

Raymond Capital Advisors, LLC

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Stock & Bond Benchmark Total Returns (%) For Periods Ending December 31, 2024					
	QTR	1-Year	3-Years	5-Years	10-Years
Standard & Poor's 500	2.41	25.02	8.94	14.53	13.10
Bloomberg Barclays U.S. Aggregate Bond	-2.99	1.33	-2.41	-0.33	1.35
60% Stocks / 40% Bonds TAA Composite Index	0.25	15.52	4.40	8.58	8.40
3-month Treasury Bills	0.94	4.40	3.66	2.26	1.65
Inflation (CPI)	0.10	2.89	4.22	4.20	3.00
Returns (%) include capital gains, dividends and interest. All data annualized for periods greater than one year. 60% Stocks / 40% Bonds TAA Composite Index is rebalanced monthly. Sources: S&P Dow Jones Indices, Morningstar, Federal Reserve.					

Review: A Strong Year for Stocks, but a Shaky Finish

The stock market delivered impressive returns in 2024, rewarding investors for their patience and confidence. After a challenging 2022 (-18.17%), equity markets bounced back sharply in 2023 and 2024, delivering annual gains of 26.29% and 25.02%, respectively for the Standard & Poor's 500 Stock Index Total Return. Over the past three years, the S&P 500 has averaged a 8.94% annualized return, closely aligning with its historical trend of 10.4% since 1925. However, the rally was largely driven by large-cap U.S. growth stocks, particularly the "Magnificent 7" mega-cap names, which once again dominated major indices and market-cap rankings. **Only 29% of S&P 500 stocks beat the index!**

Despite the strong performance throughout most of the year, the rally lost momentum in December as the prospects for consecutive interest rate cuts by the Federal Reserve began to dim, and the policy uncertainties of the new incoming administration moved closer to the forefront. Only two of the nine Russell equity style indices, and three of the eleven S&P 500 sectors ended the month with gains. The Dow Jones Industrial Average (DJIA) also suffered its seventh-worst December since 1900, illustrating the uneven nature of the market's performance. Nonetheless, stocks significantly outperformed bonds as the Bloomberg Barclays U.S. Aggregate Bond Index returned only 1.33% for 2024, weighed down by its weak performance in Q4 (-2.99%).

Outlook: Can Stocks Winning Streak Continue? Valuations and Profitability Trends

As we look ahead, market valuations remain a key area of focus. The S&P 500's price-to-earnings (P/E) ratio is elevated compared to its historical averages, largely driven by the largest companies in the index rather than the broader market which is more fairly valued. Mega-cap stocks have played a significant role in pushing valuation multiples higher, but strong corporate profitability is also supportive of their valuations.

Per analysis performed by Sam Burns (Mill Street Research): S&P 500 companies are experiencing historically high profit margins and return on equity (ROE). Operating margins have increased from 10-11% in the mid-2010s to approximately 13% today, while ROE has also climbed from around 16% to over 20%. Several advantages have allowed U.S. mega-cap firms to maintain and expand their profitability

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including cost advantages that a business experiences when it increases its production scale, minimal borrowing needs making them less vulnerable to rising interest rates, productivity gains through better use of technology investment, regulatory influence, etc. Sam believes these strong profitability metrics provide a foundation for sustaining higher valuation levels for mega-cap stocks. Smaller companies, however, while more fairly valued, have seen declining profit margins and ROE which has weighed on their performance and delayed market leadership from broadening.

What This Means for Investors

The key question remains: can the S&P 500 sustain earnings growth? Current consensus analysts' earnings expectations for 2025 call for a 16.2% increase. Reduce this by 8% because these estimates tend to come down by about this much as the year progress and this still leaves room for an +8.2% gain in stock prices (a target of 6,364 assuming the Price to Earnings valuations stay the same). Also worth noting is the range of forecasts from the major Wall Street brokerage firms, which span from -6.0% (5,500) to +21% (7,100), which still suggests more upside reward than downside risks.

Certainly, earnings could come in better than expected as economic growth improves along with continued modest disinflation from technological productivity boosts (e.g. AI investments, etc.), a slow glide for interest rates reductions, as well as potential deregulation and tax cuts. The economy has proven remarkably resilient in recent years surprising many economists with its continuing strength.

But there are also downside risks as "Trump 2.0" policies contain a lot of uncertainties and have the potential to ignite trade wars, while mass deportations, tax cuts, as well as expansionists territorial ambitions (Greenland, Panama, Canada) have the potential ignite inflation and expand deficits. As a result, interest rates could move higher in the process and pose a threat to both stock and bond prices.

Earnings growth, interest rates, and inflation remain key. If real bond yields (i.e. bond yields above the rate of inflation) remain elevated, stock valuations could face pressure, but if earnings grow and/or rates decline and/or productivity increases, relative stock valuations could improve, leaving more upside.

For investors, we maintain that a balanced and diversified portfolio remains essential. While mega-cap stocks have continued to demonstrate leadership, we continually seek exposure to other market segments with an emphasis on specific stock selection.

Final Thoughts

We continue to monitor market conditions closely and encourage investors to maintain a diversified approach, balancing exposure across asset classes while focusing on long-term growth opportunities. If you have any questions about how these market trends impact your portfolio, please feel free to reach out.

Wishing you a prosperous and successful 2025!
Geoff & Lance

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