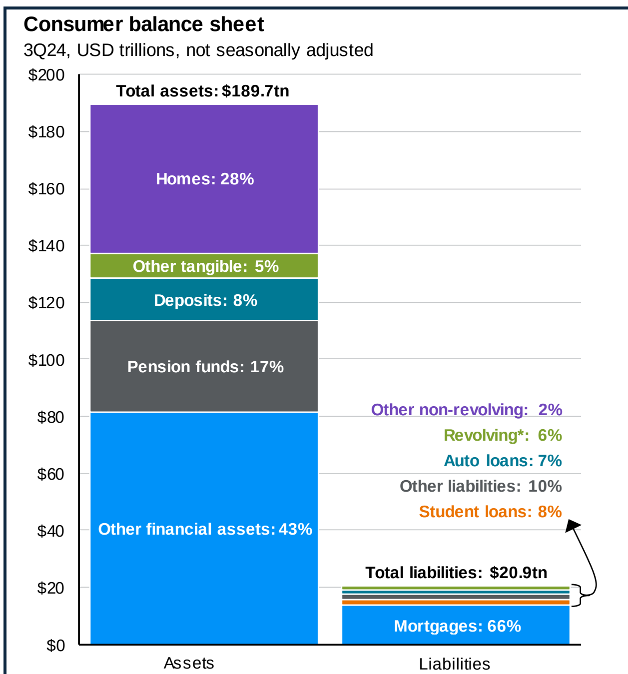
RIEDEL
Family Wealth Advisory
of
RAYMOND JAMES®

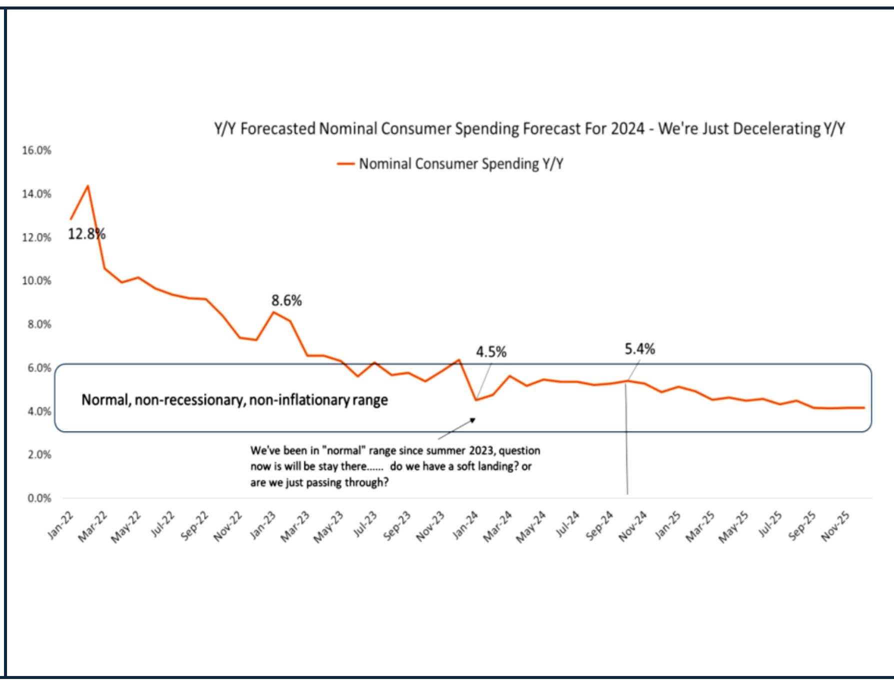
January 2025

2024 was a great year for stocks, and it marked the second consecutive year of returns for the S&P 500 in excess of 20%. Led by a strong labor market, firm U.S. economic growth, and an accommodative Federal Reserve (Fed), the S&P 500 soared to 57 new highs in 2024.

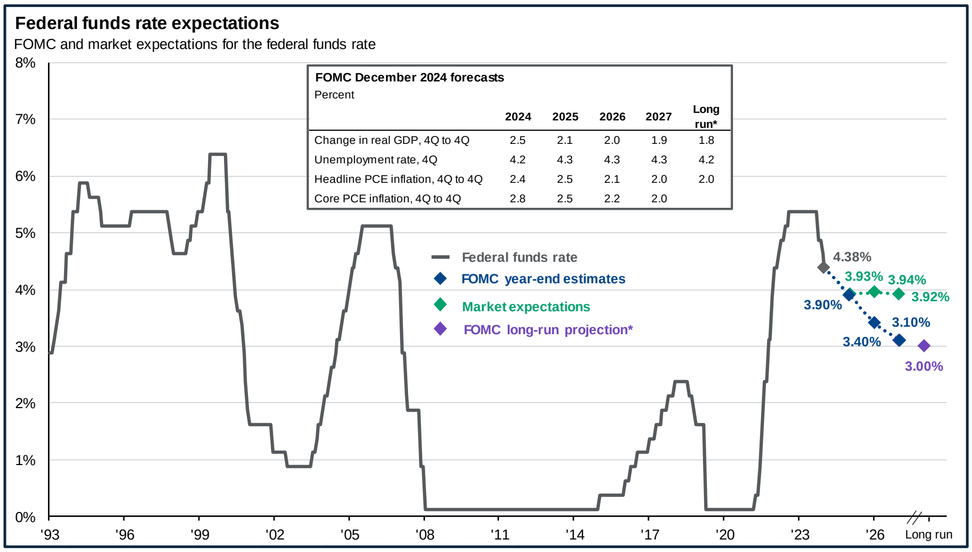
The job market remains tight but is clearly softening. Wages have grown more than inflation for 20 consecutive months, and **consumer confidence is high – everyone feels good about the economy. Full employment economies haven't lasted this long historically** – the U.S. economy has not stayed at full employment for longer than 52 months since WWII. We are into 41 consecutive months of full employment currently.

There has been a tremendous surge in wealth. Consumer net worth balances are up approximately $13 Trillion, or 11%, adjusted for inflation since 2019. Consumer cash balances are up $1.1 Trillion (8% after adjusting for inflation). When consumers have jobs and cash, they tend to spend it. Two-thirds of U.S. economic growth is consumer spending.

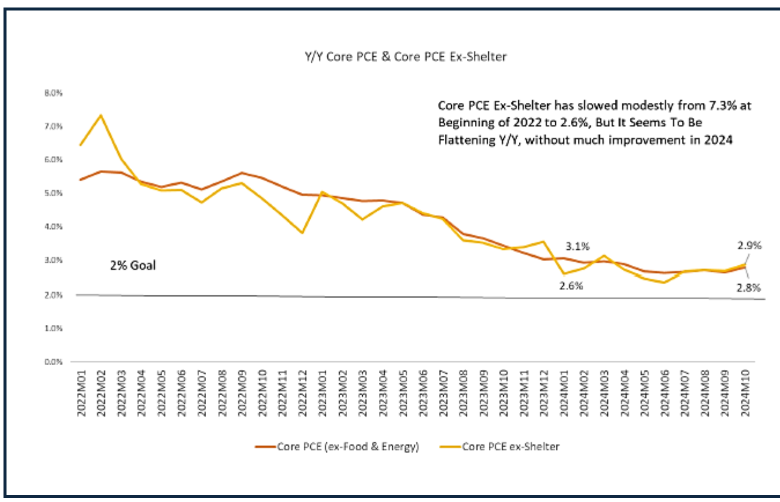


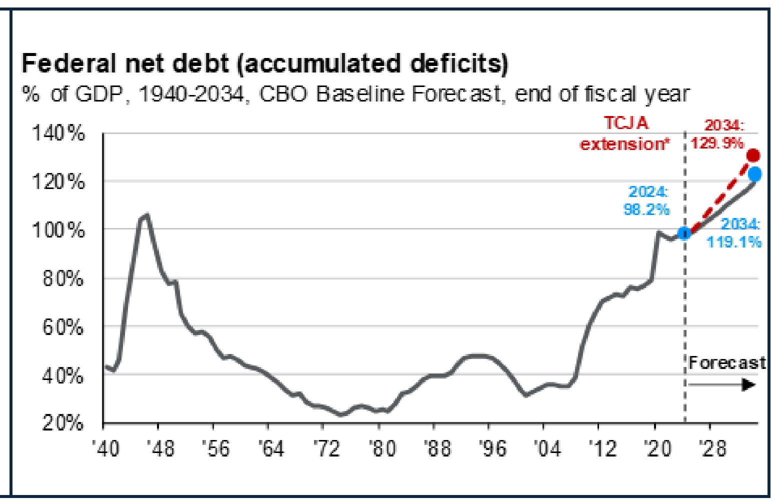


After a meaningful decline in inflation in 2023, the Fed made no progress on slowing the economy or inflation in 2024. It is still running about 1.0% too hot. Feeling that inflation was heading the right direction (down) the Fed started its easing cycle in September by lowering the Federal Funds Rate 0.50%, followed by two additional 0.25% cuts in the 4th quarter. **To the market's surprise, yields on longer-term bonds moved higher, rather than lower after the Fed's initial rate cut.**



We anticipate that inflation, as measured by the Consumer Price Index (CPI) will stay in the 2.50% - 3.0% range, which is above the Fed's target of 2.0%. The Fed has signaled that the pace of additional rate cuts will likely be more muted. **Pressured by elevated Federal deficits, we expect longer-term interest rates to be range bound for most of 2025 and end the year ~4.50%.**



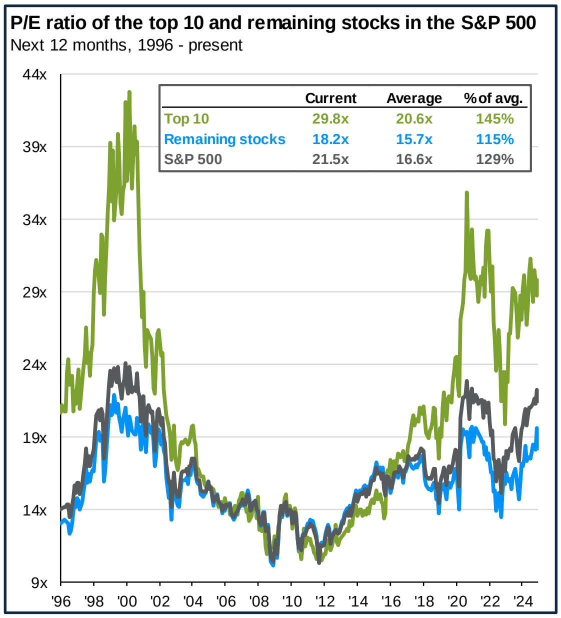


We liken the US Economy to walking on a tight rope – on one side overheating, and on the other side finally cooling:

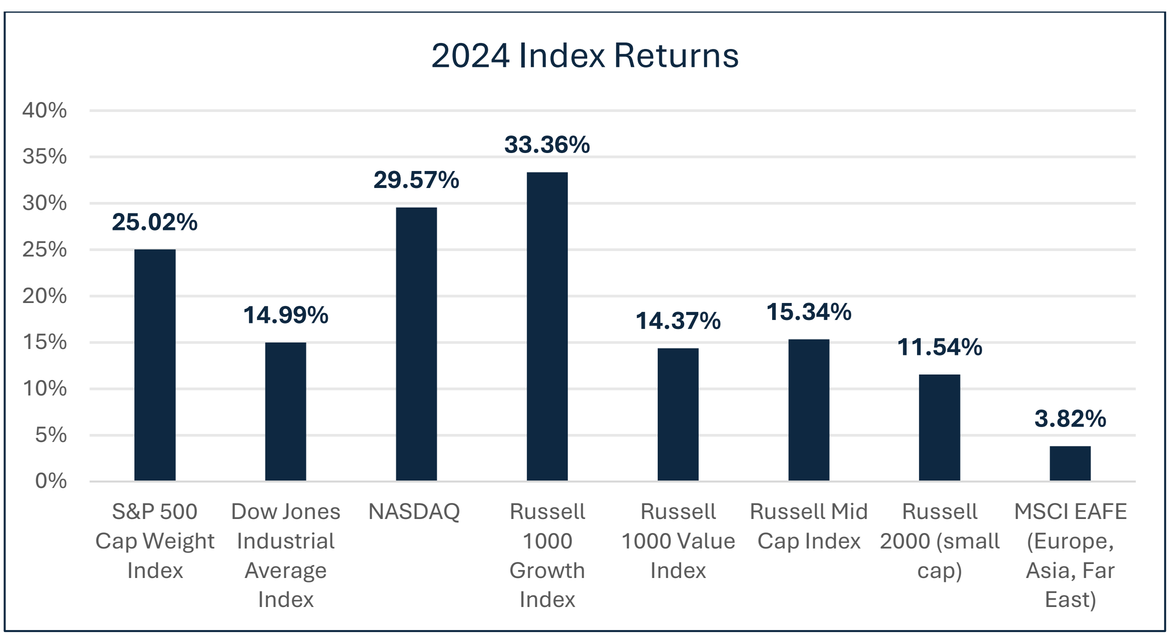
- Overheating: Economic re-acceleration/inflation – consumer confidence and momentum, loan growth reaccelerating, IPO market turning robust, economic activity in front of tariffs, tax cuts, de-regulation. **Re-inflation would cause higher interest rates, which would cause the economy to slow.**
- Finally cooling: Deceleration/recession – long and variable lags finally show up, auto market layoffs, China floods the export market, U.S. dollar strength offsets tariffs, massive government layoffs, tariffs become a recession fear. **Deceleration would cause lower interest rates, which would cause re-acceleration of economic data.**

We expect to be walking on this tight rope for most of 2025, and we believe this will create an increase in volatility throughout the year.

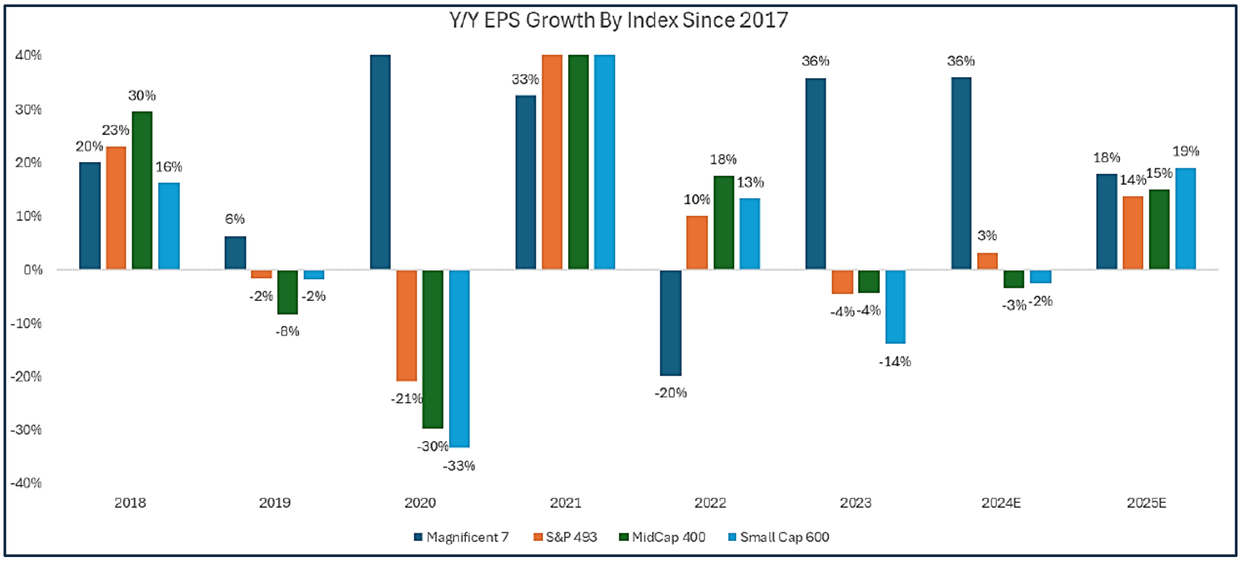
Led by large growth stocks and the continuing outperformance of Artificial Intelligence and the Magnificent Seven stocks (Meta Platforms, Amazon, Apple, Nvidia, Alphabet "Google", Microsoft, and Tesla), the top ten stocks in the S&P 500 Index grew to 36% of the index. At over one third of the value of the Index, the S&P 500 Cap Weighted Index was classified as an *Undiversified Index* as defined by the Investment Company Act of 1940.



In 2024, growth outperformed value, large companies outperformed small and mid-cap companies, and the U.S. markets outperformed international markets. The top sectors were Communication Services, Information Technology, Financials, and Consumer Discretionary. The bottom performing sectors were Materials, Health Care, Energy, and Real Estate. Returns were as follows:



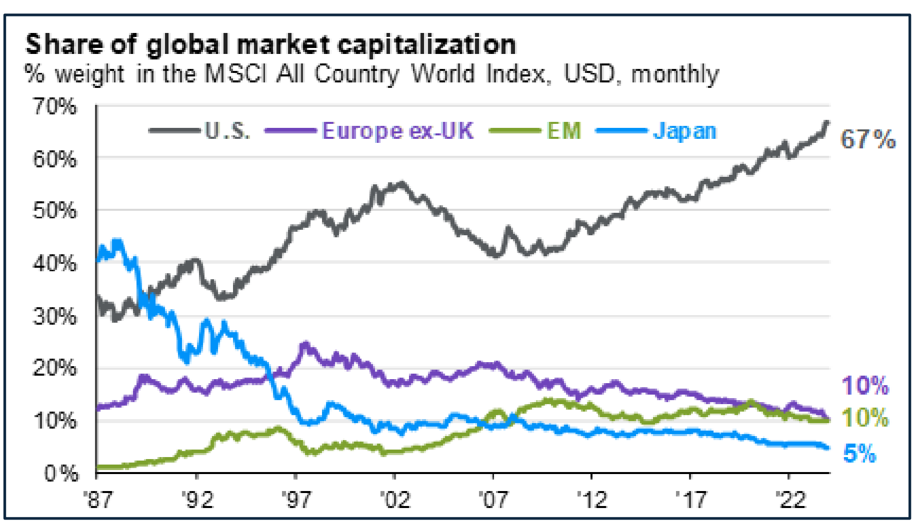
Rising Price/Earnings (P/Es), particularly in large growth indexes, has left Cap Weighted Indexes expensive on a valuation basis, generally. While indexes are expensive, many equities are not. After such sharp "narrowing" of the market, we believe a "re-broadening" is likely in 2025. Performance was much broader in 2024 than in 2023, and market breadth has widened since the Fed's first interest rate decrease in July.



We believe investors should be broadly diversified. There are many potential opportunities, and we favor using the narrowness of the current market to add exposure to value and dividend paying companies, the equal-weight S&P 500, small and mid-cap companies, and international stocks.

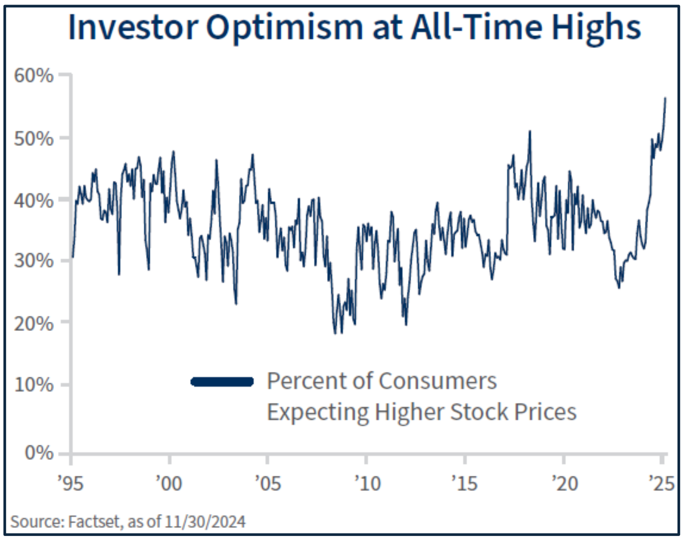
International markets have been the weakest link as U.S. Markets have been the top performers in eight of the past ten years. We believe the U.S. is likely to remain a top performer due to better economic growth, more dynamic corporate leadership, and innovation. U.S. companies are the best at holding down costs and pushing up profits. **International markets are trading at a 40% discount to the U.S., and dividend yields are much higher. We recommend investors consider exposure to international markets. The glass is half full.**

China continues to face challenges: A growing solvency crisis in its real estate and financial sectors, and the potential of aggressive tariffs on goods exported to the U.S.



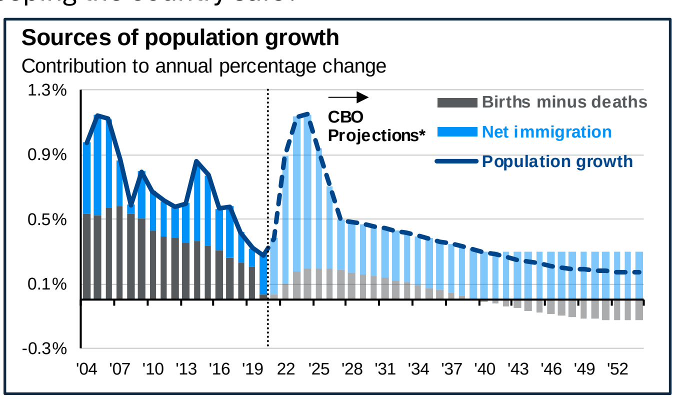
The bond market, as measured by the Bloomberg US Agg, returned 1.25% for the year. Longer maturities, like the 30-year US Treasury had a return of -8.09%. Given our opinion that yields will stay range bound this year, we tend toward laddering maturities in the 1- to 8-year range, and staying with U.S. Government Bonds, Municipal Bonds, high-grade Corporate Bonds, and Certificate of Deposits.

There are always risks and unknowns when it comes to investing. Investing at high P/E ratios, low unemployment, a normalizing yield curve, and record margins is statistically a period where forward stock returns over meaningful periods of time can be low. We are coming off of back-to-back years of stellar returns. "Everyone" is over concentrated in overly expensive stocks, and when "everyone" feels good about the economy, it is often not the best time for stock returns.



The outcome of the 2024 election resolved some uncertainties, but it opened the door to others that may affect the prospects for economic growth, inflation, and interest rates.

- Policy changes such as tariffs may be used as a bargaining tool, but when and how much?
- Fiscal stimulus in 2025 is not likely to happen. Where will cuts come from?
- The Federal net debt and deficits are growing at an unsustainable rate.
- The Fed has lowered expectations of how much they will cut interest rates in 2025.
- Oil prices have declined which supports low inflation. Geopolitical challenges and U.S. policy changes could push prices higher.
- Immigration has helped add extra runway for growth in the economy. The U.S. population is declining. If immigration also declines, where will the workers come from? How do we balance responsible immigration while keeping the country safe?



There are always challenges and unknowns. We continue to believe that diversification and rebalancing help to mitigate risks over time.

Economic growth remains strong, helped by fiscal expansion of the CHIPS, IRA, and Infrastructure Acts. Earnings should turn broadly positive for the first time in two years. While consensus earnings estimates are 13% - 18% across all indexes, we feel this is aggressive. We anticipate earnings growth for large companies of approximately 10% in 2025. It is our opinion that the Magnificent Seven earnings per share trend in 2025 should normalize with the rest of equities for the first time since 2019.

Global investors continue to pour money into U.S. large cap companies. This will likely continue unless/until things start to look better overseas. Should this happen, a lot of capital may leave U.S. markets. This is not our base case right now.

We believe that momentum will shift in 2025, and a reversion to the mean trade is coming. In our view, the risk in 2025 is in the cap-weighted indexes. The median stock is not expensive. This is a great environment for active management. **We think that 2025 will be a good year for stocks but expect considerable volatility. Hang on to your hat with both hands!**

In summary:

- The economy remains strong, the employment market is strong, and the consumer continues to spend.
- Interest rates should remain around current levels with some volatility this year.
- The market, as measured by the S&P 500 Index is not cheap. Stay diversified.
- Earnings forecasts for US companies are trending up and broadening out to include more sectors and companies. While cap-weighted indexes are expensive, the median stock is not.
- Small- and mid-size companies are attractive.
- Value stocks and dividend growers look attractive.

We are grateful for the opportunity to work with you and your families. We appreciate you and wish you happiness and good health in 2025.

Our warmest regards,

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Indices are not available for direct investment. Index performance does not include transaction costs or other fees, which will affect actual investment performance. Past performance is not indicative of future results.

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 500® Equal Weight Index (EWI) is the equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

The Dow Jones Industrial Average (DJIA), commonly known as “The Dow” is an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal.

The NASDAQ Composite covers 4500 stocks traded over the counter. It represents many small Composite index company stocks but is heavily influenced by about 100 of the largest NASDAQ stocks. It is a value weighted index calculated on price change only and does not include income.

The Russell 1000 Growth represents a segment of the Russell 1000 index with a greater-than-average growth orientation. Companies in this index have higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth values. This Index includes the effects of reinvested dividends.

The Russell 1000 Value represents a segment of the Russell 1000 index with a less-than-average growth orientation. Companies in this index have low price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values. This Index includes the effects of reinvested dividends.

The Russell Midcap consists of the bottom 800 securities in the Russell 1000 index as ranked by total market capitalization. This Index includes the effects of reinvested dividends.

The Russell 2000 index covers 2000 of the smallest companies in the Russell 3000 index, which ranks the 3000 largest U.S. companies by market capitalization. The Russell 2000 represents approximately 10% of the Russell 3000 total market capitalization. This Index includes the effects of reinvested dividends.

The MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations.

Dividends are not guaranteed and must be authorized by the company’s board of directors.

Investing in small cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor. The price of small company stocks may be subject to more volatility than those of large company stocks.

International investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility.

Sector investments are companies engaged in business related to a specific sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

Bond prices and yields are subject to change based upon market conditions and availability. If bonds are sold prior to maturity, you may receive more or less than your initial investment. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices rise.

CDs are insured by the FDIC and offer a fixed rate of return, whereas the return and principal value of investment securities fluctuate with changes in market conditions.

Investors should consider the investment objective, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other important information, is available from your Financial Advisor and should be read carefully be investing.