Ameriprise Financial

2025 Investment Outlook &Themes

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Contents

Key Points 2
2024 Review 3
2025 Market & Economic Themes 4
Ameriprise 2025 Year-End S&P 500 Scenario Forecast 5
2025 Outlook 6
Global Asset Allocation Committee and Disclosures 11

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Key Points

2025 Outlook Summary

In the U.S., we believe economic conditions likely remain stable, which should contribute to S&P 500 profits growing for the fifth consecutive year. Notably, normalized inflation and potentially lower interest rates could lift asset prices modestly higher. On the margins, Republican control in Washington should lead to slightly lower taxes, less regulation, and a business-friendly environment. However, an increasingly volatile global landscape, escalating tariff threats, elevated asset valuations, and risks that fiscal/monetary policies come up short of expectations all point to guarded optimism in 2025 after two years of exceptionally strong U.S. stock returns.

2025 S&P 500 year-end price target: 6,500

In our base case, we see S&P 500 profits growing by between +10.0% and +15.0% over 2024 levels, driven by continued strength in the technology space but also by a wider set of companies and industries benefiting from firm economic activity and easier year-over-year comparisons. Notably, across our base and favorable targets, the S&P 500 could see high single-digit to mid-double-digit returns in 2025. However, stock valuations are elevated, and there is a risk that profit growth assumptions disappoint, particularly if results miss lofty expectations within Technology or tariffs contribute to curbing activity more than we expect. To help tactically navigate equity markets in 2025, we believe investors should position portfolios to benefit from potential deregulation and target a diversified/selective "domestic" approach. A focus on shareholder yield also offers compelling total return opportunities, especially in a lower interest rate environment.

2025 U.S. Real GDP target: +2.0%

We expect U.S. real economic growth to slow to around +2.0%, down from its recent pace of approximately +3.0%. Despite this slowdown, consumer spending should remain robust due to wage and salary growth, and we believe the unemployment rate could stay in the low 4.0% range. Yet, tariffs, particularly those proposed by the incoming Trump administration, pose significant uncertainties for the 2025 economic outlook, potentially impacting inflation and economic activity. Nevertheless, we believe the U.S. economy enters 2025 on a solid foundation, with low consumer debt burdens, a sound employment outlook, and stable business balance sheets.

2025 10-Year U.S. Treasury yield target: 4.25%

Despite the Federal Reserve lowering its policy rate by a full percentage point in 2024, we believe fixed income yields could remain attractive in 2025. In our base scenario, we forecast 10-year yields to end 2025 at a similar level to 2024, reflecting a still healthy economic environment, the potential for firm inflation, and upward pressure from new Treasury supply. Notably, we see the Fed reducing policy rates gradually, as potential soft patches in activity/employment enable the Fed to ease restrictive policy to extend the expansion.

Market Performance

Sector	Index	U.S. Dollar Terms 2023*	2024**
Equity	S&P 500	+26.3%	+28.1%
	Russell 2000	+16.9%	+21.6%
	MSCI World ex USA	+17.9%	+7.6%
Fixed Income	Bloomberg US Universal	+6.2%	+3.6%
	Bloomberg US Corp HY	+13.4%	+8.7%
	Bloomberg Global Treasury Ex-US	+4.2%	-2.7%
Alternatives	Wilshire Liquid Alternative	+6.2%	+7.0%
	Bloomberg Commodity	-7.9%	+4.3%
	Gold	+13.5%	+29.4%
Oil & Currency	Bloomberg WTI Crude Oil (TR) (USD)	-2.0%	+7.3%
	US Dollar Index	-2.1%	+4.4%
Cash	FTSE Treasury Bill 3 Month	+5.3%	+5.0%

Sources: Morningstar Direct and American Enterprise Investment Services Inc. *Total return. ** Total return data as of 11/30/2024.

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2024 Review

As we look back on the year, it's been quite a ride for investors, but one that has generated a lot of positive momentum. The year started strong, with the S&P 500 Index finishing the first quarter on a high note, driven by a strong U.S. economic backdrop, moderating inflation pressures, improving profit conditions, and expectations of Federal Reserve rate cuts. Investor enthusiasm around artificial intelligence also played a significant role, boosting both Big Tech and smaller companies associated with the theme.

That momentum continued through the second quarter, with the S&P 500 Index marking its strongest three-quarter run since mid-2021. By the end of June, stock volatility had reached some of its lowest levels since January 2020. Again, an AI boom helped drive substantial gains across Information Technology and Communication Services. However, elevated interest rates and a Federal Reserve on pause kept a lid on broader market gains.

Within fixed income, the 10-year U.S. Treasury yield rose in the first half of the year, and return performance across major bond indexes was mixed. Notably, through the first six months of the year, U.S. economic and profit growth remained firmly positive, core consumer inflation fell, and the labor market remained solid.

Although stocks battled with bouts of volatility in July and August, the S&P 500 posted its best first nine months of the year (in an election year) going all the way back to 1950. Interestingly, the narrow leadership of Big Tech in the first half began to broaden in the third quarter, with a shift to cyclical and defensive areas outside of Technology, including Utilities, Real Estate, Industrials, and Financials.

Notably, in September, the Federal Reserve lowered its policy rate for the first time since 2020, ending an aggressive rate-hiking cycle to combat inflation pressures and begin to more fully support growth and labor moving forward. Since the September rate cut, the Fed has continued to ease rates while messaging the Committee will take a gradual approach to normalizing monetary policy moving forward.

2024 Market & Economic Themes

• Market and economic clarity may finally begin to take shape.	• Global growth should remain positive, but…
• Inflation should approach normalized levels.	• The earnings recession is over. But the 2024 playbook isn't that simple.
• High interest rates are now the wildcard for the market and economy.	• Revisit dividend growth and 2023 stock underperformers.
• While a U.S. recession is possible, it's not probable. However, should a downturn occur, investors should remain invested.	• No need to reach for yield.
• The Fed is likely to cut its target rate. But why it's lowering rates matters to the market.	• Lower policy rates and yields ahead.
• The U.S. Presidential Election will take up a lot of oxygen. But a continuation of a divided government could be market friendly.	• Don't put your portfolio in a box. Stay flexible and willing to shift allocations as conditions evolve.

In November, U.S. voters elected to send former President Donald J. Trump back to the White House for a second term, with full Republican control of Congress. Since the election, investors have reacted with guarded optimism to the prospects for potentially lower taxes and less regulation but remain concerned about the path forward for tariffs, immigration, and fiscal spending priorities.

With an eventful year winding down, U.S. stocks are on pace to record another year of strong annual returns. In fact, the S&P 500 recorded its strongest month of performance this year in November, putting the Index on pace for two consecutive years of back-to-back +20% plus returns for the first time since the late 1990s. Since the election, investors have favored small-cap stocks, Financials, Consumer Discretionary, and software companies in Tech while reducing exposure to Health Care, Utilities, and strategies that hedge volatility. However, most recently, these trends have continued to shift and evolve.

Importantly, after a run higher from mid-September to mid-November, the 10-year U.S. Treasury yield has traded in a more volatile range. Above-normal inflation, strong growth trends, and escalating debt/deficit concerns have buoyed longer-term government bond yields in the fourth quarter.

In terms of our 2024 themes, we generally hit the mark on several key points outlined last December and shown above. The U.S. economy avoided a recession, market and economic conditions were generally stable, and inflation continued to normalize. However, elevated interest rates this year did little to derail risk appetite or cause an unforeseen risk event. Importantly, the Fed began cutting interest rates in an effort to gradually return restrictive rate policy to a more normal level. As we noted in last year's Theme and Outlook report, gradual rate cuts in 2024, as opposed to more aggressive cuts to support growth, would be a market positive, which proved to be the case. Obviously, we missed the mark on the divided government theme. Still, we made up for it with our outlook on global growth (e.g., country dependent), the resumption of a positive profit backdrop, and, more recently, broadening opportunities outside of Big Tech. Like last December, maintaining a pragmatic view about the year ahead, taking advantage of still high yields, and having a plan if the waters temporarily get a little choppier is usually sound advice at the start of any given year, in our view.

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2025 Market & Economic Themes

Big Picture Themes	Why is it important?
Security selection makes a comeback.	U.S. asset prices/valuations reflect much of what could go right over the next twelve months. A more selective investment approach may be required to help navigate a fluid environment.
Fundamental conditions in the U.S. economy and financial markets will likely remain firm.	In our base scenario, the U.S. economy should grow around its longer-term trend, core inflation should moderate to policymakers +2.0% target, and corporate earnings should grow for the fifth consecutive year.
A second Trump term offers potential benefits and risks to growth that are difficult to forecast. However, the odds favor a pro-growth outcome, in our view.	Sorting through potential changes to tax policy, regulation, trade policies, and immigration should keep markets busy. Less regulation and the extension of expiring provisions in the 2017 Tax Cuts and Jobs Act (in addition to lowering certain taxes) could be modestly stimulative. Yet, broad tariff implementations could dampen economic growth and put upward pressure on inflation.
Big Tech remains influential, but expanding profit growth elsewhere creates opportunities.	An artificial intelligence "gold rush" has pushed the valuations of mega-cap Technology companies into rarified air. But an increasing number of industries outside of Tech could see an acceleration in profit growth and have room to rise. Investors should broaden their horizons for opportunities and selectively take advantage of potential weaknesses in Technology.

Economic and Policy Considerations	Why is it important?
The U.S. remains the envy of the world.	Solid labor trends, normalizing growth/inflation, and a dynamic economy, possibly boosted by "America first" fiscal policies, keep growth positive.
Fed policy eases, with a few caveats.	The Federal Reserve should employ further interest rate cuts in 2025. Inflation could remain sticky, however, depending on the magnitude of tariff implementations. An unexpected economic slowdown would also complicate the direction and trajectory of rate policy.
Global growth/policy looks less certain.	U.S. tariff actions could complicate growth prospects in many parts of the world. China may need to act more aggressively to stimulate its economy while Europe looks to gain traction.

Stock & Fixed Income Themes	Why is it important?
New administration. A new playbook.	Non-tech cyclical segments could offer opportunities based on expanding economic conditions, pro-growth fiscal policies, deregulation, increased capital market activity/investment, and a made-in-USA focus. Such conditions could provide tailwinds to certain industries.
Industries over sectors.	Investors may need to dig deep into industry sub-groups to uncover opportunities. This could include considering MedTech over Health Care, Capital Markets over Financials, or Software over Information Technology.
The Year of Shareholder Yield.	Focus on companies that return value to shareholders through dividends or share buybacks while maintaining a disciplined capital structure.
Treasuries could face a challenging year—fixed income diversification to the rescue.	Debt ceiling deliberations and a very challenging debt/deficit picture could combine with geopolitical frictions to inflame Treasury market volatility. Diversifying among government securities, municipals, and high-quality corporate bonds may reduce price instability.
Corporate debt default rates remain low. Bonds still offer generous yields.	Solid inflation-adjusted yields and healthy borrowing conditions highlight the value of fixed income investments. Areas of opportunity include the industries mentioned above and credits tied to reshoring and infrastructure.

Portfolio Theme	Why is it important?
Stick to the basics.	Focus on diversification, hew exposures to the U.S., grab some yield, and be prepared for an eventful year.

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Ameriprise 2025 Year-End S&P 500 Scenario Forecast

Favorable Scenario Macro Conditions

- U.S. real GDP rises by +2.0% or more on resilient consumer/business spending.
- The global economy grows by more than +3.0% in 2025.
- U.S. employment remains resilient; The unemployment rate ends the year at or under 4.0%.
- U.S. core inflation slows more quickly than anticipated.
- Fed funds target range ends 2025 at 4.25% - 4.50%.
- Several major developed central banks also cut policy rates to help support/boost economic conditions.
- U.S. 10-year Treasury yield ends the year around 5.00%.
- 2025 corporate earnings growth rises by more than +15% versus 2024.
- Lower tax rates, less regulation, and an investment banking recovery add additional fuel to U.S. economic and corporate profit growth.
- Increased tariff actions from the White House are measured and used as a negotiating tactic to strike better bilateral trade agreements with other countries.
- Geopolitical tensions ease and allow investors to feel more confident in allocating capital to opportunities outside the U.S.
- Other Market Considerations: Consumer resiliency, driven by solid labor conditions and tailwinds from favorable fiscal policies, could help a broader set of cyclical areas, including smaller-cap stocks, see improved trends. Here, stock valuations could expand modestly, but higher S&P 500 levels may be most contingent on earnings growth accelerating past current analyst expectations. Additionally, for stocks to achieve such levels, the artificial intelligence theme may need to continue uninterrupted, and investors may need to look past slower/no fed funds rate cuts and higher longer-term government bond yields due to strong growth.

Trailing Earnings Multiple Estimate (P/E) = 25.0x

7,000

+19.2% from 12/18/24 level

2025 EPS Estimate = $280.00

Base Scenario Macro Conditions

- 2025 U.S. real GDP advances by +2.0%. Consumer spending downshifts but remains positive.
- The global economy likely grows by about +3.0% in 2025.
- U.S. employment gains slow, but the unemployment rate ends the year in the low 4.0% range.
- Core inflation steadily eases, approaching the Federal Reserve's 2.0% target around mid-year.
- The fed funds target range ends at 3.75% - 4.00%.
- Other global central banks cut rates to better align economic growth with normalizing inflation.
- U.S. 10-year Treasury yield ends the year near 4.25%.
- 2025 U.S. corporate earnings could grow between +10% and +15% versus 2024. Broader profit growth across industries outside of Big Tech helps support higher multiples.
- The extension of expiring tax provisions in the 2017 Tax Cuts and Jobs Act, as well as the potential for even lower taxes and less regulation, is additive to growth on the margins.
- Forecasted impacts from a mix of new targeted tariffs but potentially improved trade agreements over time remain difficult to predict.
- Geopolitical tensions remain elevated, which, on the margins, curb risk appetite outside of the U.S.
- Other Market Considerations: A mix of positive and "not-so" positive macroeconomic factors could create periods of stock volatility that, at times, challenge investors' convictions. Notably, areas of Technology could move through periods where leaders see near-term challenges and their stock prices reset to new (potentially) lower expectations. That said, investors should use these opportunities to allocate to longer-term secular leaders. Diversification across equity income, non-tech cyclicals, and fixed income can help investors navigate such challenges.

Trailing Earnings Multiple Estimate (P/E) = 23.5x

6,500

+10.7% from 12/18/24 level

2025 EPS Estimate = $275.00

Adverse Scenario Macro Conditions

- Real U.S. GDP slows more than expected. Weaker consumer trends combined with tariff-related inflation.
- Global economic growth weakens amid a drag from China.
- The U.S. unemployment rate ends the year at 4.5% or above.
- Slowing growth, potential U.S. tariff impacts, and/or immigration changes create mixed reactions across inflation.
- The fed funds target range could end the year at 3.25% - 3.50% as officials look to support growth.
- Mixed economic conditions make global rate policy difficult to anticipate and case-by-case across regions.
- U.S. 10-year Treasury yield ends near 3.00%.
- 2025 U.S. corporate earnings growth rises by mid-to-high single digits versus 2024. Reduced economic activity outweighs the benefits of potentially lower taxes/less regulation.
- Mixed-to-aggressive U.S. tariff actions on China and possibly other European/Asian imports disrupt global supply chains and weigh on economic/profit growth.
- Along with ongoing geopolitical instability, added trade tensions weigh on growth and asset prices across Asia and Europe.
- Other Market Considerations: Slower growth leaves the economy more fragile, and adverse market scenarios could remain difficult to anticipate. Notably, the delayed effects of constrictive rate policy may unexpectedly stall global activity. That said, the U.S. economy remains on solid footing, and the Federal Reserve has ample room to adjust monetary policy lower to help support growth if needed. In our view, a more aggressive reset lower around profit expectations in Technology and/or a delayed broadening profit theme could see stock valuations, and hence prices, drift lower.

Trailing Earnings Multiple Estimate (P/E) = 21.5x

5,500

-6.3% from 12/18/24 level

2025 EPS Estimate = $255.00

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2025 Outlook

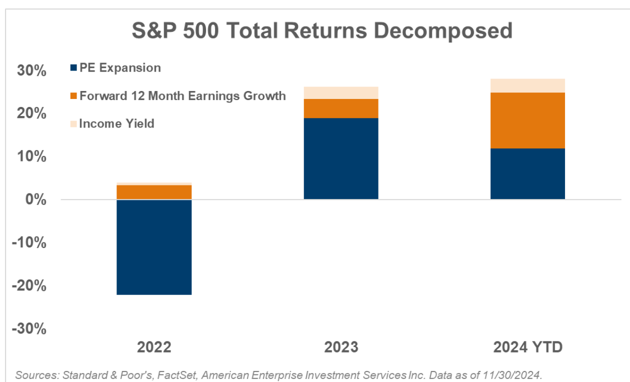
2025 S&P 500 year-end price target: 6,500

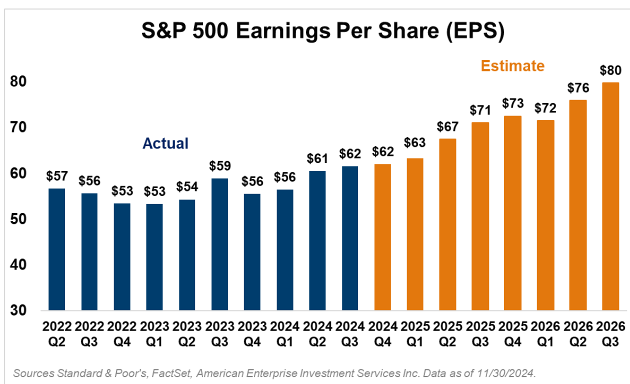
We see a favorable backdrop in 2025, but one that may require a more patient and disciplined investment approach. Firm economic conditions, near-normal inflation, broadening profit growth, strong secular themes across Technology, and growth-focused fiscal policies could see stocks finish the year higher than current levels, albeit with periods of volatility throughout the year.

However, we believe much of the optimism about 2025 is currently priced into stocks, which leaves less upside room if conditions come in as expected and more downside risk if conditions come in worse than believed. After twelve months of nearly uninterrupted upside momentum across U.S. stocks, investors shouldn't be surprised if markets show a little bit of a hangover in the first few months of the new year. As such, investors should be prepared to weather occasional storms, which could leave the market environment more challenging to navigate at times compared to the relatively calm seas investors have enjoyed most of the last two years.

Notably, stock valuations across certain areas are elevated, interest rates remain high, and there is a risk growth could slow more than expected next year if Fed or fiscal policies turn from tailwinds to headwinds. Although these points may seem obvious, after back-to-back years of +20% plus returns in the S&P 500, we question if investors are prepared for a potential quarter or two of negative returns if the Goldilocks environment that's currently built into stock prices doesn't materialize exactly the way the script is written.

With several years of multiple expansion driving a fair share of S&P 500 performance, we believe the earnings growth projected over the next year or so could be increasingly critical in supporting stock prices.





Fortunately, corporate profits are expected to rise over the next year, with all eleven S&P 500 sectors projected to see positive earnings per share growth in 2025. If sectors such as Information Technology and Communication Services continue to see strong earnings trends in 2025 (which we believe they will) and other sectors contribute positively to the profit narrative, U.S. stocks are positioned for another solid year of performance, in our opinion.

Global Asset Allocation Committee 2025 Targets

Key Measure	2024 Actual	2025 Target	Implied Change
U.S. Real GDP	+2.8%*	+2.0%	-0.8 pp
S&P 500 Index**	5,872	6,500	+10.7%
10-year Treasury Yield**	4.51%	4.25%	-0.26%
Fed Funds Target	4.25% to 4.50%	3.75% to 4.00%	-0.50%

Source: American Enterprise Investment Services Inc.; FactSet
pp = percentage points
* Estimated, 2024 Actual based on year-end values
**as of December 18, 2024.

Actions to Consider

- Adopt a selective investment approach, prioritizing fundamental strength over momentum and recent price action.
- Buy Big Tech on bouts of weakness, diversify into non-tech cyclicals, reach down into industry groups for opportunity and/or use investment products that will make these decisions for you.
- Consider adding income-producing strategies across stock and bond allocations. Use alternatives to help reduce portfolio volatility.
- Carefully monitor fiscal policy changes. Taxes, regulation, tariffs, trade, and geopolitical norms are all subject to shift under a second-term Trump administration and could create bouts of market volatility as well as upside opportunity.
- Help insulate against potential Treasury volatility and/or lower money market yields by diversifying fixed income investments into non-cash/non-Treasury positions.
- **Tactical investors:** Come into the year largely balanced versus strategic targets. Much of the positivity for 2025 is priced into assets. Should conditions change, adjust appropriately.
- **Strategic investors:** Stock valuations are elevated versus history, and fixed income provides healthy yields. Ensure your portfolio is aligned with your risk tolerance and goals.

Up Ahead:
Economic Perspective
Key Equity Themes
Key Fixed Income Themes
Portfolio Positioning & Wrap-up

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Economic Perspective

We see U.S. real GDP growth slowing to a pace of about +2.0% in 2025 from its recent +3.0%.

We forecast the pace of U.S. real economic growth to slow in 2025 to about +2.0% from its recent pace of about +3.0%. Currently, a survey of economic forecasters, as compiled by Bloomberg, sets a consensus view for 2025 real Gross Domestic Product (GDP) growth at +2.1%.

In our view, consumers continue to work down the excess savings they built up during the pandemic, but wage and salary growth should provide ample fuel for spending over the intermediate term, as was the case pre-pandemic. In the eight years prior to the pandemic, U.S. economic growth averaged a reasonably steady +2.5%, which was enough to bring the unemployment rate down to 3.7% (2019 ending) from 7.4% (2013), according to the Labor Department. Importantly, we do not see a moderately slower pace of economic growth as likely to result in a materially higher unemployment rate in 2025, and we look for unemployment to remain in the low 4% range.

Additionally, +2.0% annualized growth is the U.S. economy's current "sustainable pace," which, according to the Congressional Budget Office (CBO), is based on current growth in the working-age population multiplied by how productive workers are. For any economy, the sustainable rate of growth is that which is neither too fast to generate upside pressure on inflation nor too weak to result in a higher unemployment rate.

Tariffs: The eventual size and scope of tariff actions, as proposed by the incoming Trump administration, stand as one of the most important uncertainties facing the 2025 outlook. Most of the proposed tariffs are likely to be used as negotiation starters, in our view, as related to non-economic objectives such as border enforcement or the flow of drugs into the country (primarily in the case of Mexico and Canada). Tariffs on goods from China, however, are likely to endure, thus offering some residual upside inflation pressure.

That said, depending on the magnitude, items affected, and countries targeted, tariffs could have adverse implications for inflation and real economic growth. We've evaluated the prospect of a 'worst-case' scenario whereby tariffs are implemented as they've been most frequently proposed by the incoming administration (60% additional tariffs on China and 10% on all others). Our calculations suggest some notable upward pressure on inflation could result, but the overall economic burden should be manageable. Under a worst-case scenario, we believe consumer prices could see added upward pressure of 0.5% to 0.8%, with real GDP likely to be lower by a similar amount, all else remaining equal.

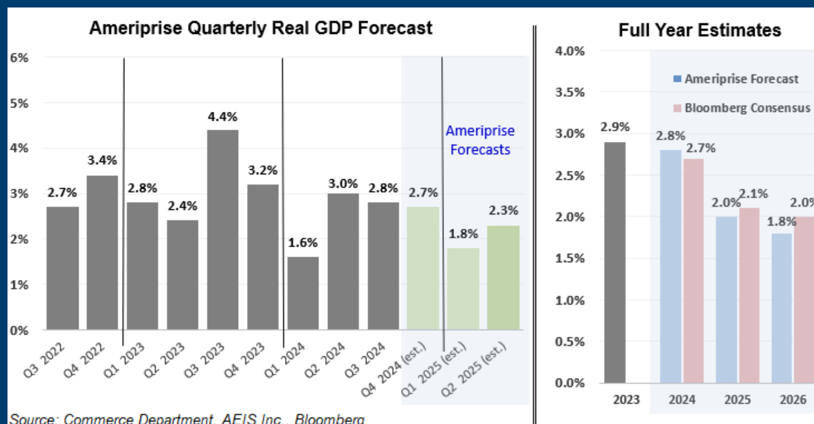
Fundamentals: Of key importance, the U.S. economy should enter 2025 on a solid foundation, in our view. Consumer debt burdens remain low, and the employment outlook is sound. The dollar value of consumer credit card debt has been widely touted as a considerable source of consumer spending risk. However, when the dollar value of credit card debt is compared against aggregate consumer income, the debt burden is shown to be fairly low relative to its history. Business balance sheets are also in fairly good shape, in our opinion (as measured by S&P 500 net debt positions).

Inflation: Much progress has been made in slowly taming inflation over the last two years. Still, the Consumer Price Index (CPI) was up 2.7% from its year-ago levels in November. This is still well above the Federal Reserve's desired range of about 2%, but we believe further progress should be made in easing inflation over the first half of 2025, with high year-ago comparisons making for a lower bar. Still, as mentioned earlier, tariffs and their effect on end-consumer prices stand as a considerable risk to inflation's intermediate-term path.

Housing: Finally, turnover in the existing home market has been quite weak over the last two years amid high mortgage rates and record-high prices. In recent months, however, availability has improved, even though it remains tight relative to historical standards. We look for a modest improvement in sales volumes in 2025 and for prices to moderate somewhat on the improvement in availability.

Please see the Economic Perspectives: 2025 Economic Outlook report for more detail.

Ameriprise U.S. Real GDP Outlook



Source: Commerce Department, AEIS Inc., Bloomberg

IMF Global Economic Projections

IMF Global Economic Projections

	Actuals 2020	2021	2022	2023	Projections 2024	2025
World	-3.1	6.0	3.5	3.3	3.2	3.2
United States	-3.4	5.7	2.1	2.9	2.8	2.2
Euro Region	-6.3	5.2	3.3	0.4	0.8	1.2
Japan	-4.6	1.7	1.0	1.7	0.3	1.1
Developing Asia	-0.8	7.2	4.5	5.7	5.3	5.0
China	2.3	8.1	3.0	5.2	4.8	4.5
India	-7.3	8.7	7.2	8.2	7.0	6.5
Russia	-3.0	4.7	-2.1	3.6	3.6	1.3
Brazil	-4.1	4.6	2.9	2.9	3.0	2.2
Mexico	-8.3	4.8	3.9	3.2	1.5	1.3

Source: IMF World Economic Outlook, October 2024

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Key Equity Themes

A Fresh(er) Start

Despite the S&P 500 hitting over 50 new highs in 2024, stocks climbed the proverbial “wall of worry” for much of the year. However, equities enter 2025 with favorable tailwinds, including solid earnings growth, fewer headline risks, and optimism about what new leadership in D.C. can accomplish. Nevertheless, it is unlikely to be a linear path to our 2025 base case S&P 500 target of 6,500 as the market grapples with geopolitical uncertainty, record US debt levels, and relatively rich stock valuations. But that is the dichotomy of risk/reward that typically ‘makes’ markets. Below, we highlight our Key Equity Themes for 2025.

New Administration; New Playbook. In our view, investors’ playbook for the incoming administration centers around portfolio positioning leveraged to 1) deregulation, 2) “made in the USA,” and 3) the impact of potential tariffs.

On deregulation, we believe the Biden administration’s aversion to merger and acquisition (M&A) activities could reverse, paving the way for consolidation across several industries and a rebound in investment banking fees. Targeted areas for deregulation include energy, healthcare, and banking.

Made in the USA aligns with the new administration’s goal of vigorously supporting domestic supply chains and revitalizing the U.S. manufacturing base. Finally, tariffs have recently become a ‘hot button’ issue as Trump proposes a wide-ranging and potentially significant (and risky) tariff scheme for our trading partners. Although ‘walking the walk’ may be more challenging than ‘talking the talk,’ we believe even a more modest tariff proposal could benefit certain domestic companies and industries. In short, while volatility likely accompanies this rhetoric, we are in the camp that tariffs are more of a ‘tactic’ than a blunt ‘tool.’

Shareholder Yield Takes the Spotlight. Shareholder yield is the combination of dividends paid out and shares repurchased by a company. While dividend indices lagged in 2024 as investors favored AI and the Magnificent 7, we believe 2025 can witness an increasing focus on the emerging shareholder yield metric.

Although dividends are often seen as the primary path for companies to return capital, combining dividends (including dividend growth) and share buybacks (beyond offsetting dilution from employee stock options) offers investors a more compelling total return opportunity, in our view.

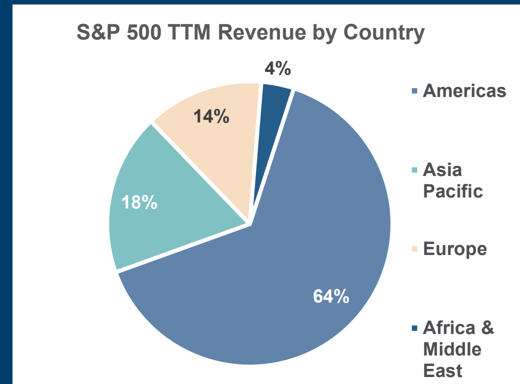
Our thesis for focusing on shareholder yield in 2025 reflects factors such as the anticipated trend for potentially lower interest rates (favorable for dividend payers), no incremental tax applied to share buybacks, and companies using strong free cash flow to reward shareholders. As an added diversification benefit, companies focused on the attributes of shareholder yield typically experience less volatility during periods of broad market stress.

Industries Trump Sectors. Diversifying across economic sectors is a time-tested equity allocation strategy. However, with mega-cap companies dominating several sectors (e.g., Info Tech, Comm Services, Consumer Discretionary), smaller, often overlooked themes can fly under investors’ radar.

In our opinion, a deeper dive into industries could bode well for potential outperformance in 2025. We believe the backdrop of a new administration (and positioning around policy), the potential for faster-than-expected earnings growth, and expectations for clarity on particular end-market dynamics create an attractive environment for a more narrowly focused investing strategy. Specifically, we believe the following industries (versus their larger sector) can offer attractive opportunities in 2025: Med-Tech (Health Care), Capital Markets (Financials), Natural Gas (Energy), and Software/Services (Technology).

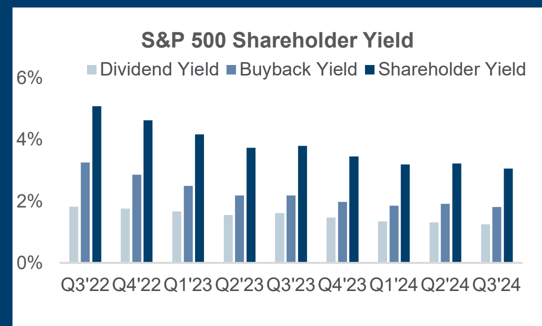
Please see the 2025 Equity Outlook reports for more details.

Tariffs: Tool or Tactic?



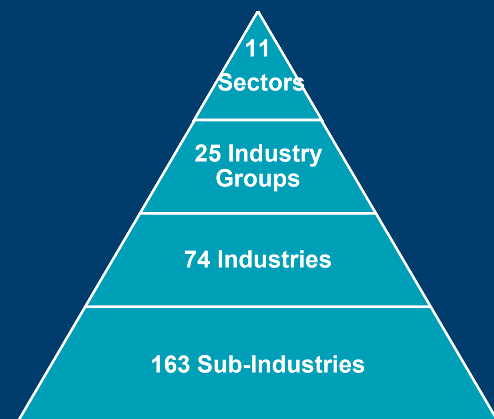
Source: S&P Dow Jones Indices and AEIS. Data as of 12/15/24.

Shareholder Yield Takes the Spotlight



Source: S&P Dow Jones Indices and AEIS

Industries Trump Sectors



Source: S&P Dow Jones Indices and AEIS.

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Key Fixed Income Themes

Bond yields offer solid income and steady returns

Investors can earn more yield on the Bloomberg U.S. Aggregate Index (Aggregate) than at the end of 2023. At a recent 4.79%, the Aggregate yields nearly a quarter percent higher than at the end of last year. Even after the Fed lowered rate policy by a percentage point this year, we believe fixed income yields remain alluring. Long-term inflation expectations hovered around 2.0% over the past four years, leaving inflation-adjusted bond yields of 2.5% for the Aggregate and 3.0% for Investment Grade Corporate Bonds. Core bonds can meaningfully contribute to long-term portfolios.

Fixed Income Yields Remain Attractive
Relative to five-year breakevens five years forward; Yield (%)

Source: Bloomberg L.P.

Short-term bond yields headed lower with Fed rates. The Fed lowered its policy range by a percent to 4.25% - 4.50% this year. Fed rate policy remains restrictive, seeking to temper growth and inflation further. Directionally, we anticipate further rate cuts over the next few years, suggesting nominal yields may be less generous in the coming quarters, so buy them before they are gone. Along with the Fed, the Eurozone, the U.K., and China are all moving away from high policy rates. To the extent the Fed slows its pace of cuts in 2025, U.S. yields could begin to stand out among lower global bond yields.

Easy financing conditions pave the way for corporate investment. High-yield corporate issuance is up more than 50% this year compared to last, and high-yield spreads fell to a new 17-year low of +253 basis points on November 12, 2024. Strong demand from investors seeking to put money to work supported primary market demand throughout 2024. While the credit environment supports a favorable outlook and currently low default rates into 2025, high-yield credit spreads remain historically narrow. The risk would be an unforeseen geopolitical conflict or U.S. economic slowdown that could make credit spreads markedly widen.

Treasury volatility ahead. Heading into 2025, we are watching the ICE BofA MOVE Index, anticipating changes in interest rates could increase from the relatively calm of 2024. We expect net new Treasury supply, ongoing fiscal spending decisions, and pro-growth policy prospects to push up Treasury yields at times. Other times, geopolitical risk, demand for comparably high U.S. fixed-income yields, and trade conflicts could depress Treasury yields. Time will tell which factors prevail, but we suggest diversifying high-quality bond allocations to chart a steadier course.

Global Indebtedness begins to matter. Slowing global growth can dampen tax receipts, expand deficits, and complicate repayment of elevated debt levels for many developed and emerging economies. We anticipate more "Liz Truss Moments" where sovereign debt yields jump when asked to fund populist spending plans. The U.S. could eventually fall under similar conditions if corrective actions aren't taken.

Please see our 2025 Fixed Income Outlook for more details.

Treasury curve shaped by healthy growth

The pace of U.S. growth continued to surprise in 2024 and likely carries over into 2025 to a degree. U.S. activity appears well supported by the incoming administration's potential deregulation and tax cuts and topped off with prospects for further Fed rate cuts.

The risk could be an unanchoring of inflation or trade-induced supply chain disruption that could keep Fed policy in restrictive territory. Conversely, rising slack in labor markets and lower-than-anticipated inflation may lead the Fed to lower policy rates more quickly to extend the economic expansion.

Ameriprise 2025 Year-End Forecasts (See scenarios on page 5)		
Favorable Scenario	Base Scenario	Adverse Scenario
Fed Funds Target Range 4.25% - 4.50%	Fed Funds Target Range 3.75% - 4.00%	Fed Funds Target Range 3.25% - 3.50%
10-Year Treasury 5.00%	10-Year Treasury 4.25%	10-Year Treasury 3.00%

Source: American Enterprise Investment Services, Inc.

Fed funds policy forecast: Our scenarios reflect how much latitude growth and inflation permit the Fed to lower policy rates toward a more neutral level. In our Base Scenario, the Fed reduces policy rates by half a percent next year as occasional soft patches in data enable the Fed to ease restrictive policy to extend the expansion. In the Favorable Scenario, strong growth through 2025, coupled with inflation above 2.5%, could lead the Fed to stay on the sidelines through the year, having already cut rates by a whole percentage point in 2024. The Adverse Scenario sees periods of slower growth, which permits the Fed to lower its rate policy by a full percent.

Ten-year Treasury yield forecast: As the Fed looks likely to cut less aggressively than expected at the end of September, the 3-month to 2-year segment of the Treasury curve flattened, reflecting a modest potential for Fed cuts in 2025. In our Base Scenario, we forecast 10-year yields to end 2025 at 4.25%, modestly below where they stood on December 17, 2024. Inflation of around 2%, significant net new Treasury issuance, and stable growth support a natural upward slope for the 2-year to 10-year segment of the curve. In the Favorable Scenario, Fed cuts are likely off the table, and the steepening in the 2-year/10-year relationship could leave 10-year yields near 5.0%. Conversely, to the extent growth softens and results in additional Fed rate cuts, we anticipate 10-year yields likely settle at 3.0%.

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Portfolio Positioning & Wrap-Up

Sticking to the basics

U.S. stocks have rallied more than +166% cumulatively since the end of 2018 and have materially outpaced other major asset classes over the last two years. Despite the run-up, investor optimism for economic and corporate growth remains high for 2025, given solid fundamental conditions, an innovative corporate sector, and a pro-growth administration. However, as we have discussed, we believe much of the optimism about next year is already priced into stocks.

As such, despite the fundamental backdrop, investors should be prepared to weather occasional storms. In our view, the best course to chart for 2025 depends on time horizon, risk profile, views on tactical vs. strategic investing, and whether you are in accumulation or decumulation mode. We discuss each of these below.

Time Horizon: Stocks are generally considered the main propellent of portfolio growth over the long term. While we believe stocks can continue to drive performance, valuations in this asset class are lofty. We recommend short-term investors match investments with liabilities and goals. Longer-term investors may find bonds pull more weight than in prior years, given their higher yield relative to history. Additionally, long-term investors should layer in diversifying assets like commodities and alternative strategies and take advantage of market pullbacks to rebalance back to strategic targets over time.

Risk Profile: U.S. stocks (and notably leading technology companies) led the way in 2024, while returns from foreign stocks, fixed income, and other asset classes were positive but muted. As we look to 2025, we believe the U.S. remains the driver of economic innovation. However, diversification across asset categories should play a central role across risk profiles, with more aggressive investors favoring stocks over bonds.

Strategic vs. Tactical: We recommend tactical investors start the year relatively neutral but be willing to adjust and adapt to changing market conditions. Most notably, we recommend tactical investors consider selective opportunities and active management. Additionally, tactical investors could consider any short-term weakness along the way as an opportunity to reposition into equities, particularly if cash holdings are elevated. Strategic investors should look beyond any market volatility during the year and proactively rebalance if they find their portfolio drifting meaningfully away from their preferred target allocation.

Accumulation vs. Decumulation: Investors accumulating assets may find greater opportunity within traditional assets, particularly fixed income, than in recent memory. These investors should consider pullbacks as opportunities to deploy more capital, especially if they are tactical investors. Retired investors spending down their portfolios should work with their advisors to see how the increased yield environment can help them meet cash flow needs. Retired investors should additionally take time to ensure they can comfortably handle any market volatility along the way.

Tying it all together

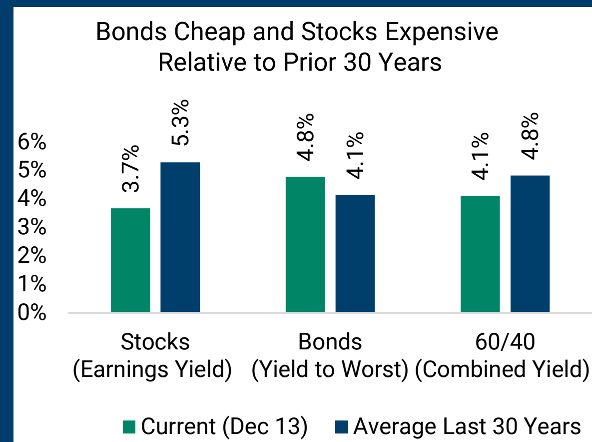
Bottomline: We suggest sticking to the basics in 2025. Focus on a diversified investment approach, shade portfolios toward the U.S., incorporate strategies that focus on security selection and yield, and be prepared for an eventful year ahead. ■

2024 – U.S. stocks lead but other major asset classes show positive performance on the year

Year	U.S. Stocks	Foreign Stocks	Bonds	Commodities	Alternative Strategies
2024	28.6%	8.3%	2.0%	5.1%	6.7%
2023	26.3%	15.6%	5.5%	-7.9%	6.2%
2022	-18.1%	-16.0%	-13.0%	16.1%	-5.6%
2021	28.7%	7.8%	-1.5%	27.1%	4.7%
2020	18.4%	10.7%	7.5%	-3.1%	3.2%
2019	31.5%	21.5%	8.7%	7.7%	6.7%
2018	-4.4%	-14.2%	0.0%	-11.2%	-4.2%
2017	21.8%	27.2%	3.5%	1.7%	5.1%
2016	12.0%	4.5%	2.6%	11.8%	2.3%
2015	1.4%	-5.7%	0.5%	-24.7%	-3.4%
2014	13.7%	-3.9%	6.0%	-17.0%	1.5%
2013	32.4%	15.3%	-2.0%	-9.5%	4.1%
2012	16.0%	16.8%	4.2%	-1.1%	5.0%
2011	2.1%	-13.7%	7.8%	-13.3%	-0.5%
2010	15.1%	11.2%	6.5%	16.8%	3.5%
2009	26.5%	41.4%	5.9%	18.9%	10.3%

Sources: Bloomberg, S&P Dow Jones Indices, American Enterprise Investment Services Inc. U.S. Stocks are represented by the S&P 500 Price Index and does not reflect the impact of dividends, Foreign Stocks are represented by the MSCI ACWI ex-USA Index (Net). Bonds are represented by the Bloomberg U.S. Universal Total Return Index. Commodities are represented by the Bloomberg Commodities Total Return Index. Alternative Strategies represented by the Wilshire Liquid Alternatives Total Return Index. Calculations assume no fees or transaction costs. Past performance is not a guarantee of future results. Data as of 12/13/24.

Bonds remain cheap relative to history, while stocks, after two years of solid gains, are highly valued



Sources: Bloomberg, S&P Dow Jones Indices, American Enterprise Investment Services Inc. Stocks are represented by the earnings yield (earnings / price) of the S&P 500 Index, bonds are represented by the yield to worst of the Bloomberg U.S. Universal Index. 60/40 is 60% earnings yield from stocks and 40% yield to worst from bonds. Higher implied yields infer lower (better) valuations and vice versa. Data as of 12/13/2024.

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Price/Earnings: An equity valuation multiple calculated by dividing the market share price, as of a certain date, by earnings per share. Trailing P/E uses the share price divided by the past four-quarters' earnings per share. Forward P/E uses the share price as of a certain date divided by the consensus estimate of the future four-quarters' EPS.

The **Standard Deviation** measures how concentrated the data are around the mean; the more concentrated, the smaller the deviation.

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Definitions of individual indices mentioned in this report are available on our website at ameriprise.com/legal/disclosures/ in the **Additional Ameriprise research disclosures** section, or through your Ameriprise financial advisor.

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