Monetary policy to underscore 2025
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Investors are heading into the New Year with many of the same concerns they had at the start of 2024, with interest rates and inflation to dominate once again.

As at November end, RBA governor Michele Bullock has indicated the central bank views its settings as restrictive and intends to keep rates that way for now, holding out for clear signs that inflation is moving sustainably to target.

Global X product and investment strategist Marc Jocum says the potential "higher-for-longer" stance on interest rates may appeal to income-focused investors seeking to benefit from a higher interest rate differential.

"The 'income' is back within fixed income, and the diversification benefits have improved following one of their sharpest drawdowns in history, painting a potentially better position for 2025," Jocum says.

SG Hiscock portfolio manager Grant Berry believes inflation pressures are waning and interest rates have peaked. He points to property as a resilient inflation-linked asset class, underscoring the need to focus on long-term drivers like relative valuation pricing metrics, particularly inflation linked bonds because a rally in real bond yields would be a positive for property – and vice versa if a sell-off occurs.

"... we're observing bifurcation in pricing between larger and small REITs as well as between groups more engaged in activities such as funds management and those aligned to passive rent collecting," Berry says.

He says the market rally could extend, potentially favouring a small company or smaller REIT positioning, sparked by increased M&A activity, broader market rotation, sector themes benefitting smaller groups, or institutional capital flows into the transaction market – "all of which will be top of mind for us."

Fidelity International global cross-asset specialist Lukasz de Pourbaix expects a soft-landing scenario, with inflation moderating and growth holding steady as central banks ease policy.

"However, with financial conditions easing and the global economy, notably in the US, continuing to show strength there is a risk that a 'no landing' scenario whereby inflation remains stubbornly high and rates remaining higher for longer will need to be watched closely," de Pourbaix says.

Elsewhere, all eyes will be on the sluggish Chinese consumer, he says, and whether eagerly awaited fiscal stimulus follows the sweeping economic measures introduced in September to boost liquidity, stimulate consumer spending, and revitalise the real estate sector.

"This will not only have implications for the Chinese market but also for the Australian market where we saw a sharp rotation from banks to resources following the stimulus announcement," he says.

Chinese stocks have also turned a corner, outperforming the US market year-to-date, for the first time since 2017. But it remains to be seen whether this rally will extend into 2025.

He adds that other emerging economies are showing pockets of strength that warrant attention, like India with one of the best structural stories backed by demographics, global supply chain diversification, and fiscal maturity.

GSFM investment strategist Stephen Miller said maintaining momentum in equities will require "supportive monetary policy conditions."

However, US bond yields have proved sticky. The US 10-year yield is above the level prevailing at the start of the year, fuelled by a gargantuan budget deficit – close to 7% of GDP – when the US economy is close to full capacity, he says.

"That deficit means that the prospects of any meaningful decline in bond yields are looking less than assured, even if the Federal Reserve might (cautiously) take the policy rate lower. Despite that worrisome circumstance, the US political class has no coherent plan to rein that deficit in," he says.

Eventually, the sheer scale of bond issuance needed to fund this deficit may unsettle bond investors, possibly sending yields higher, and if that were to persist would constitute a strong headwind to further equity gains, he adds.

TWC Invest chief investment officer John Birkhold says that after two remarkable years of global equity returns, it's understandable investors approach 2025 with trepidation.

His game plan for investors is to zero in on innovative firms with leaders that have a track record of earning high economic returns, which trade at reasonable embedded expectations and have positive market sentiment.

"... the notion that continued exposure to well-managed innovative companies is the best path to wealth creation," he concludes. FS

Marc Jocum
Global X

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