GLOBAL EQUITY MARKETS IN 2024 – BUMPY RIDE, BUT A GREAT FINISH

Thematic Investing – capturing growth from structural trends

In 2024, global equity markets navigated a challenging, yet dynamic environment shaped by interest rate policies, uneven economic growth, and geopolitical uncertainties. Nevertheless, many market indices worldwide ended up at or near record levels marking a great finish. While market performance varied by region, key themes included valuation shifts, sector-specific opportunities, and the influence of monetary policy transitions.

Stocks made further progress over the first half of 2024, although the gains were mostly driven by a narrow range of technology companies that stood to benefit the most from the growing use of generative AI. This was followed by a rotation away from highly priced growth stocks in the third quarter as investors favoured more defensive value shares given concerns over slowing US economic growth. US stocks rallied strongly as Donald Trump's landslide victory in the US presidential election boosted hopes of tax cuts and looser regulations. However, threats of tariffs weighed on the performance of other markets, particularly in Europe, Japan and many emerging markets.

At a sector level, Information Technology, Communication Services and Financials rallied the most, while Materials and Health Care were the weakest sectors in the MSCI All Countries World Index. European markets underperformed, weighed down by stagnant economic growth and structural and political challenges. Germany, the region's largest economy, struggled with a manufacturing recession, while the broader Eurozone experienced subdued demand. However, selected opportunities emerged in undervalued sectors, particularly in energy and materials, as governments in the region prioritized green investments. The European Central Bank's rate cuts offered limited support to equities, reflecting a sluggish recovery.

Emerging market equities presented a mixed picture. China, the dominant player, faced significant economic hurdles, including weak domestic consumption and structural slowdowns, which limited the appeal of its stock market. On the other hand, other emerging economies in Asia and Latin America benefited from relative currency stability and increasing commodity demand. In a strongly rising global equity market.

Outlook

As 2024 closes, the global equity outlook hinges on central bank actions, inflationary trends, and geopolitical developments. If US growth remains sufficiently robust and translates into earnings growth, equities are likely to remain in demand.

Europe and Chima remain wild cards for further economic recovery and equity market support. International equities, particularly in developed non-US markets, are positioned to offer attractive valuations compared to US counterparts, highlighting the importance of geographic diversification in portfolios.

In such an environment, we believe an active investment approach is recommended. In our view, a diversified multi-thematic portfolio continues to offer many opportunities for investors to benefit from structural megatrends in the current year.

Digital life

Digital technologies continue to reshape consumer behaviour, workplace dynamics, and industrial operations. The ongoing adoption of artificial intelligence, cloud computing, and the Internet of Things (IoT) creates sustained demand for digital solutions.

Enterprises across sectors are increasing investments in software, automation, and data analytics, driving growth for technology companies. E-commerce platforms and financial technology solutions are thriving as consumers embrace digital payment systems and online marketplaces.

In emerging markets, digital financial inclusion is gaining momentum, providing significant growth opportunities. E-commerce growth in 2025 will be driven by increased digital adoption, rising mobile commerce, and expanding penetration in emerging markets.

Beneficiaries should profit from improving logistics efficiency, personalization through AI, and enhanced payment technologies, which boost user experience and conversion rates. Stabilizing consumer sentiment and structural trends like social commerce and omnichannel integration further support their growth. In 2025, stabilizing macro conditions, easing inflation, and potentially lower interest rates should support valuations in the technology space.

Emerging trends like Generative AI, 5G expansion, and cybersecurity demand further bolster the theme's potential. In 2025 "Hyperscalers", large providers of cloud computing and data management services, should continue to benefit as cloud adoption accelerates, driven by AI, data analytics, and enterprise digital transformation. Stabilizing macro conditions and easing IT budget constraints will support revenue growth, while efficiency measures implemented in 2024 should enhance profitability.

Intelligent machines

2025 is expected to see broader and deeper integration of artificial intelligence across industries. Advances in artificial intelligence and machine learning have reached new levels of sophistication, enabling intelligent machines to perform complex tasks with minimal human intervention.

Industries such as manufacturing, logistics, and healthcare are heavily investing in robotics and AI-driven solutions to improve efficiency, reduce costs, and meet the demands of a competitive global landscape.

AI tools will mature, enabling more seamless automation, predictive capabilities, and personalization. This progression makes businesses in sectors like healthcare, retail, and logistics more efficient and competitive.

The Intelligent Machines theme aligns with long-term megatrends like automation, sustainability, and connectivity. Its wide-ranging applications across industries, coupled with robust technological progress, make it a compelling investment in the coming years.

2025 should favour the theme as supply chain resilience, automation, and energy efficiency are top priorities for businesses. Investments in robotics, IoT, and AI-driven manufacturing processes will further accelerate, supported by government incentives for green and digital infrastructure.

Infrastructure

Governments worldwide are currently increasing investments in infrastructure to stimulate economic growth and modernize outdated systems. Initiatives such as the U.S. Infrastructure Investment and Jobs Act and similar global programs in Europe and Asia are directing a lot of investments toward roads, bridges, rail systems, energy grids, and digital infrastructure. Companies supplying materials, equipment, and technology for these projects remain well-positioned for further growth.

With urban populations growing globally, the demand stays high to fulfil the demand of improving living conditions. Infrastructure-enabling companies – which we focus on in our thematic approach – serve as critical facilitators of progress in energy, connectivity, and sustainability. As public and private investment in infrastructure surges globally, these companies offer steady, long-term growth potential tied to essential economic development. This positions the sector as a cornerstone for portfolios seeking stability and exposure to megatrends. 2025 should be supportive of the infrastructure theme due to increased global government spending on modernizing aging infrastructure, prioritization of green and digital projects, and urbanization trends in emerging markets. Additionally, stabilizing supply chains and lower financing costs could accelerate project execution, benefiting companies involved in smart cities, renewable energy, and transportation networks. Additionally, electrification trends driven by decarbonization goals, renewable energy integration as well as AI/data centre should boost demand for related technologies and services. The rise of AI could drive c10%-20% p/a growth in the global data centre market over the next decade. That suggests a new era of electricity demand growth in major markets could be on the horizon as all the stimulus program which have been set up after the pandemic are starting to unfold and the budgets hit demand.

Clean water and land

Water is a fundamental resource with no substitute, and addressing water infrastructure challenges is crucial for global development. Companies offering innovative solutions in this domain are well-positioned to benefit from strong demand, government funding, and long-term structural growth trends, making them a strategic investment for 2025 and beyond. In 2024[1], several significant water scarcity events underscored the growing global challenge of managing water resources amidst climate change and population pressures. Extreme weather events, including droughts and floods, disrupted water availability and quality across various regions. In Chile, Spain, and Australia, consecutive droughts exacerbated water stress, while in regions like coastal Peru and Iran, both surface and groundwater depletion reached critical levels. The combination of urgent environmental needs, urbanization, and policy-backed funding ensures that 2025 will see a notable uptick in water infrastructure investments. This trend will be pivotal in addressing the mounting global water crisis while fostering economic growth and climate resilience.

Health technology

2025 is shaping up to be a year of strong investment opportunities for healthcare innovators due to significant advancements in technology, demographic shifts, and supportive regulatory trends. Biotechnology innovations, including novel diabetes and obesity therapies, gene editing (CRISPR), and personalized medicine, are reaching new levels of maturity. These breakthroughs promise to treat or cure diseases previously considered intractable, attracting both public and private investment. The digital transformation of healthcare is accelerating. Wearable devices and artificial intelligence-driven diagnostics are becoming mainstream, enhancing accessibility and efficiency. Healthcare systems are adopting these technologies rapidly and can achieve scale very soon. Regulators are streamlining approval processes for innovative treatments and technologies. Healthcare innovators are leveraging

[1] Source: UN Global Water Report 2024 & National Geographic News 21 Global Water Scarcity Hotspots Identified

artificial intelligence and genomic data to identify new drug targets and personalize treatments. Driven by the aging population, the demand for chronic disease management, elderly care services, and orthopaedic devices should continue to grow in 2025 and beyond.

Additionally, robust R&D and regulatory support should help pipelines in oncology, immunology, and rare diseases to bear further results. The obesity/GLP-1 topic also remains attractive in 2025 due to increasing global obesity rates, broader insurance coverage, and expanding use of GLP-1 drugs for related conditions like diabetes and cardiovascular health.

Generation wellbeing

Changing consumption patterns driven by Demographic and Social Change open new opportunities for companies that can adjust and position themselves accordingly. Consumer trends are shifting as demographic changes alter who consumes, how they consume, and what they want to consume. Gen Z (15–27-year) and Millennials (28–44-year) account for a large amount of the global population today but have limited purchasing power. As we move into the future, they will however gradually become the largest consumers in the global economy. Grasping how they spend their time and money, along with changes in physical and mental health needs, is crucial to understanding the future and therefore stock picking across all sectors.

Gen Z and Millennials are significantly impacting trends through social media, contributing to the viral spread of products and ideas. Companies that understand and leverage social media trends can benefit from the ripple effects created by these generations. As Gen Z enters the workforce and Millennials progress in their careers, their collective economic impact as consumers, voters and future decision makers is clearly growing fast. Investing in companies that cater to the needs of GenZ will allow investors to participate and capitalize on their increasing spending power in coming years. In the next year, we believe the areas of mental health, active lifestyle and conscious eating should be supported by the growing preferences of these younger generations. On the other hand, long-term growth for the pet economy remains attractive driven by an increasing number of pets as well as an ongoing trends of premiumization and pet “humanization” – trends that are particularly prominent with Generation Z. Thus, looking into 2025, post-Covid pet care market normalization should be less of a headwind, and lower interest rates and lower inflation should generally support consumption, including spending on pets.

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