

# Catching the Next Wave of Growth Opportunities

Q&amp;A


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After back-to-back years of strong growth-equity gains, investors may want to know whether to expect a three-peat in 2025. Jennison's Blair Boyer explains how many of the factors that contributed to the growth category's previous success continue to fuel tailwinds, positioning companies linked to secular growth trends to help deliver operational results that stand out among peers in the year ahead.

## A CONSTRUCTIVE GROWTH BACKDROP

### Q: How do you see the evolving investment landscape impacting growth stocks in 2025?

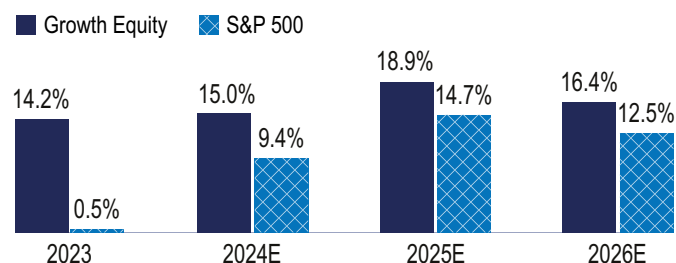
**A:** Capital asset prices rose in 2024 with the major indexes posting solid results. U.S. equities remain underpinned by earnings growth, a resilient albeit slowing economy, historically low unemployment, and inflation trends falling back into pre-COVID patterns. With the Federal Reserve shifting from aggressive tightening to gradual easing, growth stocks could see additional tailwinds as interest rates decline. Given that growth stocks are considered long-duration assets, lower interest rates would reduce the discount mechanism used to value them, boosting the present values of future earnings and free cash flows among these companies. Of course the contrary is true with growth stocks coming under short-term pressure if we see higher-than-expected interest rates and inflation in the future.

### Q: How would you describe the current equity backdrop and outlook for earnings?

**A:** Equity price appreciation has fared better than we initially expected, especially for growth stocks. We see this trend as likely to continue as the long-term pace of economic activity moderates.

The primary reason for this is earnings, which have been strong across the board, and better than expected in many cases. Valuations have reset since COVID, and, while we wouldn't argue that the market is cheap, we would certainly say that valuations are appropriate. Even with tempered market expectations for Fed rate cuts, the consensus earnings outlook for growth stocks looks solid.

### Strong Earnings Expectations for Growth Stocks



Source: Factset as of 12/31/2024. Growth represented by Russell 1000 Growth Index. Past performance does not guarantee future results. There is no guarantee that these forecasts will be accurate. See additional disclosure on page 4.

## INVESTING IN THE AI REVOLUTION

**Q: Where are you finding the best tech-focused growth opportunities today?**

**A:** We're seeing the biggest opportunities centered around artificial intelligence. Last year was exceptional for AI-related investments, and we expect the AI revolution to accelerate in 2025. We see the unfolding AI wave creating wide-spanning opportunities in companies empowering, developing, enabling, and using the technology. We group the tech ecosystem of opportunities we find most compelling into big clusters of themes:

**Technology innovation** stemming from AI's rapid advance and continued digital transformation of businesses and consumers remains a top trend. We see upside potential for companies providing critical computing power and infrastructure to support the technology's advance as well as companies developing the global platforms and software for consumer applications.

**Generative AI** stands out given its capacity to reshape our daily lives. While still in its infancy, AI is evolving rapidly, with recent developments from companies such as Apple, Meta, and Google suggesting AI agents may be an especially interesting area in 2025. AI agents could be one of the first game-changing ways the mass-consumer market adopts AI.

**Technology enablers** include companies providing innovative products and solutions to support persistent demand for more infrastructure and smarter software. We're looking beyond semiconductors into companies that work within chipmaking factories because power needs are extremely high and there's a related need for cooling capabilities. The power required and the need to seek efficiencies in fabrication also represent key growth opportunities.

**Q: How do you see the AI wave evolving from last year's leaders to potential winners in 2025?**

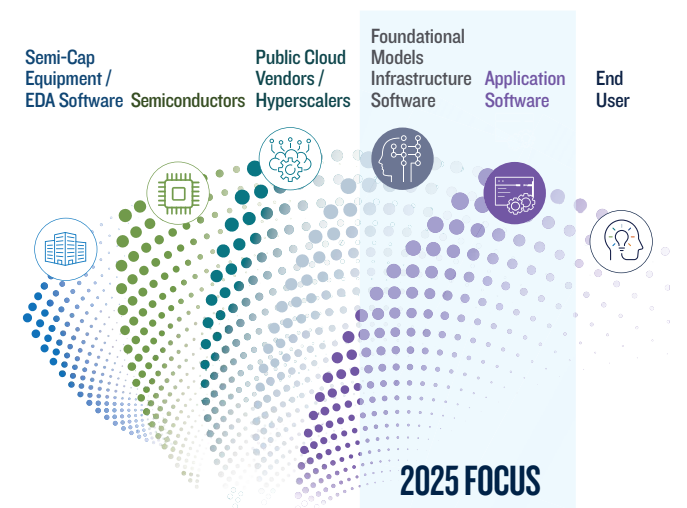
**A:** The AI wave started with the infrastructure layer and semiconductors and deploying new GPU architecture into data centers. Last year was dominated by mega-cap companies that provide the "picks and shovels"

needed to enable AI development. Hyperscalers also exceeded expectations in expanding and renting out more computing capacity to meet their customers' growing needs.

The Magnificent Seven companies (Nvidia, Microsoft, Amazon, Alphabet, Apple, Meta, and Tesla) played critical roles in the early phase of the AI cycle. Many of these companies have exceeded expectations in terms of their growth, and, while some have more upside potential, we expect others will face challenges going forward as their larger size may prohibit continued growth to the same degree.

Once AI becomes a differentiator for the software companies, it becomes real to the end consumer. We believe the next part of this wave is going to benefit software companies. Software-related capital expenditures took a hit last year as AI data center-focused spend consumed most of the tech investment dollars. While AI-related investments will continue, we see technologies necessary to optimize and manage software and overall digital infrastructure as a key focus for businesses in 2025.

### Evolving Opportunities to Catch the AI Wave



Source: Jennison. For illustrative purposes only.

## OPPORTUNITIES BEYOND AI

**Q: Where are you finding opportunities outside the technology realm?**

**A:** While we tend to lean heavy toward technology-related areas given their high-growth profiles, we also see significant potential for other secular trends to

## MANAGER PERSPECTIVES

experience strong growth going forward. Viewing growth through a secular scope reveals a broadening opportunity set. We're seeing companies, some in areas traditionally associated with core/value, inflect their growth rates in meaningful ways with secular tailwinds, suggesting durability in their stronger growth profiles. The opportunities span across sectors such as consumer, industrials, and health care, especially with business models at scale and massive amounts of data that they can optimize around.

### Q: What is changing in consumer business models that is piquing your interest?

**A:** While consumer sectors can be cyclical, we're seeing a secular shift in the business models of many consumer companies that we find attractive. Take retail, for example, where approximately 75% of the past year's sales growth came from three companies: Costco, Amazon, and Walmart. Companies like these are using their scale and access to massive data to create big competitive advantages that allow them to better control inventories, leverage the customer experience, optimize pricing and sales, and reduce costs. They've invested heavily in their businesses for years and are now reaping benefits through stronger and more durable revenue growth and profit margins.

### Q: What's happening in the industrial space that is leading you to focus more there?

**A:** AI is leading to soaring data center growth that is likely to continue for years. But data centers are complex facilities with differentiated technologies that require uninterrupted electricity sources, power management solutions, sophisticated cooling technologies, and stringent safeguards. There are few premier providers of these solutions, suggesting industry leaders could enjoy long runways for growth.

Aerospace is another interesting and growing area. While we historically focused on aircraft manufacturers to gain access to this area, we have recently shifted our attention to jet-engine makers. Jet engines are complex, requiring reliability, fuel efficiency and sophisticated maintenance. This is another industry with a few dominant players.

### Q: What innovations do you find most compelling in the health care space?

**A:** We are living in a remarkable period in terms of health care innovation marked by cutting-edge medical technologies (medtech). Whether it's leaders providing diabetes control systems or innovators developing heart valve solutions or disruptors advancing surgical robotics, the technologies these types of companies offer meet the needs of large end markets. The medtech market is expected to grow to more than ~\$670 billion globally by 2029<sup>1</sup>, allowing for two or three providers to win in the space.

## KEY DIFFERENTIATORS

### Q: What differentiates Jennison Associates from its peers?

**A:** We think our ability to consistently invest in disruptive companies with unique business models that are poised to become future market leaders is a true differentiator for us.

Our investment success stems from our ability to identify and invest early in companies with long-duration growth potential. Fundamental research points us to companies that are driving structural shifts in their industries, building sustainable competitive advantages and emerging as leaders in global markets.

By leveraging Jennison's 50-plus-year history of growth investing, our deeply experienced analysts focus on gauging both the duration and magnitude of growth for companies within their respective areas of expertise. With volatility having returned to markets, we also believe our long-term track record of managing portfolios through many different market environments, understanding inherent risks, and having the ability to adjust as market conditions dictate will be valuable to long-term investors.

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<sup>1</sup>Source: Statista as of August 2024.

**Russell 1000 Growth Index (Growth)** measures the performance of Russell 1000 companies (large-cap growth segment of the U.S. equity universe) with higher price-to-book ratios and higher forecasted growth values. **S&P 500 Index** is an unmanaged index of 500 common stocks of large U.S. companies, weighted by market capitalization. It gives a broad look at how U.S. stock prices have performed. Indices are unmanaged and are provided for informational purposes only. Investors cannot directly invest in an index. **Past performance does not guarantee future results.** There is no guarantee that these forecasts will be accurate.

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