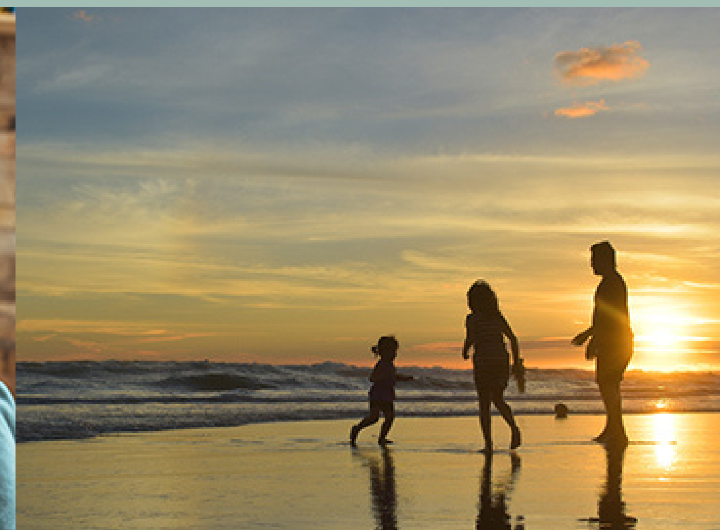
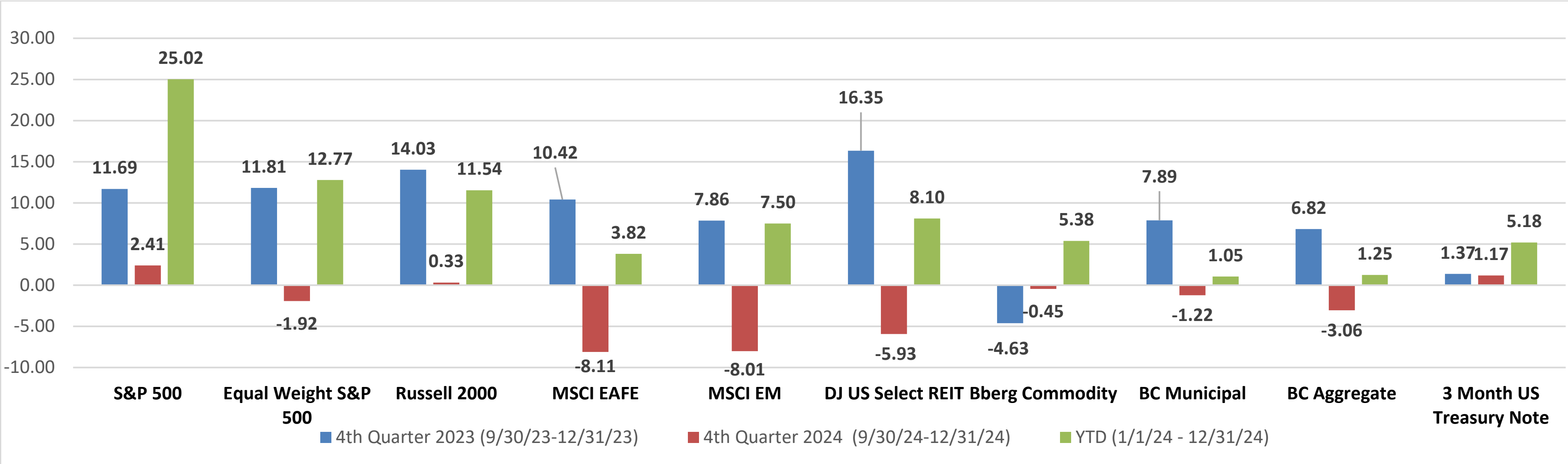
SCHNEIDER DOWNS

Wealth Management



Q4 2024 Market Commentary

Don't Forget to Acknowledge and Enjoy the Good: 2024 Returns Put the Scars from 2022 in the Rearview



My father used to always preach to my twin brother Brandon and me that it wasn't how you started the game, but how you finished the game that mattered the most.[1] As a matter of practice it was sound advice, instilling in us, as well as our teammates, that effort, diligence, and perseverance were required until the clock showed 00:00 to win the game. While sound advice in both sports and life, the alternative is to build such a large lead that no matter how you finish, the outcome is still in your favor (as a long-suffering Cleveland Browns fan, I have absolutely no idea what this would feel like[2]). Capital market returns in 2024 shunned the advice of my father and instead built such a lead that, despite a sharp selloff in December, still delivered a great year. In most years, a Santa Claus rally is always welcome; markets ending the year strong lead to happy investors. On occasion, however, when the lead is built up high enough and the win is in hand, slippage at the end of the game isn't the end of the world.

In the chart above, the blue bars represent the 4th quarter returns of 2023, while the red bars represent the 4th quarter returns in 2024. There is a sharp contrast that is almost impossible to miss. The big picture takeaway, however, is likely less obvious. What 2024 reinforced is that markets can, will, and mostly are unpredictable; the only way to combat that unpredictability is to understand your goals and objectives, formulate a comprehensive financial and investment plan, and mostly stay the course (while making small tweaks along the way). Here at Schneider Downs Wealth Management, what we want our clients to avoid is the mistake my beloved (beleaguered?) hometown Cleveland Browns make, which is illustrated in the picture to the right. Since 1999, the Cleveland Browns have had 40 starting quarterbacks, changing course multiple times in a year, rarely with any sustained success. In 2023, market returns mostly came in the last 45 days of the year; in 2024, market returns

[1] As many of his players will tell you, my father, Bruce Staley, was quite a character as a coach. His most famous saying "chicken ain't nothing but a bird" will bring a big smile to their face. The saying makes a lot more sense now than it did then.

[2] My daughters, Caroline and Claire, are Steelers fans (how could I bring them into what we Browns fans call the "Factory of Sadness") and now are proud owners of TJ Watt #90 jerseys. At least they will be able to watch their team in the playoffs this year (and likely every year moving forward).

mostly came in the first 9 months of the year. Changing investment and financial plans like the Cleveland Browns change quarterbacks is not the recipe for success; instead, our investors should look to emulate what the Pittsburgh Steelers have done, having three head coaches in the last 50 years (the Browns have had 12 in the last 25); with that stability came a great deal of success and several championships.

The fourth quarter decline in markets happened mostly in December. Domestically, small cap stocks were down almost 8%, mid cap stocks down 7%, equal weight S&P 500 down 6%, and the S&P 500 was down almost 2.5%[3]. International markets fared better in December, down only 2%, but their weakness happened far earlier in the quarter.[4] Further complicating matters for portfolios was a significant movement in interest rates where the benchmark U.S. 10-year Treasury rose 26% (3.62% to 4.57%), which caused fixed income of all types (treasuries, municipals) to have a negative quarter. Despite the fourth quarter, positive returns were generated across all asset classes (even the much-maligned publicly listed real estate was positive). As humans, we tend to focus on the bad (fourth quarter) without focusing on the good (the entire year in 2024)! Using the past three calendar years as a lodestar, navigating the tempestuous waves that sometimes come our way (2022) will lead us to calmer seas, better views, and beautiful sunlight (2023 and 2024).

Zooming out and thinking about the past three years, as painful as 2022 was in capital markets, 2023 and 2024 represented incredible bounce back years. The rebound in markets started in October of 2022, although it was hard to feel or notice it at the time with inflation still raging and bonds and stocks down double digits. Pooling together the last three years is a good framework from which to put context around the fourth quarter returns (and the selloff in December that pushed them negative). Markets and investors have gotten through the worst inflation spike since the late 70s/early 80s, the first land invasion in Europe since World War II, and an outbreak of violence and a subsequent humanitarian crisis in the middle east. During this time, Elon Musk's SpaceX basically parallel parked a rocket coming back from outer space, generative artificial intelligence (or AGI) took a massive leap forward, GLP-1 innovation[5] has provided millions of people suffering from diabetes and obesity a healthier way forward, and America continued to be the innovation hub of the world. Focusing on only the negative news (an understandable human emotion/tendency) blinds us to the truly remarkable innovations and events happening all around us!

The above discourse naturally leads into what we expect in 2025. Without the benefit of a crystal ball, we think the following five investment themes will ripple through markets in 2025. The rise of Elon Musk's ubiquitous presence in our country's discourse and politics cannot be ignored; we would expect companies that are "Elon Adjacent" to dominate headlines and deliver solid performance. With the incoming Trump/Vance administration promoting their "America First" agenda, U.S. small and mid-cap stocks are poised to rise on the backs of a more constructive regulatory regime, relative insulation from a tariff/trade war, and relief from cycle high interest rates that plagued them for much of the past two years. A holistic approach to artificial intelligence comes to the forefront as investors look to move beyond just the publicly traded headline grabbers like Nvidia and Microsoft. Instead, investors will look to add exposure to the broader ecosystem/infrastructure, that includes energy, real assets, and other businesses that will help facilitate the "AI" boom. International markets, trading at the widest discount to U.S. large cap stocks in 75 years,[6] offer exposure to attractive growth-oriented stocks that are within the "AI" supply chain, leading to a better-than-expected year for international stocks. Finally, higher yields deliver for savers that have been crushed by monetary policy makers for the better part of two decades. Current income

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[3] S&P SmallCap 600 was -7.95%, S&P Mid Cap 400 was -7.12%, S&P 500 Equal Weight ETF was -6.28%, and the S&P 500 was -2.38%. All returns generated by Morningstar Direct.

[4] MSCI ACWI ex USA was -7.6% for the fourth quarter 2024; performance from Morningstar Direct.

[5] Drugs like Ozempic and Wegovy

[6] BofA Merrill Lynch

and the potential for price appreciation are there for owners of core fixed income; inflation will remain a risk, but the yield environment is more favorable than it was heading into 2024.

As our team looked back on the year, we can’t help but be anything other than grateful. Our clients welcomed children and grandchildren into their families and our SDWMA family expanded with the birth of Crew Kokales (son of our Wealth Manager, Demetrius Kokales) in October and the upcoming birth of baby boy Garcia in February (to Wealth Manager, Alissa Garcia). We got to visit our clients and catch up with them in person, something we will never take for granted after COVID. Market returns were strong, moving us further from the doldrums of 2022 and helping us guide conversations toward the future. Most of all, as we look back on the year, we feel honored and privileged to be entrusted with helping to manage the product of our clients’ life’s work. Working at SDWMA, and for you, is a responsibility we will never take for granted and will always fully appreciate. We look forward to seeing you all soon to talk about all the things that 2025 will bring; and how we intend to help you stay the course and enjoy all the things that are good in life!