

## Semi-Annual Market Commentary – January 2025

*“Uncertainty is the friend of the buyer of long-term values” – Warren Buffett*

Welcome to the first edition of Padawer Bratton Wealth Management’s Semi-Annual Market Commentary newsletter. During your Strategic Planning Session, we focus on the specific positioning of your portfolio, but we also believe it’s important to provide periodic market insights and share our perspectives on identifying the most promising investment opportunities across the sectors of the securities markets. Consequently, we conduct comprehensive research to ensure we can adapt to and implement changes that align our analysis with your best interest.

2024 marked a historic year for US equity markets, while moderating for bonds and international stocks. Gold also notched record highs, though the broader commodities sector delivered average returns. But with the election of Donald Trump and the establishment of his Department of Government Efficiency, coupled with evolving statements from the Federal Reserve, considerable speculation has emerged concerning the future of financial markets over the next 12 months and beyond. While the future is always uncertain, we have established several favorability rankings that we use to inform our decisions.

PBWM Favorability Matrix			
Equities	Unfavorable	Neutral	Favorable
U.S. Large			
U.S. Mid			
U.S. Small			
Int'l Developed			
Emerging Mkts			
Fixed Income	Unfavorable	Neutral	Favorable
Duration			
Government			
Investment Grade			
High Yield			
Non-US			
Inflation Indexed			
Municipal			
Alternatives	Unfavorable	Neutral	Favorable
Long/Short			
Market Neutral			
Managed Futures			
Private Equity			
Real Estate			

To those looking to mitigate equity correlation risk, we currently see value in alternative investments. We feel these strategies can be useful because they diverge from traditional equity or fixed income investments. Higher rates have tempered the real estate market and positioned the private equity market for increased M&A activity in the coming years. The unexpected 2024 USD rally impacted managed futures and ongoing volatility encourages us to explore opportunities in other asset classes.

***You enjoy today, we look after tomorrow.***

**January 22<sup>nd</sup>, 2025**

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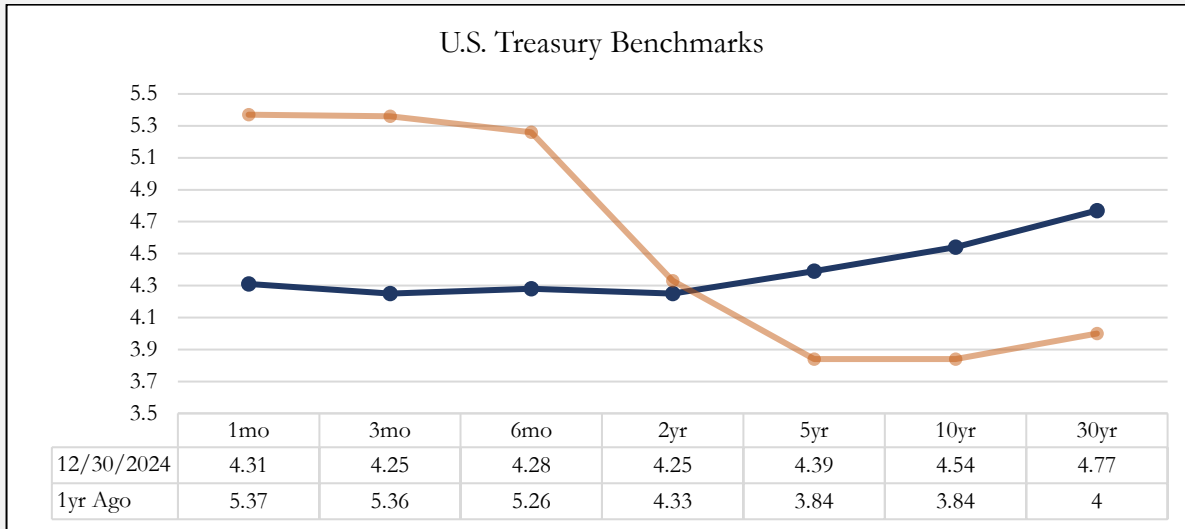
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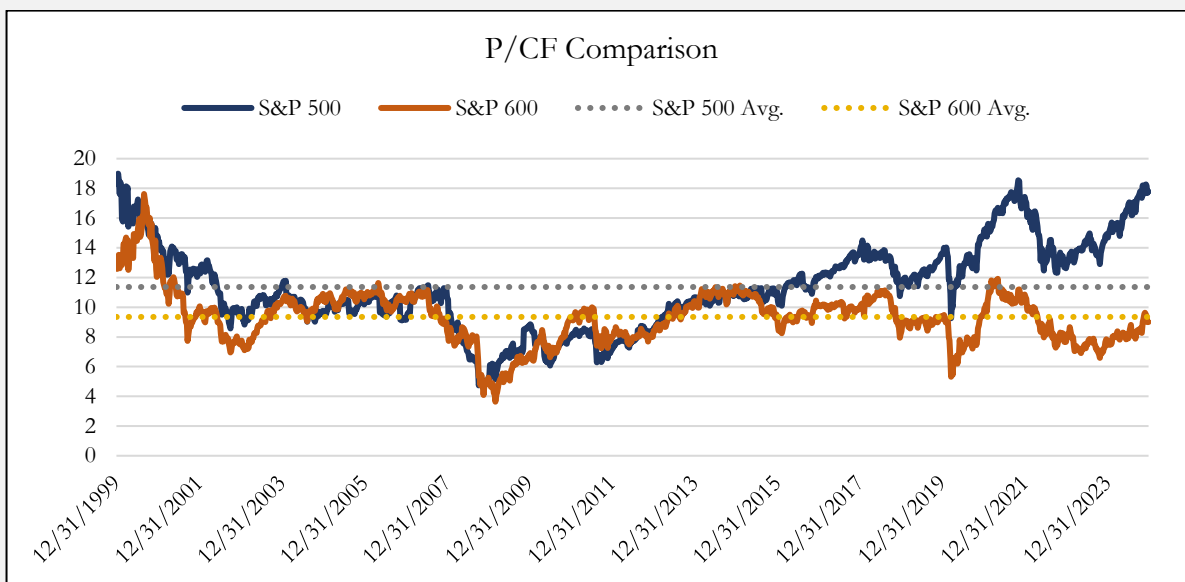
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We believe in gradually increasing the maturity of fixed income holdings. Some anticipated that as short-term rates drop, long-term rates would follow. However, over the past year, long-term interest rates have actually risen by almost 1%. Fortunately, rising long-term rates typically reflect expectations for higher long-term growth and inflation. But even if you are more pessimistic, this presents a great opportunity to reinvest maturing bonds into longer-term options, especially since the return on cash-equivalent investments is deteriorating. Accordingly, we generally favor long-term municipal bonds to lock in higher tax-advantaged rates for longer. Looking ahead to 2025, we expect the Treasury yield curve to steepen with short-term rates around 3.75% and long-term rates moderating slightly to about 4.25%, considering potential tax cuts, fiscal policy, tariffs, inflation, and other factors that could weigh on economic growth expectations.



Source: [US Department of the Treasury](https://www.treasury.gov)

Small and mid-sized companies are becoming more attractive compared to their larger counterparts as interest rates decline and credit burdens ease. These companies are trading at or below historical average valuation multiples, unlike large cap stocks, and are experiencing their largest relative valuation gap in 25 years. This presents a compelling case for increasing investment in small and mid-cap stocks.



Source: FactSet Data

*The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The S&P SmallCap 600® index seeks to measure the small-cap segment of the U.S. equity market. Inclusion of these indexes is for illustrative purposes only. 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. This is not a replacement for the official customer account statement or trade confirmations from Raymond James or other custodians. Activity details including time and price will be included in the official statements and confirmations.*

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