FT PROFESSIONAL

SPECIAL REPORT

The World 2025

The race for global dominance, the challenges to democracy and the pursuit of AI breakthroughs. The FT explores the top trends shaping AI, finance, markets, energy and more in 2025 with this special report.

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Contents

Forecasting the world in 2025

A recent feature of the FT's annual predictions has been that what was once seen as a light-hearted exercise has increasingly had to grapple with issues of war and peace. This year our writers offer predictions on conflicts in Ukraine, the Middle East, Sudan — and another kind of war, of tariffs. Readers may disagree, but the scenarios aim to be plausible. Our chief economics commentator Martin Wolf makes a call on US interest rates, and we have lighter fare including where bitcoin prices might go, AI agents, and a revival (or not) of the CD. Donald Trump's return to the White House means the US president looms large.

Our collective performance last year was not among our best, with five wrong answers. Following polling at the time, we discounted Trump's re-election chances. Japanese interest rates did rise above zero; investors didn't move back into bonds as expected; X didn't go bankrupt; and there was no deal, yet, to return the Parthenon marbles to Greece.

Single minds, it seems, can sometimes beat 20: two entrants to our reader competition got all 20 questions right, and the overall winner, Ercole Durini of London, was even spot on with the tiebreaker.
Neil Buckley

Will Donald Trump start a full-scale tariff war? Yes, on balance, but it's not a dead cert. By "tariff war" let's say at least 10 per cent tariffs on at least half of US imports by the year-end. Nobody really knows with Trump. But he will definitely hit imports from China, about 15 per cent of the US total. Mexico and Canada together are around 30 per cent, and their leaders Claudia Sheinbaum and Justin Trudeau — or a successor — will insist on their toughness on immigration to avert Trump's threatened 25 per cent tariffs. Other trading partners will also make offerings and promise retaliation. Over time some will succeed, but Trump will probably be enjoying the power-trip and the revenue too much to get rid of most tariffs by December. Alan Beattie

Will there be a peace deal between Ukraine and Russia?
Yes. But the US president will have to threaten tougher sanctions and escalate American support to Kyiv to persuade Moscow to engage seriously in talks. US allies will convince Trump not to take Nato membership for Ukraine off the table, at least at the outset. Ukraine's Volodymyr Zelenskyy will agree to de facto but not de jure Russian control of the land it currently occupies, with some land swaps, in return for European security guarantees with US support, while Ukraine's Nato accession is ultimately put on ice. Vladimir Putin will calculate that European resolve will eventually falter. Ben Hall

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Will US interest rates end the year lower than now? No. In the aftermath of the forecasts published by Jay Powell's Federal Reserve after its December meeting, markets predicted that the fed funds rate would be 3.9 per cent in December 2025. If so, that would be just a little more than one quarter point cut below December 2024's target range of 4.25-4.5 per cent. Even that was too optimistic. Trump's tax cuts, tariffs and deportations will increase inflationary pressure in an economy that is displaying sticky inflation. The Fed will have to be cautious. So it will be, unless (as is conceivable) the stock market collapses. Meanwhile, Christine Lagarde's ECB and the Bank of England will continue to cut, creating further divergence. Martin Wolf

Will Emmanuel Macron survive as French president? Yes. But that the question is even being asked shows the weakened position of a man once likened to Jupiter for his top-down style. With about 30 months left on his second term, Macron is smarting from his decision to call snap elections in the summer that his camp lost. The consequences of the vote have put a target on the president's back: a hung parliament that cannot even pass a budget, four prime ministers in a year, and his signature achievements on the economy eroding. All this has emboldened both his longtime far-right antagonist Marine Le Pen and the far left, who have called for him to step down to unblock the gridlock. Jupiter/Macron has insisted he would never do so. Leila Abboud

Will the Magnificent Seven take a fall? No, but they won't ride a lot higher either. The march of Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla reflects America's private sector dynamism, Silicon Valley's leadership in digital tech and investor hype around AI. These factors will hold strong in 2025; the incoming US administration is in essence a quasi-takeover of a stagnant political world by a vibrant private sector, led by tech. But three big caveats will limit further expansion. Capex has exploded to a point where it may undermine profitability; investor hype around AI is so wild that disappointment seems inevitable. And sky-high valuations are already prompting some investors to seek alternatives like smaller tech. Not even AI can escape financial gravity in the long run. Gillian Tett

Will Chinese export prices fall further? Yes. The disinflationary downdraught that China exports to the world is set to deepen. The competitiveness of Chinese companies — particularly high-tech manufacturers — means on aggregate Chinese export prices, in renminbi, are likely to fall even more sharply. China's export price index, down by 5.2 per cent year on year in October 2024, could slump as far as 10 per cent in some months in 2025. That will deliver a big competitive shock to companies that compete with Chinese rivals, help Beijing to offset any increase in US tariffs — and amplify the risk of cheap Chinese goods displaced from America flooding other markets. James Kynge

Will Elon Musk and Donald Trump fall out? No. Though Trump is famously intolerant of competing egos, the benefit for Musk of staying on the president's good side is too great to squander. Even before Trump has taken office, Musk's net worth has soared by roughly two-thirds on the expectation that deregulation will boost Tesla, SpaceX, Neuralink and his other companies. Expect him to stick around at least until July 4 2026 — the day his and Vivek Ramaswamy's "Department of Government Efficiency" expires. Edward Luce

Will Germany relax its debt brake? Yes. Calls to loosen the Schuldenbremse — the constitutional clause that limits central government borrowing to 0.35 per cent of GDP in any given year — are growing louder as Germany grapples with massive spending needs, notably in defence, and a stagnating economy. A key reason for the collapse of Olaf Scholz's coalition, the debt brake has become a central campaign issue ahead of February's elections. CDU candidate Friedrich Merz, whose party is leading in the polls, will have to agree to some form of easing in any coalition agreement, whether with the Social Democrats or the Greens, both staunch debt brake critics. Anne-Sylvaine Chassany

Will the bond market buckle? No. It might creak, but it won't break. Investors are on high alert for any sign that Trump's relaxed stance on borrowing and urge to cut taxes, in an era when debt levels are already high, could lead to a "Liz Truss" moment in the US government bond market. It's not impossible given the inflation likely to stem from tariffs and

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from immigration policy, but a disorderly loss of confidence in Treasuries would be so disastrous for US markets, including stocks, that the comeback president is unlikely to test investors' nerves. Katie Martin

Will China's carbon emissions fall? No. Emissions from the world's biggest contributor to greenhouse gases may be peaking ahead of a pledge to do so by 2030, according to some experts, but bringing them down will be the hard part. China's 2024 levels are expected to be flat or a small increase from 2023, thanks to unrivalled solar and electric vehicle take-up and a depressed building sector that meant less highly-polluting steel and cement. But President Xi Jinping's economic stimulus efforts in 2025 are likely to offset the big push on solar, EVs and batteries as energy demand rebounds. Emiliya Mychasuk

Will Britain's Labour government stick to its promise not to raise taxes further? Yes, for now. But the fact that opposition MPs and interviewers are probing this issue like a tongue on a sore tooth tells you it's a wobbly commitment. Both chancellor Rachel Reeves and Prime Minister Sir Keir Starmer himself have played with various forms of words offering a breather after the £40bn tax hike, primarily on business, in October's Budget. Commitments not to come back for more will be hard to honour as the parliament plays out, given the squeezed state of finances and public services. Miranda Green

Will Israel and the US strike Iran's nuclear plants? No. But Israel will be seriously tempted. Prime Minister Benjamin Netanyahu has long vowed to prevent Tehran developing a nuclear weapon. Israel is emboldened and Iran vulnerable after a year of regional conflict. Israel, though, would probably need US support — and its green light — to destroy Iran's nuclear facilities, and the returning US president, unpredictable as he is, will be wary of igniting the region's next war. That calculus, however, could change if Tehran moves closer to a nuclear bomb. One legacy of a grim 2024 in the Middle East is that nothing can be discounted. Andrew England

Will Bitcoin hit $200,000? Yes. Bitcoin topped $100,000 only in December, so a further doubling might seem a stretch — but why not? The Trump team's wholehearted embrace of crypto, with digital asset advocates named to top Washington jobs, has already fuelled the post-election ascent to record highs. Under friendlier leadership, the Securities and Exchange Commission is expected to end its aggressive lawsuits against crypto companies and create rules to make Wall Street banks and asset managers more comfortable to trade and hold crypto. An inflow of institutional money, without the fear of lawsuits, will only send the price of bitcoin higher. Nikou Asgari

Will India's GDP overtake Japan's? No. This will happen soon (and it's already true at purchasing power parity) but is more likely in 2026 than 2025. Japan will end the coming year with the larger economy by 4.7 per cent, according to the IMF, and with Indian growth slowing in recent quarters it will take longer than 12 months for a sorpasso. Exchange rates could make the difference, but the yen is already weak and the rupee strong, so the odds are against it. Robin Harding

Will electric vehicles make up more than a quarter of global auto sales? No. If the trend over recent years continued, they might, but the actual figure may be little over 22 per cent. 2025 will be another difficult year for the automotive industry thanks to waning consumer enthusiasm, outside China, for electric vehicles. But to meet tougher emissions rules in Europe and EV sales targets in the UK, carmakers will launch dozens of new electric cars, and continue to spend billions of dollars in discounts to make them more affordable. China will still drive market growth as EVs reach price parity with petrol vehicles. The biggest uncertainty is the US, where measures by the incoming administration might slow the EV transition. Kana Inagaki

Will Javier Milei lift Argentina's exchange controls? Yes. Fearful of triggering a spike in inflation and worried about low reserves, the libertarian president has so far resisted scrapping tight limits on how much foreign currency Argentine individuals and companies can buy. But in 2025 Milei will take the plunge. The need to spur foreign investment and make good on his small-state instincts will loom large in his thinking when judging the moment for what will still be a risky move. Michael Stott

Will Israel and the US strike Iran's nuclear plants? No. But Israel will be seriously tempted.

Will the war in Sudan continue? Tragically, yes. Sudan has become a proxy conflict, sucking in powers from the UAE to Russia. The main Sudanese combatants, Gen Abdel Fattah al-Burhan, the de facto president, and Rapid Support Forces head Mohamed Hamdan Dagalo, known as Hemeti, both still harbour illusions of victory. Too many actors, external and internal, are making money for peace to prevail. The war has displaced 12mn people and brought millions close to famine. It would take a huge international push to stop it. Sadly, Sudan is too far down the world's list of priorities for that to happen. David Pilling

Will we have AI agents we can use? Yes. "Agentic AI" is shaping up to be the most-hyped phrase of next year — by big tech, AI start-ups and corporates. An AI "agent" is software that lives on your phone or web browser and can complete digital tasks on your behalf — from filling out online forms to compiling your grocery basket, sending emails or transcribing your calls. We'll see offerings next year from the likes of Google, OpenAI, Anthropic, Microsoft and others. Ultimately, the agent that sticks could become our main conduit to the digital universe. Madhumita Murgia

Will there be another big Hollywood studio deal? Yes. In 2024 Paramount became the first Hollywood studio to cave under the new economics of streaming, with the Redstone family selling to tech billionaire Larry Ellison and his film-producing son, David. Warner Bros Discovery is next. Like Paramount, Warner is saddled with declining cable TV businesses. CEO David Zaslav practically put a "for sale" sign on the cable channels in December by hiving them off into a separate unit — and hiring three investment banks as advisers. A sale to a rival, possibly the upcoming spin-off of Comcast's cable TV business, or to a private equity firm, seems on the cards. Christopher Grimes

Will CDs begin a long-term revival similar to vinyl? No. The shiny disc is defying predictions of its demise — sales are being fuelled by the format's popularity in South Korea's K-pop. But an end to decline is more likely than a take-off in long-term growth. In K-pop, CDs are mostly bought for the packaging (limited edition photos, golden tickets for meet-and-greets). Similar sales tactics have been adopted by western stars such as Taylor Swift. But the CD's use as a marketing tool isn't the same as a vinyl-style revival. Ludovic Hunter-Tilney

Five big finance questions for 2025

1. What happens if private equity doesn't get unstuck? For the third year in a row, private equity distributions were about half of what investors expected. Heading into 2024, many dealmakers were optimistic about a significant drop in interest rates that would support a boom in deals. Spoiler alert: it didn't happen. Now the pressure's really on. If 2025 doesn't come with the long-awaited reopening of public listings and M&A, returns for recent vintages could worsen. The industry has leaned on short-term fixes, such as continuation funds, which represented 14 per cent of private equity exits last year, or so-called net asset value loans. But the power of short-term solutions could wane. The clock is also ticking on private equity deals from 2020 and 2021; DD assumes many sponsors and limited partners aren't having fun as these deals' debt maturities approach in the coming years. Many deals in that era were done at overly optimistic valuations and are behind schedule on deleveraging. These deals will need to get on track. Otherwise, creditors might want to brace for painful restructurings.

2. Will the dealmaking revival materialise? Dealmakers have met Donald Trump's impending arrival in the White House with optimism. But when aren't bankers optimistic? Since the election, big corporations have sparked a number of headlines. Mondelez's short-lived play for Hershey and Honeywell's move to potentially hive off its aerospace unit are signs the market is back. Trump has promised lighter regulation and appointed Andrew Ferguson as the new head of the Federal Trade Commission, who pledged to dismantle aspects of outgoing antitrust watchdog Lina Khan's agenda. That has bolstered the spirits of investment bankers and lawyers. But it might not be all smooth sailing. In a Truth Social post, Trump said Big Tech has "run wild for years", hinting that regulators would continue to police mergers between the biggest software companies. Then there are interest rates — a key variable in larger transactions — which remain murky. The Federal Reserve cut rates by a quarter point but signalled a slower pace of easing in the coming year. "I don't think the environment was as nearly as bad as people made it out to be," one M&A lawyer told DD. "And I don't think it's going to be nearly as good a year as people are suggesting, either." Still, the Joe Biden-era blockade on US bank M&A "has been removed", so watch out for a wave of takeovers among US banks and mid-cap software companies. We also think energy, natural resources and industrial dealmaking are primed to take off. But a multibillion-dollar takeover by Google parent Alphabet? Less likely.

3. How will Europe respond to American muscularity under Trump? Trump is returning to DC this month all but chanting "America First" from Mar-a-Lago to the White House. That's a problem for Europe, which was already flat-footed compared to the US's financial might. Even before Trump won, Mario Draghi, the former president of the European Central Bank, issued a call to arms in September with a 393-page report laying out how and why the continent needed to boost its competitiveness. The region doesn't just need national stars, but supranational champions: oil majors, banks and industrial powerhouses big enough to compete with American behemoths. As Draghi argued, fragmentation was the region's greatest enemy. Domestic banks have already begun lunging to consolidate the sector. But it's unclear whether the energy to build colossal lenders will translate to other industries, such as auto, defence or aerospace. The continent's still licking its wounds from the failure of battery maker Northvolt in Sweden. But to compete with America's economic strength, investors will have to quickly bounce back and plough their billions into the next promising start-up. Watch this space. We think Europe is one step away from hitting the panic button, and big deals will follow. Is the continent braced for what that could mean for workers?

"But to compete with America's economic strength, investors will have to quickly bounce back and plough their billions into the next promising startup.

4. Will Japan become a hunting ground for foreign takeovers? Japan's starting to look like Wall Street in the 1980s: private equity firms are revving up, activist investors are causing a ruckus and corporate chieftains are scared. Over the past 18 months, the corporate landscape in the country has been turned inside-out. Activists have snuck into national treasures and agitated for management overhauls, while private equity dealmakers have taken the market by storm. Bankers are advising chief executives to draw up their most radical back-up plan and to keep it under lock and key for an emergency (ie, a potential hostile takeover). One thing we've learned this year is that no company's off limits. Case in point: Canada's Alimentation Couche-Tard making a $47bn takeover approach for 7-Eleven's parent company. While iconic national brands looked on with horror, advisers took it as a sign of the wave of deals — or at least attempts — that might be lurking just around the corner. For years, the C-suite simply ignored foreign approaches. But new government M&A guidelines have forced executives to be more transparent about them. And the prospect of foreign takeovers is also sparking M&A at home. Look no further than Honda and Nissan's merger talks. So this year, Japanese companies will have to ramp up profitability, or risk being susceptible to a takeover offer. Or worse: a belligerent bidding war.

5. Will private credit blow-ups hit the asset class? A series of restructurings this year left a mark on private credit's otherwise pristine record, as the word Pluralsight became part of Wall Street's vernacular. But it wasn't a total anomaly: a handful of other companies that private credit funds bankrolled have also run into trouble. As these asset managers deal with an uptick in defaults, it may finally start to become clear if the returns on offer in these high-fee funds are really that much better than traditional high-yield bond and loan markets. Many private credit funds were hopeful that lower interest rates would alleviate the debt costs of the companies they had lent money to. But if the Fed pivots hawkishly in the face of Trump largesse, what does that do to those loans originated in 2021 and 2022? Investors are already scrutinising public filings from private credit funds, looking for writedowns as a sign of lax underwriting standards. We're not sure there will be a complete blow-up, but risk is certainly lurking.

Four AI predictions for 2025

Will AI development hit a wall? In 2025, that momentum will fade. Even some of the tech industry's biggest optimists have conceded in recent weeks that simply throwing more data and computing power into training ever-larger AI models — a reliable source of improvement in the past — is starting to yield diminishing returns. In the longer term, this robs AI of a dependable source of improvement. At least in the next 12 months, though, other advances should more than take up the slack. The most promising developments look like those coming from models that carry out a series of steps before returning an answer, allowing them to query and refine their first responses to deliver more "reasoned" results. It is debatable whether this is really comparable to human reasoning, but systems such as OpenAI's o3 still look like the most interesting advance since the emergence of AI chatbots. Google, which regained its AI mojo late in the year after spending two years struggling to catch up with OpenAI, also showed how the new agent-like capabilities in AI could make life easier, such as tracking what you do in your browser and then offering to complete tasks for you. All these demos and prototypes still need to be turned into useful products, but they at least show that there is more than enough in the labs to keep the AI hype going.

Will AI's 'killer app' emerge? For most people, the rise of generative AI has meant constantly seeing prompts offering to complete your writing for you or edit your photos in ways you had not thought of — unsought, occasionally useful tools that fall well short of transforming your life. Next year is likely to bring the first demonstrations of apps that can intervene more directly: absorbing all your digital information and learning from your actions so that they can act as virtual memory banks or take over entire aspects of your life. But, concerned about the unreliability of the technology, tech companies will be wary about rushing these out for mass use — and most users will be equally wary about trusting them. Instead of true killer apps for AI, this means we will be left in the "AI in everything" world that technology users have already become accustomed to: sometimes intrusive, sometimes helpful, and still not quite providing the really new experiences that would prove the AI era has truly arrived.

Will Nvidia's GPUs still rule the tech world? The chipmaker's huge profits have made it the target of the most powerful tech companies, most of which are now designing their own AI chips. But Nvidia has been moving too fast for rivals, and while a quarter or two could be bumpy as it goes through a major product transition, its Blackwell product cycles should carry it through the year comfortably ahead. That does not mean others will not make inroads. According to chipmaker Broadcom, three of the biggest tech companies are to use their in-house chip designs for supercomputing "clusters" with 1mn chips each in 2027. That is 10 times the size of Elon Musk's Colossus system, thought to be the largest cluster of AI chips currently in use. Even as its market share starts to erode, though, Nvidia's software still represents a considerable moat for its business, and by the end of the year it should be on the verge of another important new product cycle.

Will the stock market's AI boom continue? With Big Tech in the midst of an AI race that its leaders believe will determine the future shape of their industry, one of the main forces behind the AI capital spending boom will remain in place. Also, as some companies start to claim big — if unproven — results from applying the technology in their own businesses, many others will feel they have to keep spending, even if they have not worked out yet how to use AI productively. Whether this is enough for investors to keep throwing their money at AI is another matter. That will depend on other factors, such as the stock market's confidence in the deregulatory and tax-cutting intentions of the new Trump administration and the readiness of the Federal Reserve to continue with monetary policy easing. It all points to a highly volatile year, with some big corrections along the way. But with enough liquidity, Wall Street could succumb to AI hype for some time yet.

Unhedged: Our market predictions for 2025

Predictions should be quantified; it helps you see just how wrong you were when the facts roll in. Every prediction in what follows will be ranked by degree of certainty on a scale of 1-4, noted in square brackets like [this].

A [4] represents table-banging self assurance, a probability of 75 per cent or greater; [3] shows reasonable confidence, in the range of 50 to 75 per cent. A [2] indicates a 25 to 50 per cent probability, but one that remains clearly the most likely of the predicted options. A [1] is a favourite outcome among a scattered range of possibilities, all of which seem unlikely. A [+] moves the prediction to the high end of the stated range.

Predictions should also be internally consistent; predicting something logically or practically impossible is embarrassing. With that in mind, before I offer predictions for sector performance in 2025, let me first sketch out my predictions for the macro scenario, which will give the sector predictions context.

Start (because you have to start somewhere) with fiscal policy. It will remain loose in 2025 [3]. In general, I believe Donald Trump's policies will be less revolutionary than many people seem to think. His second term will look a bit like his first. Some sort of tax cuts will be passed [3], but on tariffs, immigration, and especially budget cuts, there will be a huge amount of noise but not a huge amount of policy action in 2025 [2+*].

Loose fiscal policy will also continue to support markets, and tighter than expected monetary policy will not pop the growing bubble in US equity markets. But the market will not be up as much as in this past year, and volatility will be higher than in 2024 [3], which did not see a single market event that dragged the S&P 500 down by 10 per cent, though July's selloff came close.

Tech, artificial intelligence, and mega-cap stocks generally will continue to lead the market, as their earnings growth continues to impress. The biggest stocks will have merely solid gains, however, not the rip-roaring increases of 2024 [3]. The higher volatility will increase the popularity of defensive sectors such as staples and healthcare [2]. The dream of the market broadening, fervently hoped for by every strategist and stock picker, will not be a big enough trend to matter [2+].

The strong dollar will tighten global financial conditions and is bad news for the rest of the world. But the damping effect of the strong dollar will be counteracted by China's government, which will, at last, find some way to do meaningful stimulus in hopes of boosting domestic demand [2*]. This will give the oil price a boost, but only a small one [2+].

With all that as background, here is my guess on S&P sector performance rankings for 2025. I'll give the whole list a [1+] chance of being even broadly right — there are 500 variables here!

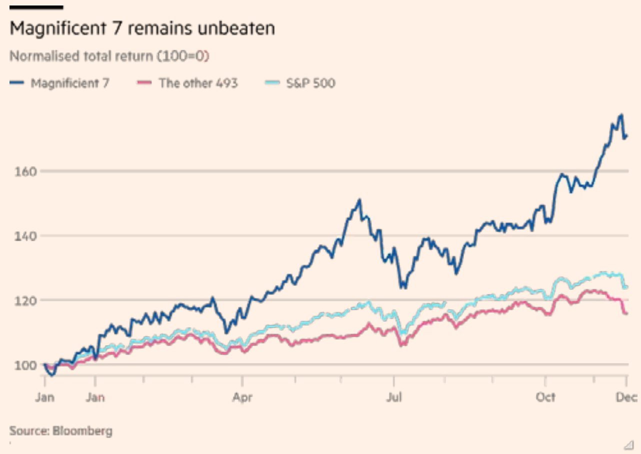
- Healthcare (rebounding from a bad 2024, plus defensiveness, and Trump policy threats fizzle)*
- Financials (growth, deregulation, highish rates all help banks; market volatility helps investment banks)
- Info tech (tech and AI continue to lead)
- Consumer staples (defensives appeal)
- Industrials (economic growth means another solid year)
- Communications (top-heavy sector and all the big companies soared in 2024)
- Consumer discretionary (Tesla and Amazon = 60 per cent of sector; pricing in risk of Musk-Trump spat)
- Materials (soft global growth; upside if China does proper stimulus)
- Energy (another "meh" year like 2024)
- Utilities (AI story intact, but overbought in 2024)
- Real estate (continued high rates hurt)

*Aiden Reiter thinks the predictions with asterisks are dumb and he wants no part of them. He insists: there will be big policy moves on immigration and foreign policy; China will disappoint on stimulus, and even if it delivers, stoking demand will take years; healthcare stocks have more bad news coming — Robert F Kennedy Jr and pent-up anger at the insurers and drug companies will inspire new regulations.

Looking back on 2024

One of the cool parts of writing a daily newsletter is in December looking back over the year's zillions of words, and seeing when you were smart and when you were dumb. Here's what we see this time around:

Regime change came, but in ways we did not expect. Earlier on in '24, we rattled on about the Magnificent 7. Could they continue to carry the market? At times, it seemed like change was upon us, notably in July when it looked like small-caps were back, or after the market frowned on a good-but-not-good-enough Nvidia earnings call. Red herrings all. Big Tech rolled on.



Regime change did come, but in the form of the Trump trade. When prediction markets started betting on his victory, a broad bull run took hold, with small-caps, bitcoin, Tesla, and bank stocks doing particularly well. This has reversed, to an extent, but investors are pricing in earnings support from tax cuts, deregulation, and a hot economy. Only industries facing unique challenges, such as energy, materials and healthcare, have been losers.

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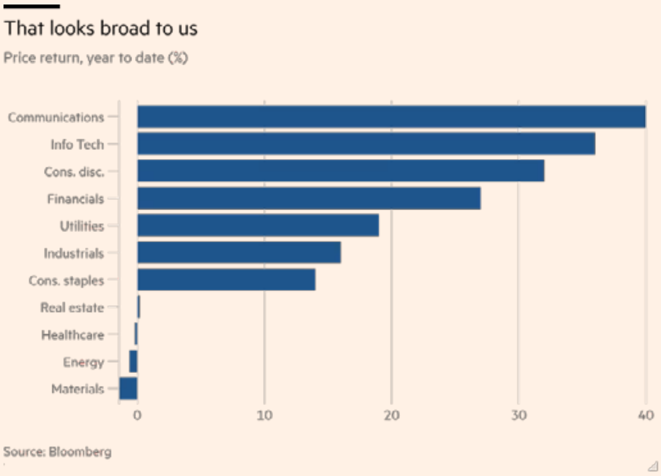
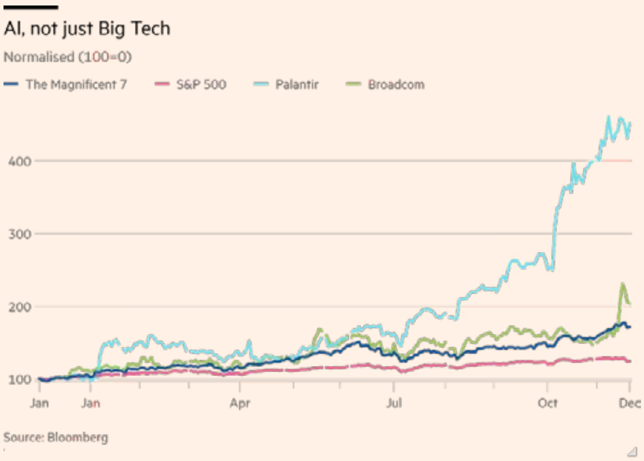


AI is the new Magnificent 7. There is some overlap between the two, of course, but Broadcom and Palantir have gone bananas:



We have wondered whether AI is a bubble or not. If it is, we aren't sure when it will pop; but markets keep getting jumpy with each successive earnings report, especially as capital expenditure on data centres and AI infrastructure grows. We expect that will continue next year, with the potential for some nasty downsides — or, indeed, a pop.

The things we are scared about have changed.
Earlier this year, we were concerned about banking blow-ups, commercial real estate, recession, and the effects of quantitative tightening. None of that mattered much. On some level this makes sense. The end of a rate-rising cycle and a strong economy make for a forgiving environment.

Now we have new fears: in particular stock market bubbles meeting bond vigilantes. On top of that, the rest of the world looks less sturdy than the US, and we have been reminded how portfolios have no respect for borders. As we learned in July's market rumble, a sell off in one market soon arrives elsewhere. Brazil's crisis has not spread, but if emerging markets are shocked by Trump's agenda, contagion may come back next year.

The case for US exceptionalism has solidified.
The case for US outperformance — both economic and financial — has only strengthened as the year has gone on, and now has the potential to cause some real pain elsewhere. But not everyone is a winner, and the economic cycle continues to be weird. In the run-up to the first Fed cut, we wrote a lot about how consumers were starting to run out of steam, but this has only shown up in the results of a small group of companies (one of which, alas, was an Unhedged stock pick this year).

Yet, the election results and delinquency rates suggest there is still a lot of pain out there. Will US exceptionalism be a tide that lifts all boats, at least in the US? Or will things only get worse?

Five green finance questions for 2025

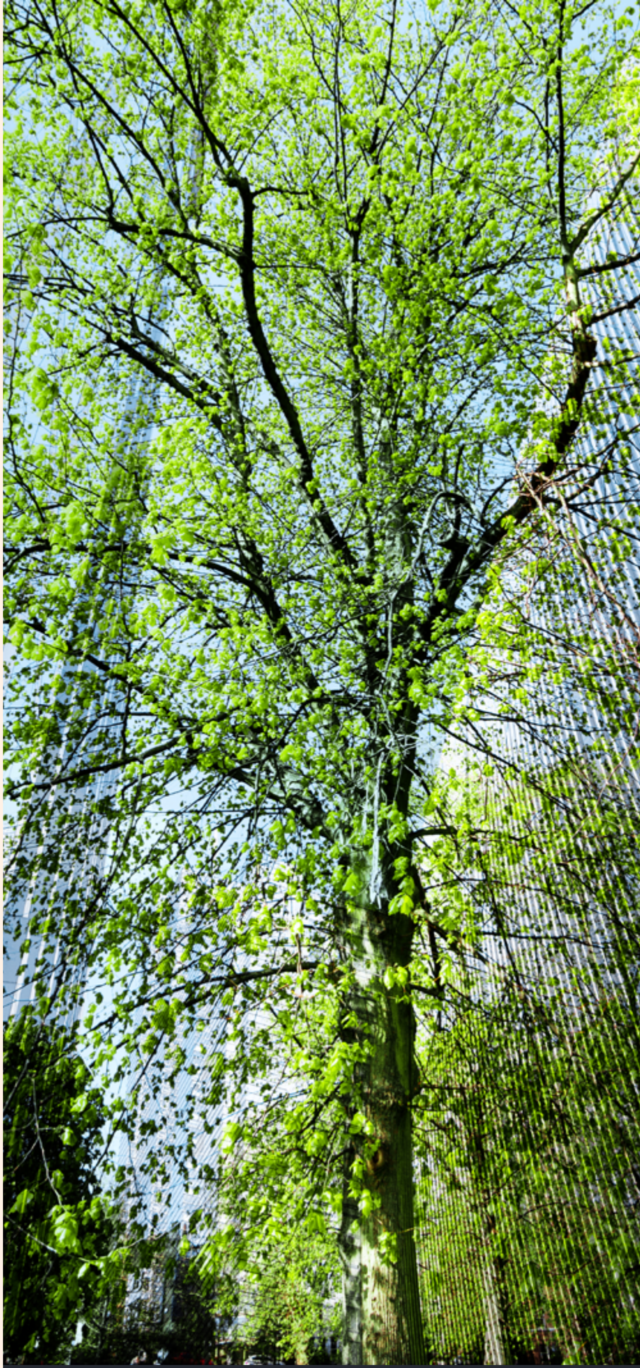
1. How much further will green protectionism go?
At a time of severe political polarisation in the US, a crackdown on Chinese green tech imports is one of the few things that has bipartisan support. Republican and Democratic lawmakers alike want to reduce US economic reliance on a strategic rival and weaken China's grip on global clean energy supply chains. President Joe Biden rolled out his most recent series of restrictions on Chinese products, including solar panels and electric vehicles, last month. The incoming Trump administration is almost certain to raise these barriers still higher, as part of its push to reduce the trade deficit with China.

The EU, too, has been putting new restrictions on Chinese clean energy imports, and is likely to double down on this stance under European Commission president Ursula von der Leyen's more right-leaning second administration. One notable new tack is a push for Chinese companies to transfer intellectual property to European businesses, in exchange for the right to operate in the EU and benefit from its subsidy regimes.

Just how far the west will go in toughening up trade rules is a crucial question. So too is how severely China's green tech sector will be affected, and how it will respond — whether by retaliating with trade restrictions of its own, or by redoubling its efforts to grow clean tech exports to friendlier developing economies.

A still more important question is how far this lurch towards green protectionism will slow down the energy transition. A recent paper published by the Carnegie Endowment warned that, given Chinese producers' superior scale and cost-efficiency in crucial parts of the clean energy supply chain, these trade measures "could result in a deeper and abrupt decoupling that is hugely disruptive at a critical time".

Instead, it argued for a "clean energy détente" between the US and China, saying a healthier trading relationship would catalyse wider co-operation between China and the west, and accelerate global climate action. It's a compelling vision — but one that only the most committed optimist would view as likely in 2025. (Simon Mundy)



> A healthier trading relationship would catalyse wider co-operation between China and the west, and accelerate global climate action.

2. Will international climate finance turn a corner?

Last November's COP29 summit in Baku concluded in disappointment for developing nation representatives who had hoped for a radical expansion of international climate finance. Rich nations' pledge to mobilise $300bn a year by 2035 fell far short of what expert estimates had deemed necessary.

Still, there is clearly growing global awareness of the need for expanded climate finance in lower-income nations. In 2025, we'll be watching to see whether this will translate into results.

One huge question concerns the US approach under Trump, who has vowed to pull the US out of the Paris agreement and is likely to take an axe to climate-focused foreign aid. This was a factor behind other rich nations' reluctance to make generous pledges in Baku, and much will depend on how far they're prepared to pick up any financial slack left by Washington.

There's also an opportunity for economies such as China and the Gulf states, which are not obliged to contribute climate finance under the Paris agreement, to build soft power by expanding the voluntary support they offer lower-income nations, notably in Africa.

With the limits of bilateral support increasingly stark, multilateral development banks — especially the World Bank Group — will be under growing pressure to show a more proactive, less risk-averse approach to catalysing private investment.

The competition among developing nation governments to attract green finance will heat up this year, whether through green bond programmes like Kenya's or through tax and subsidy regimes that have been rolled out from Uganda to Bangladesh.

In 2024, clean energy investment reached a record $2tn, according to the International Energy Agency — yet only 15 per cent of this was spent in developing countries (excluding China), which account for two-thirds of the world's population. This year, we'll get a better sense of whetherthis imbalance can be addressed. (Simon Mundy)

3. Can insurers cover the mounting costs of climate perils?

With global warming super-charging floods, wildfires and other natural hazards, homeowners in exposed areas are struggling to find affordable insurance. Governments are incentivised to keep premiums low and to shoulder more of the risk — leaving them exposed to catastrophic events that could generate massive public liabilities, with ripple effects for markets.

Lawmakers such as US senator Sheldon Whitehouse have raised concerns that the retreat of major insurers could set off "a crash in property values" or push state insurers to seek federal bailouts.

As of December, insured losses from natural catastrophes were on track to exceed $135bn in 2024, according to Swiss Re. Two-thirds of these losses were in the US. But Europe's insured losses from flooding, totalling $10bn, were the second-highest figure from that class of disaster that the region had ever seen. In October, devastating floods in Spain killed more than 220 people, with insured losses likely to exceed €4bn ($4.2bn), according to Morningstar estimates.

Yet there are signs that reinsurance prices, one factor behind rising consumer insurance costs, may be easing slightly. Over the past two years, reinsurers such as Munich Re have raised their pricing to levels that have raked in record profits. Their expanded balance sheets are now giving them scope to trim rates. The cost of property catastrophe reinsurance fell 8 per cent globally on January 1, when policies typically renew, according to Howden, the insurance broker.

According to a recent report by risk modelling firm Verisk, last year's losses were actually mild by the standards of the years to come. It claimed that the world should expect an annual average of $151bn in insured losses, and much worse in bad years. This year will give new insights on how climate change is altering the risks faced by the insurance sector — and on how insurers are responding. (Lee Harris)

4. What will the AI boom mean for the clean energy landscape? The rise of artificial intelligence was one of the biggest business stories of 2024. And AI's voracious appetite for electricity has been one of the most significant themesin clean energy. In a landmark deal in September, Microsoft and Constellation Energy said they would reopen the Three Mile Island nuclear power plant, underscoring desperation among giant technology companies to shore up their power supplies.

In 2025, the AI challenge for electricity grids is likely to get worse.

Last month, the North American Electric Reliability Corporation, an industry watchdog, warned that AI power consumption could cause blackouts in the US and Canada during peak demand.

"Demand growth is now higher than at any point in the last two decades," the NERC said.

Microsoft and the other technology giants play an enormous role in determining whether or not increasing AI-related electricity demand will be fulfilled by clean energy.
With Donald Trump returning to the White House this month, the federal government will not be a driving force for low-carbon power. But Microsoft, Amazon, Alphabet and the other tech leaders have the deep pockets to pay for it.

Heading into 2025, one of the biggest questions in clean energy will be whether the large tech players will continue to spend on nuclear, solar and wind as the federal government shifts its focus towards fossil fuels. (Patrick Temple-West)

5. How will the anti-ESG legal backlash develop?
Sustainable investing was thrown in reverse in the US in 2024. Investor demand for environmental, social and governance (ESG) funds slowed in 2024 as Republican politicians ramped up their ESG attacks.

Shortly after Trump's win in November, Republican-led states filed a federal antitrust lawsuit against BlackRock, State Street and Vanguard, accusing the three largest US index fund managers of using their holdings in coal producers to constrict supplies in pursuit of net zero carbon emissions goals.

This litigation will be closely watched in 2025 to see if it is successful and if it expands to other companies.

"The anti-ESG backlash movement is trying to accomplish its goals by leveraging antitrust risk, but also the perception of risk," Drake Morgan, a counsel at Crowell & Moring, told me. "Companies may have a hard time telling those apart because the antitrust theories these accusations involve are notoriously slippery and courts haven't provided much clarification, at least not recently," he said.

"A few years ago, antitrust risk wasn't as much of a focus when companies were considering their ESG policies", Morgan said. "What we're seeing now isn't a course correction, so much as the evolution of risk management as enforcement priorities shift."

Republicans have obviously set their sights on dismantling ESG and DEI (diversity, equity and inclusion) programmes. A crucial question this year will be about terminology. Will financial companies keep pursuing sustainable finance strategies using different language — or abandon them altogether? (Patrick Temple-West)

Five questions looming over 2025

1. Will Opec overcome sliding oil prices?
The price pressures that plagued Opec last year will continue to mount in 2025. Markets are expected to remain bearish as global demand slows, especially in China, and non-Opec countries pump more crude. JPMorgan projects an "outright bearish" market this year, with global oil demand growth decelerating from 1.3mn barrels a day to 1.1mn b/d while non Opec+ supply growth averages 1.8mn b/d. The bank expects Brent crude, the global benchmark, to average $73 per barrel in 2025, down from $80 per barrel last year. Goldman Sachs expects prices to average $76 per barrel.

The glut underscores the growing crisis facing the oil cartel as the world transitions to a system that consumes less crude. S&P Global Commodity Insights predicts global gasoline demand will peak this year, citing growing electric vehicle adoption and fuel efficiency gains in internal combustion engine cars.

In December, Opec delayed plans to reintroduce 2.2mn b/d until April after a series of supply cuts that began in 2022 to support prices.

2. Can Trump convince producers to 'drill, baby, drill?'
The slide in oil prices is not only a problem for Opec but also Trump's plans to "drill, baby, drill.". The US president-elect has vowed to unleash the country's oil production, which reached record levels under Biden, but producers are unlikely to significantly boost drilling at current prices.

Half of large exploration and production groups, making up 80 per cent of production, said they planned to decrease capital spending this year, while 14 per cent said spending levels would remain unchanged, according to a Dallas Federal Reserve energy survey of groups operating in the prolific Permian basin last week. Small E&Ps, meanwhile, were more bullish, with 63 per cent planning to increase spending.

"If Opec ends up producing more and if China ends up demanding less, then that will further mitigate an increase in US production," said Gregory Brew, a senior analyst at Eurasia Group.

A recent Kansas City Fed survey of energy firms found that the average price of oil required for drilling to be profitable was $65 per barrel, while prices of $89 per barrel were needed for a substantial increase in drilling. Goldman Sachs expects West Texas Intermediate, the US benchmark, to average $71 per barrel this year, before falling to $66 barrel in 2026.

3. Will the AI race herald a boom in natural gas?
As developers race to build data centres for artificial intelligence, investors are bullish on the role natural gas will play in the demand for cheap, reliable power.

Shares of gas turbine manufacturers soared in 2024, with GE Vernova's stock up 170 per cent since it began trading in March and Siemens Energy's shares up more than 250 per cent. Total orders for turbines at GE Vernova are expected to have nearly doubled in 2024, from 11GW to 20GW globally.

"We really haven't seen this type of secular and systemic demand increase in the last several decades, and it's one where we believe a more of everything approach will be necessary to meet this type of demand," said Angelo Acconcia, partner at ArcLight Capital Partners, adding that "the opportunity set for natural gas-related infrastructure is in the hundreds of billions of dollars."

The International Energy Agency estimates that power consumption from data centres could double by 2026, consuming more than 1,000 TWh of electricity, equivalent to the footprint of Japan. Global gas consumption across sectors is expected to reach record highs in 2025.

"Given the technologies that are available right now, you have to look at a holistic solution that involves thermal capacity in addition to renewables capacity, paired with battery storage," said Pooja Goyal, chief investment officer at Carlyle's infrastructure group.

4. Can climate multilateralism overcome geopolitics? Last year concluded with a series of disappointing climate summits. First, the UN biodiversity talks in Colombia were suspended after running into overtime in November. Weeks later, the UN COP29 climate summit in Azerbaijan ended with a finance target that fell far short of what experts deemed was needed for the developing world. Then the negotiations over a UN treaty on plastic pollution collapsed in South Korea after oil-producing nations blocked efforts to place limits on production.

Whether climate multilateralism can regain traction in 2025 is up in the air as countries confront domestic crises, rightward shifts in governments and regional wars. Trump is expected to withdraw the US from the Paris climate agreement again, and developed countries are likely to miss their current 2030 emissions pledges or nationally determined contributions. Updated NDCs are due in February ahead of COP30 in November, which marks a decade since the Paris Agreement.

"Target-setting for COP30 should not be interpreted primarily as a guide to the future trajectory of global greenhouse gas (GHG) emissions, but as a barometer for the viability of the [United Nations Framework Convention on Climate Change], and an indicator for the relevance of climate change within the wider evolving context of global geopolitics," S&P Global Commodity analysts wrote in their annual outlook.

5. Will the IRA survive Trump? Perhaps one of Biden's greatest legacies will be the passage of the Inflation Reduction Act, the most significant action the US has taken to address climate change and the law that marked the start of global green protectionism.

That is, if it survives. Trump has vowed to "terminate" the industrial policy, calling the IRA a "green scam".

A full repeal is unlikely. The IRA's manufacturing goals are aligned with the incoming president's vision to boost the country's industrial sector and has overwhelmingly benefited Republican-controlled districts over Democratic-led ones, despite receiving no Republican votes in Congress.

"Money is money…Seeing the economic benefits of new projects come online create[s] wider political and social support for different technologies having a home here beyond oil and gas," said Cameron Poole, energy and innovation manager at Greater New Orleans Inc, an economic development organisation in Republican-led Louisiana that has seen investments in green hydrogen, carbon capture and offshore wind. GNO's president Michael Hecht expects "modifications" to the law but "not wholesale pullbacks".

Think-tank Rhodium Group estimates clean investment made up 5 per cent of all US private investment in structures, equipment and durable consumer goods in the third quarter of last year. To what extent the IRA will survive a Republican-trifecta government eager to cut spending will be a test of the power of the clean energy economy. (Amanda Chu)

Powerpoints

- Consumer discretionary (Tesla and Amazon = 60 per cent of sector; pricing in risk of Musk-Trump spat)
- Canada is racing to become the world's biggest uranium producer as prices for the radioactive metal surge in response to soaring demand for emissions-free power and geopolitical threats to supplies.
- European voters will abandon the fight against climate change unless the rich pay for others to go green, argues Frans Timmermans, the architect of the EU "Green Deal".

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