Written on December 4, 2024

MARKET OVERVIEW DECEMBER 2024

By Dominique Marchese, Head of Equities & Fund Manager

TRUMP ACCLAIMED BY THE MARKETS

The large victory of Donald Trump and the Republican Party has boosted investor confidence on the American markets. The main stock indices have recorded new records; the dollar has remained strong; long-term sovereign rates have fallen slightly since their peak in mid-November (around -0.2% for the actuarial yield on the 10-year Treasury bond at 4.2%). The markets are welcoming with serenity the first appointments at the head of the new Administration.

TRUMP 2.0: INTENTIONAL TRIALS HAVE NO EFFECT ON INVESTOR OPTIMISM

We must emphasize the great calm of the markets regarding the new Administration that will take the reins of the executive on January 20. The consensus seems to adhere to the idea that Donald Trump will not deploy his entire program, considered rather inflationary in terms of immigration policy and customs tariffs, despite the absolute control of the executive branch, the two houses of Congress and the Supreme Court. The markets remain deaf to the trials of intent that we read every day in the *mainstream media* and economic publications. Medium and long-term inflation expectations remain well anchored. Treasury bond yields even fell slightly on the announcement of the appointment of Scott Bessent to the key position of Secretary of the Treasury (a title equivalent to Minister of Finance), considered by many to be a sign of seriousness. A former professor of economic history at Yale University, he was a partner at George Soros (without adhering to his progressivism) and founded Key Square Group, an investment fund management company. A supporter of rigor in the management of public finances, Scott Bessent is respected by the financial markets and clearly raises the bar, while some appointments of shady characters in the new Administration can rightly raise a smile.

Obviously, nothing is decided before Donald Trump's inauguration in the White House, who has already announced that he wants to impose customs duty increases of 25% on Canada and Mexico (the gateway for many foreign products to American soil), and 10% for China. **However, investors have decided to focus on the most positive aspects of the Republican Party's program, and in particular on the deregulation projects that should free up economic growth.** According to economists at Piper Sandler, the strengthening of regulation during Joe Biden's term would have cost 3% of GDP (gross domestic product), a significant impact. The unraveling of certain regulations, which slow down economic activity and are deemed contrary to the interests of the United States, will rely on the now famous government agency DOGE (*Department of Government Efficiency*) which will benefit from Elon Musk's expertise in the private sector and developments in generative artificial intelligence (AI). The expected positive effects on inflation could partly offset the tensions linked to the new migration policy (downward pressure on the overall supply of labor, especially in services) and possible increases in customs tariffs.

As an illustration, Donald Trump is very attached to the guarantee of abundant and cheap energy (which has not been the case in the European Union for a long time, it should be remembered). He should therefore cancel the moratorium on investments in liquefied natural gas and relax production constraints in shale oil and gas. More generally, in a situation of global overproduction and structurally weakened Chinese demand for crude oil, oil prices could be a very good surprise for consumers in 2025, especially if OPEC relaxes its production quotas in order to recover some market share lost to the United States, whose average production break-even point is USD 60 per barrel of crude (compared to a price of the continuous West Texas contract around USD 70 today). **We believe that analysts concerned about the trajectory of US inflation are not taking sufficient account of Donald Trump's desire to keep energy prices as low as possible (they currently represent around 7% of the consumer price index).** It seems obvious to us that Donald Trump has no interest in letting inflation run wild, while Joe Biden and the Democratic Party were precisely punished during the last elections on this fundamental issue for households (although their responsibility in this area is in reality rather low). In any case, to avoid a probable rout in the next mid-term legislative elections in 2026 (renewal of the entire House of Representatives and a third of the Senate), the Republicans will have an easy time correcting any macroeconomic policy errors likely to fuel the price spiral.

Finally, we would like to stress that throughout 2024, American economic growth was largely underestimated by economists. During the summer, the markets, struck by hallucinations, even began to fear an imminent entry into recession. Investors' doubts were finally quickly dispelled at the start of the school year, thanks to robust economic statistics, but this episode perfectly illustrates the markets'

Pure Capital S.A., société de gestion régulée par la CSSF (Luxembourg)
www.purecapital.eu | info@purecapital.eu

Siège social Luxembourg
2 rue d'Arlon, L-8399 Windhof | T : +352 26 39 86

Succursale Belgique
Sneeuwbeslaan 20, B-2610 Wilrijk | T: +32(0)3 246 04 65

bewilderment with regard to the resilience of the American economy supported by private consumption (two thirds of GDP - the latest figures recorded during Thanksgiving *and* Black *Friday* are excellent) and the investment cycle up 3.8% since the beginning of the year. We would like to point out that at the end of 2023, the consensus was predicting economic growth of around 1.3% in volume (excluding inflation) for the current financial year. It will probably reach 2.7%! The gap between reality and initial forecasts is very significant. For the year 2025, the consensus shows a volume growth of 2% (soft landing scenario for the economy *)* . If Donald Trump succeeds in the start of his term, this average forecast will inevitably be revised upwards, which will in turn strengthen the credibility of the consensus expectations for profits (expected profit growth of 15% for the main American index). Consequently, we invite the reader to ignore the unfriendly comments of many observers, especially those of European politicians who have no interest in a president known as a "right-wing populist" succeeding in his term. We obviously advise vigilance, but remain fundamentally agnostic and pragmatic. **We remain convinced that the trajectory of profits and margins of American companies are more likely to remain supported under the new Administration. In addition, innovation (AI) and productivity gains will continue to play a crucial role.**

EUROPEAN UNION: ECB SHOOTS THE AMBULANCE

After Mario Draghi's report on the competitiveness of the Union, which we have commented on extensively in our previous monthly letters, a real snub to political leaders, the European Central Bank (ECB) thought it was a good idea to add another layer to the ambient pessimism by shooting the ambulance. **On 20 November, in its latest financial stability review, it warned of the worsening of vulnerabilities (sic) on several sovereign debts of the eurozone.** We all have in mind, of course, the case of France, which is sinking further into the political and budgetary crisis (fall of the Barnier government), and ultimately into the unknown. Our comments on the EU's disengagement from the rest of the world in general and from the United States in particular may have seemed excessively pessimistic to some of our readers. **Unfortunately, at this stage, we can only reiterate our messages of caution and geographical diversification of portfolios, in the hope that the Union governments and the European institutions will finally decide to lead a true Copernican revolution.** We are far from that, while the two heavyweights Germany and France are facing serious political crises that are in turn weakening the Union institutions.

Should we therefore get rid of our European stocks? Excluding Europe from a balanced portfolio would probably be too brutal a decision. **There are many undervalued gems that have significantly increased their international exposure, and in particular their production capacities in the United States.** According to the economists of the Cahiers Verts de l'Économie, the companies in the Stoxx 600 index have around 30% of their assets in the United States, compared to around 15% twenty years ago. The sectors most affected are, unsurprisingly, technology, health and telecoms. We can add many companies in chemicals (Syensqo), electrical equipment goods (Schneider Electric), distribution (Ahold Delhaize) and business services (Compass). These international groups thus have a natural hedge against possible trade tensions when their assets are primarily aimed at American customers. They will also benefit from a possible tax break decided by the new Administration, low energy costs (this is precisely the debate that fuels the strong tensions between German industrialists and their government), and supply-side policies (this is already the case with Joe Biden's *Inflation Reduction Act program*). Finally, these American assets enjoy profit margins that are largely immune to exchange rate volatility (there remains a risk of converting profits into EUR, CHF or GBP depending on the case). **In conclusion, while we remain cautious with regard to European markets, certainly in terms of relative performance compared to American indices, we nevertheless avoid throwing the baby out with the bathwater.**

CONCLUSION

Investors have clearly endorsed the new Administration that will take the helm in Washington on January 20. Like them, we advise judging the new Administration's macroeconomic policy on its merits, and reject biased assumptions that forget that Donald Trump's first term, despite its many twists and turns, was not synonymous with economic and stock market chaos or inflationary slippage (voters remembered that). Have investors become complacent? The low volatility of financial markets could suggest so. In our opinion, it reflects confidence in the strengths of the American economy, which has proven its great resilience in 2024. If the new Administration does not weaken these structural forces (innovation, productivity gains, consumption), but on the contrary fuels the rocket engines (deregulation, taxation), it will be foolhardy to bet against the American markets in 2025.

Pure Capital S.A., société de gestion régulée par la CSSF (Luxembourg)
www.purecapital.eu | info@purecapital.eu

Siège social Luxembourg
2 rue d'Arlon, L-8399 Windhof | T : +352 26 39 86

Succursale Belgique
Sneeuwbeslaan 20, B-2610 Wilrijk | T: +32(0)3 246 04 65

independence of investment research and should therefore be considered a marketing communication. Although this content is not subject to any prohibition on use prior to its dissemination (for example, to execute orders), Pure Capital does not seek to profit from it.
For further details regarding the investment products, the official sales documents (the Key Investor Information Document, the prospectus, the half-yearly report and the annual report) are available free of charge upon request from Pure Capital SA (hereinafter "Pure Capital") (tel.: +352 26 39 86) or by consulting the website www.purecapital.eu.
The information contained in this document is provided in good faith and cannot engage the responsibility of Pure Capital.
There can be no guarantee that investment objectives will be achieved. Past performance is not a reliable indicator of future results. Performance may vary over time. The net asset value of the portfolio depends on market trends. Any investment fund is therefore subject to market fluctuations and the investor may get back less than the amount invested.
Annual custody fees, or custody fees, may be charged by your account holder. They vary from one institution to another. To find out what they are, please inquire.
This document is provided to you on the condition that it will not constitute a primary basis for any investment. Any investment should be the result of a sufficiently informed and informed decision.

Pure Capital S.A., société de gestion régulée par la CSSF (Luxembourg)
www.purecapital.eu | info@purecapital.eu

Siège social Luxembourg
2 rue d'Arlon, L-8399 Windhof | T : +352 26 39 86

Succursale Belgique
Sneeuwbeslaan 20, B-2610 Wilrijk | T: +32(0)3 246 04 65