Happy New Year!

Last quarter we surmised markets generally ignore election cycles. Thankfully, that has proven true again. US equities retained their trek higher through yearend. The critical issue is that the election result could not be contested. There remain questions regarding interest rate policy, structural deficits and geopolitics. However, we are positioned optimistically. US large capitalization technology firms appear expensive. The remainder of the US market is fairly priced. Foreign assets are inexpensive. Corporate balance sheets are solvent, and earnings are growing. This is the main driver of equity prices.

US Treasury yields remain attractive for fixed income allocations. One- and two-year Treasuries pay in excess of 4% annually. This is as close to a risk-free yield as there is. Inflation is at 2.5%, therefore, there is a real yield on short-term risk-free assets. We will continue to focus our fixed income allocations on short-term, high-grade, bonds.

Market Performance:

S&P 500:	24.9%
S&P 400:	13.6%
Russell 2000:	11.4%
NASDAQ:	25.6%
MSCI World ex-US:	17.5%
US Agg. Bond	1.3%

Much like last quarter, Large Cap US outperformed, because of the Magnificent 7. Value continues to be ignored in favor of Growth assets. Globally diversified portfolios earned less because of the narrow market. The forthcoming Tariff battle will create instability, dislocations and the potential to devalue our strong dollar.

Portfolio Positioning

Moving into 2025 it is our intention to remain disciplined rather than chase returns. While everyone would have preferred to be solely invested in the S&P 500 last year, it is simply not optimal when investing for over the long term. History clearly demonstrates that all narrow markets end with large corrections that last for years. Valuation always matters. This market is one of the most concentrated in history.

We see the exuberance in large tech continuing for the next few quarters as earnings will continue to be strong. Crypto assets have gotten ahead of themselves on the Trump support. Long term, the changes will be positive. However, the assets are still risk assets with no underlying value so they will be subject to violent price swings. We manage this with position size.

Succinctly, we believe there is much to like in the first half of 2025.

We wish you all a happy and prosperous new year.

We look forward to connecting soon, rebalancing the portfolios, and continuing last year’s profit taking.

-Fountainhead Financial, LLC.