

10 themes for the year ahead

Ten themes for 2025. Anyone expecting to read about market drivers that no one is currently talking about is underestimating the capabilities of the capital markets. They are often accused of being short-sighted, yet they regularly try to price in developments that lie far in the future. Why else would loss-making biotechnology companies have positive market valuations? Or highly profitable sectors such as cars (or oil) underperform the market for years? Or artificial intelligence (AI) create trillions in value on the stock markets long before it is even clear how AI can be used profitably in large parts of the economy?

That is the thrust of this study: to draw an interim conclusion on trends that are already preoccupying the market and that will continue to do so for some time, but whose future paths and impact are far from clear. It could be that the potential is still not fully appreciated: They are developing dynamically and may give rise to business models we are not even thinking about today. Equally, their future importance might be overstated: Their limitations might be being overlooked in the initial euphoria.

Assessing these trends becomes particularly exciting (or you could say, less euphemistically, “particularly difficult”) when you consider that developments in different areas may well heavily influence each other. For example, AI could prove to be an important catalyst in the development of new medicines. Medical progress in turn has an impact on demographic trends, which in turn affect the bond markets.

It will probably be some time too before investors in industrialized countries abandon the interest-rate assumptions that applied in times of rising population figures. More tangible for bond investors are the effects of the central banks' new cycle of interest-rate cuts. At the short end, yields are bound to fall; what will happen at the long end is much more uncertain. Which sections of the yield curve look particularly attractive against this backdrop is another topic in this report.

Falling interest rates and population growth are another two important influences. Will they generate a second commodity supercycle? Is one inevitable because of years of

underinvestment on the supply side? Or would it take a new Chinese investment offensive to make commodity prices spiral again?

China is certainly playing an important role now in another long-term issue: the speed at which the dollar is losing its dominant role in the global movement of capital and goods. Some countries want to reduce their dependence on the U.S. for geopolitical reasons. Some investors are concerned about Washington's debt and spending policies. And there is another factor: some investors have invited digital currencies into their living rooms.

Those who find cryptocurrencies too adventurous may feel more comfortable with another young asset class: infrastructure investments accessible to private investors as investments in equity or debt capital. This could hardly be more different to cryptos. But they share one thing: Both can help diversify an otherwise classically positioned portfolio.

Why is that important? Because we are aware of our own shortcomings as well as those of the market, which wants to look into the future but ultimately does not know what it holds and therefore cannot price it correctly. Therefore, that surprises happen should not surprise: Dealing with them is the hallmark of experienced investors. They know from experience that they can avoid the biggest disappointments by maintaining a broadly diversified portfolio. Even if, or precisely because, a handful of U.S. technology giants have been so successful in recent years.

The final part of this study is also about avoiding disappointment. We present a pronounced risk scenario with all its consequences. We are not talking about black swans (highly unpredictable events), but gray rhinos. In other words, major, known risks that have not charged menacingly into view for such a long time that investors have forgotten all about them. I hope you enjoy reading about these key topics of ours.



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Glossary

A **crypto asset** is the digital representation of a value or contractual right that is created, transferred, and stored using distributed ledger technology (blockchain) and authenticated through cryptography.

A **yield curve** shows the annualized yields of fixed-income securities across different contract periods as a curve. When it is inverted, bonds with longer maturities have lower yields than those with shorter maturities.

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