

2025 GLOBAL OUTLOOK

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INVESTMENT VIEWS
FROM OUR PARTNERS
AT WALTER SCOTT

Roy Leckie
Executive Director at Walter Scott

KEY POINTS

1 We believe lower inflation and wage growth may support consumer spending in major economies, but the prospect of higher tariffs could rekindle inflationary fires.

2 Trade disputes and the continuation of the “China +1” trend may complicate China’s efforts to stimulate its economy. However, from a fundamental perspective, we believe this negativity towards China is overblown.

3 The complexion of equity markets may change in 2025. We expect that greater attention will likely be paid towards valuations, against the backdrop of what could be a more uncertain environment.

As bottom-up stock pickers, our focus is on company fundamentals rather than constructing portfolios based on macroeconomic views. Indeed, given the roster of current uncertainties facing equity markets, crystal-ball gazing may be a particularly tricky task for 2025.

On the plus side, we believe lower inflation and wage growth may support consumer spending in major economies. Coupled with Federal Reserve (Fed) and European Central Bank (ECB) monetary easing, tight-ish labor markets, and China’s stimulus measures potentially stabilizing its economy, a “soft-landing” has become a favored market narrative, with “no-landing” being an outside bet. However, it may not all be plain sailing.

As noted by a number of retailing companies, the cumulative effect of high inflation is still having a lingering impact on price-sensitive consumers. Complicating the inflation picture is

the prospect of higher US tariffs on imported goods, which has the potential to rekindle inflationary fires. This could temper the extent and pace of the Fed’s interest rate cuts, as well as undermine consumer sentiment.

The drift towards protectionism has raised broad concerns over what a tit-for-tat trade war would mean for global growth, especially at a time of a hoped-for improvements in the world’s subdued manufacturing economy. Furthermore, trade disputes and the continuation of the “China +1” trend may complicate China’s efforts to stimulate its economy, at a time when the country is swimming against a tide of negative investor sentiment. From a fundamental perspective, we believe this negativity towards China and its place in the world is overblown. The country is still a huge supplier and demander of the world’s goods and is home to over 1.4 billion consumers.

It remains to be seen if President Trump, the tariff king, or Trump, the dealmaker, turns up at the White House. Likely both. But companies have had years to adapt to a more protectionist world and to implement strategies to mitigate its impact, such as diversifying supply chains or relocating manufacturing. We expect leading companies to be similarly proactive in the event of a new wave of levies.

Potentially lower taxes may provide a near-term adrenaline shot to the US economy. However, a sizeable fiscal giveaway in the context of a burgeoning budget deficit could generate unease in bond markets and propel yields higher. This has been the case in Europe, where events in France have shown that bond and equity investors have not forgotten that there is a cost to fiscal excess. Higher bond yields, with a concomitant impact on the cost of credit, could await those countries which are seen as fiscally adrift.

The complexion of equity markets may change in 2025. We expect that greater attention will likely be paid towards valuations, against the backdrop of what could be a more uncertain environment. Market concentration was a feature of most of last year. Given the rapid buildout of artificial intelligence (AI) infrastructure, Nvidia and other select semiconductor companies and “hyperscalers” including Alphabet, were a focus of attention. We expect the market’s gaze will broaden. As AI infrastructure continues to expand, more attention will be paid

about how it is being used. We believe investors will be more discerning, focusing, as we are, on how companies are identifying and monetizing real-world opportunities that AI presents in terms of reaching customers more efficiently and more profitably, with better products and services.

Tense global political relations have not been reflected in equity markets, as they have not disrupted energy markets or supply chains. However, in our view, any escalation of the conflicts in the Middle East and Ukraine still has the potential to generate volatility.

Irrespective of these near-term caveats, we remain resolutely optimistic about equity returns over the long term. Many of the world’s leading companies are political and economic cycle veterans, although they may not be immune from earnings and share price volatility. However, in our view, their attributes of financial strength, market leadership, and ability to adapt and innovate will enable them to take advantage of long-term trends that will outlast any short-term headwinds.

Artificial intelligence (AI) is the ability of computers to perform tasks commonly associated with intelligent beings.

China +1 refers to a strategy in which companies avoid investing only in China and diversify business into other countries.

Hyperscalers are large-scale data centers that provide a wide range of cloud computing and data solutions.

No landing refers to an economy that does not slow down, and upside risks to inflation come back after the initial decline in inflation.

Soft landing is a cyclical slowdown in economic growth that avoids a recession.

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