



Northport Investment Management, LLC
A Registered Investment Adviser

Page 1 of 2

Market Commentary – 4th Quarter 2024

The major U.S. stock indices had a stellar year in 2024, although they ended with a whimper. Despite strong year-to-date performance, Wall Street struggled in December's final days, and the Dow ended the month down 5.3%, the S&P fell 2.5%, and the NASDAQ Composite eked out a gain of just 0.5%. For the fourth quarter, the Dow rose a mere +.5%, the S&P 500 advanced +2.1%, and the NASDAQ Composite gained +6.2%. The Dow climbed +12.9% and the S&P 500 rose +23.3% (+25.0% with dividends) for the year. It marked the S&P 500's best consecutive two-year performance since 1997 and 1998. The tech-heavy NASDAQ Composite led, gaining 28.6%. 2024 was a year in which the resilient U.S. economy remained healthy, inflation ticked lower, the Fed cut interest rates, and the artificial intelligence (AI) rally in mega-cap tech stocks was ongoing.

Mid-cap, small-cap, international, and emerging market equity categories, all had positive returns for 2024, but all dramatically lagged the S&P 500 for the year. One can tout the eventual benefits of diversification but, increasingly, investors appear focused on AI, the S&P 500, and several mega-cap tech stocks that have been all the rage. Ten of the eleven S&P 500 sectors closed the year higher. Communication Services (+38.9%) and Information Technology (+35.7%) were the best sectors. Materials (-1.8%) and Healthcare (+.9%) were the poorest. In the Dow 30, Nvidia (NVDA) was the best 2024 performer (+171.2%), and Boeing (BA) was worst (-32.1%). The S&P 500 Growth Index more than doubled the performance of the S&P 500 Value Index in 2024. Few investments had a better year in 2024 than Gold, which had its best year since 2010, percentage-wise, gaining over 27%.

Bonds had negative returns in Q4 2024, as yields rose. There is some concern that President-elect Trump's policies may cause inflationary pressures to build again in 2025. The benchmark ten-year Treasury note yield closed the year at 4.58%, up from 3.80% at the end of Q3 2024, and up from its 3.86% yield at year-end 2023. The Federal Reserve recently projected that core inflation will hit 2.5% in 2025 - higher than its previous projection of 2.2% - before cooling to 2.2% in 2026 and 2% in 2027. Sticky inflation could prompt the Fed to hold interest rates higher for longer than expected. The Fed's target inflation rate is 2%. Its goal is to achieve a neutral interest rate, one that neither supports, nor restrains economic growth. I believe that the neutral fed funds rate is around where we are right now. The Fed will cut interest rates less than the markets are expecting next year.



Northport Investment Management, LLC
A Registered Investment Adviser

Q4 2024
Page 2 of 2

If the Fed keeps interest rates elevated due to solid economic growth, this would be a positive situation. If the Fed keeps interest rates elevated because of resurgent inflation, this would be negative. Growth will have to come through in 2025 to support current lofty stock market levels. Roughly speaking, stocks were up 25% in 2024, while earnings were up 10%. Most of stock's increase resulted from an expansion in the Price/Earnings multiple. Investors were willing to pay more for a dollar of earnings. High multiples need lower interest rates to keep them high. Uncertainty over monetary and fiscal policy will create volatility. As we see how a new administration plays out in 2025, it is smart to remain conservative. Receiving dividends and 4%+ income yields, while pursuing steady growth from reasonably priced stocks, remains a prudent investment strategy.

It has been tough to see Value investing lag far behind Growth for the past two years. It's been particularly disappointing to see dividend paying stocks lagging so badly. The S&P 500 Dividend Aristocrat Index, sixty-six companies that have increased their dividends in each of the past 25 consecutive years, returned 7.1% in 2024. A big driver of current returns has been technology companies trading at over thirty-times forward earnings. Value companies that pay attractive dividends are trading around half that multiple. Investors will eventually look more favorably on sectors and companies that trade at a discount to the broad market, particularly when there are signs of overheating. Tech companies have had the strongest earnings growth, but this has limits. I expect tech's wide positive earnings gap to lessen. As earnings growth broadens beyond technology, I could see a rotation to areas of the market where earnings growth is accelerating, versus decelerating. Early signs of this rotation occurred in Q3 2024, as sectors outside of technology were the ones driving strong gains for the quarter. This rotation to Value reversed in Q4, but I think the broadening-out trend can continue in 2025.

A stock's price can rise and fall, but a dividend payment is always positive once it's made. The demand for cash will help dividend paying stocks. The S&P 500's dividend yield recently hit a 20-year low while interest rates have recovered on fixed income securities (like risk-free Treasuries). There is increased competition for yield. Companies are responding to this competition by raising their dividends, or initiating payments for the first time.

Our dividend paying Value stocks should also do better in volatile times. This was evident in the down stock market year of 2022. The powerful stock market rally of the past two years may create more volatility going forward, especially if lofty growth forecasts are missed. Relatively stable and steady dividend stocks may very well gain more appeal in the new year.

John M. Grib, CFA, CFP®