



2025 Economic and Investment Outlook

Buffalo, NY

February 5, 2025

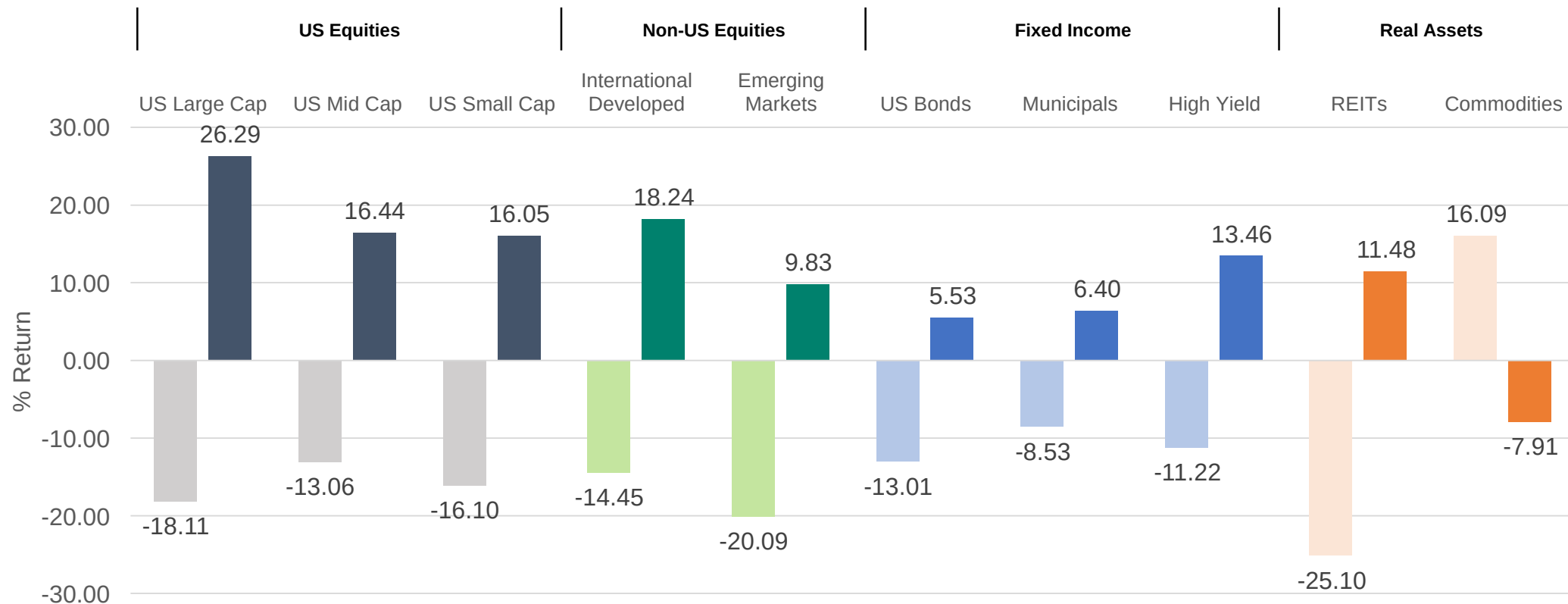
Top 5 Questions for 2024

Question	Our Thoughts
1. Has the Fed “fixed” inflation?	• Progress yes, but some prices still too high and the Fed doesn’t want to repeat the “70s Show”
2. Will growth continue to surprise on the upside, or will we have a recession?	• Growth will slow but not stall; we do not foresee a recession, but if one were to occur, it would be in 2025 and a mild version
3. What’s the outlook for interest rates?	• Interest rates may drift lower, although forces other than the Fed may be at play; we believe market participants are too ahead of the Fed
4. Will the “Magnificent 7” remain magnificent, and what’s the outlook for stocks?	• Selectivity will be important; favor high quality dividend payers
5. What are the implications of this year’s elections for investors?	• Don’t let your political views to influence your investment views and focus on what you can control



Financial markets rebounded in 2023

Calendar Year 2022 versus 2023



Light Color: 2022 Dark Color: 2023

Indices used for:

Past performance is no guarantee for future results

US Equities: US Large Cap - S&P 500 TR USD; US Mid Cap - S&P MidCap 400 TR USD; US Small Cap - S&P SmallCap 600 TR USD

Non-US Equities: International Developed - MSCI EAFE NR USD; Emerging Markets - MSCI EM NR USD

Fixed Income: US Bonds - Bloomberg US Agg Bond TR USD; Municipals - Bloomberg Municipal TR USD; High Yield - ICE BofA US High Yield TR USD

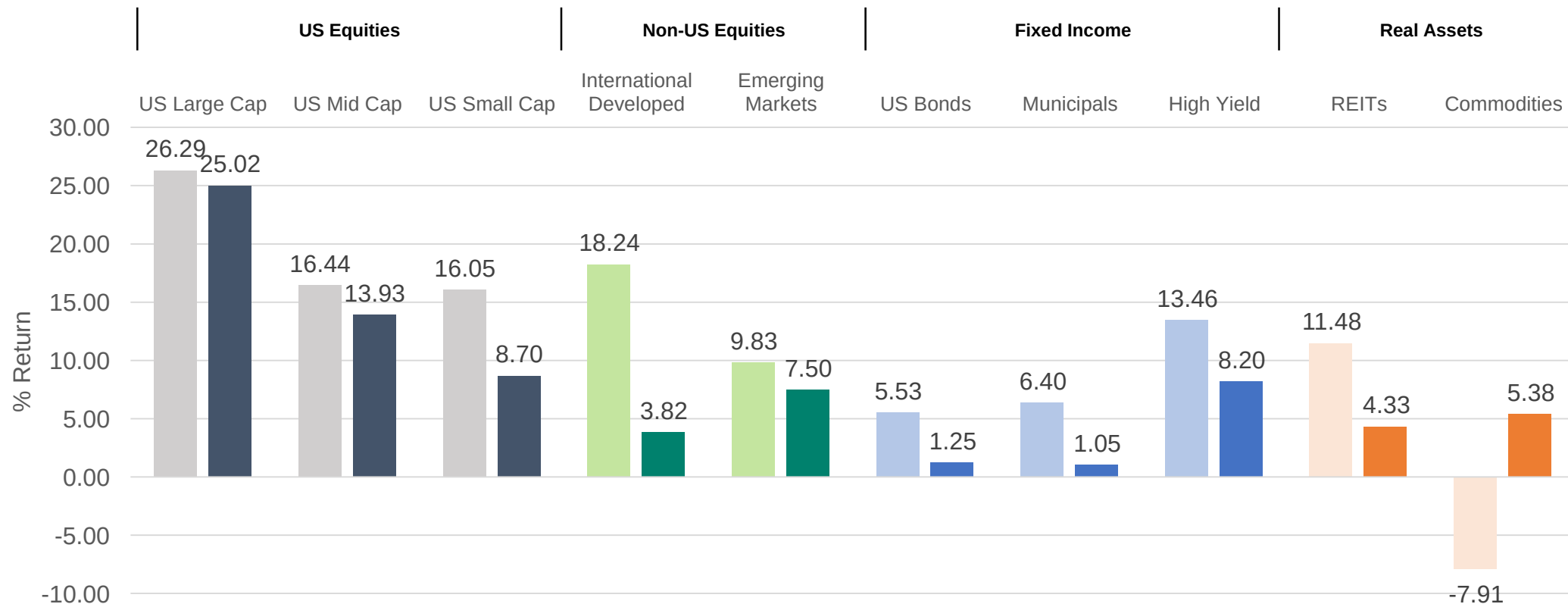
Real Assets: REITs - FTSE Nareit All REITs TR USD; Commodities - Bloomberg Commodity TR USD

Source(s): Key Wealth, Morningstar Direct



Financial markets continued trend in 2024

Calendar Year 2023 versus 2024



Light Color: 2023 Dark Color: 2024

Indices used for:

Past performance is no guarantee for future results

US Equities: US Large Cap - S&P 500 TR USD; US Mid Cap - S&P MidCap 400 TR USD; US Small Cap - S&P SmallCap 600 TR USD

Non-US Equities: International Developed - MSCI EAFE NR USD; Emerging Markets - MSCI EM NR USD

Fixed Income: US Bonds - Bloomberg US Agg Bond TR USD; Municipals - Bloomberg Municipal TR USD; High Yield - ICE BofA US High Yield TR USD

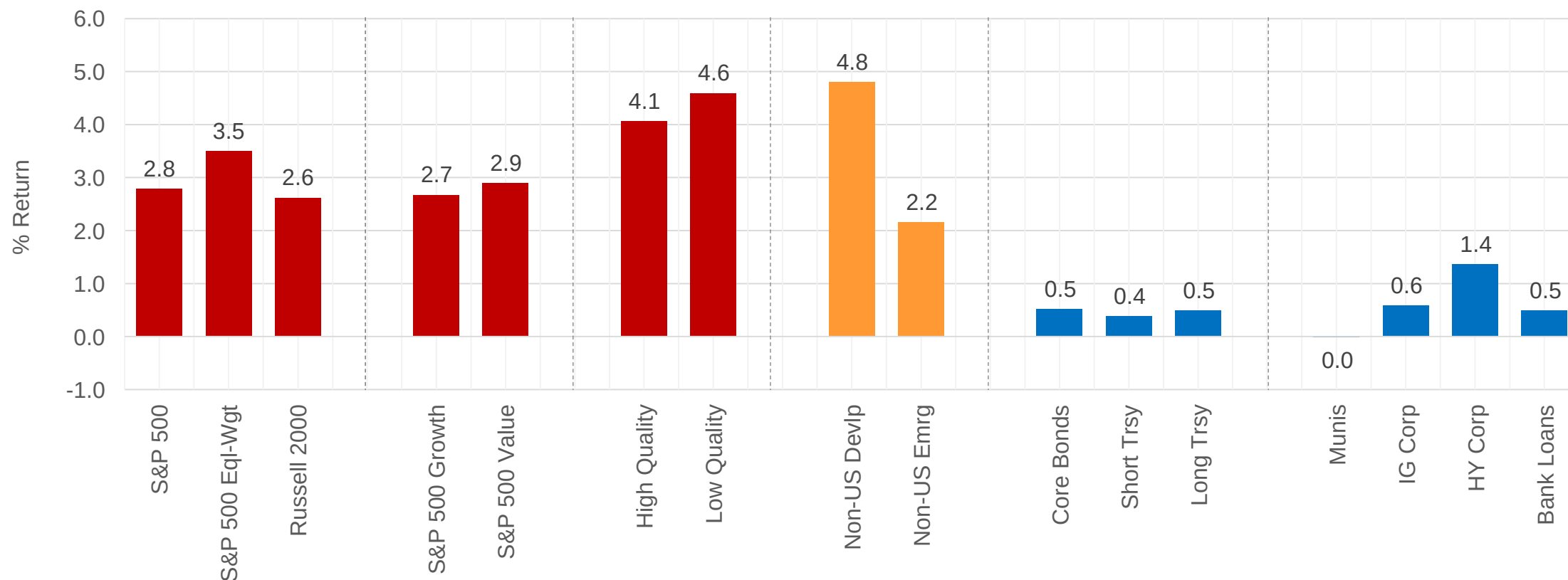
Real Assets: REITs - FTSE Nareit All REITs TR USD; Commodities - Bloomberg Commodity TR USD

Source(s): Key Wealth, Morningstar Direct



Financial markets are positive so far in 2025

YTD return through January 31, 2025



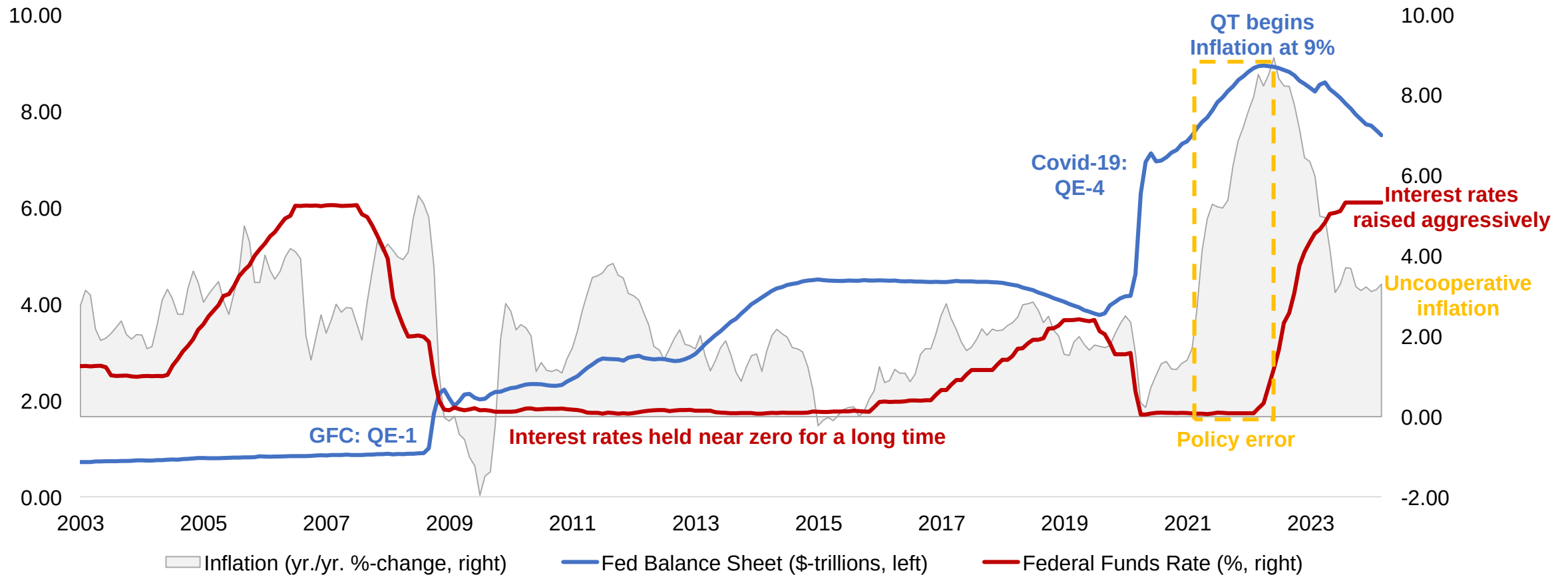
Past performance is no guarantee for future results

Source(s): Bloomberg, Key Wealth

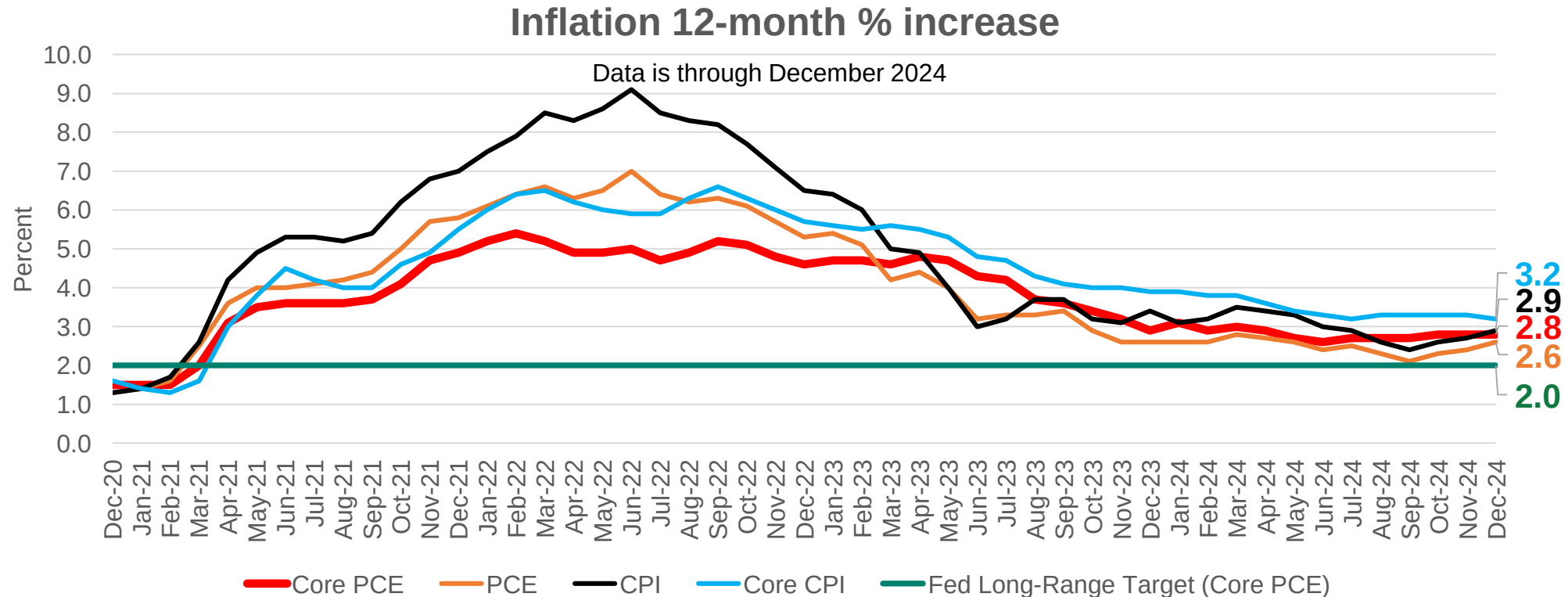


Brief recap of how we got here

The Fed's Balance Sheet, The Federal Funds Rate and Inflation



Inflation is moderating, but remains elevated



Rising inflation has been an issue for consideration for the Federal Reserve and its monetary policy after the initial COVID recovery. Current levels are elevated and exceed desired price stability. Inflation has been the primary catalyst for the Fed's decision to begin rate hikes in March 2022 and marked the beginning of a new cycle defined by tighter monetary policies, including 17 interest rate increases of 25 bps in 2022 and 4 more in 2023. As inflation moderated, the Fed began cutting interest rates in September 2024. **One important caveat:** long-term inflation expectations are still near their long-term range of 2.0%-2.5%.

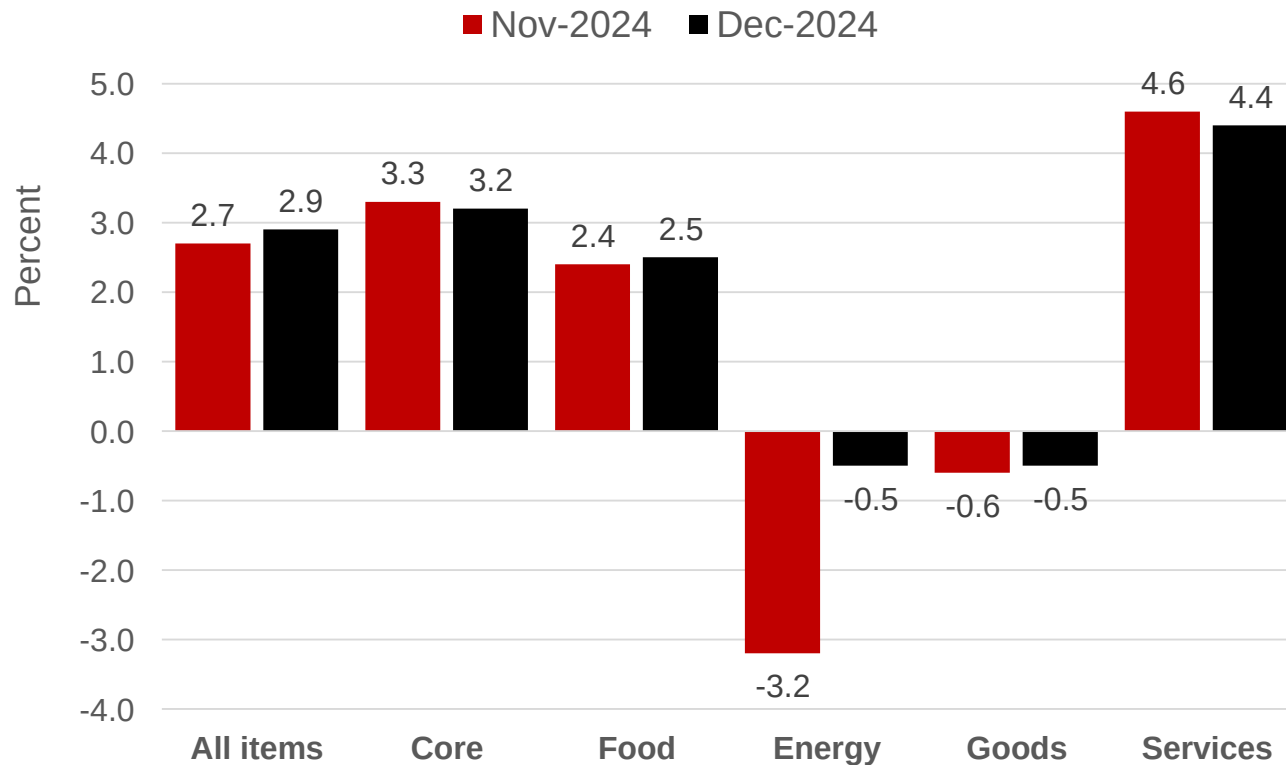


12-month percent change in Consumer Price Index (CPI) and Personal Consumptions Expenditures (PCE) Index, not seasonally adjusted. Core excludes Food & Energy.

Source(s): Federal Reserve Bank of St. Louis, Bureau of Economic Analysis, Bureau of Labor Statistics, Key Wealth

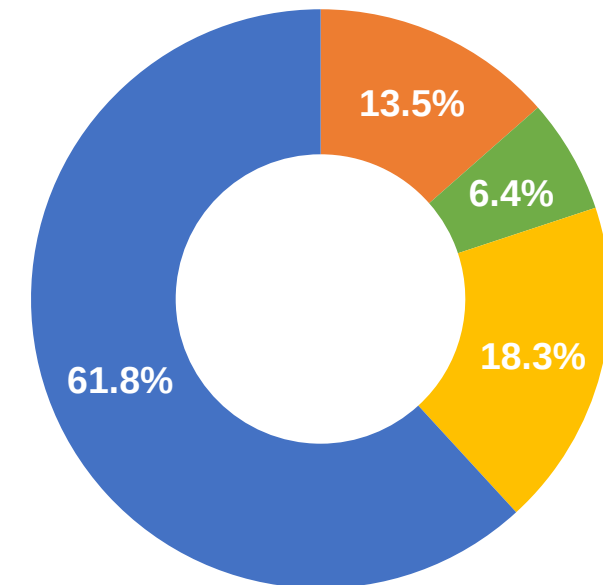
Inflation is moderating, but remains elevated

CPI Year-over-Year Percentage Change –
November / December



CPI Components
% Weighting

■ Food ■ Energy ■ Goods ■ Services



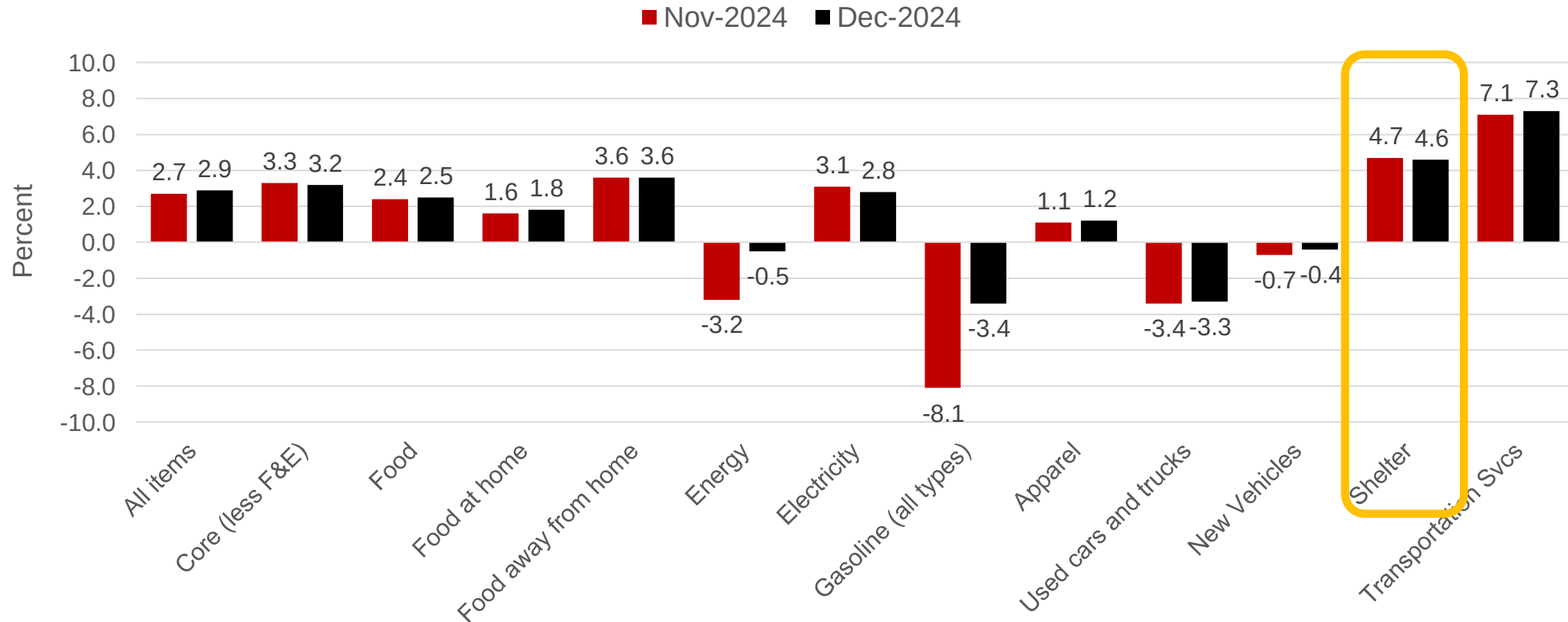
12-month percent change in Consumer Price Index (CPI) for All Urban Consumers (CPI-U), not seasonally adjusted.
Core, Goods and Services components exclude Food & Energy

Source(s): Federal Reserve Bank of St. Louis, Bureau of Labor Statistics, Key Wealth



Inflation is moderating, but remains elevated

CPI Year-over-Year Percentage Change – November / December

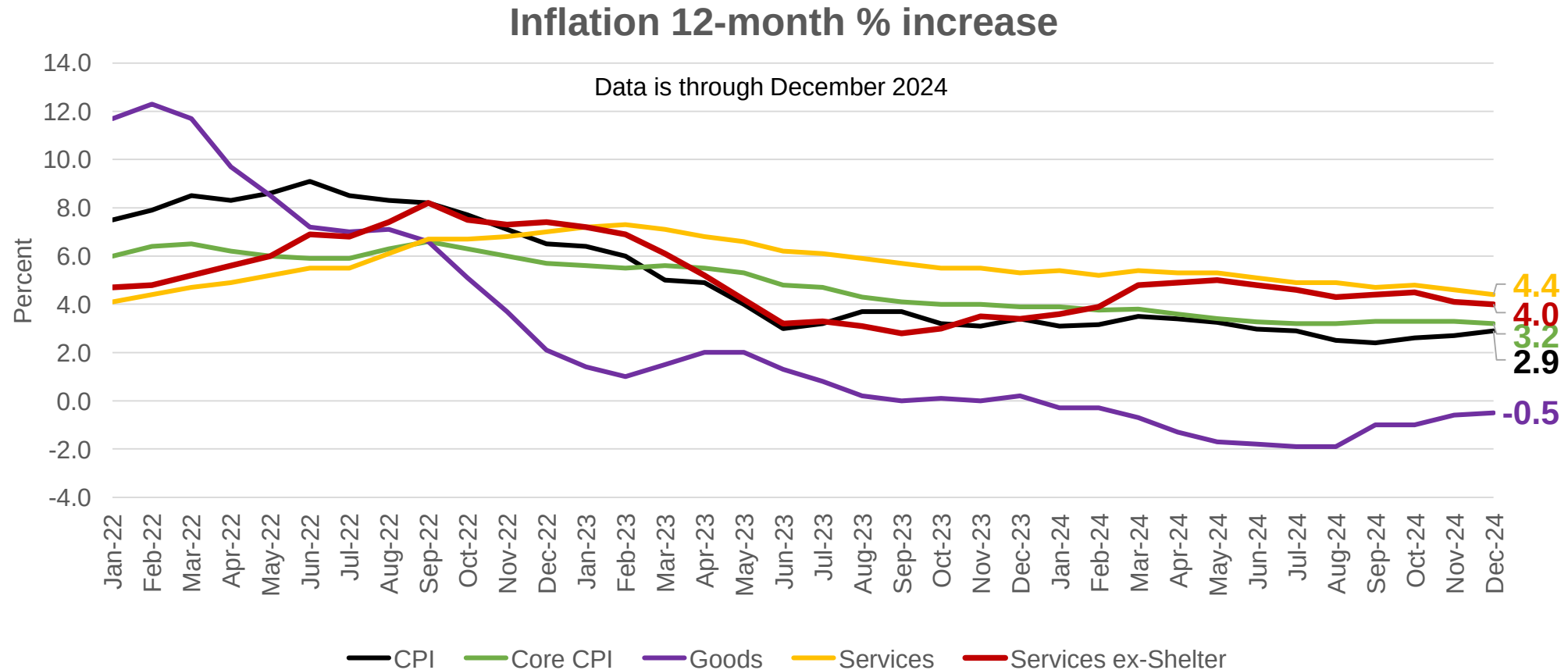


12-month percent change in Consumer Price Index (CPI) for All Urban Consumers (CPI-U), not seasonally adjusted.

Source(s): Federal Reserve Bank of St. Louis, Bureau of Labor Statistics, Key Wealth



Inflation is moderating, but remains elevated



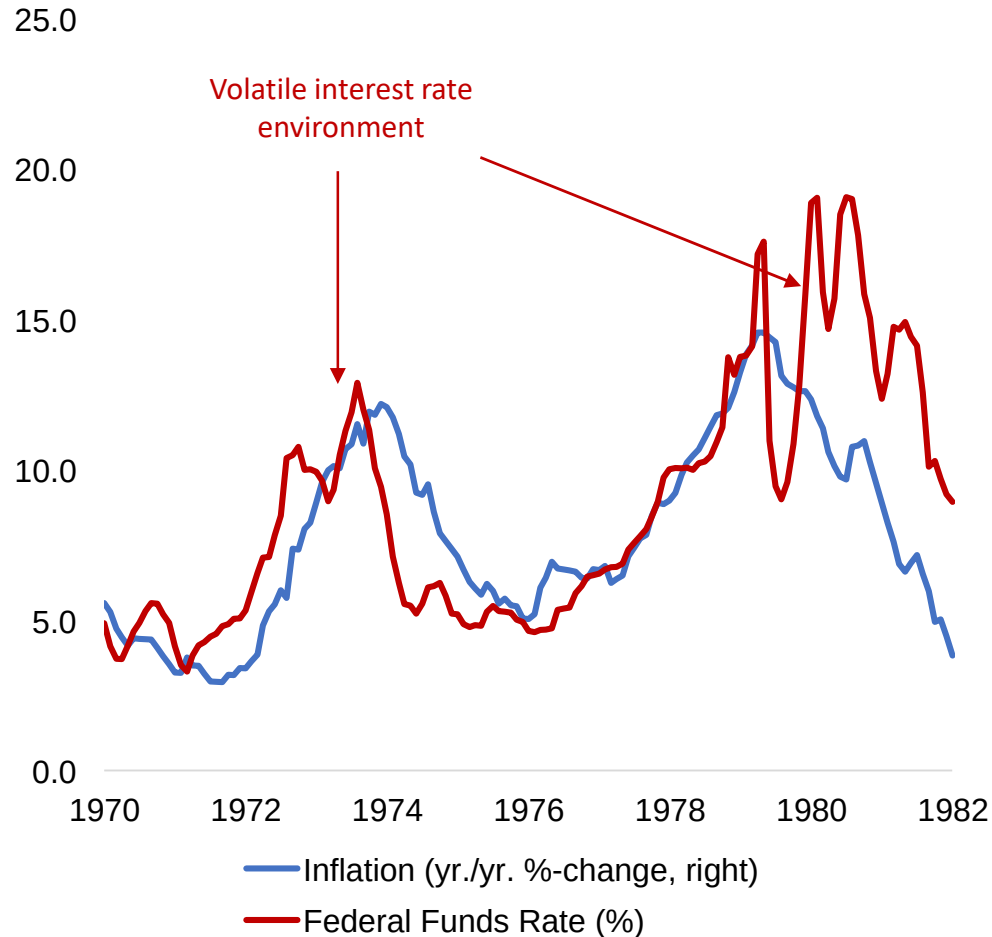
12-month percent change in Consumer Price Index (CPI) components, not seasonally adjusted.
Core, Goods and Services components exclude Food & Energy

Source(s): Bureau of Labor Statistics, Key Wealth

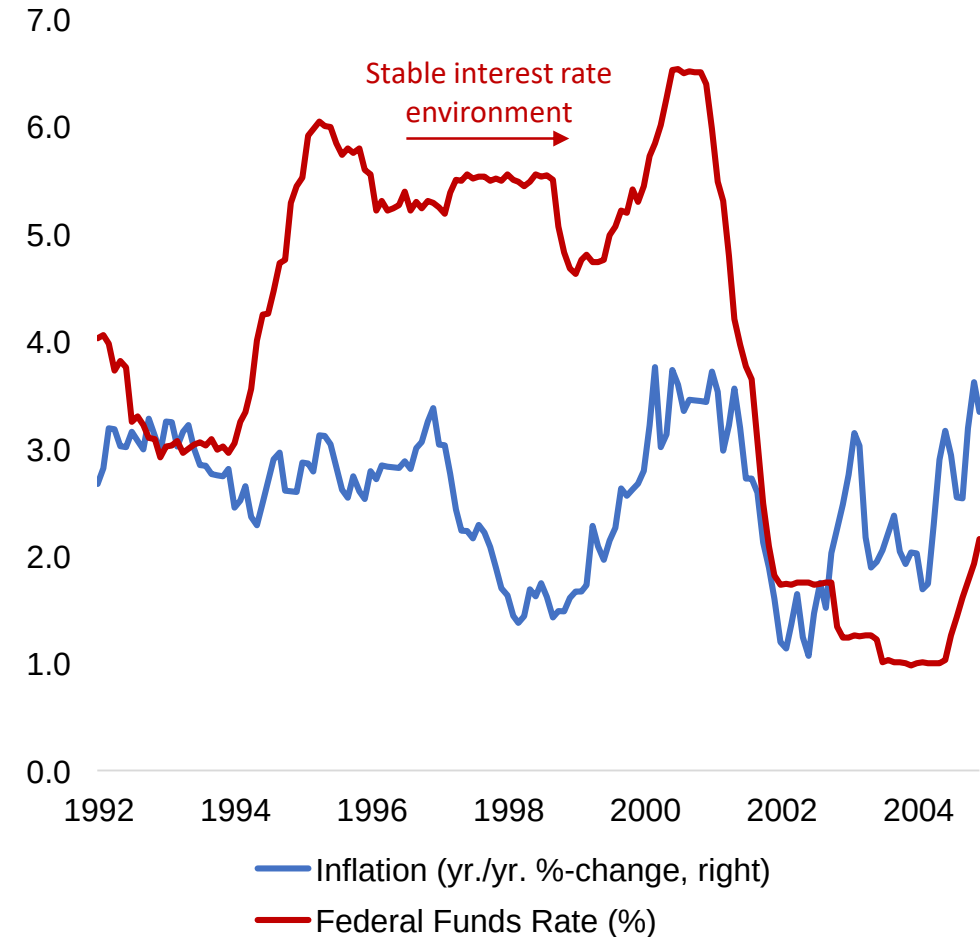


1974 or 1994? We know which the Fed would prefer

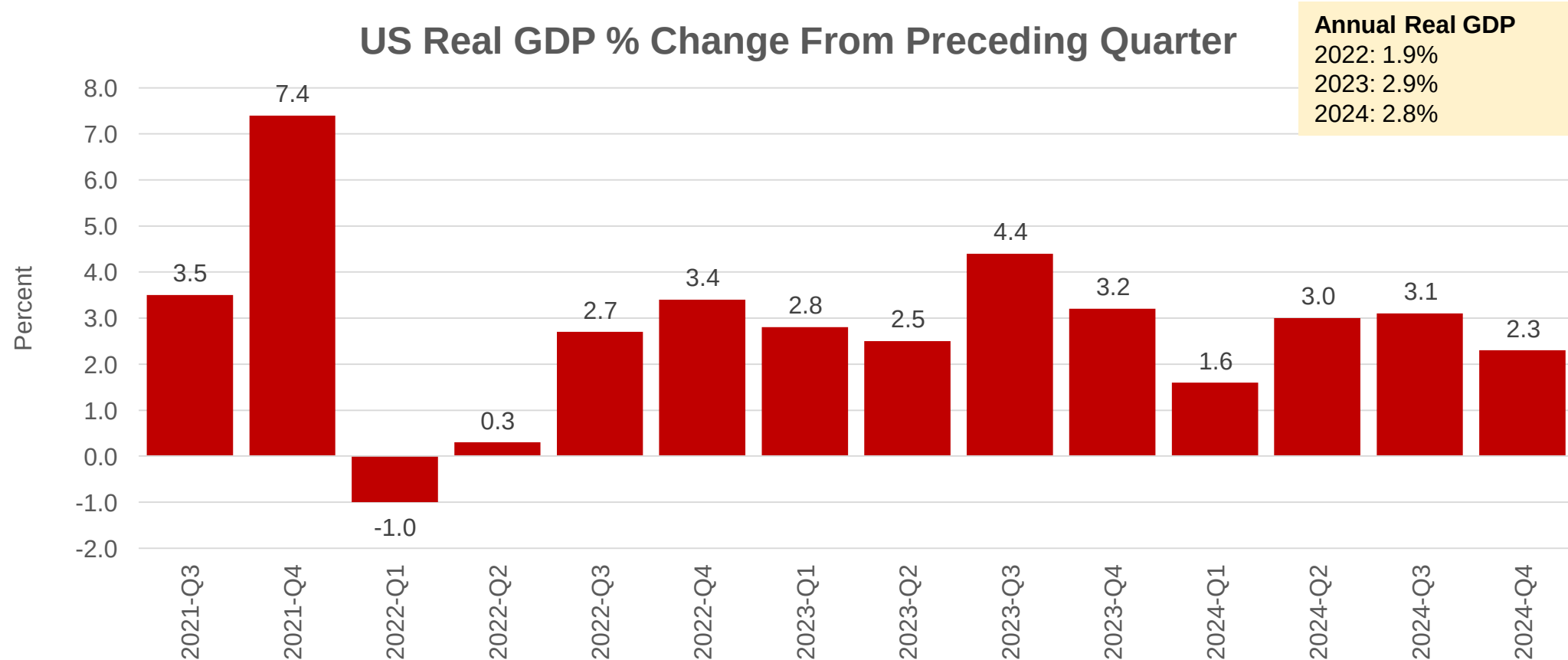
Inflation & Interest Rates (1970-1982)



Inflation & Interest Rates (1992-2004)



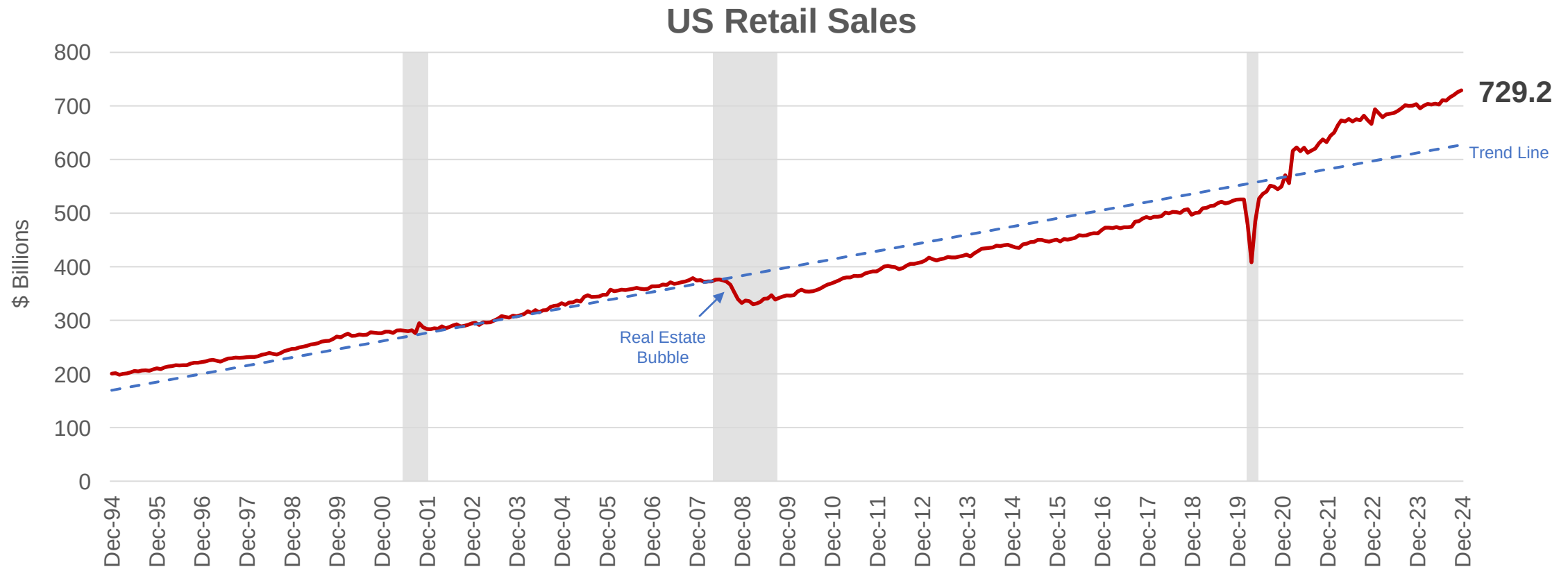
Economic Growth is positive, but may be slowing



Real Gross Domestic Product (GDP), Compounded Annual Rate of Change, Quarterly, Seasonally Adjusted Annual Rate. Q4-2024 "advance" estimate.



Consumer Spending has been above expectations

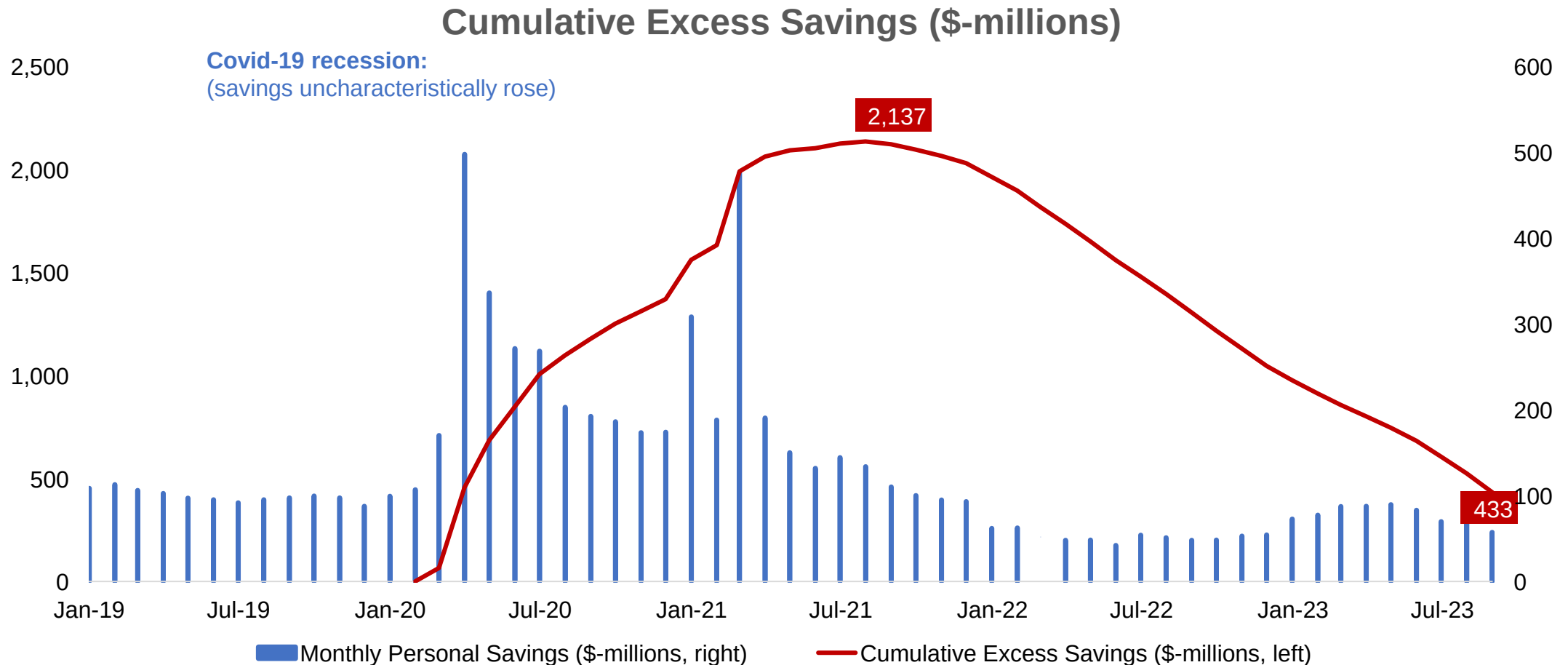


Advance Retail Sales (nominal) – Retail Trade and Food Services; seasonally-adjusted. Data is through December 2024. Shaded areas indicate U.S. recessions.



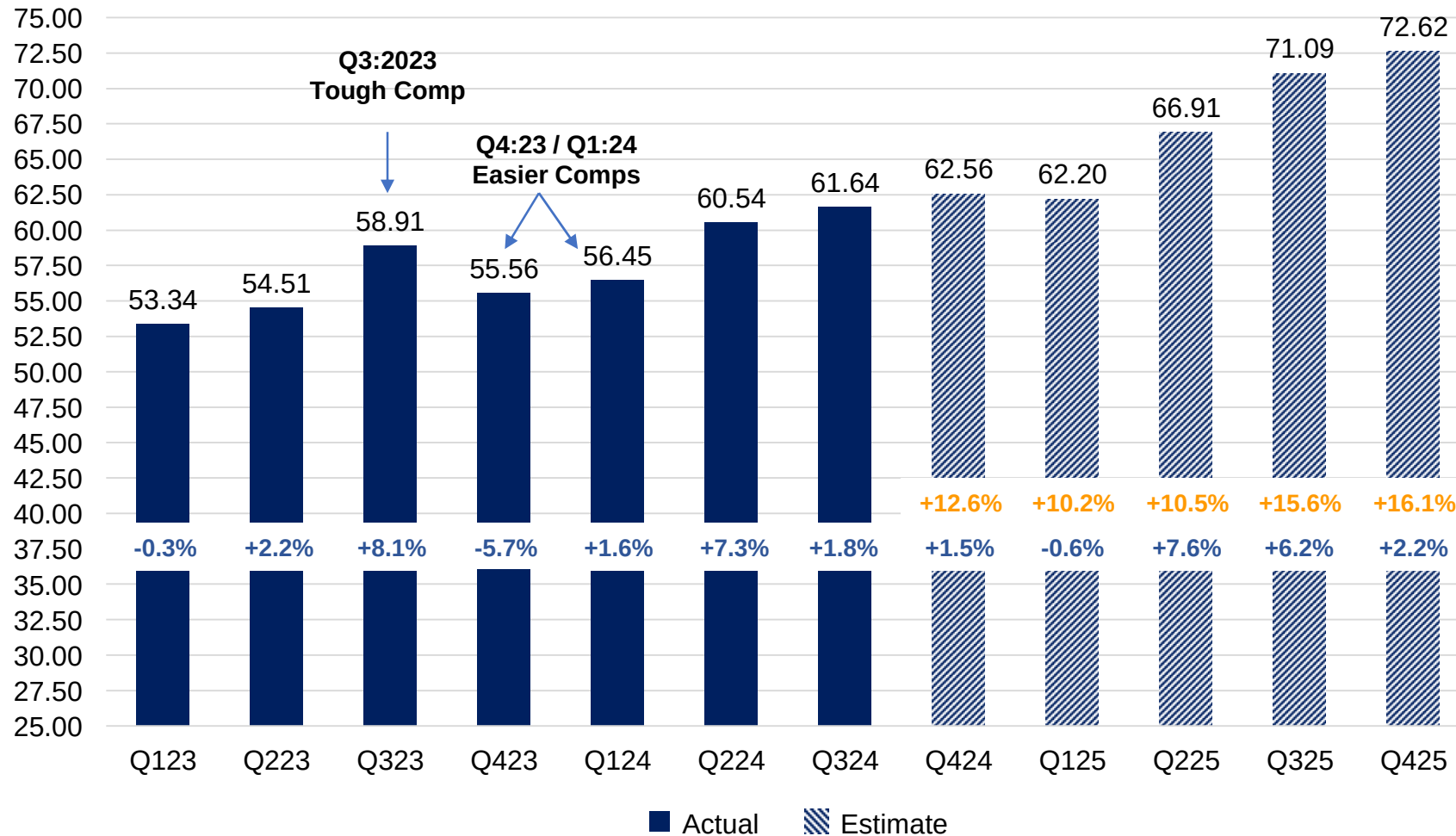
Consumer Spending has fueled economic growth

But savings are dwindling



Earnings expectations for Q4:24 look optimistic

S&P 500 Quarterly EPS Actuals & Estimates

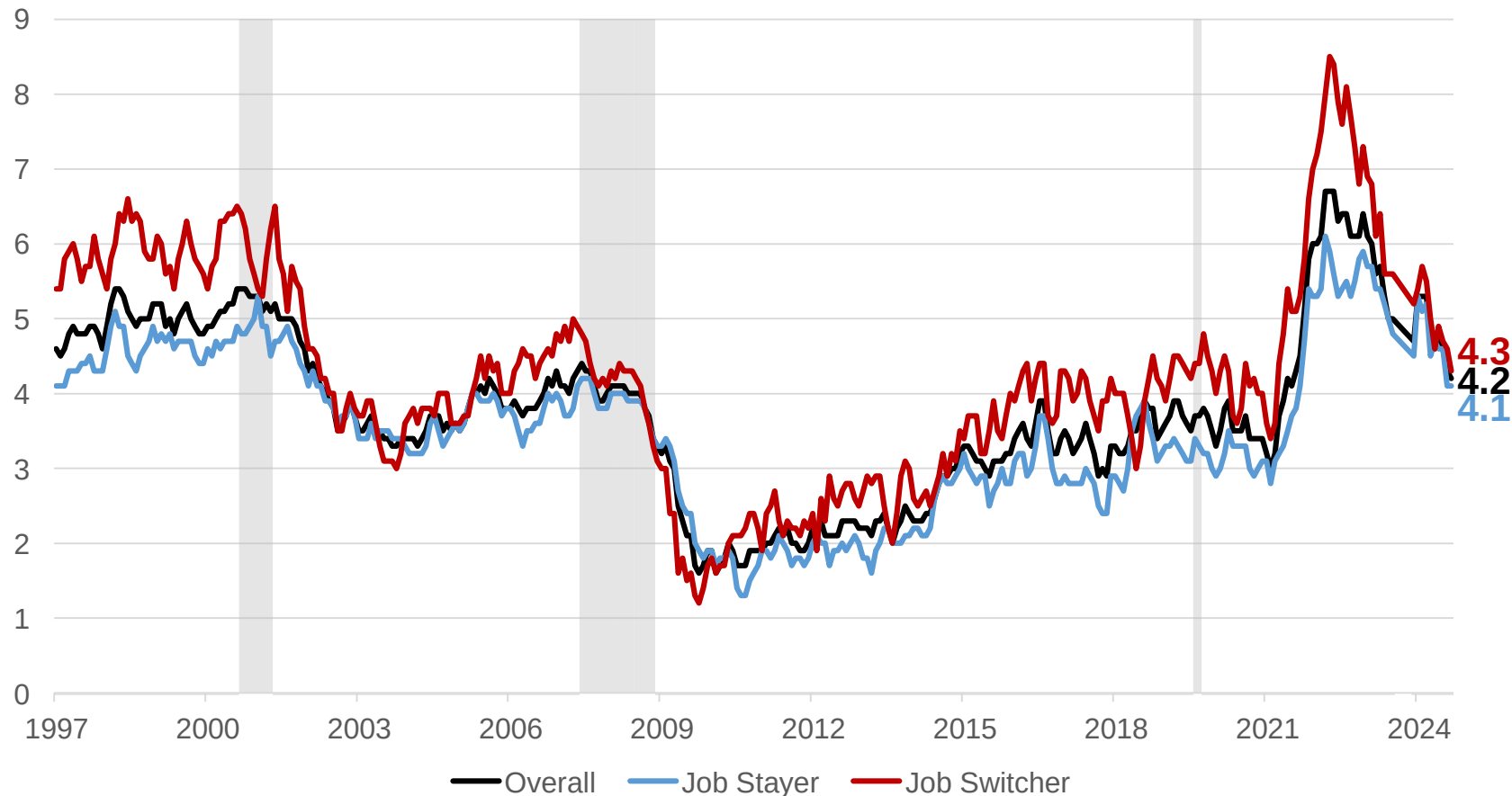


Estimated growth over same quarter last year
Actual/estimated growth over prior quarter



Wage growth – moderating but remains positive

Wage Growth Tracker – December 2024



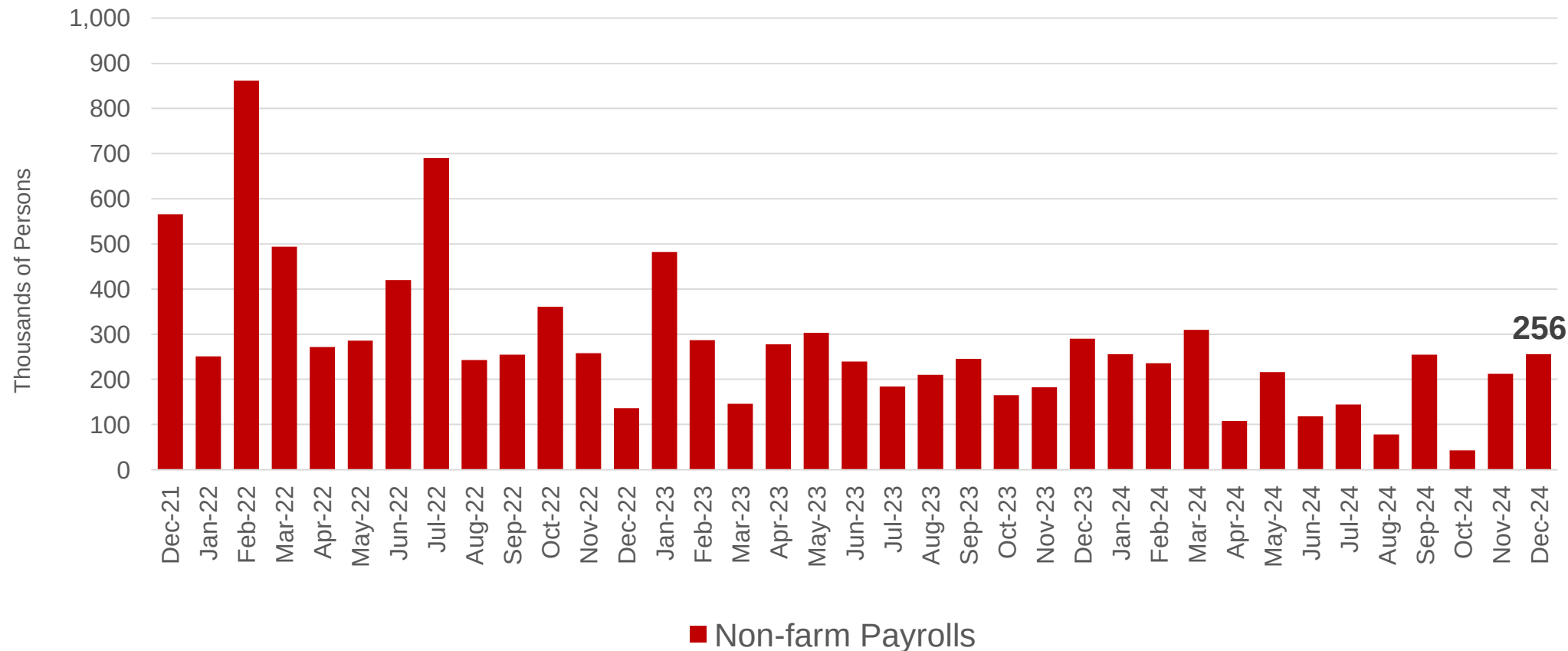
Three-month moving average of median wage growth, hourly data. Data is through December 2024. Shaded areas indicate U.S. recessions.

Source(s): Federal Reserve Bank of Atlanta, Current Population Survey, Bureau of Labor Statistics, Author's Calculations



New Non-farm payrolls are slowing, but resilient

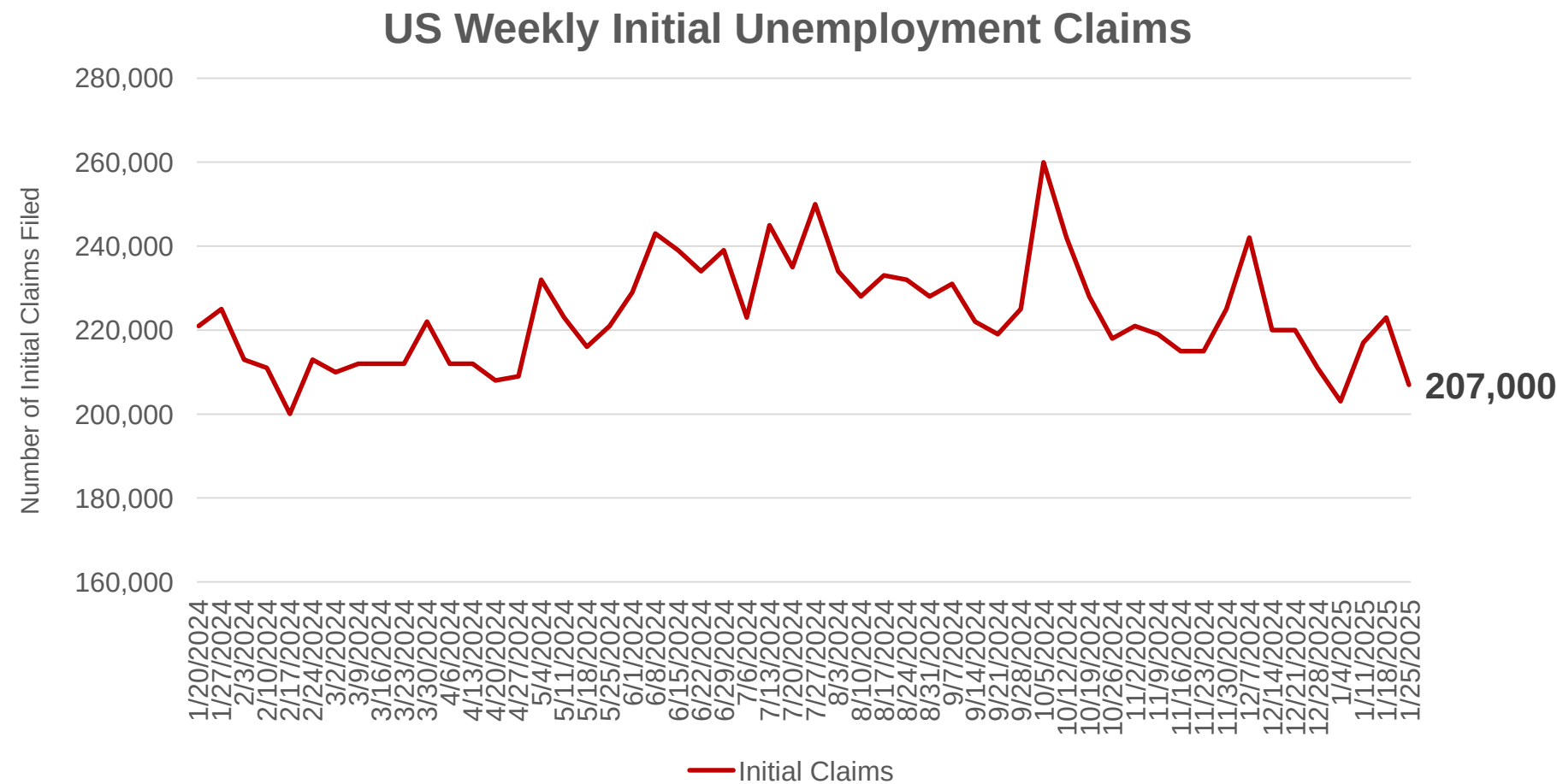
US Total Non-farm Payrolls – Monthly Change



All Employees, Total Nonfarm, Monthly Change, Seasonally Adjusted. As of December 2024.



Initial Claims remain steady



Initial Claims, Weekly, Seasonally Adjusted. Week ending January 25, 2025.

Recession Date	Peak in Claims
May 1970	343,750
Feb 1975	560,750
Jun 1980	629,000
Oct 1982	674,250
Mar 1991	501,250
Oct 2001	489,250
Mar 2009	659,250



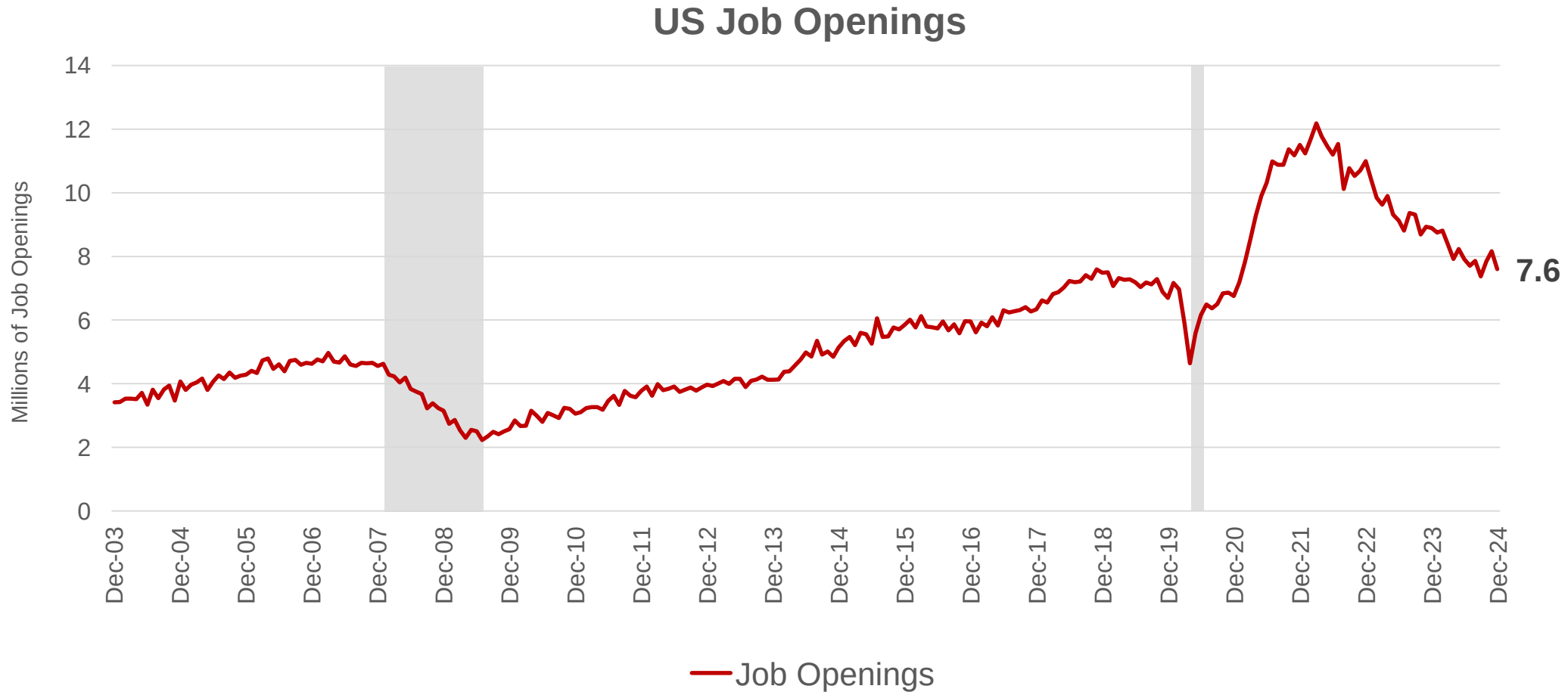
Unemployment Rate Remains low, but rising



Unemployment Rate: Monthly, Seasonally Adjusted. As of December 2024. Shaded areas indicate U.S. recessions.



Hiring is slowing



Job Openings: Total Nonfarm, Monthly, Seasonally Adjusted. As of December 2024. Shaded areas indicate U.S. recessions.



Looking for answers...



Source(s): Hedgeye

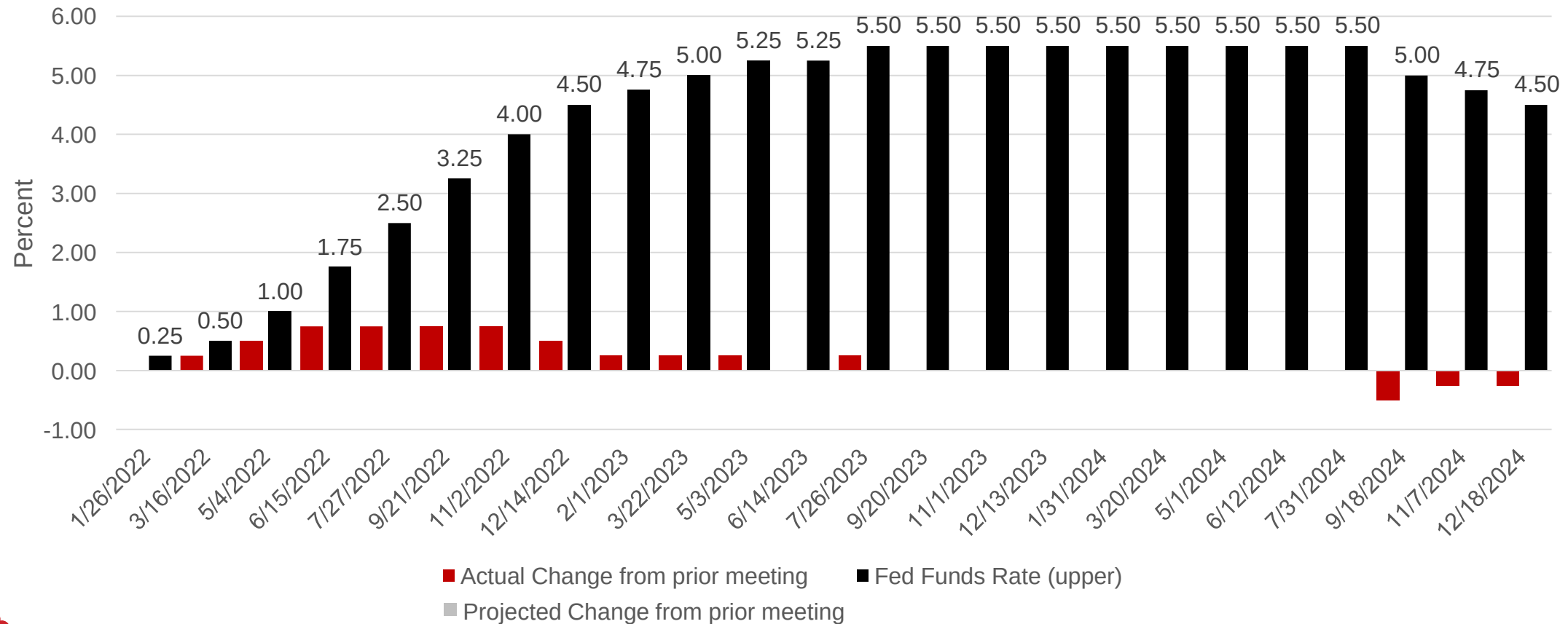


FOMC Interest Rate Policy: Pace and Magnitude

2022-2024: 525 basis points in rate hikes in 2022-2023; 100 basis points of rate cuts in 2024



"The economy is strong overall and has made significant progress over the past two years. The labor market has cooled from its formerly overheated state and remains solid. Inflation has eased significantly over the past two years but remains somewhat elevated relative to our 2% longer-run goal. We have lowered our policy rate by a full percentage point from its peak, and our policy stance is now significantly less restrictive. We can therefore be more cautious as we consider further adjustments to our policy rate." – Jay Powell (December 18, 2024)

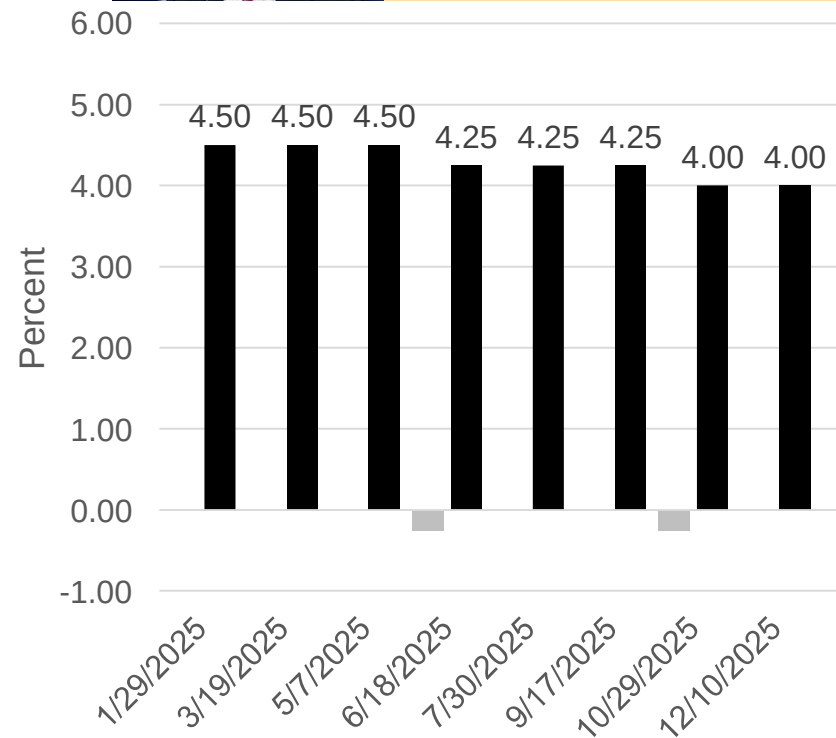


FOMC Interest Rate Policy: Pace and Magnitude

2025: Projected pace of rate cuts has been paired back



"Recent indicators suggest that economic activity has continued to expand at a solid pace. The unemployment rate has stabilized at a low level in recent months, and labor market conditions remain solid. Inflation remains somewhat elevated. In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks." – Jay Powell (January 29, 2025)



Federal Funds Rate (upper) FOMC Year-end Projections

(as of December 18, 2024)

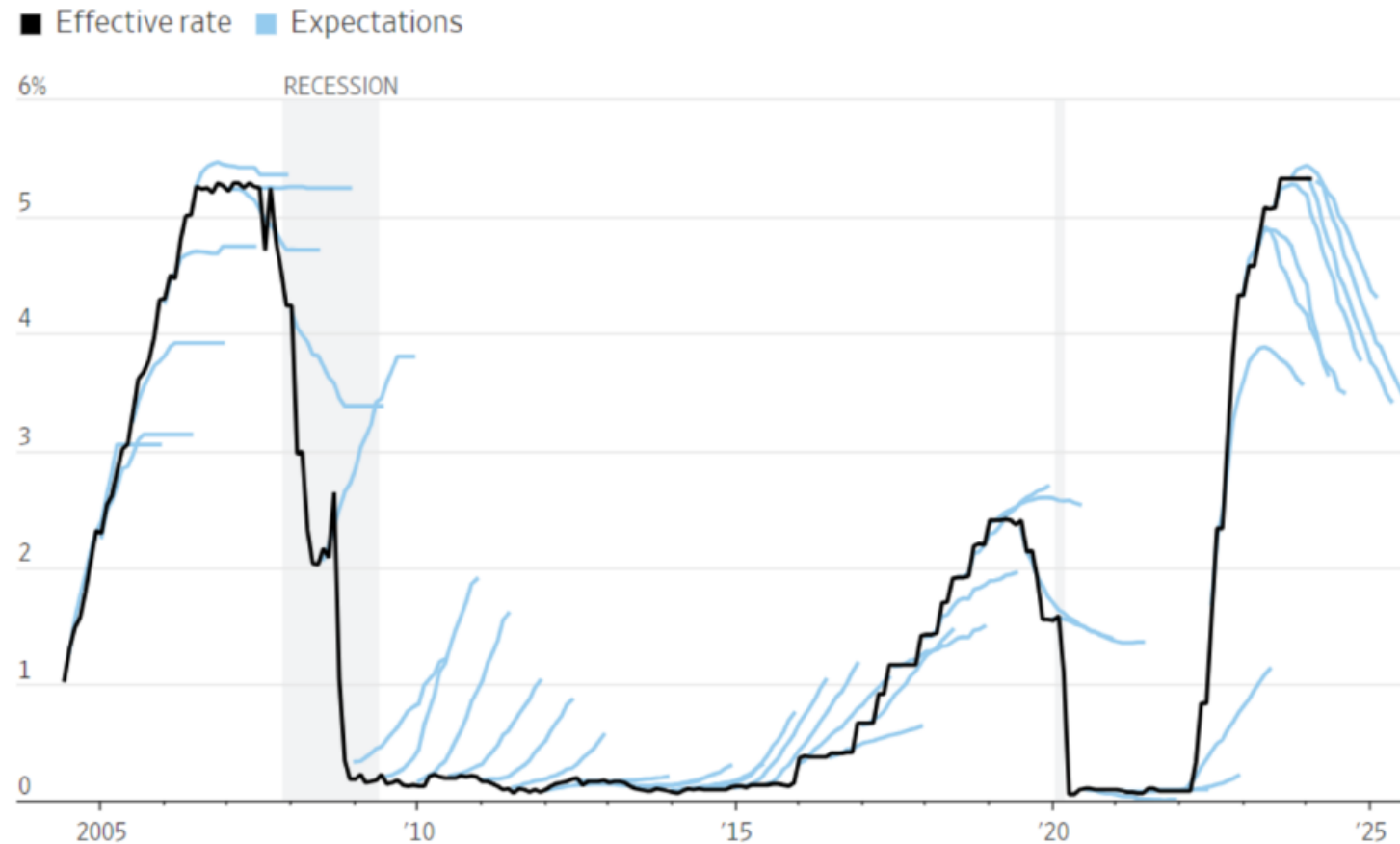
<u>2025</u>	<u>2026</u>
4.00%	3.50%

■ Actual Change from prior meeting ■ Fed Funds Rate (upper)
■ Projected Change from prior meeting



Forecasters almost always wrong about The Fed

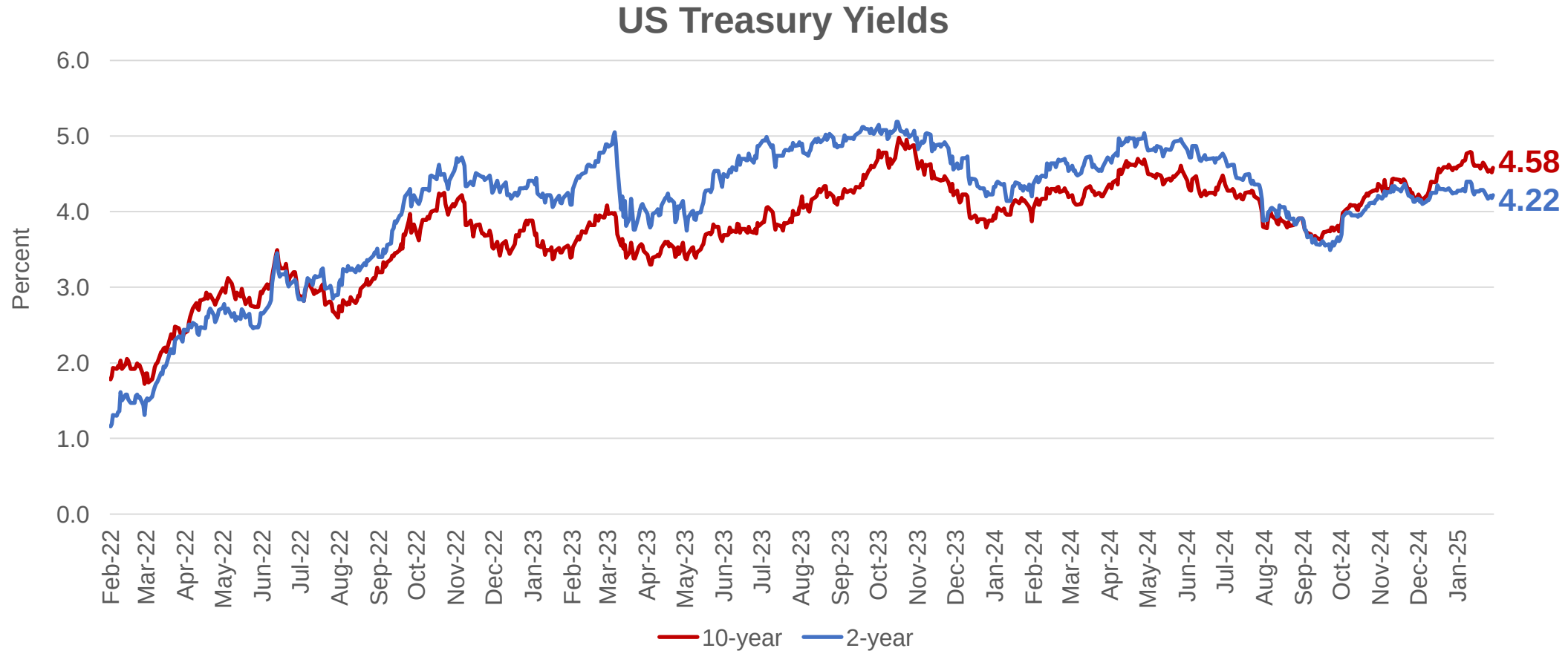
Federal Funds rate, market expectations vs. realized



Note: Expectations reflect pricing in the fed-funds futures market at select times



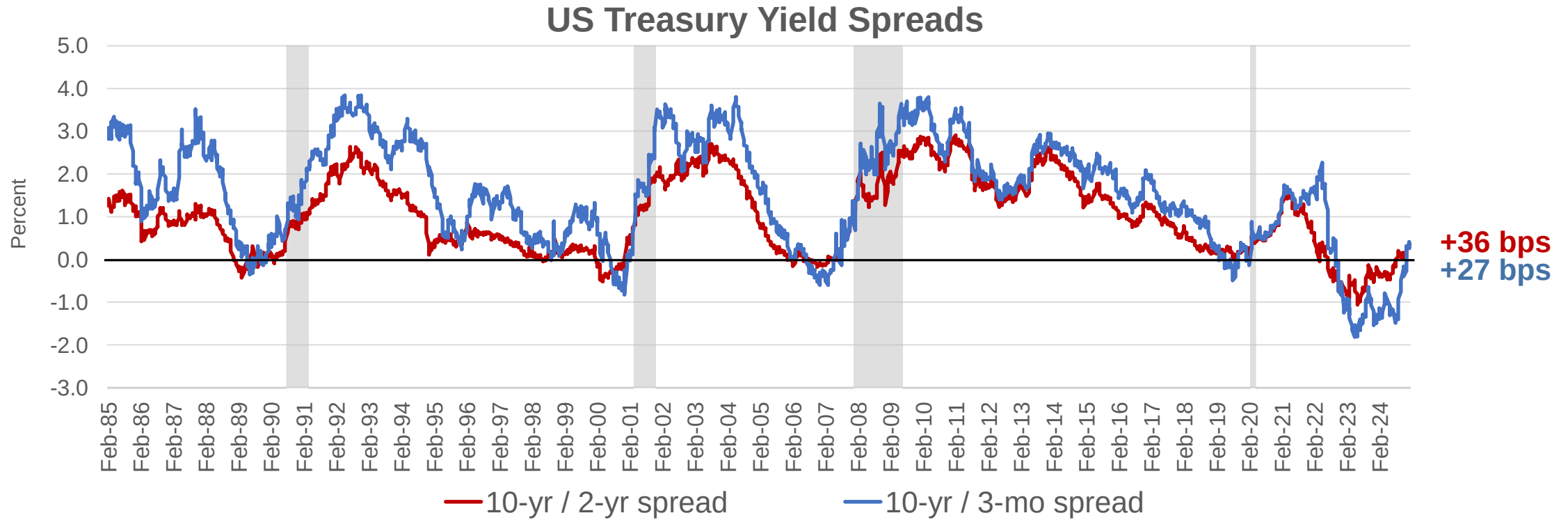
Interest rates surged higher, then vacillated



Market Yield on U.S. Treasury Securities at Constant Maturity, Quoted on an Investment Basis, Daily as of January 31, 2025.



The Yield Curve has Un-inverted



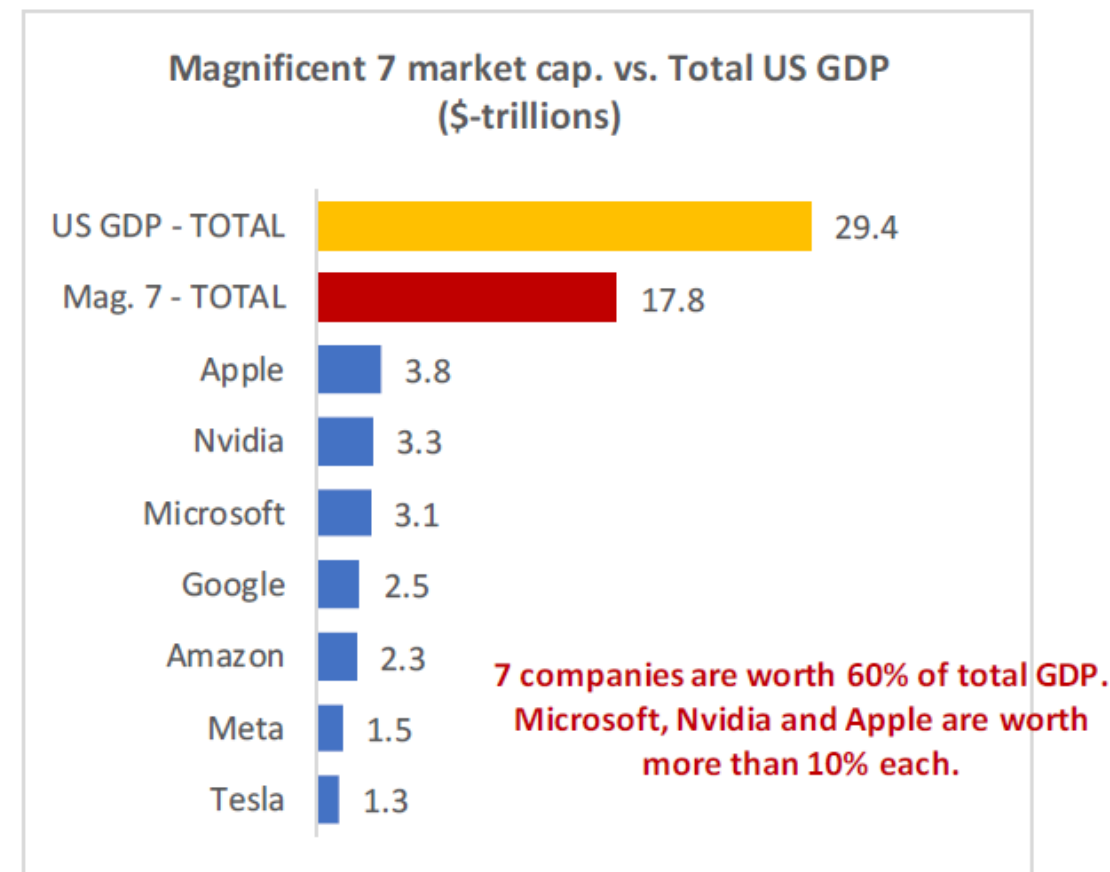
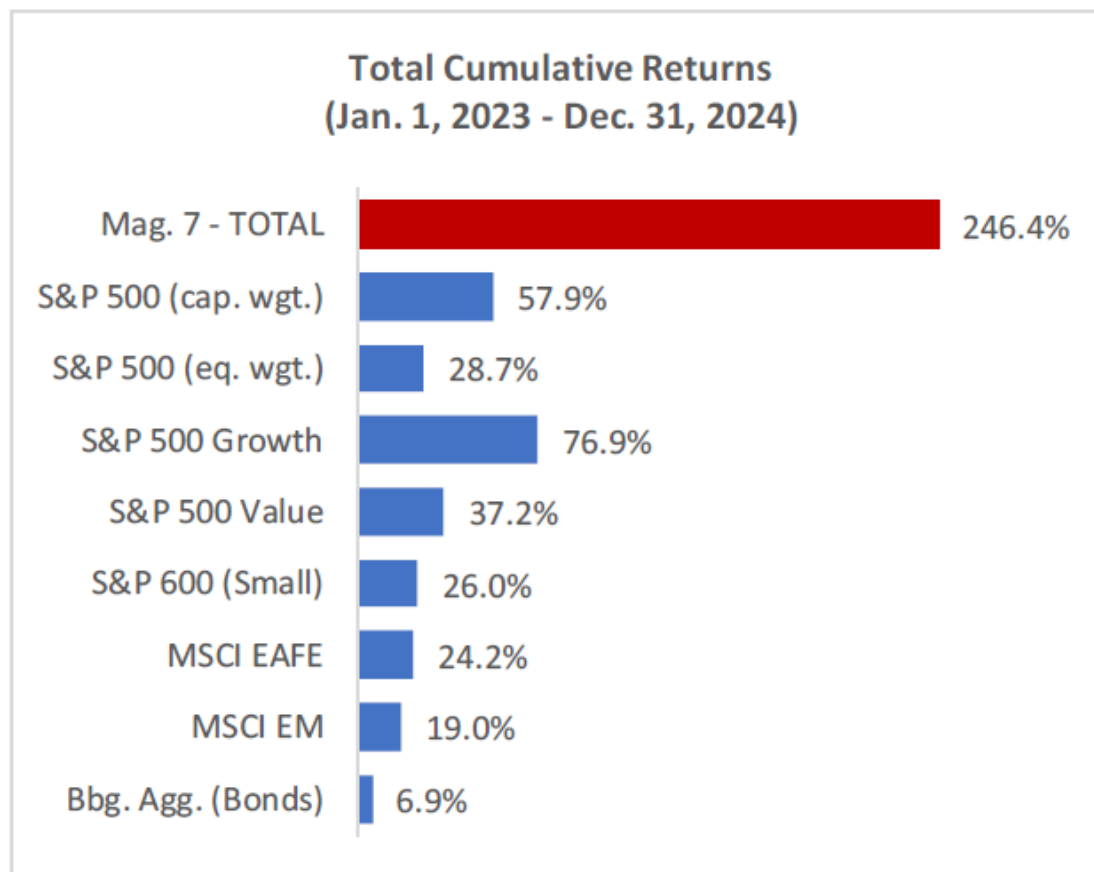
Market Yield Spread on U.S. Treasury Securities at Constant Maturity; weekly ending Fridays end of period; as of January 31, 2025. Shaded areas indicate U.S. recessions.

The **10-yr/2yr yield curve is no longer inverted**, suggesting a recession may be looming ~12 months from now.

The **10-yr/3month yield curve** was previously deeply inverted, suggesting a recession may be sooner.



Magnificent 7: just how magnificent?



In the past two years, the “Magnificent 7” stocks have outperformed the S&P 500 by nearly 4.5x; growth has outperformed value by 3x; and large cap US stocks have outperformed US small cap and non-US stocks by 2.5-3x. Is this level of outperformance sustainable?



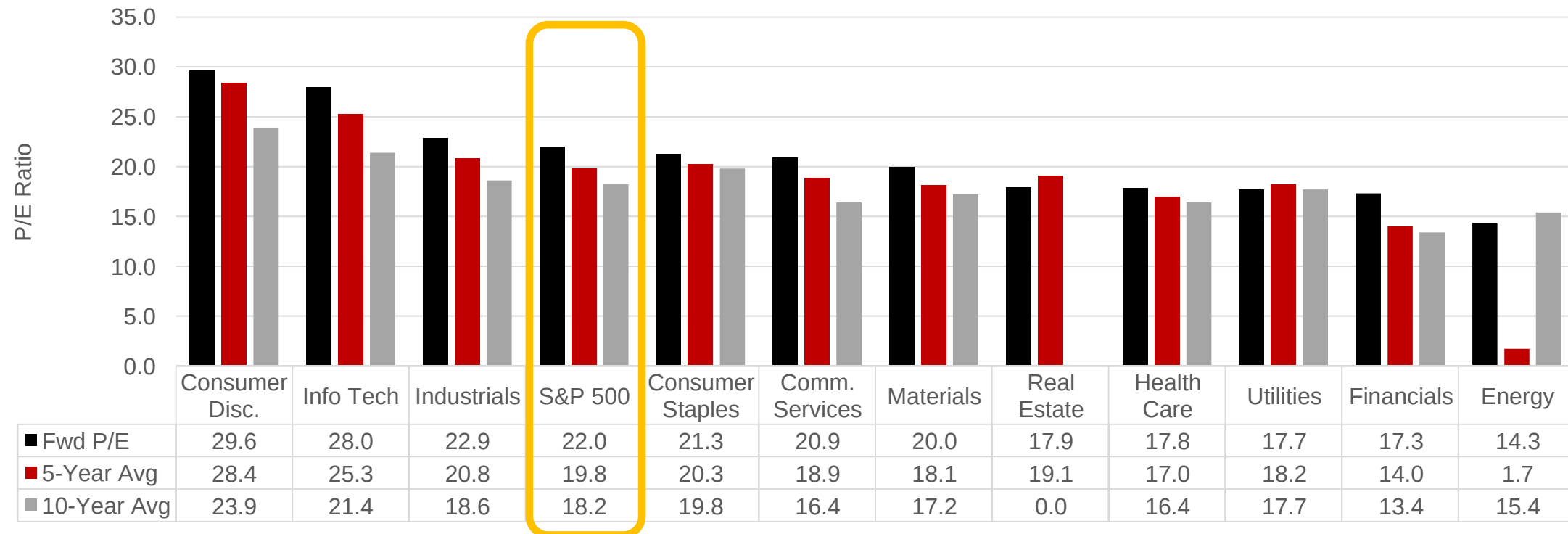
Past performance is no guarantee of future results.

Source(s): Bloomberg, Key Wealth

Valuations: elevated

S&P 500 Sector-Level Forward 12-Month P/E Ratios

(Source: FactSet)

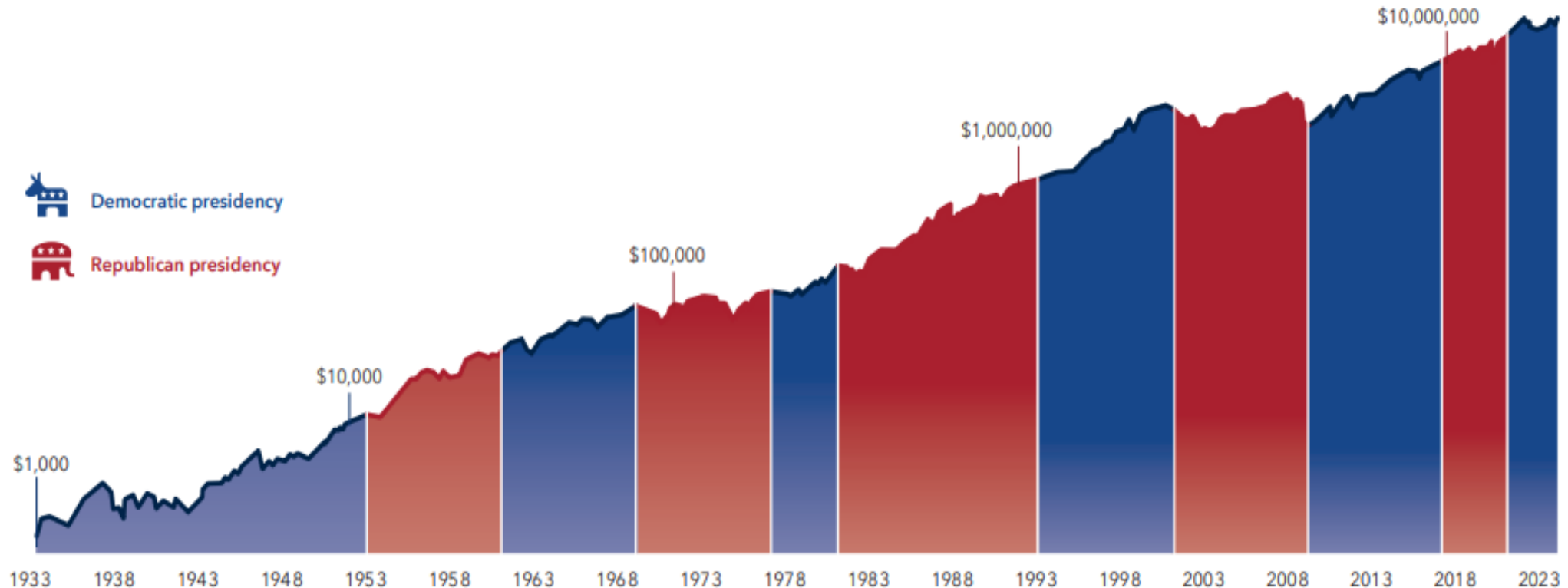


Earnings need to work higher; multiples extended



Elections and investing; don't be led astray

Growth of a hypothetical \$1,000 investment in S&P 500 Index



US stocks have generally trended higher regardless of which party occupies the White House

Past performance is no guarantee for future results

Hypothetical \$1K investment made on March 4, 1933 through December 31, 2023

Source(s): Capital Group



Top 5 Questions for 2025

Question	Our Thoughts
1. How will the election results impact the economy and markets?	• Trump 2.0 will feature lower taxes, fewer regulations, less immigration, and an increased use of tariffs but there are limits to all of these. • So, net/net we might expect slightly higher growth with slightly higher inflation, but the impact may not be large, and other forces will be at play.
2. How will the national debt/deficit impact the economy and markets?	• Until the markets react, we don't expect calamity, but higher debt levels could "crowd out" important growth (higher ROI) initiatives which would stifle future growth.
3. Will "King Dollar" be de-throned and lose its reserve currency status?	• No. It is a risk, but not a near-term risk, in our opinion, as the USD is still viewed positively because of its safe haven status, the rule of law, and deep and liquid US markets.



Top 5 Questions for 2025 (continued)

Question	Our Thoughts
4. What do we anticipate from the Fed/where are interest rates going?	• A few rate cuts are in the cards, but so long as economic growth remains resilient, the Fed will not be cutting aggressively. • Employment trends will be critical to the Fed's outlook.
5. Will US equities continue to outshine their peers and will the Magnificent 7 remain magnificent?	• We continue to favor US equities over the rest of the world but note that valuations are very elevated which could limit future returns and exacerbate volatility. • We believe selectivity will be paramount.



2016 vs. 2024

Meet the new boss. Same as the old boss? Not so fast.



The Who: "Won't Get Fooled Again" (1970)

Smile and grin at the change all around.

Pick up my guitar and play. Just like yesterday.

Then I'll get on my knees and pray.

We don't get fooled again.

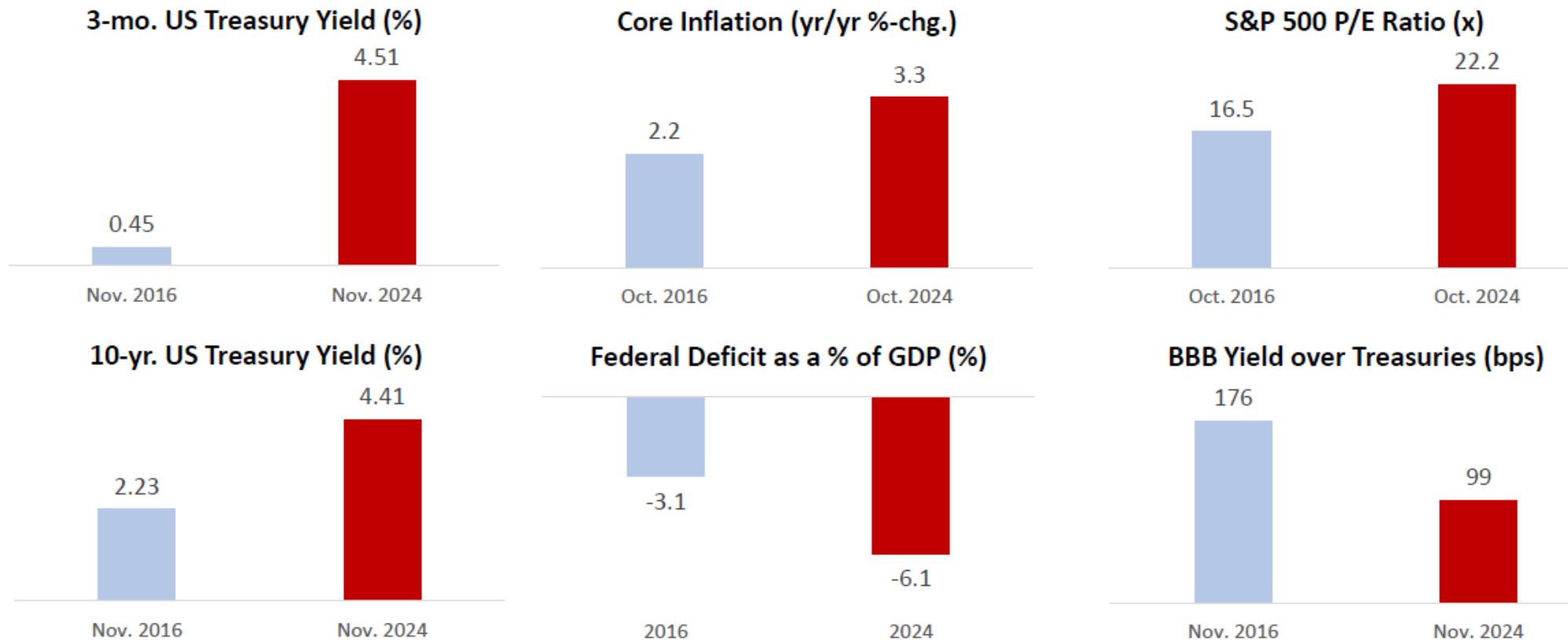
Meet the new boss.

Same as the old boss....YEAH!



2016 vs. 2024

Meet the new boss. Same as the old boss? Not so fast.



The Election and Implications of Future Policies

Potential policy changes and their economic impact:

Takeaway: the range of outcomes is wide; but generally speaking, Trump's proposals (not yet policies), are likely to be slightly positive for growth, modestly inflationary, and will likely enlarge the federal budget deficit.

Issue	Growth Impact	Inflation Impact	Debt/Deficit Impact	Congressional Involvement
Tariffs	Negative	Negative	Slightly Positive	Limited
Immigration	Slightly Negative	Slightly Negative	Unclear	Some
Deregulation	Positive	Positive	Unclear	Moderate
Taxes	Slightly Positive	Neutral	Slightly Negative	Considerable



Here we go!

As Trump 2 0 gets underway, investors need to remain disciplined and diversified, recognizing that the only certainty may be greater uncertainty in the year(s) ahead.

Jan. 20, 2025,
1:03pm ET

Trump not expected to carry through on Day 1 tariff threats

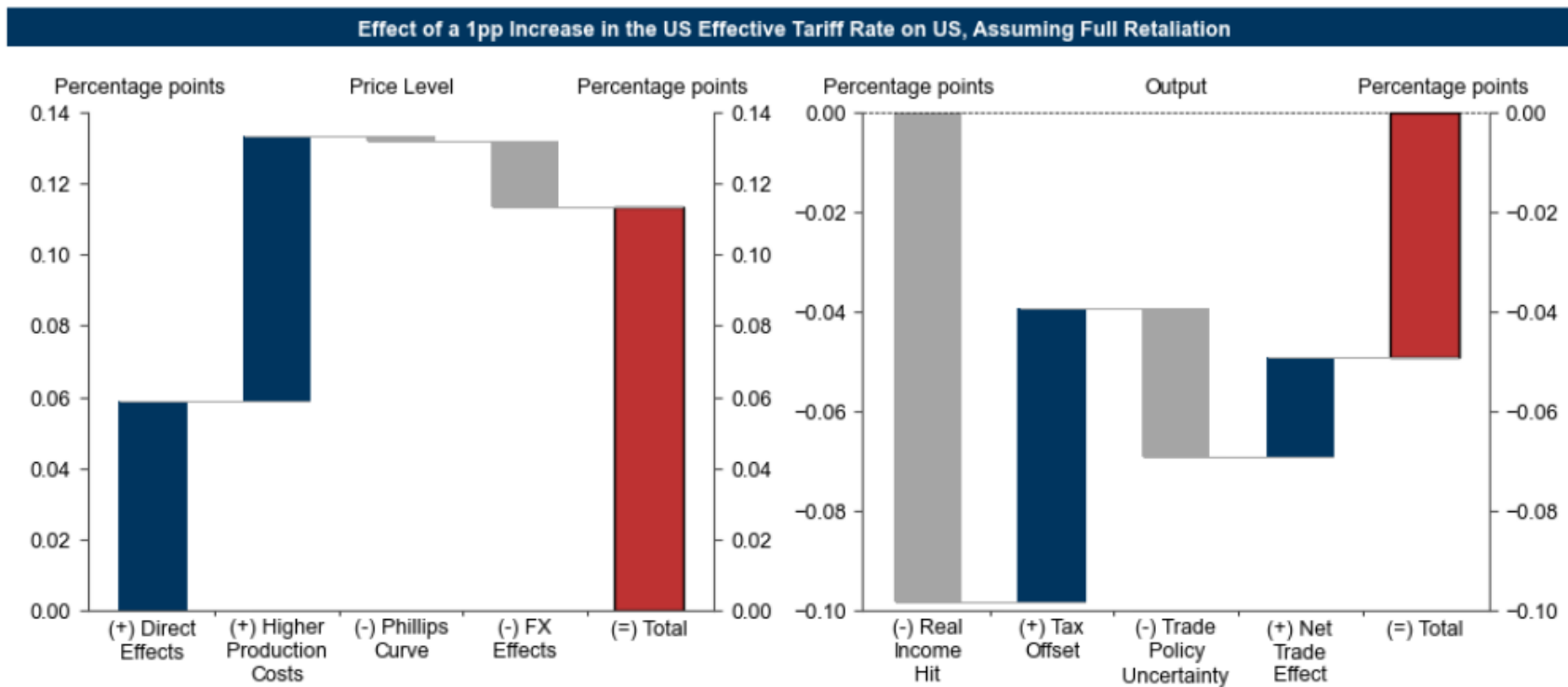
Trump Plans to Enact 25% Tariffs on Mexico, Canada by Feb. 1

Jan. 20, 2025, 7:57pm ET



What might be the impact?

A sustained 25% tariff on imports from Canada and Mexico would increase the effective US tariff rate by 7 percentage points (pp) from the current 3%, implying a 0.7% increase in US core PCE prices and a 0.4% hit to GDP.

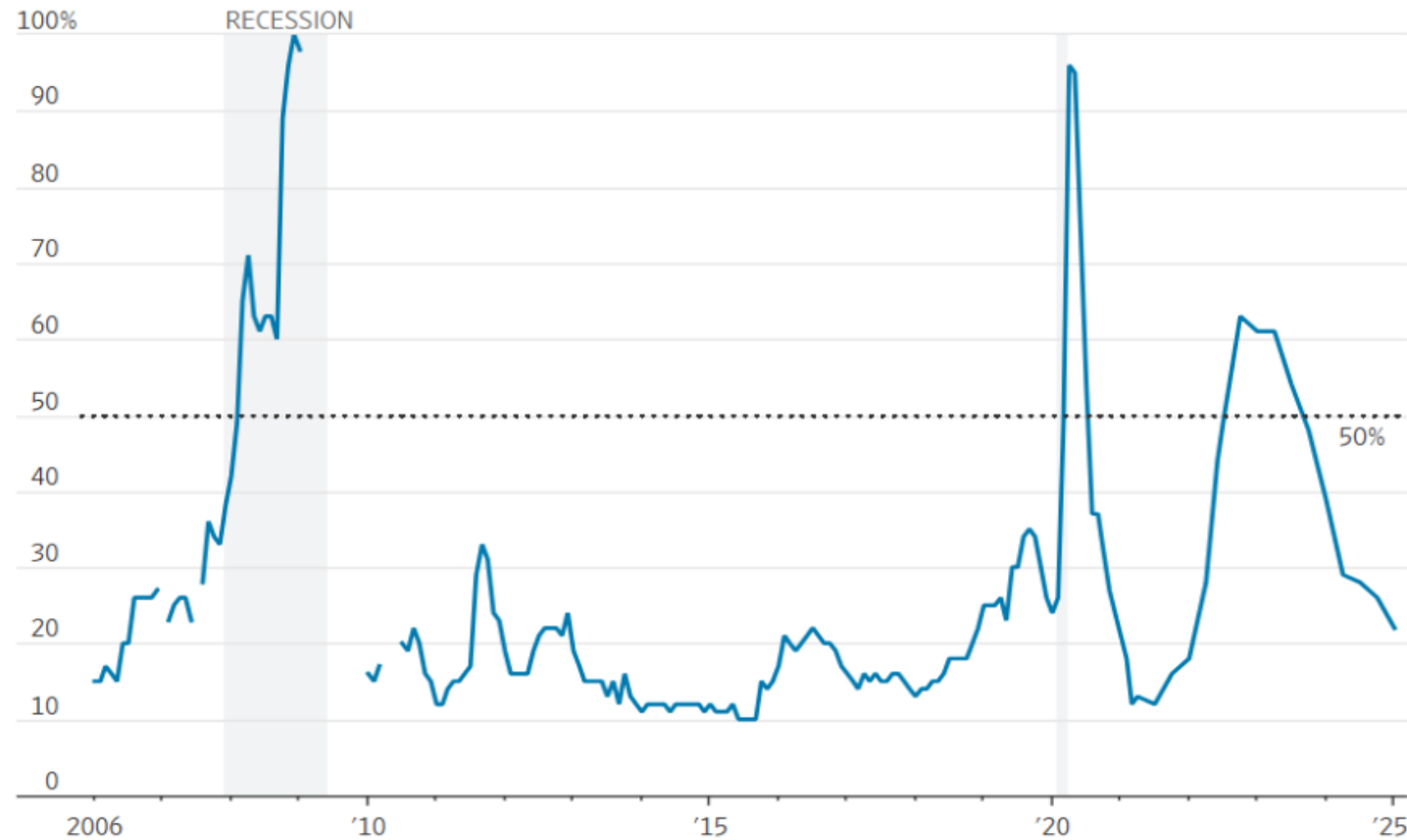


Still, many uncertainties remain.



Trump 2.0 begins on a strong note

Probability the U.S. is in a recession in next 12 months including today

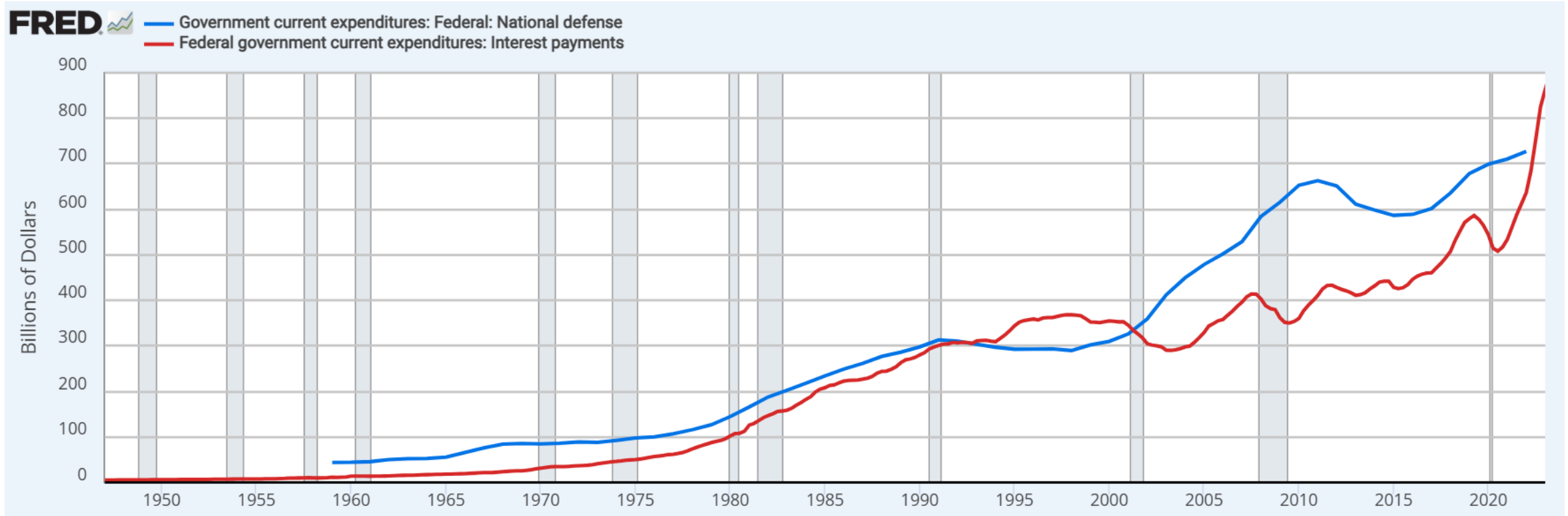


Note: Average of economists' answers. Gaps indicate question not asked or data unavailable.

Source: Wall Street Journal surveys of economists



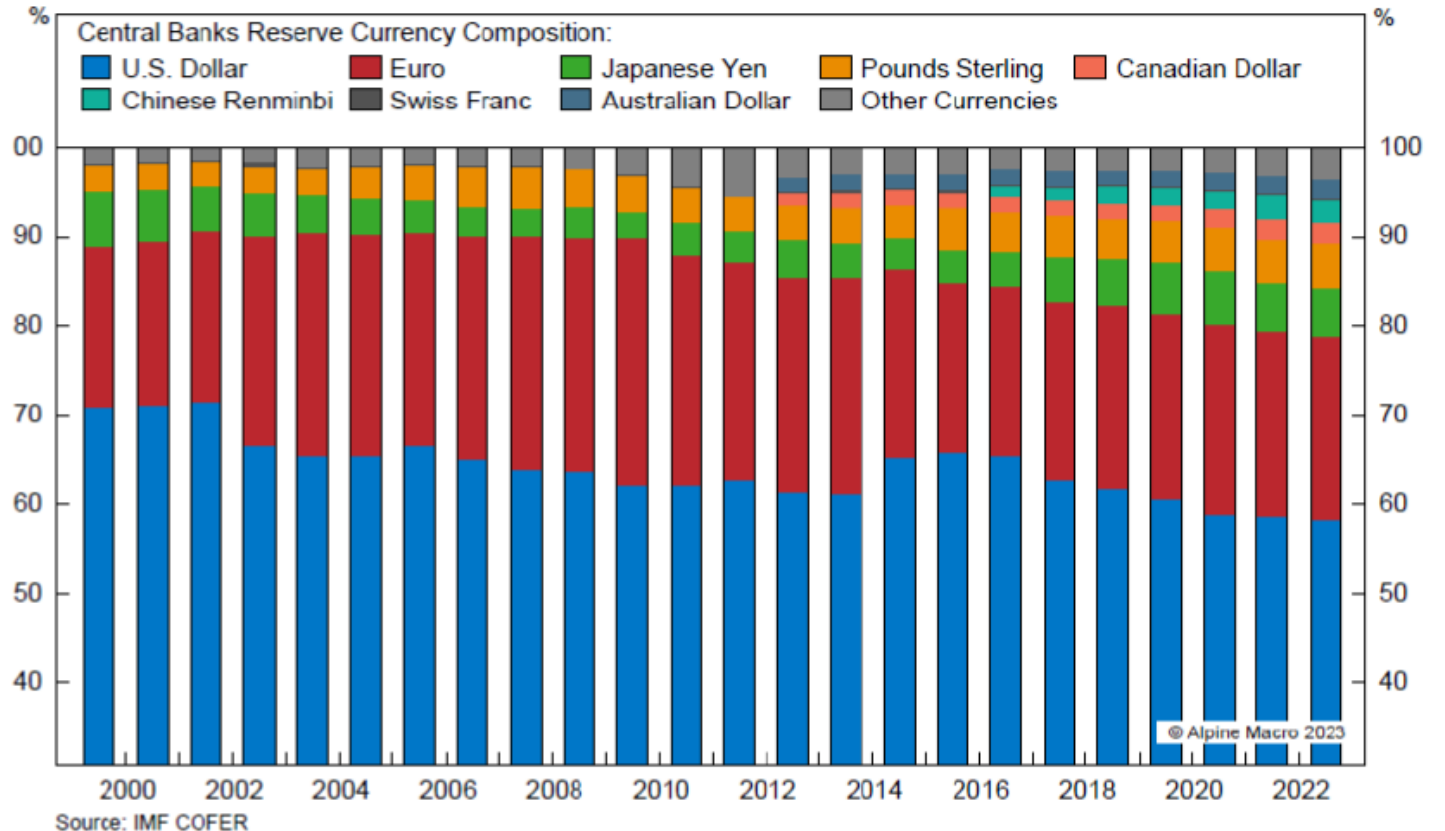
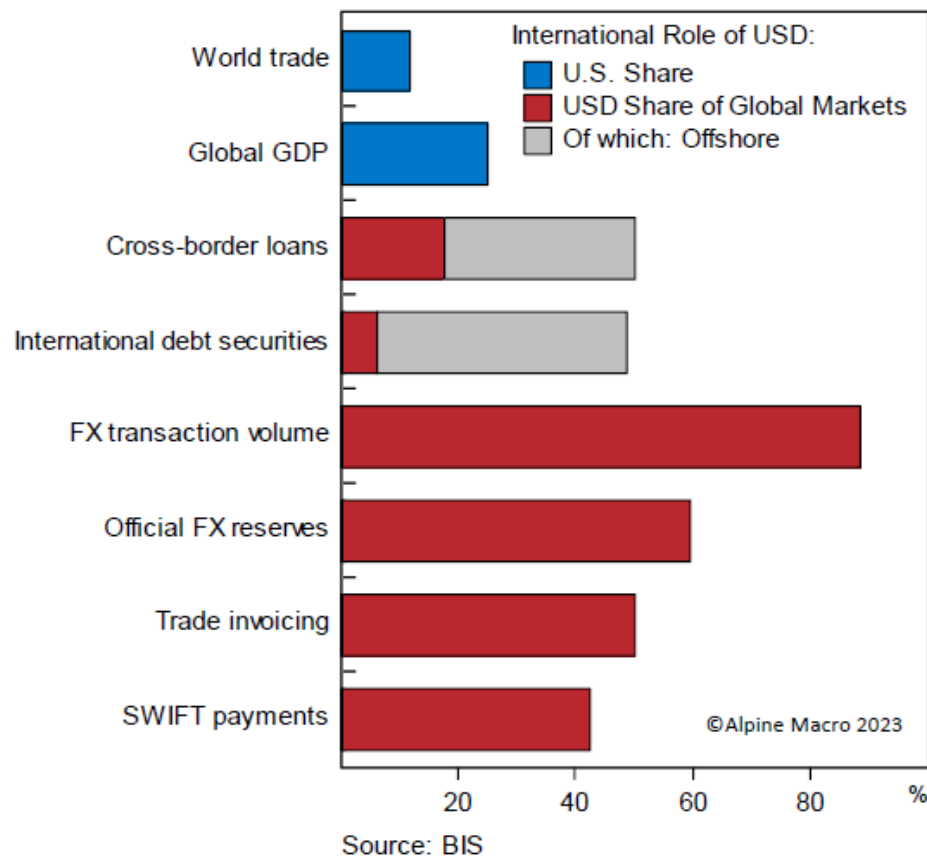
US Debt Situation: What are the risks? Crowding out



With interest expense now exceeding defense spending, the biggest near-term risk is a crowding out effect, whereby necessary investments and growth initiatives are delayed, deferred or negated. This could suppress economic growth in the future.



US Dollar: there is no (viable) alternative, for now

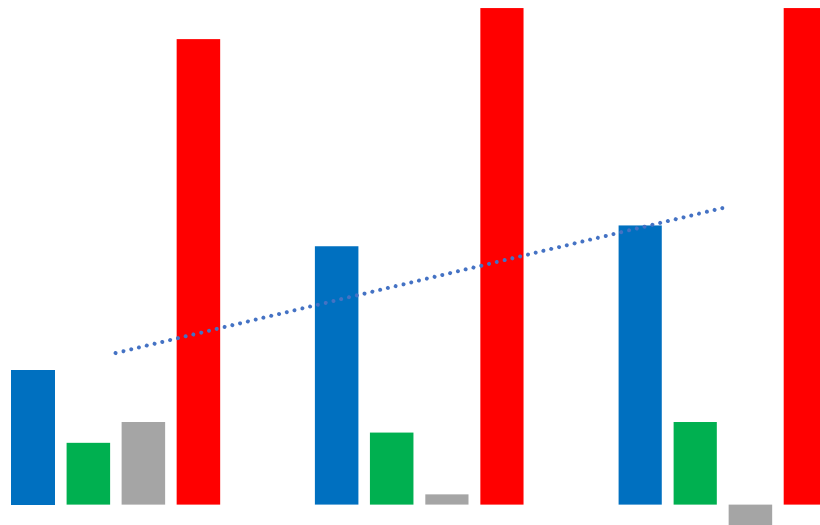


Despite our fiscal and political challenges, the USD is still the preferred currency during times of stress. Moreover, the US is endowed with many enduring assets, including democratic systems, the rule of law, open markets, flexible labor policies, an entrepreneurial spirit.



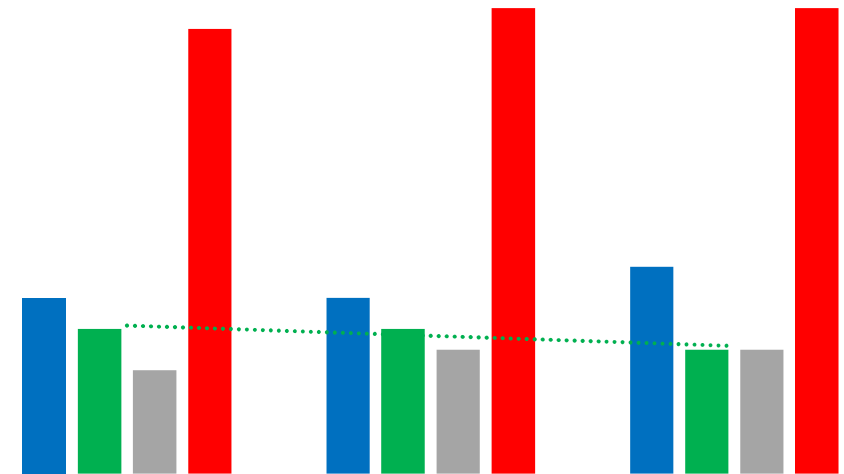
Global Growth Forecasts: US = up, EU = down

2024 GDP (yr./yr. %-chg.)



Date of forecast:

2025 GDP (yr./yr. %-chg.)



	Nov. 2023	Aug. 2024	Nov. 2024
■ US	1.3%	2.5%	2.7%
■ Europe	0.6%	0.7%	0.8%
■ Japan	0.8%	0.1%	-0.2%
■ China	4.5%	4.8%	4.8%

	Nov. 2023	Aug. 2024	Nov. 2024
■ US	1.7%	1.7%	2.0%
■ Europe	1.4%	1.4%	1.2%
■ Japan	1.0%	1.2%	1.2%
■ China	4.3%	4.5%	4.5%



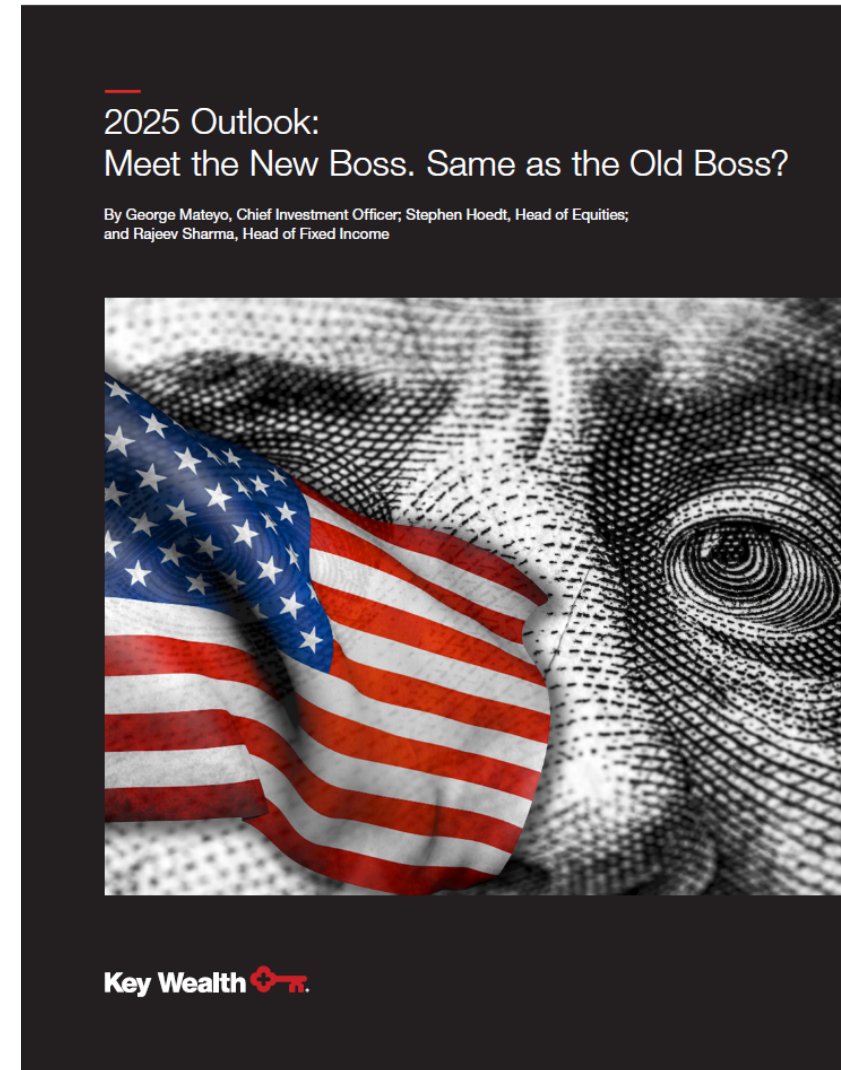
Key Wealth Institute – where to learn more

The Key Wealth Institute is a team of highly experienced professionals from across wealth management, dedicated to delivering commentary and financial advice. From strategies to manage your wealth to the latest political and industry news, the Key Wealth Institute provides proactive insights to help grow your wealth.

Our 2025 Economic and Investment Outlook is now available.

Access it via the link below on key.com:

[2025 Outlook: Meet the New Boss. Same as the Old Boss? | Key Wealth](#)



Key Wealth Institute – where to learn more

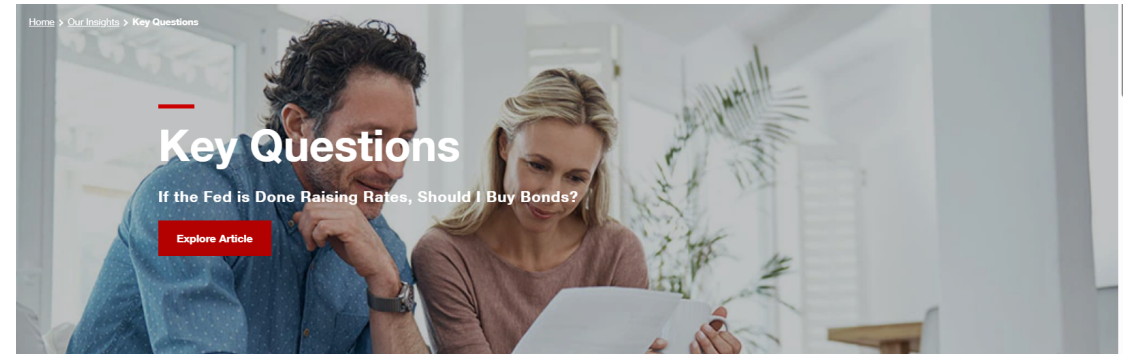
The Key Wealth Institute is a team of highly experienced professionals from across wealth management, dedicated to delivering commentary and financial advice. From strategies to manage your wealth to the latest political and industry news, the Key Wealth Institute provides proactive insights to help grow your wealth.

Provides access to:

- Future special event invitations
- Weekly Key Questions Series
- Weekly Key Wealth Matters podcast
- Quarterly Investment Perspectives
- Monthly Wealth Insights eNewsletter
- Our research whitepapers and financial planning articles



Follow Key Private Bank on LinkedIn at:
[linkedin.com/company/keyprivatebank](https://www.linkedin.com/company/keyprivatebank)



Key Questions: What Can We Learn about Investing from the Legacy of Bobby Knight?

Not only are there multiple connections between college basketball and investing (two of my favorite things), but there are also connections for me, and our place in society as a whole, in two very real and relevant ways.



Key Questions: Election Day is One Year Away. What Should Investors Know?

In almost exactly 365 days from today, Americans will cast their ballots for president, just as they've done every four years for the past 236 years. In this span of more than two centuries, divisiveness has been a defining characteristic.



Key Questions: Why Are Interest Rates Surging? When Will They Peak? What Should Investors Do?

In late 2021, when short-term interest rates stood near zero and long-term interest rates hovered around 1.5%, Jay Powell, Chairman of the Federal Reserve ("the Fed"), announced that he no longer viewed inflation as transitory.



Key Questions: It's Medicare Open Enrollment Time – How Can Medicare Beneficiaries Stay Protected from Scammers?

A scammer can use your number to get payments for services received under your name, or they can divert your legal prescriptions and use them illegally.



Key Wealth Matters Podcasts

Get the breakdown on the news behind the headlines and how it impacts financial strategies.

Hosted by experts of the Key Wealth Institute, Key Wealth Matters explores the biggest news of today, revealing its potential impacts on personal financial planning strategies, businesses, organizations and the economy.

Next episode:

End of Week Market Minutes Recap
– Every Friday



**Subscribe today
for the latest
episodes through
your podcast app.**

key.com/wealthmatters



Disclosures

Key Wealth Institute is comprised of financial professionals representing KeyBank National Association (KeyBank) and certain affiliates, such as Key Investment Services LLC (KIS) and KeyCorp Insurance Agency USA Inc. (KIA).

Any opinions, projections, or recommendations contained herein are subject to change without notice, are those of the individual author(s), and may not necessarily represent the views of KeyBank or any of its subsidiaries or affiliates.

This material presented is for informational purposes only and is not intended to be an offer, recommendation, or solicitation to purchase or sell any security or product or to employ a specific investment or tax planning strategy.

KeyBank, nor its subsidiaries or affiliates, represent, warrant or guarantee that this material is accurate, complete or suitable for any purpose or any investor and it should not be used as a basis for investment or tax planning decisions. It is not to be relied upon or used in substitution for the exercise of independent judgment. It should not be construed as individual tax, legal or financial advice.

The summaries, prices, quotes and/or statistics contained herein have been obtained from sources believed to be reliable but are not necessarily complete and cannot be guaranteed. They are provided for informational purposes only and are not intended to replace any confirmations or statements. Past performance does not guarantee future results.

Investment products, brokerage and investment advisory services are offered through KIS, member FINRA/SIPC and SEC-registered investment advisor. Insurance products are offered through KIA. Insurance products offered through KIA are underwritten by and the obligation of insurance companies that are not affiliated with KeyBank.

Non-deposit products are:

NOT FDIC INSURED • NOT BANK GUARANTEED • MAY LOSE VALUE • NOT A DEPOSIT • NOT INSURED BY ANY STATE OR FEDERAL AGENCY.

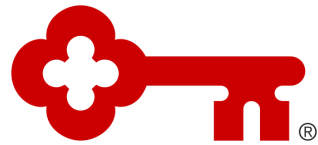
KeyBank and its affiliates do not provide tax or legal advice. Individuals should consult their personal tax advisor before making any tax-related investment decisions.

©2025 KeyCorp. 240924-2797328



| Q&A





KeyCorp is an Equal Opportunity and Affirmative Action Employer Min/Fem/Vet/Disabled.

©2025 KeyCorp. KeyBank Member FDIC NMLS#399797



240924-2797328