

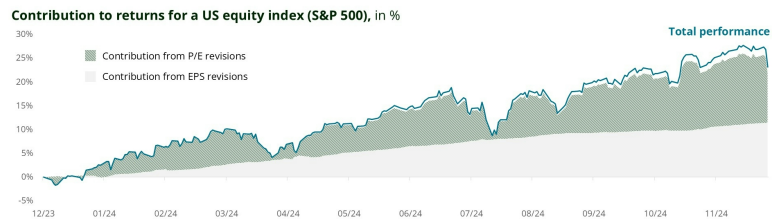
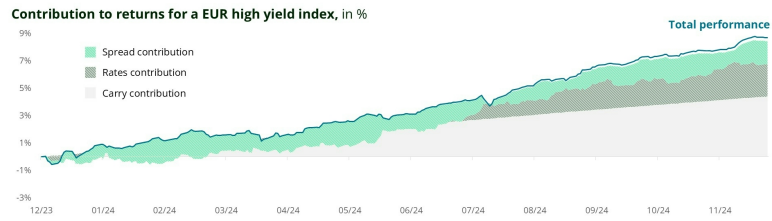
2024 RECAP: 10 FACTS THAT TELL A STORY

Carmignac's Note

30/12/2024 | KEVIN THOZET

- 1. The great election year:** 40% of the world's population - representing 60% of global GDP – cast a ballot. Across the 70 countries that went to the polls, 80% of incumbent governments were overthrown by the global populist wave¹.
- 2. Divergence and convergence:** We saw both divergence in economic cycles across the world (the US economy barely slowed, the European economy faltered and China recorded significant trade surpluses) and convergence in deficit persistence (for the US, France, Brazil, and the UK).
- 3. Dovish disposition:** The long-awaited cutting cycle finally started. Out of 115 central banks globally, 74 leaned towards easing and lowered interest rates at their most recent policy meetings².
- 4. Yield curve steeping:** A synchronised global easing cycle in a benign growth environment, where disinflation has halted for more than a quarter, has led to steepening yield curves in most developed markets. This is likely reinforced by the growing prospect of significant government bond issuances.
- 5. US equities' record year of two halves:** The first six months of the year saw mega caps driving market returns, while the second half saw a broadening of performance drivers helping propel US outperformance. Put in other words, Nvidia returned 150% over the first semester but less than 10% over the second half, in contrast, United Airlines, returned less than 10% in H1 and was up 100% in H2.
- 6. Europe and EM equities struggle:** The equity market rotation has been witnessed within the US but not outside of US equity markets, for now. The S&P 500 is on track to record its second-best performance in 25 years, with valuations standing at 25 times earnings while Europe and emerging market equities, at 14 times³, are stuck at the low end of their historical valuation range. The yearly outperformance of US equities compared to the rest of the world has never been so significant, at more than 22% this year.
- 7. Risk appetite climbs:** In spreads markets, high-beta assets⁴ have outperformed, with high-yield corporate bonds, subordinated financials, and emerging markets corporates delivering approximately 10% returns in EUR terms. This performance was driven by a combination of attractive carry and pronounced risk appetite, which helped offset the adverse impact of rate volatility and the increase in default rates (averaging 5% in global high-yield markets⁵).
- 8. Valuations up across the board:** Valuations have increased across asset classes, most notably in the US, where credit spreads for both investment grade and high yield are at 10-year lows, and the S&P 500 earnings yield is below that of US government bonds⁵.
- 9. Well-behaved commodities markets:** Oil remained somewhat flat and copper is up (+5% for the red metal) despite subdued Chinese growth. The geopolitical premium was also seen in gold prices, which increased by 30%⁵.
- 10. Alternative portfolio diversifiers prove popular:** In a year where the correlation between equity and bond prices remained largely positive, portfolio diversifiers such as precious metals, Bitcoin, and the Swiss Franc were sought after. All are trading at, or close, to all-time highs.

The chart below deconstructs the performance drivers (and detractors) of US equity markets and European high yield markets.



Source: Carmignac, Bloomberg, 18/12/2024.

EPS: Earnings per share for the next 12 months. It is calculated using analysts' consensus earnings estimates for the current and next fiscal year. **P/E:** The Price-to-Earnings ratio is a financial metric used to assess dividing a company's share price by its earnings per share.

¹Source: International IDEA, December 2024.

²Source: Bloomberg, December 2024.

³Based on Price-to-Earnings ratio as at 19/12/2024.

⁴High beta assets refer to financial instruments that exhibit higher volatility and sensitivity to market movements. These assets typically offer the potential for higher returns but also come with increased risk.

⁵Source: Bloomberg, December 2024.

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