# The Trump factor over markets

**February 2025**

It has been a turbulent few months for global asset prices, and a story of two halves. Donald Trump's election amidst a broader Republican sweep of Congress was a decisive event, causing a bounce in consumer and corporate sentiment, a rise in the US dollar, and a strong rebound in risk appetite. Contributing further to this rebound in risk assets was the continuation of the US Federal Reserve's (US Fed) easing cycle amidst wider and globally synchronised interest rate cuts.

However, there was a sting in the tail as global shares softened towards year-end because market participants fretted about the risk of higher interest rates in 2025. Sometimes, at least for markets, there can be too much of a good thing.

We retain a constructive cyclical outlook on a 12 month time horizon, with the US economy back in expansion phase. Near-term, the lagged effect of interest rate cuts, and a pull forward in stronger growth due to Trump induced "animal spirits" will see a growth re-acceleration and a re-tightening in the labour market. However, a likely US Fed pause, higher mortgage, and corporate rates, alongside a rise in tariffs will usher in a new growth slowdown over the medium term.

The above stated central case represents the most obvious near-term future, however the inherent complexity of markets makes it difficult to predict a path with any consistency. Because the potential for deviation from the most likely path will always exist, investment consequences of less-obvious futures must also be considered and understood, such as the possibility of a growth disappointment.

Under this scenario, policy implementation of the new Trump administration could disrupt the current US growth trajectory. Immediate changes to trade (via tariffs), immigration and regulation via executive orders will see markets attempt to price the impacts. While most changes will be offered as beneficial to US economic growth, there will inevitably be unintended impacts on the real economy that will neither be known nor experienced for some time.

All up and broadly speaking, we continue to maintain near neutral allocations to most risk assets for our diversified funds. Current yields for fixed income and credit exposures provide an alternate return source for the funds with greater resiliency should the outlook deteriorate. We believe this positioning will capture adequate upside as strength continues, while leaving dry powder to take advantage of a buying opportunity in shares if growth stalls, or if inflation remains stubborn.

## Portfolio positioning

The main positions of the funds at the end of the December 2024 quarter were:

- Within Australian shares, we have a larger representation in large-cap direct shares and remain alert to more elevated valuations. We maintain exposure to small and mid-caps and see these allocations aligning with superior earnings growth, and over time stronger capital growth.
- Holding both hedged and unhedged global shares continues to be an important diversifier. We have maintained a structurally lower developed market foreign currency exposure due to the increasing valuation appeal of, and constructive medium-term outlook for the terms of trade for the Australian dollar, particularly versus the US dollar. The surge in US mega-cap shares, strength in the US dollar and broader jubilance surrounding the incoming US President Trump, present near-term uncertainty and potential turbulence for emerging market shares.
- Alternatives provide the portfolios with important real return exposures and sources of low correlation return streams. They also provide diversification and versatility in downside scenarios via a high quality, dynamic real return solution that has a healthy allocation to genuine alternative assets.
- We believe active management is appropriate within fixed income to effectively navigate a turbulent interest rate and yield curve environment. We see favourable risk-reward attributes with longer duration Australian fixed interest and high-quality credit.

For more information, please speak with your financial adviser.