Maintaining Perspective

Investment Outlook 2025

As we enter 2025, we look to maintain perspective and to balance the risks across respective asset classes. Our current positioning is broadly neutral between equities and bonds, with a slight preference for alternatives (namely gold). There is a partial US dollar hedge in place on our equity book, as the US continues to play an outsized role in global equity markets. Overall, we maintain a constructive medium-term stance on risk assets, but material risks are explicitly present.

2024 Review

- While 2023 represented a year of recovery for risk assets, 2024 was the year they flourished. Markets were buoyed by the expectation of accommodative monetary policy, slowing but still positive economic growth, and the optimism surrounding artificial intelligence (AI).
- The year was one of both economic and political change, with more than half of the world's population given the opportunity to take to the voting booths. All this change bred uncertainty, which manifested at times into market volatility. Investors sought a safe haven in gold, which surpassed several records over the course of an impressive year, ending more than 35% higher in Euro terms.
- Central banks spent another year in the spotlight. Across developed economies inflation approached the 2% target but proved to be sticky. The Federal Reserve initiated their easing cycle with a 0.50% interest rate cut in September and shaved off a further 50 basis points by year end to finish at 4.5%. The European Central Bank (ECB) issued four quarter-point rate reductions to bring the main bank lending rate to 3%.
- The US equity market rose sharply in the wake of Donald Trump's US election victory in November as a red sweep became ever clearer. The S&P 500, Nasdaq 100 and Dow Jones all soared past record heights. The dollar strengthened against major peers, and long-term bond yields also ascended due to inflationary projections surrounding Trump's policies.

Equities Outlook

- Within respective multi-asset funds our allocation to equities is currently neutral. Whilst the stellar returns of 2024 are not likely to be repeated in 2025, the market is supported by numerous tailwinds. Trump's election appears to have unleashed a degree of "animal spirits" amid increased consumer and corporate confidence in the US. There may be negative longer-term consequences of his tax cutting, tariff raising, and deregulation agenda, but some of his promised measures would likely boost growth and earnings.
- Within equity portfolios we continue to favour the US over other areas, namely the Eurozone, Japan, and Asia Ex-Japan. On a global sectoral basis, we currently have a preference for Communication Services (which includes companies such as Alphabet and Amazon), Financials and Materials. The largest sector on an absolute basis continues to be Technology, which is now over one quarter of the stock market.
- Equities remain close to all-time highs, even after a poor Christmas week post the December Federal Reserve meeting. Elevated valuations form part of the ever existing but changing "wall of worry". The forward p/e for the S&P500 is over 22.4x compared to a longer-term average of 16.4x (and Europe ex-UK forward price earnings (p/e) is below its average since 1990). High valuations are not, necessarily, an obstacle to further market upside.

Fixed Income Outlook

- Our positioning within bonds is relatively neutral government offerings from both an allocation and duration perspective. We continue to have a preference for periphery over core issuers. In relation to corporate bonds, or credit, we have no material preference for medium over short-dated bonds and are overweight banking and insurance on a sectoral basis. Our fixed income exposure continues to be nearly all euro-denominated.
- In relation to monetary policy, we have seen some divergence in recent months, as the ECB grapples with a slowing economy within the monetary bloc whilst the Federal Reserve has a more robust backdrop for the US economy to contend with. For 2025, the market is currently forecasting five 25-bps rate cuts for the ECB to bring the main bank lending rate down to 1.75%. In the US, stickier inflation, the aforementioned robust economy, and potential for fiscal expansion indicates fewer cuts, with the market currently forecasting two cuts to leave the rate at 4% at the end of 2025.
- Within corporate bonds, credit spreads (the excess yield on offer versus a treasury equivalent) are close to multi year lows. At these levels, there is limited pickup to compensate for macroeconomic risks into the future. Company balance sheets are generally well positioned, and tax cuts and deregulation provide tailwinds, particularly for financials. Absolute yields are firmly in positive territory and continue to contribute to portfolio returns in a meaningful way.

For the Equity Bulls

1. Moderating inflation supports stable bond yields and lower borrowing costs
2. US economic momentum underpins high corporate earnings growth
3. Deregulation and tax cuts in the US fuel innovation and growth
4. The Artificial Intelligence (AI) thematic grows stronger with more widespread use-cases
5. China surprises with more significant domestic stimulus; eurozone consumption leads a broader recovery

For the Equity Bears

1. US economy underperforms high expectations; Eurozone and Chinese economies fail to regain positive momentum
2. Inflation stays above target limiting central banks' ability to ease policy
3. Equities correct due to stretched valuations
4. Trade disruptions due to geopolitical conflicts harm supply chains
5. Financial market stress from high government debt levels or financial excesses

Calendar Year Performance Since 2013

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Prisma Low	4.3	5.4	-5.8									
Prisma 2	4.9	5.6	-5.6	2.6	1.7	3.1	-1.3	0.3	1.6	1.0	3.3	
Prisma 3	8.7	8.6	-8.6	7.6	3.4	8.3	-2.4	2.2	4.1	2.6	7.1	
Prisma 4	14.6	13.5	-13.3	16.8	6.9	17.8	-4.6	5.7	8.5	4.9	14.2	
Prisma 5	22.4	18.3	-16.7	23.9	10.9	26.5	-6.2	7.7	11.3	6.2	16.0	
Prisma Max	25.4	21.3	-19.1	25.3	13.7	28.1	-5.4	8.7	9.8	7.9	7.4	
Active Asset Allocation	14.3	12.9	-12.2	18.6	7.4	19.0	-4.9	5.9	8.1	4.9	14.6	3.9
Balanced	17.7	16.8	-17.0	18.0	12.3	19.8	-3.6	6.3	6.7	10.0	15.3	16.1
Performance	21.9	19.4	-17.9	23.0	13.9	24.1	-4.3	8.3	6.9	10.9	16.1	17.2
Dynamic	24.5	21.0	-18.5	24.6	14.4	26.9	-4.9	8.8	7.4	11.8	15.8	19.0
Cautiously Managed	10.9	13.0	-12.3	11.5	7.1	11.8	-2.6	3.9	5.1	6.3	18.6	6.7
5★5 Americas	37.0	28.0	-24.9	35.5	23.3	33.6	1.5	2.1	14.1	11.8	28.8	24.7
5★5 Asia Pacific	14.3	10.2	-2.7	9.6	8.9	21.8	-10.8	23.8	10.4	5.7	9.2	2.6
5★5 Europe	10.9	18.9	-10.3	24.2	3.1	31.5	-12.2	16.4	4.8	17.5	8.6	23.6
5★5 Global	32.3	22.3	-19.0	29.1	18.4	28.7	-6.3	11.6	4.5	13.3	13.3	17.6
Active Fixed Income	0.2	7.1	-15.0	-3.8	3.2	5.4	0.4	-1.1	4.7	1.0	20.3	2.4
Asia Pacific Equity	12.6	7.7	-1.5	10.3	5.8	20.5	-8.7	21.8	11.4	0.8	10.5	1.6
Long Bond	-1.0	8.7	-27.2	-6.6	8.5	11.5	1.3	-1.7	6.3	1.8	28.2	1.5
Cash	3.2	2.7	-1.0	-0.9	-1.0	-0.8	-0.9	-0.8	-0.8	-0.5	-0.3	-0.4
Short Duration Corporate Bond	4.2	4.4										
Medium Duration Corporate Bond	4.4	8.9										
Dividend Growth	15.3	12.3	-4.6	35.1	-16.1	28.5	-10.8	3.1	17.3	6.0	18.0	20.1
International Equity	27.9	22.8	-19.7	26.1	15.4	28.9	-5.5	9.3	10.0	10.7	17.7	20.6
Eurozone Equity	11.0	20.6	-13.1	23.4	5.0	26.0	-12.1	14.3	5.0	11.7	4.3	25.5
Indexed Australasia Property	-4.7	-5.9	-7.9	13.4	-16.7	17.3	2.7	3.5	11.0	2.4	26.1	-10.3
Indexed European (Ex-UK) Property	-1.2	17.4	-37.6	8.6	-9.3	23.8	-6.6	14.4	3.9	16.6	20.6	3.8
Indexed Global Energy and Metals	14.4	-13.3	19.9	38.7	-11.4	12.4	-4.1	-5.7	21.5	-20.2	-12.4	-5.3
Gold	33.2	9.4	5.7	3.6	13.0	19.7	3.0	-2.6	12.3	-2.3	12.8	-31.4
Indexed Inflation Linked Bond	-0.3	5.1	-10.4	6.0	2.3	6.0	-2.2	0.6	3.4	0.1	4.6	-4.4
Protected 70	17.2	10.3	-15.8	17.9	4.1	17.7	-6.1	4.7	1.4	6.4	10.4	13.1
Protected 80	12.7	6.8	-12.1	12.4	1.3	10.4	-5.1	2.2	-0.3	4.2	7.1	9.3
Global Corporate Bond (J.P Morgan)	2.2	6.0	-16.3	-2.8	6.8	9.4	-5.2	3.5	3.2	-0.7	7.2	-0.2
Global Government Bond (J.P Morgan)	-0.5	3.1	-14.0	-4.1	4.9	3.9	-1.0	0.1	1.3	0.6	8.1	-0.8
Emerging Market Opp (J.P Morgan)	11.1	2.3	-21.3	0.8	8.7	27.6	-9.7	28.6	17.1	-11.5	12.5	
Dynamic Diversified Growth (Blackrock)	6.0	4.6	-11.2	3.6	7.4	9.2	-4.4	6.8	-2.5	-1.7	5.1	5.9
American Select (Columbia Threadneedle)	27.3	19.0	-18.5	30.9	14.9	36.2	-1.3	6.3	17.5	9.9	21.3	24.5
European Select (Columbia Threadneedle)	6.8	22.0	-21.8	26.2	9.3	33.7	-11.0	13.9	0.1	13.9	12.9	15.7
Global Select (Columbia Threadneedle)	26.2	23.7	-20.3	22.3	11.1	38.9	-7.5	14.1	9.0	12.1	17.1	20.0
Indexed TopTech 100	34.6	49.8	-30.5	39.5	34.6	41.0	3.9	15.9	9.8	21.4	34.7	29.9

Notes: Annual management charges (AMC) apply. The fund performance shown is before the full AMC is applied on your policy. Returns are based on offer/offer performance and do not represent the return achieved by individual policies linked to the fund.

Source: Zurich Life as at 02/01/2025

Warning: Past performance is not a reliable guide to future performance.
Warning: The value of your investment may go down as well as up.
Warning: Benefits may be affected by changes in currency exchange rates.
Warning: If you invest in this product you may lose some or all of the money you invest.

Source: All market data contained within is from Zurich and Bloomberg, January 2025.

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