ASAS CAPITAL

أساس كابيتال

Regulated by the DFSA

Of Predictions and Preparedness (Part 1)

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CIO View (1/2)

It’s that time of the year again.

Every self-respecting banker, asset manager, economist, market strategist and investment ‘expert’ takes it upon himself or herself to fill your email inbox, social media feeds or other publication with his or her predictions for financial markets in the next year.

There are others – journalists, YouTubers, podcasters and the like – who use them to create more content for their own output and in the process further amplifying the spread of these predictions.

But how successful have these predictions been in forecasting markets?

As the slides in this presentation demonstrate, the track record of banks has been less than exemplary. Armies of very smart and knowledgeable people have consistently failed to come up with projections that stood the test of time.

The US Federal Reserve, which is supposed to be best positioned to know the state of the US economy, hasn’t done much better. It called inflation ‘transitory’ in 2021, did a double-take in 2022 when inflation skyrocketed and raised interest rates at the fastest pace in history, cut rates by an outsize 50 bp in September 2024 citing victory over inflation and a roadmap to several more cuts in the months ahead, and has now again revised its own projections to maybe 2 cuts in 2025.

Even the bond market, supposedly the ‘smart money’ in the room, which entered 2024 with expectations of 7 interest rate cuts in 2024 and a ‘generational opportunity’ to own long-duration bonds, is now worried about sticky inflation and long-term rates staying and maybe even going higher.

“The only function of economic forecasting is to make astrology look respectable.”

John Kenneth Galbraith

CIO View (2/2)

Why is it that so many people get it wrong again and again?

For one, forecasting is difficult. Financial markets are impacted by so many different factors – economics, (geo)politics, technology, natural phenomena, investor sentiment, etc. – that getting it right for 12 months later is almost impossible.

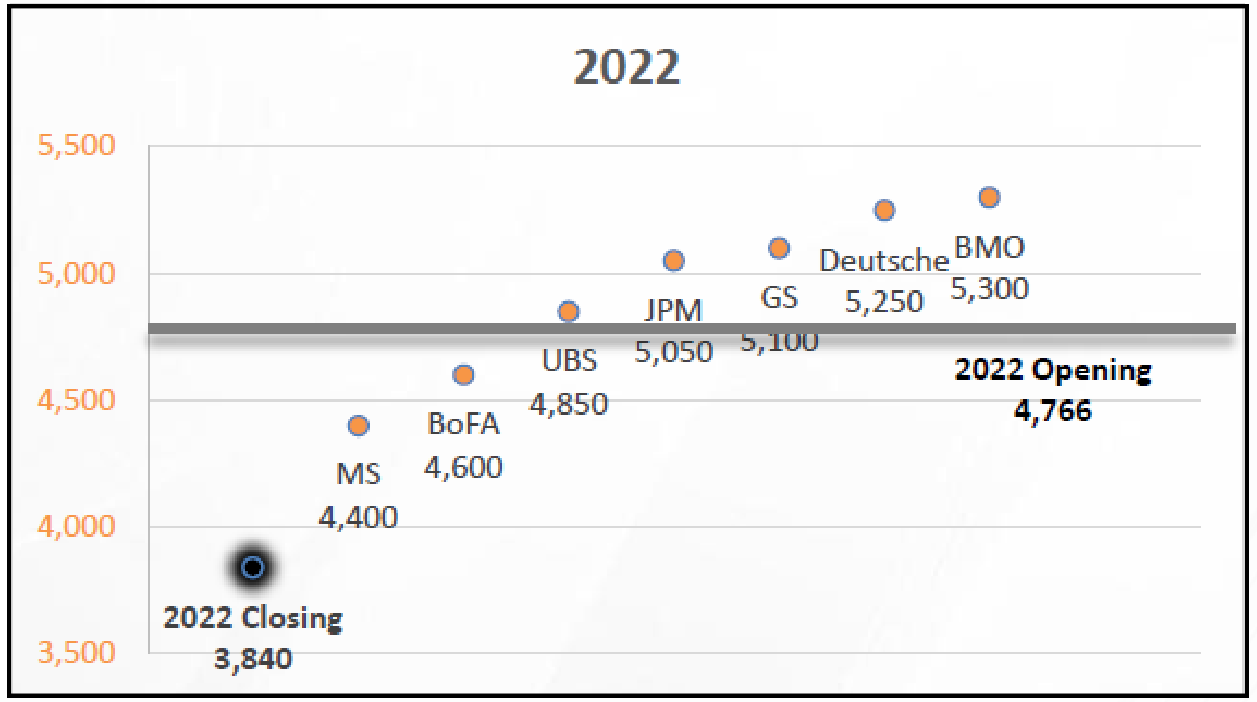
For another, there are structural conflicts. Wall Street is interested in making sure that investors remain in the market through all situations and at all points in time. Asking a banker or asset manager whether assets will go up is like asking your barber if you need a haircut (paraphrasing Warren Buffett).

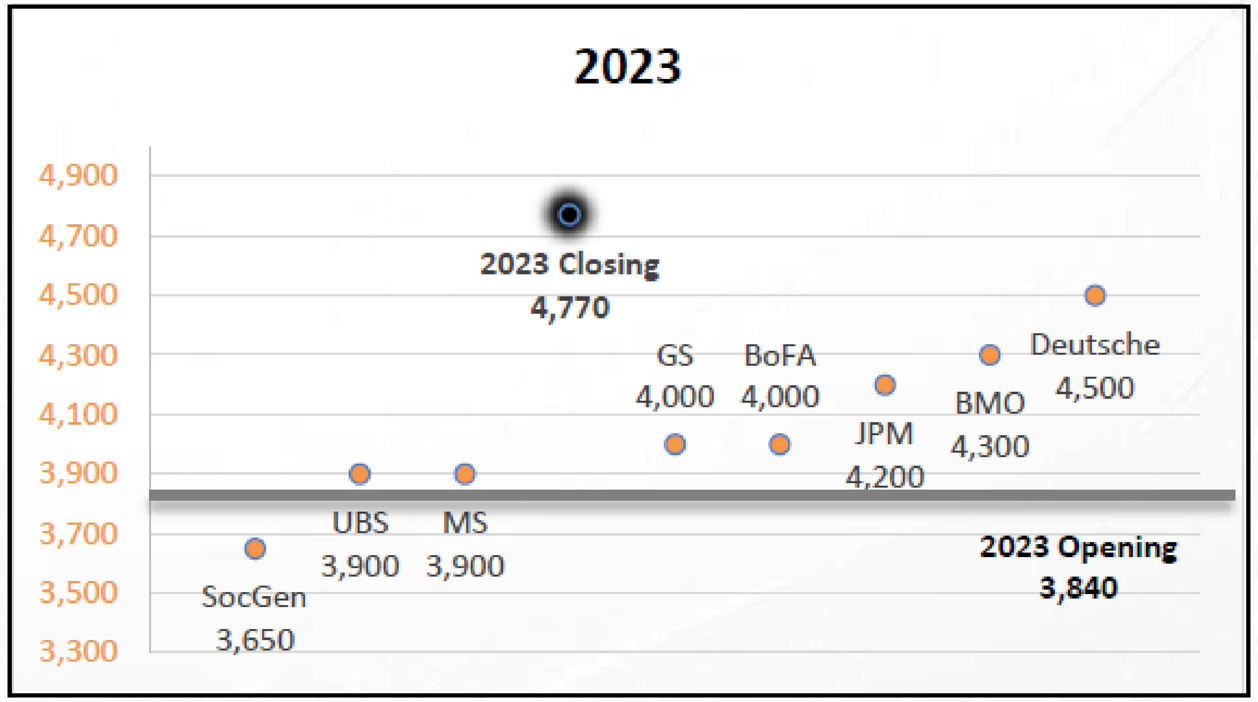
It is also easier to go with the consensus. Most people find it difficult to openly say something that is at odds with the majority view. It takes a certain type of person, like a John Paulson or a Michael Burry (or, indeed, a certain Mr. Buffett) to say, and act on, their convictions even if the market is saying something else.

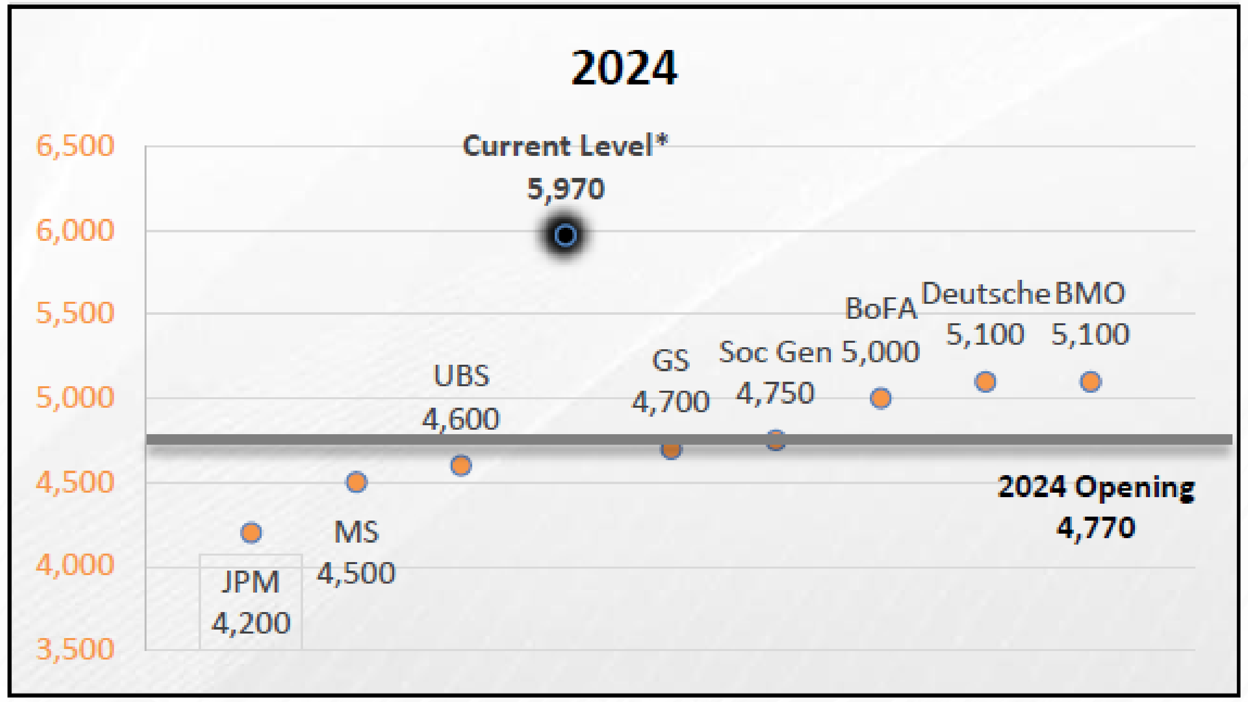
So, what is an investor to do? We believe the trick is to analyze research from different sources and perspectives and apply that in a manner that aligns most closely with the goals of our clients. We look forward to discussing this in some detail in our upcoming newsletter.

Thank you very much for your support and trust in 2024. Best wishes to you and your loved ones for a wonderful, joyful, harmonious 2025.

A Look At Bank Forecasts v/s Actuals In The Last 3 Years: S&P 500

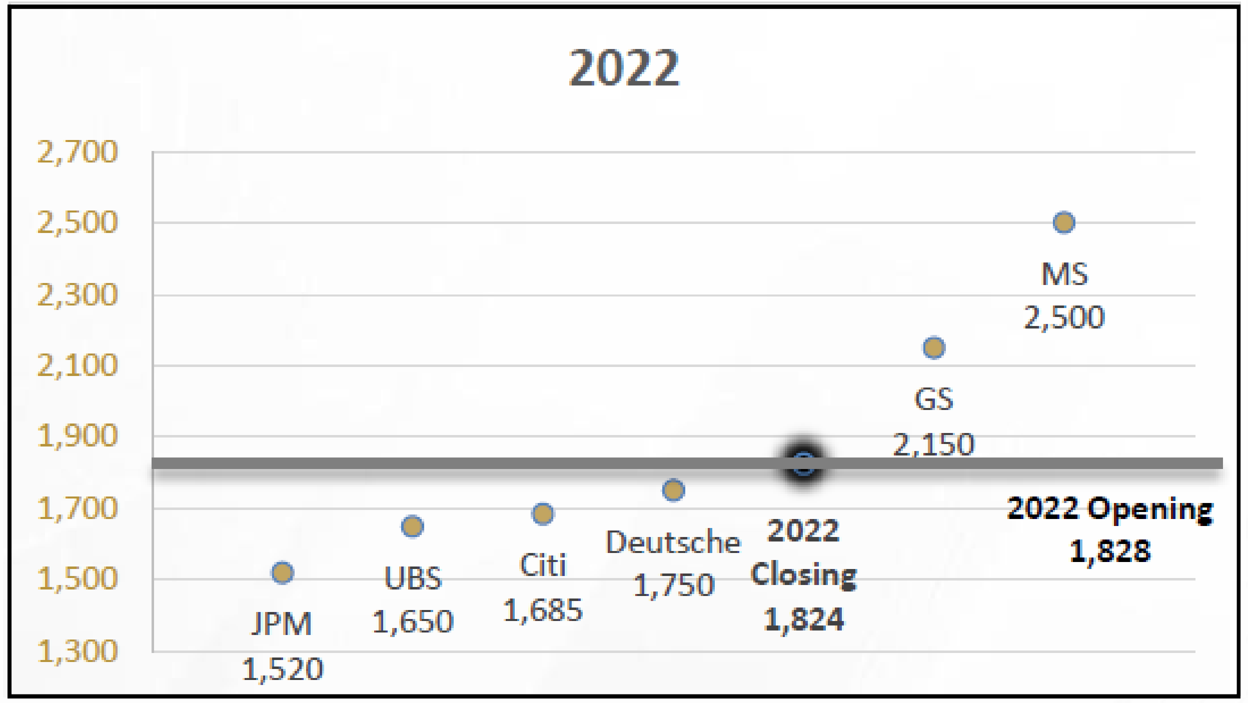


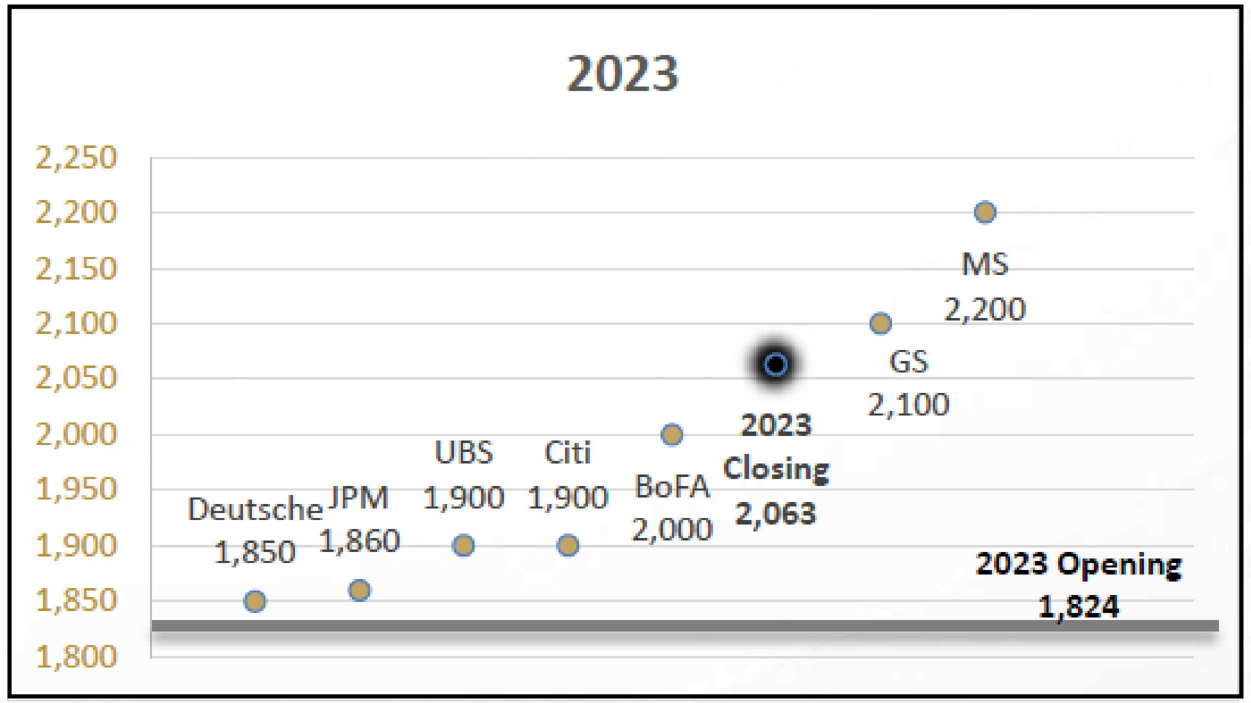


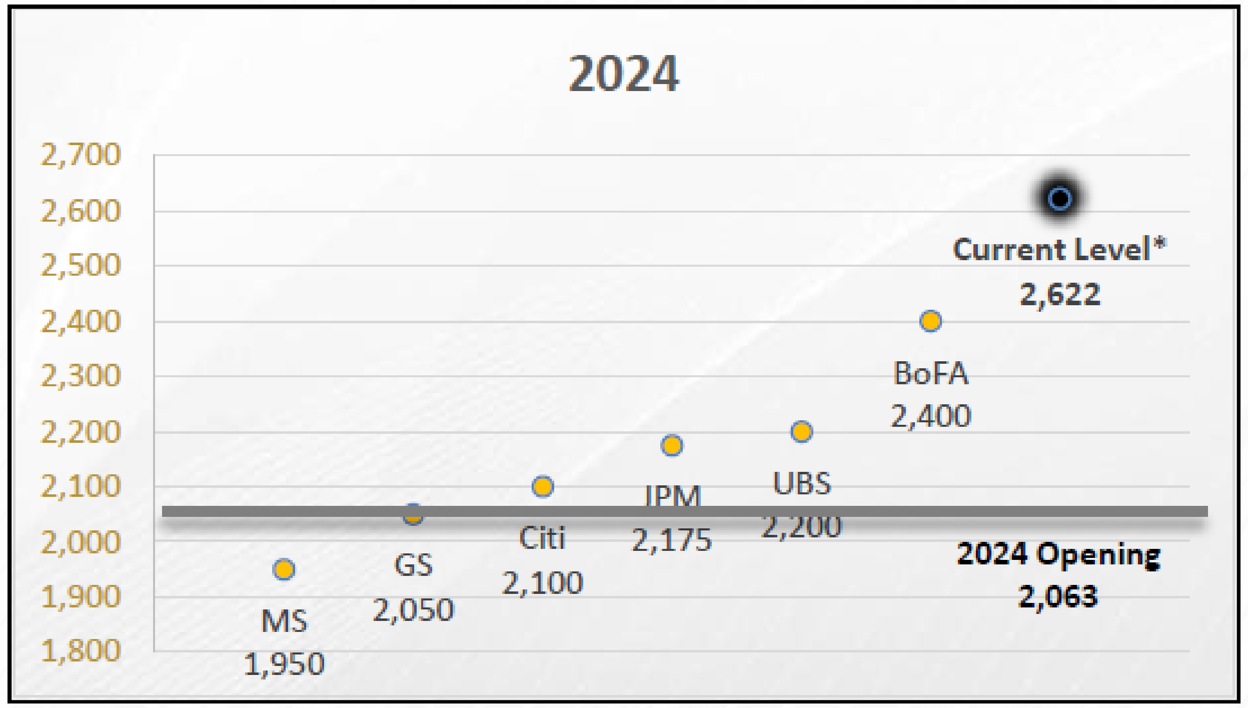


** Price level as of 27th Dec 2024*

A Look At Bank Forecasts v/s Actuals In The Last 3 Years: Gold

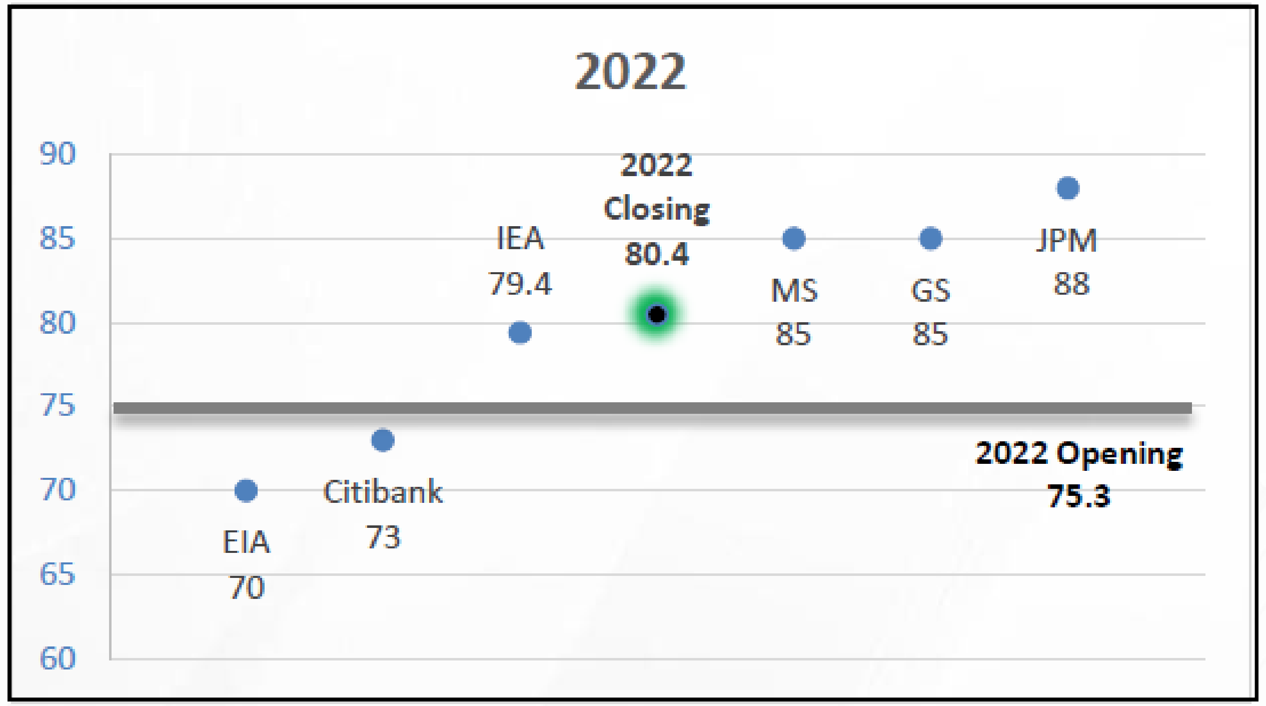


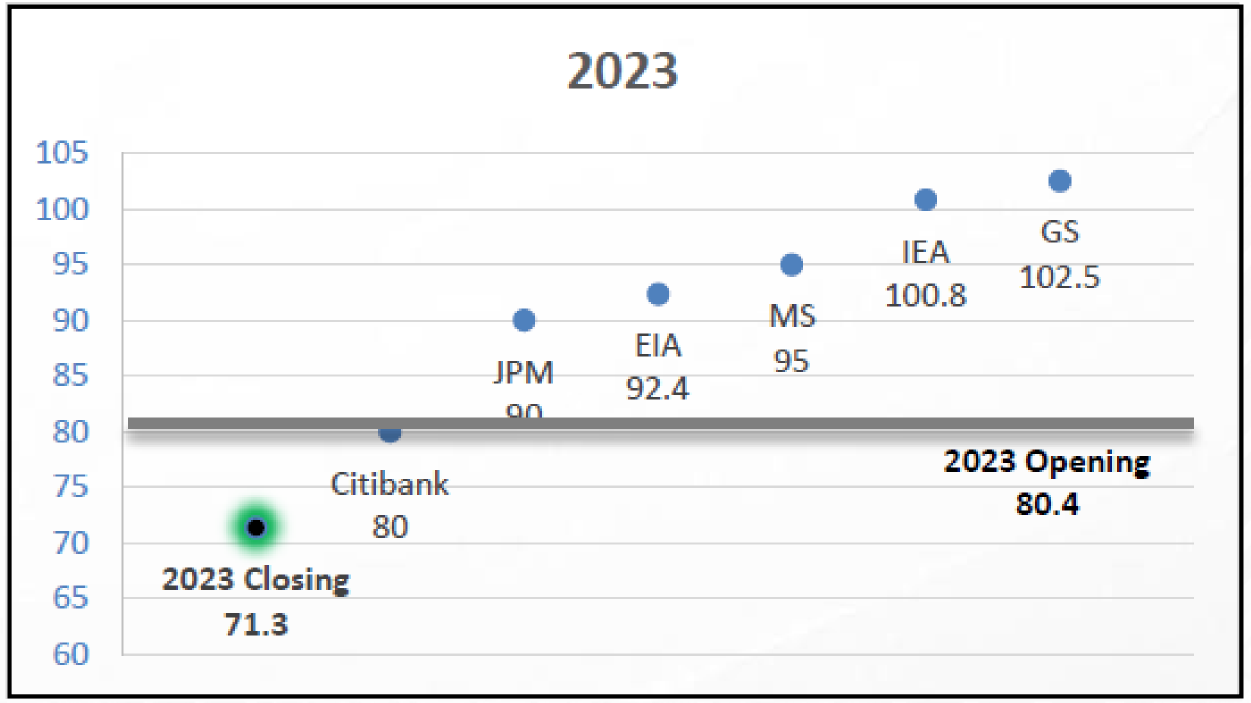


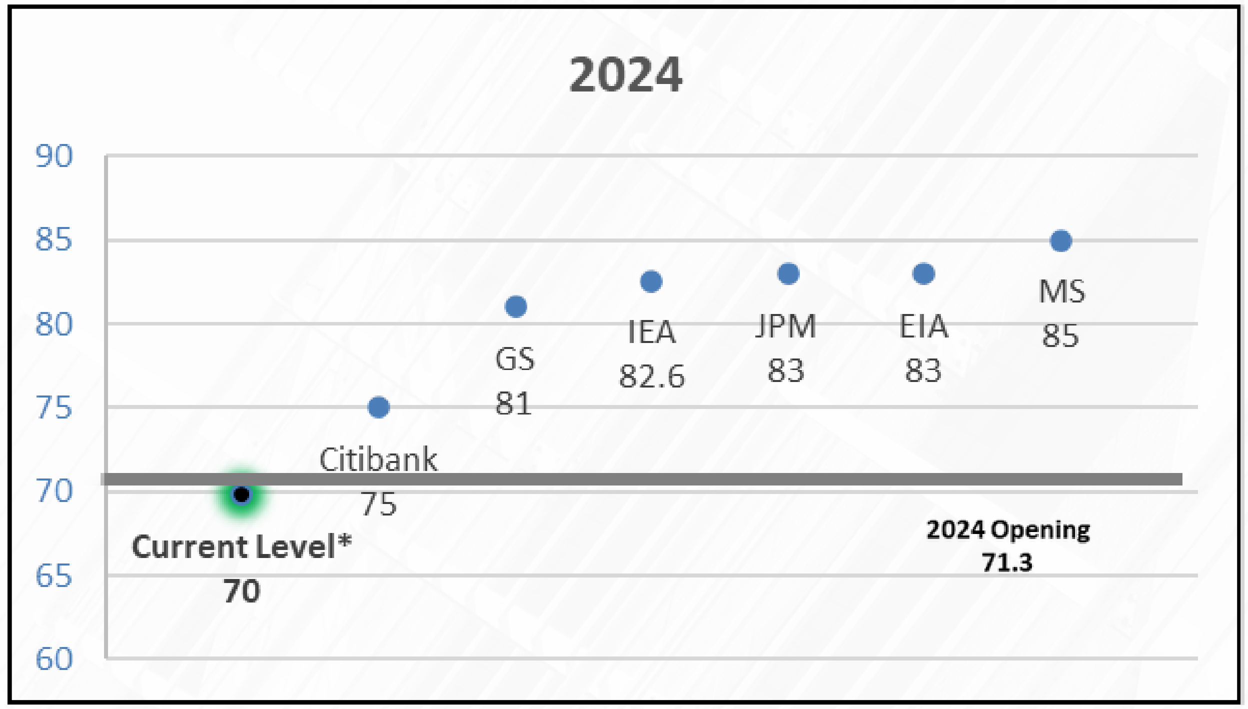


** Price level as of 27th Dec 2024*

A Look At Bank Forecasts v/s Actuals In The Last 3 Years: Oil







** Price level as of 27th Dec 2024*

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Wall Street Predictions 2025

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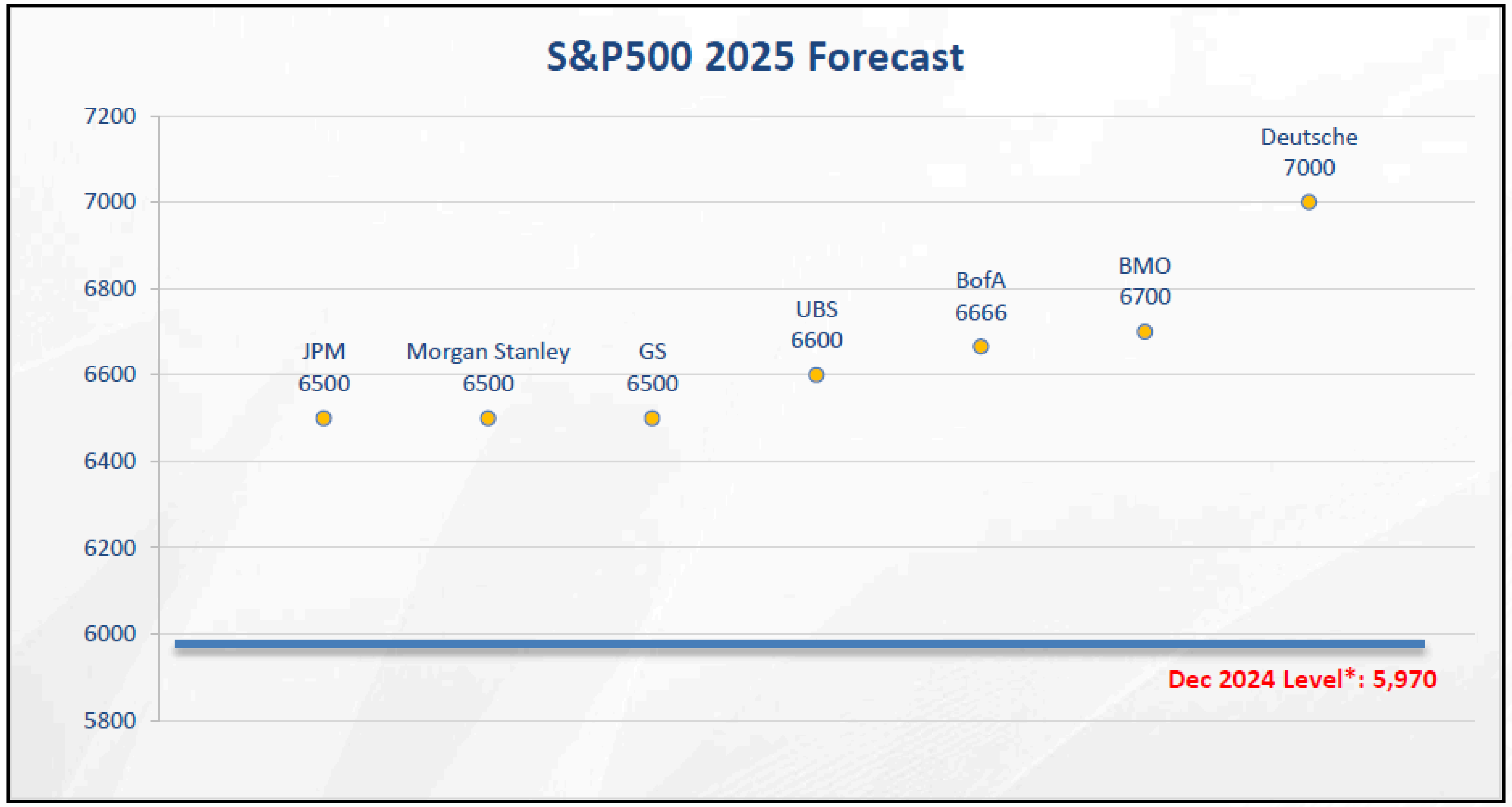
Looking Ahead at 2025: S&P 500



** Price level as of 27th Dec 2024*

Rationale for the two opposing views:

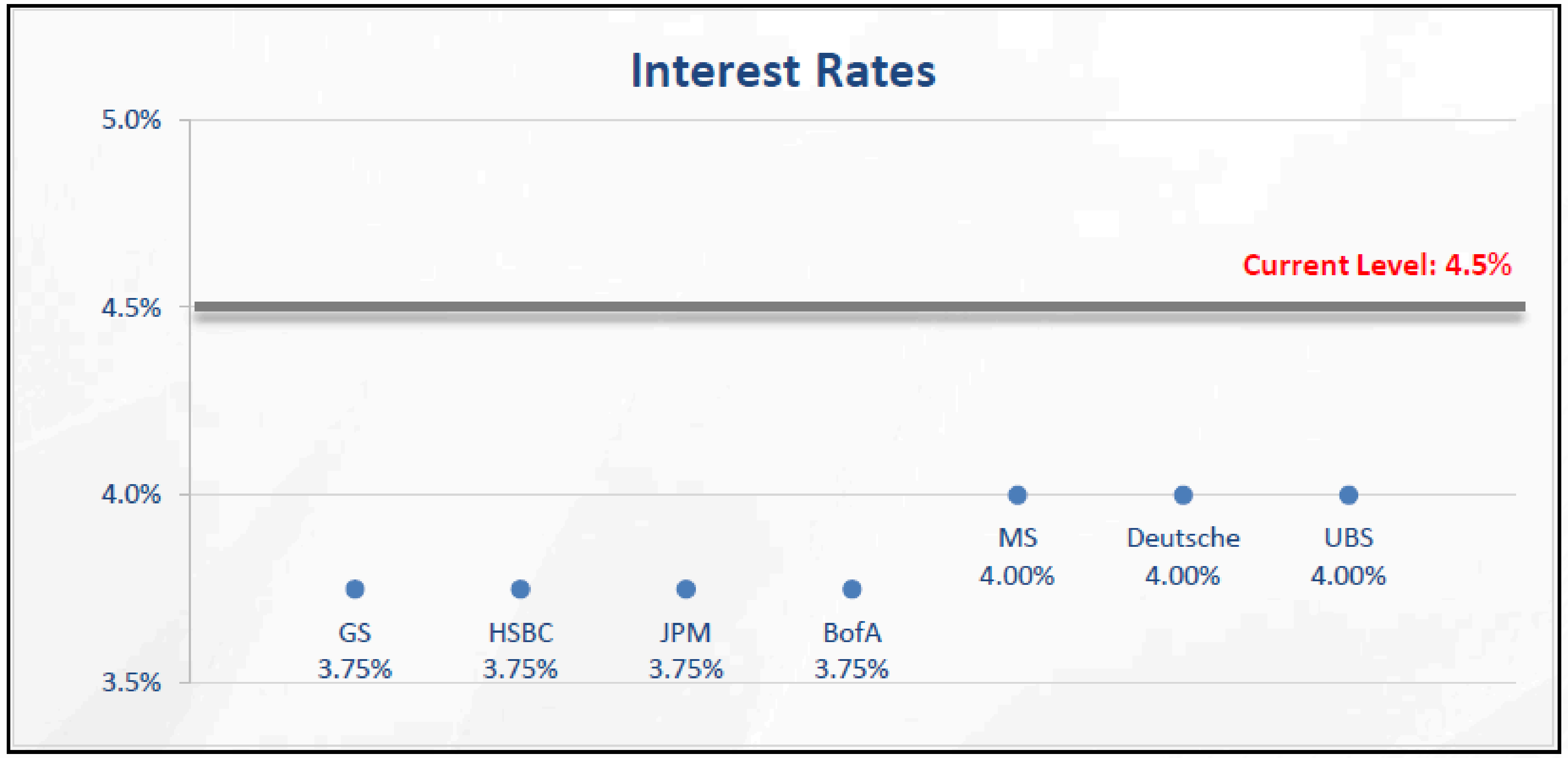
Deutsche Bank

- Robust earnings growth (14% estimated) to continue into the next year among other factors.
- From a demand-supply perspective the U.S. equity market remains solid, with drivers of the last two years – large inflows and strong buybacks – continuing into 2025.

Morgan Stanley

- Asset managers are holding their highest net “long” exposure to the S&P 500 in more than 20 years, signaling an unusually high degree of optimism that the index will keep rising.
- Fewer investors are buying equity “put” options relative to those buying bullish “call” options. The ratio of put to call options is below average, signaling that investors are more likely to expect stocks to go up.

Looking Ahead at 2025: US Fed Funds

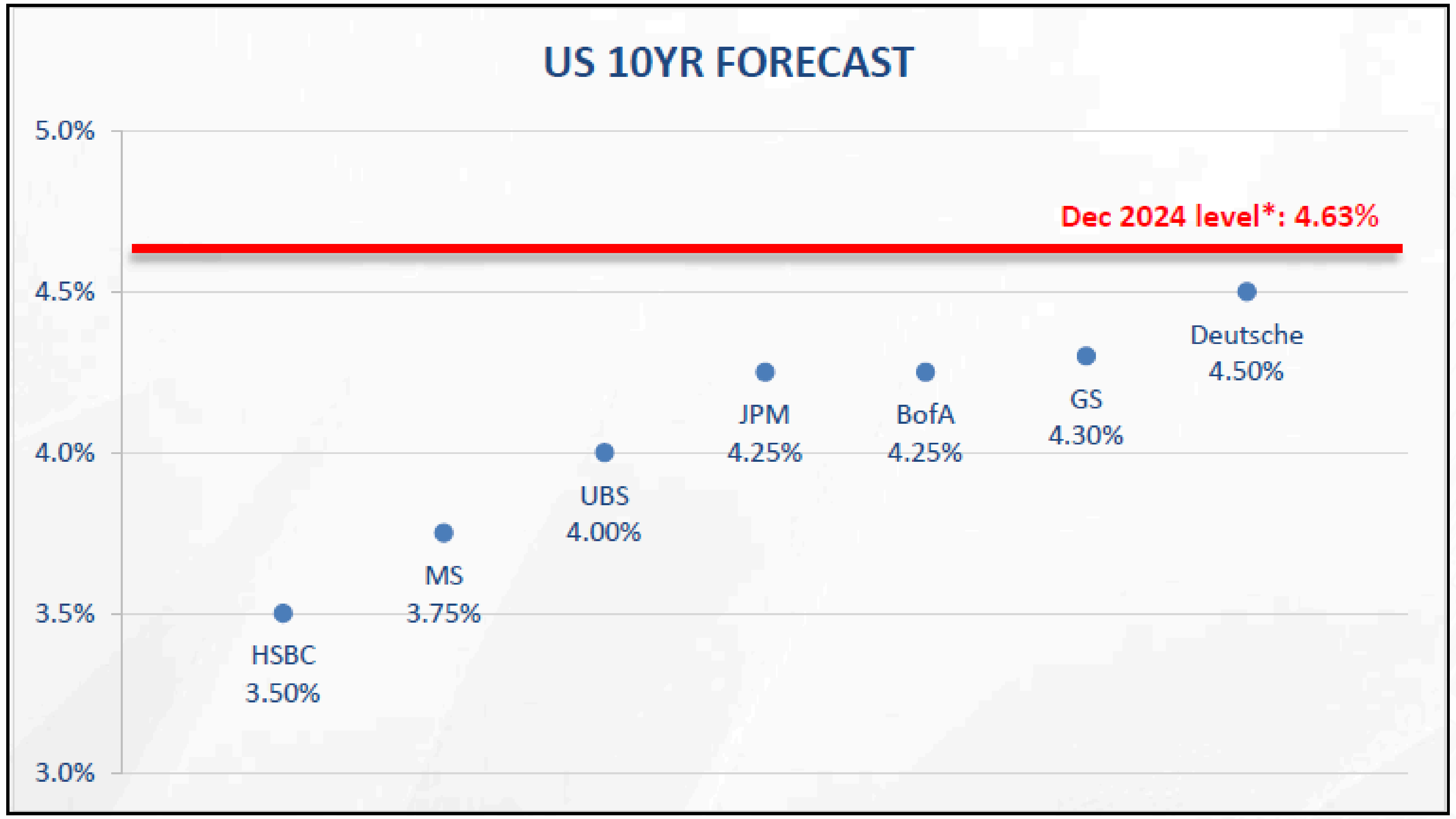


Rationale for the two opposing views:

UBS: We expect the Federal Reserve to deliver the next interest rate cut in June, by 25bps, followed by another one in September. Our own views on the economic outlook are similar to the Fed's, and we therefore have adjusted our rate cut forecast in line with the new dot plot.

HSBC: We expect "one more cut than the median expectation of Fed members, largely because we find it odd that the Fed is expecting no further deterioration in unemployment"

Looking Ahead at 2025: US 10Y Treasury rates



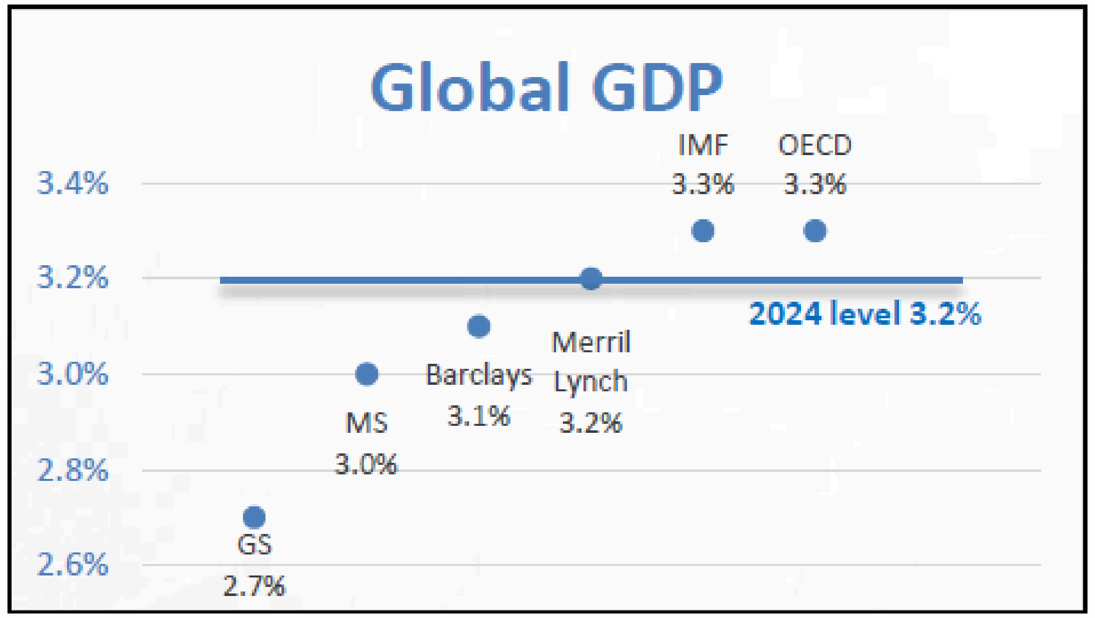
** price level as of 27th Dec 2024*

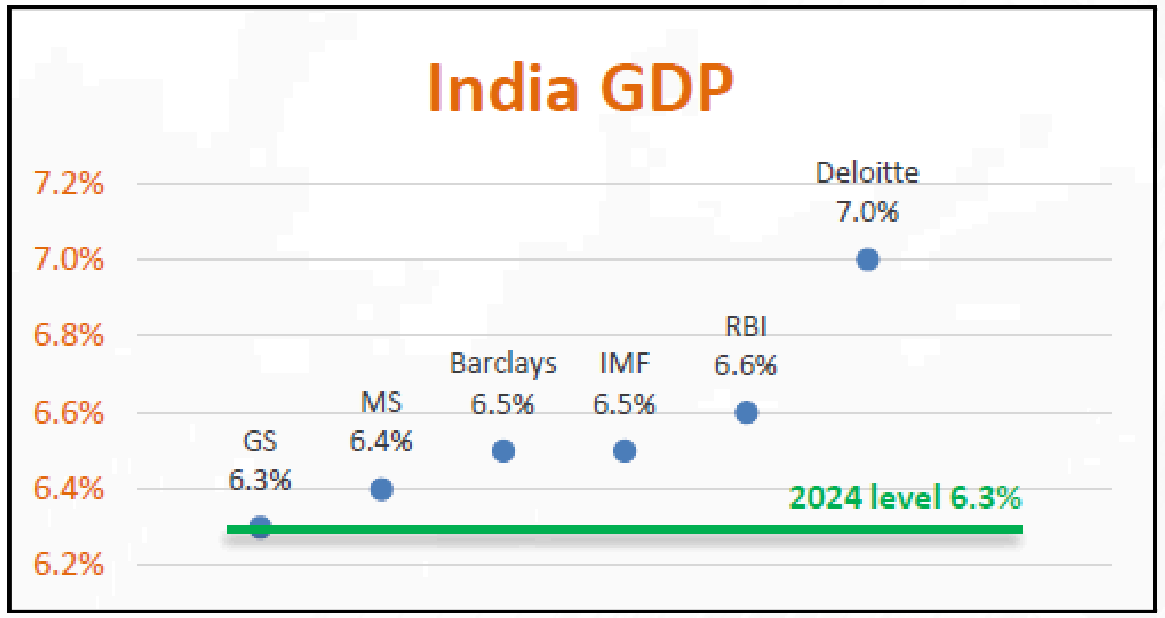
Rationale for the two opposing views:

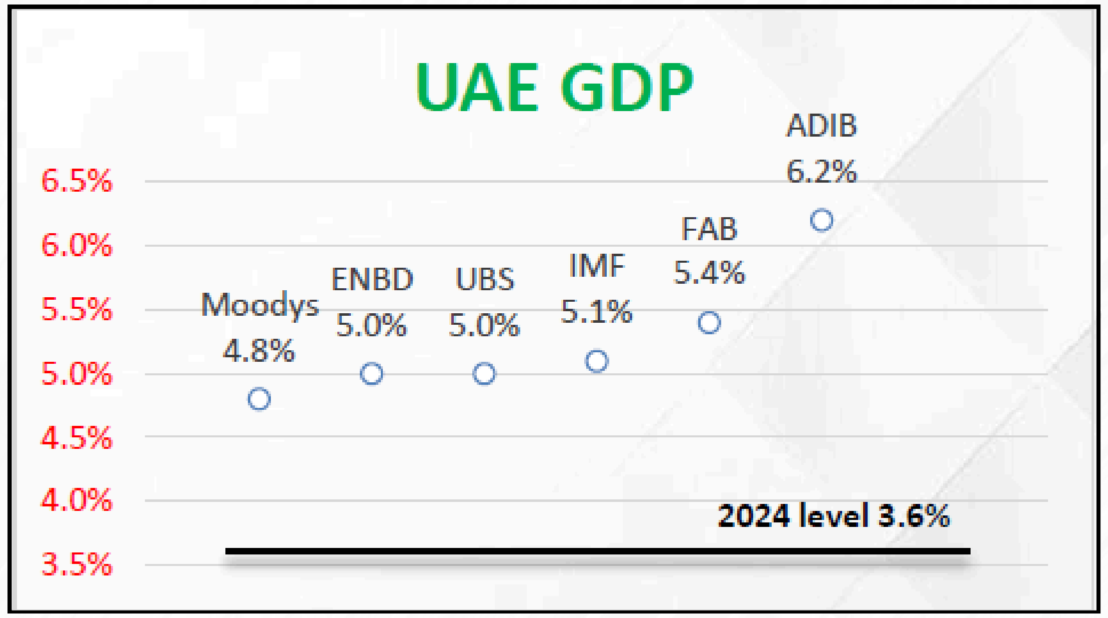
Deutsche Bank: The inverted yield curve has recently disappeared in the wake of slightly higher inflation expectations in the U.S. We expect this normalization to continue, not least because the U.S. Federal Reserve will limit its monetary easing activities to three further key interest rate cuts by the end of 2025 and supportive fiscal policy measures could drive up the term premium. In addition, the bond markets are likely to remain highly volatile and investors want to be compensated for the corresponding volatility risks.

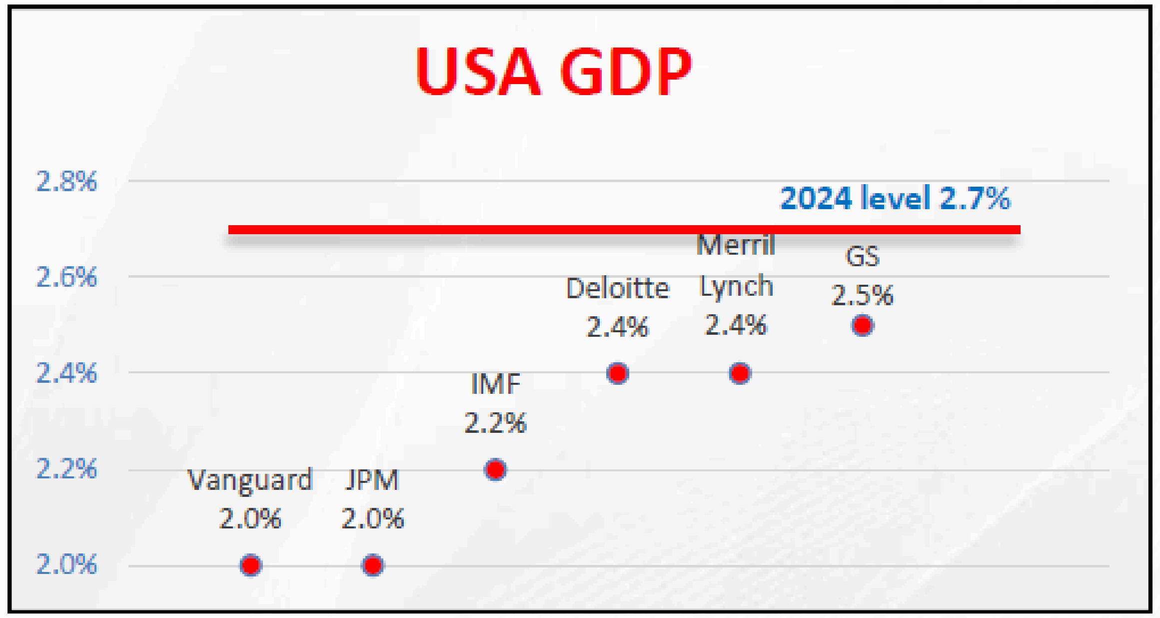
Morgan Stanley: The firm expects the 10-year Treasury to fall to 3.55%, down from its previous call of 3.75%, as they expect more Fed rate cuts than the market has priced in.

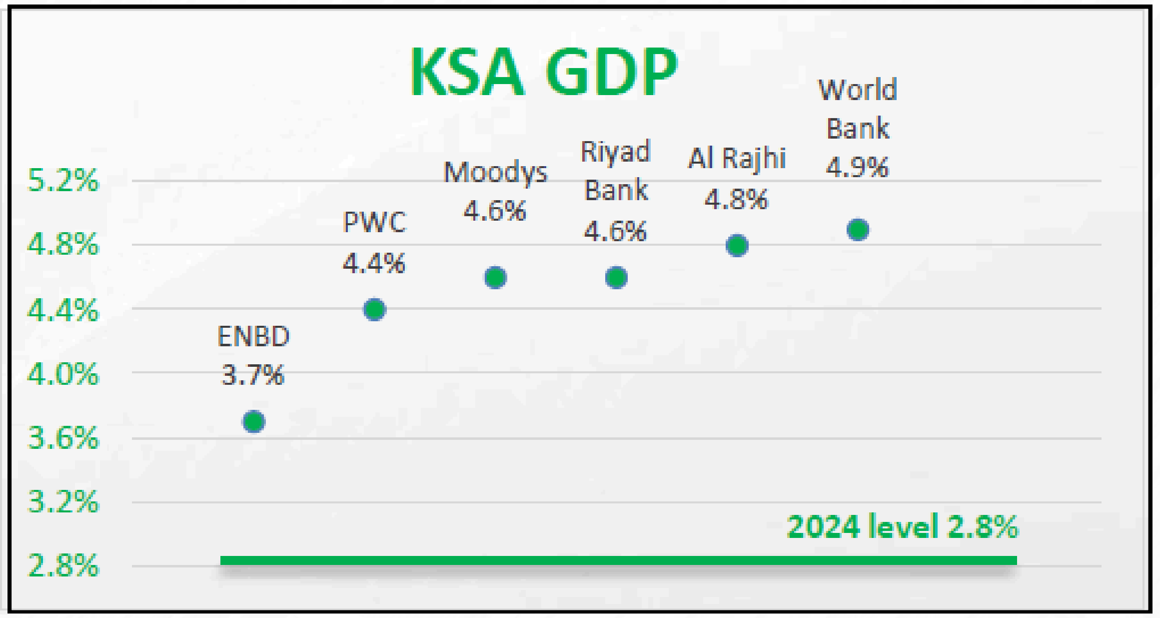
Looking Ahead at 2025: Real GDP



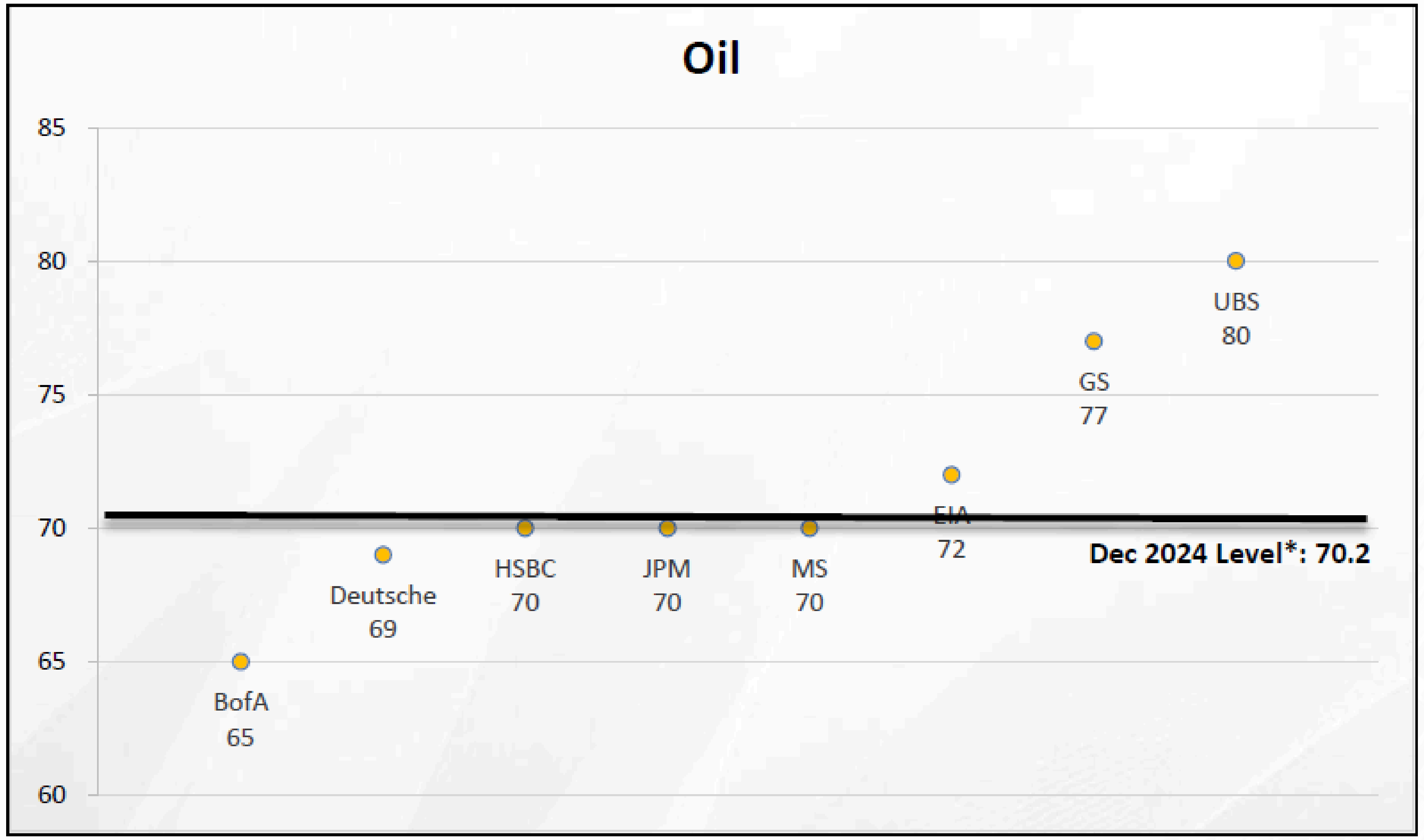








Looking Ahead at 2025: Oil



* Price level as of 27th Dec 2024

Rationale for the two opposing views:

UBS :

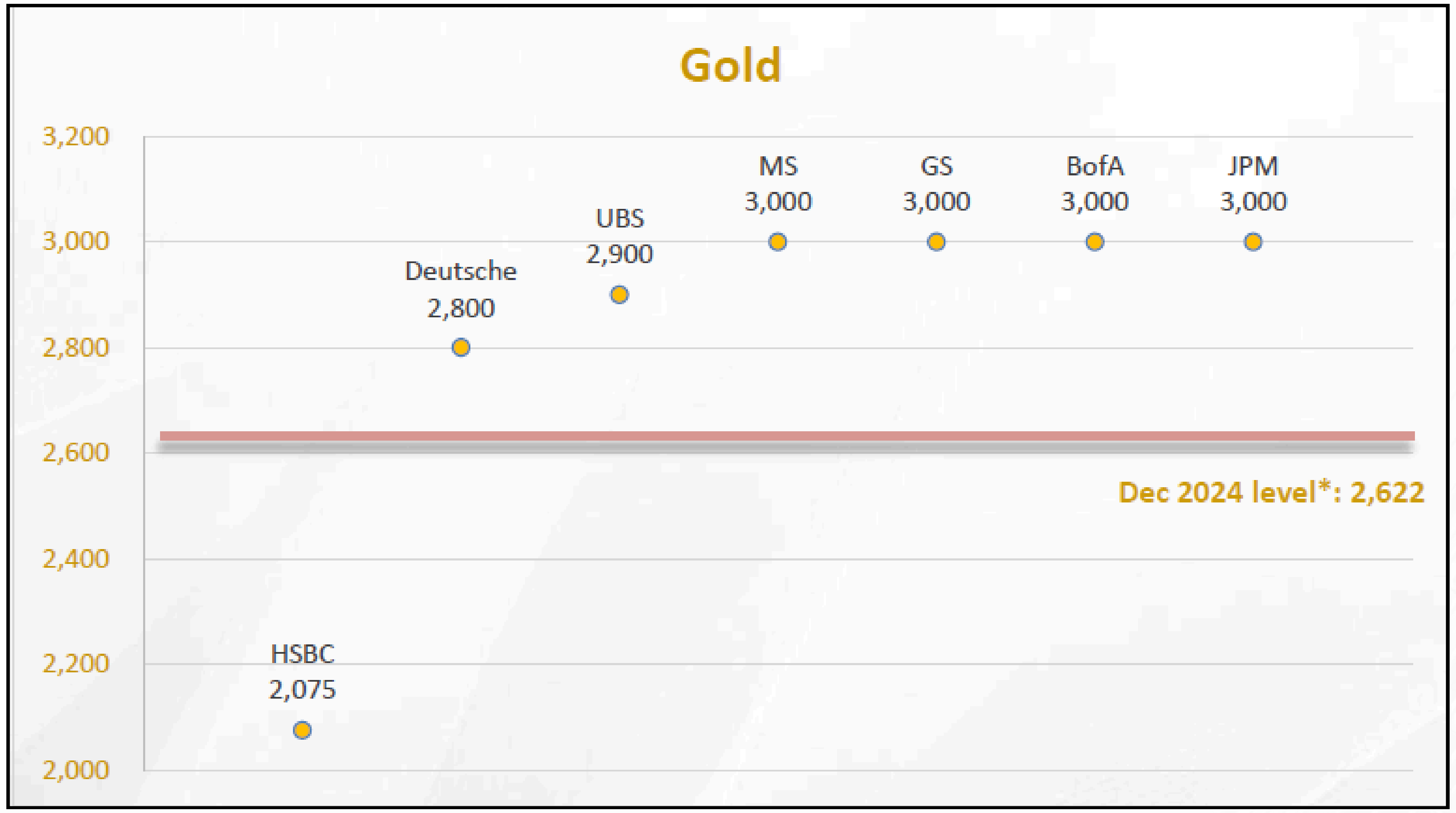
- The main reason for the downward adjustment is our new oil demand growth estimates, which we lowered from 1.5mbpd to 1.2mbpd this year and from 1.3mbpd to 1.2mbpd

- We see the oil market as balanced to marginally oversupplied next year. But as market participants anticipate a strongly oversupplied market, positioning of financial investors is therefore low. So, we continue to believe that prices have room to recover from current levels.

Bank of America :

Macro fundamentals suggest markets in 2025 will be oversupplied for oil.

Looking Ahead at 2025: Gold



** Price level as of 27th Dec 2024*

Rationale for the two opposing views:

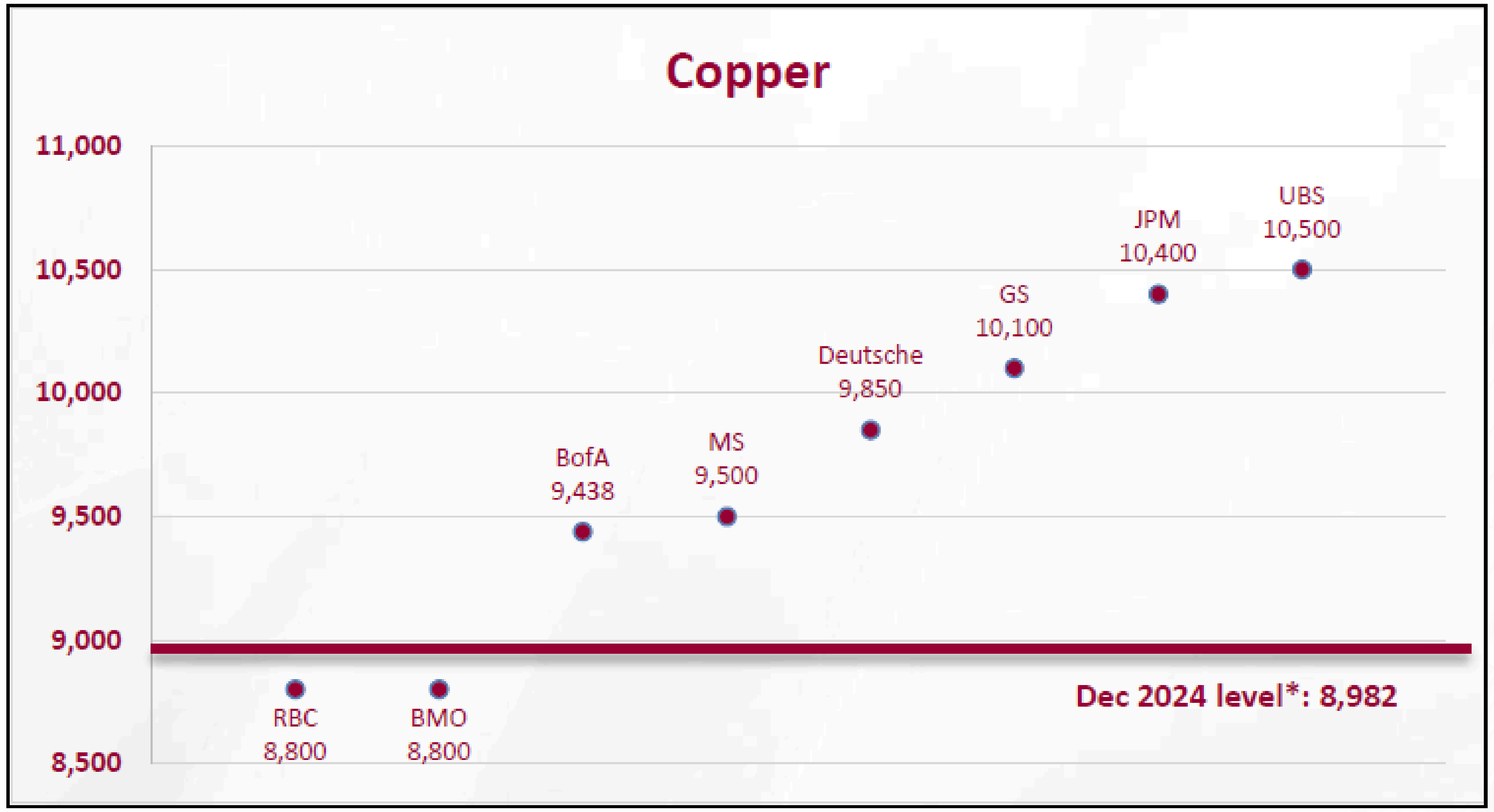
JPMorgan & Chase :
The rally looks set to rumble on for precious metals, with constrained supply setting the stage for stronger base metal prices later in 2025.

HSBC :

- It is worth remembering that **gold being priced in USD generally moves inversely to the USD.** Our base case for 2025 is that USD strength is likely to be supported by relatively high US yields, global growth uncertainties, and potentially its “safe haven” status.

- Nevertheless, there could be moments when the USD may face a squeeze lower. Our precious metals analyst thinks that gold prices are likely to have a volatile year, moving moderately lower by end-2025.

Looking Ahead at 2025: Copper



** Price level as of 30th Dec 2024*

Rationale for the two opposing views:

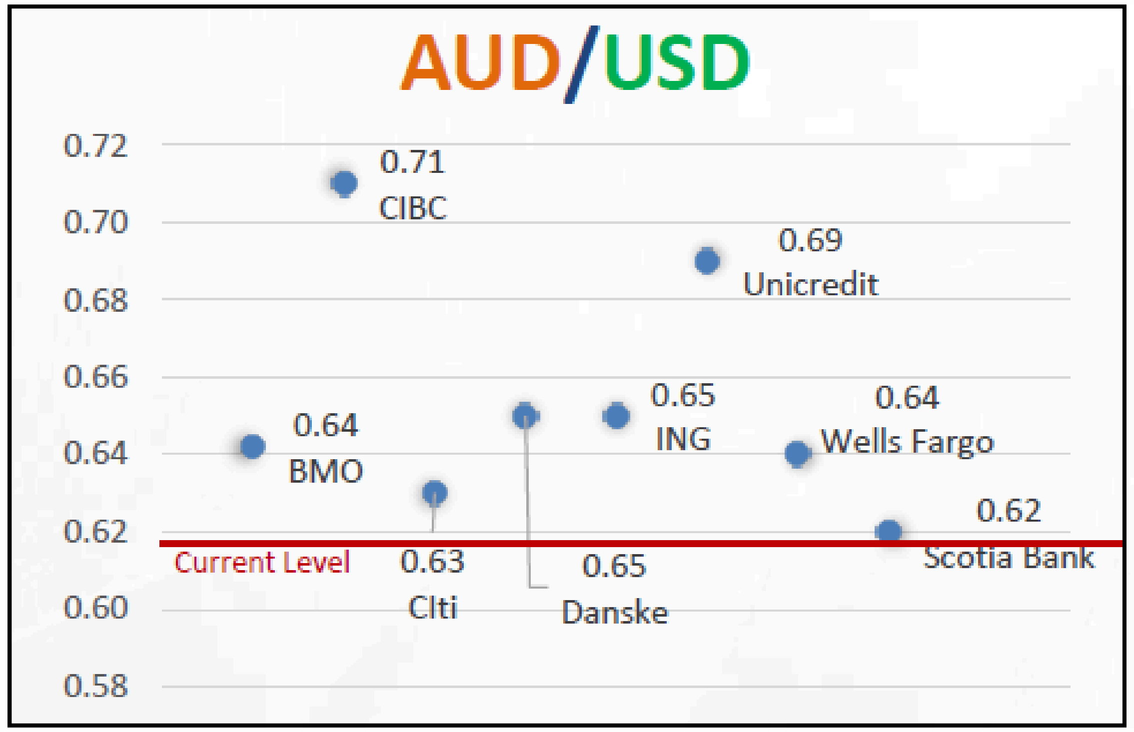
UBS:

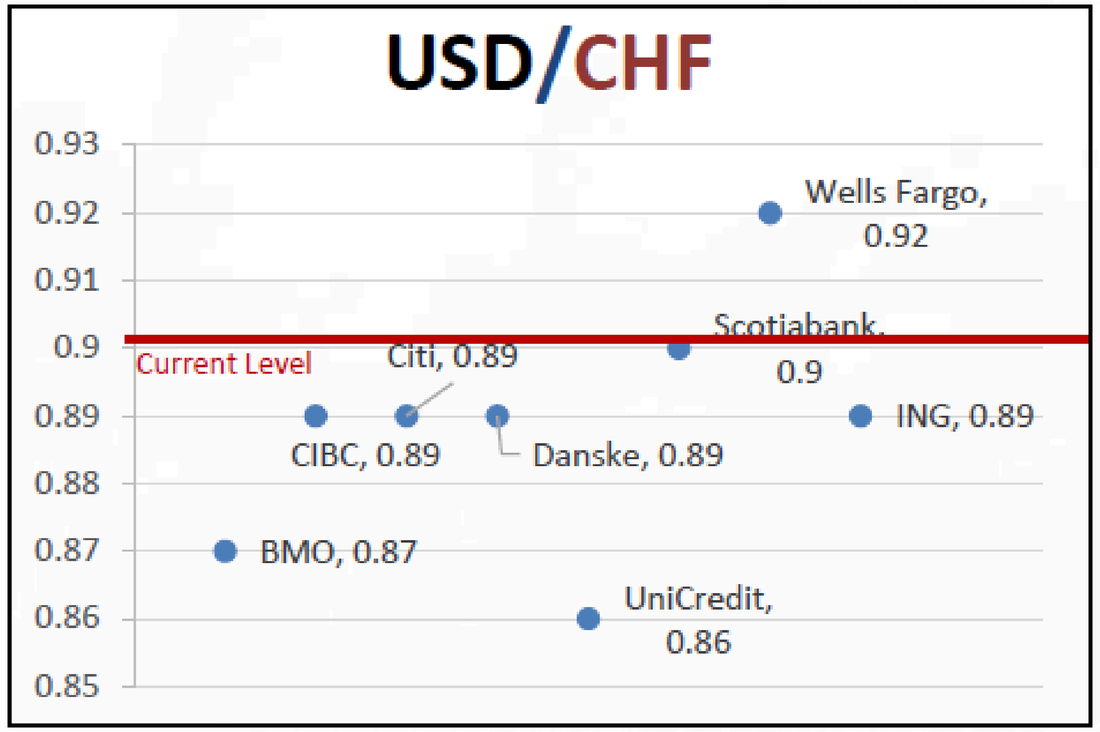
- Increasingly tighter supplies of copper in the coming six to 12 months could lead to a deficit of more than 200,000 tons in 2025, as demand grows for the metal key to energy transition.
- Demand from the new energy vehicles, solar, wind and China's grid investment remains resilient; and copper is also benefiting from high-growth industries such as the data centers for artificial intelligence (AI) and defense needs
- Moreover, consumption in Europe and the United States is likely to improve as an easing monetary cycle will help to raise finance for traditional industries such as construction, manufacturing and consumer durables

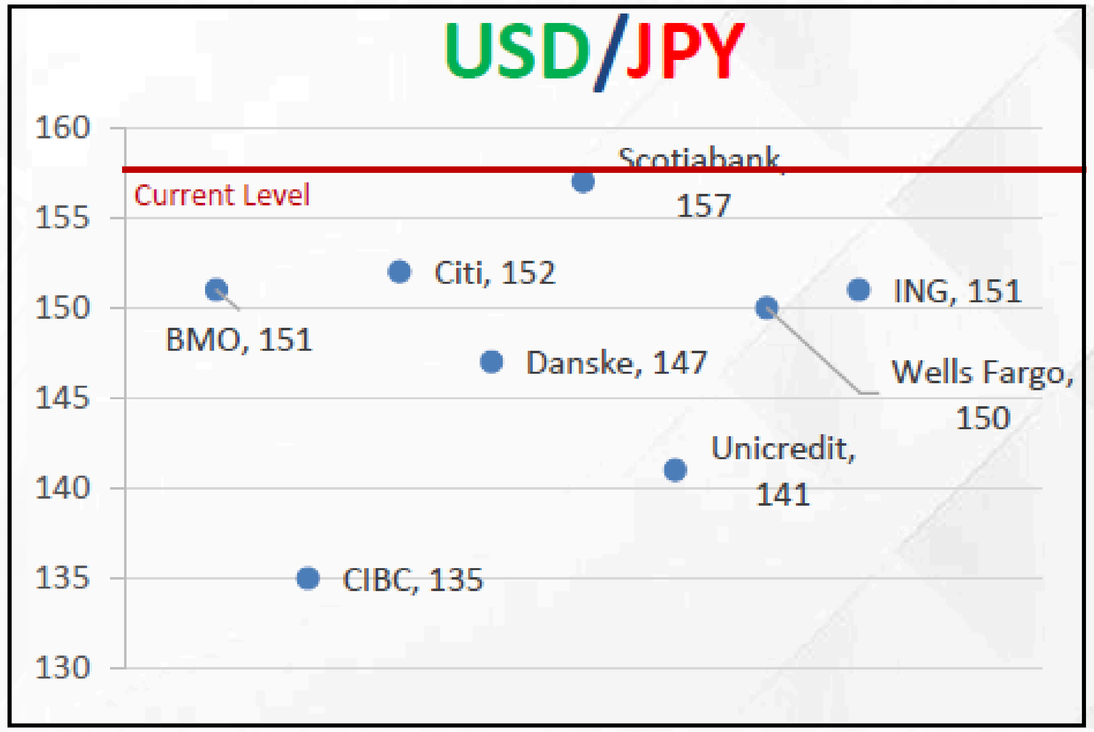
BMO capital Markets:

- Copper markets will remain well supplied in 2025 says BMO and at around 2.8% growth will be higher relative to recent history.

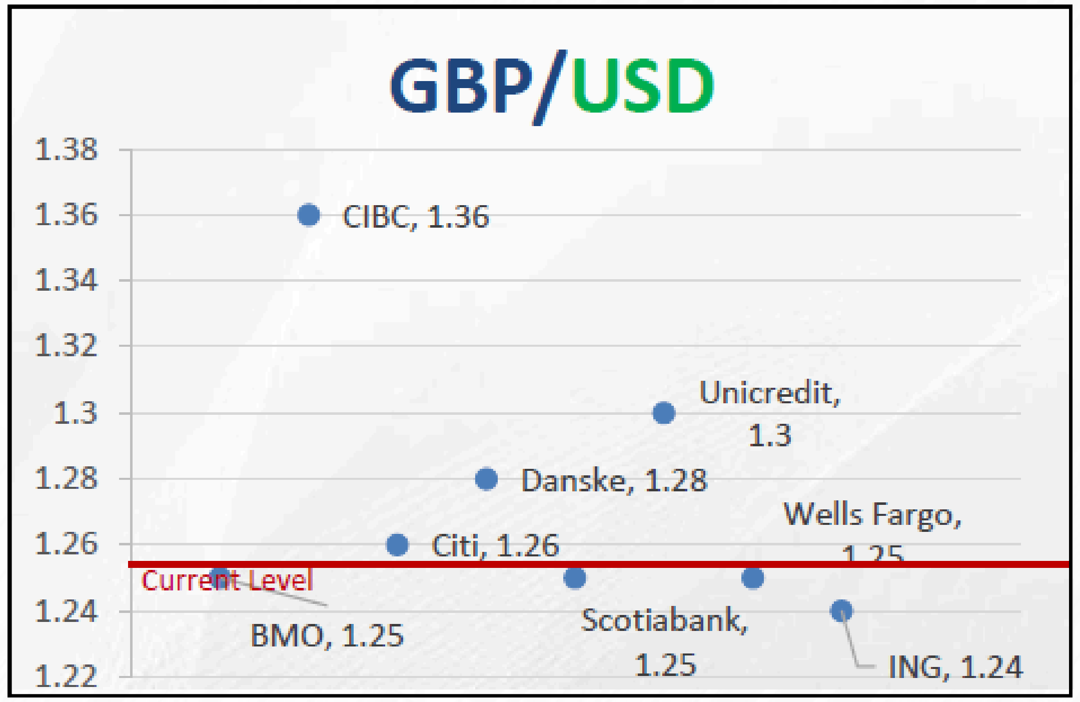
Looking Ahead at 2025: Currencies

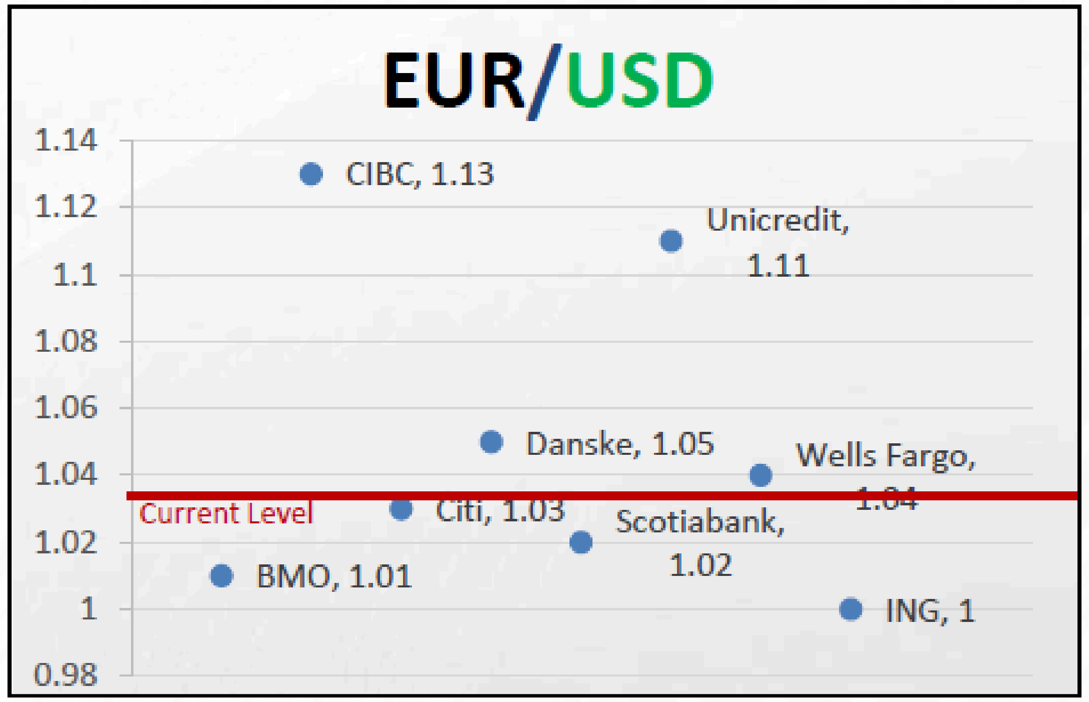






Currency pair	(As of Dec 31, 2024)
AUDUSD	0.6183
USDCHF	0.90113
USDJPY	157.312
GBPUSD	1.25113
EURUSD	1.03549





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