EFG *Investment* Summit

7–8 JANUARY, 2025

EFG *Investment* Summit

2025

Daniel Murray, Deputy CIO & Global Head of Research

Moz Afzal, Chief Investment Officer

The EFG Investment Summit 2025 took place at the Corinthia Hotel in London on 7 and 8 January, welcoming colleagues globally in person and of course those attending remotely. The underlying themes of this year's event were Authenticity, Creativity and "First Principle" Thinking. The theme of authenticity was exemplified by Gary Knight as he shared his experiences as a war photojournalist. Dr Eliza Filby delivered an engaging talk around understanding generational wealth shifts. In addition, we presented a curated selection of insights, ranging from geopolitics, artificial intelligence and global market outlooks to name a few.

We hope you enjoy this summary compilation of the topics discussed.

Central Bank Panel

Moz Afzal, Daniel Murray and Stefan Gerlach

EFG

Central Bank Panel

Moz Afzal, Daniel Murray and Stefan Gerlach, EFG

Stefan Gerlach, EFG

Daniel and Stefan recently took a trip to Washington, meeting with people from the Federal Reserve, IMF, World Bank, and various other organisations. Stefan highlighted that usually on these trips people want to talk about US monetary policy, inflation and the risk of recession, and it was notable that on this occasion, there was nobody who wanted to do so. Instead, the focus was entirely on what Trump's policies will be. Much of the discussion regarded trade policies, with divergent views about whether large tariffs will be implemented or are being used as a negotiation tactic.

At the Investment Summit, Daniel discussed another key takeaway being the potential implications of Trump's proposed immigration policies. While immigration in the US has become politically unpopular, he argued that it is one of the reasons the US economy has been so robust over the past few years, with a surge in immigration contributing to the growth premium the US has enjoyed over the rest of the developed world.

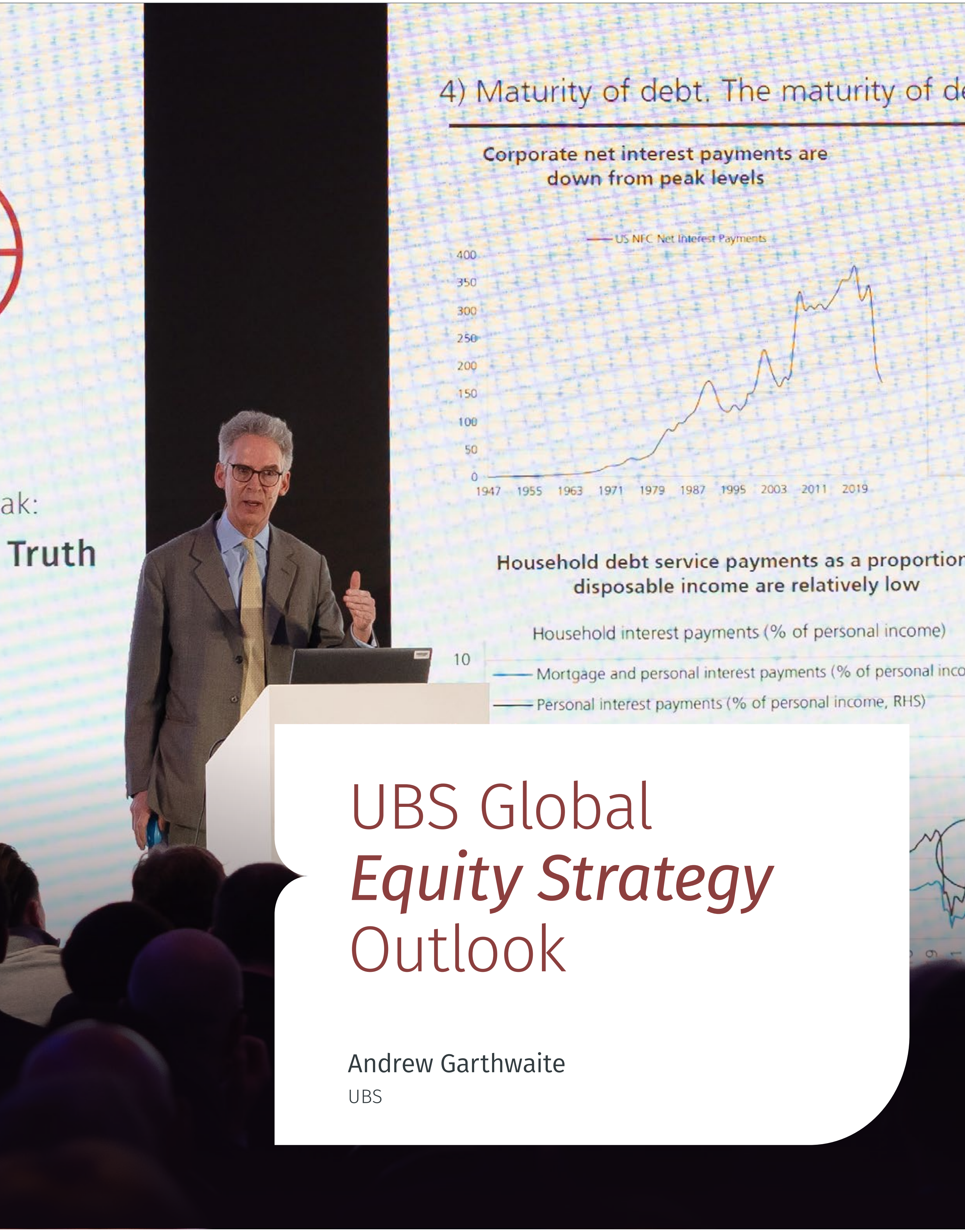
Markets expect tighter monetary policy and a stronger US dollar when Trump is in power, attributed more to stronger growth than higher inflation. This opened an interesting debate with Moz questioning whether populist policies are good or bad for economies. Stefan referred to some work by economic historians which suggests that on average a country's GDP growth is weaker than its trend rate by around 0.6% per annum under a populist government.

Yet the negative economic impacts of a populist government can take time to emerge. Daniel highlighted that policies which are popular among electorates, such as lower taxes and higher spending, tend to be positive for growth in the short run. It is in the longer run, as debt levels rise and inflation de-anchors, that growth weakens.

> By definition populist policies get people elected in the short-term, but history suggests that in the longer run they do have negative consequences.

Europe, meanwhile, is on a different path relative to the US. The eurozone faces a situation in which inflation has fallen back and there is evidence the economy is slowing. However, inflation is not yet at 2% and there is a concern whether monetary policy can be relaxed now or whether high interest rates need to be maintained to push inflation back to 2%.

Stefan spoke of a relationship in which countries in the eurozone, where manufacturing makes up a large part of the economy, generally have worse sentiment than countries where this is not the case. This could reflect some of the structural issues that are more prevalent in these economies, which may become more apparent as the European Central Bank normalises interest rates.



UBS Global *Equity Strategy* Outlook

Andrew Garthwaite
UBS

UBS Global *Equity Strategy* Outlook

Andrew Garthwaite, UBS

UBS forecasts US GDP growth to decline from 2.7% in the third quarter of 2024 to 1.7% in the third quarter of 2025. Andrew identified four key contributors to this slowdown.

1. First, the depletion of excess savings accumulated during the pandemic has eroded consumer spending power, particularly among lower income households.
2. Second, shifts in fiscal policy, including the reduction of tax credits, are projected to subtract approximately 0.5% from GDP growth.
3. Third, the effects of a recent surge in immigration, which temporarily boosted both supply and demand, are stabilising.
4. Finally, the delayed impact of rising interest rates is becoming evident. With 84% of household debt in the US on fixed rates, the full effects of monetary tightening are only now being felt, as evidenced by rising credit card delinquencies.

> Excess savings, at one point were 10% of GDP, now they're 2% of GDP.

Inflation is forecast to moderate, with 6-month annualised core inflation expected to fall below 2% in the second half of 2025. Andrew attributed this trend to slowing wage growth, given wages account for almost half of total inflation. This environment provides room for the Federal Reserve to implement more rate cuts than currently forecast, potentially lowering the fed funds rate to 3.25% by late 2025.

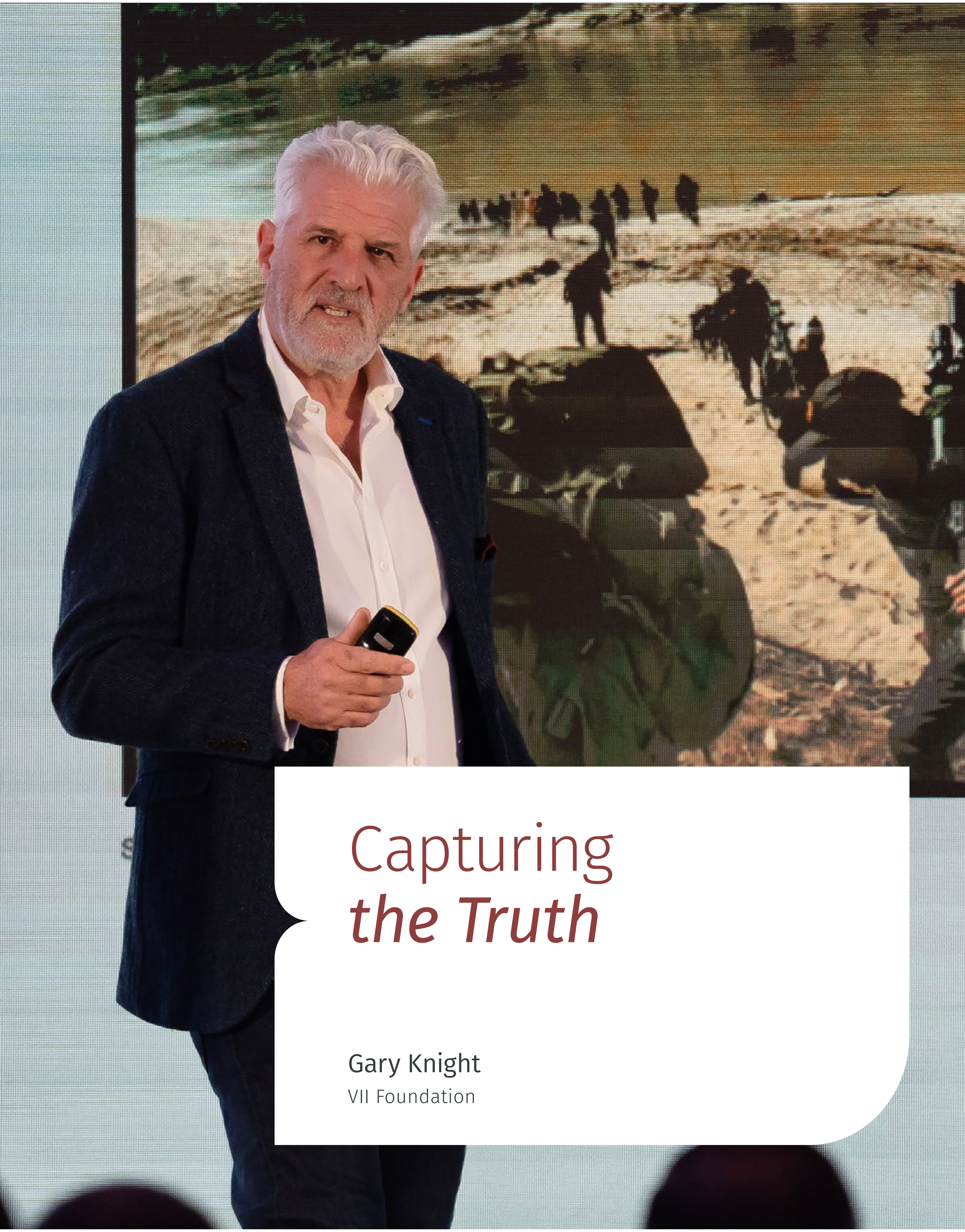
UBS have set a 2025 year-end target for the MSCI ACWI that reflects a 7% upside. **Productivity gains from artificial intelligence will be the single most important driver of upside for the market, in Andrew's view.** Its applications, ranging from advertising to drug discovery, are transforming industries by reducing costs and accelerating timelines. Other fundamental factors such as low default rates and stable credit spreads are supporting favourable equity risk premiums. Slowing wage growth relative to producer prices is alleviating margin pressures outside the market's largest companies. Finally, rate cuts paired with a soft landing have historically led to strong market performance.

The upside risk is a market bubble, with a 35% chance of forming. Key conditions often linked to market bubbles are present, including prolonged equity outperformance over bonds, profit pressures, narrowing market breadth, technological disruption, a 25-year gap since the last major bubble, and heightened retail investor optimism. The final precondition, benign monetary conditions, has not yet been met.

> We have potentially six preconditions in place for a bubble, and we might get all seven.

Andrew highlighted opportunities in the **electrification of global energy systems, noting that 70% of energy will need to come from electricity by 2050, up from 20% today, alongside nuclear energy, with uranium demand expected to triple over the same period.**

Andrew favours China and UK equity markets, citing their attractive valuations. While maintaining a neutral stance on the US, he prefers to focus on small-cap stocks and defensive sectors, while adopting a cautious approach to cyclical stocks.



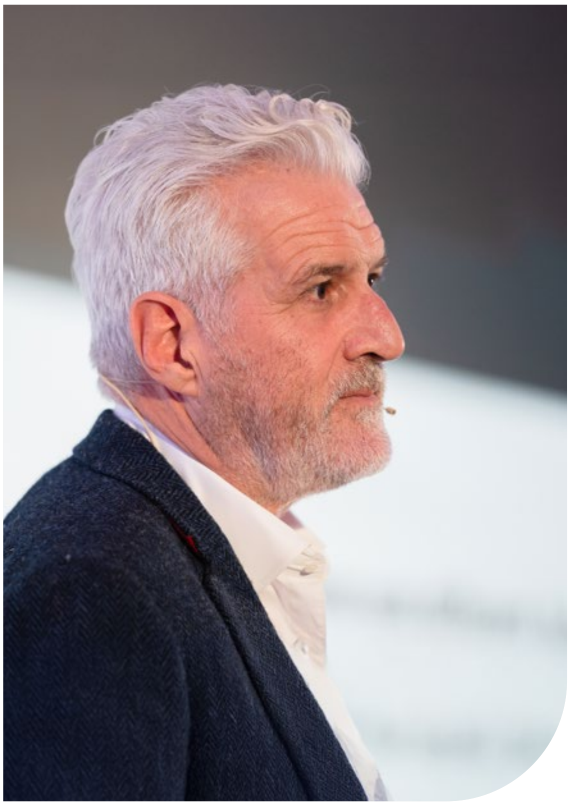
Capturing *the Truth*

Gary Knight
VII Foundation

Capturing *the Truth*

Gary Knight, VII Foundation

Renowned photojournalist Gary Knight delivered a compelling speech reflecting on his career and the evolving field of journalism, particularly war journalism. He began by expressing his anxiety about speaking to an audience of investment professionals, likening it to the tension he felt during the invasion of Iraq. He then embarked on a journey through his career, highlighting the transformative moments and the significance of being present to capture authentic stories.



> We all need to push back against political interference and killing journalists is political interference.

Three iconic war photographs were showcased to illustrate the power and lasting impact of war imagery. The first was Robert Capa's photograph from Omaha Beach on D-Day, which has become a timeless reference for the Normandy landings. He emphasised Capa's philosophy that impactful photographs require proximity to the subject. The second image was Joe Rosenthal's photograph of US Marines raising the flag at Iwo Jima, which became a symbol of American resilience and was used to raise significant funds for the war effort. The third was Nick Ut's photograph of a young girl, Kim Phuc, fleeing a napalm attack in Vietnam, which highlighted the horrors of war and influenced public opinion.

> If your photographs aren't good enough, you aren't close enough.
>
> **Robert Capa**

Gary recounted his experiences during the Iraq invasion in 2003, where he aimed to capture both military and civilian perspectives. Amongst the challenges and dangers that faced was the navigation through hostile environments and the moral conflict within Newsweek, where field reports often clashed with the Washington Bureau's narrative. This conflict led Gary to question the integrity of his work and eventually shift his focus.

The VII Foundation, of which Gary co-founded, emerged from conversations among war photographers during the Bosnian War. The agency aims to give photographers more control over their work and impact. Challenges faced by the Foundation were highlighted, including the commodification of photography by large corporations, which undermine the freelance market.

The importance of local journalism in providing critical information was addressed, especially in conflict zones where foreign correspondents are scarce. He emphasised the need for accountability and the protection of journalists, who face increasing threats in the digital age. **Gary concluded by discussing the VII Foundation's efforts to mentor and train the next generation of journalists, particularly from underrepresented regions, to ensure the continuation of authentic and impactful storytelling.**

The Economic and Investment *Implications of Trump 2.0*

Dan Clifton
Strategas

The Economic and Investment *Implications of Trump 2.0*

Dan Clifton, Strategas

Dan opened by highlighting that economic volatility has fuelled political volatility since the 2008 financial crisis. Declining US GDP growth rates, from a historical average of 3% to 2%, have left Americans $5tn poorer, intensifying voter demand for political change. This trend is mirrored globally, with rapid political shifts occurring in Germany, France, and Canada.

> Voters know that their standard of living isn't rising as fast as it should be, and they're demanding political change.

> The Games of Thrones are back in the White House.

On the US election, he observed that Trump's success in building a multi-ethnic, working-class coalition represented a significant shift in US political dynamics, with notable gains among women, non-white voters, and younger demographics.

Dan outlined the new administration's priorities, starting with aggressive immigration enforcement, trade policy aimed at reducing reliance on China, increased domestic investment, tax cuts, deregulation, lower government spending and ending the wars in Ukraine and the Middle East. Notably, many of these policies can be enacted through executive orders, bypassing Congress.

On trade policy, Dan argued that the market has likely overestimated the scope and impact of Trump's global tariff plans. The tariff plan would only target critical imports deemed essential for national security, which would provide Trump the legal authority to implement it. Imposing a blanket tariff on all goods entering the country would exceed his legal authority. Trump's goal on China is to impose higher tariffs to drive down imports from the country. Dan cautioned that the Federal Reserve's interpretation of these trade policies, particularly their inflationary effects, will be critical to avoid significant monetary policy errors.

A significant liquidity injection of approximately $300bn is expected in February 2025 due to the US government hitting its debt ceiling on 1 January 2025. This influx could cushion potential policy missteps by Trump or Powell and provides a catalyst for lower bond yields and a weaker dollar. The weaker dollar and overestimation of Trump's tariff plan could lead to a reversal in the Trump trades and a market rotation into undervalued sectors like healthcare, materials, and industrials.

Dan argued that the Department of Government Efficiency (DOGE), led by Elon Musk, is more of a deregulation initiative than a spending commission. The primary areas of deregulation are expected to be in financials and industrials and believes that there will be a meaningful pickup in US economic productivity as a result.

The key issue 2025, Dan noted will be tax policy, with a $400bn fiscal cliff approaching on 31 December 2025. Congress must navigate negotiating the extension of expiring tax provisions amid divisions within the Republican Party's narrow majority. Despite challenges, a bill is anticipated by July 2025, likely including a corporate tax rate cut for domestic manufacturers and a debt ceiling increase.

The Great *Wealth Transfer*

Dr Eliza Filby
Sunday Times Top 10 Bestseller

The Great *Wealth Transfer*

Dr Eliza Filby, Sunday Times Top 10 Bestseller

> Bad parenting is the biggest risk to your client base.

Dr Eliza Filby discussed the importance of servicing intergenerational clients for businesses such as EFG. She spoke not just of the great wealth transfer, but also about the great gender wealth transfer and why it's critical to be engaging female family members as much as male ones. To emphasise the importance of this point, Eliza highlighted that there has already been a 10% increase in the percentage of women who now classify as ultra-high net worth.

Eliza walked us through some of the characteristics of what is now a multigenerational client base, focusing on Baby Boomers, Generation X, Millennials, and Generation Zoom. She began by telling a story which illustrated a generational gap in understanding and spoke about how the role of the wealth manager is to bridge that gap and ensure succession for both the family and the business.

Continuing to discuss some of the characteristics of the different generations, it was highlighted that Generation X was the generation in which female graduates started to outnumber male graduates, a trend which has continued ever since and led to the growth of female professionals as a cohort.

While Millennials are the best educated generation in history, the reward on this investment has not materialised in the way that was expected as the prices of degrees rose, and the value declined. This is therefore a generation that was built on an idea of meritocracy but grew up in an inheritocracy and is defined by stalling wages and those that can rely on generational wealth and those that cannot.

The final generation discussed was Generation Zoom, a generation that came of age during the Covid pandemic. This generation grew up with the world's information and the world's marketplace in their pockets, access to which triggered the glamorisation of entrepreneurship. Interestingly, this is also the generation that most values face-to-face interaction according to Dr Filby.

Eliza spoke about her experience in succession planning focus groups revealing interesting dynamics. Particularly of note was the theme that some Millennials feel they are treated just as heirs and not as individuals.

The 21st century has seen a delaying of adulthood, accompanied by a much more complicated and dynamic family setup. The question is to what degree this is in the client base and what opportunity this presents. Dr Filby argued that the key to harnessing this opportunity is focusing on the level of personalisation, agility of products and approach, and teaching and empowerment we can provide.

The *Expert Panel*

with Senior New Capital Fund Managers

Camila Astaburuaga, Damian Burkhardt
and Jonathan Rawicz
EFG

The *Expert Panel* with Senior New Capital Fund Managers

Camila Astaburuaga, Damian Burkhardt and Jonathan Rawicz, EFG

Moz chaired a panel with our senior fund managers to ascertain their views on EFG's top themes for 2025.

Artificial Intelligence

Artificial Intelligence (AI) continues to show advancements, with improving applications and smarter models. Furthermore, integration into smartphones is bringing AI closer to the average person. The debate now centres on infrastructure spending and whether model improvements justify the investment. Jonathan believes that provided we see some scaling of model improvement, the spending by hyperscalers makes sense. While a wave of technological change and market exuberance typically get labelled as a bubble, a key point to note is that bubbles go bad when the spending is funded by debt, but in this case it is being funded by free cash flow.

Switzerland is emerging as a key AI hub, attracting major players to base their research. Damian notes that the country is a leading tech centre and talent hub in Europe, as well as having better regulatory treatment. In addition, financial services, pharma and tech, sectors set to be some of the biggest beneficiaries, are well represented. From a fixed income perspective, AI is difficult to play through bonds, with the obvious names expensive and highly rated.

> AI is not only becoming more important to Switzerland... but Switzerland is becoming more important to AI.

Concentration Risk

The main fixed income indices are highly concentrated, with the US and financials dominant. Rather than a challenge, Camila sees this as an opportunity for active management to overcome structural inefficiencies in benchmarks. Similarly for equities there are opportunities seen for active management, where there is the flexibility to go underweight should fundamentals change.

The Magnificent 7 are not uniform, allowing for selective investment based on growth rates and improving free cash flow margins. While the US tech mega-caps may be worthy of their 'magnificent' name, the three Swiss heavyweights do not possess the same attributes in Damian's view. Their underperformance over the last 10 years has dragged down the index, so small and mid-caps may be an alternative, offering high R&D-led innovation and forward-thinking alternatives to the underperforming heavyweights.

BRICS

Geopolitical tensions are reshaping globalisation rules, with the world splitting into two hemispheres – the western world, led by the US, and the global south, headed by China. European companies may be caught in the crosshairs, potentially facing a choice between customer bases and government pressures. Investors should consider how companies can benefit from BRICS' structural growth drivers, such as population growth. In fixed income, BRICS present challenges, with much of the bloc uninvestible in Camila's view. There may be good companies in bad countries, but careful research and analysis are crucial.

The importance of ***private debt*** in a private client portfolio

Alexander Wright
Apollo Global Management

The importance of ***private debt*** in a private client portfolio

Alexander Wright, Apollo Global Management

In recent years, the landscape of private markets has undergone a significant transformation. Traditionally characterised by bespoke approaches and one-off individual funds, the sector is now becoming more professionalized, often backed by investment grade balance sheets. Manuel Keiser, Head of Private Markets at EFG led a discussion with Apollo Global Management.

Market dynamics have shifted, with the number of US public companies nearly halving from 8,000 of its 1996 peak to 4,200 in 2024. Approximately 87% of US companies and 96% of European companies with revenues exceeding $100m are privately held. This shift has created a more concentrated investment environment, making private markets increasingly attractive to investors looking for opportunities beyond traditional public equity.

Growth of private equity and credit are still at modest levels, however Alex believes that there is a lot of room for growth, seeing the addressable private credit market at $40tr. One risk is whether managers can maintain origination with the money flows coming at them, adverse selection risk, but the growth of the industry itself is not a problem in Alex's view. He expects to see less new entrants in the market but instead more managers being acquired.

One of the key advantages of private debt is its potential for higher returns. Private credit can yield returns that are significantly above the risk-free rate. Furthermore, private debt typically exhibits lower volatility compared to public equity markets, with volatility rates around 2-3%. This stability could be appealing for investors seeking consistent income streams without the rollercoaster fluctuations associated with public markets.

Alex sees the incorporation of private credit into investment portfolios as being able to address some challenges posed by conventional asset allocations, such as the traditional 60/40 model of stocks and bonds. As equities have performed strongly in recent years, many portfolios have become more skewed towards equities. Adding private credit could help rebalance these portfolios while providing a ballast that stabilizes overall returns. The current tight spreads in public fixed income markets and the potential for muted equity returns further enhance the attractiveness of private credit as a viable alternative.

Manager selection is critical in navigating the private credit landscape. The top players in this space dominate asset flows, with a significant portion of capital concentrated among a handful of established firms. Investors should focus on managers with proven track records, substantial operational scale, and strong origination capabilities to ensure they are well-positioned while managing risks effectively.

> "As you do more and more public and ignore private, you're fishing in a smaller pond.

Goldman Sachs *Global Outlook*

Peter Oppenheimer
Goldman Sachs

Goldman Sachs
Global Outlook

Peter Oppenheimer, Goldman Sachs

Goldman Sachs estimates that global GDP will grow 2.7% this year, continuing to be optimistic on the US, projecting 2.5% growth, higher than consensus. Europe is expected to see positive but weak growth, while China's growth is anticipated to be positive but relatively subdued. Inflation is moderating, with both headline and core inflation approaching central bank targets. This trend, combined with strong labour markets, is expected to boost real disposable income, supporting consumer spending throughout the year.

While markets are currently pricing in around 40 basis points (bp) of rate cuts from the Federal Reserve this year, GS is more optimistic expecting around 75bps. Questions however remain around the speed of moderation in services inflation as well as what policies the new US administration will adopt.

The current economic environment of moderate growth, easing inflation, and lower interest rates has generally been supportive of risk assets, particularly equities. Historically during rate cutting cycles, when there has been a recession, equity prices have fared poorly, whilst without a recession markets have tended to do pretty well.

However, investors should be aware of several unusual conditions. First, risk assets, especially in the US, have seen significant gains over the past year. Second, many equity markets are trading at relatively high valuations compared to historical standards. Finally, the gap between earnings yields and bond yields has narrowed, compressing equity risk premiums, potentially limiting further multiple expansion.

> Valuations are much lower in Europe and Asia compared to the US but they're not particularly cheap relative to their own histories.

A key feature of the current market landscape is increased concentration, which could raise risk as it is harder to diversify. Peter identified three ways in which concentration has gone up. Regionally, the US market has become increasingly dominant since the 2008 financial crisis. While some of this can be put down to economic performance, perhaps a larger driver has been

the fundamentals. On a sector basis, the technology sector has been a major driver of returns, and this has been most evident in the US. Finally, there has been company concentration, with the ten largest US companies accounting for over a third of the S&P 500 index's value, and the top five making up over a quarter.

> People need to look more at risk-adjusted returns, more diversification relative to their own histories.

Peter believes that we aren't in an irrational bubble and the strength of the Magnificent 7 hasn't happened by accident. This has been driven by superior profit growth with strong fundamentals. Although the Magnificent 7 are still expected to generate better profit growth than the rest of the S&P 500, the gap is expected to narrow dramatically in 2025 and 2026.

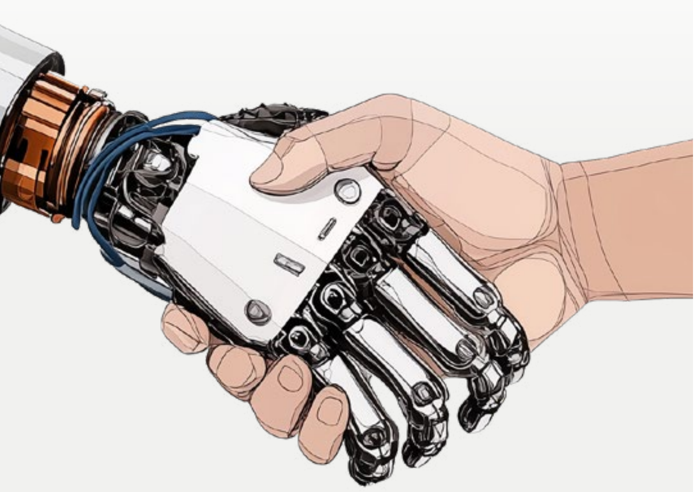
The World in 2025 in *10 Short Stories*

Ed Stanley
Morgan Stanley

The World in 2025 in *10 Short Stories*

Ed Stanley, Morgan Stanley

We need AI to fill so many jobs, so I take a more positive stance that actually this is coming at a desperately important time for how demographics are playing out for the planet.



Ed delivered an insightful speech on key themes shaping the future, emphasising the unpredictability of the world and the importance of humility in forecasting. He discussed advancements in technology, decarbonisation, demographics, and healthcare.

In technology, the rapid progress in autonomous driving was highlighted, noting that autonomous vehicles are becoming significantly safer than human drivers, with companies like Waymo leading the way. He also discussed the rise of artificial intelligence (AI) agents, which can perform tasks and reason independently, transforming both the workplace and personal lives. Additionally, he mentioned the development of humanoid robots, which are becoming more capable and cost effective, with the potential to fill labour gaps in sectors like hospitality and logistics.

Regarding decarbonisation, the shift towards renewable energy was addressed and the challenges of managing power grids with increasing renewable energy sources. Ed emphasised the need for more batteries and infrastructure to handle excess energy production. Furthermore, he advocated for a renaissance in nuclear power to meet future energy demands, particularly for achieving net-zero targets and supporting digital infrastructure.

There are significant demographic shifts in major economies like China, Europe, the US, and Japan, which are facing aging populations and declining birth rates. Ed highlighted the importance of considering these trends in long-term planning. He also noted the demographic potential of India and Africa, which are poised to become significant markets due to their young populations.

In healthcare, there is growing interest in weight loss drugs like Ozempic and their potential to address obesity-related health issues, with the market for these drugs expanding beyond the US. He also discussed advancements in targeted cancer treatments, such as antibody-drug conjugates, which offer more precise and effective therapies. Finally he touched upon the potential of AI to revolutionise fertility treatments, making them more accurate, affordable, and accessible.

Ed's speech emphasised the interconnectedness of these themes and their potential to shape the future, urging the audience to consider long-term trends and the transformative impact of technology and demographics on various sectors.

Trump, Putin, Xi and *World Politics*

Gideon Rachman
Financial Times

Trump, Putin, Xi and *World Politics*

Gideon Rachman, Financial Times

In pursuit of no more wars, Trump may be inclined to make a deal with Putin and with Xi.

Gideon spoke about the potential for Trump, Putin and Xi to shape the world over the next four years. The interaction between those powers is where the complexity of world affairs lies, and five scenarios were presented in which he viewed that the new world order could evolve. Each scenario focused mainly on what Trump might do, noting that in reality it is unlikely any scenario fully comes to fruition but possible that they do in mixes.

The first scenario, titled 'a new great power bargain' discussed how Trump's transactional nature and determination to be the President for peace could lead the US to strike a bargain with Russia and China. This would see Russia and China granted influence in their regions while the US focuses on asserting dominance in its own region, seeking to take back the Panama Canal and gain control over Greenland. Trump would force a peace deal in Ukraine with no security guarantees and would relax sanctions against Russia, while tariffs on Beijing would be eased.

The second scenario, titled 'war by accident' would see Western allies have a trade war with each other, with a rise in populist support for Trump and Putin. A ceasefire in Ukraine would be agreed but Trump would question America's willingness to defend its allies and China, Russia, or North Korea would decide to take advantage by launching military action in Asia or Europe.

Gideon's third scenario, 'anarchy in a leaderless world' spoke of a world in which direct conflict was avoided but Trump's America First policies create a leadership vacuum, leading to weaker global growth. More countries, such as Haiti, slide into violent anarchy and refugee flows to the west increase, leading to a further rise in populism.

The fourth scenario, 'globalisation without America' refers to a situation in which the US tariffs lead to the rest of the world trading more with each other and accelerating economic interdependence. As Europe opens up to China, Xi uses his influence with Putin to restrain Russian aggression in Europe. In this scenario, Gideon sees the BRICS gaining new members and influence, and the use of the dollar in the global economy declining.

The final scenario outlined was 'America First succeeds'. This scenario discussed a situation in which Trump's policies lead to higher investment in the US, increasing America's lead in tech and finance. Chinese growth is hampered by tariffs and the Iranian regime is removed by a combination of military, economic and domestic pressure.

We hope that you found our summary of the Investment Summit insightful. If you would like to watch the individual sessions from the event please scan the QR code below.

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