HILGER
WEALTH STEWARDSHIP OF
RAYMOND JAMES®

January 2, 2025

Dear Friends,

The year of 2024 was another great year for the US equity market as the S&P 500 ended with an annual return of 25.59%. This is on top of an annual return of just over 24% for calendar 2023. As we look forward into 2025, logic suggests that we will not see the same robust returns three years in a row. As a matter of fact, many analysts are projected a flat to negative start to the year with a second half rally to follow.

There is no doubt that the economy and the markets will be affected by the incoming Trump administration. In his first presidency, President Trump created disruptions and headline volatility with his announcements and policy. It is our opinion that we should expect the current Trump administration also to be disruptive, but not destructive. It is in the new administration's own interest to keep the economy and the markets from failing and we expect that policy will be directed to achieve this goal.

As we look forward into 2025, we believe that the markets will be driven by policy directives on the Trump administration as well as the Federal Reserve Bank. The Fed remains concerned about inflation and their policy will be governed by the continued rate of decline in inflation. While many analysts expect the Fed to only provide one or two rate cuts in 2025, others think that there is a chance that the Fed could be forced to raise rates to keep inflation at bay. The equity markets will remain extremely sensitive to this and the direction of Fed policy which will be data driven as Chairman Powell asserts. So, we must remain vigilant to changes in inflation data or Fed policy direction.

Many analysts are citing President Trump's use of tariff policy as a causation for higher inflation. While there is no doubt that President Trump does use tariff policy as a bargaining chip for international trade, we do not expect radical implementation in the early days of his administration. Rather we anticipate a gradual increase in the use of tariffs when and where needed and on selective countries and goods. This should avoid a massive resurgence of inflation as markets and corporations absorb the associated impacts over time.

Another factor that will affect broad inflation change is unemployment. We expect to see increased unemployment from the government sector as the new administration and the Department of Government Efficiency focuses on reducing government spending and slashing departmental budgets. As government spending contracts that should reduce pressure on prices and help keep inflation low. Demonstrating a focus on reducing government spending and deficit growth may help keep the ratings on US debt stable, and avoid higher interest rates in the markets,

In his first administration, President Trump was highly supportive of energy development in the US. We see no reason why there would be a policy change in the current administration, so we are favoring fossil fuel development and growth in our investment theme. We further expect that the new administration will cut or decrease any government subsidy towards alternative energy and that this sector will likely under-perform. We also believe that there will be support for new development and implementation of nuclear energy which will support future electrifications needs associated with the power demands of artificial intelligence and data centers. The energy and utility sectors are likely to be beneficiaries and good performers in this scenario.

We expect to see government spending and policy to be supportive of improvements in US infrastructure and industrial production. These would be linchpins of policy directed to “make America great again”, so it may be worth considering portfolio assets to be reallocated into a higher weighting of these sectors as well.

Top performance in the S&P 500 in 2024 was driven primarily those companies in the index that were deemed to benefit the most from the emergence and development of AI (artificial intelligence). This group includes semiconductors and other large technology companies whose names are now household names. Also benefitting were several utility companies as there is an expectation that demand for electricity needed to run the applications supporting AI will be supportive of earnings growth. While currently considered expensive, we do not see these company valuations falling significantly given the ongoing focus on AI.

Commercial real estate has been, and continues to be, a concern for investors. Commercial office oriented real estate remains under pressure as vacancy rates dropped, yet more and more companies are expecting their workers to return to work, at least part time. This should help resolve vacancy issues and allow for the banks and private funds who own real estate time to work thorough solutions. Lower interest rates will also help this sector, reducing financing costs and improving outlooks.

Overseas, the regional conflicts continue. Still unresolved are the Ukraine-Russia conflict as well as the Israeli- Hamas conflict. How President Trump responds and impacts the outcomes in these conflicts will impact where government spending will be directed. Should these conflicts come to conclusion that may help markets with greater clarity and less defense spending. These two geopolitical risks warrant keeping aware of.

As policy shifts away from globalization towards a domestic focus, we would not be surprised to see lower returns in the broader markets. In the US equity market, many analysts are concerned about valuations and feel that the market is over-priced. Other analysts point to the massive growth of the new industries supporting artificial intelligence and suggest that the higher valuation is justified. Our opinion is that we will see some corrective repricing in the near term followed by a later year rally as policy implications are considered and investor allocate towards opportunity.

We expect the markets to continue to face volatility. We continue to believe investors should maintain a balanced portfolio, allocated among stocks, bonds, cash, and non-traditional alternative investments. The focus for bond investors should be to get capital invested in longer duration assets to avoid reinvestment risks associated with the potentially lower rates in the future. The focus for equities should remain on US centric portfolios with large market capitalization as a focus. We want to be balanced between growth and value and if adding capital, we would emphasize dividends instead of growth at this time. We continue to favor holding onto the shares of large cap growth companies. Our focus is to stay invested but add a slightly more balanced posture.

Thank you for your trust.

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The S&P 500 is an unmanaged index of 500 widely held stocks. The NASDAQ-100 is a stock index made up of equity securities issued by 100 of the largest non-financial companies listed on the NASDAQ. It is a modified capitalization weighted index. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investors results will vary. There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices rise. Investing in stocks involves risk, including the possibility of losing one's entire investment.

Dividends are not guaranteed, will fluctuate, and must be authorized by the company's board of directors. U.S. Treasury securities are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and guaranteed principal value.

Alternative investments involve substantial risks that may be greater that those associated with traditional investments and are not suitable for all investors. These risks include, but are not limited to: limited liquidity, tax considerations, incentive fee structure, potentially speculative investment strategies and different regulatory requirements. Investors should only invest in alternative investments if they do not require a liquid investment and can bear the risk of substantial losses.