2024 Year-End Review and 2025 Forecast

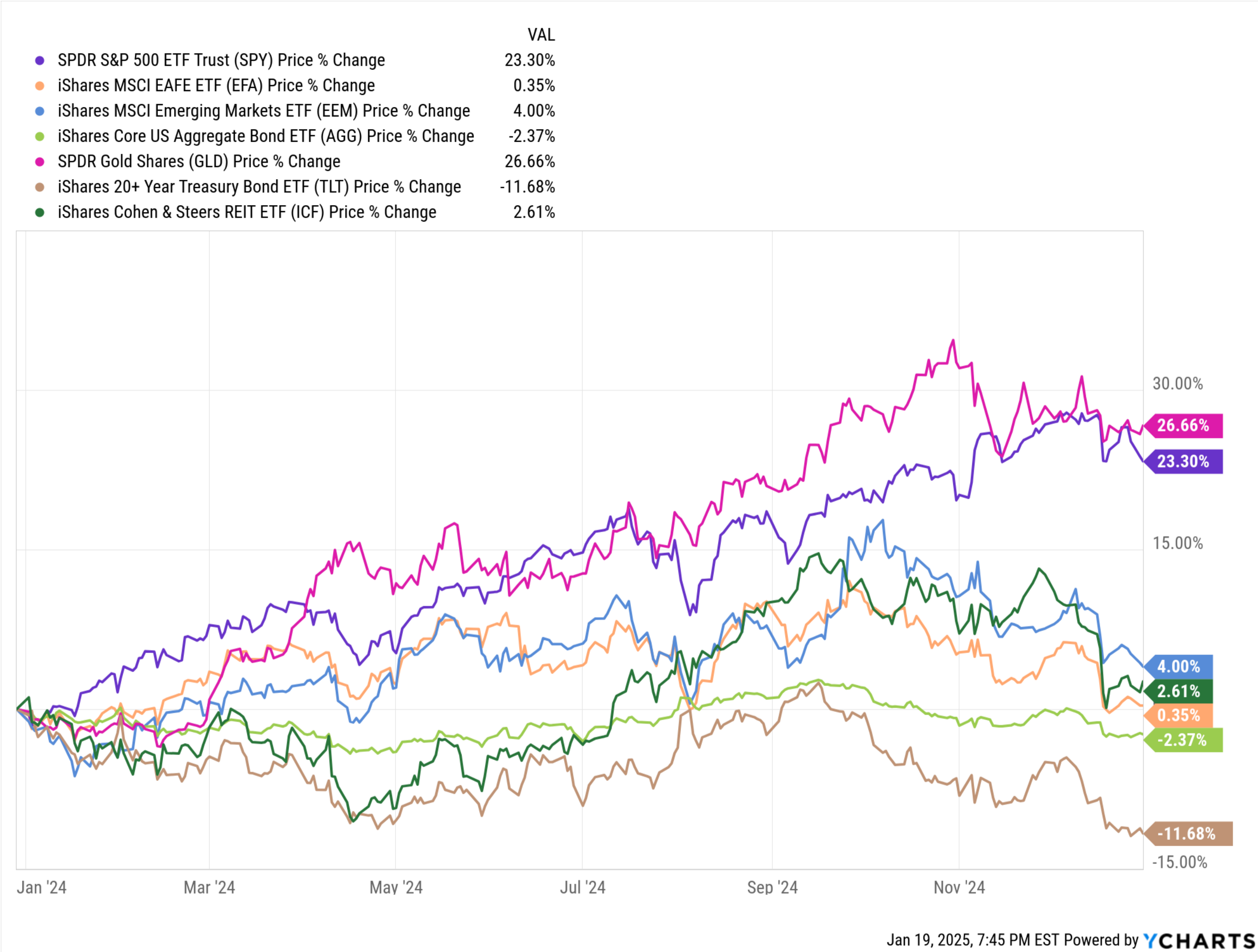
19 January, 2025

I like to start these year-end reviews by looking back at the predictions I made at the beginning of the previous year. Quite often this analysis shows just how difficult it is to predict market and economic events – usually I get some things right and some wrong as well.

At the beginning of 2024 I was expecting a good year for the US stock market, although I thought it wouldn’t be as good as 2023 when the S&P500 was up 24%. I also thought US bonds would do well in the second half of the year on the back of decreasing interest rates. I was concerned about the economic slowdown in Germany and China and thought India would be a better emerging market bet than China.

It was indeed a good year for the US stock market, but it was better than I expected. The bond market did rally from the start of July as interest rates started to come down but the Trump election victory and better than expect US economic results put an end to that rally in Q4 as investors started to wonder whether the Federal Reserve might not have to raise rates, or at least not lower them, since many of Trump’s policies are thought to be inflationary.

In emerging markets, India did very well for the first three quarters, much better than China, but then the Chinese government announced a stimulus package and the Trump election was generally thought to be bearish for emerging markets, so the Chinese market went up dramatically beginning of Q3 on word of the stimulus package but then all emerging markets took a hit after the US election.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SPDR S&P 500 ETF Trust (SPY) Price % Change 23.30%
iShares MSCI EAFE ETF (EFA) Price % Change 0.35%
iShares MSCI Emerging Markets ETF (EEM) Price % Change 4.00%
iShares Core US Aggregate Bond ETF (AGG) Price % Change -2.37%
SPDR Gold Shares (GLD) Price % Change 26.66%
iShares 20+ Year Treasury Bond ETF (TLT) Price % Change -11.68%
iShares Cohen & Steers REIT ETF (ICF) Price % Change 2.61%
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Jan '24
Mar '24
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Nov '24
Jan 19, 2025, 7:45 PM EST Powered by YCHARTS

As the chart on the previous page shows, the US stock market and gold were the big winners in 2024 and bonds, especially long-dated bonds, ended up being losers.

One cannot talk about 2024 without mentioning the US election result, which I think it is fair to say was surprising in the sense that it was such an overwhelming victory for Trump – most people were expecting a pretty close contest. Initially US stock markets rallied on the result but by the end of the year the S&P500 had given up the initial burst and finished slightly down from election day. Other markets did worse as Trump's US-first policies and tariff threats weighed on emerging and developed markets and the US Dollar strengthened.

I think it is difficult to forecast how Trump's policies will affect investment markets going forward because what Trump says and what he does are quite often two very different things. In my opinion the tariff threats are probably overblown and mainly a negotiating strategy since imposing broad tariffs on imported goods would be inflationary for Americans and would be unlikely to benefit anyone. I do expect good times for US oil and LNG companies and a focus on less regulation and lower taxes should be positive for the economy near-term, although it may have unfortunate effects longer-term.

I do think we may see a more broad-based rally in 2025. For the last few years the US stock market has gone up and down with the fortunes of the large technology companies. I'm thinking this will be less the case in 2025, and if I am correct then we should expect a decent year for the US markets but not outstanding like we have had the last two years. I think emerging and non-US developed markets will be challenged in Q1 but could rally after that as clarity around Trump's policies solidifies and the actual policies end up being less severe than the threats.

One worrying thing is the recent rally in the banking sector. Although beneficial short-term, when this sector rallies it is quite often the mark for the top of the market. US leading economic indicators have been negative since the end of 2022, which tends to be a fairly accurate foreteller of recession 6 months to 1 year down the road – and yet no recession has come to pass in the USA and these indicators have just recently turned up.

The picture in the rest of the world is mixed. China is trying to work its way out of a property and loan bust similar to what we saw in the USA in 2008, and indeed the market reaction reminds me of exactly that time frame, when the Federal Reserve kept cutting interest rates and supporting the economy and ultimately the government had to back-stop the banks. During that period, we saw a number of short-lived rallies in the US stock market as various support measures were enacted but ultimately the market went down for a year and a half, after which there was a dramatic rally from Q2 2009. I think in China we are not yet at the bottom but could reach it once the effect of whatever measures Trump imposes on China are baked into that investment market. Companies in the mining sector, especially in Australian mining which is very dependent on Chinese demand, have recently reported that they are seeing signs of stabilization in their Chinese markets.

Looking at the global economic picture my best guess is that we should steer the course. I don't see a reason to get defensive yet, and I'm expecting a decent year in stock markets, but towards the end of 2025 we should re-evaluate, also because by then we should have an idea of what Trump's policies may actually mean.

Everyone is talking about AI these days and certainly the larger tech companies such as Google and Microsoft, as well as the chip companies like NVIDIA and TSM, have rallied on the back of this. Probably these stock prices have gotten ahead of themselves since there will be considerable investment in AI necessary but the profits from this technology are still a ways out.

However, there is another trend we need to keep in the back of our minds, which is the ageing Baby Boomers. This is a generation that has largely done well and now they are retiring, ageing, and spending their money. Travel companies are benefitting as a result. Viking, the European cruise ship company, had an IPO last year – I thought the IPO price was pretty rich at the time but the stock price went up almost 70% between the IPO beginning of May and the end of the year. Airlines have also been doing well recently and there is a shortage of airplanes, which would be good for companies like Boeing if only they could build planes whose doors don't fall off mid-flight – but perhaps it might be good for lesser known competitors like Embraer. Pharmaceuticals, and healthcare in general, have not done well in terms of stock prices recently, green energy also hasn't done well, as profits in this sector are elusive – I wonder whether we may see a rotation into these sectors over the next year from technology and other sectors where share prices have gone up so much recently. Investment selection may be important here, rather than betting on the sectors as a whole.

One thing to keep in mind is the big difference between the US stock market, as represented by the S&P500 index, and many other country indices, which is the strong influence of technology companies in the US index. Many advisors talk about diversifying internationally and do so through country funds rather than picking individual companies. We need to keep in mind that quite often it is not the fact that we are investing in another country that makes this a diversifying investment, but rather the fact that regions outside the USA are often less exposed to technology. The S&P500 index ETF (ticker:SPY) is about 33% technology, whereas the UK ETF (EWU) and Australia (EWA) are 1% and 2% technology, the Eurozone ETF (EZU) and Japan (EWJ) are about 15% technology. The second diversifying factor US vs. non-US, is currency. The US Dollar has strengthened considerably versus most other currencies since the election, which is a headwind for investors in non-US markets that convert their investment results to USD. To the extent these trends reverse, the US Dollar weakens, and technology doesn't do as well, we should see better performance in non-US markets; however when, and to what extent, this reversal may happen is difficult to forecast given the generally good economic conditions in the USA presently compared to many other parts of the world. What I would say, especially in more conservative investment accounts, is that perhaps this is a good time to rebalance into more value-oriented investments.

In general, as I listen to and read various investment forecasts for the year ahead from pundits in the investment management industry and economists, it is clear that the prevailing view is positive for US markets, negative for the big European countries like Germany and France, as well as the UK (but interestingly not as negative for what used to be called the "PIIGS" – Portugal, Spain, Ireland, Italy, Greece), and a mixed bag for the rest of the world.

I believe bonds offer very good value now as yields, especially in the USA, have come up recently. In fact, long-dated bonds are trading at what are historically very low prices, so as long as Trump's policies don't lead to an inflationary spiral, there may be good diversification opportunities in bonds, especially for conservative investors. Real estate funds haven't done well for years but I think some REITs also offer good dividend-paying investment opportunities. For example, seniors living facilities, or data center REITs. In fact the whole investment theme around AI, such as companies that generate electricity for data centers, seems attractive.

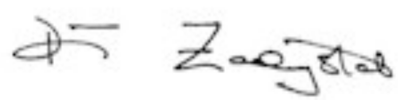
Bringing everything together, I think we should steer the course by making sure that investment allocations reflect risk appetite, diversifying into various asset classes and sectors to control risk, and trying to find value where we can. On the back of two good years in investment markets, now might be a good time for people living off their investment portfolios to take more money out and park it in guaranteed investments such as CDs and Treasury bonds to be drawn on over the next few years.

As usual, I can only offer my own opinions on what the future may hold, based on 25 years' experience in the investment management industry and continuing research on investment markets. However, I invite you to get a second opinion from Chat GPT by asking it for an investment forecast for 2025. This tool continues to amaze me, and I got a pretty good summary, which I've included below.

> *From Chat GPT: By 2025, we may see a global economy characterized by moderate growth, with key sectors such as technology, green energy, and emerging markets offering strong investment potential. Central banks might stabilize interest rates, easing some of the pressure on markets. However, geopolitical risks, inflationary concerns, and the ongoing transition to a green economy will require careful navigation by investors. Diversification, both geographically and across asset classes, will be crucial for managing the uncertainties that will persist in the coming years.*

As always, I invite you to contact me directly should you wish to schedule a call to discuss your personal investments, our strategies, or any other issues with which we might be able to assist.

Until next quarter,



Tom Zachystal, CFA, CFP©
President
International Asset Management