BH | Beech Hill Advisors

December 31, 2024

Dear Clients,

The final quarter of '24 continued with the same pattern of returns as we have seen throughout the year with gains of 6.2%, 2% and .5% for the NASDAQ, the S&P 500, and the DJIA, respectively. The large cap technology leaders have provided ongoing outsized returns with the so-called Magnificent Seven accounting for 57% of the S&P 500's annual gain as the secular AI theme continues to broaden and attract investment. For the year, the NASDAQ rose 28.6%, the S&P 500 was up 23.3%, and DJIA gained 12.9% thus providing investors with strong back-to-back annual returns. The yield on the 10-year US Treasury closed the year at 4.6%, rising from 3.8% at the onset of '24 despite multiple Fed Fund interest rate cuts. The year presented a rather friendly investor climate as the economy remained healthy, employment figures were robust, inflation abated, and the Fed began their rate easing cycle and our portfolios benefited accordingly. In the near term, we do not anticipate a change in these positive factors that have been supportive of equity gains. Additionally encouraging, analysts expect an accelerating 15% earnings growth from companies that comprise the S&P 500 versus a respectable estimated 9.5% in 2024. All factors that continue to merit an invested posture.

There are, however, concerns regarding continued above average gains in the equity markets. A third year of greater than 20% returns in the S&P 500 is highly unlikely, and investors would be well served to temper their enthusiasm for 2025. As equity prices have risen, so have their valuations, making the general equity market more expensive, trading at approximately 22 times next year's projected earnings versus a 10-year average of 18.5 times. It can be argued that the larger percentage of technology companies that compose the index justifies a higher multiple but nonetheless the market remains richly valued historically which may serve to limit future returns.

Following Inauguration Day, investors will start to turn their attention to the policies and changes introduced by the new administration, moving beyond speculation. Investors will need to consider other factors in the investment selection process including trade tariffs, subsidies, and immigration initiatives, among other forms of protectionism, and whether they are being employed as leverage in negotiations or intended to be implemented. We anticipate increased volatility with the headline risk in various industries and companies associated with the more radical proposals, but history has shown the outcome resides much more centrist and palatable in nature for investors. We will monitor the portfolio implications and execute revisions as necessary.

As we counsel tempered expectations, we believe current market conditions continue to offer opportunity and appreciation. The existing AI story shows no let up and we believe in a continued allocation to this theme with the need to pare back on some overvalued positions. Outside of the technology segment we believe there are opportunities in many of the industries that have underperformed over the past few years including healthcare, consumer staples, REITs and industrials as they are approaching historic valuation discounts versus the S&P 500. Additionally, with the US Ten-year yield approaching near term highs at 4.6% we will look to lock in 6% yields in our fixed income positions. We will revise portfolios as appropriate and as market conditions dictate through our disciplined selection process.

As always do not hesitate to contact us if you have any questions. A Happy, Healthy, and Prosperous New Year to all!

Best regards,

Beech Hill Advisors