



2025 Outlook: The Next Market Cycle

The Trump Administration's ongoing tariff trade war and foreign retaliation are creating high volatility for financial markets.

This, along with other factors, such as the impact of commoditization of Gen AI models and lowered barriers to entry, has caused steep declines in the usually dependable Magnificent 7.

The question on most investor's minds is "Where do we go from here?"

A summary of our thoughts and views is as follows:

- a. Employment is softening, which will allow the Fed to resume interest rate cut(s) later this year
- b. Inflation will begin to decline as the consumer pulls back and DOGE spending cuts continue
- c. The "Magnificent 7" are hitting the ceiling of the law of large numbers. Doubling \$40 Billion a quarter in sales in the case of Nvidia becomes increasingly difficult
- d. Phase One of the AI momentum trade (Training the Models, Sourcing Power and Building Data Centers) is nearing a plateau
- e. Phase Two (Integrating AI into software that best uses AI to improve our lives) will be bigger and more sustaining
- f. The likelihood of a "DOGE dividend" tax refund check for low-income earners increases if inflation moderates, as we expect it will
- g. Trump's stance to NATO has thrust Europe into increased defense spending, offsetting Hegseth's proposed 8% cut to the defense budget for each of the next five years

A FEW PICKS

High-Quality Corporate Bonds

- Long-Term Bonds will appreciate 10% to 15% with a 100 bps decline in the 10-year Treasury and 5.5% coupons will generate long-term cash flow.

Defensive Companies

- Republic Services, Johnson & Johnson, Coca-Cola

Electric Utilities

- Exelon Corp, Duke Energy, NextEra Energy

AI Phase 2 Winners

- Elastic (Data Search), Snowflake (Data Storage)

Cybersecurity

- Okta (Authentication), Zscaler (Cloud Security)

India

- Bharat Electronics (Defense), Zomato (Food Delivery)

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