

10 SURPRISES FOR 2025

Charles-Henry Monchau—Chief Investment Officer—SYZ GROUP—Membre Partenaire du GSCGI

"I'm not a big planner. Things always sort of surprise me"
- John F. Kennedy Jr. -

As the year 2025 is off to a decent start, we remain optimistic about the outlook for risk assets in the coming year, foreseeing another positive period. This optimism is grounded in expectations of a resilient performance from the global economy, double-digit earnings growth for the S&P 500 companies and lower real rates across developed countries.

However, we caution that despite the positive outlook, challenges and uncertainties may persist, indicating that the journey ahead for global equity markets may not be without obstacles.

We have identified ten potential surprises, whether positive or negative, that could significantly impact the global markets next year. These surprises pose the risk of introducing unexpected developments that may have far-reaching effects on various financial landscapes.

Surprise #1: Trump 2.1 [Probability: Medium]

With renewed focus on tariffs, Donald Trump's plans signal a seismic shift that could reshape the economic landscape not just for the US but for every economy intertwined with it. Trump's 2.0 vision for America is sweeping: across-the-board tariffs of 10 per cent to 20 per cent on all imports, and for China, a staggering 60 per cent. But what if Trump suddenly becomes more preoccupied by the inflationary consequences of tariffs and decide to adopt a more concealing tone with his trading partners, shifting from "Trump 2.0" to "Trump 2.1"?

After imposing a new round of tariffs in the early days of its presidency, Donald Trump engages into discussions with China on a broad-based trade agreement between the two largest economies of the world. China agrees to discussions and concessions, as it faces weak economic growth and ongoing structural issues such as its real estate sector (unlike in 2017 during the first mandate of Trump). China has already started to try to rebalance its growth toward domestic demand and a trade agreement with the US can serve this purpose. China is also better prepared as it has become less reliant on US demand for its exports. China's trade balance with the World ex-US and EU is now equivalent to its trade balance with the US alone.

Tariffs are removed on several goods, and trade between the US and China increases again. Geopolitical and economic tensions between the US and China ease (Taiwan, intellectual property, role of the US dollar and the Chinese yuan in the global financial system). The EU asks China to negotiate a similar trade agreement. Imported inflationary pressures ease in the US, helping to drive US rates lower.

China's equity market becomes "investable again" for US institutional investors and catch up after a long period of underperformance.



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Surprise #2: The U.S. economy faces “slugflation” [Probability: Medium]

With the new immigration policy put in place by the new US administration, unemployment rate stays below 4.5% and wages continue to grow. Meanwhile, China's economy starts a surprising recovery, causing commodity prices to begin to inflect higher and oil begins a slow but persistent recovery in price. Inflation fails to tick much lower, remaining well above the Fed's target.

These policy moves and conditions prompt a resurgence in headline inflation, complicating the Fed's plan to cut rates. The higher rates for longer start to affect domestic growth in the second half of the year.

This “slugflation” (sluggish economic growth, sticky inflation) starts to dent US companies profit margins, sending the S&P 500 into deep correction territory.

A developing US recession, late in the year, sends the budget deficit as a percentage of GDP to 10% or more. To absorb an overwhelming Treasury supply, creditors demand more to buy U.S. debt and the 10-year Treasury yield touches 5.5%. The traditional 60-40 portfolio endures a very difficult second half of the year as both equities and bonds suffer.

In Q4, the Fed ends QT and restarts, temporarily, QE - breaking its word of sticking to its inflation target.



Source: Apollo

Surprise #3: “DOGE” goes global [Probability: Low]

In January, Elon Musk and Vivek Ramaswamy start to roll out the Department Of Government Efficiency (DOGE) measures. Targeting a 25% reduction of the federal government workforce, they ruthlessly end remote work for government employees, prompting a “wave of voluntary terminations” reminiscent of Dell’s recent remote work ultimatum.

Surprisingly, many governments around the world decide to follow the steps of US and Argentina. They implement similar measures leading to spectacular results. The quest for efficiency and spending cuts is not limited to the government; companies around the world start to implement their internal “DOGE” equivalent, leading to an improvement in firm’s productivity and a decrease in bond yields. In Europe, these measures lead to a wave of social unrests. In France, Emmanuel Macron is forced to resign and a populist government access to power.



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Surprise #4: Germany pushes for fiscal stimulus [Probability: Low]

Following the German elections on February 23rd, a CDU-led coalition agrees on an easing of the constitutional rule preventing public deficits in Germany. This paves the way to a much-needed stimulus plan for the German economy that has been stagnating since 2022.

In this context, Germany also agrees to discuss the issuance of European bonds to finance structural investments designed to improve medium-term growth prospects for Europe, following the recommendations of Mario Draghi's report on the Future of European Competitiveness.

Germany and the Eurozone benefit from this fiscal stimulus and enjoy an acceleration in growth dynamic, as Europe joins the US and China in supporting economic activity with public spendings. Public debt in Germany starts rising from its current moderate level, and aggregate public debt in the Eurozone increases from an already elevated level. Inflationary pressures pick up in the Eurozone due to higher domestic demand.

With higher growth, inflation and public debt ahead, the ECB faces less pressure to ease its monetary policy and stops its rate cut cycle earlier than expected. European sovereign bonds are under pressure, with EUR yields pushed higher by higher nominal growth prospects, rising bond issuance and higher EUR cash rates.



Source: Bloomberg

Surprise #5: BRICS+ adopt Bitcoin as an alternative to the dollar [Probability: Low]

Early 2024, the "BRICS" (comprised originally of Brazil, Russia, India, China and South Africa), have joined forces to create a unified payment system based on the innovative technologies of digital currencies and blockchain. This ambitious move is not just a technological breakthrough; it also represents a strategic maneuver aimed at strengthening financial autonomy, reducing their dependence on dominant currencies such as the US dollar, and bypassing traditional banking networks such as SWIFT, which is a source of vulnerability for these nations due to geopolitical tensions.

Despite the promising aspects of this initiative, major challenges remain. One of these is ensuring interoperability between the various digital currencies and national payment systems. In addition, as with any digital financial system, it is essential to guarantee the security and confidentiality of transactions.

After several summits at the start of 2025, the BRICSs decide to adopt the Bitcoin as an alternative currency to the dollar. Being politically neutral with an immutable monetary policy and offering perfect property rights, and with the enhanced functionality provided by layer 2 solutions (example: lightning network), bitcoin tick all boxes as an international medium of exchange and global reserve currency. Bitcoin is later adopted by other emerging markets. The US, Europe and China decide to accumulate bitcoin as a reserve asset, leading to accelerated adoption by global institutional and private investors. The surge of global demand create a major supply squeeze, pushing the price of bitcoin to \$500,000.



Source: Kitco

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Surprise #6: From Mag7 to Lagg7 [Probability: Medium]

So far, it is American firm Nvidia with its graphics processing units, or GPUs, that has garnered the headlines, as it designs the key piece of hardware required to train up huge AI models, such as the likes seen from OpenAI that underpins ChatGPT.

While Nvidia can ship certain chips to China, Washington has shown its willingness to cut its tech rival off from the most cutting-edge semiconductors and tools needed to make them. This has renewed focus on China's homegrown efforts to rival Nvidia and create semiconductors that can underpin the world's second-largest economy's own AI industry.

Huawei is one of China's tech champions with a business that spans telecommunications infrastructure to consumer electronics and cloud computing. Its chip design unit is called HiSilicon. The Shenzhen-headquartered company's current generation of chip is called the Ascend 910B, and the company is gearing up to launch the Ascend 910C, which could be on par with Nvidia's H100 product, according to a Wall Street Journal report in August. In its annual report earlier this year, Nvidia explicitly identified Huawei, among other companies, as a competitor in areas such as chips, software for AI and networking products.

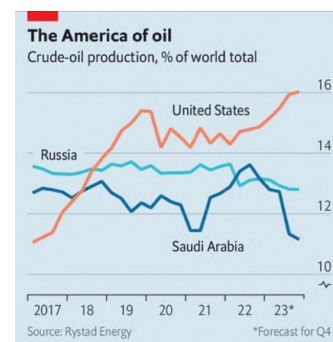
By the end of the first half of 2025, it becomes clear to the market that Nvidia will face some serious competition from China. Nvidia stock starts to nosedive alongside the other Mag 7.



Source: Rich Washburn

Surprise #7: A US-OPEC+ clash [Probability: High]

The new US Treasury secretary Scott Bessent's macro view on what the US economy needs can be summarized with his "3-3-3" rule: 1) Cut the budget deficit to 3% of GDP by 2028; 2) Push GDP growth to 3%; 3) Pump out an extra 3 million barrels of oil each day. Under the Biden administration, OPEC+ has been restraining output in a bid to prevent the emergence of a huge supply surplus that could depress prices and hurt the oil-dependent economies of its member states. Meanwhile, US crude production has surpassed every record in history for six years in a row, gaining market share at the expense of the OPEC+. As Bessent rolls out his "extra 3 million barrels a day production", OPEC+ decides to counter-attacking by flooding the market with oil. Consequently, oil drops to USD 50.



Source: The Economist

Surprise #8: Near-Zero Inflation in Europe; negative rates Return in Switzerland [Probability: High]

In 2025, political crises in France and Germany lead to paralysis and to a major economic downturn. Inflation in the Eurozone approaches zero, prompting the European Central Bank (ECB) to push interest rates well below their neutral level. The central bank reintroduces a quantitative easing (QE) program to prevent increasing economic fragmentation, exacerbated by political tensions in France and elsewhere.

Meanwhile, the Swiss National Bank (SNB) surprises markets by reintroducing negative interest rates to counter the overvaluation of the Swiss franc, as inflation remains far below target. Despite the proactivity of the SNB, Euro collapses to 85 cents against Swiss Franc.

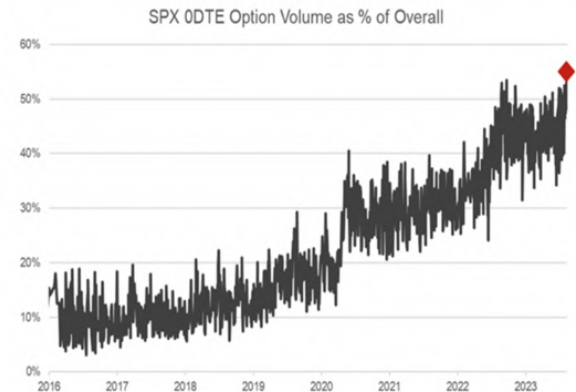


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Surprise #9: A major fund blows up [Probability: High]

The combination of concentration risk from the Magnificent 7 stocks, coupled with the explosion of usage in ODTE options, the complete suppression of volatility, and the odd movements in currency and commodity markets will derail some large fund that is caught in the wrong trades. It will start with one asset price moving in the wrong direction and it will affect other trades in a portfolio that will cause forced liquidations and cause a volatility event because of it. This could come in the form of a flash crash like 2015, LTCM like 1998, or “volmageddon” in 2018. While these things do not happen often, the ingredients are there for 2025.



Source: Nomura Vol

Source: Nomura

Surprise #10: Elon Musk and Meloni get married. Trump and Musk turned from BFF to Foes [Probability: Low]

What started as a gossip turns into reality. Italy's prime minister Georgia Meloni and Elon Musk make their relationship official and get married. Elon Musk starts to invest heavily into Italy with the ambition to revive European industrial engine. Italian equity markets soar while BTP-Bund spreads turn negative.



The intrusion of Georgia Meloni in Elon Musk's life starts to weigh on his relationship with Donald Trump. The two leaders split, and Musk leaves the DOGE. Meanwhile, a large part of US government support for Tesla and Space X is withdrawn. Tesla market capitalization plunges. Musk gets accused of tax evasion and decides to leave the United States for good.

