Global Equity Market Outlook

Market Returns to Normalise in 2025 as We Navigate the Uncertainties

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As we gaze into the crystal ball of 2025, the global equity market presents a tapestry of opportunities and challenges. The global finance landscape is continuously evolving, influenced by technological advancements, geopolitical shifts, demographic changes, and economic policies. This article provides a comprehensive overview of the anticipated conditions for the global equity market in 2025, underpinned by current trends, forecasts, and potential risks.

Historical context and recent trends

Over the past few decades, global equity markets have demonstrated remarkable growth and resilience. After the 2008 global financial crisis, markets rebounded following monetary policy easing globally, leading to a prolonged bull market. The onset of the COVID-19 pandemic in 2020 created unprecedented volatility that forced many economies into recession. However, unparalleled fiscal and monetary support, particularly in G20 economies, helped spur a rapid recovery and led to significant gains in equity indices worldwide.

The US equity market has historically served as a barometer for economic health, innovation, and investor sentiment. As we look forward to 2025, we must analyse the factors shaping this dynamic marketplace. The combination of technological advances, geopolitical considerations, regulatory changes, and macroeconomic conditions will all influence the US and global equities landscape. This article explores what investors can expect from the US and global equity markets in 2025.

Expected trends in 2025 and beyond

As we move into 2025, several key emerging trends are expected to shape global equity markets:

- **Technological innovation**: Advances in artificial intelligence (AI), blockchain, green technologies, and biotechnology are expected to drive growth in specific sectors, infusing the market with volatility and opportunity. The growing use of technology is undoubtedly revolutionising growth prospects across many industry sectors and driving growth, as showcased by equity market performance over the past 24 months. We expect this trend to continue.
- **Sustainability and environmental, social, and governance (ESG) investing**: In recent years, ESG criteria have become central to corporate investment strategies, as many investors now prioritise sustainable and ethical investments when making an investment decision.
- **Geopolitical dynamics**: Tensions between major economies, particularly the US and China, have raised risks of trade wars and economic decoupling, affecting market sentiment and investment strategies. Trade and tariff-related rhetoric is likely to increase during US President Donald Trump's second term.
- **Interest rates and inflation concerns**: With inflation rates in many economies still high, we expect it will take longer for the economy to stabilise. The interest rate trajectory and the monetary policies adopted by the central banks in the coming years will considerably influence equity valuations.

Economic growth forecasts for 2025

The International Monetary Fund (IMF) and various global financial institutions project moderate global economic growth rates averaging around 3% to 4% annually through 2025. Regions like Asia-Pacific may see slightly higher growth rates, attributed to strong domestic consumption and recovery post-pandemic-induced disruptions.

However, the US economy is projected to maintain moderate growth, with forecasts indicating GDP growth rates between 2% and 3% for 2025.

The key growth drivers

- **US Federal Reserve policies**: The US Federal Reserve will continue influencing the equity market through its monetary policy decisions, as striking a balance between combating inflation and fostering economic growth presents its challenges. With expectations of interest rates returning to normal, investors will pay close attention to any signs of future policy changes. We predict that Fed policy measures will remain focused on data. However, political factors are likely to play a greater role in shaping policy decisions in 2025.
- **Technological adoption and advancement**: As technology continues to permeate every aspect of our daily lives and the businesses around us, sectors involved in developing new technologies, such as software, renewable energy, and healthcare, are likely to experience robust growth. AI, biotechnology, renewable energy, and cybersecurity are projected to attract considerable investments. Companies that harness technology to enhance efficiency and deliver innovative products are likely to thrive. New frontiers, like robotics, drones, and quantum computing, are emerging and bound to revolutionise our future.
- **Emerging markets potential**: Countries in Latin America, Southeast Asia, and Africa are poised for growth, supported by their young demographic and rapid urbanisation, creating opportunities and challenges for global investors.
- **Global trade**: Due to greater economic growth, global trade is expected to expand, benefitting sectors reliant on international supply chains. Global companies are looking for diversified supply solutions to reduce the risk of relying on one supply source .
- **Changing consumer behaviour**: The shift towards e-commerce and digital services has transformed retail and service industries. As more consumers embrace online platforms, companies adapting to these changes are likely to outperform their traditional counterparts. The phenomena of quick delivery and options such as buy now, pay later offerings are further revolutionising consumer behaviour.

Sector outlook for 2025

Technology

The technology sector is expected to continue its upward trajectory, driven by various innovations. Companies specialising in cloud computing, AI, and semiconductors are positioned for robust growth, offering various investment opportunities. The ongoing digital transformation across multiple sectors will also bolster the tech industry.

Financial services

The financial sector will likely benefit from interest rate normalisation, improving banks' net interest margins. As fintech evolves, traditional banks will have to innovate to retain their market share. However, there are still opportunities to integrate technology into financial services. Preference will remain for banks with higher fee income and generating a sustainable higher return on assets (ROA) versus their peers in a similar industry. Expectations of relaxed regulations and more mergers and acquisitions should also support the financial sector.

Healthcare and biotechnology

After the pandemic, the healthcare sector's focus on innovation and biotechnology will attract significant investments. With an ageing population and increased healthcare spending, the healthcare sector presents a compelling opportunity. Biotech companies engaged in innovative therapies and pharmaceuticals will attract investors' interest, especially those focused on chronic diseases and personalised medicine. We believe the focus will be more on preventive healthcare solutions.

Consumer discretionary and retail

Consumer-friendly companies that adapt to changing shopping habits and prioritise sustainability will thrive and grow. E-commerce platforms and brands focused on ethical and sustainable practices that effectively adapt to digital sales strategies will particularly resonate with conscious consumers. Greater purchasing power and more young people entering the workforce has boosted consumer spending.

Energy transition

The growing emphasis on sustainability will amplify investments in renewable energy and related sectors. Investment in renewable energy and sustainable infrastructure is anticipated to surge, driven by rising concerns over climate change. Companies focused on solar, wind, and innovative energy storage solutions will likely flourish as the nation transitions towards cleaner energy sources and becomes a target for equity investment.

Geopolitical risks and challenges ahead

- **Economic headwinds**: Several potential headwinds exist that could dampen equity market performance in 2025, including higher inflation, which might deter consumer spending and increase borrowing costs.

SPX 500 sector performance in percentage points

	2019	2020	2021	2022	2023	2024*	2025 - Overview
Consumer Disc.	28	33	24	(37)	42	36	Overweight
Consumer Staples	28	11	19	(1)	1	20	Underweight
Energy	12	(34)	54	65	(1)	10	Neutral
Financials	32	(2)	35	(11)	12	33	Neutral
Healthcare	21	13	26	(2)	2	5	Neutral
Industrials	29	11	21	(6)	18	22	Neutral
Technology	50	44	35	(28)	58	39	Overweight
Materials	25	21	27	(12)	13	6	Underweight
Real Estate	29	(2)	46	(26)	12	10	Neutral
Communication	33	24	22	(40)	56	46	Overweight
Utilities	26	1	18	2	(7)	25	Neutral

Source: Bloomberg, * 13th December 2024 YTD

- **US-China relations**: The geopolitical landscape remains uncertain, particularly concerning US-China relations in Trump's second term. Trade policies, technology bans, and potential military conflicts could create significant market volatility. Investors will have to navigate sector-specific risks stemming from these tensions.
- **European Union (EU) dynamics**: The EU's ongoing efforts to integrate member economies while addressing challenges such as Brexit and rising populism will influence market dynamics in Europe. ESG regulations and a focus on digital markets will shape investment trends. Energy dependence, NATO, and lingering concerns about Russia could hurt the Eurozone.
- **Regulatory environment**: Increasing scrutiny and regulatory developments in data privacy, technology, and finance may create uncertainties for businesses. Companies will need to navigate these regulations effectively to maintain competitive advantages.
- **Cybersecurity threats**: As reliance on technology increases, so will vulnerability to cyberattacks. Companies that do not adequately manage cybersecurity risks may face reputational damage, financial losses, and potential stock price declines.
- **Global supply chain adjustments**: The pandemic exposed vulnerabilities in global supply chains, prompting companies to rethink their sourcing strategies. More companies are likely to adopt a "nearshoring" approach, which could impact manufacturing labour markets and global trade patterns and, in turn, affect market performance.

The performance of global equities markets has widely varied over the years:

Global equities markets performance in percentage points

	2019	2020	2021	2022	2023	2024*
S&P 500 INDEX	31	18	29	-18	26	29
RUSSELL 1000 GROWTH INDEX	36	38	28	(29)	43	37
RUSSELL 1000 VALUE INDEX	27	3	25	-8	11	18
MSCI EM	19	19	(2)	(20)	10	12
MSCI ACWI	27	17	19	-18	23	22

Source: Bloomberg, * 13th December 2024 YTD

S&P 500 returns in 2025 projected at 5%-10%

US economic growth is expected to remain healthy, supported by a lower policy rate, moderating inflation, and future growth prospects from the AI companies. Lower corporate taxes and deregulation should further support the equity market. Small-cap and domestic-focused equities are expected to benefit from positive earnings upgrades.

The consensus earnings per share forecast for the S&P 500 Index in 2025 stands at USD 272.55 per share, a 12.5% year-on-year growth. We expect the S&P 500 Index to trade in the range of 23.2x to 24.4x price-to-earnings multiple against its five-year long-term average multiple of 23.4x. Based on these assumptions, we expect the S&P 500 Index to trade in the range of 6,323 to 6,650 points, with a return potential between 5% and 10% from the current level of 6,034 as of 11 December 2024.

Trump's second term as President is among the key macro risks that must be closely monitored in 2025. It might trigger higher uncertainty in the first half of 2025, subject to his policy measures, including his energy policy, immigration measures, and tariffs. The geopolitical uncertainties remain elevated, and any further escalation might impact global economic growth.

Conclusion: The future of the global equity market

As we march toward 2025, the global equity market is poised to offer many opportunities alongside multiple levels of risk. Investors who can effectively navigate the complexities of geopolitical dynamics, technological advancements, and economic variables are well-positioned to identify promising investment opportunities across various sectors.

The equity market can reflect global economic health and support future growth by embracing innovation and sustainability while remaining vigilant to potential pitfalls. Investors must adopt a strategic, data-driven approach, using insights to position their portfolios effectively for the evolving market landscape.

Economic recovery, technological innovation, changing consumer behaviour, geopolitical dynamics, and other factors will shape the landscape in which companies operate and investors make decisions. Engaging with innovative trends and adapting to evolving market conditions will be vital for investors aiming to achieve favourable returns while managing risks in the unfolding economic environment.

We urge investors to embrace a diversified approach, focus on long-term growth sectors, and be keenly aware of macroeconomic variables and risks. These factors will be essential for those looking to capitalise on opportunities in the global equity universe.

The US equity market stands at a critical juncture. Having risen to all-time highs in 2024, it is primed for challenges and opportunities under Trump's second term because it largely hinges on the economic policies he will enact in 2025.

We expect the S&P 500 Index to deliver a more normalised return of 5% to 10% in 2025, compared to the 29% return in 2024. However, navigating uncertainties and risks arising from the Trump's second term as President will be key.