2024 Review & 2025 Outlook

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What major macroeconomic events marked 2024 ?

The year 2024 was marked by several major macroeconomic events. In the United States, Donald Trump's victory following a hotly contested presidential campaign rekindled economic uncertainties. True to his platform, the new president announced his willingness to implement higher tariffs to rebalance global trade, increased deregulation and an accommodating fiscal policy, despite a high federal deficit. On the economic front, growth was surprisingly robust, averaging around 3 % for the year, despite a restrictive monetary policy. However, mixed signals from the labor market led the Federal Reserve to initiate a rate-cutting cycle as early as September, marking a pivot in its monetary policy.

In the Eurozone, growth remained weak overall, with activity held back by high energy prices and a pressurized industrial sector. Spain stood out with growth of 1.6 %, in contrast to the 0.3 % recorded by the Franco-German bloc.

In France, the budget deficit reached around 6 % of GDP, fuelled by high public spending and political instability characterized by early legislative elections and several ministerial reshuffles. Against this backdrop, the ECB is forecasting a return to neutral rates in 2025. However, more pronounced monetary easing could be considered should the region's economic weakness intensify.

In China, the slowdown intensified, with growth falling to 4.6 % in the third quarter. The crisis in the real estate sector worsened, with housing starts falling by 23 % over the year. Although stimulus measures were introduced in September, their impact remains limited. Domestic consumption remains sluggish, and the country's economic outlook now depends in part on the Trump administration's new trade policy.

How have financial markets performed in 2024 ?

In 2024, financial markets were marked by contrasting dynamics across the major economic regions. In Europe, the equity market gained +6.0 %, buoyed at the start of the year by hopes of a cycle of rate cuts and solid earnings releases.

However, the second half of the year was affected by economic, political and geopolitical concerns : the political crises in France and Germany, the election of Donald Trump and his threats of tariffs, the spread of conflicts in Ukraine and the Middle East, and weak Chinese consumption.

The CAC 40 suffered (-2.15 %), penalised by political instability in France and the slowdown in the luxury goods sector, which is heavily exposed to China.

In the United States, markets hit record highs, with the S&P 500 at +33.1% and the Nasdaq at +34.3 % (in local currency), buoyed by a cycle of rate cuts and robust economic growth (Q2 GDP : +3 %, Q3 : +3.1 %). The election of Donald Trump has boosted optimism, particularly in the technology and financial sectors, due to expectations of deregulation and tax cuts.

By sector, the European banking sector (+26 %) was the best performer, buoyed by solid earnings, a resumption of M&A activity and a slower pace of interest-rate cuts. Insurance (+18.2 %) benefited from its defensive nature, despite the impact of natural disasters. Conversely, the automotive (-12.2 %) and basic materials (-11.3 %) sectors were penalized by competition from China and weaker-than-expected demand there.

How can we analyze current US market valuations ? What is the outlook for the year ahead ?

Current US market valuations are reaching high levels, with the S&P 500 posting a price/earnings ratio (P/E) of 22x, well above its 20-year median of 16x. This premium is accompanied by marked concentration : only 31 % of stocks in the index outperformed in 2024, reminiscent of the Internet bubble of 1999-2000. Mega-cap companies dominate performance, but almost 40 % of their capitalization is under antitrust investigation, adding to the risks.

The outlook remains limited, with Goldman Sachs forecasting an average annual return of 3 % in nominal terms over 10 years (1 % in real terms). This context calls for strategic diversification, focusing on three major areas.

Firstly, diversification by size offers opportunities in the small and mid-cap (Smid) segment. This segment is more sensitive to falling interest rates, with 49 % of Russell 2000 companies having floating-rate debt, compared with just 9 % in the S&P 500. In addition, an upturn in M&A activity is expected to favor mid-sized companies. Morgan Stanley anticipates a 50 % increase in transactions by 2025, thanks to a soft landing for the economy and pressure from private equity funds.

Secondly, diversification by style can prove interesting, notably by turning to the value style. The latter benefits from an attractive relative valuation, below the long-term average in the US (one standard deviation below the mean) and even more so in Europe (1.5 standard deviations). The value style is also supported by its correlation with inflation expectations, which rose by 50 basis points in Q4 2024, and by the resilience of local industries, less exposed to trade tensions.

Finally, geographic diversification can balance portfolios. While the United States represents a record allocation for many investors, the eurozone remains underweight despite more attractive valuations. Any improvement in the geopolitical outlook, such as a ceasefire in Ukraine, or in the fiscal outlook, particularly in Germany following the early elections, could reverse capital flows and boost European markets.

Thus, although the high valuations of US markets limit potential gains, a strategy of diversification targeted by size, style and geography can open up interesting opportunities while strengthening portfolio resilience in a 2025 environment that looks particularly uncertain.

Our 2025 convictions

		-	- / =	=	= / +	+
FIXED INCOME	*Credit*			●		
	EUR govies		●			
	US govies				●	
	Emerging			●		
EQUITIES	*Eurozone*				●	
	Smid Caps				●	
	US		●			
	US Equal Weight.			●		
	Emerging			●		
OTHERS	*Cash*		●			
	USD				●	
	Commodities				●	

These convictions reflect the analyses of the management team as at 01/15/2025 and may change over time. Source : DNCA Finance as at 01/15/2025. US Equal Weighted : each US stock is equally weighted, regardless of its market capitalisation, allowing a balance between all the companies concerned.

Trends in the main equity market indices

	2024 Variation (%)
MSCI World	17
MSCI Europe	5,8
MSCI Euro	6,3
MSCI Emergings	5,1
MSCI EM Latam	-30,4
EUROSTOXX 50	8,3
S&P 500	23,3
Japon NIKKEI	19,2
China Shangai	12,7

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Top-performing sectors	2024 Variation (%)
Banks	26
Insurances	18,2
Telecommunications	16,2
Media	15,6
Financial Services	15,4

Underperforming sectors	2024 Variation (%)
Food and beverages	-12,3
Automobiles and equipment	-12,2
Commodities	-11,3
Chemistry	-8,3
Oil and Gas	-6,1

Source : Bloomberg at 12/31/2024

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- Risk of capital loss ;
- Equity risk : if the equity markets fall, the value of a financial instrument may fall ;
- Interest rate risk : interest rate risk results in a fall in the value of the financial instrument in the event of a change in interest rates ;
- Credit risk : credit risk is the risk that the issuer will not be able to meet its commitments ;
- Currency risk : this relates to exposure to a currency other than the reference currency of the financial instrument.

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