On The Mark

January 2025

2025 Outlook: A Delicate Balance

Key Takeaways

- We expect the two key themes from 2024 – above-average growth and above-target inflation – to continue into 2025.
- Trump 2.0 policies have the potential to add incrementally to higher economic growth, but also incrementally to higher inflation.
- While we expect a more volatile year in 2025, we suggest investors remain fully invested and in line with their long-term strategic asset a llo cat ion s.

2025... What???

I remember when you could simply add "2000" to the end of a product to make it sound cool and modern. And here we are 25 years after the year 2000 – in a new year, with a new administration, new opportunities, and new risks. In the background, the U.S. economy continues to hum along, buoyed by a healthy consumer and a resilient labor market, even as inflation remains above the Fed's target. In our view, the balanced economic picture implies a pretty supportive environment for stocks and bonds. While there are plenty of things that could knock us out of balance – heightened policy uncertainty, ever-present geopolitical risk, a shock to growth or inflation – we suggest investors stay fully invested.

Growth

The U.S. economy looks set to continue its above-average pace in 2025, thanks to a strong consumer and solid job market. Real-time consumer activity indicators, such as restaurant bookings and TSA checkpoint throughput, indicate continued strength of the U.S. consumer. Even with some signs of cooling (like lower employer hiring rates), the economy added 256k new jobs in December (compared to a historical monthly average of about 150k), suggesting the job market is still in reasonably good shape. The manufacturing sector, which has been struggling since the Fed began hiking interest rates in 2022, is finally showing some signs of life.

Inflation

Inflation isn't going away quietly. After falling from its 2022 highs, the inflation rate has stalled above the Fed's 2% target. The booming service sector is keeping wage growth strong (a key component of service inflation), while high home prices and high mortgage rates are keeping shelter costs elevated. Homeownership costs eat up nearly half of the income for younger buyers, forcing many potential buyers to stay in a crowded rental market. As the housing market adjusts to higher mortgage rates and new multifamily homes come online, growth in shelter costs should moderate, but this is a slow process.

Interest Rates

Interest rate expectations have been kept in check with a delicate balance between gently slowing growth and gently slowing inflation. Too little growth implies potentially lower interest rates. Too much inflation implies potentially higher interest rates. In the Fed's last communication of 2024, they indicated they expect two interest rate cuts in 2025. Markets are currently expecting one interest rate cut. Whether it is one or two cuts, we expect market expectations for interest rates to fluctuate as the markets oscillate between concerns about too little growth and too much inflation. This will likely flow through to fluctuations in equity and bond prices.

Policy

While we have a good idea of the new administration's policy positions, policy specifics are still difficult to forecast at this point. Tariffs and immigration reform might reduce growth and nudge inflation higher, while deregulation and potential tax cuts could boost growth later in the year. For now, it remains wait-and-see. However, the path to policy change is not likely to be smooth, given Republicans' very slim margin in the House. Incrementally, we expect this will add to market volatility in 2025.

Markets

A healthy economy should help support the stock market in 2025. While many valuation measures are high (price/earnings ratio, for example), markets can still advance if earnings continue to grow. In our view, the risk of higher inflation (and higher interest rates) is greater than the risk of lower growth this year. High valuations and potentially rising interest rates are two reasons we expect muted equity gains this year. Investors may be well served by ensuring they have sufficient exposure to parts of the market besides U.S. large-caps, especially given how concentrated they have become.

Bonds look reasonably attractive to us. Starting yields of around 5.1% provide a nice "yield cushion" should bond prices decline. We do expect some volatility this year. Policy uncertainty is high (especially as it relates to trade policy), and we expect markets will continue to oscillate between concerns about too little growth and too much inflation. If inflation becomes too much of a concern, the portfolio diversification benefits of bonds may decline. For this reason, investors may want to consider risk-controlled strategies to help manage portfolio risk.

The Bottom Line

We believe investors should stay fully invested during most circumstances. Shocks to growth, inflation, or financial conditions could warrant reducing portfolio risk, while price dislocations could warrant increasing portfolio risk.

In 2025, we see a relatively balanced economic picture that is supportive of stocks and bonds. While plenty of things could knock us out of balance—policy uncertainty, geopolitical events, a shock to growth or inflation—we suggest investors stay fully invested in line with their long-term investment strategies.

AssetMark, Inc.

1655 Grant Street
10th Floor
Concord, CA 94520-2445
800- 66 4-5 345

Important Information

This is for informational purposes only, is not a solicitation, and should not be considered investment, legal or tax advice. The information in this report has been drawn from sources believed to be reliable, but its accuracy is not guaranteed, and is subject to change. Investors seeking more information should contact their financial advisor. Financial advisors may seek more information by contacting AssetMark at 800-664-5345. Investing involves risk, including the possible loss of principal. Past performance does not guarantee future

r esul ts. Asset allocation cannot eliminate the risk of fluctuating prices and uncertain returns. There is no guarantee that a diversified portfolio will outperform a non-diversified portfolio. No investment strategy, such as asset allocation, can guarantee a profit or protect against loss. Actual client results will vary based on investment selection, timing, market conditions, and tax situation. It is not possible to invest directly in an index. Indexes are unmanaged, do not incur management fees, costs, and expenses, and cannot be invested in directly. Index performance assumes the reinvestment of dividends.

Investments in equities, bonds, options, and other securities, whether held individually or through mutual funds and exchange-traded funds, can decline significantly in response to adverse market conditions, company-specific events, changes in exchange rates, and domestic, international, economic, and political developments.

Bloomberg® and the referenced Bloomberg Index are service marks of Bloomberg Finance L.P. and its affiliates, (collectively, "Bloomberg") and are used under license. Bloomberg does not approve or endorse this material, nor guarantees the accuracy or completeness of any information herein. Bloomberg and AssetMark, Inc. are separate and unaffiliated companies.

AssetMark, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission.

7531127.1 | 01/2025 | EXP 01/2027