US Equities

Adrian Brass explains why he thinks the bull market in US stocks will continue in 2025. He expects to see a recovery in earnings and a broadening out of market performance beyond technology stocks.

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Do you think the bull market in US stocks can continue into 2025?

We've seen exceptionally strong markets since the end of 2022. 2022 was a weak year and since then markets have rebounded very strongly. But that rebound has been characterised until recently by narrowness – it was driven by a few mega-cap tech stocks. **Recently we've seen the rally broaden out into mid-cap and small-cap stocks** and also out of just the technology sector into industrials and financials and consumer discretionary. So it's been a much healthier bull market of late.

There are good reasons to think that this strength can continue. I'd say that as long as Trump's disruptive policies don't happen, we'll see a continued broadening out of earnings growth.

This is because for **the past three years the market has been characterised by what we call a rolling recession in earnings**. This means we've seen lots of areas experience negative earnings – anything from banks to transport to life sciences. And that's meant that the overall market's earnings growth has been quite subdued. What is very interesting is that as we move into 2025, there is likely to be **synchronised earnings growth across the market**. And so we would expect the market strength to continue to broaden out. At the same time, **overall S&P 500 earnings growth is expected to accelerate up into the teens**. This should be very supportive for the markets in 2025.

Which themes are you most excited about for 2025?

We are excited about a range of themes and are putting a lot of capital behind them in the fund, spread across lots of different areas of the market.

One area is **infrastructure spending**. We see aggregates, cement and electrification as having a lot of political support. They are also sectors that have been quite depressed until recently because of a slowdown in non-residential construction, as well as bad weather. And so we see the potential for cyclical recovery and very good secular growth for the next few years.

On the more defensive side, we are also positive on **utilities**. This is usually seen as a boring area. It has seen no demand growth for around 20 years. But an inflection point has been reached. We are seeing the increased use of electric vehicles and data centres lead to demand growth for the first time in ages. And we think that change is not reflected at all in share prices.

There are a few other areas that we think are beneficiaries of the new Trump administration. **Financials** are very attractive to us on two fronts. First, we think conventional banks are going to benefit from deregulation, which can help them in many different ways.

Second, if there's a more supportive backdrop for mergers and acquisitions, that is likely to reignite the capital markets, which have been very depressed in terms of **IPOs** and **M&A**. We think that could be a very powerful recovery force for investment banks.

What is the biggest threat to the US market in 2025?

Our central case is that it is going to be a healthy market – you could call it a Goldilocks type scenario. The biggest risk we see is that **Trump's policies** prove to be more disruptive than expected. We see two areas to focus on there. On the tariff side, Trump and his team have been talking big numbers in terms of going after China, Mexico, Canada etc.

If they were to follow through on that, it would be extremely disruptive to certain companies, as well as potentially inflationary. But, having learned from last time, we think that a lot of this talk is a bargaining technique. **So tariffs are something to watch**, which could be disruptive.

The second point is that the Trump administration or the **DOGE initiative run by Musk is taking potentially a very unorthodox approach to look for cost cuts within government spending and to encourage deregulation**. We really need to focus on that and avoid potential minefields in areas that could see government spending slashed. And certainly, within the **Artemis US Extended Alpha portfolio**, we've positioned away or even **shorted stocks** that we think could suffer from this.

Could AI turn out to be a white elephant?

Having been a technology manager in 2000, when the dot.com bubble burst, it's something that I often think about. The difference between now and then is that back then there was a huge amount of investment, without any confidence in terms of when the benefits or revenues would come.

Now, we're seeing a massive amount of spending in AI computer power. It's an arms race, but we are already seeing real time usage and benefits come through from lots of companies. So the key areas that seem to be seeing dramatic benefit from are usage would be: **1) software development 2) call centres and customer relations functions 3) content creation** ranging from video to photo images etc.

These three areas represent tens of billions of dollars of spend every year that can potentially see massive cost improvements from AI usage. And we think that these kinds of examples are just going to spread through to lots of different industries in time.

When a theme like AI becomes very hot, **you need to think very carefully about valuations** and the expectations that they reflect. But essentially we are very positive in terms of AI being a real thing and here to stay.

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