



2024 Performance Review

Construction rather than conviction

Driven primarily by market dynamics, 2024 was notably disconnected from underlying macroeconomic trends. While it emerged as another year of sustained global growth, led by the United States, markets faced three significant anti-value events, an unusual combination for a single year. Risk assets notably underperformed due to the unwinding of carry positions, the political instability in France, and the impacts of the "Trump trade".

Despite these challenges, we believe our investment allocation demonstrated resilience throughout these periods of volatility, thanks to our hedging strategies. These hedges were specifically designed to provide a multi-scenario approach for the H2O portfolios, offering protection whenever the "dog" (market) strayed too far from the "walker" (macroeconomic fundamentals), as we largely observed this year (see our last [note](#) on this subject). Among the key defensive strategies that helped achieve this outcome was our US yield curve steepening position, which performed especially well during the second half of the year as the shocks unfolded. Additionally, our long JPY position against the Euro bloc proved effective during the unwinding of carry trades.

Fund Parameters				Performances						Volatility
Category	Fund Name	Minimum Recommended Investment Horizon	Inception Date	2021	2022	2023	2024	Since Inception (annualised)	Since Inception (cumulated)	Since Inception (annualised)
Absolute	<i>H2O Largo I EUR</i>	1 year	18/12/2017	0.8%	1.7%	4.6%	2.1%	2.3%	17.1%	3.6%
	<i>H2O Adagio FCP I EUR</i>	2 years	01/10/2020	2.6%	5.9%	7.3%	2.0%	5.4%	25.3%	6.3%
	<i>H2O Moderato FCP I EUR</i>	3 years	01/10/2020	10.6%	8.5%	10.7%	-1.5%	10.8%	54.9%	14.3%
	<i>H2O Allegro FCP I EUR</i>	5 years	25/09/2020	5.9%	35.9%	20.5%	-6.2%	16.7%	93.0%	26.3%
	<i>H2O Vivace FCP I EUR</i>	5 years	25/09/2020	22.1%	24.1%	19.1%	-9.3%	20.7%	123.5%	28.3%
Unconstrained (*)	<i>H2O Multibonds FCP I EUR</i>	5 years	05/10/2020	4.0%	26.0%	26.4%	-8.6%	14.4%	77.2%	25.2%
	<i>H2O MultiStrategies FCP I EUR</i>	5 years	05/10/2020	24.1%	22.8%	22.3%	-9.9%	19.8%	115.5%	29.0%
	<i>H2O MultiEquities FCP I EUR</i>	5 years	08/10/2020	53.7%	3.3%	35.2%	7.7%	30.9%	212.6%	27.5%
Benchmark Anchored	<i>H2O MultiAggregate I USD</i>	3 years	04/02/2016	2.3%	-10.2%	15.7%	6.9%	7.0%	83.1%	8.7%
	Benchmark: BBG Global Agg TR Index Value			-1.4%	-11.2%	7.1%	3.4%	2.0%	18.9%	3.4%
	<i>H2O MultiEmerging Debt I USD</i>	3 years	12/05/2016	-3.7%	-24.0%	32.7%	6.6%	3.9%	38.8%	27.4%
	Benchmark: 50 % JPM GBI-EM, 50% JPM EM Global Diversified			-5.3%	-14.7%	11.9%	2.0%	2.0%	18.4%	7.3%
	<i>H2O EuroSovereign I EUR</i>	3 years	19/06/2019	1.4%	-6.6%	11.2%	1.7%	5.1%	31.7%	6.5%
Benchmark: BBG EuroAgg Treasury TR Index Value			-3.5%	-18.5%	7.1%	1.9%	-1.6%	-8.8%	6.2%	

Source: CACEIS. Data as of 31 Dec. 2024. Performance presented relates to the respective fund's reference share class and is computed net of fees, on a NAV-to-NAV basis. Past performance is not a reliable indicator of future performance. (*) The term "UNCONSTRAINED" refers to investment strategies that do not require a fund to adhere to a specific benchmark or index, this is a flexible strategy across different asset classes. This strategy in no way exempts the fund from complying with the regulatory constraints set out in the prospectus or by law. The focus is trying to achieve a potential return for a given level of risk.

The general uncertainty surrounding the base case scenario, coupled with the market’s euphoric state, highlighted by the threefold rally in stocks, interest rates, and the US dollar (as discussed in our latest MacroNote: [“The Two faces of American Exceptionalism”](#)) is prompting us to diversify our allocation. We are placing greater emphasis on portfolio construction considerations rather than a conviction-based approach. Market contradictions, along with a persistent appetite for US assets despite increasing risks, are creating opportunities that our portfolios are positioned to exploit.

A – The US dollar, bonds, and equities

The current disparity between the performance of dollar-denominated assets and the broader economic outlook highlights a significant asymmetry. The US dollar’s 9% rise since September reflects the impact of extreme tariffs without accounting for their recessionary effects, the potential Chinese retaliation, or the resistance to competitive devaluation (charts 1). Policymakers have recognised this imbalance, consistently expressing a preference for a weaker dollar to preserve gains in industrial competitiveness. In this context, further dollar appreciation appears improbable. Additionally, the concurrent rise in US equities and the US dollar provides strong incentives for American companies to acquire foreign competitors. With valuations at a 25% discount to historical levels and the US dollar’s strength providing an additional 20% edge, this represents a rare opportunity (chart 2). Historical precedents, such as the euro’s 50% appreciation over two years driven by strategic mergers and acquisitions at the turn of the millennium, underscore the potential impact. **Consequently, our portfolios remain significantly underexposed to the greenback.**

Yields present an even clearer opportunity. The market has already acknowledged inflationary risks stemming from tariffs and migration policy, yet these are transitory in nature and impose an implicit tax that ought to slow economic growth. Trump policymakers are likely to proceed cautiously for this reason. Should such measures be implemented, short-term inflation would pale in comparison to the ensuing decline in demand, prompting the Federal Reserve to resume interest rate cuts. With 10-year yields at 4.3%, the asymmetry is clear. US bonds are well-positioned to perform in our base case scenario and could even excel in the event of an economic shock. This makes the marginal risk of minor yield increases a worthwhile trade-off. **Accordingly, we have significantly extended the duration of our portfolios.**

Equities continue to draw support from Trump’s programme announcements, the economy’s robust demand, and corporations’ solid earnings. Year-end flows, though partially speculative, further enhance performance. While it remains premature to divest entirely, the risks have risen in tandem with the magnitude and duration of the rally. **We are therefore gradually reducing exposure while increasing allocation to value sectors.**

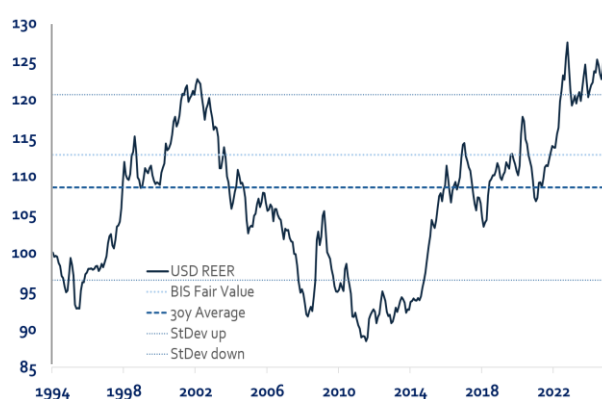


Chart 1: Trade-adjusted valuation of the US dollar
Sources: Goldman Sachs, December 2024



Chart 2: Relative valuation of EU & US equities (12m fwd P/E)
Sources: H2O AM & BIS & Bloomberg, October 2024

B – Preserving the returns engine

The higher risk that a global soft landing may fail to materialise could also militate in favour of reducing high-yield investments. But such a move would be a mistake for several reasons.

First, following a turbulent 2024, high-yield assets now offer attractive valuations. Risk premiums for cyclical emerging-market currencies exceed 5%, with the prospect of sustained high levels due to recent volatility (chart 3). Average discounts for these currencies are nearing 20%, positioning them favourably ahead of tariff negotiations, much like in 2016 (chart 4). In equities, undervalued European sectors offer returns exceeding 10%, accounting for corporate buybacks. In a context of falling interest rates, these valuations present unique opportunities.

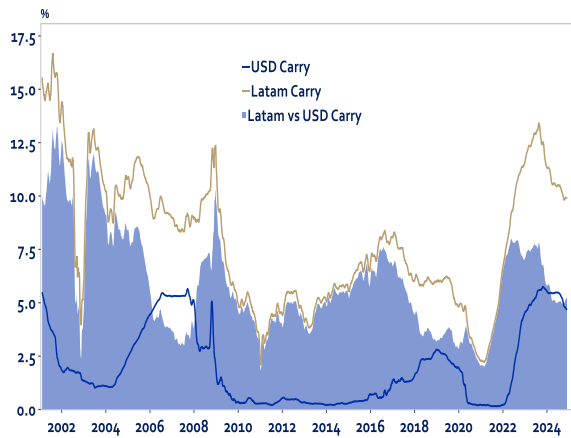


Chart 3: Yields on Latin American currencies (v. USD)

Sources: H2O AM & Macrobond, November 2024

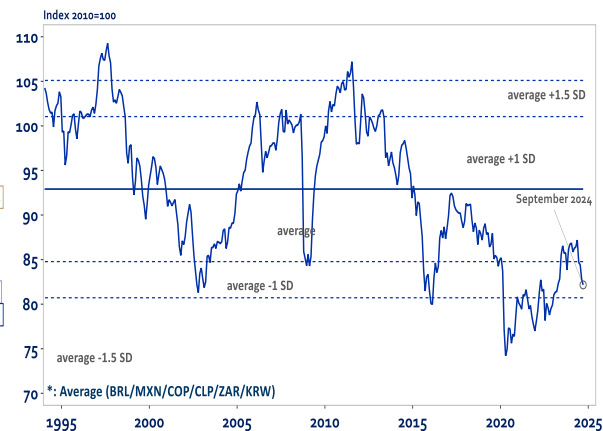


Chart 4: Real effective exchange rate (cyclical EM countries)

Sources: H2O AM & Macrobond, September 2024

Second, the risks associated with these assets have diminished significantly. Unlike previous late-cycle periods, the balance sheets of emerging countries and cyclical companies are notably healthier and, in many cases, have even strengthened in recent years. This is evidenced by the basic balance of Latin American countries, supported by a recovering trade balance, and sustained structural capital flows (chart 5). The risk is further mitigated by the relatively low proportion of speculative investments in these assets, a consequence of the preference for American assets. Additionally, the rise in risk premiums, combined with speculative capital outflows, have increased the decorrelation among cyclical assets. This enhances the diversification benefits of globally exposed portfolios.

Finally, high-yield assets provide an exceptional exposure to the duality of this late cycle. During the upcycle, they benefit from global trade, higher commodity prices, and improved local competitiveness driven by a strong US dollar. When the cycle reverses, Federal Reserve rate cuts cushion the impact, and low asset ownership limits broader risks. The late 1990s' cycle extension when risk premiums were sufficiently high demonstrates the power of this duality: Value stocks appreciated thanks to the market's dynamics in the final upturn phase, but also in the downturn phase through defensive reallocations (2000-2003).

Our portfolios therefore remain highly exposed to cyclical assets, with reinforced positions in opportunities such as the Mexican peso and European bank stocks, particularly during the volatile run-up to the election.

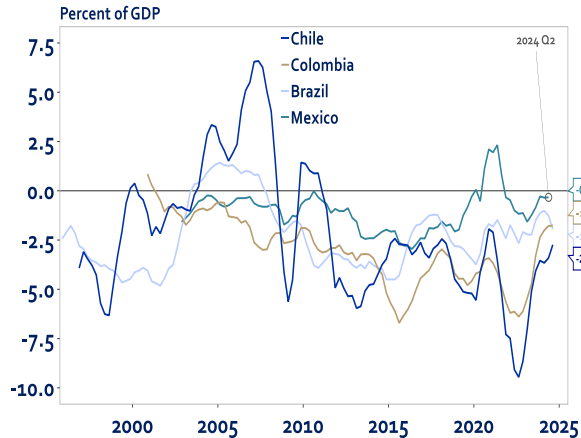


Chart 5: Current account balance of Latam countries

Sources: H2O AM & Macrobond, Q2 2024

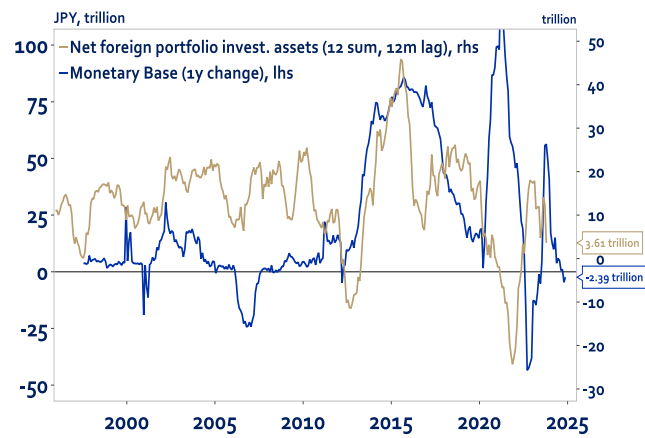


Chart 6: Capital flows and monetary base in Japan

Sources: H2O AM & Macrobond, September 2024

C – Hedging Portfolios

Our portfolios' cyclical engine has regained its risk premium and resilience, enhancing returns potential. However, the rising risk of systemic destabilisation in the US economy also requires careful position hedging. Unlike the past decade, when near-zero rates constrained our options, the current environment offers ample opportunities.

The normalisation of interest rates and the cyclical divergence of the US economy have desynchronised monetary policies, creating attractive hedging strategies within currencies. The yen, deeply undervalued, is likely to appreciate sharply in the event of a shock, as Japanese investors would have little incentive to hold dollar-denominated assets while their domestic economy recovers through more sustainable mechanisms. This trend has already begun, with Japanese investors reducing their overseas holdings following liquidity cuts by the Bank of Japan (chart 6). The yen should continue to perform well, particularly if the Federal Reserve extends its rate-cutting cycle. It is also reclaiming its status as a safe haven currency, offering it a multi-scenario profile. Conversely, the sterling presents an appealing hedge on the sell side. Despite its relative stability over the past two years, its resilience relies on speculative capital inflows compensating for the UK's chronic twin deficits. Enticed by the G10's highest interest rates, this capital is likely to exit swiftly in response to the next volatility shock. The September 2022 panic serves as a useful benchmark.

Government bonds have also regained their defensive value. Normalised inflation and higher interest rates have ended the decade-long negative correlation between equities and bonds. US short-dated bonds now provide protection against volatility in risky assets and potential policy missteps. Furthermore, the risk of fiscal slippage and its potential consequences, such as capital flight, can be mitigated by selling longer-duration bonds, which favourably positions our allocation to benefit from a steepening yield curve.

These four strategies (long JPY, short GBP, long short-term, and short long-term US bonds) are closely aligned with our central scenario and provide convexity in the face of shocks. And their financing, which has proven costly in 2024, is expected to decline alongside anticipated monetary adjustments.

We invite you to rediscover some of the communications sent in 2024 to provide you insights into our views and global macroeconomic scenario:

- **H₂O AM Market Views & Positioning** on January 18th, 2024: [*2023 Performance Review & Perspectives for 2024*](#)
- **H₂O AM MacroNote** on April 19th, 2024: [*Shifting Dynamics \(Views on Emerging Markets\)*](#)
- **H₂O AM Market Views & Positioning** on July 12th, 2024: [*The Walker and his Dog*](#)
- **H₂O AM MacroResearch** on October 17th, 2024: [*Macro also matters for Equities*](#)

Disclaimer

This document is distributed for information purposes only and does not constitute advice, an offer or an invitation by or on behalf of H2O AM to buy or sell securities, related financial instruments or other products, or to engage in any trading strategy in any jurisdiction. This document is intended for professional clients within the meaning of the MiFID Directive. It may not be used for any purpose other than that for which it is intended and may not be reproduced, disseminated or communicated to third parties in whole or in part without the prior written consent of H2O Asset Management.

This presentation has been designed and produced by H2O Asset Management from sources it considers reliable. H2O Asset Management shall not be held responsible for any decision taken or not taken on the basis of the information contained in this document, nor for the use that a third party may make of it. The analyses and opinions contained in this document represent the views of the author(s) referenced at the date indicated and are subject to change without notice. There is no guarantee that future developments will correspond to those anticipated in this document.

Before investing in any product, an investor should fully understand the risks, including any market risk associated with the issuer, the financial merits and suitability of such products and consult with his or her own legal, tax, financial and accounting advisors before making an investment decision. An investor should fully understand the characteristics of the transaction and, in the absence of any provision to the contrary, be financially capable of bearing the loss of his or her investment and be willing to accept such risk. The investor should be aware that the value of an investment and the income derived from it may go down as well as up and that past performance is not a guide to future performance. Any investment in a described product is subject to prior reading and understanding of the product documentation, in particular that which describes in detail the rights and duties of investors and the risks inherent in an investment in that product.

We are committed to respecting the confidentiality of the personal data - H2O AM Data protection and Privacy policy is available on the website: h2o-am.com

The legal and regulatory documentation of the funds managed by H2O AM is available free of charge on the website h2o-am.com. The H2O Asset Management Group comprises the following entities:

H2O Asset Management L.L.P. which is an investment management company authorised and regulated by the Financial Conduct Authority ("FCA") and registered with the registration number 529105. H2O Asset Management L.L.P. is registered with the English Companies Registry under number OC356207. The FCA register can be found at <http://www.fca.org.uk/>. Company name and registered office: H2O Asset Management L.L.P. 33 Cavendish Square, 6th Floor, London W1G 0PW, United Kingdom. Company Number: OC356207.

H2O Asset Management Europe is an asset management company authorised and regulated by the Autorité des Marchés Financiers under the n° GP-19000011. The AMF register can be consulted at <https://www.amf-france.org>. Company name and registered office: H2O AM Europe, 39 avenue Pierre 1er de Serbie, 75008 Paris, France. Company Number: RCS Paris n° 843 082 538.

H2O Monaco SAM which is authorised and regulated by the Commission de Contrôle des Activités Financières (CCAF SAF 2017-04). Company name and registered office: H2O Monaco SAM, 24 bd Princesse Charlotte 98000 Monaco. Company Number: (RCI) 17507498.