Outlook 2025

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Key points

- **Population growth driven by immigration and the associated rise in consumption provide a solid foundation for economic expansion.**
- **External factors including the re-election of Trump and Australia's relationship with China are important elements to monitor.**
- **The Fund is strategically positioned to capitalise on companies that are driving productivity improvements through operational efficiencies and technological innovation.**

What is your outlook for Australian equities?

The long-term prospects for Australian equities remain promising, underpinned by several structural tailwinds. Population growth driven by immigration and the associated rise in consumption provide a solid foundation for economic expansion. Additionally, the Reserve Bank of Australia (RBA)'s current policy stance, with interest rates expected to remain stable through the first half of 2025, offers a more predictable environment for businesses and consumers alike. Persistent service sector inflation will be a key indicator for the Reserve Bank of Australia to monitor. If service inflation starts to ease, it could signal the potential for future interest rate cuts, which would provide welcome relief for younger Australians contending with higher mortgage costs and a rising cost of living. Easing inflationary pressures and subsequent rate cuts would likely boost discretionary spending, particularly among this demographic. Older Australian consumers, on the other hand, continue to be a strong segment, with their spending power remaining a key driver of domestic demand.

Trump's re-election in the United States could have implications for the Australian market. While companies with US earnings, such as James Hardie, may benefit from lower corporate tax rates, the prospect of higher and more persistent US interest rates could create headwinds for certain sectors.

Notably, the financial sector, which includes investment banks like Macquarie and fund management houses, may stand to gain from a more accommodative regulatory environment under a Trump administration. Furthermore, the potential for reduced bureaucratic interference and a more favourable merger and acquisition landscape could provide a boost to IPO activity, which would likely benefit these financial institutions.

Looking beyond the domestic impact, the relationship between China and the Trump administration will be crucial. Should China respond with fiscal stimulus measures to support its domestic economy, this could benefit Australian materials companies, including Evolution Mining, BHP, and Rio Tinto, given the strong linkages between the Chinese economy and the Australian materials sector.

Overall, the Australian equity market faces a mix of opportunities and challenges, requiring a selective and well-informed approach to portfolio construction. By focusing on companies that demonstrate strong productivity gains, either through their own operational improvements or by providing productivity-enhancing solutions to their customers, investors may be able to navigate the evolving market environment and capture attractive long-term returns.

How are you looking to position your portfolio against this backdrop?

Our investment approach focuses on identifying high-quality businesses with compelling long-term growth prospects, rather than trying to time shorter-term market movements. We emphasize fundamental analysis to understand a company's competitive advantages, management quality, and ability to generate sustainable profits and cash flows over time. Rather than frequently trading in and out of positions, we prefer to construct a diversified portfolio of these carefully selected stocks and hold them patiently, allowing the power of compounding to work in our favour. We also consider the tax implications of our trading activity, as this can have a meaningful impact on overall returns.

By investing in companies that possess durable competitive moats and reinvest capital effectively, we aim to build a portfolio that can deliver attractive risk-adjusted returns through a combination of capital appreciation and growing dividend income over the long run. This disciplined, research-driven approach helps us navigate market volatility and capitalize on the wealth-building potential of equity ownership.

The Fund is strategically positioned to capitalise on companies that are driving productivity improvements through operational efficiencies and technological innovation. This focus aligns well with the broader Australian economic landscape, where we see several structural tailwinds supporting the performance of such companies.

For instance, we hold shares in Coles, which has been investing heavily in automated distribution centres to streamline its supply chain and logistics. This is enhancing the company's cost competitiveness and profit margins, positioning it well to weather potential macroeconomic headwinds. Similarly, we have exposure to Seek, the leading online recruitment platform, which is helping employers access more relevant talent at lower costs through its data-driven matching capabilities.

Furthermore, we are invested in WiseTech Global, a logistics software provider enabling freight forwarders to optimize their operations. As global supply chains continue to face disruption, the demand for tools that enhance efficiency and visibility is only expected to grow, underpinning WiseTech's long-term growth trajectory.

Regardless of the broader economic environment, whether influenced by factors like geopolitical tensions or interest rate movements, we believe companies that can demonstrate sustainable productivity gains are well-positioned to deliver attractive returns to shareholders. Their solid business models and strong management execution provide a degree of resilience, making them compelling long-term investments within the Australian equity market.

All information is current as at 4 December 2024 unless otherwise stated.