Invest with Confidence

February 2025 Newsletter

SPIRE

Investment Management LLC

“The rise of Artificial Intelligence, Robotics, and Automation, is set to transform global economies, enhance efficiency and unlock long-term investment opportunities”

Economic Overview:

Inflation in the U.S. has eased significantly due to the Federal Reserve's (FED) tightening policies, including interest rate hikes and quantitative tightening. As of early 2025, the annual Core Consumer Price Index (CPI) is at 3%, and the Personal Consumption Expenditure (PCE) is at 2.6%. Although inflation has come down from its peak of 8.3% in 2022, it still remains above the FED’s 2% target, keeping policymakers cautious.

Inflation remains driven by three primary components: goods, housing, and services:

- **Goods:** Inflation in goods has moderated since mid-2023, but certain consumer products, particularly food, continue to see price pressures due to lingering supply chain issues, labor market shifts, and policy interventions.
- **Housing:** High mortgage rates and modest home price appreciation continue to constrain affordability, driving strong rental demand and benefiting landlords.
- **Services:** The U.S. unemployment rate has risen to 4% and workforce reductions by Department of Government Efficiency (DOGE) could push it higher. This increase in unemployment is expected to ease wage pressures in the service sector.

Interest rates have been reduced from 5.35% to 4.35% over the last 18 months, but the FED remains cautious, requiring further confirmation that inflation is moving sustainably toward its 2% target. New tariffs could add inflationary pressures, potentially slowing further price declines. On a positive note, advancements in AI, robotics, and automation are projected to increase U.S. GDP by .25% to .5% over the next 5-10 years. The U.S. economy is expected to grow around 2.3% in 2025.

Looking Back: Market performance in 2024

Stock markets reacted sharply to FED interest rate decisions, driving strong gains in 2024. The S&P 500 and Nasdaq 100 posted robust returns, while fixed-income ETFs benefited from higher yields in the elevated interest rate environment. The S&P 500 P/E ratio climbed from 25 in early 2024 to 27.5 by February 2025. While valuations have expanded, earnings growth continues to provide fundamental support, keeping forward P/E ratios in check.

Among the top-performing sectors of 2024 were:

- Technology – Fueled by AI advancements and cloud computing expansion.
- Consumer Discretionary – Driven by strong consumer spending and post-pandemic demand shifts.
- Nuclear Energy – Gained momentum as AI driven data center power demands increased exponentially.
- Financials – Benefited from higher interest rates and strong bank earnings.

Additionally, the new administration’s pro-crypto stance has fostered a favorable regulatory environment, leading to a breakout year for digital assets in 2024.

Looking Ahead:
After a strong 2024, macroeconomic uncertainties persist heading into 2025, with new tariffs and potential regulatory shifts from DOGE creating potential headwinds. However, S&P 500 earnings are projected to grow by 18%, which should support elevated P/E ratios and sustain positive market momentum. With earnings growth and innovation-driven sectors leading the way, investor sentiment remains optimistic for the year ahead.

We are closely monitoring inflation trends, FED policies, and corporate earnings reports to make informed investment decisions. Our core strategy includes: portfolio diversification in equity and fixed-income ETFs to manage market volatility, and investing in fundamentally strong companies.

Key Sectors of Interest:
- Technology: Artificial Intelligence (AI) hardware and software, Crypto currencies, Cloud computing, Robotics and automation
- Financials
- Nuclear Energy

Global Investment Opportunities:
- India: Offers strong investment potential, driven by steady economic growth, pro-business policies, and favorable demographics.
- Japan: Benefiting from favorable monetary policy, corporate reforms, improved earnings, and higher shareholder returns, though a strengthening Yen could impact corporate profitability.

Final Thoughts:
The market outlook remains optimistic, driven by strong corporate earnings growth, innovation, and global economic resilience. However, macroeconomic uncertainties, including potential regulatory shifts, geopolitical risks, and inflationary pressures, call for a disciplined and adaptable investment strategy to navigate evolving market conditions.

Our approach focuses on:
- Innovation-driven industries as key drivers of long-term success, particularly in AI, robotics, automation, and cloud computing.
- Sectoral diversification to capitalize on emerging opportunities while mitigating risks.
- Dollar-cost averaging to optimize market entry points and manage volatility effectively.

As we move through 2025, staying agile, well-informed, and diversified will be crucial for achieving sustained investment growth. By maintaining a long-term vision and strategic discipline, investors can confidently position themselves for success in an evolving global landscape.

Email: spireinv@gmail.com

References:

- U.S. Bureau of Economic Analysis: https://www.bea.gov/data/gdp/gross-domestic-product
- Trading Economics: https://tradingeconomics.com/united-states/inflation-cpi
- JP Morgan Chase Investment Outlook: https://privatebank.jpmorgan.com/nam/en/insights/latest-and-featured/outlook
- Bank of America Investment Outlook: https://www.privatebank.bankofamerica.com/articles/economic-market-outlook-2025.html
- The Conference Board GDP Growth estimates: https://www.conference-board.org/research/us-forecast
- Vanguard ETF Industry Perspective: https://corporate.vanguard.com/content/dam/corp/articles/pdf/etf_perspectives_2025_q1.pdf
- Yardeni Earning Estimates: https://yardeni.com/charts/yri-earnings-outlook/