Outlook 2025

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MARKETS & ECONOMICS

Outlook 2025 offers the Janney Investment Strategy Group's baseline prognostications for the economy, the equity and fixed-income markets, their evolution, and investment implications in the New Year.

Economy & Equity Markets

Mark Luschini, Chief Investment Strategist

Domestic economic activity is operating at an above-trend pace. Both the non-partisan Congressional Budget Office and the Federal Reserve estimate potential growth in U.S. Gross Domestic Product (GDP), a measure of a country's overall output, to be about 2.0%. Yet the annualized rate in the U.S., according to the most recent report from the government for 3Q24, was 2.8%. Inside that release, a component called final sales to domestic purchasers, which is an excellent indication of spending (a driver of almost 70% of the U.S. economy) because it strips away the highly volatile variables of trade and inventory balances, posted 3.2% annualized, the best this year. A real-time but somewhat imprecise measure updated by the regional Federal Reserve Bank of Atlanta has been trending at that level or higher throughout the fourth quarter. Collectively, this demonstrates a high degree of economic momentum leading into the opening months of 2025.

Fixed Income & Interest Rates

Guy LeBas, Chief Fixed Income Strategist

In our Outlook 2024 publication, we highlighted the split economic potential: the U.S. would either fall into a garden-variety, end-of-cycle slowdown, or benefit from productivity gains. It took until 3Q, but the U.S. private sector is now benefiting from a big boost in economic productivity. Given the economic trajectory, expectations of massive Fed rate cuts faded, and interest rates moved somewhat higher during the year. There were numerous trading opportunities, with interest rates trending across several regimes throughout the year.

Credit markets meanwhile held strong, with investment-grade (IG) and high-yield (HY) corporate spreads tightening considerably and validating our neutral-to-positive stance. Municipal bonds, while volatile due to supply shifts, outperformed expectations thanks to robust pension funding and state and local government fiscal health. Owing to this sectoral strength, as well as the high starting point of yields in 2024, bond market total returns have been healthily positive.

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Marketweight: Janney ISG expects the target asset class or sector to perform in line with the comparable benchmark (below) in its asset class in terms of total return.

Underweight: Janney ISG expects the target asset class or sector to underperform the comparable benchmark (below) in its asset class in terms of total return.

Benchmarks

Asset Classes: Janney ISG ratings for domestic fixed income asset classes including Treasuries, Agencies, Mortgages, Investment Grade Credit, High Yield Credit, and Municipals employ the "Barclays U.S. Aggregate Bond Market Index" as a benchmark.

Treasuries: Janney ISG ratings employ the "Barclays U.S. Treasury Index" as a benchmark.

Agencies: Janney ISG ratings employ the "Barclays U.S. Agency Index" as a benchmark.

Mortgages: Janney ISG ratings employ the "Barclays U.S. MBS Index" as a benchmark.

Investment Grade Credit: Janney ISG ratings employ the "Barclays U.S. Credit Index" as a benchmark.

High Yield Credit: Janney ISG ratings employ the "Barclays U.S. Corporate High Yield Index" as a benchmark.

Municipals: Janney ISG ratings employ the "Barclays Municipal Bond Index" as a benchmark.

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