2025 Global Market Outlook

January 2025

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Fertile environment for equities, but keep watch for changing conditions

Last year, markets finally reclaimed the peak from early 2022 and managed to sustainably hold above this level — a positive sign for momentum and market sentiment. In 2025, against a more supportive macro backdrop, we see room for risk assets to extend these gains further. Nonetheless, as the year continues, and as the impact of policy decisions is felt unevenly across the globe, investors will need to remain alert to changing conditions.

As long-term investors, the release of a Global Market Outlook that opines as to the exact whereabouts of the market at the end of the year seems a moot exercise, not least because attempting to forecast where the market will be in 12 days, let alone 12 months is typically a fruitless exercise. But equally so because when it comes to managing patient capital, whether the market is higher or lower in 12 months is not likely to be of significant long-term consequence for portfolios. Rather, ensuring portfolios are constructed appropriately from the outset, with a view to navigating not only the vagaries of the business cycle but just as importantly those structural forces likely to shape the global economy and markets over the long-term should have the greatest bearing on wealth creation.

As such, this publication does not seek to predict the end point for markets in 12 months, rather it should serve as guide to some of the potential risks and opportunities in 2025. More precisely, we hope it provides an insight into those factors we currently foresee as the most likely to drive market direction in the year ahead, the way these shorter-term events intertwine with longer-term forces, and how we intend to navigate client portfolios over the period.

A fertile environment

We start 2025 with our most 'constructive' outlook for risk assets in several years. Given the MSCI World Index registered back-to-back gains of more than 20% over 2023 and 2024, this may seem a somewhat foolish statement. That we expect global equities to register low single digit returns in 2025 may make it more so.

But ignoring end outcomes, as 2025 commences, the conditions for markets appear the most fertile that we have seen in recent years. Central banks are lowering rates, fiscal policy remains expansive, a new US President looks likely to drive a pro-growth agenda and the contribution to global growth should be more even, with a modest pick-up to 3.3% expected over 2025.

To be sure, markets still face substantial headwinds. Yields are at levels that have historically caused equities to wobble, valuations remain stretched and there are large cluster risks across some markets. Still, the current backdrop sits in stark contrast to the commencement of the previous two years where monetary policy was either ratcheting higher or held at restrictive levels, earnings growth was in decline, PMI data was troughing, markets were in the throes of quantitative tightening (QT) and investors were facing into the biggest election year in history. And these were just the known risks at the start of the year — a banking crisis, the US election circus and new global conflicts provided further consternation throughout.

Yet markets were impervious to the challenges and continued to march higher, driven by momentum and strong investor sentiment. The other supporting factor and one we expect to be a defining feature for markets over the first quarter of 2025 is liquidity.

A rising tide lifts all assets

We believe the world is moving from an extended period of disinflationary growth to one where investors will need to adjust to more upward sloping inflation and higher resting rates. This is the culmination of numerous structural forces including changing demographics, rising inequality, a fractured world order and the green transition. Moreover, the financialisation of the world is only likely to see the influence of financial markets on the real economy intensify in future as the 'tail wags the dog'. In this environment, we believe monetary policy is more likely to be used as a means of controlling inflation through the cycle, rather than as a lever for growth. Not only does this have potential to impact long-standing asset class correlations, but it is likely to see officials look to less conventional measures as a means of extending the cycle and supporting financial markets.

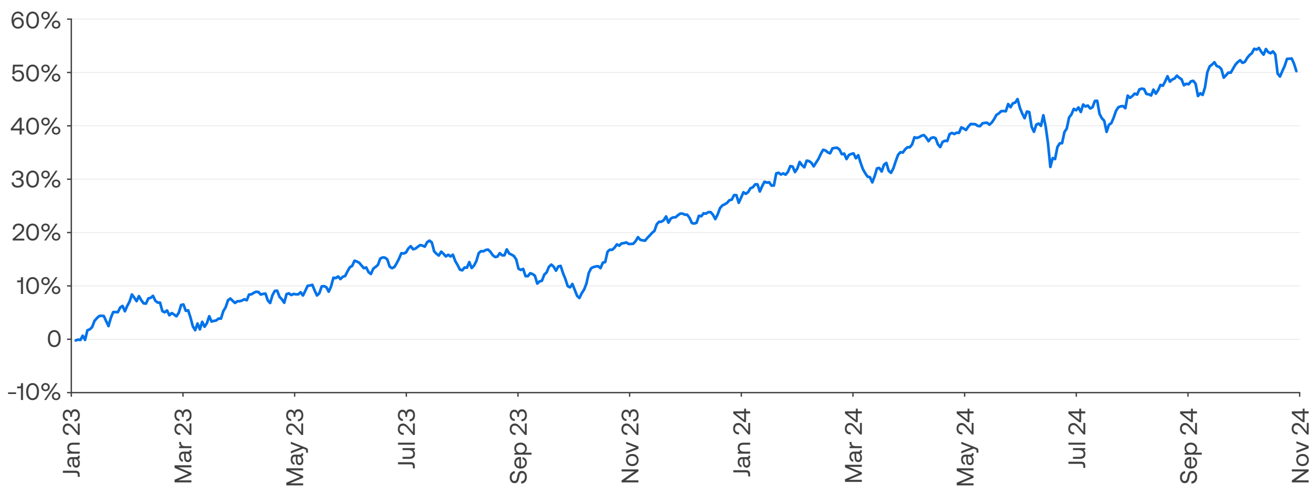
The increasing importance of the US Treasury in supporting financial markets over the past two years has highlighted this. Indeed, by the end of 2024, it is estimated that net impact of Treasury funding decisions had overpowered any liquidity impact from the US Federal Reserve's (Fed) QT efforts by roughly US$200bn since late 2022.

Generally, US Treasury keeps a buffer in the Treasury General Account (TGA) (the current target is approximately US$700bn) by issuing debt at various maturities. However, when the level of Treasury debt is pushing up against the ceiling — as is currently the case — the TGA may be used to fund expenses which inevitably end up back at banks as deposits or lendable funds, thereby increasing market liquidity.

Over the first three months of the year, unless President Trump can raise the debt ceiling (something we see as unlikely during this time), it is estimated that roughly US$400bn of surplus liquidity will be injected into the financial system, with almost US$300bn hitting in February alone.

Figure 1: Markets rose appreciably over the past two years

MSCI World Index



Source: MSCI, Macrobond, ANZ CIO

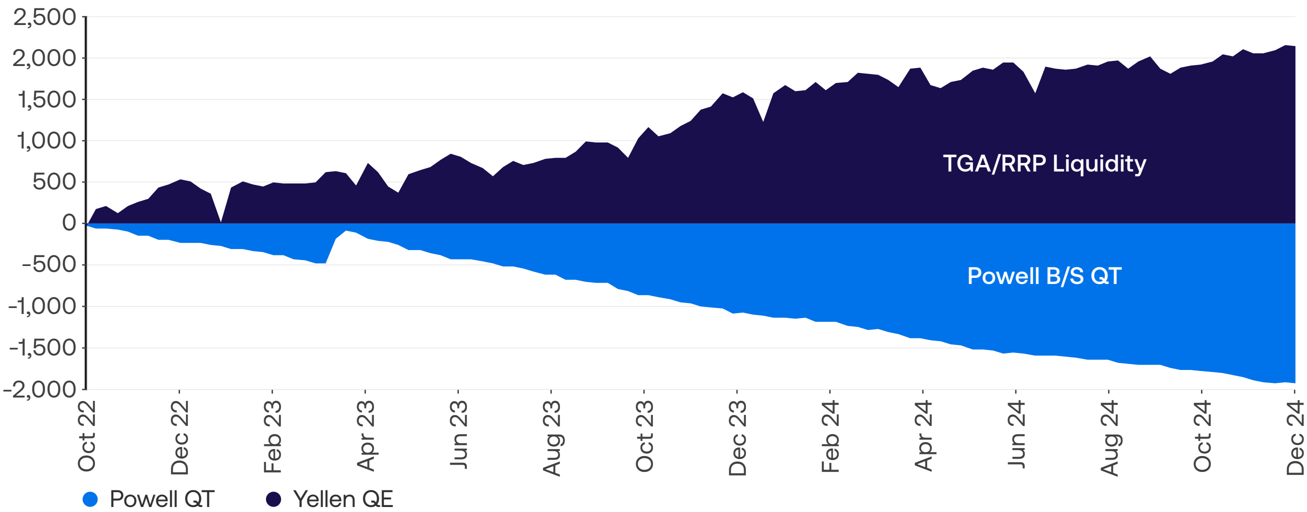
As recent years have shown, liquidity can quickly dominate asset price movement, with fundamentals taking a back seat. This was one reason why we maintained a benchmark position to equities across portfolios for much of last year, and again is a key factor in why we position with a mild overweight to developed market equities at the start of 2025.

As the chart below shows, liquidity has a close correlation with yields. Indeed, despite a restrictive monetary environment, increased liquidity over the period had a similar impact to an expansionary policy environment, where liquidity acts to support asset prices.

While yields have already risen appreciably over the early part of the year, the significant liquidity boost in February should come at an important time for markets, follow quickly from Trump's inauguration and provide a ballast for markets as they contend with heightened uncertainty and announcements during Trump's first 90 days in office.

Figure 2: Treasury delivers 'stealth' QE

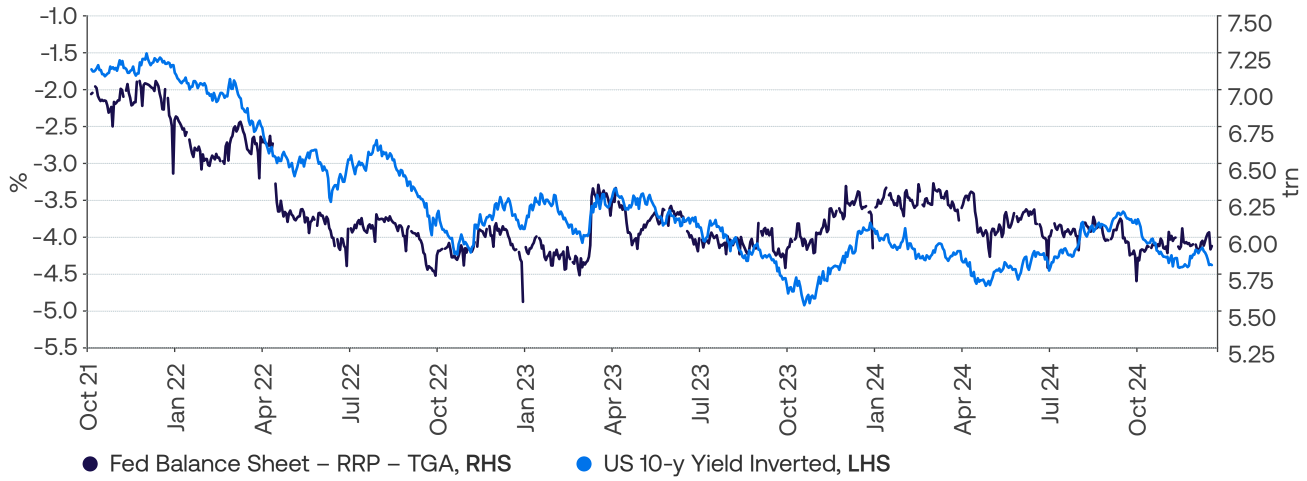
Cumulative Fed B/S QT vs. Treasury TGA/RRP Liquidity



Source: Strategas, ANZ CIO as at December 20 2024

Figure 3: Liquidity has a close correlation with yields

Net Liquidity vs. US 10-year Yield (Inverted)



Source: Fed, U.S. Treasury, New York Fed, S&P Global, Macrobond, ANZ CIO

Trump 2.0 – emblematic of a much bigger issue

Although we remain constructive toward equities, the path higher over 2025 is unlikely to be linear. Indeed, we expect significant dispersion between asset prices throughout the year. For investors, correctly navigating this volatility should provide opportunity to add significant alpha to portfolios.

One of the primary drivers of this dispersion will be the new Trump presidency. In our view, the return of Trump is significant, and not just because his policy agenda is likely to test the patience of both the Federal Reserve and markets alike. Rather, his return is emblematic of a larger issue, changing demographics (one of our four structural thematics) and rising inequality. More broadly, the parallels between the early part of the 1900s and today should not be ignored — a time when significant market dislocations and financial crises unfolded against a backdrop of wealth inequality, rising populism, unconventional policy, a loss of trust in institutions and the clash of global superpowers.

Trump's return, and more broadly, the significant failure of incumbents to retain government globally last year should serve not only as a cautionary tale for governments, but also as a warning for investors who hope the fiscal spigots may be closed as quickly as they were opened during the pandemic.

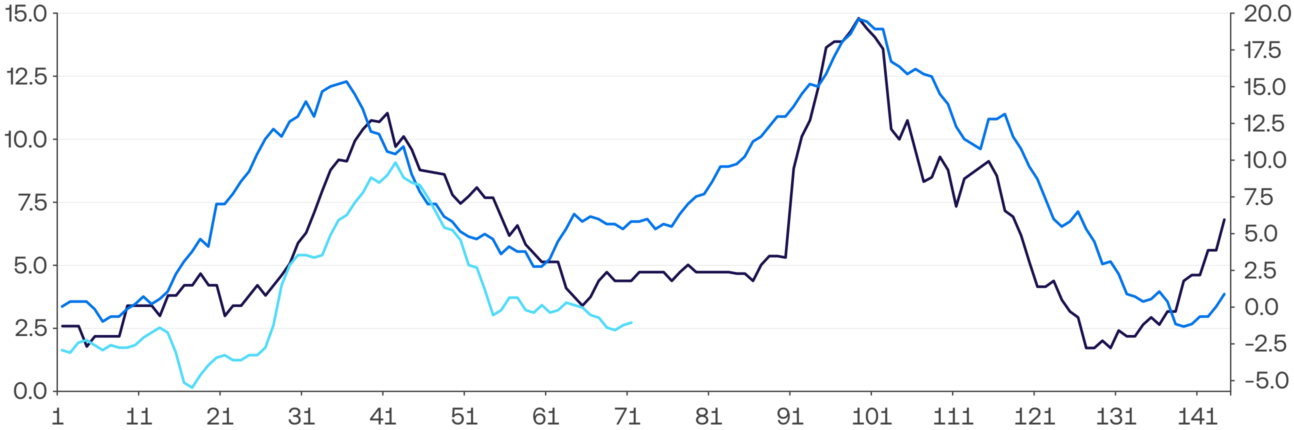
Putting Trump aside for a moment, the world is still grappling with inflationary pressures. Indeed, whether central banks have successfully tamed inflation is a question for late 2025 or more likely 2026. As we have covered extensively in the past, second waves of inflation are not uncommon.

Moreover, the approach this time has been different. In prior periods, inflation has been quashed at the expense of employment. This time, a number of central banks, including the Federal Reserve, have employment mandates within their charters, alongside a need to manage the business cycle. As a result, the 'pain' inflicted on society has been different also. Rather than a smaller group of unemployed suffering for a shorter period, rising prices and debt servicing costs have been felt over a longer time horizon and by a greater cohort of the populace. Whether this is 'acceptable' economically is unlikely to be answered for several years; however, as last year's global elections demonstrated, it is increasingly not 'acceptable' politically.

At a high level, Trump's policy agenda seeks to appease the voting populace by dealing with taxation (we will give you more money), tariffs (we will make foreign products less competitive), and immigration (we will protect you from outsiders). But despite his recent shift in rhetoric toward a more fiscally responsible government, this policy agenda is likely to come at a great cost.

Figure 4: Central banks cannot declare victory yet

US CPI Y/Y %



1939 Jan – 1950 Dec, **RHS** 1927 Jan – 1983 Dec, **LHS** 2019 Jan – , **LHS**

Source: BLS, Macrobond, ANZ CIO

Modelling by the Committee for Responsible Federal Budget suggests Trump's plan could increase US debt by USD7.8trn over a decade.

Trump's policy approach looks likely to continue the protectionist agenda from his first term and is likely to lead to reshoring, the duplication of supply chains and continued fiscal expansion — both by the US and foreign countries in response to US policy. All else being equal, we expect this to support our thesis of upward sloping inflation and higher resting rates over the longer-term.

Of course, for all the consternation surrounding Trump 2.0 it is worthwhile remembering that he pursues a strong economy and share market. Announcements on taxation, spending and a reduction in regulation should favour these goals in the near-term. While an aggressive approach to tariffs and immigration from the start of his term would run counter to these objectives.

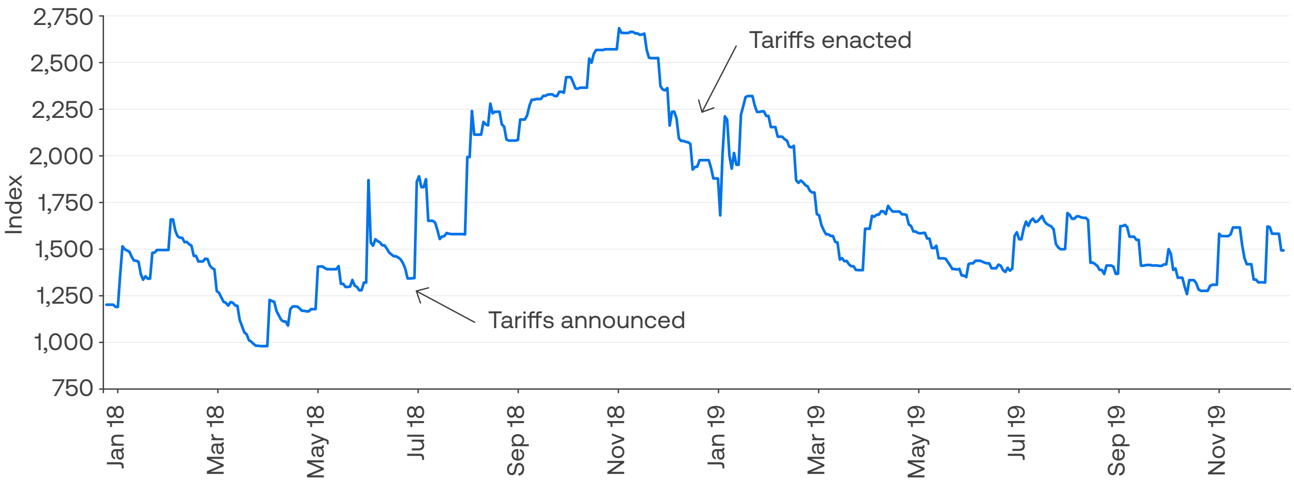
Rather, we expect Trump to adopt a more nuanced approach to America-first, using threats as a bargaining chip to help meet other policy objectives such as immigration, while seeking to implement tariffs on countries with large trade surpluses with the US. We expect decisions surrounding China to be more structural in nature as the approach has bipartisan support, and is part of the fight for global hegemony, but a watered-down approach to trade policy seems more likely and less problematic for global as well as US growth.

As a result, over the second half of 2025, and more likely into 2026, we see scope for yields to lift again as central banks grapple with reinflation risks from Trump policy and global growth faces potential headwinds. While this could present problems for equities, in the near-term, should the global easing cycle remain intact, we see room for rates to fall as markets separate rumour from fact and surplus liquidity helps ease pressure. Moreover, in the immediate term there may be a boost to corporate earnings, if, as seen during 2018, corporates seek to stay one step ahead of tariffs and bring forward trade.

This belief helps inform our positioning within portfolios where we start the year with a bias toward US equities (that we believe are better positioned to withstand Trump headwinds) and mild overweight to gold. Although gains commensurate with 2024 are unlikely, the precious metal should remain well supported by rising deficits, simmering global tensions, and central bank demand as regions seek to reduce their reliance on the US dollar.

Figure 5: Tariffs could be a positive for earnings – at least initially

Xeneta Shipping by Compass, Far East to US West Coast



Source: Xeneta Shipping Index by Compass (XSI® – C), Macrobond, ANZ CIO

Conversely, we hold a mild dislike for broader emerging markets and China that look particularly susceptible to weakness over the first half. Nonetheless, we expect strong earnings growth across emerging markets over 2025, and coupled with already cheap valuations, maintain a strong focus on fundamentals and look to identify periods of dislocation as a possible means to increasing our position over the latter part of the year.

Indeed, in 2025, the cadence of policy announcements and subsequent implementation of measures could matter as much for investors as the policy detail itself, with a 'buy the rumour, sell the fact' approach likely as markets digest Trump 2.0.

An eye on fundamentals

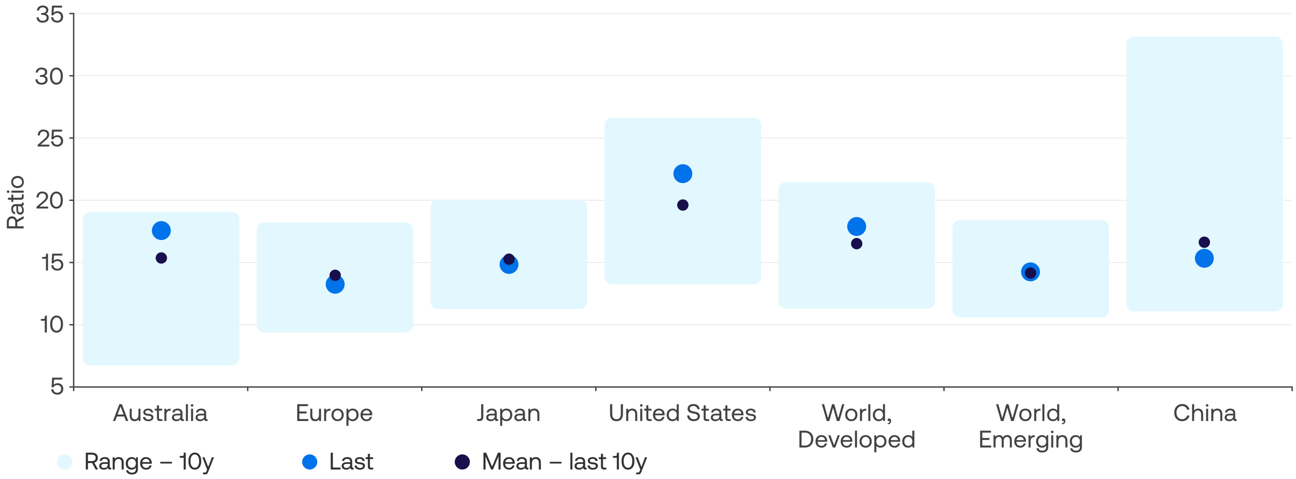
While we expect liquidity to play an important role for markets this year, it would be ill-considered to completely ignore fundamentals at this point in the cycle. In 2025, concentration risks — that includes Australia and the US — alongside rich equity valuations are expected to again be a major factor for investors to navigate. While we remain cognisant of these risks, we don't believe they are insurmountable. Rather, they speak to a continued need for portfolio diversification — including alternative assets — and tactical positioning over the year ahead, ensuring adjustments are made should market pricing move too far ahead of fundamentals.

Indeed, we start the year with our largest overweight in US shares, where we hold a modest preference for tech-related mega caps. The US market is among the most expensive — relative to history and global peers. Moreover, the Magnificent 7 is expected to contribute roughly 35% of S&P 500 net income growth in 2025, below its market weight. Nonetheless, we are comfortable with this positioning given we expect the AI theme has further to run and that these companies have displayed and are expected to continue to produce earnings growth greater than the broader index. Nonetheless, we remain alert to any declaration in the broader AI capex cycle as a potential catalyst to adjust portfolios.

In Australian shares we commence the year with a mild underweight. The ASX, like the S&P 500 is another heavily concentrated and currently overvalued market when compared to historical levels. However, unlike the US where we expect strong earnings growth from the largest constituents, here the earnings outlook appears more constrained, leaving room for disappointment. While we see modest earnings growth potential for the banks over 2025, we expect soft iron ore prices and continued risks to the outlook for China as a possible drag on the Materials sector.

Figure 6: Regional valuations remain mixed

P/E Ratio next 12 months



Source: FactSet, Macrobond, ANZ CIO

Across fixed income, we hold a preference for investment grade credit relative to high yield, where spreads remain unattractive and trade close to post-GFC lows. And while we don't expect falling yields to contribute strongly to total portfolio returns this year, duration continues to offer attractive entry points and strong carry. Here we position with a mild overweight, conscious that risk assets are likely to have moments of weakness and duration should provide a good hedge for portfolios if growth concerns become elevated over the latter part of the year.

As the year commences, we expect favourable liquidity conditions to persist, but with the added benefit of a more supportive monetary environment. While this could lead to rising inflationary pressures and a resurgence in upward pressure on central bank rates, the near-term outlook presents a more constructive environment for risk assets.

As always though, and perhaps more so than usual under Trump 2.0, investors should expect the unexpected and be prepared to adjust portfolios as necessary. In 2025, a diversified portfolio and long-term investment strategy should again be the best way to navigate unforeseen risks and participate in opportunities as they arise.

On behalf of ANZ, I'd like to take this opportunity to thank you for your ongoing support. We trust our Global Market Outlook provides you with an understanding of what we are expecting and how we intend to steer client portfolios in the period ahead.

In 2025, as always, the team and I will be watching markets with interest.

Lakshman Anantakrishnan

Chief Investment Officer, ANZ Private

Figure 7: Asset class returns

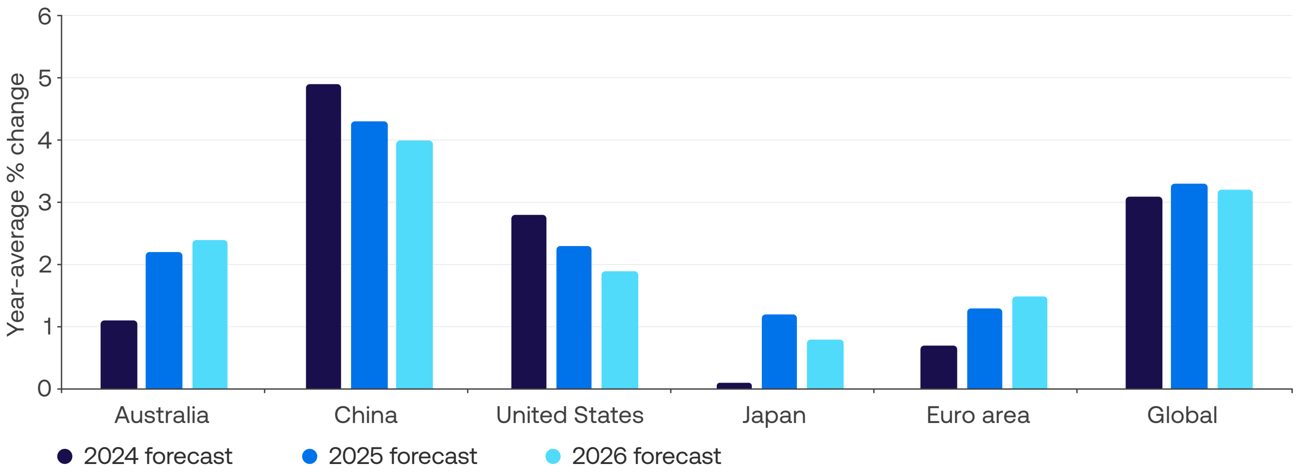
Asset class	2015-2024 annualised returns	2024 returns	2025-2034 forecast annualised returns*
Australian shares	8.5%	11.4%	8.9%
International shares (unhedged)	13.2%	31.2%	9.4%
International shares (hedged)	10.3%	20.7%	9.7%
Emerging market shares	6.6%	18.5%	11.3%
International property (hedged)	2.7%	2.2%	9.2%
Infrastructure (hedged)	5.7%	10.7%	8.9%
Gold	11.0%	38.0%	4.2%
High Yield (hedged)	4.7%	7.9%	6.2%
Short Duration Fixed Income	2.0%	3.7%	4.9%
Long Duration Fixed Income	1.8%	0.5%	4.6%

Index information: To 31 December 2024. Australian Shares – S&P/ASX 300 Accumulation| International shares unhedged - MSCI World ex Australia (Net)| International shares hedged – MSCI World ex Australia Net Index (hedged to AUD)| Emerging market shares – MSCI Emerging Markets (Net) in AUD| Gold – LBMA Gold Price PM AUD | International property - FTSE EPRA/NAREIT Developed Rental Index ex Australia (hedged)| Infrastructure – FTSE Developed Core Infrastructure Net Hedged to AUD| Short Duration – 50% Bloomberg AusBond Bank Bill Index and 50% Bloomberg AusBond Comp 0+ Index)| Long Duration 85% Bloomberg AusBond Treasury 7+ Index and 15% Bloomberg AusBond Inflation Gov't 0+ Index | Cash – Bloomberg AusBond Bank Bill. Source: FactSet, ANZ CIO. *Annualised returns are forecast through to September 2034 using Willis Towers Watson (WTW) capital market assumptions (CMA) from June 2024. CMAs are gross of fees and taxes unless otherwise stated.

Economic Outlook –
A supportive macro for markets

The market should not be confused with the economy, but in 2025 we will be paying close attention to the economic outlook for individual countries, as global machinations and the interplay between regions may be more important than usual in deciding the winners and losers in the year ahead.

Figure 8: Global GDP growth forecasts



Source: ANZ Research, ANZ CIO, December 2024

In 2024, US exceptionalism and a spluttering Chinese economy helped offset weakness across the Australian, European and Japanese economies. Global growth came against a backdrop of restrictive monetary policy and stubborn inflation, before a global easing cycle provided able assistance over the second half of the year.

The extension and eventual broadening of this easing cycle should again support global growth in 2025 — with a modest pick-up in GDP growth to 3.3% y/y expected. Like last year, the outlook for individual countries and regions will be mixed, but perhaps positively for investors we expect a more even contribution globally.

Across developed markets, the US is once again expected to lead its peers in 2025. While ANZ Research forecasts GDP growth of 2.3% this year, this would represent a modest decline from the strong growth of 2024. Perhaps ironically, the same robust private consumption that pushed the US growth agenda last year is likely to result in the US Federal Reserve (Fed) adopting a more gradual easing cycle in 2025, and with it a modest tapering of growth expectations in the year ahead. With growth solid, core inflation above target and given the potential policy implications of Donald Trump's return to the White House, ANZ Research now expects the Fed's upper bound funds rate target to settle at 3.75% — only 75 basis points below its current setting.

Of course, a second Trump presidency will also be acutely felt by non-US countries — with China directly in the crosshairs. Indeed, the fortune of the Chinese economy and any market resurgence remains one of the more interesting watchpoints over the year ahead. At the Politburo meeting in late 2024, Chinese authorities signalled further stimulus over 2025, flagging “more proactive fiscal policy and appropriate easing of monetary policy”. The market response to these announcements was tepid, and ANZ Research maintains a 4.3% forecast for GDP growth in 2025, a decline from an expected 4.9% in 2024. While it is still very much a case of wait-and-see as to what policy Trump will enact — and indeed the potential economic impact of such policy — the response to any economic threat could also feasibly see Chinese authorities lower the GDP target to around 4.5-5.0%, reducing the need for aggressive policy support.

While US and China activity is expected to moderately decline, Europe, Australia and Japan should each see a modest uptick on the way to delivering GDP growth of between 1% to 2% y/y. The relatively consistent improvement in outcomes, however, is not expected to be reflected in the policy backdrop. The European Central Bank is expected to move towards a stimulatory policy framework this year, forecast to cut rates by up to 150 basis points in an attempt to drive private demand. Conversely, the Bank of Japan (BoJ) is expected to lift its policy rate as tight labour markets help boost household incomes and spur consumption, with the BoJ hopeful that a virtuous wage price spiral may see it sustainably reach its inflation target.

At home, rate cuts expectations have been brought forward following the most recent monthly inflation print. ANZ Research expects the Reserve Bank of Australia to reduce its cash rate target in February, though investors should temper any hopes for a sharp decline in rates. Instead, look for a shallow easing cycle, with the cash rate expected to decline a meagre 50 basis points to 3.85% by Q3.

The continuation of the global easing cycle, alongside modest growth and healthy labour markets should provide a supportive backdrop for risk assets — at least initially in 2025. Nonetheless, with the spectre of Trump 2.0 looming large, investors will be on watch for any signs of a resurgence in inflation or softer than expected activity. Valuations remain rich across much of the developed world and weaker global growth and a subsequent slowdown in corporate earnings could see duration once again prove a valuable diversifier for multi-asset portfolios.

Disclaimer: Components of the ‘Economic Outlook’ section, associated charts and content relating to the Australian dollar on page 28 have been derived from the ANZ Research Quarterly, December 2024.

Australia

We expect Australia to experience a soft landing, with a modest pick-up in growth throughout 2025.

Consumer confidence should continue to rise, with household consumption projected to grow by 2.0% year-on-year. This growth is expected to be driven by the recovery in real per-capita household incomes, which reflects lower inflation and the impact of Stage 3 tax cuts. Retail sales are showing a modest uptrend, and household deposits are increasing. This momentum will be welcomed after a soft 2024.

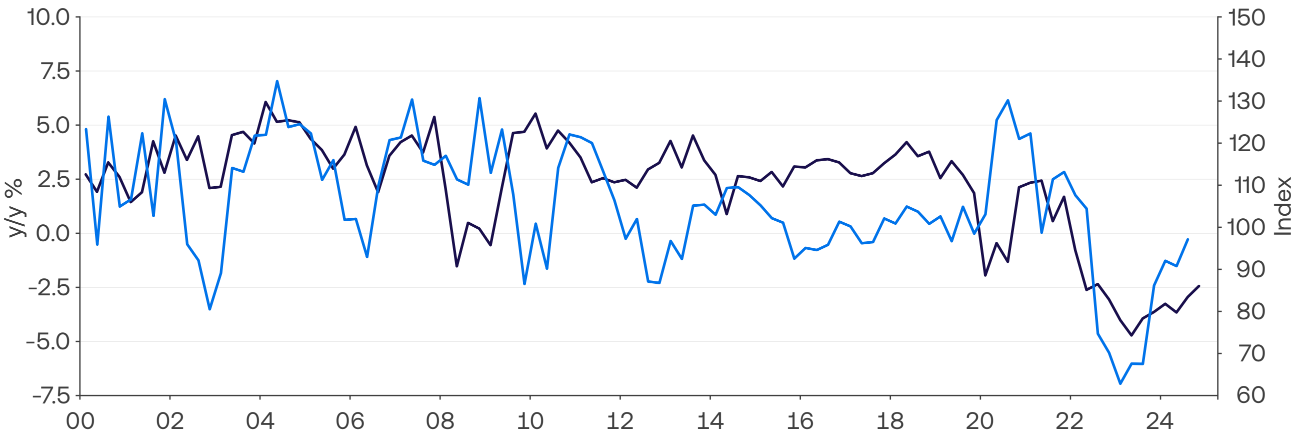
Conversely, the business sector, which experienced firmer conditions last year, is now showing signs of softening investment plans. This is likely due to stabilising costs and business caution amid soft economic growth. Capacity utilisation has been trending lower, suggesting a scaling back of investment plans. Nonetheless, the anticipated pick-up in GDP growth over 2025 should eventually lead to a lift in business conditions, confidence, and investment.

Employment growth remained strong in 2024, particularly across government-funded sectors. However, a slowdown is expected in the year ahead. The ANZ-Indeed Jobs Ads measure has recently shown signs of stabilisation, and consumers' unemployment expectations have fallen. While we do not expect a sharp downturn in hiring, job growth is likely to soften, with ANZ Research forecasting the unemployment rate to peak at 4.3% mid-way through 2025.

Inflation remains sticky, but forward-looking indicators suggest an easing in inflationary pressures. However, various government cost-of-living relief measures have led to a divergence between headline inflation and the trimmed mean inflation — the latter of which is now the primary focus of the Reserve Bank of Australia (RBA).

Given this backdrop of economic resilience, ANZ Research expects only two 25 basis point rate cuts from the RBA this year, starting in February.

Figure 9: Consumer confidence and incomes



- ANZ-Roy Morgan Consumer Confidence
  * Note most recent data point is latest weekly reading, **RHS**
- Real Gross Disposable Income per capita, **LHS**

Source: ANZ-Roy Morgan, ABS, Macrobond, ANZ Research, as at December 2024

United States

Despite monetary policy remaining restrictive, 2024 has been another remarkably resilient year for the US economy. Growth has been underpinned by robust household balance sheets, healthy growth in disposable income, and strong private consumption.

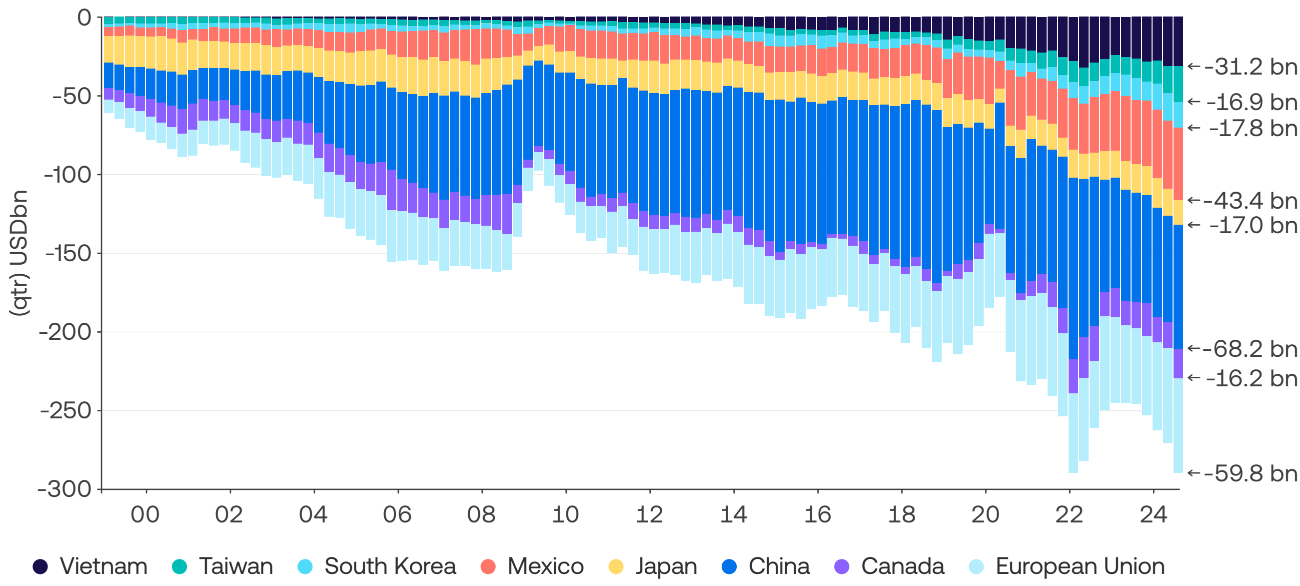
In 2025, the US economy is likely to be buffeted by conflicting forces, most of which will stem from Trump's return to the White House. On the positive side, Trump seeks to reduce red tape and cut taxes. On the negative side, he aims to increase tariffs and limit immigration.

The Republicans control Congress, which could be crucial for Trump when it comes to tax and spending decisions. However, with regards to tariffs, he holds considerable authority to enact most of his trade agenda independently, without needing Congress's support.

Trump has announced a range of tariffs, including an additional 10% tariff on goods from China and 25% tariffs on all products from Mexico and Canada. These three economies are among the largest trading partners of the US. It is worth noting, however, that during his first term, Trump often used the threat of tariffs to leverage his bargaining power and achieve objectives not necessarily related to trade.

While disinflation has been broad-based, core inflation remains above target, and investors will be wary of possible reinflation risks under a second Trump presidency. Indeed, ANZ Research recently revised its forecast to include a higher terminal rate and a more gradual Federal Reserve easing cycle. This revision is based on economic growth being more resilient than initially expected, a higher neutral interest rate than pre-pandemic, and increased uncertainty surrounding the impact of Trump's policies on economic growth and inflation. ANZ Research now expects the Fed to slow the pace of easing this year, forecasting a terminal fed funds rate ceiling of 3.75%.

Figure 10: Economies with a trade surplus with US



Source: BEA, Macrobond, ANZ Research

Japan

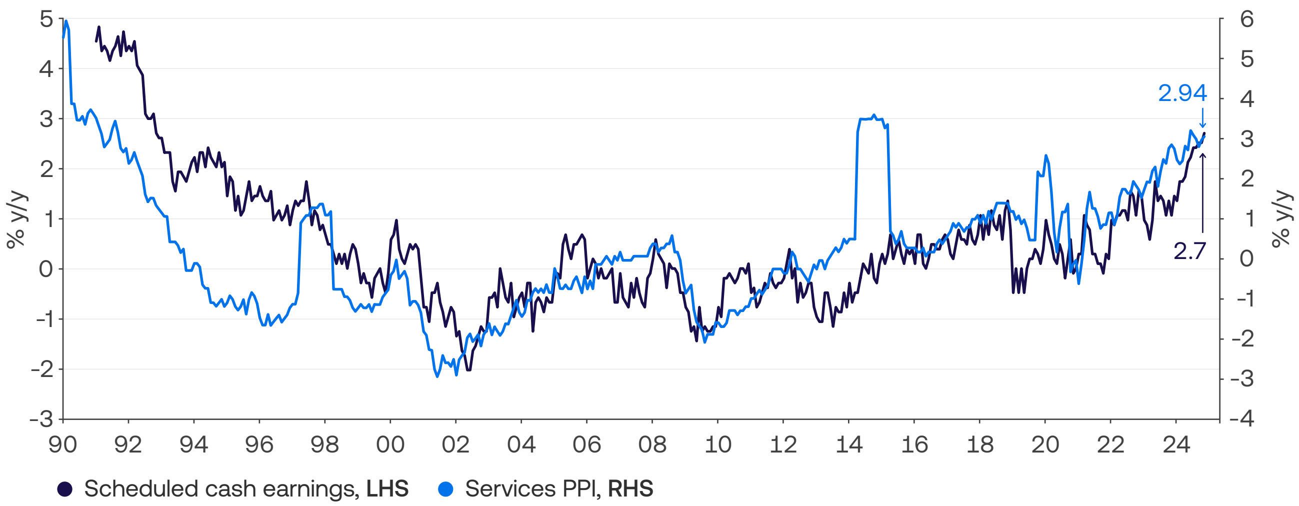
In 2025, the consumption backdrop appears favourable, with tight labour market conditions expected to lead to healthy growth in household incomes. Indeed, wages are trending higher, and a virtuous cycle between spending and income seems to be firming, with the BoJ becoming more confident in sustainably reaching its inflation target. While core inflation is moderating, it has remained above the BoJ's price stability target for some time. A stabilisation of the yen should lead to further easing in tradables and overall inflation. Conversely, service-based inflation is intensifying as wage pressures strengthen.

This comes at a time when business sentiment, according to the Tankan survey, is close to a three-decade high, with corporate profits growing strongly — leading to sustained growth in business capital expenditure (capex).

Nonetheless, the outlook for the Japanese economy in 2025 remains complex. On one hand, the recent normalisation of monetary policy should act to slow growth this year. On the other, the recently announced JPY 13.9 trillion fiscal package should be stimulatory.

ANZ Research's GDP forecast for 2025 is 1.2%.

Figure 11: Wages growth and services inflation



Source: MoF, SBJ, CAO, BoJ, Bloomberg, Macrobond, ANZ Research

Europe

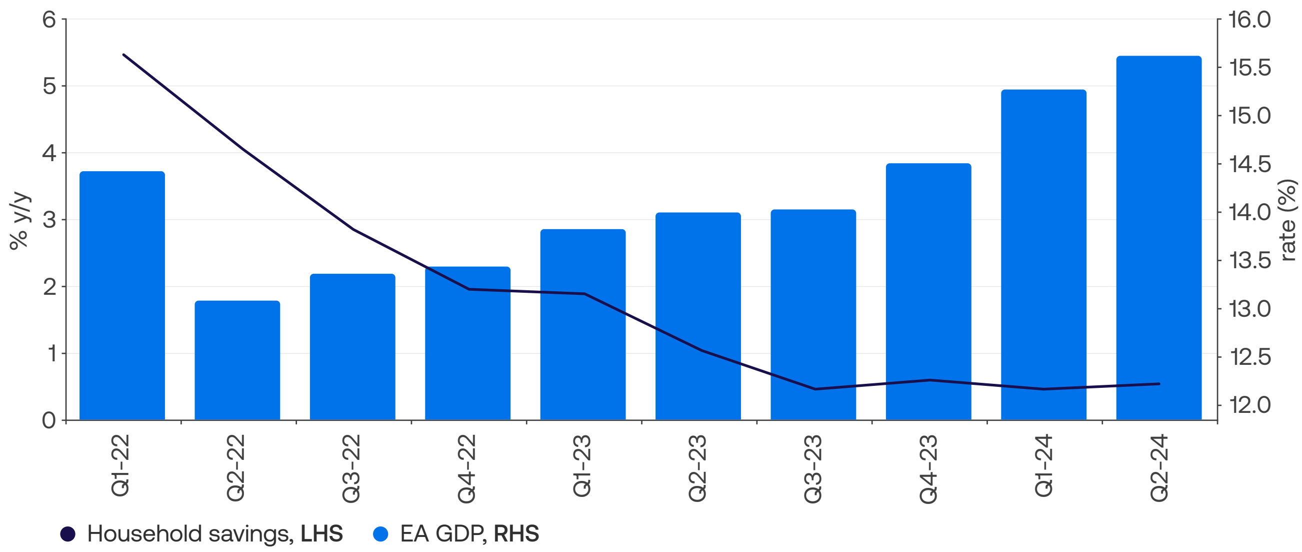
Inflation is heading towards target, with inflation expectations appearing anchored, and weakness in incoming wage settlements suggesting that restrictive monetary settings are no longer required. Indeed, a continuation of these restrictive policy settings could risk undershooting the 2% medium-term inflation target.

This current dynamic occurs against a backdrop of structural growth headwinds, including energy competition, the green transition, increasing trade uncertainty, and the ongoing war in Ukraine. In the short term, the possible absence of strong political leadership in France and Germany — the euro area's two largest economies — could also pose a headwind for growth. Additionally, the need for gradual fiscal corrections in many euro area economies is disinflationary, reinforcing the need for pro-growth and inflation-friendly policies.

ANZ Research expects the European Central Bank's (ECB) preferred measure of inflation to settle sustainably around target by early 2025, with core inflation also making sustained progress towards target by mid-year. While unemployment is at a record low of 6.3%, the job vacancy rate has fallen to pre-pandemic levels. Moreover, the underlying trend in incoming wage settlements is downward. All things considered, inflation and labour market dynamics further support sustained easing.

As such, ANZ Research expects the ECB to move towards a stimulatory policy framework this year, forecasting 150 basis points of rate cuts to a terminal rate of 1.5% — below the estimated neutral rate of 2.0%. These policy moves are expected to focus on driving private demand growth by reducing the high household savings rate, which rose to 15.6% in Q2 — well above the pre-pandemic average of 12.5% and a record high outside the pandemic.

Figure 12: Rise in household savings has weighed on GDP growth



Source: Eurostat, Macrobond, ANZ Research

China

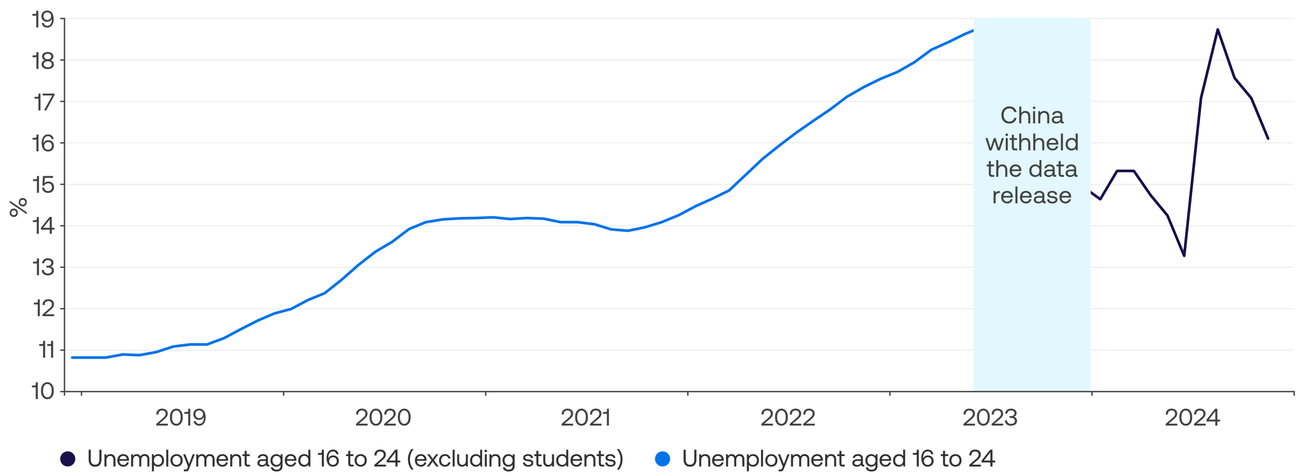
The series of stimulus measures from authorities appears to have pulled the Chinese economy out of reverse — the Manufacturing PMI was back in expansion during the first two months of Q4, while the Non-Manufacturing PMI avoided contraction. Moreover, early signs suggest the worst of the property downturn is over. Nonetheless, ANZ Research remains cautious about China's nationwide property outlook for 2025. In our view, it remains to be seen whether the economy can accelerate from here. Despite reasonable headline data, without a genuine improvement in household finances and a commensurate boost to aggregate demand, sustained acceleration seems unlikely.

ANZ Research expects 2024 GDP to reach 4.9% and maintains a 4.3% forecast for 2025, based on the lack of measures designed to create sustainable growth. Although tariff threats pose a risk to China's economic outlook, ANZ Research is adopting a wait-and-see approach and does not yet consider these threats reason enough to downgrade China's economic prospects. Nonetheless, with the shadow of Trump's policies looming, authorities may lower the GDP target to around 4.5-5.0%, reducing the need for aggressive policy support.

At the latest Politburo meeting, leadership flagged "a more proactive fiscal policy and appropriate easing of monetary policy." In March, the 2025 fiscal budget will be released and is likely to show an increase in the budget deficit to 3.8% of GDP. Monetary policy easing will likely take the form of asset purchases, effectively injecting long-term liquidity into the economy as well as the equity market. Under the People's Bank of China's scarce liquidity framework, ANZ Research expects CNY2 trillion in net bond buying and CNY2 trillion in funds to be released via a lower Required Reserve Ratio (100bps) in 2025. Interest rate cuts are also expected, though these should be measured in magnitude, with market forces expected to weaken the RMB exchange rate, potentially triggering capital outflows. As a result, Chinese authorities will be cautious in managing the interest rate differential with the US.

In 2025, authorities are also likely to pay particular attention to employment. In November, the official urban unemployment rate for those aged 16-24 remained at a worrying 17%, and the actual jobless numbers may be much higher.

Figure 13: Youth jobless rate remains elevated



Source: NBS, Bloomberg, Macrobond, ANZ Research

Investment strategy – A tale of two halves?

As 2025 commences, we envisage a fertile environment for risk assets over H1 but remain alert to the potential for conditions to rapidly change — particularly over H2. While prior years have delivered exogenous shocks to markets, this year the greatest unpredictability appears to be well known, even if its full impact is not yet understood. Indeed, for investors, this year is likely to be about traversing the impact of Trump 2.0, identifying when markets have moved too far from fundamentals and adjusting course accordingly.

As noted in the opening stanza, we commence 2025 with a positive disposition and a constructive outlook for risk assets. For the first time in several years, the macro backdrop appears supportive for equities, at least over the first half. Inflation is nearing target (albeit remains sticky), central banks are expected to maintain an easing bias (or in the case of the RBA to soon shift toward one), fiscal policy remains expansive, and liquidity is likely to be abundant over the initial stages of the year. All things considered, lower rates, pro-growth policy and a more even contribution to global growth should be a net positive for investors.

Investors though, would be wise to temper return expectations. In 2024, global equities returned more than 20% for the second consecutive year, providing a sizeable valuation hurdle to start the new year. Rather, we look for more 'average' high single digit returns from equities, with the potential for low double digit returns across the US, Europe and Japan.

Moreover, the potential delivery of such returns — and across asset classes more broadly — is unlikely to be synchronised. Instead, many of those tailwinds that are expected to be supportive of markets over the first half of the year could reverse course mid-way as the policy agenda of the new US President starts to take effect. For investors, this dispersion should provide ample opportunity to harvest gains from certain parts of portfolios, whilst embracing risk to take advantage of mispricing elsewhere.

Where recent years have been impacted by Black Swan events such as the banking crises and a global pandemic, this year the well telegraphed return of Donald Trump to the White House shapes as the major issue for investors to traverse. While his policy detail remains unclear, we can assume the intention will closely resemble his first term — an America first, pro-business, pro-growth agenda. Taxation, spending and a reduction in regulation are likely to be favourable for equities in the near-term. Even the threat of tariffs may provide a short-term boost for corporate earnings if, as witnessed in 2018, there is a bringing-forward of activity by corporates to front-run tariffs.

Further out though, such a policy agenda may prove inflationary, not just in the US but potentially globally should governments attempt to counteract with fiscal measures. Such an environment is likely to place upward pressure on central bank rates and could provide wobbles for risk assets. However, this is likely to be a story for H2 or possibly 2026 as policy takes time to be implemented, to wash through the financial system and not least of all due to the reluctance of central banks to move ahead of the curve.

As such, we commence the year with a preference for developed market shares, and a current bias toward US equities. Here, we believe the US is the most likely beneficiary of those tailwinds, and owing to its global dominance, better equipped to withstand any reversal that could be inflicted by its incoming president.

US equity valuations do remain elevated relative to history and global peers, trading at almost 23x forward earnings, but the environment we expect to encounter over the first half of the year should be conducive for corporates, extend the strong growth witnessed over 2024 and allow this multiple to remain supported. Moreover, while performance was dictated by mega-cap tech names for much of 2024, market leadership began to broaden over the latter stages of the year, and we expect the gap in EPS growth between the Magnificent 7 and the broader market to narrow.

US aside, Japan is where we hold the most constructive near-term view. Despite the strong performance over 2024, the market continues to trade at a discount to its long-term average, corporate governance is improving and if the BoJ fails to raise its policy rate as much as expected, a weak yen could support corporate earnings.

Conversely, we start the year with a mild underweight to European and Australian shares — though for different reasons. European shares

appear cheap at 13x forward earnings, but the macro-outlook is opaque and earnings revisions weak. We look for the ECB to boost demand via stimulatory policy and for greater clarity on political risks before possibly lengthening our position.
In Australia, although the macro backdrop is reasonable, the market is close to its all-time high, and trades at the top of its historical forward P/E range, appearing overvalued versus global peers. Moreover, we expect a constrained year ahead for corporates and the potential for low-single digit growth as a soft iron ore price and weaker Chinese economy weigh on the index.

Elsewhere, we position with a mild underweight to emerging markets. Given the MSCI Emerging Markets Index trades at a discount to most developed market peers and with an expectation of strong 2025 EPS growth there may be opportunity to take a tactical overweight later in the year. Near-term though risks remain elevated, and we see better opportunity elsewhere. This includes both listed real assets and gold where we commence the year with a mild overweight.

As witnessed over the latter part of 2024, we expect real assets to again provide important diversification to portfolios this year. In the case of gold, while the returns from 2024 are unlikely to be repeated, rising deficits, geopolitical tensions and central bank demand should provide support for the precious metal.

Within fixed income we continue to prefer investment grade credit to high yield debt. Even as recession risks have diminished, spreads continue to remain unattractive across the high yield market, trading near post-GFC lows in the US.

As noted above, there is a risk that central banks may face upward pressure on rates should inflation pressures build. As such, we would not be surprised to see government bond yields finish the year higher than they are currently. However, we start the year with a mild overweight to duration, with an expectation that central banks will maintain an easing bias over the first half of this year and noting the strong correlation between increased liquidity and lower bond yields. Further out, should equities wobble under the weight of higher rates or if tariff pressures become burdensome for growth, then duration should provide a strong diversifier for portfolios.

With volatility expected to be a feature again in 2025, a diversified multi-asset portfolio should provide the best opportunity of delivering strong risk adjusted returns to investors.

Figure 14: Asset class preferences

	Current
Growth assets	Benchmark
Developed market shares	Mild Overweight
Australian shares	Mild Underweight
Emerging market shares	Mild Underweight
Real assets	Mild Overweight
High Yield	Mild Underweight
Gold	Mild Overweight
Alternatives	Benchmark
Defensive assets	Benchmark
Duration	Benchmark
Cash	Benchmark
AUD	Mild Underweight

Underweight
Mild Underweight
Benchmark
Mild Overweight
Overweight

ANZ CIO, as at 10 January 2025

Asset classes – Current strategy and outlook

Australian equities

Our current preference is to be **mildly underweight** Australian equities.

Over the course of 2024, earnings expectations moderated alongside delayed rate cuts, weaker iron ore prices, and increasing cost of living pressures. Despite the soft fundamentals, the Australian market returned a strong absolute return of 11.4% but trailed the US share market by a wide margin.

The ASX sits near its all-time high and trades on a multiple of more than 18x forward earnings. Relative to its own historical standards, it looks among the most overvalued globally — its 10-year average is closer to 15x forward earnings. The multiple expansion has been driven by both negative earnings revisions and strong absolute returns, leaving it more susceptible to correction.

In 2025, we again see a relatively constrained environment for the Australian market. While we expect modest growth in bank earnings, sluggish iron ore prices and a softer Chinese economy are likely to weigh on the Materials sector. Overall, we expect modest low single-digit earnings-per-share (EPS) growth over 2025.

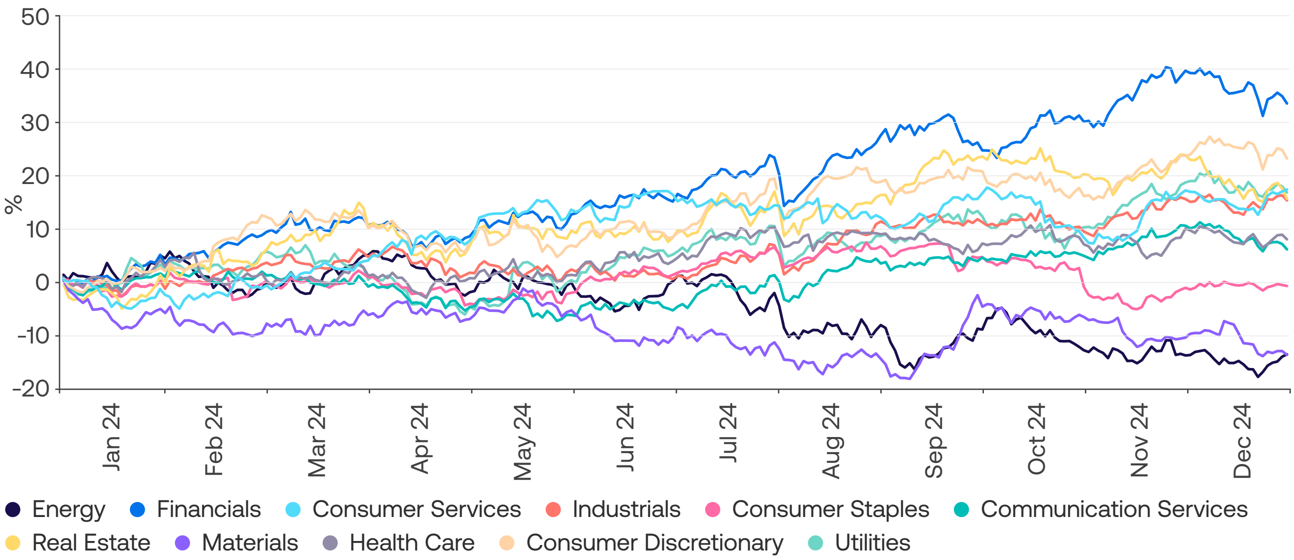
Countering this, in historical periods where both inflation and growth are inflecting higher — an environment we may experience later in 2025 — both the MSCI World (8% average across the past 14 occasions) and the ASX300 (4% average) have delivered positive returns.

Nonetheless, investor sentiment is already bullish, as earnings multiples have continued to rise despite earnings expectations moderating. There also remains the risk that the RBA does not cut as aggressively as expected.

While we expect the Australian market to deliver positive returns over 2025, we see better opportunities elsewhere across risk assets. We commence this year with a cautious stance towards Australian shares, with a view that much of the gains in 2024 were likely borrowed from 2025.

Figure 15: Sector returns were mixed

Australian S&P/ASX 300 Indices



Source: S&P Global, Macrobond, ANZ CIO

Developed market equities

Our current preference is to position with a **mild overweight** in developed market equities.

The outlook for the global economy and earnings growth remains too robust to turn negative on equities. In 2025, we expect high single-digit equity returns across the US, Europe, and Japan.

We anticipate robust mid-single-digit EPS growth in Europe this year. However, the region currently suffers from a lack of positive earnings revisions, a less favourable macro backdrop, and increasing uncertainty both geopolitically and within key member states. We continue to believe European banks are undervalued, while European small- and mid-cap stocks offer the best stock-picking opportunities. We start the year with a modest underweight and will look for stabilisation in at least some of these key areas before increasing our positioning.

In the near term, Japan, where we are currently positioned at benchmark, looks more attractive. The market trades at a discount to its long-term average, there is positive structural progress in corporate governance, and if the BoJ does not adopt a more hawkish stance, a relatively weak yen could support corporate earnings.

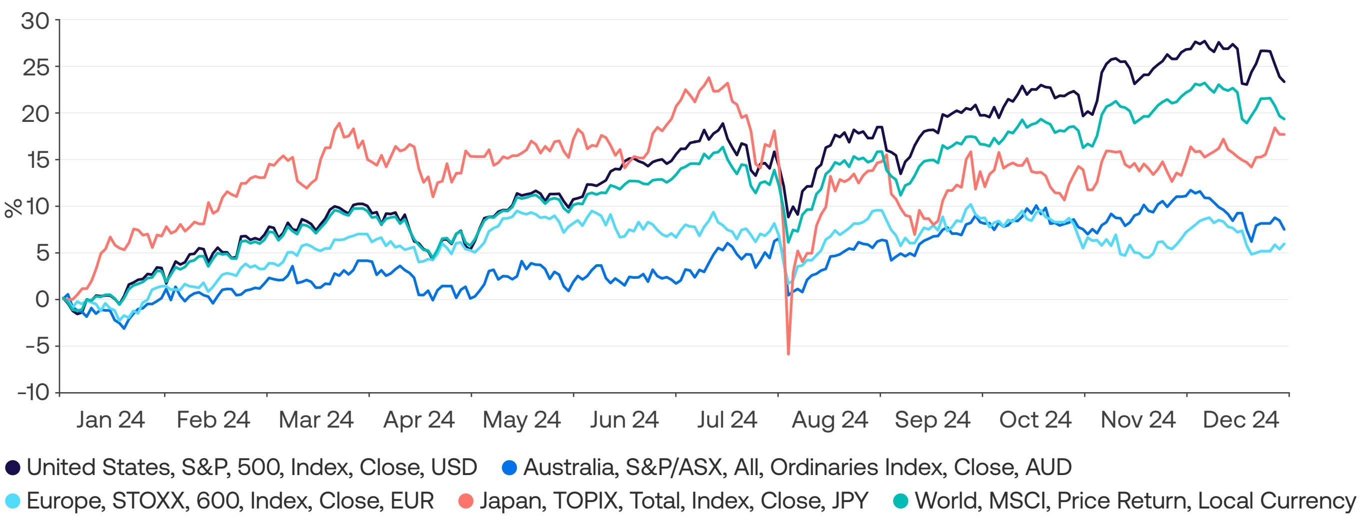
The US equity market remains our preferred exposure, with a modest bias toward tech-related mega-cap names. Performance in the first half of last year was dominated by the Magnificent Seven, and market concentration reached all-time highs. However, market leadership began to broaden in the latter part of 2024. While we still expect the Magnificent Seven to deliver superior EPS growth compared to the broader market, the growth gap is expected to shrink.

Indeed, the potential for a pro-business US government under Trump could strengthen overall market sentiment. Combined with a strong liquidity boost in the first part of 2025, we expect equities to remain well-supported.

Nonetheless, if inflation surprises to the upside more quickly under a Trump administration, rates rise well above 4.5%, or a material slowdown in growth occurs due to trade restrictions, the second half of the year may prove more challenging for investors.

While last year was focused on when and where to position for the global easing cycle, this year may be about identifying when markets have moved too far ahead of fundamentals and liquidity has reversed. Nevertheless, like last year, we expect 2025 to be another year characterised by tactical trading within developed market equities and broader portfolios.

Figure 16: Regional market performance



Source: S&P Global, STOXX, Tokyo Stock Exchange, SSE, MSCI, Macrobond, ANZ CIO

Emerging market equities

Our current preference is to be **mildly underweight** emerging markets equities.

We gradually trimmed our position in emerging market equities over the latter stages of 2024, looking to take advantage of the sharp rally in Chinese equities that followed stimulus announcements in September. The decision proved to be timely, as the external backdrop for emerging markets deteriorated following the US election.

As 2025 commences, emerging markets are not only facing the possibility of higher US rates and a stronger US dollar under Trump, but also an increased risk of trade tariffs, particularly with many emerging economies (especially in Asia) running large trade surpluses with the US. Under this challenging backdrop, we expect active management to be a beneficiary, as countries and sectors with positive secular growth stories may be better positioned to shield themselves from external headwinds, even if they are not without risks.

The outlook for China improved following stimulus announcements, but we remain circumspect about the likelihood of an acceleration in activity over 2025. We expect GDP growth of 4.3% this year, down from 4.9% in 2024. Trump has made his intentions regarding tariffs clear, although threats are unlikely to be fully implemented. Of equal interest for global growth will be China's response—whether it will counter the US and also look to increase its own stimulus. We position with a mild underweight in Chinese equities and will look for a clear commitment towards boosting aggregate demand before increasing our exposure.

While risks are undoubtedly elevated across emerging markets, the MSCI Emerging Market Index trades at a valuation close to its long-term average and at a discount to most developed market peers. Therefore, there is scope for significant upside this year. We expect 11% EPS growth over the next 12 months, and should USD exceptionalism fade and tariff risks prove to be exaggerated, there are likely to be opportunities for tactical trading. Longer-term, we continue to believe a more favourable growth outlook and demographic tailwinds should benefit the sector.

Figure 17: Emerging Market Performance

Source: MSCI, Bloomberg, ANZ CIO

Listed real assets – GREITs & Infrastructure

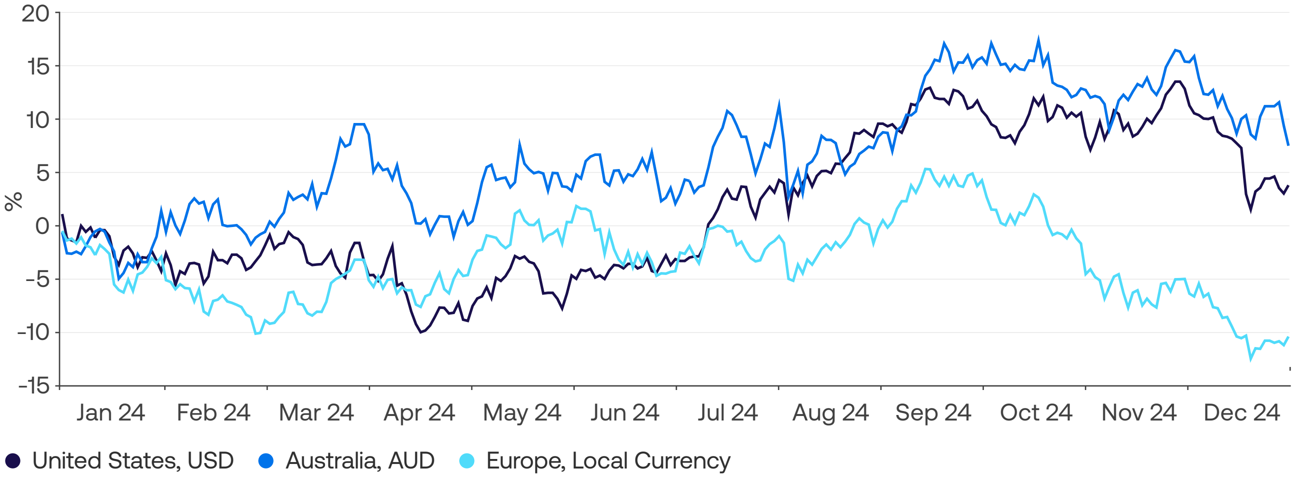
Our current preference is to be **mildly overweight** listed real assets.

Both Global Real Estate Investment Trusts (GREITs) and listed infrastructure outperformed global equities in the second half of 2024 as the global easing cycle progressed.

As 2025 commences, sector fundamentals across GREITs continue to slowly improve, and lower rates should provide a continued tailwind to earnings guidance. Nonetheless, investors will need to be selective when positioning, with performance expected to be uneven throughout. In the US, our preference is for property types that exhibit both growth and value. In Europe, while financing conditions have eased, we continue to tread cautiously with companies that have excessive leverage. In Japan, office vacancy rates are peaking as supply tops out. A moderate recovery phase should continue, as supply is expected to remain subdued due to rising construction costs.

With respect to infrastructure, we expect this segment to remain important for portfolios in 2025. Volatility is likely to be a prevailing theme throughout the year, and with reinflation risks and the potential for growth to remain subdued, the asset class should be beneficial for returns, given its ability to act as an inflation hedge and the necessity-based traits of the sector.

Figure 18: Investors may need to be selective again in 2025



Source: FTSE Russell, Macrobond, ANZ CIO

Past performance is not indicative of future returns.

High Yield

Our current preference is to be **mildly underweight** high yield.

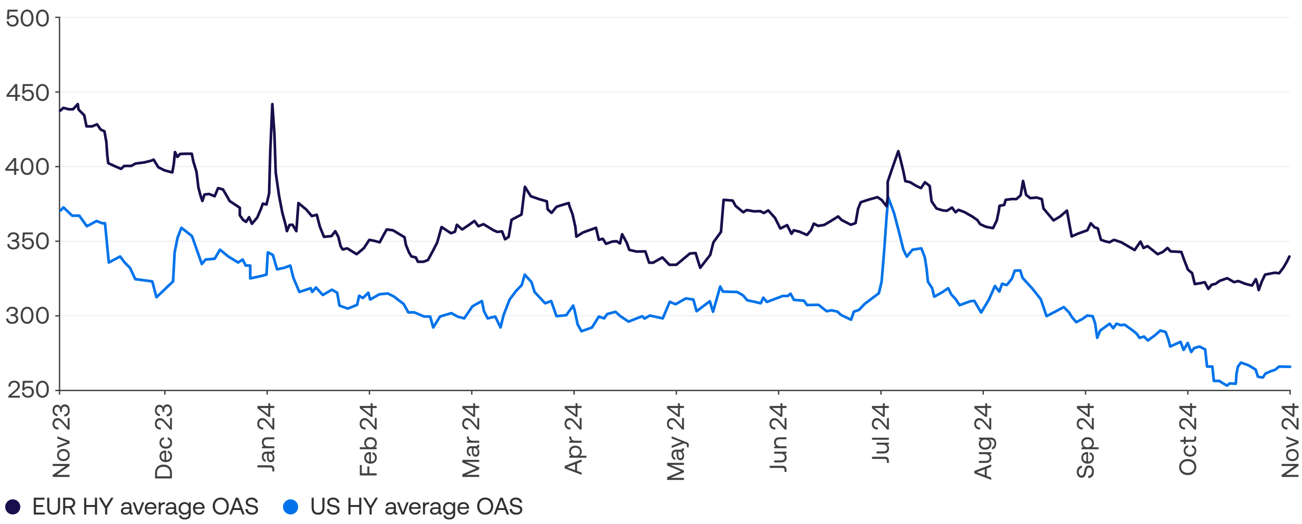
The fundamental outlook for European high yield deteriorated significantly towards the end of 2024. Even so, spreads traded near year-to-date lows by year-end. In the US, where recession risks have diminished appreciably, high yield also strengthened as the possibility of a Goldilocks scenario continued to unfold. Although spreads lifted modestly toward year-end, they continue to trade near post-GFC lows and appear priced for perfection. As such, the risk of correction remains elevated across both segments.

More broadly, the maturity schedule for 2025 appears generally manageable; private credit has provided an alternative source of funding for riskier deals, and Liability Management Exercises have allowed stressed credits to extend maturities.

For European high yield, 2025 may be more about avoiding "unpaid" risks. We expect more volatility, and therefore managing market exposure countercyclically and exploiting opportunities during market corrections should be beneficial for portfolios. In the US, we remain conscious of reducing exposure to high-beta credits with spreads that do not appropriately compensate for the implied volatility.

In 2024, global high yield was our least preferred risk asset for the entirety of the year. From a relative perspective, this served portfolios well. As 2025 commences, we again see better opportunities to deliver risk-adjusted returns to portfolios.

Figure 19: High Yield – Option Adjusted Spread Tightening



Source: DWS Investment GmbH, Bloomberg Finance LP.

Gold

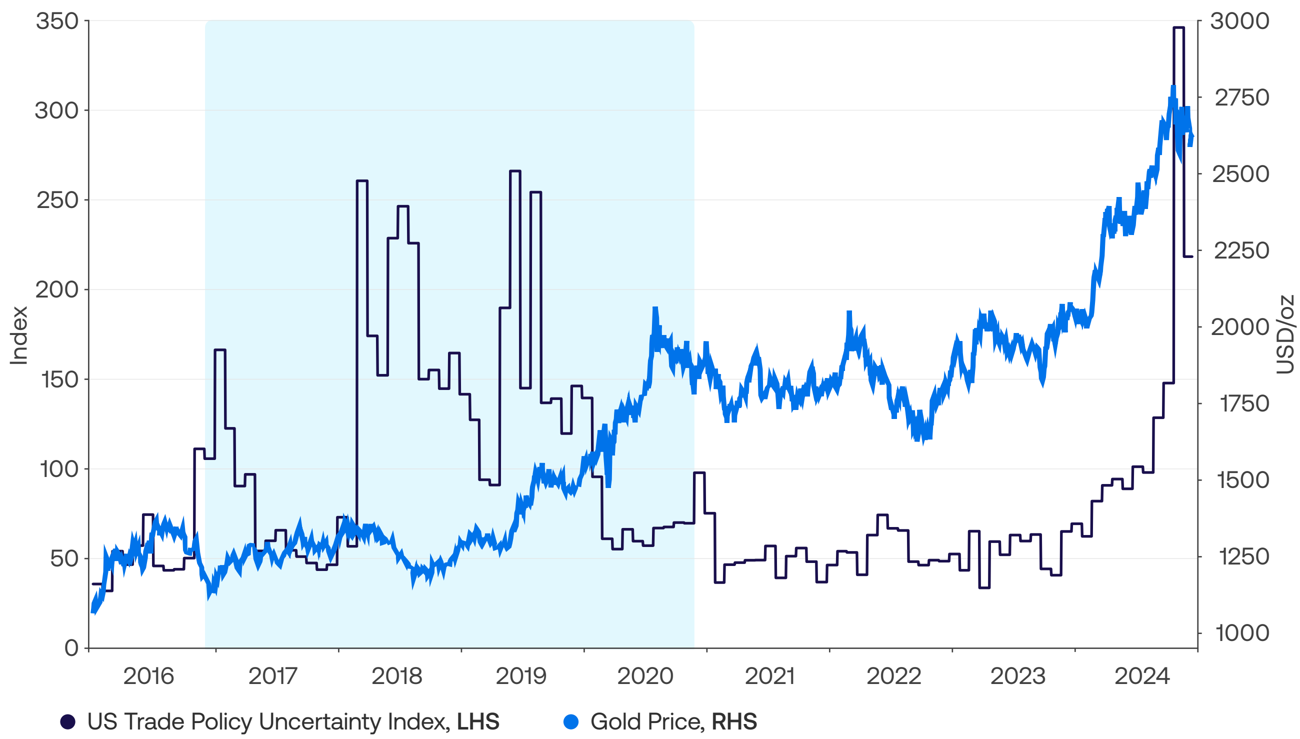
Our current preference is to be **mildly overweight** gold.

Gold almost touched $2,800/oz in Q3 2024, spurred by rising geopolitical uncertainty, central bank purchases, and fiscal concerns. Over the latter part of the year, the precious metal retraced its gains as expectations for the terminal Fed rate rose by close to 1%, and the market began to price in the potential inflationary impact of a Trump presidency. Nonetheless, the price of gold rose almost 40% over the course of the year.

In the near term, investors may remain cautious given US dollar strength, and a supportive macroeconomic backdrop in the US which provides room for equities to rally. While we do not expect returns like those witnessed in 2024, the tailwinds that helped push gold higher over the course of last year should remain supportive in 2025 — in particular, rising deficits, simmering global tensions, and demand from foreign central banks seeking to reduce their reliance on the US dollar. Indeed, while Trump threatened 100% tariffs on BRICS members that attempt to shift their reliance on the USD, the threat is likely to motivate emerging market central banks to diversify their reserves by adding gold.

Therefore, we maintain a favourable outlook for gold in 2025. The exposure should continue to provide a hedge to portfolios during risk-off environments and deliver a differentiated source of return.

Figure 20: Gold surged alongside US trade uncertainty



Source: Economic Policy Uncertainty Index, Matteo Iacoviello, Macrobond, ANZ CIO

Duration

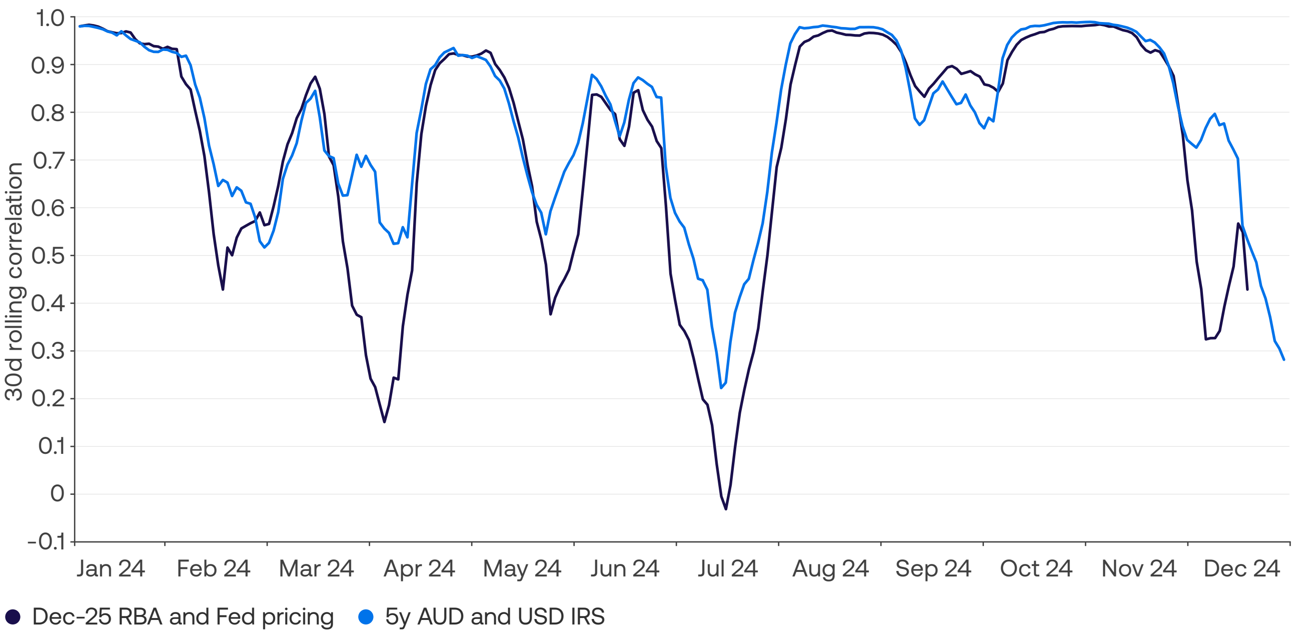
Our current preference is to be **benchmark** to duration.

Australian rates took direction from USD rates for much of 2024 — despite the RBA being a clear laggard in easing policy. In 2025, we again do not expect the central bank to be in any rush to cut interest rates. Trimmed mean inflation remains sticky, and labour markets are strong, but the November monthly inflation reading has seen us revise our call for the first rate cut to February. Nonetheless, this should still be the starting point of an extremely shallow easing cycle, with only two rate cuts expected to take the cash rate target to 3.85% by August, according to ANZ Research.

Looking at bond markets, we continue to view Aussie rates as relatively attractive, with only two rate cuts priced in over a 12-month horizon. Absent any shocks that force the RBA to take a more aggressive approach to easing, the 10y3y curve should remain anchored within the 30bps – 60bps range. In a scenario where the RBA is required to remain on hold, the curve could flatten, given its relative steepness to other developed markets. At this point, the longer end of the curve continues to show high directional beta towards the US, which is quite attractive given the steepness.

While the direction for central bank policy should be lower in 2025, the speed and terminal point are less clear. The risk of reinflation and expansionary fiscal policy has increased since Trump's election, and although we expect the curve to continue normalising, at this stage we would be unsurprised if yields finished 2025 higher than current levels. Nonetheless, duration remains an important diversifier in a multi-asset portfolio, and if inflation concerns are supplanted by growth fears, duration should be a strong hedge in a risk-off environment.

Figure 23: AUD and USD rates correlation



Source: Bloomberg, Macrobond, ANZ CIO

Australian Dollar

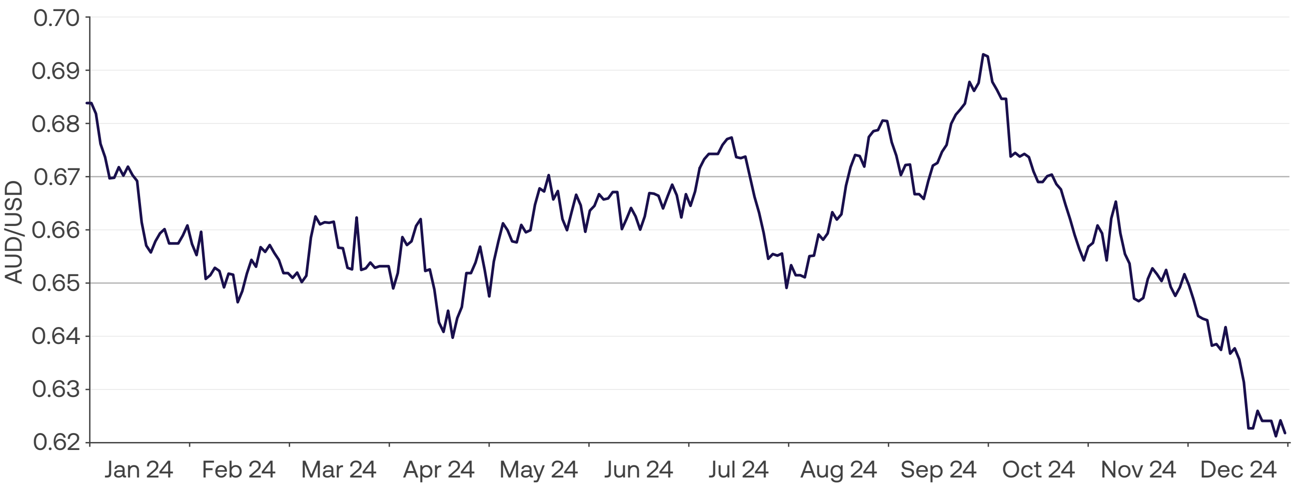
Our current preference is to be **mildly underweight** the Australian dollar (AUD).

The AUD/USD retraced from a high of 0.69 in September to a low of 0.62 in December—driven by factors including rate differentials, global risk sentiment, and developments in China.

In 2025, the near-term outlook for the AUD appears uncertain, as concerns surrounding China and potential trade tariffs linger, particularly given that a significant portion of the new US administration's policy announcements should come in the first half of the year. Moreover, as witnessed late last year, Fed rhetoric and policy moves could also have an impact.

However, once any potential tariff shock subsides in H1, macro fundamentals should be supportive for the AUD in the second half of the year, particularly if the RBA continues to be among the more hawkish of developed market central banks. ANZ Research also expects Australia to be able to weather any larger-than-expected global shocks, given that the RBA is among the last to ease and has more room to provide fiscal support—at least on a relative basis compared to global peers. ANZ Research expects the Aussie dollar to finish the year around 0.67.

Figure 24: Despite significant swings, the AUD traded in a narrow range through most of 2024



Source: RBA, Macrobond, ANZ CIO

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