Rothschild & Co
Asset Management

# Caution prevails as Trump administration prepares to shake up international markets


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## R-co Valor, our flagship fund, enters 2025 with a resolutely cautious stance, with no intention of significantly re-exposing it to the equity markets, given the current macroeconomic and geopolitical environment.

The repercussions of the past global electoral year, coupled with Donald Trump's second term, amplify uncertainties around inflation, growth, and trade relations. Simultaneously, investors must navigate a landscape marked by new geopolitical realities, supply chain evolutions, and the rapid rise of artificial intelligence. We thus identify numerous factors likely to influence the markets in 2025.

While the Fed may maintain high interest rates to curb inflation driven by Trump's policies, the ECB could adopt even more accommodative measures to support sluggish growth, accentuating transatlantic monetary divergences. The new American president's first 100 days in the White House will be crucial. Markets are closely monitoring the potential implications of Trump's yet unclear program. Fiscal easing, including tax cuts and potential deregulation, could stimulate growth, but heightened protectionism risks slowing the economy and exacerbating short-term inflation. Furthermore, the prospect of a protectionist economic policy could lead to an appreciation of the greenback, making US exports less competitive and weighing on emerging economies indebted in dollars.

Also in the United States, the budget deficit reached 6.3% of GDP in 2024, amounting to $1.83 trillion[1]. Trump's announced tax cuts could worsen this situation. Without a policy shift, the deficit is unlikely to shrink due to rising healthcare costs and interest expenses on debt. This trend is worldwide: according to the IMF's latest Fiscal Monitor report, global debt will pass the historic threshold of $100,000 billion in 2024, or 93% of world GDP, and could exceed 100% before the end of the decade.

Moreover, Equity market concentration remains high, with the top 10 stocks in the S&P 500 accounting for 38% of the index[2], close to historical peaks. The overperformance of tech giants has increasingly relied on AI-related hopes since 2022. A significant correction could occur if the AI theme disappoints. Additionally, AI’s development could strain the global energy system (a ChatGPT search consumes about 6 to 10 times more energy than a traditional Google search). Lastly, China, faced with stricter international trade conditions, it is crucial for Beijing to stimulate domestic consumption to reduce its reliance on exports and ensure more resilient economic growth.

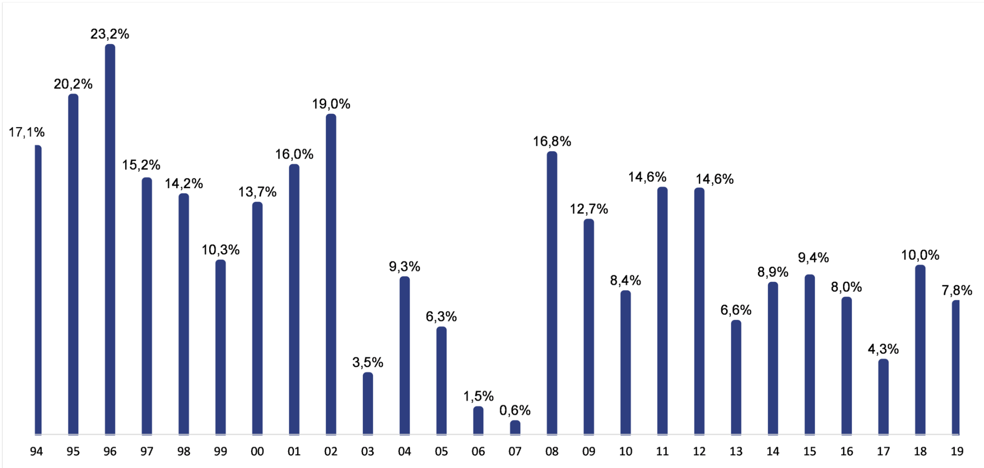
Despite these challenges, opportunities may arise in the coming months. We maintain our positions in the U.S. equity market remains one of the world’s most attractive, supported by robust economic growth, strong corporate earnings growth, a deeply rooted culture of innovation, and high productivity. While market concentration poses risks, opportunities exist outside the “Magnificent 7”[3]. Additionally, banking stocks may benefit from deregulation promised by the president.

In Europe, high energy costs, political instability, and stagnant productivity are growth impediments. Nevertheless, opportunities exist in sectors such as healthcare, industrials, and luxury goods. These sectors feature companies with few equivalents in the U.S. or with more attractive valuations. Our European exposure focuses on internationally oriented companies that can partially sidestep the domestic gloom.

About emerging markets, they are too diverse to be treated as a homogeneous block. However, overall, growth has shown notable resilience, and inflation has significantly receded since the peaks of 2022. In China, despite significant stimulus measures, the government struggles to boost domestic demand. November’s monetary easing announcements were disappointing, but the government retains room to increase its deficit. Trump’s reelection and potential new tariffs may pressure Beijing to prioritize domestic consumption over exports. We aim to maintain exposure to local consumption in China and more broadly in Asia and Latin America.

R-co Valor's current equity exposure is 68%[4]. We begin 2025 with a “Monetary and Equivalent” allocation exceeding 30%[4]. This allocation includes investments in money market funds and about 20% in French Treasury bills with an average maturity of 3 months, offering high liquidity[4]. This strategy allows us to limit equity market exposure while benefiting from attractive yields and maintaining agility for potential reallocation.

## Focus on a 5-year investment in R-co Valor (C EUR Share Class)




Source: Rothschild & Co Asset Management, 31/12/2024. Figures quoted relate to past months.
Past performance are not a reliable indicator of future performance and are not constant over time.

The blue bars represent the annualized performance of an investment in R-co Valor after 5 years (C EUR Share Class), by considering the first and last available NAV of each year. For example, the graph below shows that an investment made between 30/12/1994 and 31/12/1999 would have generated an annualised return of 17.1%[4]. Over 5 years, R-co Valor's most buoyant period began on 31/12/1996 and ended on 31/12/2001, with an annualized performance of 23.2%[4]. Still over 5 years, the most difficult period was between 31/12/2007 and 31/12/2012, with an annualized performance of just 0.6%[4]. Please note that this analysis was carried out on an annual basis, so it's possible that better or worse entry points may have occurred in any given year. Subject to this observation, R-co Valor's 5-year performance has never been negative.

## Cumulative performance and risk indicator

| 1 month | 2024 | 1 year | 3 years | 10 years | Volatility 1 year |
|---|---|---|---|---|---|
| -0,81% | 16,71% | 16,71% | 21,24% | 45,85% | 10,26% |

## Annual performance

| 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|
| 2,55% | 19,9% | 9,5% | -13,2% | 28,6% | 6,7% | 12,7% | -8,1% | 13,0% | 16,7% |

Source: Rothschild & Co Asset Management, 12/31/2024. Figures refer to past months. Past performance is not a reliable indicator of future performance, and is not constant over time.

**R-co Valor SRI 4/7**

The synthetic risk indicator shows the level of risk of this product compared with others. It indicates the probability that this product will incur losses in the event of market movements or our inability to pay you. The risk indicator assumes that you hold the product for 5 years. The real risk may be very different if you opt to exit before maturity, and you may get less in return. We have classified this product in risk class 4 out of 7, which is a medium risk class and mainly reflects a discretionary management policy on equity markets and fixed-income products. In other words, the potential losses linked to the product's future results are at an average level, and if market conditions were to deteriorate, our ability to pay you could be affected. As this product does not provide protection against market fluctuations or a capital guarantee, you could lose all or part of your investment. The geographical and sector allocations and distributions are not fixed and may change over time, within the limits of the SICAV's prospectus. The figures cited relate to past months. Past performance is not a reliable indicator of future performance and is not consistent over time. Performance is calculated in euros and net of reinvested dividends. The information contained in this document does not constitute investment advice, tax advice, a recommendation, or investment advice from Rothschild & Co Asset Management.

## *Learn more about the fund(s)*

R-co Valor

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[1] Source: Bureau of Economic Analysis - U.S. Department of Commerce, December 2024.
[2] Source: Bloomberg, 12/31/2024.
[3] The magnificent 7 include seven US technology stocks: Microsoft, Nvidia, Tesla, Meta, Apple, Alphabet and Amazon.
[4] Source: Rothschild & Co Asset Management, 12/31/2024.

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