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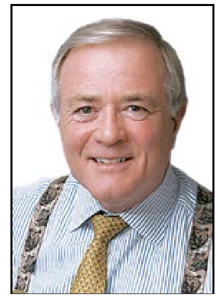
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Markets close historic 2024 with massive gains; what's next?

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The year 2024 will be remembered as one of the most extraordinary periods in market history. A potent combination of easier monetary policy, continued fiscal stimulus, and the transformative impact of artificial intelligence capabilities created powerful tailwinds for investors. The S&P 500's achievement of 57 record highs was a remarkable performance. 2024 was the second of back-to-back years of 20 percent-plus increases, totaling a 53.19 percent gain for the index over two years. That surge followed a 19.44 percent decline in 2022. And 2024's increase represents $9.76 trillion added to investor accounts. Over half of this increase was provided by the "Mag 7" – the top seven stocks in the index.

The tech-heavy Nasdaq led the charge with a nearly 40 percent gain, as both established tech giants and emerging companies capitalized on AI breakthroughs. However, unlike previous tech-driven rallies, this surge was supported by seemingly solid economic fundamentals. Companies positioned along the AI supply chain – from chip manufacturers to data center builders – captured the lion's share of gains. The market rewarded not just direct AI players, but any company that could demonstrate a meaningful connection to this technological revolution.

Foreign capital poured into U.S. markets at a historic pace in 2024, drawn by strong returns and economic stability. As an example, South Korean investors pushed their U.S. stock holdings to $112.1 billion – up 65 percent from 2023 – while pulling money from their home market. British investors followed suit, adding a record $34 billion to U.S. equities. This flight to American markets reflects both the strength of the dollar and global investors' hunt for growth in an uncertain world.

The data-driven Fed, seeing easing inflationary pressures, pivoted toward a more accommodative monetary stance. A series of interest rate cuts reduced borrowing costs and stoked confidence among investors and stock markets. This shift not only revitalized capital markets but also encouraged corporate spending, fueling growth across sectors.

While lower borrowing costs encouraged corporate investment, it was the continuation of massive government stimulus and spending on infrastructure projects that provided a sturdy foundation for growth. Unlike most western democracies, the U.S, maintained its post-COVID stimulus at a high level. During fiscal 2024, the federal debt increased by about $2.3 trillion to $34.46 trillion. Likely, this level of debt that the U.S. must constantly refinance is contributing to long interest rates rising, even as the Fed cuts short-term rates. Owners of long-term bonds may continue to see their value decline.

As the year progressed, investors became increasingly aware of how deeply the AI revolution penetrated various sectors. Companies with even tangential connections to AI development or infrastructure saw extraordinary gains. Traditional industrial firms providing data center construction, power infrastructure, or cooling systems benefited. Communications companies supporting AI networks, semiconductor manufacturers, real estate firms hosting AI computing facilities, and more recently basic utilities that are being called upon to supply the power to the massive AI data centers saw historic returns. This AI ecosystem effect, combined with federal infrastructure spending and fiscal stimulus, created a powerful engine for growth.

Investors should approach 2025 with measured optimism. The current S&P 500 price-to-earnings ratio is just under 30 times trailing 12-month earnings. According to various data providers, a typical value range is 20 to 28 times historically. This data would indicate that the current level represents a fully valued market, were it not for the market's expectations of continued growth in corporate earnings.

As always, there are potential headwinds. Geopolitical tensions, particularly in Ukraine and the South China Sea, could disrupt global trade and market sentiment. Domestically, the implementation of post-election policies such as widespread tariffs and possible labor shortages create market uncertainty. Climbing long-term mortgage rates will not aid residential and commercial real estate markets. The Fed must maintain its delicate balance between controlling inflation and supporting growth in the face of conflicting economic data.

Despite global uncertainties, the U.S. economy demonstrates remarkable robustness. Unemployment hovers near multi-decade lows, and consumer spending remains strong, while shifting from durable goods to services such as travel and entertainment. These factors sustain the growth narrative yet make achieving the Fed's 2 percent inflation target more challenging.

The story of 2024 is not just about remarkable returns – it's about the importance of staying invested through market cycles. Those who maintained disciplined, diversified portfolios were rewarded, while market timing strategies likely missed significant gains.

For investors, the path forward requires a balance between optimism and prudence. The concentration in the S&P 500 of over 30 percent in just seven stocks may mean increased volatility in the index and in the myriad of financial products based on it, especially if the PE multiples of the underlying stocks contract. Maintain diversification, focus on companies with strong fundamentals, and resist the urge to chase performance. Remember that markets often climb a wall of worry, and it is the disciplined investor who will prevail over time.

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