Quarterly Letter

January 2025

ALEXIS ADVISORS

A Note From Our Founder

Happy New Year! Welcome to our new Quarterly Client Letter format. A big thank you to Samantha for streamlining and creating a format that is consistent, and hopefully makes for easier reading.

Alexis Advisors ended the year on a strong note. Samantha has continued to build her financial planning skills and Ann continues to be our operations person extraordinaire. This year we will continue our focus on supporting clients in addressing key planning questions: When can I retire? How do I manage the competing demands on my money? Working with the CPA, what are the best tax mitigation strategies for my particular circumstances? Our other key focus will be on managing our portfolios through what will likely be a volatile year. The first year in the presidential cycle tends to be good for the markets, but there are a lot of uncertainties to navigate. And the markets don't like uncertainty.

We are available anytime. Don't hesitate to reach out with your questions.

Roberta Keller | Founder

Market Overview

Year In Review

The S&P 500 Index ended the year up +23.3%, the Pro Shares Dividends Aristocrats up +4.6% and the EAFE Index was +0.3%, and the US Core Aggregate Bond Index was down -2.4%. The Magnificent 7 stocks rode the continued artificial intelligence boom - but per the performance of the benchmarks above, other sectors and asset classes continued to lag.

Key developments driving the market: a) Inflation continued to fall - after peaking at 9.1% in 2022, as of September it had fallen to 2.4%. b) The election of Donald Trump and the "red sweep" of Congress. c) Corporate earnings for the largest companies were strong - up +5.8%, compared to Wall Street's estimate of +3.5%. d) But corporate layoffs increased, reflected in the Unemployment rate increasing from 3.7% to 4.2%.

The Federal Reserve's dual mandates are full employment and targeting 2% inflation. It cut rates twice this year due to favorable inflation figures. Lower rates support markets by reducing borrowing costs and boosting growth. However, in its December meeting, it signaled caution and a likely pause in lowering rates further, citing rising unemployment and policy uncertainty with the incoming administration.

Other markets to note: Gold surged, up 26.7%. International equities (the EAFE Index) continued its dismal performance, ending 2024 at +0.3%. (See chart next page that illustrates the 10 year performance of this and the Energy ETF (XLE). We haven't invested in either given their sub-optimal performance.)

Key Announcements

To highlight the evolution occurring in the environmental, social, and governance arena each issue will feature a SRI Spotlight: Showcasing companies making a positive impact through sustainable practices.

See our "SRI Spotlight" section below for highlights.

On Our Blog

The Inflation Ripple... What Tariffs Could Mean to Your Wallet – Click to read more!

Tax Saving Tips for Energy- Efficient Home Upgrades - Click to read more!

Upcoming Events

Market Update

With Guest Speaker

Ryan Galiotto, CFP® CSLP® Student Loan Planner

Webinar: Thurs. February 20th - 12pm

Register Now!

What's Next?

Heading into 2025, we find ourselves balancing between optimism and caution, as economic forces clash. The incoming administration promises tax cuts and less regulation, but also tariffs and severely curtailing immigration. The past year has set a backdrop of steady economic expansion—aided by accommodative Federal Reserve policies and favorable business conditions. Yet, this stability is now being tested by two looming challenges: the maturity of the economic cycle and the potential for rising re-inflationary pressures. So, there is quite a bit of uncertainty, and as a result, we are considering 3 scenarios for the upcoming year.

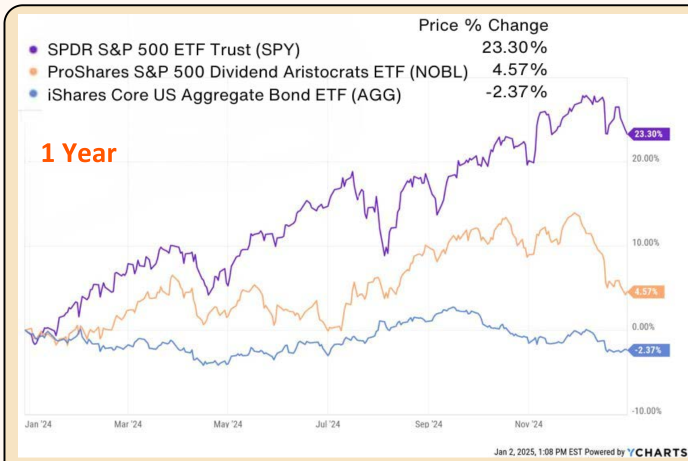
- **Base Case** The market ends 2025 slightly in the green, but encountering volatility along the way.
- **Bear Case** If inflation spikes, we expect prolonged market volatility and significant economic impacts.
- **Bull Case** The market rallies slightly, but driven by a rotation out of growth companies into sectors that have lagged over the past few years.

Meanwhile, the economic cycle's maturity poses its own challenges. After years of expansion, natural slowdowns are to be expected. But with strong fundamentals underpinning the U.S. economy, including robust GDP growth and consumer spending, the 'soft landing' scenario may still be possible.

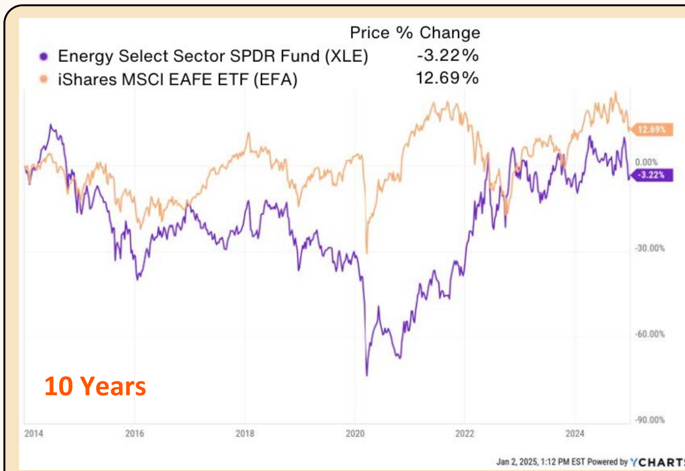
What could disrupt a soft landing? A resurgence in inflation, potentially driven by tariffs and retaliatory measures, or a significant reduction in immigration - both of which are inflationary. Addressing the national debt is critical, but it's a delicate balance. Cutting government spending aims to reduce the debt, while tax cuts reduce revenue. If rates need to be raised again to combat inflation, then we will once again be financing our debt at higher interest rates. This would not be favorable for the economy or the markets.

We believe that the first six months of the year are likely to be volatile. By the Fall, we should have more clarity regarding Trump's priorities and the potential economic impacts. Additionally, there are very few "good choices, so the US markets could benefit from the comparative lack of appeal of other major equity markets. Diversification will be an important consideration as we move through what will likely be an unprecedented year.

While investors may still be focused the election results for their potential effect on stock market performance, other factors tend to have a greater impact on markets. Historical data suggests that economic and inflation trends, more than election outcomes, typically have a stronger, more consistent relationship with market returns. Stay tuned. It's going to be an interesting year.



12/31/23 - 12/31/24: S&P 500 (SPY), Dividend Aristocrats (NOBL), US Agg Bond (AGG)



12/31/14 - 12/31/24: Europe Australasia Far East Index (EFA) , Energy Sector ETF (XLE)

SRI Spotlight - Highlighting Social Responsibility in Action

We invest in Trane Technologies (TT) in our Socially Responsible Equity Portfolio. You might have one of Trane's HVAC systems in your home or office! In 2014, the firm established its first set of climate commitments, and exceeded them two years early. Since then, their ambitions and actions have grown, with significant progress towards their 2030 Sustainability Commitments and 2050 Net-Zero carbon target.