PORTFOLIO MANAGER*Insights*

George A. Henning
Chairman, President and Senior Portfolio Manager

George founded Pacific Global in 1991 with a vision for a company that would provide clients with actively managed, value-oriented investing options and highly responsive, personalized service. The company originally served as investment manager for the Pacific Advisors family of mutual funds (PAF). From 1993 to PAF's dissolution in 2020, George served as Chairman and President of PAF and was portfolio manager of the PAF Small Cap Value Fund, Mid-Cap Value Fund and the equity portion of the Balanced Fund. Since 2001, George has also served as Portfolio Manager for various value-oriented Separately Managed Account (SMA) equity and balanced investment strategies.

George has over 40 years of experience in the financial world. **From his diverse and wide-ranging experience as a high-level corporate executive George brings a unique, in-depth understanding of the intricacies of business management and operations to investment analysis and stock selection.** His sharp and extensive insights into the companies he evaluates, including his thorough understanding of their businesses and industries, go beyond mere financials. George received a B.S. degree from Geneva College and a M.S. degree from Indiana University.

Looking Ahead: *2025 Market Outlook*

By George A. Henning **January 2025**

As we continue managing your portfolio, we will be taking advantage of emerging opportunities. To give you a sense of our thinking, we're outlining some of the key themes we're watching.

If you would like deeper insights into the market of 2025, please contact your portfolio manager or Client Services to schedule a meeting. Or, if you are ready to create a financial plan for your future, please reach out to **Becky Farrant, our Certified Financial Planner®,** at **bfarrant@pgimc.com**.

New Year's predictions are a time-honored tradition even though reality often dispels these sentiments. Predicting the path of investment markets, in particular, is fraught as some anticipate a continuation of past performance or posit bold assertions that may develop quite differently than anticipated.

The New Year presents an opportunity to think about the factors that may influence the markets, or changes in the economy, regulations or geopolitical events that may influence market direction.
As we enter 2025, several factors could be significant as we identify investment opportunities and risks for the New Year.

This overview provides several investment themes that may develop during the coming year without attempting to address all of the challenges we may encounter. The old adage, that *past performance does not predict future performance*, withstands the test of time and thus provides a valuable perspective in approaching upcoming opportunities. **Our investment approach, which maintains a longer-term focus to unfolding events, is especially well-suited for the uncertainties of 2025.**

Technology

Artificial Intelligence took center stage in 2024 as predictions abounded about how dramatically **AI** would change our world. *Nvidia* led the way with record-setting sales and earnings as the company was essentially the sole supplier for the chips capable of supporting **AI** initiatives. *Microsoft*, *Amazon*, *Meta*,

Google and others also made substantial commitments in building data centers and programs to super charge **AI** initiatives for their customers.

2025 may present a reality check for investors with a deep commitment to these stocks as the path forward is less clear. **AI** is, without doubt, a significant development that can provide untold benefits; and yet, the pace of development may be more measured. Investors are now beginning to focus on the profitability created by the major investments in **AI**; the road to profitability may likely be slower and bumpier than many anticipate.

Growing competition in the chip market, including other suppliers which meet technical demands, could take market share from *Nvidia* as users seek to reduce reliance on a single manufacturer. **For investors, 2025 may reset expectations as the market recalibrates the outlook for AI stocks which enjoyed outsized gains in 2024.**

Financials

Lower interest rates, a more favorable Mergers and Acquisitions (M&A) environment, and the continued economic expansion, should provide beneficial growth opportunities for financial institutions. The incoming administration has stated its intent to support a more vibrant economy by reducing regulation and interference in acquisitions. Declining interest rates typically improve profitability as loan rates ease more slowly than the cost of capital. Mortgage lending and refinancing activity will likely improve as rates decline. And, M&A activity should rebound in a more favorable regulatory climate.

Executives from various banks recently shared outlooks with us; several are quite bullish on the emerging business opportunities that should generate increased revenues and earnings.

Industrials

An expanding economy, combined with lower interest rates and the potential for a reduced regulatory burden, should provide a positive backdrop for many companies in the coming year. The big uncertainties: the threat of tariffs, potential changes in climate-related policies (for example, Electric Vehicle ("EV") mandates) and inflation trends, provide a potential counterbalance to some of the opportunities that may develop.

A focus on specific companies that have built-in demand, benefit from market changes or other distinctive factors, will provide the best opportunities. Auto dealers, as an example, offer opportunities for outsized gains as lower inflation and interest rates will provide an incentive for new and used car buyers; the expense of maintaining older cars becomes less and less economical as the average age of cars on the road nears 13 years.

Energy

The demand for oil and natural gas will continue to drive energy production. Many investors tend to base investment decisions on the current price of oil even though the commodity may experience wide price fluctuations. Wind and solar are growing components of the energy sector; however, demand has softened due to the higher costs of production and installation and, often, a shorter-than-anticipated life cycle. Also, reliability considerations, such as adverse weather patterns, can decrease production making these power sources less predictable. These initiatives are more suitable as complements to more reliable sources such as natural gas, nuclear, hydroelectric or other power sources.

Many anticipate that the incoming administration's emphasis on energy independence will significantly boost U.S. production. However, oil and gas drilling companies will prioritize profits over production revenue and seek better results at a lower cost. Fracking, a main growth area for energy production, is

beginning to plateau as oil and gas field reserves deplete. New production will, over time, increasingly focus on substantial worldwide offshore reserves.

Globally, government policies include a reassessment of EV mandates and more costly, and often less-reliable, climate-friendly energy production. Reliability and cost concerns are topics of debate in Europe, the U.S., and emerging economies around the globe. Also, the increasing demand to supply energy-hungry data centers for **AI** and crypto mining adds to the requirements of other consumer and industrial needs.

The *Energy* sector includes companies that are uniquely positioned to benefit without regard to oil prices. For example, production declined dramatically during the 10-year energy bear market beginning in 2014 as investments for drilling and capital equipment diminished. As a result, construction of new ships to support offshore drilling and move petrochemicals along with inland barges was minimal as prices could not justify the investment. Even now, the rebound in prices does not yet support the cost of investment. Additionally, many manufacturers closed or cut capacity; as a result, replacing vessels which reached the end of their usable life became more expensive. Consequently, the elevated demand for barges and ships enables operators to increase prices and generate greater profits. Supply conditions are unlikely to improve in the foreseeable future as the decline in manufacturers increases both the time and cost to deliver new ships. Operators are reluctant to commit to shipyards in China, the worldwide leading manufacturer, due to the geopolitical uncertainties between China and the U.S.

Consumer Products

Inflation's outsized impact on most consumer trends will probably continue for some time. Prices for housing, consumer goods, travel and other products and services have moderated; and yet, the decline in inflation to the Fed's 2% target, and wage increases which will outpace inflation, are still some ways away.

Several areas will continue to prosper despite persistent inflation. Consumers, particularly older consumers, prioritize travel, hospitality and entertainment as they seek new experiences. Retail companies which focus on low cost or premium products continue to do well. Home renovation projects, which were deferred during the high-interest rate period, should increase as interest rates decline. A number of these companies will succeed and provide attractive returns; however, the individual qualities and successes of each company will likely yield better results than the overall sector.

Fixed Income Investing

Normally, yields for long-term government securities and corporate bonds decline as the Fed reduces interest rates. Under these typical conditions, investors holding longer-term higher rate bonds would benefit from both the above-market yields and also capital appreciation as interest rates decline.

Recently, though, yields have not declined in tandem with the Fed's interest rate reductions. Instead, the yield on the 10-Year U.S. Treasury Note rose approximately 100 basis points (from 3.70% to 4.77% in early January) following the Fed's initial rate cut in mid-September. **The increase in yield is attributable to several issues, including geopolitical events, rising government debt and the potential economic impact of tariffs.** Projecting the path of interest rates is always challenging; the alternatives, *active investment management* or *passive, index-focused investment management*, yield different results**. Our preference for *active* management provides the opportunity to respond real-time to changes that will develop over the coming year.**

©2025 Pacific Global Investment Management Company. **This material is protected by United States copyright law and may not be reproduced, distributed, transmitted, displayed, published or broadcast without the prior written permission of Pacific Global.** Commentary is based on information considered to be reliable at the time of publication. Views expressed represent opinions and beliefs at publication, are subject to change, and are not meant as a market forecast. Pacific Global disclaims any responsibility to update such views. This information may not be relied on as investment advice. Any performance referenced is historical; **past performance does not guarantee future results.** Investing in securities involves risk of loss. No investment strategy or risk management process can guarantee returns or eliminate risk.