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# 2025 Economic and Investment Outlook

*Betting on Resilience*

Moderate economic growth, evolving trade policies, and slowing multiple expansion will set the stage for 2025 — a make-or-break year for AI's (financial) viability and a critical focus on European defense and the resurgence of 'Trumponomics"

## EXECUTIVE SUMMARY

2025 will require a proactive investment approach as markets balance opportunities with significant risks. Resilience, innovation, and strategic positioning will define success in the year ahead.

### AI's Make-or-Break Year

Artificial intelligence will face heightened scrutiny as companies strive to demonstrate its financial viability. Investors will focus on winners who successfully integrate AI into operational efficiency and revenue growth, while overhyped players risk falling behind.

### Moderate Economic Growth with Divergences

Global growth will continue at a moderate pace, with the U.S. expected to outperform Europe and some emerging markets. However, uneven recoveries across regions and sectors highlight the importance of selectivity in investments.

### Evolving Trade Policies and Nationalism

The re-election of President Trump and the continuation of "America First" policies signal heightened trade tensions, including increased tariffs and a push for supply chain resilience. These dynamics will challenge globalization, prompting nations to invest in economic independence.

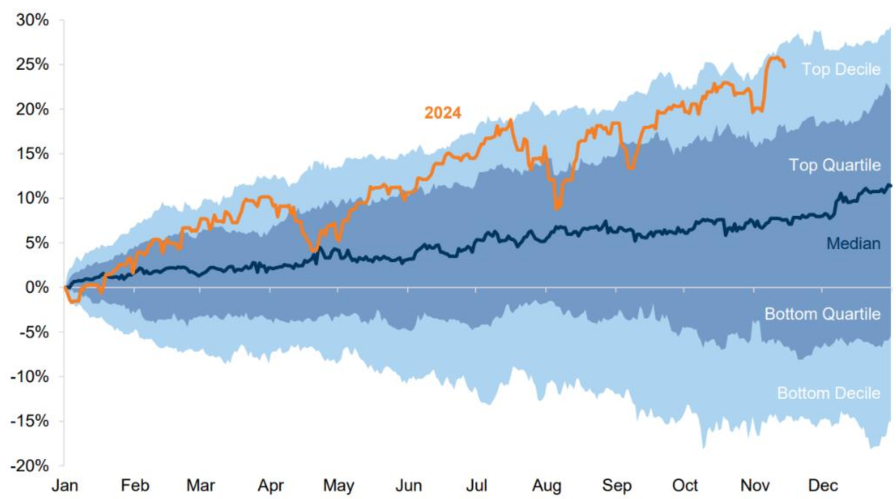
### Toward a Multi-Polar World

While discussions around dethroning the US dollar are premature, rising regional economic blocs signal the acceleration of a multi-polar global order.

### Valuation Challenges and Earnings Growth

High asset valuations leave little room for further multiple expansion, shifting focus to earnings growth as the key driver of returns.

**Exhibit 1: The rise in the S&P in 2024 has been one of the strongest since 1928**
Calendarized S&P 500 performance since 1928




Source: Bloomberg, Datastream, Goldman Sachs Global Investment Research

## ANNUALIZED PERFORMANCE

| % Returns in US dollars as at 29 Nov 2024 | 1 Month | 6 Months | 1 Year | 2 Years | 3 Years | 4 Years | 5 Years | 10 Years |
|---|---|---|---|---|---|---|---|---|
| SPX | 78.5 | 30.1 | 33.2 | 22.3 | 10.3 | 13.3 | 13.7 | 11.4 |

**Past and backdated performance is not a guide to future performance and returns**.
Sources: Capital iQ, Bloomberg, MSCI (Index), London Stock Exchange. SPX is used as a comparative index for this strategy for illustrative purposes. This report claims compliance with the Global Investment Performance Standards (GIPS®). GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

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## STRATEGY OVERVIEW

The investment strategy for 2025 hinges on navigating a complex and shifting landscape defined by moderate economic growth, evolving trade policies, and geopolitical realignments. Asset allocation should emphasize resilience, diversification, and selectivity across regions and sectors.

Equities:

Focus on sectors poised to benefit from geopolitical trends, such as defense and aerospace, particularly in Europe, where increased defense spending offers strong growth potential. Exercise caution with high-growth technology companies, as the hype surrounding AI may lead to overvaluations reminiscent of the tech bubble. Prioritize companies demonstrating sustainable earnings growth and proven financial viability.

Fixed Income:

With central banks easing rates, high-quality bonds and securitized credit provide attractive opportunities. Fixed income also offers a hedge against equity market volatility, particularly in an environment of slowing multiple expansion and fiscal uncertainty.

Alternatives:

Infrastructure and private markets linked to defense, energy transition, and supply chain resilience are key opportunities. These investments align with the shift toward self-reliance and regional economic security amidst growing nationalism.

Currencies and Commodities:

The multi-polar shift creates opportunities in currencies beyond the U.S. dollar. Gold and other safe-haven assets may also perform well as geopolitical and inflation risks persist.

Cash:

Maintaining flexibility through liquidity is critical for opportunistic deployment into undervalued assets as markets adjust to heightened uncertainty and potential volatility.

By focusing on sectors and assets aligned with structural shifts—such as European defense and infrastructure—while remaining cautious on speculative growth stories like AI, this strategy balances offense with prudent risk management. Adaptability will be key to capitalizing on opportunities while mitigating downside risks.

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**Factors Underlying Thematic Consensus**

- **Macroeconomic Data**: Consistent signals from inflation, labor markets, and GDP growth across regions.
- **Policy Clarity**: Clear indications of central bank easing cycles and fiscal policies, particularly in the U.S.
- **Market Realities**: Elevated asset valuations and the need to focus on fundamentals (e.g., earnings, credit quality).

**1. Moderate Economic Growth with Divergences**

- Many sources, including JPMorgan, Goldman Sachs, and Barclays, agree that while global growth will continue, it will be uneven, with the U.S. expected to outperform Europe and some emerging markets.
- Stimulus measures in China and fiscal policies in the U.S. are seen as critical to supporting growth but might not uniformly benefit all regions

**2. Rate Cuts and Policy Shifts**

- There is consensus that central banks, particularly in the U.S. and Europe, will cut rates in response to cooling inflation, but the pace and extent of these cuts may vary.
- Uncertainty remains about how fiscal and trade policies, especially from the U.S. (e.g., tariffs, stimulus), will influence broader global economic dynamics.

**3. Valuations and Earnings Growth**

- High valuations in equity markets limit potential for further expansion, suggesting that future returns will likely depend more on earnings growth than on multiple expansion.
- Selectivity and diversification are key to navigating these markets, with small- and mid-cap equities in the U.S. and opportunities in European equities highlighted.

**4. Fixed Income Opportunities**

- Fixed income markets, particularly in high-quality corporate bonds and securitized credit, are viewed as attractive as yields stabilize or decline.
- A shift from cash to fixed income is emphasized as rates peak.

**5. Technology and AI Investments**

- The role of AI and digital transformation is a recurring theme, with asset managers highlighting both the risks of overhyped expectations and the longer-term opportunities in specific sectors.

**6. China's Economic Outlook**

- China’s growth is a contentious issue. While stimulus is expected to support some recovery, structural issues like debt and underwhelming domestic demand are major concerns.

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## SENTIMENT TABLE – 2025

| Industry Sector | - | o | + | | Goegraphy | - | o | + |
|---|---|---|---|---|---|---|---|---|
| Financials | | | | | US | | | |
| Aerospace and Defense | | | | | UK | | | |
| Technology | | | | | Europe | | | |
| Consumer Discretionary | | | | | China | | | |
| Industrials | | | | | EMEA | | | |
| Healthcare | | | | | Africa | | | |
| Energy | | | | | Asia | | | |
| Real Estate | | | | | Middle East | | | |
| Materials | | | | | | | | |
| Utilities | | | | | | | | |

## FINAL REMARKS

As we step into 2025, the investment landscape demands a balance of resilience, adaptability, and strategic foresight. By aligning with structural shifts such as European defense spending, sustainable infrastructure, and multi-polar currency opportunities, investors can position themselves to navigate uncertainties and capitalize on emerging trends. While challenges in AI integration, evolving trade policies, and high valuations persist, a disciplined focus on fundamentals and diversified asset allocation will be critical to seizing opportunities in this pivotal year. Success in 2025 will be defined by the ability to anticipate change, act decisively, and remain steadfast amidst volatility

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C O N T A C T

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