INVESTMENT REPORT 2025:

Risk-on, Risk-off

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CIONET
What's next.

Contents

Introduction

In this report, Roger Camrass reviews the financial events of 2024 and presents his opinion on investment prospects for 2025. Roger has followed global finance markets closely for over 40 years and summarises trends in investment reports annually[1]. As former Research Director at CIONET, Europe's largest community of digital leaders[2], Roger has first-hand knowledge of digital trends.

The remarkable equity performance of 2024 is unlikely to be repeated in 2025 unless we see a speculative bubble comparable to the 2000 dotcom boom. US tech stocks such as the so-called Magnificent Seven have reached "price for perfection" due to inflated AI ambitions. As Bill Gates once said: "We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten."

The gap between the USA and the rest of the world will grow in the coming years. Europe and the UK are experiencing a downward spiral that will be hard to arrest. Increasing tax, regulation and low-grade immigration will cripple growth prospects for the UK and across the EU. Trump 2.0 has placed innovation and growth at the top of the national agenda.

With continuing uncertainty worldwide, investors should seek diversification in 2025 to avoid concentration in the Magnificent Seven stocks. Focusing on value stocks instead of those "priced for perfection" may be a more prudent strategy. This approach might imply a renewed interest in mid- and small-cap equities in the US and possibly across Europe. Cryptocurrencies are also becoming viable assets alongside gold and commodities.

Long-term investment remains preferable to short-term market timing. Maintaining liquidity to navigate uncertainties, particularly for retirees, aligns with Warren Buffett's principles. Frequent portfolio rebalancing is advisable to take advantage of undervalued equities and mitigate market fluctuations. Corporate earnings tend to be less volatile than stock prices, offering opportunities for value-driven investments.

The overall outlook for 2025 is promising if investments are focused on US equities and hidden value opportunities. Cash assets remain an essential hedge against likely market volatility.

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[1] Investment Reports accessible in the publications sector of Roger's website, www.rogercamrass.com
[2] Visit CIONET at www.cionet.com for information on our community of 10,000 digital leaders

Investment Outlook for 2025

Risk-on

The return of Donald Trump to the White House introduces uncertainty, with markets likely to react to his unpredictable policy decisions. Trade policies, tariffs, and economic measures will influence market sentiment. Depending on their implementation, tariffs could be inflationary or deflationary, while a strong US dollar is expected if domestic market conditions remain robust. My personal view is the US will continue to power ahead as Trump tramples on regulations and state spending.

Investment in artificial intelligence (AI) will continue at pace in 2025, with hyperscalers expanding their data centre infrastructures. AI-driven computing demands substantial energy resources of between 100 and 200 megawatts, potentially rising to gigawatt levels. Research suggests AI energy consumption could account for 12% of total US energy usage during the next three years. AI will also invigorate the software sector as new training and inference models appear. Investors should consider this as a multi-layer opportunity.

The proposed $500bn Stargate supercomputer project under Trump's administration could accelerate investment in AI infrastructure. Amazon's planned $150bn investment over the next 15 years suggests continued growth in the sector. However, we should remember the lessons of the 2000 dotcom boom and be wary of concerns associated to sustainability and potential market corrections.

S&P 500, NASDAQ up

5%

at end of 2025

Broader Market Trends indicate volatility

Global inflation has peaked but is declining more slowly than anticipated, delaying potential rate cuts, particularly in the US, where employment remains strong. Trade conflicts could elevate interest rates in the UK, while the European Central Bank is expected to maintain rates around 1.5%, compared to the US Federal Reserve's 4% rate. UK mortgage costs will be high, affecting property markets.

Tariffs are a crucial issue. China exports $551bn in goods and services to the US annually, while Canadian exports are worth $438bn and Mexico's total $421bn. The US trade deficit with China stands at $280bn, followed by the EU ($220bn) and Mexico ($160bn). If trade imbalances persist, Trump will impose tariffs on these regions, potentially disrupting global markets.

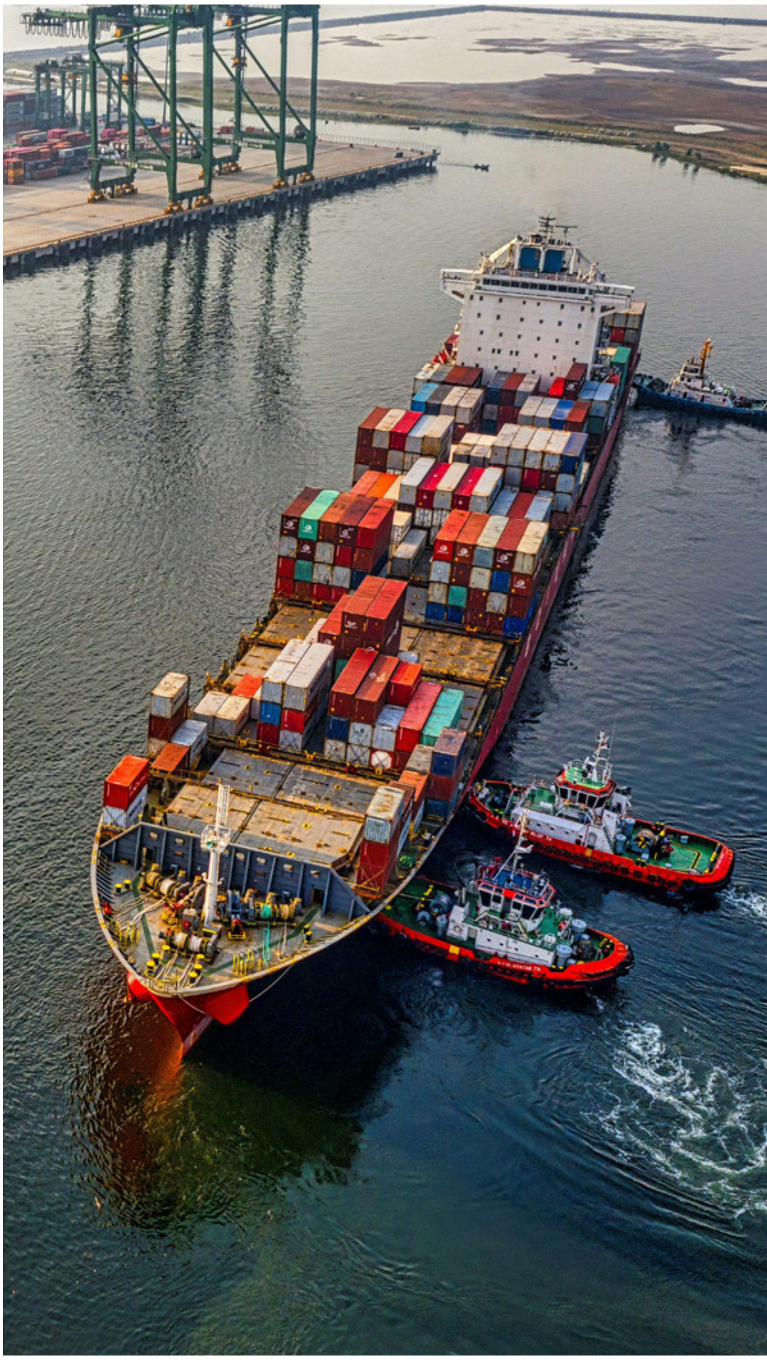
Trump seeks to expose the myth about global trade, which will harm China. Over decades, China has stolen trillions of dollars of product and service information from the West. The Chinese government has subsidised core industries such as Automotive to eliminate foreign competition. The German car industry and the USA are on the frontline of such an attack. It has already instigated an attack on the tech front with DeepSeek. The latter exploits low-cost Chinese cloud platforms and IP stolen from Google and other US-based innovators.

By encouraging local manufacturing in the USA, both industrial and IT-related, Trump is challenging China's approach to global trade. If global trade is to bring long-term benefits to consumers, it will need to be conducted equally, without blatant theft or subsidies. The current crisis over intellectual property theft may also point the finger at the leading USA tech giants who are sucking up data from the Internet to fuel their AI models. Again, this flies in the face of free competition and must be addressed if global trade is to remain beneficial.

Gap between EU and USA Interest rates

1.5% - 4%

in 2025



Recent Market Movements

Risk-off

As anticipated in my previous investment report[3], 2024 was a bumper year for all asset classes, especially cryptocurrencies and US equities. Looking back over the last three years, the following trends are visible:

- Cybercurrencies have become the most dynamic asset class, especially with Trump nominating the US as the cyber capital for 2025. The value of bitcoin has risen by over 200% in the last three years, on par with Nvidia's stock.
- The US continues to dominate global equity markets, with a 64% share of total value. The Magnificent Seven tech shares represent around 36% of US equities and are responsible for most recent market growth.
- European, UK and Chinese equities have demonstrated sluggish performance, with Germany marginally ahead of the rest. Small companies have fared worst in recent years, indicating a future value opportunity.

Table 1 – Equity market movements between 2022 and 2024

Equity Markets	Price 12-31-24	Delta 2022	Delta 2023	Delta 2024	Net Gain Over 3 Years
Bitcoin	$100,000	-60%	+152%	129%	**+221%**
Gold	2,900	n/a	n/a	30%	**+44%**
NASDAQ	19,800	-33%	+39%	36%	**+42%**
Japan Nikkei	40,000	-12.3%	+30%	20%	**+37.3%**
S&P 500	6000	-19%	+25%	27%	**+33%**
DAX	20,300	-12%	+15%	12%	**+15%**
FTSE 100	8,200	0.0%	0.0%	7%	**+7%**
CAC 40	7,500	-9.5%	+16%	0	**+6.5%**
China SSE	3,200	+0.5%	-5%	10%	**+5.5%**
Oil	70	+6%	-4%	0	**+2%**
FTSE 250	20,500	-20%	0.0%	6.6%	**-15%**

[3] Investment Report 2024: Navigating in Uncertainty. See www.rogercamrass.com/publications

In 2024, commodities, along with Indian and Chinese equities, demonstrated a turnaround, much to investors' relief. Commercial property began a slow recovery after a post-COVID slump, encouraged by a decline in interest rates and the end of many work-from-home strategies. Global equities performed well due to their heavy US weighting.

USA share of global equities markets

64%

in 2024

Table 2 – Best and worst investments in 2024

Asset Class	2023 Performance	2024 Performance
Commodities	-10%	+30%
Global Equities	+12%	+20%
Chinese Equities	-11%	+12.7%
Emerging Market Equities	+1.9%	+12%
Japanese Equities	+10%	+10%
European Equities	+11%	+8.6%
Indian Equities	-2.5%	+8.5%
British Equities	+0.5%	+7.0%
Cash	+4.5-5.5%	+4.0%
Commercial Properties	-4%	+1%
FTSE 250	20,500	-20%

Investment Sentiment Drivers for 2025

Economic factors, including US job market performance, inflation risks, and interest rate policies, will shape investor sentiment. A strong US economy could drive inflation higher, affecting global financial conditions. Rising global inflation may increase UK debt repayments, further constraining economic policy options.

The cryptocurrency sector is poised for further evolution. The US is becoming the global leader in crypto investments, with venture capital firms shifting focus away from the UK. Decentralised finance, initiated by the invention of bitcoin in 2008, continues to gain traction. Despite past crises, crypto may play a transformative role in global finance.

Geopolitical tensions, including trade conflicts and NATO commitments, will impact investment decisions. Trump's stance on NATO funding could lead to increased European defence spending. The ongoing AI competition between the US and China presents strategic investment opportunities, with China's DeepSeek project representing a significant technological milestone.

Divergence in National and Regional Economic Outlooks

In the US, Joe Biden's economic policies contributed to inflationary pressures. The Trump administration will try to reverse many regulatory policies, withdraw from the Paris Agreement, expand energy production, and implement trade tariffs. Federal debt levels could rise above $36 trillion, necessitating dramatic cost reductions in public spending, which Elon Musk is now addressing. Increased tariffs might create a trade surplus and strengthen the dollar. Overall, the economic outlook for Trump 2.0 looks promising in stark contrast to Europe, where political conditions are unstable.

The UK faces economic challenges, with GDP growth forecast at just 0.75% in 2025. High taxation policies have constrained investment, while unemployment has risen to 4.6%. Potential US tariffs on UK exports pose additional risks. Sir Kier Starmer is pursuing a hard reset using a mix of class warfare, net-zero targets, taxation, and low-grade mass migration. Despite these economic headwinds, foreign investment remains strong, exemplified by Blackstone's $10bn investment in a Northumberland hyperscale data centre. Expect a painful period of stagflation in the UK.

The EU's economic outlook is equally bleak. While the trading zone maintains a slightly larger GDP than the US, its per capita wealth is 30% lower. Germany is experiencing a prolonged recession, and France faces economic and political instability. Excessive regulation and bureaucratic inefficiencies hinder growth. The European automotive industry is under pressure from US and Chinese competition. The Brussels bureaucratic machine has proven itself to be out of touch with the needs of Europe's citizens.

China's economic growth is slowing, with GDP expected to stabilise at 4%. Structural reforms are necessary to sustain long-term expansion. Russia continues to face financial challenges due to prolonged conflict, with interest rates at 21% and significant labour shortages impacting productivity. It is hard to see any progress here when all efforts are directed to military campaigns in Ukraine or Taiwan.

UK GDP growth forecast at just

0.75%

in 2025

EU's per capita wealth is

30%

lower than the USA

Key Risks for 2025

Risk-on

Global geopolitical instability remains a key risk factor. Ongoing conflicts in Ukraine and the Middle East, coupled with tensions surrounding Iran's nuclear ambitions, contribute to market volatility. Trump's trade policies could escalate economic disputes, leading to retaliatory measures. The long-term bull market, which began in 2009, may be approaching a peak, with equity valuations at historically high levels. Analysts anticipate potential equity returns of around 10% in 2025, though a correction is plausible. Investors may turn to money market instruments offering 5% yields as an alternative to equities.

The increase in national debt in all major economies remains a concern. US interest payments exceed $1 trillion while ageing populations necessitate increased healthcare spending. European defence expenditures will likely rise due to reduced US commitments to NATO. Higher national insurance rates and minimum wage increases in the UK could dampen economic growth. Rising stamp duty and mortgage rates above 5% may suppress property prices.

Cash returns of

4-5%

present safety from volatile markets

Global debt surges to

$307TR

at the start of 2025


+42.75
Bid
432.65
Ask
SELL

Investment Options for 2025

Maintain a diversified portfolio

2025 will be another year plagued by uncertainties, with an emphasis on Risk-on. However, some points of light include:

Anticipated investment opportunities within the US, including tech, energy, small-cap stocks, and cybercurrencies. It could be argued that the Magnificent Seven are reaching peak value, but AI is only in its infancy.

In the UK and Europe, defence spending is likely to escalate despite the possibility of an end to the Ukraine/Russian conflict. The USA is unlikely to be the prime funder of NATO. Instead, the EU needs to step up to the plate.

A diverse portfolio will have merit during an extended period of uncertainty, with cash, gold, emerging markets and commodities being a means of mitigating possible corrections in Magnificent Seven stocks.

Table 3 – Performance of the Magnificent Seven stocks (2022 to 2024)

Magnificent Seven stocks	Decline in 2022	Growth in 2023	Growth in 2024	Net advance over 3 years
Meta	-61%	+181%	+79%	**+199%**
Alphabet	-36%	+55%	+45%	**+64%**
Amazon	-48%	+76%	+56%	**+84%**
Apple	-28%	+48%	+35%	**+55%**
Microsoft	-27%	+54%	+16%	**+42%**
Nvidia	-50%	+230%	+204%	**+384%**
Tesla	-66%	+100%	+73%	**+107%**

The MSCI World Index remains a dominant global benchmark, with two-thirds of its value derived from US equities. AI investment remains a key theme, with the US and China leading the race. High energy costs limit UK competitiveness in this sector.

Real estate markets may recover as corporate demand for office space increases post-pandemic. Property remains an undervalued asset, with long-term returns historically averaging 8% to 9%.

The dollar strengthened following Trump's election, while the British pound depreciated. Bitcoin may emerge as a hedge against economic uncertainties, akin to gold. The Magnificent Seven stocks accounted for 36% of the S&P 500's value in 2024, with AI-driven growth supporting valuations.

European equities trade at a price-to-earnings ratio of 14.4, presenting potential buying opportunities as interest rates decline. Gold has appreciated by 118% over the past decade, with recent gains driven by inflation concerns and market instability.

Magnificent Seven value

36%

of S&P 500

Table 4 – Suggested asset allocation for 2025

Asset class	2023 allocation	2024 allocation	2025 allocation	Rational
Liquid assets (cash, fixed-rate bonds)	25%	40%	35%	Take advantage of high interest rates
Old Economy (e.g. FTSE 100)	25%	20%	15%	Exploit value opportunities
Tech stocks	15%	20%	20%	Growth engines for global equities
Asia/Japan/India	10%	10%	10%	Diversification
Global funds	20%	10%	20%	Search for income

Conclusions

The last two years have been remarkable for investors who focused on the US equity market, especially within the tech sector. Returns have exceeded 20% per annum, less so for UK and European investors, who have had returns in single figures. This story is likely to continue as the brakes are lifted across the US but tightened in Europe and the UK. High-tax economies riddled with unsustainable public sector spending can only lead to stagnation. Some value opportunities may be hidden in Europe, but these are highly speculative.

About the author

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A pioneer of today's Internet as an ARPA research fellow at MIT in the seventies, Roger has spent over fifty years helping corporations harness the power of new technologies such as AI, cloud, mobile communications, e-commerce, voice recognition and satellite. He was a partner at EY responsible for e-commerce during the dot.com boom. He is a Cambridge University and MIT graduate and a visiting professor at the Hebrew University in Jerusalem..

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