



2025: Why We Remain Bullish

2024 has been another strong year for the US equity market, with the S&P 500 up 27% and the Nasdaq up 34% year to date, at the time of writing. The US has comfortably outperformed Europe with the German Dax index up 21%, the FTSE +6%, and the French CAC 40 index actually negative for the year at -2%. The question is, can the good performance continue into 2025? We believe it will.

We assess the market in three ways; 1) Fundamentals 2) Macro, and 3) Technicals. This gives us a probabilistic framework as to where markets might be heading. So, let's take each one in turn.

Firstly, the Fundamentals. The US economy is in great shape with real GDP tracking at around 2.5% growth. Inflation is creeping back up a bit but is around 3% giving investors a very strong nominal growth rate in the 5-6% range. This is typically a positive backdrop for equities, and we've seen that reflected in markets this year. On the corporate side, earnings have also surprised to the upside particularly in sectors like Tech where there has been some standout innovation. Themes like AI and the data centre buildout are just getting started in our view and have years to play out. There is an ongoing industrial renaissance, as America continues its re-shoring initiatives and looks to house its key strategic industries at home rather than abroad - this internal investment is another theme with years ahead of it.

Secondly, the Macro. What do we mean by macro? Anything that isn't corporate fundamentals, things like the dollar, interest rates, bond yields, volatility, liquidity etc. We believe it's critical to have a sense of what the macro environment is like because macro factors set the tone in terms of risk appetite. All the systematic and algorithmic trading volume is based on macro factors alone, and it accounts for about half of the total market, so it is very impactful. Our forward-looking macro process says that the rate of change of both growth and inflation is accelerating, and this is a big positive. With abundant liquidity also playing a role, we expect continued good performance from equities given this backdrop.

Finally, the technical picture. This is important in our view because this tells us what the market itself is thinking. One of the encouraging aspects of the market in 2024 has been the broadening out of participation, with a diverse range of stocks and sectors getting in on the act, even the long-dormant small caps have started to perform much better. The S&P 500 and the Nasdaq are in well-defined uptrends, and this backs up the fundamental and macro conclusions.

The market has been strong post the election and President-elect Trump will be an important factor in tackling America's debt and deficit issues which is likely to be supportive of the dollar, another reason to like the US stock market in 2025.



Felix Wintle, Fund Manager, VT Tyndall North American Fund, 19 December 2024

Source: Bloomberg

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