BIONDO PERSPECTIVES

FOURTH QUARTER MARKET COMMENTARY

Scott A. Goginsky

Happy New Year! Despite facing some economic challenges, the markets have shown impressive resilience and ended 2024 on a strong note. The US stock market capitalization soared to an astounding $63 trillion, with significant gains across all major indices. The S&P 500 surged by 25.0%, the Dow Jones Industrial Average appreciated by 15.0%, and the Nasdaq Composite experienced a remarkable increase of 29.6%. The S&P 500 posted a two-year return of 57.8%, marking the strongest two-year performance of this century. This growth was primarily driven by rising investor confidence in the technology and artificial intelligence (AI) sectors.

The US market added over $10 trillion to its total capitalization throughout the year. In contrast, the combined value of the markets in China, Hong Kong, and Europe was approximately 50% less than that of the US. The "Magnificent 7" stocks, which rose by 67.3% in 2024, significantly outperformed all other indices and now have a larger market capitalization than the entire European market.

At the beginning of 2024, investors were worried about ongoing inflation, the potential for further interest rate hikes, and the general anticipation of a possible recession. These factors contributed to a cautious and subdued outlook as we entered the year. However, as 2024 progressed, many of these concerns began to ease, improving investor confidence. **By the end of the year, there was evident widespread participation in the equity markets, with the percentage of Americans holding stocks reaching a record high.**

The significant growth observed across various sectors in 2024 can largely be attributed to advancements in artificial intelligence. These developments have been crucial in driving innovations and enhancing efficiencies across industries. For instance, the communications sector experienced a remarkable 40.2% increase, thanks to the integration of AI, which optimized network operations and improved customer interactions, resulting in more personalized and efficient services.

Similarly, technology stocks surged by 36.6% due to AI innovations that revolutionized everything from software to hardware capabilities, fostering new business models and boosting productivity. The financial sector also saw impressive growth of 30.5%, with AI significantly contributing through improved risk assessment, algorithmic trading, and personalized banking services, which enhanced the sector's performance. However, it is worth noting that the materials sector was the only one to experience a decline, with a slight decrease of -0.04%.

The year also revealed significant disparities in performance among different investment styles. Growth stocks notably outperformed value stocks, achieving an impressive 26.2% return compared to only 12.3%, respectively. This trend was particularly evident when large-cap and small-cap growth stocks were compared. Large-cap growth

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IN THIS ISSUE: Q4 COMMENTARY // BIONDO TEAM NEWS // THE GREAT WEALTH TRANSFER // IMPORTANT INFORMATION stocks, represented by the Russell 1000 Growth Index, experienced a substantial increase of 33.4%, while small-cap growth stocks, represented by the Russell 2000 Growth Index, recorded a more modest return of 15.1%.

In terms of value stocks, large-cap value stocks (represented by the Russell 1000 Value) increased by only 14.3%, while small-cap value stocks (represented by the Russell 2000 Value) experienced an even smaller gain of 8.0% over the year. This performance underscored the benefits of focusing on growth stocks rather than value stocks during this period.

The bond market saw modest gains, with the Bloomberg US Aggregate Bond Index rising by 1.25% and the Global Aggregate Bond Index increasing by 3.49%. These figures reflect a cautious optimism in the fixed-income markets, indicating a shift in investor sentiment toward more secure assets amidst global uncertainties. This moderate bond performance illustrates the balancing act between the Federal Reserve's aggressive monetary tightening and investor expectations for additional interest rate cuts. Since bond prices are inversely correlated with interest rates, the gains observed in 2024 suggest that investors are preparing for a more favorable rate environment.

As we transition into 2025, the economic and investment landscape reflects the momentum gained from a year marked by resilience and notable gains.

The Federal Reserve maintained a hawkish stance throughout 2023 and implemented aggressive monetary tightening to combat inflation, with interest rates reaching a peak of 5.25% and 5.50%, marking one of the highest levels in recent decades. However, as inflation began to ease, the Federal Reserve adopted a more dovish tone in the latter half of the year, reassuring the markets that no further increases were expected.

In 2024, the Fed cut rates three times, bringing the Fed Funds Rate to a range of 4.25% to 4.50% by the end of the year. We believe the Fed will continue to cut rates, albeit at a slower pace next year, primarily due to stronger than anticipated economic growth, which has resulted in inflation stubbornly remaining around a 2.5% rate.

By December, the unemployment rate had decreased to 4.1%, with the economy adding 256,000 jobs - significantly more than the expected 164,000 - highlighting the strength and resilience of the labor market. Despite elevated rates, economic activity remained robust, bolstered by wage growth of 3.8%. However, higher borrowing costs have created challenges for specific sectors, such as real estate and small businesses, which are particularly sensitive to financing conditions.

As we transition into 2025, the economic and investment landscape reflects the momentum gained from a year marked by resilience and notable gains. New complexities and risks could challenge this progress, necessitating thoughtful strategies and adaptability. Factors such as anticipated tariffs, elevated asset valuations, and geopolitical uncertainties introduce significant risks that could disrupt the momentum experienced in 2024. Investors should prioritize diversification, focus on high-quality assets, and remain prepared for increased market volatility.

US GDP growth is expected to stay around 3%, fueled by robust consumer spending and wage increases. However, rising tariffs - especially those affecting major trading partners like Canada, Mexico, and BRICS countries - could hinder global trade and economic growth, potentially leading to a GDP decline of about 1.7%. Additionally, the risk of renewed inflation remains considerable. Analysts estimate there is a 40% chance that inflation will rise in early 2025, which may prompt the Federal Reserve to reevaluate its current policies. These developments could increase market volatility, making asset allocation and portfolio resilience more critical.

Currently, stock market valuations are high, with US large-cap stocks trading at 28 times their earnings, compared to 18 times for small-cap stocks. This is the widest margin we've seen since 2000. While growth stocks have continued to lead in 2024, their elevated valuations make them vulnerable to shifts in market sentiment. This valuation gap creates opportunities for small-cap equities to outperform if the market undergoes a rebalancing.

Artificial intelligence continues to be a transformative force in the market, significantly contributing to gains in the technology sector. Companies that integrate AI to streamline operations and enhance productivity will likely drive healthcare, manufacturing, and infrastructure innovation. However, expectations for tech leaders, such as Nvidia, are exceptionally high; any disappointment in earnings could lead to a shift in investor sentiment.

In the US, the incoming administration's policies are expected to impact fiscal and trade dynamics significantly. While measures like deregulation and tax incentives may stimulate domestic investment, increasing budget deficits and levels of sovereign debt pose risks to long-term economic stability. These developments underscore the importance of adopting a diversified and forward-looking investment strategy.

Given the current economic landscape, now is an ideal time to review your goals, reassess your future expectations, and evaluate your overall asset allocation and risk tolerance. We strongly encourage you to take advantage of all our firm's capabilities to help you navigate these complexities with greater financial confidence.

Please get in touch with us to review your situation, ensure that your portfolio is structured to meet your various needs, and address any concerns. We appreciate the opportunity to serve you and the trust you have placed in our firm.

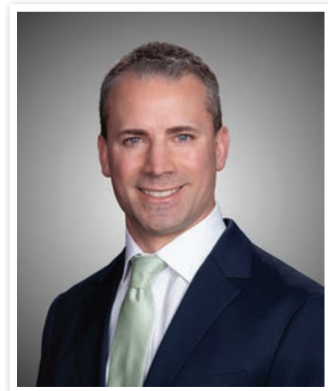
Scott A. Goginsky, CFA®

Partner, Research Analyst & Portfolio Manager

Sources: Stock market capitalization – Morningstar, The Kobeissi Letter; Index, sector and investment style returns – Nasdaq, JP Morgan, Bloomberg; Federal Reserve and economic data – Nasdaq, JP Morgan, US Bureau of Labor Statistics; Market outlook – Yahoo Finance, Apollo Global Management

The information set forth regarding investments was obtained from sources that we believe reliable but we do not guarantee its accuracy or completeness. Neither the information nor opinion expressed constitutes a solicitation by us of the purchase or sale of any securities. Past performance does not guarantee future results.

BIONDO TEAM NEWS
Congratulations Casey Pisano, CFP®, MST!



Our congratulations go out to **Casey Pisano, Senior Wealth Advisor**, who has successfully completed the coursework and obtained a Master of Science in Taxation (MST). The MST is a specialized graduate degree focusing on advanced tax laws, regulations, and strategies. This in-depth knowledge and expertise allow him to provide valued, comprehensive guidance in areas where financial planning and taxation intersect. We are proud of his accomplishment.

THE GREAT WEALTH TRANSFER:
Why Coordinating with a Wealth Advisor is So Important

A monumental shift in the financial landscape is underway. Dubbed the "Great Wealth Transfer," this movement signifies one of the largest intergenerational wealth transfers of our time. Over the next 25 years, it is estimated that over $70 trillion will be passed down from Baby Boomers to their heirs and beneficiaries. This shift in wealth is likely to present both tremendous opportunities and difficult challenges for individuals, families, and the broader economy. To navigate this transition successfully, it is essential to work closely with a wealth advisor who can guide you through the intricacies of establishing long-term financial goals, estate planning, and tax strategies.

Retaining the value of your assets is one of the most critical aspects of transferring wealth. Personal property, investments, real estate, and business holdings intended to be passed on to heirs may be greatly reduced in the transfer process. The looming burden of tax liabilities, fees, or even poor investment decisions can diminish asset values when passed on to heirs. Unfortunately, many investors do not seek counsel on strategies that can mitigate the negative impact of these constraints and maximize the value of assets before transfer.

Proper structuring of your financial portfolio can help minimize these risks. Advisors may discuss various strategies, such as tax-efficient investment approaches and tools like family limited partnerships (FLP) or irrevocable trusts,

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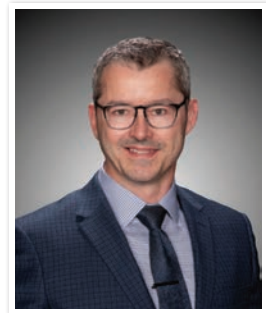
that can protect your resources from needless taxation. In some instances, it may be beneficial to utilize additional options such as charitable trusts or lifetime gifts to help reduce the value of your taxable estate. Studies have shown that proactive estate planning can significantly reduce the estate tax burden and preserve more wealth for future generations. **The intention here is to retain more of your wealth and pass it on for the purposes you intended.**

Wealth transfer will also highlight the similarities and differences between generations with how they approach philanthropy. Charitable giving is often personal and affected by experiences. Preparing for continuity of giving to causes, or working together to begin new contributions is another important aspect to address.

In our experience, we have found that many clients are challenged with how to best help their children when it comes to financial literacy and, more importantly, their potential future inheritance. Oftentimes we hear such responses as, “I don’t want my kids knowing how much money we have,” or “We plan on spending every last penny!”

Given our understanding of behavioral finance, we empathize with the dilemma in helping your children yet maintaining autonomy. We can help. Having us involved to facilitate a discussion while respecting your privacy will result in a more educated, responsible future investor. If you, for whatever reason, are not ready to have these discussions, please consider at least introducing us to your children so that they can benefit from our expertise and experience.

Determining a plan to transfer wealth should be considered a process that occurs over time, as it is often necessary to adapt to changing circumstances. Shifts in the economy, changes in tax laws, and even unpredictable changes to personal and family dynamics can require a plan adjustment. At Biondo Investment Advisors, we welcome the opportunity to discuss these topics further and to clarify the financial objectives and wishes that are most suitable for you. **At your convenience, you are welcome to reach out to me or any member of the investment advisory team to help ensure a smoother transition of assets when the time comes.**



Luke A. Barbalich, MBA
Wealth Advisor

Sources: The Brookings Institution. (2022). The Great Wealth Transfer: Forecasting the Next Big Wealth Wave; American Bar Association. (2023). Estate Planning Strategies to Minimize Taxes.; Family Business Alliance. (2020). Wealth Education for Heirs: Why It Matters.

2024 Tax Filing and IRA Contribution Information*

The 2024 federal income tax filing, payment and IRA contribution deadline is Tuesday, April 15, 2025.

	2024	2025	Age 50+
Traditional or Roth IRA	$7,000	$7,000	Additional $1,000
SIMPLE IRA	$16,000	$16,500	Additional $3,500
SEP IRA	lesser of 25% of compensation or $69,000	lesser of 25% of compensation or $70,000	

Beginning in 2025, employees aged 60, 61, 62, or 63 who participate in workplace retirement plans can make additional catch-up contributions. Please consult your advisor for the appropriate limits.

**Some restrictions and limitations may apply; we recommend you review your particular situation with your tax preparer.*

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