JAN 2025 INVESTMENT UPDATE

HIGHLIGHTS

Market Review

- Despite the December pullback, 2024 was a good year for asset returns overall. Precious metals and equities were the top-performing global assets, while commodities lagged due to weak demand in China.
- ‘Safe’ government bonds delivered low to negative returns in 2024 as bond yields rose. Lower-rated high-yield markets delivered strong income - a reminder that credit quality should not be the only criteria for bond investing.
- 2024 was the year when the US not only avoided a recession but also significantly outperformed other major markets. This resulted from a strong consumer, robust tech earnings, and Fed rate cuts.

Looking Ahead: In a Nutshell

- **Equities**: Equities can continue to do well amid the current positive backdrop of a still resilient economy, and with the AI narrative expanding beyond mega-cap tech. In the US, potential tax cuts and de-regulation could also boost corporate earnings, justifying elevated valuations (for now) and allowing for further gains.
- **Bonds**: There could be limited upside to longer-dated bonds (outside of a recession) with their lower relative yields and volatile interest rate path. Within fixed income, we continue to prefer shorter-duration bonds that are still offering attractive yields for income investors.

New Year, New Target

- Relying solely on forecasts for investment decisions can be risky, as they often differ from actual outcomes. 2024 showed how median forecasts predicted a 2.2% return but ended the year with a 25% return.
- Forecasts can still provide valuable insights if the underlying assumptions and market drivers are carefully considered.
- 2025 is a year of cautious optimism. Interest rate cuts and pro-growth policies are likely to support markets, but we are keeping an eye on stretched valuations and recession risks (though not a base case). A potential trade war also poses a risk to the more optimistic base case.

Shifting Gears On Income

- Common income strategies, such as the 30/70 (equity/bond) portfolios and the popular investment-grade market faced challenges in 2024; even struggling to beat the 5.2% returns in Money Market Funds.
- High-yield markets stood out as an exception, with Emerging Market and Asia High Yield performing particularly well and driving our income strategies to close at nearly 10% returns.
- Given the strong performance of high-yield markets and their now lower yields, the focus shifts to securing profits and re-allocating towards higher-quality segments, offering a better risk-reward in generating income while mitigating default risk.

Read the full commentary here

Finexis Asset Management