CION MARKET OUTLOOK:
HOW TO SET SMART FINANCIAL GOALS IN 2025

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New Year's resolutions fail 90% of the time. We start each year with the best intentions—for our health, finances, and relationships. But by February, most of those plans are abandoned. Why? Because change is hard and vague aspirations rarely translate into meaningful action.

But what if there was a better way to beat the odds? By using SMART goals, you're more likely to succeed. SMART goals are Specific, Measurable, Attainable, Relevant, and Time-bound.

Let's look at an example. Who is more likely to lose weight?

• **Smart Stacey:** "I plan to lose 20 pounds of fat within six months by going to the gym three days a week and eating 1,750 calories daily."

• **Dreamer Dan:** "I guess I should lose some weight by cutting back on snacks and soda. Is Atkins still a thing...maybe I'll try paleo?"

Stacey wins hands down. Her goal is SMART: it's **Specific** and **Measurable** (20 pounds of fat), **Attainable** (losing ~1 pound a week is realistic), **Relevant** (with structured fitness and dietary habits), and **Time-bound** (within six months). SMART goals work because they turn vague daydreams into actionable plans.

The same approach can apply to your finances. Financial goals can be easier to attain than fitness ones—that's why you're more likely to be a millionaire than to have a six-pack. Plus, unlike fitness goals, financial plans can be outsourced to a professional—a financial advisor or planner can help you set and achieve your financial objectives for 2025.

As we begin the new year, let's look ahead to what will shape the financial landscape in 2025. Interest rates, debt, trade, and geopolitical turmoil are just a few of the forces driving the markets. After we summarize 2024's market activity, we'll cover what financial professionals are watching for the year ahead.

Markets*

	As of 12.31.2024	Q4 Return	2024 FY
S&P 500	5,881.63 pts	2.1%	24.0%
NASDAQ	19,310.79 pts	6.2%	30.8%
The Dow	42,544.22 pts	0.5%	12.8%
Global Equities		1.6%	26.3%
Emerging Markets		-8.8%	5.2%
Energy		-2.4%	1.1%
Gas	$3.50/gal	-3.4%	-3.5%
Gold	$2,624.50/oz	-0.4%	27.5%
VIX	17.35 pts	3.7%	31.4%
10-Yr Treasury	4.569%	78.8 bps	64.0 bps

**See endnotes.*

Alternatives*

	Q4 Return	2024 FY
Direct Lending	4.1%	11.9%
CLOs	2.5%	13.1%
Private Equity	-2.1%	9.9%
Hedge Funds	1.5%	11.6%
Equity REITs	-10.3%	-1.3%
Residential REITs	-4.8%	8.0%
Industrial REITs	-17.3%	-20.8%
Wine & Cheese	-13.2%	-9.7%
Crypto Market	36.0%	60.4%
SPACs	12.0%	8.5%

**See endnotes.*

U.S. Economic Performance - Continued Strength

- **Labor Market Resilience:** The unemployment rate held steady at 4.2% in November, unchanged since August but up from 3.7% a year ago. The labor market remains robust, with average hourly earnings up 4.0% year-over-year.
- **Inflation Edges Higher:** Headline Personal Consumption Expenditures (PCE) inflation in November rose slightly from 2.3% to 2.4% y/y, while core PCE climbed to 2.8%, its highest in seven months. Persistently elevated inflation prompted the Fed to revise its 2025 PCE forecast from 2.1% to 2.5%.
- **Economic Growth Accelerates:** The U.S. economy showcased its strength with a 3.1% growth rate in Q3 2024, the strongest quarterly expansion of the year, underlining U.S. resilience amid global uncertainty.

Monetary Policy - Inflation Still Sticky

- **Rate Cuts Moderated:** The FOMC implemented three rate cuts in 2024, totaling 100 bps, bringing the target range to 4.25%–4.5%. The Fed's dot plot now predicts two cuts in 2025, down from four anticipated in September.
- **Economic Optimism:** Fed Chair Powell expressed confidence in the economy, stating that a downturn remains unlikely. The U.S. continues to outperform global counterparts in both economic and market performance.
- **Diverging Rates:** Despite Fed cuts, the 30-year mortgage rate rose to 6.9% in January 2025, up from 6.1% in October 2024, while the 10-year Treasury yield climbed from 3.7% to 4.6% over the same period.

Credit Market Performance - Low Defaults and Solid Performance

- **Bond Returns Solid:** In 2024, investment-grade bonds gained 2%, high-yield bonds returned 8%, and leveraged loans were up 9%.
- **Defaults Declining:** Falling rates have eased funding costs. S&P Global forecasts default rates will drop from 1.3% currently to 1.0% by September 2025.
- **Private Debt Boom:** The asset class has surged from $557 billion in 2014 to over $2 trillion in 2023, quadrupling its size in just a decade and solidifying its role in alternative investments.

U.S. and Global Market Summary - Markets Keep Climbing

- **Bull Market Momentum:** In 2024, the Nasdaq rallied 30%, the S&P 500 rose over 24%, and the Dow Jones climbed 13%.
- **Record-Setting Year:** The S&P 500 achieved 57 record highs in 2024, ranking among the top five years for all-time highs. Analysts attribute the rally to the Magnificent Seven, with Nvidia up more than 175% and Alphabet, Amazon, Tesla, and Meta each gaining over 30%.
- **Crypto Rebounds:** Bitcoin surged over 130% in 2024, surpassing the $100,000 mark and emerging as one of the biggest beneficiaries of the post-election rally.
- **Global Inflation Challenges:** Global core CPI is expected to stabilize around 3%, resisting central bank forecasts of a return to 2% levels. Persistent service price inflation and the end of goods price disinflation, driven by supply chain pressures and geopolitical factors, are key contributors.

The U.S. Economy Remains Strong

Investor concerns about the market should be balanced by the continued strength of the U.S. economy. Fiscal policy remains stimulative, and interest rates—more on those below—have yet to significantly slow economic activity. According to the Fed's December 2024 *Summary of Economic Projections* key economic indicators are expected to remain steady through 2025.

Variable	2024	2025
Change in real GDP	2.50%	2.10%
Unemployment rate	4.20%	4.30%
PCE inflation	2.40%	2.50%
Core PCE inflation	2.80%	2.50%

But What About Valuations?

By common valuation metrics, such as price-to-earnings (P/E) ratios, equity prices are elevated compared to historical norms. The Shiller P/E ratio, for example, currently stands at 38, not far from the dot-com peak of 44.

Shiller P/E Ratio

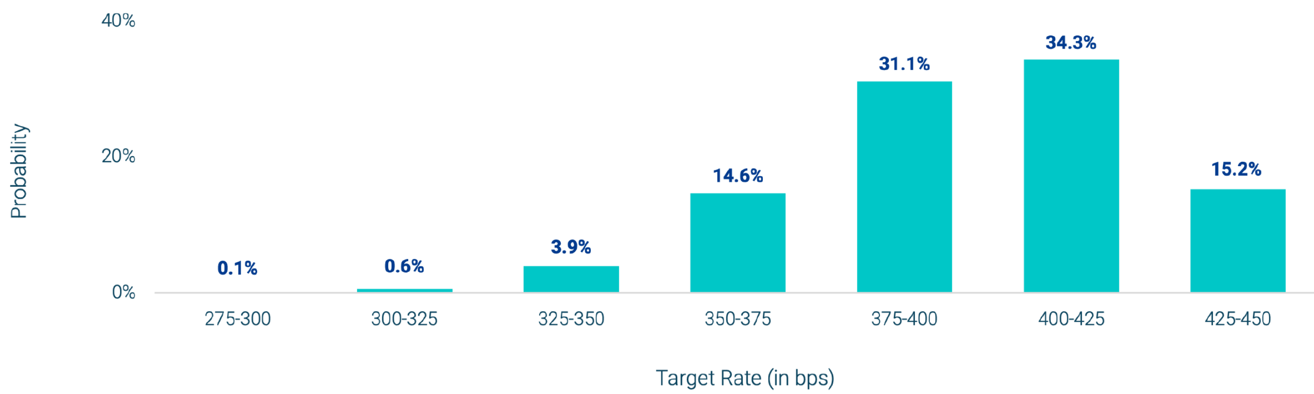
While higher valuations historically correlate with lower returns over the next decade, in the short term, valuations are largely noise. Moreover, it's important not to view a single asset class in isolation. Effective portfolio allocation depends on evaluating the relative attractiveness of all available asset classes.

Investors grappling with high equity valuations and low yields in investment-grade bonds are increasingly turning to alternative assets such as private debt, cryptocurrency, and infrastructure. These alternatives can provide diversification and help lower portfolio volatility.

Interest Rates Still a Concern

Interest rates remain a central focus for investors—not just as a barometer of the Federal Reserve's progress in combating inflation but also as a reflection of growing U.S. debt concerns. The market is currently pricing in two rate cuts in 2025.

Target Rate Probabilities for 10 Dec 2025 Fed Meeting



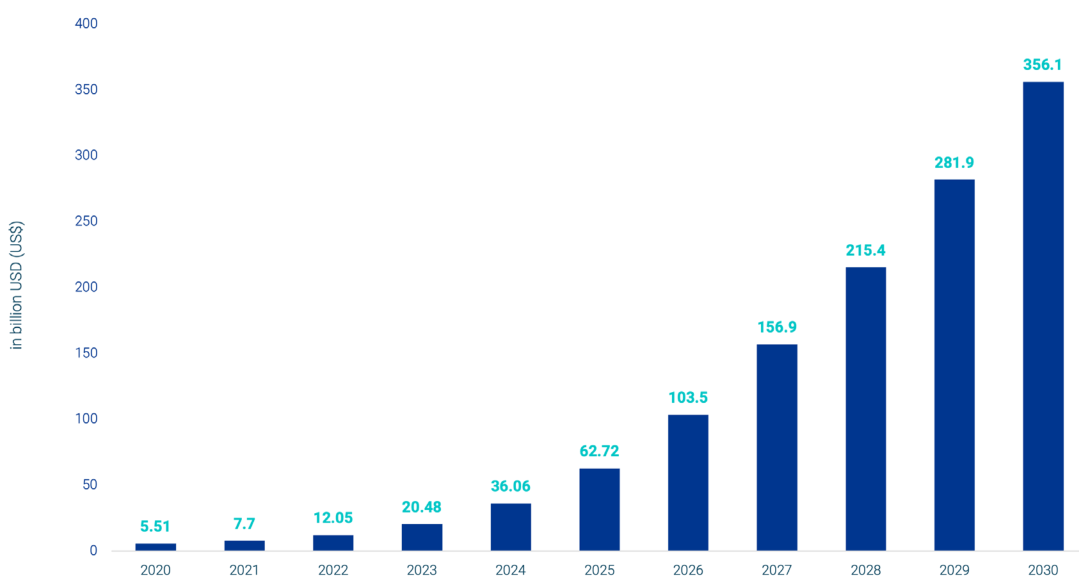
So far, the Fed has achieved a remarkable soft landing, bringing inflation down from a peak of 9.1% in 2022 to a current CPI of 2.7% without triggering a recession or a significant market decline.

However, there are small cracks in the foundation. The elevated 10-year Treasury yield signals lingering concerns about U.S. debt levels and suggests that inflation may not yet be fully under control. Moreover, the lagging effects of high interest rates are taking longer to materialize than in past cycles due to factors such as rate lock-in. For example, while new mortgage rates hover around 7%, most existing homeowners have locked in significantly lower rates, muting the immediate impact on consumer spending.

Infrastructure Tailwinds

Additionally, unexpected tailwinds such as data center demand, artificial intelligence (AI), and emerging interest in quantum computing have driven a surge in corporate spending.

Market Size Generative Artificial Intelligence

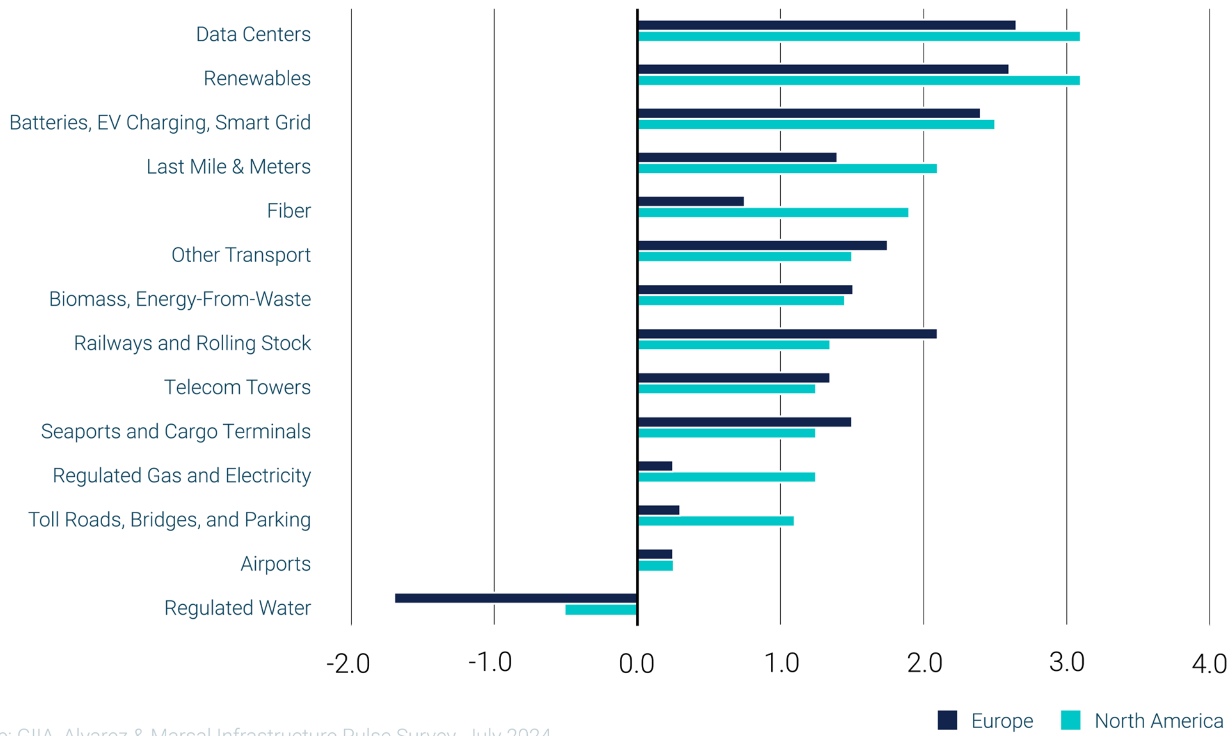


Notes: Data was converted from local currencies using average exchange rates of the respective year.

Data centers are power hungry. AI expansion will require tremendous investment in supporting infrastructure. Not only in power generation and energy transmission, but other hard assets like fiber networks and wireless towers. Sentiment for infrastructure is extremely positive in both the US and Europe, bringing more institutional interest to the asset class.

Outlook for Infrastructure Opportunities in next 12 Months

(GP survey, -5: extremely unfavorable, 5: extremely favorable)



Source: GIIA, Alvarez & Marsal Infrastructure Pulse Survey, July 2024

New Administration and Potential Policy Impact

The economic effects of the new administration's policies on trade and taxes remain uncertain. Proposed tariffs, if implemented, could raise costs for both importers (who are likely to pass these on to consumers) and exporters (who may face retaliatory measures from trading partners).

Historically, higher tariffs have been associated with increased inflation, which could further complicate the Fed's efforts to stabilize prices. Prognosticators will be keeping a weather eye on the gap between the bluster of proposed tariffs and the implemented policies.

On the other hand, lower taxes could potentially offset these impacts by stimulating GDP growth. Only time will reveal the true impact of these measures on the broader economy.

Have a SMART 2025

Goals should focus on what you can control. You can control maxing out your 401(k), but you can't control the returns of the S&P 500. Financial goals often involve a high degree of uncertainty because so much of the outcome is beyond anyone's control. However, investors can take meaningful steps to reduce financial stress: outsourcing to a financial advisor, trading less, and saving more. For those concerned about volatility, increasing allocations to certain alternative investments may provide added stability.

Endnotes

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"Crypto Market" represented by the Bloomberg Galaxy Crypto Index. "NASDAQ 100" represented by the NASDAQ 100 Index. "S&P 500" represented by the S&P 500 index. "Private Equity" represented by the Invesco Global Listed Private Equity ETF. "Direct Lending" represented by the DLX Direct Lending Index. "US Residential REITs" represented by the MSCI US Residential REIT Index. "CLOs" represented by the Palmer Square CLO Debt Index. "Leveraged Loans" represented by the S&P/LSTA Leveraged Loan Total Return Index. "High Yield Bonds" represented by the Bloomberg Barclays US Corporate High Yield Total Return Index Value Unhedged. "Gold" represented by the SPDR Gold Shares. "Emerging Markets" represented by the iShares MSCI Emerging markets ETF. "Investment Grade Bonds" represented by the Bloomberg US Corporate Bond Index. "Hedge Funds" represented by the Bloomberg All Hedge Fund Index. "Equity REITs" represented by the MSCI World Equity REIT Index "Financials" represented by the Financial Select Sector SPDR Fund. "Telecom" represented by the iShares US Telecommunications ETF. "Utilities" represented by the Utilities Select Sector SPDR Fund. "Commodities" represented by the Invesco DB Commodity Index Tracking Fund. "Oil" represented by the United States Oil Fund LP. "VIX" represented by the Chicago Board Options Exchange's CBOE Volatility Index. "Natural Gas" represented by the United States Natural Gas Fund LP.