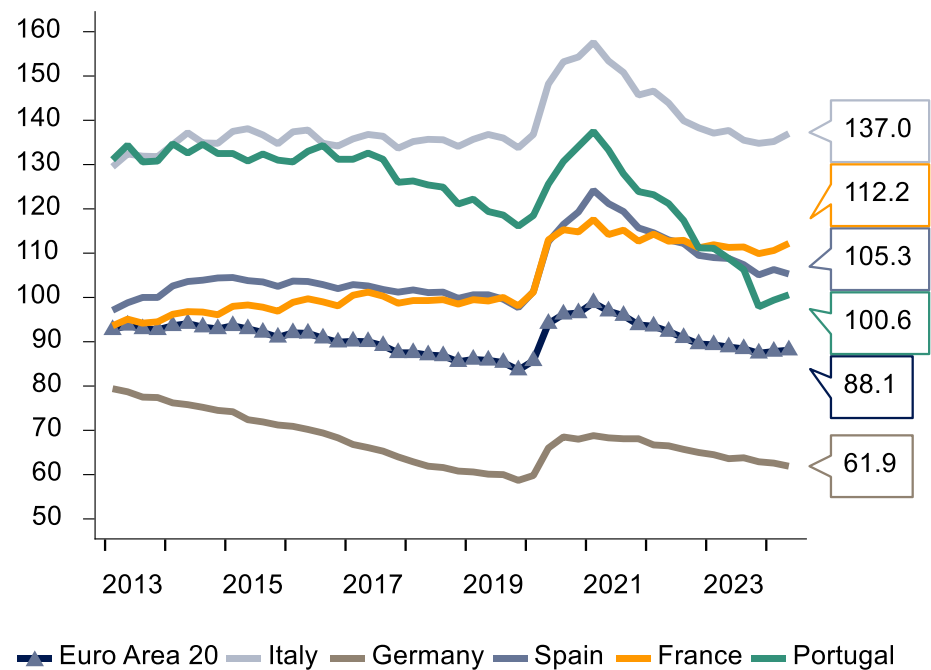
#4 High debt levels & interest rates constrain fiscal policy



J. Safra Sarasin

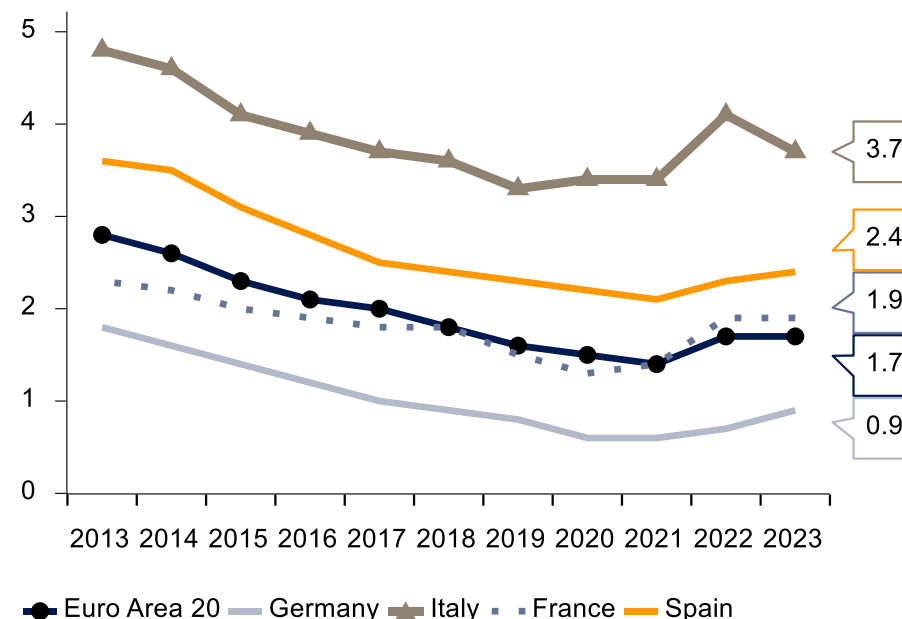
Euro area debt fell temporarily with high inflation

Eurostat, Euro Area Government Consolidated Gross Debt in % of GDP



Interest expenses will increase again

Eurostat, General Government, Interest Payable in % of GDP, latest data: 2023

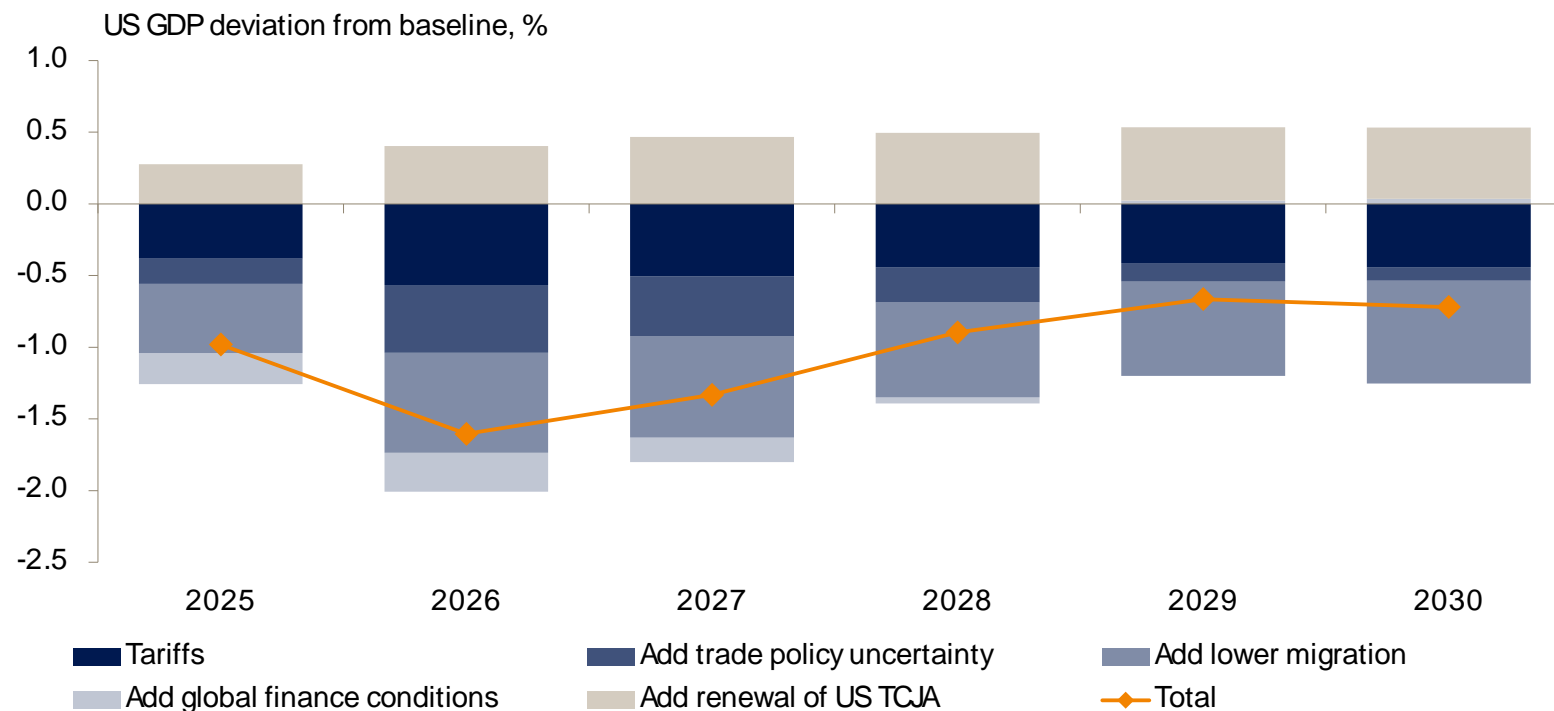


Source: Macrobond, Bank J. Safra Sarasin, 26.11.2024



#5 A global trade war would lead to lower growth and higher inflation than we have in our positive baseline scenario

IMF scenario: Impact on US GDP from global trade war, lower immigration, and extension of 2017 tax cuts



Note: TCJA = Tax Cuts and Jobs Act

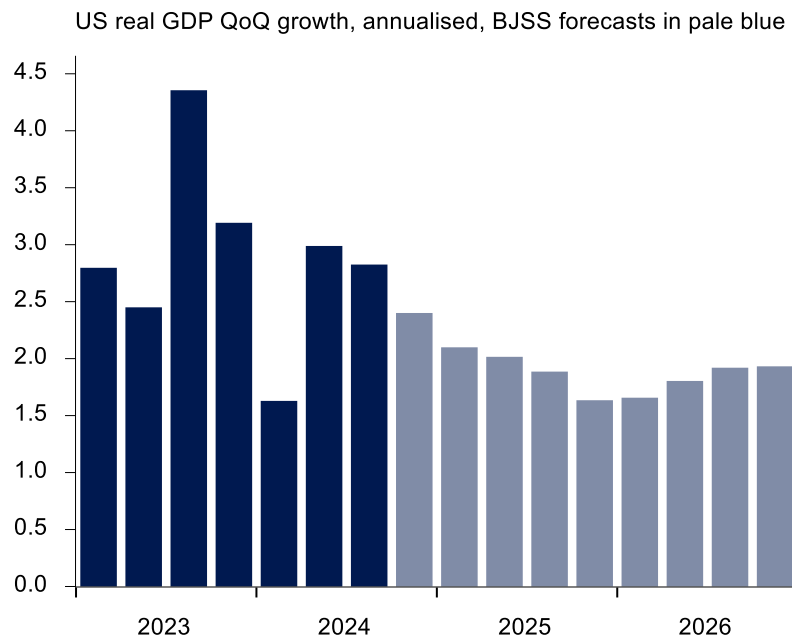
Source: IMF, Bank J. Safra Sarasin, 26.11.2024 Assumptions: US-EA-China 10% tariffs, US vs. RoW 10% tariffs, US labour force permanently reduced by 1% by 2030 vs. baseline

US: Our macro forecasts – soft landing of the economy

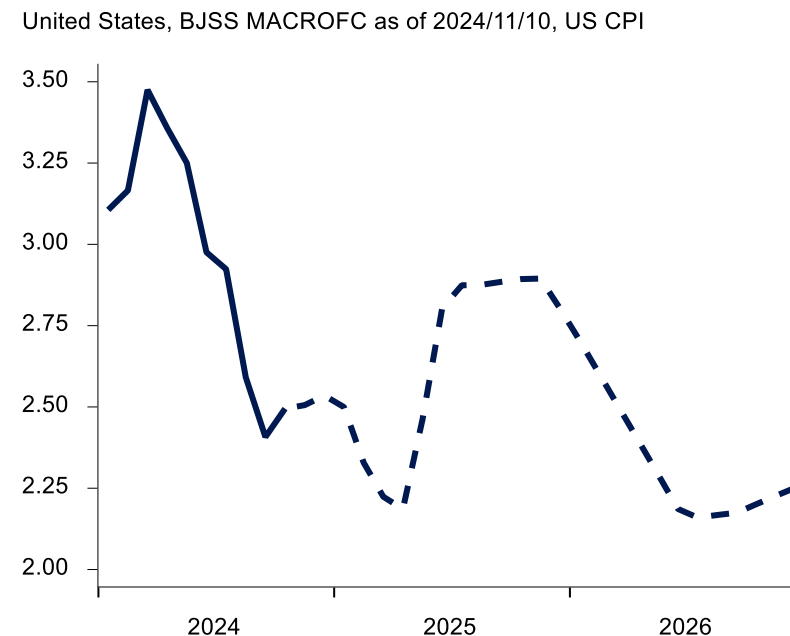


J. Safra Sarasin

Slowly approaching potential growth in 2026



Reaching the inflation target in 2026



Source: Macrobond, Bank J. Safra Sarasin, 26.11.2024

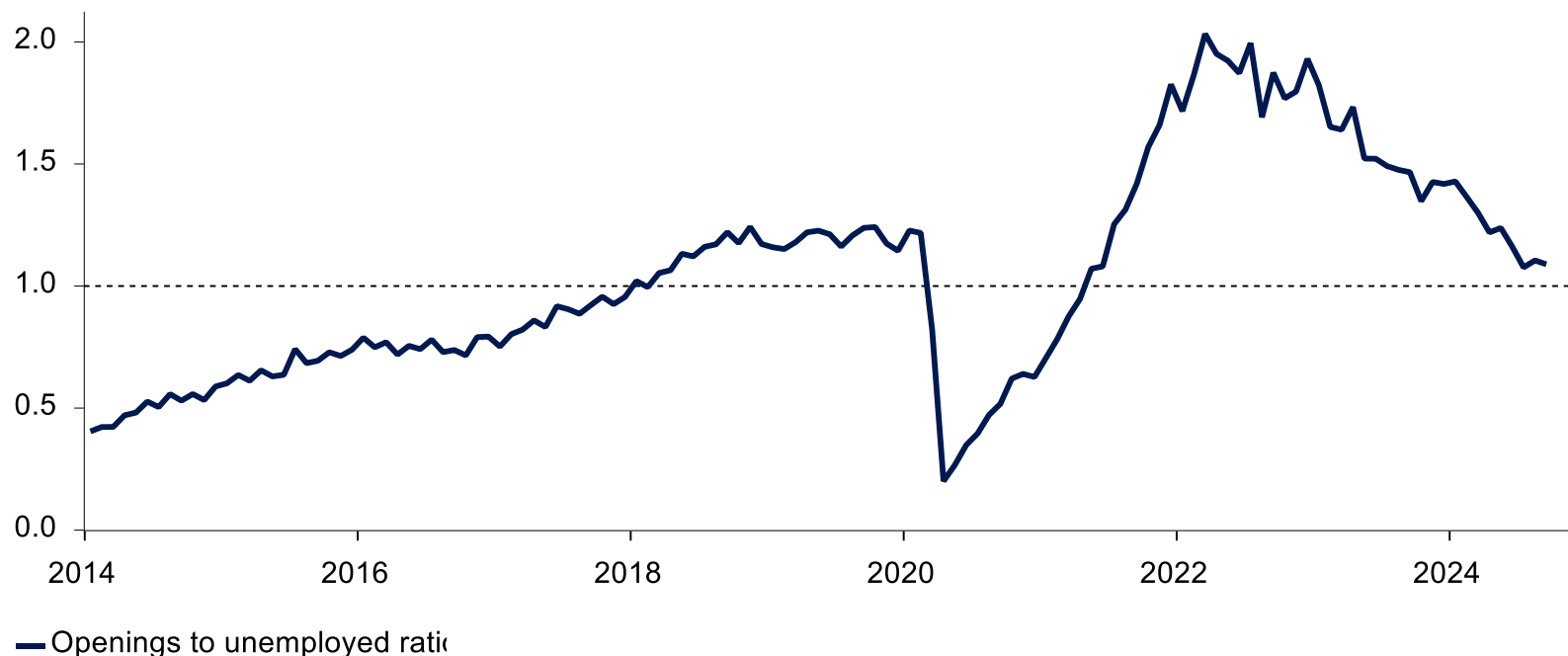
Soft landing of the US labour market



J. Safra Sarasin

Vacancies to unemployed workers are back to their pre-pandemic level

Vacancies to unemployment ratio, latest data: 1.09 (09/2024)



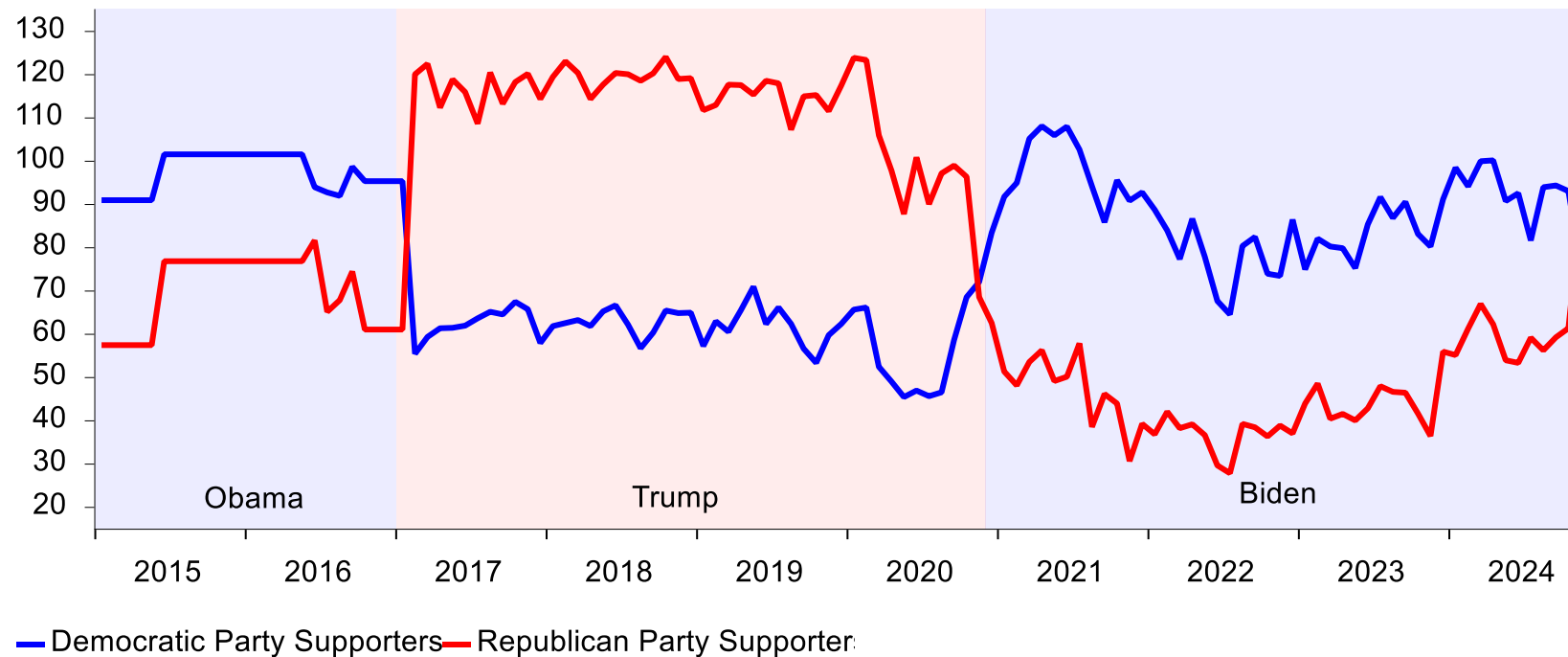
Happy and unhappy days



J. Safra Sarasin

US consumer confidence

US, University of Michigan, Consumer Expectations Index, latest data: 11/2024



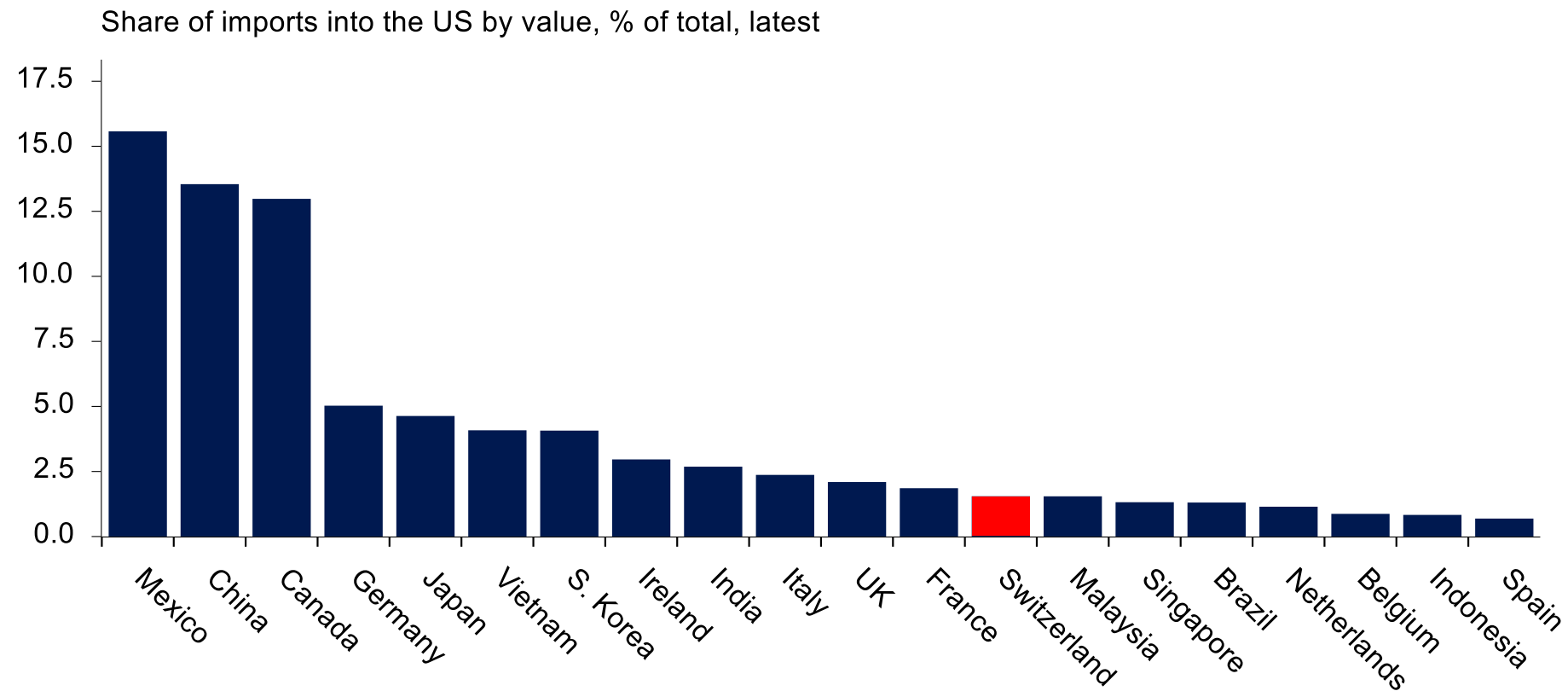
Source: University of Michigan, Macrobond, Bank J. Safra Sarasin, 26.11.2024

Trade war – where are US imports coming from?



J. Safra Sarasin

US imports most from neighbouring Mexico & Canada as well as industrial powers like China, Japan & Germany



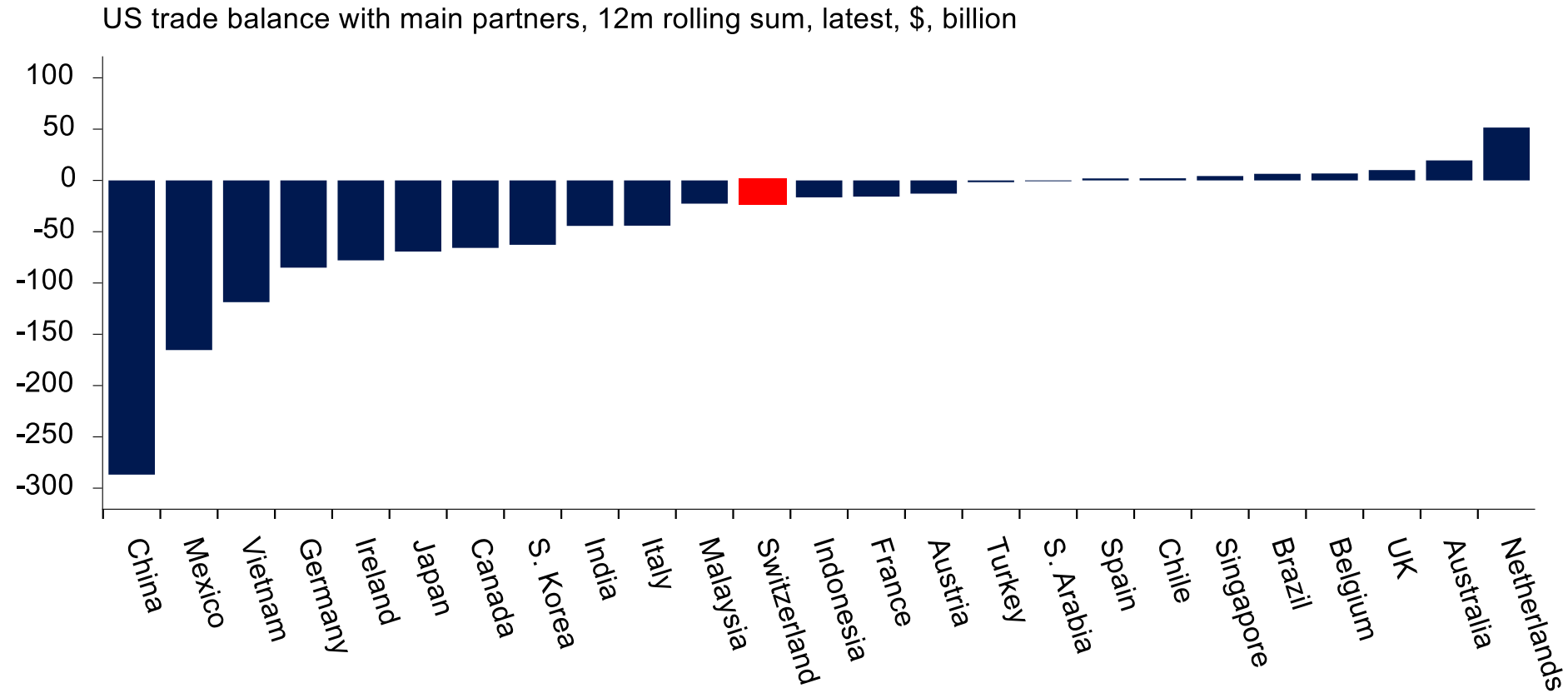
Source: Macrobond, Bank J. Safra Sarasin, 26.11.2024

Trade war – which countries would the US target most likely?



J. Safra Sarasin

US has the highest bilateral trade deficits with China, Mexico, Vietnam and Germany

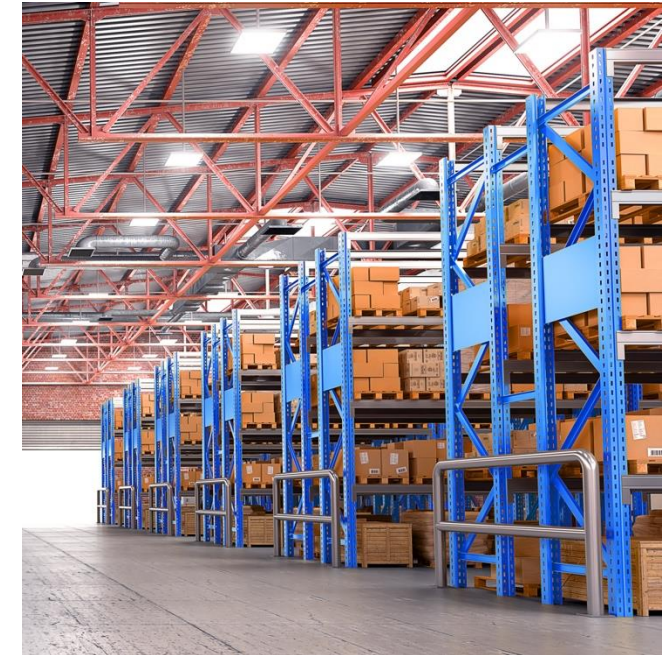
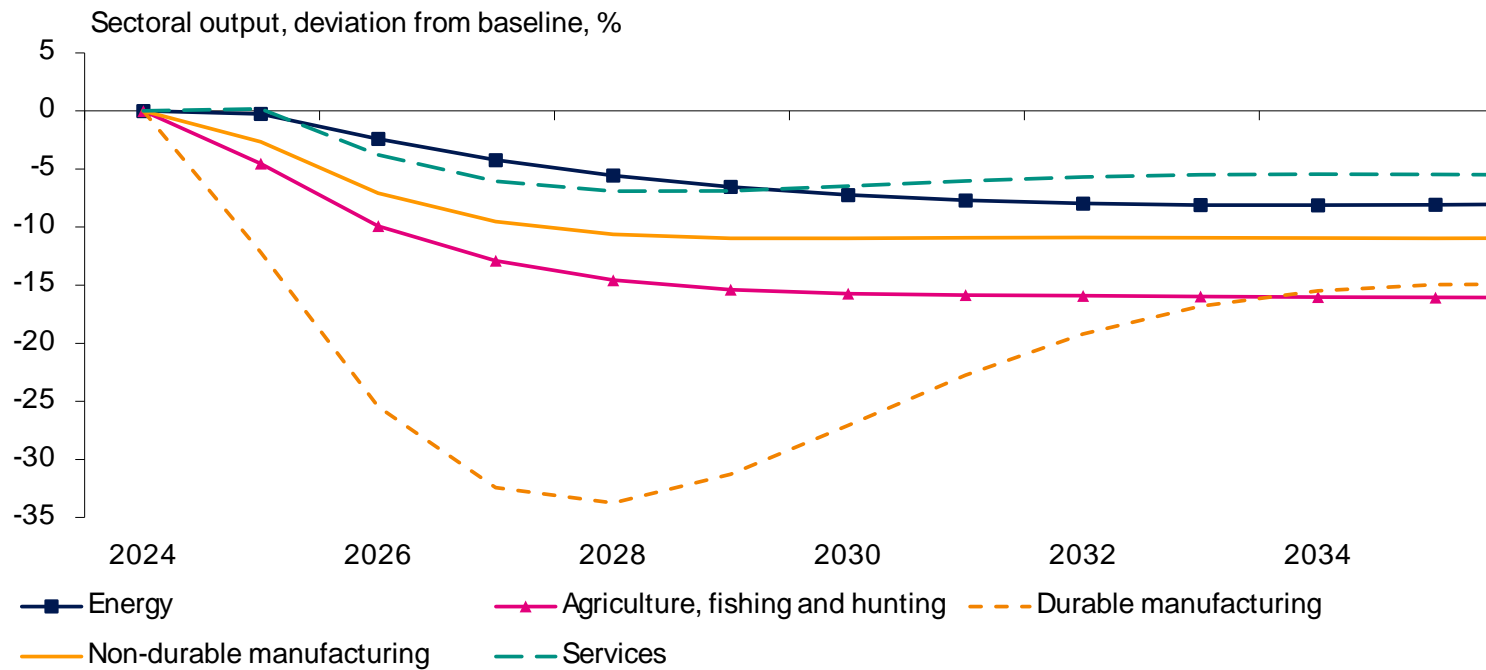


Also the US would be hit in a trade war



J. Safra Sarasin

Non-durable goods manufacturing output would drop by 30% in the US in the worst case scenario



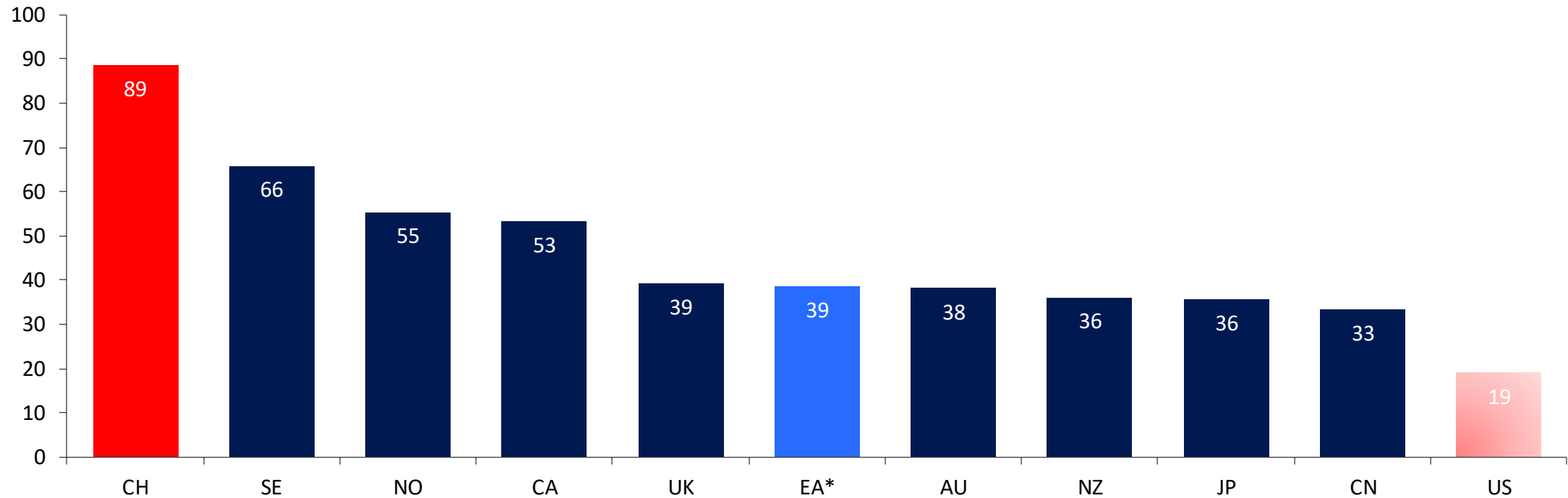
Trade war - who would loose the most?



J. Safra Sarasin

Small open economies with a high share of trade/GDP would be hurt most

Merchandise trade, in % of GDP



*) Extra EA trade: Calculation based on EUROSTAT study "International trade in goods- a statistical picture", April 2024

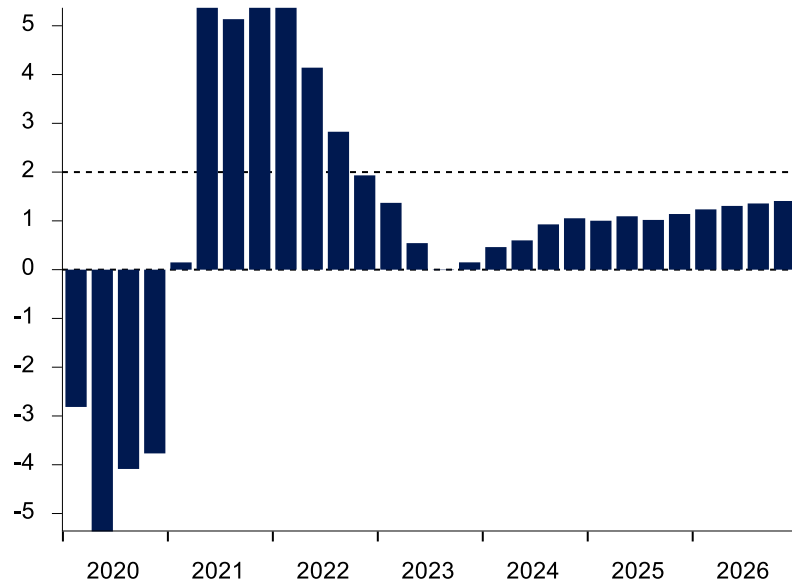
Euro area: Our macro forecast – back to growth potential



J. Safra Sarasin

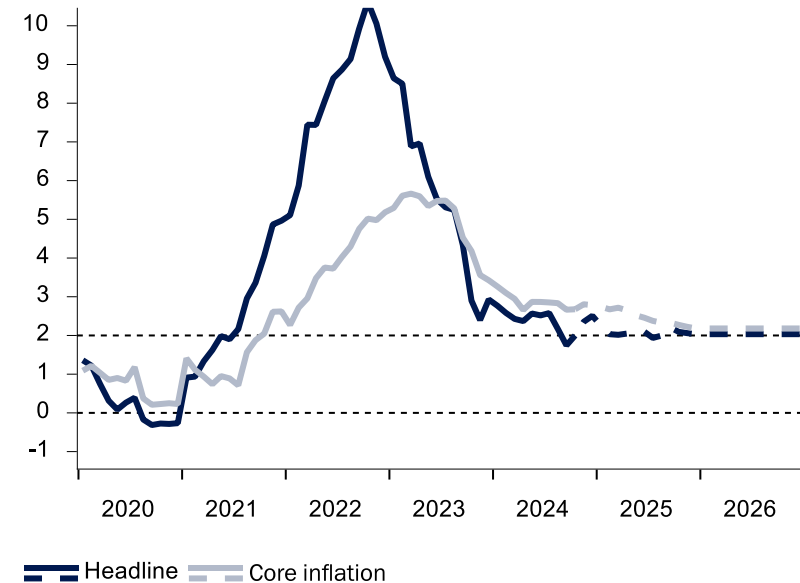
Slowly approaching potential growth in 2026

Euro Area, BJSS forecast as of 2024/10/8, Euro area GDP in % yoy



Reaching the inflation target at the end of 2025

Euro Area, JSS inflation forecast in % yoy



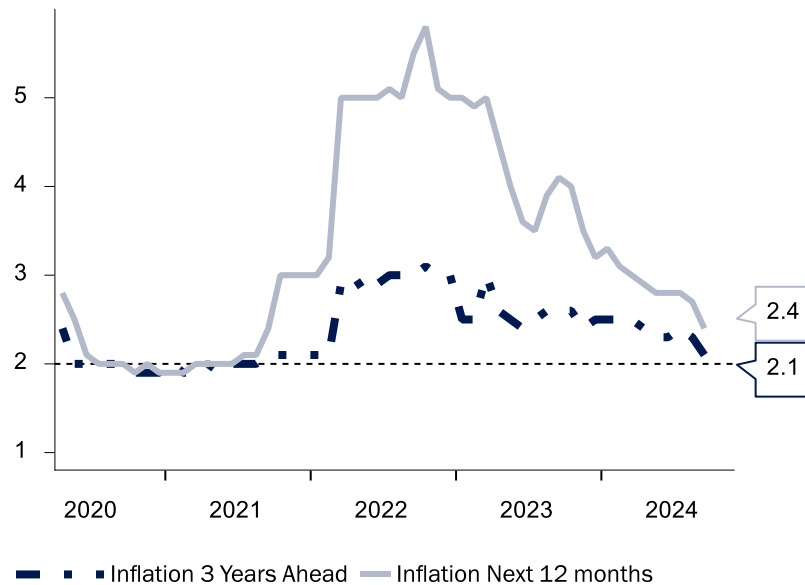
ECB: Time to normalise monetary policy



J. Safra Sarasin

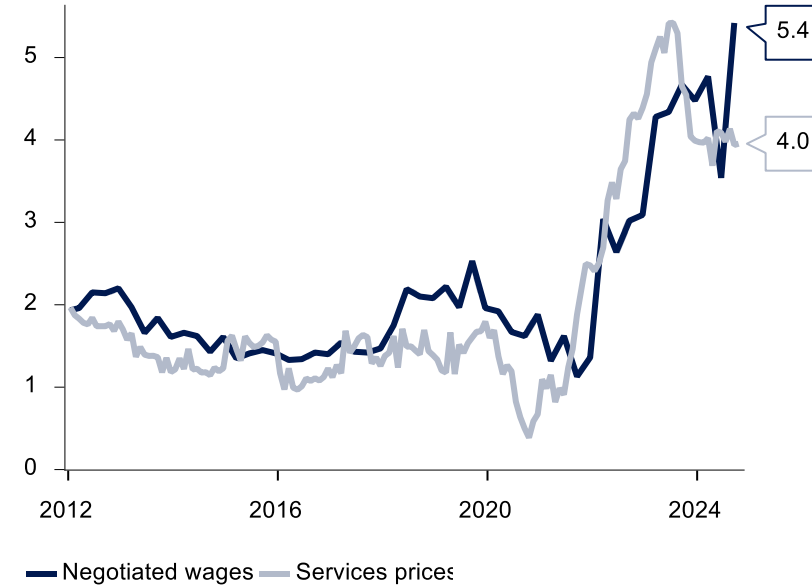
Inflation expectations are well anchored again

ECB, Consumer Inflation Expectations in %, latest data: 9/2024



Wages and services inflation to grow more moderately

Wages and services prices in % yoy



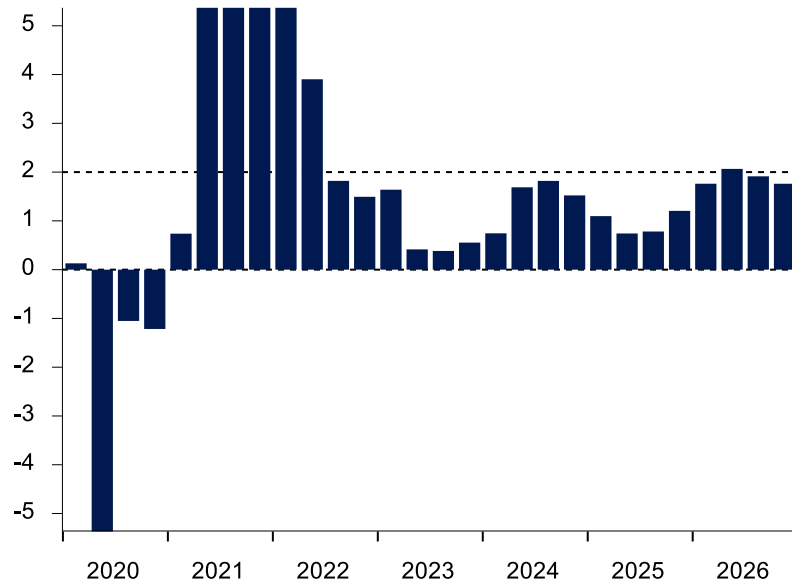
Switzerland: Our macro forecasts – SNB to cut policy rates forcefully



J. Safra Sarasin

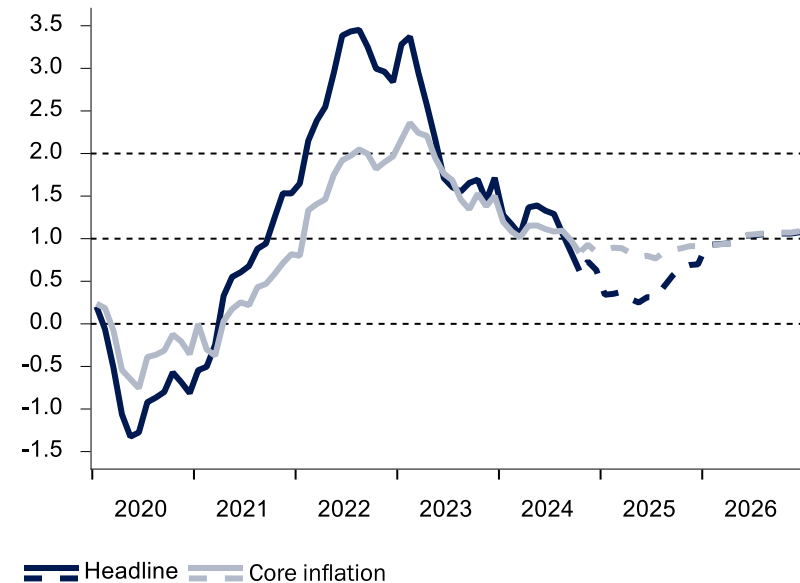
Growth to pick up from mid-2025

Switzerland, JSS forecast, GDP in % yoy



Inflation risks are on the downside

Euro Area, JSS inflation forecast in % yoy



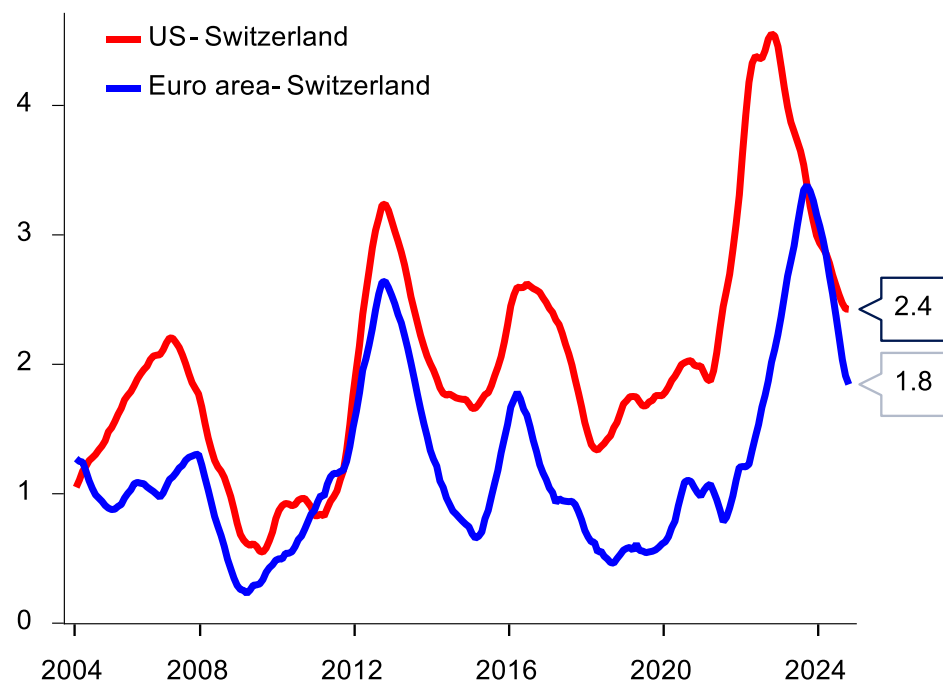
CHF: Further appreciation likely – no FX interventions



J. Safra Sarasin

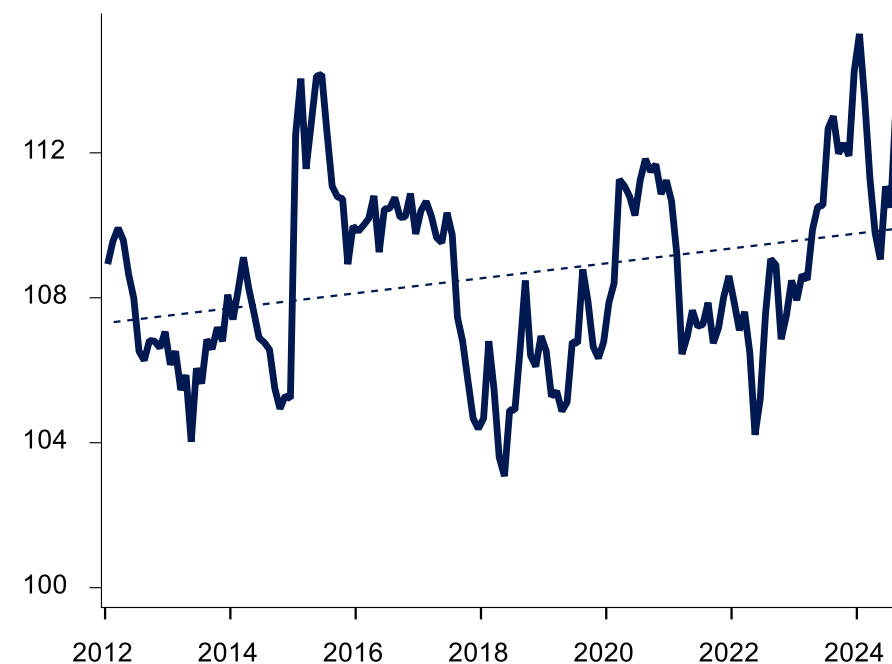
Swiss inflation advantage is considerable

Core inflation differentials in percentage points



Currency slightly above its long-term trend

SNB CHF REER index (2010=100), CIP based vs linear trend



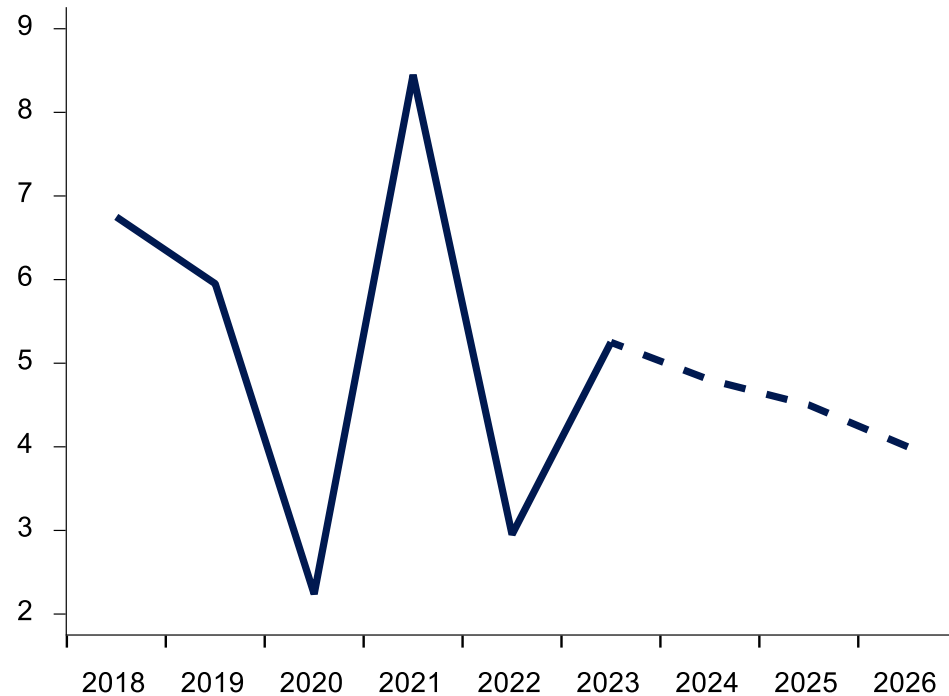
China: Our macro forecasts



J. Safra Sarasin

“Just-enough” policy support to keep growth at 4-5%

China, GDP Growth, Actual and Forecast, % yoy



Source: Macrobond, Bank J. Safra Sarasin, 26.11.2024

Latest fiscal announcements are not the last one

November NPC Standing Committee measures to ease local government financial pressure and allow them to spend more:

- RMB 6 trillion of new bond quota for local government debt swap over 3 years
- Further RMB 4 trillion within existing bond quota can be used for debt swap over 5 years

We expect more support in the coming months. Next to watch is the Central Economic Work Conference in December.





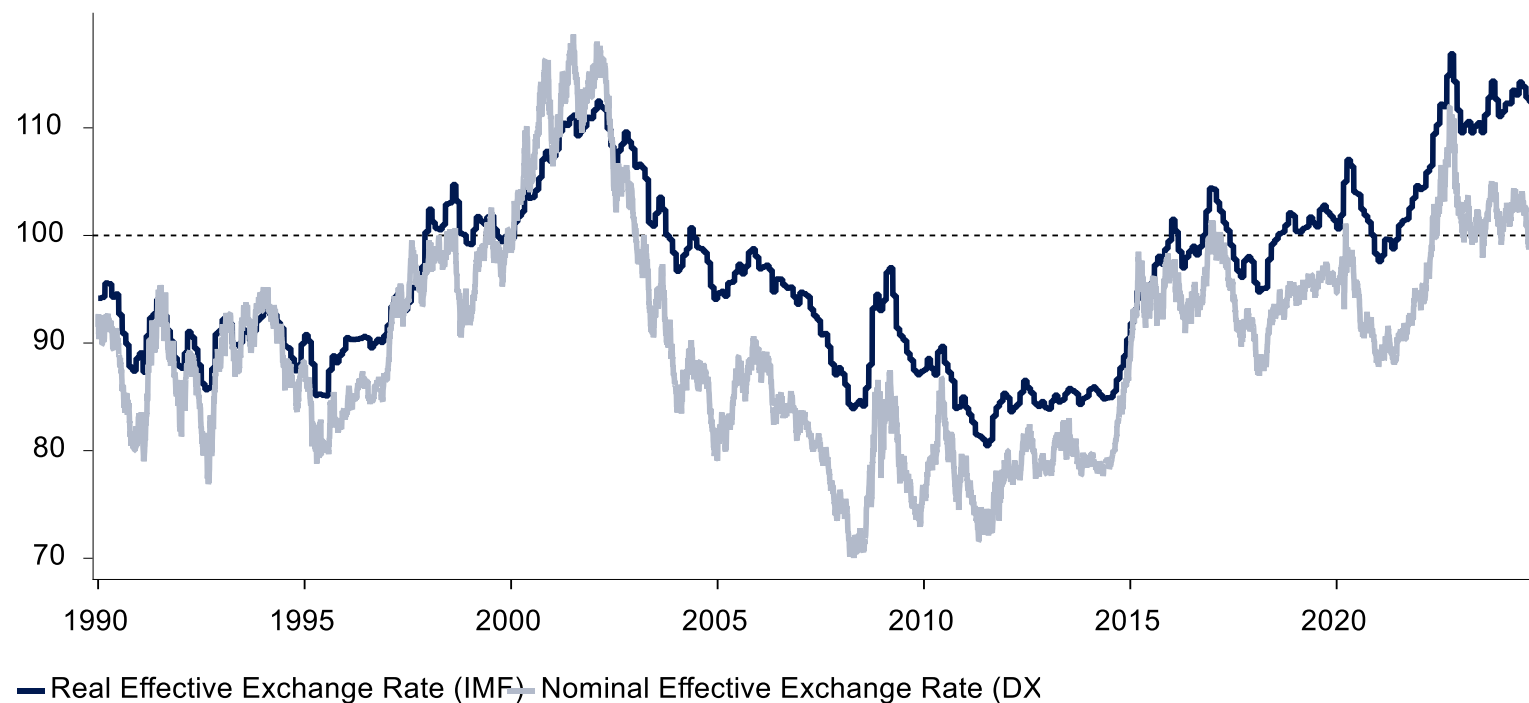
J. Safra Sarasin

Financial Markets



High interest rate differentials support the US dollar

Real effective exchange rate of the US dollar is at a multi-year high

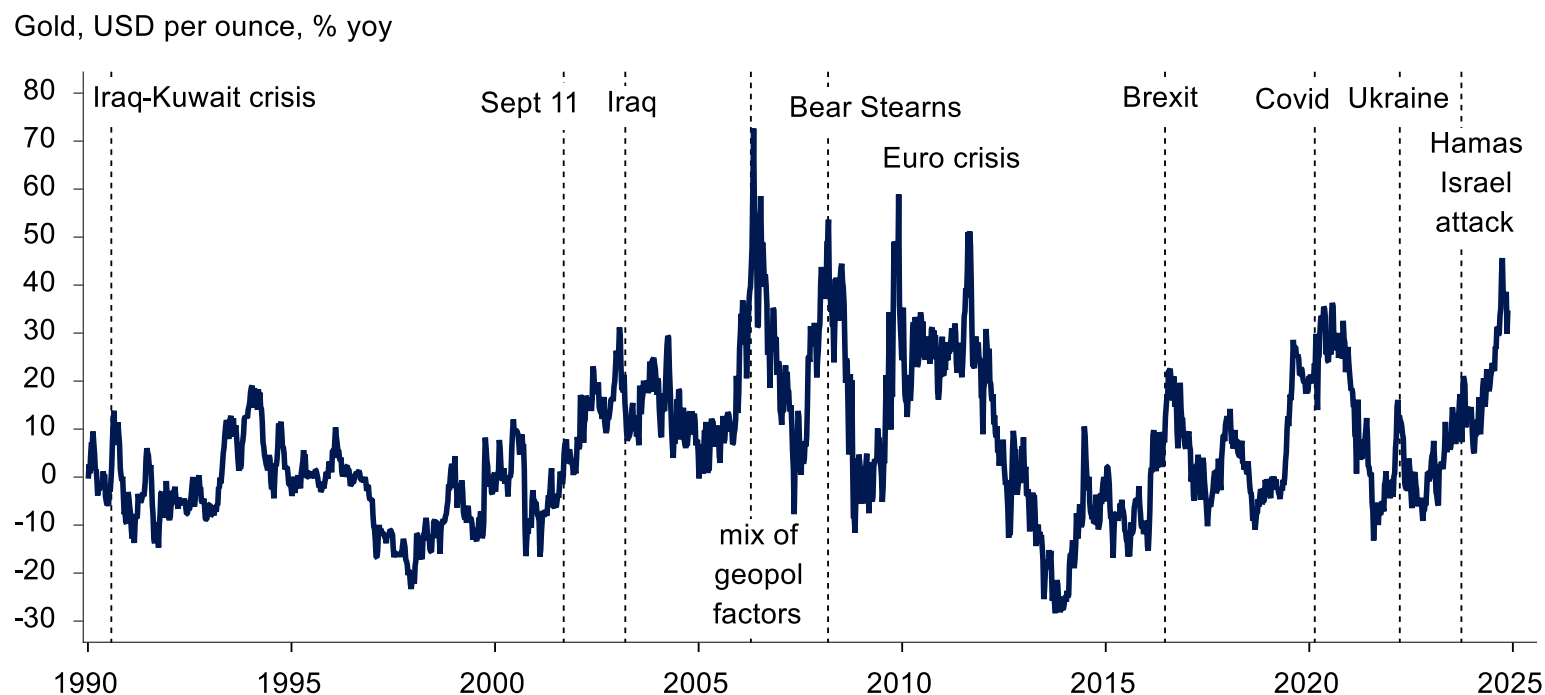


Gold: Strong support on the back of elevated geopolitical risks



J. Safra Sarasin

Historically, the gold price peaked around events with elevated geopolitical risk

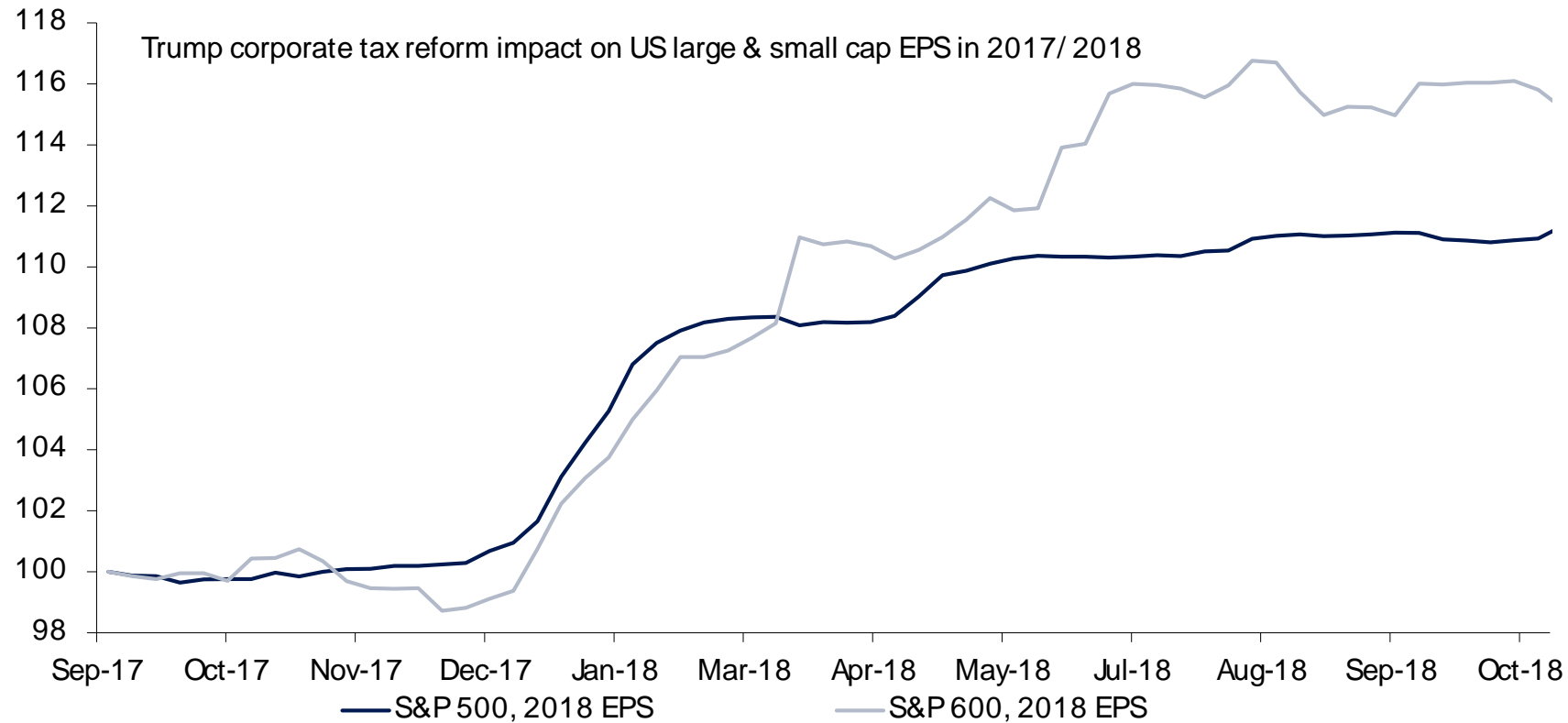


Lower corporate taxes could increase earnings growth by 3%



J. Safra Sarasin

2017 tax cuts increased earnings by 8%-points - those of Small Caps even by ~12%-points

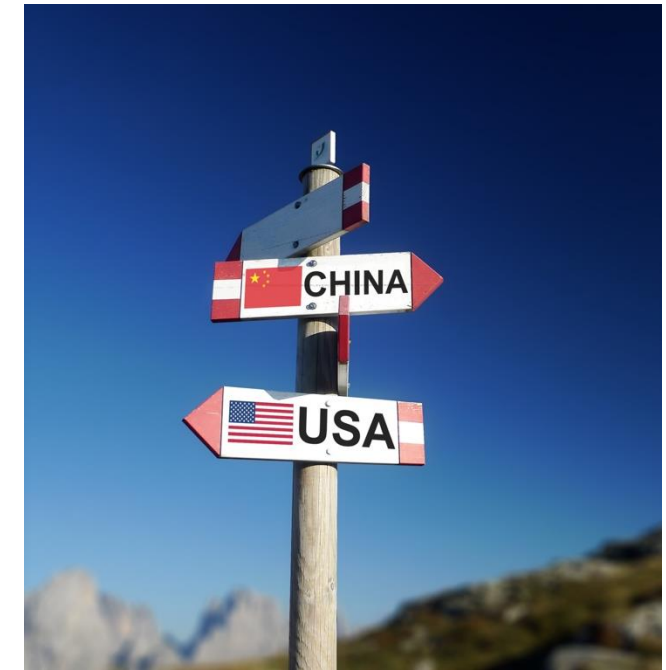
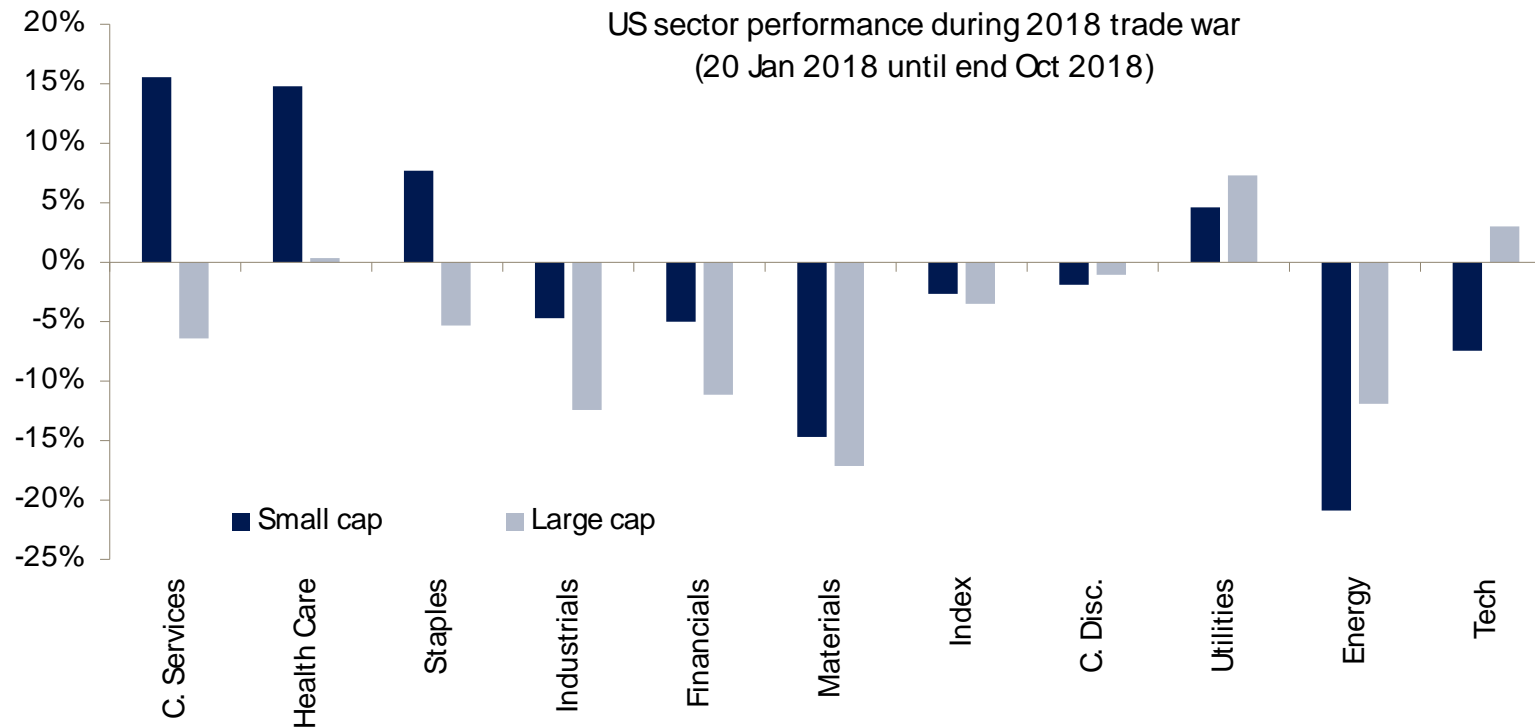


Trade war with China could reduce earnings growth by 1.5%-points



J. Safra Sarasin

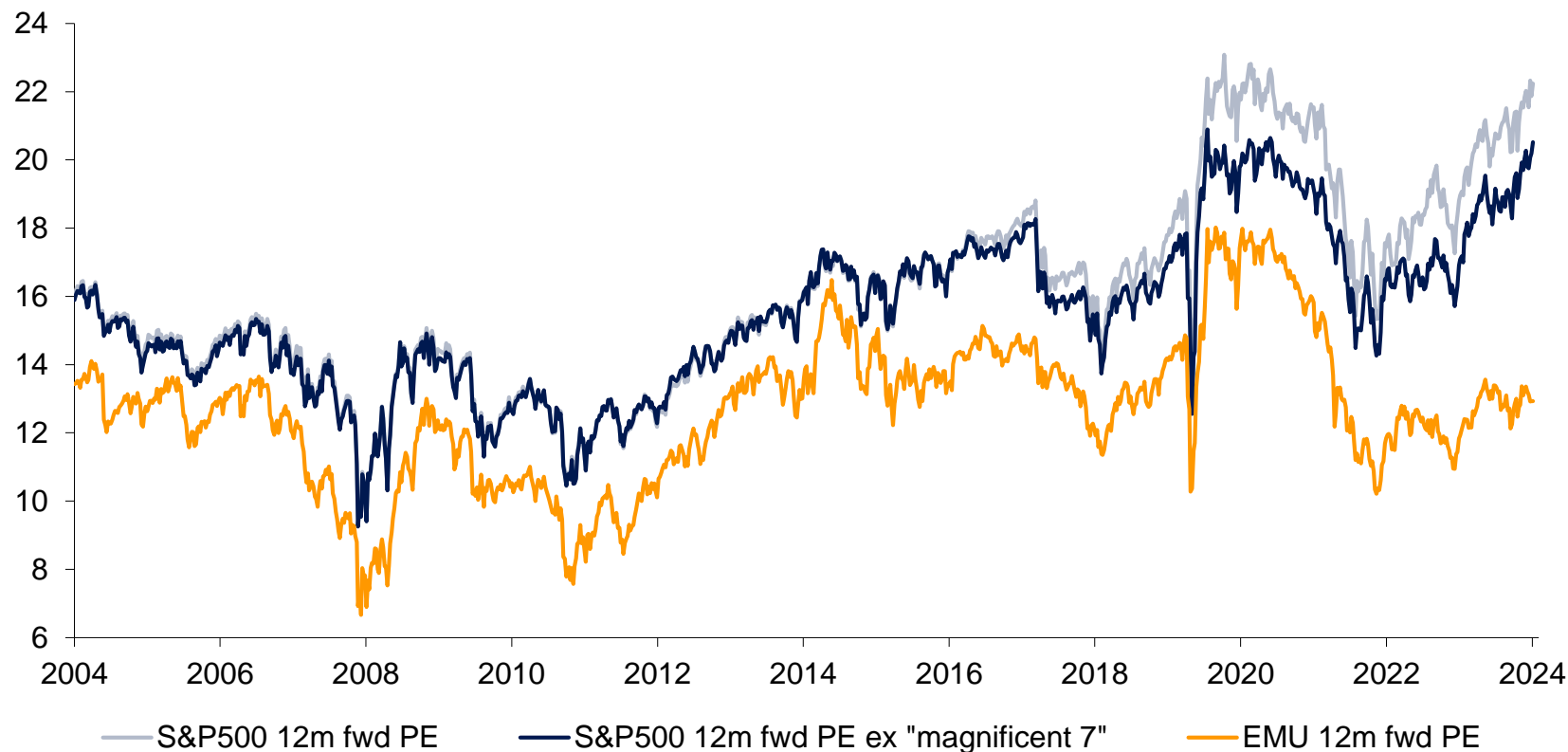
Globally exposed sectors and companies suffered most during the last trade – small caps suffered relatively little





US-equity market is as expensive as end-2021

US stocks are more highly valued than European stocks



Summary: Political choices matter for growth & risk markets



J. Safra Sarasin

Not all depends on Trump's policies – Europe and Asia need to make their own choices



- US economy to grow solidly as higher household and corporate confidence stimulates spending & investment
- Europe will benefit from lower interest rates but urgently needs structural reforms
- Switzerland will fight too low inflation again and slash its policy rate drastically
- A global trade war could lead to stagflation

Financial markets

1 Risk assets like equities should benefit from solid US growth

2 US dollar to remain strong

3 Interest rates in Europe and the US diverge

Source: Bank J. Safra Sarasin, 26.11.2024

Information containing forecasts are intended for information purpose only and are neither projections nor guarantees for future results and could differ significantly for various reasons from actual results. The views are presented for information purpose only and do not take into account the circumstances of any individual investor and do not constitute a request or offer, solicitation or recommendation to buy or sell investments or other specific financial instruments, products or services.



J. Safra Sarasin

Many thanks for your attention



Sustainable Asset Management

Disclaimer

Important Information



J. Safra Sarasin

This publication has been prepared by Bank J. Safra Sarasin Ltd (the “Bank”) for information purposes only. It is not the result of financial research conducted. Therefore, the “Directives on the Independence of Financial Research” of the Swiss Bankers Association do not apply to this publication.

This publication is based on publicly available information and data (“the Information”) believed to be correct, accurate and complete. The Bank has not verified and is unable to guarantee the accuracy and completeness of the Information contained herein. Possible errors or incompleteness of the Information do not constitute legal grounds (contractual or tacit) for liability, either with regard to direct, indirect or consequential damages. In particular, neither the Bank nor its shareholders and employees shall be liable for the views contained in this publication. Third party data providers make no warranties or representations of any kind relating to the accuracy, completeness or timeliness of the data provided and shall have no liability for any damages of any kind relating to such data.

This publication does not constitute a request or offer, solicitation or recommendation to buy or sell investment instruments or services. It should not be considered as a substitute for individual advice and risk disclosure by a qualified financial, legal or tax advisor. You are reminded to read all relevant documentation before making any investment, including risk warnings, and to seek any specialist financial or tax advice that you need. You are not permitted to pass on this publication on to others, apart from your professional advisers. If you have received it in error please return or destroy it.

Past performance is no indication of current or future performance. Investments in foreign currencies are subject to exchange rate fluctuations.

Exchange rate risk will apply if the investor’s reference currency is not the same as the investment currency. Information containing forecasts are intended for information purpose only and are neither projections nor guarantees for future results and could differ significantly for various reasons from actual performance. The views and opinions contained in this publication, along with the quoted figures, data and forecasts, may be subject to change without notice. There is no obligation on the part of the Bank or any other person to update the content of this publication. The Bank does not accept any liability whatsoever for losses arising from the use of the Information (or parts thereof) contained in this document.

Neither this publication nor any copy thereof may be sent to or taken into the United States or distributed in the United States or to a US person. This publication is not directed to any person in any jurisdiction where (by reason of that person’s nationality, residence or otherwise) such distribution is prohibited and may only be distributed in countries where its distribution is legally permitted.

This publication constitutes marketing material. If it refers to a financial instrument for which a prospectus and/or a key investor/information document exists, these are available free of charge from Bank J. Safra Sarasin Ltd, Elisabethenstrasse 62, P.O. Box, CH-4002 Basel, Switzerland.

Disclaimer Indices



J. Safra Sarasin

Bloomberg

“Bloomberg®” and the referenced Bloomberg Index/Indices are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited (“BISL”), the administrator of the index (collectively, “Bloomberg”) and have been licensed for use for certain purposes by Bank J. Safra Sarasin Ltd. Bloomberg is not affiliated with Bank J. Safra Sarasin Ltd, and Bloomberg does not approve, endorse, review, or recommend the financial instrument(s) mentioned in this publication. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to the financial instrument(s) mentioned in this publication.

ICE Data Indices

Source ICE Data Indices, LLC (“ICE DATA”), is used with permission. ICE Data, its affiliates and their respective third party suppliers disclaim any and all warranties and representations, express and/or implied, including any warranties of merchantability or fitness for a particular purpose or use, including the indices, index data and any data included in, related to, or derived therefrom. Neither ICE Data, its affiliates or their respective third party providers shall not be subject to any damages or liability with respect to the adequacy, accuracy, timeliness or completeness of the indices or the index data or any component thereof, and the indices and index data and all components thereof are provided on an “as is” basis and your use is at your own risk. ICE Data, its affiliates and their respective third party suppliers do not sponsor, endorse, or recommend Bank J. Safra Sarasin Ltd, or any of its products or services.

J.P. Morgan

Information has been obtained from sources believed to be reliable but J.P. Morgan does not warrant its completeness or accuracy. The Index is used with permission. The Index may not be copied, used, or distributed without J.P. Morgan’s prior written approval. Copyright 2020, J.P. Morgan Chase & Co. All rights reserved.

MSCI Indices

Source: MSCI. The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com)

SMI

SIX Swiss Exchange AG (“SIX Swiss Exchange”) is the source of SMI Indices® and the data comprised therein. SIX Swiss Exchange has not been involved in any way in the creation of any reported information and does not give any warranty and excludes any liability whatsoever (whether in negligence or otherwise) – including without limitation for the accuracy, adequateness, correctness, completeness, timeliness, and fitness for any purpose – with respect to any reported information or in relation to any errors, omissions or interruptions in the SMI Indices® or its data. Any dissemination or further distribution of any such information pertaining to SIX Swiss Exchange is prohibited.

Disclaimer

Distribution Information



J. Safra Sarasin

Unless stated otherwise this document is distributed by Bank J. Safra Sarasin Ltd (Switzerland).

The Bahamas: This publication is circulated to private clients of Bank J. Safra Sarasin (Bahamas) Ltd, and is not intended for circulation to nationals or citizens of The Bahamas or a person deemed 'resident' in The Bahamas for the purposes of exchange control by the Central Bank of The Bahamas.

Dubai International Financial Centre (DIFC): This material is intended to be distributed by J. Safra Sarasin (Middle East) Ltd ("JSSME") in DIFC to professional clients as defined by the Dubai Financial Services Authority (DFSA). JSSME is duly authorised and regulated by DFSA. If you do not understand the contents of this document, you should consult an authorised financial adviser. This material may also include Funds which are not subject to any form of regulation or approval by the Dubai Financial Services Authority ("DFSA"). The DFSA has no responsibility for reviewing or verifying any Issuing Document or other documents in connection with these Funds. Accordingly, the DFSA has not approved the Issuing Document or any other associated documents nor taken any steps to verify the information set out in the Issuing Document, and has no responsibility for it. The Units to which the Issuing Document relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers should conduct their own due diligence on the Units.

Germany: This marketing publication/information is being distributed in Germany by J. Safra Sarasin (Deutschland) GmbH, Kirchnerstraße 6-8, 60311 Frankfurt am Main, for information purposes only and does not lodge claim to completeness of product characteristics. Insofar as information on investment funds is contained in this publication, any product documents are available on request free of charge from J. Safra Sarasin (Deutschland) GmbH, Kirchnerstraße 6-8, 60311 Frankfurt am Main in English and German language. To the extent that indicative investment options or portfolio structures are included, the following applies: The indicative investment options or portfolio structures presented in these documents and the underlying model calculations are based on the information and data provided to us in the context of the asset advisory discussion, and we have not checked them for accuracy or completeness. The indicative investment option/portfolio structure described here is thus intended as a guide and does not make any claim to comprehensive suitability but aims to inform you about the general possibilities that an investment entails. In order to provide you with a final investment recommendation that is tailored to your specific situation, we need further information, in particular on your investment goals, risk tolerance, experience and knowledge of financial services and products and your financial situation. This publication is intended to be distributed by J. Safra Sarasin (Deutschland) GmbH, Kirchnerstraße 6-8, 60311 Frankfurt am Main to clients domiciled or having their registered office in Germany and is directed exclusively at institutional clients who intend to conclude investment business exclusively as entrepreneurs for commercial purposes. This clientele is limited to credit and financial services institutions, capital management companies and insurance companies, provided that they have the necessary permission for the business operation and are subject to supervision, as well as medium and large corporations within the meaning of the German Commercial Code (section 267 (2) and (3) HGB).

Disclaimer

Distribution Information



J. Safra Sarasin

Hong Kong: This document is disseminated by Bank J. Safra Sarasin Ltd, Hong Kong Branch in Hong Kong. Bank J. Safra Sarasin Ltd, Hong Kong Branch is a licensed bank under the Hong Kong Banking Ordinance (Cap. 155 of the laws of Hong Kong) and a registered institution under the Securities and Futures Ordinance (cap. 571 of the laws of Hong Kong).

Luxemburg: This publication is distributed in Luxembourg by Banque J. Safra Sarasin (Luxembourg) SA (the “Luxembourg Bank”), having its registered office at 17-21, Boulevard Joseph II, L-1840 Luxembourg, and being subject to the supervision of the Commission de Surveillance du Secteur financier – CSSF. The Luxembourg Bank merely agrees to make this document available to its clients in Luxembourg and is not the author of this document. This document shall not be construed as a personal recommendation as regards the financial instruments or products or the investment strategies mentioned therein, nor shall it be construed as and does not constitute an invitation to enter into a portfolio management agreement with the Luxembourg Bank or an offer to subscribe for or purchase any of the products or instruments mentioned therein. The information provided in this document is not intended to provide a basis on which to make an investment decision. Nothing in this document constitutes an investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate for individual circumstances. Each client shall make its own appraisal. The liability of the Luxembourg Bank may not be engaged with regards to any investment, divestment or retention decision taken by the client on the basis of the information contained in the present document. The client shall bear all risks of losses potentially incurred as a result of such decision. In particular, neither the Luxembourg Bank nor their shareholders or employees shall be liable for the opinions, estimations and strategies contained in this document.

Monaco: In Monaco this document is distributed by Banque J. Safra Sarasin (Monaco) SA, a bank registered in “Principauté de Monaco” and regulated by the French Autorité de Contrôle Prudentiel et de Résolution (ACPR) and Monegasque Government and Commission de Contrôle des Activités Financières («CCAF»).

Panama: This publication is distributed, based solely on public information openly available to the general public, by J. Safra Sarasin Asset Management S.A., Panama, regulated by the Securities Commission of Panama.

Qatar Financial Centre (QFC): This material is intended to be distributed by Bank J. Safra Sarasin (QFC) LLC, Qatar [“BJSSQ”] from QFC to Business Customers as defined by the Qatar Financial Centre Regulatory Authority (QFCRA) Rules. Bank J. Safra Sarasin (QFC) LLC is authorised by QFCRA. This material may also include collective investment scheme/s (Fund/s) that are not registered in the QFC or regulated by the Regulatory Authority. Any issuing document / prospectus for the Fund, and any related documents, have not been reviewed or approved by the Regulatory Authority. Investors in the Fund may not have the same access to information about the Fund that they would have to information of a fund registered in the QFC; and recourse against the Fund, and those involved with it, may be limited or difficult and may have to be pursued in a jurisdiction outside the QFC.

Singapore: This document is disseminated by Bank J. Safra Sarasin Ltd., Singapore Branch in Singapore. Bank J. Safra Sarasin, Singapore Branch is an exempt financial adviser under the Singapore Financial Advisers Act (Cap. 110), a wholesale bank licensed under the Singapore Banking Act (Cap. 19) and regulated by the Monetary Authority of Singapore.

United Kingdom: This document is distributed from the UK by Bank J. Safra Sarasin (Gibraltar) Ltd, London Branch, 47 Berkeley Square, London, W1J 5AU, to its clients, prospects and other contacts. Bank J. Safra Sarasin (Gibraltar) Ltd offers wealth and investment management products and services to its clients and prospects through Bank J. Safra Sarasin (Gibraltar) Ltd, London Branch. Registered as a foreign company in the UK number FC027699. Authorised by the Gibraltar Financial Services Commission and subject to limited regulation in the United Kingdom by the Financial Conduct Authority and the Prudential Regulation Authority. Registration number 466838. Details about the extent of our regulation by the Financial Conduct Authority and Prudential Regulation Authority are available from us on request. Registered office 57 - 63 Line Wall Road, Gibraltar. Telephone calls may be recorded. Your personal data will be handled in accordance with our Data and Privacy Statement. Where this publication is provided to you by Bank J. Safra Sarasin (Gibraltar) Limited, London Branch: Nothing in this document is intended to exclude or restrict any liability that we owe to you under the regulatory system that applies to us, and in the event of conflict, any contrary indication is overridden. You are reminded to read all relevant documentation relating to any investment, including risk warnings, and to seek any specialist financial or tax advice that you need. You are not permitted to pass this document on to others, apart from your professional advisers. If you have received it in error please return or destroy it.

© Copyright Bank J. Safra Sarasin Ltd. All rights reserved.