Moving forward in a changing world

BOK FINANCIAL 2025 MARKET OUTLOOK

Contents

Base case outlook

U.S. economy

U.S. economic growth should remain positive in 2025, driven by the still-strong job market, robust consumer spending and increased private capital investments.

Risks: Slowing new job growth, effects of tighter immigration controls and potential tariffs.

International

The Federal Reserve and many other central banks around the world will continue to lower rates, but at different paces given the now-variances in inflation. Proposed U.S. tariffs, if enacted, would likely impact global trade and accelerate deglobalization.

Risks: Other countries' reactions to U.S. tariffs, heightened geopolitical conflict in the Middle East and between Russia and Ukraine.

Financial markets

2025 is likely to be a good year for the equity market, with the financials sector and small- and mid-cap stocks likely to perform particularly well, partly due to some of the Trump administration's proposed policies.

Risks: Escalating geopolitical conflicts and inflation.

Energy market

President-elect Trump may lift many of the restrictions on LNG export facilities, remove some oil drilling restrictions and make permitting easier. AI and datacenters will increase U.S. power demand, initially the demand for natural gas and then potentially nuclear.

Risks: Escalating geopolitical conflicts, China retaliating against potential U.S. tariffs by restricting U.S. crude imports.

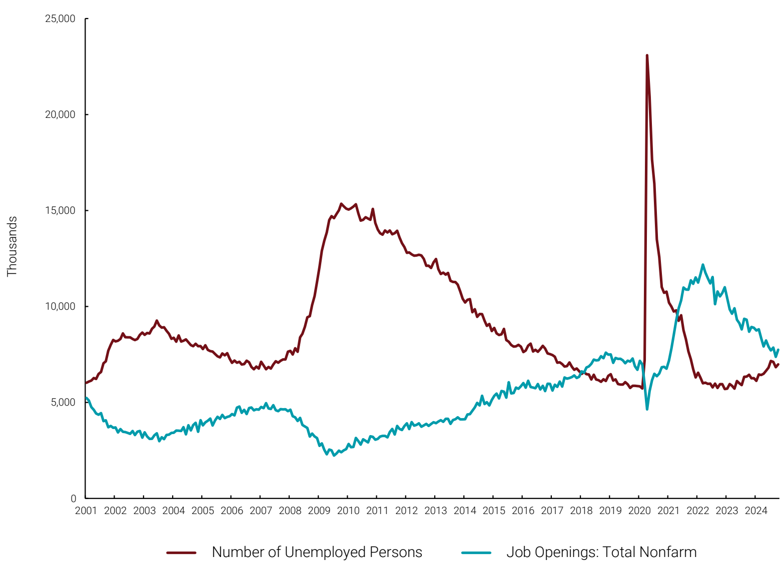
Where are we now?

As 2024 came to a close, many of the same questions that loomed at the start of the year still cannot be answered. Furthermore, in some ways, they have become more complicated with the start of a new presidential administration in January.

For instance, one overarching question is how long the U.S. economy can remain resilient despite high interest rates. Although the Federal Reserve started lowering rates in 2024, this question remains pertinent, as rates are still at a level considered restrictive to economic growth. And yet, despite rates being this high, U.S. economic growth has been not only positive but above trend—driven by a still-strong job market, wage gains and heavy fiscal spending. As we'll explore in the next section, we expect this positive growth to continue.

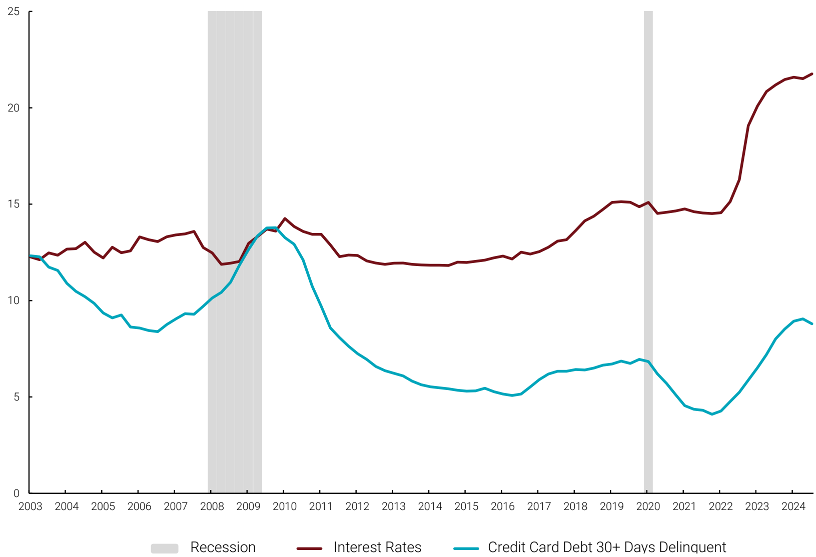
At the same time, the gap between labor demand and labor supply has continued to shrink, to the extent that there are only 1.1 open jobs per unemployed person. This reduction in excess labor demand should result in less inflationary pressure. Already, the pace of wage gains is slowing and there has been a snap back in productivity that's helping overall inflation rates be contained. Wages now may be approaching a sweet spot where growing wages still help the consumer, but there are fewer inflationary effects from excessive wage pressures.

Number of Open Jobs vs. Unemployment Level



SOURCE: FEDERAL RESERVE BANK OF ST. LOUIS. DATA AS OF NOVEMBER 30, 2024

U.S. Credit Card Debt Over 30 Days Delinquent vs. Credit Card Interest Rates



SOURCE: FEDERAL RESERVE BANK OF NEW YORK AND FEDERAL RESERVE BANK OF ST LOUIS. DATA AS OF NOVEMBER 30, 2024

The job market is key to supporting healthy consumer spending, which remains the backbone of economic growth. In fact, it makes up 68% of gross domestic product, according to the U.S. Bureau of Economic Analysis. One indicator shows that while upper-income consumers still look financially healthy, lower-income consumers are signaling modest signs of distress. For example, credit card delinquency rates are on the rise, indicating that consumers are feeling some pressure to make ends meet.

Unfortunately, inflation has hit the people who can least afford it the most and, even though year-over-year inflation has come down, that doesn't mean that prices are falling (instead, prices are just not going up as quickly). Moreover, as we'll discuss later in this outlook, there are concerns that some of the new presidential administration's proposed policies, such as tariffs, could be inflationary.

In the pages that follow, we'll explain our outlook for these and other aspects of the U.S. and world economy in 2025, including what's ahead for energy markets and your investments. Additionally, we'll include deeper dives into these topics with four articles:

- "Can the U.S. grow its way out of its 'debt trap'?"
- "Exploring the deeper effects of more tariffs"
- "How long will the 'Magnificent 7' stock party last?"
- "The energy transition needs to be 'done right'

We thank you for reading and for your continued trust and confidence in BOK Financial®.

01

Outlook for U.S. economic growth

Overall, U.S. economic growth should remain positive in 2025. Many of the factors driving growth will be the same as in 2024—namely, the overall strong job market and consequently robust consumer spending and increased private capital investments.

Job market to slow but remain strong

Taking a look first at the job market, the unemployment rate may increase slightly as the job market continues to cool, but it should still remain low from a historical standpoint. Meanwhile, the rate of new job growth will continue to slow—likely near a rate of 150,000 new jobs being created per month. That compares to an average monthly gain of 186,000 from November 2023 to November 2024. On one hand, this cooling of the job market is expected given the fact that the Federal Funds rate remains at a restrictive level.

However, it's also important to keep in mind that part of the job growth that the U.S. has experienced over the past year has been due to immigration, as immigrant labor adds support to domestic economic growth. Tighter immigration policies, as President-elect Trump proposed during his campaign, will result in fewer jobs being filled. This, in turn, could put pressure on wages and cause inflation to rise in some sectors of the economy, such as services and construction. Trump's proposed tariffs, particularly toward China, could also cause inflation to rise—a topic that we delve into more deeply in the article, "Exploring the deeper effects of more tariffs," on page 19.

Spending to continue supporting economic growth

Although lower-income consumers continue to struggle with inflation, particularly the high cost of housing, the “wealth effect” is still in play for higher wage earners. Higher-income homeowners with money to save have been experiencing gains not just in their investment portfolios but also in their home values—and this should continue in 2025. Stocks in the U.S. have been making all-time highs with strong performance likely to continue. Furthermore, 2025 is likely to be a positive year for equity markets, a topic we’ll cover in more detail in section 3 of this outlook.

Home prices are also likely to rise amid the ongoing home shortage. Altogether, these factors should support increasing consumer spending—and, with it, overall U.S. economic growth—positive for 2025.

The federal government is also likely to continue to run large spending deficits, which helps drive domestic economic growth—but also inflation. We explore the consequences of the growing federal deficit—and potential ways out of it—in the article, “Can the U.S. grow its way out of its ‘debt trap’?” on page 10 of this outlook.

More positive environment for businesses

Many expect that the pace of new government regulation on industries such as financial services will slow under the Trump administration and that there may even be some deregulation. The Federal Trade Commission and the U.S. Department of Justice Antitrust Division may even take a more pro-business stance on mergers and acquisitions, which would help corporations. Altogether, this is likely to lead to higher corporate profits which will prop up the labor market.

If Trump is successful in lowering the corporate tax rate, that also would help businesses, but that may be difficult to do given the federal government's large interest costs on its massive debt—a topic that we also briefly cover in the article "Can the U.S. grow its way out of its 'debt trap'?" For that matter, any widespread changes to tax policy in general might not be seen until 2026, as key provisions in the Tax Cuts and Jobs Act (TCJA) of 2017 won't expire until the end of 2025.

Finally, as the Federal Reserve continues to lower rates, it will create a better financing environment for businesses to borrow money, which also supports U.S. economic growth. This better financing environment could even result in an increase in multifamily home construction, which would help the housing shortage. However, rate cut expectations have come down significantly and, at the most, we believe that there will be a total of three cuts in 2025. This figure could change, of course, if inflation spikes again or, inversely, the job market slows considerably. The Federal Open Market Committee (FOMC), like many consumers, will be watching the effects of the Trump administration's policies closely.

A DEEPER LOOK AT U.S. ECONOMIC GROWTH

Can the U.S. grow its way out of its 'debt trap'?

Even just a 0.5% increase in economic growth per year could dramatically reduce the rise in federal debt.

To most Americans, the national debt is a number that they're aware of and can possibly ballpark guess—but, for the most part, it seems like an abstract and distant concern.

To some extent, they're right.

"As we sit here today, the national debt is not posing any kind of a risk to the U.S. economy or the U.S. as a whole," said BOK Financial Chief Investment Strategist Steve Wyett. "The Treasury can sell all the Treasuries that it needs to fund the deficit. It also doesn't appear that we're paying a materially higher interest rate on the debt, except what's being driven by monetary policy."

But here's the problem: "The annual budget deficits that the U.S. government is running are not sustainable over a long period of time. It's hard to know when that tipping point will be," Wyett said.

In other words, the national debt—which totaled more than $36 trillion, as of late November—isn't a pressing problem right now, but someday it will be, and no one knows exactly when.

"The annual budget deficits that the U.S. government is running are not sustainable over a long period of time. It's hard to know when that tipping point will be."

STEVE WYETT, BOK FINANCIAL CHIEF INVESTMENT STRATEGIST

Federal Debt as a Percent of Gross Domestic Product

SOURCE: CONGRESSIONAL BUDGET OFFICE. DATA SHOWN FROM CBO'S FEBRUARY 2024 REPORT, THE BUDGET AND ECONOMIC OUTLOOK: 2024-2034.

And in the meantime, the more the federal government is spending on interest costs, the less flexibility there is in the budget to spend on other things, noted BOK Financial Chief Investment Officer Brian Henderson.

"At some point, the U.S. will have a recession and will need the ability to cut taxes and increase government spending to stimulate growth. Those options could be more challenging if the debt levels get too high," he explained.

In fact, President-elect Trump's proposals to lower the corporate tax rate to 15% and extend the 2017 Tax Cuts and Jobs Act (TCJA) provisions might be more difficult to accomplish because of the enormous deficits that the federal government is running relative to the size of the economy, Henderson said. Debt-to-gross domestic product (GDP) levels are now higher than at any time in U.S. history except during the height of World War II, according to figures from the Congressional Budget Office (CBO).

The national debt situation today

In 2024, the federal government's budgeted interest rate costs exceeded the amount budgeted for defense spending for the first time ever—at around $950 billion for net interest costs versus $826 billion for defense spending. That was partly due to the fact that the U.S. government, like everyone else with debt, has to pay higher debt servicing costs when the Federal Reserve raises rates.

As the Fed continues to cut rates, as it's expected to do in 2025, interest rates charged on short-term debt will fall as well. However, as anyone with a large amount of debt knows, incremental drops in interest rates don't change the bigger issue—that you have a massive amount of debt that's accruing interest.

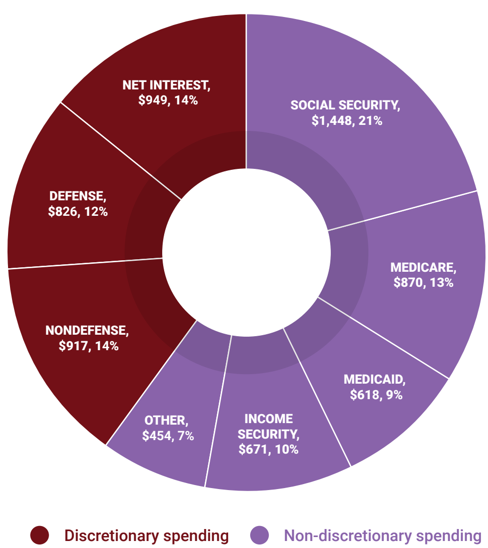
Potentially worsening the problem is the possibility that, if the U.S. imposes broad or high tariffs, there could be less foreign interest in buying U.S. Treasuries, which could exacerbate the U.S.'s federal debt crisis, Wyett noted.

"A lot of foreign governments buy U.S. Treasuries because we run a trade deficit," he explained. "Exporters into the U.S. economy inevitably have dollars that they need to recirculate, and some of those make their way into buying Treasuries.

"As we deglobalize, as we're having less imports coming into the United States, then those foreign governments have fewer dollars to recirculate into the U.S. Treasury, so we're probably going to see the amount of foreign buying decline for no other reason other than that they're just not doing as much business with the United States."

Federal Outlays Fiscal Year 2024

($Billion)



SOURCE: CONGRESSIONAL BUDGET OFFICE. DATA AS OF SEP. 30, 2024

The path forward

Experts don't believe a balanced budget is a likely scenario in the near- or far-term; instead, the more likely path is a slow decline in the size of the annual deficit. "We need some sort of a plan to help the 6-to-7% annual budget deficits that we're running now become 5%, 4%, 3% and 2%—something a little more sustainable," Wyett said.

The question is how to get there, and experts say there are three potential paths ahead—1) austerity, 2) growing the economy through inflation or 3) growing the economy through increases in productivity and/or more workers. Only the last of the three paths will likely be palatable to American consumers, businesses and politicians, experts noted.

"Austerity would likely mean a combination of tax increases and spending cuts, which could be very painful for many Americans," Wyett said. For instance, these spending cuts could include a reduction in social benefit programs, which might increase homelessness in the U.S., he said.

Another option is for the U.S. government to "inflate its way" out of debt, said Matt Stephani, president of Cavanal Hill Investment Management, Inc., a subsidiary of BOKF, NA. A budget model constructed by the University of Pennsylvania Wharton School projected that permanently increasing the Fed's current 2% annual inflation target to 3% would reduce the inflation-adjusted value of the federal debt by 7% by 2051, without having to lower Social Security benefits.

"But people really don't like inflation," Stephani noted. In fact, 41% of Americans polled by Gallup named inflation as the most important financial problem facing their family in 2024. "And so, that just leaves growing our way out of the debt problem," Stephani continued.

How the U.S. can grow out of debt

The good news is that even just small increases in economic growth can dramatically improve the federal government's debt-to-GDP levels over time, experts noted. For instance, if economic productivity were to grow by even just 0.5% more quickly than what the CBO expects, federal debt would be 124% of GDP in 2054, instead of the extended baseline of 166%, according to CBO projections.

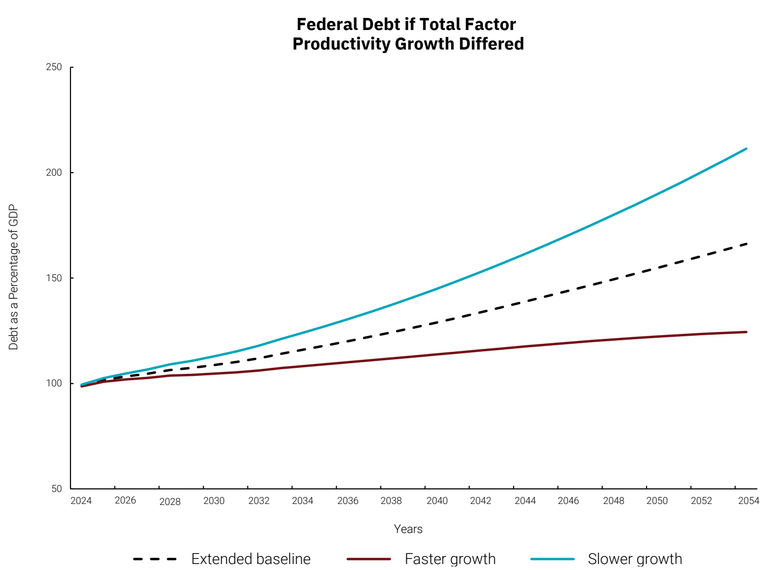
The question is how to achieve that economic growth. One way is by having more workers in the economy, but that may be difficult due to the number of Baby Boomers who are retiring, declining population growth and proposed tighter immigration controls, Henderson said.

To build the labor force through immigration, the U.S. needs a policy somewhere in the middle, between the extremes of an open border and a hard line, anti-immigration stance, Wyett said.

Another option is through anticipated increases in productivity from artificial intelligence (AI), which Stephani said could amount to another major wave of productivity in the U.S. However, advanced AI is anticipated to require massive amounts of energy, which means that the U.S. needs energy policies that provide access to cheap, reliable sources of power, he said.

Nevertheless, it will probably take a combination of both an increase in workers and an increase in AI-driven productivity to make a dent in the U.S.'s debt-to-GDP levels, experts agreed.

"I believe we can do both," Stephani said. "We can grow our labor force through a smart immigration policy, and we can grow our productivity through AI—and that will get us out of this debt trap that the rate of spending by the U.S. government creates."



SOURCE: CONGRESSIONAL BUDGET OFFICE. DATA SHOWN FROM CBO'S MAY 2024 REPORT, THE LONG-TERM BUDGET OUTLOOK UNDER ALTERNATIVE SCENARIOS FOR THE ECONOMY AND THE BUDGET.

02

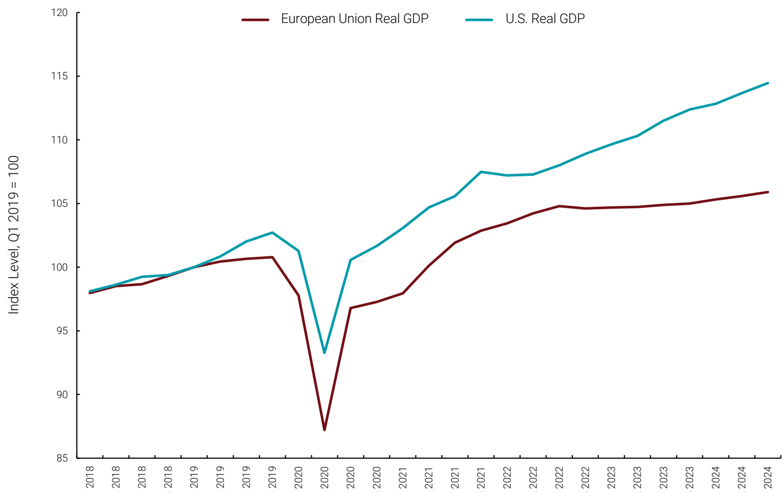
Outlook for international markets

Going into 2024, inflation was a top concern, and central banks around the world were responding to it by raising interest rates. Now, going into 2025, inflation is less of an issue in many developed economies and multiple central banks accordingly are on the path of lowering interest rates. This path to lower rates—including whether we will see any echo waves of inflation—will be a major factor in international markets during the year, but the bigger story may be U.S. tariffs and how they impact global trade and the speed of deglobalization in general. Meanwhile, heightened geopolitical conflicts remain a constant risk.

Central banks mostly on same path—but at different paces

After the Covid-19 pandemic, countries around the world were faced with inflation, caused by a combination of factors including government stimulus money, worker shortages and supply chain issues. In response, central banks such as the U.S. Federal Reserve, the Bank of England and European Central Bank (ECB), among many others, raised interest rates to slow their countries' respective economies with the aim of bringing down inflation. This approach to rate hikes was fairly uniform; however, since then, some countries have been left with more of a lingering inflation problem than others. The United Kingdom, for example, doesn't expect to hit its 2% inflation target until 2029, whereas the U.S. Fed expects to hit its inflation target, which is also 2%, in 2027.

Real Gross Domestic Product Growth
European Union vs. United States



SOURCE: FEDERAL RESERVE BANK OF ST. LOUIS.
QUARTERLY DATA AS OF OCT. 31, 2024

Additionally, differences in growth also have become more pronounced since the pandemic. For example, the European Union (EU) is the largest developed economy outside of the U.S.; however, while the U.S. has found its economic footing post-Covid, the EU's growth remains largely flat. Looking forward, although EU inflation has hit the ECB's 2% target, economic growth in the region remains uncertain due to geopolitical risks, such as the war between Russia and Ukraine, and consequential energy uncertainty.

As a result of these differences in inflation and economic growth, central banks are no longer moving in lockstep as they lower rates. In 2025, the most aggressive rate cuts are likely to come from the Bank of Canada and the Reserve Bank of New Zealand (RBNZ), both of which are facing contracting economies. Both the U.S. and the U.K. face more of a risk that inflation will return. This risk may dissuade the Fed and Bank of England from cutting rates swiftly. If we think of these approaches to rate cuts as a spectrum, with the Bank of Canada and RBNZ on one side and Fed and Bank of England on the other, the ECB will likely fall somewhere in between.

Meanwhile, the situation in Japan remains unique. After becoming the last country in the world to end a negative interest rate policy in March 2024, the Bank of Japan could raise rates incrementally once or twice more in 2025, but hikes probably won't be ongoing. These actions won't have much of an impact on a global scale, however.

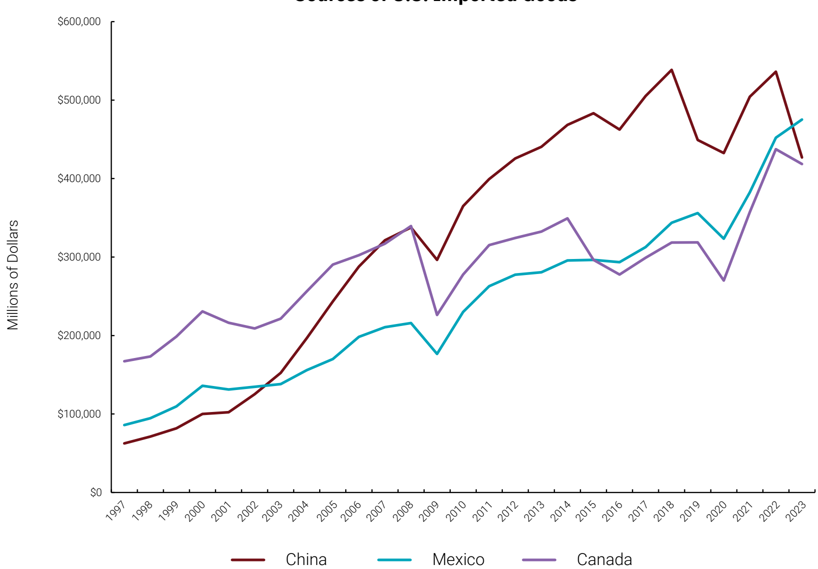
Trade and conflict in a deglobalizing world

Trump's presidential win is likely to help accelerate the speed by which deglobalization occurs, which will impact not just the U.S. but also the world. Deglobalization has already been underway for more than five years, driven by increased geopolitical risk and increased cost of labor in China. The Covid pandemic and its disruption of global supply chains acted as a further catalyst, as have the heightened geopolitical conflicts in the Middle East, and between Russia and Ukraine.

In turn, global supply chains have been changing since the pandemic, with more U.S. companies onshoring production to North America or "friendshoring" it to countries like India. As a result, in early 2024, Mexico overtook China as the largest source of imported goods for the U.S. for the first time in more than two decades.

Now, going into 2025, international markets are faced with the recently escalated war between Russia and Ukraine, alongside the Israel-Hamas war and U.S. President-elect Trump's proposal for more tariffs, including large tariffs on goods imported from China and Mexico. All of these factors have the potential to disrupt or alter supply chains and further accelerate deglobalization, which could have residual effects on labor markets and inflation. However, until more is known about how these wars will unfold and the second Trump presidency, it is too early to say.

Sources of U.S. Imported Goods



SOURCE: FEDERAL RESERVE BANK OF ST. LOUIS. ANNUAL DATA AS OF MAR. 31, 2024

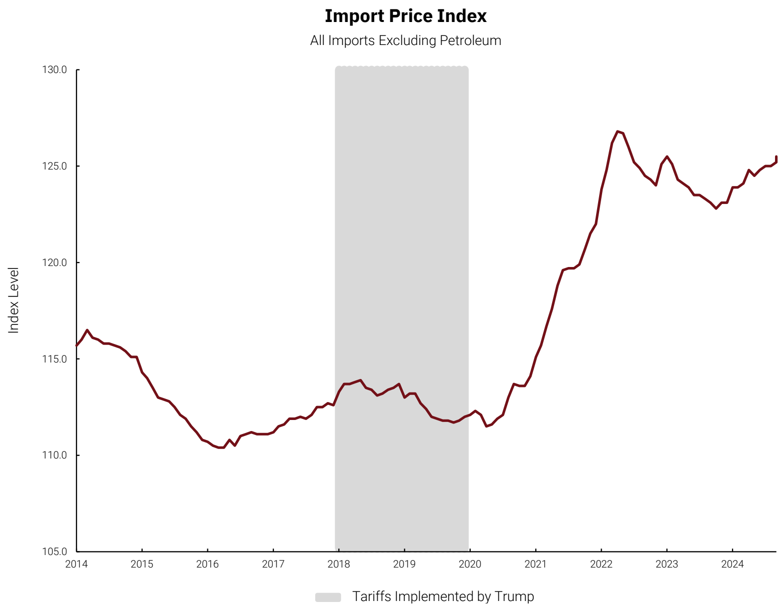
A DEEPER LOOK AT INTERNATIONAL MARKETS

Exploring the effects of more tariffs

Potentially more U.S. production but higher prices and less global cooperation expected.

Going into 2024, the question on many people's minds was how soon the U.S. Federal Reserve and other central banks would start cutting rates and whether they would move in lockstep. Now, going into 2025, a significant focus is on the nature and magnitude of proposed U.S. tariffs and how the U.S. economy—and the world—will react.

Of course, many of the details surrounding the tariffs remain undecided and will remain that way until after President-elect Trump takes office in January and new tariffs are announced. However, even so, experts say history—and economics—can help sketch what the path ahead may look like.



SOURCE: FEDERAL RESERVE BANK OF ST. LOUIS. DATA AS OF NOVEMBER 30, 2024

Will tariffs cause inflation to rise again? What about growth?

Overall, it's not the use of tariffs in general that has some economists concerned, but rather how broad or large the tariffs might be. During his campaign, Trump's proposals included imposing a blanket tariff of 10% to 20% on all imports, with additional tariffs of 60% to 100% on goods imported from China, and a 25% to 100% tariff on goods from Mexico—if the Mexican government doesn't take steps on its end to tighten the U.S.-Mexico border. However, in late November, he proposed a 25% tariff on goods imported from Mexico and Canada and a 10% tariff on imports from China.

As BOK Financial Chief Investment Strategist Steve Wyett explained, "Targeted tariffs can help keep China from dumping steel on the global market, for example, or something of that nature, but the broad use of tariffs probably causes as much economic damage as it helps.

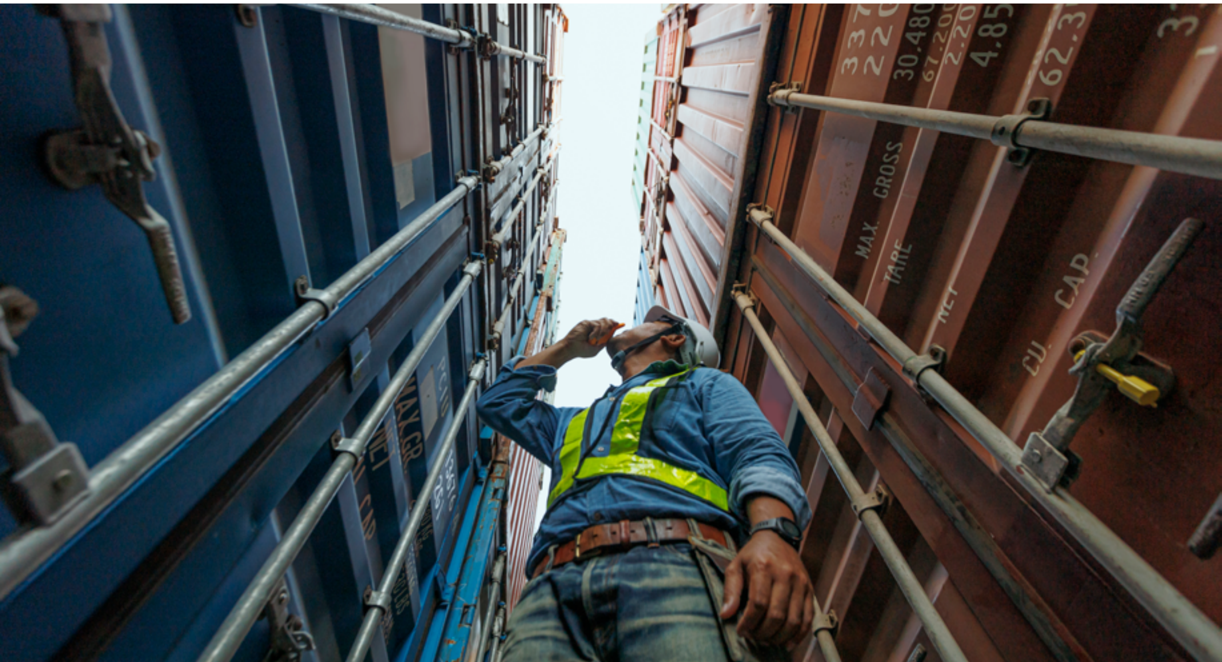
"If you're using tariffs to protect domestic producers, inevitably, what you're saying is, 'I'm going to raise the price of this foreign good that can be imported cheaper, so it can be made here.' However, that means consumers are now going to be asked to pay a higher price for the good either by paying the tariff on what's imported or by paying a little bit higher price for a domestic producer to produce the good. The domestic producer is going to price it as close to the tariff price as possible," he explained.

And so, broad tariffs tend to be inflationary from a price standpoint, right up to the point that it destroys demand, Wyett continued. "Then, all of the sudden, you just have lower economic growth."

At the same time, proponents of broad tariffs argue the opposite. For instance, the Washington International Trade Association (WITA)—a non-profit, non-partisan organization that includes the president and CEO of the American Apparel & Footwear Association as president of its board—publicized a trade model that predicts broad tariffs would benefit U.S. consumers and businesses in multiple ways.

Specifically, the 2022 model looks at the impact of a 15% revenue tariff increase on all imported goods, and a 35% tariff increase on some imports that are significant for economic reasons or for "national resilience," such as imports from Non-Free Trade Agreement (NFTA) countries. With those in place, the model predicted a 7% boost to the U.S. economy, 10 million new jobs, a 10% increase in inflation-adjusted household income and $603 billion generated in federal revenue.

However, the model uses tariff figures that differ significantly from the ones Trump suggested during his campaign. To put all of these numbers into perspective, you have to go back nearly 200 years to 1830 when the highest tariff in U.S. history, a near-62% tax on all dutiable imports, was imposed and received strong political opposition within the U.S. The second-highest tariff was the 1930 Smoot-Hawley Tariff Act, which raised around 900 import tariffs by an average of 40% to 60%. As Wyett pointed out, this act is believed to have been a driver of the Great Depression, "but I don't think we're in the same position now," he added.



How will other countries react?

One reason why the Smoot-Hawley Tariff Act is believed to have triggered the Great Depression is because of its significant reduction in global trade. In response to the act, around two dozen countries enacted high tariffs of their own within two years of its passage, causing a 65% drop in international trade between 1929 and 1934.

Already, President-elect Trump has indicated that he could propose tariffs on China and Mexico, which could have serious implications for the economies of those two countries.

As for China: "If Trump does come in and put those tariffs into place, then that's obviously going to have a detrimental effect on its economy," said Peter Tibbles, senior vice president of foreign exchange trading for BOK Financial.

"The Chinese economy has struggled all year despite numerous rounds of stimulus from the authorities to help jump start growth," he explained. "As the middle class developed and millions of workers sought new manufacturing jobs, the Chinese property conglomerates built massive megacities to serve as hubs for new factories and industries. As the real estate market became saturated, many of these megacities remained uninhabited and this has proven to be a drag on the economy and the companies which own the apartment complexes which were supposed to house millions of workers."

In turn, China's reaction to high U.S. tariffs could also impact the energy market, said Dennis Kissler, senior vice president of trading at BOK Financial. "In retaliation, they could come against U.S. crude imports into their country. It also would weaken their economy. Remember that they're the largest crude importer, so if we weaken their economy, it would likely lower Chinese demand for crude—and that's going to be a problem."

However, until we learn about more details concerning the Trump tariff policy it will be hard to ascertain the effect these tariffs will have on the economies impacted and indeed if any countries retaliate with tariffs of their own. "Obviously, it's going to affect trade, but how it affects trade can be very different, depending on the specific policies," Tibbles said.

"Obviously, it's going to affect trade, but how it affects trade can be very different, depending on the specific policies."

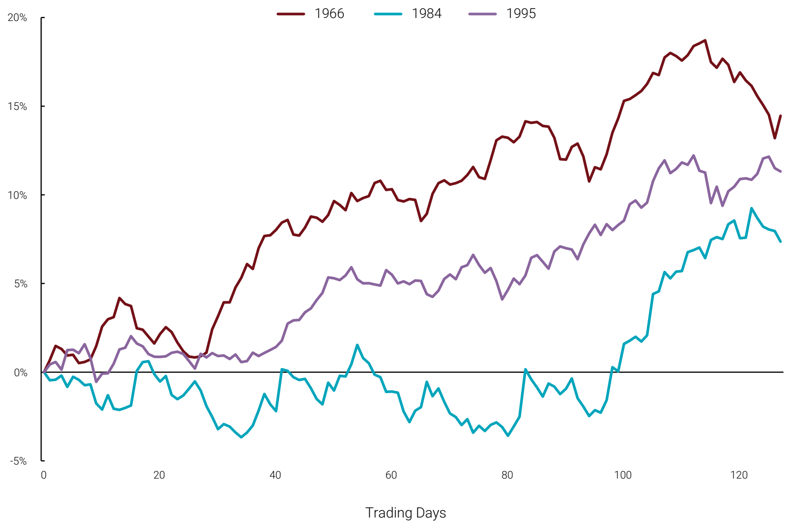
PETER TIBBLES, SENIOR VICE PRESIDENT OF FOREIGN EXCHANGE TRADING FOR BOK FINANCIAL

03

Outlook for financial markets

Broadly speaking, 2025 is likely to be a good year for the equity market, especially if the Federal Reserve can cut rates two or three times while the economy is still growing (as opposed to cutting rates because the economy is in a recession). History supports this view: in past rate-cutting cycles that did not involve recessions, equity market performance was positive six months later and indicated that the economy was on its way to a soft landing. With this in mind, the equity markets' current strength implies that the U.S. economy may be able to achieve a soft landing in this cycle. However, the potential for recession is not completely off the table, either.

S&P 500 Performance in the First Six Months Following Rate Cutting Cycles Without a Recession



SOURCE: BLOOMBERG

Looking more closely within the equity market, the financial sector and small- and mid-cap stocks are likely to perform well in 2025, partly due to some of the Trump administration's proposed policies. For instance, financial sector stocks may benefit from deregulation in the industry, and also tend to do well in an environment where interest rates are falling and the economy is growing. Meanwhile, Trump's proposed tariffs may strengthen the U.S. dollar, which would likely benefit small- and mid-cap stocks.

On the other hand, stocks in green energy companies, including solar and wind, may struggle under the Trump administration because of less support for these initiatives. Bond returns may also suffer if Trump's policies are indeed inflationary, and the Fed must temper its rate cut expectations as a result. This doesn't mean that investors should be looking to get out of these investments that may do worse under the new presidential administration, but rather take a cautious approach toward increasing allocations in these areas.

Finally, it's important to keep in mind that escalating geopolitical conflicts and inflation both remain risks to financial markets. As always, we will continue to monitor these events and their impact to financial markets—and your money—closely.

A DEEPER LOOK AT FINANCIAL MARKETS

How long will the 'Magnificent 7' stock party last?

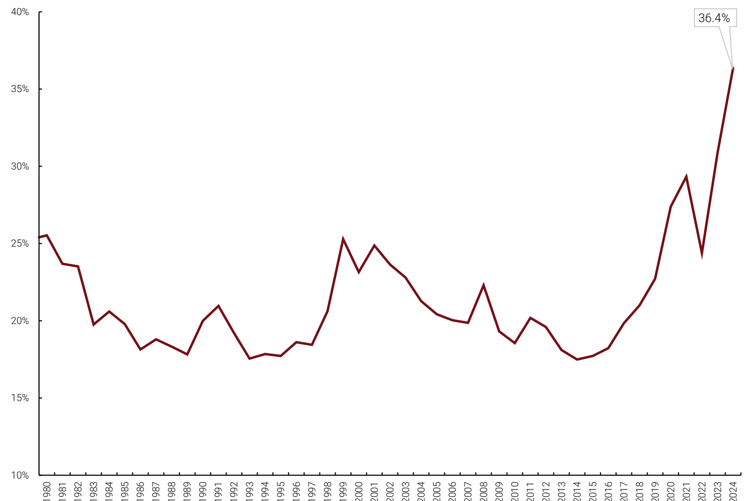
Focusing only on one group of investments may be costly, experts caution.

Throughout 2023 and much of 2024, a handful of large-cap tech stocks known as the "Magnificent 7" anchored the gains of the S&P 500. As a result, many investors flocked to the Mag 7, riding the coattails of the biggest names in cloud computing, artificial intelligence (AI) and mobile technologies—but at the cost of portfolio diversification. And so, as we enter 2025, the questions abound: How long will the Mag 7 party last? Will the rest of the market pull its weight this year? And is the conventional wisdom of a broadly diversified portfolio still valid?

The results of the 2024 presidential election may offer some early insights, according to Brian Henderson, chief investment officer of BOK Financial. For instance, Trump's proposed tariffs should strengthen the U.S. dollar, which tends to help smaller and mid-sized companies stocks.

"We're already seeing better performance out of small- and mid-cap stocks—and I think it's largely driven on anticipation that Trump will be able to get his economic policies passed," he said.

Weight of Top 10 Stocks in S&P 500



SOURCE: BLOOMBERG. DATA SHOWN AS OF NOVEMBER 30, 2024

In deference to tech titans

Nevertheless, there is still plenty of evidence to suggest the Mag 7 will have another strong year, said Wes Verdel, senior quantitative equity portfolio manager at Cavanal Hill Investment Management, Inc. Cavanal Hill is a subsidiary of BOKF, NA.

“There are good reasons these companies have done as well as they have,” he said. “They are high-tech companies that rely primarily on knowledge workers (as opposed to manual labor and huge capital investments); they have the flexibility to expand all over the world and make course corrections with relative ease. The power of their own technology, including AI, also helps them continuously improve and reinvent themselves, so it’s not unreasonable to think their stocks will continue to rise.”

Diversification still makes sense

However, even with tailwinds continuing to benefit Mag 7 stocks, placing outsized bets on a small handful of stocks isn’t the best strategy for most long-term investors, said Liu Liu, director of investment research and management at BOK Financial.

“We are starting to see the market broaden out. And this may continue as monetary policy eases and creates more business-friendly conditions for all companies—not just technology,” she said.

“Over the long term, we still believe that sensible diversification not just across stocks, but across different asset classes such as fixed income and equity alternatives, is the best bet.”

View the market with a wide-angle lens

As always, stock market performance depends on both macro- and microeconomic factors, so while deciphering the tea leaves of economic indicators can provide valuable insights, Verdel cautioned investors not to fixate too much on any one thing.

"All of these issues—inflation, unemployment, government spending and economic growth—play a combined role in how stocks perform. But placing too much weight on any one headline—rate cuts, for example—could produce an incomplete picture," he said.

Liu echoed that sentiment, recommending that investors revisit proven asset allocation approaches. "Since equities finished the year strong, many investors' asset allocations may now be overweighted in stocks. Now would be a good time to rebalance your portfolio to ensure the optimal mix of risk and reward for your goals," she said. "As we start 2025, now may be time to look at tax-loss harvesting opportunities, selling off losing investments to help offset capital gains taxes you may incur."

No matter where stocks are headed this year, the value of a long-time horizon and professional financial advice cannot be overstated, Liu said.

"Compared to attempting to time the market, the vast majority of investors would be better served by working with a qualified advisor to implement tried-and-true investment principles over many years," she said.

> "All of these issues—inflation, unemployment, government spending and economic growth—play a combined role in how stocks perform. But placing too much weight on any one headline—rate cuts, for example—could produce an incomplete picture."
>
> **WES VERDEL, SENIOR QUANTITATIVE EQUITY PORTFOLIO MANAGER AT CAVANAL HILL INVESTMENT MANAGEMENT, INC.**

04

Outlook for energy

Energy, or rather access to energy, underpins many of the topics discussed in this outlook, as it is key to economic growth and prosperity. Without access to reliable energy, the artificial intelligence (AI) productivity boom discussed in section one would be too expensive and possibly even impossible. Meanwhile, as discussed in section two, one way that countries like China could react to new U.S. tariffs would be by banning U.S. crude imports into their countries. Fluctuations in energy prices also impact businesses' profitability, which in turn impacts equity markets. And so, a spike in energy prices could make the positive year for equity markets discussed in section three take a turn for the worse.

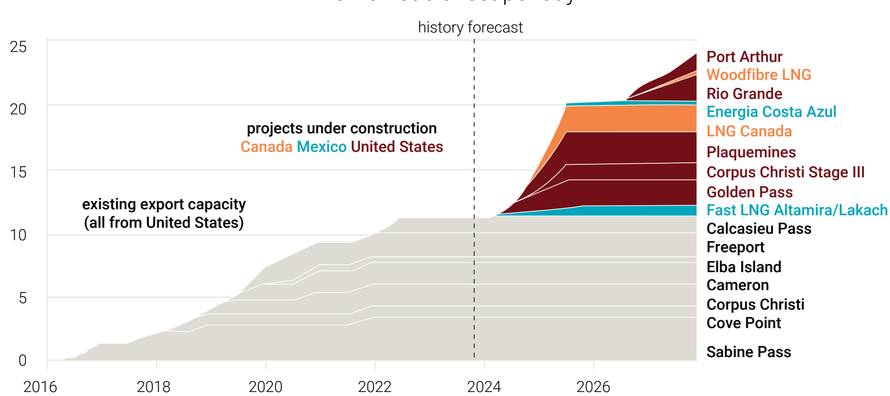
Although the energy market is always volatile, making it difficult to ascertain what's ahead, there are key indicators and drivers to watch.

Natural gas

The demand for liquified natural gas (LNG) could increase twofold due to a buildout of LNG export facilities in the U.S. from 2025-2028. President-elect Trump also is likely to lift many of the restrictions on LNG export facilities. This will be significant not just to the U.S. but also other countries, as the U.S. is a net LNG supplier to the world. In addition to lessening restrictions, the Trump administration may try to work out deals with other countries to export more U.S. LNG products to Europe. Looking further forward, one of the biggest markets for LNG will likely be Asia, as the region works to improve their environmental practices. At the same time, LNG projects currently under construction in the U.S., Canada and Mexico will increase North American LNG export capacity as they are completed.

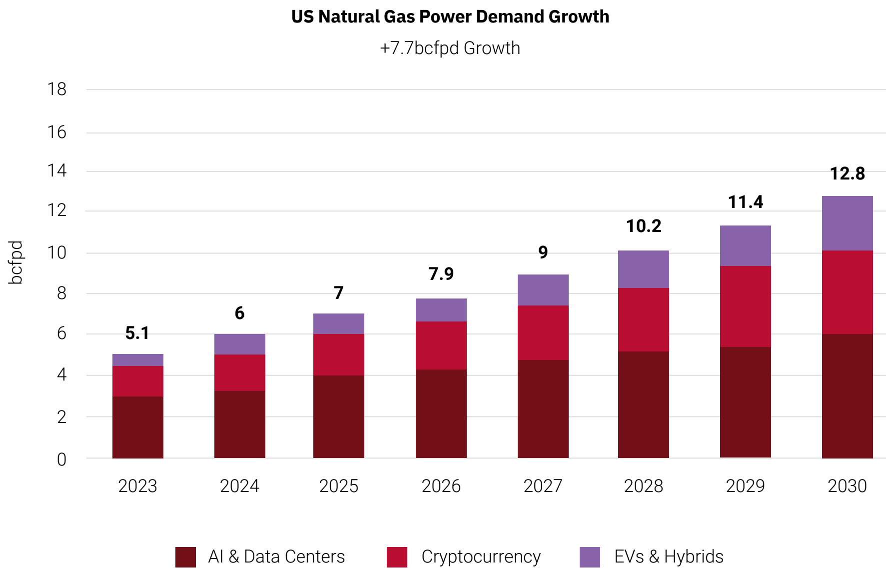
Annual North American liquefied natural gas export capacity by project (2016-2027)

billion cubic feet per day



SOURCE: U.S. ENERGY INFORMATION ADMINISTRATION, LIQUIFICATION CAPACITY FILE, AND TRADE PRESS.
NOTE: LNG EXPORT CAPACITY SHOWN IS PROJECT'S BASELOAD CAPACITY. ONLINE DATES OF LNG EXPORT PROJECTS UNDER CONSTRUCTION ARE ESTIMATES BASED ON TRADE PRESS.

The growth and development of data centers, AI, electric vehicles and cryptocurrency also should increase natural gas demand, which in turn may cause prices to rise.



SOURCE: JEFFERIES: DATA CENTERS & AI: POWERING THE FUTURE

Oil

President-elect Trump is not likely to move the needle significantly for the production of U.S. crude. He will probably remove some drilling restrictions and make permitting easier, which would help U.S. producers if prices were to become high enough. However, that's a big "if." As drilling has become more efficient, producers have become more price conscious. Whereas in the past, producers worried more about how many barrels they could produce, now the focus is more on shareholder returns. Consequently, if crude prices drop to the low $60s or $50s, drilling will likely slow no matter how much easier permitting becomes. If prices move to the mid to upper $70s or $80s, drilling would likely increase on top of the record production already occurring in the U.S.

However, oil prices in 2025 will depend on demand—and this is where U.S. policy could come into play. As noted in section two, if Asian countries like China retaliate against President-elect Trump's proposed tariffs by restricting imports of U.S. crude, that would lessen the demand for U.S. oil in the region that consumes the most oil.

Nuclear

The Trump administration will likely encourage the development of more nuclear power plants in the U.S., support for which is also growing among both Republican and Democrat consumers. The immense power needs of data centers and AI are also likely to fuel nuclear power's growth, due to it being a reliable and inexpensive energy source once its infrastructure is in place. Already, Microsoft has signed a 20-year deal to restart the Unit 1 reactor at the Three Mile Island nuclear plant in Pennsylvania.

However, it's important to keep in mind that nuclear power plants tend to take a long time to build, so even with this increased support for nuclear power, increases in the number of nuclear plants won't be seen for some time. For instance, the Unit 1 reactor at the Three Mile Island isn't expected to begin delivering power to the grid until 2028.

A DEEPER LOOK AT ENERGY

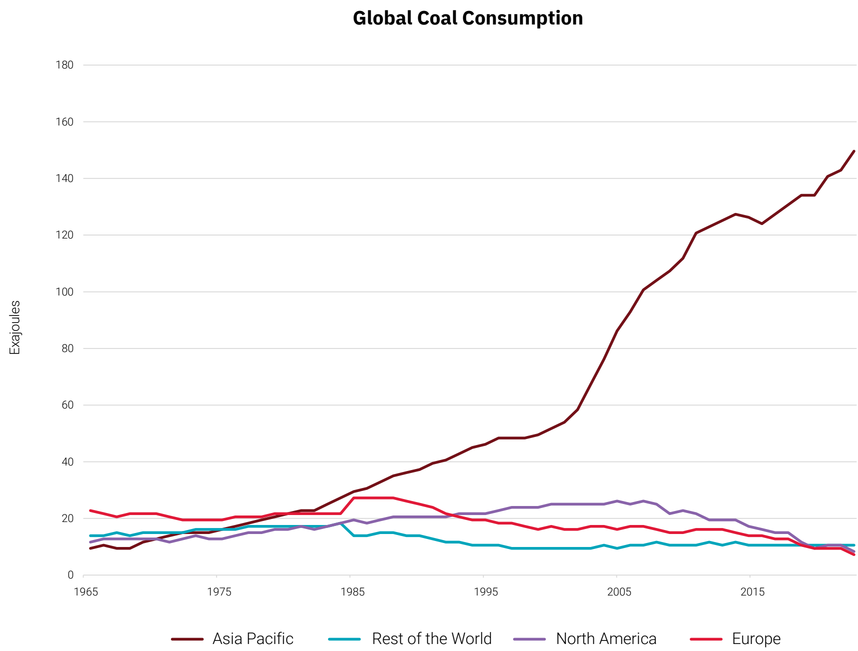
The energy transition needs to be 'done right'

High consumer prices, less U.S. competitiveness and still-high global emissions must be avoided

Although Trump's election as U.S. president likely slowed the move towards lower-emission energy sources, experts say the transition is still happening—and that the stakes are high for managing it correctly.

"The worst approach is a really haphazard policy for the energy transition that results in nothing more than lower emissions in the United States but much more expensive power," said Matt Stephani, president of Cavanal Hill Investment Management, Inc., a subsidiary of BOKF, NA.

There's also the chance that, if the U.S. stops burning coal and it becomes more expensive to manufacture goods domestically because of higher energy costs, manufacturing will move to other countries such as India that continue to burn coal for cheap energy, Stephani added. In that scenario, global emissions would continue to rise, even though the U.S. would have stopped burning coal—and may have lost some manufacturing in the process, he noted.



SOURCE: THE ENERGY INSTITUTE'S 2024 STATISTICAL REVIEW OF WORLD ENERGY

Already, the Asia-Pacific region consumed more coal in 2023 than other regions of the world combined, according to data from the Energy Institute's 2024 Statistical Review of World Energy.

And it's not just the current U.S. manufacturing industry that's at stake. Access to cheap energy is going to be particularly important in determining which countries will be economic powerhouses over the next 30 years and "who will win the manufacturing and technology race currently being driven by artificial intelligence (AI)," Stephani said.

Energy transition might be slower than expected

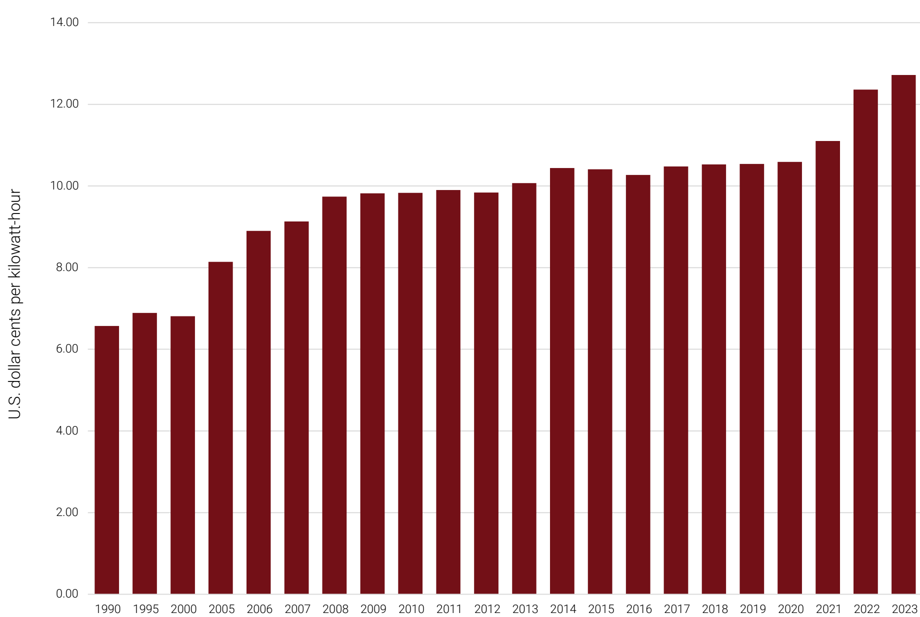
Right now, the U.S. has some competitive advantage in terms of cheap energy. In 2023, the retail price for electricity in the U.S. was an average of 12.72 cents per kilowatt-hour—the highest figure in the recorded period of more than three decades, but one of the lowest electricity prices worldwide, according to figures from Statista.

However, that competitive edge could decline if the U.S. looks at emissions alone in determining which energy sources to use, rather than also considering the cost of the energy and its reliability.

As Stephani explained, "We must have a policy that results in cleaner emissions and lower cost energy. To make an energy transition successful, we have to meet both objectives."

So far, meeting both objectives has been a struggle, experts agreed. "We're seeing the reality that some of the green initiatives are not working as well as people thought they were going to," said Dennis Kissler, SVP of trading for BOK Financial. He pointed to British Petroleum's (BP) decision to scale back its focus on offshore wind projects, amid higher costs from technical and supply chain problems plus higher interest rates.

Average retail electricity prices in the United States in selected years from 1990 to 2023

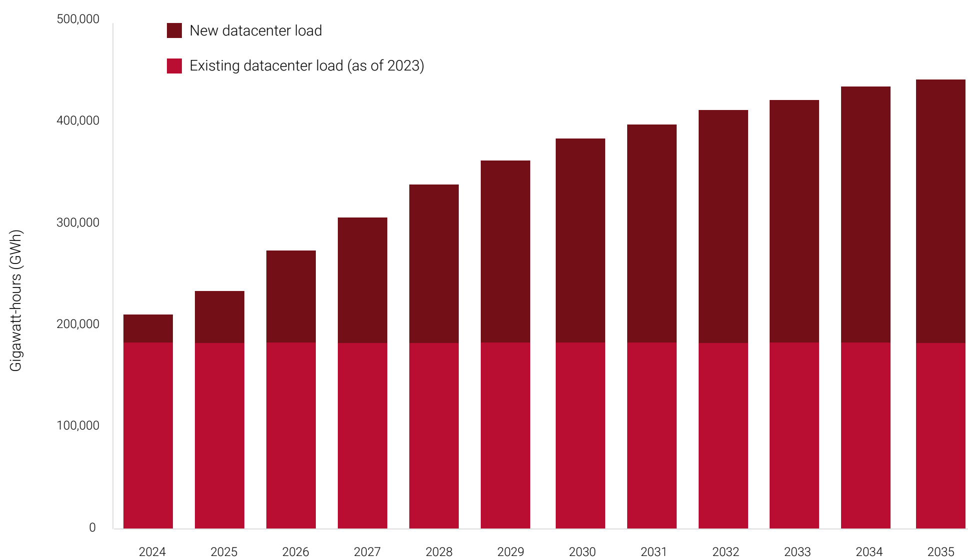


SOURCE: STATISTA AND EIA.

Increasing the complexity of the issue is the fact that this transition is occurring at the same time that U.S. energy demand is expected to increase substantially in the years ahead, driven by the power needs of large data centers and AI. Data center demand could add as much as 80 gigawatts (GW) to U.S. load demand by 2030, according to a McKinsey analysis. Data centers currently use around 3.5% of the power on the U.S. grid—and, if that goes to 8% or 9%, "the impact would be exponential," Kissler said.

Then, there's the unforeseen power needs of advanced AI systems to consider. For instance, Microsoft's planned Stargate AI Supercomputer may require as much as four to six GW of power, almost the equivalent to the power needs of a large city such as New York.

Cumulative electricity demand from US datacenters



SOURCE: S&P GLOBAL COMMODITY INSIGHTS; S&P GLOBAL MARKET INTELLIGENCE 451 RESEARCH

What will power this new technology?

In the short-term, experts believe that natural gas will be used to power AI and data centers, as the use of coal burning declines. “We’re going to need bigger power plants to produce that volume of electricity, and I expect that’s going to draw on natural gas,” Kissler said. “That’s the cleanest alternative and the most efficient source.”

“Wind power’s not enough to do it. Solar power is not going to be enough to do it. Those are going to help in a way, but a lot of those resources are inefficient, especially wind power,” he continued.

As a result, the U.S. power sector’s demand for gas may increase by 10% to 30% by 2030, compared to today, according to analysis by Bloomberg Intelligence. However, natural gas alone might not be enough to meet these immense power demands and, moreover, it might be supplanted by other sources such as nuclear power as the transition toward lower-emissions energy continues, experts agreed.

“I think what’s going to happen is many may realize that nuclear is the best of all the possible solutions for the problem, especially when you consider the 24/7 power needs of these data centers, which are going to be the energy hogs in the next 20 years,” Stephani said.

Already, support for more nuclear power plants in the U.S. has been growing. Meanwhile, Amazon, Microsoft and Google have been investing billions of dollars in nuclear to power future AI plans and other business.

Nevertheless, a large movement toward nuclear power is still a long way off—at least until the 2030s, Kissler said.

“I think as the younger generation gets older and the technology gets better, they’ll forget about things like Chernobyl and Three Mile Island that I saw. Then, nuclear could be a sub power that could take away from natural gas,” he continued. “But for the next four to five years, AI is going to pull a lot more demand off the grid and a lot more infrastructure will have to be replaced with power plants that can produce the necessary power. A lot of that’s going to come from natural gas.”

Meet our experts

Brian Henderson is chief investment officer for BOK Financial, a position in which he leads the Alternative Investments Group, Strategic Investment Advisors and Cavanal Hill Investment Management, Inc.

Steve Wyett is chief investment strategist for BOK Financial, a role in which he communicates the organization's investment management message and serves on a variety of investment-related committees.

Matt Stephani is president of Cavanal Hill Investment Managements, Inc., a position in which he is responsible for the fixed income, cash and equity management teams of Cavanal Hill.

Peter Tibbles is senior vice president of foreign exchange for BOK Financial, a role in which he is responsible for foreign exchange sales and trading, as well as financial risk management.

Dennis Kissler is a trader at BOK Financial, a position in which he specializes in developing unique hedging strategies to assist energy producers as well as end users in minimizing market risk exposure.

Liu Liu is director of investment research and management, a role in which she leads the investment research and management for BOK Financial, a role within the Strategic Investment Advisors group.

Wes Verdel is senior quantitative equity portfolio manager at Cavanal Hill Investment, a position in which he manages the investment team that conducts quantitative equity research. He is responsible for the portfolio management of multiple strategies.