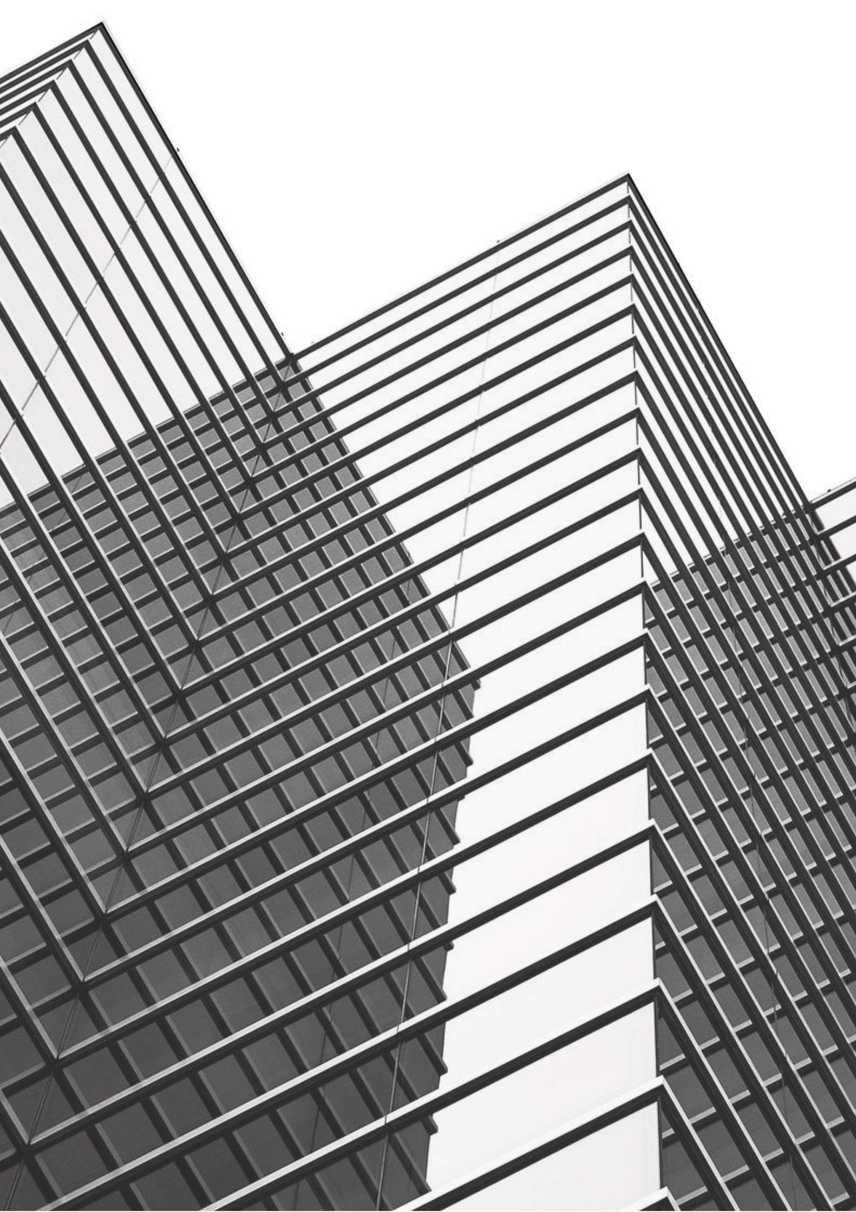
QUARTERLY REPORT:
ECONOMY AND MARKETS

Q4 2024 - BANCA DEL SEMPIONE



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MESSAGE – FINANCE AND MARKET DIVISION

For some time now, a superficial observation of the main indicators has not allowed a full understanding of financial market trends. In this regard, 2024 has been no exception.

The reality, characterized by a few stocks driving the indices and significant dispersion of results across companies and sectors, is not evident if we limit ourselves to observing the performance of the main global indices. This is particularly true for the U.S. markets, driven by the potential development of artificial intelligence, where a few companies have taken center stage, with market capitalizations far exceeding the GDP of multiple nations.

In the old continent we are witnessing indices, such as the German one, where the performance of the year is only partially at odds with the economic and political situation of a country that is not going through one of its best moments in recent decades. In this case, the explanation lies in the composition of the index, driven by companies where exports have made it possible to achieve results far above the overall performance of the country. Some improvement, both in prices and in the measures announced by political and monetary authorities, has been seen in China, where, however, investor skepticism still keeps the valuations of many companies depressed, awaiting evidence that will bring new positive growth prospects.

On the interest rate front, despite the continuous reductions in the cost of money by central banks, especially in the last stages of the year, the sense that Trumpian policies may actually be inflationary has led to a significant increase in interest rates for medium and long maturities. Volatility is likely to remain in the bond market, where we have also seen a significant compression of spreads paid by corporate issuers, especially when compared to their respective government issuances.

We approach 2025 with the awareness that the investment process is increasingly driven by flows that, entering "passive" portfolios, lead to a situation where it becomes risky to deviate too much from reference benchmarks. Therefore, on the one hand, we know we must find the right balance between seeking value, an approach that has always characterized our management model, and the need to align with market trends on the other

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DEPUTY GENERAL MANAGER

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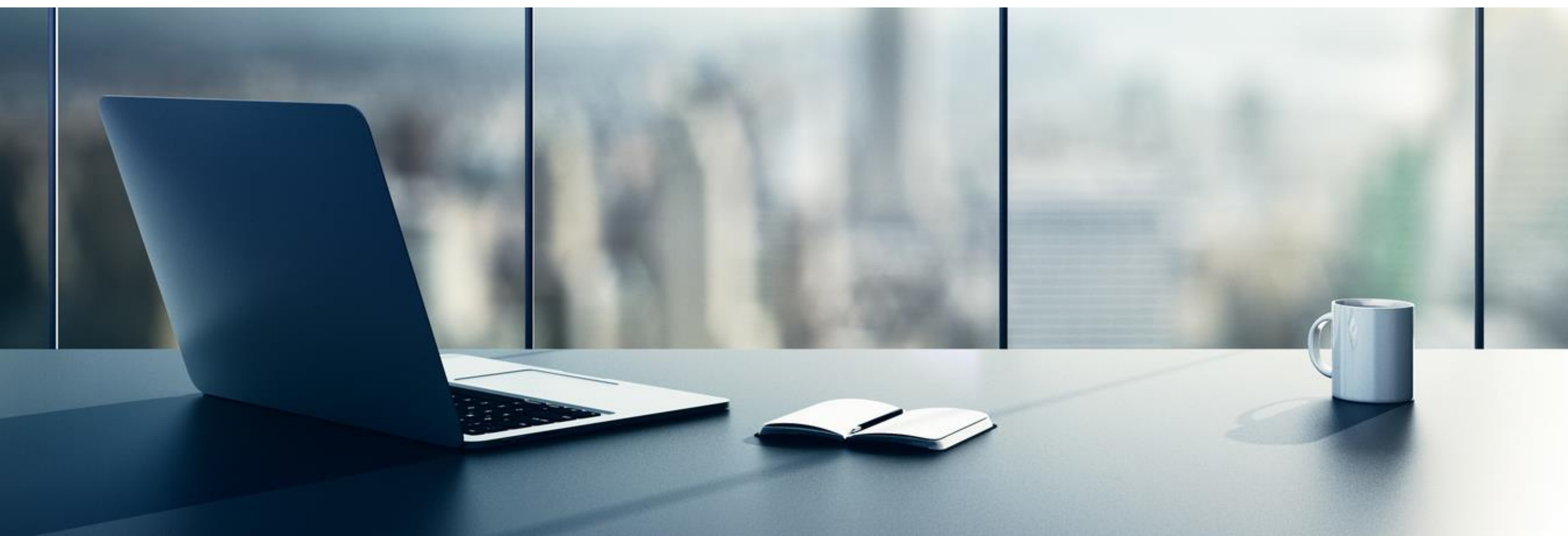


MACROECONOMY

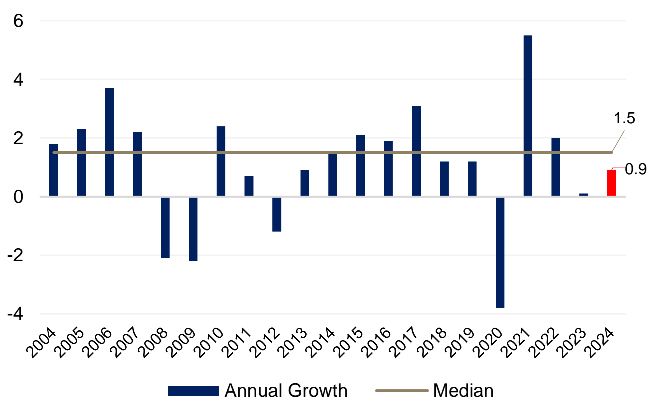
Global economic scenario

The last quarter of 2024 showed renewed **optimism** towards global economic growth, highlighting, however, an **increasing divergence** between the major international powers.

Recent macroeconomic evidence confirms an accentuated dichotomy between developed countries: within the **European Community** and in the peripheral regions, the Gross Domestic Product (GDP) continues to struggle to recover the growth rates recorded in the recent past. In the third quarter of 2024, the European Union's **GDP** recorded real growth of only 0.4%, mainly due to still weak consumption (accounting for 75% of GDP). This figure was partially balanced by public spending and investments in intellectual property, particularly in the technology sector.

At the same time, inflation has stabilized near the **European Central Bank (ECB)** target levels, with the consumer price index at +2.4% year-on-year, a sharp decline from the double-digit levels of 2022. In response, the ECB has opted for a more expansive policy, reducing interest rates with two consecutive cuts in October and December, each by 25 basis points, signaling a willingness for further monetary policy interventions, if the data allow it. The central bank is closely monitoring European growth, adjusting the cost of money in a context marked by evolving economic and political threats.

Annual GDP Growth Rates – Eurozone
% YoY as of 12/31; 2004-2024 (for '24, 09.23-09.24)



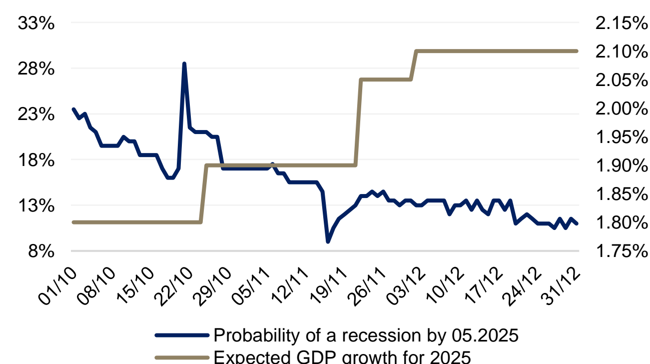
Source: Bloomberg

On the other side of the Atlantic, in the **United States**, the economic context appears reassuring, with a quarterly **GDP growth** of 0.7% at the end of September, supported by high consumption and significant public spending. The likelihood of a recession has dropped drastically, and with Donald Trump's clear victory in the November U.S. elections, the market has strengthened its belief in the so-called 'US exceptionalism,' fueling expectations of resilience for the American economy

The improvement in growth prospects, expected due to the policies announced by the Trump administration, focused on tax cuts and the reduction of bureaucracy and regulations, has influenced the **Federal Reserve's (FED)** decisions. Although inflation has stabilized, the FED remains cautious, awaiting the assessment of the implications of tariffs and the new president's immigration policies in order to adjust its rate decisions. During the quarter, the FED made two cuts of 25 basis points each, but future projections indicate tightening, with fewer cuts expected in the future. The focus remains on normalization in the labor market, a central component of the FED's mandate.

Finally, the **Bank of England** also slowed the pace of its rate interventions, making only one cut during the quarter, due to the expected impact of the significant fiscal policies of the Labour government. In contrast, the **Bank of Japan** raised its interest rate by 15 basis points, marking a step toward normalizing its extremely expansive monetary policy.

Recession Probability and Growth Expectations - USA
%; 10.24 – 12.24; Left: Recession Probability; Right: GDP Growth



Source: Bloomberg, Polymarket

MACROECONOMY

Focus: geopolitical context and Switzerland

Geopolitical context

The divergences between developed economies are not limited to the economic sphere alone, but extend to the political one as well. The political setups of the two historical engines of Europe, in fact, have experienced a complex quarter. In the past three months, the governments of **France** and **Germany** lost their respective votes of no confidence, and among the triggering factors of the two government crises, a common thread can be observed: in Germany, the crisis was triggered by the dismissal of the Finance Minister by **Olaf Scholz** due to disagreements over the proposed fiscal budget, which had a deficit deemed too high. This event generated political instability, culminating in the fall of his administration in December. In France, on the other hand, just a few weeks earlier, a forced approval of the 2025 social security budget by Prime Minister Barnier sparked outrage from the far-right (RN), which formed an alliance with the left (NFP) to vote in favor of the no confidence motion.

Meanwhile, in the United States, former President **Donald Trump** won the November elections, leading a Republican wave that also dominated the Senate and House of Representatives. His second term, set to begin in mid-January, will focus on renewing corporate tax cuts for American businesses, streamlining regulation and fiscal spending, and redefining trade policies with foreign powers. In the meantime, a new department for government efficiency (named D.O.G.E.) has been established, with **Elon Musk** and **Vivek Ramaswamy** heading the advisory body. Their objective is to cut over USD 2 trillion in public spending, as outlined by the two entrepreneurs.

Conflicts in Eastern Europe and the Middle East saw no significant changes during the quarter. The long-distance conflict between **Israel** and the Islamist group **Hezbollah**, despite the November ceasefire, repeatedly flared up. In **Ukraine**, the escalation of U.S. support through the deployment of long-range missiles prompted a shift in Russian President **Vladimir Putin's** nuclear strategy. Finally, in **Syria**, a surprising rebel advance forced **Bashar Al-Assad** to flee to Moscow.

Switzerland

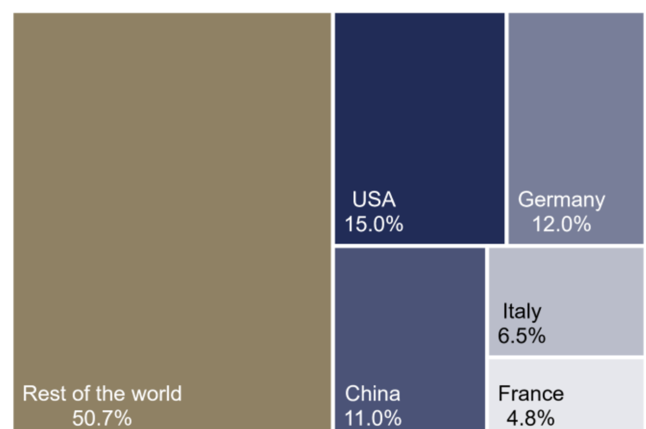
In Switzerland, the economy is struggling to regain momentum, despite a 1.7% increase in real **GDP** at the end of September compared to the previous 12 months, driven by partial stabilization in the manufacturing sector and steady growth in private consumption.

The **Ministry of Finance** has revised its 2025 GDP growth forecast down to 1.5% in December (from the previous 1.6%) due to a more moderate European recovery than expected and increasing uncertainty related to global trade policies. These factors are crucial for Switzerland, as its three main trading partners are facing significant challenges: the United States (15% of Swiss exports in 2023) is targeting protectionist political measures under Trump's presidency; Germany (12% of exports) is facing structural difficulties in its key industries; and China (11% of exports) is struggling to regain its previous growth pace.

With **inflation** well below the 2% threshold, and growth requiring monetary support, the **Swiss National Bank** (**SNB**) decided to cut the reference rate by 50 basis points, bringing it to 0.50%, signaling the possibility of reintroducing negative rates if necessary. Additionally, the central bank has expressed its readiness to intervene in the exchange rate to mitigate the impact on the economy and exporting businesses.

Swiss exports by partner country

% of annual GDP exports; 2023



Source: Bloomberg

FINANCE

Equity market

Indices	Price	Quarterly Performance	YTD Performance
MSCI World	3'707.84	-0.41%	17.00%
SMI	11'600.90	-4.67%	4.16%
STOXX Europe 50	4'895.98	-2.09%	8.28%
FTSE MIB	34'186.18	0.18%	12.63%
DAX	19'909.14	3.02%	18.85%
S&P 500	5'881.63	2.07%	23.31%
NASDAQ 100	21'012.17	4.74%	24.88%
Nikkei 225	39'894.54	5.21%	19.22%
Hang Seng	20'059.95	-5.08%	17.67%

Source: Bloomberg

As mentioned in the previous section, during the fourth quarter, one of the most anticipated events of the year took place: the **US presidential elections**, with a clear victory fot Republican Donald Trump, re-elected for a second term. By defeating Kamala Harris and securing control of both the House and Senate, Trump marked a major turning point for the performance of global indices.

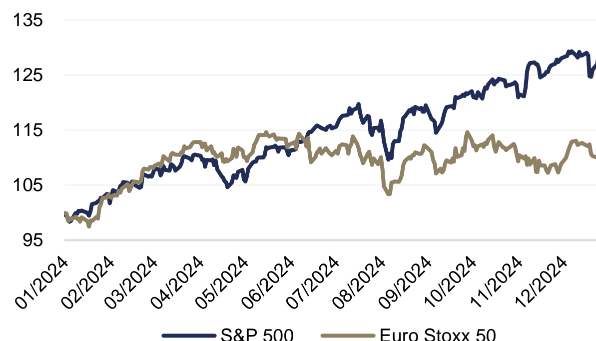
In the final quarter of 2024, **US Exceptionalism continued** its run, pushing stock indices to new historical highs. In the early phase of the quarter, the rally showed greater breadth, also involving sectors that had been less favored in the first half of the year, including small-cap companies. Trump's election and the "Republican Sweep" further fueled this trend, thanks to the policies proposed during the election campaign, particularly tax cuts and increased deregulation, which are expected to support even the more cyclical sector.

However, in December, technology stocks once again captured the market's attention, fueled by continued confirmations and expectations regarding **Artificial Intelligence**. Overall, the year ends with another positive performance for U.S. equities, with returns further consolidating the dominance of U.S. risk assets globally.

In **Europe**, however, the effect of Trump's election was less positive. The prospect of a trade war, always one of the Republican candidate's key talking points against the major exporting countries to the U.S, raised concerns among investors, negatively impacting stock markets, particularly in the automotive, beverage, and, to a lesser extent, luxury sectors.

Comparison between European and U.S. indices

Rebased to 100; 01.24 – 12.24



Source: Bloomberg

The political difficulties in **France** and **Germany**, linked to disputed fiscal budgets and government crises, further worsened an already fragile sentiment. The EuroStoxx thus posted a nearly unchanged performance for the quarter, almost exclusively supported by the financial sector and SAP, the only European stock to benefit from the tech rally, following ASML's debacle.

In **Switzerland**, the persistent strength of the Swiss franc continued to hinder exports and, more generally, the country's economic growth. The composition of the main stock index and the negative performance of the *national champions* (Nestlé, Novartis, and Roche) further weighed on the index, which closed the quarter in decline.

Finally, in **China**, the economic recovery that was eagerly awaited is taking longer to materialize. Despite optimistic statements from government authorities since September, the market remains skeptical about the effectiveness of the measures taken and the macroeconomic data released. Trump's election, historically in favor of increasing tariffs against China, has strengthened investors' defensive stance, maintaining a cautious and uncertain sentiment.

FINANCE

Bond market

Government yields (in % p.a.)	2 years	5 years	10 years
Switzerland	-0.02	0.08	0.27
Italy	2.42	2.86	3.52
Germany	2.08	2.15	2.36
United States	4.24	4.38	4.57

Source: Bloomberg

The global bond market recorded a negative quarter, with **2024** being lackluster for the government component. The period was characterized by sudden shifts in opinion regarding U.S. monetary policy outlooks, with fluctuations between optimistic periods, which expected multiple rate cuts, and times of concern about the possibility that the easing cycle would soon stop due to persistent inflationary pressures. In the final weeks of the year, the latter view prevailed, supported by Trump's electoral victory, as his policies are seen as potentially inflationary, and by the caution expressed by the Federal Reserve during its last meeting.

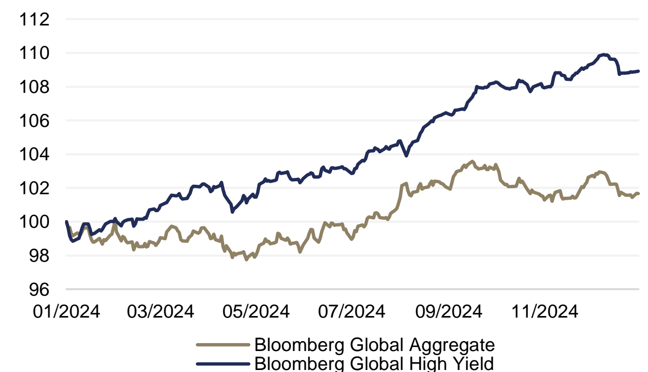
The **rate-cutting cycle** of major central banks began in 2024: the **FED** reduced rates by 75 basis points, the **ECB** by 100, and the **SNB** by 125. For 2025, expectations point to a growing divergence, with the FED expected to adopt a more cautious stance, supported by the strength of the U.S. economy, while sluggish European growth is likely to lead to further and more significant cuts by the **ECB**. The debate on U.S. monetary policy remains open, fueled by high macroeconomic and political uncertainty and the poor indications provided by the **FED**, which is increasingly focused on short-term data-driven decisions. In the absence of clearer direction from policymakers, the market is likely to remain volatile and sensitive to rapid changes in context.

The **Bloomberg Global Aggregate index**, in the Euro-hedged version, recorded a quarterly performance of -1.39% and an overall annual result of +1.68%, well below the average yield to maturity of the bonds in the index, penalized by the rise in yields on government curves.

The **High Yield** index showed a decidedly different picture: the Bloomberg Global High Yield Euro *hedged* recorded a +0.65% quarterly return and a +8.92% annual return. Unlike the global index, which saw only one positive quarter (the third), the High Yield index achieved positive returns in all four periods, combining higher returns and lower volatility

Divergence between bond indices and High Yield

Rebased to 100; EUR hedged; 01.24 – 12.24



Source: Bloomberg

The exceptionally positive year for **credit** should be seen within a favorable macroeconomic and liquidity context. The strength of the economy and low corporate default rates have kept the fundamentals of the corporate segment solid, while the constant demand for yield has supported continuous inflows into this asset class, dampening interest rate volatility and simultaneously allowing for high Sharpe ratios (returns relative to volatility). Similar trends were observed in other credit segments, such as **financials** and, to a lesser extent, **emerging** markets. However, credit spreads are currently at historically compressed levels, making them more exposed to potential negative shocks.

On the **European peripheral front**, the repeated government crises in France did not cause systemic tensions, although it is worth noting **Greece's** historic achievement, now able to finance its 10-year debt at a lower rate than France. Similarly, there was a continued narrowing of the spread in the **BTP – Bund** differential (Italy-Germany), which decreased from around 133 basis points at the beginning of the quarter to 115 at the end of the year.

FINANCE

Currency and commodities market

Currencies	Price	Quarterly Performance	Yearly Performance
EUR/CHF	0.9401	-0.16%	1.21%
USD/CHF	0.9074	7.31%	7.84%
EUR/USD	1.0354	-7.01%	-6.21%
GBP/USD	1.2516	-6.42%	-1.69%
USD/JPY	157.20	9.45%	11.46%

Source: Bloomberg

Currencies

The fourth quarter was characterized by the **strength of the dollar**, which registered a +7.2% appreciation against all major global currencies in the last 3 months, as evidenced by the **Dollar Index.**

Much of this rally is attributable to **Trump's** victory in the November 2024 elections, with the market expecting highly intensive policies in terms of fiscal deficits, growth, and inflation, all factors considered favorable for the dollar.

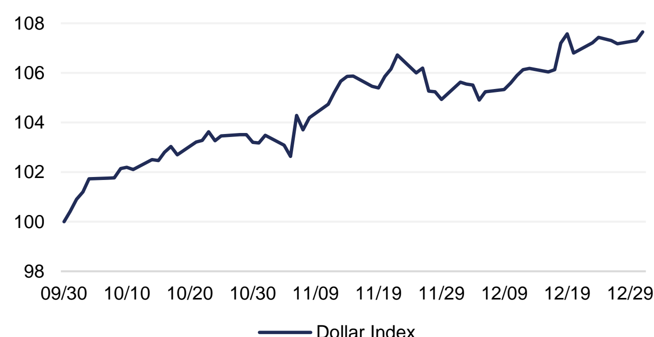
Meanwhile, the **euro** and emerging market currencies were affected by the isolationist rhetoric of the newly elected US president, with the issue of tariffs penalizing major exporting economies. In the quarter, the EUR/USD exchange rate fell by 7%, from 1.11 to 1.035.

It was a cautious period for the **yen** following the strengthening of the previous quarter. Against the dollar, the yen returned to near the lows of early July. A similar situation occurred for the **Swiss franc,** which remained stable against the euro, supported by the cuts decided by the SNB.

Finally, a note on **Bitcoin**, which officially surpassed USD 100'000 in December.

Performance of the Dollar Index Over the Quarter

Rebased to 100, 09.24 – 12.24



Source: Bloomberg

Commodities	Price	Quarterly Performance	Yearly Performance
Commodity Index	98.76	-1.57%	0.12%
WTI Oil	71.72	5.21%	0.10%
Brent Oil	74.64	4.00%	-3.12%
Gold	2'624.50	-0.38%	27.22%
Silver	28.90	-7.24%	21.46%

Source: Bloomberg

Commodities

The final quarter of the year confirmed an adverse trend for the general **commodity** index, dragging the annual performance close to zero.

Oil prices showed a sideways trend during the period. In October, the escalation between Israel, Iran, and the Hezbollah faction initially drove futures prices higher. However, in the following months, prices weakened due to Trump's election. On one hand, the imposition of tariffs posed a threat to the growth of China and other exporting nations, which are major consumers of energy resources; on the other, local production of cheap energy gas been incentivized to support the US economy.

Precious metals exhibited a similar performance. Gold prices remained relatively stable, although they reached new all-time highs near USD 2'800 per ounce during the quarter. Global central banks' purchase programs continue to offer partial support for the yellow metal, despite challenges posed by the strong dollar and rising yields, which created a more complex environment.

Industrial metals faced structural weakness across all major resources, including copper, nickel, and aluminum. This trend is attributable to China's still-weak growth and fears that tariffs might limit demand from the United States.

In the agricultural sector, cocoa and coffee continued to be affected by adverse weather conditions and reduced presence of market operators. Other resources, such as soybeans, wheat, and cotton, experienced a progressive decline, in line with other commodities.

Did you know that...

...In the United States, data center demand accounts for approximately 4.3% of the annual electricity requirement, equivalent to the energy consumption of a metropolis like New York

The innovation driven by artificial intelligence (AI) is accelerating the need to develop increasingly advanced data centers, essential to support the computing power required by solutions such as *ChatGPT* or *Copilot*, which involve significant energy consumption.

How much energy do data centers currently consume in the United States, and what are the future projections?

A data center is a complex technological infrastructure housing thousands of interconnected servers, used for various activities such as data processing, application hosting, and information storage.

AI services, such as ChatGPT, require vast computational resources to operate, making it necessary to have state-of-the-art data centers equipped with, high-energy-consuming servers.

Currently, in the United States, data center demand accounts for approximately 4.3% of the annual electricity consumption, equivalent to the energy usage of a metropolis like New York.

However, with the increasing adoption of new technologies and AI-based solutions, the energy demand for these tools is expected to grow rapidly. Analysts predict that by 2030, the energy consumption of data centers could triple, rising from the current 4.3% to 11-12% of the total annual energy demand in the United States.

What are the implications of this increase in energy demand?

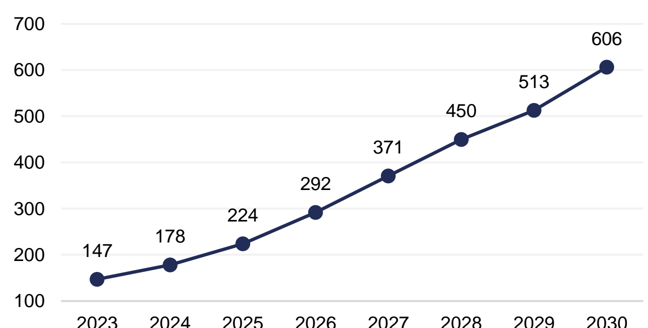
The rise in energy demand presents significant challenges, such as the need to find reliable and sustainable energy sources, adoption of more efficient solutions, and investments in infrastructure to ensure access to energy. Cities like Amsterdam, Dublin, and Singapore, for example, have imposed restrictions on the construction of new data centers due to the lack of necessary electrical infrastructure to support them.

Innovative solutions in the nuclear sector, such as revolutionary small modular reactors and the use of already established renewable sources, could receive support from various global political leaders. Among them, the support of newly elected President Trump stands out, as he had already promoted the use of nuclear energy during his first term.

In Europe, there are also signs of support for nuclear initiatives, as highlighted by Italian President Meloni's intervention at the recent COP29, in a context where the EU faces a shortage of low-cost Russian gas.

Rising electricity demand for U.S. data centers

Estimated electricity demand in TWh per year, 2023-2030



Source: McKinsey

KEY TAKEAWAYS

1 – ANNUAL ELECTRICITY CONSUMPTION OF NEW YORK IN 2023	2 – CURRENT ELECTRICITY DEMAND OF DATA CENTERS RELATIVE TO THE USA	3 – NUMBER OF DATA CENTERS IN THE UNITED STATES
139.4 TWh	4.3%	5’390

Source: McKinsey, Cloudscene

Expert Talk
Roberto Bracchi

«After Donald Trump's overwhelming victory in the elections on November 5th, what are the possible implications of the anticipated tax cuts?»

Interview with ***Roberto Bracchi****, US Equity Manager:*

What tax reforms are expected, and what impact could they have on the U.S. fiscal deficit?

With the expiration of the *Tax Cuts and Jobs Act* **(TCJA)** set for the end of 2025, it is likely that the newly elected President Trump will act quickly to fulfill his campaign promises. In this regard, the Grand Old Party (GOP) has already begun laying the groundwork for a budget reconciliation bill, which will extend the provisions of the TCJA beyond 2025 while introducing some key changes.

Among the proposed measures is the possible reduction of the **tax rate for companies** producing in the United States, from 21% to 15%. In addition, with full control of the Senate and the House of Representatives, the budget reconciliation process would allow the bill to be approved with a simple majority (51% of the votes), bypassing the Senate's 60-vote filibuster threshold, as long as the measure is neutral in terms of its impact on the deficit.

However, the extension of the *TCJA* would result in a cost of approximately **USD 4.6 trillion** to the government's coffers over the next 10 years, with an additional USD 3.8 trillion from the proposed reduction in the corporate tax rate, according to estimates by Ernst & Young. This raises concerns about the Trump administration's ability to finance such expenditures, assuming the use of proposed tariffs that generate fiscal revenue or an improvement in the efficiency of the government system through the D.O.G.E. department. Alternatively, the support of the Chambers might be needed, which, despite having the majority, could require the consent of some Democratic representatives.

> *“[…] it is plausible that the US economy will continue to show solidity and resilience even under Trump's second term”*

What are the macroeconomic implications of reducing the corporate tax rate to 15%?

The first effect of such a reduction would be an **incentive for economic growth** in the country. Higher profits for businesses would benefit shareholders and provide additional capital for expansion and innovation investments. In the long term, these investments would foster job creation and strengthen the high competitiveness of American companies, especially in the technology sector.

However, higher employment and a stronger labor market could fuel **inflation** again. Furthermore, the proposed 15% tax rate for companies producing in the United States represents an incentive for reshoring processes, in line with Trump's objectives, but could lead to an increase in production costs.

This scenario explains the rise in U.S. Treasury yields in recent months and the greater caution from the FED in easing monetary policy next year, in anticipation of structurally higher inflation levels. However, it is also true that there is a positive correlation between inflation and economic growth, at least in the short and medium term, although discussions may arise later about the sustainability of such expansion. In conclusion, considering the main macroeconomic indicators in the medium term, it is plausible that the U.S. economy will continue to show strength and resilience even under Trump's second term.

ROBERTO BRACCHI
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