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Equity Market Outlook for 2025

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December 2024

Ausbil's house view is that the global economy is on a positive upward trajectory in 2025, with lower inflation and real rate cuts. Jim Chronis, Chief Economist at Ausbil, describes why the outlook for 2025 is positive, even with a myriad of risks. Paul Xiradis, Executive Chairman, Chief Investment Officer and Head of Equities, talks about the earnings growth he is seeing across more sectors and down the market-cap spectrum.

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Executive Chairman,
Chief Investment Officer,
Head of Equities

Jim Chronis
Chief Economist,
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Debt and Diversifieds

10 minute read

Key points

- Australia's economic growth is set to improve heading into 2025 in an environment of global monetary easing and record low unemployment in Australia. We see an opening for the RBA to join other central banks with modest rate cuts in 2025. This bodes well for earnings growth, and a return of cyclical demand.
- We think earnings growth will be better and broader across sectors than the market is contemplating. More sectors are showing a positive earnings outlook.
- We think the risks are mostly geopolitical. With Trump newly elected as President, tariff and trade wars are our principal concern, and their potential to impact growth.
- Our general view is that the Trump presidency will be business and market friendly, but we expect ructions from changes to trade which will bring new sources of potential alpha.
- We see opportunities in a range of sectors and thematics and we are expecting earnings growth to beat consensus expectations in FY25.

Q: How do you see the global economy performing into 2025?

JC: Global macro settings are expected to remain within their 'back to normal' levels in 2025. We are forecasting growth, lower inflation and modest real rate cuts. The structural themes of decarbonisation and slowing globalisation continue to underpin activity (which is now expected to accelerate with the election of Donald Trump as President). In the aggregate, global GDP growth is on a positive upward trajectory towards its trend rate, as illustrated in Table 1.

Table 1: Global growth – on an upward path toward long-run trend

Real GDP % year average	Long run average 2010 to 2019	Ausbil 2024 (f) %	Ausbil 2025 (f) %
United States	2.3	2.1 to 2.5	2.2 to 2.5
Japan	1.2	1.1	1.2
Eurozone	1.4	0.9	1.6
China	7.7	4.8	4.6
India	7.0	6.7	7.0
Australia	2.6	1.2 to 1.5	2.5
Global GDP	3.7	3.3	3.5

Source: Ausbil, FactSet as at November 2024.

On economic growth. We are forecasting a resilient US and a Europe on a modest recovery. The US growth outlook is driven by a resilient labour market remaining within close range of full employment levels, and underlying strength in the consumer from real wages growth and the drawdown in excess savings. Europe has exited very shallow recessionary conditions and is on a sustained recovery, assisted by further ECB rate cuts. The Asia-Pacific growth engine will continue outpacing the rest of the world. China's expansionary fiscal stance, monetary easing and latest measures to stabilise the property sector should sustain growth in the mid 4% plus range. Finally, Australia's GDP is expected to rise in the second half of 2024 and move higher through 2025.

On inflation. Inflation is falling, and the forecast trajectory is for a return to above central bank target levels out to 2025, in the US and globally. Core inflation dynamics are switching, and we see persistent sticky services (ex-housing) inflation, lower housing inflation to a lesser degree, and upside risk from goods inflation.

On the outlook for rates. The US Federal Reserve is expected to deliver modest rate cuts into the March quarter of 2025 and thereafter pause to assess the new Trump policies. An ongoing improvement in Australia's inflation dynamics should provide an opening for the Reserve Bank of Australia to adjust rates in 2025.

In summary. This is a positive macro environment and represents good news for global equities. The global economy is on a positive upward trajectory, with lower inflation and modest real rate cuts. The US Federal Reserve has joined the growing list of central banks in the global rate cutting cycle which has been underway since the June quarter of 2024.

Q: How will Australia's improving economic growth benefit equities in FY25?

JC: The Australian economy is improving despite a chorus of calls predicting recession since late 2023 onwards. This has not been Ausbil's house view during this period. Australia's GDP is expected to recover through the second half of 2024 at an average pace of 1.4% and move higher through 2025 toward trend pace at 2.5%.

We see a diminishing drag on activity from the household consumption channel. While the labour market remains remarkably resilient, and as labour supply increases and demand slows on a relative basis, we see a modest uptick in the unemployment rate to a low 4.2%, with the economy holding on to the 50-year broad-based gains. This bodes well for company earnings leveraged to household spending.

About Ausbil Investment Management

Ausbil is a leading Australian based investment manager. Established in April 1997, Ausbil's core business is the management of Australian and global equities for major superannuation funds, institutional investors, master trust and retail clients. Ausbil is owned by its employees and New York Life Investment Management a wholly-owned subsidiary of New York Life Insurance Company. As at 30 November 2024, Ausbil manage over $20.1 billion in funds under management.

Structural demand for resources and an improving interest rate differential favouring Australia, should collectively underpin the Australian dollar. We are forecasting the AUD to appreciate into the range of US70 cents, with the trade weighted basket trending higher. With Australia likely to join the global easing club for interest rates in 2025, we see this as supportive of quality resources and energy companies that are benefitting from the long themes of decarbonisation, energy transition and the electrification of things.

On the outlook for rates, the US Federal Reserve will continue to deliver rate cuts in into the March quarter of 2025. Of greater significance is the ongoing incremental upgrade to the FoMC's long-run estimate for the neutral real rate. We see the neutral rate trending higher at the quarterly macro forecast updates over the near to medium term.

Q: Jim, can the market stop talking about the risk of recession?

JC: The short answer is, yes, we can stop talking about recession. The long answer is that we did not, and still do not, see recessionary conditions for 2025 or beyond given the current economic backdrop. Ausbil believes fears of a US recession were, and remain, unsubstantiated. Should this risk become tangible, it will be mitigated by the reassuring fact that central banks now have significant policy room to cut rates.

In the US labour market, we highlight the following features. The non-farm payrolls measure on a 3-month moving average rate is back at pre-pandemic levels. The ratio of job openings to unemployed persons is back at levels when prior tightening cycles commenced. Finally, the weekly jobless claims measure as a lead employment indicator has a run rate that is well below, and inconsistent with, market fears of a recession triggered by a surging unemployment rate.

In addition to these fundamental measures, financial markets are showing the US 2/10yr bond yield curve back with a normal upward slope from being inverted for the last two years, reflecting a series of cuts in the Fed funds rate. Moreover, non-investment credit spreads have narrowed year to date, the net worth of households has risen by 7.1% on a year ago, on rising equity and housing valuations, and the ratio of total private debt to gross domestic product declined further, approaching its historical average, with both business and household ratios lower.

Consumer debt servicing levels in the US appear manageable and have fallen for those with fixed rate mortgages, with credit growth flowing through to all sectors. Finally, financial system stability is sound and resilient according to the Federal Reserve's half yearly report. There is little sign of financial vulnerabilities triggered by valuation pressures, borrowing by businesses and households, financial-sector leverage, or funding risks.

In summary, Ausbil's house view is that the global economy is on a positive upward trajectory in 2025, with lower inflation and modest real rate cuts. We remain vigilant on unpredictable geopolitical events that may materially impact our view. That said, underlying resilient private demand, business investment, employment growth, and multiple rate cuts are expected to sustain the expansion of the global business cycle.

Q: Jim, how does Trump 2.0 presidency impact your outlook for the economy?

JC: Through the US election we surmised that in the short term (prior to the next round of mid-term elections due in November 2026), policies revealed by either candidate during the campaign period would be supportive and act as a positive backstop to the US economy.

The Trump campaign promises saw four themes come to the fore. Firstly, income taxes and failure to address unsustainable fiscal deficits currently running in the range of 6% to 7% share of GDP. Secondly, additional tariffs of up to 60% to be placed on China and the potential for tariffs of 10-20% to be extended to the rest of the world. Thirdly, immigration restrictions through deportation. Fourthly, industrial policy protectionism. The latter would be implemented as high priority policies focused on industrial strategy and manufacturing reshoring achieved through fiscal policy measures targeting manufacturing and infrastructure in the economic strategic areas of decarbonisation, renewable energy and electricity grid expansion. It would be implemented through the Infrastructure Investment and Jobs Act; Inflation Reduction Act, and the CHIPS and Science Act.

Following the election, we still believe the outcome under a second Trump Presidency-Trump 2.0-will be positive for asset markets with the caveat of increased material risk from potential tariffs.

Trump’s clean sweep of the White House, Senate and House of Representatives majorities adds significant momentum over the next two years into 2026 to accelerate wide ranging proposals on industry deregulation, broadening productivity and efficiency reforms through the Efficiency Panel, and sustained economic activity through tax cuts and lower energy policies.

Tax reductions will be stimulative for corporate activity. Trump proposes reducing the corporate tax rate to 15% from 21% for companies that make their products in the US (in 2016, the tax rate was 35%). This is expected to contribute to ongoing fiscal deficits, add to US debt, limit the expected reduction in the Fed funds rate, and place a floor under long bond yields.

Trump’s policies also come with some warnings in terms of the likely structural impact on labour supply, particularly through strict restrictions on immigration.

However, the clean sweep in political power may also add to global risk in the form of increased trade tariffs and intellectual property prohibitions with China which may potentially spread to the rest of the world, resulting in upward supply pressure on inflation and markedly slower growth through the international trade channel.

In terms of allocation and earnings profiles, US domestic companies and energy markets for oil and gas will be the mainstream beneficiaries through increased capital investment and private sector spending. China tariffs may impact commodities and companies highly leveraged to China.

Overall, however, we believe the Trump 2.0 campaign policies are both pro-growth and ‘pro-business’, supporting our view of a positive earnings outlook for equities in FY25.

Q: How are you seeing earnings growth in calendar 2025?

PX: The market was very bearish on the earnings growth outlook in FY24 and remains bearish for FY25 in contrast to our view which is for positive earnings growth in FY25 and into FY26. It may seem strange, but I see this as a misreading of the prevailing macro conditions following the aggressive monetary tightening of 2022 and 2023.

While we worried about over-tightening of rates and about high inflation, we determined early in 2022 that the economy could calibrate to the rate adjustment because households had high levels of savings, and employment was at record highs. While many in the market predicted recession for 2024, we predicted otherwise, for sub-trend growth, becoming more positive into 2025. It was on this assumption that we have set our earnings outlook, and why we remain positive on earnings growth given the business environment, the overall shift to monetary easing, and the relative resilience of consumers across the adjustment phase we are experiencing, from high inflation to lower inflation.

Our house position remains that, in this environment, we believe earnings growth will recover in FY25 more than the market expects, broadening across sectors, and moving down the market cap spectrum.

Table 2: Consensus earnings growth outlook

Group / Segment	EPS Growth FY25*	EPS Growth FY26	EPS Growth FY27
Small Ords	14.8%	23.7%	17.7%
REITs	8.3%	5.3%	10.1%
Industrials	6.6%	14.0%	13.1%
Mid Cap 50	3.0%	16.7%	10.7%
Financials	4.4%	4.6%	4.0%
Market**	0.4%	8.0%	5.0%
Top 50	-1.5%	4.8%	2.3%
Resources	-8.3%	6.4%	-2.2%

*Ranked by EPSg FY25. Source: Ausbil, FactSet, 30 November 2024. **S&P/ASX 300.

Current market consensus (Table 2) shows almost negligible earnings growth (EPSg) for FY25 followed by two mid-digit EPSg years of +8.0% and +5.0% for FY26 and FY27 respectively. Ausbil is of the view that expected EPSg will improve in an easing environment with no recession, improving economic growth and near full employment.

Q: What are the risks to earnings in 2025?

PX: The FY24 reporting season was relatively weak, with pressures from still higher inflation, higher interest rates, together with softness in China impacting many businesses.

Looking ahead into 2025, we see relief for balance sheets and income statements from a number of factors. We expect to see the RBA commence easing their monetary policy in 2025, joining the Fed, ECB and other developed markets. This will add relief on cost of debt and rollovers. As inflation has been falling this will also add positively to income statements. Wages are still relatively in control.

On the impact of China, the September surprise rate cut of 50bps and the promise of further stimulus and support as needed has helped to stabilise the outlook for China leveraged companies.

The US election outcome with the return of President Trump was welcomed by the market on pro-business policies compared to higher taxes and other restrictions under the alternative. From an earnings outlook perspective, the US economy is expected to perform well under Trump in 2025, and onshoring policies and protection should be beneficial for the US economy.

However, the prospect of a trade war with China and Europe with rising tariffs could be a significant risk to earnings in a number of China facing sectors, including those whose manufacturing base

is in China, and those that sell to China including resources. We are monitoring these risks closely, but earnings growth should benefit overall with a pro-business US government.

Australia is expected to benefit from its growing export exposure to the Indo Pacific (ex-China) region with growth rates currently running in the range of 5% to high 6% for India, Indonesia, the Philippines and Vietnam. By way of background information, in September 2022 Australia joined the Indo-Pacific Economic Framework (IPEF) alongside 13 members from across the Indo-Pacific region, including Brunei Darussalam, Fiji, India, Indonesia, Japan, Malaysia, New Zealand, the Philippines, Republic of Korea, Singapore, Thailand, the United States and Vietnam. The region accounts for around 40 per cent of global GDP and includes eight of Australia's top ten merchandise trading partners.

In terms of unpredictable risks, geopolitics is probably the most relevant. War in the Middle East remains a risk to the price of oil and supply chains. The war in Russia and Ukraine carries some existential nuclear risks. These risks are unpredictable but at this stage we do not expect material market disruption. Further, under Trump we expect these risks to dissipate.

Q: Where are you seeing the opportunities with respect to resources?

PX: We believe decarbonisation and the energy transition remain significant themes that will drive value across resources, energy, utilities and the mining services sector with respect to critical commodities.

The rapid normalisation of rates in 2023 and 2024 was especially punishing on commodities given the impact this had on slowing economic growth. However, as we had been forecasting, the economy did not enter recession, growing at a sub-trend positive through 2024. With an outlook for improving growth in 2025, we are starting to see commodities shifting upwards again.

Copper is expected to see major demand upside from decarbonisation, a three-fold build out in global grids by 2030, increased demand from data centres with booming AI, and increase demand for EVs and battery storage. Though it has had a tough 2024, we still expect lithium to see major demand growth alongside rare earths for battery storage and the electrification of things. Companies such as IGO, Pilbara Minerals, Lynas Rare Earths and Sandfire Resources will benefit from this demand. So will BHP and RIO which have major copper divisions.

As the world increasingly looks at the potential for nuclear energy to underpin the base load transition, supporting uranium as an energy source with much lower operating greenhouse gas emissions than traditional fossil fuels.

In bulks, we see ongoing demand from China for iron ore, growing demand from India for metallurgical coal, and global demand for steel, including US demand from stronger housing, decarbonisation infrastructure, renovation and remodelling.

Q: What about the opportunities elsewhere in the market?

PX: The market is showing a wide dispersion of opportunities, and many in companies that are globally facing and market leaders in their sectors.

With an improving growth outlook, we are seeing opportunity in cyclical names. This includes resources as I have noted, the construction materials and consumer discretionary sectors. We have been incredibly selective in theses cyclical sectors, with names such as Wesfarmers, James Hardie in construction materials, and Aristocrat Leisure.

Banks tend to be a good proxy for the economy. With economic growth improving and the potential for monetary easing to support consumer spending, we think that some exposure to the best bank and diversified financials is important in 2025. We are overweight in names like National Australia Bank and Macquarie Group.

With respect to the outlook for lower rates in 2025, we are seeing opportunities in real estate in an environment where cap rates are likely to compress albeit moderately. Real estate has benefited from rental ratchet clauses that capture inflation upside, and will continue to benefit from higher rents in a lower inflationary environment, however the sector overall has been in a long structural adjustment following the rapid adoption of online since then pandemic. Goodman Group has been a preferred real estate exposure given that it is benefiting from two major thematics, the rise of smart logistics warehouses for online fulfillment and distribution, and the rapid uplift in demand for data centres.

On key thematics, in technology we are seeing structural earnings growth in technological transformation, the rise of artificial intelligence (AI), and the enablers and businesses that increasingly operate in the digital environment, including communications companies.

The current secular expansion of data, cloud computing, AI and storage is driving huge investment in the enablers of change. This includes semiconductor providers like NVIDIA and BE Semiconductors, a sector not available in Australia. However, other areas include data centres, energy and energy storage that back-up data processing, telecommunications and internet companies that support the web of connectivity and data. Examples of companies that stand to benefit include NextDC and Telstra.

The companies that stand to benefit from this technological enablement are those that can leverage the networking and processing power offered by enablers to capture more business, more customers and at lower and lower costs. Examples of such companies include Block, REA, Life360 and WiseTech.

There are always quality names in our portfolios that manage to consistently grow earnings, such as CSL, Xero and REA Group.

Q: Paul, in a nutshell, is it risk-on in 2025?

PX: We do believe that the market will trade higher next year, driven by lower rates, improved earnings, and the macro-economic outlook, with the possibility of increasing corporate activity. For companies with positive earnings growth outlooks that exceed consensus, it is definitely ‘risk on’. Consensus currently has low expectations for FY25 earnings growth in a market which is likely to be positive for business. We think that earnings will be better than expected by the market for FY25, and we are less focused on defensive names and more invested in growth and cyclical names to take advantage.

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