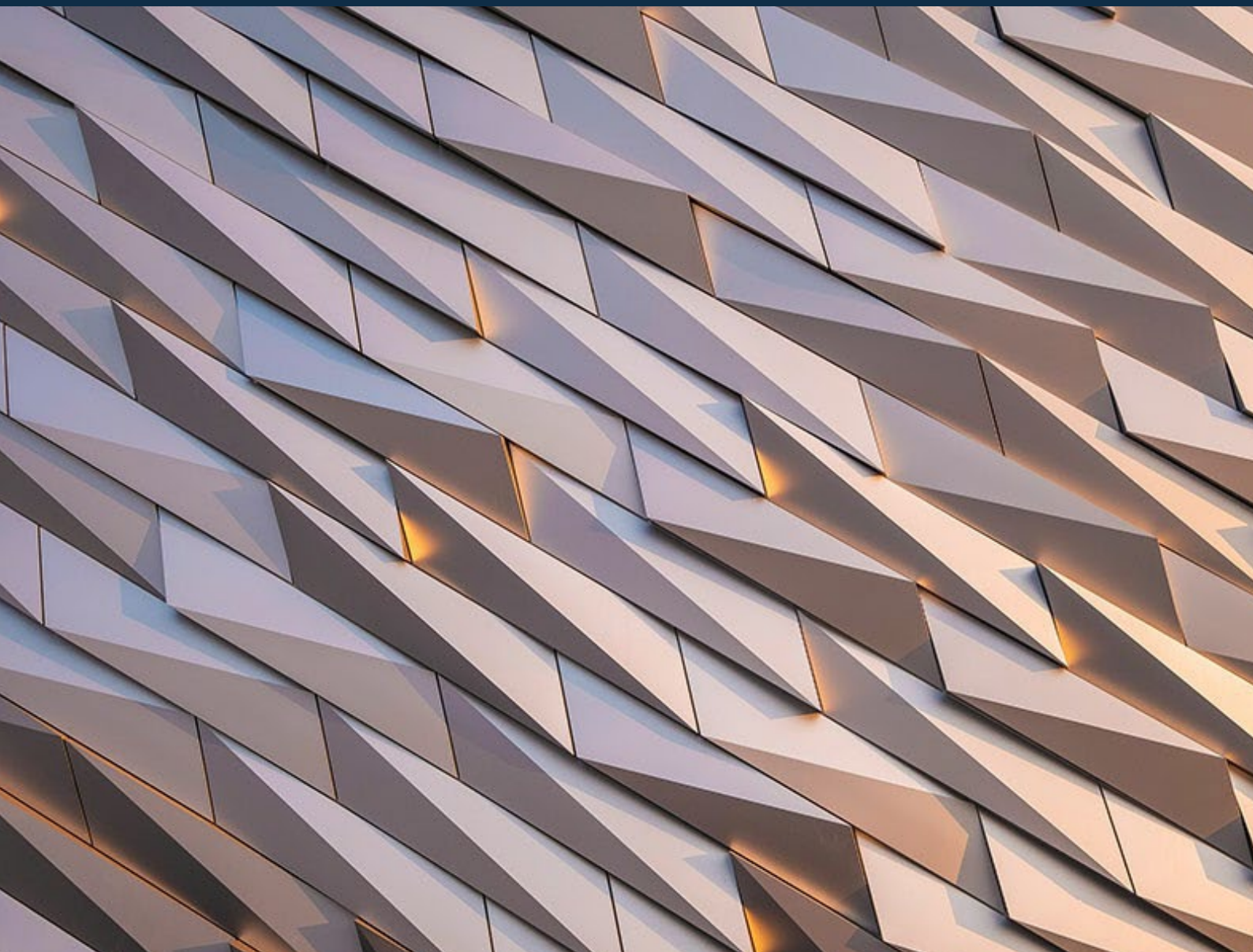


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Atlas Monthly Equity Navigator

DECEMBER 2024



Beyond the influences of Trump, trade, and a potential truce, the divergence in price trends across regions, sectors, and themes will again play a pivotal role in shaping markets in 2025.

1. **AI-Focused Technology:** Firms driven by strong fundamentals and AI investments are expected to maintain leadership. The spotlight is shifting from semiconductors to software and services. The ongoing expansion of data centers and energy demand benefits European utilities.
2. **America First:** US small-cap and growth equities are set for significant profit growth, with European small-caps also recovering strongly after a weak 2021–23.
3. **Policy-Driven Themes:** A new US political agenda focusing on trade, taxes, and regulation may favor sectors like banks, fintech, and domestic industrials.

Global trade tensions and tariff policies under the Trump 2.0 administration will heavily influence market sentiment. With strong economic momentum in Asia and the US, global equities are poised to extend their bull run into 2025. Historically, bull markets last five years on average, and this one just turned two.

However, increased volatility is likely later in 2025, especially if trade war risks escalate. A correction of over 10% cannot be ruled out in such scenarios. Investors may need to pivot toward defensive themes if trade disputes persist. Fortunately, given Trump's sensitivity to market performance, a significant market correction might prompt a softening of aggressive tariff policies.

Global Equity Performance

Global equity markets eased slightly in December, with only Japan and emerging markets (EM) showing gains. The usual year-end rally was absent, likely due to strong November returns following the US election.

- In 2024, global equities rose 25% in euro terms, led by US stocks, which gained 33%, driven by AI, corporate earnings, and a strengthening dollar.
- European markets underperformed at 9%, hindered by high interest rates and weak earnings. Japan and EM rose about 15%, lagging the global index.
- Growth equities dominated, fueled by strong fundamentals and the post-pandemic recovery, particularly in technology. The Magnificent 7's AI-driven growth remained key, though valuations leave little room for error.

United States

- US equity markets underperformed in December, with "Trump Trades" like small-caps pulling back, while the Magnificent 7 firms gained nearly 4%.
- Growth equities, particularly in AI and digital infrastructure, remain central for 2025.
- Small-cap stocks show great upside potential, with earnings growth of 20-50% projected, though risks persist from possible Federal Reserve policy reversals. Continued monetary easing in 2025 appears likely if inflation stays subdued.

Europe

- European equity markets were flat in December, capping a weak Q4 and year overall, hindered by slow economic growth and lowered earnings forecasts.
- Small-cap and growth stocks show promise, but large-cap equities may lag in 2025.

Emerging Markets

- Emerging markets rebounded in December after November's dip.
- China will likely struggle as Trump's trade agenda materializes:
 - Further stimulus will mitigate the growth slowdown.
 - Structural headwinds: real estate, demographics and weaker economic growth.
- India and Vietnam stand out as faster-growing economies, presenting attractive investment opportunities.

Themes & Styles in 2025

- **Technology and AI:** These themes will remain at the forefront of global equity performance, propelled by sustained innovations and robust demand. Investments in AI, semiconductor production, and digital infrastructure remain pivotal drivers of profitability for leading firms. JP Morgan estimates that more than \$1 trillion spending in AI-related capex and R&D over 2025.
- **Small- and mid-caps:** A bit of a wildcard but one style which could stage a much-awaited comeback in 2025. US small-caps are riskier amid low-quality exposure but will gain if deregulation and tax-cuts are on the agenda and if business sentiment continues to improve. In Europe, small-caps are interesting due to lower leverage and higher quality features than larger firms. The likely environment where central banks are cutting rates also supports European small-caps.
- **Other themes:** Related to the US technology and AI boom, themes such as Robotics, Cybersecurity and Autonomous Defence appear interesting. Other Trump Trades are Banks in the sector space and Fintech as a theme. In Europe, defence and utilities are interesting sector bets amid increased military equipment spending and the buildout of datacenters. In a possible Russia-Ukraine ceasefire scenario, European industrial and construction companies would be positioned for a comeback.

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