STOKES CAPITAL ADVISORS, LLC

Market Commentary
December 31, 2024

Quarterly Market Review

Happy New Year and welcome to 2025! Equities recorded a 25% gain for 2024 matching the 26% gain for 2023, the best back-to-back performance for the U.S. equity market since the 1999 tech fueled bull market. Like 2023, the U.S. equity market was dominated by just a handful of mega tech stocks, also known as the "MAG7".

Better than expected earnings growth, steady economic growth and healthy consumer spending data all provided a perfect backdrop for the equity market in 2024. It is this "three-legged stool" that the Federal Reserve continues to lean on in its attempt to achieve a soft landing for the U.S. economy.

The blended (year-over-year) earnings growth rate for Q4 2024 is 12.7%, which is above the 5-year average earnings growth rate of 10.4% and above the 10-year average earnings growth rate of 8.5%. If 12.7% is the actual growth rate for the quarter, it will mark the highest year-over-year earnings growth rate reported by the index since Q4 2021 (31.4%). It will also mark the sixth consecutive quarter of year-over-year earnings growth. Seven of the eleven sectors are reporting year-over-year earnings growth for Q4. Six of these seven sectors are reporting double-digit earnings growth: Financials, Communication Services, Information Technology, Consumer Discretionary, Health Care, and Utilities. On the other hand, four sectors are reporting a year-over-year decline in earnings for Q4.

Reviewing the macroeconomic backdrop, the U.S. economy continues to outperform the rest of the world as technology and U.S. exceptionalism attract global investment capital and remains the most attractive economy in the world. The most recent print of year over year real GDP growth at 2.7% for the U.S remains above the 10-year average of 2.5% while Europe and Japan remain significantly behind at 1.0% and 0.6% respectively.

Finally, the consumer has remained surprisingly resilient in the face of significant inflationary pressures, rising mortgage rates and housing affordability issues. Indeed, retail sales are at an all-time high. Consumer spending is a key indicator of the economy's health and growth. It's the largest component of U.S. GDP, accounting for nearly two-thirds of all economic activity.

Questions have surfaced around the sustainability of consumer spending and concerns over consumer leverage and abuse of credit cards and other consumer debt have been noted. However, when you evaluate the consumers' balance sheet, household net worths are at an all-time high as well.

Turning to the bond market, the most dramatic change over the year and specifically in the fourth quarter was the change in short-term interest rates and a subsequent steeping yield curve. After cutting interest rates 100 basis points or 1.0% in the second half of 2024, the Federal Reserve gave a slightly more hawkish assessment of its monetary policy prescription for 2025. In the Fed's summary of economic projections or SEP, the committee members now expect to lower rates by only another 50 basis points or .50% by the end of 2025. This outlook effectively pushed longer-term yields higher and bond prices lower during the quarter. Indeed, the Barclays Aggregate Bond Index declined -3.06% for Q4 and underperformed cash investments by more than 400 basis points or 4.0% for 2024. Effectively making it very difficult to convince investors to step out of their 4.0% "cash comfort zone". Money market funds, which continue to enjoy a 4.0% yield, have managed to attract more than $6.5 trillion of investors capital, an all-time high. Which begs the question, where will all this cash go if/when short term rates fall? Even the Oracle himself, Warren Buffett's Berkshire Hathaway is holding on to more than $325 billion in cash, an all-time high for the 94-year-old investor.

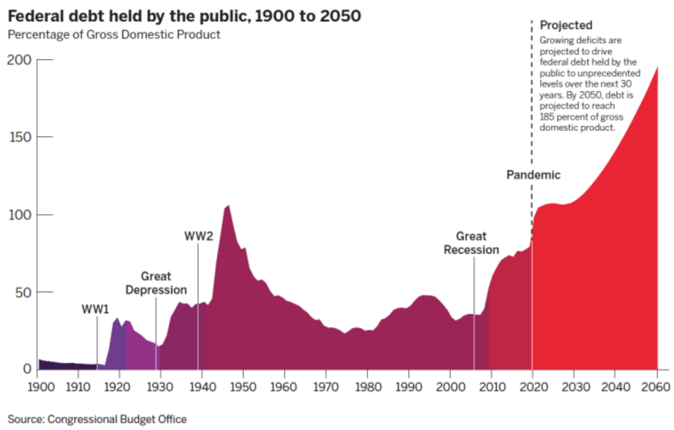
Investment Strategy & Outlook

The next four years promises to be anything but boring. There will likely be plenty of political chaos, misinformation and bouts of volatility as the global capital markets adjust to Trump 2.0.

However, Washington has not been a significant long-term catalyst for capital markets historically. Investors simply prefer the Government to do the job it was asked to perform, balance the federal budget and pay its bills.

Unfortunately, neither task has been accomplished over the last 20 years with the Federal Government unable to produce a balanced budget since 2000 and running up a $1.8 trillion deficit in 2024. For 2025, the situation does not look to improve very much at all.

One important segment of the capital markets that will be closely tuned into Washington will be the U.S. Treasury market. Each week the U.S Treasury borrows billions through its Treasury auction, the deepest and most liquid debt market in the world. So far, the U.S. Treasury has borrowed over $36 trillion without producing a plan on how to pay any of it back. In fact, the national debt as a percentage of GDP is projected to double by 2050.



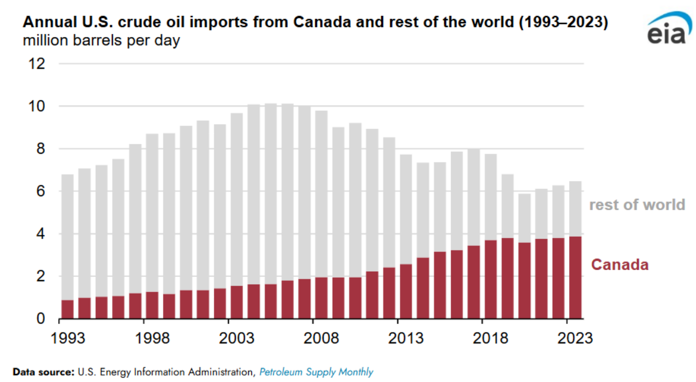
If a publicly traded company managed their business like the Federal Government, they would receive a junk debt rating and slide into a death spiral of higher borrowing cost (interest rates), forced asset liquidation and ultimately face bankruptcy. If history is a guide, the bond vigilantes will be the judge, jury and executioner on the fiscal insanity that has reigned in Washington now since the 2008-2009 great financial crisis. For now, the Treasury and Federal reserve continue to play a dangerous shell game and are abusing the reserve currency status and taking advantage of historically low borrowing costs and a thriving U.S. economy. This is not a given into the future.

In the short run, however, regulatory and fiscal policy changes can weigh heavily on both security selection and investment themes for sure. In our view the three areas most likely impacted in the near term will be Financials, Healthcare and Energy. De-regulation will benefit the most regulated of all industries, the Banks while certain healthcare companies, specifically the pharmaceutical industry, will be criticized for their profits without any consideration given to the cost of producing life-changing medicines and cures. Healthcare was one of the worst performing sectors in 2024 and trades at an attractive valuation relative to the broader market.

Energy may be the most opportunistic sector of the equity market in our opinion and may present some very attractive investment opportunities under the new administration for 2025. The demand for electricity is expected to double in five years. LNG is the cheapest way to produce electricity and the U.S. is a global leader.

The incoming administration is expected to remove several impediments that the prior administration imposed on the oil and gas industry. However, careful consideration needs to be given to our neighbors to the north as we import more oil from Cananda than any other country in the world. The U.S. remains the largest producer of oil in the world producing over 13 million barrels per day.

Canada's crude oil has an increasingly significant role in U.S. refineries



Capital Markets Scorecard

Benchmark Description	Q4	YTD
U.S. Treasury 3 Month T-Bill	0.17%	5.29%
Barclays Aggregate Bond Index	-3.06%	1.25%
Bloomberg US High Yield Bond	0.17%	8.19%
S&P 500 Index Total Return	2.41%	25.02%
S&P 500 Equal Weight Index Total Return	-1.85%	13.01%
NASDAQ Composite Total Return	6.35%	29.57%
S&P U.S. Dividend Growers Total Return	-0.74%	17.0%
Russell 2000 Index Total Return	0.33%	11.54%
Alerian MLP Index Total Return	4.94%	24.41%
MSCI Emerging Markets Index	-4.24%	13.70%
China SCI 300 Index Local Currency	-1.71%	18.24%
U.K. FTSE 100 Index Local Currency	-0.18%	9.57%
Japan Nikkei 225 Index Local Currency	5.35%	21.20%

Performance data as of 12/31/2024. Stokes Capital Advisors, LLC is a Registered Investment Adviser. This market commentary is solely for informational purposes. Advisory services are only offered to clients or prospective clients where Stokes Capital Advisors, LLC and its representatives are properly licensed or exempt from licensure. Past performance is no guarantee of future returns. Investing involves risk and possible loss of principal capital. No advice may be rendered by Stokes Capital Advisors, LLC unless a client service agreement is in place.