Time to “*Take 11*”
A survey of outlooks

Kenneth T. Kozlowski, CFP, CLU, ChFC
Chief Investment Officer, Equitable Investment Management

As is tradition, each year we do one edition of *Take 5 Views* in which we break the rules and give you more than just five views. In this edition we used a combination of human element and ChatGPT to summarize comments, outlooks and positioning notes from 11 subadvisors across a variety of equity and fixed-income asset managers. Through these, you will see that almost everyone is watching economic and geopolitical happenings closely, but yet, there is also a combination of optimism and expected volatility. Themes of diversification sing throughout.

Please note, the asset class each subadvisor leaned into appears in parenthesis and italics after the firm name.

1. J.P. Morgan Asset Management (JPMAM) *(global asset allocation)*

- **Economic Outlook**: J.P. Morgan Asset Management (JPMAM) maintains a pro-growth stance expecting U.S. economic growth to persist into 2025. This is supported by their views of certain pro-growth policies and manageable tariff impacts.
- **Federal Reserve Actions**: Anticipating 1-2 rate cuts in 2025, with decisions remaining data dependent.
- **Policy Risk**: JPMAM asset allocators seek to be positioned to capture growth, emphasizing diversification in U.S. markets amidst policy uncertainty.
- **Asset Preference**: Despite volatility that may remain ahead, and for the beginning parts of 2025, JPMAM favors U.S. equities and credit and maintains a neutral stance on global duration. They believe the environment supports a risk-on approach with potential of continued growth and returns.

2. Invesco *(global equity)*

- **Economic Outlook**: In the wake of the U.S. election, investor expectations seem elevated, as reflected in current valuations as of 4Q24. Economic optimism, however, has begun to spook bond investors.

(continued on next page)

Volume 14:4
March 2025

In this issue

Invesco continued

Bond yields have experienced an acceleration in a selloff that began when the U.S. Federal Reserve (Fed) began to ease interest rates back in September. That could be a concern as we move into 2025. The economy can probably absorb higher interest rates but it remains to be seen whether equity markets can, given that valuations are also rather high.

- **Positioning**: Invesco aims to invest in consistently profitable companies that benefit from strong, long-term secular growth trends, have high internal rates of return on their capital, and can fund their growth through operating cash flow. For the beginning of 2025 Invesco has a focus on information technology, communication services and health care sectors. Looking into the future, they are strong believers that investment themes like the cloud, automation, medical diagnostics, the AI infrastructure buildout, high-end luxury, digital payments, among others, will continue to lead the global economy.

3. Essex Investment Management *(U.S. small-cap equity, U.S. micro-cap equity)*

- **Market Dynamics**: Although valuations have increased across all market segments, the good news is that valuations remain very attractive for small-cap equities and are particularly attractive for micro-cap equities. As such, Essex does not believe that the current conditions of extreme concentration and crowding at the top of the benchmarks will resolve with a market sell-off. Rather, they expect to see the market broaden out and that the neglected and under owned small-cap and micro-cap segments will begin to participate. Not only have valuations contracted to levels that have discounted a significant economic slowdown in the past, but the U.S. economy has proven to be more resilient than expected with solid employment levels, moderating inflation, and an improving outlook for earnings growth in 2025.
- **Economic Outlook**: Essex continues to see economic and earnings strength coming from the positive themes of infrastructure spending, sustainable solutions, reshoring of manufacturing, and smart defense spending.

4. GAMCO Asset Management *(U.S. small-cap equity, U.S. micro-cap equity, U.S. merger and acquisitions)*

- **Market Trends:** Despite a volatile month in December, the stock market climbed a wall of worry regarding inflation and growth in 2024. While some broader markets touched all-time highs, they also left nearly all-time gaps in the valuations of small versus large and growth versus value stocks.
- **Economic Environment:** GAMCO's observations suggest a slow but not recessionary U.S. economy and a tired but remarkably resilient consumer. In their view, the biggest risk to the economy (outside of geopolitical shocks) is a resurgence of inflation. On that front, GAMCO expects to witness a battle between the disinflationary forces of deregulation and government cost efficiencies (think DOGE) and the inflationary forces of tariffs, tax cuts and deportation.
- **Investment Strategy:** GAMCO believes certain Republican victories might lead to corporate tax cuts and deregulation, potentially boosting business investment. Thus, they will continue to focus on finding undervalued companies with catalysts for value realization i.e., small- and mid-caps companies with competitive advantages, strong management, good cash flows and stock prices trading at discounts to their Private Market Values.

5. Janus Henderson *(Mid-cap equity)*

- **Market Volatility**: At Janus Henderson they are upbeat about the outlook for economic and corporate earnings growth in 2025. At the same time, they recognize sources of potential volatility, especially around the imbalances seen in the mid-cap growth market, including excessive valuations and speculative risk-taking behavior.
- **Economic Volatility**: Janus professionals see further potential for volatility as investors await more clarity about which policies the Trump administration will be able to enact. Some policies, such as corporate tax cuts and deregulation, would be positive for groups of profitable mid-cap

(continued on next page)

growth companies. Other proposals, such as tariffs, could have negative ramifications, especially for inflation. Given these risks and recent Fed policy statements, they believe interest rates will remain higher in 2025 than investors expected at the start of the fourth quarter. Longer-term yields have already moved higher on these expectations, which will have implications for corporate funding and balance sheets.

- **Positioning**: Rather than trying to predict shifts in market sentiment or public policy, Janus Henderson investment personnel remain committed to using market volatility to their advantage as they look for disconnects between company fundamentals and stock valuations. Their focus remains on companies with durable competitive advantages, strong management teams, and reasonable valuations supported by above-average earnings potential. Additionally, they remain on the lookout for opportunities to capitalize on innovations such as AI. Janus seeks opportunities with companies, such as regulated utilities and power semiconductor manufacturers, that are part of the AI ecosystem but trade at more reasonable valuations than many AI-focused technology companies.

6. Goldman Sachs Asset Management (GSAM) *(U.S. mid-cap equity)*

- **Market Sentiment**: The fourth quarter of 2024 closed out the year with a resurgence in investor optimism, fueled by resilient economic growth, strong quarterly earnings, the resolution of election uncertainty, and long-awaited monetary easing, despite worries surrounding elevated valuations and high levels of market concentration.
- **Investment Approach**: GSAM views active management as a key approach to navigating the volatility of the equity landscape and providing diversified sources of returns. They also believe taking an active approach in today's environment benefits investors seeking to traverse the everchanging macroeconomic and geopolitical backdrop, while seeking to avoid the low-quality constituents that a passive investor would have direct exposure to.
- **Positioning**: GSAM continues to prioritize a quality-oriented approach to investing – focusing on having a long-term viewpoint, seeking businesses with healthy balance sheets, and partnering with management teams that are excellent stewards of capital.

7. Loomis Sayles *(multi-asset income)*

- **Monetary Policy:** The Federal Reserve has continued to emphasize a restrictive stance, citing persistent uncertainty around inflation risks and the broader economic outlook. While recent data has shown signs of softening activity and declining consumer confidence, Federal Reserve officials have remained focused on ensuring inflation trends toward the 2% target before considering policy adjustments. There has been a growing divergence in views among policymakers. Some have argued that current rates are not meaningfully restrictive and should be maintained for an extended period, while others have warned of rising inflation expectations and potential growth concerns. The debate has underscored the delicate balance the Federal Reserve must strike between containing inflation and supporting economic stability, in our view.
- **Economic Conditions:** The US economy has continued to show resilience, supported by steady consumer spending and stable corporate earnings. However, we believe growing headwinds are emerging. New tariffs on key trading partners introduce uncertainty in our view, with the potential for retaliatory actions that could weigh on global trade. Meanwhile, consumer sentiment has softened, reflecting mounting concerns about inflation and job security. The impact of the US Department of Government Efficiency's layoffs on the broader labor market remains uncertain, with potential spillover effects on payrolls, particularly in sectors reliant on government contracts and grants.

8. Lazard *(emerging market equities)*

- **Positioning**: Lazard sees strong growth potential in emerging markets, especially in Asia and Latin America. They are focused on under-owned and attractively valued emerging market opportunities. Beyond Asia, growth prospects in Latin America, namely Brazil and Mexico, have

(continued on next page)

greatly improved on the back of nearshoring trends and an increase in foreign direct investment as companies adjust their global supply chain strategies.

9. Wellington *(technology)*

- **Sector Outlook**: Technology continues to transform the global economy from both a consumer and enterprise perspective, and Wellington's outlook for the sector is optimistic heading into 2025. AI-related capital expense trends remain incredibly strong, benefiting both AI chip (custom silicon and GPU) and infrastructure providers. Adoption of AI across both the enterprise for efficiency and consumer for new products and services is driving substantial growth in the need for this hardware. This fundamental strength is not however lost on the market with valuations extended for certain well-known and loved names.
- **Positioning**: After another incredibly strong year for tech markets, Wellington has become incrementally more cautious. While valuations are not yet as stretched as they were during periods of post-COVID exuberance in late 2021, speculation in some areas of tech is beginning to rhyme with what they observed during that period. Increasing macroeconomic uncertainty, geopolitical instability, and the impacts of potential tariffs and further export restrictions from a new U.S. administration provide further risks.

10. PIMCO *(global fixed-income)*

- **Economic Outlook**: PIMCO believes that the U.S. economy, like others, appears poised for a rare soft landing – moderating growth and inflation without recession. Developed markets (DM) are on track to return to target inflation levels by 2025, but risks from U.S. economic policy and high sovereign debt levels persist.
- **Investment Strategy**: Investment implications suggest that bonds are better positioned than equities, given high valuations and geopolitical uncertainties. Corporate credit spreads are tight, and while corporate credit may perform well, the range of outcomes leans toward wider spreads. Higher-quality bonds and structured products are favored, with U.S. agency mortgage-backed securities as a liquid alternative. Global diversification, particularly in high-quality duration, is favored, along with value in emerging market debt and foreign exchange positions.

11. Brandywine Global *(global fixed-income)*

- **Portfolio Strategy**: Brandywine begins the year with a slight overweight to portfolio duration and yield premium. Preference for U.S. Treasuries and agency mortgage-backed securities (MBS) over investment-grade corporates.
- **Market Outlook**: Brandywine believes there is value owning Treasury duration, but they are cautious of taking large duration tilts until they have greater clarity around the size, scope, and sequencing of Trump's policy agenda. Brandywine investment professionals believe Agency MBS may offer attractive yield (and spread) but with more defensive characteristics than corporate bonds, and could perform well in a range-bound Treasury yield environment, which is the base case entering 2025. Lastly, while the broader outlook for corporate bonds remains positive, Brandywine believes these are largely reflected in tight credit spreads, and thus continue to maintain a meaningful underweight to the sector. Their base case scenario is that 10-year Treasury yields will trade in a 4-5% range in the coming months. What is uncertain is the skew of that distribution. Are yields more likely to rise or fall? To determine which of the two bond yield scenarios is most likely, they will closely monitor signals about the size, scope, and sequencing of Trump's policy agenda, and will monitor the divergence between U.S. real GDP growth and labor market conditions resolves.

IMPORTANT INFORMATION

Index Definitions:

Bloomberg U.S. Aggregate Bond Index covers the U.S. dollar denominated investment-grade, fixed-rate, taxable bond market of securities. The index includes bonds from the Treasury, government-related and corporate securities, agency fixed rate and hybrid adjustable mortgage pass through securities, asset-backed securities and commercial mortgage-backed securities. **S&P 500® Index** is a weighted index of common stocks of 500 leading companies in leading industries of the U.S. economy, capturing 75% coverage of U.S. equities. The index is capitalization weighted, thereby giving greater weight to companies with the largest market capitalizations.

Information provided in this newsletter is general in nature, is provided for informational purposes only and should not be construed as investment advice. The views and opinions expressed are used with permission from the author, are as of the date of their contribution, and do not necessarily represent the views of their affiliated investment advisors, Equitable Investment Management Group, LLC or its affiliates. Any such views and opinions are subject to change at any time based on market, or other conditions, and are not intended to be a forecast of future events, a guarantee of future results or investment advice. Securities and sectors referenced should not be construed as a solicitation or recommendation, or be used as the sole basis for any investment decision.

All investments contain risk and may lose value. Statements concerning financial market trends or portfolio strategies are based on current market conditions, which will fluctuate. There is no guarantee that these investment strategies will work under all market conditions or are appropriate for all investors and each investor should evaluate their ability to invest for the long term, especially during periods of downturn in the market. Outlook and strategies are subject to change without notice.

Past performance is not a guarantee of future results. Portfolio re-balancing and diversification do not guarantee a profit or protection against loss in a declining market.

No guarantee or representation is made that investment objectives and/or opinions stated will be achieved. The experience of each specific client or investor may vary.

Due to the subjective aspect of these analyses, the effective evolution of the economic variables and values of the financial markets could be significantly different from the projections, forecasts, anticipations and hypotheses, which are communicated in this material.

Take Five Views features commentary from subadvisors of investment portfolios that are available through variable annuity and life insurance products issued by Equitable Financial Life Insurance Company of America (Equitable America) (AZ stock company) with an administrative office located in Charlotte, NC, and Equitable Financial Life Insurance Company (Equitable Financial) (NY, NY), and mutual fund products. Subadvisors sourced in this edition are not affiliated with Equitable America, Equitable Financial or their affiliates. Variable annuities and variable life insurance products are co-distributed through Equitable Advisors, LLC (member FINRA, SIPC) (Equitable Financial Advisors in MI and TN) and Equitable Distributors, LLC.

Equitable Investment Management Group, LLC (EIMG) is a wholly-owned subsidiary of Equitable Financial, which is an indirect, wholly-owned subsidiary of Equitable Holdings, Inc. Equitable Investment Management, LLC (EIM LLC) is an indirect, wholly-owned subsidiary of Equitable Holdings, Inc. EIMG and EIM LLC are affiliates of Equitable Advisors and AllianceBernstein L.P ("AB"). References to "Equitable Investment Management" include EIMG, and its affiliate, EIM LLC, unless otherwise stated.

1290 Funds is part of the family of mutual funds advised by Equitable Investment Management Group, LLC (EIM). EIM is a wholly owned subsidiary of Equitable Financial Life Insurance Company (Equitable Financial), NY, NY. Equitable Distributors, LLC is the wholesale distributor of the 1290 Funds. Equitable Advisors, LLC (member FINRA, SIPC) (Equitable Financial Advisors in MI and TN) offers 1290 Funds to retail investors. The Funds are distributed by ALPS Distributors, Inc., which is not affiliated with EIM, Equitable Financial Life Insurance Company, Equitable Distributors, LLC, Equitable Advisors, LLC (member FINRA, SIPC) (Equitable Financial Advisors in MI and TN) or the subadvisors.

Read the prospectus carefully before investing or sending money. Please consider the charges, risks, expenses and investment objectives carefully before purchasing a variable life insurance policy or variable annuity. For a prospectus containing this and other information, please contact a financial professional or visit equitable.com.

Variable Life Insurance, Variable Annuities and Mutual Funds: • Are Not Deposits of Any Bank • Are Not FDIC Insured • Are Not Insured by Any Federal Government Agency • Are Not Bank Guaranteed • May Go Down in Value

EQUITABLE