The Federated Hermes 2025 Outlook

Federated Hermes

For professional investors only

Executive Summary

Over the past three years, liquidity markets have experienced significant growth, particularly in the US, where money market assets have surged by over US$2tn since the Federal Reserve began raising rates in March 2022. This increase was driven by rising yields, which reached their highest levels in decades. Despite widespread predictions that this trend will reverse in 2025 due to the Fed's shift towards easing, we maintain a more optimistic outlook, with US$300bn flowing into money funds since the Fed's half-point rate cut in September.

The new Trump administration inherits a strong, albeit uneven, economy. While the Fed's easing cycle has begun, the administration's policies—such as tax cuts, increased spending, and tariffs—could complicate the economic landscape and lead to a more bond-unfriendly environment. These policies may also result in a steeper US yield curve and short-term inflationary pressures, causing the Fed to ease less than anticipated. For spread markets, positive growth policies could benefit corporate debt, but increased volatility may impact returns. Geopolitical shifts and aggressive tariff policies could disrupt markets, creating new opportunities in non-US developed and emerging markets.

For US equities, the implementation of President Trump's pro-growth agenda, including lower corporate tax rates and reduced regulatory burdens, is anticipated to boost economic productivity and growth. With the broader US market expected to do well in 2025, our preference remains with large cap value and small cap stocks.

Outside of the US, investors have been watching China closely and while performance in 2025 may continue to underwhelm, action from Beijing has been encouraging, with the government signalling that they will do whatever it takes to revive the economy. Trade tariffs once again loom on the horizon, but this time Chinese companies are more prepared, with many having diversified their production bases internationally. Elsewhere, the structural growth drivers of Emerging Markets remain robust and fundamentals sound.

Private Markets will continue their growth trajectory, and investors with a global reach, significant deal flow and rigorous underwriting standards will continue to be rewarded. We expect Private Debt to continue to offer compelling returns for investors in 2025, for those looking in the right parts of the market. With inflation seemingly back under control, Private Equity activity has also resurged, and we expect to see continued improvement in deal flow, exits and multiples.

After a turbulent few years of challenges induced by post-pandemic shifts in economic activity, geopolitical instability and subsequent inflationary pressures, the global economy is now beginning to normalise and the priority for investors should be rebalancing their portfolios accordingly.

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Liquidity

Deborah Cunningham
Chief Investment Officer for Global Liquidity Markets

After three banner years, what can we expect from the broad liquidity markets? In the US, industry money market assets alone have increased more than US$2tn since the Federal Reserve raised rates off the lower bound in March 2022 as yields rode the Fed hikes to reach their highest in decades. Many pundits think this good fortune will end in 2025 as the central bank has pivoted to easing. We don't.

For one, cash managers construct liquidity portfolios with securities maturing as far out as a year. In a declining-rate environment, these portfolios often have higher yields than the current Fed target range. In theory, this would slow the decline of portfolio yields higher for longer, keeping liquidity products attractive. The latter seems to be happening. Since the Fed cut rates by a half-point in September, US$300bn of assets have flown into money funds.

Two, while thrilled at the returns they've garnered since that first hike, few investors in the liquidity space forget about the decade of yields near zero. Many will be more than happy if the Fed's terminal rate hovers around 3.5%, especially those who use cash primarily as a tool to pay expenses and other needs. That's why we don't buy the narrative that investors are chomping at the bit to deploy all their cash to stocks and bonds as yields decline. Liquidity is king.

Three, the Fed is likely to view many of the second Trump administration's campaign promises—such as cutting taxes, spending more, closing borders and enacting tariffs—as inflationary. Policymakers might respond by slowing the pace of easing, potentially keeping liquidity yields higher for longer.

We think the industry needs to make space in the rafters next year to hoist yet another banner.

Global Fixed Income

Robert Ostrowski, CFA
Chief Investment Officer, Global Fixed Income Group

The new Trump administration inherits what has been the strongest developed market economy recently, albeit with some unevenness between manufacturing and services. The soft landing and progress on the inflation front has allowed the Federal Reserve to begin a new easing cycle. But going forward, the election result has the potential to establish a more complicated and longer-term bond-unfriendly environment.

Similar to his first term, President-elect Trump's tax policy plans seem likely to expand the deficit and fuel federal borrowing further, the previewed immigration policy could have an inflationary impact, particularly on the service component.

In the meantime, a combination of a doveish leaning Fed in the short-term and uncertainty about the long-term success of the new administration's policies should result in further steepening of the US yield curve, as occurred after the 2016 election. This combination of actions may boost short-term inflation before it has fully retreated to the Fed's target, causing the Fed to eventually ease less than anticipated in the current cycle.

For spread markets, positive growth policies could be good for corporate debt and in fact, the post-election trade has been positive as it has been in the equity market. But unlike in the equity market, animal spirits are not always best for bond risk investors, sometimes resulting in more volatile spread markets. With IG and HY spreads already at historically tight levels, that volatility could be mixed for corporate bond returns.

Foreign policy shifts and the more aggressive wielding of tariffs that Trump promises may prove disruptive. Europe and China are already growth challenged and geopolitical conditions remain tense. A sudden geopolitical driven shift to risk-off by investors could quickly reverse the post-election run-up in the dollar, introducing new opportunities in non-US developed as well as emerging markets.

Mitch Reznick, CFA
Group Head of Fixed Income – London and Global Head of Sustainable Fixed Income

Nachu Chockalingam, CFA,
Head of London Credit

We see three key themes shaping European fixed income markets in 2025: 1) moderate economic growth 2) lower inflation and 3) declining rates. Although these themes are expected to be supportive of credit, how they interact with each other – and with a few 'known unknowns'- will determine how fixed income markets behave next year.

Although southern Europe appears to be on relatively sound footing, structural reliance on struggling, legacy industries and exposure to China create headwinds for Germany and France. Moreover, with the prospect of further tweaks to the 'debt brake' in Germany and a probable increase in defence spending in Europe, we expect deficits to widen.

In a potential divergence play versus the US, the ECB should continue unbridled along its dovish trajectory as core inflation migrates toward the more palatable level of around 2%. The UK is likely heading in a similar direction in both inflation and rates, albeit at a somewhat less certain pace. The combination of widening deficits, which can put pressure on the long end of credit curves, and declining ECB lending rates, which supports the front, means the yield curve should steepen further.

In the context of spreads that skate close to historic tights, what portends for European credit? Corporate fundamentals are healthy and lower rates are a credit-positive. That said, this is a good opportunity to take advantage of spread compression between low- and high-quality by shifting up in capital structure and quality. It makes sense to earn a little less carry in order to take much less downside risk. Unless China's coordinated attack on a struggling economy takes effect, the recent struggles of the automotive, chemicals, and steel sectors could continue. Despite a sensational run in subordinated bank capital in 2024, pockets of value remain depending on bond structure. Asset backed securities structures remain robust and are buttressed by the trajectory of lower rates. Well-structured collateralised loan obligations continue to protect investors from being overly vulnerable to the downgrades seen in loans.

The principal unknowns that can throw all of this off track are a deterioration in geopolitics and a shifting US trade policy that proves to be a headwind for economic growth and puts pressure on inflation.

Mohammed Elmi, CFA
Senior Portfolio Manager, Emerging Market Debt

Jason DeVito, CFA
Senior Portfolio Manager, Emerging Market Debt

Although sovereign and corporate credit spreads are at multi-year tights, we remain constructive on Emerging Market Debt going into 2025. The tight valuations in our opinion are largely justified when one considers how the asset class has successfully navigated the COVID inflationary burst and the resultant prolonged period of tight global monetary policy with minimal defaults.

From a debt, budgetary and external position perspective, a number of core and frontier Emerging Market economies have seen material improvements over the past 12 months. According to Bank of America Merrill Lynch almost three-quarters (73%) of new Emerging Market ratings actions this year moved in a positive direction, compared to the near-total spate of downgrades (93%) witnessed in 2020.

The external macro backdrop in 2025 is also likely to be conducive to Emerging Market Debt: moderating global growth and inflation, coupled with the US Federal Reserve and other major Central Banks continuing to ease monetary policy, will buttress the attractive Emerging Market yields on offer.

Despite the increased geopolitical risks; an unpredictable new US administration; and anaemic growth in China, we believe a combination of frontier and core Emerging Market names will likely outperform in 2025. Within frontier markets we continue to like Sub-Saharan African credits such as Ivory Coast and Kenya. Underpinned by improving credit profiles and attractive valuations, they also offer investors diversification benefits from potential macro headwinds.

In Latin America, a few darling stories exist. In Argentina, the significant abatement of inflation and a resumption of GDP growth has caught the eye of outside investors. This is occurring against a backdrop of governance and improvements in the regulatory framework. Additionally, El Salvador has seen healthy market access and may benefit as Trump looks to enhance investment into western hemisphere countries that have been strict on narcotics crimes. Furthermore, broadly speaking, any impetus to US economic growth can benefit commodity exporters, many of whom are in Latin America.

John Sidawi
Senior Portfolio Manager – Fixed Income

There is a growing chorus in global markets that US exceptionalism is under threat and that the reign of the US dollar is nearing its final chapter. This is a long book folks, the last few chapters could easily take another five to 10 years and that's not even a certainty.

Protracted, secular USD weakness is not our base case outcome for 2025 by any degree. For this to occur, seismic economic and sociopolitical forces need to shift for the USD to lose its exceptionalism status and there is simply no evidence of this happening, just vague inferences. A debt-to-GDP US dollar crisis has floated in and out of market narratives for 50 years, but the recent US presidential election outcome breathed new life into this aging thesis. Ironically, the policies of the upcoming administration are actually USD positive despite verbiage from president President-elect Donald Trump for a 'weaker USD'. Fiscal expansion and tariffs are inherently US dollar positive, with one caveat, that the levy of the tariffs are not egregious.

The roadmap for the USD in 2025 should closely resemble that of its preceding calendar year. Traditionally, global fixed income markets are designed to offer a hedge against general market volatility. However, at the onset of the 2019 global pandemic, and the ensuing surge to inflation, the recalibration of global borrowing costs became the epicentre of macroeconomic volatility. This progression umbilically tied the US dollar to the path of global interest rates more than any other regime that typically drives foreign exchange prices. Much as they did in 2024, global investors will continue to vacillate between a litany of US economic landing scenarios well into 2025. This development should extend the intense correlation between US monetary policy and the USD over other variables that typically lend a hand in determining foreign exchange valuations.

Finally, it is true that the trade weighted dollar is overvalued by a host of long-term metrics, but this was true in 2024, 2023, the year before that, and the year before that….and so forth. However, when placed in context with strong relative growth, an unmatched military, technical innovations, a robust political system, healthy immigration, and superior capital markets... "Overvalued" all of a sudden begins to look reasonable.

Mitch Reznick, CFA
Group Head of Fixed Income – London and Global Head of Sustainable Fixed Income

The sustainable fixed income market is, to state the obvious, a subset of the full fixed income market. It is, therefore, governed by the same forces that shape the wider bond market. During the year-to-date period, the capital markets witnessed an extraordinarily friendly market for fixed income. In broad terms, inflation has been falling globally. This has triggered reductions in central bank lending rates in many jurisdictions. This led to a material steepening in rates curves in the US and in Europe.

Meanwhile, macroeconomic data has generally been credit-supportive. Under these conditions, fixed income markets attracted record issuance of bonds and strong investment flows, providing a strong technical picture for fixed income.

Year-on-year issuance of sustainability-labelled bonds surged and could very well exceed the record year of 2021. Although green bonds, with nearly 60% of issuance year-to-date, have been leading the way, all categories, except sustainability-linked bonds, have grown this year. We could see a total of US$1tn in total 2024 issuance.

Turning to investment flows, as at 3Q24, nearly US$40bn, or around 7% of all bond flows reached ESG bond funds, up over 20% versus 2023[1]. In Europe, (the principal market for ESG and sustainability bond funds), nearly 28% of all flows were directed to such funds, which now comprise over 20% of bond funds[2]. In the US, through 3Q24 there was a substantial increase versus 2023 inflows into ESG funds in the US: US$10bn versus US$2bn[3].

The extent to which the momentum for sustainable fixed income carries into 2025 depends on a myriad of forces. However, in many countries across the globe, fiscal policy and regulatory support for sustainability is progressing: corporate disclosure; fund labelling; green bond standards; incentive programmes for EVs, solar, "green" mining, etc; and spending on technologies and innovation. In the US, sustainable bond issuance was never significant, so we don't believe a new Republican administration will have a material impact on the supply side.

As we look ahead into 2025, while we fully expect the sustainable fixed income market to grow, the real story will be the evolution of the market as it rolls up its growth curve. Constructively, so-called "transition finance" will likely attract companies from the carbon-intensive industries. The health of the planet's water – oceans and rivers – and the global water cycle will emerge as a specific focus from the wider topic of biodiversity. Judging by the hunt for capital to finance green innovation and technologies, private markets and blended finance will be consolidated around more standardised funding models. Next year is shaping up to be as dynamic as ever.

1 Fixed Income Sustainability Spotlight, BofA Global Research, 16 Oct 2024.
2 Fixed Income Sustainability Spotlight, BofA Global Research, 16 Oct 2024.
3 Fixed Income Sustainability Spotlight, BofA Global Research, 16 Oct 2024.

Equities

Stephen Auth
Chief Investment Officer for Global Equities

We are introducing a two-year target on the S&P 500 of 7,500 for year-end 2026 and raising our year-end 2025 target from 6,000 to 7,000. We continue to expect the broader market to perform well in 2025, and remain overweight stocks versus bonds and within stocks, tilted in our balanced portfolios toward large-cap value and small-cap stocks. Our reasoning is as follows:

Firstly, the US economy is on solid footing, with inflation declining, the Federal Reserve cutting rates and the yield curve re-inverting. We expect the fed funds rate to settle at 3.0% sometime in 2026, with the 10-year yield stabilizing around the 4.0% level. Although the path for getting there is likely to be volatile, on a two-year view, this trend is equity-market and valuation supportive.

Secondly, given the conclusive outcome of the 2024 election, we anticipate a relatively quick implementation of President Trump's pro-growth agenda. That agenda includes lower corporate tax rates and, as a minimum, no hike in personal tax rates, including no hike in the higher bracket rates that impact more than 33 million small businesses in the country. In addition, we expect a substantially lower government regulatory burden to improve economic productivity and growth. Trade policy is likely to raise in-bound US investments and improved exports for US corporations. All three of these agenda items should not only improve economic growth, but also we would expect them to bring nominal corporate profits to US$350 per share in 2027.

Finally, once interest rates stabilize at lower levels, we think the valuation on the S&P 500 can expand to a level around 21.5x forward earnings. This multiple, though historically high, is really a blended valuation target based on a more normal 18 multiple on the broader market, excluding the mega-cap US growth companies which can and should trade at a substantially higher premium given their solid long-term fundamentals and relatively asset-light business models.

Martin Schulz
Head of International Equity Group

As we look out into 2025, we see a lot of uncertainty among international investors. Whether due to political gridlock in Germany, France and Japan, ongoing wars in Ukraine and the Middle East or the impact of Trump's proposed tariffs on economic growth, investors are concerned about economic and earnings growth in both developed and Emerging Markets.

In most developed markets we expect inflation to come down to target rates, giving central banks in Europe and the UK room to lower rates and stimulate their economies. China will continue to fight deflation as the central government looks to stimulate internal demand to offset weaker export growth due to higher US tariffs. Higher rates in the US will put upward pressure on the dollar, a headwind for international equities, especially in Emerging Markets.

Europe's economy will improve, coming off a low base. Growth will continue to come from the service component of the economy as the European consumer is still strong with unemployment levels low and savings rates high. Manufacturing will recover, again coming off of a low base, but with the threat of a trade war with the US and slower growth in China, recovery will be isolated to manufacturing related to national defense and electrification. The story from the UK is more compelling. The UK has a stable government, inflation is moderating and the Bank of England has room to lower rates to stimulate growth. UK equities derive a lot of revenue outside of England which means a weaker pound should be a tailwind to earnings growth. We expect the Bank of Japan to raise rates to fight Japan's newly found inflation, but with wages rising we don't see higher rates materially impacting the Japanese consumer.

China's growth will be below consensus, but the central government will introduce additional fiscal stimulus to increase domestic demand. A full-blown trade war is not our base case, but trade will dominate the headlines.

Kunjal Gala
Head of Global Emerging Markets

Despite negative headlines, we believe that a Trump Presidency will not change the structural growth drivers of Emerging Markets. Many countries have pivoted towards domestic consumption, increasing investment in infrastructure, and increasing the penetration of digitisation, driving efficiency and productivity. In addition, emerging economies control significant portions of critical resources and have leadership in critical tech supply chains with no credible Western alternatives.

Most emerging economies will also benefit from favourable demography and, thus, supply of labour, and consequently are not impacted by the wage hike spiral, which many Western economies may deal with.

Overall, the fundamentals of Emerging Markets are sound, with China signalling more significant support for the domestic economy and putting a floor on the property sector issues. In times of fiscal profligacy in the West, most emerging economies are doing the right thing by managing the bond market's expectations. Economic vulnerability is low, structural growth drivers are intact, and valuations in the equity market are at a significant discount to Developed Markets. Most emerging economies have not cut rates substantially, and a few have already started hiking, continuing their track record of monetary policy prudence.

Ingrid Kukuljan
Head of Impact and Sustainable Investing

The backdrop in 2025 remains favourable for impact investing as critical environmental and societal problems have taken a back seat over the last few years given the worries around macroeconomic factors and geopolitical tensions, whilst market returns have been dominated by the Magnificent Seven. However, the challenges we are facing, such as air, water and soil pollution, climate migration, the ageing of the population, the speed of technological change and social implications coupled with an increase in inequality have only worsened.

Impact investing is a way for private capital to be deployed to help tackle these issues and has been backed by regulatory changes in the UK and Europe, which affect both corporates and investors. This is important, as according to the latest UN Sustainable Goals Progress, only 17 per cent of the SDG targets are on track, nearly 50 per cent are showing minimal or moderate progress, and progress on 30 per cent has stalled or even regressed[4]. In terms of expectations for 2025, sectors which benefit from decarbonisation and electrification should continue to see robust demand. Some drivers of this demand are secular; some 750 million people globally lack access to electricity, while the growth in data centres equates to 800TWh in new electricity consumption[5] – similar to that consumed by the whole of Germany. In terms of 2025, it is estimated we will see 20% annual growth in demand for electric vehicles[6], which remains a core investment opportunity. With regards to the US, despite all the rhetoric around recent elections, over the past fifteen years, the fact remains investment in clean energy has grown every year irrespective of the US administration.

We also expect to see a recovery in life sciences as we are in the early innings of a restocking cycle. Lastly, another big theme where we see ample opportunities in 2025 and beyond is water. There is a global imbalance between water supply and demand coupled with climate effects such as droughts and regulatory drivers around water pollution. Water is a huge ecosystem with a global total addressable market for solutions at US$800bn and global water infrastructure capex requirement of US$12tn over the decade[7]. The enduring source of demand for products that provide the solutions to global challenges such as these, should ensure that remains the case.

[4] UN Sustainable Development Report 2024.
[5] International Energy Agency.
[6] The drive to 2025: Carmakers' progress towards their EU CO2 target in H1 2024, Transport and Environment.
[7] Investing in a Water-Secure Future, Global Water Intelligence, 1 Feb 2024.

Private Markets

Brooks Harrington, CFA
Chief Investment Officer, Private Equity

The US economy continues to drive global growth forward. Across most metrics the economic backdrop is very healthy whether in employment, productivity, GDP growth, or stock market levels. Inflation is no longer the problem it was 12-24 months ago and the Federal Reserve has already begun cutting rates. The uncertainty around the election is over with a major stock market rally on Trump's first day as President-elect. Private Equity activity has followed suit with improving metrics across deal flow, credit availability, and exit activity.

Private Equity is now a mature asset class and investors need to pick their spots in order to continue generating investment returns in line with expectations. The lower end of the market continues to be an exciting area that is less efficient, less competitive, less intermediated, with significant opportunity for needle moving operational value add to help companies reach scale and reward investors with outsized investment returns.

The 'democratization' of Private Equity will continue as the wealth and retail market offers the industry the largest opportunity for raising new capital.

AI dominated the conversation in 2024 and that trend will most likely continue. Whether AI represents full scale technological revolution or productivity enhancement on the margin and under what timeline will continue to be debated. Separating the hype from reality will be important for investors. Regardless, technology and innovation will continue to present some of the most attractive investment opportunities across the US.

Europe will continue to lead on addressing climate change presenting a significant investment opportunity backed up by regulatory tailwinds, government support and institutional appetite. Cross border investment in China remains muted due to geopolitical uncertainty. Other regional countries will benefit as a portion of that capital will flow to India, Japan, and southeast Asia.

We believe that investors who have a global reach, significant deal flow, rigorous underwriting standards and flexible investment frameworks will continue to be rewarded.

Patrick Marshall
Head of Private Credit

The 2025 outlook for private credit remains very favourable as it continues to attract institutional investors seeking exposure to the attractive risk reward parameters on offer from this asset class.

With interest rates slowly falling, we expect transaction flow to increase within the direct lending segment of Private Credit. Increases in company valuations, on the back of lower interest rates will increase M&A volumes which should benefit direct lenders. Yields on loans will hold steady as the expected reductions in interest rates will be offset by higher margins on the loans as a result of the implementation of Basel IV regulations which should increase the cost of capital for many banks. This will reduce pricing competition for direct lenders. With continued geopolitical and economic risks on the horizon, in the form of weaknesses in many of the European economies and the threat of potential tariffs by the US on some European companies, the focus by investors will continue to be on low risk direct lending strategies which should be better suited to manage this uncertainty. Whilst defaults will continue to increase in the short term on the back of high interest rate costs, we expect this to stabilise as interest rates start to fall more significantly. Conservative and disciplined lenders should enjoy a strong year in direct lending as transaction volumes increase.

Within the asset backed lending segment, European senior secured real estate debt is currently favoured. With transaction volumes increasing, particularly in the mid-market, the market is currently offering lenders with attractive investment opportunities. Furthermore since real estate valuations have experienced significant declines over the past couple of years, new financings are currently being structured off conservatives valuations. With the real estate occupier markets remaining strong, and rents holding up well in all major markets, we expect the debt per square metre ratio to be significantly lower on new loans transactions. This coupled with the fact that the expected continued reduction in interest rates will support asset values and maintain debt affordability, leads us to believe that 2025 is shaping to be a great year for this asset class.

Both direct lending and real estate debt are set to have excellent years – however this remains a year to be disciplined and with a number of risks on the horizon, we expect the more conservative strategies to enjoy greater success.

Perry Noble
Head of Infrastructure

The challenges faced by the UK's first Labour Government for nearly 15 years, are familiar and interconnected: low growth, intense competition for global capital, and underinvestment in infrastructure. The erosion of the post WWII global consensus, and resulting geo-political volatility, make resolving them harder. The proposed solutions, set out in the Autumn Budget, are familiar too: Government funds for strategic investment, new bodies to direct and regulate it, and renewed focus on value for public money. Will it work?

Possibly. Those infrastructure sub-sectors prioritised by Government align with strong market tailwinds and there is capacity to scale – renewable energy, data centres and next generation batteries. Compounding technological advancement is driving costs low and demand high, such that Government can focus on its core political role – stakeholder management to unlock new projects in the public interest; and can leave efficient capital allocation to investors. While achieving a net zero power network by 2030 remains ambitious, removing the ban on onshore wind and proposed changes to the National Planning Policy Framework and NSIPs regime have potential to be genuine solutions.

Delivering the next generation of infrastructure required to decarbonise the economy whilst adapting to the long-term impacts of climate change requires creating entirely new markets and investment models. The Autumn Budget contained positive signals for these new sectors, but the detail and execution will determine whether they can attract the private capital needed for them to thrive. For those investors able to identify these sectors and access proprietary opportunities, there is potential for significant returns.

Chris Taylor
Head of Real Estate and Chairman of MEPC

As expected, UK real estate pricing has responded to the rapid normalisation of rates, with capital value declines most extreme for offices, while the living, logistics and life science sectors are seeing modest declines.

However, the underlying structural trends affecting the built environment continue to have a profound impact on occupational demand patterns; so, we can expect to see a continued bifurcation between the very best quality offices with outstanding amenities and accessibility alongside mandatory environmental standards and whole swathes of 'stranded' assets requiring demolition or repositioning.

In many ways, the extreme bifurcation in demand we observe within the office sector has already been played out across the retail market, with many high streets ravaged by a combination of on-line sales, competition from out of town retailing and the impact of COVID on work patterns in town centres. Expect to see further significant capital value erosion across much of the office market as many buildings become obsolete.

In contrast, city centre placemaking projects such as King's Cross, Leeds, Birmingham and Manchester, have continued to attract best-in-class corporates, attracted by the schemes' community engagement, accessible destinations and propensity to attract talent. These benefit from the halo effect of single managed estates. Creating relevant and resilient real estate requires a highly active approach to investing. Increasingly we will see a trend towards an integrated operating model being adopted by successful long-term investors in real estate.

Many institutional investors will seek to internalise their operating models by acquiring specialist development management platforms. This approach crucially affords the opportunity to fully integrate all environmental, societal and other related risks as part of an holistic approach to managing risk.

Stewardship

Leon Kamhi
Head of Responsibility

Investor stewardship is coming of age. Historically it has focused on encouraging disclosures and improvements in corporate governance. Critics might suggest that often this has led to company boards who have been risk averse in their capital allocation and virtue signalling in the way they have sought to meet the myriad of increasing investor demands, particularly around sustainability.

As the climate and technology disruptions continue to relentlessly manifest, companies – to be relevant for the future – will need to invest and the returns of those investments will be far from certain. As a result, investor stewardship will need to evolve and rather than act as a brake on investment in the risk averse way they hold company boards accountable, will need to work collaboratively with boards and empower them to invest for sustainable and profitable growth.

Whilst well intentioned, if the continued trends – particularly in Europe – in sustainable investing regulation continue, they will not only not achieve their goal of combating greenwashing, they will stifle investment in the green economy. For example, the development and implementation of sustainable investing labels will lead to significant reporting burdens for investment managers. Yet due to the inherent subjectivity of what sustainability is, these are unlikely to clarify to a retail or institutional investor what they are investing in and equally unlikely to lead to the desired change in companies' investment behaviour. Unintended side effects will also include restricted investment universe, which are not in investors' interests. Aims to regulate investor stewardship in a prescriptive way will turn it into a box-ticking exercise and blunt its effectiveness. Instead, investment managers should retain some freedom and ability to narrate what they do and be held accountable by their clients for how effective they are.

The value of investments and income from them may go down as well as up, and you may not get back the original amount invested. Past performance is not a reliable indicator of future results.

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Our goals are to help people invest and retire better, to help clients achieve better risk-adjusted returns and, where possible, to contribute to positive outcomes that benefit the wider world.

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- **Active equities:** global and regional
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