Rembert | Pendleton | Jackson

Financial Advisors

JANUARY 10, 2025 QUARTERLY PERFORMANCE REVIEW FOURTH QUARTER 2024

Financial and Investment Advisors for Families, Businesses, Retirement Plans and Charitable Organizations

Dear Client:

We have enclosed your fourth quarter 2024 Portfolio Performance Report. Please review the materials and maintain for your records.

This table presents the 2024 fourth quarter and year-to-date returns of the benchmarks for selected asset classes.

Asset Class Returns

Asset Class	4th Qtr 2024	Full Year 2024	Benchmark Index
Domestic Fixed Income	-1.60%	3.00%	Barclays Intermediate Gov't / Corp Bond
Domestic Inflation Protected	-2.88%	1.84%	Barclays TIPS Index
International Fixed Income	-0.95%	3.40%	Bloomberg Global Aggregate Bond – Hedged
Domestic Equity (Large)	2.41%	25.02%	S&P 500 with Dividends
Domestic Equity (Large Value)	-1.98%	14.37%	Russell 1000 Value Index
Domestic Equity (Small)	0.33%	11.54%	Russell 2000
Domestic Equity (Small Value)	-1.06%	8.05%	Russell 2000 Value
International Equity	-8.11%	3.82%	MSCI EAFE Equity Index with Dividends
Real Estate	-8.15%	4.92%	FTSE NAREIT Equity
Precious Metals	-0.79%	25.53%	Gold
Natural Resources	0.49%	8.06%	Dow Jones UBS Commodity Index

Equity markets had a generally negative fourth quarter of 2024, but all posted gains for the full year. The S&P 500 had a second consecutive year of gains of 25% or more and remains a key part of most portfolio discussions. International stocks and US real estate had especially poor results in Q4 as the narrative on interest rates and tariffs drove down expectations for each.

We continue to note that the top 10 companies in the S&P 500 make up about 38% of the weight of the entire index. Those 10 are predominantly in the technology and communications sectors. What may seem like historically high P/E (i.e. valuations) for the S&P can largely be attributed to the top 10. The P/E for the remaining 490 stocks are more near the long-term norm. More broadly, other parts of the equity market (i.e., the other 490 companies in the S&P 500, small cap stocks, real estate, and international stocks) also did extremely well. The bond market also saw very nice quarterly gains.

J.P. Morgan's Chief Global Strategist, Dr. David Kelly, believes the outlook for the US economy over the next 12-24 months is quite healthy. At the same time, high valuations can increase the impact of losses when "irrational exuberance" or other unexpected bumps occur. We have seen this happen in the past in the technology and communication sectors.
Source: JP Morgan Guide to the Markets webcast on January 2, 2025

As we reflect on the year just completed, we believe three storylines dominated the news. 1) Artificial Intelligence (AI): The sectors that build and house AI computer systems and develop the AI software were front page news all year. It seems that FOMO (fear of missing out) is driving massive investments, which has led to massive profits (for some, for now), but the economic model that says these AI investments will create a profitable long term revenue stream remains elusive. 2) Federal Reserve: The Federal Reserve used their vast data sources to determine that lower inflation could enable lower interest rates and not create significant economic turmoil. The markets were ever watchful during the year, which led to some volatility across bonds and other sectors, but the end result seems to be that we are now better positioned with respect to inflation and interest rates for the future than at the start of 2024. 3) The Election – Yet again it seems the polling forecasts were not very accurate. With the advantage of hindsight many felt they could clearly explain how the election results should have been expected. The conclusive results eliminated the consternation and unknowns related to a closely contested race. The short-term exuberance has faded and the potential long-term market impacts will be leading the headlines as we enter 2025.

Quotable Quotes

"If there is one common theme to the world's financial crisis, it is that excessive debt accumulation, whether by government, banks, corporations, or consumers, often poses greater systemic risk than it seems during a boom."

- *Carmen Reinhart, (former) World Bank Chief Economist*

Also heading into 2025, we believe the AI story will still significantly influence the financial markets, as will the Federal Reserve policy pronouncements on the path of inflation and interest rates. We note that many financial analysts are forecasting a positive market in 2025, but not as large gain as we have seen in 2023 and 2024. Our firm has consistently stated that we are both unable and unwilling to predict the future path of the markets. That being said, we do listen to what others say and how they may provide rationale to support their views on the economy and markets in the year ahead.

We address the unpredictability and volatility of the markets through keeping your portfolio well diversified. While the top 10 have been a driving force of late, the other parts of the market still remain an important part of our economy and investment markets. Large companies outside the top 10, small companies, international stocks and real estate all deserve a seat at the equity table.

The fixed-income markets (money markets funds and bonds) will likely see a bit less volatility as the path of interest rates seems to be clearer for the next year. Short term rates (like money market funds) have fallen from last years enviable 5% range to a more modest, but still respectable 4% range. Intermediate and long-term rates have fallen less than 1 percent. These changes support a strategy of holding short to intermediate duration bond funds as the core fixed-income allocation. This strategy should see yields in the 4% to 5% range and a slight chance for appreciation if the Federal Reserve holds to two rate decreases during the year.

The impact to the economy and portfolios from the change in administrations is still largely an unknown. The rhetoric on tariffs, immigration, the annual budget deficits, and the ever-growing national debt (now over $36 trillion) confirms that large, hard to solve problems are right in front of us. The actions on how to address these problems, both in form and timing, will add to the storylines for 2025.

Our investment philosophy continues to advocate participation in the markets with a globally diversified portfolio as a prudent strategy for the long journey. We welcome your comments and value the relationship we have with each of you. Our sincerest best wishes to you in 2025!

Regards,

Rembert Pendleton Jackson

Rembert Pendleton Jackson

"I recommend good growth mutual funds."

Wit or Wisdom?

"Money is not the most important thing in the world, love is. Fortunately, I love money.

~ Jackie Mason."

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