BRIAN D. LOWDER, INC.

QUARTERLY NEWSLETTER

Volume 27, Issue 4 January 2025

Inside This Issue

Financial Market Overview

The fourth quarter performance for stocks was doing quite well until mid-December when stocks declined 3.5% over the last two weeks of 2024. By year-end, the broad stock market was up about 2.5% during the fourth quarter and the Dow Jones was up a modest ½%.

The fourth quarter stock market advance was mixed with only large and mid-size company growth stocks (primarily tech) up 7%, and large company value (traditional big-name companies) down 2%. Also, worth noting, mid-size, small company, international, emerging markets, real estate, gold and Treasury bonds were all down 2%-7.5% during the fourth quarter. Perceptions about the direction of the stock market are changing, but exactly what that change will look like in the short-term is difficult to pinpoint.

Both the overall broad stock market index and the S&P 500 Index were up about 24% during the calendar year 2024. Large-company growth stocks dominated during the 4th quarter while mid-size and small-company stocks, value stocks, international and emerging stocks all posted small advances or negative returns. Value stocks performed well for the first time during the third quarter, but posted negative return during the fourth quarter.

The NASDAQ stock index, dominated by technology stocks, was up 6% during the fourth quarter, and up about 28% over the 2024 calendar year. The Dow Jones Industrial Average was up only ½% during the fourth quarter and only up 12.8% during entire 2024 calendar year.

Mid-size ***growth*** stocks were up over 8% during the fourth quarter and nearly 22% over the entire calendar year. Mid-size ***value*** stocks were down nearly 2% during the fourth quarter, and up less than 13% for the 2024 calendar year. Same story for small-company stocks except both ***growth*** and ***value*** stocks underperformed with growth stocks up 1.7% and value stocks down over 1% during the fourth quarter and both were up less than half as much as large-company growth and tech stocks during the entire calendar year 2024.

International stocks had the worst performance – down over 8% during the fourth quarter and up only 3.5% for the year. Smaller emerging markets (smaller-country international stock indexes) were also down over 7% during the fourth quarter and up only 6.5% for the year. Investment real estate prices (real estate investment trusts – not home values) had the largest performance reversal. REITs were up over 17% during the third quarter, but closed down just under 8% during the fourth quarter due to rising mortgage interest rates.

Water utility stocks reversed course dropping over 7% during the fourth quarter after posting a 12% gain during the third quarter. Energy stocks were flat again during the fourth quarter but up about 6% during the 2024 calendar year. Gold price performance was slightly negative during the fourth quarter, but up nearly 27% for the calendar year. Bitcoin was up 50% from November 1st to Dec. 16 and then down 12% over the last two weeks of the year.

Volatility is increasing substantially and even though the Presidential election uncertainty is over, there are a lot of changes coming and a new course and direction brings uncertainty.

Fixed income or bond prices for intermediate and long-term bonds lost nearly 5% during the fourth quarter and posted a slightly negative return for the year. That means the bond price or decline in value (due to rising interest rates) exceeded the interest income paid on the Treasury bonds. The interest rates offered on short-term bonds and Certificates of Deposit with 6-12-month maturities are

Continued on page 2

Continued from page 1

paying more income as interest rates began to rise once again - paying about 4.5% which is still more interest income compared to all other bonds with maturities of up to 30 years.

The following chart displays sample returns of various asset categories for the calendar year and during the fourth quarter of 2024:

Yr-To-Date 2024	4th Qtr. 2024	Index Return (*includes dividends reinvested*)
+ 12.88%	**+ 0.51%**	**Dow Jones Industrial Average (^DJI)**
+ 24.89%	**+ 2.49%**	**Standard & Poor's 500 Index (^GSPC)**
+ 23.81%	**+ 2.68%**	**DJ U.S. Total Stock Market (VTI)**
+ 33.12%	**+ 7.09%**	**Large-company stock-Growth (IWF)**
+ 14.17%	**- 1.96%**	**Large-company stock-Value (IWD)**
+ 21.86%	**+ 8.16%**	**Mid-Size Stocks – Growth (IWP)**
+ 12.91%	**- 1.78%**	**Mid-Size Stocks – Value (IWS)**
+ 15.04%	**+ 1.69%**	**Small-company stock- Growth (IWO)**
+ 7.63%	**- 1.10%**	**Small-company stock- Value (IWN)**
+ 3.49%	**- 8.36%**	**International (EFA)**
+ 6.49%	**- 7.27%**	**Emerging Markets (EEM)**
+ 4.81%	**- 7.68%**	**Real Estate Investment Trusts (VNQ)**
		Fixed Income (includes appreciation)
+ 3.92%	**- 0.09%**	**Short-term U.S. Treasury (SHY)**
- 0.63%	**- 4.60%**	**Intermediate U.S. Treasury (IEF)**
		Alternative Investment Category
+ 26.66%	**- 0.38%**	**Gold (GLD)**

**All returns calculated using adjusted historical quotes from finance.yahoo.com*

FINANCIAL MARKET OUTLOOK

The fourth quarter stock market performance was excellent for one category: growth stocks - whether large, mid-size or small companies. This is the same category that has propelled stock indexes upward over the last 24 months, in particular, large-company tech/AI stocks and this sector (tech growth stocks) is already very generously valued. Seven tech companies (Apple, Nvidia, Microsoft, Alphabet, Amazon, Meta Platform and Tesla) accounted for 65% of the total stock market's 24% gain in 2023 and 57% of the 23% total stock market gain in 2024. In other words, the broad market stock index would have been up only 9.9% (verses 23%) in 2024 if we excluded the seven tech stocks above.

The positive outlook or hope is the that rest of stock market – meaning the traditional value stocks and other non-tech companies -- will soon follow as expected better economic conditions ahead begin to improve their profitability and price performance. Let's take a glance at the big picture along with both positive and negative concerns under this new transition period with a new administration and majority in Congress.

After suffering the devastating effects of COVID, supply chain shutdowns, lower economic growth and high unemployment in 2020 through 2022, the next two one-year stock market returns were above 20% in 2023 and 2024 – long before a meaningful increase in economic activity occurred. Gross Domestic Product (GDP) is currently around 2.5%. Stock market rallies are born on pessimism. The implication was better economic times are just ahead and since the stock market is an anticipatory machine, stocks went up long before evidence of better economic times was underway.

On the other hand, does the sudden reversal in stock prices in mid-December mean something? The very day (mid-December) that the Federal Reserve lowered interest rates by one-quarter percent, the Dow Jones Industrial average plummeted 1,123 points (2.5%) and the S&P 500 and Nasdaq indexes dropped 2.5%-3.5% in one day. That was strange. The Federal Funds rate is what banks charge for lending money to each other. However, since mid-December, home mortgage interest rates, auto loan rates, interest paid on U S Treasury bonds and other rates have risen.

For the past two years, the press, analysts and stock traders moved the stock markets higher just on talk and prediction that the Fed would begin lowering interest rates soon. After two years of waiting, the Fed has dropped the Fed Funds rate 3 times since mid-September 2024 for a total of 1% -- yet this last time, stock prices dropped considerably and are still down almost 4% since mid-December.

In the past, a stock market "Santa Claus" rally during the last week of December through the first few weeks of January ("January effect") resulted in positive stock market returns for that new year 75% of the time. Instead of continuing the advance, stocks have been down during this Santa Claus period. Remember, stock market rallies are born in times of pessimism and bull markets end abruptly when everyone is euphoric.

The U.S stock market, as measured by the S&P 500 stock index, has had two consecutive years (2023 and 2024) of more than 20% annual gains fueled mostly by

Continued on page 3

Continued from page 2

technology/AI stocks. The last time two consecutive 20% annual stock market gains occurred was during the late 1990's tech rally (1997 and 1998) and that was followed by the 45% stock market decline in 2000-2002. Is this meaningful statistical information or simply random data? More likely, it means expect median or "normalized" rates of return that are based on current economic statistics – rather than the expectation that the Federal Reserve will continue lowering interest rates because economic conditions are so bad, the economy must get better in the future.

The biggest topic that will affect the financial markets in the near term is the upcoming transition period of new US Government policy led by our new President and a change in party control in Congress. This transition period adds uncertainty and the timing and extent of changes are unknown at this time.

Topic #1: National Debt. Will the new Administration actually do something to reduce the record 36 trillion-dollar National Debt caused by our government spending more money than the tax revenues it brings in? Just the interest cost per year on the 36 trillion National Debt – not even counting actually reducing the debt, is 1 trillion dollars annually – that sum is more than what our government spends for our entire military each year. In addition, Congress must approve yet another debt ceiling increase and the fight in Congress is going to be nasty.

Topic #2: Tariffs. President Trump has pledged to increase tariffs by 60% on imports from China, 25% on Mexico and Canada and a 10% tariff duty from all other countries. First, many countries – including the three mentioned, charge tariffs on U.S exports. Charging those countries more via tariffs is retaliation. Second, what are the positive aspects of charging tariffs and why would any country do this? First, the domestic country's government charging the tariffs benefits by collecting additional revenue. Trump sees this additional revenue as a way to reduce our National Debt and (discussed below) a way to offset lower government revenue for the tax cuts he is proposing. Third, U.S. companies producing the same products (farming, crops, coffee, steel, essential minerals, etc.) benefit by selling more of their products when imports are more expensive due to tariffs.

The negative impact of tariffs is domestic companies with higher exposure or needs for cheaper imported materials and parts could be hit especially hard (most American manufacturers) as the cost to produce their final goods rises. And guess who pays that higher cost? Consumers. Will U.S. consumers keep buying the same amount of goods at higher prices (iPhones, toys, electronics, home furnishings, building materials, autos, auto parts etc.)?

What will be the impact on U.S stock prices? Given the U.S. reliance on cheaper imported goods and services suggests many U.S companies could experience less demand and therefore lower sales and revenues. Bottom line, passing on the cost of tariffs to consumers is inflationary. The increase costs due to tariffs on *essential* goods are paid by buyers and consumers. If inflation rises, you can forget about the hopeful expectation of future interest rate cuts (which has fueled the gains in stocks and home prices over the prior two years).

Topic #3: Preserving lower personal income tax rates and lowering corporate tax rates. Trump's primary focus is to extend tax cuts that were passed during his first term under the 2017 Tax Cut and Jobs Act, which are scheduled to expire January 1, 2026. The maximum individual income tax rate was reduced from 39.6% to its current 37%. Trump wants to continue with the expanded income tax brackets which means it takes more income to be taxed at the next-higher rate with the standard deduction doubled (currently $29,200 for married filers and $14,600 for single filers). Another sunsetting provision is the current $13.6 million <u>per person</u> gift and estate tax exclusion. Simply stated each taxpayer can gift during his/her lifetime and/or pass their estate to family at death up to $13.6 million before being subject to estate tax. Failing to extend it would bring that estate tax exclusion number down to about $7 million.

The bottom line is we can't stay on the same course of the past five years. The COVID pandemic destroyed the U.S. economy and an enormous amount of government financial assistance was spent without revenue to fund it, plus financial and military equipment assistance to allies in the Middle East and Ukraine along with wasteful spending without necessity (like student loan forgiveness). The result: huge deficits and a record National Debt. It is what it is – no need to point fingers. It's past the time to pivot in another direction.

Continued on Page 4

Continued from page 3

Investment Outlook and Recommendations

All of the above discussions and topics will impact our outlook and the investment decisions we make. There will be no quick fix nor do we expect the well-above average stock market investment returns like we had in 2023 and 2024 to repeat in 2025. Expect increased financial market volatility in stock prices over the short-term, slightly higher interest rates, some inflation pressures continuing, and more "normalized" investment rates of return for at least this year.

We are still taking a moderate approach to risk and return possibilities after increasing our clients' exposure to stocks during the fourth quarter 2024. In order for the stock market to maintain the gains made over the previous two years, it will be necessary for all of the "non-tech" stocks to participate in the rally. We added value stocks, mid-size and small-company stocks to client portfolios during the fourth quarter 2024 and we continue to prefer short-term fixed income securities (CD's and Treasuries) until the inflation, interest rate and tariff picture becomes clearer.

Taking a look at the bigger picture, in the next 5 years we need to head in a different direction and manner. When a sustainable stock market arrives, large-company value stocks should perform well and small and mid-size company U.S. stocks will be even more attractive.

We have identified several stock investments that we intend to add to client portfolios outlined on your blue recommendation sheets, but the timing of when to make additional stock purchases is still uncertain. Ideally, we will begin the second phase of increased stock exposure to client portfolios carefully over the next 6 months.

Contact Us

Brian D. Lowder, Inc.

Brian D. Lowder, CFP®, CFA
Michael Kinnear, CFP®, CFA
Rebecca Dodge, CFP®, CFA
Tayler Foster

Address
12780 High Bluff Drive Suite 100
San Diego, CA 92130

Telephone
(858) 794-6800

Fax
(858) 794-6906

Website
www.bdlowder.com

Email
brian@bdlowder.com
mike@bdlowder.com
rebecca@bdlowder.com
tayler@bdlowder.com

Brian D. Lowder, Inc., a California Corporation, is a fee-only wealth advisory firm specializing in comprehensive financial planning and investment management. Brian D. Lowder, Inc. is registered with the Securities and Exchange Commission and licensed by the State of California Department of Corporations as an Investment Advisor.

Best Regards,

Brian | Mike | Rebecca | Tayler

Brian Lowder | **Michael Kinnear** | **Rebecca Dodge** | **Tayler Foster**