Market Commentary

February 2025

Equity and Bond Market Update

(as of January 31, 2025)

Index	YTD	1-Year
Dow Jones Industrial Average TR	+4.8%	+18.9%
S&P 500 Total Return Index	+2.8%	+26.4%
Russell 2000 Total Return Index	+2.6%	+19.1%
MSCI EAFE Index (net)	+5.3%	+8.6%
MSCI Emerging Markets Index (net)	+1.8%	+14.8%
Bloomberg US Aggregate Bond TR	+0.5%	+2.1%

Recent Economic Indicators

	Statistic	Data as of
Unemployment Rate	4.1%	Dec 2024
Gross Domestic Product (GDP)	2.3%	Q4 2024
Consumer Price Index (CPI) – Y/Y	+2.9%	Dec 2024
Consumer Confidence (1985=100)	104.1	Jan 2025
30-year fixed mortgage rate	7.00%	Wk of Feb 2
Housing Starts (single family)	1,150,000	Dec 2024
10-Year Treasury Yield	4.58%	1/31/2025

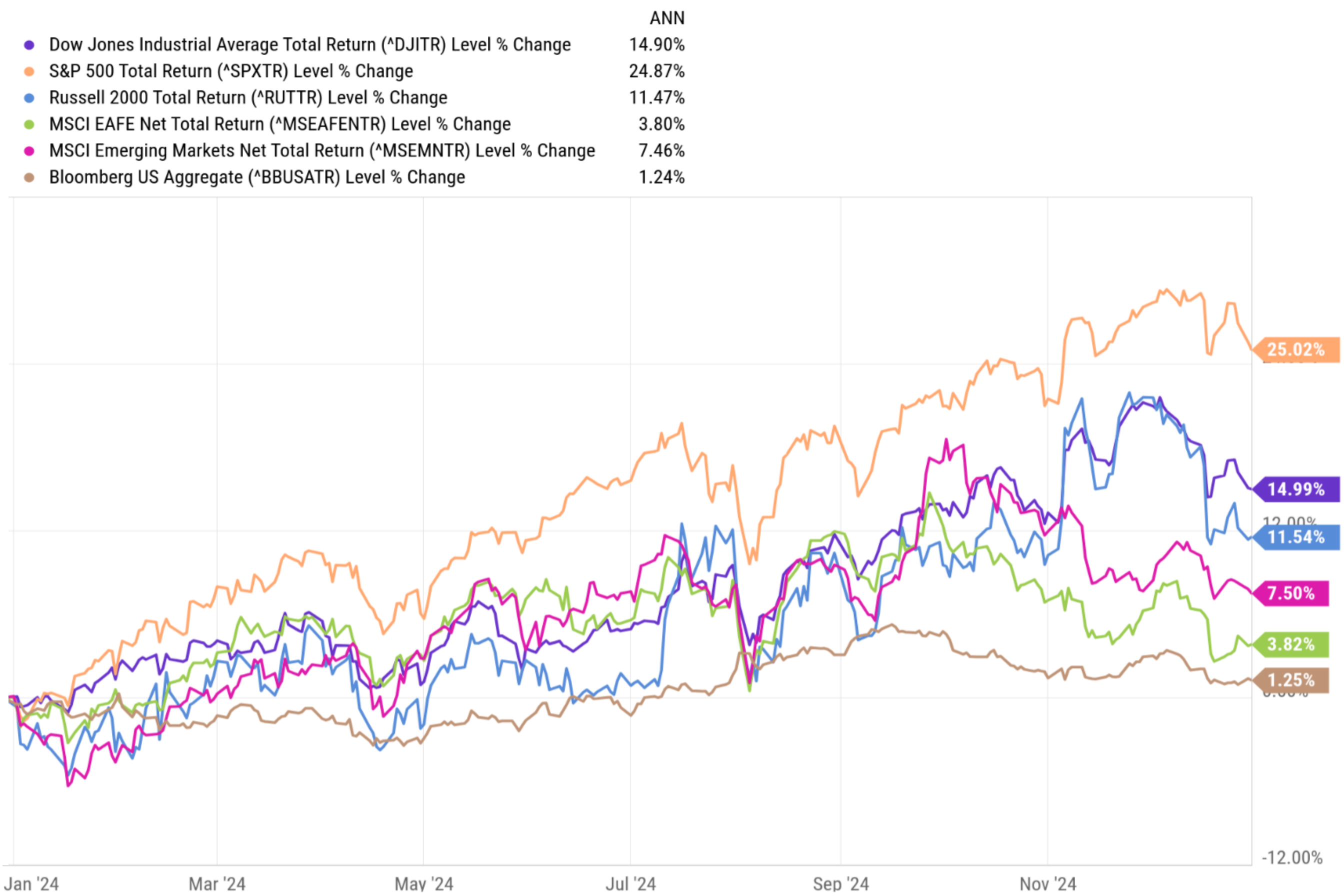
All major market indices experienced advances during January to start off the year. Developed foreign markets (Japan, United Kingdom, France, Switzerland, Germany among others) led the way with just over +5.0% in aggregate returns, and Dow Industrial stocks (30 blue-chip stocks of prominent U.S. companies) took the lead among domestic equities. As of the writing of this commentary, we are seeing a bit of a broadening out of equity returns so far this year, with both the Russell 2000 small-cap index and an equal-weighted S&P 500 index both handily beating the high-flying Mag 7 group of stocks from the last couple of years. This was to be somewhat expected as the Mag 7 stocks have high revenue and earnings growth hurdles to overcome due to their outstanding corporate performance over the last few years. This is not to say that these companies are not going to continue to see revenue and earnings growth higher than the rest of the 493 S&P index components, but it will be harder for them to continue the meteoric results experienced in the recent past.

Since late October of 2023 (over 14 months), the S&P 500 Index has not experienced more than an -8.5% pullback, which means we have not seen a -10% correction during this period. According to JP Morgan's Guide to the Markets, over the last 45 years we have seen an average of -14.1% market drop annually, so we are due to see some volatility in the near future. This is not something to be concerned with since these pullbacks are normal and good for equity markets to take a breather and allow valuations to normalize. Major market pullbacks are more associated around recessions, and current data is not predicting one in the short-term. However, corrections are also opportunities to rebalance portfolios and pick up undervalued stocks at prices that are much more attractive than when markets are at all-time highs.

The Federal Reserve held short-term interest rates steady at their January meeting, with the benchmark fed funds rate currently set between 4.25% and 4.50%. This after we saw 100 basis points in cuts during the second half of 2024. Currently, fed funds futures are forecasting there is more than 50% chance the Fed will continue to hold rates at bay at least through the first half of this year, and we may see no more than two 25bps rate cuts through the end of this year. Should the labor market hold steady close to full employment and if we don't see any material drops in inflation, it is possible our current level of rates may stick through the end of this year. I would be watching the labor market more closely than the inflation rate over the coming months to determine what the Fed may do.

The bond market started the year off a little rough, with the Bloomberg US Aggregate bond index dropping over -1% in the first half of January, but then rallying over +1.5% during the second half of the month as the yield on the 10-year Treasury dropped from 4.79% down to 4.5% during the same period. If the 10-year Treasury yield stays range-bound between 4.0% to 5.0%, there is an opportunity to capture continued income from fixed-income holdings without much risk to bond prices. Also, as mentioned, if the Federal Reserve holds short-term rates at current levels, there is also an opportunity to capture similar income from shorter-term holdings in the near future. This is an interesting opportunity to be able to capture similar interest income from both the short and long-term ends of the yield curve. Of course, if we do see some economic uncertainty and the Fed decides to start cutting rates, bond prices, especially those with longer maturities and durations, will rally and capital gains will be available.

Major Market Indices Price Return (YTD through January 31, 2025)



Source: YCharts

All of this being said, it is noteworthy that there continues to be a lot of noise affecting stock market levels and interest rates. The fast-paced changes coming from the new Trump administration are falling into a 24-hour news cycle that has been pushing markets up and down on a daily basis. For example, the administration announces tariffs on Mexico and Canada, and the stock market falls. Then within a couple of days these countries cut deals to strengthen border security and fend off human and drug trafficking, and the tariff initiations are delayed and the market rallies. During all of this, we shouldn't blink an eye since portfolios and investments are long-term in nature and see through all of this noise. Our focus is on macro-economic trends, valuations, risk management and investment diversification.

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)

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.

Please contact us if there are any changes in your financial situation or investment objectives, or if you wish to impose, add or modify any reasonable restrictions to the management of your account. Our current disclosure statement is set forth on Part II of Form ADV and is available for your review upon request.

Investment advisory services offered through Lifestyle Asset Management, Inc., an investment advisor registered with the U.S. Securities and Exchange Commission. The firm only transacts business in states where it is properly registered or is excluded or exempted from registration requirements. Registration does not constitute an endorsement of the firm by securities regulators and does not mean that the advisor has attained a particular level of skill or ability.