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➔ Currency Outlook: First Quarter 2025

David J. Grimaldi, Foreign Exchange Sales Consultant

In December, the Federal Reserve as predicted cut 25 base points (bps). The surprise was the dot plot for 2025 is calling for only two cuts in the next year as opposed to the four expected. Equity markets sold off on this correction, but this change in the dot plot seems to be more in line with what the markets think will be an overheating economy in the U.S. this year. Since the November U.S. election, the dollar index has gained 8%. Global factors are contributing to the dollar strength as the lame duck governments are starting to impact global investment. Elevated tensions between Ukraine and Russia have emerged after President Joe Biden authorized use of American long-range missiles into Russia. President-elect Donald Trump promised to reverse the policy when he takes office. A list of governments are now in flux putting 2025 budget policies into question along with political stability.

Canada — Prime Minister Justin Trudeau is facing pressure from Parliament to step down as confidence in his ability to lead is questioned after a number of failures by the Ministry of Finance leader Chrystia Freeland, who resigned in December. Trump's tariffs threats of 25% have forced the ruling Liberal Party to reposition itself for next year's elections. Polls over the last 18 months are setting up the Conservative Party for a resounding win with Pierre Poilievre as PM.

Germany — The German government also fell apart in December as Chancellor Olaf Scholz lost a confidence vote in Parliament. Europe's largest economy will be relegated to a caretaker status ahead of next year's elections. Germany is facing multiple crises, including escalation in Ukraine and Russia's threat of nuclear weapons; backlash against immigration; rebuilding the military; and a struggling economy. Conservative Friedrich Merz is polling ahead of Scholz and is expected to be the next chancellor.

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➔ A 2025 Market Outlook

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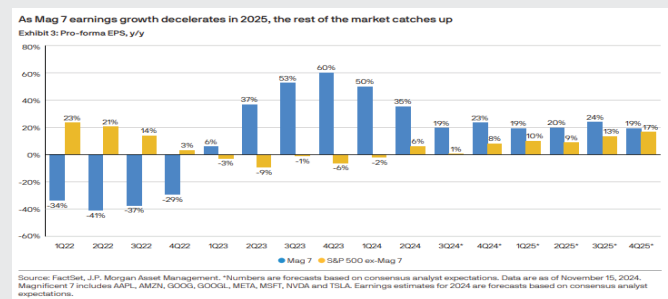
It's 2025, the Year of the Wood Snake, or also known as the Year of the Green Snake. Based on Chinese culture the snake symbolizes wisdom and agility, according to Xinyi Wu with the South China Morning Post. Wu says, "The element of Wood represents growth, flexibility and tolerance. At the same time, wood also nurtures the element of fire, which represents vitality and change."¹

For many U.S. investors, we will be witnessing a big change in U.S. leadership with the inauguration of the 47th (and re-elected) president, Donald Trump. President Trump may create many policy changes based his initiatives communicated throughout his campaign trail in 2024. Will the changes to come create positive, negative, or no change at all for the U.S. markets? We will explore the three main points on where the direction of the U.S. economy heads for 2025, so let's dive in.

U.S. Earnings

The outlook for the U.S. economy, U.S. consumers and markets remains strong going into 2025. According to Vice President and Senior Earnings Analyst John Butters at Factset, analysts expect the S&P 500 to report double-digit earnings growth in calendar year (CY) 2025.

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➔ Top Technology Themes for 2025

Daniel Morgan, Senior Trust Portfolio Manager,
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- **IaaS Cloud Providers Growth and CapEx Spend Remains Vigorous** — Given strong demand for artificial intelligence (AI) model training and inference, the largest public cloud providers (AWS, Azure and Alphabet) should continue to experience an acceleration in Year-over-Year (YoY) growth rates. Growth rates for IaaS cloud providers have accelerated in the recent calendar year 3Q24 — Amazon’s AWS being up 19%, Microsoft’s Azure 34% and Google’s GCP also up by 35% — compared to a year ago. Microsoft’s Azure exhibited a 12% YoY growth contribution directly from AI service in the most recent 1Q25, implying that non-AI workloads were up 22% YoY. Amazon has launched several AI products in its cloud and e-commerce businesses, and it’s also expected to announce a new version of its Alexa voice assistant, powered by generative AI. Alphabet reported blowout cloud revenue at \$11.35 billion in 3Q24, up nearly 35% from the \$8.41 billion a year ago. The company attributed its strong cloud results to its AI offerings, which include subscriptions for enterprise customers. Of the top four hyperscalers — Amazon, Microsoft, Meta and Alphabet — they are collectively estimated to spend \$240 billion (up 60% YoY) in CapEx in 2024 to build out its AI presence.
- **AI Drives Energy Consumption** — AI is projected to significantly drive energy consumption due to the massive computing power required to run its complex algorithms, primarily within data centers. This will result in a substantial increase in electricity demand as AI usage expands across various industries. Hyperscaler data centers are housed in huge

physical structures designed to process the vast amounts of data required to support digital technologies, including AI workloads. This will benefit Energy sector companies in the data center build road map, such as Entergy, Southern Company and Duke Energy Corp. Meta recently announced it will build a \$10 billion AI data center in northeast Louisiana with Entergy as the sole energy provider. This trend is also being felt in the manufactures that provide systems for the large utility companies. For example, engine provider Cummin’s Power System unit has seen a surge in demand over the past three years and is expected to post revenues of \$6.196 billion (up 9.3% YoY) in FY24. Cummins recently said it expects sales from its power-generation business to increase by 10% to 15% this year, up from its previously forecast 5% to 10% growth.

- **PC Markets Rebound as AI Server Demand Remains Robust** — Overall personal computer (PC) shipments were down 2.4% YoY in 3Q24. However, according to IDC, PC unit growth for 2025 is projected to be around 4.3%, with the primary driver being a significant refresh cycle among commercial users due to the end of Windows 10 support, pushing them to upgrade to Windows 11.

Further, it’s an acceleration in demand driven by AI PCs. Traditional server makers (Dell, Hewlett Packard) are riding the AI data center service providers’ expansion wave. In the recent 3Q25, Dell’s servers and networking revenue came in at \$7.4 billion, up 58% YoY, with demand growth across AI and traditional servers

★ [Read the full article.](#)

1. Xinyi Wu, “Why the Year of the Wood Snake starting in 2025 could bring major change, and more luck,” SCMP.com, published December 3, 2024. Accessed January 2, 2025

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