OYAT ADVISORS – QUARTERLY COMMENTARY

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Investors can reflect on another good year, during which 'risk assets' such as equities performed very strongly, once again driven by the performance of U.S. technology stocks. Wall Street in particular saw impressive returns in 2024 as investors were increasingly bullish on strong earnings growth for technology companies; while on the macro side, inflation moderated somewhat leading the Federal Reserve to cut interest rates, the job market proved resilient and consumer spending remained strong. Moreover, stocks surged following Donald Trump's reelection in November, as a result of the pro-business policies he is expected to enact.

As shown in the table below, the blue-chip Dow index rose 13% this past year (in USD), while the tech-heavy Nasdaq index gained an impressive 29%. The S&P 500 returned 24% in 2024, posting back-to-back gains of more than 20% for the first time in nearly three decades – the last occurrence dating back to 1997/1998.

U.S. markets vastly outperformed stocks in Europe and Asia in 2024. European economic momentum weakened significantly over the year, with the manufacturing sector particularly hard hit due to a combination of high energy costs, overbearing regulation, and waning export demand. This was compounded by political turmoil in both France and Germany, where fiscal pressures and the rise of populist parties fractured the political consensus.

In Asia, Chinese activity remained weak as the country grappled with falling property prices and weak consumer confidence. Investors were initially unimpressed with the government's response to these challenges, however, a more comprehensive policy announcement in September appeared to convince markets that 2025 would finally see a significant stimulus to jump-start the economy, and Chinese equities rallied in the second half of the year.

Continued optimism about the end of deflation, coupled with a weak yen and ongoing corporate reforms, also helped Japanese equities deliver strong local currency returns in 2024.

Stock market index	2024 performance (in local currency)	10y bond	Yield	Yoy change	FX	Yoy change	Precious metals	Yoy change
MSCI World (USD)	19%	US	4.57%	52 bps	USD Index	7.0%	Gold-USD	26.3%
Dow	13%	Germany	2.36%	125bps	CHF-USD	-6.8%	Silver-USD	21.7%
S&P	24%	France	3.12%	201bps	EUR-USD	-5.7%		
NASDAQ	29%	Italy	3.42%	-24 bps	GBP-USD	-1.4%		
Stoxx	9%	Switzerland	0.23%	-60 bps	JPY-USD	-10.1%		
SMI	8%	UK	4.57%	70 bps	CNY-USD	-2.9%		
FTSE	10%	Japan	1.08%	47 bps	RUB-USD	-19.2%		
Nikkei	21%							

Source: LSEG Refinitiv. All data as of Dec. 31st 2024.

Moving on to bonds. The first half of 2024 saw broad based disinflation, and over the summer central banks felt confident they could start normalizing monetary policy. However, the last mile proved harder than markets anticipated and, outside of Europe, investors scaled back their

expectations for subsequent rate cuts. Against this backdrop, global government bonds returned -3.1% in 2024. So, after meaningful losses in 2021 and especially in 2022, and despite a small rebound in 2023, last year was once again a loss-making one for many fixed income securities. Considering the typical multi-decade length of bull and bear markets for bonds, we expect to see more losses in fixed income securities in nominal terms, and most certainly in real terms, for some years to come.

Currencies were again fairly volatile throughout 2024. The U.S. dollar index gained 7% as a result of the relative strength of the U.S. economy, leading traders to expect fewer interest rate cuts compared to other geographies. This notion was reinforced by the policies that are projected to be introduced by president-elect Donald Trump – including business deregulation, tax cuts, import tariffs, and a clampdown on illegal immigration – that have the potential to boost domestic growth and add to inflationary pressures. Relative to the U.S. dollar, the British pound was the best performing major currency, as the UK economy performed marginally better than its main continental European peers, leading to a hawkish stance at the Bank of England relative to other developed market central banks. For other major currencies, including the Euro, Swiss franc, and Japanese yen, relative declines ranged from 5% to 10% in 2024.

Lastly, it was a stellar year for precious metals, with gold recording its biggest yearly gain since 2010, increasing by nearly 27% in USD. In CHF and EUR, the price of gold increased by 36% and 34% respectively. Several factors contributed to gold's excellent performance, including aggressive central bank buying, geopolitical tensions around the globe, moderating yet stubborn inflation, and interest rate cuts by nearly all central banks. Furthermore, gold's strong performance in 2024 is finally starting to attract the interest of more non-central bank investors once again; although the precious metal is still largely under-owned, especially by institutional investors.

In conclusion, today's investment landscape remains one that is fairly tricky to navigate. On the one hand, certain markets – as represented by their benchmark indices – appear priced for perfection. This is especially true of U.S. stocks, increasingly dominated by large technology companies – a tendency exacerbated by the sheer amount of capital that is 'passively' managed in market capitalization-weighted indices. On the other hand, for the 'active' investor that looks to own individual companies, opportunities to deploy capital in a sensible manner still exist. Such opportunities include smaller, less 'in-the-spotlight' companies that trade at reasonable valuation levels in Europe, the UK, and Japan for instance, as well as in other markets.

Nonetheless, there are still valid concerns to be had about large fiscal deficits and rising debt levels, mounting geopolitical tensions, the possibility of an economic slowdown, as well as the future trajectory of inflation. On the latter, we continue to believe that while we are currently experiencing a period of disinflation, and might even go through some temporary deflation, the longer-term trend is still a world of higher inflation for some years to come.

As a result, we continue to shun investing in bonds, substituting such a traditional allocation in fixed income securities with a scare and durable asset in the form of gold. As for capital deployments in productive assets, we persist with our long-standing strategy of focusing on 'quality' businesses trading at reasonable prices, oftentimes found in fairly mundane places.

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