2025 Outlook

Seizing opportunity amid disruptive change

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Introduction

Our conviction about the transition to a more sustainable economy is not an article of faith, nor is it grounded in hopeful optimism. It is a conviction grounded in facts: there are irreversible transformations well underway in the real economy, across a breadth of sectors. Technology is the prime catalyst.

Economic change often starts with patchy and regionalised trends. For example, while electric vehicle (EV) registrations fell back below 10% of new US car sales in 2024, they have surpassed 50% in China.[1] Waste recycling rates in Europe range from 68% in Germany to 11% in Romania.[2] Innovation occurs at many different speeds.

But make no mistake – across a range of sectors, including healthcare, materials, industrials, consumer goods and IT - the economic logic for greater efficiency is a global phenomenon. The era of tech-inspired transformation is not coming to an end. In many areas, it's just getting started.

1 US data to end October 2024 - Argonne National Laboratory, December 2024: Light Duty Electric Drive Vehicles Monthly Sales Updates. EVs surpassed 50% of Chinese vehicle sales between July and October 2024 – Reuters, 8 November 2024. China's car sales jump in October as automakers rush to meet annual goals

2 European Environment Agency, 2023: Waste recycling in Europe. 2021 data.

Focused on the fundamentals

As we look into 2025, several factors should be constructive for global markets.

Expectations for robust US economic growth and a broadening of the bull market away from mega-cap technology stocks would be a welcome development for many overlooked companies with quality business models. Noting high levels of stockmarket concentration in the US (and large-cap tech within the US market), we see many names in global equity markets as well-placed to benefit from structural long-term growth. A rebalancing within equities allocations would be positive for investors attuned to the fundamental drivers of profitability.

For fixed income investors, credit markets will continue to be shaped by increasingly complex macroeconomic dynamics. Overall, we see strong corporate fundamentals and prospects of a 'soft landing' for the US economy providing a positive backdrop.

The change of political leadership in the US will generate policy headwinds for some sectors often viewed as part of 'sustainable investing'. But investors should keep perspective: the economics of more efficient technologies will continue to support a broad range of investment opportunities, including in private markets.

The transition to a more sustainable economy is not limited to any one sector, nor any single country. It is a broad-reaching trend that will continue to reshape all corners of the global economy in the months and years ahead.

Opportunities created by real-economy change

Structural forces driving change in the real economy remain firmly intact. In some cases, they are accelerating.

Key technologies continue to become more competitive: falling battery prices will make EVs cheaper than petrol and diesel cars; advanced wastewater treatment systems are being rapidly adopted by semiconductor makers; advanced telecoms are driving unprecedented levels of financial inclusion. Globally, there is no slowdown in demand for solutions that reduce the waste – and cost to the bottom line – of heating and cooling buildings and of running data centres. The world continues to require vast investments to improve resilience in a changing climate, encompassing everything from road maintenance to new water systems.

Structural economic change creates opportunities for innovative companies and their investors. Disruption also creates risks for those who overlook them. As long-term investors focused on delivering risk-adjusted returns for our clients, we remain vigilant in our lookout for both.

Macroeconomic viewpoint

Heading into 2025, it's tempting to draw parallels with 2017. Yet when Donald Trump first moved into the White House, the global economy was fundamentally different than it is today.

Eight years ago, the US government deficit was much lower, global economic growth was more balanced, and interest rates remained near all-time lows. Inflation, geopolitical conflict and a reversal of globalisation have moulded a starkly different picture for the incoming Republican administration.

'America First' campaign pledges could have ramifications worldwide. The conventional wisdom is that the Republican 'trifecta' in the US government, coupled with lower policy rates will lead to faster US economic growth, a stronger dollar, and some upside risks to inflation in 2025.

Given the high degree of uncertainty in the US and around the world, we are more attuned than ever to potential tail risks – tariffs that threaten to disrupt global trade, new sources of geopolitical tension and a macroeconomic backdrop that refuses to behave as history says it should. These contextual shifts pose opportunities and risks for investors across every asset class.

Trump 2.0: tax cuts and tariffs

The world's largest economy, which is likely to finish 2024 with annualised growth at just under 3%, is in robust shape, supported by the strength of the American consumer.[3]

Proposed extensions to corporate and individual tax rates and a drive towards deregulation should support growth in the near-term.

However, lower taxes, increased tariffs and changes in immigration policy could also drive new inflationary pressures within the US economy. While higher inflation is not guaranteed, it does raise important questions about the pathway towards sustainable economic growth. The cost of living was a key issue in the US election and limiting consumer price inflation will remain an important political objective. We do not see lower energy prices – on the back of higher oil and gas production in the US and elsewhere – being fully compensatory.

On the campaign trail, Trump proposed blanket tariffs of 10% to 20% on all US imports and of 60% on US imports from China. In late November, the president-elect upped the stakes by threatening 25% tariffs on imports from Canada and Mexico.

Domestically, import tariffs – if enacted – would almost immediately feed through to higher consumer prices. The Federal Reserve may choose to look through 'cost-push' inflation and focus on other metrics, such as the state of the labour market.

The implications of tariffs for the global economy hinge on the extent to which US protectionism is actually carried out under Trump. It is clear that major economies in Europe and Asia would be adversely impacted by barriers to trade.

Disruption to established trade flows could prompt central banks to adopt more accommodative monetary policies, potentially sharpening the existing divide between interest rates in the US and in the slower-growing Eurozone, for example. Further transatlantic divergence in monetary policy would stand to strengthen the dollar and improve the relative attractiveness of US fixed income assets to global investors.

3 IMF, October 2024: World Economic Outlook

Chinese stimulus

Economic activity outside of the US has been mixed in 2024, with weakness in major economies like Germany and Japan and an outright slowdown in China. Coordinated fiscal and monetary stimulus measures announced by Chinese policymakers in late 2024 could provide the pivotal boost needed to set the world's second-largest economy on a more sustainable recovery trajectory.

A major question for 2025 is whether a renewal of Chinese economic growth can be achieved by policies that seek to rebuild confidence in the property market and banking system. There will need to be a significant lift in domestic consumption to help offset the potential impacts of higher tariffs on exports to the US.

A 10tn yuan (US$1.4tn) local government debt swap package will help local governments reduce their interest payment burden by Rmb600bn over the next five years. The expectation is that will enable a more generalised ramp-up in public spending.[4]

The Chinese finance minister has also announced a set of "forceful" fiscal policies that include lowering tax on house purchases and further subsidising upgrades to manufacturing equipment.

Looking into 2025, we share our global equities outlook from the Listed Equities team and, for the first time, a credit market outlook from our Fixed Income team. We also include perspectives from our Private Markets team.

4 Yao, K. & Zhang, E., 8 November 2024. China unveils $1.4 trillion local debt package but no direct stimulus. *Reuters*

Global equities outlook

After a period of extreme market concentration and derating in some parts of the stockmarket, we see compelling long-term value in stocks that capture structural opportunities arising from the transition to a more sustainable economy.

The post-election 'Trump trade' was positive for certain sectors, like energy, and specific US stocks. Expectations of wide-reaching tax cuts and deregulation are now baked into valuations.

As we look towards 2025, we observe conditions that could be constructive for selective equities investors who are focused on identifying mispriced opportunities arising from structural changes in the global economy.

How long can the stockmarket remain so concentrated?

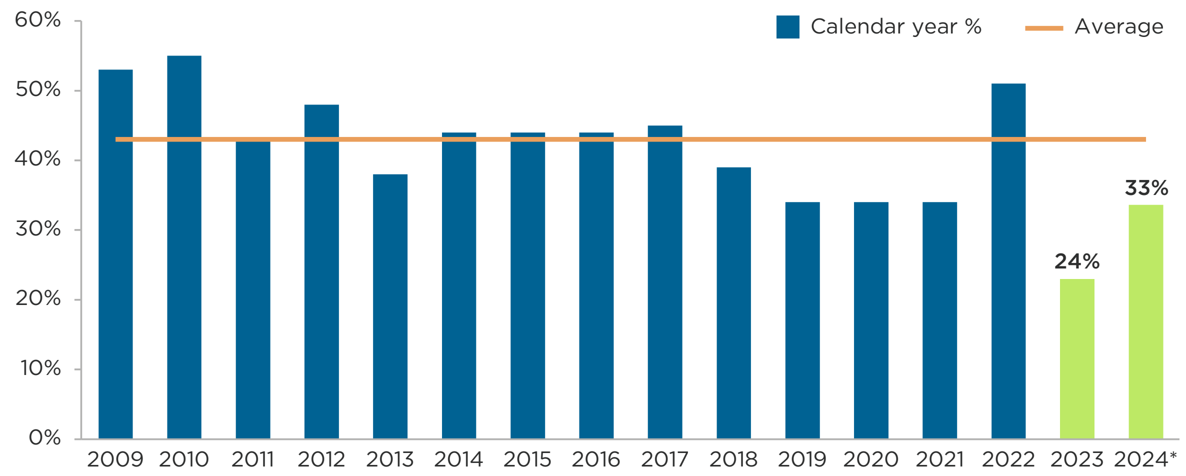
As illustrated below, market concentration has been exceptional in 2023 and 2024, driven by many investors' focus on the potential applications of artificial intelligence (AI) and emerging anti-obesity drugs. Only one-third of global stocks outperformed the overall market in the first 10 months of 2024 – up from 2023, a year of extreme concentration, but well below the long-term trend.[5]

Any combination of a soft economic landing in the US, lower terminal interest rates and a change in sentiment towards the mega-cap technology stocks, could spur investors to rebalance their allocations within equities and rotate their focus away from mega-cap technology companies.

A reflection of recent stockmarket concentration

Share of global stocks outperforming the index (MSCI ACWI) by year

Figures refer to the past. Past performance does not guarantee future results.



Source: Impax analysis / Bloomberg data, November 2024. * Year-to-date to 31 October 2024

5 Impax analysis / Bloomberg data, November 2024.

Whenever a market correction happens, overlooked companies with compelling valuations that are exposed to strong secular themes and that demonstrate superior operational profiles, including good earnings growth, are well-positioned, in our view.

Mispriced opportunities outside the US?

The US – home to the 'Magnificent 7' technology stocks – accounts for roughly two-thirds by the MSCI ACWI index by value as we approach the end of 2024.[6]

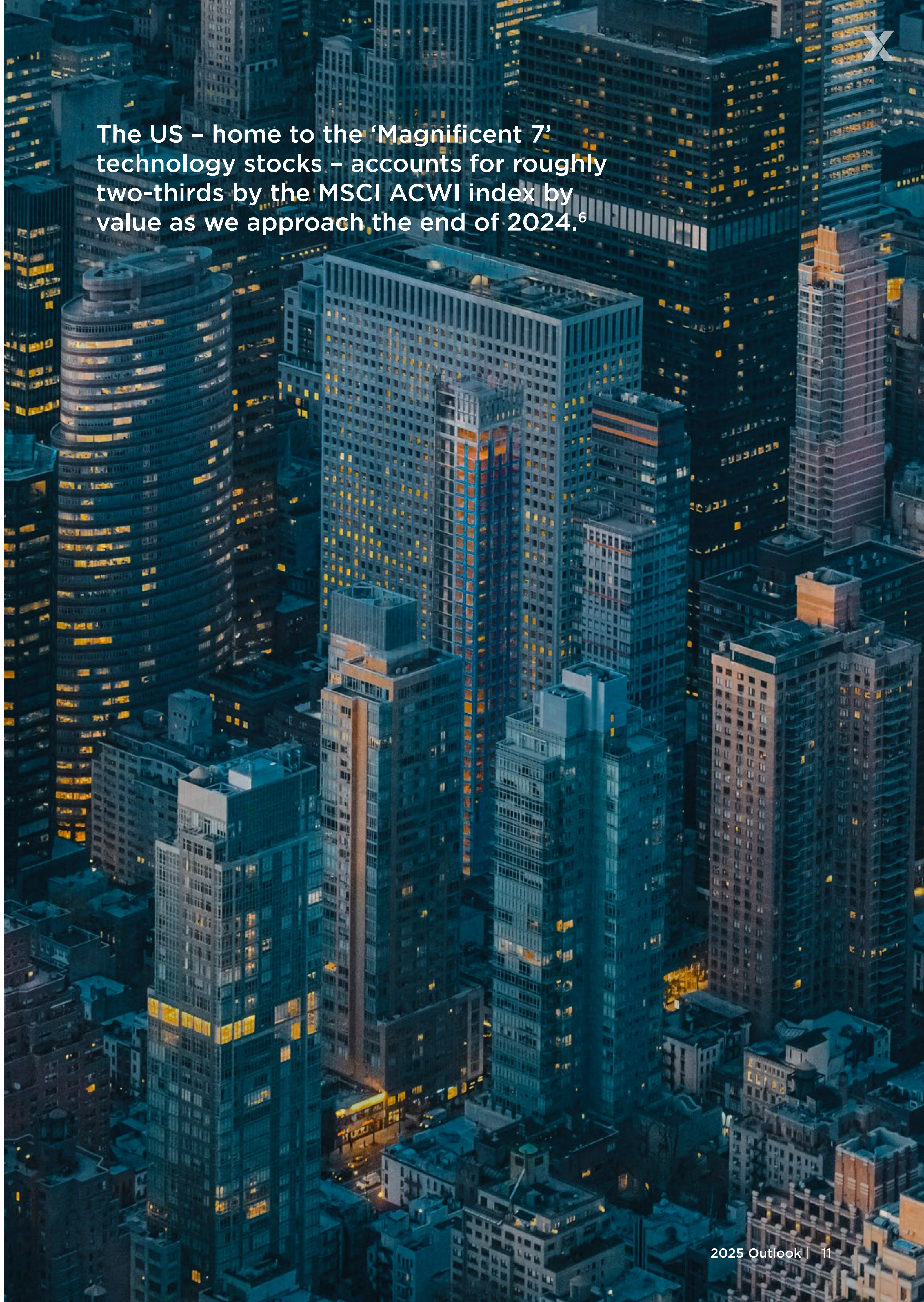
Post-election confidence in a 'soft' economic landing for the US economy, and in prospects for stronger US economic growth, are supportive factors for US shares overall. In contrast, sentiment towards European shares is often clouded by the region's slower growth prospects and a lack of political clarity in major economies France and Germany.

But company valuations are divergent. While US shares trade on a forward earnings multiple of 25.7, as of mid-December 2024, European shares trade on 14.6 times their forward earnings.[7]

This is not to say that US shares are overvalued, or that European shares are undervalued. Many highly rated US companies are innovative market leaders that we expect to continue delivering above-market growth. And vice versa. But the wide discrepancy in valuations does point towards the existence of mispriced opportunities where European companies' prospects are not tethered to their local region, but are instead leaders in global or other regional markets.

Asian markets, meanwhile, appear poised to refocus on companies with quality business models as recent headwinds show signs of easing and the region's long-term growth dynamics reassert themselves.

6 MSCI, 30 November 2024: MSCI ACWI Index.
7 S&P500 Index of US companies / STOXX Europe 600 Index of European companies. Bloomberg, as at 11 December 2024.



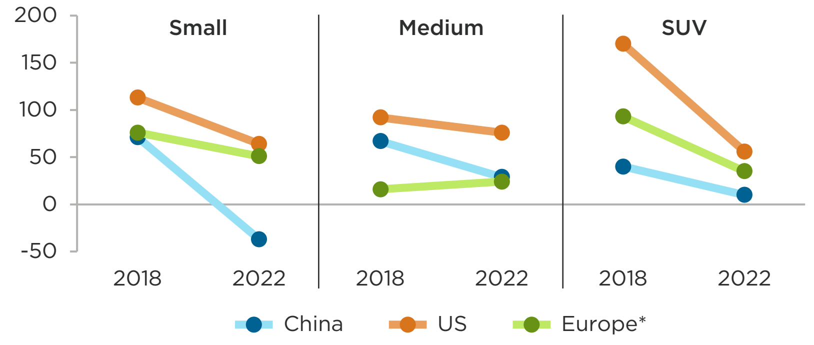
The US – home to the 'Magnificent 7' technology stocks – accounts for roughly two-thirds by the MSCI ACWI index by value as we approach the end of 2024.[6]

Indicators of real-economy change

We continue to observe four overarching drivers of the transition to a more sustainable economy: **changing technology, consumer preferences, societal changes**, and **policy and regulation.**

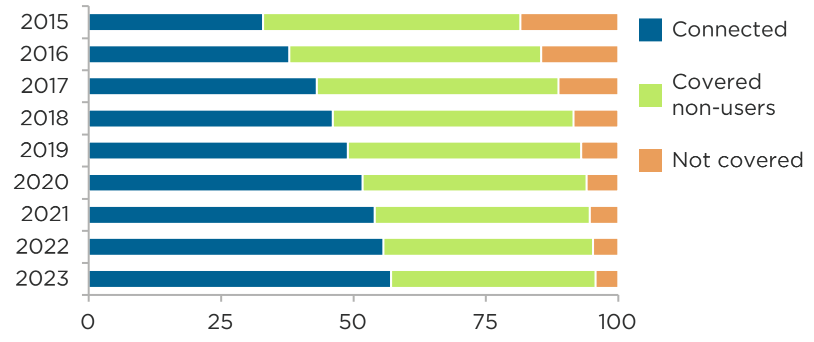
Electric vehicles approach price parity[a]

Average EV price premium before subsidies (%)



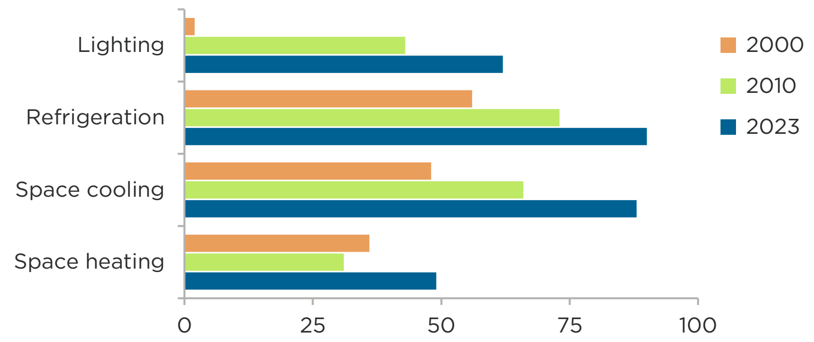
Technology is improving access to opportunities[d]

Adults worldwide with mobile internet connectivity (%)



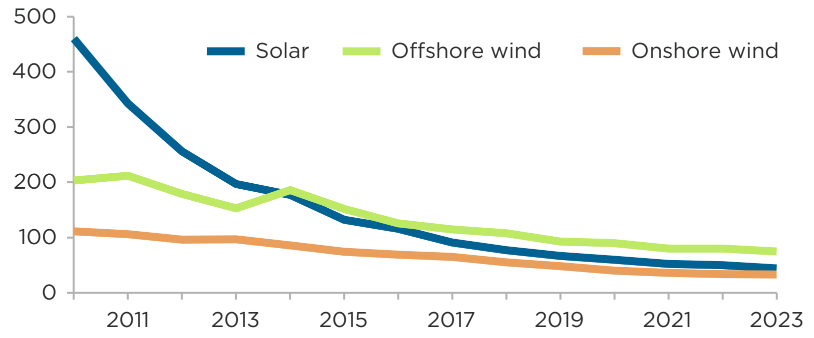
The regulatory ratchet tightens on energy use[b]

Coverage of minimum energy efficiency standards (%)



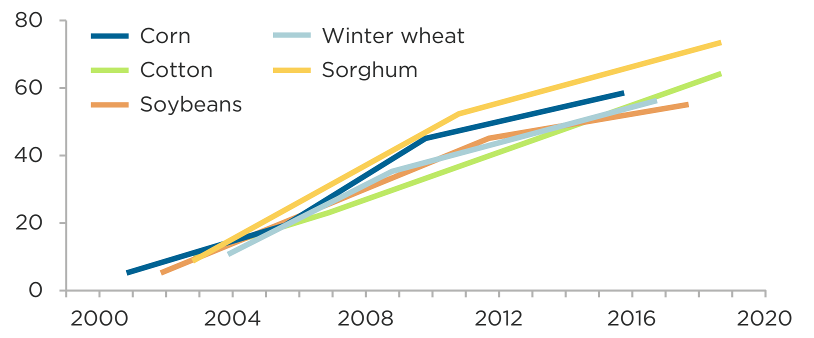
Renewable generation costs have tumbled[e]

Global weighted average LCOE (US$/MWh, 2023 prices)



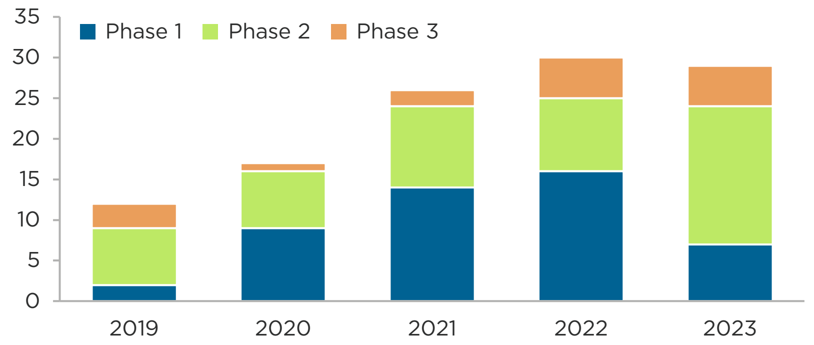
Efficiency-yielding precision farming is adopted[c]

US crop land managed with guidance systems (%)



AI is enabling new healthcare solutions[f]

Drug trials involving assets originated from AI research



Structural changes in the global economy are disrupting business models and reshaping whole industries. A changing world creates opportunities for innovative companies whose products and services can address the challenges facing global society and meet evolving demand. As long-term equities investors, we are interested in where these opportunities are being mispriced.

The metrics here are indicators of the pace and scale of transformations underway in the real economy. They are by no means exhaustive – there are abundant measures that paint a broader picture of progress – but they illustrate the breadth of disruptive change across end markets driven by technology, consumers and society, and government intervention.

a IEA, 2024: Electric Vehicles. *Europe is an average of IEA data for France, Germany and the UK. Premium between the sales-weighted average price of electric vehicles and internal combustion engine vehicles, before subsidies, by vehicle size.

b IEA, 2023: Energy Efficiency 2023. Global energy use covered by minimum energy efficiency standards, by selected end use.

c US Department of Agriculture Economic Research Service, 2023: Precision Agriculture in the Digital Era: Recent Adoption on U.S. Farms

d GSMA, 2024: The State of Mobile Internet Connectivity Report 2024

e International Renewable Energy Agency, 2024: Renewable Power Generation Costs in 2023. Levelised cost of electricity (LCOE) is currently the best directly comparable metric, though we acknowledge that it ignores the system costs associated with reliable but intermittent power generation.

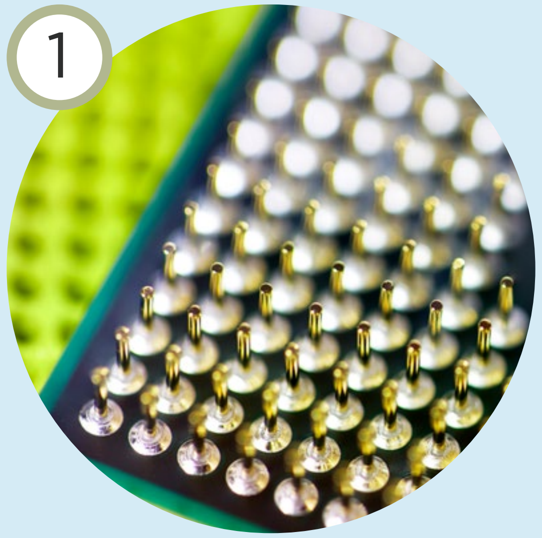
f IQVIA Institute, 2024: Global Trends in R&D 2024. The number of trials involving molecules that were discovered and researched using artificial intelligence (AI).

Themes in focus for 2025

As we look into 2025 and beyond, we are focused on compelling multi-year investment opportunities created by secular drivers of growth arising from the transition to a more sustainable economy.

The drivers of growth created by this transition are diverse, as environmental and societal challenges influence every part of the global economic value chain.

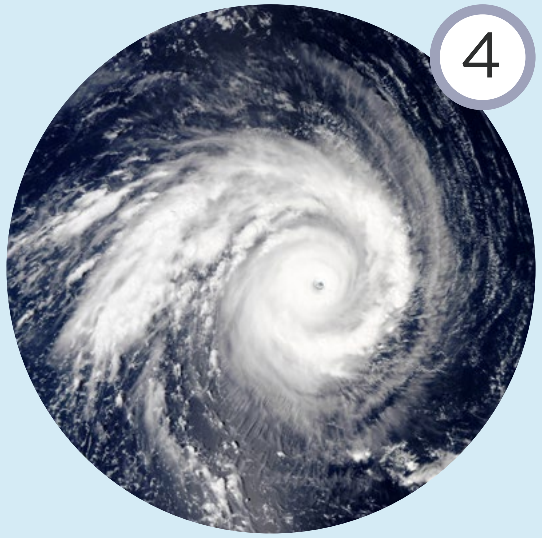
Below, we highlight four areas of thematic opportunity where the Listed Equities team has high conviction.



Chip-making equipment manufacturers

Digital grid infrastructure

Life science instruments



Reinsurers

1 Chip-making equipment manufacturers

Pivotal to the global semiconductor industry – and the AI boom that it underpins – are a select set of specialist tools and components.

Equipment made by Dutch-listed company ASML is critical to manufacture advanced 'leading-edge' chips used in AI, machine learning and quantum computing. ASML's lithography machines use extreme ultraviolet light to etch atomic-level circuits onto fine silicon wafers, enabling ever smaller transistor designs which, in turn, enable chips to become ever more powerful.

Another is Applied Materials, a leader in low-resistance chip wiring products. The most advanced logic chips can contain billions of transistors connected by as much as 60 miles of microscopic copper wiring.[8]

By 2025, Goldman Sachs estimates that global AI-related expenditure could reach US$200bn[9]

Why now?

Demand-supply imbalances formed during the semiconductor industry's pandemic-era 'boom' and 'bust' continued to affect stocks in 2024. Many end markets have been disjointed from their traditional 'lock-step' cadence: while demand from the likes of industrials and carmakers contracted, demand from data centres powering the AI revolution has continued to rise.

Looking into 2025, we see three primary factors that will shape an improving opportunity set for chipmaking equipment suppliers:

1. **AI demand –** By 2025, Goldman Sachs estimates that global AI-related expenditure could reach US$200bn.[9] Training and running the latest AI models relies on 'leading-edge' chips for data processing speed and energy efficiency. Rising semiconductor complexity continues to drive material capacity intensity, increasing chipmaker demand for critical technologies, including the latest gate-all-around transistors, high NA lithography, backside power and advanced packaging.

2. **Silicon content -** The 'internet of things' (IoT) drives demand for advanced chips used in connectivity, data processing and sensor integration across a broad range of devices, from washing machines to smartwatches. It is estimated that roughly 55bn devices will be connected by the end of 2025.[10] AI is enabling advances in the IoT, such as optimising predictive maintenance and home thermostat settings.

3. **Technology sovereignty –** Major economies, especially the US and China, are pursuing greater self-sufficiency in technologies seen as critical to national security. There are currently over US$66bn in annual government incentives for domestic chipmaking.[11] The build-out of new fabs supports demand for chipmaking equipment.

Case studies are provided for illustrative purposes only. The securities mentioned in this document should not be considered a recommendation to purchase or sell any particular security and there can be no assurance that any of the securities were or will be Profitable. The selection criteria for case study examples is not based on performance. We selected companies based on their contributions in the relevant impact area.

8 Applied Materials, July 2024: Applied Materials Unveils Chip Wiring Innovations for More Energy-Efficient Computing
9 Goldman Sachs, August 2023: AI investment forecast to approach $200 billion globally by 2025
10 Unisys, June 2024: The rise of IoT: Enhancing industries and everyday life
11 Evercore ISI Research, 2024

2 Digital grid infrastructure

The electrification of processes and economic growth means that global electricity demand is projected to triple between now and 2050.[12] The expansion and modernisation of ageing grids is essential to meeting demand, improving the resilience of electricity supply, and enabling the energy transition.

To meet national climate targets, the International Energy Agency (IEA) has estimated that annual grid investments need to double to over US$600bn by 2030.[13]

Power grids not only have to get bigger, but also smarter to accommodate the rise of more decentralised, intermittent renewable generation and bi-directional electricity flows with 'prosumers' who both consume and produce electricity.

Modern grids make extensive use of hardware (like sensors) and software to more accurately track flows of power and changes in supply and demand, and to anticipate system vulnerabilities and equipment failures.

Why now?

Digital infrastructure's share of overall investments in the grid rose from 12% in 2016 to 20% in 2022.[14] BloombergNEF projects that digital grid investment will almost double to US$68bn a year by 2040 under a business-as-usual scenario – and roughly treble by 2040 under its net-zero scenario.[15] It estimates that automation and monitoring technologies will be the fastest-growing segments of this spending.

Looking into 2025, we identify four factors that we believe will underpin a supportive long-term environment for suppliers of innovative smart grid solutions such as Eaton, Hubbell and Schneider Electric.[16]

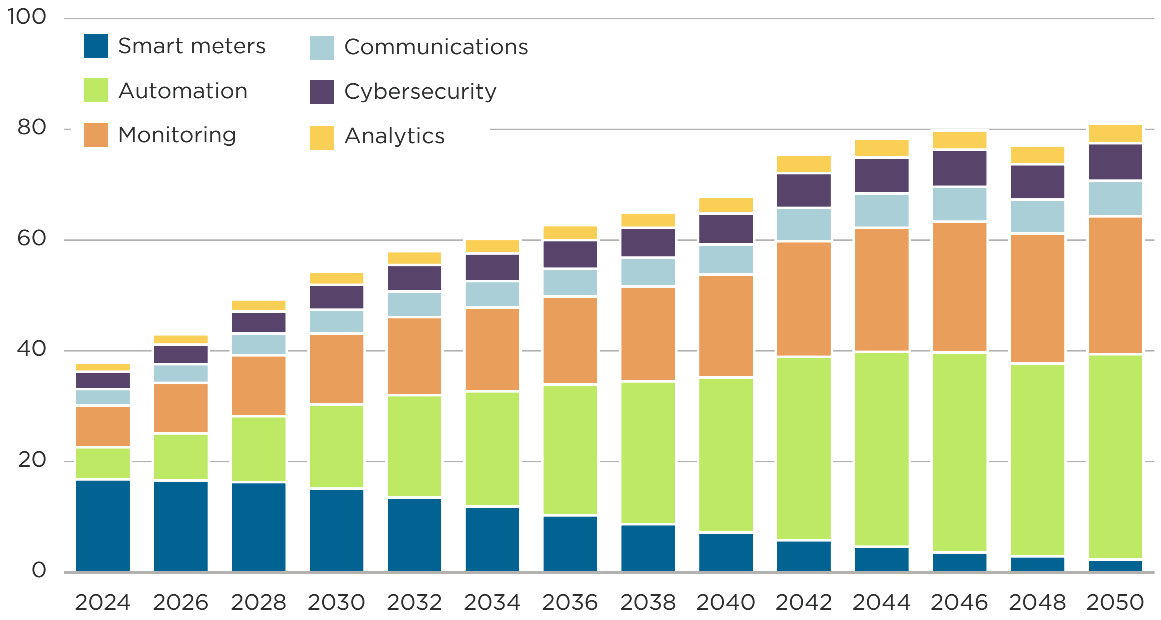
1. **Rise of the prosumer** – Although installation of residential solar PV systems has slowed, more households than ever are both consumers and producers of electricity. Increased grid intelligence relies on the roll-out of smart metering to monitor real-time flows and enable more dynamic demand, encouraging EV charging when electricity is abundant and cheap, for example.
2. **Cost-conscious utilities** – Digital grid infrastructure enables utilities to drive efficiencies, helping to improve system resilience and to avoid unnecessary investments in physical grid assets. Distribution accounted for three-quarters of digitalisation spending in 2022.[17]
3. **Network instability** – Rising intermittent renewable generation and fewer thermal generation assets make for less stable grid frequency and voltage. Sophisticated grid balancing systems can help avoid costly blackouts.
4. **Supportive policy landscape** – Grid constraints are already delaying renewable energy development around the world: 1,500GW of renewables projects in advanced stages of development are stuck in grid connection queues.[18] We see renewed focus to address this: at COP29, governments and stakeholders committed to adding or refurbishing 80mn km of grid by 2040, just shy of the current total length of the global grid (86mn km).[19]

12 Energy Transition Commission, 22 November 2023: Barriers to Clean Electrification – Grids: the critical gap, presentation to Commissioner meeting
13 IEA, 2023: Electricity Grids and Secure Energy Transitions
14 IEA, November 2023: Electricity Grids and Secure Energy Transitions
15 BloombergNEF, October 2024: New Energy Outlook 2024
16 **The securities mentioned in this document should not be considered a recommendation to purchase or sell any particular security and there can be no assurance that any of the securities were or will be profitable.**
17 IEA, 2023: Electricity Grids and Secure Energy Transitions
18 IEA, 2023: Electricity Grids and Secure Energy Transitions
19 International Renewable Energy Agency, November 2024: Global Utilities Back COP29 Pledge to Boost Grids and Storage in Strong Implementation Signal / Rystad Energy, 2024

To meet national climate targets, the IEA has estimated that annual grid investments need to double to over US$600bn by 2030.[20]

Digital infrastructure investments set to double by 2050

Forecast annual investment in grid digitalisation by technology (US$bn)*



* Source: BloombergNEF, October 2024: New Energy Outlook 2024
There is no guarantee that any forecasts made will come to pass.

20 IEA, 2023: Electricity Grids and Secure Energy Transitions

3 Life science instruments

Ageing demographics, the rising complexity of medicines and the need to address pressing environmental challenges are long-term drivers of demand for suppliers of innovative life sciences instruments.

These instruments are often mission-critical tools for customers – primarily in the pharmaceutical and industrial sectors – to ensure that manufactured products meet stringent quality and regulatory standards. The research-intensity of developing life science instruments, and the importance of reputation and long-term commercial relationships, supports a concentrated industry dominated by the likes of US companies Agilent, Mettler-Toledo and Waters.[21]

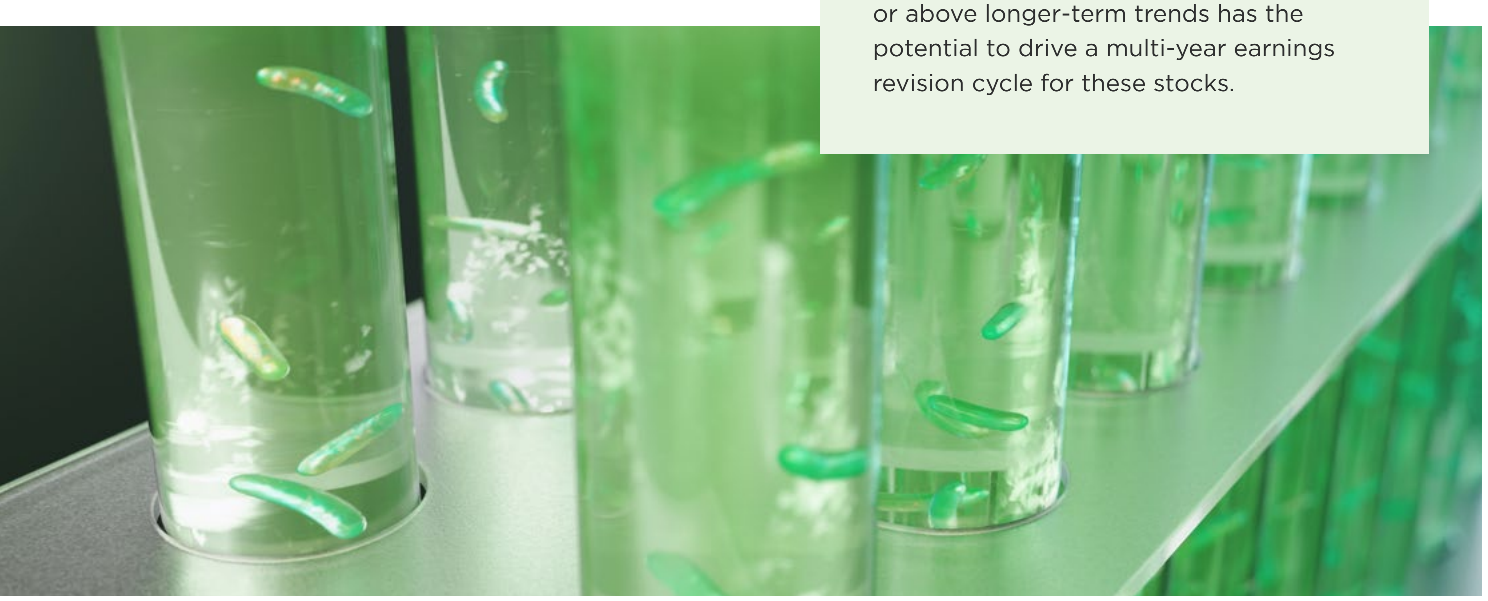
Emerging opportunities for leading manufacturers of precision analytical tools include testing for 'forever chemicals' or per- and polyfluoroalkyl substances (PFAS) that are associated with human and ecosystem health issues. Advanced mass spectrometry machines can identify targeted PFAS levels as low as 0.1 parts per trillion.

Why now?

Looking into 2025, we believe we are observing an inflection point in the cycle for the life science tools sector after two challenging years.

Market leading companies' sales of liquid chromatography and mass spectrometry instruments have grown at an annual rate of only 1% since 2020 – much below longer-term annual growth rates of 5%.[22] After the pandemic induced a bump in sales, demand growth stalled as biopharmaceutical companies digested their inventory and delayed certain purchases given US regulatory uncertainty from the Inflation Reduction Act. Demand from the Chinese life sciences industry has meanwhile been subdued by a moderation in government support.

We are encouraged by improving customer demand and funnel activity reported by companies in late 2024. We believe a reversion to growth in line with or above longer-term trends has the potential to drive a multi-year earnings revision cycle for these stocks.



21 **The securities mentioned in this document should not be considered a recommendation to purchase or sell any particular security and there can be no assurance that any of the securities were or will be profitable.**
22 Impax analysis based on financial results from market leaders Agilent and Waters

4 Reinsurers

Global insured losses from natural catastrophes exceeded US$135bn in 2024, roughly one-third higher than the preceding 10-year average in real terms, according to December estimates by the Swiss Re Institute. This includes almost US$50bn in estimated losses in the US from Hurricanes Helene and Milton alone.

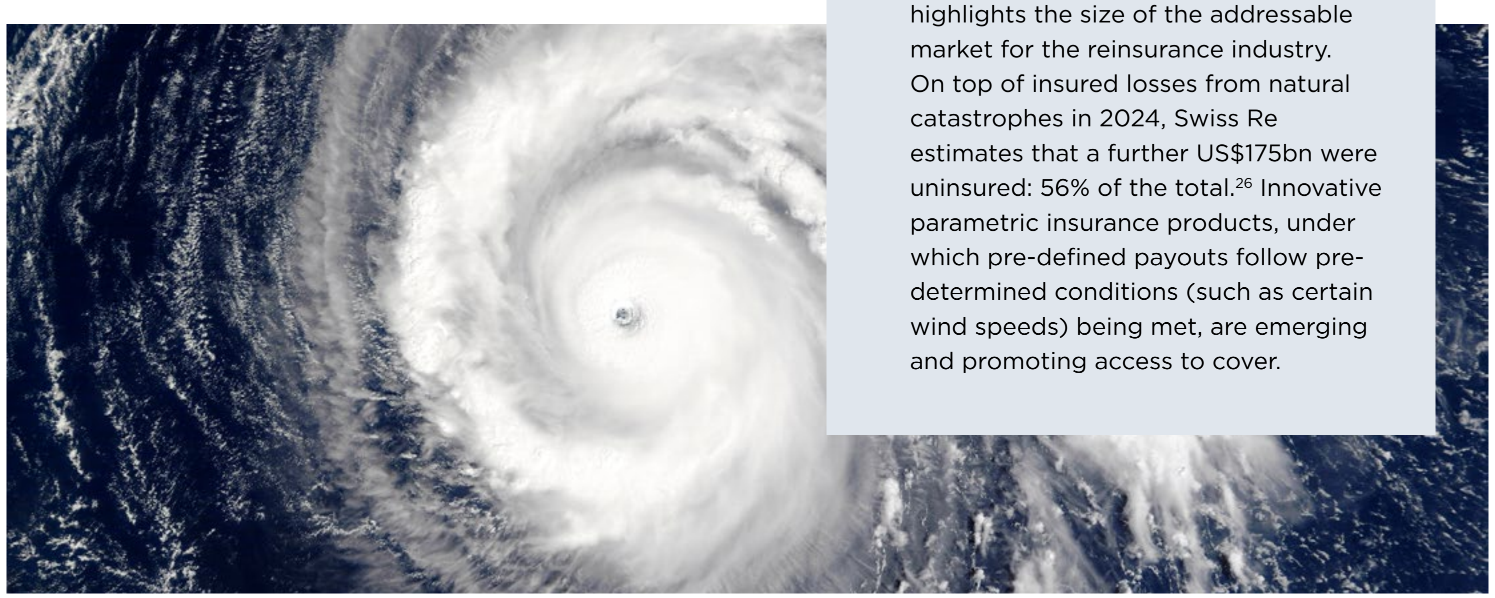
In its role as a backstop for insurers, the reinsurance industry faces growing liabilities as losses arising from natural catastrophes continue an upward trajectory. Yet as the value of global assets at risk from extreme weather rises, the sector is presented with an expanding opportunity set so long it prices risks accurately.[23]

More accurate pricing of climate-related risks by reinsurers can ultimately contribute to adaptation efforts. For instance, more expensive home insurance should inform housebuilding trends away from areas vulnerable to rising sea levels, surface flooding or wildfires. Innovative insurance solutions could meanwhile incentivise policyholders to take measures that improve climate resilience. Only with accurate insurance pricing can we calculate the economic benefits of investing in climate adaptation.

Why now?

Looking into 2025 and beyond, we identify two key factors that support conditions for the reinsurance industry's profitable growth.

1. **Pricing of risk** – After a period when several reinsurers mispriced catastrophe-related risks, eroding investment returns, the industry has tightened underwriting terms over the past two years. Reinsurers like German-listed Hannover Re and US-listed Renaissance Re have successfully increased deductibles, effectively passing more financial risk onto primary insurers. This is driving up premiums for policyholders as insurers pass higher costs on to businesses and households.[24] In some higher-risk markets, like fire insurance in parts of the western US, many insurers no longer offer coverage.[25]
2. **The protection gap** – The difference between insured and uninsured losses highlights the size of the addressable market for the reinsurance industry. On top of insured losses from natural catastrophes in 2024, Swiss Re estimates that a further US$175bn were uninsured: 56% of the total.[26] Innovative parametric insurance products, under which pre-defined payouts follow pre-determined conditions (such as certain wind speeds) being met, are emerging and promoting access to cover.



23 Swiss Re Institute, 5 December 2024: Hurricanes, severe thunderstorms and floods drive insured losses above USD 100 billion for 5th consecutive year
24 US Senate Committee on Banking, Housing and Urban Affairs, September 2023: Rising Insurance Costs and Reduced Coverage Hurt Homeowners, Renters
25 Lopez, N., et al., 10 May 2024: Beverly Hills 90210 Mansions Lose Fire Coverage as Insurers Flee. Bloomberg
26 Swiss Re Institute, 5 December 2024: Hurricanes, severe thunderstorms and floods drive insured losses above USD 100 billion for 5th consecutive year

Credit market outlook

To be successful in 2025, corporate bond investors will need to navigate evolving credit market dynamics shaped by a more uncertain geopolitical landscape.

The US election result, coupled with recent Federal Reserve rate cuts, is expected to lead to stronger US growth and a stronger US dollar. However, the prospect of lower taxes, deregulation and trade tariffs also raises the risks of higher inflation though this should, in the immediate term, be largely offset by lower energy prices.

The incoming administration's policy mix has conflicting implications for US Treasury yields, which in effect shape the relative attractiveness of all asset classes. Given this, we expect benchmark 10-year US Treasury yields to be rangebound in 2025, with a bias for steepening in the event that US government policies are poorly received by bond markets and economic performance underwhelms.

We see credit spreads over US Treasury yields remaining tight in 2025, with corporate bond valuations supported by strong company fundamentals, low default rates and an anticipated soft economic landing in the US.

Technical factors are also expected to be supportive, with modest net issuance projected in 2025 in both the US and Europe. We have yet to see any rotation out of cash and into risk assets – as would normally be expected in a falling interest rate environment. Despite tight spreads, corporate bond yields are higher overall than for most of the past 15 years.[27]

In this context, individual credit selection will be as important as ever in generating excess returns. It is our conviction too that integrating sustainability into credit analysis can help investors better understand risks arising from environmental and governance factors, and so navigate the complexities – and even contribute to – the transition to a more sustainable global economy.

Below, we share our perspective on each of the main sub-asset classes that we focus on.

US investment grade

US investment grade corporate and securitised bond yields are close to decade-high levels.[28] While some industry sectors are peaking in terms of the credit cycle, we believe underlying credit fundamentals remain favourable.

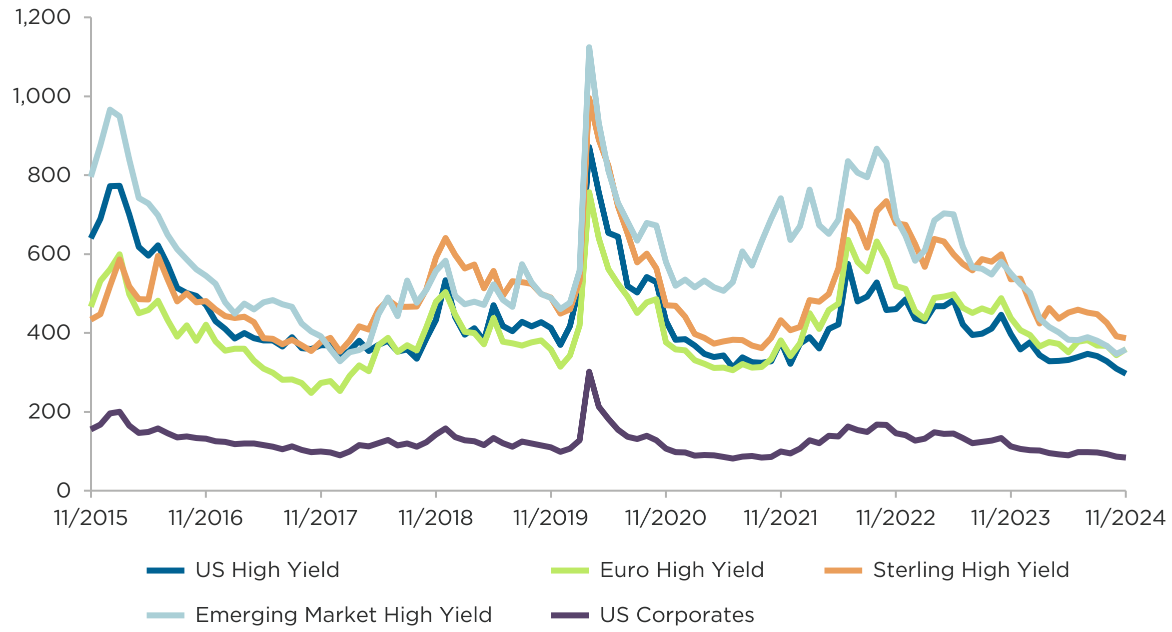
Our preference is for higher quality corporate bonds, with a focus on strong company cashflow generation and robust business models. However, we remain vigilant for an uptick in mergers and acquisitions (M&A) should 'animal spirits' return to the market. In terms of relative value, as 2024 comes to an end, overall we prefer corporate bonds to both US government and supranational bonds.

US securitised and impact bonds are a key differentiator within Impax's investment grade multi-sector portfolios and we continue to see value and room for further credit spread tightening across US securitised credit, including mortgage-backed securities.

27 Bloomberg US Corporate Bond Index, Bloomberg US Securitized Index: MBS, ABS, and CMBS, 30 November 2024
28 Bloomberg US Corporate Bond Index, Bloomberg US Securitized Index: MBS, ABS, and CMBS, 30 November 2024

Corporate bond spreads near decade lows...

Spread to worst by asset class (basis points)



Source: Bloomberg data, 2 December 2024. 'US High Yield' = ICE BofA US Cash Pay High Yield Index. 'Euro High Yield' = ICE BofA Euro High Yield Constrained Index. 'Sterling High Yield' = ICE BofA Sterling High Yield Index. 'Emerging Market High Yield' = ICE BofA High Yield US Emerging Markets Corporate Plus Index. 'US Corporates' = ICE BofA US Corporate Index.
Indexes are unmanaged and not available for direct investment.

US high yield

While US high yield credit spreads are currently near all-time lows, we expect the tight spread environment to persist given robust company fundamentals and strong underlying demand.

In recent years, the composition of the high yield market has shifted towards larger, higher quality issuers with lower leverage. In addition, the market has less duration – a measure of interest rate risk – than historic levels. Lastly, improved sector diversification means no single sector accounts for more than 12% of the index size, reducing the risk of sector-specific shocks and helping to limit default rate expectations.[29]

Robust demand for high yield credit has been driven by the absolute yields on offer and relatively low default rates. Technical factors should also be supportive in 2025, when only around 2.5% of US high yield debt by value matures.[30]

We also remain constructive in the year ahead on broadly syndicated loans (issued by below-investment grade companies) given our outlook for a higher-than-expected Fed funds rate, a resilient US economy and the attractive relative of loans value versus bonds.

29 The energy sector accounted for approximately 16% of the US High Yield index in the second half of 2018. Source: ICE BofA US High Yield Index, 30 November 2024
30 JPMorgan, 13 November 2024: High Yield Bond and Institutional Loan Maturity Schedule

... as yields are close to decade highs

Yield to worst by asset class (%)

Source: Bloomberg data, 2 December 2024. 'US High Yield' = ICE BofA US Cash Pay High Yield Index. 'Euro High Yield' = ICE BofA Euro High Yield Constrained Index. 'Sterling High Yield' = ICE BofA Sterling High Yield Index. 'Emerging Market High Yield' = ICE BofA High Yield US Emerging Markets Corporate Plus Index. 'US Corporates' = ICE BofA US Corporate Index.
Indexes are unmanaged and not available for direct investment.

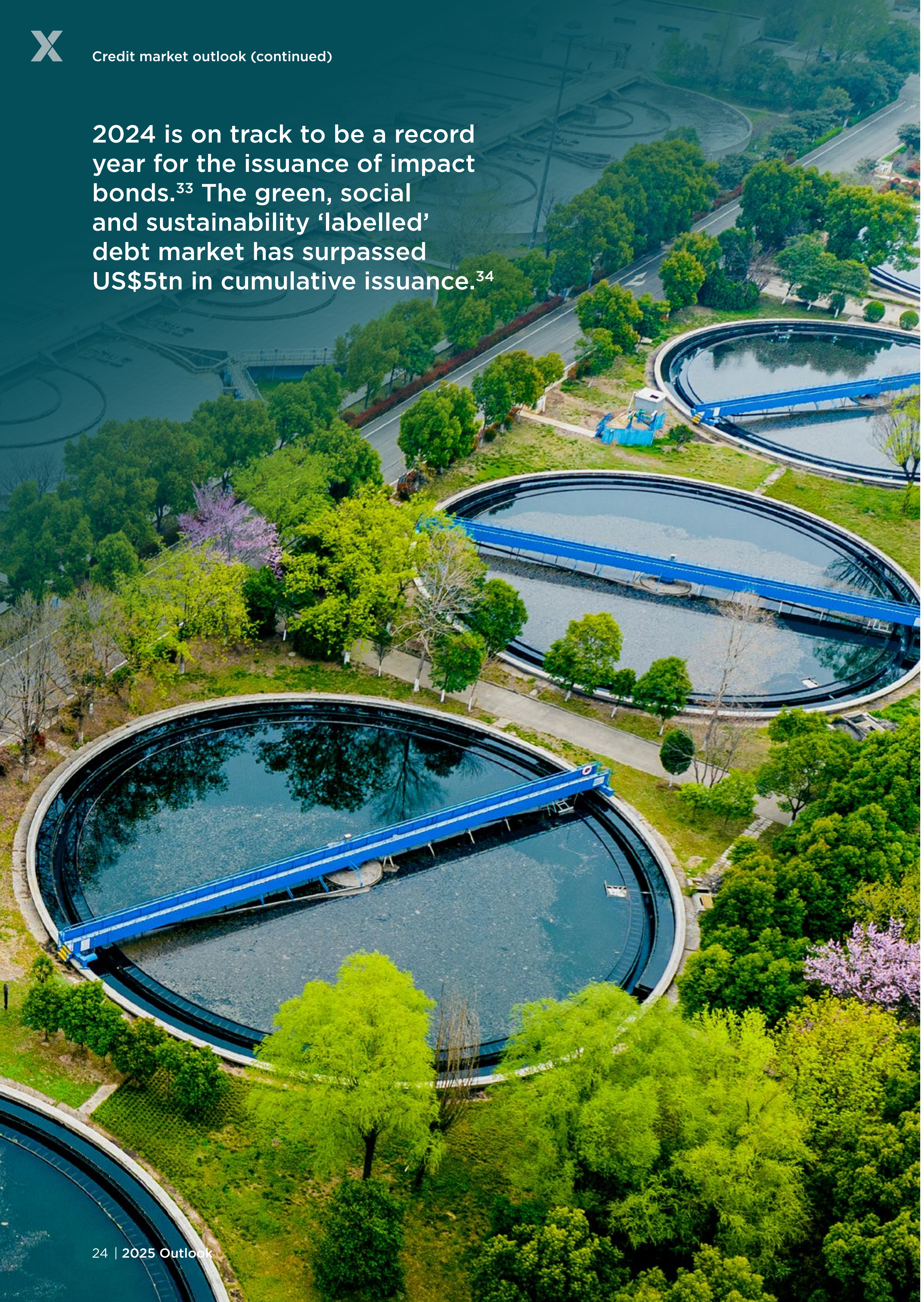
European high yield

The European high yield market's strong credit quality and improving issuance outlook provide a cautiously optimistic scenario for 2025, in our view.

We believe the European high yield market offers attractive relative value compared to its US counterpart looking into 2025. Overall, yield spreads are higher despite relatively high credit quality – a sizeable portion of upcoming maturities are 'BB'-rated, making for easier refinancing.[31]

Although the European high yield market has shrunk, the outlook for new issuance is improving as market conditions stabilise. A mild recovery in the Eurozone economy could support the high yield market, although downside risks – economic and geopolitical – remain. Political risks are re-emerging as illustrated by government breakdowns in France and Germany. While there is risk of volatility around German elections in February 2025, a conclusive result could lead to modest pro-business reforms.

31 JPMorgan, 13 November 2024: European Credit Outlook & Strategy 2025



2024 is on track to be a record year for the issuance of impact bonds.[33] The green, social and sustainability 'labelled' debt market has surpassed US$5tn in cumulative issuance.[34]

Emerging market credit

The emerging market corporate credit market in 2025 presents a mix of opportunities and challenges. Strong economic growth and supportive monetary policies provide a positive backdrop, but geopolitical risks and sector-specific issues will need to be navigated carefully.

Emerging market economic growth is expected to remain broadly unchanged at 4.2% in 2025, on average, according to the IMF.[32] The US election has made the prospect of materially lower US interest rates and a weaker US dollar less likely, however, tempering market optimism for emerging market credit.

Geopolitical tensions and regulatory pressures remain significant risks, however. Trade tensions, particularly between the US and China, could impact emerging market companies, especially those heavily reliant on exports. Offsetting the potential impacts of US tariffs, to some extent, is the Chinese government's stimulus package intended to increase domestic consumption. This should support consumer-oriented companies in China.

Default rates are expected to remain low in 2025 on the back of strong corporate fundamentals, having trended lower in 2024 following two years that included high-profile defaults in the Chinese real estate sector. We expect the real estate sector to continue to face challenges.

Labelled bonds

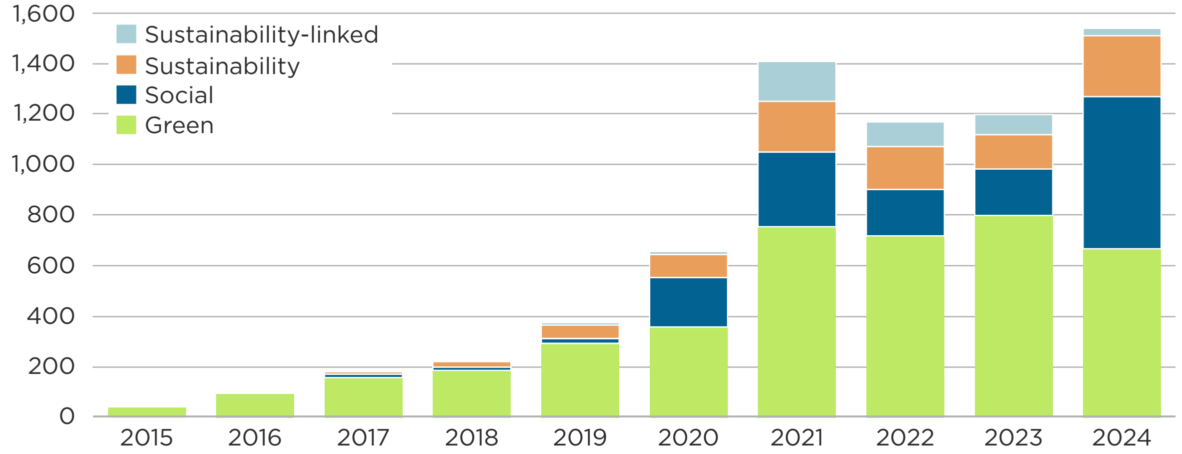
2024 is on track to be a record year for the issuance of impact bonds.[33] The green, social and sustainability 'labelled' debt market has surpassed US$5tn in cumulative issuance.[34]

The size of the market – and its continued growth – indicates growing investor appetite for sustainability-focused fixed income assets, driven by strong fundamentals and demand for the stability, diversification and improved transparency – through impact reporting – they can offer. We expect issuance to remain healthy in 2025 and beyond given the strength of demand from global investors and the scale of funding required for the transition to a more sustainable economy, not least the energy transition.

We continue to look for attractive impact bond opportunities in both labelled and non-labelled markets, and value the additionality that new issuances can contribute to positive environmental and social outcomes.

An expanding asset class

Global labelled bond issuance (US$bn)



Source: Bloomberg, as at 25 November 2024. *2024 data is year-to-date, to November 2024.

32 IMF, October 2024: World Economic Outlook
33 Bloomberg, as at 25 November 2024. The bond market generally defines impact bonds as labelled bonds that finance projects with positive environmental or social outcomes (or both). These labelled bonds adhere to recognised principles like the Green Bond Principles and offer investors the extra assurances of use of proceeds reporting and third-party verification.
34 Bloomberg Intelligence, 9 December 2024

Private markets outlook

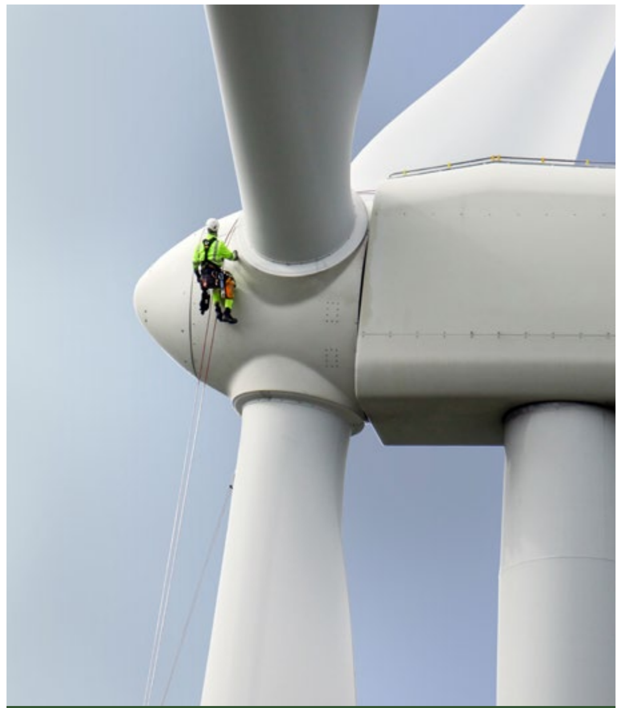
Impax is one of the longest established private markets managers in the renewable energy infrastructure sector.

While the political landscape is evolving in the US, policy support remains stable in the EU. Ambitious net-zero targets and a drive to enhance energy security drive commitments like the revised Renewable Energy Directive, which includes a target for renewables to account for 45% of electricity supply by 2030, that provide undisputable tailwinds in the region.

Wood Mackenzie estimates that almost €1.5tn will be invested in the European solar, wind and battery storage sectors by 2050.[35]

Despite capital successfully flowing into large-scale operating projects, there is often a lack of finance for development projects in Europe's fragmented market.

While not immune to market sentiment, private market investments are certainly not subject to the same volatility as public markets, as illustrated by the recent US election. There is inevitably more focus on project fundamentals: investors can use their expertise to execute specific value creation strategies for individual projects. Active involvement allows for tailored strategies that can significantly enhance the value and performance of investments.



While the political landscape is evolving in the US, policy support remains stable in the EU.

35 Wood Mackenzie, 2023: Renewable energy costs continue to fall across Europe

As we look towards 2025, we believe the following factors will play an important role in the development of renewable energy assets.

1 Corporate power purchases continue to rise

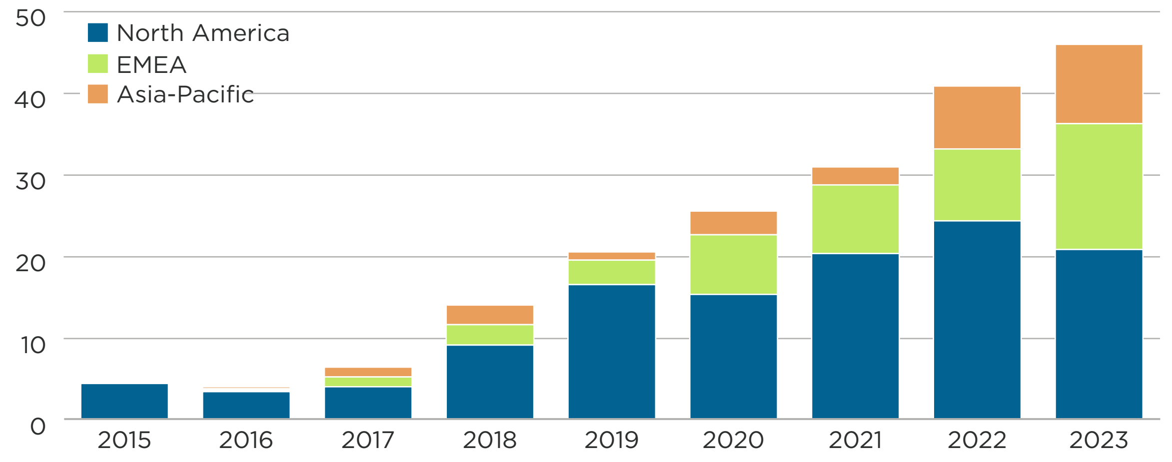
Major energy consumers are demonstrably willing to pay for clean power to meet their rising energy needs. In part these large consumers are driven by the need to procure electricity in a way that is compatible with their decarbonisation efforts. The demand for corporate power purchase agreements (PPAs) is also driven by the fact that in many countries renewable energy is the lowest cost of energy. Corporate PPAs involving renewables, under which companies make long-term commitments to buy electricity directly from a supplier, doubled in annual value between 2019 and 2023.[36]

The soaring electricity demands of data centres – now fuelled by the AI boom – are a key driver behind the growth of corporate PPAs. Amazon, Meta and Google were among the four largest corporate buyers of solar and wind energy in 2023.[37] In May 2024, Microsoft committed to buy 10.5GW of new renewable capacity from developer Brookfield Asset Management.[38]

The global corporate PPA market has grown by an average of 33% a year since 2015.[39] Although growth in 2023 was slower, contracted corporate PPA volumes rose by 74% in Europe.[40] Having almost breached the 2023 total by October, contracted PPA volumes are expected to have risen in Europe again in 2024.[41] Over the long term, rising contracted volumes should support PPA prices.

Company demand for clean power accelerates

Corporate purchase power agreement (PPA) volumes by region (cumulative annual GW)



Source: BloombergNEF, 2024: 1H 2024 Corporate Energy Market Outlook

36 BloombergNEF, 2024: 1H 2024 Corporate Energy Market Outlook
37 BloombergNEF, February 2024: Corporate Clean Power Buying Grew 12% to New Record in 2023
38 Gara, A. et al., 1 May 2024: Microsoft to power data centres with big Brookfield renewables deal. *Financial Times*
39 BloombergNEF, 2024: 1H 2024 Corporate Energy Market Outlook
40 BloombergNEF, February 2024: Corporate Clean Power Buying Grew 12% to New Record in 2023
41 Gouras, E., 25 October 2024: European corporate PPA market bound for another record year in 2024. *PV Magazine*

2 Renewables are the cheapest form of new-build generation in many economies

The cost-competitiveness of onshore wind and solar generation will continue to drive their deployment. Despite lower natural gas and coal prices, 81% of newly-commissioned, utility-scale renewable power generation projects globally in 2023 had costs of electricity generation lower than the weighted average cost of fossil fuel alternatives.[42] Installed solar PV (photovoltaic) generation capacity rose by 32% in 2023 alone.[43]

Meanwhile, the cost of battery storage projects (per unit of energy stored) has fallen 89% since 2010.[44] The improving economics of adjacent utility-scale storage helps to address the challenges posed by renewables' intermittent generation. BloombergNEF has estimated that European battery storage capacity would rise by roughly 50% in both 2024 and 2025.[45]

3 The renewable power market in the US will prove itself resilient

The US election sent a chill wind through clean energy stocks.[46] Market concerns have centred around Trump's negative stance on climate policies and campaign pledge to modify the Inflation Reduction Act, a signature policy of the outgoing Biden administration that has spurred at least US$115bn in clean energy investments since 2022.[47]

While executive and legislative action could curtail support and limit permitting for clean power projects, wholesale repeal of the Inflation Reduction Act (IRA) looks highly unlikely given the broad-based support for existing federal spending in Republican-held US states. The simple fact is that renewable power projects offer the quickest route to meeting growing US electricity demand. Even if federal policy were to become restrictive, efforts to tap new sources of cheap power will continue at the regional and state level. We therefore continue to see opportunities in private market infrastructure in the US.

42 International Renewable Energy Agency, 2024: Renewable Power Generation Costs in 2023
43 IEA, 2024: Renewables 2023
44 International Renewable Energy Agency, 2024: Renewable Power Generation Costs in 2023
45 BloombergNEF, May 2024: New Energy Outlook 2024
46 The S&P Global Clean Energy index of the world's largest renewables companies fell by about 6% on the day of the election result. Uddin,. R. & Steer, G., 6 November 2024: and US bank stocks jump in post-election trades as renewables slump. *Financial Times*
47 Global Infrastructure Investor Association, September 2024: Two Years of the Inflation Reduction Act: Transforming US Clean Energy

Conclusion

A year ago, we wrote that *"irrespective of any policy disruptions that could arise as a result of upcoming elections in 2024… the transition towards a more sustainable economy has strong momentum"*. We believe that 2025 will prove our thesis to be correct.

We observe several factors that should be constructive for global markets, including a robust US economy and prospects for a belated broadening of the stockmarket towards overlooked companies with quality business models and compelling valuations.

The structural forces driving change in the real economy, and driving opportunities for innovative companies, meanwhile remain firmly intact. Technology adoption is driving wide-ranging change that, in many cases, is accelerating. These economic disruptions are often poorly understood and mispriced by the wider market.

It remains our conviction that investors focused on these transformations can target better risk-adjusted returns as the transition to a more sustainable economy accelerates.

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2025 Outlook

Seizing opportunity amid disruptive change

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