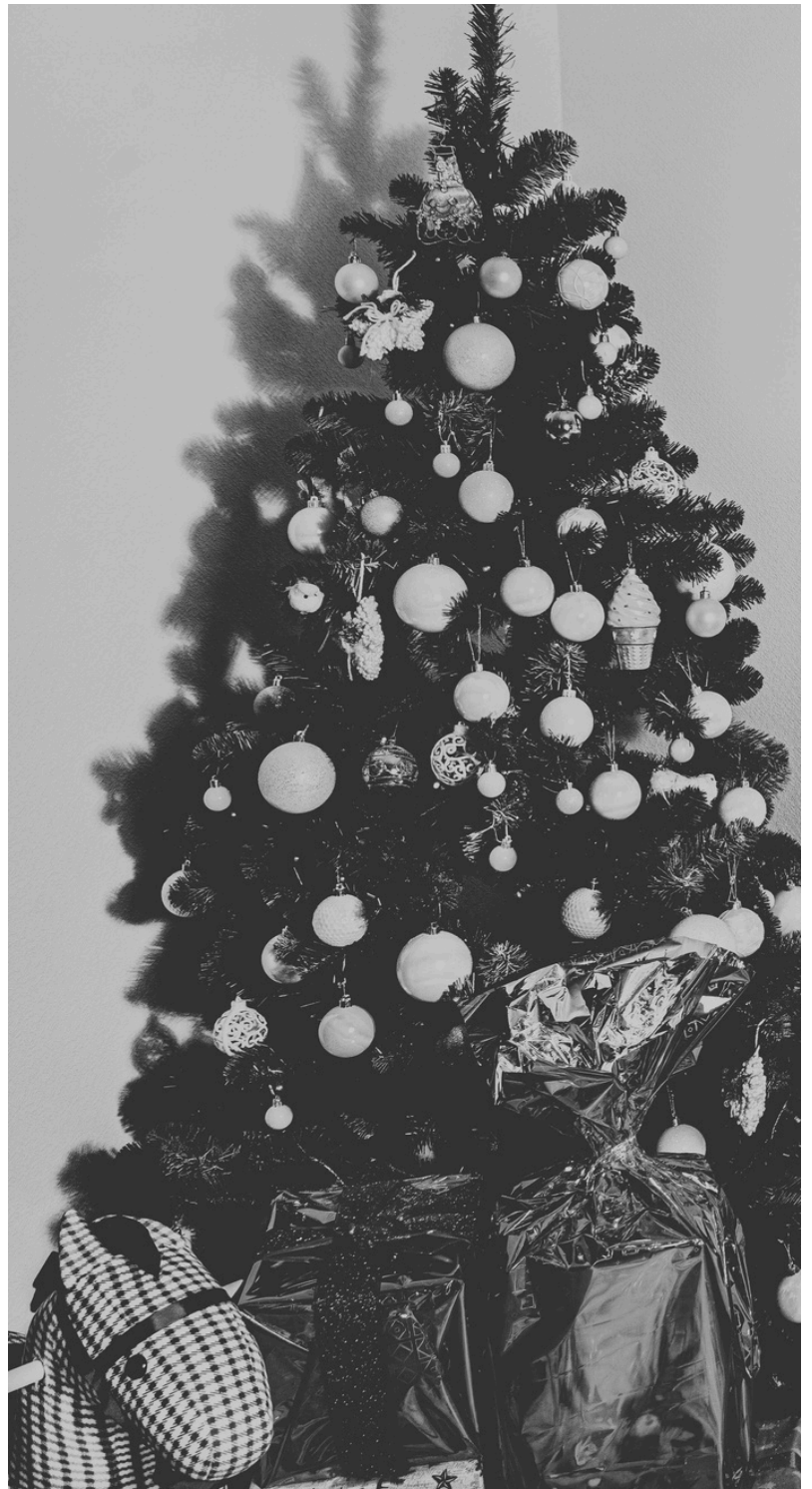


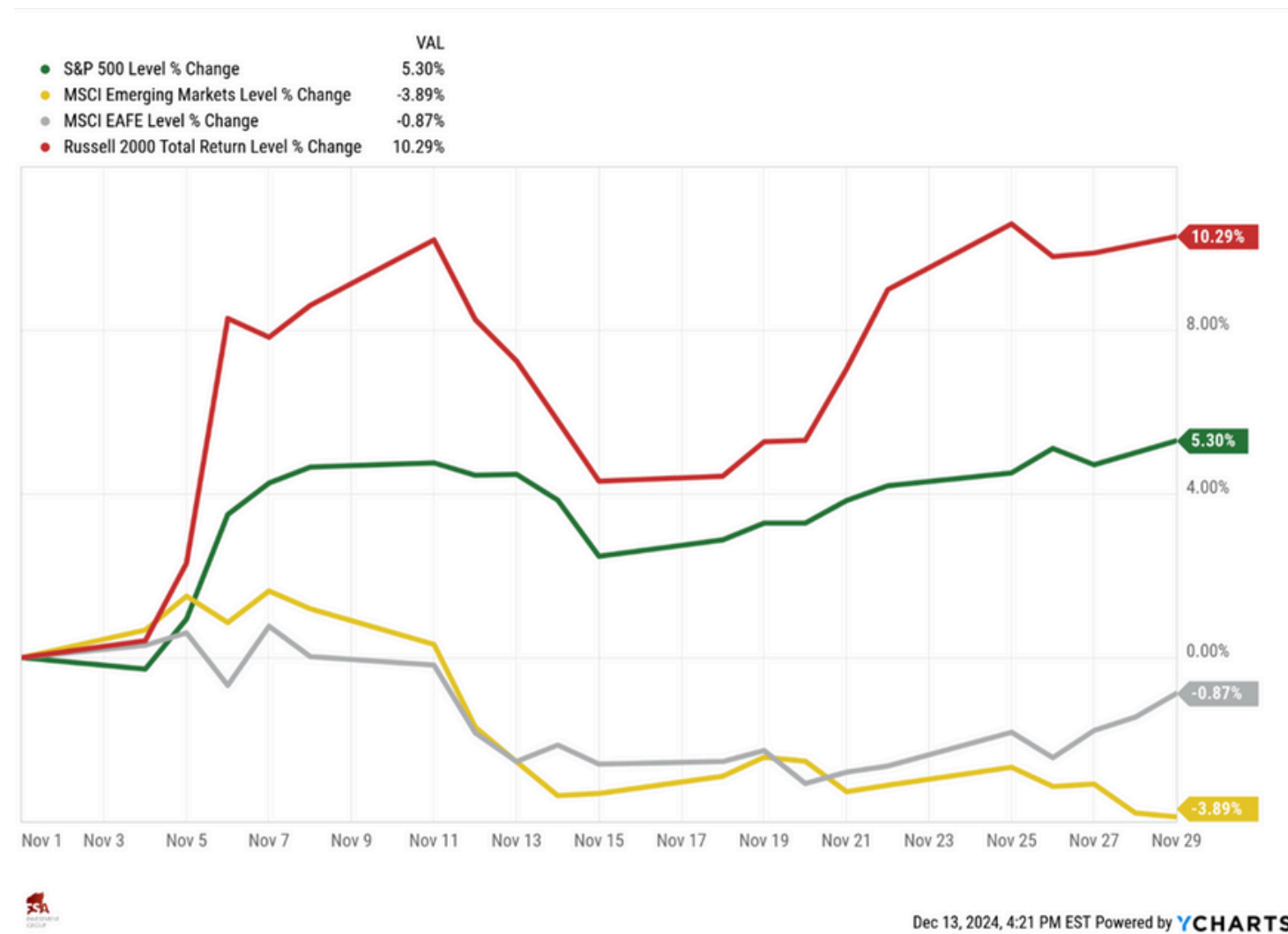
FSA INSIGHTS

HAVE YOURSELF A MERRY LITTLE CHRISTMAS

As the year concludes and the Holiday season is upon us, we are reminded of a Christmas song that carries a similar theme of resilience and optimism in the economy as that portrayed by Judy Garland's (or the popular Frank Sinatra version, if you prefer) "Have Yourself a Merry Little Christmas." This song carries the message of hope, and looking forward to brighter days. This meaning aligns well with our views of cautious optimism and a promising outlook for the year ahead.



The U.S. economy continues to exhibit signs of resilience, with recent indicators painting a positive picture of sustained growth. Key metrics like GDP expansion and robust employment signal that the foundation of the economic landscape remains solid. As the holiday season brings a spirit of hope, November's market performance echoed the promise of brighter days ahead. Equities rallied strongly, with the S&P 500 advancing 5.9%, the Nasdaq Composite adding 6.3%, and smaller stocks in the Russell 2000 rising 11.0%. However, not all global markets joined the celebration; Emerging Markets fell 3.6%, and Developed Markets slipped 0.6%. This difference in markets was due to Trump's victory and the expectations of deregulation, threat of tariffs in foreign markets and overall U.S. exceptionalism. Fortunately, our client portfolios were positioned for this U.S. rally as we overweighted domestic and small cap stocks.



While Europe and China are growing at relatively lower levels, the U.S. economy is being aided by its consumption-driven market. The U.S. labor market's resilience continues to bolster the economy, supporting robust job creation and increased household spending. Still, November data revealed some sobering trends, such as the sharp decline in single-family home sales—the steepest since July 2013—despite stable mortgage rates. Manufacturing PMI edged closer to expansion while gold prices paused their rally. Meanwhile, Bitcoin captured headlines, surging 34.7% in November and surpassing the \$100,000 mark in early December.

The easing inflation environment has provided much-needed flexibility for monetary policy adjustments. Treasury yields saw limited movement in November, with the 20-year yield declining by 13 basis points. Lower yields and stabilizing inflation set the stage for another Federal Reserve rate cut in December, encouraging investment and spending. While inflation has eased, it is the “last mile” that is always the most difficult. A few months ago it appeared that the Fed Funds rate may fall to 3.0% by the end of 2025, however with inflation remaining sticky and a new administration that is threatening to enact tariffs, we doubt that rates will fall that far next year.



Corporate profitability remains a cornerstone of economic strength, with businesses demonstrating resilience in November. All eleven sectors ended the month in positive territory, with Consumer Discretionary and Financials leading gains at 12.9% and 10.5%, respectively. The S&P 500 hit a historic milestone, surpassing 6,000 for the first time on November 11th, 2024, just nine months after breaking 5,000—a feat that underscores the strength of this market cycle. Furthermore, the average price target from Wall Street Strategists implies an additional 11 - 13% gain in 2025. The trend of the stock market points toward higher prices, but there is room for little error with valuations at such high levels.

As the economy heads into 2024, the outlook remains hopeful. A less restrictive Federal Reserve and ongoing investments in green energy and semiconductors will provide fertile ground for long-term economic growth. While risks like credit delinquencies and long-term fiscal challenges persist, strategic portfolio management can help mitigate these uncertainties.

This holiday season, investors can take comfort in, much like the enduring message of a timeless Christmas song, the economic resilience we've witnessed offers reason to have yourself a merry little Christmas. With thoughtful planning and steady optimism, the promise of brighter days remains within reach.

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Respectfully,

Andy Webb

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