Whitney & Company Year End 2024 Letter

Financial markets had another very good year in 2024, as all the major asset classes generated positive returns. However, there was a high level of bifurcation in returns both within and across asset classes. Large U.S. stocks led the way once again, as the S&P 500 Index was up over 23% (excluding dividends). This is the first time since 1998 that the S&P 500 has gone up more than 20% in two consecutive years, and it is now up over 65% since its most recent bottom in October 2022. A broader view of equities paints a favorable, but less remarkable picture. Smaller U.S. companies (as measured by the Russell 2000 index) were up only 10% in 2024 (25% in two years), and international stocks (as measured by the MSCI ACWI Ex USA index) were up only ~3% for the year (15.5% in two years). While bonds were performing well through September (up 4.4%), rising interest rates during the fourth quarter (the 10-year Treasury yield was up nearly 80 basis points) drove a 3%+ decline in bond prices resulting in a 1.3% gain for the year for the Bloomberg Barclays Aggregate Bond index. Our bond portfolios generated a return of closer to 3% for the year, despite this challenging rising rate environment.

Equity Indexes	Q4, 2024	2024	2023
S&P 500	2.1%	23.3%	24.2%
Russell 2000 (Small Cap)	0.0%	10.0%	15.1%
MSCI EAFE (Developed)	-8.4%	1.1%	15.0%
MSCI Emerging Markets	-8.1%	5.1%	7.0%
MSCI ACWI Ex USA	-7.8%	2.9%	12.6%

Note: All returns exclude dividends

Fixed Income Indexes	Q4, 2024	2024	2023
Bloomberg Barclays US Agg Bond	-3.1%	1.3%	5.5%
Bloomberg Barclays Municipal Bond	-1.2%	1.1%	6.4%

Source: Orion

While a broadening of the stock market rally was a theme for parts of the year, the strength in equities was ultimately driven by strong performance in the technology sector, particularly by companies referred to as the Magnificent Seven (Mag 7): Apple, Nvidia, Microsoft, Amazon, Alphabet, Meta, and Tesla. Collectively, these firms saw a 48% rise in 2024, fueled by advancements in artificial intelligence and related technologies. Meanwhile, the remaining 493 stocks in the S&P 500 index were up only 10% in total for the year. The Magnificent 7 has been the dominant driver of performance for several years

now, accounting for around 60% of the S&P 500 return each of the last three years and 33% of returns in 2021. If you include the "Next 3" – Broadcom (up 111% last year), Berkshire Hathaway (up 26% last year), and J.P. Morgan (up 41% last year) – the top 10 companies in the S&P 500 now account for almost 39% of the entire S&P 500 market value, making the index that is broadly viewed as 'the market' 50% more concentrated than during the late 90's internet bubble. These 10 companies also account for an outsized portion of S&P 500 economic activity, including 41% of R&D expense, 24% of operating income, 19% of capital expenditures, and 10% of employees. So, these companies are a major driver of the economy as well as the equity markets.

We view this extreme level of concentration as an indication that financial markets are displaying signs of speculative exuberance, as we note that past periods of extreme market concentration (the 'Nifty Fifty era in the late 1960's/early 1970's, the internet bubble in the late 90's and the covid pandemic at the end of 2021) have often corresponded with interim tops in equity markets. Also noteworthy, is that this concentration tends to reverse itself in the subsequent market decline, as the largest beneficiaries of the bull market tend to lead the decline and fall more than the broader market. The most recent example of this was in 2022 when the Magnificent 7 companies were down 40% on average, while the rest of the index was down only 8%. During this decline, the weight of the top 10 companies in the index declined from 32% to a 'still high' level of 25%.

Market concentration is not the only current indicator of investor enthusiasm. Below we list several other warning signs:

- In a recent survey of 16 Wall Street investment strategists, not even one had a bearish view, as year-end 2025 S&P 500 forecasts ranged from an increase of 8% to as high as 20%.
- The forward P/E on the S&P 500 ended 2024 at 21.5x vs. a 30-year average of 16.9x, and in-line with recent peaks in 2021 and the late 90's.
- S&P 500 EPS growth expectations for 2025 and 2026 are 14% and 13%, respectively vs. a 23-year average of 7.2%.
- Corporate credit spreads ended 2024 at historically low levels, suggesting very strong investor confidence.
- Household ownership of equities as a percentage of financial assets reached 43% at the end of the year, its highest level ever.
- A Conference Board survey of consumers expecting stocks to increase over the next 12 months hit an all-time high in December.
- The value of the U.S. stock market reached 70% of the world market capitalization for the first time, after ranging between 40% and 60% for much of the past 50 years.

None of the above is necessarily a harbinger of an imminent market correction or economic downturn, but we believe it is certainly worth noting. To be fair, the US economy has been resilient throughout 2024. Retail sales once again topped estimates for the month of November, and prospects for the holiday season look favorable. GDP growth remains strong and above trend, and, after rising during the first half of 2024, the unemployment rate has stabilized at around 4%. Going forward, there are multiple crosscurrents to monitor. Areas of concern include elevated deficits and debt levels, rising interest rates, the recent reacceleration of inflation and potential inflationary impacts from tariffs and a crackdown on immigration. Positives include healthy corporate and consumer balance sheets, wealth effects from strong financial markets, and potential economic benefits from deregulation. And obviously, as discussed above, we will be closely monitoring spending plans on AI and related infrastructure, as even small movements in the growth rate on such spending could lead to an outsized reaction in equity markets. Adding it all up, we think another year of 20%+ equity market performance is unlikely. We expect the return profile for stocks will be more muted over the intermediate term and it is likely to come with elevated volatility.

In contrast to stocks, we think the setup for bonds is as good as it has been in a long time. The starting yield on the 10-year Treasury is 4.6%, which is 70 basis points better than each of the last two years. Investment grade credit starting yields are in the 5.5%-6.0% range, and riskier sectors like emerging market debt and high-yield bonds are in the 7.5%-8.0% range. Since starting yields are one of the best predictors of 5-year forward returns in bonds, we think these starting yields are supportive of mid-single digit type returns in

bonds next year assuming no change in interest rates. Moreover, unless inflation continues to reaccelerate, we think there is a higher probability that rates will fall rather than rise from current levels, which would supplement bonds' income stream leading to a higher total return. After two years of 20%+ equity returns, a 5%-10% return from bonds may not seem too exciting, however, it would help in the event of a correction/downturn in equity markets.

We hope you had a great holiday season and look forward to another great year ahead! As always, please do not hesitate to reach out with any questions or concerns you may have regarding your individual investment portfolio.

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