News Release

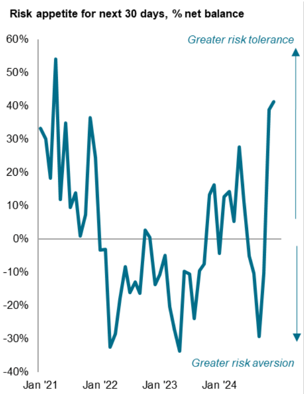
Embargoed until 1000 EST (1500 UTC) 10 December 2024

S&P Global Investment Manager Index™ (IMI™)

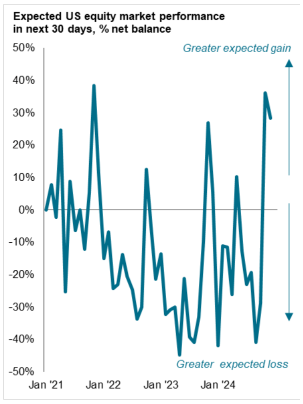
Risk appetite builds further in December

- Risk appetite highest since April 2021 as investors see US equities gaining value through 2025.
- Political uncertainty has been replaced by optimism over the US macro outlook, though concerns have intensified over drags from valuations, global growth, and the FOMC rate path.
- Dollar seen appreciating amid growth and rate divergence with other economies.
- Bullishness is led by financials and tech, while defensives, energy, and real estate suffer from investor disfavor.

Risk appetite



Near-term market outlook



Source: S&P Global IMI survey.

According to the latest S&P Global's Investment Manager Index™ (IMI™) survey, risk appetite has improved further in December. The IMI's headline Risk Appetite Index has risen from +39% to +41% in December, the latest uplift building on November's surge in risk appetite witnessed in the aftermath of the US election to signal the highest degree of US equity investor confidence since April 2021.

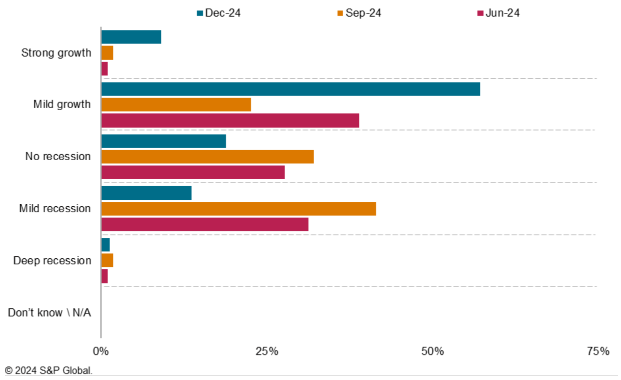
The improved risk attitude is matched by the anticipation of further strong US equity market gains over the coming months. Investor expectations of US equity market performance over the coming month have spiked higher in the past two months, with December's reading pulling back slightly from November but still the third-highest seen since the survey began in October 2020.

Gains are expected to be sustained into the coming year. The survey indicates that investors see the S&P 500 ending 2025 around 5% higher than current levels.

Economic outlook boosts market optimism

An improved expectation of US economic growth over the coming year propels greater optimism in terms of equity returns. The most common expectation among respondents for 2025 is for the US economy to experience mild growth, which contrasts with the most commonly cited scenario of recession recorded three months ago. Overall, US growth expectations are now the most optimistic recorded by the survey since tracking began in late 2022.

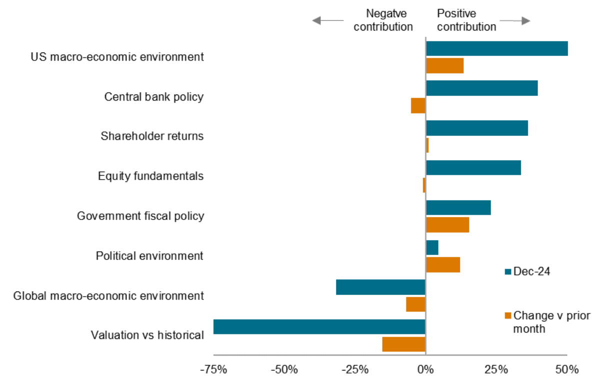
Thinking about the US economy in the next 12 months, please pick one of the following that you feel best reflects the current outlook.



Hence, the US economy is now seen as the strongest driving factor behind near-term US equity returns, taking over from central bank policy.

What's driving US equity returns over the next 30 days?

% survey net balance*



* The net balance shows the percentage of those reporting an expected positive contribution minus those expecting a negative contribution. Those only reporting a 'slight' positive or negative contribution count as half a response, while those reporting a 'strong' positive or negative contribution count as one-and-a-half responses.

Source: S&P Global IMI survey.

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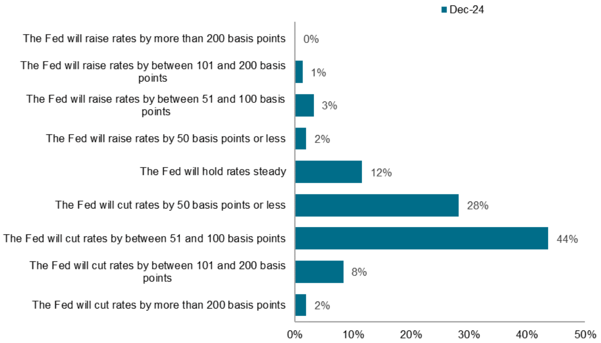
While monetary policy is still cited as an important driver of equity returns, its anticipated impetus has now fallen for two successive months, reflecting a paring-back of anticipated rate cuts over the next year. While the most commonly cited expectation is for the Fed to cut by 51-100 basis points in 2025, this represents a less aggressive rate-cutting path than signaled by the markets prior to the US election. The remaining survey responses are also tilted toward a more hawkish stance.

Which of the following best describes your anticipated path for the Fed funds rate during 2025?



Meanwhile, a particularly notable change in sentiment has been observed for the political environment, with a positive impact on stocks now recorded for the first time since April 2021. Sentiment surrounding the support to stocks from fiscal policy has likewise improved since the election, also hitting a three-year high in December.

In contrast to the more upbeat views on the US economy, the wider global economy is seen as an increasingly severe drag on US equities, pointing to a growing expectation that the US economy will outperform other major economies. This growth divergence, combined with accompanying differences in rate outlooks, has led survey respondents to turn bullish on the US dollar outlook for the first time since September 2023.

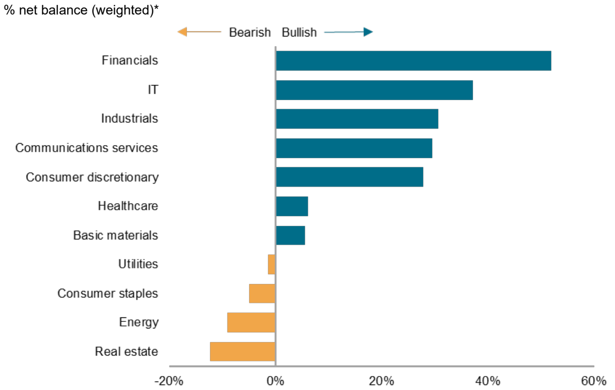
The recent buoyant mood in the markets has, however, pushed concerns over valuations (as measured by their perceived drag on the market) to their highest since data were first collected in 2020.

Sector preferences shift from defensives

The recent change in investor risk appetite has influenced sector preferences, with December seeing a further shift away from defensives. Since the US election, healthcare has seen the biggest downshifting of investor favor, followed by utilities, with a marked slide in favor seen for consumer staples. Both real estate and energy have also suffered amid investor expectations of fewer rate cuts in 2025 and recent oil price weakness and are seeing the greatest bearishness from investors.

At the other end of the scale, consumer discretionary has reported the largest increase in investor sentiment since the election, followed by financials and tech/IT. The latter two sectors topped December's rankings for investor bullishness, followed by industrials.

What is your sector outlook for the next 30 days?



* The net balance shows the percentage of those bullish minus those bearish. Those only reporting a 'slight' bullish or bearish outlook count as half a response, while those reporting a 'strong' bullish or bearish outlook count as one-and-a-half responses.

Source: S&P Global IMI survey.

Commentary

Chris Williamson, Executive Director at S&P Global Market Intelligence and author of the report, said:

"December has seen risk appetite improve further from the post-election surge seen in November, pushing market optimism to the highest since April 2021. Prospects for faster US economic growth, more fiscal support (read lower taxes), less regulation, and greater protectionism have driven investor favor toward financials, tech, and US industrials.

"This changed macro outlook means investors don't think rates will need to go as low as previously anticipated in 2025, but for now the brighter economic outlook offsets this lack of monetary stimulus as far as equity performance is concerned.

"Investors also see the US economy outperforming the global average by an increased margin, adding to increased bullishness toward the dollar."

For a copy of the full report and data, please contact economics@spglobal.com.

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Note to Editors

This edition of the Investment Manager Index survey includes monthly responses from a panel of just under 300 participants employed by firms that collectively represent approximately $3,500 bn in assets under management. Data were collected between 2-5 December 2024.

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