HIGH HOPES, SOLID GROUNDS

We believe the macroeconomic outlook for the U.S. in 2025 is solid and promising. Analysts project a GDP growth rate of around 2.4%, driven by a combination of strong consumer spending, robust private sector balance sheets, and a historically strong labor market. The Federal Reserve is expected to continue its easing cycle, with interest rate cuts likely to support economic expansion.

Inflation is anticipated to remain within manageable levels, with core PCE inflation projected to slow to 2.2% by late 2025. This easing of inflationary pressures will allow the Federal Reserve to maintain accommodative monetary policies, further bolstering economic growth.

With regards to the stock market, 2024 showcased remarkable performance, with the S&P 500 surging by approximately 28% year-to-date, which would mark its best annual performance since 2019. This strong performance was driven by a combination of factors, including robust corporate earnings, lower inflation rates, and a series of interest rate cuts by the Federal Reserve. The post-election rally further boosted investor confidence, leading to record highs and significant gains across various sectors.

Looking ahead to 2025, the tech cycle remains a central theme. The continued advancement in artificial intelligence (AI) and other innovative technologies is expected to drive further growth in the tech sector. Additionally, expectations are high for more than 12% earnings growth next year, fueled by strong IT capital expenditure and technological innovation.

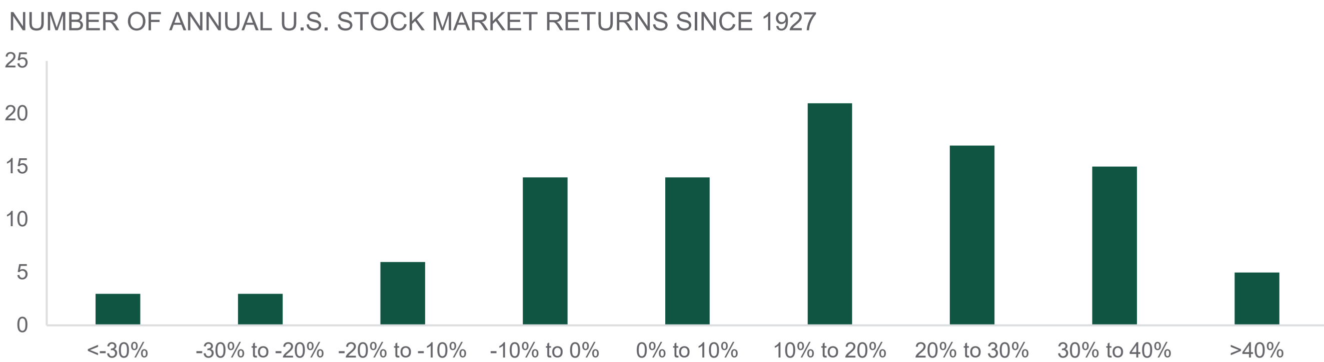
Geopolitical risks loom large in 2025, with tensions in regions like the Middle East and Asia potentially disrupting global supply chains and impacting investor sentiment. These uncertainties could lead to increased costs for the U.S. defense budget, as the government seeks to bolster national security and respond to international threats. The Department of Defense has already proposed a $849.8 billion budget for 2025, reflecting the need to address these geopolitical challenges.

European economies are still stuck in the mud – fiscal consolidation remains a focus and a potential drag on growth, while political instability in France and Germany is ongoing. The fiscal outlook in China is improving, but domestic consumption continues to face headwinds.

Overall, we maintained a preference for equities over fixed income on the basis that the macroeconomic backdrop will remain supportive. Within equities, TAA continues to prefer the U.S. versus other regions given a better economic backdrop, healthier corporate fundamentals, and lower net downside risk from policies floated by the incoming U.S. Administration. Within fixed income, the committee believes high yield remains attractive given its starting yield of ~7% and an expectation of low defaults.

UNEXPECTED, YET FREQUENT: STOCK MARKET SURGES NEARLY 30%

Strong U.S. stock market performance was not expected in 2024, but it fell in line with historical data.



Source: Northern Trust Asset Management, Bloomberg. Annual total return data from 12/31/1926 through 12/29/2023. S&P 500 index. Numbers from Ibbotson until 1988. Past performance is not indicative or a guarantee of future results.

BASE CASE EXPECTATIONS

Soft Landing

Global growth will settle around trend, supported by ongoing U.S. economic strength and labor market/consumer resilience. Inflation will continue to ease toward 2%.

Central Bank Easing

Lower inflation has allowed major central banks to start cutting policy rates. We expect central bank easing to continue, though the timing and trajectory may vary depending on regional economic conditions.

RISK CASE SCENARIOS

Reflation

Policies of the incoming U.S. Administration have a net stimulative effect, leading to above-trend growth, persistent inflation and a pause in the Fed rate-cutting cycle.

Supply Restraint

Supply-side disruptions from immigration restrictions and higher tariffs weigh on economic activity and halt the disinflationary process until a recession takes shape.

Prepared by Northern Trust Asset Management for United Bank.

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UNLESS NOTED OTHERWISE, DATA IN THIS PIECE IS SOURCED FROM BLOOMBERG AS OF DECEMBER 2024.

ViewPoints reflects data as of 12/17/24.

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