

FEBRUARY 24, 2025

Weekly Note

Orion OCIO On What Wall Street Is Wondering About, Worrying Over, Or Wishing For This Week...

Will the market rally or stumble in 2025? Yes.

- We are not trying to be cute with this week's note but want only to point out that one can always make the case for why the market should rally or stumble over any particular period of time — and often using the very same dataset (please see the graphics below)! That dynamic reminds us of a quote from our 33rd president, Harry S. Truman ... "Give me a one-handed economist! All my economists say, 'on one hand ...' then 'but on the other ...'"
- So, will the market rally or stumble in 2025? Pullbacks happen — so we wouldn't be surprised to see stocks sell off at some point this year (and we haven't had a 10%+ pullback in the S&P 500 since October 2023). That said, we think there is still more good news than bad when it comes to U.S. equities, including robust corporate earnings growth, inflation and bond yields moving sideways to down, and GDP growth running at, if not slightly above, its long-term potential.
- As we take pen to paper, the S&P 500 is up 4% year to date. The world, as always, remains an unsettled place, but we remain optimistic on the markets as we move deeper into 2025.

Why the market could rally in 2025...

- Earnings – S&P 500 profit growth projected near 15%
- Rates – Fed has cut 3x; guided to 2 more cuts in 2025
- Policy – Pro-growth construct likely (taxes / regulations)
- Sentiment – December saw a meaningful reset
- Big Blue Marble – We are due for some good news
- Calendar – Year 1 of a President's term historically positive
- Jobs – 4% UR; if jobs are okay, the consumer is okay
- 1990s – soft landing; disruptive technology; productivity up

Why the market could stumble in 2025...

- Valuation – US stocks are not inexpensive
- Rates – Still positive real rates and high borrowing costs
- Policy – Uncertainty around tariffs and trade
- Sentiment – Folks are already happy
- Big Blue Marble – The world remains a scary place
- Calendar – S&P hasn't had a 10%+ pullback since October 2023
- Jobs – JOLTS back to pre-pandemic levels
- 1990s – hints of irrational exuberance re AI stocks

The S&P 500 Index is an unmanaged composite of 500-large capitalization companies. This index is widely used by professional investors as a performance benchmark for large-cap stocks.

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