
MPA'S 2025 OUTLOOK ON MARKETS AND CAREERS
LIVE EVENT WITH MPA + INDUSTRY GUESTS
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Stock Performance Across Different Holding Periods Around the World

(MSCI total return indexes in euro)

Commencing on 31/12/2010	Commencing on 31/12/2011	Commencing on 31/12/2012	Commencing on 31/12/2013	Commencing on 31/12/2014	Commencing on 31/12/2015	Commencing on 31/12/2016	Commencing on 31/12/2017	Commencing on 31/12/2018	Commencing on 31/12/2019	Commencing on 31/12/2020	Commencing on 31/12/2021	Commencing on 31/12/2022	Commencing on 31/12/2023	Commencing on 31/12/2024
USA 702,6%	USA 661,5%	USA 565,9%	USA 424,8%	USA 306,6%	USA 260,2%	USA 213,4%	USA 192,7%	USA 191,8%	USA 117,6%	Italy 97,3%	Italy 57,9%	Italy 71,2%	USA 35,8%	Italy 6,1%
World 370,9%	World 389,2%	World 325,4%	World 260,2%	World 202,1%	World 176,3%	World 147,3%	World 125,9%	Italy 143,0%	Italy 85,4%	USA 95,5%	Spain 56,3%	USA 66,7%	World 27,9%	Germany 5,3%
Swiss 272,6%	Swiss 283,7%	Swiss 220,8%	Italy 167,2%	Italy 157,9%	Italy 124,8%	Italy 141,2%	Italy 111,9%	World 136,1%	World 82,1%	Spain 70,9%	USA 43,1%	Spain 57,3%	Italy 27,7%	France 4,7%
France 224,8%	France 274,1%	Italy 210,2%	Swiss 162,9%	France 144,4%	France 117,7%	Swiss 105,9%	Swiss 89,6%	Swiss 96,6%	Spain 49,7%	World 69,9%	World 32,7%	World 51,8%	Germany 24,7%	Spain 3,9%
Germany 185,3%	Italy 246,5%	France 209,4%	France 153,3%	Swiss 129,3%	Swiss 103,4%	France 99,4%	France 74,7%	France 88,8%	Germany 46,4%	UK 66,6%	UK 30,7%	Germany 49,3%	Spain 22,6%	Swiss 3,1%
Italy 178,4%	Germany 234,5%	Japan 190,1%	Japan 138,1%	Japan 117,1%	Emerging 82,8%	Spain 70,7%	Japan 53,4%	Germany 81,4%	France 46,0%	France 52,0%	Germany 24,7%	Japan 32,4%	UK 16,9%	UK 1,9%
Japan 174,5%	Japan 209,5%	Germany 157,2%	Germany 103,0%	Germany 97,5%	Germany 79,6%	Germany 68,5%	UK 52,4%	Spain 71,8%	Swiss 44,5%	Germany 42,1%	Japan 18,1%	UK 28,9%	Emerging 15,4%	USA 1,7%
UK 147,4%	UK 145,6%	Spain 127,3%	Emerging 94,4%	Emerging 73,9%	Japan 77,4%	Japan 67,6%	Spain 52,2%	UK 68,9%	UK 36,9%	Swiss 39,7%	France 17,2%	France 25,9%	Japan 13,5%	World 1,6%
Spain 115,2%	Spain 134,4%	UK 116,3%	UK 87,3%	UK 73,8%	Spain 74,9%	UK 63,8%	Germany 49,3%	Japan 67,1%	Japan 36,6%	Japan 29,6%	Swiss 7,9%	Emerging 23,0%	Swiss 8,8%	Emerging 0,2%
Emerging 79,5%	Emerging 112,3%	Emerging 81,8%	Spain 79,6%	Spain 64,9%	UK 68,7%	Emerging 59,0%	Emerging 31,4%	Emerging 45,9%	Emerging 20,5%	Emerging 10,6%	Emerging 5,2%	Swiss 22,9%	France 6,6%	Japan -2,1%

Source: calculations by Giotto Cellino SIM based on FactSet data

The table on the previous slide shows the current performance of some of the main stock markets, starting from various initial dates. Each column is labelled with an investment start date (31/12/2010, 31/12/2011, etc.), and within each column is displayed in descending order the performance in euros of markets. Each market is consistently represented by the same colour to make underlying trends easily identifiable.

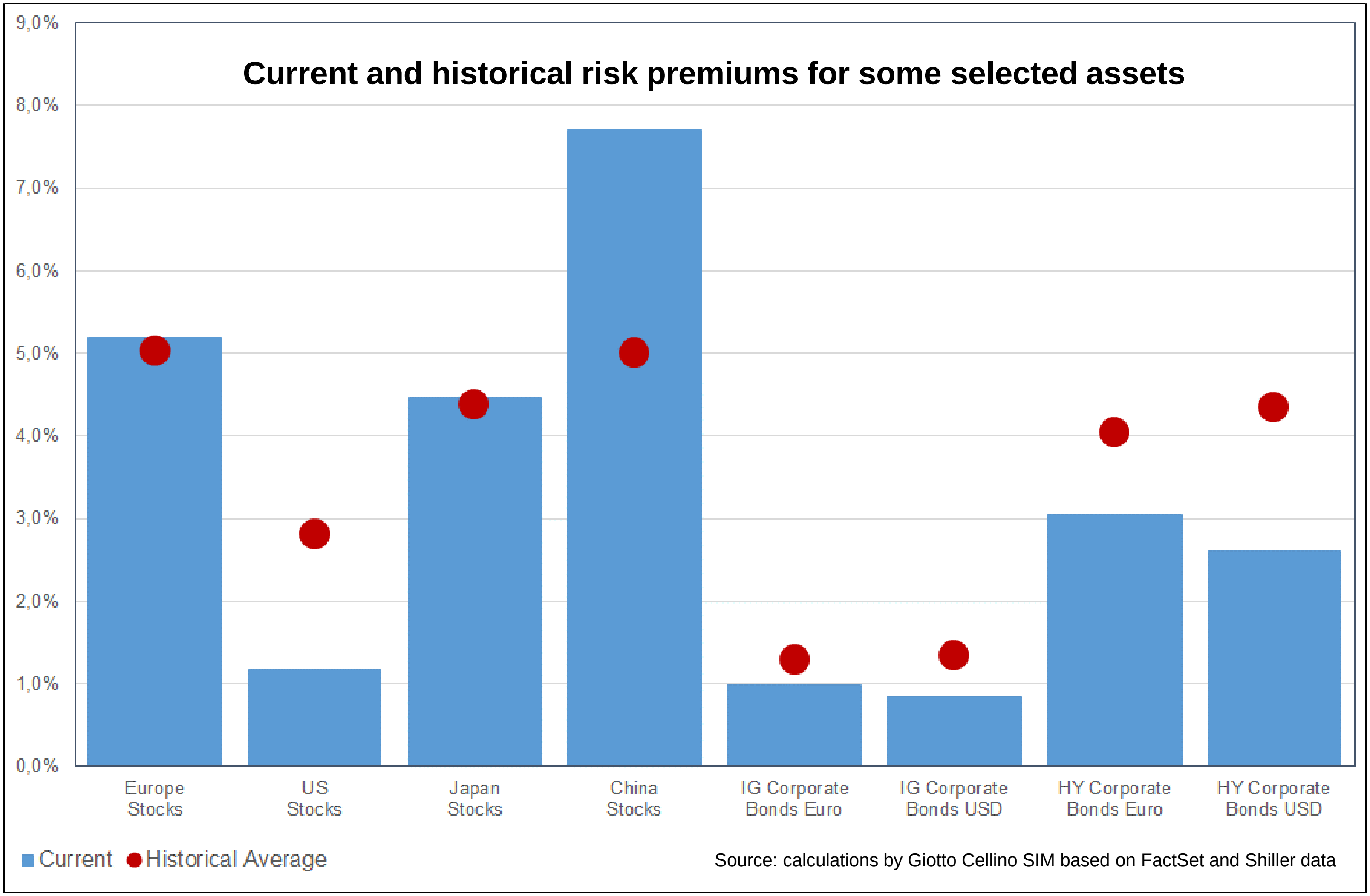
Every investment start date has provided positive results across all stock indices. Not only are the performances generally positive, but in the vast majority of cases, they are extremely satisfactory.

Upon reviewing the table, it is evident that the US market has had an uncontested dominance over the longer investment periods, while some European markets (especially Italy and Spain) perform better over shorter periods.

It is extremely rare to observe such consistently positive results, both over the long and short periods, as those presented in the table.

Is the significant and widespread stock market rally setting the stage for the start of a prolonged phase of modest equity returns, especially in the US?

Let us find an answer to this question in stock market fundamentals.



Current and historical risk premiums for some selected assets
9,0%
8,0%
7,0%
6,0%
5,0%
4,0%
3,0%
2,0%
1,0%
0,0%
Europe Stocks
US Stocks
Japan Stocks
China Stocks
IG Corporate Bonds Euro
IG Corporate Bonds USD
HY Corporate Bonds Euro
HY Corporate Bonds USD
Current
Historical Average
Source: calculations by Giotto Cellino SIM based on FactSet and Shiller data

In the graph on the previous slide, each bar represents the current risk premium for a specific asset class, while the red dots indicate the historical average. As you can see, all the bonds considered - both Euro and US corporate bonds, whether investment grade or high yield - are offering a risk premium below their historical averages.

Similarly, US stocks are positioned to deliver a dramatically lower risk premium compared to their historical levels.

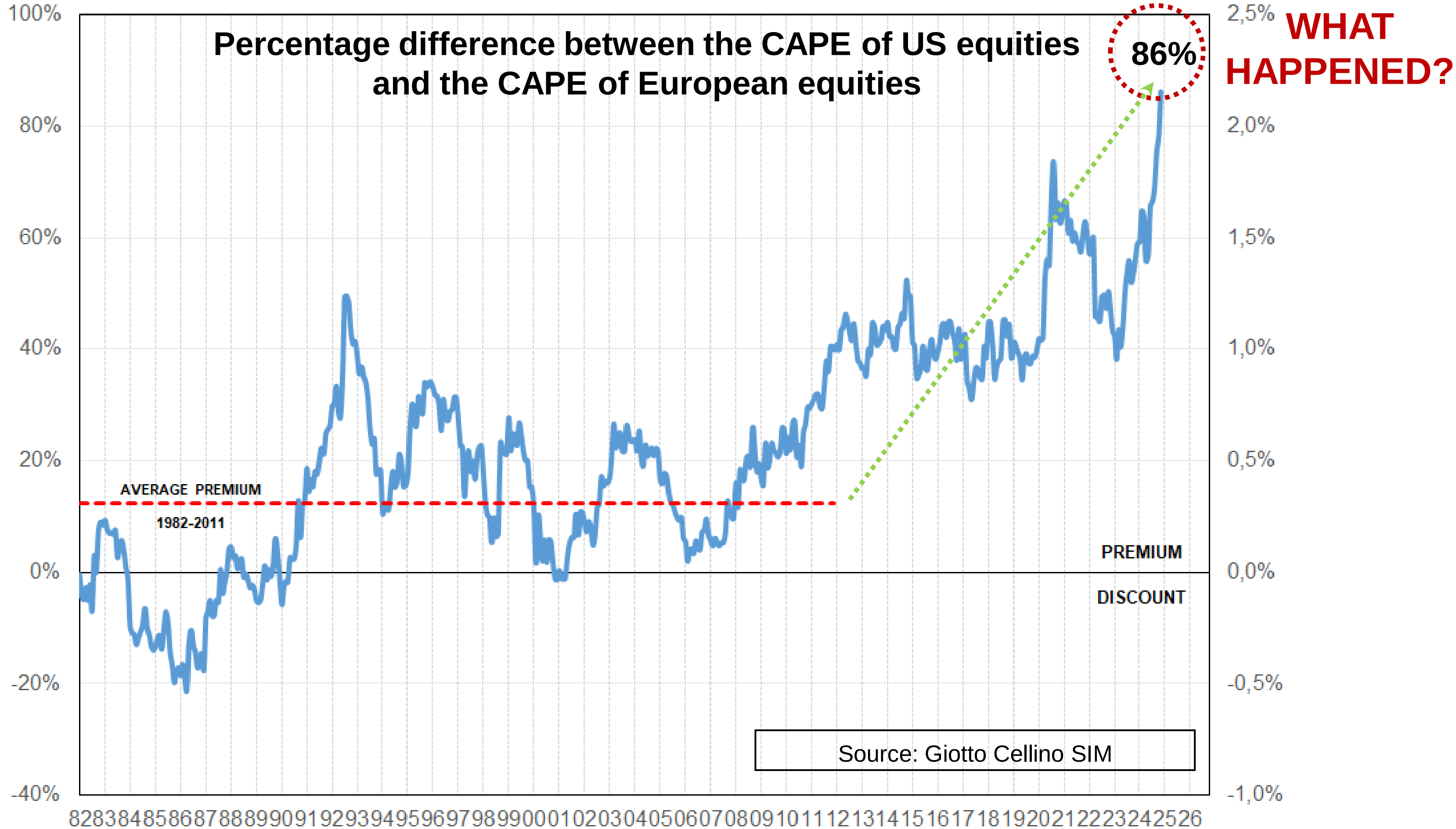
The graph suggests that investors may not be receiving adequate compensation for the risks they are taking today, especially when compared to the past.

This is true for many asset classes, as we have seen, however, Japanese stocks are positioned to deliver returns in line with historical averages, while European stocks appear slightly undervalued.

One of the most prominent cases of undervaluation is in Chinese stocks, but this should be assessed with caution, taking into account the significant geopolitical risks, which somewhat reduce the relevance of this opportunity: **investors today must consider such risks before making decisions based solely on price**.

In summary, the year begins with expected returns on risky assets generally falling short of what would adequately compensate investors, with only a few notable exceptions.

On the other hand, the risk-free world offers little comfort for euro-based investors, as the real yield on the 10-year Bund is barely above zero. This leads to a clear takeaway, or, perhaps, a necessity: **to continue favoring risky assets, but with heightened caution and close attention to potential trend reversals**.



Between 1982 and 2011, US equities traded, on average, at a 12.4% premium to European equities in terms of CAPE. For three decades, this premium fluctuated around the average, which also coincided with the median. However, since 2012, the US premium has stabilized at around 40%, and instead of reverting to historical levels, it has surged dramatically.

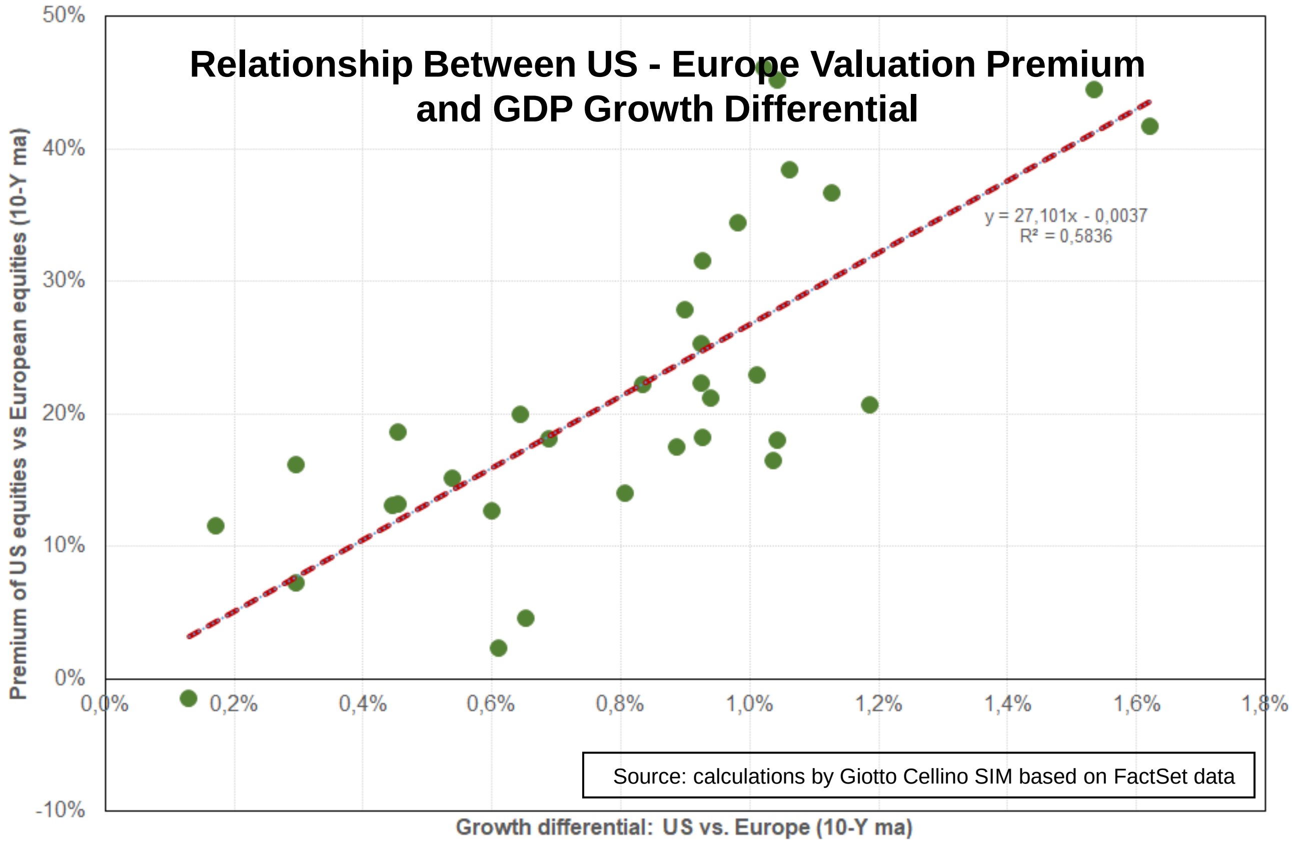
For decades, investors have deemed a "modest" premium of 12.4% sufficient to account for the United States' superiority, which can be attributed to its economic growth, technological innovation, and military dominance. However, in recent years, investors have shown a growing willingness to pay significantly more.

Why is this?

What fundamental changes over the past 15 years justify this shift?

Two key drivers have emerged to explain this shift:

- **European Political Instability**: The Eurozone sovereign debt crisis marked a turning point. Since then, Europe has struggled with political fragmentation, culminating in 2024 with crises in Germany and France. Unlike 2011, when instability was confined to weaker economies, today's challenges affect even the continent's strongest nations.
- **Structural Industry Dependence**: Europe's reliance on mature and declining industries, such as automotive manufacturing, contrasts starkly with the US dominance in technology and innovation-driven sectors. This structural disadvantage has weighed heavily on European valuations.



The relationship between the US - Europe valuation premium and the GDP growth differential is statistically significant and suggests a new equilibrium premium of approximately 40%, assuming that the future GDP growth differential stabilizes at 1.5% in favor of the US economy, an assumption that I believe to be quite conservative. A 40% equilibrium premium is significantly lower than the current premium. **This disparity could lead to a scenario where European equities outperform as relative valuations return to more sustainable levels**.

In 2025

- In the US strong economic growth and confidence in Donald Trump's actions will continue to support the stock market rally, while European equities could benefit from ECB support and exogenous events, such as the end of the war in Ukraine.
- Investors should maintain a preference for risky assets, but with increased caution and vigilance for potential trend reversals.
- The current bull market phase is driven by confidence in the innovative capabilities of the US, therefore it is unlikely that European equities will outperform in the short term, despite the extraordinary relative undervaluation we have observed.

In the long run

- Warning: Many assets are positioned to deliver lower risk premium compared to their historical levels.
- Normalization of relative valuations between US and European equities may take time, but it could accelerate when the bull market phase ends and markets begin to correct.