Anthos Annual Investment Outlook 2025

Both hands on the wheel.

Anthos Fund & Asset Management

Contents

Photographer: yasindmrblk, Eskişehir, Turkey, via iStock

1. Executive summary

Introduction: “Both hands on the wheel”

Welcome to Anthos Fund & Asset Management’s Annual Investment Outlook for 2025. This year’s theme, “Both hands on the wheel,” reflects our focus on navigating a complex and evolving global landscape with both optimism and caution. It is about maintaining control while confidently navigating the twists and opportunities ahead.

At Anthos, we don’t aim to predict the future—we prepare for it. Since 2006, scenario planning has been at the heart of our investment process, equipping us to tackle uncertainty with confidence. As investors across public and private markets, we benefit from standing on the shoulders of industry giants, leveraging their research alongside our proprietary scenario framework to shape our outlook.

“Both hands on the wheel” captures our balanced approach for 2025: constructive, yet vigilant. In this outlook, we explore the key macroeconomic trends, risks, and opportunities that will shape markets in the years ahead, and how we plan to steer portfolios effectively through this environment.

Why constructive?

As 2025 approaches, the global economy is settling into a more stable phase. Disinflation throughout 2024 eased price pressures, giving central banks room to pivot from aggressive tightening to a more supportive stance, creating fertile ground for growth and investment.

The United States (US) stands out as a bright spot. Consumer spending, which has been the key driver of US growth, surged again towards the end of 2024. While wage growth is slowing, rising real incomes and easing inflation continue to underpin household confidence. Meanwhile, pro-business policies under a second Trump term—notably tax cuts and deregulation—promise to further energise corporate activity and productivity.

Towards the end of 2024, markets were reflecting this optimism, with expectations of earnings growth broadening across sectors and no longer reliant on a handful of outperformers. Combined with resilient consumers and strong fundamentals, 2025 offers a compelling backdrop for investors to stay constructive.

Why vigilant?

As 2025 begins, risks abound despite signs of stability. Regional differences that challenge the stabilisation trend are worth keeping an eye on: disinflation in 2024 marked the end of a turbulent few years, to put it lightly, with economies recovering unevenly following the pandemic, war, and global inflation surge, revealing nuanced disparities.

Political uncertainty looms large. Donald Trump’s re-election, with control of the House, Senate, and Congress, is set to reshape markets and geopolitics. Markets are expecting Trump’s agenda, particularly tariffs and immigration policies, to re-ignite inflationary pressure. Unknowns about the impacts of tax cuts, US Federal Reserve (Fed) independence, and climate policy are also areas of potential volatility.

Debt and fiscal risks are mounting. Rising global debt, persistent interest rates, and fiscal vulnerabilities threaten to derail progress, particularly for heavily indebted economies.

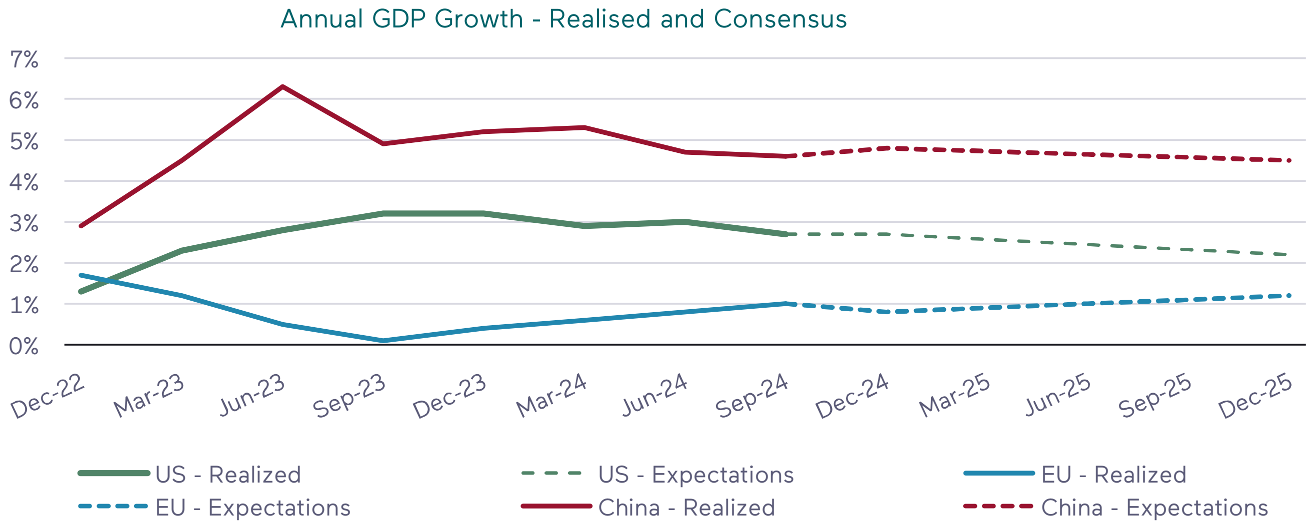
Finally, the US consumer—a key pillar of economic resilience—could falter as savings dwindle and budgets tighten. Adding to the mix, systemic risks like climate change and extreme weather events continue to disrupt economies and supply chains, presenting an unpredictable wildcard for growth.

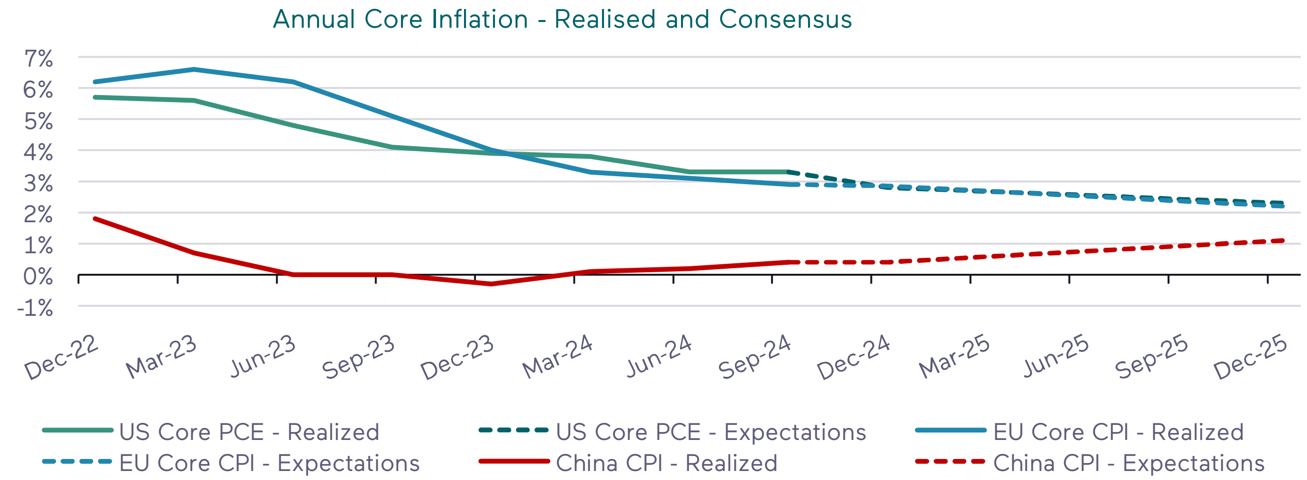
In short, while the outlook is constructive, a vigilant approach is crucial to navigating the complexities of today's evolving landscape. So, what can investors anticipate as we move through 2025 and beyond?

Our base case: Below-trend global growth

Taking a step back from the US, our base case considers below-trend growth globally, with advanced economies projected to expand at just shy of 2% and emerging markets at about 4.2%.[1] We also anticipate inflation to continue moderating to tolerable levels as central banks in advanced economies do their utmost to stay on track with their easing cycle agendas.

A return to a new normality...

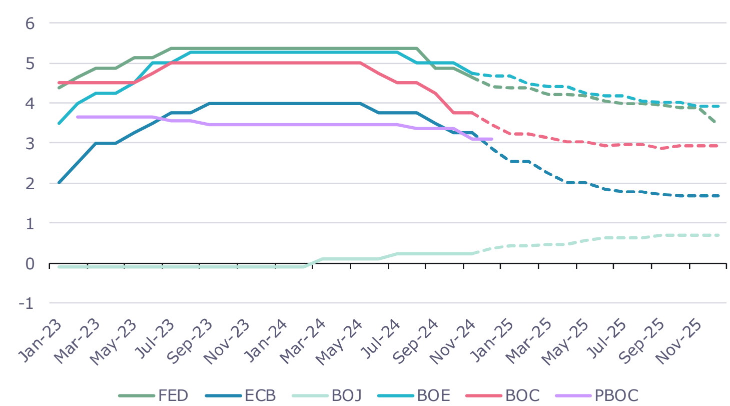




Source: Bloomberg, Anthos Fund & Asset Management. Data as of November 2024.

[1] IMF World Economic Outlook, October 2024.

G7 & China Central Banks Policy Rate Cycle - 2024 & 2025 Market Expectatio



Central Bank	Start Rate Cuts	# Rate Cuts
Federal Reserve	18 Sep 2024	3
European Central Bank	6 Jun 2024	3
Bank of England	1 Aug 2024	2
Bank of Canada	24 Jul 2024	3
People's Bank of China*	19-8-20219	11

Central Bank	Start Rate Hikes	# Rate Hikes
Bank of Japan	19/03/2024	2

**The People's Bank of China has an extensive suit of multiple policy rates, the 1 year Loan Prime rate is used here. This rate has been launched in 2019 and since launch has been in a cutting cycle. No expectations available of this rate.*

As of November 2024

Source: Bloomberg, Anthos Fund & Asset Management. Data as of November 2024.

We also recognise that key regions are starting from different economic environments. In Europe, the European Central Bank (ECB) began their rate cutting cycle in June of 2024 with 25 basis points (bps), whilst the Fed waited until September to begin with their jumbo 50 bps. The reasons underpinning these differences provide a fresh emphasis in our annual outlook.

Regional differences: a mixed global landscape

The US enters 2025 in a position of relative strength. Resilient consumer spending and a strong labour market, bolstered by fiscal support, have kept growth steady and inflation stickier in certain segments than in other regions. For example, shelter and wages. The US appears to be navigating a “Goldilocks” scenario of strong growth and easing inflation, with monetary policy expected to gradually bring rates closer to a neutral stance. However, risks remain: aggressive trade policies under a Trump administration could disrupt supply chains, stoke inflation, and erode consumer and business confidence, potentially tipping the economy into “Stagflation,” or a lower growth environment.

In contrast, Europe remains fragile, with anaemic (though positive) growth and ongoing fiscal constraints. Despite accommodative ECB policies and moderate fiscal stimulus, structural vulnerabilities—subdued corporate investment, weak export demand, and energy dependence—persist. Major economies like Germany and France exemplify these challenges, compounded by prolonged conflict in Ukraine and the dampening effects of potential trade tariffs. Europe’s downside risk skews toward “Recession,” highlighting the region’s vulnerability as it struggles to regain momentum.

China’s growth outlook remains clouded by trade uncertainties and entrenched structural challenges. While fiscal stimulus and infrastructure investments provide some support, weak employment, demographic pressures, and a fragile property sector weigh heavily on recovery. Trade protectionist policies will likely reverberate across emerging markets, already strained by high interest rates, a strong US dollar, and subdued global demand. Geopolitical tensions further blur the outlook, underscoring China’s ongoing vulnerability to both domestic and external pressures.

The fragmented global landscape for 2025, with “Below-trend growth” yet with regional variations, demands a proactive and adaptable investment approach. For investors, this means focusing not only on capturing opportunities but also on mitigating risks across diverse economic conditions. This is where scenario planning and dynamic portfolio management become indispensable.

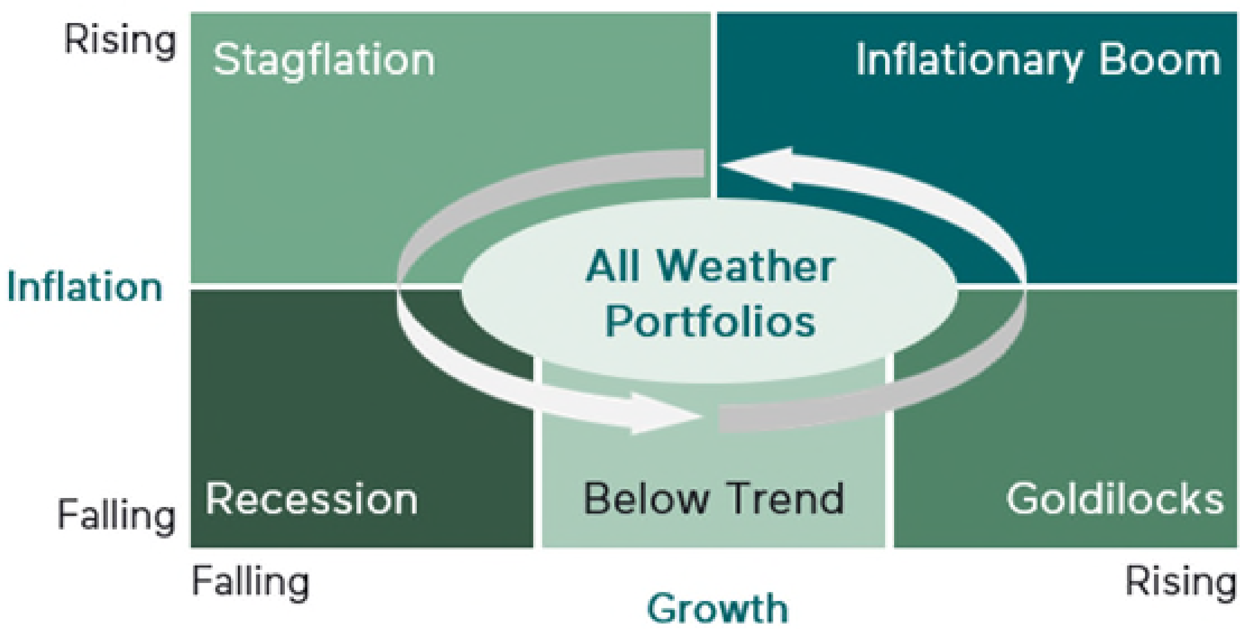
Positioning portfolios for 2025-26

The widely used "Investment Clock" framework maps asset classes to different phases of the economic and business cycle. This tool enables us to position portfolios effectively, aligning with our base case of below-trend global growth while preparing for alternative scenarios.

For 2025, we emphasise diversification and resilience—hallmarks of all-weather portfolios. These portfolios are crafted to deliver stability and adaptability, ensuring they perform across a range of economic conditions. While the current environment offers steady but modest opportunities, our approach remains dynamic, allowing us to recalibrate as conditions evolve, whether toward upside potential or downside risks. This flexibility ensures that investors are well-positioned for what lies ahead.

In Chapter 3, we delve into some of the specific drivers behind the asset classes expected to perform well in our base case below-trend growth scenario.

Investment clock



Source: Anthos Fund & Asset Management.

2. Secular growth and inflation outlook

Understanding the forces shaping today's economy is critical to navigating the road ahead. This chapter dives into the secular growth and inflation trends that will define the investment landscape over the next five years, laying the groundwork for our Capital Market Assumptions (CMAs) outlined in Chapter 6.

Long-term developments, from demographic shifts to digital transformation, are the bedrock of medium-term outlooks. These trends cut through short-term noise, helping investors make sense of complex macroeconomic dynamics and identify opportunities. By anchoring portfolios in this bigger picture, we can make better decisions, regardless of market conditions.

Our Six Ds framework, which we introduced last year, distils these powerful structural drivers into a clear and practical lens for understanding growth, inflation, and market potential. Updated for this year's outlook, the Six Ds continue to provide a roadmap for navigating an evolving and interconnected global economy.

2.1 The Six Ds Framework

Demographics: Aging populations and workforce shifts

Demographics continue to play a pivotal role in shaping growth and inflation dynamics. Advanced economies are increasingly grappling with shrinking labour pools as populations age, driving wage growth and inflationary pressures. Japan exemplifies this trend, where real wages grew in 2024 for the first time in three decades. This growth was fuelled by persistent labour shortages, corporate wage hikes, and government policies encouraging higher wages to combat deflation. As a shift from Japan's long-standing deflationary environment is in motion, these dynamics show how demographic pressures can lead to higher wages and inflation. In Europe, unit labour costs surged in 2024, reflecting persistent skill shortages. While immigration policies in regions like the US have helped mitigate labour constraints, such measures remain insufficient to counteract broader demographic headwinds.

Emerging markets, by contrast, present a more nuanced picture. Countries with younger populations, such as India and select African nations, hold potential for robust growth, but structural inefficiencies in education and employment continue to temper these advantages. Meanwhile, China's dual challenge of a declining workforce and rising dependency ratios underscores the global implications of demographic shifts.

As we move into 2025, the trajectory of wage growth, labour participation, and productivity will be key indicators to watch. Persistent upward pressure on wages could signal tighter labour markets and inflation risks, particularly in advanced economies. Immigration policy reforms or workforce expansion initiatives in emerging markets could also shape regional growth trajectories.

In our view, demographics will increasingly constrain growth in mature economies while fostering opportunities in sectors addressing aging-related challenges, such as healthcare, automation, and elder care. However, sectors sensitive to rising labour costs, including manufacturing and retail, may face headwinds.

Decarbonisation: Balancing the costs of transition

The global shift toward decarbonisation continues to accelerate, reshaping energy markets and inflation dynamics. Investment in renewable energy infrastructure, grid modernisation, and emissions reduction technologies is driving innovation but also pushing costs higher, particularly in heavy industries like steel and cement. Europe remains at the forefront of this transition, grappling with volatile energy markets exacerbated by the war in Ukraine. Elsewhere, emerging markets face significant financing challenges, with green energy projects often priced at a premium compared to fossil fuels.

While these pressures may contribute to inflation in the short term, the long-term deflationary potential of advancing green technologies remains compelling. Costs for solar and wind energy have declined steadily over the past decade, and further technological breakthroughs could reduce reliance on expensive fossil fuels. However, these benefits may not be evenly distributed across regions, with advanced economies moving faster toward net zero compared to developing nations.
In the coming years, we believe energy price volatility will remain a critical signal for the pace and effectiveness of the transition. Stabilising natural gas prices in Europe or increased adoption of carbon pricing schemes globally could indicate meaningful progress. On the other hand, delays in infrastructure rollouts or financing constraints in emerging markets could amplify inflationary pressures.

Decarbonisation represents both a near-term inflationary driver and a long-term growth opportunity. We expect green energy and battery storage technologies to continue attracting investment, while energy-intensive industries will likely face mounting challenges. The dual mandate of managing transition costs while fostering sustainable growth underscores the complexity of this driver.

Deglobalisation: Fragmentation and inflationary pressures

The retreat from globalisation is reshaping trade and supply chain dynamics, with significant implications for growth and inflation. Geopolitical tensions have accelerated the formation of regional trade blocs, such as the US-EU and China-Russia alliances, fragmenting global markets and raising production costs. Reshoring initiatives, particularly in critical industries like semiconductors, are enhancing resilience but at the expense of efficiency.

While these shifts introduce inflationary pressures in the short term, they also foster long-term stability and regional economic growth. For example, the US CHIPS Act has catalysed investment in domestic semiconductor manufacturing, while Europe's Green Industrial Plan is prioritising clean energy production. However, the dependency on critical resources, such as rare earth metals from China, remains a vulnerability for industries like electric vehicles and renewable energy.

With protectionist trade policies expected to dominate in 2025, we believe supply chain realignment will remain a key theme. Persistent trade frictions or rising costs in globally reliant sectors like technology hardware could amplify challenges.

Debt: Navigating fiscal constraints and growth

In today's high-debt, below-trend-growth environment, the pressure on fiscal policy and financial stability is mounting. Real long-term interest rates are significantly higher than post-financial crisis lows, and this, combined with weak medium-term growth, is intensifying fiscal challenges.[2] As debt servicing costs increase, governments are facing rising fiscal pressures. The US, for instance, is projected to have its debt servicing costs exceed 4% of GDP by 2025, while European countries like Germany face similar constraints, struggling with the political resistance to debt-financed growth measures that impede economic recovery.

Emerging markets are particularly vulnerable, with sovereign spreads elevated and risks of defaults increasing in certain countries. As borrowing costs rise, these nations are also exposed to the risks of currency depreciation and external capital outflows, exacerbating their fiscal vulnerabilities. Although some commodity exporters might temporarily benefit from higher prices, their fiscal positions remain fragile due to their dependence on commodity prices and volatile exchange rates.
At the same time, structural factors like weak productivity growth, unfavourable demographics, and limited investment are contributing to slower long-term growth. Higher real interest rates, including the term premium, are further complicating debt sustainability. Governments that fail to implement decisive fiscal consolidation measures face the risk of further debt accumulation, which could erode financial stability. The "bank-sovereign nexus" becomes more precarious as the financial sector increasingly holds sovereign debt, making both banks and governments more vulnerable to fiscal instability.

The outlook for fiscal policy is constrained in the short term, limiting the ability of governments to pursue countercyclical spending. However, targeted investments in infrastructure and climate-related projects may offer a productive use for debt, providing long-term growth benefits. These investments can help manage debt while contributing to a more sustainable economic trajectory. Meanwhile, improving fiscal buffers through gradual, credible fiscal consolidation is essential for ensuring long-term debt sustainability and maintaining financial stability.

Digitalisation: Innovation and productivity

Digitalisation continues to reshape the global economy, driving both growth and inflationary pressures. With the accelerated adoption of AI, automation, and cloud technologies, the impact on productivity and innovation has been profound. However, as economies face aging demographics, the role of automation in driving productivity growth becomes increasingly crucial. Automation's potential to offset the effects of a shrinking workforce and boost productivity growth has become a central focus, especially in economies with slowing labour force participation, such as Japan and many European nations. The integration of AI and automation technologies in sectors like logistics, retail, and manufacturing is driving significant cost reductions by enhancing operational efficiencies. At the same time, high-tech industries are facing transitional cost pressures, particularly due to rising demand for skilled labour and the high infrastructure costs associated with adopting these new technologies. As aging populations further strain labour markets, digitalisation could mitigate some of the negative effects by increasing output per worker through automation and technological advancements.

However, these benefits are not evenly distributed. While sectors like logistics and manufacturing are poised to leverage automation for improved efficiency and cost savings, industries such as energy and materials, which have been plagued by

[2] 'The Fiscal and Financial Risks of a High-Debt, Slow-Growth World', March 2024.

cyclical downturns, may experience delayed benefits. Aging demographics may also drive demand for new sectors, such as healthcare technology, where automation and AI can enhance both service delivery and productivity.

Looking ahead, the adoption of AI and automation will likely be pivotal in determining the long-term productivity growth trajectory, especially in countries with aging populations. Sectors that can effectively harness these technologies, such as logistics, real estate, and manufacturing, are expected to thrive. As the global workforce shrinks, automation will be key to maintaining economic dynamism, helping to mitigate the potential drag on growth caused by demographic shifts. Nonetheless, the short-term impact on labour markets and inflationary pressures must be navigated carefully, as economies transition towards a more automated future.

Destruction: Geopolitical risks and market volatility

Looking into 2025 and beyond, geopolitical risks and market volatility will remain significant drivers of uncertainty, shaping investment landscapes in the coming years. Historically, periods of heightened geopolitical tension—such as the ongoing conflicts in Ukraine and the Middle East—have disrupted energy and commodity markets, contributing to sharp fluctuations in inflation and corporate profitability. Additionally, rising trade disputes, especially between major economies like the US, China, and Europe, will likely continue to fragment global supply chains, compounding the risks facing investors. In the West, the rise of populist governments and nationalistic policies is likely to deepen these uncertainties, as shifting political ideologies challenge traditional economic alliances and exacerbate trade disruptions.

Looking ahead over the next five years, investors must navigate a complex macroeconomic environment, where energy price volatility, supply chain disruptions, and inflationary pressures will likely persist. However, these challenges also present long-term opportunities in sectors focused on localised manufacturing, resilient infrastructure, and the transition to renewable energy. While the outlook for global growth is mixed, the risk of further geopolitical instability remains high.
Ultimately, investors must continue asking how geopolitical risks (as a broad term to cover political instability, tensions, and conflicts) affect economic performance to ensure adequate preparation.

Taken together, these six structural drivers can help explain the foundation of today's economic and market environment, acting as the undercurrents shaping both the present dynamics and the trajectories of future scenarios. They provide the essential context for interpreting shorter-term outlooks, helping to frame the opportunities and risks that arise across regions and asset classes. Understanding these forces is critical to building resilient investment strategies that not only navigate immediate challenges but also position portfolios to thrive amid longer-term transformations.

2.2 Secular growth outlook

Over the next five years, we expect global real growth to stabilise at ~3.0–3.2% annually, reflecting slower potential growth in advanced economies and uneven performance in emerging markets. While some economies will leverage local advantages to maintain momentum, structural headwinds will keep potential growth constrained.

- Advanced Economies: Real growth in advanced economies is likely to converge toward potential rates of ~1.5–2.0%, driven by demographic aging, weak investment, and geopolitical fragmentation.

  - United States: Growth is expected to sustain around ~2.0%, supported by localised gains in technology and energy sectors that offset fiscal and monetary tightening. However, elevated government debt and reduced consumer savings pose challenges to sustaining momentum.
  - Europe: Growth stabilises at ~1%, limited by fiscal discipline, uneven structural reforms, and exposure to deglobalisation. Core economies like Germany may continue to underperform due to industrial transitions and labour market constraints.
  - Japan: Growth remains modest at ~1.0%, bolstered by improving wages and corporate investment but constrained by an aging workforce and low potential growth.

- Emerging Markets: Real growth in emerging markets is projected to outpace advanced economies at ~4.5%, though potential growth remains underutilized due to structural inefficiencies.
  - India: Growth is expected to lead globally at ~6.5%, leveraging its demographic dividend and infrastructure investments. However, deeper reforms in education, governance, and labour markets will be necessary to unlock full potential.
  - China: Growth moderates to ~4–4.5%, reflecting an aging workforce, property sector vulnerabilities, and subdued consumer confidence. Structural reforms will be critical to sustaining long-term potential growth.

This secular growth outlook reflects a world of divergence, where advanced economies face increasing constraints, and emerging markets have opportunities tempered by structural challenges.

2.3 Secular inflation outlook

Over the next five years, we expect global inflation to stabilise at approximately 3–3.5%, marking a shift to a new inflationary regime driven by the structural shifts aforementioned in the 'Six Ds'. Advanced economies will likely experience more entrenched inflationary pressures, while emerging markets may see greater divergence depending on their fiscal flexibility and integration into global trade flows.

- Service Inflation: Persistent wage growth in advanced economies, driven by tight labour markets and demographic aging, will continue to support elevated prices in labour-intensive services such as healthcare, education, and hospitality. For example, we expect wage growth in the US and Europe to remain above historical averages at ~3.5–4.0%, sustaining upward pressure on core inflation.
- Energy Transition Costs: Decarbonisation efforts are expected to sustain inflationary pressures in energy and resource-intensive sectors. Investments in renewable energy, grid modernisation, and carbon capture technologies will raise production costs, particularly in the near term, while uneven progress across regions could exacerbate global price disparities.
- Supply Chain Realignment: Reshoring and regionalisation trends will continue to reshape production networks, embedding structural inflation in industries reliant on global trade, such as technology hardware and automotive manufacturing. While these shifts enhance resilience, they also elevate input costs and reduce efficiency compared to pre-pandemic supply chains.

Emerging markets will face inflation dynamics that reflect their exposure to external shocks and fiscal conditions. Commodity exporters may benefit from higher terms of trade, but those reliant on imports and external financing could experience sharper price volatility.

Please refer to p14 for expectations about inflationary risk from the new Trump administration in the short term.

3. Investment outlook for 2025

Where we stand: global disinflation and steady growth, yet challenges remain

As we enter 2025, the global economy appears to be stabilising, with disinflation taking hold and growth finding a cautious footing. Our base case for 2025 anticipates below-trend global growth combined with inflation declining further to eventually settle at higher levels than pre-pandemic levels. Central banks have made significant progress in curbing inflation, and global GDP growth is projected to hover around 2% for advanced economies and approximately 4% for emerging markets. Inflation is gradually aligning closer to central bank targets, particularly in developed markets, though regional disparities persist, especially in service-sector inflation.

As outlined in our outlook, regional differences remain a key theme. The US is positioned in a "Goldilocks" environment with resilient consumer demand and fiscal measures supporting stability, while Europe and China are navigating below-trend scenarios due to structural challenges and weaker demand.

This environment provides opportunities for careful and thoughtful investment positioning. Drawing on the framework of our investment clock, we focus on asset classes that have historically performed well in this phase of the economic cycle, while remaining vigilant and prepared to pivot as new data and scenarios emerge. In periods of subdued growth, quality equities and bonds often offer strong risk-adjusted returns, while alternative strategies, such as absolute return funds, provide stability through low correlations with traditional markets. Private markets and multi-asset impact investments remain essential components, capitalising on long-term structural opportunities even amid short-term economic uncertainty.
In our below-trend growth scenario, asset classes that typically perform well and are considered favourable for many investors include equities driven by earnings stability, fixed income supported by less restrictive monetary policy, and private markets that capture longer-term growth themes. European equities, more reliant on exports, face heightened risks compared to their US counterparts.

Fixed income presents opportunities across global high-yield, due to a constructive environment for corporates (in particular in the US), and emerging market debt, due to healthy balances of payments across various emerging markets, leveraging rate cuts and moderating inflation.

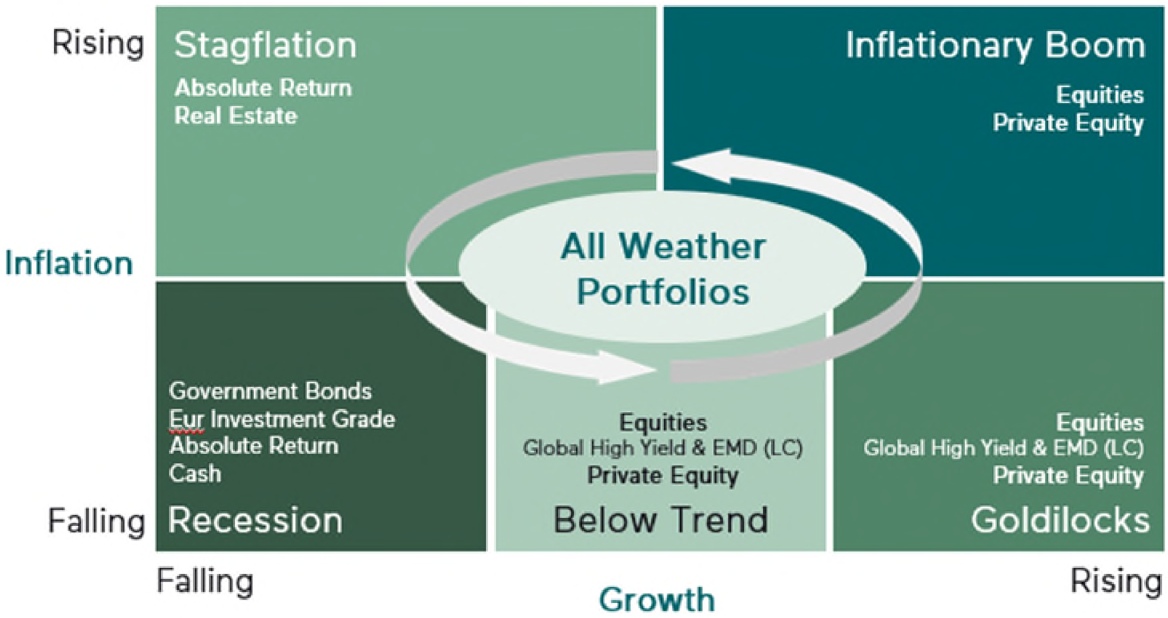
Private equity managers spent 2024 optimising portfolios while selling top-performing assets—and we expect these efforts to bear fruit in 2025. As supply chains and demand normalised after years of disruption, many companies underwent changes, emerging with clean financials, refreshed management, and focused strategies. Long-held portfolio companies are now positioned for sale. Investor pressure to deliver distributions in 2025 could reopen markets for new investments and fund drawdowns. However, geopolitical tensions and economic risks remain—potentially disrupting progress and slowing investment activity once again.

Private credit is well-positioned in 2025, with attractive lending margins supported by a stable economic backdrop. Regulatory constraints on banks create opportunities for private credit funds to provide tailored, flexible financing for acquisitions and growth initiatives, often with faster execution.

Prime real estate yields have stabilised, and we see the investment thesis focusing on resilient income and growth-driven returns as valuations steady with plateauing interest rates. The outlook for industrial and non-discretionary retail sectors is strong, as well as in residential markets like student housing, multifamily, and senior living. Return forecasts are varied by region and sector, with the US expected to have the highest return outlook over the next 5 years. In contrast to previous cycles, capital market recovery coincides with generally strong occupier fundamentals, supporting income generation. We continue to advocate for integrating decarbonisation and physical climate risk into our manager's top-down investment strategy and bottom-up asset capex planning to support Paris proofing our portfolio.

This balanced approach ensures portfolios are well-positioned to navigate the complexities of the current environment while maintaining flexibility to pivot should conditions shift. By aligning with the investment clock and leveraging our diversified toolkit, we aim to deliver outcomes that balance risk and opportunity, capturing value across the economic cycle.

Investment clock



Source: Anthos Fund & Asset Management. The asset classes shown tend to do well and are considered favourable for many investors in the respective macroeconomic scenario shown.

The Trump Effect

When engaging with investors, one of the most frequent questions is how the US election results are expected to unfold in terms of market impact. Based on what we currently know, markets interpret a second Trump term as pro-business and pro-growth, at least in the short term. Key areas to monitor include:

1. Tariffs

Trump's proposed tariffs include:

- A 10% levy on all imports
- A 60% tariff on Chinese goods
- Since election, we now know that he plans to launch a 25% tariff on imports from Canada and Mexico, with an additional 10% on Chinese imports. These measures, aimed at addressing border control and drug trafficking.

These tariffs could have significant economic consequences:

- Inflationary pressure:[3] Yale's Budget Lab predicts a 1.4% increase in consumer prices (before substitution).
- Global growth slowdown: The IMF forecasts a 0.8% decline in global growth by 2025 and 1.3% by 2026.
- GDP contraction: US GDP could shrink by 1%, with Europe similarly affected.

From an investment perspective, tariffs may negatively impact Global Developed Equities but could boost Global High Yield returns. While broad tariffs are likely to serve as a negotiating tactic, targeted tariffs appear more probable.

2. Immigration

Stricter immigration policies are expected to:

- Reduce labour pools, leading to higher wages and tightening labour markets.
- Push the unemployment rate lower as labour availability shrinks.

While job growth may stabilise, labour shortages could result in inflationary pressures, shifting the US economy from a balanced "Goldilocks" scenario to an inflationary boom.

From an investment perspective, this means equity, both public and private, become most favourable.

3. Tax Cuts

Trump's plan to reduce corporate tax rates from 21% to 15% and extend the 2017 tax cuts is anticipated to have:

- Limited short-term GDP impact in 2025
- A 0.6% boost to U.S. real GDP by 2026 as stimulus effects take hold

While these measures could heighten fiscal risks, they are likely to create a favourable environment for risky assets in the near term.

4. Deregulation

Under Trump's first term, regulatory costs dropped to $10 billion annually (compared to $111 billion under Obama). Reduced regulation is expected to continue, benefiting businesses and supporting Global Developed Equities.

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[3] Yale Budget Lab: The Yale Budget Lab conducts research on fiscal policy and its implications for economic stability, growth, and income distribution. Their analysis on the proposed tariffs includes projections on consumer price impacts based on economic modelling and historical data.

5. Federal Reserve

Trump has expressed a preference for lower interest rates and may pressure the Federal Reserve through appointments or public criticism. While such actions could test the Fed's independence, they are unlikely to cause immediate market disruptions. However, they might accelerate the end of the current easing cycle.

The above factors are already being discussed among investors and increasingly priced into markets, albeit with varying directions:

- The bond market has focused on deficits and fiscal expansion.
- The equity market has concentrated on deregulation and growth potential.

The scope of spending proposals for economic and industrial policy, homeland security, and defence, as well as their financing mechanisms (e.g., tariff revenues, cutting red tape), remains unclear. These factors, along with the ongoing fiscal deficit, will continue to influence the US bond market and the US dollar.

In this environment, strategic risk diversification is more critical than ever to respond sensibly to current events and future challenges. While uncertainties remain, we maintain confidence in markets for 2025 and are positioning portfolios constructively across various scenarios. With both hands on the wheel, we remain optimistic about navigating these dynamics effectively.

Trump's First 100 Days

Date	Key watchpoints	Investor implications
Inauguration Day	Announcement of executive orders impacting trade, immigration, and energy policy. Markets will closely watch details for potential sector-specific impacts.	Trade policies and tariffs could affect supply chains and corporate margins, particularly in manufacturing and retail.
First Week	Focus on initial legislative priorities, likely including tax cuts, deregulation, and infrastructure investment. Watch for market reactions in sectors like construction and tech.	Sectors like finance, energy, and construction may see volatility based on perceived winners and losers of initial policies.
First Month (February, 2025)	Release of first fiscal budget proposals	
Day 50 (10 March, 2025)	Midpoint review of legislative progress. Potential volatility if signature policies face significant roadblocks in Congress.	Equity markets may experience fluctuations based on legislative progress or delays.
End of 100 Days (29 April, 2025)	Assessment of progress on major campaign promises. Markets will react to early indications of success or gridlock in policy implementation.	Economic clarity could emerge, but geopolitical risks and legislative hurdles may still present uncertainty.

Dates are estimated until official dates published by Joint Congressional Committee on Inaugural Ceremonies (JCCIC) and the National Park Service (NPS). Watchpoints and investor implications are Anthos' analysis and subject to change.

4. Tail risks and opportunities

As 2025 begins, the global economy faces several tail risks that could significantly impact economic scenarios. At the same time, potential opportunities could also arise. We think it is prudent to monitor the signals that relate to both risks and opportunities which we detail in this chapter.

1. US Trade policy pressures

- Possible event: the US, under Trump's leadership, escalates trade tensions with Europe and China, leading to potential tariff retaliations.
- Implications: increased import costs amplify inflationary pressures, reduce trade volumes, and heighten risks of economic contraction globally.
- Regional impact:
  - US: tariffs may protect domestic industries but hurt consumers and exporters.
  - EU: dependence on US Trade leads to lower profit margins for goods and industries like automotive and pharmaceuticals.
  - China: export challenges force a shift toward domestic demand and new trade partners.

2. Russia-Ukraine conflict and food/energy inflation

- Possible event: prolonged war disrupts gas supplies and grain exports.
- Implications: energy shortages drive inflation in Europe, while food price increases impact global consumer spending, especially in emerging markets.
- Regional impact:
  - EU: vulnerability to gas shortages risks industrial slowdowns and sharp inflation spikes.
  - Emerging markets: rising food costs exacerbate poverty and potential unrest.

3. US-China tensions over Taiwan

- Possible event: heightened US-China tensions disrupt global tech supply chains and trade.
- Implications: semiconductor shortages increase costs for electronics, cars, and consumer goods, pushing inflation higher. Trade sanctions further strain global cooperation.
- Regional impact:
  - US: increased tariffs and costs weaken corporate margins, reduce investment, and pressure consumers.
  - EU: delayed access to tech components hinders industrial output.
  - China: export constraints slow GDP growth; inflation rises due to restricted access to technology.

4. Middle East conflict and energy crisis

- Possible event: escalation involving Iran, Saudi Arabia, or Israel disrupts oil and gas production or transport.
- Implications: global oil prices surge, driving inflation and reducing disposable income across regions. Central banks may respond with tighter monetary policies, amplifying recession risks.
- Regional impact:
  - US: higher energy prices strain consumers and businesses, slowing economic activity.
  - EU: increased industrial costs exacerbate inflation, especially in manufacturing-heavy economies.
  - Emerging markets: inflation and rising food prices threaten social stability and economic growth.

Potential sustainability risks under Trump's second term

1. Rollback of environmental regulations

- Possible event: deregulation prioritises fossil fuels, increasing greenhouse gas emissions.
- Implications: businesses face uncertainty, slowing green technology investments and undermining climate goals.
- Regional impact:
  - US: increased reliance on fossil fuels delays renewable adoption.
  - EU: struggles to maintain climate leadership without US alignment.
  - China: may deprioritise green initiatives amid weakened global cooperation.

2. Increased fossil fuel production

- Possible event: expanded oil, gas, and coal production reduces competitiveness of renewables.
- Implications: underinvestment in renewables slows the transition to sustainable energy.
- Regional impact:
  - US: fossil fuel dominance hinders green innovation.
  - EU: dependence on volatile fossil fuel imports raises costs.
  - Emerging markets: pressure to prioritize coal and oil for energy security worsens environmental degradation.

3. Withdrawal from climate agreements

- Possible event: the US exits the Paris agreement, weakening global climate action.
- Implications: reduced international cooperation slows emissions reductions and renewable investments globally.
- Regional impact:
  - US: decreased commitment to climate goals.
  - EU: faces higher costs for unilateral climate leadership.
  - China: may deprioritise emissions targets amid reduced global accountability.

Potential sustainability opportunities

Even despite these potential risks, the majority of global asset managers and asset owners expect sustainable assets to increase in the next two years, according to a survey by Morgan Stanley which surveyed more than 900 institutional investors across North America, Europe, and Asia Pacific. We agree with the key findings of this report that: "Institutional investors see a growth trajectory for sustainable assets globally in the coming years to meet increasing client and stakeholder demands in a more mature sustainable investing market."[4]

Whilst we recognise that short-term challenges and concerns outlined above could lead to a potential pivot to traditional energy sources in the short-term, we think the long-term growth in sustainable investments is clear. Our view is aligned with global asset manager and owner requirements (as outlined in the Morgan Stanley survey) as well as clear trends that show

[4] Morgan Stanley. *Sustainable Signals: Insights into ESG Investment Trends*. December, 2024.

demand for and investment in clean energy increasing. For example, global clean energy investment jumped 17%, hitting $1.8 trillion in 2023, according to BloombergNEF.[5] This number is a new record and demonstrates the resilience of the clean energy transition in a year of geopolitical turbulence, high interest rates and cost inflation.

And yet, energy transition finance needs to grow more than 170% if we are to reach net zero in the coming years. For this reason, we see a couple of positive sustainability opportunities which could play out in the coming years – irrespective of Trump's second term:

1. Broad-based energy transition investment opportunities across public and private markets.[6]

    - Possible event: More benign interest rate environment leads to re-invigorated investments in energy transition finance.
    - Implications: constructive economic and market environment, coupled with global regulatory push paves the way for renewed investor appetite in green energy investments across sectors, regions, and asset classes. However, the higher cost of capital environment ensures more selective approaches to navigating this opportunity set. For example, moving beyond solely investing in renewable energy companies to explore different sectors associated with the transition such as broad-based electrification, grid solutions, and innovative blended finance vehicles to unlock more private capital to underinvested sectors and regions.

2. Economics of the energy transition too good to ignore.[7]

    - Possible event: Globally, the economic case for renewables over fossil fuels leads to adoption acceleration, even if the US remains a temporary laggard.
    - Implications: Rapid expansion in renewable energy usage and investment, led by China and other emerging markets, and Europe. Both the cost of complying with more regulations and the higher cost of using fossil fuels encourages governments, companies and investors to switch to green energy.

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[5] BloombergNEF, *Energy Transition Investment Trends 2024.*
[6] International Energy Agency (IEA), *World Energy Investment 2024*
[7] World Economic Forum, *Energy Transition Positive for Climate Change*

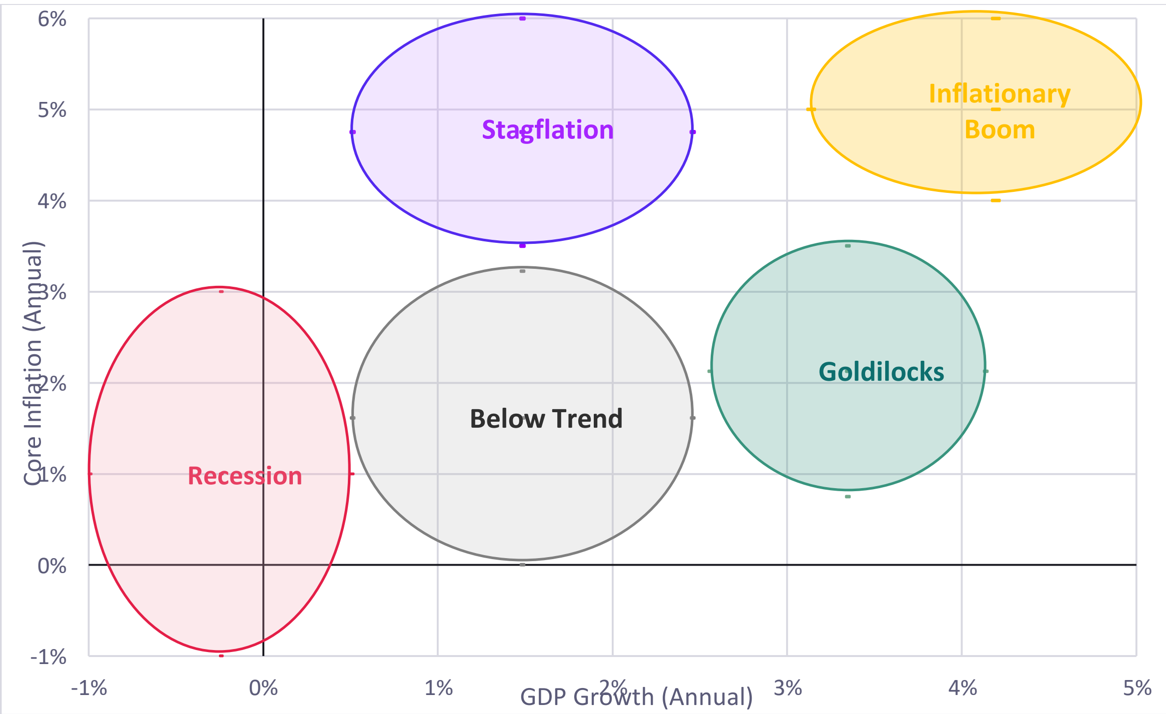
5. Macroeconomic scenarios

Each scenario offers a plausible narrative for the coming two years, ranging from subdued growth environments to optimistic expansions. For this year, we re-named our five scenarios to better reflect today's landscape. Our base case "Below-Trend" characterises the positive, but challenged, growth and disinflation trend currently underway. Should economies see a lift, perhaps triggered by positive interpretations of Trump's agenda, a de-escalation of geopolitical tensions, and sustained consumer and labour market health, we could enter into a "Goldilocks" scenario. If that boon comes quickly, perhaps triggered following the mega election year of 2024 where a fresh wave of political reform rhetoric plays out, an "Inflationary Boom" – this could also occur if transformative developments in AI take place.

On the flip side, should any of the risks we describe in this outlook – which are of course not all-encompassing – we could hit stagnant growth (far-left of "Below-Trend;" US and China), or "Recession" (Europe). The expectation of higher prices from Trump's tariffs and immigration policies could see inflation rise before it dents economic sentiment and activity enough to result in a "Stagflation" environment.

On balance, we view the positive scenarios outweighing the negative ones as we enter 2025, providing support for our constructive, yet vigilant outlook. We are driving down what will no doubt be another road with surprising twists and turns, with "both hands on the wheel."

Anthos' Macroeconomic Scenario Analysis Framework



Anthos' macroeconomic scenario framework is a structured tool designed to evaluate potential economic outcomes under varying conditions. It integrates both qualitative and quantitative inputs to analyse macroeconomic variables such as GDP growth, inflation, interest rates, and market trends across different scenarios. The framework typically incorporates baseline, upside, and downside cases totalling five to reflect a range of economic environments. It is used to inform strategic asset allocation, risk assessment, and investment decision-making, ensuring all-weather portfolios remain resilient against a wide array of potential economic developments. By combining internal expertise with external insights, the framework enables Anthos to align its investment strategies with long-term macro trends and client objectives. This is the combined view of three regions – US, European Union, and China. The chart shows the aggregate analysis of the three separate regions.

Scenario	Below Trend		Goldilocks		Stagflation		Recession		Inflat.Boom	
Bandwiths (%)	GDP	Core Inflation	GDP	Core Inflation	GDP	Core Inflation	GDP	Core Inflation	GDP	Core Inflation
US	0,5 - 2,1	0 - 3,3	>2,3	1 - 3,5	0,5 - 2,1	>3,5	<0,5	<3	>2,3	>3,5
EU	0,5 - 1,4	0 - 3,3	>1,6	1 - 3,5	0,5 - 1,4	>3,5	<0,5	<3	>1,6	>3,5
China	0,5 - 4,5	0 - 3	>5,0	0 - 3,5	0,5 - 4,5	>3,5	<0,5	<3	>5,0	>3,5

For illustrative purposes only, indicative to give an idea of the ranges for each scenario.

"Below Trend Growth" (Likelihood 35%)

Global growth remains positive but below potential, with cautious policy adjustments and limited consumer demand.

- United States: Trump's pro-growth and pro-US policies create a short-term driver for growth, with GDP expansion supported by tax cuts and regulatory reforms. The Fed continues with gradual rate cuts, bringing the fed funds rate to tolerable levels. Consumer spending remains steady, supported by a healthy labour market.
- European Union: Growth stabilises as ECB continues to ease monetary policy with gradual rate cuts. However, GDP growth is anaemic (though positive) with moderate inflation amid cautious corporate investment.
- China: growth is stable but subdued, with selective fiscal support and restrained consumer recovery. The government introduces minor infrastructure investments, keeping the economy afloat without triggering significant growth.
- FX impact: the USD remains strong, the EUR remains weak.
- Sustainability impact: Divergence of motivation and engagement for green transition, and speed of green investments across regions. The US's focus on short-term growth may slow its investment momentum which may slow down the green transition, while the EU may prioritise sustainability. China's efforts remain selective aligned more with infrastructure investments.

"Recession" (Likelihood 15%)

A downturn occurs as US inflationary policies combine with EU fiscal limitations and China's sluggish recovery, leading to a mild economic contraction, lasting two to three quarters.

- United States: Trump's tariffs and restrictive immigration policies lead to stagnant growth. Worsening consumer sentiment and reduced spending, and business investment put on hold, pushing the US toward recession.
- European Union: Fiscal limitations and high energy prices, combined with sluggish demand, dents growth. ECB's moderate rate cuts and hesitant government spending leave the EU susceptible to external trade shocks and pressures from US tariffs.
- China: Slowed domestic demand and high US tariffs reduce export growth, while domestic stimulus is limited by debt constraints. Growth falls as consumer spending stalls, and housing demand continues to decline.
- FX impact: the USD strengthens as investors seek safe assets, while the euro weakens.
- Sustainability impact: Reduced industrial output and lower consumer demand may result in short-term decrease in carbon emissions, however a prolonged slowdown in economic activity can hinder long-term environmental goals and clean tech investments that are needed for the transition. Climate adaptation strategies may also be sidelined as fiscal constraints and recession fears dominate policy priorities.

"Goldilocks" (Likelihood 20%)

The global economy achieves strong growth and controlled inflation across regions, with main central bank policies being interpreted as benign. Consumer confidence improves.

- United States: Trump's fiscal policies, including tax incentives and moderate tariffs, support robust consumer spending. Growth picks up momentum, with inflation stabilising to tolerable levels. Productivity gains from AI investments temper inflationary pressures while moderate wage growth sustains demand (American exceptionalism/pre-eminence).
- European Union: Coordinated EU stimulus or country-specific growth initiatives improve growth as the ECB cuts rates and a cohesive fiscal package boosts business confidence and green energy initiatives. Inflation stabilises, supporting consumer spending.
- China: China's consumer demand rises as fiscal stimulus and lower tariff agreements boost domestic industries. GDP grows beyond expectations, bolstered by rising export demand.
- FX impact: the USD is stable or slightly weakens, while the euro might gain.
- Sustainability impact: Strong support for green initiatives as balanced growth enables governments, corporations, and investors to prioritise sustainability without economic trade-offs.

"Stagflation" (Likelihood 15%)

High inflation and stagnant growth define this scenario, fuelled by tariffs, labour shortages, and rising global commodity prices.

- United States: Trump's aggressive tariffs and restricted immigration lead to supply constraints, pushing inflation to uncomfortable levels. The Fed is forced to maintain higher interest rates, slowing GDP growth. Higher borrowing costs dampen investment and consumer spending.
- European Union: Trade disruptions and energy costs create inflationary pressure as ECB rate cuts are stopped. Growth stagnates, hindered by wage demands and fiscal restrictions.
- China: Tariffs reduce export competitiveness, with growth slowing. Rising wages and supply chain challenges add to inflation, creating a cost-push effect.
- FX impact: the USD strengthens as inflation concerns drives expectations for interest rate hikes. The euro depreciates.
- Sustainability impact: Green initiatives are sidelined due to high inflation and stagnant growth, with immediate cost concerns taking precedence over long-term sustainability. This environment can also increase social inequality, which can add to political instability making long-term sustainability policies harder to implement.

"Inflationary Boom" (Likelihood 15%)

High growth and high inflation as global demand accelerates on the back of sudden, lowered geopolitical tensions (perhaps a consequence of the mega election year that was 2024).

- United States: Trump's agenda leads to a capex boom, especially in AI and tech, energy, and manufacturing drives growth higher. Inflation rises as labour shortages and high wages contribute to price pressures. The Fed hesitates to hike rates, enabling inflation to run hot.
- European Union: the EU implements a large-scale stimulus package, boosting green energy and infrastructure. Growth accelerates, with inflation picking up. Political cohesion drives further economic integration and supports sustainable expansion.

- China: China's growth rebounds with increased consumer spending, AI adoption, and stable export demand on green energy investments, for example batteries, wind, solar panels. Productivity gains help contain inflation, despite rising labour costs.
- FX impact: the USD and other currencies reman in volatile bands. remains strong with high demand for US assets. All other currencies are more limited as a consequence.
- Sustainability impact: High growth fuels green investments, but rising inflation increases costs for sustainability projects, requiring efficient resource management to maintain momentum. Overall, the capex boom is seen as a negative on the environment. This is because such capex spending sprees in energy, technology and manufacturing may drive up short-term environmental degradation due to increased resource extraction and production, especially in the fossil fuel and industrial sectors. The cost of raw materials could increase making it difficult to scale up sustainability projects. This may lead to stronger government policies to balance the negative impacts.

6. Capital market assumptions 2025-2029

The table below shows our expected returns for the various asset classes that we monitor. We show our capital market assumptions for the 5-year period from 2025-2029, as well as the shorter-term expected return per asset class in each of our macroeconomic scenarios.

Asset Class	Anthos Capital Market Assumptions 2025-2029	Expected Returns in Scenarios EUR unhedged				
		Below trend	Recession	Goldilocks	Stagflation	Inflationary boom
Global Developed Equities	7,3%	7%	-10%	16%	-7%	14%
EUR Aggregate	2,1%	7%	8%	-2%	-21%	-16%
Euro Government Bonds - 10yr	2,0%	7%	9%	-3%	-24%	-18%
US Government Bonds - 10yr	3,8%	14%	17%	-7%	-4%	-8%
Euro Asset-Backed Securities	2,4%	4%	2%	4%	5%	5%
EUR Investment Grade Corporate	2,6%	5%	3%	1%	-11%	-7%
USD Investment Grade Corporate	5,0%	7%	6%	3%	-7%	-5%
Global High Yield	5,6%	6%	-2%	2%	-7%	-3%
Emerging Market Debt - Local FX	4,4%	10%	1%	6%	-14%	3%
Absolute Return	4,0%	4%	2%	4%	5%	5%
Global RE Core+	4,5%	8%	3%	10%	3%	1%
Global Listed Infrastructure	5,5%	5%	-5%	7%	-3%	0%
Private Equity	9,5%	9%	-4%	15%	0%	14%
Private Credit	7,0%	7%	2%	8%	3%	4%
EUR Cash	1,6%	2%	1%	2%	4%	4%

Source: Anthos Fund & Asset Management. Anthos CMAs 2025-2029 include an assumed USD/EUR return (passed on Anthos PPP approach).

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