Market Commentary

December 2024

Equity and Bond Market Update

(as of December 6, 2024)

Index	YTD	1-Year
Dow Jones Industrial Average TR	+20.6%	+36.8%
S&P 500 Total Return Index	+29.3%	+57.0%
Russell 2000 Total Return Index	+20.3%	+34.9%
MSCI EAFE Index (net)	+8.1%	+25.3%
MSCI Emerging Markets Index (net)	+10.3%	+18.0%
Bloomberg US Aggregate Bond TR	+3.4%	+8.0%

Recent Economic Indicators

	Statistic	Data as of
Unemployment Rate	4.2%	Nov 2024
Gross Domestic Product (GDP)	+2.8%	Q3 2024
Consumer Price Index (CPI) – Y/Y	+2.6%	Oct 2024
Consumer Confidence (1985=100)	111.7	Nov 2024
30-year fixed mortgage rate	6.81%	Wk of Dec 8
Housing Starts (single family)	970,000	Oct 2023
10-Year Treasury Yield	4.19%	12/9/2024

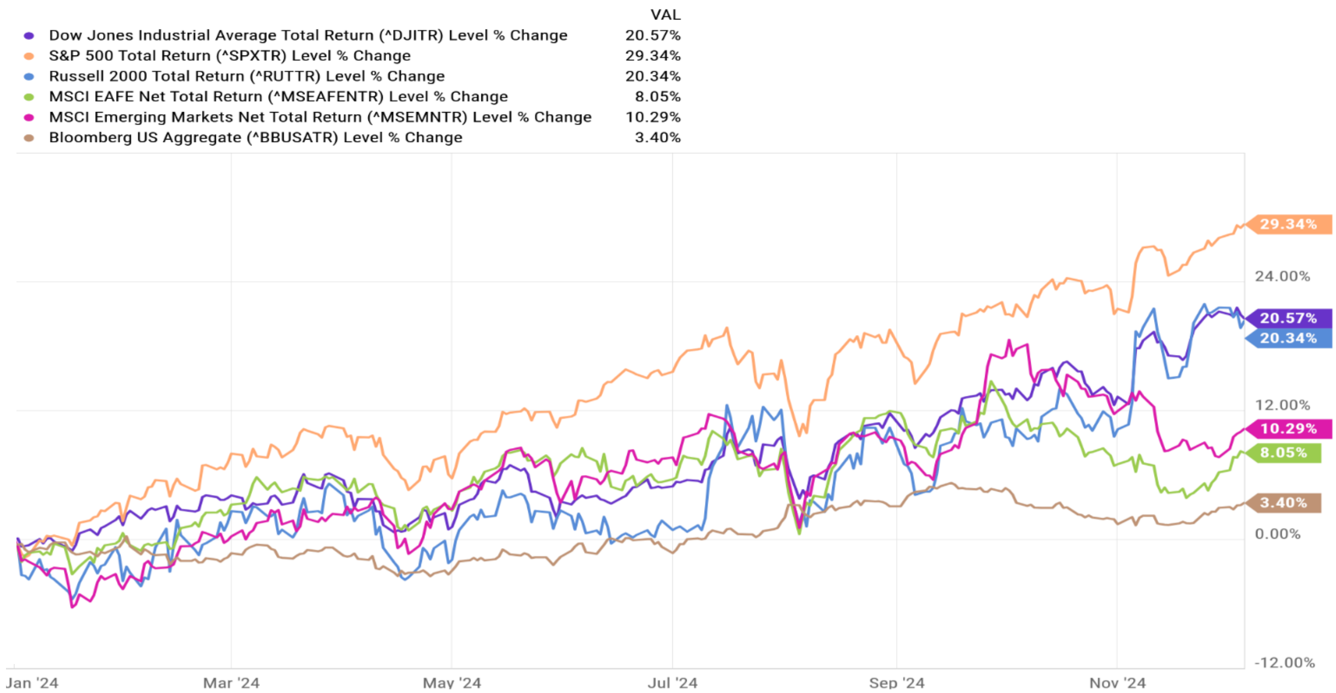
U.S. equity markets have stabilized since the market euphoria after the November 5th U.S. elections. Doing a lookback to market performance since the election, we notice that almost 50% of the return in the S&P 500 Index from election day to current actually took place <u>ON</u> election day, and roughly 90% of the return in the small-cap Russell 2000 also took place <u>ON</u> election day. From November 6th on, the S&P 500 has returned to a stable, slightly upward trend, while the Russell 2000 has been much more volatile, pulling back from it's November 11th high over the period, and then advancing again to over +6.5% since the beginning of election day. Foreign markets have not fared well over this period, with developed aggregate country indices flat for the period, and emerging markets down -3.0%. Aggregate bonds have advanced almost +1.5% since the election.

Cryptocurrencies have rallied quite a bit since election day, with the largest digital coins advancing anywhere between +43% to +59% over the last month. At Lifestyle, we have been getting quite a few inquiries about these cryptocurrencies and if we are integrating them into portfolios. First, this investment is highly speculative and should only be considered in more aggressive portfolios. The prices of these cryptos are solely based on supply and demand – no management team and no revenues or net income like corporations, no income or dividends that can be used to value the long-term benefit of holding them, no physical form like gold and silver, and still very little regulation at this time. We have integrated one of the cryptos in larger accounts we manage (again more aggressive strategies) earlier this year as spot price ETFs were launched in January, but only as a diversifier to the remaining holdings of stocks and bonds held in these accounts. Put another way, we are not looking to make bets on the price, but rather using the volatility profiles to diversify the remaining holdings in the account, and only considering for our larger value Total Return portfolio suite. Also, we are not making any buy/hold/sell recommendations and intend to monitor advancements and stabilities in this emerging asset class in the future.

Looking back to last year at this time and reviewing where the largest financial institutions were forecasting levels of the S&P 500 for year-end 2024, we can observe that projections were anywhere from a downturn of -12% to an advance of +13%. As of last Friday's close, we have seen the index advance by almost +30%. Not very good forecasting from the "experts". As a matter of fact, the median of these large institutions underestimated 2023 returns by -17% points, overestimated 2022 by +22% points, underestimated 2021 by -26% points, underestimated 2020 by -14% points, underestimated 2019 by -15% points, and overestimated 2018 by +14% points. So, any predictions you may hear of in the coming weeks regarding 2025 returns should be taken with a grain of salt. The best thing we can do is model our portfolios with what historical returns have been in the various asset classes and adjust when and where appropriate as opportunities materialize.

Since the market low during the COVID pandemic on March 23, 2020, the S&P 500 Index has increased +171%. At the beginning of this period, it was the prospect of discontinuing economic lockdowns that drove returns, but as we got farther away from the pandemic, it was primarily technology and the AI trade in mega-cap stocks that have driven market returns (technology sector returns have surpassed +255% during this same period). Many are saying that the last couple of years are reminiscent of the Dot.com bubble, and to a certain extent, some of that may be true. However, I can remember that valuations back then were driven by the same "supply-and-demand"

Major Market Indices Price Return (YTD through December 6, 2024)



Source: YCharts

characteristics we are currently seeing with cryptocurrencies. Not very much revenues and profits (if any) for Internet-based companies, and valuations simply being pushed up by the FOMO (Fear Of Missing Out) trade. There may be some of that happening now, but some companies that have been helping to drive current valuations up have critical mass that can be evaluated to justify current investment. We are holding some of these companies in both our All-Cap 30 and Legacy GARP portfolios. Much of this current investment is looking to take advantage of the build-out of AI and focusing on those companies that are at the forefront of this infrastructure build-out (semiconductors, hardware, monitoring, and security). But at some point, the advantages of the AI wave will pivot to those companies that are delivering the AI benefit, most notably software companies. And even farther into the future, the benefit of using AI will push certain non-technology companies to offer better investment, as the early adoption of these AI utilization benefits will help drive revenues, cash flows, and net margin improvements over those competitors that are left behind.

As we go through these time periods in investment markets when we experience fast and advancing market and portfolio values, it is important to remember that markets can and always will revert back to some volatility. Whether it be by some geo-political event, another pandemic, expected market corrections, high inflation, increasing and decreasing interest rates, etc., it is important to focus on your destination, and not on all the noise that comes with the journey.

Always keep in mind that fear, panic, and optimism are not investment strategies, but rather emotions that drive short-term markets.

Please contact Lifestyle Asset Management, Inc. at (281) 612-2035 or by email at **pjackson@lsaminc.com** should you have any questions or comments.

Sources:
- S&P Dow Jones Indices website (us.spindices.com)
- MSCI Barra website (http://www.mscibarra.com)
- The Conference Board (www.conference-board.org)
- Bureau of Economic Analysis (www.bea.gov)
- JP Morgan Guide to the Markets
- CME FedWatch Tool (www.cmegroup.com)
- FTSE Russell (www.ftserussell.com)
- Bankrate.com (www.bankrate.com)
- Bureau of Labor Statistics (www.bls.gov)
- United States Census Bureau website (www.census.gov)
- Federal Reserve Bank of Atlanta (https://www.atlantafed.org/cqer/research/gdpnow)

not reflect the deduction of transaction and/or custodial charges or the deduction of an investment-management fee, the incurrence of which would have the effect of decreasing historical performance results.

The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The S&P 500 is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities. The index is meant to reflect the risk/return characteristics of the large capitalization U.S. universe.

The S&P 500® Equal Weight Index is the equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

The Russell 2000 is an index measuring the performance of approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of the 3,000 largest stocks in the United States. The Russell 2000 serves as a benchmark for small-cap stocks in the U.S. and is meant to reflect the risk/return characteristics of the small capitalization U.S. universe.

The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. & Canada. It is maintained by MSCI Barra, a provider of investment decision support tools; the EAFE acronym stands for Europe, Australasia and Far East.

The MSCI Emerging Markets Index is an index created by Morgan Stanley Capital International (MSCI) designed to measure equity market performance in global emerging markets.

The Barclays US Aggregate Bond Index is a broad-based benchmark index that measures the investment-grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS, ABS and CMBS.

The Dow Jones Equity All REIT Index is designed to measure all publicly traded real estate investment trusts in the Dow Jones U.S. stock universe classified as equity REITs according to the S&P Dow Jones Indices REIT Industry Classification Hierarchy. These companies are REITs that primarily own and operate income-producing real estate.

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