FORTHRIGHT PARTNERS, LLC

INVESTMENT LETTER, 4TH QUARTER 2024

EXECUTIVE SUMMARY

Volatility = Possibilities?

The Good: strong economy and earnings.

The Less Good: uncertain inflation and interest rate paths, high national debt.

The Unknowns: policy details and ramifications.

Everyone should be data dependent.

2025: THE GOOD, THE LESS GOOD, AND THE UNKNOWNS

Happy New Year to you and your loved ones! As we welcome in another year of possibilities, we are thankful to have your trust and friendship.

THE GOOD: Economic Growth, Inflation and Earnings

Despite the headwinds of tight monetary policy and high interest rates through 2022 and 2023, our economy has proven to be incredibly resilient. Economic growth in 2024 clocked in around 3%. Overall U.S. corporate earnings are at record highs. Just last week, both the widely-followed consumer price index (CPI) and producer price index (PPI) numbers came in at the low end of expectations, easing concerns from recent data showing stronger upward price pressures. Taken together with a low 4%-level unemployment, Goldilocks seems to be alive and well. Alan Greenspan once remarked "...There is no evidence that the business cycle has been repealed." While we dare not disagree with the former Federal Reserve Chairman, we are asking ourselves a tangential question, "Has the business cycle been extended?"

THE LESS GOOD: Valuation, Interest Rates and National Debt

After consecutive years of 20%+ returns led by a small group of mega-cap stocks, the large-cap index might be hard-pressed to perform a trifecta this year. The inflation outlook remains cloudy, as recent data has not been conclusive enough to confirm the inflation dragon has been slayed once and for all. And even as the Federal Reserve has begun to shift its focus from combating inflation to protecting employment, bond investors have been less sanguine. The benchmark 10-year Treasury yield has increased by 0.8% in the past three months, rising from 3.8% to 4.6%. The outlook for the bond market remains murky because of uncertainties related to the collective impact of the Trump Administration's economic plan and trade policies, persistently-sticky inflation measures and, of course, the 800-lb gorilla in the room, our national deficit. With our national debt having surpassed $36 TRILLION, we are currently paying close to $1 trillion in annual interest costs alone. Only Social Security, defense and health care spending exceed the interest costs in the federal budget.

With Republicans controlling both the Executive and Legislative branches of the government, investors are expecting friendlier policies towards business and the financial markets. Deregulation and tax cut extensions being 2 examples of expected policy prescriptions. Investors will also closely monitor the Administration's tariff and trade policies. Over the past 4 decades, the lowering of trade barriers was one factor that helped our nation's economy grow while at the same time keeping inflation in check (productivity increase due to technological innovation was also a major factor). The market is pricing in the expectation that when it comes to tariffs, the bark will be bigger than the bite this time.

The $64,000 question is, will the US economy remain not too cold and not too hot, keeping inflationary pressures at bay and allowing the Federal Reserve to continue lowering interest rates? With the US stock market valuations at record highs, it will likely require a perfect Goldilocks environment for stock prices to move significantly higher.

"The United States can pay any debt it has because we can always print money to do that. So there is zero probability of default."

Alan Greenspan, Former Federal Reserve Chairman

THE UNKNOWNS: Policies and Ramifications

As mentioned, the US economy is on a strong footing. Given the pro-business climate, the risks of the US economy falling into a recession are low. The Trump administration's policy agenda is very well telegraphed, but the devil is in the details. There will be tariffs, but how much, against which country, are they broad-based or product-specific? The potential impact on the economy and corporate profit margins will vary greatly depending on the minutia. There will likely be tax cuts, but how will they be financed? The market will likely be disappointed if tax cuts do not materialize, but too much fiscal largess may bring the wrath of the bond market because of debt concerns.

2025: AN EXCITING YEAR FULL OF POSSIBILITIES?

2025 can perhaps be best described as a year of uncertainties. Even when policies become clear, reactions (both domestic and international) remain difficult to gauge. What to do in this environment? Well, we all know market timing is not the answer. If logic prevails, 2025 should see increased volatility because financial markets typically do not do well with uncertainties. There are many reasons to be cautious but no reason to panic. As the Federal Reserve's interest rate policy becomes more data dependent, investors' decisions should too. While a diversified portfolio has not been rewarded in the past 18 months in a market dominated by the Magnificent Seven, diversification is a prudent approach in a potentially challenging investment environment. Frequent rebalancing and managing concentration risks, as mentioned in the last quarterly letter, should still be effective tools. And let's not forget, uncertainties and volatilities create opportunities.

As always, please do not hesitate to contact us if you have any questions.

"Markets do very weird things because it reacts to how people behave, and sometimes people are a little screwy."

Alan Greenspan, Former Federal Reserve Chairman

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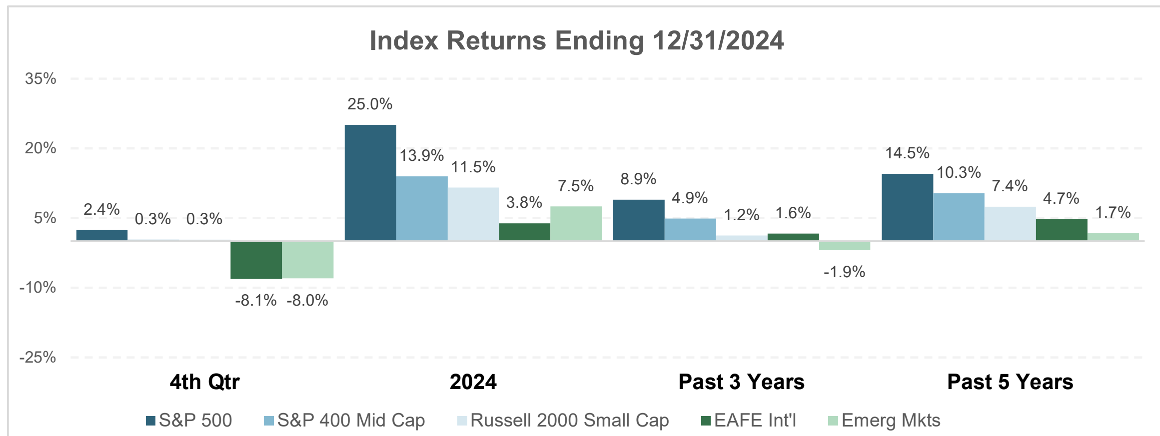
FOURTH QUARTER 2024 MARKET HIGHLIGHTS

Stocks

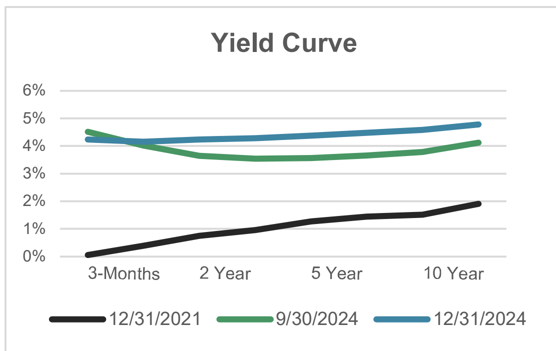


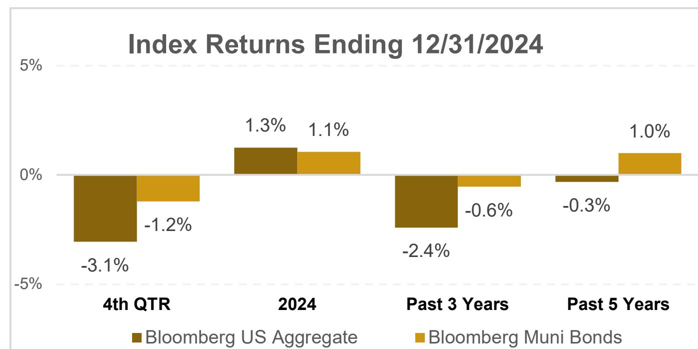
- The fourth quarter was all about potential tariffs, cryptos and Tesla.
- President Trump's broad-based tariff threats stoked inflation fears, which in turn caused small- and mid-cap stocks to underperform because of fears that interest rates will stay higher for longer and lead to economic malaise.
- International and emerging markets both tumbled ~8% in the past three months because of tariff concerns.
- Tesla and crypto staged a strong post-election rally. Financial stocks also benefited from potential deregulation.
- The Magnificent 7 account for almost ½ of the S&P 500's gains in 2024 and represent ~39% of the index.

Bonds

- Bond yields dropped significantly in the third quarter, but reversed course in the past three months even though the Federal Reserve cut Fed Funds rate by 0.25% in December.
- Strong economic data and stubborn inflation have led the Federal Reserve to reduce its interest rate cut expectations for 2025.
- As interest rates rose in the fourth quarter, both taxable and municipal bonds lost ground and underperformed cash in 2024.

	2 Year Bond Yields	10 Year Bond Yields
12/31/2022	4.4%	3.9%
12/31/2023	4.3%	3.9%
3/31/2024	4.6%	4.2%
6/30/2024	4.8%	4.4%
9/30/2024	3.6%	3.8%
12/31/2024	4.3%	4.6%





The Mighty US Dollar

The chart of the trade-weighted US dollar index started in January 2020, showing that the US dollar has appreciated significantly since COVID.

The strength of the dollar can be attributed to higher economic growth and interest rates in the US.

While a strong dollar increases US consumers' purchasing power overseas, it does make US goods more expensive and thereby making it more difficult for US companies to compete.