Cantab
ASSET MANAGEMENT

Outlook for Investments -
Will 2025 be a Satisfactory Year for Investors?

12 December 2024

In our latest investment outlook, Tom Becket, our Co-Chief Investment Officer, looks back over the economic and geopolitical landscape of 2024 while looking ahead to 2025 and asking the question: 'Is the outlook satisfactory for investors?'

2024 reflections: Predictability and relief – cautiously optimistic for 2025

Reflecting on past events is much easier than predicting the future, especially in a world of rapid change. Even the most prominent commentators in financial services have been leaving their end-of-year forecasts until the last second. But in a decade that has been hard to predict, the economic backdrop in 2024 has been relatively predictable.

So, let's start by looking back on 2024, which will be remembered as a year in which portfolios made positive returns, continuing their recovery from the 'annus horribilis' in financial markets in 2022. As we anticipated in our outlook at the start of 2024, both equities and fixed interest investments have performed well, providing welcome relief to investors.

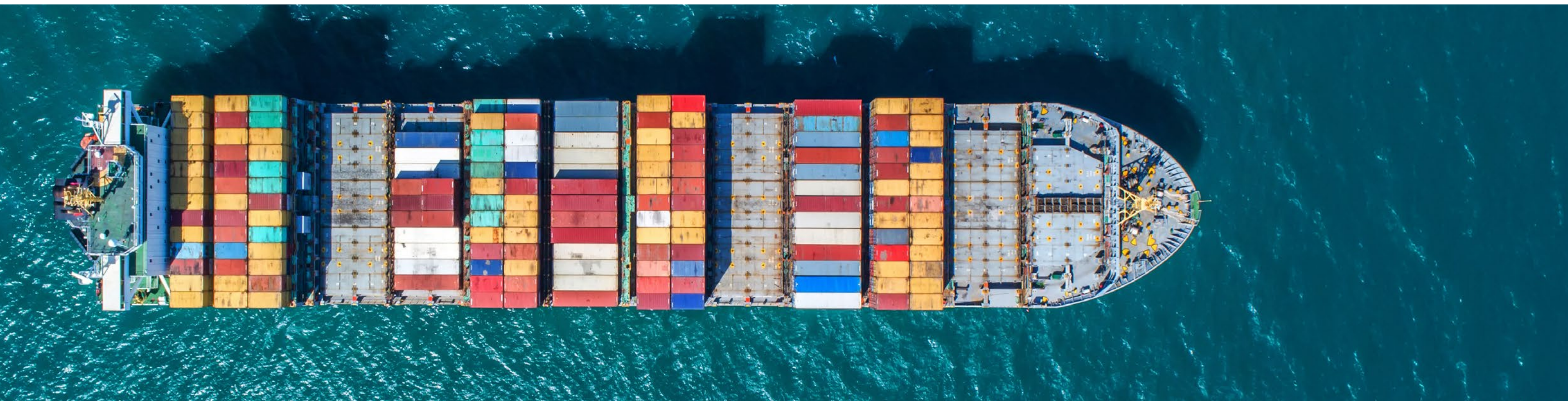
Also, as we expected, the global economy cooled from the rapid growth of the early post-COVID-19 recovery, settling into a more normal level. Inflation has moderated, though it remains elevated compared to the low rates of the 2010s. Interest rate cuts have begun across the developed world, aligning with expectations priced into financial markets at the start of the year.

Is 2024's predictability a sign that the 'turbulent twenties' are over?

We would hesitate to answer this question decisively. Recent political developments, such as the outcome of the US election, the fracture of the German government following the collapse of its governing coalition, and the Labour Party's first UK budget in 14 years, have made it difficult to provide definitive views on the outlook. The complex geopolitical backdrop in which we are investing further complicates matters.

How might the global economy and markets evolve in 2025?

We keep it simple by focusing on the five key aspects that guide how we invest our clients' money. These focus areas help us make a clear case for how the global economy and markets may evolve in 2025.



Global economy: Our early forecast is that economic growth will persist in 2025, with no clear signs of a global recession. This outlook is based on:

- The US economy receiving a boost from President-elect Donald Trump's economic plans
- China showing improvement following recent stimulative efforts by its government
- The UK economy benefiting from certain financial giveaways
- The unlikely worsening of Europe's economic conditions.

We believe that the mantra of 'solid but unspectacular' growth is still relevant for next year.

Inflation: The significant inflationary pressures seen in the early part of this decade should continue to moderate. Short-term trends point to cooling price pressures – a relief for all. However, the medium-term outlook remains uncertain due to a range of political and geopolitical developments. We are closely evaluating what might happen next and monitoring the potential for a 'second wave' of inflation.

Interest rates: We expect interest rates to continue falling next year. However, both the pace of future cuts and the final level of interest rates remain uncertain. Our current outlook is that we will see several more rate cuts, with both US and UK rates likely settling around 3.5%.

Corporate earnings: Macroeconomic fundamentals should continue to support corporate profits and growth, keeping the risk of corporate defaults low. If the incoming Trump administration delivers further corporate tax cuts, this could provide an additional boost to profits. Such measures may be necessary to meet current earnings expectations for 2025, with analysts forecasting around 15% earnings growth, along with widening profit margins and a broader distribution of earnings success across various industries.

Market valuations and investor positioning: US investor sentiment has shifted in recent months. A recent survey suggested that US citizens are more convinced than ever that the domestic stock market will rise in the coming year. As a result, one of the greatest risks that we see is complacency – investors might be expecting too much. The risk is most pronounced in the US, where there is a great deal of excitement. In contrast, elsewhere, investor sentiment is marked by apathy, with little confidence in the outlook for equity markets in the UK, Asia, and Europe. This divergence makes us constructive on the outlook, and we believe positive returns are possible. We continue to view fixed interest yields as 'about right', offering adequate compensation that reflects the uncertainty surrounding interest rates and inflation.

Looking ahead: Will 2025 be a satisfactory year for investors?

Our investment process and disciplined research lead us to a cautiously optimistic outlook for 2025. However, we must guard against complacency and remain mindful that we are operating in what has been a turbulent decade – a trend that seems likely to continue. The re-election of Trump and the Republican Party assuming control of both chambers of Congress introduces an even broader set of possible scenarios than we anticipated just a few months ago.

Despite the uncertainties, the current macro and micro realities lead us to believe that 2025 will be a satisfactory year for investors. Our investment strategies are aligned with this view. Our base case for 2025 is that both equities and fixed interest will continue to generate positive returns, though we expect volatility to remain high and the shape of market returns may differ from this year.

On behalf of our Chief Investment Office, we would like to thank all our valued clients for your continued support. We wish you a prosperous and enjoyable end to 2024 and a Happy New Year.

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