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FischView Special
Asset Class Outlook 2025

December 2024

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Dr. Torsten von Bartenwerffer
CEO

Foreword

Dear readers

2024 was an eventful year in many respects. The turnaround in interest rates by the central banks and, most recently, the US election kept financial markets in suspense. For our company, it was a year in which we celebrated our 30th anniversary, but also one of renewal and realignment. We are delighted that we have been able to recruit further experienced and talented portfolio managers and employees for our core business.

Another major step has been the expansion of our relationship management team, and we have added further high-calibre individuals to the Board of Directors. I myself have been CEO of the company for around a year now. Our top priority remains to deliver first-class support and investment strategies to our clients through our highly qualified team.

Our portfolio managers are fundamentally optimistic about 2025. One thing is certain: Quality and a strong investment process lead to outperformance in the long term.

We remain true to this principle.

We would like to thank you for your trust and cooperation over the past year and look forward to continuing to support you with our commitment and expertise in 2025.

Dr. Torsten von Bartenwerffer
CEO

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Chief Investment Officer

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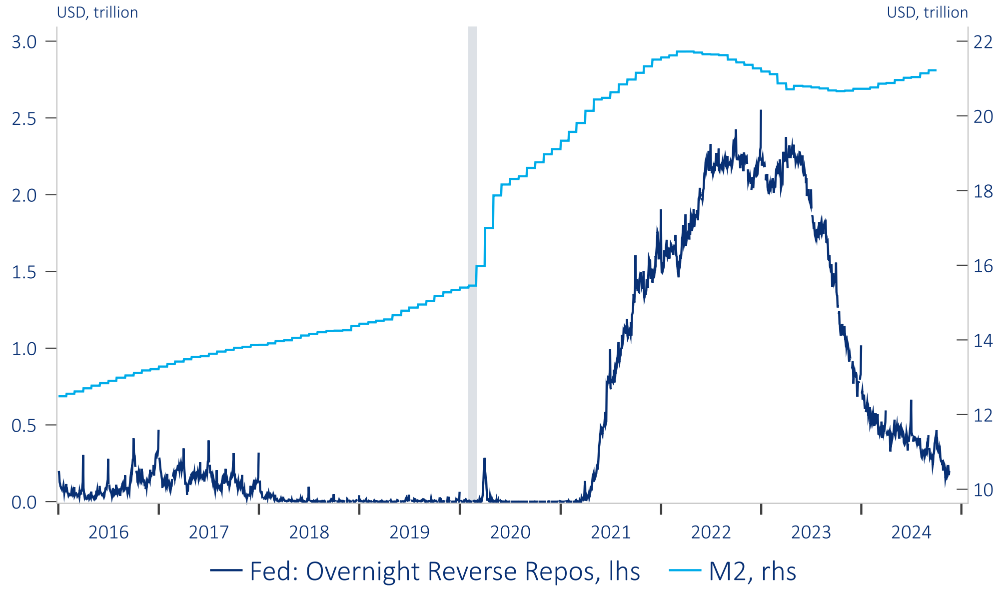
Sustained tailwinds

- Following the US presidential election, an extraordinarily high consensus has emerged regarding economic and market expectations. Based on Trump's announcements to date, solid economic growth and therefore strong stock markets, a strong US dollar, a higher government deficit and correspondingly higher long-term yields are expected for the US.
- However, high consensus expectations are typically already priced into financial markets. Only a few new developments that deviate from the consensus would be enough to throw prices off their expected trends.
- The Fed is also likely to contribute to the failure of consensus expectations. If the economy were to become (too) strong, and inflation and long-term government bond yields were to rise at the same time, the Fed would be forced to take decisive action.
- Consensus expectations are therefore likely to be achieved only temporarily, and medium-term deviations are probable. After a further temporary rise in equity markets, inflation and long-term yields, we therefore expect a slowdown over the course of the year due to falling liquidity momentum in the system. This should give rise to interesting opportunities in corporate and convertible bonds.

Recent developments: Liquidity supply is being curbed

- Liquidity is the main driver of equity and credit markets. In contrast, the current moderate weakening of the US economy is only indirectly relevant for equity markets. The economy lags behind the stock markets and is therefore not a leading indicator.
- The supply of liquidity to global financial markets is currently weakening. On the one hand, the Fed, the ECB and other central banks are continuing to reduce their balance sheets (by selling government bonds). This effect is not fully offset by the simultaneous reduction in key interest rates. In addition, no further liquidity is flowing into financial markets from the overnight reverse repo facility. This means that a dominant source of liquidity over the past 18 months is drying up. On the other hand, China continues to face the threat of a deflationary spiral, despite the stimulus measures taken to date by the government and the Chinese central bank. This is also reducing liquidity in the global system.
- However, there are always strong delaying effects until there is a decline in the money supply that becomes relevant for stock markets. Financial markets are still a long way from a critical situation in this respect, as the M2 money supply in particular has been rising again slightly for some time in both the US and the eurozone. Commercial banks are also contributing to this with their massive purchases of T-bills. As a result, the central banks' efforts to curb inflation are still being partially offset.

Chart: Liquidity inflow decreasing – but money supply still rising



Sources: New York Fed, Fed, Fisch Asset Management

- However, an increase in M2 has historically practically always led to an increase in inflation and thus to upward pressure on long-term yields. The rise in gold and Bitcoin prices to all-time highs confirms warning signs in this regard.
- The US presidential election, Donald Trump's decisions and the associated market expectations are unlikely to have any significant direct impact on the purely monetary-driven stock market and interest rate roadmap outlined above. However, there may be temporary interferences.

Macro outlook for 2025: Sustained tailwinds

» The upward pressure on long-term government bond yields is likely to increase.

» In the event of an economic slowdown, solid debtor credit ratings are essential.

- As the global supply of liquidity to financial markets is still more than sufficient at the moment, despite the curbs, we expect monetary tailwinds for the equity and credit markets to continue at the beginning of next year.
- However, this environment also promotes a renewed rise in inflation rates and thus generates upward pressure on long-term government bond yields. This pressure is likely to be intensified by further key interest rate cuts by central banks and rising government debt in many developed countries. In addition, the falling supply of liquidity is likely to feed through to the money supply relevant to the stock market with the usual delay of three to six months. As a result, the monetary tailwind for markets as a whole would turn into a headwind.
- Rising long-term yields in various countries are already a disruptive factor for stock markets. Many positive expectations are priced in, which can lead to temporary disappointments and increased volatility at any time. Nevertheless, the current trends are still intact for the time being and concrete signals indicating a reduction in risk in portfolios should be awaited.
- These signals would be, first, a decline in the currently still rising M2 money supply, which is also a good indicator for the further development of inflation. Second, a rise in the Japanese yen against the US dollar as a harbinger of global capital flows back to Japan, and thus falling financial market liquidity. And third, a rise in 10-year US government bond yields to around 5.25%.
- As soon as one or more of these risk reduction signals are triggered, the economic slowdown risk increases, which has a dampening effect on both inflation and yields. The equity risk should then be significantly reduced and the duration increased. Both corporate and convertible bonds (which exhibit asymmetric price behaviour) perform better than equities in such stress scenarios. In this context, solid debtor credit ratings are essential. In turn, gold, Bitcoin and the US dollar are likely to weaken.
- In addition, if government bond yields rise into the 5.25% range, central banks (especially the Fed) are likely to intervene to dampen the rise in yields at the long end (via government bond purchases) and at the same time combat inflation by raising interest rates at the short end of the yield curve. Such a simultaneous combination of a monetary expansionary measure (government bond purchases) and a restrictive measure (increase in short-term interest rates) is known as 'Operation Twist'. On balance, it is neutral in terms of monetary policy and has already been used by the Fed on various occasions.
- Such a rise in yields would in turn force the US government under Donald Trump to adjust its policy programme. Fewer tax cuts and lower government spending than planned would be conceivable here in order to reduce the deficit and thus dampen the rise in yields. Overall, this would be painful for economic growth in the short term, but very sustainable in the long term. It would also allow the Fed to cut interest rates and boost the economy and private investment overall.
- This would also reduce the US economy's high dependence on private consumption and correct further excesses.

- The latter scenario would be another reason why the market expectations (consensus) mentioned at the outset will not be realised, and why there could even be a marked slowdown, albeit accompanied by falling inflation and lower yields. In this case, the starting point for a subsequent upturn would be extremely promising.

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Outlook 2025: Convertible Bonds

Positive green shoots are emerging, led by a sharp rebound in issuance volumes

— In recent years, the disproportionate outperformance of global stock indices has pushed convertible bonds into the background for many investors. However, the dynamics are shifting: The opportunity set for convertible bond (CB) investors is expanding, driven by increased issuance and the promising growth potential of issuers compared to the broader market. Combined with increased stock market volatility, there is every reason to expect a reversal of the unfavourable trend, positioning CBs as an increasingly compelling choice for investors in 2025.

— **In uncertain times, staying invested beats timing the market:** We see good prospects for CBs to shine through in volatile markets. In a recent study, we found that roughly half of the returns of global stocks in the past 30 years were generated in the most volatile months. Stock market volatility is like a sudden headache: unpredictable and disruptive, but transitory – until it strikes again.

— Interestingly, despite corporate earnings and market uncertainties stemming from geopolitical tensions, election results and unstable economic data, we have been experiencing relatively low market volatility this year. This creates a compelling window of opportunity for investors seeking diversification and downside mitigation via CBs without staying away from equity markets.

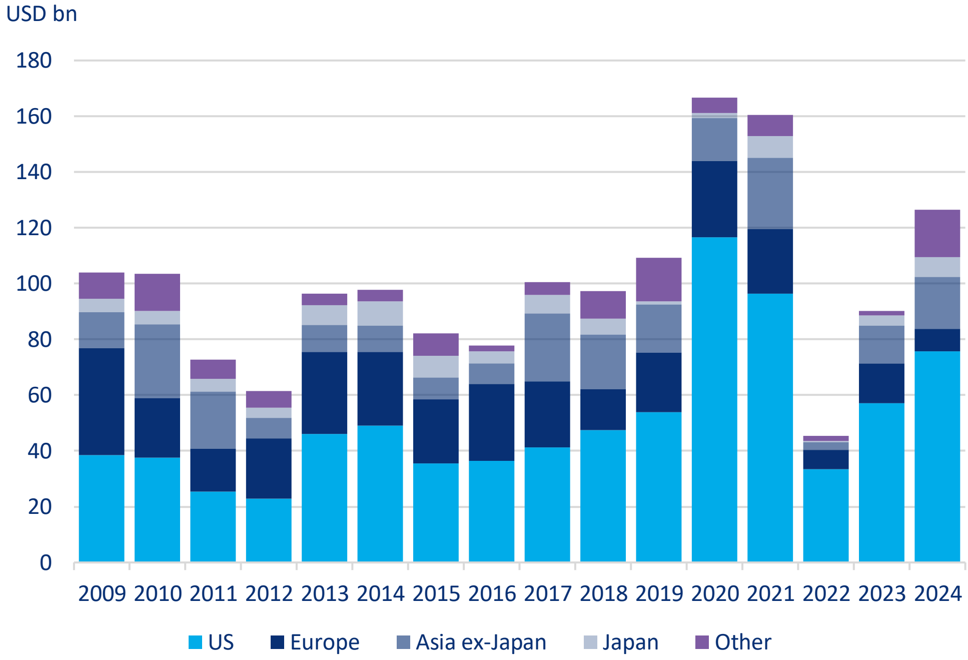
— **Thematic tilt provides capital appreciation potential for CBs:** Recent emerging growth themes, such as innovative developments in healthcare or artificial intelligence provide some insulation against broader cyclical downturns. Artificial intelligence, for example, stands out as one of the most disruptive catalysts to future performance. We expect large scale spending on AI systems to continue through 2025, benefiting the broader AI ecosystem, including specific semiconductor manufacturers and other enablers.

— However, growth stocks are known for their tendency to overreact to short-term changes in market sentiment, often resulting in increased volatility, which makes CBs a compelling investment to benefit from such themes in 2025 and beyond.

— **Convexity: When you need it, it may be already too late:** Convertible bonds' built-in convexity (gain from rising stock prices, while mitigating drawdowns through the fixed income features of bonds) enables investors to retain exposure to secular growth, while shielding themselves from some of the inherent volatility of those stocks.

— **Strong 2024 issuance levels set the stage for 2025:** The primary market is the lifeblood of convertible bonds, and 2024 has marked a resurgence in issuance, making it one of the most active years. Increased issuance activity benefits investors by broadening the investment universe across sectors and regions, and creates more alpha opportunities for active management. New issues typically come with cheaper valuations and often offer better convexity, which improves risk-adjusted performance. Looking ahead to 2025, we anticipate the positive issuance momentum to continue, driven by several key factors: refinancing needs, persistently high interest costs, and a continued revival in mergers and acquisitions (M&A) activity.

Chart: Strong recovery of new issuance volumes in 2024



Source: LSEG

» M&A should unlock additional return potential via takeover clauses.

- **Trumponomics 2.0 – the return of M&A:** For the convertible bond market, M&A boosts issuance but also returns, as many CBs come with valuable clauses for additional shares upon such conversion. M&A activity has been gaining traction after a prolonged lull, with EY-Parthenon projecting a 20% increase in US deal volume this year compared to last. Pro-business policies associated with President Trump's administration could further accelerate M&A activity. This underscores a positive outlook for the convertible bond market, offering investors additional ways to capture value in a dynamic market environment.
- **Attractive valuations:** Primary and secondary CB option valuations remain attractive. Outflows from long-only asset managers in recent years, coupled with new issuance, have led to a cheapening of the CB market in terms of implied volatilities, attracting arbitrage-focused hedge funds. The current balance between hedge funds and long-only investors is approximately 50/50 – a sweet spot that offers more attractive valuations of new issues without the excessive leverage that existed prior to the Great Financial Crisis. This balance contributes to a more stable overall market.
- **Conclusion:** CBs are well positioned to deliver strong risk-adjusted returns for investors seeking growth potential with a buffer against volatility. On one hand, issuance from companies benefitting from secular growth trends and themes should be good for overall returns. On the other hand, an otherwise uncertain and volatile stock market should also mean convertibles deliver better risk-adjusted returns relative to stocks. Our portfolios reflect our strong conviction in convertible bonds with idiosyncratic growth drivers, and exposure to secular themes. At the same time, we are avoiding credit-sensitive CBs from the most speculative issuers.

Oliver Reinhard
Head Developed Markets

Matthias Busuttil
Portfolio Manager

Outlook 2025: Investment Grade Corporate Bonds

IG corporates offer increased return potential in absolute and relative terms

- **Current asset class profile:** The risk/return ratio for global corporate bonds has improved significantly over the last two years. On the one hand, the duration declined significantly since 2021, while yields rose to very attractive levels compared to the last decade. Investors currently have the rare opportunity to secure an attractive yield for several years with a very low probability of default (historically, this is 0.01% according to Moody's Investors Service, 2024).
- The yield is currently also respectable compared to other asset classes – including equities. The current yield-to-worst of USD investment-grade bonds has been higher than the earnings yield (E/P) of the S&P 500 Index for some time.
- **Credit quality:** Looking ahead to 2025, the focus will be on credit quality in addition to the currently attractive yield levels. Uncertainties are trending upwards globally, questioning the strength of the positive economic environment. A 'health check' of the global credit market is therefore required.
- As far as investment grade quality is concerned, the starting position for the coming years makes us confident. Although many issuers have been upgraded from high yield to investment grade by the rating agencies in recent years, the proportion of companies rated BBB- within the IG segment has shrunk in favour of higher ratings. The proportion of these companies with the weakest ratings is currently at its lowest level since 2009.

» Debt and interest coverage ratios confirm the fundamental health of the universe.

- **Corporate balance sheets:** On closer inspection, this structure is also reflected in the balance sheet quality in the investment universe. The latest figures on debt leverage and interest coverage ratios confirm the fundamental health of the market as a whole. The trend in gross leverage has even improved slightly in recent quarters (USD-IG market), which is mainly due to good earnings results. Interest coverage ratios may improve further in 2025 as interest rates gradually decline.
- A comparison with the government bond markets is also interesting, as corporates have clearly sought to reign in spending in favour of balance sheet strength. While government bond markets are coming under increasing pressure from the rating agencies (e.g. China, France and the US), the credit markets continue to benefit from upgrades.
- **Valuations:** We currently classify the valuations of risk markets such as equities, but also credit spreads, as fair leaning towards expensive. Having said that, the underlying balance sheet strength and improved credit quality as well as the lower duration of the universe continue to support valuation levels in the current range.
- **Spread/rates correlation:** From a yield perspective, however, it is not just the current level of credit spreads that is important; the correlation of spreads to the interest rate markets is much more important. In a functioning market, as we currently observe, the negative correlation on a multi-week horizon supports better risk-adjusted performance, since the total return of corporate bonds consists of both the rates and credit spread components.

— **Risks:** In view of the valuations, a close look at the risks is essential. Investors' low tolerance for weak quarterly results or profit warnings is leading to more pronounced repricing in the current environment than usual. In addition, there are individual sectors and companies that are currently under pressure and struggling with falling margins. We therefore expect to see more companies with deteriorating credit quality in 2025, which could potentially face rating downgrades from investment grade to high yield. However, this relates to individual cases and company-specific mistakes.

— The active management of the segment and the fundamental credit assessment are crucial and imperative. Due to the increase in the volume of passive investment vehicles, failures by individual issuers on an index basis can lead to major corrections, which can be avoided by active managers.

Table: Scenario analysis for 12-month total returns in USD hedged

Total Return Expectation (USD Hedged)			Spread Evolution (Global IG Corporates)								
			-40 Bp.	-30 Bp.	-20 Bp.	-10 Bp.	0	+10 Bp.	+20 Bp.	+30 Bp.	+40 Bp.
			45	**55**	**65**	**75**	**85**	**95**	**105**	**115**	**125**
Interest Rate Evolution (Index Base)	**-73 Bp.**	**3.50%**	11.2%	10.7%	10.1%	9.6%	9.0%	8.5%	7.9%	7.4%	6.8%
	-48 Bp.	**3.75%**	9.9%	9.3%	8.8%	8.2%	7.7%	7.1%	6.6%	6.0%	5.5%
	-23 Bp.	**4.00%**	8.5%	8.0%	7.4%	6.9%	6.3%	5.8%	5.2%	4.7%	4.1%
	0 Bp.	**4.23%**	7.3%	6.7%	6.2%	5.6%	5.1%	4.5%	4.0%	3.4%	2.9%
	27 Bp.	**4.50%**	5.8%	5.3%	4.7%	4.2%	3.6%	3.1%	2.5%	2.0%	1.4%
	52 Bp.	**4.75%**	4.5%	3.9%	3.4%	2.8%	2.3%	1.7%	1.2%	0.6%	0.1%
	77 Bp.	**5.00%**	3.1%	2.6%	2.0%	1.5%	0.9%	0.4%	-0.2%	-0.7%	-1.3%

Source: Bloomberg Index Services Limited, JP Morgan Securities LLC, ICE Data Indices, Fisch Asset Management; (based on Index as at 19/11/2024)

» Rate increases as seen in October immediately lead to higher inflows into IG bonds.

— **Market technicals:** Demand for IG corporate bonds is currently extremely high and there are few signs of a change in the strongly positive cash inflows. In addition, both the USD and EUR yield curves could steepen further in the coming year – as was already the case in 2024. This would make short-term investment vehicles, such as money markets, less attractive in relative terms, meaning that even more investors would want to benefit from the steepening of yield curves and therefore rotate into longer-duration alternatives. We are already observing that interest rate rises, such as those in October, immediately lead to higher inflows into IG bonds.

— **Primary market:** The supply of new issues is much more difficult to assess. However, many investment banks expect a similarly high net supply (issues after maturities, amortisations and coupon payments) as in 2024. However, due to the maturities per sector, we expect significantly more new issues in the industrial sector in 2025 compared to financials. That said, many issuers have already addressed their upcoming maturities in 2024.

- **Return expectations:** For 2025, we expect returns in line with current yield levels. The higher level of interest rates gives central banks plenty of room for manoeuvre and puts them in a comfortable starting position. Should global growth momentum and inflation decline, lower interest rates could have an additional positive effect on returns. If the current market situation (end of November 2024) remains unchanged, investors can benefit from the continued favourable all-in yields.

» Focus on broad diversification and potential for rating upgrades.

- **Positioning:** We believe that a certain degree of caution is warranted with regard to beta, given current valuations. We recommend aiming for a high level of diversification within IG portfolios and focussing on companies that could benefit from further rating upgrades. We favour corporate bonds from the financials, telecoms and media sectors and also invest in subordinated bonds from high-quality borrowers as an additional source of returns.
- In our view, the preference for currencies and maturities must be managed dynamically and an assessment for the whole of 2025 would fail to adequately account for current developments. Due to the volatile political events and economic dynamics in the developed countries, we currently favour US issuers over European issuers.

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Senior Portfolio Manager

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Senior Portfolio Manager

Outlook 2025: High Yield Corporate Bonds

Stable fundamentals and strong technicals at a still attractive yield

— The global high yield bond market is on track for a strong 2024 performance. Assuming no hiccups, it will have finished 12 out of the last 15 years with a total return gain. This provides a sense of the stability and resilience of the asset class.

— Given our macroeconomic view of solid growth, in particular in the US, and supportive central banks, we believe that a globally diversified portfolio of high yield bonds offers the potential for attractive returns in 2025 as well.

— A good starting point for future returns is the yield of ca.7% and spreads of 300 basis points (bps) as at 30/11/2024 (as measured by the option-adjusted spread of the ICE BofA Global High Yield Index over government bonds). Given the stable underlying fundamental data of the issuer base and absent major economic shocks, we expect that a solid return of 6-8% in USD could be achievable in 2025.

— **Fundamentals:** Issuer fundamentals in the global high yield universe remain in good shape. The most relevant companies in Europe and the US on average have leverage ratios (as measured by net debt/EBITDA) of around 4x. Interest coverage ratios (EBITDA/interest expenses) have declined a bit, reflecting the increase in financing costs over the last 2 years but are still at around 4-4.5x, comfortably above the long-term averages (source: BofA).

— Digging deeper into sector levels, there are obviously different developments – difficulties in the auto sector, for example, in contrast to the prospering leisure/travel companies. However, in aggregate the companies are in good shape. The corporate sector is performing well, and earnings are growing year-over-year not only in the US but also in Europe as demonstrated during the latest Q3 earnings period.

» The already low default rates are likely to decline further in 2025.

— **Default rates:** These comparably sound balance sheets are also reflected in the default rate. For the last 12 months it is estimated to be ca. 1.4% in US HY and 2.8% in EUR HY (source: BofA). This is below the long-term average of 4%. Importantly, this already benign number is expected to drop even further in 2025. A good early indicator for future default rates is the amount of bonds trading at distressed levels. This is defined as bonds trading at a spread of at least 1000 bps above the comparable government bond. Currently the amount of distressed bonds in the global index is low at less than 3%.

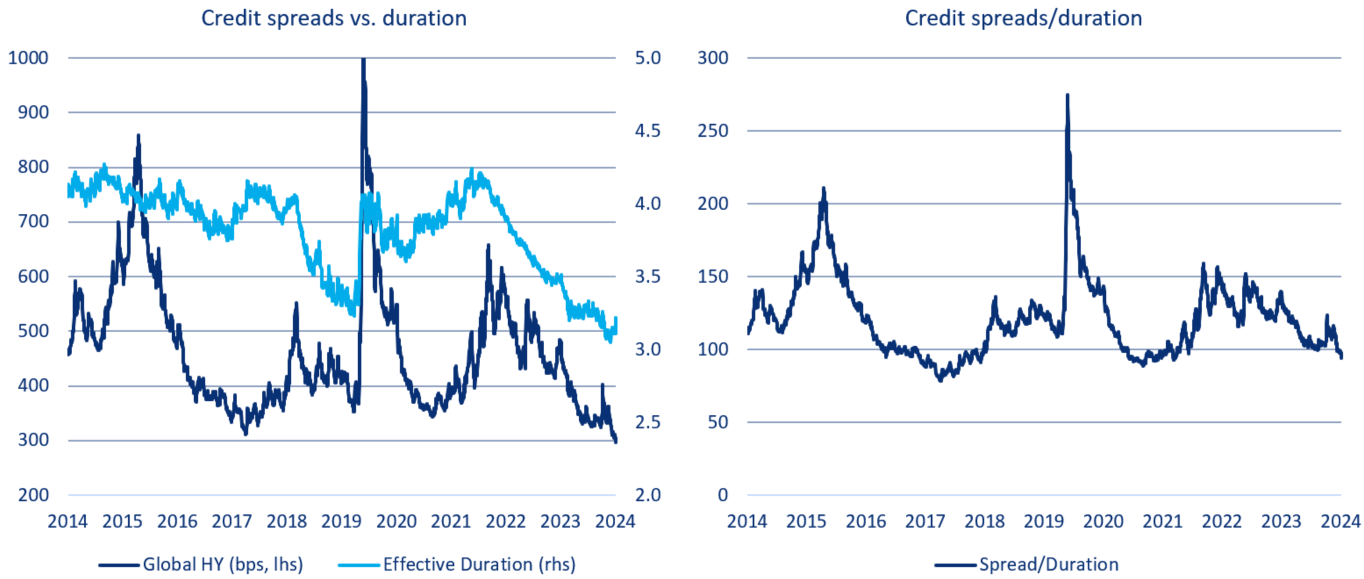
— **Technicals are also supportive.** The size of the global high yield market has been shrinking over the last 2 years, mainly due to Rising Stars leaving the high yield market and moving into the investment grade segment as a result of ratings upgrades. The number of new entrants, however, has been smaller, given the lack of Fallen Angels and the scarcity of LBO activity due to the relatively high financing costs. On the other hand, fund flows into the asset class, an estimate for allocators' interest in the asset class, are currently strong after weaker years from 2022-2023, reflecting the positive environment for high yield. As a result, the supply/demand picture is supportive for bond prices.

» Over the long term, high yield spreads are not as low as they appear.

— **Valuations** reflect the relatively sound fundamentals and supportive technical factors. Spreads over government bonds have reached ambitious levels. Valuations are similarly demanding as in equities or other credit areas, such as investment grade. However, there are a few factors to consider, which show that spreads in the historical context are not as tight as they appear. Over recent years, the quality of the HY market as measured by ratings has improved. For instance, the portion of the highest rating category, BB-rated bonds, is 60% today, while it was just 40% back in 2007. On the flipside, the portion of the riskiest category, the CCCs, was 16% back then and stands at 9.5% today. Based on this, we would argue that the broad market is less risky today and spreads are still wider.

— **Duration:** In addition, the duration of the global high yield market has shortened significantly over recent years. Today, the effective duration is 3.2 years, while it was 4.0 years in 2021. Given spread curves are usually positively sloped, the lower spread levels today are justified to a certain degree by the shorter market duration. Adjusted for the shorter duration, spreads are in a similar context as they were for long periods in recent years. Therefore, we see current spread levels as fair and a reflection of the stable fundamentals.

Chart: Credit spreads remain fair relative to duration



Source: BofA Global Research, ICE Data Indices

— **Positioning:** We would expect higher-quality high yield to perform well even in a recessionary environment, given the solid fundamentals. Therefore, we remain slightly defensively positioned and prefer higher over lower quality. At the sector level, we are currently overweight capital goods and basic industries, while we are underweight sectors such as transportation, technology and financial services. Finally, we prefer euro-denominated bonds to USD due to more attractive valuations.

— **Summary:** We expect the drivers of a strong 2024 to carry over into 2025, which should allow for returns close to the current market yield of 7%. While we do not expect a recession, certain risks could arise, in particular political intervention affecting certain sectors and/or geopolitical tensions. Given the still relatively high rates, central banks are well equipped to support the economies globally.

Outlook 2025: Emerging Market Corporate Bonds

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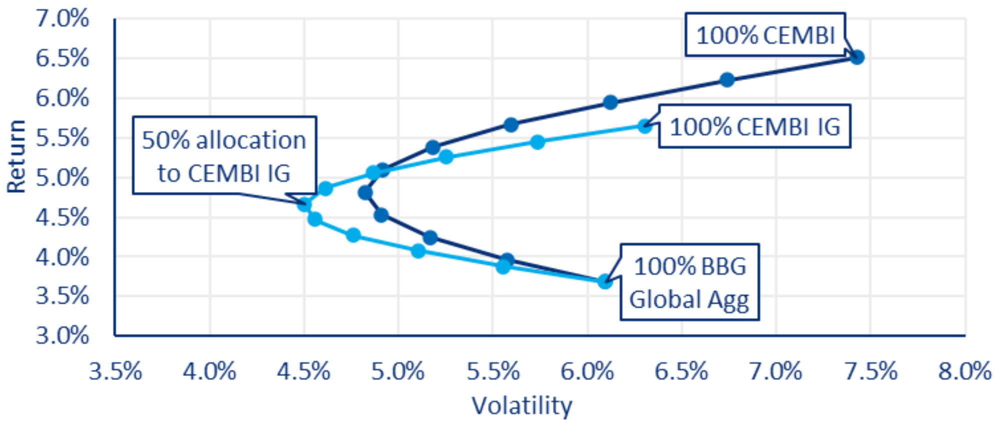
Rates and Carry 3.0

— Over the last decade, emerging market (EM) corporate bonds have evolved into a stable and established asset class. They increasingly benefit from diversified sources of financing and a balanced sector distribution, offering risk-adjusted returns (calculated since 2010) with a Sharpe ratio of 0.8.

— Chart 1 shows how adding diversification through EM corporates (JP Morgan CEMBI IG Index) to a portfolio of global bonds (Bloomberg Barclays Global Aggregate Index) leads to better risk-adjusted portfolio returns.

Chart 1: The addition of EM corporates improves risk-adjusted returns



Source: Bloomberg, JP Morgan, Fisch Asset Management, based on monthly data 2002-2024

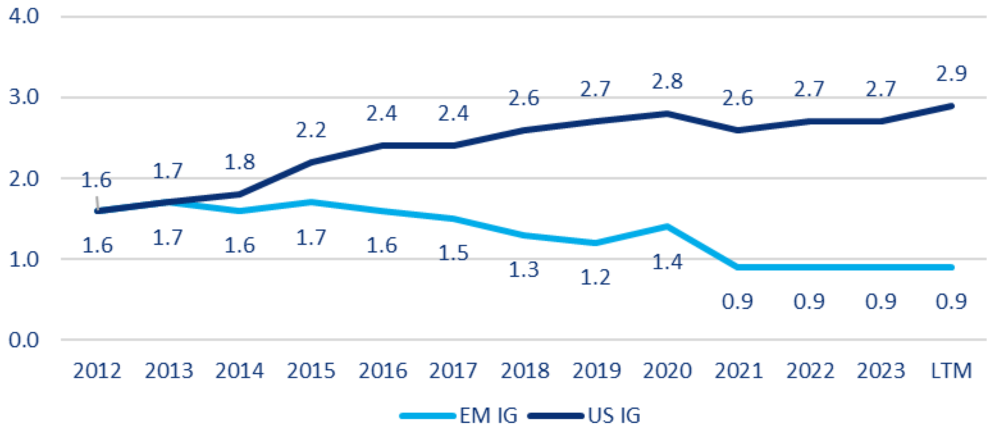
» Emerging markets' fundamentals are encouraging.

— **Fundamentals:** Credit metrics remain extraordinarily healthy with net debt ratios of 0.9x for IG issuers (see chart 2) and 2.4x for HY issuers. This is reflected in low default rates, which are expected at 2.7% in 2025, below the long-term average of 4.4%. Despite several years of clean-up work, issuers in the property sector in Asia are once again facing the prospect of having to restructure. In Europe and Latin America, it is individual companies that have run into liquidity problems. No sector-specific or new country-specific problems are emerging. We expect stable balance sheets in the current environment: Sales and EBITDA growth offset higher coupons for refinancing or new financing, and in some cases weaker local currencies.

— **Macro environment:** The IMF forecasts growth rates of 4.2% for emerging markets and 1.8% for developed nations in 2025. Notably, emerging markets (excluding China) will surpass the G7 industrialised countries' combined GDP for the first time, reinforcing their growing importance in the global economy.

— With central banks anticipated to continue their rate-cutting cycle, we expect a steepening of the yield curve. Historically, low interest rates in combination with a stable to weaker US dollar have always been a positive signal for EM corporates.

Chart 2: Net debt / EBITDA ratio



Source: JP Morgan, Fisch Asset Management, October 2024

» The restructuring of global supply chains offers opportunities for many emerging markets.

- **Geopolitics:** Trump's presidency is bringing the US-China trade war back into focus. We see unique opportunities arising for other emerging market countries (e.g., Poland, Romania, India, Indonesia and Vietnam) as global supply chains shift.
- Mexico will face issues of US trade policy, security, and migration, but the Trump administration will have to be reasonable in its actions toward its neighbours. Nevertheless, the Trump presidency will bring major challenges for Mexico. Fluctuations in the Mexican peso are to be expected. We therefore favour energy suppliers with USD purchase agreements and mining companies.
- **Technicals:** After three years, the EM investment universe is growing once again. The primary market is rejuvenating as lower USD interest rates are drawing in first-time issuers eager to offer attractive yields. This trend is likely to continue. Lower USD interest rates and convincing EM fundamental data are bringing the asset class back to the forefront for investors, preventing a supply overhang.
- **Commodities:** While rising oil production from non-OPEC producers (primarily the USA, Canada, Brazil, and Guyana) presents a potential oversupply that would push oil prices lower, the majority of issuers maintain robust balance sheets and liquidity profiles. Nevertheless, we prefer idiosyncratic stories, particularly in the high yield segment.
- **Latin America:** Growth this year has remained stable overall, but the picture is varied at the country level. Mexico is slowing, while Brazil shows resilience, growing close to 3% in 2024 backed by a generous budget policy. The interest rate hike cycle in Brazil will lead to a small decline in growth, however.
- We view the regional political risk as comparably low. After two intense election years, no elections are due in any of the major economies.
- We favour high-yield investments as Latin America offers broad diversification and diversity of creditworthy issuers across various sectors and rating categories. The differences in local economic cycles allow for active management and increased alpha potential.

- **CEEMEA:** The region is highly heterogeneous, offering many opportunities for diversification. Our focus lies on defensive financials in Eastern Europe, along with exposure to attractively rated Uzbekistan and increased exposure to Turkey following impactful reforms by finance minister Simek. Solid measures to combat inflation and strengthening the Turkish Central Bank have restored confidence, but they have led to an expensive local market and an overhang of USD issues, pricing solid companies at generous risk premiums.
- **China:** Due to structural issues, we expect further weakening of Chinese economic growth. The People's Bank of China (PBoC) has begun an easing cycle, but recent monetary measures are unlikely to resolve these problems. Enhancing the pension system and other social reforms are needed to boost consumption. In the short term, coordinated monetary and government actions should at least stabilise confidence. We anticipate additional fiscal stimulus measures to build trust in the system. Potentially, authorities might be waiting for the new US government's actions before taking steps. Overall, the investment universe appears unattractive to us due to its composition rather than China's economic performance.
- **Asia ex-China:** We foresee robust growth in many Asian economies and prefer countries like India and Indonesia, which benefit from a robust domestic economy and are less affected by trade tensions with the US.

» Summary for 2025: Rates and Carry 3.0

- **Return expectations:** Given global monetary easing and stable economic growth in emerging markets, we expect positive returns in the high single-digit range again. Factors driving performance include high nominal yields and corresponding carry, a vibrant primary market with a high degree of first-time issuers, and diverse regional and sectoral developments, which offer opportunities for alpha generation.

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Outlook 2025: Swiss Franc Bonds

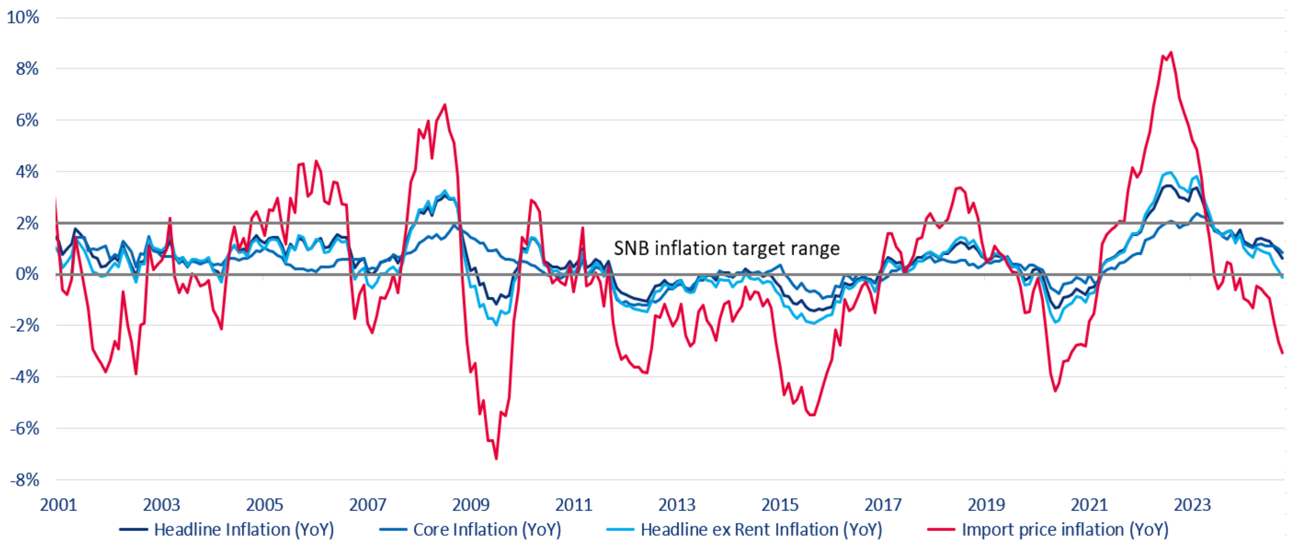
Switzerland versus the rest of the world – how CHF bonds are bucking the trend

— **Moderate growth:** With the SECO forecasting growth for the Swiss economy of 1.2% for the current year, we expect growth to remain moderate at a similar level in 2025. While the pharmaceutical and chemical sectors in particular contributed to growth in the current year, domestic growth will continue to be driven by consumption. Rising real wages, falling inflation and low unemployment in the coming year will give consumers more financial leeway. The service sector fell short of expectations in 2024, but should recover and make a stronger contribution to economic growth.

— **Swiss franc strength will persist:** We expect the Swiss franc to remain strong against the euro in 2025. On the one hand, the economic weakness in Germany will reduce the attractiveness of the euro. On the other hand, the upcoming interest rate cuts by the ECB to support the economy will boost the franc. Last but not least, geopolitical tensions could act as a catalyst.

— **Inflation excluding rents is already negative:** Inflation in Switzerland has fallen significantly. The Swiss National Bank (SNB) is forecasting an inflation rate of 0.6% for 2025, which is in the lower half of the target range. We are assuming an even lower figure, as rising rents are the main driver of inflation. If this component is factored out, the result is even negative inflation (deflation). Further cuts in the SNB's key interest rate will further dampen rents, as these are linked to the reference interest rate. Furthermore, imported inflation accounts for around a quarter of overall inflation and is currently strongly negative. Due to the expected strength of the Swiss franc and declining foreign inflation, we do not see a trend reversal here.

Chart: Swiss inflation is within the SNB's target range



Source: Fisch Asset Management, Macrobond, data as at 31/10/2024

» The strong franc and low inflation suggest three interest rate cuts.

- **Monetary policy:** We believe that three interest rate cuts by the SNB to a level of 0.25% are realistic. This is intended to counteract declining inflation and support the economy by weakening the Swiss franc. The SNB's actions and the associated expectations will influence the entire interest rate structure. However, we expect significantly smaller interest rate changes in 2025 than this year.
- **The Swiss bond market offers diversity:** This is reflected in the broad diversification at sector level. For example, the downturn in the automotive and supplier industry in Germany is playing a key role. This is having a negative impact on the Swiss metal and machinery industries, while exports from the pharmaceutical and chemical sectors remain strong. We regard the recent widening of credit spreads of financially well-positioned public hospitals as an attractive entry opportunity. It is important to take these developments into account when assessing fair value.
- **We see potential across the entire maturity range:** In addition to the opportunistic positioning along the entire yield curve, we have observed an increase in new issues with longer maturities of 10 to 30 years in recent weeks, which has led to more attractive yields in this area relative to other maturities.
- **Strong primary market:** The share of corporate bonds has risen compared to financials and SSAs (government bonds, supranational bonds and agency bonds). Swiss franc bond issues are also attractive for foreign heavyweights, such as McDonalds and Toyota. We anticipate that diversification on a currency basis will continue to be a reason for international companies to finance themselves on the Swiss market in the coming year.

» Active management is gaining relevance.

- **Performance expectations:** Over the past two years, the Swiss bond market has been a pillar of strength. The price development has outperformed many other countries. The strength of the Swiss franc, low inflation and the SNB's loose monetary policy remain supportive and the proverbial quality of the Swiss bond market continues to be valued by investors as a safe haven. Overall, we expect the SBI AAA-BBB to generate a performance of 1-2% in 2025. This makes it all the more important to generate additional returns through active management on the yield curve, tactical duration management, and targeted sector and security selection as well as the possibility of adding additional risk premiums.

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