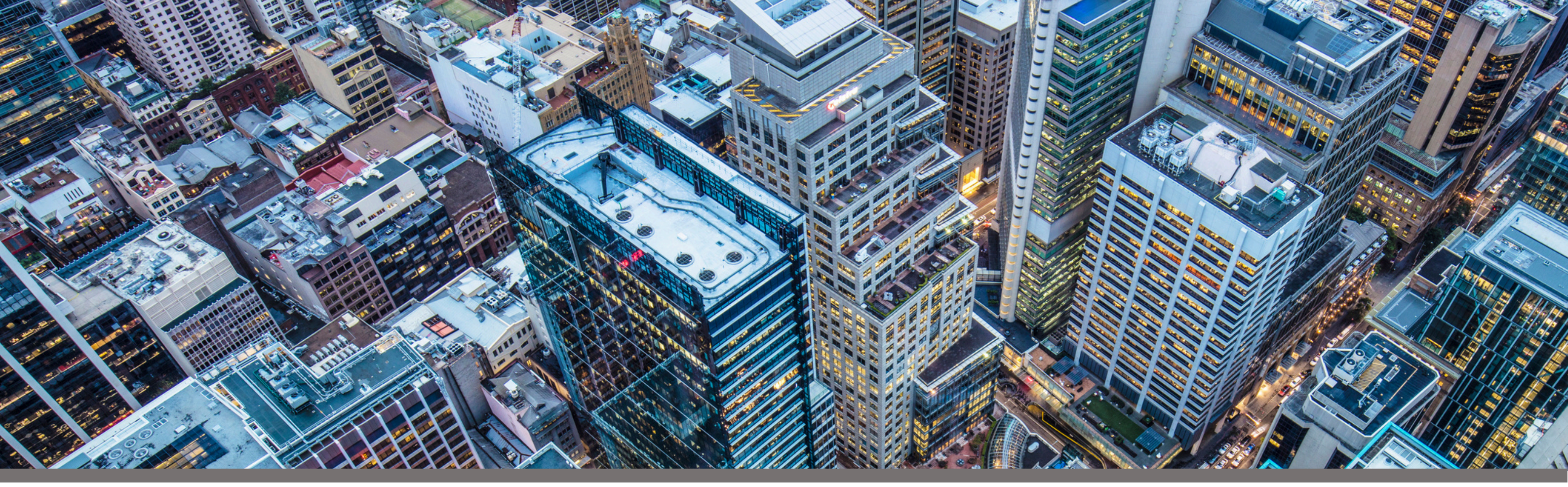


FOUNDED IN	EMPLOYEES	LOCATED IN	ASSETS DIRECTLY UNDER MANAGEMENT	ASSETS INDIRECTLY UNDER MANAGEMENT
1988	**80+**	**10+** COUNTRIES	**US$1.1** BILLION	**US$9.7** BILLION

ICM Monthly Outlook

DECEMBER 2024

Market Review

Investors will look back on the 2024 US presidential election as a turning point for financial markets. Some sectors of the US financial markets have rallied like billyo since President Trump's re-election. Investors expect pro-growth policies, including tax cuts, deregulation, and increased fiscal spending. Investors have interpreted President Trump's re-election as a green light for risk-on, igniting a rally across equities, credit, and cryptocurrencies.

In November, Global Developed Market equities increased by 4.5%, primarily driven by US equities. The S&P 500 rose 5.7%, the tech-heavy Nasdaq Composite climbed 6.2%, and the Russell 2000 index gained 11%. Financials, consumer discretionary, and small-cap stocks were also big winners, buoyed by expectations of deregulation, lower taxes, strong consumer spending, and optimism about Trump's domestic agenda. Since the election, high yield spreads compressed by 14bps to 2.74% from 2.88%. The tighter risk premium reflects growing confidence in a strong economy.

Crypto

So far, Bitcoin and other cryptocurrencies have been the biggest winners from President Trump's re-election. Since the 4th of November, the Bitcoin price has increased 60%, peaking above $107k. Today, Bitcoin ETFs have an aggregate market cap of USD 100 billion, equating to one million Bitcoins, almost 5% of the total possible supply - approximately the same number of coins as Bitcoin's creator. MicroStrategy, the software company turned Bitcoin acquirer, nearly doubled in value in the post election rally as it vowed to issue USD 42 billion in stock and bonds to purchase additional Bitcoin. Today, Bitcoin has a total market cap of approximately USD 2 trillion, the same as Alphabet, owner of Google. The total market cap of all cryptocurrencies is approximately USD 3.6 trillion, roughly the same as Apple, which is ubiquitous globally. Bitcoin is not omnipresent, with approximately five hundred million owners globally, India accounting for c.20% of ownership. It has been a heck of a turnaround for crypto since the fear and panic in late 2022 when FTX failed.[1] Investors are excited by the prospect of President Trump letting crypto run free with new supportive regulations. President-Elect Trump has vowed to make the US "*the bitcoin capital of the world*".

Oil and gas

The S&P oil exploration and production index has jumped 12% since President Trump's victory, unsurprisingly given another one of President Trump's stump speech commandments was, "drill, baby, drill." In a departure from previous policy, we expect an increased focus on fossil fuel production, deregulation, and a re-evaluation of renewable energy initiatives. The Trump administration is expected to open more federal lands to drilling. While the media has been preoccupied with several of President Trump's more controversial cabinet picks, his pick for Energy Secretary, Chris Wright, did not draw the same attention. Mr. Wright is an oil veteran and the founder of Liberty Energy, an oil service company. Wright has previously expressed scepticism about the severity of climate change.[2]

Market Review continued

Aside from being an oil & gas advocate, Mr Wright is a proponent of nuclear energy and sits on the board of Olka, a nuclear company whose chairperson is Sam Altman, he of OpenAI infamy. Nuclear power companies' stock has rallied since President Trump's election also.

Auto industry
President Trump's election victory is a double edged sword for the auto industry. Another one of President Trump's stump speech catchphrases was "Tariffs. It's a beautiful word, tariffs." The global car industry is bracing for the impact of President Trump's 25% tariffs on imports from Mexico and Canada. Most of the world's largest carmakers have significant operations in Mexico and Canada to service the US market. By way of example, Volkswagen manufactures 45% of its US sales in Mexico and Canada. All major European car companies have operations in Canada and Mexico. European car groups typically produce more than 50% of their US sales outside the United States. Even American car companies, such as Chrysler, Ford & GM, have extensive facilities outside of America. We know from experience that President Trump is not afraid of breaking a few eggs to make an omelette, and his America First policies may cause the car makers to create new US based supply chains. Time will tell. One car maker that produces all its products in the US is Tesla. Tariffs on Canada and Mexico will be welcome news for Tesla, given the recent decline in EV sales due to President Biden's 100% tariff on Chinese EVs. Tesla's stock has surged 89% since the election. It is an ill wind that blows no good. In addition to being handsomely rewarded financially, Mr. Musk, the self proclaimed "First Buddy," was appointed head of the Department of Government Efficiency.

Europe and the R.O.W.
In our November letter, we wrote that there is no alternative to investing in the US. Our sentiment is even stronger this month due to a series of own goals in Europe and based on a general lack of enthusiasm for Trump's win outside the US In November 2024, the Eurostoxx 50 fell by 0.5%, 6.2% behind the S&P 500, its biggest monthly underperformance since the pandemic fuelled volatility in the summer of 2020. While Trump's rhetoric around trade tariffs has spooked European investors, many European issues are of their own making. For starters, France continues to roil from President Macron's disastrous decision to call a snap election in June 2024. Intended to counter the rising influence of the far right National Rally led by Marine Le Pen, it has resulted in a political stalemate, with Michael Barnier becoming the shortest serving French Prime minister when his jerry rigged government could not pass a fiscal budget. France's borrowing costs have increased, with the French government paying the same as Greece. Not to be outdone, in Germany, the three party coalition, comprising the centre-left Social Democrats (SPD), the environmentalist Greens, and the pro-business Free Democrats (FDP), disintegrated due to deep seated disagreements over fiscal policies and budget allocations. The FDP's departure from the coalition has resulted in the government's inability to function effectively and has compelled Chancellor Scholz to announce a vote of confidence scheduled for mid December. A failure to secure this vote will result in snap federal elections in February 2025. The Organisation for Economic Co-operation and Development (OECD) has already downgraded Germany's economic growth forecast for 2025 to 0.7%, citing political uncertainty and stringent fiscal policies as contributing factors. The European Union (EU) auto industry is suddenly fighting a war on two fronts. Aside from the prospect of tariffs hitting sales in the US, it is also fighting a rear-guard action to comply with EU's climate policies. It would appear that the climate may fare second best because the US is not the only nation reversing environmentally friendly policies. The EU's most prominent political group wants to revise the legislation banning the sale of new cars with combustion engines after 2035. The idea of Net Zero by 2050 feels further away than ever.

From April through September, the US dollar had weakened against the pound sterling in anticipation of faster, bigger rate cuts in the US. Since the end of September, that trend has reversed - the pound sterling has steadily declined against the US dollar - because of the Labour budget. The Labour budget was interpreted as punishment for less likely Labour voters. The Labour government introduced a land levy, increased social insurance payments for businesses, and do not forget about adding VAT to private school fees. The pound declined while Gilt yields dropped further after weaker than expected UK PMIs. After recent economic releases and events, UK investors are in quite a saturnine mood.

It is not just Europe struggling to keep pace with the US. Japan's Nikkei fell by 2.2% in November, underperforming the US by 8%, while emerging markets[3] declined by 2.7%. Markets in export reliant regions like Japan and emerging markets are bracing for potential disruptions to global trade flows. The difference in the perceived outlook between the US and the rest of the work is stark.

Rates in Europe have fallen due to growth concerns. For example, the German 10-year Bund fell 30bps to 2.09% from 2.39%. Yields on US treasuries have also fallen - by about 10bps during November. The US 10-year Treasury now yields 4.17% on the expectation of further rate cuts by the Federal Reserve Bank.

Market Outlook

Crypto

President Trump chose Paul Atkins as SEC secretary, a known crypto advocate who is expected to grease the wheels of crypto adoption. Atkins, an SEC commissioner from 2002 to 2008, is recognised for his free market approach and scepticism towards extensive regulation. Atkins has been critical of stringent financial regulations, such as the Dodd-Frank Act, and has emphasised the importance of cost-benefit analysis in regulatory decision making. Atkins will likely take a much more lenient and pro-growth approach to his predecessor, Gary Gensler. For example, crypto investors are sizing the prospect of President Trump starting a Strategic Bitcoin Reserve. The US government already holds USD 20 billion of Bitcoin confiscated from criminals but is contemplating buying up to 5% of the market (one million coins) per Senator Lummis's proposal. The Polymarket currently gives a 29% probability that President Trump will create a Bitcoin reserve in his first one hundred days. The Polymarket correctly predicted that President Trump would win the election. If President Trump does not follow through with Senator Lummis's proposal or adopts a more nuanced approach, the current rally will have been an incidence of "Buy the rumour, sell the fact". However, with a nearly four trillion dollar market cap, crypto ain't going away anytime soon.

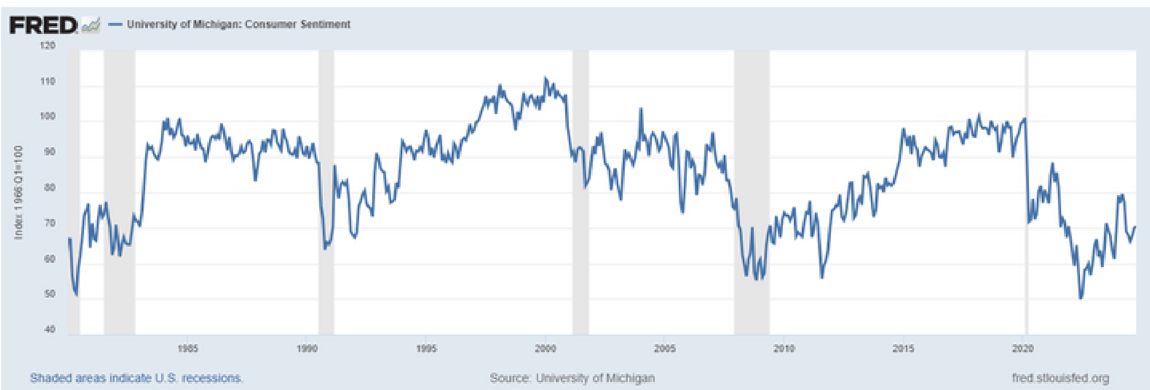
Non-farm payroll and tailwinds for growth

The latest US non-farm payroll figure dispels any suggestion of a slowdown in economic activity or impending recession. Indeed, Goldman Sachs predicts President Trump's policies could elevate US GDP growth to 2.5% in 2025, outperforming other developed markets.[4] At 227k, November's payroll growth was solid, slightly above expectation, and bolstered by 56k of upward revisions for October and September. The US labour market remains robust despite the interest rates level. In November, the US unemployment rate ticked up to 4.24% from 4.1% the previous month. Today, the US Federal Reserve Federal Funds Rate is 4.50% to 4.75%, significantly above inflation, 2.6%, and core inflation, 3.3%. The combination of the rising unemployment rate and the yawning gap between the Fed funds rates and inflation leaves the Federal Reserve with loads of wiggle room to cut interest rates by 25 basis points in December. Frankly, whether the Federal Reserve Bank cuts in December or January or by 50 basis points or 25 basis points doesn't matter. What matters now is that the Federal Reserve Bank has the firepower to fight all but the worst downturns. The Federal Reserve Banks' next meeting will be on the 17th and 18th of December. Further reductions in 2025 will be contingent on the evolution of inflation and the labour market. Slowly but surely, the US Federal Reserve has reached a point where it has significant leeway to fight any downturn in economic activity. It can justifiably take a balanced approach to its dual mandate, with employment as crucial as inflation.

Consumer Sentiment

As of December 2024, the University of Michigan's preliminary Consumer Sentiment Index rose to 74.0, marking the highest level since April and the fifth consecutive monthly gain.[5] The US consumer feels good about the future, which will likely increase further as asset price appreciation fuels consumer confidence.

University of Michigan Consumer Sentiment



Source: St. Louis Fed, University of Michigan

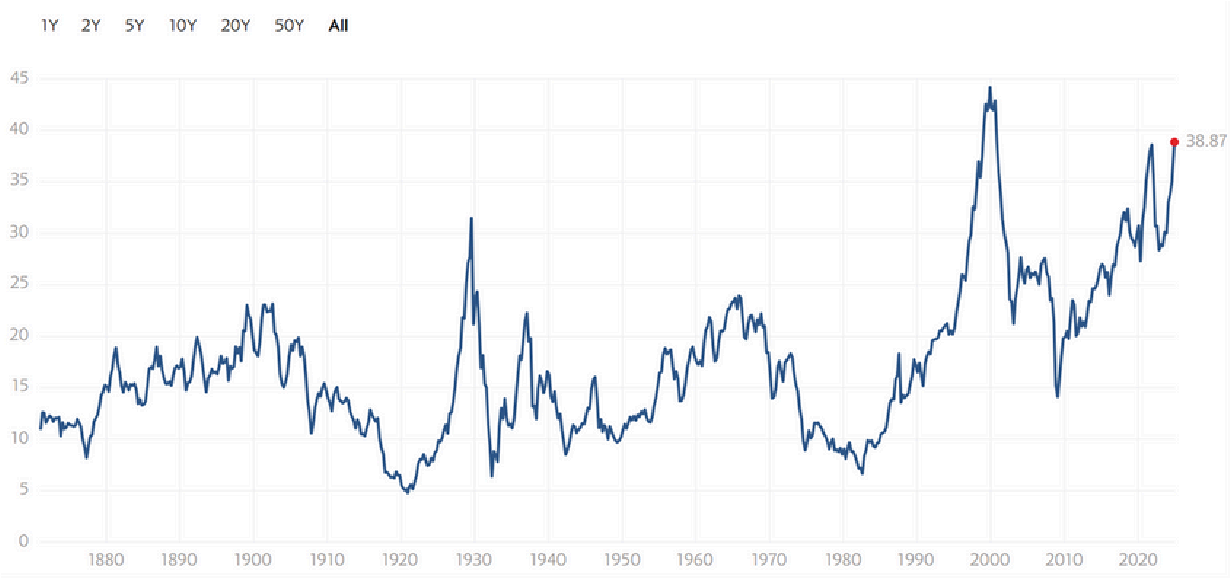
US Exceptionalism

US exceptionalism refers to the unique qualities that position the US as a dominant global economic force. Rooted in its robust democratic institutions, entrepreneurial spirit, and innovative capacity, the US excels in fostering technological breakthroughs, leading industries, and attracting global talent. Its financial markets, particularly the dominance of the US dollar as the world's reserve currency, underpin international trade and investment. Its military power and strategic alliances amplify the country's geopolitical influence. While doubts may exist over the health of US politics or the US's ability to influence geopolitical tensions positively, the US's ability to attract capital is unquestionable, and global investors are undeterred by the current valuations. The US is seen as having the balance right between free market economic principles (unlike Europe, where regulations hamstring companies) and robust legal institutions such as the US Federal Reserve or SEC (unlike emerging markets, where corrupt or misguided institutions can lead to a lack of investor protections). The US's ability to foster innovation and lead technological development is unmatched. The US is home to the world's most valuable and influential technology companies, such as Apple, Nvidia, Microsoft, Alphabet (Google), Amazon and Meta (Facebook), which have transformed industries and driven significant growth, productivity, and profitability gains. For context, Apple is around the same size as the entire Eurostoxx 50 (c.USD 3.5 trillion), while Microsoft is approximately equal to the FTSE 100 (c.USD 3.0 trillion). The US tech sector has fostered a whole ecosystem of research institutions, venture capital, and a culture that rewards risk taking, making the US a global hub for technological advancement. Even success stories in European tech have eventually lost out to the US, with Spotify listing in the US in 2018 and Klarna looking to follow suit. In a recent report on European competitiveness, Mario Draghi, the former president of the European Central Bank, pointed out that of 147 unicorns founded in Europe over the past 15 years, forty had moved their headquarters abroad.[6]

Reasons for caution: Mr Buffet; Cyclically adjusted price-earnings ratio; Budget deficit

As we enter 2025, US equity and credit markets are at their highest valuations in decades; some might say most stretched valuations. By way of example, the 274 basis point spread on high yield bonds over US treasuries is historically tight, leaving limited room for further compression. The S&P 500 trades at a Shiller Cyclically Adjusted Price Earnings ratio ("CAPE") of 38.6x,[7] higher than in December 2021, when it reached 38.31. The only time the S&P 500 had a higher valuation multiple was at the turn of the millennium.

Shiller Cyclically Adjusted Price Earnings ("CAPE") ratio



Source: www.multlp.com/shiller-pe

Warren Buffet has a preferred rule of thumb for an overvalued stock market. Buffet believes the stock market is overvalued when the market capitalisation of domestic stocks is higher than the economy's GDP. The logic behind Buffett's Indicator is that the stock market's total value should align with the economy's size, as GDP reflects the overall economic activity and output that underpins corporate earnings. Mr. Buffet made this point at the height of the tech bubble when the total US stock market capitalism was 1.5x US GDP. Today, the total US stock market capitalism is 2.1x US GDP. Mr. Buffet has put his money where his mouth is. In Q3 2024, Berkshire's cash pile reached a new record of USD 277 billion after he sold stock, including Apple. Relatively speaking, the US valuations are high. For instance, Japan trades on a CAPE ratio of 21, Germany on 20, the UK on 15.5, and China on 11.0. Unsurprisingly, the US makes up 72% of global developed market equities. Expensive markets alone are not a catalyst for a correction. Historical precedents, such as the mid 1990s, show that spreads and valuations can remain elevated for prolonged periods, especially when supported by strong growth and accommodative monetary policies.

There also exist longer term fiscal risks. In fiscal year 2023, the US budget deficit reached approximately USD 1.7 trillion, equivalent to 6.3% of the Gross Domestic Product (GDP). President Trump's economic agenda includes extending the 2017 tax cuts. Other proposals include eliminating income taxes on tips, overtime, and pension benefits and reducing corporate taxes for domestic manufacturers. The administration has proposed a 12% increase in defence spending, nearly USD 900 billion. President Trump plans to modernise the US's infrastructure to stimulate economic growth. These will also increase federal spending. To be sure, President Trump's policies will boost short term growth. In the longer term, the fiscal deficit will likely increase when the current stock of low interest debt is rolled over at higher interest rates, and the US government's interest expense increases.

We do not believe that the US can continue to run its national accounts as it currently does. This is not a point of contention against the Republican Party or President Trump. We previously wrote that neither US party was willing to address the rising debt burden as it barely featured in either Presidential debate.

We are also concerned with Trump's potential trade policies, including higher tariffs. If carried through, these could significantly disrupt global trade flows, particularly between the US and China. For now, we believe that Trump is setting out his initial negotiation position, and the final position will be significantly watered down from today's rhetoric. These risks, while substantial, are unlikely to derail markets in the short term but warrant close monitoring.

Market Implications

In December 2023's letter, we wrote, "We continue to reiterate our belief that we are in the early stages of an equity bull market, which will be supported by an economic environment of recovering economic growth, disinflation and falling interest rates."

This has borne out as expected, and the outlook has not changed much. Disinflation was on trend all year. Economic growth was better than expected. Interest rates did not fall as fast as anticipated, and therein lies some potential for US economic expansion to accelerate, in addition to tailwinds from President Trump's policies.

We still believe there are plenty of tailwinds to sustain the rally and potentially accelerate US economic expansion. Falling interest rates will boost global liquidity and support the price of risk assets. So far, we have seen the strongest performance in high growth assets, but this liquidity will flow down to cyclical and value stocks as people shy away from highly, highly valued assets.

The wall of liquidity will shore up bond prices, just like equities, and feed its way into emerging markets. Rarely do the economic stars align so completely.

Since July, the oil price has declined 17%, and in each of the past five months, OPEC has revised down its demand forecasts for 2024 and 2025, mainly due to weaker demand from China. The picture for oil prices in 2025 looks tricky due to the prospect of growing US output and the eventual restart of halted production by Opec+ from April onwards.

The post election rally underscores the US market as the star attraction at present. While valuations are high and long term risks persist, the near term outlook remains favourable, supported by a pro growth political agenda, strong economic fundamentals, and central bank flexibility. So, for now, it is risk-on, with a keen eye for potential catalysts for reversal.

Conor Spencer
15 December, 2024

Source Data: ICM, Bloomberg as of 30 November, 2024.

[1] Going Infinite. A book by Michael Lewis gives an excellent insight into the collapse of FTX.
[2] https://www.wsj.com/politics/policy/who-is-chris-wright-trump-energy-secretary-9eb617dc
[3] https://www.ishares.com/us/products/239637/ishares-msci-emerging-markets-etf
[4] https://www.goldmansachs.com/images/insights/2025-outlooks/Tailwinds-Probably-Trump-Tariffs.pdf
[5] https://www.marketwatch.com/story/consumer-sentiment-rises-in-december-so-do-inflation-concerns-81a92112
[6] https://www.ft.com/content/a4488d86-c60d-4236-8531-b47b61135478
[7] https://www.multpl.com/shiller-pe