2025 *Investment Outlook*: A Year of Growth Awaits Investors

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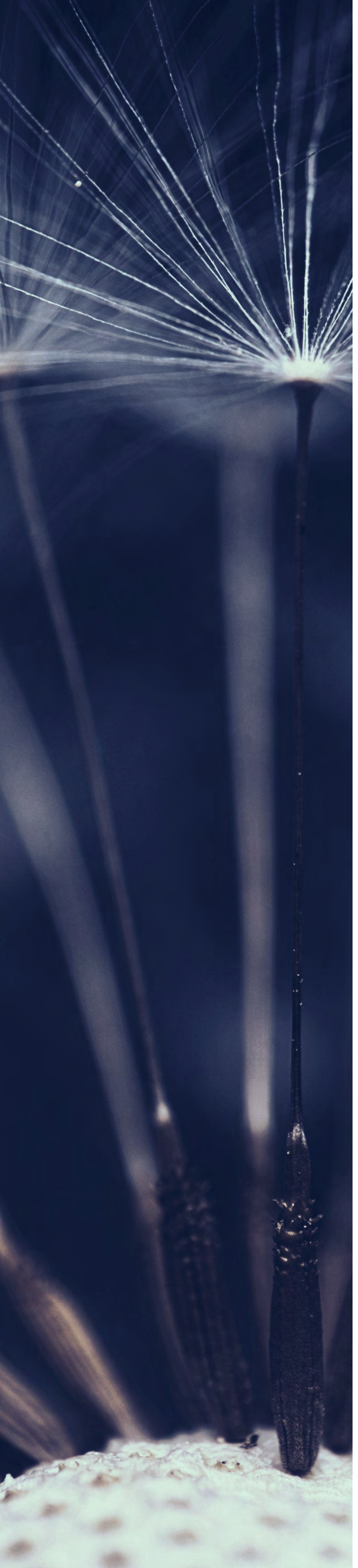

Reflecting on 2024:

Setting the stage for continued growth

2024 was a remarkable year for global equities, which reached record highs due to advancements in generative artificial intelligence (Gen-AI) and a global economic recovery.

The US led the way, while Europe and some emerging markets lagged. Significant geopolitical events, including elections in over 60 countries, set the stage for changes. Rising government debt and looser fiscal policies were major concerns, with high levels of borrowing and spending.

Economic trends: Continued divergence

- **2024**: Global equities reached record highs, driven by advancements in Gen-AI and a global economic recovery. The US experienced robust economic growth, while Europe and some emerging markets lagged.
- **2025**: Continued growth is expected, with the US maintaining its lead, but regional disparities will require a diversified investment approach.

Geopolitical landscape: Navigating complexities

- **2024**: Significant geopolitical events, including elections in over 60 countries, set the stage for changes. Geopolitical tensions, especially in the Middle East, added volatility to markets.
- **2025**: Geopolitical risks remain high, with ongoing conflicts and strained US-China relations expected to continue. These factors will impact investor confidence and require careful risk management.

Debt and fiscal policies: Addressing growing concerns

- **2024**: Growing government debt and fiscal policies were a concern, with high levels of borrowing and spending.
- **2025**: Addressing debt challenges will be crucial for economic stability. The new US administration's fiscal policies will play a significant role in shaping the economic outlook.

- Key takeaway: The events of 2024 highlight the need for a diversified investment strategy to manage risks and seize opportunities in an ever-changing market landscape.

	2024 highlights	2025 outlook
Economic trends	Record highs in global equities, led by the US growth engine	Continued growth with regional disparities
Geopolitical landscape	Elections and geopolitical tensions added volatility to markets	High geopolitical risks; ongoing conflicts and strained relations likely to impact markets
Debt and fiscal policies	Growing government debt and high borrowing	Crucial to address debt challenges; new US fiscal policies expected to influence the economy

The 2025 outlook

Global economy: New dynamics

The global economy is expected to continue its growth trajectory in 2025, building on the positive economic backdrop of 2024.

Central banks are carefully adjusting interest rates to balance inflation and economic growth.

- **Growth**: Building on the positive economic backdrop in 2024, the global economy is expected to keep growing.
- **Interest rates**: Central banks are adjusting interest rates carefully to balance inflation and economic growth. Future interest rate cuts should help stock markets as long as inflation stays in check.
- **Regional variations**: US economic growth is expected to be robust. However, other countries may be knocked by US trade policy. Expectations are that China and the eurozone, especially Germany, will fall behind other regions.

Key takeaway: While steady growth is anticipated, regional disparities, uncertainties, and risks will require a diversified approach.

Geopolitical changes: A complex global environment

Geopolitical risks are expected to remain high in 2025, with ongoing conflicts and strained relations.

These factors will continue to create a complex global environment for investors.

- **Ongoing conflicts**: Geopolitical risks are expected to remain high in 2025, with ongoing conflicts in the Middle East and Ukraine-Russia.
- **US-China relations**: Strained relations, especially around trade and Taiwan's independence, will likely make the global environment even more complex.
- **Trade tensions**: Global trade tensions may rise, particularly between the US and China, potentially bringing uncertainty and disruption to global supply chains.

Key takeaway: Geopolitical risks will likely create a challenging backdrop in 2025, requiring careful navigation and risk management.

Growing debt problem: A looming challenge

The growing debt problem for governments is becoming increasingly concerning for major economies.

Addressing these challenges will be crucial for maintaining economic stability in 2025.

- **Government debt**: Rising debt levels are a critical concern for many economies, potentially impacting their ability to invest in essential services and infrastructure.
- **US fiscal policies**: With US president-elect Republican Donald Trump starting his presidency in January 2025, there is uncertainty about his administration's fiscal policies and their impact on the national debt.
- **Interest rates**: While interest rates are expected to decline gradually, they will likely remain higher than pre-pandemic levels, making debt financing more expensive.

Key takeaway: Keeping an eye on debt levels and interest rates will be important for supporting economic health, and in turn, the confidence of financial markets.

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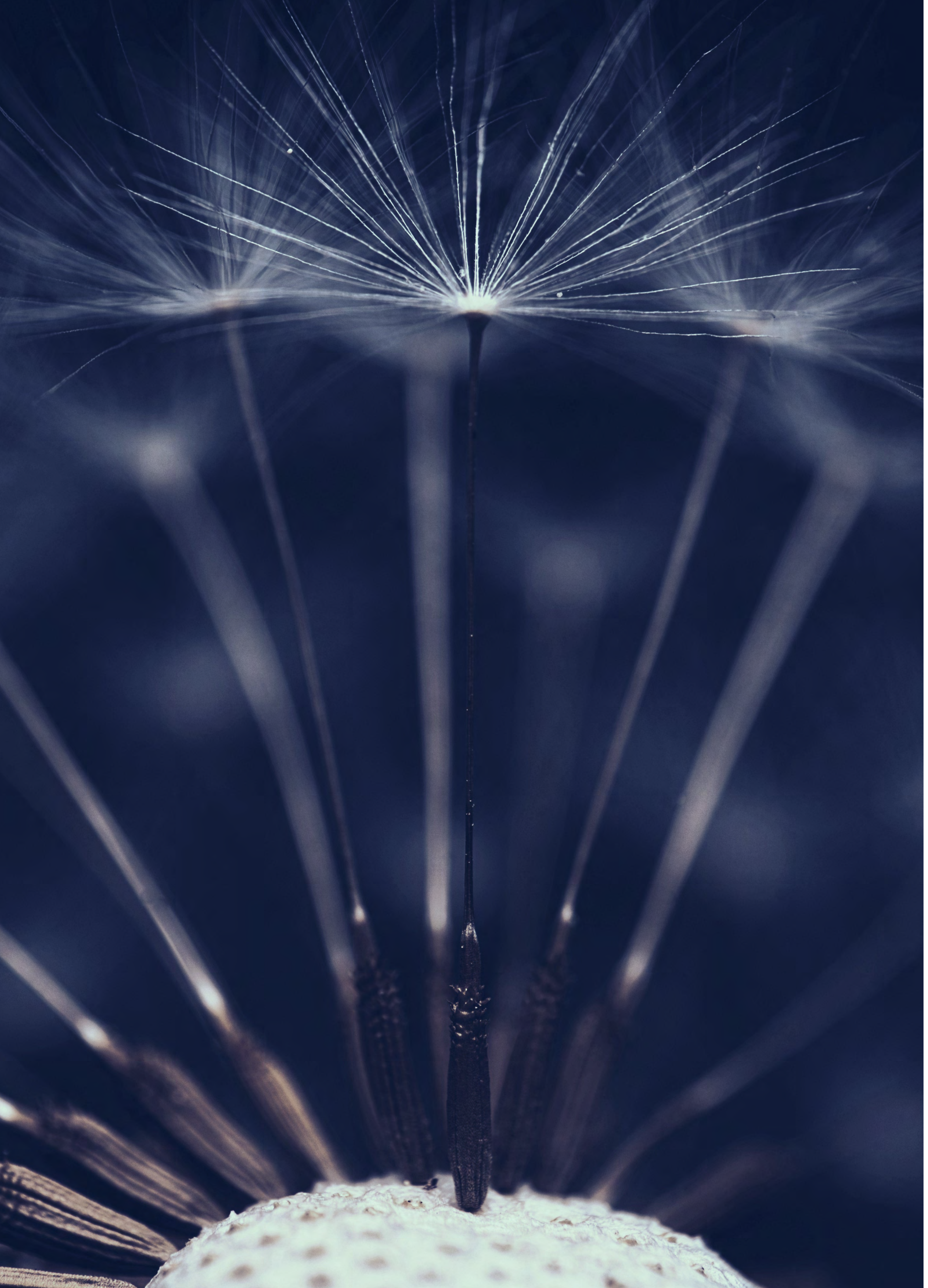

Investment strategies for 2025

Equities: Balancing act

A balanced and diversified approach will be key for investors in 2025. While mega-caps should continue to perform well, the rise of smaller and medium-sized stocks may broaden returns.

- **Diversification**: A balanced and diversified approach is likely to continue to be key for investors in 2025.
- **Sector focus**: While technology, particularly Gen-AI, has been a major driver of market performance, other sectors, such as healthcare, also present significant opportunities.
- **Market cap**: The US equity market has performed exceptionally well during 2024, led by 'big tech'. However, opportunities exist across the broader market, particularly among US small and mid-sized companies.

Key takeaway: Diversification across sectors and geographies will be essential for a resilient equity portfolio.

Bonds: Seeking stability and balance

Bonds remain an attractive option for steady income, especially with higher yields. Prioritising high-quality and shorter-dated bonds can help build a more resilient portfolio.

- **High-quality bonds**: High-quality corporate and government bonds currently provide attractive yields.
- **Shorter-dated bonds**: We prefer shorter-dated bonds (over longer-dated ones), because they are less affected by changes in interest rates, making them more stable.
- **Investment-grade bonds**: Investment-grade bonds are more reliable than high-yield bonds, which carry higher risks.

Key takeaway: Prioritising relatively safer and shorter-dated bonds can help to target steady income and build a more resilient portfolio.

Looking ahead: Preparing for the future

As we move into 2025, investors have reasons to be optimistic.

Several positive factors, including strong economic growth, easing inflation pressures, and decreasing interest rates, are expected to drive market performance. However, it is crucial to remain vigilant about potential risks. Geopolitical tensions, economic uncertainties, and market volatility could all pose potential challenges.

- **Positive factors**: Strong economic growth, easing inflation pressures, decreasing interest rates, and ongoing potential for corporate earnings growth.
- **Balanced approach**: Maintaining a balanced approach across asset classes, geographies, styles, and market capitalisation sizes will be essential.
- **Cautious optimism**: While we are positive on the economic and market outlook, we remain cautious, shaping our asset allocation to account for various possible outcomes.

Overall, we are well-positioned to navigate the changes and challenges of 2025. By balancing optimism with caution, we can better prepare for any uncertainties that may arise.

Key takeaway: Embrace the year ahead with confidence and optimism, maintaining a balanced and diversified portfolio but staying mindful of potential risks.

To navigate these dynamic market conditions effectively, consider speaking with your financial adviser on how they can support your financial journey in 2025 and beyond.

Important information

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