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MARKETS IN FOCUS

Macro insights

2025 OUTLOOK

Positioning in a higher-volatility bull market

The case for a diversified portfolio

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The S&P 500 Index soared in 2024 and performance broadened across sectors, asset classes and market capitalizations.[1] In 2025, equity performance could continue to broaden, but the ride could get bumpy.

“My theme for 2025 is diversification,” says Matt Orton, CFA, Chief Market Strategist at Raymond James Investment Management. “I’m optimistic on where I believe the market is going to go, but I expect that we’re going to have a higher-volatility bull market.”

“As a result, I think being selective in what you own and being able to have a more diversified portfolio is going to be important. I also believe that diversification is going to work better than it has in the past.”

Orton’s key themes for 2025

The path of least resistance is up	• Prepare for, but don’t fear, a high-volatility bull market. • The earnings backdrop for equities is favorable. Deregulation and increased capital markets activity are promising tailwinds. • What recession?
Risk review: Known unknowns	• Move fast and break things: Tariffs and dismantling bureaucracy. • Policy, inflation, and the federal deficit. • High valuations and a concentrated market.
Asset allocation will actually matter	• Small caps can benefit from falling rates and rising mergers and acquisitions (M&A) activity. • Divergences could offer openings for opportunistic positioning. • Consider leaning into megatrends – AI, reshoring, rising capital expenditures.

[1] Unless otherwise indicated, all data is sourced from Bloomberg as of Dec. 6, 2024.

What makes Orton so bullish?

"From where we sit today the economic fundamentals look very supportive of markets," he says. Several factors contribute to an environment that he sees not only as constructive, but rare:

- Earnings growth has continued to broaden beyond the handful of mega-cap technology companies that drove much of 2024's returns.
- Interest rates appear to be easing, the job market has held up, and inflation continues to inch closer to the U.S. Federal Reserve's 2% target.
- Deregulation and other expected Trump administration priorities could benefit sectors such as financials and energy, Orton says. He sees Trump's policy initiatives having potential to support capital markets, especially if they reduce red tape (which now includes 90,000 new pages of new federal rules a year), as well as facilitate M&A and initial public offerings (IPOs).
- Finally, the chart below suggests that this bull market is young by historical standards. Backed by solid fundamentals and pro-growth policies, it could continue rising and broadening well into 2025, Orton says.

This bull market might just be getting started

S&P 500 bull markets, 1950 to present

Bear market bottom	Bull market peak	Days	S&P 500 return
6/13/1949	8/2/1956	2,607	267.1%
10/22/1957	12/12/1961	1,512	86.4%
6/26/1962	2/9/1966	1,324	79.8%
10/7/1966	11/29/1968	784	48.0%
5/26/1970	1/11/1973	961	73.5%
10/3/1974	11/28/1980	2,248	125.6%
8/12/1982	8/25/1987	1,839	228.8%
12/4/1987	3/24/2000	4,494	582.1%
10/9/2002	10/9/2007	1,826	101.5%
3/9/2009	2/19/2020	3,999	400.5%
3/23/2020	1/3/2022	651	114.4%
10/12/2022	**12/6/2024***	**786**	**70.3%**
	Average:	1,919	181.5%
	Median:	1,862	174.4%

Source: Bloomberg, as of 12/6/24.
* This bull market is ongoing, with more potential peaks ahead.

Heightened volatility: Beware the 'known unknowns'

Tariffs
Domestic disruptor? Or Trump bargaining chip?

Inflation
Still sticky, but normalizing.

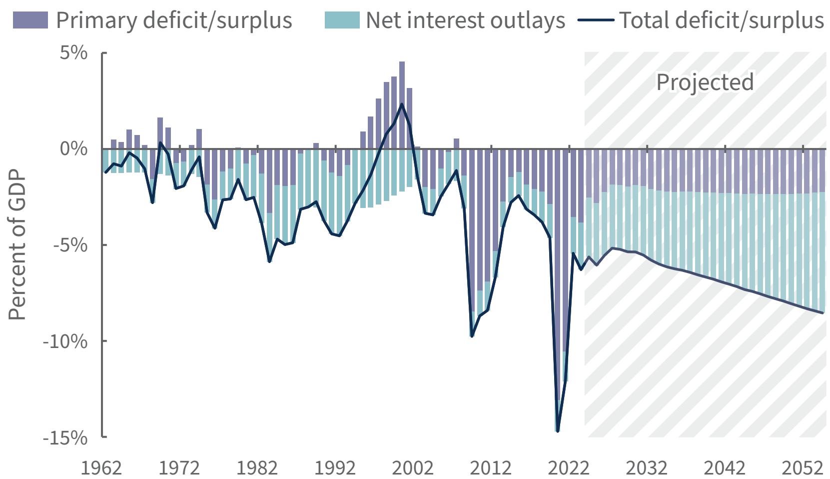
The federal deficit
Will bond vigilantes kill the party?

Geopolitical risk
A more belligerent threat environment.

"We know there's going to be changes with respect to policy," Orton says. "There's tariffs. There's deregulation. But how does all of that translate into perhaps changing the fundamentals of the economy or corporate earnings profiles? I think the outcome ultimately will be positive, but the path could be bumpy. So I believe thinking about building a diversified portfolio becomes increasingly important to weather some of the ups and downs of the market."

A growing federal deficit – and this is before any changes

Long-term deficit projections as a percentage of gross domestic product (GDP)

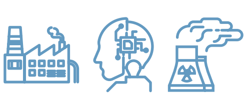


Source: Congressional Budget Office, as of 12/6/24.

Areas to watch in 2025

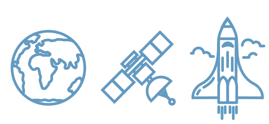
Amid this potential for more volatility, Orton sees a range of potential diversification opportunities, starting with small cap stocks, cyclicals (including financials, industrials, and information technology), and select overseas markets. His areas of focus include:

Areas that have lagged – such as **small cap equities, cyclical stocks,** and the **average stock within the S&P 500** – have begun to reverse, with room to run.



The huge capital expenditures projected to support megatrends such as **reshoring, artificial intelligence,** and the **power infrastructure** that will supply, manage, and distribute the electricity needed to run and cool the data centers that AI demands.

Even though international equities have underperformed U.S. stocks for a long time, Orton sees opportunities to be selective overseas, particularly in **global banks,** as well as in markets like **India, Japan,** and **economies on the periphery of Europe.**



As Trump pressures European allies to increase their defense spending, Orton expects **high-quality aerospace and defense** companies to benefit. He also expects them to benefit from the growth of AI.

"It's been a while since having a diversified portfolio has been very important for investment success," Orton says. "But as we move forward into a higher-volatility bull market, I think this is the year to think seriously about diversification."

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About Matt Orton

Matt Orton serves as Senior Vice President, Head of Advisory Solutions and Market Strategy, overseeing Raymond James Investment Management's client portfolio managers, portfolio specialists, RFP group, and Strategic Accounts channel. In this capacity, he helps align firm resources to best serve the firm's most sophisticated clients. Orton is also responsible for developing and delivering market commentary, strategy, and analysis, appearing on CNBC, Bloomberg TV, Yahoo! Finance, among others. He has been quoted in the Wall Street Journal, Barron's, Bloomberg News, Investments & Pensions Europe, and other financial news publications.

Orton has 14 years of investment experience and joined Raymond James Investment Management from BNP Paribas in New York where he was a Vice President in the Global Equity & Commodity Derivatives group, focusing on hedge fund and asset manager structuring and sales. Prior to that, Orton worked for Goldman Sachs Asset Management within the Quantitative Investment Strategies team where he focused on volatility research.

He earned a Master's of Business Administration with a concentration in Capital Markets and Asset Management from Cornell University and a Bachelor's degree from Vanderbilt University. He is a CFA charterholder.

About Raymond James Investment Management

Raymond James Investment Management is a global asset-management company that combines the exceptional insight and agility of individual investment teams with the strength and stability of a full-service firm. We believe providing a lineup of seasoned, committed portfolio managers – spanning a wide range of disciplines and investing vehicles – is the best way to help investors seek their long-term financial goals.

Risk Information:

Investing involves risk, including risk of loss.

Diversification does not ensure a profit or guarantee against loss.

Disclosures:

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Many investors consider bonds to be "risk free" investment vehicles. Historically, bonds have indeed provided less volatility and less risk of loss of capital than has equity investing. However, there are many factors that may affect the risk and return profile of a fixed-income portfolio. The two most prominent factors are interest-rate movements and the creditworthiness of the bond issuer. Bonds issued by the U.S. government have significantly less risk of default than those issued by corporations and municipalities. However, the overall return on government bonds tends to be less than these other types of fixed-income securities. Investors should pay careful attention to the types of fixed-income securities that comprise their portfolio and remember that, as with all investments, there is the risk of the loss of capital.

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Sector investments are companies engaged in business related to a specific sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

Investing in small cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor. The prices of small company stocks may be subject to more volatility than those of large company stocks.

International investing presents specific risks, such as currency fluctuations, differences in financial accounting standards, and potential political and economic instability. These risks are further accentuated in emerging market countries where risks can also include possible economic dependency on revenues from particular commodities or on international aid or development assistance, currency transfer restrictions, and liquidity risks related to lower trading volumes.

Definitions

"Bond vigilantes" engage in trading activity that signals their disagreement with a bond issuer's monetary or fiscal policies. Bond vigilantes are said to enforce fiscal discipline by selling a government's bonds to increase yields and raise borrowing costs.

Breadth describes the relationship between the median and the mean of a market index. When a few data outliers result in a mean that is substantially larger (or smaller) than the median of the full data set, then the performance of the entire index is being driven by a "narrow" selection of companies. An index supported by "broad" market movements is one where the median is closer to the mean.

Capital expenditures, or capex, are monies used by a company to buy, improve, or maintain physical assets such as real estate, facilities, technology, or equipment, and may include new projects or investments.

Cyclical stocks have prices influenced by macroeconomic changes in the economy and are known for following the economy as it cycles through expansion, peak, recession, and recovery.

Gross domestic product (GDP) is the total value of goods and services provided in an economy during a specified period, often one year.

The inflation target of the U.S. Federal Reserve is the rate of price increases that the Fed prefers to see to ensure the economy will remain stable. Generally, the Fed's target rate is 2%, as measured by the Personal Consumption Expenditures (PCE) Price Index.

Known unknowns refer to identified areas of potential risk with uncertainty surrounding the timing, scope of impact, or path of development for those risks.

Market capitalization, or market cap, refers to the total dollar market value of a company's outstanding shares of stock.

Mega-cap stocks are the largest publicly traded companies as measured by market capitalization. Generally, this refers to companies with market capitalizations over $200 billion.

Net interest outlays represent the interest paid on the federal government's debt when interest payments are greater than the interest income the government earns.

Quality investing is a strategy that seeks to invest in companies with low debt, stable earnings, consistent asset growth, and strong corporate governance, as reflected in financial metrics such as ratios of return to equity and debt to equity, as well as to earnings variability.

Reshoring describes the effort to bring manufacturing and other services back to the United States from overseas operations.

Sticky is a term used to describe measured data that is slow to change, in contrast to faster-changing or more variable data.

Tailwind is a term used to describe events or market forces that exert a positive influence on an investment's performance.

Indices

The S&P 500 Index measures change in stock market conditions based on the average performance of 500 widely held common stocks. It is a market-weighted index calculated on a total return basis with dividend reinvested. The S&P 500 represents approximately 80% of the investable U.S. equity market.

Contact us at **800.521.1195** or visit **RJInvestmentManagement.com** for more investment insights.

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