

# WIMAN & WONG

Wealth Management Group

Monthly Newsletter

January 2025 Comment

## El Predicto!

Welcome to 2025! Happy New Year to everyone. I hope this is a happy and healthy New Year for all!

As we step into the new year, we often set expectations for a reset. This couldn't be further from the truth in the investment world. The reality is that the world keeps turning, and opportunities and threats are the same today as they were before the clocks turned to 2025. Another factor is the huge dump of data from various sources predicting market directions. What seems rational today may not seem so, six months from now. The fundamental question is what's next?

Typically, we see a Santa Claus rally into the year-end, but this year the Grinch stole Christmas for the markets. We highlight the TSX below from a chart perspective to show how the lump of coal hit the floor to finish the year. The peak to trough decline was only 5%, but it was still a significant adjustment in a short period.



Source LSEG, Wiman Wong

Now the year was decent, but the month of December not so much. So onward and upward we go!

Now let's launch into predictions and positioning for 2025. It would be easy to suggest that the fly in the ointment would be political friction, particularly regarding tariffs (thanks, Don!). The bigger picture involves uncertainty and potential irrationality.

Let's dig into some themes that may play out:



## Expectations

This is perhaps the biggest concern. We have seen two decent years for US growth companies. The largest companies have provided returns that are abnormal by historical measures. The challenge is the expectation a stock which increased by 30% last year will continue growing at that rate indefinitely. We know from history that this is not true, but as long as the music is loud, and the Kool Aid is flowing, the dance floor will remain crowded. Expectations may only be a speed bump in the future.

## AI

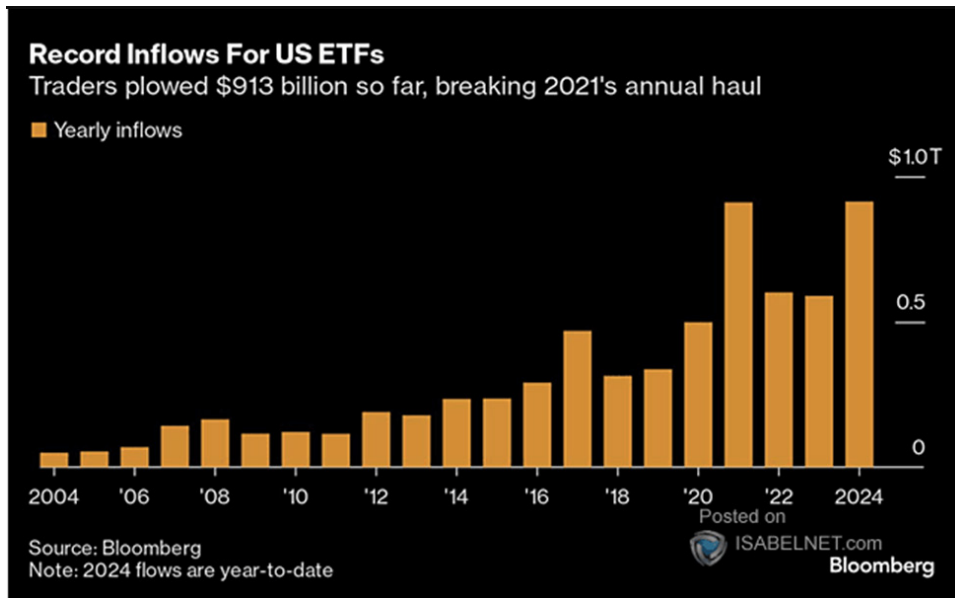
One dominant theme that likely remains salient in 2025 is Artificial Intelligence. It is guesstimated to be a \$250 billion market in 2025 and grow to \$825 billion by 2030 with an annual growth rate of 27%. Even half of that would be decent. Let's hope the estimators are half right. Now if we look into the specifics in this space, we see one big gainer from last year that is trading at 400 times price earnings! This suggests 400% growth, which is likely not sustainable.". Pass the Kool Aid...

## Credit

One place we look for risk is credit spreads. Currently, these spreads are narrow. This is suggestive of a warm water environment. No major credit events are in the forecasters' crosshairs. It also suggests that the economy is in decent shape.

## Funds Flows

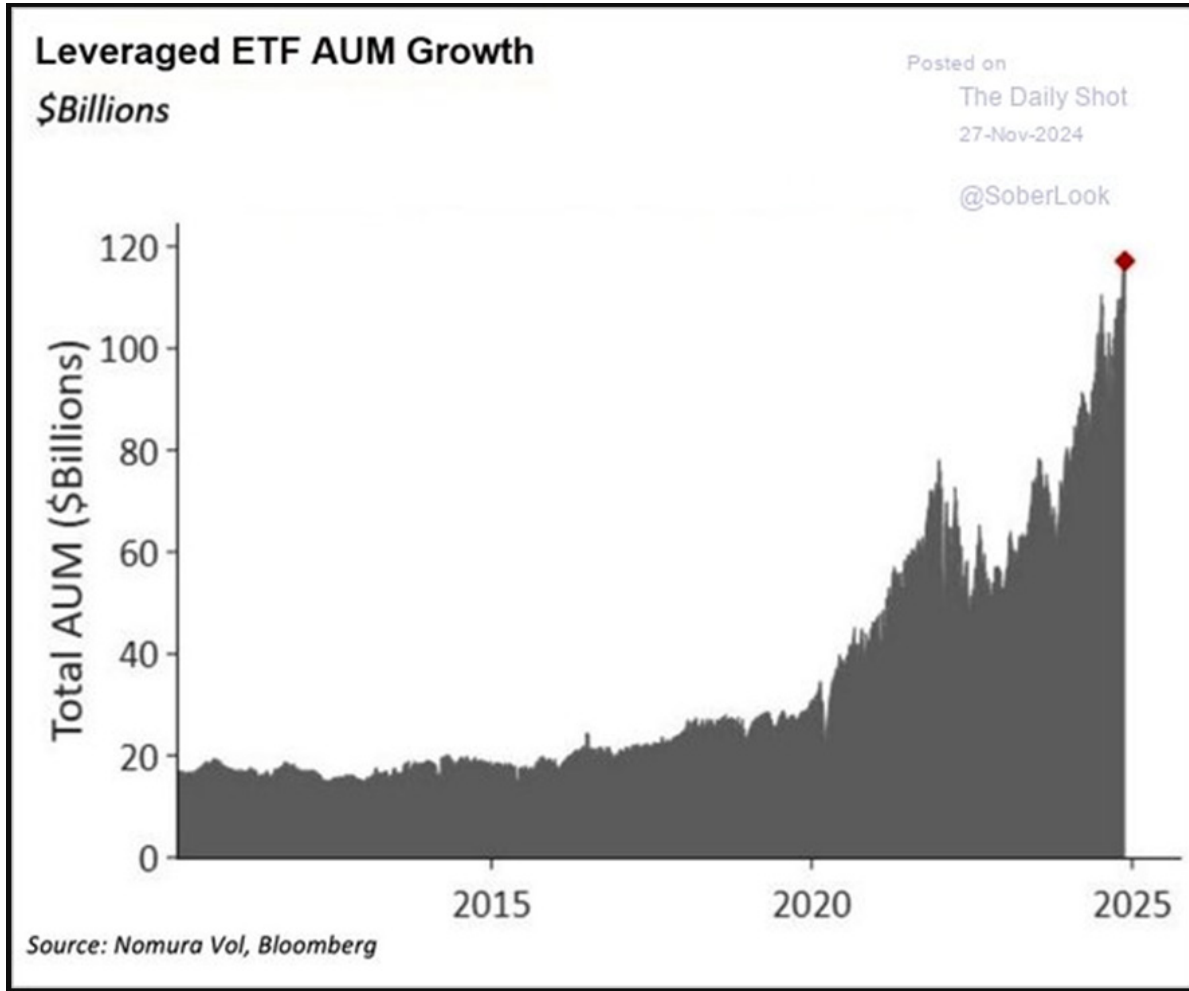
Everyone, get in the water! Another area is that we see, a lot of money going into the market. The chart below shows the yearly increase in dollars going into US\$ ETFs (Exchange Traded Funds)."The two spikes are notable:



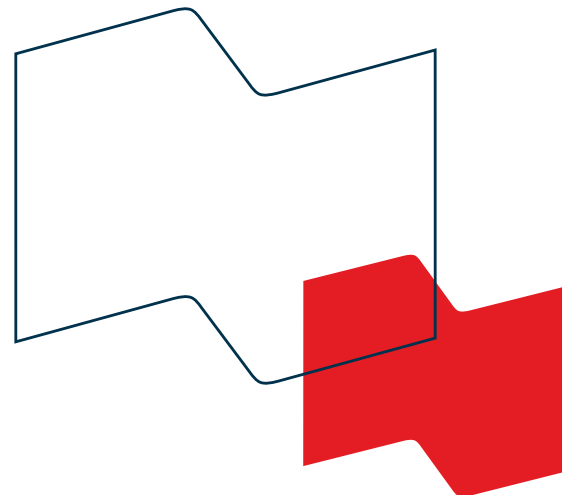
Source: RIA, Bloomberg

## Animal Spirits = Speculation

This may be an issue for 2025. We see a lot of speculation in areas such as zero-day options and leveraged ETFs." The chart below is perhaps the most sober look we have seen in a long time. It shows the dollars that have gone into leveraged ETFs.



Source RIA, SoberLook



## Earnings

The earnings expectation for the S&P 500 is \$251, representing a 19% increase from the 2024 level. This seems robust, given that the long-term rate of earnings growth has been 7.7%. We may have another outlier year ahead. Perhaps earnings are priced to perfection?

## NOW

We could delve deeper, but you get the gist by now. The noise level has not changed and there are more factors in play today. Leadership changes are afoot on both sides of the border, bringing a degree of uncertainty and, in some cases, certainty.

## Final Thought

Really, we see the world today as way more complex. We will likely encounter some bumps in the road as the world will always have potholes to deal with. On the bright side, we see many companies trading at reasonable valuations and paying sustainable dividends.. We also see some growth companies that are positioned to take advantage of the growth in AI. How this all plays out is yet to be seen, but with animal spirits alive and well, we could be surprised one way or another in 2025.

*Buckle up! Happy New Year!*



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