

2025 Economic & Market Outlook



Fisette & Kim Financial Services, LLC

February 8, 2025

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Future of Fisette & Kim Financial

- On January 1, 2025, Ethan became President of Fisette & Kim.
- Michael is now President Emeritus.
- Scott Milam is now the Managing Director of Fisette & Kim.
- Greg, Matt, & Scott take their CFP[®] exam in March 2025, & Ethan takes his CPWA[®] exam in 1st half of 2025.

Thank You to Our Sponsors

- Columbia Threadneedle
- Eaton Vance
- Federated
- Fidelity
- Global X
- NYL/Mainstay
- PIMCO
- Prudential/PGIM
- Virtus/Allianz

Raymond James is not affiliated with any of the above companies.

Were We Correct in January 2024?

- **Prediction**: The U.S. possibly experiences a very mild recession in spring/early summer, but the economy grows 1.5% for the full year.
- **Actual**: *There was no recession, as the economy grew by 2.7% for the full year.*
- **Prediction**: Inflation trends lower, as the economy weakens, with Core Personal Consumer Expenditures (PCE) declining from 3.1% to 2.5%.
- **Actual**: *Economy continued to stay strong, as Core PCE decreased to 2.8%.*

Were We Correct in January 2024?

- Prediction: The Federal Reserve lowers interest rates from 5.5% to 4.5%, which is still almost twice the rate of inflation.
- Actual: *The Federal Reserve lowered interest rates to 4.25%-4.50%.*

- Prediction: The 10-yr Treasury yield declines from 4% to 3.25%.
- Actual: *The 10-yr Treasury increased to 4.57%.*

Were We Correct in January 2024?

- **Prediction:** Stocks finish modestly higher (probably a safe assumption, as stocks rise 80% of the time).
- **Actual:** *Stocks finished much higher than we anticipated.*
- **Prediction:** There is a decent chance bonds outperform stocks. We continue to love bonds, as yields have not been this high in two decades.
- **Actual:** *Stocks vastly outperformed bonds, and we continue to love the bonds we own.*

Were We Correct in January 2024?

- **Prediction:** The *Magnificent Seven* (Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA and Tesla) take a back seat to the broader market, especially small and value stocks.
- **Actual:** They continue to be in the driver seat of the market.
- **Prediction:** Investors wring their hands over politics.
- **Actual:** Investors have certainly wrung their hands over politics.

Our Theme for 2025



Our Theme for 2025:

“The Bull’s Bumpy Ride Ahead”

Remember: Only One Thing Matters

Federal Reserve cut interest rates three times in 2024



Source: Yahoo Finance

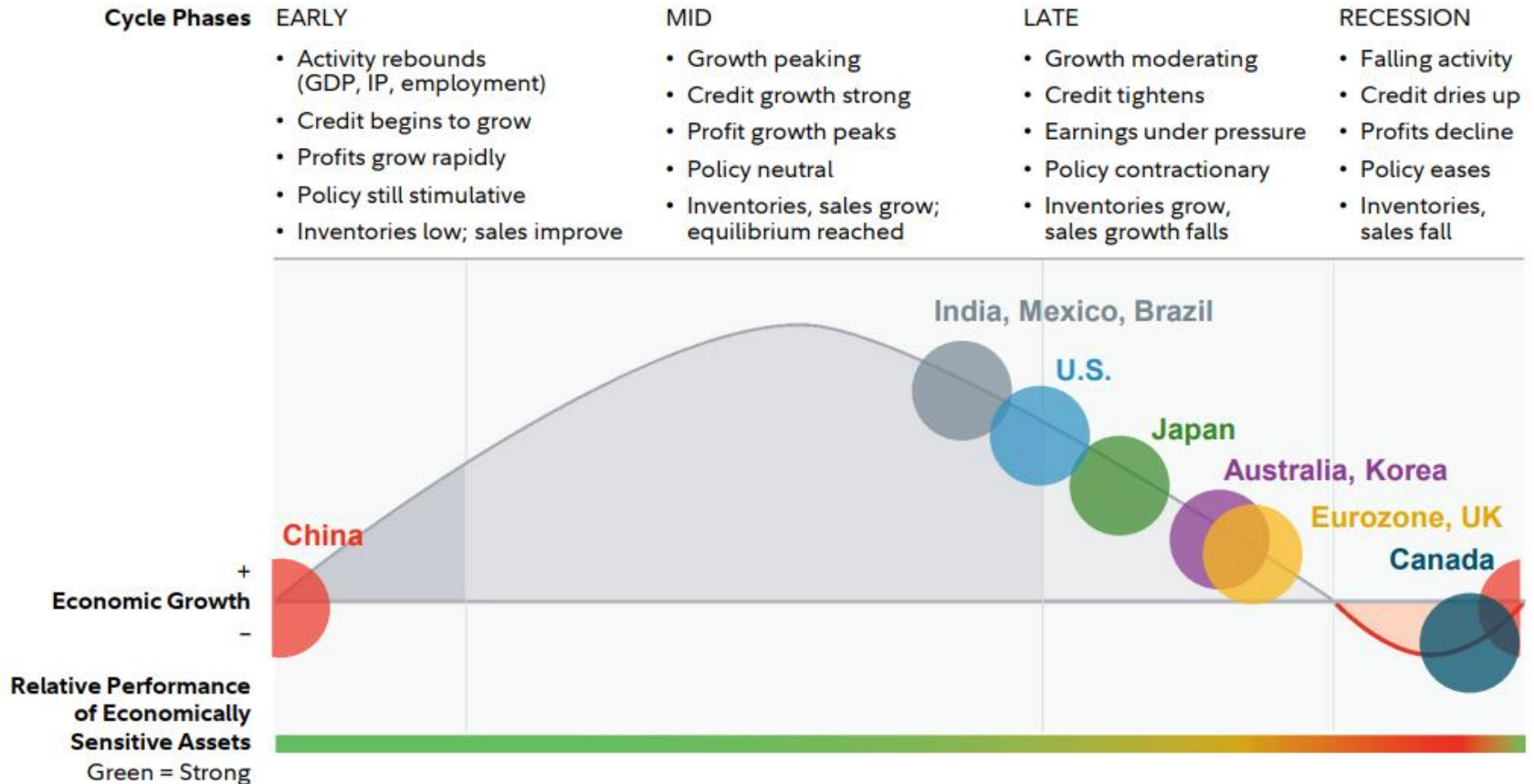
The Bull *Charges* Ahead!

(The Positives)

Most of The World Economy is in Late-Phase Growth

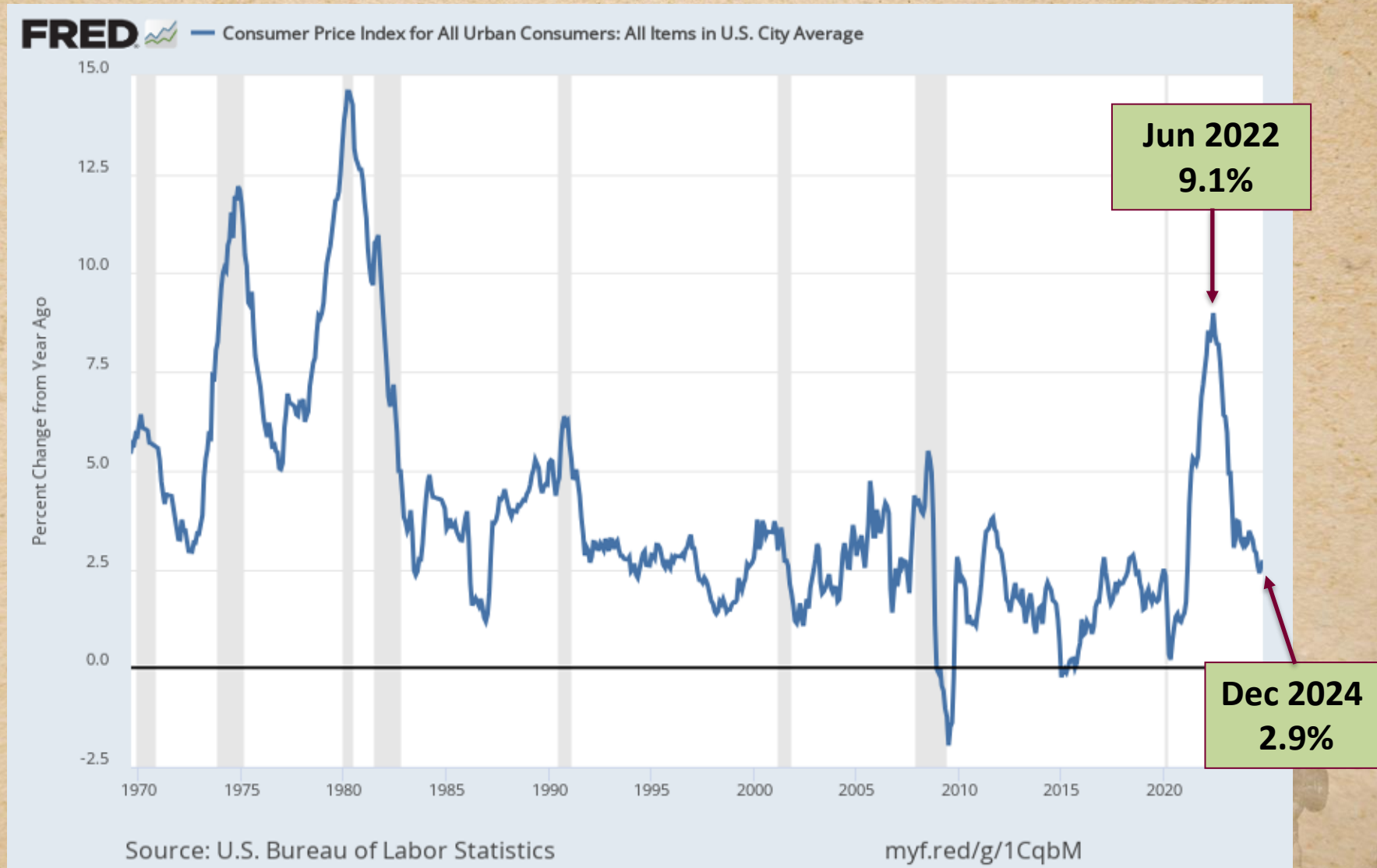
Business Cycle Framework

The business cycle, which is the pattern of cyclical fluctuations in an economy over a few years, can influence asset returns over an intermediate-term horizon. Cyclical allocation tilts are only one investment tool, and any adjustments should be considered within the context of long-term portfolio construction principles and strategic asset allocation positioning.



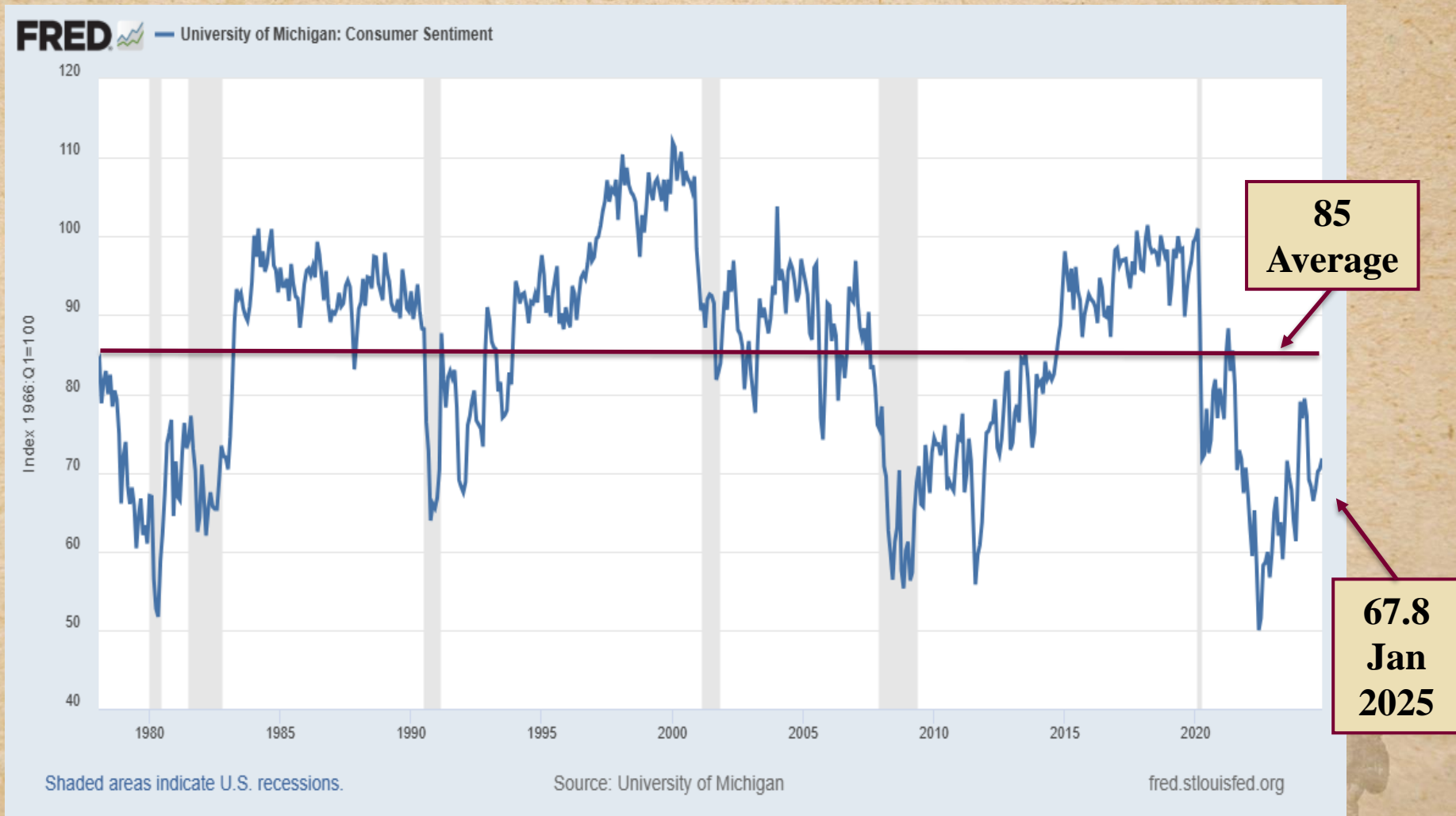
Source: Fidelity Investments

Consumer Price Increases are Moderating



Source: Bureau of Labor Statistics

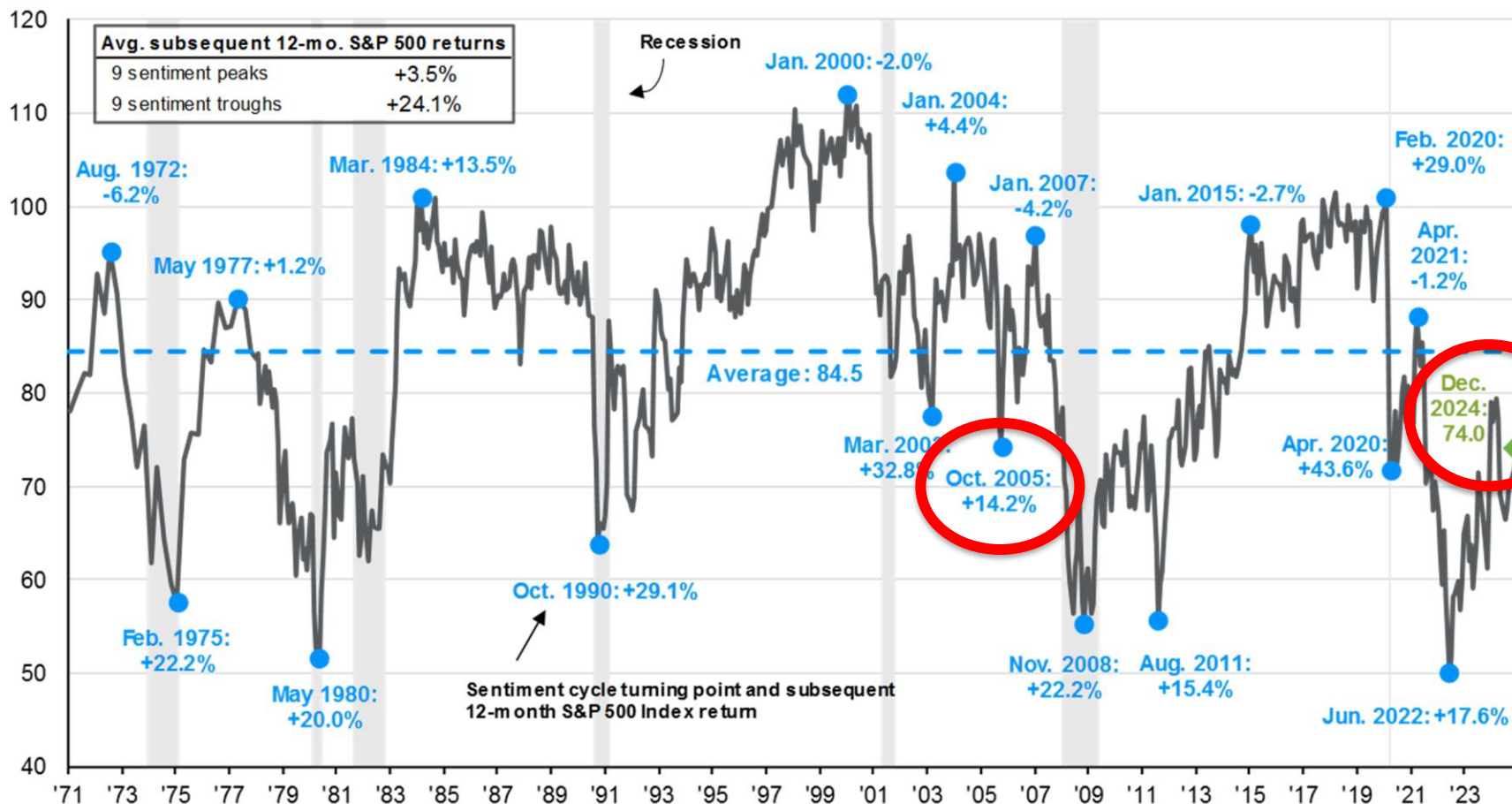
The All-Important U.S. Consumer is Pessimistic



Source: University of Michigan, Federal Reserve Bank of St. Louis

Consumer Confidence & The Stock Market

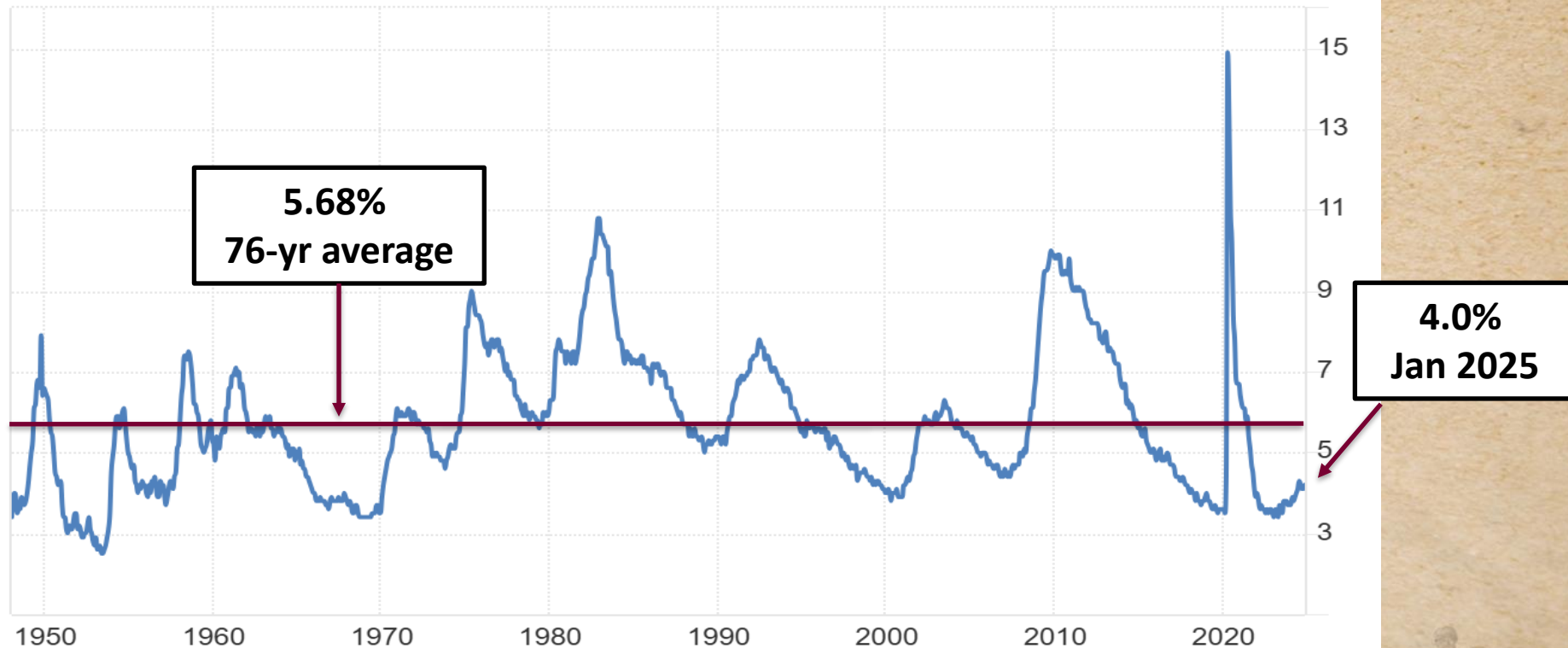
Consumer Sentiment Index and subsequent 12-month S&P 500 returns



Source: FactSet, Standard & Poor's, University of Michigan, J.P. Morgan Asset Management.

Unemployment Remains Extremely Low

US Unemployment Rate - percent



Source: tradingeconomics.com | U.S. Bureau of Labor Statistics

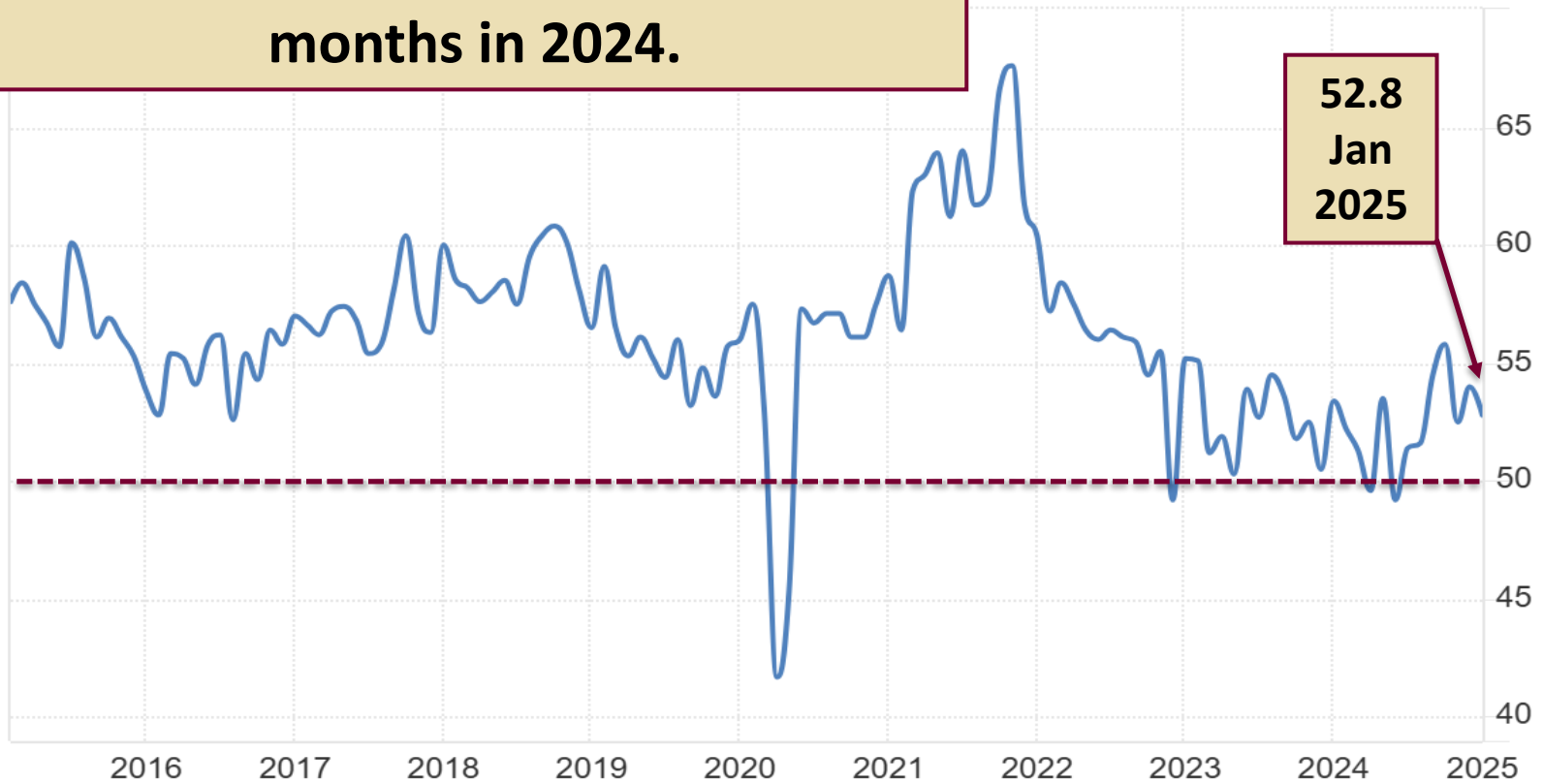
Source: Tradingeconomics.com, U.S. Bureau of Labor Statistics

Institute for Supply Management

Service Sector PMI

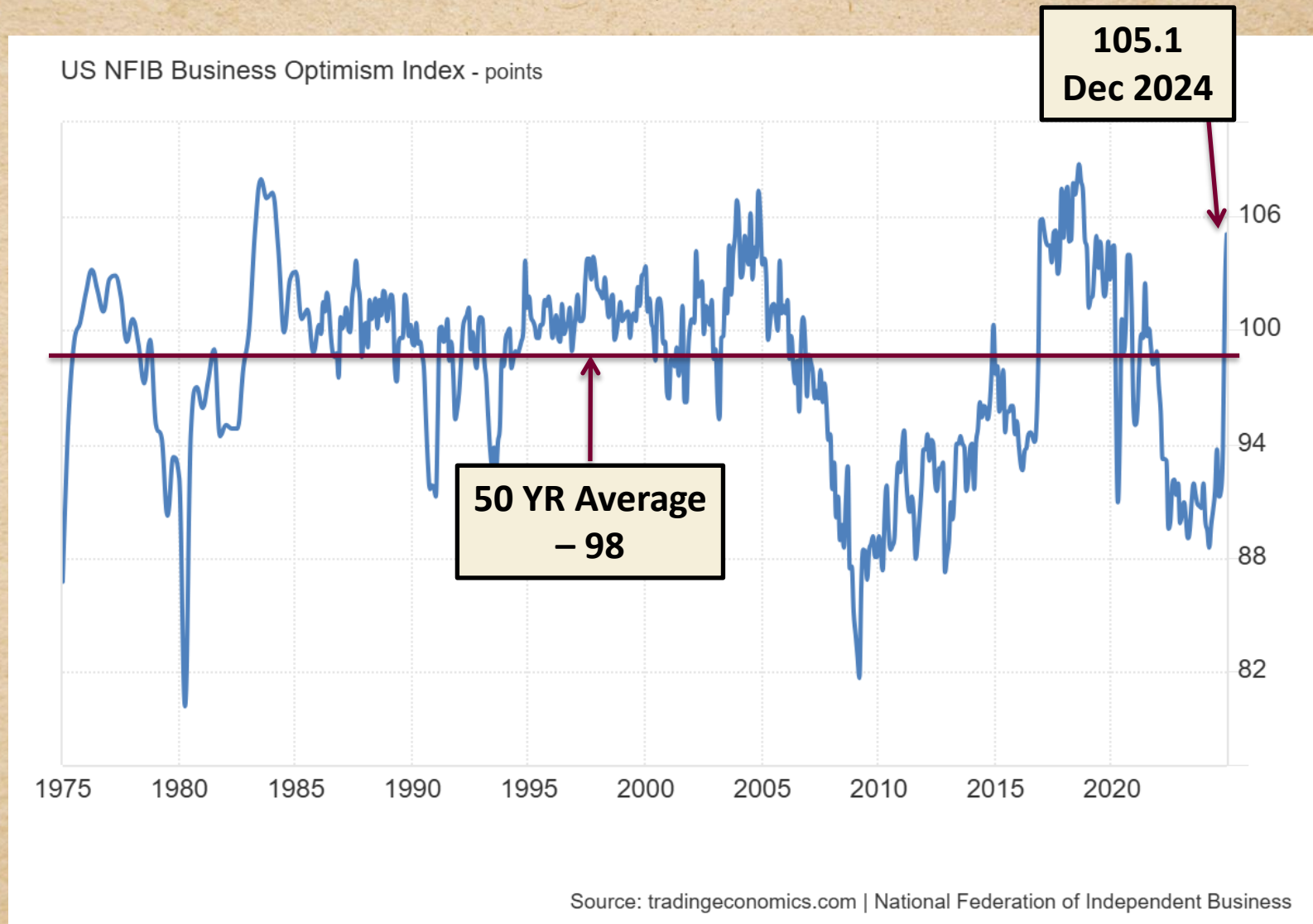
The service sector grew 10 out of 12 months in 2024.

52.8
Jan
2025



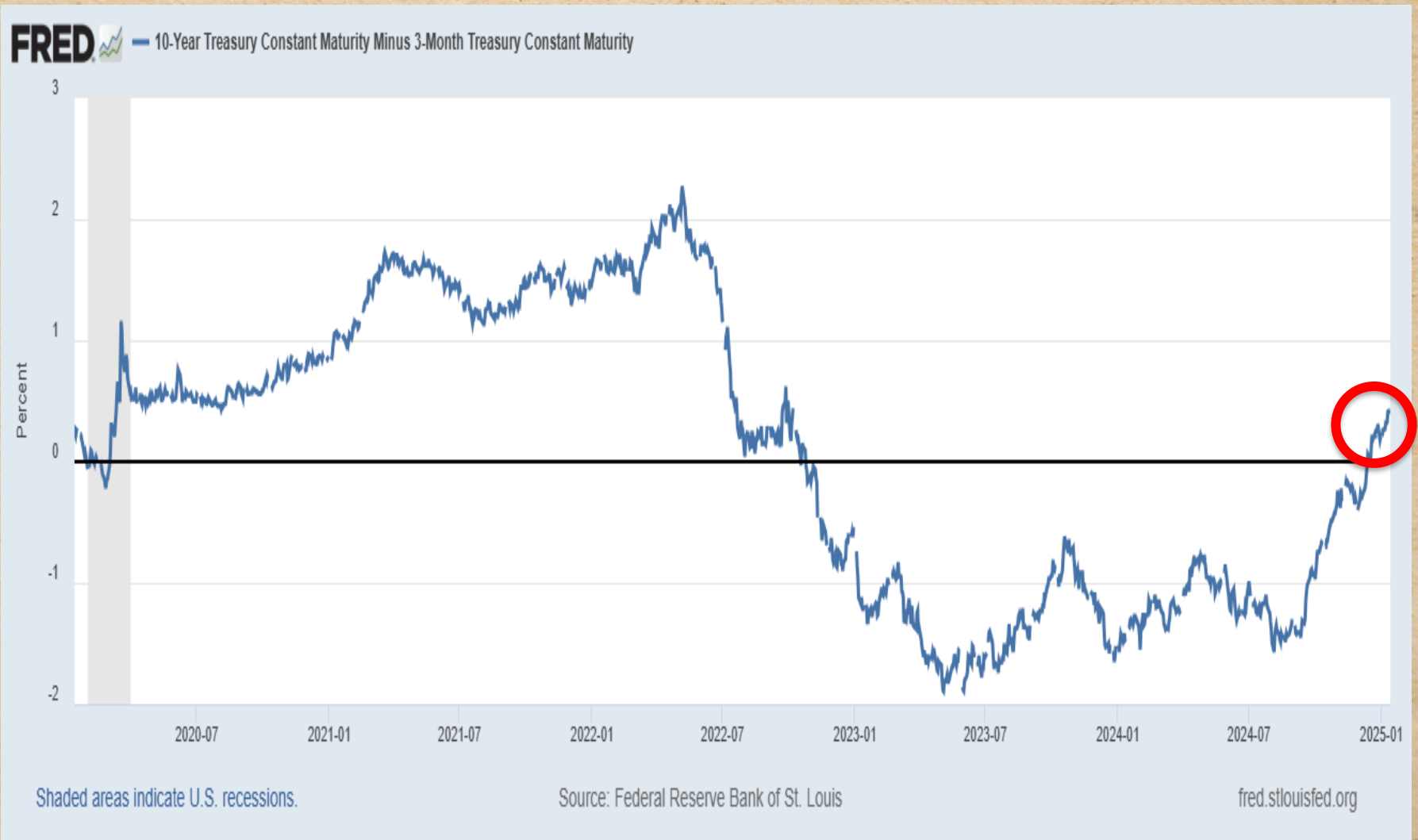
Source: tradingeconomics.com | Institute for Supply Management

Small Business Owners are Showing Optimism

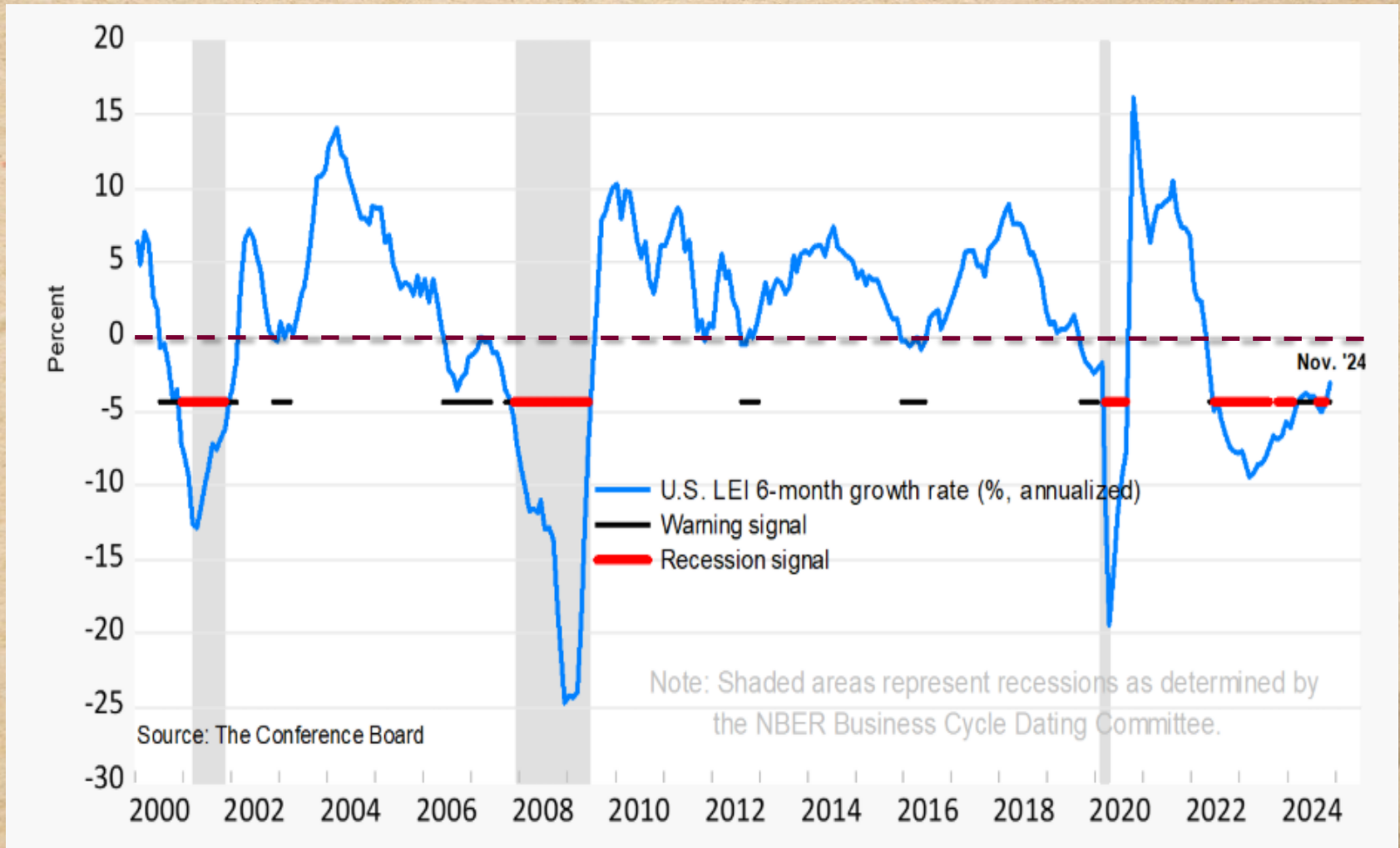


Source: National Federation of Independent Business (NFIB)

10-Year vs. 3-Mos Treasury Yield Above Zero (First Time Since Late 2022)



Leading Economic Indicators are No Longer Showing an Impending Recession



Source: National Federation of Independent Business (NFIB)

The Bull Retreats!

(The Negatives)

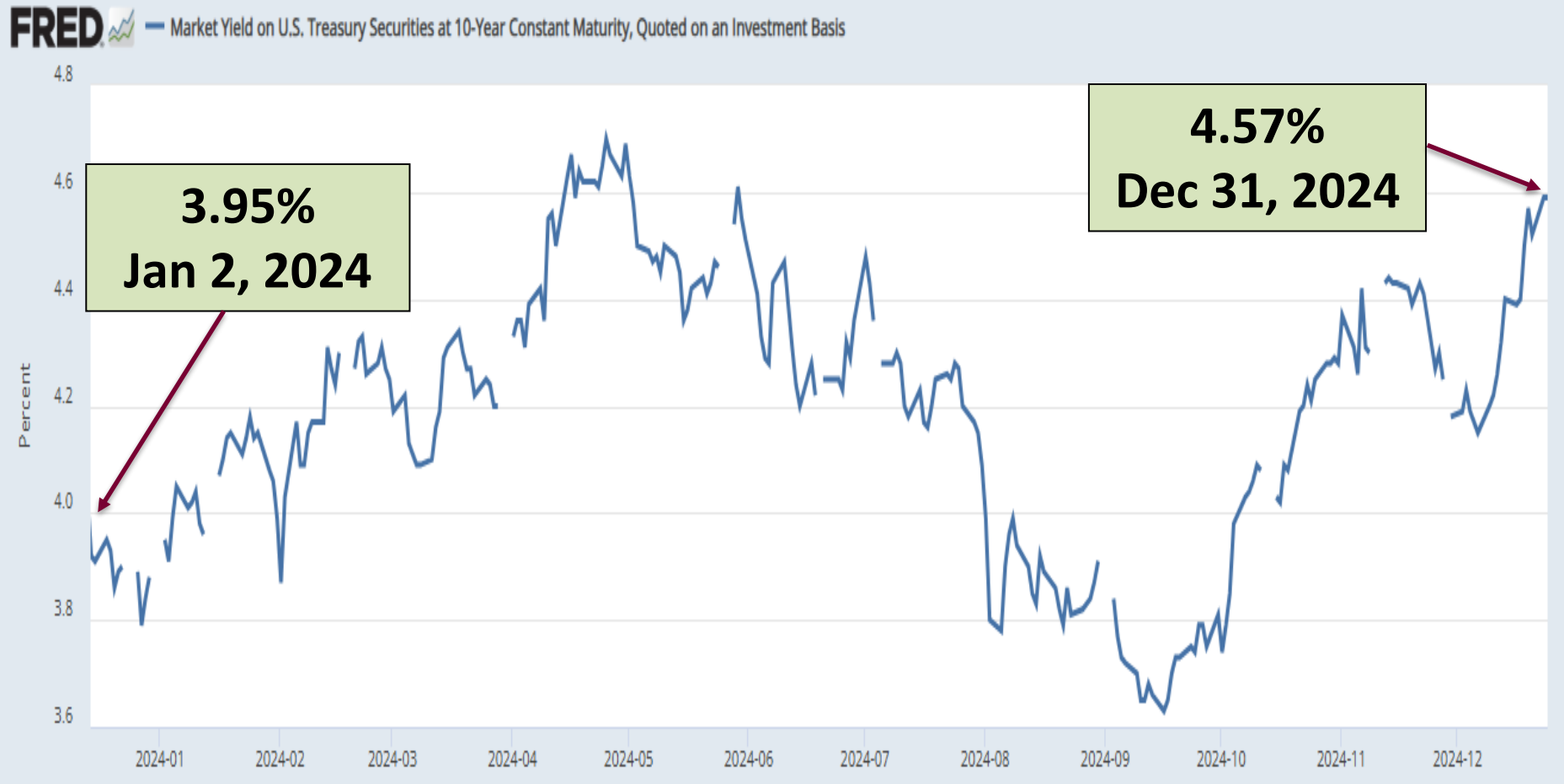


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10-yr Treasury Rate Increased in 2024

Start: 3.95% Low: 3.61% High: 4.70% End: 4.57%

NOT controlled by Federal Reserve

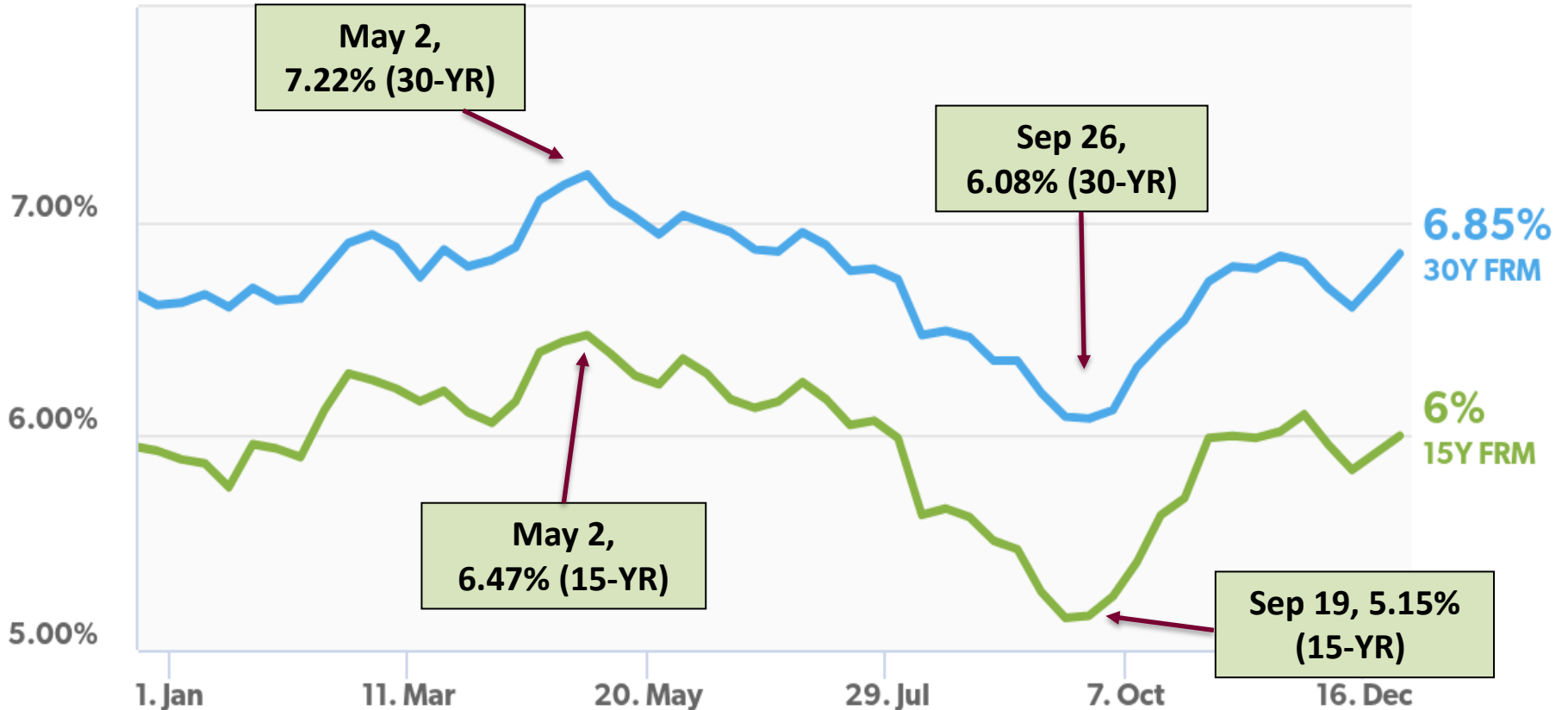


Fixed Rate Mortgage Is Still High, But Remaining Steady



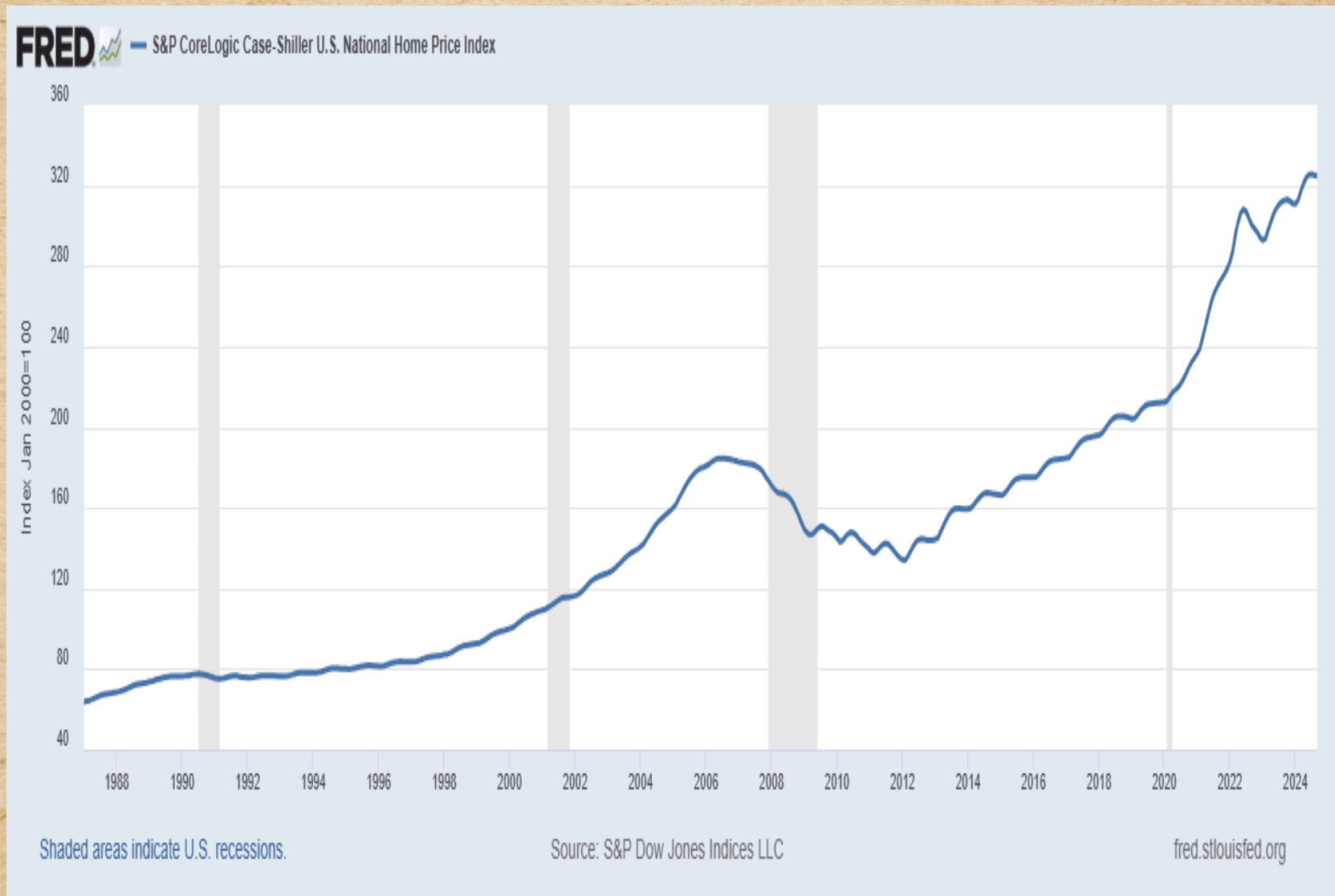
Primary Mortgage Market Survey[®]

U.S. weekly average mortgage rates as of 12/26/2024



Source: Freddie Mac

House Prices Climb to New Highs ...



Commercial Real Estate Vacancy

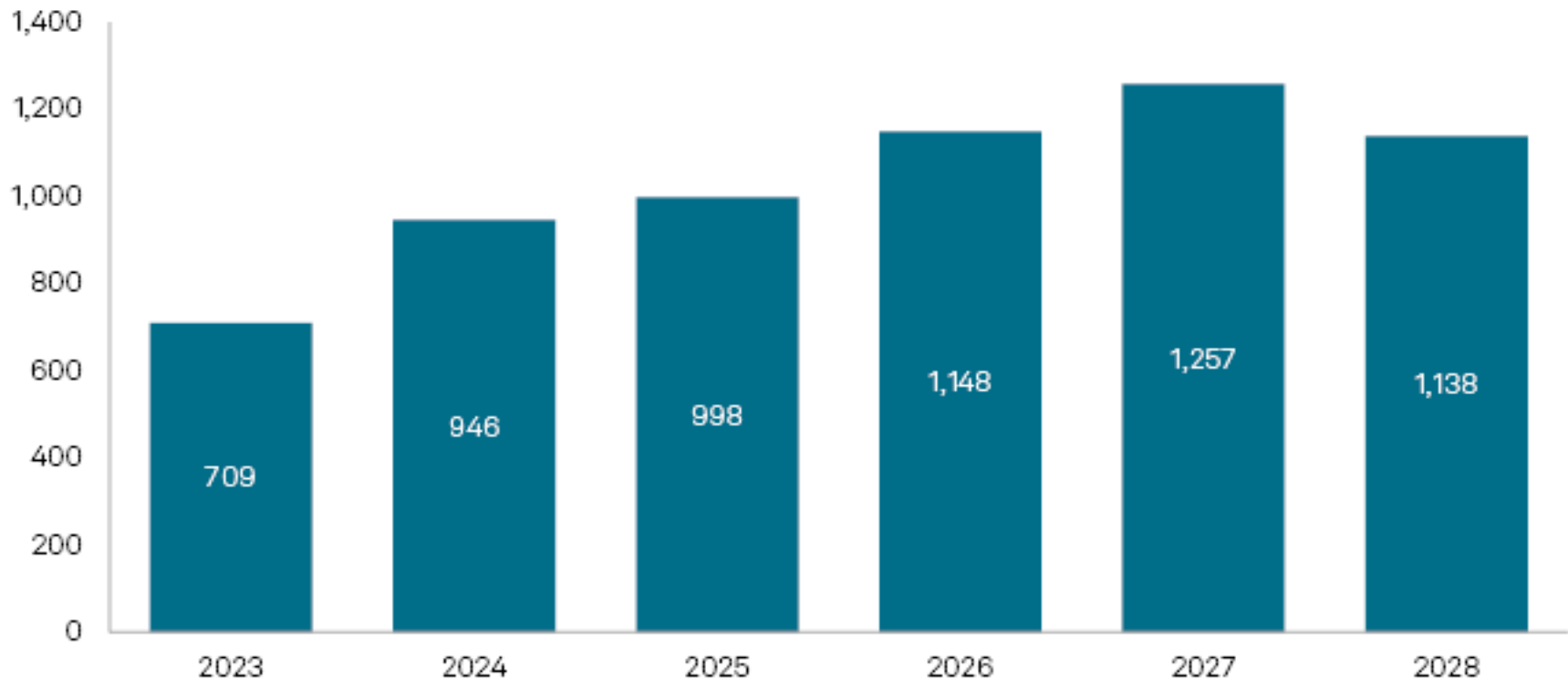


Source: Moody's



Commercial Real Estate Lending

Roughly \$950B of US commercial real estate mortgages are estimated to mature in 2024 (\$B)



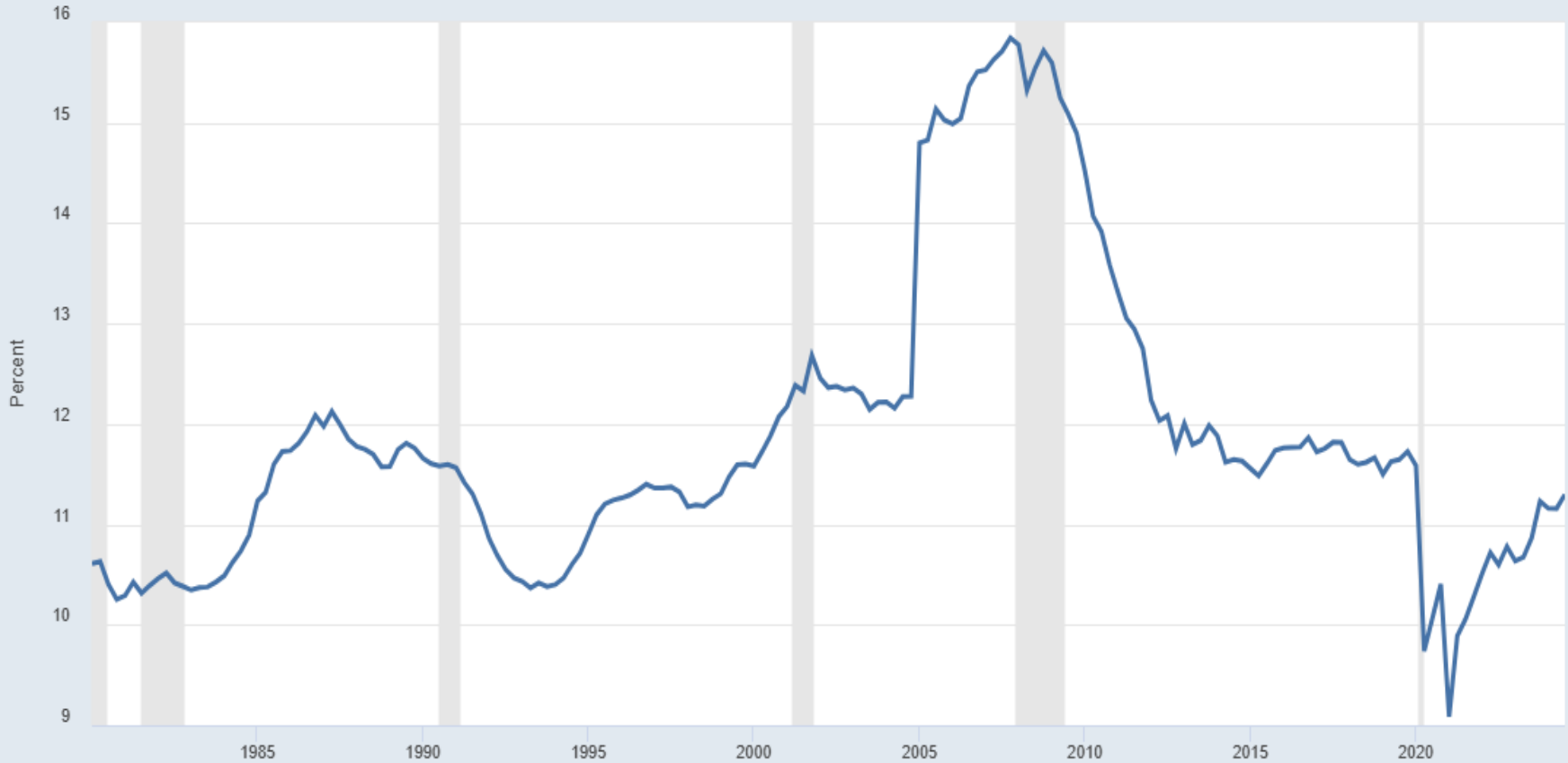
Data compiled Aug. 19, 2024.

Source: S&P Global



Consumer Debt is Increasing

FRED  Household Debt Service Payments as a Percent of Disposable Personal Income



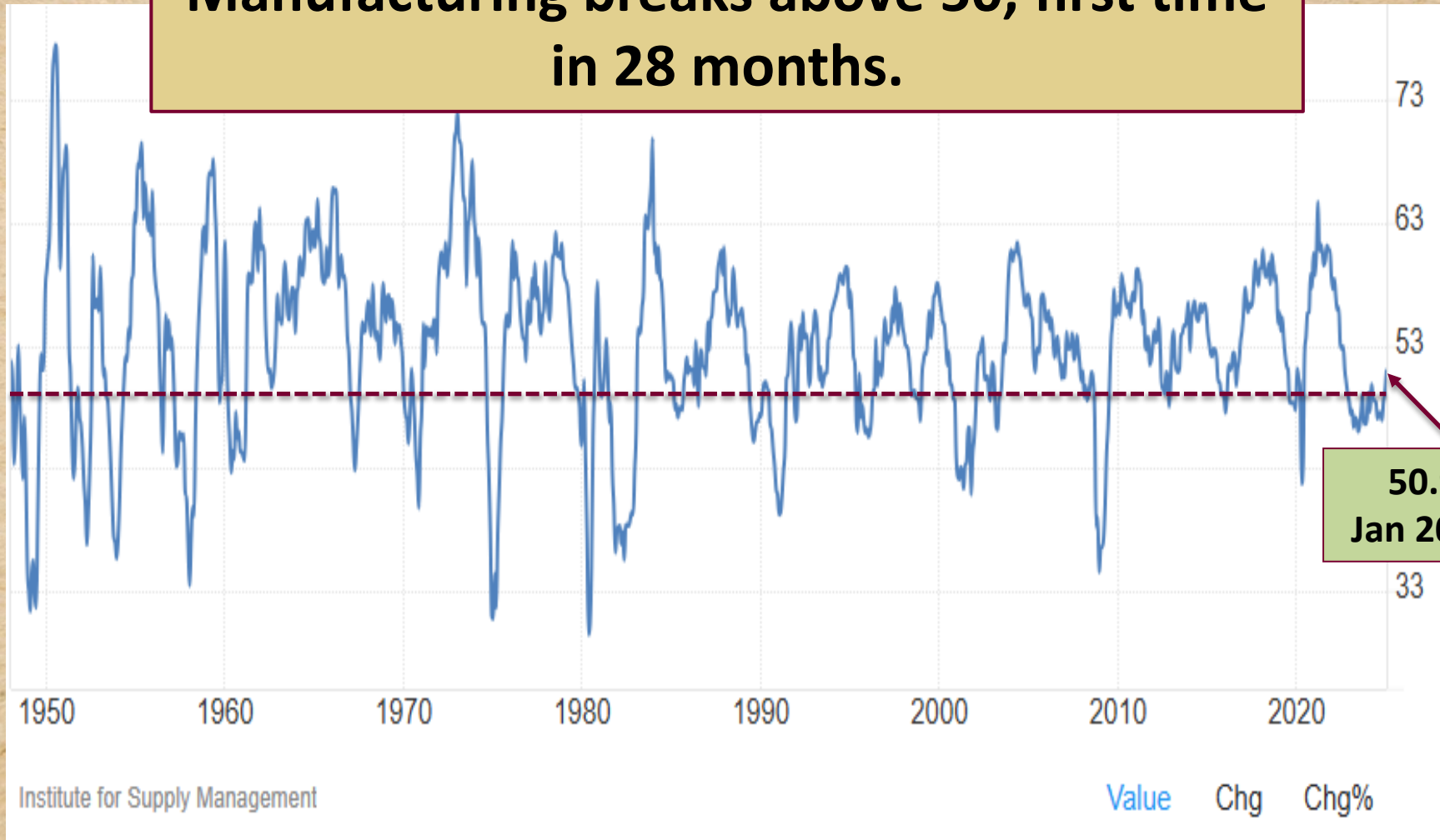
Shaded areas indicate U.S. recessions.

Source: Board of Governors of the Federal Reserve System (US)

fred.stlouisfed.org

Institute for Supply Management Manufacturing Business Activity Index

**Manufacturing breaks above 50, first time
in 28 months.**

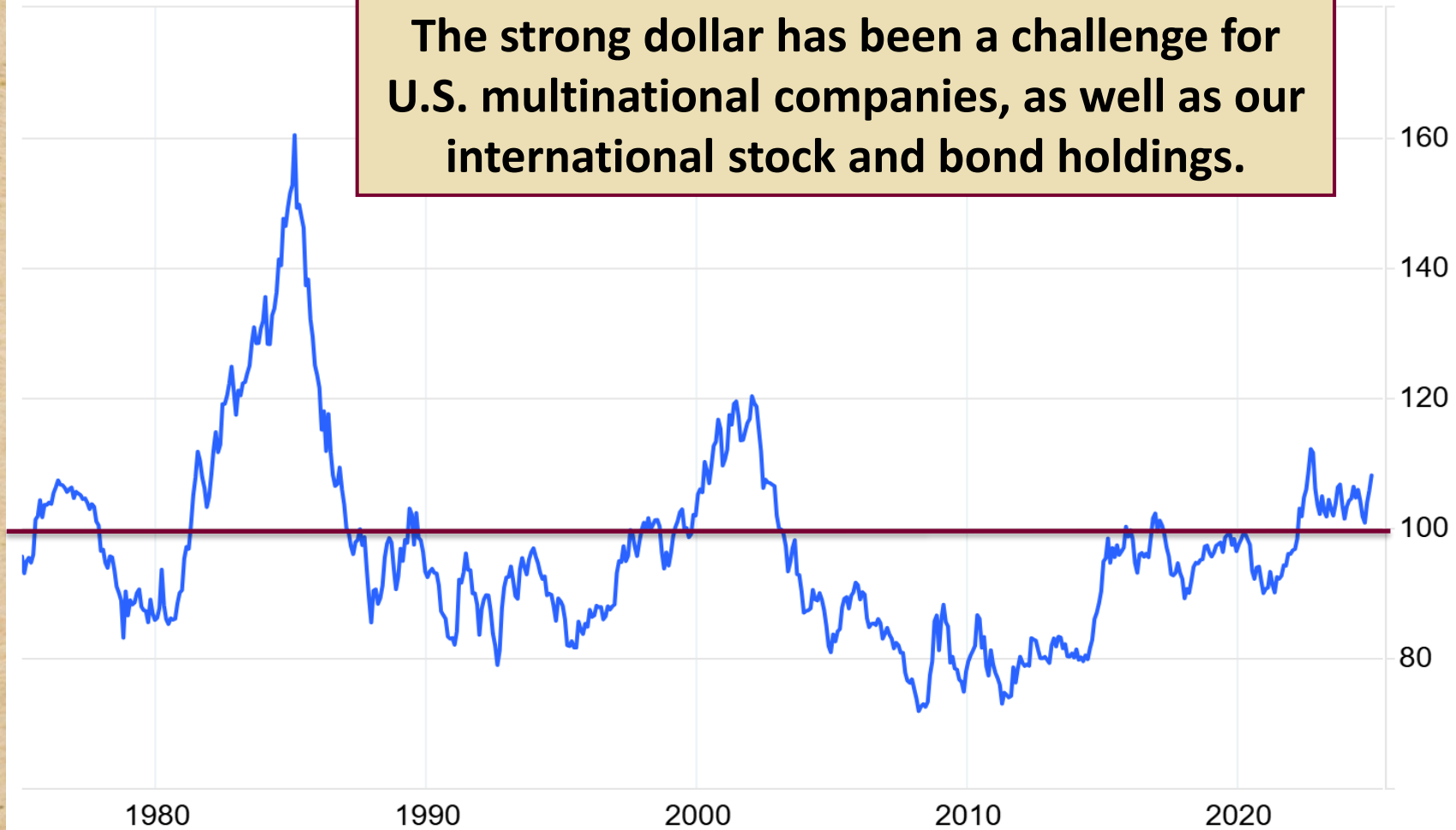


Source: [Tradingeconomics.com](https://www.tradingeconomics.com)

U.S. Dollar Index

Dollar Index

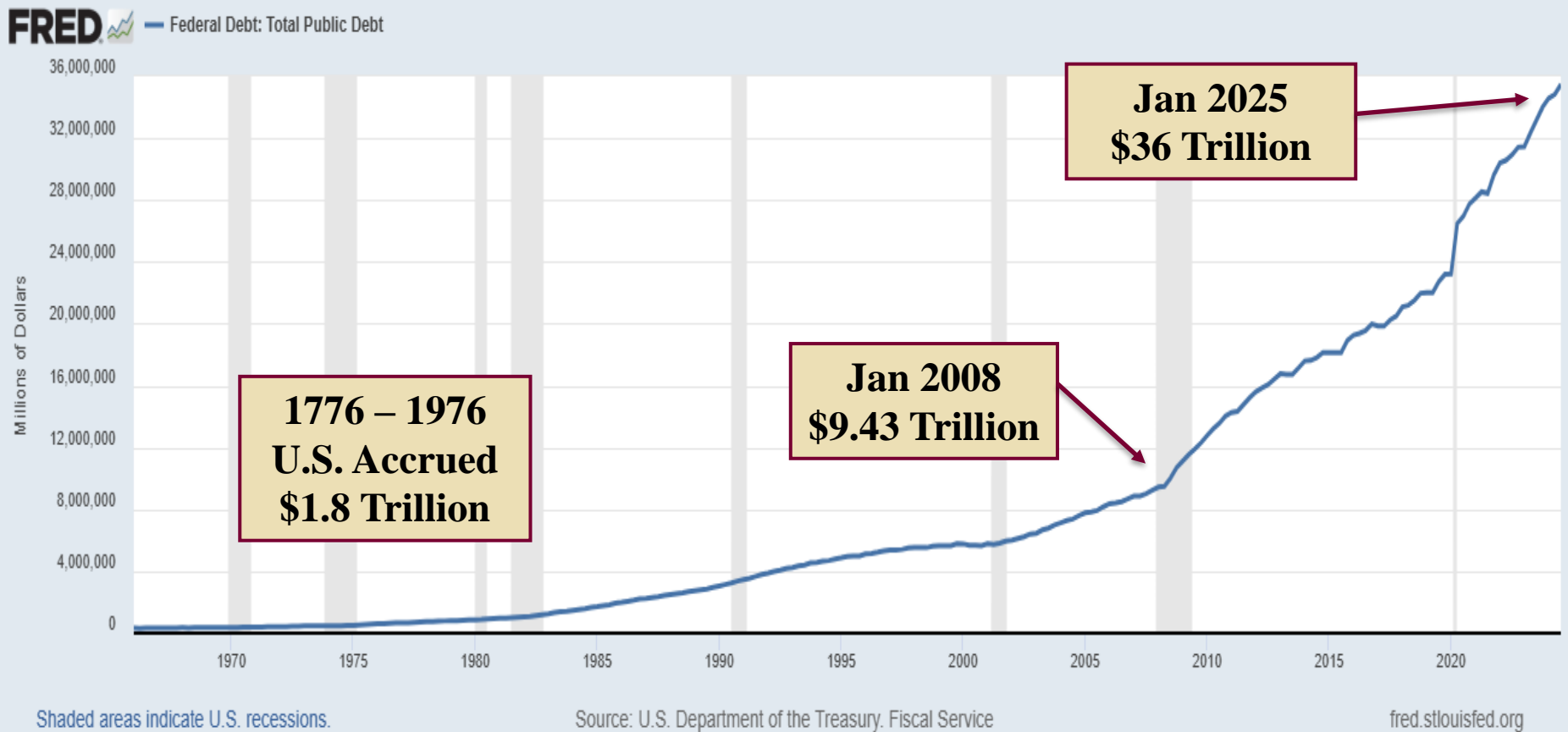
The strong dollar has been a challenge for U.S. multinational companies, as well as our international stock and bond holdings.



As of 12/23/2024

source: tradingeconomics.com

Federal Debt is Out-of-Control



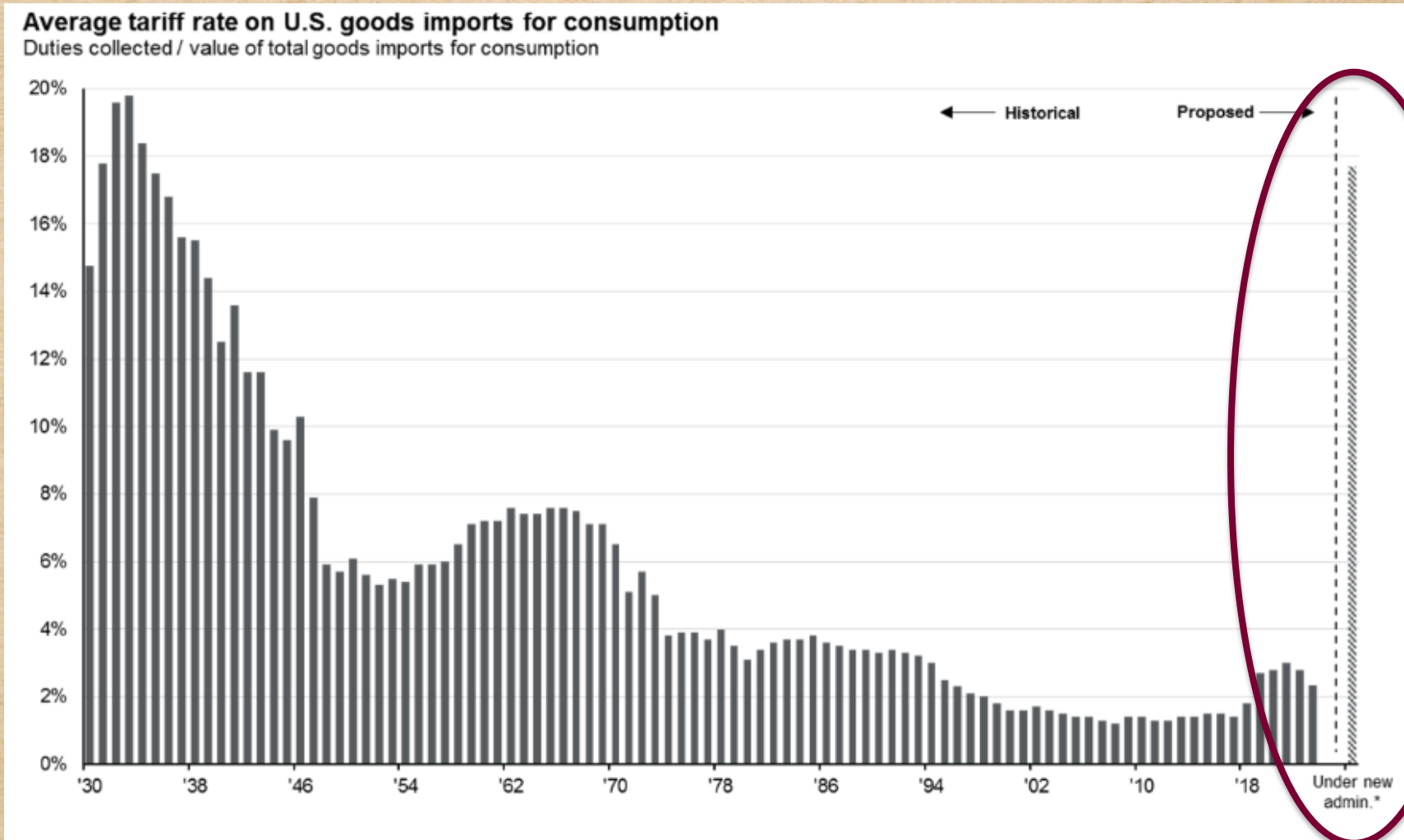
Why Economists Hate Tariffs



Source: Wall Street Journal

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Highest Tariffs Since the 1930s??

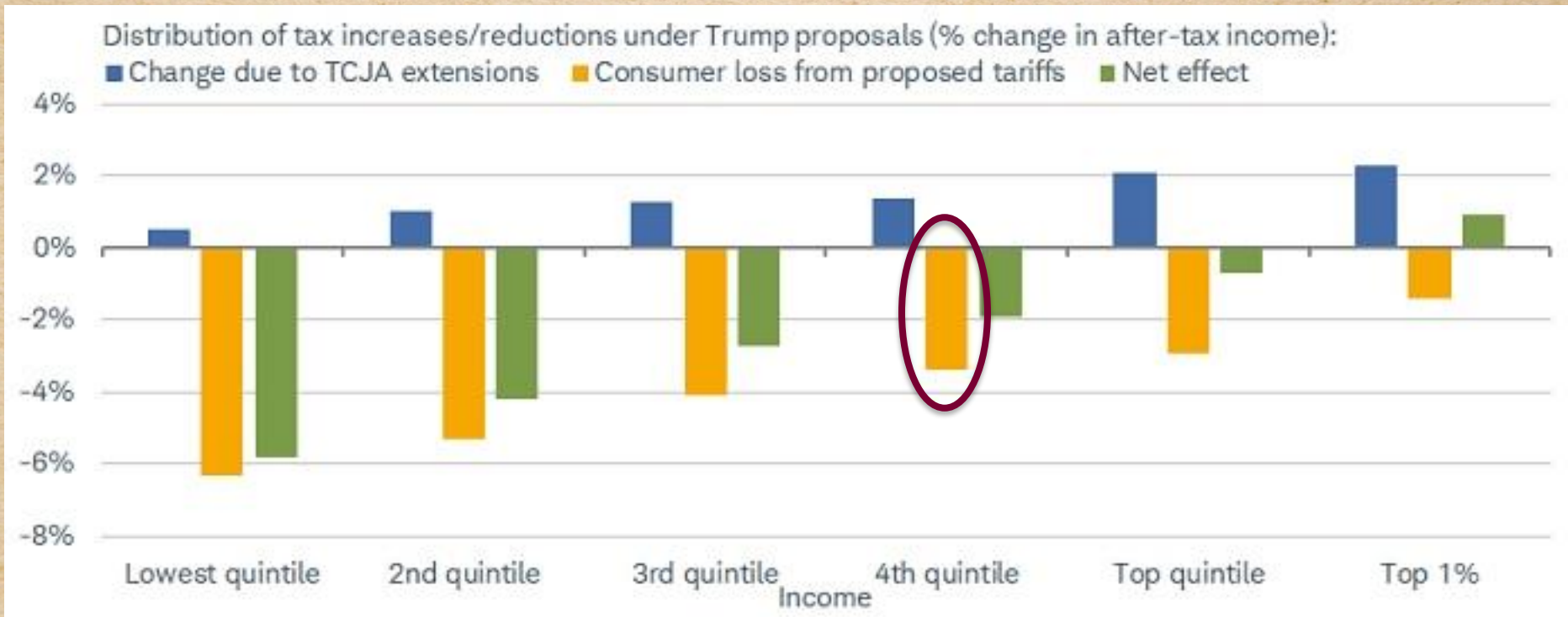


Source: JP Morgan Guide to the markets 2025

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How Do Tariffs Affect My Wallet?

Assuming 20% tariffs globally and 60% on Chinese goods.



Source: Charles Schwab, Peterson Institute for International Economics (PIIE), Kimberly A. Clausing and Mary E. Lovely, as of 8/21/2024.

How Did Tariffs Affect The Markets?

2018-2019 Trade war escalations	MSCI All Country World Index	
	1 day change %	1 week change %
1/22/2018 US announces tariffs on all imported washing machines and solar panels	0.5%	0.8%
3/8/2018 US announces 25% tariffs on steel imports and 10% on aluminum	1.1%	0.6%
4/2/2018 China to impose retaliatory tariffs of up to 25% on 128 US exports	0.5%	0.9%
4/3/2018 US announces plans for 25% tariffs on about \$50 bn of Chinese imports	0.4%	1.8%
5/31/2018 US steel and aluminum tariffs expanded to include EU, Canada and Mexico	0.8%	2.2%
6/15/2018 China announces retaliatory tariffs on about \$50 bn of US imports	-0.4%	-1.1%
7/5/2018 Mexico imposes retaliatory tariffs on dozens of US goods	0.8%	1.6%
7/10/2018 US announces tariffs on \$200 bn of goods from China	-0.9%	0.0%
7/25/2018 EU prepares retaliatory tariffs on dozens of US goods	0.0%	-0.5%
8/1/2018 US raises tariffs from 10 to 25% on \$200 bn of Chinese imports	-0.3%	0.6%
9/24/2018 China imposes retaliatory tariffs on \$60 billion of U.S. goods.	0.0%	-0.2%
5/10/2019 US enacts tariff increase from 10 to 25% on \$200 bn of Chinese imports after talks fail	-1.9%	-0.9%
5/16/2019 US bans China's Huawei from buying parts and components from US companies	-0.6%	-1.9%
8/1/2019 US announces 10% tariff on \$300 bn of Chinese imports after talks fail	-1.2%	-1.5%
8/5/2019 Chinese currency fell to the lowest point since 2008, passing a key level	0.5%	0.9%
8/23/2019 China raises tariffs on \$75 bn of US goods	0.3%	2.0%
10/11/2019 US announces Phase 1 trade deal with China	-0.1%	0.8%
Average	0.0%	0.4%

Source: Charles Schwab

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Potential Impact of Deportation on U.S. Economy

Estimated cumulative change (from 2025-2028) in US GDP, sector production, and consumer prices from the following policy proposal

Item	Deportation of unauthorized immigrant workers	
	1.3 million	8.3 million
GDP (\$ billions)	-812	-5,101
Energy (\$ billions)	-29	-182
Mining (\$billions)	-7	-43
Agriculture (\$billions)	-19	-119
Durable manufacturing (\$ billions)	-597	-3,750
Nondurable manufacturing (\$ billions)	-106	-668
Services (\$ billions)	-604	-3,802
Consumer Price Index (%)	1.5%	9.1%

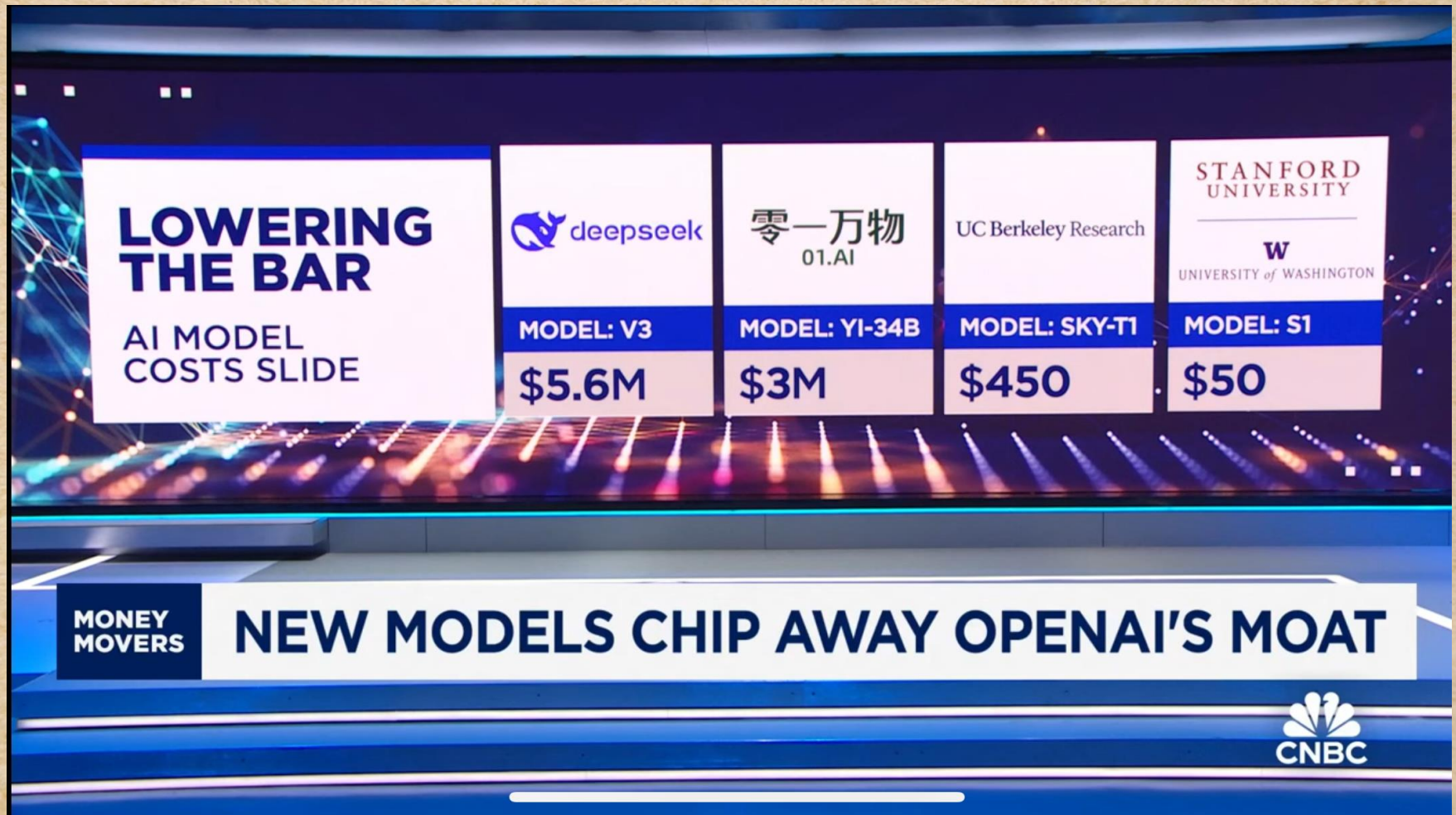
Source: Charles Schwab, Peterson Institute for International Economics (PIIE), as of 9/2024.

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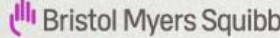




AI's Sputnik Moment?













\$5.6 Million to \$50 in 3 Weeks??






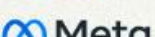






Top 10 S&P 500 Companies by Decade

1990	% of Index
 IBM	2.9%
 ExxonMobil	2.9%
 PHILIP MORRIS INTERNATIONAL	2.3%
 1.9%	
 Bristol Myers Squibb	1.6%
 MERCK	1.6%
 Walmart	1.6%
 AT&T	1.5%
 Coca-Cola	1.4%

2000	% of Index
 4.1%	
 ExxonMobil	2.6%
 Pfizer	2.5%
 CISCO	2.4%
 citi	2.2%
 Walmart	2.0%
 Microsoft	2.0%
 AIG	2.0%
 MERCK	1.8%
 intel	1.7%

2010	% of Index
 ExxonMobil	3.2%
 Apple	2.6%
 Microsoft	1.8%
 1.7%	
 Chevron	1.6%
 IBM	1.6%
 P&G	1.6%
 AT&T	1.5%
 Johnson & Johnson	1.5%
 JPMorgan Chase	1.5%

2024	% of Index
 Apple	7.0%
 NVIDIA	6.4%
 Microsoft	6.4%
 Alphabet	6.2%
 amazon	3.8%
 Meta	2.4%
 Lilly	1.8%
 BROADCOM	1.6%
 1.4%	
 JPMorgan Chase	1.2%

By market cap on Dec 31. Source: Statista, Data is Beautiful, RIAA, IFPI, Goldman Sachs Global Investment Research

**Although the Ride Will be
Bumpy, the Important Thing is
to Focus on the Long-Term**

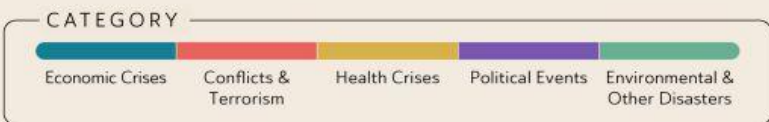
The Stock Market Climbs a Wall of Worries

Wall of Worry

A TIMELINE OF NEGATIVE WORLD EVENTS

The chart below shows the growth in world equity markets despite a never-ending stream of negative world events.

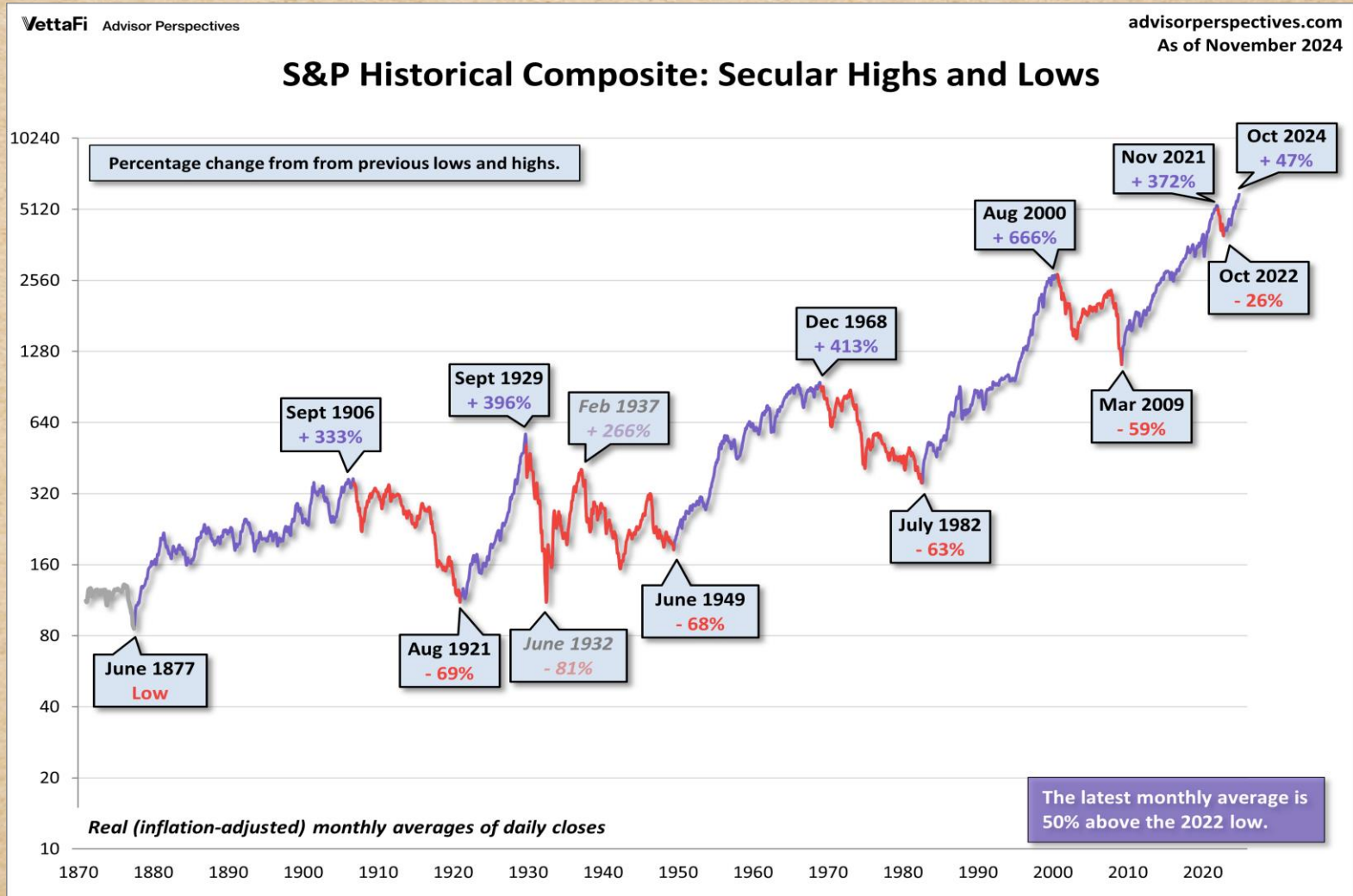
Despite ongoing uncertainty, \$1 invested in September 1994 grew to \$5.69 by the end of August 2024. This is an average annual return of 6.0%. With dividends re-invested, your return was 7.8% per annum.



Secular Bear Markets (10 - 12 years)



Secular Bull Markets (16 - 18 Years)



Source: Advisor Perspectives

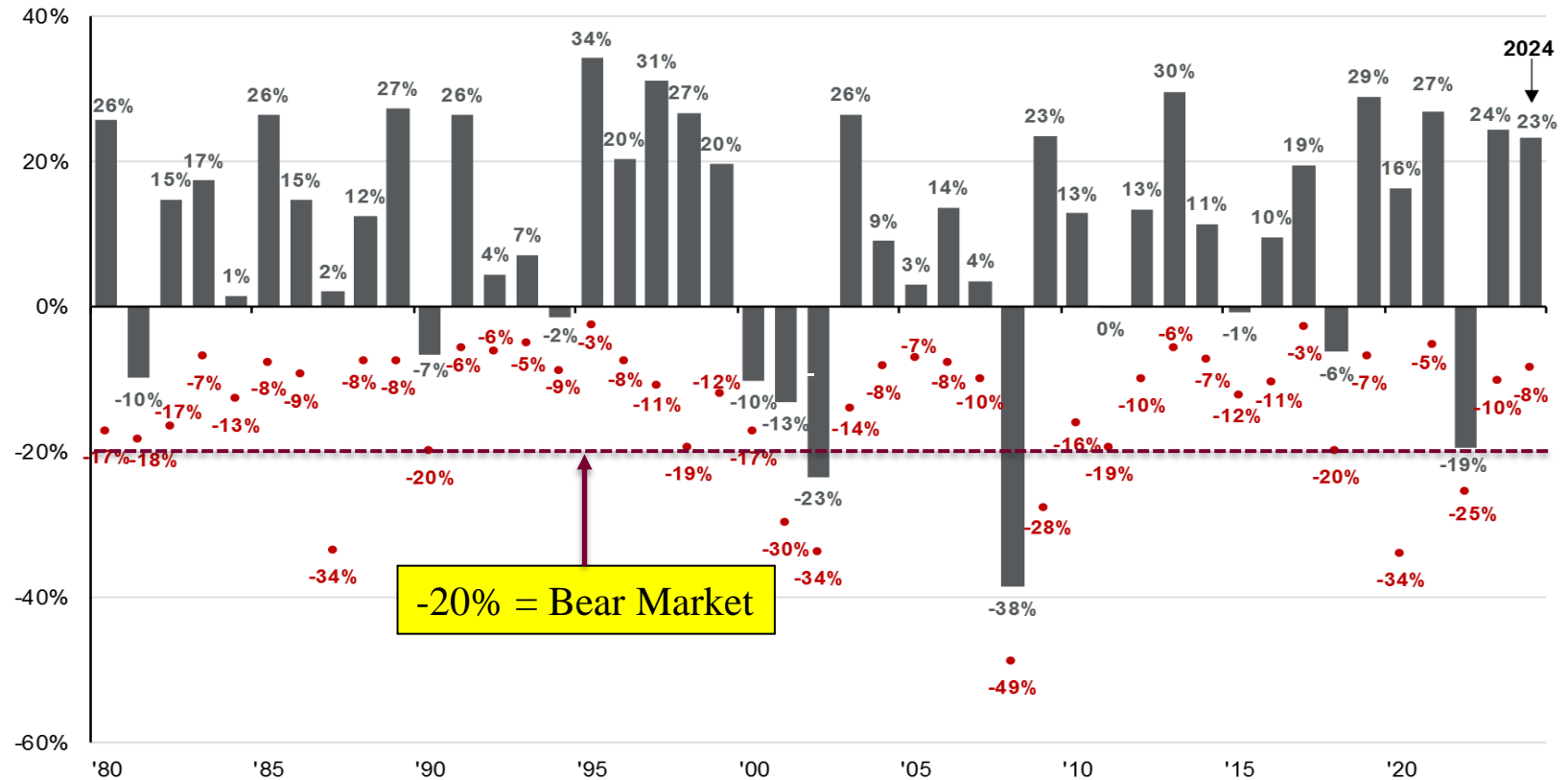
S&P 500 Annual Returns & Intra-Year Declines

Annual returns and intra-year declines

GTM U.S. 16

S&P intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.1%, annual returns were positive in 34 of 45 years



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
 Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2024, over which time period the average annual return was 10.6%.
 Guide to the Markets - U.S. Data are as of December 31, 2024.

J.P.Morgan
 ASSET MANAGEMENT

Source: JP Morgan Asset Management

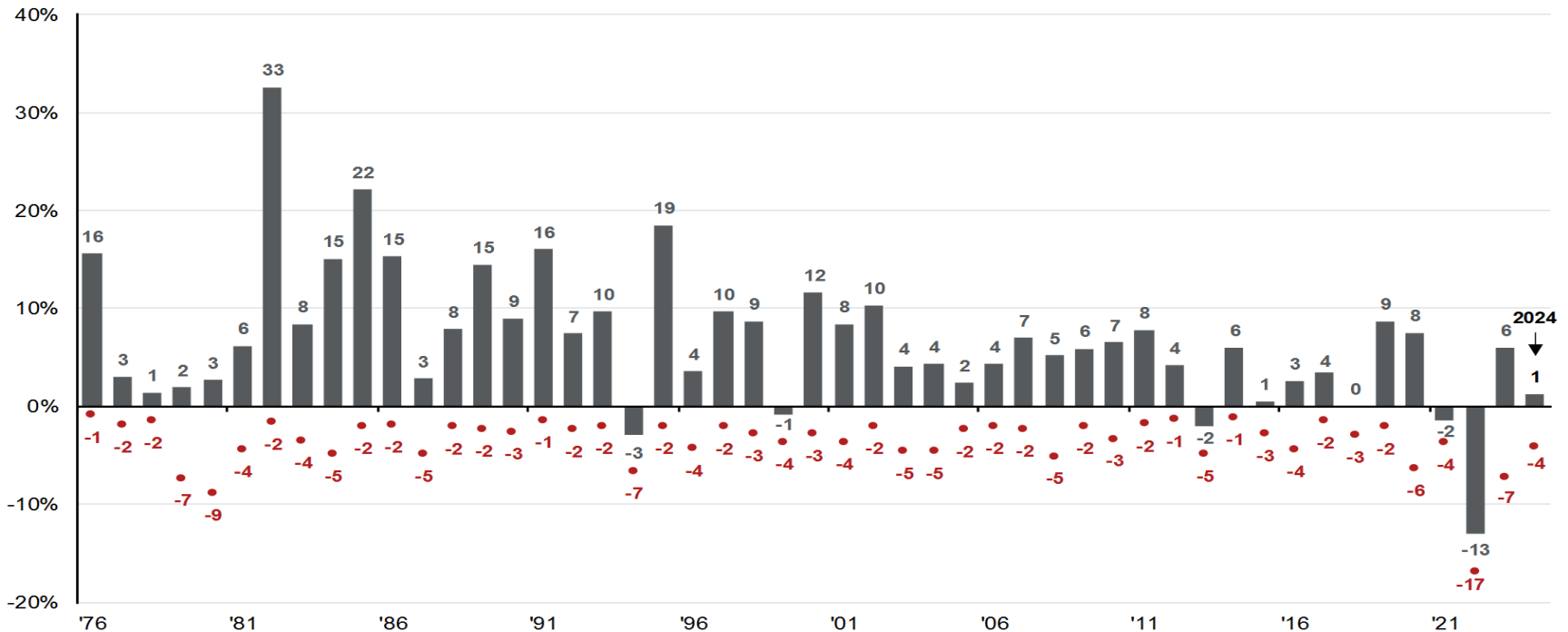
Bond Returns Have Been Positive 90% of the Time Over the Last 48 Years

Bloomberg U.S. Agg. annual returns and intra-year declines

GTM U.S. 41

Bloomberg U.S. Aggregate intra-year declines vs. calendar year returns

Despite average intra-year drops of 3.5%, annual returns were positive in 44 of 49 years

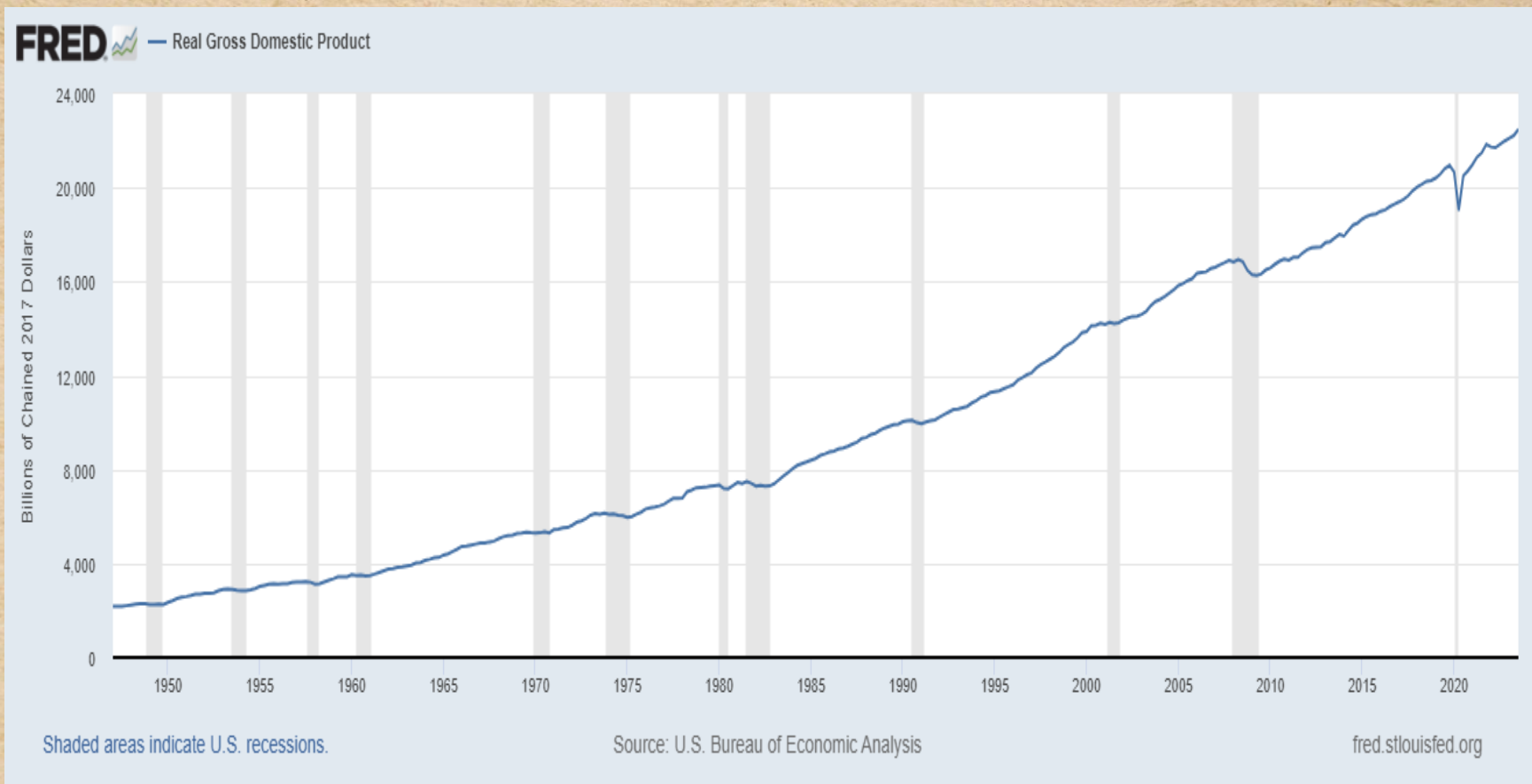


Source: Bloomberg, FactSet, J.P. Morgan Asset Management. Returns are based on total return. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1976 to 2024, over which time period the average annual return was 6.5%. Returns from 1976 to 1989 are calculated on a monthly basis; daily data are used afterward. Guide to the Markets - U.S. Data are as of December 31, 2024.

J.P.Morgan
ASSET MANAGEMENT

Source: JP Morgan Asset Management

“The Stock Market Made a New High: Let’s Sell!”



“The stock market makes a new high every 3 of 5 years, because the economy keeps growing.”

Our 2025 Predictions

- Michael continues heal faster than the normal man, astonishing medical professionals!
- The U.S. economy grows 2.4% for the full year, with the support of the Federal Reserve and fiscal policy.
- Inflation fails to reach the Fed's 2% target in 2025.
- This causes the Federal Reserve to cut interest rates only one time to 4.25%.

Opinions expressed are those of the speaker and are not necessarily those of Raymond James. All opinions are as of this date and are subject to change without notice. There is no guarantee that these statements, opinions or forecasts provided herein will prove to be correct.

Our 2025 Predictions

- The 10-year Treasury yield range between 4%-5%.
- 30-year mortgage rates will range between 6.50%-6.75%.
- The stock market experiences a 10% correction by mid-2025, but ends the year modestly higher.
- Small company stocks will perform in line with large company stocks.
- Bonds will have their best year in 5 years, as yields continue to be the highest in two decades.

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Our 2025 Predictions

- **Unemployment rises to 4.4%-4.5% due to deportation & people entering the workforce.**
- **Congress extends the Tax Cut & Jobs Act & reduces regulation.**
- **Increase in tariffs and deportation are less than initially feared.**
- **DOGE makes progress in cutting government spending, but fails to cut \$1 trillion.**

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Raymond James' 2025 Outlook

		EPS	P/E	S&P 500 TARGET	PROBABILITY
+ 19.01%	 Bull	\$280	25.5x	~7,000	35%
+8.38%	Base	\$270	23.5x	~6,375	50%
-8.18%	 Bear	\$250	21x	~5,400	15%

Source: Raymond James Investment Strategy

The Story of Michael's Brain Tumor & Importance of Planning Ahead

Save the Date

Client Gala @

The Fisette's Home

Carnation, WA

Tentative Date: July 19, 2025

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- Any opinions are those of Fiset & Kim Financial Services, LLC, and not necessarily those of RJFS or Raymond James.
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