MARKET INSIGHT

First Quarter 2025

UNITED BANK
Wealth Management

As 2025 begins, investors appear confident and eager to embrace the business agenda proposed by the Republican party and the President-elect. Since the election in early November, equities have continued to rally while interest rates have moved only marginally higher. Following a very profitable year for both stocks and bonds in 2023, investors were delivered another quality year, though fixed income returns have moderated as of late. Stocks on the other hand, as measured by the S&P 500, have set 57 new all-time highs this year, 10 of which have occurred since the election. Through mid-December, nearly every major domestic equity index has produced double-digit returns year-to-date, with large-cap growth leading the way once again. United's Investment Committee's decision to increase the weighting in domestic growth equities has proved timely and rewarding.

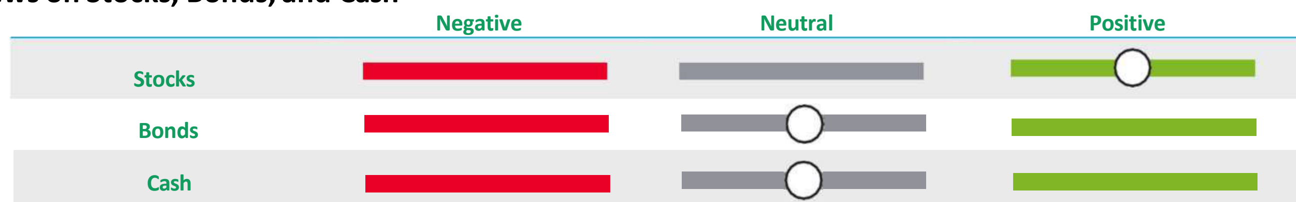
It is worth noting equity returns have been exceptional since the lows reached in October of 2022. Looking back, the two plus years of well above-average returns need to be factored in as we look forward. The first year of the Presidential four-year cycle is often volatile and can produce lower returns. History also shows that when one party controls both the Executive and Legislative branches, financial markets are somewhat less profitable. While corporate earnings estimates are expected to set record highs next year, we think investors have priced in some, but not all, of this future earnings growth. Stocks should continue to be a leading asset class but with some modest reduction in return expectations compared to years' past, emphasizing the need for a well-diversified portfolio and sound investment advice.

INVESTMENT TAKEAWAYS

- The long-awaited "Fed Pivot" finally arrived in September with an unexpected 50 basis point cut in the Fed Funds rate. With two additional 25 basis-point reductions in both November and December, the Fed has clearly signaled that inflation, though persisting, does not possess the harmful impact it once did. However, rate reductions in 2025 are likely to be fewer than previously expected as the Fed has indicated the economy may be strong enough to not require additional stimulus through rate cuts.
- Over the last six months, the anticipated actions by the Fed were among the primary factors driving investor behavior. Equity investors recognized lower rates typically result in a preference for higher risk assets like equities, and this general strategy has proven correct. At the onset of the Fed's rate reduction action, fixed-income investors attempted to lock in higher coupon rates because they recognized lower rates would reduce future income streams. This strategy worked as well, but only for a few months. Policies introduced by President-elect Trump have been interpreted as stimulative and inflationary. Thus, fixed-income investors have seen negative returns in the short term as rates have moved higher.
- In the months immediately preceding the election, reports were beginning to show the potential for a slowing economy. Inflation was tame, job openings were in decline, more people were filing for financial assistance, and retail sales were showing signs of weakness. As a result, the Fed began to lower short-term rates. However, the election results have changed the perception of both the economy and likely interest rate path. With a potentially stronger than expected economy ahead, rates are now unlikely to fall as higher inflation caused by both economic growth and policies could materialize.
- As we have mentioned in several previous Market Insights, the stock market historically does very well during the third year and the fourth year of a President's term. Both 2023 and 2024 followed this historical trend. Stock market returns since the election have been favorable, but there are no certainties as we move forward. While investors collectively feel business conditions are likely to be more favorable with President-elect Trump back in office, change brings uncertainty, which can lead to investors considering how best to manage risk based on their own financial goals.
- We maintain our commitment to risk-managed portfolios and protecting asset values in times of volatility. In prior years, United Wealth & Investment Management adjusted its tactical asset allocation and increased exposure to growth-style equities. Growth companies—particularly large-cap growth companies—have continued to show remarkable strength, resilience and exceptional relative earnings.
- The U.S. economy and stock market are still outperforming almost every other developed nation, as the dollar has strengthened. We expect short-term rates to hold relatively steady. The Fed has already reduced the Fed Funds rate by 100 basis points, which should provide enough economic stimulus for some time. The yield curve is favorable for a well-balanced, moderate-duration position. We favor high-quality, intermediate maturities with some exposure to the high-yield segment.

BROAD ASSET CLASS VIEWS

Views on Stocks, Bonds, and Cash



EQUITY ASSET CLASSES

Strong 2024 Growth but Valuation and Rate Risks Remain a Focus

As we review 2024, the stock market has been remarkably consistent. The current bull market began in 2009, and for more than 15 years, growth has dominated value. U.S. large-cap growth companies have outperformed the global equity landscape. Market breadth has expanded, and more companies are joining the rally; a trend we believe is unlikely to end soon. United Wealth & Investment Management continues to allocate most of its equity exposure to large-cap stocks, having previously shifted its tactical weightings to increase domestic growth exposure. While earnings in IT and communications have outpaced other sectors, so too have their stock prices, raising concerns about elevated valuations. By historical standards, large-cap stocks are expensive, and some investors may consider the market overvalued. Although interest rates were expected to decline more rapidly into 2025, the strength of the U.S. economy and incoming policies may prevent significant declines, or even lead to higher rates, as inflation could return. While November was positive, December's performance was slightly lower. Given 2024's returns, a modest, yet short-lived pullback may come in time. End-of-year tax-loss harvesting is a common service for our clients, and we may opportunistically extend this exercise into early 2025. We do see further equity gains in 2025, but investors should remain mindful of extended valuations, past gains, a changing policy landscape, and fixed-income vehicles that could offer higher returns than forecasted.

		View	Relative Trend	Rationale
Market Capitalization	Large-Caps			Throughout the year, U.S. large-cap stocks have once again led global equity markets. Growth companies, particularly mega-cap technology and communications companies, performed exceedingly well and continue atop the leaderboard in 2024. As infrequent as they were, institutional investors used any minor pullbacks to accumulate more large-cap equity shares, driving this segment higher. Though participation has expanded to other industries, investors continue to prefer companies with the strongest momentum. Valuations are becoming stretched, particularly in the growth style, but on a relative basis, interest rates are not yet high enough to warrant a pivot. Should rates move higher, we anticipate some equity market pressure.
	Mid-Caps			Mid-cap companies had a solid year achieving double digit gains. Similar to the large-cap segment, investors showed a preference for the growth style. Earnings are stable, valuations are reasonable, and breadth is expanding but the recent post-election interest rate rise has negatively impacted mid- and small-cap performance. Similar to other short-term time periods over the last two years, rate increases are seen as an obstacle to growth and investors may be cautious. Unless rates move substantially higher, which we do not foresee, this segment should perform well again in 2025.
	Small-Caps			The small-cap sector has been disproportionately impacted by rising rate threats for over two years. Although small-cap companies performed exceedingly well as rates fell in late 2023, intermittent higher-rate fears throughout 2024 have prevented investors from fully embracing this segment. Earnings reports are encouraging, and valuations remain among the most attractive of all equity segments. The U.S.-first agenda espoused by the incoming administration should be a tailwind for small-caps.
Style	Growth			Large-cap growth companies continued to lead the way during almost every month in 2024. Though more companies are participating in this rally the longer it runs, mega-cap growth companies are clearly driving this pronounced advance. Technology and communications stocks remain dominant year-to-date, but investors are being rewarded for diversifying their growth holdings. Market performance is not as narrow as it once was due to consumer spending patterns having extended to discretionary items. United's increased equity allocation to the growth style has been timely and productive.
	Value			Although United lowered our value-style exposure in favor of growth, we still maintain a slight value bias to protect portfolios from both known and unknown risks. The companies held in our value-based Large Cap Dividend Strategy are recognized for their perennial healthy balance sheets and favorable attitude towards investors. Value companies have attracted more attention lately due to attractive valuations and reliable earnings. We anticipate further gains in 2025 as relative valuations are compelling.
Region	United States			It is our continued position that better relative performance will be generated from the U.S. stock market than from international markets for the foreseeable future. The U.S. market has more consistent and predictable outcomes. This preference is evidenced by the significant equity rally beginning one year ago. Valuations are only reasonable in the large-cap segment, despite exceptional earnings growth. Both mid- and small-cap companies remain attractive as interest rates fall and economic growth expectations remain steady. The strength of the U.S. employment environment has led to continued overall consumer health.
	Developed International			Unlike the U.S., many foreign governments have a growth problem. Simply stated, though inflation has been effectively tamed, many countries are paying a heavy toll for central bank rate increases. Governments would like to expand employment and their respective economic bases, but plans vary, and many countries are in political turmoil. Newly elected leaders have little history in planning, much less implementing, economic development programs. We are doubtful that effective programs will be enacted soon. Further, Trump's tariff program and international agenda puts other countries at a disadvantage. We maintain our baseline weight to international developed equities.
	Emerging Markets			Although we foresee emerging market growth over the long term, uncertainties stemming from international conflicts create obstacles to consistency and predictability. Our removal of direct exposure to China was timely. We continue to maintain our baseline weight to this segment.

FIXED INCOME

Heading Toward a Normal Yield Curve

As evidence to how quickly things can change, in early September, economic reports were showing a slowdown approaching, inflation was nearing the Fed's target of 2.0% and fixed income investors demanded less return in exchange. The Fed was so comfortable with inflation reports it decided to surprise the markets by reducing the Fed Funds rate by a full 50 basis points on September 18th. Now, over three months later, inflation has moved higher, third quarter GDP rose over 3.0%, and the economy added 227,000 new jobs in November. Hardly a slowdown! Though the Fed decreased the Fed Funds rate by 25 basis points at each of their final two meetings of the year, it has indicated that rate reductions are likely to be limited going forward. In fact, the Fed Funds futures market currently predicts only one additional rate cut for all of 2025. It is worth repeating that United's Investment Committee has never thought a slowdown was imminent or even on the horizon. While we did return to a more normalized duration for our managed bond portfolios, our position remains that over the foreseeable future, even a modest rise in rates will have limited impact on fixed income asset values. The yield curve shifted as predicted, with short-term rates falling directly in concert with the Fed's actions. The long end of the yield curve has increased 100 basis points from its low but is only about 25 basis points higher than pre-election levels. Currently, the 30-year bond rate is 50 basis points above the Fed Funds rate, indicating the start of a normal yield curve trend. We maintain our position that the economy is too strong to pull long-term rates much lower. We currently recommend a blend of high-quality, intermediate-term bonds in all fixed-income portfolios with appropriate exposure to shorter maturities. Quality companies and municipalities continue to perform well across the credit quality and size spectrum. High-yield bonds issued by stable and growing entities continue to be a productive use of fixed-income capital. We remain committed to a modest high-yield position in both corporate and municipal bonds. In tax-sensitive accounts, we favor municipal bonds, as infrastructure spending, strong state revenues, and the potential for higher personal tax rates provides support to municipal markets.

Positioning		Low / Medium / High	Rationale
	Credit Quality	High	To protect asset values, United prefers fixed-income portfolios dominated by high-quality bonds. Credit spreads have normalized despite higher rates.
		Short / Int. / Long	
	Duration	Int.	United believes short-term rates will continue to decline and will mirror actions taken by the Fed. Longer-term rates will remain close to present levels.

COMMODITIES

Commodity prices may be influenced by a variety of global factors. While some commodities have been stable this year, others have been volatile. Broad baskets of commodities have been relatively stable in 2024, increasing only slightly from where they began the year. West Texas Intermediate Oil is virtually unchanged for the year, while U.S. natural gas prices have risen around 35% due to hurricane-related supply disruptions and exports to Europe to offset the decline in Russian exports. Gold and most precious metals have performed well. For most of the year, U.S. interest rates were lower and expected to decline, which led to a weaker dollar and lifted gold prices. The election results have increased rate expectations and strengthened the dollar, reducing gold and other precious metal prices. We do not see the dollar weakening in the near future. Most agricultural prices remain subdued and are lower for the year. Construction and building-oriented commodities weakened throughout the year but have staged an impressive comeback since the election due to higher growth estimates for 2025. If global conflicts ease, we foresee commodity prices continuing their downward path in general with energy prices falling if the U.S. initiates a more aggressive drilling program. Precious metal prices will change based on prevailing global risk assessments.

CONCLUSION

This past year has proven to be quite profitable for most equity and fixed-income investors. As always, investors' returns are heavily dependent on the level of risk taken. At year-end, investors have been rewarded for having faith in the U.S. economy, trust in the Federal Reserve, understanding how technology assists our daily activities, and matching one's risk tolerance with investment options that lead to successful outcomes. Having a plan and working with partners who assist you in implementing that plan helps reduce anxiety and increase the odds of achieving your goals. Owning a diversified portfolio that participates in the market's upside, while protecting asset values on the downside, yields healthy returns with less portfolio risk. While we see further gains ahead, the strong performance generated over the last several years cannot be ignored. The rate of equity growth in the future may not approach what has been recently experienced. While we do not anticipate prices will dramatically contract (record-setting earnings growth is expected in 2025), we do expect more modest equity performance in 2025.

Disclosures

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