SERENIS

FAMILY CAPITAL

Monthly Markets Chronicles

January 2025

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1995 - 2025

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Managing uncertainty: Between the predictable and the unexpected

The month of January 2025 vividly illustrated a fundamental market principle: dealing with anticipated and unexpected uncertainties.

In the first category, the inauguration of the new American president unsurprisingly redefined economic and geopolitical priorities, directly influencing the financial environment. Decisions on taxation, regulation and trade policy are now being closely scrutinized by investors, who are assessing their impact on capital flows and medium-term growth trajectories.

Nevertheless, January brought another, more unexpected lesson: DeepSeek marked a major turning point in the rise of artificial intelligence, profoundly shaking the American technological giants. The scale of investment in high performance computing infrastructure and energy solutions dedicated to AI is already reshaping commercial and industrial models. This development highlights the need for investors to integrate sudden technological breakthroughs into their strategy.

These dynamics - between political readjustments and technological revolutions - have increased market volatility. In this context, active asset allocation management and rigorous diversification remain essential to seize opportunities while controlling systemic risks.

Anticipating these shifting forces is more crucial than ever. We will continue to analyze these developments closely, with the aim of identifying structuring trends and refining our strategic recommendations.

Comments of the month of January

The start of this year has been marked by a succession of news items that have struck minds and markets alike. Indeed, the inauguration of D.J. Trump marks the beginning of profound changes for the United States and its economy.

Several events and announcements sent shockwaves through the markets, such as the arrival of DeepSeek as a serious competitor to ChatGPT, or the intentions of the new tariffs imposed on Mexico, Canada and China by the United States, to mention just two highlights.

However, markets have once again demonstrated their resilience, and investors are confirming their confidence. For the time being, corporate earnings are mostly above expectations, as is the outlook for the months ahead. Despite occasional spikes in volatility, panic has not set in.

Equity Indexes	Value	MTD	2025
S&P 500 (USA)	6 041	2.7%	2.7%
Nasdaq 100 (USA)	21 478	2.2%	2.2%
Euro Stoxx 50 (Europe)	5 287	8.0%	8.0%
SMI (Switzerland)	12 597	8.6%	8.6%
Nikkei 225 (Japan)	39 572	-0.8%	-0.8%
CSI 300 (China)	3 817	-3.0%	-3.0%
Currencies	**Value**	**MTD**	**2025**
EUR/USD	1.036	0.1%	0.1%
USD/CHF	0.911	0.4%	0.4%
EUR/CHF	0.944	0.4%	0.4%
GBP/USD	1.240	-1.0%	-1.0%
USD/JPY	155,190	-1.3%	-1.3%
Bond Indexes		**MTD**	**2025**
Government USA		0.5%	0.5%
US Corporate IG		0.6%	0.6%
US Corporate HY		1.4%	1.4%
Government UE		-0.2%	-0.2%
UE Corporate IG		0.4%	0.4%
UE Corporate HY		0.5%	0.5%
Other Asset Classes	**Value**	**MTD**	**2025**
Gold	2 798	6.6%	6.6%
Brent Crude	77	2.8%	2.8%
Bitcoin	102 110	9.0%	9.0%
Rates / Indicators	**Value**	**∆ MTD**	**∆ 2025**
US 10 years rate	4.54	-0.03%	-0.03%
GER 10 years rate	2.46	0.09%	0.09%
US Unemployment	4.1%	-0.1%	-0.1%
Volatility Index (VIX)	16.4	-0.9%	-0.9%

For once, Europe and Switzerland had the best start to the year, with a spectacular month (+8.0% for the EuroStoxx and +8.6% for the SMI). The United States had a good start to the year, with +2.2% for the SP500 and +2.7% for the Nasdaq. Despite massive liquidity injections, China is struggling, with -3.0%. Bond indices are stable and mostly positive in a relatively wait-and-see environment.

Crypto currencies had a very volatile month, with a flash crash that saw some alt coins lose over 40% in less than 12 hours before rebounding. Bitcoin posted a year-to-date performance of +9.0%, but with relatively wide variations, from a low of USD 93k to a high of USD 109k during the month. Finally, and once again, gold demonstrated its robustness and value-preserving role in an uncertain environment, with a performance of +6.6%, beating its all-time high again during the month.

Our current positioning

With the start of D.J. Trump's second term as President of the United States, the various announcements of new tariffs, the bevy of executive orders related or unrelated to the US and global economy, and the numerous declarations of intent from the new White House administration, our investment committee has adopted a cautious stance in order to best analyze the immediate implications of these events on the markets. Indeed, there are a number of uncertainties and unknowns that do not allow us to be blindly optimistic about the implications of political decisions on the markets

One important consideration is the link between the introduction of new tariffs and inflation. Last year, the FED embarked on a rapid and substantial reduction in its key rates, as part of its inflation-fighting objectives, and analysts' expectations for 2025 are in line with a continuation, albeit moderate, of rate cuts. However, there is a certain dichotomy in these objectives, as it seems inescapable that, sooner or later, an increase in customs duties will imply a rise in prices, and therefore inflation, and therefore incompatibility with a rate cut.

On the other hand, we have to admit that the health of the US economy, as well as that of companies following the publication of their results, is quite remarkable and could follow this trend for months to come. We are also seeing the beginnings of an easing in US 10-year yields, as well as a stable (or even falling) unemployment rate, a sign of the good health of the real US economy.

Our investment committee is cautiously analyzing the situation, taking into account the uncertainty and the sometimes contradictory flow of information from the main economic indicators. We have therefore decided to underweight US equities in our core portfolio. It's important to note that this decision does not mean that we have a negative view, as this slight underweight is offset by our strategic position in US small & mid caps. As a result, our total position in US equities is neutral.

We are still underweight European equities, anticipating an upturn in certain sectors such as luxury goods and automobiles, to name but a few, as a result of the possible introduction by the USA of tariffs on products from the European Union. This has only been hinted at for the moment, but there is a non-zero probability that it will come up for discussion in the near future.

The neutral position in emerging market equities is maintained. Although there is potential for many emerging markets, the strengthening dollar could weigh on valuations, at least in the short term.

On the bond front, our position is unchanged from last month, with a neutral stance on all sub-asset classes, i.e. Investment Grade, Sovereign Debt and High Yield. Current credit spreads are low, and while the Fed's policy remains accommodative, upside potential is limited, and we expect yields to normalize.

The committee also decided to maintain all our current strategic investment themes. These investments add significant alpha to our overall portfolio, and the contribution of gold and defense has been exceptional. We remain convinced that these two themes will again make a significant contribution to total performance this year.

Indeed, the latest available statistics confirm a massive increase in gold reserves in many countries, for the third year running. The appeal of this metal remains very strong. We are also studying whether an outperformance could also materialize for its little brother, silver. As for the defense sector, our conviction is still very strong in view of the numerous announcements of budget increases for the coming years. Companies similar to Palantir, will benefit from strong growth in demand.

We also note that our Uranium theme has been suffering since its launch, despite the fact that the rational, indicators and news available on this theme all converge on a very significant upside potential. The Committee decided to maintain this theme, adding that, in the current context, it adds a certain amount of diversification to portfolios.

« Core » Portfolio

	% SAA		%TAA
Cash	5%	↗	**10%**
Fixed Income	45%	=	**45.0%**
Investment Grade	20%	=	20.0%
Sovereign Debt	15%	=	15.0%
High Yield	10%	=	10.0%
Equities	50%	↙	**45%**
US markets	30%	↙	30.0%
European markets	15%	↙	12.5%
Emerging markets	5%	=	5.0%

« Strategic focus » investments

Themes	%	Since
Gold	5.0%	29.12.2023
Uranium	2.5%	29.12.2023
Defense	2.5%	30.04.2024
MidCap US Momentus	2.5%	30.11.2024

Balanced USD Portfolio

Thinking forward: Sputnik Again

"Our real problem is not our strength today; it is rather the vital necessity of action today to ensure our strength tomorrow."

Dwight D. Eisenhower 9/1/1958

The Soviet Union's launch of Sputnik 1 on October 4, 1957, sent shock waves through the United States and the entire Western bloc. Not only had the USSR just demonstrated its superiority in the conquest of space, but it also reminded Americans of a brutal truth: power cannot be decreed, it must be built. In response, Washington mobilized formidable economic and industrial power. Research budgets multiplied, NASA and DARPA were created, and investment in science and technology education exploded. The federal government, reluctant to get too involved in the economy, became a catalyst for progress, setting in motion an industrial dynamic that led to decades of technological and economic dominance.

The United States can no longer take its leadership in artificial intelligence for granted. The rise of DeepSeek is not an immediate reversal of the technological hierarchy, but it does mark a significant break. This Chinese company has proven that it can develop a competitive AI model at a much lower cost than Western labs. This success is due not only to its engineering excellence, but also to an environment in which American restrictions on semiconductor exports have paradoxically stimulated local innovation. Deprived of the best chips available on the market, DeepSeek has been forced to explore radical optimization methods, demonstrating a remarkable ability to adapt.

It would be naive, however, to see this success solely as a technical achievement. A significant portion of China's progress has been based on more questionable practices: circumventing sanctions, gaining indirect access to critical technologies, and exploiting loopholes in Western intellectual property systems. DeepSeek has not "done in a few million what the Americans have done in billions"; rather, it is part of a long-term trend in which each generation of models becomes significantly more powerful at a lower cost. The real novelty is that a Chinese player is the first to demonstrate this progression, a first that has both technological and geopolitical implications.

Washington thought it was slowing China down by denying it access to critical technologies. However, these restrictions have had an ambivalent effect: they have limited Beijing's ability to acquire certain infrastructures, but they have also accelerated its race for autonomy. If the goal was to stifle China's rise to power in AI, it's clear that this strategy is far from bearing fruit. Contrary to alarmist rhetoric, DeepSeek does not pose an immediate threat to US dominance, not least because its models lag behind in certain key applications such as advanced coding. But it's not the status quo that matters, it's the trajectory. And that trajectory suggests that China is closing the gap faster than expected.

The real question raised by this episode is not so much whether DeepSeek poses an imminent threat, but rather how the U.S. will respond. History has shown that the U.S. reacts strongly when it perceives an existential technological challenge. After Sputnik, the mobilization was massive and structured. This time the situation is more complex: AI innovation is largely driven by private actors, and the state can no longer dictate the way forward alone.

There are three main lines of response. First, tightening export controls. While existing sanctions have had mixed effects, Washington could try to go further by further restricting access to new generations of processors, including by putting more pressure on Western companies. This would require closer coordination with European and Asian allies to prevent China from finding backdoor supply channels.

Second, accelerate federal investment in AI. The CHIPS and Science Act has begun the process of relocating semiconductor manufacturing, but a more ambitious stimulus could see the light of day, with direct support for research labs and startups capable of competing with the agility of players like DeepSeek. The idea would be not only to inject capital, but also to structure a true cutting-edge ecosystem under public impetus, along the lines of what has been done for the conquest of space or the defence industry.

Finally, the broader question is how to adapt the AI business model to the United States. Unlike during the Cold War, when the state directly led the technological effort, innovation today is entirely driven by companies such as OpenAI, Google DeepMind, Microsoft, or Nvidia. The balance between public support and private competitiveness will be crucial. If Silicon Valley has been able to dominate thanks to its openness and ability to attract the world's best talent, we must be careful not to stifle this dynamic under the pretext of overly rigid security restrictions.

American technological superiority has always been based on a combination of financial strength, intellectual attractiveness, and an environment conducive to innovation. Today, that supremacy is being challenged as never before. DeepSeek may be an anomaly, or it may be the first sign of a broader shift. What is certain is that America can no longer be content to sit on the sidelines. This moment, far more than a simple Chinese technical success, may well be a strategic turning point for American power. It remains to be seen whether Washington is prepared to draw all the consequences.

Food for thoughts

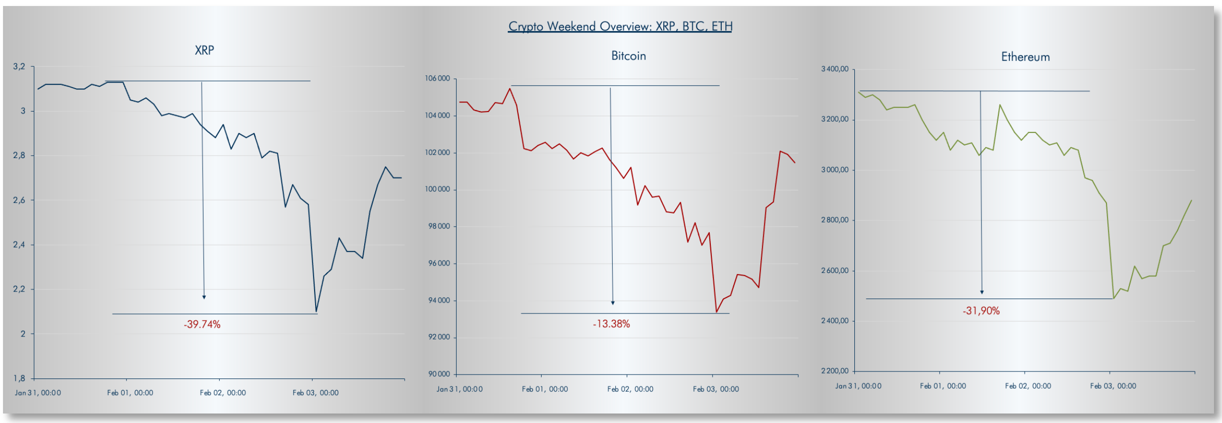
A peaceful weekend

One of the fundamental differences between traditional asset classes and cryptocurrencies is the trading hours. While stock exchanges open on Monday or Friday from 09:30 to 16:30 in the US or 09:00 to 17:30 in Europe, it's a completely different story for cryptos. While all traders and investors can rest their weekends, the crypto world never stops. And for good reason: it's possible to trade 24/7, every day of the week.

The consequences of a flash crash like the one we experienced on the last weekend of January can be nasty to say the least. Below are the price movements of the three largest cryptocurrencies, bitcoin, ethereum and XRP, between Friday, January 31st at 16:30 and the following Monday morning at 7:00.

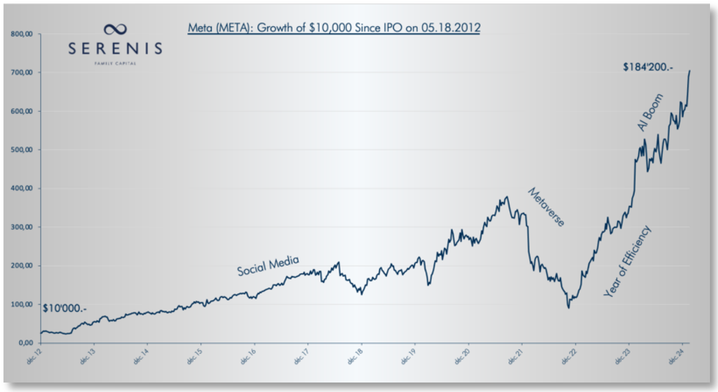
The falls are staggering: -13.40% for Bitcoin, which is doing well, -31.90% for Ethereum and -39.74% for XRP. The panic mode was discreetly activated on Sunday night between 1 and 3 am (European time). Of course, the higher the risk, the higher the expected return. But all investors need to understand how their positions work in order to manage them as effectively as possible. For the record, most crypto flash crashes have occurred on a weekend...

From their lows, the vast majority of cryptocurrencies have recovered a good portion of their price. There are certainly as many investors who lost money as there are who saw their investments explode in a very short period of time.

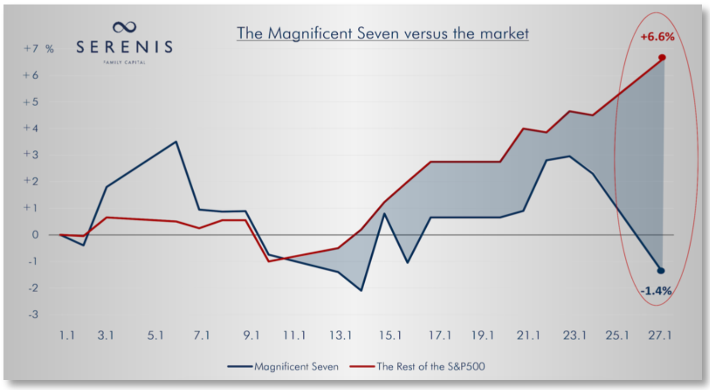


Three charts :

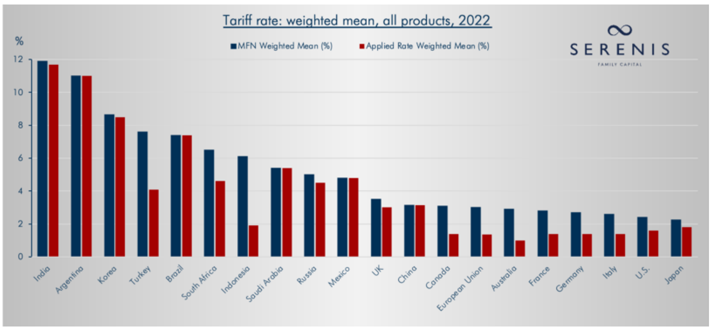
Meta (Facebook) has been criticized in recent years for its strategic decisions. In early 2022, the company's billion-dollar investment in the Metaverse was catastrophic. However, AI seems to be restoring the stock's wings and investor confidence. An investment of $10,000 in December 2012 has turned into $184,200 today !



The Mag-7s have been pulling the SP500 along for the past two years. Their weighting in the index has never been so high. However, since the start of the year, the Mag-7's performance has been negative (-1.4%), while that of the remaining 493 companies has been positive (+6.6%). The principle of diversification is once again demonstrated, if proof were needed, both in terms of stocks and sectors.

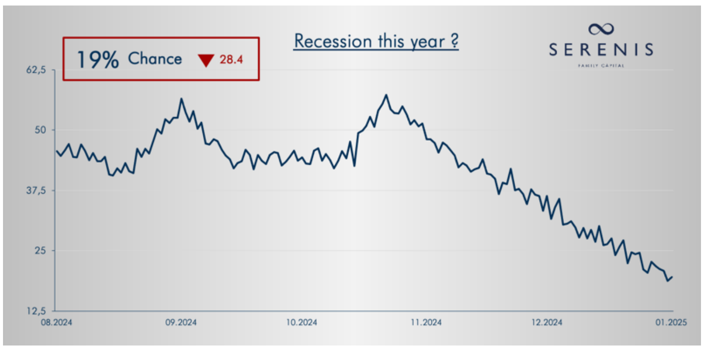


It's worth putting the topic of tariffs into perspective. President Trump's announcements are distressing the markets and the economy. However, on a global scale, the United States applies some of the lowest tariffs in the developed world, with an average tariff on all products of less than 2% by 2022!



Bonus:

Believe it or not! According to the latest analyst surveys, the probability of a US recession this year is at its lowest since August 2024 and currently stands at just 19%!



“Markets can only be understood backwards, but they must be invested thinking forwards”

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