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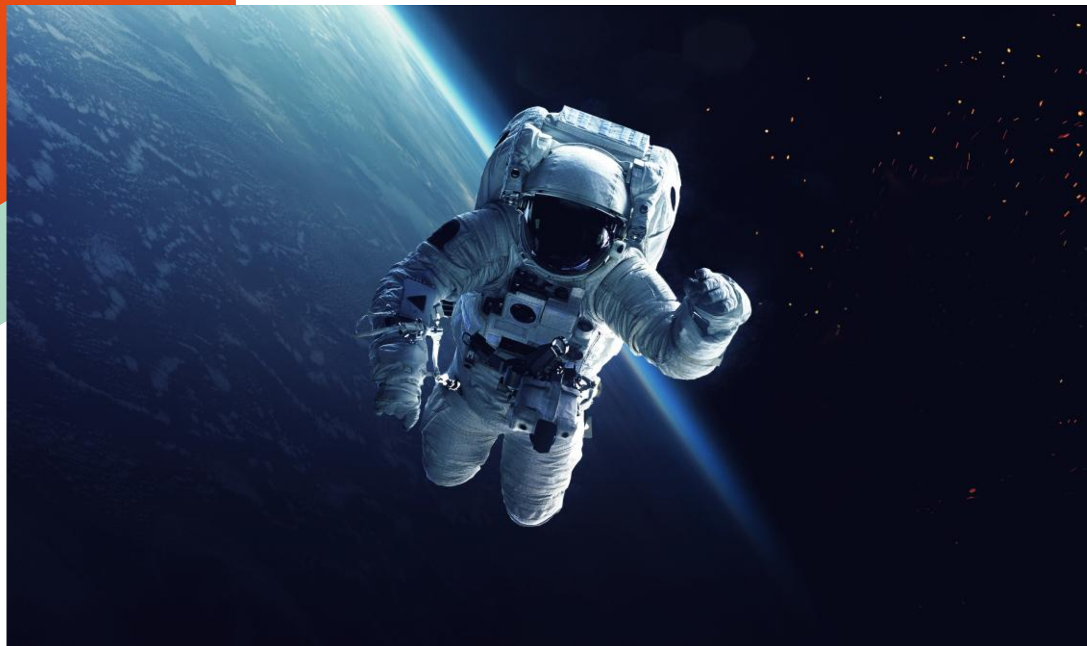

MONTHLY ISSUE **#121** | 3 February 2025

The space race

EDITORIAL VIEW

- Technological innovation and lower costs are making for accelerating growth in the space industry
- Private companies have joined nations in the quest for long-term strategic and commercial dominance
- As with all new frontiers, the potential is huge but comes with a number of challenges and risks

GLOBAL STRATEGY

- A supportive Goldilocks environment still prevails but the future looks really foggy
- *Deepseek*'s new AI model casted (temporary?) doubts regarding US mega-cap tech valuations
- Though bouts of volatility may occur, there are no compelling catalysts yet for a downturn

ASSET ALLOCATION

- Tactical allocation – Still cautiously neutral on both equity and fixed income
- Alternative – Warming up on hedge funds (slight overweight) in this challenging market environment
- Gold – Overweight: a perfect context for this broad safe haven under various scenarios

EDITORIAL VIEW

The space race

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- Private companies have joined nations in the quest for long-term strategic and commercial dominance
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Space exploration has long been a source of human fascination, coupled with intense geopolitical rivalry. Nowadays, beyond the thrill of venturing ever further into the universe, it has also become an increasingly important enabler of critical infrastructure for life down on planet Earth. Global communication networks, precise navigation systems and climate monitoring are just some illustrations of why satellite technology matters so much today – and why the space industry at large is attracting large (public and private) capital flows.

A key driver of this growing interest is the potent combination of technological innovation and falling costs. Advances in reusable rockets, miniaturised satellite technologies and AI-powered mission planning systems are some of the major factors in the cost-saving equation. They have for instance led to a tenfold decrease in launch costs over the past two decades, enabling smaller companies to enter the space (pun intended). Broader geopolitical and economic interests are, of course, also at play, with both public and private actors vying for long-term dominance of the cosmic skies.

The increasing involvement of the private sector is making for fast-accelerating infrastructure projects within the cislunar space (the area stretching 400,000 kilometres between our planet and its moon), be it satellites or future lunar bases and private space stations. Companies such as SpaceX, Rocket Lab and Blue Origin are busy pioneering commercial opportunities in satellite launches and space tourism. Other important revenue opportunities down the road lie in resource extraction from the Moon and Near-Earth Asteroids, in-space manufacturing, solar power, satellite servicing and interplanetary exploration. Altogether, the space industry is forecasted to grow from $630 billion in 2023 to $1.8 trillion by 2035. With a near-trillion impact on a variety of non-space industries, such as supply chain and transportation, consumer goods, digital communications, media and defence.

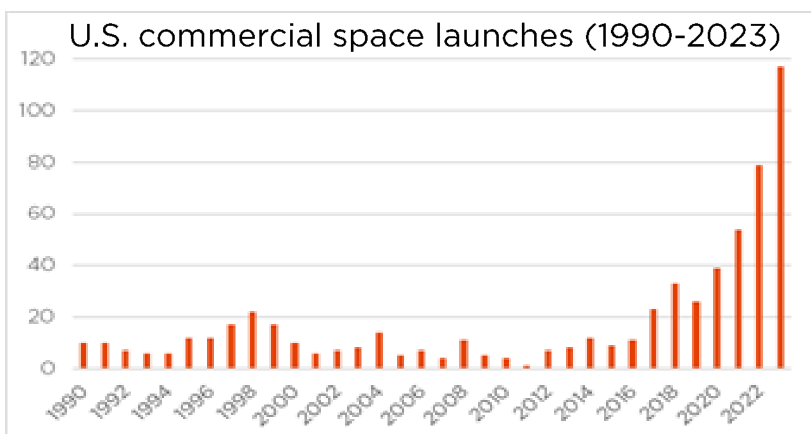
As with all new frontiers, such huge potential involves also a number of challenges and risks for investors. First are the regulatory and sustainability hurdles, with space traffic management and debris mitigation being pressing concerns, alongside the environmental impact of rapidly expanding rocket launches. Second, existing rivalries between the major nations active in space exploration (US, China, Russia, India, South Korea and the United Arab Emirates) could lead to tensions over space resources and access, potentially disrupting commercial ventures. Third, the high capital requirements for project development and long return-on-investment timelines make for considerable financial risk. And, last but not least, dependency on government contracts remains a risk for many space-focused companies.

That being said, the space exploration value chain does warrants close investor attention in our view, taking a long-term perspective of course and only for portfolios able to withstand a high degree of risk. This value chain – or investment universe – ranges from rocket manufacturers and launch providers (e.g. the afore-mentioned SpaceX and Rocket Lab), to satellite producers and operators (Telesat, Maxar Technologies and MDA Space for example), data analytics companies that leverage satellite data (Planet Labs, Spire Global or Blacksky notably), and frontier applications (Blue Origin, Axion Space, Astroscale and Intuitive Machines for instance).

So, for those readers keen to experience the powerful thrust of an industry whose trajectory seems to be at a turning point, now may be the time to climb aboard and... let the countdown begin !

Written by Christophe Reuter

GRAPH OF THE MONTH



GLOBAL STRATEGY

Waiting for Godot, a recession, or a resurgence of inflation

- A supportive Goldilocks environment still prevails but the future looks really foggy
- *Deepseek*'s new AI model casted (temporary?) doubts regarding US mega-cap tech valuations
- Though bouts of volatility may occur, there are no compelling catalysts yet for a downturn

In a nutshell, we are making no significant changes to our tactical asset allocation this month, only adjusting our currency positioning (GBP downgraded to underweight). Our stance on equities and fixed income remains neutral. At the margin, we are turning somewhat more constructive on alternative investments, especially hedge funds, in the current challenging market environment (stretched overall valuations and many uncertainties ahead). More specifically, we still recommend an "all-terrain" balanced portfolio approach to better weather near-term market uncertainty and volatility.

As regards the global economic outlook, our soft-landing scenario remains intact. We still foresee steady positive global growth, led by the US, and gradually receding inflation across the key economies, despite recent stickiness and some bumps on the road. In this context, major central banks, with the exception of the BoJ, will likely adopt a more neutral and eventually even accommodative stance – if necessary – by lowering their key target rates, on top of still supportive fiscal policies globally. Such a backdrop is favourable for long-term investments.

Despite these still constructive macroeconomic perspectives, we have nonetheless increased our downside risk assessment because of Trump 2.0 related policy uncertainty. The new administration brings significant risks for both US inflation (to the upside) and global growth (to the downside), should tariffs cause a global trade war for instance, with potential disruption and ripple effects on financial markets (rates, equities and forex). So far there has been relief that tariffs were not issued on "day one", as previously promised, but President Trump suggested that February 1st could see tariffs be imposed on Mexico, Canada and China…

Though 2025 returns are unlikely to match the past two years' double-digit index gains, we keep a cautiously optimistic stance on global equity markets, anticipating somewhat more modest upside – reflecting the combination of continued healthy earnings growth and limited valuation expansion potential. The aggressive temporary US market selloff at the end of January, caused by *DeepSeek*'s new AI model, served as a reminder of the richness of US mega-cap tech valuations. On the positive side, the economy is showing signs of resilience, investor sentiment and positioning have cooled off since Trump's election, and most central bank easing cycles have only just begun. Admittedly, market volatility will likely remain elevated in the near term, mirroring Trump's unpredictability, but we believe that a well-balanced diversified high-quality equity positioning should allow portfolios to navigate potential rotations and deliver positive returns.

We keep a neutral stance on government bonds. Duration valuation and diversification benefits have improved thanks to the ongoing disinflation process, but we remain concerned by an eventual resurgence of inflation and/or debt sustainability issues, which could lead to a much higher term premium. As for credit, we keep a cautious stance, favouring selectivity and active management. Indeed, historically low spreads provide limited compensation for the associated risks.

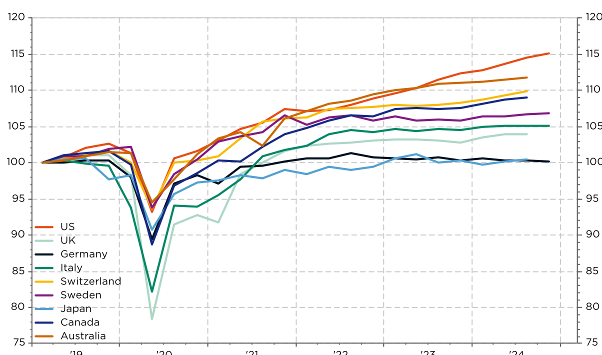
Finally, given the heightened macro uncertainties, an increasing level of public debt driven by budget deficits and expanded fiscal spending, as well as risks of higher forex market volatility due to a global trade war, we maintain our positive stance on gold, seen as a broad safe haven under various scenarios.

To conclude, we are adopting a more guarded tone, emphasising vigilance amid heightened global uncertainty. While steady growth and supportive policies provide a foundation for stability, the risks associated with the new US administration and sticky inflation suggest some cautiousness across asset classes. Our prudent, yet neutral, overall tactical allocation aims to safeguard portfolios against downside risks, while maintaining flexibility to adapt to rapidly evolving market dynamics.

Written by Fabrizio Quirighetti, CIO, Head of multi-asset and fixed income strategies

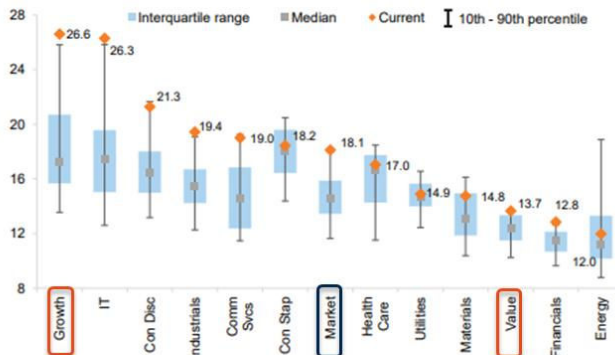
Real GDP of major developed economies

Rebased at 100 in 2019



20-year valuation of global equity sectors/factors (12-month forward P/E)

Only few "cheap" pockets of value



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External sources include: LSEG Datastream, Bloomberg, FactSet, Goldman Sachs, Statista.

Finished drafting on 30th January 2025