

2025 Market Outlook

Navigating an Evolving Landscape

Crespo Capital

As we look ahead to 2025, the global economic landscape appears poised for continued moderation in growth, generally below historical averages. Inflationary pressures are anticipated to persist in certain key economies, most notably the United States, influenced by evolving trade policies. Central banks across major economies are projected to continue easing monetary policy, though the pace and extent are likely to vary, with the U.S. Federal Reserve potentially adopting a more conservative approach compared to its European counterpart.

Global Economic & Policy Trajectories

Global economic expansion is generally projected to remain in the range of 2.3% to 3.3% for 2025, reflecting a period of subdued growth compared to pre-2020 averages. Global headline inflation is broadly expected to decline, potentially reaching targets sooner in advanced economies. However, the U.S. may experience more persistent inflationary pressures, with forecasts suggesting a peak between 3.0% and 3.5% in the third quarter of 2025, partly due to tariff-related costs.

Monetary policy divergence is a notable theme. While the European Central Bank (ECB) has commenced easing, with further cuts anticipated, the U.S. Federal Reserve is projected to maintain a cautious stance. Market expectations currently suggest a probability of three 25 basis point cuts by the Fed in late 2025 (September, October, December), though some forecasts indicate rates could remain at or above 4% or even hold steady until early 2026, particularly if inflation persists. This divergence could lead to a weakening of the U.S. dollar against currencies where central banks are easing more aggressively.

Regional Economic Snapshots

- ❖ **United States:** U.S. GDP growth in 2025 is broadly projected to slow, with forecasts generally ranging from 1.4% to 1.5%. The labor market is anticipated to cool, with the unemployment rate potentially reaching 4.5%. The U.S. fiscal trajectory, characterized by a significant budget deficit and rising national debt, poses a potential risk to bond yields and long-term stability.
- ❖ **Europe:** The Euro area economy is in a phase of modest recovery, with GDP growth projected around 1.0% to 1.1%. Inflation is expected to hover around 2.0% to 2.4%.

The ECB's continued easing is anticipated to support economic activity, potentially making European equities and credit markets attractive for diversification.

- ❖ **Asia (Japan & China):** Japan's economic downturn is projected to bottom out in Q3 2025, with modest GDP growth of approximately 0.4% for the fiscal year. Core CPI is expected to remain elevated around 2.0%. The Bank of Japan is likely to raise rates cautiously. China's growth is anticipated to decline to 4.5%, with trade tensions remaining a significant downside risk.

Asset Class Considerations

- ❖ **Equities:** U.S. equities (S&P 500) have seen a bumpy start to 2025, yet underlying fundamentals suggest a potentially optimistic longer-term outlook, with some forecasts targeting S&P 500 total returns of approximately 10% for the year, driven by earnings growth. However, valuations remain elevated by historical standards, suggesting a higher degree of risk. International equities, particularly in Europe and Japan, may offer diversification and growth potential as their respective economies recover. The Artificial Intelligence (AI) revolution is a significant cross-sectoral catalyst, with opportunities extending beyond large tech firms to supporting infrastructure providers, including utilities. Increased volatility and dispersion across sectors are anticipated, underscoring the potential benefits of active management.
- ❖ **Fixed Income:** The outlook for bonds in 2025 is generally positive, with attractive starting yields offering a favorable risk-return profile. Interest rates are expected to remain above inflation, providing durable income. The 10-year U.S. Treasury yield is projected to hover near 4.5%. While corporate bond yields are attractive, an "up in quality" bias is suggested given tight valuations and some weakening in corporate fundamentals.
- ❖ **Commodities:** Commodity prices are generally projected to decline in 2025 due to improved supplies and a global growth slowdown. Energy prices are expected to see the steepest drop, with Brent crude potentially averaging \$64 per barrel. Industrial metals prices may ease due to trade tensions. Gold stands out as a notable exception, projected to remain above \$3,000 per ounce, supported by persistent geopolitical risks and central bank accumulation, serving as a potential safe-haven asset.
- ❖ **Alternative Investments:** The real estate market is evolving, with renewed investor optimism in certain segments, particularly data centers and properties undergoing sustainable repurposing. Private equity deal activity has seen an increase in value due to larger individual deals, though fundraising remains lower. The "higher-for-longer" interest rate environment has reshaped private equity deal economics, emphasizing operational performance. While exits remain challenging, there is a potential for the IPO market to rebound in 2025. AI is also influencing private equity strategy, with firms exploring AI-driven productivity enhancements.

Key Drivers & Risks

Several factors are likely to influence market outcomes in 2025:

- ❖ **Geopolitical Dynamics:** The rapid evolution of geopolitical risks, including trade policy shifts (e.g., U.S. tariffs potentially averaging around 15% in 2025) and intensified U.S.-China rivalry, could lead to rapid market impacts and supply chain disruptions. This "velocity risk" necessitates dynamic scenario planning.
- ❖ **U.S. Election Aftermath:** Policy uncertainty, particularly concerning tariffs and tax policies, is expected to continue after the 2024 U.S. election, potentially contributing to market choppiness and sector rotation.
- ❖ **The AI Revolution:** AI is a "mega force" driving productivity gains and significant investment, particularly in energy infrastructure due to increased power demand from data centers. AI valuations in venture capital remain elevated.
- ❖ **Inflation Persistence & Fiscal Sustainability:** The persistence of inflation in the U.S. and the unsustainable U.S. fiscal trajectory (federal budget deficit around 6% of GDP) pose risks of higher bond yields and potential market turmoil.

Implications for Your Portfolio

In this evolving environment, a thoughtful and adaptive approach to portfolio management is crucial.

- ❖ **Diversification:** Maintaining broad diversification across asset classes and geographies is paramount to mitigate risks from divergent economic paths and geopolitical fragmentation.
- ❖ **Active Management:** Given the anticipated volatility and dispersion across sectors and individual stocks, an active management approach may be beneficial to capitalize on market inefficiencies.
- ❖ **Risk Management:** Emphasize robust risk management, including setting appropriate risk limits and engaging in proactive scenario planning.
- ❖ **Long-Term Perspective:** Despite near-term uncertainties, focusing on fundamental drivers and durable themes like AI remains a cornerstone of successful long-term investing.

We encourage you to review your portfolio allocations with your financial advisor to ensure alignment with your individual risk tolerance and long-term objectives in this dynamic landscape.

Important Disclosures & Disclaimers

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