



Old Port Advisors

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Partners for a Secure Future

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VIEWPOINTS

Advisory Newsletter

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MARKET COMMENTARY

By Fredric W. Williams

Campaigning Is Poetry, Governing Is Prose...



With the barrage of multi-media induced election noise behind us, we finally have the time to focus back on the things that matter – like what can be inferred about the condition of the economy, as well as the direction of the capital markets, irrespective of the perpetual political drama that seems to continually emanate from our nation’s capital.

As noted with the old political saw in our commentary’s title, the shiny promises of campaigning are now in the rear-view mirror, and the tedium of governing is front and center as we start the new year. Fulfilling the guarantees made over the last year from all parts of the political spectrum is going to take real work. Like the dog that actually catches the car...what is the rest of the plan?

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With the economy in reasonably decent shape, we've seen the recent data shed doubt on the Fed's need to push rates much further down too quickly, lest that cause an uptick in inflationary pressures. And without any substantive work on the deficit, given the spending priorities both parties both parties campaigned on, it would appear we may need to accept that interest rates could be "higher for longer". Which therefore could impact both consumers and businesses with their borrowing costs remaining elevated and crowding out other discretionary spending that drives our GDP and overall economy.

The post-election rally lost steam as 2024 came to a close, with investors growing concerned about the corporate earnings that are integral to our GDP, as well as the stretched equity valuations that would be susceptible to any slowing in the economy.

"That's particularly acute for companies tied to AI, given the uncertainty about whether the technology will live up to its promise. And the market's embrace of Trump's victory ignores the risks posed by his tariff and tax-cut plans, which could rekindle inflation and stymie global trade."

- A. Semenova & S. Jaisinghani, Bloomberg, 12/29/24

And to be certain, not all market sectors have seen the dramatic expansion of the mega-tech stocks and the outsized impact they've had on the capitalization weighted indices (S&P 500, NASDAQ, etc). In fact, the equally weighted S&P 500 (which has historically slightly outperformed its cap-weighted sibling until recently) is now trading at one of the largest discounts in decades. And, of course, this has created a new moniker for the media's talking heads:

"A new entrant in the Big Tech club of stocks means it's time for a new name to describe tech's largest companies. What was once FANG, and then FAANG, FAMANG, and most recently Magnificent Seven, is now best labeled as BATMMAAN. The new group consists of Broadcom, Apple, Tesla, Microsoft, Meta, Alphabet, Amazon and Nivida. All of them carry market values [capitalizations] above \$1 trillion.

"The eight stocks were up by an average of 66% in 2024, versus the S&P 500 index performance of 23%. Excluding the BATMMAAN stocks the index was up just 12% last year."

- A. Levine, Barron's 1/3/25

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With history showing we might expect more muted market-returns after successive years of outperformance, even Warren Buffett and Berkshire are hedging with their actions if not their words. They have been steadily selling down many of their larger positions, as well as not currently buying back any of their own shares (for the first time in six years) and have built up a cash pile of \$325 billion. Additionally, the so called “Buffett Indicator”, which is the ratio of all the listed US stocks (via the Wilshire 5000) to the size of the US economy, is at around 200%, which is more stretched than at the peak of the tech bubble 25 years ago. But there are still overlooked areas of the global capital markets that can offer prudent long-term investors the opportunity to allocate funds to perhaps more undervalued assets:

“There’s a reasonably broad array of pretty attractively priced assets out there. They’re probably not the ones investors are most focused on these days. In the US, the only thing we really like is what we refer to as “deep value” – the cheapest 20% of the market.

“Within the cohort of the cheap stocks, the cheapest trade at some of the biggest discounts we’ve ever seen. There are also a lot of pretty cheap stocks outside the US. The US market is trading at the biggest premium to the rest of the world ever and that has stocks outside of the US looking a lot cheaper.”

- Ben Inker – GMO, Bloomberg 12/31/24

Lagging domestic sectors also offer the opportunity to follow the old market wisdom, albeit often challenging to emotionally adhere to, of “buying low and selling high” rather than just chasing momentum:

“With highflying tech stocks looking expensive and falling interest rates potentially denting the appeal of bonds, dividend shares look good...”

“Investors typically flock to the dividend players in down markets or when the economic outlook turns cloudy. Indeed, many companies with big payouts, including utilities and consumer staples, produce stable earnings in any weather...”

“The performance gap between the S&P 500 and dividend stocks has widened this year...But that’s when you should be buying dividend shares...”

- J Li, Wall Street Journal 12/2/24

Regardless as to your perspective, it might be prudent to keep an eye on the global economic and political landscape, and choose to play a bit more defense over the near term.

CAPITAL MARKETS OVERVIEW

OPA Investment Policy Committee

Index Returns			
Equities	Percentage Change for the 4th Quarter	Percentage Change for the Year	Annualized 10-Year Returns
S&P 500	2.41%	25.02%	13.10%
MSCI EAFE*	-8.11%	3.82%	5.20%
MSCI Emerging Markets*	-8.01%	7.50%	3.64%
Bloomberg Commodity Index TR	-0.45%	5.38%	1.28%
FTSE NAREIT Equity REIT Index	-6.21%	8.73%	5.73%
Fixed Income			
Bloomberg Barclays U.S. Aggregate Bond	-3.06%	1.25%	1.35%
Bloomberg Barclays U.S. Treasury Inflation-Linked Bond	-2.88%	1.84%	2.24%
<p>Source: BlackRock, Bloomberg, FTSE™, NAREIT®, YCharts *Returns are calculated with net dividends in USD</p> <p>Index returns are for illustrative purposes only and do not represent actual performance of any investment. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.</p>			

Domestic and Global Market Recap...

Financial markets ended 2024 with mixed results. U.S. large-cap stocks gained 2.4% in the fourth quarter and ended the year up 25.0%. The S&P 500 hit over 50 new all-time highs in 2024. Over the past two years, the S&P 500 has risen a cumulative 53%—the strongest performance since the nearly 66% increase experienced between 1997 and 1998. U.S. small-cap stocks gained 11.5% for 2024 after a fourth quarter gain of just 0.3%.

U.S. markets fared significantly better than international stocks counterparts during the past year. International developed large-cap stocks lost 8.1% during the fourth quarter and gained only 3.82% on the year – less than 1/6 of the S&P’s 25% return. Similarly, international developed small-cap stocks saw just a 3.4% gain. Emerging market stocks ended the fourth quarter down 8.01% while gaining 7.5% on the year. Big declines in South Africa (-12.1%), India (-11.3%), and Turkey (-10.1%) were the main drivers of the underperformance.

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For bond investors, 2024 was another challenging year. U.S. intermediate term bonds declined 3.1% in the fourth quarter and ended the year with only a 1.3% gain. This marks a cumulative decline of 1.6% over the past five years, making it the worst five-year bond return since at least 1980. The global investment grade bond market, as measured by the Bloomberg Global Aggregate Index, posted a 3.40% dollar hedged and a -1.69% dollar unhedged return in 2024. Both domestic and international high yield fixed income outperformed their investment-grade counterparts in 2024. This marked the fourth consecutive year of this trend.

The U.S. dollar continued to show strength in 2024, ending the year at its highest level since November 2022. Gold ended 2024 up 26.6%, setting over 30 new record highs. Despite rising oil prices, U.S. national average gasoline prices hit a three-year low of \$3.02 on December 12. After easing to 2.4% year-over-year in September, headline inflation, as measured by the Consumer Price Index (CPI), ended the year at 2.7%, and housing inflation remained the key contributor. Core inflation, which excludes food and energy, ended 2024 up 3.3% and has been above 3% for 43 months.

On September 18, the Federal Reserve began to cut short-term interest rates. During the fourth quarter and across three different meetings, the Fed cut interest rates by 1.0%, bringing the year-end rate to 4.25% - 4.5%. At the December 18 Federal Open Market Committee meeting, the Fed's economic projections indicated that committee members expected the equivalent of two 0.25% rate cuts in 2025. The 10-year Treasury yield has climbed higher since the first rate cut in September (an unprecedented move relative to historical rate-cutting cycles). By early January, markets were anticipating the equivalent of only one 0.25% interest rate reduction for 2025.

The U.S. economy expanded by an annualized 3.1% quarter over quarter in the third quarter, and projections for the fourth quarter are estimated to be 2.3%. The labor market remained robust throughout 2024, and the unemployment rate finished the year near record lows at 4.1%. The services sector remains the primary growth driver. In contrast, the manufacturing sector has contracted for eight consecutive months, losing over 106,000 jobs during the year. Conversely, the education and health services sectors added nearly 860,000 jobs in 2024, and the government sector gained nearly 425,000 jobs.

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Overall, two key factors have characterized the U.S. economy: the resilience of the U.S. consumer and the alarming rate of government deficit spending. Consumer spending continues to be robust. Online sales increased by a record \$241 billion (or 9% year over year) over the holiday spending period. This is despite credit card interest rates nearing record highs at an average of 24% and the personal saving rate standing at 4.4%—well below the historical average of 8.4%.

In the 2024 fiscal year, the U.S. government fiscal deficit reached \$1.8 trillion, making it the largest deficit in a non-crisis or non-recessionary year on record. Already, the fiscal deficit for 2025 (which began in October) has surpassed \$620 billion and is projected to reach \$1.9 trillion by the fiscal year end.

According to the November 2024 National Federation of Independent Business (NFIB) small business survey, 36% of respondents expect the economy to improve, 18% of respondents plan to increase hiring, and 28% plan to make capital outlays.¹⁴ CFO surveys of larger companies conducted between October and November 2024 show a similar increase in optimism about the U.S. economy, and concerns about the health of the economy, company sales, and revenue declined sharply relative to the survey conducted between August and September 2024.

Even before post-election economic sentiment surveys showed increased optimism, equity valuations remained elevated throughout the year and even climbed back to extreme levels, akin to the tech bubble. Despite valuations at extremes, U.S. large-cap returns were once again above average. With only 19% of S&P 500 constituents outperforming the broader index over the past year, returns remain substantially driven by a handful of mega-cap technology stocks, including Nvidia (up 171% in 2024), Meta (up 65%), Tesla (up 63%), and Amazon (up 44%). The Magnificent Seven now account for over a third of the S&P 500, up from a fifth of the index in 2022. Earnings growth for the S&P 500 is expected to be 15% for 2025. In contrast, earnings growth for the Russell 2000 index is expected to accelerate by 40% in 2025.

The incoming administration appears focused on bolstering economic growth while at the same time reducing the deficit. The most critical element of this endeavor will be curtailing the deficit and, in the process, keeping longer-term yields contained to not disrupt the economic expansion.

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While the Federal Reserve can dictate short-term interest rates through policy decisions, they have less control over longer-term rates. Since the first rate cut in September, longer-term yields have reacted with a unique vibe, moving higher than other rate cutting cycles. That's not to say a rise in bond yields is bad, per se, but unless it is driven by higher long-term growth prospects that translate to higher corporate earnings, rather than fiscal irresponsibility or other perceived policy errors, it could negatively impact risky asset valuations. It will now be up to fiscal policymakers to thread this needle. If they can, it will allow the continuation of government policies that support economic growth, which are critical for supporting equity and credit markets.

PLANNING CONCEPTS



Social Security Fairness Act...

Clifford P. Ryan, ChFC®

The Social Security Fairness Act eliminates two longstanding provisions for Social Security: The Windfall Elimination Provision (WEP) and the Government Pension Offset (GPO). These rules previously reduced Social Security benefits for retirees who receive pension income from non-covered employment.

This legislation is projected to result in an average monthly increase of \$360 for eligible public sector workers, as well as their spouses and survivors. Additionally, it includes lump-sum payments for over 2.5 million individuals to compensate for benefits missed in prior years, which could amount to several thousand dollars per recipient.

Qualified workers include police, firefighters, postal workers, public school teachers, and other government employees. Those who qualify need not apply for these increases, which will happen automatically. The Social Security Administration is still reviewing how to implement the law, so there is no timeframe for these increases for the moment.

“Between this and the recent 2.5 percent cost of living adjustment, many households are poised to receive a financial boost.”

- USA Today, January 6, 2025

Editor's Note: This new law is estimated to affect about 20,000 Mainers.

2025 Retirement Plan Guidelines...

The Internal Revenue Service (IRS) has announced cost-of-living adjustments (COLAs) that impact dollar limits for health savings accounts, pension plans, and other retirement-related items for the 2025 tax year.

Highlights of Changes from 2024 to 2025:

- **401(k)/403(b) Contribution Limits:** Increased from **\$23,000** to **\$23,500**.
- **Enhanced Catch-Up Contributions for Ages 60-63:** Starting in 2025, participants aged 60 to 63 can contribute an additional **\$11,250** beyond the standard elective deferral limit.

These changes provide greater opportunities for retirement savings and emphasize the importance of reviewing and maximizing your contributions. If you have any questions about how these adjustments apply to your retirement strategy, feel free to contact us.

	2025	2024
RETIREMENT PLANS		
Annual Compensation Limits	\$350,000.00	\$345,000.00
Elective Deferrals 401(k)/403(b)	\$23,500.00	\$23,000.00
Catch-up Contributions (age 50-59 and 64+)	\$7,500.00	\$7,500.00
Catch-up Contributions (age 60-63)	\$11,250.00	
Defined Contribution Limits	\$70,000.00	\$69,000.00
OTHER		
Highly Compensated Employee Threshold	\$160,000.00	\$155,000.00
Defined Benefit Limits	\$280,000.00	\$275,000.00
Key Employee	\$230,000.00	\$220,000.00
Social Security Taxable Wage Base	\$176,100.00	\$168,600.00
HEALTH SAVINGS ACCOUNTS (HSA)		
HSA Self-only Coverage Contribution Limits	\$4,300.00	\$4,150.00
HSA Family Coverage Contribution Limits	\$8,550.00	\$8,300.00
HSA Catch Up Contributions (age 55+)	\$1,000.00	\$1,000.00
IRAs		
IRA Contribution Limit	\$7,000.00	\$7,000.00
IRA Catch-Up Contributions	\$1,000.00	\$1,000.00
SEP		
SEP Minimum Compensation	\$750.00	\$750.00
SEP Maximum Compensation	\$350,000.00	\$345,000.00
SIMPLE PLANS		
SIMPLE Maximum Contributions	\$16,500.00	\$16,000.00
SIMPLE Catch-up Contributions	\$3,500.00	\$3,500.00

OPA NEWS & COMMUNITY EVENTS



Old Port Advisors Welcomes a New Associate -

Nan Pendleton joined OPA in the fall of 2024 as both a Financial Advisor and Marketing Manager. In her dual role, Nan will work closely with clients to develop comprehensive financial plans and help them achieve their financial goals. As Marketing Manager, she will lead the firm's marketing initiatives, leveraging her nearly two decades of experience in experiential marketing. Nan graduated from the University of Southern Maine in 2004 and shortly thereafter moved to Manhattan, returning to Maine and transitioning into wealth management during the pandemic. Currently residing in Portland, her unique blend of expertise in both financial planning and marketing makes her a valuable addition to our team.

New at Old Port Advisors in 2025- As part of our ongoing commitment to providing you with cutting-edge technology and services, we are excited to announce that Old Port Advisors has launched an enhanced client portal experience. This upgrade is designed to offer seamless access to your account information.

Later this year the new portal will include a user-friendly mobile app, giving you secure and convenient access to your portfolios and financial data, making it easier than ever to manage your accounts on-the-go. We will be in touch with detailed instructions on how to set up your new credentials, along with information on the new features designed to enhance your overall experience.

Thank you for your continued trust in Old Port Advisors. We look forward to delivering an even better client experience in 2025.

OPA 30th Anniversary Event- We'd like to extend a heartfelt thank you to everyone who joined us in celebrating our 30th anniversary! The night was truly memorable, made all the more special by the presence of our valued partners and clients.

A big thank you to Paul Courtney, CFA®, CAIA®, Co-Founder and Director of Research at SpringTide Partners, for delivering an insightful and engaging presentation. Your support and participation made this milestone event a resounding success, and we look forward to many more years of collaboration and growth together.