

# Market COMMENT

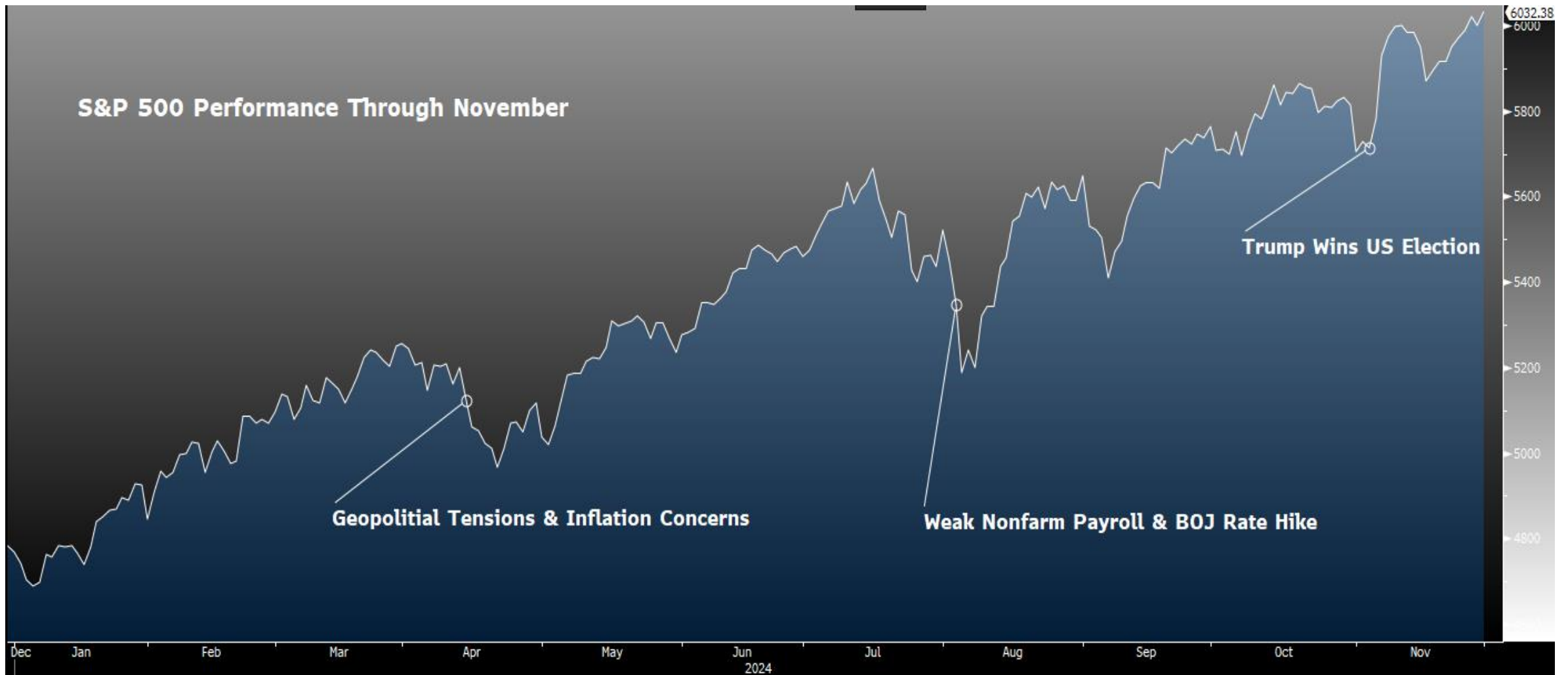
DECEMBER 2024



## What we thought might influence markets in 2024

- ✓ Rate hikes become cuts?
  - ✓ The Fed began cutting rates in September
- ✓ Recession risk is falling.
  - ✓ The US economy will grow at between 2 - 2.8% in 2024 without a negative quarter of growth.
- ✓ Employment remains steady.
  - ✓ US unemployment sits at 4.1%, near its lowest level in 50 years.
- ✓ Growth supported by fiscal policy.
  - The CHIPS act helped surge the rally in technology stocks
- ✓ A Presidential election year.
  - ✓ The S&P 500 is up better than 4.5% since the election.

# S&P 500 PERFORMANCE CHART THROUGH NOVEMBER

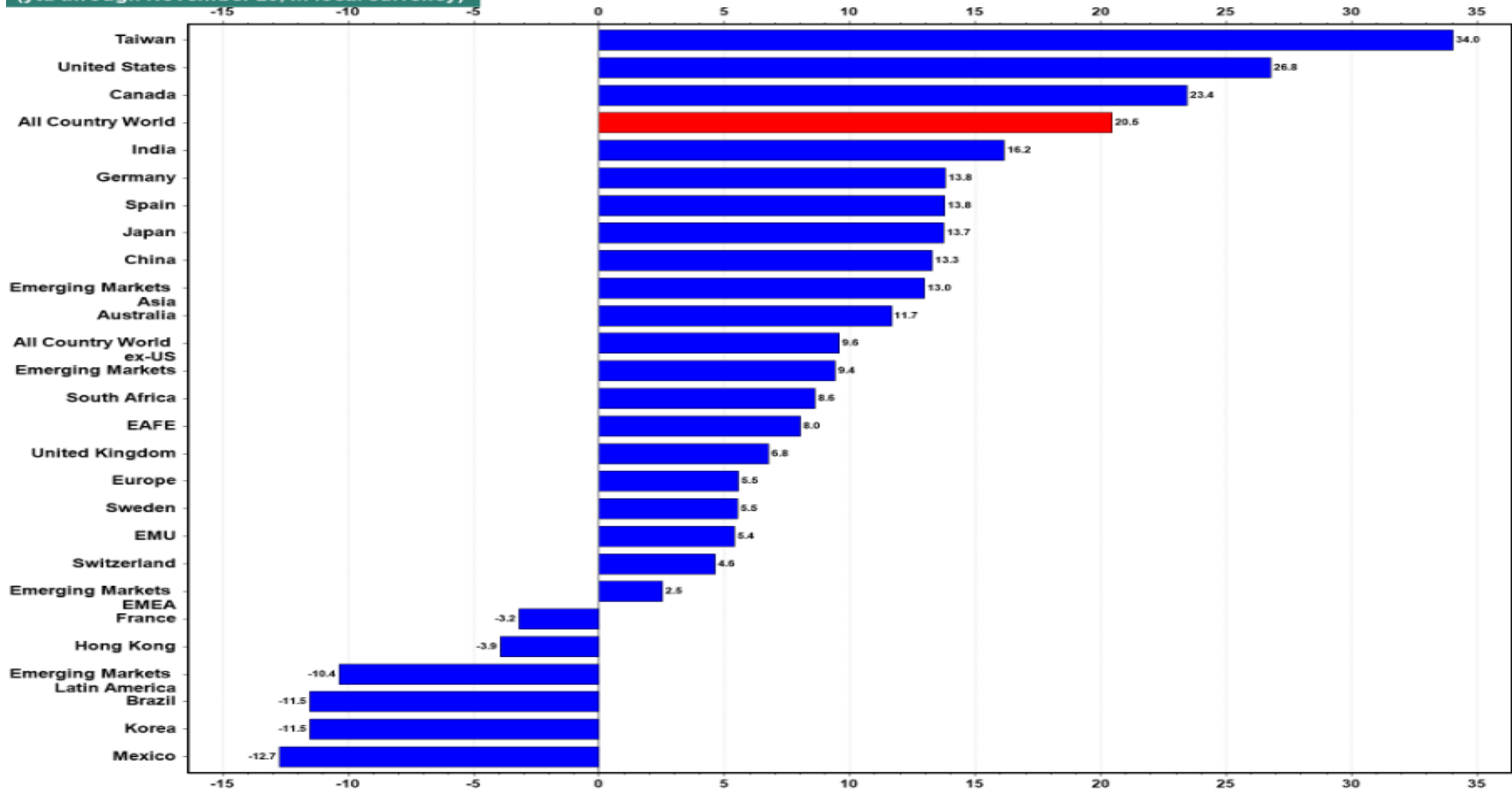


## Key Factors that Drove US Markets in 2024

- ✓ The Magnificent Seven Outperformance
- ✓ Earnings Growth Supported Stock Multiples
- ✓ Financial conditions in the US are Easing.
- ✓ Consumer Sentiment remains high
- ✓ Donald Trump and the Red Wave

# US STOCKS OUTPERFORM MAJOR GLOBAL INDICIES THROUGH NOVEMBER

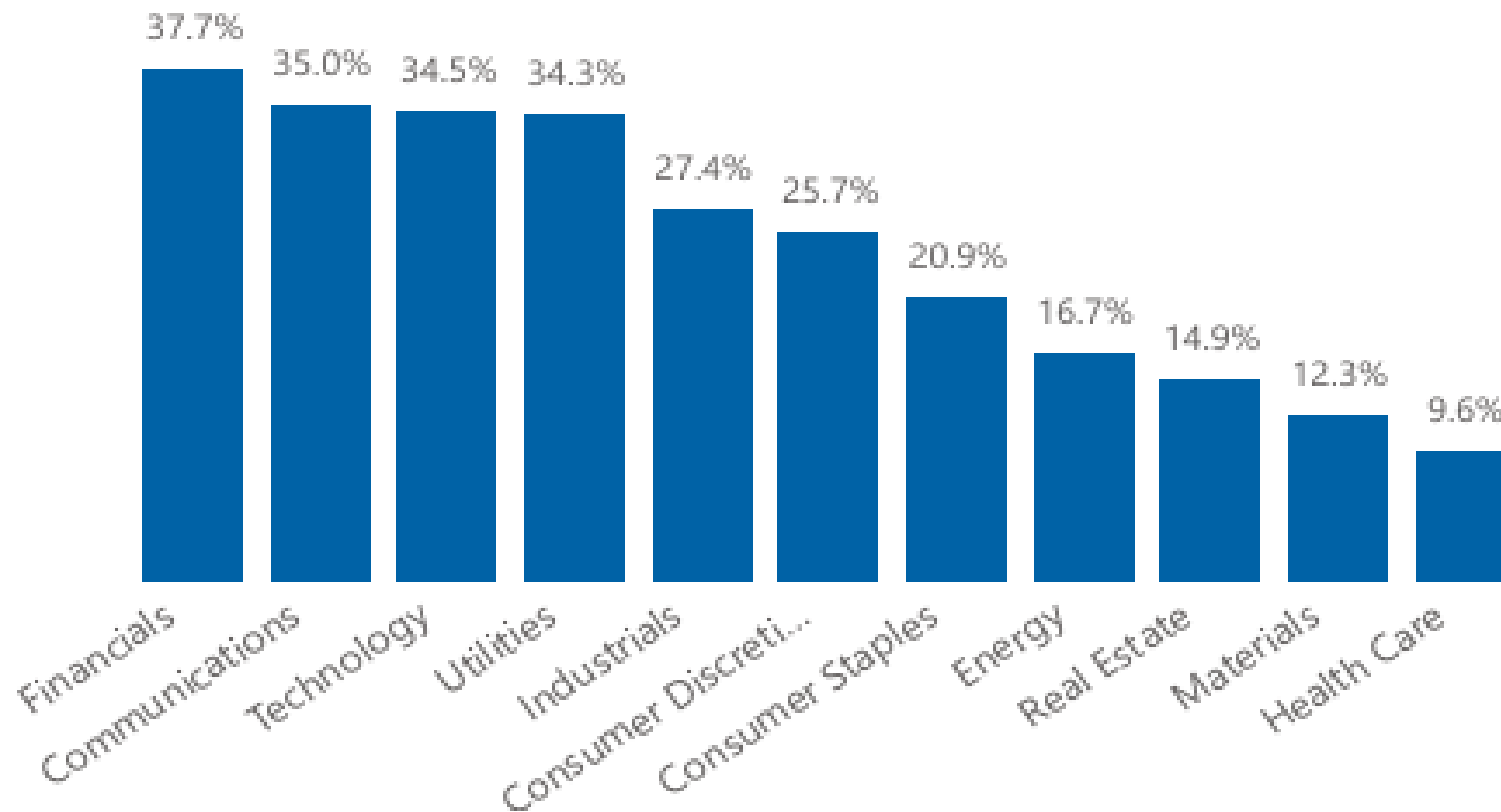
MSCI REGIONS & MARKETS PERFORMANCE  
(ytd through November 29, in local currency)



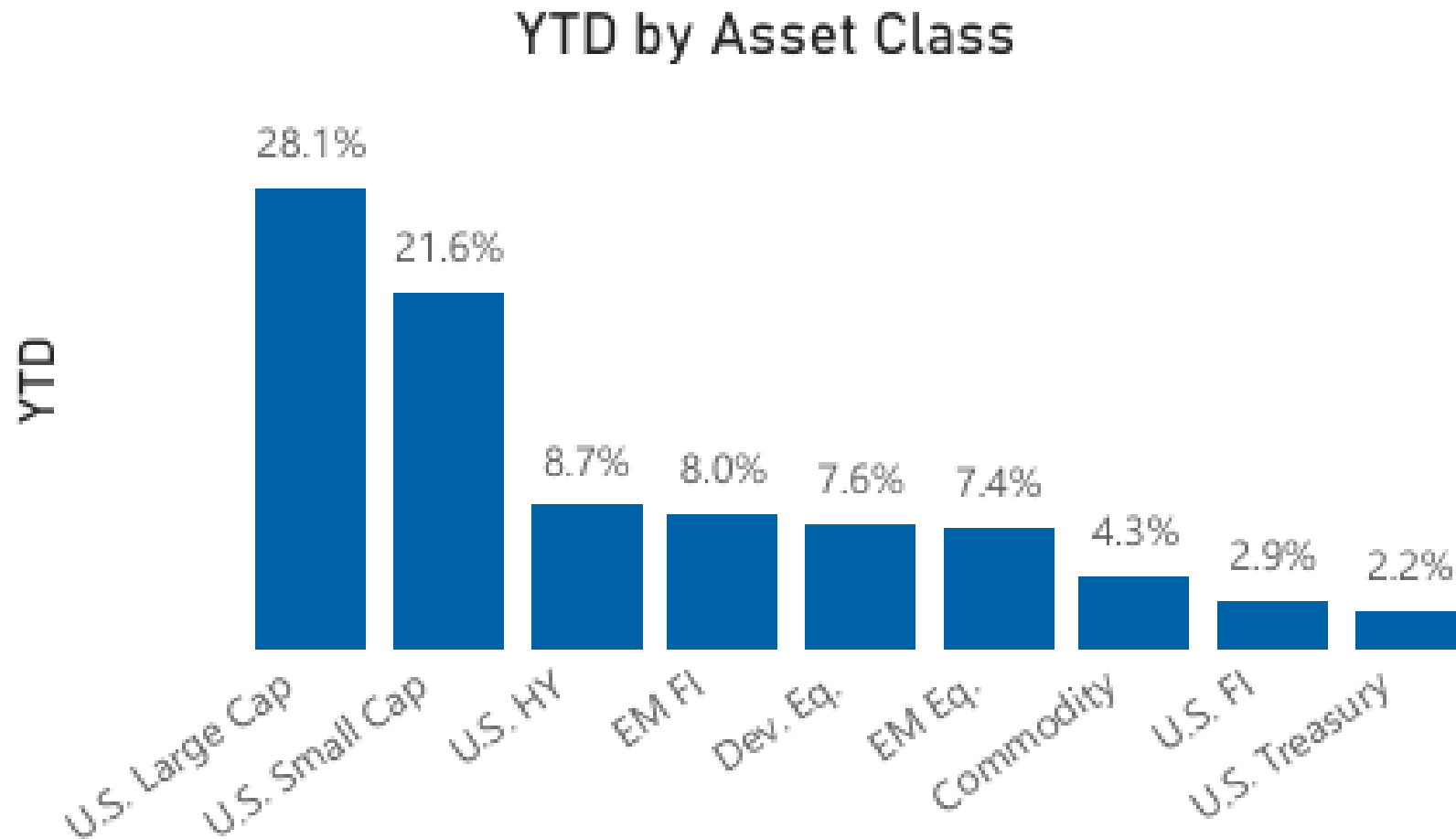
Source: LSEG Datastream and © Yardeni Research, and MSCL

# S&P 500 Sector Performance 2024

YTD by S&P U.S. Broad Market



# Performance by Assets Class within the US.



# Major Asset Class Performance in 2024

## TOTAL RETURNS (%)

Through Nov. 30, 2024. Asset classes ranked by 1 month % total return

Asset Class (ETF ticker)	1 mo	YTD	1 yr	3 yr <sup>▪</sup>	5 yr <sup>▪</sup>
US Stocks (VTI)	6.7	27.7	35.0	10.0	15.2
US REITs (VNQ)	4.3	14.4	26.1	0.7	4.9
US Junk Bonds (JNK)	1.7	8.6	12.1	3.2	3.6
US Bonds (BND)	1.1	3.1	6.4	-1.9	0.0
TIPS (TIP)	0.5	3.4	5.7	-1.9	2.0
Foreign Devlp'd Mkt Stocks (VEA)	0.4	6.9	12.8	3.5	6.2
Cash (SHV)	0.4	4.7	5.2	3.5	2.3
Foreign Devlp'd Mkt Gov't Bonds (BWX)	0.2	-2.6	1.1	-6.3	-3.6
Foreign Corporate Bonds (PICB)	0.0	-0.3	4.3	-4.5	-1.5
Emg Mkt Gov't Bonds (EMLC)	-0.5	-0.7	1.6	0.2	-0.9
Foreign Junk Bonds (IHY)	-0.5	4.7	8.7	0.9	1.7
Foreign Inflation-Linked Gov't Bonds (WIP)	-0.5	-5.5	-0.7	-4.6	-1.5
Foreign Real Estate/REITs (VNQI)	-0.6	1.9	9.8	-5.1	-3.1
Commodities (GSG)	-0.8	5.4	0.3	8.6	6.2
Emg Mkt Stocks (VWO)	-2.1	11.7	15.8	0.7	4.4
Global Market Index†	4.2	17.6	23.7	5.6	9.0
S&P 500 (SPY)	6.0	28.0	34.3	11.1	15.7
Crude Oil (USO)	-2.0	7.4	-1.3	13.0	-6.0
Gold (GLD)	-3.1	28.5	29.6	13.8	12.3
US Dollar Index (UUP)	2.2	10.2	9.2	7.5	4.0

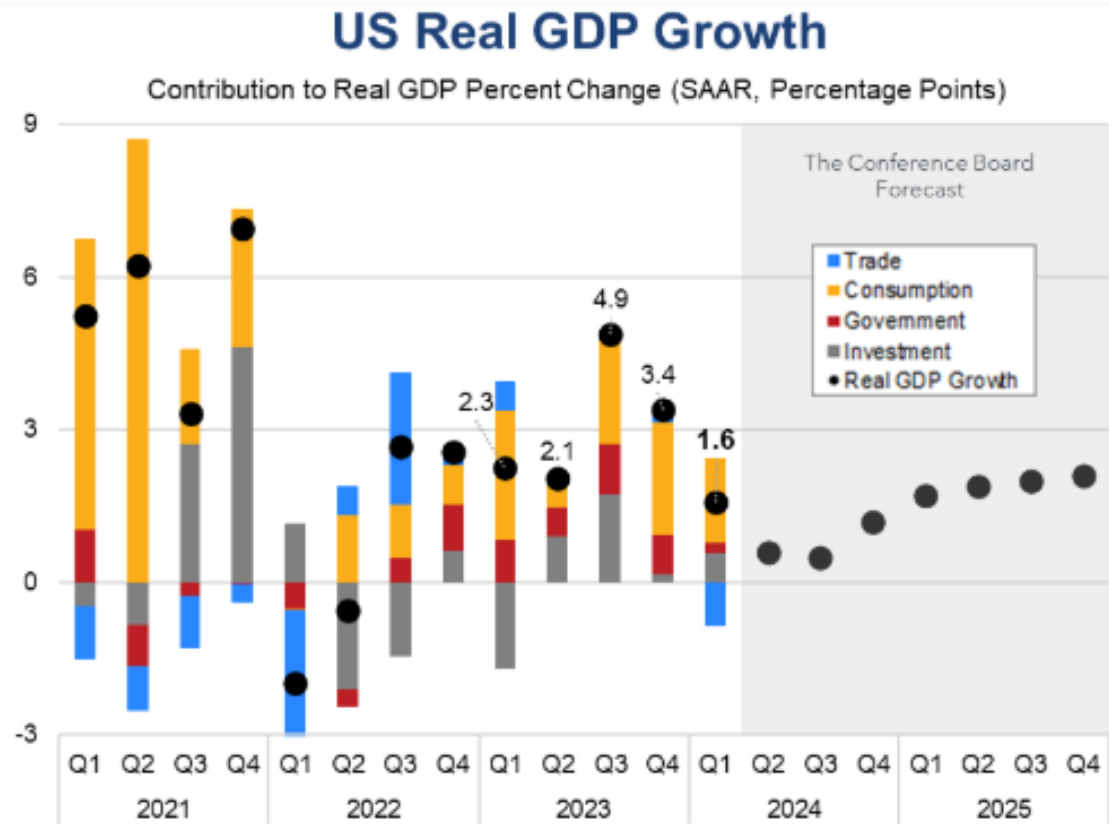
▪ annualized                      annual results based on 252-trading-day calendar-year returns

† GMI is a passive, unmanaged, market-value weighted index of all the major global asset classes (excluding cash).

## Looking Ahead: What will impact markets in 2025

- ✓ US Economic Growth Remains Strong
- ✓ Earnings Growth Supports Stock Multiples
- ✓ Interest Rate Cuts are Expected
- ✓ Inflation is Projected to Remain Low
- ✓ Donald Trump and the Red Wave

# US GDP GROWTH PROJECTION FOR 2025



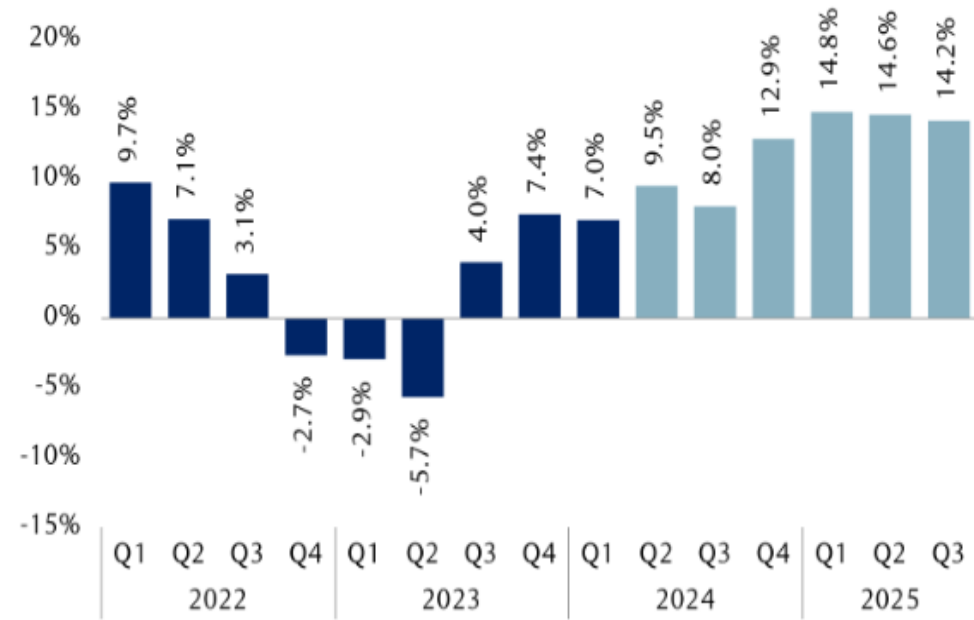
Source: The Conference Board, BEA

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# S&P 500 earnings estimates projected to rise in 2025

Higher earnings growth forecasts this year and next

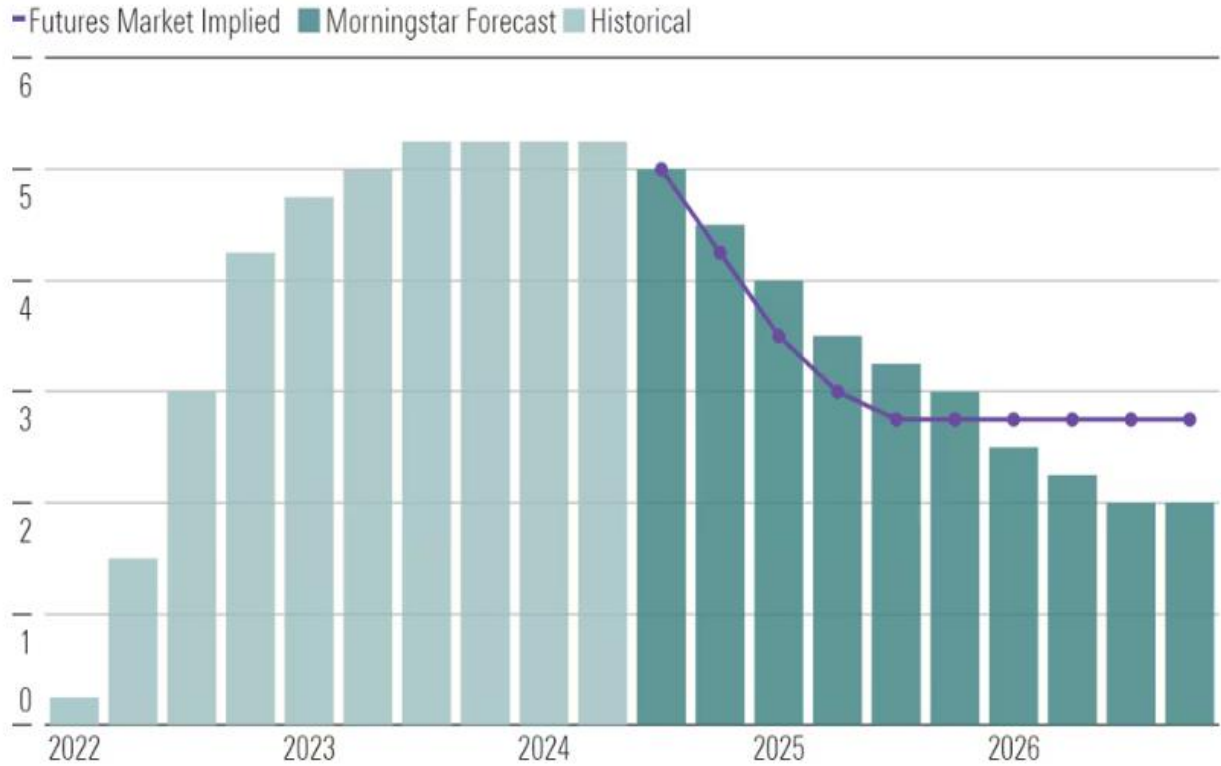
S&P 500 year-over-year earnings growth: actual (dark blue) and consensus forecast (light blue)



Source - RBC Wealth Management, Bloomberg Intelligence; data as of 7/12/24

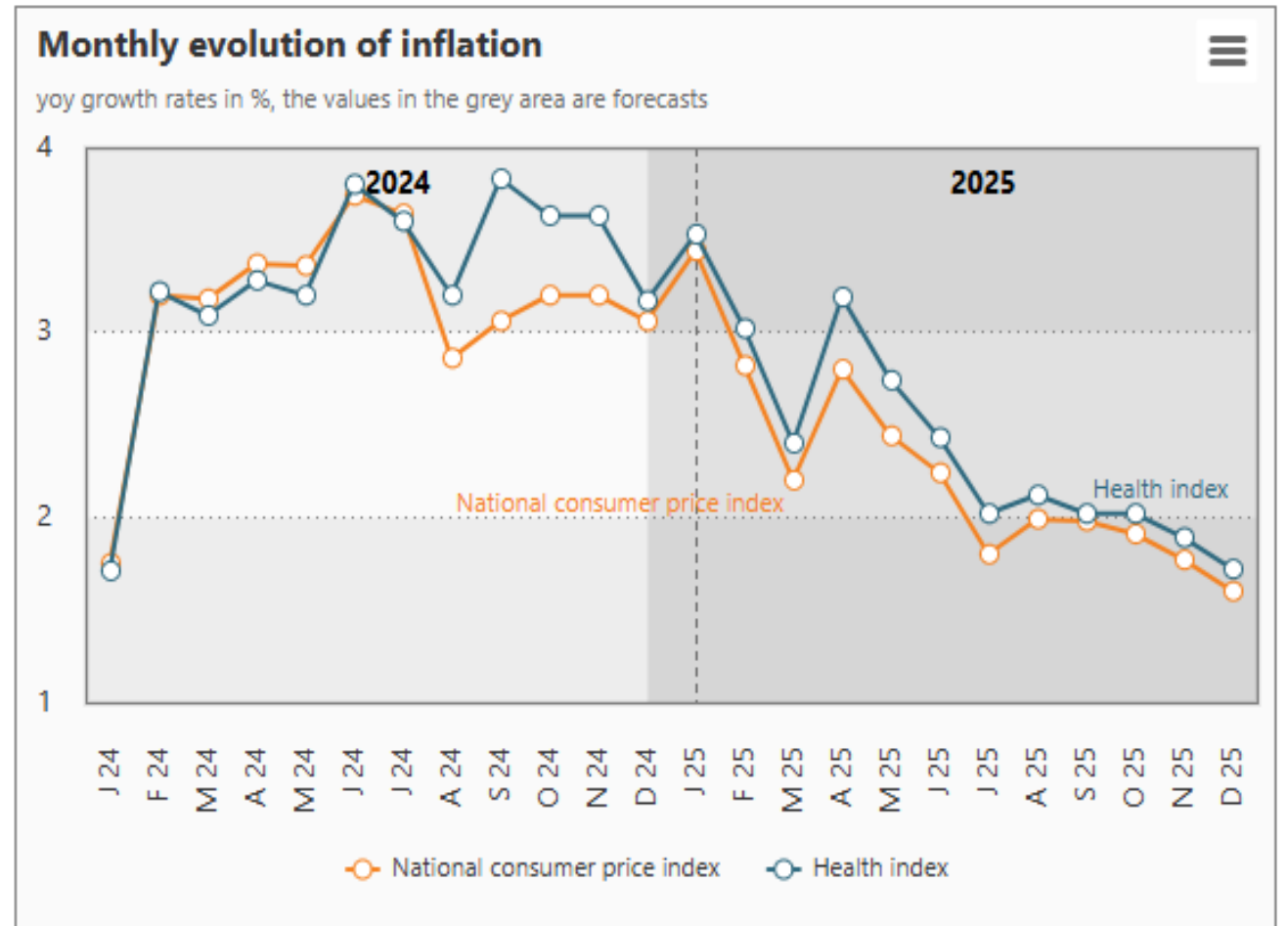
The Federal Reserve began cutting interest rates in September and is expected to continue cutting in to 2025

**Fed-Funds Rate (%) Expectations (Bottom of Target Range)**



Source: Federal Reserve, Chicago Mercantile Exchange, Morningstar

Inflation is expected to remain tame.



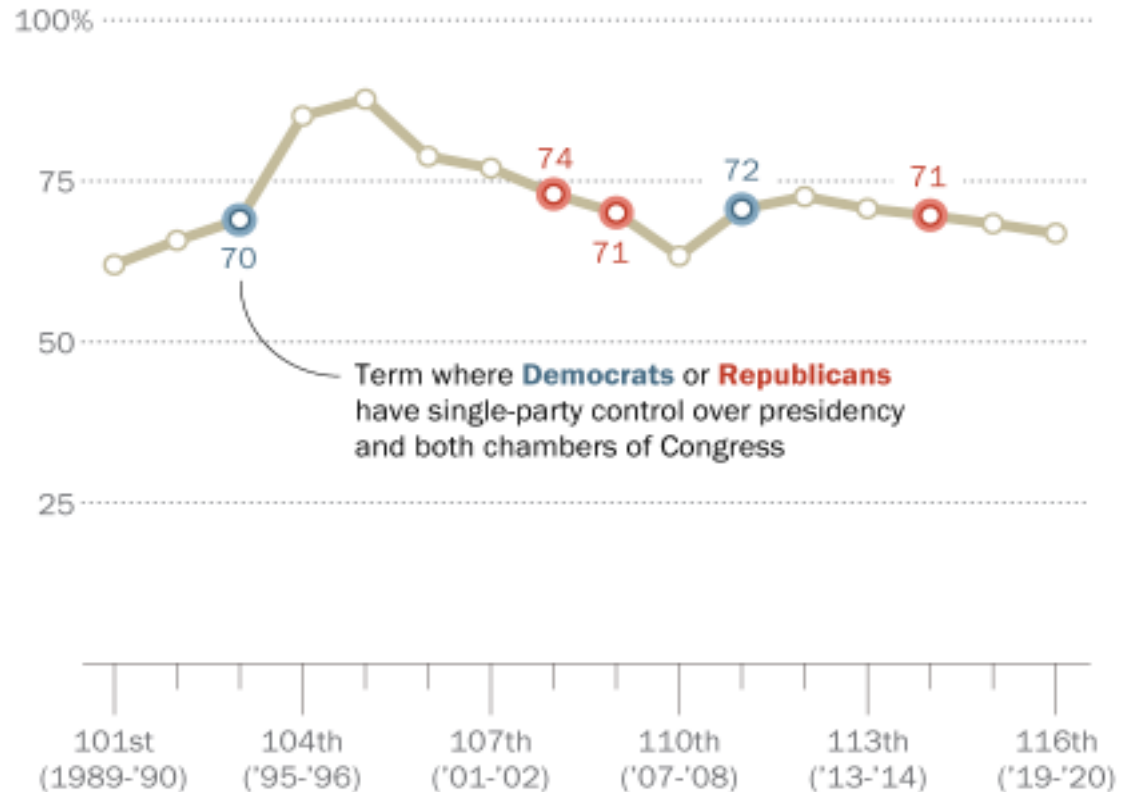
# The Trump Election Victory and its potential impact on markets

- ✓ Red Wave May make life easier for the President
  - ✓ The Impact of Tariffs
  - ✓ Deregulation May Help the Banks.
  - ✓ Fiscal Policy and Taxes
  - ✓ Deportation
- Other Areas of Impact**
- ✓ Health Care under attack
  - ✓ The Czar Effect
  - ✓ Federal Reserve under fire

The 2024 Red Wave does not guarantee more will get done.

## Single-party control of Congress typically hasn't led to an increase in legislative productivity

*% of legislation passed that was "substantive"*



Note: The Center defines legislation as "substantive" when it changed written law, spent money or established policy, no matter how minor.

Source: U.S. House of Representatives and U.S. Senate historical records.

Productivity data comes from previous Pew Research Center analysis of Library of Congress data.

# Promised Trump Tariffs .

## Analyzing the Pros and Cons of Tariffs on the Economy

Tariffs can protect domestic industries	01
Tariffs can generate revenue for the government	02
Tariffs can address trade imbalances	03
Tariffs can lead to higher consumer prices	04
Tariffs can trigger retaliatory measures	05
Tariffs can disrupt global supply chains	06

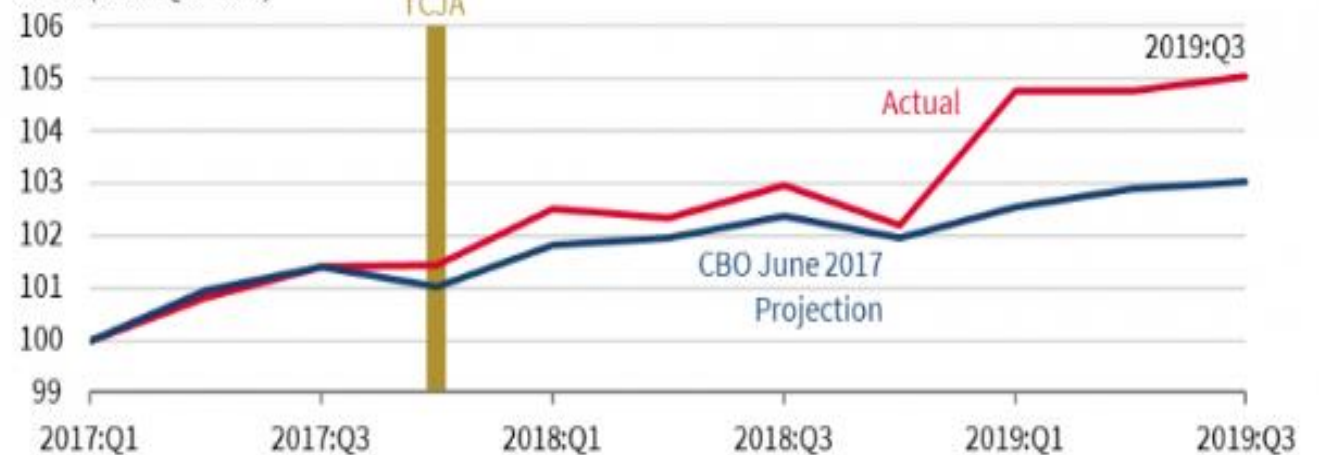
# Industries Potentially Effected by the Deregulation

- ✓ **Auto Industry**
  - Reverse light-duty vehicle emissions standards
  - Back pro-autonomy policies
  
- ✓ **Financial Industry**
  - Reduce Regulations on Wall Street Banks
  - Support cryptocurrency industry
  
- ✓ **Energy**
  - Seek to rescind several environmental regulations including those focused on emissions reductions from power plants, vehicles and energy production
  - Offer tax breaks for oil, gas and coal industries while opposing renewable subsidies
  
- ✓ **Health Care**
  - Attempt to repeal Affordable Care Act
  - supports lowering prescription drug costs.

# Tax Cuts have Mixed Results

## Real Wage and Salary Compensation per Household, 2017-19

Index (2017:Q1 = 100)



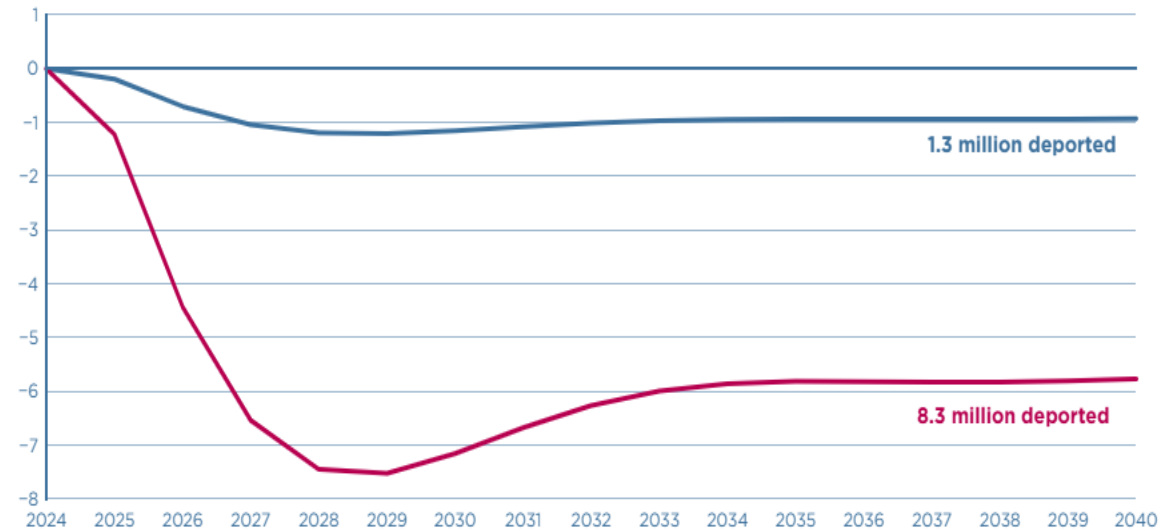
Sources: Bureau of Economic Analysis; Census Bureau; Congressional Budget Office; CEA calculations.

Note: Values are adjusted to real terms using the PCE chain price index. Values are indexed such that 2017:Q1 is equal to 100 to account for BEA annual revisions.

According to a study by the Peterson Institute for International Economics deportation would lower US GDP and Employment

### If Trump's deportation plans were enacted, US GDP would be between 1.2 and 7.4 percent below baseline by the end of 2028

Projected percent change from baseline for US real GDP from deportations, 2025-40



Source: Working Paper 24-20 by Warwick McKibbin, Megan Hogan, and Marcus Noland, *The international economic implications of a second Trump presidency*.

# Our Market Expectations for 2025

- ✓ US Stocks Outperform Overseas Markets
- ✓ Artificial Intelligence Drives Tech Stocks
- ✓ Small-cap Stocks Join the Rally
- ✓ US Dollar Weakens and Gold Rises
- ✓ Oil Remains under Pressure

## Risk to Our 2025 Forecast

- ✓ US Inflation Returns
- ✓ Policy Uncertainty
- ✓ Tariffs Ignite a Trade War
- ✓ Unemployment in the US Rises
- ✓ Geopolitical Tensions Heat Up
- ✓ Supply Chain Issues
- ✓ US Deficit Grows

LOW VOLATILITY INCOME UCITS FUND

# Castlestone Low Volatility UCITS Sectors and Weightings (%)

## SECTORS & WEIGHTINGS (%)\*

INFORMATION TECHNOLOGY	36.53%
CONSUMER DISCRETIONARY	16.13%
FINANCIALS	12.54%
COMMUNICATION SERVICES	11.63%
HEALTHCARE	9.94%
CONSUMER STAPLES	5.70%
INDUSTRIALS	3.46%
ENERGY	2.75%
MATERIALS	0.63%
UTILITIES	0.49%
REAL ESTATE	0.20%

## GEOGRAPHICAL BREAKDOWN (%)\*

UNITED STATES	94.70%
EUROPE	5.30%

## TOP 10 HOLDINGS (%)\*

APPLE INC	9.30%
NVIDIA	9.04%
MICROSOFT CORP	8.43%
THE LONDON TUNNELS PLC	5.30%
AMAZON INC	4.83%
FACEBOOK**	3.48%
ALPHABET INC - CL A	2.75%
TESLA	2.68%
BERKSHIRE HATHAWAY	2.66%
ALPHABET INC - CL C	2.28%

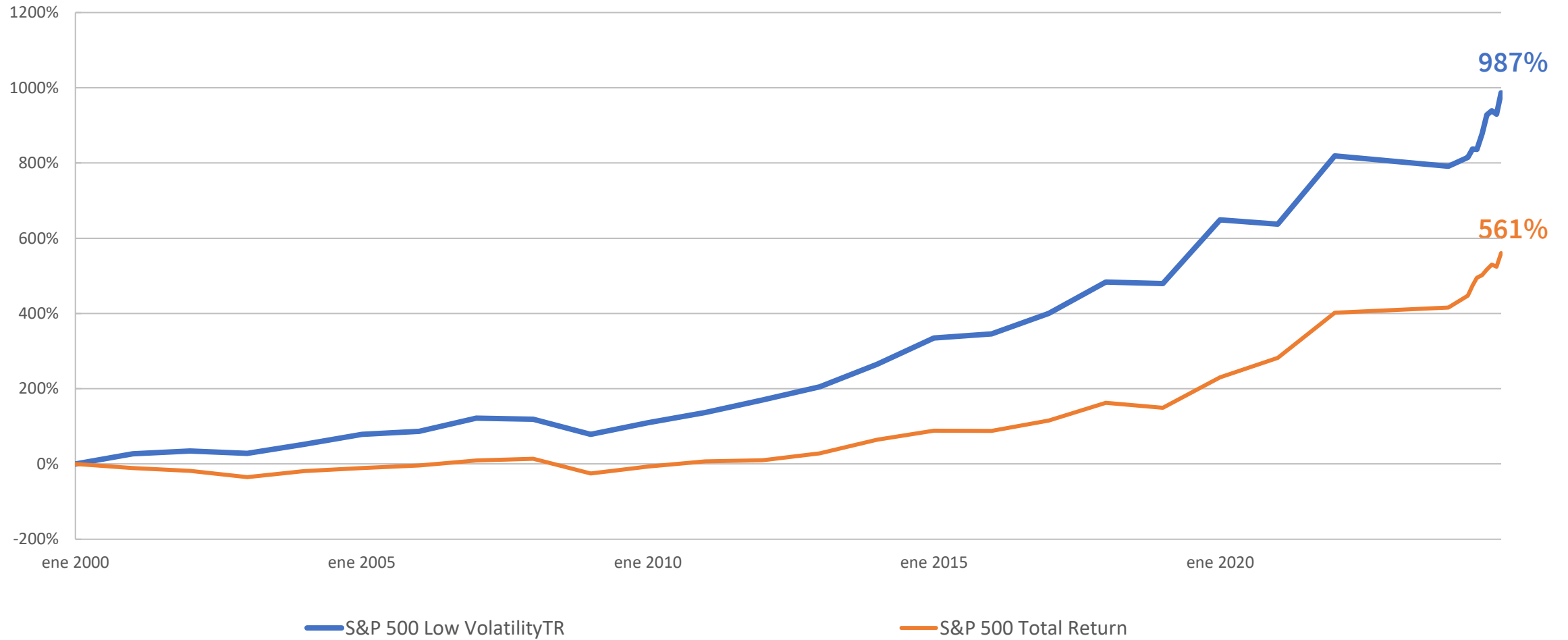
**BERKSHIRE HATHAWAY INC.**



\*The holdings are subject to change, information in relation to the Fund is provided for context and illustration purposes. Figures as @ 29/11/2024

\*\*META PLATFORMS INC

# LOW VOL TR VS S&P 500 TR (From 31/12/1999 - 29/11/2024)



CASTLESTONE

MANAGEMENT

AQA  
CAPITAL



# Sectors and Weightings (%)

## SECTORS & WEIGHTINGS (%)\*

INFORMATION TECHNOLOGY	48.87%
CONSUMER DISCRETIONARY	23.75%
COMMUNICATION SERVICES	22.97%
FINANCIALS	4.41%

## GEOGRAPHICAL BREAKDOWN (%)\*

UNITED STATES	73.15%
EUROPE	13.85%
CHINA	6.47%
TAIWAN	2.23%
INDIA	2.20%
SOUTH KOREA	2.10%

## GEOGRAPHICAL BREAKDOWN (%)\*

THE LONDON TUNNELS PLC	9.33%
FACEBOOK**	6.94%
AMAZON INC	6.89%
ALPHABET INC - CL C	6.62%
TESLA INC	5.37%
NETFLIX INC	5.10%
APPLE INC	5.03%
NVIDIA CORP	4.82%
MICROSOFT CORP	4.38%
ORACLE CORP	2.38%



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\*\*META PLATFORMS INC

# The Growth Rate for S&P 500 continues to improve.

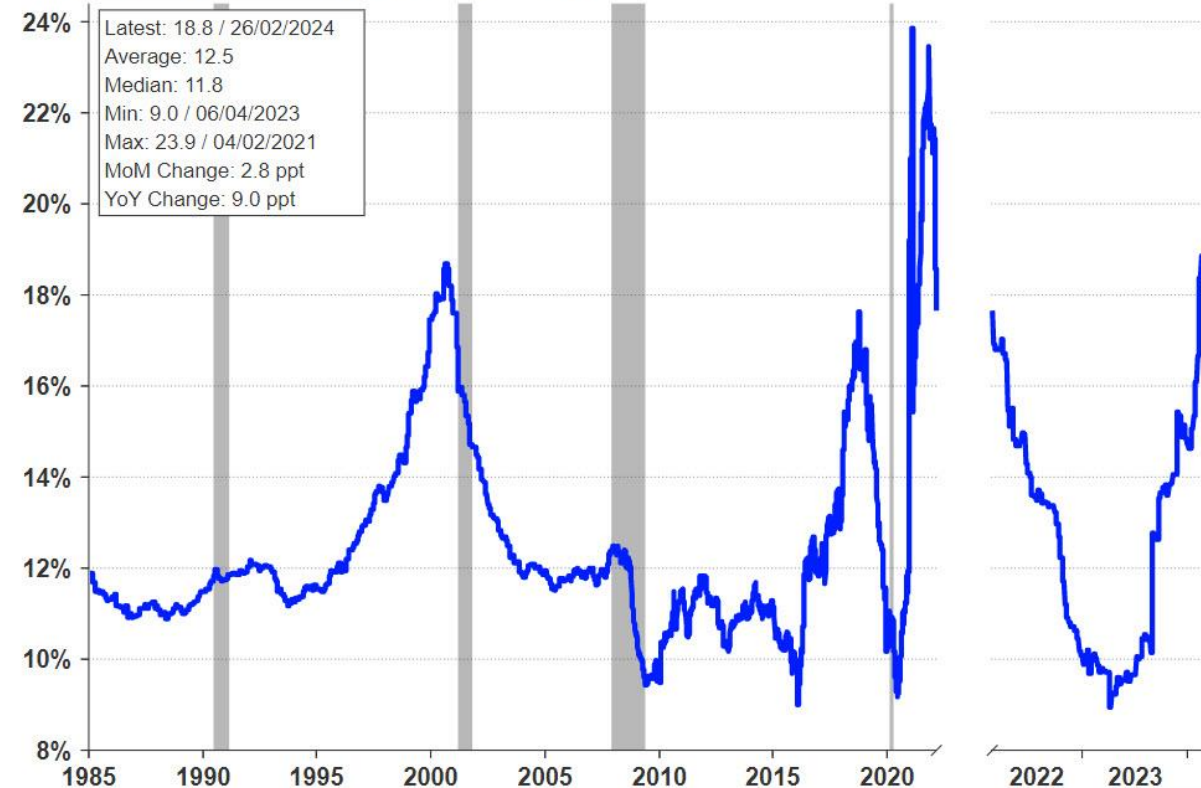
## S&P 500 Long-Term EPS Growth Forecasts Reach Multi-Year High.

2023 proved to be a positive result if we compare to expectations at the start of 2023, where the earnings growth rate was close to 0% and many participants were expecting an earnings recession.

As we look ahead to 2024, the earnings growth rate is expected to rise by 9.5%.

## S&P 500 Long-Term EPS Growth Rate

Estimates have risen sharply over the last year



Source: LSEG Datastream / Tajinder Dhillon, CFA

@TDhillon33

# Eight Stocks Drive Over 50% of S&P 500 Gain in the First Three Quarters of 2024

As of the end of the Q3, these were the percentage points added to the S&P by its top performers versus the rest of the index

The S&P 500 is sitting at near-record highs, returning nearly 21% year-to-date as of September 30, 2024

Today, a limited number of stocks are powering the stock market's rally as investors pour money into companies that are advancing AI technologies

This graphic shows the top 10 S&P 500 stocks driving stock market returns in 2024, based on data from S&P, Nasdaq and Yahoo Finance

## EIGHT STOCKS DRIVE OVER 50% OF S&P 500 GAIN IN THE FIRST THREE QUARTERS OF 2024



Share of S&P 500 Market Cap Gain in the First Three Quarters of 2024

Sources: S&P 500, Nasdaq, Yahoo Finance

Research and visualization: Ehsan Soltani

[www.econovis.net](http://www.econovis.net)

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