CORDA
TOGETHER WE'RE INVESTED

Glass Half Full

December 31, 2024

Without question, we are living in extraordinary times. Perspectives on the world vary dramatically. On one hand, we see rising GDP in many countries, advancements in healthcare, groundbreaking technological discoveries, and even the potential for AI to drive meaningful and positive societal changes. Higher asset prices have boosted net worth, especially for those invested in equities or housing. However, contrasting narratives exist for those adversely impacted by inflation or military conflicts. Governments must grapple with budget deficits and volatile currencies, while investments in infrastructure, security, and supply chains remain challenging and complex. For those not invested in equities or housing, the growing divide between the "haves" and "have nots" underscores record levels of inequality. Additionally, the transition from globalization to a more insular approach has heightened geopolitical tensions.

Yet, despite these cross currents, our outlook remains positive. Lingering inflation aside, strong U.S. productivity, robust earnings growth, stable financial conditions, and limited equity issuance—alongside a continued lack of exuberance outside of the "Magnificent 7"— leads us to believe that 2025 could hold more gains for investors.

Looking Ahead to 2025

The bar will undoubtedly be higher as we enter 2025. Unlike the past two years, the equity market's momentum has shifted most strategists towards a bullish stance. Aggressive GDP and earnings estimates are becoming more prevalent, setting a higher benchmark for upside surprises. Meanwhile, the Federal Reserve, led by Jay Powell, has signaled a more gradual and uncertain path forward for interest rates. The surging 10-year yield and a strong U.S. dollar may bring unforeseen ramifications. Tariff wars and fiscal imbalances could add headline risk, and volatility shocks are likely along the way.

A recurring theme we've discussed over the years is the relentless bifurcation in equity markets. The concentrated outperformance of the S&P 500's top holdings reminds us of the Nifty Fifty era of the late 1970s and the Dot-com mania of 1999-2000.

The chart below highlights the concentration of the top ten stocks as a percentage of the overall index. This level of concentration is unprecedented in history.

Chart #1: The 10 Largest Stocks in the S&P 500 as a Percentage of Total Index

We continue to find compelling valuations outside of these richly valued companies and that is why we remain constructive on both the bond market with yields above 4% and the broad equity market looking forward.

December Dip

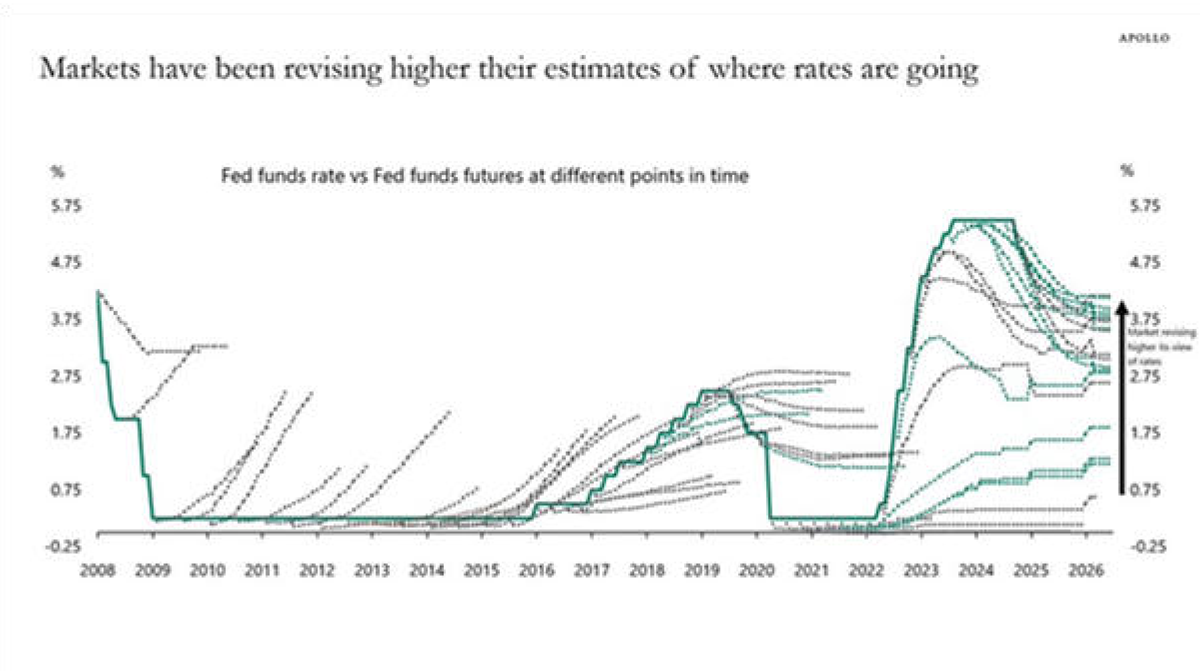
Markets faced turbulence in mid-December after the Fed's final meeting of the year on December 18th. The Fed announced a slight pivot, reducing the Fed Funds rate by a quarter of a point, marking a full percentage point reduction since September. However, they also adjusted their projections, reducing the number of expected rate cuts in 2025 from four to two. This announcement caused equity markets to swoon, with many questioning whether even two cuts will materialize.

The Fed's cautious approach reflects persistent "sticky" inflation. Their preferred gauge, the PCE (Personal Consumption Expenditure Price Index), is now forecast to rise to 2.5% in 2025, up slightly from 2.4% in late 2024. By comparison, the widely used Consumer Price Index (CPI) is tracking at 2.7% over the past 12 months. Additionally, the Fed's projections now include a slightly lower unemployment rate (4.3% versus 4.4% previously) and a marginally faster inflation-adjusted GDP growth rate of 2.1%, up from 2.0%.

While higher interest rates for longer periods have been our expectation, markets are only now starting to price this in. As history shows, interest rate forecasts have often been far from accurate, underscoring the challenges of predicting future rate movements.

See the following chart published by Apollo Global's Torsten Slok about interest rate estimates since 2008 and the reality where they ended up.

Chart #2: Markets Have Been Revising Higher Rate Estimates:



Since 2008, fed funds futures have not tracked the actual fed funds rate, underscoring how "professionals" have been wrong about their rate forecasts.

Insights from Jeremy Siegel

The Fed's mid-December statements set the tone for 2025. While markets reacted with volatility, they stabilized shortly thereafter. Jeremy Siegel, one of the most respected voices in finance, shared insightful comments following the pullback. His perspective aligns closely with ours: higher interest rates are not unhealthy for the markets. A steepened yield curve, where long-term rates exceed short-term rates, should be viewed favorably, while an inverted yield curve should be approached with caution.

Siegel also highlighted the importance of a market driven by fundamentals rather than momentum. He expects the "Magnificent 7" stocks to take a breather, paving the way for a rotation into value stocks. Broad market gains, particularly in value sectors, could emerge as a key theme in 2025. This would likely be beneficial to CORDA investors.

Click below for the 4–5-minute interview:
The market's certainly healthier today than it has been the last few weeks: Wharton's Jeremy Siegel - YouTube

We encourage you to follow the link and listen for yourself - Dr. Siegel is a breath of fresh air in a market often dominated by noise. Notably, he doesn't appear to have a vested interest in how things might turn out, which makes his perspective especially valuable.

For those unfamiliar with Dr. Jeremy Siegel, he is a Professor of Finance at the Wharton School of the University of Pennsylvania and a renowned advocate for holding equities over bonds due to their long-term ability to outpace inflation. His seminal book, Stocks for the Long Run (1994), is a must-read for any young investor seeking to understand the fundamentals of equity investing. We've read it dozens of times and highly recommend it.

Dr. Siegel also authored The Future for Investors (2005), which further explores his insights into investing. Both books hold a prominent place on our desk here in the portfolio room at CORDA, where they serve as constant reminders of his enduring wisdom. If you look closely, you'll even spot that one of them was signed by Dr. Siegel for John.

Last, but not least, we looked back in our archive and found this brilliant photo of Jason Iacobucci, Bonner Barnes, Jeremy Siegel, and John Schloegel taken on October 11, 2012 (10-11-12 for good luck) when Siegel gave a presentation in Houston, Texas. We hope you enjoy this photo as much as we do - life has been good for us over the years!

Looking Back and Moving Forward

As we roll into 2025, we want to take a moment to thank you for your trust and partnership this past year. Despite the challenges and uncertainties, staying focused on long-term goals has been the foundation for success. With resilient economic indicators, evolving market trends, broadening market participation, and stable interest rates, we are optimistic about the opportunities ahead. While bumps along the way are inevitable, maintaining discipline and commitment will allow us to capitalize on what's to come.

We are here to answer any questions, review your portfolio, and ensure alignment with your financial goals. Before we wrap up, we wanted to share some exciting updates coming in 2025!

We've expanded our team of Certified Financial Planners, enabling us to offer full and comprehensive financial plans tailored to your needs. If you haven't yet taken advantage of creating a personalized plan or would like a thorough review of your current situation, please reach out to your Financial Advisor.

In addition, we're building a dedicated tax preparation team! This will allow us to complete individual tax returns on your behalf, and in some cases, handle tax filings for other entities and trusts. Stay tuned for more details as we roll out these services!

Lastly, if there have been any significant changes to your financial situation, please let us know so we can adjust your strategy accordingly.

We look forward to continuing to support your financial journey in the year ahead! Let's make 2025 a year of progress, growth, and confidence.

Wishing you and your loved ones a healthy and prosperous New Year.

Warm regards,

The CORDA Team