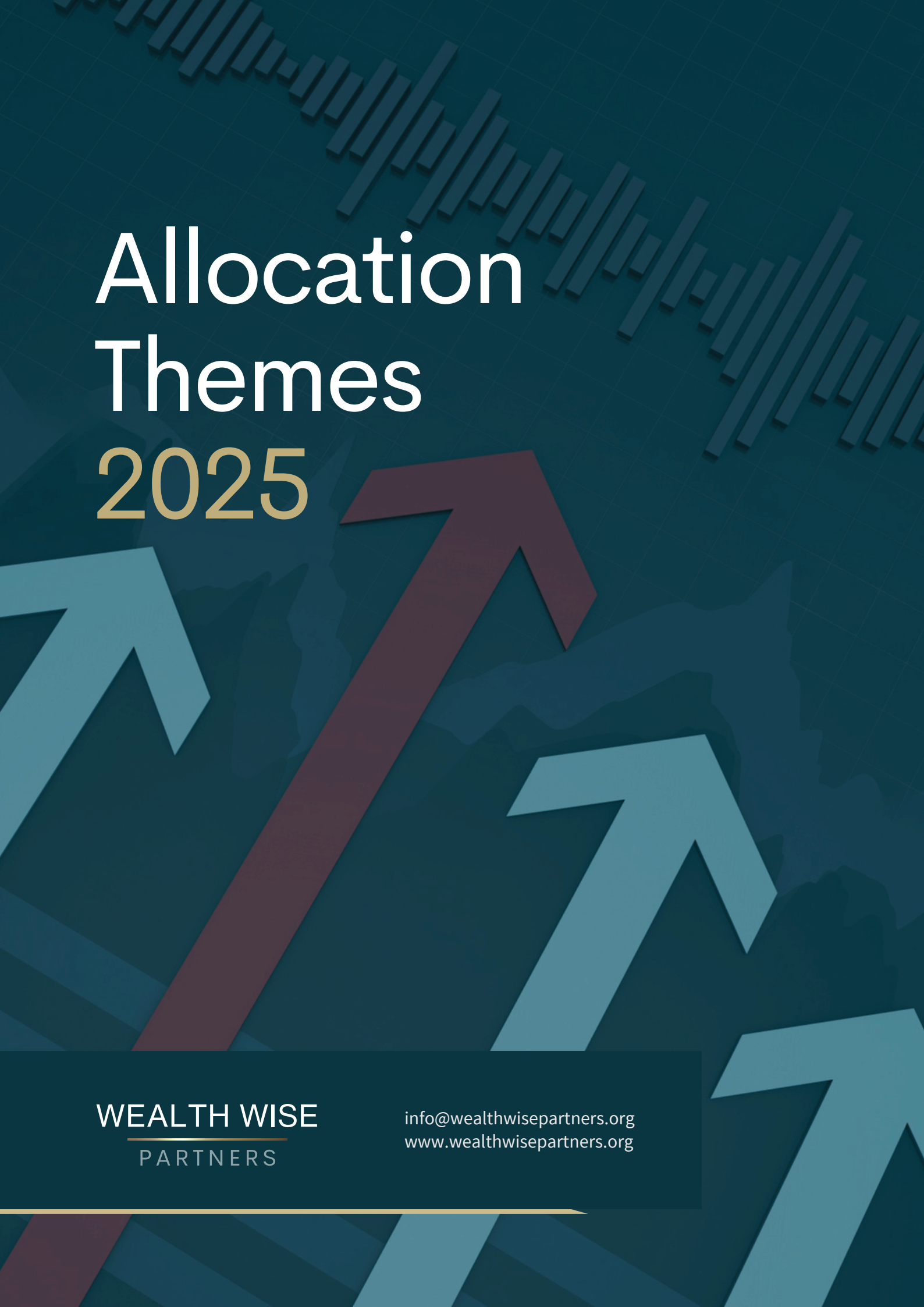


The background is a dark teal color with a subtle grid pattern. In the upper right, there is a series of light blue bars of varying heights, resembling a bar chart. Several large, stylized arrows point upwards and to the right. One arrow in the center is a dark maroon color, while the others are a lighter blue. The overall theme is growth and investment.

Allocation Themes 2025

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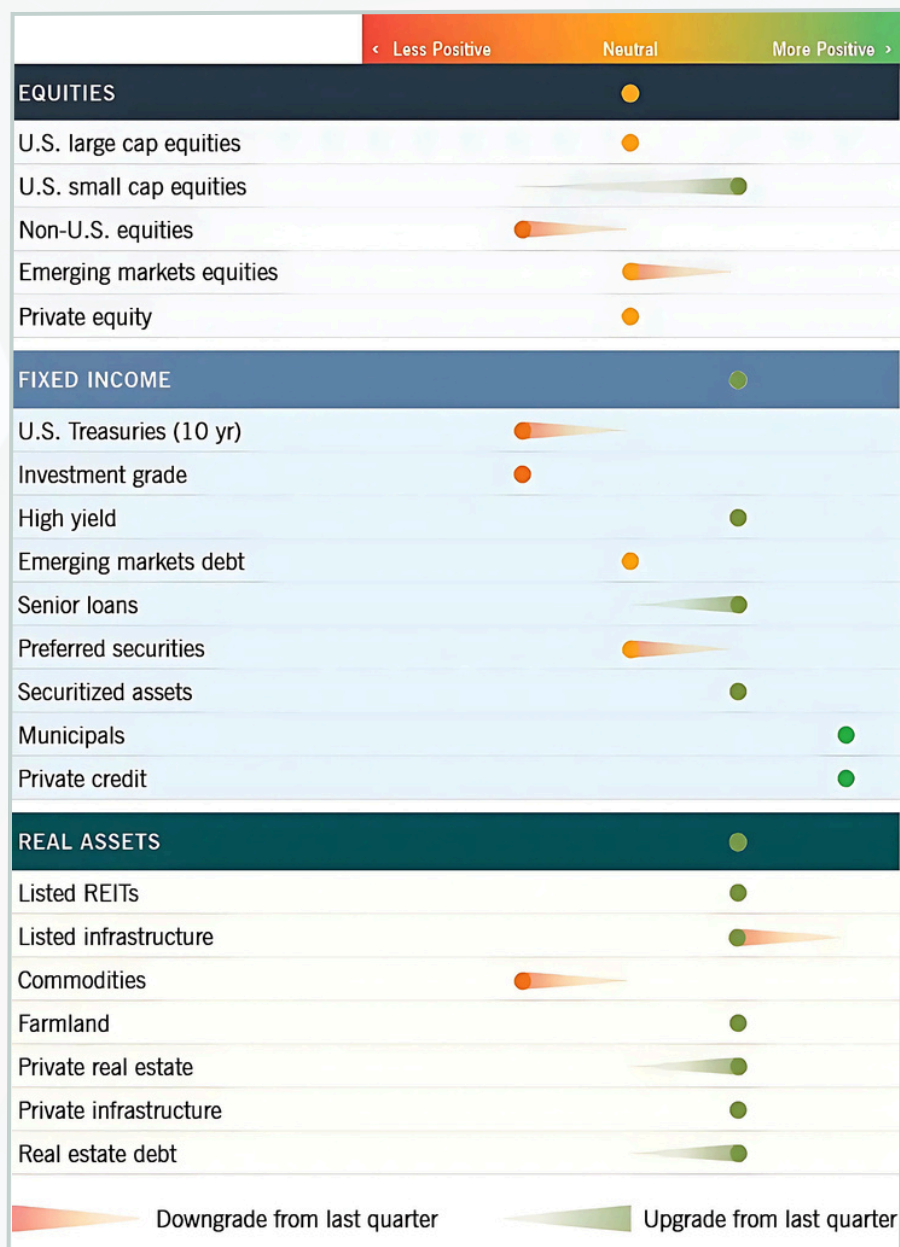
info@wealthwisepartners.org
www.wealthwisepartners.org

2024 was a great year for many US investors, but will the same strategies that worked so well keep working in 2025?

US and global economies outperformed what the expectations were more broadly. But underneath that in the broader indices, there was actually meaningful dispersion in sectors, regions, and size. Just two examples are that US large caps outperformed small caps to the tune of 12.5%. Europe underperformed the US by one of the largest margins that we've seen in a very long time.

Swings in consumer behavior, technological advancements, political shifts, global trade and capital flows have created a world where inflation and monetary policy rates influence the macro landscape. This new, higher landing zone has significant implications in 2025 and beyond for how investors approach portfolio construction and find opportunities across asset classes.

Our cross-asset class views indicate where we see the best relative opportunities within global financial markets. These are not intended to represent a specific portfolio, but rather to answer the question: “*What are our highest conviction views when it comes to putting new money to work?*” These views assume a U.S. dollar-based investor seeking long-term growth and represent a one-year time horizon.



The views above are for informational purposes only.

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Theme 1

Diversification of Bond portfolios across credit quality, sectors, and duration.

It's true that the U.S. Federal Reserve and most other central banks are still easing. But we believe the pace of interest rate cuts will be slower and the terminal rate will be higher than previously expected, as the Fed contends with sticky inflation. We think 2025 will end with a fed funds rate of around 3.75% to 4% and the 10-year Treasury yield close to 4.5%. This view means focusing less on duration positioning and more on generating returns by concentrating on carefully selected within different credit sectors.

In this new environment, we think investors should diversify their bond exposures through such areas as securitised assets (especially segments not included in broad market benchmarks) and senior loans, which should benefit from the higher-for-longer environment.

More broadly, we are seeing solid opportunities across various credit sectors, especially compared to cash or Treasuries.

Theme 2

Energy demand charges ahead of capacity, creating opportunity for new infrastructure investments.

Thanks at least in part to the massive AI boom, energy demand is growing exponentially. But new energy production can't keep pace with demand. And equally critically, energy transmission is lagging demand. This is one reason we expect structural inflation to move higher, but it also creates investment opportunities.

In part, it favors ongoing investment in green energy, such as solar and wind infrastructure around the world, including the U.S. (despite political shifts, we expect capital to continue flowing toward profitable investments). Additionally, we anticipate demand will grow for nuclear energy, new local electricity transmission facilities, natural gas-related investments and rapid development of data centers.

Related, we also see growing opportunities in energy-related financing investments necessary to fund energy upgrades.

Theme 3

Small caps are suiting up for the big leagues.

Our last theme is based partially on the shifting U.S. political environment following the 2024 elections. All else being equal, we think the new political backdrop will result in lower corporate tax rates, less regulation and more protectionist trade policies. These trends should create tailwinds for U.S. small cap stocks, given they will likely result in new capital investment cycles.

It's probably too much of a stretch to hope for an earnings resurgence in U.S. small caps, but we see a strong valuation argument given that small caps have been lagging the broader market. Even if earnings remain relatively static, a good case can be made for valuation multiple expansion that could boost prices.

[Allocation Themes 2025](https://www.wealthwisepartners.org) – Wealth Wise Partners
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