Q4 2024 REVIEW AND OUTLOOK

Broad Market Indices	INDEX LEVEL	4Q 2024 RETURN (%)	YTD 2024 RETURN (%)
S&P 500® Index	5,882	2.41	25.02
Dow Jones Industrial Average	42,544	0.93	14.99
NASDAQ Composite Index	19,311	6.35	29.57
Russell 2000® Index	2,230	0.33	11.54
MSCI ACWI ex US Index	473	-7.60	13.22
Barclays U.S. Aggregate Bond Index	90	-3.06	1.25
VIX Volatility Index	17	3.71	39.36
Baltic Dry Index – Spot (Ocean Cargo Shipping Rate)	997	-52.16	-52.39
Gold ($ per ounce) – NY Spot	2,629	-1.10	26.09
Oil ($ per barrel – West Texas intermediate)	72	5.37	0.76
Bitcoin ($)	93,328	47.68	122.26

U.S. Treasury Yields	12/31/24	9/30/24	Change over Quarter
3-Month	4.32	4.61	(0.29)
2-Year	4.24	3.64	0.60
10-Year	4.57	3.79	0.79

Source: FactSet Research Systems, Inc.

2024 in Review. Investors in U.S. stocks had much to celebrate in 2024: the S&P 500® index of large capitalization shares advanced more than 20%, well above the index's 50-year average return of 10.6% and the second year in a row of strong equity returns. A year ago, few forecasters predicted such a strong stock market. Back then, two factors seemed tilted against equities: (1) **a richly valued U.S. stock market**, then trading at 24 times trailing earnings (S&P 500® index) versus a 20-year average p/e of 19.4; and (2) **concern that Americans' personal savings, which ballooned during the pandemic years (2020-2022), would evaporate as pandemic relief wound down**, and so too would consumer spending, which accounts for nearly 70% of America's economy.

Those concerns never materialized. For one thing, **corporate earnings per share (companies in the S&P 500® index) grew by 9.5%** last year – above the 10-year average of approximately 8%/year. For another, **the U.S. jobless rate never exceeded 4.3% within the year** (the 10-year average: 4.7%). And if Americans have jobs, they will spend money. Finally, the **Federal Reserve put wind in the sails of the capital markets by lowering the central bank's primary interest rate three times in 2024**; that followed *eleven* consecutive rate hikes in the two prior years.

The Voters Have Spoken. The biggest story of 2024 was not the American stock market; rather, it was the global shake-up in the political orthodoxy of the "liberal democratic" West. Donald Trump's presidential re-election victory in November is Exhibit A in this new order: anti-regulation, pro-growth, anti-tax, and populist. Similar themes have been taken up by the disaffected voters of Western Europe (Italy, the Netherlands, France, and Germany), Latin America (Argentina), and Canada. **The message is clear: the voters want change.** They want affordable food, fuel, healthcare, and rent. And they want security at home.

What Could Go Right…or Wrong? In the U.S., some changes could be relatively easy to make. For example, doing away with pointless regulations that hinder growth would raise returns on capital projects, and thus stimulate capital investment and accelerate growth. Deregulation could extend to mergers and acquisitions. The outgoing Biden administration has a negative view on M&A, so activity has been quiet. But the new administration could be a catalyst for consolidation. Some other changes might be harder to effect, however, and carry risks – especially tariffs.

Tariffs. We don't know if the President-elect means to just use the threat of tariffs to extract concessions from America's trading partners, or if he will enter office with tariff guns a-blazing. President-elect Trump has proposed a 60% tariff on China-made goods, and lower tariff rates (15-20%) on goods from other countries. The U.S. is the world's largest buyer of foreign goods and services and is on track to import $4.1 trillion in 2024. So, substantial new taxes on imported goods might raise domestic inflation. And that could make it hard for the Federal Reserve to cut interest rates further in 2025. However, tariffs could be an effective tool to address long-standing trade issues by bringing leaders to the negotiating table at a time when the economies of Europe, China, and Canada are weak.

Shifting the Scenery. Though we see risks, we also see opportunities in the current investment landscape. But one current risk – probably magnified since the U.S. presidential election – has been the unleashing of "animal spirits": too many bettors putting too many chips on speculations like obscure crypto currencies, same-day-expiration options, and other schemes of dubious value. And we should not fool ourselves into believing there is some "impermeable speculation barrier" between risky junk and the securities of well-capitalized companies with bright futures. **Investor exuberance may now be lifting all "boats" – whether seaworthy or not.** It's never a good sign when so many investors are as bullish about U.S. stocks as they are today (see graphic).

Source: *The Economist;* Dec 22, 2024.

The current concentration of market value in a handful of U.S. stocks is worrying. **Together, the ten biggest firms in the S&P 500® were worth 36% of the overall index at mid-year – up from less than 25% only five years ago, and higher even than at the peak of the tech bubble in 2000 (27%). In the past 150 years, the top 10 stocks had never made up more than one-third of the total market – until recently. Yet periods of high concentration have often been followed by positive market performance – at least for a while. The evidence *does* suggest that investors who owned an "equal-weighted" portfolio of stocks fared better after periods of high concentration compared to the market-weighted S&P 500®.**

Perhaps one of the best ways of avoiding the trap of owning the poor performing stocks of even great companies is by shifting the rules of engagement a bit. Equal weighting a broad index of stocks – that is, assigning the same weight to each stock in the S&P 500® index – would defeat over-concentration and perhaps boost the index's expected nominal return.

Another way to "shift the scenery" is to focus on other stock indices, which are both less concentrated and less expensive **than the S&P 500® index, which now trades at 27 times trailing earnings.** By comparison, **the S&P 400® index of mid-size stocks trades at 18.4 times earnings, and the S&P® 600 index of small stocks trades at just 17 times earnings,** similar to the Russell 2000® index excluding unprofitable companies, a big component of the Russell.

Opportunities. So, what are the "opportunities" that we alluded to? There are many but consider two: **energy** and **infrastructure**. Energy isn't just minerals pulled from the ground – crude oil and natural gas – but it's power generation, the electricity grid, battery storage, carbon capture, wind and solar, and liquified natural gas, to name a few. Some forecasters believe that U.S. power demand, led by AI processors, will grow by 4.7% annually in the next five years, which is an 81% increase over previous estimates. The existing power system is poorly equipped to handle that growth; thus, a possible opportunity for investors. And global spending on **infrastructure** broadly (ports, data centers, etc.) might total $28 trillion this year, up 6% from 2024. Finally, **healthcare**, one of the worst performing segments of the market in 2024, seems to have discounted sharp cuts to popular healthcare programs, but if these cuts do not materialize, valuations for many companies in the sector are attractive.

Even with its occasional stumbles, the United States capital market has created more wealth for more people than any economic system in world history. We do not see that changing. Nor do we see volatility as the enemy. Just the opposite: with a "shopping list" of great stocks, we hope to be ready when they go on sale.

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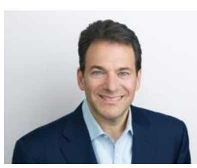

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The S&P 500® Index is an unmanaged index that is widely recognized as an indicator of general market performance, based on the market capitalizations of 500 large companies having common stocks listed on the NYSE or NASDAQ. The S&P 500® Index does not have a defined investment objective, nor does it charge fees and expenses.

The Dow Jones Industrial Average (The Dow), is a price-weighted measure of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities.

The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock market.

The Russell 2000® Index (the "Index") measures the performance of the small-cap segment of the U.S. equity universe. It consists of approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. Source: London Stock Exchange Group plc and its group undertakings (collectively, the “LSE Group”). © LSE Group 2024. FTSE Russell is a trading name of certain of the LSE Group companies. Russell® is a trade mark(s) of the relevant LSE Group companies and is used by any other LSE Group company under license. All rights in the FTSE Russell indexes or data vest in the relevant LSE Group company which owns the index or the data. Neither LSE Group, nor its licensors, accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company's express written consent. The LSE Group does not promote, sponsor, or endorse the content of this communication.

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VIX is the ticker symbol for the Chicago Board Options Exchange (CBOE) Volatility Index, which shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500® Index options.

The Bloomberg Barclays U.S. Aggregate Bond Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities.

The Baltic Dry Index (BDI), is issued daily by the London-based Baltic Exchange. The BDI is a composite of the Capesize, Panamax, and Supramax Timecharter Averages. It is reported around the world as a proxy for dry bulk shipping stocks, as well as a general shipping market bellwether.

West Texas Intermediate (WTI) is a grade of crude oil used as a benchmark in oil pricing and is the underlying commodity of the New York Mercantile Exchange’s oil futures contracts.

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