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2024 Year-End
Trump 2.0 – The New Gilded Age

A lot has happened since our last quarterly letter: voters elected a new administration, the Federal Reserve Board cut the Fed Funds rate (short-term interest rates) to 4½% (down from 5½% as late as early September), inflation declined (if you can believe government figures), GDP grew by an estimated 3%, cryptocurrencies hit all-time highs, and bond prices (paradoxically) fell 13% in price from the first rate cut in September.

For the year, the Dow Jones Industrial Index gained 12.9%, the iShares Russell 2000 gained 11.4%, and the S&P 500 gained 23%. Long-term US Treasury bonds fell 8% in value as represented by the iShares 20+ Year Treasury Bond ETF. Gold prices rose 27% to above $2,600, and oil prices fell 3%.

Elections have consequences, and this one may have more than the average. Tax cuts could increase personal and corporate income along with a possible widening of the federal deficit. Threats of tariffs loom large and could dramatically affect consumer inflation and corporate profits of importers. More drilling for oil may help exploration and drilling companies but may hurt oil producers if the price of oil declines as a result. Alternative energy and clean energy companies may lose tax advantages, including tax rebates on electric cars. Pharmaceutical stocks may be affected by lower prices negotiated by Medicare. Lighter regulation could help banking stocks squeeze more profits for stockholders. Technology companies, although at historically high prices, could continue to benefit from being in the "circle of trust." Cryptocurrencies could very well benefit from a friendlier regulatory framework, not to mention the fact that the president stands to personally profit from further increases in some cryptocurrency prices.

Large technology companies continue to invest in artificial intelligence as the major players vie for a competitive advantage. At the moment, the profits are not yet flowing from that investment as the expenses in the "technological arms race" are so high. However, profits are already flowing to the providers of hardware and infrastructure for the "AI buildout." Opportunities for both the hardware and service providers should be ample in the near future.

Much excitement was generated last year by the apparent increased efficacy of weight-loss drugs such as Zepbound (Mounjaro) and Wegovy (Ozempic). Although it is probable that this class of drugs will have a huge market and will bring some healthy profits to their makers (e.g., Lilly and Novo Nordisk), the recent performance of those stocks shows investor excitement can wane even as the future remains bright. Lilly's stock has declined almost 25% since September, and Novo Nordisk's has fallen 46% since its recent peak last June. These lower recent prices may represent an opportunity for us at a better value than available last year.

As we mentioned last quarter, neither political party has presented a feasible plan to reduce the federal budget deficit, which has grown to record levels. All signs are that the deficit will grow even more with tax cuts in the offing. Treasury bonds issued to finance the deficit have to compete with other instruments for investors' dollars. The greater supply of bonds needed to cover the government's spending may very well keep longer-term interest rates higher than currently expected. The more "hawkish" tone of the Fed in the last meeting has signaled that interest rates may not decline as quickly as expected. If so, persistently high rates may provide a headwind to stock prices which are already at pretty lofty levels.

It is certainly an exciting time to be an investor with advances in technology, artificial intelligence, medical treatments, and blockchain technology as well as the sea change in presidential administrations. However, every opportunity involves a degree of risk, and we strive to shape the risk/reward trade-offs to your advantage as well as to match the available investments with your particular risk tolerance. Consequently, feel free to call us to review, and possibly change, your investment stance whether conservative or aggressive whenever you would like.

Enclosed you will find your year-end reports to review at your leisure. We also encourage you to be aware of the persistence of cyber-attacks on the integrity of financial accounts and to be diligent in changing your passwords, keeping track of your usernames, and avoiding clicking on links within unsolicited emails, even if they appear to be legitimate. Feel free to call us if you are suspicious about any correspondence regarding your account. Together we will work for a prosperous and hopefully more secure new year.

Best regards,

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