2024 Year End Financial & Investment Management General Commentary

This is our fourth-quarter and year-end commentary report for 2024. It has been an interesting year and we have put together some information from the year, from last quarter and information into 2025. If you would like to discuss anything in this report**,** please feel free to call us.

2024 had elections that brought a lot of stress and attention throughout the year. It saw the FED move from increasing interest rates to decreasing interest rates. Inflations slowed but prices remained high as the damage was already done. The economy saw record credit card debt and employment back up to the pre-pandemic level. Still the very expensive technology leaders continued to show their resilience.

As we move into 2025, a change in administration and in government is again in transition. As such we expect changes will be coming. This could be tax related, regulation, interest rate and government spending. As things change, we will be vigilant in keeping our clients informed of how it will affect them. For now, let us give you a recap of 2024.

Market Overview:

Market Recap

It was a volatile quarter for markets as investors weighed in on the implications of interest rate cuts and a second term for President Donald Trump. While the outcome of both events might be seen as a positive development for the economy and markets, the reaction from equity and fixed income markets was mixed. Unfortunately, the changing of the guard does not erase the lingering issues such as slow economic growth, higher interest rates and inflation, or surging federal debt.

Post election, there is significant enthusiasm for a pro-growth atmosphere, favoring lower taxes and regulation and ultimately small businesses and the middle class. Given a new agenda, there is hope for some relief in terms of a path forward. But as the euphoria wanes and reality begins to set in, the path forward will likely be a rocky one, with obstacles coming from many angles. As the markets ended the year on a cautious note, it is plausible to expect continued and/or increased volatility in the near-term as new issues pile on as old ones are confronted. Ultimately, we are optimistic for the prospects ahead but remain cautious of the potential for downside volatility as we navigate the new landscape.

Equities: Equity market returns were mixed in the final quarter but a majority managed to finish the year well into positive territory. The S&P 500 continued to dominate markets, returning 2.4% for the quarter and closing out the year with an impressive 25.0%. Returns for smaller capitalization stocks were less impressive as the S&P MidCap 400 returned 0.3% and the S&P SmallCap 600 index posted -0.6% for the quarter. For the year they finished at 13.9% and 8.7%, respectively. Non-US markets reversed course over the quarter as talk of trade tariffs roiled both developed and emerging markets for a loss just over 8%. For the year-to-date MSCI emerging markets outpaced MSCI EAFE 7.5% vs. 3.8%.

Fixed Income**:** Given the possibility of two FED interest rate cuts over the quarter, one would expect a solid quarter for fixed income investments. Outside of cash and equivalents, it was a disappointing quarter given the circumstances, as the Prime rate cuts were followed by longer term interest rate increases (and performance losses) for investors. The

Bloomberg Aggregate Bond Index returned -3.1% for the quarter and finished the year at an unimpressive 1.3%. The Bloomberg Aggregate 1-3 yr Index was flat for the quarter and ended the year at 4.4%. Credit markets responded well as higher coupons and lower interest rate sensitivity helped the Bloomberg US Corporate High Yield Index return 0.2% for the quarter and finish the year strong at 8.2%. As we will discuss in a later section, perhaps this quarter's performance is not so unordinary, and is likely part of the path of interest rate normalization.

Real Assets**:** On the back of poor performance by Industrial and Precious Metals, the Bloomberg Commodity Index was down slightly at -0.5% for the quarter. The Index ended the year at a modest 5.4%, outpacing bonds and cash. With some selling pressure on Gold, its multi-year run slowed down with -0.8% return for the quarter but still managed to outpace the S&P 500 for the year with a 25.5% return. Despite efforts to tame inflation, persistent inflationary pressure remains. Accordingly, we continue to hold some forms of commodity positions for inflation hedging purposes and general diversification in most portfolios.

Bitcoin: It's hard, if not impossible, to ignore the Bitcoin phenomenon. This past year, regulated Bitcoin tracking ETFs became available. For those not wanting to purchase and store actual Bitcoin, these ETFs give the ability to purchase the tracked performance of Bitcoin without owning Bitcoins. We have added a small position of a Bitcoin ETF in some of our client's portfolios. If you have questions or concerns, please speak to our investment team.

If you have questions about specifically about Bitcoin or other digital assets in general, we are available to discuss them with you. Bryan has experience in this space, has personally invested in Bitcoin in its early days, and has a professional certification in blockchain and digital assets.

Financial Planning and Services:

What Issues Should I Consider at The Start of The Year?

The start of the year is an excellent time for a financial check-up. In addition to reflecting on the prior year, most of us are particularly motivated in January to consider making financial resolutions for the future.
We have created a checklist to help frame your thinking on making a fresh start this year. It covers fundamental considerations, including:

- Personal issues
- Cash flow issues
- Asset and debt issues
- Tax issues
- Insurance issues
- Legal issues
- Estate Planning

To get your copy, email btotri@stjohnfinancial.com and write **"New Year Checklist"** in the subject line. We'll send you a copy by return email.

Tax Planning

If you are a planning client, please be sure to arrange for a PDF copy of your 2024 tax return filing to be sent to us as soon as it is available. Call or email with any questions you may have on how to send it.

Anyone with income and savings has an opinion on taxes. The new administration will determine how well tax rates and policy go. Trump's first administration enacted the Tax Cuts and Jobs Act (TCJA) in 2017, which is due to expire at the end of this year.

Competing ideas may surface when negotiations get underway, but the current consensus favors an extension of the TCJA. Coupled with deregulation and today's 21% corporate tax rate.

How does a 21% corporate rate benefit investors?

To paraphrase Warren Buffett: Prior to 2018, a corporate tax rate of 35% meant that 65 cents of every dollar of profit accrued to investors, while the remaining 35 cents went to the federal government. With the tax rate reduction to 21%, 79 cents now accrues to investors. In other words, the lower tax rate has increased earnings, a significant factor for stock prices.

Late last year, the Internal Revenue Service provided detailed information on adjustments to more than 60 tax provisions that will impact taxpayers when they file their returns in 2026 for tax year 2025.

As incorporated into law, the IRS adjusts various categories to account for inflation. Annual inflation adjustments, however, do not cover all tax provisions.

How the tax brackets work

In the U.S. tax system, income tax rates are graduated, so you pay different rates on different amounts of taxable income. There are seven federal income tax rates: 10 percent, 12 percent, 22 percent, 24 percent, 32 percent, 35 percent and 37 percent. The more you make, the more you pay.

A tax bracket is a range of income taxed at a specified rate. **Importantly, your highest tax bracket doesn't reflect how much you pay on all of your income**. If you're a single filer in the 22 percent tax bracket for 2025, you won't pay 22 percent on all your taxable income. You will pay 10 percent on taxable income up to $11,925, 12 percent on the amount between $11,926 and $48,475, and 22 percent above that (up to $103,350).

In addition, the 2025 standard deduction will be $15,000 for single filers and $30,000 for married couples filing jointly, up from $14,600 and $29,200, respectively, for 2024. The standard deduction is the fixed amount the IRS allows you to deduct from your annual income if you don't itemize deductions on your tax return. The lower your taxable income is, the lower your tax bill.

Tax brackets for income earned in 2025

Tax Rate	Single filers	Married filing jointly
10%	Up to $11,925	Up to $23,850
12%	$11,926 - $48,475	$23,851 - $96,950
22%	$48,476 - $103,350	$96,951 - $206,700
24%	$103,351 - $197,300	$206,701 - $394,600
32%	$197,301 - $250,525	$394,601 - $501,050
35%	$250,526 - $626,350	$501,051 - $751,600
37%	Over $626,350	Over $751,600

Married filing separately pay at same rate as singles.
Source: IRS
Source: Social Security Administration, Elder Index

Estate Planning

You may not be aware that we provide a service to help our clients organize, store and share all their legal, financial, healthcare, personal and digital information – all in one, convenient place.

It's called Everplans.

Everplans gets your household and life organized by guiding you through everything: from sharing your Will and insurance documents with the right people in your life to making sure your family knows how to work the new thermostat.

Their smart digital vault is built to securely store all this vital information online in an encrypted and quickly accessible manner, with smart sharing capabilities engineered to give your family easy access to the information they need when they need it.

Drop us an email for more information.

Retirement Spending "Smile" vs. "Lumpy Expenses"

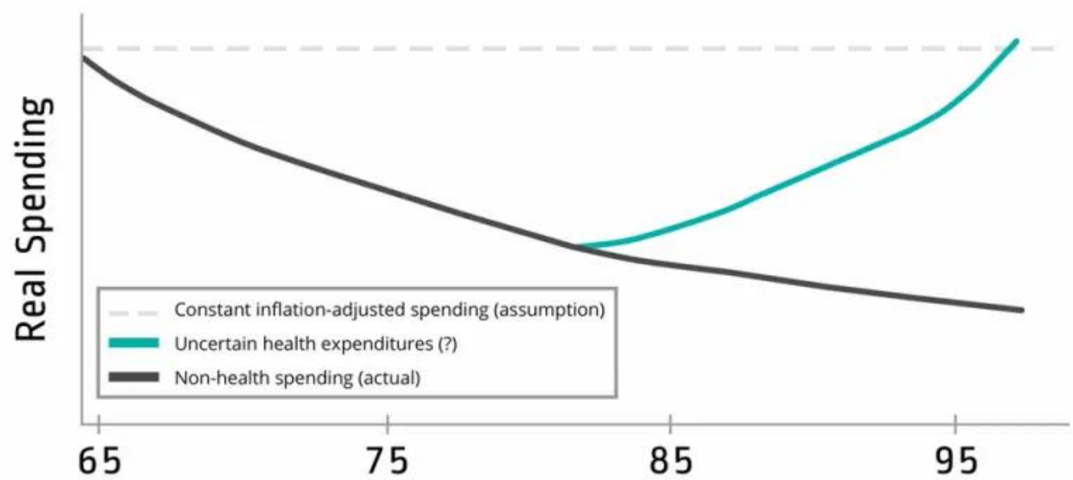
Retirement spending patterns often differ from the neat "constant withdrawal" model once championed by simpler retirement calculators. Real life tends to be more nuanced. Two popular ways of conceptualizing these spending patterns in retirement are the **"Retirement Spending Smile"** and the notion of **"Lumpy Expenses."** While they are not mutually exclusive, each can help illuminate different aspects of how retirees actually spend their money.

Often described as the **"Go-Go, Slow-Go, No-Go"** retirement phases, the spending smile is a conceptual curve illustrating how spending can change over time:

The Retirement Spending Smile

1. Go-Go Years (Early Retirement)
    a. Higher spending on travel, hobbies, dining out, and leisure while you have more energy and fewer mobility constraints.
    b. Retirees in good health tend to spend generously on experiences—think of big trips, a new car, or a vacation home.
2. Slow-Go Years (Mid Retirement)
    a. Activity begins to slow; travel is reduced, and fewer high-end leisure pursuits exist.
    b. Lower discretionary spending (fewer big, new purchases or extravagant trips).
    c. Overall lifestyle costs might be stable or even drop because day-to-day routines become simpler.
3. No-Go Years (Late Retirement)
    a. Potential uptick in expenses, primarily driven by healthcare, medical treatments, long-term care, and possibly assistance with daily living.
    b. Discretionary spending (like big trips) often continues to decline, but medical and care-related costs can be significant.

These three phases visually create a "smile" shape: spending starts higher, dips in the middle phase, and then trends upward again later.



Lumpy Expenses

In contrast (or as a supplement) to the neat curve of the spending smile, many retirees experience significant **lumps** or spikes in expenses from year to year. Examples include:

- **Major Home Repairs** or Renovations
  Retirees might remodel the kitchen, repave the driveway, or add an in-law suite.

- **Vehicle Purchases**
  Replacing or upgrading a car often leads to large, one-time spending spikes.
- **Family Events**
  Gifting for weddings, supporting grandchildren's college tuition, or helping adult children with housing can result in unexpected, large outlays.
- **Health Surprises**
  Although healthcare costs gradually rise in the "spending smile," large unplanned events—like surgery, a hospital stay, or the sudden need for specialized care—can create significant, lumpy expenses.

These lumps don't always align perfectly with an age-based or phased model, and we tend to treat some lumps in expense, where knowable in advance, as goals that can be planned for. In real life, a single year might see a cascade of overlapping expenses- home, health, family -which can disrupt even the best-structured retirement plan.

Takeaways

We design personal financial plans with post-retirement income needs in mind. We use a best-of-class planning platform to model how much income can safely be withdrawn from the available financial assets.

If you're not yet retired, we use our goal-planning application to test your return and savings accumulation rate against a sophisticated probability analysis to see if you're on track to meet your pre-retirement financial goals without negatively impacting your post-retirement spending needs.

We then test periodically to evaluate whether you're still on plan and make recommended adjustments when applicable.

If you're not a planning client but are interested, drop us a quick email or call for more details.

Open a Roth IRA account to Start the Clock

This is one of those things that should be taught in high school, but it isn't:

The 5-Year Rule for Roth IRA Contributions.

For your Roth IRA earnings (the growth on your contributions) to be withdrawn tax-free, two conditions generally need to be met:

1. You have reached age **59½** (with few exceptions, like disability or first-time home purchase).
2. It has been at least **5 years** since you **first contributed to <u>any</u> Roth IRA.**

The clock starts ticking on January 1 of the year in which you make your very first Roth IRA contribution (this is often referred to as the "5-year clock"). Once you've met the 5-year holding requirement **and** you're at least 59½ years old, all qualified distributions of both contributions and earnings are tax-free.

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Why "Starting the Clock" Early Is Helpful

Many people open a Roth IRA - even with a small initial contribution - just to **start that 5-year clock running**. This can be beneficial if:

1. You're **younger** and want to ensure that you'll already have met the 5-year condition when you retire.
2. You're not sure if you'll be making large Roth contributions soon, but you want to preserve the ability to take **tax-free distributions** of Roth earnings down the road.

In other words, contributing even a modest amount (e.g., $50 or $100) in the current year officially opens your account and initiates the 5-year countdown.

There are actually **two** main 5-year rules associated with Roth IRAs:

1. **5-Year Rule for Contributions (most common)**
   - Determines when **earnings** from regular contributions become tax-free.
2. **5-Year Rule for Conversions**
   - Applies specifically to funds converted from a Traditional IRA (or Traditional 401(k)) to a Roth IRA.
   - Each conversion starts its own separate 5-year clock for penalty-free access to those converted amounts (if you're under age 59½).

When people casually say "start the 5-year clock," they're usually talking about the **first** one, the 5-year rule tied to **your first Roth IRA contribution**.

Tips:

- Open **a Roth IRA Early**: Even if you're unsure of how much you can contribute, opening the account with a small contribution begins the clock.
- Keep **Track of Dates**: Know the exact year you made your **very first** Roth IRA contribution. That's what the IRS cares about for the 5-year rule.
- Confirm **You're 59½**: Remember, the 5-year rule alone isn't enough if you're still younger than 59½ (unless an exception applies).

To withdraw earnings tax-free, you must satisfy both the age and 5-year requirements (for contributions).

The Bottom Line

- The **5-year clock** for your Roth IRA starts the **first time** you put money into **any** Roth IRA.
- After 5 years (and once you're at least 59½), **earnings** can be withdrawn **tax-free**.

- Opening a Roth IRA now—with even a small amount—can be smart financial planning, giving you a head start toward future tax-free growth.

Roth Conversions

Should you, or shouldn't you?

This is one of those issues that requires some assumption. Converting an IRA to a Roth creates a tax bill. It means selling invested assets at a current value, say $100,000, creating taxes on that specific value. But what if the market drops and the sold assets are worth only $90,000 a month later? You still owe taxes on the $100,000 value. That stinks.

There is no do-over… that option was removed a while ago. So why do it?

The highest and best use of a Roth conversion is to pay taxes today at a known rate in exchange for insurance against paying taxes later at a higher rate. It's a risk management strategy. Your IRA funds will have to be distributed to you thanks to the Required Minimum Distribution (RMD) rules so you will pay taxes on those IRA funds someday. This is not so with a Roth – 100% tax-free distribution treatment for you (different rules apply to the beneficiaries of Roth IRAs).

For our financial planning clients, discuss IRA to Roth conversions with us each year to consider the efficacy of paying taxes today vs. sometime later. There are compelling reasons to consider converting and reasons to stand pat. Your individual situation needs to be considered.

College Planning

Families often fixate on college brand names rather than other factors, such as a major's return on investment (ROI) at a specific school. It's untrue that getting into a prestigious institution guarantees an enviable lifetime of earnings, no matter the major.

At the University of Chicago, for instance, an economics degree holder enjoys a lifetime ROI of $3.6 million versus an English literature major who earns a NEGATIVE $197,000!

Wide ROI variations exist within and across universities and institutions for any major, whether it's biology, business administration, psychology, or something else.

An invaluable tool from the Foundation for Research on Equal Opportunity allows you to track ROI figures for tens of thousands of degrees.

Regulatory Update for those clients who own a small business.

The Corporate Transparency Act (CTA) took effect on January 1, 2024, a little more than one year ago. We've written about this previously.

The CTA requires most smaller corporations, limited liability companies (LLCs), and some other business entities to file a beneficial ownership information (BOI) report with the U.S. Department of the Treasury Financial Crimes Enforcement Network (FinCEN).

The BOI report identifies and provides contact information for the individuals who own or control the entity. This information is not made public—it is to be used only by law enforcement to combat money laundering, drug trafficking, and other illegal activities; that is what we've been told.

The original deadline for filing BOI reports for businesses in existence before 2024 was January 1, 2025. Businesses formed during 2024 had 90 days after formation to file. Filing is free online at FinCEN's BOI reporting website.

Willful violations of the CTA are punishable by a civil fine of $591 a day, up to $10,000 in criminal penalties, and up to two years in prison.

A bumpy road has put the CTA on hold. The history has been: BOI Report Not Required . . . Required . . . Not Required.

On December 3, 2024, a Texas federal district court ruled that if you did not file your FinCEN BOI report during the court's injunction, you could not be penalized by FinCEN. (This indefinitely delayed the January 1, 2025, filing deadline and all other deadlines.)

On December 23, 2024, the Fifth Circuit Court of Appeals ruled to overturn the Texas injunction and immediately reinstate the FinCEN BOI filing requirements. (This reinstated the January 1, 2025, and all other deadlines.)

Later that same day, FinCEN temporarily extended the January 1, 2025, filing date to January 13, 2025, and all other deadlines.

On December 26, 2024, the Fifth Circuit vacated its stay on the Texas court's injunction. (This means you cannot be penalized during the injunction period for not filing your BOI reports.)

Takeaways

While the CTA remains under judicial review, you are not obligated to file your BOI report. But it may be prudent to prepare now by gathering the necessary information. If you have already filed, no further action is needed unless there are reportable changes.

Economic Outlook

Inflation

In December, the Consumer Price Index for All Urban Consumers rose 0.4 percent, seasonally adjusted, and rose 2.9 percent over the last 12 months, not seasonally adjusted. The index for all items less food and energy increased 0.2

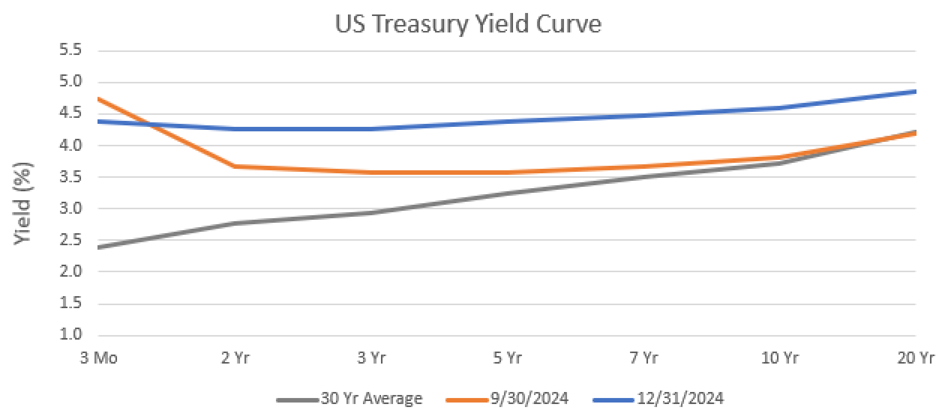
percent in December (SA); up 3.2 percent over the year (NSA). The chart below shows the 12-month percentage change for the index, not seasonally adjusted, for the last 20 years.

Hover over chart to view data.
Note: Shaded area represents recession, as determined by the National Bureau of Economic Research.
Source: U.S. Bureau of Labor Statistics.

While most consumers can attest to experiencing higher than 3% inflation recently, it is apparent from the chart above that inflation is trending upward in the near-term and that 2.5% to 3.0% may be a more realistic inflation target for policymakers. Until government spending is curtailed, there is a significant reduction in the money supply, and energy prices lower dramatically, inflation will likely remain well above the arbitrary 2% target rate.

Interest Rates

As generally expected, the Federal Reserve cut its benchmark rate 25 basis points (0.25%) in November and December, bringing the Federal Funds rate to 4.5% after starting the year at 5.5%. At the December meeting, Fed Chairman Powell's words suggested a slower pace for targeted rate cuts in 2025. As inflation lingers around 3% and the job market appears stable, the current rationale for rate cuts appears flawed and the data would support a more patient approach going forward. The chart below depicts bond yields by maturity (yield curve) for the past 2 quarters alongside the 30-year average.



Source: U.S. Deparment of the Treasury & St. John & Associates

At first glance, the bond market's reaction to a significant rate drop appears nonsensical; Ultrashort rates (1-3 month) dropped while short- and long-term rates climbed between 0.2 – 0.8%. After factoring in the potential for rates being "higher for longer" and unabated government spending, the upward shift at the longer end of the curve makes sense. Higher levels of spending with limited fiscal discipline requires a higher rate of compensation for lenders (i.e. higher yields). This concept was raised in previous commentaries, and as the 10-year rate approaches 5%, equity investors get nervous. There are both psychological and mathematical reasons for this, but essentially at higher rates bonds become more competitive versus stocks.

Contrary to equity markets, debt markets are more rational than emotional and completely transparent. Realistically what may be happening here is the ultimate normalization of interest rates. This is long overdue given significant Fed intervention and abnormally low rates for a protracted period. As witnessed by the 30-year average in the above chart, there is a normal upward sloping of the curve with a 1-2% difference between the front end and the 10-year yield. As of last quarter, long-term rates were in-line with 30-year averages. While the current long-term rates appear elevated based on recent experience, they are not out of sync from a historical context. Despite the current risk being priced into the curve, what we can expect in the next year (or two) is a natural re-steepening of the curve with a decrease in short-term rates. This will bring us back to towards a more normal yield curve with short-term rates between 2-3% and long-term rates around 4-5%.

Jobs

The economy added 256,000 jobs in December, far surpassing the estimated 165,000. As part of a continuing trend, this generous figure will likely be revised downward when all eyes are looking elsewhere. This growth in payrolls brings a decrease in the unemployment rate, from 4.2 to 4.1. While not a material figure, the downward trend, coupled with a recent uptick in inflation, will likely put any near-term rate cuts on hold in conjunction with Fed Chairman Powell's recent comments.

Per the Challenger Report, employers announced 761,358 job cuts in 2024, up 5.5% from 721,677 announced in 2023. It is the highest annual total since 2020 when over 2.3 million cuts were announced. According to Andrew Challenger of Challenger, Gray & Christmas, Inc., "Most employers are anticipating additional uncertainty with the new administration, which is leading to slower hiring and more layoffs in the short term from various sectors." With elevated interest rates and sustained inflation, it is reasonable to witness constrained hiring coupled with cost-cutting and efficiency measures. What remains to be seen how effective the administration will be in stimulating economic activity through deregulation, tax cuts, and other agendas.

Putting it All Together

Transitioning from election season to a new year, we continue to feel there may be more headwinds than tailwinds to markets given lofty US equity valuations, increasing bond yields, and mixed signals from headline economic data. One concern is the eventual release of bad news via restated GDP, jobs and inflation data now that political cover is no longer expected. As markets react on the headline narrative rather than the underlying details, there is concern about data revision and evidence of underlying weakness being revealed in the first quarters of the new year. In that event, what we hope for is that the positive impact of new policy and direction will mitigate the market effects of any negative headlines as we roll through the next few quarters. Regardless, we expect some turbulence after a few years of strong returns and plan to maintain a diversified portfolio with a disciplined approach for the long-term.

Patience and Impatience

Investing is not intended to be a get-rich-quick endeavor. While some investors may take risks with high-priced concentrated portfolios, this comes with high risk, and any miss in the growth expectations could lead to catastrophic losses. Investing with a reasonable level of risk involves longer-term planning. Being a long-term investor takes patience. While investing in a handful of high-flying stocks can be exciting, taking risk into consideration, it is important to understand the value of being able to sleep at night and not worrying about having all your eggs in one basket.

Below are the returns for index categories making up the broader markets. Morningstar sourced these index returns. Returns beyond one year are annualized.

Asset Class	Benchmark	Q4 2024	1 Year	3 Year	5 Year	10 Year
US Equity	DJ Industrial Average	0.93	14.99	7.56	10.55	11.57
	Russell 1000	2.75	24.51	8.41	14.28	12.87
	S&P 500	2.41	25.02	8.94	14.53	13.10
	S&P 500 Growth	6.17	36.07	7.70	17.09	15.29
	S&P 500 Value	-2.67	12.29	9.16	10.49	10.01
	S&P MidCap 400	0.34	13.93	4.87	10.34	9.68
	S&P MidCap 400 Growth	-0.79	15.94	3.35	10.01	9.86
	S&P MidCap 400 Value	1.55	11.71	6.26	10.21	9.13
	Russell 2000	0.33	11.54	1.24	7.40	7.82
	S&P SmallCap 600	-0.58	8.70	1.91	8.36	8.96
	S&P SmallCap 600 Growth	-2.62	9.63	0.44	8.24	9.55
	S&P SmallCap 600 Value	1.43	7.56	3.21	8.10	8.18
	Russell 3000	2.63	23.81	8.01	13.86	12.55
	S&P 500 Equal Weighted	-1.87	13.01	4.45	10.76	10.26
Non-US Equity	MSCI World	-0.16	18.67	6.34	11.17	9.95
	MSCI EAFE	-8.11	3.82	1.65	4.73	5.20
	MSCI EAFE Growth	-9.10	2.05	-2.58	4.00	5.84
	MSCI EAFE Value	-7.12	5.68	5.88	5.09	4.31
	MSCI Emerging Markets	-8.01	7.50	-1.92	1.70	3.64
Real Assets	Bloomberg Commodity	-0.45	5.38	4.05	6.77	1.28
	LBMA Gold Price	-0.79	25.53	13.05	11.49	8.02
	DJ US Real Estate	-7.78	4.86	-4.14	3.00	5.64
Fixed income	Bloomberg US Agg Bond	-3.06	1.25	-2.41	-0.33	1.35
	Bloomberg US Agg 1-3 Yr	-0.02	4.39	1.70	1.53	1.61
Cash	Fidelity Money Market	1.11	4.98	3.77	2.32	1.66