2024 Year In Review

TURTLE CREEK
WEALTH ADVISORS

Robust earnings growth and lower Fed Funds rates drive stocks to a second year of 20%+ gains

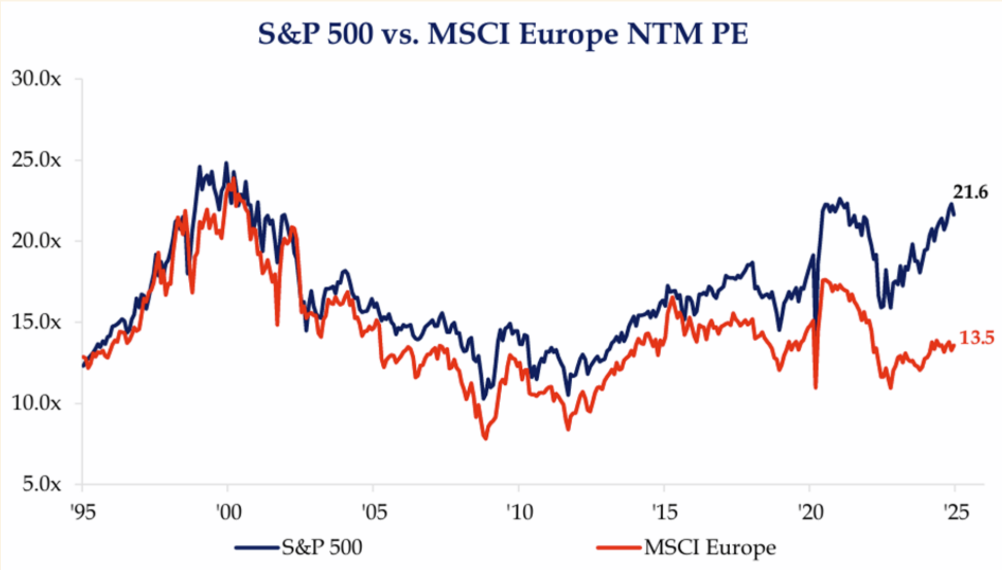
Index	MTD	QTD	2024	2023	2022
S&P 500	-2.38	2.41	25.02	26.29	-18.11
Dow Jones Industrial Average	-5.13	0.93	14.99	16.18	-6.86
Russell 2000	-8.26	0.33	11.54	16.93	-20.44
NASDAQ Composite	0.55	6.35	29.57	44.64	-32.61
Europe, Australia, & Far East (EAFE)	-2.25	-8.06	4.35	18.85	-14.05
MSCI Emerging Markets	-0.09	-7.84	8.05	10.27	-19.78
Bloomberg Barclays U.S. Aggregate Bond	-1.64	-3.06	1.25	5.53	-13.04

As of 12.31.24; Returns in percent

FINANCIAL MARKET PERFORMANCE

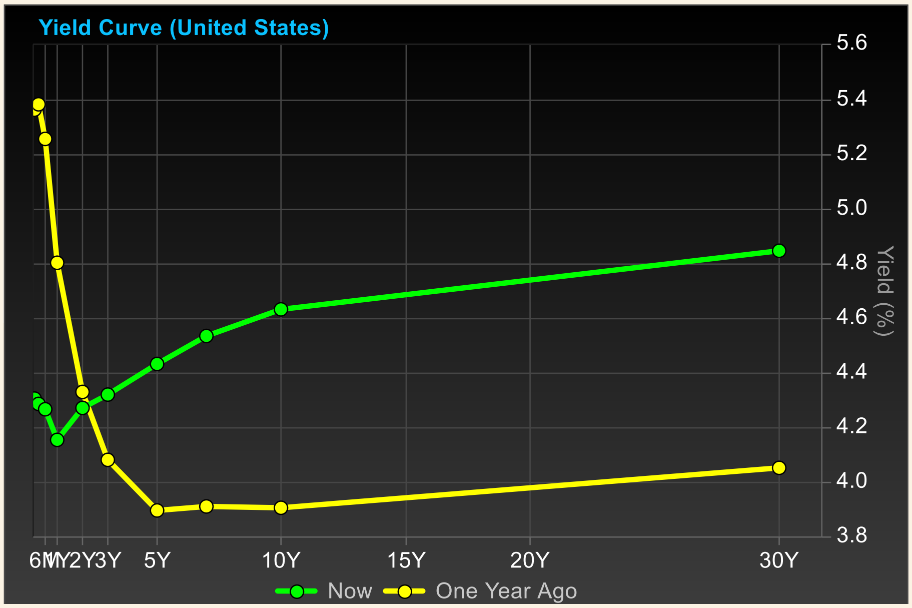
Another year, another 20% + stock market gain, right? Even though it's a rare trend, 2024 saw major US equity indices produce a second consecutive year of strong double digit results. The S&P 500 surged 25.0%, marking its first back-to-back 20%+ gains since 1998, while the Nasdaq Composite climbed an impressive 29.6%. These results were driven largely by the "Magnificent Seven" (Mag 7) mega-cap tech stocks, which collectively soared 48.0%. Notable performers included Nvidia (+171.2%), Tesla (+62.5%), Amazon (+44.4%), and Meta (+66.0%). The broader equal-weight S&P 500, less influenced by the Mag 7, rose 13.0%, reflecting a more tempered market performance. The optimism around Artificial Intelligence (AI) drove the results of many of the Mag 7 companies, in addition to outsized earnings growth. In fact based on Refinitiv data, the Mag 7 earnings grew by 54.2% y/y for the 12 months ended 9-30-24 while the rest of the S&P 500 earnings contracted –1.7% over the same time period. The small cap focused Russell 2000 gained only 11.5% for the year, and suffered an 8.3% loss in the month of December. Small caps underperformed due to such companies being more interest rate sensitive, and the index not benefitting from the Mag 7 effect.

Foreign equities produced much more modest gains than US equities, with the MSCI EAFE index gaining only 4.3% and the MSCI Emerging Markets Index rising by 8.1%. The strong US Dollar coupled with concerns over European and Chinese economic growth were headwinds for foreign equities in 2024. As a result, US equities have become much more expensive than developed foreign equities on a Price/Earnings basis (graph on next page).



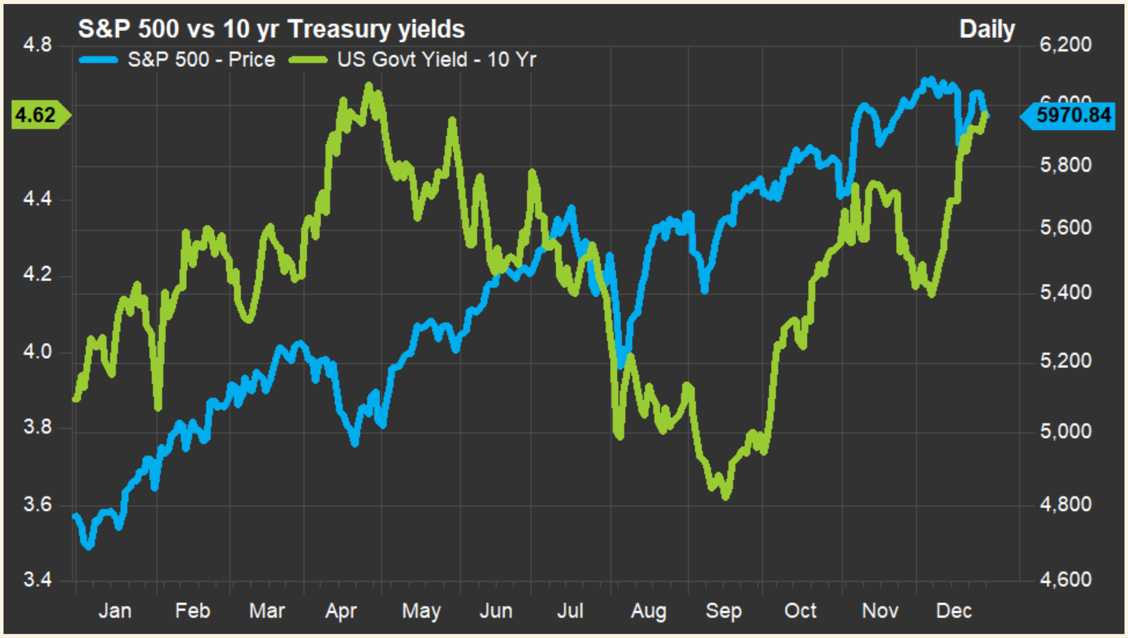
Source:Strategas; As of 12.31.24

Bonds had a rough year, with the Bloomberg US Aggregate Bond Index rising only 1.3%. Volatile interest rates (see below) were a big factor driving the weak bond returns, as the 10 year Treasury yield rose by 72 bp while the 3 month Treasury yield fell by 109 bp. The rate volatility was a function of changing expectations of how aggressively the Fed would cut the Fed Funds rate in 2024 and 2025 as well as stronger economic growth than anticipated. At one point investors believed the Fed would enact as many as 10 -12 quarter point rate cuts between Sept 2024 and Dec 2025. However, buoyant economic growth, strong employment, and sticky inflation has altered that expectation to the point where only another 2 cuts (on top of the 4 already made in 2024) are now expected this year. Another factor driving rates higher is the concern about further deficit spending ahead and the need for additional Treasury debt issuance needed to fill the gap.



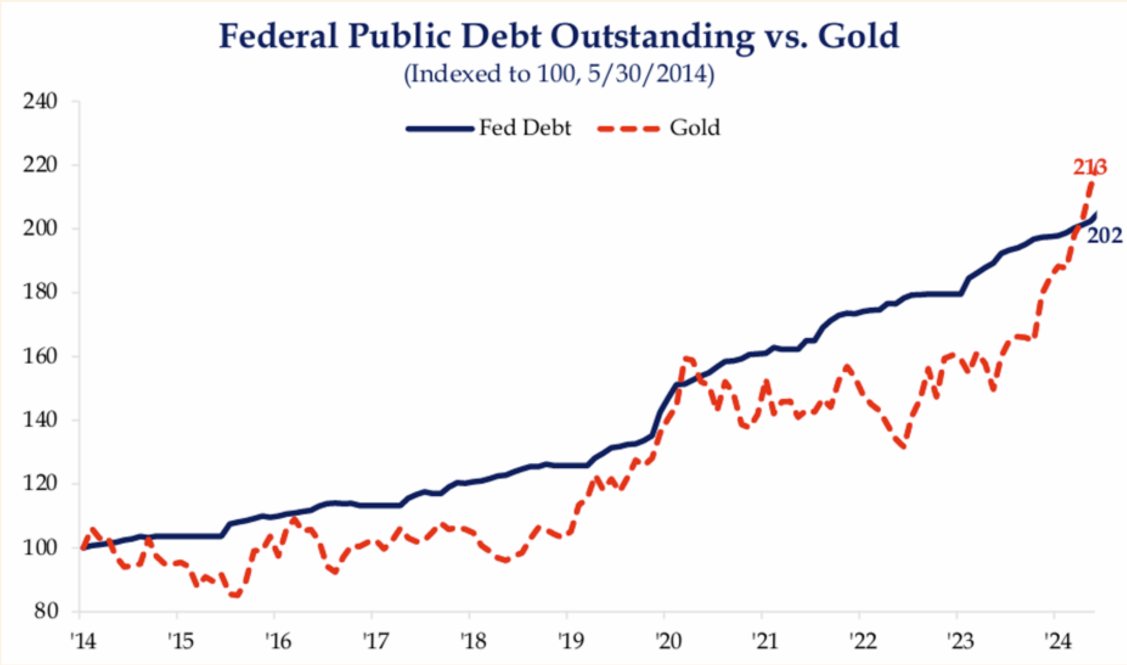
Source:FactSet; As of 12.31.24

Despite the negative impact on bonds, rising interest rates did not have a material impact on stocks. In fact, the normal inverse correlation between stock prices and interest rates did not hold during most of 2024. However, we see higher rates being a potential headwind for stocks in 2025, especially for many of the mega cap Technology names that drove performance in 2024



Source: FactSet; As of 12.31.24

As previously noted, the US dollar was stronger amid resilient US growth (and thoughts the Fed will need to be more cautious with rate cuts) as the key dollar index rose 7.0% after falling 2.1% in 2023. Gold rose 27.5%, logging its best year since 2010 and hitting an all-time high just above $2,800/oz on October 30th as fears of continued inflation and US fiscal health/rising debt pushed investors to seek alternatives to the dollar (see charts below). Speaking of dollar alternatives, Bitcoin futures were up 120% during the year, boosted by some crypto optimism about the incoming Trump administration. Oil prices were stable, with WTI crude was up just 0.8% in 2024. While WTI pushed near $90/barrel in the spring, prices over the final quarter of the year remained in a fairly narrow channel (in the $70-$75 range) as the market debated prospects for both softening China demand and a potential global supply glut.



Source: Strategas as of 12.31.24

Time Required to Reach Total U.S. Debt Levels

Source: FRED, Strategas, Data as of 12/31/24

Of:	
$10 Trillion	232 Years
$20 Trillion	9 Years
$30 Trillion	4.5 Years
$31 Trillion	8 Months
$32 Trillion	8 Months
$33 Trillion	3 Months
$34 Trillion	3 Months
$35 Trillion	7 Months
Latest Level	***$36.15 Trillion***

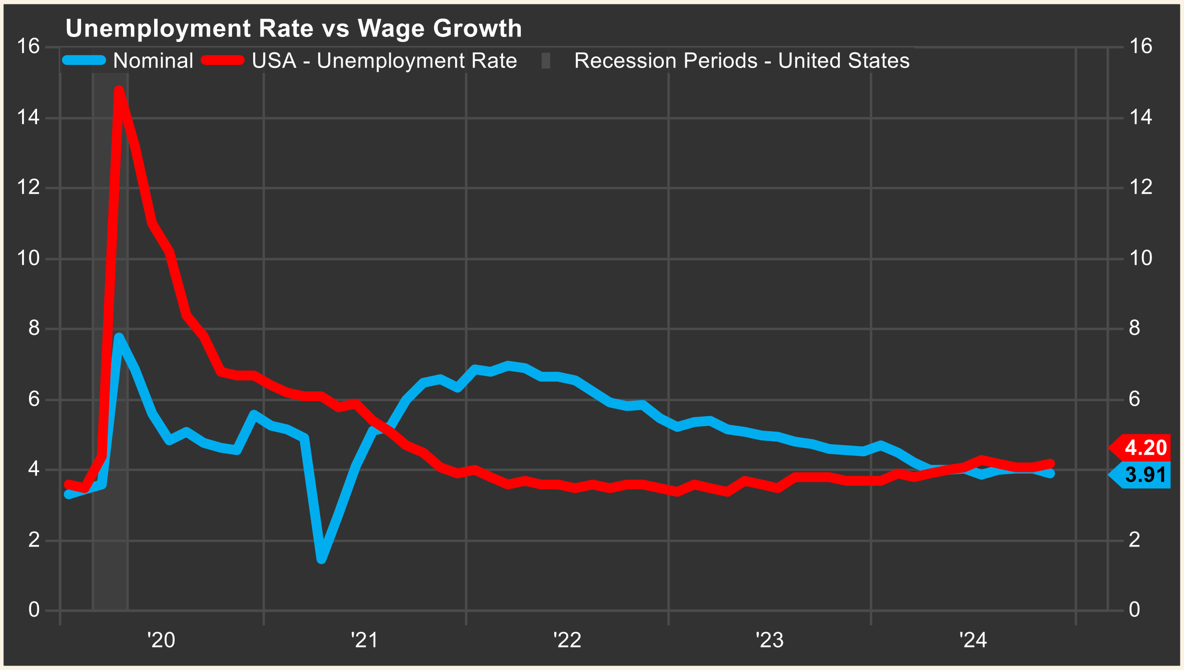
Six months on average to reach each additional trillion in debt from $31 - $35.

Source:Strategas; As of 12.31.24

2024 PERFORMANCE DRIVERS

1. The year's economic data largely confirmed soft-/no-landing economic hopes:

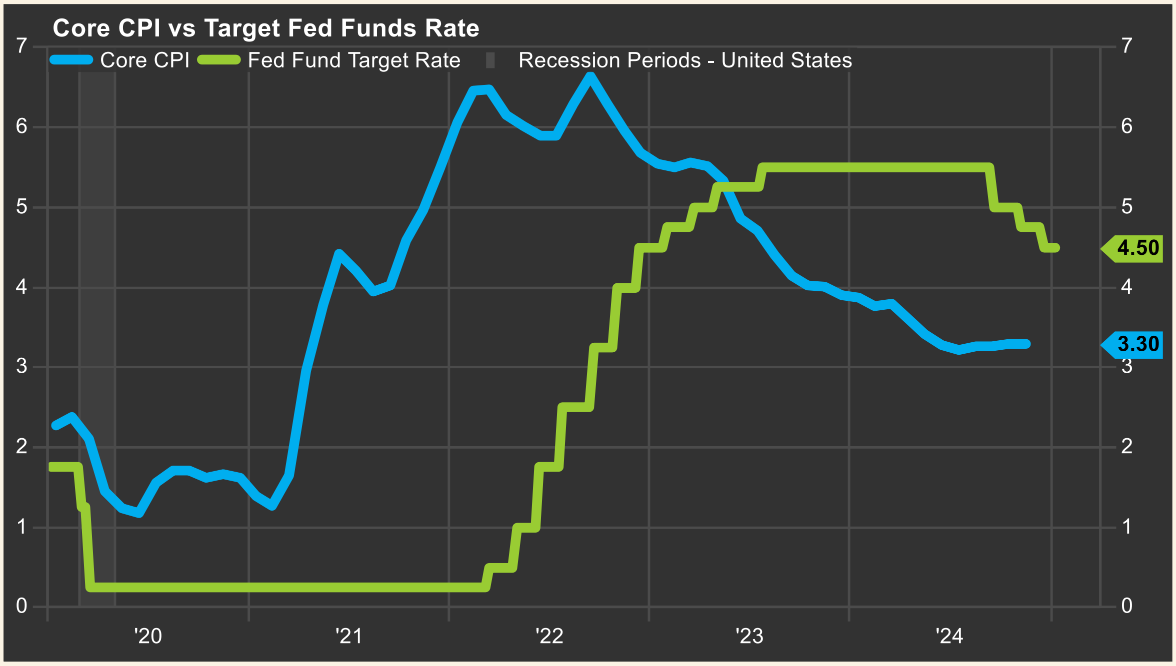
Economic growth, job creation, consumer spending, and disinflation continued to make progress through 2025, though that progress was sometimes uneven. 1Q US GDP was reported at 1.6%, the lowest since 2Q22, but 2Q came in at 3.0% and 3Q at 3.1%. Employment grew by nearly 2 million jobs for the 11 months through November, though the unemployment rate moved up to 4.2% vs the 3.7% rate in December 2023 – still a very healthy level and indicative of an economy at full employment. Retail sales remained solid, while some post-Christmas headlines also suggested a stronger-than-expected holiday shopping season. Core CPI was up 3.3% y/y in November vs last December's 3.9%, a meaningful deceleration. There has been some concern about "sticky" housing prices, though these too have been easing (+4.8% y/y in November vs last December's +6.2%). That said, there has remained some focus on the health of the labor market (continuing jobless claims have risen to three-year highs) and its potential impact on consumer spending, one of the biggest drivers of recent economic growth. However, the continued health of the job market despite the Fed's aggressive monetary tightening campaign from early 2022 to mid-2023 is very impressive (see chart below).



Source: FactSet; As of 12.31.24

2. Fed holds, then eases, then signals patience:

A big question at the start of the year was when the Fed would begin reducing the Fed Funds rate from the 5.50% peak it had held since August 2023. Hotter-than-expected inflation data in Q1 added complexity to the debate, as Fed officials signaled a desire for stronger assurance that inflation was on a sustainable path back to the 2% target before initiating rate cuts. By summer it seemed clearer that the disinflationary narrative remained intact; moreover, there were emerging worries about potential cracks in the labor market. September's FOMC led off with a 50bp cut, followed by 25bp each in November and December. But at the same time, continued strong employment and sticky inflation caused investors to remain concerned about both the pace and the eventual stopping point, i.e. terminal Fed Funds rate. Those fears were realized in December when hawkish Fed meeting comments (and an updated projection of future cuts) led investors to expect the Fed to pause in January and possibly cut only one or two times, i.e. 25-50bp, for the whole of 2025. Although this was initially perceived negatively, and resulted in a stock market downturn in December, it ultimately signals a healthy economy not in danger of a near term recession.



Source: FactSet; As of 12.31.24

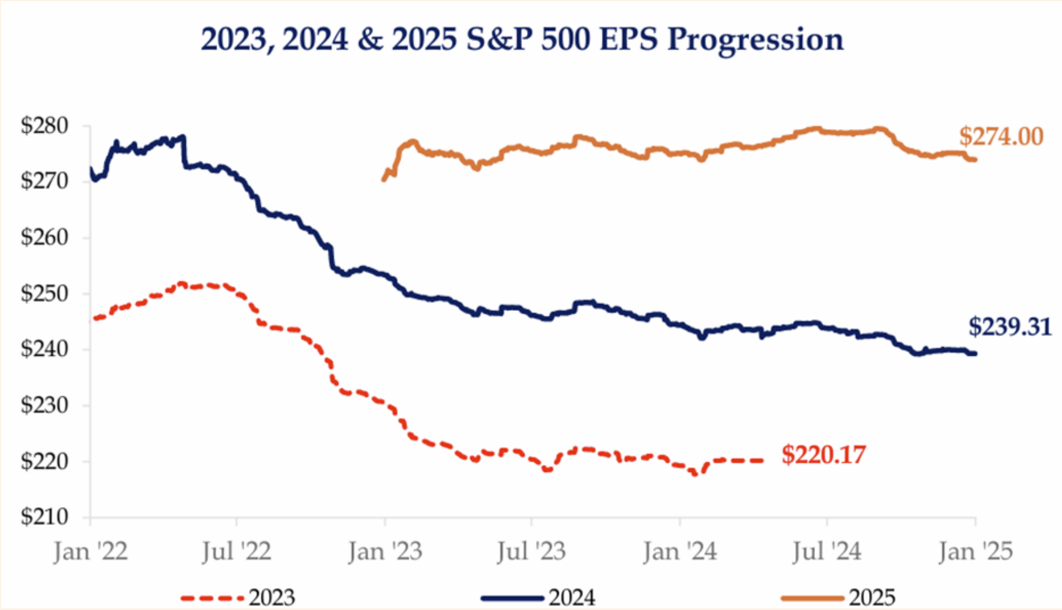
3. Market generally positive on Trump's election:

The US presidential election also turned out to be a meaningful factor in the year's performance. Early expectations for an easier road to reelection for the incumbent were challenged by a poor performance by Biden in the first debate, magnifying calls for him to step aside in favor of a new candidate. However, VP Kamala Harris, endorsed by Biden and nominated by the Democratic convention, failed to gain enough traction with the electorate to top Donald Trump, who ultimately secured a majority of the electoral votes as well as the popular vote. Republicans also secured narrow majorities in both the House and Senate. The market's initial reaction was positive, with both the S&P and the Russell 2000 logging their best monthly performances of 2024 during November amid optimism about possible individual/corporate tax cuts and deregulation (potentially positive for themes such as M&A, energy production, and crypto). Nevertheless, a narrowly averted government shutdown in December raised questions about how effectively Trump will be able to use his congressional majorities. There are also concerns about tariffs stalling progress on inflation and how much impact a widening deficit could have on the Treasury market.

4. Corporate earnings keep growing (though with a lot of help from Big Tech/Mag 7):

Importantly, US corporate earnings continued to grow meaningfully in 2024. S&P 500 constituents posted average y/y earnings growth of 5.8% in 3Q, which was the fifth consecutive quarter of positive earnings growth, while S&P companies are expected to grow earnings by 9% for the full year of 2024. That said, as previously noted, significant concentration was on display with the Mag 7 companies accounting for a disproportionate share of earnings growth, at roughly 25% of the total. At the same time, corporate commentary was often somewhat guarded this year, with businesses noting more price-sensitive consumers, pressures from still-high interest rates, higher labor-market costs (and cautious hiring), and election uncertainties while also often expressing optimism about demand prospects.

With another heavy contribution from the Mag 7, S&P 500 earnings are expected to again outpace long-term averages and grow by 15% in 2025.



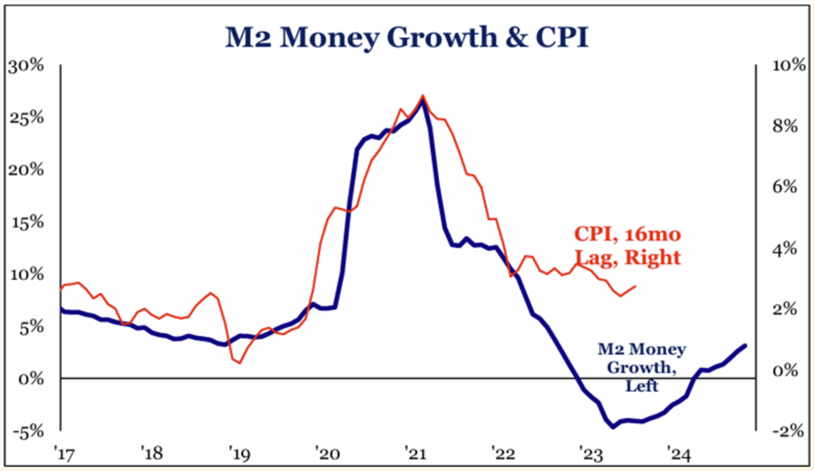
Source: Strategas; As of 12.31.24

2025 OUTLOOK

We expect a positive year broadly for stocks in 2025, but certainly not another 20%+ year. Much of the market's return will depend on whether we can achieve the double-digit earnings growth currently expected by Wall Street analysts. Another key factor will be the sustained growth and rising demand for Artificial Intelligence (AI) technologies. Additionally, the success of President Trump in implementing proposed policies —particularly extending current personal tax rates and potentially reducing corporate tax rates — will play a crucial role. Finally, there will be much attention paid to the Fed and the number of times they cut the Fed Funds rate. We'd prefer them to move slowly (current expectation is for 1-2 cuts this year) because this will be indicative of a healthy economy that can produce double digit earnings growth. However, there are many investors who still yearn for the ultra-low Fed Funds rates of the prior cycle and will be disappointed with a terminal rate in the 3.25% to 3.50% range.

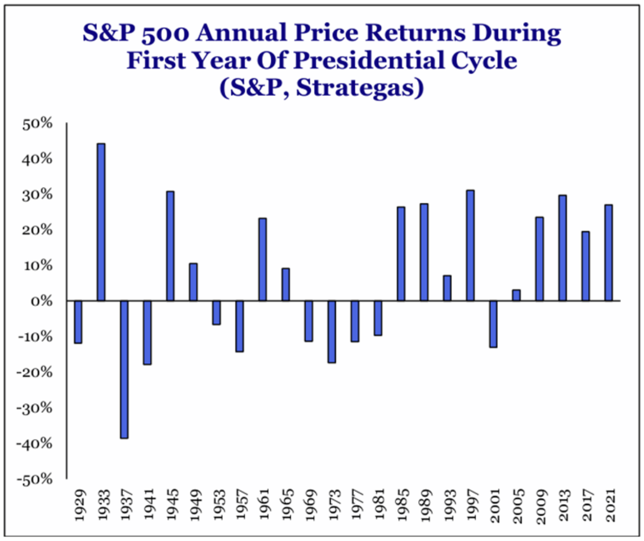
We also think bonds and private alternatives will be attractive investments in 2025. Continued high levels of liquidity, and stretched public equity valuations, support private alternatives, whereas a stable level of interest rates that remain in a range that produces meaningful income is positive for bond investors.

However certain risks remain and we need to be cognizant of them. First is the potential for a **rebound in inflation**. Inflation has historically come in waves and is largely a function of consumer spending and M2 money growth (i.e. liquidity) in the system. As we've mentioned, the consumer remains strong, while M2 (as seen below) has begun to rebound from its long, post-Covid decline. In addition, there is some concern that President Trump's proposed tariffs will lead to higher prices for many goods and services. Higher inflation leads to fewer Fed rate cuts and higher than expected interest rates.



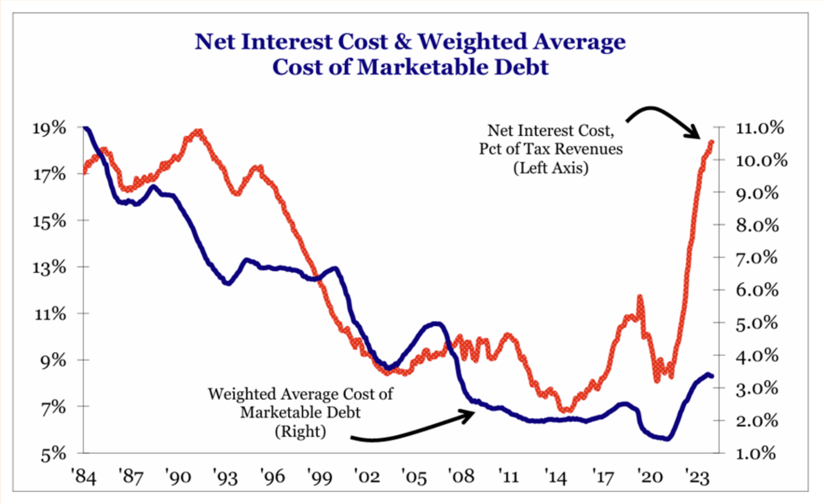
Source: Strategas; As of 12.31.24

Second, with the S&P 500 trading at 22x forward earnings, we think a correction is likely at some point this year. On average, the market experiences at least one 10%+ correction each year, and we haven't had one since October 2023. It's important to realize that stocks can't go up indefinitely, and we've had a tremendous run of late (S&P 500 has gained almost 70% since its Oct 2022 low). In addition, the S&P 500 continues to be heavily concentrated, with the 10 largest companies accounting for a record 39% of the index. The good news is that stocks perform well in the first year of a Presidential administration as long as there is no recession. In fact, the S&P 500 has produced an average return of 20% since 2005 in year one of a President's term (see chart below). As a result, a correction should be short-lived and seen as a healthy adjustment for stock prices



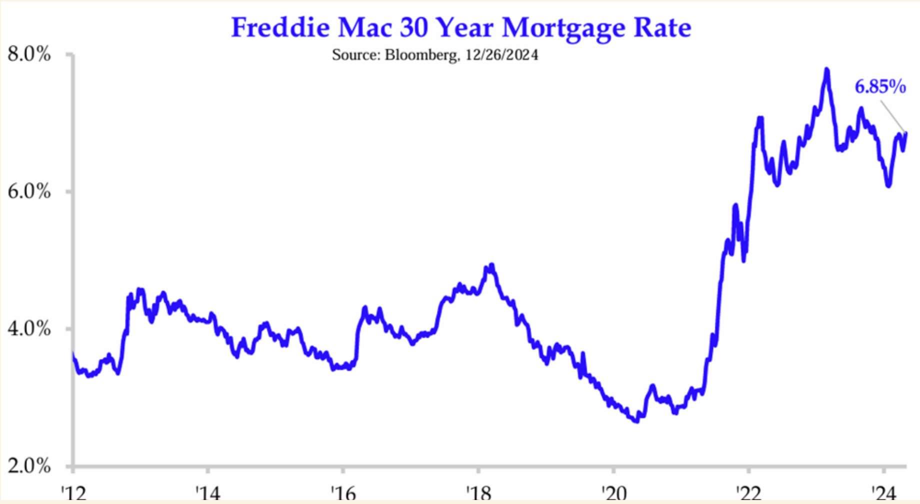
Source: Strategas as of 12.31.24

Third, we are concerned about the rising US debt, which is being fueled by consistent annual budget deficits. Regardless of which political party is in power, the US government seems to spend more than it takes in, resulting in deficits and the need for more debt issuance. This has been exacerbated by the steep rise in interest rates since 2022, resulting in the highest level of debt service as a percentage of tax revenues since the early 90s, when our total debt was a fraction of what it is today (see chart below). This trend is not sustainable and must ultimately be addressed with higher taxes and lower spending, neither of which are additive to economic growth. The good news is that such actions are not likely to occur in 2025, or even in the next few years. However, continued Treasury debt issuance needed to cover the deficit will likely cause interest rates higher to remain higher.



Source: Strategas; As of 12.31.24

Finally, we are concerned that, even though the normalization of interest rates is needed and healthy, **many investors and consumers are not prepared to deal with higher interest rates** going forward than those seen prior to 2022. Higher interest rates impact economic growth and the valuation of financial assets, and can crimp spending, as consumers and businesses must divert spending to debt service and are unable to access as much credit as desired. The fact that home mortgage rates have increased since the Fed began cutting rates, and still stand just shy of the 7% level, is a viable signal that we may face some economic headwinds until we adjust to this new reality.



Source: Strategas as of 12.31.24

The bottom line is that we think investors are best served in all environments by holding a diversified portfolio of high-quality domestic and foreign stocks and bonds, as well as public and private assets. Importantly, investors should consider seeking to allocate between these asset classes in an opportunistic fashion, making tactical adjustments as informed by a rigorous investment process which is based on market data-based indicators. It's also prudent to have a long-term focus while tuning out the daily market "noise".

Thank you for your support of Turtle Creek. We are committed to helping you and your family meet your long-term financial goals. Please contact us if you have any questions or thoughts about this newsletter or if we can help in any way.

Turtle Creek Wealth Advisors, LLC ("Turtle Creek") offers investment advisory services and is registered with the U.S. Securities and Exchange Commission ("SEC"). SEC registration does not constitute an endorsement of the advisory firm by any regulatory authority, nor does it indicate that the advisory firm has attained a particular level of skill or ability. All content available in this commentary is general in nature, not directed or tailored to any particular person, and is for informational purposes only. Neither this commentary nor any of its content is offered as investment advice and should not be deemed as investment advice or a recommendation to purchase or sell any specific security. The information contained herein reflects the opinions and projections of Turtle Creek as of the date hereof, which are subject to change without notice at any time. Turtle Creek does not represent that any opinion or projection will be realized. The information contained herein has been obtained from sources considered reliable, but neither Turtle Creek nor any of its advisers, officers, managers, or affiliates represents that the information presented in this commentary is accurate, current, or complete, and such information is subject to change without notice. The information contained [in this commentary does not purport to be a complete description of the securities, markets, or developments referred to in this material. Any performance information must be considered in conjunction with applicable disclosures. Past performance is not a guarantee of future results. Neither this commentary nor its contents should be construed as legal, tax, or other advice. Individuals are urged to consult with their own tax or legal advisors before entering into any advisory contract. Any investment is subject to risks, including the possible loss of principal. Individual investor's results will vary. Investing involves risk, and you may incur a profit or loss, including the entire loss of investment, regardless of the strategy selected.