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What to watch: What President Trump means for energy, earnings winter for European corporates, and taking stock after 29 COPs

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In summary

Drill, baby, drill: What Trump's second term means for energy prices. On the campaign trail, Donald Trump vowed to reduce fuel prices, but this is unlikely to be achieved via higher domestic production. The US is already the world's top oil producer, hitting a record-breaking 13mn barrels per day (mbd) in 2023. The administration could also deliver higher LNG supply to global markets by reducing regulatory hurdles and promoting infrastructure development, which could reduce European gas prices (and thus power prices) by over -15%. On the negative side, President Trump could reinstate sanctions against Iran potentially driving up prices by +5-10%,. President Trump's stance on climate policy could also set the US back a few years in the energy transition and hurt global efforts to combat climate change.

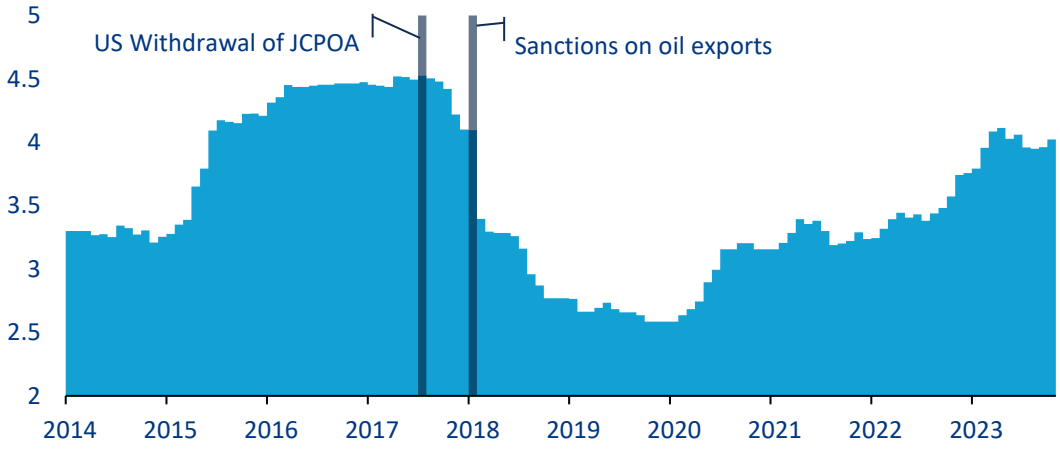
Q3 earnings: The Atlantic divide continues. Both S&P 500 and Stoxx 600 companies delivered earnings growth in Q3 2024 (+8.8% y/y) but the revenue recession continued in Europe, with a -1.7% contraction. Overall investor sentiment has improved following the reelection of Donald Trump and the Federal Reserve's second rate cut in November. Small and mid-cap companies, particularly in the US, are well-positioned to benefit from Trump's reshoring policies, with earnings growth projected at +30-50% over the next two years. But US-centric reshoring policies under Trump and global uncertainty may challenge the recovery prospects for European companies. Looking ahead, earnings and revenue growth will be critical to sustaining market momentum, which has mostly been fueled by valuation-driven gains in 2024. For 2025, we expect both earnings and returns for US and Eurozone equity markets to rise by +7-12%.

Carbon productivity: Taking stock after 29 climate change conferences. As COP29 in Baku comes to a close, we take stock of what has been achieved after decades of climate conferences. The good news is that the global economy has seen a green productivity gain of 70% cumulatively since 1990, producing USD 3.13 at constant purchasing power parity prices for each kg of greenhouse gas emissions in 2023. And the EU is the clear leader among large economies, with a strong acceleration of carbon productivity from 2.6% to 4.1% annually after the Paris agreement, albeit at seemingly high economic costs. The bad news is that the pace of change is by far not enough to meet net-zero targets by 2050 as carbon productivity mathematically has to go to infinity, which implies much higher growth rates than what we see currently. Transformative breakthroughs across multiple sectors and countries are urgently needed. Without faster progress, the world risks falling short of climate goals, with significant economic and environmental consequences.

"Drill, baby, drill": What **Trump's** second term means for energy prices

In his second term, Donald Trump is likely to reinstate sanctions against Iran, which could push up global oil prices in the short run by up to 10%. On the campaign trail, Donald Trump pledged to reduce fuel prices, but he is unlikely to achieve that through higher domestic production. The US is already producing more oil than ever before, reaching an average of close to 13mn barrels per day (mbd) in 2023, well above the previous record set in 2019 before the Covid-19 pandemic. This resurgence is being driven by increased shale oil output, particularly from the Permian Basin in Texas and New Mexico, and has solidified the US's position as the world's top oil producer, with significant implications for global oil markets and prices. The potential for further growth in US production is limited: first, WTI crude oil prices are around USD68/bbl, slightly above the average USD64/bbl breakeven for US producers, but the breakeven can go as high as USD75/bbl for some oil sands producers. Second, higher supply could come from the Trump administration reversing Biden's policies on federal lands: increasing leads and reducing royalty payments and bond requirements could boost supply, though the impact would materialize only in the medium term (i.e. after a couple of years). At the same time, a return to a Trump-led White House could lead to a reinstatement of stringent sanctions on Iran's oil exports. Previously, the Trump administration withdrew from the Joint Comprehensive Plan of Action (JCPOA) in May 2018 and imposed sanctions on oil exports in November 2018, leading to a significant reduction in Iranian oil on the global market (Figure 1). In 2023, Iranian oil exports accounted for about 4% of oil trade and renewed sanctions could tighten global oil supply, potentially driving up prices by +5-10%, increasing inflation risks worldwide. Moreover, heightened geopolitical tensions in the Middle East and especially any disruption in the Strait of Hormuz, through which a fifth of the world's oil passes, could have significant implications for global supply and prices.

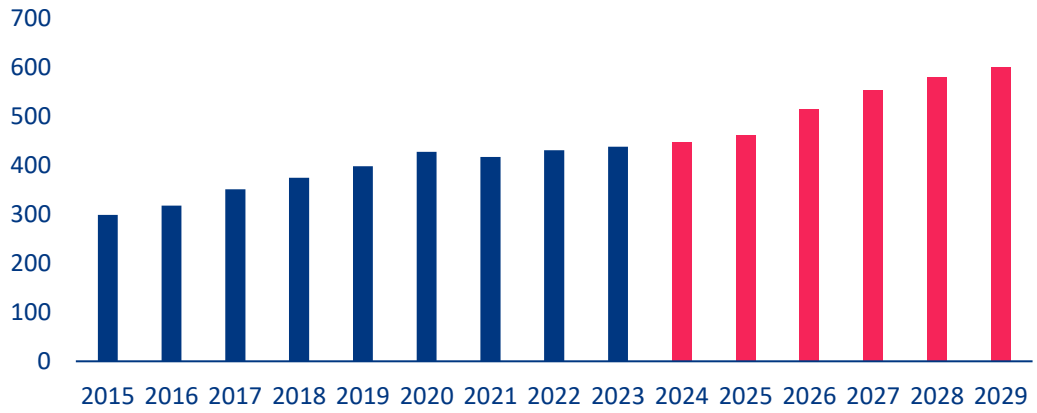
Figure 1 : Iran oil production (mbd)



Sources: EIA, Allianz Research

The LNG supply boost could reduce European gas prices by over -15% over the next five years. With the onset of the war in Ukraine, the US has also emerged as one of the most important players in the global LNG market, with exports increasing steadily. Notably, the US has become the top supplier of LNG to Europe, partially making up for Russian gas. The next Trump administration could further bolster this growth by reducing regulatory hurdles and promoting infrastructure development. Policies aimed at streamlining permit processes for LNG terminals and pipelines could accelerate export capacity expansion, and Trump could also unravel the Biden administration's moratorium on licensing new LNG export capacities. An estimated 90mn tons per annum (mtpa) of projects are awaiting export approvals and more than 130 mtpa are expected to go live by the end of Trump's second term (Figure 2). This growth will outpace demand growth and likely weigh on global prices. Although previous estimates suggested low impact from LNG supply to European gas prices, we estimate that in the current context of the ongoing energy crisis, the increase in US export capacities could decrease natural gas prices and hence power prices in Europe by more than -15%, which would be a much welcome relief for the continent. Once again, the main risk on natural gas prices over the short term lies with US foreign policy: the US position on the war in Ukraine could lead to market volatility.

Figure 2: US LNG capacity (mtpa)



Sources: Berstein, Allianz Research

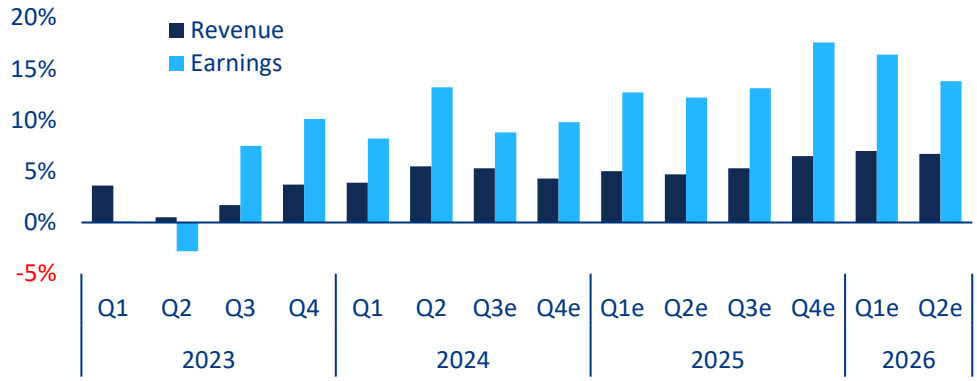
However, the return of Trump will be a setback for the energy transition. A new Trump administration may signal a shift away from the sustainability initiatives advanced during the Biden presidency. The first Trump administration rolled back numerous environmental regulations, including the Clean Power Plan and vehicle emission standards. Potential policy changes could slow the transition to renewable energy. Investments in coal and oil infrastructure might see a pickup, potentially at the expense of solar and wind energy projects. The Environmental Defense Fund has warned that reversing climate policies could hinder the US commitment to reducing greenhouse gas emissions under the Paris Agreement. Internationally, a retreat from sustainability commitments by the US could hurt global efforts to combat climate change by reducing funding for renewable energy projects in developing countries, and weaken collaborative initiatives aimed at reducing carbon emissions.

Q3 earnings: The Atlantic divide continues

Q3 marked the fifth consecutive quarter of earnings growth for S&P 500 companies (+8.8%), but the results are a mixed bag. Companies with greater international revenue exposure outperformed, including the companies within the Magnificent 7 universe, reporting an impressive ~13% earnings growth compared to ~2% for those with primarily domestic revenue. Sectors such as communication services and healthcare led overall earnings growth. Revenue growth for Q3 2024 stood at +5.3%, driven by strong performance in sectors such as information technology, healthcare and communication services. However, only 61% of companies exceeded revenue expectations, below the historical average. The healthcare sector emerged as a standout with big revenue beats, while the energy sector posted the largest revenue decline due to weaker oil prices and downward revisions. These dynamics contributed to the ongoing revenue expansion, marking the 16th consecutive quarter of growth.

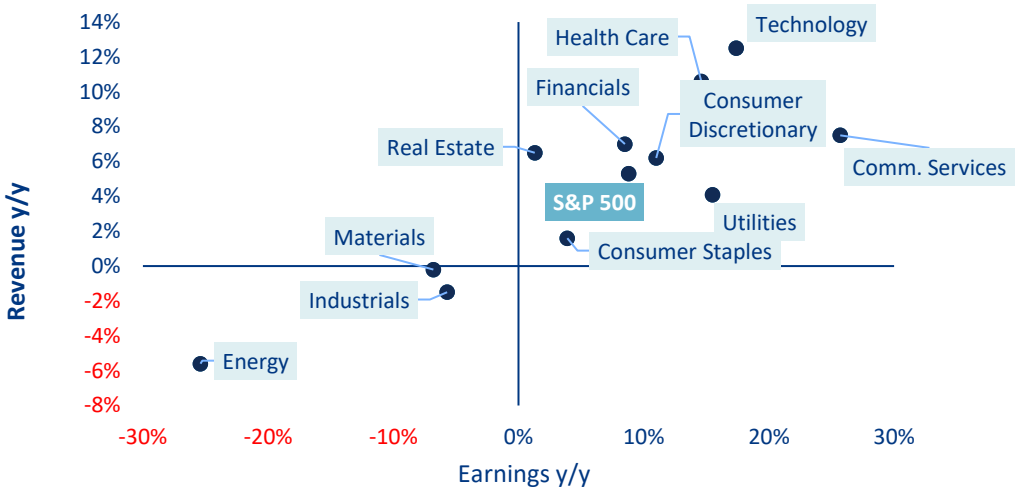
Looking ahead, analysts continue to project robust earnings growth for the S&P 500, with year-over-year increases of +9.8%, and +17.6% anticipated for Q4 2024 and Q4 2025, respectively. In this environment, forward P/E ratios remain quite high (22x), above both five- and 10-year averages, reflecting optimism despite challenges in specific sectors such as energy and materials. Indeed, investor uncertainty has structurally declined since the beginning of November with the end of the US elections are over and the Fed implementing its second consecutive rate cut. In many respects, the specifics have mattered less than the fact that the questions have been resolved, allowing investors and US companies to start planning with greater confidence for 2025 and beyond (Figure 3 & 4). Trump's reshoring initiatives are expected to give a significant boost to domestically focused small and mid-sized companies, driven by tax breaks, fiscal incentives and increased domestic consumption. Following the Russell 2000's performance, analysts project earnings growth of +30% to +50% for these companies over the next two years, alongside structural revenue growth. Given this outlook, a fundamentals-driven repositioning into this segment of the US equity market may be warranted. Such a strategy could offer an attractive return profile, particularly in sectors poised to benefit most, such as industrials and consumer discretionary (Figure 5).

Figure 3: S&P 500 earnings and revenues (y/y%)



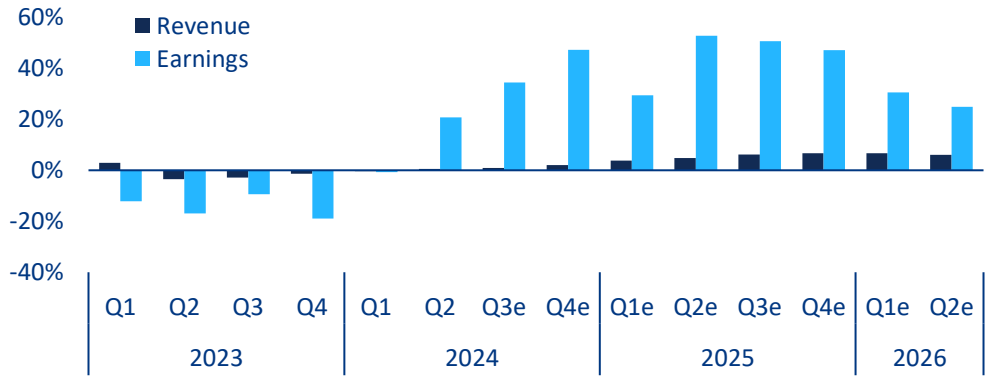
Source: LSEG, Allianz Research

Figure 4: S&P 500 earnings - revenues by sector (y/y%)



Source: LSEG, Allianz Research

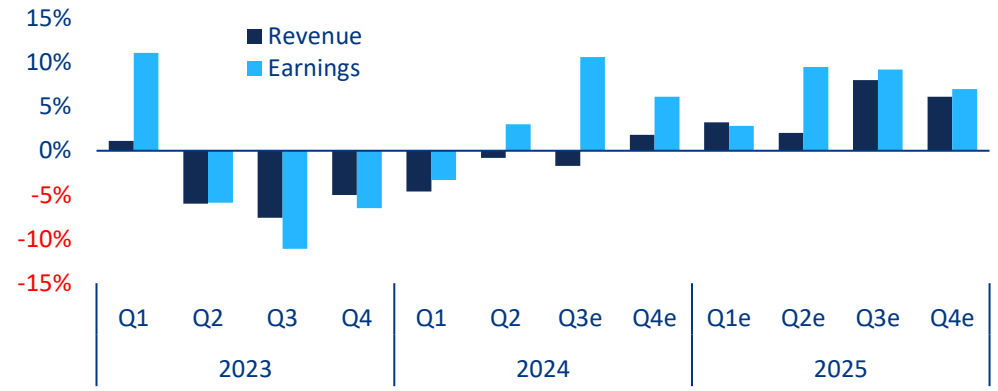
Figure 5: Russell 2000 earnings and revenues (y/y%)



Source: LSEG, Allianz Research

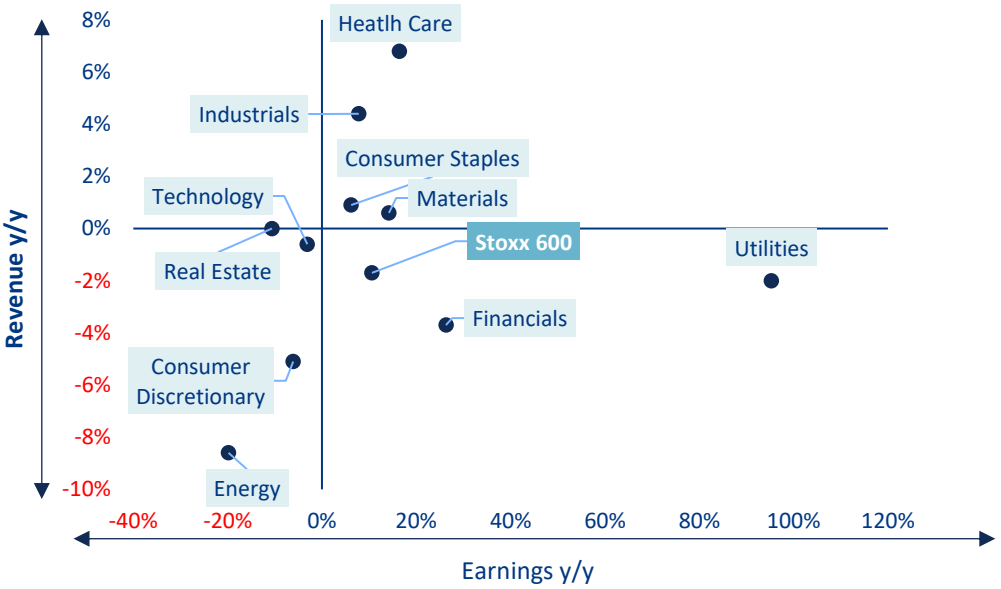
In Europe, companies in the Stoxx 600 achieved an impressive +8.8% y/y earnings growth rate but remained in a revenue recession. Earnings exceeded consensus estimates by around 4%, confirming the recovery that began in Q2 2024 and showcasing a consistent positive trend. While the breadth of earnings revisions has stabilized, it remains in negative territory. At the sector level, financials, utilities, and consumer staples have delivered strong earnings, outperforming expectations (Figures 6 & 7). However, revenue growth remained disappointing, with Q3 marking the sixth consecutive quarter of contraction (-1.7% y/y), mainly the result of weak performance in the financials, energy and consumer discretionary sectors. Although sectors such as healthcare, industrials and consumer staples showed positive revenue growth, they were unable to offset the underperformance of the index's heavyweights.

Figure 6: Stoxx 600 earnings and revenues (y/y%)



Source: LSEG, Allianz Research

Figure 7: Stoxx 600 earnings - revenues by sector (y/y%)

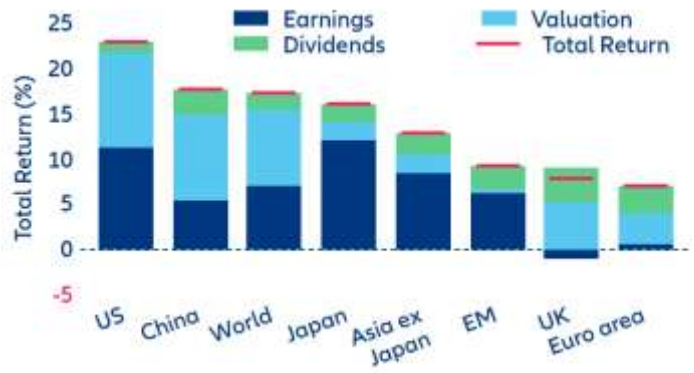


Source: LSEG, Allianz Research

Analysts project a turnaround in revenue growth by year-end, with revenues expected to rise to +1.8% y/y at the turn of 2024. Earnings momentum is forecasted to continue, albeit at a slower pace, with expected growth of +6.1% y/y in Q4 2024 and +7.0% in Q4 2025. While this outlook is optimistic, it remains uncertain, especially given the prior overestimation of Q3 revenues and potential headwinds from US-centric policies under Trump's reshoring agenda, which could challenge the anticipated revenue recovery in Europe.

Earnings and revenues will play a critical role in sustaining the current market momentum, especially as this **year's equity index gains have been largely driven by valuation (price) increases rather than a balanced mix of** valuations and earnings growth. A soft landing followed by a swift recovery is essential, particularly in regions with high concentration risk, such as the US, and in areas where earnings growth is under pressure, like China and the Eurozone. Our cautious equity performance projections of +7% to +12% for 2025 reflect this uncertainty. To maintain the positive momentum, markets will require solid earnings and revenue growth going forward as the valuation component has likely reached its peak contribution. Further gains will need to be supported by fundamentals rather than price expectations alone. In this context, we believe equity markets are likely to remain positive over the next two years, but this is contingent on earnings staying in positive territory and accelerating in key regions such as China and the Eurozone (Figure 8).

Figure 8: Major equity indices total return breakdown (year-to-date %)

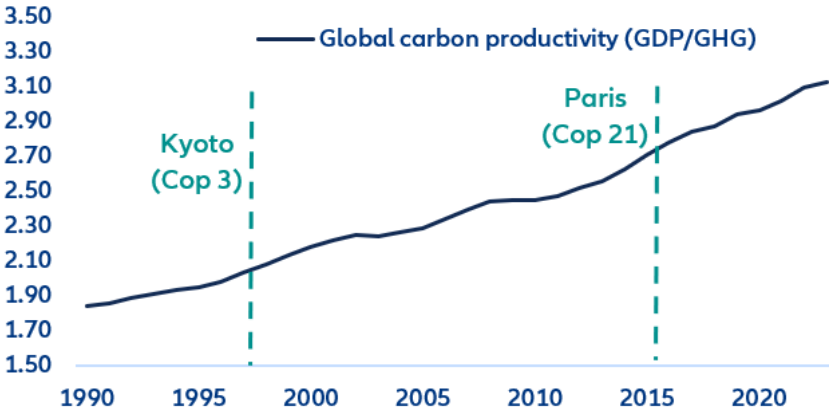


Source: LSEG Datastream, Allianz Research

Carbon productivity: Taking stock after 29 climate change conferences

The global economy is getting greener but an acceleration is needed. As the latest climate conference in Baku (COP 29) comes to a close, it is a good time to take stock of what has changed after decades of climate conferences. The result is rather disappointing: The global economy has failed to significantly accelerate its greening process. Figure 9 shows how much global GDP the world economy produces for each kg of global emissions, known as carbon productivity. The good news is that the global economy has become more productive over time in a green sense. In 1990, it produced USD1.84 at constant 2021 purchasing power parity prices for each kg of greenhouse gas equivalent emissions. In 2023, this figure reached USD3.13 – a green productivity gain of around 70% cumulatively. The bad news is that this progress has not been accelerating over time, which is necessary for any meaningful impact to limit global warming, let alone to achieve net-zero emissions by 2050. Even the much celebrated Paris agreement, when global nations agreed to limit global warming to 1.5°C, did little to boost momentum. The annual growth rate of carbon productivity inched up only slightly from 1.4% until the Kyoto protocol (COP 3, 1997), to 1.6% until the Paris agreement (COP 21, 2015) and to 1.8% since then.

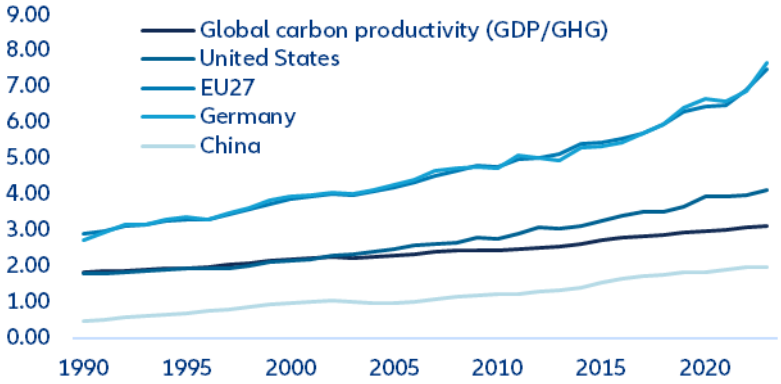
Figure 9: Global carbon productivity (real international USD per kg of greenhouse gas emissions equivalent)



Source: Crippa et al 2024,[1] Allianz Research
Notes: real international USD are purchasing power parity (PPP) at constant 2021 prices

There has been regional **progress, but Europe's gains** have come at a high economic cost. At the regional level, differences are stark. Figure 10 shows GDP carbon productivity for some selected regions: The EU27 is a clear leader among the large economies: carbon productivity is at USD7.50/kgCO2, compared to China's USD1.96/kgCO2 and the US's USD4.14/kgCO2. But even more astonishing is the recent acceleration of carbon productivity in the EU27. Carbon productivity has sped up from 2.6% to 4.1% annually in the years after the Paris agreement. While this is good news, any regional progress has to be taken with a grain of salt. Some of Europe's gains result from shifting CO2-intensive industries, like steel production, to countries such as China. This underscores the importance of evaluating emissions at a global level. Secondly, the green productivity gains seem to come at a high economic cost. Increasing energy costs in Europe, which were not only the result of higher CO2 prices but also due to the lack of Russian gas deliveries after the outbreak of war in Ukraine, have taken their toll on energy-intensive industries in Europe, in particular Germany (Figure 11). This has contributed to the weak economic growth environment of the 2020s, with Europe lagging global peers such as China and the US.

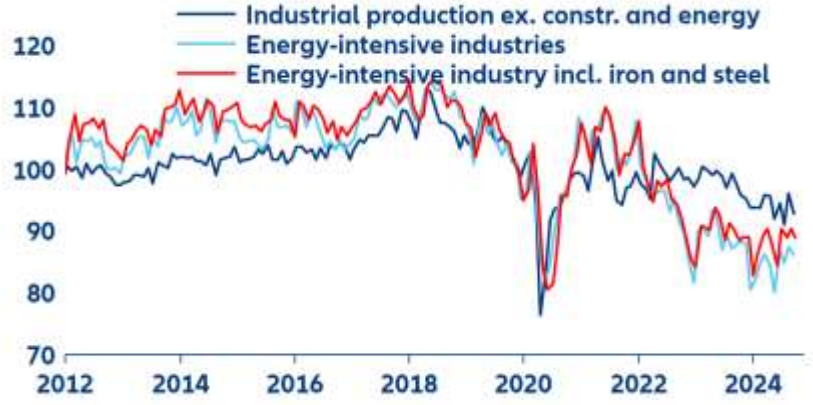
Figure 10: Regional differences in carbon productivity (USD/kg)



Source: Crippa et al 2024, Allianz Research

[1] *Crippa M., Guizzardi D., Pagani F., Banja M., Muntean M., Schaaf E., Becker, W., Monforti-Ferrario F., Quadrelli, R., Risquez Martin, A., Taghavi-Moharamli, P., Grassi, G., Rossi, S., Melo, J., Oom, D., Branco, A., San-Miguel, J., Manca, G., Pisoni, E., Vignati, E., Pekar, F., GHG emissions of all world countries – JRC/IEA 2024 Report, Luxembourg, 2024, https://data.europa.eu/doi/10.2760/4002897, JRC138862.*

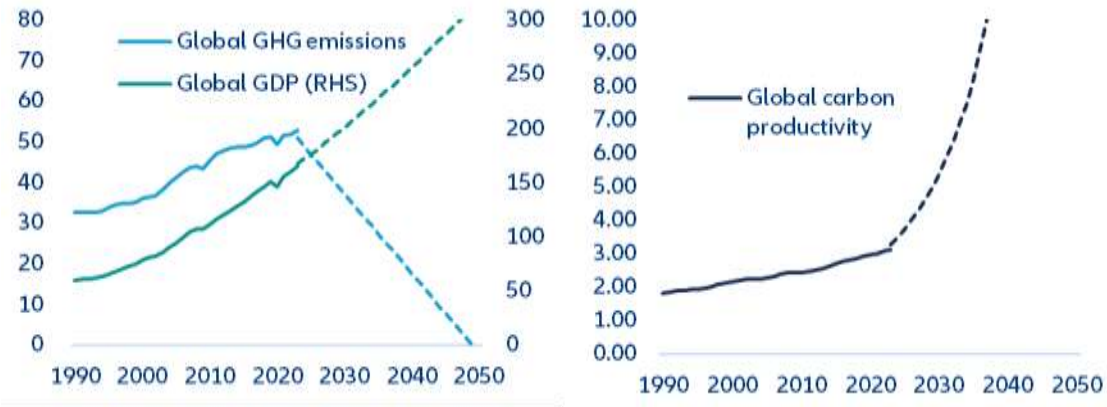
Figure 11: Germany industrial production and subcomponents (index 100=Feb 2022)



Source: LSEG Datastream, Allianz Research

The net-zero-2050 outlook for the global economy seems like a lofty goal. Much more needs to be done to achieve a turnaround in the looming climate crisis. Figure 12 shows the latest NGFS estimates until 2050 in the Net-Zero 2050 scenario. GDP growth is expected to continue at an average rate of +2.4% per year. While this is still somewhat lower compared to the +3.1% annual growth rate since 1990, it still means the global economy will be almost 90% larger than today in 2050. At the same time, global greenhouse gas emissions are set to return to zero. This, however, implies that carbon productivity has to grow at a super exponential growth rate in order to reach infinity by 2050 (Figure 12). Remember that emissions are produced by almost all economic activities. For context, transitioning all global road transport to emission-free electric vehicles would cut just 5.9% of global emissions, assuming zero-emission electricity and production. Replacing global cement production with an emission-free alternative would save 1.6% of emissions, agriculture and land use 10.4% and residential buildings 2.3%. These examples show that achieving the required carbon productivity growth would demand unprecedented technological breakthroughs across many sectors and nations. Alternatively, emissions may decline, not due to technological progress, but as slower economic growth results from escalating physical risks, which increasingly threaten the long-term economic outlook.[2]

Figure 12: Global GDP, GHGe emissions incl. NGFS net-zero 2050 outlook (left panel, trillion USD, Mt) and implied and carbon productivity (right panel, USD/kg)



Source: NiGEM NGFS v1.24.2, Allianz Research
Notes: Carbon productivity in the right panel is capped at 10 as values go to infinity by 2050 to achieve net zero.

[2] *Allianz | Long-run capital market returns in times of climate change*

These assessments are, as always, subject to the disclaimer provided below.

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