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In this edition of Laser Focus we look at:

- The success of spot Bitcoin ETFs in 2024 and potential in 2025
- MACRO FOCUS – We look at the impact of political change in 2025 with a spate of elections around the world; how the stock market may fare this year after two consecutive strong years of gains and earnings; the prospects for further near-term US dollar strength and extending a normalized yield curve in the US steeper, having avoided a recession.

2024 was a great year for crypto and spot ETFs. Will the trend continue in 2025?

Bitcoin ETF inflows helped BTC reach $100,000

Source: Bloomberg

BlackRock has over 450 ETFs globally, but IBIT has been their darling performer. Their iShares Bitcoin Trust (IBIT) launched in 2024 had a stellar performance amassing around $53bn in 11 months, outpacing any past ETF performance in that time.

IBIT reached $50bn five times faster than iShares Core MSCI EAFE ETF, which took around 4 years. IBIT now holds more assets than BlackRock's gold ETF, the second largest gold fund globally. At current trends IBIT seems on course to surpass SPDR Gold Shares, the largest gold ETF, as long as Bitcoin does not suddenly drop sharply lower. That being said, we are still bullish gold outright. Remember it outperformed stocks last year, ending +27.0% a non-yielding asset. We're considering potential new all-time highs in GBP and EUR terms this quarter, and in USD terms later in the year.

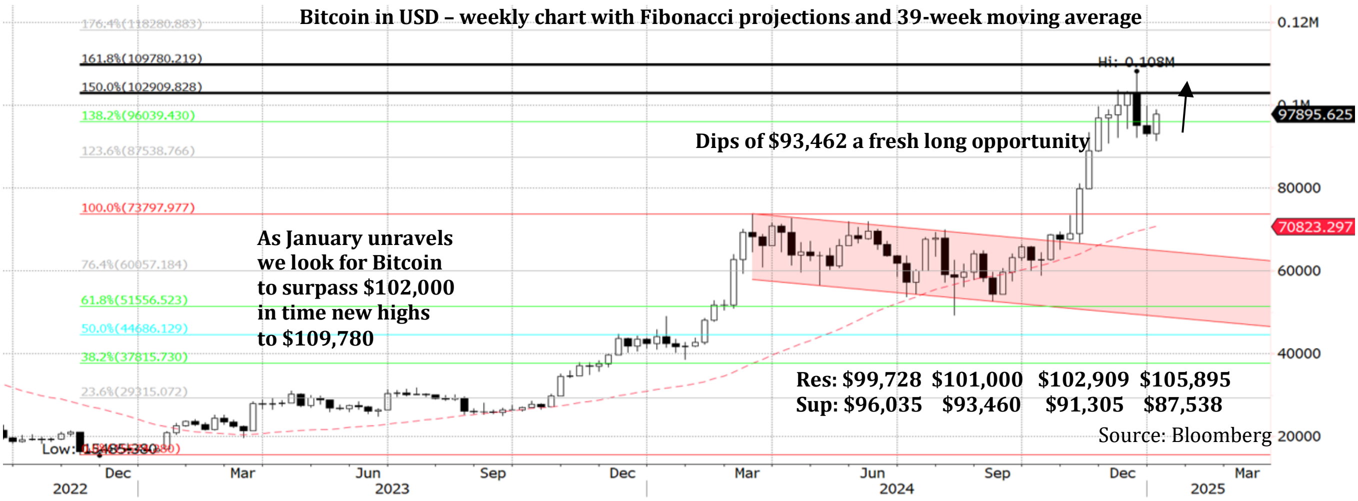
Since IBIT launched it has had only 9 days of outflows. One of which was last Thursday, which was a record net $333 million and its longest losing streak of 3 consecutive days. This is a sign that Bitcoin may be stalling for now, as around 11 Bitcoin ETFs in the US have seen around $2b of net outflows since Dec 19th, with open interest dropping 20%. This can be explained most likely as window dressing for year-end balance sheet adjustments.

2025 looks promising for crypto ETFs

More than 12 new cryptocurrency-focused exchange-traded funds (ETFs) could reportedly be launched in 2025, if approved by the Securities and Exchange Commission. ETF companies have submitted that number of filings with the SEC. The proposed products described in the filings include a ProShares ETF that would signal the S&P 500's return in bitcoin. There is also potential for a combined Bitcoin-Ethereum ETF as well as Litecoin, Hedera, XRP and Solana. The Bitcoin-Ethereum ETF will likely get first approval.

With SEC chairman Gary Gensler gone and Paul Atkins (a vocal advocate of digital assets) taking his place, lawsuits are likely to fade away, making the ETFs mentioned viable later this year. Atkins is a seasoned professional having been CEO of

Patomak Global Partners and co-chair of the Token Alliance, a group advocating for adopting digital assets. A critic of the SEC's regulatory approach under Gensler, Atkins has been vocal about his belief that Bitcoin is not a security.



Bitcoin - despite a bearish outside week reversal in late December at all-time highs, (higher high, lower low, lower close than the preceding week), there was no follow-through to lower price action. No lower lows seems a sign of support. We favour a technical rebound target of $102.00, the 150% Fibonacci projection level then a break to fresh highs this quarter to $109,780 the 1.618% Fib projection level. Dips, if seen intra-month near $93,462 might offer fresh long opportunities.

So, what about Ethereum ETFs?

The introduction of spot ETH ETFs in July initially received a lukewarm response, with flows remaining subdued throughout much of the year. However, the post-U.S. election environment brought a turnaround, with net flows shifting from negative to surpassing US$1.7B. This reversal highlights growing institutional interest and greater integration of ETH into traditional markets.

Despite this, spot ETH ETFs continue to trail significantly behind BTC counterparts. Expanding support through options, staking yields, and broader accessibility via trading platforms and wealth advisor networks might help bridge this gap over time. In contrast, Ripple and Solana have attracted investors over Ethereum in the crypto space.

The conclusion is that the ETF market seems only going to get bigger and more widely adopted by institutional investor, especially with Trump back in office alongside more crypto-friendly regulators. The total crypto FX market cap is now around $3.4T. We await to see if a Strategic Bitcoin Reserve gathers interest. According to Glassnode, about 69% of total bitcoin supply is held by long term holders – defined by those holding for 155 days or longer.

It's not just the US warming to digital assets

The increase in global crypto demand has spawned a shift in better regulation globally. The Markets in Crypto-Assets regulation in the European Union (or MiCA) is being implemented in stages, providing a clearer guide for the industry. Many G20 countries and major financial hubs such as the United Kingdom (UK), United Arab Emirates (UAE), Hong Kong, and Singapore are also actively writing rules to accommodate digital assets, creating an accommodating environment for development and innovation.

An interesting statistic relating to US recent 13-F filings, is that almost every institutional type is now represented as holders of ETF crypto products, including endowments, pension funds, hedge funds, investment advisors and family offices.

MACRO FOCUS

2024 was a good year for stocks in general. Will 2025 also deliver?

By the end of 2024 we witnessed the 57th fresh new high for the S&P 500 +23.31%, having been even 3.0% higher before year end. We surpassed our year-end target several times before seeing December give back gains, contrary to the Santa rally anticipated. The S&P 500 performance of 2024 is now in the top 5 years for the most all-time records by the benchmark index.

<u>S&P 500 history of higher highs</u>: 1995 (77) **2021** (70) **1964** (65) **2017** (62) **2024** (57)

S&P 500 monthly chart with 15v45 month cycles

Source: Bloomberg

What does that mean for 2025? Earnings growth is expected to be between 12%-15% based on a survey of consensus estimates. We have a target of 6,575 +10.8% for the S&P 500. The Magnificent Seven is still expected by many to be a big contributor to the rally expected in 2025. It is worth highlighting that 10 of the largest S&P 500 stocks were responsible for 39% of the index's market cap, the largest share in 3 decades.

The PE of the S&P 500 is 28 (average long term is 18), and the S&P Equal Weight Index has a PE of 23. A company such as Costco has a PE of 55. **The one factor worth considering in 2025 is that as stocks get more expensive the margin of error shrinks, and misses will be punished.**

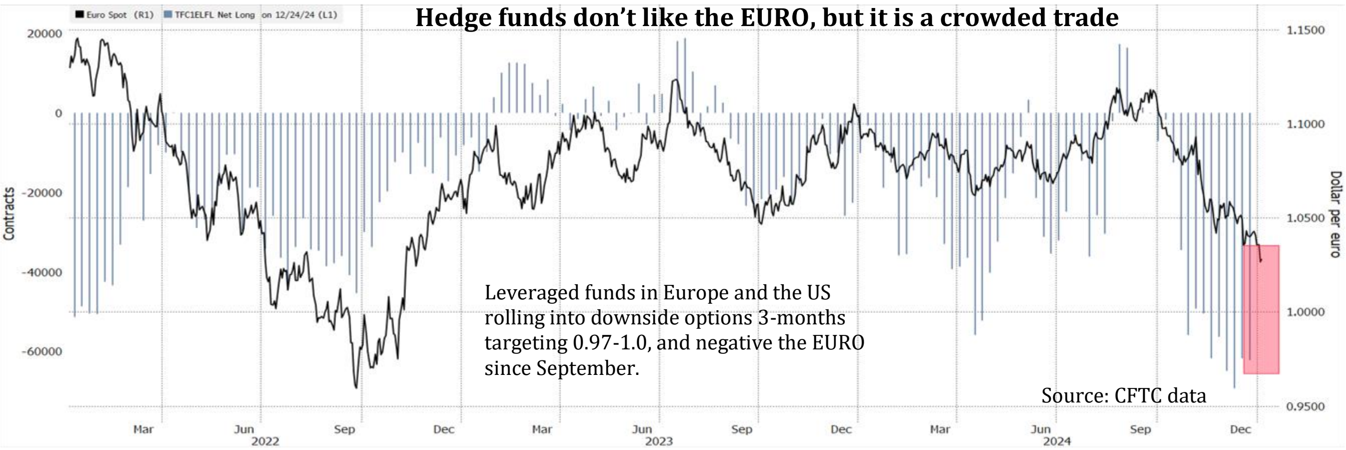
There are now 9 publicly traded U.S. companies worth $1 trillion or more. Apple, Microsoft, Nvidia, Amazon, Alphabet, Meta Platforms, Tesla, Broadcom, and Taiwan Semiconductor. Berkshire Hathaway did briefly break $1 trillion, and is likely to rise again in 2025 to become the 10th.

At the end of 2023, there were only five companies in the list (the first five named on the list above). The AI boom, a strong U.S. economy, and falling interest rates have helped practically double that membership in a year. The question is which companies have the potential to join the club going forwards? JPMorgan Chase (JPM) Eli Lilly (LLY) and Walmart (WMT) are all contenders. It's also worth noting that CEO turnover in 2024 for the S&P 500 has been the highest since 2002.

Looking back, performance of stocks in 2024 was very different to 2023, when the "tech-plus" sectors ruled. A mid-year sector rotation and overall market broadening in 2024 cut the return contribution of the Mag 7 from 60% in H1 to 23% in H2. We see continued broadening, which will present attractive stock election opportunities as the market rewards a larger group of companies. We especially like Financials under a Trump administration with deregulation, and we like utilities as we expect the energy infrastructure play to get more momentum going forwards.

The USD long trade is crowded, but still has room to strengthen in early 2025

The USD rose +2.51% in December and was up over +7% for the year. Simple economics is that a strong economy means a strong currency, and US exceptionalism has been supportive of FX as well as the stock market segments. With the prospects of political change ranging from Canada to Germany and France the outlook is far from certain. Euro weakness vs the USD is probably the high consensus trade, and we concur for the first 3-4 months of 2025. Sub parity is likely, but the question is how much more? Our base case is somewhere shy of 0.9650. Divergence of EUR and USD and GBP rate expectations in Q4 explains why EUR and GBP have weakened vs the USD.



We don't know how the Russia/Ukraine conflict plays out, but we will stick our neck out and suggest by the summer some conclusion on the sad events there may be reached, which might be a positive for the Euro in the second half of the year.

EUR/USD – weekly chart target 0.9992 then look lower to lower lows to 0.9650 -6.0%

Also, dollar strength has fuelled large losses in EM equities and local debt since September, leaving EM credit and local rates as the primary drivers for last year. EM FX fell -7.74% in 2024, and we expect more pressure on the currency group in the first quarter of this year, particularly currencies more correlated to the CNY such as the Taiwanese dollar and Korean Won.

Rising yields meant US Treasuries returned only 0.6% in 2024

In Fixed Income markets for 4 years running High Yield bonds were the best performing sector, returning 8.2% in 2024 for the US, and 8.6% for Europe. Longer duration Investment Grade credit underperformed against a backdrop of rising government bond yields (US 10s hitting 5.0% at one point last year).

European government bonds outperformed US Treasuries, as the weaker economic outlook translated into greater confidence in the downward direction for interest rates, reaching 226bp in 10s. But the high starting yield did partially protect US Treasuries which still delivered positive returns of 0.6% over the year.

The first part of 2024 witnessed broad-based disinflationary data, leading central banks to have the ammo to start normalising policy. We argued in September after the 50bp rate cut from the Fed: they cut because they could, not because they should, as US economic activity remained robust. But the battle is not over, as outside of Europe, and particularly in the US investors are pulling back on their number of rate cuts.

This year will be mixed, as we see higher bond yields to start the year and steeper curves. We particularly like 2s5s steeper in the US and UK for example, as well as in spreads terms Chinese bonds will continue to out-perform US Treasuries for deeper inversion. Inflation data in the first quarter for developing economies will be key for guessing the central bank rate paths this year. Watch CPI this month and US payrolls data as drivers intra-month.

Don’t forget this year the US has $7 trillion refinancing needs separate to any additional spending by the administration. That is a huge funding requirement on an unprecedented scale. This could steepen the curve regardless of the rate cycle and be exaggerated by inflationary pressures. There might be a huge reliance on the T-bill sector, and this would have an impact on the US Dollar.

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