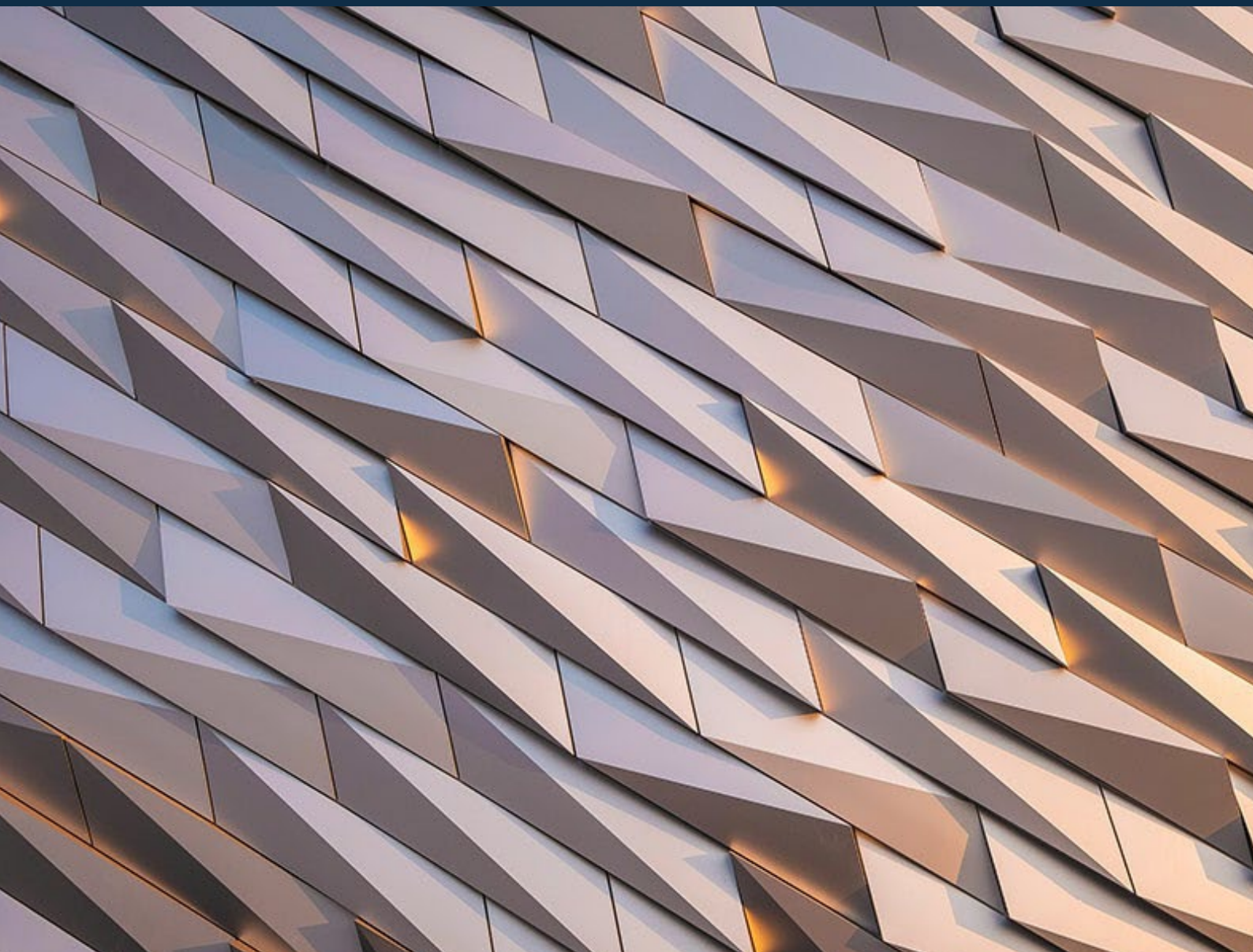


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Atlas Monthly Equity Navigator

JANUARY 2025



January: A Pivotal Month for Global Markets

January set the stage for what could be a transformative year for global markets. Donald Trump's return to the White House heralded a renewed "America First" era, sparking shifts in trade, taxation, deregulation, and immigration policy that investors will want to watch closely. This political transition coincided with a bustling earnings season and seismic developments in artificial intelligence (AI), propelling market leaders like Nvidia into the spotlight—even as their valuations experienced dramatic swings following provocative news out of China. Notably, sector rotations and fresh investment themes have begun to emerge, offering clues to where the smart money may be headed in 2025.

1. Trump 2.0: A New Policy Agenda

- Trade and Tariffs: The administration's proposal to impose tariffs on Mexico, Canada, and China has reinvigorated concerns over trade tensions.
- Pro-Market Fundamentals: Despite protectionist signals, robust US economic momentum and declining inflation create a friendly backdrop especially for the US equity market.
- Small Business Resurgence: An upswing in small business confidence is rekindling "animal spirits," suggesting a fertile environment for entrepreneurial growth and innovation.

2. Earnings Season Dynamics

- Global Upside: Q4 earnings kicked off on a high note, with global earnings projected to grow by 12% in 2025, led by a 13% increase in the US, but a more modest 8% expected in Europe.
- Small-Cap Surge: US small caps could post staggering earnings growth of over 40% in 2025, outpacing the "Magnificent 7" which are expected to grow around 18%.

3. The Evolution of the AI Market

- Competitive Shifts: Chinese startup DeepSeek's breakthrough is not only lowering AI development costs but also signaling a shift from hardware to software and services.
- Valuation Adjustments: As AI market leaders face fresh competition, investors should anticipate a re-rating of valuations across the sector.

Global Equity Performance

Global equity markets recovered in January, led by Europe (6.1%) to everyone's surprise. USA (2.1%), Japan (1.4%) and emerging markets (1.4%) all lagged in euro terms.

- Global equities rose 2.7% in euro terms, led by European and Financial sector stocks.
- US markets underperformed, amid a weak start for technology stocks to 2025.
- Emerging markets (EM) also lagged in January, dragged down by China and ASEAN markets.
- Growth stocks outperformed in Europe, while large value stocks did well in USA.

United States

- US equity markets underperformed the global index in January, with the Magnificent 7 contributing negatively. Worries about weaker sales and Chinese DeepSeek's AI news weighed on the mega-tech group.
- Many of the mega-techs continue to be relevant in AI, however improving fundamentals are required to justify the high valuations. In 2025, the term "Magnificent 7" may disappear in a similar way that happened to "FAANG".
- Low-quality stocks outperformed in January and perhaps reminding us of a new cycle of Trumponomics.

Europe

- European equity markets rallied in January, led by financial and luxury stocks. France, Spain and Sweden outperformed on a country level.
- Large growth stocks did well in January. Nevertheless, small caps appear interesting in Europe, having better fundamentals and benefiting more from potentially lower interest rates.

Emerging Markets

- Emerging markets underperforms in January mainly due to China and some other Asian markets.
- China faces trade tensions as Trump ups the ante in tariffs. The less hawkish start to the new reforms has lifted hopes of lower tariffs but we think it's the optimism is premature as the US agenda could escalate.

Themes & Styles

— Technology Leadership Evolution:

The AI ecosystem is maturing beyond semiconductors, with lower development costs democratizing innovation. The barriers of entry to the AI market are lower and enterprise adoption will be quicker, bringing new players to the AI game. Growth stocks look compelling, as do other growth themes such as robotics.

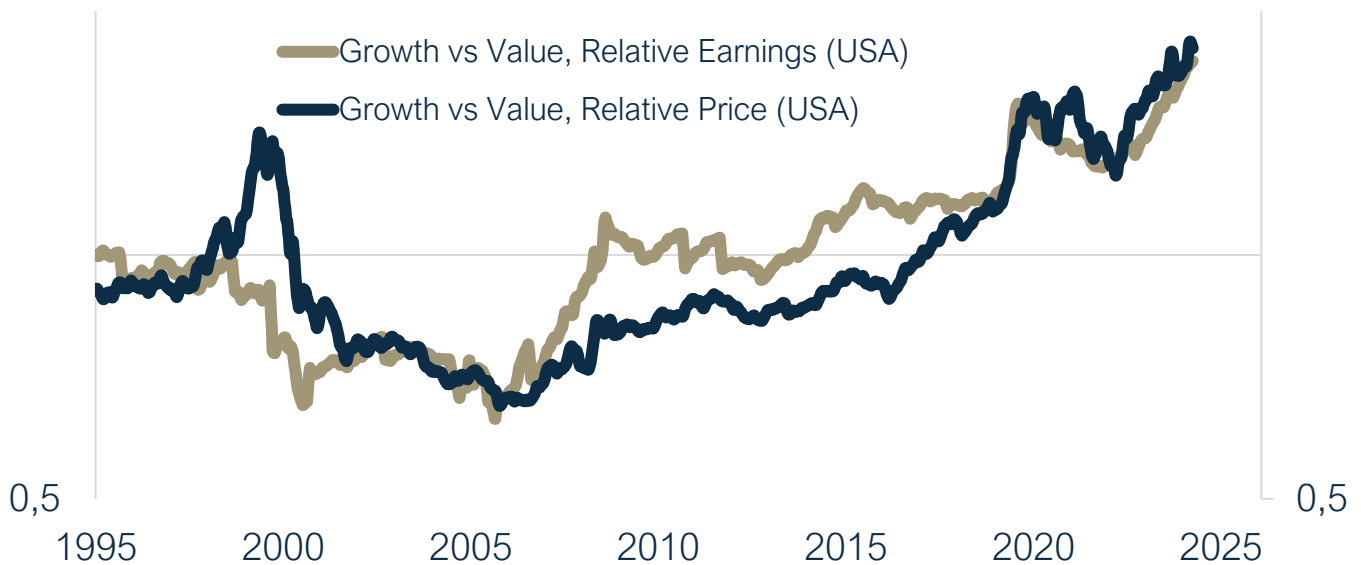
— Small Cap Renaissance:

US small caps are positioned to benefit from strong earnings growth and a degree of tariff protection. Meanwhile, European small caps might capture value amid expectations of future rate cuts.

— Policy-Driven Opportunities:

Deregulatory trends favor banks and fintech companies, while defense and cybersecurity stand to gain from heightened geopolitical focus. On our Atlas thematic list, the Atlas Autonomous Defense has been one of the best performing themes more recently and over the past year.

Atlas Equity Chart of the Month: US Growth vs. Value stocks – 18 years of market & earnings outperformance






Source: Evli, Bloomberg, logarithmic scale

Looking Ahead: Balancing Fundamentals and Uncertainty

Despite strong fundamentals and central bank rate cuts, 2025 is set to see rising policy uncertainty and volatility. Trade tensions persist, and the evolving AI landscape may realign market leadership among tech giants. Defensive positioning could be wise if disputes escalate, though Trump's sensitivity to market conditions might temper aggressive shifts in early 2025.

In summary, while the robust US economy and a market-sensitive presidency have sustained the bull market into its third year, investors should remain agile. The shift from US mega-caps to smaller firms and emerging AI narratives are key signals to monitor as we navigate 2025's complexities.

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