Q1 Market Commentary 2025

MAIA

2024 the year of elections – pivoting the global economy moving forward

2024 will be remembered as the year of elections. Over 55% of the global population went to the ballot box. It is very rare that such a large proportion of the global population turn electorate in one calendar year. The outcomes of these elections were unexpected in some cases but predictable in others. Where changes have occurred to the governments in power, we believe the incumbent parties will provide a big shift, not just for politics, but also for global economics and global investment markets as well.

As these election results are so important, the team wanted to provide an update on two of the biggest electoral results that occurred and how the results are now influencing our views on different asset classes moving forward.

Focusing on the US and UK

Two of the countries that voted in a change of government in 2024 were the UK and US, with the UK Labour Party taking over from the Conservatives and Donald Trump and the Republican Party winning control of the white House, Senate and the House of Representatives in the US.

Both incumbents secured decisive victories which will lead to change, not just domestically, but for the global economy.

The outlook for the UK vs the US markets – different ends of the spectrum

Sentiment for the UK is low, investment into UK equities continues to be minimal and the prospect of anaemic growth, with relatively higher inflation and interest rates over time continues to provide a natural headwind for investors.

US equities, however, continue to have positive inflows, with equity markets performing well, and the economic picture is much stronger than the UK, with lower unemployment, higher growth and inflation that seems to be under reasonable control.

The US market continues to be very concentrated with the largest stocks in the index continuing to drive returns. When you look away from the largest stocks in the US, valuations look far more reasonable, and opportunities are available for these to increase over time. With the recent changes in the US political regime, the outlook for these undervalued US stocks is far more positive, unlike within the UK. US companies should see a pick-up in investment as their outlook continues to improve.

What about central banks, inflation and interest rates in the future?

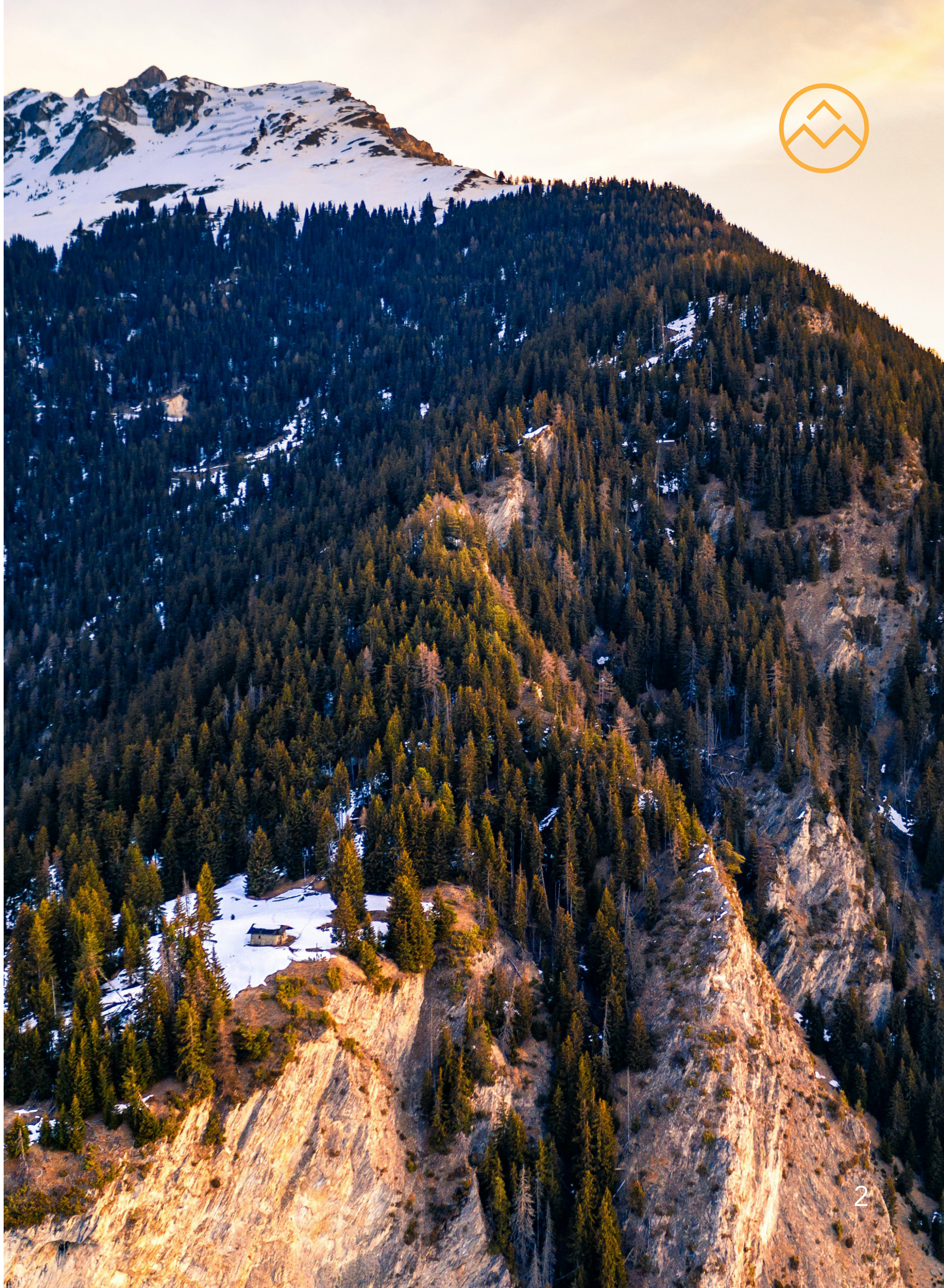
Both central banks in the US and UK started on their interest rate easing paths during 2024. The US has moved further as inflation has been under greater control, but the UK has also enacted some interest rate cuts. Both regions are expected to see further interest rate reductions moving through 2025.

However, the biggest difference between the UK and the US is that the US economy is far more durable, which means it should be better placed to handle any future breaks in the interest rate cutting cycle, as its economy continues to grow, and consumers continue to spend. If the UK does have to stop cutting rates, the less positive footing of the economy will provide greater risks for investors.

Government spending

Another major discrepancy between the US and UK is what the respective new governments are looking to implement from a fiscal spending and growth perspective.

Donald Trump has indicated that he is planning to increase spending in the US, reduce tax and increase growth, which should be a positive boost for the US economy. In contrast, the UK was more fiscally prudent in its latest budget and, even though it has increased spending, it is very specific in nature and has been implemented alongside raising taxes for business, with no changes to individual tax allowances. Over time, this effectively reduces the net income for the broader population.



Investor sentiment & flows

Investor sentiment for the US is positive and we believe this will continue now that Donald Trump has been re-elected to office. However, the market's positive sentiment continues to be focused on a small number of stocks which are mega caps, with overseas earnings. Even though many of these names may continue to perform well due to an increased focus on deregulation and improving earnings, the investment team here at MAIA believe that many investors are ignoring the rest of the US market, which does not have the same valuation risk.

There are many stocks outside the largest names that are now seeing positive earnings growth, below average valuations and increasing profitability which should improve further as Trump enacts his pro-growth policies. We think that sentiment will increase overtime for these types of stocks, especially as we move through the first years of Trumps second presidential term. We want to invest in funds which have exposure to these stocks now to benefit from the lower valuations currently on offer.

From the UK perspective, flows and sentiment continue to be low, when compared to other regions as well as with its own history. The main reasons for this are due to the anaemic growth of the UK economy, the composite setup of UK markets, the political risks that have been present for several years as well as the inflation and interest rate outlook.

Investors have started to look at the UK a little more as equity market valuations are so much lower than historical averages compared to other markets globally and politically the UK is looking more stable than it previously was. However, this is concentrated in large cap UK equities where liquidity is greater. We think this will continue and so are positioning our UK exposure to invest in the larger stocks within the UK market which should benefit from this shift in sentiment and increase in flows over time.

Where we believe the sentiment will continue to be low and will not be as positively impacted from the recent change in government is within the domestic mid and small cap equity stocks within the UK market.

Taking all of this into account, what changes are we looking to implement?

The investment team at MAIA have been working hard over the past year to prepare for what we believed could occur in differing election outcomes. Now that we fully understand how the changes in government that have occurred are likely to impact global economies, we think it is the right time to implement changes to our investment allocations to reflect the new risks and opportunities present.

When focusing specifically on equities, the two largest markets we invest in are the UK and US. Both have seen changes occur from a political and economic perspective over the last year and the opportunities for both regions continue to develop, with the US becoming far more positive for investors, especially within equities compared to the UK where the outlook is less positive. As a result, we believe adjustments are necessary for both our US and UK allocations.

Taking all this into account, the team at MAIA believe that a reallocation away from UK small cap equities and some UK mid-cap exposure into US small and mid-caps will provide a better risk to return profile for our investors. We also think that large cap equities in both the UK and the US are likely to perform well even with the risks highlighted above. We will be keeping our allocation to these large cap equities, but moving more active in nature, especially in the US, as we believe this will present the best opportunities due to concentration risks increasing which should allow active strategies to outperform over time.

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