Global Markets in Focus: Horizon's 2025 Investment Landscape Review

As we bid farewell to 2024 and welcome 2025, we are pleased to present our comprehensive economic outlook and investment landscape review for 2025. Significant developments in the global economy have marked the past year, and we remain optimistic about the opportunities that lie ahead.

Growth Amidst Moderation: Easing Inflation Pressures and Consumer Relief

The U.S. economy has successfully navigated towards a soft landing, with growth slowing slightly but remaining healthy. This growth is primarily driven by strong consumer spending, robust private sector balance sheets, and a historically strong labor market. These factors have combined to help maintain economic stability while addressing inflationary pressures. Inflation is expected to ease further, settling in the 2.5% to 3% range, with core PCE inflation projected to slow from 2.8% to 2.4% by late 2025. This moderation in price increases should provide relief for consumers and businesses alike. The Federal Reserve will likely continue its gradual rate-cutting cycle in 2025, with markets pricing in 1 to 2 more cuts[3]. However small, this monetary policy easing is anticipated to support ongoing economic expansion and maintain accommodative conditions for growth.

Global Economic Landscape: Navigating Divergent Paths

On the global stage, we see a mixed economic outlook, with varying prospects across different regions. Europe faces uncertain prospects, with the Eurozone straddling the line between growth and contraction. Fiscal consolidation remains a focus and a potential drag on growth, while political instability in France and Germany is ongoing.

China's economic outlook remains a concern, with growth falling short of targets and deflationary pressures emerging. While China's fiscal outlook is improving, domestic consumption faces headwinds. In response to these challenges, the Chinese government has outlined plans for more aggressive economic stimulus in 2025. The success of these new stimulus plans will be critical in navigating domestic challenges and global economic uncertainties, particularly considering potential U.S. tariffs that could significantly impact China's economic growth in 2025.

Global Equity Divergence: U.S. Leadership and Emerging Market Potential

	1 Year	3 Year*	5 Year*	10 Year*
S&P 500	25.0%	8.9%	14.5%	13.1%
S&P 500 Equal Weight	13.0%	4.4%	10.7%	10.2%
S&P 500 Value	12.3%	9.1%	10.5%	10.0%
S&P 500 Growth	35.8%	7.7%	17.1%	15.3%
Russell Mid Cap	15.3%	3.8%	9.9%	9.6%
Russell Small Cap	11.5%	1.2%	7.4%	7.8%
Global Stocks (ACWI - IMI)	16.4%	4.9%	9.7%	9.0%
Developed Ex-US (EAFE)	4.4%	2.3%	5.3%	5.8%
Emerging Markets (MSCI EM)	8.0%	-1.5%	2.1%	4.0%

**Periods greater than 1 year are annualized. Return data from Bloomberg.*

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The stock market demonstrated exceptional performance in 2024, with the S&P 500 achieving a remarkable 25% gain, following a 26.3% gain in 2023. This robust growth was driven by factors including solid corporate earnings, reduced inflation rates, and the Federal Reserve's course reversal on short-term rates. The post-election rally further bolstered investor confidence, propelling markets to record highs across various sectors. Looking ahead to 2025, U.S. large-cap stocks are expected to continue to work higher. The S&P 500 Growth index, which surged by an impressive 35.8% in 2024, is likely to continue its upward trajectory, supported by ongoing advancements in artificial intelligence and technological innovation. The potential of AI's impact on productivity is particularly exciting, with analysts projecting earnings growth of over 14% for the coming year, fueled by significant IT capital expenditure and continued technological progress.

While large-cap growth stocks have dominated, there are signs of broadening market performance. The S&P 500 Equal Weight index, which rose 13% in 2024 following a gain of 13.9% in 2023, suggests that gains are becoming more broadly distributed across the market. This trend may continue in 2025 as the benefits of economic growth and lower interest rates spread to a broader range of companies. U.S. small-cap stocks, represented by the Russell 2000 Small Cap index with an 11.5% gain in 2024, are viewed favorably for 2025. Factors supporting this outlook include easing interest rates, attractive valuations, and potential benefits from re-shoring efforts. These conditions could particularly advantage domestically focused smaller companies.

In the global context, international markets showed mixed results. The MSCI EAFE index, representing developed markets outside the U.S., posted a modest 4.4% gain, while emerging markets, as measured by the MSCI EM index, returned 8%. Looking to 2025, emerging market stocks are positioned for potential outperformance, driven by appealing valuations and promising earnings growth prospects. However, developed markets outside the U.S. may continue to lag behind U.S. equities due to slower economic growth and less favorable sector compositions.

Fixed Income Landscape: Balancing Yield and Risk Across Bond Sectors

	1 Year	3 Year*	5 Year*	10 Year*
US T-Bills	5.3%	3.9%	2.5%	1.8%
Intermediate US Gov/Credit	3.0%	-0.2%	0.9%	1.7%
US Aggregate Bond Index	1.3%	-2.4%	-0.3%	1.4%
US Corporate High Yield	8.2%	2.9%	4.2%	5.2%

**Periods greater than 1 year are annualized. Return data from Bloomberg.*

The fixed-income market in 2024 presented a lackluster landscape with varying performance across different sectors. The Intermediate U.S. Government/Credit sector and the broader U.S. Aggregate Bond Index delivered more modest returns of 3.0% and 1.3%, respectively. The standout performer in the fixed income space was U.S. Corporate High Yield, which posted an impressive 8.2% return over the past year. This outperformance can be attributed to strong corporate fundamentals and favorable technical factors in the high-yield market. Looking ahead to 2025, high-yield bonds continue to look attractive, with a starting yield of approximately 7.5% and expectations of low default rates[4]. Investment-grade bonds may face headwinds due to tight spreads, suggesting a more cautious approach in this segment. However, Treasury Inflation-Protected Securities (TIPS) are considered an essential defensive component in portfolios, providing a hedge against unanticipated inflation risks.

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Municipal bonds offer an appealing option for income-focused investors, particularly those in high tax brackets. These securities are expected to benefit from strong fundamentals and attractive starting yields, providing tax-efficient income streams. However, the nuances of municipal bonds require expert attention. If you have questions about tax-free income, please contact your HPWM advisor.

As we navigate the fixed income landscape in 2025, a strategic approach to balancing yield potential with risk management will be crucial. The Federal Reserve's anticipated rate-cutting cycle, with markets pricing in 1 to 2 more cuts[3], will likely influence bond market dynamics and create opportunities across various fixed-income sectors.

Horizon Private Wealth Management's Tactical Positioning

At Horizon Private Wealth Management, we prefer equities over fixed income, reflecting our positive outlook on stock market performance. We are focused on U.S. equities due to the market's better economic outlook and healthier corporate fundamentals. We believe high yield remains attractive within fixed income given its starting yield and expectation of low defaults. Our asset allocation is carefully designed to balance risk and reward, focusing on long-term financial goals while remaining adaptable to changing market conditions.

Geopolitical Risks: Navigating Global Tensions

We are closely monitoring geopolitical events and potential risk scenarios to inform our investment strategies. Tensions in regions like the Middle East and Asia could disrupt global supply chains and impact 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.

AI Revolution: Productivity Gains and Economic Transformation

The rise of artificial intelligence (AI) is reshaping the business landscape, with its impact on productivity becoming a focal point for many industries. Recent studies indicate that AI can boost productivity by an impressive 23% on average, with some sectors experiencing gains of up to 30%[5]. This technological revolution is particularly evident in the infrastructure sector, where AI and data centers create significant growth and innovation opportunities.

The AI market is experiencing explosive growth, with revenue expected to surge at an average annual rate of 38% over the next 6-7 years[5]. This growth is having a ripple effect across various sectors, including utilities and power producers, where earnings growth estimates could reach high single-digits in the coming years. Adoption in the United States is gaining momentum, with 72% of surveyed organizations implementing AI solutions, a substantial increase from previous years.

Over the long term, the cumulative productivity gain from AI could reach approximately 17.5% over the next two decades. However, it is important to note that the AI revolution also brings challenges. Companies implementing AI must navigate cybersecurity concerns and invest in additional expertise and training for their workforce. Despite these hurdles, the potential benefits of AI in enhancing productivity and driving innovation across industries are undeniable, making it a key trend to watch in the coming years.

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Building Lasting Wealth: Horizon's Personalized Approach for the Year Ahead

As we enter 2025, Horizon Private Wealth Management remains committed to providing personalized wealth management solutions that adapt to changing market conditions and individual client needs. Our focus on long-term financial goals, combined with our expertise and insights, positions us well to help our clients navigate short-term market volatility while capitalizing on emerging opportunities in the evolving economic landscape. We look forward to continuing to serve you and your families in the coming year, helping you achieve your financial objectives and build lasting wealth in what promises to be an exciting and dynamic investment environment.

Paul Fleming, CFA, CAIA

VP, TRUST INVESTMENT DIRECTOR

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Footnotes:

1) Organization for Economic Co-operation and Development (OECD)
2) Bloomberg consensus forecast as of 12/29/24
3) CME FedWatch as of 12/29/2024
4) Bloomberg US High Yield Index 12/29/2024
5) Goldman Sachs AI Adoption Tracker:2024Q4

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Unless otherwise noted, this information reflects insights from Northern Trust, Goldman Sachs and Strategas research.

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