

# 2025 Macro Outlook

As we move towards 2025, we have gathered in-depth insights from our Investment Strategy & Quantitative Research Team and some of our Delegates to understand and strategically assess the macroeconomic outlook for the coming year.



**Pr. Dr. Christophe Boucher**  
Chief Investment Officer  
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In 2025, the growth differentials between the US and Europe is likely to persist whereas the activity gap between the services and manufacturing sectors that widened in 2024, should gradually narrow driven by accommodative monetary policies in most advanced countries. We expect the U.S. economy to grow at a solid pace in 2025.

At this stage, growth is supported by numerous factors, including rising productivity gains and resilient consumer spending and while lagging components such as shelter continue to push up overall inflation, core inflation is easing, and this trend is likely to persist in 2025 as the labor market gradually loosens without collapsing. Although debates over the neutral interest rate and uncertainties surrounding Trump's policies might prompt the Federal Reserve to act cautiously, we anticipate that the Fed will gradually normalize its monetary policy which should support spending through an easing of credit conditions for households. Moreover, while the overall impact of Trump's policies is challenging to assess, the initial measures are expected to be expansionary and pro-growth, fostering investment in the medium term. On the corporate front, earnings were generally robust in 2024, and this trend is expected to continue into 2025 as Trump's tax-cutting policies may further enhance corporate profit margins, adding to the positive momentum.

In Europe, short-term growth is likely to stagnate as confidence remains subdued, weighed down by global political uncertainty. Meanwhile, the European industrial sector is struggling due to a lack of international competitiveness, compounded by weak domestic demand. However, while European growth is unlikely to reach its full potential in 2025, certain tailwinds should enable a rebound in activity during the second half of the year. Confidence and consumer spending are set to benefit from the ECB's interest rate cuts, while political conditions are expected to become more stable or even favorable, particularly in Germany. A potential victory for the CSU/CDU could pave the way for a slightly more expansionary fiscal policy. Furthermore, while tariffs could pose significant challenges to European growth, they are unlikely to be as severe as Trump desires. Europe holds negotiation leverage, including through purchases of US energy, and the euro's devaluation against the dollar should offset some of the cost increases stemming from tariffs.



**Geeta Aiyer, CFA**  
President and Lead  
Portfolio Manager



## US-based Delegate

### Morningstar Category in the AAIS' range of funds: US Large-Cap Value Equity & Global Emerging Markets Equity

The US has elected former President Trump as its next President.

The presidential election results were clear and timely, and the outcome was accepted by all. Markets were braced for a potentially contentious, disputed process and prolonged uncertainty while cities prepared for volatile demonstrations. In the end, fears of unrest did not materialize, and markets rallied in relief over the air of certainty surrounding the presidential transition.

Beginning in January, Republicans will have small majorities in both the Senate and the House. A sweep of this nature typically enables major policy changes in the early part of a Presidential term, as was the case in 2020 when Democrats held the Presidency, the Senate, and the House. The implications, however, are elevated this time because of several campaign promises with consequences for fiscal, labor, and trade matters. Market analysts are focused on the most probable and imminent economic effects while noting the potential impact on institutions, the environment, and human rights.

#### US Investment Strategies

Heading into the political transition, the US economy is resilient, running at a 2.5% real GDP growth trajectory likely to persist into next year. We see the election resulting in a few potential economic puts and takes. Proposed deregulation and tax cuts could modestly improve GDP growth. We also expect the US Dollar to strengthen with inbound capital flows; this could moderate interest rates and input costs. On the flip side, proposed tariffs and immigration policy could lower economic growth and these changes could disrupt supply chains and rekindle inflation. There is also increased potential for changes to major fiscal initiatives like the Chips Act and the Inflation Reduction Act. While this may lead to near-term market disruption, these programs' economic impacts make them desirable and potentially resilient amid political change.

The case for US-centric portfolios built on active, bottom-up stock selection remains intact even as political events have dominated the discourse. The broadening of stock market leadership and earnings momentum that began this summer is still underway, as productivity improvements and lower cost of capital energize mid-sized companies. We favor unheralded companies that help customers achieve profitable growth through innovation.

The full impact of policy changes will be revealed gradually. High-impact risks remain on the horizon from trade war counterpunches and supply chain disruptions, particularly for high-value-added components. In addition, the Federal Reserve has begun recalibrating monetary policy. Against this backdrop, investors may contend with near-term increasing volatility and risk premia during this period of policy flux. We remain focused on building portfolios of fundamentally strong companies, where valuation leaves room for re-rating. We see housing, construction, and energy efficiency as enduring sources of demand. Our portfolios are diversified, with some defensive allocations and slightly higher cash positions.

#### Non-US Investment Strategies

For our non-US strategies, we are mindful of economic and geopolitical repercussions of the incoming US administration's policies for Europe, Japan, and Emerging Markets countries. New tariffs, changes to climate commitments, and regulatory and fiscal policy reversals are among the issues likely to variously impact sectors and countries.

While the majority of our portfolios' prospects will be driven by supply and demand developments in Europe and Asia, some holdings have substantial US businesses that could benefit from stronger US growth and would mostly avoid import tariffs. Companies selling environmental solutions, including electrification, energy efficiency, and renewable energy in the US may experience near-term volatility, but we expect Europe will continue leading a path to Net Zero, and global demand for these products will likely expand over time. It is also worth noting that international stocks are trading at historically large discounts to US peers, suggesting scope for positive surprises on a relative basis.

Our International portfolios invest in high-quality companies and are currently overweight the Industrials, Technology, and Financials sectors. We balance this underlying cyclical exposure with more exposure to the stable Healthcare and Utilities sectors and an underweight to commodities. We invest for the long term but are focused on navigating the shifting geopolitical landscape with thorough financial and ESG analysis of individual investment opportunities.

Emerging Markets are highly diverse, and countries within this investment universe may experience varying impacts from shifting global policies. Among the most anticipated changes is the potential imposition of additional tariffs on Chinese exports to the US. While we await clarity on these developments, it is important to recognize that global supply chain realignments are already underway, driven by the imbalances revealed during the COVID-19 pandemic. Notably, intra-EM trade has increased steadily, rising from about 25% in 1999 to over 50% today.

On the climate front, while a Trump administration may exhibit less commitment to sustainability initiatives, we expect continued progress within Emerging Markets. For instance, South Africa's recent enactment of the Climate Change Act represents a significant milestone. EM companies have also played an increasingly vital role in the global AI supply chain—a complex ecosystem that cannot easily be restructured in the short term.

Given the diverse nature of Emerging Markets, a nuanced approach is essential when assessing domestic demand. A strong US economy tends to support EM growth, but rising inflation—especially if driven by higher commodity prices—could dampen domestic consumption, and higher US interest rates could pose challenges for EM economies with significant dollar-denominated debt.

Despite potential short-term volatility, our EM portfolio is strategically positioned to capture key opportunities, including the ongoing shifts in global supply chains, investment in green infrastructure, advancements in digitalization and AI, and domestic consumption growth.

#### In Summary

Across all regions and portfolios, our approach at Boston Common remains grounded in bottom-up stock selection. We build diversified portfolios of quality companies, investing dynamically in areas of resilient demand with strong management teams. Our experienced team has successfully managed through many market environments, and we are ready to navigate this post-election cycle, addressing short-term concerns while seeking longer-term opportunity.



**Chris Hiorns**

Head of Multi-Asset Strategies & European Equities



**Europe-based Delegate**

**Morningstar Category in the AAIS' range of funds: Europe Large-Cap Value Equity**

2024 proved a good year for the European Equity markets, which were supported by an easing in monetary policy as inflation fell back rapidly. Last year's hikes in commodity prices dropped out of the headline inflation figures and Global and European growth slowed. The European economy and companies faced considerable challenges. High inflation cut consumer real incomes. The sharp slowdown in China decreased demand for capital equipment, luxury goods and automotives as well as increasing competition, as Chinese goods were diverted to European markets. Energy prices remained high, and relatively uncompetitive compared to the US, due to the loss of cheap gas from Russia because of sanctions related to the Ukraine War. The weak demand for automotives and slower than expected transition to electric vehicles also had a knock-on impact on the technology sector as demand for power semiconductors slumped.

This weak macroeconomic backdrop was reflected in a disappointing corporate results season towards the end of the year which is now combined with the prospect of higher tariffs as a consequence of Trump's election to the Whitehouse which has lowered expectations for European companies in 2025. The reality may not be so grim

however as lower inflation and interest rates should bolster consumer incomes, unemployment remains low and the industrial sector should benefit from a turnaround in the inventory cycle. Tariffs don't impact all companies equally with many likely to benefit from a reduction in low cost Chinese competition. With expectations set so low there is every chance that we will see positive surprises as the 2025 progresses.

The EdenTree European Sustainable Equity strategy will continue to follow its bottom up, value orientated, stock picking approach, though we do of course take incorporate the future economic prospects for both the wider economy and for individual industries, geographies, and companies in our analysis. The historically wide dispersion in valuation between 'value' and 'high yield' compared to 'growth' and 'momentum' style stocks in equity markets persists which continues to create numerous opportunities to find companies on highly attractive valuation multiples with good long term structural growth opportunities or mean reversion recovery potential.



**Simon Clements**

Fund Manager



**Europe-based Delegate**

**Morningstar Category in the AAIS' range of funds: Global Large-Cap Growth Equity**

The global economy enters 2025 delicately balanced, shaped by a series of extraordinary events over the past few years. Reflecting on these events underscores the challenges in making reliable predictions. We've navigated a once-in-a-lifetime pandemic, faced surging inflation, and witnessed the most aggressive interest rate hikes in decades. The global economy is now striving to establish a new equilibrium marked by higher interest rates and an elevated cost of capital.

Simultaneously, the emergence of artificial intelligence (AI) has triggered a wave of investment from the world's wealthiest companies, leading to concentrated market leadership among a few mega-cap technology firms, with Nvidia at the forefront of this revolution. The rapid adoption of AI and its potential to enhance productivity will heavily influence the recovery trajectory from the recent economic slowdown. While AI holds immense promise for driving growth and productivity over time, 2025 is poised to remain a phase of heavy investment, broadening beyond GPU chips to focus on technologies addressing the significant energy demands of AI.

The interplay of inflation, interest rates, and government bond yields will remain a critical determinant for global equity markets in 2025. Over the past year, higher interest rates have exerted a deflationary effect, clashing with persistent inflationary pressures in key sectors, particularly services. Although housing and industrial production have faced recessionary conditions, the economy has managed to operate near full employment. However, consumers have struggled as inflation eroded real wage gains, reducing disposable incomes. This has created an economy with little slack but underwhelming growth.

China and Europe continue to grapple with sluggish industrial production. Any relief in these regions would be welcomed, particularly as China introduces a stimulus package to revive economic activity. On the other hand, the incoming Trump administration poses uncertainty, with tariffs likely to be employed both as a revenue tool and a strategy to revive the U.S. industrial heartland.

Donald Trump's return to the White House introduces a significant unknown for risk assets in 2025. While the administration's exact policies remain uncertain, its focus appears to be on securing the U.S.'s dominance in the global economy and revitalising domestic manufacturing. This is likely to involve incentives to reshore production from countries like China, continuing a trend that began during the supply chain crisis of late 2021. While labour costs in the U.S. remain higher, modern, automated factories offer efficiencies that can offset these costs through savings in logistics and resource expenditures.

This industrial resurgence aligns with the themes we target, reinforcing our confidence in a broader economic leadership beyond the narrow group of AI-driven companies that have dominated recent investment flows. The reindustrialisation of the U.S. could drive economic performance in 2025, though risks remain. A resurgence of inflation, potentially fuelled by tariff policies, could dampen the broader recovery and complicate the economic outlook.



**Todd C. Ahlsten**  
Chief Investment Officer &  
Lead Portfolio Manager



**US-based Delegate**

**Morningstar Category in the AAIS' range of funds: US Large-Cap Blend Equity & US Large-Cap Growth Equity**

What a year this has been. We entered 2024 on the back of strong equity returns in the S&P, mainly driven by the Magnificent 7 stocks, and an undercurrent of potential economic softening that hasn't yet transpired. Artificial Intelligence (AI) and the amount of investment being made in the infrastructure to develop it further has been astounding. The equity markets have continued to post strong year-to-date gains. And the U.S. navigated a contentious election cycle to see the Republicans regain political control.

Yet, this year saw one of the most unusual market dynamics I've witnessed in recent history. It's very strange to have one of our largest portfolio holdings, Nvidia, gain roughly 180% and not contribute positively to the portfolio's return relative to the benchmark. The market breadth has continued to be incredibly narrow this year. This has raised the stakes for anyone not owning Nvidia as it experienced unprecedented growth rates. It's like it has taken the oxygen out of the room.

**Looking Ahead**

Beyond the focus on the Mag 7, we continue to be bullish on equities and the S&P 500. As an asset class, it continues to get better. It includes a collection of companies that are enhancing their competitive advantages and increasing their relevancy due to innovation. Their profit margin profiles and returns on invested capital continue to be impressive as their total global addressable markets continue to grow.

We expect the market to broaden out in 2025. The earnings growth of the Magnificent 7 is expected to decelerate from about 30% in the third quarter of 2024 to around 17% next year, while the earnings for the other 493 stocks in the S&P 500 are expected to move from 4% growth to around 13% growth in 2025. Given that the Mag 7 are trading around 31 times forward earnings and the other 493 companies in the S&P 500 are valued at roughly 19 times earnings, the table is set for market participation to expand to non-tech sectors.

**What will Drive the Markets in 2025?**

We are often asked what will happen with interest rates, the liquidity cycle and the economic cycle. Since the election, clients have also asked about our thinking on how President-elect Trump's new policies will play out. The answers to these questions involve looking around corners at what is not priced into the markets. Stock prices can be driven by liquidity cycles and interest rates, while corporate earnings tend to be driven by the economic cycle.

On the economic front, the economy has been very durable this year in an environment of higher interest rates. GDP growth has benefitted from Fed rate cuts, lower inflation and government spending. Yet in every quarter of 2024, we noted the potential for headwinds due to pandemic aftershocks and higher overall interest rates impacting spending, especially in the housing sector. I made an analogy that the current economic environment is like waiting for the ketchup to come out of a bottle.

You expect the ketchup to come out, but sometimes it pauses before it gushes out in excessive ways that are too much for your plate to handle. In a similar vein, we continue to monitor the effects of an economy in which real interest rates rose at a higher pace than we've seen in generations. We've seen higher interest rates create spending lags resulting from consumers delaying or deferring major home or car purchases. We know inflation is top of mind for consumers, and it was one of the concerns that got Trump elected President.

With regards to the new administration's policies, there are a lot of ways they could be implemented or played out. On the surface, lower taxes and deregulation can support corporate earnings growth, which is typically good for the stock market. The wild card is tariffs. When tariffs are imposed, the cost of imported goods increases. As imported goods become more expensive, consumers may turn to domestic products. While this is good for U.S. producers, this can increase demand and also drive up prices. Tariffs can also disrupt global supply chains, making it more expensive and difficult for businesses to obtain the materials they need for their products. So while businesses may see some benefits, consumers are likely to see higher prices and higher inflation. On the other hand, the policies may be enacted in ways that support business and economic growth while also supporting the consumer. Exactly where and how tariffs and other policies will be implemented and what impacts they will have remain to be seen.

Boiling it all down, our portfolios are positioned to benefit from a broadening market, which we feel could be likely in 2025. We also see good opportunities in hyperscalers, software, semiconductors, life sciences, non-bank financials and business services. In the event of an economic downturn triggered by an inflation surge, higher interest rates or a recession, we are overweight quality and seek to provide downside protection.

There are two typical ways we aim to do this: Through traditional defensive stocks and through durable top-line growth at an attractive price. In this economic cycle, the Core Equity portfolios are underweight sectors vulnerable to higher interest rates, avoiding real estate stocks and utilities that carry high debt. We also are not allocated to the energy sector. And we remain underweight the consumer discretionary sector along with banks and credit companies, which face higher costs of capital and potential credit losses.

The opportunity set we are seeking is durable companies that should be resilient through downturns and have compelling valuations. This includes companies that still have an under-appreciated exposure to growth in AI and cloud computing. Many of these companies are outside the Magnificent Seven, but we believe they can grow steadily through a recession, maintain high margins and generate cash.



**Miklos Vasarhelyi**  
Portfolio Manager



**US-based Delegate**

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As we think about the outlook for 2025, it helps to briefly look back at the year to highlight some of the key themes that have driven markets. By geography, the US has been the stand-out market, rising around 25% while most other markets managed mid-single-digit returns. The strength in US markets was driven mainly by large cap technology names, which account for a far higher weighting than in other markets. The dominant performance of the so-called Magnificent 7 stocks in the US means that, as we approach the year-end, growth stocks lead value stocks by more than 10 percentage points year-to-date— wide by historical standards, but especially noteworthy given the fact that in every other region, value is actually ahead of growth year-to-date. The main reason for this difference can be explained by AI and the leadership US tech firms have in this important, but still nascent, technology. The other reason is the re-election of Donald Trump and the more pro-business policies that this potentially heralds.

As we look ahead to the next year, therefore, markets look somewhat out of sync, with growth stocks, especially in the US, at extreme levels of valuation and optimism, while outside of the US, valuations remain depressed.

Markets such as Europe and the UK, by contrast, are especially good examples of geographies where we see many world-class businesses trading at historically low valuations.

Certainly, geopolitics remain a headwind for European stocks, with the latest concern being the potential imposition of import tariffs in the US by the new Trump administration. As a consequence, valuations of European stocks remain compelling, especially at the cheapest end of the market. Mid-teens earnings yields for such European value stocks are amongst the highest across any region. At the same time, the value opportunity set remains disparate and idiosyncratic in nature, enabling us to maintain a well-diversified portfolio, offering multiple paths back to the full restoration of our companies' normal earnings potential.

There are undoubtedly pockets of weakness in the European economy that should not be ignored but given the increasingly accommodating rate environment in conjunction with attractive valuations, we believe investors will be rewarded for selectively buying good businesses trading at recession-like, single-digit forward earnings multiples.



**Thom Forsha, CFA**  
Senior Portfolio Manager



**US-based Delegate**

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As we look ahead to 2025, there is much to be excited about for the U.S., but the transition unfolding in Washington D.C. brings both tension and uncertainty. The recent election result was not at all surprising as change was in the wind in the past six months. Fortunately, the margin of victory was decisive, and it appears that we can breathe a bit easier as peace, not chaos, has characterized the weeks since the election. With the incoming Trump Administration and a Republican-led Congress now preparing to govern, the difficult and often-messy process of policymaking looms. While much attention has been focused on President Trump's plans, it's important to remember that checks and balances remain in place, with 545 other individuals in the House, Senate, and Supreme Court who will influence the final decisions. For investors, the key question is how priorities will be set, and what this means for fiscal policy and the regulatory landscape in 2025.

Our outlook for the coming year is based on four key inputs: fiscal policy and regulation, monetary policy and credit, valuation, and sentiment. While we don't expect a major change in government spending levels in 2025, significant shifts in tax policy, particularly regarding tariffs, and regulatory burdens could reshape the economic landscape. Although some of these changes may create near-term

economic challenges, we anticipate a concurrent focus on removing barriers to economic activity. As for monetary policy, we foresee it remaining relatively stable with a bias toward supporting economic growth. Regarding sentiment, business leaders are likely to be more focused on the promises of lower taxes and fewer regulations, which should offset the immediate impact of tariffs, especially given that many companies have already worked to de-risk their supply chains. While market valuations appear stretched, economic growth, lower interest rates, and reductions in expected taxes and regulations support an optimistic view in this area. However, if the economy stumbles, the downside risk for the market could prove significant.

Overall, we see many reasons to be optimistic about U.S. equity markets in 2025 and suspect that broader economic growth will fuel stronger relative performance for value-focused strategies as well as an acceleration in dividend growth.

## **ABN AMRO Investment Solutions - AAIS**

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