

## ➤ Market and Economic Update – January 2025



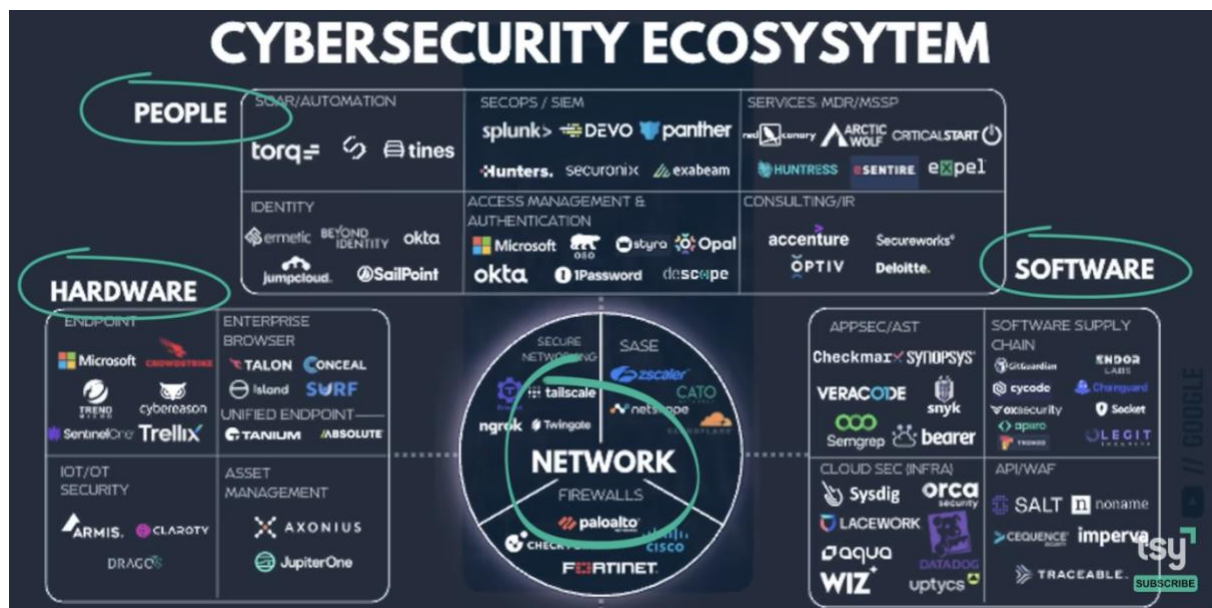
Peter Flannery CFP, FA

*"People calculate too much and think too little."*

-Charlie Munger

# The Markets

## AI. Cybersecurity



The graph above demonstrates the cybersecurity ecosystem. It shows the key component parts (e.g. people, hardware, software, networks) and the companies that operate in each. Note some like Microsoft play in more than one.

AI (artificial intelligence) is developing fast and will change the way we live.

Some resist it. Others embrace it.

For investors, there is both opportunity and risk and for everyday citizens of the world too.

Predators targeting our information and our assets online is a growing risk. Cybersecurity is increasingly important for you and I at home, critical for small business owners and large corporations alike. You might have noticed **Fortinet** in the NETWORK circle at the bottom of the above graph. They specialise in network cybersecurity for large corporations. Cybersecurity is a critical business function, making Fortinet's customers 'sticky'.

## AI: Opportunity

'The fourth industrial revolution' is here. It has been described as the mix of technologies that blur the lines across digital, physical and biological spheres.

The opportunity for investors is to 'ride the wave' of change as the advances in computer chips and CPUs spread to other applications such as software.

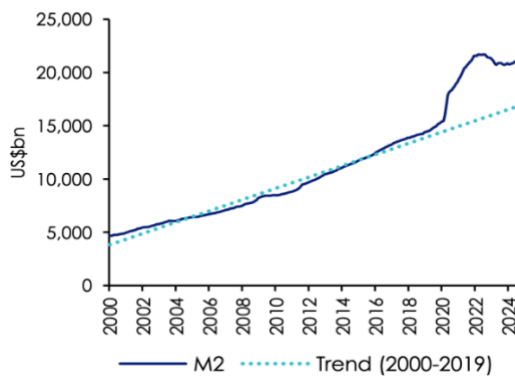
The point is that this is an ongoing shift. No need to suffer FOMO. Still useful to invest wisely.

WISEplanning is looking at a number of investing options. For us, growth will be key and sustainability long-term is equally important when considering what business to invest in. Companies like Nvidia, CrowdStrike, Adobe, Microsoft, Palantir, Salesforce, Micron plus many others, are worth considering (these are not recommendations, just examples of businesses that might be useful to us).

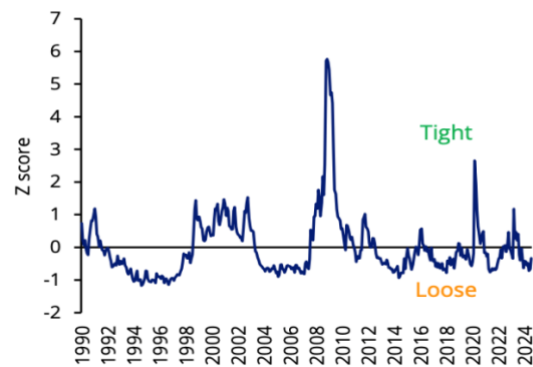
They all benefit from AI, and all sound promising in their own way, but it is not until you look below the usual financial analyses that almost everyone is looking at, that we can see how robust the business model is and how strong the underlying quality of the business.

## Market conditions

**M2 money supply**



**Financial conditions**

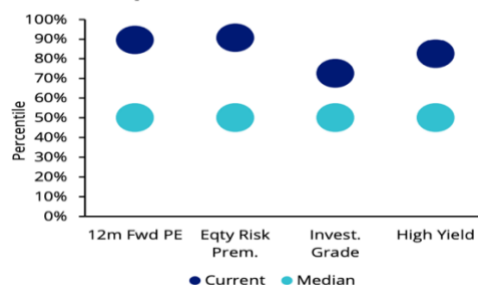


The graph to the left tracks US money supply as measured by M2. The graph on the right effectively tracks interest rates (tight conditions = elevated interest rates, loose conditions = low interest rates). Source: VanEck, Bloomberg, US Federal Reserve, IMF, Equifax

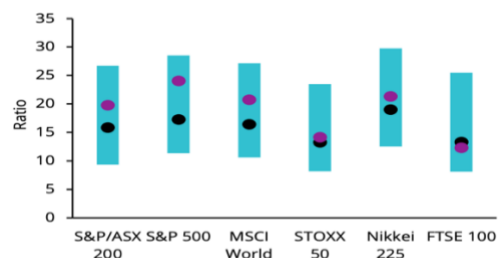
Currently the supply of money is plentiful and interest rates are somewhat low. This means ideal conditions for the share market, rising share prices – happy investors 😊

### Certain market segments stretched reinforcing the need for selectivity

**Valuation percentile: Global**



**12 month forward PE: Region**

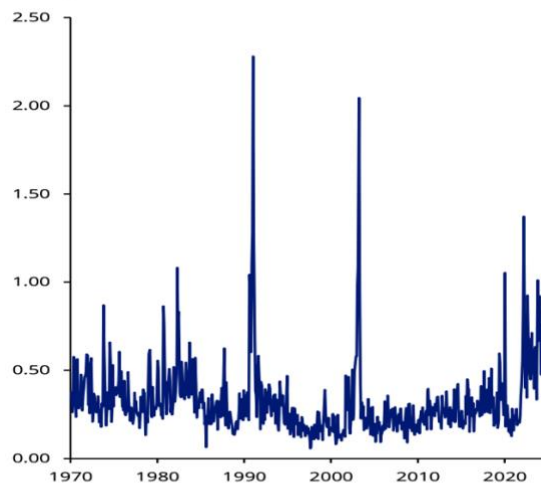


The graph on the left shows the current valuation percentile (which ties in with The Buffett Indicator), comparing it with the median valuation. The graph on the right tracks the forward price-to-earnings ratio (P/E ratio) across different markets. Source: VanEck, Bloomberg

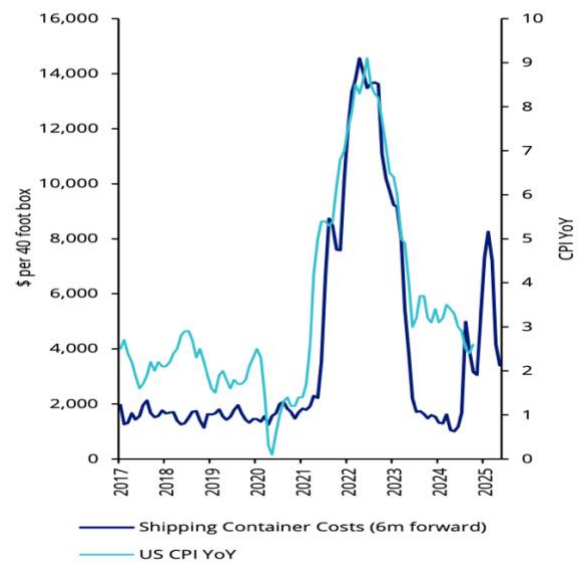
As [I explained last month](#), markets are generally expensive.

Good times. Let's be alert though to some outlier risks.

### Geopolitical risks Index



### Shipping costs versus US CPI YoY



The graph on the left tracks geopolitical risk (to September 2024). The graph to the right compares shipping costs and US inflation (CPI). Source: VanEck, Bloomberg

Geopolitical instability, especially when it unexpectedly spikes, instantly gets the attention of the markets. There is always the possibility that something very serious emerges, but usually not.

Inflation unexpectedly rising would likely mean higher interest rates. That is a headwind for companies and therefore share prices. The markets are always hungry for growth, wherever it can get it. Rising interest rates slow growth and are therefore the enemy of growth-hungry investors.

Interest rates are getting closer to the end of the cut cycle in the US. That might mean that markets will look to AI advances to support aspirations for growth. Expect more volatility over 2025.

## The US Share Market (Dow Jones) January 2024 – December 2024

Market Summary > Dow Jones Industrial Average

**42,732.13**

+5,291.79 (14.13%) ↑ past year

3 Jan, 4:50 pm GMT-5 • Disclaimer

1D | 5D | 1M | 6M | YTD | **1Y** | 5Y | Max



Open	42,495.76	Low	42,436.92	52-wk high	45,073.63
High	42,782.76	Prev close	42,392.27	52-wk low	37,122.95

The above graph tracks the movement in the Dow Jones over the last 12 months.

The graph above is still green 😊 The all-time of 45,014 was reached 4 December 2024. By the end of December, the Dow Jones Industrial Index had drifted back to 42,544 – a good thing, keeping trading prices from becoming excessively overpriced.

## The US Share Market (Nasdaq) January 2024 – December 2024

Market Summary > Nasdaq Composite

# 19,621.68

+5,111.38 (35.23%) ↑ past year

3 Jan, 5:15 pm GMT-5 • Disclaimer

1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



Open	19,395.51	Low	19,379.57	52-wk high	20,204.58
High	19,638.66	Prev close	19,280.79	52-wk low	14,477.57

The above graph tracks the movement in the Nasdaq over the last 12 months.

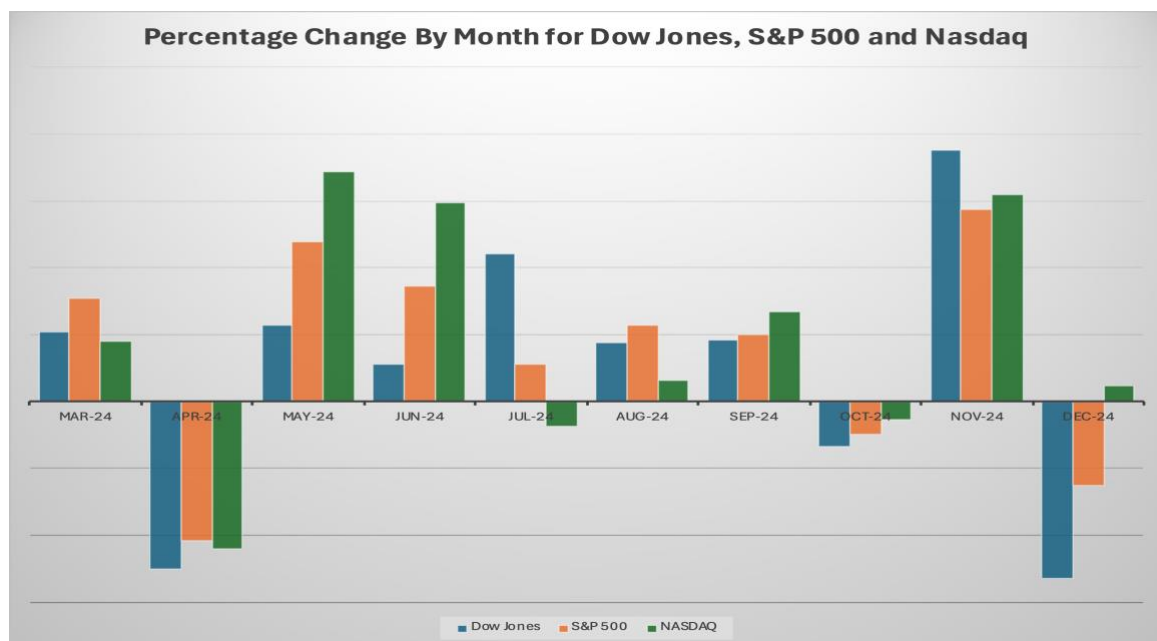
Since we are shifting our investing strategy somewhat more in favour of technology-based assets, it seems appropriate to highlight the Nasdaq. This is a share market index of over 2500 listed companies and is weighted in technology stocks both across the US and internationally.

## Share market index movement – USA

### The volatility over December 2024.

This was how it went for the 12<sup>th</sup> month of 2024:

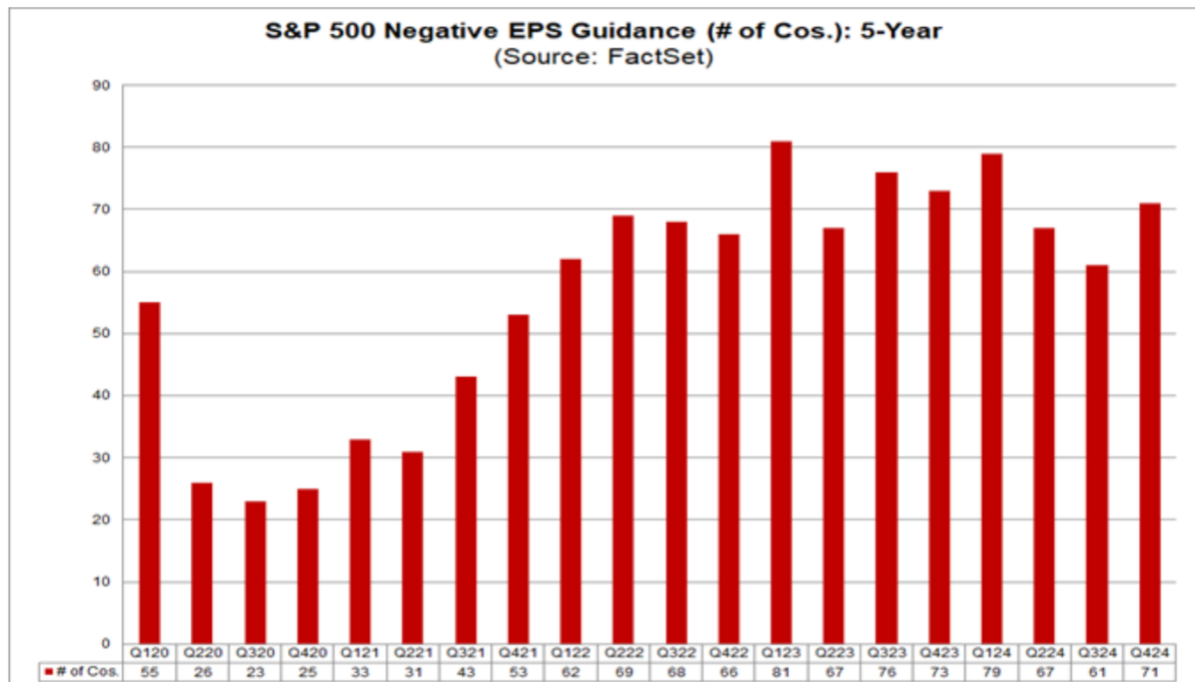
- The Dow Jones finished the month – 5.27%
- The S&P500 by – 2.50%
- The Nasdaq by + 0.48%



The graph above tracks market mood monthly and the resulting movement across The Dow Jones, The S&P 500 and The Nasdaq.

Markets remain in a buoyant mood because of supportive market conditions generally.

## Earnings - 4<sup>th</sup> Quarter 2024 estimates



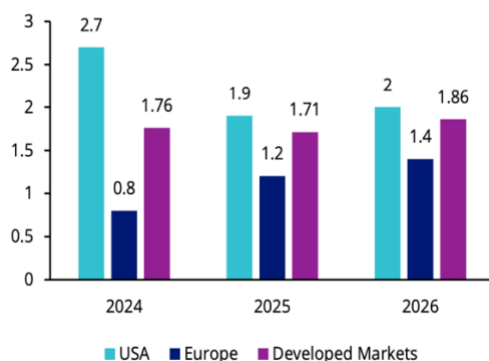
The graph above shows the change in the number of negative earnings estimates since Q1 2020.

Company earnings however are showing a somewhat different story. 106 S&P 500 companies have issued fourth-quarter earnings estimates. 71 have issued negative EPS (earnings per share) guidance. 35 have signalled positive EPS guidance. As you can see in the graph above, this report disrupts the previous three-quarter trend of declining negative EPS estimates.

Earnings are an important indicator of how companies are tracking in the future and something the market pays attention to, especially on a company-by-company level. You will have seen trading prices of individual companies drift down or decline sharply when earnings or revenue guidance is unexpectedly negative.

## Global economic outlook

### Real GDP growth consensus forecasts



### Manufacturing activity



The graph to the left shows current and estimated economic growth. The graph on the right tracks manufacturing activity.

The graph to the right above shows manufacturing activity has been sluggish since 2022. This flows on to tepid economic activity and growth over the next year or two.

However, there could be some AI efficiency and productivity gains that could underpin economic activity and growth in the future. Difficult to gauge the extent and the timing at the moment.

### **Where to next?**

Elsewhere, more traditional indicators such as US unemployment have settled down (but still keenly watched by the market).

The FOMC meeting set for 17/18 December 2024, delivered another rate cut of 25 basis points.

The closely watched PCE measure of inflation was stubbornly flat in December last year, leading to the US FED suggesting that they may now look at a more moderate approach to interest rate cuts moving forward. Expect interest rate cuts to slow, and then stop. No panic here but something to watch in the near future.

After a strong year for US markets generally, investors continue to look for growth. They will likely be focused on AI and related options.

Ideally, we might see slow growth across markets overall, but possibly ongoing high growth in those few companies that are strongly followed by a large number of investors and large amounts of capital.

Large caps such as the Magnificent 7 companies have been popular over 2024. They are generally well-established businesses (although Tesla still looks like a 'rough diamond'). Still, there is opportunity elsewhere. Indeed, there is plenty of opportunity, especially while market conditions are favourable.

Expensive pricing is the current challenge (hopefully that might change!). There are risks that could disrupt the current investor-friendly landscape. We will keep you posted.

*Scroll down to the global economic update...*



# The Global Economy

By Morgan Edwards – [brief bio](#)



## Introduction: Looking Forward in 2025

For the first Economic Update of the year, let's have a brief look at some trends and events which will likely dominate the economic headlines this year. This is absolutely not a series of predictions, but more just a guide of three key themes to watch out for over the coming year:

### 1. The Trump Presidency

This one is pretty obvious. Trump's 2024 Presidential Campaign has reignited the potential for using high tariffs to boost US based production (keep in mind that the Biden Administration retained tariffs on steel imports). Just how far these will go remains unknown. However, whether the tariffs are implemented to the same degree as Trump has campaigned on or not, you can your bottom dollar that there will be an economic impact from tariffs and even discussion of them.

### 2. Landing interest rates

Many central banks around the world will have progressed to the 'landing' phase of their interest rate loosening. In other words, they'll be at (or close to) their lowest point until they have to be raised (or lowered further). Expect to see interest rate decisions causing a ruckus in both the news and financial markets.

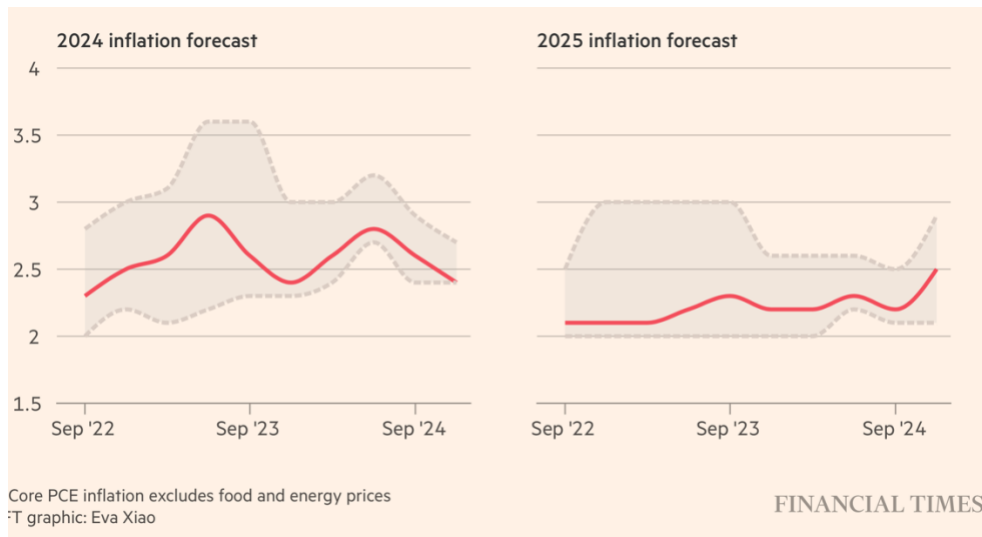
### 3. Economic activity and fiscal policy on the other side of lower interest rates

Related to the previous point, it will be interesting to see how economic activity and fiscal policy operate when interest rates move lower. Will governments, like ours, double down on reaching a surplus?

2025 is shaping up to be a huge news year, with economic matters likely to be near the top of the heap.

## United States

The Fed continued their 'loosening' cycle, lowering interest rates to 4.25-4.50%. However, the lowering of interest rates was accompanied with a hawkish outlook for 2025. Primarily, the Fed indicated they wouldn't cut rates as frequently next year and raised their inflation expectations.



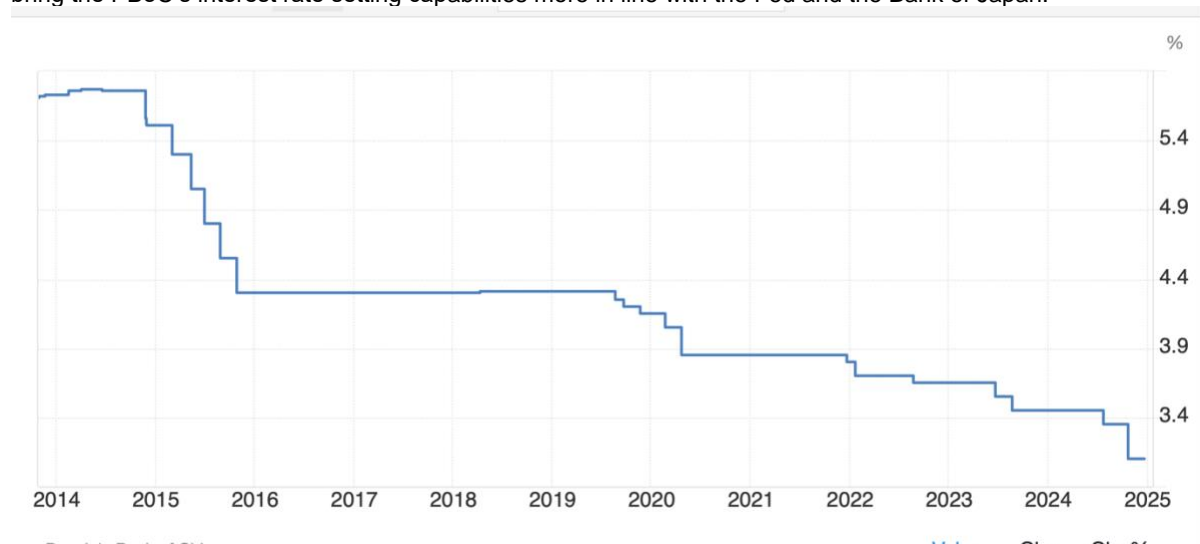
*The graph above depicts Fed inflation forecasts for 2024 and 2025 from previous monetary policy decisions.*

Future interest rate decisions will likely be accompanied by some market gyrations (i.e., sell offs or rallies), so their decisions (as always) will be worth keeping an eye on.

## China

2025 appears to be the year where the People's Bank of China will change how it conducts monetary policy.

At the moment, the PBoC controls a slew of different interest rates and offers unofficial guidance on where banks should lend. This has included property and construction in the past. However, the reforms expected in 2025 will bring the PBoC's interest rate setting capabilities more in line with the Fed and the Bank of Japan.



*The graph above shows the prime loan rate. This is China's primary interest rate for household loans.*

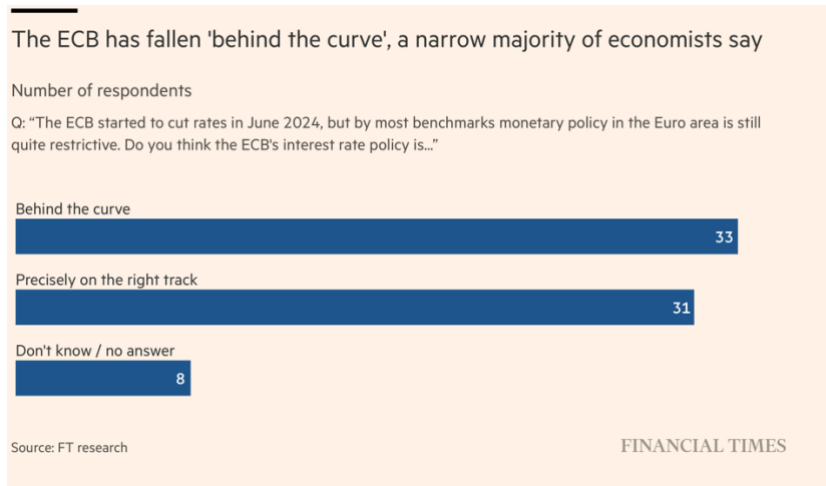
It will be interesting to see how the Chinese economy adjusts to a shift in the interest rate regime.

## Euro Area

Looking forward into 2025, economists (who aren't worth listening to anyway) are saying that the ECB is now 'behind the curve' in cutting interest rates.

It is worth pointing out that of the 72 economists surveyed, 33 said the ECB was 'behind the curve' while 31 felt that they were precisely on the right track'.



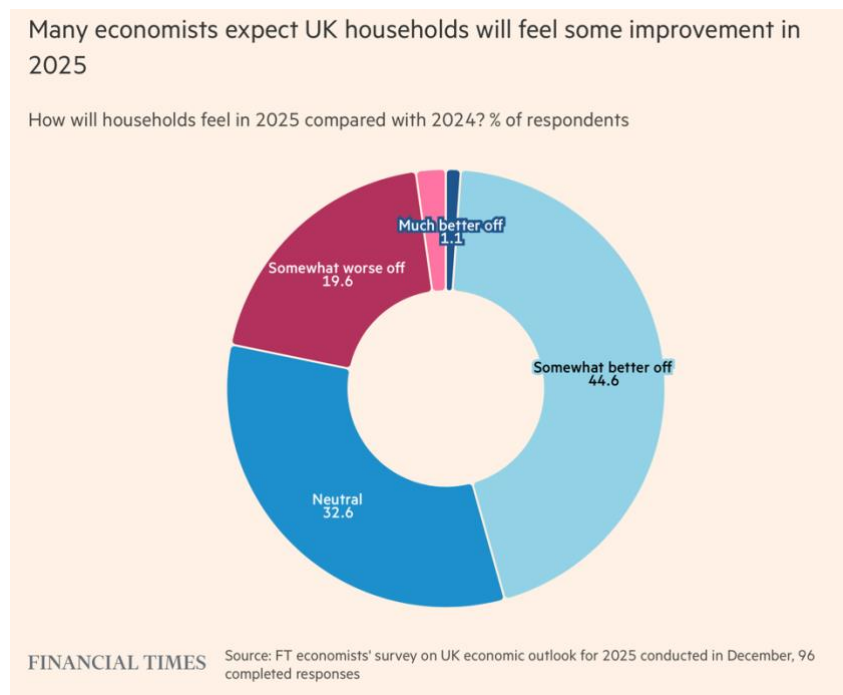


*The graph above shows how the surveyed economists responded.*

This news comes off the back of economists complaining that the ECB did not act fast enough in cutting interest rates. Compare this with their comments several months ago that questioned the ECB moving 'too early' (and before the Fed)

## United Kingdom

Recent changes to taxes and contributions announced in the 2024 Budget continue to dominate the discussion on economic activity in the UK for 2025.



*The graph above, from another Financial Times survey, shows how economists expect households to feel in 2025.*

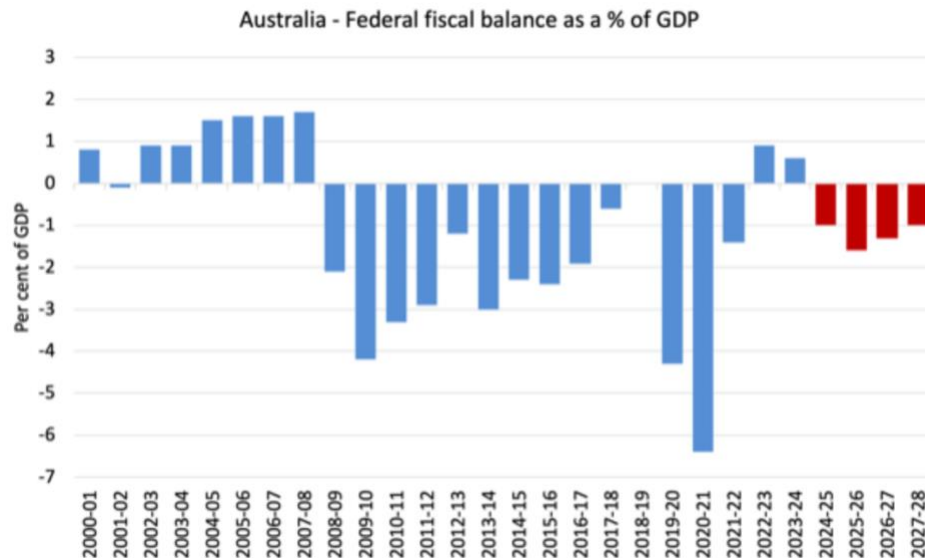
The consensus amongst observers is that households will likely feel better off and increase consumption.

However, tying it back to the UK Budget, there is some unease at how businesses will respond to increased taxes and contributions. Some are saying that this may lead to price increases to offset increased costs for businesses. We will have to wait and see.

# Australia

The Australian Government released their Mid-Year Economic and Fiscal Outlook (MYEFO) in December 2024.

This highlighted that the Australian Government is projected to run a deficit for the 2024/2025 financial year.

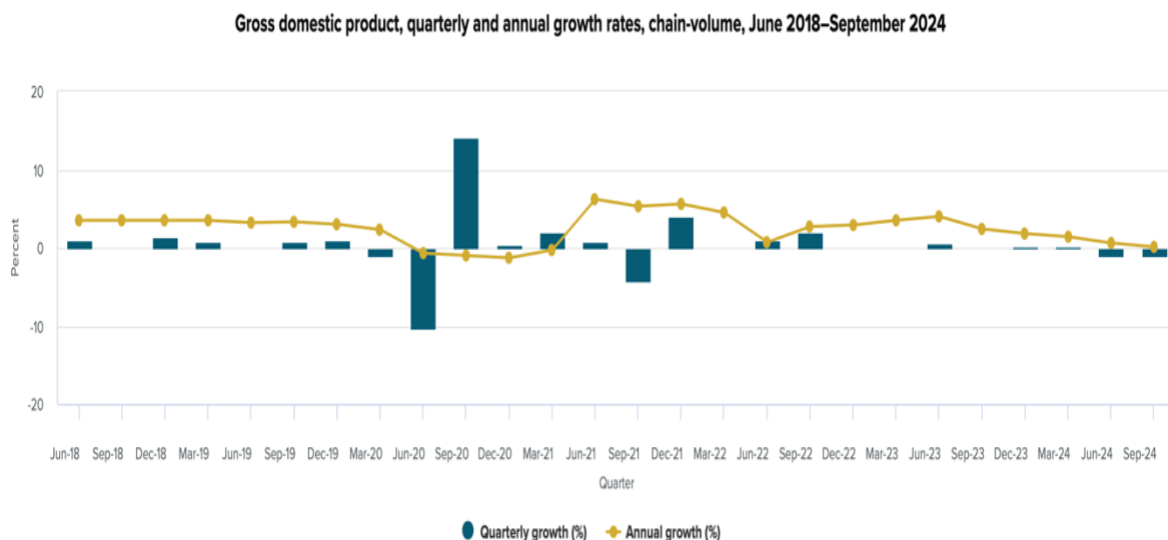


The graph above shows the Australian Government's fiscal position from the 2000/2001 to 2023/2024 financial years. The last four are projections for the 2024/2025 to 2027/2028 financial years.

The economic commentators, as they do, jumped on this and would have had you believe that the sky was falling in. However, this is certainly not the case. All government spending in Australia originates from the Official Public Account at the Reserve Bank of Australia (RBA). The deficit merely shows that the government is spending more than what it is taking in in tax.

# New Zealand

NZ GDP showed a 1% decline in the third quarter of 2024. This exceeded the 0.4% decline expected by economists.



The graph above shows annual and quarterly GDP growth in New Zealand from June 2018 (Q2 2018) to September 2024 (Q3 2024).

The 1% drop in GDP should not come as a surprise, although of course it did to many economists. When expenditure equals income and there's no one willing to spend (in our case, households and businesses are deferring investment and the government is busy 'balancing the books'), then economic activity slows. That's really all there is to it.

## Conclusion

All in all, 2025 is shaping up to be a big year for the global economy.

Of course, we don't know what way it will go exactly (economists know least of all remember!), but it is bound to be enthralling at every turn.



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