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MARKET COMMENTARY

2024 was another standout year for U.S. stocks, with the S&P 500 delivering a stellar return of +25.02%. U.S. Mid-Cap stocks posted a solid gain of +13.93%, while U.S. Small-Cap stocks advanced by +8.70%. Though much more subdued, international markets also recorded positive performances, with Emerging Markets up +7.50% and Developed Markets returning +3.82%. U.S. bonds contributed to the year's strong asset performance as the Bloomberg U.S. Aggregate Bond Index rose +1.25%. This broad-based growth is particularly remarkable given the financial markets' impressive gains in 2023, making 2024 the second consecutive year where the S&P 500 achieved returns exceeding 20%, the first such occurrence since the late 1990's.

Despite these exceptional investment returns, 2024 was marked by significant risks and uncertainties. On the geopolitical front, the world grappled with the ongoing Ukraine-Russia conflict, which continued to disrupt global energy and grain markets. Additionally, escalating hostilities in the Middle East, fueled by the Israel-Hamas war, further destabilized the region. In the U.S., a turbulent presidential election season dominated headlines. One candidate survived two assassination attempts, and the incumbent dropped out of the race less than four months before Election Day, leading to unprecedented political uncertainty. Domestically, social tensions also ran high, with protests erupting at universities over free speech and foreign policy, a wave of labor strikes impacting key industries, and the high-profile murder of UnitedHealthcare's CEO, which shocked the corporate world.

Even in the face of these challenges, financial markets displayed remarkable resilience. The S&P 500 hit new all-time highs on more than 50 occasions, significantly surpassing the historical average of 18 times per year. This extraordinary market strength was supported by robust economic fundamentals and a pivotal shift in U.S. monetary policy.

The U.S. economy experienced solid growth in 2024, a trend expected to persist into 2025. Consumer spending remained a key driver, bolstered by rising wages, low unemployment, and moderating inflation. A tight labor market kept the unemployment rate at low levels, while corporate America continued to generate revenue and earnings growth. U.S. companies, particularly large companies that were able to lock in low rates post-pandemic, benefited from strong balance sheets, enabling them to invest in growth initiatives and manage higher interest rates effectively.

To address the elevated inflation seen in 2021 and 2022, the Federal Reserve pursued one of its most aggressive rate hike cycles in decades. Between 2022 and mid-2023, the Fed raised rates 11 times, pushing the federal funds rate to a peak of 5.25%–5.50% in July 2023. This restrictive monetary policy effectively curbed economic activity and brought inflation closer to the Fed's 2% target. As inflation eased through 2023 and 2024, the Fed shifted course, initiating a series of rate cuts. Beginning with a 0.50% cut in September 2024, followed by two additional 0.25% cuts in November and December, the Fed signaled a more accommodative stance heading into 2025. This shift sets the stage for easing financial conditions and a supportive economic environment.

Despite these positive trends, uncertainties loom as 2025 begins. A new Trump administration is anticipated to introduce sweeping changes in fiscal, trade, and regulatory policy, creating a wide range of potential outcomes. Some proposed policies could reignite inflationary pressures, potentially forcing the Federal Reserve to revert to a more restrictive stance. Markets have responded to the administration's pro-business and deregulatory tone with optimism, fueling rallies in speculative assets such as cryptocurrencies, companies with untested business models, and leveraged single-stock ETFs. However, there is growing concern that some market participants may be overly euphoric.

Concentration in the "Magnificent 7" stocks has been a significant driver of recent index gains. The sustainability of their growth—both in revenue and earnings—remains a key question, as does their ability to justify current valuations. Meanwhile, the ongoing AI investment boom has seen companies pour vast resources into AI technologies to drive efficiencies and unlock new revenue streams. The crucial question is whether these investments will deliver tangible benefits in operational performance and market expansion quickly enough to offset the massive costs.

The outlook for 2025 is supported by robust economic conditions and a more accommodative monetary policy, but persistent risks highlight the importance of maintaining vigilance as markets adapt to an evolving landscape. Historically, bull markets have shown resilience, often climbing the "wall of worry" despite significant economic, political, or social challenges. However, after two years of exceptional stock market performance, it may be wise to moderate return expectations and focus on reinforcing your financial plan. Ensuring your asset allocation aligns with your long-term goals could be the most prudent approach in this environment.

We appreciate the opportunity to serve as your investment advisors, and we wish you and your families a happy and healthy 2025!

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Please remember to contact Sigma Investment Counselors if there are any changes in your financial situation or investment objectives

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