Forecasts
Market Outlooks

Q1 2025

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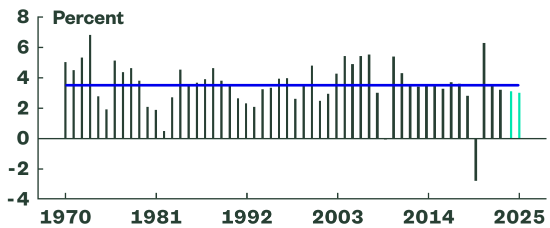
Global Economic Outlook

Figure 1
Steady Global Growth Masks Considerable Risks

World, Real GDP Growth (WEO)
World, Real World GDP, State Street Global Advisors Forecast
Long Term Average Growth (3.5%)



Source: International Monetary Fund, Macrobond, State Street Global Advisors, as of December 20, 2024. The above forecast is an estimate based on certain assumptions and analysis made by the State Street Global Advisors Economics Team. There is no guarantee that the estimates will be achieved.

- The pro-growth policy tilt of the new US administration gives US exceptionalism a boost in 2025, but also comes with the risk of a policy misstep in sensitive areas such as trade and immigration.
- Europe faces headwinds of sluggish growth prospects and uncertainty around US policies that requires greater intervention and urgency from Brussels and national governments.
- Global monetary easing has further to go in 2025. While tariff fears have tempered expectations around the extent of rate cuts, central banks will continue to loosen policy — with Japan remaining the most notable exception as higher rates are expected from the Bank of Japan.

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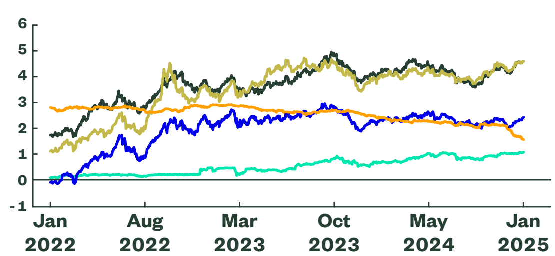
Global Capital Markets Outlook

Figure 2
Bond Yields on the Rise, Except China

US Benchmark Bond: 10-Year Yield
Japan Benchmark Bond: 10-Year Yield
Germany Benchmark Bond: 10-Year Yield
United Kingdom Benchmark Bond: 10-Year Yield
China Benchmark Bond: 10-Year Yield



Source: Factset, State Street Global Advisors as of January 6, 2025. Past performance is not a reliable indicator of future performance.

- We continue to have a constructive view of equity markets, but have pared our level of risk exposure compared with the past calendar year amid less supportive sentiment data and increasingly steep valuations.
- While all capital markets seem to face fatter tails and more two-sided risks in 2025, that is especially true for bond markets where resilient growth, sticky inflation, and concerns surrounding tariffs and geopolitical risks could send yields swiftly higher or lower. We remain underweight bonds as we start 2025.

Global Economic Outlook

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New year, new worries! Our baseline forecast is for robust US growth and near-trend global expansion but policy uncertainty casts a long shadow. US trade and immigration policies are front and center but elections in France and Germany could also alter the macro policy mix. The pace of disinflation remains in focus amid potential implications for the extent of central bank rate cuts (or hikes) over the coming year.

We close the books on 2024 with mixed feelings and some degree of trepidation about what the future holds. Judging purely by the numbers, the global economy outperformed expectations, with growth closer to trend than we had anticipated it would be. And yet, that was very much a function of persistent US outperformance. Much of the rest of the world, including China and Europe, continued to struggle. Structural challenges in both regions require bold remedial policy actions but it is not clear that they are forthcoming.

Globally, 2024 was a major election year; 2025 will be the year of adjusting to policy outcomes following those elections. For Europe, 2025 may matter even more. The need is clear: the region as a whole must do more to help itself. The question is whether its political system will rise to the occasion, or if the economic pain is still deemed not serious enough to warrant action?

Policy uncertainty certainly abounds. US trade and immigration policies could have deep global consequences, but we are yet to know the specifics of what is to come. And so, while global forecasts look better, we find only limited solace in that, knowing that there are considerable risks around these projections. Unlike 2024, when risks were primarily about timing (when will inflation recede enough to facilitate rate cuts?), current risks are more substantive in nature (how will policies actually change?). For now, we simply await clarity. A year when "everything is possible" is a hard year to forecast!

The best news of 2024 was the deepening disinflation and the broadening monetary easing cycle it facilitated. This was a core call for us, so it is nice to see it materialize. And while the US did not get the full six cuts we predicted in December 2023, we did get four; the European Central Bank (ECB) delivered the four cuts we expected, and Bank of Canada did even more than we projected. The easing cycle continues in 2025: the disinflation trend will be bumpier, but it is not yet dead. The Bank of Japan (BoJ) remains the big exception to the easing trend.

United States: Growth Prospects Improve in 2025

The US economy ended 2024 on a solid footing, with full-year real growth estimates upgraded once again to now stand at 2.7%. Consumption consistently surprised to the upside, a mystery that became less of a mystery once data revisions in the third quarter showed substantially higher income than previously reported.

It emerged that the savings rate — which earlier data had shown to have fallen below 3.0% — had, in fact, never even reached 4.0%. This "little" detail extends the runaway for consumer spending. There are forces pulling both ways on the consumption outlook for 2025. Tariffs and deportations are headwinds, but lower interest rates should spur both vehicle and housing-related demand. Indeed, not only is there considerable pent-up demand in both of these areas, but inventory levels are improving as well. Record household net worth and record housing equity ensure the financial wherewithal. Only a meaningful decline in employment could disrupt this dynamic; and that seems unlikely absent unforeseen shocks.

Fixed investment has also done very well, with robust growth in both the private and government sectors. Government fixed investment continued to surge on the back of policy-driven initiatives; it rose 13.4% on a cumulative basis since the start of 2023 through Q3 2024. We estimate it to have grown 6.6% in calendar year 2024, which would mark the second-best performance since 2007 (the best was 2023 with 7.4%). There is more where this came from as efforts to support reshoring activities and improve domestic infrastructure remain a national policy focus.

Private investment is estimated to have grown 4.3% in 2024, up sharply from 2.4% in 2023. The rebound was partly facilitated by a recovery in residential fixed investment. Rising interest rates had caused private residential fixed investment to shrink 8.6% in 2022 and a further 8.3% in 2023, but activity finally stabilized this year. For 2024, private residential fixed investment likely grew 3.8%. The outlook for this segment is a little trickly and we only anticipate flattish performance in 2025. On one hand, slightly lower interest rates will support housing demand, but they will likely also drive an increase in supply in the existing homes segment. With more competition from existing homes and the inventory of new completed homes for sale sitting at the highest level since 2009, homebuilders will likely manage inventory carefully, especially in the multi-family segment. The renovations market holds the key to how private residential investment will perform in 2025. Equipment investment has been and will likely remain robust, reflecting both reshoring efforts and recovery in aircraft orders. This is an upside risk to the forecast as the natural progression of reshoring efforts does imply a boost to equipment investment.

The real trade deficit (national accounts basis) is hovering near records as strong demand relative to the rest of the world and the strong US dollar have thwarted hopes of improving this metric. It remains to be seen if tariffs make a dent here because reshoring efforts themselves also imply a boost to import demand (even if temporary and satisfied from different sources).

Upward Shift in Growth and Inflation Expectations

Overall, the US growth picture looks fairly robust for 2025. Our 2.2% real GDP growth forecast faces two-sided risks. On the downside, tariffs and deportations could be taken too far, undermining demand. On the upside, investment could fare even better; moreover, the risk of a big "fiscal cliff" at the start of 2026 has diminished. In other words, the baseline for growth has shifted a little higher.

The baseline for inflation has done the same, and we no longer anticipate core PCE (personal consumption expenditures) inflation to hit 2.0% year-on-year (y/y) by mid-2025. Nevertheless, we still see further progress with disinflation over the course of next year. But with core PCE inflation now only seen reaching 2.3% y/y in Q4 2025, we have trimmed expectations for Federal

Reserve easing in 2025 to a total of 75 basis points (bps), bringing the upper Federal Funds rate to 3.75%. This is one less cut than we expected in our September 2024 estimate and one more than what the Federal Open Market Committee (FOMC) signaled in the December summary of economic projections. There are two-sided risks to both the inflation and the Fed call. Tariffs are clearly inflationary, but the impact of immigration policy is not as clear cut; a decline in immigration could help along the shelter disinflation process; given the large share in the inflation basket, this can offset tariff effects. And with the unemployment rate currently at the Fed's estimation of NAIRU (non-accelerating inflation rate of unemployment), some reduction in labor supply in the context of lower labor demand may not drive much wage inflation. 2025 could be a true "dual mandate" year for the Fed.

Eurozone: The Time to Act is Now

In our previous Forecasts publication three months ago, we wrote that *"It is hard for the team to do well when the star player is injured… and injured it is."* That is as true today as it was then. Following a 0.3% quarter-on-quarter (q/q) contraction in Q2, the German economy barely grew in the third quarter, leaving real GDP down 0.3% y/y. The underlying details make for dismal reading. Real household consumption was down 0.1% y/y in Q3, while fixed investment plunged 3.4% y/y. The earlier conclusions stand though: *"domestic demand dynamics are weak — consumers are reluctant to spend despite considerable savings cushion — and export performance is curtailed by Germany's energy cost-induced competitiveness loss. There is little in the way of near-term demand catalysts, so it is at least good that sharply lower inflation has opened the door for more ECB rate cuts."*

The ECB delivered the two cuts we had expected in October and December. This helps, and more will come, though elevated wage growth may limit the ECB to just 100 basis points worth of cuts in 2025. While the ECB is both willing and able to help, it cannot provide the true solution to eurozone's economic malaise. That is a matter for national governments and for Brussels. This is why ECB President Christine Lagarde seems to avail of every opportunity (including at the December meeting) to remind the continent's political leaders that *"It is crucial to swiftly follow up, with concrete and ambitious structural policies, on Mario Draghi's proposals for enhancing European competitiveness and Enrico Letta's proposals for empowering the Single Market. We welcome the European Commission's assessment of governments' medium-term plans for fiscal and structural policies, as part of the EU's revised economic governance framework. Governments should now focus on implementing their commitments under this framework fully and without delay."*

German elections are scheduled for late February. After two years of incremental declines, a pro-growth agenda is needed; we hope it will prevail, but fear that our 2025 growth projection of 0.8% may be too optimistic. To us, the picture is grim enough to argue for a decisive departure from the overly constricting policy limitations of the past. Germany and the whole of Europe must do more to help itself, especially given an incoming US administration that will not be inclined towards a gentle approach. The time to act is now.

Conditions are only slightly better in either Italy or France. In Italy, the post-Covid rebound, partly fueled by foreign travel demand and construction incentives, has lost momentum. Investment and exports have both turned negative on a year-over-year basis. The relative resilience in French GDP growth is primarily a reflection of increased government spending as fixed investment was down 2.3% y/y in Q3. Absent any clear catalyst for growth, we expect there to be only a modest improvement in regional growth performance next year (from 0.7% to 1.1%).

United Kingdom: Growth Momentum Falters

We ended 2024 precisely where we projected at the start of the year. Weak underlying growth in the second half means that the economy will likely have grown modestly by 0.8% last year. We also maintained our 1.5% growth forecast for 2025 given a number of tailwinds to activity next year. Lower inflation, monetary easing, and fiscal stimulus should continue to support the economy. We note that with an economy running close to full capacity, the boost to growth from fiscal policy will likely to be narrower than would have been the case otherwise. Higher taxes and restrictive monetary policy as a response to front-loaded stimulus will likely offset some of the positive impact of the new budget. Meanwhile, potential trade frictions following the US elections are clouding the UK economic outlook.

As expected, the economy lost momentum in the second half of the year, with a modest Q3 GDP growth of just 0.1% q/q. Consumer spending and investment gained some traction, but the underlying momentum in the economy was weaker than we previously thought. Households remain cautious. The households savings rate remained elevated at 9.8% in Q2 2024, despite a strong recovery of real disposable income. Uncertainty on the economic outlook and high incentives to save from higher interest rates are likely to continue slowing down the recovery in household consumption next year. At the same time, the uncertainty around the budget and expectations of higher input costs have delayed some investment plans for businesses and households in Q4.

The labor market is undoubtedly loosening. Payroll data shows that private employment declined 0.9% since the beginning of 2024, having fallen further in November. Vacancy rates across sectors continued trending downward and have broadly fallen below the pre-Covid levels. Private wage growth has surged in recent months, reaching 5.4% y/y in October, but the data tend to be volatile. Meanwhile, the new budget and expectations of higher input costs may be starting to impact the jobs market, with the purchasing managers' indices (PMI) for December showing a material drop in services employment.

The BoE's latest Decision Maker Panel (DMP) survey also showed that more than 54% of companies expect lower employment and 38% expect to pay lower wages as a response to higher employer national insurance contributions (NIC). Inflation is expected to pick up in the new few months before resuming a move lower throughout 2025. Higher government spending and public sector wage growth will support demand, but a soft labor market will drive down inflationary pressures. We expect average headline inflation to reach 2.4% in 2025, three-tenths higher than our September forecast of 2.1%.

Budget Outlook

The larger-than-expected fiscal stimulus has heightened the expectations of stronger demand in the near term. Still, the total budget suggests some tightening over the course of the parliament, including in 2025, indicating that growth will likely ease in the second half of the year.

The new budget aimed to increase productivity growth through higher investment. Higher spending in health, education, and infrastructure will help the UK labor force become more competitive as well as increase potential output. This will be important for the economy's long-term prospects, especially after two decades of subdued productivity growth due to the low level of investments. However, any boost to productivity will happen gradually, and the impact can vary depending on how the total budget and related reforms can unleash efficiency gains and incentivize business investment.

As highlighted in our report "UK Autumn Budget Signals Fiscal Expansion", there is a fiscal slippage risk in the budget. The current fiscal headroom is limited, so the government may be forced to raise taxes again in coming years.

Uncertainty Around US Election Impact

On the trade front, the impact of US tariffs on the UK seems modest at this stage. The US is UK's largest trading partner but nearly 70% of exports to US are services, which are comparatively less subject to tariffs than goods. Still, uncertainty around potential tariffs from the US is expected to hit the EU, which could also spill over into the UK, albeit to a lesser extent. On monetary policy, US expansionary fiscal policy could slow the pace of rate cuts in both US and UK, which could further delay consumption and investment recovery in the latter.

The Bank of England left interest rates at 4.75% in their December meeting and struck a slightly more dovish tone. We continue to expect that the next 25 bps rate cut will come in February. We believe that Bank will cut rates further and faster than the market expects until rates reach 3.50% by the end of 2025.

Japan: A Slow and Steady Improvement

The Bank of Japan (BoJ) skipped the anticipated December hike and left the policy rate at 0.25%, despite a spree of positive economic data over the last month. BoJ Governor Ueda said the lack of sufficient clarity on next year's wage growth and the uncertainty on the incoming Trump administration's trade policies were the primary reasons. He also mentioned that the Bank may need 'considerable time' to see the full picture, and that the prospect of a trade war would have a 'large effect' on Japan's economy. The stance contradicts the confident undertones in the BoJ's statement such as *"Japan's economy is likely to keep growing at a pace above its potential growth rate". This unexpected dovish turn forced us to reevaluate our BoJ call.*

We still foresee two hikes next year to 0.75%. However, our view has downside risks and is plausible only if the upcoming *shunto* wage negotiations keep wage growth around 3.5% and if the potentially higher US tariffs do not adversely impact the economy. We know that the Confederation of Japan Automobile Workers' Union is looking for at least 12,000 yen ($80) per month of a raise next year, their first such target in seven years. Both nominal and real wage growth improved in 2024.

While we are unsure why the BoJ was deliberately indecisive despite a sound economic setting, the sudden dovishness means that the consequences through the yen may be at large. The yen weakened past 157 against the USD after the December meeting and we see it testing new lows. If the BoJ maintains their dovishness notwithstanding these developments, inflation is highly likely to be revived through higher import prices, keeping our forecast of two hikes in 2025 close to reality.

The Bank estimated the neutral rate as being between -1.0% to +0.5% in its broad perspective review of monetary policy. It noted that the extraordinary monetary policies employed since 2013 had negative effects on bond market functioning and financial intermediation but downplayed them as the assessment needed to be taken in considerable latitude. However, the policies were 'effective' in pushing up economic activity and prices, somewhat defending them for potential use in the future.

Otherwise, we expect inflation to strengthen and prove persistent next year. Services prices will likely continue improving, while goods inflation will mean-revert higher, driven by food. The consumer price index (CPI) in November rose 2.9% y/y, and the BoJ core CPI (excluding fresh food) rose 2.7% y/y. Of note was the 4.9% rise in food prices and a staggering 63.6% jump in rice prices. Energy prices rose sharply following the removal of subsidies. Overall, price pressures remain firm and intense, and we expect inflation to average 2.6% y/y in 2025.

The silver lining is an optimistic growth picture, driven by domestic and well as external demand. We see GDP growth average 1.2% y/y in 2025. More importantly, we expect household consumption to trend near the long-run average growth of 1.5% in the second half 2025.

The key question will be whether the BoJ regains confidence and hikes again or not?

Global Capital Markets Outlook

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While all capital markets seem to face fatter tails and more two-sided risks in 2025, that is especially true for bond markets where resilient growth, sticky inflation, and concerns surrounding tariffs and geopolitical risks could send yields swiftly higher or lower. While we continue to have a constructive view of equity markets, we remain underweight bonds as we start 2025.

Favorable Environment but Tail Risks Abound

A year ago, when we took stock of what 2023 had delivered and were preparing for 2024, we had a staunchly optimistic outlook for equity markets, citing firm fundamentals in fixed income and held a more cautious view for commodity markets. At the time, major equity markets were approaching all-time highs — milestones that in some cases hadn't been eclipsed for 25 years or more. Bond markets might have been overbought but the fundamentals appeared sound with high starting yield levels and expectations of lower short-term policy rates. The outlook for commodities was less robust given increasing evidence that restrictive rates were biting into economic activity.

While the overall tenor of those views remained in place for much of 2024, developments across markets and geopolitics have facilitated important changes to our views and positioning. With respect to stock market all-time highs, major equity markets would go on to push through those levels during 2024, with the exception of European equities. Bond markets did have a shaky start to 2024 before stabilizing as central banks followed through with rate cuts. And commodities held in better than we anticipated but still lagged most equity markets by a large margin.

Today we are much more cautious on the outlook for equity markets, view risk as being more two-sided for interest rates and endorse an improved outlook for commodities. Some parts of our investment research continue to point to a favorable environment for equity markets — in particular, trend-oriented and momentum indicators. Though they may lack academic underpinnings of other systematic equity factors, to the extent that investors only gradually react to changing economic and financial market circumstances, these can be powerful forces. But other indicators put us on alert. With policy and politics contributing to fatter tail scenarios and valuations continuing to reach lofty heights, markets appear more vulnerable to any recalibration of the growth outlook. Developed bond markets, by contrast, sport better starting yields than they did a year ago; yet the fundamentals appear less robust given sticky inflation, resilient economic data, and uncertainty surrounding US policy in the year ahead. Commodity markets are not immune from fatter policy tails or risks of deflation in China, but if worst case scenarios can be avoided and commodity markets deliver another year of high single digit returns, they might well finish 2025 higher up the leaderboard when all is said and done.

Middling Sentiment

A year ago, relatively encouraging sentiment factors were among several reasons that we held a very constructive view of equity markets — and a near double digit overweight position in our portfolios. As we look into 2025, our Market Regime Indicator (MRI) exhibits a much more neutral attitude toward risk assets — and similarly informs our closer-to-neutral equity allocations across our multi-asset portfolios. In terms of the drivers, our multi-factor insights on this front are mixed, as might be expected in an environment where tail risks seem more pronounced. On the negative side of the ledger, implied volatilities have picked up, leading economic indicators remain weak, and central bank posture remains relatively restrictive. But strong underlying equity trends and persistent leadership in growth-oriented pockets of the market are suggestive of healthier conditions.

And if we look at other indicators that might correspond to euphoric conditions or bull market tops, those mostly look okay. There has not been a significant pick-up in merger and acquisition or IPO activity, though there are hopes that business-friendly policies in the United States might perk up activity on these fronts. Market internals in the form of the number of stocks making new highs remains supportive. Credit spreads continue to be well behaved and, if anything, appear too tight by historical standards. The heavy inflows that have funneled into equity markets serve as a point of caution, but the weight of the evidence doesn't yet appear to be indicative of a topping process that has reached any stage of maturity.

Equities: Growth and Valuations

Even if we are not as bullish on equity markets as we had been at the start of 2024, we continue to hold a modest overweight position. Fatter tails in the distribution of possible 2025 outcomes may sound like a risky proposition but there are both upside and downside scenarios in those bell curves — as evidenced by what we see in terms of still-strong expectations for earnings growth in the coming year (and not just in the United States). But the flip side of that coin is that relatively steep valuations will likely render swift price concessions if growth targets are not met — for both individual equities and markets overall.

And valuations are elevated, however we might want to measure them. Using forward price-to-earnings multiples for the MSCI All Country World Index we arrive at a P/E of roughly 18 times. That is in the top decile (top being relatively expensive) of observations going back to 2003. However, as noted above, expectations for earnings growth are also quite robust, which at least helps to justify the pricey valuations. Consensus earnings growth expectations for the MSCI ACWI Index are running at roughly 12.5%, which puts it in the top twentieth percentile compared with history. Alternatively, we could look at the quotient of these two figures to get a sense of where valuations stand in relation to earnings growth — that illustration is provided in Figure 3. A couple things are worth mentioning here. The first is that even accounting for the strong earnings growth expectations, valuations are still rich — just about one standard deviation above the long-term average. Secondly, we should probably discount the extreme readings shown during the pandemic in 2020 given the tremendous uncertainty associated with projecting earnings at that time. In any event, the take-away for us is the same. If companies can deliver on the denominator in 2025, then we probably won't have to worry so much about those top decile valuations.

Figure 3
Equity Valuations Remain Rich Relative to History (2002–2025)

PEG Ratio — MSCI All Country World Index

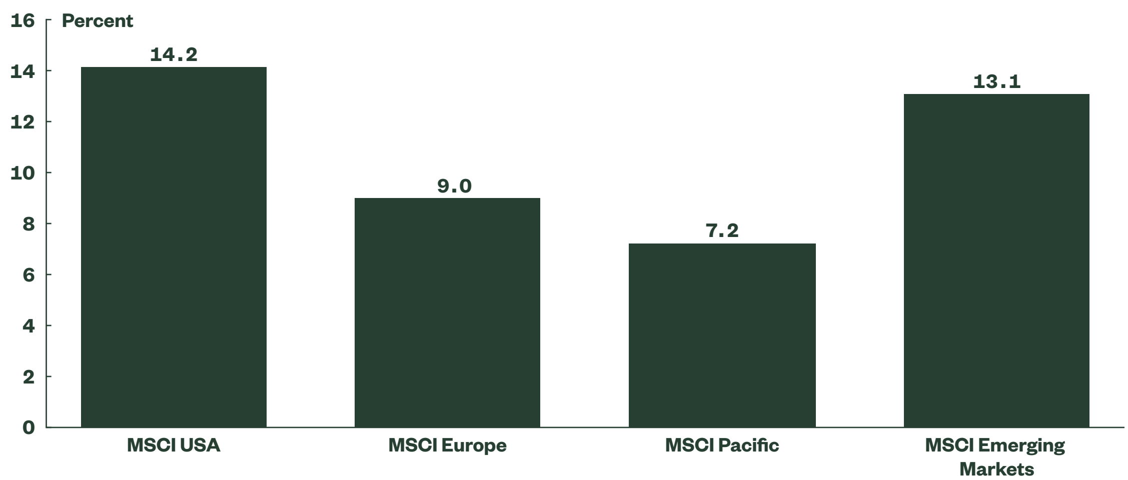
Average

1 Standard Deviation

Source: Factset, State Street Global Advisors as of January 7, 2025. Past performance is not a reliable indicator of future performance.

In keeping with the theme of how much growth an investor might receive for a given market multiple, Figure 4 shows annual average earnings growth that is currently forecast for key regional equity markets. Not surprisingly, the US market stands out in this regard, with better than 14% EPS growth expected over the next two years. But emerging markets are not too far behind with roughly 13% EPS growth projected over that same time horizon. Our evaluation of regional markets takes into consideration many more data points, but we do expect better performance out of the United States and emerging markets and continue to hold overweight allocations in those markets. By contrast, where growth seems more elusive, we also maintain a more cautious outlook — notwithstanding the relatively low multiples that markets in the Pacific region and Europe currently exhibit. But we have started to see some improvement in the outlook for developed non-US markets, particularly for Pacific equities. Forecasts for Japanese real GDP growth may not be as firm as for the United States, but they have been improving at a faster clip. And with the tremendous depreciation of the yen during 2024, that may help to bolster growth for equities in the region.

Figure 4
Forecasted Annual Average Earnings-Per-Share Growth for Next Two Years

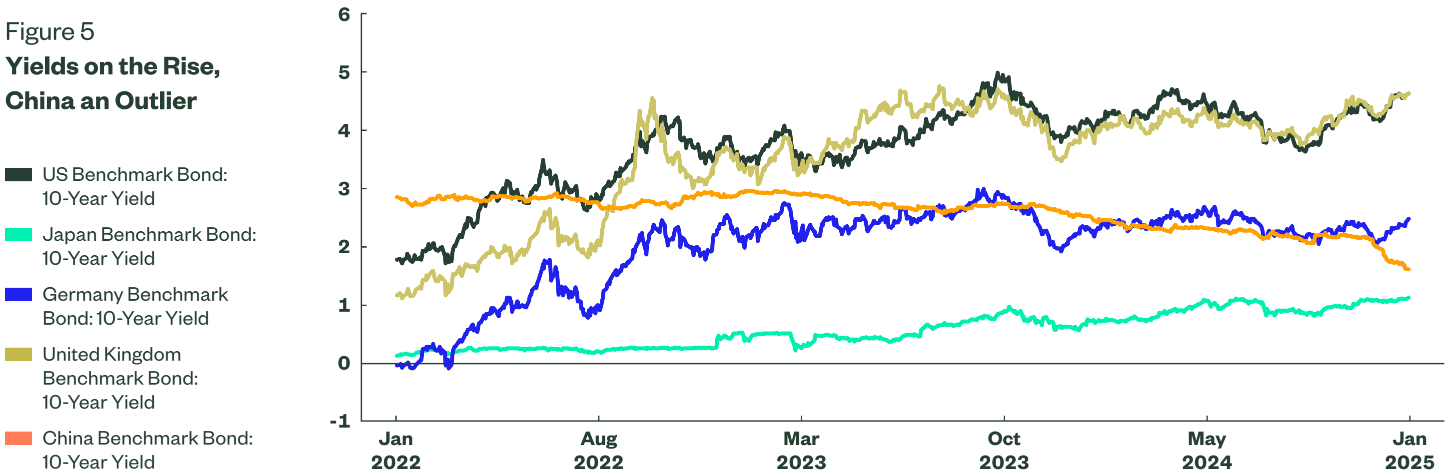


Source: Factset as of January 7, 2025. The above forecast is an estimate based on certain assumptions and analysis. There is no guarantee that the estimates will be achieved.

Bonds: Plump Yields and Thin Spreads

To the extent that bond markets might have rallied a bit too hard leading into the beginning of 2024, it seems as though they have probably sold off a bit too much as we have turned the corner into 2025. In the former, a "dovish pause" from the Federal Reserve contributed to a relatively frothy fixed income market, whereas a "hawkish cut" and concerns pertaining to tariffs and term premium have more recently launched US yields towards 2023 cycle highs. Elsewhere, we see varied levels of interest rates, but the direction of travel has been predominantly higher. As can be seen in Figure 5, UK gilt yields have mirrored moves in US Treasury markets. German bund yields, weighed down by weak prospects for growth, are roughly 200 basis points lower than US/UK rates but they also got caught up in the broad December sell-off. A much more muted ascent can be detected in Japanese government bond yields, but it is in Chinese interest rates where we see the true outlier as interest rates continue to plumb new lows as the economy flirts with deflation.

Figure 5
Yields on the Rise, China an Outlier



Source: Factset, State Street Global Advisors as of January 6, 2025. Past performance is not a reliable indicator of future performance.

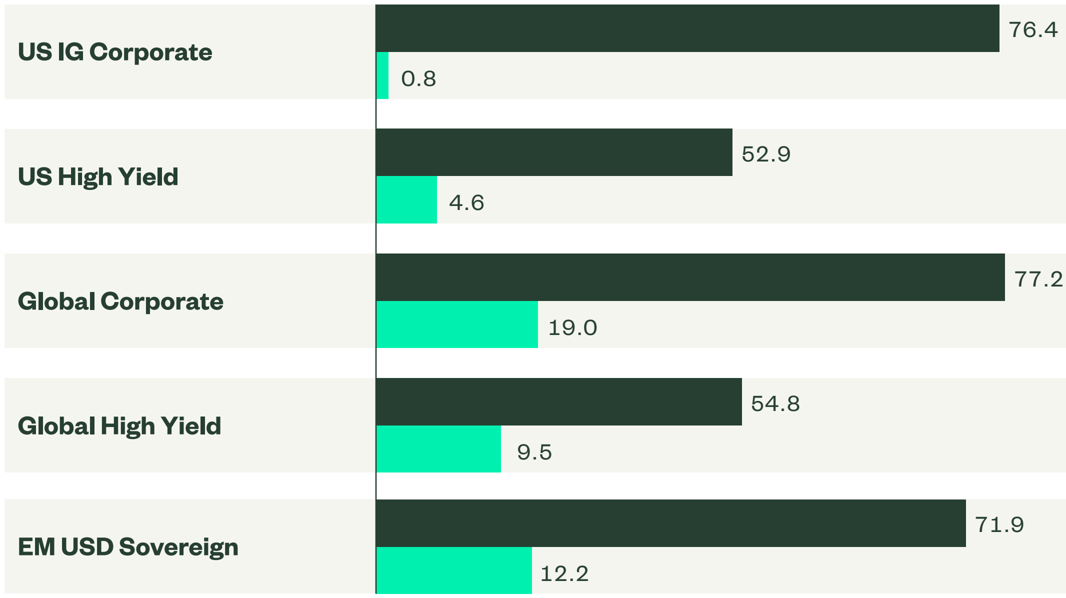
In the very near term, we are reluctant to step into any meaningful position as it relates to increasing our fixed income or duration exposure — despite what appear to be relatively attractive yield levels on the surface. Though the drivers vary quite meaningfully depending on the geography, the upward short-term momentum in rates may take some time to exhaust itself as labor markets remain firm, global PMIs approach expansionary territory and tariff risks keep central bankers and markets on edge. But if one thing has been true of bond markets over the past several years, it has been that market pricing of central bank interest rates has been profoundly volatile. Our baseline expectation is that key interest rates like the federal funds rate finish 2025 around 3.75%, which seems a bit dovish at the moment. However, should that view materialize there is plenty of room for the yield curve to descend, with solid coupon payments padding the total return for core fixed income investors. But that more constructive outlook covers a longer horizon than what is immediately in front of us — and we remain meaningfully underweight duration.

In credit markets, we face relatively tight spreads coupled with comparatively generous yields — at least when compared against history. Figure 6 plots both yields and spreads for select credit asset classes and we can see that yields for investment grade corporate bonds, high yield bonds, and emerging market hard currency bonds generally hover in the 50th to 75th percentiles (with higher percentiles representing higher yields versus history). By contrast, credit spreads for these assets are at best around the 20th percentile for global corporate bonds, or at worst they are right around the most expensive that we've seen (US investment grade corporates). While we don't expect much in the way of spread tightening from here, our total return expectations for some segments of credit markets (notably US high yield) show up as relatively attractive in an environment where sentiment-based risk assessments depict few signs of stress and only a couple of months of coupon-clipping earn the equivalent of the S&P 500 annual dividend yield.

Figure 6
Credit Yields and Spreads (Percentiles — Feb 2003–Dec 2024)

Yield to Worst (Percentile)

Option-Adjusted Spreads (Percentile)



Source: State Street Global Advisors, Barclays as of December 31, 2024. Asset classes are represented by the following indexes: US IG Corporate > Bloomberg U.S. Corporate Investment Grade Index; US High Yield > Bloomberg U.S. Corporate High Yield Index; Global Corporate > Bloomberg Global Aggregate — Corporates Index; Global High Yield > Bloomberg Global High Yield Index; EM USD Sovereign > Bloomberg EM USD Aggregate: Sovereign Index. Percentiles are calculated using monthly data from February 2003 through December 2024. Past performance is not a reliable indicator of future performance.

Commodities: Not Just Gold Anymore

In retrospect, if the only pieces of information that we had about the course of markets during 2024 were that real yields in the United States would rise by roughly half a point and that the US dollar would appreciate nearly 10% versus other major currencies, then we'd be hard pressed to take a strong overweight position in gold. Yet that has been one of the most persistent allocations held in our multi-asset portfolios and that remains true as we enter 2025. It is true that some of the usual fundamental drivers for the precious metal show up as mixed or negative. But other factors such as high and rising budget deficit in the US and elsewhere bolster gold's prospects. And the longer-term positive trend remains firmly intact.

For broader commodity markets as a whole, our outlook has improved and we've taken an overweight stance. With commodity averages bottoming around the August 2024 spike in market volatility, they have since started to exhibit a reasonably healthy trend of their own. Add to that an economic growth environment that has largely surprised to the upside and signs of investor disinterest in the sector and commodities might well be poised to pleasantly surprise investors in the year ahead.

2025: Which Tail Will Prevail?

In some important ways, our investment outlook and asset allocation rhymes with the turn of the last calendar year. We continue to hold an overweight position to assets such as equities and gold and we also favor US stock markets relative to the rest of the world. But there are also significant differences as we approach what we see as an increasingly "fat-tailed" 2025. While overweight equity, the magnitude of that allocation is much lower — reflecting a riskier environment.
The gold allocation is now joined with a more optimistic view of broad-based commodities, which reflects resilient growth and (we think) mean-reverting negative sentiment. And while we also anticipate a stronger environment for US equities, we have started to see some burgeoning signs (outside of valuations) that non-US markets could regain some lost ground. For our part, we'll be vigilantly evaluating markets and our models to see whether this year's distribution starts to edge to the right or to the left. For now, we're a touch closer to the middle.

Sources: Bloomberg, FactSet, J.P. Morgan, Barclays, MSCI, Morgan Stanley and The Economist as of December 31, 2024.

State Street Global Advisors Forecasts as of December 31, 2024

	2024 (%)	2025 (%)
Real GDP Growth		
Global	3.1	3.0
US	2.7	2.2
Australia	1.1	2.2
Canada	1.1	1.3
Eurozone	0.7	1.1
France	1.1	1.1
Germany	-0.1	0.8
Italy	0.6	1.0
UK	0.8	1.5
Japan	0.1	1.2
Brazil	3.0	2.0
China	4.8	4.5
India	6.9	6.5
Mexico	1.5	1.5
South Africa	0.9	1.5
South Korea	2.2	1.9
Taiwan	4.0	3.0
Inflation		
Developed Economies	2.6	2.1
US	2.9	2.4
Australia	3.2	2.4
Canada	2.4	2.1
Eurozone	2.4	2.0
France	2.1	1.9
Germany	2.2	2.0
Italy	1.0	1.7
UK	2.6	2.4
Japan	2.5	2.6
China	0.4	0.9

	December 30, 2024 (%)	December 30, 2025 (%)
Central Bank Rates		
US (upper bound)	4.50	3.75
Australia	4.35	3.60
Canada	3.25	2.25
Euro	3.00	2.00
UK	4.75	3.50
Japan	0.25	0.75
Brazil	12.25	12.75
China	1.70	1.50
India	6.50	5.75
Mexico	10.00	8.50
South Africa	7.75	7.00
South Korea	3.00	2.50
10-Year Bond Yields		
US	4.54	4.42
Australia	4.46	4.21
Canada	3.25	3.25
Germany	2.35	2.40
UK	4.59	4.65
Japan	1.10	1.41
Exchange Rates		
Australian Dollar (A$/$)	0.62	0.69
British Pound (£/$)	1.25	1.30
Canadian Dollar ($/C$)	1.44	1.35
Euro (€/$)	1.04	1.09
Japanese Yen ($/¥)	157.20	138.00
Swiss Franc ($/SFr)	0.91	0.95
Chinese Yuan ($/¥)	7.30	7.10

One-Year Return Forecasts	USD (%)	EUR (%)	GBP (%)	JPY (%)	AUD (%)	CAD (%)
S&P 500	6.5	1.4	2.5	-6.5	-4.0	0.0
Russell 2000	6.7	1.6	2.7	-6.3	-3.9	0.1
MSCI EAFE	5.8	0.7	1.8	-7.1	-4.7	-0.7
MSCI EM	7.7	2.6	3.6	-5.5	-3.0	1.1
Barclays Capital Aggregate Bond Index	4.4	-0.6	0.4	-8.4	-6.0	-2.1
Citigroup World Government Bond Index	2.0	-2.8	-1.8	-10.4	-8.1	-4.2
Goldman Sachs Commodities Index	1.5	-3.3	-2.3	-10.9	-8.5	-4.7
Dow Jones US Select REIT Index	4.7	-0.3	0.8	-8.1	-5.6	-1.7

State Street Global Advisors Forecasts as of December 31, 2024.
The above estimates based on certain assumptions and analysis made by State Street Global Advisors. There is no guarantee that the estimates will be achieved.

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* Pensions & Investments Research Center, as of December 31, 2023.
†This figure is presented as of September 30, 2024 and includes ETF AUM of $1,515.67 billion USD of which approximately $82.59 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated. Please note all AUM is unaudited.

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Investments in small-sized companies may involve greater risks than in those of larger, better known companies.

The value of the debt securities may increase or decrease as a result of the following: market fluctuations, increases in interest rates, inability of issuers to repay principal and interest or illiquidity in the debt securities markets; the risk of low rates of return due to reinvestment of securities during periods of falling interest rates or repayment by issuers with higher coupon or interest rates; and/or the risk of low income due to falling interest rates. To the extent that interest rates rise, certain underlying obligations may be paid off substantially slower than originally anticipated and the value of those securities may fall sharply. This may result in a reduction in income from debt securities income.

Bonds generally present less short-term risk and volatility than stocks, but contain interest rate risk (as interest rates rise bond prices usually fall); issuer default risk; issuer credit risk; liquidity risk; and inflation risk. These effects are usually pronounced for longer-term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss.

Government bonds and corporate bonds generally have more moderate short-term price fluctuations than stocks, but provide lower potential long-term returns.

Foreign investments involve greater risks than investments, including political and economic risks and the risk of currency fluctuations, all of which may be magnified in emerging markets.

Investing in commodities entail significant risk and is not appropriate for all investors. Commodities investing entail significant risk as commodity prices can be extremely volatile due to wide range of factors. A few such factors include overall market movements, real or perceived inflationary trends, commodity index volatility, international, economic and political changes, change in interest and currency exchange rates.

Investing in foreign domiciled securities may involve risk of capital loss from unfavorable fluctuation in currency values, withholding taxes, from differences in generally accepted accounting principles or from economic or political instability in other nations.

Investments in emerging or developing markets may be more volatile and less liquid than investing in developed markets and may involve exposure to economic structures that are generally less diverse and mature and to political systems which have less stability than those of more developed countries.
Investing in REITs involves certain distinct risks in addition to those risks associated with investing in the real estate industry in general. Equity REITs may be affected by changes in the value of the underlying property owned by the REITs, while mortgage REITs may be affected by the quality of credit extended. REITs are subject to heavy cash flow dependency, default by borrowers and self-liquidation. REITs, especially mortgage REITs, are also subject to interest rate risk (i.e., as interest rates rise, the value of the REIT may decline).

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