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Lessons from a surprisingly strong 2024, and the outlook for 2025

Ashley Gardyne, Chief Investment Officer

2024 was a strong year in global equity markets, despite economic and geopolitical uncertainty at the start of the year. For the year, global markets gained 17%, the US was up 23%, and even our domestic market gained 11%. What lessons can investors take from 2024? And where to from here?

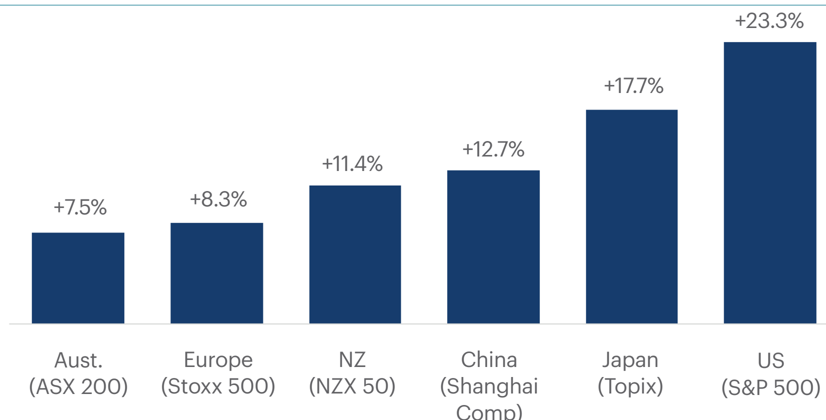
A buoyant 2024, as potential risks failed to materialise

In January 2024, investors were bracing for a potentially challenging year in markets – weighed down by inflation concerns, tight monetary policy, the risk of recession, and geopolitical tensions. Despite these risks, global markets defied expectations, delivering record results that surprised even the most optimistic forecasters.

Most global stock markets – including the US, Japan, Germany, and Hong Kong – gained more than 15% in 2024, while the broader MSCI World Index gained 17% and regularly hit new all-time highs during the year.

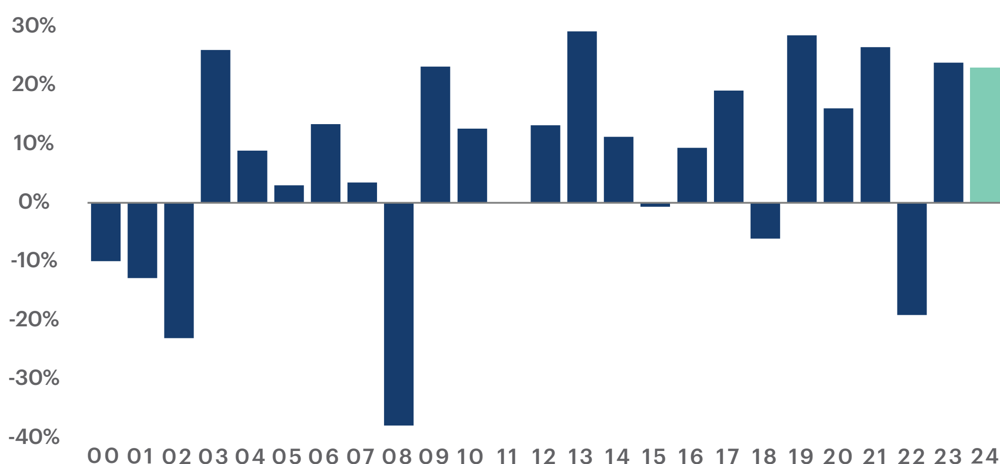
The US market excelled again, delivering an annual gain of 23% and making 2024 one of the strongest years of this century. Notably, the last time the US market delivered back-to-back gains of over 20% was in the late 1990s, and before that in the 1950s.

Buoyant global markets, with the US again leading the charge



Source: Bloomberg

The S&P 500 delivered one of the best years of the century



Source: Bloomberg

With numerous hurdles for markets to overcome in 2024, what drove the market gains?

Declining inflation was a key factor. In most developed markets around the globe, inflation fell significantly and approached central bank target ranges. This ultimately allowed central banks to shift their focus from fighting inflation to supporting economic growth. This shift by central banks in the US, Europe, and New Zealand paved the way for interest rate cuts, which lifted consumer and business confidence and buoyed financial markets.

Another factor was that the recession anticipated by most markets failed to materialise (New Zealand aside). The US economy achieved a rare soft landing, marked by steady GDP growth, historically low unemployment, and resilient consumer spending. The outcome of the US election further buoyed markets, as investors focused on the potential policy positives (lower taxes and less regulation) rather than the potential negatives (tariffs, higher government debt, and the risk of inflation).

On top of these economic factors, the corporate sector played its part in market gains. We saw continued rapid investment in new technologies, such as cloud infrastructure and artificial intelligence (AI). This led to strong earnings growth in parts of the market (particularly large-cap US tech stocks). It also created a more resilient corporate sector. Most businesses successfully navigated the headwinds of higher costs, elevated interest rates, and consumer pressure to maintain profitability and deliver growth.

2024 provided some useful reminders for investors

Keep politics out of investing

This year, political and geopolitical headlines dominated the news cycle – from Middle East tensions to the dramatic European and US elections. But markets took these noisy events in their stride.

It's hard enough trying to pick the outcome of an election, let alone which policies investors will focus on and how this may impact markets. For example, after Trump's first election and the Brexit vote in 2016, markets reacted differently than pundits had predicted. Likewise, despite the ongoing war in Ukraine and escalating conflict in the Middle East, oil prices are trading lower than they were before the Russian invasion.

Investors who focused on fundamental factors – and avoided being sidetracked by political distractions – have been rewarded.

A global portfolio can offset domestic risks

With US markets stealing the spotlight and New Zealand under pressure for much of the year, 2024 reminded us of the benefits of international diversification.

The New Zealand dollar's tendency to fall during periods of domestic weakness provided an added boost to returns on foreign assets, with the US dollar gaining over 13% against the New Zealand dollar in 2024.

Most Kiwis have the bulk of their wealth and income tied to the domestic economy. Having international exposure can provide an important offset when our economy and share market are doing it tough, reducing volatility and enhancing long-term return outcomes.

Innovation and earnings growth drive returns

The outperformance of US stocks in 2024 reaffirmed that innovation and earnings growth are the true drivers of market performance. Share markets in much of Europe, with fewer listed tech companies, have seen their fortunes lag.

Many large companies driving markets higher this year have benefited from structural growth in areas like software, cloud computing, digital payments, and e-commerce.

AI is just one example of innovation propelling earnings growth and returns. NVIDIA and Meta (AKA Facebook/Instagram) are great examples of companies benefiting from AI. Both have seen their earnings estimate rise by more than 40% during the year, with their share prices increasing significantly.

> Costco was up over 40% in 2024

But it isn't just technology companies powering the markets. Much-loved retailer Costco was up over 40% in 2024 and more than 150% since it first broke ground in New Zealand in 2020. The point here is that over the long term, the key to successful investing is finding well-run businesses that innovate and can grow under their own steam. Again, focus on the fundamentals and block out the noise.

What lies ahead in 2025

The outlook for 2025 is shaping up to be more conventional, with conditions largely supportive of markets. Inflation is expected to remain subdued, enabling central banks to continue gradually easing interest rates, while unemployment will likely hover near historic lows. This balance of steady economic growth and restrained inflation provides a strong foundation for a constructive year in equity markets. Likewise, long-term bond yields that are still near decade highs also provide a supportive backdrop for fixed-income investors.

However, it's also important to approach the year with some measured caution. While current market momentum is promising, speculative assets like cryptocurrencies and other higher-risk investments

are showing signs of over-valuation. Additionally, the bar for meeting market expectations is high – particularly in sectors like technology. This raises questions about the sustainability of recent gains.

Company fundamentals will remain central to investment decisions in 2025. The focus will be on whether the AI boom can continue to produce tangible results, and whether other sectors – including smaller-cap companies – can contribute to broader market strength.

As our team scours the globe for investments, we're still finding attractive long-term investment opportunities – despite some growing areas of exuberance. As 2024 demonstrated, staying the course, diversifying beyond home borders, and focusing on the long-term drivers of returns remain essential strategies.

New Zealand Equities had a challenging but successful year in 2024

Matt Peek, Portfolio Manager, New Zealand Equities

Seeing the portfolio perform well in 2024 was very satisfying, given the tough New Zealand economy and modest returns in the local share market. Despite a second successive year in positive territory, the NZX lagged global market returns, and well over half the benchmark return was driven by the strong performance of heavyweight Fisher & Paykel Healthcare (F&P), with a +66% total return in 2024.

2024 clearly illustrated why we favour high-quality growth companies

Our investment approach at Fisher Funds focuses on the minority of companies that we think have wide economic moats and long runways for growth, often backed by long-term structural growth trends. This also means that these companies usually have meaningful offshore businesses that can continue to thrive while conditions in New Zealand are tough. In fact, over half the portfolio's revenue comes from outside New Zealand.

Aside from F&P, which is the largest position in the fund, the year's performance was again underpinned by strong returns from small business software powerhouse Xero (+50%) and cinema software company Vista (+88%).

> They've become global leaders in their respective markets

Through decades of investment, F&P and Vista have cultivated meaningful technology-driven moats versus their competitors. They've become global leaders in their respective markets, so virtually all their revenue is from offshore customers. This makes them immune from New Zealand's economic weakness. In fact, when the New Zealand dollar weakens (as it has in 2024, with the NZ$/US$ exchange rate moving from 0.63 to around 0.56 at year-end), this boosts revenue and earnings. These businesses also have structural growth elements to their businesses.

At its half-yearly result in November, F&P demonstrated strong performance across all key parts of the business, totalling 17% year-on-year growth in constant currency terms. This is above its goal of 12% (sustainably doubling revenue every 5–6 years). In the hospital division, F&P's 'new applications' consumables growth of 24% is driven by pleasing rates of change in clinical practice. This takes time but is the ultimate driver of increasing uptake of its products. F&P called out continued strong growth in its anaesthesia offering off a low base and is seeing its experience in North America mirror strong growth in Australia, where the products have been available longer. The company is benefiting from its ongoing investment in research and development, which means it's regularly launching new products that extend its runway for growth.

Vista's growth is coming from transitioning its global cinema customers from its historical 'on-premise' solution (on servers physically located at each cinema) to its next-generation software hosted in the cloud (remotely, in secure datacentres). This means it can scale computing power to match customer demand when blockbuster ticket sales open, maintain best practice cyber security, deploy software updates rapidly and remotely, and leave the cinema company's IT staff to focus on other projects, rather than maintaining old servers. Customers who migrated to the new product suite can generate 3–5 times as much revenue as previously. It's in the early stages of this transition and is set for many years of strong revenue growth, while sound cost control should see most of the revenue growth go straight to the bottom line as higher profits.

Xero still earns around 11% of its revenue from its home New Zealand market, but this is diminishing as its offshore businesses grow faster. The most recent half-yearly result in November showed year-on-year revenue growth of 25% versus 13% in New Zealand. Despite a relatively tough environment for small businesses in New Zealand and, to a lesser degree, Australia, subscriber numbers continue to grow. Customer churn remains low because small businesses are still adopting cloud accounting,

and the product helps its customers with critical functions like managing cash flow.

Large holding Infratil (+28%) again performed well, courtesy of its growth infrastructure assets, particularly CDC Data Centres. This business continues to outperform expectations due to insatiable customer demand driven by conventional and artificial intelligence workloads. During the year, the sale of its peer AirTrunk for A$24 billion to global private equity firm Blackstone and a Canadian pension fund reinforced the value of these businesses.

Local business conditions deteriorated over the course of the year

The post-election optimism, from a change in government late in 2023 and hopes of economic 'green shoots' early in the year, faded as reality set in. Expectations of economic growth (real GDP) for the year began at around 1% but deteriorated to virtually zero by the end of the year. Over the year, the mantra for many local businesses became "survive 'til '25".

The consumer remains the largest driver of the New Zealand economy. The cost of living has remained a challenge for many Kiwi households, with essential big-ticket items like insurance, rates, and rent continuing to increase. While mortgage rates generally fell over the year, most households have been refinancing onto higher rates, which has continued to reduce discretionary spending. Sales updates from trans-Tasman retailers have routinely shown how much worse their New Zealand businesses are performing versus Australia.

Despite campaigning in part on tax relief, the government was limited in what it could do in its May budget, faced with a declining tax take and widening budget deficit. New Zealand has been an outlier compared with other Western countries in the sense that the government has been constraining spending over the last couple of years when, usually, in a recession, it would be looking to boost the economy. The pre-Christmas Treasury update showed that the country's books are in worse health than anticipated, and the government's response appears to be further spending cuts, which risks prolonging the economic downturn.

Doom and gloom aside, Freightways (+33%) and Summerset (+31%) bucked the trend to deliver strong returns despite many of their businesses being exposed to weak economic conditions in New Zealand. Both are well managed and have a winning customer proposition, which has helped them fare better than their competitors. Both companies' profit outlooks for this year have remained mostly the same, despite the challenging conditions. That they've managed so well during brutal local conditions makes us optimistic about how well they'll perform with a tailwind!

Local business conditions may improve in 2025

Fortunately, some factors are now tentatively heading in the right direction. The Reserve Bank cut the official cash rate from 5.50% to 4.25% over the second half of the year. Current mortgage rates are now lower than the average of the mortgage book. This means that over the coming year, the consumer will likely get some more spending power: a powerful headwind will become a gentle tailwind. This is setting New Zealand up for a consumer-led recovery. The key question is how meaningful this will be: households are still licking their wounds and unemployment has been ticking up as companies react to tougher conditions.

2024 has shown that the fund's investments are well positioned if a tricky climate persists, while a number will perform better if conditions improve. Companies like Mainfreight (+9% in 2024, driven largely by excellent performance in its Australian business), Ryman (-20%), and Vulcan Steel (-3%) will see their New Zealand businesses improve as consumer spending, housing, and the industrial economy recover.

Technology companies and Australian banks: standout performers in 2024

Robbie Urquhart, Senior Portfolio Manager, Australian Equities

Interest rates stabilised in 2024. Falling inflation led the Reserve Bank of Australia (RBA) to leave the cash rate unchanged during the year. This supported the share market, which also benefited from a more resilient economy than expected a year ago.

Information technology was the best-performing sector (+50% in 2024), led by increased global demand for software and artificial intelligence (AI) development. Financials (+28%), led by the Australian banks (see below), and the consumer discretionary sectors (+21%, reflective of resilient consumer spending) also boosted overall market returns. Protracted economic weakness in China weighed on commodities, which dragged down the energy sector (-19%) and mining-heavy materials sector (-17%) in the year.

The Fund's performance in the year and in Q4 was helped by our technology and bank investments. Growing pains in our smaller positions, including Audinate and Johns Lyng Group detracted from performance. We think both companies have bright longer-term prospects.

Equities have risen strongly since the tumult of 2022. Shares are not as cheap as they were two years ago. Equally, the global economy has been more resilient than expected. Inflation concerns have eased, which is helpful for share markets.

We've taken advantage of the strong bank share price performance to reorient our portfolio positioning in favour of companies offering better investment opportunities on a 3-year-plus view. This included a new investment in Maas Group in Q4.

Our team remains focused on researching and investing in high-quality companies that we think will deliver strong long-term earnings growth. This should stand our investors in good stead in years to come.

Technology investments have delivered handsomely during 2024, despite a bumpier Q4

The thirst for AI tools and increased software development has benefited our technology investments.

Logistics software provider WiseTech returned +61% over 2024, and accounting software provider Xero has risen +50%. Both companies added new customers in the year. New software products developed by their teams have also broadened their reach across existing customers. Data centre provider NextDC (+11%) benefited from rising demand for data storage affiliated with AI and technology more broadly.

Encapsulated within these annual returns was a bumpier picture during Q4.

Atlassian had a stellar end to the year, rising +72% (in A$ terms) during Q4. Investors responded positively to the progress Atlassian has made in migrating customers from on-premise and datacentre-hosted versions of its software to the more flexible cloud-based version. Pleasingly, this progress was made despite a challenging environment for Atlassian's smaller corporate customer base. Atlassian's new AI and video communications products were also well received by customers. This contributed to management upgrading its FY25 earnings outlook during Q4.

Fineos' share price (+31%) responded strongly to an investor day in November (the first since 2019). Management did a great job communicating Fineos' progress in developing its insurance claims software products over the past few years. The company clarified the strong, longer-term earnings opportunity that lies ahead for Fineos, with growth stemming from existing and new customers.

In contrast, the share prices of Audinate (-24%) and WiseTech (-12%) fell during Q4.

Audinate has had a tough year. It's working through an inventory overhang from customers who over-ordered chips during the COVID-19 pandemic. As discussed in the Q2 update, this will weigh on its earnings for the rest of the financial year. Until then, the shares remain unloved by investors. The long-term earnings prospects for the company remain sound.

WiseTech's share price was weighed down by management upheaval, which has now been resolved. WiseTech held a successful investor day in December, and we're excited about the new products the team has developed. They should add meaningfully to earnings growth during 2025.

Overall, we're pleased with the progress our technology companies have made during the year. They are high-quality companies with some of the highest long-term earnings growth prospects across our portfolio. We think they will stand our investors in good stead over the coming years.

Australian banks have been a key driver of share market performance in 2024

Financials, led by the four major Australian banks, comprise over 20% of the ASX200 index. This gives them meaningful influence on the overall returns for the share market.

> The banks have benefited from the resilient Australian economy.

The past year has been a great one for the banks. CBA, the largest bank, returned +13% in Q4 and +44% in 2024. Westpac and NAB returned +53% and +29% respectively for the year, and both rose strongly in Q4. ANZ had a weaker Q4 (-4%) but still returned +18% for the year.

The banks have benefited from the resilient Australian economy. Robust credit growth for businesses and households and low levels of bad debts have supported earnings. This has enabled banks to continue returning capital to shareholders through dividends and share buybacks. Australia's open market economy and strong rule of law have made it an attractive investment destination for international investors in the Asia Pacific. This, too, has benefited the banks.

The portfolio owns shares in CBA, NAB, and ANZ. We've benefited in absolute terms from this performance. However, these shareholdings are smaller relative to the banks weightings in the ASX200 index. Hence, this strong share price performance has weighed on the Fund's relative returns in 2024.

We focus on investing in high-quality companies that can grow their earnings over time. The banks are not the fastest-growing businesses in the portfolio. However, they benefit from scale advantages (their economic moat) over smaller competitors. The Australian banks are among the highest-quality banks globally. Their share price performance during 2024 indicates why they warrant a place in the portfolio.

That said, their share prices have risen a lot more than their earnings. In short, they're more expensively valued than they were a year ago. That's why we've reduced our weighting in the banks in recent months. We've redeployed the proceeds into other investment opportunities that we think offer better prospects on a 3–5 year investment time horizon.

Maas Group benefits from growth in Australian infrastructure and renewable power generation

Maas Group, a new addition to the portfolio in Q4, has been one of these investments.

Maas is a founder-led, Australian-focused industrial business. With over 40 quarries and 20 concrete plants, construction materials make up approximately 40% of its earnings. The strategic location of these plants across eastern Australia positions Maas to benefit from the long-term structural growth in infrastructure projects (road and rail), assisted by population growth trends. The location and long-life nature of these assets is a key source of its economic moat. Aggregates (crushed rock) are heavy and don't cost a lot. They can't be economically transported far distances. Maas' quarries are well positioned across the infrastructure growth corridors in Victoria, New South Wales, and Queensland.

It also has a large civil construction and plant hire division that stands to benefit from the development of renewable energy power generation projects. These projects are key to the transition of the Australian energy grid from ageing coal-fired infrastructure to more sustainable, renewable generation. This transition is nascent, and we expect the pace of development to ramp up in the coming years.

Led by founder Wes Maas, the company has an entrepreneurial culture. Maas has strategically invested in residential and commercial property over the years. These divisions are a smaller (yet valuable) part of the overall business.

Wes Maas owns about 50% of the company's shares. His high-quality management team is aligned with shareholders, and over 80 of them are incentivised through share-based remuneration. The Maas team genuinely think like owners. They run the company to maximise long-term shareholder value. We're excited by the company's prospects.

Stock market returns concentrated in the US, again

Sam Dickie, Senior Portfolio Manager, Global Equities

Global stock markets were broadly flat for the quarter, with the US (+4%) significantly outperforming Europe (-3%) and global emerging markets (-7%). This caps off another strong year for global equities, which have now rebounded approximately 55% from their late 2022 lows.

US markets reacted strongly to the re-election of Donald Trump as president in November. This was due to potential stimulatory moves such as introducing tax cuts, removing regulatory roadblocks to investment, and imposing tariffs on foreign goods. This sparked renewed retail investor enthusiasm. For example, profitless tech (think cryptocurrency, Coinbase, ARK Innovation Fund etc.) was up around 35%, and Tesla was up 55% due to Elon Musk's association with Trump.

It's been a volatile year for the portfolio, with an unusual number of stock-specific issues rearing their heads. In most cases, we've taken advantage of the temporary weakness and bought shares – Alphabet, Dexcom, ASML, and Floor & Decor are examples of this.

Tech outperformed again

Amazon (+18%), our largest position, was one of the best performers for the quarter (in fact, one of the best performers for the past couple of years). Earlier in the year, the critical Amazon Web Services (AWS) business grew revenues faster than expected, as customers reaccelerated their spending after a year of measured spending post-pandemic. Later in the year, the AWS and e-commerce businesses reported much higher-than-expected profit margins. AWS recorded its highest-ever quarterly operating profit margin of 38%, the result of measured spending and reaccelerating revenue growth. Amazon's e-commerce margins have continued improving since making a large investment into its logistics infrastructure. While North American e-commerce margins were better than expected in the quarter, Amazon's international e-commerce margin was the star, as more of its international markets matured.

Netflix (+26%) has been a top performer for several quarters. Competitors like Disney entered the global streaming market a few years back with lower prices to capture market share, but this strategy led to significant losses. Consequently, they've been raising prices faster than Netflix. This has contributed to Netflix's market share gains, alongside its superior content, a crackdown on account sharing, and the introduction of a cheaper ad-supported tier.

> Google Search growth reaccelerated throughout 2024

Alphabet (+14%) had a volatile year due to competitive and regulatory pressures but ended up becoming one of the top performers for the quarter and the year. Alphabet was initially seen as an 'AI laggard' with underwhelming AI product launches, and concerns arose about generative AI search competition impacting its core model (for example, ChatGPT). However, Google Search growth reaccelerated throughout 2024, and Alphabet's scale and data access keep it well positioned in AI. On the regulatory front, The United States Department of Justice released proposed solutions for its anti-trust case against Alphabet, with final decisions expected in August 2025. Alphabet is appealing the initial judgment and will appeal the remedies as well. Despite being viewed primarily as a search business, Alphabet's YouTube, Google Cloud, and 'other bets' like Waymo and Quantum Computing are all firing.

Significant medtech volatility offered good opportunities

Dexcom (+16%) and Edwards (+12%) rebounded this quarter after previous setbacks. Dexcom made significant strides in correcting its execution errors, enhancing sales force performance and reconnecting with key customers. Meanwhile, Edwards reported positive outcomes from several key clinical trials, which are expected to broaden its patient base.

Icon (-27%) and Danaher (-17%) are experiencing a slower-than-expected recovery in biotech R&D spending after several strong years post-COVID-19. Although biotech funding has improved this year, it's not yet translated into revenue as customers are hesitant to start new drug development projects. Icon is also facing near-term pressure from large pharma customers like Pfizer, who've made larger-than-expected cuts to their clinical research programs to reduce costs. Icon is still gaining market share within its large pharma customer base, but it hasn't been able to offset these headwinds, leading to reduced revenue growth expectations for 2024 and 2025. We believe these challenges are temporary, and that industry growth will reaccelerate next year as biotech companies continue to invest in innovative treatments. We added to our position in Danaher but, due to the dual headwinds for Icon (biotech and large pharma), we reduced our position before and after the Icon results, as the timing of the recovery remains uncertain.

Cyclical weakness also offered opportunity

Floor & Decor (-20%) had a weak quarter, capping off a volatile year. Existing home sales – the primary driver of flooring demand – remain near multi-decade lows, and sharply rising mortgage rates further dampened demand. Despite these challenges, Floor & Decor continues to gain market share from competitors and open new stores. We have continued to add to our position during periods of significant stock price weakness.

ASML (-17%) also had a weak quarter following an unexpected reduction in its 2025 guidance due to several near-term headwinds. ASML manufactures lithography machines that produce semiconductor chips for various applications, including mobiles, PCs, cars, and AI chips. While demand for AI remained strong, other markets are recovering more slowly, causing chip makers to delay spending on semiconductor machinery. Two of ASML's largest customers, Samsung and Intel, have postponed the completion of large chip manufacturing facilities due to weak demand and competition from TSMC. We recognise that ASML is a cyclical business, and we expect these headwinds to be temporary, with long-term demand for ASML's advanced lithography tools remaining strong. Consequently, we added to our position during the weakness earlier in the quarter.

We added Zoetis to the portfolio during the quarter

Zoetis, a leader in animal health, was previously part of our portfolio, but we exited it in August 2020 due to valuation concerns and our investment thesis playing out. The company owns many leading brands of drugs for cats, dogs, and livestock. Since its spin-off from Pfizer in 2013, Zoetis has consistently gained market share. With a strong pipeline of innovative drugs, we expect this trend to continue. Recently, Zoetis has underperformed other quality-growth stocks due to concerns about a slowdown in vet visits. We took this opportunity to add it back to the portfolio.

Resilience and growth opportunities amid market shifts

Sam Dickie, Senior Portfolio Manager, Property & Infrastructure Fund

During the December quarter, global equities were flat, global infrastructure declined -3%, Australian property declined -6%, and New Zealand property declined -2%. US midstream companies outperformed, with the S&P Oil & Gas Storage and Transportation Index rising +19%.

The election of Donald Trump in November was the catalyst, with his fossil-fuel-friendly policies perceived as a boon for the industry. Treasury secretary nominee Scott Bessent wants to increase US oil drilling by three million barrels per day by 2028. Natural gas is one product of oil production and will also increase.

Another impact of the US election was higher government bond yields (with Trump policies perceived as pro-growth and inflationary). While higher rates are negative for valuations, the prospect of corporate tax cuts boosted valuations for US companies, with the S&P 500 Index increasing +2% overall.

> Another impact of the US election was higher government bond yields

The prospect of elevated tariffs imposed by the US – and the potential for retaliation from trading partners – could negatively impact some portfolio companies. Those most at risk include Mexican airports OMAB (+4%) and ASUR (-9%), who would be negatively impacted by a weaker Mexican peso. Railroad Canadian Pacific Kansas City (-15%) – whose network spans Canada, the US, and Mexico – may also be impacted by tariffs. However, we lack clarity on the potential quantum and timing of tariffs. Proposals made in the prior Trump presidency were watered down when implemented.

Midstream energy pipelines are benefiting from increased demand and favourable policy

Kinder Morgan (+25%) reported third-quarter earnings, with EBITDA (a proxy for cash earnings) 2% below expectations. The company is likely to miss its full-year budget by a similar amount. Despite this, investors are increasingly focused on the growth potential for natural gas in the US.

Growing power demand, LNG exports, and reshoring of supply chains from China to the US and Mexico are contributing to demand. Kinder Morgan recently increased its pipeline of future projects; it's now 34% higher than a year ago. While demand is strong, these drivers will take time to impact Kinder Morgan's earnings. Existing capacity is contracted on a multi-year basis, and future capacity requires heavy capital investment, with some projects taking years to deliver. The projects driving end-use – such as datacentres, power plants, and LNG terminals – will also take years to build and come online. While we're mindful that earnings won't move materially near-term, the demand environment is among the strongest we've seen in almost a decade.

Enterprise Products (EPD, +10%) released third-quarter results, which were largely in line with expectations. Natural gas marketing benefits offset lower octane and crude oil margins. We think EPD's backlog of growth projects and incremental opportunities can provide attractive long-term growth, supported by steady cash flow and a strong balance sheet. Many of EPD's US$6.9 billion backlog of projects under construction are coming online in 2025 and should drive meaningful earnings growth.

EPD has received inbounds enquiry for over one billion cubic feet per day of demand opportunities related to datacentre-driven natural gas demand in Texas. While large, these opportunities could take several years to materialise. EPD's intrastate system in the northern part of Texas in the Dallas-Fort Worth area and the southern part of Texas into San Antonio is well positioned to work with datacentres, including potentially tying directly to datacentres with plans for onsite generation.

We invested in a high-quality waste business with strong pricing power

We added Waste Connections (-4%) to the portfolio during the quarter. Waste Connections is one of the three largest operators in the Municipal Solid Waste (that is, rubbish) market in the US and Canada. It's a wide-moat business, with a proven track record of pricing above inflation over a long period. The moat is based on ownership of landfills. Finite industry landfill capacity, high barriers to consenting

new landfills, and the high cost of trucking from distances greater than 35 miles provide landfill owners with significant pricing power.

Waste Connections has a 70% market share of rubbish collections within 30 miles of landfills. It also enjoys a scale advantage in its rubbish collection business, allowing it to earn higher margins while providing competitive pricing compared to smaller operators. Waste Connections has made over 750 acquisitions, and we expect ongoing acquisitions to deliver value creation for Waste Connections' shareholders.

Napier Port proves resilient despite a challenging economy and high energy prices

Napier Port (+17%) reported a strong FY24 result, boosted by the post-Cyclone Gabrielle volume recovery and pricing initiatives. Management is confident that earnings growth can continue in 2025, despite the closure of key customer Winstone Pulp International and the resulting loss of significant container volume. Another key customer, Pan Pac, continues to recover after the cyclone. Outside these two pulp mill customers, Napier Port's outlook is supported by a solid apple harvest, robust log exports, and further pricing initiatives. Debt reduction and ample balance sheet headroom pave the way for a material increase in dividends or, alternatively, share buybacks.

Navigating new challenges amid stabilising growth and controlled inflation

Quin Casey, Senior Portfolio Manager, New Zealand Cash & Fixed Interest

As we step into 2025, the elusive 'soft landing' appears to be within reach. Inflation is under control, growth is stabilising, and central banks have shifted from aggressive tightening to a gradual loosening of monetary policy. However, as we look ahead, new challenges are emerging, suggesting the path to more rate cuts may not be as straightforward as hoped. Despite these uncertainties, our positive outlook on high-quality fixed-income assets remains unchanged.

Not so fast

The quarter started with significant rate cuts priced in for the remainder of the year and into 2025. However, several developments tempered expectations. The US economy continued to show strong momentum as resilient consumer spending drove economic growth above forecasts.

Adding to concerns, investors became wary that President-elect Trump's proposed policies – such as fiscal stimulus, stricter immigration controls, and potential trade restrictions – could reignite inflationary pressures. Towards the end of the quarter, inflation data pointed to some reacceleration in the US, as the consumer price index ticked higher in November.

Even in Europe, where growth is lagging and political uncertainties are high, concerns about 'sticky' inflation remain. These concerns are substantial enough to warrant a cautious approach to further easing by the European Central Bank.

These factors have left global central banks grappling with a 'should we or shouldn't we' mindset. Pauses to cuts – and even the slight possibility of increases – are back on the table in some regions.

Much like a descent into Wellington Airport on a windy day, the approach is rarely smooth. Similarly, while the end of this rate cycle is in sight, we're still navigating a few turbulent patches.

Fixed income still attractive in 2025

Although the prospect of rapid rate cuts has been scaled back, the outlook for fixed income remains favourable as we enter the new year. Starting yields are still attractive relative to recent history, while moderating inflation and steady growth also support the outlook for bond yields.

Deal or no deal

Over the past few months, the performance of Grifols bonds has been closely tied to speculation surrounding a potential acquisition of the company by Brookfield Asset Management. However, the deal fell through in late November, as shareholders rejected Brookfield's offer, arguing it was undervalued. Bonds sold off sharply on the news but having closely followed the situation, our team saw this as a buying opportunity, adding a position to the Fund.

Looking beyond the noise of the failed takeover, Grifols has made significant progress over the past year. Operational performance has strengthened, and financial leverage has meaningfully declined.

Our decision to buy the bonds proved timely. Just 2 weeks later, the company successfully refinanced near-term maturities, showcasing its ability to access markets . This prompted S&P to upgrade Grifols' credit rating just before Christmas, pushing bond prices higher.

Recalibrating exposure to financials

During the quarter, we sold down our position in Permanent TSB, taking profits from the Irish national champion bank. The bank's bonds have benefited from stabilising conditions in the banking sector throughout 2024, following the fallout from the Credit Suisse collapse in 2023. Permanent TSB's position as a key player in the Irish banking market also contributed to improved fundamental results, with profitability and capital improving during 2024.

This sale aligns with a broader theme within the Fund this quarter, reducing exposure to subordinated financial debt. We've maintained conviction in the sector since early 2023, when financial bonds were trading at a notable premium or offering higher yields compared to bonds from non-financial companies. This contributed significantly to the Funds' return across 2023 and 2024. However, as the market normalised towards the end of this year, the premium narrowed considerably, such that a reduction of exposure to the sector was justified.

Rising yields reshape bond markets: a return to positive yield curves

Mark Brighouse, Chief Investment Strategist, Global Fixed Interest

Bond yields in the world's major economies rose sharply in the final quarter of the year despite cuts in official interest rates by many central banks. This meant the bond portfolio returns were negative although the managers were positioned somewhat defensively.

Ten-year government bond yields are higher than where they started the year in the key markets of US, UK, Germany and Japan. The increases have been most pronounced in countries with budget deficit challenges. Corporate bonds have performed well, and the yield spread between sovereign and corporate credit risk is at very tight levels compared to recent history.

> Corporate bonds have performed well

The rise in bond yields coupled with declines in short term rates have returned yield curves to a more traditional positive slope. This means that investors are getting rewarded for taking longer duration risk. While there is a long list of policy uncertainties in the markets such as tariffs, deficits, and inflation, a more substantial premium for investing for the long term should be welcomed by bond investors.

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