Walter Scott & Partners Ltd. 2025 investment outlook: Global equities Renaissance Global Growth Fund & Renaissance International Equity Fund

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[Featuring Murdo MacLean Client Investment Manager, Walter Scott & Partners Ltd.]

[A headshot of Murdo MacLean]

[An image of a modern office building]

>> Murdo Maclean: So the 2025 outlook for global equities is, as ever, a challenging one. Nobody has a crystal ball. What we can say is that over the last couple of years, following the down markets we saw in 2022, we've seen exceptional returns and a continuation of perhaps the trends that we saw prior to 2022. I think the pattern up until 2022 was obviously largely impacted by low interest rates and the Covid pandemic. Following that period, we saw a pullback in global equities.

Since then, really, we've seen, really, one or two trends dominating all others, which has been the increased focus on artificial intelligence, and, to some extent, the focus on obesity-tackling drugs that have been very, very strong as well. In 2024, obviously all eyes were on elections around the world. We've seen most of the major economies having some elections of some sort or another, most notably the United States. And we saw the election of Donald Trump recently. And I think when we consider all these factors, and we look at the fact that the global equities have had a great run, but predominantly the United States.

The question, I suppose, heading into 2025 is, will that continue? Can it continue? Or are we likely to see a different sort of leadership playing out? You know, and I think you could probably argue both are equally possible. The one thing you could say is that the starting valuations for the US market are quite high by historical standards. And so, you know,
you can never rule out mean reversion, and investors taking a dim view of elevated valuations. But then again, the sheer depth of the US market, the prospects for, under the Trump administration, tax cuts, a greater focus on the US economy, that also could lend significant support to US equities well into next year.

I think from our perspective, you know, as I say, it's a folly to try to position a portfolio ahead of

time. And when you're talking about a three- to six-month window as to what might happen, you know, I think we reposition our portfolios for the long term. And it starts with companies rather than a myriad of political, economic, geopolitical, monetary, policy type factors. I would put it that way.

So in terms of how we position the mandate, heading into what I've just described as a pretty uncertain time with probably limitless potential permutations for global equities, it is exactly with the long term investment horizon in mind that we position our portfolios really continuously for the long term. And it starts with the companies, rather than the top down view. Reason being, the top down view is incredibly difficult to predict. We've seen how many times people have tried to predict interest rate cuts. They'd probably been wrong 100% of the time. And so what we are looking at is a diversified portfolio, but nonetheless, exposed to where we think the growth engines of the global economy are. That has been our approach, really, since day one back in 1985. And that approach has generally served clients well, because the overarching driving force behind equity returns is the quality, the consistency and the size of the earnings per share of a company. So we are positioned or heading into next year, positioned in a number of different sectors towards these growth trends.

Within technology, clearly, semiconductors as a whole, whether it be cloud computing, autonomous driving, mobility, or indeed artificial intelligence, which is obviously a major growth driver going forward. That is well represented across all of our portfolios, from companies that manufacture chips to companies that supply production equipment into the supply chain, to companies that provide components into data centers and so on. Within healthcare, again, a large part of our portfolios, whether it be through medical devices or pharmaceuticals, a real diversity there. Both in the obesity space with the likes of Novo Nordisk, or indeed in medical device companies such as Intuitive Surgical, the robotic surgery story is an extremely strong one, a very long runway for growth, and one that I think we will see increased focus on going forward.

Within industrials, we've added a number of companies that share US industrials, on top of what we already had. But they, again, that is not as simply a Trump play, that is based upon those companies occupying particular areas of the US or the global industrial space that we think will see very healthy growth going forward.

So companies such as Fastenal in the US, 30 year holding, that has been continually consolidating the sort of US industrial distribution landscape. Ferguson, also in the heating and ventilation and air conditioning space, Copart, which is a leading provider of salvage auctions for vehicles globally. You know, and out with that you have consumer exposure. The consumer is under some pressure. But I think generally speaking either companies that provide real value to consumers, or indeed companies in the luxury space that have very high pricing power. Hermes, Louis Vuitton, Moet, Hennessy, Ferrari, and going back to the previous group, something like a TJX or a Costco or an Inditex, the parent company of Zara. All of these companies, we think, have something very unique about their proposition to the consumer. I think where we're not overly exposed is in banking or in energy or in commodities, inherently cyclical spaces that do grow from time to time, but also go through pretty savage periods of

de-rating. And that inconsistency of growth, or the relative lack of transparency about where the growth is likely to come from over a five year period is why we tend to, perhaps, as it stands today, be low to no exposure there.

So we go into 2025 with this portfolio structure. It's evolved gradually over many years. But it starts with the companies and our confidence in the earnings. And as we move forward, obviously, dependent on fundamentals, we will adjust as we go, as, as we always have done. But that's really where the primary focus comes, and I think in, in 2025, a broadening out of focus outside of US technology would not necessarily be a huge surprise, just given how much of the returns that sector has driven or soaked up in the last couple of years, it’s perhaps long overdue for other parts of the market to to participate to a greater extent.

[Inspiring music]

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