CAPITAL MANAGEMENT GROUP

The Hefter Report – December 2024

As 2024 ends, we want to thank you. Whether you have been with us for a short time or several decades, we appreciate the trust and confidence you have placed in our team.

Our market view has remained relatively unchanged throughout the past year as we have stayed bullish and fully invested. The strong US equity market in 2024 has coincided with a concentration of performance among a small number of companies. The so called "Magnificent 7" have continued to lead, backed by strong corporate earnings. Global growth has remained resilient and not materially impacted by higher rates.

Looking forward to next year, we believe there are several factors to consider. First, we see little or no drag on growth expected from either monetary or fiscal policy. The Fed is signaling a slowdown in the easing cycle, corresponding to a still persistent above-target inflation. As of now, we anticipate slow and measured monetary easing in several steps over the next 12 months, from the current rate of 4.75% to a terminal rate of around 3.5%. In addition, given the election results, we do not anticipate additional fiscal spending. These two factors should prove benign for inflation and supportive of economic growth. In addition, we also believe that the risk of recession in 2025 is low, with employment remaining strong and wages steady. Given recent company-reported earnings estimates, our baseline outlook for 2025 is an increase of the broad market of 6-8%, with the "mega caps" continuing to lead the pack. As we discussed in earlier reports, one of our goals has been and continues to be broadening our equity exposure by market cap and adding to dividend producing stocks via ETFs and funds. We should also mention that as a team, we are still underweight international markets and virtually no current exposure to emerging markets.

Regarding fixed income, we believe that rates will remain near current levels with the 10-year Treasury yield ending next year around 4.25-4.50%. We also expect credit spreads to continue to be tight and the yield curve to remain positively sloped. Given this outlook, we think that some portfolio exposure to high yield taxable bonds as well as municipals makes sense.

Of course there are risks to this rosy outlook. We are not sure yet what the full effect of the proposed tariffs on Chinese goods (and possibly additional countries) will be, however historically they have been inflationary. If the U.S were to dramatically increase tariffs, we could see additional PCE inflation of 0.3-0.4% but the actual effects are difficult to predict. There are also several volatile regions and conflicts around the world that could expand geopolitical uncertainty. Barring that, we remain optimistic on markets in 2025.

Happy Holidays,

HLM Capital

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