BRADYCO

Bradley F. Richardson

January 14, 2025

## 2024 Results

The stock market – as represented by the S&P 500 index – gained 25% (including dividends) during 2024. This marks the first time, since the so-called tech bubble of the late 1990's, that the stock market has risen by more than 20% two years in a row.

2024 also represented the third straight year of double-digit growth of the S&P 500 index. This string of strong results has only happened four other times in the 65 years since the modern S&P 500 index was created in 1957. During those other four occasions, the return during the next year (e.g. year four) has varied from -18.1% (2022) and -10% (1966) to 1% (2015) and 28.6%* (1998), leaving us with no obvious pattern for 2025 to follow.

## Why did stocks perform so well last year?

Most of the 500 stocks in the S&P 500 index appreciated in value in 2024, but their returns were not outstanding. The average stock in the index rose only 10% in 2024. What led the index to its strong result (+25%) was the performance of just 7 tech-oriented companies often described as the "Magnificent 7" (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla). Since the late fall of 2022, these companies have led the S&P 500 index to unusually strong advances. One company, Nvidia, soared 171% during 2024. What these companies have in common is that they are large international companies with strong earnings and have promising futures due to recent advances in AI (Artificial Intelligence).

Another factor in the strong stock market was the decline in interest rates. During the fall of 2024, the Federal Reserve Bank cut the so-called "Fed Funds rate" in steps by a total of 1% from 5.5% to 4.5%. This benchmark influences a variety of interest rates including the Prime Rate for businesses, and T-Bills, margin rates and money market fund returns for investors.

By last September, when the interest rate cuts began, expectations were for an additional 1.5% cut in interest rates during 2025. However, recent trends in inflation, unemployment, plus concerns of possible future fiscal policies by the US Government have led both the Fed and the financial markets to significantly lower their expectations about likely cuts in 2025 to between 0-0.5%.

* During the tech bubble in the late 1990's, the S&P 500 index went up by double digits for **5 years** in a row until 1999. This strong trend was followed by three years of negative returns (-9.1%, -11.9%, and -22.1%) before rebounding by 28.7% in 2003.

Bradyco Financial
16 Sargent Street, Cambridge, MA 02140-2514
TEL (617) 945-1991 ■ Brad@BradycoFinancial.com
www.BradycoFinancial.com

## Fiscal Policy

Given that cuts to interest rates in 2025 may be much less than originally expected, fiscal policy could become a greater influence on the stock market than it has been in recent years. What are the key fiscal policies that could impact our investments in 2025? They fall in two groups. First, the purely financial issues are: a) tax legislation, b) tariff policy, and c) the level of the federal deficit.

All three issues are connected because the first two could have a major impact on the third. During the recent Presidential campaign, President-elect Trump campaigned on the renewal of the 2017 tax bill (many parts of which expire on 12/31/25) and proposed several additional tax reductions. Both proposals, unless offset by other legislation, would add significantly to our nation's already substantial fiscal deficit. Additionally, the incoming administration has discussed a major expansion of tariff policy both as a tool of trade strategy and possibly, to raise revenue.

The second group of changes include proposals relating to regulatory relief, which could lower the operational costs of businesses in many industries. A lessening of merger restrictions is also likely. Immigration reform, which could include the deportation of undocumented workers, could create havoc in certain labor markets that depend upon such workers given our country's tight labor supply.

These potential fiscal policy changes have alarmed some members of the financial community including members of the Federal Reserve Bank.

While the impact of these proposed changes to our country's fiscal policy could have a significant impact both on our economy and the stock market, there are too many unknowns at present for us to make any useful predictions regarding which policies will get adopted and what their impact might be. For example, while the Republican party will technically control both houses of Congress and the Presidency, given the narrow majorities that the party holds in both houses of Congress, passing legislation without bipartisan support could be difficult. Comments made by some Republican House members during the recent election of the Speaker of the House, suggested that spending and tax bills that increase the deficit – a major priority of both the President-elect and party leaders -- may be difficult to pass without Democratic support.

## What's Next?

The one constant with the stock market is that there is always something to worry about. Prognosticators love to tell us that the economy is too hot or too cold, valuations are too high or too low. Currently, there are worries that the stock market has risen too fast, the Fed is not cutting rates fast enough, results of the recent elections will cause this or that to occur, a trade war could break out, and that the stock market's excessive focus on AI is getting overblown. As always, I remain focused on the long-term trends, which remain positive in my view.

Thank you for your confidence.

Brad