

Month Overview

Just as markets seemed confidently poised to end 2024 on a strong note, a few words from the Federal Reserve were enough to trigger a market correction and shift investor sentiment for the year ahead. In December, many central banks held their final meetings of the year, with most proceeding with reductions to their key interest rates as disinflation continued at a slow pace. While these interest rate decisions were largely expected, the follow-up remarks, particularly those from the Federal Reserve at its press conference, were not. Chair Jerome Powell adopted an unexpectedly hawkish tone, taking investors by surprise and unsettling markets. This resulted in declines in equity indices, a strengthening of the dollar, and a rise in long-term government bond yields; just the kind of news to brighten the mood before the holidays.

Economic Environment

Investors had anticipated that the latest FOMC meeting of the Federal Reserve would result in a cut to the Fed Funds Rate, which did occur, accompanied by confirmation of a continued rate reduction policy in the coming months. This accommodative stance was expected to bolster positive market sentiment, especially when combined with the pro-growth policies promised by the new Republican administration, although many economists remain cautious about the effectiveness of these policies. But the Federal Reserve took a different view, downplaying market expectations. Since September, the Fed has already reduced its key rate by 100 basis points in response to disinflationary trends. For 2025, the economy is projected to grow at a slower but still healthy pace, with labor markets expected to remain resilient. While the Fed had previously suggested the possibility of multiple rate cuts, it has now indicated that it may implement only one or two adjustments, with the first not expected before May. In changing its narrative, Fed may have given itself more flexibility to respond to economic developments while managing market expectations. The incoming administration's policies are seen as inflationary, prompting the Fed to signal caution about further rate cuts. However, the Fed remains data-dependent and could adjust its stance if economic conditions worsen especially in view of the latest unemployment figures and inflation data, as measured by the PCE index, are close to the projections estimated by the Fed for 2025.

The European Central Bank reduced its deposit rate by 25 basis points to 3.00%, resulting also in a total rate cut of 100 basis points for the year. This decision is intended not only to reflect the decline in inflation but also to support the eurozone's economy, as its two largest economies face political uncertainties, and the overall economic situation remains challenging. Meanwhile, Switzerland lowered its key interest rate by 50 basis points, bringing the total cut for the year to 125 basis points, with the rate now at 0.50%. This decision

follows the decrease in inflation and helps avoid upward pressure on the Swiss franc, which could negatively impact the Swiss economy. China, which continues to announce new plans to support its economy, is also expected to cut its interest rates soon. On the other hand, the Bank of England, which faces persistent inflationary pressures, maintained its rates

For 2025, global economic growth is expected to remain stable for now, though growth disparities could widen. However, there are growing concerns about the increasing burden of government debt fueled by budget deficits, a problem that is unlikely to be addressed in the coming year.

Equity market

The U.S. equity markets reacted negatively after the Fed meeting, with the S&P 500 losing 2.4%, while the NASDAQ remained afloat with a 0.6% gain. However, both indices posted double-digit performances for 2024. Despite a grim outlook for next year, the German and French markets recorded positive returns, in contrast to other equity markets that followed the footsteps of the U.S. markets.

Fixed Income Market

U.S. government bond yields rose following the revised outlook from the Federal Reserve, along with its renewed commitment to reduce holdings of Treasury securities, agency debt, and agency mortgage-backed securities. This comes amid expectations of elevated debt issuance to finance a 2025 budget deficit. Since the Fed cut its key rate, the U.S. 10-year Treasury yield has increased by 90 basis points, whereas it would likely have decreased if inflation were under control. For the year, the U.S. 10-year yield was up approximately 70 basis points in 2024, while the yield of its European equivalent rose by about 35 basis points.

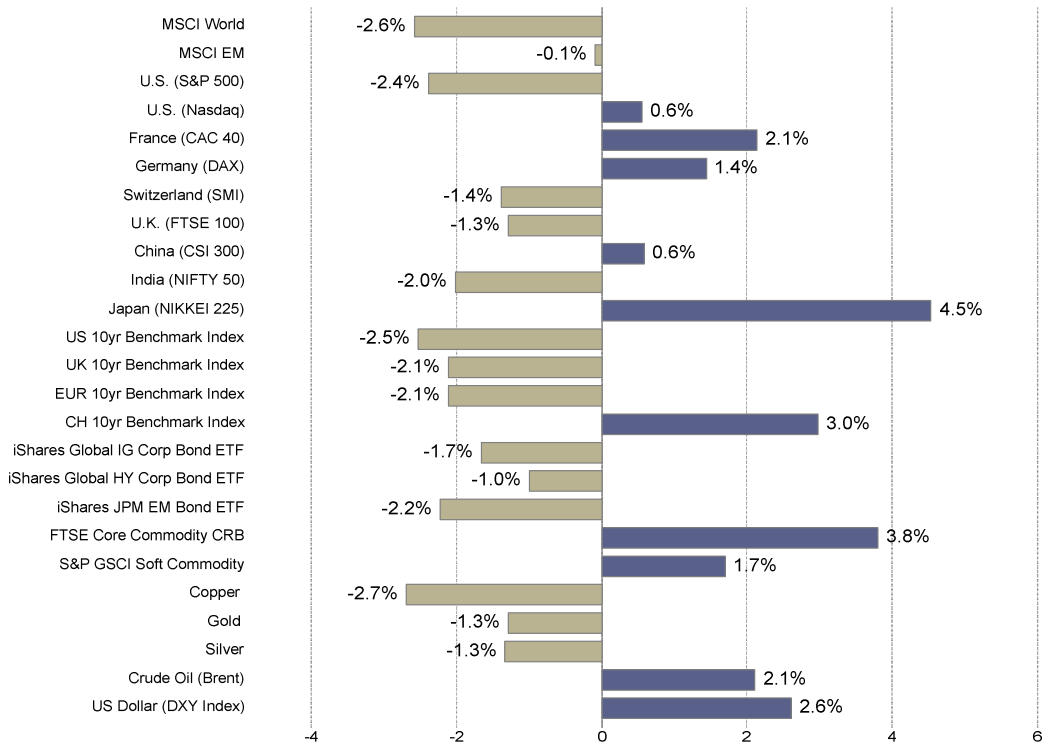
Commodity

Gold prices continued their decline, which began in mid-November, partly due to the strength of the USD and expectations of higher yields. However, in 2024, the yellow metal posted a 27.1% return, reaching a peak in October, driven by economic uncertainty. In contrast, oil prices (Brent) ended the year, flat, at \$76.5, roughly the same as at the start of the year, as concerns over demand persisted despite OPEC's ongoing efforts to manage supply.

Currency

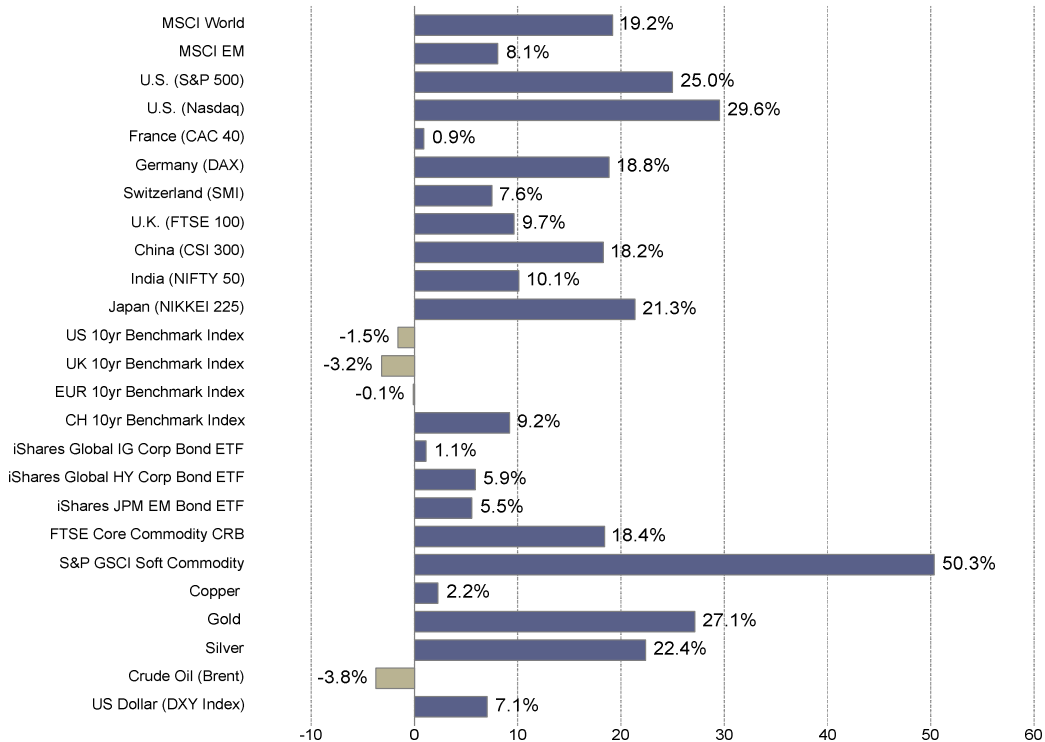
Widening interest rate differentials, driven by the Federal Reserve's policy stance, significantly boosted the dollar. The dollar index (DXY) rose 2.6% in December and 7.1% for the year, hitting a two-year high. The euro fell 1.6% against the dollar in December and 6.2% for the year, despite similar rate cuts by the ECB. The Swiss franc also dropped, down 2.9% in December and 7.2% for the year, due to more aggressive cuts by the Swiss National Bank.

December 2024 Performance



Source: LSEG Datastream, Anarosa Asset Management AG

Year-To-Date Performance (until 31.12.2024)



Source: LSEG Datastream, Anarosa Asset Management AG

General Disclosure

This material is intended for information purposes only, and does not constitute investment advice, a recommendation or an offer or solicitation to purchase or sell any securities or to undertake any other transaction. This document is provided to you on a strictly private and confidential basis and solely for your information. It may not be reproduced, redistributed, or published, in whole or in part, for any other purpose. The opinions expressed are as of the date this material is first published and are subject to change without notice. Reliance upon information in this material is at the sole discretion of the reader. The investment strategies mentioned here may not be suitable for everyone. Each investor needs to review an investment strategy for his or her own particular situation. Investors should consult with their lawyer, accountant and tax consultant before making any investment decision.

Investing involves risks, including loss of principal. Investments are subject to various other risks including changes in credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications and other factors. International investments involve additional risks, which include differences in financial accounting standards, currency fluctuations, geopolitical risk, foreign taxes and regulations, and the potential for illiquid markets. Investing in emerging markets may accentuate these risks.

This information is not intended to be complete or exhaustive and no representations or warranties, either express or implied, are made regarding the accuracy or completeness of the information contained herein. This material may contain estimates and forward-looking statements, which may include forecasts and do not represent a guarantee of future performance. Past performance is not an indicator of current or future performance and there is no guarantee that the investment objective will be achieved.
