



2024 In review

Last year our predictions for 2024 were as follows;

- 1) Both equities and bonds will both post positive returns in 2024 but equities will outperform long term bonds (SP500 vs U.S. 30 Year Treasury Bond).
- 2) Defensive stocks will outperform growth stocks.
- 3) U.S. Inflation will average more than U.S. Central Bank target (2%) in 2024.
- 4) North American Industrial Demand will start to pick up in the latter half of 2024, putting upward pressure on material and metal prices. Crude oil (WTI) will average above \$65 bbl.

For the second straight year, equities posted strong returns. Inflation moved lower throughout the year and in September the U.S. Federal Reserve lowered interest rates for the first time in four years. Equities outperformed long term government bonds handily. While defensive stocks performed well in 2024, technology companies were relatively stronger, particularly after the U.S. election. We continue to temper investors expectations when looking at major equity indexes given their high concentration in a handful of stocks. The market breadth of the major U.S. indexes is the lowest recent history. Presently the market capitalization of Apple and Nvidia is just over \$ 7 trillion combined, which is equivalent to approximately 25% of the estimated value of the U.S. economy (2024 Gross Domestic Product estimates at \$30 Trillion). Apple's market cap alone is greater than the entire SP Mid Cap index. While growth in the tech sector remains compelling, the law of averages would suggest that value stocks should prevail in 2025.

U.S. inflation, as predicted, did average higher than the U.S. Central Bank target of 2%, averaging 2.7% as of the end of November 2024. The U.S. economy did not fall into recession as many predicted and remains resilient. However, the promises of widespread tariffs by the incoming administration, if implemented, could exert significant downward pressures on economic growth domestically and abroad. In 2024, material and metal prices were mixed. Gold bullion and Silver increased by more than 20%, Copper, which reached an all time high in May, finished the year 4% higher. However, nickel, iron ore, and steel, to name a few, lost ground in 2024. Crude prices (WTI) did average over \$65 at just under \$70 per barrel.

Making predictions for 2025 presents unique challenges. While the GOP has majorities in both Congress and Senate, they are not significant. With the resignation of Representative Gaetz and the nomination of at least two other GOP Representatives to outside posts, the incoming U.S. administration will likely have the smallest congressional majority in history. While the margin is greater in the US Senate, December's Debt Limit Bill shows that more than a handful of Senators will vote against the party lines despite the threats by Trump and his latest advisor, Elon Musk. Mitch McConnell will not seek re- election. Though no longer Senate Leader, he remains influential and we may get a better indication of his intentions

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in the upcoming Senate confirmation hearings. It would be hard to imagine McConnell, who survived polio as a child, supporting R.F. Kennedy Jr.'s appointment given he (RFK's) has been outspoken against the use of vaccines.

What about 2025?

President-elect Trump does pay close attention to the capital markets. Interest rates are vital to his various businesses and lowering interest rates is one of his many campaign promises. To his wealthy supporters, he's pledged lower taxes, and less government oversight. Elon Musk wants to create a new department (Department of Government Efficiencies) to reduce the size of the U.S. government. Irony here is twofold. One, he is creating a department to reduce others. Two, given the U.S. government is the nation's largest employer, he may undermine Trump's promise of strengthening the U.S. economy by firing millions of Federal employees. However, an important question is how long will the Trump-Musk relationship last? Musk is planning to build a second (even larger) factory in China yet Trump has campaigned vigorously about imposing 100% tariffs on imports from China. Over half of Tesla's car are produced in China. This is bound to cause some friction, if not with Trump, then with his many MAGA supporters in Congress and the Senate.

If the President-elect imposes tariffs, lower taxes, and pushes back hard on immigration then the risks of inflation and a recession will increase. While interest rates would normally fall during a recession, lower taxes and revenue will add to the already historically high level of U.S. indebtedness. Over the past decade U.S. debts have more than doubled to \$35 trillion (as of September 2024) and are likely to be significantly higher over the next four years if President Trump's first term is any indication. The interest payments alone on the debt are staggering. Fortune Magazine last September estimate daily interest payments to be \$ 3 billion dollars a day. Given U.S. debt's fiscal trajectory, it will be extremely difficult to lower rates and inflation at the same time.

If Trump's tariff tirade turns out to be more posturing than policy, the U.S. economy will likely continue to grow, providing a backdrop for another positive year in equities.

With the aforementioned in mind, are predictions for 2025 are;

- 1) Cash will perform better than Long Term Government Bonds
- 2) Inflation and interest rates will bottom in the first half of 2025.
- 3) Equities will outperform Mid- and Long-term government bonds.
- 4) Value will outperform growth stocks.
- 5) Crude prices (WTI) will again average over \$65 in 2025.

Thank you for your support in 2024 and best wishes for good health in 2025.