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REVIEW & COMMENTARY

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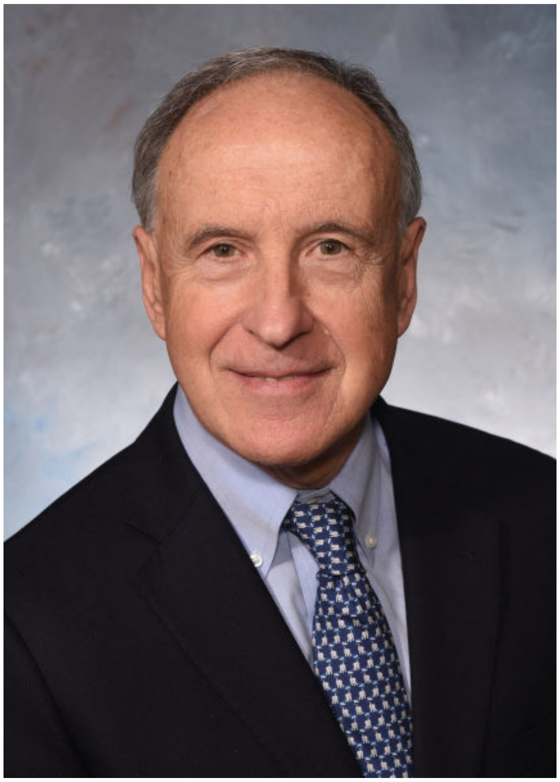

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With both U.S. and most global equity markets up substantially in 2024, following on the heels of a strong 2023, the key question investors face going into 2025 is "can it happen again?"

Will we see a threepeat in 2025?

This is the time of year when investors both look back at what worked or didn't in the past year and what might work in the coming year. What worked in 2024 is easy to answer: "Mag 7" stocks and related "A.I." companies. What didn't work were largely non-technology sectors. Only four of the S&P 500 index's 11 sectors outperformed the index's 24.01% gain. They were Telecom (40.05%), Information Technology (37.23%), Consumer Discretionary (30.98%) and Financials (28.80%). The other seven sectors lagged with materials being the worst (-1.62%) and Health Care, Real Estate and Energy all up, but less than 2% for the year.

With both U.S. and most global equity markets up substantially in 2024, following on the heels of a strong 2023, the key question investors face going into 2025 is "can it happen again?" To some degree logic dictates that after a 54% rise in the S&P 500 in the past two years, some sort of pull-back or a flat year is overdue, especially when market valuations are considered.

Not necessarily so!

Equity markets can be stronger for far longer than one might expect. After a gain of 68% in 1995 and 1996, the S&P went on to gain 106% more from 1997-1999. There have been several similar periods of up markets of three years or more, even of six or seven, following strong two-year periods.

However, with the weak days around Christmas, the market may be doubting this already. A Santa Claus rally is defined as the five trading days before year-end, plus the first two of the new year. The period is usually positive. But this year it is not. And down periods tend to portend a weaker market ahead. Take this with a grain of salt. Over the past 10 years (2014-2023) there were seven up Santa Claus periods and three down ones (2014, 2015 and 2023) but markets ignored the message with the S&P 500 up in all three down periods. In 2025, Santa Claus failed to come again with a 0.49% loss over the seven trading days ending January 3rd.

DATE	S&P 500 % Change
Tuesday Dec. 24	+1.10%
Thursday Dec. 26	-0.03%
Friday Dec. 27	-1.10%
Monday Dec. 30	-1.07%
Tuesday Dec. 31	-0.42%
Thursday Jan. 2	-0.22%
Friday Jan. 3	+1.27%

This year's Santa Claus rally will be soon forgotten when the market shifts to its next adage – the first five days of January and then, to entire month of January (So goes January, so goes the year). The gist of these adages is the same: if the market is up over a short period at the start of a year, its odds of being up for the full year increase. While true, all these adages work because of one basic fact: Markets are up most of the time anyway.

With 2024 over, there have been 95 years since 1930. Markets were up in 70 of them and down in 25, or in percentage terms, up 73.7% of the time and down 26.3% of the time. What is perhaps more amazing is how few down years there have been by decade as the following data shows:

	Up	Down	% up	% down
2020's	4	1	80	20
2010's	9	1	90	10
2000's	6	4	60	40
1990's	9	1	90	10
1980's	9	1	90	10
1970's	7	3	70	30
1960's	7	3	70	30
1950's	8	2	80	20
1940's	7	3	70	30
1930's	6	4	60	40

Given the current situation, the 2000's bear thinking about more than other decades. After a five-year run of about 247% for the S&P 500, the index fell about 37% 2000-2002. The period was known as the dot.com era and in some ways the current boom in Artificial Intelligence (A.I.) stocks is similar. Then as now, the S&P 500 was led by a relatively small number of stocks in tech and related sectors. Some got to valuations that were somewhat justifiable at the time but look ridiculous in hindsight.

Equity, and fixed income markets for that matter, are driven by many things. Two of the most important are earnings and multiples. As noted above, the year is starting at a period of high valuations. At year-end the S&P 500 sold for 21.8x estimated 2025 earnings per share. This is above its five- and 10-year averages of 19.6x and 18.1x respectively. While not necessarily a sign of a down market, there is data that suggest sub-par returns going forward when current valuations are extremely high. And even though this is said every year, it is always worth pondering what can make markets move in either direction. There are always things to worry about going forward. The list includes:

Good for Markets	Bad for Markets
Falling inflation	Rising inflation
Falling rates	Rising rates
Strong economy	Weak economy or "too-strong" economy
Global turmoil	Global stability
Stable energy prices	Rapidly rising energy prices
Lower regulation	Massive government deficits needing refunding

While history suggests that the S&P 500 will again rise in 2025, nothing says it has to be in a straight line. Since 1980, the S&P 500 has dropped 10% or more from the prior year's close only to recover since there have only been eight down years total over the period.
The upshot of all this is that if you have enjoyed the substantial gains over the past two years, it may be time to revisit your allocation to stocks, bonds and cash and bring it back to something you are comfortable with no matter how markets fare in the coming year.

As always, we are here to help.