

January 2025

After an excellent 2023 for investors, it was hard to expect we'd see another banner year for stocks in 2024, but that's exactly what the year delivered.

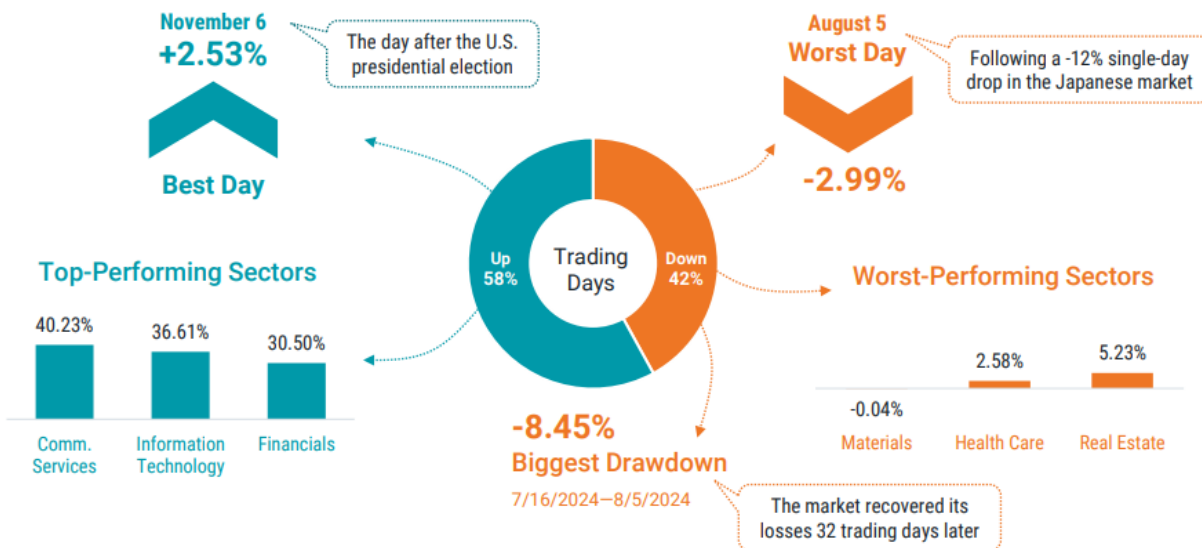


Chart Source: Avantis Investors. Data from Bloomberg & Avantis Investors, 1/1/2024 – 12/31/2024

The S&P 500 returned a little over 20% in 2024 under the backdrop of war in the Middle East, a volatile U.S. presidential election cycle, stops-and-starts with interest rates, devastation from multiple U.S. natural disasters, government shutdowns, and the dockworkers' strike. If we had known about everything that happened in 2024 ahead of starting, would you have still been optimistic about stocks? I'd say that would be pretty unlikely.

Now today, whether due to high current valuations, anxieties over economic policy under the Trump administration, or a variety of other things we can spend time worrying about, pessimistic market predictions are once again front-page news. Per a Morningstar article last week, BlackRock, JPMorgan, Vanguard, and Schwab all predict sub-7% returns for U.S. large companies for 2025. Depending on your preferred flavor of research, an investor could come away from this information with emotions ranging between apathy and outright panic.

We'll always be the first to say there's no crystal ball in the investment world. You may think that the people and institutions armed with rosters of highly compensated analysts would have a leg-up on forecasting, but their efforts rarely seem to bear fruit.

Let's take a look back at how the market analyst world felt about 2024 at the beginning of last year:

Equity Analyst Predictions vs. Actual – S&P 500, Calendar 2024

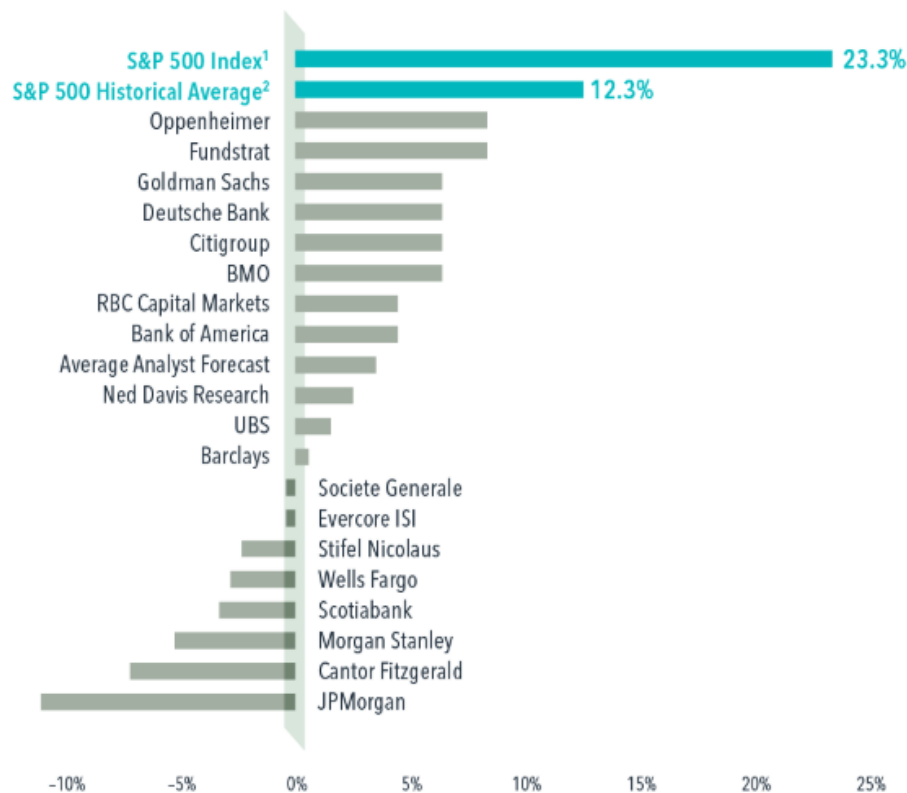


Chart Source: Dimensional Fund Advisors

The entire industry predicted returns well below historical averages, with many assuming negative returns were to greet us in 2024. As we now know, the S&P 500 instead nearly doubled its average historical one-year return. This is once again your annual reminder to not base investment strategy decisions off of forecasting.

Fixed Income

While stocks carried 2024, bonds detracted from investor portfolios. The Federal Reserve's guidance in the last few months of the year suggests that interest rates may stay higher for longer than what investors expected earlier in the year. As a result, bond valuations declined.

However, the real story for bond portfolios can be observed in the changes to the yield curve. We had spent the better part of two years with an inverted yield curve. This has meant that investors have been able to earn more from shorter-term bonds than longer-dated bonds. Typically, this is seen as a bad signal for the economy, as investors are not being compensated well for taking duration risk in the market.

United States Treasury Yield Curve

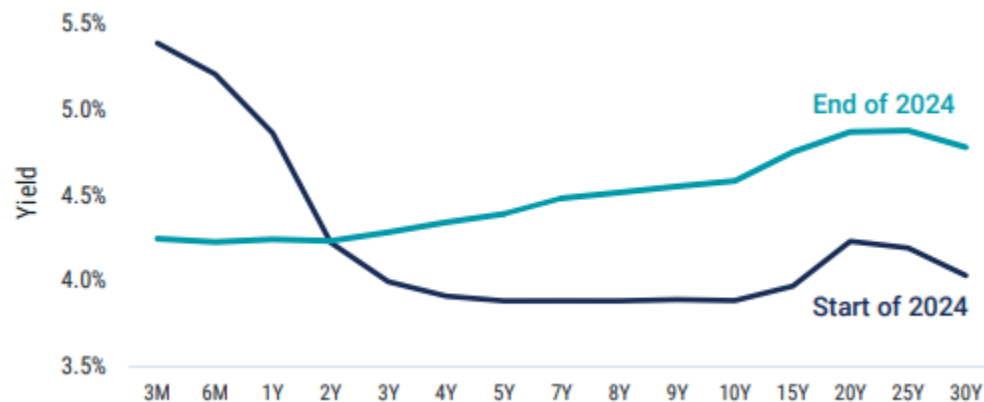


Chart Source: Avantis Investors. Data Source : Bloomberg, 12/31/2023 – 12/31/2024.

Now, as we enter 2025, we have a “normal” yield curve. For investors today, the attractive rates that could be earned on short-term Treasuries and money market funds have declined. Higher yields can now be earned for extending duration. This also provides opportunities to take advantage of expected price appreciation (i.e., if bond yields go down as bonds mature, their prices will go up).

Of course, much like our comments when discussing stocks above, expecting things to work out exactly like the forecasters say is a recipe for disappointment. At the end of the day, we don’t know where 2025 will take us. What we are confident in is the execution of a sound, disciplined investment strategy for our clients that allows our clients to live with the ups and downs of the market.

In the past five years, we’ve had a healthy dose of what an unkind market can deliver. There have been two major market declines: a flash crash in 2020 at the onset of COVID-19 and a sustained, nearly year-long slog downward across most of 2022. If investors even remember these periods, it’s just a blip in the long-term journey of their portfolios.

In Memoriam

It is with deep sadness that we announce the passing of Derek’s father, Francis Johnson, who passed away on Christmas Day at the age of 82 following a courageous battle with cancer. Francis was a man of great strength, wisdom, and integrity, and his influence on Derek—both personally and professionally—was profound. During this difficult time, our thoughts are with Derek and his family as they grieve their loss and cherish the legacy Francis leaves behind.

Past performance is no guarantee of future results.

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