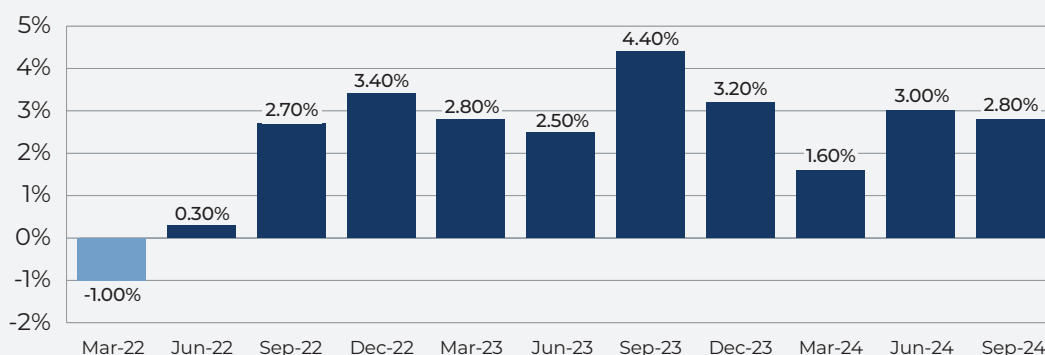


2024!! A year of surprises!

Let's start with the U.S. economy, which continues to surprise with its strength and stamina. Despite continued expectations that the 2022-2023 interest rate hikes by the Federal Reserve would slow the economy, we continue to see quarter after quarter of above average economic growth (the long-term growth potential is generally considered to be around 2%). If we look back a year, the markets were hoping the Fed would be able to get inflation under control without causing the economy to slip into a recession – what's referred to as a "soft landing." While the Fed has made substantial progress against inflation, the economy is still at full employment, and it is hard to argue that it has "landed" at all!

We continue to see quarter after quarter of above average economic growth.

U.S. Real GDP Growth



Source: BEA, Haver Analytics, Apollo Chief Economist

This has been due to three strong economic tailwinds that were not entirely foreseen when the Fed began hiking interest rates in 2022.

First, the U.S. economy is simply not as sensitive to interest rates as it historically has been due to a combination of factors:

- » **The U.S. economy** is now dominated by the services sector, accounting for 70% of all consumptionⁱ. The services sector is far less cyclical than the real goods sector with more stable consumption and less sensitive to interest rate increases due to less need to finance property, plant, and equipment. The services sector employs 85% of all employees in the private sector, making their employment less cyclical as wellⁱⁱ.
- » **Both homeowners and corporations** largely refinanced their debt when interest rates were near zero, so their financing needs have been limited during this period of higher rates.

i. Bloomberg, as of 12/31/2023

ii. Bureau of Labor Statistics, as of 12/31/2023

The S&P 500 Index accomplished something in 2024 it had only ever done four times in history – rising by more than 20% in back-to-back years.

The second tailwind to the economy has come from the explosive growth in capital spending to build infrastructure to support the artificial intelligence boom. For example,

- » **The seven mega-tech companies** known as the “Magnificent Seven,” that account for about 1/3 of the value of the total S&P 500, are now spending nearly \$50 billion each calendar quarter in combined capital spendingⁱⁱⁱ. Google alone expects 2024 capital expenditures to exceed \$51 billion for the full year.
- » **By 2030**, the U.S. will need to build electric power generation equivalent to three times that of New York City just to meet the demand coming from the data centers expected to be built^{iv}. Giant tech companies are already exploring creative options, such as reactivating retired nuclear power plants.

The third tailwind is U.S. government fiscal policy. With the federal government running massive federal budget deficits, that money has to be spent somewhere, and a lot is being spent to fund the CHIPS Act, the Inflation Reduction Act, the Infrastructure Act, as well as increased defense spending. Some parts of these could be scaled back by the new administration, but much of these funds are going toward building projects that will provide jobs for years.

These three tailwinds are all unique to the U.S. (yes, A.I. is global, but we have more data centers than the rest of the world combined), which is why the U.S. is currently the strongest of the major global economies. As these tailwinds carry into 2025, and with the Fed intending to make further interest rate cuts, the U.S. economy appears to be on a solid footing heading into the New Year.

What does all this mean for the stock market?

Clearly the “A.I.” boom continued in the U.S. stock market in 2024. That and the other economic tailwinds certainly provided fuel for a surprisingly strong year resulting in a 25.0% total return for the index.

U.S. Equities

Index	Q4 2024	2024
S&P 500	2.4%	25.0%
Equal-Weighted S&P 500 Index	-1.9%	13.0%
Dow Jones Industrial Average	0.9%	15.0%
Nasdaq Composite	6.3%	29.6%
Russell 2000 (Small Caps)	0.3%	11.5%

Source: Morningstar Direct

In fact, the S&P 500 index accomplished something in 2024 that it had only ever done four times in history – rising by more than 20% in back-to-back years^v. However, it should also be noted that in three of the previous four occurrences, the index began a plunge of 30% or more in the following year or two (the other time it fell by less than 20%). Given the exuberance of investing in “A.I.” over the last couple of years, this would hardly be surprising. In the second quarter newsletter, I shared the typical investment cycle for exciting new technologies:

iii. Bloomberg, Apollo Chief Economist

iv. Apollo, December, 2024

v. Bank of America, CNN.com, December, 2024

The price paid has a tremendous impact on the ability to generate returns, so investors should not expect the next ten years to be as prosperous for the S&P 500 as the last ten.

- » Excitement and overinvestment resulting in lofty valuations
- » Followed by falling valuations and disillusionment
- » Followed by a long period of widespread adoption and shared benefit among a range of industries

We have seen this exact cycle from the internet, which has completely transformed almost every aspect of our lives and provided a huge boon to productivity. However, the early years were marked by a historic collapse in technology stocks, as well as a “lost decade” for the S&P 500 index, a 13-year period that saw no gain for the index from its March, 2000, peak^{vi}. This should not be taken as a prediction, but rather a possible outcome for which portfolios need to be prepared while preserving the ability to capture upside from any continued gains.

On the flipside, there is a case to be made that the S&P 500 could still see one more 20+% up year in 2025! Wall Street analysts expect S&P 500 earnings to grow by 15% in 2025^{vii}, which means at the same price-earnings multiple as today, the index could gain 15%. In addition, while we are approaching the record price-earnings multiple from 2000, there is an argument that the index could surpass that as there is a greater concentration of high growth, high price-earnings multiple technology companies dominating the index. While this is a large source of risk if and when the technology wave does come back to earth, it could still propel the index to even loftier heights in the interim. Another important distinction from 2000 is that the giant technology companies that dominate the S&P 500 are currently growing profits, increasing profit margins, and generating more than enough cash to fund all their capital investment. Simply matching the peak price-earnings multiple from 2000, combined with 15% earnings growth could generate more than a 20% return next year. Clearly there is a wide range of outcomes for which we are preparing our Montis portfolios.

Regardless of what develops in 2025, valuations do matter with respect to expected returns. The S&P 500 has gone from a very low price-earnings multiple of below 10 in 2009 to a very high price-earnings multiple of about 22 today. The price paid has a tremendous impact on the ability to generate returns, so investors should not expect the next ten years to be as prosperous for the S&P 500 as the last ten have been. This is why we continue to diversify beyond the technology-heavy S&P 500.

As mentioned above, the U.S. is unique in enjoying these three economic tailwinds, as the rest of the world has seen their economies slowed by the higher interest rates of the last few years. However, much of the rest of the world is moving faster than the U.S. to lower interest rates, which should provide some fuel for their economies and their markets in the coming years. Given they are not at the premium valuations we see in the S&P 500, this effect could finally reverse their long period of relative underperformance versus U.S. equities in the coming years.

International Equities

Index	Q4 2024	2024
MSCI EAFE (Developed Markets)	-8.1%	3.8%
MSCI Emerging Markets	-8.0%	7.5%

vi. YCharts

vii. Factset, December 30, 2024

Source: Morningstar Direct

The Fed has lowered short-term interest rates by a full 1.0%...yet the average 30-year fixed rate mortgage rate has actually increased by about 0.75%.

Market Reaction to Election 2024

There is still very little clarity as to what exactly will happen when President Trump and the Republican-controlled Congress get sworn into office. The markets still have a lot of questions around various policies, but they have clearly formed some initial high-level judgments.

- » **The U.S. stock market** can generally be expected to respond favorably when it hears “lower taxes” and “less regulation,” which it did. Markets also seem to be optimistic that at least some of the tough talk on tariffs is more negotiating tactic than intended policy, but that remains a big uncertainty.
- » **Conversely, the bond market** can generally be expected to respond negatively when it hears “more borrowing for bigger budget deficits” and “potentially inflationary policies,” which it did. There does appear to be some optimism on the inflation front though as inflation was a very damaging issue for the Democrats in the election, and the incoming administration probably doesn’t want to see their own issue coming back to haunt them so soon.

While the President does not need Congressional approval to enact tariffs, he does for most of his agenda, so despite the Republicans controlling both houses of Congress, it is with very slim majorities. Keep in mind that every House member and one-third of all Senators will have to run for re-election in two years, so what is already a very fractured Republican Party is unlikely to blindly offer up blank checks that could haunt them in the 2022 elections.

I thought the Fed was cutting rates – why are mortgage rates higher?

Why have mortgage rates gone up since the Federal Reserve started lowering interest rates in September? That’s right, the Fed has lowered short-term interest rates by a full 1.0% since September, yet the average 30-year fixed rate mortgage has actually increased by about 0.75%. That is definitely not the response home shoppers have been expecting!! So, what happened?

As mentioned above, the economy has maintained more stamina than expected while the Fed has also made significant progress in getting inflation under control. With some slight softening in employment numbers late summer, the Fed became worried about allowing unemployment to climb, which would have made the Fed the center of attention heading into the elections in the Fall. In response, the Fed surprised the market with a 0.5% cut in the Fed Funds rate, rather than the typical 0.25%. Longer-term rates, upon which 30-year mortgages are based, immediately climbed on the concern that such aggressive rate cuts could provide too much fuel to the economy and reignite inflation. Two more rate cuts of 0.25% had largely been telegraphed by the time the election happened, so the Fed continued on that path, possibly to stay out of the political crosshairs with a new incoming administration.

However, as inflation has remained stubbornly stable, rather than falling, there is still concern that the economy did not need the fuel of two more rate cuts as the labor and economic numbers have remained robust. With an incoming administration promising stimulative policies and heavier federal borrowing, we have now seen longer-term interest rates, and thus mortgage rates, climb significantly.

In response to this, the Fed has now indicated that interest rate policy in 2025 will not be as accommodative as had been expected. At the end of the third quarter, the markets expected at least four more rate cuts in 2025, but now they are only expecting one. Without yet seeing

exactly what gets enacted by the new administration and Congress, the direction of long-term rates from here remains a big question!

Fixed Income

Index	Q4 2024	2024
Bloomberg US Aggregate Bond Index	-3.1%	1.3%
Bloomberg Global Aggregate Bond Index	-3.2%	1.1%
Bloomberg Municipal 5-Yr Index	-1.0%	1.2%

Source: Morningstar Direct

What does all this mean for client portfolios?

The economy and the stock market appear to be entering the year with a full head of steam. According to the Conference Board, U.S. households are entering 2025 the most bullish they have ever been on U.S. stocks since they began tracking in 1987, which is typically a negative indicator. Plus there are risks looming that have the potential to cause the economy and the markets to change direction rather suddenly – just to name a few:

- » **Higher interest rates** – the stock market stumbled at year-end on the heels of the Fed signaling that it will keep interest rates higher than expected in 2025. Higher rates could pose a threat to technology stocks, as we saw in 2022.
- » **Technology (A.I.) stocks** – valuations are vulnerable to a range of negative catalysts, including disappointing earnings or higher interest rates
- » **Geopolitics** – the spread of existing conflicts or the breakout of new ones
- » **Inflation** – whether due to an accelerating economy, increased government spending, or increased tightness of labor markets
- » **Trade conflict** – whether from an inflationary effect from tariffs or a recessionary effect from decreased trade, this has become an increased source of tension around the world, not just in the U.S.

We have already discussed indicators that could be pointing to either a looming bear market or another boon year for U.S. stocks, so betting on either would not be at all advisable – we need to be prepared for both.

When we meet with clients, we use the term “**durable portfolios**” to describe what we have been working to build for clients. Traditional wisdom for long-term investors has for a long time been that markets are resilient, and if you just ride through the losses, they will recover over time. For a long time, most individual investors had rather limited options on where to invest and relying on resilience was the best approach they had available to them. Fortunately, the world is always evolving. In the investment world, much of our beneficial evolution traces back to the world of institutional investing – ways to manage and control risk, ways to use other asset classes to improve our returns over time, ways to actually improve expected outcomes through intelligent diversification. Many individual investors believe that diversification simply waters down returns, and diversification for diversification's sake does exactly that. But intelligent diversification,

According to the Conference Board, U.S. households are entering 2025 the most bullish they have ever been on U.S. stocks.

Building more durable portfolios has been our focus as we head into 2025 at historically high equity valuations and an increasing number of uncertainties.

where different asset classes are used to provide attractive returns, but where returns do not move in lockstep with stocks and bonds – that sort of diversification can help build “durable” rather than simply “resilient” portfolios. At Montis, “resilient” means to take a big loss and bounce back from it; “durable” means avoiding taking such a large loss in the first place, which allows you to recover from it faster, but without giving up potential gains in capturing rising markets.

Each of our clients has different situations and needs, but for many of you, we have had discussions on how we are achieving this, whether it be through the use of a broader array of funds, liquid alternatives, or private capital. Building more durable portfolios has been our focus as we head into 2025 at historically high equity valuations and an increasing number of uncertainties.

One point to keep in mind though as we look to reduce portfolio concentration and diversify away from the lofty valuations and extreme concentration among the largest firms of the S&P 500, where the top 10 stocks now account for nearly 39% of the index,^{viii} is that tax management should not come at the expense of risk management. When one long-term holding has grown to become overweight in your portfolio while transitioning from an attractive valuation to a very premium valuation, prudence dictates rebalancing that portfolio to reduce its increased exposure to holdings at historically expensive valuations. Investors often hesitate to do this because invariably capital gains are the result of investment success. These gains are a byproduct of an investment that has performed well, they are not a reason to expose a portfolio to undesirable risk simply to avoid paying capital gains taxes. The benefit of protecting those long-term gains can far outweigh the taxes avoided by doing nothing when the next market downturn occurs.

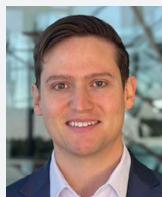


Dennis Follmer
Chief Investment Officer

viii. J.P. Morgan, January 6, 2025

MONTIS COMPANY NEWS

We're excited to share an update to the Montis Financial team and our recent community involvement.



WELCOME MICHAEL CAPPADANO, CFP®:

We are thrilled to announce that Michael Cappadano, CFP®, has joined Montis Financial. Michael brings a fresh perspective and a deep passion for helping clients achieve their financial goals. His knowledge, dedication, and commitment

to client success will further strengthen our team and ensure we continue to provide the exceptional service you expect from us. Please join us in welcoming Michael to the Montis family!

GIVING BACK TO THE COMMUNITY: At Montis Financial, we believe in supporting the communities we serve.

Recently, our team partnered with Healthy Waltham to



contribute to their mission of improving the health and well-being of our neighbors. From unloading food donations to organizing supplies, our team members were proud

to volunteer and make a meaningful impact in the Waltham community. We're grateful for the opportunity to give back and be part of a community that cares.

New Year, Stronger You

Starting the new year with a solid financial plan can set the stage for a successful and stress-free year. Below please find several essential financial planning items that should be revisited annually.

As your wealth advisors, Montis Financial is here to make certain we address, and regularly review these core items with you.

1. Set Clear Financial Goals

- **SHORT-TERM:** Saving for a vacation, reducing debt, or building an emergency fund.
- **MEDIUM-TERM:** Buying a home, funding education, or investing in a business.
- **LONG-TERM:** Retirement planning or creating a legacy fund.

2. Review Your Budget

- Assess last year's spending habits and identify areas for improvement.
- Create a monthly budget focusing on savings, necessities, and discretionary spending.
- Use budgeting tools or apps for tracking.

3. Build or Replenish Your Emergency Fund

- Aim for 3-6 months' worth of living expenses.
- Prioritize this as a safety net against unexpected expenses.

4. Assess and Adjust Your Investments

- Revisit your portfolio to ensure it aligns with your goals and risk tolerance.
- Diversify your investments if needed.
- Max out contributions to tax-advantaged accounts like 401(k)s, IRAs, or HSAs.

5. Evaluate Debt Management Strategies

- Pay off high-interest debt first (e.g., credit cards).
- Consider refinancing or consolidating loans for better rates.
- Use the snowball or avalanche method for tackling multiple debts.

6. Maximize Tax Efficiency

- Review potential deductions and credits for the upcoming tax year.
- Contribute to tax-advantaged accounts (e.g., retirement accounts, 529 plans).
- Plan for estimated tax payments if self-employed.

7. Check Insurance Coverage

- Ensure adequate coverage for health, life, auto, and home insurance.
- Review policies for gaps or overpayments.
- Consider disability or long-term care insurance if applicable.

8. Update Financial Documents

- Update or create a will and estate plan.
- Review beneficiaries on retirement accounts and insurance policies.
- Ensure you have a durable power of attorney and health-care proxy.

9. Track Credit and Identity Security

- Check your credit report for inaccuracies.
- Freeze your credit if not applying for new credit soon.
- Use tools to monitor identity theft.

Important Disclosure Information Please remember that past performance is no guarantee of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Montis Financial, LLC ("Montis"), or any non-investment related content, made reference to directly or indirectly in this commentary will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful). Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this commentary serves as the receipt of, or as a substitute for, personalized investment advice from Montis. No amount of prior experience or success should not be construed that a certain level of results or satisfaction if Montis is engaged, or continues to be engaged, to provide investment advisory services. Montis is neither a law firm, nor a certified public accounting firm, and no portion of the commentary content should be construed as legal or accounting advice. A copy of the Montis' current written disclosure Brochure discussing our advisory services and fees continues to remain available upon request or at www.montisfinancial.com. Please Remember: If you are a Montis client, please contact Montis, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing, evaluating, revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. Unless, and until, you notify us, in writing, to the contrary, we shall continue to provide services as we do currently. Please also remember to advise us if you have not been receiving account statements (at least quarterly) from the account custodian.

Historical performance results for investment indices, benchmarks, and/or categories have been provided for general informational and comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your Montis account holdings correspond directly to any comparative indices or categories. Please Also Note: (i) performance results do not reflect the impact of taxes, (ii) comparative benchmarks and indices may be more or less volatile than your Montis accounts, and (iii) a description of each comparative benchmark and index is available upon request.