LOUISVILLE CAPITAL ADVISORS OF RAYMOND JAMES®

Louisville Capital Advisors
Current Thinking – First Quarter 2025

Positives:

1) The economy demonstrated remarkable resilience throughout 2024, providing a robust foundation for a positive corporate earnings outlook as we move into 2025.
2) The US economy grew at an annual rate of 2.8% in the 3rd Quarter.
3) The U.S. labor market remains healthy, with the unemployment rate and jobless claims slightly elevated but still contained.
4) The S&P 500 finished 2024 up 20+% for the second year in a row. It was also the second year in a row that large technology stocks contributed a large portion of the return.
5) Personal income was up 5.3% thru November which has allowed consumers to fuel the US economy.

Negatives:

1) Concentrated stock returns, Federal Reserve messaging, and headline risks such as tariffs and trade negotiations could hinder upside momentum and contribute to increased volatility.
2) The impressive consecutive 20+% gains in equities are rare, having occurred only three times since 1930, with the following year's median return typically lower at 2.6% compared to the S&P 500's average of 11%.
3) The US 10-year treasury is back above 4.5%, causing mortgage rates to climb higher.
4) Inflation, as measured by the Consumer Price Index, has stalled out at around 2.7% which remains above the Fed's target of 2%. The Fed has indicated it will not cut interest rates as many times as previously expected in 2025.
5) After another strong year for stocks, the price-to-earnings (P/E) ratio on the S&P 500 is above 25. This is expensive compared to historical P/E ratios.

Considerations

1) With elevated multiples, earnings growth will need to be the primary driver of equity returns in 2025, supported by a strong and resilient U.S. consumer.
2) Broadening market breadth should favor diversification, as historical spikes in market concentration have often created opportunities for the "average stock" to achieve relative performance gains.
3) Coming off a strong year in equities, investors should consider taking profits and paying off debt or buying more fixed income.
4) The first quarter of the year is a good time to review your spending budget, financial plan, and estate plan to see if updates or changes are needed.
5) The tax laws passed in 2017 are set to expire at the end of 2025 unless Congress acts. Consider preparing now to stay ahead of any potential changes to the tax code.