Media Release

21 January 2025

Will 2025 be the year of the bull market?

Global markets are showing signs of positive sentiment heading into 2025 but geopolitical uncertainty and the impact of the incoming Trump administration are the wild cards, according to GSFM and its fund manager partners Payden & Rygel, Munro Partners and Man Group.

GSFM investment strategist, Stephen Miller, says that much of the Trump Administration's agenda - including the proposed tax cuts and deregulation - will provide a tailwind for equity markets. However, the risk for investment markets, reflecting that same agenda, is the prospect of higher bond yields. Those higher yields may attenuate the potential gains in equity markets.

"A key factor is the already gargantuan US budget deficit. Given the prospect of large corporate tax cuts it now seems certain that bond investors will be asked to swallow the enormous amount of bond issuance that is needed to fund a budget deficit of such an extraordinary magnitude. In so doing the bond market will likely develop episodic and potentially severe bouts of indigestion that have the potential to send yields higher.

"Certainly, Trump 2.0 has undertaken to embark on a high grade weaponisation of trade that will fuel inflation via aggressive tariffs. That will inevitably result in a spike in inflation and bond yields."

Domestically however Mr Miller says it is unlikely that Trump's tariffs will have a meaningful impact on Australian inflation and, by extension, the RBA policy rate.

"Trump's policies are inflationary for the US. But they will have a barely perceptible impact on inflation in Australia. That is the case even if China and others retaliate.

"My view is that better than anticipated progress on inflation will see a rate cut from the RBA will in February."

"As with 2024 there are mega forces at play, particularly in the AI / technology area, that might power the performance of selected sectors. That might well be a boon for active managers. Equity markets had a stellar 2024 despite the US 10-year bond yield ending the year higher than the level at which it started the year," Miller says.

Eric Souders, director and portfolio manager at Payden & Rygel, says the starting point for the Trump administration today is markedly different than it was in 2016.

"Since 2016, the fiscal deficit has increased substantially in the US. Inflation is well above 2016 levels and remains above the US Federal Reserve's (the Fed's) target. The US does not need growth today, in fact growth likely needs to abate," he says.

He believes the policies under the Trump 2.0 administration will likely be more balanced.

“This time around the US economic cycle is wage driven as opposed to credit driven. Nominal wages are stable and healthy, with growth at 4-6 per cent for nearly eight straight quarters. Real wages have risen in recent quarters, increasing purchasing power. The labour force structure is also different, as we have the highest prime working age employment in 25 years. This drives spending.

“Financial conditions are not tight and asset prices - including equities, US housing and credit spreads - are at all-time highs.”

Looking ahead, Mr Souders says there are clear areas of opportunity and areas to avoid in fixed income in 2025.

“Corporate credit, namely high yield bonds and bank loans, should perform well given pro-corporate policies from the Trump administration.

“Commercial mortgage-backed securities (CMBS) are vulnerable given sensitivity to long-end interest rates and bond valuations that look less appealing given credit spread tightening in 2024.

“Emerging markets will be a mixed bag given expectation for higher interest rates and currency volatility,” he says.

Commenting on global markets, Munro Partner’s portfolio manager Qiao Ma says: “The bull market which began in 2023 is entering its third year, but there is still a significant valuation gap between smaller companies and their mega-cap counterparts, presenting compelling investment opportunities.”

To buffer against volatility she is focused on diversifying into structural tailwinds and thematics including decarbonisation and security.

“We are in the first innings of attempting to decarbonise the future of our planet. Our focus is on installed nuclear power, gas turbine manufacturers, and companies involved in the build-out and maintenance of the electrical grid.

“Hyperscalers like Microsoft and Amazon making these large investments also have the strictest net zero carbon pledges.

“Our expectation is for global demand for data centres to more than double over the next five years, driven by hyperscaler and tier 2 cloud customers building out the necessary infrastructure for AI training and inference.”

“On the defence thematic, Ms Ma says threat environments are continuing to grow globally from both active military conflicts and from attacks on the cyberspace.

“Threat deterrence via technological superiority is a high priority for all nation states, as we are seeing more companies focused on this space with earning growth potential.

“European defence budgets are increasing, with many nations now lifting their spending levels. Elsewhere, US homeland security spending is likely to increase as the new government seeks to secure the border and keep the cities safe, fulfilling stated election promises,” she says.

Man GLG Asia Opportunities Fund portfolio manager, Andrew Swan, says while developed market valuations continue to climb, Asian equities have been largely overlooked by investors.

“We see a turning point with several tailwinds suggesting a potential resurgence in earnings and share price growth across the region.

Anticipated interest rate cuts by Asian central banks are expected to invigorate equity markets. Additionally, fiscal reform and a focus on stimulating domestic consumption in China point to a positive shift in the world's second-largest economy. Furthermore, the forthcoming infrastructure and devices cycle, fuelled by AI advancements, is likely to disproportionately benefit Asia's hardware manufacturers.

“While Asian equities have been undervalued for an extended period, the combination of these factors can create compelling opportunity for investors. We believe the region's inherent resilience, coupled with anticipated policy changes and technological advancements, paints a promising picture for the future,” says Mr Swan.

“Tight financial conditions have weighed on Asian markets, but there's a strong case for optimism. As we anticipate a shift towards looser monetary policies these markets are poised for a significant rebound.

“This presents an attractive investment opportunity. Smaller economies like Indonesia and the Philippines, which have demonstrated solid corporate earnings growth, may be well-positioned to benefit,” he says.

The recent appreciation of local currencies, especially in Indonesia, also signal the start of this positive trend, Mr Swan adds.

“Investors seeking growth opportunities in a dynamic and evolving market would be wise to consider an allocation to this region. As Man Group's analysis indicates, the tide is turning for Asian equities, presenting a compelling investment narrative for the foreseeable future.”

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About GSFM

GSFM was established in 2007 as a subsidiary of the Grant Samuel Group. In 2016 Canadian wealth manager CI Financial Corp, which oversees more than C$518.1 bn in funds under management (at 30 September 2024), acquired a majority stake in the business, previously held by Grant Samuel.

GSFM delivers comprehensive responsible entity services, operational support, commercialisation assistance, and expert distribution and marketing for funds managed by leading local and international investment managers, serving both Australian and New Zealand institutional investors as well as Australian retail investors. It has partnered with nine specialist investment managers, who collectively manage more than A$1.103 trillion.

- Epoch Investment Partners: Based in the financial heart of New York, Epoch Investment Partners specializes in global equity investing focused on free cash flow as the primary driver of returns.
- Payden & Rygel: This independent investment management firm, headquartered in Los Angeles, is renowned for its fixed-income expertise and a commitment to delivering client-focused investment strategies for over three decades.
- Munro Partners: An independent global equity manager from Melbourne, Munro Partners is recognised for its forward-thinking approach, actively investing in innovative and growth-oriented businesses worldwide.
- Man Group: A London-based leader in alternative investments, Man Group brings together cutting-edge technology and deep market insights to deliver diverse strategies across global markets.
- Tanarra Credit Partners: Specialising in private credit instruments, Australian-based Tanarra Credit Partners is dedicated to creating tailored credit solutions, offering unique investment opportunities in niche credit markets.
- Access Capital Partners: This European independent private asset manager is focused on private equity, private debt, and infrastructure, providing investors with access to diversified private markets.
- Eastspring Investments: As a global asset manager based in Singapore, Eastspring brings deep insights and a disciplined approach to investments across Asia, catering to a wide array of asset classes.
- Alantra: With a strong presence in Europe, Alantra specializes in small and mid-cap investments, leveraging local knowledge to drive growth in niche markets.
- Australian Entertainment Partners (AEP): Creators of the AEP Screen Fund, this investment vehicle is dedicated to supporting Australian film and television projects, backing local talent and boosting the creative industry.

GSFM currently manages approx. $10.41 billion funds under management (at 31 December 2024).
For more information about GSFM please visit: www.gsfm.com.au