



WALKER, HIGGINS & ASSOCIATES
WEALTH MANAGEMENT, LLC

Quarterly Market Review and Outlook

2024 Market Re-Cap

Wow! 2024 was quite the year.

First, we want to say thank you again for your patience and continued trust as executed a change to LPL Financial in the 4th Quarter! We are happy to say that for all intents and purposes we are finished. While our learning curve remains steep with new systems and processes, we are extremely confident that this will be an excellent long-term decision for our clients and our firm. Should you need any assistance with online access to accounts, online access functionality, reading of statements, etc., please contact us (864-582-4597) so we can support your needs.

Financial markets experienced little volatility and solid gains in 2024. U.S. tech giants continued to lead the charge as the S&P 500 was positive 25%.ⁱ The Dow Jones Industrial Average, which is less tech-focused, returned 14.8%.ⁱⁱ That is a wide dispersion (11%) when we consider that these two indices are the most often quoted when referencing U.S. stock market performance. Our takeaway is that the tech giants' robust performance is having an outsized impact on market performance. This thought is further illustrated as we look at small caps in the U.S and international stocks. For the year, small caps returned 11%ⁱⁱⁱ while international developed stocks were positive only 5%.^{iv}

The broad U.S. fixed income market was only slightly positive for year (+1%).^v Much of the underperformance in the fixed income market can be attributed towards missed placed expectations of multiple interest rate cuts. As we discussed previously, we viewed the idea of aggressive interest rate declines as misplaced. As such we continued to favor shorter duration fixed income positions. The international bond market was solid for 2024 and gained a little more than 4%.^{vi}

As has been the case for the previous several quarters, we wonder how long the tech giants will reign supreme, when will interest rates decline in earnest and what impact will the changing political landscape have on markets and the economy.

2025 Q1 Economic Outlook & Beyond

Political Changes Coming?

As we now know Donald Trump was elected to be the 47th President and that Republicans will control Congress by a slim majority, we can start to formulate some thoughts on potential outcomes.

First, we would anticipate President-elect Trump and the Republicans to at a minimum to extend the Tax Cuts and Jobs Act (TCJA), commonly called the Trump tax cuts. Should these tax cuts expire as scheduled on December 31, 2025, many citizens would experience income higher taxes, lower standard deductions, etc.^{vii} It has long been our stance that higher taxes typically serve as a headwind for the U.S. economy as customers likely would have less discretionary income. As the U.S. economy is roughly 2/3s consumer spending, any significant reductions in consumer spending can cause economic problems.

Second, in the aftermath of the election there has been a lot of talk regarding DOGE (Department of Government Efficiency). This is a proposed presidential advisory committee to be led by Elon Musk and Vivek Ramaswamy. While details are still less than totally clear, it appears that this advisory committee's task will be to analyze and make recommendations to President-elect Trump on how to cut wasteful government spending, reduce the size of the Federal government and lower regulations.^{viii} As we are fiscal conservatives and recommend prudent budgetary constrains for our clients, we think that it only makes sense for all entities to be fiscally efficient.

However, we would caution that DOGE is going to miraculously lead to a balanced budget in the short term. For Fiscal Year 2024, the Federal government ran a \$1.83 Trillion deficit.^{ix} Assuming that governmental revenue stayed as is, spending would need to be reduced by roughly 27%! Again, this is just too breakeven! While we would love to see a balanced budget, a cut of 27% immediately potentially would lead to some substantial economic pain and suffering.

We would also point out that President-elect Trump has named several Congressional Republicans to likely serve in key administrative roles. Until those Congressional seats are filled, the Republican majority will be even narrower, which potentially makes significant legislative changes occurring in the short-term to be harder.

In short, we believe that a process of reducing Federal deficits is the prudent thing to do. Higher annual deficits leads to high debt levels, potentially higher interest rates, more dependence upon governmental intervention amongst other things. None of that is good.

Finally, there has also been much talk about President-elect Trump enacting tariffs. Many people have suggested that instituted tariffs will lead to inflation and higher interest rates. Certainly, there have been historical instances where tariffs did lead to higher inflation. However, this has not always been the case. President Biden has instituted a series of tariffs in 2024^x and inflation has not accelerated. Additionally, when President Trump initiated tariffs in 2018^{xi}, the economy did not see an immediate inflation spike.^{xii} President-elect Trump may initiate more tariffs when he is in office. Or he may simply use the threat of tariffs to bring trade partners to the table. At this point, we think that it is premature to attempt to know exactly what he will do.

Regardless of the endless possibilities of political maneuvers, we anticipate any changes to be slow. At the end of the day, the wisdom of our Founding Fathers and the beauty of our Republic is that the majority does not get to rule unilaterally. The party in control still has a system of checks-and-balances.

Interesting Interest Rates

Over the past year, the commonly held belief was that as inflation has moved closer to the Federal Reserve's long-stated goal of 2%, the Federal Reserve would initiate a policy of consistent interest rate cuts. However, inflation was continued to remain stubbornly above the 2% level.^{xiii} Additionally, the U.S. economy has grown at a solid rate^{xiv} and employment is inline with the Fed's mandate.^{xv}

These issues have led to an adjustment in expectations for interest rates in 2025. Presently, the highest probabilities for interest rates at the end of 2025 suggest only a .25%-.50% reduction from current levels.^{xvi} If these projections come to fruition, then we should expect interest rates across the board to remain roughly as is for the balance of 2025.

As we believe that there is a direct correlation between money supply and inflation, it is important to consider factors that can implicate the amount of money in circulation. It is possible that tax cuts and deregulation could lead to higher economic growth. However, it is also possible that a government that is more efficient and spends less could lead to a slowing of economic growth, at least in the short term. Again, we will have to wait to see what executive and legislative actions take place to get a better sense of money supply growth.

One of things that we are relatively confident about is that the Fed will continue to not discuss money supply. We are not sure if they don't view money supply as important or refuse to acknowledge its impact on inflation and interest rates. Either way, we have concerns that they are overlooking a key factor in inflation movements, which impacts decisions on interest rates.

Stock Market Thoughts

U.S. stock markets have been on a steady climb over the last year. Additionally, there was little volatility in 2024. The S&P 500 did drop about 8% in late July.^{xvii} However, beyond those couple of weeks, it was pretty smooth sailing.

At this point, markets have gone over a year without a meaningful correction. Corrections (drops between 10%-20%) are common and even health restoring. Think of inflating a balloon. If the balloon inflates too rapidly, then the risk of bursting increases. Alternatively, if the balloon is allowed to release a little air periodically, it can grow bigger.

As we look to 2025, we believe that there is a recipe in place for continued stock market growth. Small business optimism is growing^{xviii}, oil prices have stabilized, GDP growth projects to be solid^{xix}, earnings growth and profit margins look good^{xx}, etc. provide us with confidence that a firm foundation is in place for continued growth.

On the flipside, we would suggest that valuations for the overall stock market are stretched. Many of our preferred valuation tools indicate that the U.S. stock market is overvalued.^{xxixxxixxiii} It should be noted that markets have a history of going long periods in overvalued territory, so this is not to suggest that a crash, or even a correction, is imminent. Rather it is our view that while there does not appear to be a huge storm on the horizon, it is important to acknowledge that continued outsized returns may be harder to come by.

Summary

As we look towards 2025, we believe that the economy is on firm ground. Additionally, we have optimism that a reduction of taxes (or at least maintaining the status quo), a more efficient government, inflation stabilization, lower interest rates and continued innovation in the U.S. will lead to a robust economy and continued stock market gains.

Our new friends at LPL Financial have a robust economic and investment research department. They provide ongoing commentary with their thoughts on the economy and markets. This is another reason we are excited about this new partnership. In an article from late December, they shared their thoughts on 2025, “The LPL Research fair-value range for the S&P 500 at year-end 2025 is between 6,275 and 6,375, with EPS for \$260.”^{xxiv} Those ranges represent a high single-digit growth in 2025.

As we consider asset selection for 2025, we continue to favor shorter to medium duration fixed income and large U.S. focused stocks. Further, as we believe that current valuations are stretched, we think that a dollar-cost-averaging approach to increase stock exposure is most prudent. Should a meaningful correction take place at some point, we would reevaluate our stance.

As always, thank you for your continued trust and confidence! Your partnership with our firm means a great deal to us and it is our goal to serve each of you to the best of our abilities.

We hope and pray that you and your family have a wonderful and blessed 2025!

ⁱ <https://www.morningstar.com/etfs/arcx/spy/quote>

ⁱⁱ <https://www.morningstar.com/etfs/arcx/dia/performance>

ⁱⁱⁱ <https://www.morningstar.com/etfs/arcx/iwm/performance>

^{iv} <https://www.morningstar.com/etfs/xnas/acwx/quote>

^v <https://www.morningstar.com/etfs/arcx/agg/performance>

^{vi} <https://www.morningstar.com/etfs/bats/iagg/performance>

^{vii} York, Erica. “How 2026 Tax Brackets Would Change if the TCJA Expires”. Tax Foundation. October 24, 2024. <https://taxfoundation.org/blog/2026-tax-brackets-tax-cuts-and-jobs-act-expires/>

^{viii} <https://budget.house.gov/press-release/via-the-hill-what-a-trump-musk-government-efficiency-department-should-do-in-its-first-100-days>

^{ix} <https://fiscaldata.treasury.gov/americas-finance-guide/national-deficit/>

^x <https://www.whitehouse.gov/briefing-room/statements-releases/2024/05/14/fact-sheet-president-biden-takes-action-to-protect-american-workers-and-businesses-from-chinas-unfair-trade-practices/>

^{xi} <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/january/president-trump-approves-relief-us>

^{xii} <https://www.bls.gov/opub/ted/2019/consumer-price-index-2018-in-review.htm>

^{xiii} <https://www.bls.gov/news.release/cpi.nr0.htm>

^{xiv} <https://www.bea.gov/data/gdp/gross-domestic-product>

^{xv} <chrome-extension://efaidnbnmnnibpcajpcglclefindmkaj/https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20241218.pdf>

^{xvi} <https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html?redirect=/trading/interest-rates/countdown-to-fomc.html>

^{xvii} J.P. Morgan Asset Management. Market Insights: Guide to the Markets®. December 31, 2024. Page 16.

^{xviii} Dumas, Breck. “Small Business Optimism Soars in Anticipation of Trump 2.0.” Fox Business. December 20, 2024.

^{xix} <https://www.atlantafed.org/cqer/research/gdpnow.aspx>

^{xx} J.P. Morgan Asset Management. Market Insights: Guide to the Markets®. December 31, 2024. Page 7.

^{xxi} <https://www.morningstar.com/markets/fair-value>

^{xxii} <https://www.multpl.com/shiller-pe>

^{xxiii} J.P. Morgan Asset Management. Market Insights: Guide to the Markets®. December 31, 2024. Page 5 & 9.

^{xxiv} Turnquist, Adam. “Wall Street Forecasts Green in 2025”. LPL Financial. December 31, 2024.