Multi-Asset Strategy Quarterly

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Ninety One

Investing for a world of change

Foreword

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Welcome to our latest Multi-Asset Strategy Quarterly. In this report, Iain Cunningham shares his perspective on cyclical growth and examines the current uncertain and cautious investment climate, marked by elevated risks and limited clarity on key drivers such as trade policies and tariffs.

We also provide a concise summary of our higher-conviction asset class views, spanning equities, fixed income, currencies, and commodities.

Contents

General risks. The value of investments, and any income generated from them, can fall as well as rise. Where charges are taken from capital, this may constrain future growth. Past performance is not a reliable indicator of future results. If any currency differs from the investor's home currency, returns may increase or decrease as a result of currency fluctuations. Investment objectives and performance targets are subject to change and may not necessarily be achieved, losses may be made. Environmental, social or governance related risk events or factors, if they occur, could cause a negative impact on the value of investments.

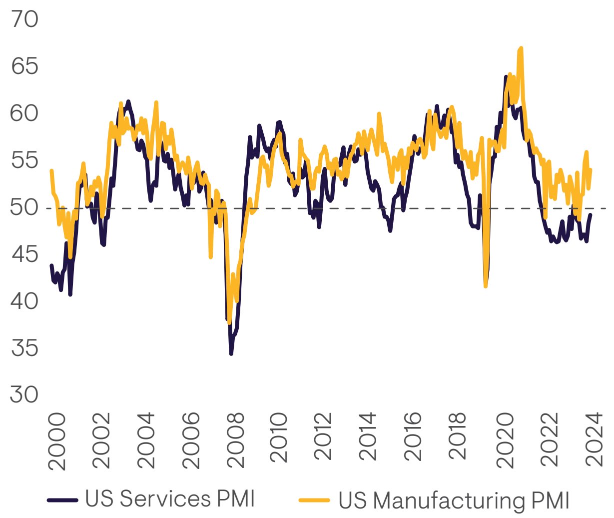
Specific risks. Currency exchange: Changes in the relative values of different currencies may adversely affect the value of investments and any related income. **Emerging market (inc. China):** These markets carry a higher risk of financial loss than more developed markets as they may have less developed legal, political, economic or other systems. **Commodity related investment:** Commodity prices can be extremely volatile and significant losses may be made. **Default:** There is a risk that the issuers of fixed income investments (e.g. bonds) may not be able to meet interest payments nor repay the money they have borrowed. The worse the credit quality of the issuer, the greater the risk of default and therefore investment loss. **Equity investment:** The value of equities (e.g. shares) and equity-related investments may vary according to company profits and future prospects as well as more general market factors. In the event of a company default (e.g. insolvency), the owners of their equity rank last in terms of any financial payment from that company.

Navigating global shifts: Inflation, easing and uncertainty

Mixed signals for US inflation

In the US, monetary policy has been eased to support growth and protect the labour market. However, Trump's election victory has introduced uncertainty regarding inflation. In response, the US Federal Reserve (Fed) appears to be more cautious about further easing. Policies of deregulation and tax cuts are expected to bolster growth, while tariffs and proposed immigration measures may exert upward pressure on inflation. Our central outlook for the US economy in 2025 anticipates relatively robust growth, with inflation consolidating toward target despite some volatility. Higher bond yields and uncertainties around trade policies could contribute to near-term volatility in US risk assets.

US PMIs



Source: Ninety One, Bloomberg, December 2024.

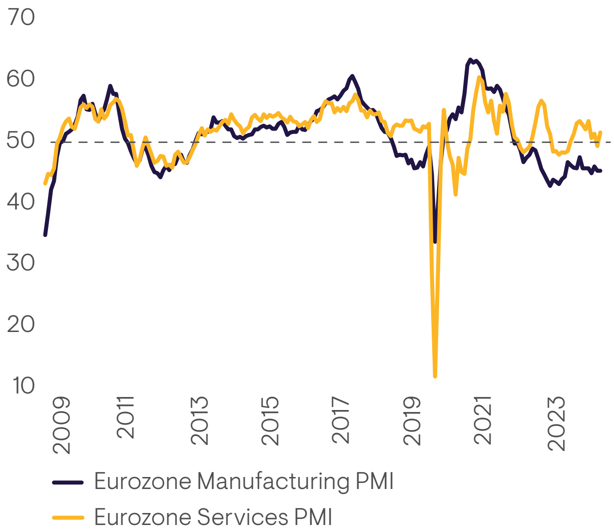
US core CPI

Source: Ninety One, Bloomberg, December 2024.

ECB easing continues

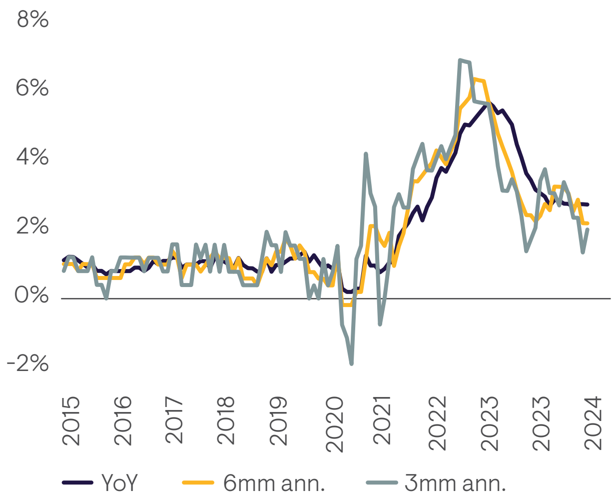
In Europe, monetary policy has also been eased, but conditions remain relatively tight. Growth indicators have been weak, with some countries nearing recession, while short-term inflation measures align with the European Central Bank's (ECB) target. We expect eurozone growth to remain subdued and inflation to moderate further. The ECB's easing cycle is likely to be more pronounced than the Fed's, given structural challenges in the eurozone and risks posed by potential US tariffs.

Eurozone PMIs



Source: Ninety One, Bloomberg, December 2024.

Europe core CPI

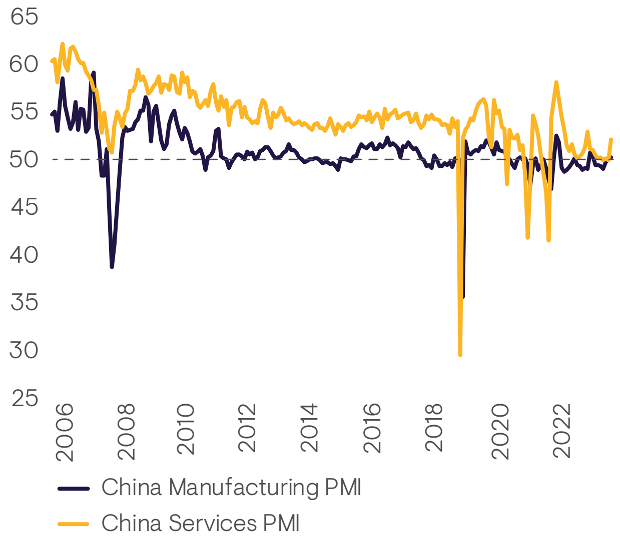


Source: Ninety One, Bloomberg, December 2024.

China doubles down on stimulus

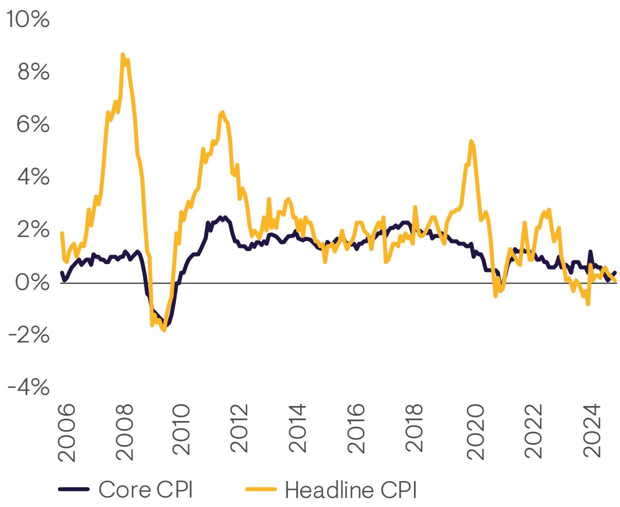
In China, easing measures are becoming increasingly aggressive, with policymakers prioritising domestic demand expansion. Additional announcements are expected following recent key policy meetings. Authorities appear determined to ensure a sustained recovery, though growth remains uneven and inflation weak. However, base effects should provide some inflationary support going forward. We believe the Chinese economy will fare better than bearish consensus views suggest, given the escalating policy response.

China PMIs



Source: Ninety One, Bloomberg, December 2024.

China core CPI



Source: Ninety One, Bloomberg, December 2024.

Positioning for uncertainty

Reflecting our central investment roadmap, we reduced exposure to US equities in December and early January, recognising elevated sentiment and heightened uncertainty surrounding tariffs in the first half of the year. This positioning enables us to take advantage of potential market weaknesses. In fixed income, we maintain a significant allocation to defensive government bonds to hedge downside risks and prepare for opportunities during market volatility. In currency, active positions remain limited, with the US dollar at a pivotal juncture. Its trajectory will likely hinge on the Trump administration's trade policies in the months ahead.

Summary of high conviction asset class views

Defensive bonds

View as at	31 Dec 24	30 Sep 24	30 Jun 24
US	positive	positive	neutral
Eurozone	positive	positive	positive
Japan	neutral	neutral	neutral
UK	positive	positive	positive
China	neutral	neutral	neutral

■ max positive ■ positive ■ neutral ■ negative ■ max negative

Positive: Australia, Germany, Norway, UK, US curve steepeners

Summary

Disinflationary pressures in the US and Europe are enabling central banks to gradually ease policy, transitioning from a restrictive stance towards a more neutral level. The pace of rate cuts and eventual terminal rates will depend on progress in managing inflation and economic growth outcomes. We prefer to be overweight duration, primarily focused on regions facing structural headwinds from over-indebted households, such as Australia, and the UK, where the economy is more sensitive to interest rates. Curve steepener positions remain attractive, reflecting expectations of continued rate-cutting cycles by major central banks.

Growth bonds

View as at	31 Dec 24	30 Sep 24	30 Jun 24
EM HC	neutral	neutral	neutral
EM LC	neutral	neutral	neutral

■ max positive ■ positive ■ neutral ■ negative ■ max negative

Summary

Overall, we are neutral on emerging market fixed income given the uncertainty in the global macroeconomic outlook. While certain areas have succeeded in gaining control of inflation through early and effective policy responses, the outperformance of the US economy and its support for the USD creates capital flow challenges in EM.

Credit

View as at	31 Dec 24	30 Sep 24	30 Jun 24
US IG	max negative	max negative	max negative
US HY	max negative	max negative	max negative
EU IG	max negative	max negative	max negative
EU HY	max negative	max negative	max negative

■ max positive ■ positive ■ neutral ■ negative ■ max negative

Summary

Credit spreads generally remain richly valued across sub-asset classes. We don't believe these valuation levels compensate investors for taking credit risks here given the limited upside.

FX

View as at	31 Dec 24	30 Sep 24	30 Jun 24
USD	neutral	neutral	neutral
EUR	neutral	neutral	neutral
JPY	neutral	neutral	neutral
CNY	neutral	neutral	negative
EM	neutral	neutral	neutral
Gold	neutral	neutral	neutral

max positive · positive · neutral · negative · max negative

Positive: Euro, South African rand, Turkish lira

Negative: Czech koruna, Polish zloty

Summary

The outlook for the USD remains uncertain. While coordinated easing cycles across developed markets typically exert depreciation pressure on the USD, the recent stabilisation in US economic data and the potential policy implications of the Trump presidency add risks of renewed US economic outperformance and USD strength. In the short term positioning is materially long USD suggesting limited asymmetry.

Equity

View as at	31 Dec 24	30 Sep 24	30 Jun 24
US	positive	positive	neutral
Europe ex-UK	neutral	neutral	neutral
UK	neutral	neutral	neutral
Japan	neutral	neutral	neutral
Asia ex-Japan	max positive	max positive	max positive
EM vs. DM	neutral	neutral	max positive

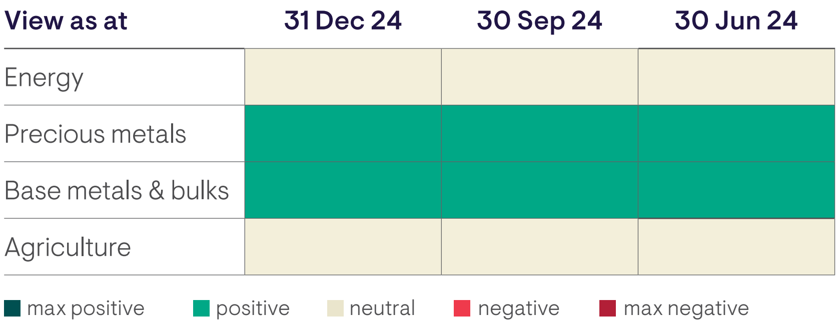
max positive · positive · neutral · negative · max negative

Positive: Asia ex-Japan, US small caps, cyclical technology

Summary

Within equity allocations, we maintain a preference for the US, a region well-supported by underlying policy and growth trends. Our focus is on structurally advantaged sectors, such as semiconductor stocks, and US small caps, which stand to benefit from a broadening recovery in a soft landing scenario. However, we acknowledge that short-term positioning and valuations have become stretched in the former. In Asia, structural tailwinds are strengthening, with earnings dynamics beginning to recover as regulatory pressures ease and macroeconomic policy turns more supportive. Authorities have increasingly shifted to focus on supporting domestic demand growth through the use of a broad range of policy tools. This shift comes when valuations in the region are depressed, offering potential opportunities. In contrast, Europe ex-UK and the UK face additional structural challenges, offsetting positive policy trends and leaving us neutral on the regions.

Commodities



Summary

Oil prices softened in Q4, weighed down by OPEC spare capacity and demand concerns, while gas prices showed resilience due to delayed project start-ups and stronger-than-expected demand. We expect oil to remain range-bound in the near term, with potential weakness in H1 2025 in part due to oversupply. However, fundamentals are likely to tighten as the year progresses, potentially exceeding market expectations. The key wildcard is how tariffs might impact oil demand, which remains difficult to predict at this stage. We specifically see opportunities in the midstream market in the US, driven by rising gas volumes, deregulation and improvements in shale production.

In precious metals, geopolitical tensions, uncertainty surrounding Trump-era policies, and central bank buying continue to support gold. Despite the gold price trading to new highs, there seems to be plenty of upside for companies in general as previous cost inflation headwinds abate and management teams focus on shareholder returns.

Elsewhere within metals and mining, we are constructive on base metals & bulks. Valuations do not fully reflect the upside risk to longer-term pricing, which could lead to increased M&A activity as companies find it cheaper to buy than build. Specifically, we favour copper, aluminium, and zinc, as well as iron ore, but are more cautious on the likes of nickel, thermal coal, and steel.

In agricultural markets, grains remain well supplied, keeping us neutral overall. That said, we see opportunities in seeds, nitrogen, and protein markets such as pork and salmon, where fundamentals are expected to improve through 2025.

Important information

The content of this communication is intended for readers with existing knowledge of financial markets.

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