Society of Actuaries in Ireland

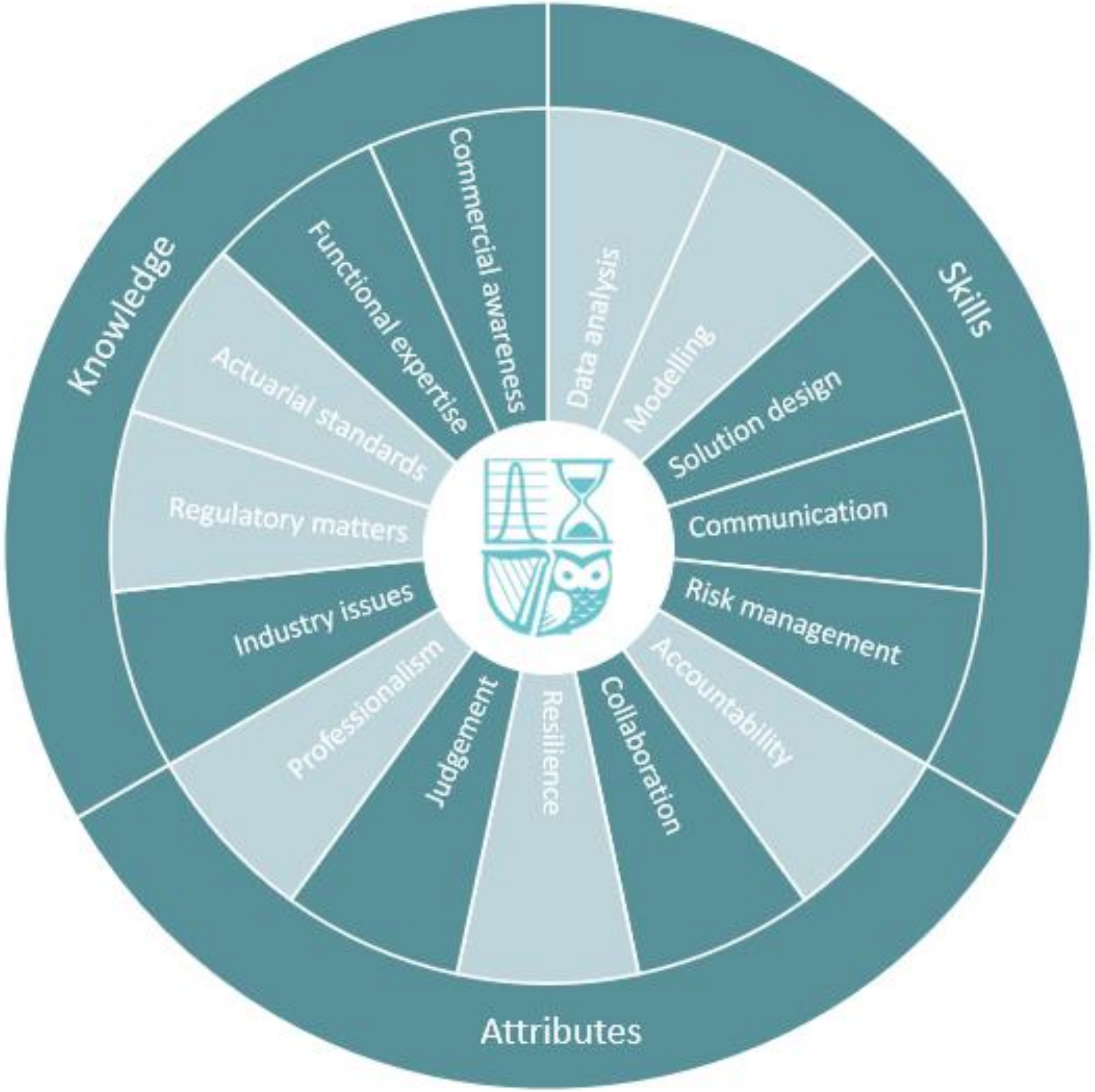
# Investment and Asset Classes Outlook: 2025

28 January 2025

# Disclaimer

**The views expressed in this presentation are those of the presenter(s) and not necessarily those of their employer(s) (if any) or the Society of Actuaries in Ireland.**

# Competency Framework Wheel



Society of Actuaries in Ireland

# Economic and Market Update
Lenny McLoughlin, ILIM

28th January 2025

# Market Performance

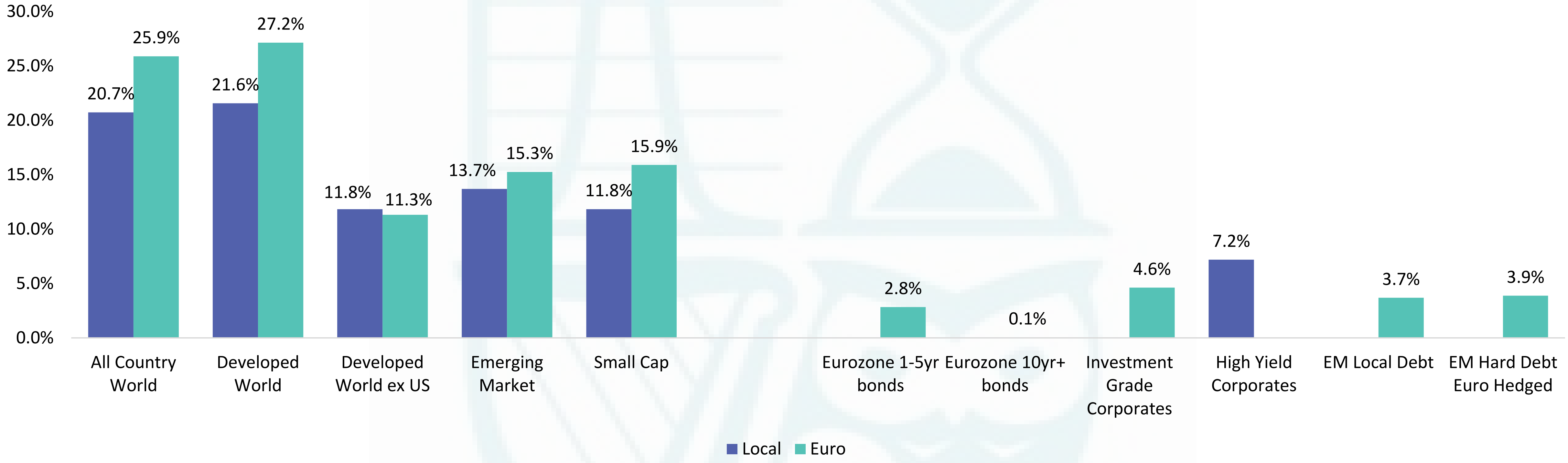


Source: Bloomberg, 28th January

- Equities rose to new all time highs in early December post the US election, recovering from the correction in early August
- Better than expected growth backdrop, improving earnings in 2024, AI theme, expectations of and eventual start of rate cuts have all contributed to the rally
- US equities have risen post the election on expected fiscal stimulus, deregulation
- Bond yields mixed as timing and scale of rate cut expectations initially pushed out before rate cuts finally began
- US yields rose post election on fears of renewed US inflation pressures due to tariffs, fiscal stimulus and wider deficits
- Despite market discounting lower ECB policy rates on softer European growth and inflation, German yields pulled higher by US yields

# Market Returns

## Market performance 2024

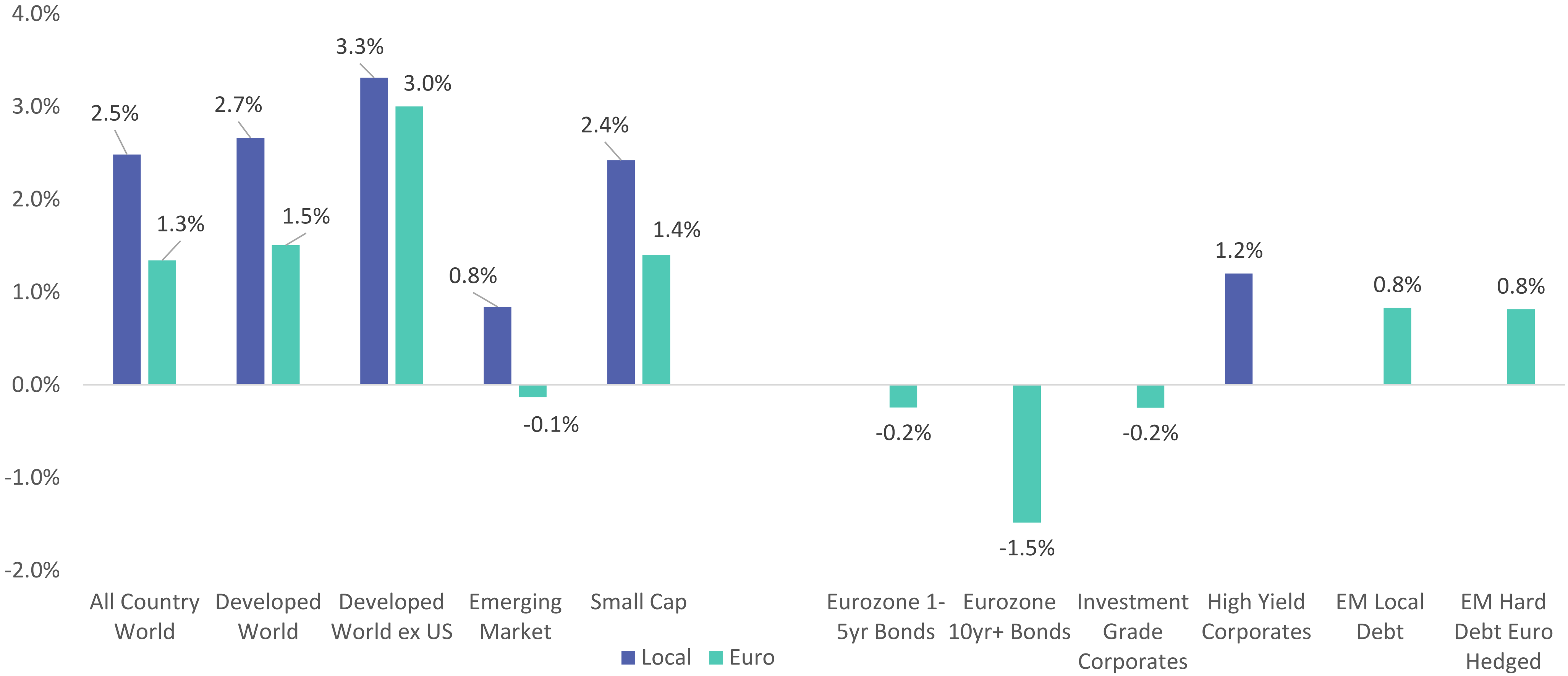



*Source: Bloomberg, 28th January 2025*

- Equities up on the better-than-expected growth backdrop, improving earnings, artificial intelligence (AI) theme, start of rate cutting cycle
- Optimism in the US due to the re-election of Trump and a Republican clean sweep raised expectations around growth-friendly policies
- Fixed income mixed as yields have been volatile although carry has helped offset in some areas where yields rose in 2024

# Market Returns

## Market performance year-to-date to 27th January 2025




- Equities recovered post year end dip to new highs as Trump's initial proposals post inauguration seen as more moderate
- US macro data better; late year selling pressure from pension rebalancing; squaring portfolios; tax related selling
- AI related profit taking start of this week
- Sovereign bond yields higher on better US macro and larger January issuance in US
- Yields off highs on lower US core CPI

*Source: Bloomberg, 28th January 2025*

# Trump 2.0

| Initial Market Reaction ( 5th Nov to 27th Jan) | | | |
|---|---|---|---|
| **US Equity** | +4.6% | **US 10 year** | 4.27% → 4.56% |
| **European Equity** | +4.3% | **Bund 10 year** | 2.43% → 2.54% |
| **Chinese Equity** | -5.0% | **Gold** | -0.3% |
| **US Tech** | -0.3% | **Bitcoin** | +41.7% |
| **US Small Cap** | 1.3% | **EURUSD** | -4.0% |

Initial market reaction to US election:

- **US outperformed** other equity market regions
- **China hit the worst given potential for 60% tariff**
- US yields have risen on potential reflationary impact of Trump policies and wider fiscal deficit
- US small caps initially outperformed but delayed rate cut expectations have contributed to a correction
- Dollar has strengthened as fewer Fed rate cuts expected

## Where to from here?

| Area | Policy Proposed | Considerations |
|---|---|---|
| **Trade** | 60% tariff on Chinese imports<br>10% tariff on all other imported goods | Yet to be seen if these quoted tariffs will be imposed or used as a negotiating tactic. Likely to see additional tariffs in retaliation |
| **Tax** | Extension of Trump 1.0 tax cuts that are due to expire at end of 2025<br>Cut corporate tax to 15% | Corporate tax cut likely given clean sweep but possibly only to 18/19% but seen as positive for US equities |
| **Fed** | Trump has noted he would like to replace Powell | Powell cannot be removed by Trump unless there is "just cause" to do so. Powell will be replaced when his term is up Q226 |
| **Immigration** | Seeking mass deportations and reductions in net immigration | Potential impact on US growth of c.-0.5%, likely to have an inflationary impact. Expected to be more modest |
| **Deregulation** | Early initiatives in energy with Trump generally expected to be more "pro-business" | Deregulation should benefit financials, industrials, tech and energy |

From a market perspective:

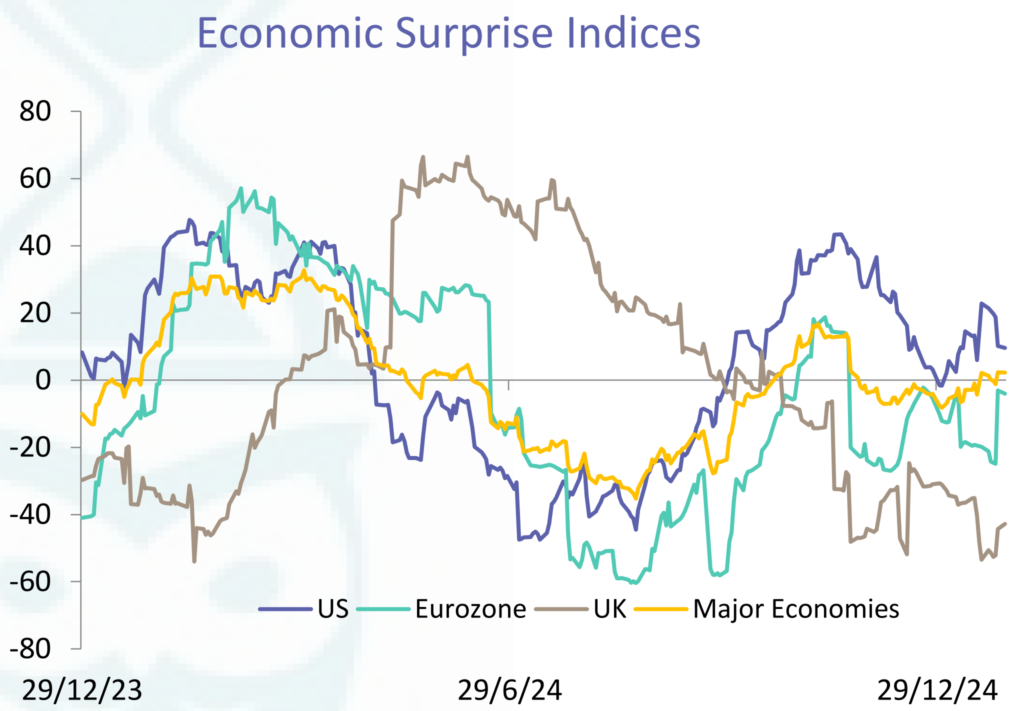
- **Tariffs likely to be a drag on international equity**, particularly Europe and China (estimated to take c.0.3-0.5% off Europe GDP and c.2% off Chinese GDP)
- **Tariffs likely to be inflationary** in the US → implications for Fed policy and potential for higher rates for longer
- **Tax cuts** positive for the US and perceived to **outweigh any negative impact of tariffs on the US**
- **China likely to announce larger stimulus** given Trump win, which could offset some of negative tariff impact

Society of Actuaries in Ireland

# Global Economy

28th January 2025

# Global Growth

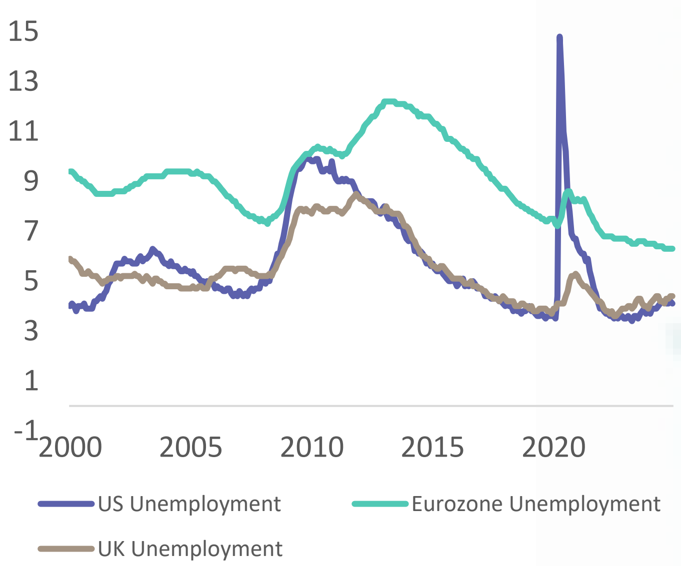




Source: Bloomberg, 28th January 2025

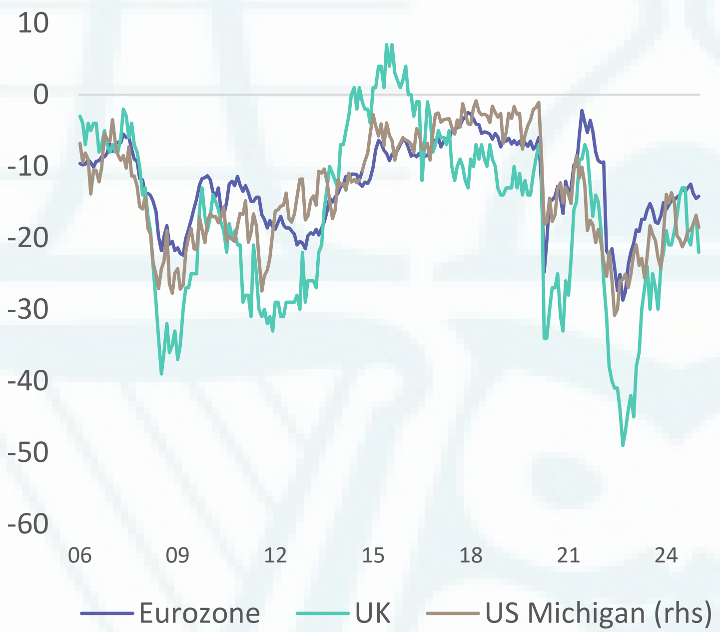
- Global growth surprised positively again in 2024
- Driven mainly by the US economy although Europe and UK also better than expected
- Late summer fears over growth outlook and possible recession following softer data releases
- Growth fears quickly faded as several indicators suggested concerns overdone
- Growth is slowing but looks likely to remain firm
- US election likely to lead to divergence in growth across regions but global growth to remain close to trend

# Growth Indicators

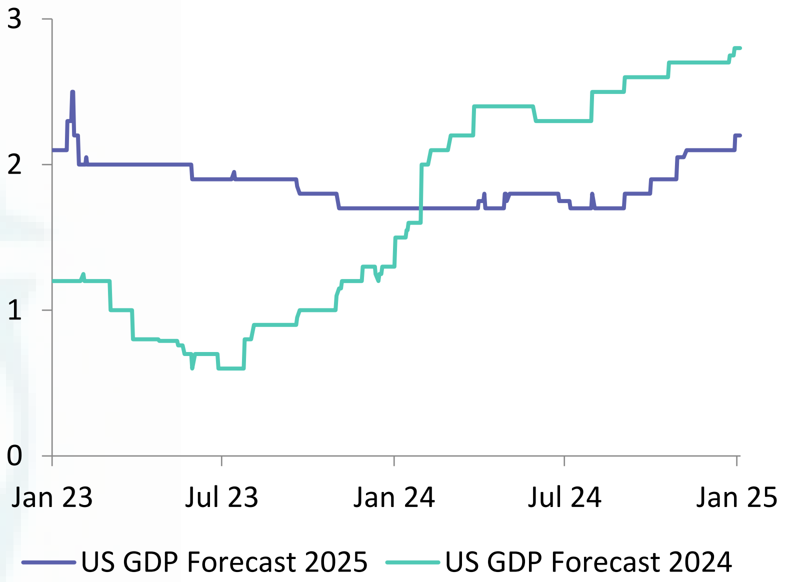
Labour Markets




Consumer Confidence



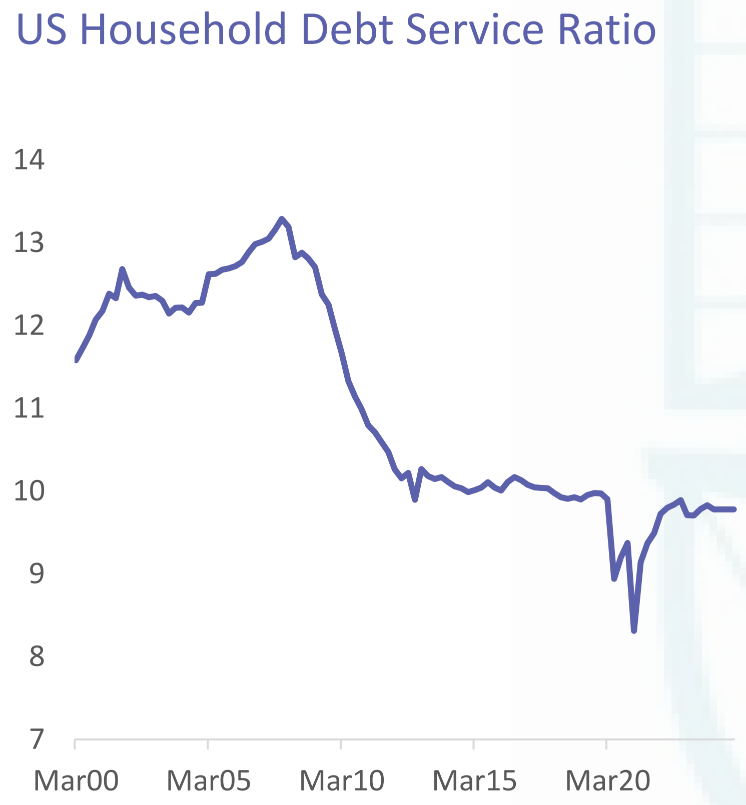

Consensus US GDP Forecasts

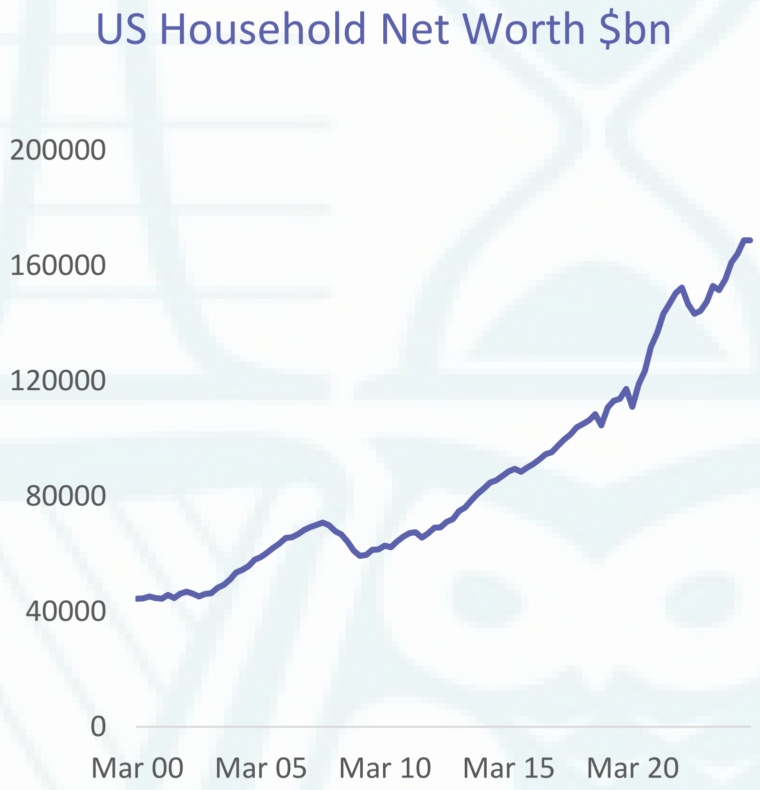


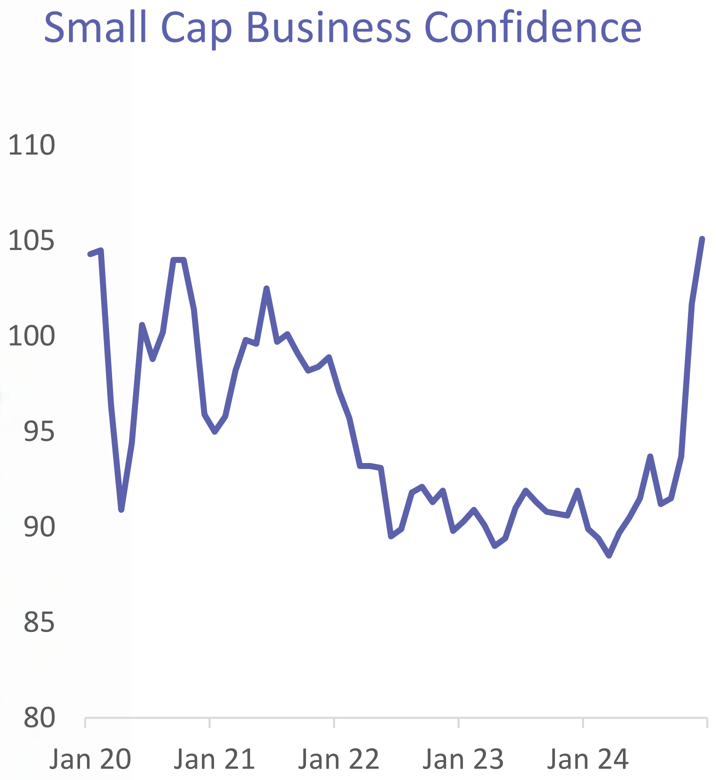

- Global labour markets have been strong
- Consumer confidence has rebounded
- US growth forecasts revised higher for 2024 and 2025 since the election
- European growth has improved although sentiment surveys have stalled

Source: Bloomberg, 28th January 2025

# US Growth Indicators



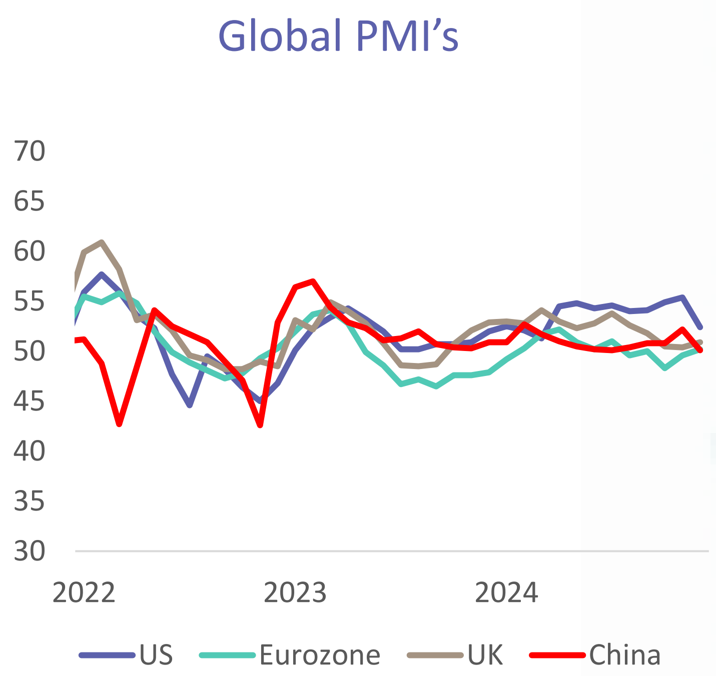



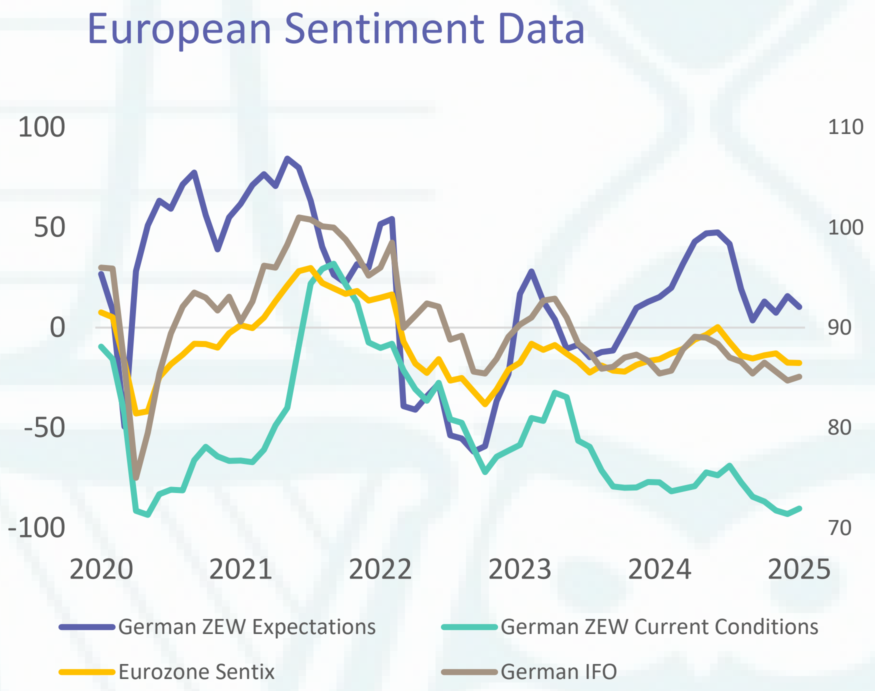



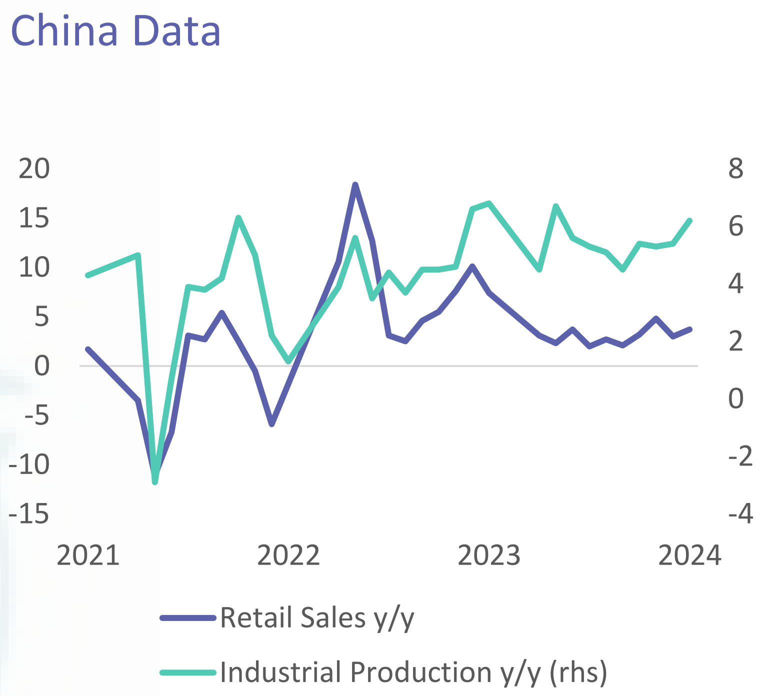

Source: Bloomberg,28th January 2025

- Higher rates have increased debt servicing costs for consumers but only back towards pre Covid levels
- Majority of consumer mortgages on 30 year fixed rate
- Consumer balance sheet strong given strength in equity market and housing
- Small cap business confidence has improved in recent months
- November saw the largest monthly increase in the readings 50 year history

# Growth Indicators




Source: Bloomberg, 28th January 2025

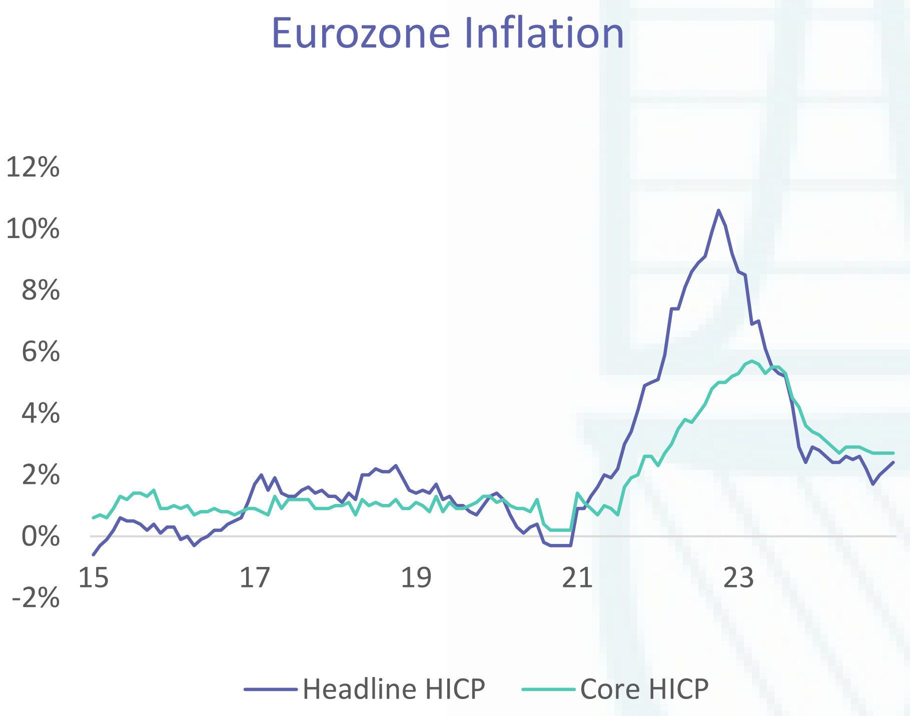
- Global PMI's drifted through 2023 but have recovered
- Some recent softness in manufacturing
- Services sector however remains strong and composite PMI's consistent with global growth of 2.9%
- European activity and sentiment improved in H1. Sentiment surveys however have weakened again
- Chinese growth had begun to stabilise but softened post Q1
- Authorities in China are committed to achieving growth of around 5% and have announced stimulus measures to boost economy and have been reflected in better activity data

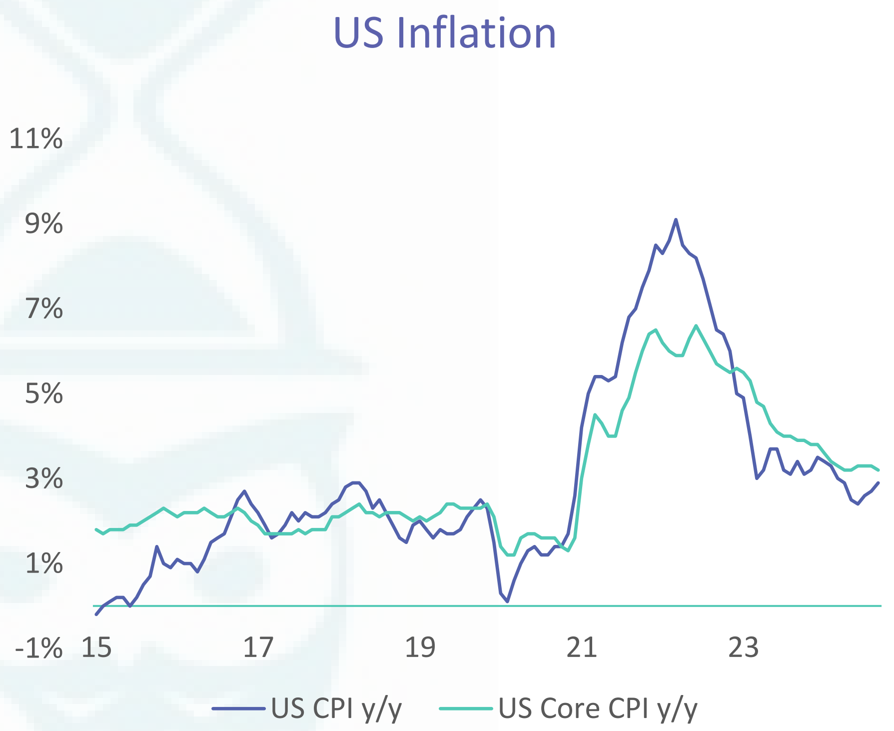
Society of Actuaries in Ireland

# Inflation and Central Banks

28th January 2025

# Inflation

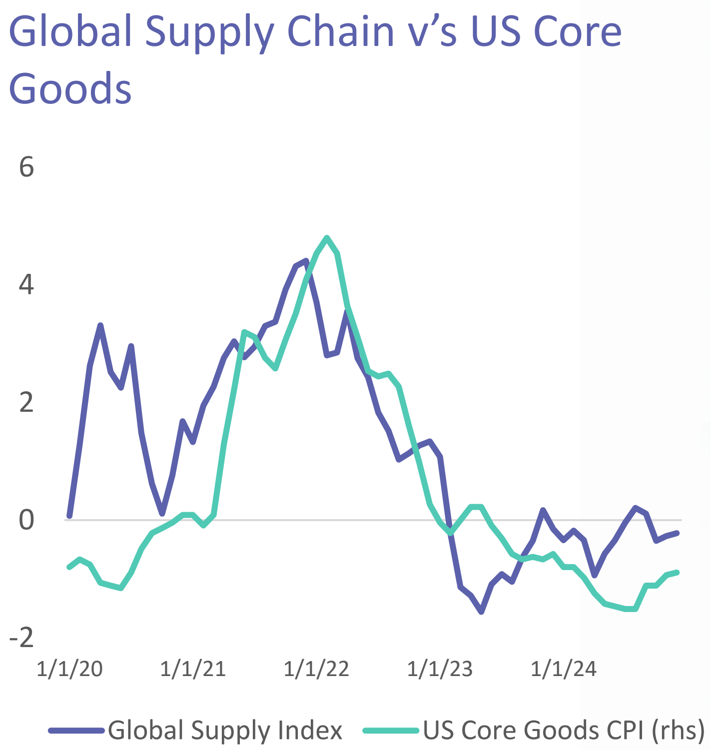


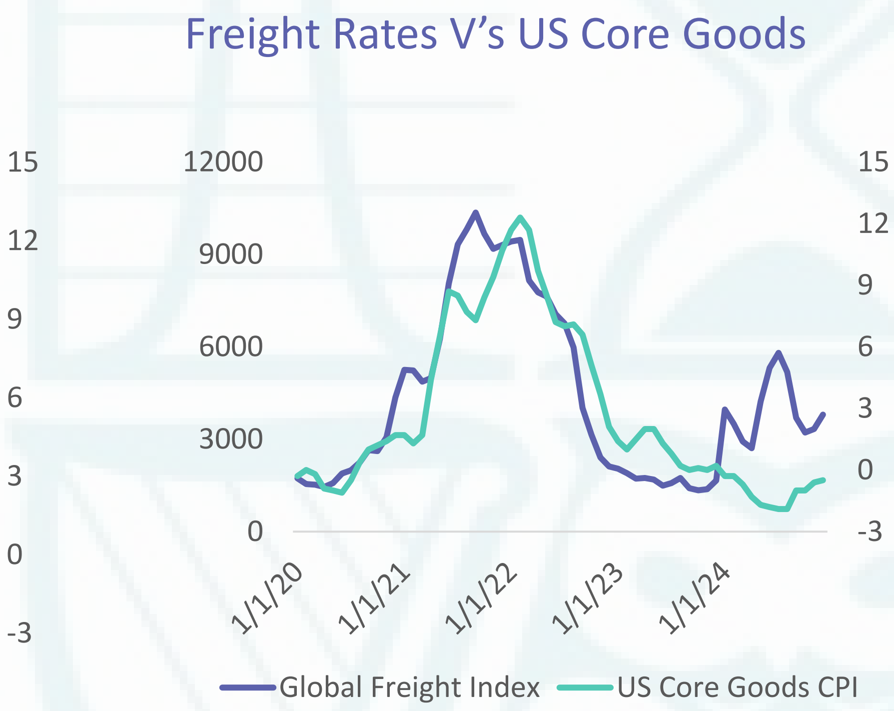




- Inflation peaked in 2022
- Pace of moderation in 2023 was initially slower than expected, particularly for core
- Increasing progress on disinflation evident in H2 2023
- Inflation had been sticky again in early 2024
- Disinflation has again been evident in H2
- Further falls in inflation expected through 2025
- Tariffs could put upward pressure on US inflation and elsewhere if retaliatory measures announced

Source: Bloomberg, 28th January 2025

# Easing Inflation Pressures



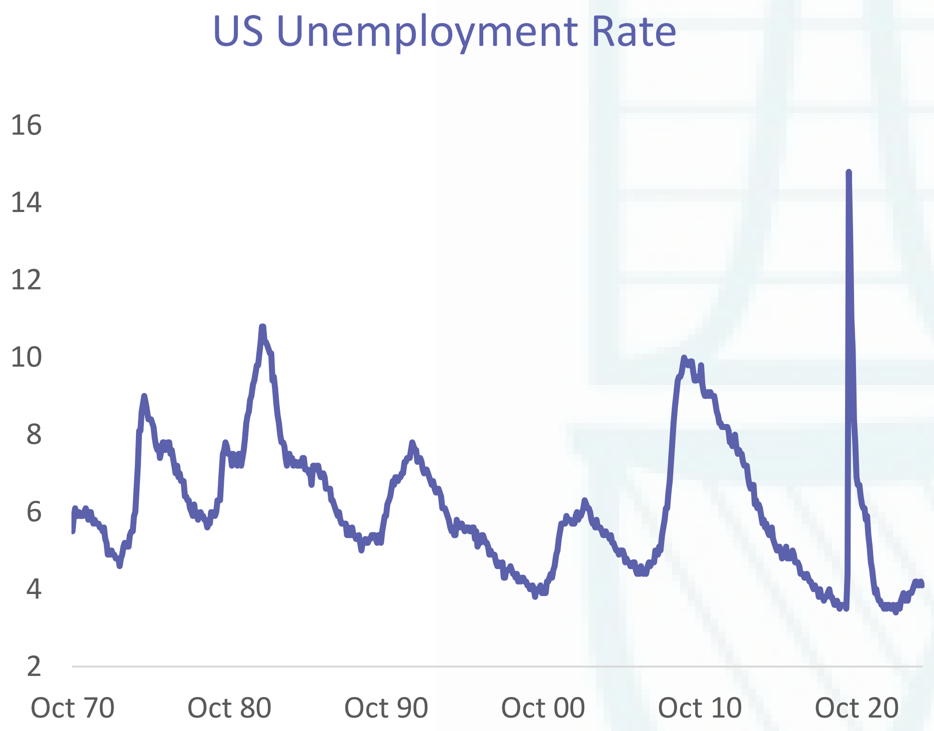





- Supply chain bottlenecks have eased compared to Covid levels
- Some pressures on shipping freight rates and supply chains post issues in the Red Sea but are easing
- Energy prices have fallen
- China is exporting disinflation
- Depending on timing and magnitude of US policies, could see some upward pressure on US inflation in 2025

Source: Bloomberg, 28th January 2025

# Inflation

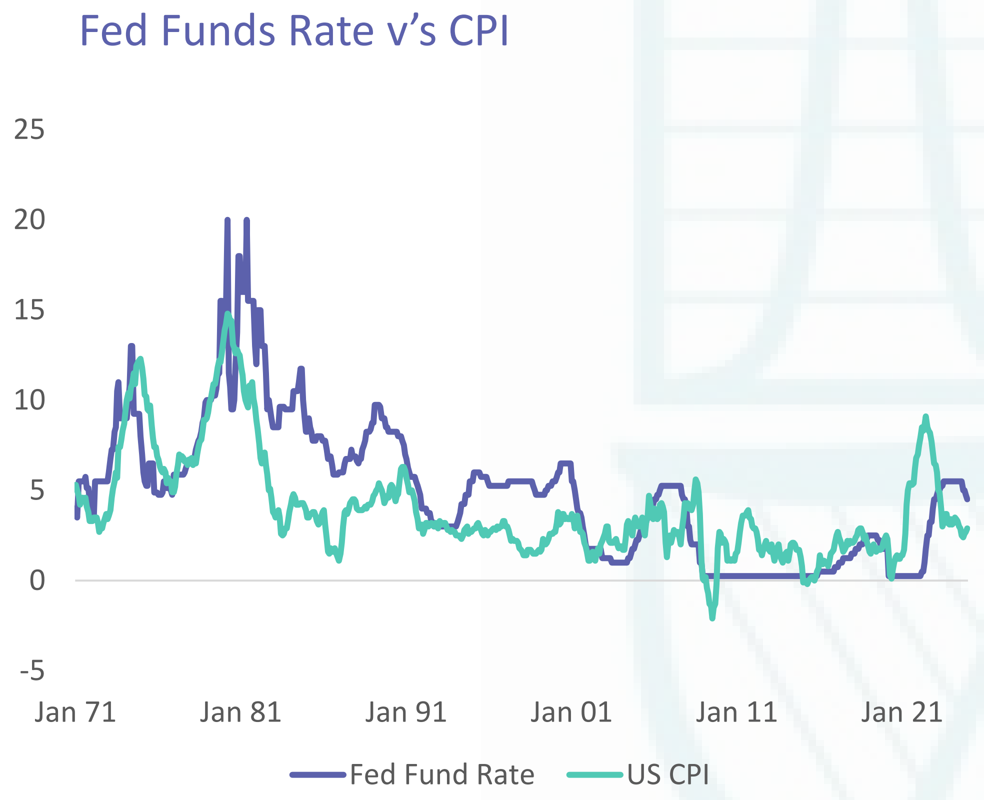


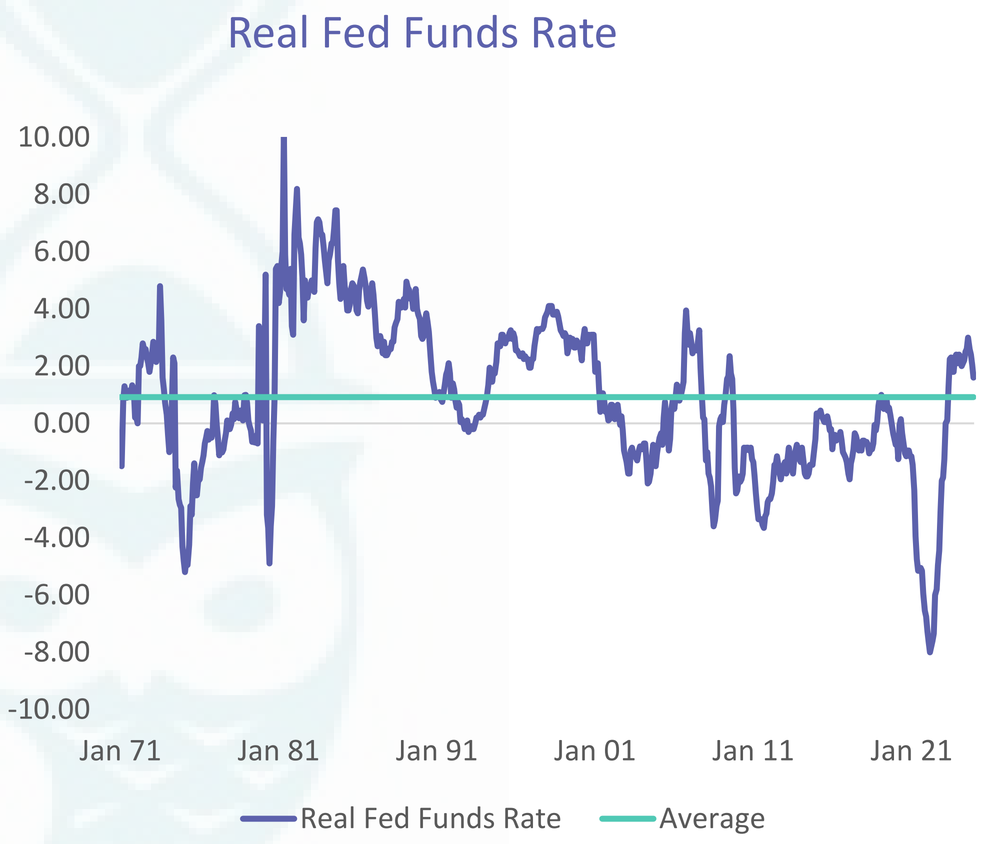


Source: Bloomberg, 28th January 2025

- Labour markets are tight but showing some signs of easing
- US unemployment remains relatively low but rose 0.9% to a high of 4.3%
- Wage pressure remains higher than levels consistent with 2% inflation target but beginning to ease

# Fed Funds Rate and US CPI

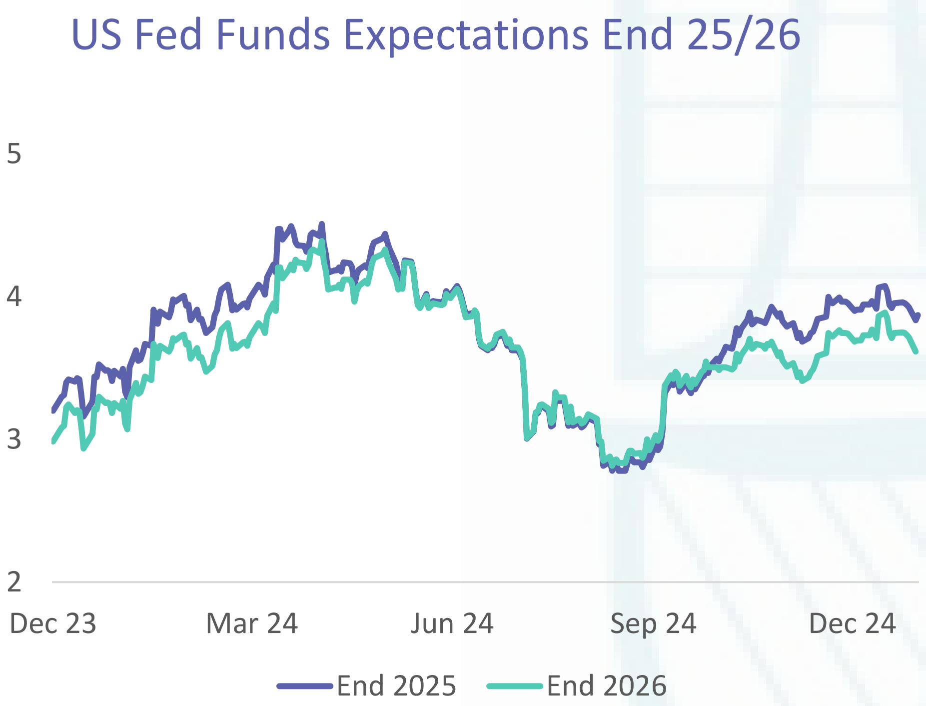


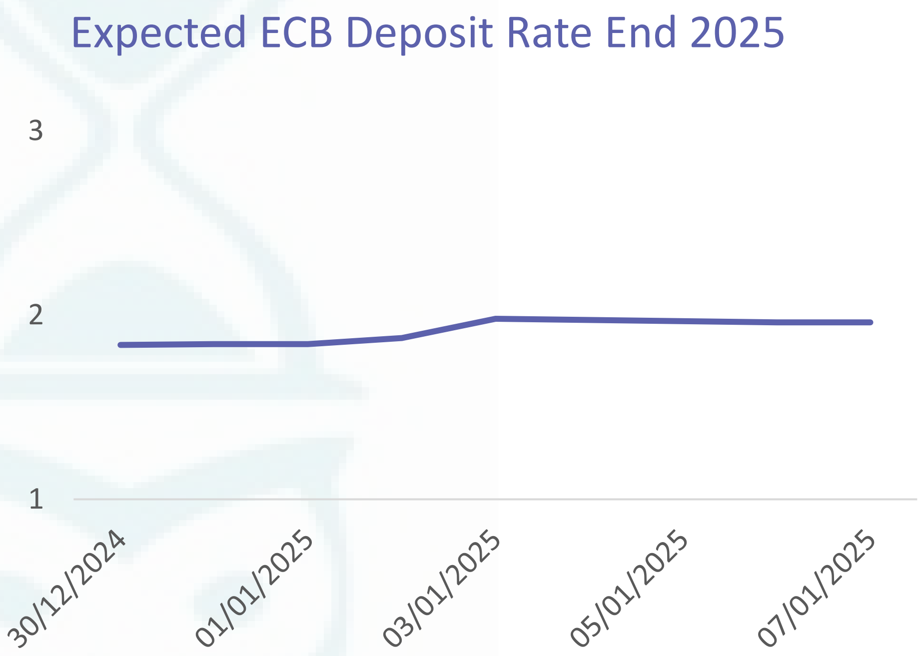




- Inflation rose to the highest in 40 years
- Fed and other central banks needed to address and bring down inflation
- Fed funds now at 4.25/4.50% although real rate is still relatively high
- Fed has suggested policy is restrictive and further cuts to come

Source: Bloomberg 28th January 2025

# Central Banks




Source: Bloomberg, 28th January 2025

- Fed has cut by 100bps
- Investors expecting a further 25/50bps cuts in 2025; additional 25bps cut in 26
- Number of expected rate cuts has fallen given better macro backdrop and election outcome
- ECB has also cut by 100bps
- Another 100bps ECB cut expected in 2025 for a total of 200bps by end 2025

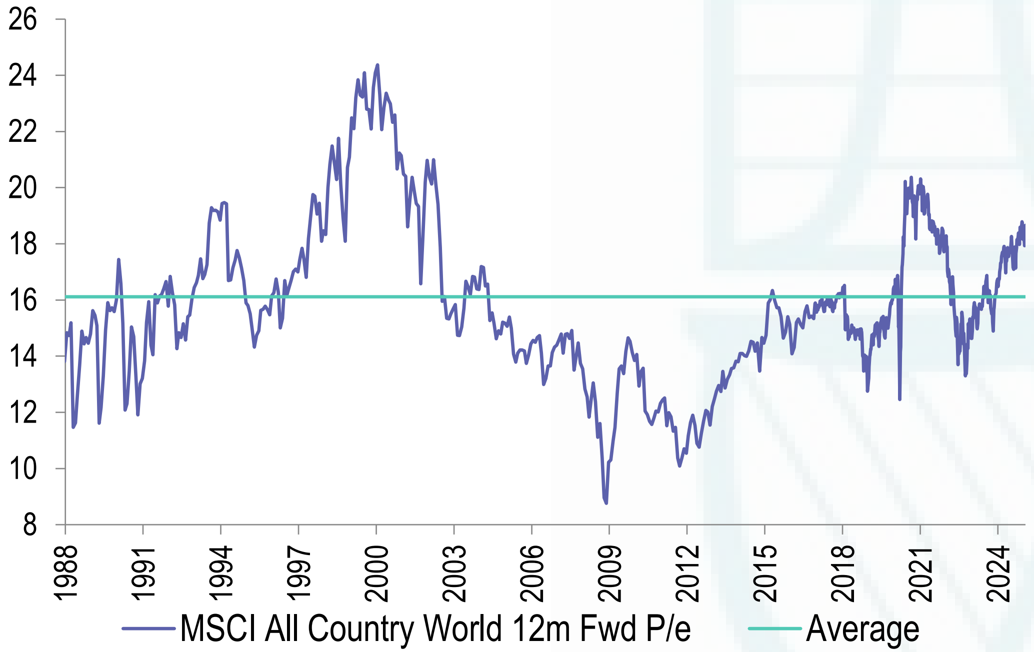
Society of Actuaries in Ireland

# Equity Markets

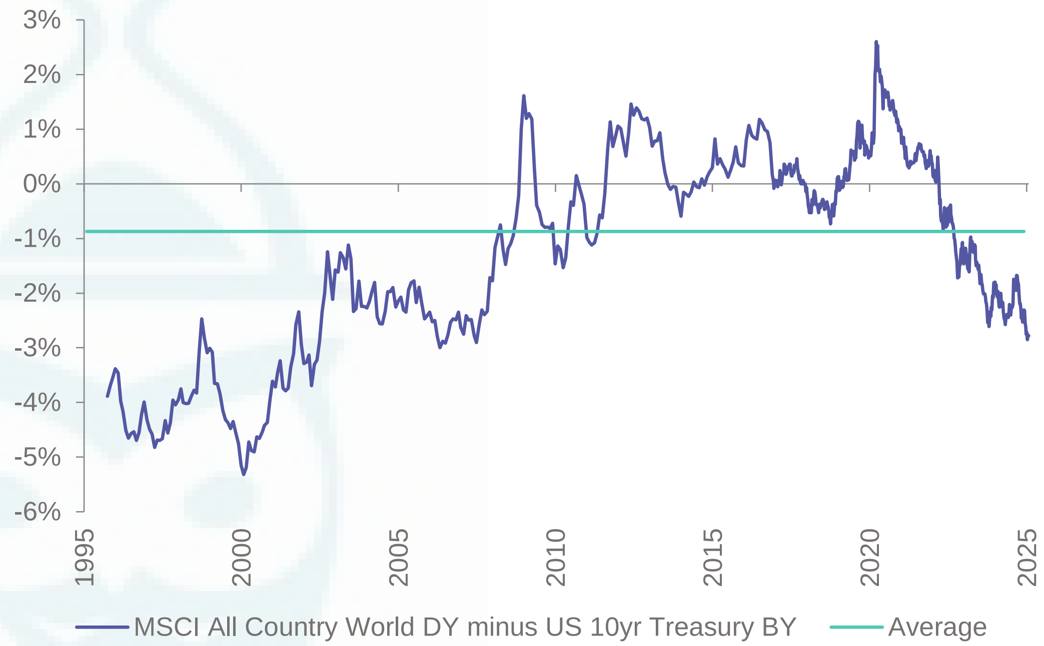
28th January 2025

# Equity Market Valuations

MSCI All Country World 12 month Forward P/E




MSCI All Country World Yield Gap vs. US 10 Year Yield

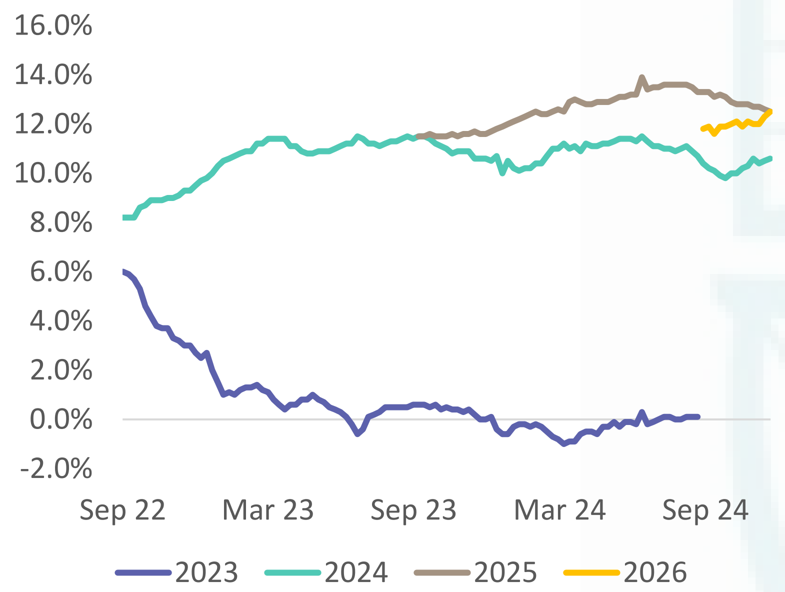



*Source: Bloomberg 28th January 2025*

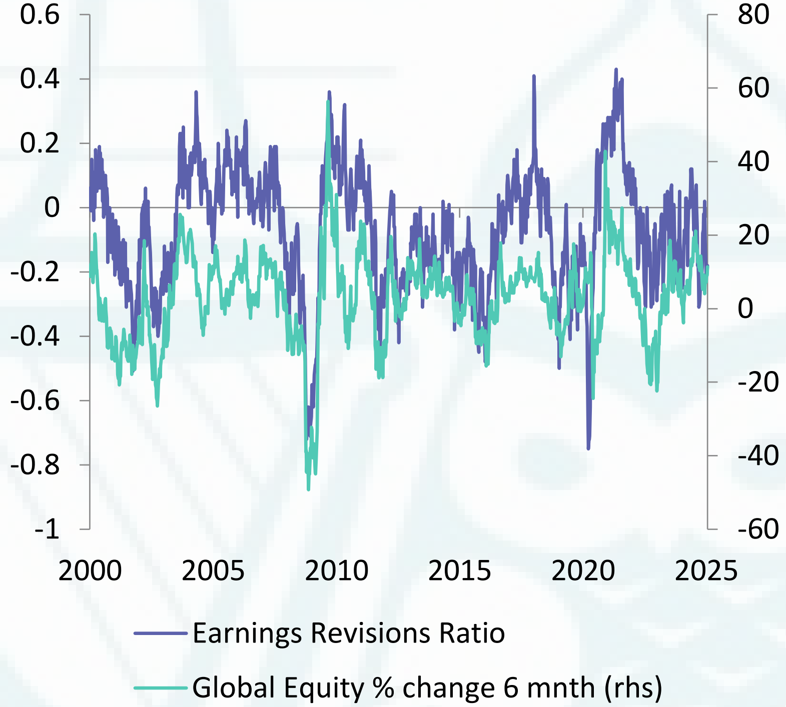
- Equity P/E multiple at 18.5x is above the long term average of 16.1x
- Post the rise in bond yields over the last few years, equities are no longer cheap against bonds
- Equities can be supported by a soft landing and the avoidance of a recession
- Positive economic and earnings growth can contribute to further gains in equities
- Institutional investor equity positioning lightened into year end

# Equities

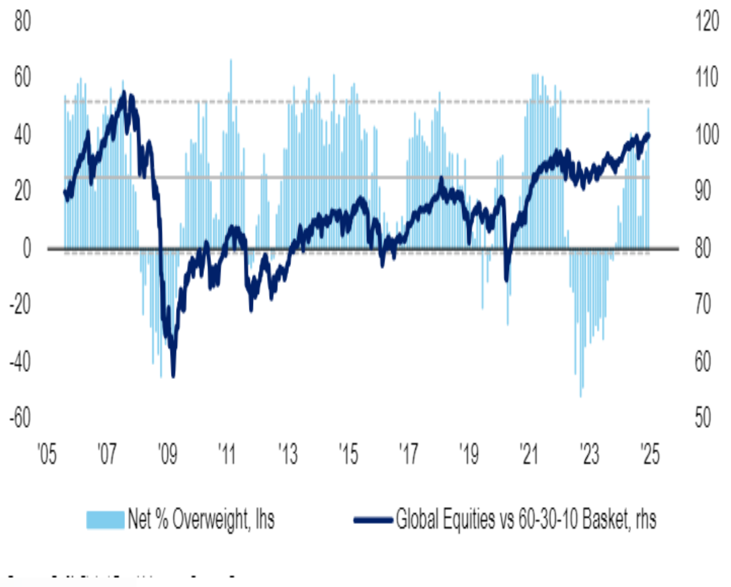
## Global Earnings Forecasts 2023 to 26




## Global Earnings Revisions Ratio



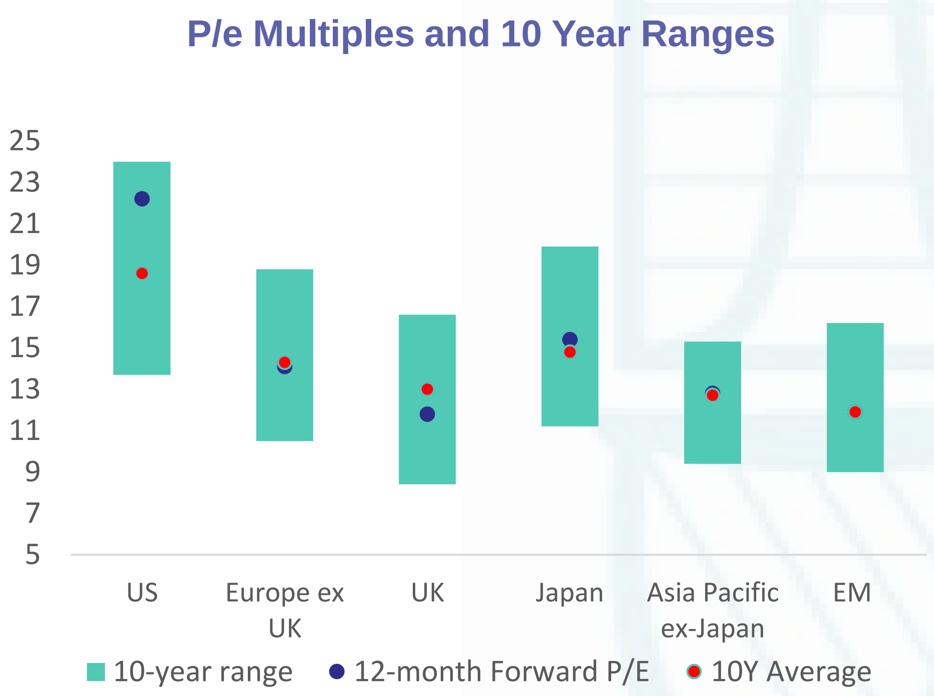

## Investor Equity Weights

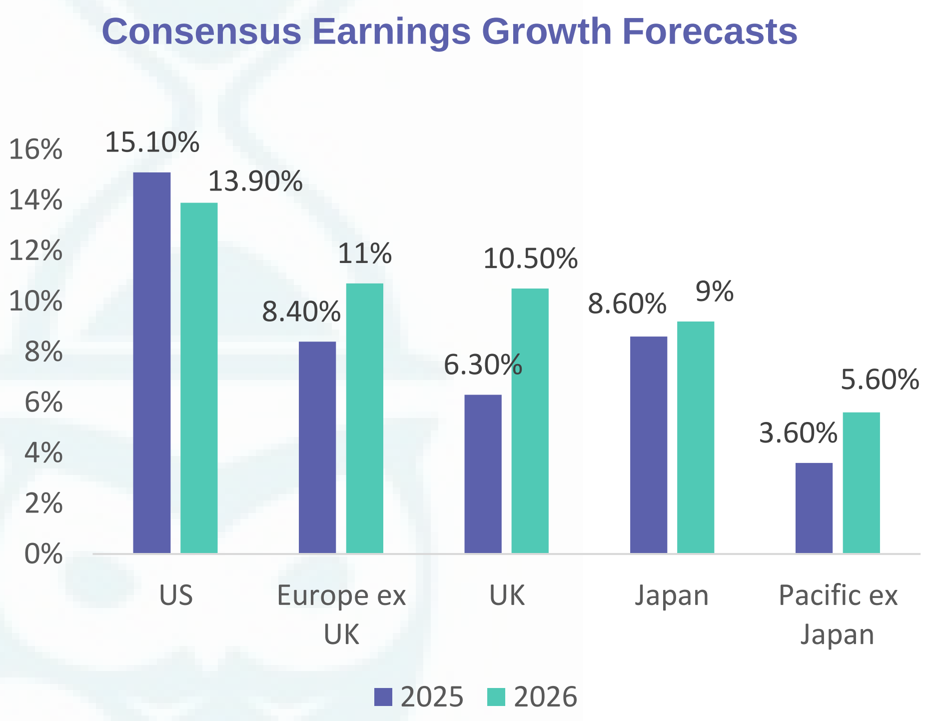



Source: Bloomberg/BofA ML, 28th January 2025

- Global earnings are set to remain strong in 2025 and 2026
- Earnings revisions ratio has improved but dipped into results season as usually occurs
- Investors have increased equity weights but recent surveys suggest lightened into year end

# Regional Equity Market Earnings/Valuations




*Source: Bloomberg 28th January 2025*

> US is relatively expensive in absolute terms and versus its own history
> Continuation of US exceptionalism theme can allow US to keep performing
> Better growth backdrop, profitability, earnings growth, sector mix supportive of US
> US earnings growth expected to outperform coming years

# S&P Post Start of Rate Cutting Cycle

### Rate Cuts Without Recession

| First Rate Cut | 3 months after | 6 months after | 12 months after |
|---|---|---|---|
| Oct-84 | 2.3 | 12.9 | 17.5 |
| Jun-89 | 10.4 | 10.4 | 17.8 |
| Jul-95 | 5.8 | 12.6 | 21.4 |
| Sept-98 | 17.8 | 25.7 | 23.9 |
| **Average** | **9.1** | **15.4** | **20.2** |

### Rate Cuts With Recession

| First Rate Cut | 3 months after | 6 months after | 12 months after |
|---|---|---|---|
| Feb-70 | -20.7 | -7.4 | 12.6 |
| Jul-74 | -25.4 | -18.2 | 15.7 |
| Jun 81 | -8.9 | -4.8 | -12.8 |
| Jan-01 | -13.7 | -8.6 | -12.4 |
| Sep-07 | -3.7 | -11.4 | -18.8 |
| Jul-19 | 2.4 | 9.3 | 11.9 |
| **Average** | **-11.7** | **-6.9** | **-0.6** |

- Economic backdrop is key to the equity market performance post the start of a rate cutting cycle
- If a recession is avoided, the equity market typically performs well when rates are cut
- Positive growth, falling inflation and lower rates should support equity markets over next 12 months

*Source: Bloomberg 28th January 2025*

# Tech Leading But Broadening Evident

## US Sector Performance Since End 2023

| Sector | Performance YTD |
|---|---|
| **S&P** | **26.0%** |
| Communications | 46.2% |
| Financials | 36.5% |
| Technology | 30.3% |
| Consumer Discretionary | 34.1% |
| Utilities | 22.6% |
| Industrials | 22.2% |
| Consumer Staples | 15.1% |
| Health Care | 8.0% |
| Energy | 7.7% |
| Real Estate | 4.9% |
| Materials | 3.9% |

## US Equal Weighted v's S&P


- Tech sector and large cap still outperforming and key contributor to market rise
- Performance has broadened out across sectors
- DeepSeek news caused correction in AI trades but not the end of AI story

Source: Bloomberg, 28th January 2025

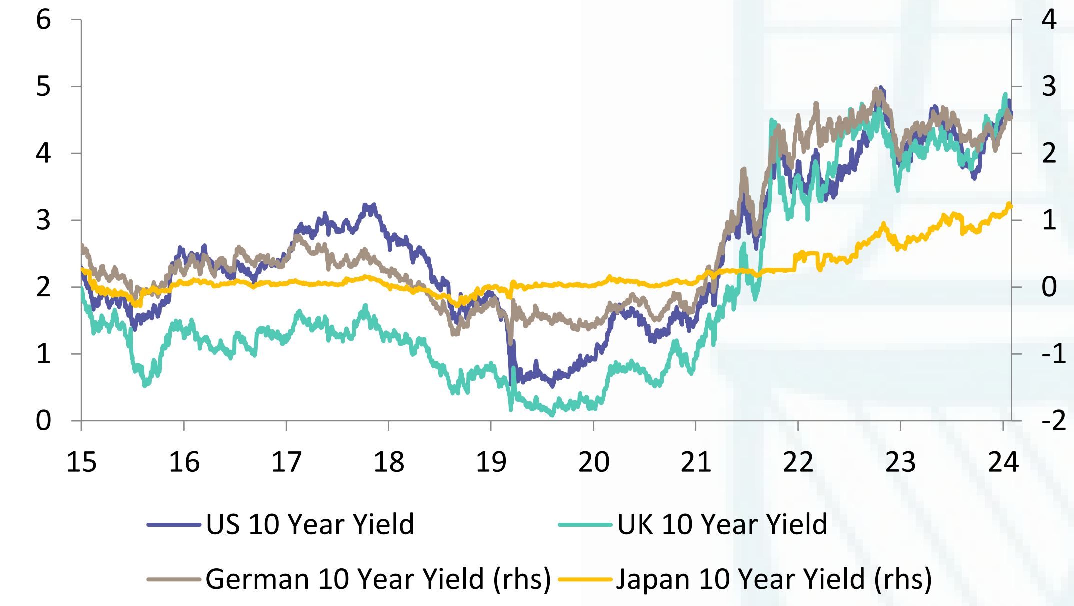
Society of Actuaries in Ireland

# Fixed Income

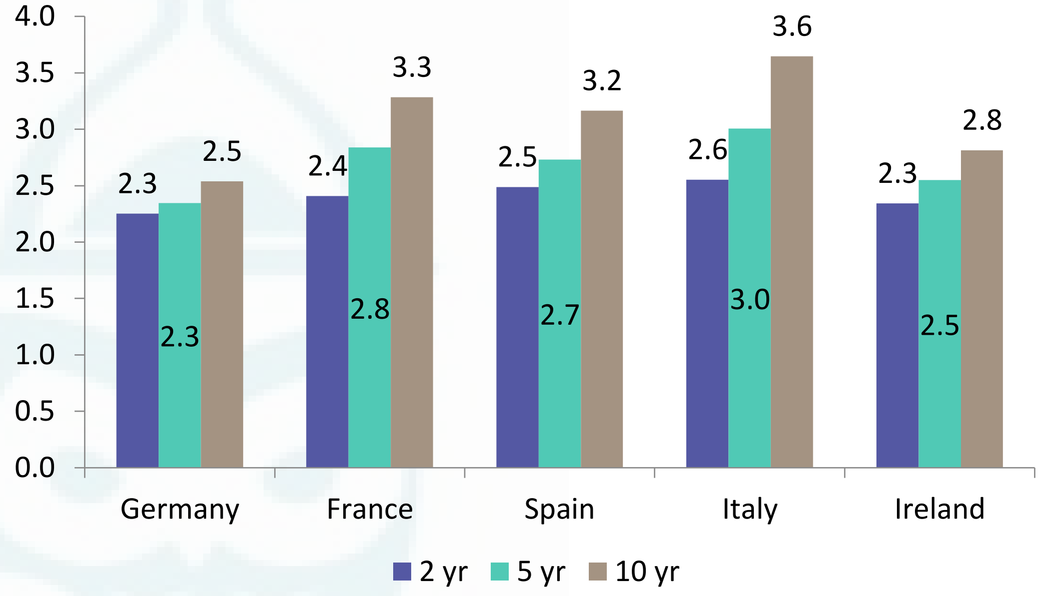
28th January 2025

# Global Bond Yields

## Global 10 Year Yields




## Eurozone Bond Yields




Source: Bloomberg, 28th January 2025

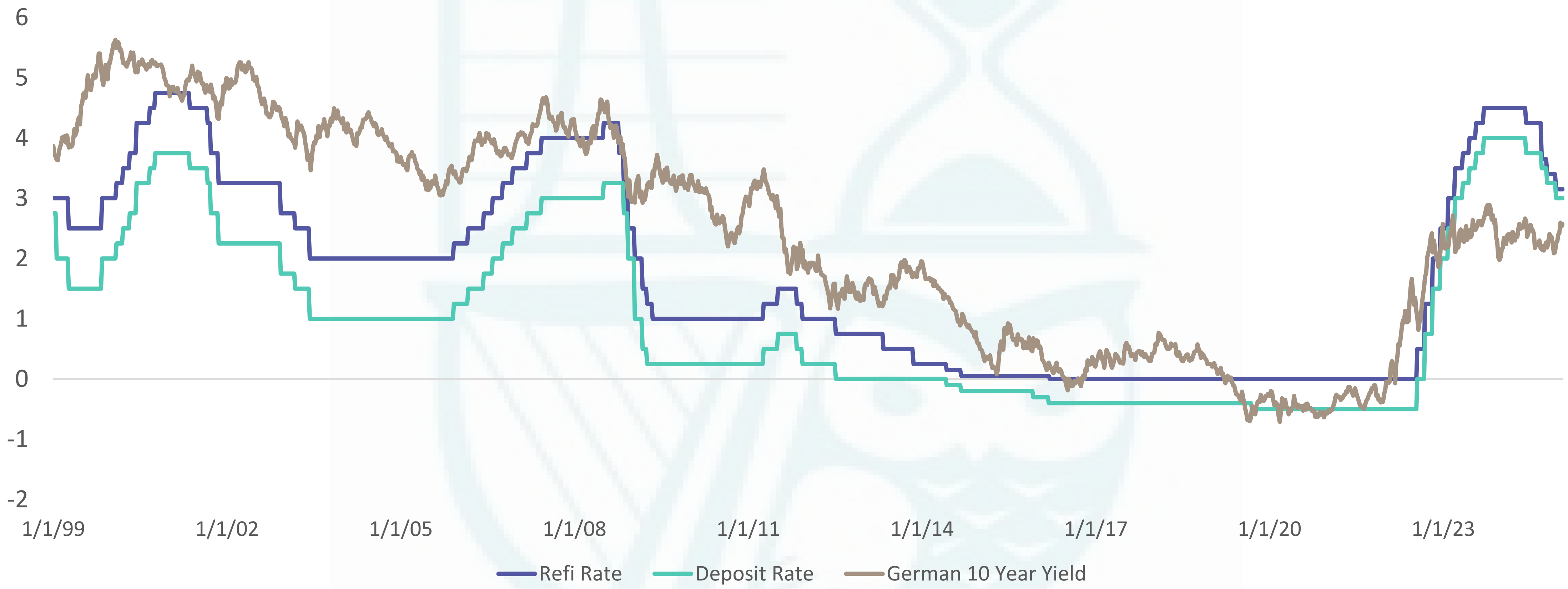
- Yields have risen over the last 3 years on inflation concerns, central bank tightening
- Inflation and policy rates have peaked
- Continued disinflation and the start of rate cutting cycles have contributed to falls in yields from their highs
- Further falls in yields expected as policy rates are still cut and disinflation continues

# US 10 Year Yield v's Fed Funds


Source: Bloomberg 28th January 2025

- US 10 year yield has historically peaked around the same time as the peak for the Fed funds rate
- Fed has started cutting rates
- Expect yields to be lower in 12 months time

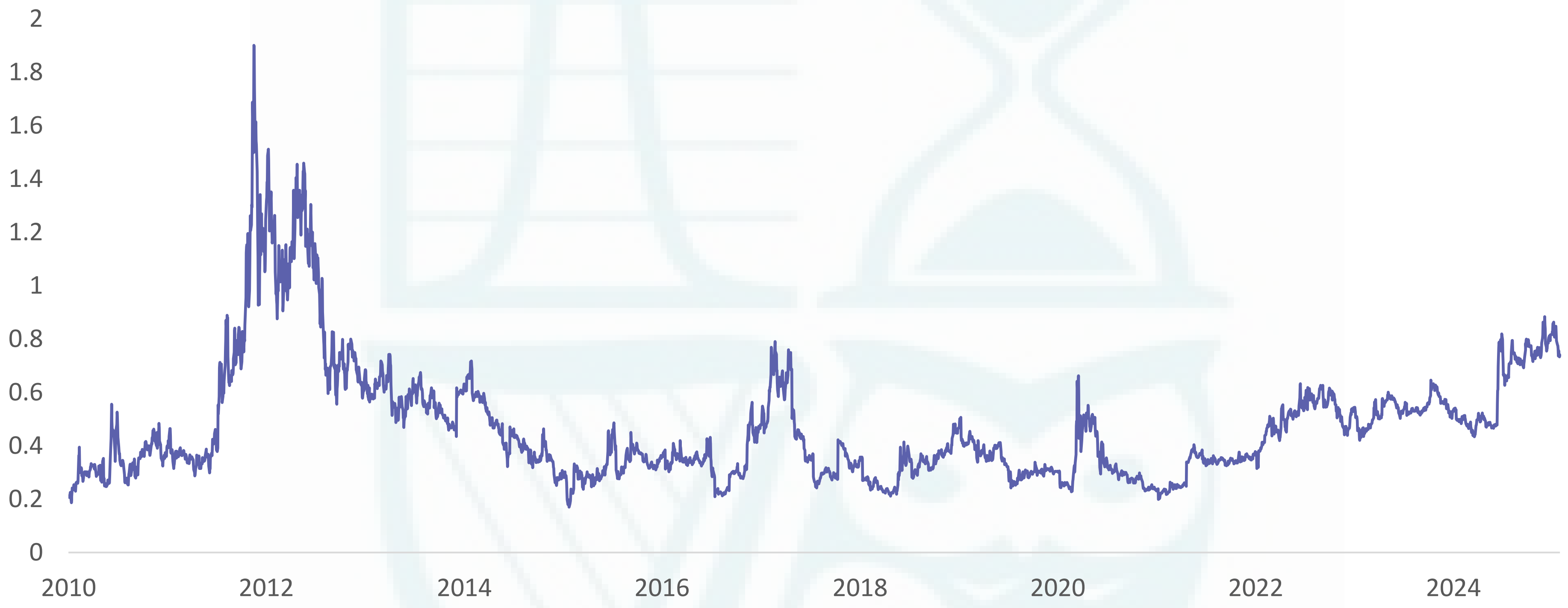
# German 10 Year Yield and ECB Rates




> German 10 year yield sensitive to ECB rates
> Rise in rate expectations and actual hikes were reflected in higher German yields
> ECB has started to cut rates
> German 10 year yield expected to be lower in 12 months time

Source: Bloomberg 28th January 2025

# French 10 Year Spreads

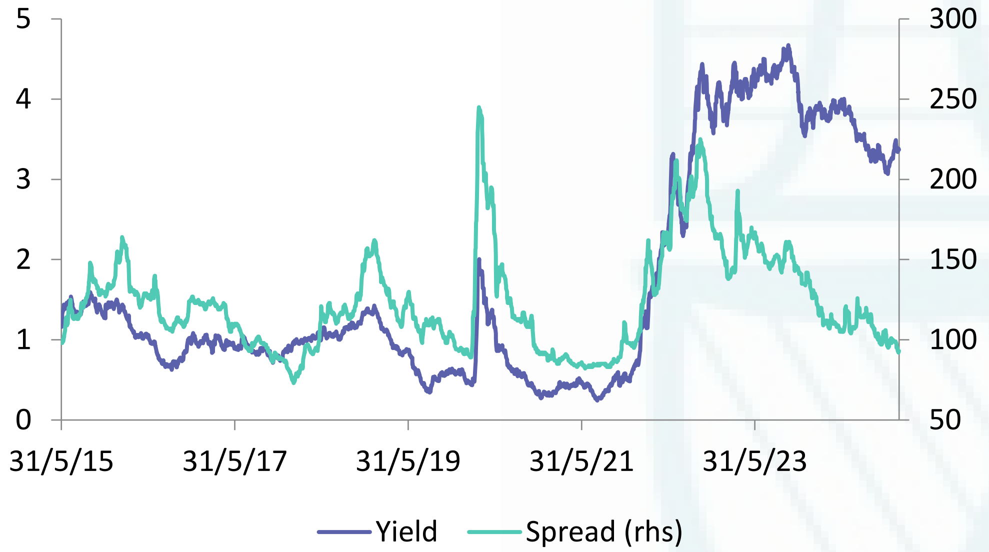



- French spreads widened on fears of fiscal slippage post calling of surprise election
- Result has reduced chance of fiscal position deteriorating significantly
- PM Barnier failed to pass budget with target reduction of 1% in deficit to 5%
- New PM Bayrou has proposed deficit of 5.5% with better chance of passing
- Passing of budget could lead to modest narrowing of spreads
- Spreads could widen to highs on failure to pass budget

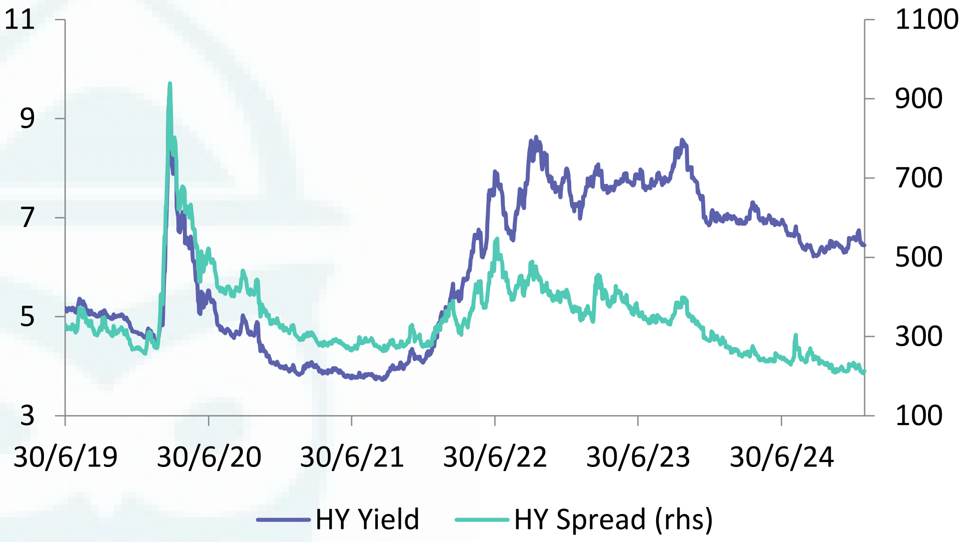
Source: Bloomberg 28th January 2025

# Fixed Income Markets

Eurozone IG Corporate Bonds



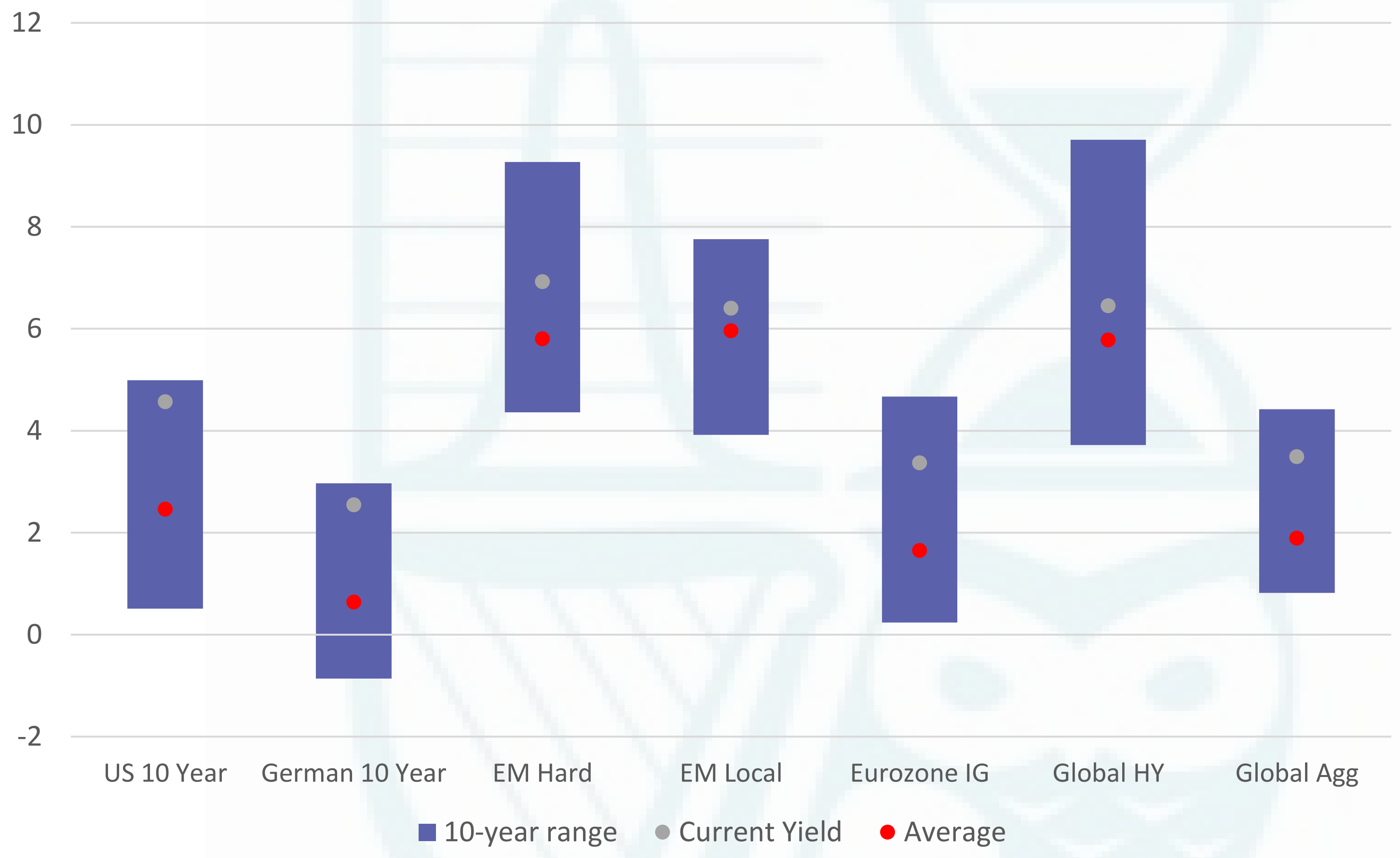

Global High Yield Bonds




- IG bonds represent value on a yield basis at 3.4% although spreads have narrowed to 93bps
- High yield bonds offer attractive yield of 6.4% but spreads are narrow at 213bps

Source: Bloomberg, 28th January 2025

# Global Bond Yields Last 10 Years




Source: Bloomberg 28th January 2025

- Global bond yields generally in the upper half of 10 year ranges
- While off their cycle highs, yields are still attractive and generally above 10 year average levels
- Bonds provide reasonable carry with the potential for capital gains

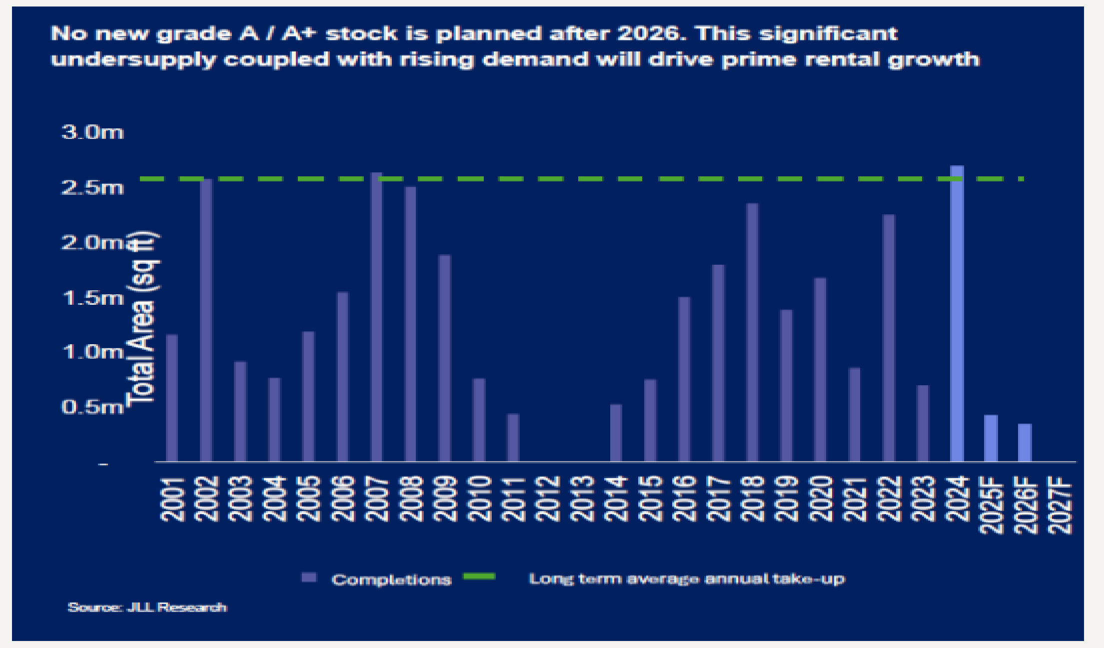
Society of Actuaries in Ireland

# Property

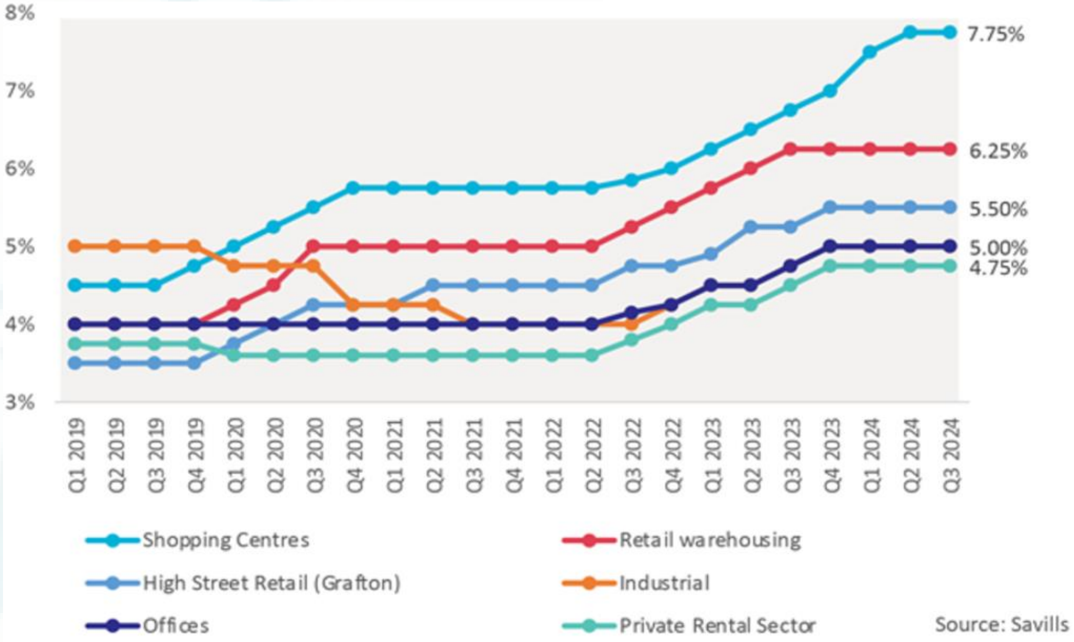
28th January 2025

# Property

Dublin Grade A Office Supply




Irish Property Yields




Source: JLL/Savills, 24th January 2025

> Potential bottoming following challenging few years for property sector
> Have seen significant valuation adjustment
> Interest rate cuts supportive
> Investor activity and interest levels improving
> Demand/supply balance improving in some sub sectors such as residential and industrial
> Bifurcation evident in office sector
> Europe offers attractive yield and rental growth linked to inflation

# Summary

Equities have rallied on hopes for a soft landing. If growth remains positive, inflation continues to fall and interest rates are cut, then equities can move higher. Trump policies boost US growth

Inflation slowing and moving towards central bank targets. Falling inflation and rate cuts expected to result in lower bond yields despite tariffs

Central banks believe inflation will continue to fall and further rate cuts are anticipated

While equities appear fully valued, a positive economic and earnings growth backdrop in 2025/26 provides room for upside. AI theme can support higher than normal valuation multiples. US election could lead to divergences in growth and earnings outlook across regions

Risks ?

- Growth/inflation
- Restrictive policies
- Geopolitics
- Grow into valuations

# Thank You

Society of Actuaries in Ireland

# Ian Slattery

Head of Investment Solutions with Zurich

ZURICH

# Maintaining Perspective

## A fascinating year ahead

## Investment Outlook 2025

28 January 2025

Society of Actuaries in Ireland

# Investment Outlook 2025

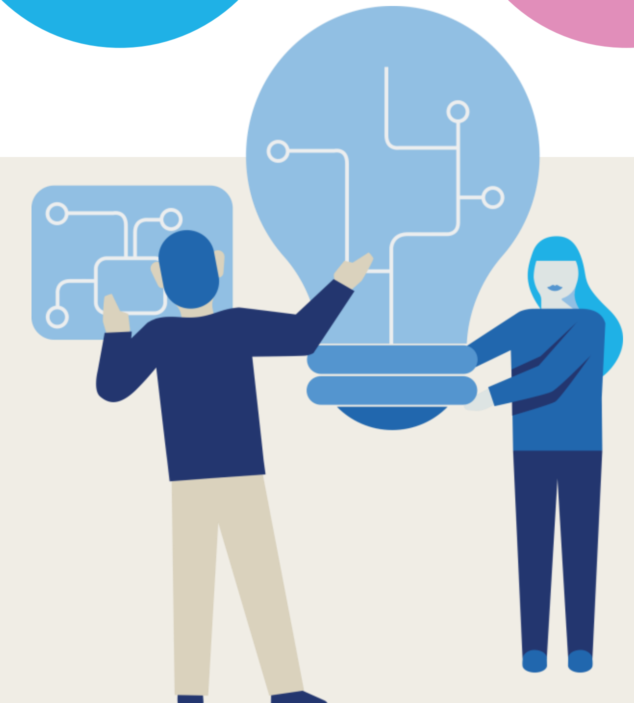

 

# Outlook Summary

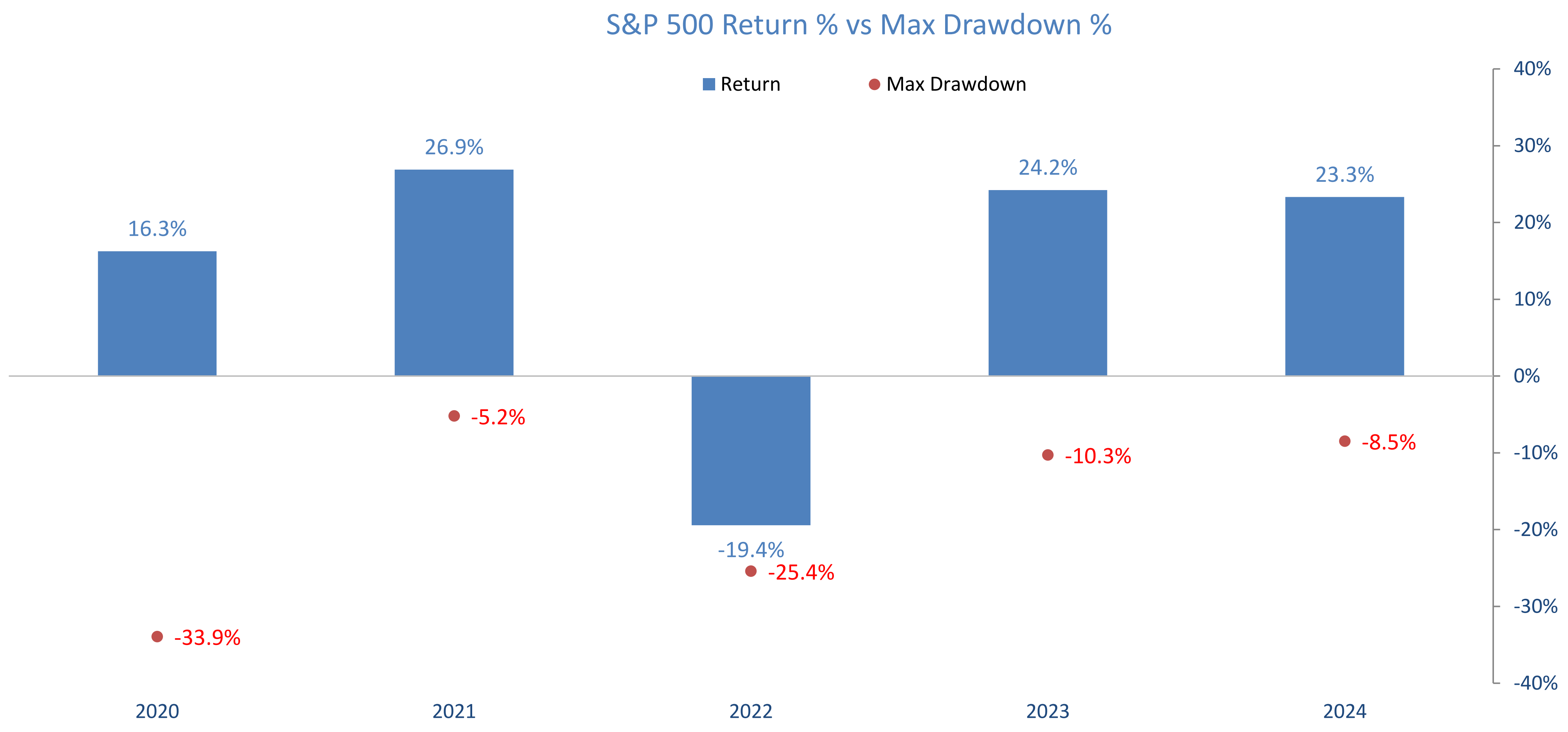
- Our asset allocation positioning in multi-asset funds remains balanced
- We're expressing a positive equity market direction within our funds but with other levers of risk/return having greater weights than previously
- 2025 likely to see a tug-of-war between high earnings' expectations, premium valuations in certain areas, investor positioning and policy change

# In the last remarkable five years we've seen…

- A once in a lifetime pandemic
- Wars
- Supply chain breaks
- Double-digit Inflation
- Rapid Central Bank tightening

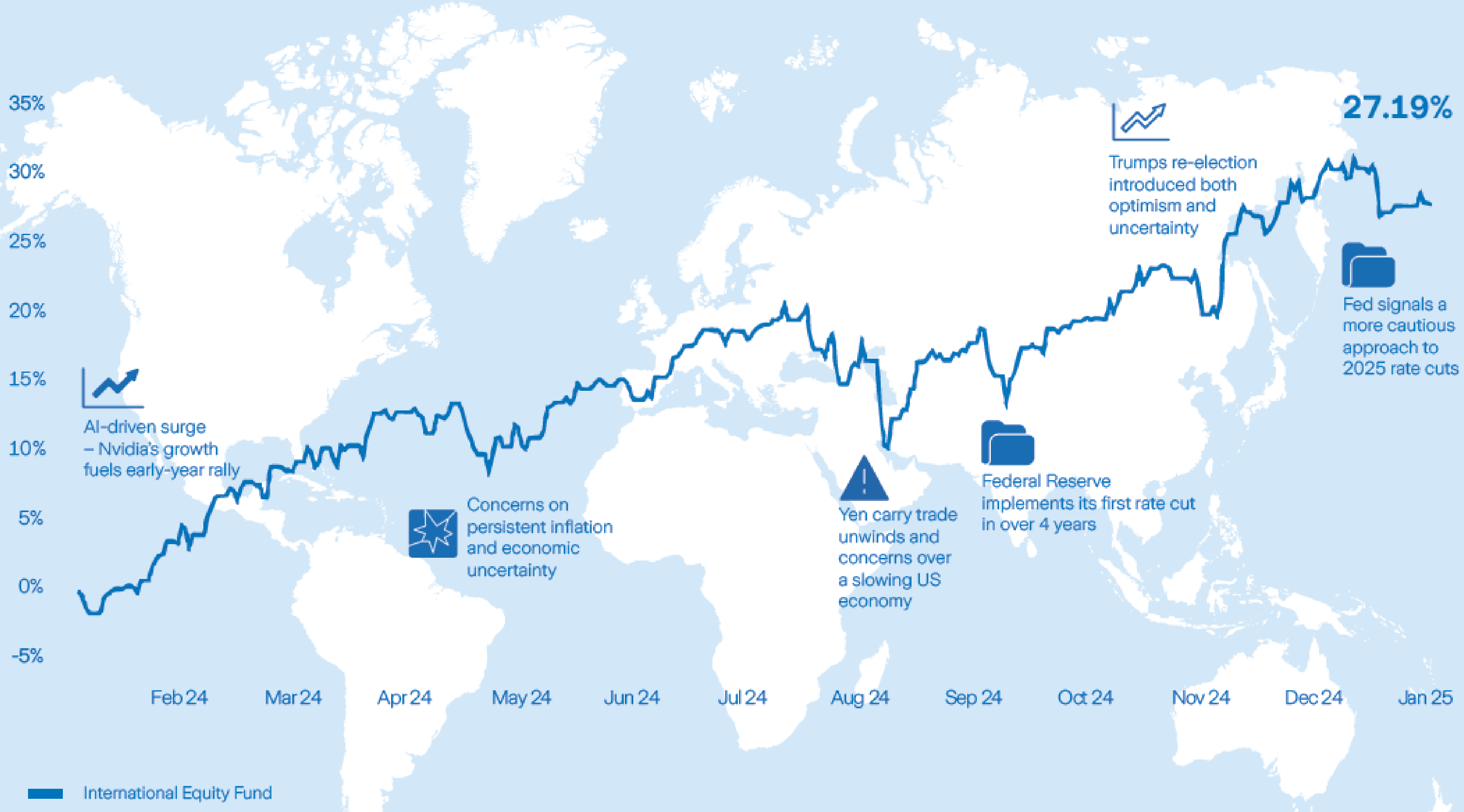


# Past 5 years S&P Returns & Drawdowns




Source: S&P Global

# World review of 2024



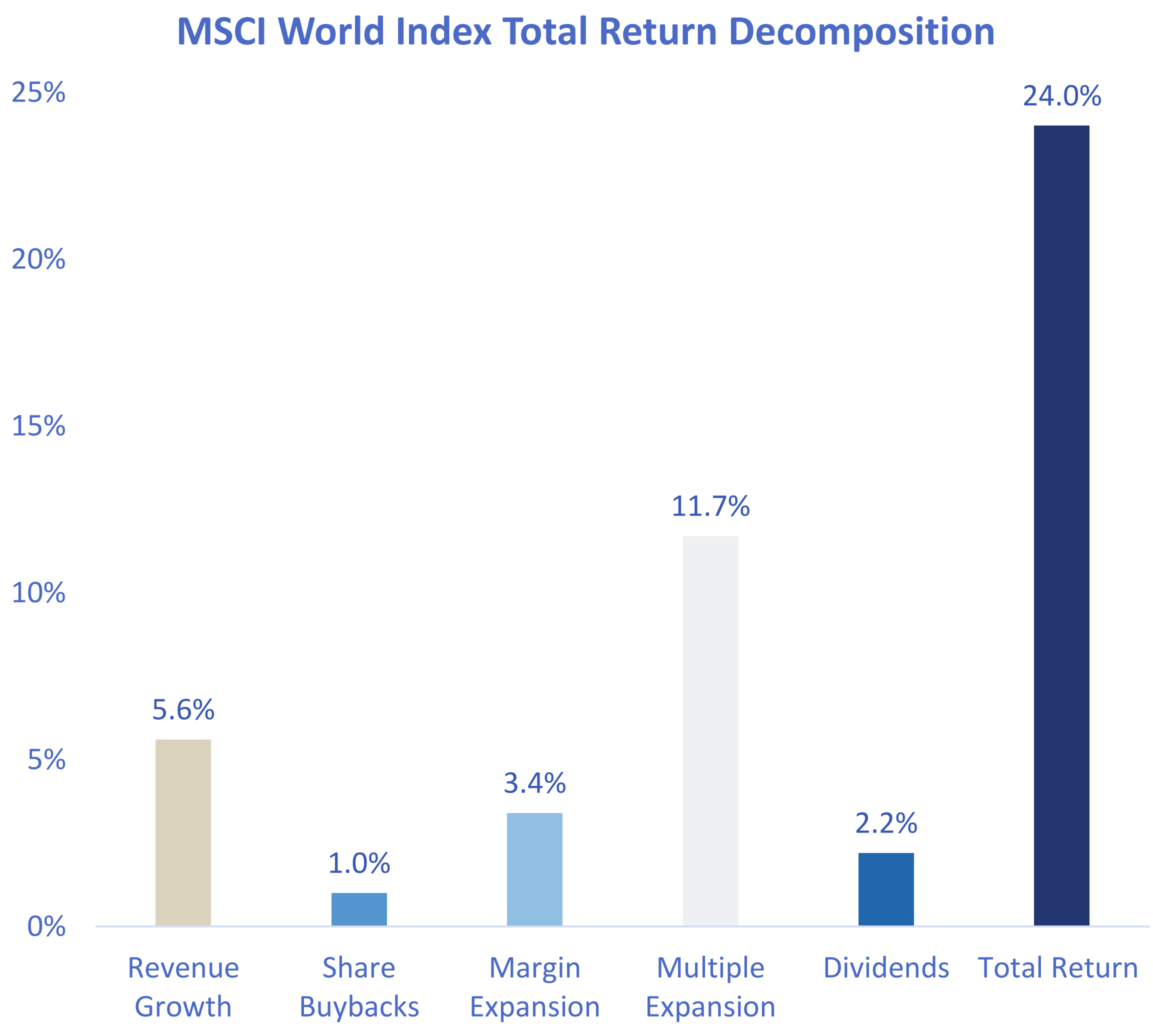

Source: Zurich International Equity Fund inclusive of 0.4% AMC. Returns are based on offer/offer performance and do not represent the return achieved by individual policies linked to the fund. Performance to 2nd January 2025.

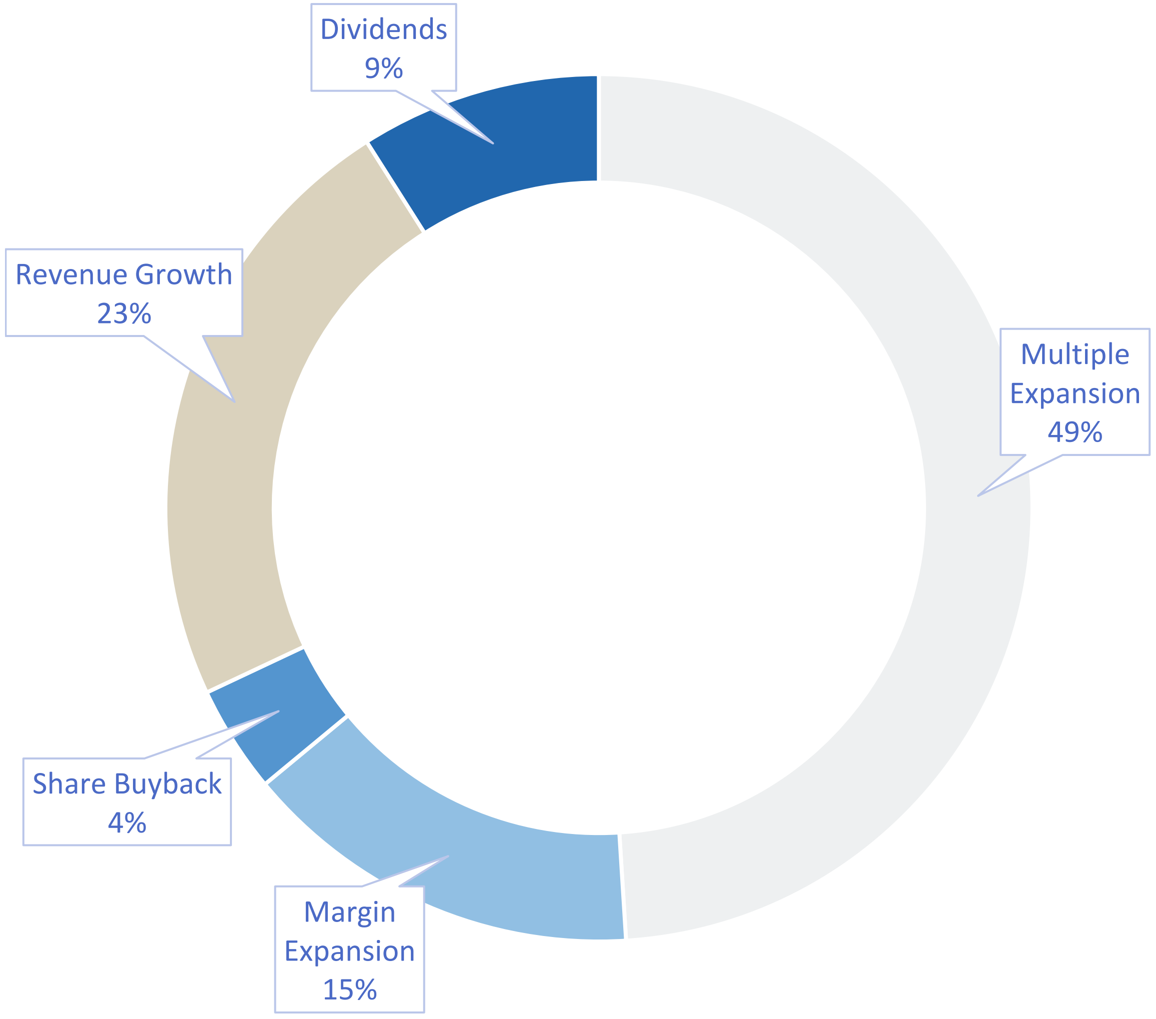
Warning: The value of your investment may go down as well as up.
Warning: Past performance is not a reliable guide to future performance.
Warning: This product may be affected by changes in currency exchange rates.
Warning: If you invest in this product you may lose some or all of the money you invest.

# US stocks keep the lead


Source: Bloomberg

# Driver of 2024 Equity Market Returns

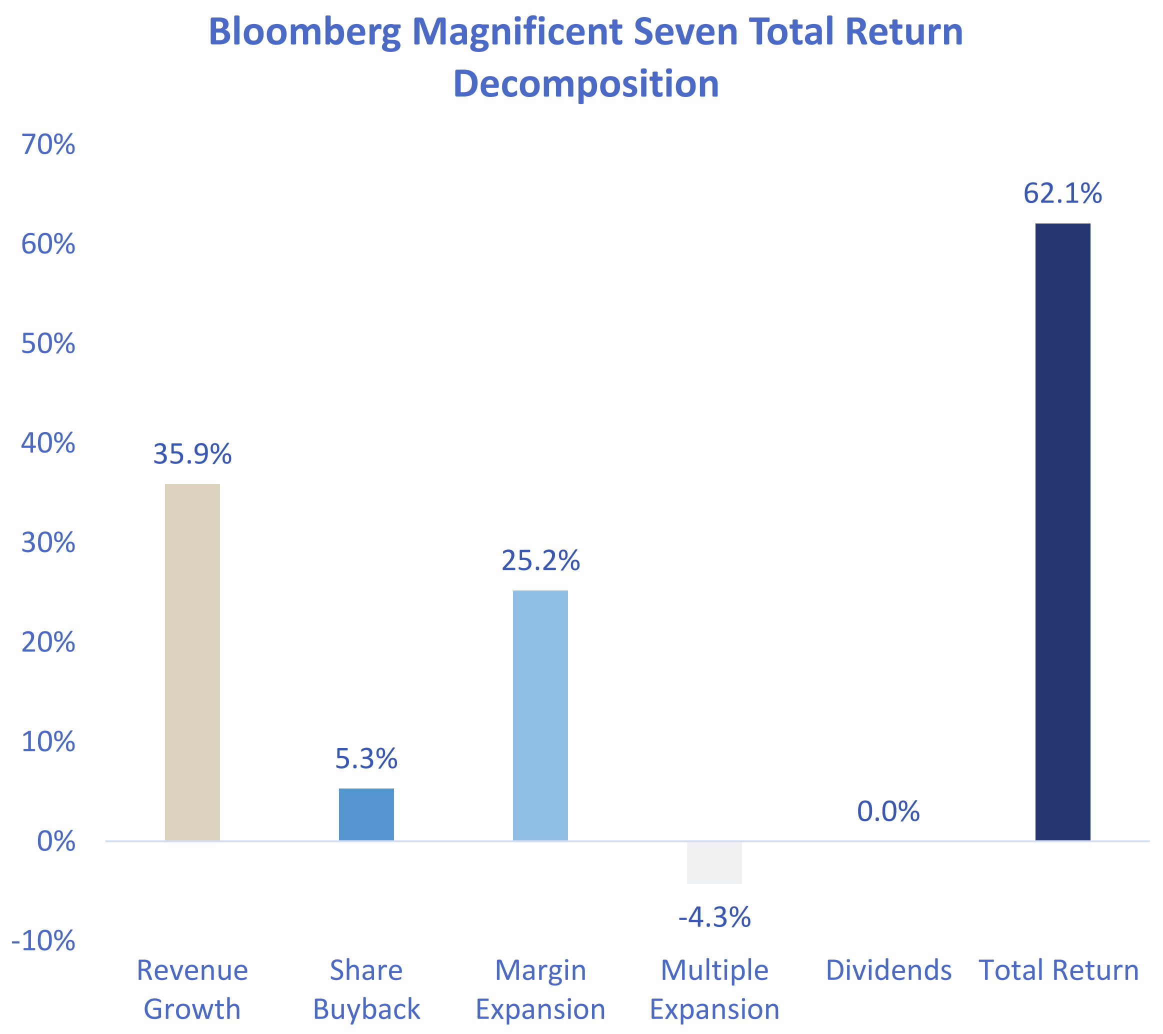


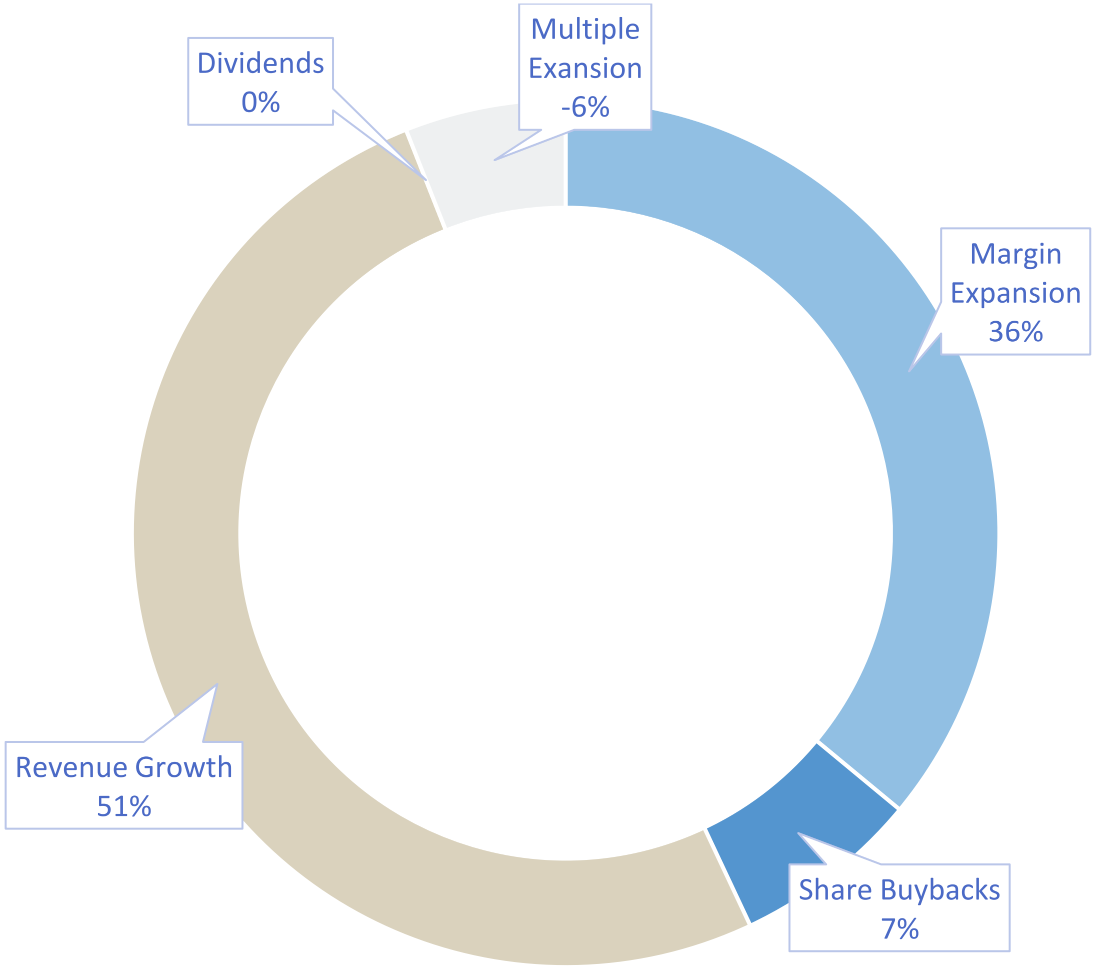




Source: MSCI World, Bloomberg

# Magnificent Seven 2024 Returns Driven by Revenue and Margins

ZURICH



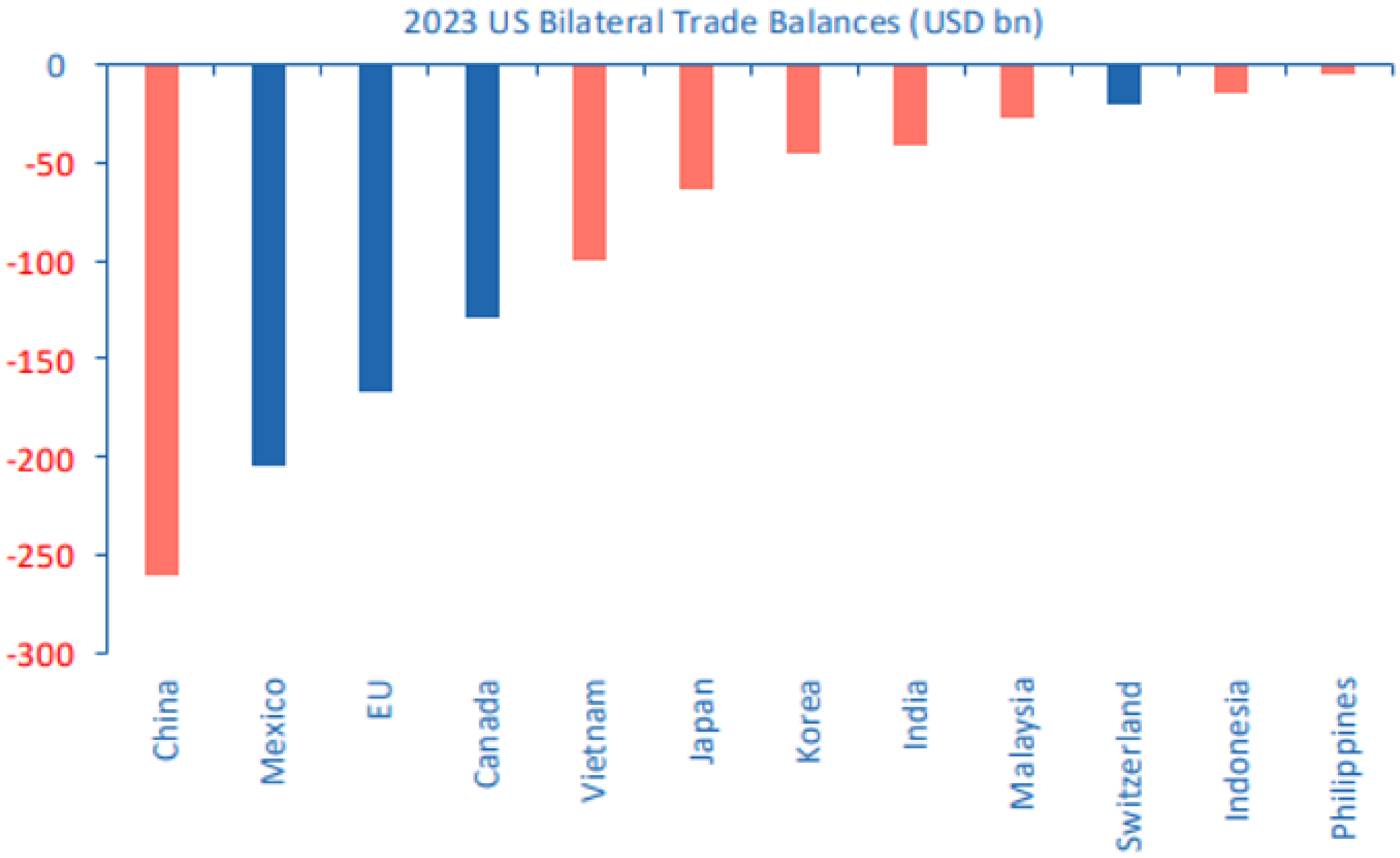

Source: Bloomberg

# Priced for Perfection?

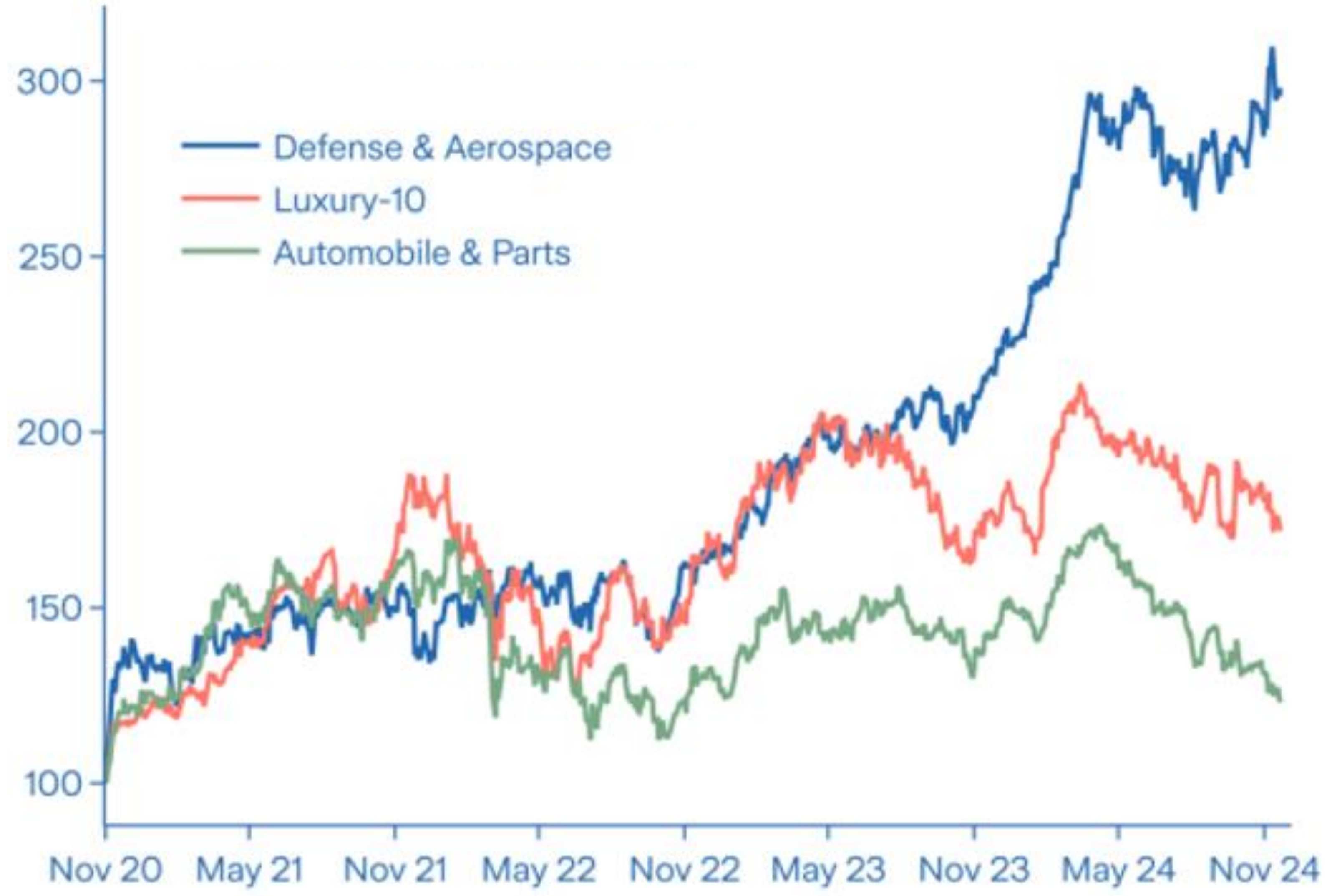

Source: Bloomberg

# Countries with large surpluses vs. the US: exposed to tariff proposals



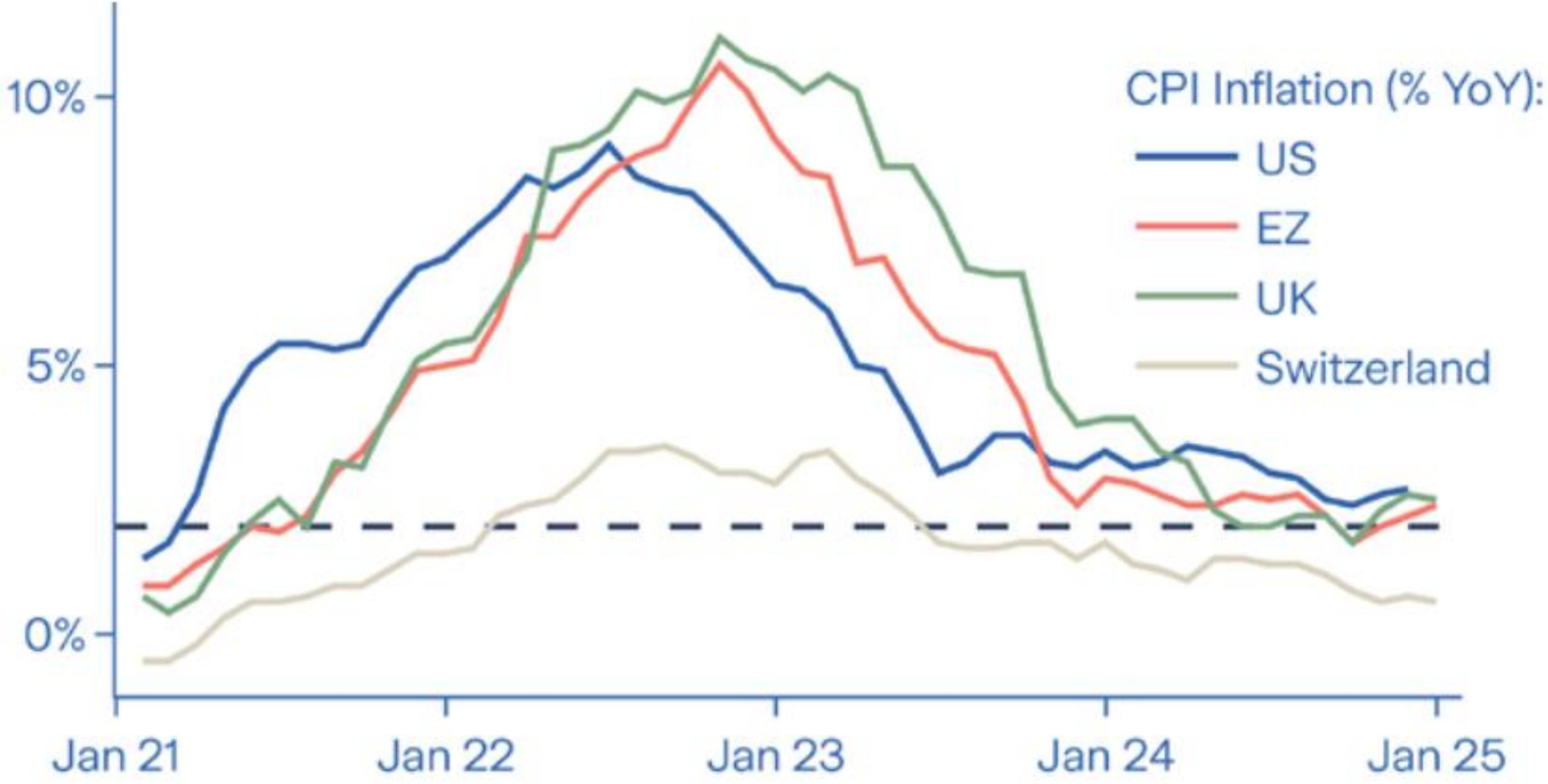

Source: ZIG, IMF DOTs data

# Thematic divergence within Europe



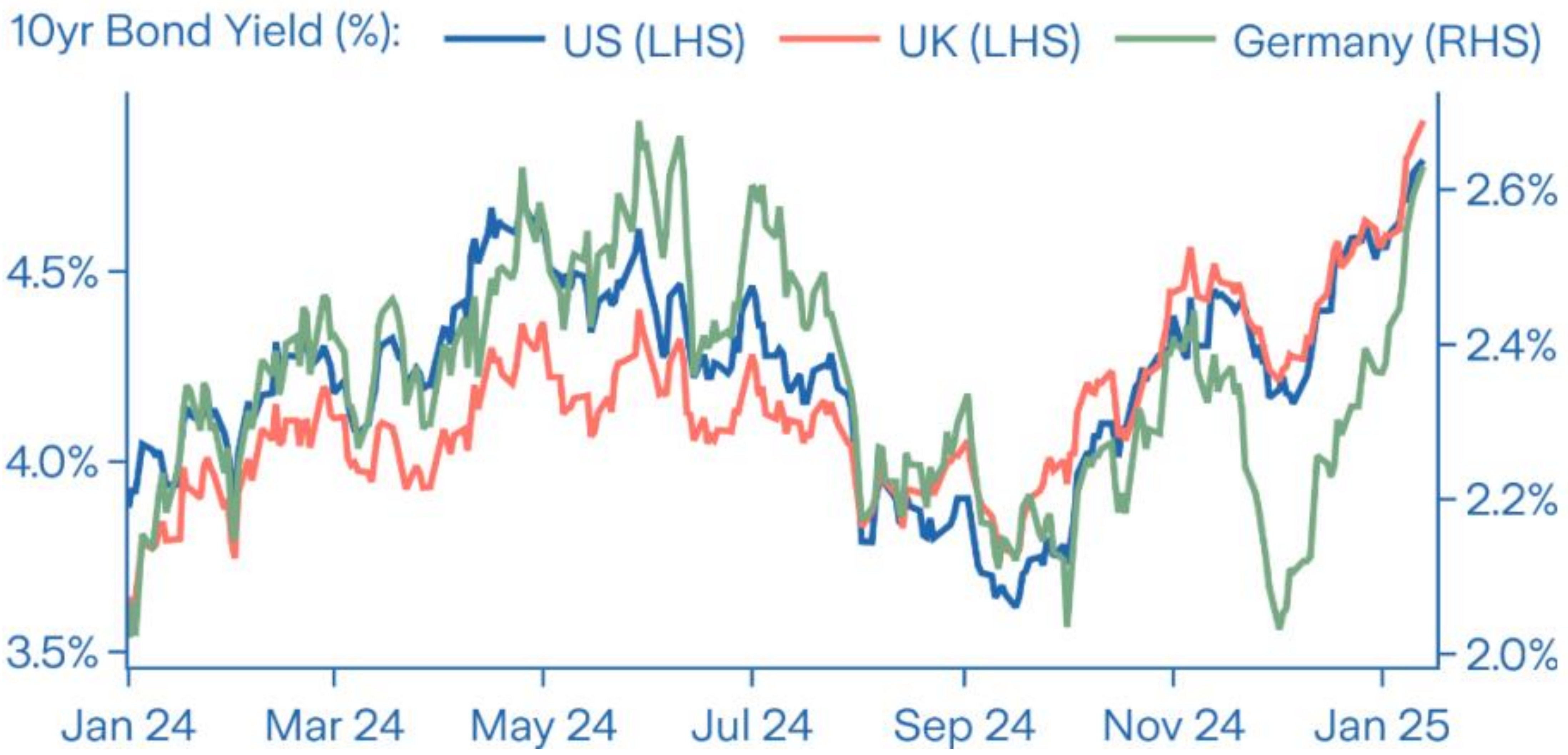

Source: MSCI, Bloomberg

# The ‘last mile’ causes concern



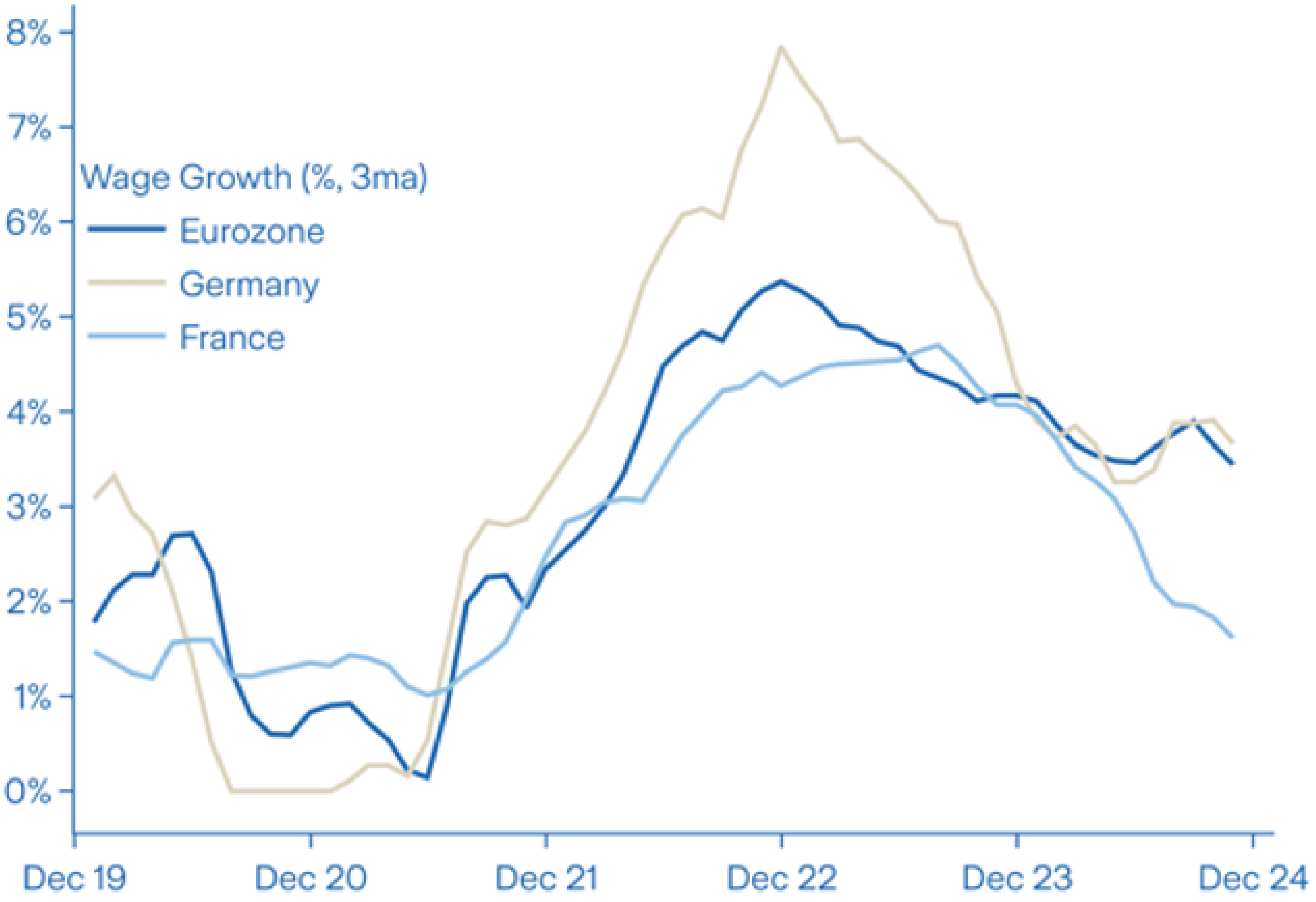

Source: Bloomberg, Zurich January 2025

# Bond yields jump in recent months



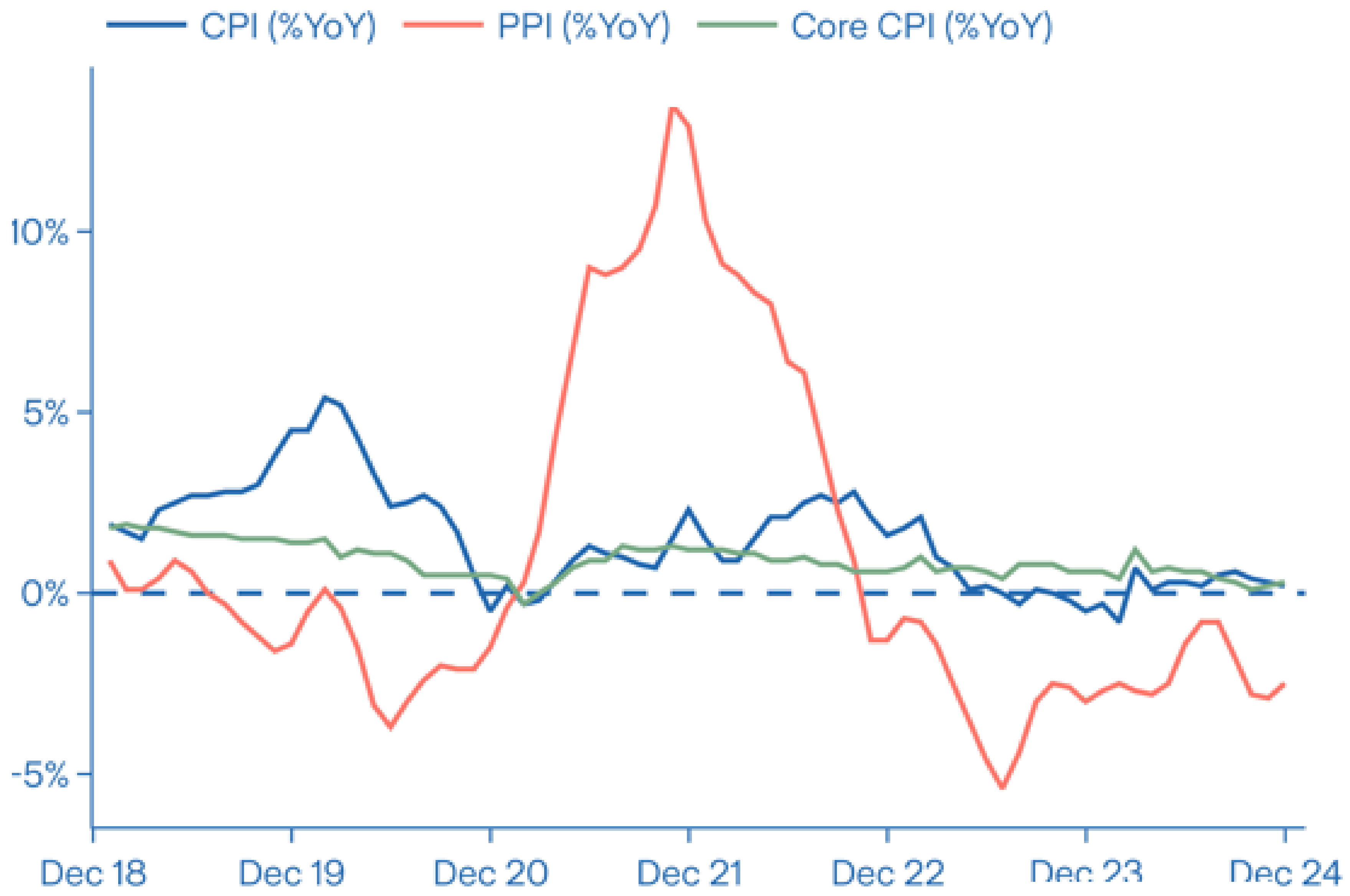

Source: Bloomberg, Zurich January 2025

# Wage growth is slowing in the eurozone…



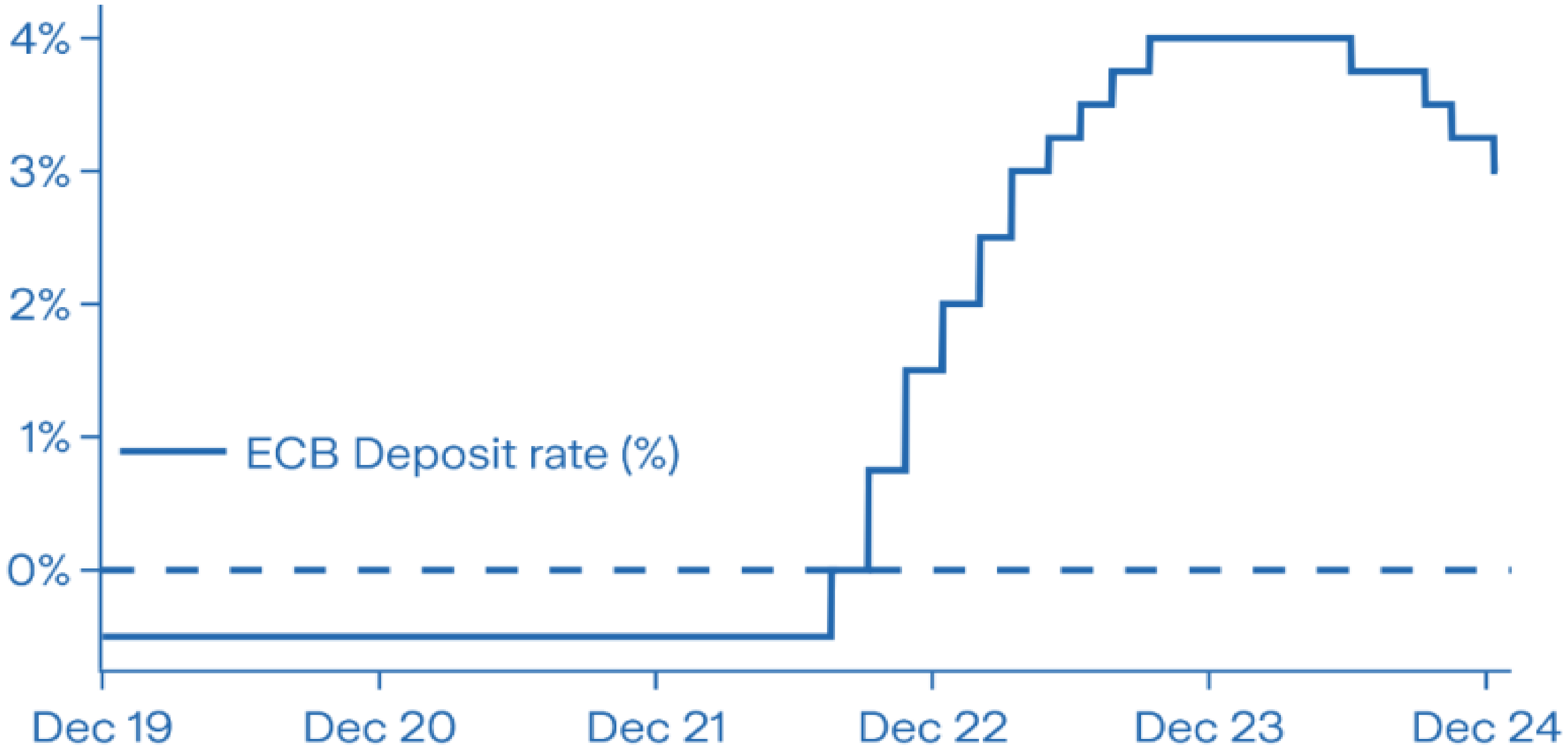

Source: Bloomberg, Zurich January 2025

# Deflation pressures remain in China




Source: Bloomberg, Zurich January 2025

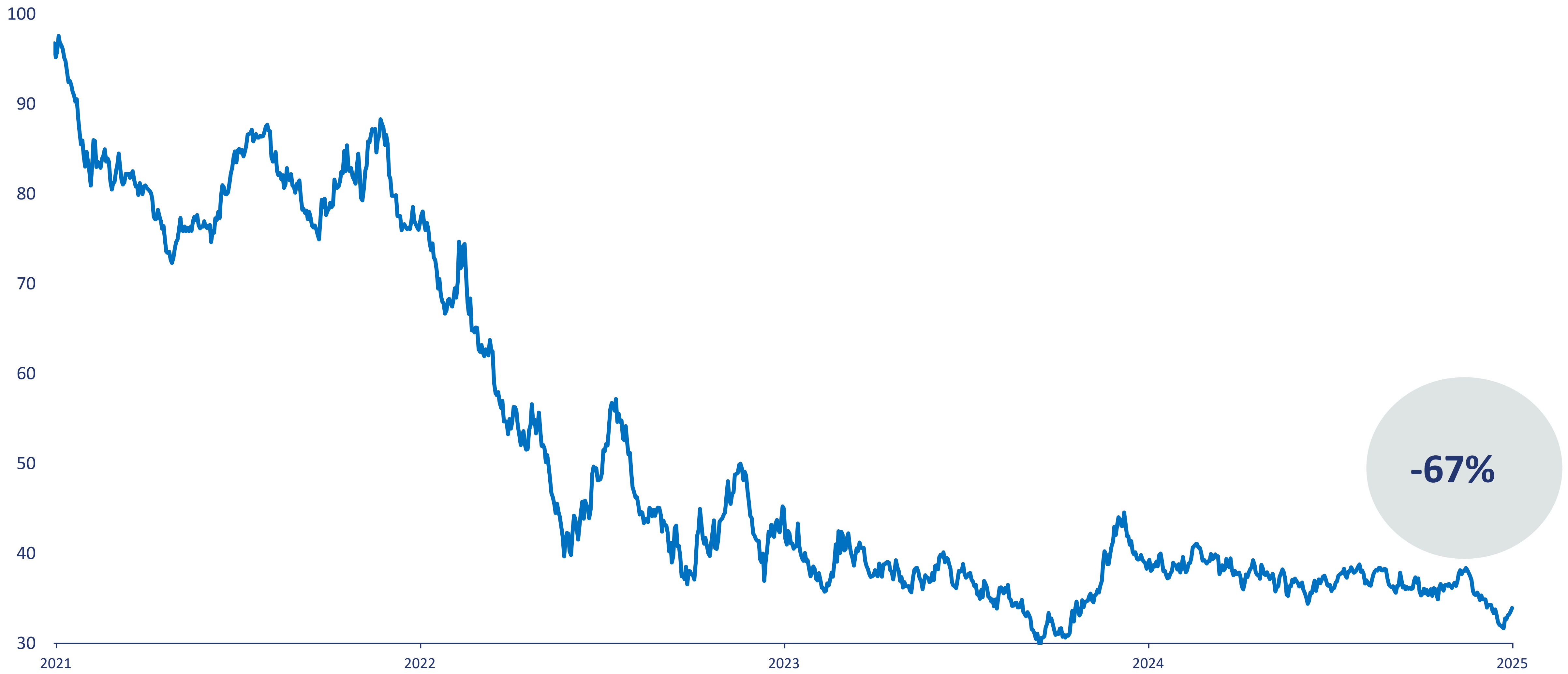
# ECB Rate: another leg down this month




Source: Bloomberg, Zurich January 2025

# The ‘French 72’

## Bond issued in 2021, with maturity in May 2072




Source: Bloomberg, Zurich January 2025

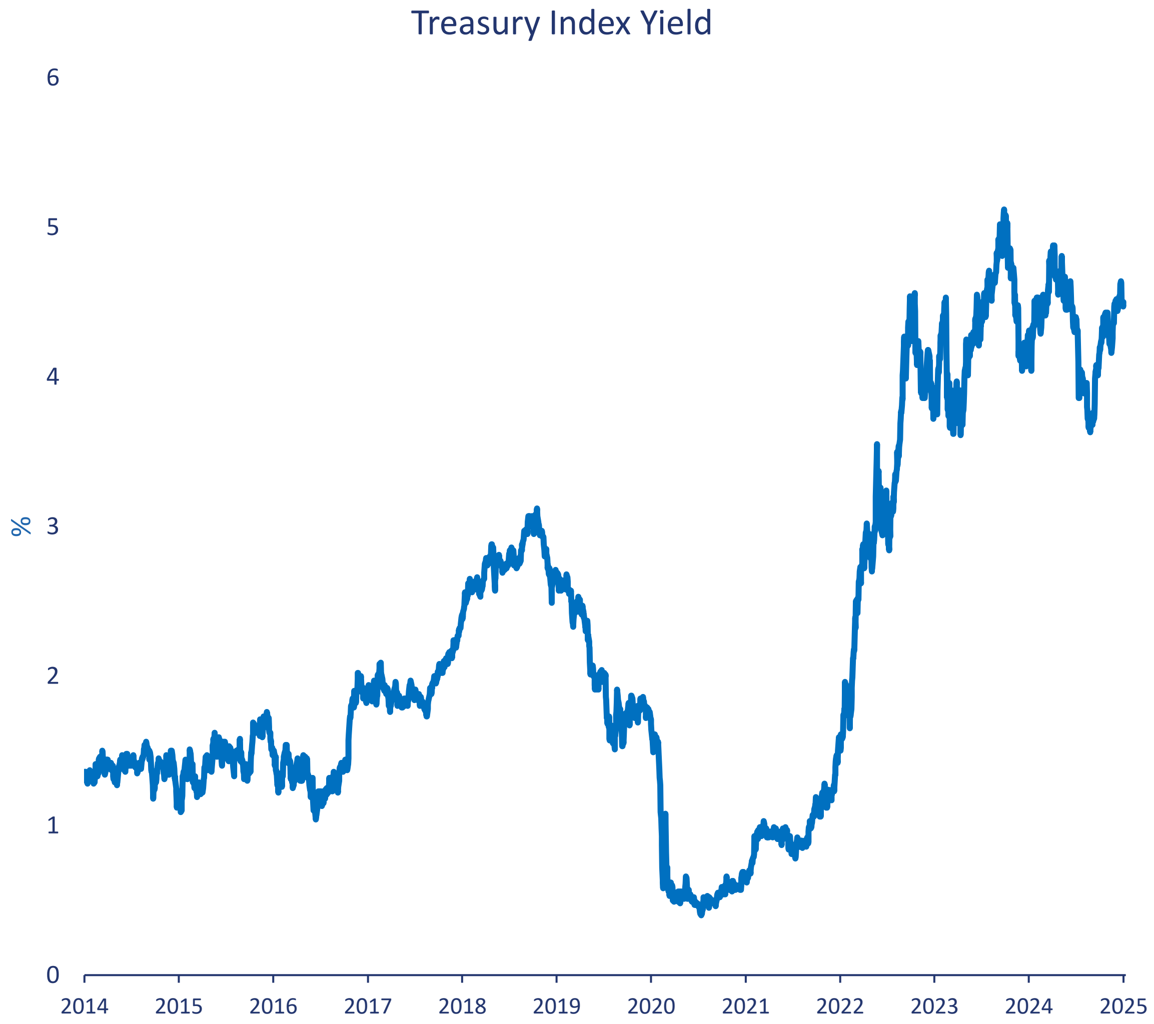
# A flat year for bonds, but optimism under the surface

ZURICH


Source: Bloomberg, Cumulative Return - ICE BofA 10+ Year Euro Government Index

# Bond entry point is more positive

ZURICH



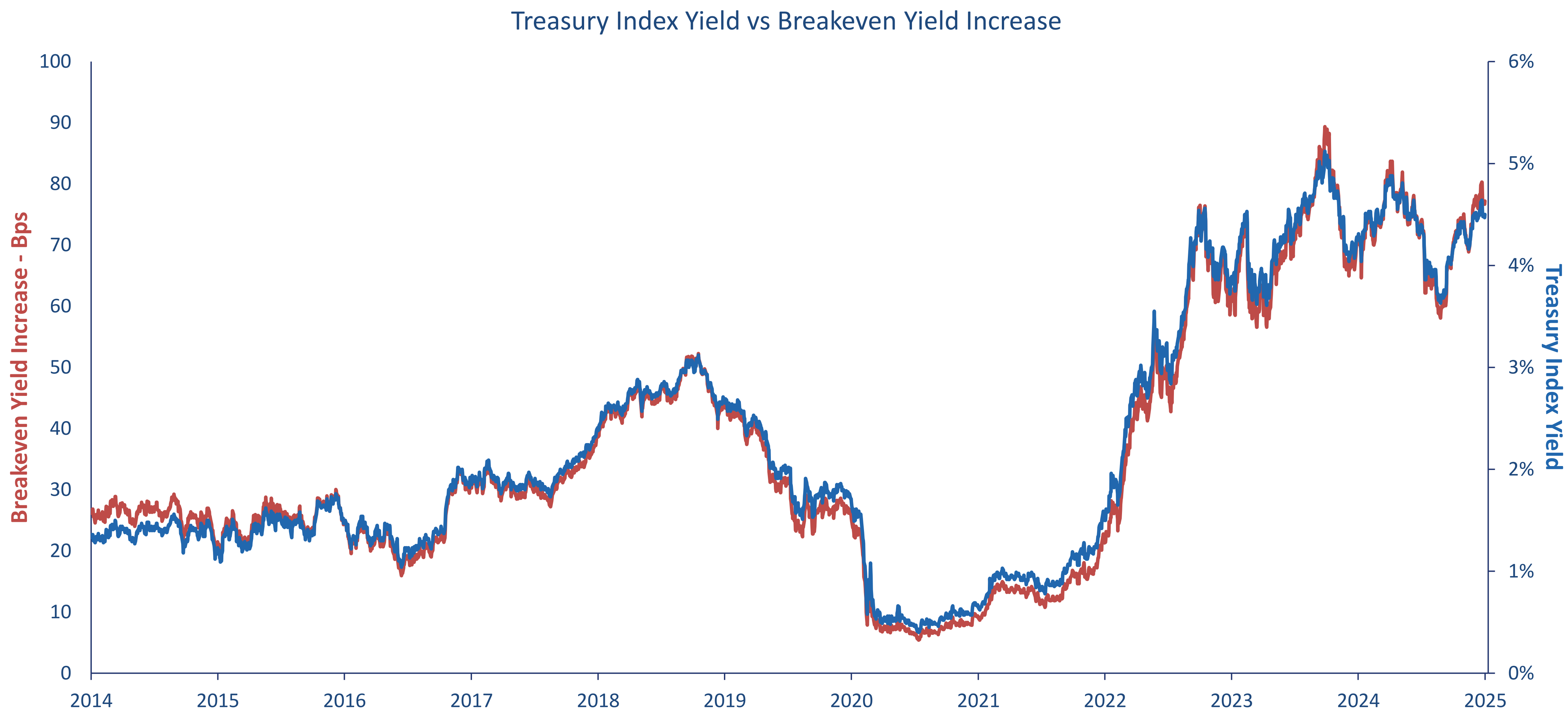


Source: Bloomberg, Zurich January 2025

# Bond entry point is more positive


Source: Bloomberg

# Bond entry point is more positive




Source: Bloomberg

# Current Positioning

1 | Neutral equities

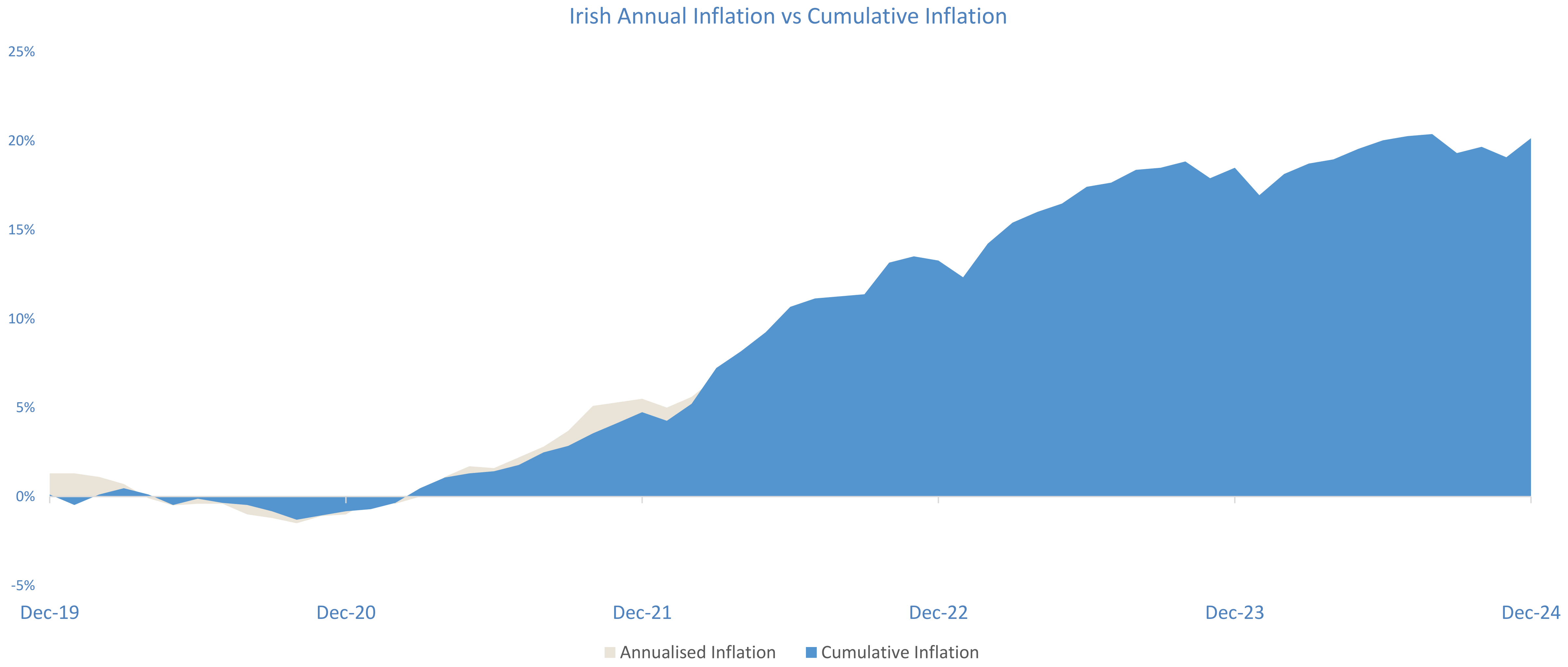
2 | Slight preference for EUR Sovereign

3 | Neutral credit

4 | Constructive on Gold

5 | EUR/USD Hedge in place

# Irish Inflation: Methodology Matters




Source: Central Statistics Office (CSO)

# Final Thoughts

- There are active decisions everywhere
- Irish Savers – Taking sufficient yet appropriate risk
- Fund Review 2030 Report

# Thank you

Source: MSCI. The MSCI information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com)

The Global Industry Classification Standard (“GICS”) was developed by and is the exclusive property and a service mark of MSCI Inc. (“MSCI”) and Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. (“S&P”) and is licensed for use by [Licensee]. Neither MSCI, S&P nor any third party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Source ICE Data Indices, LLC (“ICE DATA”), is used with permission. ICE DATA, ITS AFFILIATES AND THEIR RESPECTIVE THIRD PARTY SUPPLIERS DISCLAIM ANY AND ALL WARRANTIES AND REPRESENTATIONS, EXPRESS AND/OR IMPLIED, INCLUDING ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, INCLUDING THE INDICES, INDEX DATA AND ANY DATA INCLUDED IN, RELATED TO, OR DERIVED THEREFROM. NEITHER ICE DATA, ITS AFFILIATES NOR THEIR RESPECTIVE THIRD PARTY PROVIDERS SHALL BE SUBJECT TO ANY DAMAGES OR LIABILITY WITH RESPECT TO THE ADEQUACY, ACCURACY, TIMELINESS OR COMPLETENESS OF THE INDICES OR THE INDEX DATA OR ANY COMPONENT THEREOF, AND THE INDICES AND INDEX DATA AND ALL COMPONENTS THEREOF ARE PROVIDED ON AN “AS IS” BASIS AND YOUR USE IS AT YOUR OWN RISK. ICE DATA, ITS AFFILIATES AND THEIR RESPECTIVE THIRD PARTY SUPPLIERS DO NOT SPONSOR, ENDORSE, OR RECOMMEND ZURICH LIFE ASSURANCE PLC, OR ANY OF ITS PRODUCTS OR SERVICES.

Zurich Life Assurance plc is regulated by the Central Bank of Ireland

**Warning: Past performance is not a reliable guide to future performance.**
**Warning: Benefits may be affected by changes in currency exchange rates.**
**Warning: The value of your investment may go down as well as up.**
**Warning: If you invest in this product you may lose some or all of the money you invest.**

# Q&A

Please click on the ‘**Raise Hand**’ icon

to ask a question aloud

and

wait to be unmuted

or

Use the **Q&A function** to ask a question

# Q&A