MoneyMatters
Market Update

Q1
2025

Emerging Horizons

·ROEHL & YI·
INVESTMENT ADVISORS, LLC

Emerging Horizons

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Happy New Year to you and your family.

2024 delivered a dynamic, record-breaking market environment, building on the many successes of 2023 despite risks from various significant global elections, continued geopolitical tensions, and concentrated markets with high stock valuations.

After an impressive 2024, the 2025 outlook is full of new themes, potential opportunities, and a few uncertainties.

The US economy appears strong in many ways. As of December 2024, the unemployment rate remained relatively unchanged at 4.1%, and 256,000 jobs were added in December, starkly contrasting the 12,000 jobs added in October (Source: *Bureau of Labor Statistics*). A tight housing market is contributing to historically high home equity values buoying wealth creation, and consumers are showing resilience. However, credit card defaults spiked 50% year-over-year in the first nine months of 2024 (Source: *FDIC*).

A recession was avoided in 2024, and an above-trend real GDP growth is expected to reach 2.4% for the year (Source: *The Organization for Economic Co-operation and Development*).

Inflation has become a thornier conundrum than anticipated for the Federal Reserve. A cooler CPI stood at 2.9% (over the past 12 months) but remains higher than their preferred target of 2% (Source: *Bureau of Labor Statistics*). While the December 25 basis-point rate cut was widely expected, what was not expected was the insinuation that rates may not necessarily follow the downward trajectory. The Fed's 40-year playbook has been to cut rates at every sign of weakness or crisis, but persistent inflation coupled with large government deficits makes this approach problematic and outdated. While Jerome Powell expressed reluctance to reduce interest rates aggressively in 2025, time will tell.

As of the publication of this *MoneyMatters Market Update*, President-elect Trump will have been inaugurated. His supporters have lofty expectations for the next four years, and we could see a business-friendly environment, helpful developments from the Department of Government Efficiency (DOGE), permanent tax cuts, a revised energy policy, and a boon for the private equity and real estate sectors, to name a few.

The new administration's policies, however, remain unknown. The clarity in some areas is offset by anticipation in others, such as new approaches to trade and illegal immigration mitigation, which could be inflationary over time. Though labor and wage inflation has generally decreased in recent years, it could become an issue again.

Our hearts go out to those who have lost homes, property, and loved ones in the recent Los Angeles-area wildfires, whose estimated damages eclipse $250 billion (Source: *Business Insider*). As the state rebuilds, the federal government will offer aid at a delicate time when budgets are strained.

We will continue to monitor events both global and domestic, and their influence on instability and our nation.

While 2025 is shaping up to be a year of great evolution and optimism, always approach your portfolio and financial goals with a long-term strategic lens.

Market Recap
Stock Market

With a 25.02% return for 2024, the S&P 500 enjoyed its best two years since the late 1990s. The Russell 1000 Large-cap Value Index rose 14.37%, the Russell 1000 Large-cap Growth Index was up 33.36%, and the Russell 2000 Small-cap Index increased 11.54%. Emerging markets stocks had a solid return of 7.50% although it significantly lagged the US market. (Source: *Morningstar*).

Bonds were mixed, with more rate volatility expected and the potential for higher Treasury yields. Still, Wall Street agrees that fixed income may provide relatively attractive returns. Bonds were on their way to a solid year until interest rates rose in the 4th quarter, leaving bonds down 3.06% with a final increase to 1.25% for the year in the Bloomberg US Aggregate Bond Index. The 10-year treasury bonds fell 1.57%. (Source: *Morningstar*).

2024 Market Returns (December 31, 2024)

	4Q 2024	FULL YEAR 2024	FULL YEAR 2023	CURRENT YIELD	COMMENTS
EQUITIES					
US Large Stocks - S&P 500	2.41	25.02	26.29	1.29	*Best two consecutive years since 1998 with 57 new all-time highs.*
US Large Value - Russell 1000 Value	-1.98	14.37	11.46	2.10	*Value significantly underperformed growth for the 2nd consecutive year.*
US Large Growth - Russell 1000 Growth	7.07	33.36	42.68	0.59	*Large growth stocks led again after another strong year from the "Mag 7".*
US Small Stocks - Russell 2000	0.33	11.54	16.93	1.32	*Small stocks set an all-time high before falling back.*
Int'l Developed Stocks - MSCI EAFE	-8.11	3.82	18.24	3.07	*Lost 8% in 4th quarter after setting record high.*
Emerging Markets Stocks - MSCI EM	-8.01	7.50	9.83	2.69	*September rebound in China market gave a boost.*
FIXED INCOME					
Cash - US 3-Month Treasury Bill	1.17	5.25	5.01	4.37	*Cash yields have come down after Fed rate cuts but remain over 4%.*
Core Bonds - Bloomberg US Aggregate	-3.06	1.25	5.53	4.91	*Small gain for US bonds and still showing a 3-year loss.*
US 10-Year Treasury Bonds	-5.07	-1.57	3.80	4.58	*Longer-dated bonds fared worst due to rising interest rates.*
Bloomberg Municipal Bonds	-1.22	1.05	6.40	3.47	*Municipal bonds slightly underperformed core taxable bonds.*
Bloomberg US TIPS	-2.88	1.84	3.90	4.20	*Tips slightly ahead of regular bonds due to inflation protection.*
Bloomberg US High Yield	0.17	8.19	13.45	7.20	*Riskiest bonds did best but extra yield near record lows.*
Int'l Bonds - FTSE World Gov't Bond	-5.44	-2.87	5.19	3.37	*Rise in US dollar negatively impacted returns for foreign bonds.*
ALTERNATIVES/MISCELLANEOUS					
US Public Real Estate - DJ US Select REIT	-5.93	8.10	13.96	3.88	*Real estate fell nearly 6% in the 4th quarter with interest rates rising.*
Bloomberg Commodity	-0.45	5.38	-7.91		*Commodities once again lagged the broader market.*
Gold - LBMA Gold Price	-0.79	25.53	14.59		*Gold set record highs before falling back some.*
Oil - West Texas Crude	5.37	-10.32	6.41		*No real change as oil prices spent the year in the $70 - $85 range.*
Bitcoin - S&P Bitcoin	47.16	122.29	153.69		*Briefly surpassed $100,000 after posting two consecutive 100%+ years.*
Consumer Price Index, 12 Mo Change	2.70	-	3.10		*Inflation somewhat sticky at these levels vs. the Fed's 2% target.*

Sources: Morningstar, S&P Global, FTSE Russell, MSCI, Bloomberg. Past performance is no guarantee of future returns.
Current yields are based on forward dividend yields for equities and yield to maturity for bonds.
Data as of 12/31/2024

Higher Returns Appear in All Flavors of Stocks

It was a good year for US stocks across the board, with all sectors in the black, including the technology, financial, and utility markets. Communication services and technology led with 39.7% and 37.6% returns, respectively, while consumer discretionary, financials, and utilities all had returns of over 20%. The following table highlights the substantially higher returns for *growth* versus *value*, with the largest growth stocks contributing the most to the S&P 500's 25%+ return (Source: *Morningstar*).

U.S. Equity Style Box Performance

Q4 2024

	Value	Blend	Growth
Large	-2.51	0.53	8.90
Mid	-2.31	-2.44	7.24
Small	0.77	-1.83	1.79

2024

	Value	Blend	Growth
Large	14.69	23.99	27.75
Mid	12.28	13.47	20.33
Small	9.67	9.68	12.98

Source: Morningstar, data as of December 31, 2024

US Leapfrogs Nations in Stock Market Value

Various nations across the globe saw a wide range of returns in 2024, with the US near the top, just under Argentina. Argentina saw the highest stock market returns due to investor optimism surrounding the new president, Javier Milei, who has promised significant economic reforms. China, whose financial woes include a real estate market correction, weak consumer spending, and overextended local government, came in third. A relatively strong US dollar hindered the poorest performers.

2024 Country Performance

Argentina	63.2%	Japan	6.8%
USA	25.0%	S. Africa	6.4%
China	18.0%	Spain	6.3%
Turkey	13.7%	France	5.3%
Canada	12.2%	Australia	0.8%
Italy	10.4%	Hong Kong	0.1%
Germany	10.3%	Switzerland	-2.6%
Greece	9.7%	S. Korea	-20.8%
India	9.0%	Mexico	-28.2%
UK	6.8%	Brazil	-29.9%

2024 local stock market returns, in US dollars

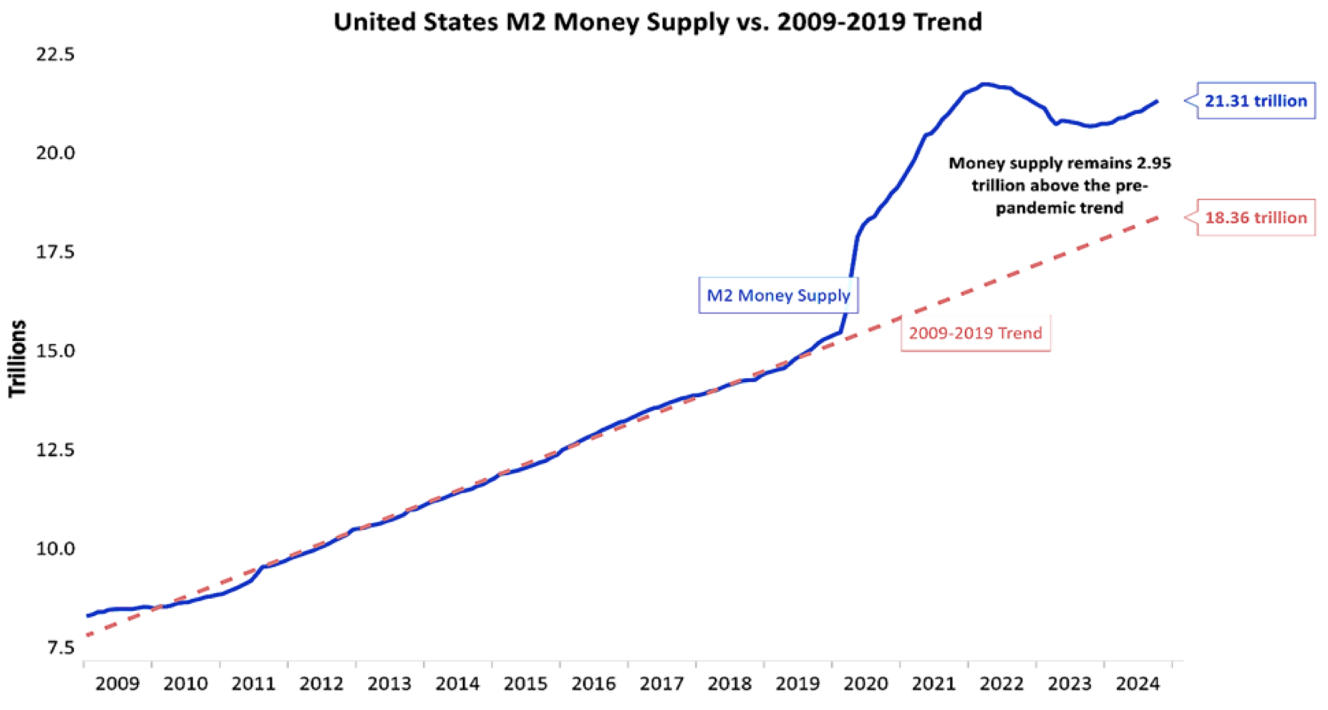
Source: Morningstar, data as of December 31, 2024

The Economy

The Law of Supply and Demand Proves True for Inflation

The government poured money and stimulus into the economy during and after the pandemic and has yet to tighten the spigot. The well-understood laws of supply and demand have undoubtedly provoked inflation. Dollars not used by productive investment appear to have gravitated to real estate, stocks, bitcoin, and volatility-inducing speculation.

The Ballooning Money Supply Aggravates Inflation



Source: DoubleLine, Fed, Macrobond. Data as of October 2024.

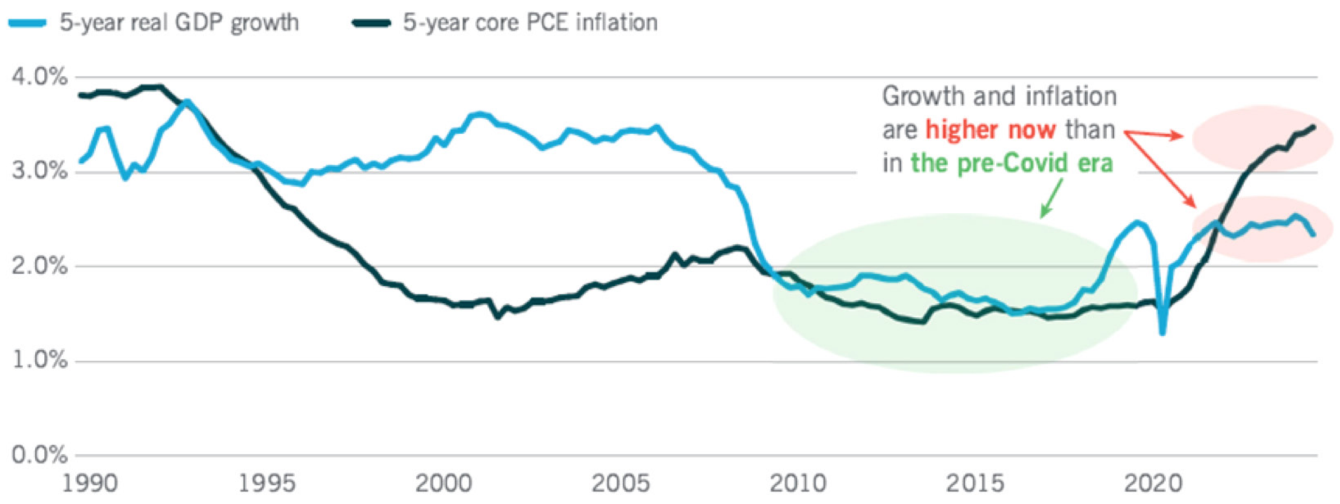
Inflation Impact on Growth Not As Extreme as Predicted

As the global economy approaches the fifth anniversary of the pandemic, it is clear that fundamental conditions have changed. The pre-COVID world of low growth, low inflation, and low interest rates is behind us. Inflation, as measured by the annual core personal consumption expenditures (PCE) price index, was below the desired 2% target in 116 out of 120 months in the pre-COVID decade and has been running above the target for 43 straight months and counting.

In a surprising parallel, US GDP growth has moved upward, averaging 2.3% over the last five years, a much higher level than the 1.8% average from 2010 to 2019 (Source: *Bloomberg*).

Growth & Inflation Move in Unison

Figure 2: Long-term U.S. growth and inflation have moved structurally higher

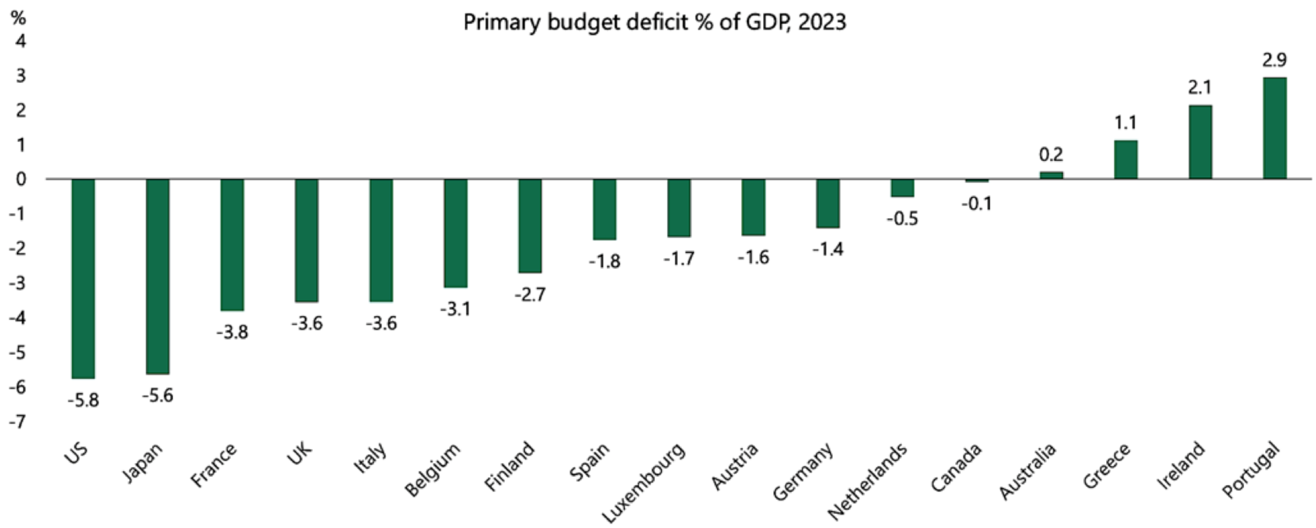


Source: Nuveen, Bloomberg, L.P., Dec. 1989 to Sept. 2024. Data represents five-year moving averages of quarterly growth and inflation readings.

The Reckoning of Government Deficits and Debt

Larger government budget deficits have become the norm in the developed world and must be addressed soon. Aging populations result in relatively fewer workers to generate the economy, which is also expected to put upward pressure on future inflation and interest rates.

Large Government Deficits and Increasing Debt

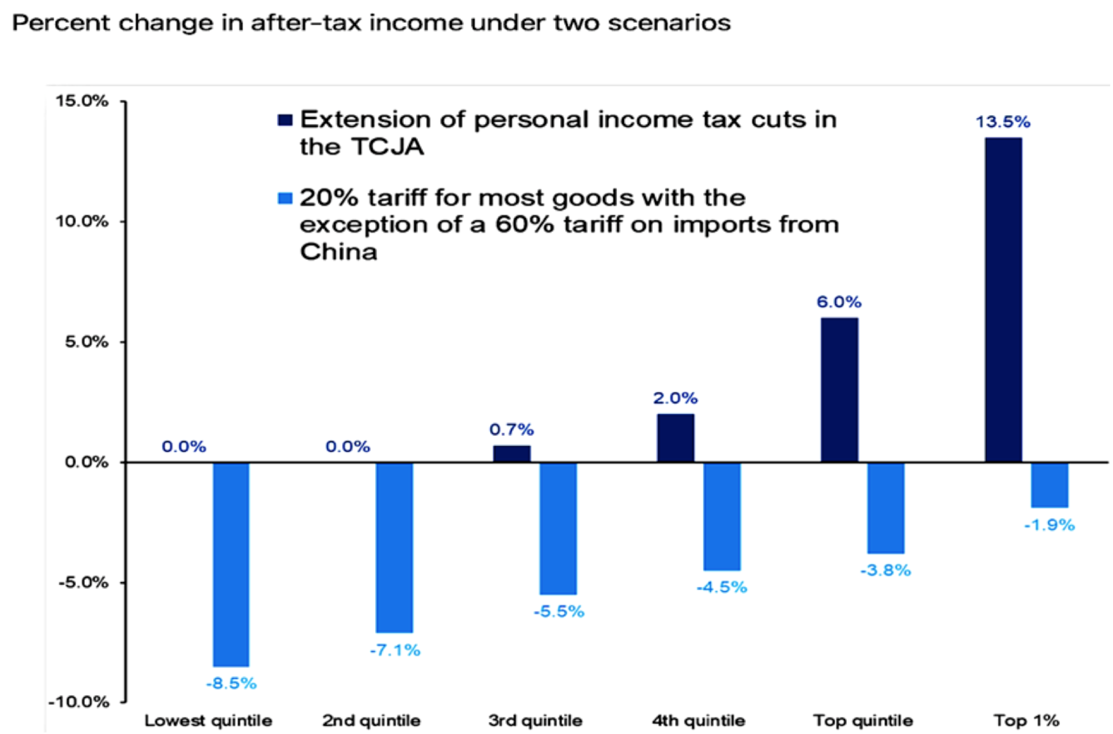


Source: IMF, Apollo Chief Economist. Note: Primary budget deficit excluding interest payments.

The Potential For New Tariffs and Tax Act Extension Create Uncertainty

It remains to be seen exactly how the economy will digest potential changes to tariffs and trade strategies. The middle class could benefit if tax cuts are extended and less meaningful tariffs are enacted. Meanwhile, according to KPMG and the Peterson Institute for International Economics, adding new tariffs could be expected to harm lower wage earners. At the same time, continuing the "Tax Cuts and Jobs Act" beyond 2025 would benefit all earners.

Potential Tariff Impacts

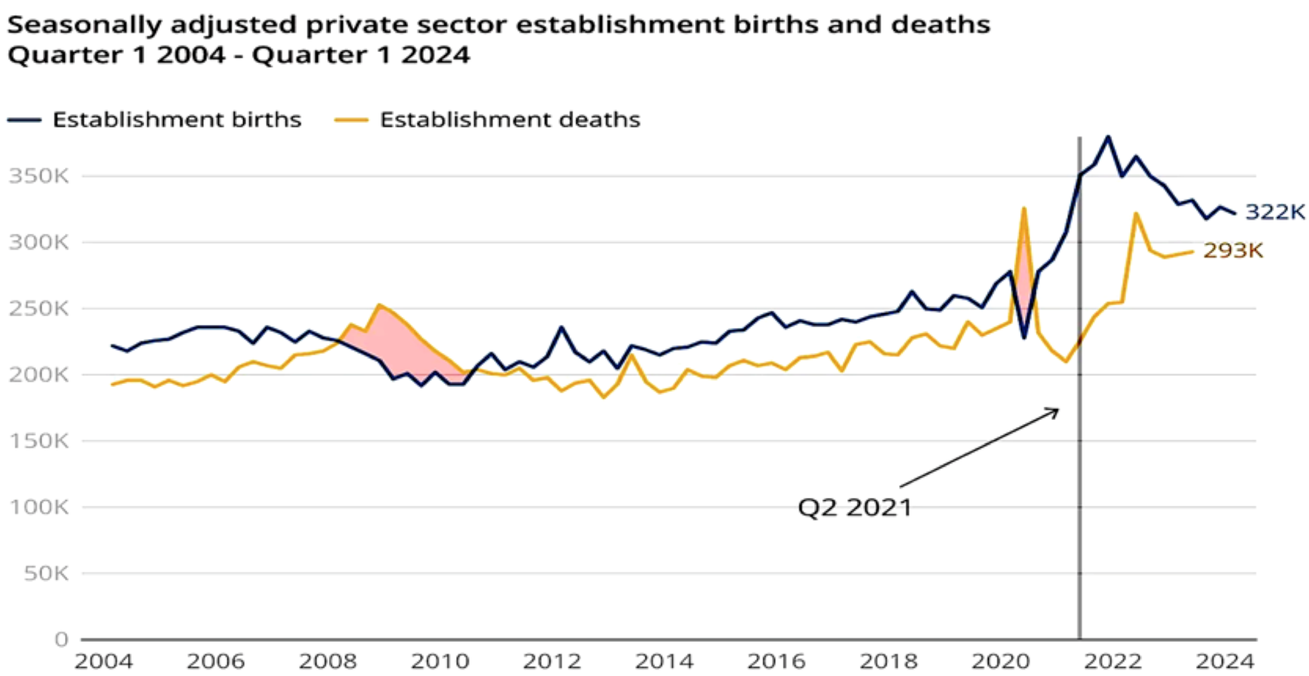


Sources: KPMG and the Petersen Institute for International Economics.

A Brighter Outlook for Entrepreneurship Under New Administration

Since the pandemic, new businesses have formed at a 50% higher rate than pre-pandemic levels, likely due to necessity. Given the new administration's more business-inclined posture, we can hope that those seeking entrepreneurship continue the positive trajectory we've seen.

Post-Pandemic Economy Shows Heightened Entreprenurial Activity



Sources: Economic Innovation Group, Business and Employment Dynamics

Roehl & Yi's Final Thoughts

A new dawn is upon us, and with it may come opportunity and unknowns. US stocks have posted total returns above 20% in two consecutive years (e.g., 2023 and 2024) only nine times since 1928 (Source: *BlackRock*), so prudence is warranted when anticipating 2025 to deliver another year of outsized double-digit gains.

Consider these four suggestions:

- Manage risk through diversification and lean away from overly expensive assets in favor of more modestly priced investments.
- Seek assets earning at least 4% - 5% on cash and short-term bonds should you desire shelter before other investment prospects arise.
- Do not overthink or overstate the importance of rate cuts in 2025. The economy and markets can continue to perform with or without them.
- Revisit your financial plan with your advisor to meet your objectives. Take a goals-based approach and adjust your investment strategy as needed for the New Year.

The Roehl & Yi Promise

Roehl & Yi is committed to delivering value through enhanced client engagement, new educational videos, resource-filled emails, and more.

As always, we are grateful for your continued trust in Roehl & Yi. Please call us first with any questions or concerns about your investments or other financial matters. May you and your family experience happiness and good health.

ROEHL & YI
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