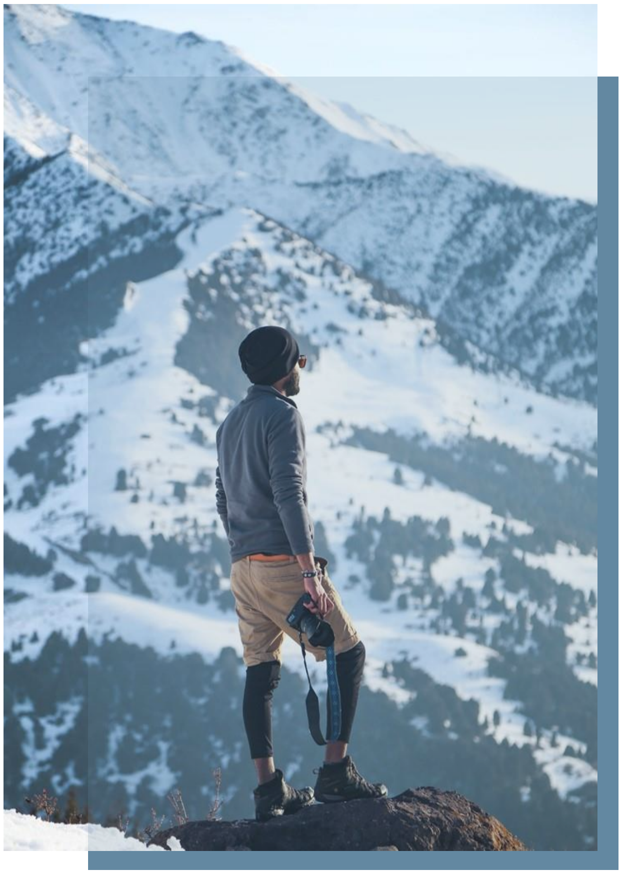
PERSPECTIVES

Benefit Financial Services Group Newsletter

Quarter Ending December 31, 2024



What's New

Market Recap

Brent Miller, CFA® (Senior Portfolio Manager)

While the major U.S. stock market indices finished in positive territory in Q4 2024, there was a marked performance gap with growth stocks handily outperforming value-oriented equities. Continued tech sector leadership, increased investor risk appetite, declining interest rates, and expectations of additional rate cuts[1] all served as key catalysts for growth stock outperformance in the quarter. Perhaps the best example of this performance divergence is the tech-heavy Nasdaq-100 Index,[2] which led the way in Q4 2024, appreciating by 4.7% compared to a 0.5% gain in the more value-oriented Dow Jones Industrial Average.[3]

Q4 2024 also exhibited a strong performance gap both within the domestic large cap stock universe and between large cap and small/mid-cap ("SMID") U.S. listed stocks. For an example of the former trend, consider that after broadening in Q3 2024, market breadth narrowed materially in Q4 2024 as the market-cap weighted S&P 500 Index[4] increased by 2.1% compared to a 2.3% decline in the S&P 500 Equal Weight Index.[5] With regard to the large-cap/SMID performance gap, consider that the SMID-focused Russell 2000 Index[6] was flat in Q4 2024, lagging the performance of the mega cap dominated Nasdaq-100 Index and the market-cap weighted S&P 500 Index by a considerable margin.

After keeping pace with U.S. stocks in Q3 2024 for the first time in several quarters, international stocks significantly underperformed their U.S. counterparts in Q4 2024. The MSCI World ex USA Index[7] fell by 7.7% in Q4 2024. In advanced economies, Eurozone stocks continued to be hampered by high natural gas prices stemming from the ongoing conflict in Ukraine and weak manufacturing data in key economies such as Germany, raising concerns about a broader economic downturn. The euro also depreciated by over 5% versus the U.S. dollar, making European stocks relatively less attractive to foreign investors. In Japan, equities were pressured by tighter monetary policy and a stronger yen.

Emerging market equity performance was only modestly better than that of developed markets, with the MSCI Emerging Markets Index[8] declining by 8.2% in the quarter. Chinese stock market performance was negatively impacted by slowing economic growth, property market woes, and the potential tariff threat posed by the incoming Trump presidential administration in the U.S. While Taiwanese stocks posted modest declines, political instability and a weakening won led to the considerable relative underperformance of South Korean equities.

After initiating the monetary easing process with a 50-basis point cut on 9/18/24, the Federal Open Market Committee ("the Fed"), opted to cut the federal funds rate by 25 basis points on 11/7/24 and followed that up with another 25-basis point cut on 12/18/24. Underlying these rate cut decisions were signs of moderating inflation and a potential softening of the labor market. Despite these cuts to the very short end of the yield curve, 10-year U.S. Treasury yields headed in the opposite direction, likely due to resilient economic growth, fears about sticky inflation in the services and housing sectors, and concerns about increased deficit spending under a new U.S. presidential administration.

10-year U.S. Treasury yields were on the rise from the beginning of the quarter until 11/22/24, where a temporary peak of 4.41% was reached. The 10-year U.S. Treasury yield experienced a brief period of decline, bottoming out at 4.15% on 12/6/24 before rising significantly to close out the year at 4.57%. The marked increase in Treasury yields resulted in the Bloomberg Aggregate Bond Index[9] falling by 3.1% in Q4 2024. The biggest losses came from long duration bonds, which tend to be more sensitive to changes in interest rates and interest rate expectations. As a case in point, the iShares 20+ Year Treasury Bond ETF (TLT)[10] declined by 11% in Q4 2024 compared to a 1.4% drop in the iShares 1-3 Year Treasury Bond ETF (SHY).[11]

On the commodity front, the price of Brent Oil spiked by 7.9% from 10/1/24 to 10/9/24, primarily due to escalating geopolitical tensions in the Middle East and concerns about potential supply disruptions. However, Brent Oil prices declined over the remainder of October as geopolitical tensions eased and increased U.S. production applied downward pressure. Prices remained range bound from 11/1/24 to 12/18/24, where Brent Oil prices increased by 2.4% to close out the year on a high note. After taking these movements into account, the price of Brent Oil over the entire quarter increased 4%.

We look forward to 2025 and are hopeful that the Federal Reserve's signaling of a more conservative approach to rate cuts in the new year[12] will continue to buttress solid real GDP growth and a healthy labor market without triggering new inflation fears.

Forecast

Steven Yamshon, Ph.D. (Managing Principal)

Alfred E. Neuman, the celebratory figure head of Mad Magazine was famous for quipping, "What Me Worry?". At this juncture, in keeping with Mr. Neuman's famous line, we offer our readers and clients some possible outcomes for stocks, bonds, and the stock market in 2025. There are a few possible outcomes investors should consider as we head into 2025. Although we have a positive view on stocks, two important factors challenge this assessment.

The first is if inflation accelerates, then in our opinion, the Fed would have no choice but to raise interest rates. This would likley push already rising bond yields into restrictive territory. In this scenario, stocks would likely decline, and a recession could eventually follow. Although this outcome is a possibility, it is unlikely in our view. Although the drop in inflationary pressures has stalled, looking closely at the various factors that are included in the inflation numbers, inflation is certainly moving in the right direction. Most importantly, the U.S. Dollar is strong, as is productivity growth, which are both anti-inflationary.

The second challenge could be some unforeseen situation in which the economy falls into a recession (a "black swan" event), lowering corporate earnings and driving stocks lower. However, with Donald Trump taking office in January, his policies will most likely be stimulative. Even if team Elon Musk reduces government spending, Trump will likely use the savings and then some, to build his agenda. We wouldn't expect a major reduction in government spending during the upcoming Trump administration. Private sector and individual balance sheets remain strong and coupled with government spending, this should keep the economy from falling into a recession.

Together, 2023 and 2024 form the best two-year period for U.S. stocks since the late 1990s. During this stretch, there were economic uncertainties, elections, geopolitical tensions and rising interest rates.There is ample evidence suggesting that the U.S. will experience falling inflation, higher corporate earnings, and a productivity growth spurt thanks to investments in Artificial Intelligence (AI) which could lead to a multi-year stock boom like we witnessed in the late 1990's. Such a scenario could possibly fuel an asset bubble like the dotcom era."What Me Worry?" Ultimately, we believe the past two years provided a lesson in maintaining discipline and a long-term focus.

Portfolio Management

Michael Allbee, CFP® (Principal/Senior Portfolio Manager)

Markets are abuzz with predictions, tech innovations are unfolding, and potential changes in economic policy are on the horizon. Nevertheless, investors shouldn't be indifferent to today's U.S. stock market valuation (forward P/E ratio of 21.5x), which is 35.4% higher than the 20-year average.[13] As we go into next year, it is certainly possible equities continue to rally on multiple expansion. The highest forward P/E ratio of the last 30 years (reached 12/1999) has been 24.1x or about 9% upside from here. Or perhaps U.S. stocks can "grow into its P/E", since consensus earnings per share (EPS) estimates for the S&P 500 Index implies growth of 14.6% earnings growth, representing a marked acceleration from expected 2024 earnings growth of 9.4%.[14] But another possibility is that stock prices consolidate in a sideways trend or even contract.

That's why investors may be best served planning for what could happen rather than trying to predict what will — by having a diversified portfolio that aligns with one's risk tolerance and sticking with it. We continue to allocate to small-mid cap equities in the U.S. and international equities to reduce valuation risk across equities and we believe it is possible to find stocks that trade at a material discount relative to their near and long-term earnings power. And despite very strong, almost historic relative outperformance of equities to bonds over the last one, three, five, and 10 years, we continue to rebalance from equities to bonds to mitigate portfolio risk and improve long-term returns.

While it's easy to get caught up in the excitement and noise, it's important to remain anchored to the financial and investment strategies we've carefully crafted together. Remember, financial success is a marathon, not a sprint.

Talk With Us!

Arash Navi, CPA, CFP® (Wealth Manager)

There are many factors that contribute to increasing one's quality of life in retirement. Maintaining a healthy lifestyle, staying active and being engaged in social relationships are key components. Furthermore, finances and having sufficient funds to meet the lifestyle you'd like to have in retirement are also crucial.

A recent report from the Federal Reserve has shown that Social Security benefits are the primary source of income for 92% of retirees over 65, with only slightly more than half of all retirees having retirement accounts such as 401(k)s, 403(b)s, or IRAs.[15] This reliance on Social Security is alarming, considering that the Social Security Trust Fund is projected to be depleted by 2035, potentially leading to reduced benefits for millions of Americans. Even if Congress manages to avoid reducing Social Security benefits, the increased government spending to prevent this reduction will likely contribute to higher inflation, which in turn means the monthly social security benefits retirees receive will not be sufficient to cover their needs considering the rising cost of housing, food and healthcare. Therefore, it has never been more crucial to prioritize saving and contributing to retirement plans, such as 401(k)s, IRAs, and other investment vehicles, to ensure a diversified and sustainable income stream throughout retirement.

Income source	age 65+	Overall
Social Security (including Old-Age and DI)	92%	77%
Pension	64%	56%
Interest, dividends, or rental income	52%	48%
Wages, salaries, or self-employment	26%	33%
Cash transfers, other than Social Security	5%	8%

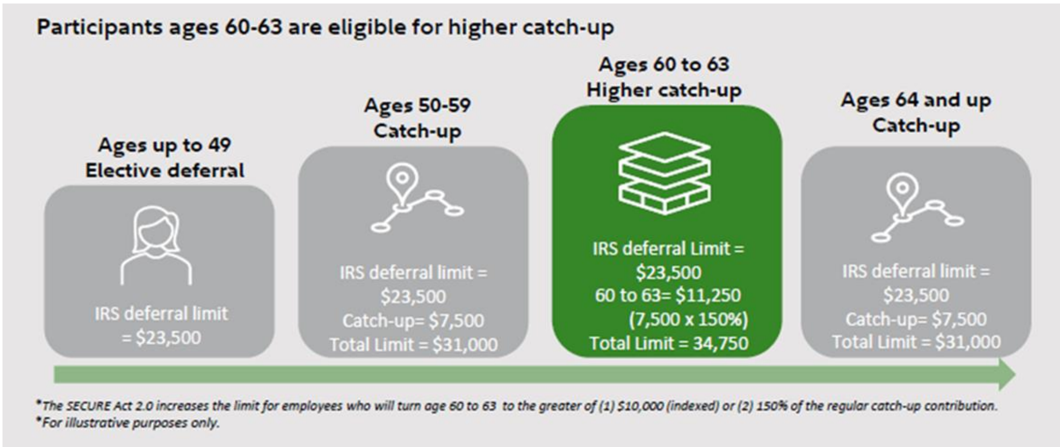
Data Source: Federal Reserve (2024). Among retirees sources of income include the income of a spouse or partner. DI is disability insurance.

Luckily, Congress has recognized the looming retirement crisis and has passed the SECURE 2.0 Act, which has made some changes regarding retirement savings rules to encourage individuals to save more.

As many of you are aware, there are rules and limits surrounding the contributions made to retirement accounts. For example, in 2025, an individual can only contribute $23,500 to a 401(k), 403(b), or 457(b) plan. Until now, individuals aged 50 and older were allowed to make a "catch-up contribution" of $7,500.

With the passage of SECURE 2.0, starting in 2025, individuals aged 60 to 63 are eligible for an increased catch-up contribution for a total of $11,250. This means:

- **Regular Contribution Limit:** $23,500
- **Catch-up Contribution Limit:** $11,250
- **Total Contribution Limit:** $34,750



Source: Fidelity

Taking advantage of the ability to contribute more towards your retirement savings offers significant benefits. Not only will it help you be better prepared for retirement, but it will also help lower your current year's taxable income and potentially reduce your overall tax burden.

To learn more about maximizing your retirement savings, check out our webinar, 'Navigating Your Retirement Plan'! As always, please don't hesitate to Talk With Us if you'd like us to review your current retirement plan contributions or explore strategies for increasing your retirement savings and potentially reducing your taxes.

In the News

- BFSG Named One of Newsweek's "Top Financial Advisory Firms" for 2025.*
- BFSG Ranked by Forbes as one of the "Top RIA Firms" in 2024.**
- NAPA Selected Tina Schackman, Aksana Munoz, Nicole Chou, and Antonia Lipovac to "Top Women of Excellence" for 2024.***

** Newsweek, in partnership with Plant-A Insights Group, analyzed over 15,000 financial advisories registered with the SEC. They screened firms with more than $20 million assets under management (AUM), a minimum of 3 wealth advisors, at least 5 individual clients, and at least two years of SEC registration. Firms were also screened for clean disciplinary records and the availability of portfolio management services to individual investors. Each firm was then scored based on the following factors: asset performance, client performance, adviser expertise and client ratio, breadth of service offerings and conflicts of interest. More about the methodology can be found here. BFSG did not pay a fee to participate in this award.*

*** The Forbes ranking of America's Top RIA Firms, developed by SHOOK Research, is based on an algorithm of qualitative criteria, mostly gained through telephone, virtual and in-person due diligence interviews, and quantitative data. The algorithm weighs factors like revenue trends, assets under management, compliance records, industry experience and those that encompass best practices and approach to working with clients. Portfolio performance is not a criterion due to varying client objectives and lack of audited data. There is no application fee to participate. More about the methodology can be found here. BFSG did not pay a fee to participate in this award.*

**** Nominees were asked to respond to a series of quantitative and qualitative questions about their experience and practice. Those anonymized questionnaires were then reviewed by a blue-ribbon panel of judges who, over the course of several weeks, selected the women honored in the three categories. See the full list here: https://www.napa-net.org/industry-content/accolades-home/napa-top-women-ofexcellence/2024-napa-top-women-of-excellence/. BFSG did not pay a fee to participate in this award.*

The Score Board

	12/31/2024	YTD Change
Dow Jones Industrial Average	42,544.22	14.99%
S&P 500*	5,880.48	23.31%
NASDAQ Composite*	19,310.79	28.64%
MSCI EAFE (USD)*	2,261.81	1.14%
Bloomberg Commodity Index	98.76	0.12%
U.S. Aggregate Bond Index	2,189.03	1.25%
10 Yr U.S. Treasury Bond Yield	4.57%	69bps
30 Yr Fixed Mortgage Rate	7.28%	29 bps
Prime Rate	7.50%	-100 bps
Crude Oil ($ / Barrel)	$71.72	1.90%
Gold ($ / Oz.)	$2,624.50	27.55%
U.S. $ / Euro €	$0.97	6.68%
Core Inflation (excluding food / energy)**		3.3%
Inflation (including food / energy)**		2.7%

**Without Dividends; **Unadjusted 12-Months ended November 2024; bps (1 Basis Point = 1/100%); UNCH (Unchanged)*
Sources for Score Board and quoted statistics: WSJ, US Dept. of Labor, Federal Reserve

Sources:

1. Lower rates increase the present value of future earnings, which disproportionately benefits growth stocks that are commonly valued based on future cash flow streams.
2. The Nasdaq-100 Index is U.S. stock market index comprised of the largest 100 non-financial companies listed on the Nasdaq stock exchange. The index is dominated by technology companies and is commonly used as proxy for U.S. large cap technology performance.
3. The Dow Jones Industrial Average is a widely followed, price weighted stock market index of 30 prominent companies listed on stock exchanges in the United States.
4. The S&P 500 Index is designed to be a leading indicator of U.S. equities and is commonly used as a proxy for the U.S. stock market.
5. The S&P 500 Equal Weight Index (EWI) is the equal-weight version of the S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight of 0.2% of the index total at each quarterly rebalance.
6. The Russell 2000 Index is a small-cap U.S. stock market index that makes up the smallest 2,000 stocks in the Russell Index. The index is commonly used as proxy for U.S. small cap stock market performance.
7. The MSCI World ex USA Index captures large and mid-cap representation across 22 of 23 Developed Markets countries (excluding the U.S.) and 24 Emerging Markets countries.
8. The MSCI Emerging Markets Index captures large and mid-cap representation across 24 Emerging Markets countries.
9. The Bloomberg U.S. Aggregate Bond Index is a broad-based index that is commonly used as a proxy for the U.S. bond market.
10. The iShares 20+ Year Treasury Bond ETF seeks investment results that correspond generally to the price and yield performance of the long-term sector of the U.S. Treasury market as defined by the Barclays Capital 20+ Year Treasury Index.
11. The iShares 2-3 Year Treasury Bond ETF seeks investment results that correspond generally to the price and yield performance of the short-term sector of the U.S. Treasury market as defined by the Barclays Capital 1-3 Year Treasury Index.
12. The Fed's updated Summary of Economic Projections released on 12/18/24 indicated a median expectation among Federal Open Market Committee members of two 25 basis point rate cuts in 2025, down from an expectation of four 25 basis point cuts in September 2024.
13. The price-to-earnings is a bottom-up calculation based on the most recent index price, divided by consensus estimates for earnings in the next 12 months (NTM) and is provided by FactSet Market Aggregates and J.P. Morgan Asset Management. Historically, higher starting valuations have led to lower returns, and vice versa.
14. For a company to "grow into its P/E," its earnings per share need to increase at a rate that matches or exceeds the market's expectations for growth.
15. Source: Federal Reserve. https://www.federalreserve.gov/publications/2024-economic-well-being-of-us-households-in-2023-retirement-investments.htm

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