The Power of OPPENHEIMER Thinking

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Post-Election Thoughts:

Trump's Policies and the Economy

As we enter 2025, markets remain focused on President Trump's economic agenda. A narrow 5-seat Republican majority in the House may complicate legislative efforts, though tax cuts, deregulation, and trade adjustments are likely priorities. However, trade tensions with China and tech-driven competition remain key risks.

For the moment, the US equity market seems to only discount good news, and this exuberance comes with caution as elevated valuations leave little margin for error.

Politically speaking, and at the risk of vastly oversimplifying, it boils down to this trade-off:

- **Scenario #1**: Some policy proposals could increase growth and reduce inflation—e.g., being generally pro-business; making some tax cuts permanent; deregulation and greater government efficiency; lower energy costs if fossil fuel production meaningfully increases.
- **Scenario #2**: An alternative set of policy proposals are more likely to reduce growth and increase inflation—tariffs and protectionism; an economic cold-war with China; unfunded tax cuts and worsening fiscal deficits; dramatically restricting migration and/or mass deportations; attempts to weaken the dollar in a disorderly way.

As you can see, it is hard to handicap which of the above will be enacted, in what order and with what unintended consequences.

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Macro Market Observations

The S&P 500 currently trades at a price-to-earnings (P/E) ratio of over 25x, well above its long-term average. This optimism reflects an assumed +20% annual earnings growth—nearly three times historical norms—raising sustainability concerns.

The recent market surge reflects optimism tied to AI-driven productivity gains. AI's transformative potential mirrors the tech boom of the late 1990s, prompting significant R&D spending, projected at $1 trillion in 2025. While this innovation could reshape the economy, history suggests such periods often fuel excessive valuations.

Investor overexposure to equities, record-low cash reserves among institutional funds, and tight credit spreads present risks. The equity risk premium (defined as is the excess return that investing in the stock market provides over a risk-free rate), has fallen near zero, implying investors are treating stocks as risk-free assets—a distorted perspective with potential downside if growth expectations falter.

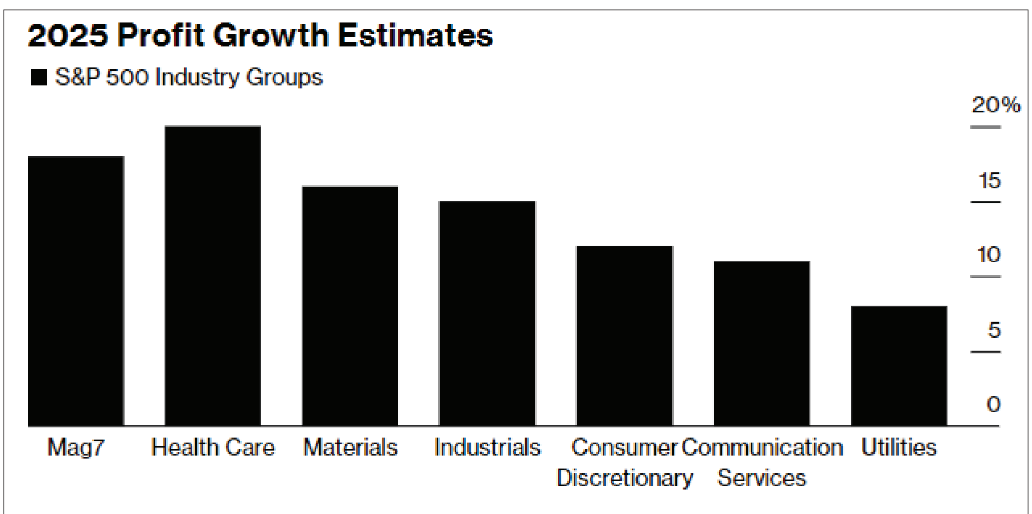
Global Outlook for 2025

Looking ahead, we anticipate a shift in market drivers, moving from multiple expansion to earnings growth. Notably, the "Magnificent Seven" tech giants—Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, and Tesla—are expected to grow earnings by only 18% in 2025, down from 34% in 2024. NVIDIA alone accounts for most of this growth, while the rest of the group is forecasted to achieve just 3% combined earnings growth.

The market broadened somewhat in the second half of 2024, and we expect the rotation to continue, with capital flowing into value, small-cap and international stocks and other sectors. This suggests investors should focus on diversification across sectors, geographies, and asset classes.

Key Investment Themes for 2025

1. **Market Broadening:** Consider opportunities beyond mega-cap tech stocks.
2. **Selective Value:** Focus on value-oriented equities as growth stocks become increasingly expensive.
3. **Geographic Diversification:** Look to international markets such as Japan and select emerging economies.
4. **Capital Market Activity:** Seek active stock selection and alpha-generating opportunities.



Source: Bloomberg Intelligence

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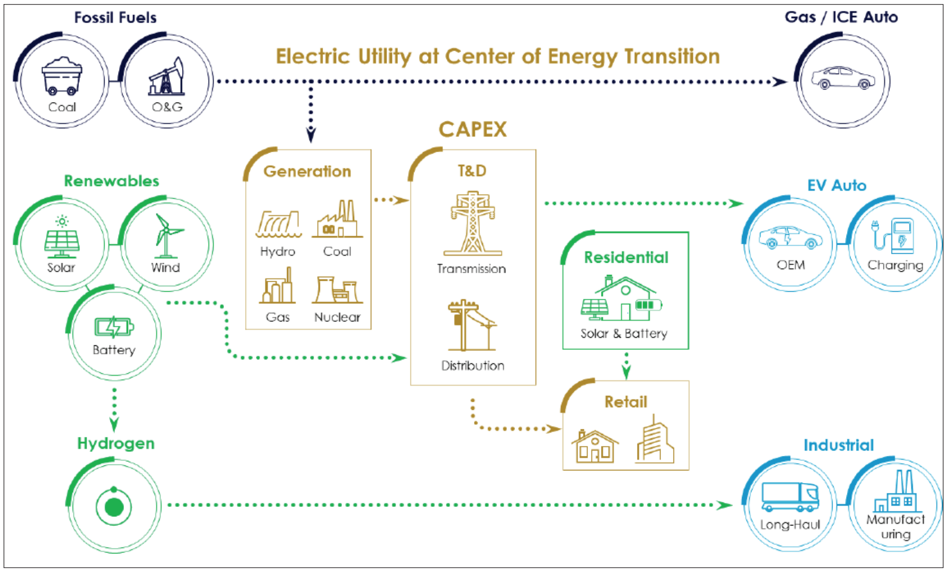
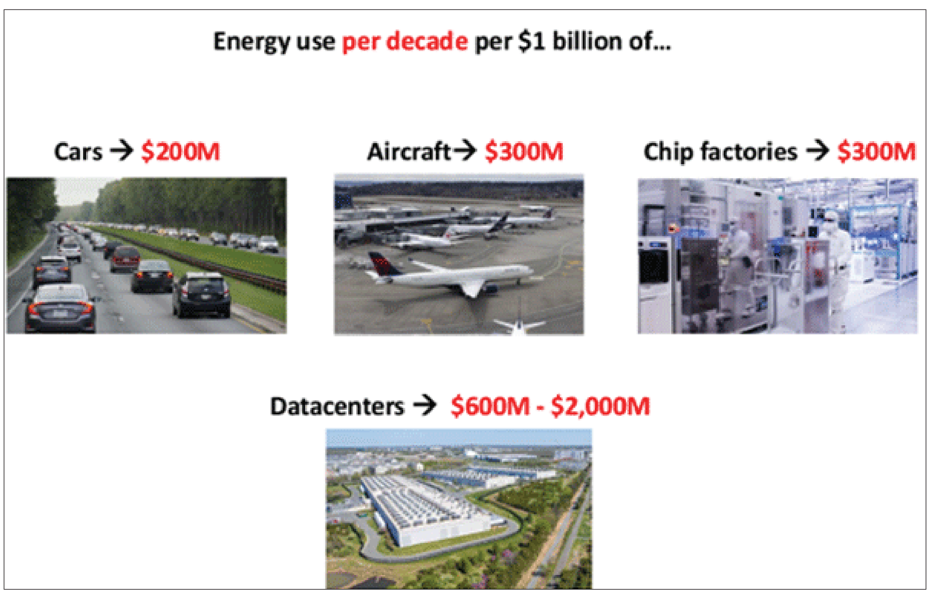
Opportunities in Energy Infrastructure

The schematic below illustrates the effective electrification of everything. Driven most notably today by technological advances like AI and Cloud Computing, the multi-faceted global energy and infrastructure landscape presents tremendous long-term investment opportunities.



Source: Electron

Today, two-thirds of the global population consumes energy at rates equivalent to a household refrigerator annually, signaling massive growth potential. AI-driven energy demand could exceed national electricity usage levels, creating a need for scalable, efficient infrastructure investments. For example, cloud infrastructure alone is estimated to result in energy consumption equivalent to Japan's total electricity use.

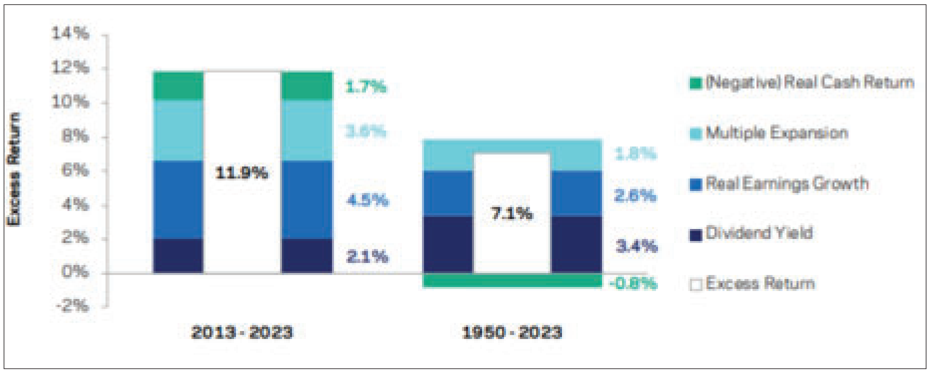


Source: John Mauldin

A clear sentiment shift across the industry is presenting itself as investors begin to recognize a clearer path towards secular growth. We believe this market is still in its early phase and continues to see compelling investment opportunities.

In Conclusion

As we move into 2025, the source of the past decade's equity returns may not repeat. AQR research shows that 85% of equity market returns over the past 15 years came from price appreciation, while dividends contributed only 15%—far below the historical average of 38%. Meanwhile, small- and mid-cap stocks have lagged large-caps, potentially offering value-driven opportunities.



Source: AQR

With evolving market conditions and technological disruptions likely to reshape investment landscapes for years to come, maintaining a balanced, forward-looking strategy is critical. We remain committed to helping you navigate this dynamic environment while pursuing long-term financial success.

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