INVESTMENT STRATEGY UPDATE

MARKET REPORT
JANUARY 2025

ASCENTIAL WEALTH ADVISORS

SOFT LANDING & ARTIFICIAL INTELLIGENCE PROPEL MARKETS

Buoyed by a strong economy and enthusiasm surrounding Artificial Intelligence, equity markets were positive in 2024. The S&P 500 set 57 record highs and gained over 20% for the second consecutive year for the first time since 1998. (FactSet) Returns in the market cap weighted S&P 500 were again dominated by the top ten companies which represent 39% of the currently highly concentrated 500-company index. Of the top ten companies, the "Magnificent 7" stocks (Nvidia, Microsoft, Apple, Meta, Amazon, Google, & Tesla) contributed 55% of the index returns for the year, gaining a whopping 48% while the remaining 493 stocks rose roughly 10% as a group. (JP Morgan)

Although generally positive for the year, diversified portfolios lagged the S&P 500 index without the concentrated exposure to top performers. Foreign equities also trailed US markets over concerns about slower economic growth, heightened geopolitical tensions, and the potential for a growing trade war with the US. Boosted by better performance in China, the MSCI Emerging Markets Index returned 7.5% for the year. This was well ahead of the developed markets' index, the MSCI EAFE, which gained only 3.8%. Uncertainty is high going into 2025 as the change in US administration presents a risk for foreign relations and global trade.

Index	*2024 (through 12/31)*
S&P 500	+25.02
Dow Jones Ind. Avg.	+14.99
MSCI EAFE	+3.82
BC US Aggr. Bond	+1.25

The continued rise in US markets is credited to a surprisingly resilient economy. To date, the Federal Reserve seemingly engineered a "soft landing" and raised interest rates without causing a recession. Despite higher interest rates, US economic growth came in above expectations for much of 2024, with unemployment remaining low at 4.2% and consumption holding steady despite higher prices. Inflation also moderated in the US, with the Headline Consumer Price Index falling from 3.1% in November of 2023 to 2.7% in November 2024. More persistent inflation in the housing and auto insurance categories was offset by smaller increases in food prices and falling energy and goods prices. Moderating inflation and continued economic strength caused the Federal Reserve to adjust its projected path for interest rate cuts.

Dow Jones Relative Risk Benchmarks	
Conservative	+5.86
Moderate	+8.55
Aggressive	+14.81

The Federal Reserve lowered its benchmark Fed Funds rate by 1.0% in 2024 through a series of three rate cuts, which was about half of what the market expected coming into the year. Forecasts going into 2025 are for two additional rate cuts throughout the year, and a higher terminal Fed Funds rate. Bond markets adjusted based on these new projections, and short-term rates fell while the yield on the 10-year US Treasury rose from 3.88% at the end of 2023 to 4.58% at the end of 2024. Higher interest rates could ultimately benefit investors through more income from safer investments and growth from risk assets if the US economy can withstand the higher rate environment.

OUR VIEW

FIXED INCOME:
The Federal Reserve has indicated more rate cuts are likely in 2025, but also that rates could settle at a higher level than previously expected, which caused long-term yields to rise. Rates on short-term bonds and cash should fall again with the additional rate cuts. There is also the possibility that policies from the new US administration could reignite inflation, which could cause more turmoil in rate policy. Based on heightened rate uncertainty, once again we are recommending an increased allocation to fixed income alternatives which are less sensitive to interest rates but offer a similar risk and return profile. We feel the higher terminal rate is not necessarily bad in the long run by offering a higher income stream from fixed income for bond investors.

US EQUITY:
US stocks have had a very good run, leaving the S&P 500 trading at 21.5 times earnings to end 2024, which is well above the 30-year average of 17 times earnings. However, the top 10 stocks were valued at 30 times earnings while the remaining 490 stocks were trading at

CONTINUED ON NEXT PAGE ▶

US EQUITY (CONT.)

only 18 times earnings. (JP Morgan) Valuations have been supported by high profit margins and strong earnings growth, estimated at 9% for the full year, and consumer spending has remained robust. We see the potential for a broadening of performance into the less expensive areas of the market. Deregulation and favorable tax policy could provide additional tailwinds, but there are also risks tied to tariffs and immigration policy. We remain in favor of incorporating flexible strategies that can respond more rapidly to changing market conditions, along with some profit taking from the more expensive asset classes.

INTERNATIONAL EQUITY:

Foreign equities lagged again for 2024 under the weight of geopolitical tensions, trade policy concerns, and spotty economic strength. Europe struggled, with the economies in Germany and France especially weak, and the European Central Bank cut interest rates to shore up the economy. China rebounded somewhat in 2024 by deploying stimulus to boost its markets, although Chinese consumers remained cautious. The war in the Middle East added to unease about trade disruption and energy prices. Foreign stocks are much cheaper than US stocks, and with many great companies today domiciled outside of the US, we are in favor of maintaining exposure outside of the US. We also continue to recommend a cautious and selective approach to international equities, particularly emerging markets, due to the ongoing uncertainty surrounding tariffs.

CHANGE AS A CONSTANT

The composition of equity markets has changed over time based on trends in the economy and corporate profitability. It is easy to get caught up in the idea that the top companies of today will always be at the top, but that is not necessarily the case. Some of the top companies from the past are still solid businesses today, but their stocks have been surpassed by other companies.

Largest Companies in the S&P 500

	Dominated by Industry - Hard Asset			Dominated by Technology
	Autos, Oil	Oil, Conglomerates	Oil, Banks, Pharma	Tech, Tech, Tech
Rank	**1965**	**1995**	**2006**	**2024**
1	General Motors	GE	Exxon Mobil	Apple
2	Exxon	AT&T Corp	GE	Microsoft
3	Ford Motor	Exxon	Citigroup	NVIDIA
4	General Motors	Coca-Cola Co	Microsoft	Amazon.com
5	Mobil	Merck & Co Inc	Bank of America	Meta
6	Chrysler	Altria Group Inc	Procter & Gamble	Alphabet
7	US Steel	Royal Dutch Petroleum	Johnson & Johnson	Berkshire Hathaway
8	Texaco	Procter & Gamble	Pfizer Inc	Broadcom
9	IBM	Johnson & Johnson	American Intl. Group	Eli Lilly
10	Gulf Oil	IBM	Altria Group Inc	Tesla

Source: Bloomberg, as of 10/18/2024.

Today's top stocks are more service and technology-oriented focused compared to the industry and good production of previous periods. Markets have recently been dominated by technology and optimism surrounding Artificial Intelligence. It is unknowable how long this trend will last or what other disruptors may change things in the future. We recommend continued exposure to the most valuable companies while maintaining diversification to hedge against the unknowable changes that will occur in the future. It would not surprise us to find the market is overly exuberant about technology today and maybe overlooking other areas of opportunity in the market.

> *"In the short run the market is a voting machine, but in the long run, it is a weighing machine."*
> *-Benjamin Graham, The Intelligent Investor*

DISCLOSURES:

This material is being provided for information purposes only and is not a complete description, nor is it a recommendation. Any opinions are those of Ascential Wealth Advisors and not necessarily those of Raymond James. The information has been obtained from sources considered to be reliable, but Raymond James does not guarantee that the foregoing material is accurate or complete. Investing involves risk and investors may incur a profit or loss regardless of strategy selected. Prior to making an investment decision, please consult with your financial advisor about your individual situation. Past performance is not a guarantee of future results. Investments mentioned may not be suitable for all investors. Diversification does not ensure a profit or guarantee against a loss. Individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. There is no guarantee that these statements, opinions or forecasts provided herein will prove to be correct. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow", is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal. MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations. The Barclays Capital Aggregate Bond Composite Index (BC Ttl Bond) measures investment grade, fixed-rate, taxable bond markets of roughly 6,000 SEC registered securities with intermediate maturities averaging approx. 10 years. The MSCI Emerging Markets is designed to measure equity market performance in 25 emerging market indices. The index's three largest industries are materials, energy, and banks. This information is not intended as a solicitation or an offer to buy or sell any security referred to herein. International investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility. There are special risks associated with investing with bonds such as interest rate risk, market risk, call risk, prepayment risk, credit risk, reinvestment risk, and unique tax consequences. To learn more about these risks, please contact our office.

Ascential Wealth Advisors is not a registered broker/dealer and is independent of Raymond James Financial Services. Securities offered through Raymond James Financial Services, Inc. Member FINRA/SIPC. Investment advisory services offered through Raymond James Financial Services Advisors, Inc.