

Highlights

- ▶ **U.S. Economic Stability & Federal Reserve Policy:** The United States maintains modest gross domestic product (GDP) growth and strong employment, with inflation gradually receding. The Federal Reserve (the Fed) has implemented rate cuts and held its target rate at 4.50%. While the Fed has signaled a readiness to ease further if economic conditions weaken, future policy decisions remain uncertain and will depend on evolving economic data.
- ▶ **Stretched Valuations & AI-Driven Earnings:** U.S. equity valuations remain high, reflecting market expectations of strong earnings growth driven by artificial intelligence (AI). International markets, by contrast, present more reasonable valuations, particularly for value stocks.
- ▶ **Big Tech & AI Market Disruptions:** AI advancements and Big Tech's dominance continue to shape financial markets. While AI capabilities are evolving rapidly, historical trends suggest that industry leadership shifts over time. Some U.S. firms may be overinvesting in expensive AI infrastructure, creating potential long-term risks if expected returns fail to materialize.
- ▶ **Trump 1.0 vs. Trump 2.0 - Economic & Policy Uncertainty:** A second Trump administration, with Republican majorities in both chambers, sets the stage for policy shifts in trade, energy and immigration. However, fiscal challenges—including a \$1 trillion interest burden and a rising federal deficit—limit financial flexibility.

Macro Environment at a Glance

Artificial Intelligence Developments & Market Dynamics: AI advancements are accelerating rapidly, with mathematics seeing the most dramatic progress relative to human benchmarks—AI accuracy in competition-level math increased from approximately 6% in 2021 to 90% within two years.

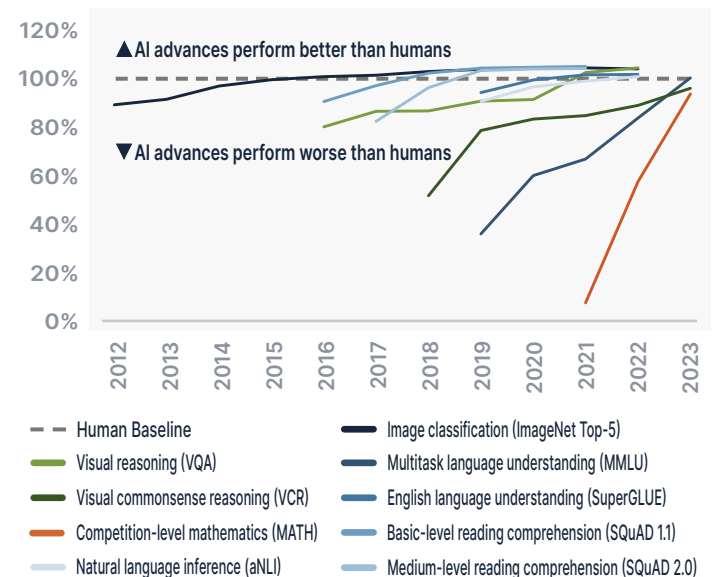
Amazon, Alphabet, Microsoft, and Meta, among others, view AI as an existential threat, fueling a dramatic surge in capital expenditures (CapEx). Their combined CapEx now accounts for roughly 23% of total U.S. spending—up from just 3% a decade ago—with overall CapEx more than doubling since 2010 and rising 40% since 2021. Concurrently, research and development (R&D) spending has quadrupled since 2010 and surged an additional 60% in recent years.

Yet, returns may take years, and lower-cost, open-source models like DeepSeek's R1 pose competitive risks. Following the **announcement** of its R1 model, Nvidia experienced the largest single-day market value loss in history—shedding nearly \$600 billion.

FIGURE 1

AI Progress vs. Human Performance Benchmarks

Performance Relative to Human Baseline



Data as of 12/31/24. Source: Aspiriant analysis. Data from Stanford AI Index public database. Please see additional disclosures regarding third-party data and other considerations. Early Systems: Handwriting recognition (not shown, 2000 to 2012), Speech recognition (not shown, 2000 to 2016), and Image classification (ImageNet Top-5). Visual Reasoning: visual reasoning (VQA), visual commonsense reasoning (VCR). Language Reasoning: natural language inference (aNLI), Basic-level reading comprehension (SQuAD 1.1), Medium-level reading comprehension (SQuAD 2.0), English language understanding (SuperGLUE), Multitask language understanding (MMLU). Mathematics: Competition-level mathematics (MATH).

T **rump 1.0 vs Trump 2.0: Political and Fiscal Challenges:** With Republican majorities in Congress, Trump's return signals sweeping policy shifts in trade, energy and immigration. However, unlike his first term, robust labor markets, inflation, high interest rates, and fiscal constraints limit the scope for pro-growth policies.

Fiscal challenges further complicate the picture as interest costs now exceed \$1 trillion—\$600 billion more than in 2016—while the deficit surpasses 6.5% of GDP. With two-thirds of the \$6.75 trillion budget tied to mandatory spending, fiscal options remain tight.

For Trump, the S&P 500 once served as an economic scorecard, surging nearly 200% since 2016. However, with valuations at 27 times trailing earnings and 25 times forward earnings, sustaining this performance may prove difficult.

Economic & Market Indicators		
	11/01/2016	11/08/24*
Inflation & Interest Rates (%)		
Consumer Price Index (Core CPI)	2.10	3.30
Fed Funds Rate (Top Range)	0.50	4.75
Treasury Bond Yield (10-Year)	1.83	4.31
Bankrate Mortgage Rate (30-Year)	3.51	7.20
Economic Growth Indicators		
GDP Growth (Real) (%)	2.9	3.1
Labor Force (Millions of Workers)	159.5	168.3
Labor Participation (Ages 25-54) (%)	82	84
Unemployment Rate (%)	4.9	4.1
Worker Productivity (5-Year) (%)	0.8	2.1
Population Growth (% from Net Migration)	10M (45%)	2.7M (83%)
Debt and Debt Service		
Federal Debt to GDP (%)	105	120
Household Debt to GDP (%)	76	71
Federal + Household Debt to GDP (%)	181	191
Federal Budget Deficit to GDP (%)	-3.1	-6.6
Federal Annual Interest Costs (\$ Trillions)	0.5	1.1
U.S. Equity Markets		
S&P 500 Index (Level)	2,126	5,999
Est. S&P 500 TTM Earnings per Share (\$)	109	220
S&P 500 P/E Ratio LTM	19	27
S&P 500 P/E Ratio FTM	17	24

Source: Aspiriant analysis. Data from Bloomberg, Federal Reserve Economic Data (FRED), U.S. Census Bureau and the Congressional Budget Office. *If data as of 11/08/2024 has yet to be released, the closest available data is used. Figures are rounded and calculated as year-over-year percentages unless otherwise noted. Core CPI stands for Core Consumer Price Index and measures the annual change in average consumer prices excluding volatile components like food and energy. Fed Funds Rate Top Range is the upper limit of the Federal Reserve's target interest rate for overnight lending between banks. GDP stands for gross domestic product and measures the total monetary value of all goods and services. Labor Participation 25-54 is the percentage of the population aged 25-54 that is either working or actively seeking work. Unemployment Rate measures the percentage of the labor force that is unemployed and actively seeking work. Worker Productivity measures how efficiently the U.S. converts inputs into the outputs of goods and services. Population Growth (% from Net Migration) shows the percent of population growth attributed to net migrations over the same period. P/E Ratio stands for price-to-earnings ratio, reflecting how much investors are willing to pay per dollar of earnings. The S&P 500 is a market-capitalization weighted index that includes the 500 most widely held companies chosen with respect to market size, liquidity and industry. LTM stands for last twelve months. FTM stands for forward twelve months. Please see additional disclosures regarding third-party data and other considerations.

Final Thoughts & Portfolio Considerations

- ▶ **U.S. Equity Valuations Are Elevated:** Market valuations remain high, driven by AI-fueled earnings expectations. The market anticipates even stronger growth over the next decade compared to the past 10 years.
- ▶ **Global Diversification Remains Critical:** While Europe, Japan and emerging markets face distinct economic challenges, their equity valuations are generally more reasonable—especially for value stocks. Given differences in economic cycles across regions, diversifying into value stocks and non-U.S. equities could provide portfolio tailwinds over the next decade.
- ▶ **Fixed Income Positioned for Stronger Returns:** Investment-grade bonds offer more attractive yields than in recent years and may act as a stabilizing force if equity markets experience volatility.
- ▶ **Alternative Investments Enhance Risk Management:** For portfolios with diversifiers, strategies such as long/short investing, relative value, global macro, and gold can improve stability and help mitigate risk.

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