

By the Way

Monthly commentary from Jack Way

"A body in motion will remain in motion"

2024 was a year for optimists and positive thinkers. Buying higher highs takes courage, but that was a path to profits last year. Debbie Downers were to be ignored, although there were certainly occasions when keeping the faith wasn't easy. A weaker than expected report on U.S. job growth precipitated concerns about the economy and led to a sudden drop in equity markets on August 5th (particularly in Japan). However, it didn't take long for the bullish camp to reassert control leading to higher markets. Even star performers like NVIDIA had a few less than stellar moments that provided fuel for negative projections for itself and the entire market. On September 3rd the stock dropped 9½% and wiped out a historic one-day record \$279 billion in market capitalization as investors worried that artificial intelligence was being overhyped. As we now know, that was a mere blip and by year-end NVIDIA had accounted for over 20% of the increase in the S&P 500. In the end, 2024 was a year to embrace the good news and disregard the bad. Profits were there for those resolute enough to stay the course despite the "slings and arrows of outrageous fortune". In summary, total returns were: S&P 500 25%; Dow Jones 15%; NASDAQ 100 26%; and the more broadly constituted Russell 2000 12% (a good sign that more stocks participated in the rise). There has been much talk about the "Magnificent 7" losing some of its luster, but it was up 48% over the year (not too shabby).

I have often depended on the large brains and even larger computers at Goldman Sachs to help keep me on the right path. In December they put out a group of market statistics, many of which I found fascinating:

1. Since 1945 over 75% of S&P 500 annual returns have been positive.
2. If you had invested \$1,000 in the S&P in 1945, you would have \$4.6 million today. However, if you only invested May through October, you would only have \$10,000; and if you didn't bother to reinvest your dividends, you would have \$350,000.
3. Since 1997, if you remove the S&P returns on the day of and the day before FED announcements, the market would be at a level less than half of where it is today.
4. Since 1999, 300 stocks have been removed and replaced in the S&P 500. In the NASDAQ 100, 78 met the same fate.
5. U.S. Treasury debt "held by the public" is currently around \$30 trillion; at the end of 2019 it was \$5 trillion.
6. I've cited this before – the U.S. Treasury pays out about \$3 billion of interest per day; in 2019 it was \$1 billion.
7. Two more are not necessarily market moving but still interesting; Google processes 8½ billion searches each day and 93% of the largest TV audiences in 2024 were football games.

At the best of times, predicting the future is a mug's game, but with Donald Trump at the helm it verges on the impossible. Should we take his overly aggressive threats to both friend and foe alike as real or as establishing a strong negotiating position? I hope for the latter but fear the former. He is so unpredictable I wonder if it even matters. He isn't even in office yet and the world (Canada in particular) is scrambling to implement changes that will please him. Domestically the President-elect pressured the last few dissident Republican Representatives to vote for Mike Johnson as Speaker of the House which indicates to me just how powerful Trump has become. Mr. Trump wants

Congress to pass a one-bill-fits-all piece of legislation that would encompass most of his proposed policies on tariffs, taxes, spending, immigration, the debt ceiling, etc. It will take all of his powers of persuasion if such an effort were to be successful. There appears to be a "cult of personality" developing around Trump allowing him to press his advantages and policies both internally in the U.S. and globally as well. As an aside, it is interesting to me that most of the Trump tax cuts passed in 2017 are still in force having endured through the Biden administration.

Chairman Powell of the FED and the soon-to-be President are not on the same page when it comes to policy. It will be interesting to watch how this interaction plays out since Trump favors an easier monetary policy that would be potentially good for economic growth and stock markets but not for inflation. Powell's term is up in May 2026, but he is likely to come under significant pressure before then. Michael Barr, the Vice-Chair for the FED's Banking Supervision, has already stepped down citing a "risk of dispute" with Trump. The new President seems to have missed the memo that the FED should not be influenced by political pressure. Given the importance markets have placed on FED policies and pronouncements, any major change at the Board has possible serious market repercussions.

Isaac Newton's first law of motion states that a body in motion will remain in motion unless acted upon by an external force, U.S. stock markets have ignored all the external forces trying to upset their upward momentum, but at some point, something will have enough of an impact to bring Newton's third law (the one about equal and opposite reactions) to the fore. A slowing in GDP growth or an increase in inflation and U.S. Treasury yields are but two conceivable issues with negative implications. Donald Trump's more egregious pronouncements also run the risk of unintended consequences and a meaningful market decline. A high valuation (such as today's S&P 500 P/E multiple of $21\frac{1}{2}$ x forward consensus earnings estimates), rarely is the sole cause for a correction in stocks, but it definitely opens up the capacity for a much larger decline. As I wrote earlier, these are especially dangerous times to make predictions, but if

pressed I would expect something or someone to prompt a significant drop in markets at some point in 2025. (Take that with a grain of salt.)

A few final thoughts:

- Elon Musk has his work cut out to reduce U.S. Government spending, given the budget is made up of 80% entitlements like social security, Medicare, defense and interest on the debt. These expenses are not up for discussion.
- Debate over the effect of immigration and deportation has been much more about the economic consequences than the humane.
- Charlie Munger, Warren Buffet's longtime partner, pointed out that much of their success was based not so much on being smart as not being stupid.

Have a great 2025!



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