HICKOK & BOARDMAN CAPITAL MANAGEMENT

Looking Back, Moving Forward: Insights for 2025

As we close the chapter on 2024 and look ahead to 2025, we want to take a moment to reflect on the past year's market and economic developments, while sharing our thoughts on the opportunities and risks that lie ahead. This past year showcased the remarkable resilience of the U.S. economy. Despite an uncertain start marked by lingering concerns over inflation and geopolitical tensions, the U.S. economy demonstrated steady growth as GDP for 2024 is estimated to be a solid 2.7%, driven by robust consumer spending and a resilient labor market.

The stock market delivered strong returns, with the S&P 500 gaining 25.02% for the year, marking back-to-back years of over 20% returns, a historically rare feat. Similar to 2023, much of the return is attributable to the "Magnificent 7" mega-cap, tech-centric companies, as they accounted for over 50% of the return of the S&P 500. That being said, the second half of the year saw broader market participation, with dividend payers, value-oriented stocks and small-cap companies delivering strong returns, a trend we see continuing throughout the new year.

As we enter 2025, we are optimistic about the opportunities the market presents, while remaining vigilant about potential risks.

Opportunities:

1. **Economic Resilience**: While many predicted the U.S. economy was headed towards a recession, the opposite has occurred, driven mainly by a strong consumer and a healthy labor market. We believe that consumer resiliency should sustain growth into 2025 as the current personal consumption growth of 3.7% is above the 50-year average of 3% – this is important because 2/3 of US GDP is driven by the consumer. While the unemployment rate (4.2%) has recently increased from its historic low (3.5%), additional fed rate cuts and a soft landing should ensure our economy remains at full employment.
2. **Artificial Intelligence (AI) Investment**: The rapid adoption and integration of artificial intelligence technologies across industries represent a powerful tailwind for long-term growth. The companies that are leading the way include Amazon, Alphabet, Meta and Microsoft who are expected to collectively spend $500 billion over the next three years as they battle for dominance within the AI space.
3. **Pro-Growth Policies**: President Trump's pro-business policy agenda, including deregulation and corporate tax incentives, could bolster business investment, improve profitability, and drive job creation—further supporting economic and market growth.
4. **Increasing Market Breadth**: While the "Magnificent 7" continues to dominate headlines, many stocks outside this group remain attractively valued. Much of the deregulation policies from the incoming Trump administration focuses on banks, energy and health care companies which could lead to an increase in free cash flow for dividend-paying companies, allowing them to potentially raise their dividend payments.

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Risks:

1. **Inflation Re-Acceleration**: While inflation moderated in 2024, the reignition of inflationary concerns in 2025 could lead to tighter monetary policy resulting in interest rates remaining "higher for longer".
2. **Potential Tariffs**: The incoming administration's consideration of new tariffs on imported goods could pose a challenge for the U.S. economy as this could result in higher inflation and elevated interest rates. Tariffs often lead to higher costs for businesses and consumers, potentially slowing economic growth and creating headwinds for sectors reliant on global trade.
3. **Geopolitical Tensions**: The ongoing conflicts in the Middle East and Ukraine present headline risks that could create market volatility and impact global supply chains.
4. **Ballooning Government Debt**: The U.S. national debt has reached unprecedented levels, raising concerns about long-term fiscal sustainability. In the fourth quarter of 2024, U.S. debt exceeded $29 trillion which means the national debt is close to surpassing 100% of U.S. GDP – the last time this happened was during World War II. High debt levels could lead to increased borrowing costs, constrain public investment, and limit the government's ability to respond effectively to future economic challenges. While this may not be a problem/risk for 2025, it nevertheless remains a key structural risk for the economy and markets.

While the markets will undoubtedly face ups and downs in the year ahead, we firmly believe in the importance of taking a long-term approach to investing. Staying disciplined, diversified, and focused on your financial objectives is key to navigating market uncertainty and capitalizing on opportunities over time.

We are deeply grateful for the trust you place in our team. It is a responsibility we take seriously, and we are committed to providing you with exceptional service and guidance as we work together toward your financial success.

From all of us at Hickok & Boardman Capital Management, we wish you and your family a healthy, prosperous, and Happy New Year. We look forward to continuing to serve you in 2025 and beyond.

The fourth-quarter market commentary was written by Brian Lowry, CFP®, on behalf of the Hickok & Boardman Capital Management Team