An eventful 2024

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Global equities

Q What important lessons did you learn from 2024?

A I suppose I have learned that the equity markets don't always follow the rules! We have seen markets move higher in 2024 (and 2023) with barely a pause and all against a backdrop that could be generously described as 'mixed'. We have seen gold prices as high as they have ever been, oil much lower than one would expect, a cost-of-living crisis in many parts of the world, relatively muted economic growth, pretty high valuations and geopolitical turmoil. However, markets continue to move higher.

In 2024, much of the world went to the polls and the vast majority of those elections across the world saw the incumbents lose which, in many ways, reflect certain uncertainties – many people feel that their countries and their lives are moving in the wrong direction, and they came out and tried (mostly successfully) to change governments to do something about it.

Q In what way will 2025 be different from 2024?

A I would imagine that we should brace ourselves for more of the same. In 2025, we stop voting and we start watching as the winners must roll up their sleeves and start to govern which is never an easy task. In the UK, for example, the Labour Party are learning, and very quickly, that the spotlight shines far more brightly on you when you are in power versus when you are in opposition.

Q What is your view on global equities? Are there any areas of global equities that you would avoid or be cautious of investing in next year?

A For our portfolios, we try to focus on the companies rather than take a particular macro view and hence I don't have much value to add regarding regions or sectors. We try to diversify away the factor risks where we can and allow the stocks to do the heavy lifting.

Having said that, take a cursory look at equity valuations around the world and we can see some sizable differences. The US has led equity markets higher while Europe and the UK, for example, continue to lag, meaning the valuation difference between these regions gets ever wider. But from my perspective that is probably warranted. What might change that is unclear. Resolution of the conflict in the Ukraine might help – although despite that clearly being good news, I doubt it would be a major catalyst for markets one way or another over the medium term

The trade of the year in equities must surely have been Artificial Intelligence (AI) related with NVIDIA, the poster child of the space, now having a market cap of nearly USD 3.5 trillion and representing nearly 5% of the MSCI World Index. So far, so good. The question we must now ask ourselves: is all the hype warranted or is it just that, hype? What is undoubtably true is that the adoption rate has been rapid. A recent paper by the National Bureau of Economic Research indicates that some 39.4% of the working population in the US used generative AI in August 2024, which in terms of the adoption curve, surpasses the PC and the internet. Having said that, the adoption of AI to this point has been predominantly individuals using free tools rather than business adoption, which has been much slower. Whilst many of the initial forecasts for AI on, say, productivity gains were extremely impactful, I am reading more and more reports downplaying its potential impact. I don't have all the answers, but I do get the sense that the bulk of productivity gains will be some way down the track and that the story will be with us for many years to come. Are the stocks expensive? One could probably argue that either way.

> "Civil unrest continues to rise across the globe caused by many factors, not least economic inequality and a cost-of-living crisis."

Q What are your expectations for geopolitics next year?

A We worried about the conflict in Ukraine at the start of 2024 and we continue to worry. The Middle East added to those worries and we, as investors, watch nervously hoping these concerns are short-lived and wrestling with the perhaps secondary issues of commodity prices and how these may translate through to inflation going forward – particularly as much of the world broke the back of inflation in 2024. It feels to me that we will likely see resolution to some of these conflicts in 2025 which would surely be good news, but I doubt tensions across the globe will ease significantly.

There is clearly more to worry about than 'just' the conflicts we see on the news every evening. We continue to see the rise of nationalism and protectionism, and cyber-attacks are becoming more severe and frequent. Civil unrest continues to rise across the globe caused by many factors, not least economic inequality and a cost-of-living crisis, while we also worry about climate risks and energy security. The list goes on and on and each of these can impact the global economic outlook in one way or another, influencing growth, inflation, supply chains and, of course, the financial markets. I suspect these issues will consistently create headlines through 2025 and the simmering tensions will manifest themselves in many ways through the year, including some we probably haven't thought of yet.

> "Nuclear power has many advantages and disadvantages but probably deserves its place in the energy mix, although regulators need to keep a close eye on the deep pocketed tech companies and make sure they don't monopolise all new power generation."

Q What is your view on oil prices in 2025?

A To my mind, the oil price would have been much higher in previous years if the events of the past year or so in the Middle East tensions had played out back then. Arguably, the truth is that these tensions have never been far away. So why isn't the oil price higher?

So far there is no evidence that oil demand is falling – far from it. However, supply is more than keeping up. We have started to see signs that some large oil companies have cut back on growth capital expediture in the last couple of years so one wonders if the supply may roll over at some point soon. Then we will debate if more investment in exploration and production (E&P) is needed or if we have enough alternative energy sources to take up the slack. My suspicion is the former and we may see oil prices a bit higher, on average, through 2025, although I wouldn't be taking a position either way at this point, preferring to be neutral to oil and spending a bit more time working on other areas of the market that are a little more forecastable.

Q What does the landscape for alternative energy look like?

A 2024 was another tough year for many solar and wind-related stocks as higher interest rates, competition, supply chain issues and government subsidies moving in various directions held back many stocks, leaving them well below their 2022 peaks.

We saw a different story for nuclear stocks, many of which sit at new highs as it appears that nuclear power is now the 'go to' for big tech: the likes of Amazon, Alphabet and Microsoft have all done deals recently to secure some nuclear power after investing fairly heavily in wind and solar in earlier years. Nuclear power has many advantages and disadvantages but probably deserves its place in the energy mix, although regulators need to keep a close eye on the deep pocketed tech companies and make sure they don't monopolise all new power generation.

Indeed, the International Energy Agency recently declared that after the ages of coal and oil, we are now entering the age of electricity. Renewables will obviously do much of the heavy lifting with regards new electricity generation, partially because of lower emissions, partially for energy security but also because, increasingly, renewables offer the cheapest option to add power plants across the globe. Soggy performance to one side, this power generation theme isn't going away anytime soon.

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