Quarterly Outlook:

Trump 2.0: Can the US have its cake and eat it, too?

By John Hardy, Chief Macro Strategist

President-elect Donald J. Trump will hit the ground running after his January 20 inauguration as he has promised a blitz of new initiatives and policy announcements from day one. Global markets will spend the first quarter of 2025 in reaction mode, even well before the impacts and knock-on effects of the Trump agenda are known. And many of the key Trump 2.0 initiatives, from taxation and deregulation to fiscal policy, will likely not fully crystallize until fiscal year 2026.

But markets will do their level best to look ahead and are likely to trade with considerable volatility as the world finds its sea legs with a more forceful US policy mix that stimulates a varied response domestically and especially in the wider world.

The US: to what degree can Trump force the US agenda on the rest of the world?

Markets initially reacted to the strong Trump victory and Republican sweep of Congress as an unalloyed positive for markets in similar fashion to the 2016 election outcome, as the US dollar rallied, US yields shot higher and US equities rallied broadly. But by year-end, while US yields and the big dollar remained firm, the broad stock market reaction, as measured by the equal-weight S&P 500 Index, traded about 2% below Election Day levels. This is perhaps as the Trump 2.0 agenda is fraught with so many policy contradictions and uncertainties that markets are wary of jumping to conclusions. It was also due to the Fed's hawkish guidance at the December 18 FOMC meeting, as it didn't want to pre-commit to much further easing based on the same uncertainties in the outlook the market is grappling with.

Equity Market Performance Overview*

	(USD)		(EUR)	
	Q4	2024	Q4	2024
World	-0.2%	18.7%	7.61%	26.6%
US	2.7%	24.6%	10.68%	32.9%
Europe	-9.7%	1.8%	-2.72%	8.6%
Emerging Markets	-8.0%	7.5%	-0.85%	14.7%
Japan	-3.6%	8.3%	3.90%	15.5%

*These are the total returns of MSCI indices for each region

Table: *2024 was a remarkable year for global equities, which mostly means US equities, as the latter make up as much as 70% of the MSCI World index. This is an incredibly concentrated index now with so much of its exposure to the US mega-caps: the top 20 US stocks by market cap are now some 40% of this index. Elsewhere, the strong US dollar limited emerging market gains in 2024, but Europe was the real laggard despite a respectable performance in EUR terms for the year for the MSCI Europe index.*

The Trump plan: sounds too easy?

The Trump agenda is to reindustrialize the US to both bring back manufacturing jobs and improve national security, which the pandemic made clear includes critical industrial supply chains. At the same time, the aim is to improve the country's massive trade and budget deficits and overall spiraling debt trajectory while keeping inflation low – all without any market pain, of course. These goals are inherently contradictory outside of some miraculous productivity- and real growth miracle. Trump hopes that most of the above agenda is achievable and paid for by tariffs and economic growth.

US Treasury Secretary nominee Scott Bessent has touted a "3-3-3 plan" to deliver the Trump agenda: to include a chop to the fiscal deficit of 3% of GDP (from more than twice that in recent years), real GDP growth of 3% delivered via deregulation and tax cuts, and low inflation via an additional 3 million barrels a day "equivalent" growth in US oil/gas production. Good luck! More likely, we'll see half that amount of growth or less because any fiscal slowdown by definition will subtract from overall GDP growth. After all, it was the Biden deficits that drove much of the US growth out-performance relative to the rest of the world in the last two years, preventing that pandemic-hangover US recession that just never seemed to arrive.

Besides the risk from fiscal drag, the size of which will be highly dependent on the ability of the Musk/Ramaswamy "DOGE" to make its mark, other drivers of a 2025 growth slowdown could be dislocations from tariff uncertainty. A final wildcard is the status of the AI investment boom. Consensus US GDP growth forecasts for 2025 are at +2.1%, a rosy forecast given the risks.

US treasury market: the reality check?

US Treasury yields rose all along the yield curve ahead of Trump's inauguration as the market makes the general assessment that the new president will bring some combination of sticky inflation and still very large budget deficits, and even solid economic growth as well. But can the US treasury market hold up without intervention, given the blitz of issuance in the year ahead and the vertiginous rise in the US debt servicing bill – much of it going to foreigners who aren't even taxed on their income on US public debt? Current forecasts put the 2025 US treasury debt service bill at a net USD 1 trillion, up from less than USD 900 billion in 2024 and USD 650 billion in 2023. The only scenario that can cap longer US treasury yields via organic market forces might be an ugly recession amidst massive DOGE fiscal spending cuts and a flight out of risky assets. Even so, such a recession would eventually worsen the deficit/debt trajectory and inevitably spark a fresh combination of new Fed QE and politically obligatory fiscal stimulus to come hot on its heels. Either way, all paths require that over the medium to longer term, nominal US GDP rises faster than the average interest rate at which the US treasury issues debt.

Additionally, there are ways that some of Trump's team are discussing dealing with both the long term stability of the US treasury market and while maintaining the use of the US dollar as the preferred global reserve and transaction currency. This is covered in our **quarterly outlook for currencies**.

And then there is the rest of the world.

Let's remember as we look ahead that the US is not the only actor on the global stage and we can expect a response from all global players large and small to the US agenda on top of ongoing pressing matters at home.

China in a G2 or G-Zero world?

For the US-China relationship under Presidents Trump and Xi, the potential outcomes are incredibly diverse, from Trump's "G2" idea that the US and China can sit down and solve the world's problems to Eurasia Group Ian Bremmer's "G-Zero" world, in which we have chaos, because no one is fully in charge any more in a multi-polar world.

We suspect Trump will open with targeted tariffs with the promise of more to come but with an invitation for deal-making. At the same time, with or without some grand bargain on US-China trade- and currency policies, perhaps even a full "Mar-a-lago accord", China needs to reflate its economy. All of this and much more on China covered in **Charu's piece on the outlook for China**.

Europe – the view from the bottom

Europe has one distinct advantage relative to most of the rest of the world: things are already so bad for core Europe that they may have a hard time getting any worse, at least for the traditional two key large core Eurozone powers, France and Germany. France is the Eurozone's softest spot and at best, the outlook is for a "muddling through" due to intractable political problems and ugly debt dynamics. The French fiscal stability concerns are sufficiently stark that in the first trading days of 2025, French 10-year yields rose above Greek 10-year yields for the first time ever.

Germany, meanwhile, offers considerable upside potential after the coming February 23 election, with the chief question only the degree to which it will realize that potential. Likely new Chancellor, the CDU leader Friedrich Merz, has made all of the right noises on lowering taxes and non-wage cost overhead for corporations, as well as discussing exceptions to the country's "debt-brake" rules that have traditionally prevented large-scale fiscal stimulus outside of dire emergencies like the pandemic.

Germany has under-invested domestically in digital and other infrastructure and its mostly heavy-industry industrial export model is challenged by high energy input prices after Russia's cheap natural gas is no longer available, increasingly stiff direct competition from China and the prospect for steep Trump tariffs to boot. Productivity growth (especially via lower energy prices), deregulation and increased investment in infrastructure and opening up for innovation are the call-phrases here, not doubling down to keep the creaking old industrial model turning over, as outgoing Chancellor Scholz would have Germany do.

Still, a German comeback risks under-whelming in its early phases as Merz will have to find an awkward coalition partner post-election given that the likely second-largest party in the election, the AfD, are still considered untouchable politically for the mainstream parties. A lash-up with the SPD or Greens would likely see half-measures and modest brightening of the outlook rather than sweeping new policies that trigger a boom.

The one big wild-card for Europe is the potential for euro-bond issuance at the Eurozone level to fund massive new national security investments, at first chiefly military, but possibly also to secure long-term cheaper energy supplies and better trans-European infrastructure and supply chains. Eurozone leaders would do well to consult Mario Draghi's The Future of European Competitiveness (**https://commission.europa.eu/document/download/97e481fd-2dc3-412d-be4c-f152a8232961_en**), which outlines much of the European playbook needed.

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Equity Outlook:

The ride just got rougher

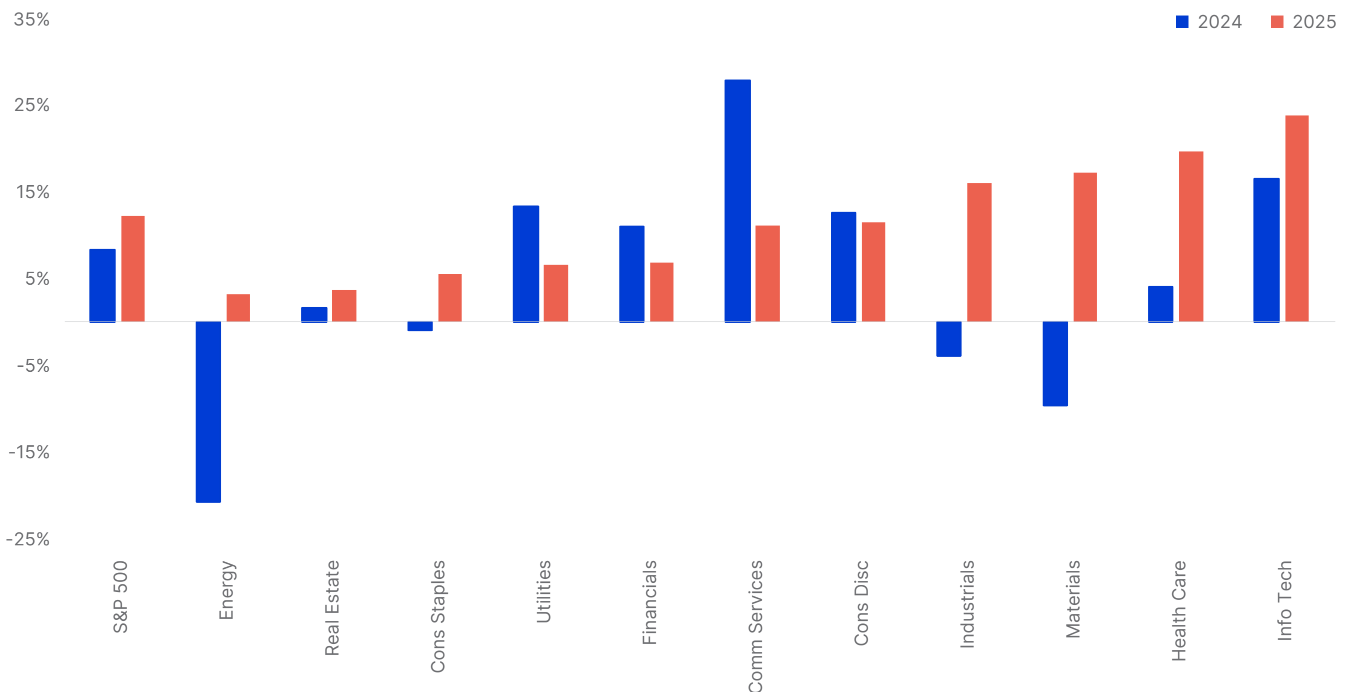
By Charu Chanana, Chief Investment Strategist

Earnings growth is broadening beyond 'Mag 7'

For much of the past two years, U.S. equity gains have been dominated by the "Magnificent Seven" - Nvidia, Apple, Microsoft, Alphabet, Amazon, Meta, and Tesla - now accounting for nearly 30% of the S&P 500's market cap. This has led to portfolios becoming heavily skewed toward these names and U.S. stocks overall, limiting diversification.

But a shift may be underway. Earnings growth is no longer concentrated solely in tech and consumer discretionary where most of these Mag 7 stocks belong. For the first time since 2018, every sector in the S&P 500 is expected to deliver positive earnings growth in 2025. While tech will remain a core driver of market returns, there's growing potential in sectors like healthcare, industrials, materials, and energy. These sectors stand to benefit from a combination of infrastructure spending, supply chain re-shoring, and innovation.

Earnings growth expectations for S&P 500 index and its sectors



Source: Bloomberg and Saxo

Healthcare, in particular, looks promising given its strong earnings expectations, attractive valuations, and structural tailwinds such as aging demographics and advancements in medical technology. Industrials and materials are poised to gain from continued investment in AI-driven industrial processes and infrastructure projects. Energy companies, including those tied to power generation for AI, could also see renewed investor interest.

That said, tech isn't going anywhere. The next leg of tech leadership is likely to focus on firms demonstrating **real-world AI adoption**. The sector's future performance will hinge on its ability to transition from hype-driven valuations to delivering measurable results through AI-driven efficiencies.

Look beyond the U.S. shores for value opportunities

With portfolios concentrated in U.S. equities, particularly in the Magnificent Seven, investors may benefit from looking beyond the U.S. if looking for diversification or new avenues for strong growth. European and Asian markets, while facing their own set of challenges, offer compelling value opportunities relative to the U.S.

European equities are trading at a significant discount to the U.S., reflecting concerns over a weak Eurozone economy, tariff risks, and ongoing geopolitical and political tensions. The region's own 'Seven Wonders', which includes Hermès, Novo Nordisk, Siemens, LVMH, SAP, ASML, and Schneider Electric, have outperformed the broader market, though not as dramatically as their U.S. counterparts. Every sector in Europe trades at a greater than historic average discount to the U.S. Looking ahead, MSCI Europe earnings are projected to rise 1.3% in 2024 and accelerate to 6.6% in 2025, led by IT, consumer discretionary, and healthcare. Key growth areas also include electrification, renewable energy, and industrial innovation, where European firms are global leaders.

Meanwhile, in Asia, **China** presents potential for sharp rebounds, as Chinese equities are attractively priced, and any signs of demand-driven fiscal easing or dealmaking with Trump on tariffs could spark a swift rally. However, this remains a tactical rather than structural opportunity. Persistent issues such as deflation, high debt, and weak consumer confidence continue to weigh on the long-term outlook. Additionally, the significant role of government intervention in the economy and markets creates uncertainty, making Chinese equities less appealing from a structural investment perspective unless meaningful reforms are implemented.

Japan, on the other hand, presents a more selective opportunity. Following the Bank of Japan's (BOJ) policy pivot in July, Japanese equities saw a brief correction before recovering again. Valuations have become less attractive, and the broader market faces risks of deteriorating global demand and a stronger yen. However, sectors like banking, which benefit from rising interest rates, and industrial firms tied to government industrial policy could offer targeted opportunities. Corporate governance reform remains another long-term tailwind for Japanese equities, particularly for companies improving shareholder returns.

Investors seeking exposure to emerging markets may find value in countries like **Vietnam**, which stands to gain from global supply chain realignment as companies look to diversify away from China amid trade war risks.

Trump 2.0 is a wild card

The return of the Trump administration brings with it a mix of policy risks and tactical opportunities. Markets will likely grapple with greater uncertainty as the administration focuses on:

- **Tariffs and Supply Chains:** New tariffs on imports, particularly from China, could disrupt supply chains, raising costs for firms reliant on offshore production. High-beta sectors like tech and small caps may see increased volatility.
- **Deregulation:** Industries like energy, financial services, and manufacturing could benefit from reduced compliance costs, driving efficiency and profitability.
- **Immigration Reform:** Tighter policies could strain industries like technology, healthcare, and construction, which depend on foreign labor, both legal and illegal. Labor shortages may push wages higher, fueling inflation.

Key sectors that Trump 2.0 will impact the most directly include:

- **Energy:** Trump's "Drill Baby Drill" policy aims to expand domestic oil and gas production, but U.S. oil producers could face mixed prospects as oil prices could be capped hurting profitability. Renewable energy producers may face policy pressure, though global demand and cheaper financing could help.
- **Healthcare:** Aging demographics and medical innovation remain strong tailwinds, but regulatory risks, particularly on drug pricing, pose challenges. A potential Robert F. Kennedy Jr. appointment could add uncertainty. Despite short-term volatility, attractive entry points may arise for long-term investors due to solid fundamentals and low valuations.
- **Financials:** Deregulation could boost bank profits by easing capital and lending rules. However, performance will hinge on economic growth and interest rate trends, as a slowing economy could weaken loan demand and squeeze margins.

Equity views

Regions	Tactical View	Strategic View	Catalysts
US	Neutral	Positive	Robust earnings outlook, AI theme, strong momentum
Europe	Positive	Neutral	Repricing on growth rebound, ECB rate cuts, value play
Japan	Neutral	Positive	Structural tailwinds but export demand and yen risks
Emerging markets	Negative	Neutral	China weakness, persistent USD strength and lack of room for easing

Sectors	Tactical View	Strategic View	Catalysts
Energy	Neutral	Positive	Deregulation hopes and AI power demand are tailwinds, but lower oil prices can hurt profitability
Materials	Positive	Neutral	Strong earnings turnaround expectations, but structural headwinds from tech advancements and environmental regulations
Industrials	Positive	Negative	Expectations of infrastructure spending, but persistent high input costs and interest rates can bite
Consumer discretionary	Neutral	Neutral	Headwinds persist as interest rates could stay higher-for-longer
Consumer staples	Neutral	Neutral	Demand and price uncertainty in the face of slowing Fed easing and Trump tariffs
Health care	Positive	Positive	Cheap valuation, strong earnings expectations and at the cusp of innovation in drug discovery and AI applications, but regulatory risk overhang exists
Financials	Neutral	Positive	Expensive on Trump 2.0 momentum and risks from deregulation delays, but sustained higher rates could boost net interest margins
Information technology	Positive	Positive	Strong AI tailwinds, expanding leadership, robust earnings expectations
Communication services	Negative	Positive	Earnings expectations look soft which may demand valuation correction, but structural tailwinds persist with AI applications
Utilities	Negative	Negative	Structurally a low growth and capital intensive sector, and higher interest rate environment may remain unfavourable
Real estate	Neutral	Negative	Hawkish repricing of the Fed path can create headwinds, demographic trends can mean structural downside

Source: Saxo

What do higher bond yields mean for equities?

Despite the Fed cutting interest rates by 100 basis points since September, long-term yields have moved in the opposite direction. The 10-year Treasury yield has risen by roughly the same margin, hovering around 4.60%. With a strong U.S. economy and increased fiscal risks following the Republican election sweep, there's a real possibility that yields could retest the 5% level.

Why does this matter for equities? Rising bond yields increase borrowing costs for companies, which can squeeze profit margins and dampen corporate earnings. Sectors with high leverage or significant sensitivity to interest rates—such as real estate, utilities, and small caps—are especially vulnerable.

However, there are two key scenarios to consider:

1. **If the economy remains strong**, companies may be able to offset higher borrowing costs through robust sales growth and pricing power. In this case, the market impact of rising yields could be limited.
2. **If economic growth slows**, elevated yields are unlikely to persist for long, as the Fed may step in to ease financial conditions further.

In essence, rates have to stay abnormally high for an extended period for corporate earnings to suffer. For investors, higher bond yields also present an opportunity. Unlike during 2020-2023, bonds now offer positive real yields, meaning returns that outpace inflation. This makes fixed income an attractive option for income-focused investors. Additionally, tangible assets like commodities, real estate, and gold could serve as hedges against inflation if fiscal spending rises under Trump's administration.

China Outlook:

The choice between retaliation or de-escalation

By Charu Chanana, Chief Investment Strategist

As 2025 kicks off, China faces two daunting challenges. First, the return of Trump brings with it the looming threat of hefty U.S. tariffs. The proposed 60% tariff on Chinese imports could spark a renewed trade war. Second, even without external pressure, China's domestic economy is struggling with a slowdown, characterized by weak consumer confidence, a battered property sector, and looming debt issues. The question is, how will Beijing respond?

China has two broad options: retaliate or seek to de-escalate tensions. Each path comes with distinct implications for equities, the yuan, and even the U.S. dollar. A tough stance might trigger short-term relief but worsen economic pain, while a cooperative approach could stabilize markets and bolster long-term growth prospects.

Tariffs: Take a swing or call for truce

Trump's campaign promises included a tariff hike of up to 60% on Chinese imports. Whether the administration immediately enforces these tariffs or uses them as a bargaining chip remains uncertain. History tells us that when tariffs go up, China's exports—and its GDP—take a hit. Some forecasts suggest that new tariffs of this magnitude could shave 1-2% off China's GDP over the next year. If tariffs are imposed in phases or capped at a lower level, the damage could be manageable. However, a full-on trade war would amplify pressures on an already fragile economy.

China's ability to **retaliate with tariffs** of its own is constrained by the trade imbalance with the U.S. While U.S. exports to China are a small share of U.S. GDP, China's exports to the U.S. represent a significant portion of its economy. Retaliating with outright tariffs risks hurting China's emerging industries, particularly in tech and high-end manufacturing, which remain strategic priorities. Any signs of a relief for Chinese assets in a retaliation scenario would likely be short-lived, as prolonged trade tensions would weigh heavily on growth.

However, China may also focus on **non-tariff strategies**, such as continuing its export restrictions on critical minerals like rare earth elements (REEs). Still, the impact of these measures has been limited so far, as alternative sources of REEs are emerging globally.

Another measure that China hinted at was the plan to allow **yuan devaluation** next year. The controlled loosening of the grip on the currency has made this look likely, but signals have still been mixed. Understandably, this is not an easy choice as it could undermine investor confidence, trigger capital outflows, and create challenges for businesses as import costs rise. Beijing may be better off focusing on keeping the yuan steady to safeguard financial stability and avoid full-blown currency wars as its best shot at recovering from its latest economic headwinds. Therefore, a more likely path for the yuan would be a slow-burn devaluation rather than a sudden one.

Conversely, if China pursues **de-escalation** and negotiates a deal, it could help to boost the yuan and potentially bring a decline in the overbought U.S. dollar. A weaker dollar, combined with lower trade uncertainty, could improve sentiment toward Chinese assets. However, a de-escalation would need concessions from China on trade or currency. These could include renewed Chinese purchase pledges, yuan appreciation, or Chinese cooperation in resolving geopolitical challenges such as the one in Ukraine, for example. How far these concessions go will determine the time it takes for China to rebound.

Domestic Dilemmas: A combination of stimulus and structural reform

Even without external shocks, China's domestic landscape looks grim. After a brief stimulus-driven rebound in late 2024, the economy now faces headwinds from weak local government finances and deflationary risks. The property sector crisis has wiped out household wealth, leading to reduced spending and weak private sector investment—classic signs of a **balance sheet recession**, where debt repayment takes priority over consumption and investment. In such conditions, rate cuts lose their effectiveness because lower borrowing costs don't drive demand when balance sheets are under pressure.

However, there's a positive shift underway: Beijing is focusing on fiscal stimulus rather than rate cuts, which could provide a more direct boost to growth. Key fiscal measures may be announced during the **Two Sessions annual legislative meeting in March**, making the first half of the year more about waiting for policy clarity, while the second half could be pivotal for an earnings rebound driven by fiscal reforms and potential trade war de-escalation with the U.S.

A key indicator to watch: inflation. If inflation picks up, it could signal demand recovery, which markets would view favorably.

A more structurally optimistic outlook for China could emerge if **reforms** are implemented. The property sector, which poses a significant challenge, needs attention. In the consumer sector, addressing high levels of precautionary savings and low consumer confidence is crucial to sustainably boost sentiment. This will likely require increased spending on welfare, pensions, and healthcare to strengthen the social safety net. Additionally, a comprehensive debt restructuring plan to assist local governments struggling with repayments would boost investment spending.

Equities: A lot of bad news is priced in

Despite ongoing risks, Chinese equities are not without hope. The MSCI China Index currently trades at a forward P/E of 9.7x, significantly below its 5-year average of 11.62x. This suggests room for upside, especially if policy clarity improves in H2 and trade uncertainty wanes.

Investors may recall that last September's aid package powered MSCI China to a 16% gain in 2024, breaking a three-year losing streak. The rally was led by **IT**, **communications**, and **financials**, sectors that could see continued strength if fiscal stimulus is ramped up in 2025. If the fiscal measures are large-scale and consumer focused, there could be a rebound in **staples**, **e-commerce**, **travel** and **sportwear** sectors.

China's key strategic sectors include **technology** (major internet and hardware players), **advanced manufacturing**, **EVs** and **renewables**. These remain a core focus for Beijing's long-term growth strategy, with strong policy support expected.

However, sectors tied to property weakness may take longer to recover, limiting the scope of an immediate recovery in **real estate**, **infrastructure** and **construction** sectors as well.

Additionally, investors should keep an eye on regional fund flows. Markets have turned underweight on **South Korea** citing political risks, and neutral on **India** due to slowing growth. **Taiwan's** rally, driven disproportionately by TSMC, now looks stretched. Even modest positive news out of China could trigger a reversal of flows back into Chinese assets.

Yuan Outlook: Hard to call for sustained strength

The Chinese yuan is currently under significant pressure due to China's ongoing bond rally, which has driven yields to record lows. The 10-year benchmark yield has dropped nearly 40 basis points over the past month, falling below 1.60% and widening the US-China yield gap to an unprecedented 300 basis points. This is exerting substantial pressure on the yuan. The currency's weakness is likely to persist due to China's economic challenges, the carry differential, and the strength of the US dollar. Additionally, China may need to keep the yuan weak to support its export sector.

Spread of 10-year Chinese over US Treasury yields (in % points)

Source: Bloomberg, Saxo

However, the yuan could see an appreciation if Beijing successfully negotiates a trade deal with Washington, reversing its recent weakness. Such an outcome would provide broad relief to Chinese assets and add downward pressure on the U.S. dollar. This could also open up room for stronger stimulus from the Chinese authorities.

Sustained strength in the yuan, however, would require a U.S. recession and steeper Federal Reserve rate cuts, and an improved economic outlook for China's economy to close the wide interest rate differential to the U.S. That is a lot to ask for in 2025.

Commodities:

A bumpy road ahead calls for diversification

By Ole Hansen, Head of Commodity Strategy

Sticky inflation, the energy transition, and safe haven status to drive investor demand.

The commodities sector managed a small yet respectable gain in 2024, with the Bloomberg Commodity Total Return index ending up 5.4%. The year began on a firm footing, with the market focusing on the potential positive growth impacts of China's stimulus and incoming US rate cuts. However, strong headwinds for commodities developed, including continued strength in US economic data, combined with signs of sticky inflation, and lowered expectations for future US rate cuts that sent the USD and US Treasury yields sharply higher.

The return of the Trump administration further raised concerns about inflation and fiscal stability, given the focus on tariffs, unfunded stimulus, and immigration. These developments saw safe haven precious metals riding high, with the sector returning 25%, while soft commodities experienced an even stronger year amid challenging weather conditions reducing production levels in key growing regions for cocoa and coffee. Economic growth and demand-dependent sectors, such as energy and industrial metals, delivered small gains, while grains suffered a double-digit setback on another bumper crop year of ample supply.

Sector Performance (*)	2024	2023	2022	2021	2020	2019
Energy (30.0%)	1.2%	-21.6%	36.2%	52.1%	-42.7%	11.8%
Industrial metals (15.1%)	3.5%	-9.1%	-2.4%	30.3%	16.3%	7.0%
Precious Metals (18.8%)	25.3%	9.6%	0.1%	-6.1%	25.6%	17.0%
Grains (23.2%)	-3.9%	-4.4%	15.5%	26.7%	16.5%	1.7%
Softs (7.6%)	32.5%	18.5%	-3.5%	44.0%	2.9%	4.3%
Livestock (5.3%)	20.2%	-1.9%	7.4%	8.6%	-23.4%	-6.0%
BCOM Total Return Index	5.4%	-7.9%	16.1%	27.1%	-3.1%	7.7%

Source: Bloomberg & Saxo   * BCOM 2025 Sector Weights

Heading into 2025, there is little doubt we face a year where multiple developments and uncertainties may create a challenging trading and investment environment for commodities. Will the Trump team open with a tariff broadside that triggers countermeasures and an immediate all-out trade war, or as we discuss in our Q1-25 macro introduction, will Trump open with modest tariffs and an invitation for deal-making? Besides tariffs, the market will await China's response, which could lead to stronger domestic demand for raw materials, most likely supporting those benefiting from the electrification process over those used in construction. Furthermore, the dollar and its negative correlation to commodities, the direction of US short-term rates, and yields will also be in focus.

Overall, these developments could pressure growth-exposed crude oil and some industrial metals with relatively comfortable supply and demand balances, while still supporting those commodities with a tightening supply outlook, including soft commodities such as coffee, cocoa and potentially also sugar, metals such as copper, aluminum and silver needed for the energy transition, and not least gold given its continued ability to attract demand from less rate- and dollar-sensitive investors. Overall, we generally anticipate developments that will continue to attract demand from investors seeking diversification and a hedge against sticky inflation, potentially seeing the Bloomberg Commodity Index repeat last year's performance, with the risk/reward skewed to the upside if tariffs are more targeted rather than broad-based and the US dollar eventually rolls over to the weak side , which would boost the economic growth outlook.

Commodities views

Sector	Q1 2025	Return 12M*
Energy	Neutral	-1.5
Precious Metals	Positive	29.7
Industrial metals	Neutral	7.0
Grains	Negative	-14.7
Softs	Neutral	33.7
BCOM Total Return Index	Neutral	6.1

Individual	Q1 2025	Return 12M*	12M Roll**	Spec Pos***
Crude (WTI & Brent)	Neutral	14.0	6.5	Low
Gasoline	Negative	8.8	6.8	Neutral
Natural gas	Positive	-34.8	-17.4	Very high
Gold	Positive	29.1	-5.2	Very high
Silver	Neutral	31.5	-5.2	High
Copper	Neutral	12.2	-2.8	Very high
Corn	Negative	-9.6	0.2	Very high
Wheat	Negative	-19.2	-12.8	Low
Arabica Coffee	Positive	92.4	12.0	High

Source: Bloomberg and Saxo

* Past period total return incl roll yield
** Return at unchanged prices in 12 months time
*** Hedge fund net: 3-month vs 3-year average

Gold supported by an increasingly polarised world, with tight supply favouring silver

Gold and silver spent the final quarter of 2024 consolidating strong gains and after gold peaked in October after achieving multiple record highs. The demand for investment metals has been fuelled by an increasingly uncertain geopolitical landscape, where global tensions and economic shifts have led investors to seek safer assets, a development that shows no signs of fading anytime soon.

Central banks have been buying gold aggressively to diversify away from the USD and USD-based assets such as bonds, and this activity has indirectly supported silver prices. Additionally, concerns about mounting global debt, particularly in the United States, have prompted investors to hedge against economic instability by turning to precious metals. In the year ahead, however, investors may need to exhibit a greater deal of patience as the tug-of-war between rising yields and fading rate cuts, as well as the swings and roundabouts of the dollar, will trigger more volatility than seen in 2024.

While investment-driven factors will continue to play an important supportive role for silver, its price dynamics are also closely tied to its industrial uses, from which it derives around 55% of its total demand. In 2024, increased industrial demand has helped create physical tightness in the silver market. Sectors such as electronics and renewable energy, particularly photovoltaic (solar) technologies, have significantly contributed to this surge. The expectation of sustained industrial demand is likely to keep silver in a supply deficit into 2025, potentially deepened by a pick-up in ‘paper’ demand through exchange-traded funds. This dual role—balancing both investment and industrial demand—could enable silver to outperform gold in the coming year.

We forecast a potential decline in the gold-to-silver ratio, which currently hovers around 87, possibly moving toward 75, a level seen earlier in 2024. If this occurs, and with gold reaching our slightly lowered forecast of USD 2,900 per ounce, silver might trade above USD 38 per ounce, well above the cost of carry.

Industrial metals: base over ferrous on demand shift from construction to electrification

Among the industrial metals, we maintain our bullish long-term view on metals that support the energy transition, not least copper and aluminium, fuelled by investments in the power grid, along with a rapid growth in renewable energy installations from EVs to solar and wind turbines. On the other hand, we see limited upside for those depending on demand from the construction sector, such as iron ore and steel, which may continue to be weighed down by increasingly comfortable supply and demand balances, as China’s building boom has stalled.

Copper, the king of green metals, spent the remainder of 2024 consolidating ahead of key support with Trump tariffs and dollar strength, and patchy demand in China, where grid- and EV-related applications nevertheless completely offset weakness in housing. As the electrification of the world continues to gather momentum, the demand for power and the ability to transmit power will continue to rise, thereby supporting demand for copper and aluminium. Together with a limited funnel of new mining projects, this will over time support tighter conditions and higher prices.

In the short term, however, investors probably need to be patient while the impact of Trump's tariffs and countermeasures is being evaluated. With this relatively cautious approach, we see copper rallying to somewhere in the USD 4.5 to USD 4.7 area, well above the one-year forward price as of early January.

Softening crude oil fundamentals point to lower prices, but range bound trading remains our base case

Crude oil prices have been range-bound for the past two years, and while most of the activity during the final quarter of 2024 was concentrated near the lower end of that range, the short-term outlook points to more of the same in the months ahead. Supply growth from non-OPEC+ producers, around 1.4 million barrels per day, looks set to rise faster than global demand in 2025, estimated by the IEA at around 1.1 million barrels per day, leaving no room for an increase from OPEC+, where several major producers have been left with rising spare capacity after years of restraint to support prices.

However, slowing demand growth in China, the world's top importer, as well as rising non-OPEC+ production will likely weigh on prices, thereby limiting any upside potential from increased sanctions against Russia, Iran, and Venezuela that constrain production. In Brent, range-bound and averaging USD 76.75 in the past two years, we forecast a 2025 range between USD 65 and USD 85.

Natural gas a potential winner amid global power demand surge

US natural gas prices are expected to increase in the coming year as demand for power continues to accelerate, not only in the US but around the world. This is especially true in China, where power demand growth has outpaced GDP growth over the past two years, leading to a rapidly expanding natural gas power capacity. Additionally, natural gas is increasingly seen as a bridge between traditional fuels like coal and renewables. However, as renewable energy production is volatile due to the dependency on weather conditions, natural gas-powered capacity is set to grow.

US Henry Hub prices, which have been cheap for several years compared with prices in Europe and Asia, amid rising production and stable demand, are expected to rise to reflect changing fundamentals. Rising LNG exports, especially to Europe, and increasing domestic demand for power are unlikely to be met by a similar increase in production. After spending most of 2024 trading below USD 2.50 and averaging USD 2.40 for the year, we anticipate stronger price action in 2025, supporting an average price closer to USD 3.50. However, it is worth noting that the forward curve structure makes it very difficult to capture such gains through futures and futures-tracking ETFs. Last year, the prompt futures price gained 44%, but the curve structure resulted in a total return loss of 26%. In other words, a bullish view on natural gas prices is best captured through investments in natural gas-related companies, not the commodity itself.

FX Outlook:

Tariffs drive USD strength, until...?

By John Hardy, Chief Macro Strategist

Ahead of his second term, Trump and his team have made it clear that the status of the US dollar as the world's preferred currency for trade- and global reserves must stand. At one point in December after the election and before assuming office, Trump threatened 100% tariffs and removal of access to US markets for any country seeking to create a new currency or support an alternative to the US dollar.

Trump wants to both weaponize the US dollar's critical status and to slap tariffs and possibly other limitations on global trading partners to reduce the advantages they have reaped over the decades from using undervalued domestic currencies and the overvalued US dollar to build their economies. China is the chief target, but not the only one. Stephen Miran, the hedge fund manager nominated by Trump as the next Chairman of the Council of Economic Advisers, is one leading voice for how the US can structure a "fairer" playing field in which the US is compensated for the service it offers in providing the world's reserve currency.

Miran suggests that the US could impose a fee on foreign official holdings of US treasuries to compensate the US for the use of US assets as reserves and force these same foreign official entities to hold 100-year "century" bonds and perhaps even perpetual bonds to ease US treasury issuance needs. Sure, if any country can get away with such weaponized use of its currency and assets it is only the US, given the dollar's status as the dominant reserve and transaction currency. But these kinds of impositions on global trading partners are a risky gambit that could eventually spark an accelerated rejection of US treasuries and search for alternatives if they don't want to play ball. And even without this risk to the stability of the US treasury market, the US Treasury itself already faces liquidity challenges as issuance needs due to ballooning deficits have grown to such an extreme size relative to the primary dealer network that is charged with keeping things orderly. If the treasury market faces any instability, we can be sure that the Fed and Treasury will collude with new facilities to smooth things over, whether capital controls, QE, yield caps, inappropriately low Fed Funds or all the above.

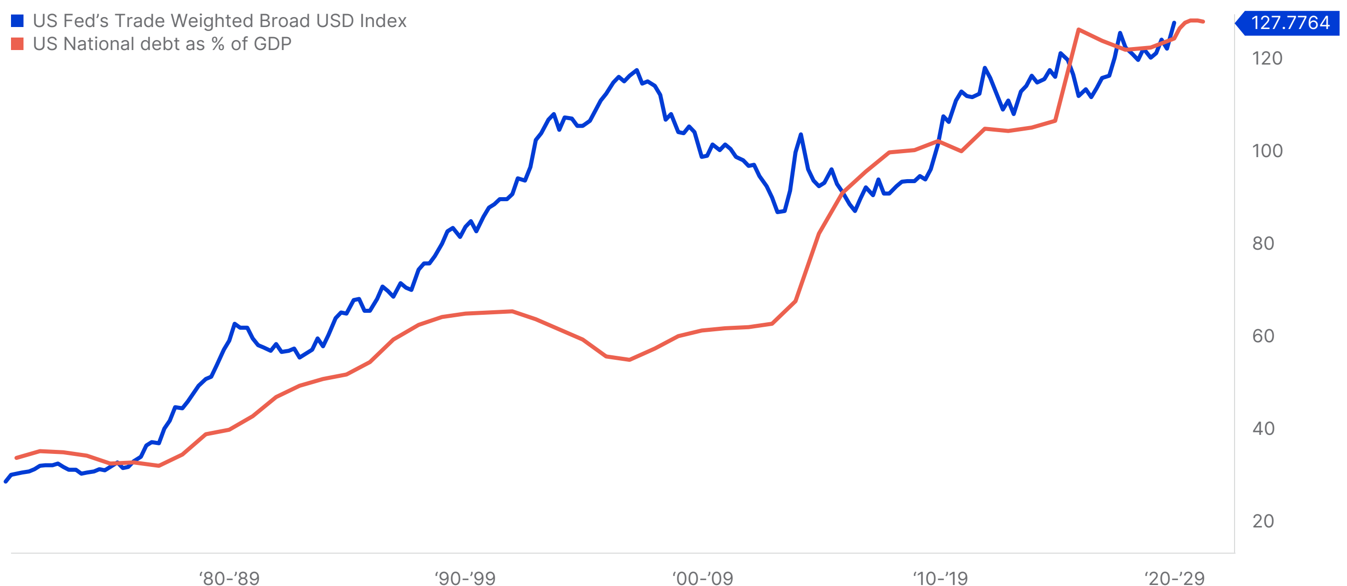


Chart: The US Fed's Broad Trade-weighted US dollar measure is has reached it highest level ever and has been on a nearly vertical ascent since before the US election. As the world's global reserve currency, a strong US dollar represents a tightening of financial conditions, making life difficult for much of the world, especially emerging markets, where considerable portions of debt are denominated in US dollars. Trump's tariffs can make the strong USD problem worse, but the challenges of keeping the US treasury funded, among other possible challenges, could help the mighty greenback find a peak in 2025. (Note that the US dollar has risen as US debt-to-GDP has soared ever higher, which ironically erodes the creditworthiness of the US government that backs the US dollar – this is the Triffin dilemma in action).

Shortly put, instability in the treasury market is unacceptable and won't be tolerated. And there is likely a rather low ceiling on US treasury yields unless inflation is allowed to run rampant. But the latter is politically toxic, so the Trump administration, with the Fed willingly or unwillingly acting as an accessory (watch out for Trump-Powell fireworks as an inevitability of the coming year) will keep the US treasury market from dysfunction and when and if they do, the shock absorber in such a policy mix is the US dollar. How quickly we reach official intervention is possibly the key determinant for how quickly the USD finds its ultimate peak in this cycle.

Q1 outlook likely volatile as tariffs, US exceptionalism the focus.

The first quarter of the New Year will see the market trying to find its sea legs as a new Trump administration seeks to make maximum impact from day one with a raft of new measures. Tariffs are one of the easiest and most impactful policies Trump can move quickly on because they can be imposed via executive action. The heavier the tariff programme is relative to the baseline of expectations, (This is tough to quantify, but is assumed to be quite considerable.), the more USD strength risks extending. One critical USD pair to focus on will be USDCNH, where the 7.375 level held back further CNH depreciation in 2022 and 2023. The usual EURUSD focus will be on parity if the US moves heavily on tariffs against Europe. And for Japan, USDJPY would likely face a test of the cycle highs above 160.00 unless the BoJ is ready to viciously accelerate its tightening regime or throws heroic quantities of currency intervention into the mix.

Some argue that excessively broad-based tariffs like the ones Trump has often promised are a bad idea because they may only result in a currency devaluation from the nation upon which the tariff is imposed and not result in any change in the desired reshoring of productive capacity to the US. Rather, highly targeted tariffs that are more surgical, but far larger in percentage terms than any broad-based tariffs, could prevent the broader FX offset and encourage the desired restructuring of key supply chains.

Still, the risk is that nations upon which tariffs have been imposed come with their own countermeasures: for example, China has already imposed embargo-like controls on rare-earth metals exports that are key for semi-conductor production in response to Biden tariffs and imposed other export controls. China has considerable leverage in many critical US supply chains: It makes an array of components important for US defense applications and even pharmaceutical industries and has the largest EV battery production capacity in the world. Tariffs are not as easy as Trump makes them out to be. The other route to a weaker US dollar is via coordinated grand bargaining with China, Europe and Japan. In the increasingly fractious, multi-polar world, this looks unlikely.

The rest of the G-10, CNH and EM

CNH – USDCNH is the most critical exchange rate for whether FX market volatility is fully unleashed as we await the shape of the US-China relationship under Trump 2.0. A "deal-making" approach could be USD bearish and CNH positive, while an escalating trade war would be the opposite, initially at least.

EUR - the euro may test parity versus the US dollar, but there are many ways Trump's agenda can founder, so "looking for the potential for a bottom" is the operative stance in the first half of 2025. Potential upside surprises could come on more forceful fiscal stimulus from Germany and even Eurozone-wide if euro bond issuance for strategic defence materialises.

JPY – the JPY will likely continue to serve as a mirror-image of the trajectory of long bond yields globally, particularly US treasuries, as the BoJ tightening cycle continues to drastically lag inflation. The JPY's moment perhaps only arrives if we see a surprising negative US- and global growth dip and fiscal drag in the US that pummels US treasury yields. Either that or in the event of Fed intervention due to rising US treasury market instability as noted above.

CHF – SNB policy likely headed to zero as Switzerland tries to avoid an excessively strong franc versus the euro.

GBP – the general fear is of a stagflationary outcome as inflation looks set to remain high on the added spending, while the Labor programme may fall short on its hopes of encouraging investment and productivity growth. The carry from still high BoE rates helps to offset somewhat.

AUD, CAD and NZD. AUD potential heavily linked to whether China chooses more aggressive stimulus as well as the likely related trajectory of commodity prices. CAD could begin looking forward to the post-Trudeau future as self-harm risks from climate policy will fade under the new Conservative government that awaits just over the horizon after snap elections in March or April.

EM currencies – in general, will likely trade as the flipside of the US dollar's strength or weakness, probably correlated closely with the Chinese renminbi (CNH). But EM is diverse – with **MXN** a very specific story, for example, that is linked to how Trump 2.0 gets along with Mexico's Sheinbaum not only on tariffs, but how these are linked to other issues like the border and drug trafficking.

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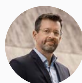
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