

HOUSE VIEW

Outlook 2025: US

December 2024

3

Things to know

1.

Robust GDP growth of 2.3% in 2025.

2.

See the Fed pausing its cutting cycle earlier than previously expected.

3.

Neutral on US Treasuries; see continued USD strength, US equities to outperform.

MACROECONOMIC VIEW

The US economy entered the November election with both cyclical and structural tailwinds, fuelled by increased immigration and higher productivity. **We expect this positive momentum to continue and forecast real GDP growth at 2.3% YoY in 2025.** We expect consumption growth to slow, investment strength to persist and government spending to provide less of a boost.

Tariffs and slower immigration will hurt growth, but this drag could be offset by more supportive financial conditions, anticipation of tax cuts, and rapid deregulation under President Trump.

The timing, sequence and magnitude of policy changes are key factors shaping the 2025 macro environment, but they are highly unpredictable. Our outlook assumes that narrow margins in the House of Representatives, sensitivity to market reactions and the use of tariffs as a foreign policy tool will ultimately curb the most extreme policy proposals.

We expect core PCE inflation to slow in Q1 due to favourable base effects, but to reaccelerate to 2.8% by the end of 2025 due to the impact of tariffs. **With inflation expected to pick up in H2, we see the Fed pausing its cutting cycle earlier than previously expected, at 3.75-4%, above its estimate of the neutral rate.**

Risks to our outlook centre around the magnitude and timing of policy shifts.

INVESTMENT IMPLICATIONS

4.6% US 10-year yields by the end of 2025 reflecting a modest rise in inflation expectations and an elevated terminal rate of close to 4%. We are neutral on US Treasuries but retain optionality in case the Trump administration is less inflationary and more fiscally prudent than anticipated.

Credit spreads to stay close to record tights given a favourable backdrop of accelerating earnings growth, subdued high yield supply and elevated investor appetite for carry.

A drift towards 1.01 EURUSD in 2025 with continued US dollar strength reflecting a superior US growth outlook, increased protectionism and widening yield differentials. We expect appreciation to be most pronounced against the euro and Chinese yuan.

S&P at 6500 by the end of 2025 which is predicated on 12% EPS growth and a small fall in the 12m forward PE to 21.5x. We expect US equities' outperformance to continue given a superior EPS outlook and a lack of positive catalysts elsewhere. Intra-market we prefer cyclicals to defensives and growth over value.



Legal disclaimer:

This marketing communication (hereinafter “the Document”) serves merely for information purposes and for reference only in relation to services or products provided by the bank. It is intended for general circulation and its content may only be read and/or used by its addressee. This Document is not intended for and must neither be provided to persons that are citizens of, domiciled or resident in, or entities registered in a country or a jurisdiction in which its distribution, publication, provision, or use would violate current laws and regulations.

It does not constitute an offer, a solicitation of an offer, a recommendation, or an invitation to buy, sell or subscribe to securities or other financial instruments, nor is it meant as a proposal for the conclusion of any type of legal relation, agreement or transaction with the bank or with any third party. Moreover, nothing in this Document constitutes financial, investment or legal advice. The bank reserves the right to alter its services, products or prices at any time without prior notice.

This Document sets forth neither a personal recommendation tailored to the needs, objectives, and financial situation of any individual or company nor the result of investment research. The addressee should consider the suitability of a product or service to individual objectives and independently assess, with a professional advisor, the specific financial risks as well as legal, regulatory, credit, tax and accounting consequences. Using this Document implies no right nor obligation for any employee or for its addressee. The bank is under no obligation to update the information contained in this Document, and no representation or warranty, express or implied, may be made as to its accuracy or completeness.

The bank is not liable for the use, transmission, or exploitation of the content of this Document. Therefore, any form of reproduction, copying, disclosure, modification and/or publication of this Document in any form or by any means whatsoever is not permitted without the prior written consent of the bank and no liability whatsoever will be incurred by the bank. The addressee of this Document agrees to comply with the applicable laws and regulations at the jurisdiction where they use the information provided in this Document including the field of copyright law. The addressee may not violate the copyright on this Document. This Document and its content may not be cited unless the source is indicated.

All rights reserved. Copyright 2024.

Distributor: Banque Pictet & Cie SA, route des Acacias 60, 1211 Geneva 73, Switzerland. Banque Pictet & Cie SA is established in Switzerland, exclusively licensed under Swiss law and therefore subject to the supervision of the Swiss Financial Market Supervisory Authority (FINMA).

Distributor: Bank Pictet & Cie (Europe) AG is a credit institution incorporated under German law with its registered office at Neue Mainzer Str. 2-4, 60311 Frankfurt am Main, Germany, authorised and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) (German Federal Financial Supervisory Authority).

Bank Pictet & Cie (Europe) AG, succursale de Luxembourg, is authorised and regulated by the BaFin and is subject to limited regulation by the Luxembourg Financial Authority, Commission de Surveillance du Secteur Financier (CSSF).

Bank Pictet & Cie (Europe) AG, succursale de Paris, is authorised and regulated by the BaFin and is subject to limited regulation by the ACPR (Autorité de Contrôle Prudentiel et de Résolution) and the AMF (Autorité des Marchés Financiers).

Bank Pictet & Cie (Europe) AG, succursale italiana, is authorised and regulated by the BaFin and is subject to limited regulation by the Consob (Commissione Nazionale per le Società e la Borsa).

Bank Pictet & Cie (Europe) AG, succursale en España, is authorised and regulated by the BaFin and is subject to limited regulation by the Bank of Spain and CNMV (Comisión Nacional del Mercado de Valores).

Bank Pictet & Cie (Europe) AG, succursale de Monaco, is authorised and regulated by the BaFin and is subject to limited regulation by the Commission for the CCAF (Control of Financial Activities).

Bank Pictet & Cie (Europe) AG, London branch (“Pictet London Branch”)

Pictet London Branch is a branch of Bank Pictet & Cie (Europe) AG. Bank Pictet & Cie (Europe) AG is a credit institution incorporated in Germany and registered with the German Commercial Register, under HRB no. 131080. Its registered office is at Neue Mainzer Str. 2-4, 60311 Frankfurt am Main, Germany. Bank Pictet & Cie (Europe) AG is authorised and regulated by the BaFin.

Pictet London Branch is registered as a UK establishment with Companies House (establishment no. BR016925) and its UK registered office address is Stratton House, 6th Floor, 5 Stratton Street, London W1J 8LA. Authorised by the Prudential Regulation Authority (PRA) and subject to regulation by the Financial Conduct Authority (FCA) and limited regulation by the PRA. Details about the extent of the regulation by the PRA are available from Pictet London Branch on request. This Document sets forth neither a personal recommendation tailored to the needs, objectives and financial situation of any individual or company (investment advice as defined in the Financial Conduct Authority’s Handbook of rules and guidance (the “FCA Handbook”)), nor the results of investment research within the meaning of the FCA Handbook.

Distributor: Pictet Bank & Trust Limited, is licensed and regulated by the Central Bank of The Bahamas and the Securities Commission of The Bahamas. Its registered office is at Building 1, Bayside Executive Park, West Bay Street & Blake Road, Nassau, New Providence, The Bahamas.

Distributors: Banque Pictet & Cie SA Singapore Branch (“BPSA SG Branch”) in Singapore and/or **Banque Pictet & Cie SA, Hong Kong Branch (“Pictet HK Branch”)** in Hong Kong. This Document does not constitute the investment policy of BPSA SG Branch/Pictet HK Branch, or an investment recommendation. This Document is prepared on an “as is” basis and BPSA SG Branch/ Pictet HK Branch does not make any representation or warranty as to its accuracy, timeliness or completeness. Accordingly, BPSA SG Branch/ Pictet HK Branch accepts no liability for loss arising from the use of or reliance on this Document. BPSA SG Branch/ Pictet HK Branch reserves the right to act upon or use any of the information in this Document at any time, including before its publication herein. BPSA SG Branch/ Pictet HK Branch and its affiliates (or employees thereof) may have material interests that conflict with the interests of the recipient of this Document. In these respects, BPSA SG Branch/ Pictet HK Branch and their affiliates (or employees thereof) may act inconsistently with the information and/or opinions presented in this Document. This Document is provided for the information of the intended recipient only and should not be reproduced, published, circulated or disclosed in whole or in part to any other person without the prior written consent of BPSA SG Branch/ Pictet HK Branch.

Singapore: Banque Pictet & Cie SA is a limited liability company incorporated in Switzerland. Banque Pictet & Cie SA Singapore Branch is registered in Singapore with UEN: T24FC0020C. This Document is not directed to, or intended for distribution, publication to or use by, persons that are not accredited investors, expert

investors or institutional investors as defined in section 4A of the Securities and Futures Act 2001 of Singapore (“SFA”) nor any person or entity that is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or would subject BPSA SG Branch and any of its affiliates or related corporations to any prospectus or registration requirements. BPSA SG Branch is a wholesale bank branch regulated by the Monetary Authority of Singapore (“MAS”) under the Banking Act 1970 of Singapore, an exempt financial adviser under the Financial Advisers Act 2001 of Singapore and an exempt capital markets licence holder under the SFA.

Hong Kong: This Document is not directed to, or intended for distribution, publication to or use by, persons that are not “professional investors” within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and any rules made thereunder (the “SFO”) or any person or entity that is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or would subject Pictet HK Branch and any of its affiliates or related corporations to any prospectus or registration requirements. If the addressee does not want Pictet HK Branch to use their personal information for marketing purposes, they can request Pictet HK Branch to stop doing so without incurring any charge. To make this request, please contact the Data Protection Officer by email at asia-data-protection@pictet.com or by post to the address of Pictet HK Branch provided below. In distributing an investment product as an agent for a third-party service provider, Pictet HK Branch distributes the product for the third-party service provider and the product is a product of the third-party service provider but not Pictet HK Branch. In respect of an eligible dispute (as defined in the Terms of Reference for the Financial Dispute Resolution Centre in relation to the Financial Dispute Resolution Scheme) arising between Pictet HK Branch and the addressee out of the selling process or processing of the related transaction, Pictet HK Branch is required to enter into a Financial Dispute Resolution Scheme process with the addressee; however, any dispute over the contractual terms of the product should be resolved directly between the third-party service provider and the addressee.

Banque Pictet & Cie SA is a limited liability company incorporated in Switzerland. It is an authorized institution within the meaning of the Banking Ordinance and a registered institution (CE no.: BMG891) under the SFO carrying on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities. The registered address of Pictet HK Branch is 9/F., Chater House, 8 Connaught Road Central, Hong Kong.

Warning: The content of this Document has not been reviewed by any regulatory authority in Hong Kong. The addressee is advised to exercise caution in relation to the investment(s). If the addressee is in any doubt about any of the content of this Document, they should obtain independent professional advice. Please contact Pictet HK Branch in Hong Kong in respect of any matters arising from, or in connection with this Document.

For information about personal data protection, please refer to the Pictet Group’s Privacy Notice available at <https://www.pictet.com/privacynotice>.