# 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, 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. Near benchmark 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

Key portfolio positions at the end of the December 2024 quarter for our range of multi-manager, multi-asset funds were:

### MLC MultiActive

- **Underweight position to unlisted property**. Whilst unlisted property provides a relatively stable income, some inflation protection and the potential for capital growth, the shorter-term return outlook for some sectors is below long-term averages.
- **Overweight position to fixed income** includes an overweight to credit via short maturities and private debt. A modest overweight to credit remains one of our highest conviction positions given the constructive cyclical outlook, elevated all-in yields, strong corporate balance sheets and historically high coverage ratios. Given the stage of the cycle, we prefer higher quality and shorter duration credit.

### MLC MultiSeries

- An **overweight position to fixed income** includes an overweight to credit via short maturities. A modest overweight to credit remains one of our highest conviction positions given the constructive cyclical outlook, elevated all-in yields, strong corporate balance sheets and historically high coverage ratios.

### MLC Horizon 2-5

- **Overweight position to alternatives.** The real return strategy and derivatives provide the portfolios with more liquid sources of real asset-like exposures to offset the underweight to property.
- **Overweight to fixed income**, which includes an overweight to credit via short maturities, and private debt. A modest overweight to credit remains one of our highest conviction positions given the constructive cyclical outlook, elevated all-in yields, strong corporate balance sheets and historically high coverage ratios. Given the stage of the cycle, we prefer higher quality and shorter duration credit.

### MLC Real Return

- A relatively **high level of diversified market exposure** spread across traditional shares and fixed income assets. These exposures are supplemented by alternative sources of return such as private equity, MLC opportunistic capital solutions and insurance-related investments.
- We have a **defensive orientation to both the Australian and global share exposures**. The Australian shares strategy is invested in what we believe are higher quality companies protected with additional risk control by hedging part of the strategy against large losses. Our focus on quality and the hedging overlay reduces the risk of negative returns in falling markets at the expense of participating fully in speculative markets.
- Within our **derivatives and currency strategies**, we hold an exposure to Australian nominal government bonds to add additional duration. With yields elevated compared to the recent past, bonds once again provide diversification against growth risk. The derivatives strategy also holds an exposure to emerging markets.
- **Inflation-linked bonds** provide important inflation protection, reducing the portfolios' exposure to inflationary risks and protecting against expectations of lower economic growth.

### MLC Index Plus

- **Overweight position to fixed income** with the overweight to short maturities and the recent addition of high yield bonds and loans, providing increased credit exposure.

## Portfolio activity

The following changes were made during the December 2024 quarter for some of our multi-manager, multi-asset funds:

### MLC MultiActive & MLC MultiSeries

- Changes were made to the credit strategy. We believe these changes will generate better and more consistent returns for our investors.

### MLC Horizon 2-5, MLC Real Return & MLC Index Plus

- Changes were made to the fixed income investment strategy. We believe these changes will generate better and more consistent returns for our investors.

For more information on each portfolio's positioning, please speak with your financial adviser or access our quarterly updates published for each of our diversified funds at mlcam.com.au**.**

---