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MARKET SIGHT LINES

Outlook 2025 Spotlight No. 2: Our Outlook for the Year

By Michael O'Keeffe, *Chief Investment Officer*

My team and I were pleased to publish Outlook 2025: *Gravitational Shifts* last week. The analysis reflected in this publication sets the groundwork for our ongoing work and engagement with Stifel Financial Advisors and clients through the year. You can read the full report, watch a video summary, or view the replay of this week's client webinar. In this week's Sight|Lines, we share a summary of our outlook for 2025.

THE TAKEAWAY: OUR OUTLOOK FOR 2025 IS POSITIVE, DRIVEN BY THE MOMENTUM OF A POSITIVE 2024

Within our broader report, Outlook 2025: *Gravitational Shifts*, the individual article with the same title shares our thinking about the economy and markets for the year ahead. In summary:

- The positive results from 2024 set the foundation for our views this year.
- Inflation fell and the Federal Reserve (Fed) cut rates, setting us up for continued improvement in 2025.
- We see inflation cooling further, but with muted Fed action during the year.
- The positive economic results of last year carry momentum into 2025.
- The 2024 U.S. elections were divided and emotionally charged, and the Republicans swept, putting in motion a shift back to less regulation and the potential for lower taxes, both effects viewed positively by businesses with the potential to improve animal spirits.
- We have a positive economic outlook for 2025, with forecasted growth not quite as positive as the results of 2024.
- A strong U.S. equity market drove valuations higher, one headwind to stocks this year.
- Our market outlook is also positive but constrained some by lofty valuations.
- Finally, we offer two alternative scenarios, the more positive bull case and more negative bear cash, shaped by how shifts in Washington, D.C. may help or hurt the economy and markets.

IN-DEPTH: WE HAVE A POSITIVE 2025 OUTLOOK, WITH THE MOMENTUM OF A POSITIVE 2024 CARRYING FORWARD, AMPLIFIED BY A MORE BUSINESS-FRIENDLY GOVERNMENT

Our article Outlook 2025: *Gravitational Shifts*, offers our positive views for this upcoming year, including forecasts for both the economy and the markets. Going deeper:

- The positive results from 2024 set the foundation for our views this year:
  - Inflation improved and the Fed cut rates.
  - The economy and stock markets surprised to the upside.
- Inflation fell, allowing the Fed to cut rates, setting us up for more in 2025:
  - The consumer price index (CPI) was up 2.9% in 2024.
  - The Fed cut its funds rate 1% later in the year.
- We see inflation cooling a bit further but expect fewer Fed cuts this year:
  - We're forecasting the Personal Consumption Expenditures (PCE) Price Index at 2.5%.
  - We expect the Fed to cut rates 0.25%-0.50% in the second half of the year.
- The positive economic results in 2024 created momentum for more growth in 2025:
  - GDP grew at an estimated 2.7% in 2024, with strength in the second half of the year.
- Divided and emotional U.S. elections resulted in a Republican sweep, putting in motion meaningful shifts:
  - The incoming administration is set to roll back regulations and push for lower taxes.
  - Survey data from businesses is already showing increased optimism about these changes.
- We have a positive economic outlook for 2025, but our forecasted growth is slower:
  - We expect U.S. GDP to settle between 1.5%-2.5% this year.
- A strong U.S. equity market drove valuations higher, constraining some our equity forecast for 2025:
  - The S&P 500 was up 25% in 2024, driving an expansion of the price-earnings ratio, a popular valuation metric, to a level that is 23% higher than its 10-year average.
  - Our year-end target for the S&P 500 is 6,200, reflecting a 6.7% total return in 2025.
- Finally, as is our practice. we offer two alternative scenarios, a bull and a bear case:
  - Our bear case, "Roadblocks to Growth," anticipates disfunction and little progress in Washington, D.C., fueling disappointment with both consumers and businesses, slowing growth, and muting company earnings, outcomes that could well lead to negative stock market returns.
  - Our bull case, "American Exceptionalism," foresees even more deregulation and efficiency in Washington, D.C. than reflected in our base case, driving innovation and corporate results, which in turn lifts animal spirits that inspires the consumer and drives markets higher.

CONCLUSION

My team and I published Outlook 2025: *Gravitational Shifts* last week, and you can read the full report, watch a video summary, or view the replay of our client webinar. The work we do and our resulting thinking reflected in this publication is important for us going forward, as it sets the groundwork for our ongoing work and engagement with Stifel Financial Advisors and their clients through the year.

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