2025 JANA Investment Strategy Outlook

Balancing Risk and Resilience

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Investment markets and the ecosystem they operate in exist in a state of flux, where one constant investors can rely on is that the future will not repeat the past.

Each year, JANA's asset class and strategy research teams work together to review how the macroeconomic and geopolitical environment is changing, how asset classes are evolving or even emerging, and what this means to the outlook for risks, opportunities and investment returns. While we cannot predict the future with absolute certainty, this research helps us understand how the world is changing and to consider how to position investment portfolios that will deliver strong risk adjusted returns.

The 2025 JANA Investment Strategy Outlook three-part series outlines our expectations for 2025 and beyond. This, the first release, **'Balancing Risk and Resilience'** details the evolving long-term 'structural' forces shaping the investment world.

The second release, **'Asset Class Trends and Strategy'** will discuss the evolution of asset classes and the implications for asset allocation and overall portfolio design. And lastly, **'Navigating Structural and Cyclical Changes,'** which outlines JANA's Capital Market Assumptions and examine the current environment and key areas our team will continue to monitor over the course of 2025.

Structural themes

JANA's structural themes describe the foremost long-term forces that have the potential to materially reshape the macroeconomic and investment environment over the coming decade and beyond.

Long-term themes, often spanning multiple decades, tend to evolve slowly. While some trends, like demographics, are relatively predictable, their individual outcomes and interactions with other long-term themes and short-term market, economic and geopolitical forces are difficult to forecast. However, focusing on the potential pathways and the implications for asset class returns and opportunities, we can adopt a forward-looking approach to asset allocation that better reflects future potential risk and return outcomes.

Over the post pandemic period, JANA's Structural Themes updates have emphasised our view that we are living in an unusual time. There has been an acceleration and amplification of some forces described in our structural themes, such as rapid technological development in the form of AI and medical developments like GLP-1 and its adoption as a weight loss drug, a step change in the global diplomatic and trade backdrop, a shift toward 'populism' and the unfortunate realisation of long predicted climate risks.

Developments in 2024 reflected a continuation of this acceleration, as described in the following pages.

Multi-Polar World

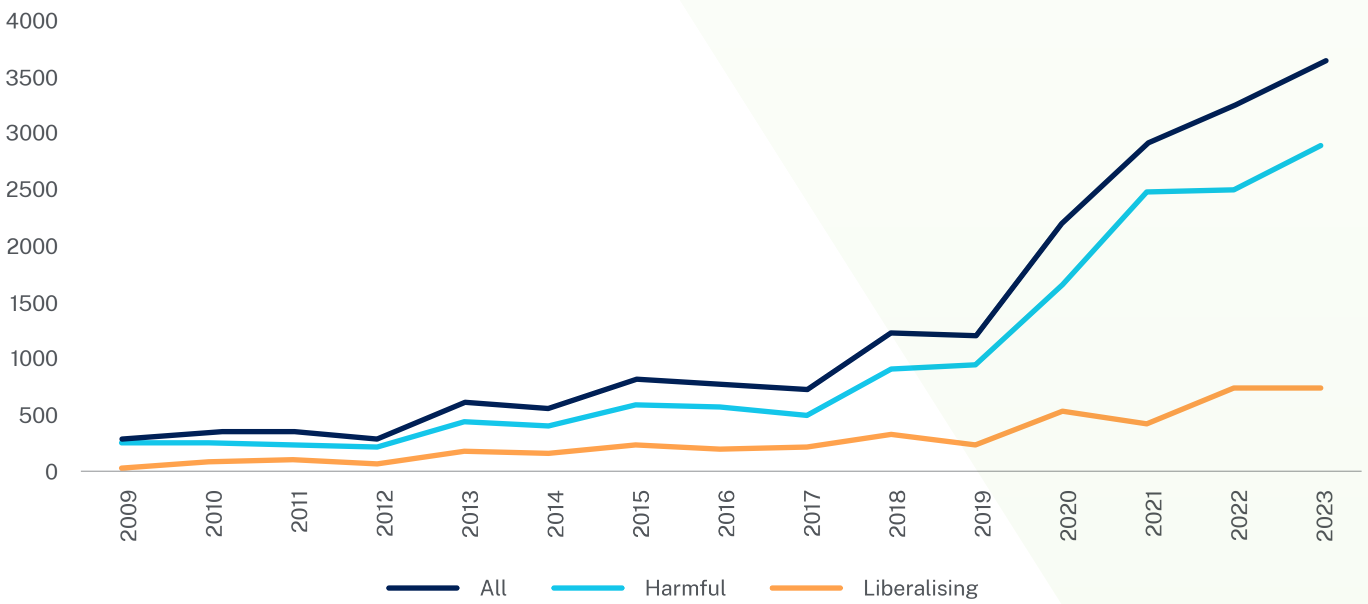
After multiple decades of a relatively stable world order, in which a 'Western' alliance led by the US sought to maintain cooperation and stability in relations between countries, global trade and capital flows increased and the major threat many Western countries focused on was terrorism, we find ourselves transitioning to a very different world in 2025.

The most visceral expression of this is in the wars that have been raging in Europe and the Middle East. While these conflicts remain relatively contained for now, there have been heightening escalations over 2024 that highlight the risk of broader war. The inclusion of North Korean troops and corresponding willingness for Ukraine to use longer range missiles targeting military sites within Russia's borders could signal a step toward a more global conflict.

While the ceasefire in January may mark the end of the Israel-Hamas war, the underlying tensions that led to conflict have not been resolved and the war has resulted in changes in the regional power dynamics that could have broader global implications.

The attitudes of both governments and corporates toward global trade and investments have fundamentally shifted as a result of changes in the geopolitical environment. This shift is reflected in real-time trade flows and tariffs.

New global trade interventions implemented per year



Source: Global Trade Alert, 2024.

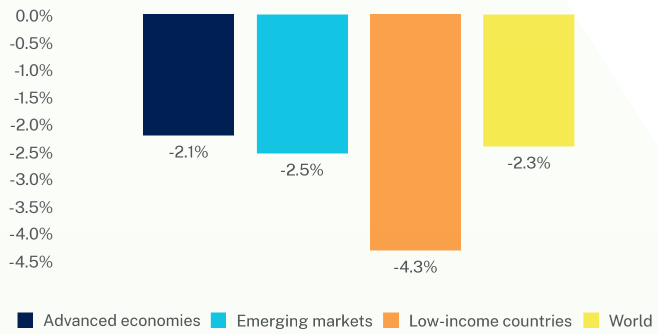
This fragmentation – the policy-driven reorientation of global trade – is far from disorderly, with growing evidence that the world is transitioning to what can be best described as a Multi-Polar global order. One characterised by the ambition of regional powers seeking to destabilise the prevailing US/Western-centric 'global order'. This global reorientation is no more evident than in the economic and strategic posturing between China and the US, and additionally, the deepening of ties between China, and other Western sanction-impacted countries such as Russia and Iran.

This is less 'de-globalisation' and rather a re-orientation of trade and foreign investments along geopolitically friendly, or at least neutral lines, where national security and supply-chain resilience is emphasised.

In isolation, this is likely to result in lower growth over time, particularly for the emerging economies that have mostly relied on trade for growth. In a fragmentation scenario where bi-lateral trade is largely constrained to other intra-bloc countries, the IMF forecasts a permanent global GDP loss of 2.3%, where low income countries are the most impacted, experiencing a loss of 4.3%.

GDP loss projections due to trade geo-economic fragmentation

(world split into two exclusive trading blocs)



Source: IMF, Fragmentation in Global Trade Accounting for Commodities, 2023.

This changing backdrop also has implications for global cooperation on matters of climate, human rights and all the other things, which the prior world order arguably better supported. Cooperation may continue between some countries but will be undertaken against a backdrop of competition and national self-interest.

While this theme's direction is already well established, the substantial shift toward 'populist' parties and candidates in many Western countries in 2024 is expected to further amplify its progress in 2025 and beyond.

Demographics

There is a strong and intuitive link between population growth and the potential growth rate of an economy or wider region. This natural link however can belie the underlying complexity of the relationship between demographic trends and *realised* growth.

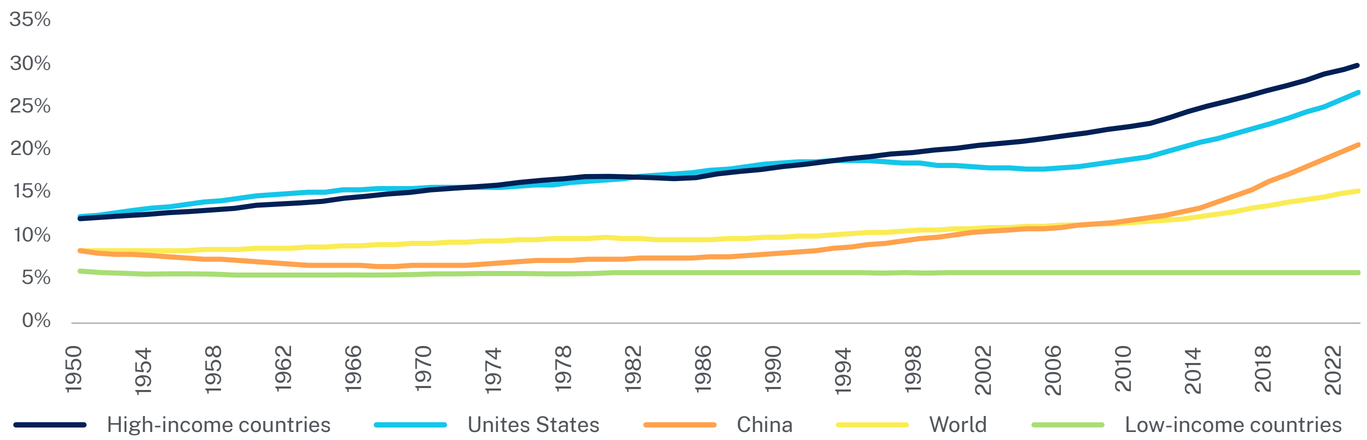
Demographic trends present as a unique long-term force, for the trends are slower moving and readily measurable and observable. Despite this visibility, what is more difficult to predict is the interaction of demographics with other factors and market forces, and the response mechanisms of governments and corporates.

The aging of populations in China and the US particularly, and the corresponding shrinking working-age populations are focal points given the respective contributions to global economic growth.

There are looming challenges for these key economies as their respective demographic trends likely present as headwinds to economic conditions through numerous transmission channels, including but not limited to declining demand, investment and productivity rates. Both countries however will continue to pursue most effective opportunities – such as via trade, migration or technology – to mitigate the economic risks associated with aging demographics.

Old-age dependency ratio

The number of elderly people (aged over 64 years) relative to the number of working-age people (aged 15-64 years)



Source: UN, World Population Prospects, 2024.

The old-age dependency ratio, a simple but useful measure of population composition, has been rising and at an increasing rate in both countries, but particularly in China.

Demographic trends in China place the country at risk of failing to 'grow rich before it grows old.' In 2024, China's economy has stumbled. The transition to a more balanced economy, which relies less on significant capital investment for growth, appears at this stage, to be occurring too slowly to support its aging population. The quantum and nature of growth experienced in the pre-pandemic decades is unlikely to be repeated, which has implications for Australia and the rest of the world. However, whether China can transition its economic growth model sufficiently to not languish in the middle-income trap remains a question.

Economic growth prospects in the US are also at risk of some deterioration due to shifting demographics, illustrated in the chart above. Net-immigration has become an increasingly important source of population growth for the US, however the direction of domestic immigration policy under the Trump administration in 2025 and beyond is a significant threat to this key offsetting factor.

Just as we've observed in the post-GFC period, we expect demographic trends will continue to exert some influence over interest rates. The rise in household savings has contributed to a shift in the balance between the global supply of savings and the demand for investment capital since the Global Financial Crisis (GFC). This 'global savings glut' contributed to the sustained period of low global interest rates in the post-GFC era. Looking ahead, while we expect the ageing population dynamic of many key economies to contribute to net savings, we note that over time, older cohorts will shift from saving to spending, which in turn could reduce the quantum of capital available that has helped keep rates low.

Not all countries will be burdened with an aging population over the next decade. There are many emerging countries with young populations that have the potential to generate faster economic growth than countries with older populations, however outcomes will vary substantially across the emerging world, and the need to consider the geopolitical and macro forces influencing a country are as important as ever.

Energy Transition and Climate Change

The urgent need to transition the global energy system and take actions to combat climate change remains, as does the challenge of achieving global cooperation and raising the investment capital required to do so.

The past year was one where the direct investment impacts of climate change were felt strongly, particularly in real assets – we've seen assets impaired following extreme weather events, increased incidence of assets becoming uninsurable because of their vulnerability to weather-related risks and valuations hit by changing perception of risk.

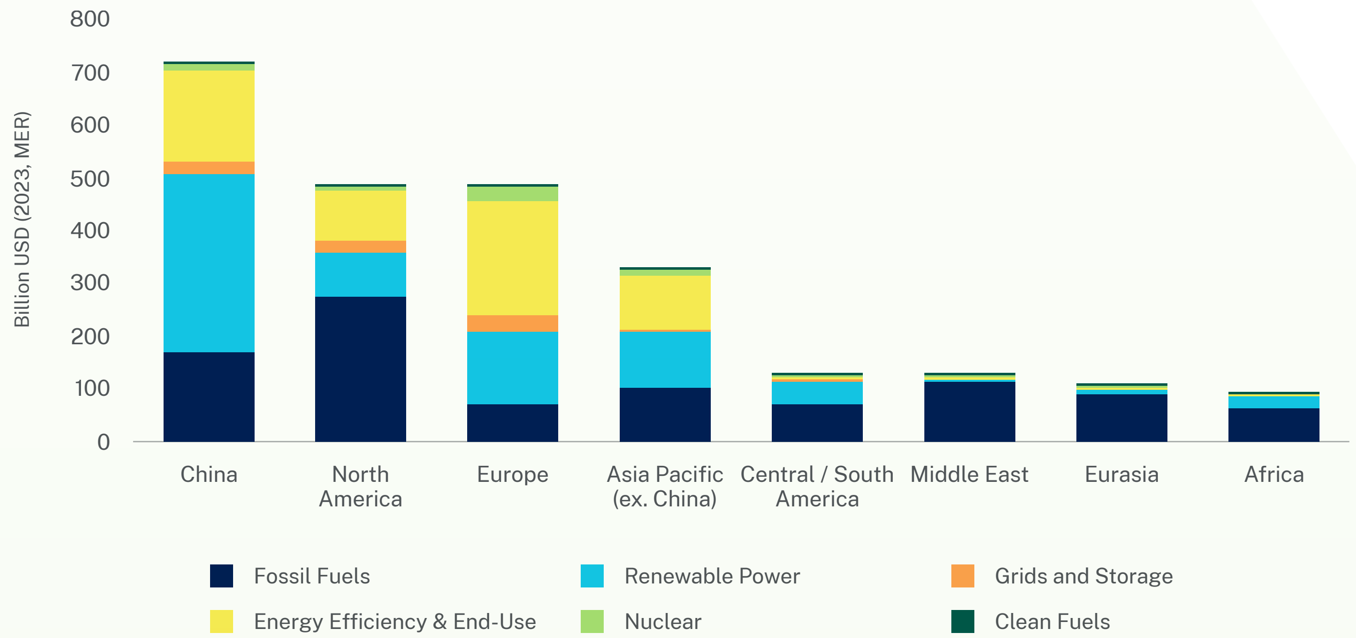
There were many positive developments over 2024 – The Inflation Reduction Act in the US has been successful in accelerating investment to support climate transition in the US. The UN Conference of the Parties on Climate (COP) 29 in Baku achieved multiple commitments that, while short of what would be required to deliver the Paris Agreement goal of limiting warming to 1.5 degrees, continued progress in relation to funding of developing economies' adaptation and transition efforts, as well as reforms to support increased private participation in climate finance. The quantum of dollars invested in climate finance globally – while still far too short of requirements – has continued to increase year on year.

However, 2024 has delivered a major setback in the prospects of a globally coordinated climate response. The election of Donald Trump as President is expected to result in the US withdrawing from the Paris Agreement and associated commitments. In addition, expected increases in tariffs and reciprocal actions taken by China – which dominates critical minerals processing and many parts of the electrification and renewable production industry – will make the transition more expensive and potentially slow progress. The US is not alone in this, with the European Union also targeting Chinese made Electric Vehicles via elevated tariffs implemented in late 2024.

Higher financing costs in emerging economies, primarily related to rising interest rates and persistent strength in the US Dollar, presents a headwind to attracting sufficient private investment capital in these regions.

Investment flows into the energy transition continue to fall short of the levels required. While investment at unattractive multiples in 2020/21 and resulting poor returns for some investors may set further investment back, our research teams are reporting that pricing on transition assets has improved. Although it remains case by case, ensuring a market rate of return often relies on a stable and supportive regulatory environment.

Annual Energy Investment by Region, 2023



Source: IEA, World Energy Investment 2024 Datafile, IEA, Paris.

Sustainable Capitalism

Corporate practices have evolved substantially over the past two decades since the ESG and sustainability movement took hold. This evolution has been driven by changes in regulation, shareholder pressure and customer and broader societal expectations. Corporate philosophy and practices have changed as a result of the greater emphasis on transparency and strong governance practices.

The view that a sustainable model of economic development should ensure that the environmental and social impacts of 'doing business' are priced and paid for has gathered momentum over the past decade. This is most visible in the context of climate change, where the capacity to measure and report on impact is greater, where the economic costs are apparent and where the risks associated with changing regulation are well understood by shareholders, government and other stakeholders.

Natural capital is a related focus area, with many national governments, including Australia, the US and the EU undertaking natural capital accounting initiatives to measure national natural capital stock. On the corporate side, the Task Force on Nature Related Financial Disclosures (TNFD) is following the blueprint set by the Task Force on Climate Related Financial Disclosures (TCFD) to create a framework for integrating natural capital considerations into decision making and to enhance transparency and reporting for shareholders.

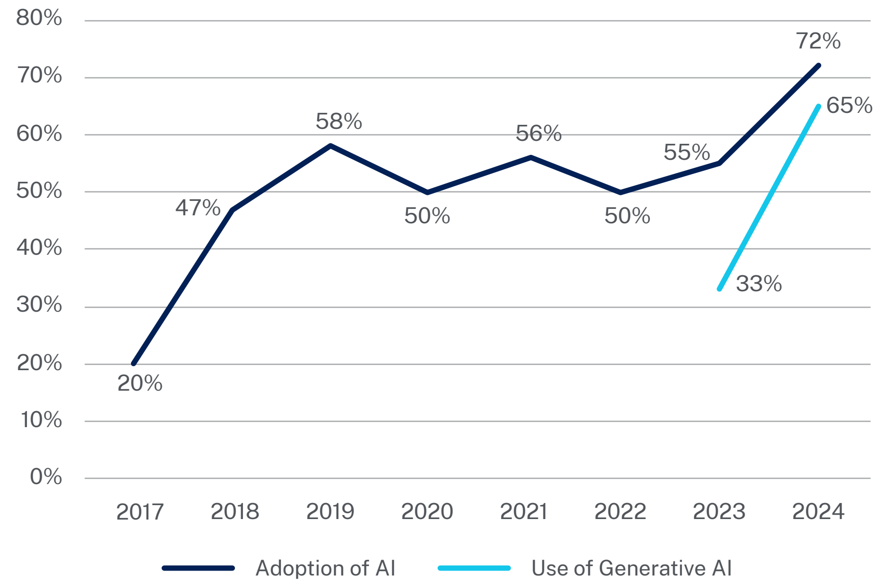
While we expect to see headwinds to the progress of this theme, as a result of the swing to the political right in many countries, we don't expect progress to stall. This is in part because many large companies are proactively leading the charge on these issues ahead of regulation and outside the political cycle. In our view, this is being driven as much by the lived experience of financial impacts of ESG risks in the corporate world as by 'PR' – irrespective of the political cycle, companies need to consider financial risks to deliver returns to shareholders.

Technology and Innovation

In recent years, there has been an accelerating awareness of the potentially transformative impacts of Artificial Intelligence (AI), which is increasingly recognised as one of a very small number of revolutionary 'general purpose technologies', like the steam engine, electrification and the computer, which are powerful enough to significantly 'transform the path' of economic progress.

AI Adoption

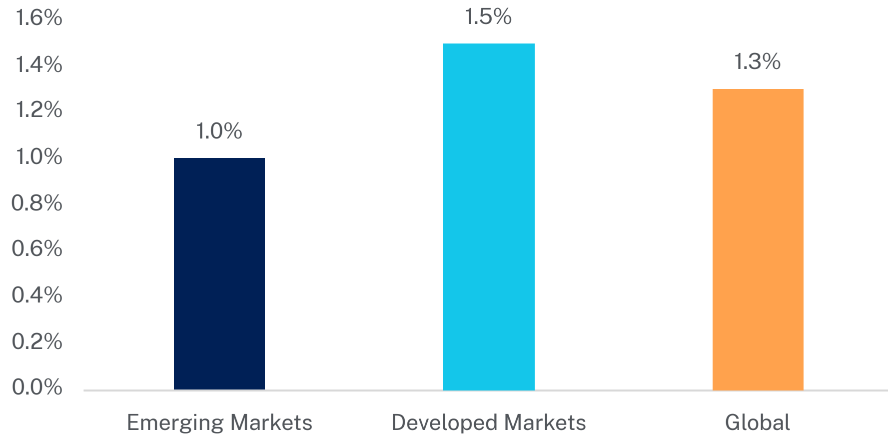
Organisation that have adopted AI in at least one business function (% of respondents)



Source: McKinsey & Company, The State of AI Survey May 2024.

While it is too early to conclude, research to date suggests that AI will result in significant productivity gains over the medium to long-term following widespread adoption. Goldman Sachs estimates that over the next decade this technology may lead to significant productivity gains across both developed and emerging markets of 1.5% and 1.0% respectively.

Estimated Effect of Widespread AI Adoption on Annual Productivity Growth



Source: Goldman Sachs Global Investment Research.

Another area of significant development is in the healthcare sector, which has itself benefitted significantly from the productivity gains arising from use of AI technology. The development of GLP-1 drugs and their adoption as a weight loss drug is transformative – not only because of the benefits for the millions of people worldwide who could benefit from its use, but because it heralds a shift in healthcare from managing the symptoms of metabolic disorders to disease modification and prevention. This has the potential to result in improved health span and longevity of population, which could have broad implications for how long people work and live.

Bringing it all together

Longer term structural changes can slowly and gradually reshape the outlook for growth, inflation, interest rates and policy across global regions.

These longer term changes are just one of the reasons that every economic and market cycle is different. Longer term changes are often slow moving, but occasional step changes and major inflections have been a feature of economic history. The pandemic and Ukraine crisis have already acted as powerful disruptors while transformative developments in technology, rising geopolitical risk and climate change have the potential to accelerate and amplify the effects of change in economies and markets. The growing influence of powerful structural changes on economies is a unique characteristic of the post-pandemic global economic expansion.

We expect **inflation** to remain more variable and moderately higher on average than experienced in the pre-pandemic decade. Currently, developed regions are experiencing moderately higher cyclical inflation pressures. These pressures are linked to ongoing economic expansions and low unemployment. Additionally, higher fiscal deficits, investment spending on climate change and supply chain resilience are contributing to increased demand in many economies, most notably the US.

In the short to medium term, President elect Donald Trump's political agenda is widely expected to add some inflationary pressure in the US. This is something we'll be watching closely.

Globalisation and global supply chain flexibility have been important factors in the multi-decade decline in global inflation volatility. Populism, protectionism and geopolitical risk present growing risks.

The prospect of higher fiscal spending, a sustained global capex cycle and the return of more two-sided inflation risks should exert modest pressure for higher neutral real **policy rates** on average relative to the pre-pandemic decade.

Other factors that may drive market interest rates are linked to the supply and demand of capital. The excess of global savings over the demand for investment capital has played an important role in keeping global interest rates very low over the post-GFC decade. While aging demographics in major economies may yet remain a powerful influence boosting the supply of savings, older cohorts will over time shift from saving to spending and this could reduce the quantum of capital available that has helped keep rates low.

Further, the global balance of savings and investment could shift due to the significant new public and private investment required over the next decade to support the energy transition, along with corporate investment in AI and related technologies, supply chain reorientation and other sustainability related adaptation costs.

This presents a significant challenge when considered in the context of the demographic challenges faced by many of these countries. Government debt sustainability across major regions, including the US is an area of concern that could, over time, lead investors to require additional compensation for investment risk.

We anticipate that these factors will result in shorter economic and market cycles.

While not our core expectation, a swift and more substantial fragmentation of global trade involving currency and/or trade wars could materially impact the medium term global economic and market outlook.

Learn more about our insights

The **2025 JANA Investment Strategy Outlook** series provides insights into our expectations for 2025 and beyond:

- **2025 JANA Investment Strategy Outlook: Balancing Risk and Resilience** explores the long-term structural forces shaping the investment landscape.
- **2025 JANA Investment Strategy Outlook: Asset Class Trends and Strategy** highlights the evolution of asset classes and the implications for asset allocation and portfolio design.
- **2025 JANA Investment Strategy Outlook: Navigating Structural and Cyclical Changes** analyses the current environment and key areas JANA will monitor closely throughout 2025.

For insights into structural themes and other factors that may significantly influence asset classes – such as market behaviour, regulatory changes, or broader shifts – along with their implications for asset allocation and strategy, refer to the **2025 JANA Investment Strategy Outlook: Asset Class Trends and Strategy.**

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