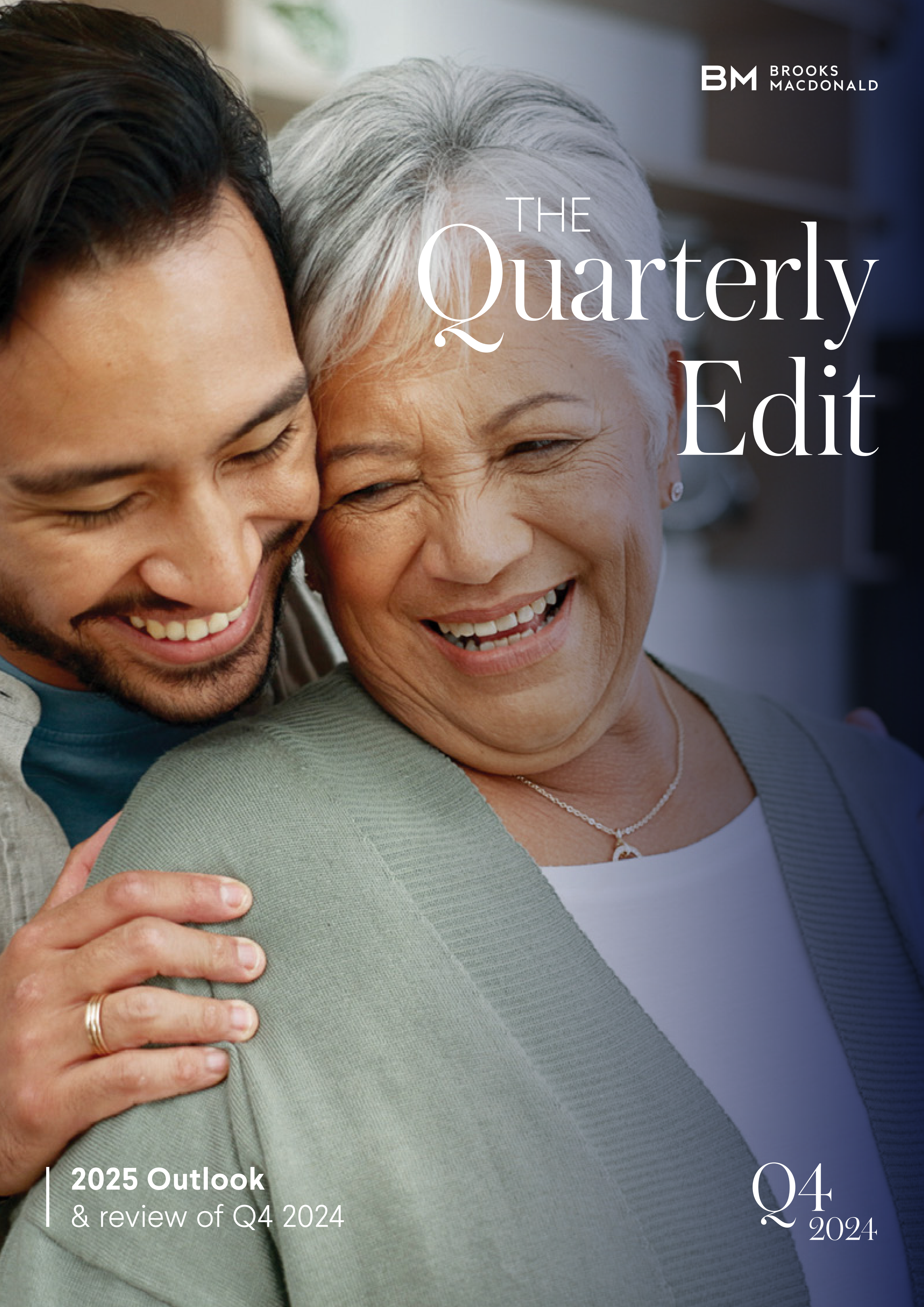


BROOKS MACDONALD

THE Quarterly Edit

2025 Outlook
& review of Q4 2024

Q4 2024

Welcome

Welcome to the Q4 2024 edition of The Quarterly Edit. This issue brings you the latest insights and contributions from our team, reflecting on a quarter marked by significant events and some strategic adjustments.

Our commitment to your financial wellbeing remains steadfast as we navigate the evolving financial landscape. We aim to guide you through these times with expertise and care, ensuring you are well-informed and prepared for the future.

In this issue, we delve into the factors behind last year's equity markets' resilience and investment choices that have helped to shape our portfolio positioning. Our goal is to provide you with a comprehensive overview that supports informed decision-making and helps you understand the complexities of the market.

Our focus continues to be on keeping a balanced and diversified approach, aiming to position our asset allocation choices to weather economic uncertainties effectively. We believe in the strength of a long-term investment strategy that is adaptable yet grounded in sound principles.

We are grateful for the trust you place in us and are committed to targeting the highest level of service and performance. Together, we look forward to navigating the market's complexities and working towards achieving your financial goals.

Thank you for your continued support.

Warm regards,

Michael Toolan & Richard Larner
Co-Chief Investment Officers, Brooks Macdonald

In this issue

2025 OUTLOOK

Setting asset allocation for the year ahead

As we look to the year ahead, we are maintaining our positive stance on equities, just as we did throughout 2024. We believe a US recession is unlikely, global economic growth will remain steady, and inflation will continue to ease. We see promising investment opportunities, especially as market outperformance broadens to include small and mid-sized companies.

For bonds, we prefer shorter maturities, offering attractive returns without the added risk of longer-term bonds. Our bond mix includes both government and high-quality corporate bonds, avoiding riskier corporate debt due to the current risk-return trade-off. These bond holdings help balance the risks taken with equity investments.

Our alternative investments provide returns and yields that do not always move in the same direction as stocks and bonds, reducing overall risk and balancing portfolios. This category includes structured products, which can offer higher returns and more predictable outcomes.

Overall, our diversified approach aims to position our portfolio to effectively navigate the economic uncertainties of the year ahead.

Quarter in Review

Reflecting on Q4 2024, investors faced a mix of political, economic, and geopolitical events that tested market resilience and adaptability. Despite these challenges, the global equity market successfully navigated the turbulence, achieving record highs.

Equity Regional Outlooks

UK

UNITED KINGDOM

The UK equity market index earns about three-quarters of its revenues from outside the UK, making it sensitive to global trends. Currently, these trends show a constructive economic growth and an easing inflation picture. UK equities are a key part of our investment strategy. In the UK, we hold shares of companies in 'value' sectors, such as resources and financials; these contain stocks that might be considered undervalued on a price to earnings ratio or dividend yield basis, for example. These sectors can help balance our growth investments in other regions and asset classes.

US

UNITED STATES

The latest US corporate results generally showed a resilient consumer benefiting from a healthy job market, with analysts remaining optimistic about earnings growth. This positive outlook is supported by two main factors. First, the US Federal Reserve continued to cut interest rates in the last quarter, making it easier for businesses to get loans and likely boosting smaller and mid-sized companies, which we increased exposure to earlier in 2024. Second, the Republican clean sweep in the November election promises increased government spending and larger budget deficits, with expected tax cuts likely to boost consumer spending and overall economic activity.

EU
DEVELOPED EUROPE (EXCLUDING THE UK)

Lower natural gas energy prices in Europe, compared to the highs of 2022 after Russia first invaded Ukraine, are helping to improve the inflation outlook. This provides relief for businesses and households, encouraging recovery in those sectors hit hardest by prior economic challenges. In the last quarter of the year, we observed challenges for the European economy due to political uncertainty in Germany and France regarding their government spending budget plans. Balancing these concerns, however, we see attractive valuation investment opportunities.

AP
ASIA PACIFIC (EXCLUDING JAPAN)

Early in 2024, we lowered our outlook on the Asia Pacific region, excluding Japan, to a neutral stance, from positive previously. This shift was driven by our decision to scale back investments in China and the broader region. While China's equity valuation might look attractive overall, in our opinion the equity market faces several risks. The country faces significant economic challenges, including a heavily indebted property sector and high youth unemployment, which will take time to resolve. As a result, the investment outlook may worsen before it improves.

JP
JAPAN

In recent years the Tokyo Stock Exchange has been working to help companies manage their finances better. Along with the return of inflation after years of stagnation, this has improved the outlook for both Japan's financial markets and expected shareholder returns. However, Japan still faces significant challenges. High public debt levels and an ageing population continue to pose difficulties, making it hard for the Bank of Japan to change its long-standing policies of keeping interest rates low.

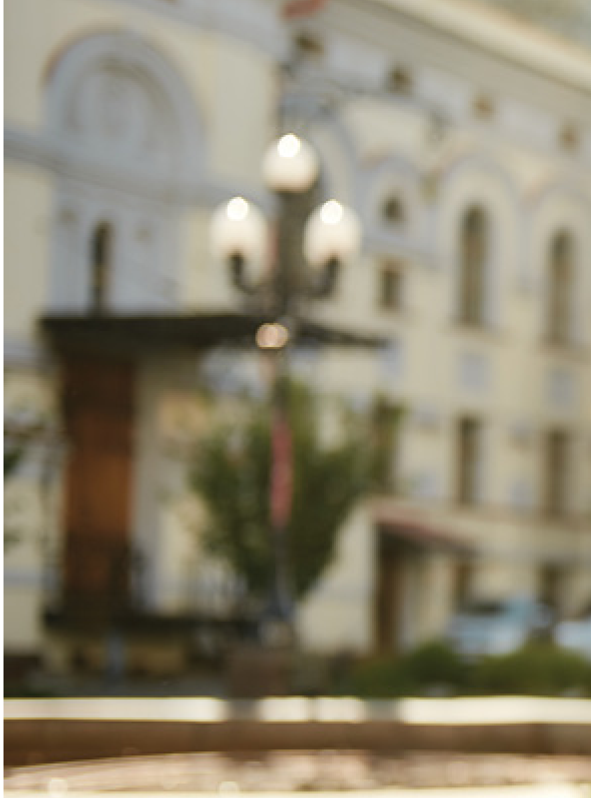
EM
EMERGING MARKETS

China is a major buyer of global commodities from emerging markets. However, despite promises of increased government spending, China's leaders still seem somewhat reluctant to rely heavily on its tried-and-tested past model of aggressive infrastructure projects to boost the economy. This hesitation to deliver on the market's hopes for significant amounts of stimulus in particular has dampened the export hopes of emerging markets. Additionally, the renewed strength of the US dollar in the last three months of the year could create tough conditions for those emerging market countries with debt in US dollars. It could also challenge global investment flows into emerging markets.

Outlooks defined: *We express positive, neutral, and negative outlooks across a range of asset classes. These are defined as our judgement as to the expected return compared to the relevant broader asset class benchmark over our central forecast period of twelve months.*

POSITIVE NEUTRAL NEGATIVE

Quarter IN REVIEW



The past few months have seen investors face a mix of political, economic, and geopolitical events that tested market resilience. Yet the global equity market successfully navigated these challenges, achieving record highs in the process.

Equity highs despite political change

Despite significant challenges, the global equity market reached record highs during the last three months of 2024. But it wasn't all smooth sailing. Investors navigated the UK budget, political turmoil in France and Germany, a US election, and escalating geopolitical tensions in the Middle East and Russia's ongoing invasion of Ukraine. Collectively, these events all competed for investors' attention.

World's largest economy dominated

The most significant market impact came from the outcome of the US election result in November, with an unexpected Republican clean sweep of the US presidency and both chambers of Congress. With it comes a higher probability that much of US President-elect Trump's policy agenda will be put into action – unlike his first term, going into a second term, 'team Trump' is likely to be much more organised and better marshalled. This impacts the outlook for US domestic assets and sets the global investment agenda.

Looking ahead

The Republican clean sweep could shape the investment outlook for the next couple of years, at least until the US mid-term elections, if not longer. Crucially, there will be both intended and unintended consequences that we must remain alert to.

As always, responding thoughtfully to these expected and actual investment shifts while remaining focused on our longer-term investment objectives continues to be our goal.

BROOKS MACDONALD

InvestBM: Your secure *online investment portal*

InvestBM Key Features

- View portfolio values
- Access documents anytime including quarterly valuations and tax reports
- Track transactions easily
- Monitor portfolio performance

Haven't registered to use InvestBM yet? Simply scan the QR code or visit **brooksmacdonald.com/investbm/register**

Any questions? Get in touch with our support team at **investbmsupport@brooksmacdonald.com**

Market BACKDROP

US election heralds a change in the world order

With the Republicans winning the US election, we expect lower taxes, deregulation, and increased government spending. On the one hand, this raises the US economic growth outlook, also positively affecting other countries. On the other hand, it also raises the risks of persistent inflation, higher-for-longer interest rates, and higher government bond yields than would otherwise have been the case. A stronger US dollar could pose challenges for emerging market equities where we remain cautious.

This shift promotes an 'America First' policy, particularly in global trade. While US-China trade tariffs are likely to escalate, tariffs for other countries may be used more widely partly as a transactional negotiating approach.

A stronger US economic growth outlook supports our positive view on US equities, especially for small and mid-sized US companies that we added to at the start of 2024. The stronger US economic picture also supports multinational companies domiciled elsewhere, which have exposure to an improved US economic outlook.

> US President-elect Trump's policies could boost economic growth, but they could also raise inflation and interest rates.

Changing energy priorities and a challenge for decarbonisation

The Trump administration's expected shift away from decarbonisation could lead to a major reassessment of US spending initiatives. This could cause a ripple effect, as other countries might react to the US refocusing on cheaper oil and gas production. This change in US energy policy could prompt other countries worldwide to also rethink their commitment to decarbonisation in the future.

The cumulative effect on global decarbonisation efforts could be significant if countries follow suit. There is arguably less global alignment on climate change than when the Paris Agreement was signed in 2016. Adapting to these recent changes, our conviction behind the standalone decarbonisation theme has fallen; as such, following the US election, we decided to exit this theme, with the proceeds of the sale reallocated to global equities.

These asset allocation changes aside, we are pleased to see more companies considering environmental, social, and governance factors as part of their best practice. These factors are now more embedded in our investment process and decarbonisation assets are still a key part of our Responsible Investment Service.

> The shift in US energy policy could lead to a global reassessment of decarbonisation efforts, impacting associated investment strategies in the market.

War risks worry investors, but hopes for an eventual peace remain

While November saw a temporary ceasefire between Israel and Hezbollah in Lebanon, a deal with Hamas in Gaza remained far away and threats from Iran lingered. Meanwhile, Russia's invasion of Ukraine escalated with US and UK allowing their missiles to be fired into Russia, leading to Russia lowering its threshold for using nuclear weapons. Adding to investor concerns, China has increased military exercises around Taiwan, heightening tensions in the region.

With two regional wars ongoing and worries of a third, it might seem counterintuitive that the oil price kept returning close towards year-lows.

Conflict in these zones is not new to investors, however, resolving even one of these regional risks could lead to lower energy prices and in doing so ease global inflation pressures.

If US President-elect Trump delivers his promise to end Russia's war on Ukraine, it could potentially lead to the reintegration of Russian energy exports back into the global supply chain, despite how unpalatable that might seem. Along with the unwinding of Covid-era production curbs from other global energy producers as well as increased US oil and gas production, this could collectively boost supply, pushing down on energy prices and helping to dampen any renewed global inflation pressures.

> Resolving geopolitical risks could lower energy prices and ease inflation despite ongoing conflicts in multiple regions.

Market BACKDROP

The central bank inflation dilemma

In 2024, major Western central banks, including the European Central Bank, the Bank of England, and the US Federal Reserve, began lowering interest rates. However, the future pace of these cuts remains uncertain. The final level of interest rates will depend on economic growth and inflation trends.

Economic growth looks promising in the US, but it has been mixed elsewhere. Recent global outlooks predict stable yet modest growth. While the US has seen improved forecasts, Germany and China have faced reduced growth prospects. Global inflation is expected to ease, but some prices remain high in many countries.

Policymakers are likely to be more cautious about further cuts, and market expectations for the speed and size of these reductions have decreased in recent months. This reflects the uncertainty around inflation and the need to keep prices stable. Given this uncertainty, focusing on shorter-term bonds, which are less affected by changes in the economy, interest rates, and inflation, could be a consideration.

> Interest rate levels for the year ahead will depend on balancing economic growth and controlling inflation.

Tech titans triumph but market concentration risks remain

The 'Magnificent Seven' group of US-listed mega-cap technology stocks had a good year, lifted by the US election result. This group of Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla were already doing well in 2024 prior to the US election, but they benefited from a broader market boost following Trump's win in November. The expected Republican policy mix of tax cuts and deregulation has improved the outlook for US companies, including these tech giants.

Lately, there has been a gentle shift in focus from these tech giants towards smaller and mid-cap stocks over the second half of 2024. This trend aligns with better US economic growth expectations, which are likely to benefit these more domestically focused stocks. Additionally, falling interest rates in developed economies have improved the prospects for smaller companies that are more sensitive to economic changes, including, importantly for our asset allocation choices, the UK.

Looking ahead, the big question for investors is whether equity markets can continue to reach new highs if the biggest tech stocks should wobble, given their size and dominance of both US and global equity indices. It is one of the reasons we have a diversified portfolio approach, including significant allocations to UK equities that are relatively more attractively valued. By doing so, we aim to mitigate the risk of market concentration - where a few large companies dominate the market, potentially leading to higher volatility if those companies face challenges.

> The 'Magnificent Seven' tech stocks have thrived, but market concentration risks remain. We have a diversified portfolio to manage potential volatility and ensure balanced growth.

Government spending: a bond market dilemma

Government debt is a hot topic. Many governments are spending much more than they collect from taxes each year. This trend has continued of late, almost irrespective of economic cycles, raising concerns about debt sustainability.

The motives can be varied. In the US, for example, the out-going Biden administration raised debt to finance large-scale infrastructure projects and social programmes. These initiatives aimed to boost economic growth but added to the existing debt. Under Trump's second term, the government spending deficit might grow even bigger with renewed tax cuts, further straining the fiscal balance.

At some point, bond investors may react badly to the scale of government borrowing, pushing up bond yields. This could create a vicious cycle of rising debt costs and declining market confidence. The best defence for investors is to hold assets that are diversified geographically as well as across asset classes. Yet, for all the associated risks, the bigger risk for investors is not investing at all, with inflation eroding the real value of cash over time.

Diversifying investments to mitigate risks from excessive government borrowing and higher inflation, can help to ensure your financial goals stay on track.

Important information

More information about the Brooks Macdonald Group can be found at **brooksmacdonald.com**

BM2025-0125-001