

WEBINAR

# January 2025 Market Update Webinar

## A Deep Dive into CNR's Economic and Investment Outlook

January 30, 2025

In our January market update webinar, City National Rochdale (CNR) leaders, Chief Investment Officer Charles Luke, Head of Fixed Income Michael Taila and Senior Economist, Senior Portfolio Manager Paul Single, provided an in-depth discussion on CNR's economic and market outlook, including insights into President Trump's initial executive actions and their potential effects on client portfolios.

Charles Luke started with an overview, noting that the economy remains strong, and GDP is likely to remain above potential, corporate profits appear poised to climb, and current interest rate levels may be extended.

## Economic Forecasts

- ◆ January changes include a higher estimated ranges for 2025 GDP and interest rate forecasts.

- GDP growth is expected to remain above trend, supported by potential pro-growth fiscal policy.
- Corporate profits are expected to be higher in 2025.
- Inflation pressures are expected to ease but may remain elevated based on the new administration's policy.
- Additional Fed cuts are supportive of continued expansion.
- Structural pressure will likely keep 10-

City National Rochdale Forecasts		2024	2025e
Real Annual GDP Growth		2.5% (a)	2.0% to 2.5%
Corporate Profit Growth		8.8% (e)	10.0% to 14.0%
Headline CPI Year End		2.9% (a)	2.50% to 2.75%
Interest Rates	Federal Funds Rate	4.25% to 4.50% (a)	3.75% to 4.25%
	Treasury Note, 10-Yr.	4.57% (a)	4.0% to 4.5%

*Gross domestic product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.*

*e: estimate. a: actual.*

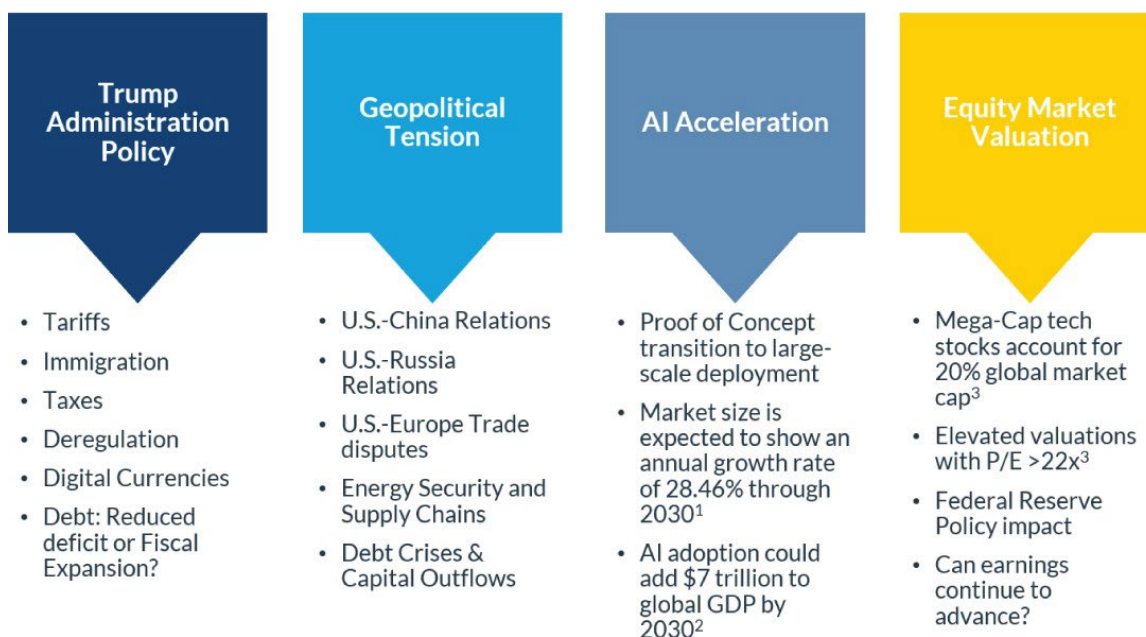
*The Consumer Price Index (CPI) measures the monthly change in prices paid by U.S. consumers.*

*Sources: Bloomberg, FactSet, proprietary opinions based on CNR Research, as of January 2025. Information is subject to change and is not a guarantee of future results.*

While the DeepSeek R1 model is a disruptor, it is challenging entrenched views on AI development. However, it is not likely to alter the long-term demand for computing power.

He also discussed Trump's executive actions and how they will have a direct impact on the economic environment, especially actions across immigration, trade, energy and digital currency. Luke also touched on the geopolitical landscape, particularly how the Israel-Hamas ceasefire is the first positive development on the geopolitical front in years. However, risks remain, especially U.S.-China relations.

## 2025 Global Market Themes



Sources: JPMorgan, FactSet, CNR Research, as of December 2024.

<sup>1</sup> - Statista, as of December 2024.

<sup>2</sup> - McKinsey & Co. , as of December 2024.

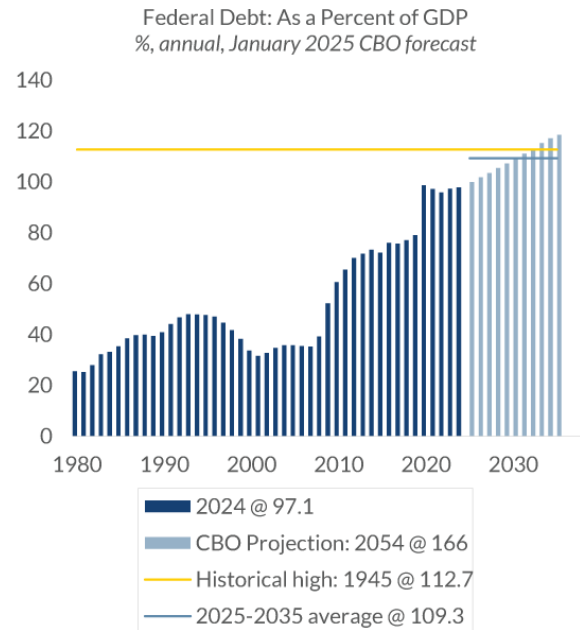
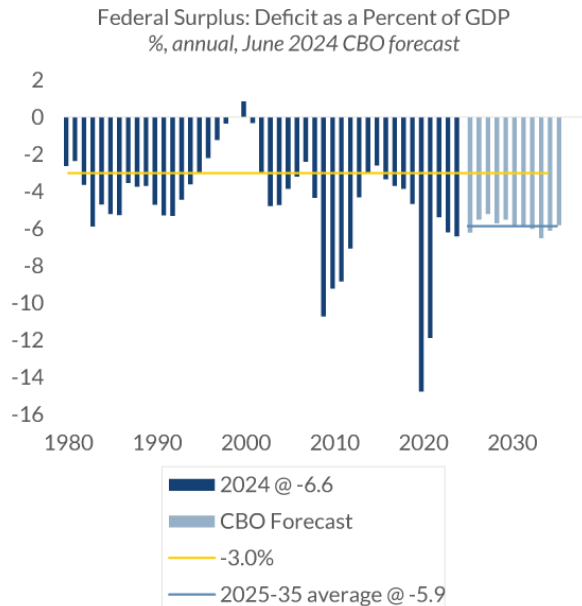
<sup>3</sup>- FactSet, as of December 2024.

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Paul Single explained that the economy remains on solid footing, firing on most of the important cylinders. Inflation remains above the Fed's target but is expected to continue its downward trend. Labor growth continues to remain strong, and expected reduced regulations should keep it that way. The federal deficit is large and growing, which is a trend that is not likely to change. He concluded this section with the Fed, noting how it is expected to refrain from lowering interest rates until the yearly change in inflation begins to decline.

# How Will The U.S. Debt Impact The Economy?

- The annual deficit exceeds 6% of GDP and is forecast to continue for at least the next ten years.
- This will cause the forecasted debt-to-GDP to exceed the WWII peak in 2032.
- Scott Bessent has touted his 3-3-3 plan, which will involve cutting the budget deficits to 3% of GDP.



Data current as of January 30, 2025

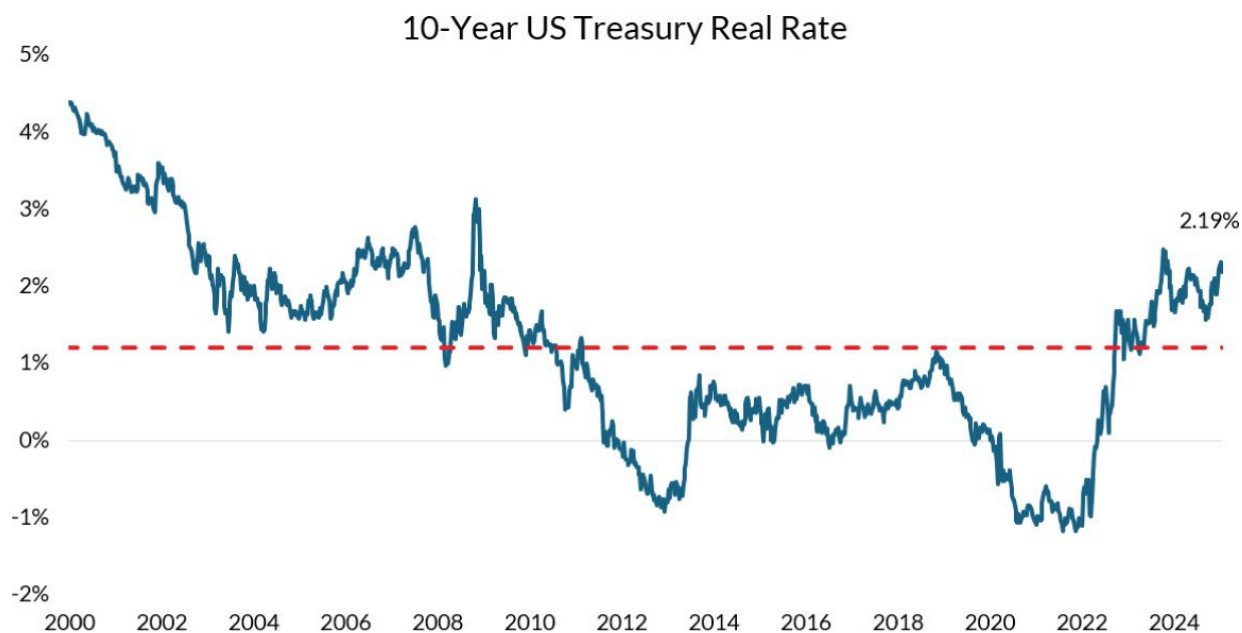
Source: U.S. Treasury

Information is subject to change and is not a guarantee of future results.

Michael Taila gave an update on fixed income, discussing how treasury volatility is expected to continue as federal policy pivots could complicate the timing of future Fed actions. Taila noted that attractive inflation-adjusted yields (real yields) are currently benefiting fixed-income investors, and issuer credit quality remains broadly healthy, supporting risk pricing, but emphasized the importance of security selection. Constructive market technicals should continue this year, but regulatory/tax reform could reset expectations. He concluded this section by mentioning how the current shape of the yield curve provides a buffer to price fluctuations and improves prospects for total return.

## Positive Real Yields Underscore Compelling Entry Point

- The real yield adjusts for the impact of inflation and gauges the value of fixed income products.
- Investors can earn excess cash flow while improving forward return expectations on their bonds.



Source: Bloomberg, as of 1/25/2025.

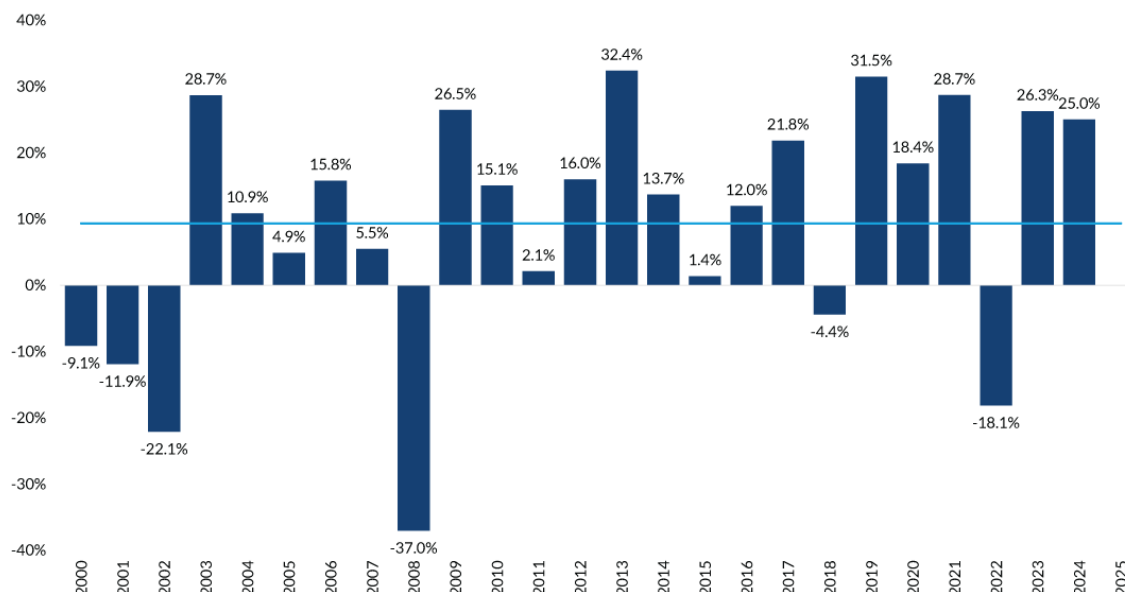
*Information is subject to change and is not a guarantee of returns.*

On the equity market, Charles Luke noted that the momentum in technology companies remains intact, supported by continued AI adoption, cloud migration and cybersecurity demands, though the pace of acceleration is likely to moderate. We can expect to see performance closer to broader market indexes as the valuation premium begins to normalize and higher interest rates create pressure on growth multiples. Earnings growth versus other sectors should shrink as year-over-year comparisons become more challenging and the initial surge of post-pandemic IT spending slows. Technology's transformation from disruptor to enabler marks a key inflection point. As AI's productivity gains are increasingly being captured by traditional sectors through digital transformation, this suggests a broader dispersion of returns across tech-enabled companies rather than pure-play tech firms.

## **We Expect Long-Term Average Equity Market Returns**

- ◆ The significant outperformance relative to long-run averages is likely to moderate over 2025.

## Annual S&P 500 Returns



*Source: Bloomberg. Information is subject to change and is not a guarantee of returns.*

In conclusion, CNR expects the S&P 500 to trade as high as 6400 to 6500 by the end of 2025 as returns fall to long-run averages; in particular, equity valuation and the level of risk aversion point toward average equity returns. Technology returns are likely to be positive, but may fall back in line with broad indexes as earnings slow and spending peaks. AI-focused technology companies are shifting from a disruptor to enabler, allowing a broad set of companies to leverage AI tools to become more efficient, and small-cap stocks remain a good alternative to benefit from the domestic focus of the Trump administration.

### **Review Your Portfolio with Your Financial Advisor Today**

City National Rochdale encourages you to review your investment portfolio with your advisor. Contact our financial professionals today to get help with your wealth planning needs.

## **Index Definitions**

The Standard & Poor's 500 Index (S&P 500) is a market capitalization-weighted index of 500 common stocks chosen for market size, liquidity and industry group representation to represent U.S. equity performance.

## **Definitions**

A consumer price index (CPI) measures changes in the price level of a market basket of consumer goods and services purchased by households. The CPI is a statistical estimate constructed using the prices of a sample of representative items whose prices are collected periodically.

Gross Domestic Product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.

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