GLOBAL X ETF MODEL PORTFOLIOS

Portfolio Insights: Outlook for 2025

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2024 was a year of records highs for equity markets and dramatic shifts in both market and economic expectations. We expect 2025 to be a U.S. centric year where investors prioritize U.S. cyclical exposure and consumption. However, unlike 2024, we believe new tailwinds have the potential to increase market breadth, potentially supporting mid-caps as investors prioritize U.S. exposure.

From a portfolio positioning perspective, we maintain our overweight view on equities, favoring U.S. equities. While this maintains our broad positioning framework from 2024, we believe the next few years are likely to be a period that defines the regulatory framework around artificial intelligence (AI) and autonomous vehicles (AV), which may lead to a dramatic step up in technological achievements and adoption.

KEY TAKEAWAYS

- U.S. centric portfolio positioning is likely to be highly important in 2025.
- Mid-caps may finally have their time to shine.
- Disruptive technology may take a leap forward in the next few years, particularly in the areas of AI and automation.

U.S. CENTRIC PORTFOLIO POSITIONING

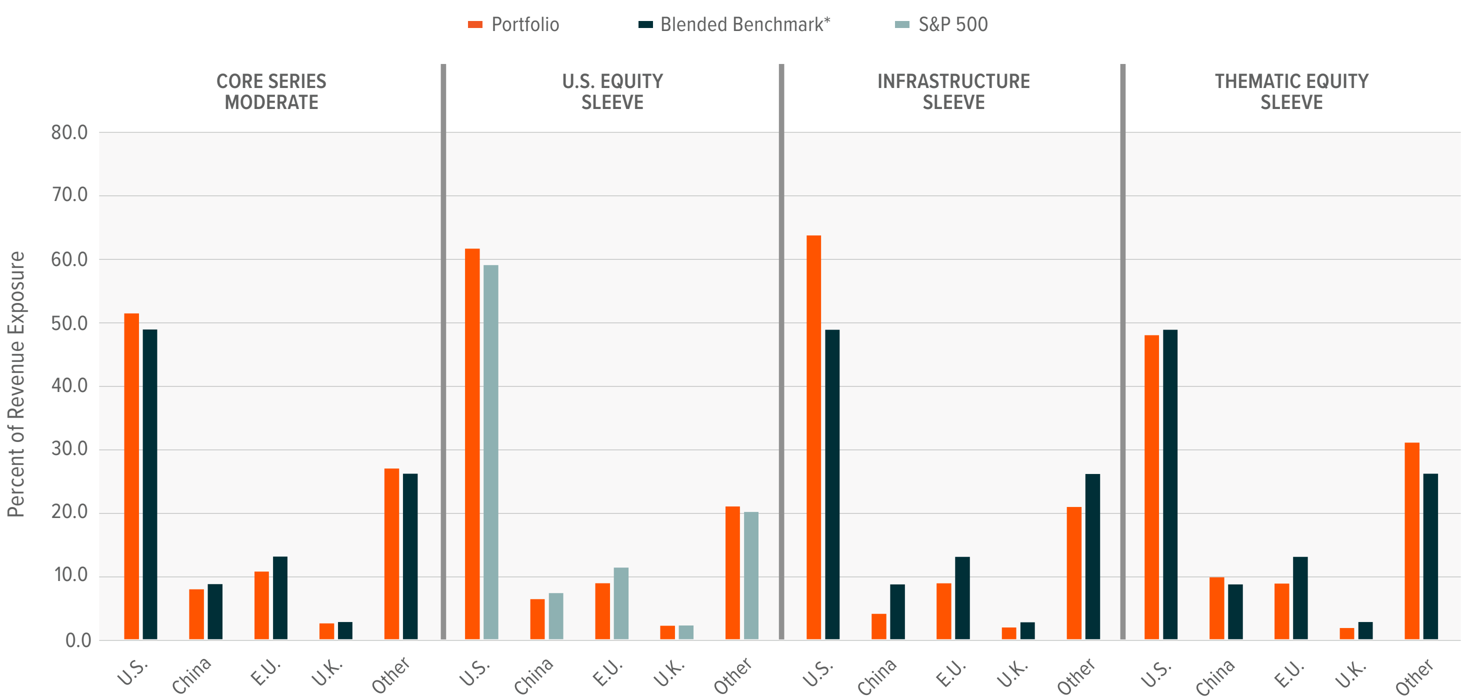
The Global X Core Series Portfolios are designed with a U.S. tilt. We have increased the suite's U.S. exposure over the last two years. Going into 2025, we believe the divergence between the U.S. and the rest of the world may increase, further prioritizing U.S. focused exposure.

- The U.S. economy is starting 2025 in a reasonably robust position, especially relative to the rest of the world.
- U.S. productivity is expanding relative to global productivity due to investment in AI, automation and other technologies.
- U.S. first policies are likely to accentuate existing U.S. advantages.

All these factors increase the importance of understanding the level of both U.S. domiciled exposure and U.S. revenue exposure. The analysis below outlines key revenue exposures for the Core Series Portfolios and the segments they are derived from. Overall, the Core Series Portfolios tilt towards U.S. revenue, with this focus coming from the U.S. Equity and Infrastructure sleeves. The inclusion of the equal weight S&P 500 exposure helps boost the portfolio's U.S. centric exposure within the U.S. Equity sleeve. This is a key area we believe may be well positioned in 2025.

REVENUE BY COUNTRY: CORE SERIES MODERATE

Source: Factset Data as of 10/31/2024



*Blended benchmark is 75% S&P 500 & 25% MSCI ACWI ex US.

THIS COULD FINALLY BE THE TIME FOR MID-CAPS

Over the last year we've talked extensively about improving market breadth. We've seen some improvement in the second half of 2024, and expect this trend to continue into 2025. We believe mid-caps are potentially the best positioned area for 2025. Structural trends including peak globalization, reshoring, and the U.S. capex cycle suggest tailwinds for domestic mid-caps over the coming years.[1] While both small and mid-caps provide U.S. centric cyclical exposure and are currently undervalued relative to large-caps, mid-caps have stronger fundamentals, and lower tariff and labor sensitivity relative to small-caps.[2] Additionally, interest rate cut expectations have been scaled back for 2025, keeping the focus on refinance risk. This continues to favor mid-caps over small-caps.[3]

The Core Series portfolios are positioned to provide risk appropriate exposure to mid-caps, with the Infrastructure sleeve in each portfolio providing the highest exposure to mid-cap cyclical U.S. centric exposure. This stems from the U.S. Infrastructure Development position, which is well positioned to benefit from both the current capex cycle and infrastructure improvement spending. Additionally, the equal weight position in the U.S. Equity sleeve provides large and mid-cap exposure that tilts towards cyclical sectors such as Industrials, Financials and Consumer Discretionary. These are areas of the market that stand to benefit from continued U.S. economic resilience.

Economic growth and earnings growth remain an important driver of markets into 2025. The 2024 estimated year-over-year earnings growth for the S&P 500 is 9.5%, above the 10-year average of 8.0%.[4] Earnings growth was initially dominated by mega-cap tech companies, but this has broadened, supporting improved market breadth. As illustrated below, the number of S&P 500 companies with returns in excess of the return on the index has improved dramatically in the second half. This corresponds with improvements in underlying earnings. However, based on prior business cycles, margin expansion remains in the early stages. The S&P 500 has only recovered about 20% of the average trough-to-peak margin expansion. Continued economic growth combined with reduced input pricing pressure, a shift towards asset-lite and productivity enabling areas, combined with the potential for lower taxes and regulation all have the potential to support margin improvements.[5]

TECHNOLOGY IMPROVING IN LEAPS AND BOUNDS

Innovation is constant, but there are defining moments when technology takes a leap forward. Generative AI (Gen AI) took that jump with Open AI's launch of ChatGPT at the end of 2022, and we've continued to see increased investment building out datacenter capacity, processing power, and AI model improvements. We believe the AI theme is entering the commercialization phase, with revenue expected to rise at a CAGR of 40.6% to $153.0 billion by 2028.[6] AI is a foundational technology that has the potential to boost productivity across a wide range of industries. U.S. companies have invested heavily in AI related investments, and this capex boom is expected to translate into a productivity boost into the future.[7]

A risk appropriate allocation to thematic equity can provide exposure to innovative new technologies that are growing in importance. The next few years have the potential to be a defining period for several key themes including AI, autonomous vehicles, and FinTech. A favorable regulatory environment could give these areas a substantial boost.

While thematic equity is long term in nature, there are defining moments that can move themes forward. We take a diversified, long term focused approach to thematic equity, viewing this as an important component of a diversified portfolio. The Equity Thematic Disruptors ETF Model Portfolio provides diversified exposure to the most important themes driving innovation forward. This portfolio is both targeted in its exposures and diversified through its use of between seven and 12 themes[8] and its use of ETF products to represent each theme. These thematic views are reflected at appropriately scaled levels across the Core Series asset allocation portfolios.

BALANCE REQUIRED FOR A POTENTIALLY VOLATILE YEAR

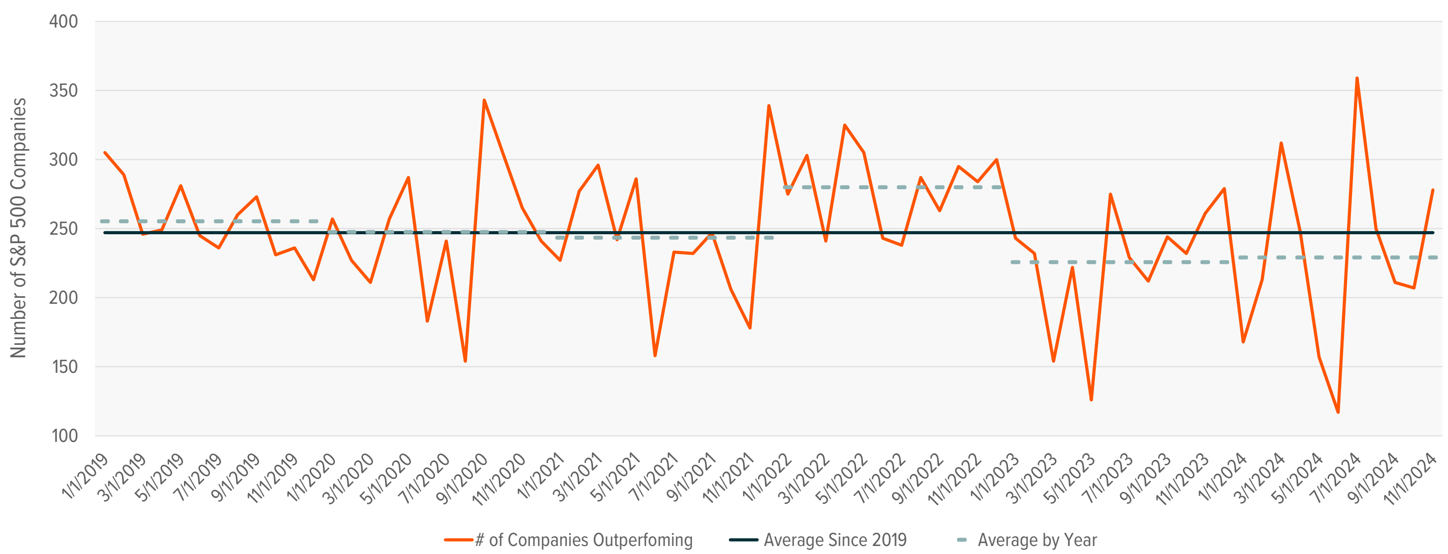
Overall, we expect 2025 to be a good year for the market; however, bouts of volatility are almost inevitable. Markets are balancing potential benefits of tax cuts, deregulation, and fiscal spending against tariff, immigration reform, and inflation risks.

Portfolios need balance to withstand the turbulence as they navigate this market. Quality and defensive growth remain important exposures during periods of uncertainty. These foundational exposures provide stability in both the Core Series Portfolios and the Equity Income Portfolio. But it's also important to include targeted exposure to position for the future.

HAPPY HOLIDAYS!

NUMBER OF S&P 500 COMPANIES OUTPACING THE INDEX HAS IMPROVED

Source: Bloomberg Data as of 12/13/2024



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POSITIONING AND TAILWINDS BY PORTFOLIO SUITE

Core Series *5-risk profile-based asset allocation portfolios that include equity, fixed income, and cash.*	• Overweight equities, underweight fixed income and cash. • The portfolio is overweight U.S. equity and underweight international developed market equities. • The U.S. Equity sleeve balances three areas we believe are important for the current environment. Firstly, exposure to mega caps remain a large portion of this sleeve, providing exposure to high quality companies with solid balance sheets and cash flows. Secondly, multifactor exposure focused on low volatility, quality, and value. This exposure is intended to provide support should market volatility rise or a deterioration in economic growth warrants a renewed focus on quality. Thirdly, this sleeve balances the mega cap exposure with an equal weighted S&P 500 position to increase the U.S. focused cyclical exposure. • The Infrastructure sleeve provides the highest exposure to mid-cap cyclical U.S. centric exposure. • The Thematic Equity sleeve provides targeted exposure to key areas of innovation. Please refer to the section focused on the Global X thematic portfolios. • The Fixed Income sleeve generally has below benchmark duration positioning[9] as we believe the Fed's rate cutting cycle is likely to be slow and measured due to strong underlying economic growth keeping the focus on inflation.
Equity Thematic Disruptors & Digital Innovation *Thematic equity portfolios*	• Thematic equity is all cap in nature, it stands to benefit from improved market breadth. • Data center expansion and the build out of AI infrastructure lays the foundation for advancements across numerous themes including AI, cloud computing, autonomous vehicles, and robotics. • The transition from the information age to the automation age creates opportunities for rapid productivity expansion and potentially higher margins for companies who invested in automating processes. • A more favorable regulatory environment stands to benefit the Financial sector and FinTech firms in particular.
Equity Income *Common equity, preferred equity, and covered calls targeting a yield that is 200 to 400 basis points above the yield on the S&P 500.*	• The Equity Income Portfolio is designed to provide exposure diversification while also diversifying the sources of income. • The portfolio's foundational positions provide defensive growth exposure. This remains an important exposure during periods of uncertainty. • Strong underlying economic growth is favorable for high yield common equities. • All three common equity segments provide some U.S. centric cyclical exposure. • Covered Calls provide a level of income that is related to market volatility. A choppier year for markets may present opportunities for Covered Calls provided market movements remain within a range.

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FOOTNOTES:

1. BofA Securities, Small/Mid Cap Strategy Year Ahead, 12/2/2024
2. Bloomberg data as of 12/6/2024
3. BofA Securities, U.S. Equity Strategy Year Ahead, 11/26/2024
4. FactSet, Earnings Insight, 12/13/2024
5. Alpine Macro, Four for '25: Equity Outlook Positioning, 12/11/2024
6. IDC, Demand for AI Platforms Software is Forecast to Drive Remarkable Growth over the Next Five Years, 7/29/2024
7. Apollo, 2025 Economic Outlook: Firing on All Cylinders, December 2024
8. The portfolio currently includes 10 themes.
9. Applies to the Moderately Conservative through Aggressive Core Series Portfolios.

Information provided by Global X Management Company LLC.

Investing involves risk, including the possible loss of principal. Diversification does not ensure a profit nor guarantee against a loss.

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