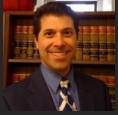


Market Perspectives After a Nervous Start to 2025



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

January 17, 2025

The stock market has struggled in recent weeks as concerns have grown around interest rates, market valuations, the direction of the economy, and more. Since the market peak on December 6 last year, the S&P 500 has pulled back 4.3% while the 10-year Treasury yield has climbed from 4.15% to 4.76%.

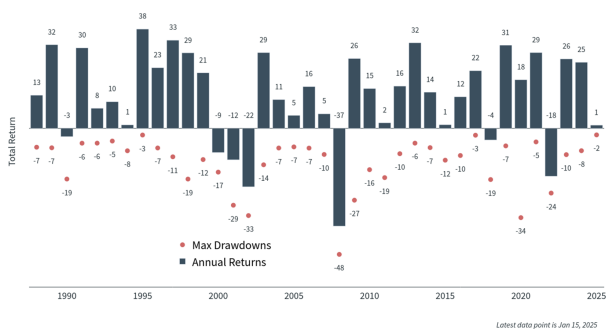
This market decline reflects a natural adjustment as investors digest new economic data. The recent jobs report for December was stronger than expected, which means the economy may need less support from the Fed in the form of lower interest rates. At the moment, the market believes the Fed will cut rates just once in 2025, and that this may be the final cut of the cycle. However, these expectations can shift quickly, as they did throughout 2024.

Market volatility is normal and expected after two strong years



Total Returns and Pullbacks

S&P 500 Index total returns. Max drawdown represents the biggest intra-year decline



Latest data point is: Jan 15, 2025

Sources: Clearnomics, Standard & Poor's
© 2025 Clearnomics, Inc.

This is where setting the right expectations is necessary. While market declines can be unsettling, it's important to remember that there have only been a handful of trading days this year and a lot can happen in the coming months. Markets also began last year with a brief pullback that then gave way to a long rally. While the past is no guarantee of the future, long-term investors should not overreact to a few days of market uncertainty. If anything, this beginning-of-year volatility may present opportunities to review and rebalance portfolios according to long-term financial goals.

It's important to keep in mind that markets have been relatively calm over the past two years as major indices have climbed to new record highs. As the accompanying chart shows, last year's largest decline for the S&P 500 was only 8%, which is low by historical standards.

History shows that almost every year experiences several market pullbacks. Markets tend to recover quickly from these short-term declines, so trying to time them often backfires. This is why, for investors with longer time horizons, it's often better to simply stay invested. Investors who stayed in the market over the past several years, despite the pandemic, inflation, Fed rate hikes, geopolitical conflicts, and other issues, have come out ahead.

The Magnificent 7 have propelled U.S. stocks to new heights



Magnificent 7 Performance

Meta, Amazon, Apple, Alphabet, Nvidia, Microsoft, and Tesla. Simple equal-weighted performance versus the S&P 500 and Nasdaq Composite, since 2020



Latest data point is: Jan 15, 2025

Sources: Clearnomics, Standard & Poor's, Nasdaq, S&P 500
© 2025 Clearnomics, Inc.

Another concern among investors is whether the rally in technology and artificial intelligence stocks is sustainable. Investors often focus on the so-called "Magnificent 7" – seven technology stocks that have benefited from trends in AI. They have been at the heart of the broad market's strong performance: as a group, these stocks have soared 250% since the beginning of 2023, and nearly 500% since 2020.

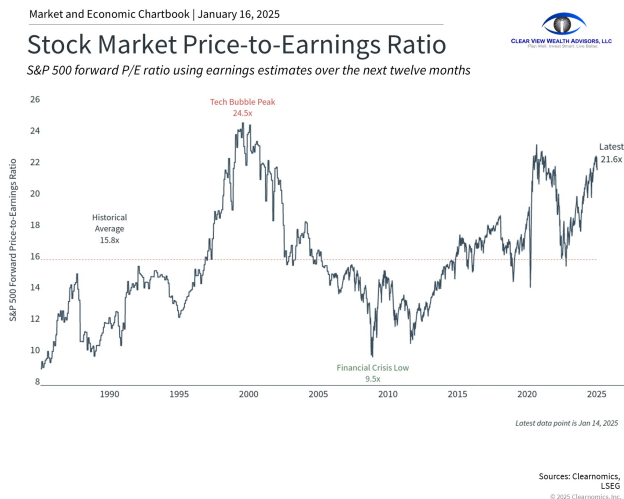
Despite the Magnificent 7's rally and the ongoing importance of AI, investors should maintain a broader perspective. In 2022, during a period of rising rates and economic stress, technology and growth stocks were the hardest hit. This is because the value of these stocks depends greatly on expected earnings and cash flows far into the future. So, when interest rates go up, the value of these future cash flows can decline, leading to a setback in stock prices.

Another risk for investors is that, because the S&P 500 is weighted by the size of companies,

stocks like Nvidia that outperform can become overweighted in investment portfolios. Investors may find that they are less diversified than they would like, or that their portfolios are far more sensitive to the movements of just a few stocks.

This is not a statement of whether the Magnificent 7 will or won't continue to perform well. Instead, it's a reminder that investing is not about making a few concentrated bets; it's about constructing an appropriate portfolio that is aligned with long-term financial goals, ideally with the guidance of a trusted advisor.

Valuations are historically high



Perhaps the most significant difference investors face this year is that stock market valuations are well above average. As the accompanying chart shows, the price-to-earnings ratio for the S&P 500 is 21.5x, near its highest level in recent years and not far from the all-time peak of 24.5x during the dot-com bubble. In fact, some investors wonder if there is a market bubble today, or at least one in AI stocks.

A high price-to-earnings ratio means that investors are paying more for every dollar of earnings than in the past. This means that future returns may be lower, or equivalently, that markets have gotten ahead of future returns. The key question is whether the underlying economic and market fundamentals are healthy, or if the market rally is built on a house of cards as it was in 2000 or 2008. Today, the economy is still growing steadily, the job market is strong, and the companies with the most enthusiasm have robust earnings.

When valuations are high, the solution is not to avoid stocks altogether. Instead, it's to stay balanced across different parts of the market that can outperform at different times. These might include sectors beyond Information Technology and Communication Services, and also investment styles such as value, small caps, or other uncorrelated opportunities. The key is to hold a portfolio that is appropriate for your specific financial goals.

The bottom line? While the stock market has struggled in recent weeks, investors should not overreact. Instead, it's important to maintain a balanced portfolio that can withstand short-term uncertainty, while supporting long-term financial goals.

Steve's View ...

Portfolio Allocation:

The Outlook:

What does this mean for investor portfolios? I think that it's fair to assume that past equity performance may not continue at the pace it had in 2024. Equity markets have relied on the performance of a small handful of stocks. While performance has been broadening slightly to additional names, it still is dominated by the Magnificent 7. Lofty price-earnings ratios imply future returns to average 3%. Publicly traded bonds offer tight spreads between short- and long-term maturities. Fed rate cuts may not generate the kind of gains from already issued bonds that investors may want. And there is the potential for higher inflation as new fiscal, tax, tariff, and immigration policies may be implemented. This may well limit the Fed to two rate cuts, at most. Eventually, higher inflation will likely lead the Fed to change course and increase rates. Higher interest rates will likely be detrimental to growth stocks and specifically high tech stocks.

Next Steps - More Diversification with Alternatives and Increased Cash Levels:

With the prospect that future real returns (i.e. above inflation rates) may not be robust and may

even disappoint in the near term, I believe that portfolios will be better positioned and more resilient when adding more alternative assets that may not react in the typical way as stocks and bonds. This is why I continue to recommend inflation-protected US Treasury securities, high-quality short-term corporate bonds, and even commodities (including gold). To help insulate a portfolio from near-term volatility, portfolios should include alternatives like "defined outcome" or "buffer" ETFs that absorb 15%, 20% or more of any decline in stock and bond markets. Selective use of "managed futures" may also help mitigate near-term market corrections. Almost all investors will benefit from the better value from private credit and private equity now available in ETFs and "interval" mutual funds. Finally, I recommend a higher allocation (up to 10% depending on risk tolerance) to cash or near-cash investments for the near term as the market and consumers adjust to new policies from an incoming Administration.

Links to Market Commentary:

For more detailed market commentary and economic insights, visit the Clear View Wealth Library found at www.ClearViewWealthAdvisors.com or www.TaxWealthNetwork.com under the "Smart Money Insights" and "Steve's Market Insights" tabs.

* <https://www.taxwealthnetwork.com/blog>

* <https://www.taxwealthnetwork.com/steves-market-insights>

Information provided in these materials has been drawn from resources deemed reliable. Clear View Wealth Advisors, LLC ("RIA firm") and Steve Stanganelli, CFP(r) ("Advisor") may provide additional commentary accompanying the materials. Any commentary by the source materials may differ from opinions expressed by the Advisor or RIA firm. Commentary and opinions of the Advisor and RIA firm are provided in good faith.

Chart books, newsletters, and related materials are distributed for general informational and educational purposes only and are not intended to constitute legal, tax, accounting or investment advice. All investments involve risk, including loss of principal, and past performance of a security, cryptocurrency, financial product, or strategy does not guarantee future results. Neither the RIA Firm nor the Advisor represent that the securities, cryptocurrencies, products, or services discussed in any of these materials or related websites are suitable for any particular investor. You are solely responsible for determining whether any investment, investment strategy, security, cryptocurrency, or related transaction is appropriate for you based on your personal investment objectives, financial circumstances and risk tolerance. You should consult your business advisor, attorney, or tax and accounting advisor regarding your specific business, legal or tax situation.

Any investments or strategies mentioned may not be suitable for all investors. Investors should consider the investment objectives, risks, and charges and expenses of any investment before investing. Investors are advised to consult with their financial and/or tax advisors and refer to any prospectus for any investment.

Copyright (c) 2025 Clearnomics, Inc. All rights reserved. The information contained herein has been obtained from sources believed to be reliable, but is not necessarily complete and its accuracy cannot be guaranteed. No representation or warranty, express or implied, is made as to the fairness, accuracy, completeness, or correctness of the information and opinions contained herein. The views and the other information provided are subject to change without notice. All reports posted on or via www.clearnomics.com or any affiliated websites, applications, or services are issued without regard to the specific investment objectives, financial situation, or particular needs of any specific recipient and are not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. Past performance is not necessarily a guide to future results. Company fundamentals and earnings may be mentioned occasionally, but should not be construed as a recommendation to buy, sell, or hold the company's stock. Predictions, forecasts, and estimates for any and all markets should not be construed as recommendations to buy, sell, or hold any security--including mutual funds, futures contracts, and exchange traded funds, or any similar instruments. The text, images, and other materials contained or displayed in this report are proprietary to Clearnomics, Inc. and constitute valuable intellectual property. All unauthorized reproduction or other use of material from Clearnomics, Inc. shall be deemed willful infringement(s) of this copyright and other proprietary and intellectual property rights, including but not limited to, rights of privacy. Clearnomics, Inc. expressly reserves all rights in connection with its intellectual property, including without limitation the right to block the transfer of its products and services and/or to track usage thereof, through electronic tracking technology, and all other lawful means, now known or hereafter devised. Clearnomics, Inc. reserves the right, without further notice, to pursue to the fullest extent allowed by the law any and all criminal and civil remedies for the violation of its rights.

