



# Q1 2025 Quarterly Outlook Newsletter



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For movie fans, 2024 was the year of the sequel. Blockbusters like *Wicked*, *Moana 2*, and *Beetlejuice Beetlejuice* dominated theaters, with studios betting on the tried-and-true success of established franchises. The strategy paid off—nine of the year’s ten highest-grossing films were sequels, a testament to Hollywood’s enduring ability to capitalize on nostalgia and familiarity.

Outside the box office, investors experienced a sequel of their own as the stock market delivered its second consecutive year of returns exceeding 20%—a rare feat accomplished only three other times in the past century. While it’s hard to outshine an original, this encore performance came with a fair critique: a lack of originality, with gains once again concentrated among a small group of dominant players.

Leading the charge were the “Magnificent 7” (Apple, Microsoft, Amazon, Meta, Nvidia, Alphabet, and Tesla), which collectively delivered a 66% return following 2023’s 106% surge. In contrast, the broader market—represented by the S&P 500 Equal Weight Index—posted a more modest but still respectable gain of 11%.

As we look to 2025, the question on everyone’s mind is whether this momentum can continue—or whether a dramatic plot twist awaits.

Navigating risk and uncertainty comes with the territory when investing in stocks, but the breadth of uncertainty seems much higher than usual today. Key questions loom about how potential shifts in U.S. policies might reshape the business and economic environment in the months and years ahead.

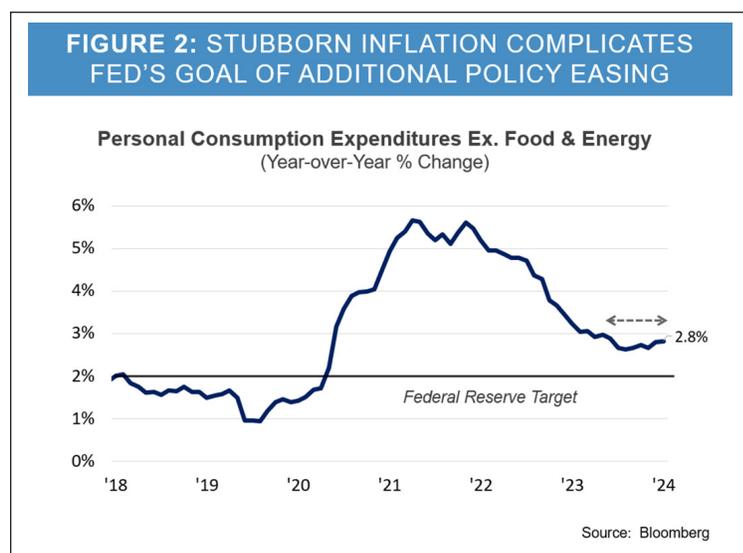
Donald Trump’s return to the White House, itself a sequel, brings with it both promise and peril. Policies such as tax cuts and deregulation may buoy markets, but the potential for protectionist trade measures, mass deportations, or challenges to Federal Reserve independence could stoke inflation and undermine confidence. Even with a Republican sweep in November, the slimmest House majority since the 1930s may necessitate compromises, adding layers of complexity to an already uncertain environment (see Figure 1).



Rather than speculate about potential policy outcomes, we remain focused on the data. Following widespread predictions of a recession in 2023 driven by tight monetary policy, the U.S. economy has remained resilient and is expected to have grown by nearly 3% in 2024, bolstered by robust consumer spending.

However, the economy is far from perfect, and there are some trends that bear watching in the new year.

Despite evidence of continued job growth in the U.S., the labor market is showing signs of cooling. While layoffs remain low, the steady increase in the unemployment rate and a rise in the average duration of unemployment suggest demand for workers is softening.

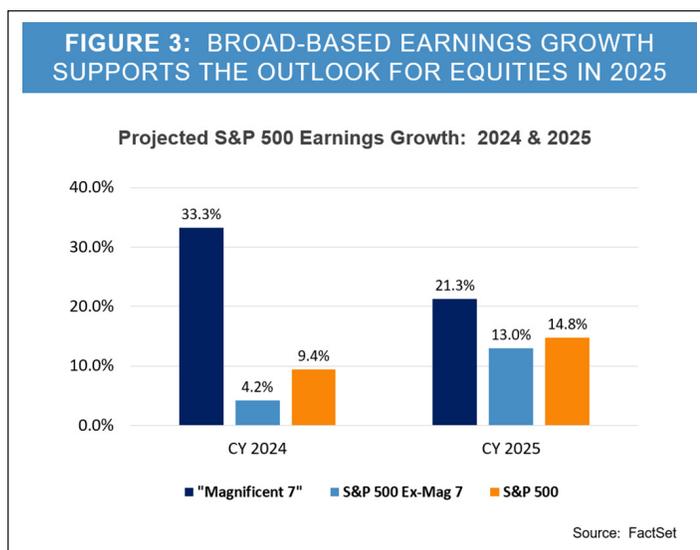


Meanwhile, progress on the inflation front has stalled, leading many to question how quickly the Federal Reserve can deliver additional policy support following 75 basis points (0.75%) of rate cuts in the second half of 2024 (see Figure 2). In the meantime, rising delinquency rates suggest lower-income households that have not benefitted from the rising stock market and home values continue to feel the pressure.

For its part, the Fed is taking a “wait and see” approach as it considers its next move. Following the December

FOMC meeting, Fed Chair Jerome Powell likened the uncertainty the Fed now faces to driving in fog—it’s prudent to proceed with caution when visibility is low. With the next rate move not expected to occur for several months, policymakers will have time to scrutinize incoming data and see how things unfold with the incoming administration.

While we await clarity from Washington, we maintain a favorable outlook for stocks and believe that equities will be supported in large part by expectations for broad-based earnings growth in 2025 (see Figure 3). However, following a year that saw little downside volatility and nearly 60 record closing highs for the S&P 500 (nearly one of every four trading days), investors should brace for less smooth sailing ahead.



The prevailing consensus suggests the good times for the stock market are expected to continue. According to a recent survey by The Conference Board, individual investors are more optimistic about the 12-month stock outlook than they have been in nearly 40 years (see Figure 4). This bullish sentiment is echoed by professionals, with all 19 Wall Street strategists tracked by Bloomberg forecasting further stock market gains in 2025. However, it's worth noting that the same group of strategists had predicted a modest 2% gain for stocks in 2024, highlighting the need to take these projections with a grain of salt.

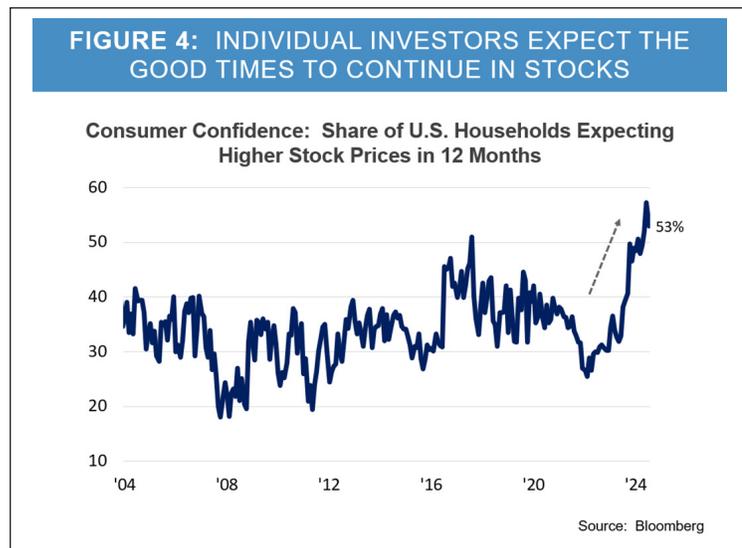
This widespread confidence is encouraging but it also carries a note of caution. After two years of strong market performance that has pushed valuations to elevated levels, such pervasive optimism creates the potential for disappointment if economic data turns negative or policy decisions fail to meet expectations.

As we move into 2025, the investment landscape presents both opportunity and challenge, framed by ongoing economic resilience, shifting policy dynamics, and evolving market leadership. At the heart of our strategy remains a steadfast commitment to diversification and long-term thinking. Whether navigating a blockbuster year or enduring a plot twist, these principles ensure portfolios remain resilient in the face of uncertainty and poised to capture opportunity.

While concentrated market leadership has been a hallmark of recent years, we see value in underappreciated sectors and geographies that provide opportunities beyond today's high-flying technology companies.

Outside of equities, fixed income remains an essential component of diversified portfolios, providing both income and balance for investors. Starting yields are a critical factor in determining future bond returns, and today's yields present the most attractive entry point since the Global Financial Crisis. Given this favorable backdrop, investors should be cautious about lingering too long in cash, as its yield is likely to decline gradually in tandem with the Federal Reserve's anticipated interest rate cuts.

Portfolios can also benefit from various types of alternative investments such as those in private or less liquid markets. Although these strategies are not suitable for all investors, alternatives can enhance diversification by providing exposure to areas that have a low correlation to traditional asset classes.



As always, we thank you for entrusting us with your financial goals. Together, we'll continue to chart a course through the complexities of this ever-changing environment, building on the progress we've achieved while staying prepared for whatever comes next.

*If you have any concerns about your portfolio, we encourage you to review your financial plan with your advisor. Stay informed by subscribing to our blog, where we share weekly insights on market and economic events.*

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**Do you have follow-up questions?**

Or if you would like to discuss further, contact us today. We'd love to help!



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