MARKETING COMMUNICATION

CIO Perspective

Paras Anand sees opportunities in the UK and China over the year ahead, but warns investors about private markets and urges them to take a selective approach to Europe.

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How will 2024 be remembered from an investment point of view?

We look back on 2024 as a year of some considerable volatility. In many ways, investors were looking for answers from the elections that they foresaw coming through the year, but actually they were left with a lot of questions and uncertainty. And when we take a step back, other than in one or two cases, **we had largely directionless markets over the period**. We ended 2024 with more questions than answers.

Which themes do you think will define 2025?

The place that we really want to start as we look forward to 2025 is thinking about the prospects for **China**. Now, I believe that what we are likely to see is **increasing positive momentum and sentiment** towards the Chinese economy and market as we go through 2025.

We obviously saw some stimulus as we went through the second half of 2024, but that was also married with some uncertainty as to whether that would be sufficient to supercharge the Chinese economy. And I think that what this misses is that the Chinese economic strategy is really moving away from one of boom and bust towards one of more **sustainable growth**.

With the passage of time and incrementally, additional points of stimulus, that whole conviction around the direction of travel in China will increase. And with that will come a greater belief in the outlook and prospects for emerging market equities and bonds more generally. And that will be a key theme as we look forward to 2025.

Which sector or region are you most excited about for the year ahead?

So we're particularly excited about listed markets in general. I've just pulled out a few examples.

We still remain very excited about the **UK market**, where the valuations on offer are very attractive.

In parts of the **US**, particularly going further **down the market cap scale**, I think that the prospects for earnings growth and the real economy to surprise on the upside remain there.

Moving into fixed income, we still see a lot of value in credit, particularly in **high yield**, where the nominal yields remain very attractive. But actually many of the high-yield companies don't carry that much leverage and are in better shape (than when spreads have been this tight in the past), so therefore will offer investors very attractive returns.

Are there any risks you think investors are being complacent about?

There's a couple of areas where investors will be well-served to focus from a risk and caution perspective. I think the first is **Europe**. What we're about to see is an ongoing fraught political situation in Europe: a slightly more challenging economic background in totality and all of that really starting to pull on the cohesion of the region as a collective. So to that end, what I would say is that there are still going to be attractive opportunities within Europe, but you really need to be focused on valuation and really use your discrimination when investing there. So we would really **advocate for a value investing style, within Europe**.

The other area where I would be cautious is around **private markets.** Looking forward to 2025, we're going to start to see some strain in private market valuations and some of that becoming more well understood by the investing market more generally.

Are there any risks you think investors are overestimating?

If I look for a risk that the market is potentially overestimating, it's the risk that you have a **recession in the global economy**. That is something that people have anticipated for a couple of years now.

But again, with the sort of economic strategy that most governments are pursuing where they're effectively expanding their balance sheets in order to support the real economy, the underlying demand situation and the **health of the real economy will remain robust** as we go through 2025.

Finally, if you could give investors one piece of advice for next year, what would it be?

I would give investors the same piece of advice that I gave at the start of 2024 and I think it's one that will prove to be very valuable over the coming years, which is to really **focus on that starting valuation**, the price you pay for any given security or any market.

We are in a world where rates are going to be higher for longer, where there won't be that kind of natural upward pull on valuations, and therefore having that value discipline and **focusing on your margin of safety** is going to be a really powerful tool for investors looking forward.

Investors will be well-served to focus on **high yield markets** looking out into 2025. One of the mistakes investors are making is commenting on the fact that spreads are quite low. What they're missing is the very high and sustainable yields and the very high income that's on offer looking forward.

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