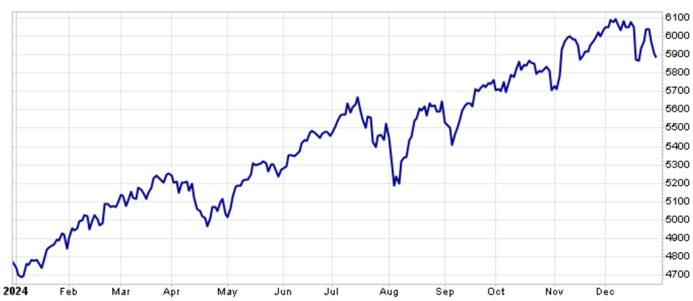
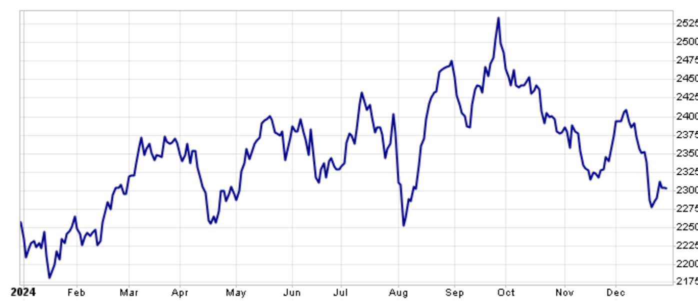
# INTELLIGENT INVESTMENT

*Fourth Quarter 2024*

*S&P 500 YTD 23.31%*[3]




*MSCI ALL WORLD ex US YTD 5.53%*[3]




**"This is the time, this is the place… So we look for the future**
**But there's not much love to go 'round…**
**Tell me why this is a land of confusion "[1]…**

Happy New Year! 2024 is in the books and what a year it was. If a novel is written about 2024 who could be blamed for thinking it belongs in the fiction section. Obviously, the consuming narrative of the year was the presidential election. One that included a felony conviction followed by two failed assassination attempts of President-Elect Trump, along with an 11th hour change of a sitting President as their party's candidate. But once again "Against All Odds"[1], the US showed the world "This is the time and this is the place"[1] with S&P 500 expanding 23.31%[4] far outperforming its international counterparts by over 4 times. What did the markets face in 2024? And what can we expect from 2025?

Equities were able look through the noise amidst the never-ending drum beat coming from the political side and provided "Another Day In Paradise"[1], stayed the course, focused on what matters and cast their vote by growing well over 20% for the second year in a row. However, 2024 wasn't just "A Groovy Kind of Love"[1], although we are expecting earnings to finish approximately 11% higher from 2023, interest rates did not cooperate. Equity markets certainly lived "Separate Lives"[1] from bonds last year as we witnessed the 10-year US Treasury note rate bounce from 3.88[4] to 4.71[4] in the spring back to 3.62[4] by September spiking quickly back to 4.57[4] by the end of year. ARPG believes it was this not so "Invisible Touch"[1]of interest rates as to why the Santa Claus rally did not materialize, "Do They Know it's Christmas"[1]? Ol' St. Nick likely became the victim of the 4th quarter spike in rates. During these final three months yields gave way to the animal spirits stemming from the election of Donald Trump and hotter than expected inflation reports. "Do you Remember"[1] that interest rates exploded following Donald Trumps election in 2016? The bond market sure does and was not about to get caught off guard this cycle.

What could be "In the Air Tonight"[1] for 2025? Where could interest rates and equities go from here? With the economy firing on all cylinders and a very pro-business administration in control interest rates likely will not move materially lower as it relates to the 10-year US Treasury note and could be stuck in a range from 3.50% on the low end to 4.75% on the high end. However, we think term premium will make a return in 2025 with the shorter-term, specifically yields on the 0–5-year bonds should begin a retreat from their longer-term counter parts proving to be a tailwind for mortgage rates and the real estate market as a whole.

Following two stellar years of returns coupled with extended valuations we have to look to earnings to pull its weight. According to Factset S&P 500 earnings are expected to grow 14.6%[4] for 2025 and 13.5%[4] in 2026. The Nasdaq looks to outpace its broad market cousin at 25.3%[4] and 19.1%[4] respectively. Holiday sales according to Visa jumped 4.8% over 2023 so there is a plenty of strength coming from the consumer which we know represents over 70% of US GDP[4]. Markets have likely has priced in most of 2025's positive outlook so we need to be cognizant for any material change in 2026's earnings estimates.

Coming into 2025 with equities are near all-time highs and many more folks in the bullish camp new money may be more difficult find then the previous two years. Coupled with higher-than-normal valuations this may prove to result in amplified volatility throughout the year. Although we believe 2025 will be a stronger than average year potentially expanding 15-22% with the S&P 500 finishing in the 6800-7200 range, it may prove to be a bumpy one.

In addition, we may see volatility coming from the fiscal side as well via potential tariffs and their perceived inflationary impact on prices. Although this has proved to be a robust subject of debate ARPG believes this to be a relatively simple equation consisting of no more than a tax on imported products. This "tax" will most certainly not increase demand on tariffed products domestically and thus is not inflationary to the domestic economy. Former Fed Chair Ben Bernanke wrote from Reuters "Although the effect of tariffs is very hard to forecast because we don't know if the president wants to just put them on temporarily for bargaining purposes or whether he wants to keep them permanently," said Bernanke, "barring some very unusual situation, including perhaps political risks, it doesn't seem like that's going to really shift the inflation path radically."[2] President-elect Trump is clearly "In Too Deep"[1] and will institute promised tariffs in order to level the world trade playing field. This is where the US could very well see an increase in demand of US made goods sold internationally.

It appears the markets may have as many challenges as tailwinds in 2025. "So, we look to the future for another year in this is a land of confusion"[1]. It may have turned cold and snowy outside for parts of the country but the sun will be out and flowers blooming before you know it. Although the holiday season is behind us "You'll Be in My Heart"[1] all year. So, make certain to follow through on those New Years resolutions. In any season or market, the best investors always focus on the long term and ARPG will continue to practice our approach to value investing, "Intelligent Investment is Investment on Value, buying high quality companies in low quality times". This is what sets ARPG apart from the rest. As always, we thank you for your confidence and are humbled by your trust. Please feel free to contact us at any time.

INTELLIGENT INVESTMENT

Sincerely,
Matthew D. Dahl
Chief Investment Officer

1. Phil Collins / Genesis
2. Reuters
3. ARPG / Stockcharts.com
4. Factset