Cambridge ADVISORS inc.
INVESTMENT MANAGERS

INVESTMENT PERSPECTIVE | DECEMBER 2024

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MARKET COMMENTARY

US stocks indices reached new highs in the fourth quarter before retreating. Large cap stocks in the S&P 500 had a gain of 2.41% for the quarter bringing their year-to-date return to 25.02%. Small cap stocks in the Russell 2000 Index posted a modest 0.33% gain in the quarter resulting in an 11.54% return for the year. International stocks did not fare well; developed market stocks declined -8.11% in the quarter reducing their full year return to 3.82%. Meanwhile, emerging market stocks were also down -8.02% bringing their full year gain to 3.72%. Although short-term yields were lower at the end of the quarter, long-term yields rose so the Barclays U.S. Aggregate Bond Index had a loss of -3.06% in the quarter culminating in a 2024 return of just 1.25%.

After broadening out through most of the year, sector returns have once again concentrated predominately in the growth sectors. Technology, Communication Services and Consumer Discretionary sectors delivered remarkable returns of 36.6%, 40.2% and 30.1% , respectively. Financials were also strong with a 30.6% return. In contrast, Materials, Health Care, Real Estate and Energy lagged and registered returns of 0.0%, 2.6%, 5.0% and 5.7%, respectively.

The S&P 500 reported third quarter earnings growth of 8.4% and fourth quarter earnings are projected to grow 7.4%. Full year earnings growth is expected to be 8.1% with 2.0% revenue growth. The Technology sector stood out with earnings growth of 19.8% in 2024 which makes it easy to see why their stocks outperformed. Zacks projects the Technology sector earnings growth to be 17.4% next year compared to overall S&P 500 earnings growth at 13.9%.

The S&P 500 now has a price/earnings multiple (PE) of 21.5 times earnings which is much higher than its long-term average PE of 16.6 times. The top 10 stocks of the S&P 500 are making this valuation look more stretched than it is. These stocks make up 39% of the weighting of the S&P 500 and their PE is at 29.8 times earnings. The remaining 490 stocks have a PE of 18.2 times earnings which is still higher than average but not as extreme as indicated at first glance.

GDP grew 3.1% in the third quarter. David Kelly from JPMorgan projects growth will be weaker in the fourth quarter but still good. The Fed raised its full-year 2024 projection from 2.0% to 2.5% and its 2025 projection to 2.1%.

Unemployment declined to 4.2% (from 4.4%), a level the Fed is projecting it to stay near through 2027. Although this is higher than it has been and is above the Fed's original projection for the year, it is still quite low.

Inflation has plateaued and the Fed's favorite measure—the Core PCE deflator—is at 2.8% in November. The Fed isn't expecting to reach its 2% target until 2027.

2024 BENCHMARK RATES OF RETURN

INDEX	FOURTH QUARTER	YTD
S&P 500	2.41%	25.02%
Russell 2000	0.33%	11.54%
International	-8.11%	3.82%
Fixed Income	-3.06%	1.25%
JPMorgan Diversified*	-2.00%	9.59%

*25% S&P 500 large cap stocks,10% Russell 2000 small cap stocks, 15% MSCI EAFE international stocks, 5% MSCI EME emerging market stocks, 5% REITs, 25% Barclays US aggregate bonds, and 5% each in short term Treasuries, high yield global bonds, and commodities.

2024 Retirement Contribution Limits

Retirement Plans	2024	2025
401k and 403b Plans	$23,000	$23,500
Catch up age 50-59, 64+*	$ 7,500	$ 7,500
Catch up age 60-63*	$ 7,500	$11,250
IRAs		
Traditional or Roth IRA	$ 6,500	$ 7,000
Catch up contributions*	$ 1,000	$ 1,000
SIMPLE IRA	$16,000	$16,500
Catch up age 50-59, 64+*	$ 3,500	$ 3,500
Catch up age 60-63*	$ 3,500	$ 5,250

*The additional catch up contribution now depends on your age

We value our relationship with you, and we are always available to meet with you in person, virtually or by phone. Please do not hesitate to call or email us with any questions that you may have. Also, if your situation has changed, please contact your advisor so we can determine if any changes are needed in your account.

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The Fed cut the Fed Funds rate by 25 basis points at each of its two meetings in the fourth quarter. The current rate is between 4.25% and 4.50%. Fed Chairman Powell indicated the Fed will be moving slower regarding future rate cuts. Currently, 2025 is projected to have two rate cuts rather than four. Further cuts are expected in 2026 and 2027 with a projected ending rate around 3.0%.

Money markets have moved lower to around 4.25% as expected with the cut in short-term rates, however longer-term yields rose. The 10-year Treasury bond yield climbed from 3.8% at the end September to 4.57% at year end. The 10-year Treasury yield may hover around current levels, and homebuyers may not get the dip in mortgage rates they were hoping to see.

The uncertainty of the election is over which is normally positive for markets. At first, stocks rallied but then the uncertainty over what the new administration's policies would mean brought back uncertainty and stocks retreated. Among the objectives, the new Trump administration has indicated a desire to cut spending by $2 trillion, extend the 2017 tax cuts plus cut other taxes, implement tariffs and reform immigration which includes deportations. These are all significant changes but we don't know the details yet as to the extent and timing. The uncertainty is contributing to market volatility.

Strategas Research and Brian Wesbury both are eyeing the debt ceiling and a potential increase in the money supply. If the US reaches the debt ceiling and it is not raised, money from the Treasury reserves will flow into the market to pay government financial obligations thereby increasing the money supply. Strategas calls this a "liquidity bazooka" that will serve as "a fiscal cushion for policymakers". They note that in past times when money supply increased it has been very good for stocks regardless of whatever else was going on.

Bitcoin and crypto currencies have surged since the election. The Trump administration is seen as crypto friendly and some analysts are expecting Bitcoin prices to double in 2025. One reminder, digital assets are still likely to be volatile so continue to exercise caution when investing in these types of securities.

Diversification continues to be prudent. Also, the "target outcome" or "buffer" ETFs can add protection to portfolios and still provide upside potential if stock prices rise. Dividend income is also attractive in equity and premium income funds. In these funds, managers own dividend paying stocks and sell out-of-the-money call options to collect extra income. The dividends help with total returns or with income needs depending on the account.

Measuring risk tolerance and investing accordingly is important in this environment. Timing the market or chasing returns may work in the short-term but is more difficult over longer periods. We use Nitrogen software to help us measure your risk tolerance and make sure you have the appropriate risk in your accounts. Want to check your risk tolerance? Scan this QR code and you will be directed to a risk survey. We'll receive your results and compare it to your current risk score.

Cambridge Risk QR Code

CAMBRIDGE ADVISORS NEWS

Have you checked out the client portal? Our website has a direct link. Your Username is your email address and you can reset your password if needed. The client portal has account information and also a document vault which provides a secure place to upload and download files or forms.

We are committed to remaining independent as we believe that is best for our clients. Mike and Lori are not planning to retire in the near future, but we want you to know we have people in place to be able to continue to serve our clients. You may have already met Justin and/or Jon—if you haven't, we would love to introduce you. Justin is a vice president and owner of the firm already and Jon is our newest advisor. We appreciate the trust you place in us. If you have friends or family who would benefit from a relationship with Cambridge, please do not hesitate to share our contact info and our website. We are accepting new clients right now and want to help the people who are important to you. We waive our $500,000 minimum for these referrals or offer the financial planning services on a stand alone basis. Thank you for your referrals!

SCAM ALERT

Each quarter we want to highlight a scam we've seen in hopes it helps prevent it from happening to you. As tax season approaches, please keep these things in mind. The IRS initiates most contact through regular mail—not email, text or social media. They do not make phone calls to tell you that you owe money. They do not have you pay taxes with giftcards. Impersonators may demand you pay now and make threats if you do not. Do not follow links in emails or provide personal information even if you are told it is for an unclaimed refund. More information regarding tax scams and how to report them is available at https://www.irs.gov/help/tax-scams. Have you seen scams that we should alert our clients to? Let us know so we can share in a future newsletter!