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Market Outlook 2025

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In 2022, the S&P 500 fell nearly 20%. You may remember that 2022 was the year the Fed began raising interest rates to combat inflation. Those moves raised bond yields, encouraging investors to shift away from stocks in favor of debt securities. This rise-and-fall cycle is typical for the U.S. stock market and economy. The good times typically last longer, but weaker financial markets and economies can be more traumatic—emotionally and financially. The thing to remember is that no stock market climate is permanent. (Brock, 2024)
Pundits are largely optimistic about the U.S. financial markets in 2025, but with a good dose of caution. The pundits also say five factors to watch in 2025 are the new Trump administration priorities, domestic inflation and interest rates, technology innovation, global economic trends and rising geopolitical tensions. But before getting into the details of these factors and their impact, let's start with the basics of what happened with the election(s) outcome and what that has meant—at least historically.

New Trump Administration

The table below puts the political power combination in the context of the stock market (Dow Jones Industrial Average), inflation (Consumer Price Index), economic growth (Coincident Economic Index) and debt-to-GDP levels. As shown, under the incoming configuration historically, market performance was decent and CPI decelerated; while economic growth was relatively muted and debt/GDP expanded slightly.

Presidential and congressional combinations vs. stock market and economy				
	Annualized gain			
When U.S. government has:	DJIA since 1901	CPI since 1913	CEI since 1948	Debt/GDP* since 1951
Democratic President, Republican Congress	9.1%	3.5%	2.8%	-1.4
Democratic President, Split Congress	12.5%	2.0%	2.1%	2.9
Democratic President, Democratic Congress	7.0%	4.8%	3.9%	-0.3
Republican President, Republican Congress	**7.3%**	**-0.1%**	**1.9%**	**0.3**
Republican President, Split Congress	-2.0%	0.9%	1.2%	3.8
Republican President, Democratic Congress	2.4%	4.2%	2.1%	0.0

Inflation and Interest Rates

The Federal Reserve on Wednesday lowered its key interest rate by a quarter percentage point, the third consecutive reduction and one that came with a cautionary tone about additional cuts in coming years. In a move widely anticipated by markets, the Federal Open Market Committee cut its overnight borrowing rate to a target range of 4.25%-4.5%, back to the level where it was in December 2022 when rates were on the move higher. Though there was little intrigue over the decision itself, the main question had been over what the Fed would signal about its future intentions as inflation holds steadily above target and economic growth is fairly solid, conditions that don't normally coincide with policy easing. The Fed indicated that it probably would only lower twice more in 2025, according to the closely watched "dot plot" matrix of individual members' future rate expectations. The two cuts indicated slice in half the committee's intentions when the plot was last updated in September (Cox, 2024).

The cut came even though the committee jacked up its projection for full-year 2024 gross domestic product growth to 2.5%, half a percentage point higher than September. However, in the ensuing years the officials expect GDP to slow down to its long-term projection of 1.8%. Other changes to the Summary of Economic Projections saw the committee lower its expected unemployment rate this year to 4.2%, while headline and core inflation according to the Fed's preferred gauge were pushed higher to respective estimates of 2.4% and 2.8%, slightly higher than the September estimate and above the Fed's 2% goal (Cox, 2024).

Technology Innovations

Technological innovation has recently been a primary growth driver for the stock market, creating some of the best stocks of 2024. For better or worse, the stock market will respond to further developments in artificial intelligence in 2025. One uncertainty is whether AI can deliver on its promises of efficiency and productivity. Billions are being spent on AI development and the return expectations are high. Many experts believe AI will prove itself, fueling higher earnings expectations and, in turn, higher stock prices (Brock, 2024).

Global Economy

Angelina Hu, global head of investor relations at SALT Venture Group, cites ongoing economic slowness in China as a potential limitation for stock market growth in 2025. A sluggish Chinese economy weakens demand for U.S. exports. China's finance ministry has announced plans for a stimulus package, but the details of that program are still unknown. Companies with significant exposure to China may experience volatility as the stimulus plans take shape (Brock, 2024).

Goldman Sachs Research forecasts another solid year of global economic growth in 2025. Goldman's economists project the US will outperform expectations while the euro area lags behind amid fresh tariffs that are anticipated from the Trump administration. Worldwide GDP is forecast to expand 2.7% next year on an annual average basis, just above the consensus forecast of economists surveyed by Bloomberg and matching the estimated growth in 2024. US GDP is projected to increase 2.5% in 2025, well ahead of the consensus at 1.9%. The euro area economy is expected to expand 0.8%, compared to the consensus of 1.2% (Goldman Sachs, 2024).

Geopolitical Tensions

2024 saw no shortage of tectonic geopolitical developments: the entry of long-neutral Sweden into NATO, Ukrainian forces' incursion into Russia's Kursk region, Israeli strikes in Iran and Lebanon, the election of Donald Trump, the fall of Bashar al-Assad's regime in Syria, and the impeachment of South Korean President Yoon Suk Yeol soon after he declared martial law (Froman, 2024).
Against this geopolitical backdrop are some worrisome economic trends: potential tension between Trump and the Federal Reserve, the impact of tariffs—and retaliation—on China as well as on U.S. allies and partners, the unsustainable trajectory of U.S. deficits and debt. And all these trends are mounting at a time when the markets are "priced for perfection," meaning they assume the best about the year ahead (Froman, 2024).

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