



*Imperia*  
Wealth Management

# 2025 Market Outlook

January 2025



**Written by**  
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Chief Portfolio Strategist

**To our valued clients,**

I hope this message finds you well and that you enjoyed a wonderful holiday season filled with joy, health, and happiness with your loved ones. All of us at IWM express our warmest wishes for a very happy and healthy 2025.

At Imperia Wealth Management, we are deeply grateful for the trust you place in us to manage your investment portfolios and guide your financial future. We take this responsibility very seriously and remain committed to working diligently for you every single day. I would like to take a moment to recognize my incredible team at IWM for their unwavering dedication to delivering consistent results. I couldn't fulfill my role as Chief Portfolio Strategist without the hard work and commitment of every team member. Special thanks to our Wealth Planner & Portfolio Consultant team—Peter Fitzgerald, Jamie Ross, and Anthony Bellody—as well as our Director of Client Relations, Tara Eielson.

In 2024, IWM continued to evolve. As you know, we made the significant decision to transition from broker-dealers, terminating our relationship with Osaic and affiliating with LPL Financial in July. This decision was made after many months of thorough analysis, with your best interests at the forefront. LPL Financial enables us to better deliver on our promise of Concierge Level Wealth Management through improved systems, operational procedures, and a world-class selection of financial products and services. We are confident that you will experience the positive impacts of this change in 2025.

We also expanded our human capital in 2024, to better serve you, adding four important people to our team. We welcomed Kaitlyn Guintu as a Client Relationship Manager. Kaitlyn will be working towards transitioning into a Wealth Planning role and is currently obtaining her licenses to do so. We are thrilled to have Kaitlyn on board and look forward to her immediate contributions while in her client service role and future success as a Wealth Planner with IWM. Additionally, Sophie Syska joined us as an Operations Specialist. Sophie is a true expert on our technology and operations systems which will greatly enhance the efficiency of our operational tasks. We are excited to have Sophie join IWM and are confident you will benefit from her contributions. Finally, through our affiliation with FRG, Jon Rodriguez supports us as Director of Business Consulting and Amani Sodhi as Marketing Account Manager. Having these specialists supporting our team will allow all of us on the IWM Advisor Team to completely focus our time and attention on you and your financial success.

Thank you once again for your continued trust and confidence. We truly appreciate each and every one of you. You are the lifeblood of IWM, and we cannot express our gratitude enough.

With appreciation,



**Michael L. Bellody**

Founder & CEO

Chief Portfolio Strategist

# Reflecting on 2024: A Year of Challenges and Triumphs

2024 was a remarkable year in many respects, both financially and otherwise. Amidst two assassination attempts on a leading presidential candidate, escalating conflicts in Europe and the Middle East, multiple significant natural disasters, and acts of terrorism both domestically and internationally, the market and economy proved resilient and I'm proud to say our 2024 Market Outlook was nearly spot on, much like in 2023.

Let's recap:

## In our 2023 Market Outlook, we forecasted:

- The S&P 500 would return better than +15% for the year.
- 2023's leading stock market sectors (large-cap, growth, specifically tech) would continue to lead the market higher for the first half to two-thirds of 2024, followed by a shift in leadership to value and small/mid-Caps, with the possibility of international stocks outperforming as well.
- The Federal Reserve would cut the Fed Funds Rate during 2024.
- The 10-year Treasury yield would not fall in lockstep with Fed rate cuts and might even rise.
- The economy would be stronger than expected, with no recession in 2024.
- Market sentiment would shift from skepticism to optimism during 2024.

## This is what happened in 2024:

- The S&P 500 returned 23.95% on a price basis and 25.66% including dividends.
- Large-cap, Growth, and Tech sectors significantly outperformed in the first half of the year, with Mid-cap Value taking over as the top-performing sector in the latter half while Growth, specifically Tech lagged, as expected. See **Fig 1**
- The Federal Reserve cut rates by 0.50% in September, followed by two 0.25% cuts in November and December.
- The 10-year Treasury yield rose despite the Fed rate cuts, as we anticipated could be the case.
- U.S. GDP grew at 1.3% in Q1, 3.0% in Q2, 3.1% in Q3, and is estimated to be around 2.7% in Q4. No recession...not even close!
- Skepticism has clearly morphed into optimism in my opinion, which I will detail further in this outlook.



Fig 1

Our forecasts for 2024, just like 2023, were highly accurate. They were also largely contrary to the popular opinions of market strategists and economists in both years. In our 2024 outlook, I noted how many of these "experts" were doubling down on their incorrect predictions from 2023, still predicting a recession and muted market for 2024. I will comment on their thoughts for 2025 later, but let's just say they have decided against tripling down on their wrongness in 2025 with few predicting recession or subdued market returns. Most are bullish on the economy and the stock market.

Client portfolios performed robustly again in 2024, buoyed by the accuracy of our outlook from the very beginning of the year. It seems, reflecting on the title of this section, triumph won from a portfolio performance standpoint in 2024!

## **2025 Market Forecast**

“Sir John Templeton, revisited”

As you may recall from our 2024 Market Outlook, we titled the Market Forecast section “Ode to Sir John Templeton,” highlighting his renowned quote:

“Bull markets are born on pessimism, grown on skepticism, mature on optimism, and die on euphoria.”

Our 2025 forecast invites us to revisit the wisdom of this quote. But first, let’s review the sentiment journey taken by strategists, economists and the investing public over the last few years. At the end of 2022, market sentiment was deeply pessimistic (see our 2023 Market Outlook for our comments on this). However, as we concluded 2023, sentiment shifted to clear skepticism, which continued into 2024 (see our 2024 Market Outlook for our comments on this). Skepticism represents the second stage of a bull market's progression towards its peak and eventual bear market. From the outset of 2024, I anticipated that this skepticism would evolve into the third stage, optimism, by year end (see our 2024 Market Outlook for our comments on this). There is ample evidence this sentiment evolution occurred, and we are now firmly in the optimism phase of the bull market.

It is important to understand that there is no uniform timeframe for each bull phase. The four phases do not each occupy exactly 25% of the bull market's duration. Any phase can be significantly longer or shorter than the others. If the phases were uniform, forecasting the length and end of the bull market would be easy, once the duration of the first phase is known. However, markets never make it easy on us. To quote one of my esteemed mentors,

“The stock market is The Great Humiliator. Its goal is to humiliate as many investors as it can for as much money as it can, as often as it can. Our goal as investors is to engage The Great Humiliator and avoid being humiliated.”

This is a crucial consideration when investing in financial markets. Remembering this will help you to

avoid the common investing mistakes, mostly due to the wild emotional swings most investors experience. I will elaborate on this concept later, as I outline our specific expectations for the stock and bond markets this year.

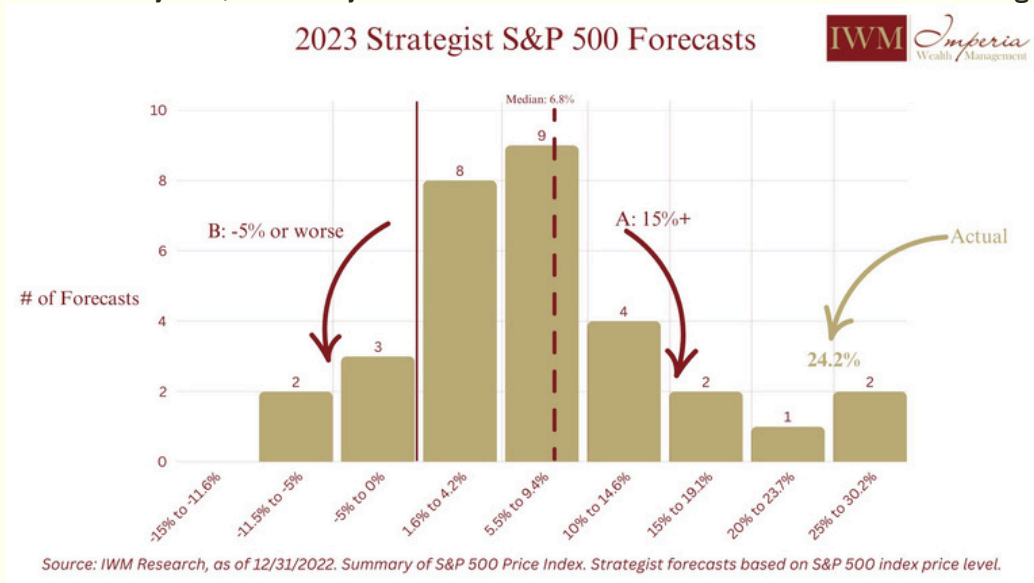
To summarize, being in the optimism phase of the bull market does not necessarily mean we are beyond the midpoint of this bull’s overall duration. We could have a considerable way to go, even once we reach the euphoria stage. Euphoria can last a long time, possibly several years like in the late 1990’s. Without revealing too much of my forecast at this early stage, I currently believe we have ample time before this bull market concludes, though not without some volatility along the way.

**Stock Market Sentiment:**

In both the 2023 and 2024 Market Outlooks, I detailed my methodology for formulating year ahead forecasts for the stock market. To refresh your memory of this process, please refer to our 2023 Market Outlook for a comprehensive description of how and why we feel this methodology works. Here’s a brief summary:

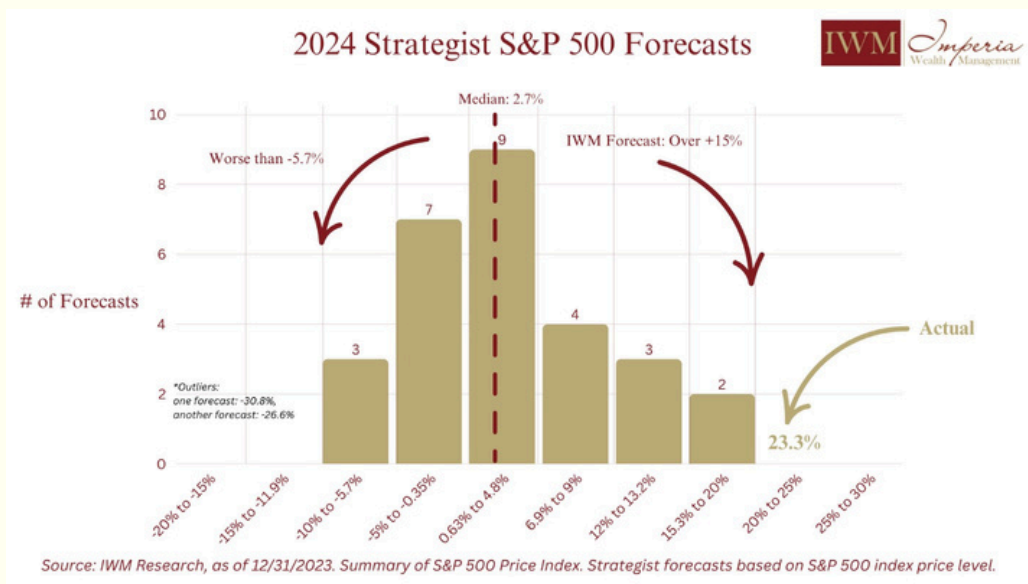
We begin by compiling all publicly available forecasts from as many Wall Street market strategists as possible. These strategists typically release their year-ahead forecasts in early to mid-December, so we can only gather sufficient data around year-end. This timing explains why our Market Outlook is usually released in mid to late January. Once we have a substantial sample of forecasts, we compile the data into a bell curve to identify the consensus (the “belly” of the curve) of Wall Street strategists. Based on our understanding of market and finance theory, we have high confidence that the actual market return for the year ahead will not fall within this consensus range. We have rigorously back tested this methodology over many decades, proving its validity and usefulness. See **Figs 2 & 3** for the sentiment bell curves for 2023 and 2024.

In 2023, you’ll see we used 5% gradations and segmented all forecasts based on which gradation they fall into. As with most years, the “belly” of the bell curve is clear. There are 8 forecasts ranging



**Fig 2**

between 1.6% & 4.2% and 9 forecasts between 5.5% & 9.4%, with the median being 6.8%. The consensus doesn't include forecasts unless there's enough forecasts in a particular gradation as compared to the most prominently forecasted levels. For 2023, we only considered forecasts a part of the consensus if there were at least 3 or more in a single gradation. So, for 2023, the consensus ranged from -5% to +15% with no gaps in that range. So, from there, we knew the actual return of the S&P 500 would not fall within this consensus range. The actual return would either miss the consensus on the low-side or on the high-side but would not pierce the "belly." So, all we had to do was decide, based on our research, whether we'd have a positive year or negative year in the market for 2023. If negative, the S&P would return worse than -5.7%. If positive, it would return better than +15%. We forecasted the latter, better than positive 15%. We were correct and the actual return of the S&P 500 for 2023 was +24.2%. 2024 wasn't very different, although there were more negative forecasts than in 2023. Essentially, the entire bell curve moved slightly to the left as seen in **Fig 3** below.

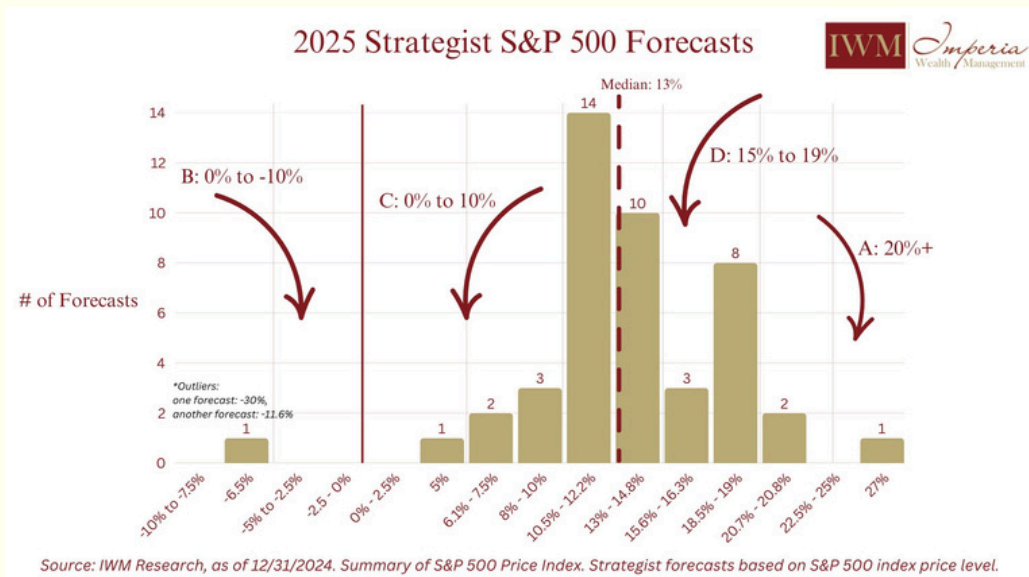


**Fig 3**

In 2024, we included all forecasts if there were 2 in a particular gradation, mostly because the 15-20% gradation had one forecast just barely over 15%, which could be considered a part of the 10-15% segment just as easily as the 15-20% segment. So, given this, we defined the consensus range to be between -5.7% and +15%. Same as 2023, we simply needed to determine whether we'd have a positive year or a negative year. If positive, the S&P 500 would return better than +15% and if negative, worse than -5.7%, but, once again the actual return would not pierce the "belly" of the curve. We forecasted better than positive 15% for the reasons outlined in our 2024 Market Outlook. We were correct and the actual S&P 500 return for 2024 was +23.3%.

Once we have constructed our bell curve, we typically identify a clear, widespread consensus, as seen in figures 1 and 2. We can then eliminate that range of forecasts as a possibility for the S&P 500's potential return outcomes for the year, typically leaving only a couple of

remaining possibilities. Often, the remaining outcomes are on opposite ends of the return spectrum, just like in '23 & '24. However, for 2025, the bell curve presents four distinct possibilities for the S&P 500, making this year more challenging to forecast, as you'll see in **Fig 4**.



**Fig 4**

Based on our research, I've listed the potential outcomes in order of probability from most probable to least probable. It's important to note that my team and I performed more research this year than was required in years past, because all four of these possibilities are very close in terms of probability. If this were a horse race, there would have been a photo finish. The four potential outcomes are:

- A. Positive 20%+ return for the third consecutive calendar year
- B. Slight negative return (0 to -10%)
- C. Slight positive return (0 to +10%)
- D. Positive 15-19% (piercing a gap in the consensus range)

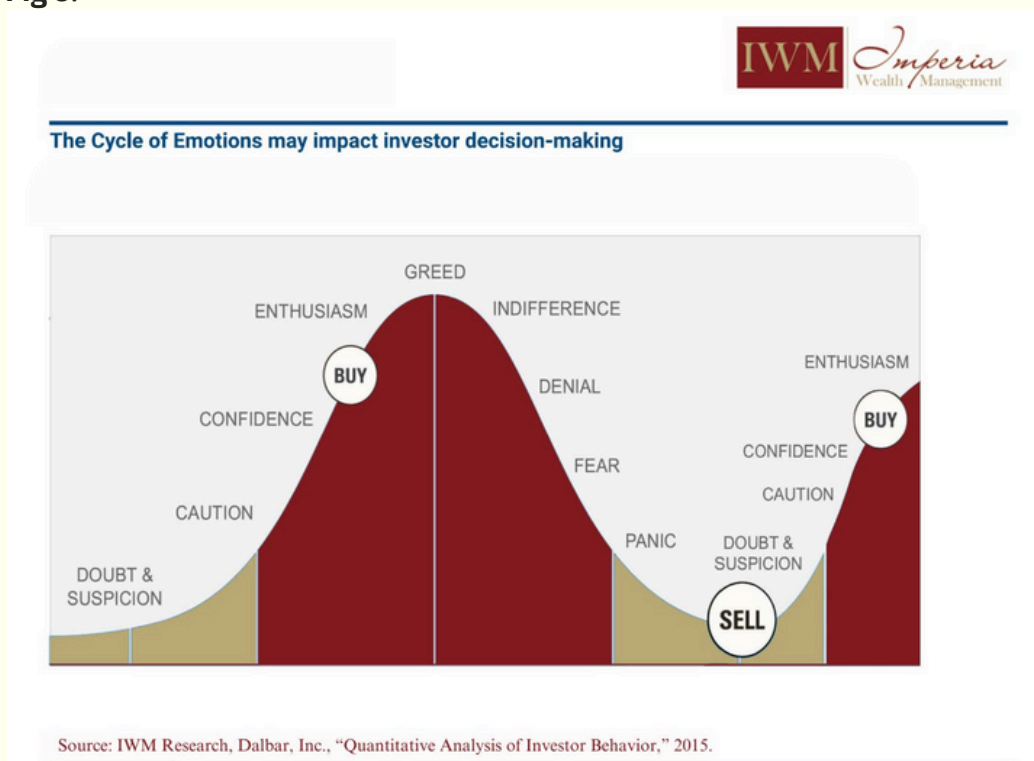
A fifth outcome is also technically possible when considering the 2025 sentiment bell curve in isolation, without any additional research. It is conceivable that the market could experience a significant negative return in 2025, negative by more than -10%. However, as previously mentioned, the bell curve is only the first step in formulating our market forecast. From there, we conduct additional exhaustive research to determine which of the remaining possible outcomes is most likely. That most likely outcome becomes our forecast. I have chosen not to include a significant negative return as a likely possibility for this year for reasons you'll understand as you read on in the outlook.

Our "post bell curve" research is detailed, technical in nature and comprehensive. Rather than listing all the specific charts, data points, and fundamental and technical market influences we examine, which would make this already long outlook excessively lengthy, I will highlight those I believe to be the most impactful for 2025.

In any given year, the stock market can experience one of four possible return scenarios:

1. Significant gains: Greater than +20%
2. Modest gains: Between 0-20%
3. Modest losses: Between 0-20%
4. Significant losses: Greater than -20%

For the first three scenarios, investors should remain fully invested in their long-term allocations based on their individual goals and needs. The only time it may be warranted to deviate from your long-term plan is when the fourth scenario occurs. There's always volatility in markets. Volatility is an inherent aspect of investing. As market strategist Burt White aptly puts it, "Volatility is the toll we pay to invest." While this is true, I would add, "but if the toll is too high, we should take a different route." In my opinion, the fourth, "down a lot" scenario represents a toll too high to simply stay the course, making it prudent to temporarily enact alternative, more defensive strategies. But in scenarios 1-3, staying the course is the best decision for investors' portfolios. There are only two ways the stock market experiences significant losses, commonly referred to as a bear market. As many of you know, I have extensively studied behavioral finance throughout my career. I attribute much of my investment success to this understanding, which allows me to remain unemotional in my market forecasts, market analysis and portfolio construction. Emotion is the enemy that often derails investors' results. Numerous studies, including the renowned Dalbar study, support this view. See **Fig 5**.



**Fig 5**

Behavioral finance teaches us that investors tend to become overly euphoric near market peaks and panic near market troughs. This behavior is counterproductive and damaging but consistently observed. Warren Buffet's famous quote, "Be fearful when others are greedy, and be greedy when others are fearful," encapsulates this concept perfectly. However, few investors manage to follow

this advice, often buying near market peaks and selling near market bottoms, causing long-term carnage to their portfolios. One of our key roles as your wealth management team is to provide unemotional counsel, helping you avoid this critical mistake.

When investors, including professionals, become euphoric, they tend to focus only on information that confirms their optimism, a phenomenon known as confirmation bias in behavioral finance. This euphoria can cause them to overlook significant negative market influences, that ultimately come with a significant negative surprise factor, thus leading to a bear market. Initially, these investors may hold on, believing the initial market decline is a short-lived correction, only to panic and sell near the bottom, again at the worst possible time. This “roller-coaster” of investor emotions has played out for generations and is a primary reason investors consistently underperform with their investment returns.

Euphoria is unmistakable when it is present and is a key signal that we may be at or near the top of the market cycle. When euphoria is present, it is so obvious it's literally palpable. However, euphoria alone does not cause a market to peak and transition into a bear market. It must be accompanied by one or more significant negative factors that are being widely ignored. I emphasize "being widely ignored." As I have written extensively over the years, the market is a highly efficient pricing mechanism. Therefore, if something is widely known or expected by investors, it has no influence over future market performance. By the time information is reported in newspapers or discussed on television, it is already factored into the market and thus powerless.

Because of this, euphoria coupled with ignored negative factors is the most common cause of bear markets. The reason I excluded the fourth scenario (down a lot) from my list of possible outcomes for the S&P 500 in 2025 is that I do not believe investor sentiment has yet reached a euphoric state. I see it firmly in the optimism phase, but not euphoric by any stretch. Plus, the risks currently cited by investors and strategists have been widely known for a long time, are simply incorrect, or both. They will not cause a big negative return for the market in 2025. It would take something new that is being widely ignored to do that, and I don't see any big negative factors currently being widely ignored. Frankly, I see the opposite. Big positive factors being widely ignored or described as insignificant by strategists. Here are the most discussed risks to the market for 2025:

- Stubborn inflation
- Federal government debt levels
- Consumer anxiety about housing costs
- Trade tariffs leading to trade wars and a spike in inflation
- Historically high valuations for the stock market (P/E ratio and Shiller CAPE ratio)
- Missteps in monetary policy by the Federal Reserve

I am confident that none of these risks sound new to anyone reading this outlook. To put it another way, since no one reading this outlook sees anything new in this list, all six of these risks are already priced into the market and therefore have no power over future market direction. Yes,

some of these risks are potentially damaging, but their potential negative impact has already been digested by the market, and current market levels reflect their risk.

Here is a useful exercise when you are feeling fearful about the market being too high or near peak levels, potentially transitioning into a bear market: Ask yourself, "What significant negative influence do I see that almost no one is talking about?" If you do not have an answer, you have no basis for being bearish. Your bearishness is simply emotional in nature, not based on analysis and will be wrong a lot more than right, hurting you in an almost non-recoverable way. We will get bearish at some point. But 2025 is not the year for that, even if we have a slightly negative return (Scenario B from the 2024 Forecast Chart).

Let me address a couple of the above "risks" that are fundamentally incorrect and/or widely known already. It is common to hear strategists mention that market valuations are at historically high levels, posing a risk to this bull market. I have stated this in past outlooks, but it bears (no pun intended) repeating: Market valuations, commonly measured by P/E ratios, have no predictive value for future stock market returns. Not for any index, sector, country or individual stock. Zero impact. This is easily proven by examining P/E data that reliably goes back almost 100 years. We know the P/E levels for each year dating back to 1926. If P/E levels were good predictors of future performance, this would be evident in the data. In reality, if we look at P/E levels for, whether high or low, or average every year and then examine the market returns 1, 3, 5, 10, and 15 years into the future for each of those years, we see that P/E levels have zero predictive power. In fact, by performing basic data analysis akin to data analytics 101, you can quickly calculate the correlation coefficient for P/E ratios and future stock market performance to be 0.0. See Fig 6. A correlation coefficient of 0.0 means there is no correlation between P/E ratios and future market performance. Yet, you will continue to hear pundits and strategists clamor about P/E's being historically high throughout 2025...mark my words!

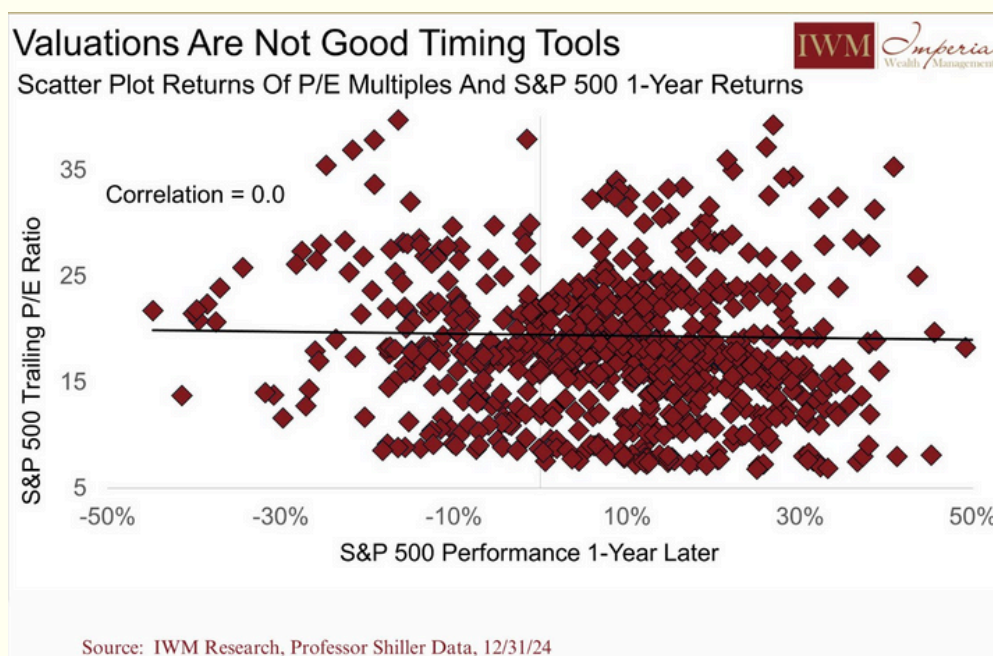


Fig 6

The Shiller CAPE P/E ratio, developed by renowned economist Robert Shiller, offers a different perspective on market valuation compared to traditional P/E ratios. CAPE stands for **C**yclically **A**ddjusted **P**rice-to-**E**arnings. One inherent issue with the CAPE ratio is its backward-looking nature concerning the earnings component, as it places no emphasis on the potential for accelerating earnings in future years. In an economic environment where productivity is rapidly increasing, it is reasonable to expect the CAPE ratio to be higher than historical norms, with the potential to expand even further. This is because earnings are likely to accelerate alongside productivity enhancements. For this reason, using backward looking data in this fashion is flawed. I don't believe it is sound analysis.

Additionally, the earnings used in the CAPE ratio are based on GAAP (Generally Accepted Accounting Principles) earnings. However, the rules dictating the method for calculating GAAP earnings has evolved over the years, further complicating this analysis. GAAP rules are very different now than 20 and 30 years ago. So, comparing the ratio from one period to another is simply not useful. Therefore, I would not rely on the current elevated CAPE level to predict market returns for 2025, or any future period.

Another risk from the list that always perplexes me is fear about potential missteps by the Federal Reserve. The Federal Reserve consistently makes errors, and that's being nice. What I really should say is that The Federal Reserve regularly says and does things that are simply crazy. Throughout my career, I cannot recall a single year when the Fed did not make a questionable decision or statement. In almost every year as long as I've been in this industry, and for almost every year I've studied in history, I can point to several missteps by the Fed with many reaching the level of absolute insanity. Their missteps are normal. Fearing what is normal in markets is counter to how markets work. Let me give you a couple of examples of the Fed making crazy missteps.

In early 2021, Fed Chair Powell was confident that there would be no spike in inflation. He was clear and confident about that stance. Later in 2021, when inflation began to rise, he described it as short-term, even calling it "transitory." As I referred to in our 2023 Market Outlook, we moved our clients out of bonds in September of 2020 because we were very confident inflation was coming, and not just your average everyday version of inflation. We saw a level of inflation imminently starting akin to the late 1970's. All the ingredients needed for hyper-inflation were clearly in place. It was unavoidable in our mind. So, we adjusted portfolios as a result, literally taking our clients completely out of bonds. I'm grateful we did, because bonds had a negative total return in 2021 and their single largest negative return in history in 2022, due to inflation fueling a dramatic rise in interest rates, causing bond prices to fall. After a slight uptick for bonds in 2023, they had another negative year in 2024. Getting out of bonds is one of the best portfolio decisions I've made in my career. In time, Powell had no choice but to admit he was wrong about inflation being "transitory."

In 2022, as inflation was on the rise with its ascent accelerating, Chairman Powell gave us this beauty. On May 4, 2022, when inflation was nearing its peak of 9.1%, which it hit just over 1 month later in June, Chairman Powell stated that a 75 basis point (0.75%) increase in the Fed Funds rate was, and I quote, “not something the committee was actively considering.” **Not even considering it.** Then, amazingly, at their next Board of Governors meeting on June 15th, they raised the Fed Funds rate by 75 basis points. Then, they raised by another 75 basis points on July 27th and another 75 basis points at the very next meeting in September. This sequence of events suggests his original claim that they weren’t even considering such a hike was either a total lack of awareness on Powell's part or a deliberate misrepresentation. Regardless, the Federal Reserve's erratic behavior is not new and should be expected to continue. I expect it every year and so does the market.

Finally, to conclude this discussion on risks to the stock market in 2025, it is important to note that all the other items on the list have been widely disclosed, discussed, and reported. For instance, the high level of U.S. government debt, potential tariffs by President-Elect Trump, and high housing costs are all well-known. They’ve been reported on and discussed ad nauseam. Consequently, these factors are already factored into the market and are unlikely to be significant market movers in 2025.

So, without euphoria, or the presence of a big, powerful ignored influence on markets, I simply don’t see a big negative year as a reasonable expectation for 2025. That is, unless the second cause of a bear market occurs.

You may have heard the term "black swan event." This refers to an unpredictable event that comes out of nowhere and has a substantial negative impact on the economy and, consequently, the stock market. The COVID-19 lockdowns were a recent example of a black swan event. Predicting black swan events with any consistent accuracy is impossible. Because they are unpredictable, it is also impossible to take defensive measures against bear markets resulting from such events. Doing so would be akin to making a wild guess that such an event will occur and cause a significant down market as a result. Making portfolio strategy decisions based on a wild guess is obviously not a good idea, so we won’t partake in doing it.

That said, if such a “black swan” event does occur in 2025, what is a reasonable expectation for how the market would react. Well, on the bright side, given that current sentiment falls short of euphoria, a bear market induced by a black swan event would likely be short-lived, like the market reaction during COVID-19 in 2020. At that time, the S&P 500 fell 37% between February 20th and March 23rd. It then quickly rebounded, surpassing its February 20th level by August 21st, just four months later. As we think back to that time, it was obviously scary to almost every investor. We counseled our clients against making any drastic investment strategy shifts. Why? Because attempting to time such market moves is futile and would likely do more harm than good. So, don’t try. It’ll hurt you more often than not.

#### **Four Remaining Plausible Outcomes:**

It is rare for the consensus among market strategists to be overwhelmingly bullish for any given year. But that's exactly what it is for 2025. Overwhelmingly bullish, with few forecasts of a negative year for the S&P 500. Refer to Figures 1 and 2 from earlier in this outlook. You'll see that strategists have become considerably more optimistic about the stock market's prospects in 2025. While one could argue for a slight variation in the consensus range, the difference is negligible and unimportant to our forecast.

The challenge in finalizing our forecast for 2025 lies in the presence of ample evidence supporting each of the four plausible market outcomes, as well as ample evidence against each. In such situations, I refer to a quote from one of my great mentors. He would regularly say something like:

"The stock market is The Great Humiliator. Its goal is to humiliate as many investors as it can for as much money as it can, as often as it can."

In other words, the market tends to surprise as many people as possible. Therefore, I rank these potential outcomes based on the level of surprise each would cause. The greater the surprise, the more likely the outcome. While this may seem counterintuitive, it reflects how the market operates regularly. With this in mind, I will now cover the plausible outcomes for 2025. As a reminder, and in the order of probability (most probable to least probable) I believe the four plausible outcomes are:

- A) Positive 20% or higher return for the third consecutive calendar year
- B) Slight negative return (0 to -10%)
- C) Slight positive return (0 to +10%)
- D) Positive 15-19%

In environments where several potential outcomes are nearly equally plausible, I find it helpful to look back at historical precedents. By summarizing the current environment and identifying similar periods in history, we can gain insight into how the market might behave in 2025. The current backdrop for this bull market reminds me of the secular bull market that began in 1982. For clarity, a secular bull market is a long-term market uptrend lasting decades, with occasional short-term bear markets along the way. The stock market experienced a major uptrend starting in 1982 lasting until 2000, with only two minor bear markets, each lasting about three months in 1987 and 1990. It was a textbook secular bull market that has several similarities to the present time.

In 1982, The White House was occupied by President Ronald Reagan, a political outsider better known for his acting career than politics. Today, another political outsider, President Trump, will re-occupy The White House who, until his election in 2016, was better known as a real estate developer and reality tv star, than politician. Reagan's platform, often referred to as "Reaganomics," focused on reducing government regulation and lowering taxes.

He succeeded in both, enacting the largest tax cut in history in 1980, reducing the top marginal income tax rate from 73% to 28%, the lowest rate since 1925. He deregulated aggressively, slashing the budgets of several government agencies, including the EPA, DOE, and OSHA. Today (and in his first term), President Trump's platform is largely about cutting taxes and significant deregulation. In fact, he has officially created a team to focus solely on reductions in government spending, called the Department of Government Efficiency, DOGE for short. His 2017 Tax & Jobs Act slashed corporate and personal tax rates dramatically, across the board, although not nearly as much as Reagan's. Two very comparable platforms. With these and several more similarities, I believe the 1982-2000 bull market to be very instructive when thinking about this bull market.

Although a tremendously powerful, long-lived bull lasting 18 years, it also came with some short-lived bear markets along the way. In 1987, we experienced a three-month bear market, primarily remembered for a single day, October 19, 1987. That day, commonly referred to as "Black Monday," the Dow Jones Industrial Average fell by 22.6% and the S&P 500 fell 20.5%. To put scale on the severity of that drop, the S&P 500 closed out 2024 at 5,881.63. From that level, it would have to fall 1,205.73 points in a single day to fall 20.5%. But, after Black Monday, the market rallied mightily until August of 1990, when a very mild bear commenced, surrounding tensions in the Middle East as a result of Iraq invading Kuwait. By comparison, today's bull market had a short-lived decline in 2020, in the early stages of the Covid pandemic, followed by a mighty rally until 2022, with another short-lived market decline in '22, that I consider more of an oversized correction, rather than a bear market, as I've said many times. But semantics aside, the 2022 decline, although a bit longer in duration than the one in 1990, fell 25% from peak to trough. In 1990, the total decline was 21.16%, both mild by bear market averages and very comparable in many ways.

When productivity measures experience hyper-improvement, it is completely feasible that price-earnings ratios for the market also expand significantly. That's what happened in the 1990's and based on economics, finance-theory and empiricism, it's very possible it happens today, in 2025. Based on LSEG Data & Analytics, S&P 500 earnings are expected to grow by 14.8% in 2025. Analysts have been underestimating earnings growth for years and I expect they are doing the same for 2025. I expect earnings will grow at a greater pace than 14.8%. But let's assume they're spot on with their estimate. A 14.8% growth in earnings along with even subtle P/E expansion and significant growth in productivity can absolutely result in a third 20%+ year for the S&P 500. Yet, almost no one is forecasting that. As comparison, throughout the 1990's, there was also consistent noise about how the market was overvalued.

Yet in the face of the high valuation fears, in October of 1990, the secular bull started charging again for almost 10 more years, until it peaked in March of 2000. During that period, more similarities to today exist. In 1994, after a huge market advance, the S&P 500 took a breather, peaking in the Spring and then experiencing a difficult final three quarters of the year, ending with a -1.54% return as the internet revolution was in its infancy.

Then, in 1995, the internet infant matured rapidly, leading to those massive productivity gains for the economy and fueling a massive five-year advance for the market that almost no one believed was possible in the face of already lofty valuations. The noise about how high P/E's were was gaining steam and getting louder.

In fact, during a televised speech at a dinner of the American Enterprise Institute on December 5, 1996, Federal Reserve Chairman Alan Greenspan expressed concerns about the stock market being overvalued. He stated:

“But how do we know when irrational exuberance has unduly escalated asset values, which then become subject to unexpected and prolonged contractions as they have in Japan over the past decade? And how do we factor that assessment into monetary policy?”

Greenspan's remarks signaled his readiness to act monetarily if necessary, causing the markets to react with a short-term negative move, lasting a few days. However, the market's strength soon overshadowed these concerns, continuing its robust performance. Notably, Greenspan's caution came a full three and a half years before the market reached its peak, during which time the S&P 500 more than doubled.

his historical context underscores the importance of not overreacting to market valuation concerns. Refer again to Fig 6 should you need a reminder that valuations tell you literally nothing about future market returns. Despite Greenspan's access to extensive financial data and resources, his early warning did not prevent the market's significant gains. This serves as a reminder to focus on broader market trends rather than short-term valuation metrics.

In the face valuation warnings from most forecasters along with the most powerful person in economics, after a short pause in 1994, here's what the S&P 500 returned to finish this incredible bull:

1995: 34.11%

1996: 20.26%

1997: 31.01%

1998: 26.67%

1999: 19.53%

The incredible 1995-1999 market advance also came right after the 1994 “pause.” Remember, in 1994, the S&P lost 1.54%. But that pause created a springboard for 1995 that continued through

March of 2000. Looking back at the 1990's is a key reason I think scenario A (up 20+%) or scenario B (down 0 to -10%) are the two most likely outcomes for 2025. As I see it, both are nearly equally likely to occur. Here's why.

Remember, the market took a breather in 1994 before reaccelerating at an even more robust pace from 1995-1999. This is a very common path for bull markets to take. Several bull markets have paused briefly at some point in the middle of their run, only to charge faster and more aggressively after the pause. The scenario I see leading to this occurring in 2025 is simple. Recall Sir John Templeton's famous quote referring to the sentiment progression that occurs during bull markets.

“Bull markets are born on pessimism, grown on skepticism, age on optimism and die on euphoria”

Sentiment was incredibly pessimistic as we entered 2023. Then, in last year's outlook, I detailed that it had moved into skepticism and expected it to progress to optimism by the end of 2024. Earlier I detailed that is exactly what happened. Sentiment ended 2024 squarely in the optimism phase of this bull market journey. What are the signs I see that tell me this?

The consensus of market strategist forecasts (the “belly of the curve for 2025) has moved significantly more positive, with only three negative forecasts total, an obvious sign that sentiment has become optimistic. Moreover, when I discussed our thoughts ahead of writing our 2024 outlook, many of these strategists reacted to our bullishness by showcasing their own confirmation biases. They'd say things like, “okay, you're bullish but what about x? That's not good for the market.” In this example, x was usually something already widely known like inflation worries. They were ignoring the positives and solely focusing on the negatives. I described this in last year's outlook as “doubling down on their wrongness from 2023.” They were wrong again for 2024 and the market outperformed their expectations by a lot. This year, the reactions to our outlook have been less debate and more telling me why they're also bullish, but that another 20%+ year is simply unlikely statistically. This is a reaction deep rooted in their 2024 skepticism morphing into optimism for 2025.

Individual investors have also gotten more optimistic. I'm constantly asked by family, friends and other advisors what I expect the market to do, and I am happy to discuss my thoughts. Engaging in these discussions is very instructive. It provides powerful anecdotal insight into the sentiment of the general public and other advisors. Remember, that which is already widely expected is already priced into the market and can't cause any future influence over markets. Only surprise can do that. Their reaction? Most people are optimistic this year for the market. But they react a bit confused, questioning the plausibility of both a 20%+ gain and a slightly negative year being our top two scenarios, since they are opposite outcomes. Their reaction last year was that of surprise that we were expecting better than 15% for the market, especially after

2023's huge return. They were skeptical!

While these two outcomes may seem contradictory, they reflect the market's inherent complexity. Just as in sports, where evenly matched teams may have the same chance of winning the game, the two possible outcomes are polar opposite. Either Team A wins, or Team B wins, right? Opposite outcomes, each of which seem perfectly plausible before the game starts. It's only during the game that one outcome might present itself as more plausible than the other. That's 2025's stock market in my opinion. The key is to remain open to different possibilities and understand that the market consistently defies consensus expectations and will give us significant signs of its most likely outcome, likely early in the year. That's what I believe will happen this year. I expect the market to provide strong signals as to its ultimate return for the year, early on, likely within the first quarter of 2025. I'm confident we'll be able to eliminate one or more of the four plausible outcomes. When that happens, we'll update our outlook and make sure we send it to you.

Remember from our 2023 & 2024 outlooks, the market does not go up or down based on whether the economy and other market forces are good or bad. It goes up or down based on whether reality is better or worse than expectations. When sentiment is pessimistic, expectations are very low and it's easy for reality to exceed those expectations. When in the skepticism phase, it's not quite as easy, but still not difficult. When we enter optimism and expectations are more bullish, like this year, it's harder for reality to exceed those expectations. In times of euphoria, it's very difficult. The challenge for reality to exceed currently optimistic expectations is a headwind for returns, making the pause a distinct possibility.

As I detailed earlier, a mid-bull pause, like in 1994, is not uncommon. My understanding of market history and cycles tells me 2025 could be "the year of the pause." If it is, get ready, because that pause often creates the same springboard effect we saw in 1995.

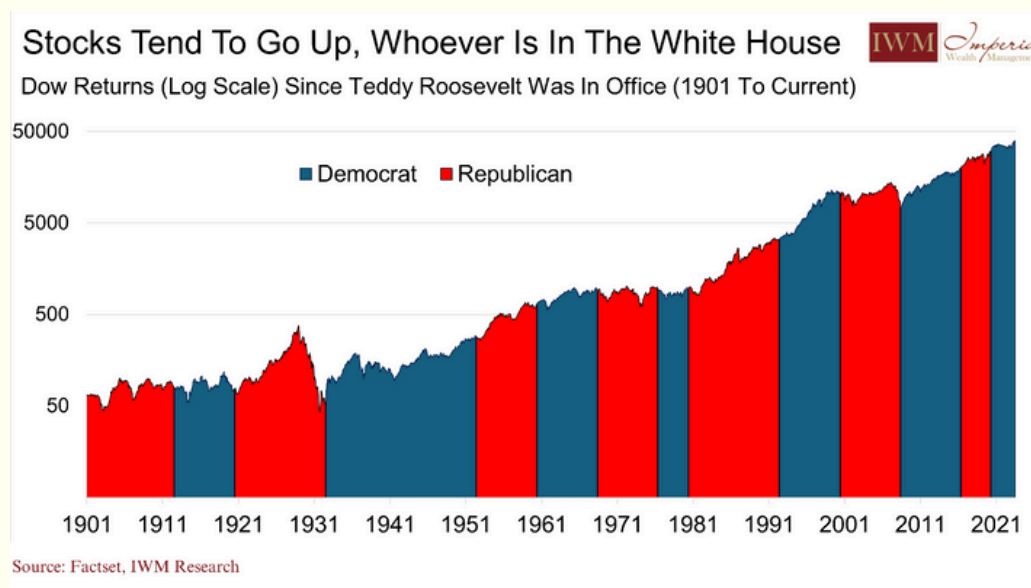
There's another measure that sentiment might be ahead of itself. I've said many times, even to many of our clients, that when it comes to forecasting markets or making portfolio decisions, whatever your political ideology, you need to forget you have one. Doesn't matter if your Republican or Democrat or Independent. Left leaning or right leaning, liberal or conservative, your political ideology will hurt you when forecasting markets or making portfolio decisions. My team and I NEVER let ideology influence our analysis, EVER. That's not to say that politics has no effect on markets, it does. But, not in the way most people think. I wrote a one-pager on this and emailed all our clients in February of last year anticipating the political angst that was inevitable during a contentious election year. I'll explain it this way. Do you know how to tell when politicians are lying? That's right, you guessed it....

When their lips are moving!

Alright, this has been a long outlook so far, so one more... Do you know where the word politics

comes from? The root poli, meaning many and tics, meaning blood sucking bugs. Ok, now you know I don't play partisan politics when forecasting markets. So, keep in mind that anything I say on this subject is purely based on how markets interpret politics and should not be construed as my personal feelings. In fact, I'll say it as clearly as I can. The market doesn't really have an ideology and performs well over time regardless of what party is in The White House. See

**Fig 7**



**Fig 7**

In election years, like 2024, the market tends to do quite well. In fact, they're positive 83% of the time with an average return of 11.6%, above average.

During campaigns, both candidates talk a big game. They promise the world and their promises tend to be consistent with their political ideology. The market tends to consider Republicans as more business friendly and Democrats as more anti-business and receives their campaign promises through that lens. So, in years when a Republican is elected, the average return for the S&P 500 is a robust 15% on average because the market is pricing in the positive effects of all the pro-business promises made by the Republican during the campaign. When a Democrat wins, the return is less, at 7.6% because the market fears the perceived anti-business promises made by the Democrat during the campaign. But then the next year that relative performance comparison flips, and the S&P 500 does better under Democrat Presidents than Republican. Why? The answer is in my first joke above. Both candidates were lying to us during the campaign about many of their initiatives. To say it another way, we know that no matter what their actual intention, neither candidate will be able to get ALL of their initiatives legislated into law. So, if the market cheers the Republican in the election year, and only a portion of the pro-business policies get enacted, the market is disappointed and has lower returns. If the market gets fearful over the Democrat initiatives in the election year, and only a portion of those get enacted, the market takes a sigh of relief and moves higher on the news that at least some of the items it feared won't get passed.

President Trump has a high hurdle to jump over in 2025. The market rallied *bigly* (I couldn't resist) immediately after the election as it looked forward to the pro-business promises he made throughout the campaign. He won't get all of those passed, which is a headwind for market returns this year, making a pause a likely outcome.

The election increased market optimism making it harder for 2025's reality to exceed those loftier expectations. This doesn't mean I think it'll be a difficult year for the market. Remember, the down a little scenario is my 2nd most likely outcome.

The current optimism about the economy and market makes it more difficult for reality to exceed those loftier expectations, which is why I believe a slightly negative year is the 2nd most plausible outcome for the market in 2025.

Second only to a third year of spectacular returns of 20+%. What do I see to place that outcome as the most plausible outcome? A lot.

First, once a bull market reaches its 2nd anniversary, it is historically common for there to be a lot left before it's done. See **Fig 8**.

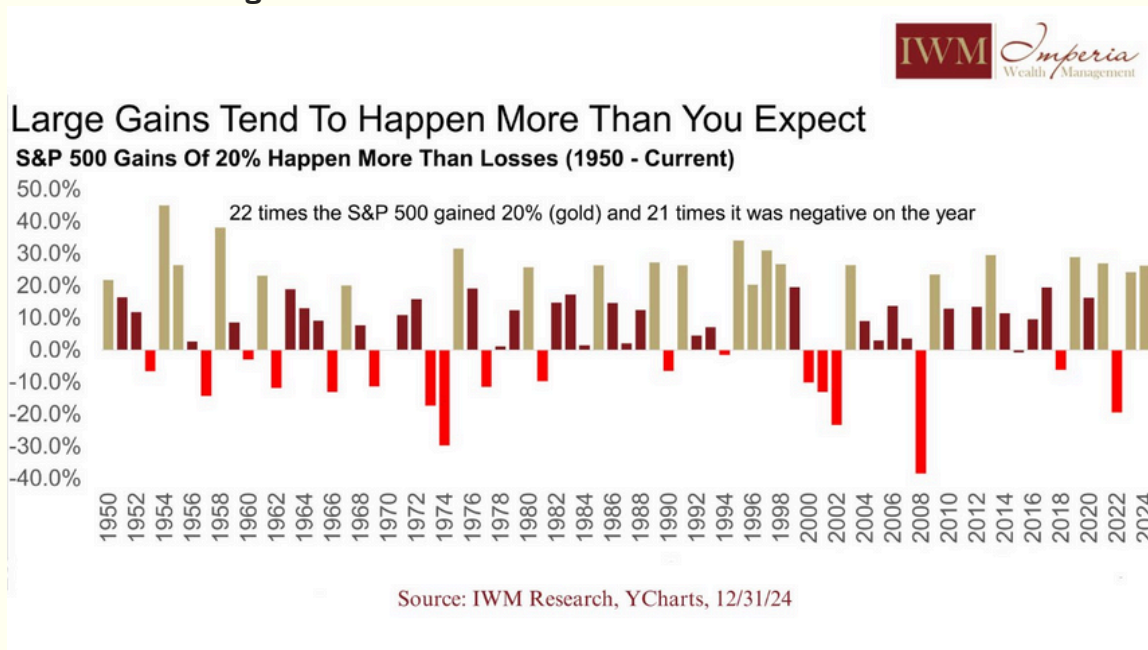


Since 1926, the average bull market has lasted 3.8 years. However, recent bull markets have been significantly longer. The last 10 bull markets, dating back to October 1957, have averaged 5.38 years in length. Currently, at 2.2 years old, there is potentially abundant time left in this bull market. The average return during the positive years of bull markets exceeds 20%.

Given this statistic and the start date of the current bull market on October 12, 2022, it is entirely plausible to expect a third consecutive year of 20+% returns for the S&P 500 in 2025. Positive years during bull markets typically see returns north of 20%, making it likely that 2023 would see such gains, which it did. Similarly, a 20+% rise in 2024 was also likely, given the bull market was only 14 months old at the start of that year. Unless we experience a pause similar to 1994, we'll have another positive year in 2025.

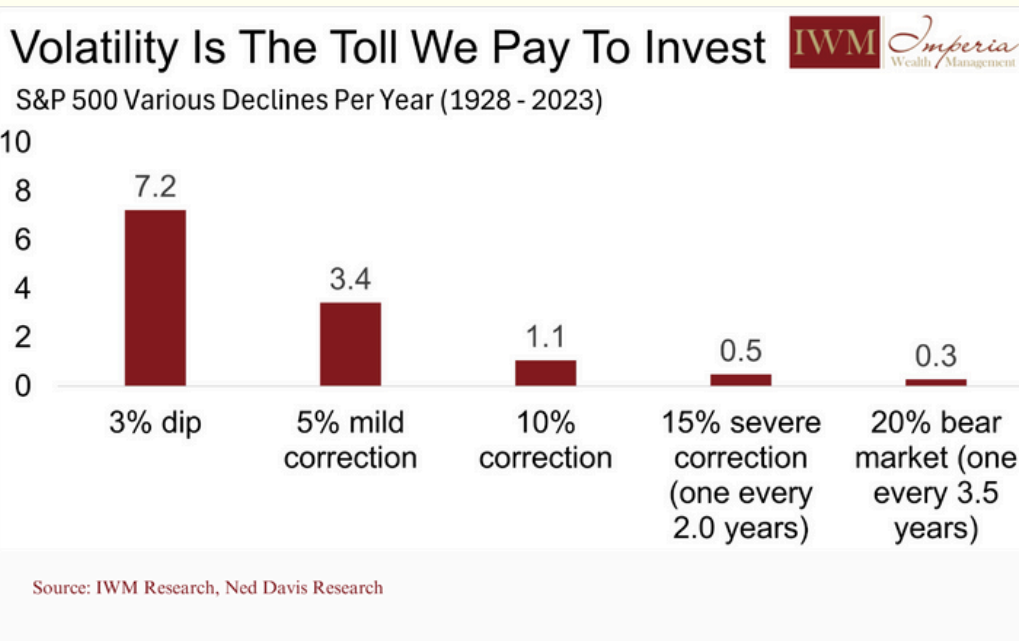
Since positive years of bull markets average more than 20%, a 20+% return in 2025 is quite plausible. Despite the focus on the rarity of three consecutive 20% up years for the S&P 500, this is not a particularly powerful statistic from a data analytical perspective. There is nothing inherently special about the third year compared to the first two. Historical data shows that no single year has any predictive power over future returns. However, the statistics I presented here are significant and align with how market cycles operate based on finance theory, market history, and empirical evidence, yet they're being widely ignored. This is another example of confirmation bias causing forecasters to overlook just how possible another 20+% year for the S&P 500 is in 2025.

People generally underestimate just how volatile the market is normally. It is inherently more volatile than almost anyone gives it credit for. In fact, calendar year returns of 20% or more happen a lot more than most realize. See **Fig 9**.



**Fig 9**

Volatility cuts both ways. If the market is up 20%+ more as often as the above chart shows, and it averages approximately 10% per year on average over the long term, that means there are negative times that make that math work. See the bright red lines in Fig 8. More than that, it is very common to have a 10%+ correction in most years. On average, the S&P 500 undergoes a 10%+ correction 1.1 times per year. Volatility is very normal. We didn't have a 10% correction in 2024, so expect at least one in 2025. Remember the quote from earlier by Burt White, "Volatility is the toll we pay to invest." See **Fig 10**.



**Fig 10**

Finally, when the market is positive in the first year of a presidential term, it has often been gang-busters positive, giving the 20+% scenario even more credence. For all these reasons, I believe a 20+% return for the S&P 500 is the most likely outcome for the market. Slightly less likely is a slight negative year of between 0 to -10%, the 1994 style “pause.” Third most likely is a slightly positive return between 0 to +10%. I don’t see any reason to fear a significantly negative year, but I do expect some sharp corrections during the year. Like I’ve said in past Market Outlooks, don’t let those corrections get the best of you. Stay steadfast. Corrections happen often, even in significantly positive years. That’s what I see in store for 2025.

**Sub Asset Allocation:**

In our 2024 outlook, I highlighted one major difference as compared to 2023. I saw a shift in market leadership, likely in the second half of the year, in which small/mid-Caps would start to outperform large-caps and value stocks would outperform growth. That shift occurred as I expected. See Fig 1 from the beginning of this outlook. I believe that shift is in its very early stages and will become a more powerful presence in 2025. As the Fed has cut short-term rates, longer rates have actually risen, causing a revision to the once inverted yield curve. When the yield curve steepens as it has been and I expect will continue to, banks are incentivized to lend more.

They’re in the business of borrowing money at short-term rates and then lending money at long-term rates. As the spread between short and long rates expands, so to does their profit margin on each loan they issue. Small/mid cap companies rely on borrowing more than large companies do. So, as bank lending loosens up, it benefits small and mid-sized companies far more than large, fueling them to outperform large in terms of stock returns. The same is true for value stocks.

They rely more on borrowing for expansion than growth stocks. Additionally, the progression into the

optimism phase of this bull market has brought new money into the market that was previously on the sidelines. The pessimists from 2023 had substantial money simply sitting in cash because, well, they were pessimistic about the market's future performance. Then in 2024, those pessimists became skeptics, still keeping significant investable dollars on the sideline. But now they're optimists and have begun to put that money into the market. When that phenomenon occurs, that new money tends to get invested in parts of the market that haven't yet risen too much, because those investors tend to fear the sectors that have already risen dramatically are too high to buy into now. But the laggards are still low enough for them to invest in. So, the new money finds the underperforming sectors, directly fueling the shift in leadership that has begun to happen. I believe we are in the early stages of this shift, and it will strengthen in 2025. So, we have been readjusting your portfolio weightings, increasing your exposure to mid-cap and value stocks and will continue to do so, positioning you properly for this phase of the market.

## Bond Market in 2025

I've already given away part of my forecast for the bond market in 2025. I have some bad news for folks who have put off buying a house as they wait for mortgage rates to decline significantly. I believe you'll be waiting longer, possibly much longer. One of the most common misunderstandings investors have surrounds this very topic. As I mentioned earlier, The Federal Reserve only directly controls very short-term interest rates, specifically the Fed Funds Rate and the Discount Rate. The Fed has no direct influence over longer-term interest rates, like the 10- year Treasury, for instance. Those rates are determined by the market. Sure, the Fed has at times decided to "intrude" into the market and buy or sell bonds to influence the direction of rates. But even at those times, what they've really done is decide to become an investor in the market. A very large one, but an investor, nonetheless. They can't simply "wave their magic wand" and change rates by a specific amount of their choosing. Their market actions are there in the open to be analyzed by the rest of the market. And, frankly, sometimes they get their desired outcome, and sometimes they don't, just like the rest of us as we invest. Last year, when the Fed enacted their first rate cut in September of 2024, I heard a lot of noise from individual investors, market strategists, media pundits and even mortgage industry "experts" alike that it would lead to lower mortgage rates. This never ceases to amaze me, because the Fed cutting rates has absolutely zero impact on mortgage rates. Maybe a little impact on 1-, 2- and 3-year ARM's but longer-term fixed rate mortgages are most impacted by the direction of the 10-Year Treasury rate. The day the September cut was announced, I discussed this with several people and told them I saw mortgage rates more likely rising through year end because I believed the 10-Year Treasury would rise through year end. That's exactly what happened. Treasury rates have many influences that can move their interest rate and inversely bond price. I believe the most impactful influence is the strength of the economy relative to expectations. If the economy is stronger than expected, Treasury rates will almost certainly rise. Conversely, if the economy is weaker than expected, it'll almost certainly fall. Well, the economy finished the year much stronger than expected, causing Treasury rates to increase significantly to finish 2024, pulling mortgage rates along at the same time. **See Fig 11.**



Fig 11

Notice the almost immediate and significant rise in 10-Year yields upon the first Fed rate cut. I believe the economy will be stronger than current expectations in 2025, having the same effect. There are a lot of reasons I have reached this conclusion, and I'll cover those now. Fig 10 above illustrates another key positive economic impact. The Fed Funds Rate is now below the 10-Year Treasury Rate, the reversion of the yield curve I highlighted earlier when talking about the shift in stock sector leadership. That reversion, which leads to an increased incentive for banks to lend means the economy will likely see a robust year-over-year growth rate in the amount of money lent to businesses in 2025 vs. 2024. That money will almost immediately be spent and have an immediate positive economic impact. This is something almost no one is talking about but is very powerful. Initial and continuing unemployment claims are showing the labor market is very stable. See Fig 12.

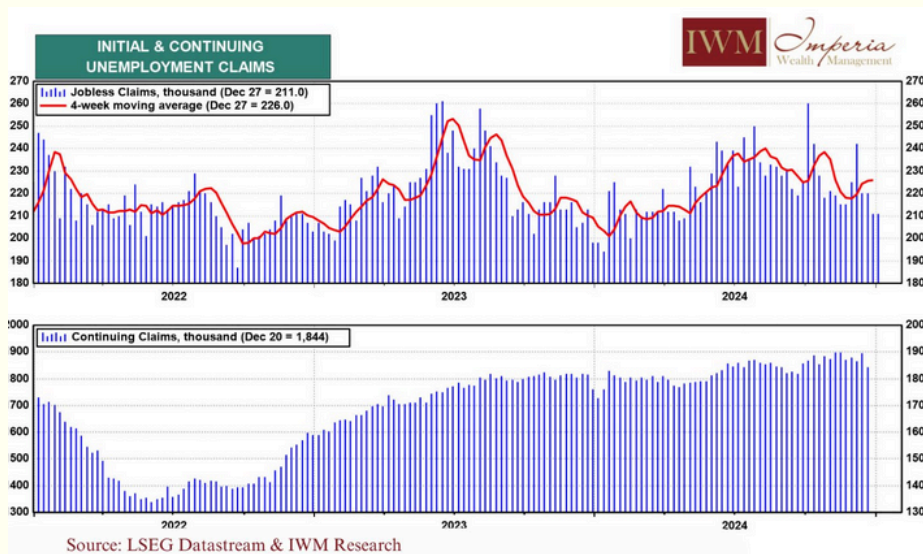


Fig 12

Initial jobless claims can be a very volatile statistic, with wild swings up and down, as the top chart in Fig 11 shows. But it's trended lower for most of 2024. I expect the downward trend will continue in 2025, with its normal volatility. Currently and trend-wise, it illustrates a strong employment picture for the U.S. economy. Continuing claims is a much less volatile statistic, typically as the bottom chart shows. It had a rise starting in 2022 but has remained stable since. If initial claims continue to improve, so will continuing claims, albeit with a lag.

Consensus U.S. GDP forecasts are for our economy to grow at 2.2% in 2025. I believe that to be low and expect GDP to grow closer to 3.0% this year. That may not seem large, but in market terms, it would be a very big positive surprise for both the stock and bond market and would almost certainly mean Treasury rates rise in 2025, causing bond prices to fall resulting in another difficult year for bond performance. As such, we remain negative on the prospects of bonds as an investment category in 2025, expecting a negative total return for the Aggregate Bond Index. The time will come to own bonds someday. But that day isn't here right now in my opinion.

In summary, although I expect the Fed to cut rates at least two times in 2025, I also expect Treasury rates to rise this year. This will lead to a steepening of the yield curve, fueling healthy year-over-year growth in bank lending and a stronger economy than current consensus expectations. The stronger economy should be a positive surprise for stocks, increasing the likelihood that the S&P 500 will have a very good year again in 2025. Our official forecast is 20+%, while we wouldn't be surprised by the market finishing the year with a return falling in any of the four plausible outcomes we detailed throughout this outlook.

I know this has been a long, detailed report and want to thank you for reading it. I hope you can appreciate the amount of research my team and I perform on an ongoing basis as we construct the investment strategies we believe will position your portfolios for success over the long term. We are so pleased we've been able to so accurately forecast the market for 2023 and 2024. Our research and understanding of financial markets is what has allowed for that success. But we know we are engaging The Great Humiliator, so we will continue to work hard for you every day. Again, we take our responsibility to you very seriously and strive to do our best for you. That will continue to be our focus. We thank you for being our clients and are humbled you've entrusted us with your wealth management. Thank you!

With appreciation,

A handwritten signature in black ink that reads "Michael L. Bellody". The signature is fluid and cursive, with the first name "Michael" and last name "Bellody" clearly legible.

**Michael L. Bellody**

Founder & CEO

Chief Portfolio Strategist



The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and may not be invested into directly. Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful. No strategy assures success or protects against risk.

The logo for IWM (Imperia Wealth Management) features the letters 'IWM' in a white, serif font inside a dark red rectangular box.

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Wealth Management

## 2025 Market Outlook

**Written by**

**Michael L. Bellody**

Founder & CEO

Chief Portfolio Strategist