Harbourlight Private Wealth Management Investment Review and Outlook. January 2025

A brief review of investment markets and broader factors affecting clients.

- With the **new Trump administration** set to commence shortly on 20 Jan 2025, we reflect on the 2017-2021 administration for insight (further tabled below). We can anticipate a set of America First policies centred around tax cuts, deregulation, stricter immigration measures and trade restrictions. However, economic conditions and asset price valuations start in different parts of the cycle this time.

- There will be many other factors over the next four years that will influence financial markets. Including earnings growth, broader economic conditions and factors outside the US. **It's important to have a balanced view in times when there is a lot of media noise.**

- **Global GDP growth and employment look to be reasonably stable, Australian wages grew faster than inflation and household savings increased.**

- **China** continues to make its way through a short-term pain aiming at long-term gain economic stance.

- **Global inflation continued to decline** with Australia aligning. Whilst being difficult to predict, we expect inflation to continue gradually easing. The US however is expected to face greater challenges due to expected tariffs, tighter immigration laws and tax cuts.

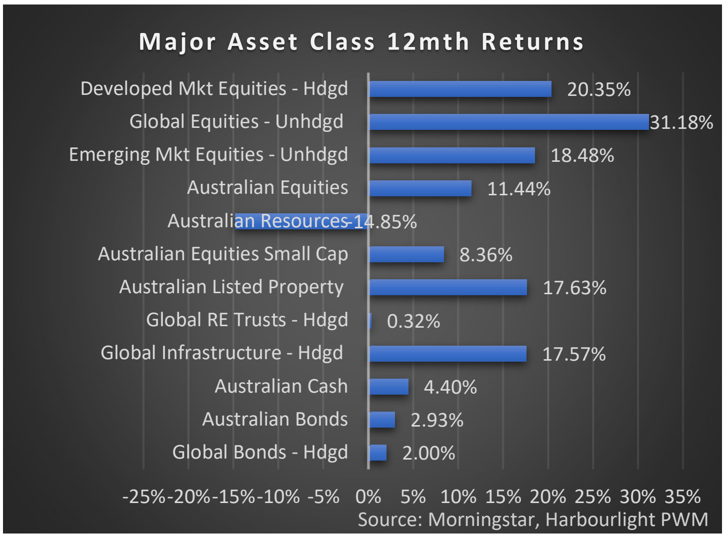
- **Broad equity valuations are elevated**, though may be improved by earnings growth and value still remains in certain geographies and sectors.

- **Fixed income valuations look historically attractive** as longer term rates rise.

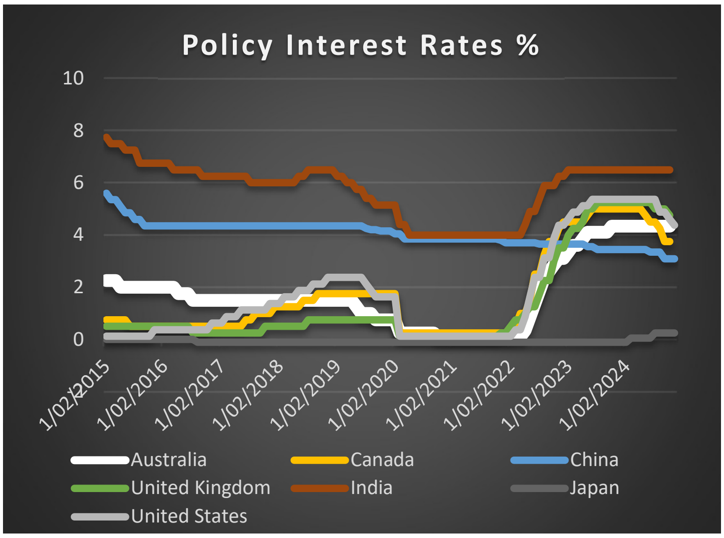
- **Neutral to conservative** investment positioning is favoured, as is **valuation-based investing**.

- **Residential property prices** across Australia rose with 10 year capital city growth rates averaging 6.8%. Sydney and Melbourne show recent negative returns.

- **Growth assets** have shown strong returns over the last 12 months. At subsector level, resource stocks came under pressure as resource prices fell, whilst technology and bank stocks performed very strongly.

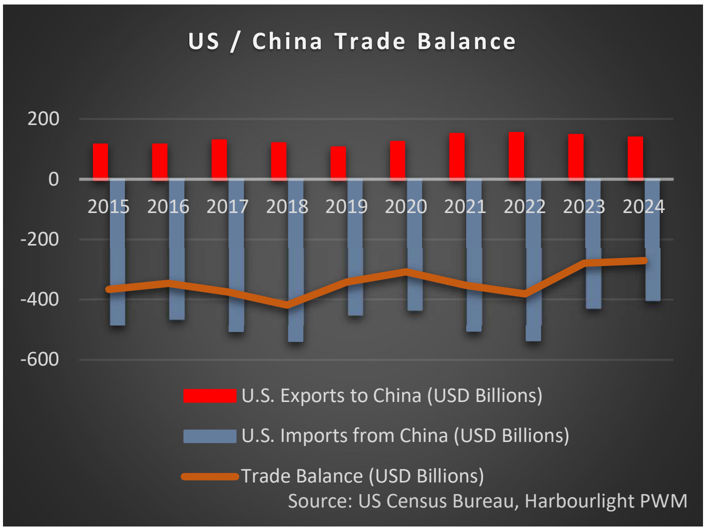


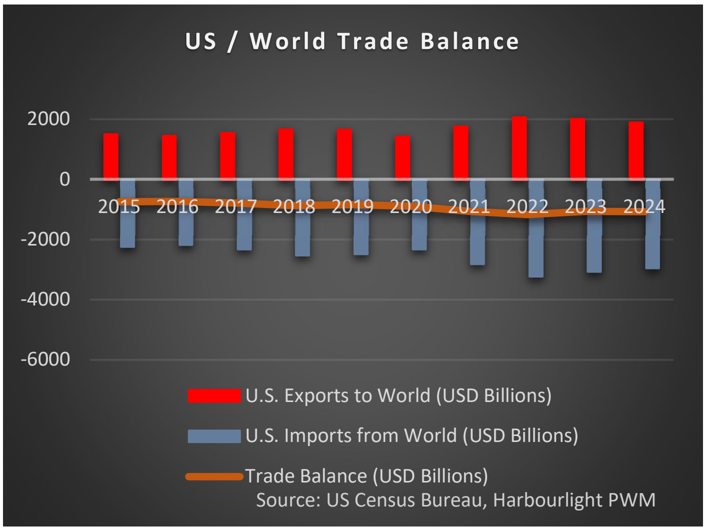
- **Our expectations of a mild interest rate easing cycle are unfolding**. Whilst Australia has not cut rates yet, they weren't increased by as much as other countries. We expect gentle rate cuts to continue in 2025 though dynamics may vary by region.

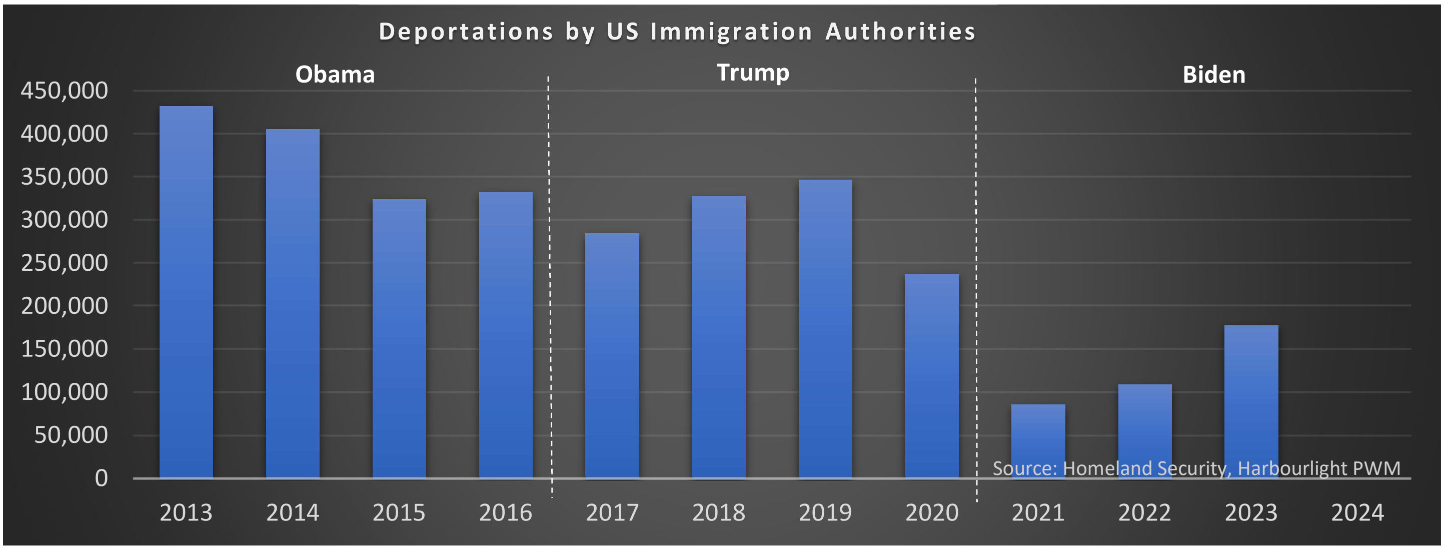


Lessons from the last Trump administration

Trump Administrations in Context	First Term 2017-2021	Second Term 2025-2029
Policy Agenda	• Reduced Taxation (corporate tax rate from 35% to 21%) • Deregulation • Trade restrictions and tariffs of between 10% and 25% on approximately half of all Chinese imports ($250b - many of which currently remain) • Tighter immigration policy (deportation not a new thing in the US)	• Similar agenda (America First, trade sanctions, reduced tax, migration intent sounds stronger, and deregulation) • Reduce the trade deficit • Don't get involved in the wars of others
Commencing Economic Conditions	• Reasonably strong steady economy • Low interest rates since GFC • Moderate inflation • Fair asset pricing • Covid mid-term – over stimulus created excess liquidity and inflation	• Overstimulated economy working its way through inflation and higher interest rates • The start of an interest rate easing cycle • Higher valuations in asset prices • Government stimulus wound back
Economic results	• Reduction in Chinese trade deficit • Overall trade deficit continued to grow • Moderate increase in inflation though this became a real problem post Covid • A significant rerouting of trade routes • Difficult to read economic growth effects due to Covid	• Forecasts for continuing of previous America First policies • Nuanced outcomes for the rest of the world • Inflation risks leading to changes in interest rate policy • Global and local political forces that will limit Trump's policy objective • Expect volatility

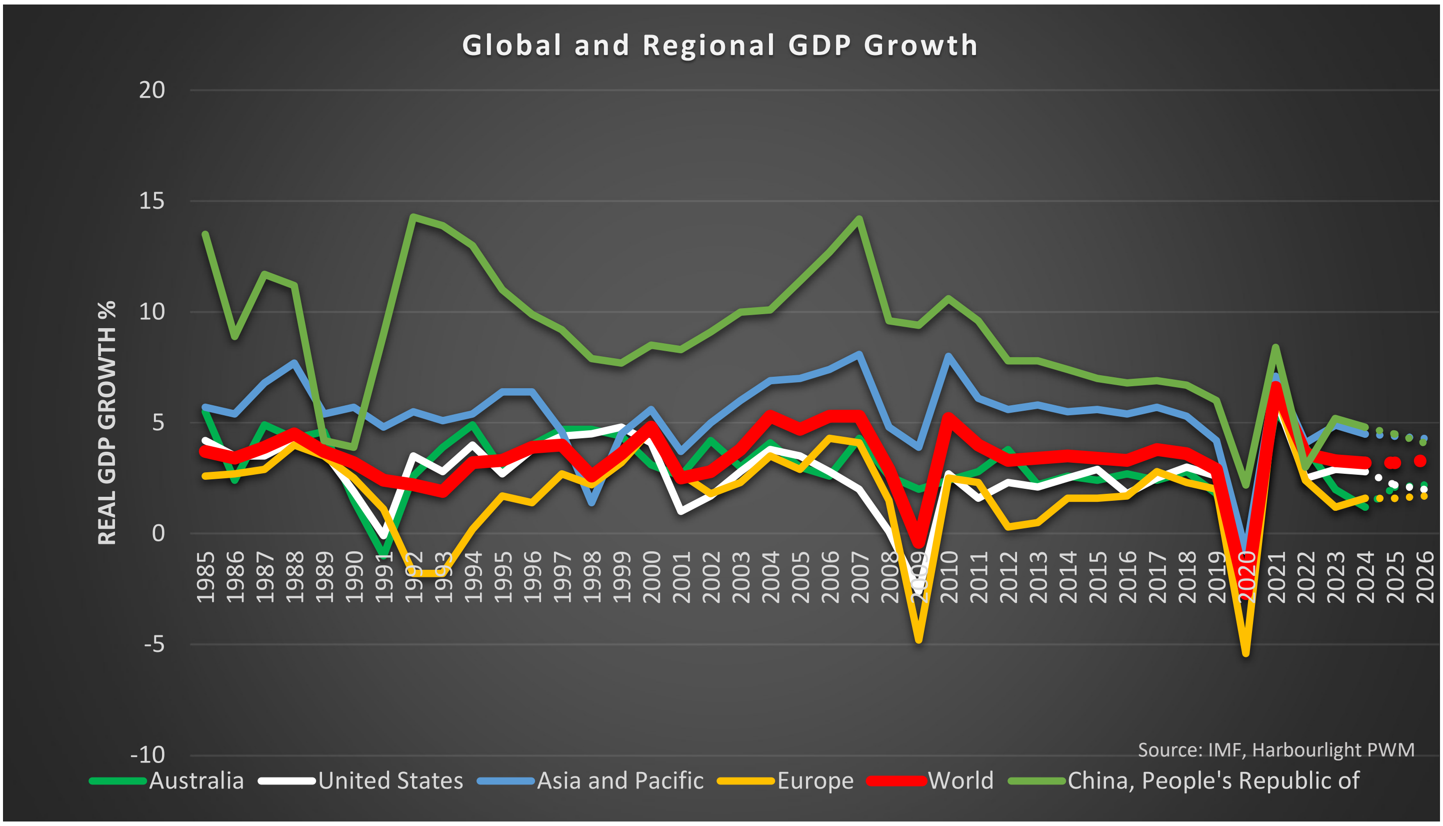




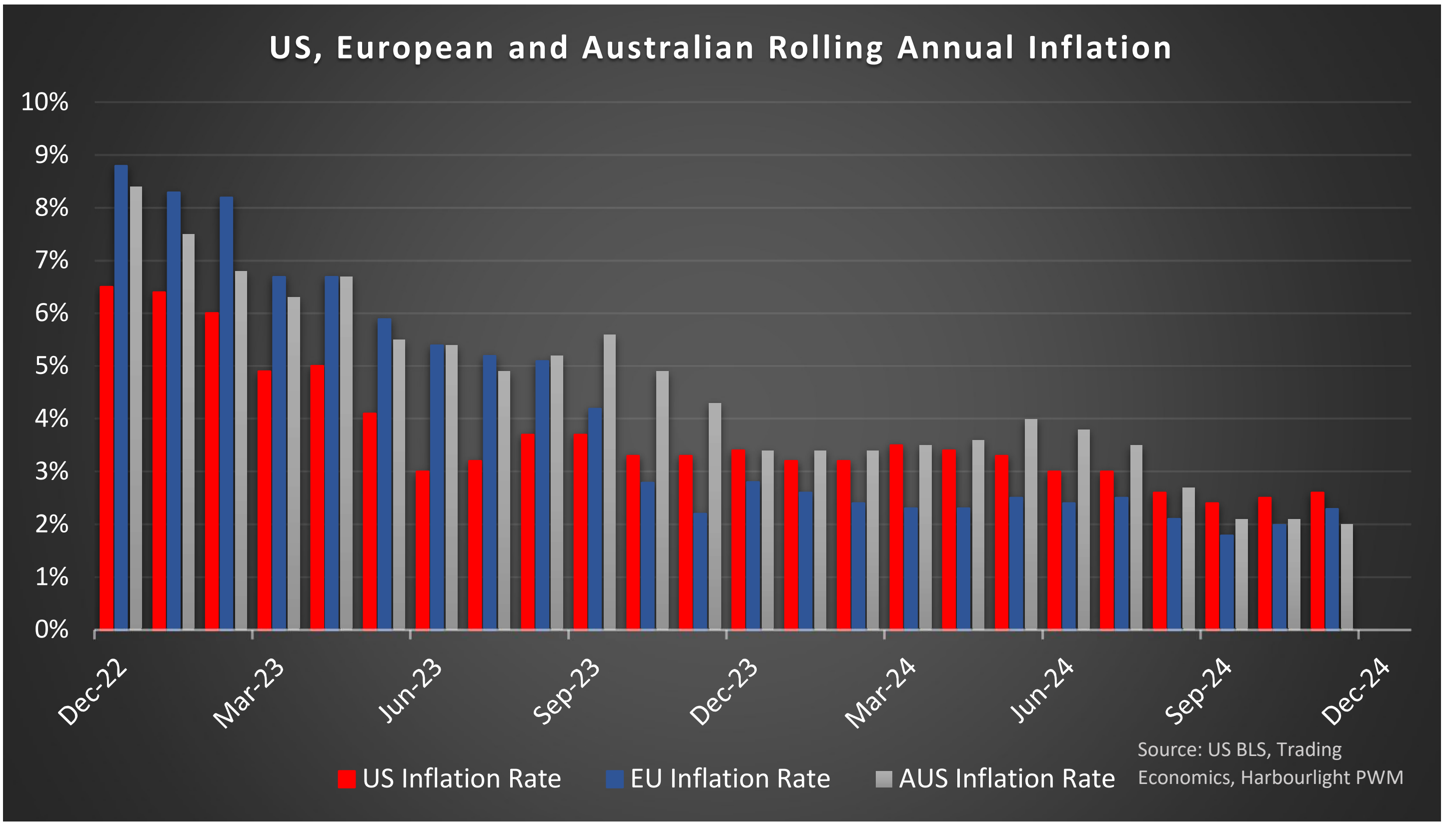


Economy and Financial Markets

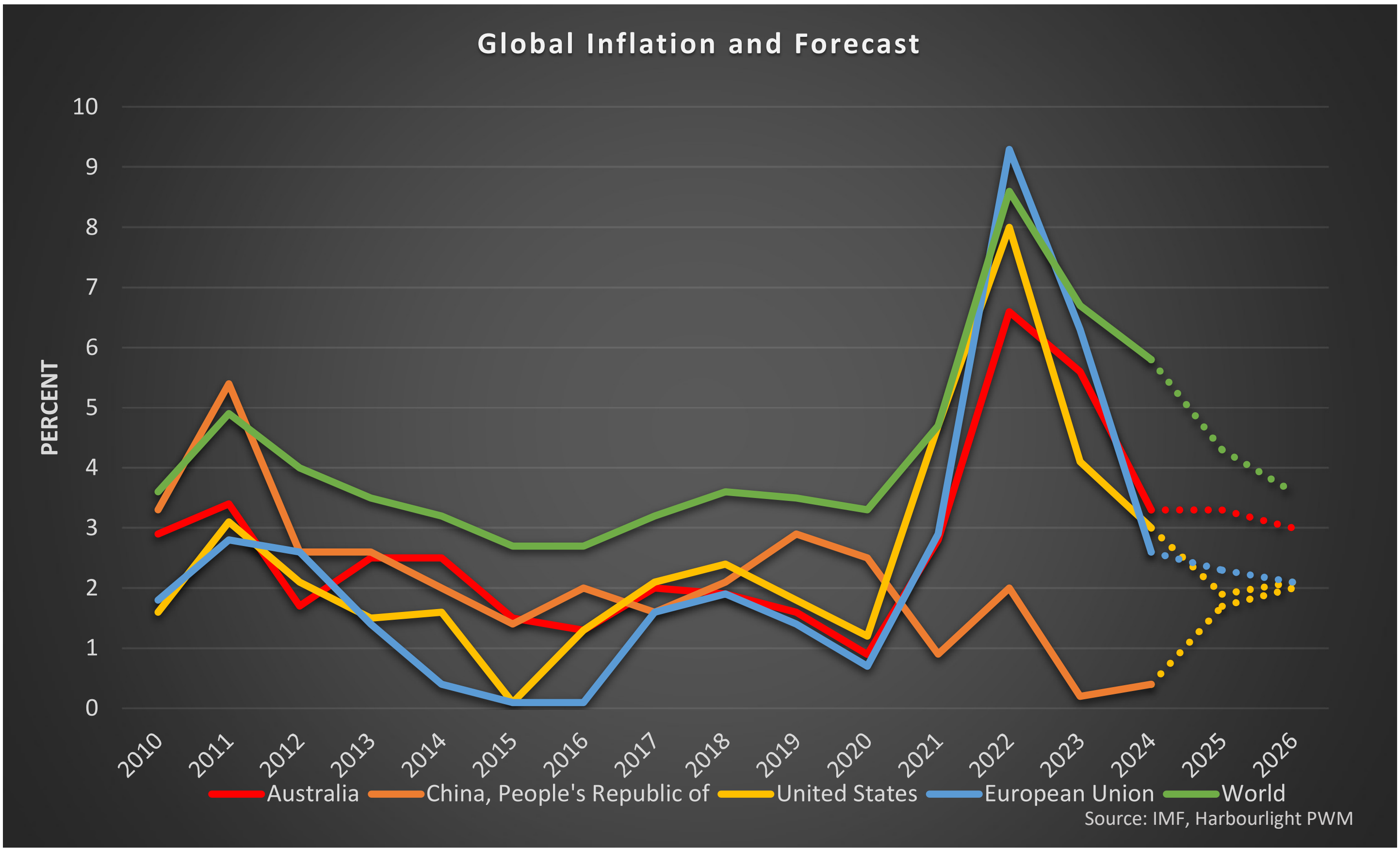
Regional GDP growth forecasts remain steady however anticipate slowing growth in the US and China.



Inflation indicators continued to decline in Australia, aligning with trends in the US and Europe and getting closer to central bank targets. Higher European and US reads in October and November have pushed up longer term interest rates.

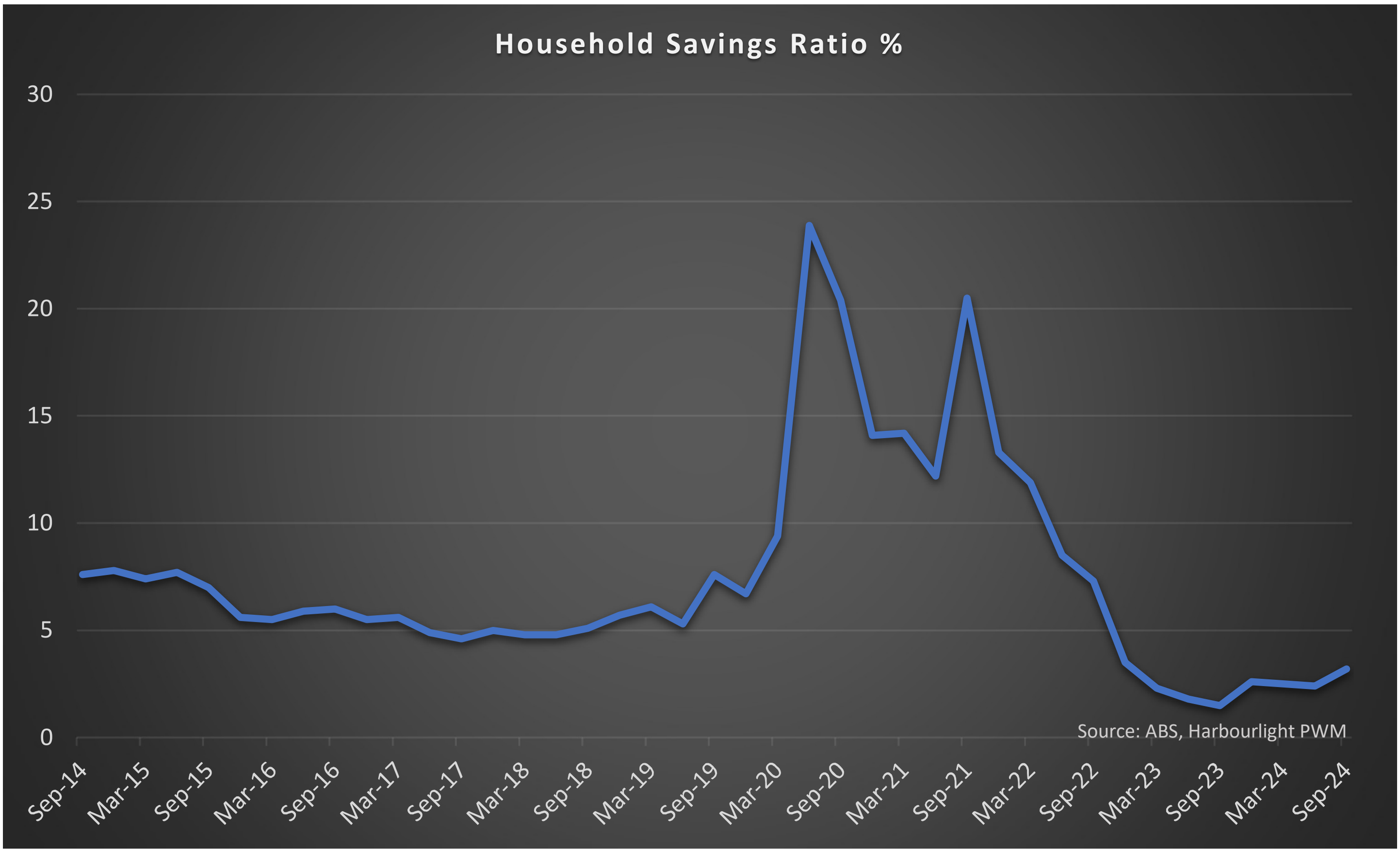


Developed economy inflation forecasts continue to soften, less so in the US.

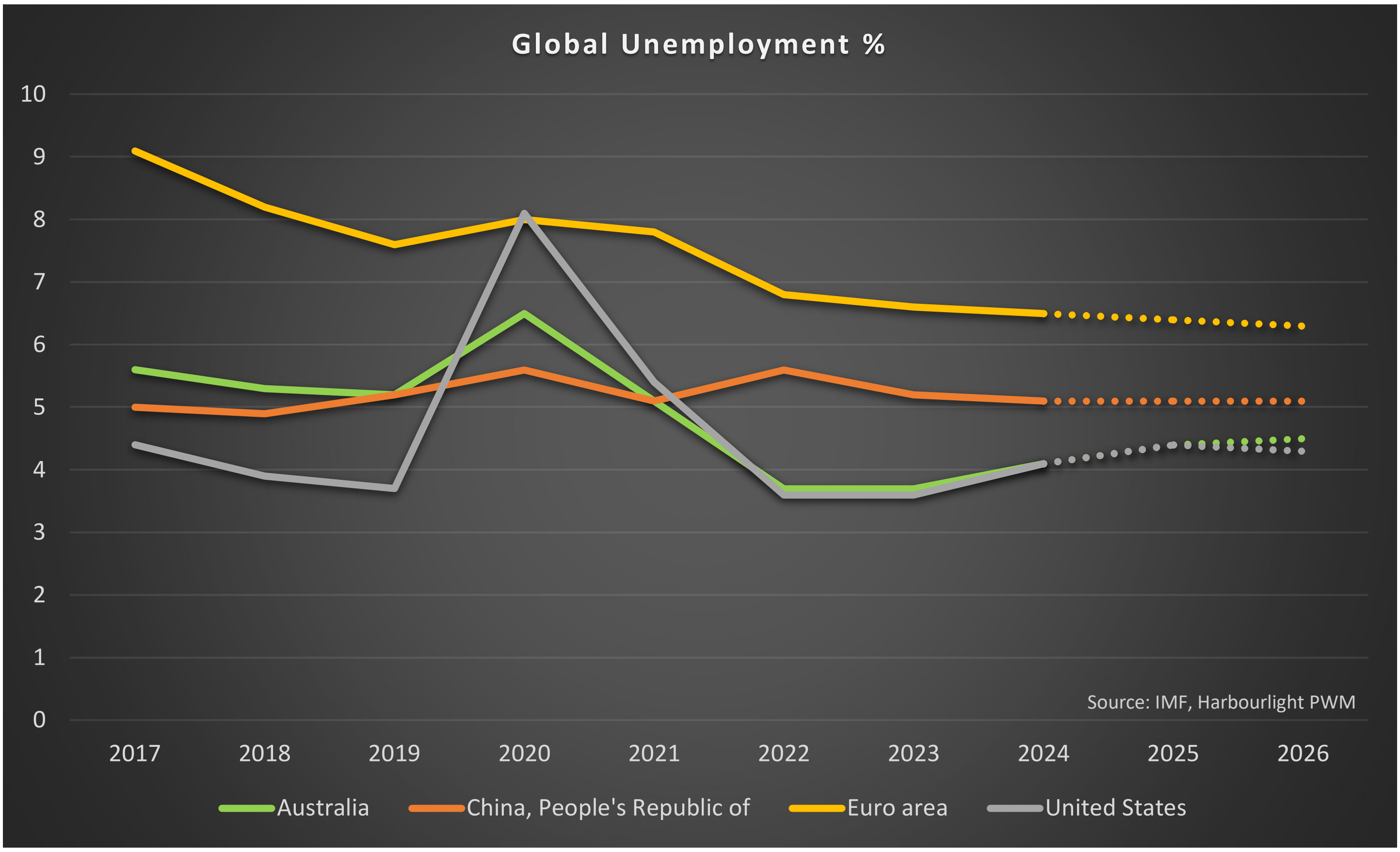


Wage growth in Australia continues to remain high but is moderating.

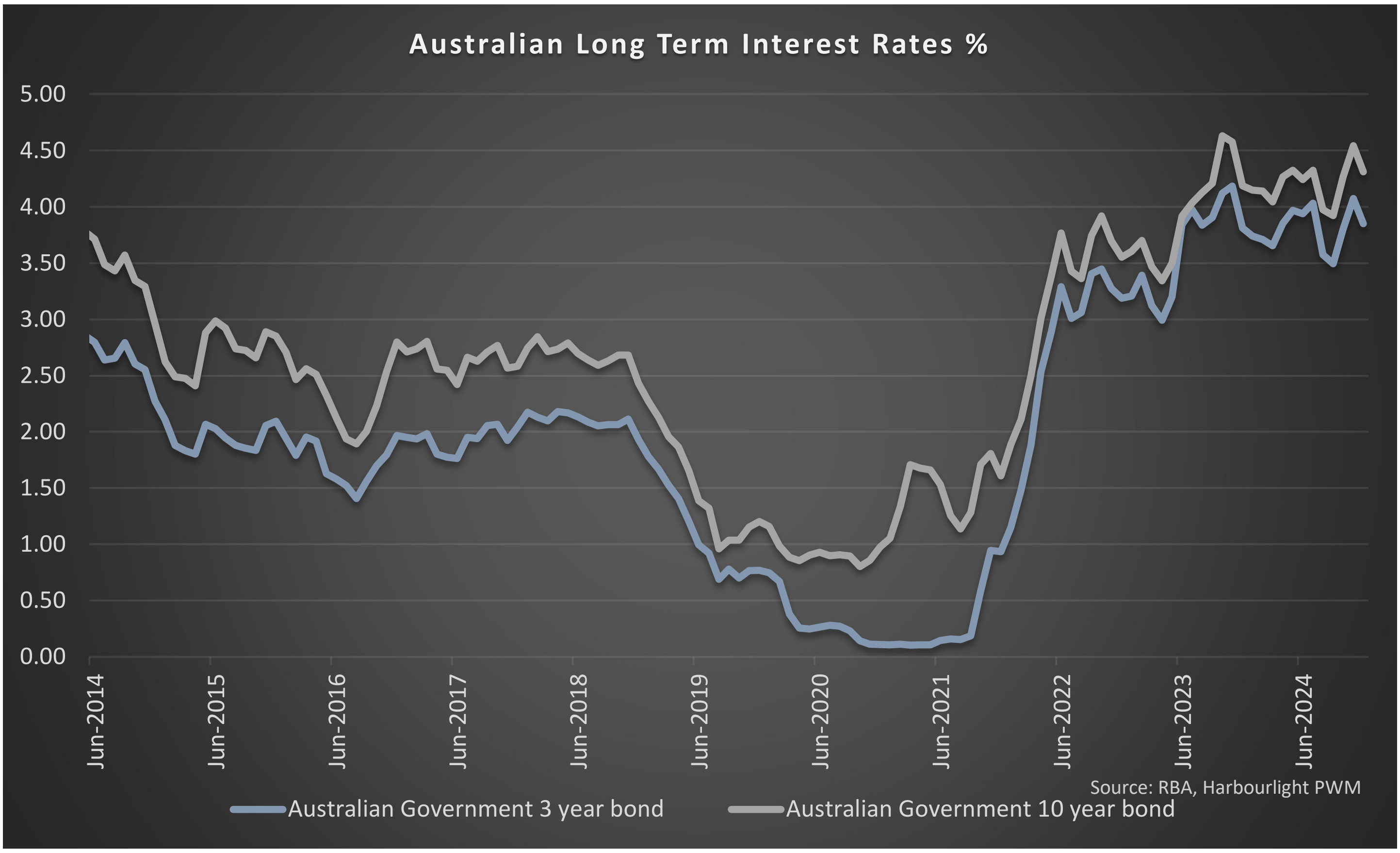
Australian household savings have increased to over 3% for the first time in 3 years.



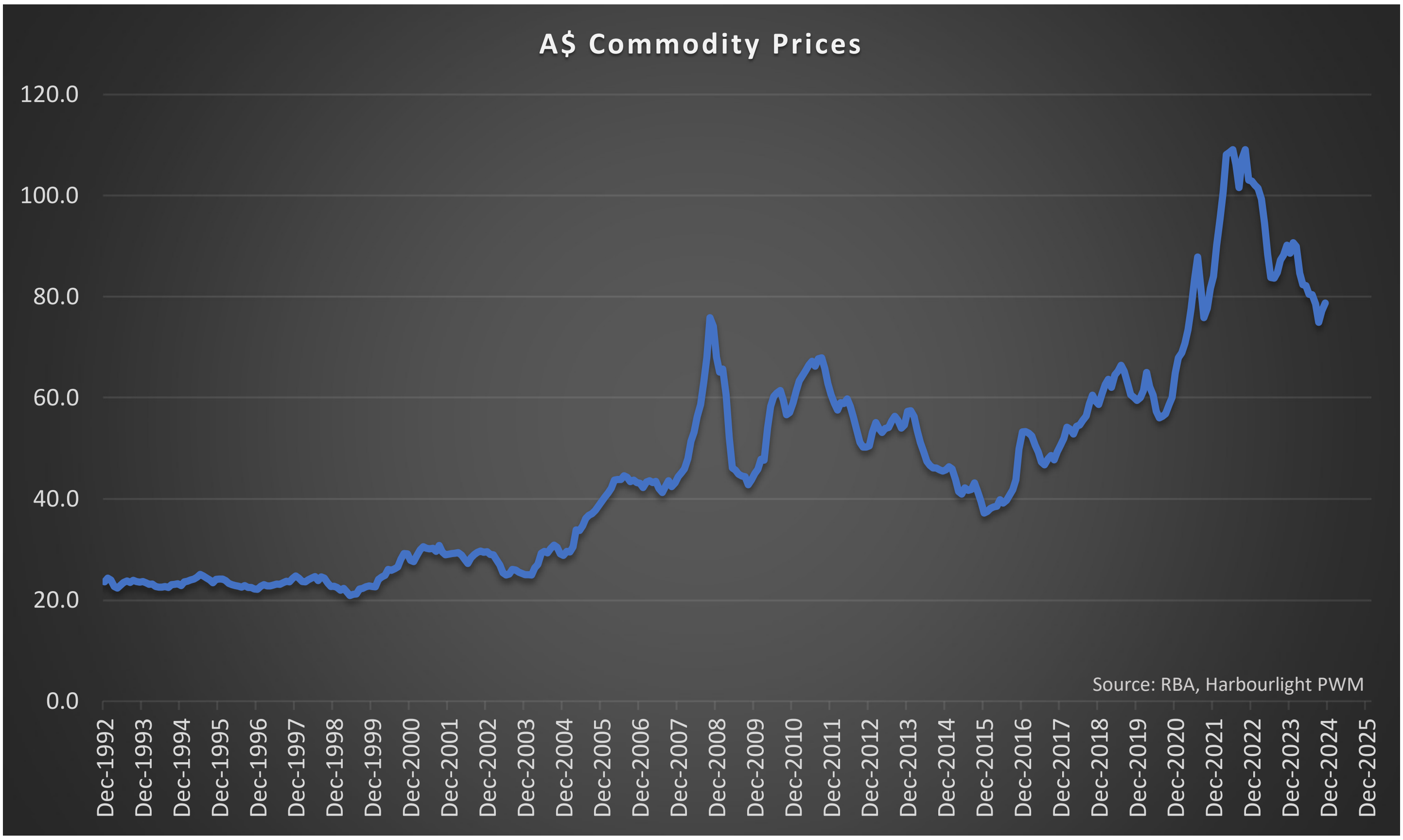
Unemployment rates remain low and reasonably steady in forecasts. Australian and US unemployment is expected to slightly increase.



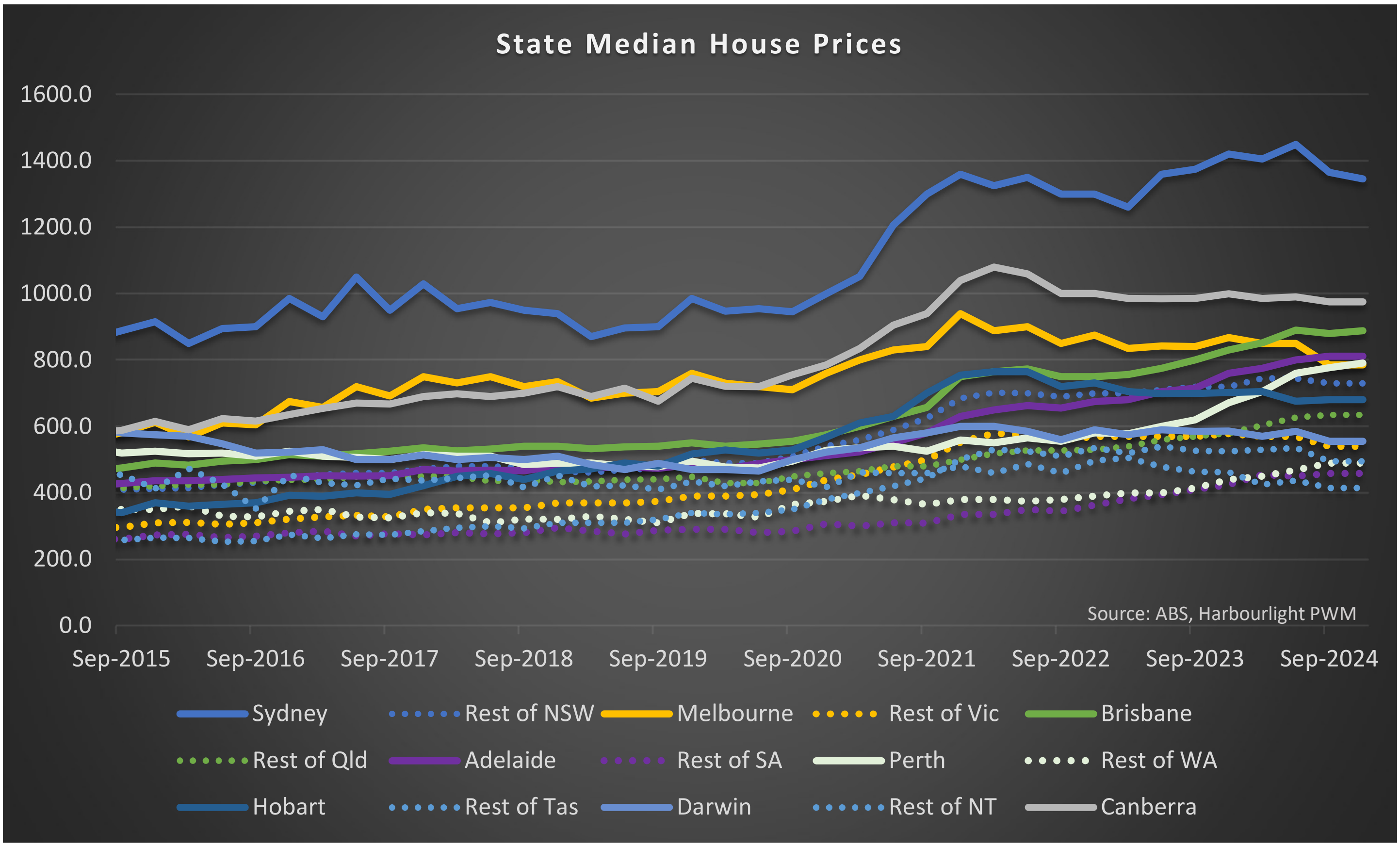
Longer term interest rates in Australia fluctuated in a 0.5% band and remain fairly stable, though mid-term rates dropped slightly more than longer term rates.



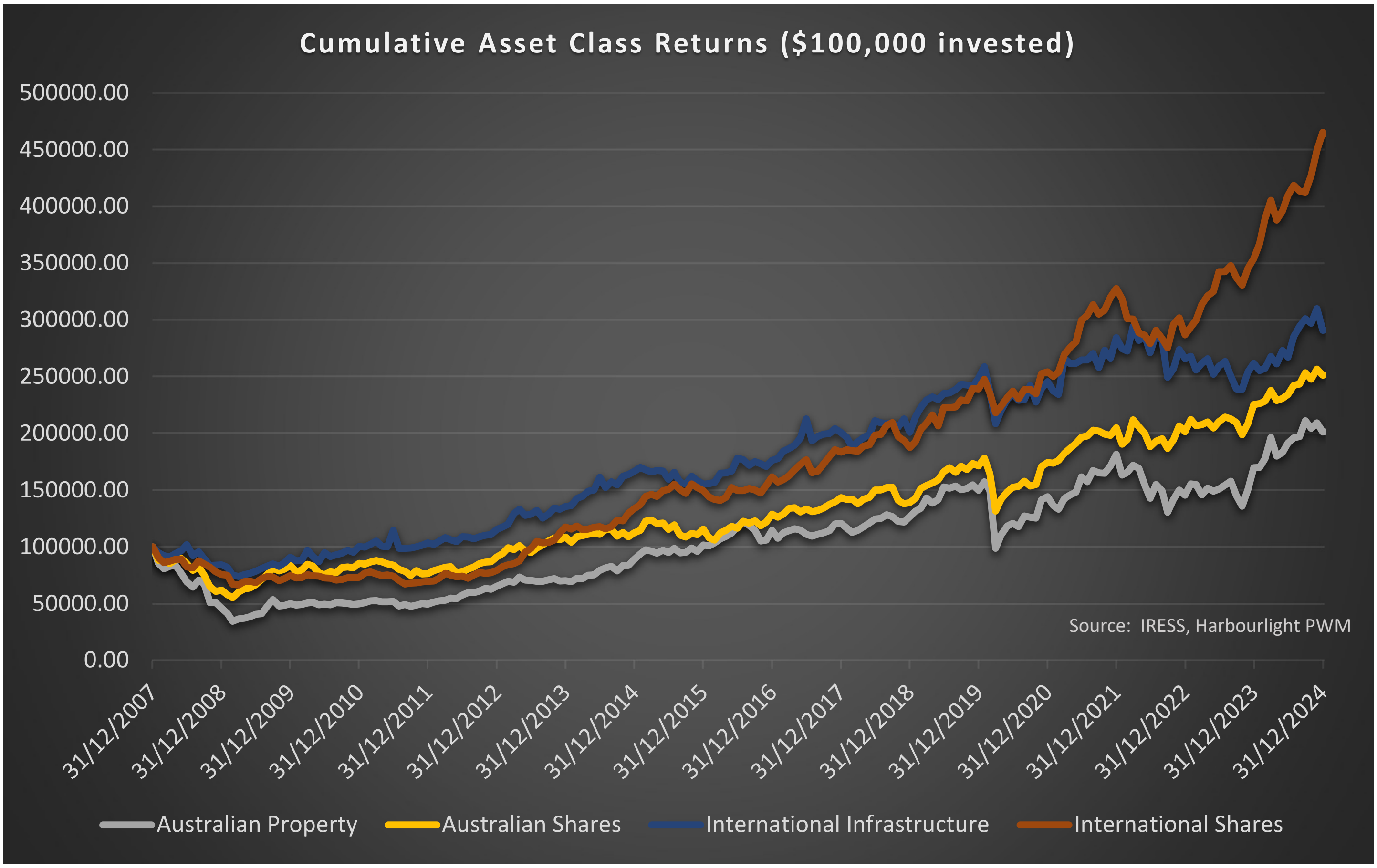
Commodity prices continued to soften.



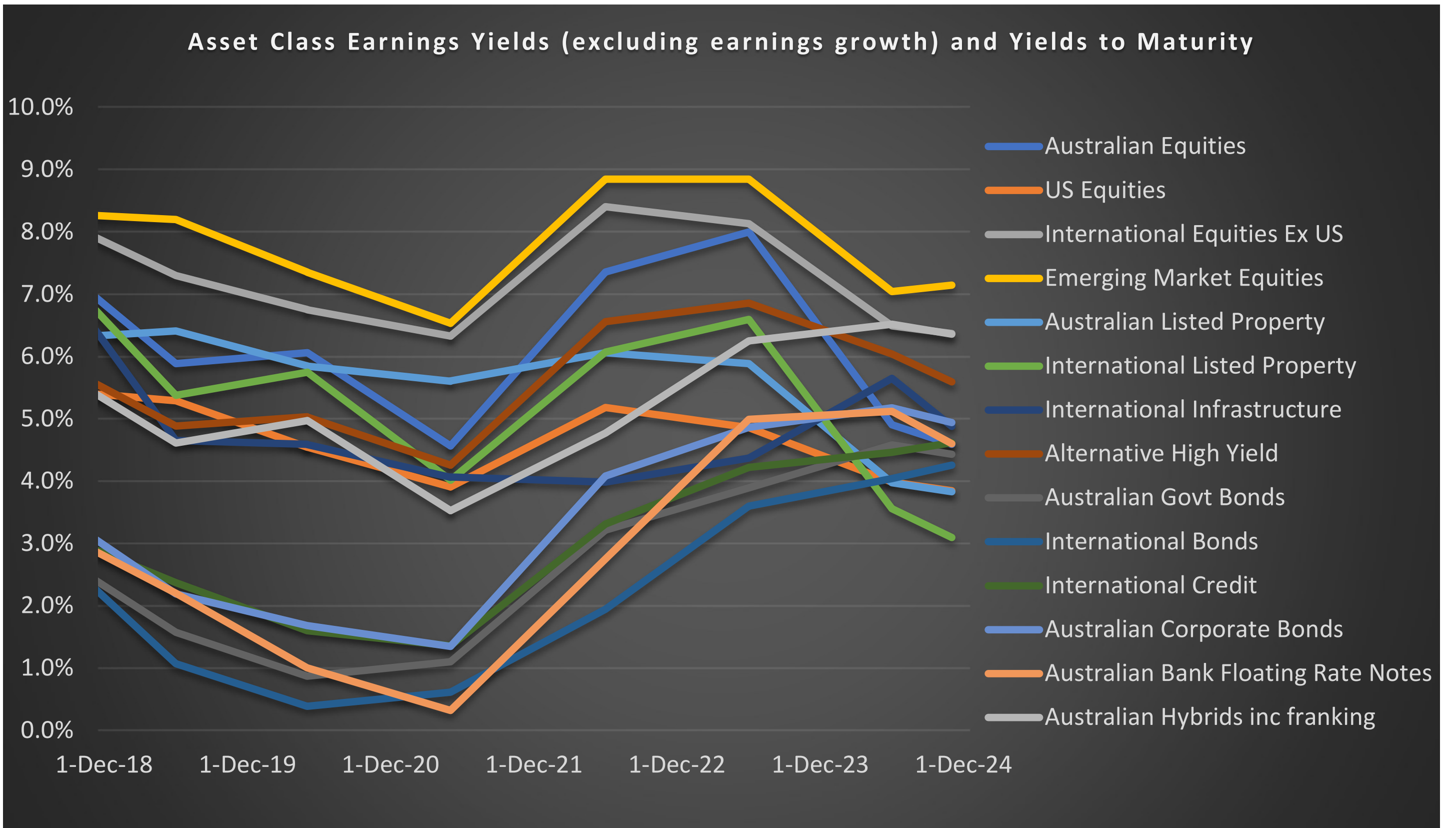
Median house prices indices show increases in recent months, with state level appreciation mixed.



Growth assets have shown strong returns with offshore shares continuing to outperform local shares.

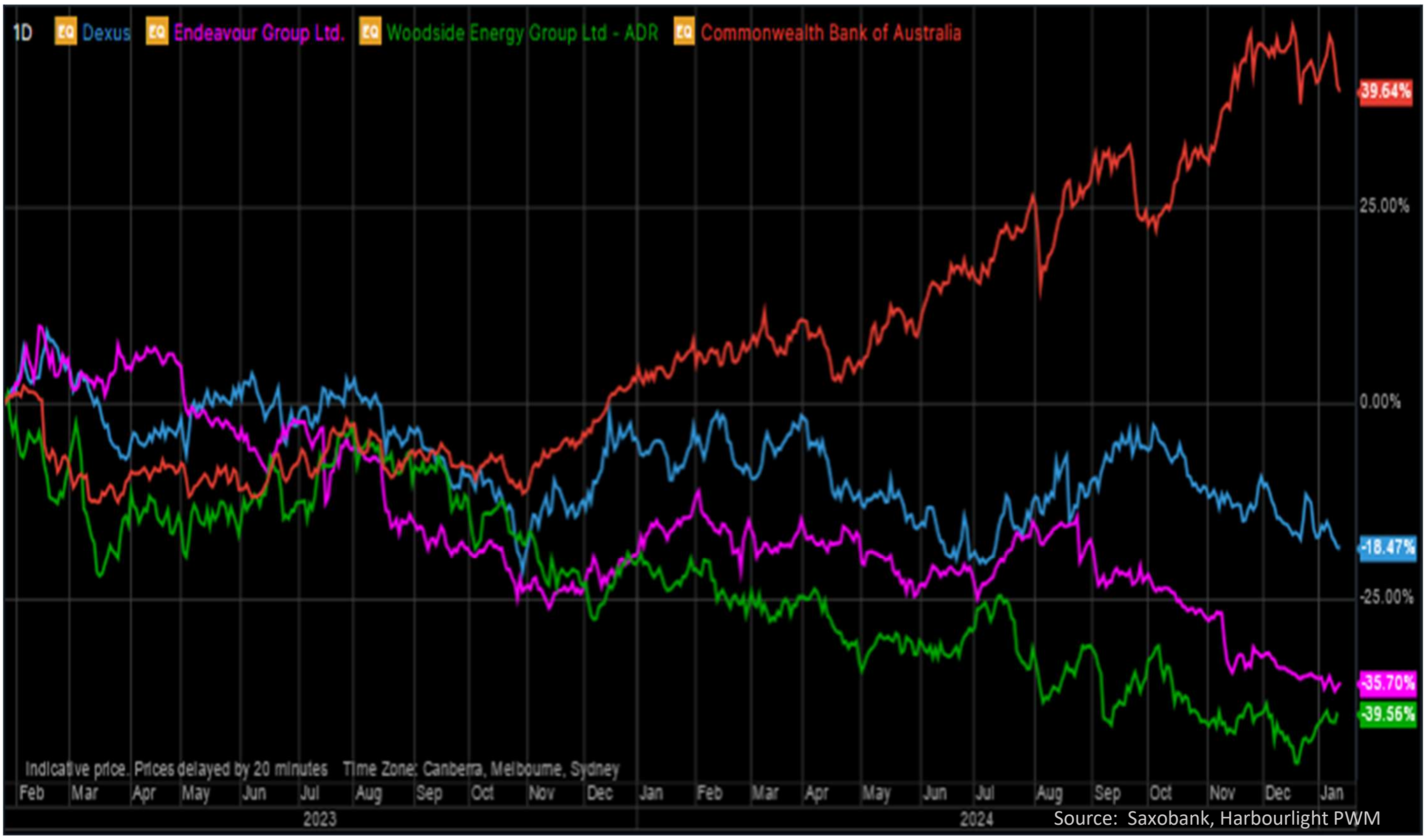


Whilst broad **growth asset valuations appear elevated** at macro level, better value remains in certain geographies and sectors. **Fixed income valuations look attractive.**



Source: Market observations, Harbourlight PWM

Locally banks did very well, small caps stocks lagged and look like better value as do certain consumer defensives, property and resource/energy companies.



Source: Saxobank, Harbourlight PWM

Our views for the next 12 months.

With broadly strong economic / market expectations and conflicting valuation data, we continue to support our neutral to conservative stance on asset allocation, remembering earnings growth improvements can improve valuations.

Patience, a level head and long-term planning are important in conflicting market conditions.

Valuation focused equity investing and higher allocations to interest rate based products will be useful should opportunities arise.

Other Regulative Matters

- Personal income tax rates remain unchanged from 1 July 2024.
- Any unused concessional contributions from the 2018/2019 financial year are no longer available under catch up allowances.
- Compulsory superannuation contributions will increase to 12% from 1 July 2025.
- Superannuation contribution caps remain at $30,000 for concessional contributions and $120,000 for non-concessional contributions for the 24-25 financial year.
- The transfer balance cap applying to commencing retirement income streams remains at $1.9m for the 24-25 financial year.
- Debate continues regarding Division 296 and additional income taxes imposed on superannuation balances greater than $3 million. At present, it is not clear whether this legislation will be passed.

Please feel free to contact us if you wish to discuss any of these matters.

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