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ADVISORY Notes

DECEMBER 2024

2024 Recap and Downshifting into the New Year!

The economy continues to race along in a positive fashion with the equity markets following up 2023's return of 26% with another 20% plus return for 2024. The bond markets put together two back-to-back positive years with 5.53% in 2023 and 1.00% in 2024 (see Market Table). The Federal Reserve's extreme rate increases in 2022 finally had an effect with the inflation rate dropping down under 3%. This result allowed the Fed to start cutting rates in the latter part of 2024 in order to revert the yield curve to a somewhat normalized curve and steer the economy away from any recession on the horizon (see Chart Rate Cuts on Page 3). The Federal Reserve has definitely been patient waiting on all economic data that allowed them to be extremely calculated in their monetary policymaking. With three cuts for 2024, one of 50 basis points and two of 25 basis points (the last in December), the Fed signaled it may be enough for a while, shuttering the markets temporarily.

In fall of 2024, the populace also witnessed the re-election of President Donald J. Trump to a second non-consecutive term. This is only the second such type re-election since President Grover Cleveland was re-elected to a non-consecutive second term in 1892. With President Trump in the White House accompanied by an aligned senate and a slight majority in the house, we should see a shift in market economic activity, along with some volatility.

The many issues expected to affect policies in 2025 from Main Street USA to the Beltway are tariffs, taxes, government spending, deficits, immigration, deportation, the labor force, regulations, and climate change. There will be some push and pull based on protectionism in the United States and economic growth in the near-term, but markets have a self-leveling effect when the opportunities arise.

The equity markets thrived in 2024 with the largest mega-capitalized companies providing most of the performance, but the broadening of the market began to widen and hopefully will maintain a higher participation rate in 2025.

See **2024 Recap** *on Page 3*

MARKET TABLE	VALICENTI ADVISORY SERVICES, INC. Comparative Index Period Returns From 12-31-23 THROUGH 12-31-24								
	Dow Jones Industrial Average	S&P 500 Equal Weight Index	S&P 500 Index	NASDAQ	Russell 2000	BBG Barclays AGGR Bond Index	BBG Barclays Muni Bond Index	FTSE USBIG Corporate Bond Index	US Treasury Bill Index (90 day)
12-31-23 to 03-31-24	6.14	7.91	10.56	9.31	5.18	-0.78	-0.42	-0.47	-0.02
03-31-24 to 06-30-24	-1.27	-2.63	4.28	8.47	-3.28	0.07	-0.02	0.04	-0.04
06-30-24 to 09-30-24	8.72	9.60	5.89	2.76	9.27	5.20	2.94	5.84	0.19
09-30-24 to 12-31-24	0.93	-1.87	2.41	6.35	0.33	-3.06	-1.31	-2.93	0.10
YTD Returns 12-31-23 to 12-31-24	14.99	13.01	25.02	29.57	11.54	1.25	1.14	2.30	0.27

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Director's Chair: The Inflation Reduction Act May Get Knocked Out

Eight years ago in this column that likes to weave film/TV references into the story, we referred to *Rocky II* when describing the stunning upset by the former host of *The Apprentice* in the 2016 election and what changes were likely with the tax code. Those changes became the Tax Cuts and Jobs Act of 2017.

Apparently, Sylvester Stallone is not the only one who likes sequels, as the incoming President stunned his opposition on November 5 to regain the title. This is quite an amazing feat considering when the campaign began in January 2022 he was an eight to one underdog again in the betting markets, with Ron DeSantis and Joe Biden favored three to one and four to one respectively.

Perhaps it should be viewed through the lens of the sequel *Rocky IV* where the world famous titular character had to fight the younger, lesser-known, steroid-aided fighter from the Soviet Union named Ivan Drago. In real life, the younger, lesser-known, $1 billion funded candidate from California named Harris vied for the title. In the movie, the older former champ Apollo Creed is eliminated by Drago in an exhibition fight, as Joe Biden was effectively set aside by his party and replaced by Harris. In what currently is the longest (preliminary campaigning started in January 2022) and most expensive campaign (fight) for the presidency and Congress at over $16 billion dollars, Harris and her party were not able to overcome the opposition's messaging. In *Rocky IV*, the film's titular character used overt pro-American imagery as the backdrop, as the Republicans did in real life and were as successful as Rocky Balboa in 2024.

What will come of the tax code now? The Tax Cuts and Jobs Act of 2017 was passed via a process known as "reconciliation," which Democrats invented in 1974; it prevents the use of the filibuster in the Senate for budget matters and allows a simple majority to change items such as taxes. Unless it is fully paid for, anything passed via reconciliation cannot be permanent and must have a "sunset clause." Therefore, the current act is set to expire at the end of 2025 taking away all the tax breaks that apply to individuals.

With the current Republican sweep and use of reconciliation, it becomes highly likely that the current law will be extended for another eight to ten years. The law doubled the standard deduction and lowered tax rates for all the brackets. What other changes can we expect? A one-year elimination of "tax on tips" or "tax on overtime" maybe possible to add through reconciliation. Cost is estimated at $10 billion and $65 billion respectively to the budget. We say one-year because the profligate spending this country has engaged in over the past 24 years has created a $35.9 trillion national debt. With the annual budget deficit running at $1.8 billion, it is difficult to add-on new long-term tax cuts. There is talk from the incoming President of possibly lifting the cap on the State and Local Tax Deduction (SALT) that currently caps deductions of such taxes to $10,000. SALT particularly hits individuals who live in high state tax jurisdictions such as New York. Eliminating the SALT cap may be too expensive for the budget to handle, but some increase in the cap may be doable and would provide relief to those with high state and local property taxes. Early talk is a possible doubling of the deduction cap to $20,000. Finally, exempting Social Security benefits from income tax would cost approximately $100 billion per year and has a high degree of support in the Congress.

As for possible budget revenue enhancers, we may see the repeal of the Inflation Reduction Act, which even the press derided as a mini-climate bill that did nothing on inflation that would provide additional room in the budget to fund an increase in the SALT cap or temporary no "tax on tips." The repeal of these green credits is estimated to provide $70 billion in budget relief to the Treasury per year. Imposing a universal 20% tariff on all imports plus a 50% tariff on Chinese imports would raise approximately $325 billion per year. However, it is highly unlikely the 20% universal tariff will be enacted due to agreements within the USMCA (Mexico/Canada trade) and the fact that the incoming administration has indicated it prefers to use tariffs in a more targeted manner toward our allies. The Treasury could easily see $50 billion in additional annual tariff revenue and that would help the budget.

The incoming administration would like to reduce the corporate tax rate for domestic production with an approximate $50 billion cost per year. This would be difficult with the budget situation, but could be possible if such cuts were funded by eliminating certain deductions used by large corporations.

Many tax possibilities lay ahead with a multitude of permutations, but a reshaping of the tax code looks likely.

Louis F. Ruize
Director of Research/Portfolio Manager

Collectibles

Collectibles are a very niche market. Fine china, silverware and Beanie Babies all have one thing in common – they were all once very collectible and had value. As time goes by, however, peoples' tastes change and now thrift shops are full of china and silverware. As to the Beanie Babies, some in mint condition are worth money, but all of the others are simply mementos of the 1990s.

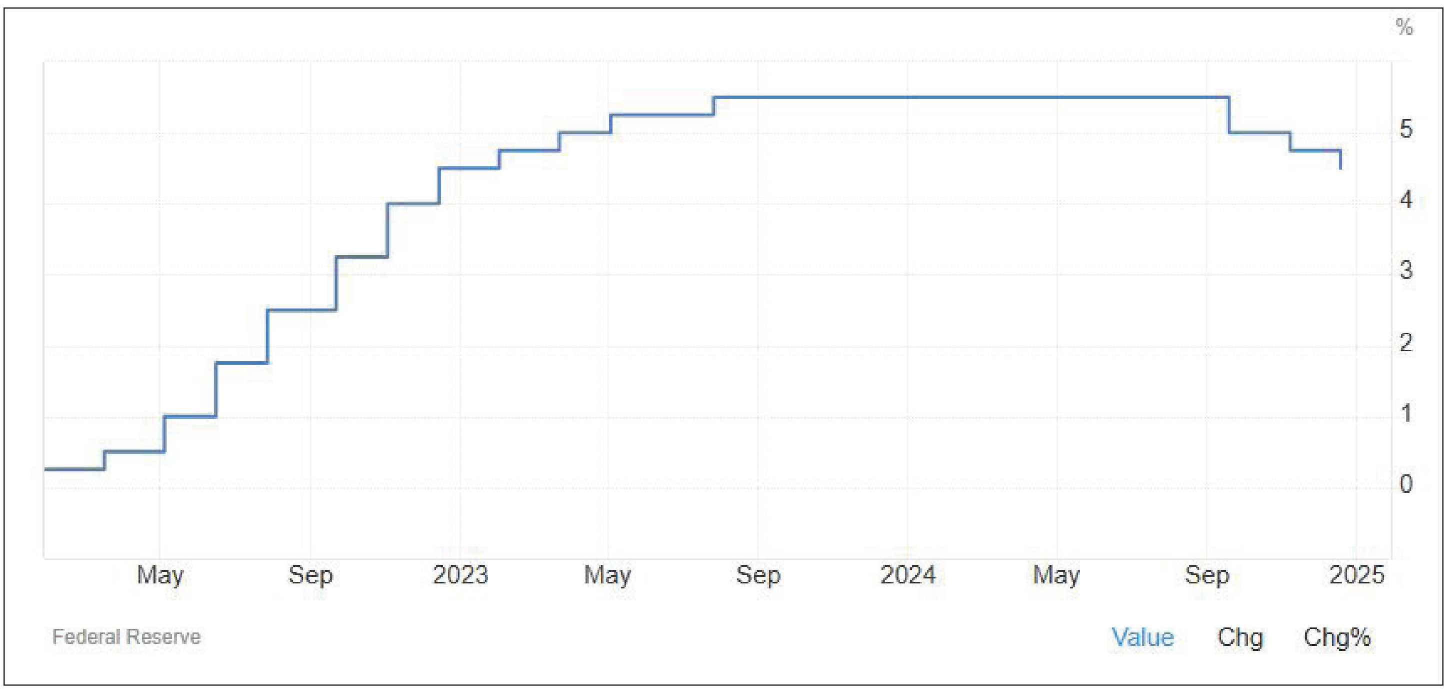
So what do you do if you have a cellar full of baseball cards, stamps, coins or Beanie Babies? The only way to make money from the sale is to find someone willing to pay for the collectible, so the obvious answer would be to find a reputable dealer. Once you do find a dealer you can trust, unfortunately, any funds you would receive from the sale would depend upon the market for those collectibles and the dealer's ability to find a willing buyer. The value the dealer may initially quote may not be what you receive.

You should also look into insuring your collections, as a fire or flood could wipe out the collection. Keep a detailed inventory of your collection and have the collection valued for insurance purposes. You may need to have a rider or separate policy, depending upon the collection and its value.

Collectibles are an enjoyable pastime and may end up giving you some additional wealth, but it will depend upon the market for the asset. So keep up with the hobby, but don't count on it to fund your retirement!

Ann S. Nolan, FPQP™
Administrative Assistant

2024 Recap
(Continued from Page 1)



Bond yields were back up in December 2024 with the 10-year treasury closing around 4.5%, while the 2-year treasury is approximate 4.3%.

While we will continue to monitor your portfolios in accordance with your goals and objectives, we anticipate 2025 to be another positive year on both the equity and fixed income markets.

We wish you Happy Holidays and a prosperous, happy and healthy New Year!

Joseph M. Valicenti
President/CEO

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Analyst Corner

Performance in the final quarter of 2024 was notable for two things. First, the momentum continued. The S&P 500 index returned positively as it has in every other quarter of this year. Second, while the bond market signaled a more forceful rate cut earlier in the year, yields at the long end of the curve abruptly reversed course in the final quarter. Rates headed higher as the election event cleared and the Federal Reserve signaled a more cautious approach to rate cuts, citing slightly higher growth and inflation expectations for the upcoming year ahead.

Rates moving higher did negatively affect several sectors. Seven out of the eleven economic sectors saw negative total returns in the quarter with Materials, Healthcare, and Real Estate hit the hardest. In a common refrain in this era, the large capitalized growth companies in the Consumer Discretionary, Communication Services, and Information Technology sectors led the main benchmark index to overall positive returns. Firms like Tesla, Amazon, Nvidia, Apple, Broadcom, Google, and Netflix saw their shares move significantly higher by quarter end, propelling the S&P 500 toward a +2.4% total return.

The U.S. Treasury 10YR yield rose 78 basis points, moving from 3.78% at the beginning of the quarter to 4.56% at year-end. The FTSE US Big Corporate Bond Index declined -2.9% while the broader Bloomberg Barclays Aggregate Investment Grade Index fell similarly -3.1%, both largely due to the adverse rate move.

Positive Market Influences	Negative Market Influences
U.S. Growth	Modest Labor Market Weakness
Disinflationary Impulse	ROW Growth Dynamics
Earnings Expectations	Global Trade

While there is no longer U.S. election outcome uncertainty, global investors seem to be aware of a few complex and large issues creating other sources of uncertainty for investors as we move into 2025. The global trading system and the potential for conflict in this realm is the topic du jour. Over indebted developed market economies in North America, Europe, and Asia are struggling either with maintaining an economic resilience or with turning around a lack thereof.

Positive Market Influences

- **U.S. Growth** – The final reading for Q3 U.S. GDP growth was revised up to 3.1% QoQ annualized, well above trend. This economic outperformance relative to other parts of the world may be supporting strong capital flows into U.S. markets.
- **Disinflationary Impulse** – The most recent reading of the Core Personal Consumption Expenditures price index came in at a modest 0.11% MoM and is now registering at 2.8% YoY, which is still elevated though not to a level which is spooking markets. The inflation trend has been downward and seemingly in a good direction for markets and consumers.
- **Earnings Expectations** – For now, expectations for earnings across large, mid, and small cap spaces are generally constructive and positive. While there are concerns about the valuation multiples and the overall distribution and detail within the earnings mix, the current expectations may be supportive of market sentiment.

Negative Market Influences

- **Modest Labor Market Weakness** – While nonfarm payroll growth has been slowing and noticeable revisions have dampened the perception of strength of certain employment surveys, there does also appear to be a mildly slowing picture to current labor market dynamics. The unemployment rate has risen, albeit slowly, and continuing claims for unemployment insurance are slowly rising over time as well. This may indicate that once one loses an employment situation, it may be taking a bit longer to find that next opportunity.
- **ROW Growth Dynamics** – Growth in Europe has slowed significantly and China has been experiencing strained internal economic conditions as it is attempting to move on from what was likely an overcharged property market bubble and many years of heavy investment.
- **Global Trade** – Now at the forefront is this whole system of global trading among key economic blocks and the frictions that are now developing amongst nations. This puts several economic zones and nations, known for either exporting to the rest of the world or importing aggressively, on a path of potential adjustment and rebalancing. This is a destination unknown for now, as any potential change in this arena would likely take years to construct and implement.

Daniel P. Burchill
Security Analyst

Schwab Updates

Fraudsters are building fake schwab websites and impersonating Schwab employees. Two of the threats that you should be aware of include the following:

1. Imposters are posing as Schwab employees and contacting advisors and clients via phone and other channels, including email and text messages.
2. Scammers are using search engine optimization (SEO) to create fake websites that appear in search results to be the trusted institution, like Schwab. When clients visit these sites, they are exposed to phishing attacks aimed at stealing their information and assets.

Fraudsters posing as Schwab employees:

- First, the fraudster gains access to the client's personal information, like first and last name, phone number, and home address, potentially from the dark web or a hacked website, such as social media.
- The imposter may spoof a Schwab phone number to call the client and then identify themselves as an employee in the fraud department.
- The fraudster alleges that a suspicious charge has been found in a client's Schwab account and makes the client aware that the charges will need to be reversed.
- The fraudster will use social engineering to get the client to provide their Schwab Alliance username, then when the system sends an automated SMS for verification, the fraudster requests the code from the client.
- Once the fraudster has the SMS code, they will update client's Schwab Alliance password, log into the client's account, and initiate unauthorized transactions.
- Fraudsters will take advantage of people's emotions and all the activity of the holidays to get them to let their guard down and act quickly.

Using SEO to drive clients to fake "Schwab" phishing sites:

- Fraudsters use sophisticated techniques to create websites that appear in search engines when clients are looking for Schwab or other trusted institutions. The websites are designed to look legitimate and their position in the search results trick users into believing the top search hits are the most credible.
- This phishing tactic is very effective as not every user will scrutinize every search result to ensure the link they're about to click is legitimate.
- Once the client clicks on the phishing website and attempts to log in with their credentials, they receive an error message stating there's a login issue and to contact a hotline number noted in the message for further assistance.
- When the client contacts the fraudulent number, the bad actor posing as a Schwab employee, states that there's been a security breach, and someone is attempting to steal money from their account.
- Then the bad actor attempts to convince the client to download software to their device. The overall goal is to gain access to the device and continue to facilitate additional fraud attacks, which can ultimately lead to unauthorized activity and ID theft.

Help mitigate fraud prevention with these tips:

- Clients should avoid supplying any personal identifying information in an email or over the phone, even if they think they're talking to Schwab. Note: Clients can verify that they're speaking with Schwab by ending the call and calling a Schwab phone number that is known to them.
- If Schwab sends you an SMS text code to verify account access, do not share this with anyone. Legitimate Schwab representatives will never ask for this information.
- Download your financial institution's app and utilize biometric authentication if available. **Note:** be cautious to read reviews and check the number of downloads to ensure you're downloading the legitimate app.
- Scrutinize email addresses, URLs, and spelling used in any correspondence.
- Hover your mouse cursor over the email address and check the sender's domain (for example, the "abc.com" in the address john.doe@abc.com) to ensure it's what you would expect.
- Avoid using Google, Safari, and Firefox to search for Schwab or other important websites. Use your saved bookmarks or type the known website in your browser, for example: www.Schwab.com, or use the app and save important websites to your web browser's favorites/bookmark.
- Use good cyber hygiene when surfing the internet. Avoid visiting unsecure websites or public WiFi.
- Please contact Schwab immediately to report all suspicious or fraudulent activity.

Insurance Reminders for the New Year

A new year means new beginnings and most often a time we resolve to make a fresh start. We all have things we would like to change or improve and a new year is the perfect excuse to get started. Now is also a great time to think about your insurance resolutions. Insurance is something that should be reviewed annually based on the changes that have occurred the previous year. If you have moved, retired, changed jobs, added to your family or made any other major life changes, your policies could likely use some updating. Start the year off right by taking the time to review your policies and make sure you are still getting the most out of your coverage.

Auto

As you reassess your auto insurance policy, think about how your households driving habits may have changed. Perhaps you have less time on the road from retiring or working from home. Driving less could qualify you for low-mileage discounts. Maybe you have a teenager who is ready to be added to your policy or a college-bound student who will no longer have access to household vehicles. Review vehicles on the policy. If you are holding onto an older car, collision and/or comprehensive coverage may no longer be worth it for you.

Look into taking a defensive driving course, as not only will it help you to become safer on the road, it could also save you up to 10% on your insurance (depending on the state you live in).

Home

Whether you own or rent your home, making (or updating) an inventory of your belongings is a smart decision. If you bought new electronics, or made another large purchase during the year, such as furniture or appliances, you will want a record of it. The inventory can be neatly handwritten, on an Excel spreadsheet, on a form downloaded from the internet or in a video of your belongings. What is important is that every item is accounted for, with as much detail as possible. This way, in the chance of theft, a fire or natural disaster, you will know exactly what is missing and have proof for your insurance company.

Updating your home insurance after any renovations is necessary. An updated bathroom or a finished basement converted into an at-home gym or office could increase the value of your home, meaning you might want to review getting more coverage. In addition, if you added a trampoline, pool or hot tub, you are increasing your liability.

The New Year is a good time to talk to your insurance agent to review the coverages. Homes are often insured for a limit that is different from market value. It instead reflects the cost necessary to repair or rebuild the home in the event of a total loss based on the current market's construction costs.

Lifestyle

Seeing your doctor regularly and getting serious about quitting smoking are insurance resolutions that may save you money on life insurance.

People who maintain a good weight due to exercise and a good diet typically receive the best life insurance rates. Rates are based on how much of a risk you are; part of the cost of life insurance also depends on your age. The younger and healthier you are, the better the time is to invest. The main purpose of life insurance is the protection of others after we are gone. No one wants their loved ones to have to take on their debts or struggle for basic needs. Review your beneficiaries regularly and make sure someone you trust knows where you keep your important documents.

Travel

If you are someone who travels often, travel insurance could be a smart investment for you. This kind of insurance will refund you in the case of a cancellation. More importantly, it is designed to protect against risks and financial losses that could happen while traveling.

Happy New Year!

As we bid farewell to 2024, we would like to take a moment to reflect on the key events of the past year and look forward to 2025. The U.S. economy and markets displayed remarkable resilience throughout 2024. Labor markets remained healthy, with only a modest increase in unemployment, while the U.S. dollar stayed strong. In general, U.S. corporate earnings continued to show growth, underscoring the strength of the broader economy. The Federal Reserve worked diligently to manage inflation and steer the economy toward a soft landing, which had notable effects on areas like lending, including fluctuations in mortgage rates.

U.S. equities experienced a volatile yet positive year, with many major indices showing strong gains by the end of 2024. The S&P 500's earnings are approaching full valuation in the near-term and, as we move forward, we favor high-quality companies — those with improving profitability, strong balance sheets and healthy free cash flow.

In September 2024, the Federal Reserve began cutting the federal funds rate, reducing it by 100 basis points (1% for the year), bringing it to a range of 4.25% to 4.50%. This shift has created a unique environment for the U.S. bond market, as it navigates between the Fed's intentions to cut interest rates and the risks of potentially higher inflation in 2025. We remain focused on high-credit-quality bonds, including Treasury and government agency bonds, and investment-grade corporate bonds.

Our asset allocation strategy continues to remain flexible with a current target range of 3-5% in money markets and short-term government securities, 45-65% in equities, and 30-40% in fixed income. Of course, our mix will adjust based on client-specific needs, objectives, risks and income requirements.

As we enter 2025, we remain committed to navigating these evolving conditions with a balanced and disciplined approach, ensuring that we are well-positioned to adapt to market developments.

Jeffrey S. Naylor
Executive Vice President/CFO

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Employee Corner

Samson Lin recently passed the Chartered Financial Analyst® exam. The Chartered Financial Analyst®, CFA charter is a globally recognized professional designation offered by the CFA Institute, an organization that measures and certifies the competence and integrity of financial analysts. Candidates are required to pass three levels of exams covering areas such as accounting, economics, ethics, money management, and security analysis.

Samson joined the firm in July 2021 as security analysis. He graduated summa cum laude from Syracuse University with a Bachelor of Science degree in Mathematics and a minor in Finance and Psychology. During his college career, he was a facilities supervisor at the Barnes Center and served as an intramural referee for college students at Syracuse University Recreation Services. He is a member of Pi Mu Epsilon, an honors society, and was the Treasurer of the Chess Club.

New York State Updates

New York has taken a historic step in addressing housing challenges and short-term rental transparency with the signing of its first statewide Short-Term Rental Registry into law. The legislation signed on Saturday is the first-of-its-kind nationwide and a turning point in holding billion-dollar booking platforms, like Airbnb and Vrbo, accountable to the communities where they conduct business. The law offers a new county-by-county look into the explosive growth of the short-term rental industry and is aimed at helping communities across the state manage housing availability and affordability while bringing in owed revenue from sales taxes and hotel and motel occupancy taxes.

Short-term rentals are essential to New York's tourism economy, but have also intensified housing challenges by increasing rents, inflating home prices, and depleting available housing stock. Under the new law, booking platforms will report quarterly to the New York State Department of State (DOS) on the number of bookings it facilitates in each county. Counties that choose to create local registries will receive detailed quarterly reports from booking platforms, including rental locations, occupancy nights, guest counts, and taxes collected. This will help ensure local governments have the information they need to effectively balance the needs of the housing market and the tourism economy. It will also give local leaders more resources to address their community's most pressing needs: over the last five years, NY communities have lost up to $550 million in uncollected sales and occupancy tax revenue, according to All The Rooms.

To read more on this topic go to nysenate.gov/legislation/bills/2023/A4130/amendment/C.

Albany, NY (December 23, 2024 – nysenate.gov)

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