



AURORA

Aurora's 2024 Wrapped

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A Year to Remember

- For the world, 2024 was a year of turbulence and renewal: from the election of Donald Trump to a second term, to the collapse of governments in France, Germany, and Japan, political change has upset the policy equilibrium.
- At the same time, most major central banks eased policy, and the AI investment boom continued to drive a powerful bull market.
- 2024 was a year of growth for Aurora's research, too. We sent over 250 notes and e-mails over the year keeping our clients abreast of developments—just shy of 5 a week.
- We launched our specialized Public Debt product and expanded our coverage to include China and Japan. We also invested in our platform, from comprehensive U.S. Chartbooks to deepening coverage in places like Argentina, Mexico, and Venezuela.
- In developed markets, our Aurora Macro Fridays newsletters now provide a regular update on major themes—in addition to our regular coverage of major central banks.
- We also launched regular client-facing conference calls and webinars with Aurora experts and partners, culminating in our first in-person event in NYC.
- As we look ahead to 2025, we reflect on the key calls of the year. Across the political economy that drives markets, we hope Aurora's objective and actionable insights illuminated the path for our clients through a year of exceptionally low visibility.

Looking Ahead to 2025

Jan 20	U.S. Presidential Inauguration
Jan 26	Belarus presidential election
Jan 29	FOMC meeting
Jan 30	ECB meeting
Feb 6	Ecuador general election
Feb 23	German federal election
Mar 6	ECB meeting
Mar 19	FOMC meeting
Jun 1	Mexico, extraordinary election of the Judiciary
July	Japan, Upper House election
Oct 26	Argentina midterm election
Nov 16	Chile presidential and legislative election



The Fed's 2024: A Delayed Cutting Cycle Foretold

- Markets entered the year expecting around 6 cuts, or 150 basis points, starting in March 2024.
- We were more hawkish; on December 13, 2023 we saw the “main risk” in cuts “[being] walked back in 1Q24 if inflation prints disappoint.”
- Following the March CPI print, we moved our first rate cut expectation to September (“[Wall Street, We Have a Problem](#)”).
- We reiterated that view on [June 12](#), but added that “policy risk following the U.S. elections [means] risks for longer-duration assets [are] clustering on the downside.”
- [On July 12](#), we suggested the “more interesting way to play [cooling inflation] might be betting on 50bps of cuts by the September meeting”—a scenario that materialized (and which we warned our clients about in a “Fed Alert”)
- Despite the jumbo cut, we correctly remained more hawkish than the market: on [September 18](#), we expected a 50 to 75bps of cuts in 2024; on [September 30](#), we expected 50bps of cuts total for the year. (vs. 75 for the market)

FOMC Meeting	Upper Bound	Our call	Fed Move
1/31/24	5.50	Skip	Hold
3/20/24	5.50	Skip	Hold
5/1/24	5.50	Skip	Hold
6/12/24	5.50	Skip	Hold
7/31/24	5.50	Skip	Hold
9/18/24	5.00	Cut	-50bps
11/7/24	4.75	Cut	-25bps
12/18/24	4.50	Cut	-25bps

Fed Rate vs Market Estimate for Dec 2024



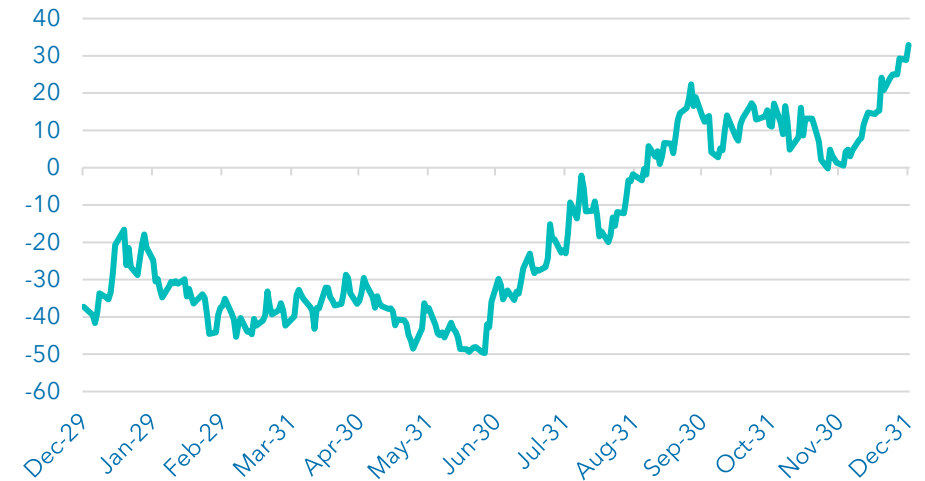
Source: Bloomberg



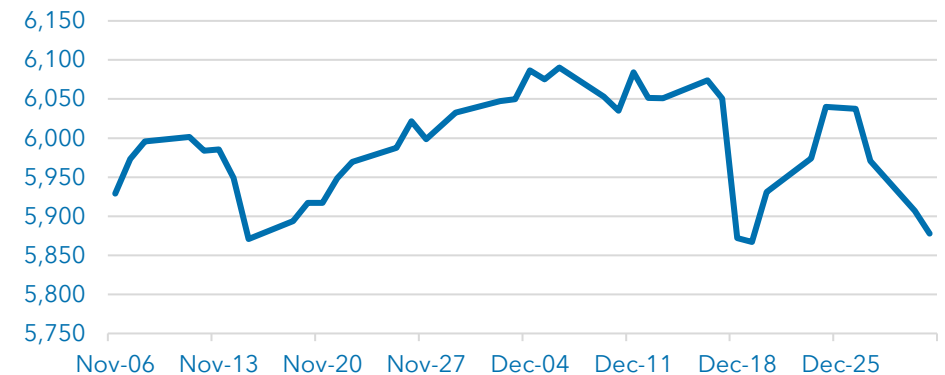
U.S. Politics and Macro: The Great Steepening

- Apart from the Fed's cutting cycle, Trump's election and the GOP sweep was the biggest political economy event of 2024.
- We did not predict Trump's win with any confidence, giving him a [40% probability](#) of winning before the election.
- Our estimate of a a Republican sweep (35%, highest probability scenario) proved more accurate and, if anything, more impactful for markets.
- In our [July 12](#) AMF piece, we identified Trump's momentum as a "strong case for steepening." 2Y10Y has moved from -30 then to +33 today
- Similarly, our expectation that a Republican sweep would put upward pressure on 10Ys proved accurate, if somewhat bumpier along the way.
- Our view on equities also appears to have held: the [Day After](#) the election, we argued that the positive reaction was "less likely to last" than the move in rates. The SP 500 traded at ~5,885 today—below its November 6 close.
- In 2025, much will depend on how many of the Trump administration's policies will be enacted—and how quickly. In our view, most of the macro risks lie with international trade policy.

U.S. 2Y10Y



SP 500



Source: Bloomberg

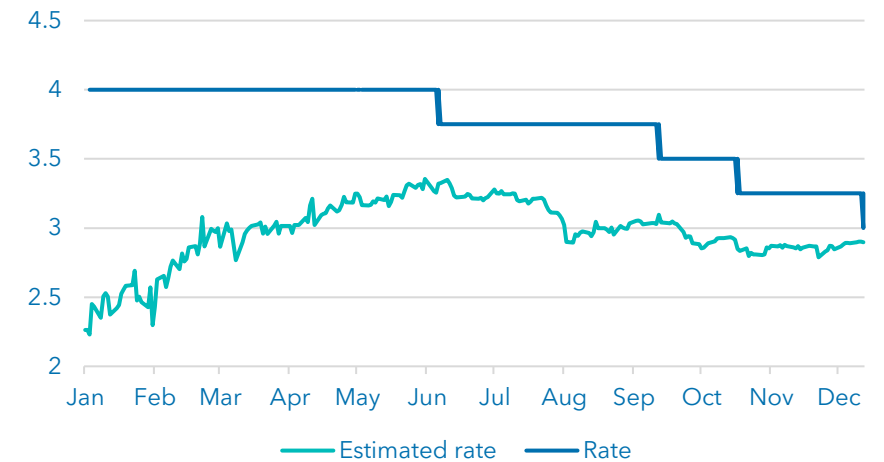


The ECB Cut Earlier—but Still Ended up With 100bps

- Much like with the Fed, the market entered the year with ECB expectations that were too dovish; we were initially more hawkish, but not enough.
- We corrected further after a visit to Frankfurt, writing in our [“ECB Update: Cooing in Frankfurt”](#) that we expected Europe’s central bank to “cut in June, skip July, and then cut by a further 50-75bps this year.”
- The prediction proved accurate even as the market overshot on the hawkish side.
- We were slightly too hawkish going into the October meeting, though we did eventually call that one correctly, too ([October 10](#))
- We then reiterated our call for a December 25bps cut on [October 17](#).
- Overall, we think the ECB has successfully kicked the Eurozone economy up a gear.
- Despite the plethora of political risks, we expect 2025 to be a year of faster growth in Europe.

ECB meeting	Rate (Deposit)	Our calls	ECB Move
1/25/24	4.00	Hold	Hold
3/7/24	4.00	Hold	Hold
4/11/24	4.00	Hold	Hold
6/6/24	3.75	Cut	Cut
7/18/24	3.75	Hold	Hold
9/12/24	3.50	Cut	Cut
10/17/24	3.25	Cut	Cut
12/12/24	3.00	Cut	Cut

ECB Depo Rate vs. Market Estimate



Source: Bloomberg



EU Politics and Macro: Things Fell Apart

- As early as [January 9](#) report, we predicted the far right would outperform its 2019 results at the expense of the Greens and the Liberals (RE).
- We also suggested the U.S. election would be [more consequential](#) for the EU than the European one.
- Nonetheless, we expected Von der Leyen to win re-election: in our [May 16](#) report, but also in our [June 9](#) and [June 26](#) reports.
- On [May 16](#), we estimated that the new parliament would be a less fertile ground for climate-oriented legislation. We also pushed back against the suggestion that Meloni's Fratelli di Italia would join the EPP.
- We foresaw on [June 10](#) that Macron's move to dissolve the Assemblée would result in parliamentary chaos and wider OAT spreads.
- On [July 2](#), we ruled out the narrative of the RN leading a government following snap elections and suggested taking profit on the trade.
- But toward the end of the year, we [too optimistic](#) on Barnier government's ability to pass a budget.
- As 2025 beckons, neither Germany, France, nor Spain have had a government majority able to pass a budget.

OAT 10Y - Bund 10Y Spread



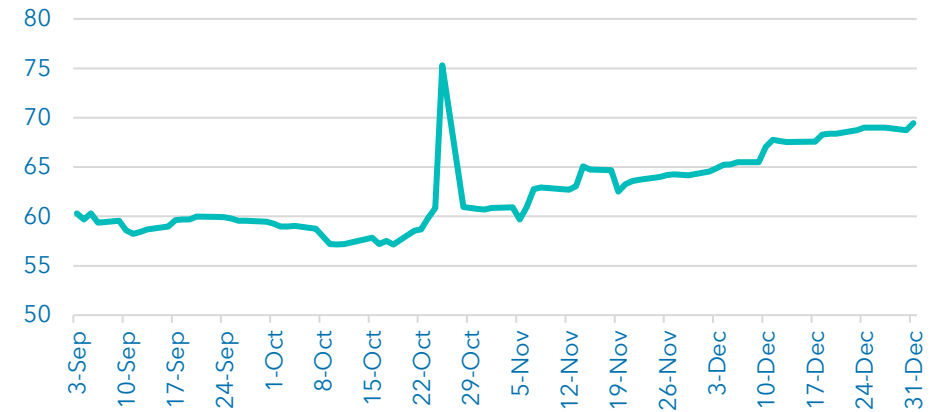
Source: Bloomberg



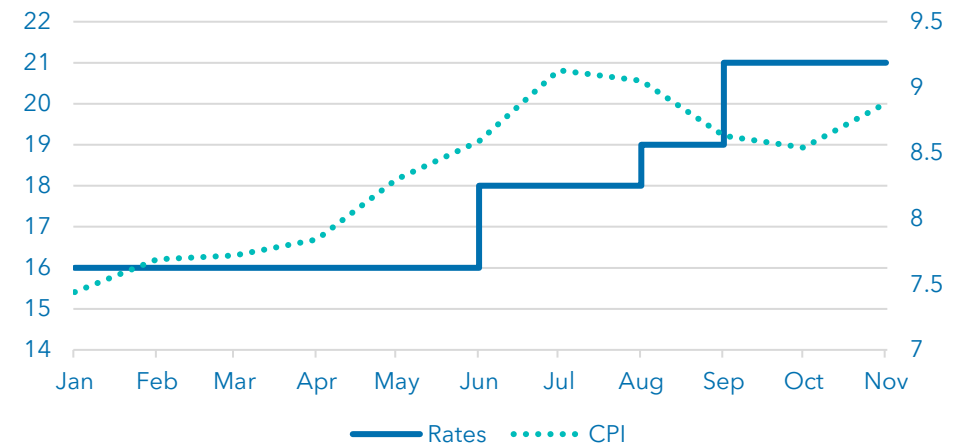
The Battle for Eurasia Rages On

- Early in the year, we correctly anticipated [on January 15](#) that the G7 would agree to a mechanism to use frozen Russian assets to fund Ukraine's war efforts.
- In the Caucasus, we forecasted [on May 2](#) that the Georgian Dream would win the election in Georgia amid a disunited opposition.
- However we were step behind in our assessment of the Georgian Dream calling to halt EU negotiations and the subsequent mass protests, which have proven more resilient than expected.
- [On September 16](#), we successfully assessed that Ukraine would not agree to continuing Russian gas transit, nor would the proposed Russian-Azerbaijan gas swap to allow Russian gas to be rebranded as Azerbaijani go ahead.
- Our most important [prediction](#), however, was that Donald Trump would not put an abrupt end to the war in Ukraine. We shall have our answer in 2025.

Ukraine 2029 Bonds



Russia Rates vs CPI



Source: Bloomberg



Elections in Latin America

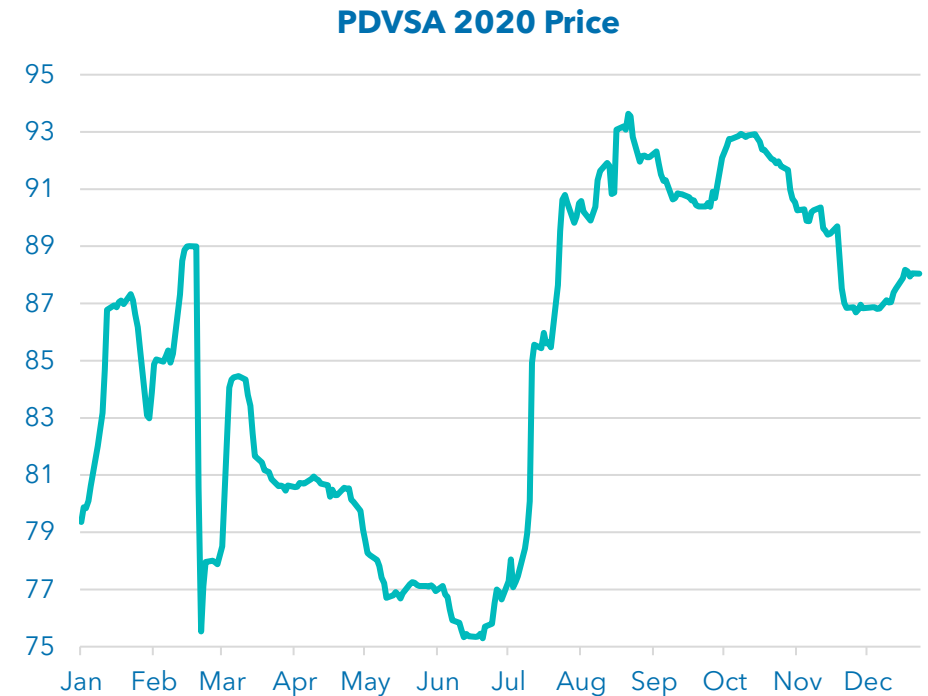
- Across the region, we successfully anticipated key election outcomes.
- In Panama, we accurately predicted that former President Ricardo Martinelli's candidacy would be derailed by the judiciary. We also foresaw the court's decision to allow his chosen successor, José Raúl Mulino to run, as well as Mulino's ultimate victory in the May 2024 election.
- In Mexico, we consistently predicted the election of Morena party candidate Claudia Sheinbaum, though the overwhelming nature of her victory—delivering an unprecedented legislative supermajority to the ruling party—exceeded expectations.
- We were ahead of the curve in highlighting that a stronger Morena margin would weaken Sheinbaum's ability to maneuver vis-à-vis her predecessor and party leader, AMLO, and that judicial reform would be aggressively advanced before the transition of power.
- For the key 2024 regional elections in Brazil and Colombia, our analyses accurately predicted both the outcomes—significant setbacks for the incumbencies of Luiz Inácio Lula da Silva in Brazil and Gustavo Petro in Colombia—and the resulting impacts on governability dynamics and policy.

Country	Predicted Winner	Winner	What We <u>Wrote</u> in January '24
El Salvador (March)	Incumbent	Incumbent	Nayib Bukele is 80%+ approval AND has authoritarian advantage
Dom. Rep. (May)	Incumbent	Incumbent	Luis Abinader is currently polling above 50% against a divided opposition
Panama (May)	Opposition	Opposition	Former Pres. Ricardo Martinelli leads strongly in the polls but may be disqualified by the courts due to prior corruption convictions.
Mexico (June)	Incumbent	Incumbent	AMLO is popular and his Morena party is entrenched. While he cannot run again, the race is currently his handpicked successor Claudia Sheinbaum's to lose.
Venezuela (July)	Incumbent	Incumbent (fraudulent)	Maduro and co. do not see any acceptable exit options from power and will be as authoritarian as necessary, readily stomach any necessary international consequences, to ensure victory.
Uruguay (Nov)	Toss-Up	Moderate left wing.	Uruguay is one of LatAm's more functional democracies and the race will be competitive, the leading candidates will likely be moderates.



A Venezuelan Transition that Wasn't

- Our coverage of Venezuelan election process was extensive—navigating the chaotic pre-election uncertainty, enduring multiple opposition false starts, and even predicting the eventual election date of July 28 (Hugo Chávez's birthday).
- Following the fraudulent election, we successfully stayed ahead of unfolding developments: accurately predicting that Maduro not be immediately dislodged, that the U.S. would delay imposing general or sectoral sanctions, and that existing Barbados-era oil agreements would not be summarily canceled in response.
- Moreover, we were among the first to highlight the regime's internal consolidation around Diosdado Cabello in the aftermath of the failed election and its likely implications for future policy direction.
- We were also early to provide detailed coverage of Nicolás Maduro's saber-rattling over the Essequibo territorial dispute within the context of Venezuela's electoral politics, correctly advising our clients that the threats to Exxon's operations in Guyana were driven more by the regime's internal dynamics than by any genuine risk of military escalation.

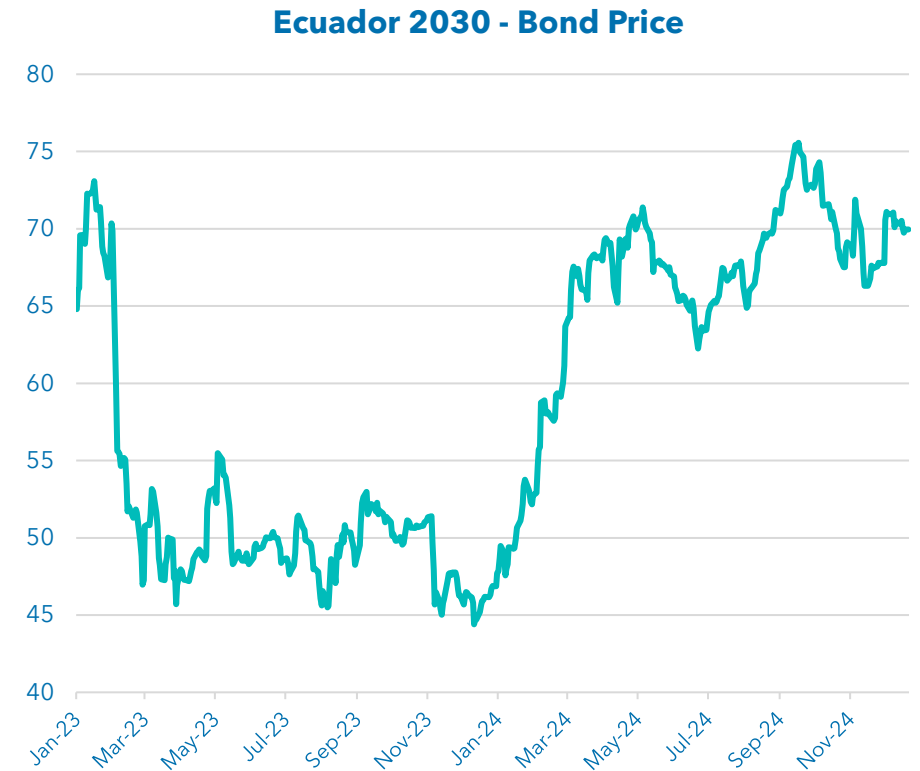


Source: Bloomberg



The Latin America Reform Agenda

- Throughout the year, we have consistently anticipated Argentine President Javier Milei's ability to push through his legislative agenda despite his narrow political margins.
- On [May 8](#), we assessed that two of Milei's major reform bills, Ley de Bases and the Fiscal Package, would be approved through Argentina's Congress.
- Similarly, on [September 5](#), we anticipated that Milei would corral the necessary minority support to uphold his veto power in Congress, which proved true upon the failed attempts to override the president's veto on pension reform.
- In January 2024 we correctly [anticipated](#) that President Daniel Noboa's "Plan Phoenix" security initiative would kick off a spectacular rally in Ecuador's bonds.



Source: Bloomberg



Public Debt Coverage

- Our public debt coverage stayed consistently ahead of key legal developments regarding Argentina: on July 19, we anticipated that the Court would not grant the turnover motion of YPF shares and on [on August 23](#) that Judge Preska would expand the alter-ego discovery scope to other Argentine instrumentalities.
- We also provided exhaustive coverage of the Citgo Auction Case, consistently predicting the proliferation of [new delays](#) to legal proceedings in Delaware Court and [decisions](#) by key players, including the plaintiffs, Special Master Pincus, and Judge Stark.
- In the New York bondholder process, we likewise flagged early the risk that an appeals court decision could make Venezuelan law relevant to the case. We were also among the first to highlight, [on November 20](#) the critical yet often overlooked risk that the mandate of the 2015 National Assembly for Citgo matters might not ultimately be renewed in January 2025 – an issue that has since been increasingly front and center.
- We highlighted [on October 4](#) a novel external risk facing Mexican state-owned PEMEX, regarded as one of the world's most indebted state oil companies, under the alter ego doctrine. We nonetheless correctly identified that the Mexican government's continued support for Pemex would be ironclad despite a deteriorating fiscal balance.
- More broadly, in addition to our [alter-ego-related coverage](#), we [provided](#) insights into critical public debt developments across the world, from Zambia's sovereign restructuring to Pakistan's 25th IMF program to Ukraine's Eurobond restructuring.

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