12 December 2024

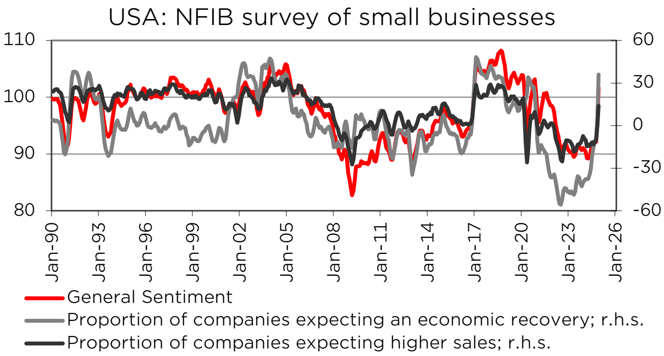
Outlook 2025 (III): Equity markets defy political risks

The international stock markets can look back on another good year. Despite various negative factors, particularly from the geopolitical side, but also due to the weak economic momentum in Europe and China, most share indices rose, in some cases significantly. The US stock markets were once again among the biggest winners. In Europe, on the other hand, the picture was more mixed. While the German DAX performed surprisingly well, French shares were among the biggest losers. The outlook for 2025 will be shaped by the economic challenges and, in particular, Donald Trump's return to the White House.

https://www.youtube.com/mmwarburgco

US economy as a pillar for the global economy

After the US managed to avoid a recession in 2024 and even grew surprisingly strongly, we also expect solid economic growth of around 2.6% in 2025. This means that the US will once again become the growth engine of the global economy, with China increasingly unable to fulfill this role. The background to the solid development in the USA is, on the one hand, private consumption, which is benefiting from a stable labor market and rising real wages. On the other hand, the Americans have expanded their locational advantage through a secure and affordable energy supply, extensive subsidy programs and, last but not least, an innovative and business-friendly environment, thus attracting new industrial companies. President-elect Trump's "America First" policy could put the icing on the cake with tax cuts and deregulation, as small and medium-sized US companies are also looking to the future with more confidence for the first time in a long time.



Source: Refinitiv Datastream

Increasing challenges in Europe

By contrast, the European economy is likely to suffer further under a US President Trump, as the introduction of new US import tariffs on European goods will have a negative impact on exports. As Europe, especially Germany, is also struggling with structural problems, the economy will remain weak for another year in 2025. Although further declining inflation rates, particularly in services, and rising real incomes will support consumption, a lack of impetus from the global economy will prevent a stronger recovery for the time being.

As the economic momentum in the emerging markets, particularly in China, will not improve significantly either, European companies will find it difficult to significantly increase their sales and profits in the coming year. However, they will receive a tailwind from the European Central Bank, as refinancing conditions are improving due to further interest rate cuts. In addition, a stronger US dollar could benefit companies with higher turnover shares in the USA.

Tech sector remains a growth driver

We assume that the average profit growth of European companies will be in the mid-single-digit percentage range until 2025. However, the range will be very wide, as many companies will suffer greatly from the new US trade policy, while companies that produce more in the US could even benefit from it.

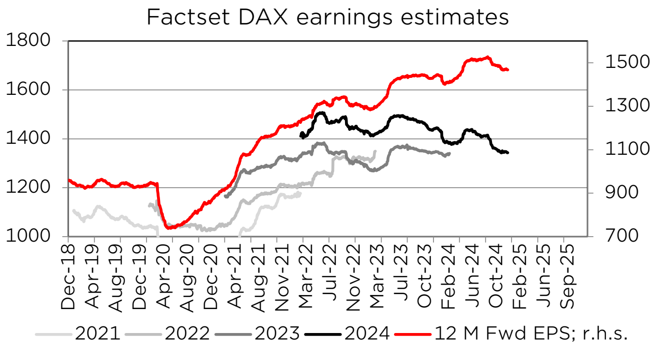
On the other hand, we are much more confident about the profits of US companies. Solid economic development, deregulation and tax cuts should provide a stable basis for average profit growth of around 15 percent for US companies. While US technology companies have been the main drivers of growth in recent years, we believe that a much more balanced development by a large number of companies from different sectors is likely in 2025. At the same time, the growth engine of US technology companies should continue to run at full speed, as many positive profit drivers are located in the area of megatrends. This applies in particular to the field of artificial intelligence, which we believe is only just beginning to realize its positive potential.

Overview of the US equity markets (Source: Factset)

	Profit Growth			Profit Revisions		Key Figures		
	2024	2025	2026	-1M 24	-1M 25	P/E	P/B	Div.return
Cons Discr.	15,3%	12,3%	14,1%	0,16	0,25	30,2	8,3	0,6
Cons Staples	1,3%	5,5%	8,4%	-0,26	-0,35	22,4	6,0	2,4
Energy	-18,6%	6,6%	16,8%	0,14	-0,12	14,0	2,0	3,4
Financials	16,9%	8,4%	12,2%	0,06	0,57	17,0	2,2	1,6
Health Care	5,2%	20,7%	10,6%	-0,44	-0,03	17,9	4,5	1,7
Industrials	-0,3%	18,5%	14,5%	-0,34	-0,45	23,1	5,9	1,4
Inform Techn	17,9%	22,7%	16,5%	0,57	1,74	29,7	10,5	0,6
Materials	-8,8%	19,1%	13,5%	-0,96	-1,78	19,7	2,8	1,9
Comm Serv	23,8%	15,1%	12,7%	-0,45	0,23	19,4	4,2	0,9
Utilities	9,6%	8,6%	8,0%	0,18	0,09	17,9	2,1	3,1
Real Estate	1,0%	3,8%	7,0%	1,03	0,61	18,4	3,2	3,6
S&P500	9,7%	14,8%	13,2%	0,01	0,46	22,3	4,7	1,3
Dow Jones	8,2%	14,4%	11,7%	-0,36	0,19	20,5	5,1	1,7
Nasdaq Comp	20,4%	25,4%	18,5%	0,01	0,81	28,7	6,1	0,7
Nasdaq Biotech	-20,3%	85,0%	40,3%	0,97	-0,41	38,1	3,5	1,4
Philadelphia SOX	8,3%	38,1%	22,2%	1,17	3,46	28,6	8,7	0,6
Nasdaq 100	15,8%	20,9%	16,5%	0,18	0,99	28,5	8,1	0,6
Russell 2000	-11,2%	42,7%	30,3%	-8,29	-3,04	26,2	1,6	1,5
S&P 600	-3,1%	17,9%	18,7%	-2,15	-0,62	16,8	1,3	1,8
S&P 400	-3,3%	13,3%	14,9%	-0,24	-0,28	16,8	2,3	1,4

Stock market indices set to reach new all-time highs in 2025

For the 40 DAX companies, we forecast a level of 21,000 points by the end of 2025. We believe that the profit expectations of corporate analysts, who are forecasting an increase of ten percent for 2025 and just under 14 percent for 2026, are once again too optimistic. In view of the difficult economic situation in Germany, Europe and China and the fact that prices can no longer be raised so easily, DAX profits have stagnated over the past two years. This is despite the fact that around 25 percent of sales are generated in the USA. We therefore assume that companies will be able to increase their profits slightly in the coming year and somewhat more strongly again in 2026. We are also assuming an unchanged valuation level for the DAX, which is currently slightly above the historical average with a P/E ratio of 13.9 based on expected earnings for the next 12 months. Based on similar assumptions, we expect a value of 5,100 points for the EuroStoxx50 and 4,600 points for the Stoxx50 at the end of 2025. Higher price targets would be possible, for example, with a higher valuation multiple, but the development of valuations is almost impossible to forecast. Since 2000 alone, the DAX P/E ratio has fluctuated between nine and eighteen.



Source: Factset

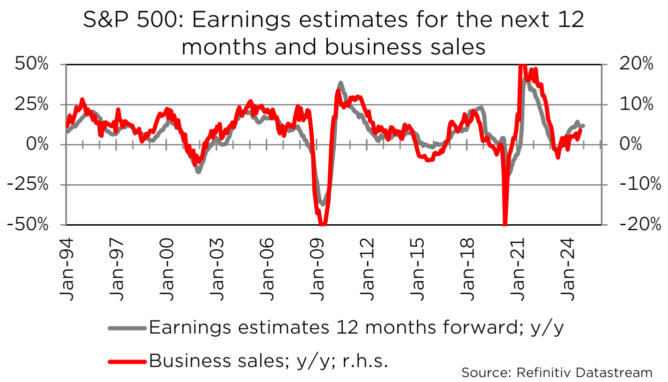
As the US equity market will enter 2025 with the best fundamental data of the major economies, we also expect a new record high here and an S&P 500 at 6,600 points at the end of 2025. Even if the S&P 500, with a P/E ratio of 22.3 based on the earnings expected for 2025, already has a significant valuation premium compared to its own history, but especially also compared to its European counterparts, we believe this is justified by double-digit corporate earnings growth in 2025 and also in 2026. After earnings growth of around 10% this year, analysts expect growth rates of 15% and 13% in 2025 and 2026 respectively. This is also ambitious, but achievable in our view due to the economic policy orientation in the US. In this respect, we assume that investors will continue to earn more in the USA than in Europe in the coming years. This is particularly because we expect the US dollar to continue to appreciate and euro investors should therefore achieve an additional currency gain.

Trump 2.0 as the greatest risk and greatest opportunity at the same time

When Donald Trump takes office on January 20, 2025, one thing will be certain: Trump's “America First” policy will leave its mark on the world. His departure from the global liberal world order during his first term of office in favor of isolationism and protectionism will undoubtedly also shape his new term of office. In view of the great uncertainties that his policies will bring, it is difficult to predict geopolitical and economic developments from today's perspective. However, it should not be overlooked that his future policies will also offer opportunities.

Selection Matters

In thematic terms, 2025 promises to be an exciting year on the stock markets. Good stock selection will probably be even more important for investment success than it was in 2023 and 2024. While central bank policy, interest rate trends and available liquidity were the main factors in investment decisions in previous years, these are likely to be overshadowed by political factors and news from individual companies in January 2025 with the introduction of the Trump administration. This means that the development of the stock markets in the coming year will be significantly influenced by the political situation, which outside the US will be met with a relatively weak economy.



US finances and energy as profiteers

The topic of artificial intelligence and its integration into business processes will not lose its relevance in the coming year. This megatrend is still in its infancy and has the potential to change entire industries in the long term. The ongoing debate about the power of large technology companies in the coming year is unlikely to change this, as the new Trump administration is also aware of the importance of these companies for the US economy and the US stock market. However, the technology trend is also having an impact on other sectors. For example, the energy sector is benefiting from the rising demand for energy, which will be further supported by the planned deregulation of environmental regulations for oil and gas production. However, this also means disadvantages for industries and companies that have geared their business model towards climate change. For example, the “clean energy” megatrend of 2019 and 2020 will continue to have a difficult time in 2025, especially as the unresolved problems such as the volatility of energy production, capital-intensive investment phases, overcapacity and ruinous price wars remain.

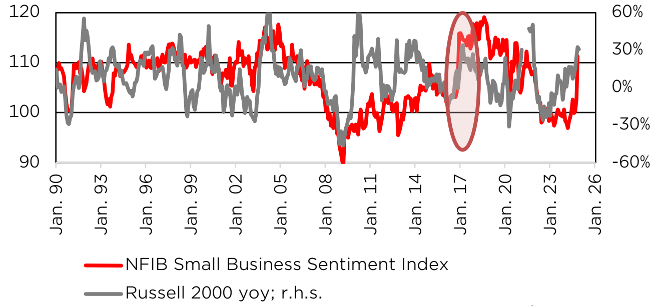
The US financial sector should also surprise positively in the coming year. The banking sector could benefit from liberalization and deregulation, even though the lower interest rates in the coming year will tend to make this sector appear less attractive. Insurance companies should also show a positive price trend in the coming months. This is based on the existing pricing power and the persistently higher yield level compared to the past phase of low interest rates. Banks and insurance companies will also be supported by the expected steeper yield curve in Europe. The financial service providers segment should benefit from the politically induced higher volatility on the financial markets.

In the industrial sector, active stock selection will have a decisive influence on the performance of the portfolio in the coming year. The automation, strengthening of defense capabilities and efficient energy distribution and use segments should be highlighted as positive. The logistics segment, which focuses on the global flow of goods, is more likely to suffer from increasing trade barriers, even though much of this should already be priced into current share prices.

Europe also offers opportunities

The economic and trade policy announced by the Trump administration should support the performance of US companies in particular, provided that production and sales take place primarily in the US. This speaks in favor of medium-sized and smaller companies in the US, whose mood has brightened considerably following the US presidential election. As in 2016 and 2017, this should be reflected in the good performance of US small and mid cap indices. Outside the US, on the other hand, high-quality companies with an international business model are likely to benefit, provided they have a high level of value creation in the US and are therefore only slightly affected by tariffs. Small and medium-sized companies, on the other hand, are likely to suffer from the persistently weak economic situation. It is therefore still too early to invest in this equity market segment.

USA: Small business sentiment and Russell 2000 stock index



Source: Refinitiv Datastream

At a regional level, Europe could benefit from substitution effects if products from China in particular are substituted by the USA in favor of European products due to different import tariffs. In this case, European companies could benefit from an escalating trade conflict between the USA and China. On the other hand, these aspects could lead to an increased diversion of goods flows from China to Europe at the expense of individual European industries.

Opportunities for European companies also arise from the different interest rate policies of the central banks in the USA and Europe. As already mentioned in the outlook for the bond markets, interest rates in Europe are likely to fall more sharply than in the USA. The expected appreciation of the US dollar could therefore provide a surprising boost to sales by European companies.

China has some home-made problems even without a trade war. For some time now, a large proportion of government spending has been directed towards industrial production and the development of a “fortress economy” to protect itself in the systemic conflict with the US. With the election of Donald Trump as president and in anticipation of a new trade war, little is likely to change. Spending on social issues or consumption is unlikely to remain a priority. This is problematic insofar as the other sales markets besides the US will only see low economic growth in the coming year and will not be able to consume the goods produced for export to the extent required. At the same time, domestic consumption is not picking up in China either. The stock markets of emerging countries such as India, which are less dependent on exports and have steadily growing consumption, are therefore likely to perform better than China.

An eventful year ahead for equity markets

The economic and trade policy announced by the Trump administration, combined with the relatively weak economy in Europe, is likely to initially lead to a volatile sideways movement on the European equity markets, while the US equity markets will benefit from this. In Europe, the share prices of companies that operate predominantly in the US or the dollar zone will perform relatively positively. This could reverse over the course of the year if it turns out that the impact of the policy on European economic development is not as serious as feared and the planned tariffs dampen economic growth in the US somewhat. In addition, significant interest rate cuts in Europe could generate further positive impetus for export values.

The effects of the political decisions in the USA are likely to be felt at company, sector and country level and, in addition to the equity market, will also influence other asset classes such as interest rate and commodity markets. More volatile times require investors to hold their nerve and focus on their medium to long-term investment strategy. However, such times also always offer interesting opportunities that need to be exploited in 2025. This is exactly where we are happy to assist you.

Ludwig Bendel and Daniel Hupfer

Market data

Stock marktes	As of 12.12.2024 16:05	Change versus 05.12.2024 -1 week	11.11.2024 -1 month	11.09.2024 -3 months	11.12.2023 -1 year	29.12.2023 YTD
Dow Jones	44095	-1,5%	-0,4%	7,9%	21,1%	17,0%
S&P 500	6074	0,0%	1,2%	9,4%	31,4%	27,3%
Nasdaq	19939	1,2%	3,3%	14,6%	38,2%	32,8%
DAX	20415	0,3%	5,0%	11,4%	21,6%	21,9%
MDAX	26837	-1,1%	-0,6%	6,9%	0,8%	-1,1%
TecDAX	3546	0,7%	3,8%	8,9%	8,6%	6,3%
EuroStoxx 50	4969	0,4%	2,4%	4,3%	11,3%	9,9%
Stoxx 50	4419	0,4%	1,9%	1,1%	8,4%	7,9%
SMI (Swiss Market Index)	11734	-0,5%	-1,4%	-1,6%	5,4%	5,4%
Nikkei 225	39849	1,2%	0,8%	11,9%	21,5%	19,1%
Brasilien BOVESPA	127216	-0,5%	-0,5%	-5,5%	0,2%	-5,2%
Indien BSE 30	81290	-0,6%	2,3%	-0,3%	16,2%	12,5%
China CSI 300	4029	2,7%	-2,5%	26,4%	17,8%	17,4%
MSCI Welt	3842	-0,2%	1,2%	7,4%	25,7%	21,2%
MSCI Emerging Markets	1108	0,6%	-1,6%	4,7%	13,9%	8,3%
Bond markets						
Bund-Future	135,95	148	344	59	132	-127
Bobl-Future	118,70	-81	-4	-147	86	-58
Schatz-Future	107,23	31	42	9	122	69
3 Monats Euribor	2,89	1	-15	-58	-107	-102
3M Euribor Future, Dec 2024	2,83	1	3	-15	18	53
3 Monats $ Libor	4,38	-8	-25	-72	-109	-102
Fed Funds Future, Dec 2024	4,48	-2	-3	-3	17	65
10 year US Treasuries	4,30	12	-3	65	7	44
10 year Bunds	2,18	8	-14	15	-5	18
10 year JGB	1,05	-1	5	19	27	43
10 year Swiss Government	0,30	7	-7	-12	-49	-40
US Treas 10Y Performance	604,39	-0,6%	0,9%	-3,8%	3,8%	0,6%
Bund 10Y Performance	574,95	-0,2%	1,8%	0,3%	3,7%	1,7%
REX Performance Index	456,83	-0,3%	1,2%	0,2%	2,8%	2,0%
IBOXX AA, €	2,80	-4	-19	-21	-58	-27
IBOXX BBB, €	3,23	-6	-22	-32	-90	-52
ML US High Yield	7,30	0	-8	-22	-116	-49
Commodities						
MG Base Metal Index	420,69	0,2%	-0,9%	3,8%	13,3%	7,6%
Crude oil Brent	73,03	1,2%	1,5%	4,8%	-3,4%	-6,0%
Gold	2686,89	1,7%	2,7%	6,9%	35,5%	30,1%
Silver	32,14	3,0%	5,2%	12,3%	41,0%	32,5%
Aluminium	2556,93	-2,1%	0,3%	8,7%	23,5%	9,0%
Copper	9074,07	1,3%	-1,2%	1,2%	10,0%	7,2%
Iron ore	105,52	-0,7%	2,3%	14,3%	-21,9%	-22,6%
Freight rates Baltic Dry Index	1106	-4,7%	-29,0%	-43,7%	-55,9%	-47,2%
Currencies						
EUR/ USD	1,0514	-0,2%	-1,3%	-4,8%	-2,3%	-4,9%
EUR/ GBP	0,8263	-0,3%	-0,1%	-2,3%	-3,5%	-4,6%
EUR/ JPY	160,03	1,0%	-2,3%	2,2%	1,6%	2,4%
EUR/ CHF	0,9328	0,2%	-0,4%	-0,3%	-1,6%	0,7%
USD/ CNY	7,2666	0,0%	1,0%	2,0%	1,2%	2,3%
USD/ JPY	152,46	1,6%	-0,8%	7,1%	4,3%	8,1%
USD/ GBP	0,79	0,3%	1,2%	2,3%	-1,3%	0,2%

Source: Refinitiv Datastream

Carsten Klude
+49 40 3282-2572
cklude@mmwarburg.com

Dr. Rebekka Haller
+49 40 3282-2452
rhaller@mmwarburg.com

Martin Hasse
+49 40 3282-2411
mhasse@mmwarburg.com

Dr. Christian Jasperneite
+49 40 3282-2439
cjasperneite@mmwarburg.com

Simon Landt
+49 40 3282-2401
mlandt@mmwarburg.com

Jan Mooren
+49 40 3282-2132
jmooren@mmwarburg.com