2025: A Strong Foundation for A Year of Transition

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Executive Summary

- Last year was strong for financial markets as favorable economic conditions sustained growth and lifted asset prices without sparking inflation concerns.
- As 2025 begins, many positives remain, but challenges are emerging. Valuations are elevated in certain markets, geopolitical tensions are rising, and the global recovery is increasingly uneven. The U.S. presidential election results add another layer of complexity for markets, and fiscal policy debates will be pivotal in shaping the economic landscape.
- Overall, 2025 is shaping up to be a transition year. We remain constructive, maintaining an overweight to equities with a focus on the U.S. At the same time, we are closely monitoring downside risks and stand ready to adjust portfolios as needed.

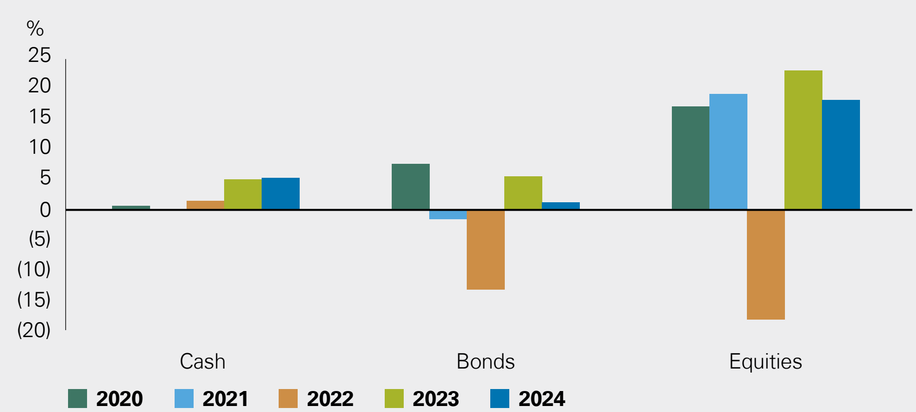
Last year proved strong for financial markets as several positive microeconomic and macroeconomic fundamentals combined to drive outsized returns across asset classes. As the year progressed, and consistent with our above-consensus growth expectations heading into 2024, concerns about a hard landing for the U.S. economy gave way to a soft-landing scenario, as inflation eased without significant damage to the labor market. Corporate profits were also strong — rising by double-digit percentages in many sectors — driven by resilient consumer demand, improving margins, moderating cost pressures, and the rapid evolution of artificial intelligence. Similarly, although challenges remain, recession fears in Europe diminished while China was able to stabilize market sentiment with targeted government stimulus.

Meanwhile, global central banks pivoted from restrictive monetary policies to monetary easing, initiating rate cuts across much of the world. This pivot provided a powerful tailwind to financial markets, as non-recessionary rate cuts often do. Bessemer's All Equity portfolio was up 19%, while our 70/30 Balanced Growth portfolio returned 14.4%. Key drivers of returns were overweights to equities and the U.S., with strong stock selection across portfolios.

As we analyze asset class returns over the past five years, we note the anomalous nature of 2022 (Exhibit 1), as the combination of high inflation and rapidly rising interest rates caused investors to reassess valuations across

Exhibit 1: Asset Class Returns (Last Five Years)

Key Takeaway: Though this cycle has been volatile, overall equity returns have been robust.



As of December 31, 2024. Asset class total returns measured using the following indexes: ICE BofA US 3-Month Treasury Bill Index for cash, LBUSTRUU Index (includes Treasuries, government-related and corporate securities, MBS, ABS, and CMBS) for bonds, and MSCI ACWI for equities. Source: Bloomberg

Exhibit 2: Key Investment Perspectives for 2025

Theme	Key View	Important Nuance
Economic Growth	In line with our 2024 outlook, we believe U.S. GDP growth in 2025 could surpass the 2.1% consensus estimate.	However, we do expect economic growth to moderate from last year's 2.7%, as the lingering effects of fiscal stimulus and elevated net immigration wane, with the economy moving closer to its long-term growth trajectory.
Inflation and Monetary Policy	We believe the trajectory of inflation will continue to be lower as a reduced pace of economic growth encourages lagging variables keeping prices higher to ease.	The Federal Reserve is likely to deliver more than the two rate cuts it currently projects.
Equities	Overweight U.S. equities, with heightened interest in small- and mid-cap stocks, given expectations of stronger earnings growth.	Valuations are less predictive of short-term performance; the U.S. (including select tech companies) remains attractive despite elevated multiples.
Artificial Intelligence (AI)	Investments in AI and automation are transforming industries and driving earnings growth in leading companies.	Valuations may remain high as markets price in long-term earnings growth from AI and automation.
Infrastructure & Energy	Reshoring, infrastructure, and AI investments will drive energy demand and economic resilience.	Continued bipartisan support for major infrastructure initiatives will enhance U.S. competitiveness despite fiscal constraints.
Geopolitical Risks	Rising U.S.-China tensions, uneven global recovery, and heightened Middle East conflicts remain concerns.	Trade policies under the Trump administration could boost inflation, while reshoring offers a countertrend opportunity.
Emerging Markets (EM)	EM underperformance is expected to continue due to dollar strength and weak Chinese growth.	Select markets, such as India, Taiwan, and South Korea, offer resilience and targeted opportunities despite broader EM challenges.
Private Markets	Deregulation and rate cuts to fuel a recovery in M&A activity, benefiting private equity.	Dry powder in private equity presents significant investment potential as capital markets conditions improve.

Source: Bessemer Trust

much of the market, even as the economic expansion persisted. Although the past two years have generated above-average returns for equities, we believe strong earnings growth can drive additional gains in 2025.

While many of the positive drivers that defined 2024 remain — such as global central bank easing, stable consumer demand, and strong corporate balance sheets — key challenges are emerging as we transition to 2025 (Exhibit 2).

We see limited room for multiple expansion as valuations have reached historically elevated levels. That said, we do not anticipate a significant contraction in price-to-earnings multiples, allowing strong earnings growth to push markets higher. Particularly within mid- and small-cap equities, valuations are less extended, and earnings growth is expected to recover significantly.

Although difficult to predict, rising geopolitical tensions must be acknowledged, particularly given recent escalations in both the Ukraine-Russia and Middle East conflicts. U.S.-China trade relations will also be in focus, with new tariffs likely in 2025.

Additionally, the global recovery is showing signs of unevenness. We expect U.S. economic growth to outpace both developed international and emerging markets, supporting our continued overweight to U.S. stocks. Large economies such as Europe and China face both structural (demographics) and cyclical (low productivity and weak consumer demand) challenges that may continue to weigh on relative performance, although opportunities remain for active investors to find good companies abroad.

The U.S. presidential election results have added another layer of complexity to the 2025 outlook. Speculation regarding the policy priorities of the incoming Trump administration has already reshaped market and business sentiment. Markets initially responded positively to the election outcome, but competing policy priorities around deregulation, trade, tax cuts, and immigration have made the net impact on the economy less clear. The administration's pro-business agenda is expected to spur growth in areas such as energy, infrastructure, artificial intelligence, and capital markets activity.

For example, deregulation in the energy sector could encourage new investment opportunities in oil, natural gas, and renewable energy, while the regulatory environment could accelerate capital spending in areas like AI and automation.

However, the pro-growth policy mix also comes with risks. The administration's trade stance, including the potential for higher tariffs on Chinese goods and automobiles, could disrupt global supply chains, increase input costs, and boost inflationary pressures. This would be particularly problematic for emerging markets, many of which rely heavily on exports to the U.S. and China. Also, a reduction in net immigration into the U.S. may tighten labor market conditions, further encouraging the Fed to slow its pace of easing.

Altogether, the impact on U.S. growth will be small in 2025; therefore, our focus remains primarily on company fundamentals, even as headline risk around various policy initiatives may drive near-term market fluctuations.

Fiscal policy debates will also be pivotal in shaping the economic landscape. The impending expiration of several provisions from the 2017 Tax Cuts and Jobs Act (TCJA) at the end of 2025 sets the stage for contentious negotiations in Congress, particularly given tight Republican majorities. Key provisions set to expire include lower individual tax rates, the 20% deduction for pass-through businesses, and the current level of estate tax exemptions.

We believe an extension of these key provisions is likely, although any expansionary fiscal policies will need to contend with concerns about the federal deficit, which has already reached historically high levels. The U.S. debt-to-GDP ratio is projected to climb to 122% by 2034, raising questions about the sustainability of further fiscal stimulus. We believe such concerns may complicate the process of extending tax cuts, even among some Republicans, but a new tax bill will ultimately pass.

For investors, 2025 is shaping up to be a year of transition.

- Equity markets are more likely to be driven by earnings growth versus multiple expansion.
- The Fed will meaningfully slow its pace of rate cuts as it assesses both economic growth, inflation, and the impact of trade policy.
- The incoming Trump administration has policy priorities that will likely encourage growth in several areas, but also create challenges in others.

All in all, we are constructive at the outset of the year, as many key elements remain in place — a solid labor market, falling inflation, easing monetary policy, robust profit margins, and nascent recoveries in areas like manufacturing. As a result, we are maintaining an overweight to equities with a focus on the U.S.

In the following sections, we explore the most critical themes, risks, and opportunities likely to define markets in 2025.

U.S. Economic Exceptionalism: Resilient Growth in an Uncertain World

Jeffrey Mills, Chief Investment Strategist, and **Tanya Williams,** Senior Investment Strategist

As with our 2024 outlook, we believe U.S. GDP growth can exceed consensus expectations of 2.1% growth in 2025. That said, the economy is likely to cool from the 2.7% growth experienced last year, as the residual impact from fiscal stimulus and a spike in net immigration fades, causing the economy to trend toward its long-term growth potential. Various policy priorities of the Trump administration can individually have a material impact on growth; however, the net effect may be less noticeable as the positive impact of tax cuts and deregulation is offset by changes to trade and immigration policy. Longer term, AI-driven productivity gains are likely to provide a durable boost to U.S. growth, although we likely need to look beyond 2025 to see a significant impact. This should allow the Fed to reduce interest rates more than the two cuts currently priced in for 2025, while also supporting the earnings growth we believe is needed to drive markets higher.

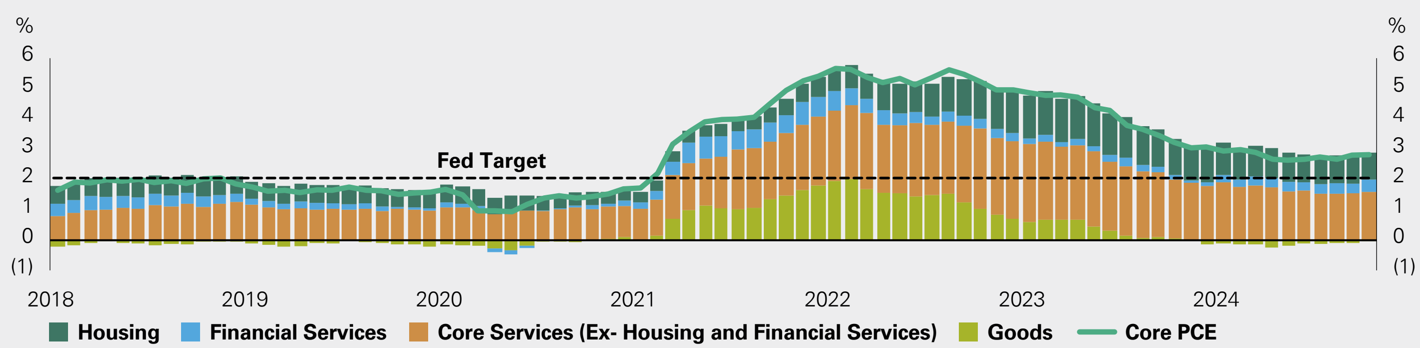
Inflation remains above the Federal Reserve's 2% target, with core personal consumption expenditures (PCE) currently at 2.8% year-over-year (Exhibit 3). We believe the trajectory of inflation will continue to be lower as a reduced pace of economic growth encourages certain lagging variables that are keeping overall prices higher to ease. For instance, housing inflation, which remains high, is projected to slow as the gap between housing costs and market rents narrows. Year-over-year housing inflation is expected to decline from 4.7% in November 2024 to 3.4% by December 2025.

Labor market stability is essential for sustained economic growth. Today, the U.S. labor market remains in good condition, with unemployment at 4.2%. We observe some evidence of softening as the quits rate (a measure of how confident workers are that they can find another job), for example, has fallen from a 10-year high of 3% back to a more typical 1.9%. That said, layoffs are at historic lows of 1.1%, indicating companies are prioritizing retaining their workforce. The combination of a softer, but stable, labor market aligns nicely with an economy that is still growing while inflation is able to ease.

Acknowledging this solid foundation, we are mindful of key risks — large fiscal deficits that could impact bond markets and fiscal policy, pockets of extended valuation in U.S. equity markets, and persistent geopolitical risks. We cover these and other key topics in the remainder of this publication.

Exhibit 3: Contributions to U.S. Core PCE

Key Takeaway: The lag effect of core inputs keeps prices higher, but over time, this will dissipate and drive inflation to the Fed's 2% target.



As of November 30, 2024. Source: Bureau of Economic Analysis

Big Tech and Beyond: The Case for Broad U.S. Equity Market Strength

Jeffrey Mills, Chief Investment Strategist

Although many investors are very focused on above-average U.S. equity market valuations, two considerations are critical, in our view — valuation is not a useful tool to predict near-term stock market performance, and the U.S. equity market is much more than the largest technology companies that make up the S&P 500. As a result, we maintain our overweight to equities (and the U.S., specifically) heading into 2025.

Given how rapidly advances in AI and other technologies are evolving, in some cases, investors are looking past valuations driven by year-ahead profitability projections, anticipating even more earnings growth in 2026, 2027, and beyond. One of Bessemer's largest overweights, Broadcom, is a good example of this dynamic. Although the stock was trading at an all-time-high valuation prior to its latest earnings report (30x year-ahead earnings), the stock jumped 35% on even greater opportunities to service its largest artificial intelligence hyperscaler customers.

Valuation is critical to our strategy; however, in select cases we see the benefit of thinking creatively about the long-term earnings potential that may drive outcomes beyond current market expectations.

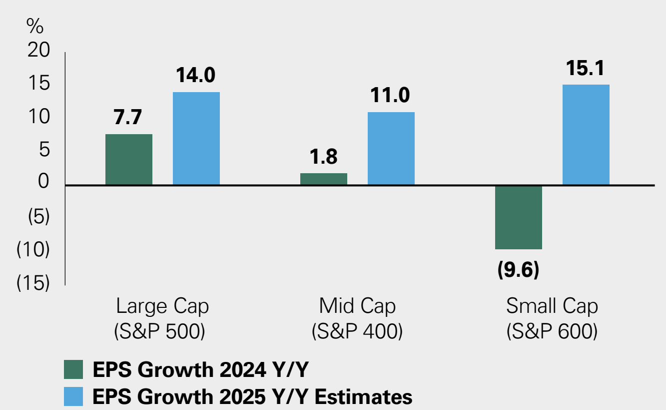
We should also note that it would be unusual for a significant contraction to occur in valuations given the current combination of above-average earnings growth and easing monetary policy. Historically, when S&P 500 earnings are growing at an above-average pace and the Fed is cutting interest rates, price-to-earnings ratios have expanded 91% of the time. Although these conditions are typically associated with an economic recovery (post-recession), the presence of these two elements in 2025 should be relatively supportive of current market multiples.

Lastly, we believe 2025 may see marked improvement for small- and mid-cap equities. Having lagged in recent years, earnings growth should evolve in a way that favors this market segment. Small-cap stocks are expected to have much stronger earnings growth than last year, and in line with large-cap stocks. Assuming steady price-to-earnings multiples, small caps should have a fundamental advantage in 2025. We will look for confirmation of these expectations in the first quarter, as investors will likely need to see evidence of this expected improvement given how poor small-cap earnings growth was in 2024 (roughly 8% for large caps and -9.6% for small caps, as shown in Exhibit 4).

The December jump in small business optimism, the fourth largest in nearly 50 years, is a good recent indication of how the potential policy backdrop may change market psychology relative to smaller businesses. Further U.S. dollar strength may also create a headwind for larger multinational companies as they translate foreign earnings back to dollars versus the more domestically oriented businesses of many smaller companies.

Exhibit 4: Positive Earnings Expectations for Small Caps Into 2025

Key Takeaway: 2025 EPS growth expectations for small caps are in line with large caps.



As of December 31, 2024. Source: Bloomberg

A Transitional Year for Policy: Signal Versus Noise

Bree Sterne, Senior Investment Strategist

The new year is set to bring both U.S. political and geopolitical volatility given increased policy uncertainty after the U.S. elections. Although this backdrop will surely create periods of heightened anxiety throughout the year, it is important to remember that policy speculation (and even implementation) is rarely the marginal driver of long-term market fundamentals. We do not believe we have an edge projecting the net effect of competing policy priorities, but below we focus on the elements we believe are likely to have the greatest impact.

U.S. Elections

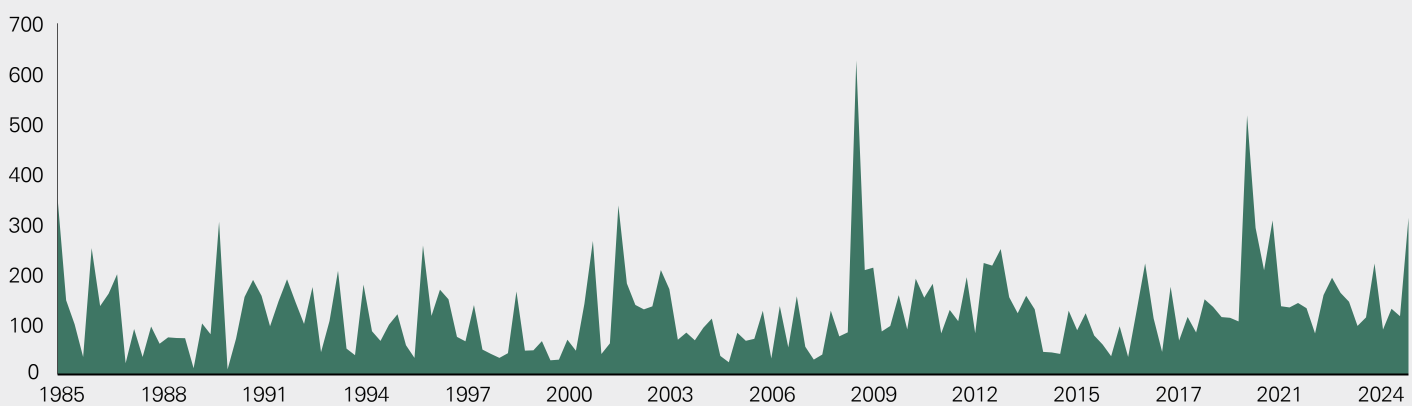
The U.S. elections resulted in a broad range of potential outcomes for the global economy and financial markets, which can be seen in increased political uncertainty (Exhibit 5). Given the Republican sweep, President-elect Trump is positioned to advance many of his campaign pledges, such as deregulation, immigration reform, tax cuts, and increased tariffs. As policy priorities come into better focus, we expect to see asset prices further adjust to both opportunities and risks.

Our base case is for modest tax cuts, deregulation, and targeted tariffs. Regarding tax cuts, we expect the 2017 TCJA to be extended, and we could also see some additional tax cuts, such as for workers earning tips or U.S. manufacturers. The Department of Government Efficiency (DOGE) has the potential to spur a sizable deregulatory effort, in essence acting as a pro-growth tax cut. Although the magnitude of DOGE's impact/authority is hotly debated, we've already felt its presence, most recently influencing the failure of a more than 1,500-page spending bill. Both deregulation and tax cuts are expected to stimulate business investment. For example, after the election, small business optimism saw its largest one-month increase in the 39-year history of the survey.

At the same time, a new Trump administration brings trade risks from his proposed tariffs. We expect tariffs to be strategically targeted, including increased tariffs on imports from China and on autos, while we view a universal tariff as a lower-probability action given legal and procedural obstacles. Tariffs could be negative

Exhibit 5: U.S. Economic Policy Uncertainty Index

Key Takeaway: Uncertainty levels spiked temporarily after the Republican sweep.



As of November 24, 2024. The Baker, Bloom and Davis daily news-based Economic Policy Uncertainty Index is based on global newspapers. Source: Bloomberg for growth, and they could also complicate perceptions of the inflation picture, leading the Fed to take a more deliberate policy stance.

The next administration will face challenges around deficit sustainability as expansionary fiscal policy, such as tax cuts, may face limits given a federal deficit at historically high levels. The 2024 projected budget deficit is expected to surpass 6% of GDP, a level only reached during WWII, the GFC, and the COVID-19 pandemic. It is worth noting that the Congressional Budget Office's 2025 deficit projections are likely to be revised down in January given stronger-than-expected individual and corporate tax revenue. The appointment of Scott Bessent to Treasury Secretary indicates that the Trump administration takes deficit sustainability seriously, though how the administration will be able to accomplish meaningful deficit reduction remains an open question. Spending reductions through DOGE appear unlikely to offset proposed tax cuts, and thus significant deficit reduction is likely to require a notable boost in economic growth that does not reignite inflationary pressure — a challenging proposition.

Policy Implications

Trump's policy changes are set to have wide-reaching market impacts. Deregulation efforts and tax cut extensions are likely to provide tailwinds for U.S.-focused equities, especially financials and small-cap stocks. Meanwhile, changing trade dynamics and protectionist policies are transforming global supply chains.

As a result, we have seen an increased focus on supply chain resilience and domestic manufacturing across the U.S. and Europe. Companies are bringing manufacturing and production closer to home and reevaluating business partnerships based on geopolitical and national security priorities. Tariffs encourage onshoring and domestic capital expenditures, in turn boosting productivity growth and labor force participation. For example, United Rentals, a large equipment rental company, is well positioned to benefit from increased demand for construction due to onshoring initiatives.

The prospect of higher tariffs is likely to restrain growth in the euro area and have negative implications for some emerging markets. Increased tariffs would place additional pressure on an already struggling Chinese economy through export reduction and supply chain disruption. While China is likely to be negatively affected, shifting trade flows and supply chains may create opportunities for other emerging markets. Since 2017, China has lost share of U.S. imports while other markets, such as Mexico and Vietnam, have gained share (Exhibit 6). Reshoring or nearshoring trends can also reduce capital inflows to some emerging markets while boosting others. The complex nature of these dynamics is a key reason why we prefer active management in emerging markets, where our portfolio managers can find select quality companies at attractive valuations whose management teams are experienced in navigating macroeconomic risks.

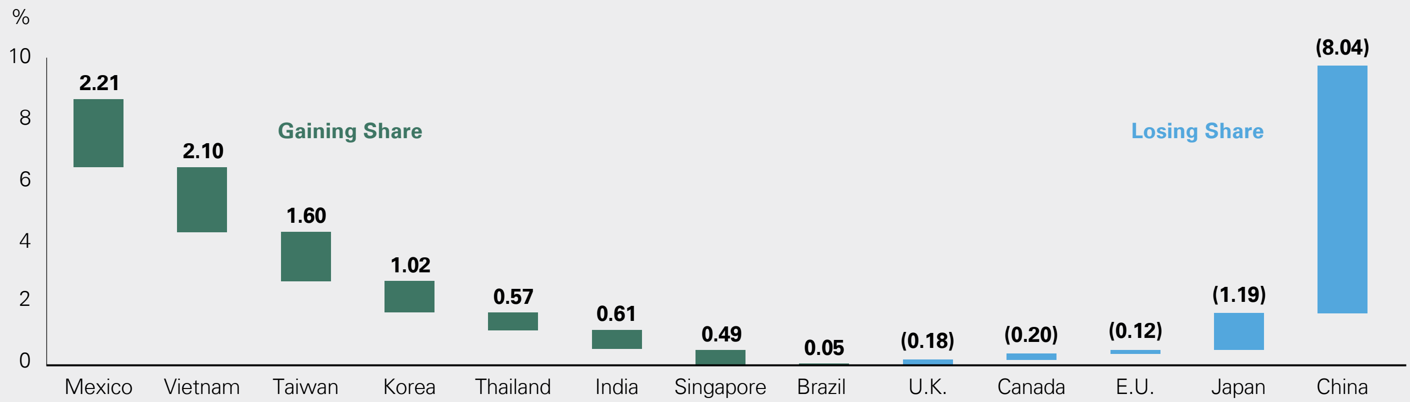
Global Risks

Geopolitical tensions have risen with hot conflicts in Eastern Europe and the Middle East as well as heightened concerns regarding U.S.-China trade relations. Should the Russia-Ukraine war move toward a ceasefire, we expect the geopolitical focus to increasingly shift toward the Middle East and Asia. Given personnel appointees thus far, the geopolitical priorities for the new administration appear to be Iran and China.

The ongoing conflict in the Middle East incited by Hamas's October 7 terrorist attack, and recently intensified by the fall of Assad in Syria, has heightened regional instability, and the combination of an emboldened Israel and increasingly isolated Iran has raised the prospect of broader escalation involving neighboring countries or even global superpowers. Trump has indicated he views Iran as the chief regional antagonist, and we therefore expect a continuation of the "maximum pressure" campaign that his first administration placed on Iran, which included imposing strict sanctions.

Exhibit 6: Change in Share of U.S. Imports (Current vs. 2017)

Key Takeaway: The U.S. relies less on Chinese imports now compared to 2017.



As of September 30, 2024. Source: Haver Analytics, Wolfe Research

We also anticipate China being a major point of national security focus in the next Trump administration. The prospect of an escalating trade war does not bode well for the Chinese economy, which has been hampered by property market issues and weak consumer sentiment despite targeted government stimulus. An economically struggling China under trade pressure from the U.S. raises the tail risk of retaliatory action aimed at shoring up nationalist sentiment, such as military action in the South China Sea or against Taiwan. Still, we believe such extreme action is unlikely as it would be extremely costly for both China and the U.S., and we believe that maintaining regional stability in Southeast Asia will be a top priority for the new administration.

U.S. policy changes, global trade dynamics, and geopolitical tensions present both challenges and opportunities for investors. While the timing of geopolitical events and subsequent impact on markets are notoriously difficult to predict, it is important to remember that historically geopolitical shocks are often short-lived with inconsistent impacts on asset classes. Active management and a focus on resilient, quality investments are key advantages when navigating this complex backdrop.

U.S. Monetary Policy: Searching for Neutral as Global Economies Diverge

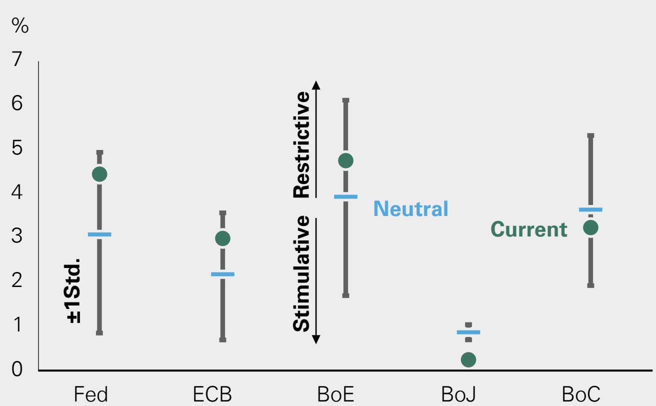
Anthony Wile, Associate Portfolio Manager

While by most measures fiscal policy may have lost its way as deficits have continued to expand, monetary policy has been more disciplined. Global central banks provided unprecedented stimulus during the pandemic and pivoted, arguably a bit late, toward one of the most aggressive rate hike cycles in decades to contain equally aggressive inflationary pressures. This gives many central banks, including the Fed, ample room to ease policy more aggressively should the fundamental backdrop deteriorate.

As we look ahead in 2025, the global synchronization of monetary policy in the developed world looks to be diverging as central banks question the level of interest rates that is neither restrictive nor stimulative to their individual economies (the so-called "neutral rate of interest" highlighted in Exhibit 7).

Exhibit 7: Developed Central Bank Policy Rates vs. Neutral

Key Takeaway: While monetary policy was largely synchronized during and after the pandemic, the pace of normalization and level of global policy rates may diverge in the year ahead.



As of December 30, 2024. Error bars reflect the standard deviation in policy rates since 1998. Central bars reflect recent estimates of nominal neutral policy rates for each domestic economy. For the U.S., the FOMC's long-run neutral rate is used. Europe and Canada employ an HLW model from the New York Federal Reserve. The United Kingdom and Japan reflect current market long-run pricing from overnight index swap curves. Due to methodology differences, for illustrative purposes only. Source: BoC, BoE, BoJ, ECB, Federal Reserve

What could drive this potential dispersion? Through December of last year, there were already some early signs of decoupling.

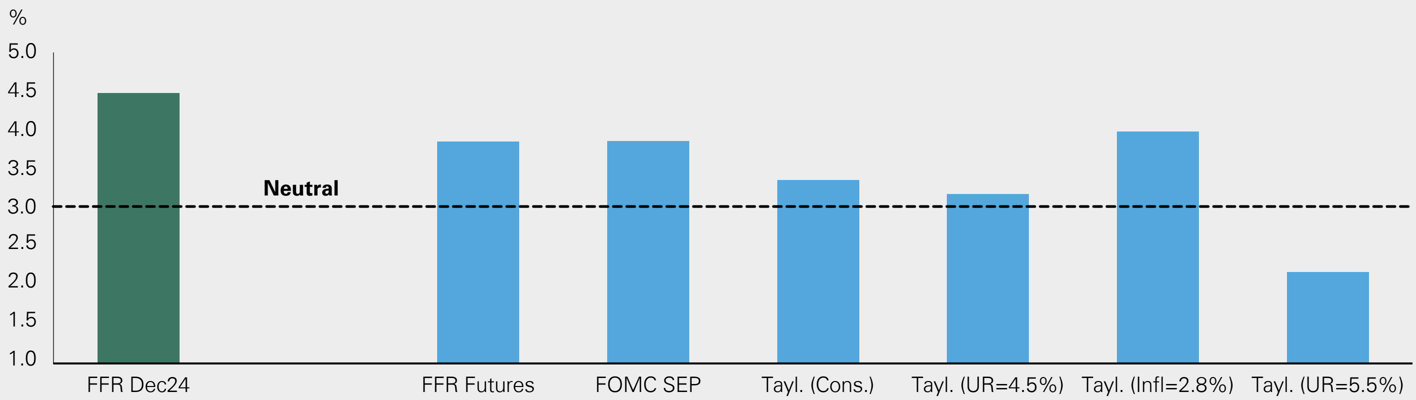
Despite a stable labor market, the European Central Bank continued to battle both cyclical and structural growth headwinds, cutting interest rates by another 25 basis points in the last month of the year and guiding for continued cuts in 2025. While historically mirroring Federal Reserve policy, the Bank of Canada delivered its second consecutive 50-basis-point cut in December due to weaker growth and the looming threat of U.S. tariffs. In stark contrast, the Bank of England chose to hold rates constant in response to expected fiscal spending, and the Bank of Japan — one exception to previous synchronization — paused for the third consecutive meeting; it intends to continue hiking policy rates this year, arguably due to resilient U.S. growth as currency stability remains in focus after August's extreme volatility.

With divergence, a thorough probing of each region's economic footing is warranted but also beyond the scope of this paper. Nevertheless, if any central bank deserves a deeper dive given its global market and economic influence, it is the Federal Reserve. After delivering another 25-basis-point cut in December, the Fed anticipates only two further cuts in 2025. As with most developed market central banks, whether the Federal Reserve delivers two, four, or zero cuts in the year ahead will largely be a function of realized outcomes in its dual mandate, namely the labor market and inflation.

Focusing on employment, by many metrics, the labor market is finally back to normal. Job openings have returned to pre-pandemic levels along with the often-referenced ratio of unemployed workers to those job openings. Layoffs remain at historic lows as measured by the Bureau of Labor Statistics' establishment and

Exhibit 8: Federal Funds Rate Scenarios by December 2025

Key Takeaway: Fed funds expectations remain conservatively priced; many reasonable economic scenarios imply further cuts ahead.



As of December 30, 2024. Consensus economic estimates for core PCE inflation and the unemployment rate are 2.2% and 4.3%, respectively, and are used to estimate the federal funds rate in Tayl. (Cons.). Any changes to the variables are noted on the chart. Source: BLS, Census Bureau, Federal Reserve

household surveys as well as initial jobless claims. As of November, the unemployment rate rests at 4.2%, precisely the Federal Reserve's estimate of long-run joblessness.

On paper, the central bank's employment mandate is satisfied. However, data has yet to confirm whether the labor market is settling into its new equilibrium or passing through one. For many labor market indicators, the direction of travel has been continued loosening with little signs of stabilization. Luckily, with the Federal Reserve viewing any further weakening in the labor market as "unwelcome," the restrictive position of monetary policy remains asymmetrically poised to respond to weakness with additional rate cuts. Moreover, with the labor market in better balance, persistent economic growth should serve as a stabilizing force for employment over the quarters ahead.

Overall, we expect at least two rate cuts in 2025 and believe the Fed would be able to ease significantly if growth slows or employment declines materially.

While the Fed is "independent" of presidential and congressional policy priorities, significant changes in fiscal and trade policy affect the economic outlook and likely will be taken into consideration when setting the level of the federal funds rate. At its December meeting, we believe the Fed was clearly influenced by the potential impact of trade and immigration policy, increasing its inflation forecast and reducing the number of expected rate cuts for the coming year (from four to two cuts). In that sense, the bond market has already reacted to certain policy risks that could aggravate inflation. Although it has proven unwise to take President-elect Trump's statements literally, it has proven equally unwise not to take them seriously, particularly in relation to tariffs. While inflation should continue to head toward 2% over time and the Federal Reserve has historically been hesitant to adjust policy in response to exogenous and one-time price shocks, the stagflationary nature of tariffs could temporarily distort policy tradeoffs. Taken together, we believe the Fed is likely to cut more than it, and the market, are currently forecasting (Exhibit 8).

We note that dollar strength has at times dampened the impact from tariffs as was evident during the previous Trump presidency. In our view, the dollar may appreciate further in 2025 given the policy divergences discussed earlier, although near-term weakness is possible if the Fed delivers more cuts than currently expected. Ultimately, we believe pro-growth and protectionist policies still lend medium-term support. Proceeding cautiously with monetary policy "recalibration" is probably warranted against the backdrop of a still-strong economy.

Investing for the Future: How Capital Investment Is Set to Reshape the U.S. Economy

Tom Wicks, Senior Investment Strategist, and **Joseph Clay,** Investment Strategies Analyst

As the global economy increasingly bifurcates — driven by concerns over supply chain security, technological leadership, and energy independence — capital investment has become a key driver of growth. While many are wary of the level of spending going toward AI, we are investing in several companies that are already driving earnings growth as a result of this new technology. Governments and corporations are prioritizing investments in technology, defense, infrastructure, and renewable energy initiatives to meet the demands of a rapidly evolving global landscape shaped by artificial intelligence (AI), geopolitical shifts, and climate priorities. This acceleration in investment reflects the importance of economic resilience and a strategic bet on long-term independence and security. By embracing innovation and addressing structural vulnerabilities, the future wave of capital allocation promises to redefine competitive advantages and reshape the U.S. economy.

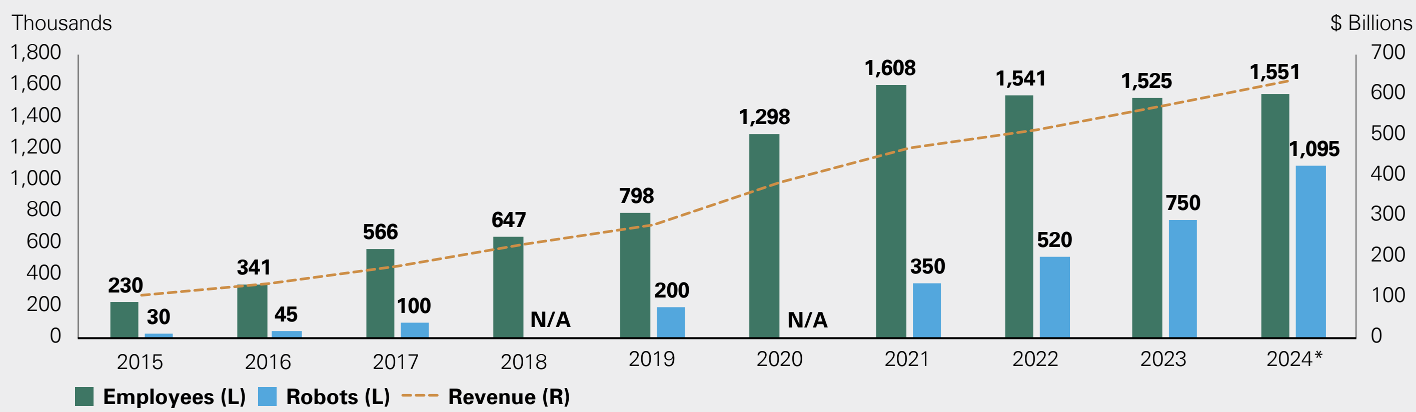
Acceleration of Investments in AI and Automation

Today, the leading cloud service providers are at the forefront of AI capital expenditure. Amazon, Alphabet, Meta, and Microsoft spent an estimated record-breaking $200 billion on AI initiatives in 2024. As the productivity and cost-saving advantages of AI continue to materialize, the investment momentum generated by these technology giants has significant potential for follow-on effects across a range of sectors. Labor- and capital-intensive industries stand to benefit substantially due to the potential for innovation and efficiency improvements. Below, we highlight select Bessemer holdings that we believe are well positioned to capitalize on these trends in 2025 and beyond.

First, the acceleration of AI investments creates a compelling case for increasing the use of robotics and automation across industries. As AI models enhance

Exhibit 9: Rise of the Robots: Amazon's Workforce of Robots and Employees

Key Takeaway: Amazon is leveraging AI to enhance efficiency and maximize returns.



* Represents estimated figures.

As of October 31, 2024. N/A = insufficient data. Source: Amazon company data, Bloomberg their learning capabilities, the ability of automated systems and robots to navigate and manage different environments will grow. Demographics are also important; labor shortages in the U.S. and the potential for slowing immigration may increase the need for adoption across sectors.

Amazon is emerging as a leader in robotics development to assist with logistics efficiency in warehouses, increasing its total number of robots from 750k in 2023 to an estimated 1,095k in 2024 (Exhibit 9). Over that period, the ratio of employees to robots decreased from approximately 4.5:1 to 2:1 while revenues more than tripled. Amazon robots assist with everything from packaging and carrying products to reading labels and placing packages in carts.

In addition to enhancing the efficiency of completing simple and mundane tasks, firms are also leveraging AI to streamline and carry out more complex functions.

For example, Google is partnering with healthcare providers to interpret symptoms and detect diseases earlier and more consistently. Google is also utilizing AI to enhance the efficiency of patient handoffs, which is estimated to save nurses around six hours per day.

Improved decision-making is also crucial in the defense industry. In October, Northrop Grumman introduced a new AI system that addresses the threats of counter-unmanned aerial systems (C-UAS). The software utilizes real-time data and allows the user to defeat C-UAS threats with the push of a button.

Additionally, Axon, a holding in Bessemer's Small Cap — U.S. portfolio, is utilizing AI through a body-worn camera called Draft One. The camera records dialogue and is used by police officers to generate reports on their interactions in real time. Axon estimates it is saving each officer an hour of paperwork each shift, with some experiencing larger time savings.

Overall, the expanding scope of AI capabilities enables companies to increase productivity through streamlining decision-making and task execution.

Growth of Investment in Infrastructure, Reindustrialization, and Energy

A number of federal infrastructure investment bills have promised historic levels of funding for economic development and industrial growth in the U.S. The Infrastructure Investment and Jobs Act (IIJA), the largest infrastructure bill in U.S. history, allocated $1.2 trillion to rejuvenate critical infrastructure, including bridges, airports, and waterways. Over the past three years, 66,000 projects and awards have been announced, including the repair of 196,000 miles of roads (enough to cross the U.S. 65 times), 11,400 projects to modernize America's bridges, and improvements to over 1,500 airports. With only 45% of funds so far allocated, and even less spent, we can expect many more projects to achieve funding in the coming years.

The CHIPS Act, which committed $280 billion to promoting domestic semiconductor production, has already enabled companies such as Taiwan Semiconductor to secure a $6.6 billion grant to build manufacturing plants in the U.S.

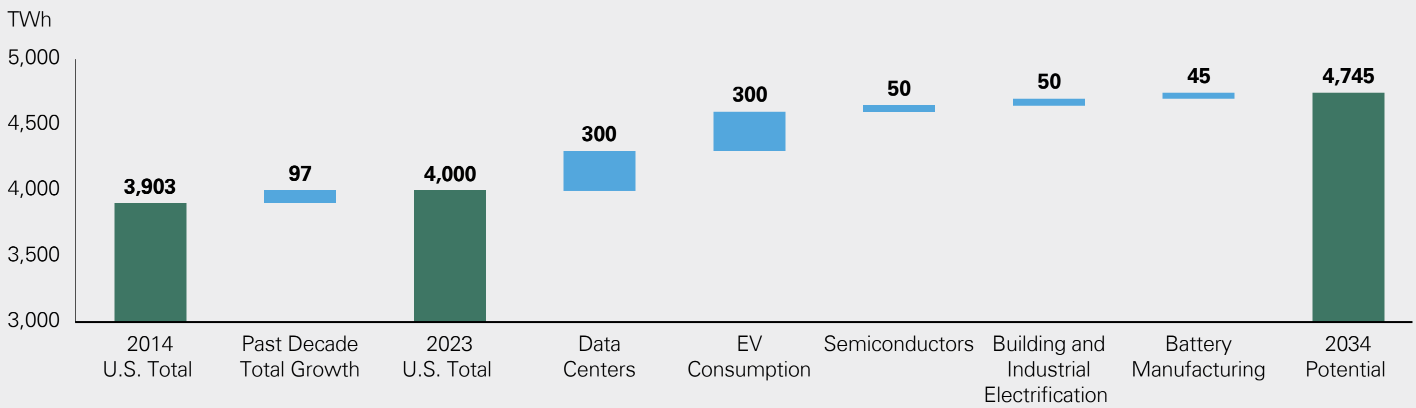
Meanwhile, the Inflation Reduction Act offers at least $400 billion in subsidies for green technologies over 10 years.

The resurgence of domestic manufacturing has already led to a substantial increase in the demand for energy. Reshoring — the return of production to the U.S. to bring manufacturing closer to end markets — continues to gain momentum and will likely continue to do so in a Trump administration.

Consequently, for the first time in over a decade, the power sector is undergoing significant changes due to rising electricity demand (Exhibit 10). A huge increase in demand for data centers, the backbone of AI, is another major contributor to rising energy consumption. To keep up with the rapid adoption of AI, significant multiyear investments in data centers will be necessary.

Exhibit 10: U.S. Energy Demand: Key Drivers of Growth

Key Takeaway: Reindustrialization efforts are set to drive electricity demand in the U.S.



As of October 28, 2024. Source: CSIS – Center for Strategic and International Studies

Bessemer portfolios have exposure to the evolving power sector through holdings such as Siemens Energy and Quanta Services. Siemens is a global energy technology company, holding top positions in most of the markets served through its portfolio, with particular strengths in heavy-duty gas turbines, utility-grade equipment, and offshore wind turbines. The company stands to benefit significantly from electrification and reindustrialization efforts, particularly as gas power and services and electrification equipment continue to see increased orders and utilization.

Additionally, Quanta, a market-leading engineering and construction company, is poised to benefit from the shift to renewable energy and the electric load growth from buildout of data centers. Quanta is well positioned to play a fundamental role in enhancing the capacity of the U.S. grid system, a critical aspect of the growing demand for data centers. We believe global electric systems are in the early phases of a potentially large investment cycle necessary to achieve decarbonization and electrification.

Overall, we believe the current wave of capital investment in the U.S. is not just a response to immediate economic needs but a strategic move toward long-term resilience and growth. By prioritizing advancements in technology, infrastructure, and renewable energy, the U.S. is positioning itself to navigate the complexities of a bifurcated global economy. The significant investments in AI and automation, coupled with unprecedented funding for infrastructure and clean energy initiatives, illustrate a commitment to innovation and sustainability that will redefine the country's competitive advantage. As these investments mature, they promise to reshape the U.S. economic landscape, fostering a more robust, faster growing, and more self-sufficient economy that is better equipped to face future challenges.

Opportunities in Private Markets and Real Assets

Joseph S. Tanious, Head of Portfolio Strategy and Construction

Private Equity: Rate Cuts, Deregulation, and Easing Liquidity to Fuel an M&A Recovery

The mergers and acquisitions (M&A) landscape is entering a period of significant transformation. Strategic acquisitions surged by over 100% year-over-year in 2024, according to FactSet, and early indicators suggest this momentum will continue into 2025. Investment bankers are reporting unprecedented activity, as forward-thinking buyers seek to position themselves advantageously in an increasingly competitive environment.

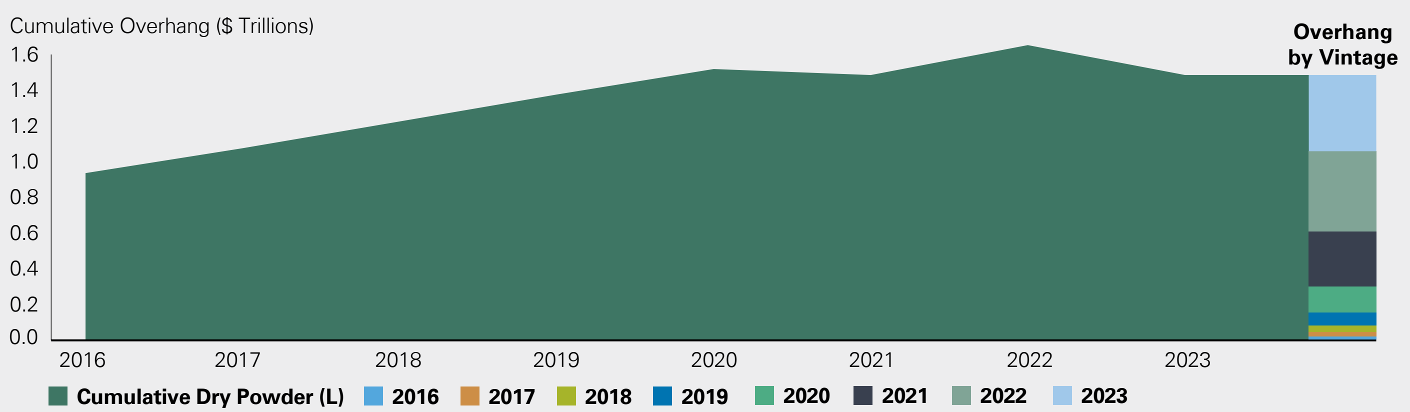
Several macroeconomic and market forces are aligning to fuel this recovery. The incoming Trump administration is widely expected to pursue a deregulatory agenda, a move likely to reduce barriers to dealmaking. At the same time, the Federal Reserve's continued rate cuts are set to lower financing costs, spurring economic activity and making transactions more accessible for buyers and investors.

Private equity is poised to play a pivotal role in this evolving market. Pitchbook reports that $1.5 trillion of global buyout funds' dry powder is currently undeployed, adding urgency to investment decisions (Exhibit 11). Additionally, 46% of portfolio companies have been held for over four years, representing $3.2 trillion in unrealized value. Compounding this, nearly $300 billion in leveraged loans will mature by the end of 2025, creating a motivated population of buyers, sellers, and financiers eager to act in a favorable economic environment.

As rate cuts ease liquidity and regulatory reforms reduce friction, the M&A market is on track for a dynamic recovery, and we believe Bessemer portfolios are poised to benefit from this in the year ahead through increased exit opportunities in our private markets, as well as through our public market exposure in companies such as KKR and Blackstone. For those with the vision to act decisively, the opportunities ahead are both compelling and transformative.

Exhibit 11: Global PE Dry Powder: A Growing Presence in the Market

Key Takeaway: Substantial amounts of committed, but uninvested, capital (dry powder) provide ample room for investment opportunities.



As of April 30, 2024. Source: Pitchbook

Real Assets: Powering a Changing World

In the year ahead, real assets continue to be a cornerstone of resilient investment strategies. Defined by their intrinsic value and essential role in the economy, assets such as infrastructure, natural resources, and energy projects offer both stability and growth potential. Given a certain level of global instability, these assets provide a powerful combination of protection and opportunity.

Tangible assets like renewable energy infrastructure, including solar and wind projects, often maintain or increase their value as inflation fluctuates, thanks to their essential nature and long-term utility. Many infrastructure investments are structured with contracts tied to inflation, ensuring income grows alongside rising costs, making them a great inflation hedge.

Real assets can also provide investors with opportunities to benefit from a rapidly shifting global landscape. Critical infrastructure, from energy storage to digital communications, is indispensable to national security and economic stability. Given current geopolitical conflicts and rising economic and supply chain bifurcation, these assets are attracting stronger demand, supporting portfolio returns, even in these volatile conditions. Investments tied to reshoring or diversifying supply chains, such as logistics hubs or domestic energy production, are increasingly valuable as nations prioritize self-reliance.

We believe that Bessemer's Real Assets portfolios are poised to benefit from these themes in the year ahead. One example is an investment in Calpine, a leading independent power producer that serves customers in 22 U.S. states, Canada, and Mexico. The company's 78 facilities provide power to approximately 20 million homes. Since being taken private, the company has demonstrated robust financial performance, and we remain enthusiastic about the future potential of this investment.

With global energy transition investment of approximately $2 trillion in 2024 and projections for further growth in 2025, the role of real assets in supporting both economic resilience and energy independence is more pronounced than ever.

Emerging and Developed International Markets Show Diverging Strength

Calvin C. Huang, Senior Investment Strategist, and **Madeline Simone**, Investment Strategist

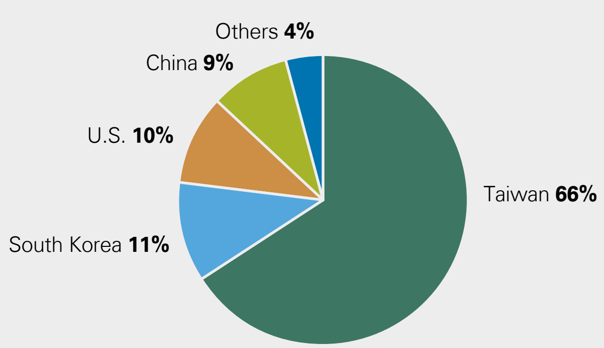
Global equity markets face a complex and divergent landscape this year. Unlike 2024's synchronized environment, 2025 will likely be shaped by divergence across central bank policies, growth dynamics, AI-driven tailwinds, earnings, and returns. This will be further influenced by a nuanced and evolving policy environment, with varying degrees of uncertainty.

The U.S. is expected to remain more resilient to policy shocks than other regions. Relatively higher growth and interest rates in the U.S. will create a mixed landscape of winners and losers across countries and market sectors globally.

In 2024, emerging markets (EM) underperformed the U.S. and broader developed markets due to a combination of factors including a strong U.S. dollar (USD), slowing economic activity, and geopolitical tensions. Dollar strength has particularly weighed on EM equity returns in USD terms, a trend likely to persist as pro-growth domestic policies and higher interest rates support the dollar. China continues to struggle through its long-term property market slump because of over construction and demographic changes. As real estate constitutes a much bigger part of GDP and household wealth in China than in the U.S., the housing downturn has negatively impacted consumer spending, which is now growing more slowly than GDP.

Exhibit 12: Advanced Process Foundry Manufacturing Capacity by Region, 2024

Key Takeaway: Taiwan is the leading manufacturer of cutting-edge semiconductor chips.



As of April 2024. Source: Trendforce

However, sentiment has recently improved due to the announcement of government stimulus measures, such as lower mortgage rates and looser lending standards. That said, geopolitical factors will likely again play an important role. Exports have been the one area of China's economy that has remained resilient but could come under pressure with additional tariffs appearing very likely under a second Trump administration.

Despite the macroeconomic headwinds faced by China and broader emerging markets, there remain pockets of resilience within EM — such as India, Taiwan, and South Korea — that benefit from domestic tailwinds that outpace broader challenges.

India has favorable demographics to absorb technology-related manufacturing that is shifting out of China. India is home to more than 2.5 million college graduates with STEM degrees per year and has more than 5 million computer-related engineers. The Indian government, led by Prime Minister Narendra Modi, has also heavily emphasized increasing the country's production capacity.

Taiwan and South Korea are leading beneficiaries of the global surge in semiconductor demand, fueled by the growing prominence of artificial intelligence (AI).

Taiwan, one of the few emerging markets to outperform the U.S. in 2024, accounts for 22% of global semiconductor fabrication capacity and over 60% of advanced process nodes essential for AI development (Exhibit 12). Its strong pipeline of AI projects and rising chip demand across industries, including mobile phones and automotive, reinforce its economic strength.

Similarly, South Korea, the world's largest semiconductor producer with 25% of global capacity, dominates critical AI hardware manufacturing. Samsung Electronics and SK Hynix together supply over 90% of the world's high-bandwidth memory, which is used in many AI data centers. South Korea is also undergoing an overhaul of corporate governance under the Value Up program, where publicly listed companies are incentivized through tax breaks to establish guidelines that improve shareholder value.

Shifting to developed markets, Europe faces structural and political challenges alongside a weakening economic environment. While countries such as Italy and Ireland, which are more aligned with U.S. growth, could benefit, Germany's reliance on China hampers its recovery, creating headwinds for the broader region. European manufacturing remains among the weakest globally, with Germany's acute struggles likely to further drag down growth and earnings in the coming year.

Economic softness may prompt the European Central Bank to lower rates more aggressively than the Federal Reserve, weakening the euro. A significant market risk lies in overly optimistic earnings expectations, with consensus projecting 8% growth for 2025 despite flat earnings over the past two years. Given persistent weakness in leading indicators, such projections seem overly ambitious, leaving room for disappointment.

Japan stands to benefit from some of the offshoots of a Trump presidency: resilient global growth and supply chain diversification. Japan has worked to onshore its production, which should lead it to be a safe haven in the face of tariffs. Notably, Japan can serve as an alternative to China given its proximity and high-technology focus.

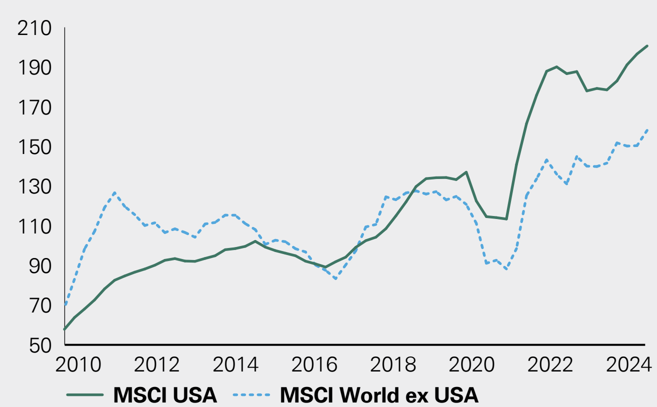
Corporate reforms enacted by the Tokyo Stock Exchange have led to capital discipline, and return on equity is starting to tick up. However, in the short term, some headwinds remain. Rapid yen strengthening remains a risk to Japanese equity markets, and above-trend inflation places pressure on consumption and real wage growth, but we believe the markets are underpricing the magnitude of rate hikes the Bank of Japan will deliver this year. While we are cautiously optimistic on the environment in Japan to serve as a safe haven to policy uncertainty, we have found select areas that can benefit from the current backdrop, such as Japanese banks, a beneficiary of a higher rate environment.

Overall, Bessemer's equity portfolios remain underweight emerging markets relative to the benchmark. The expectation for a strong dollar and new tariffs under the Trump administration is likely to dampen EM economic growth in the near term. At the same time, we continue to see opportunities in quality stocks benefiting from long-term structural trends, such as Taiwan Semiconductor Manufacturing Company (TSMC). One of our largest emerging markets holdings, TSMC has been able to improve profitability, gain market share in high-end chips, and reinvest heavily to sustain its competitive edge.

Within developed markets, the Bessemer All Equity Portfolio is overweight the U.S. by 12%, modestly underweight Japan, and more significantly underweight Europe. Earnings growth for the U.S. has decoupled from the rest of the world given the prominence of high-quality companies resilient to the current backdrop, along with fruitful innovation and artificial intelligence (Exhibit 13). Though areas of opportunity remain internationally, particularly on a single stock level, the U.S. is likely to benefit from a supportive regulatory environment and pro-growth domestic policies. While it will take some time for these policies to come to fruition, the boost to sentiment should continue to drive U.S. activity.

Exhibit 13: Earnings Growth for the U.S. vs. Rest of World

Key Takeaway: Earnings growth for the U.S. has decoupled from the rest of the world.



As of November 30, 2024. Source: FactSet

Conclusion: Positioning for 2025's Challenges and Opportunities

Our investment philosophy is predicated on a foundation of long-term investing. Although it is important to analyze and understand the near term, we know that precise predictions can create a false sense of certainty. We define success in multiyear terms and invest accordingly. Above, we have identified the primary risks and opportunities we see heading into 2025, with the former including a high degree of policy uncertainty and the net impact of various policy proposals of the incoming Trump administration. Importantly, company fundamentals are strong heading into the new year, providing ample opportunity to invest in quality companies that can grow faster than the market. Focusing on these opportunities allows us to keep shorter-term factors in perspective.

Still, we are optimistic about the year ahead. We are excited about mid- and small-cap equities, select opportunities in international markets, and exposure to AI, infrastructure, and other key themes through our private markets program. We believe the macroeconomic backdrop can support near-term market performance and our continued overweight to the U.S. In combination, these opportunities will allow us to help our clients compound capital over generations.

Parting Thoughts

Holly H. MacDonald, Chief Investment Officer

Thank you for reading our latest Quarterly Investment Perspective. As always, we will continue to monitor economic and market trends and provide our latest thinking in written communications, videos, and interactive forums. We welcome your engagement. Please contact your client advisor with any questions you may have.

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About Bessemer Trust

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