Q4 2024 Investment Update and Outlook

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MEMBERS' WEALTH

Preserve. Grow. Endure. Evolve.

As we close the books on 2024 and look toward the year ahead, we are reminded that financial markets are as much about human psychology as they are about numbers. This year challenged investors with a delicate balancing act between seizing opportunities and managing risks. While the economic backdrop was steadier than many feared, rising rates, sticky inflation, and geopolitical tensions tested portfolios and patience alike, though you would have been hard-pressed to tell there were any challenges given the positive rate of returns in 2024.

Symbol	Name	q4-2024	2024	3 Yr (ann)	5 Yr (ann)
^SPX	S&P 500	2.41%	25.02%	8.94%	14.53%
^RUTTR	Russell 2000 Total Return	0.33%	11.54%	1.24%	7.40%
^DJUSRET	Dow Jones US Real Estate Index Total Return	-7.78%	4.86%	-4.14%	3.00%
^BCTR	Bloomberg Commodity Index Total Return	-0.45%	5.38%	4.05%	6.77%
^BBUSATR	Bloomberg US Aggregate	-3.06%	1.25%	-2.41%	-0.33%
^BBMBTR	Bloomberg Municipal Bond	-1.22%	1.05%	-0.55%	0.99%
JNK	SPDR Bloomberg High Yield Bond ETF	-0.22%	7.70%	2.06%	3.02%
IEMG	iShares Core MSCI Emerging Markets ETF	-7.06%	6.51%	-1.66%	2.19%
IEFA	iShares Core MSCI EAFE ETF	-8.54%	3.29%	1.10%	4.53%

Looking Back: A Brief Review of 2024

Despite positive returns, 2024 was a year of contrasts. Inflation eased from its peaks but remained above long-term targets, so while the US Federal Reserve was compelled to reduce interest rates somewhat, it seems (albeit slightly reduced) higher interest rates are here to stay.

This creates a safe haven for some investors (cash and money markets) but also raises the cost of capital (cost of borrowing) for others. Equities saw moments of exuberance, led by the “Magnificent Seven” tech giants, while small-cap, value, and international stocks lagged (though still performed positively). Alternatives like gold and inflation-sensitive assets regained some shine, though not without volatility. As we navigated these shifting currents in 2024, our focus remained on balancing short-term risks with long-term opportunities.

2025: Risks and Opportunities

Looking ahead, 2025 promises both opportunities and risks. The economic backdrop suggests steady economic growth, though of course much depends on central bank actions, fiscal policy, and the new Trump-led administration. We are being mindful of elevated government debt levels and higher interest payments, high valuations in both stocks and bonds, and the potential for political surprises, including the Trump agenda narrative, for creating a unique mix of uncertainty.

As always, our goal is not to predict the future but to prepare for it. With that in mind, let’s examine the key risk factors and investment opportunities we see across major asset classes.

Definitions

Risk Factor	Time Horizon	Standard Deviation	Maximum Drawdown	Primary Objective	Secondary Objective
Inflation	0-3 Years	0%-2%	2%-5%	Preservation	Yield
Cash, Short-Term, High Quality, Fixed Income, Certificates of Deposit (CDs), Money Markets, Treasury Bills					
Interest Rate	3-5 years	3%-5%	5%-15%	Yield	Preservation
High Quality Fixed Income, Tax Sensitive Fixed Income, Investment Grade Corporate, Municipals, Treasuries, Mortgage Backed, Fannie Mae, Freddie Mac and Ginnie Mae					
Credit	5-7 years	4%-10%	15%-25%	Yield	Growth
High Yield/Low Quality Corporate Fixed Income; Other Fixed Income, Commercial Mortgage Backed Securities, Convertible Bonds, Emerging Market Bonds					
Alternative	5-7 years	4%-20%	15%-25%	Diversification	Growth
Alternatives (liquid),Long/Short, Market Neutral, Macro, Trend Following, Event Driven; Commodities, Gold, Silver, Natural Gas, Oil, Real Estate					
Equity Beta	7+ years	16%-25%	30%-75%	Growth	Income
Domestic Large Cap, Domestic Mid and Small Cap, International Developed and Emerging Market					
Illiquidity Risk Premium					
Private Investments	5-15+ years	n/a	5%-100%	Yield, Growth	Diversification
Private Debt, Marketplace Lending, Niched Credit, Distressed Debt; Direct Lending, Trend Following, Style Premia, Currency, Macro, Convertible Arbitrage, Long/Short; Event Drive, Market Neutral; Venture Capital; Private Equity; Timberland, Farm Land, Infrastructure, Real Estate; Fine Art, Rare Coins, Digital Assets, NFT, Crypto					

Key Risk Factors and Opportunities

1. Inflation – Cash and Short-Term Bonds

Risk: Inflation, though moderating, remains a concern. Persistent inflation erodes purchasing power and creates challenges for low-return investments. That said, cash and short-term bonds are no longer zero-return investments.

Opportunity: Cash and short-term bonds continue to yield competitive returns, making them a viable option for those seeking liquidity without sacrificing income. We are carefully managing cash and short-term bonds through selective exposure to assets with low to no credit risk and yields that are outpacing inflation and bank money markets. If you have cash earning less than 5% somewhere, talk to your advisor about other opportunities. (REMINDER TO OUR INVESTORS: You will at times receive notices from your custodians, Fidelity/Schwab about changes in how they manage your cash and/or money markets. We monitor your cash closely, not only your level of cash but also to seek to be working your cash toward the higher yielding money markets available to you.)

2. Interest Rate

Risk: Rising interest rates may continue to drive down the prices of long-duration bonds, creating mark-to-market price losses (reminder that when rates rise, bond prices decline.) Charlie Bilello shows in his table, the US Bond Market has now been in a drawdown for 53 months, by far the longest in history.

Opportunity: High-quality, longer-term bonds now offer more attractive yields than they did six months ago, and for investors with a longer time horizon, you should be getting a little excited about the opportunity to lock in mid-single digit returns for a long time.

Charlie Bilello reposted
Charlie Bilello @charliebilello · 20h
The US Bond Market has now been in a drawdown for 53 months, by far the longest in history.

bilello.blog/newsletter

Bloomberg US Aggregate Bond Index: Longest Drawdowns (Monthly Data, 1976 - 2024)

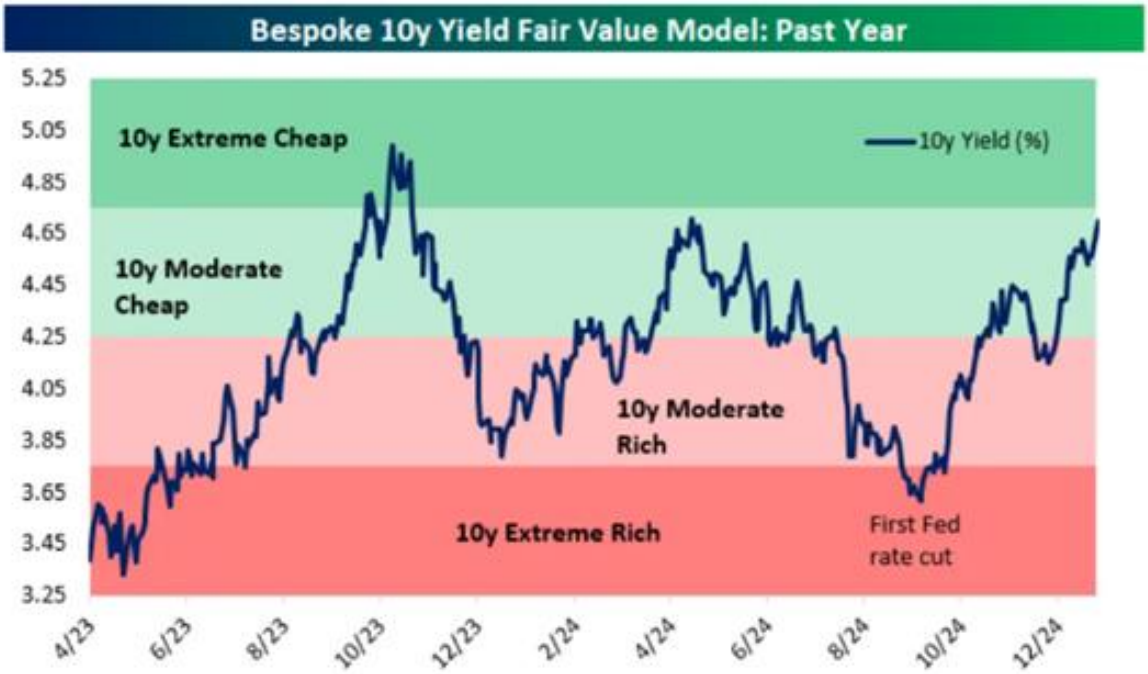
Start of Drawdown	End of Drawdown	# Months	Max Drawdown During Period (Monthly)
Aug-20	?	53	-17.2%
Jul-80	Oct-81	16	-9.0%
May-13	Apr-14	12	-3.7%
Aug-16	Jul-17	12	-3.3%
Feb-94	Jan-95	12	-5.1%
Mar-87	Nov-87	9	-4.9%
Aug-79	Apr-80	9	-12.7%
Apr-08	Nov-08	8	-3.8%
Feb-96	Sep-96	8	-3.2%
Jun-03	Nov-03	6	-3.6%
Feb-84	Jun-84	5	-4.9%
May-83	Aug-83	4	-3.5%

CREATIVE PLANNING @CharlieBilello (As of 12/31/24)

24 114 473 64K

At Members' Wealth, our approach balances short-term safety (keeping a close check on duration --the time to maturity of the bonds we buy) with the potential for both a)locked in yields for long periods and b) capital gains as rates eventually stabilize or decline. See the graph from Bespoke Investment Group.

It clearly illustrates in green, as rates rise, the opportunity in bonds become more attractive.



Source: Bespoke Investment Group *Source: Bespoke Investment Group*

***According to Bespoke Investment Group**,*

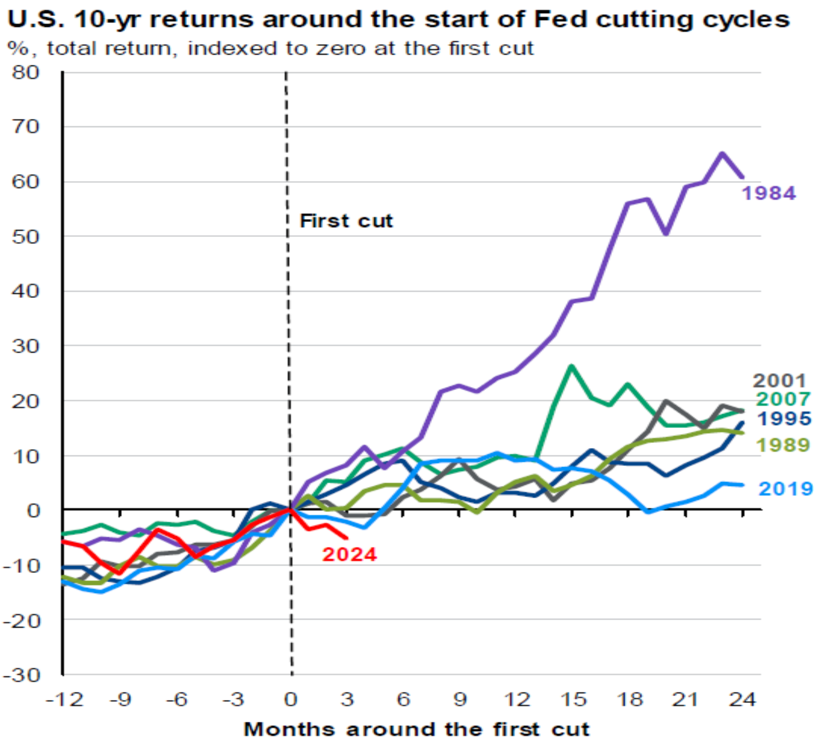
"The 10-year yield has now risen more than one full percentage point since its close on the day before the Fed's first rate cut in mid-September. Around current levels, it's right on the approach of "extremely cheap" territory, using the firm's fair valuation model."

Negative returns due to rising rates in the 10-Year Treasury Yield is generally par for the course in the year preceding the first fed rate cut (See U.S. 10-yr returns around the start of Fed cutting cycles[i]). This time has really been no different. However, thus far, returns have been more negative post-cut than typical, with this slow start perhaps paving the way for a strong finish.

Buying bonds in a rising interest rate market is tough, akin to buying stocks in a declining stock market and catching the proverbial “falling knife”. Patient long-term investors may still find the opportunities if they are willing to wade farther out in the water.

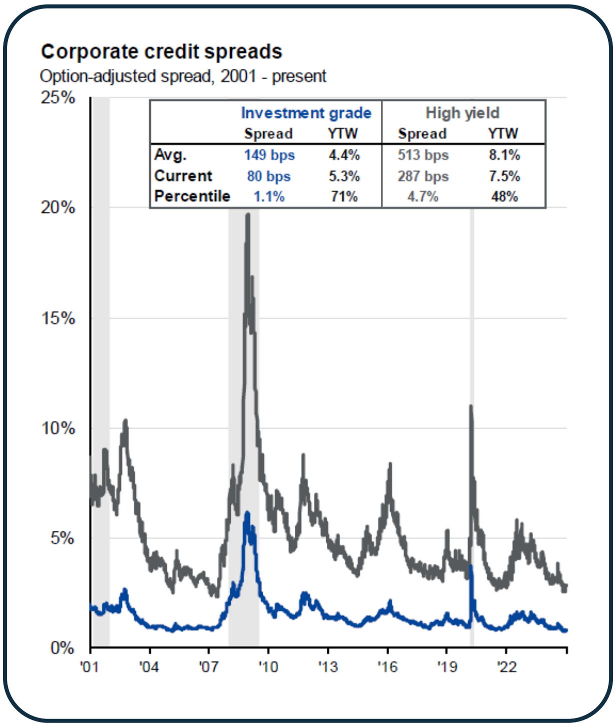
At Members’ Wealth, we continuously debate this area of the bond market. Since waiting for yields to top is like waiting for stock markets to bottom, sometimes you have to just hold your nose, buy, deal with the short-term volatility, and hang in there for the long-term attractive payout. We are not in “back up the truck” mode but rather checking the mirrors, looking over our shoulder, and using the rearview camera, buying some bonds here and there, knowing there is no bell that rings for the all clear. We are reminded of the old adage: “you make your most money in a bear market, you just don’t know it at the time.”

JP Morgan Asset Management – Guide to the Markets 1Q 2025, as of December 31, 2024



3. Credit Risk

Risk: High-yield bonds, while offering higher income, are vulnerable to economic downturns or financial stress. Defaults could rise if the economic cycle turns. Valuations are not cheap! Spreads are tight. (See Corporate Credit Spreads[ii]) What this means is that you are not being adequately compensated for the risk you are taking.



Opportunity: Selective credit exposure remains a valuable tool for diversifying portfolios. We focus on identifying quality within the high-yield markets (more notoriously known as the junk bond market) in relatively short-term bonds to capture yield without undue risk. At Members' Wealth, we generally always tread carefully here, and this paid off in 2024. For 2025, caution is warranted.

4. Alternatives

At Members' Wealth, when we discuss alternatives, we refer to investments beyond the traditional scope of stocks, bonds, and cash—assets that offer diversification and potentially uncorrelated returns in uncertain times.

Risk: Alternatives can be complex, volatile, illiquid, and frustrating to hold at times, requiring careful selection and monitoring and the right investor tolerance.

Opportunity: Where appropriate for clients, alternatives may form a cornerstone of portfolio strategy, offering diversification and inflation protection. This quarter let's review gold. It can be complex and frustrating but also has potential opportunities to offer in the current market environment.

Gold often captures attention as a potential hedge or diversification tool, but at Members' Wealth, we typically choose not to include it in our core investment strategies. As a zero-correlation asset, gold doesn’t reliably move with or against other investments, making its performance difficult to predict. Additionally, gold lacks cash flow—no rent, income, or dividends—meaning the only way to profit is through price appreciation. For those who choose to invest in gold, this requires patience and a belief in its long-term price.

That said, given the current backdrop of sustained, higher-than-target inflation and concerns about currency debasement (money printing to pay off our ever-growing government debt), gold may present a timely opportunity for some investors. It has historically been viewed as a hedge against inflation and a tangible store of value that has stood the test of time. As a physical asset, gold can also provide reassurance in periods of economic uncertainty or as a hedge against systemic risks.

For families who wish to include gold in their portfolios, we often suggest owning physical gold, such as coins or bars. Physical gold offers several benefits: it provides direct, tangible ownership, avoids the counterparty risks associated with paper gold investments like ETFs, and remains liquid in times of need. It also serves as a potential hedge against fiat currency devaluation, aligning with its historic role as a "safe haven" during periods of financial stress.

While gold does not align with our primary investment strategies focused on cash-flowing and productive assets, we recognize its value as a diversification tool for certain investors. For those who choose to hold gold, we recommend doing so thoughtfully and as part of a broader, balanced strategy. Talk to your advisor if you would like to learn more.

5. Equities

Risk: The dominance of a few large-cap tech stocks—the "Magnificent Seven"—creates concentration risks, while valuations in the broader equity market remain cheaper but stretched compared to historical measures.

Opportunity: While U.S. large caps have outperformed small caps and international stocks, we see potential opportunities abroad, in small caps and in value stocks. We are not giving up on the dominant tech companies. Instead, we remain focused on diversification and mitigating downside risks.

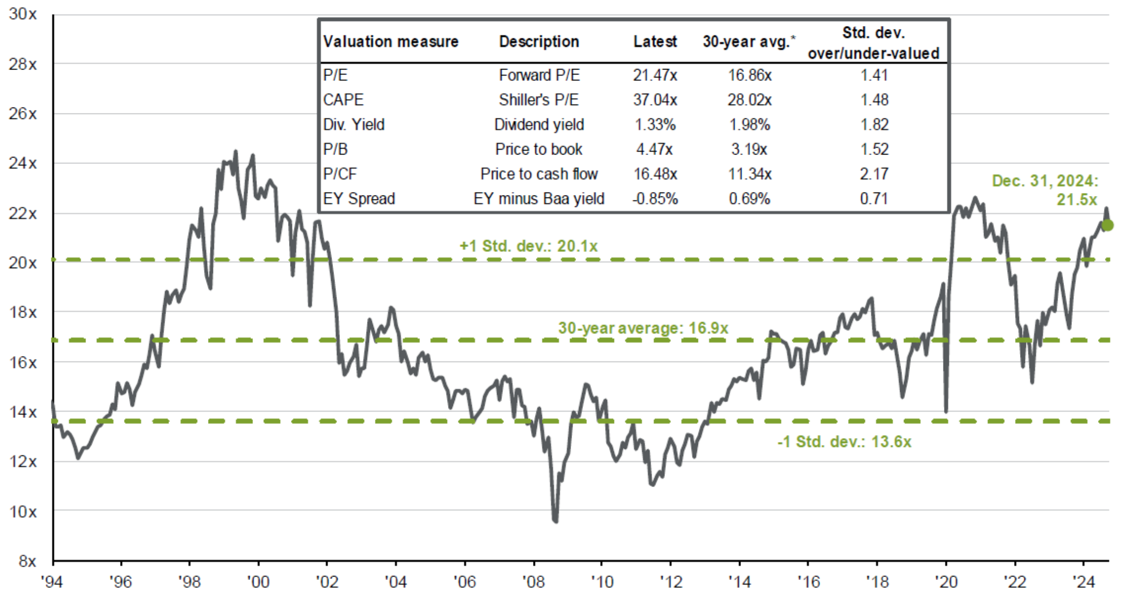
As suggested above, we warrant caution on high-yield bond valuations but must not neglect the aggregate valuations of US large-cap stocks which are also not at their cheapest relative to history. There are still opportunities abound in equities, which we will discuss below as risky assets, including large-cap US stocks, which are not "cheap" but may have more room to grow.

First – where are we? The chart S&P 500 valuation measures[iii] clearly shows the US large-cap market is at the high end of its valuation range. The majority of this high valuation comes from the Magnificent 7 (Apple, Amazon, Google, Facebook, Microsoft, Nvidia, and Tesla), which comprise an ever-increasing concentration at the top end of the S&P 500 . These stocks trade at a premium to the remaining 493 stocks in the index, but in our opinion, they deserve to, as they have a strong history of outsized earnings growth and profit margins – See Chart Performance of Magnificent 7 Stocks in S&P 500.

S&P 500 valuation measures

GTM | U.S. | 5

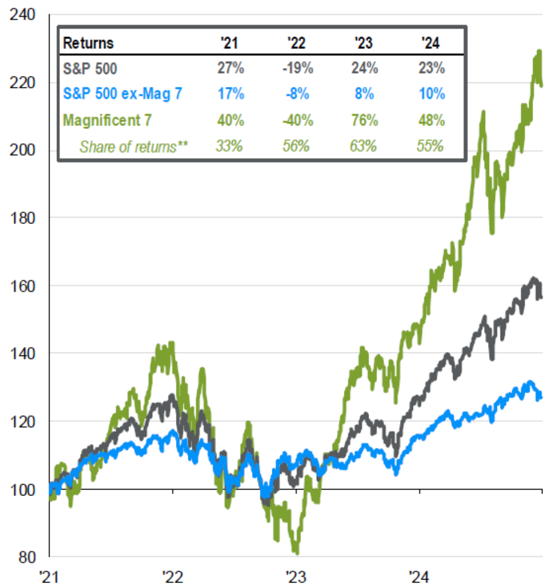
S&P 500 Index: Forward P/E ratio



Valuation measure	Description	Latest	30-year avg.*	Std. dev. over/under-valued
P/E	Forward P/E	21.47x	16.86x	1.41
CAPE	Shiller's P/E	37.04x	28.02x	1.48
Div. Yield	Dividend yield	1.33%	1.98%	1.82
P/B	Price to book	4.47x	3.19x	1.52
P/CF	Price to cash flow	16.48x	11.34x	2.17
EY Spread	EY minus Baa yield	-0.85%	0.69%	0.71

Performance of "Magnificent 7" stocks in S&P 500*

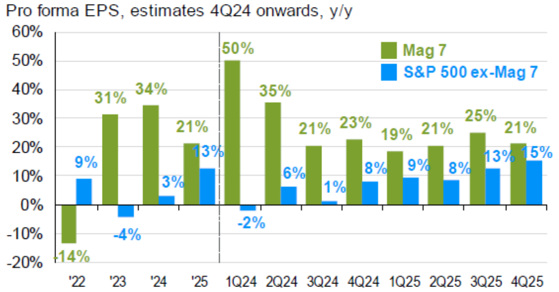
Indexed to 100 on 1/1/2021, price return



Returns	'21	'22	'23	'24
S&P 500	27%	-19%	24%	23%
S&P 500 ex-Mag 7	17%	-8%	8%	10%
Magnificent 7	40%	-40%	76%	48%
*Share of returns***	*33%*	*56%*	*63%*	*55%*

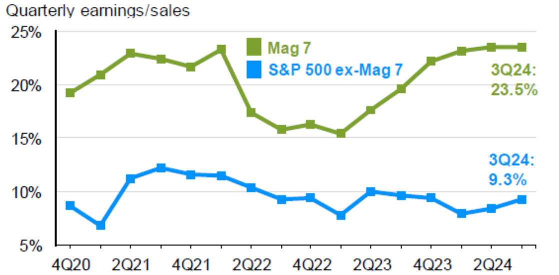
Earnings growth

Pro forma EPS, estimates 4Q24 onwards, y/y



Profit margins

Quarterly earnings/sales



Dispelling Some Myths

Just because valuations are high and because stocks have performed well over the last two years, does not mean they need to sink – See Ryan Detrick's post.

Since 1950, the S&P 500 has posted an average annual return of 16.8% during years that included a positive January. Furthermore, the index generated positive returns in 89% of these years. In contrast, when the index traded lower in January, annual returns dropped to -1.7%, with only 50% of occurrences yielding positive results.

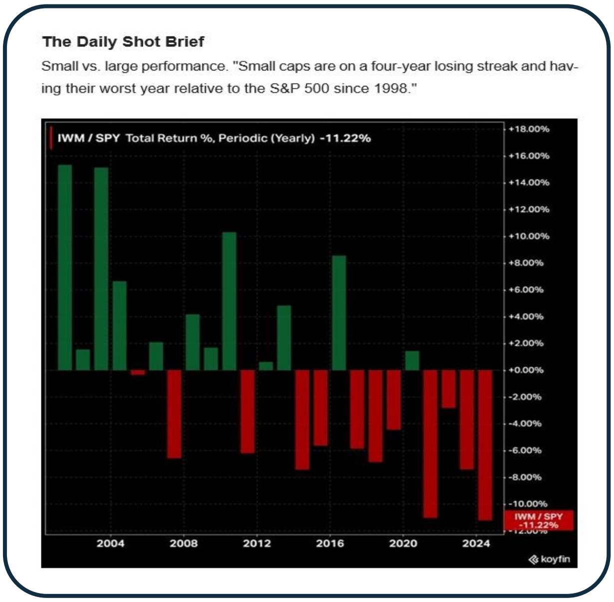
Clearly, these types of returns are "rare air" and stats like these are rife with bias but just because stocks are up, it does not mean that they have to go down anytime soon.

Quality

Sometimes owning the best quality assets are expensive and sometimes they are cheap, rarely super cheap. As part of a disciplined portfolio management strategy, it is good to trim your big winners to keep your overall portfolio on track with your goals. This allows you to prepare for some future downside volatility in those names (we hope for some of that downside volatility so we can buy high-quality companies at lower prices). These stocks tend to be volatile while trending upwards. “Right sizing” your exposure to the best companies in the world makes sense as long as you’re ready to scoop up more if they happen to trade lower in 2025. If you're seeking cheaper stocks, they’re out there—but remember not to compromise too much on quality. As the saying goes, "Price is what you pay; value is what you get." Quality companies may experience price fluctuations, but they are resilient in the face of challenges like wars, recessions, and other surprises. As we explore opportunities beyond the “Magnificent 7,” we focus on strong balance sheets, consistent earnings growth, and the added benefit of diversification. We acknowledge that finding balance sheets and growth metrics as robust as the Mag 7 is a challenge—they’re called “magnificent” for a reason. However, once you’ve built a solid foundation with the Mag 7, it’s time to diversify and enrich your portfolio with other promising opportunities.

Small Cap and International Stocks

Small Cap stocks are on a historic underperformance streak relative to large-cap stocks, their worst since 1998. (See The Daily Shot Brief – Small vs. Large Underperformance[iv]) This is not reason enough to buy but it is enough reason to go shopping. Sticking with the quality theme, we are seeking to move investment dollars to small cap in the US opportunistically.



International by comparison is a bit more of a challenge. See graph America's Exceptional Valuation[v]. The widest valuation gap in history sounds exceptional (!!!) but we remind investors there are many ways for that gap to narrow and international stocks going up is not a foregone conclusion. We watch geopolitics and currency movement along with quality of investment opportunity in international companies in addition to valuation. Where appropriate for investors we have some international exposure, but we hesitate to buy more in an increasingly correlated "small world". This means that we cannot help but think that if the US Stock market rolls over, international may follow suit. Lesson: Large US, Small US or International, be on the quality side of things and don't get too stretched.

Positioning for 2025 – The Conundrum

Economy Strong – Good, right? Or is it? I love this conundrum. Who says they want a weak economy? Yet, with a strong (or too strong) economy, we inevitably see interest rates and inflation come into play. As we write this in early January 2025, the economy is showing remarkable resilience—great news. However, this strength is contributing to higher interest rates. While that's a positive for savers, it's a challenge for borrowers, especially those without long-term, low-rate locks—most notably, the government. Add in the potential for inflationary policies on the horizon, and we could face a combination of a strong economy, inflation above the Fed's 2% target, and elevated interest rates. This creates a recipe for equity market and asset price volatility, reminding us that all assets are, at some level, priced relative to interest rates—and higher rates often mean lower prices.

As we step into 2025, we maintain a neutral to slightly positive outlook. Economic fundamentals remain solid, but we anticipate increased volatility as markets adjust to central bank actions, potential policy shifts, and ongoing debates over whether valuations are stretched or justified by future growth. This is not a time to over-leverage into risk, but it's also a good moment to reflect on the challenges of market timing and the importance of staying invested.

At Members' Wealth, our guiding philosophy—**Preserve. Grow. Endure. Evolve**.—shapes every decision we make. We focus on balancing preservation and growth, helping you endure through uncertainties while positioning for opportunities. At this juncture, we encourage investors to prioritize preservation before leaning into growth. We're here to help you navigate this evolving landscape, seize opportunities, and remain focused on your long-term goals. Together, we'll adapt and evolve, seeking to have your wealth not only survive but thrive in the years ahead.

To 2025 and Beyond

As we begin a new year, it's the perfect time to connect with your team at Members' Wealth. The start of 2025 offers an opportunity to reflect on your goals, update us on any life changes, and ensure your financial plan aligns with your evolving priorities. Whether it's preparing for tax season, addressing estate or risk planning, managing investments, or exploring new opportunities like starting a business or buying or selling an asset, now is the time to map out a strategy for the year ahead. Let's work together to set a clear timeline for your 2025 priorities and keep you on track toward achieving your financial and life goals. We're here to support you every step of the way.

i JP Morgan Asset Management – Guide to the Markets1Q 2025, as of December 31, 2024

ii JP Morgan Asset Management – Guide to the Markets1Q 2025, as of December 31, 2024

iii JP Morgan Asset Management – Guide to the Markets1Q 2025, as of December 31, 2024

iv See The Daily Shot Brief – Small vs. Large Underperformance

v Charlie Bilello

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The Dow Jones Industrial Average (DJIA) is a stock market index of 30 prominent companies listed on stock exchanges in the United States. The S&P 500 index is designed to be a broad based unmanaged leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe or representative of the equity market in general. The National Association of Securities Dealers Automated Quotations (NASDAQ) is an American stock market that handles electronic securities trading around the world. The Russell 2000 index is an index measuring the performance of approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks. The Russell 2000 serves as a benchmark for small-cap stocks in the United States. The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The Bloomberg US Aggregate Bond Index, is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States.

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