

MONTHLY VIEWPOINT

OUR CURRENT VIEW ON MARKETS
AND THE ECONOMY

JANUARY 2025



FORWARD
WEALTH MANAGEMENT

BIG THOUGHT

Where goes the market in 2025? No doubt much will be said and written on this topic this month as investors seek to gaze down the road ahead. Stepping back, we can see high levels of optimism on the part of investors on display, look no further than the S&P 500 itself. However, looking across our dashboard of indicators, a much less clear picture emerges. Sure, markets finished over +20% in the last two years for the first time since 1995-1996. But those returns are now history and investors are paid for tomorrow's growth, not yesterday's. And today's price relative to tomorrow's expected (read potential, not promised) earnings are at historically high levels (See "Chart of the Month"). On top of that, looking at the internal price action of markets by evaluating the strength of each day's close, we see evidence large investors are leaving the party. But the underlying economy finished the year strong, credit markets are open, and AI shows us a path for a sustained level of increased productivity and vibrant growth. This year, we'll be looking for the market to deliver on this positive trend, but we won't fool ourselves into thinking investments are without risks.

DASHBOARD

-  Valuation
-  Trend
-  Economy
-  Inflation
-  Money Flow
-  Credit

BULLISH

- Real GDP remains robust
- Credit markets are supportive to debt issuance
- Investors are exhibiting risk-seeking behavior
- Application of AI seen as pathway to increase productivity

BEARISH

- Narrow market leadership shows participants "herding" in top performing stocks
- Market valuation at levels last seen in 2000
- Big institutions selling (Negative Money Flow)
- US Debt levels unsustainably high. Low and stable interest rates needed for debt financing

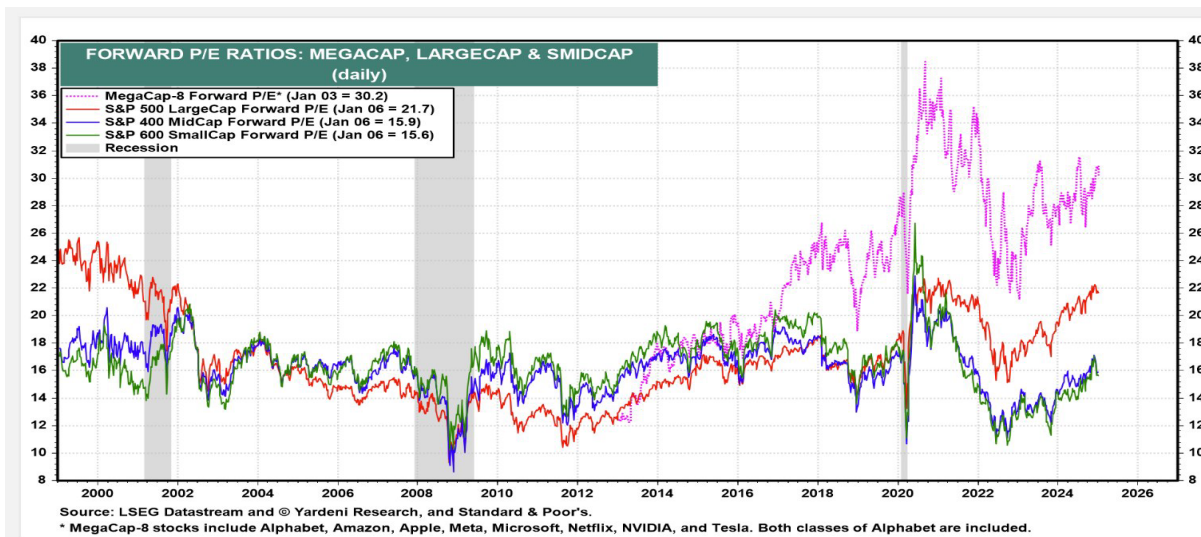
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CHART OF THE MONTH



This chart, going back to 2000 shows valuation levels (y-axis: low is cheap and high is expensive) over time (x-axis). It's been said that valuation is the closest thing to a law of gravity in investing. LargeCap (Red), MidCap (blue), and SmallCap (green) valuation levels track within an upper and lower range except for two periods of extremes-- 2000 and today. Today's largest of the LargeCaps, the MegaCaps (pink) are truly something to behold. The collective size of the top seven stocks, or Mag7, approximates the Japanese, UK and Canadian economies combined. In 2024, these stocks generated 33% earnings growth, compared to 3% for the remaining 493 stocks in the S&P 500. But now at over 30x forward earnings, they appear to be defying gravity! So, a significant driver of returns in 2025 will be how growth rates across these market segments play out. MegaCaps have been growing significantly faster, but can they continue this level of outperformance? If not, other parts of the markets will outperform, leaving the MegaCaps vulnerable for a fall back toward Earth!

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