市場觀望

EYE ON THE MARKET

Published on 2025/5/15

Opportunities amid Global Growth Divergence

While the global economy had remained resilient in 2024, some signs of weakness are appearing against a backdrop of slower growth, lingering inflation and an uncertain policy environment. The Organization for Economic Co-Operation and Development (OECD) projects global growth slowing from 3.2% in 2024 to 3.1% in 2025 and 3.0% in 2026[1]. The investment implications could be that investors would need to be selective when it comes to investing in global equities.

GDP growth in the United States is projected at 2.2% in 2025 before slowing to 1.6% in 2026[1]. In the Euro area, growth is projected to be 1.0% in 2025 and 1.2% in 2026[1]. China's growth is projected to reach 4.8% in 2025, up from the previous projection of 4.7% in December 2024[1]. Thus, despite the softening of global growth prospects, there are still opportunities in global equities. The divergence in global growth highlights the importance of diversification.

The US economy may grow slower than expected

With Donald Trump now as president, the US economy may expand more slowly than previously forecast as tariffs on imports rise and the Trump administration signals that it may tolerate slower growth in order to implement its trade policies. Tariff hikes are likely to weigh on US economic growth. They tend to tighten financial conditions, though less significantly than during the 2018-2019 trade war, and cause businesses to delay investment due to trade policy uncertainty.

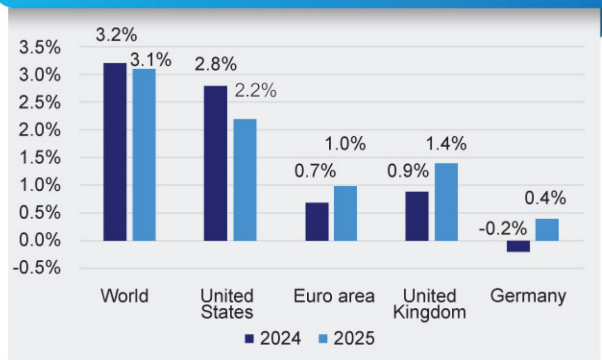
Goldman Sachs recently predicted that tariff hikes will reduce US GDP growth by approximately 0.8 percentage points over the next year. This negative impact will be partially mitigated by a 0.1-0.2 percentage point boost from tax cuts and regulatory easing, which are expected to have a relatively slow effect[2].

Growth prospects of Germany and the UK improves on higher infrastructure spending

The German parliament has recently passed a critical spending package, helping to clear the way for 1 trillion euros in debt financing for defense and infrastructure spending. Goldman Sachs has expected increased military and infrastructure spending to boost Germany's economic growth in 2025 and predict spillover effects for its European neighbors. They have predicted a 0.2% growth for Europe's largest economy, up by 0.2 percentage points[3] – which is good news for equity investors.

Meanwhile, in UK, the International Monetary Fund (IMF) has raised its forecast for the country's economic growth in 2025 to 1.6% (up from 1.5%)[4]. This upgrade is seen as a boost for the Labour government, attributed to increased investment spending, improved household finances, and interest rate cuts by the Bank of England. The Labour government's focus on enhancing infrastructure and supporting consumer spending is expected to drive growth and stability in the coming year.

Chart 1: Real GDP growth projections for 2024 and 2025 (%, Year-on-Year)



Source: OECD Interim Economic Outlook, March 2025.

More fiscal stimulus in China

China is one of the few major economies that the OECD upgraded its GDP growth forecast for 2025. The GDP growth forecast has been revised to 4.8% for 2025, up from the previous projection of 4.7% in December 2024[1]. This upward revision is supported by intensified policy measures aimed at boosting domestic demand. These measures include increased government spending, monetary easing, and targeted support for key sectors such as infrastructure and technology. Despite external pressures, such as potential tariff hikes from the US, China's proactive policy approach aims to sustain economic growth and enhance domestic consumption.

The importance of geographical diversification

Going forward, the divergence in global growth projections underscores the importance of geographical diversification for investors. By investing in stocks across various regions, investors can mitigate risks associated with economic slowdowns in specific countries and capitalize on growth opportunities in others, potentially ensuring a more resilient investment portfolio in the face of global economic uncertainties.

Exposure in various sectors to manage risk

While market trends or economic cycle may favour a few sectors, it is important to be well diversified across various sectors against any swift changes in market sentiment on particular sectors. A recent example is the significant sell-off in US tech stocks. After two years of strong rally, the market's largest technology companies are now dragging the major indexes lower. With just two weeks left in the quarter, the Magnificent 7[5] are tracking for the worst performance against the S&P 500 since the fourth quarter of 2022.

In light of these developments, it is evident that relying heavily on a single sector can expose investors to substantial risks. By diversifying across various sectors, investors can mitigate potential losses and potentially reduce volatility of their portfolios, ensuring a more resilient approach to market fluctuations.

Explore income & growth opportunities

Given the recent market uncertainties, equity investors may look for opportunities that might potentially deliver income and growth. Equity income funds could be one of the attractive options.

Equity income funds invest primarily in a range of dividend-paying stocks. They could provide investors with diversification*, meaning they are less exposed to the risks of holding individual stocks. Given dividend-paying stocks tend to be quality, well-established businesses, they may deliver relatively resilient performance during market downturns.

* Diversification does not guarantee a profit or eliminate the risk of loss.

Remarks:
1. Source: OECD Economic Outlook, Interim Report March 2025, March 17, 2025.
2. Source: Goldman Sachs, March 13, 2025.
3. Source: Reuters, March 6, 2025.
4. Source: IMF, The Guardian, January 17, 2025.
5. “Magnificent 7” refers to seven dominant technology companies that have played a crucial role in driving market growth in the technology sector.

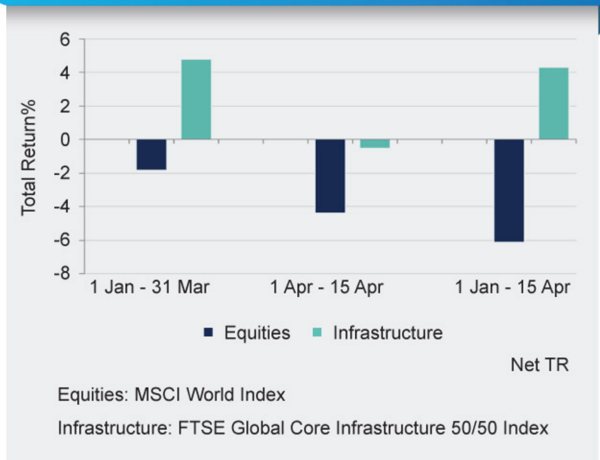
The Long-term Structural Growth Opportunities for Infrastructure Stocks

Listed infrastructure includes communications (e.g., wireless towers / data centers), transportation (e.g., toll roads, railroads, airports), utilities (e.g., electrical utilities, renewable, water, waste), energy midstream (pipelines, terminals), etc. It invests in tangible assets, providing essential services to society, typically making it less sensitive to the economic cycle. These sectors have common traits like high barriers to entry and pricing power, with the aim to offer inflation protected income and strong capital growth.

It's believed global listed infrastructure is well placed to deliver strong returns in 2025. Its long-term structural growth themes and essential service nature should help to insulate the global listed infrastructure asset class from these concerns.

The significant increase in US import tariffs may induce stagflation (lower growth, higher inflation). This is relatively good for infrastructure assets given essential volumes and inflation-linked pricing. Global listed infrastructure climbed during the March quarter as US tariff fears and an uncertain economic outlook drew investors towards defensive assets.

Chart 1: Global Infrastruture Performance



Source: Bloomberg, First Sentier Investors, as of 15 April 2025.

Artificial Intelligence (AI) as a driver of global electricity demand growth

The unprecedented wave of power demand in the US being driven by data centers and/or AI, electrification and onshoring of manufacturing. This load is coming now and it is coming fast, requiring significant investment by utilities to prepare the grid for the transmission, distribution and generation upgrades that will be needed to meet the forecasted demand. This investment is pushing utility regulated asset bases[1] higher, leading in turn to upwards pressure on earnings forecasts and in some cases causing utilities to revise their long-term Earnings Per Share[2] (EPS), Compound Annual Growth Rate[3] (CAGR) higher.

This theme is being seen across the sector and expect it to continue. It is fair to say this is a period of explosive growth, given that until recently, utility load forecasts typically ranged from flat to up to 1% annually. Investors are no longer dealing with a theoretical idea that may come in the 2030s; investment is happening now, with contracts being signed today with large technology, semiconductor and manufacturing companies.

Optimistic about utility stocks

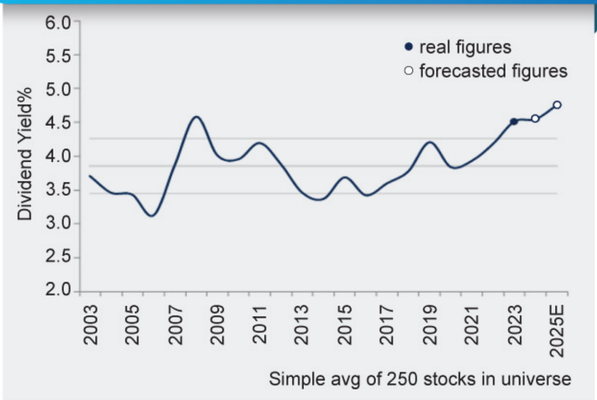
In addition to demand growth, investors also see reduced regulatory risk in this environment. As regulators grasp the urgency of additional investment by utilities, they are more likely to approve requests to spend capex that may previously have been subject to challenge or denied altogether. As a result, it's believed that US utilities' long term annual earnings growth rate will increase materially, from a range of between 4% and 6% to a range of between 5% and 8%. While European peers have not yet shown the ability to benefit from this theme to the same extent, investors ultimately expect this theme to provide a tailwind to the earnings of operators on both sides of the Atlantic.

Resilience spending – investing to maintain and enhance the reliability of utility operations in the face of extreme weather events, natural disasters, and growing cyber threats – is also expected to grow. Already accounting for around 30%[4] of US electric utility transmission and distribution spend, this represents an additional area of capex growth, and therefore rate base and earnings growth, within the utilities space.

Interest Rate Shift Turns Physical Assets into "Tailwind"

Low-interest rate environment benefits physical assets generally. The rising global interest rates over the past few years made it difficult for physical assets like infrastructure stocks to outperform the market. However, with the shift in interest rates, the "headwind" has turned into a "tailwind," benefiting the sectors which are more sensitive to bond yields with slightly higher leverage, including utilities, data centres, and toll roads. Over the past 20 years, utility companies' earnings grew steadily by an average of 3% to 4% annually.

Chart 2: Global Infrastructure



Source: Bloomberg, First Sentier Investors, as of 31 December 2024.

Under the trends of artificial intelligence (AI), data centres, and electrification, the unprecedented demand for electricity brings a long-term structural growth story for infrastructure stocks, creating significant investment opportunities for utility stocks. However, investors are currently only in the early stages of this structural growth story. For example, only 7% to 8% of cars in the U.S. are electric vehicles5; data centres account for about 4% of U.S. power demand and are expected to rise to 12% by the end of this decade; and U.S. manufacturing has expanded fourfold, which not only creates jobs but also increases electricity demand, meaning utility companies will need to expand their networks.

Transport infrastructure: reaping a demographic dividend

Airport passenger volumes held up unexpectedly well in 2024. Additional demand came from retiring baby boomers with money to spend, and from a Gen Z cohort prioritising experiences over a globally expensive housing market. This may be the beginning of a structural theme, fuelled by the oldest and youngest generations. It's expected travel demand and passenger volumes to remain robust in 2025, providing a tailwind to airport stocks and passenger rail stocks.

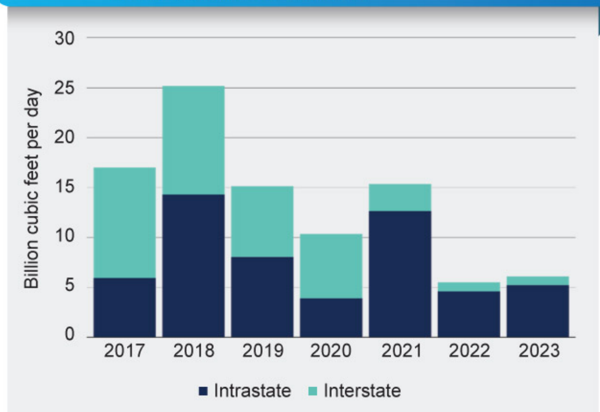
Toll roads faced a challenging 2024, as political risk weighed on the sector. The toll road sector has accordingly traded down to very appealing valuation multiples. However, experience tells investors that while political noise affects the toll road sector periodically, earnings – and therefore share prices – have tended to shrug these off and maintain a steady upward trajectory over longer time frames. The sector has a strong track record of protecting the economic value of their road network concessions and the tolling frameworks that apply.

Looking ahead, it's believed much of the political risk now appears to be reflected in share prices, with the scope for these concerns set to ease. It's expected this will present an opportunity for investors in the year ahead. While valuation multiples have declined, the sector's fundamentals have remained robust. Inflation-linked toll increases have little impact on demand. High operating leverage is proving supportive of earnings growth. Improvements made to toll road networks in recent years provide scope for further growth in traffic volumes.

Drill baby drill – too much of a good thing?

Energy midstream is likely that constraints to explore, produce, transport and export hydrocarbons will be eased. The decline in pipeline approvals under the previous administration will be reversed and the freeze on Liquefied Natural Gas (LNG) export licenses will be lifted.

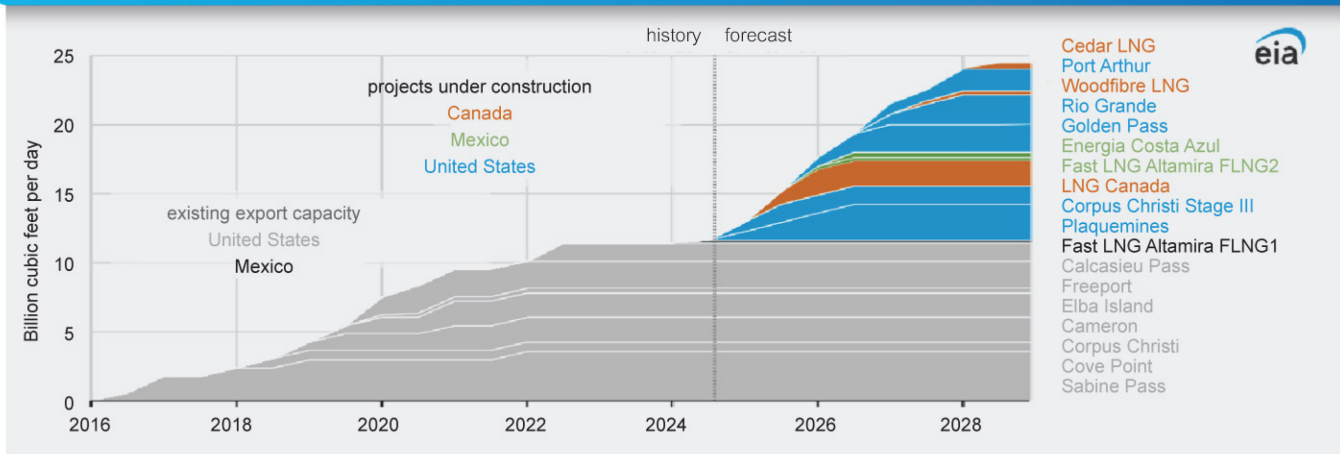
Chart 3: US natural gas pipeline capacity additions have declined in recent years



Source: US Energy Information Agency as of 20 March 2024.

Note: Interstate pipelines are pipelines that cross state and international borders and are regulated by the Federal Energy Regulatory Commission. Intrastate pipelines are pipelines within a state that do not cross state borders and are regulated by a state agency. Intrastate capacity additions also include projects associated with interstate pipelines that do not cross state borders.

Chart 4: North America LNG export capacity climbing steadily - but flat in 2023-4



Source: US Energy Information Agency as of 3 September 2024.

Investors remain positive on natural gas (and Natural Gas Liquids) as increased supply is likely to be met by increased demand from domestic manufacturing, power generation to firm intermittent renewables, power for data centers/AI/cryptocurrency and LNG exports.

Conclusion

The growing global power demand presents long-term structural growth opportunities for infrastructure stocks. This rising demand is also likely to bolster the need for natural gas, which has a crucial role to play in maintaining energy reliability and affordability. As well as benefitting utilities, this is also likely to drive additional demand for North American energy storage and transportation assets, giving energy midstream companies new opportunities to invest and grow. Coupled with the favourable environment of U.S. interest rate cuts, it's believed now is a good time for investors to revisit infrastructure stocks, particularly utility stocks.

Remarks:
1. Increase in demand for electricity over time.
2. Earnings per share (EPS) is a measure of a company's profitability that indicates how much profit each outstanding share of common stock has earned.
3. The compound annual growth rate is the rate of return that an investment would need to have every year in order to grow from its beginning balance to its ending balance, over a given time interval.
4. Source: Edison Electric Institute as of 31 December 2023.
5. Source: https://invest.hket.com/article/3863256/ as of 26 November 2024