

Q1 2025 NEWSLETTER



IMPACT

FINANCIAL STRATEGIES

What to Do with Extra Parsley... and Other Thoughts for 2025

As I sat struggling with writer's block for this quarter's newsletter, Stephanie was in the kitchen, eyeing the remains of our Christmas hosting, when she decided to "help" by suggesting this very title. I laughed, thanked her for her creativity, and reminded her I'd utterly fail at writing a cooking newsletter. Don't worry, I'll get to the market outlook soon—but first, I wanted to share some thoughts as we embark on another year.

2024 was a year of profound challenges, changes, and unexpected joys. Personally, it was one of the hardest I've faced. Watching my father's battle with primary progressive aphasia (PPA) has been an emotional journey that tested my resilience in ways I couldn't have anticipated. From losing his ability to drive to transitioning him into a group home for those with cognitive illnesses, the reality has been heart-wrenching for my family, especially my mom. Living it firsthand has been a stark reminder of how grief and sadness can cloud even the brightest of days. Yet, amidst these hardships, moments of resilience shone through.

One of those moments came unexpectedly. Sean, a new team member, declared, "The world is my oyster!" when I asked what he was most excited about in 2025. His youthful optimism shook me out of my "grumpy old man" funk (yes, turning 50 does that to you). It reminded me of the passion and excitement that fueled my early days in this career—and it's contagious.

This year, I took a leap of faith by betting on youth. Our team expanded with smart, driven individuals like Sean, Simon, and hopefully, Chris, our intern. Their energy has been rejuvenating—not just for me, but for the vision of what we aim to accomplish for you, our Client Tribe. Working hard, learning new things, and turning them into deliverables and valuable advice is rewarding in itself. But when done with such positive energy, it transforms the experience—and makes coming into the office every day a joy.

As we begin to navigate 2025, the markets remain highly valued, the economy is slowing, and uncertainty abounds. From geopolitical tensions to domestic concerns, it's easy to feel overwhelmed. Yet amidst the noise, there is still opportunity waiting to be uncovered. In this newsletter, I'll recap 2024, share our outlook for 2025, and highlight what we're watching closely—whether it's further confirmation of the "soft landing" or signs that markets may be overly complacent. Either way, we'll remain diligent, following the data and keeping your best interests at heart.

Oh, and in case you're wondering what to do with leftover parsley... I've attached ChatGPT's answer at the end of this newsletter. Stephanie decided on a quinoa parsley salad with eggplant. Stay healthy out there!

I hope you enjoy this newsletter, please reach out if you have any questions or comments,

Justin

Quarterly Insights – January 2025

The S&P 500 Completes the Best Two-Year Performance Since the Late 1990's.

The S&P 500 rose to an all-time high (the 57th of the year) in the fourth quarter and extended 2024 gains as the election results raised expectations for tax cuts and other pro-growth policies in 2025, while the economy remained on solid footing and the Fed continued to cut interest rates. The S&P 500 logged a modestly positive return for the fourth quarter and an annual return greater than 20% for the second straight year.

While the fourth quarter was positive for most of the market, it didn't start that way as anxiety over the election and an increased focus on the fiscal state of the U.S. weighed on sentiment in October. Presidential polls tightened materially in October and left the race too close to call, increasing political and policy uncertainty. Additionally, much of the financial media's focus in October was on the potentially negative fiscal consequences of both candidates' policies. Specifically, a *Wall Street Journal* article focused on possible large future increases in the deficit and national debt that could cripple future economic growth. Those fiscal concerns, along with stronger-than-expected economic data, pushed Treasury yields higher and the 10-year Treasury yield rose from 3.75% at the start of October to over 4.20% by Halloween. That rise in yields combined with political and policy uncertainty pressured stocks and the S&P 500 finished October with a modest decline, falling 0.91%.

Those headwinds on stocks were short-lived, however, as Donald Trump convincingly won re-election while Republicans took control of both houses of Congress, completing a "Red Sweep." Reminiscent of 2016, the Trump and Republican victories proved to be bullish catalysts as investors embraced the idea of future tax cuts, deregulation and a pro-business administration. That helped the S&P 500 rise above 6,000 for the first time. Shortly following the election, however, investors were reminded of the volatile nature of a Trump presidency, as the president-elect nominated several unorthodox supporters to prominent cabinet positions. These surprises caused investors to contemplate policy risks to the pro-growth agenda and stocks dipped mid-month. However, the withdrawal of Attorney General nominee Matt Gaetz and the nomination of Scott Bessent as Treasury Secretary helped to calm investor nerves about the president-elect's cabinet and stocks resumed their rally in late November and closed the month near all-time highs.

In December, renewed focus on the potential economic benefits of an incoming Trump administration combined with the "Goldilocks" economic environment of solid growth and continued Fed rate cuts to send the S&P 500 to yet another all-time high near 6,100. However, that rally stalled mid-month as President-elect Trump doubled down on his support for other unorthodox cabinet nominations and lobbed tariff threats at major trade partners including Canada, Mexico and China. Market volatility increased as the Federal Reserve cut interest rates at the December meeting but also reduced the number of expected cuts in 2025 to just two (from four). That sparked a sharp selloff in stocks that continued into year-end, causing the S&P 500 to finish slightly positive for the month, but well off the highs.

In sum, 2024 was a very strong year for the broad markets as the Fed is seemingly achieving the elusive "soft economic landing" and aggressively cutting interest rates, while foreign and domestic political risks and drama failed to derail the rally.

Q4 and Full-Year 2024 Performance Review

Despite the late year dip in stocks, all four major U.S. stock indices finished the quarter with a positive return. The Nasdaq was the best performing major index in the fourth quarter and outperformed the other three major indices on a combination of earnings-driven AI enthusiasm combined with growing uncertainty on when future pro-growth economic policies could actually be enacted. For the full year, the Nasdaq also was the best performing major index although it only slightly outperformed the S&P 500, as that index benefitted from the large weightings to tech stocks and financials. The Dow Industrials and Russell 2000 both also finished the year with solid gains, but they relatively underperformed the Nasdaq and S&P 500.

By market capitalization, large caps outperformed small caps in the fourth quarter and for the full year, thanks mostly to strength in large-cap tech stocks on the aforementioned AI enthusiasm and strong earnings. Small caps did see a solid rally initially in the fourth quarter on hopes for pro-growth policies from the incoming administration, but the Fed's guidance to fewer rate cuts in 2025 weighed on small caps later in December and the Russell 2000 finished the quarter with only a slight gain.

From an investment-style standpoint, growth significantly outperformed value both in the fourth quarter and for the full year. The reasons were familiar: Artificial intelligence enthusiasm powered tech-heavy growth funds early in 2024, while in the fourth quarter solid AI chipmaker earnings extended those gains. Additionally, doubts about the timeline for implementation of pro-growth policies from the incoming administration weighed on value stocks late in the year.

On a sector level, only four of the 11 S&P 500 sectors finished the fourth quarter with a positive return, although all 11 sectors ended 2024 with gains. The Consumer Discretionary sector was, by far, the best performing sector in the fourth quarter thanks in large part to a big Tesla (TSLA) rally and as the outlook for consumer spending remained solid, with low unemployment and the prospects of tax cuts and other pro-growth measures coming in 2025. The Communication Services and Financials sectors also performed well and benefited from expectations for less regulation given the incoming administration. For the full year, Communication Services and Financials were the best performing sectors and both benefited from strong earnings as well as general AI enthusiasm and an un-inversion of the yield curve, respectively.

Looking at sector laggards, Materials was the worst performing sector in the fourth quarter and posted a substantially negative return while Healthcare also declined sharply. Those two sectors were the worst relative performers for 2024 as the Materials sector was only fractionally positive for 2024 while Healthcare logged a small gain. Concerns about regulation and poor earnings results weighed on the Healthcare sector in 2024 while the Materials sector was consistently pressured by concerns about the Chinese economy, tariff and trade risks as well as general global demand concerns.

S&P 500 Total Returns by Month in 2024											
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1.68%	5.34%	3.22%	-4.08%	4.96%	3.59%	1.22%	2.43%	2.14%	-0.91%	5.87%	-2.38%

Source: Morningstar

US Equity Indexes	Q4 Return	2024 Return
S&P 500	2.41%	25.02%
DJ Industrial Average	0.93%	14.99%
NASDAQ 100	4.93%	25.88%
S&P MidCap 400	0.34%	13.93%
Russell 2000	0.33%	11.54%

Source: YCharts

Internationally, foreign markets badly underperformed the S&P 500 in the fourth quarter and produced solidly negative returns thanks to lackluster growth prospects and surprising bouts of political uncertainty in developed and emerging markets. Emerging markets and foreign developed markets saw similar negative returns in the fourth quarter as the South Korean political crises and worries about Chinese growth pressured emerging markets while political turmoil in France and Germany weighed on developed market performance. For the full year, foreign markets again badly lagged the S&P 500 but did finish with modestly positive returns. Emerging markets outperformed developed markets on a full-year basis thanks to Chinese stimulus announcements in the second half of 2024, which raised investors' hopes for an economic rebound and boosted emerging market performance relative to those foreign developed markets.

International Equity Indexes	Q4 Return	2024 Return
MSCI EAFE TR USD (Foreign Developed)	-8.06%	4.35%
MSCI EM TR USD (Emerging Markets)	-7.84%	8.05%
MSCI ACWI Ex USA TR USD (Foreign Dev & EM)	-7.50%	6.09%

Source: YCharts

Commodities saw mixed performance in the fourth quarter as a late surge in the U.S. dollar weighed on parts of the complex. Gold finished the quarter with a slightly negative return thanks mostly to a drop in December as the U.S. dollar rose to two-plus-year highs. Oil, meanwhile, saw a solid gain in Q4 thanks to some better-than-expected Chinese economic data, which boosted future demand expectations. For 2024, most commodities saw modestly positive returns on rising demand expectations following global rate cuts. Gold logged strong returns on the year thanks to consistent geopolitical uncertainty and sticky inflation, while oil also rose slightly on OPEC supply discipline and more optimistic global growth estimates in 2025.

Commodity Indexes	Q4 Return	2024 Return
S&P GSCI (Broad-Based Commodities)	3.81%	9.25%
S&P GSCI Crude Oil	5.24%	0.13%
GLD Gold Price	-0.38%	27.19%

Source: YCharts/Koyfin.com

Switching to fixed income markets, the leading benchmark for bonds (Bloomberg Barclays US Aggregate Bond Index) realized a moderately negative return in the fourth quarter as concerns about U.S. federal deficits combined with expectations for fewer rate cuts in 2025 to pressure bonds, although the benchmark did log a slightly positive gain for 2024.

Looking deeper into fixed income, longer-duration bonds declined solidly in the fourth quarter while shorter-duration debt logged a small positive return. The outperformance by shorter-duration debt was driven by continued Fed rate cuts as well as more resilient inflation and growth metrics (which weighed on longer-duration debt). Shorter-duration debt also outperformed long-term bonds on a full-year basis thanks to the start of the Fed rate cutting cycle, while U.S. fiscal concerns and the resilient growth and inflation outlook weighed on the longer end of the yield curve. Short duration debt finished the year with solidly positive returns while longer duration bonds posted a slightly negative annual return.

Turning to the corporate bond market, high-yield bonds outperformed higher-quality but lower-yielding investment grade debt in the fourth quarter as the election results boosted investor confidence for continued economic growth, resulting in investors accepting higher yields in exchange for greater risk. For the full year, high-yield bonds logged a solidly positive return while investment-grade bonds were only slightly positive, again reflecting investor preference to take on more risk in exchange for a higher yield/return, given underlying economic confidence.

US Bond Indexes	Q4 Return	2024 Return
BBgBarc US Agg Bond	-3.06%	1.25%
BBgBarc US T-Bill 1-3 Mon	1.19%	5.32%
ICE US T-Bond 7-10 Year	-4.59%	-0.52%
BBgBarc US MBS (Mortgage-backed)	-3.16%	1.20%
BBgBarc Municipal	-1.22%	1.05%
BBgBarc US Corporate Invest Grade	-3.04%	2.13%
BBgBarc US Corporate High Yield	0.17%	8.19%

Source: YCharts

Q1 and 2025 Market Outlook

Markets begin 2025 with great expectations as anticipation of tax cuts and pro-business deregulation, a continued economic soft landing and ongoing Fed rate cuts helped propel stocks higher throughout 2024 and the S&P 500 completed the best two-year run since the late 1990's.

Starting with politics, investors are eagerly awaiting the implementation of pro-growth policies from the Republican Congress and Trump administration, which includes an extension of the 2016 Tax Cuts and Jobs Act and possible additional corporate and personal tax cuts, along with sweeping deregulation. If executed, those policies should result in increased corporate earnings, personal incomes and spending (all of which are positive for stocks).

On growth, the Federal Reserve appears to have achieved the elusive economic soft landing, as economic activity is solid, unemployment is historically low and inflation has declined substantially. That allowed the Federal Reserve to aggressively cut interest rates in 2024 and investors expect rate cuts to continue in 2025 and to further support continued economic growth.

Finally, geopolitical tensions remained high in 2024 but investors finished the year with hopes for progress on ceasefire agreements between Israel and its antagonists (Hamas and Hezbollah) and between Russia and Ukraine.

And, if all these expectations are realized, we should all expect another strong year of returns in the markets.

However, as we all know, nothing in the markets is guaranteed and while the outlook is positive as we begin 2025, there are significant risks to the outlook we must acknowledge. If the risks that we see, or risks that we don't see cause this market to reprice, there is significantly more downside risk to portfolios than upside potential from the current level. (See the Market Multiples Chart below).

Politically, Republicans hold small majorities in the House and Senate and large, complicated tax cut bills could easily be delayed (or derailed). Additionally, while investors have focused on potential positives of pro-growth policies, increased trade tensions and possible tariffs could create unanticipated market and economic headwinds.

On growth, the economy remains in a “sweet spot” with solid, but not spectacular, growth and the Fed can claim a soft landing has been achieved. However, growth can still slow as rates remain historically high and elevated stock valuations imply complacency in the markets regarding the possibility of an economic slowdown.

Geopolitically, while hope for progress on resolution of major global conflicts is high, nothing is guaranteed, and the possibility exists that both conflicts spread in 2025.

Finally, global bond markets are expected to have a bigger influence on stock returns in 2025 and if bond investors think aggressive tax cuts or fiscal spending will dramatically increase the deficit or national debt, bond yields will rise and present a headwind on stocks (as we saw in 2022).

Bottom line, while the outlook for markets is positive as we start the year, we won't allow that to create a sense of complacency because as the past several years have shown, markets and the economy don't always perform according to Wall Street's expectations.

As such, while we are prepared for the positive outcome currently expected by investors, we are also focused on managing both risk and return potential because the past several years demonstrated that a well-planned, long-term focused and diversified financial plan can withstand virtually any market surprise and related bout of volatility, including multi-decade highs in inflation, historic Fed rate hikes, and geopolitical unrest.

Market Multiple Levels:



Source: Kinsale Trading LLC

At Impact Financial Strategies, we understand the risks facing both the markets and the economy, and we are committed to helping you effectively navigate this challenging investment environment. Successful investing is a marathon, not a sprint, and even temporary bouts of volatility like we experienced over the past three months are unlikely to alter a diversified approach set up to meet your long-term investment goals.

Therefore, it's critical for you to stay invested, remain patient, and stick to the plan, as we've worked with you to establish a unique, personal allocation target based on your financial position, risk tolerance, and investment timeline.

Rest assured that our entire team will remain dedicated to helping you successfully navigate this market environment.

Please do not hesitate to contact us with any questions or comments on this newsletter.

****And if you are still reading, and you have any other questions about the economy, the markets, or what happening with IFS, please let us know. And if there are any particular question or comments you would like me to address in our 2025 Market Outlook Dinner we will be hosting in February, PLEASE let us know!****

Sincerely,

Justin

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Soft Landing versus Hard Landing Scorecard Q1 2025

When thinking of the market volatility since the beginning of August, I felt compelled to provide an indicator scorecard inspired by our colleagues at The Sevens Report. Considering only the figures isn't enough, but also the direction and rate of change. While most of these data points are still in the green, they are showing signs of stress.

Hard Landing vs. Soft Landing Scoreboard (As of January 7th, 2025)							
	Most Recent	Current Month	Mo - 1	Mo - 2	Hard/Soft Landing	Source	Release Schedule
ECONOMY	How to read: > 50 = Growing; < 50 = contracting						
ISM Manufacturing PMI	Dec	49.3	48.4	46.5	Hard Landing	ISM	1st bus. day/month
ISM Services PMI	Dec	54.1	52.1	56.0	Soft Landing	ISM	3rd bus. day/month
SALES/SPENDING	The General Trend is important, are these #'s rising or falling?						
Retail Sales	Nov	\$628B	\$623B	\$620B	Soft Landing	Census Bureau	14th-18th of month
NDCGXA	Nov	\$74.08B	\$73.76B	\$73.86B	Soft Landing	FRED (using CB)	24th-28th of month
LABOR MARKET	The General Trend is important, are these #'s rising or falling?						
Job Adds (Nonfarm)	Nov	227K	36K	255K	Soft Landing	BLS	1st Friday/month
New Jobless Claims	Nov	225K	218K	225K	Soft Landing	DOL	Thursdays
Unemployment Rate	Nov	4.2%	4.1%	4.1%	Soft Landing	DOL	1st Friday/month

Source: ISM, Department of Labor, Census Bureau, Bureau of Labor Statistics, St. Louis Fed

- Economy:** ISM Manufacturing PMI: The index has been stable since July but remains below 50, signaling nine consecutive months of worsening conditions. ISM Services PMI: Since breaking above 50 in July, this index has risen each month until November, climbing again in December. **We are keeping an eye out for** both indices falling below 50. Such production conditions would signal an overall contraction giving cause for concern, especially if lasting longer than one month.
- Sales/Spending:** Retail Sales: Retail sales have been on an upward trajectory since the beginning of 2024, never falling below \$600B. NDCGXA (New Orders for Non-Defense Capital Goods Excluding Aircraft): This metric, the best indicator of national business spending and investment, has oscillated between \$73B and \$74B throughout the year. While minor movements between are better than a definitive contraction, it naturally raises concerns about the lack of growth. Corporate anxiety about future economic conditions may be leading to caution, but it has not yet led to significant cuts in spending or investment. **We are keeping an eye out for** a sharp decline in retail sales or NDCGXA, dropping to multi-month lows within the next three months, would be a significant red flag.
- Labor Market:** Employment data is showing mixed, but not concerning, results. Unemployment ticked up 0.1% from October, while job adds have increased. New jobless claims have remained relatively steady over the last three months as well. However, metrics such as the unemployment rate are still at some of the weakest levels since 2021 and while the job market has been improving over the last few months, its overall health cannot be described as outstanding. **We are keeping an eye out for** monthly job adds falling below 100,000 for more than one month or jobless claims rising above 300,000.

- **Me: “ChatGPT - What do you suggest we do with extra parsley?”**

ChatGPT Response:

Leftover parsley can be used in a variety of ways to enhance dishes or even create entirely new recipes. Here are some of the best ways to use it:

Culinary Uses:

- **Chimichurri Sauce:** Blend parsley with olive oil, garlic, vinegar, and red pepper flakes for a versatile sauce for meats or vegetables.
- **Herb Butter:** Mix chopped parsley with softened butter, garlic, and lemon zest. Chill and slice as needed.
- **Parsley Pesto:** Substitute parsley for basil in pesto. Blend with olive oil, garlic, nuts, Parmesan, and lemon juice.
- **Garnish:** Sprinkle chopped parsley on soups, salads, or roasted vegetables for freshness.
- **Herb Crust:** Combine parsley with breadcrumbs, garlic, and olive oil for a crust on baked meat or fish.
- **Green Smoothies:** Add parsley to smoothies with spinach, cucumber, and citrus for a nutrient boost.
- **Tabbouleh:** Make this Middle Eastern salad with parsley, bulgur, tomatoes, and lemon dressing.
- **Parsley Oil:** Blend parsley with olive oil, strain, and drizzle over pasta, soups, or veggies.

Storage Ideas:

- **Freeze It:** Chop parsley, mix with olive oil or water, and freeze in ice cube trays for soups or sauces.
- **Dry It:** Dehydrate parsley by air-drying or using a dehydrator. Store in an airtight container.

These ideas help reduce waste while adding vibrant flavor to meals!

DISCLOSURES

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The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.

The Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal.

The NASDAQ Composite Index is an unmanaged index of securities traded on the NASDAQ system.

The S&P MidCap 400® provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500, measures the performance of mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment. Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.

The S&P GSCI is a composite index of commodities that measures the performance of the commodity market. S&P GSCI Gold is an index tracking changes in the spot price for gold bullion. S&P GSCI Crude Oil is an index tracking changes in the spot price for crude oil. GLD is a gold index fund based on gold and holds gold and/or cash as its only assets, but shareholders are not guaranteed to receive physical gold in exchange for their shares.

The MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations.

The MSCI Emerging Markets is designed to measure equity market performance in 25 emerging market indices. The index's three largest industries are materials, energy, and banks.

The MSCI ACWI (All Country World Index) is a free floating-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.

The Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.

The Barclays US T-Bill index measures the performance of public obligations of the U.S. Treasury that have a remaining maturity of greater than or equal to 1 month and less than 3 months.

The ICE U.S. Treasury 7-10 Year Bond Index is market value weighted and is designed to include U.S. dollar denominated, fixed rate securities with minimum term to maturity greater than or equal to seven years and less than ten years. Barclays Capital U.S. MBS Index measures the performance of investment grade fixed-rate mortgage-backed pass-through securities of GNMA, FNMA, and FHLMC.

The Barclays Capital Municipal Bond is an unmanaged index of all investment grade municipal securities with at least 1 year to maturity. The Bloomberg Barclays US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility, and financial issuers.

The Bloomberg Barclays U.S. Corporate High Yield Bond Index is composed of fixed rate, publicly issued, non-investment grade debt, is unmanaged, with dividends reinvested, and is not available for purchase. The index includes both corporate and non-corporate sectors. The corporate sectors are Industrial, Utility and Finance, which include both U.S. and non-U.S. corporations.

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Diversification and asset allocation do not ensure profit or protect against loss. Holding investments for the long term does not insure a profitable outcome. Investing involves risk and you may incur a profit or loss regardless of the strategy selected. Links are being provided for information purposes only. Raymond James is not affiliated with and does not endorse, authorize or sponsor any of the listed websites or their respective sponsors. Raymond James is not responsible for the content of any website or the collection or use of information regarding any website's users and/or members.