The Cobblestone Advisor
Investment Brief
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COBBLESTONE
CAPITAL ADVISORS

Full Steam

2024 was another strong year for US equity investors. Following a 26.3% increase in 2023, the S&P 500 went on to rise another 25.0% in 2024. The back-to-back gains notched the best performance for the index since the late 1990s.

The strength in US equities drove multi-asset portfolios to a second consecutive year of double-digit gains, well above their long-term average. Bonds, meanwhile, delivered a more modest 1.3% return.

After hiking interest rates by more than five percentage points beginning nearly three years ago, the Federal Reserve began lowering rates in September. The Federal Reserve's rapid increase in interest rates was intended to tame economic growth just enough to quell inflation. With inflation moderating, the Federal Reserve is now cutting rates to support economic growth and avoid recession. It's a delicate balance, but so far, the Federal Reserve appears to be achieving a soft landing.

GDP is growing faster than usual, averaging 2.7% year-over-year compared to the historical 2.1%. An estimate of fourth quarter GDP growth won't be released until January 30, but analysts expect the strength to continue.

The economy's primary driver is consumption, which accounts for approximately 68% of US GDP. Like GDP, consumption is growing above its 2.4% historical average, increasing most recently at a 3.7% annual rate.

Strong consumption trends look set to continue. The employment market is healthy. Household finances are in good shape, and consumers appear to be using credit responsibly. Outside of the pandemic (when consumers were flush with stimulus), debt payments as a percentage of disposable income are at record lows. By this metric, the US consumer can keep spending.

On the corporate front, companies grew their earnings by 5.9% year-over-year during the third quarter, which marked the fifth consecutive quarter of growth. Against a healthy economic backdrop, fourth-quarter earnings are projected to grow at a double-digit pace, their highest growth rate since the fourth quarter of 2021.

Corporations are driving investment and redeploying profits back into their businesses. Fiscal tailwinds stemming from key legislation such as the CHIPS and Science Act (2022), the Inflation Reduction Act (2022), and the Infrastructure Investment and Jobs Act (2021) are also supporting capital expenditure plans.

These dynamics are propelling a construction spending boom. Construction spending on new US manufacturing facilities has reached record levels of more than $236bn annually (as shown on the subsequent page). This represents the largest surge in manufacturing construction spending ever recorded. This strong corpo-

(Continued on page 2)

Total Return (%), Ending 12/31/2024				Annualized		
	Qtr	YTD	1 Year	3 Years	5 Years	10 Years
S&P 500 Stock Index	2.4	25.0	25.0	8.9	14.5	13.8
Russell 2000 (Small-Cap Stocks)	0.3	11.5	11.5	1.2	7.4	6.9
MSCI World Ex. US (International Developed Stocks)	-7.4	4.7	4.7	1.9	5.1	4.4
MSCI EM (Emerging Markets)	-8.0	7.5	7.5	-1.9	1.7	1.4
Bloomberg US Aggregate Bond Index	-3.1	1.3	1.3	-2.4	-0.3	1.0
Dow Jones US Select REIT	-5.8	8.3	8.3	-3.0	3.4	4.9
Consumer Price Index (% Chg over Period; One Month Lag)	0.2	2.9	2.7	4.3	4.2	2.9

Source: Bloomberg.

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rate investment is a foundation for future economic growth.

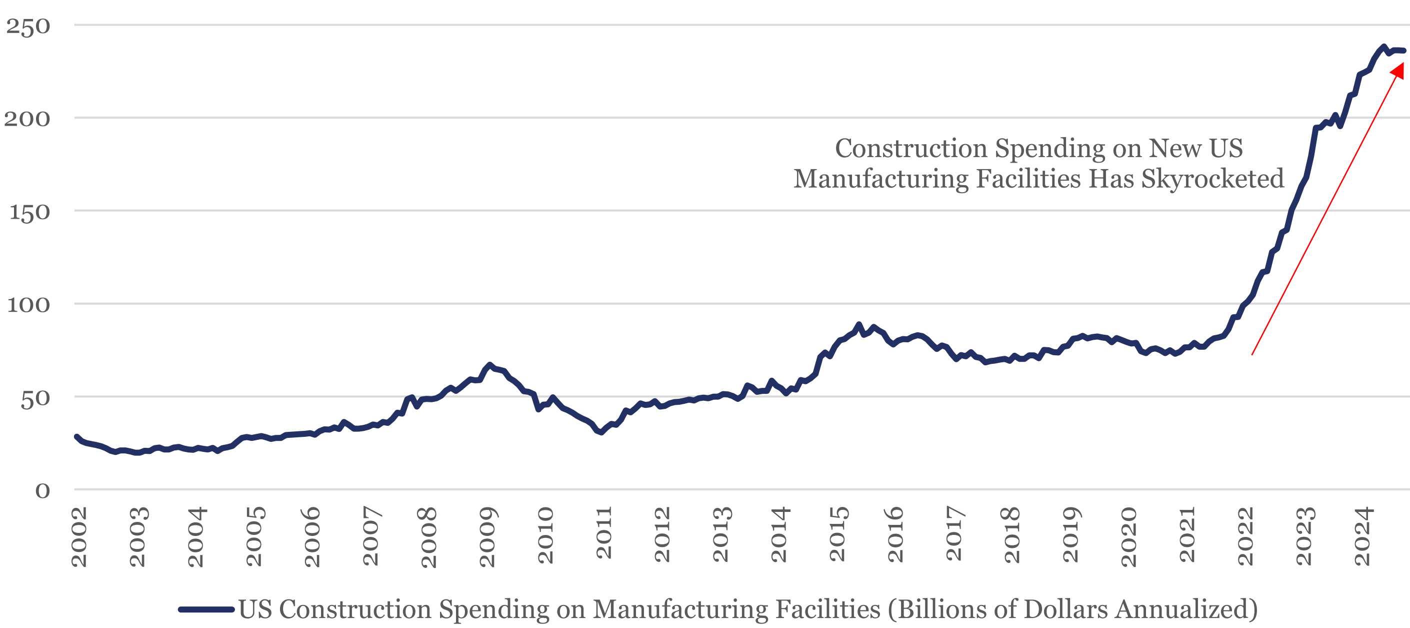
With the economy firing on all cylinders, what could possibly go wrong?

Looking ahead to 2025, several risks could play a pivotal role in the economy and financial markets. For example, a possible reacceleration of inflation might force the Federal Reserve to hike interest rates again and potentially tip the economy into recession.

Additionally, weak consumer spending could derail the economy's current path. Restrictive fiscal policy or an escalation of geopolitical risks might also impact consumers, businesses, and economic growth. These risks, among others, are on our investment team's dashboard. As we navigate 2025, we're ready to make strategy adjustments as necessary.

When it comes to our broad investment strategy, we're confident in the course we've set. We focus on building resilient, diversified portfolios that weather volatility and drive long-term success for clients. This not only includes stocks and bonds, but also a diverse selection of alternative investments, which deliver attractive yields and help mitigate economic- and market-associated risks within a portfolio.

Thank you for your continued trust and partnership. We look forward to working with you in the years ahead and wish you and your loved ones a happy, healthy, and prosperous 2025. If you have questions about your portfolio or wish to discuss your financial goals, please don't hesitate to reach out.



Source: US Census Bureau, Bloomberg.