TOTAL WEALTH PLANNING

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# 2025 Economic & Investment Outlook

In 2024, we witnessed a perfect blend of strong investment returns and exceptionally low volatility. The US markets continued to grow for the second straight year, after having experienced one of the worst market environments in 2022, for both bonds and stocks. It was only two short years ago that most of the "talking heads" in the media were forecasting a brutal recession for the US and international markets. The Federal Reserve was pursuing the most aggressive interest rate policy in over 40 years. However, the Fed was able to successfully navigate a soft landing, where economic growth continued and inflation came under control. The following chart illustrates the performance of key market indices for 2024 and over the past 3, 5, and 10 years.

| Index | 4th Qtr. | 2024 | 3 year* | 5 year* | 10 year* | Description |
|---|---|---|---|---|---|---|
| S&P 500 Index | 2.41% | 25.02% | 8.94% | 14.53% | 13.10% | Large-Cap Stocks |
| Russell 1000 Growth | 7.07% | 33.36% | 10.47% | 18.96% | 16.78% | Large-Cap Growth Stocks |
| Russell 1000 Value | -1.98% | 14.37% | 5.63% | 8.68% | 8.49% | Large-Cap Value Stocks |
| Russell 2000 Growth | 1.70% | 15.15% | 0.21% | 6.86% | 8.09% | Small-Cap Growth Stocks |
| Russell 2000 Value | -1.06% | 8.05% | 1.94% | 7.29% | 7.14% | Small-Cap Value Stocks |
| MSCI – EAFE | -8.06% | 4.35% | 2.17% | 5.24% | 5.71% | International Stocks |
| MSCI – Emerging Market | -7.84% | 8.05% | -1.48% | 2.10% | 4.04% | Emerging Market Stocks |
| Barclay's Agg. Bond Index | -3.06% | 1.25% | -2.41% | -0.33% | 1.35% | Domestic Bonds |
| Consumer Price Index | 0.22% | 2.75% | 4.31% | 4.17% | 2.94% | Inflation |

**Returns are annualized; ** CPI returns are as of November 30th, 2024*

## The Year In Review

At the beginning of 2024, the US housing market was the slowest it had been in almost 30 years. Homeowners decided to stay in their current homes, and enjoy the low mortgage rates that they had locked in during prior years. Nonetheless, the US Economy remained resilient, growing 2.4% in 2024, unemployment remained low and consumer spending continued at a relatively high rate. With higher interest rates, the savings rate for US investors also increased, another sign of a healthy economy. Later in the year, as inflation continued to decline, the Federal Reserve began to cut interest rates. In September, they cut rates by 50 basis points, the first time that rates were reduced since 2020 when they were lowered during the COVID economic shutdown. In November and December, the Fed again reduced rates by a quarter point each time.

The political landscape heated up in the latter part of 2024 as Biden stepped aside and Harris was declared the Democratic Presidential nominee. Trump survived an assassination attempt, and then was later nominated as the Republican presidential candidate and subsequently won the Presidency.

In Europe, the U.K. emerged from a recession, experiencing its fastest growth in over two years. Although Germany's economy sputtered, Spain, Ireland and Greece, which were muddled in a debt crisis 10 years ago, helped to propel the European Union in 2024.

Of concern, tensions in the Middle East escalated as Iran and Israel continued to exchange missile launches into each other's territories. At the same time, Russia's war with Ukraine continued for its third year.

## **The Year Ahead**

As we look forward to 2025, our expectation for growth in the global economy remains strong. Key gauges of growth include: housing starts, auto sales, consumer spending, retail sales, and global manufacturing. Most of these factors are exhibiting strength and should help to drive company earnings upwards. Under the new administration, pro-business policies such as a possible reduction in corporate tax rates, lower energy prices and deregulation are likely to provide additional improvements.

Risks are always present and we must remain cautious due to the possibility of inflation rebounding, recessions, tariff wars, and other regional conflicts. Seven companies, now known as "The 'Magnificent 7," and are all technology growth stocks, outperformed every other company in the S&P 500 Index. However, they now account for 35% of the market capitalization, creating a top-heavy and riskier index. With their valuations now being at such high levels, it is quite possible that these companies will not be able to keep up with expectations. Growth companies, which often borrow to finance expansions and product lines, are likely to face headwinds from higher interest rates. As part of our portfolio management, we have proactively been taking profits from this area of the market as these advances have occurred. This helps to minimize risks by having less invested if a decline in fact occurs.

While growth stocks may sputter, we believe that value stocks are possibly poised to outperform again, as they did in 2021-2022. Value stocks are currently inexpensive and have historically done well during sustained periods of higher interest rates, which is where we currently find ourselves. They tend to pay higher dividends and benefit from deregulation. At Total Wealth Planning, we maintain an overweight position in value stocks within our client portfolios, partially due to our short-term outlook, but also because research has proven over the long-term that these stocks generate higher rates of return. This "value premium" has shown to be persistent across large and small-capitalization stocks, in domestic, international and emerging markets and is the research on which multiple Board members and advisors at Dimensional Fund Advisors (DFA) received a Nobel-Prize. Clients recognize DFA since we have been investing in this fund family for over 20 years and where we have allocated a significant portion of the portfolios.

For 2025, we have increased our weighting to small-cap and mid-cap stocks, which from a valuation standpoint are more attractively priced than they have been since the late 1980s. These companies tend to benefit from deregulation and often experience advances when forecasts are for a leveling off of interest rates, allowing them to be more competitive in the marketplace. We believe that while interest rates are higher than they have been for many years, we are likely going to be hovering at current levels for the foreseeable future. Also, with the wave of technological enhancements, especially in A.I., these should help provide additional tailwinds for growth.

Overseas performance was solid, though the strength of the U.S. dollar limited returns compared to many other domestic equity classes. As the dollar increased in value, profits from foreign markets, when converted into U.S. dollars, were negatively impacted, reducing the overall returns of international funds. While the dollar typically fluctuates within a certain range, it is currently near an all-time high, suggesting limited potential for further appreciation. If the dollar weakens, it could boost returns on international investments moving forward. Additionally, foreign company valuations remain attractively low, and dividend yields are approximately twice that of domestic equities—levels not seen in over 20 years. For these reasons, and to maintain diversification benefits, we plan to keep our current allocation to international equities.

## Prudent Portfolio Management Integrated with Comprehensive Financial Planning Provides the Best Long-Term Results

As our clients are aware, we employ a time-tested, academically rigorous approach to managing investment portfolios, grounded in Nobel Prize-winning principles. By maintaining consistent exposure to a diversified mix of 15-20 distinct asset classes, we ensure that client portfolios are positioned for optimal growth. In addition to regular rebalancing and capitalizing on profit-taking opportunities, we make strategic adjustments to add value, particularly during times of heightened market volatility

At Total Wealth Planning, our team of financial planning and investment management professionals coordinate to ensure that opportunities are not overlooked for adding value to your financial situation. In our opinion, wealth building and preservation must include not only investment management, but also financial planning activities such as: cash management, estate and philanthropic advice, tax planning, risk management, college funding, and retirement planning.

## Our Firm Has Been Recognized Nationally and We Continue to Grow from Referrals of Satisfied Clients

We are grateful for the opportunity to work with exceptional clients, and we believe that our unwavering commitment to delivering the highest level of service has been a key driver in our success. Recently, Total Wealth Planning achieved a significant milestone by surpassing $1 billion in assets under management. With clients nationwide and office locations in Cincinnati, Ohio, and Carmel, Indiana, we continue to expand and enhance the resources and value we offer. As we grow, we remain open to welcoming new clients and greatly appreciate any referrals.

We would appreciate the opportunity to introduce our firm to your colleagues, family, or friends. We offer at no charge, an introductory consultation to determine if and how we might be able to assist them with our comprehensive wealth management services.

We look forward to serving you in the new year and welcome discussions with you concerning our current *Economic & Investment Outlook* for 2025. Please feel free to contact us at any time by telephone at 513-984-6696 or via our website at www.twpteam.com

Happy New Year!

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