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Turn of the Year Commentary 2025

A nation, and world, divided

This time last year we looked at the world's obsession with economic growth. We mooted the point that a push to make things better might create a happier outcome than a determination to have more of everything.

It's a debate the world needs to have one day, but not one that feels at all likely in the near term.

For now, the obsession with more remains firmly in the driving seat of government policy, and the debate on how best to achieve that dominates economic discussion.

In the UK, the 20% of the electorate that went to the polls and voted for Labour resulted in a landslide victory, delivering over 60% of the seats.

Many might conclude that outcome implies a flawed and undemocratic electoral system, but that's a discussion for another time.

The outcome is that the UK is choosing as its route to economic prosperity, a continuation of the themes we have seen under recent Tory policy: higher taxes, more regulation and bigger government.

In contrast, over the pond, the US election, where the outcome seemed broadly in line with votes cast, has moved their strategy in the opposite direction: lower taxes, less regulation and smaller government.

2025, and beyond, might give us all an excellent opportunity to judge which approach is best for economic growth and overall prosperity.

History favours the US model, and many economists would say that logic does too, but it's good to have an opportunity to test the theories in the way recent election results have presented.

To clarify, US and UK economic policy is likely to be unusually polarised.

In the US, economic growth is expected to be driven by tax cuts and deregulation, both of which should encourage private enterprise.

On top of that, tariffs designed to support the domestic economy and discourage imports, along with policies targeted at encouraging outsourcers to "re-shore", are very likely to improve the balance of trade.

In the UK, Labour's policies seem to rely on construction to drive economic growth.

Their stance is that housebuilding has not kept up with the rising population, so we need to build 1.5 million houses to bridge the gap.

Obviously, we also need to build hospitals, schools and all the other infrastructure required to service the needs of an expanding population.

And we need to keep doing that, as net migration adds to our numbers year on year.

Raw data supports this thesis. After all, the population has increased by over 5 million in the last 10 years, and the rate of growth is expanding, not contracting. There is no current reason to believe that the trend of rapid population growth will ease off, so we can just carry on building to generate economic growth.

In the world of economics, building stuff translates to growth, as measured by the GDP (Gross Domestic Product).

However, if the building is to accommodate an expanding population, that doesn't really translate into growing prosperity. You can increase total GDP but still shrink economic prosperity, as that should be measured by GDP per capita, not just total GDP.

Looking at the UK through that lens, things appear a bit grim, and it's hard to be optimistic that current economic policy will change that.

To improve the nation's prosperity, we need to produce more of what we consume so we import less or produce more of what we can export so we can better afford our imports.

Relying on construction to achieve economic growth is unlikely to deliver either of these. Indeed, around 25% of construction materials used in the UK are imported, and if we increase the amount of construction that proportion is likely to rise, as the increased demand is unlikely to be met by increased domestic supply.

Many in the UK are troubled by our direction of travel, and while they may have a dim view of Donald Trump, their preferences on economic policies might be more aligned to his than they are to those of Keir Starmer.

The divisions this clash of priorities, values and visions have created here, in the US and elsewhere, is stark. That is also true of the differences in policy between the political parties.

The "left" and "right", to use the outdated and often abused terminology applied to political and economic opinions, is separated by a far wider gap than we have been used to. The middle ground, once so popular with those seeking power, has been all but abandoned, here, in the US, in much of Europe, and in many other countries around the world.

Winners and Losers

All this creates more opportunity for change than we've seen for decades, but change can be both good or bad, and which it is deemed to be will often depend on the circumstances and values of the assessor.

For investors, changes that increase taxation and discourage private enterprise are not generally welcomed, while changes that do the opposite, are.

That's the reason Trump's victory has translated into even more investor optimism in the US, while Labour's has left investors less than inspired on the prospects for the profitability of UK companies, especially after taxation.

To look beyond corporate profitability, there is also the spectre of an exodus of wealth as companies and individuals vote with their feet.

As always, some will benefit from increased government spending, while those who pay for it through the direct or indirect impact of higher taxes will probably lose.

Those who pay the most tax will be the ones who lose the most.

Whether the net outcome is a gain or a loss for the country as a whole remains to be seen, but with the top 1% of income taxpayers contributing nearly 30% of the total, and the top 10% contributing 60%, it is easy to picture a poor outcome as those who can, head for the exits, and the higher tax take the government had hoped for evaporates.

But a decent year ahead for investors?

In the meantime, and thankfully, the outlook for investors in 2025 is probably rather brighter than it looks, if the health of the UK economy is used as a proxy.

Globalisation may be stuck in reverse gear, but the world of investment is as globally diversified as it has ever been. A huge proportion of the companies that make up the stock markets here and elsewhere are global players. Their prospects are linked to global economic activity much more than they are to whatever is going on in their country of residence.

UK investors are in an exceptionally good position to tap into this, living in what is still a core powerhouse of the global financial services industry. Indeed, we are the second largest exporter of financial services, and only the US has a larger asset management industry.

The choice on offer to UK investors is vast and reaches every corner of the world where private investors can go.

Against that background, and with the largest economy, with which we do still have a special relationship, looking well set to benefit from some very supportive economic policies, we see lots of reasons investors should embrace 2025 with a good deal of optimism.

Certainly, there are things that could go wrong on the global stage, as there always are, and the enhanced geopolitical frictions that have developed over recent times add to the risks.

But the potential for those tensions to ease rather than grow, and the peace dividend that could deliver to investors, should not be overlooked.

Most importantly, investors should keep their focus beyond the short-term of the next year or two anyway.

It's the longer-term outlook that matters, and, while that poses concerns too, especially in terms of the impact of climate change and increasing geopolitical divisions, there is much to be excited about as we gaze into the future.

In the meantime, we hope you have enjoyed this ramble through some of the current themes facing investors and wish you everything you would like, and nothing you would not, from the year ahead.

With best wishes,

All of us at Atkins Bland.

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Inflation can reduce the real value of capital and the income it generates.

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The impact of taxation and tax planning depends on individual circumstances and may be subject to change, which can be retrospective.

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