Monthly Macro Insights — January 2025

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In 2024, global growth has remained stable and world trade has been recovering, while price pressures continued to ebb. Investors project that this resilience will continue in 2025, with inflation further converging towards central banks' targets. However, this outlook masks significant differences across sectors and countries, and is surrounded by important uncertainties.

Downside risks in the US…

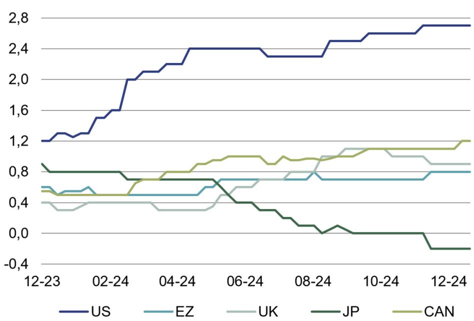
The global economy has proved resilient in the last year. Disinflation has enabled monetary policy easing in most major economies, thus supporting household spending. Still, 2024 has been the biggest election year in human history, and incumbent parties worldwide have been doing very poorly amid four years of successive crises – a global pandemic, a large-scale war in Europe for the first time in decades, and the most significant surge in inflation since the 1970s. In that regard, a Harris win in the US would have been an astonishing exception to the rule. In fact, last year's electoral results showed that inflation has an impact on everyone, whereas unemployment is a much more delineated prejudice, and voters are sensitive to price levels which remain much higher compared to pre-pandemic levels.

The irony is that the US experienced the fastest GDP growth in all G7 countries in the past two years, and this exceptionalism would persist this year according to the latest OECD economic projections. Yet, while the recent pattern of unexpected US resilience could continue, risks are nonetheless skewed to the downside.

On the positive side, productivity growth, potentially fuelled by new advances in artificial intelligence, may surprise to the upside. However, at the top of Donald Trump's agenda, three items are likely to be inflationary – raising trade tariffs, curbing immigration and prolonging expiring tax cuts – and their implementation could not only make it difficult for the Fed to ease, but also hurt the export sector if the US trading partners were to retaliate. Furthermore, as immigration normalises and labour demand cools, consumption growth will likely slow, especially as there is less scope for consumers to further draw down savings. Investment growth could also ease as households and businesses that were locked in low rates during the pandemic must now refinance at higher rates. What's more, the very large budget deficit and rising debt ratio during the actual period of strong growth increase fiscal risks. Indeed, the higher and more volatile inflation outlook, combined with a sharp rise in government debt, could increase the term premium investors require to buy Treasuries. In turn, higher interest rates would weigh on economic growth both domestically and abroad, since the US bond market has ripple effects well outside of its boundaries.

Advanced economies – 2024 growth forecast

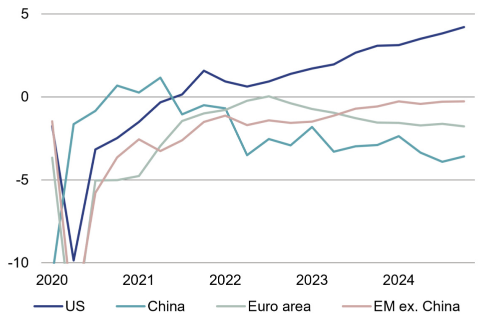
in %



Source: Bloomberg, Rothschild & Co Asset Management, December 2024

World – GDP Growth

in %, deviation from pre-pandemic trend



Source: JP Morgan, Rothschild & Co Asset Management, December 2024

… and Europe

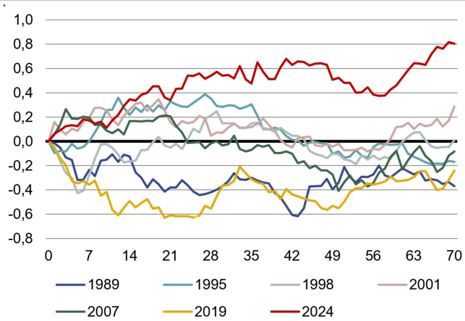
Economic growth in Europe has been mediocre in 2024, as GDP probably expanded less than 1 per cent in the UK and the Eurozone[1]. Looking ahead, recent indicators suggest ongoing weakness with the PMI business confidence index[2] hovering around the neutral 50-threshold at the end of 2024, thus flagging downside risks to investors' sanguine forecasts.

Regionally, Germany and France are both facing a challenging political environment, which in turn could affect businesses' strategic decisions, hinder investment and dampen household consumption. Although the war in Ukraine has triggered additional military spending and the Next Generation EU programme is supporting public investments, fiscal consolidation in some countries given the still high deficits could weigh on economic activity. Meanwhile, the Eurozone's December manufacturing PMI (at 45.1) [2] signalled another month of deteriorating conditions, stretching the current sequence of under the 50-threshold to two-and-a-half years. The new orders sub-index dropped even more than in the previous two months, crushing any hopes for a quick recovery, especially considering the accelerated decline in the order backlogs sub-index. More broadly, Europe is also bracing for new tariffs and less security support from the incoming Trump administration.

However, the main tailwinds are the labour market and the easing of financial conditions. The unemployment rate stood at a record low of 6.3 per cent in November [3] . Combined with strong growth in negotiated nominal wages, up 5.4 per cent y/y in the third quarter from 3.5 per cent in the second quarter [3], it should support consumption. This is especially true as the savings rate remains significantly higher compared with the pre-pandemic norm. In addition, the ECB easing is being transmitted to the banking sector as the demand for loans from businesses and households increased according to the ECB's latest Bank Lending Survey.

United States - Evolution 30-year bond yield

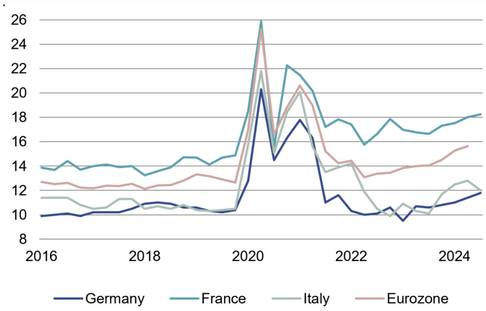
in p.p., working days after Fed's first cut



Source: Bloomberg, Rothschild & Co Asset Management, December 2024

Eurozone - Household savings rate

in % disposable income



Source: Macrobond, Rothschild & Co Asset Management, December 2024

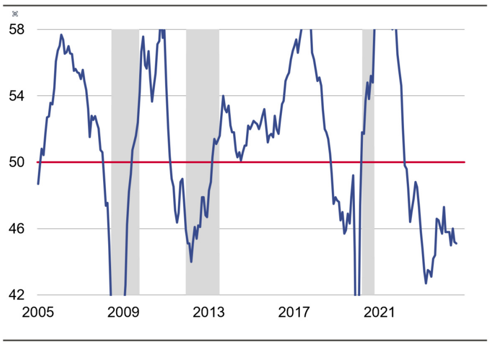
China's murky outlook

Since the end of September, China's growth has shown some tentative signs of steadying due to the recent policy push. For instance, the decline in house prices across major cities slowed in November for the first time since early 2024. However, retail sales growth unexpectedly weakened and inflation decelerated in November to a mere 0.2 per cent from 0.3 per cent [4], a sign that the domestic economy remains fragile.

Investors expect a softer pace of economic activity with GDP growing 4.5 per cent and 4.2 per cent in 2025 and 2026, respectively, from 4.8 per cent in 2024 [1]. However, there is a wide range of possibilities due to significant uncertainties. US tariffs are likely to be increased to the full amount of what was pledged during the presidential campaign (i.e. 60 per cent), but the timing and purpose will matter, and a gradual approach and multi-rounds of negotiations would help in absorbing the shock. The government is expected to unleash more measures, but the extent of the support will likely be adjusted depending on the degree of the external drag.

Eurozone - Business confidence

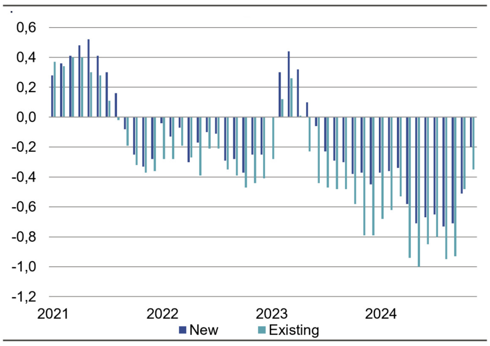
S&P Global manufacturing



Sources : Macrobond, Rothschild & Co Asset Management, December 2024

China - House prices

in %, m/m



Source: Bloomberg, Rothschild & Co Asset Management, December 2024

Performance of the indices and interest rate levels

	Price as of 31/12/2024	1 month % change	2024 % change
Equity markets			
CAC 40	7 381	2,0%	-2,2%
Euro Stoxx 50	4 896	1,9%	8,3%
S&P 500	5 882	-2,5%	23,3%
Nikkei 225	39 895	4,4%	19,2%
Currencies			
EUR/USD	1,04	-2,1%	-6,2%
EUR/JPY	162,78	2,8%	4,5%

Interest rates	Price as of 31/12/2024	1 month bp(1)	2024 bp(1)
3 month			
Eurozone	2,74%	-14	-88
United States	4,31%	-17	-102
10 years			
Eurozone	2,37%	28	34
United States	4,57%	40	69

(1) Basis point.
Source: Bloomberg. data as of 31/12/2024. Performances in local currency.
Past performance is not a reliable indicator of future performance and is not constant over time. Index's performance is calculated on the basis of net dividend reinvested

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(1) Source : Bloomberg, january 2025.
(2) Purchasing Managers' Index, an indicator reflecting the confidence of purchasing managers in a sector of activity. Above 50, it indicates an expansion in activity; below 50, a contraction.
(3) Source : Eurostat, december 2024.
(4) Source : National Bureau of Statistics of China, december 2024.

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