



VINCENTS

Market Outlook

CY25

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Vincents Private Wealth

A Year in Review

2024 hosted strong absolute returns for equity investors both domestically and internationally. While the ASX's calendar year total return of ~11.4% outperformed [Vanguard's 30-year average return](#) of the ASX200 by more than a quarter of the average 9.1%, our local market was the ugly duckling for the period with the US's S&P500 (+25%) & Nasdaq (+26%) dwarfing the ASX on a total return basis. Even China's Hang Seng (+23%) saw an annual total return ahead of our local bourse despite ongoing economic woes as well as Japan's Nikkei 225 (+21%) even after their mid-year market meltdown of (-25.5%).

When we pop the hood on our local market and back out returns contributed by our big 5 financial institutions (more on the banks in due course), our market etched out a total return of less than 3.3%. If you were to go a little further and remove the returns contributed by Wesfarmers (WES), Goodman Group (GMG) and Aristocrat leisure - local investors would have received less than 1% total return for the trailing 12 months. While strong contributions from single investments isn't necessary a new phenomenon, our market's performance is increasingly reliant on a handful of stand out businesses carrying the torch for the broader market (and economy - as discussed below) which reflects a very narrow universe available to investors - elevating the risk of index investing.

CY2024 - Global Index Returns

Country	Index	Price Return	*Total Return
Global (Developed)	MSCI World	17.00%	19.22%
World	Bloomberg World	15.69%	17.96%
India	Nifty 50	8.80%	10.23%
Hong Kong	Hang Seng	17.67%	22.90%
US	S&P500	23.31%	25.00%
US	Nasdaq 100	24.88%	25.88%
Australia	ASX200	7.49%	11.43%
United Kingdom	FTSE 100	5.69%	9.59%
Japan	Nikkei 225	19.22%	21.27%
Europe	STOXX Euro 600	5.40%	9.03%

*Assumes dividends reinvested

S&P500 Performance Breakdown:

Top 20 - Performers		TR	CTR
1	PALANTIR TECHNOLOGIES INC-A	340.48%	0.27%
2	APPROVIN CORP-CLASS A	231.90%	0.10%
3	NVIDIA CORP	171.25%	5.19%
4	SPOTIFY TECHNOLOGY SA	138.08%	0.08%
5	UNITED AIRLINES HOLDINGS INC	135.34%	0.01%
6	GE VERNOVA INC	131.78%	0.12%
7	MICROSTRATEGY INC-CL A	124.03%	0.05%
8	INTERACTIVE BROKERS GRO-CL A	114.43%	0.02%
9	BROADCOM INC	110.43%	1.30%
10	TARGA RESOURCES CORP	110.07%	0.05%
11	HOWMET AEROSPACE INC	102.70%	0.06%
12	AXON ENTERPRISE INC	93.73%	0.05%
13	CONSTELLATION ENERGY	92.73%	0.09%
14	ARISTA NETWORKS INC	87.73%	0.12%
15	MARVELL TECHNOLOGY INC	83.78%	0.10%
16	NETFLIX INC	83.07%	0.42%
17	APOLLO GLOBAL MANAGEMENT INC	79.88%	0.07%
18	KKR & CO INC	79.64%	0.11%
19	ROYAL CARIBBEAN CRUISES LTD	78.98%	0.05%
20	SYNCHRONY FINANCIAL	74.00%	0.03%

Top 20 – Index Return Contributors		CTR	TR
1	NVIDIA CORP	5.19%	171.25%
2	APPLE INC	1.98%	30.70%
3	AMAZON.COM INC	1.50%	44.39%
4	META PLATFORMS INC-CLASS A	1.33%	66.05%
5	BROADCOM INC	1.30%	110.43%
6	MICROSOFT CORP	0.96%	12.92%
7	TESLA INC	0.88%	62.52%
8	ALPHABET INC-CL A	0.71%	36.01%
9	ALPHABET INC-CL C	0.58%	35.62%
10	JPMORGAN CHASE & CO	0.52%	44.27%
11	ELI LILLY & CO	0.47%	33.30%
12	NETFLIX INC	0.42%	83.07%
13	WALMART INC	0.40%	73.98%
14	BERKSHIRE HATHAWAY INC-CL B	0.32%	27.09%
15	COSTCO WHOLESALE CORP	0.30%	39.62%
16	PALANTIR TECHNOLOGIES INC-A	0.27%	340.48%
17	ORACLE CORP	0.25%	59.99%
18	VISA INC-CLASS A SHARES	0.23%	22.32%
19	GENERAL ELECTRIC	0.22%	64.96%
20	MASTERCARD INC - A	0.21%	24.17%

S&P500 Performance Breakdown: (continued)

Bottom 20 – Index Return Detractors		CTR	TR
1	INTEL CORP	-0.32%	-59.56%
2	ADOBE INC	-0.16%	-25.46%
3	BOEING CO/THE	-0.14%	-32.10%
4	SUPER MICRO COMPUTER INC	-0.11%	-74.34%
5	CVS HEALTH CORP	-0.10%	-40.76%
6	NIKE INC -CL B	-0.09%	-29.10%
7	ADVANCED MICRO DEVICES	-0.08%	-18.06%
8	HUMANA INC	-0.06%	-43.96%
9	PROLOGIS INC	-0.05%	-18.11%
10	COMCAST CORP-CLASS A	-0.05%	-11.84%
11	SCHLUMBERGER LTD	-0.04%	-24.45%
12	UNITED PARCEL SERVICE-CL B	-0.04%	-15.98%
13	MODERNA INC	-0.04%	-58.19%
14	DEXCOM INC	-0.04%	-37.33%
15	LULULEMON ATHLETICA INC	-0.04%	-25.21%
16	ELEVANCE HEALTH INC	-0.04%	-20.71%
17	STELLANTIS NV	-0.04%	-40.28%
18	CONOCOPHILLIPS	-0.04%	-12.19%
19	BIOGEN INC	-0.04%	-40.91%
20	MICROCHIP TECHNOLOGY INC	-0.04%	-34.96%

Bottom 20 - Performers		TR	CTR
1	SUPER MICRO COMPUTER INC	-74.34%	-0.11%
2	WALGREENS BOOTS ALLIANCE INC	-64.84%	-0.03%
3	INTEL CORP	-59.56%	-0.32%
4	MODERNA INC	-58.19%	-0.04%
5	UNITY SOFTWARE INC	-57.89%	-0.02%
6	CELANESE CORP	-54.57%	-0.02%
7	SYMBOTIC INC	-53.81%	0.00%
8	SIRIUS XM HOLDINGS INC	-50.08%	0.00%
9	ENPHASE ENERGY INC	-48.02%	-0.02%
10	ESTEE LAUDER COMPANIES-CL A	-47.60%	-0.04%
11	DOLLAR TREE INC	-47.24%	-0.03%
12	HUMANA INC	-43.96%	-0.06%
13	RIVIAN AUTOMOTIVE INC-A	-43.31%	-0.02%
14	DOLLAR GENERAL CORP	-43.12%	-0.03%
15	MONGODB INC	-43.06%	-0.03%
16	BIOGEN INC	-40.91%	-0.04%
17	CVS HEALTH CORP	-40.76%	-0.10%
18	STELLANTIS NV	-40.28%	-0.04%
19	ALBEMARLE CORP	-37.75%	-0.02%
20	DEXCOM INC	-37.33%	-0.04%

ASX200 Performance Breakdown:

Top 20 - Performers		TR	CTR
1	MESOBLAST LTD	231.55%	0.09%
2	PRO MEDICUS LTD	161.84%	0.36%
3	TELIX PHARMACEUTICALS LTD	144.15%	0.17%
4	PINNACLE INVESTMENT MANAGEME	133.32%	0.10%
5	ZIP CO LTD	128.57%	0.08%
6	SIGMA HEALTHCARE LTD	112.71%	0.08%
7	TECHNOLOGY ONE LTD	105.46%	0.22%
8	HUB24 LTD	94.96%	0.12%
9	CODAN LTD	91.78%	0.05%
10	NETWEALTH GROUP LTD	89.19%	0.08%
11	JB HI-FI LTD	83.47%	0.22%
12	JUDO CAPITAL HOLDINGS LTD	82.00%	0.04%
13	AMP LTD	76.17%	0.09%
14	ARISTOCRAT LEISURE LTD	69.84%	0.78%
15	QANTAS AIRWAYS LTDa	67.04%	0.14%
16	HMC CAPITAL LTD	62.66%	0.05%
17	WISETECH GLOBAL LTD	60.87%	0.38%
18	ALUMINA LTD	60.22%	0.07%
19	SILEX SYSTEMS LTD	57.73%	0.02%
20	INSIGNIA FINANCIAL LTD	57.52%	0.03%

Top 20 – Index Return Contributors		CTR	TR
1	COMMONWEALTH BANK OF AUSTRAL	3.68%	42.21%
2	WESTPAC BANKING CORP	1.87%	49.48%
3	NATIONAL AUSTRALIA BANK LTD	1.24%	26.53%
4	WESFARMERS LTD	0.91%	29.12%
5	GOODMAN GROUP	0.87%	42.07%
6	MACQUARIE GROUP LTD	0.82%	24.55%
7	ARISTOCRAT LEISURE LTD	0.78%	69.84%
8	ANZ GROUP HOLDINGS LTD	0.65%	16.36%
9	BRAMBLES LTD	0.41%	45.79%
10	WISETECH GLOBAL LTD	0.38%	60.87%
11	XERO LTD	0.37%	50.10%
12	QBE INSURANCE GROUP LTD	0.36%	35.29%
13	SUNCORP GROUP LTD	0.36%	43.87%
14	PRO MEDICUS LTD	0.36%	161.84%
15	INSURANCE AUSTRALIA GROUP	0.35%	55.44%
16	COMPUTERSHARE LTD	0.27%	43.45%
17	ORIGIN ENERGY LTD	0.24%	36.57%
18	JB HI-FI LTD	0.22%	83.47%
19	TECHNOLOGY ONE LTD	0.22%	105.46%
20	COLES GROUP LTD	0.21%	21.89%

ASX200 Performance Breakdown: (continued)

Bottom 20 - Performers		TR	CTR
1	LIONTOWN RESOURCES LTD	-68.18%	-0.08%
2	STAR ENTERTAINMENT GRP LTD/T	-62.14%	-0.04%
3	STRIKE ENERGY LTD	-57.29%	-0.03%
4	AUDINATE GROUP LTD	-53.15%	-0.03%
5	LIFESTYLE COMMUNITIES LTD	-52.09%	-0.05%
6	MINERAL RESOURCES LTD	-50.93%	-0.29%
7	CORONADO GLOBAL RESOURCE-CDI	-50.02%	-0.03%
8	NEUREN PHARMACEUTICALS LTD	-49.94%	-0.07%
9	DOMINO'S PIZZA ENTERPRISES L	-48.57%	-0.09%
10	KELSIAN GROUP LTD	-46.79%	-0.03%
11	PILBARA MINERALS LTD	-44.56%	-0.24%
12	IGO LTD	-43.83%	-0.14%
13	CLARITY PHARMACEUTICALS LTD	-43.42%	-0.03%
14	BOSS ENERGY LTD	-39.70%	-0.03%
15	JOHNS LYNG GROUP LTD	-37.14%	-0.02%
16	COLLINS FOODS LTD	-36.75%	-0.02%
17	IDP EDUCATION LTD	-35.74%	-0.08%
18	NANOSONICS LTD	-35.64%	-0.02%
19	NINE ENTERTAINMENT CO HOLDIN	-35.05%	-0.06%
20	RAMSAY HEALTH CARE LTD	-33.20%	-0.16%

Bottom 20 – Index Return Detractors		CTR	TR
1	BHP GROUP LTD	-2.20%	-17.30%
2	FORTESCUE LTD	-0.68%	-30.90%
3	WOODSIDE ENERGY GROUP LTD	-0.43%	-15.03%
4	WOOLWORTHS GROUP LTD	-0.31%	-14.54%
5	MINERAL RESOURCES LTD	-0.29%	-50.93%
6	PILBARA MINERALS LTD	-0.24%	-44.56%
7	RIO TINTO LTD	-0.22%	-8.39%
8	RAMSAY HEALTH CARE LTD	-0.16%	-33.20%
9	IGO LTD	-0.14%	-43.83%
10	DOMINO'S PIZZA ENTERPRISES L	-0.09%	-48.57%
11	BLUESCOPE STEEL LTD	-0.09%	-18.05%
12	LIONTOWN RESOURCES LTD	-0.08%	-68.18%
13	IDP EDUCATION LTD	-0.08%	-35.74%
14	WORLEY LTD	-0.08%	-19.05%
15	SONIC HEALTHCARE LTD	-0.07%	-12.56%
16	NEUREN PHARMACEUTICALS LTD	-0.07%	-49.94%
17	SANTOS LTD	-0.07%	-6.35%
18	SEEK LTD	-0.06%	-14.32%
19	APA GROUP	-0.06%	-12.06%
20	ENDEAVOUR GROUP LTD/AUSTRALI	-0.06%	-15.95%

2025 – The Year for Rotation

We expect 2025 will be a year of rotation. As we navigate through an environment of recalibration, we anticipate 2025 to host ample repositioning among capital allocators as markets adjust to a new economic and investment paradigm.

Here are three things we are watching for the next 12 months.

1 – The Australian Economy – Charter Boat... What Charter Boat?

For the last three decades, Australia really has been the lucky country. Excluding the Covid period, we have seen almost 30 years of GDP growth. Not due to prudent fiscal policy nor considered monetary frameworks, but because we have been all aboard the gravy train that was the Chinese Urbanization push. The copious infrastructure and property development required to facilitate the urbanization of its population instigated a surging demand for Australia's raw materials (namely Iron Ore & Coal) and provided our national budget with a tidy windfall bolstering the headline figures.

You really don't know what you've got until it's gone...

China's economic woes since the onset of Covid have not only stunted the surging growth the Asian economy was seeing since the late 20th century but has coincided with the brakes being pulled on our domestic growth profile as well. Without the added benefit of China demand enhancing headline growth (which we do expect to pick up throughout 2025), our politicians and bankers have been exposed for their short comings by tepid headline GDP growth and sticky inflation resulting in a declining quality of life through a stagflation environment.

While prices continue to grow (Trimmed mean CPI Growth still above the target range), GDP growth is at levels last seen in 1992 (excluding covid). After backing out surging government spending and its effect on Real GDP coupled with the growing labour demand for Government Administration (far outstripping private job growth), the underlying economy is in a precarious position. Consumers are seeing the pinch of rising interest repayments with the Household Debt Service Ratio (Interest Payments to household disposable income) at levels not seen in more than a decade and household Savings rate close to half the 30-year average. Tightening household budgets are flowing through to slowing household consumption growth with consumer spending indicating a less than 1% total growth since Q1 2023.

Softening expenditure trends are also showing up in the corporate sector with NAB's quarterly business trading conditions index now below the 20-year average and both planned and actual private capital expenditure trending lower.

The story now is all about; What will happen in this year's federal election & How will the RBA respond to the current stagflation environment.

We acknowledge these economic hurdles not to alarm investors but to inform readers of the struggles our economy is facing (despite what the direction of your residential property may suggest) and provide a guide as to the active investment strategy that is required in this new investment paradigm. While index investing has dominated investor attention in recent years and is quickly becoming the preferred investment strategy, rising index concentration (discussed further below) and increasing economic headwinds should serve as core incentives to take control of your equity allocation and be more selective in your investment strategy. We expect to see a wide range of investment performance in the coming period with increasingly polarizing returns between the winners and losers.

How are we positioning capital on the ASX for the next 12 months?

We recommend avoiding discretionary retail with emerging threats to disposable income and appetite for non-essential cashflow expenditure. Conversely, we expect defensive consumables to remain resilient as consumers continue to trade down and expense cashflow on the essentials. Similarly, we see growing value in healthcare and select utility exposures as defensive equity allocations with far more palatable valuations available.

While we acknowledge the strong balance sheets our financial institutions maintain - per prudent regulation, we note a forecasted decline to the big 5s CET1 Capital Ratio's in the coming periods despite rising risk to defaults. We do not believe that this disconnect is currently priced into historically elevated valuations on offer among the cohort.

We expect stimulatory measures deployed by the Chinese government will add to global demand for oil (serving as a tailwind for our beaten down Energy sector) and an earnings boost for our major commodity producers as demand recovers off cyclical lows. We see upside to current Copper price forecasts and the prospect for a better-than-expected calendar year in Iron Ore. We continue to favour the majors

2 – United States vs the World

When we think about allocating capital to global markets, it is increasingly a tale of the United States vs the World. Despite only making up just over a quarter of global GDP, US companies make up a staggering 65% of the Bloomberg World Index (market weighted benchmark covering 85% of the global markets) with Japan a distant second at only 4.5%. This has been steadily increasing since the backend of the GFC – moving from ~40% in 2010 to 53% in 2020 - US dominance has been turbocharged since covid increasing by 22% since 2020. The MSCI World Index (includes only developed economies) is now ~74% exposed to US businesses.

While we are increasingly cautious on the growing concentration to a small handful of mega-cap technology players (more on this below), looking at global GDP growth forecasts (detailed below), the premium operating leverage generated by corporates, and expected fiscal policies deployed by the Trump administration we continue to encourage investors to hold an overweight US equity allocation at the expense of European equities. While the Federal Reserves' more recent commentary has indicated a hawkish policy tilt in the coming 12 months (noting risks of a reacceleration to inflation) relative to what the market was initially expecting, we believe this repricing has already been baked into prices with the second half of December equity declines reflective of this repositioning.

Growth	GDP Forecasts		Market EPS Forecasts	
	2025	2026	Current FY	Next FY
Country				
India	6.40%	6.50%	9.07%	15.05%
China	4.50%	4.20%	-1.17%	10.24%
US	2.10%	2.00%	10.16%	13.96%
Australia	1.90%	2.40%	6.65%	4.72%
United Kingdom	1.40%	1.40%	2.84%	9.66%
Japan	1.20%	0.90%	-1.77%	11.23%
Eurozone	1.00%	1.20%	3.52%	10.45%

China's leadership has implemented a range of monetary and fiscal stimulus measures to combat its economic challenges. These include interest rate cuts, bond issuance, reductions in the reserve requirement ratio (RRR), and support for the struggling real estate sector. The 2024 stimulus package is worth more than US\$1 trillion (6% of GDP) and the government has signaled it will take further action if needed. Domestic demand is expected to strengthen and there is the prospect of a modest rebound in property sales. We believe these expenditure programs serve as a tailwind and present a unique investment proposition with valuations undemanding leading to ample room for multiple expansion compounded returns on strong GDP growth if stimulus packages are deployed effectively. We believe this presents upside to Bloomberg's current consensus EPS

growth forecasts. While not without risk (some risks of which are largely unquantifiable at this point in time), we view a slightly overweight (~10% of global equity allocation) position to Chinese equities as appropriate for risk tolerant investors in the year ahead.

Although we acknowledge the compelling growth opportunity forecasted in India, we remain cautious on allocations to the region due elevated risk pertaining to corporate governance as evidence by the recent Adani corruption scandal.

Growth is above trend but are investors still happy to pay for risk?

Historically, investors have allocated capital to risk assets as they look for outsized returns relative to the lesser risk exposed, defensive asset universe. In other words - If you take on more risk, you should expect to receive a greater reward. In equity markets, we refer to this as the equity risk premium (ERP). This is calculated by assessing the earnings yield of the equity market in question (for every dollar of market value, how much are you receiving in earnings) and deducting this value from the risk-free rate (the yield of 10 Year Government treasury bond).

Since the turn of the decade (marked by the onset of covid), we have seen a drastic reduction in the premium investors are receiving for their risk exposed capital. In March 2020 (the low of the covid induced market selling frenzy), the ASX was pricing in an ERP of 6.13%, while the Nasdaq and the S&P500 were providing 3.62% and 5.32% respective premiums for investors. These premiums have been swiftly eroded in the trailing 4 years putting both US indices in the negative ERP territory and the ASX at its lowest level since December of 2010.

2/01/2025

Price to Earnings (PE)	Nasdaq	SP500	Nikkei 225	ASX200	Hang Seng
20 Year Average	25.36	18.68	23.52	17.80	11.56
Current	35.18	26.15	17.85	20.75	9.58
Variance	38.71%	39.98%	-24.11%	16.57%	-17.13%

Equity Risk Premium (ERP)	Nasdaq	SP500	Nikkei 225	ASX200	Hang Seng
20 Year Average	1.33%	2.74%	4.00%	2.18%	5.64%
Current	-1.95%	-0.97%	4.35%	0.17%	8.80%

Will valuations mean-revert or can the music keep playing?

While we think it is unlikely that indices will get back to 20 or even 10 year averages (implying significant declines in the US), we view the need for EPS growth to flow through as imperative. We think AUS is unlikely to see such support with Financials unlikely to justify the recent multiple expansions.

So if there is one thing that matters this year for fundamental investors, it is earnings. We need to see earnings growth, or at least earnings forecasts upgraded, to justify the markets current lofty multiples.

It is worth remembering investor returns are driven by three things: company earnings, how much the market is willing to pay for those earnings, and dividends. ASX investors made decent money last year – about 11½ per cent on a total return basis – mostly driven by an increase in what the market was willing to pay for company earnings. If that multiple drops and there is little or no earnings growth, the market will fall. On the other hand, while the US indices have seen a similar multiple expansion, the focus will be on the rate of growth among their major constituents and whether they can achieve the lofty expectations wall street has factored into current pricing.

3. Beware of Concentration Risk:

2024 was a strong year for markets (refer to the above year in review) however when we analyze the contributors, the drivers of returns were glaringly concentrated – both in the US and here in AUS.

More than half of the S&P500's 2024 calendar year return was derived from the Magnificent 7, with 6/7 generating more than 30% investor returns for the year and collectively generated 67.4% for the 12 months. This top-heavy performance is reflective of narrow market returns with only 29% of index constituents generating above market returns for the year and 33% of companies generating an outright negative annual return.

It's a very similar tune here in Australia. While 39% of ASX200 companies managed to beat the market in 2024, a staggering 43.5% of index constituents generated outright negative returns for the period. As with our international ally, local returns were derived from a handful of companies – with no sector more prominent than our financials. Taking up the top 3 spots of return contributors for the year are the 3 of our largest financial institutions. When adding in the remaining 2, a jaw dropping 72% of our total markets return can be attributed to the cohort.

This disparity presents a critical risk for investors heading into 2025. The ASX Financials sector now commands over 35.8% of the ASX 200 index - mirrored by the S&P 500's Technology sector at 32.5%. These elevated concentration levels come at a precarious time: the Magnificent-7's earnings growth is expected to decelerate from 21% to 16% in 2025, while Australian bank earnings forecast show little to no growth from FY25-FY26.

Investment View

We recommend taking an active investment allocation approach with a focus on underweighting select heavy constituents of the respective indices.

In the US, we see growing valuation concerns with TSLA (albeit acknowledge the Trump/Musk factor), as well as slowing growth in both AAPL and AMZN. While we remain comfortable holding neutral weighting NVDA currently, following its report due in February of 2025, we will gain greater clarity of its capacity to achieve lofty growth expectation factored into current multiples.

STOCK	Position	24-25 EPS G	3 yr EPS CAGR	Current PE	fwd P/E	12m Price Mvmt
MSFT	Neutral	16.00%	13.19%	32.07	27.65	21%
AAPL	Underweight	10.57%	5.10%	32.33	29.24	4%
NVDA	Neutral	50.14%	70.85%	46.26	30.81	28%
AMZN	Underweight	14.38%	55.83%	35.73	31.24	12%
META	Neutral	11.13%	3.92%	26.21	23.58	8%
GOOGL	Neutral	11.96%	1.68%	23.33	20.84	11%
TSLA	Underweight	22.37%		121.94	99.65	-23%

We believe investors will benefit from reallocating to global quality small – mid caps via diversified ETFs such Van Eck International Small Quality QHSM (ASX: QSML unhedged) which maintains exposure to the structural growing themes of AI, US earnings exceptionalism, but reduces exposure to the Mag-7 broadly. We also maintain an attractive outlook on Global Property with our favored exposure being Resolution Capitals Global Property Securities Fund (RCAP) and global infrastructure through VanEck's FTSE Global Infrastructure AUD Hedged ETF (IFRA).

Domestically, we think the case for active management could not be any clearer with the banking sector a key vulnerability for portfolios. Every major bank now trades more than one standard deviation above its 10-year average Price to Earnings multiple. This premium pricing comes at a time when costs are rising and NIMs remain under pressure. Forward earnings projections show little to no growth for FY25-26 across the sector, resulting in a flat outlook for dividend growth – coming up very short of justifying the lofty multiples currently priced in. With the five banks alone - the Big-4 and Macquarie - controlling more than 28% of the index. This risk is most acute when entering into a rate-cutting cycle, where Morgans analysis of previous rate cycles shows financials underperform (-2.4%) the ASX 200 in 80% of past cycles following the three months of the first rate cut.

STOCK	Position	FY25-26 EPS	Gross Dividend	Current P/E	Fwd P/E	f12m Price Mvmt
CBA	Underweight	2.82%	4.20%	26.55	26.17	-29.44%
NAB	Underweight	1.95%	6.30%	16.56	16.49	-9.77%
WBC	Underweight	2.54%	6.50%	17.01	16.33	-11.91%
MQG	Overweight	17.28%	3.28%	25.22	22.99	-3.88%
ANZ	Neutral	0.87%	7.30%	13.06	12.61	0.06%

Looking ahead we believe a reallocation into the laggards of 2024 should serve investors favorably for the coming period. Materials & Energy saw negative total returns of (-14%) and (-13.5%) respectively combining to be the worst performing sectors for the calendar year. While we acknowledge ongoing demand risks (largely relating to China) we believe these risks are adequately factored into equity pricing and are comfortable with an overweight allocation to both sectors. We continue to favour large capitalization producers who maintain the balance sheet capacity to see through persistent spot price volatility. We believe as investors rotate out of the expensive financials sector, in the hunt for yield, they will increasingly be attracted to the earnings and distribution policy currently prevalent within our major producers – which are currently trading on attractive valuations.

We anticipate strong spot price movements in Copper and a recovery in lithium as well as positive moves in US Steel-Hot Rolled Coil. We anticipate Gold to finish the year positively (albeit muted returns when compared to the bumper +32% the metal returned in 2024) and expect marginal gains in both Brent Crude and Iron Ore. With this in mind, we expect outsized returns from the producers of these commodities with Newmont (NEM)/Northern Star (NST), BHP Group (BHP), Rio Tinto (RIO) and Woodside Energy (WDS) making up our preferred exposures in the space.

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