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Economic
- December Consumer Confidence rose to 104, based on small business optimism
- Retail sales rose 0.4% in December, with auto sales at 15.2 million units, below estimates
- Non-farm payrolls increased to 254,000, above estimates of 140,000
- Unemployment dropped to 4.1%, with underemployment rising to 7.5%
- U.S. industrial production fell to a 0.3% pace in December, down from a faster pace in the Summer
- The ABX subprime mortgage levels inched lower, with the MBS index ending 2024 at 133.97
- Institute for Supply Management (ISM) announced factory activity growth of 1.9% in November
- Mortgage application volume decreased over 20% in the final two weeks of December
- GDP was up 3.1% annualized in Q3, surpassing initial estimates below 3%

Inflation
- U.S. CPI held steady, increasing 2.9% year-to-year
- The motor vehicle insurance index, which tracks car insurance price levels, rose 11.3% from a year earlier
- Medical care costs rose an average of 2.8% in 2024, but that number does not seem credible

Monetary Policy
- Federal Reserve cut rates by 25 basis points at the December meeting
- Janet Yellen admitted COVID stimulus might have been a factor for high inflation
- The Fed looks to remain cautious for further rate cuts in 2025

International
- U.S. gets involved in Israel's negotiations, anticipating a cease fire before Trump enters office
- Israel continued their attacks on Northern Gaza, with numerous December casualties
- Biden administration announced $6 billion in additional aid for Ukraine
- China cancelled Mexican manufacturing investment in response to Trump tariff threats

Interest Rates
- Ten-year yield increased by 77 basis points in Q4
- Secure overnight finance rate (SOFR), inter-bank lending standard, ends year at 4.49%
- Mortgage rates averaged 6.68% during the last quarter of 2024
- England, Canada, and China have all cut their interest rates to boost their economies

Earnings
- S&P 500 companies reporting with 82% beating on earnings and 64% on revenues
- SoftBank announced minimum $100 billion investment in U.S.-based artificial intelligence (AI) initiatives
- 2024 S&P earnings growth came in at 9.4%

Market Outlook
- The S&P 500 ends 2024 up 25%, with the Nasdaq up 30%
- After November 5, the energy sector was volatile in anticipation of increased AI investments in 2025
- Materials was the worst performing S&P 500 sector in Q4, rising only 0.50%
- The S&P 500 price-earnings ratio reached 27 times during the final day of trading on December 31

Current Investment Outlook

Stocks reported a small gain in the fourth quarter of 2024, bringing the return for the full year to 25%. During the quarter, there was a sharp rise following the election and then a drift lower through year-end. At this point, our outlook is not linked to the incoming Presidential administration, but it is actually quite bipartisan. We expect a heightened focus on America and our domestic companies and activities. We look for an increase in mergers and acquisitions (M&A) and initial public offerings (IPO's). Technology stocks led the market for most of the past year, but in the third quarter, we began to see the emergence of many young companies and the broadening of the market. Those trends are likely to continue and should be positive factors for a market which has reported two strong years in a row and which has valuations that appear to be extended.

There are several important trends in the market today, including the significant breadth of leading stocks and sectors. This is a healthy sign for a rising and expanding market. Another is the high level of skepticism, as the market worries about stubborn inflation, signs of economic weakness, and the continued risk of hostilities overseas. The positives remain the support of rising earnings and the possibility of lower interest rates. As it often does, the market seemed to worry that Donald Trump would be elected again, and then it rose after he won. Stocks will often perplex the forecaster, but their trajectory remains higher. We are confident that sound stock selection will continue to be rewarded.

We are watching with great interest the tug and pull between the high technology leaders of the last few years and the other sectors of the market. As AI (artificial intelligence) and data centers continue to receive massive dollars of investment, an important question is the relative growth in earnings by sector. Technology is likely to continue to see strong earnings growth, so that sector is not going to give up market leadership easily. All considered, there should be healthy growth across sectors, and that will give good support for stock performance going forward.

The Federal Reserve reduced rates by 50 basis points in September, 25 basis points in November, and 25 basis points in December. The Fed is taking a cautious view now, but it is not clear that inflation has truly been tamed. The bond market doesn't think so, as the ten-year Treasury rose almost exactly the same amount as the Fed has cut rates since September. At this point, the prospects for inflation depend importantly on policy actions by the new administration. Inflation is a beast that does not like to be tamed.

Economic statistics continue to appear favorable, with inflation at around 3% and the unemployment rate at 4.1%. The reality is quite different, for two important reasons. First, we continue to have two economies: one for the wealthy elite who benefit from investment returns and can afford to deal with inflation, and the other for most working Americans who struggle to put food on the table. Second, the government statistics today present a much more favorable picture than they would have if there hadn't been repeated restatements since 1982 of series like inflation and the unemployment rate. Without these changes to our reported statistics, inflation would now be more than 10% and the unemployment rate a staggering 25%. If you watched the evening news or read conventional news sources, you wouldn't know any of this. But, this is the reason for a lack of consumer confidence today and a significant element of class divide.

The Presidential year of 2024 was a year unlike any other. It produced the first non-sequential re-elected President since Grover Cleveland and the rare circumstance of a President stopping his re-election campaign in mid-stream, handing the reins to his Vice President. The partisan divide is wide and heated, and it is unclear how it gets resolved. Still, our view is that there is actually bipartisan support for most of the issues that matter to the market. So, as it relates to politics, our view is constructive. We look forward to being more realistic than just hopeful.

We try to avoid getting bogged down in gratuitous political commentary for a number of sound reasons. First of all, it may not matter, and second, our commentary may simply annoy a number of our clients. While we don't know, we assume that our clients split about 50/50 between left and right on the political scale. So, we like to tread lightly. Having said that, there are a number of things that we can observe about our new President. Unlike us, Donald Trump is not treading lightly. He is truly a bull in a china shop. For better or worse, that is his personality. Trying to be completely impartial, how would we describe his agenda? He wants to reduce inflation and interest rates, cut taxes and regulation, lift the prospects for the most unfortunate people in our society, protect our borders, stop the drug and sex trafficking cartels, use tariffs and other methods to defend American businesses, make the U.S. the leader in AI, stop "green" initiatives, expand energy exploration and cut the price of oil, make our military stronger and smarter, take on terrorists and stop conflicts around the globe, keep men out of women's sports, make our disaster relief more responsive, and land astronauts on Mars. It's a long list and there are probably a few additional items that belong on it. The bottom line is that, if he can do all of this, or even most of it, the stock market will rocket higher. If he fails, stocks may still rise, or we may simply muddle through. The point is that Trump is not seeking to be a "pretty good" President. He is seeking to be more consequential than any other President in recent memory. He may succeed or he may fail. We will watch how he does with great interest.

The International scene is poised to change with the new Trump administration. How, we can't say with certainty, but things have already begun to change. SoftBank CEO Masayochi Son has promised $100 billion (and maybe 200) to invest in U.S. AI, and the Saudi Crown Prince has promised U.S. investments of $600 billion (and maybe one trillion) as well. Before he was sworn in, Trump demanded that the war in Gaza end and that the hostages be returned. And, that process has begun. He has made the same sort of demands regarding the war in Ukraine and the price of oil from the Saudis. He has threatened tariffs on Chinese goods if they don't stop the flow of fentanyl into this country and Canada and Mexico if they don't help secure our borders. He promises a return to the Abraham Accords which could introduce peace into the Middle East. It will be incredibly positive if all of his initiatives succeed. It will be back to normal if they fail. In one sense, we have nothing to lose.

After two strong years of high returns, stocks today are not cheap. Expecting S&P 500 earnings to grow from 209 in 2024 to 251 in 2025, the market is selling at a price-earnings (p/e) ratio of about 24. This level of valuation is at least 30% higher than a typical or normal p/e. Prices at this level can only be justified by the expectation of strong growth in earnings. And, that seems to be the prospect: in the fourth quarter of 2024, 82% of companies reported earnings above expectations, and the outlook is for earnings to grow 20% in 2025. High valuations can be justified with low inflation and low rates, so these trends will be important. We are optimistic. America remains the country of possibilities, regardless of the leadership at the top. As always, some stocks are emerging or booming, while others are coasting or in decline. Our stock selection process continues to look for the winners.