BARRETT CAPITAL PARTNERS

4th Quarter 2024 **Newsletter #14**

	Q4	2024 TOTAL
S&P 500 TOTAL RETURN	+3.3%	+25.6%
US AGGREGATE BOND TICKER: AGG	-4.5%	+1.82%

Cautiously Optimistic

Two years in a row

To find the last time the S&P 500 gained more than 20% for consecutive years, you would need to go back to the 1990s. The market returned greater than 20% for each of the years from 1994-1998, and prior to that it only occurred once back in the 1950s.

Long story short, the last two years have had historic market returns.

Where do we go from here?

The investing environment in 2025 looks attractive. As I write today, most forecasts from the big investment houses remain optimistic and are looking forward to double-digit gains again this year. While these forecasts are historically less accurate than monkeys throwing darts, there ***are*** a lot of positives moving into the New Year. Consumers are showing resiliency, inflation is still falling (albeit slower than anticipated) and the U.S. economy is humming along robustly. Everything appears…*great*.

New Years resolution: Estate Planning[1]

Stop avoiding estate planning. It's time to protect all of this wealth you're building.

If you are reading this letter, you probably need to see an estate planning attorney. And if the last time you updated your documents was a decade ago, now is a good time to revisit it. Your assets skyrocketed in value over the past two years, so make sure they are going to the right people before your day comes. Whether you are in your retirement years, or just had your first kid, you need to get it done. Your heirs will appreciate it.

[1] The following section is not legal, tax, or financial advice. Please consult your attorney with any questions. ***Frankly***, this section is a Public Service Announcement because too many people skip it, or worse, do it wrong. You simply would not believe some of the things that come across our desks.

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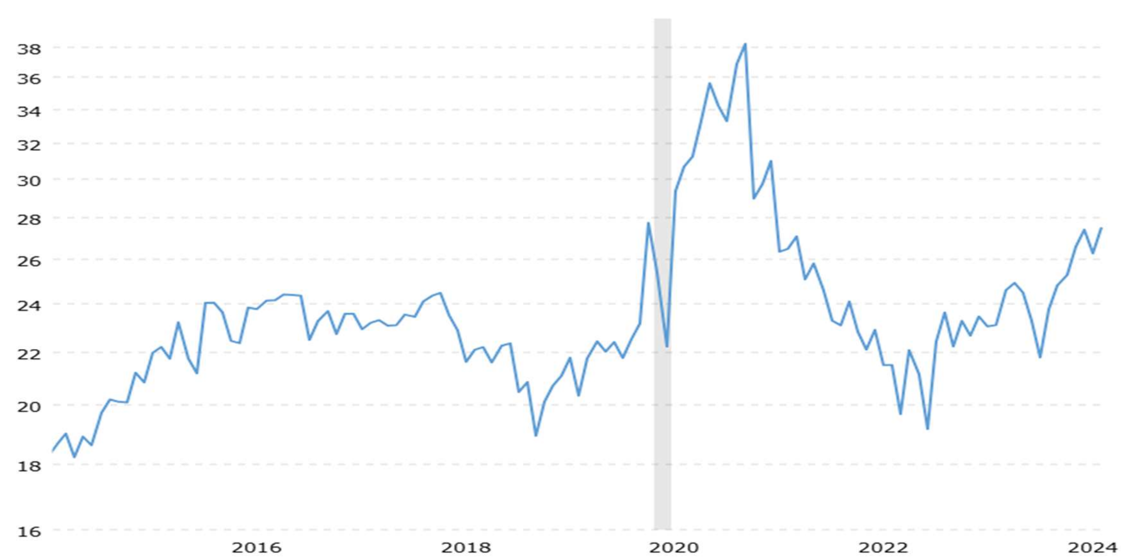
Defense wins championships too

I'm sure by now you've noticed your portfolio has drastically increased in value over the past two years, as stocks have been on a historic ascent. If you've been slow to rebalance, it may be time to revisit your allocations, especially as valuations show signs of stretching. This is not to say it's time to be conservative, but it might be time to bring your portfolio back to your optimal mix.

Across the board, stocks are priced for continued growth and earnings strength, especially in the technology sector and anything related to artificial intelligence (AI). The lofty valuations might make sense if growth continues and the economy keeps moving in the right direction, but for some reason I just cannot shake the feeling that the market is underestimating the risks. Again, the 2025 outlook is great, but it appears the market is pricing in a 0% chance of downside risk. An unanticipated economic slowdown would likely weigh heavily on valuations.

We *are* optimistic about the market this year, and the investing environment generally, but we have recently added more bonds to the portfolios. The 2-Year Treasury is paying 4.25%, and corporate bonds are paying roughly 0.5% more. Not bad for a low-risk return.

Below is the Price to Earnings for the S&P 500 for the past 20 years[2].



[2] https://www.macrotrends.net/2577/sp-500-pe-ratio-price-to-earnings-chart

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What keeps me up at night?

Inflation moving higher would throw a wrench into any economic model. Nobody is prepared, or even *preparing* for this possibility. A lot of investors and economists are "talking" about the possibility, but the fallout would probably not be great. The risk of inflation spiking would increase if the new administration implements significant tariff policies.

Economic weakness in Europe has not been aided by the recent political turmoil in France and Germany. Europe has struggled to regain economic momentum post COVID, which has been hampered even more so by the war in Ukraine driving energy prices higher. Combined with political instability, an aging population, and a workforce that is simply not as strong as the United States', the weakness is not likely to abate in the short term. The U.S. does need a strong European economy, as the European Union in aggregate is the biggest importer of U.S. goods and services[3].

Interesting stats and notes presented without context

- About 40% of companies in the Russell 2000 Index (small cap index) are not profitable.
- In 2024, the U.S. Stock Market outperformed the rest of the world by the biggest margin since 1997.
- The S&P 500 closed at a new record high 57 times in 2024.
- Per Bloomberg, double-digit gains and losses occur more often than single-digit gains, which has occurred 14 times in the last 97 years.

We look forward to any thoughts or input you may have!

See you soon,

Patrick and Joe

Disclaimer: This newsletter and related material are for informational and entertainment (hopefully) purposes only, and you should not construe any of the information contained as investment, financial, legal, tax, or other advice.

[3] https://ustr.gov/countries-regions

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