Wealth

2025

WEALTH OUTLOOK

growth amid discord: investing in 2025 and beyond

implementation guide

contents

Key views – Growth amid discord

2025

WEALTH OUTLOOK

Our key economic and market views for 2025

- Persistent economic growth — no recession (boom/bust) in the outlook
- Broadening industry, regional EPS gains
- Trade discord drives market volatility, economic inefficiency
- China's economy to gradually respond to persistent stimulus while trade risk rises
- Some upward U.S. yield pressure likely with unified U.S. government
- We see the Fed funds rate bottom at 3.75%, 10-year yields rising to 4.75% by year end '25
- We are 3% overweight U.S. equities, +0.5% non-U.S. (global bonds and cash -3.5%)
- Technological developments will potentially benefit investments far beyond tech hardware
- Deregulation Beneficiaries: Energy and power infrastructure, banks, digital assets infrastructure

Source: Citi Wealth Chief Investment Office as of October 21, 2024. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. Indices are unmanaged. Past performance is no guarantee of future results. Real results may vary.

Portfolios: Seek to broaden horizons, diversify some from recent winners

2025

WEALTH OUTLOOK

Summary

POTENTIAL PORTFOLIO IMPLICATIONS

- Don’t build a portfolio depending solely on S&P 500 returns. Broaden investment horizons after the U.S. large cap surge
- Global assets have cheapened in USD terms. Asia stands out
- Seek exposure to undervalued, quality U.S. small and mid cap growth shares and related alternatives
- Expect rising volatility. Potential credit opportunities in intermediate-fixed income over long duration

POTENTIAL OPPORTUNITIES AND THEMATIC VIEWS

- Deregulation beneficiaries: Energy and power infrastructure, banks, digital assets infrastructure
- AI software, robotics, healthcare equipment

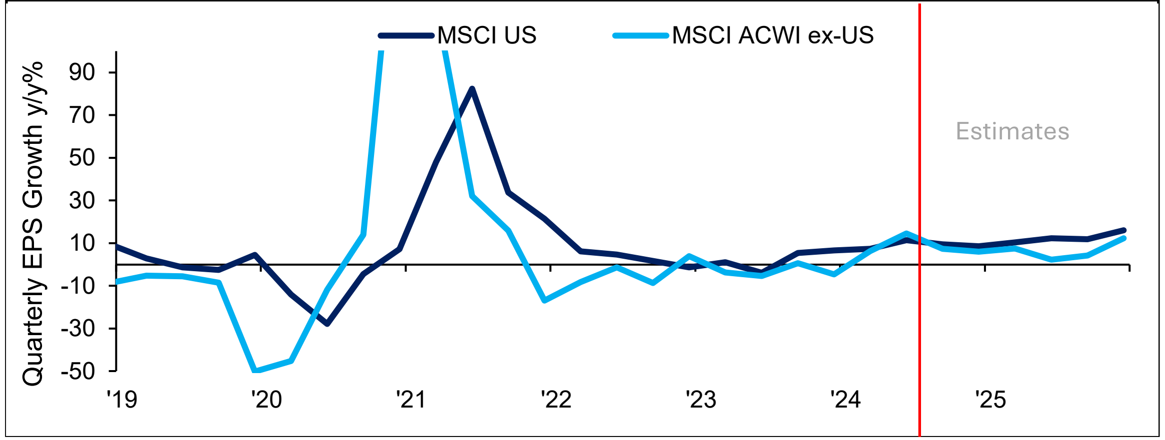
Source: Haver Analytics as of October 21, 2024. Indices are unmanaged. The information contained herein is not intended to be an exhaustive discussion of the strategies or concepts mentioned herein or tax or legal advice. Recipients of this Communication should obtain advice based on their own individual circumstances from their own tax, financial, legal, and other advisors about the risks and merits of any transaction before making an investment decision, and only make such decisions on the basis of their own objectives, experience, risk profile and resources. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary. Small and mid-cap securities may carry greater risk than investments in larger, more established companies. International investing presents certain unique risks not associated with domestic investments, such as currency fluctuations in addition to political, social, and economic risks. This may result in greater share price

resilient global growth amid lower rates and inflation

- We have raised our 2025 U.S. GDP forecast to 2.4% growth after our 2024 forecast was also raised to 2.7% from 2.4% previously
- We have also raised China GDP forecasts to 5.2% from 4.8% previously on changes to China's economic policy, which could also help other markets in the region
- The USD's rise has made non-US assets cheaper. While Trump policies matter, markets, including in Asia, are better prepared and domestic growth and policy will factor
- Geopolitical, supply chain and trade risks are unlikely to change the broad direction of the global economy
- We expect broadening earnings growth, and record EPS highs in both 2025 and 2026 for U.S. equities. Still, we advocate for diversified portfolios

- U.S., China GDP forecasts for 2025 raised on data, equity market performances
- Citi believes 2025, 2026 will bring record EPS highs and broadening earnings growth
- Fed Funds target rate likely to bottom in the 3.5–4% range by 2025

BROADER ECONOMIC GROWTH WORLDWIDE COULD LEAD TO EPS GAINS BEYOND THE U.S.



CGWI REAL GDP FORECASTS (%)

	2020	2021	2022	2023	2024E	2025E	2026E
U.S.	-2.2	5.8	1.9	2.5	2.7↑	2.4↑	2.1
China	2.2	8.5	3.0	5.2	4.9↓	5.2↑	4.8
E.U.	-6.3	6.2	3.4	0.5	0.7	1.2↓	1.6
U.K.	-10.3	8.6	4.8	0.3	1.0↑	1.1↓	1.5
Global	-3.2	6.0	3.3	2.6	2.6	2.9↑	2.9

CGWI EPS FORECASTS (%)

	2020	2021	2022	2023	2024E	2025E	2026E
S&P 500	-13.5	46.9	6.0	0.6	9.2	7.6	6.9
EPS level	122	209	222	223	244	262	28.0
P/E	27.6	24.4	17.8	22.8	24.0	22.4	20.9

Source: Citi Global Wealth Investments as of Oct 16, 2024. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary.

growth amid discord:

overview of 2025 wealth outlook – how to position core portfolios

GLOBAL ECONOMIC GROWTH AND CORPORATE PROFITS ARE RISING	• The economic expansion has defied recession signals and can continue in 2025 and 2026 • A broadening recovery is likely to lead to further gains in global earnings per share • Risks include U.S. overheating, a global trade war, and pockets of high valuation
MANY PORTFOLIOS ARE TOO CONCENTRATED IN ONE REGION OR ASSET CLASS	• U.S. large-cap equities may not do as well in the next 10 years as they have in the past decade • Intermediate-duration IG credit offers higher yield than equivalent U.S. Treasuries • We see potential for broadening portfolio horizons across global equities, fixed income categories, and alternatives for suitable and qualified investors
RETURNS FROM CASH WILL LIKELY DISAPPOINT	• Amid further modest rate cuts, bank deposits and Treasury bills may prove even less rewarding – see Driving Long-Term Returns • Yield-seeking potential may exist in select High Yield, bank loans, preferreds, among others
INNOVATION REMAINS A KEY LONG TERM GROWTH DRIVER	• Having mainly boosted tech so far, Artificial Intelligence gains could spread across more industries • Preventative healthcare is vital for addressing the needs of rapidly aging populations worldwide • Climate technologies can help efforts to reduce emissions and adaptation to extreme weather events
GEOPOLITICAL DISCORD MAY SPARK VOLATILITY	• Trade tensions and other geopolitical challenges remain, which could trigger market turbulence • But geopolitical events have seldom changed the course of the global economy and markets • Potential tariffs and tit-for-tat measures may accelerate global supply chain shakeups

Summary of implementation ideas

KEY OUTLOOK MESSAGES

Core Portfolio	Shifting Valuation Opportunities (Adaptive Valuation Strategies)
	Avoid attempting to time markets
Broadening Portfolios	Equal weight (value) & U.S. SMID
	Diversify within U.S. & global equities (Asia Ex-China)
Credit at the Core	Credit: Diversified Intermediate IG, selective HY
	IG structured credit. HY Bank loans, IG Preferred
U.S. Deregulation Beneficiaries	Energy and Power Infrastructure
	Financials
Managing Risk amid Discord	Alternative Investments
	Hedged exposure

UNSTOPPABLE TRENDS

Artificial Intelligence Evolving the economy through tech	Direct AI Enablers
	AI beneficiaries (healthcare, finance, robotics, education and agriculture)
Longevity Aging populations drive healthcare spending	AI-empowered drug discovery
	Preventative healthcare, value-based care
G2 Polarization US-China strategic rivalry	Select Asian, LatAm markets and industries
	U.S. tech and materials for reshoring semiconductors
Climate Tech Expanding sources of energy	Emissions reductions, carbon capture
	Climate change adapters

OPPORTUNISTIC

- Semiconductor Equipment
- Medical Technology, Equipment and Biotechnology
- Defense Equipment Exposure
- U.S. Banks Equities
- Grid Investments Mid-Stream Energy & Nuclear
- Crypto Enablers
- Brazilian Equities (USD)

Key Changes: Outlook 2024 vs. Outlook 2025

Substantial changes
Modest changes to call
Minimal or no changes

2024 OUTLOOK

Key OL Messages	Markets have reset – build balanced portfolios
	Normalization and growth
	Stay invested – areas of tangible growth
	Peak rates = peak income
Thematic	Digitization
	Longevity
	Greening the world
	G2 Polarization
Opportunistic/Tactical	Semiconductor, cybersecurity
	Copper and energy infrastructure
	Economic security
	Yen-denominated Japan tech/financials
	U.S. yield curve

2025 OUTLOOK

Key OL Messages	Core Portfolios	Modest changes to call
	Broaden Portfolios	Modest changes to call
	Seek Differentiated Yield	Substantial changes
	U.S. Deregulation Beneficiaries	Substantial changes
	Managing risk amid discord	Substantial changes
Thematic	AI Buildout	Minimal or no changes
	Longevity	Minimal or no changes
	Climate Tech	Substantial changes
	G2 Polarization	Minimal or no changes
Opportunistic/Tactical	Semiconductors	Minimal or no changes
	Defense Equity Exposure	Modest changes to call
	U.S. Banks Equities	Substantial changes
	MedTech & Life Sciences	Minimal or no changes
	Crypto Enablers	Substantial changes
	Grid Investments Mid-Stream Energy and Nuclear	Substantial changes
	Brazil Equities in USD	Substantial changes

WHAT HASN'T CHANGED

- Broaden equity exposure beyond US mega caps
- Lock in yield across the fixed income landscape
- Private assets play an important role in core portfolios
- AI investment continues to benefit "infrastructure" plays
- Health care remains an unstoppable trend
- US-China competition presents opportunities and risks
- Energy transition and AI power needs will drive grid buildout

SUMMARY OF CHANGES

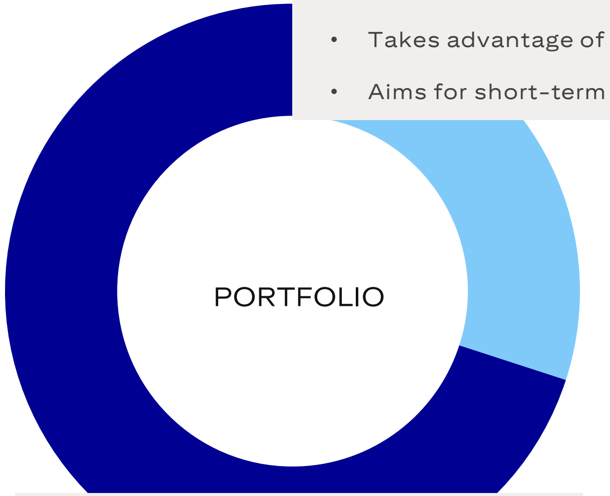
New 2025 Outlook emphasis	De-emphasizing
Valuation gap between US tech & everything else	Higher SREs
Manage duration while seeking yield	Timing of interest rate changes
Trump 2.0 winners and losers	Weaker US dollar
Asia ex-China & Brazil equities	Yen-denominated Japan tech/financials
"AI ecosystem", robotics, data centers, AI software	Cybersecurity software
Broader healthcare exposure	Medtech
Energy and power infrastructure	Copper
U.S. Banks	Private Capital Asset Mgmt

Core portfolios

Positioning Portfolios

Opportunistic Allocation
Core Portfolio

- Opportunistic allocation complementing the core
- Takes advantage of market trends
- Aims for short-term outperformance



- Long-term core allocation
- Diversified asset class diversity, not upended by volatility.
- Will have tactical overlay to a strategic allocation

Underweight
Neutral
Overweight

		Global USD Level 3 Asset Allocation (%) Without Alternatives			Global USD Level 3 Asset Allocation (%) With Alternatives			
		SAA	TAA	Active Weight	SAA	TAA	Active Weight	IMPLEMENTATION COMMENTS
	CASH	2.0	1.0	-1.0	2.0	1.0	-1.0	Tactical underweight cash
EQUITIES	**EQUITIES**	60.9	64.4	3.5	33.2	36.7	3.5	Tactical overweight to equities
EQUITIES	Developed Markets	52.2	55.1	2.9	28.4	31.7	3.3	Equal-weight S&P 500; Developed Asia, U.S. SMID Growth
EQUITIES	Emerging Markets	8.7	9.3	0.6	4.7	5.0	0.3	Emerging Markets Asia ex-China; LatAm: Brazil
FIXED INCOME	**FIXED INCOME**	37.0	34.5	-2.5	37.8	35.3	-2.5	Tactical underweight to fixed income
FIXED INCOME	Investment Grade	6.9	6.6	-0.3	32.6	30.7	-1.9	Intermediate Investment Grade; Preferreds; Agency Bonds; TIPS
FIXED INCOME	High Yield	2.0	0.5	-1.5	2.0	2.5	0.5	Select High Yield, HY Bank Loans
FIXED INCOME	Emerging Markets	3.1	2.1	-1.0	3.2	2.2	-1.0	Reduce overall exposure to EM debt
ALTERNATIVES	**HEDGE FUNDS**				12.0	12.0	0.0	Offers uncorrelated returns to manage risk in portfolios
ALTERNATIVES	**PRIVATE ASSETS**				10.0	10.0	0.0	Evergreen vehicles have been a growing alternative to exposure
ALTERNATIVES	Private Equity		N/A		10.0	10.0	0.0	Seek exposure – may offer better returns than equity and FI markets
ALTERNATIVES	Private Credit				0.0	0.0	0.0	New allocation to be incorporated in 2025 AVS optimization
ALTERNATIVES	**REAL ESTATE**				5.0	5.0	0.0	Industrial, hospitality real estate are among our preferred sub-sectors
	COMMODITIES	0.0	0.0	0.0	0.0	0.0	0.0	No active weight to commodities

Source: Citi Wealth Investments Global Investment Committee and Citi Wealth Strategic Asset Allocation and Quantitative Research Team, as of Nov 19, 2024. The above table is an example for educational and illustration purposes only and does not constitute a portfolio recommendation. It was generated without taking into account any individual's specific circumstances or requirements. Investors looking to develop their portfolio should contact their Citi representative for further guidance. Risk 3 is designed for investors with a blended objective who require a mix of assets and seek a balance between investments that offer income and those positioned for a potentially higher return on investment. Risk 3 may be appropriate for investors willing to subject their portfolio to additional risk for potential growth in addition to a level of income reflective of his/her stated risk tolerance. The asset classes used to populate the allocation model may underperform their respective indices and lead to lower performance than the model anticipates.

Core portfolio

Driving long-term returns

- A core strategic asset allocation is the key driver of long-term returns. Core asset allocations can be implemented in portfolios using a variety of instruments
- Citi's own Adaptive Valuation Strategies (AVS) is designed to estimate returns over the next decade. Our Strategic Return Estimates (SRE) measures returns over the next decade while Extreme Downside Risk (EDR) considers allocation suffering severe losses during a crisis. SREs and EDRs are closely related, with higher returns coming with higher risks
- The major driver of our Strategic Return Estimates is valuation. Low valuation (cheap) usually followed by price appreciation in the next 10 years, and vice versa
- One of the most powerful concepts to enhance a portfolio's returns and mitigate risk is to promote global diversification
- We use very long history of data (almost 100 years) to analyze different market/economic environments to estimate risk/reward more effectively
- Asset allocation is the process of selecting the components of a portfolio, and the proportion in which they are held, at the asset class and sub-asset class level
- An investor's core portfolio represents long-term holdings and should be designed in a way that aims to meet their investing goals, accounting for their risk tolerance, desired reward levels and investment time horizon

OUR RETURN AND RISK ESTIMATES FOR THE NEXT DECADE

	2025 SRE	CHANGE	MID YEAR 2024 SRE	EDR FROM 2025 TO 2035
EQUITIES	5.6%	-0.8%	6.4%	
Developed Markets	5.2%	-0.8%	6.0%	-55.8%
Emerging Markets	9.2%	-1.2%	10.4%	-63.8%
FIXED INCOME	4.8%	-0.5%	5.3%	
Investment Grade	4.6%	-0.5%	5.1%	-11.9%
High Yield	5.6%	-0.7%	6.3%	-49.8%
Emerging Markets	6.1%	-1.0%	7.1%	-45.5%
CASH	3.2%	0.0%	3.2%	0.0%
HEDGE FUNDS	8.1%	-0.4%	8.5%	-36.9%
PRIVATE ASSETS	12.6%	-2.0%	14.6%*	-71.6%
Private Equity	13.5%	-1.1%	14.6%	-78.7%
Private Credit	7.6%	–	n/a*	-25.1%
REAL ESTATE	11.0%	0.2%	10.8%	-78.9%
COMMODITIES	2.5%	-0.1%	2.6%	-50.5%

Source: Citi Wealth Global Asset Allocation and Quantitative Research Team. Strategic Return Estimates (SREs) 2025 (based on data as of October 2024), prior Strategic Return Estimates for mid-year 2024 (based on data as of April 2024). The Strategic Return Estimates are calculated annually and can be reassessed periodically. Returns estimated in US Dollars. All estimates are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. Strategic Return Estimates are no guarantee of future performance. Extreme Downside Risk (EDR). This measure calculates the worst potential loss that a particular allocation may suffer within a rolling twelve-month period over ten years. Past performance is no guarantee of future returns. Strategic Return Estimates based on indices are Citi Wealth's forecast of returns for specific asset classes (to which the index belongs) over a 10-year time horizon. Indices are used to proxy for each asset class. The forecast for each specific asset class is made using a proprietary methodology that is appropriate for that asset class. Equity asset classes utilize a proprietary forecasting methodology based on the assumption that equity valuations revert to their long-term trend over time. The methodology is built around specific valuation measures that require several stages of calculation. Assumptions on the projected growth of earnings and dividends are additionally applied to calculate the SRE of the equity asset class. Fixed Income asset class forecasts use a proprietary forecasting methodology that is based on current yield levels. Other asset classes utilize other specific forecasting methodologies. *Private Assets at the mid-year stage consisted only of Private Equity; an SRE for Private Credit was not calculated. SREs do not reflect the deduction of client fees and expenses. Past performance is not indicative of future results. Future rates of return cannot be predicted with certainty. Investments that pay higher rates of return are often subject to higher risk and greater potential loss in an extreme scenario. The actual rate of return on investments can vary widely. This includes the potential loss of principal on your investment. It is not possible to invest directly in an index. All SRE information shown above is hypothetical, not the actual performance of any client account. Hypothetical information reflects the application of a model methodology and selection of securities in hindsight. No hypothetical record can completely account for the impact of financial risk in actual trading. See Glossary for definition of asset classes and terms.

What does a core allocation look like?

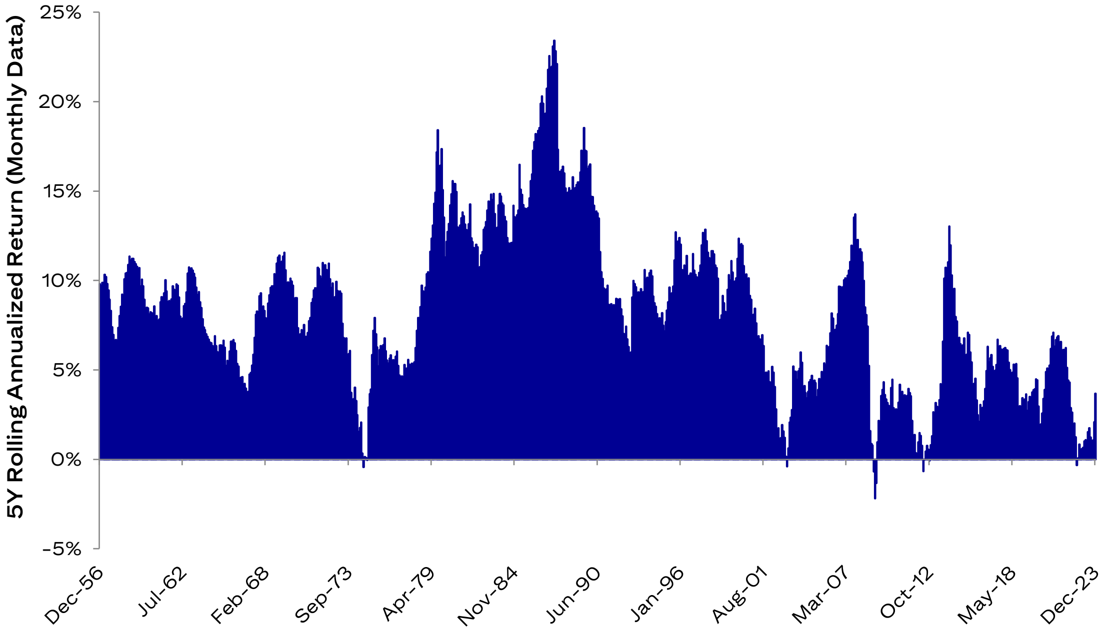
- A core portfolio is vital to long-term capital preservation and growth
- Building a core begins with a long-term investment plan
- It should reflect individual objectives and circumstances
- We forecast 10-year returns alongside the risk of severe losses in a crisis
- We then help implement the plan in a core portfolio
- Core portfolios stay fully invested through market cycles

BROADENING CORE PORTFOLIOS

- Many portfolios are concentrated, especially in U.S. large cap equities
- Consider broadening portfolio horizons across all asset classes envisaged in each long-term plan including:

1. U.S. SMID equities, equal-weighted large cap. India, Japan and Brazil
2. Investment grade credit and diversified sources of yield
3. Alternative asset classes for suitable and qualified investors

LEVEL 3 ALLOCATION WITH HEDGE FUNDS AND 10% ILLIQUIDITY HAS SHOWN POSITIVE RETURNS (NET OF FEES) OVER 5-YEAR ROLLING PERIOD 98.8% OF THE TIME



The historical performance on an asset class level is net of advisory fees and reflect a deduction of 2.50%, which is the weighted average annual maximum advisory fee. Data/ Statistical Source: Bloomberg, Citi Wealth Investment Lab as of December 31st, 2023. Past performance is no guarantee of future results. Data measured for the period between January 1955 to December 2023. For each investment horizon, a 5-year rolling window was used in the measured period. The portfolio assumes a Citi Wealth Reference Level III portfolio with 10% Illiquidity rebalanced annually. Risk Level III: Seeks modest capital appreciation and, secondly, capital preservation. The asset classes used to populate the allocation model may underperform their respective indexes and lead to lower performance than the model anticipates. An increased level of illiquidity in a portfolio may require a higher risk tolerance dependent upon your current investment objectives and risk tolerance. Indices are unmanaged, not investable and included for illustrative purposes only.

The power of staying invested - Citi Wealth Investment Lab

timing the market

you could miss out on over half of a decade’s return my missing the top 10 days

- **Timing the market is hard and unnecessary**

  The strongest rallies tend to occur in the middle of bear markets, making it difficult to identify genuine turning points

- **Time is on your side if you stay invested**

  The likelihood of achieving investment objectives and goals rises the longer the holding period

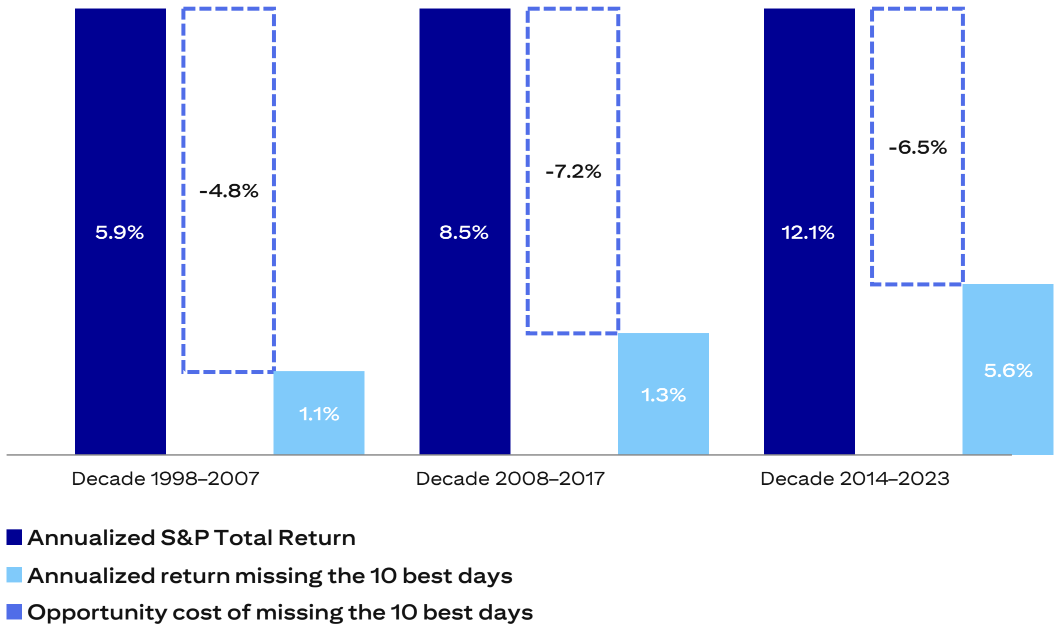
- **Beat the cash thief by reinvesting income**

  Being in the markets may generate income that can offset inflation and potentially create opportunities to buy market dips

- **Embrace diversification**

  Adopting a multi-asset class strategy may help improve portfolio resilience and can limit drawdowns

ANNUALIZED HISTORICAL RETURNS S&P 500 – SELECTED DECADES



Source: Bloomberg as of Dec 31st, 2023. Citi Wealth Investment Lab, S&P 500 Index Total Return. The historical performance shown is based on historical index performance and is gross of any commissions, expense ratios, margin costs, or fees that would reduce the return illustrated. An investor cannot invest directly in an index. They are shown for illustrative purposes only. Past performance is no guarantee of future returns. Real results may vary.

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Unrated or non investment grade Debt Securities typically offer a higher yield than investment grade Debt Securities, but also present greater risks with respect to liquidity, volatility, and non-payment of principal and interest. As a result of being classified as non investment grade Debt Securities, these Debt Securities present a greater degree of credit risk relative to many other fixed income Debt Securities.

Higher Credit Risk – Unrated or non investment grade Debt Securities generally have predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. There is greater risk of non-payment of interest and loss of principal. Many issuers of these Debt Securities have experienced substantial difficulties in servicing their debt obligations, which has led to default and restructurings. The issuers of these Debt Securities generally have to pay a higher rate of interest than investment grade Debt Securities.

Higher Liquidity and Secondary Market Risk – The markets in which unrated or non investment grade Debt Securities are traded are generally more limited than those in which investment grade Debt Securities are traded. This lack of liquidity may make it more difficult to resell these Debt Securities and obtain market quotations.

Downgrade Risk – Downgrades in the credit rating of unrated or non investment grade Debt Securities by rating agencies are generally accompanied by declines in the market value of these Debt Securities. In some circumstances, investors in the unrated or non investment grade Debt Securities market may anticipate such downgrades as a result of these credits being placed on "credit watch" by rating agencies, causing volatility and speculation of further credit deterioration.

Higher Vulnerability to economic cycles - During economic downturns, unrated or non investment grade Debt Securities are typically more susceptible to price volatility and fall more in value than investment grade Debt Securities as i) investors may reevaluate holdings in lower-quality bonds in favor of investment-grade corporate Debt Securities; ii) investors become more risk averse; and iii) default risk rises. This is often referred to a "flight to quality".

Event Risk – This includes any of a variety of events that can adversely affect the issuer of unrated or non investment grade Debt Securities, and therefore the issuer's ability to meet debt service obligations to repay principal and interest to Debt Securities holders. Event risk may pertain to the issuer specifically, the industry or business sector of the issuer, or generally upon the overall economy. It could have a direct or indirect impact on the issuer and their outstanding debts.

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RMB is currently not freely convertible through banks in Hong Kong. Due to exchange controls and/or restrictions imposed on the convertibility, utilization or transferability of RMB (if any) which in turn is affected by, amongst other things, the PRC government's control, there is no guarantee that disruption in the transferability, convertibility or liquidity of RMB will not occur. There is thus a likelihood that you may not be able to convert RMB received into other freely convertible currencies.

CNH exchange rates and CNY exchange rates are currently quoted in different markets with different exchange rates, whereby their exchange rate movements may not be in the same direction or magnitude. Therefore, the CNH exchange rate may be different from the CNY exchange rate.

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