2025 Outlook: Great Expectations

Chief Investment Office

January 2025

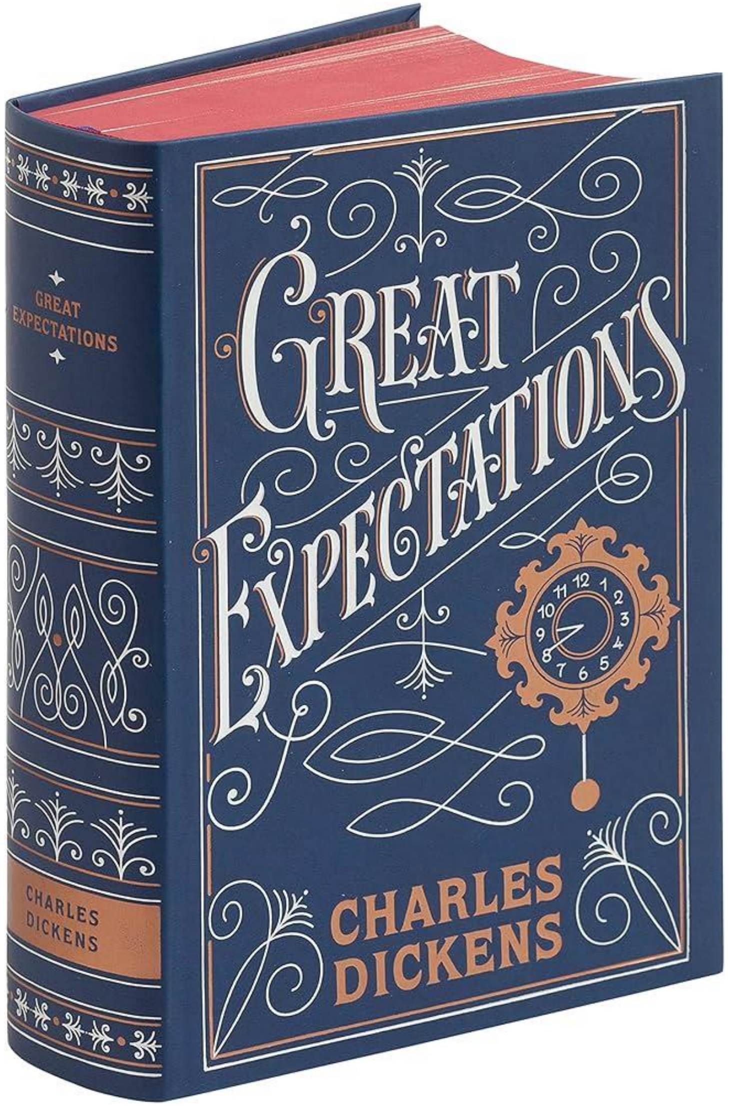
Data as of: January 14, 2025

Overview

NewEdge
WEALTH

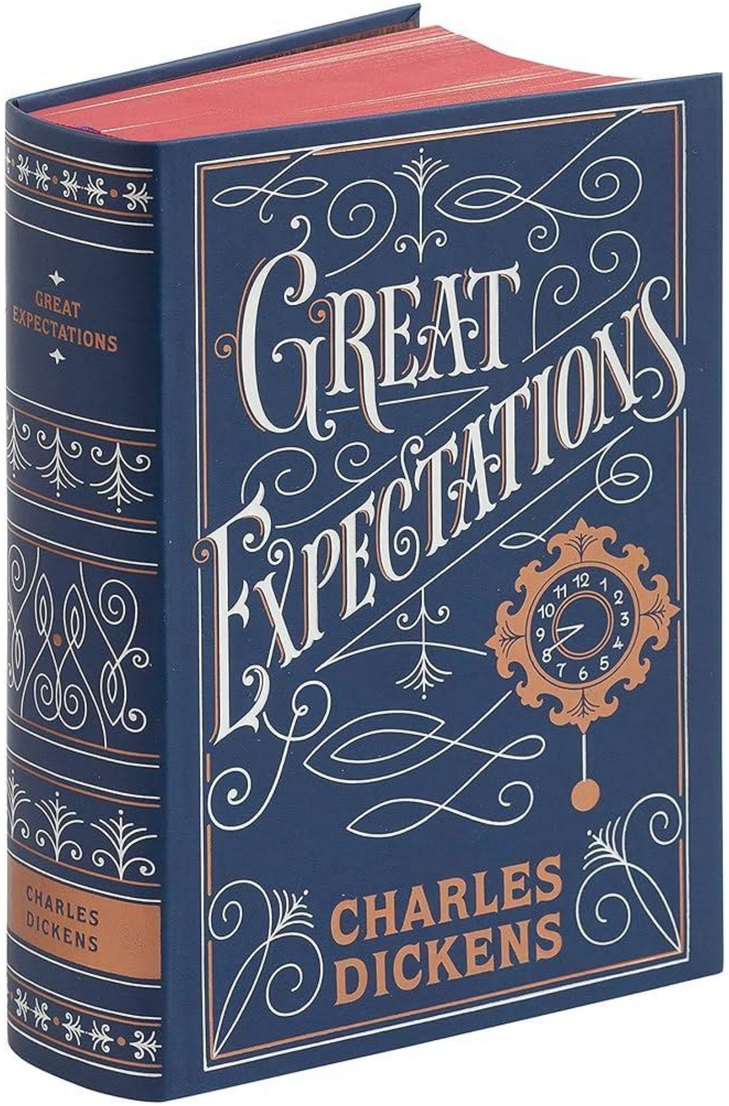
2025 Outlook: Great Expectations

- Everywhere we look, we see *Great Expectations* for the U.S. economy and markets to deliver strong results in 2025
- Starting points matter, with the bullish and optimistic view for 2025 a notable contrast to 2023 and 2024's bearish and pessimistic views
- This does not mean that we cannot achieve these *Great Expectations*, but the bar to surprise to the upside is now much higher
- Said another way: optimism is warranted, but optimism is also crowded
- We think that where the bond and equity markets end exactly on December 31, 2025 is far less important than how investors handle the volatility we expect to present itself over the course of the year.
- A world of *Great Expectations* has the following implications on investors:
    - It creates the potential for more volatility, as expensive and crowded markets cannot absorb shocks as easily, but volatility creates opportunity
    - It argues for finding ways to diversify away from equity/credit and interest rate risks into uncorrelated assets
    - It suggests that lower returns make tax and fee efficiency even more important



2025 Outlook: Evidence of Great Expectations

- 2025 GDP estimates starting at 2.1% vs. sub-1% in 2023 and 2024, with recession forecasts removed
- Fed Chair Powell saying he “feels really good” about the U.S. economy 5 times in the December press conference
- Expectations for “just the right stuff” policy mix from DC, even with the backdrop of existing fiscal constraints and slim majorities
- Elevated S&P 500 PE multiples at 21.4x forward for the S&P 500 (as of 1/13/25)
- Fulsome EPS growth forecasts of 15% that include an acceleration of revenue growth and a jump to record margins (FactSet)
- Household equity allocations near 20 year highs (AAII, as of 1/13/25)
- Institutional positioning in the 90th percentile (Deutsche Bank, as of 12/12/24)
- Margin loan debt +45% in the last year (FINRA)
- Huge inflows into options and leveraged ETFs
- Record sentiment readings of investors expecting positive returns (Conference Board, as of 12/24)
- Credit spreads near 20 year lows



Two Main Components of Our Expectations for 2025

Economy and Policy

- **We do not expect a recession in 2025**, but a moderation in the growth rate vs. 2024 as the tailwinds from the last two years remain become less powerful (productivity, labor supply, rate de-sensitivity, AI spend, liquidity)
- We see less upside to growth expectations given the higher starting point for forecasts; watch productivity
- We expect a resilient labor market/consumer, but this is sensitive to corporate productivity and asset prices; watch exogenous oil inflation shock
- **We see DC policy having the potential to significantly alter the growth outlook** (with potential for a downside “Whoops!” scenario for growth, as well as an upside “Just the Right Stuff” scenario)
- **The Fed’s “recalibration” phase is likely over**, with their policy path whipsawed by DC policy, along with markets; Fed/Treasury liquidity is a wildcard

Markets

- **We expect wide, choppy ranges for both equities and fixed income**
- Volatility creates opportunity for both asset classes to buy on weakness
- 10 Year Yields could surpass 5% on inflation/fiscal fears, but fall rapidly in a growth scare or sharp drop in inflation
- **Equity Base Case:** The Talking Heads Market sideways chop, where earnings growth remains resilient but equites grow into elevated valuations and stretched positioning with volatility
- Equity Bubble Risk: The Prince market sees valuation surge above 2020 highs to retest 2000 highs in a speculative bubble fueled by easy policy and tech optimism
- Equity Bear Case: deep growth fears hit EPS estimates and coincide with a de-rating back to “average” PE multiples

2025's Potential Equity Paths

S&P 500 INDEX in 2024

Source: NewEdge Wealth, Macrobond, Bloomberg

The Prince Market
20% upside towards 7,000, valuations expand into bubble (implies 26x on $270, back to 2000 high), speculative fervor takes hold, bad for long-term forward returns, fun while it lasts. Potential EPS upside on tech/AI.

The Talking Heads Market (Base Case)
A wide, choppy range that could touch both 10% +/- through the course of the year (5,300-6,470) . Valuations hit a ceiling, with upside driven by EPS growth and downside driven by slight de-rating from elevated levels. Forward returns improve in downside volatility, with weakness buyable given stable underlying economic growth.

Deep Growth Scare and De-Rating
Weaker economic growth drives EPS estimate cuts and de-rating of valuation back towards "average" 17-18x, which amplifies downside to -20% (4,700) given high starting valuations.

We think that where the bond and equity markets end exactly on December 31, 2025 is far less important than how investors handle the volatility we expect to present itself over the course of the year.

S&P 500 Earnings and Valuation Scenario Analysis

S&P 500 Earnings and Valuation Scenario Analysis

2025 Starting Level: 5,920
Current EPS estimate: $272

Change vs. 2024	2025 EPS	PE on 2025 EPS 17x	18x	19x	20x	21x	22x	23x	24x
3%	$250	4,250	4,500	4,750	5,000	5,250	5,500	5,750	6,000
5%	$255	4,335	4,590	4,845	5,100	5,355	5,610	5,865	6,120
7%	$260	4,420	4,680	4,940	5,200	5,460	5,720	5,980	6,240
10%	$265	4,505	4,770	5,035	5,300	5,565	5,830	6,095	6,360
12%	$270	4,590	4,860	5,130	5,400	5,670	5,940	6,210	6,480
14%	$275	4,675	4,950	5,225	5,500	5,775	6,050	6,325	6,600
16%	$280	4,760	5,040	5,320	5,600	5,880	6,160	6,440	6,720
18%	$285	4,845	5,130	5,415	5,700	5,985	6,270	6,555	6,840
20%	$290	4,930	5,220	5,510	5,800	6,090	6,380	6,670	6,960

Growth Scare and De-Rating (17x–19x)

Talking Heads Sideways Chop (20x–22x)

Prince Bubble (23x–24x)

Source: NewEdge Wealth, Bloomberg, as of 1/14/25

Summary Expectations for 2025: U.S. Economy

Growth

- We are not expecting a recession in 2025
- We do expect growth to moderate vs. 2024's relatively robust 2.7%, but do not see evidence at this time that growth will fall below 2% (current consensus is 2.1%)
- Within GDP: We see less upside to consumer spending in 2025 and downside risks to government, exports, and private investment (mostly housing if interest rates remain high)
- We see the tailwinds from 2023-2024 remaining but being much less powerful in 2025; there are risk that some of these become headwinds. These tailwinds have been:
  - Less sensitivity to short term interest rates this cycle
  - A surge in productivity
  - A jump in low-cost labor supply/working age population due to an influx of immigration
  - Treasury funding actions keeping bank liquidity available despite Fed tightening and high deficits; this allowed for strong asset prices that fueled a powerful wealth effect
  - AI-related tech investment driving business investment

Consumer

- We expect the U.S. consumer to continue to be bifurcated, with low-income consumers "just keeping their heads above water" thanks to real wage growth/resilient jobs, while high income consumers continue to be strong as long as asset prices and cash yields remain high
- We see less upside to Household Consumption forecasts for 2025, which start the year at 2.4% vs. 0.5% in 2024

Inflation

- We expect inflation to continue to moderate, but remain sticky above the Fed's 2% target
- We do not expect a reacceleration based on wages, housing, and current energy prices
- We do not rule out an exogenous shock that causes higher inflation (ex. Oil, tariffs, immigration), noting this economy *may* be less able to absorb an inflation shock vs. pre-COVID

Summary Expectations for 2025: U.S. Economy Opportunities and Risks

Key Upside Opportunities

- Wave of deregulation, tax cuts, and animal spirits that drives a broad investment boom (outside of just AI-related)
- A productivity “miracle”
- Risk-asset strength that boosts the wealth effect
- A “benign” drop in interest rates (not based on falling growth expectations) that sparks recovery in cyclical, interest rate sensitive parts of the economy

Key Downside Risks

- A stock market correction that hurts high income consumers
- Trade/immigration policy that exacerbates inflation and weighs on growth by roiling supply chains and constricting labor supply
- An exogenous inflation shock, such as higher oil prices or policy changes, that weighs on the consumer and pushes the Fed to consider hikes
- Persistent high interest rates that pinch balance sheets as the refinancing wave kicks off and creates a “what lies beneath” credit event (such as issues with CLOs, Synthetic Risk Transfer trades, or commercial real estate)

Summary Expectations for 2025: Policy

Fed Policy

- **Interest Rates**: We think the "recalibration" phase of Fed easing is over, meaning further cuts likely happen only in an acute growth scare or amid a significant rise in unemployment
  - Zero cuts are likely in the event unemployment remains close to or just above 4%
  - A rise in the unemployment rate to 4.5% or beyond would likely invite more rate cuts, while a reacceleration in core inflation would push them out indefinitely
  - We believe the economy can function with far higher interest rates than it could during the 2010s, meaning rates may ultimately not have to move much lower
- **Balance Sheet**: Likely to stop shrinking by midyear as the Fed runs into liquidity constraints and has less of a desire to keep policy tight
  - Fed balance sheet will no longer be "painless" for liquidity now that reverse repo facility has wound down
  - Further shedding of assets from here will come at the expense of bank reserves

Fiscal/DC Policy

- **Tax Cuts:** Extension of TCJA tax rates very likely, but chances of further reductions to the corporate rates or tax carveouts (e.g., tips, SALT, Social Security) will be expensive and controversial
- **Tariffs:** Potentially a combination of legislated tariffs on national security items and ad hoc punitive tariffs done by executive order. Tariff-related uncertainty contributes to market volatility and delayed or cancelled business investment in addition to raising prices on consumer and wholesale goods
- **Immigration:** Large surge in immigration in 2022-23 lead to a rise in the working-age population and took pressure off the jobs market; reduce rates of immigration or a net drop in immigrants could tighten up certain segments of the labor market
- **Deregulation:** New administration likely to be more permissive on energy exploration and extraction as well as antitrust scrutiny, leading to a strong flow of deals
- **Treasury Funding:** Limited scope for issuing more Treasury Bills in light of reduced Reverse Repo balances at the Federal Reserve and ongoing QT; more issuance likely in longer-dating coupons

Summary Expectations for 2025: Equities

2 Paths for 2025

- **The Talking Heads Market**: Our base case is a wide, choppy range in 2025 that allows markets to grow into elevated valuations and stretched positioning (both of which create high bars for returns)
  - Valuations chop sideways and earnings growth comes in roughly in-line with estimates, potential for positive 2025
  - 10% +/- range through the year, with weakness buyable as underlying economic growth remains resilient
  - More downside? Would need a growth scare with rising recession odds that cuts EPS est and de-rates valuations
- **The Prince Market**: We do not rule out entering into a bubble (+20% for 3rd year), if speculative fervor is ignited by policy easing and technology optimism
  - Valuations surge above 2020 highs to 2000s peaks
  - Forward returns collapse post the bubble
- We see durable rotations, or a "broadening out" of the market, as a "show me story", meaning there has to be evidence that earnings are broadening out; without earnings, lagging parts of the market (small cap, Value, international) can experience short snap backs but will stay "cheap for a reason"

Positioning

- **Emphasize Quality** for the long run given high rates and elevated uncertainty
- **Balanced between Growth vs. Value:** expect this short term snap back in Value to unwind December's unsustainable Growth outperformance, and whether it lasts depends on earnings; within Growth remain valuation disciplined, within Value focus on earnings growth to avoid value traps. Mag 7 (55% of Growth index) need to begin to deliver on AI ROIC to sustain high CapEx levels.
- **Prefer Mid over Small Cap:** higher profitability and lower debt levels in Mid Cap indices, which makes Mid Cap stocks less acutely sensitive to the path of interest rates.
- **Prefer U.S. over Rest of World:** despite the international valuation discount, U.S. has vastly superior earnings growth. A reversal in the strong USD, along with a commodity rally, would be two factors we would need to see to grow more sanguine on non-U.S. equities.
- **Sectors as Hedges (we have not yet moved OW):** To hedge against an exogenous inflation shock from oil prices, the Energy sector. To hedge against a growth scare/slowdown (Health Care, Staples, Utilities). In both, selecting for earnings quality and durability is important, as all of these sectors are also home to "value traps" and weak return on invested capital stocks.

Summary Expectations for 2025: Fixed Income

Fixed Income

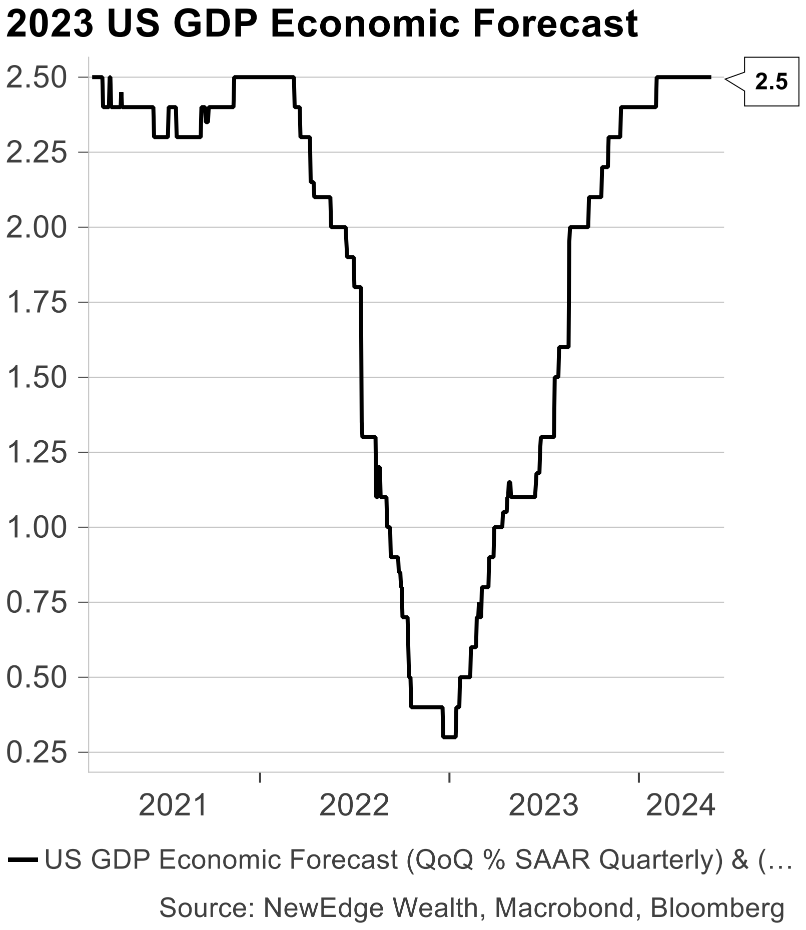
- We expect the 10 Year to remain in a wide, choppy range, similar to 2024. We do not rule out a retest of the 2023 high of 5% on inflation or fiscal fears, while a fall below 4% is plausible in the event of an acute growth scare
- Fed policy will determine the path of the 2 Year. At levels below 4.35%, the bond market still believes the Fed has an easing bias
- A further steepening of the yield curve could indicate a combination of falling short term rates (in a growth scare) or a higher term premium, which could be associated with increased fiscal policy risks
- We see corporate credit as priced for perfection to start the year, with spreads at multi-decade low. Investors are not receiving much compensation for taking on credit risk and are susceptible to a potential widening at some point in 2025 if a growth scare materializes
- Mortgage-backed securities offer attractive yield for the same or higher credit ratings as corporate bonds, having not fully normalized from the 2022 blowout

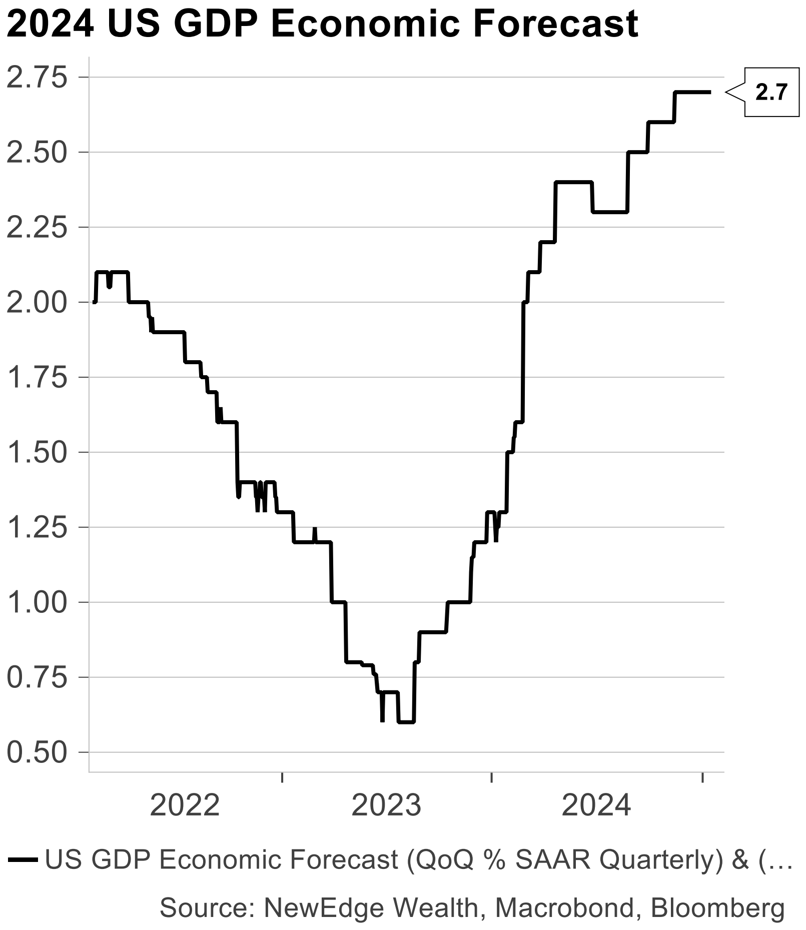
Positioning

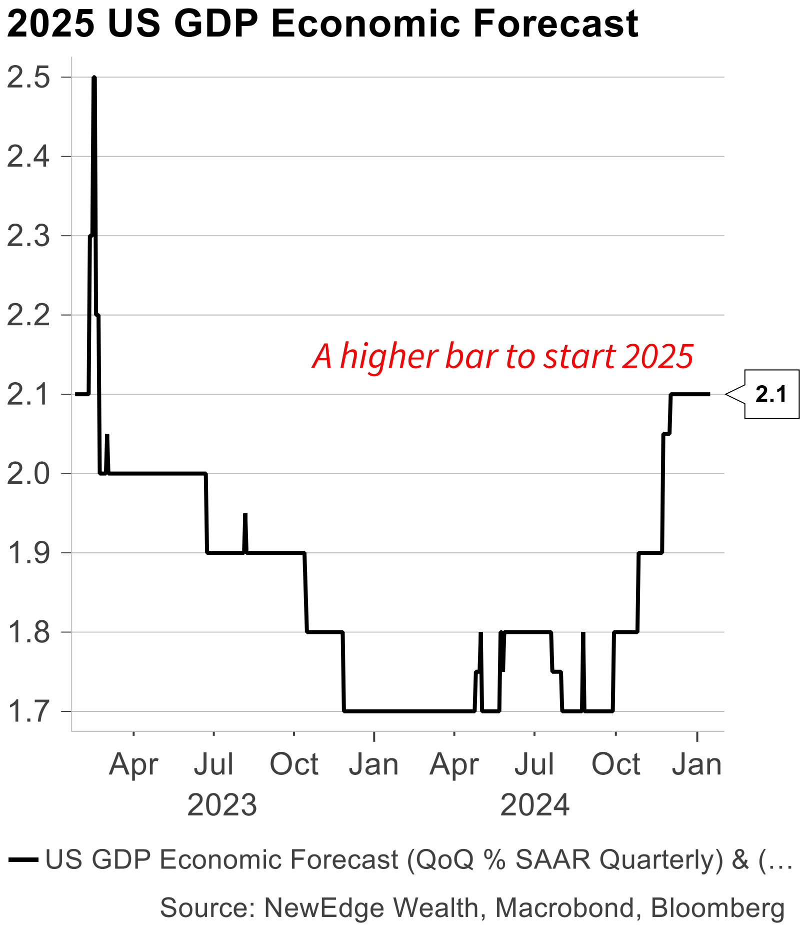
- **Government Bonds:** Higher rates and a steeper curve provides a better outlook for performance in 2025, but rate volatility could make for a bumpy ride
- **Municipal Bonds:** Attractive yields on an after-tax basis with issuance and credit quality likely to remain manageable in 2025, supporting prices
- **Investment Grade Credit:** Low default persists, barring a major macro meltdown, but very tight spreads mean not much yield pickup beyond Treasuries
- **Securitized:** Generous risk-adjusted spreads compared to corporate bonds, with limited risks being leveraged to the U.S. housing market
- **High Yield:** Spreads have tightened well beyond what forward corporate earnings estimates would have predicted. A minor deterioration of the growth picture could lead spreads to widen, although in a rising rate scenario this asset class is best-positioned to be resilient (as long as those high rates do not create acute refinancing stress)

U.S. Economic Outlook

Rising Growth Expectations Have Been Vitally Important the Last Two Years

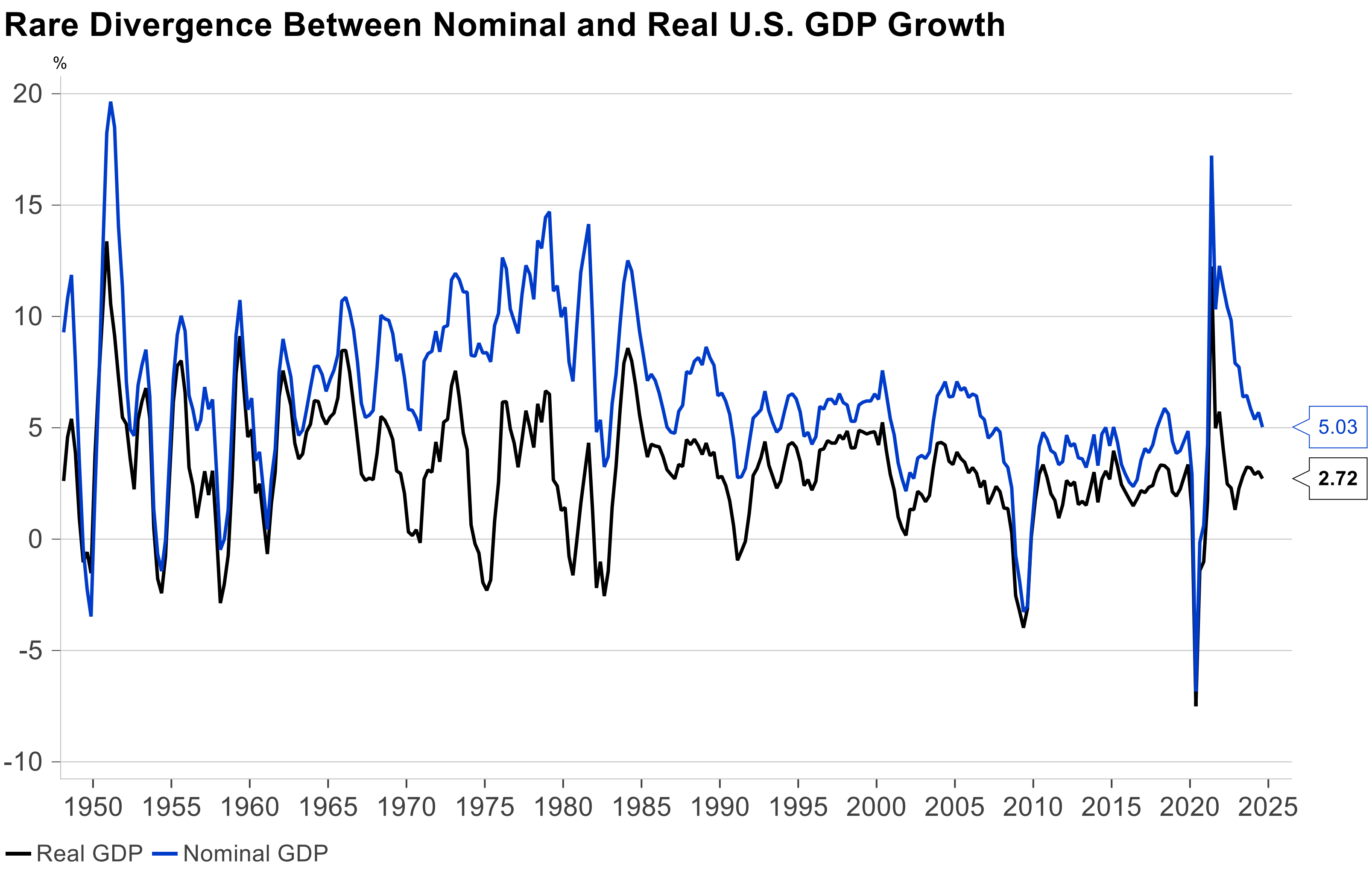






Data as of: January 14, 2025

"The Miracle": How Did the U.S. Achieve 3% Growth with Falling Inflation?



Source: NewEdge Wealth, Macrobond, Bloomberg U.S. Bureau of Economic Analysis (BEA)

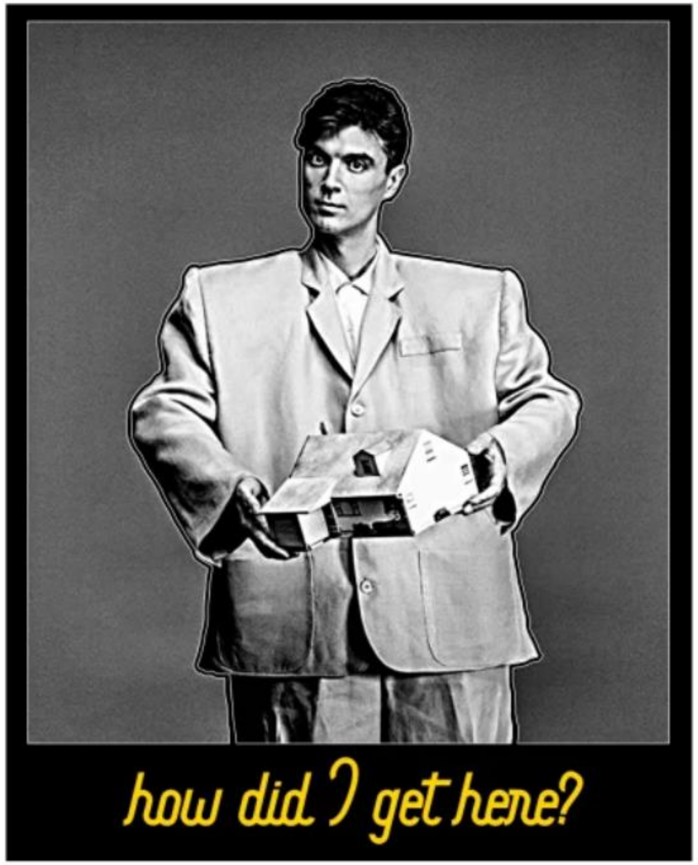
Data as of: January 14, 2025

The Drivers of 2023 and 2024's Growth Surprise

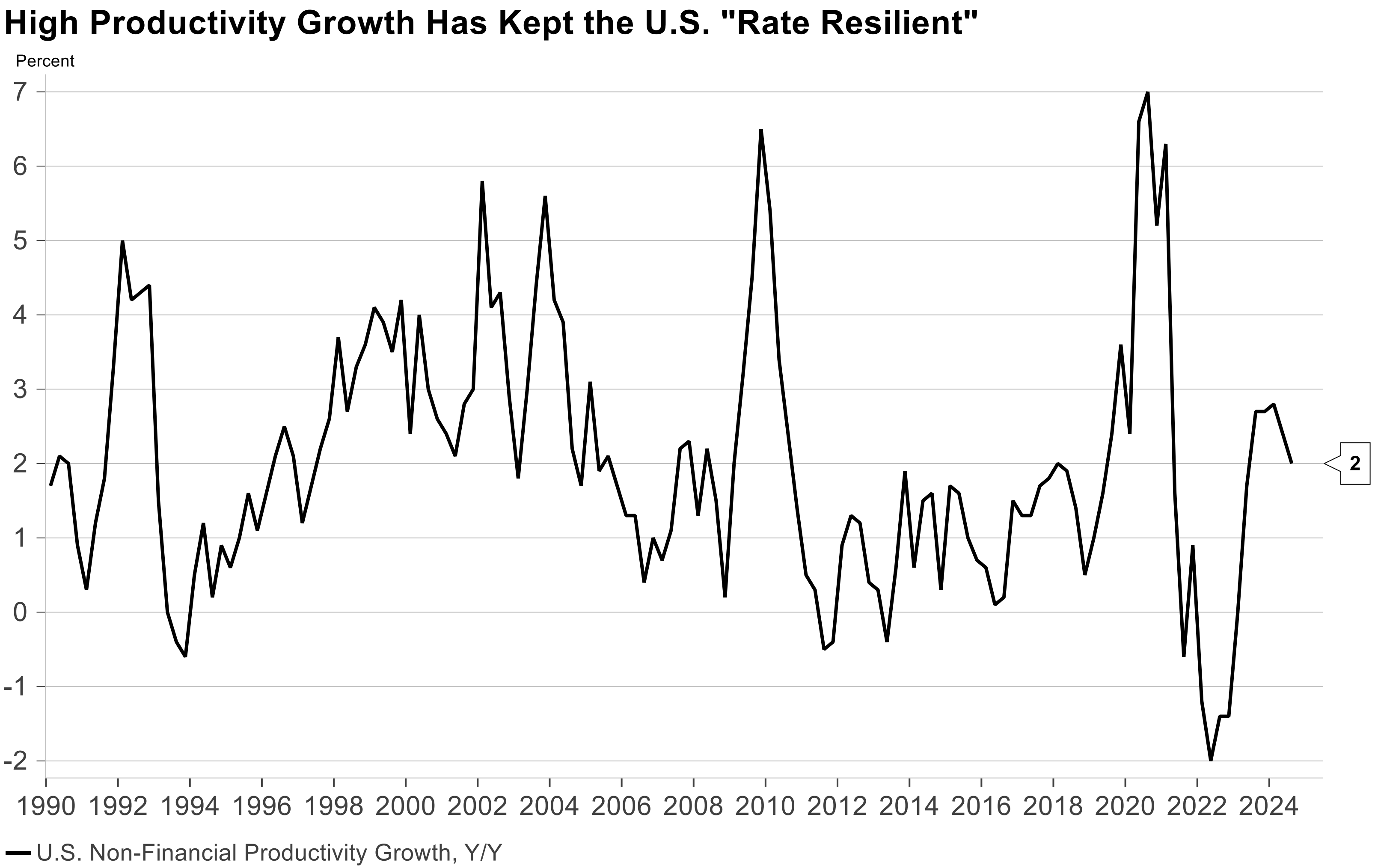
- A surge in productivity
- A jump in labor supply/working age population
- The U.S. economy being less sensitive to short term interest rates this cycle
- Treasury actions keeping bank liquidity available despite Fed tightening and deficit spending
- AI-related tech investment boosting business investment

Will these last into 2025?

There are Great Expectations that they will.



High Productivity Growth After the "Great Resignation"



Source: NewEdge Wealth, Macrobond, Bloomberg U.S. Bureau of Labor Statistics (BLS)

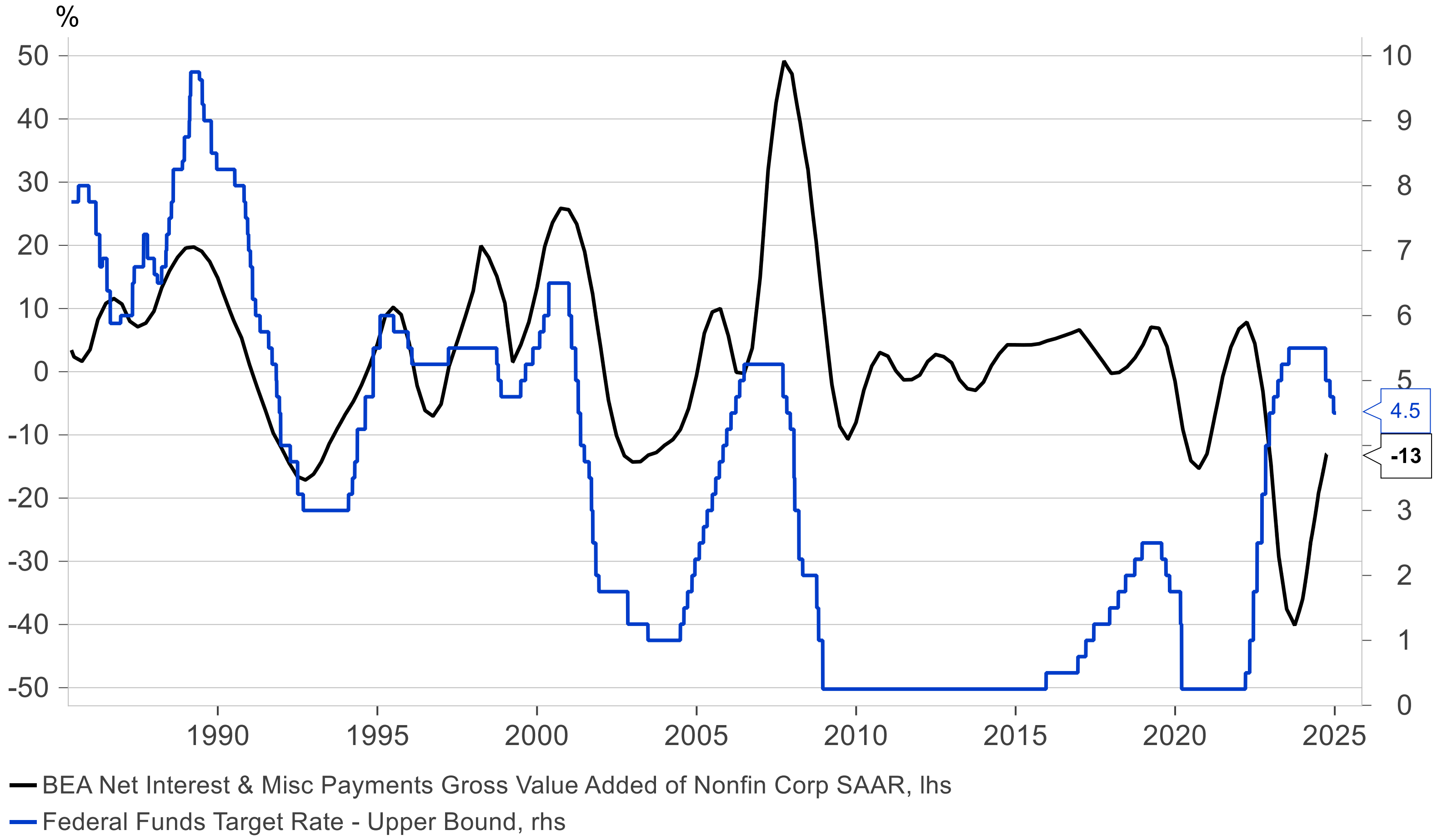
Labor Force Was Growing at the Fastest Rate in Decades

Source: NewEdge Wealth, Macrobond, Bloomberg U.S. Bureau of Labor Statistics (BLS)

Data as of: January 14, 2025

Net Interest Expense *Fell* in 2023-2024 as Fed Raised Rates

Corporate Net Interest Costs YoY % and Fed Funds Rate

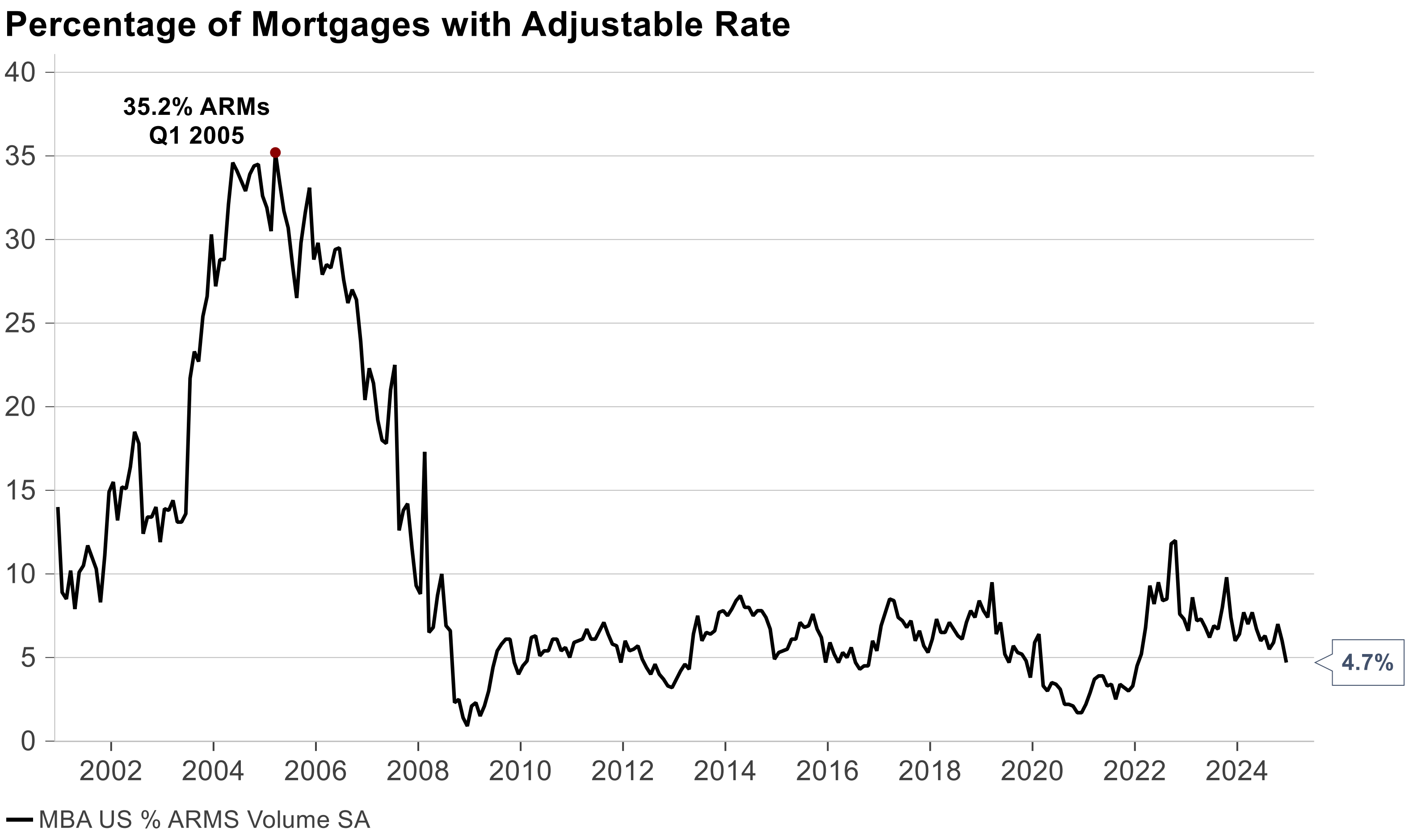


Source: NewEdge Wealth, Macrobond, Bloomberg

Net interest expense is still down on a YoY basis (thanks to termed out debt and high cash rates), but the tailwind is fading (second derivative has turned higher) now that the Fed has cut short rates and some borrowers are refinancing at higher rates.

Data as of: January 14, 2025

70% of Consumer Debt is Mortgages and 95% of Mortgages are Fixed Rate



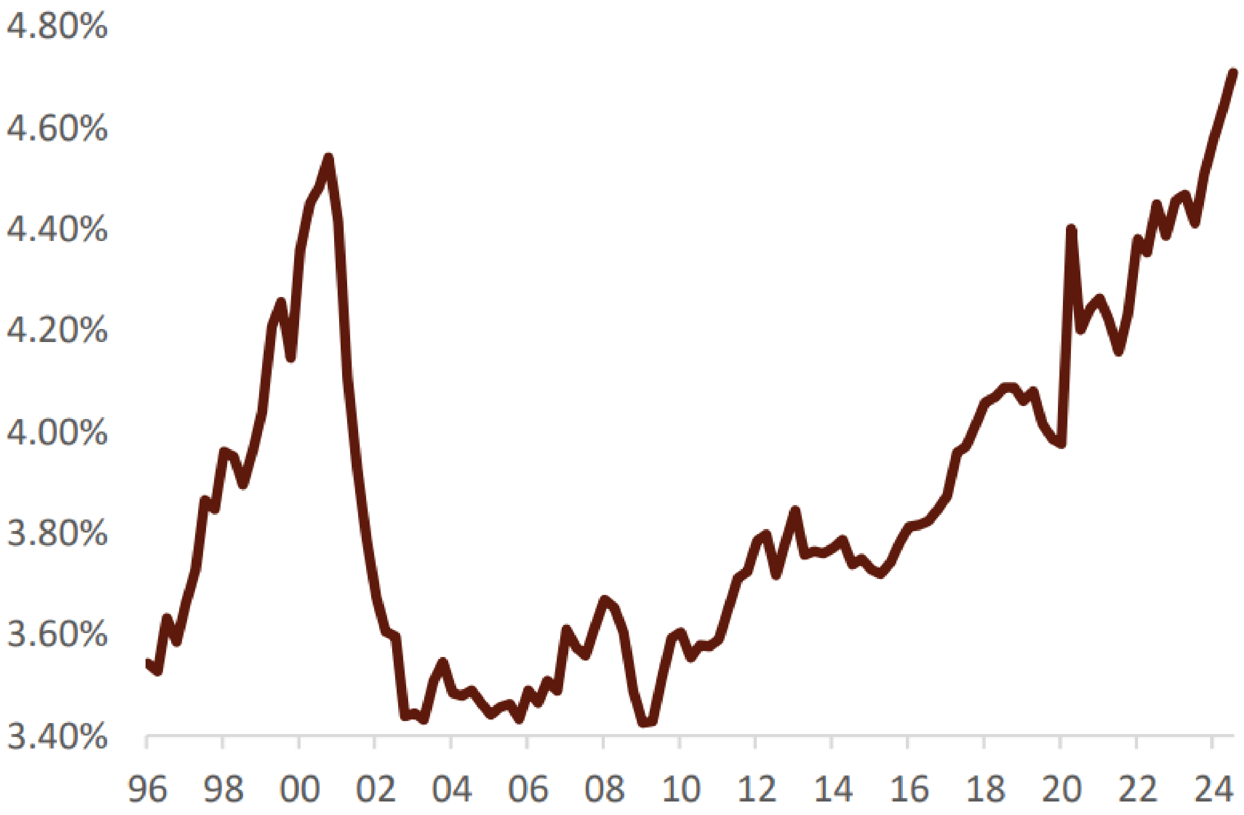
Source: NewEdge Wealth, Macrobond, Bloomberg

Data as of: January 14, 2025

RenMac Estimates That Tech CapEx Added +0.4% to GDP in 2024

A boom on par with the late 1990s?

Tech: Structures*, Equipment, Software (percent of GDP)



Data Center plus Manufacturing: Computers/Electronics/Electrical

Source: Renaissance Macro Research, Haver Analytics

Data as of: January 14, 2025

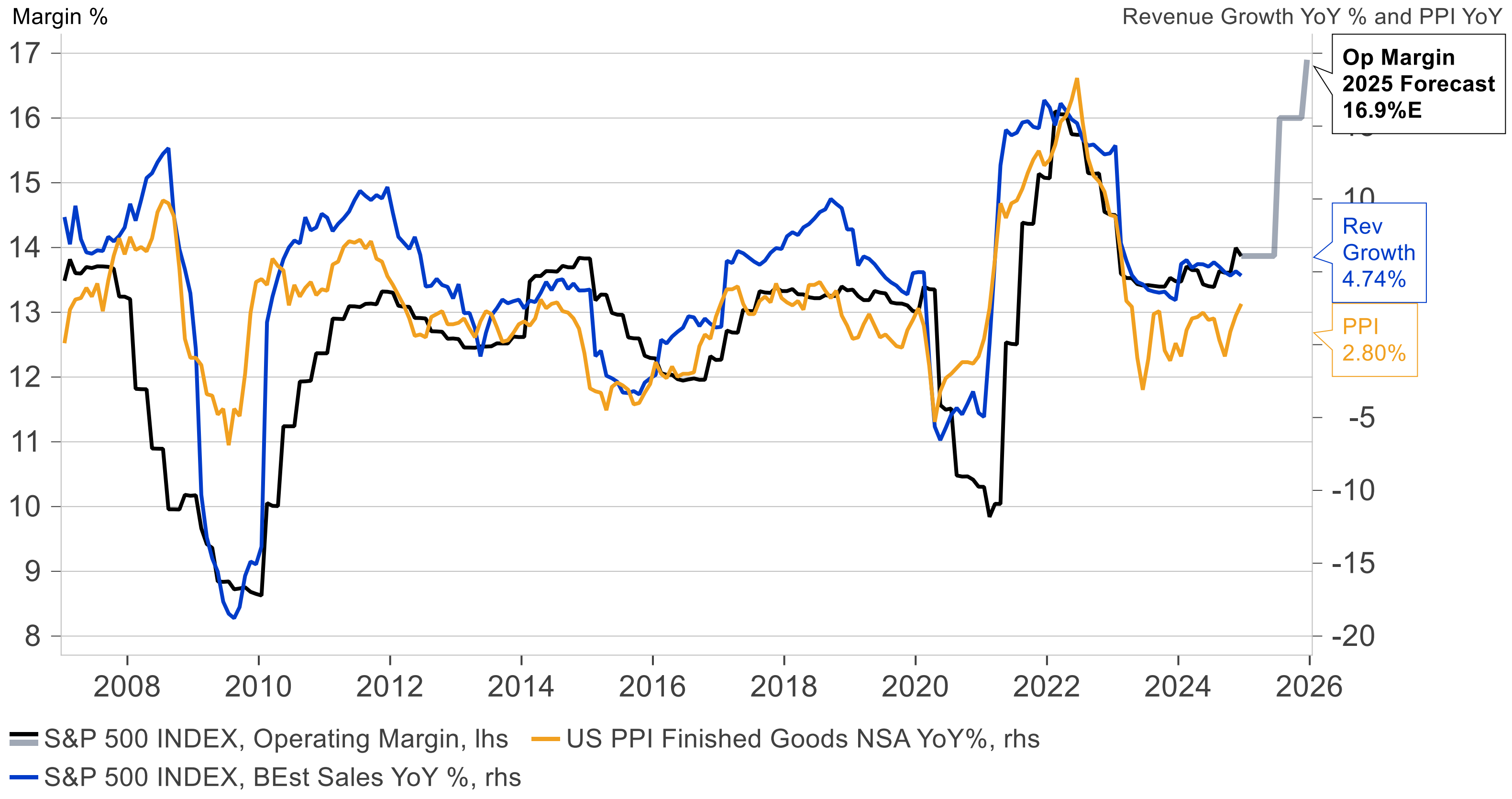
Looking Forward, The Key Questions Are:

- Can productivity growth continue or will it slow, pressuring corporate margins and risking layoffs?
- Can labor supply, mostly at the low end, continue to grow or will it be reduced by immigration policy?
- Will high interest rates start to weigh on economic activity more broadly?
- Can Treasury continue its large Bill issuance now that reverse repo balances have been drawn down, all the while deficits remain high?
- Can Tech investment continue to drive CapEx and construction spending?

We Need Productivity to Meet Margin Expectations

S&P 500 Margins Related to Revenue Growth and Inflation

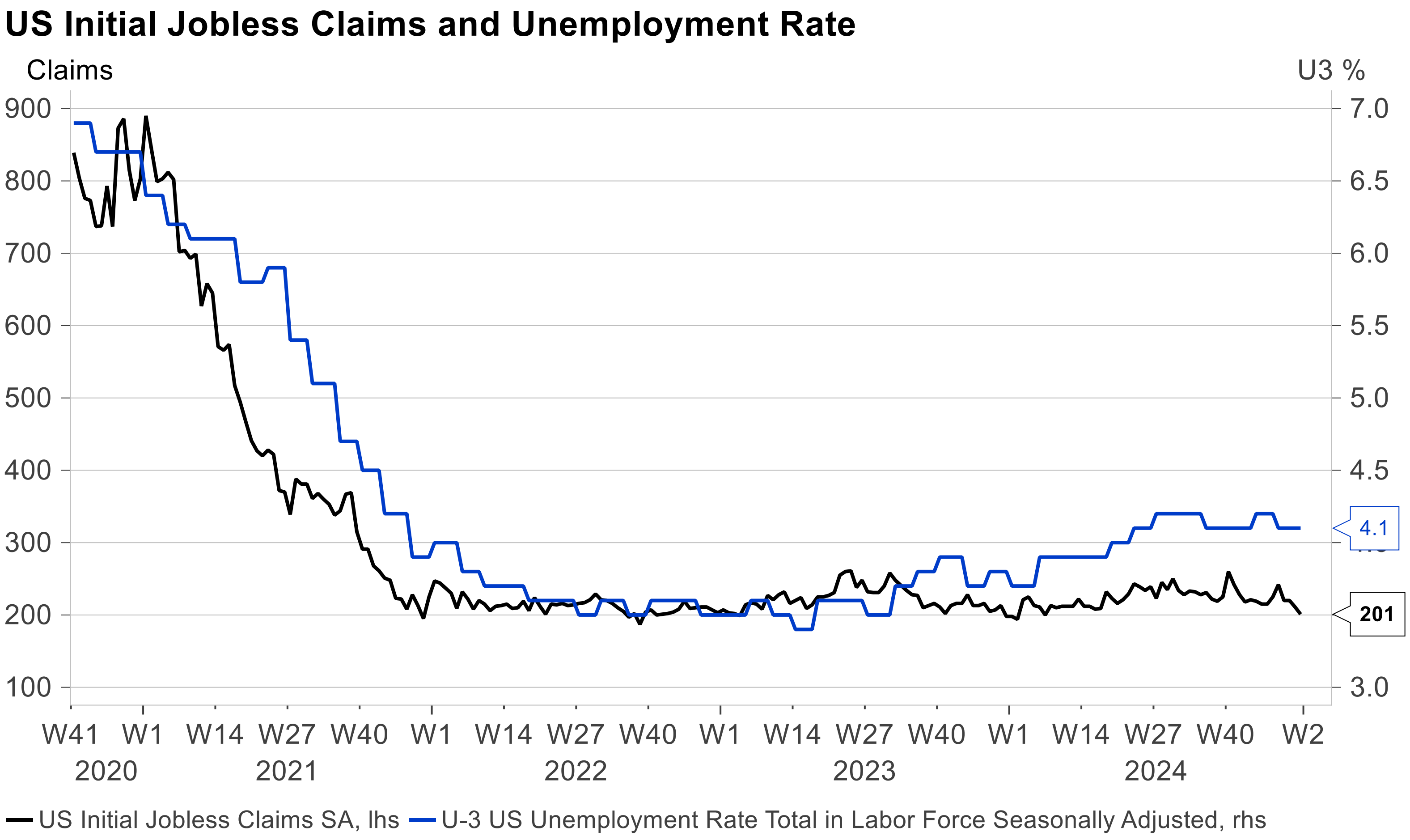
S&P 500 Operating Margin (with Bloomberg Consensus Forecast), S&P 500 Sales Growth, PPI YoY



Source: NewEdge Wealth, Macrobond, Bloomberg

Data as of: January 14, 2025

The Labor Market Remains Resilient Thanks to Productivity



Source: NewEdge Wealth, Macrobond, Bloomberg

Data as of: January 14, 2025

But Beware of Using the Past to Describe the Future (Lagging Indicators… Lag)

– By the way, the start of a recession is heavily aligned with the first month when payrolls turn negative.

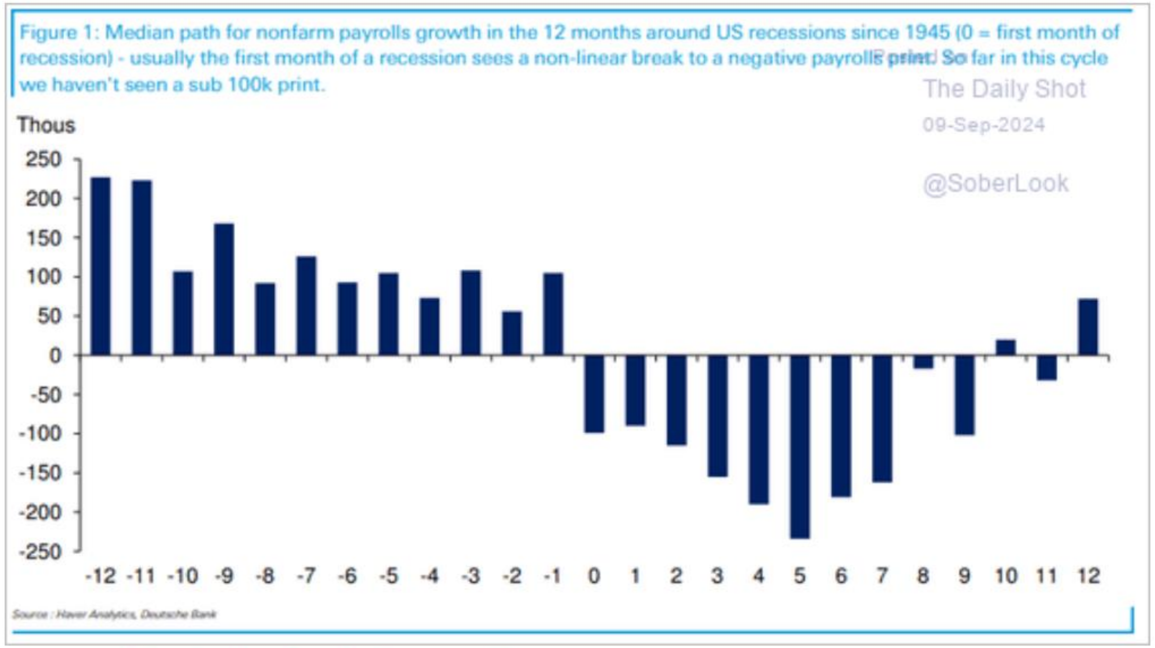
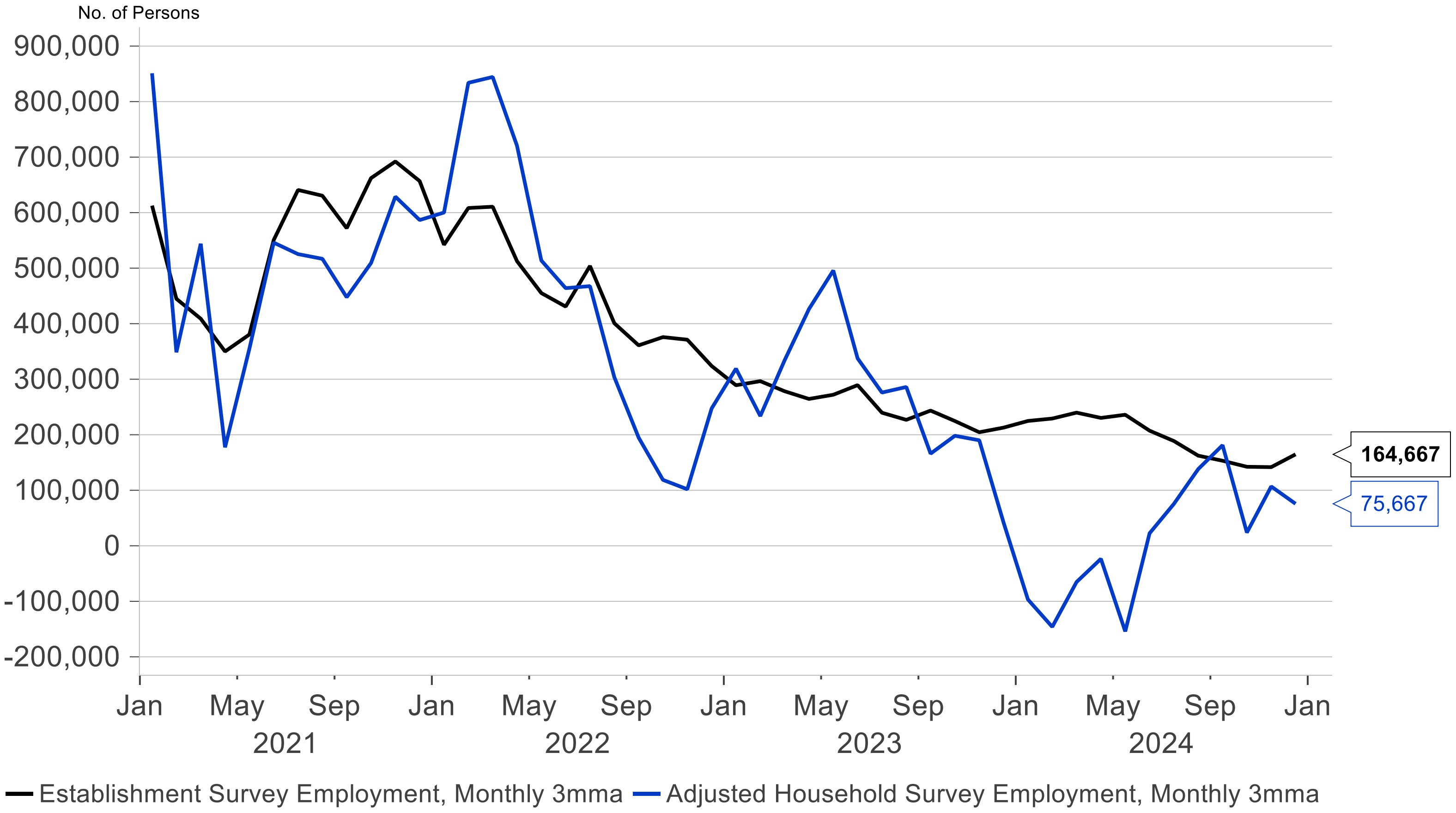


Figure 1: Median path for nonfarm payrolls growth in the 12 months around US recessions since 1945 (0 = first month of recession) - usually the first month of a recession sees a non-linear break to a negative payrolls print. So far in this cycle we haven't seen a sub 100k print.

Source: Deutsche Bank Research

Job Growth Slowing, But Stable

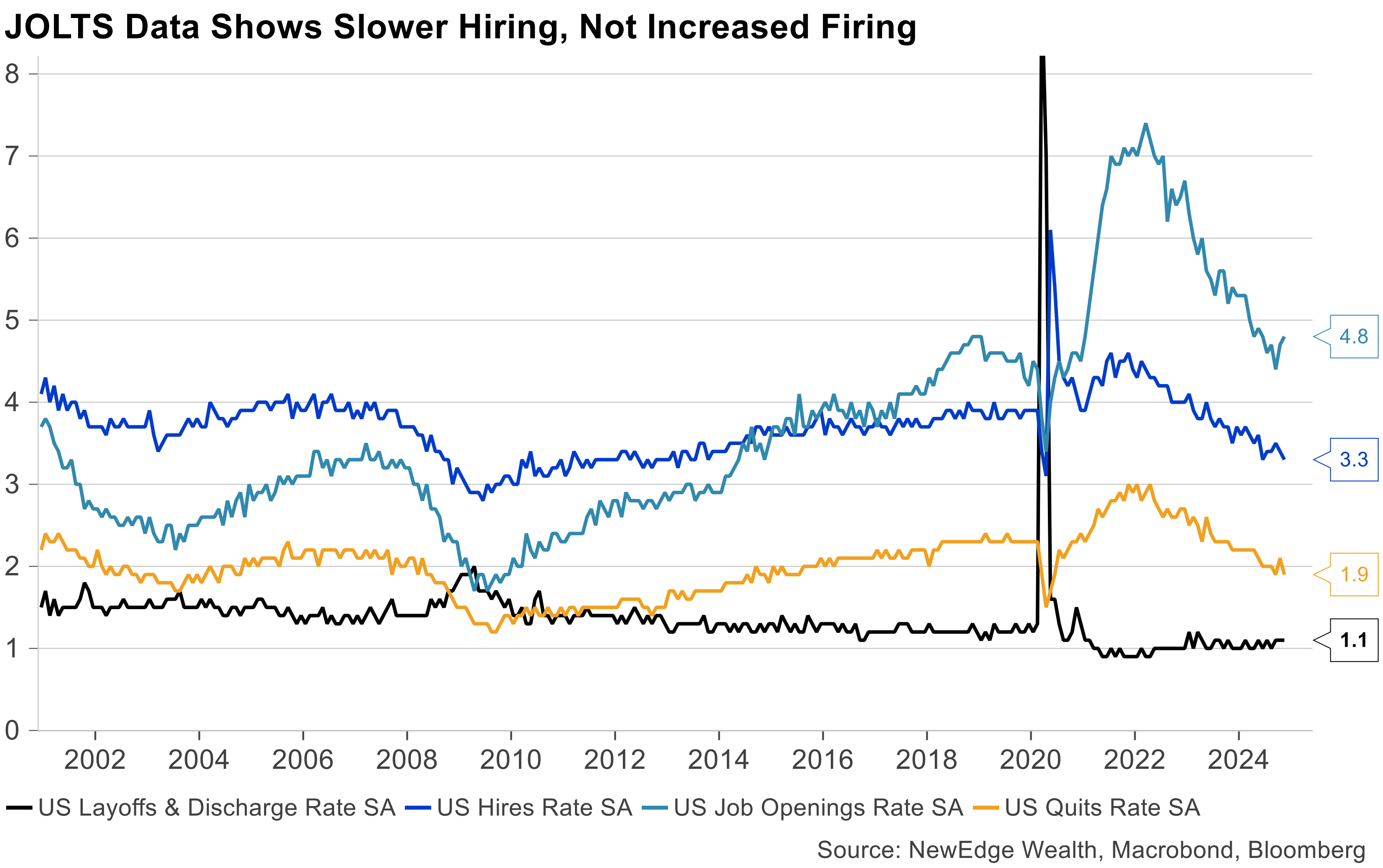
Slower, But Stable Employment Growth



Source: NewEdge Wealth, Macrobond, Bloomberg U.S. Bureau of Labor Statistics (BLS)

Appreciate this is slowing off the post-COVID fever pitch… and is still consistent with economic growth… however, it is the direction of travel that has the Fed's attention.

Job Softness Concentrated in Slower Hiring, Instead of Increased Firing (For Now)



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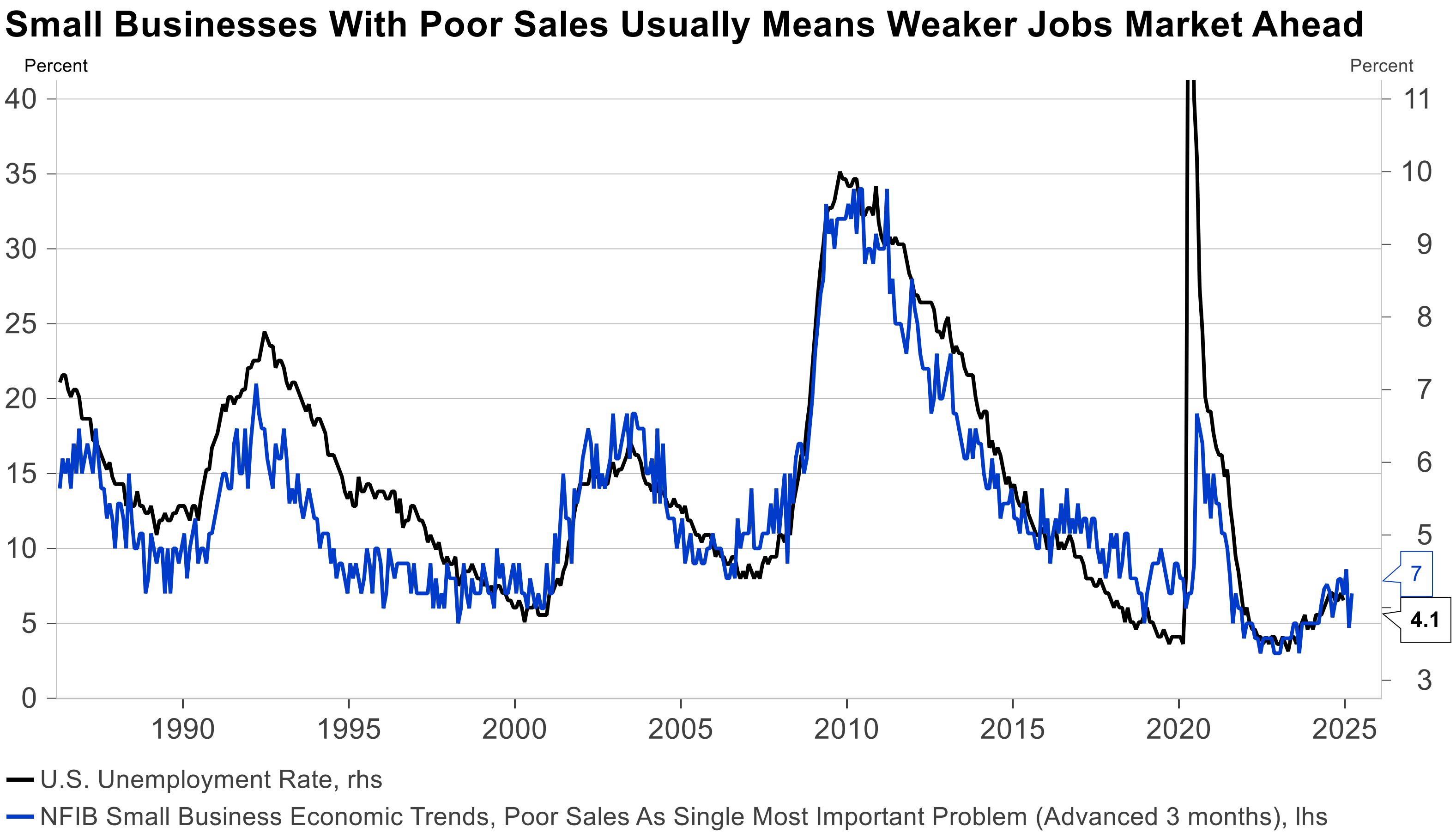
Data as of: January 14, 2025

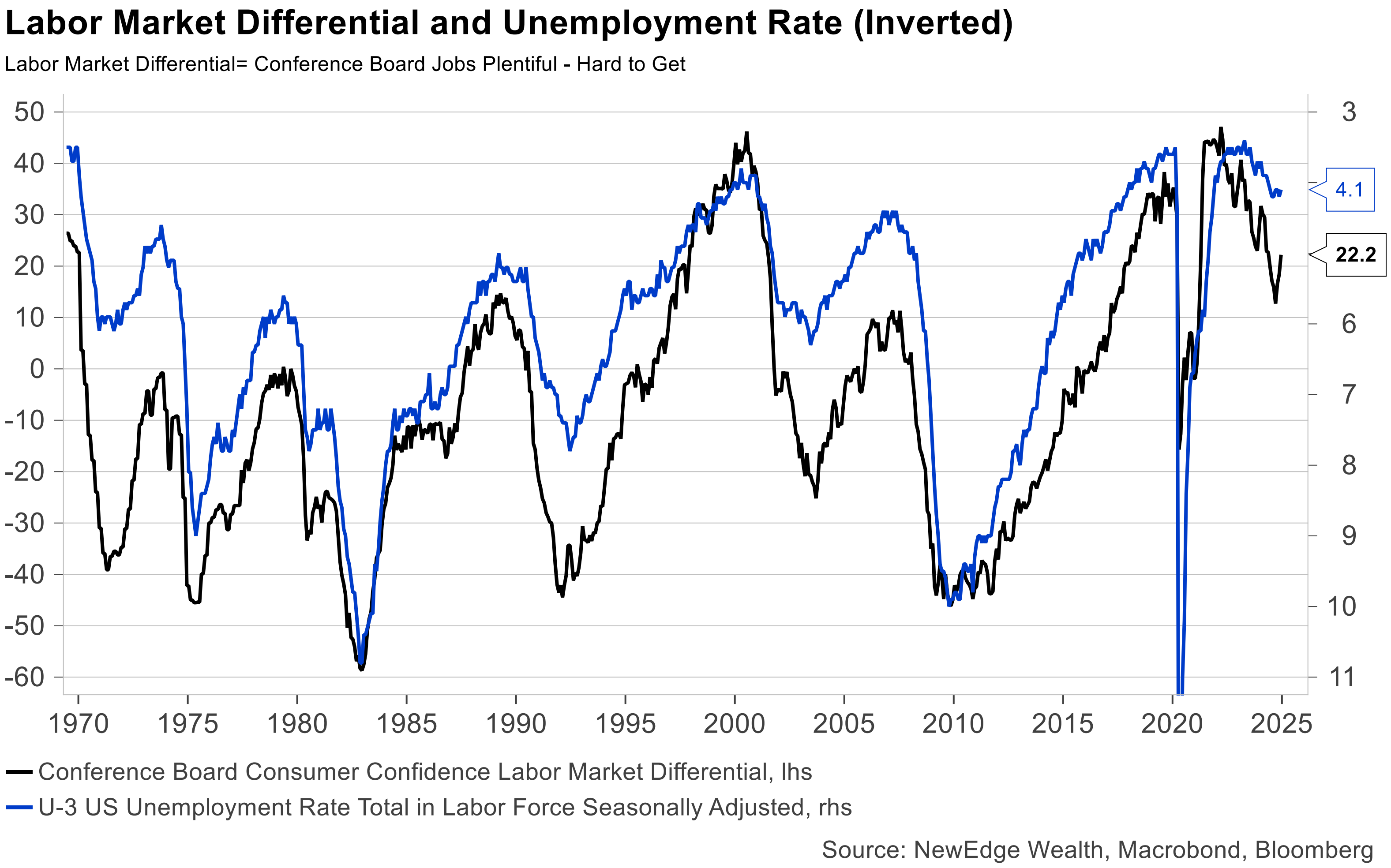
When Does Weak Hiring Turn into Layoffs? Ask Small Business Owners



Source: NewEdge Wealth, Macrobond, Bloomberg U.S. Bureau of Labor Statistics (BLS), National Federation of Independent Business

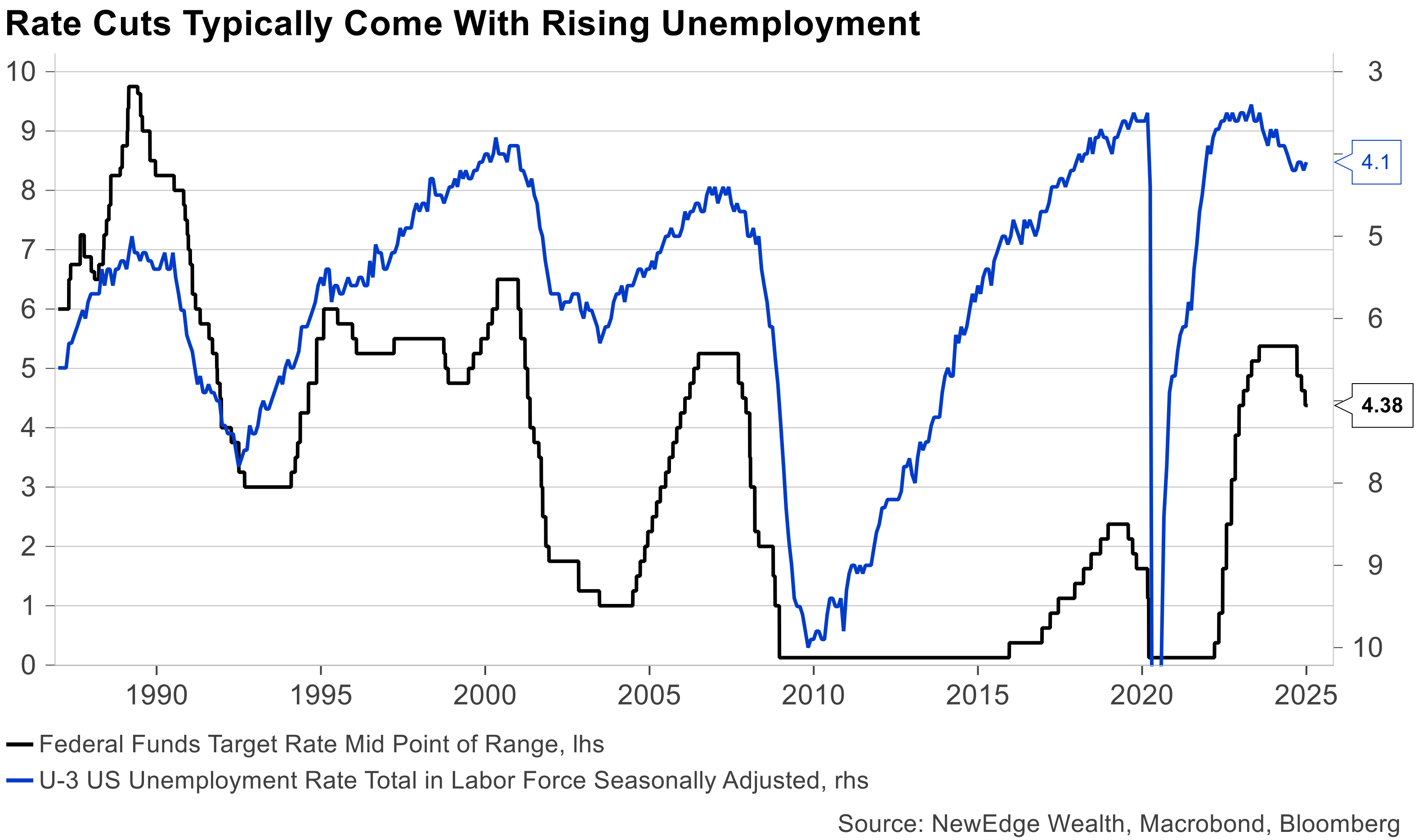
Data as of: January 14, 2025

You Can Also Ask Consumers...



This is reflecting slower hirings today but has typically been followed by increasing firings in past cycles.

Usually, the Fed is Cutting For a Reason... If Unemployment Stabilizes, No Fed Cuts



Data as of: January 14, 2025

Inflation

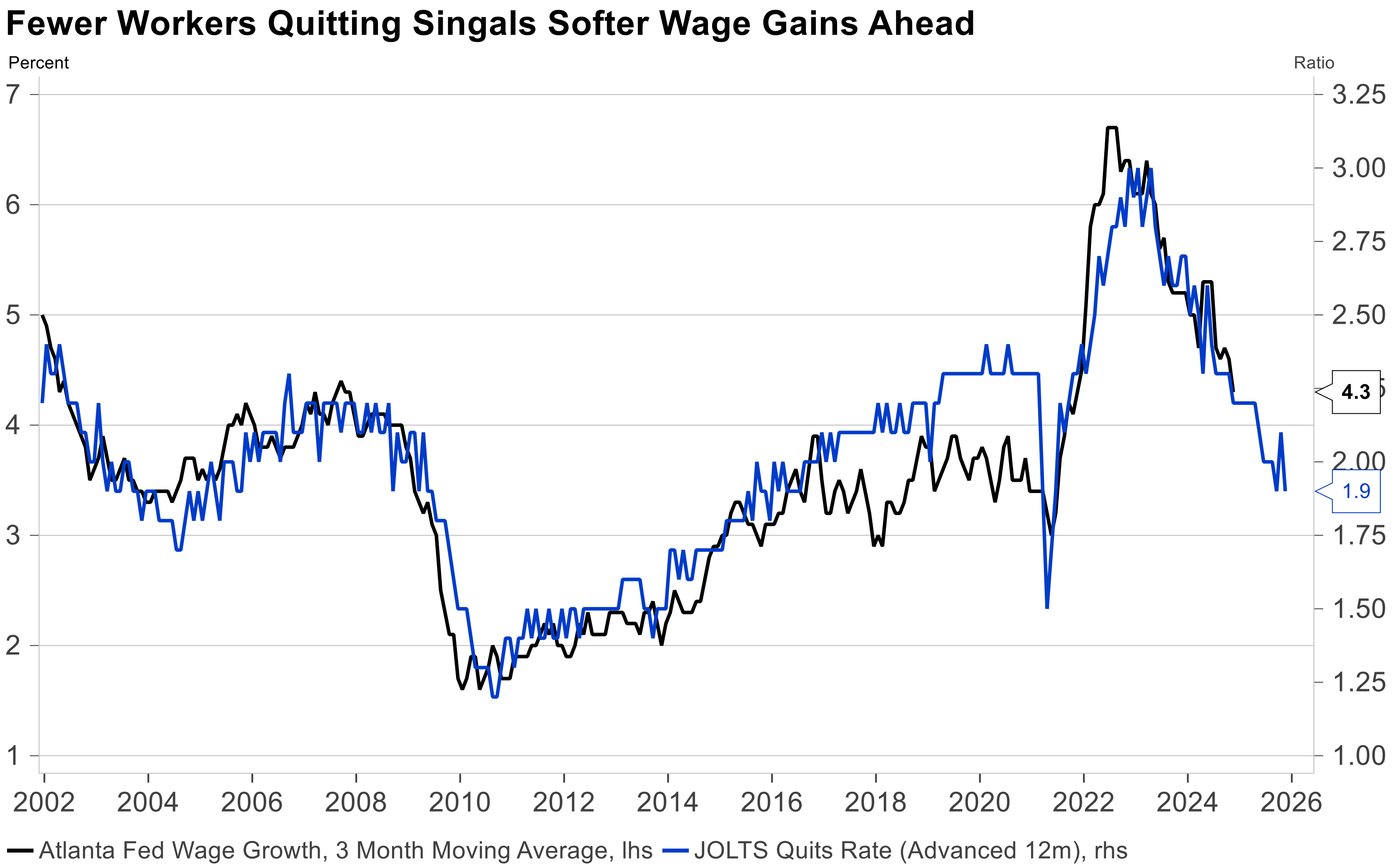
Is Inflation vanquished?

The Key Sources of Inflation Are Not Flashing Warning Signs of a Reacceleration Right Now:

Wages
Rents
Oil

But exogenous shocks (oil, tariffs, immigration) are risks in 2025…

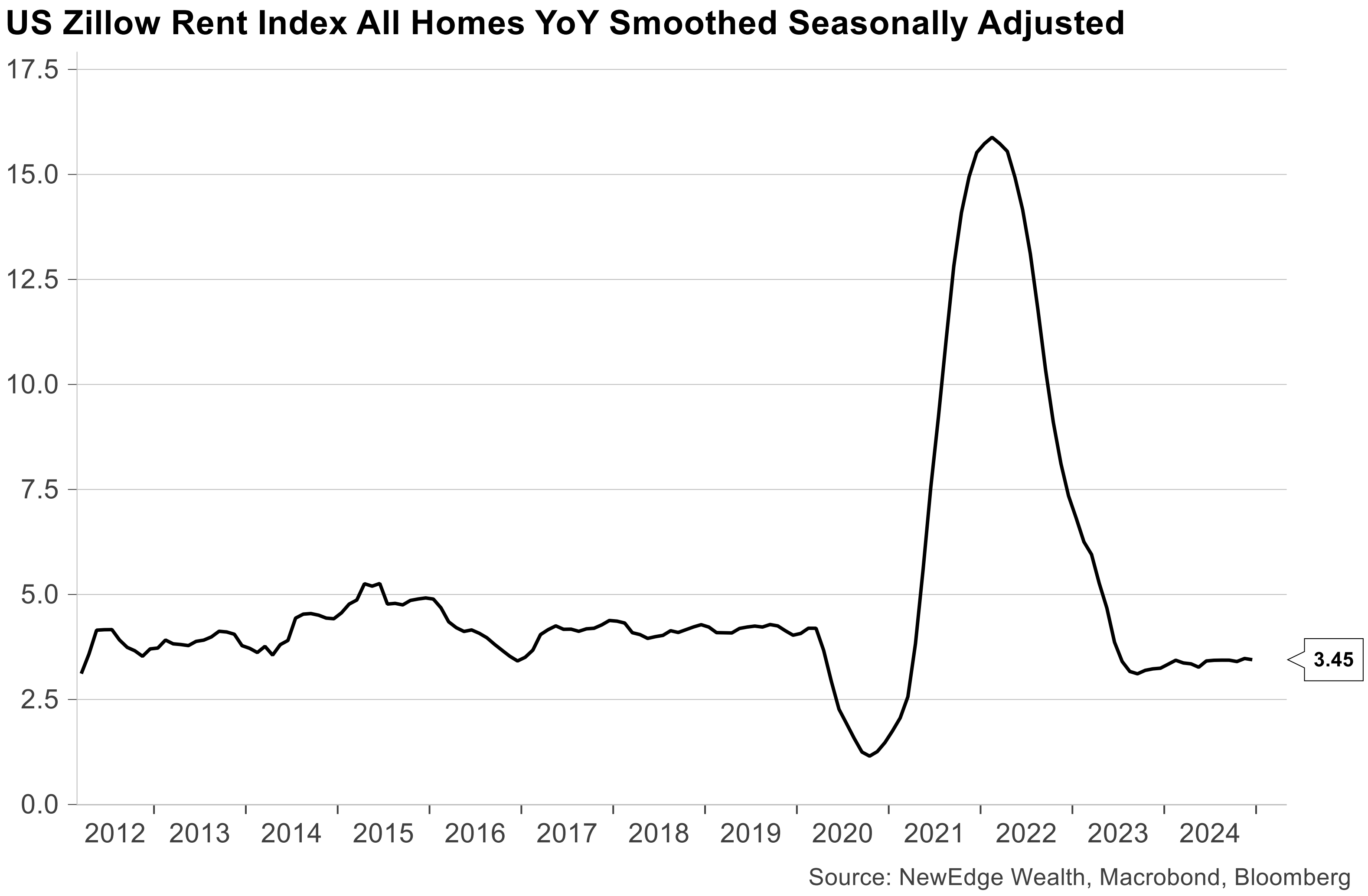
Quits Suggest Wages Are Unlikely to Be a Source of Inflation



Source: NewEdge Wealth, Macrobond, Bloomberg Federal Reserve Bank of Atlanta, U.S. Bureau of Labor Statistics (BLS)

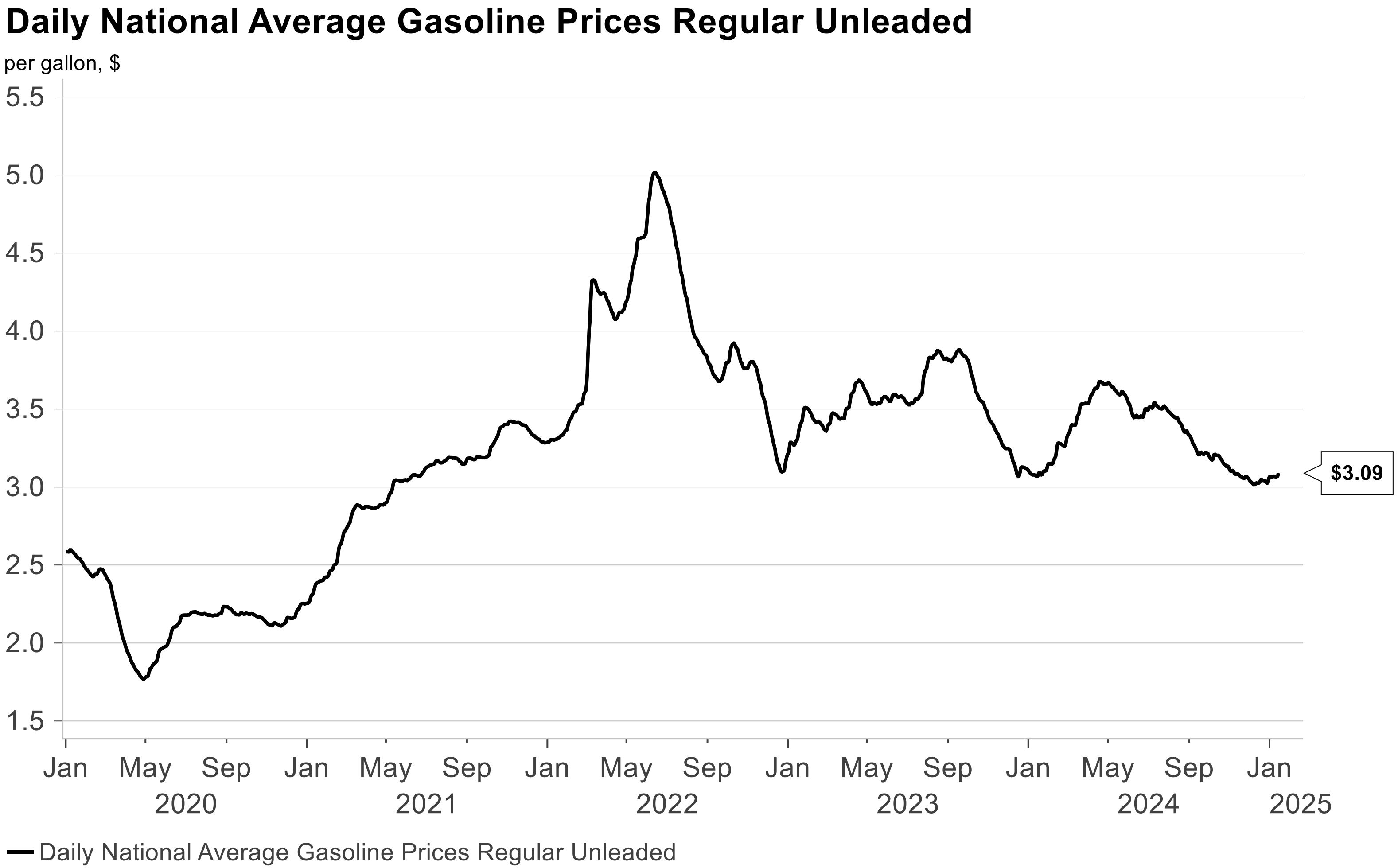
Data as of: January 14, 2025

And Rents Look Subdued



Data as of: January 14, 2025

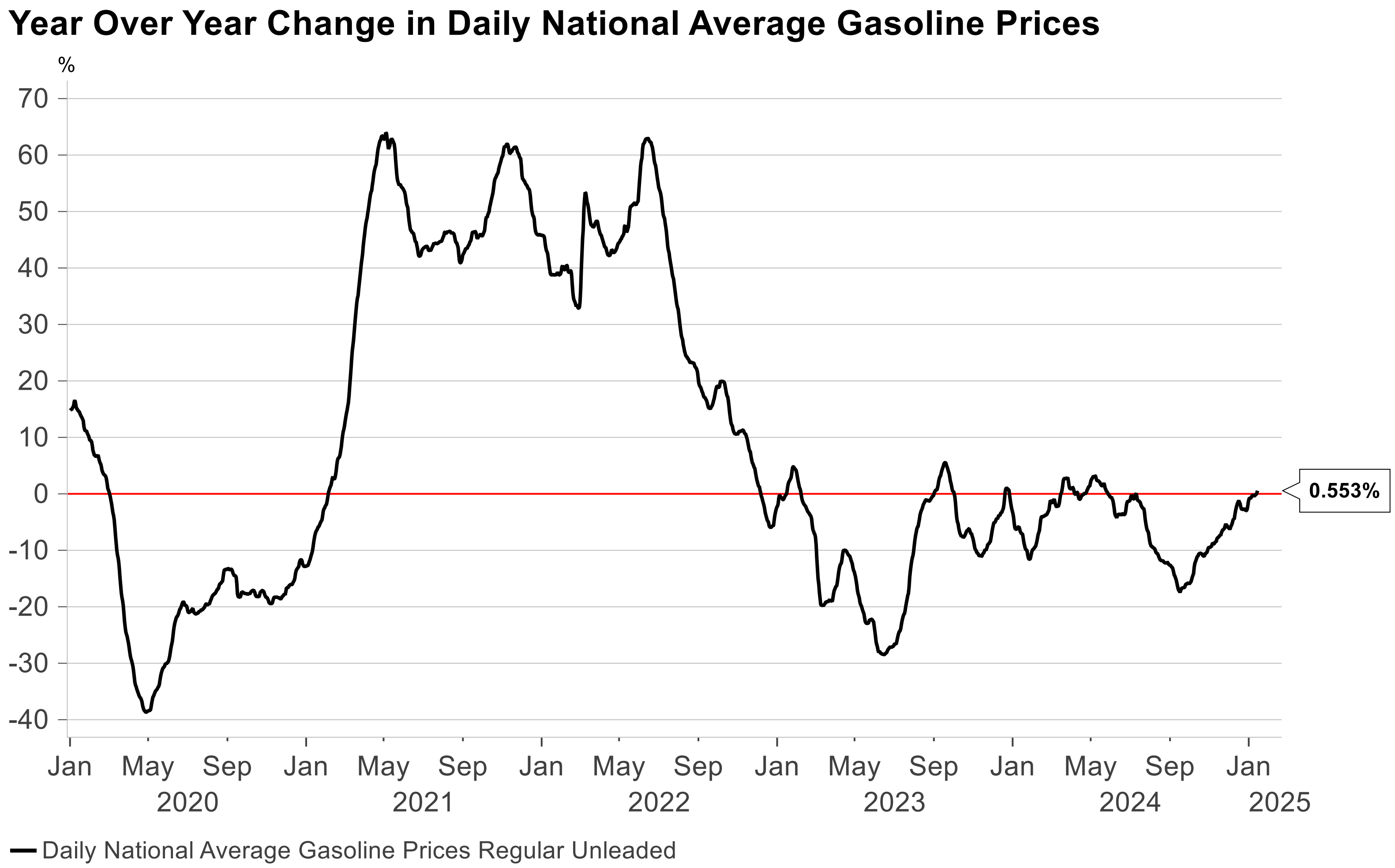
And Gasoline Prices Have Been Falling



Source: NewEdge Wealth, Macrobond, Bloomberg

Data as of: January 14, 2025

Appreciate How Beneficial 2 Years of Falling Gasoline Prices Has Been on the Consumer

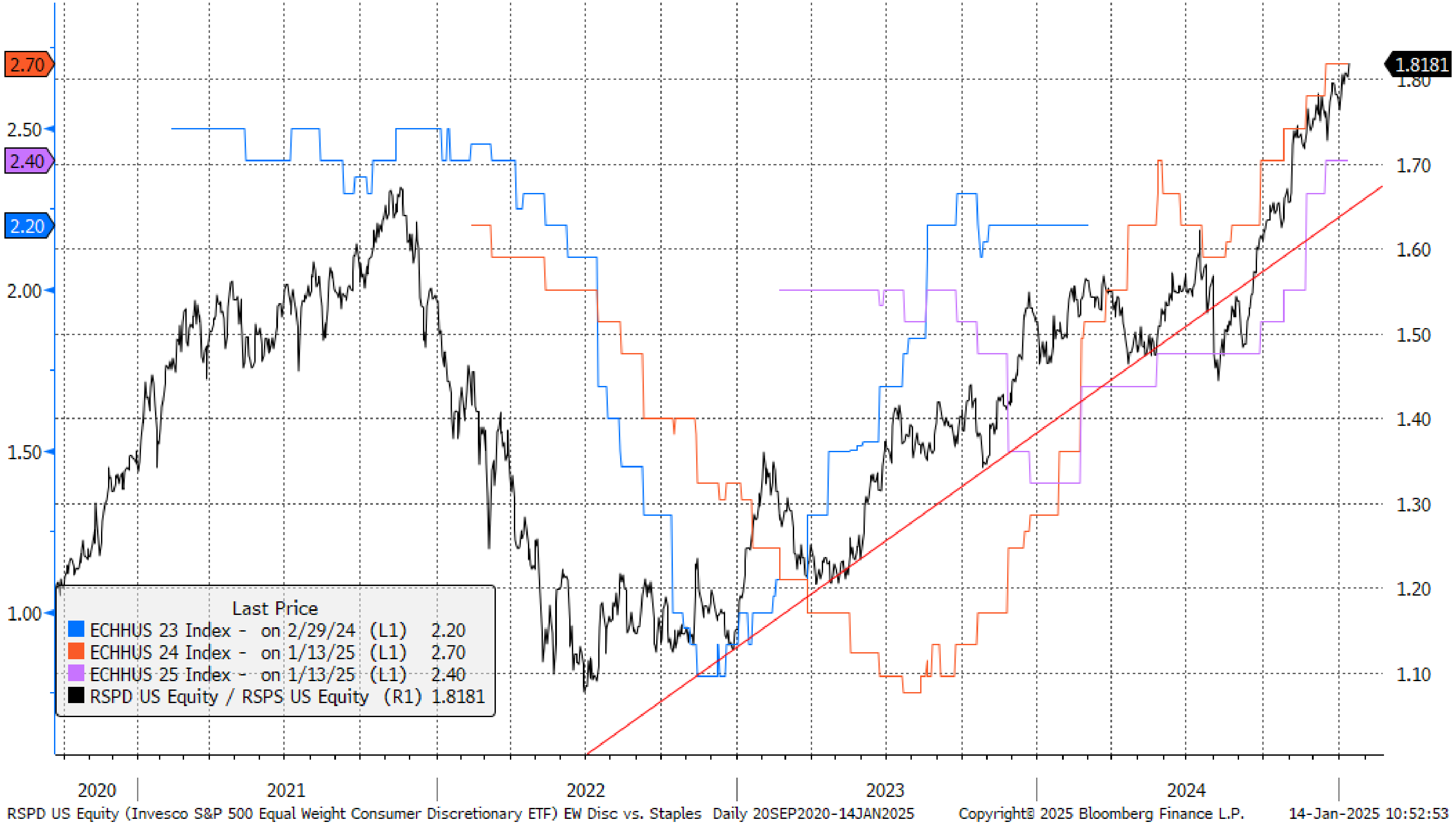


Source: NewEdge Wealth, Macrobond, Bloomberg

Data as of: January 14, 2025

The Equity Market Has Been Right About the Consumer

Equal Weight Discretionary vs. Staples with 2023, 2024, and 2025 Household Consumption Forecasts



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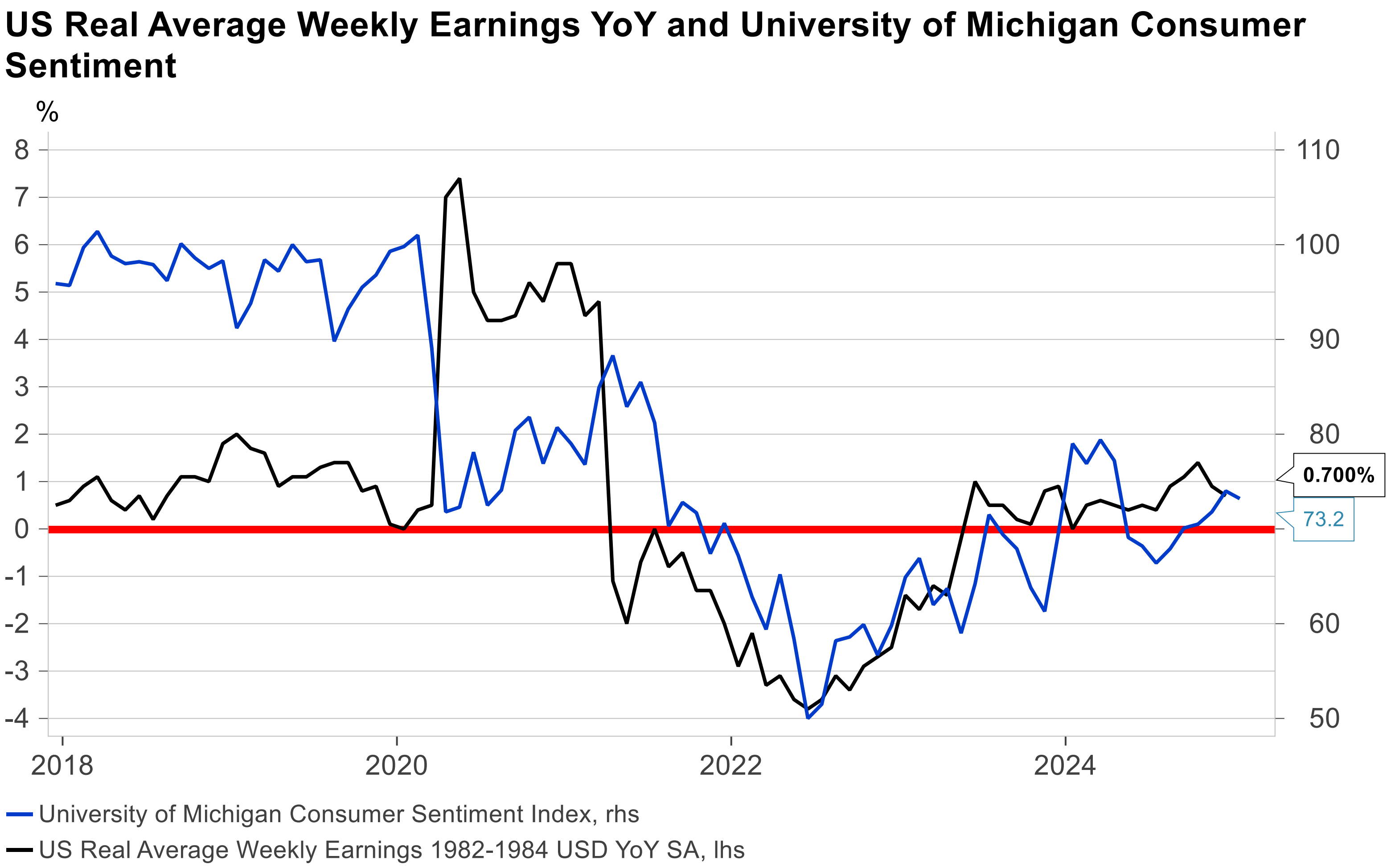
Data as of: January 14, 2025

Real Wage Growth Has Kept Spending Resilient



Source: NewEdge Wealth, Macrobond, Bloomberg

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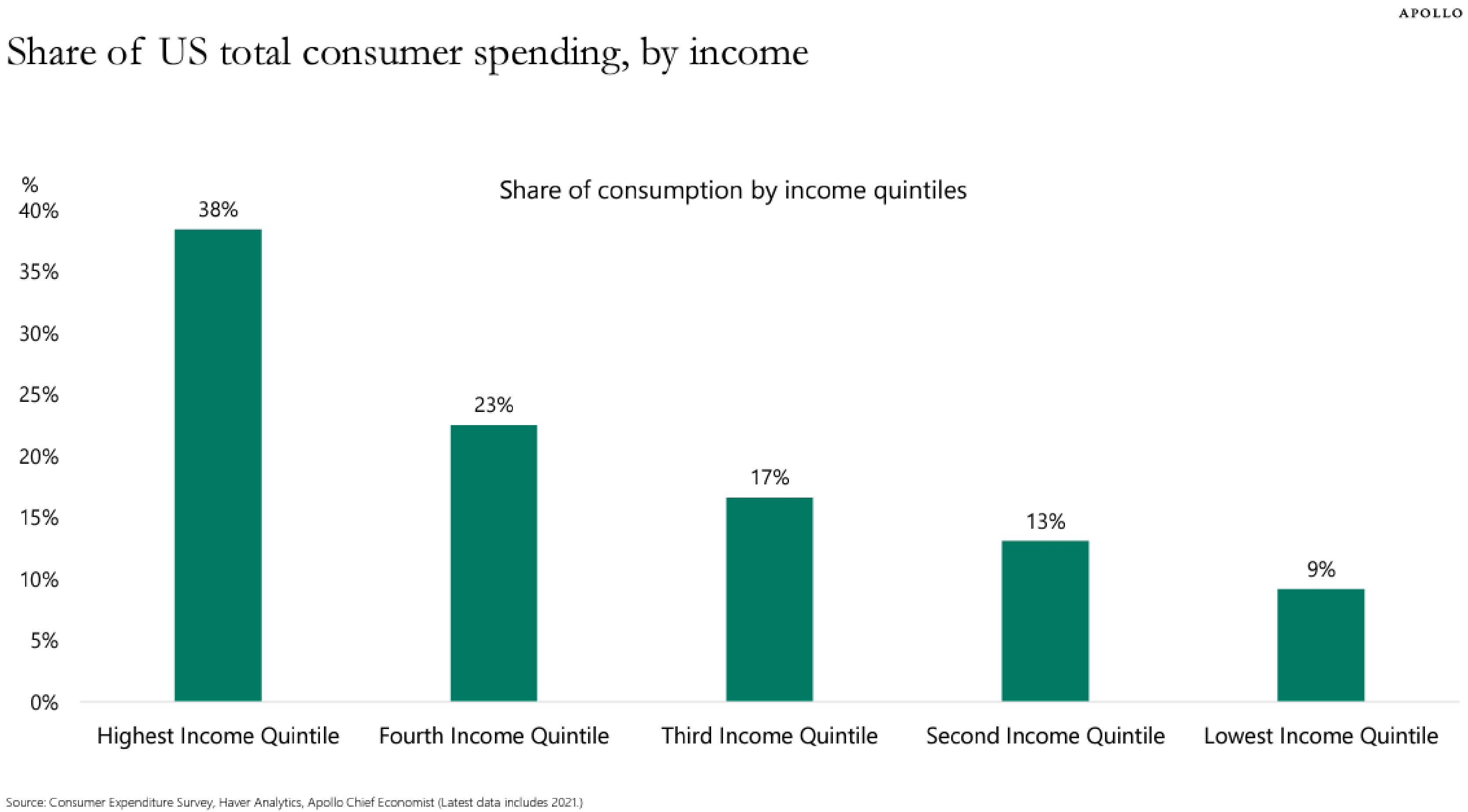
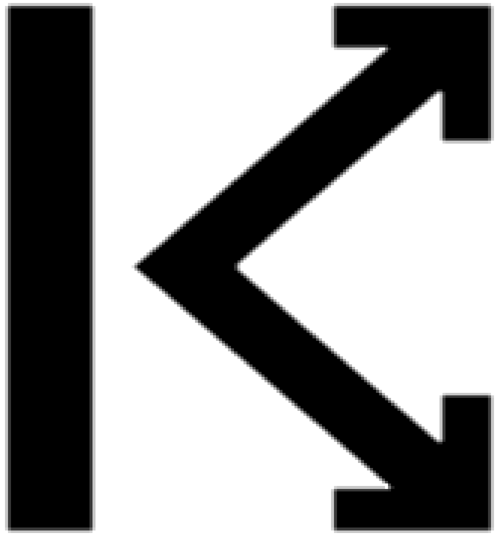
The Spending Skew Keeps the Aggregate Afloat



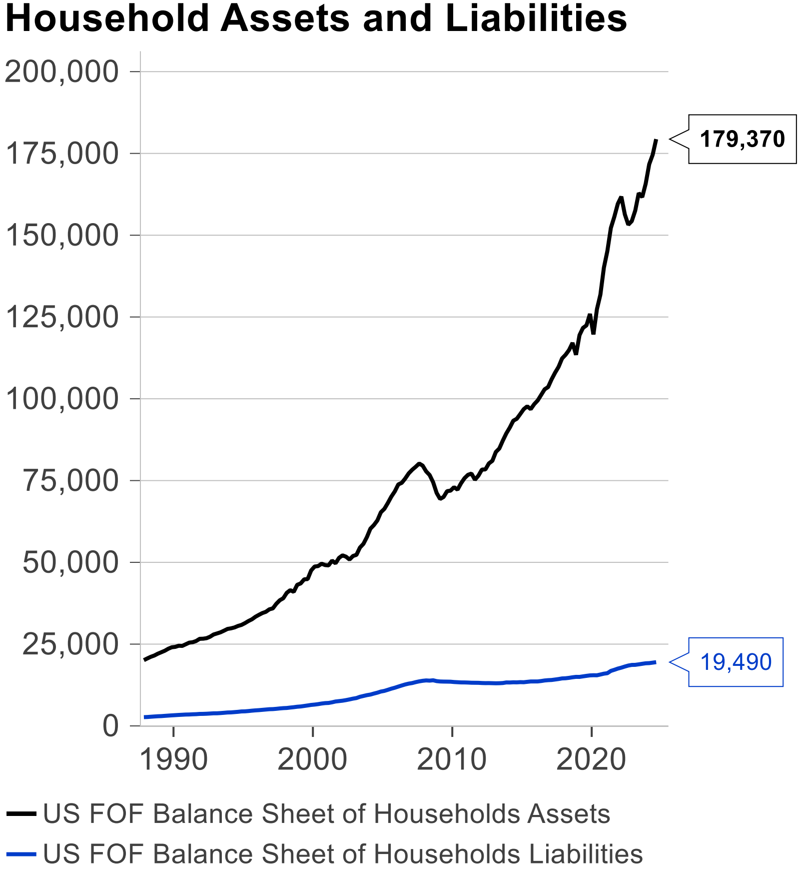
Data as of: Q4 2024

The Well-Known K-Shaped Economy

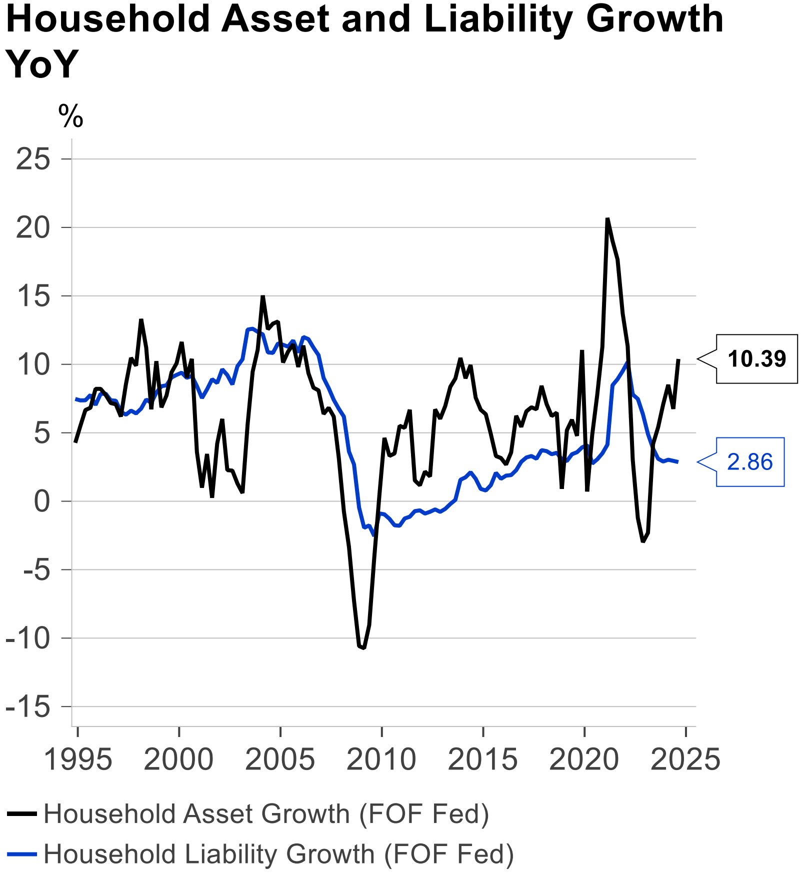


High Income Consumers
Tend to be older
More likely to own their home, with high portion of locked in fixed rates
Less likely to rely on short term debt
More likely to have higher cash balances and overall strong balance sheets
Experienced less inflation as a % of income in recent years
Job losses at higher levels tend to lag
Overall in a strong position
Major sensitivity: stock market
Lower Income Consumers
Tend to be younger
More likely to rent their home
More likely to rely on short term debt (autos, credit cards)
More likely to have fewer financial assets and weaker balance sheets
Experienced higher inflation as a % of income in recent years
Job losses at lower levels tend to lead
Overall feeling the pinch and at rising risk
Major sensitivity: jobs market

Booming Asset Markets Boost High Income Households, Liabilities Contained

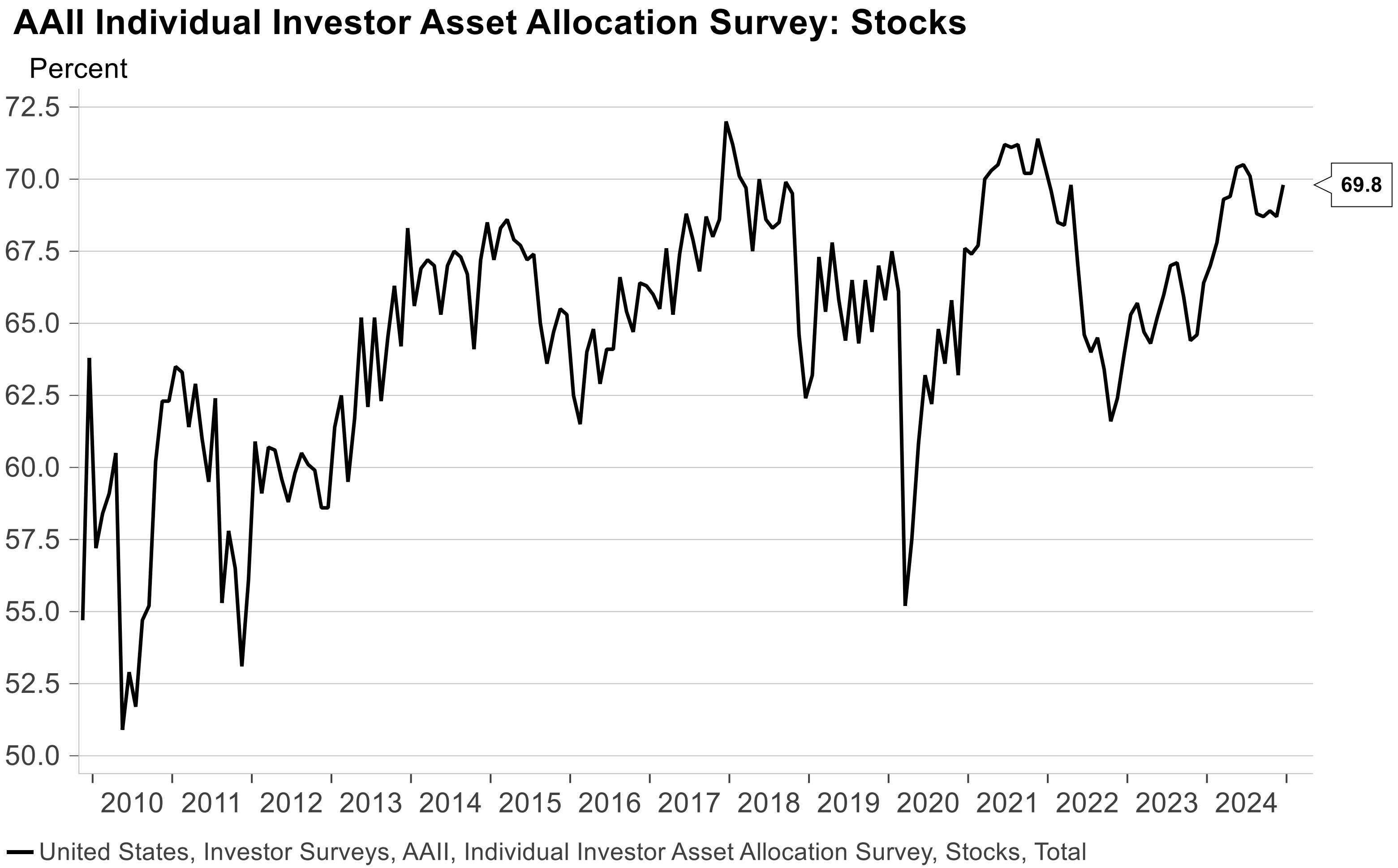


Source: NewEdge Wealth, Macrobond, Bloomberg



Source: NewEdge Wealth, Macrobond, Bloomberg

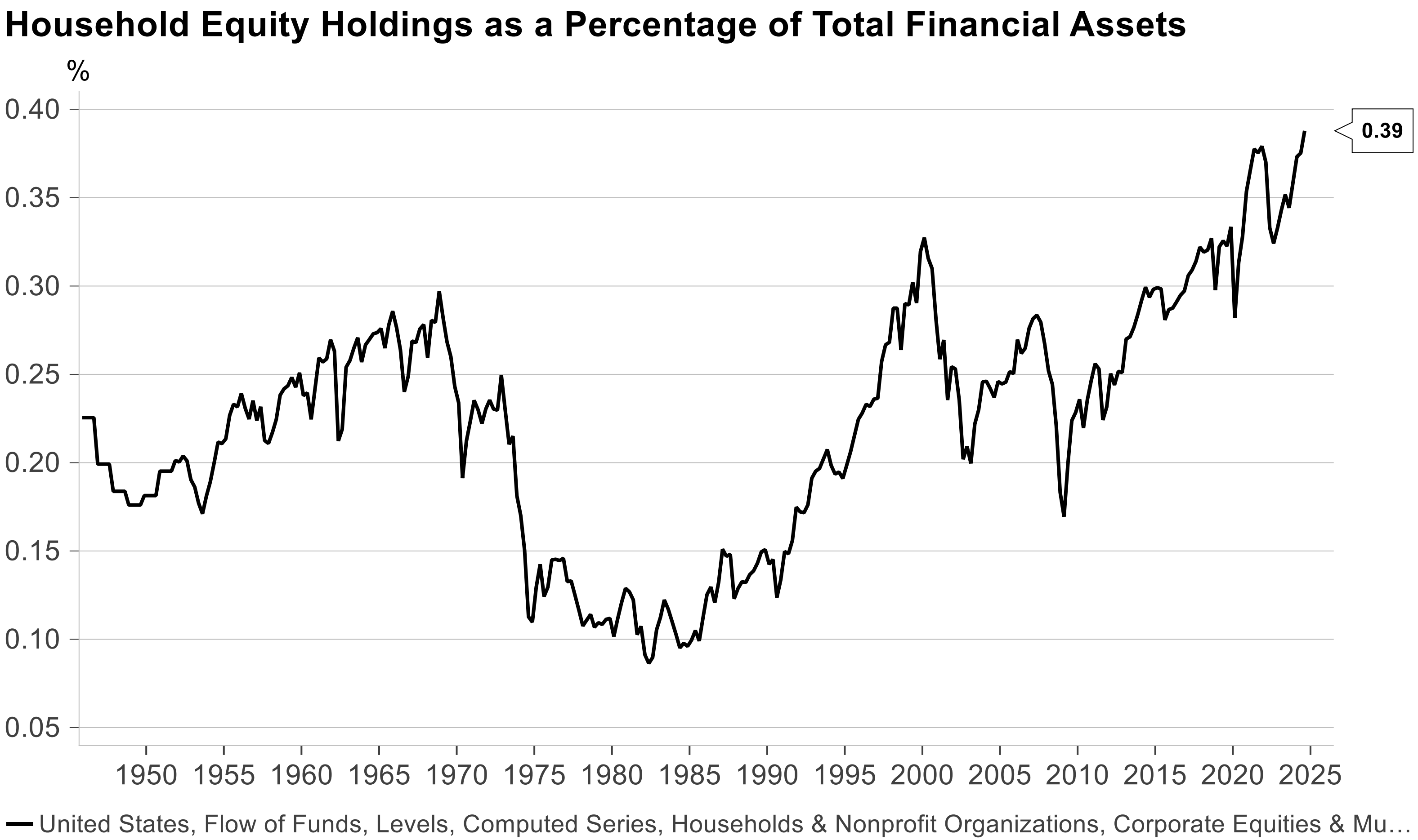
An Equity Correction Would Be Bad for Consumers with Allocations High



Source: NewEdge Wealth, Macrobond, Bloomberg American Association of Individual Investors (AAII)

Data as of: January 14, 2025

Fed Data Shows Record Household Exposure to Equities

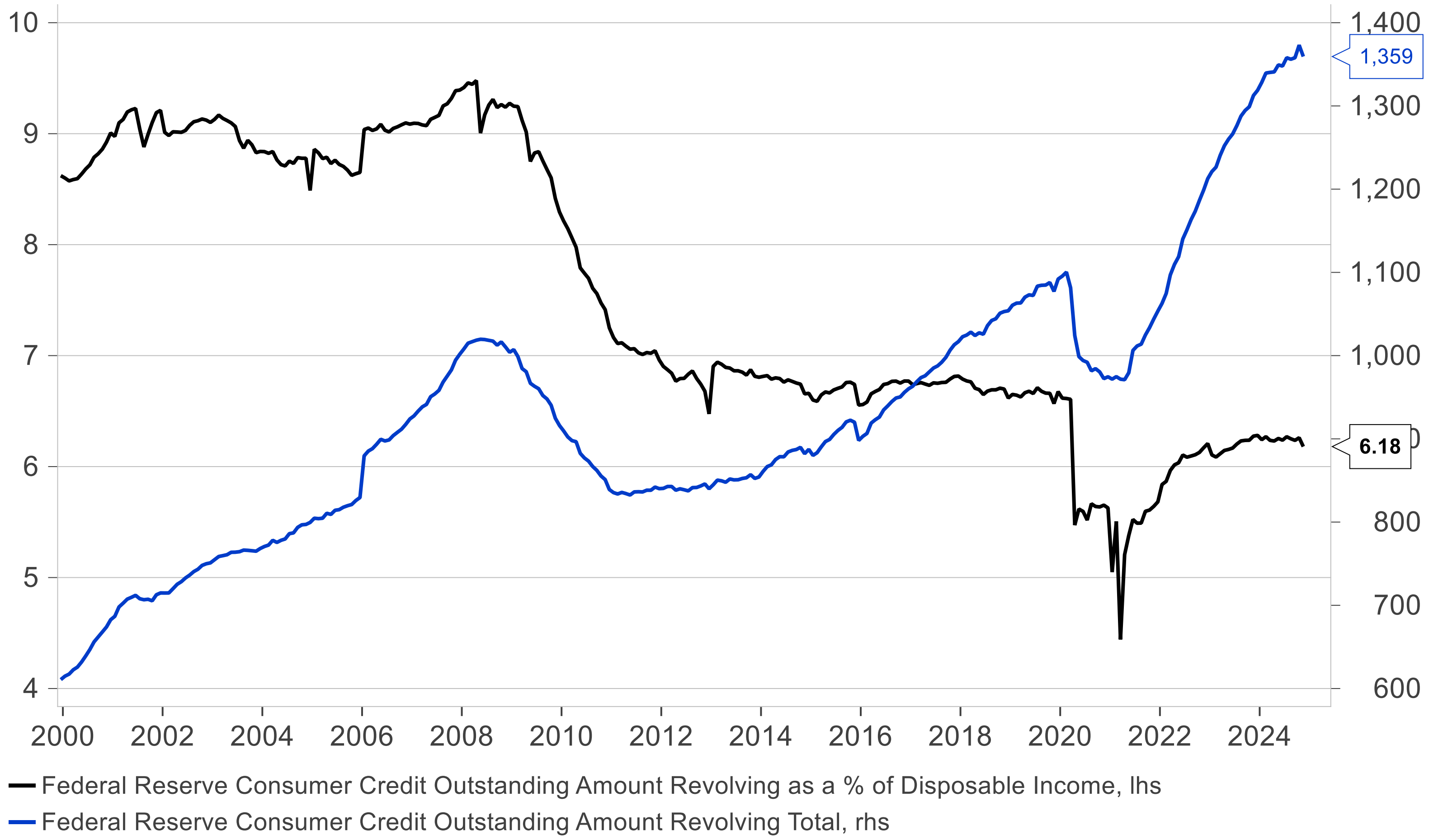


Source: NewEdge Wealth, Macrobond, Bloomberg Federal Reserve

Data as of: January 14, 2025

Increasing Debt Levels, but Ratios OK For Now Thanks to Strong Incomes

Consumer Revolving Credit Absolute and as a % of Disposable Income

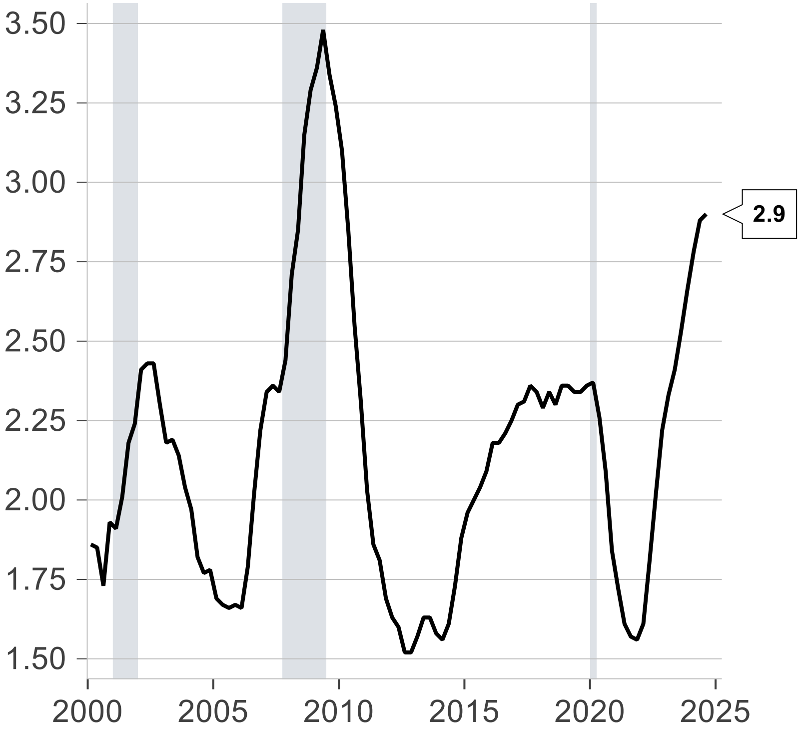


Source: NewEdge Wealth, Macrobond, Bloomberg

This is why the jobs market is so important for lower income households… these ratios could start to look stretched IF incomes deteriorate (median income was strong in 2023, growing 4% in real terms and fueling growth according to the Census Income and Poverty Report).

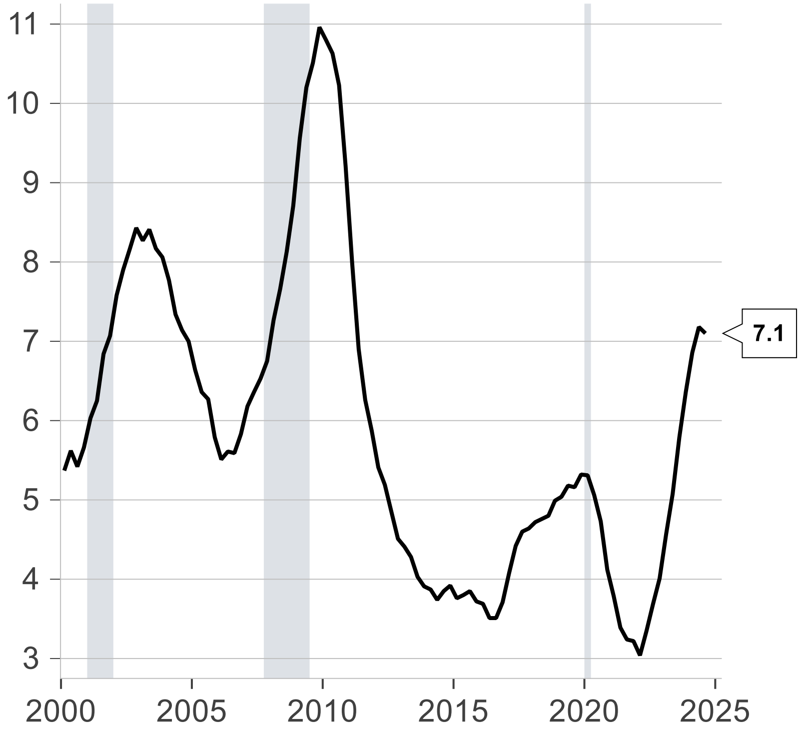
However, Delinquencies Are Picking Up Despite the Resilient Jobs Market

US NY Fed Equifax Transition Serious Delinquency 90+ for Auto Loans by Age All



Source: NewEdge Wealth, Macrobond, Bloomberg

US NY Fed Equifax Transition Serious Delinquency 90+ for Credit Card by Age All



Source: NewEdge Wealth, Macrobond, Bloomberg

Data as of: January 14, 2025

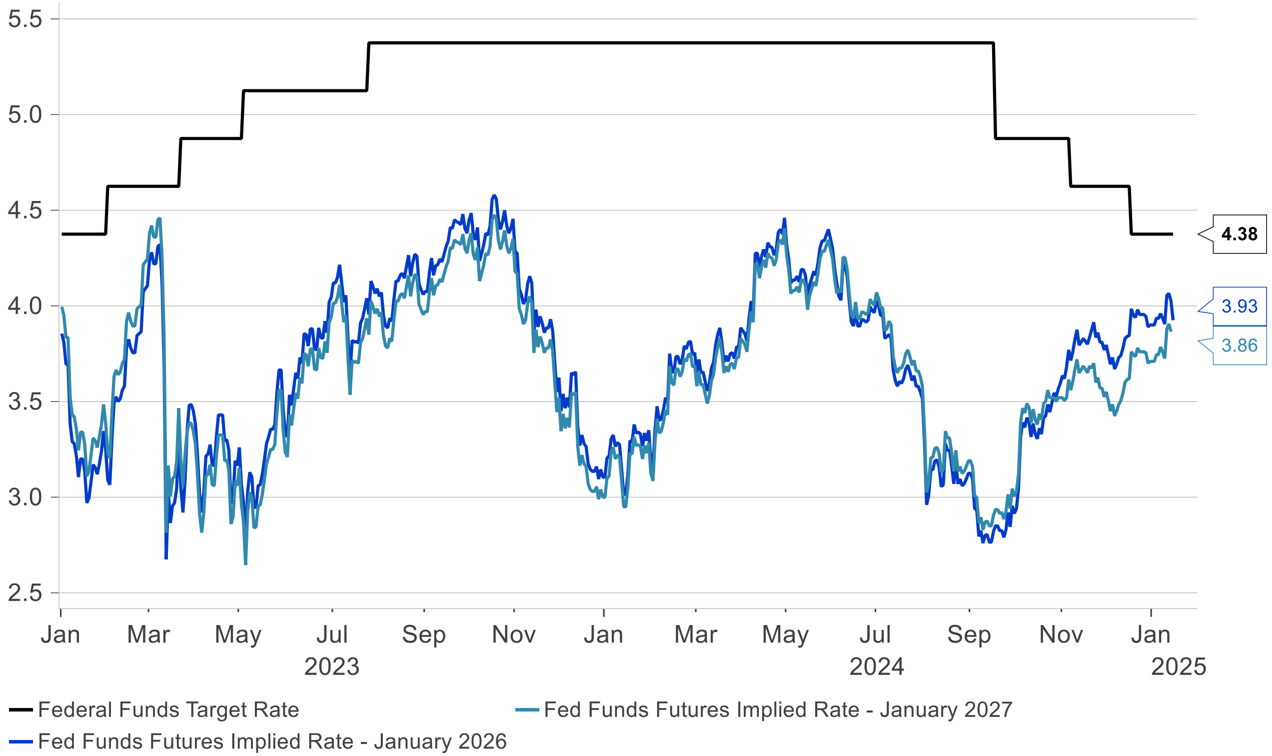
Policy Outlook

NewEdge WEALTH

Key Policy Themes for 2025

- The Fed and the markets disagree on whether policy is tight or easy
- Interest rates will only fall significantly if the labor market deteriorates
- With a razor thin margin in the U.S. House, expect challenges to moving any legislation
- Thin vote margins and large budget deficits could thwart significant fiscal stimulus
- Trade-related uncertainty can create economic and market damage even if tariffs never go into effect

Fed Funds Rate With Market-Based Projections for 2025 & 2026

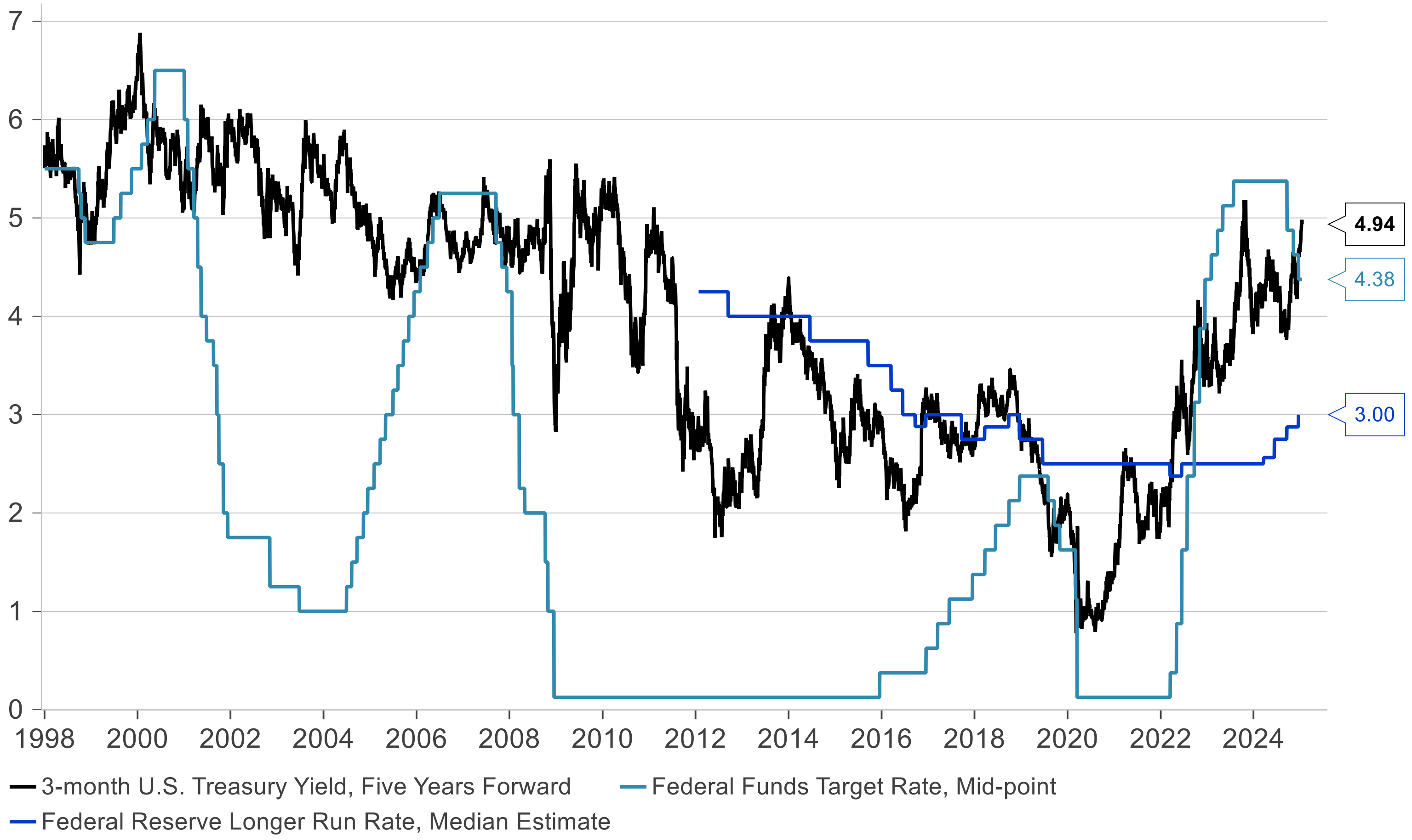


Source: NewEdge Wealth, Macrobond, Bloomberg

Data as of: January 14, 2025

The Market and the Fed Do Not Agree on Whether Policy is Loose or Tight

Fed Estimate vs. Market-Based Neutral Cash Rate



Source: NewEdge Wealth, Macrobond, Bloomberg Federal Reserve

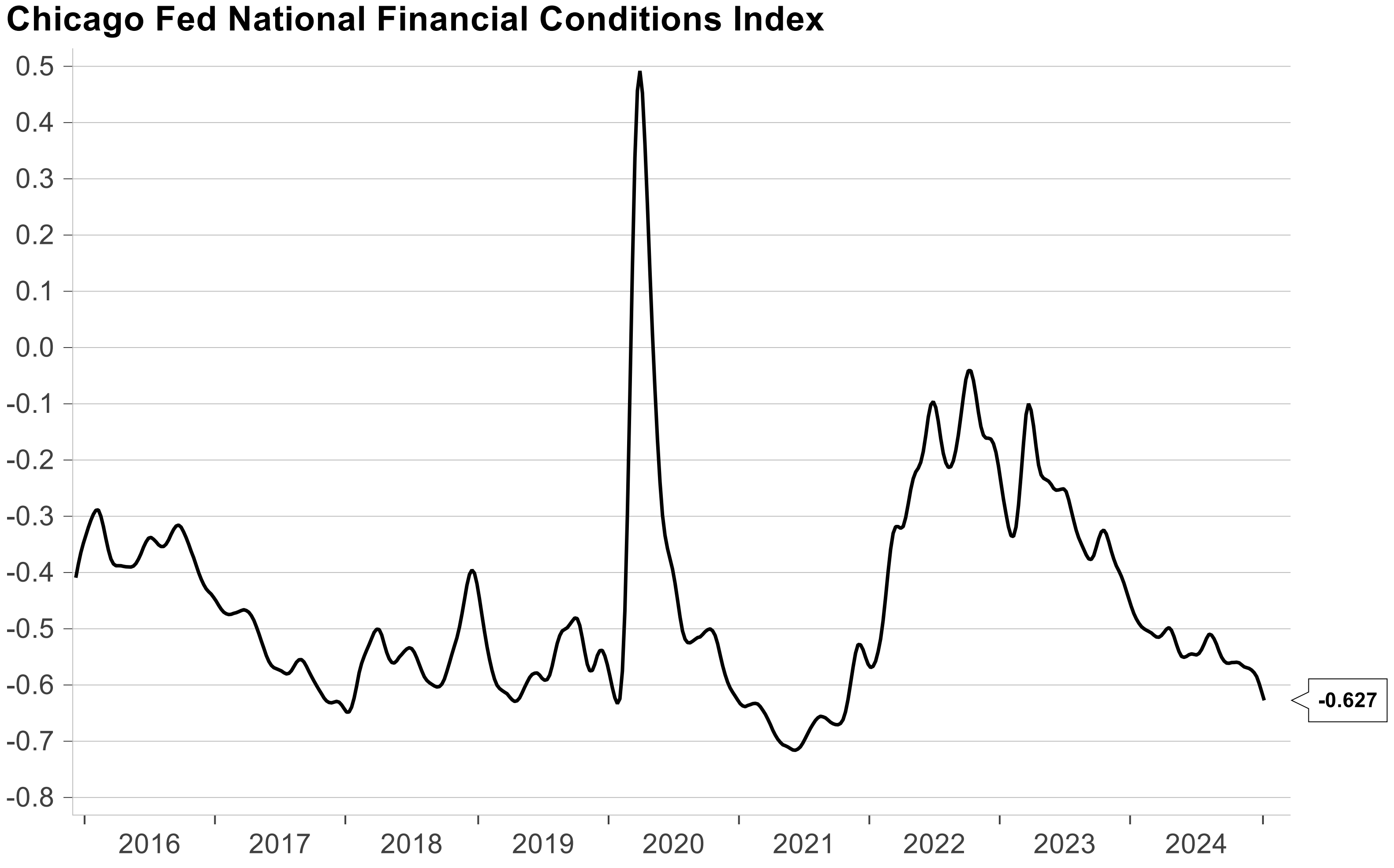
Data as of: January 14, 2025

Equity and Credit Keep Financial Conditions Easy and Say Fed Isn't *That* Tight

Source: NewEdge Wealth, Macrobond, Bloomberg

Data as of: January 14, 2025

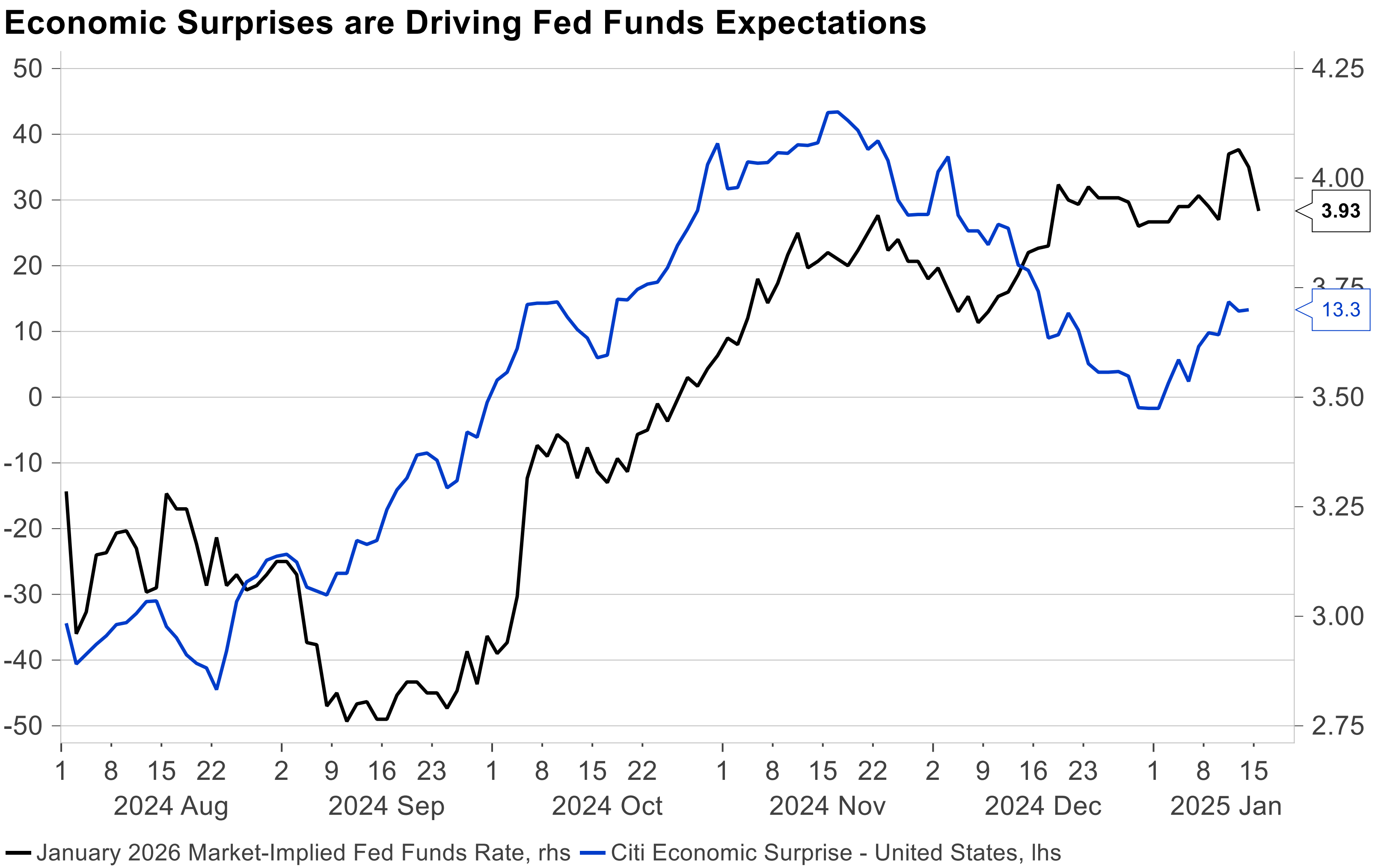
Fed Has Not Been *That* Tight



Source: NewEdge Wealth, Macrobond, Bloomberg

Data as of: January 14, 2025

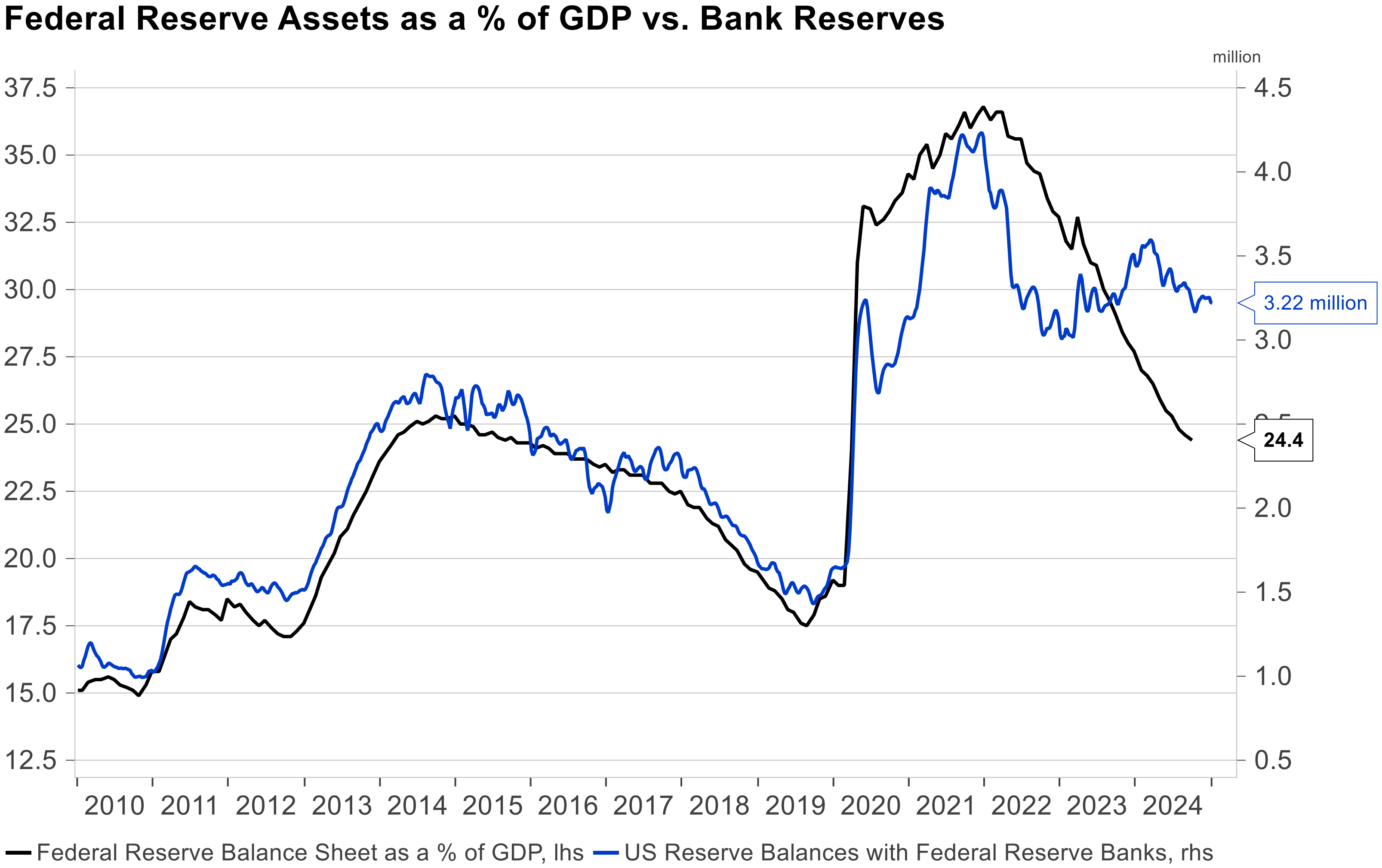
Who's Right? The Data Will Tell Us



Source: NewEdge Wealth, Macrobond, Bloomberg

Data as of: January 14, 2025

Is 2025 the Year that Fed Balance Sheet Reduction Starts to Bite?

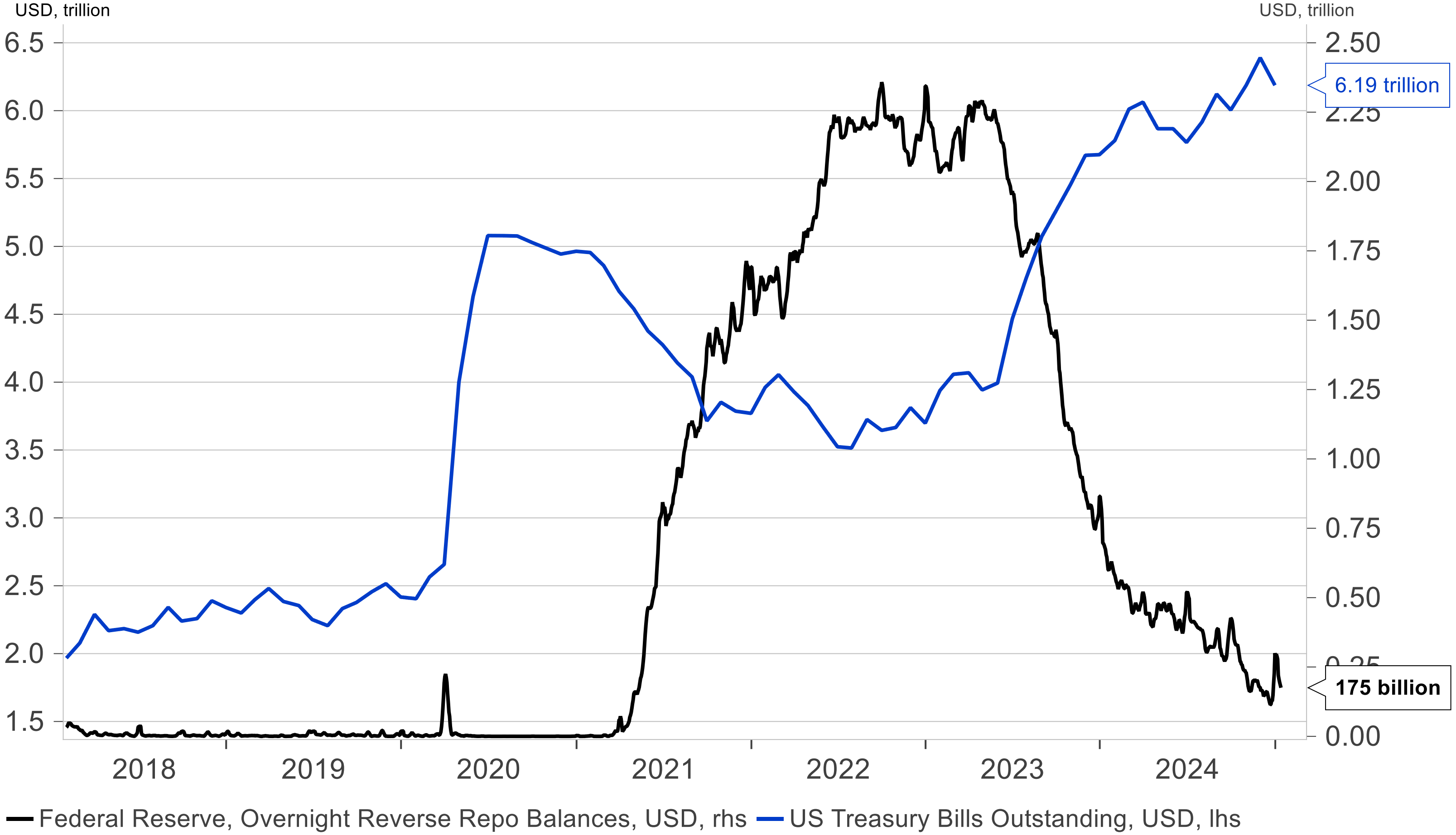


Source: NewEdge Wealth, Macrobond, Bloomberg

Data as of: January 14, 2025

Will the U.S. Treasury Have Difficulty Issuing Bills?

Fed Reverse Repo Facility Usage vs. Treasury Bill Issuance

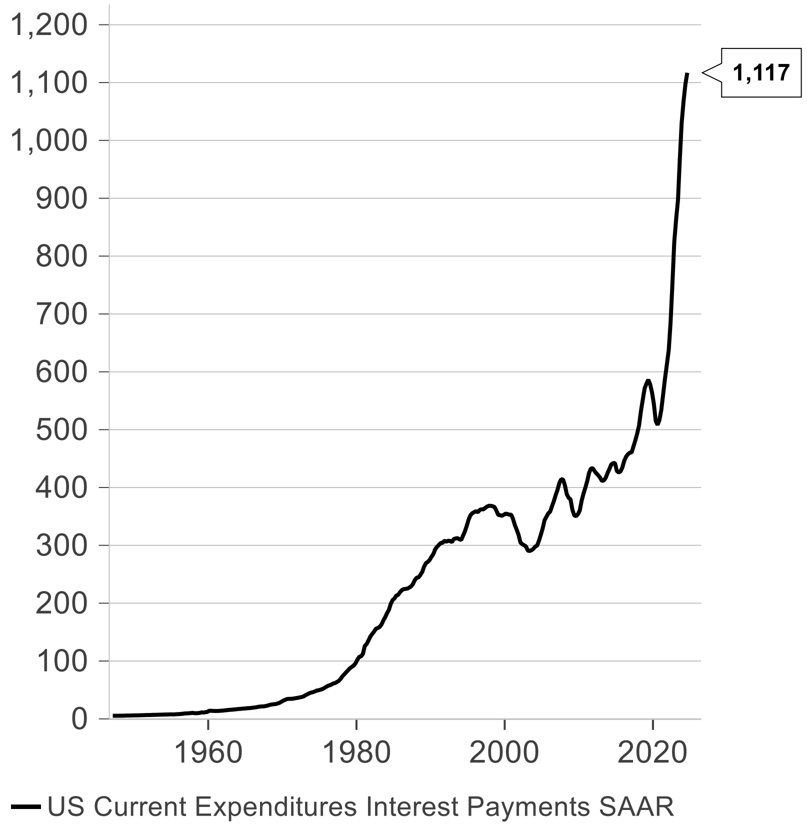


Source: NewEdge Wealth, Macrobond, Bloomberg Federal Reserve Bank of New York, SIFMA (Securities Industry & Financial Markets Association)

Data as of: January 14, 2025

Budgets Pinched By Persistent High Rates

U.S. Government Interest Payments



Source: NewEdge Wealth, Macrobond, Bloomberg

Government Interest Costs at a % of GDP

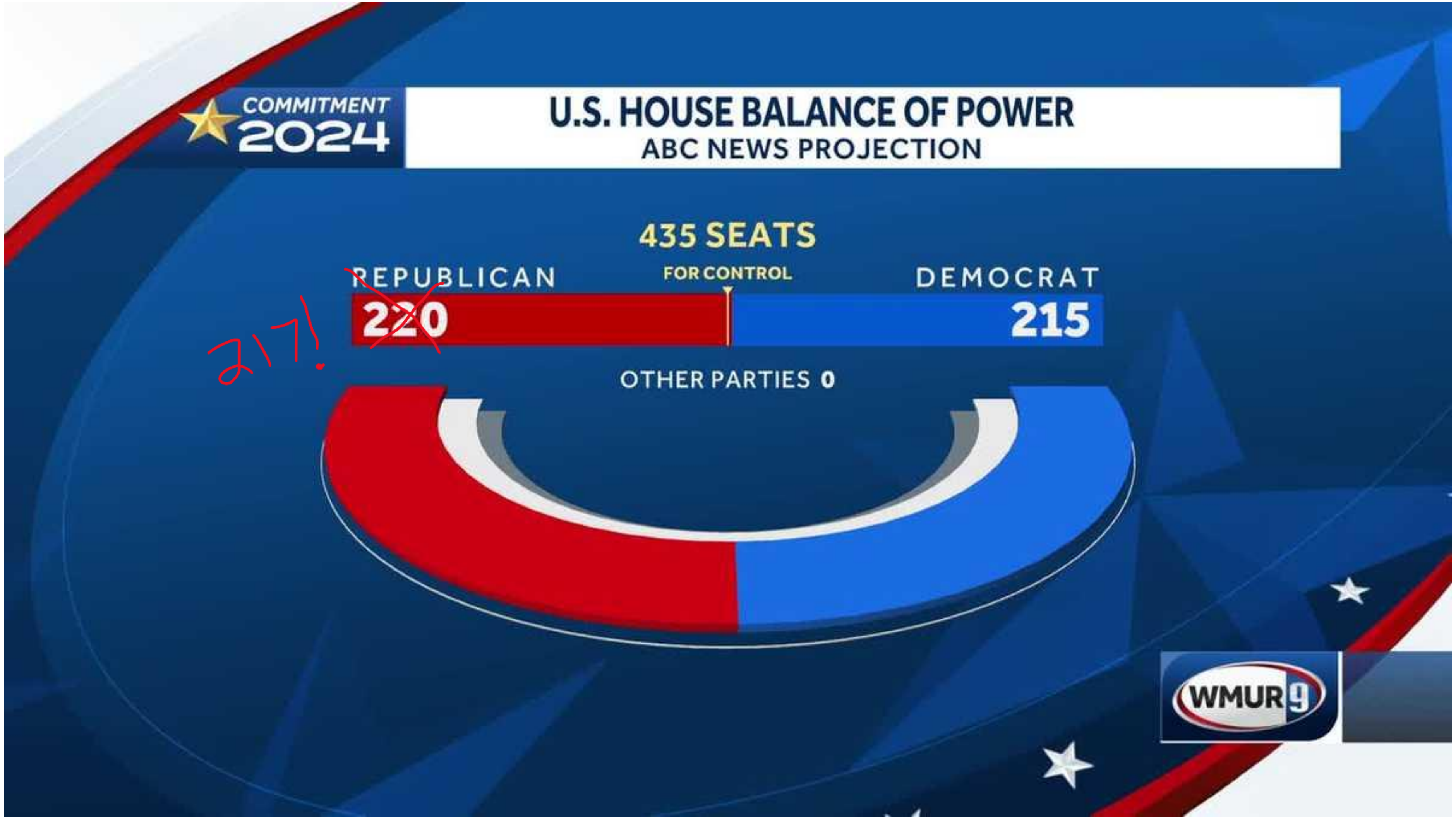
Source: NewEdge Wealth, Macrobond, Bloomberg

Data as of: January 14, 2025

A Daunting Checklist for the New Congress and Administration

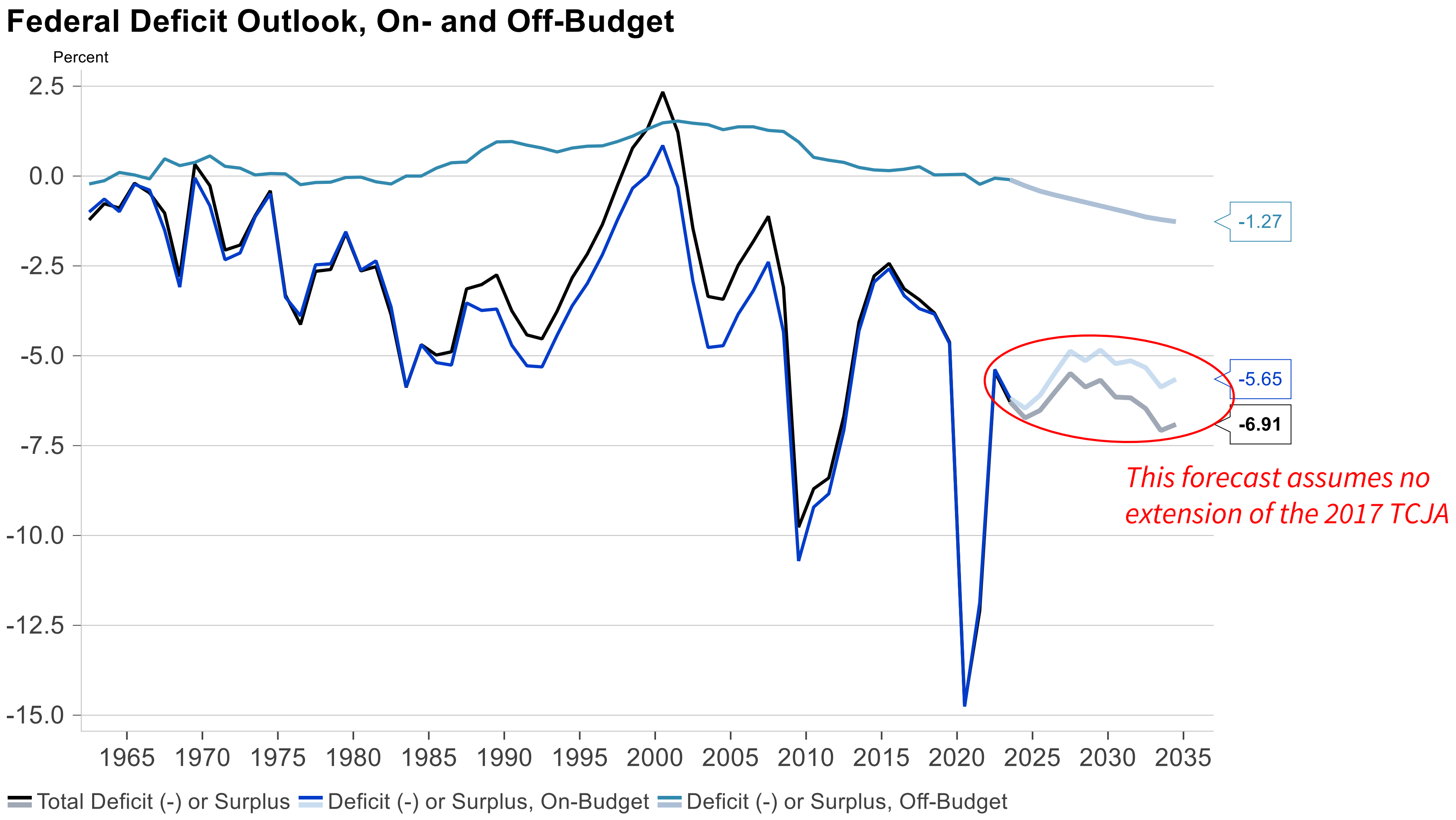
- ❑ Fund the Government for 2025 (Q1)
- ❑ Raise or Suspend the Debt Ceiling (Summer)
- ❑ Pass new spending for natural disasters, border security and defense (Q1)
- ❑ Renew expiring provisions from 2017 Tax Cuts and Jobs Act (1/1/2026)
- ❑ Pass new tax relief: SALT cap increase, “no tax on TIPS”, Social Security Benefits, corporate tax cuts (?)
- ❑ Pass new spending cuts and/or tax increases: DOGE, tariffs, IRA repeal (?)

Narrow House Majority an Obstacle to a Large Tax Bill... And Everything Else



Source: WMUR, January 2025

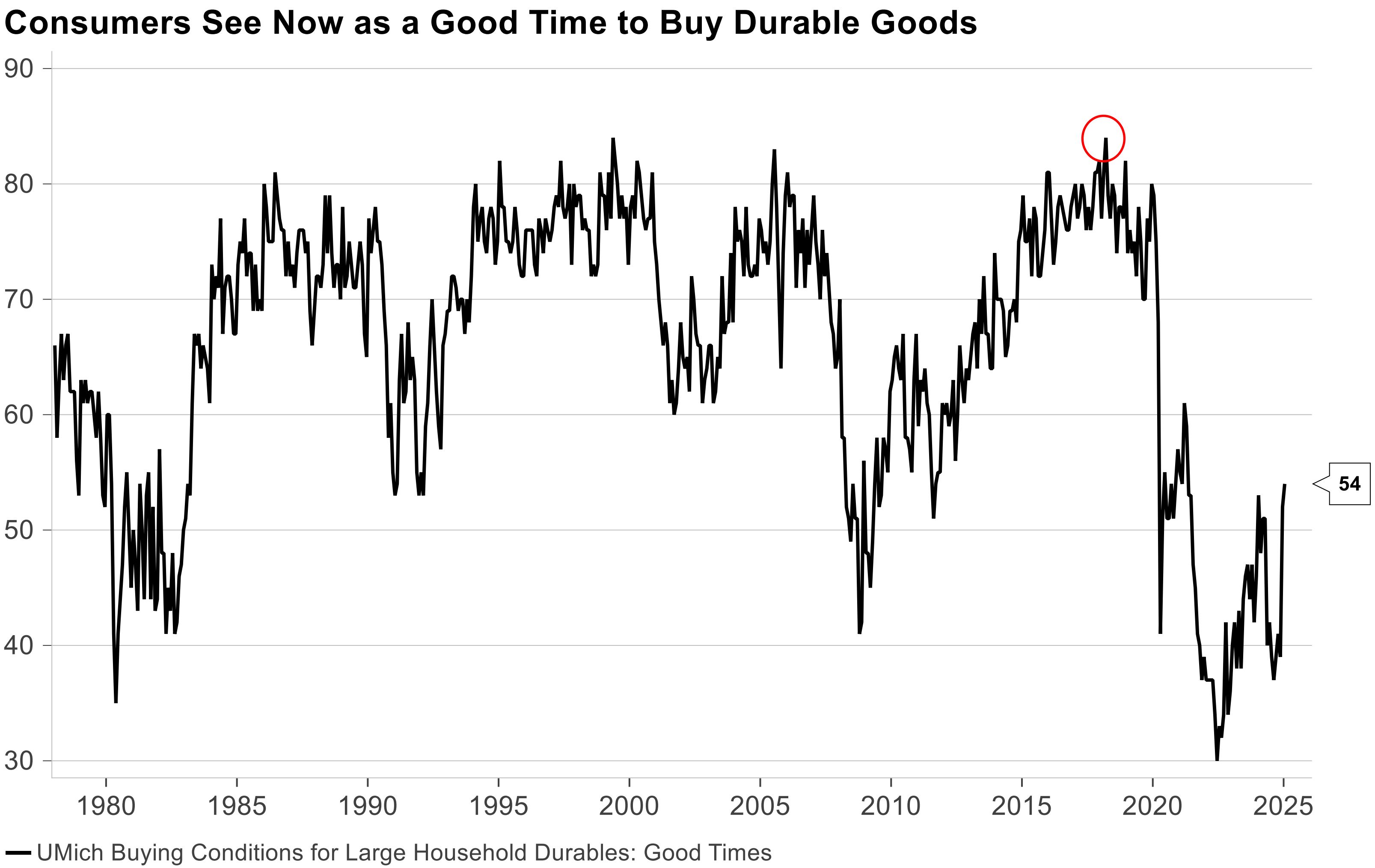
Congress is Already Working With a Bleak Budget Outlook



Source: NewEdge Wealth, Macrobond, Bloomberg U.S. Congressional Budget Office (CBO)

Data as of: January 14, 2025

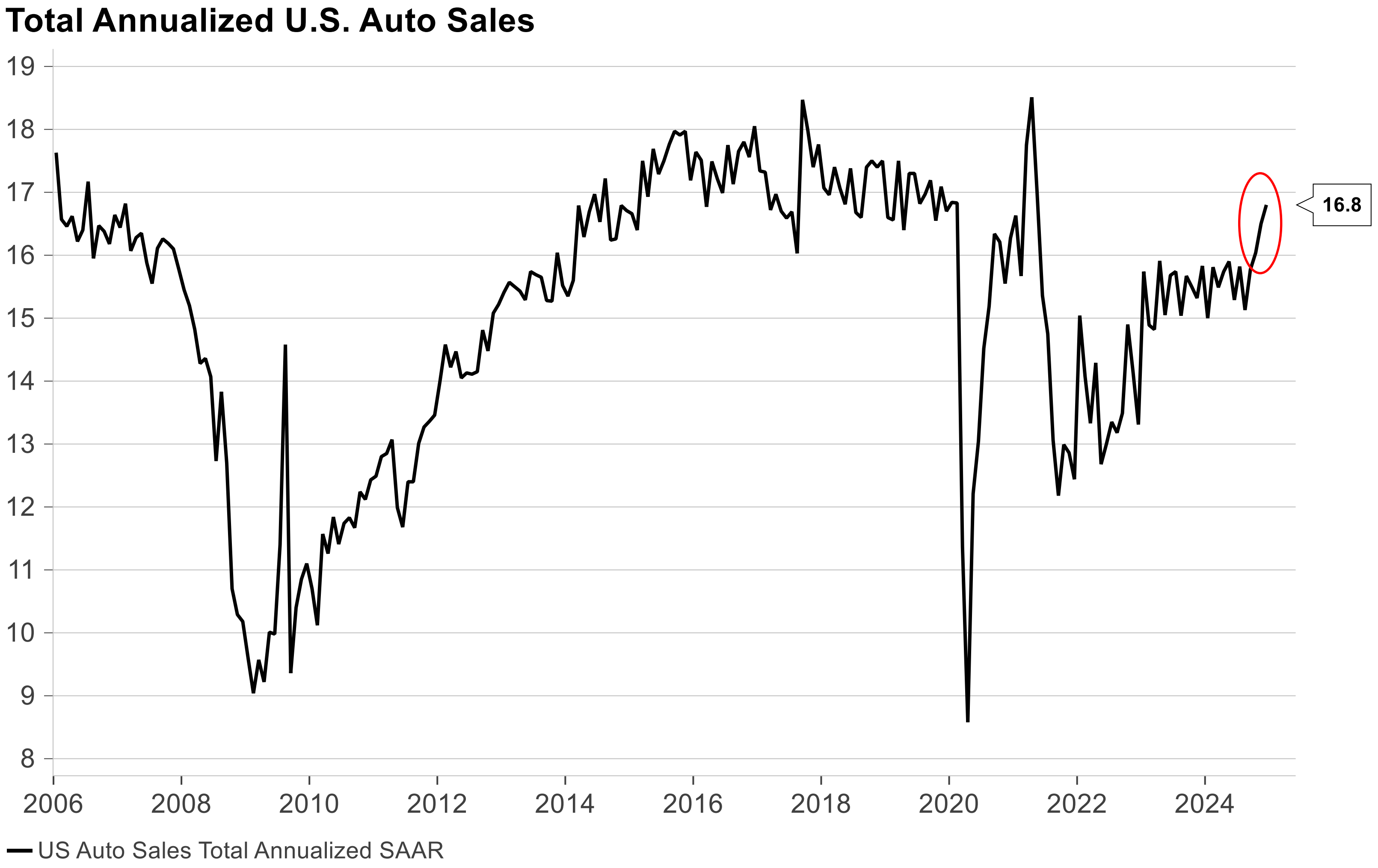
Will Consumers Pull Forward Spending In Anticipation of Tariffs?



Source: NewEdge Wealth, Macrobond, Bloomberg University of Michigan

Data as of: January 14, 2025

Uptick in Auto Sales: EV Subsidies Under Threat or Tariff Speculation?

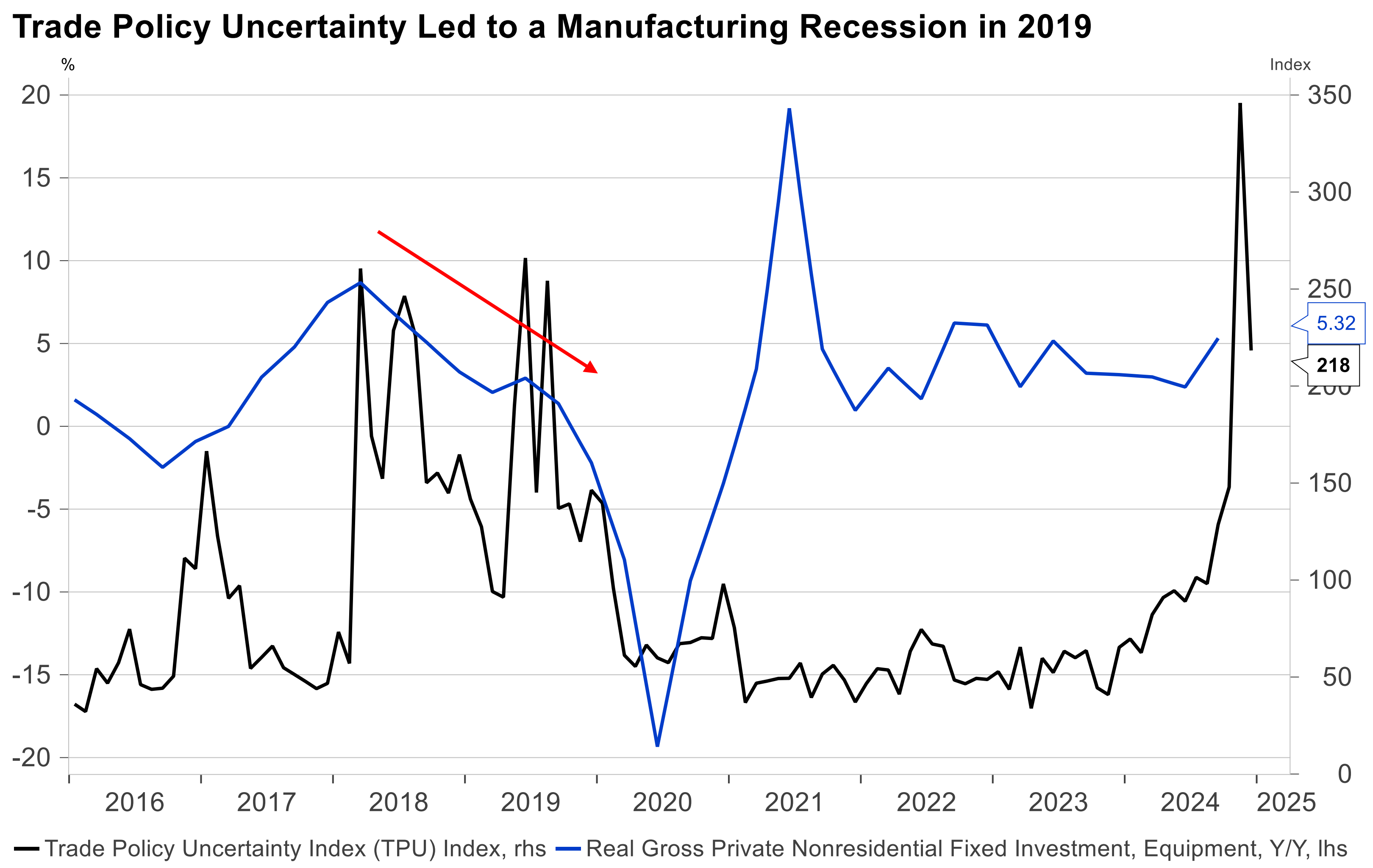


Source: NewEdge Wealth, Macrobond, Bloomberg

NewEdge Wealth

Data as of: January 14, 2025

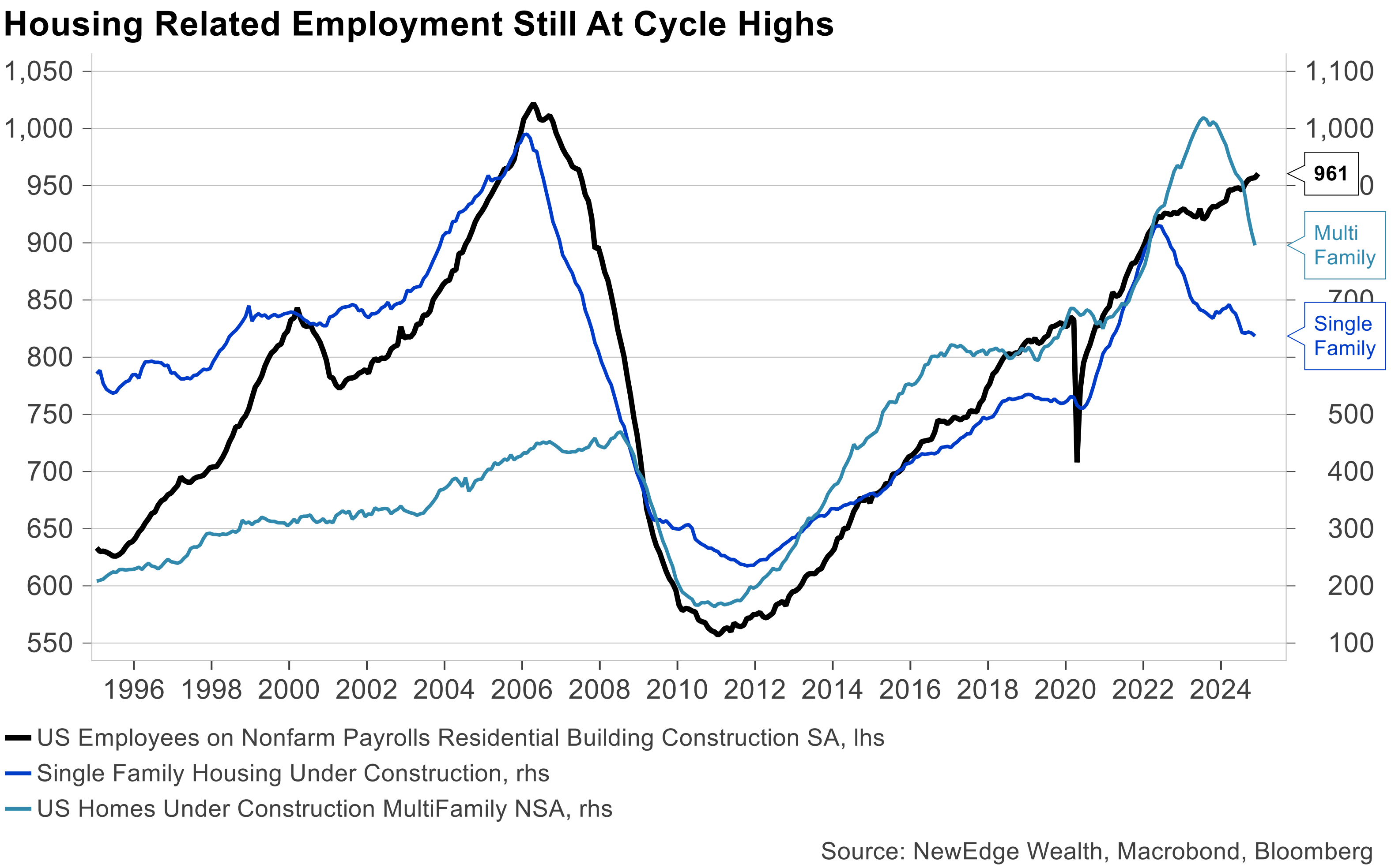
Trade Policy Uncertainty Contributed to an Investment Pullback in 2019



Source: NewEdge Wealth, Macrobond, Bloomberg Economic Policy Uncertainty, U.S. Bureau of Economic Analysis (BEA)

Data as of: January 14, 2025

No Slack in the Housing Labor Market, Immigration Policy a Risk

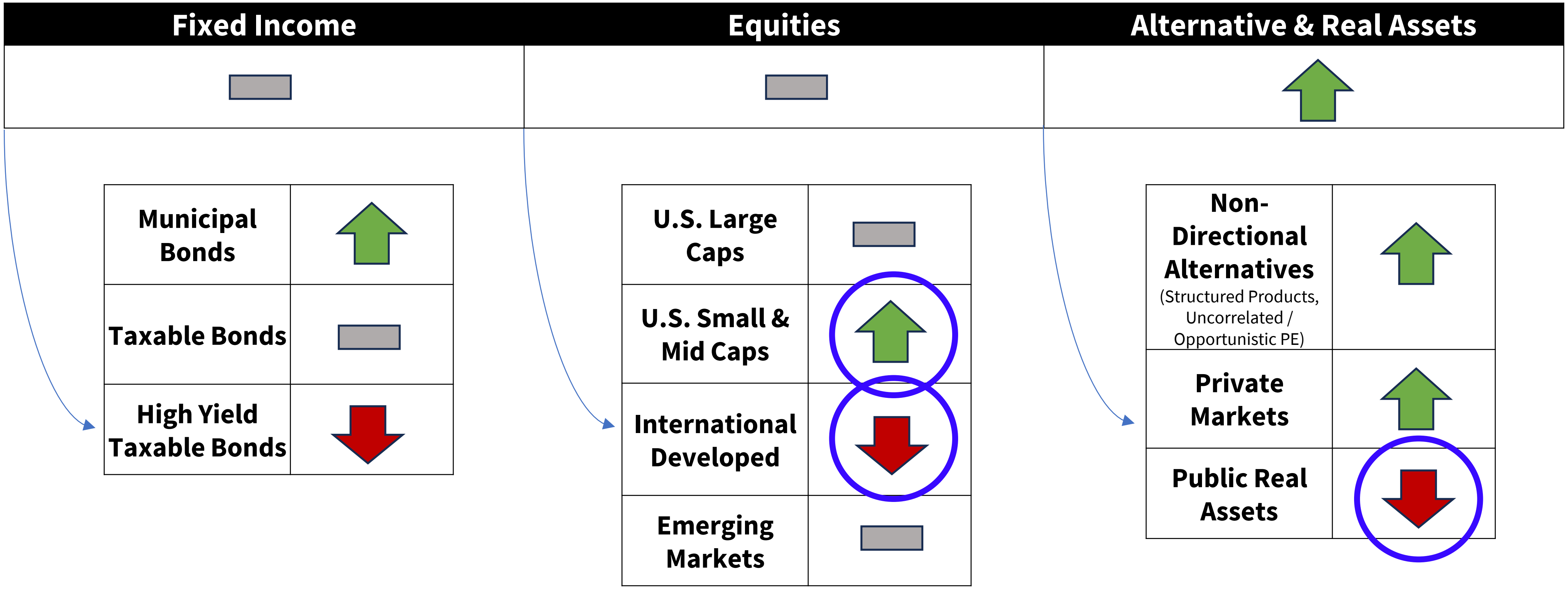


Data as of: January 14, 2025

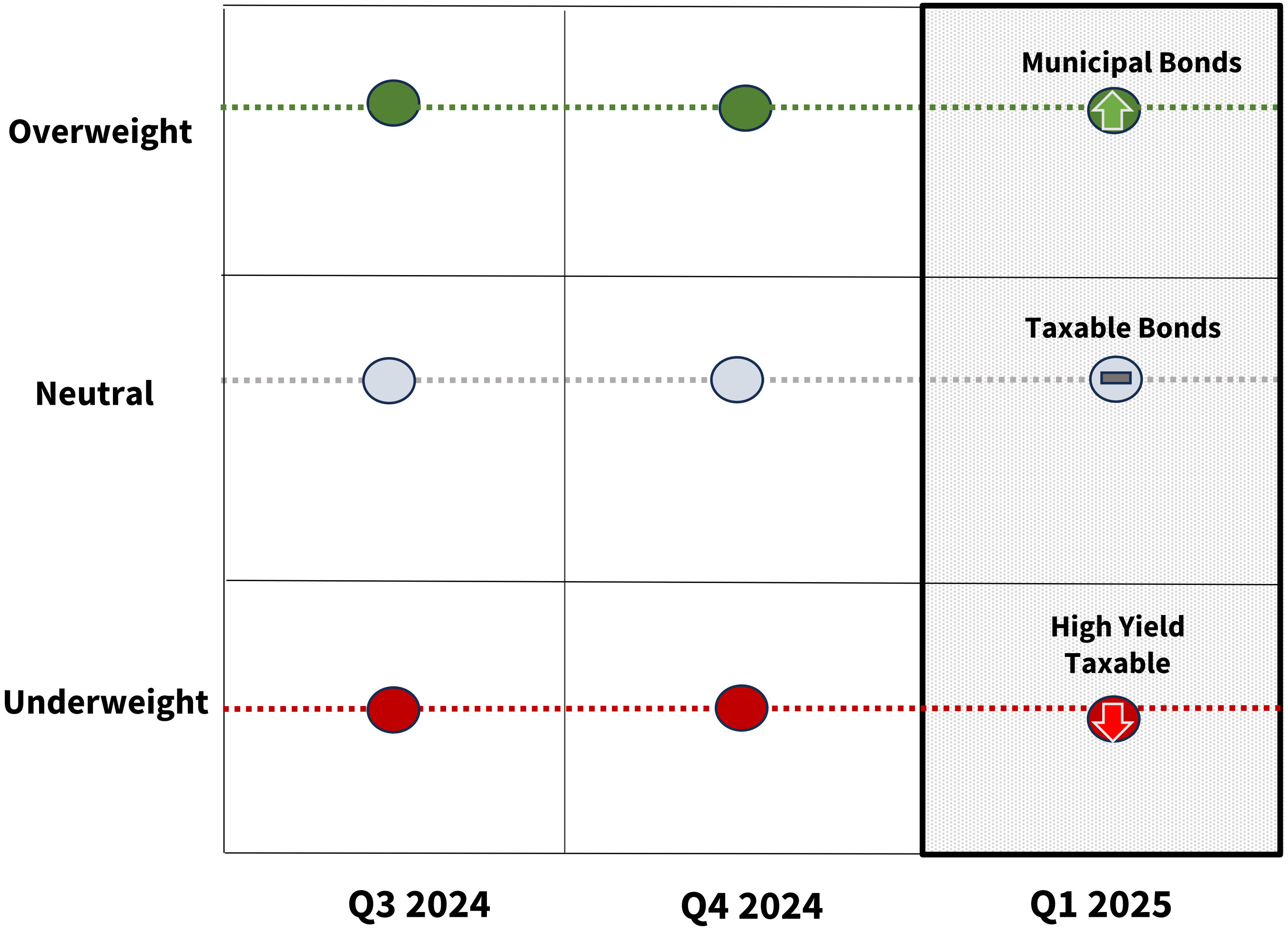
Tactical Asset Allocation

1Q 2025 Tactical Asset Allocation Tilts

Reflects a Tactical Shift from Previous Quarter

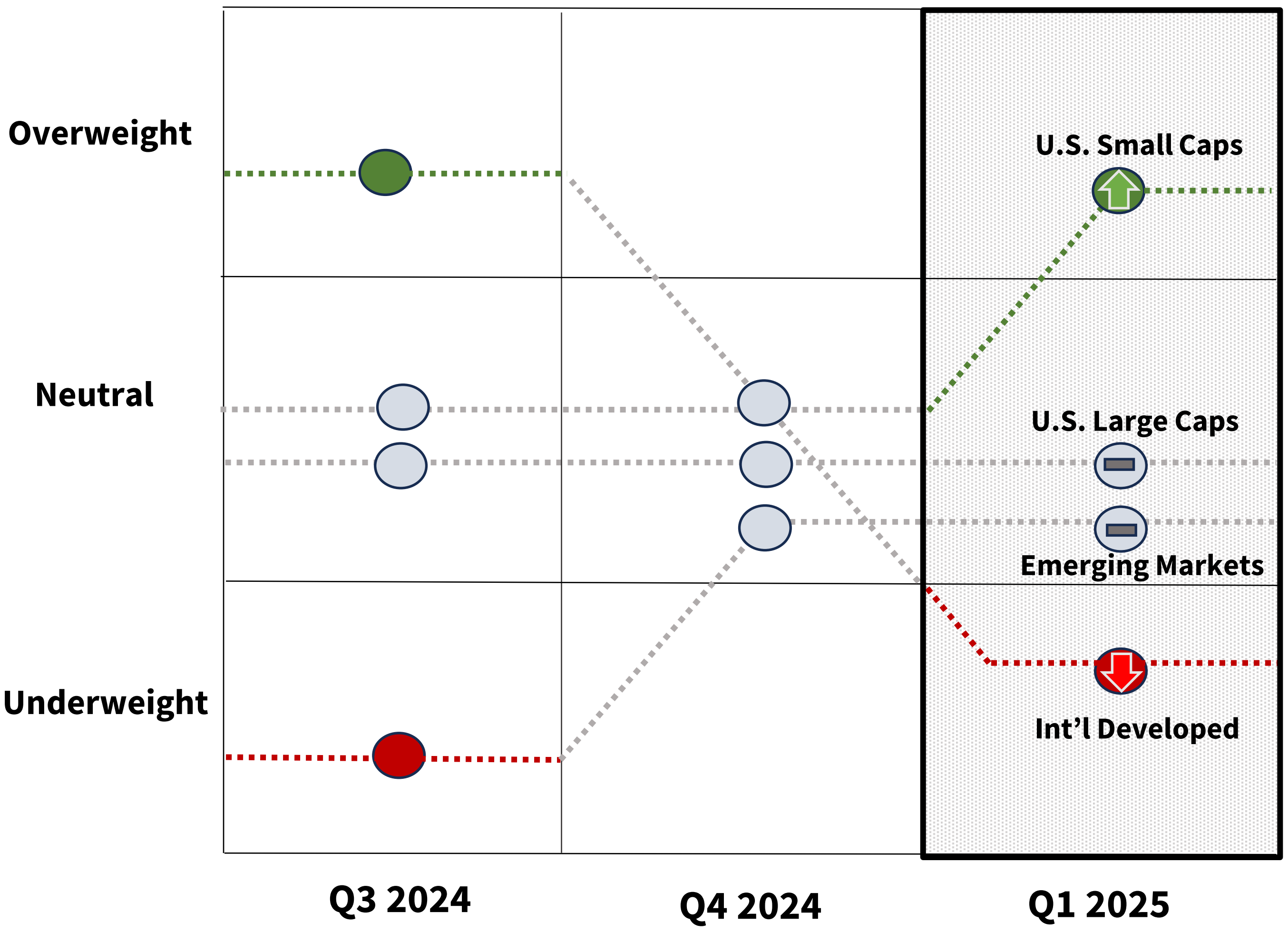


Asset Class Outlooks: Fixed Income



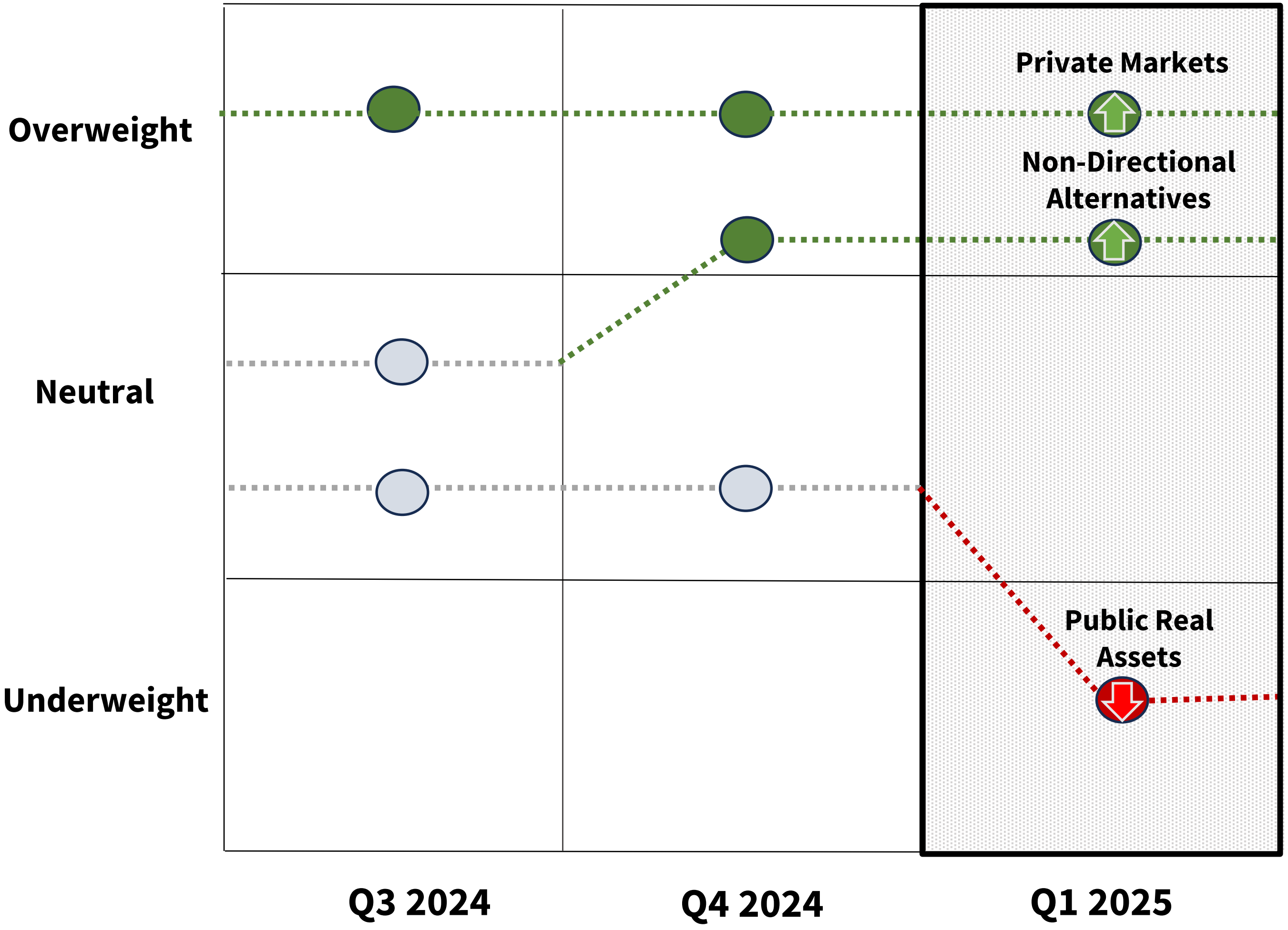
Asset Class	Positioning Notes
Municipal Bonds	• **Remain Overweight:** Taxable equivalent yields remain attractive on a historical basis and near their highest levels in the past decade. • For many issuers, credit conditions remain favorable & with sufficient reserves into 2025 support them in the event of a revenue slowdown. • High Yield Munis remain attractive, supported by strong demand and a healthy credit fundamental backdrop.
Taxable Bonds	• **Remain Neutral:** High-quality bonds can provide attractive income opportunities amidst an uncertain macro environment. • Opportunities within securitized credit, including both agency and non-agency MBS, offer higher yields relative to corporate bonds due to Fed policy impacts and concerns about the U.S. housing market. • Yield curve has un-inverted and investors can earn attractive yields when considering intermediate and long-term bonds rather than short-term alternatives.
High Yield Taxable Bonds	• **Remain Underweight:** Spread valuations continuing to contract and be priced to perfection. • Investors are not currently being well-compensated for incurring the additional risk should the economic outlook deteriorate.

Asset Class Outlooks: Equities



Asset Class	Positioning Notes
U.S. Large Cap	• **Remain Neutral:** Elevated valuations but overall backdrop remains supportive, large caps benefitting from continued AI fueled optimism, operational efficiencies, & more favorable business environment. • Value segment is currently oversold with sentiment and positioning reaching extreme levels versus that of growth/tech stocks, which face stretched valuations, increasing the likelihood of a potential reversal. • Prioritize quality companies with strong balance sheets and earnings resilience to help weather economic and interest rate volatility.
U.S. Small Cap	• **Move to Overweight:** as the environment is more supportive (tax cuts, lighter regulatory environment for M&A activity, accommodative Fed policy), and reasonable valuations may offer compelling opportunities. • Prioritize high-quality companies with positive free cash flow generation.
Int'l Developed	• **Move Underweight:** due to continued economic, political and fiscal uncertainties primarily in Europe. • These challenges are reflected in the valuation discounts seen in developed equities relative to the U.S., which are likely to persist until there is a more favorable outlook for growth.
Emerging	• **Remain Neutral:** as the growth and earnings outlook remains mixed but increased policy response from China's central bank could provide a boost.

Asset Class Outlooks: Alternatives & Real Assets



Asset Class	Positioning Notes
Private Markets	• **Remain Overweight:** Deal activity levels have rebounded, and upcoming vintages are poised to capitalize on opportunities from an economic reset.
Non-Directional Alternatives (Structured Products, Uncorrelated PE / Opportunistic)	• **Remain Overweight,** anticipating that upcoming volatility will present attractive opportunities. • Preference for yield-focused structured notes that can take advantage of market dislocations to lock in positive returns with downside protection. • Uncorrelated Private Equity can enhance portfolio resiliency by focusing on long-term value creation that's not directly impacted by the same factors driving public equities.
Public Real Assets	• **Move Underweight** across major public real assets such as infrastructure, commodities, and REITs. • Soft global growth and greater supply could keep prices of commodities down, reducing their effectiveness as a portfolio hedge during a market downturn. • We see greater opportunity in private/illiquid infrastructure compared to publicly-traded infrastructure REITs.

NewEdge WEALTH

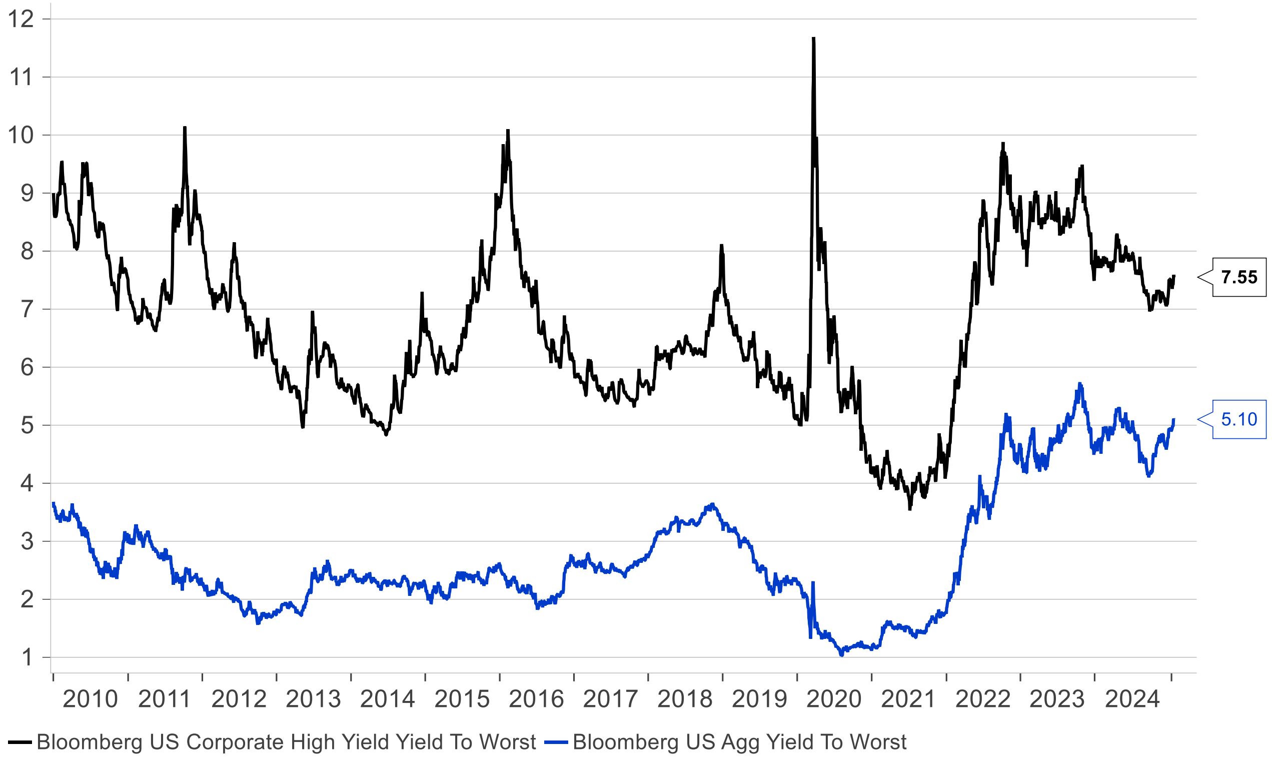
Fixed Income Outlook

NewEdge WEALTH

Key Taxable Fixed Income Themes for 2025

- Yields should support solid returns even in a choppy market
- Subdued inflation should prevent a simultaneous rise in rates and widening of credit spreads
- Corporate spreads are narrow, making credit susceptible to weak economic and earnings data
- Diversify within taxable fixed income as a way of accessing higher returns without extra risk
- Use spikes in longer-term interest rates as opportunities to extend duration

Investment Grade and High Yield Taxable Bond Yields



Source: NewEdge Wealth, Macrobond, Bloomberg

Data as of: January 14, 2025

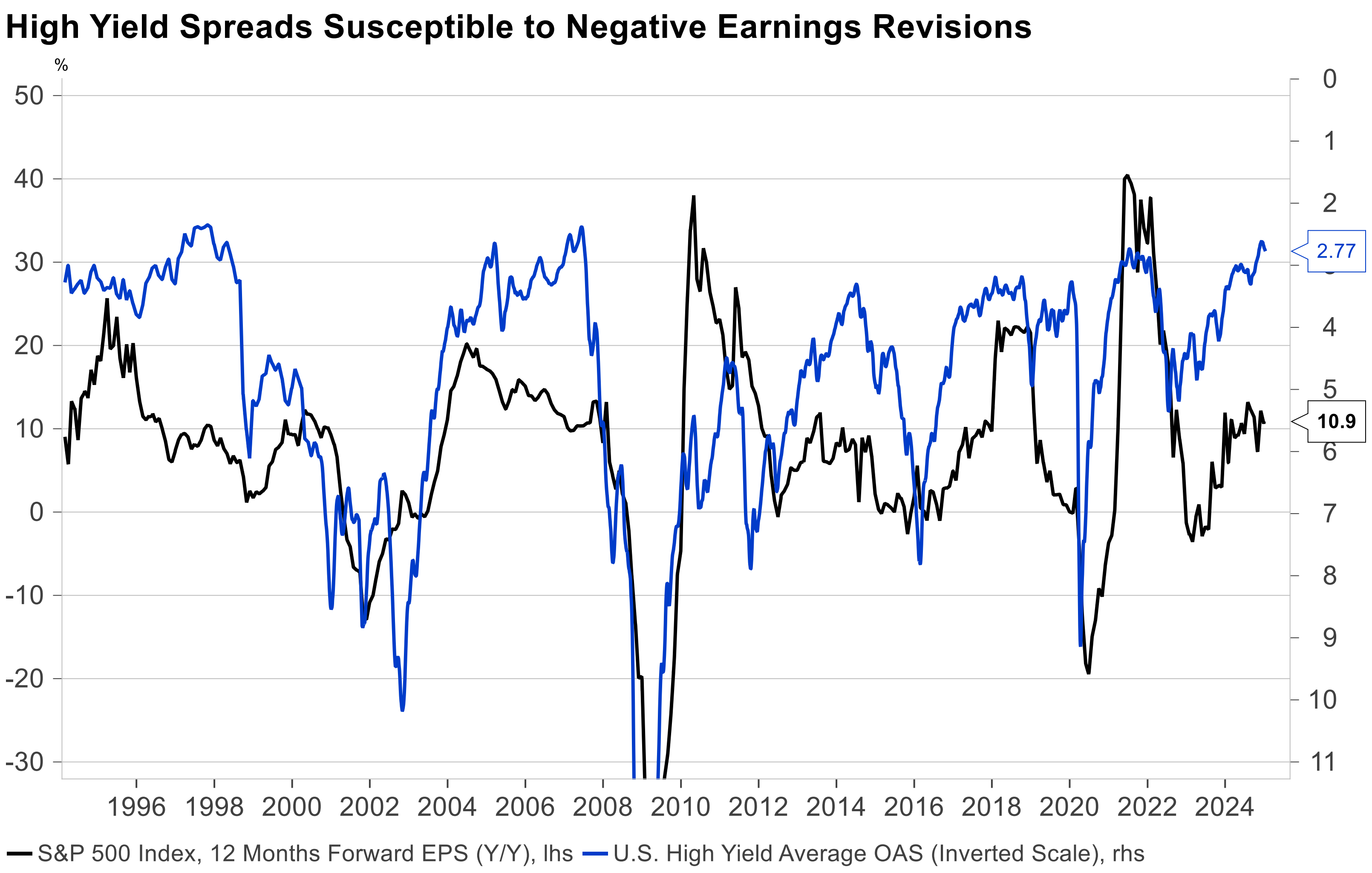
Treasury Curve Un-inverted in 2024, but Long Rates Are Not Unusually Attractive

Recessions Often Hit as Yield Curve Un-inverts

Source: NewEdge Wealth, Macrobond, Bloomberg Citi

Data as of: January 14, 2025

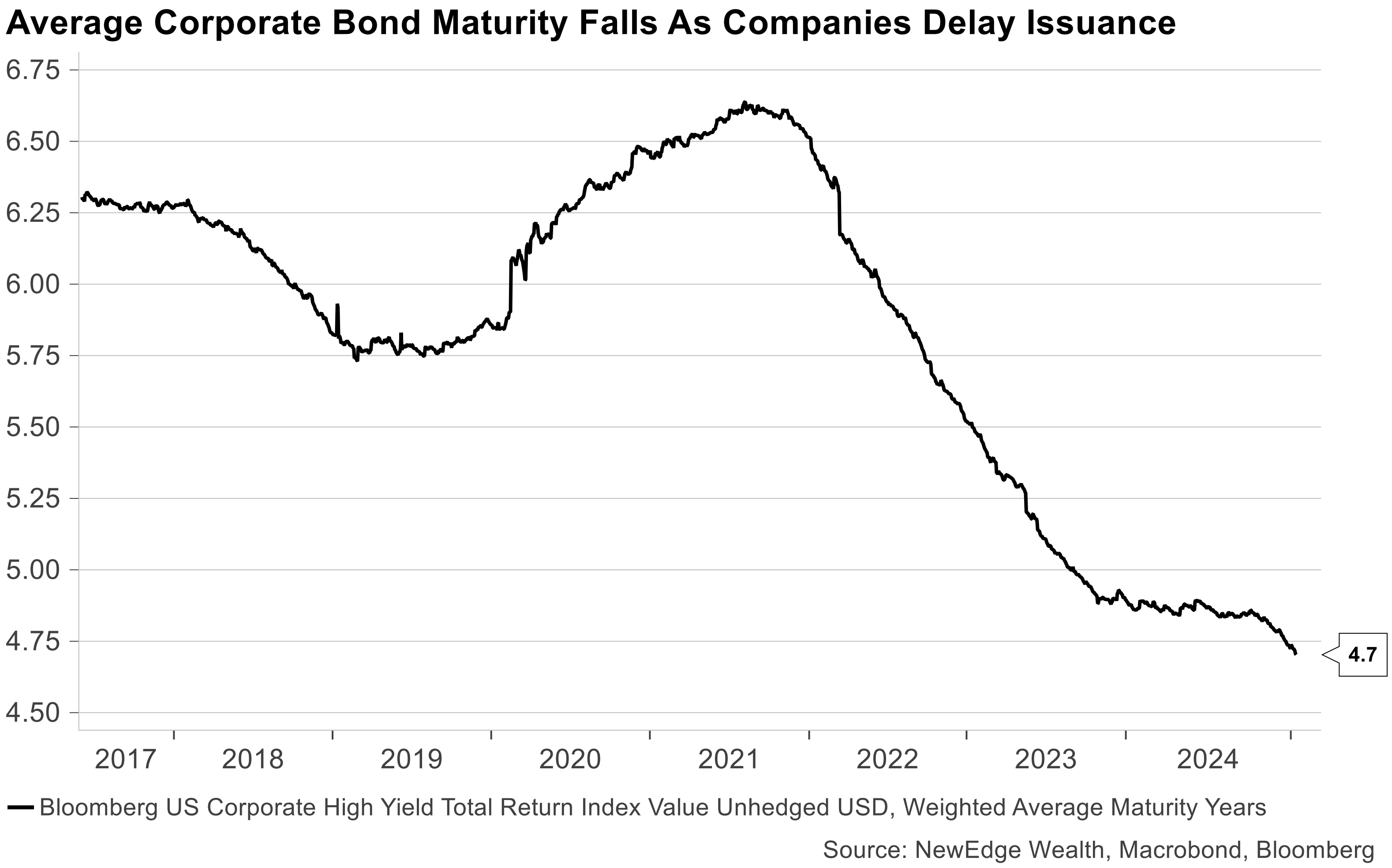
High Yield Spreads Look Tight Even Based on Ambitious Earnings Expectations



Source: NewEdge Wealth, Macrobond, Bloomberg S&P Global

Data as of: January 14, 2025

Average Bond Maturity Falls as Borrowers Wait for Lower Rates

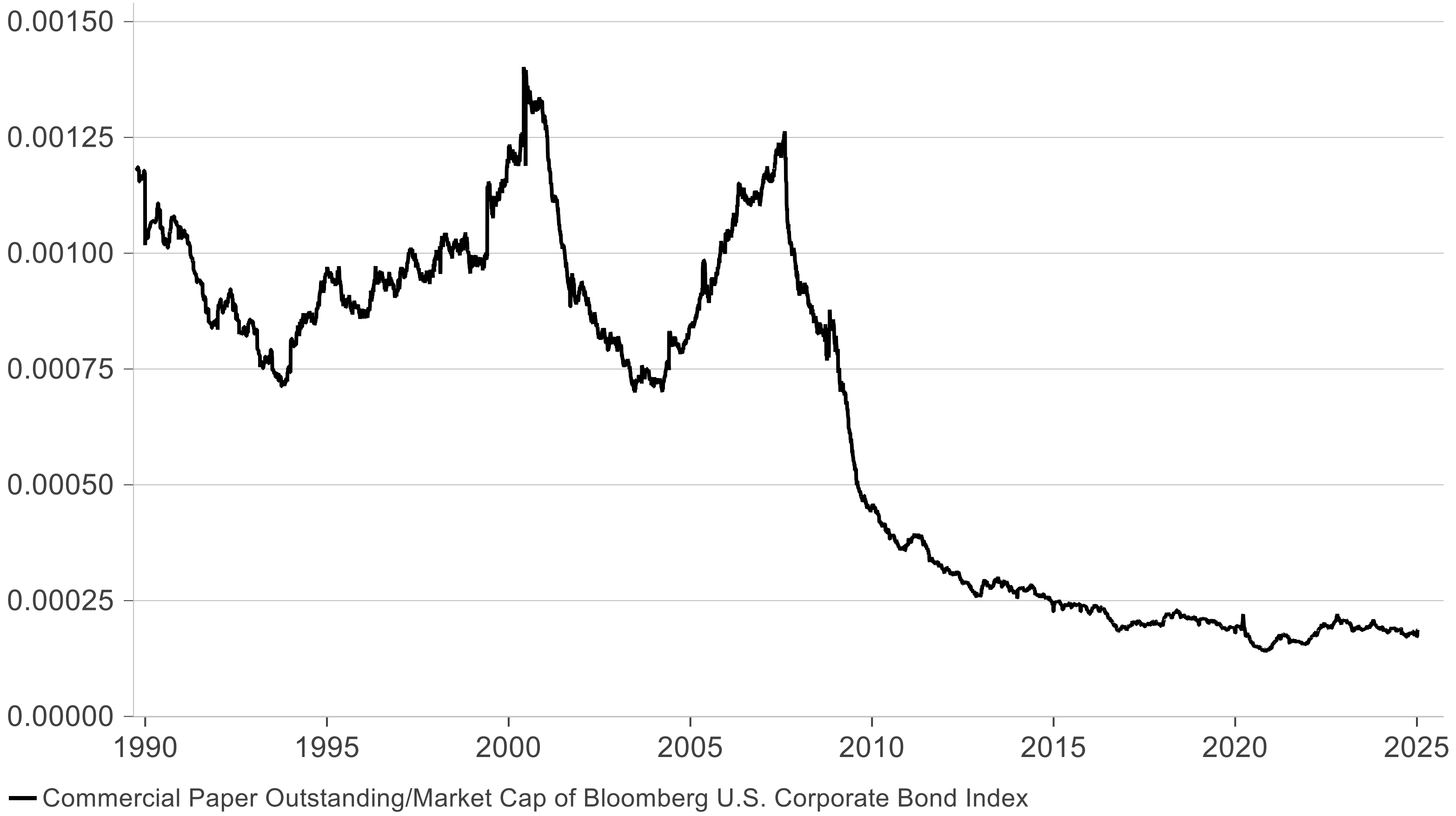


NewEdge WEALTH

Data as of: January 14, 2025

But Note Corporates Have a Lower Sensitivity to Short Term Rates

Commercial Paper Outstanding As a % of Total Corporate Debt

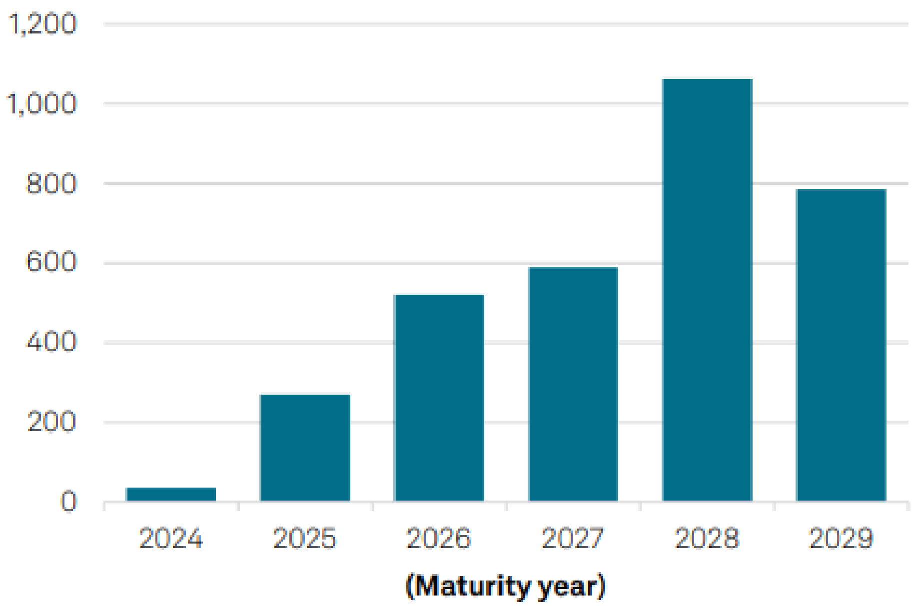


Source: NewEdge Wealth, Macrobond, Bloomberg

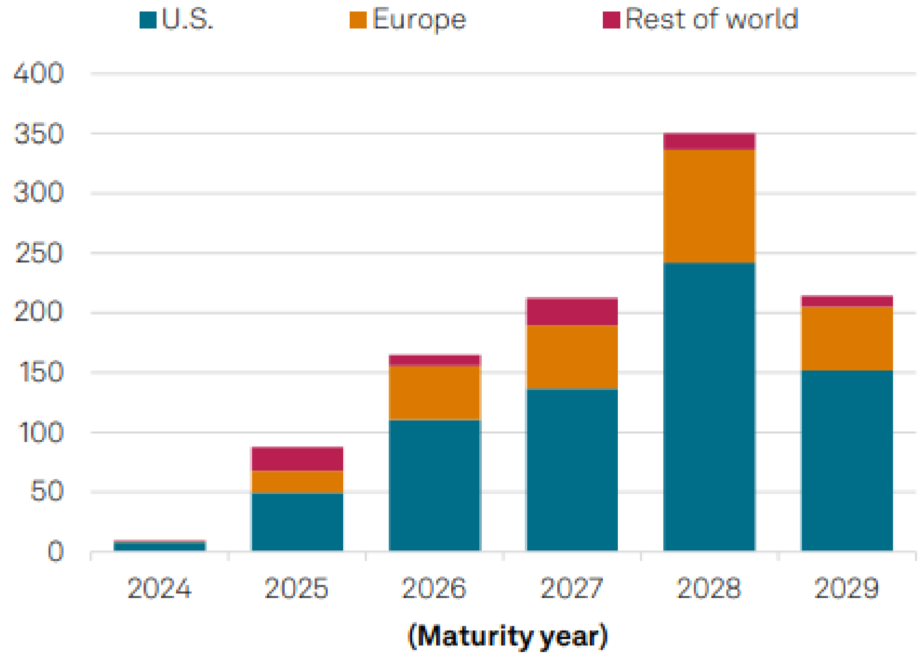
Commercial paper was at the center of the 2000 and 2008 balance sheet recessions, but given the lower reliance on commercial paper, companies have a lower sensitivity on short-term rates.

Maturities Are Higher in 2025, But Not Huge Until 2028

Speculative-grade nonfinancial corporate maturities rise in upcoming years (bil. $)



U.S. accounts for most of the upcoming 'B-' and lower maturities (bil. $)



Data as of Oct. 01, 2024. Includes nonfinancial corporate issuers' bonds, loans, and revolving credit facilities that are rated 'BB+' or lower by S&P Global Ratings. Foreign currencies are converted to U.S. dollars at the exchange rate on Oct. 01, 2024. Source: S&P Global Ratings Credit Research & Insights.

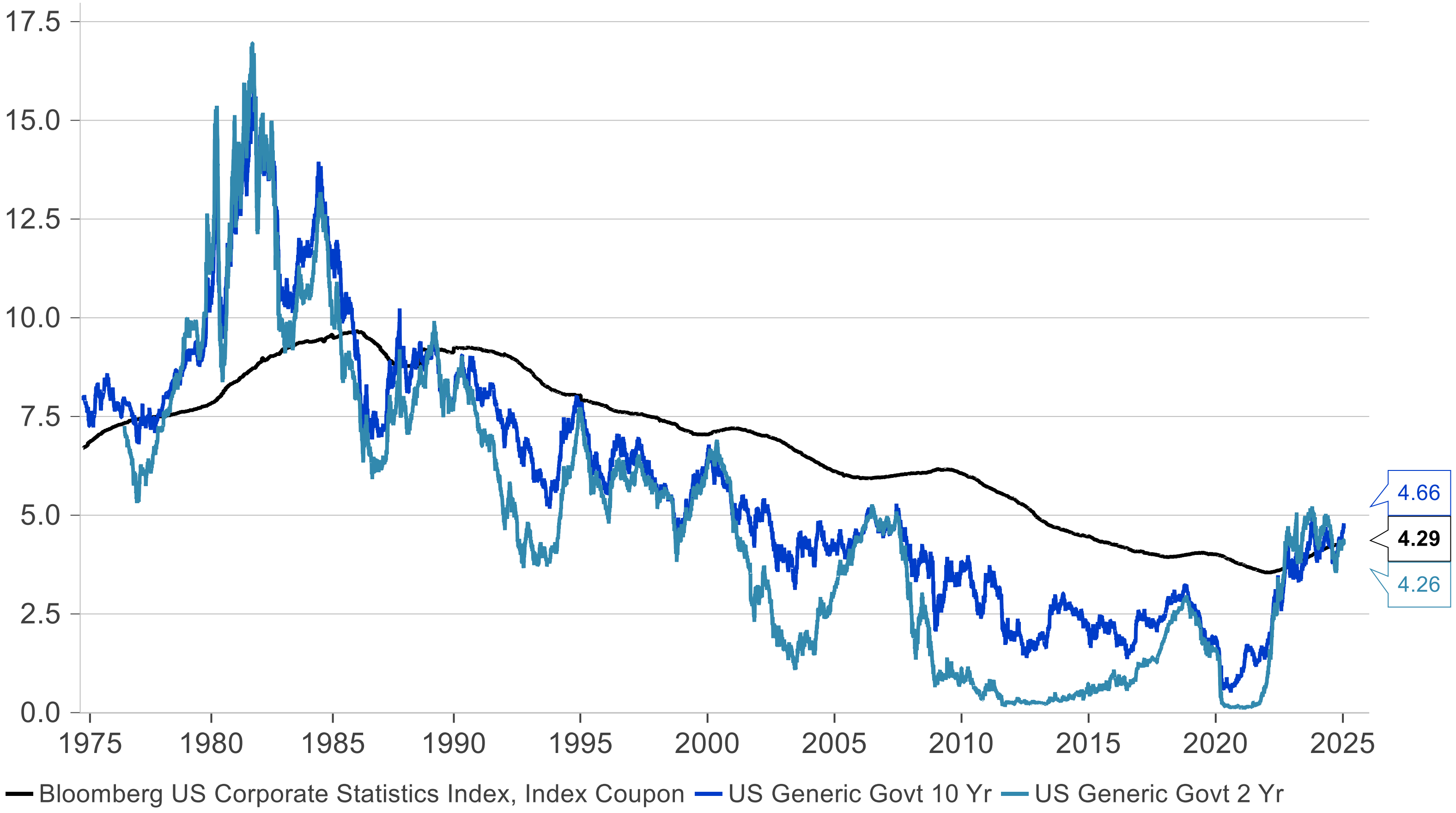
Source: S&P Global

Data as of December 4, 2024

The Entire Yield Curve is Back Above the Average Coupon on IG Corporate Debt

If Yields Remain Elevated Corporate Debt Costs Will Begin to Rise

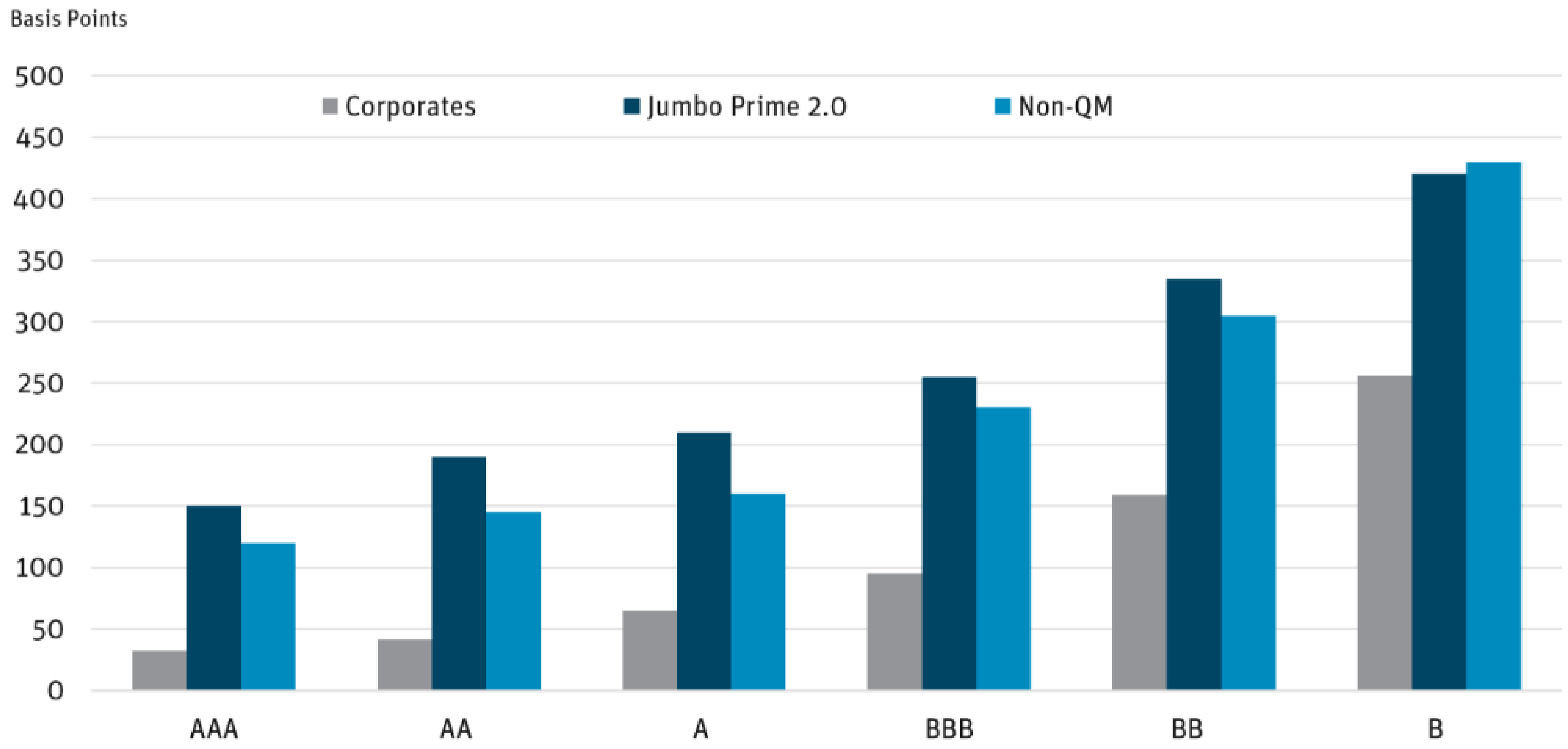
Investment Grade Corporate Bond Index Average Coupon, 10 Year Treasury Yield, 2 Year Treasury Yield



Source: NewEdge Wealth, Macrobond, Bloomberg

Data as of: January 14, 2025

Diversifying Credit Risk Out of Corporates and Into MBS Makes Sense



Source: Bloomberg as of 11/30/24.

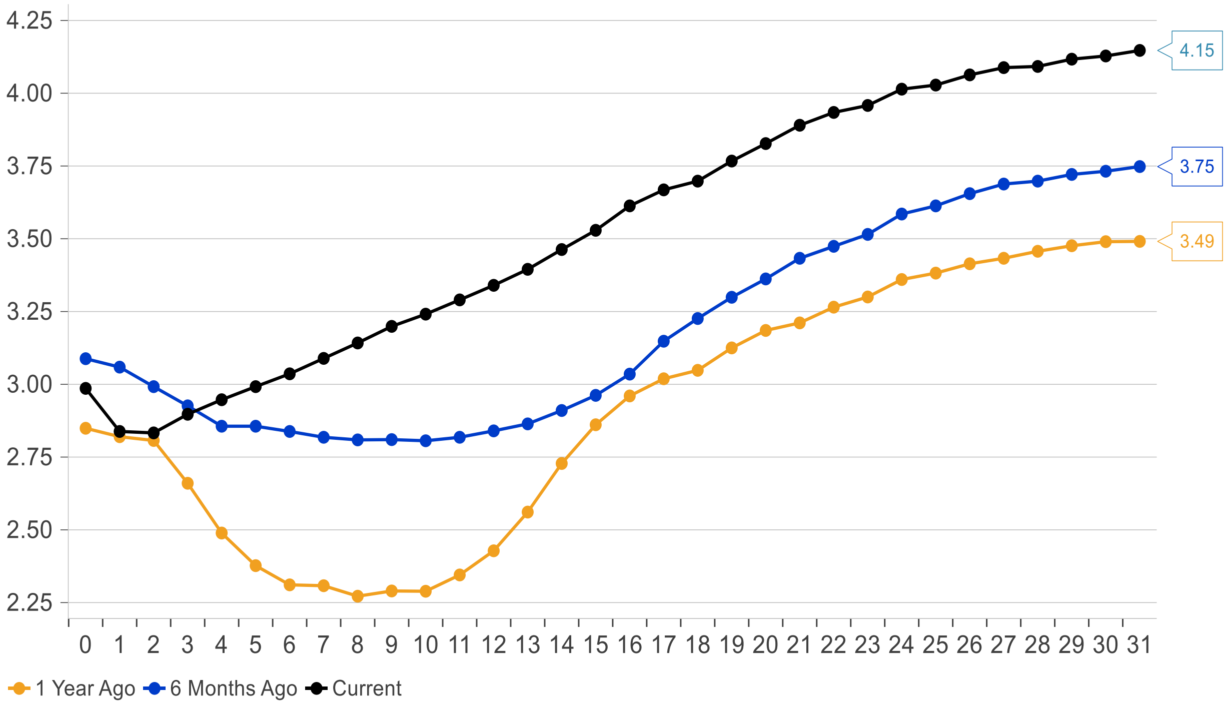
Data as of November 30, 2024

Key Municipal Themes for 2025

- Municipal yields remain attractive on a historical basis and even more so when considered on a tax equivalent basis
- The income available in today's environment presents potentially attractive total return opportunity for investors regardless of how prospective interest rate cuts by the Fed impact overall rates
- The yield curve un-inverted in 2024 and remains "steeper" than other fixed-income markets, presenting investors with opportunities to extend duration and be rewarded
- Take advantage during periods of market weakness – "buy the dip"
- Expect another year of heavy supply to pressure the market especially during periods of weaker demand
- Credit quality for the overall market remains strong but faces challenges in a few vulnerable sectors
- High Yield Munis outperformed in 2024 and should continue to do so in 2025 with strong demand and a healthy fundamental backdrop- tighter spreads remain a challenge
- Tracking policy developments and headlines as we approach 2H25

US AAA Muni Yield Curve Over Time

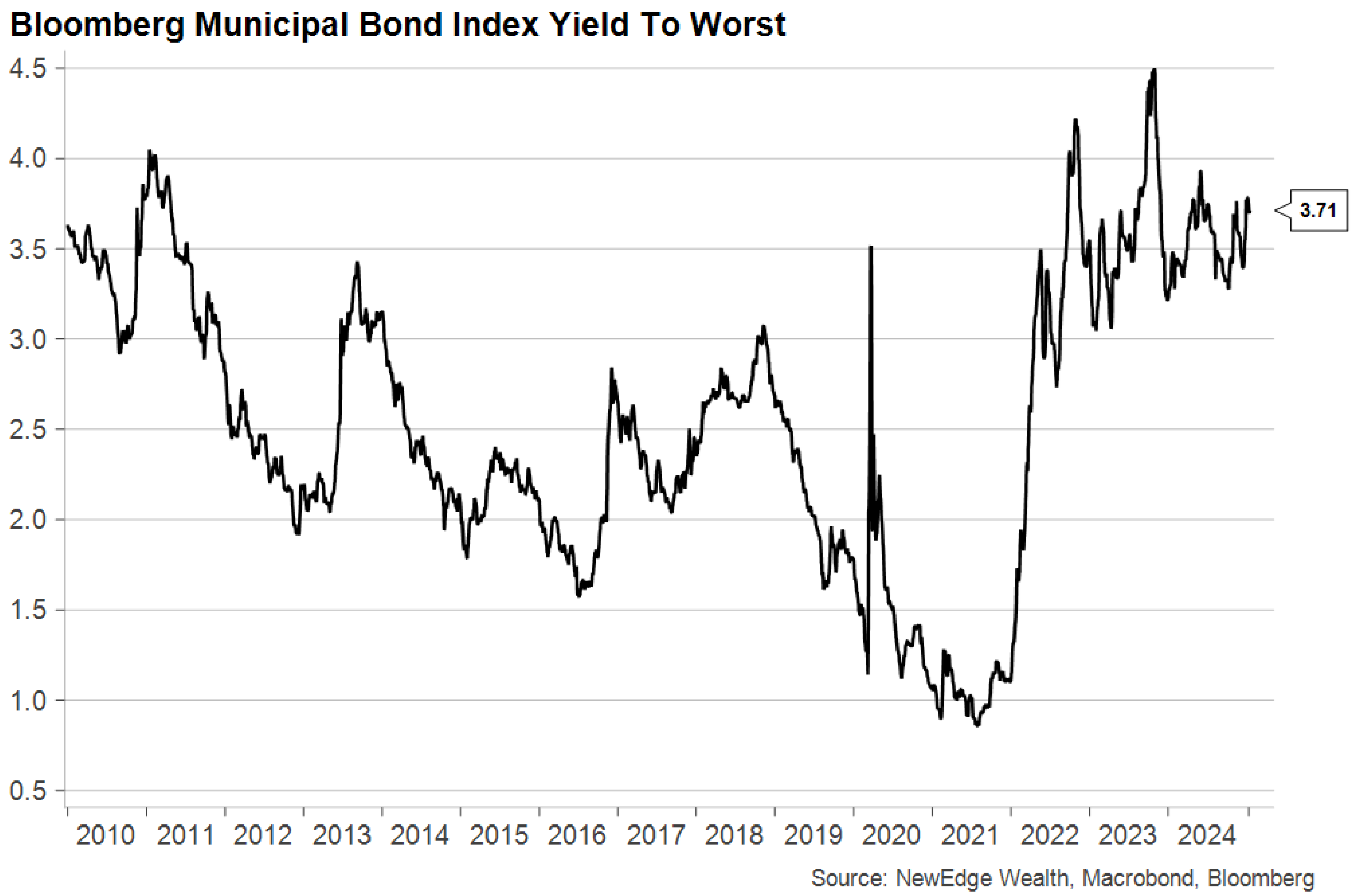
BVAL Muni AAA Yield Curve 3M-30Y



Source: NewEdge Wealth, Macrobond, Bloomberg

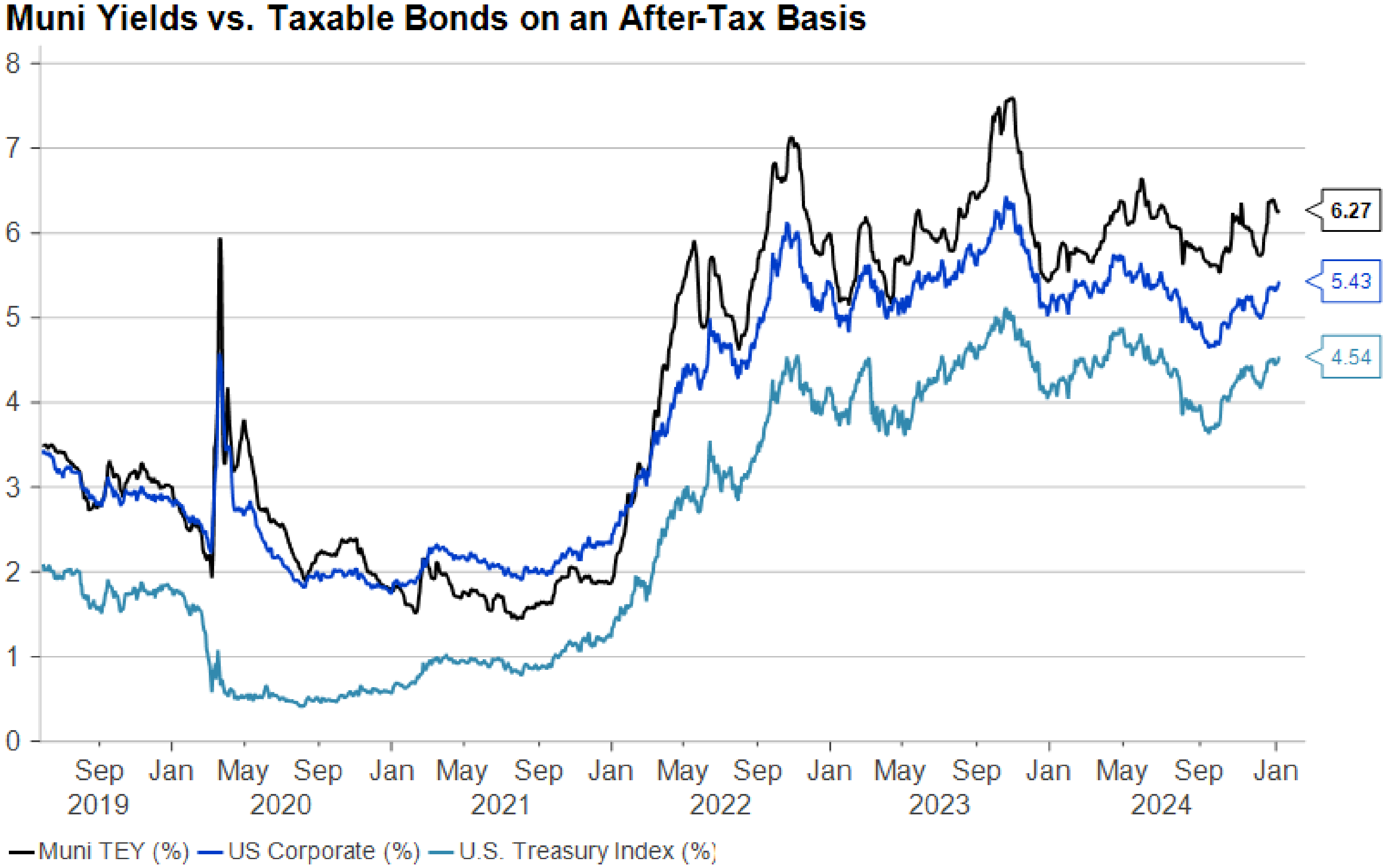
Data as of: January 14, 2025

Yields Remain Well above Historical Averages



Data as of: January 14, 2025

Munis : The Power of Taxable Equivalent Yields

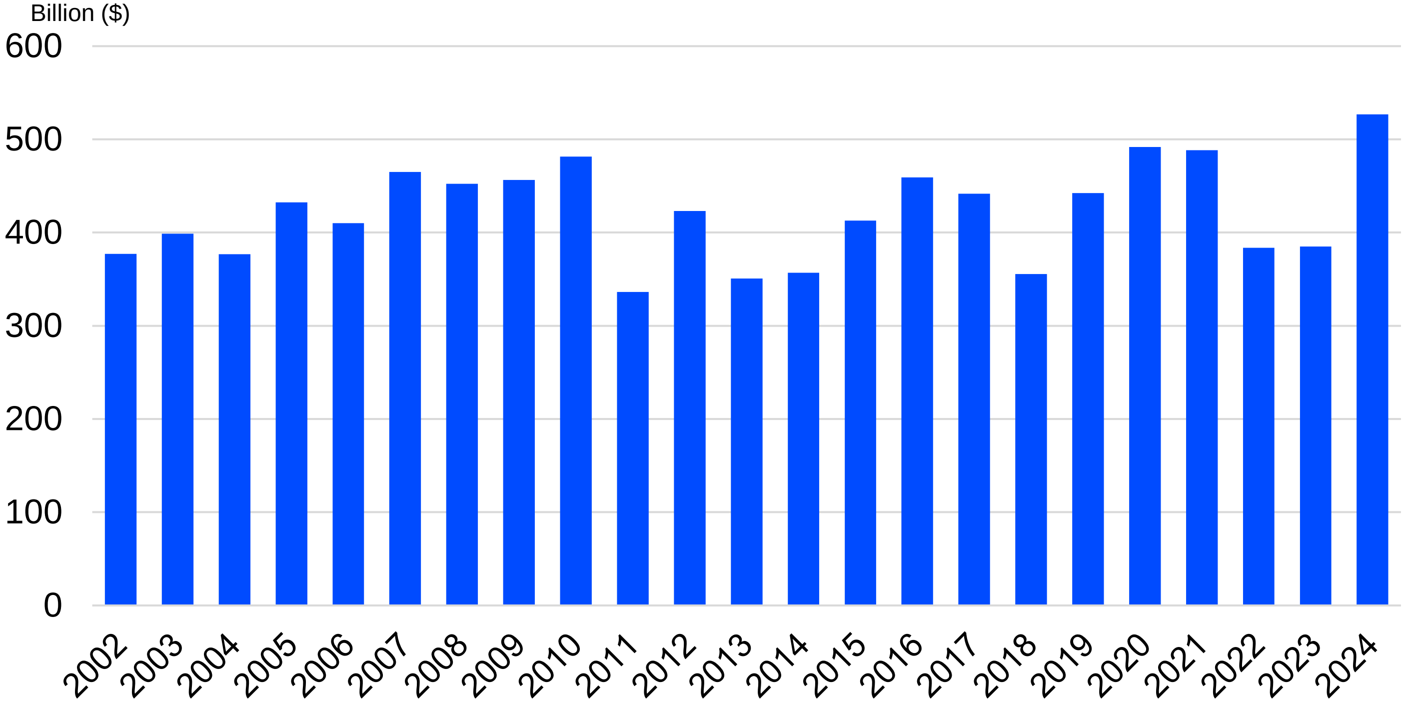


Source: NewEdge Wealth, Macrobond, Bloomberg

Record Supply in 2024: Expect More of the Same in 2025

- 2024 tax exempt issuance up was 37% y/y
- 2025 Supply forecasts approaching $500B
- Taxable Muni issuance expected to remain at lower historical levels
- Investors can look to take advantage of wider new issue market spreads vs the secondary market during periods of heavy issuance
- Continued strong demand, especially from SMAs and ETFs, should help the market handle heavy supply

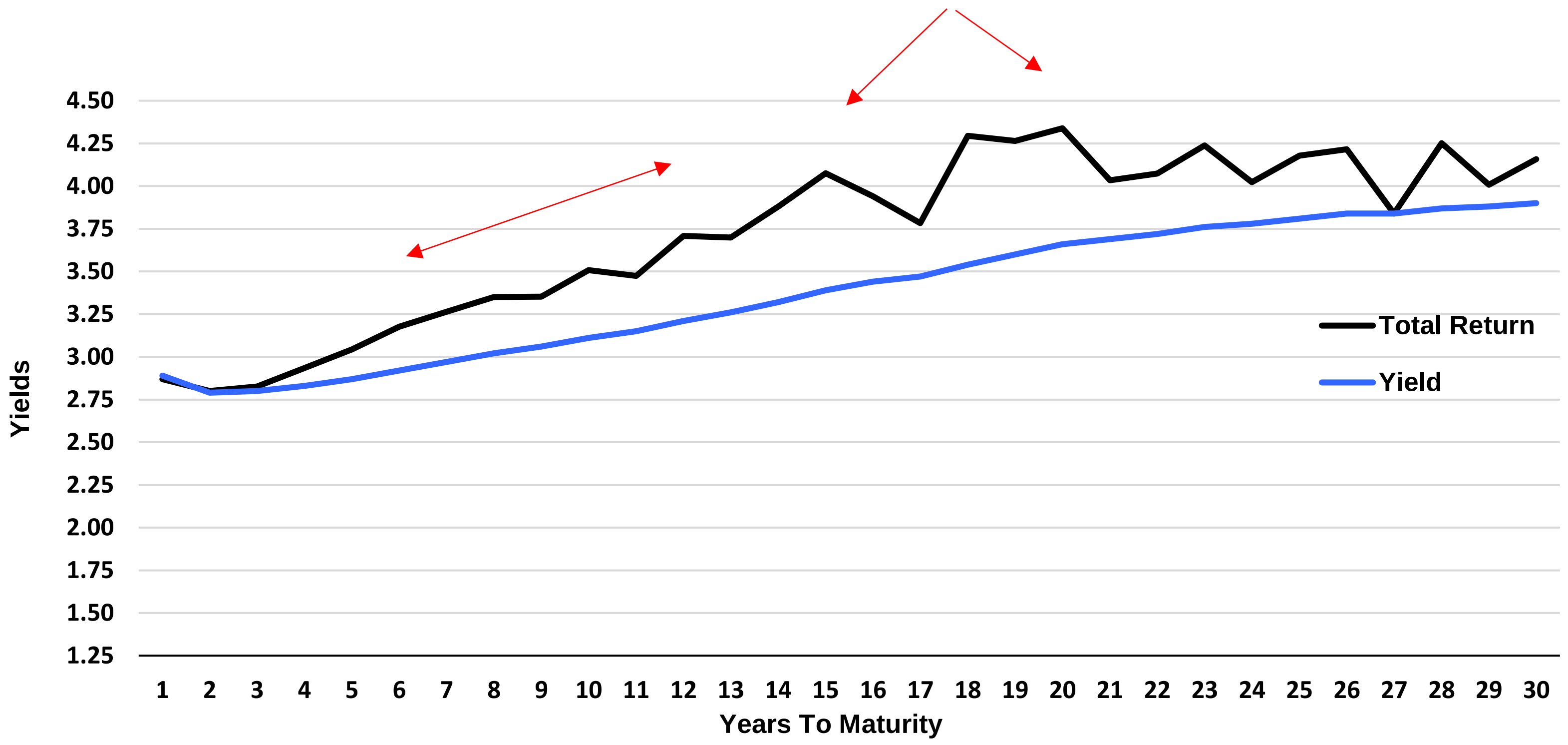
Municipal Issuance by Year



Source: NewEdge Wealth, Bloomberg

Yield Curve: How to Position Your Portfolio to Maximize Total Return Opportunities?

Below: 1 year Projection of the Current BVAL AAA Muni Curve "Rolling Down" to Show Total Return for each Maturity Along The Yield Curve

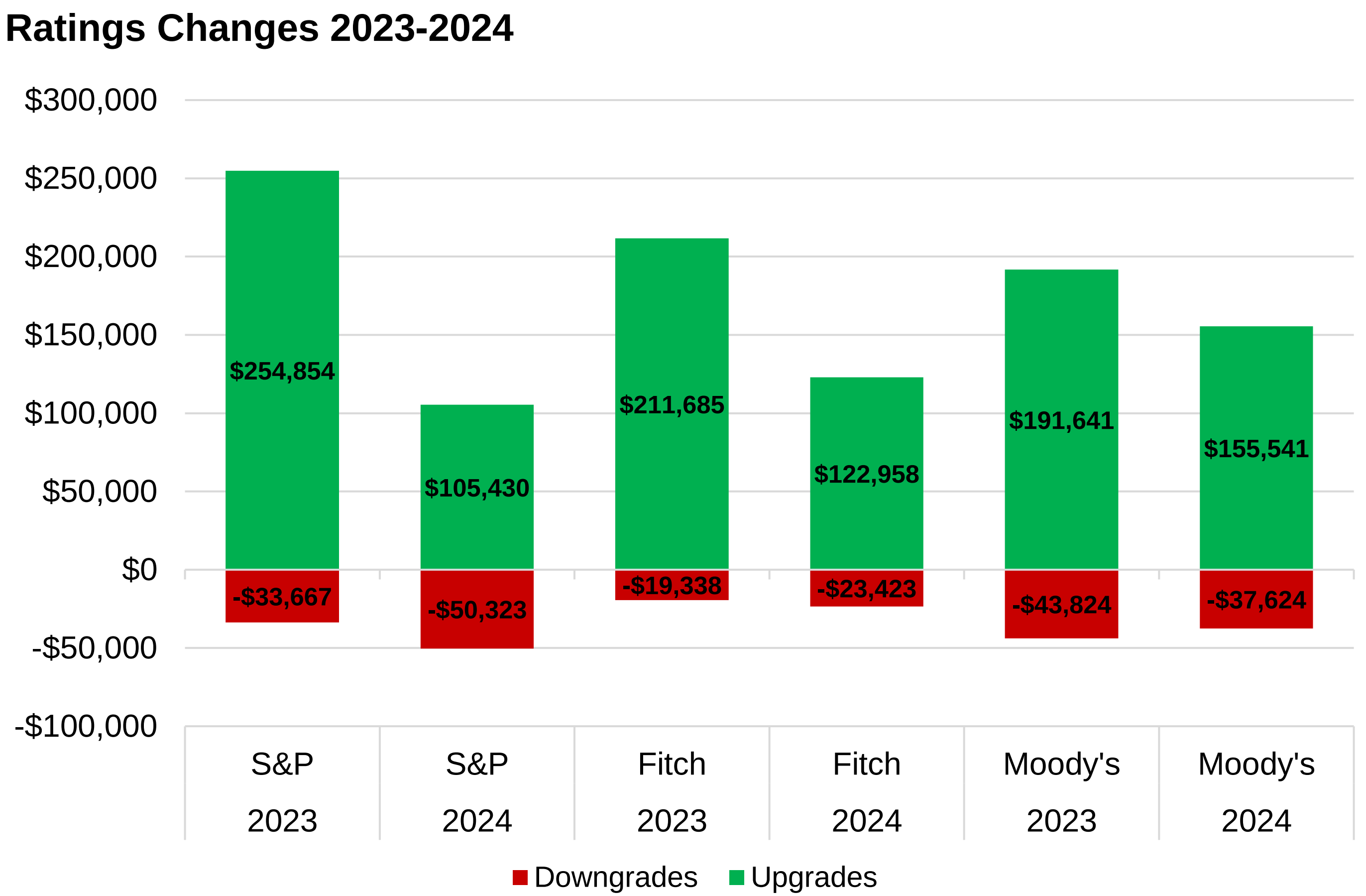


Source: NewEdge Wealth, BVAL AAA Yields as of 1/8/25

Total Return for a bond with a specific maturity is the 1 year expected return a bond would have if there were no changes in interest rates over one year.
Roll is a calculation of performance contribution as each maturity "rolls" down one year with interest rates unchanged.

- Unlike many other fixed income markets, the muni curve is steep and presents opportunity to be rewarded for extending duration
- Overweighting the 20 year area presents the best opportunity to maximize income and "curve roll" (total return) in 2025 – over 4.25%
- The yield curve has un-inverted and is now more normalized, lessening the need to deploy a full "barbell" strategy

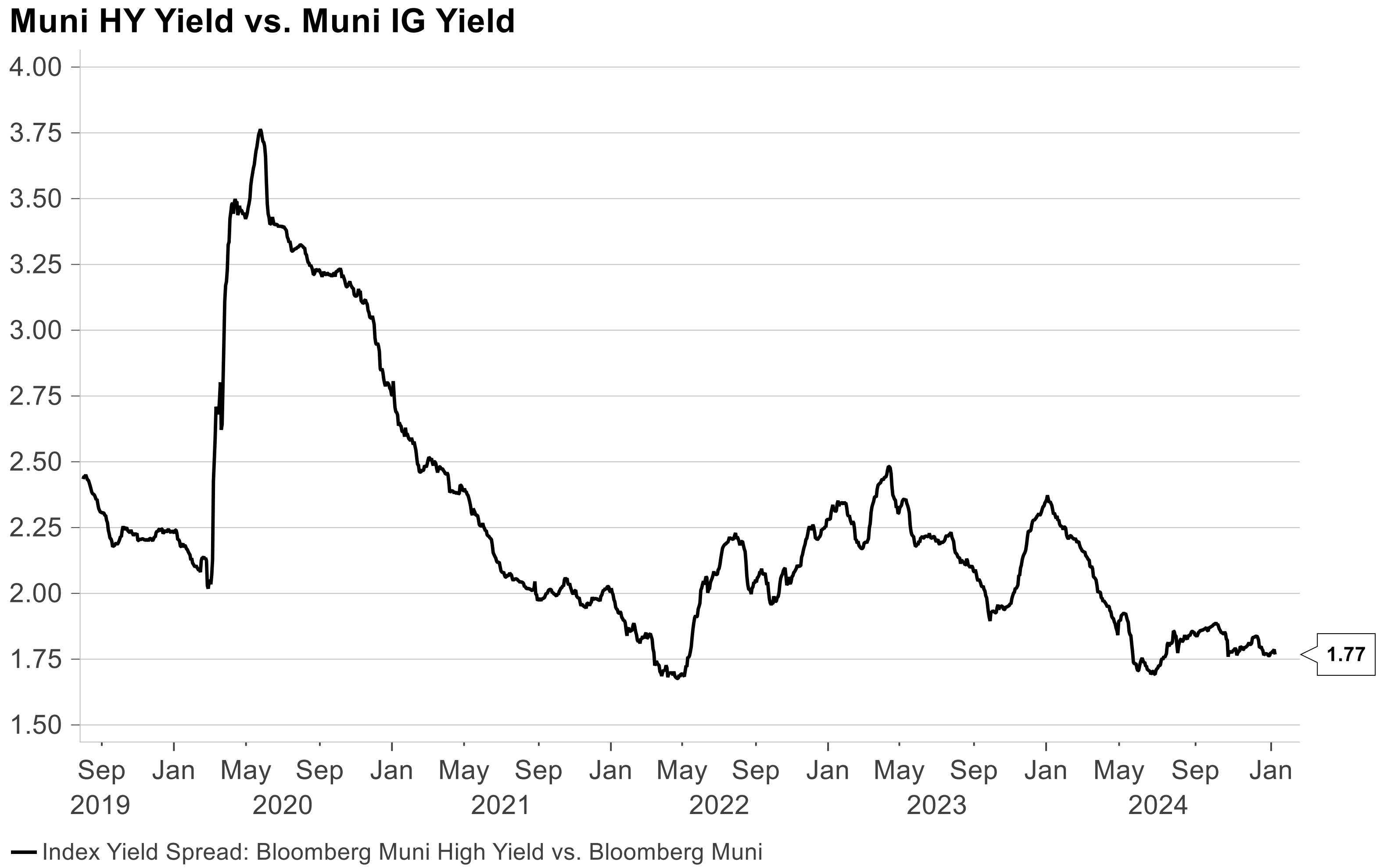
Muni Credit : Upgrades Continue to Outpace Downgrades , But at a Slower Rate



Source: NewEdge, Bloomberg

- Credit quality should remain strong throughout the year
- States' rainy day funds remain at or near record highs
- Look for a return to a more normal budget environment
- State tax revenues continue to normalize with year-to- date collections at 2.2%
- Downside risk to future state Income tax collections persists- Since 2021, 25 States have cut income tax rates
- Weaker sectors include Higer Ed and smaller, rural Hospitals

High Yield Munis Outperformed in 2024: Can They Do It Again?



Source: NewEdge Wealth, Macrobond, Bloomberg

- High yield municipal credit fundamentals remains strong
- Defaults have been rare and remain below historical averages
- High yield issuance has been limited and demand remains high
- High yield spreads have compressed and pose a challenge going forward

Data as of: January 14, 2025

Equity Outlook

Global Equity Outlook for 2025

Optimism is Warranted – But it's a Crowded View

- While expectations are great, we believe easing inflationary pressures, potentially more accommodative policies, and resilient growth will allow for another (modestly) positive year for global equity markets, even if it is a choppy path to get there.
- We remain constructive on equities, however we anticipate a wide, choppier range, with shifting leadership to characterize the path of returns.
- Elevated valuations and sentiment, a delicate macro environment, optimistic growth assumptions, and greater policy uncertainty will all contribute to increased market volatility and dispersion in the year ahead.
- In this environment, prioritize fundamental drivers like quality and earnings stability, remaining mindful of concentration and valuation risks.
- Harness the "free lunch" of diversification, to capitalize on a potential recovery in market breadth and help mitigate stock specific risks along with record index concentration.

Macro Trends Around the World Remain Generally Supportive for Equities (positive growth, modest inflation)

2025 Consensus Expectations							
Major Region	**Valuation (FP/E)**	**EPS Growth YoY**		**GDP Growth**		**CPI YoY**	
U.S. (S&P500)	22.0x	13%	Accelarating	2.1%	Slowing	2.10%	Falling
Europe (Stoxx 600)	13.7x	6%	Accelarating	1.0%	Slowing	2.10%	Falling
Japan (TOPIX)	15.4x	3%	Slowing	1.2%	Accelarating	2.00%	Rising
China (Shanghai Composite)	9.7x	10%	Accelarating	4.0%	Slowing	0.80%	Falling

Source: NewEdge Wealth, Bloomberg as of 1/7/25

U.S. Equities

The Show Goes On – But Volatility Returns

- The U.S. economy and equity market remains the best house on the block (resilient growth, profitability, capital efficiency, and technology led innovation).

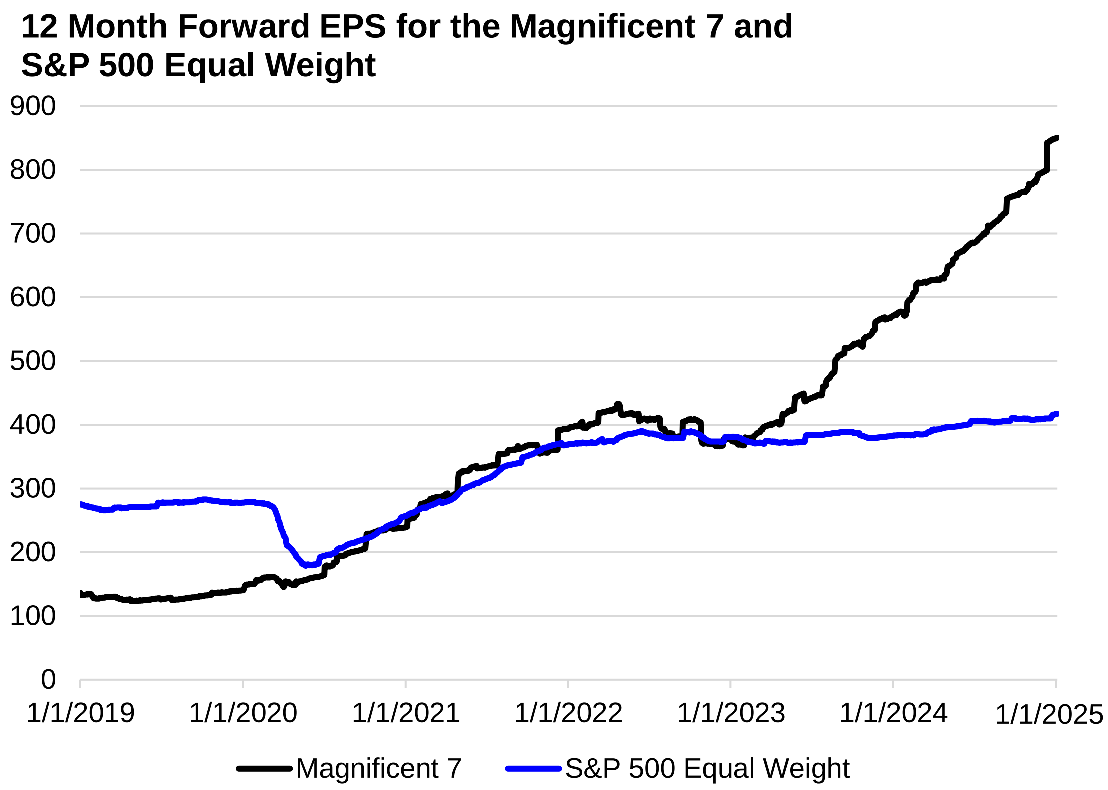
- Base case is for another positive year for U.S. equities, but characterized by a wide choppy path, driven by macro cross currents, great expectations (valuation, positioning, sentiment, and EPS forecasts), and heightened uncertainty. We also see a lower probability of a melt up scenario, fueled by optimism, productivity, and ample liquidity.

- We see *potential* for better market breadth in 2025 relative to the past two years, as profitability improves for a greater subset of companies, and the remarkable growth of the Magnificent 7 stocks begins to normalize relative to the other 493 (right hand chart).

- An aging cycle but the uptrend remains solid and history is on our side. Since 1950 the third year of a bull market has been positive 80% of the time, averaging 8% gains.

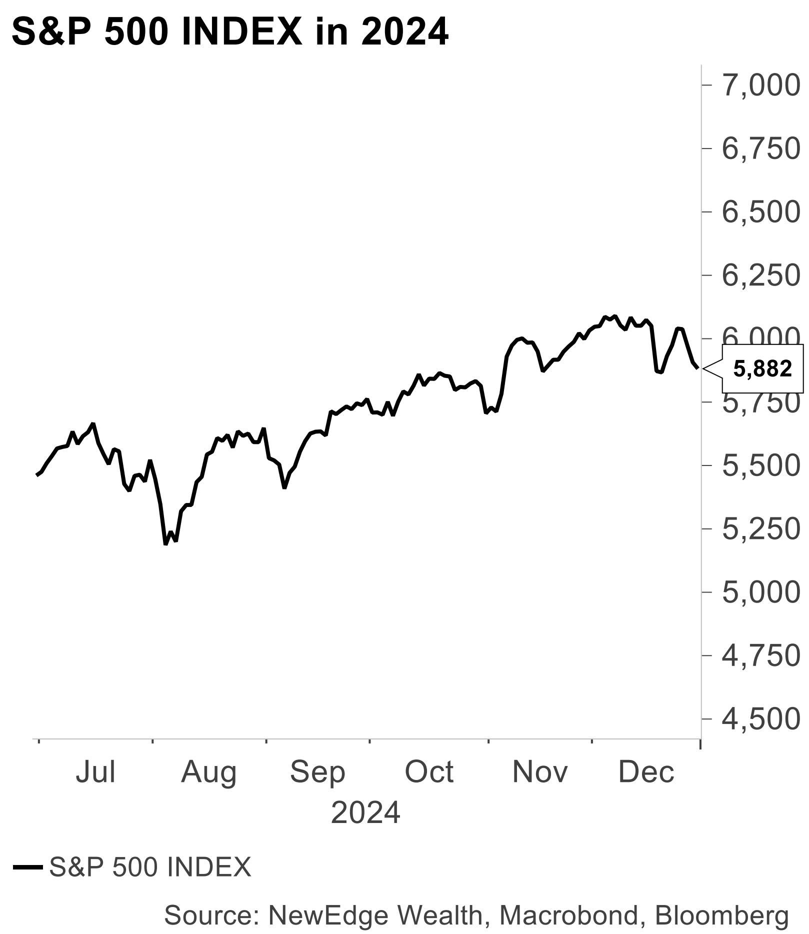
- We continue to favor higher quality companies across Growth and Value, however we see the potential for value to outperform in the near-term and believe mid caps will ultimately outperform small caps given their lower debt levels and the headwinds to deeply cyclical companies.

The Magnificent 7 Remain a Dominant Force, but Expect More Balance in the Coming Year



Source: NewEdge Wealth, Bloomberg

2025's Potential Equity Paths



The Prince Market
20% upside towards 7,000, valuations expand into bubble (implies 26x on $270, back to 2000 high), speculative fervor takes hold, bad for long-term forward returns, fun while it lasts. Potential EPS upside on tech/AI.

The Talking Heads Market
A wide, choppy range that could touch both 10% +/- through the course of the year (5,300-6,470) . Valuations hit a ceiling, with upside driven by EPS growth and downside driven by slight de-rating from elevated levels. Forward returns improve in downside volatility, with weakness buyable given stable underlying economic growth.

Deep Growth Scare and De-Rating
Weaker economic growth drives EPS estimate cuts and de-rating of valuation back towards "average" 17-18x, which amplifies downside to -20% (4,700) given high starting valuations.

We think that where the bond and equity markets end exactly on December 31, 2025 is far less important than how investors handle the volatility we expect to present itself over the course of the year.

S&P 500 Earnings and Valuation Scenario Analysis

S&P 500 Earnings and Valuation Scenario Analysis

2025 Starting Level: 5,920
Current EPS estimate: $272

Change vs. 2024	2025 EPS	PE on 2025 EPS: 17x	18x	19x	20x	21x	22x	23x	24x
3%	$250	4,250	4,500	4,750	5,000	5,250	5,500	5,750	6,000
5%	$255	4,335	4,590	4,845	5,100	5,355	5,610	5,865	6,120
7%	$260	4,420	4,680	4,940	5,200	5,460	5,720	5,980	6,240
10%	$265	4,505	4,770	5,035	5,300	5,565	5,830	6,095	6,360
12%	$270	4,590	4,860	5,130	5,400	5,670	5,940	6,210	6,480
14%	$275	4,675	4,950	5,225	5,500	5,775	6,050	6,325	6,600
16%	$280	4,760	5,040	5,320	5,600	5,880	6,160	6,440	6,720
18%	$285	4,845	5,130	5,415	5,700	5,985	6,270	6,555	6,840
20%	$290	4,930	5,220	5,510	5,800	6,090	6,380	6,670	6,960

Source: NewEdge, Bloomberg

17x–19x: Growth Scare and De-Rating

20x–22x: Talking Heads Sideways Chop

23x–24x: Prince Bubble

Valuation Multiples Are Never Static

Since 2000 the S&P500s Forward P/E multiple has traded in an average intra year range of nearly 4 points.

This suggests even an average year would result in a S&P500 range of 5,400 to 6,500 (assuming EPS growth meets expectations).

A year of greater uncertainty and volatility likely leads to an even wider range of outcomes.

Upside Drivers & Downside Risks in 2025

Supportive Tailwinds

- Longer term uptrend remains intact and pullbacks continue to be short lived buying opportunities
- Bull market is aging, but since 1950 year 3 has been positive 80% of the time averaging 8% returns
- Economic and earnings growth remains positive and has consistently surprised to the upside, benefitting from healthy consumption and technology led productivity and efficiency
- Credit spreads remain contained (but priced for perfection)
- Fed policy is becoming more accommodative (albeit still restrictive), and the new administration is expected to be more supportive of the business environment and likely to introduce fiscal stimulus

Downside Risks

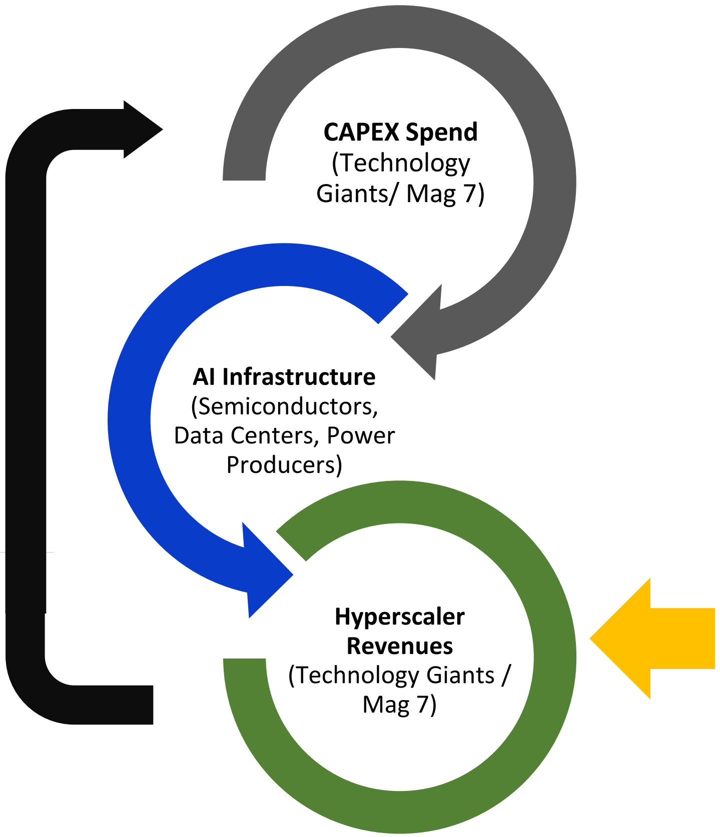
- Economic surprises and leading indicators have been trending down for several months
- Earnings revisions have been in a consistent downtrend everywhere outside of the Mag 7
- EPS estimates for 2025 may be difficult to achieve (peak operating margins despite fading pricing power and continued input and labor cost pressures)
- Record market concentration and peak index valuations
- Positioning and sentiment stretched (AAII Investor Surveys, Consolidated Equity Positioning, Expectations for Positive Equity Returns in the coming year all flashing caution signs)
- Volatility, dispersion, and uncertainty should all increase relative to the last two years (typical of a late cycle environment)

Data as of: January 14, 2025

Watch Item: AI Capex – Return on Investment or Overinvestment in 2025 ?

- Hyperscalers like GOOGL, MSFT, AMZN, META, spent an estimated $250B on capex in 2024 and are expected to spend $300B in 2025.
- This capex (a long-term depreciation expense) has helped fuel remarkable revenue and earnings growth for a handful of companies (contributing to today's record concentration).
- These investments aim to capitalize on massive compute demand, offering high returns on capital. However, this has yet to materialize, leading to the risk of a supply glut.
- For Mag 7 like companies to maintain their compute profit margins, they will likely need to see an additional $400B of AI related revenues vs. the $100B currently projected (according to JPM).
- Ultimately, 2025 will need to demonstrate effective AI use cases and a broadening of AI related revenues, otherwise the supply/demand mismatch could lead to reduced capex and profitability.

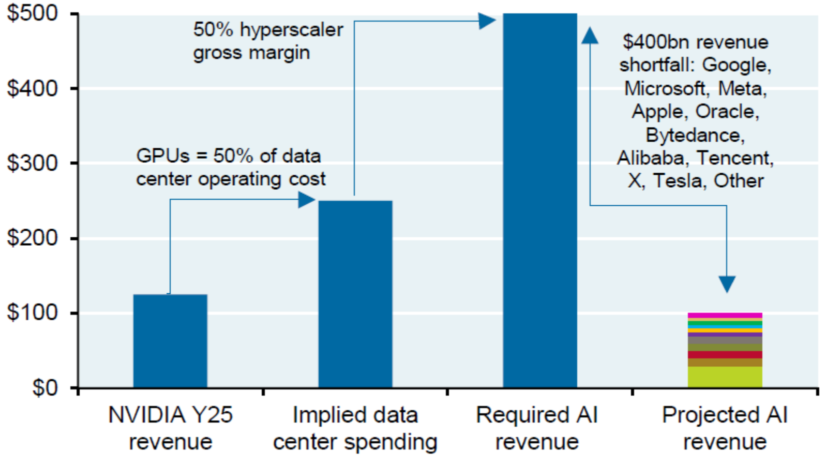
The AI Spending & Profit Cycle



- Thus far investors have been able to stomach elevated capex, with expectations of greater returns on capital in the future.
- The stakes are incredibly high for these companies to generate return on all this investment and benefit from a broadening of AI revenue growth. Otherwise, we could see margin deterioration, capex cuts, and an unwinding of this powerful market driver.

The hyperscaler revenue gap: $400 billion

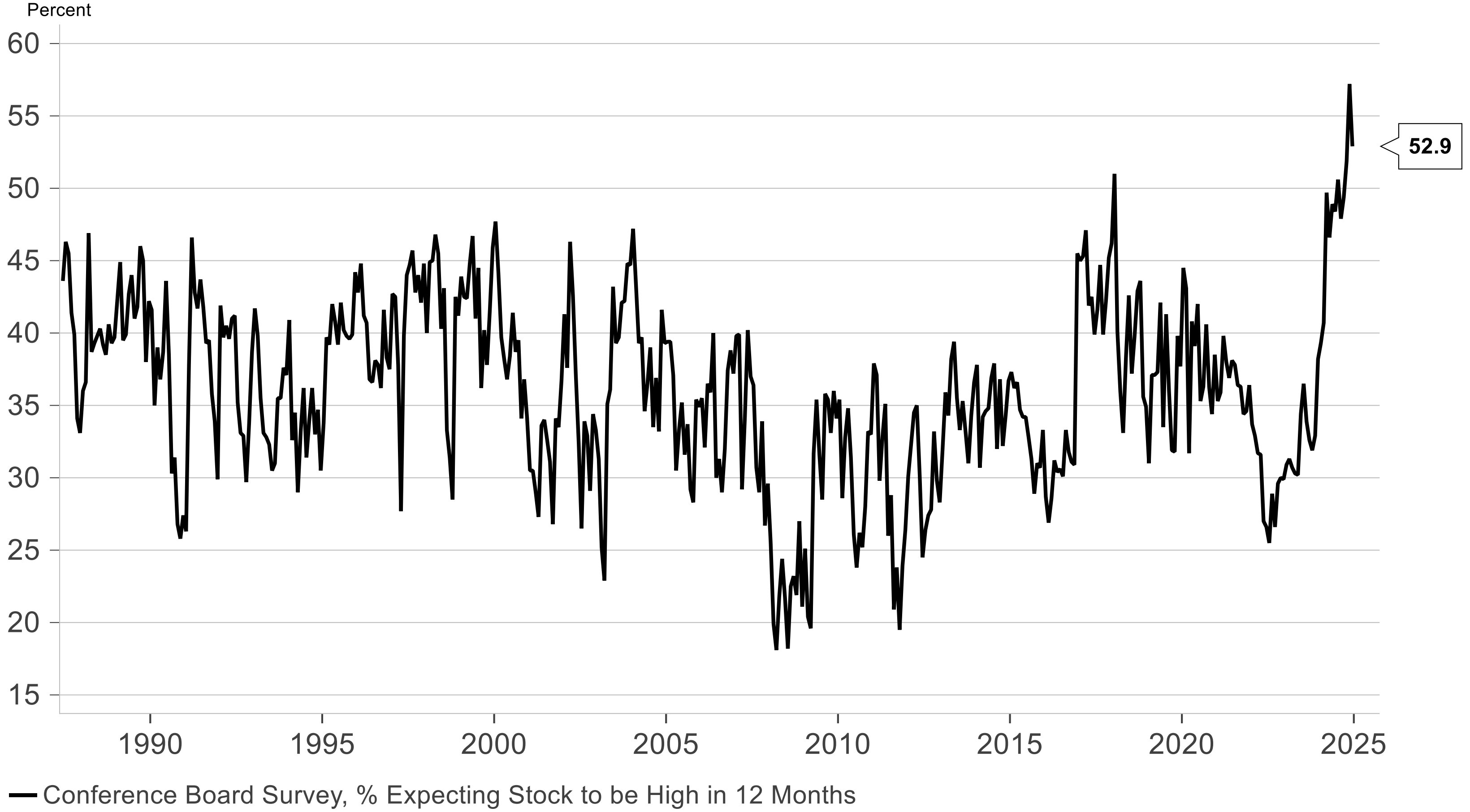
US$ billions



Source: Sequoia, Bloomberg, JPMAM, October 2024

Watch Item : The High Hopes

Consumers Believe in the U.S. Stock Market in 2025

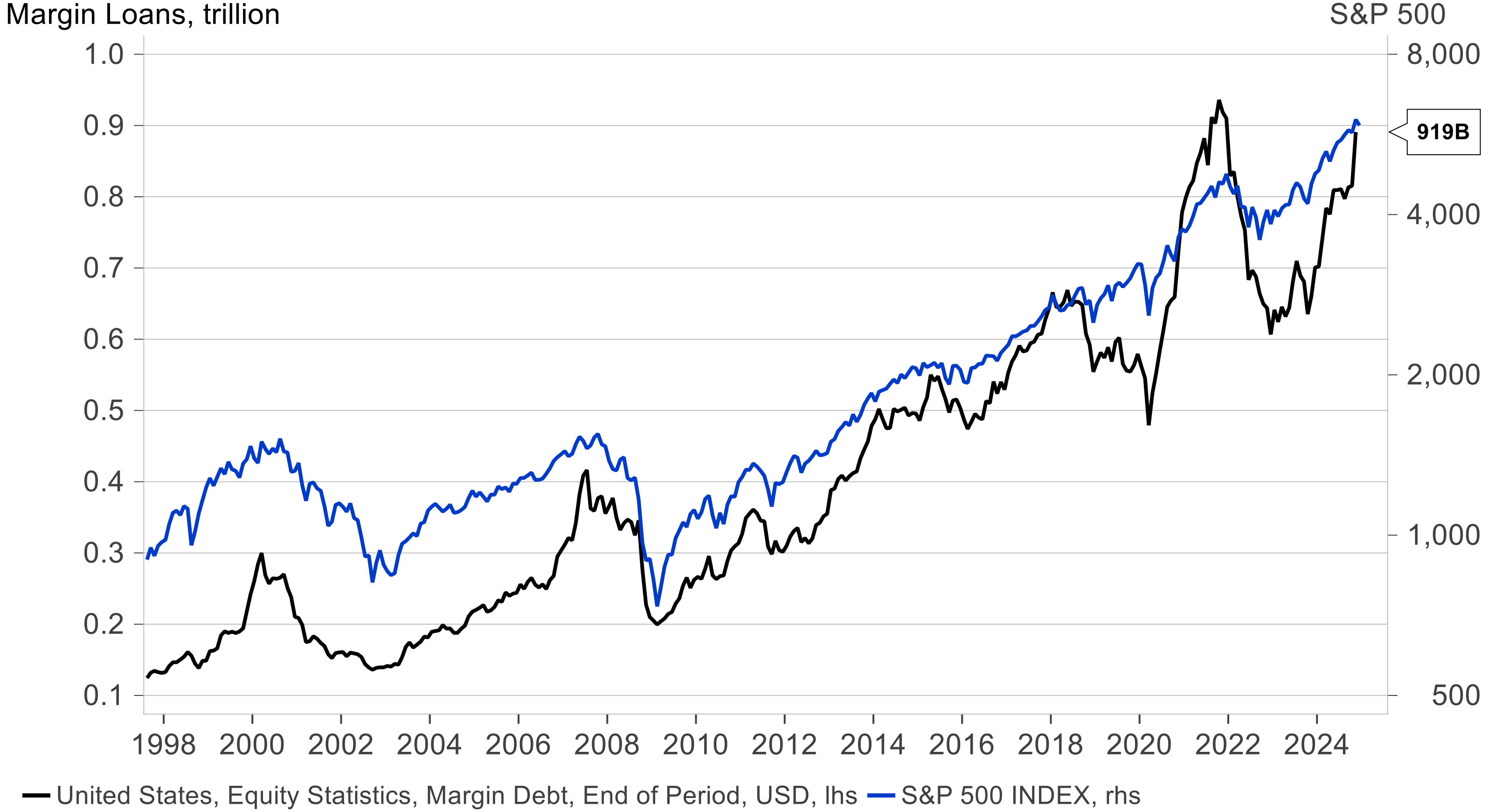


Source: NewEdge Wealth, Macrobond, Bloomberg Conference Board

- A wide range of indicators suggest investor sentiment and positioning are reaching extreme levels.
- These are historically contrarian indicators, and the crowded consensus opens the door for disappointment, unwinding of crowded positioning.
- Ultimately a reason to be more disciplined in 2025, focusing on fundamental market drivers and using diversification to mitigate risks.

Watch Item : Investor Risk Appetite

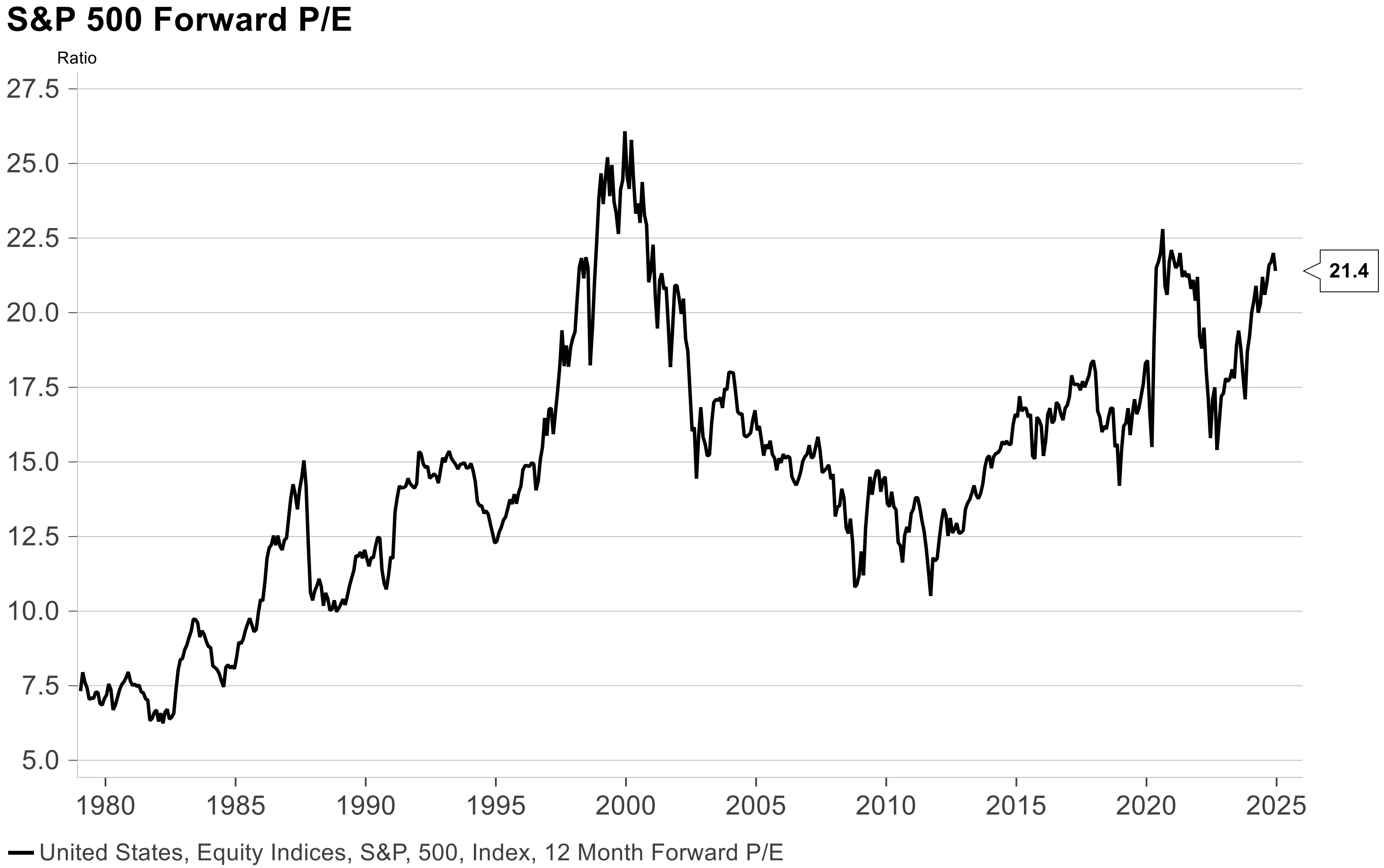
FINRA Margin Loan Balances and S&P 500



Source: NewEdge Wealth, Macrobond, Bloomberg Financial Industry Regulatory Authority (FINRA)

- Investors embraced leverage in 2024, despite high debt costs, as they looked to increase exposure to equities and juice returns
- This FINRA measure of margin loans is still below its 2021 peak, likely reflecting the higher interest rates, as we have sharply increased usage of options and leveraged ETFs as an alternative for investors to add risk.

Watch Item: The Valuation Paradigm



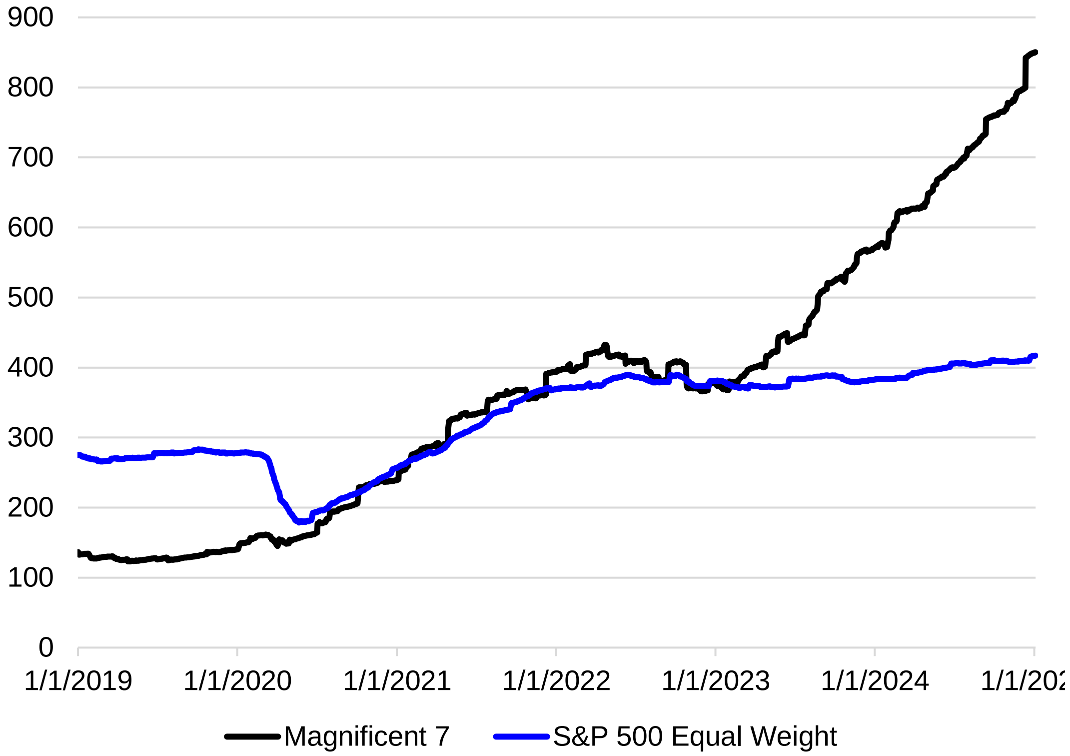
Source: NewEdge Wealth, Macrobond, Bloomberg U.S. Bureau of Economic Analysis (BEA), S&P Global

- Valuations today are no doubt elevated, although some of this is warranted by the durability of companies that dominate the S&P500 (offering resilient growth, elevated profitability, and high capital efficiency.
- Valuation is not a great timing tool but ultimately suggests forward returns will be more modest and driven primarily by underlying earnings growth, as opposed to multiple expansion.

Data as of: January 14, 2025

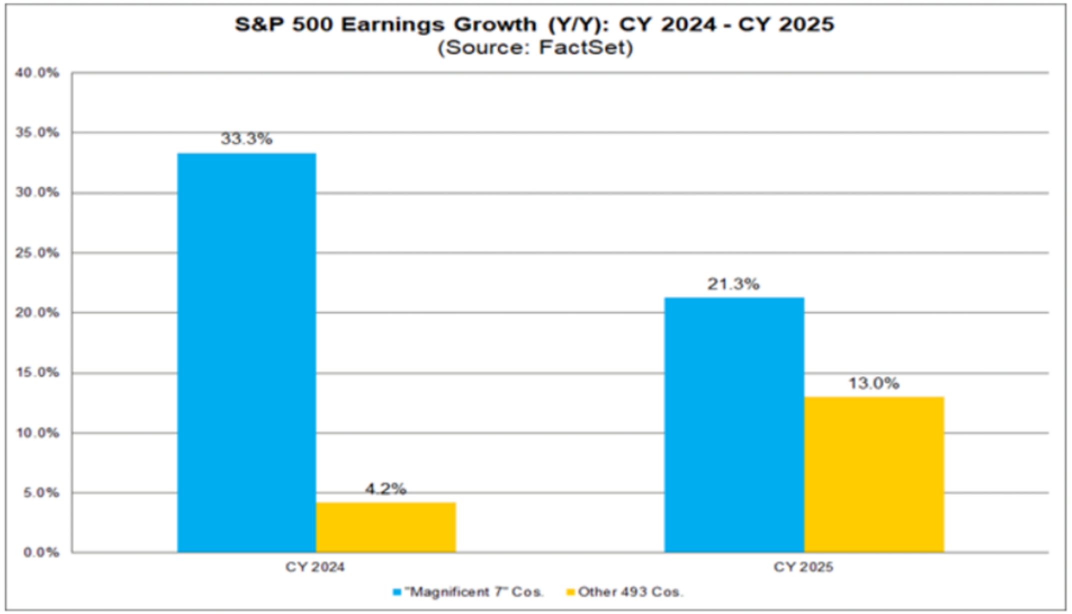
Watch Item: Better Breadth in 2025?

12 Month Forward EPS for the Magnificent 7 and S&P 500 Equal Weight



Source: NewEdge Wealth, Bloomberg, as of 1/7/25

Magnificent 7 EPS Growth Still Leads But Expect More Balance in the Coming Year



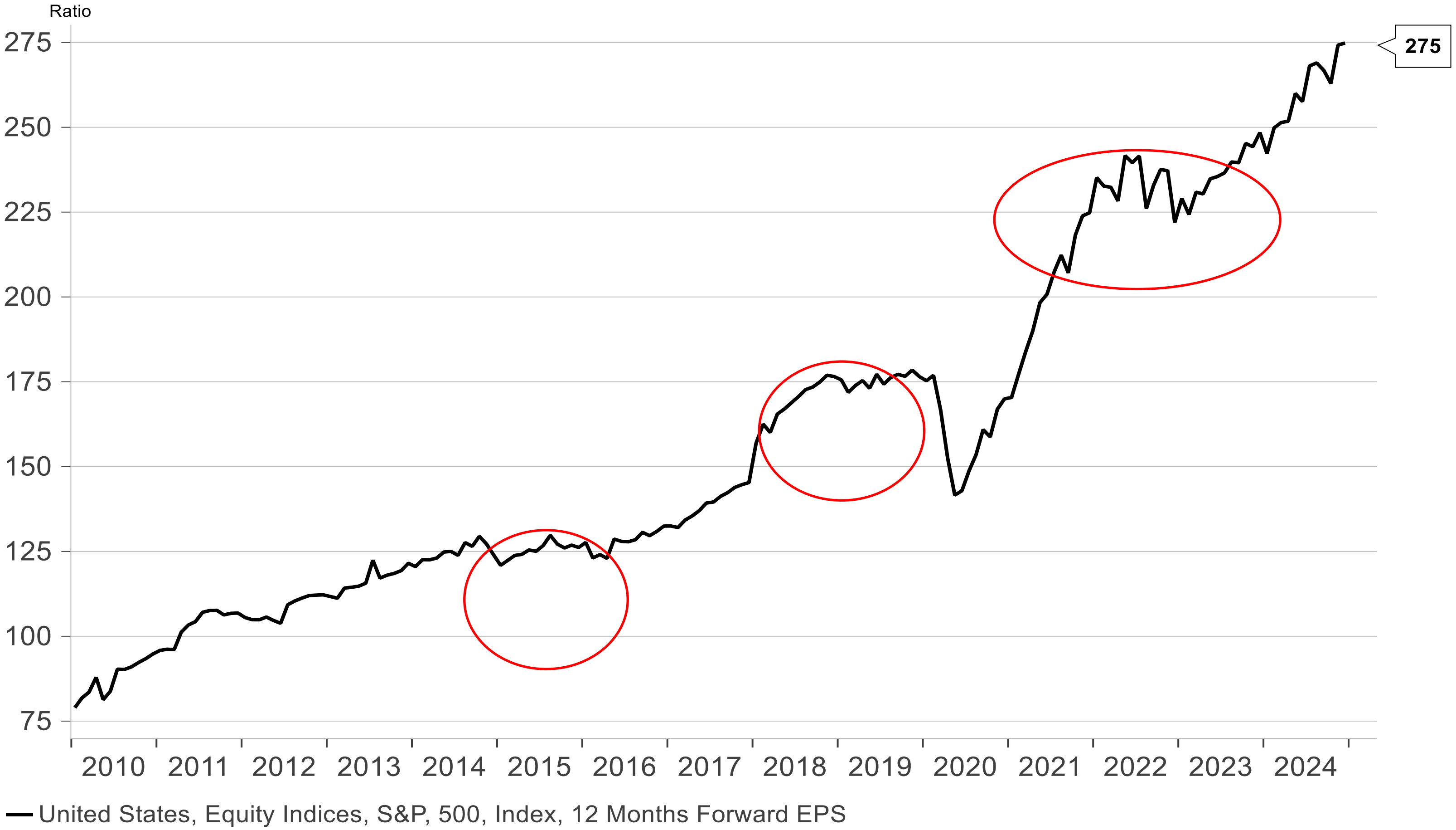
Source: Factset, as of 12/20/24

A more favorable earnings environment for the "other 493" is expected, but the stars will need to align for this to be more than just a short-term reversion…

- Lower interest rates
- Positive economic activity
- Stable inflation
- CEO confidence fueling capex

Watch Item: Pace of Forward EPS Growth

S&P 500 12 Months Forward EPS



Source: NewEdge Wealth, Macrobond, Bloomberg S&P Global

NewEdge WEALTH

Data as of: January 14, 2025

Watch Item: Earnings Expectations: Rotations, Breadth & Better Balance

Bloomberg Consensus EPS Growth By Index

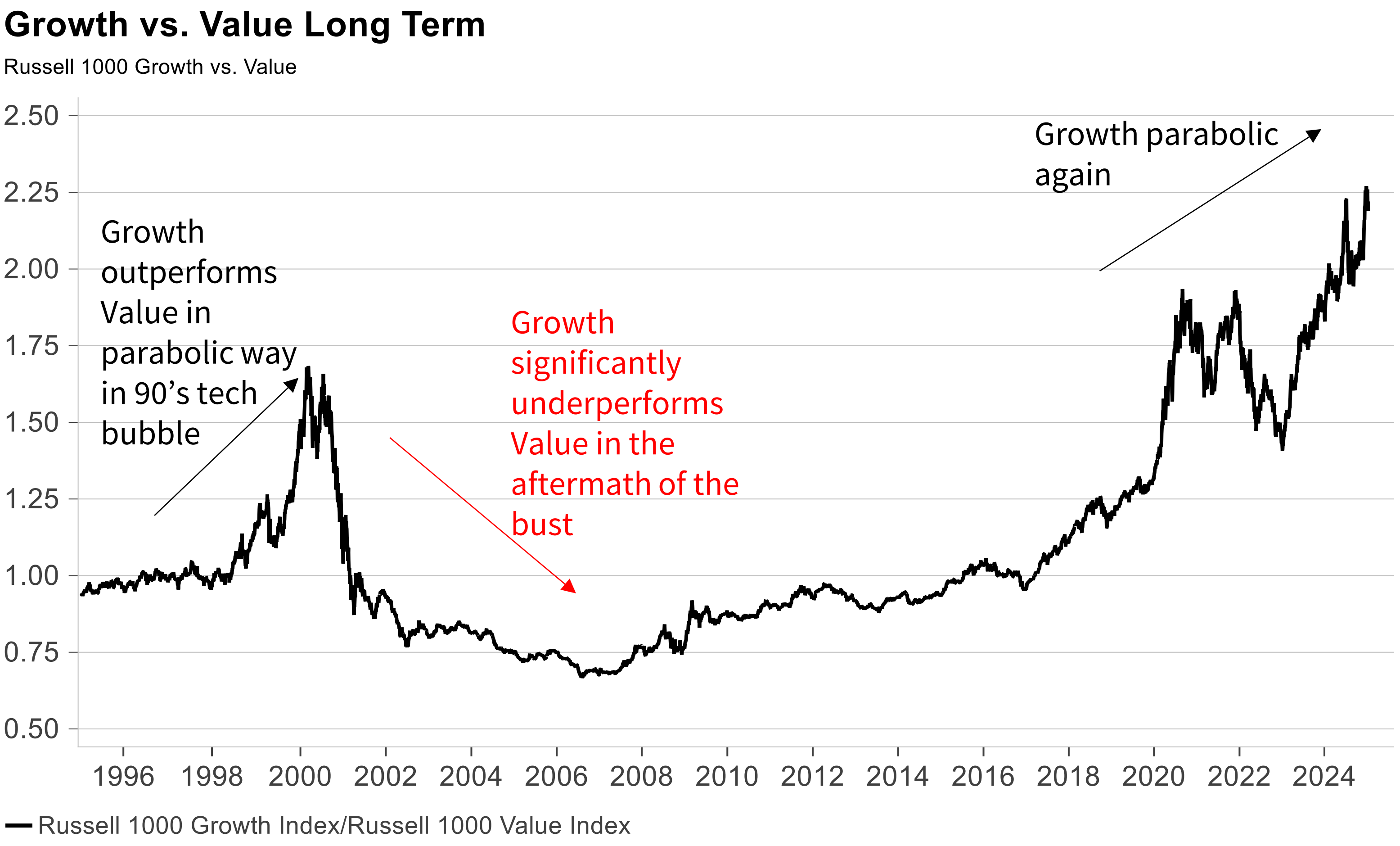
	2024E	2025E
S&P 500	8%	12%
Magnificent 7	56%	16%
Equal Weight	5%	11%
Russell 1000 Growth	16%	16%
Russell 1000 Value	1%	11%
Russell 2000	-19%	38%
MSCI International Developed	-5%	4%
MSCI Emerging Markets	11%	13%

Bloomberg Consensus EPS Growth For Mag 7

	2024E	2025E
TSLA	-22%	33%
NVDA	276%	137%
AAPL	10%	9%
META	58%	12%
AMZN	90%	15%
MSFT	23%	11%
GOOGL	40%	12%
Magnificent 7 Index	**56%**	**16%**

Note the big inflection in growth expected for the Value, International, and Small Cap indices, plus the big deceleration in Mag 7 growth in 2025. This could be taken as a bullish sign that earnings are broadening, or a bearish sign that expectations are far too high for lagging cohorts.

Watch Item: Growth vs. Value and a Potential Leadership Shift



Source: NewEdge Wealth, Macrobond, Bloomberg

- After a parabolic move in growth over the past two years, and record concentration and performance for high momentum names in 2024, could 2025 be a year where value is rewarded?
- In fact, this premium is lower today than it was in 2020/2021 as some Mag 7 names have "grown into" their earnings and now have much more reasonable valuations (AMZN traded at a peak of 70x earnings in 2020 vs. 32x today).
- What is notable is the persistent de-rating of non-Growth stocks vs. the market as earnings have disappointed for these areas.

International Equities

A More Challenging Environment – But Low Valuations & Negative Sentiment Could Lead to Upside Surprises

- Valuations remain attractive relative to the U.S., but we expect greater dispersion across regions and countries as policies, inflation, and growth rates interact with discounted valuations and weak investor sentiment.
- The risk / reward looks more favorable for emerging markets relative to developed markets, as lower inflation and the potential for increased fiscal stimulus in China could cause EM multiples to rerate higher.
- Developed Europe looks to be the most challenged international region, facing muted economic growth, persistently high energy prices, weak consumption, and headwinds to global trade.
- Given their economic might, China remains the key linchpin for international equity performance. More favorable trade policy or outsized fiscal stimulus that spurs economic activity, will be key for sustained equity performance.

Offering Valuation & Diversification, but a lack of Earnings Growth Remains a Major Headwind

MSCI World Excluding United States Index vs. S&P 500

Source: NewEdge Wealth, Macrobond, Bloomberg

Data as of: January 14, 2025

Wrap Up: Big Picture Themes, Opportunities, & Beneficiaries in 2025

Theme / Opportunity	Beneficiaries
• Watch for a **broadening of AI related revenues** and earnings growth as companies look to drive productivity and operational efficiency with AI agents	• **Software and services** businesses, and companies offering **custom semiconductor** solutions targeted at specific tasks.
• Expect **electricity consumption** to remain a bottleneck in the AI ecosystem, driven by an aging grid and robust demand from hyperscalers, which outweighs current generation	• **Power producers and transmitters** (specifically those with reliable natural gas and nuclear facilities), and companies that provide the **engineering and services** required to bring more capacity online.
• Be mindful of **changing leadership** as economic and policy uncertainty ultimately leads to greater dispersion and volatility across markets, especially following a record year for momentum.	• Market segments offering greater stability (**Dividend Yield, Quality**). Better breadth and a change in sentiment could provide support 2024's laggards (**Mid Caps, Emerging Market Equities**)
• Anticipate a **better year for alpha** as greater dispersion, extreme index concentration, and valuation expansion becomes less of a tailwind to equity markets.	• Incorporate **active portfolio management** and strategies that offer **diversification**, and an **emphasis on fundamental drivers** that will likely be rewarded in a late cycle environment

Alternatives Outlook

NewEdge WEALTH

Alternative Investment Themes for 2025

OUR OVERALL SENTIMENT IS CAUTIOUS OPTIMISM

We are cautiously optimistic throughout private markets. We continue to see opportunities where unique manager skill and inefficient markets can drive enhanced returns.

DISRUPTION IN FUNDRAISING CYCLES, CREATES OPPORTUNITIES FOR SECONDARIES

Fundraising will continue to be challenged. As the IPO market and M&A activity have remained under pressure, exit activity has been stifled, thus preventing funds from making distributions necessary to maintain the "velocity of capital". There is hope that M&A and IPO markets will defrost in 2025, but this return to dealmaking has been long delayed. Secondaries have been the beneficiary of this increasing need for liquidity, and we will continue to see opportunities across the LP Led and GP Led spaces.

WATCHING REGULATIONS

Regulatory changes and increasing compliance requirements are influencing market operations, particularly around reporting, transparency, and data privacy, affecting deal structuring and compliance costs.

OPPORTUNITIES TO DIVERSIFY INTO UNCORRELATED ASSET CLASSES

Given the great expectations set up for public equity and credit markets in 2025, we see merit in finding return streams that are much less sensitive to the vagaries of these public markets. We make a clear distinction between "crisis alpha" (assets like managed futures that do well when other markets do poorly), which we do not favor at this time, and "uncorrelated assets" (those that derive returns from factors unrelated to equity risk premium).

THE COST OF CAPITAL HAS SHIFTED INVESTMENT APPROACHES

Across a variety of asset classes from Private Equity to Private Real Estate, the effects of the higher rate environment continue to ripple through private markets. A higher cost of capital continues to put a greater onus on manager skill in operations and deal structuring, where classic financial engineering (counting on cheap and ever-lower cost of funds to make return targets) is more challenged. We think the higher cost of capital also increases risk for previously overpriced or overleveraged deals that could buckle under the weight of higher for longer interest rates.

Alternative Investment Themes for 2025

GREATER MANAGER DISPERSION

We believe dispersion across manager performance will continue to widen, making the manager due diligence and selection process even more important. The higher interest rate, slower velocity of capital, tougher fundraising, and more uncertain operating environment will likely drive an even wider gap between top and bottom quintile performers.

AI/TECHNOLOGY CREATES OPPORTUNITIES AND PITFALLS

AI is starting to be adopted across the spectrum from the earliest stage companies running leaner and doing more with less, to large enterprises finding ways to automate processes and increase efficiency. While providing many massive benefits, there are also some drawbacks such as data security as these platforms collect and warehouse massive amounts of data which could be potentially harmful if stolen.

NIMBLENESS IS REWARDED

Investors with dry powder and fresh capital available in 2025 will be able to take advantage of investing in higher-quality assets at more attractive valuations and entry points.

THESIS DRIVEN INFRASTRUCTURE

Infrastructure has emerged as an area of interest, exhibiting resilient cash flows in the face of public market volatility. The acyclical nature of infrastructure assets may present further opportunities through continued market uncertainty. This can include classic infrastructure, power generation (which is seeing a sharp increase in data center demand), digital infrastructure, transportation and water rights.

BIG TRENDS CREATE BIG OPPORTUNITIES

With shifting demographics and an aging population, there will be greater opportunities in healthcare, particularly healthcare enhanced by emerging technologies. Real estate as the need for senior living facilities continues to grow.

SELECTIVITY IN DEMOCRATIZATION

The democratization of private markets has led to more investment vehicles with increased liquidity as well as lower investor qualifications as sponsors attempt to expand beyond institutional capital and access private wealth customers. There are risks inherent in broadening the audience for these investments, along with packaging illiquid assets in semi-liquid vehicles. The most benign of these risks is dampened returns, while the most sever could be fund liquidity crunches and forced asset sales.

The State of Private Markets: Asset Classes

Venture Equity

High-quality businesses are still getting funded.

Early-stage businesses are being pressed to focus on profitability.

Early-stage valuations have seen a reset providing stronger entry points.

AI continues to be a broad focus for the industry but there are increasing calls to question valuations.

The Opportunity: We continue to see an opportunity to invest in early-stage businesses where have seen resets in valuations. We are seeing an increase in leaner business models as new companies are able to build new productivity enhancing technology into their foundations.

Private Equity

The cost of leverage and capital has risen dramatically, which continues to pressure high leverage/financial engineering strategies.

Lower middle market continues to have a higher velocity of capital and to be attracting new investments as larger firms look to buy add on acquisitions from these funds.

As the exit environment remains tight and return of capital has slowed, so has the pace of new commitments.

The Opportunity: We continue to see more opportunities for quality growth across the lower middle market and middle market vs. the upper market, where financial engineering tends to be more prevalent.

Manager selection and quality of return generation matter more than ever as the dispersion between winners and losers widens.

Private Credit

A "golden age" for some (low defaults, high base rates), but risk management critical. Base rates have peaked in the short-term but we are now seeing the market find it's footing leading to slightly lower yields but greater consistency.

Focus on underwriting track record, downside protection, and stress testing.

Market oversaturation risk and manager selection becoming more critical.

Increasing focus on non-direct lending forms of private credit, including ABL, ABS, and Equipment Financing.

The Opportunity: We continue to see a long-term opportunity in private credit despite the reopening of the broadly syndicated loan market. While the majority of focus has been on the direct lending piece of the market, we are starting to see greater flow and interest in alternative forms of private credit.

The State of Private Markets: Asset Classes

Secondaries

Secondary activity remains elevated as LPs across the spectrum of private investment search for liquidity.

We have seen a normalization of pricing to some degree as the liquidity window reopens but volume remains robust.

GPs are being pushed by LPs to return capital to investors, at the risk of decreased commitments for successor vintages, leading to increased supply of GP-led deals.

Liquidity solutions are being tested – NAV lending, carve-outs, hybrid facilities. There are concerns that some of these solutions can begin to eat into returns.

The Opportunity: We have seen Secondary Funds lean into the dislocation caused by illiquidity, raising more money and seeing greater investor interest. They will be able to take advantage of attractive pricing as valuations reset, but increased competition will favor more established players.

Growth Equity

While the IPO window remains broadly closed, there are glimmers of light as we start to see the filing of S-1s by some much-anticipated companies.

Green shoots of investments as valuations normalize and as exit opportunities ramp up (increased M&A activity and IPO window reopening).

Continued focus on profitable business models and countercyclical sectors.

The Opportunity: Opportunities will present if the IPO window continues to reopen and as M&A activity reaccelerates.

Private Real Estate

Despite meaningful concerns, office has broadly been able to avoid a recession thus far. The debt maturity window really kicks off in the later part of this decade.

Most sectors have experienced near-record low vacancy & elevated rents (with the exception of commercial).

Stress in the space overall has reduced new capital supply.

Multi-family is going through a period of rent digestion following a much heavier

The Opportunity: Market dislocations may create attractive pockets of buying opportunity in the next 12-18 months. The opportunity in triple net lease is growing as we are seeing large corporations evaluate how they want to capitalize their balance sheets.

The State of Alternatives: Hedge Funds & Volatility Strategies

Hedge Funds & Volatility Strategies

Renewed interest as anticipation for volatility increases and as markets grind higher.

Heightened focus on post-tax returns for individual investing.

Volatility levels generally are increasing relative to the broad markets, and additionally, dispersion amongst managers has been meaningfully higher. Idiosyncratic pockets of volatility which have created opportunities for managers to put money to work and outperform.

Global macro strategies have benefitted from volatility and trends in areas like commodities where inflation and other supply/demand dynamics have driven up prices (coffee/cocoa). AI / Datacenter growth, general electrification of the grid and energy transition have increased hedge fund trading of copper futures.

Equity long/short continues to be challenged despite mixed performance outside of MAG7.

The Opportunity: Working on forming better quality access points to the space broadly thinking about the tax implications for investors.

Continue to believe that opportunity lies within the multi-strategy and less correlated strategies if the proper structures are in place especially given rising valuation across broader indices.

Event driven strategies likely to see more opportunity as capital markets become more active and will be driven by idiosyncratic events may present themselves in a more volatile yet pro-business environment.

Disclosures

When referencing asset class returns or statistics, the following indices are used to represent those asset classes, unless otherwise notes. You cannot invest directly in an index. Index returns shown are total returns which includes interest, capital gains, dividends, and distributions realized over a given period of time. An individual who purchases an investment product which attempts to mimic the performance of a benchmark or index will incur expenses such as management fees and transaction costs which reduce returns.

TIPS: Bloomberg Barclays Global Inflation-Linked: U.S. TIPS Total Return Index Unhedged
Municipals 5-Year: Bloomberg Barclays Municipal Bond 5 Year (4-6) Total Return Index Unhedged USD
Core Bond: Bloomberg Barclays US Agg Total Return Value Unhedged USD
U.S. MBS: Bloomberg Barclays US MBS Index
High Yield Municipals: Bloomberg Barclays Muni High Yield Total Return Index Value Unhedged USD
High Yield: Bloomberg Barclays US Corporate High Yield Total Return Index Value Unhedged USD
Foreign Bond: Bloomberg Barclays Global Aggregate ex-USD Total Return Index Value USD (50/50 blend of hedged and unhedged)
EM Debt (unhedged): J.P. Morgan GBI-EM Global Diversified Composite Unhedged USD
U.S. Large Cap: S&P 500 Total Return Index
U.S. Small Cap : Russell 2000 Total Return Index
International Developed: MSCI EAFE Net Total Return USD Index
Emerging Markets: MSCI Emerging Markets Net Total Return USD Index
World: MSCI ACWI Net Total Return USD Index
U.S. Equity REITs: FTSE Nareit Equity REITs Total Return Index USD
Commodities: Bloomberg Commodity Total Return Index
Midstream Energy: Alerian MLP Total Return Index
Hedge Funds: Hedge Fund Research HFRI Fund of Funds Composite Index
U.S.: MSCI USA Net Total Return USD Index

Europe: Euro Stoxx 50
United Kingdom: UK FTSE 100
Japan: Tokyo TOPIX Stock Exchange Index
China: Hang Seng Index
Brazil: Ibovespa Brasil Sao Paulo Stock Exchange Index
India: NSE Nifty Index
South Korea: Korea Stock Exchange KOSPI Index
Taiwan: Taiwan Stock Exchange Index

REITS Diversified: FTSE Nareit Eqty Diversified Total Return Index
REITS Healthcare: FTSE Nareit Eqty Health Care Total Return Index
REITS Industrial: FTSE Nareit Eqty Industrial Total Return Index
REITS Lodging/Resorts: FTSE Nareit Eqty Lodging/Resorts Total Return Index
REITS Office: FTSE Nareit Eqty Office Total Return Index
REITS Residential: FTSE Nareit Eqty Residential Total Return Index
REITS Retail: FTSE Nareit Eqty Retail Total Return Index
REITS Self Storage: FTSE Nareit Eqty Self Storage Total Return Index
REITS Data Centers: FTSE Nareit Equity Data Centers Total Return Index
REITS Specialty: FTSE Nareit Equity Specialty Total Return Index
Real Assets Agriculture: Bloomberg Sub Agriculture Total Return Index
Real Assets Industrial Metals: Bloomberg Sub Industrial Metals Total Return Index
Real Assets Precious Metals: Bloomberg Sub Precious Metals Total Return Index
Real Assets Energy: Bloomberg Sub Energy Total Return Index

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Abbreviations/Definitions: AI: artificial intelligence; CB: central banks; CPI: Consumer Price Index; Dot Plot: The Fed dot plot is published quarterly as a chart showing where each of the 12 members of the FOMC expect the federal funds rate to be for each of the next three years and the long term; EBITDA: Earnings before interest, taxes, depreciation and amortization; EM: emerging markets; EPS: earnings per share; HY: high yield; IG: investment grade; Initial Jobless Claims: measures the number of individuals who filed for unemployment insurance for the first time during the past week; IPO: initial public offering; Treasury General Account (TGA): Treausry's cash balance held at the Fed; Trimmed mean inflation: a measure that strips out the fastest and slowest growing prices each month, leaving behind a less noisy measure of core inflation; VIX is the ticker symbol for the Chicago Board Options Exchange's CBOE Volatility Index, a popular measure of the stock market's expectation of volatility based on S&P 500 index options.

Any questions?

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