The investment outlook for 2025

We round up the key takeaways from investment outlooks for the year ahead...

Update
24 January 2025

It's the most wonderful time of the year. Yes, I know Christmas has been and gone; I'm talking about the investment outlook season, silly.

While December may be better known for playing host to the festive season (not to mention my birthday), it also marks the time of year when investment houses and media outlets alike coalesce around their crystal balls and try to predict what will happen over the next 12 months.

Analyst Expectations For S&P 500 In 2025

ANALYST	COMPANY	YEAR-END 2025 TARGET	PERCENTAGE GAIN (%)
John Stoltzfus	Oppenheimer	7,100	20.6
Chris Harvey	Wells Fargo	7,007	19
Binky Chadha	Deutsche Bank	7,000	18.9
Manish Kabra	Societe Generale	6,750	14.6
Brian Belski	BMO	6,700	13.8
Nicole Inui	HSBC	6,700	13.8
Savita Subramanian	Bank of America	6,666	13.2
Hugo Ste-Marie	Scotiabank	6,650	12.9
Venu Krishna	Barclays	6,600	12.1
Julian Emanuel	Evercore ISI	6,600	12.1
Tom Lee	Fundstrat	6,600	12.1
Ed Clissold	Ned Davis Research	6,600	12.1
Lori Calvasina	RBC Capital Markets	6,600	12.1
Scott Chronert	Citigroup	6,500	10.4
David Kostin	Goldman Sachs	6,500	10.4
Dubravko Lakos-Bujas	JPMorgan	6,500	10.4
Mike Wilson	Morgan Stanley	6,500	10.4
Jonathan Golub	UBS	6,400	8.7
Dennis Jose	BNP Paribas	6,300	7
Eric Johnston	Cantor Fitzgerald	6,000	1.9

Source: Bloomberg

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Read on for our round-up of some key takeaways put forth by BlackRock, JPMorgan Asset Management, Schroders, and abrdn, some of the biggest asset managers offering products to the UK market.

Where will the S&P 500 end 2025?

You'll no doubt recall that this time last year many investment houses were predicting a recession and, therefore, a fall in, or at least a sideways year for, the US stock market in 2024. That, of course, did not happen. The S&P 500's annual total return was more than 20% for the second year running.

Unsurprisingly, the 19 major Wall Street strategists recently polled by Bloomberg have suddenly become overwhelmingly bullish: only three predicted gains of less than 10%. The average prediction was for the S&P 500 to end 2025 at 6,614—a 12.3% gain for the year.

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Will the AI spending spree pay dividends?

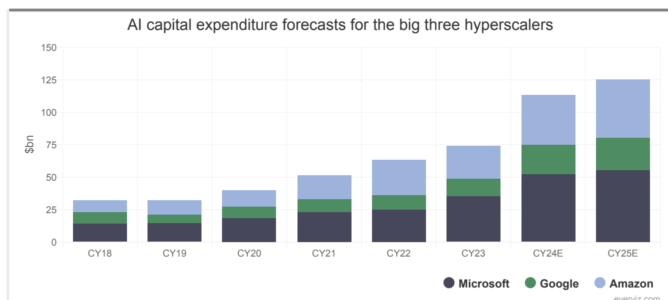
Artificial intelligence is driving today's bull market. For now, that's benefitting the AI enablers. The AI poster child, NVIDIA, is now worth $3.2 trillion, up from the $365 billion company in January 2023.

The AI hyperscalers (those firms providing the physical AI infrastructure such as cloud services and data centres) are in the firing line, too. Amazon, Google and Microsoft are up c. 150%, 116% and 84% respectively.

This trio is driving the eye-catching rise in spending to get ahead in the AI arms race. Amazon, Google and Microsoft alone are expected to have spent c. $238 billion on AI through 2024 and 2025, Goldman Sachs estimates.

Yet, consensus forecasts for the same three companies are for just $20 billion of incremental sales from these investments over the next two years. Questions remain over whether this investment will be sufficiently rewarded.

Fig.1: Booming AI Spending



Source: Schroders

"The market is just not sure that the monetisation of these investments will be positive for shareholders," said Alex Tedder, co-head of equities at Schroders. "[That] comes at a time when, for the largest technology companies at least, earnings growth is beginning to slow.

"If the payback period from AI proves to be very long, investors are right to be questioning the sustainability of technology dominance, at least for the most exposed companies such as Nvidia."

Still, AI adoption is booming. The proportion of companies that have adopted AI in at least one business function jumped from 55% in 2023 to 72% in 2024, according to McKinsey. Adopting AI should eventually boost productivity and profit margins for a whole swathe of the global economy.

US exceptionalism likely to continue

Add Apple, Meta Platforms and Tesla to the four aforementioned companies and you get the Magnificent Seven, a basket of stocks that will set the tone for markets in 2025, given that they account for 33.5% of the S&P 500. This cohort trades on a median one-year forward price-to-earnings (PE) ratio at 32x, according to ShareScope.

JPMorgan sees little reason for share price weakness in this part of the market, given that the Magnificent Seven has a collective $460 billion of cash on their balance sheets, while earnings growth has supported most of the share price gains we've seen recently.

The firm points out that, for instance, Amazon has seen its PE ratio fall from 48x to 35x in the past 12 months but a doubling in 12-month forward earnings has helped shares gain c. 46%.

"In other words, what we are seeing today is reality over hope, rather than the hope over reality that prevailed during the dotcom bubble," JPMorgan's analysts said.

Still, the Magnificent Seven does command a large premium over the rest of the US market, and an even bigger premium over the rest of the world. JPMorgan does not see this persisting, expecting the rest to catch up.

BlackRock's Investment Institute (BII) argues that a key reason why US equities have outperformed their rest-of-the-world peers since 2010 by such a wide margin is that US corporate earnings have outperformed their rest-of-the-world peers since 2010 by such a wide margin.

BII accepts that valuations in the US are rich, but does not see them being a near-term market driver. Instead, it thinks that "the AI mega force will benefit US stocks more [than international peers] and that's why we stay overweight".

Prospects for the rest of the world

While all markets trade at a discount to the US, none can be described as "bargain basement", Tedder said, adding that "equity markets are quite vulnerable to some form of negative catalyst" such as an escalation of one of the many global conflicts.

"In reality, however, these valuations are likely to prove quite well supported in the short-term," Tedder countered, pointing to the current downward trajectory that both

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inflation and interest rates are on, and potentially growing profits thanks to the ongoing strength of the US economy and gradual stabilisation of the rest of the world.

One area Tedder thinks will benefit from a broadening out of investor sentiment is smaller companies—one of the few areas that are cheap versus their own history.

Outside of the UK, BII has differing views, favouring Japan, due to continuing corporate reforms and the return of mild inflation that is driving pricing power and earnings growth, and India, which is "well-positioned to capitalise on mega forces". Europe's structural challenges and the threat of tariffs hanging over China keep BII cautious on both.

America's earnings outperformance looks set to continue, with US earnings growth in the next 12 months forecast to be 14% versus 8% for Europe. However, JPMorgan argues that this outperformance has already been priced in, with the UK market trading at a near-50% discount to the US and Europe ex-UK's discount standing at over 35%.

JPMorgan's analysts think that Donald Trump is likely to be less hostile towards Europe on tariffs than expected, adding that while Trump's policies could reignite inflation in America, they may dampen inflationary pressures within continental Europe, allowing the European Central Bank to continue easing. "Lower interest rates could incentivise consumers to spend some of the savings accumulated during the pandemic," JPMorgan said.

Emerging markets

Emerging nations are also bracing themselves for the implications of Trump's policies, which will likely lead to higher US inflation and interest rates. "This will restrict the ability of many emerging market central banks to reduce their own interest rates since higher US rates reduce capital flows and put downward pressure on EM currencies," said Robert Gilhooly, senior emerging markets research economist at abrdn.

That said, EMs are not homogenous and there will be divergence – some will find the new landscape challenging; others will benefit if the global economy continues to strengthen.

China and Mexico are most at risk of tariffs. Mexico, though, may benefit if the US prioritises diversifying away from China, while tariffs could drive an acceleration in Chinese stimulus as policymakers attempt to defend growth.

Without more of that stimulus, "there is a real risk that China enters a prolonged 'balance sheet recession', much as Japan experienced throughout the 1990s and 2000s", JPMorgan said.

Still, the MSCI China looks cheap, trading on a PE ratio of c. 10x, versus its 22-year average of 11.6x. In addition, China's share of imports into the US has fallen from 21% to 12% since the last time Trump placed tariffs on Chinese goods, while its global import share has risen from 13% to 14%.

Countries sensitive to the US Federal Reserve's decisions and dollar strength, such as Indonesia, and those with significant fiscal concerns, such as Brazil, may struggle, too, Gilhooly said.

Friendshoring beneficiaries such as Mexico and Vietnam could be boosted by a sharpening in the US-China trade conflict, while Northeast Asia can continue from the ongoing investment boom in technology, said JPMorgan.

In India, markets have been driven higher by ever-expanding profit margins and earnings expectations. In addition, "the monsoon was good in 2024, which typically leads to an improvement in rural incomes, while there is some scope for monetary easing", said Tom Wilson, head of emerging market equities at Schroders.

"India is also geopolitically neutral and less exposed to tariffs versus other EMs and has an interesting structural growth opportunity. Finally, foreign investors have low allocations to the market."

More recently, slowing nominal growth led by tighter fiscal and monetary policy conditions has seen the Nifty 50 fall c. 11% since September's record high. That "may present an opportunity", but Wilson wants to see more of a "sufficient reset" in valuations and earnings expectations before lifting his exposure.

Building back better

The rise of AI and the subsequent immediate need for data centres should benefit infrastructure stocks. "Demand for new-build green infrastructure is skyrocketing as countries and tech companies race to reduce emissions," said Raj Rao, founding partner, president, and COO of Global Infrastructure Partners, which is part of BlackRock.

Other drivers Rao points to include ageing populations in developed countries, rising urbanisation in developing nations, and rewiring global supply chains.

Certainly, many of the new governments elected through 2024 came to power on platforms that include big infrastructure spending commitments, noted Tom Frost, head of UK institutional & global solutions in the UK client group at abrdn.

With most countries having neglected their infrastructure for decades, "many are now seeking to turn a corner and

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accelerate deployment of capital into the energy transition – the electrification of public transport and power networks", said Frost, in addition to critical upgrades to hospitals, roads and water utilities.

This buildout will be expensive. Global infrastructure spending is expected to grow to more than $9 trillion in 2025. That's well out of the reach of heavily indebted governments, so private investment will be needed.

For retail investors, Frost notes, like Rao does, that infrastructure aligns with the themes currently driving the bull market: "For example, data centres are crucial for NVIDIA, cell towers are essential for Apple and Tesla, and power generation and grid transformation are critical for Microsoft."

In terms of how an allocation to infrastructure can benefit portfolios, Rao said: "Infrastructure investments, whose cash flows are often tied to inflation, can help cushion portfolios against the higher inflation we expect over the medium term. They can also be less sensitive to higher interest rates."

Portfolio diversification

With bond yields still running at levels not seen since the financial crisis, fixed income remains an area of interest for investors. Certainly, the absolute level of yield that you can get for lending cash to governments or companies is attractive. The 10-year government bond yield in both the UK and US, for instance, is c. 4.6%. With inflation at 2.5% in the UK, that's a decent real return.

However, while bonds are attractive from an income-generating perspective, they may be less of interest for the purposes of diversification.

All of the outlooks expect inflationary pressures to persist, meaning, as Johanna Kyrklund, Group Chief Investment Officer at Schroders said, we've now moved into a very different era from the deflationary, zero-interest rate regime of the 2010s.

BlackRock sees greater volatility in bond markets moving forward, with long-term US Treasury yields set to rise. For Kyrklund, bonds should be held in portfolios for the old-fashioned reason, to generate income, because they "don't offer the same negative correlation benefits that they did in the last decade".

We saw in 2022 that bonds can become uncomfortably correlated with equity markets, particularly in times of high or rising inflation, with both stock and bond markets selling off during that year. For most, this means that new diversifiers are needed.

"During the pre-pandemic period, a portfolio balanced between stocks and bonds fared well whatever the conditions. Equities provided capital growth in good times, while government bonds rose in value when the recession hit and central banks cut rates," said JPMorgan.

"The post-pandemic reality is more complex. Investors need protection from recession risk, but also from inflation shocks and fiscal largesse that have the potential to cause both bond and stock prices to fall."

So, if, as JPMorgan thinks, bonds are no longer the "one-size-fits-all solution they once were", what are the new life rafts investors need for different types of storms that might come their way?

For JPMorgan, government bonds remain a guardrail against recession, with a potential 12-month return on offer should the 10-year US Treasury yield fall by 100 basis points. Indeed, JPMorgan's analysts note that bonds delivered a positive return during the equity market sell-off last summer.

Schroders throws gold into the mix to sit alongside bonds as a hedge against recession risks. "It is also a good store of value in the event of more stagflationary outcomes and geopolitical events," Kyrklund said.

For downside protection, macro hedge funds can shine. "By actively managing exposures and being flexible in changing market conditions, hedge funds can mitigate losses and limit downside risks in portfolios," JPMorgan said.

As for the inflationary risks, JPMorgan advocates following the 2022 playbook, which saw real assets perform well as inflation soared. These assets include real estate, infrastructure and commodities.

We'll leave a brief mention at the end of this article for so-called digital assets, essentially, bitcoin. Much maligned by many within the traditional investment industry, some are coming around to the benefits of allocating part of a portfolio to bitcoin.

BlackRock said that while there are occasional spikes, bitcoin actually has historically had limited correlation with global equities. The firm argues that bitcoin has unique value drivers, meaning it provides the potential to diversify away from equities.

"[Bitcoin has] the potential to appreciate over time when its predetermined supply is met with growing demand—and demand is based on investor belief in bitcoin's potential to become more widely adopted as a payment technology," BlackRock said.

In addition, the Trump administration is expected to be more crypto-friendly and it's hoped that there will be more widespread institutional adoption of cryptocurrencies. While digital assets are inherently volatile, abrdn's multi-asset and alternative investment solutions team thinks that the "overall trend points towards continued strength and support for cryptocurrencies" in 2025.

We'll leave the final words to Kyrklund, who thinks that conditions suggest that good returns could be made in 2025, with challenges to navigate through the year. "A diversified approach, looking across regions and asset classes, can contribute to making portfolios more resilient, no matter what the year ahead brings."

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