



**Outlook 2025:**

**Challenging, and America First**

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December 2024

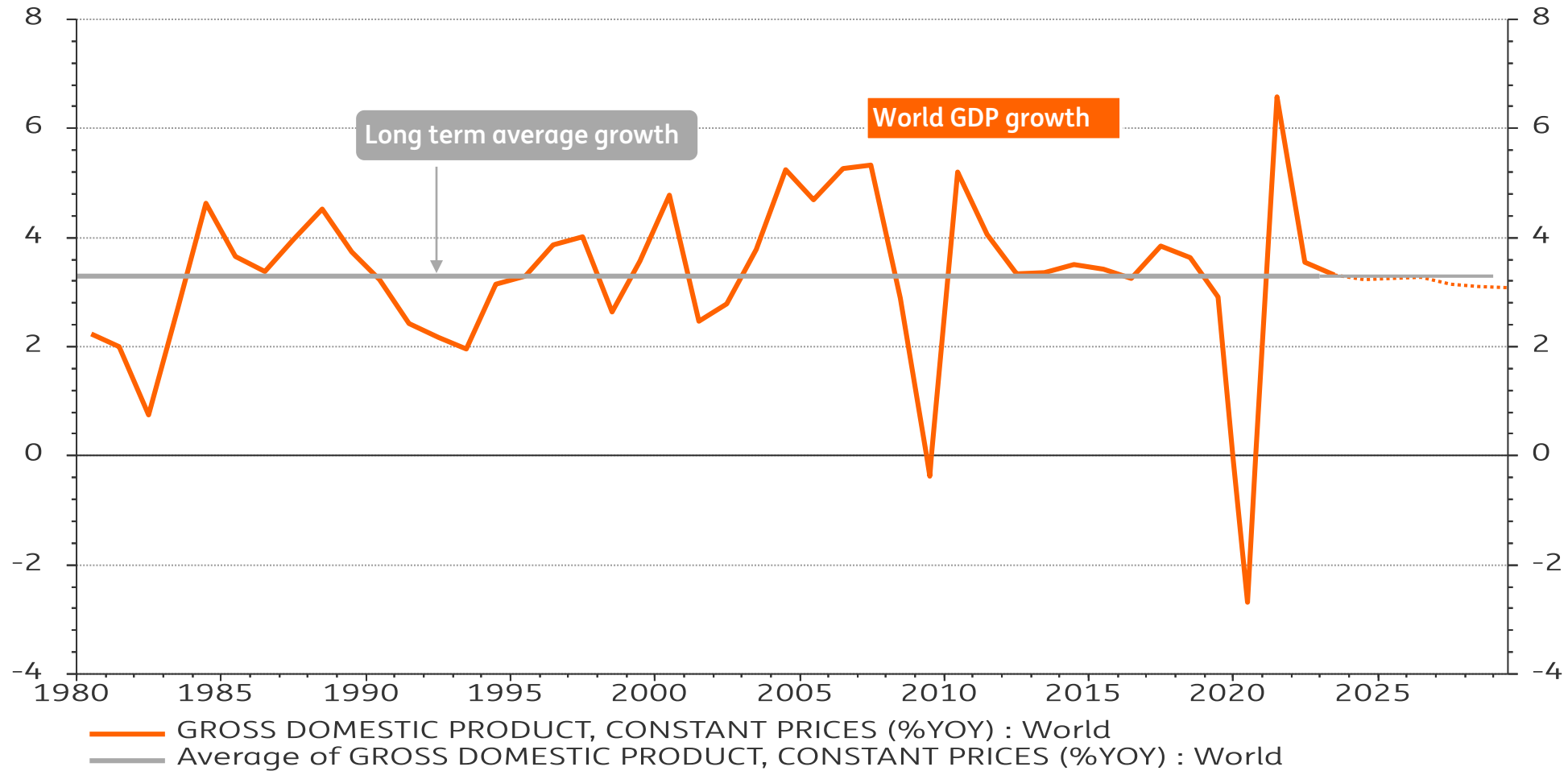


A close-up photograph of Donald Trump, wearing a dark suit and a red tie, pointing his right index finger directly at the camera. The background is a blurred blue and white pattern.

# Economic Outlook 2025: Trump 2.0

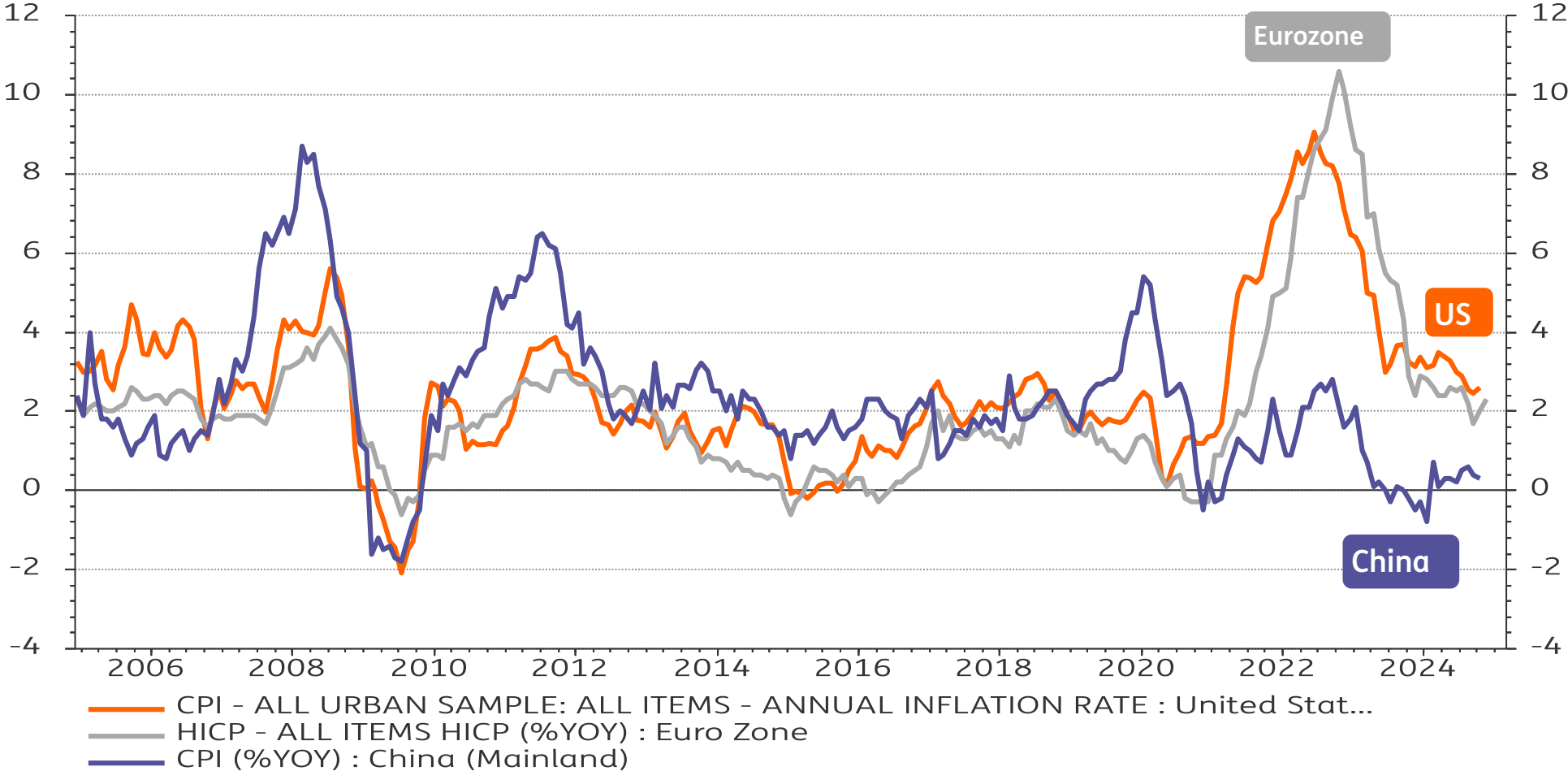
**Peter Vanden Houte, Chief Economist ING Belgium**  
December 2024

# World growth has been “average” in 2024...



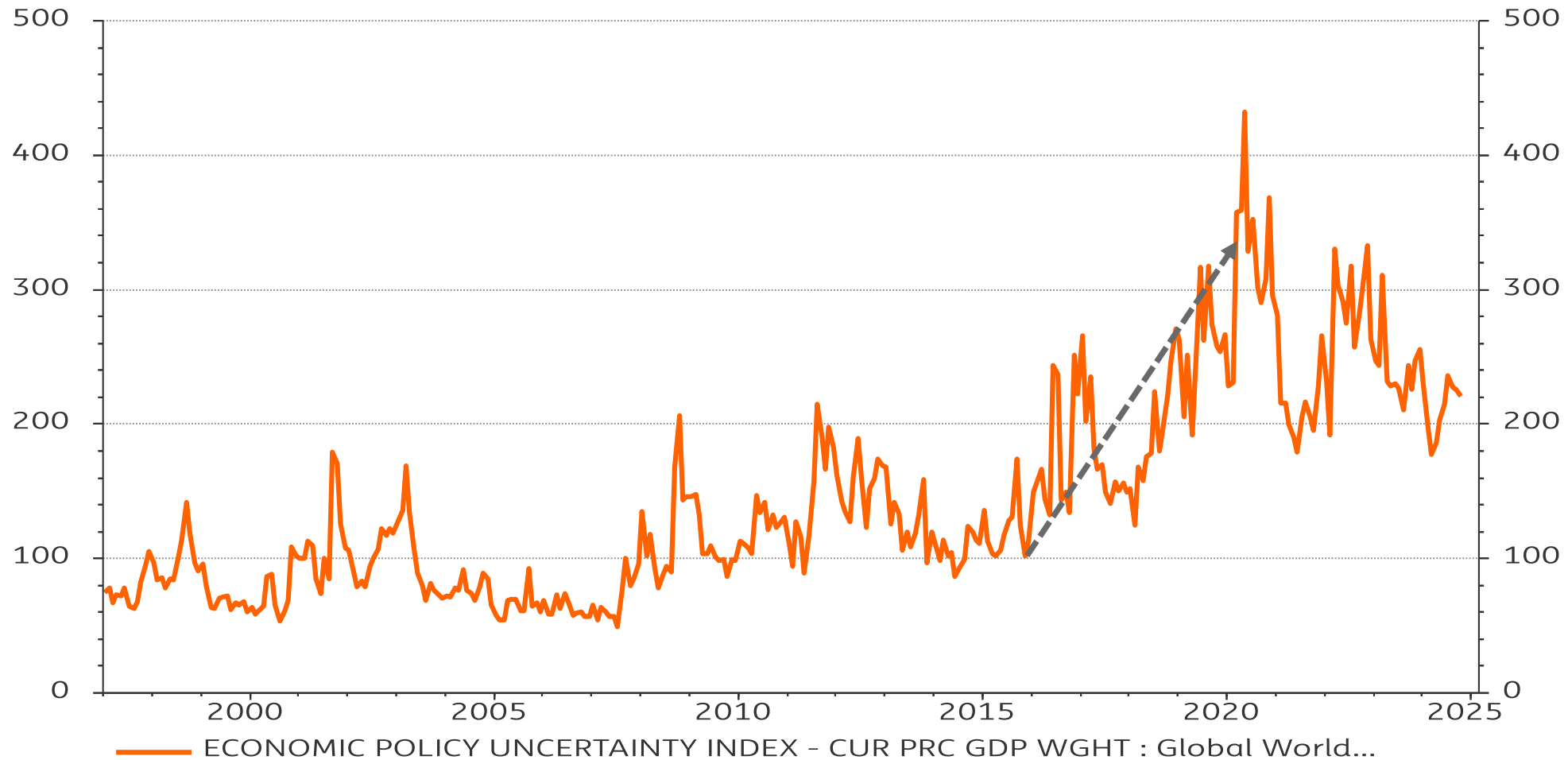
Source: LSEG Datastream, ING Economic Research

# ...with inflation back under control



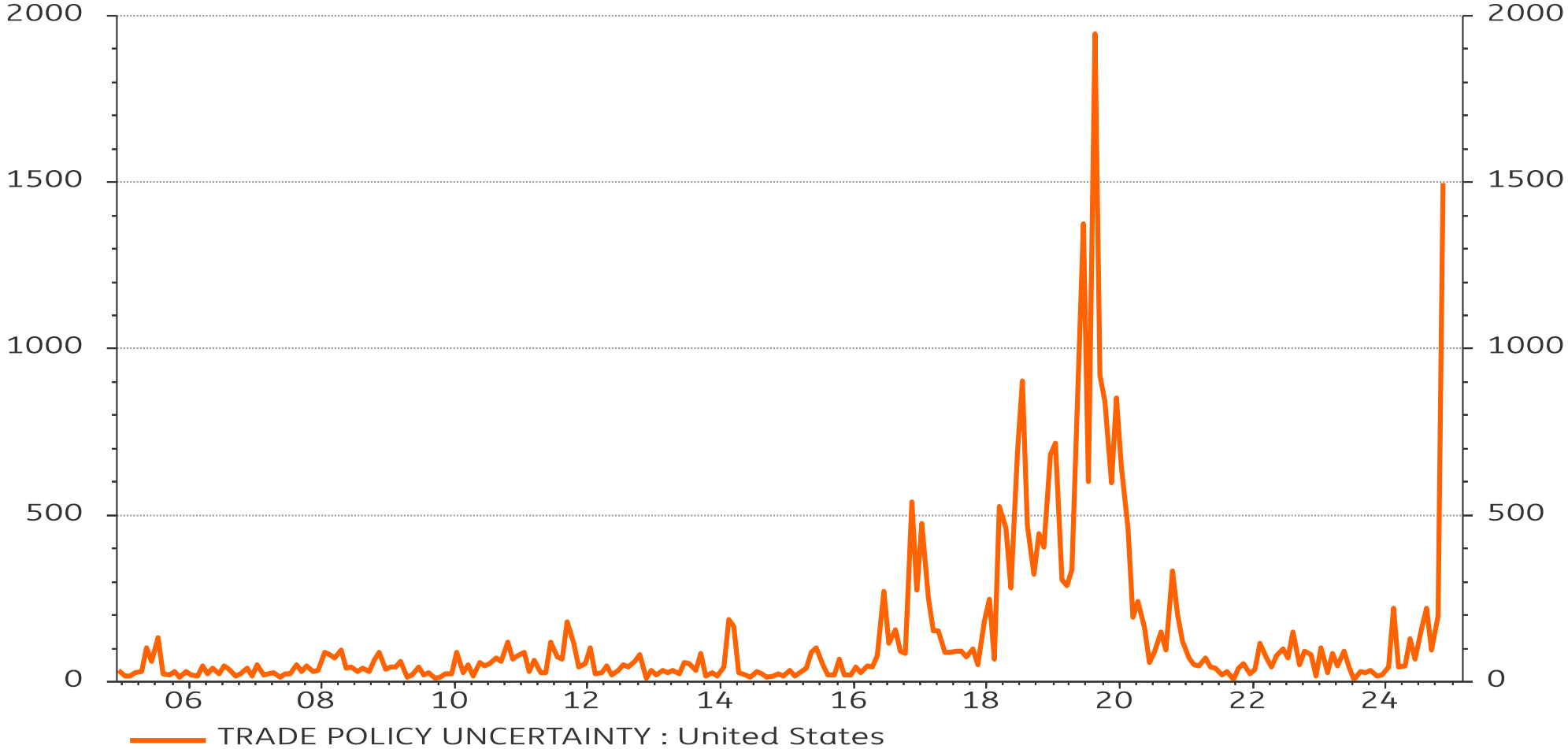
Source: LSEG Datastream, ING Economic Research

# Economic policy uncertainty had risen during Trump's first presidency...



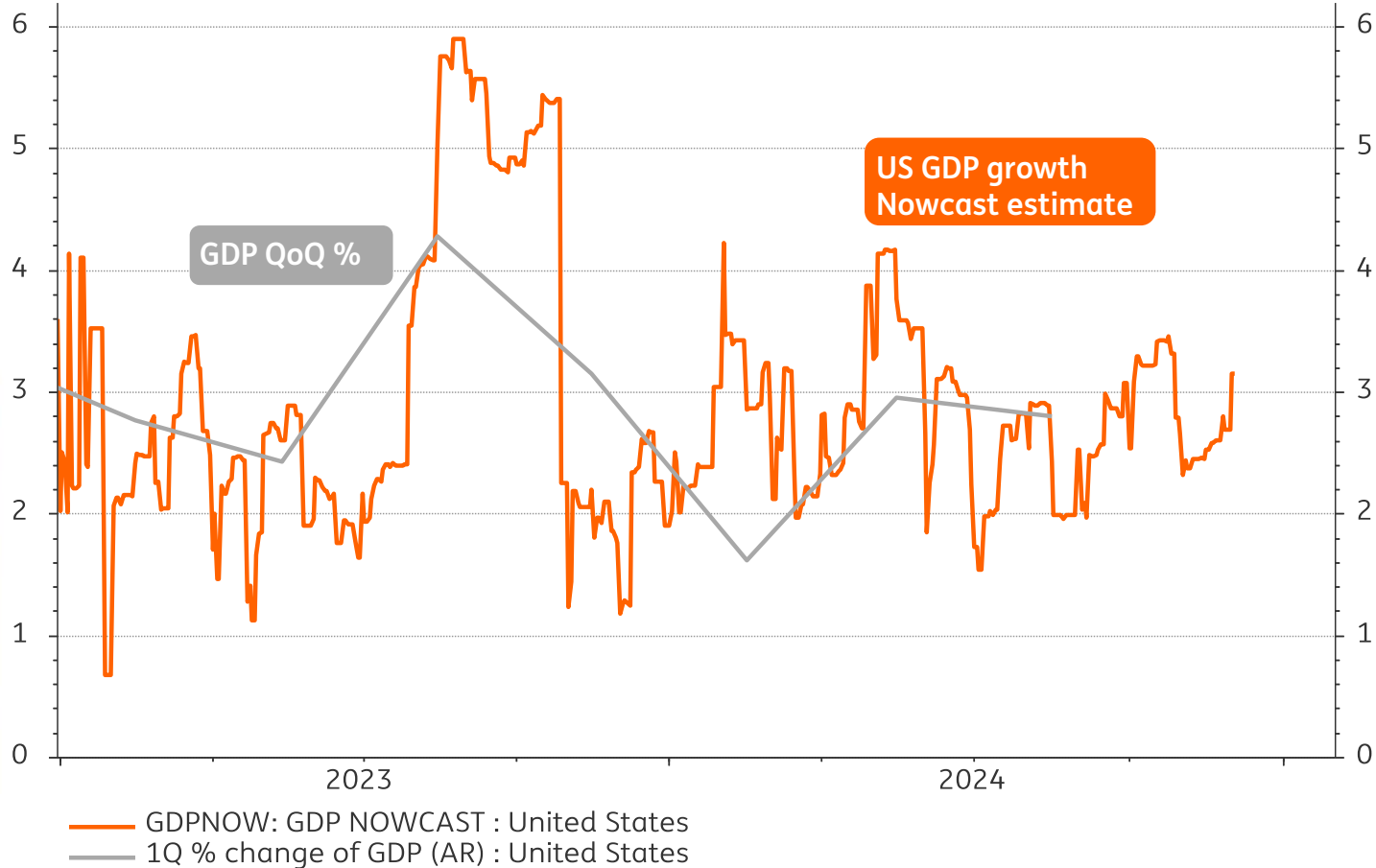
Source: LSEG Datastream, ING Economic Research

# ...and recently trade policy uncertainty surged



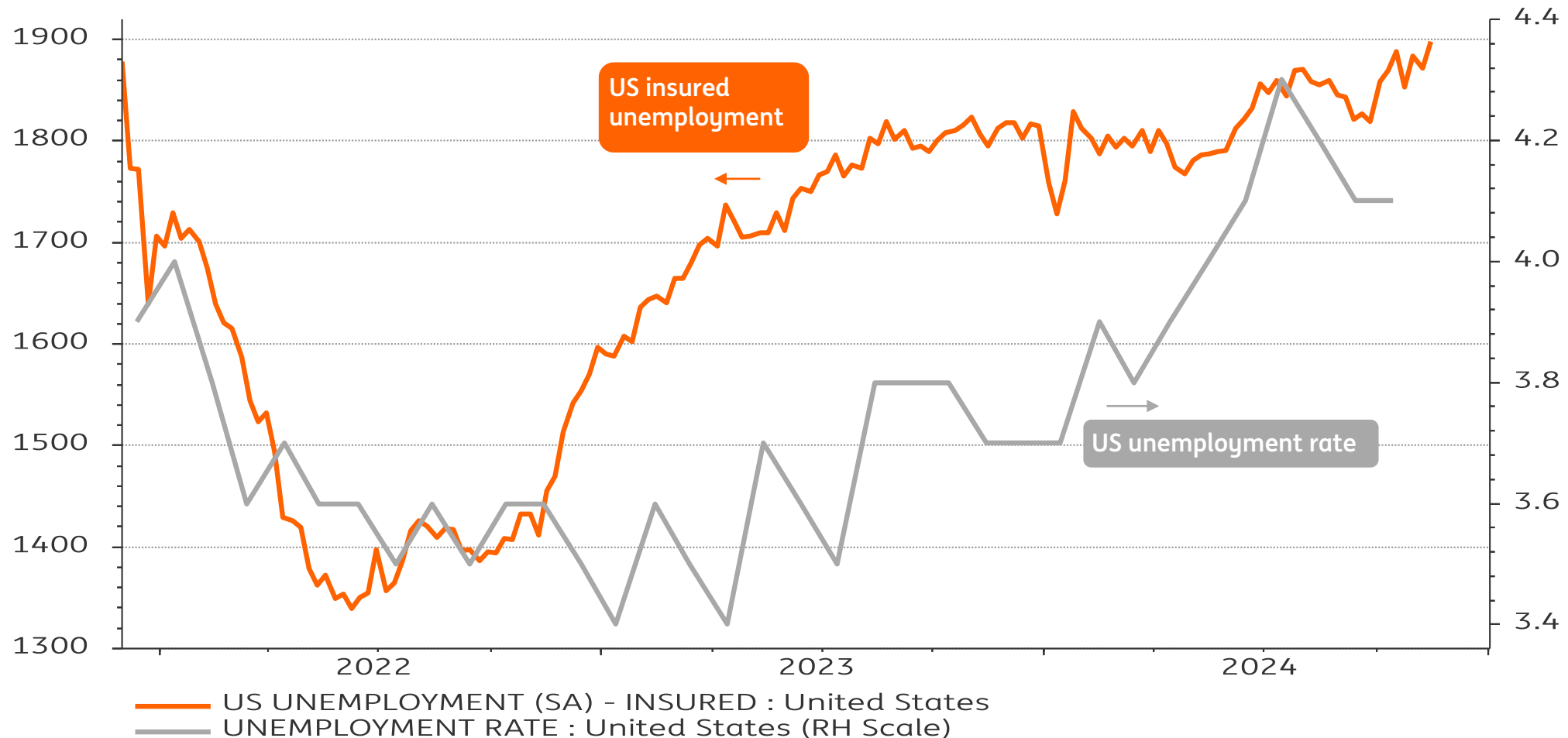
Source: LSEG Datastream, ING Economic Research

# Can the US economy continue its strong run?



Source: LSEG Datastream, ING Economic Research

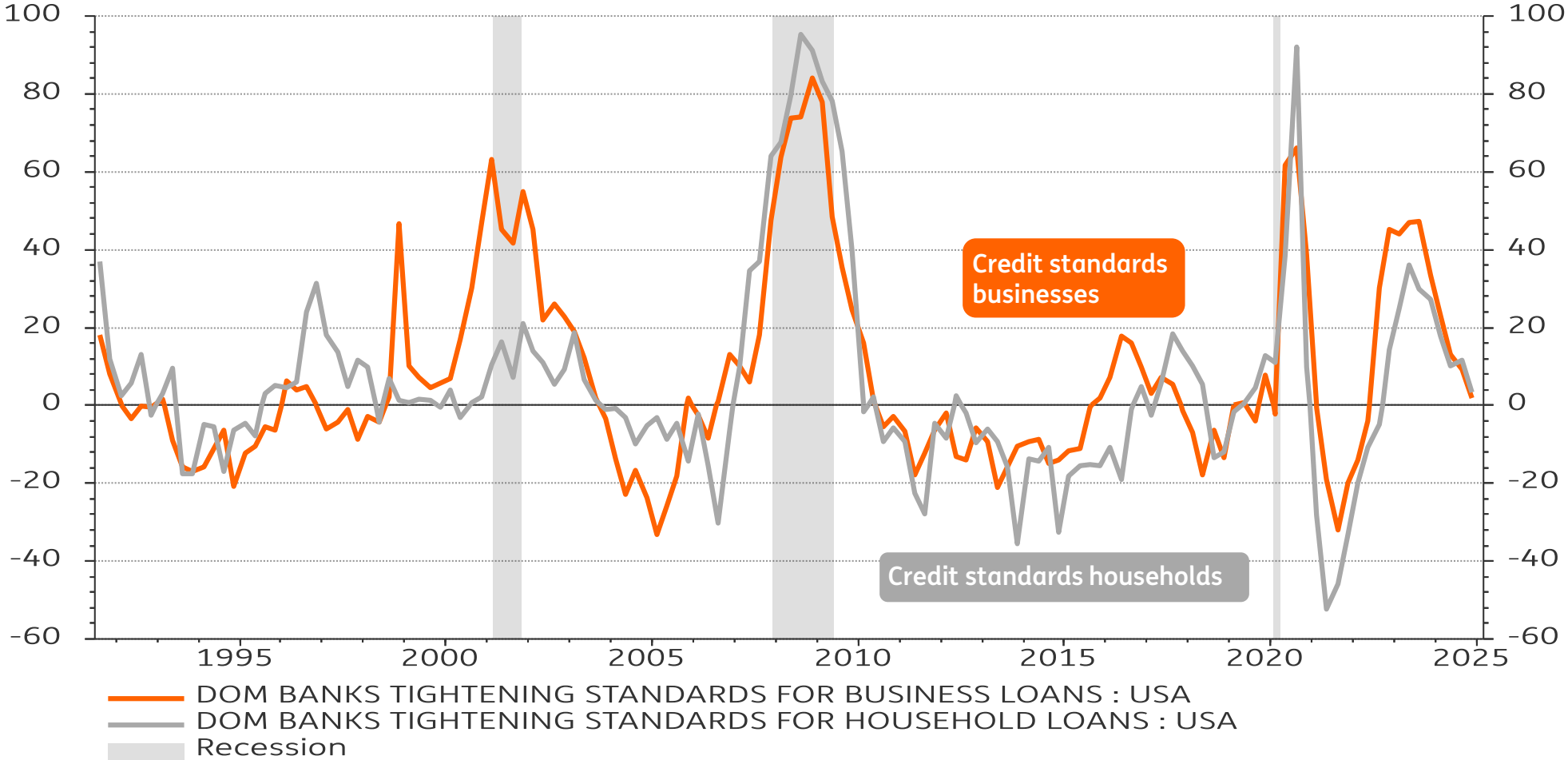
# US unemployment is slowly grinding higher...



Source: LSEG Datastream, ING Economic Research



# ...but financial conditions are easing



Source: LSEG Datastream, ING Economic Research

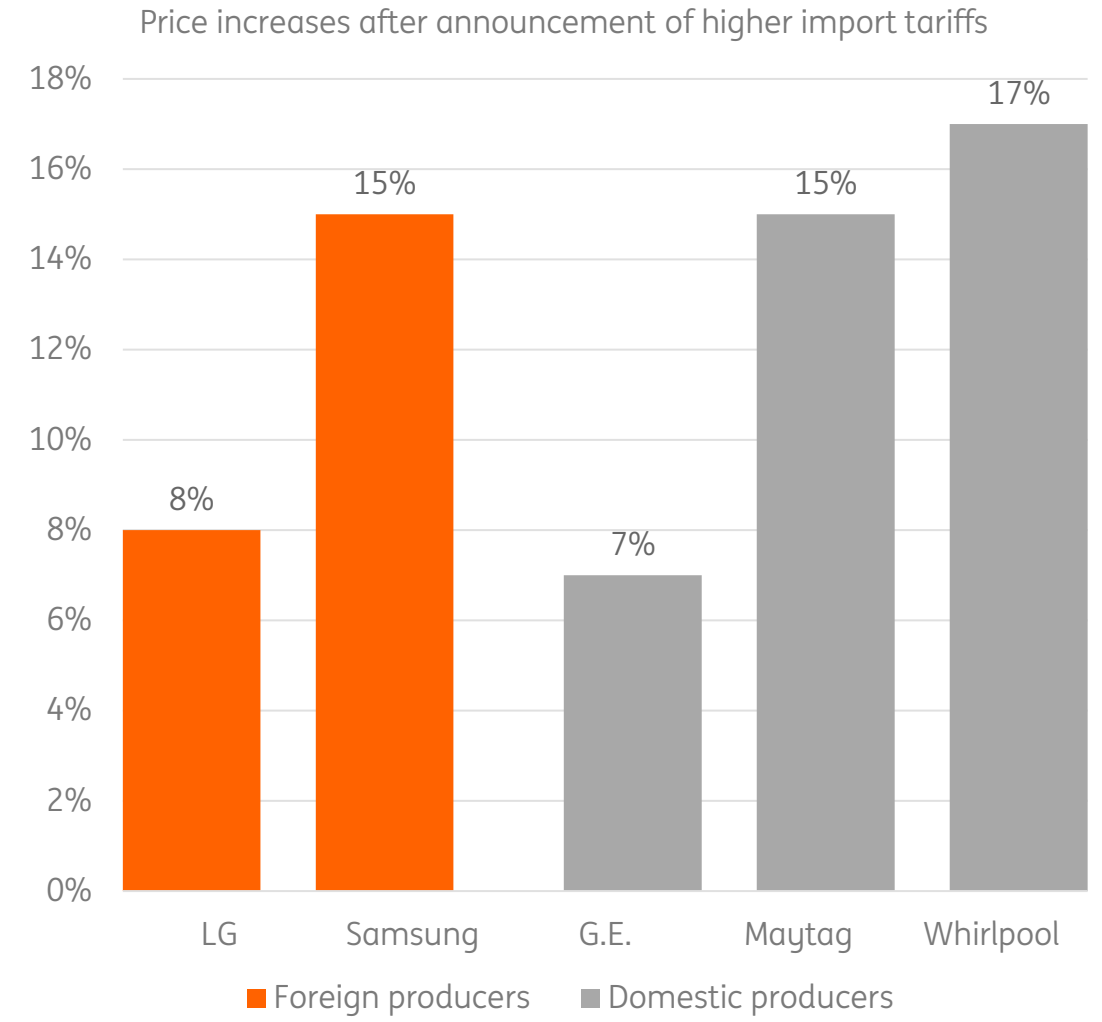
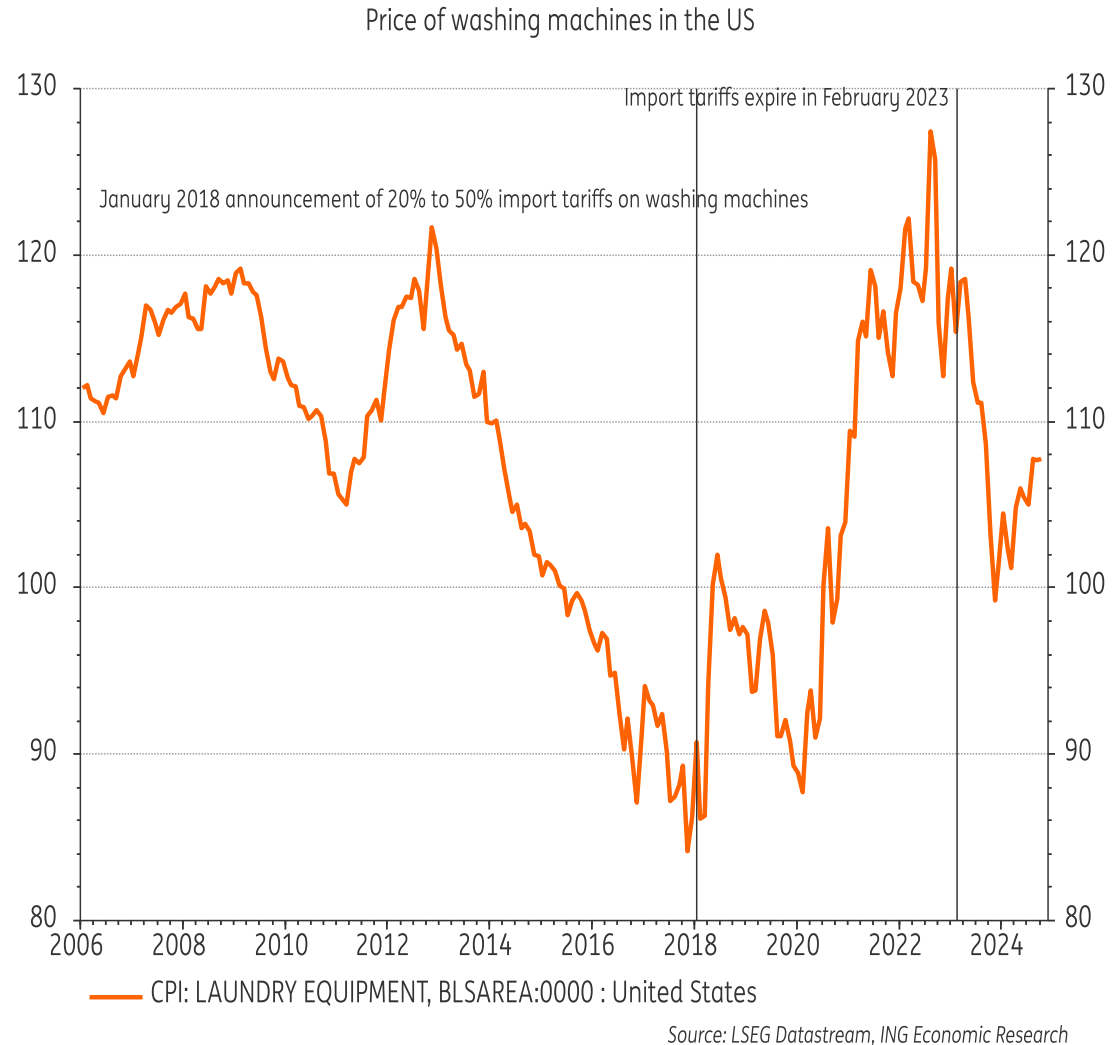
# Trumponomics 2.0: What to expect?



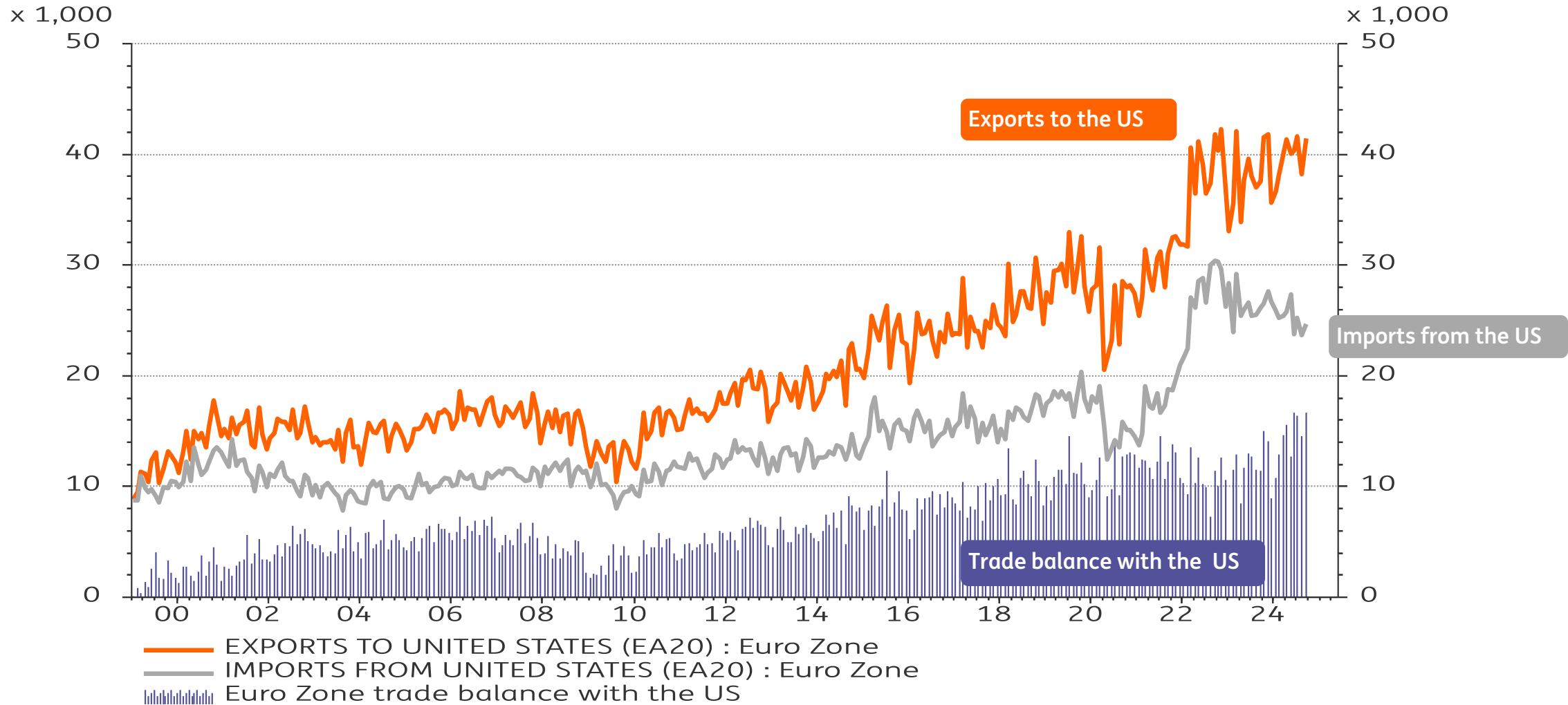
## Favoured Trump policies:

- 10% or 20% **import tariff** across the board, with up to 60% for Chinese goods = **Inflationary**
- Additional **fiscal stimulus** (though budget deficit already close to 6% of GDP) = **Inflationary**
- **Anti-immigration** measures = **Inflationary**
- **Deregulation** = **Deflationary**
- Scaling back some of Biden's green policies
- Less (no?) support for Ukraine

# Earlier US tariff increases led to significant price increases



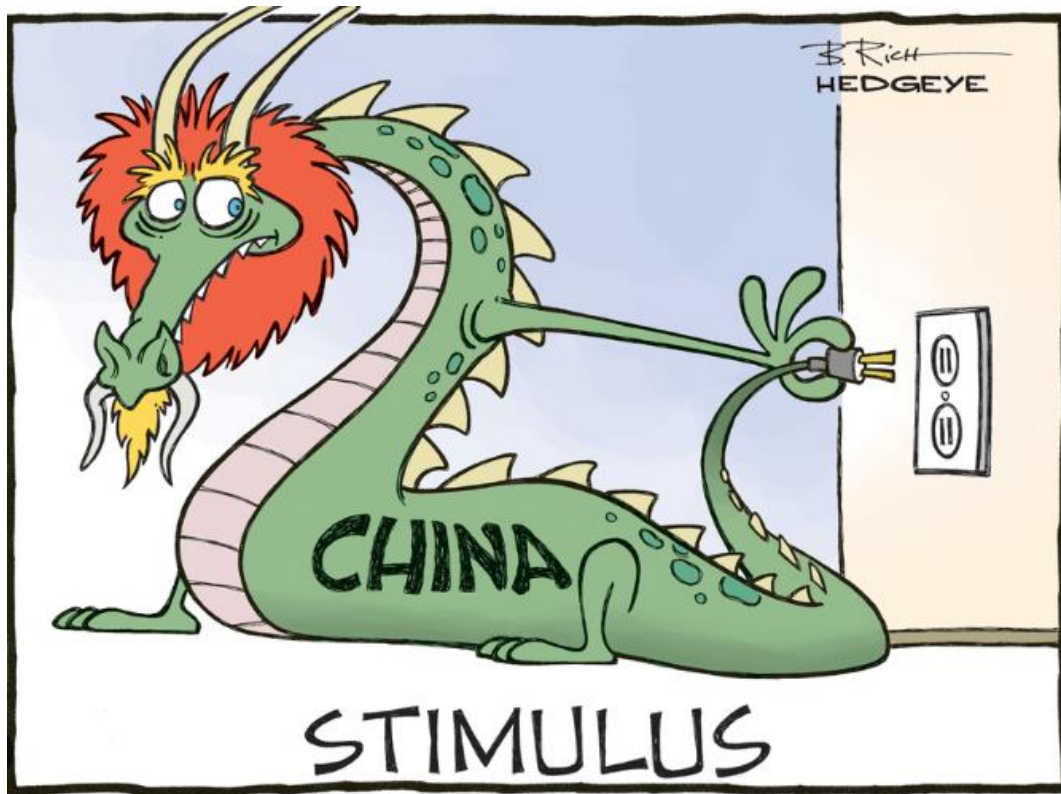
# US is a very important export market for the Eurozone



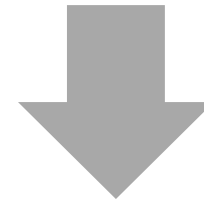
Source: LSEG Datastream, ING Economic Research



# China tries to boost its economy

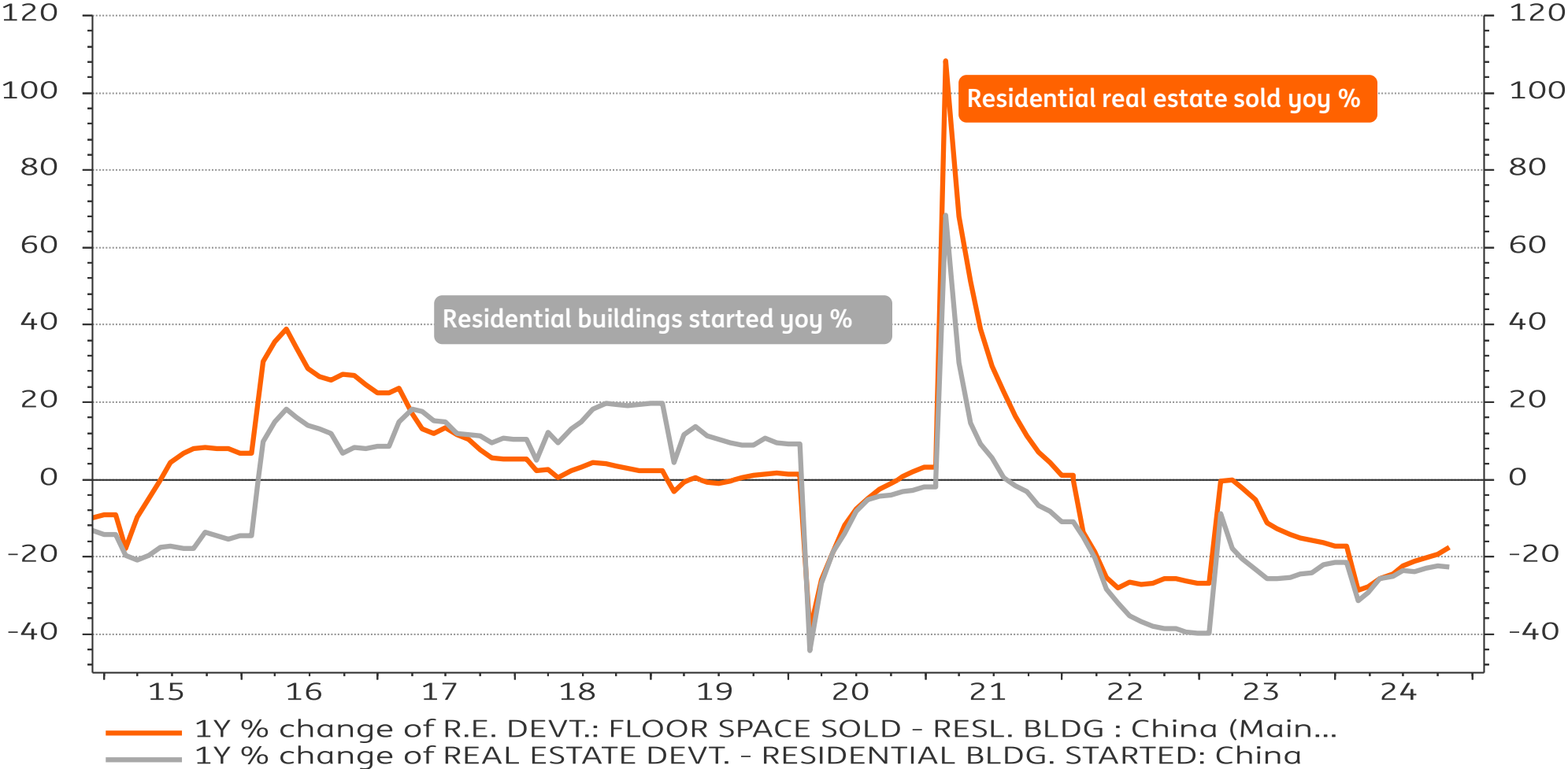


- A lot of monetary stimulus (but this of course requires households and businesses to want to borrow again)
- Announcement of additional fiscal stimulus to reduce the debt service burden of regional government



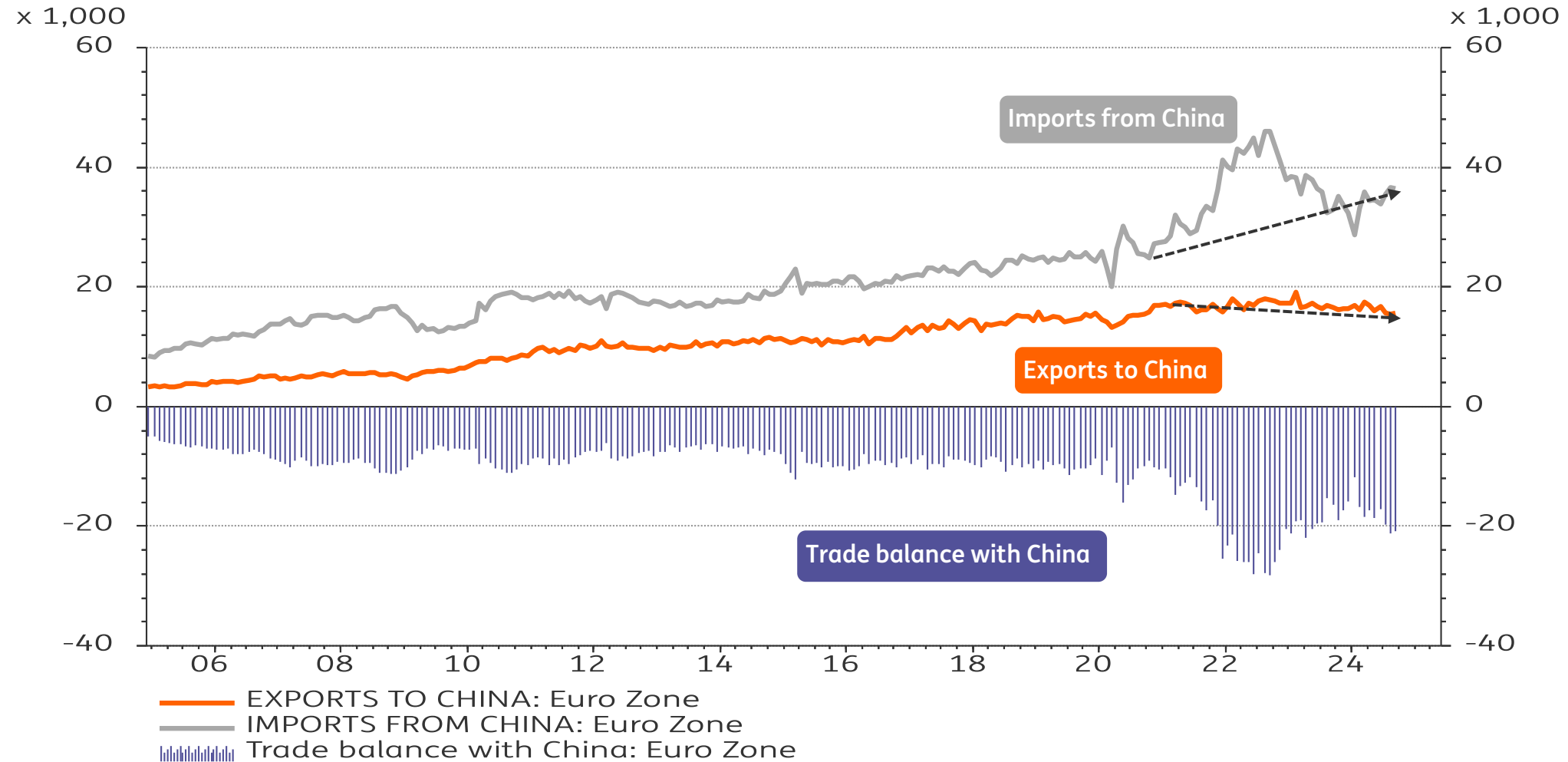
It may take a while for this to take effect (cfr. Japan in the 1990s, after the property bubble burst), though a bottoming out is likely by the summer of 2025

# Chinese real estate and construction activity is still very weak



Source: LSEG Datastream, ING Economic Research

# Eurozone trade relationship with China has changed



Source: LSEG Datastream, ING Economic Research

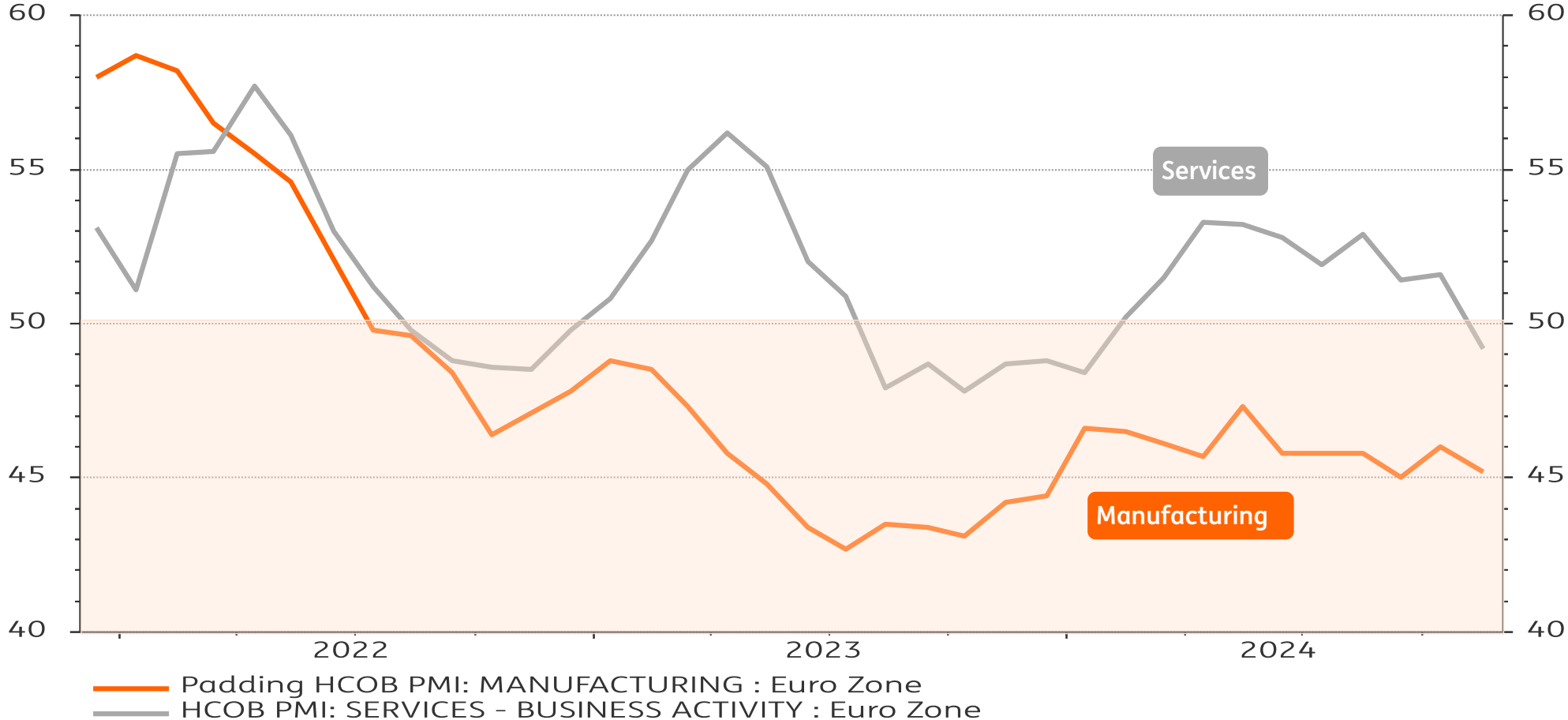
## Eurozone economic growth still on the weak side





# Eurozone economy is coming to a standstill

## Purchasing Managers Index

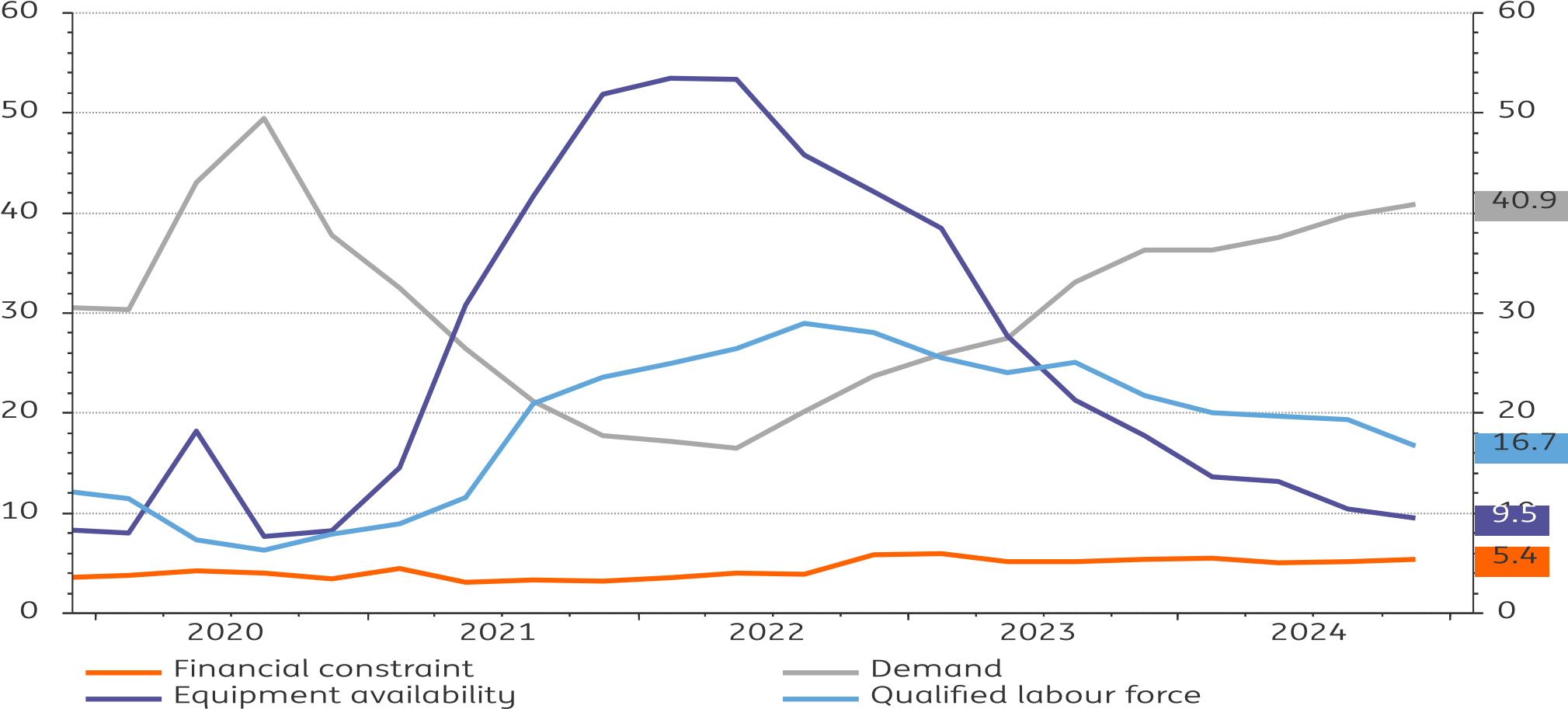


Source: LSEG Datastream, ING Economic Research

# Factors limiting production industry

## Industry sector - Eurozone

Factors limiting production (% of companies, EC survey)



Source: LSEG Datastream, ING Economic Research

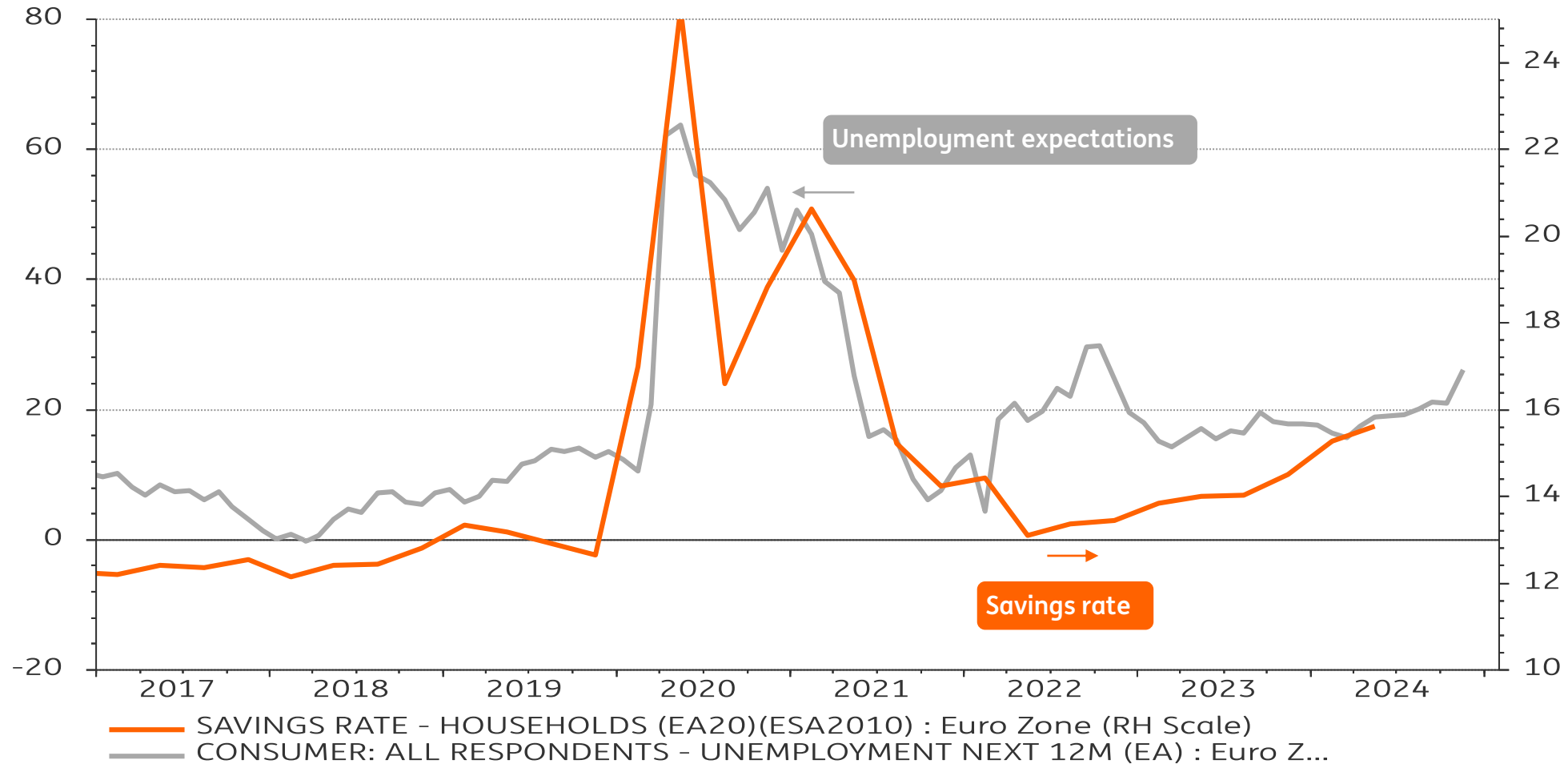
# Natural gas prices remain competitive disadvantage

(ratio of EU price over US price)



Source: LSEG Datastream, ING Economic Research

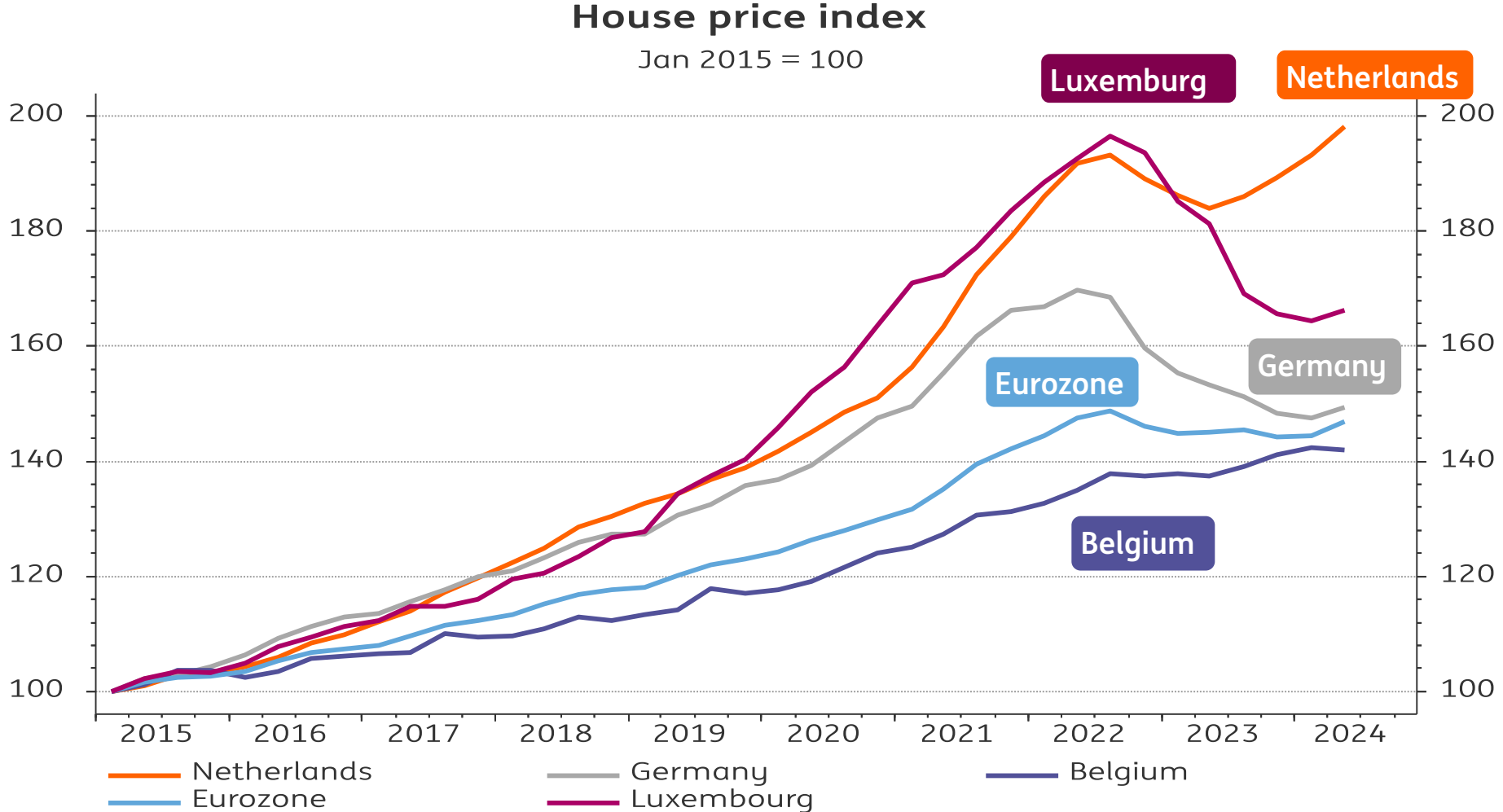
# Eurozone consumer has more purchasing power, but savings rate might increase



Source: LSEG Datastream, ING Economic Research

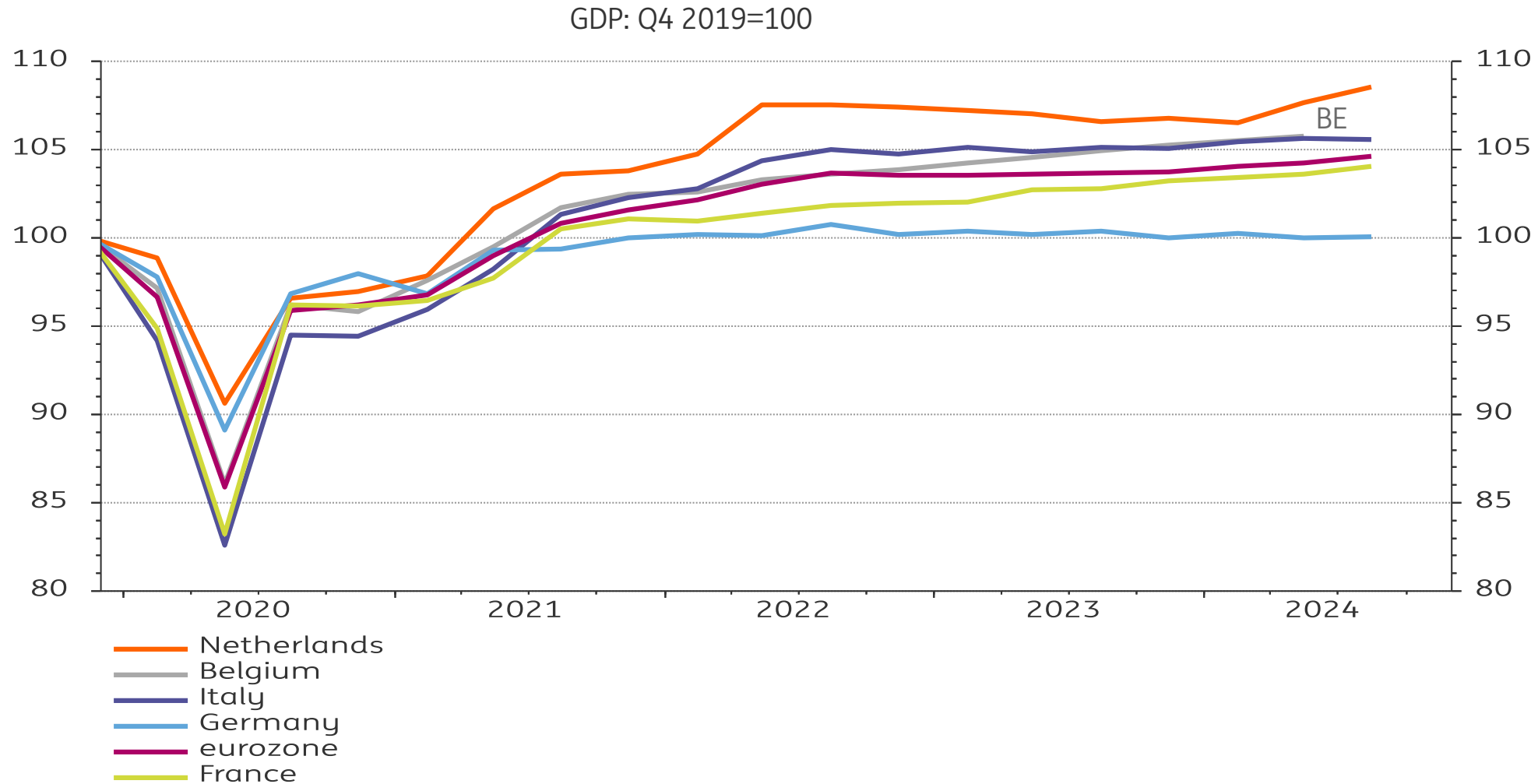


# House prices have bottomed out, heralding a turnaround in construction



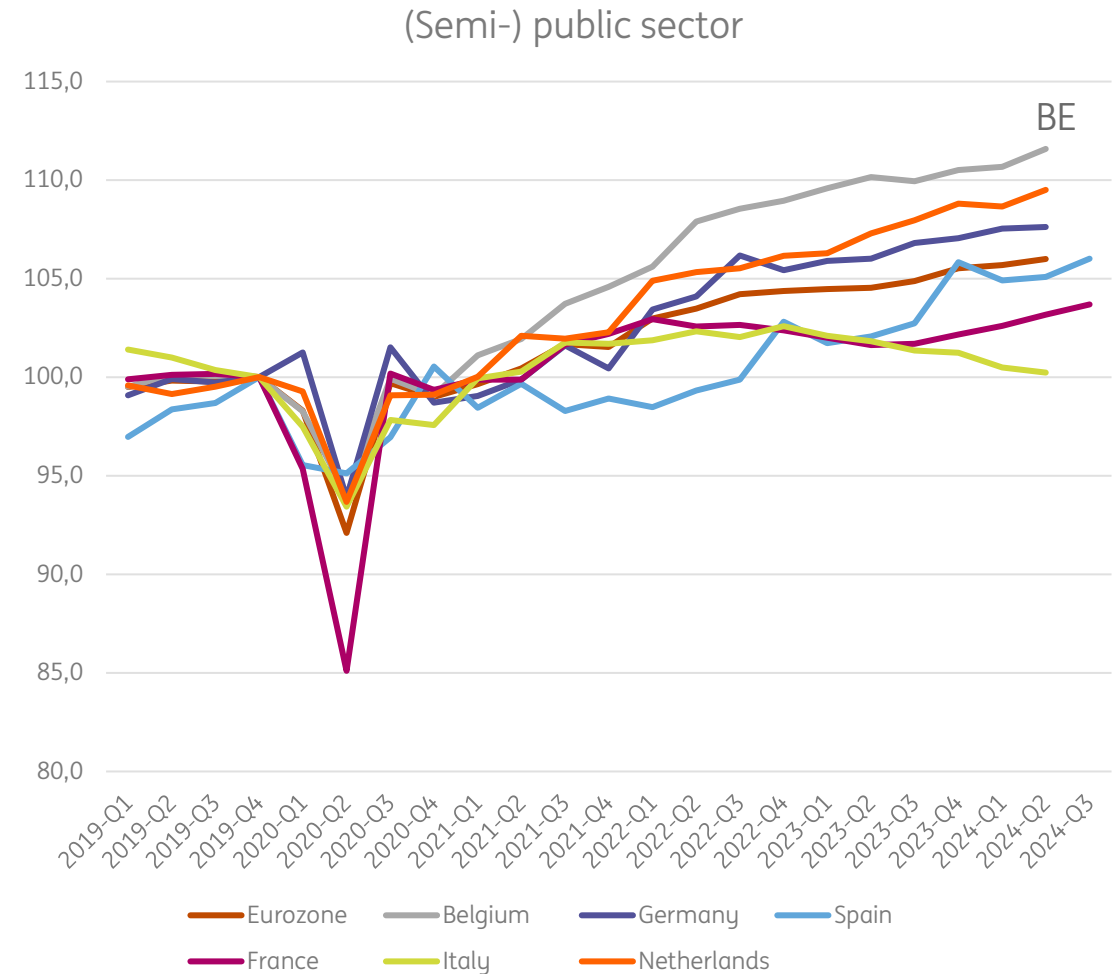
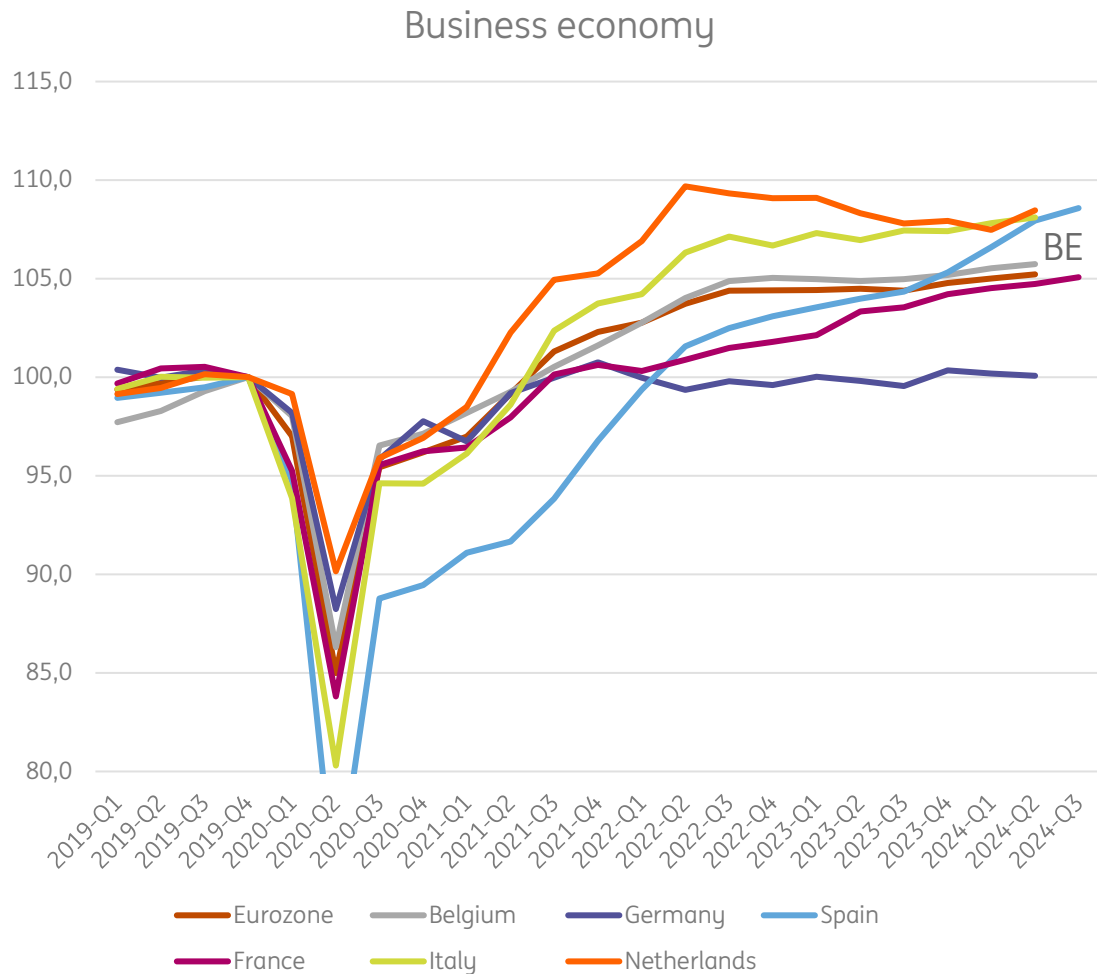
Source: LSEG Datastream, ING Economic Research

# Belgium performed strongly after the pandemic



Source: LSEG Datastream, ING Economic Research

# Public sector growth has been an important driver of Belgian outperformance since the pandemic



## Growth expectations (in volume)

	2023	2024	2025	2026
USA	2.5	2.8	2.0	1.7
Eurozone	0.5	0.7	0.7	1.3
UK	0.5	0.9	1.4	1.4
Belgium	1.5	0.9	0.7	1.0
Japan	2.0	-0.2	1.3	1.2
China	5.2	4.8	4.6	4.2

# The future — — of European competitiveness



# Productivity growth has been stronger in the US than in Europe...



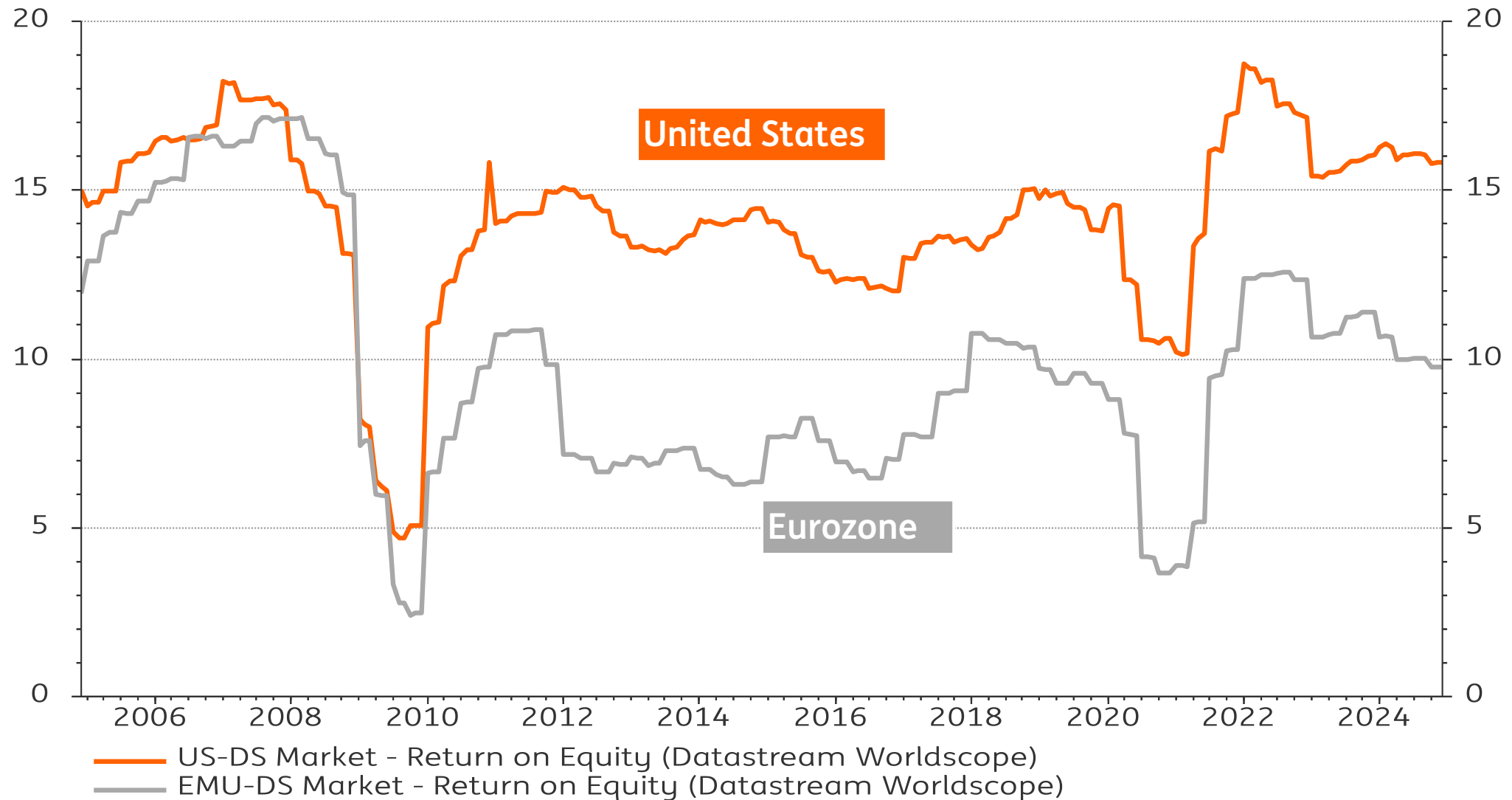
Source: LSEG Datastream, ING Economic Research





# ...which might explain a higher return on equity

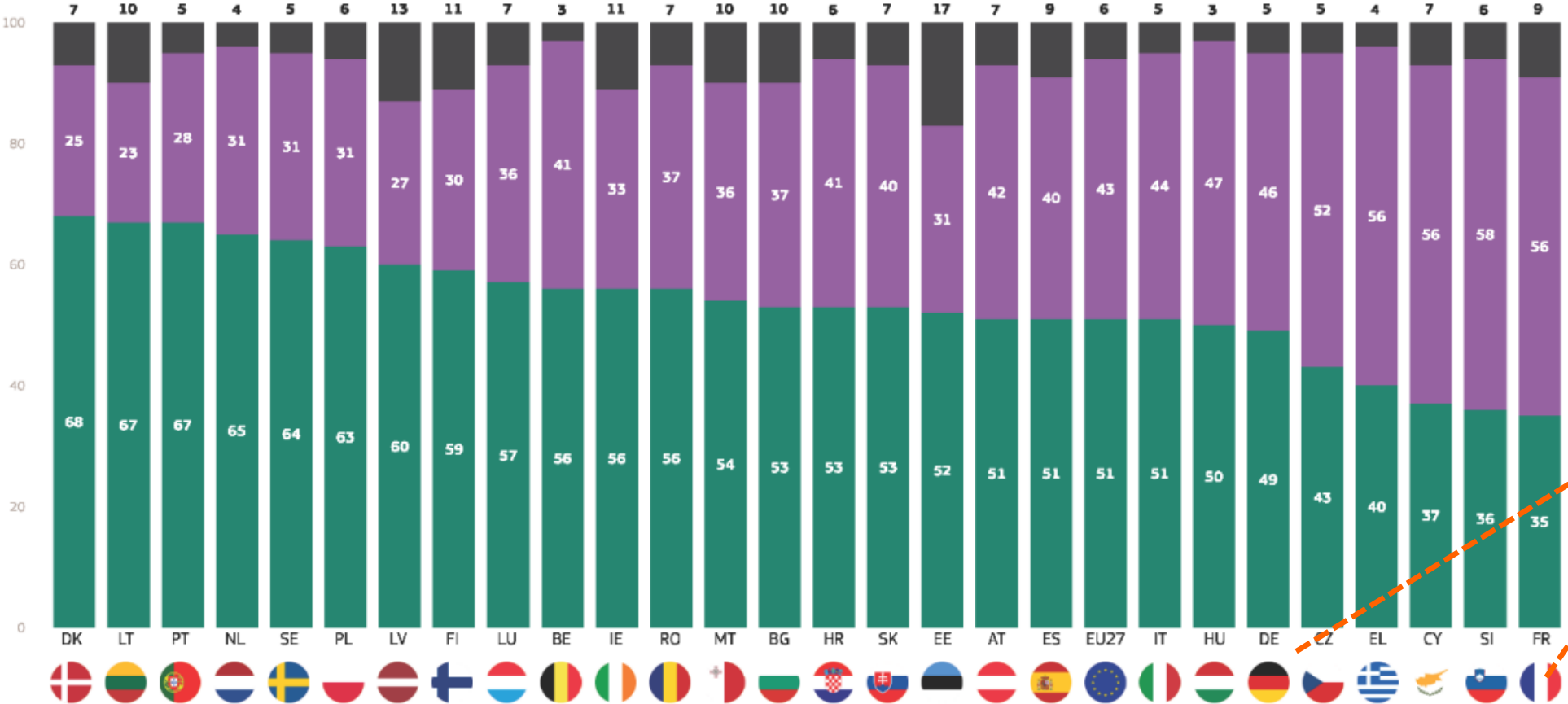
Return on Equity



Source: LSEG Datastream, ING Economic Research

# With “euroscepticism” high in Germany and France, the political drive to push through the Draghi recommendations seems low

QA6.8. How much trust do you have in certain institutions? For each of the following institutions, do you tend to trust it or tend not to trust it?—The European Union (%)

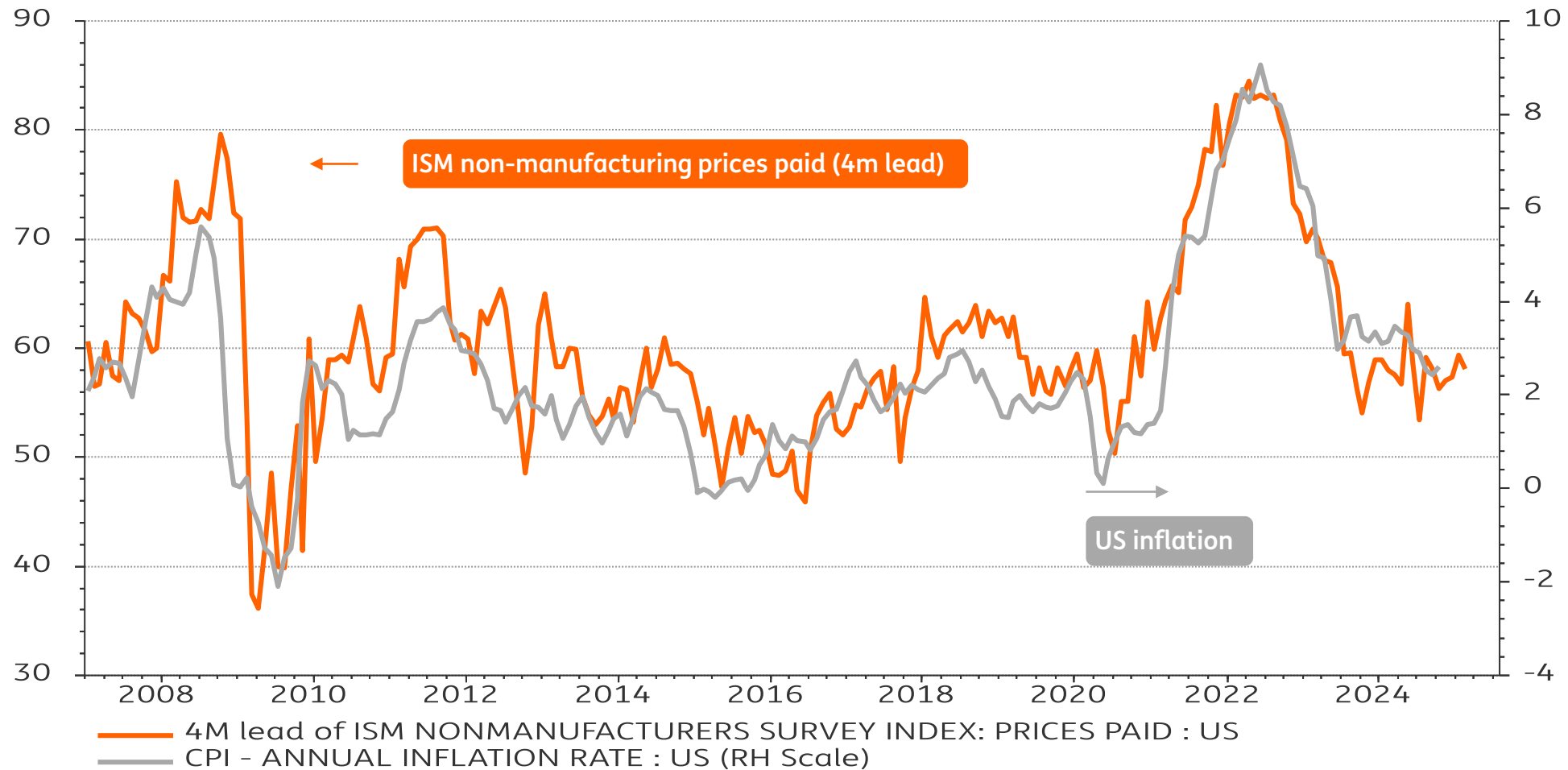


Public trust in the EU is amongst the lowest of all member states in Germany and France

# Inflation expectations

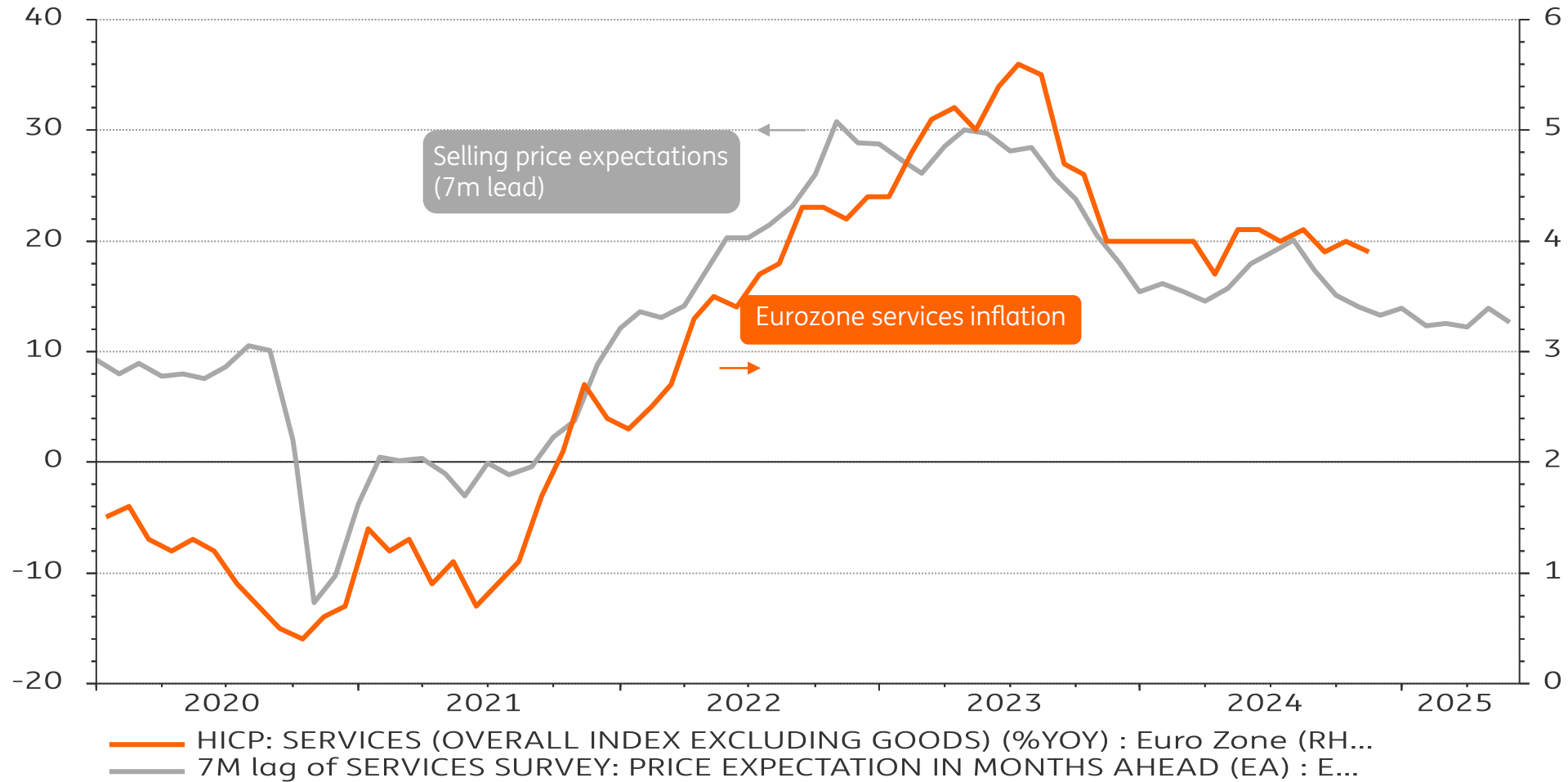


# US disinflation process is starting to peter out



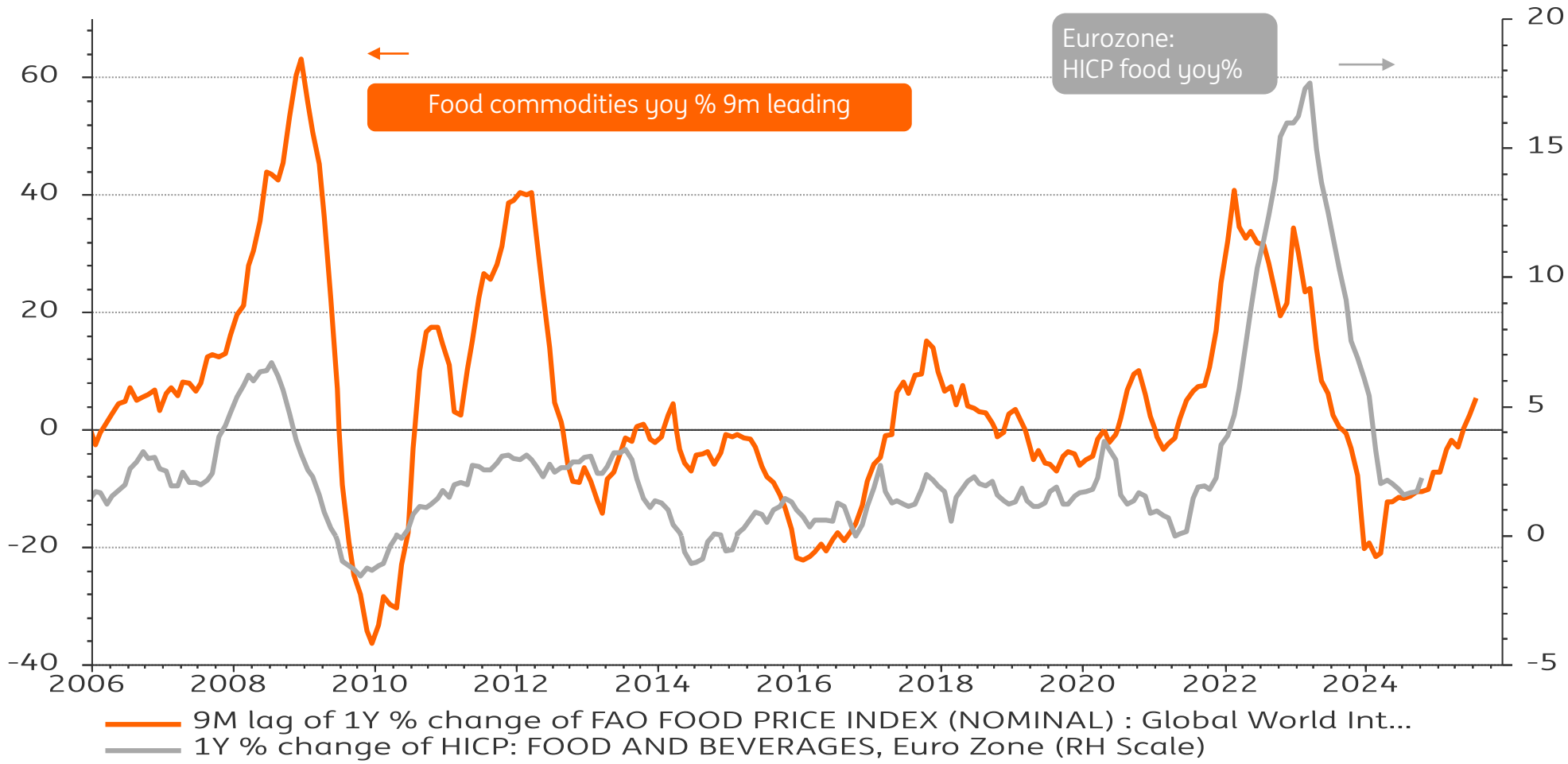
Source: LSEG Datastream, ING Economic Research

# Peak inflation in Eurozone services is now behind us...



Source: LSEG Datastream, ING Economic Research

# ...but food inflation is rising again in the Eurozone



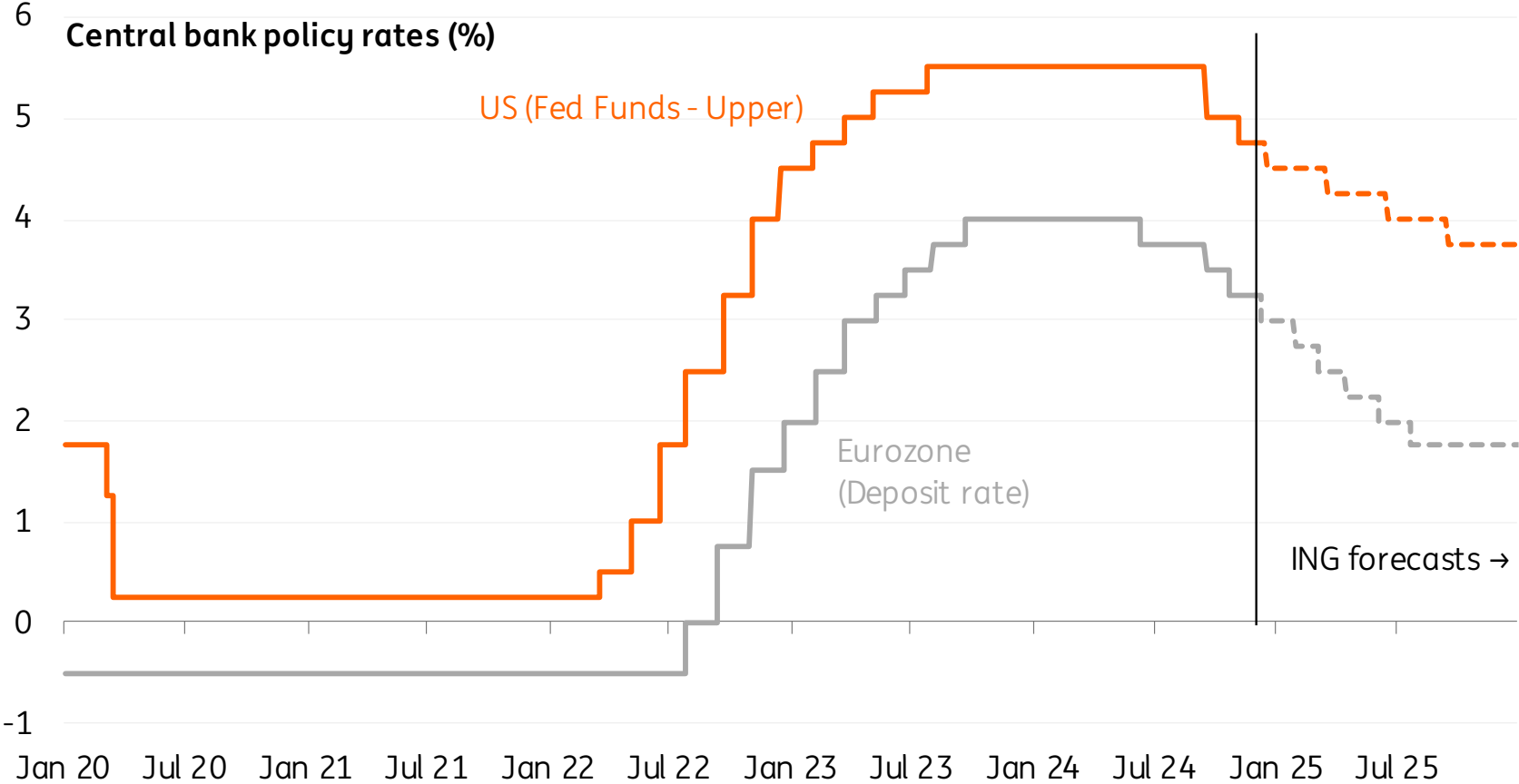
Source: LSEG Datastream, ING Economic Research



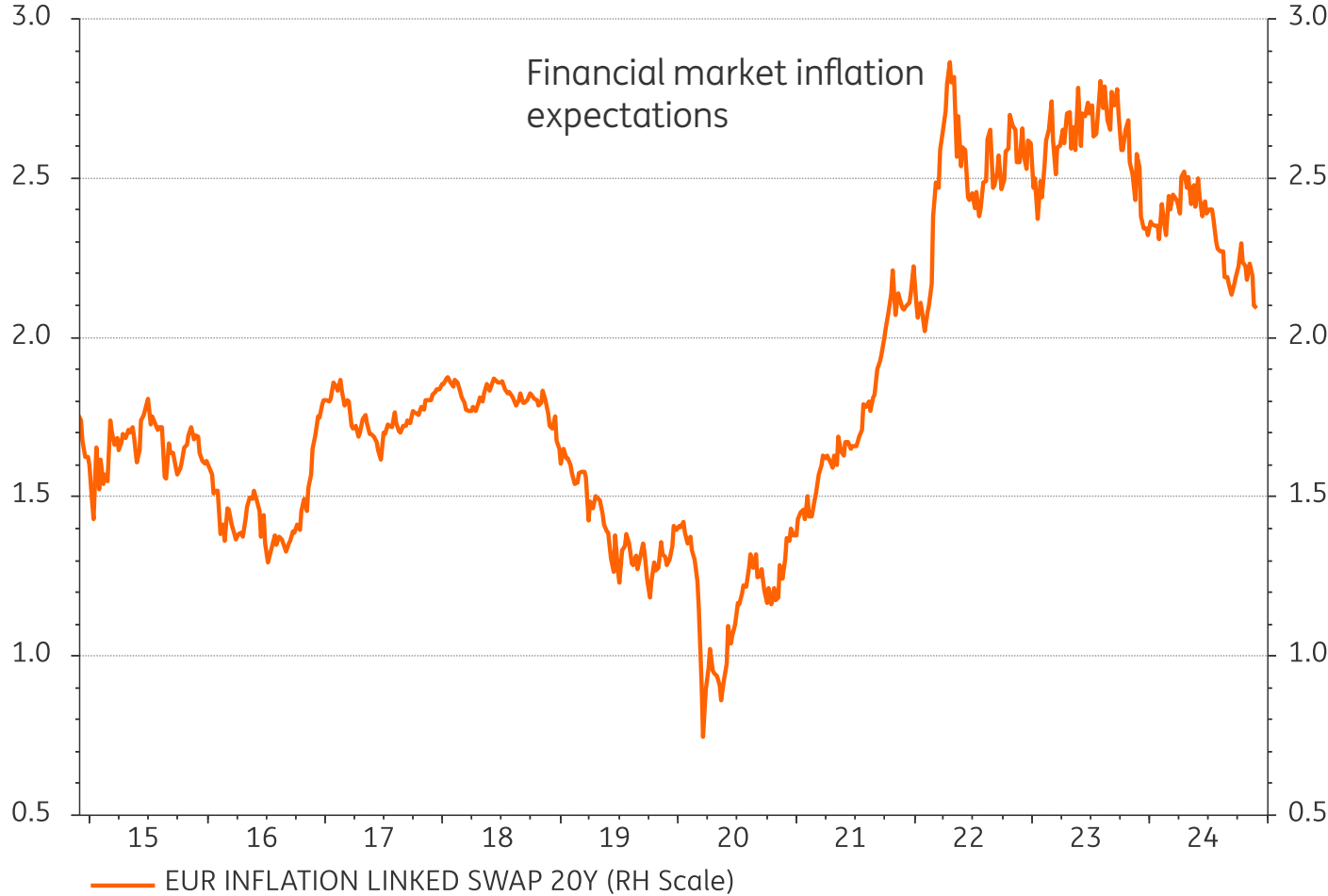


**What will central bankers do?**

# More rate cuts in the offing: ECB deposit rate likely at 1.75% by the summer of 2025, Federal Reserve has less leeway



# Long term inflation expectations can increase on the back of a supply shock

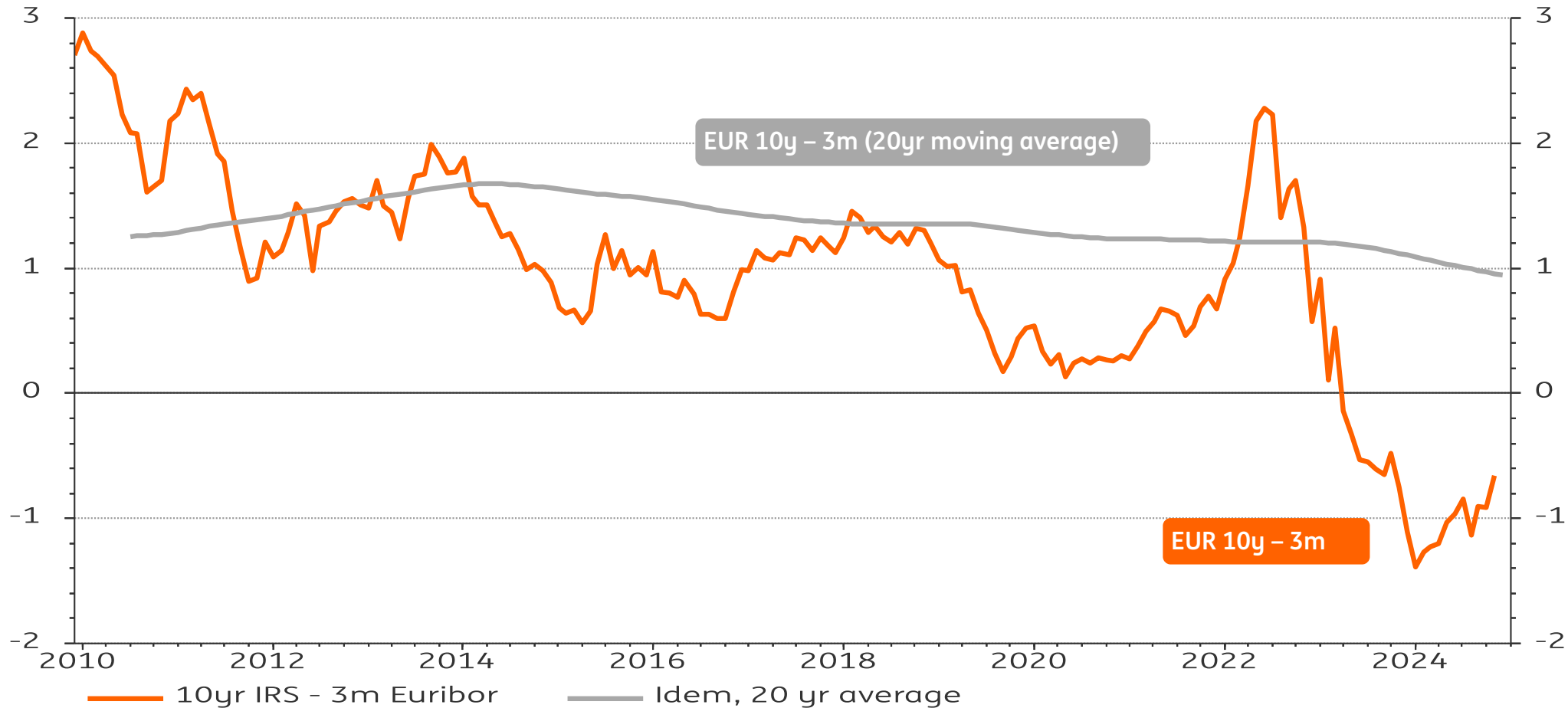


Source: LSEG Datastream, ING Economic Research

The “Bottleneck Economy”:

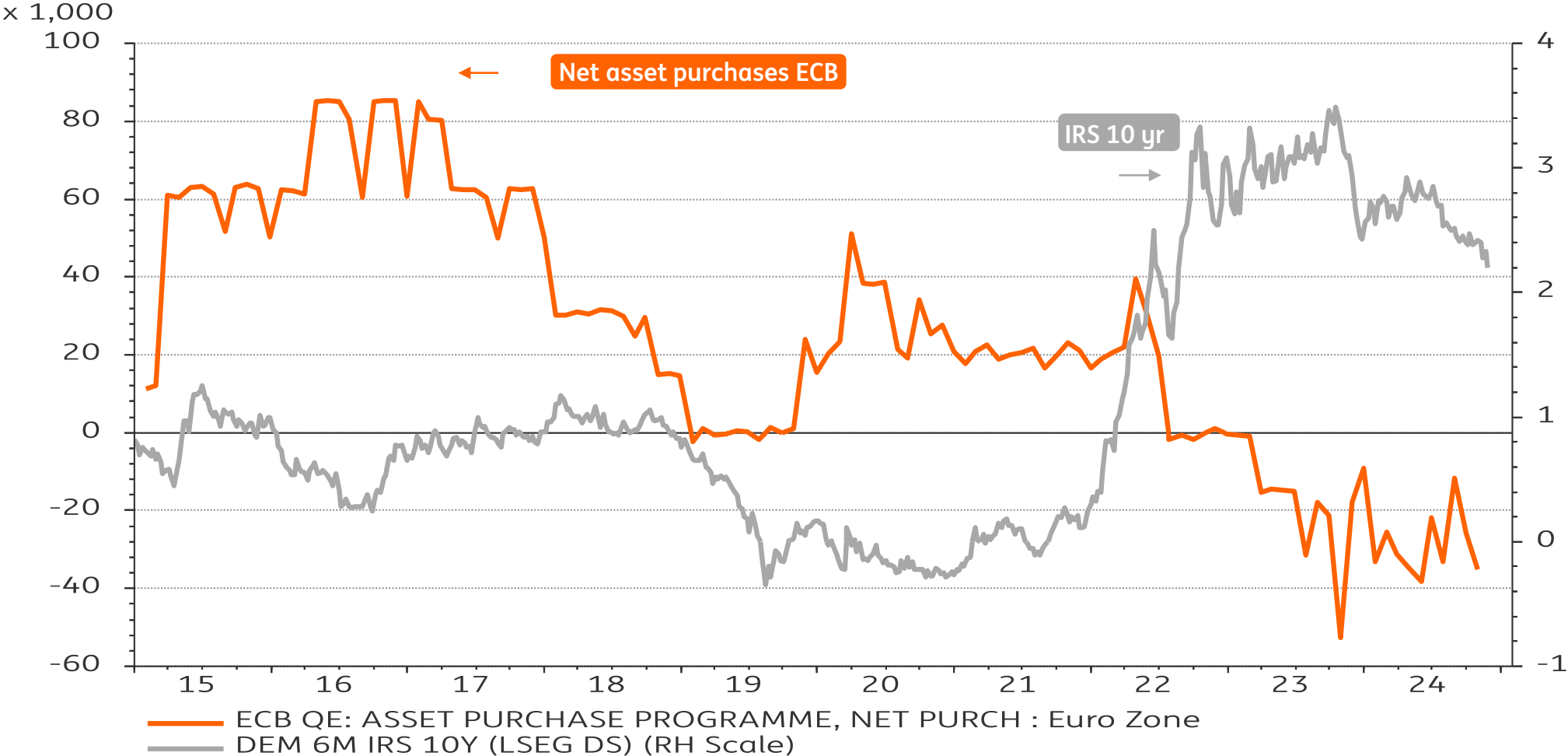
Adverse demographics and deglobalization might create more frequent supply constraints in the Eurozone

# EUR bond yields already strongly below short rates → limits the potential for the long end to decline



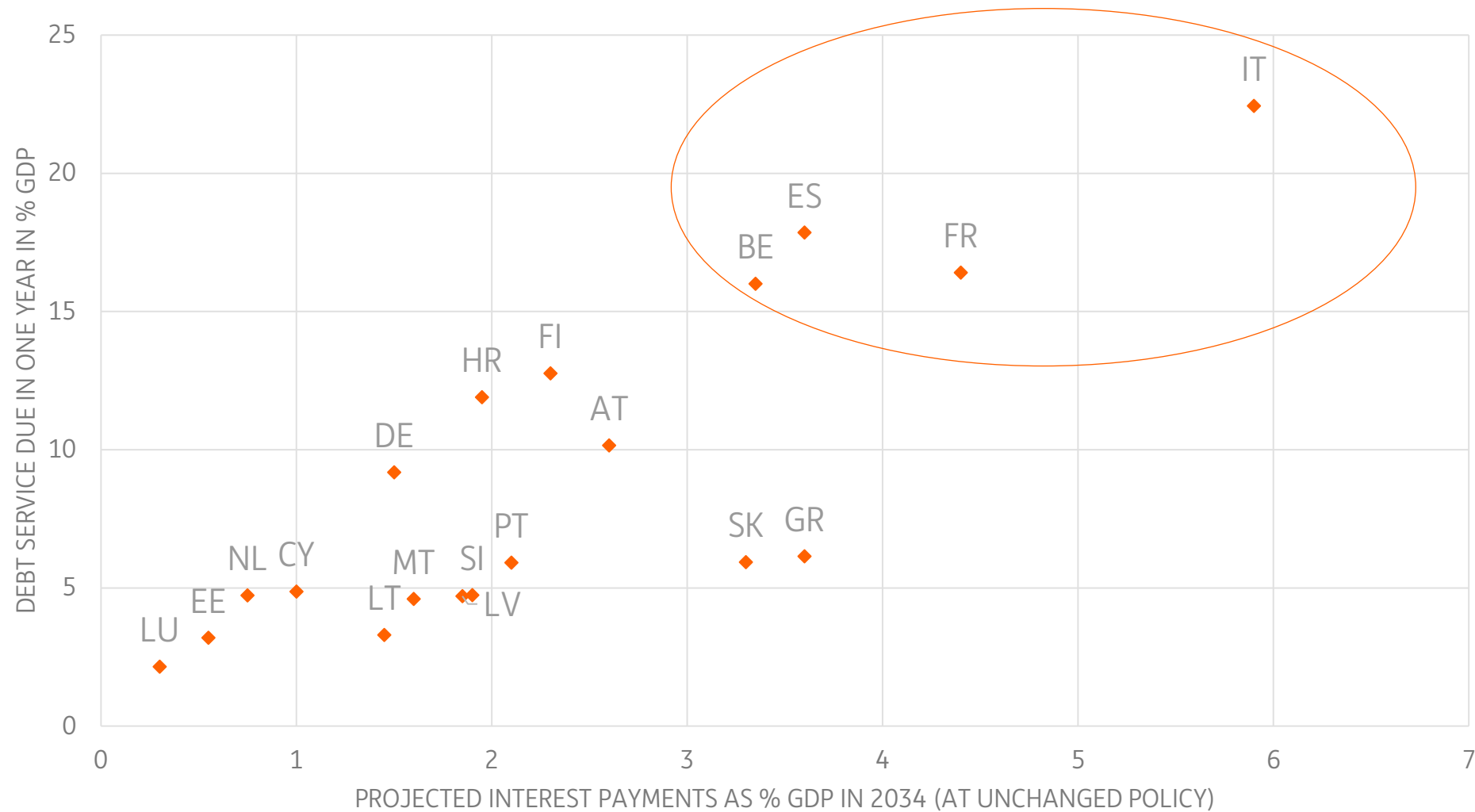
Source: LSEG Datastream, ING Economic Research

# Quantitative tightening has an upward effect on long term rates



Source: LSEG Datastream, ING Economic Research

# Fiscal sustainability and short-term financing needs

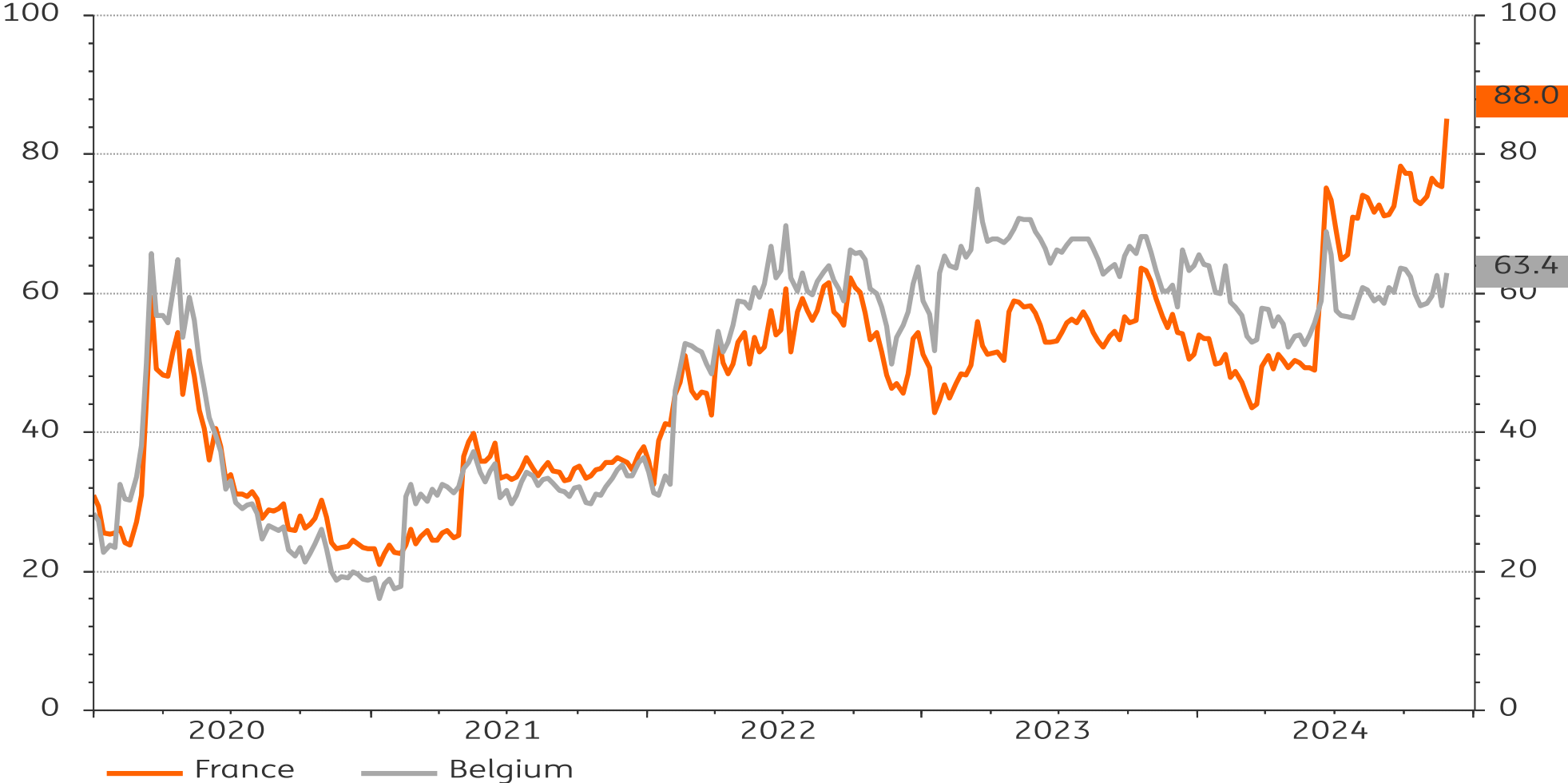


Source: EC, ECB, ING



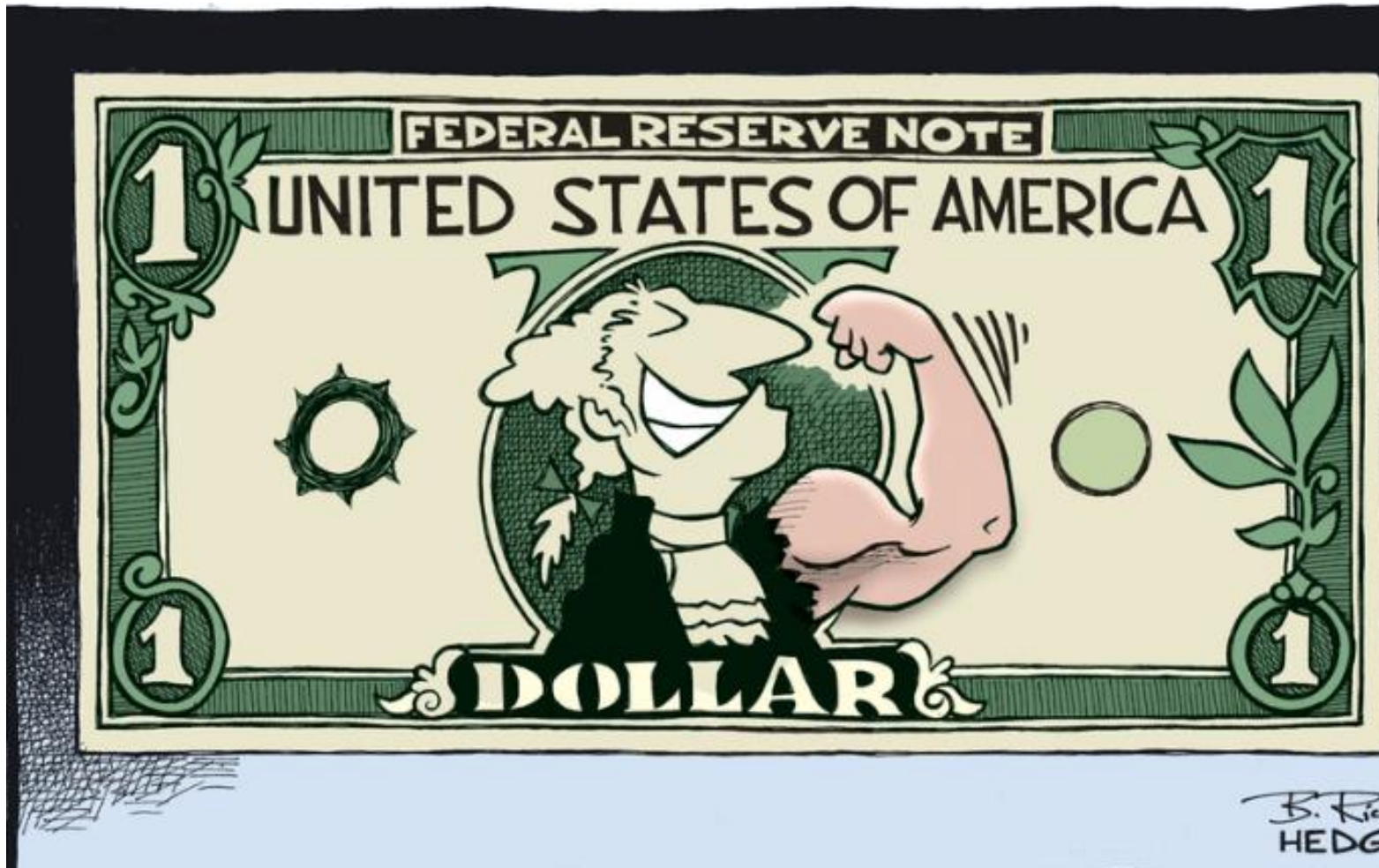
# Spreads are already widening for France due to the uncertain budgetary environment

### 10Y Bund spread



Source: LSEG Datastream, ING Economic Research

## Dollar already very expensive, but...



- Less rate cuts in the US, combined with expansionary fiscal policy is dollar-positive
- Higher import tariffs strengthen the currency in the short run



# 1H25 Financial Markets Outlook

Steven Vandepitte, Senior Strategist

December 2024

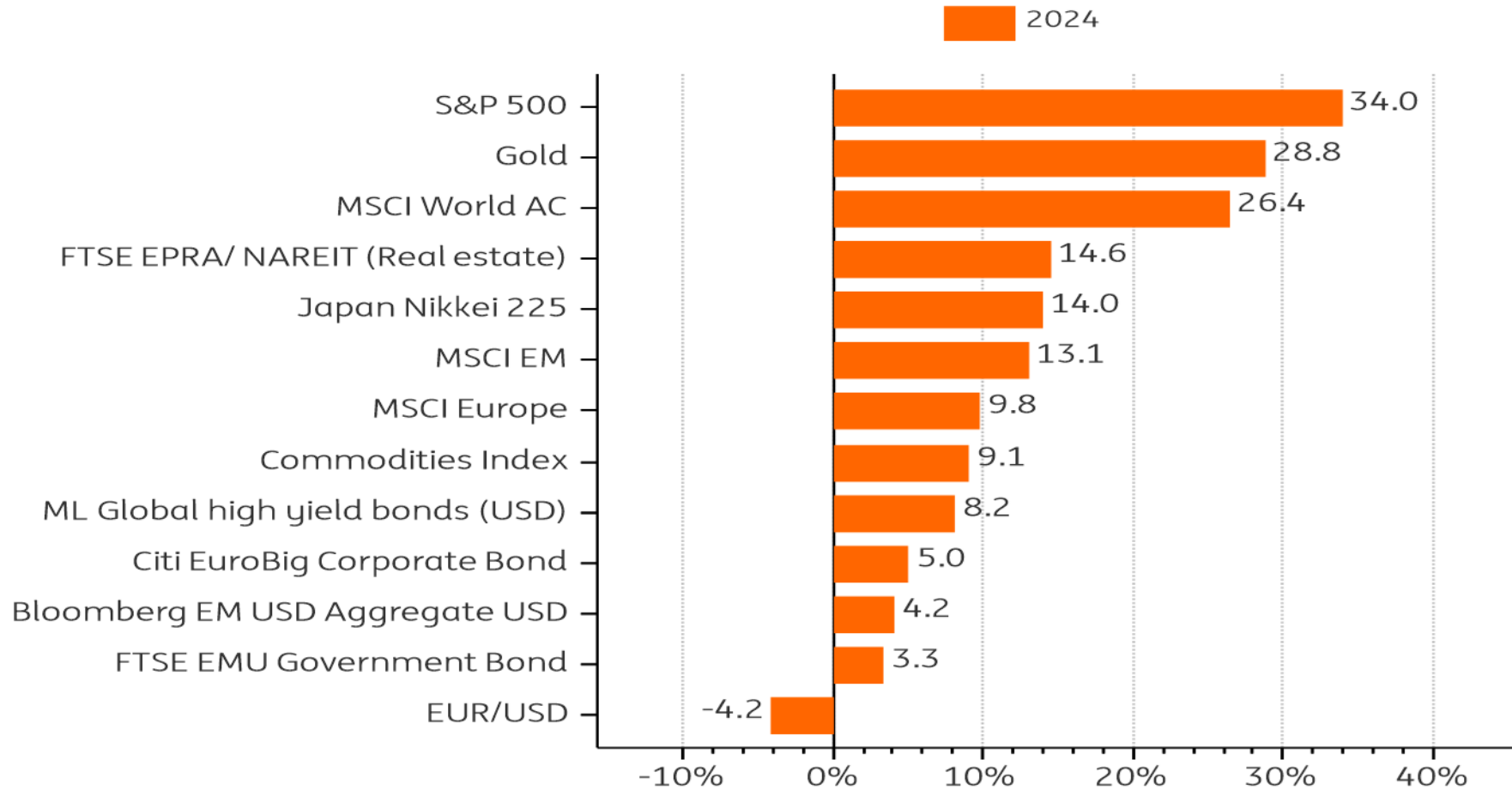


**“Godot Postponed”**



# Stock markets even better than expected

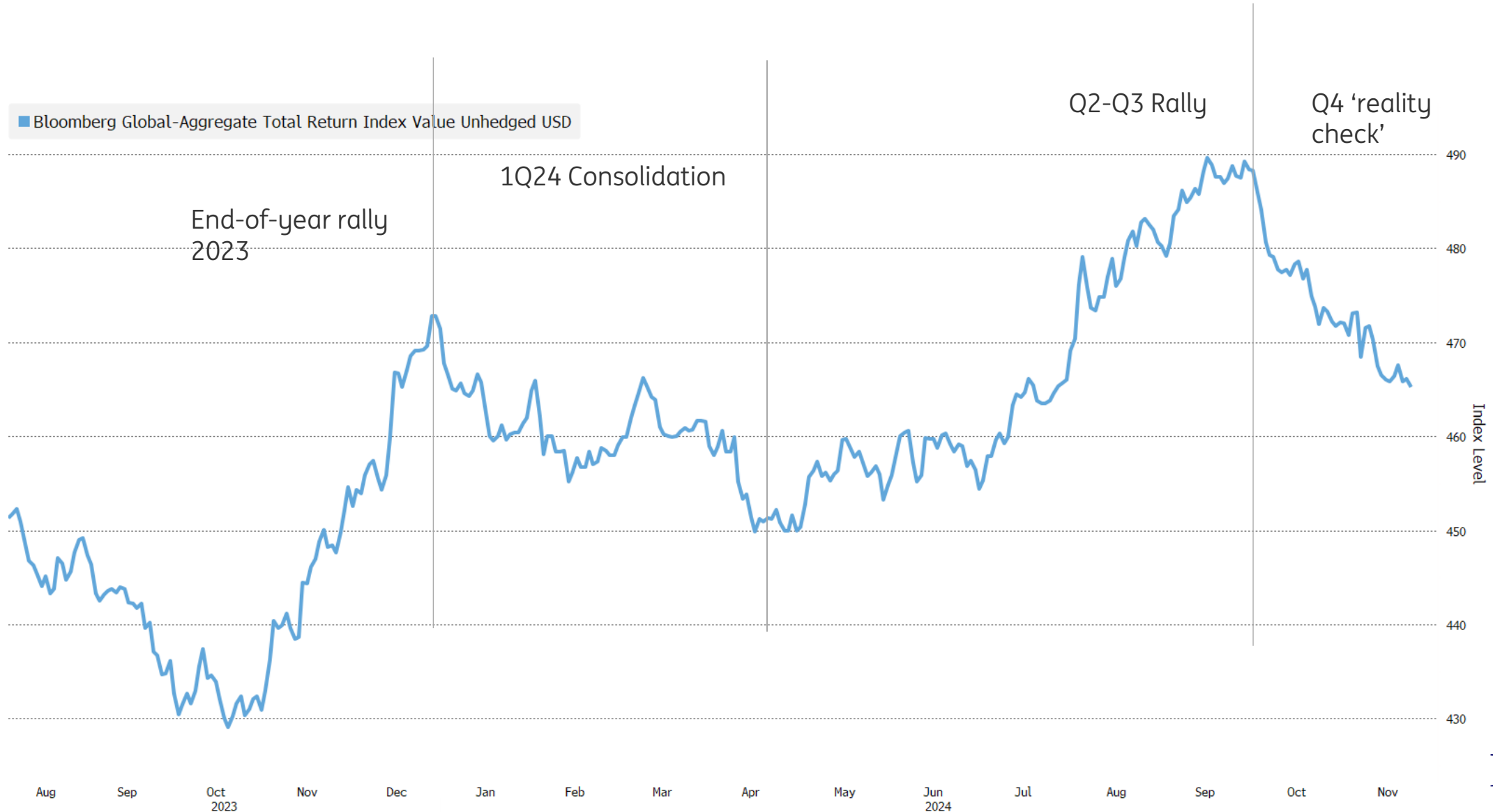
Performance\* 11/29/2024



\*Total return in euro, gold excluded, EURUSD, EMD et Global HY. This is the variation of spot price/benchmark

Source: LSEG Datastream, ING Investment Office

# The Bond Market : a play in 4 parts

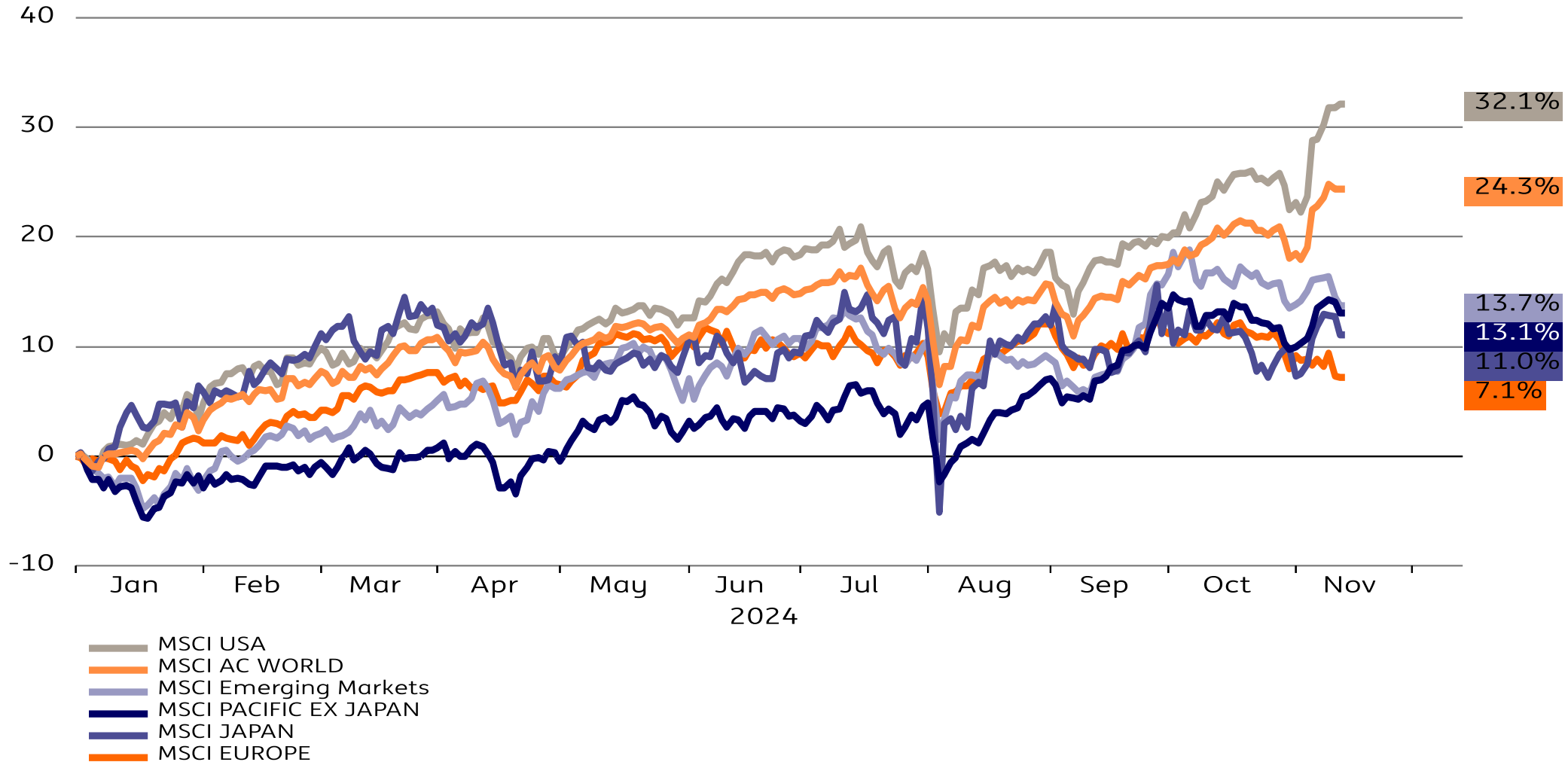




# “U.S. exceptionalism” at work

## Regional equity performance

MSCI indices, total return netto, in euro, from 1/1/2024 to 11/14/2024

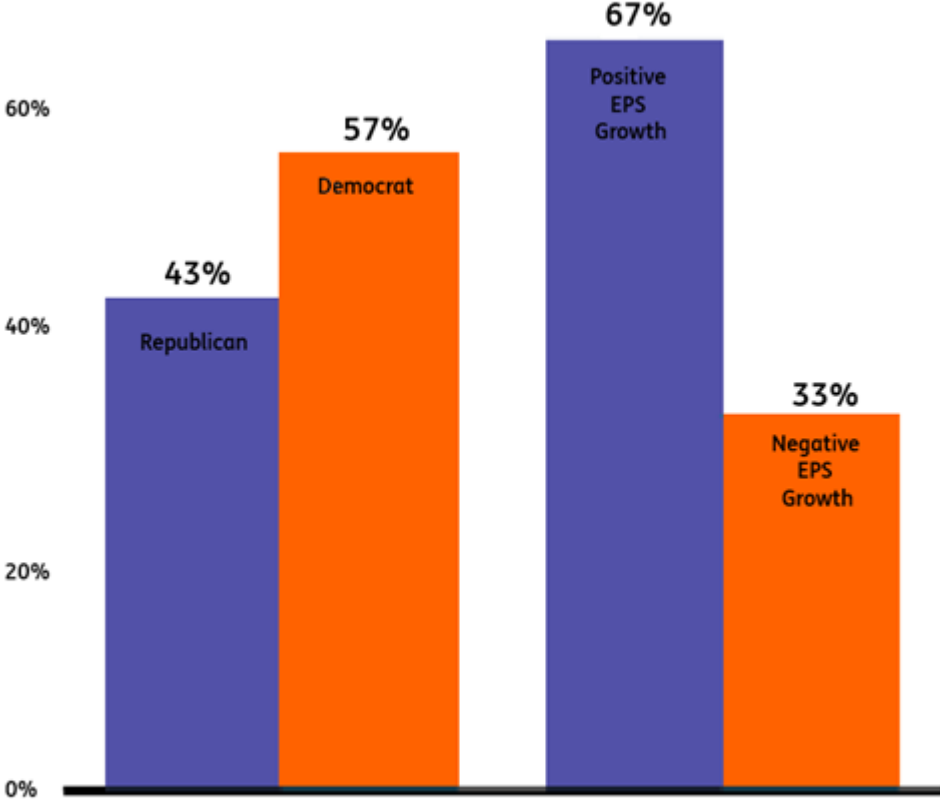


Source: LSEG Datastream, ING Investment Office

# “It’s the earnings, stupid”

## Profits matter more than politics

Percentage of years from 1928 to 2003 where total returns were positive based on political party vs. S&P 500 profits cycle

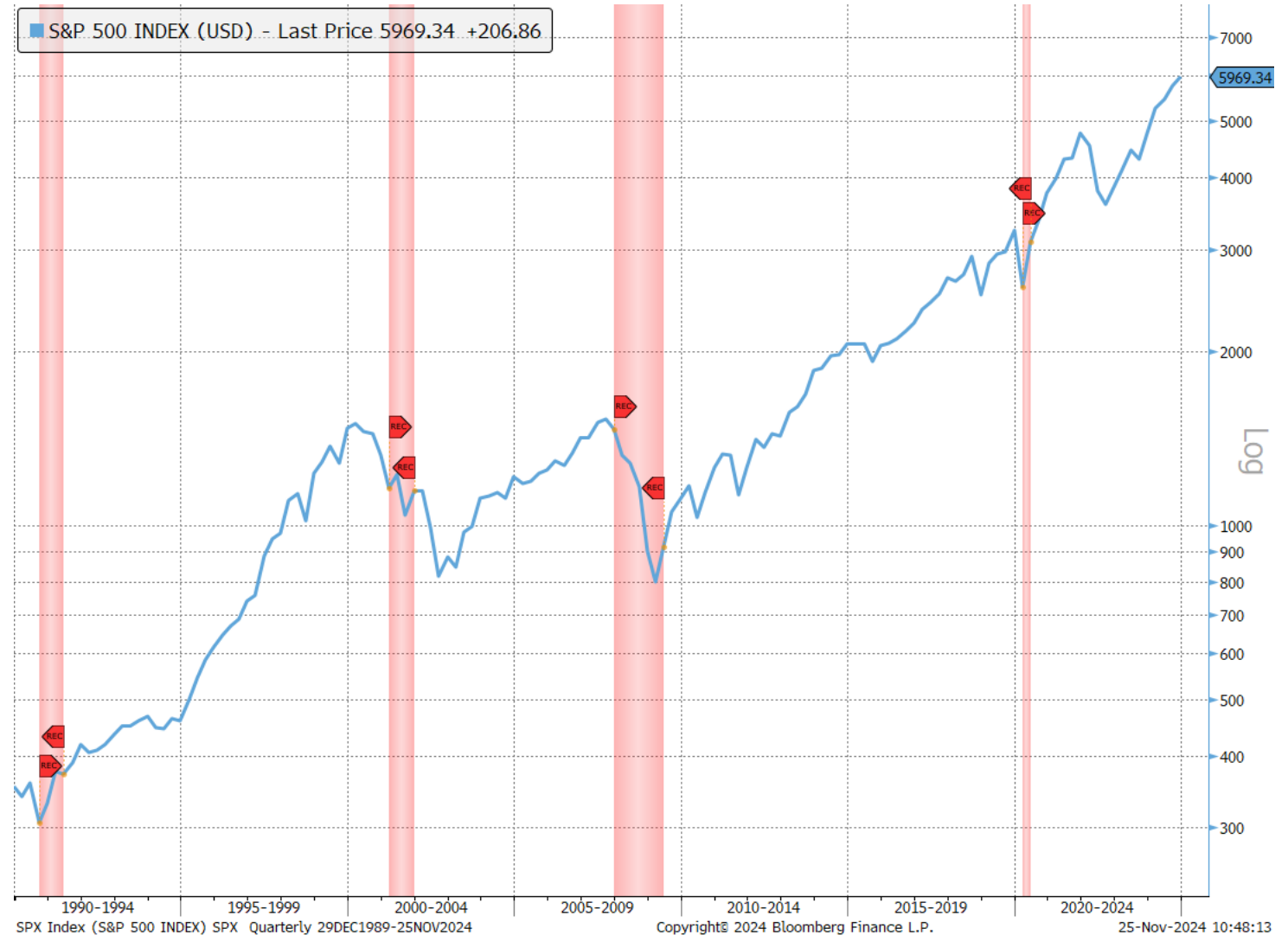


Source: Factset, Bloomberg, Bank of America

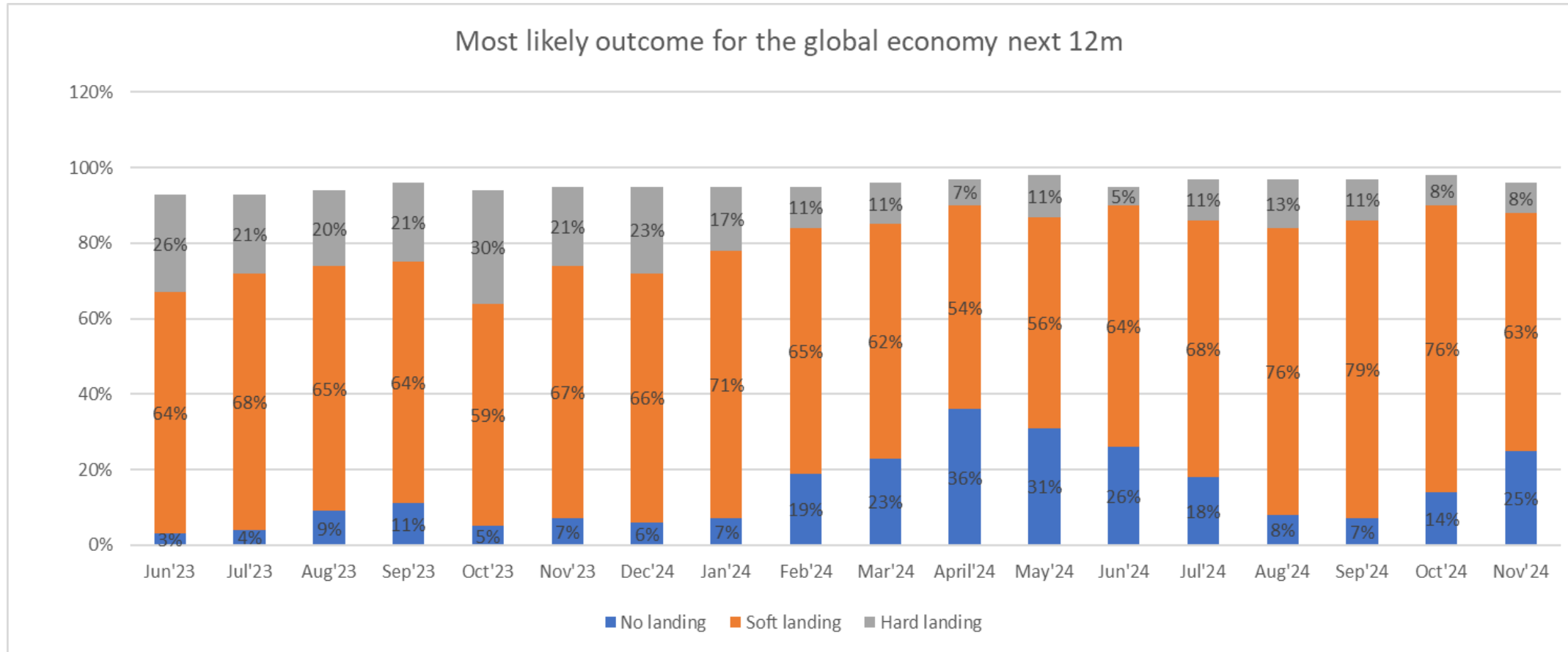
# This is what an average year in stock markets looks like

Stockmarket drop(*)	Average occurrence per year
5%+ ↓	3
10%+ ↓	1
15%+ ↓	once every 2 years
20%+ ↓	once every 3 to 4 years

(\*): data for S&P 500 since 1930  
Source: Bloomberg, BofA, ING

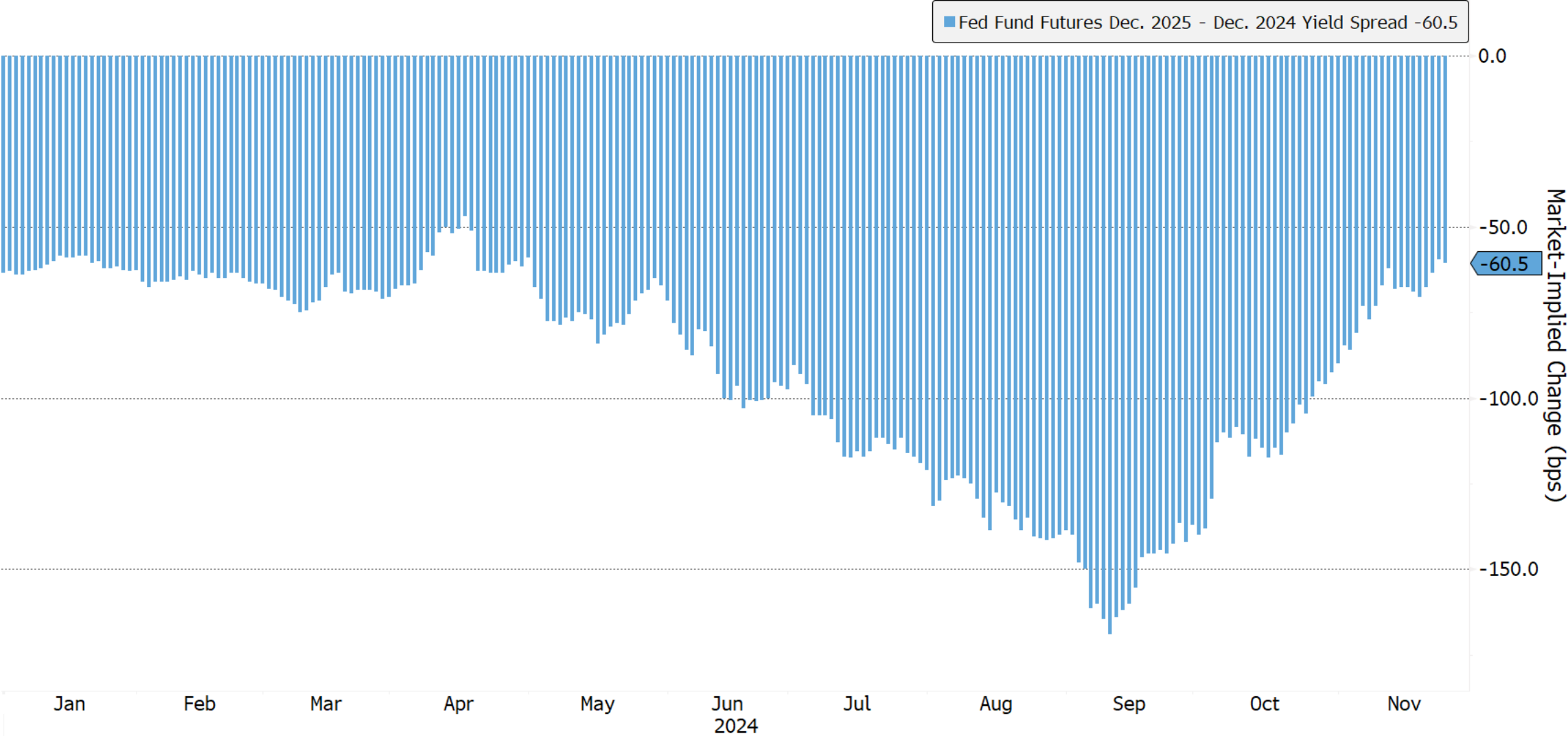


# Market consensus still around “soft landing”, but Republicans are considered more pro-growth



Source: BofA Global FMS, ING

# Money markets have once again reduced their rate cut expectations for 2025



Source: Bloomberg

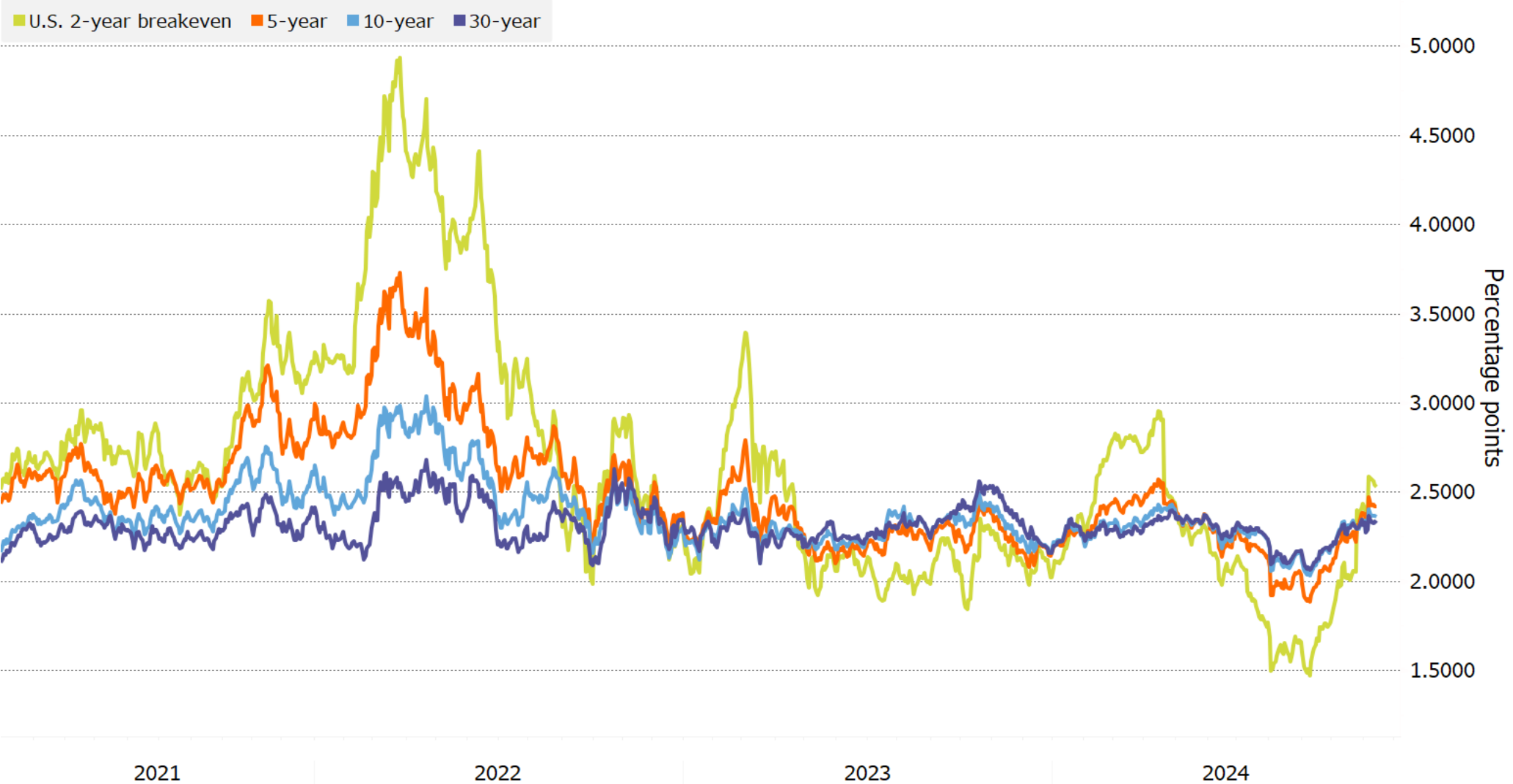
FFZ4 Comdty (FED FUND 30DAY Dec24) Fed Pricing 2025 Daily 29DEC2023-25NOV2024

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25-Nov-2024 15:13:59



# (short term) Inflation break-evens were cheap before the Trump trade got going



Source: Bloomberg  
USGGBE02 Index (US Breakeven 2 Year) Breakevens 2, 5, 10, 30 Daily 27FEB2021-14NOV2024

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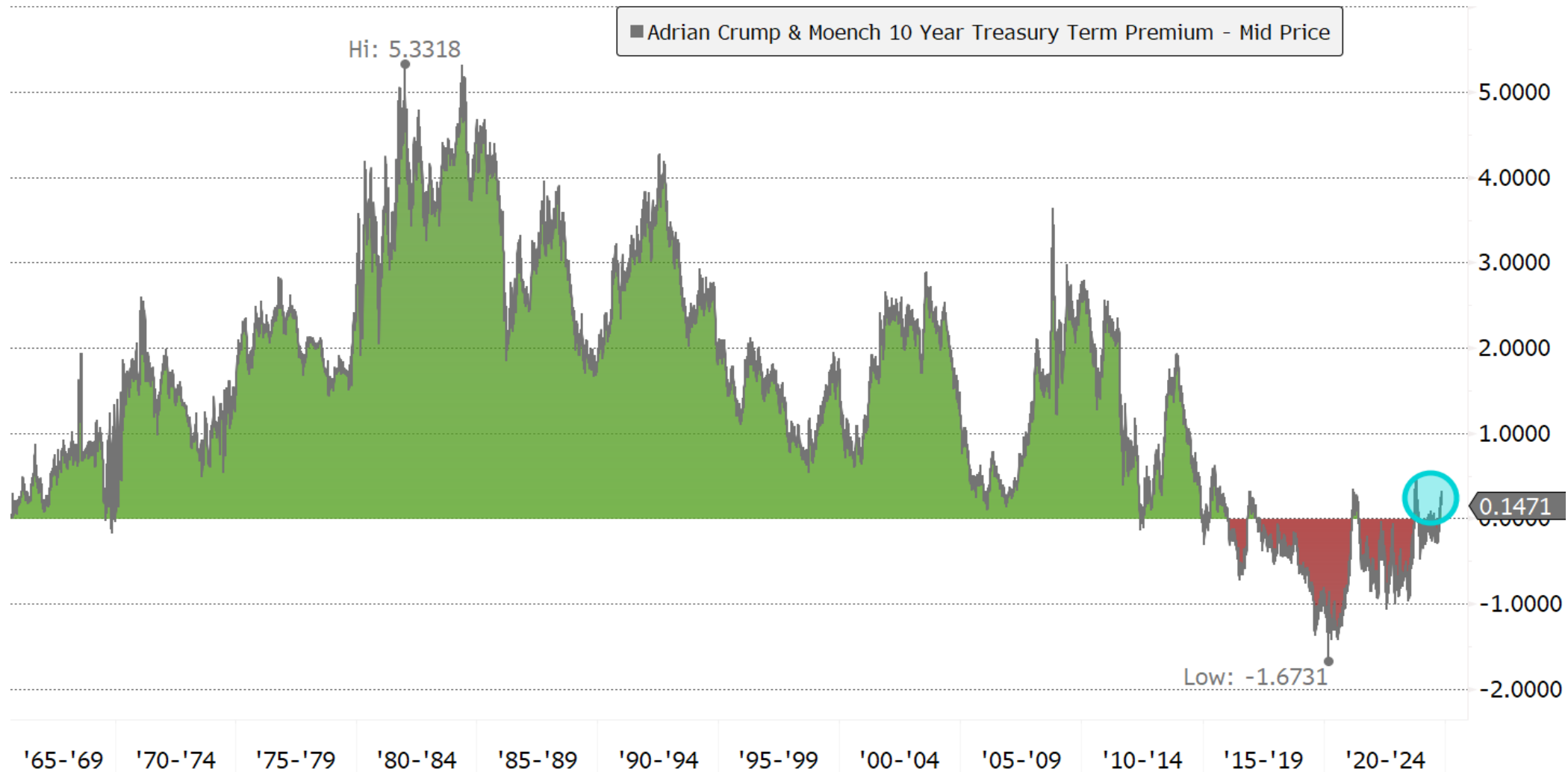
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# The return of the term premium

## Positive again



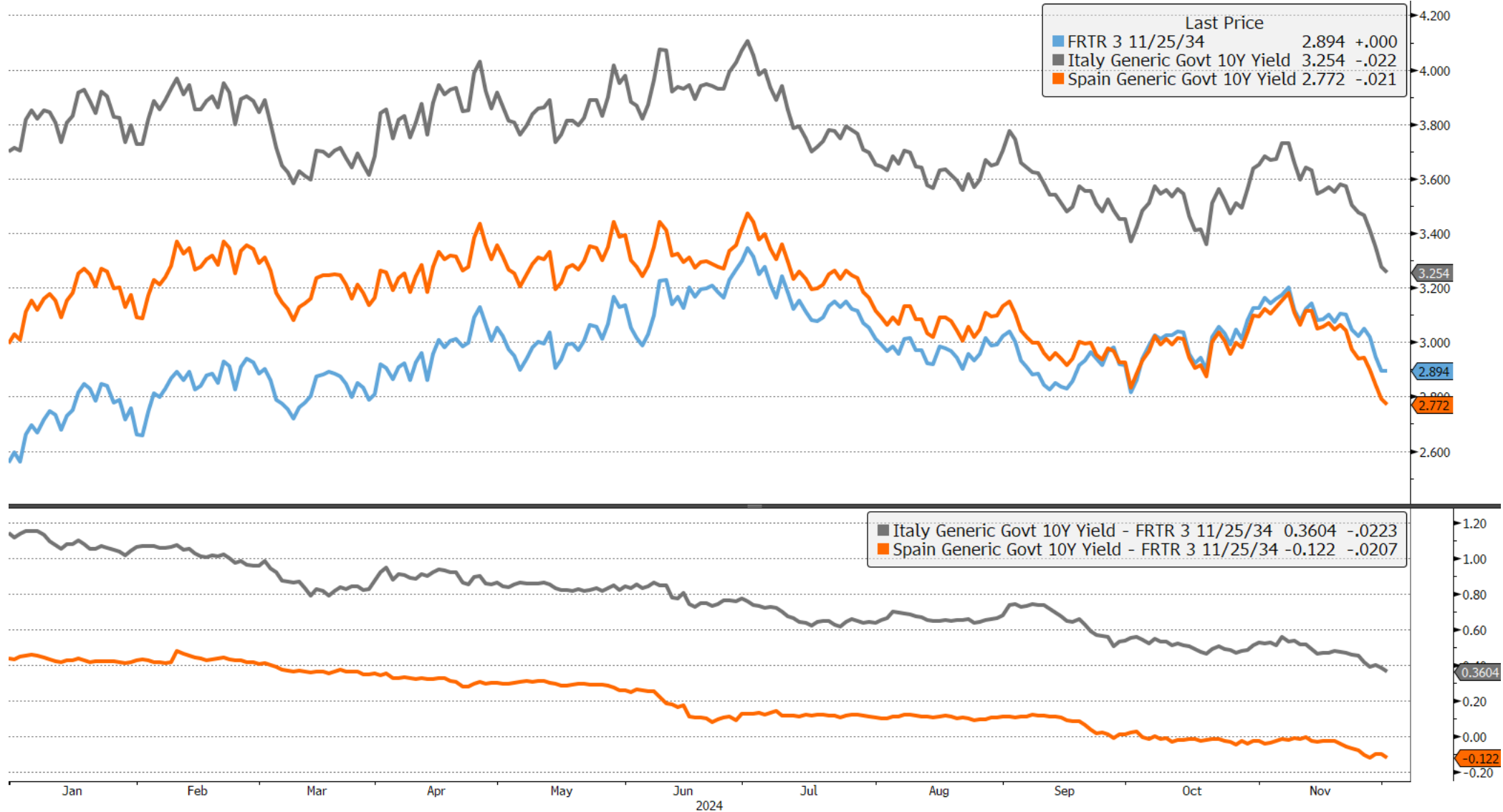
Source: Bloomberg

ACMTP10 Index (Adrian Crump & Moench 10 Year Treasury Term Premium) US10Y Term Premium Daily 19AUG1965-13NOV2024

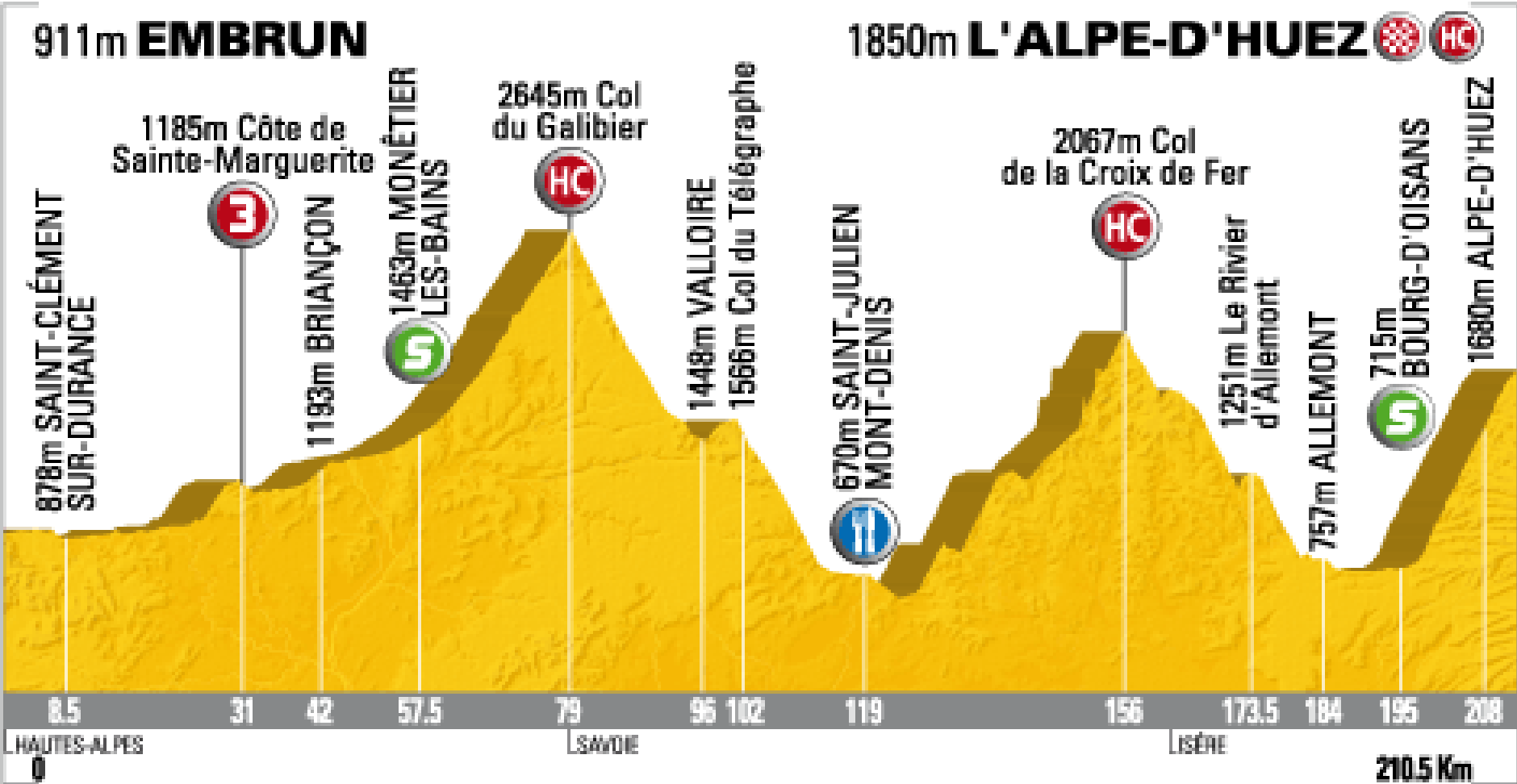
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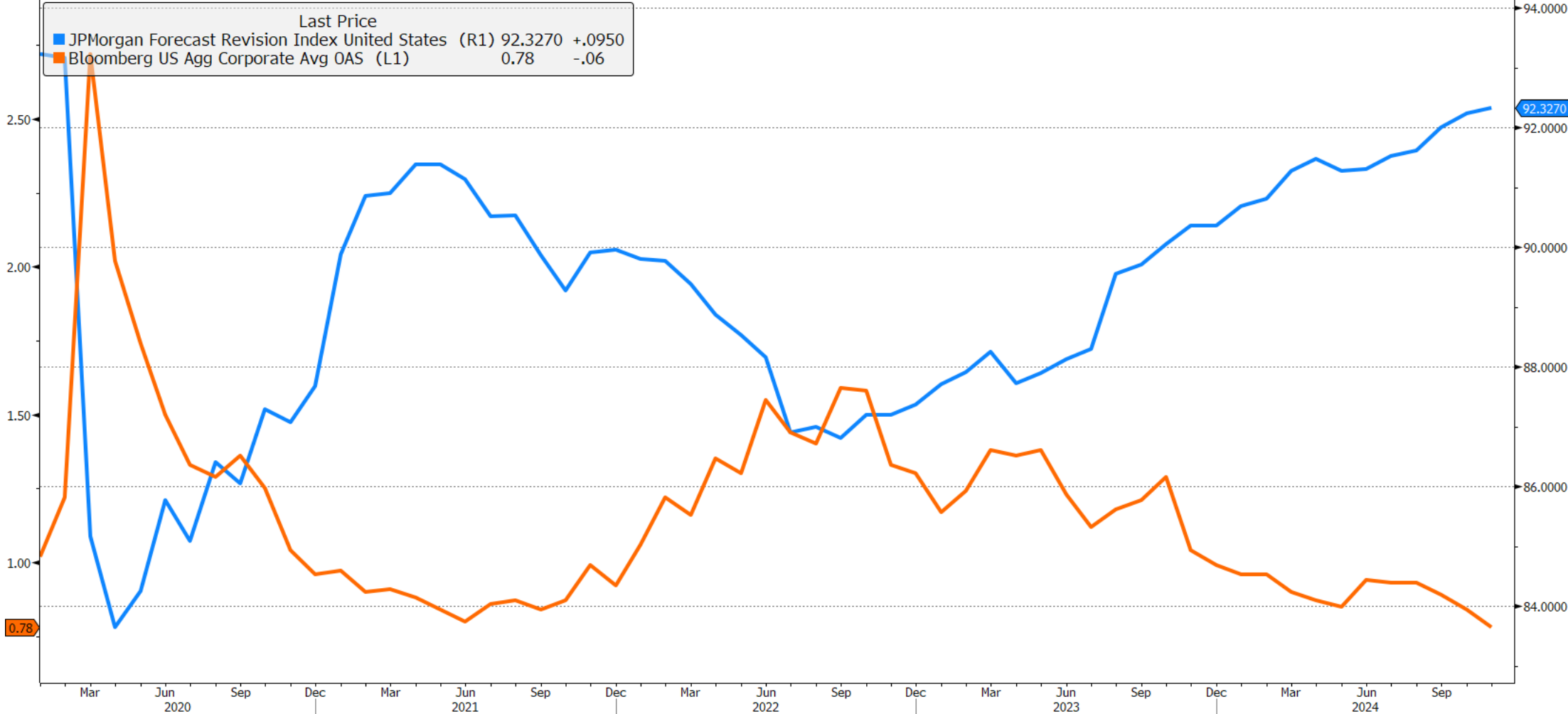
# Semi-core and periphery mixing it up in the Eurozone ?



# Towards a medium-term rate scenario that resembles more a mountain stage?



# Credit spreads likely to grind tighter if economic upgrades keep coming in again



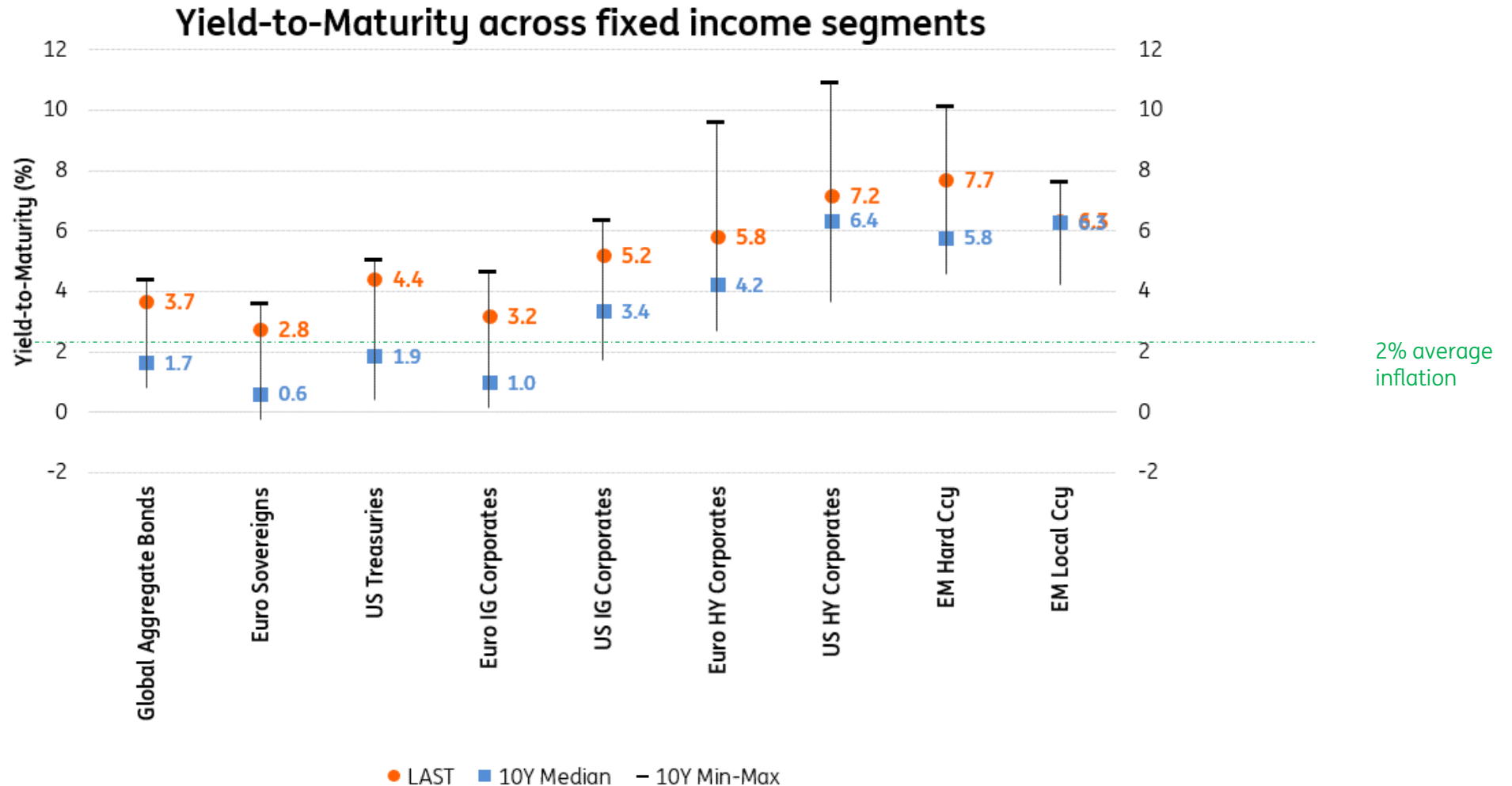
JFRIUS Index (JPMorgan Forecast Revision Index United States) US FRI & credit spreads Monthly 31JAN2020-22NOV2024

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25-Nov-2024 15:30:37



# Still attractive yields for the medium term



# Above LT average valuations, mostly explained by (parts of) the U.S. market

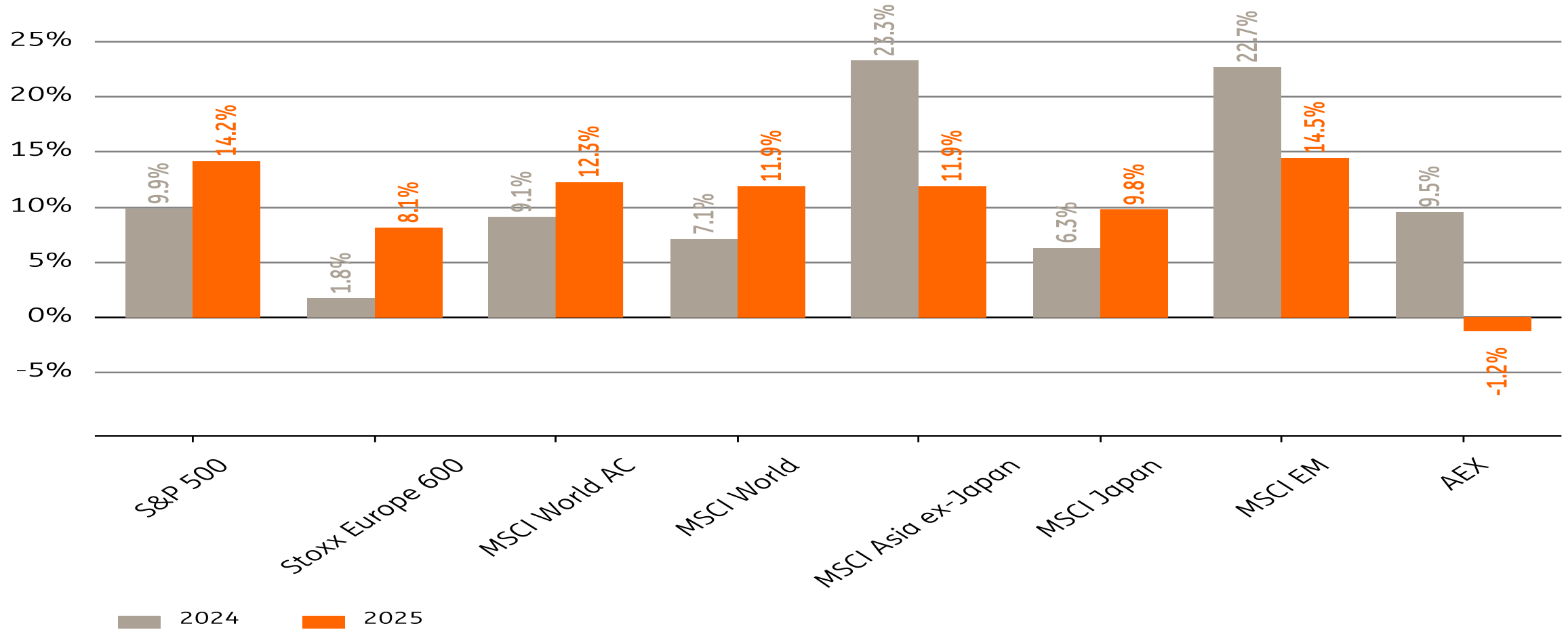


Source: LSEG Datastream, ING Investment Office



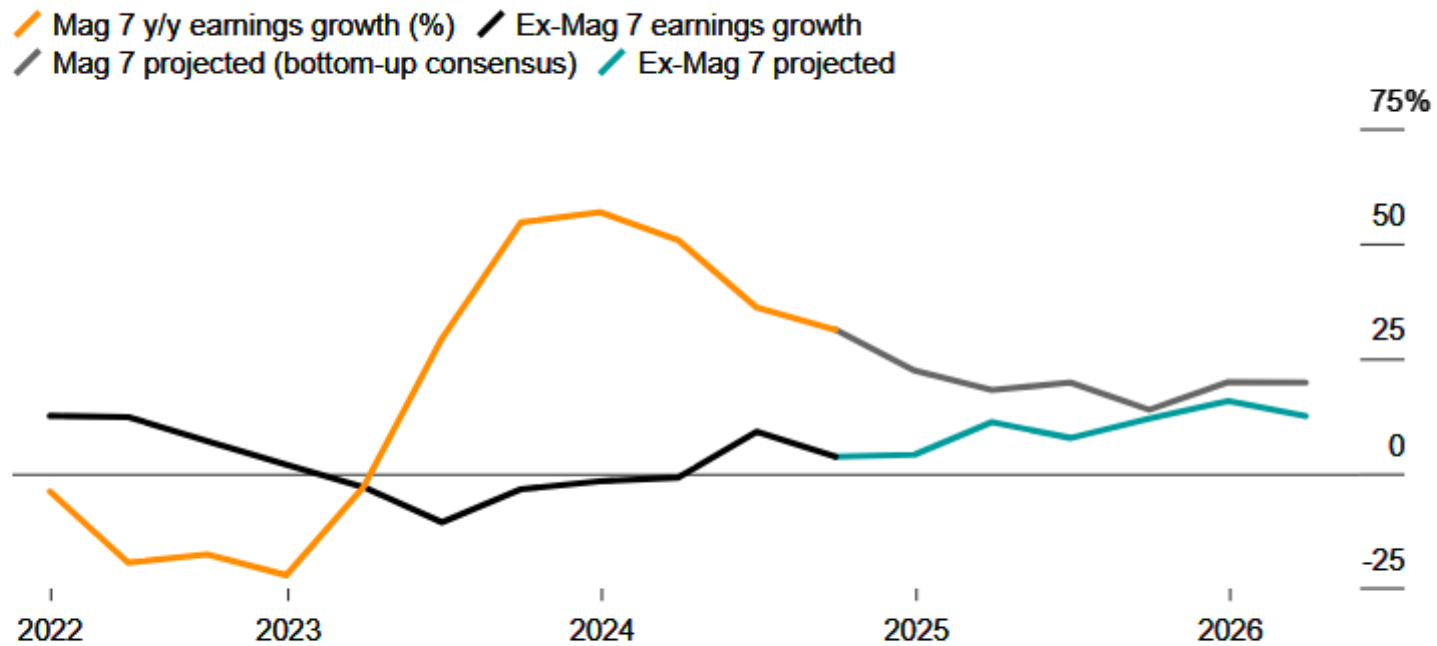
# Earnings expectations for 2024/2025

per calendar year (IBES)



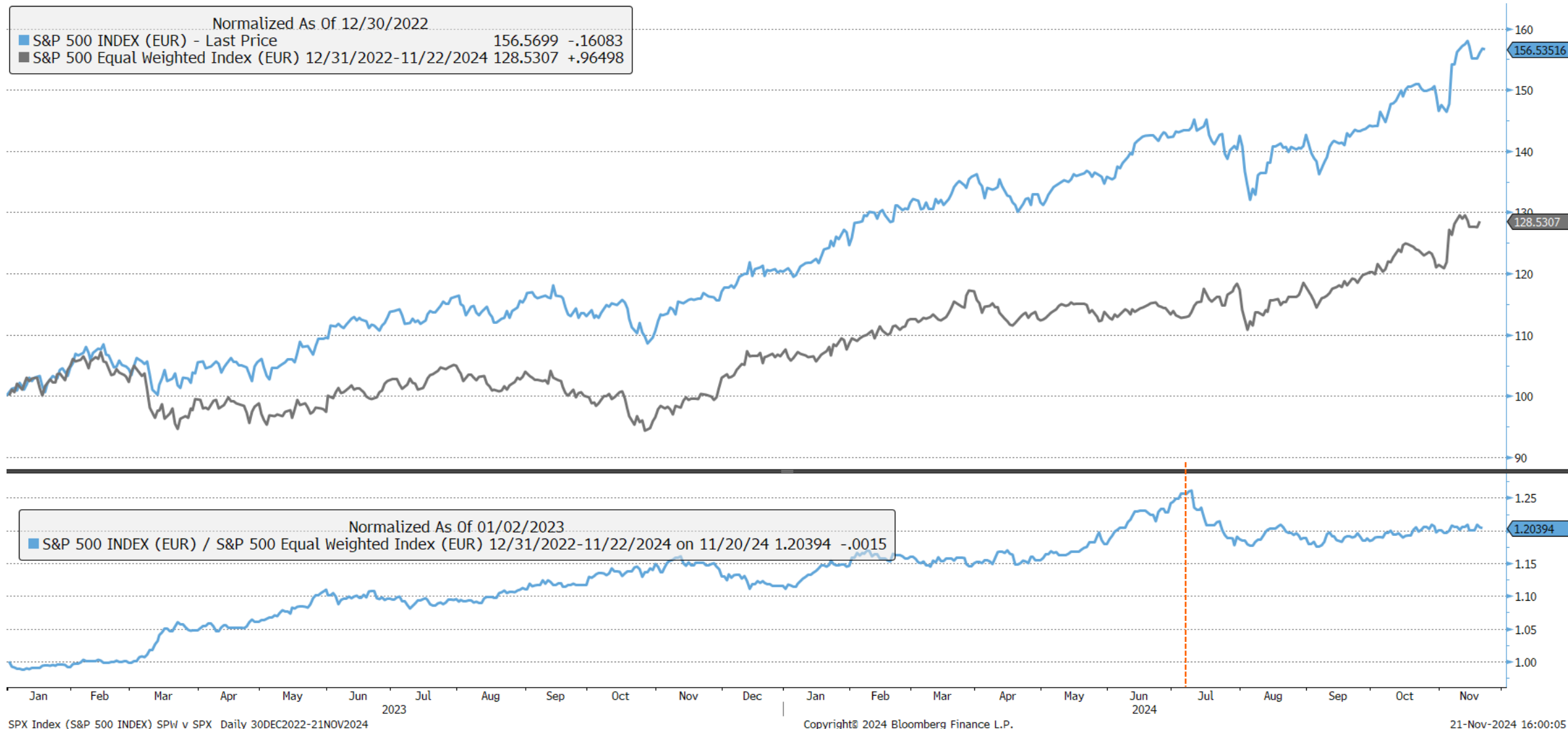
Source: LSEG Datastream, ING Investment Office

# Earnings growth gap to further decline considerably



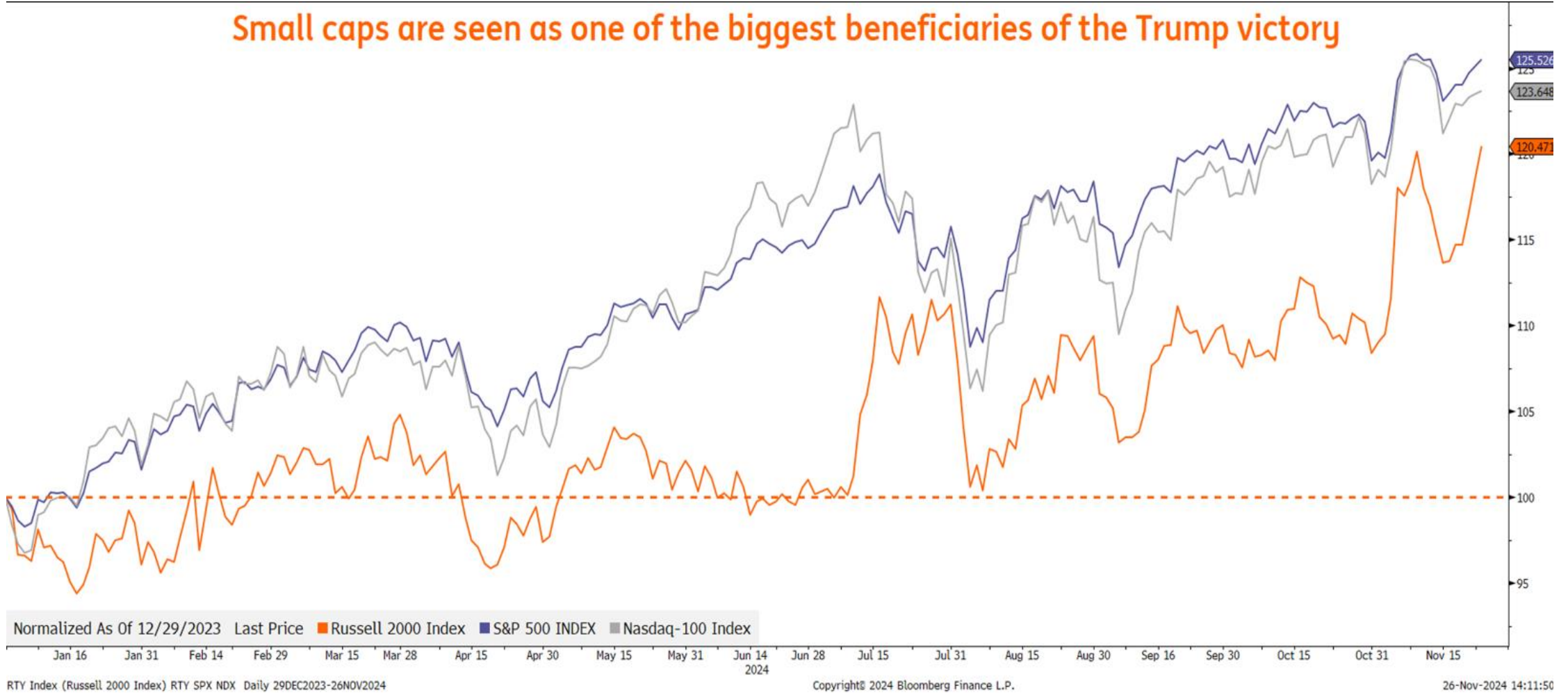
Source: ING Investment Office, Bloomberg

# Broadening of the rally beyond the M7

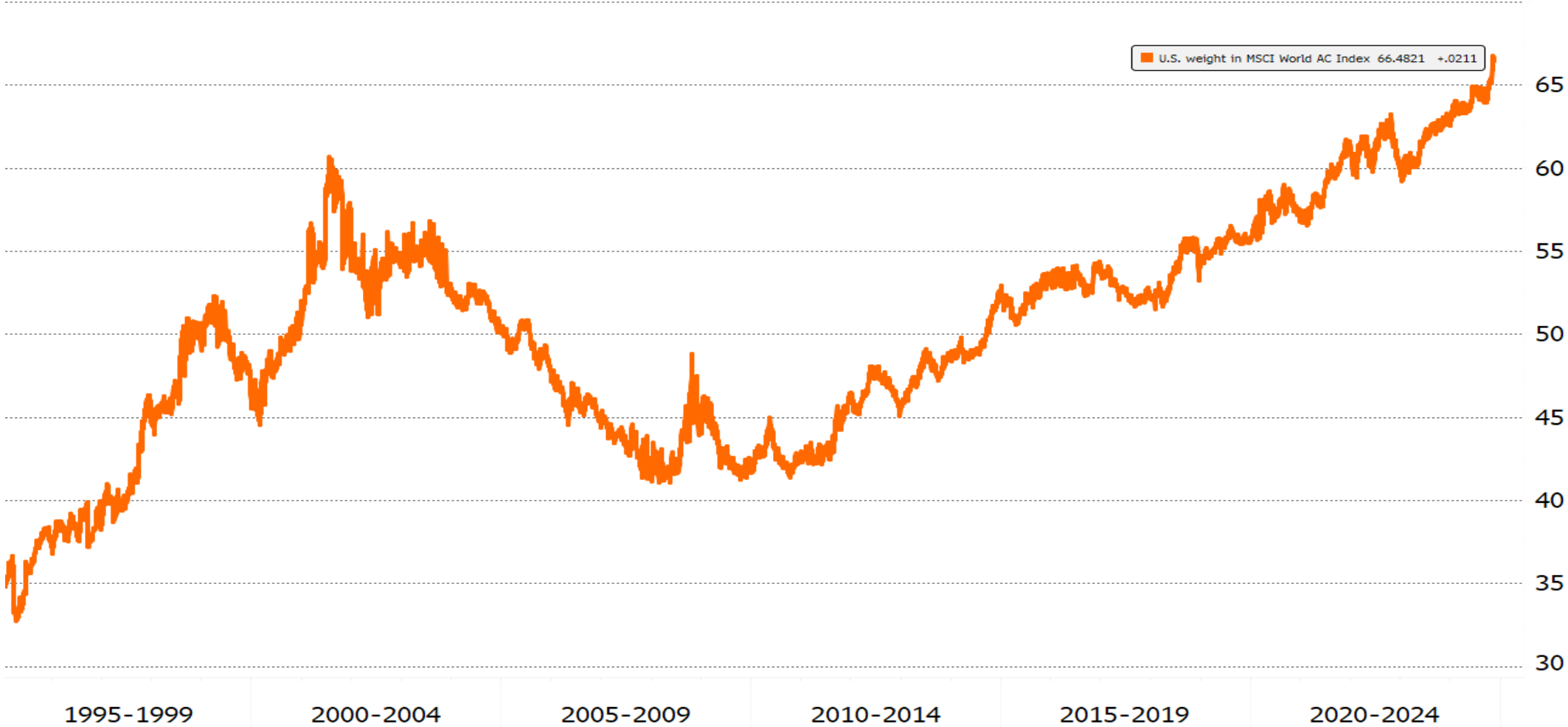


# Small caps to join the rally

Small caps are seen as one of the biggest beneficiaries of the Trump victory



# All eyes on the U.S. still ....



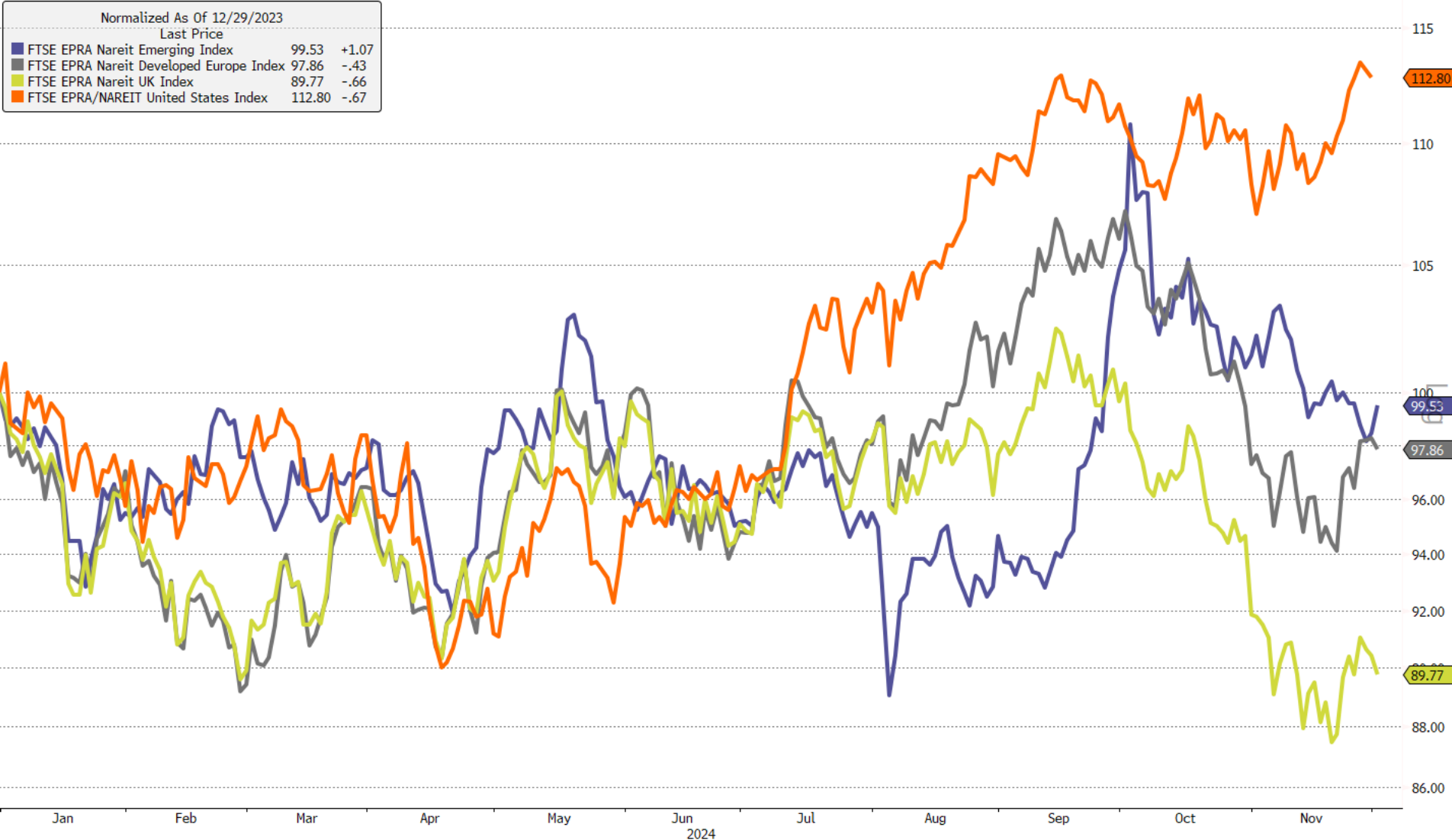
Source: Bloomberg

MXUS Index (MSCI USA Price Return USD Index) USA Weight in ACWI Daily 31JAN1995-20NOV2024

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20-Nov-2024 10:22:49

# The rates headwind to further abate for listed real estate



FENEI Index (FTSE EPRA Nareit Emerging Index) RE perf Daily 29DEC2023-02DEC2024

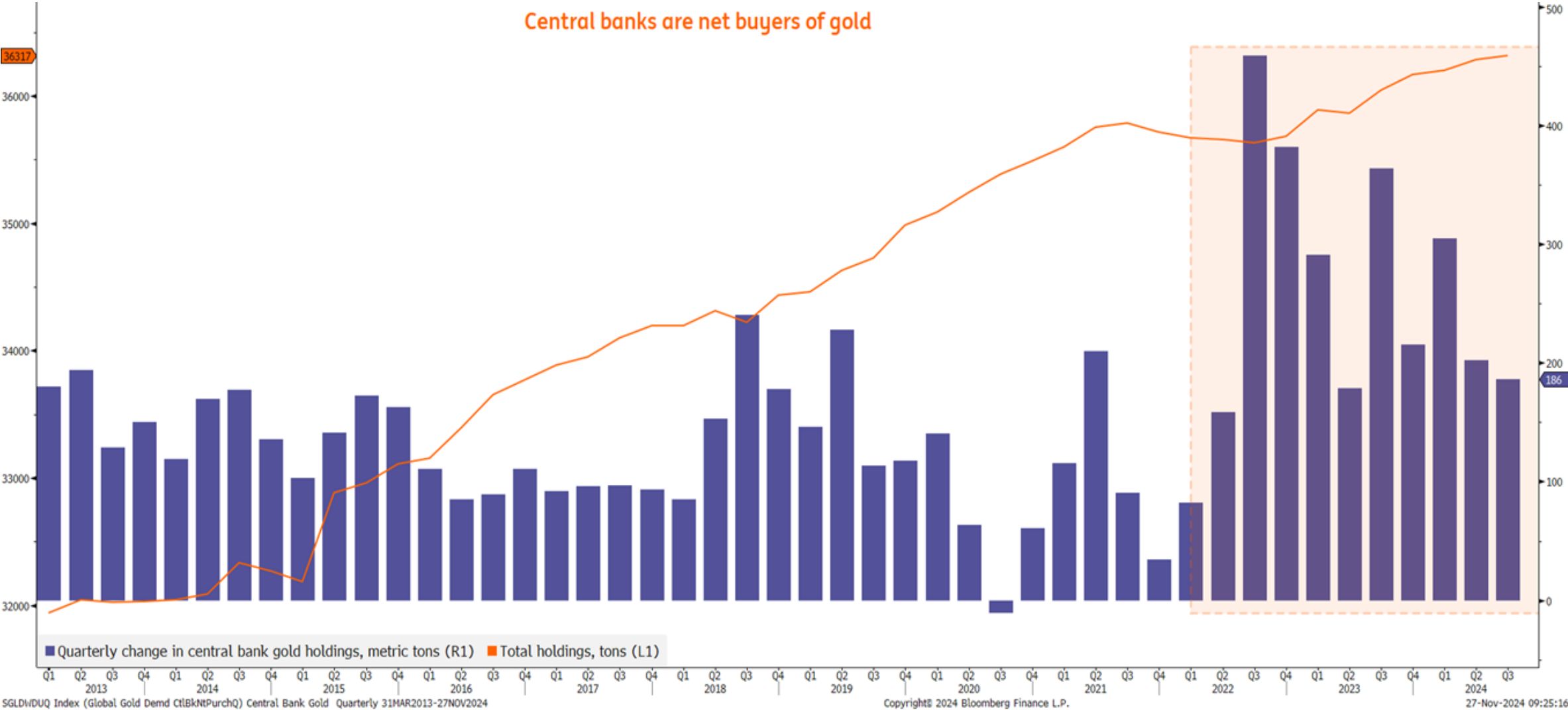
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02-Dec-2024 11:37:49

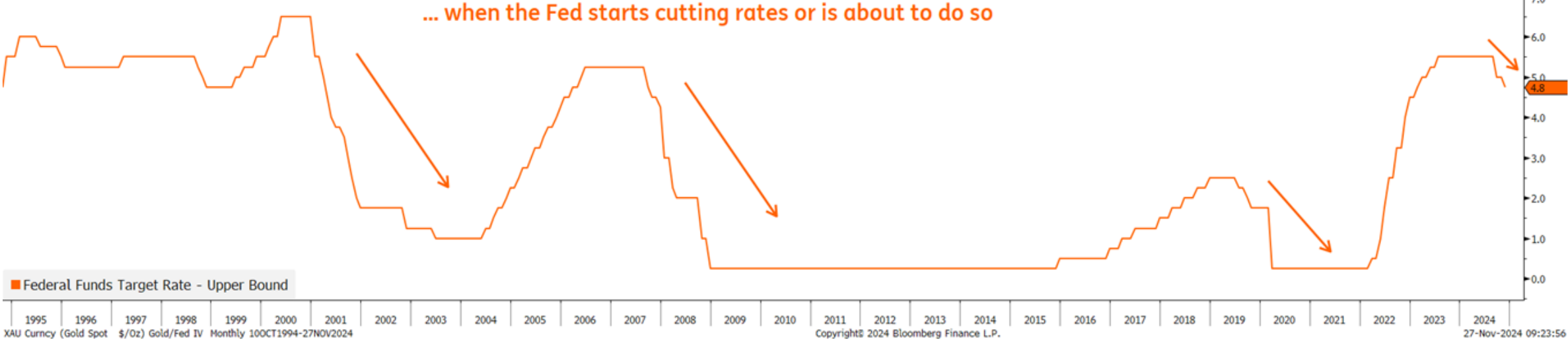




# Gold sought after as a USD alternative



# Gold and the Fed



# Key takeaways

- Still looks like the economy is heading for the soft landing in 2025 but there's also the shift in the distribution of outcomes to consider.
- Pro-growth and hence more inflationary Republican Trump Administration could frustrate the central banks effort to rapidly cut rates.
- Bond markets to still offer attractive yields on the longer part of the curve as cash rates come down
- Signs that the equity market rally is finally broadening beyond the M7. Earnings growth and hence “quality” are key criteria
- Gold remains a very interesting diversifier in portfolios against a backdrop of elevated geopolitical tensions

# Q&A



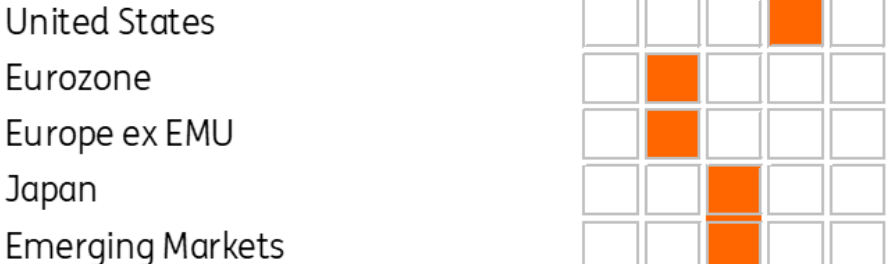
# Overview of current tactical allocation

■ 19/11/2024   
 ■ Previous allocation

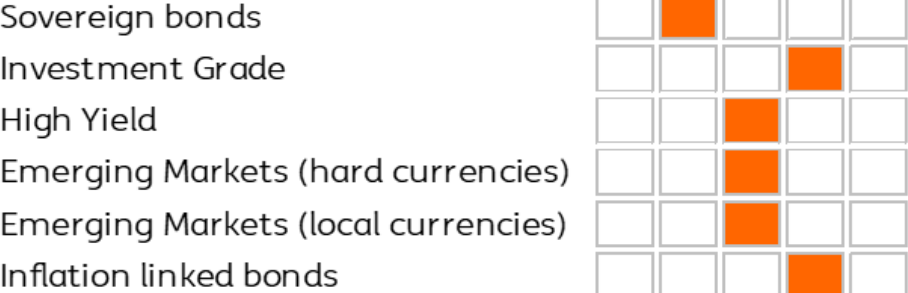
### Asset Allocation



### Regional Allocation



### Bonds Allocation



# Sector allocation :

■ 19/11/2024    
 ■ Previous allocation

### Sector Allocation Europe

- Financials
- Information technology
- Communication services
- Durable consumer goods
- Healthcare
- Utilities
- Energy
- Materials
- Industrial goods
- Daily consumer goods



### Sector Allocation US

- Financials
- Information technology
- Communication services
- Durable consumer goods
- Healthcare
- Utilities
- Energy
- Materials
- Industrial goods
- Daily consumer goods





do your thing