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Prior to closing out an amazing year for equity markets in 2024, questions quickly emerged regarding 2025 capital market expectations. It felt like putting up Holiday decorations before Thanksgiving, as everyone was eager to know what comes next, especially with the upcoming transition in the White House. Feedback for the new year has been mostly positive, driven by trending qualitative factors that confirm our belief in a sentiment-driven market in select sectors. This is particularly evident in the tech sector, where all-time highs continue to be tested, fueled by AI euphoria and advancements in quantum computing.

The extent of our optimistic outlook for 2025 is based on a reference point established by year-end market levels. We believe a higher close in 2024 would have resulted in lower expectations for 2025. However, the pullback from post-election highs has provided potential upside breathing room for an encore year. Based on our fundamental approach using 2024/2025 projections, equity markets closed out the year in overbought territory. The key question is: where are we relative to 2025/2026 projections? In typical fashion, we patiently await 2026 projections as we move through year-end earnings reports. Our fundamental trading range will come into focus sometime next month, which will provide a gauge to determine overbought and oversold conditions.

The post-election rally reflected an immediate response to perceived clarity regarding taxes and certain business and regulatory policies. However, as the transition of administrations approached, uncertainty quietly crept in, causing some doubt in the celebratory run-up. This softer sentiment contributed to the minor pullback experienced at year-end. Volatility is expected throughout the first quarter as we navigate a sea of unresolved questions regarding the incoming administration's policy priorities upon their return to the White House.

In 2025, tariffs will be a key focus due to their real impact on capital markets beyond geopolitical posturing. Higher tariffs are expected to affect GDP, corporate fundamentals, and inflation. We believe prices, even before additional tariffs, are likely to remain steady or inch higher while trying to stay within acceptable Personal Consumption Expenditure levels. Inflationary pressures driven by tariffs are a concern, particularly because they may not be effectively managed through Federal Reserve policy, rendering higher rates ineffective.

The writing on the wall regarding inflation expectations has been clear, as reflected by the yield on the 10-year Treasury recently touching 12-month highs of approximately 4.8%. The most recent jobs report exceeded expectations, further fueling advancing yields and lowering the likelihood of additional rate cuts in 2025. We believe the bond market is slightly oversold at this time, but initial expectations for significantly lower yields need to be adjusted upward. The anticipated bond rally for 2025 has been temporarily paused as yields trend higher.

Ellis Investment Partners is extremely excited to welcome our new colleague, Joseph McGinley. With 25 years of experience, Joseph will be a valuable addition to our team as a Senior Financial Consultant. Based in San Francisco, he will help expand our presence on the West Coast.

As the incoming administration settles in, we expect many questions to arise. Please do not hesitate to reach out to your advisor with any concerns about your portfolio or financial plan. Wishing everyone a happy and healthy New Year!

This report was written by David Y. Sun, CFA. It is a recap of the market conditions from the previous quarter and is for information purposes only.