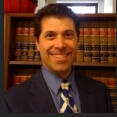


3 Reasons Investors Can Be Thankful This Holiday Season



Steven Stanganelli, CFP, CRPC, AEP | Financial Planner & Portfolio Strategist

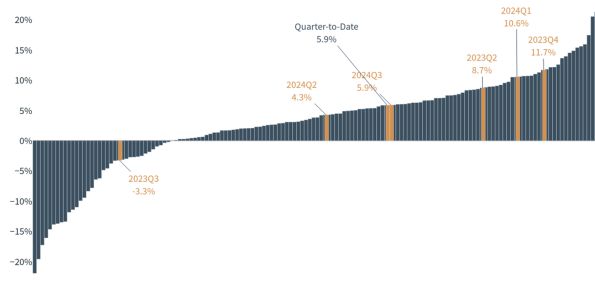
December 5, 2024

After a historic year, investors have much to be thankful for this holiday season. Despite periods of uncertainty around the Federal Reserve, the presidential election, and geopolitical conflicts, the stock market has delivered exceptional returns in 2024. With only a few weeks left in the year, the S&P 500 has gained 26.7% with dividends year-to-date, the Dow 19.5%, and the Nasdaq 27.4%. International stocks have also performed well, with emerging markets advancing 9.0% and developed markets 4.8%. Economic growth has exceeded expectations, with inflation returning to pre-pandemic levels, unemployment still low, and GDP growing steadily.

Financial markets have performed well this year

Market and Economic Chartbook | December 5, 2024

Stock Market Quarterly Performance
S&P 500 Total Return Index, ranked quarterly returns since 1988



Latest data point is Dec 4, 2024

Sources: Clearnomics, Standard & Poor's
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Just as many express gratitude in their personal lives, the holidays are a good time to do so in our investing and financial lives. This is important because investors tend to focus only on what can go wrong. Even after two strong market years, there is no shortage of concerns on issues such as market fundamentals, the direction of the economy, the size of the national debt, global instability, and more.

While past performance is no guarantee of future success, what history shows is that staying focused on the long run is the best way to achieve financial goals. Over the course of days, weeks and months, markets can fluctuate significantly just as

they did in April and August, or in 2020 and 2022. However, over longer time horizons, markets

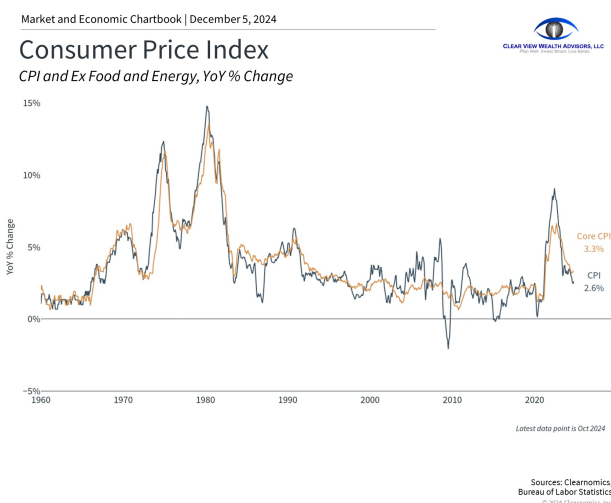
have tended to rise due to the strength of economic growth. What can investors pause to appreciate this holiday season?

First, the U.S. stock market has demonstrated impressive strength in 2024. This is due to robust corporate earnings, better-than-expected economic conditions, and improving investor confidence. The accompanying chart shows that except for one quarter, the last two years have experienced steady market returns. While technology and AI stocks have led the way, many other sectors have contributed this year. In fact, most parts of the market are positive year-to-date, and eight of the eleven S&P 500 sectors have generated double-digit returns.

The strong bull market since the end of 2022 does mean that valuations are no longer as attractive. The price-to-earnings ratio for the S&P 500 is now 22.3, nearing both recent highs and the dot-com peak of 24.5.

Rather than a reason to avoid the stock market, stretched valuations are a reminder to hold a properly constructed portfolio. Owning stocks, or any risk asset, needs to be balanced with asset classes such as bonds to achieve portfolio goals. The end of the year is a perfect time to review your asset allocation, especially after this year's market movements.

Inflation is returning to normal levels

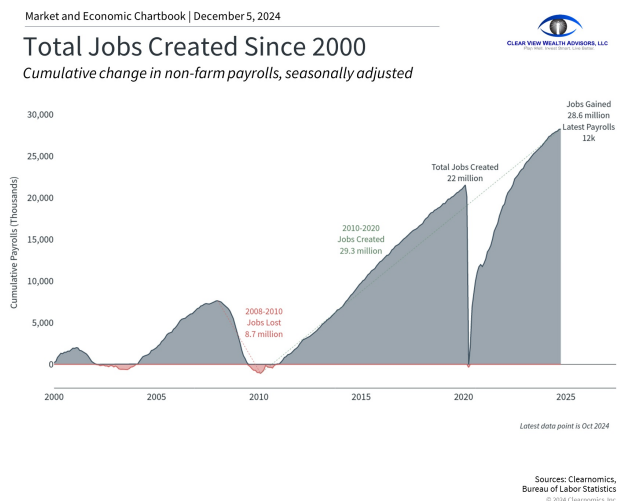


Second, investors can be thankful that inflation rates have slowed to pre-pandemic levels. While this does not mean that prices will fall for most everyday necessities, including food and rent, it is a positive sign, nonetheless. This is especially true for investment portfolios since they are sensitive to interest rates, which are directly affected by inflation.

Normalizing inflation has allowed the Federal Reserve to begin cutting policy rates for the first time since early 2022. Much of this year's stock market volatility was the result of investors guessing when and by how much the Fed would do so.

In the end, trying to determine the exact timing was far less important than understanding the general trend of lower short-term interest rates. Thus, for investors with long time horizons, constructing a portfolio based on these factors, rather than the trends that have driven markets over the past several years, is more important than ever.

The economy and job market remain strong



Finally, for everyday individuals, there is perhaps nothing more important from an economic standpoint than the strength of the job market. The fear as the Fed raised rates was that the economy would face a “hard landing” – i.e., bringing inflation down would cause a collapse in hiring.

Fortunately, this did not occur. Unemployment is still near historically low levels and job gains have been steady. Wages have also risen, although not as fast as overall inflation. The accompanying chart shows that the economy has created 28.6 million new jobs since the pandemic, far eclipsing the previous level. While job gains differ from sector to sector, this

means that many consumers are in a healthy financial position.

More broadly, the U.S. economy continues to demonstrate remarkable resilience, with real GDP growing at an annualized rate of 2.8% in the most recent quarter. This is largely due to the strength of consumer spending, which has contributed greatly to overall growth. While this can’t last forever – consumers have largely spent their excess savings from the past few years and debt levels are rising – the hope is that lower rates, clarity around tax policy, and increased business investment will continue to support the economy.

The bottom line? Markets never move up in a straight line, and this year was no exception. Still, returns have been historically strong despite periods of volatility. This holiday season, investors should focus on the positives and ensure that their portfolios are aligned with their long-term financial goals.

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