

2024 reflections from the Perpetual Private Investment team

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The Perpetual Private Investment Team's reflections video offers a candid look at the key themes and surprises of 2024, along with insights into what might be on the horizon for 2025. While the past year presented its share of challenges, the global investment landscape once again demonstrated resilience, rewarding long-term investors with strong returns across most major asset classes.

To hear directly from the team about the year's key events and what to watch for in 2025, please watch the video above.

A year of surprises and resilience

The global economy defied expectations in 2024, growing at 3.2%¹ over the year, proving more robust than many anticipated. GDP Growth in the United States remained a standout at 2.8%², buoyed by resilient consumer spending and a healthy labour market. In contrast, Europe and Japan faced more subdued conditions. Emerging markets presented a mixed picture, with India continuing to shine whilst China grappled with property market challenges and structural headwinds.

In Australia, economic growth remained positive, albeit at a modest 0.8%³, over the last twelve months. This was supported by strong population growth, higher-than-expected public spending, and low unemployment. These factors helped mitigate the impact of high interest rates. However, per capita GDP has declined in 8 of the last 9 quarters, reflecting a drop in living standards as Australians face the pressures of the persistently high inflation.

Geopolitical risks, including escalating tensions in the Middle East and persistent trade uncertainties between the US and China, dominated the headlines but ultimately had less of an impact on markets than feared. Instead, investors focused on the global decline in inflation and the measured steps central banks were taking to ease monetary policy from elevated levels.

The role of central banks and interest rates

Interest rates took centre stage throughout the year. As global inflation trends softened, many central banks, such as the US Federal Reserve, initiated rate cuts. In contrast, the Reserve Bank of Australia adopted a more cautious approach, maintaining rates at 4.35% to address ongoing inflationary concerns within the Australian economy.

In this environment, US equities (+33.6%⁴) outperformed Australian shares (+14.9%⁵), though both regions enjoyed strong gains. Bonds, both locally (+2.4%⁶) and globally (+3.1%⁷), provided solid returns, supported by elevated yields, tight credit spreads, and low default rates. Real estate (+19.4%⁸) markets showed signs of recovery as inflation pressures eased, and the prospect of lower interest rates bolstered investor sentiment towards the sector.

The narrow leadership in US equities

The US equity market rally was driven primarily by a small group of technology-focused companies, often referred to as 'the Magnificent Seven'. The concentrated nature of the performance, which underscored the narrow breadth of the market's advance, cast doubt on the sustainability of the rally. While AI undoubtedly holds transformative potential, a key question remains: Will it deliver the productivity boost that investors anticipate? Despite the excitement surrounding AI, it's unclear whether these large tech companies can justify their current substantial capital expenditures on AI development without seeing a significant increase in profits soon. This will likely be a critical issue in 2025.

Trump's re-election and policy outlook

The re-election of Donald Trump has reignited focus on US fiscal and trade policies. His pro-business agenda, including tax cuts and deregulation, is seen as supportive of economic activity. However, his confrontational stance on tariffs and international relations introduces significant uncertainty.

Markets appear to be pricing in the investor-friendly elements of Trump's platform, such as tax cuts and deregulation, but are largely overlooking the risks associated with his trade policies. If his full set of policies, including tariff increases and stricter immigration measures, are

implemented, the economic impact could be substantial. The Peterson Institute for International Economics recently estimated that US GDP could be reduced by up to \$6 trillion between 2025 and 2028. As such, the market's current optimism may be overly optimistic, focusing on the positives and downplaying the potential downsides.

What lies ahead in 2025

The outlook for 2025 brings a mixture of optimism and caution. While the past two years of strong returns have been a welcome surprise, valuations across many markets remain elevated, leaving little room for error. Global central banks, including the Reserve Bank of Australia, are expected to cut rates, potentially providing support for growth and equity markets.

However, geopolitical uncertainty remains high, with China's economic trajectory and US policy under Trump's second term presenting both risks and opportunities. Inflation, though receding, may still pose challenges for central banks trying to balance growth and price stability.

Staying focused on long-term goals

If 2024 taught us anything, it's the value of staying invested and maintaining a long-term perspective. Despite the uncertainties, markets demonstrated their ability to navigate challenges and reward those who remained patient and disciplined. While the year ahead may bring more volatility, it could also present opportunities for long-term investors who are prepared to look beyond the headlines.

Wishing you and your family a happy holiday season

As the year comes to a close, we want to extend our warmest wishes to you and your loved ones. It has been a privilege to work with you in pursuing your financial goals, and we look forward to continuing this journey together in 2025 and beyond.

[1] OECD Economic Outlook, December 2024

[2] US Bureau of Economic Analysis – GDP growth Q3 YoY%

[3] Australian Bureau of Statistics – GDP growth Q3 YoY%

[4] S&P 500 (unhedged AUD) Total Returns – Year to date to end of November. Source: FactSet.

[5] ASX 300 Accumulation Index – Total Returns - Year to date to end of November. Source: FactSet.

[6] Bloomberg AusBond Composite (0+Y) - Year to date to end of November. Source: FactSet.

[7] Bloomberg Global Aggregate (AUD hedged) - Year to date to end of November. Source: FactSet.

[8] 50% S&P/ASX 300 A-REIT Accumulation Index & 50% FTSE EPRA/NAREIT Developed Index - Net Return (Unhedged in AUD) - Year to date to end of November. Source: FactSet.

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