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NOLAND'S Notes

Creating, Building, and Preserving Wealth

What did 2024 tell us about investment opportunities? How does 2024 inform Left Brain's investment strategies for 2025? CEO Noland Langford analyzes the investment landscape of the past year, evaluating the events and dynamics of 2024 within the unique perspective of our Left Brain Lens. Then, looking forward, he offers expert insights on the economic factors that will shape investment opportunities in the year to come.

2024 RE-CAP / 2025 OUTLOOK

For those of you who are new clients or those who are reading this note for the first time, let me explain Noland's Notes: each year, I sit and write you a note. In the letter, I analyze the prior year in my own words, so you have a better understanding of the investment environment in which we are managing your accounts. I also offer my views on the investment landscape as we enter the new year.

The brief discussions we have throughout the year do not permit me time to describe my full market analysis. My hope is that in the 20 minutes (or so) that it takes you to read my note, you will gain a better feel for how we view the present investment climate. I will also share our general thought process of how we discover winners in the ever-changing investment markets.

Welcome aboard (or welcome back) and I appreciate your feedback!!!!

This note was written with you, the client, in mind. However, please feel free to send it to your inner circle of family, relatives, or friends, should you think it appropriate. This letter offers insight into the philosophy and "feel" of our work, should you wish to introduce Left Brain to your circle.

Let's Get Started!

■ Here are the official returns from 2025

Index	Close Price	Return (%)
Dow Jones Ind. Average (Largest U.S. Stocks)	37689.54	+13.70
S&P 500® (U.S. Stocks)	4769.83	+24.23
Russell 2000 (Small Cap Companies)	2027.07	+15.09
NASDAQ (Tech and Growth Focus)	15011.35	+43.42
MSCI EAFE® (Intl Stocks)	2236.16	+15.03
MSCI Emerging Markets	1023.74	+7.04
MSCI US REIT (Real Estate)	1248.83	+8.96
Aggregate U.S. Bond Index	99.25	+2.33
Gold (per ounce)	2062.97	+13.07
Oil (per barrel)	71.65	-10.73
Bitcoin	42265.19	+155.42

Source: S&P Dow Jones Indices, FTSE Russell, Nasdaq, MSCI, S&P U.S. Aggregate Bond Index, S&P GSCI Gold, S&P GSCI Crude Oil)

(For those of you wishing for the abridged version of this note, feel free to jump straight to the summary which starts on page 8. For everyone else, we have lots to discuss, since it has been a whole year. And, what a year it has been. So, let's jump right in!)

 **WHAT HAPPENED IN 2024**

The most significant event of 2024 may have been the election that brought Donald J. Trump back into the White House. The arrival of the Trump administration to 1600 Pennsylvania Avenue ushered in hope in many corners of the market: hope that stifling regulations would be loosened, hope that Mergers and Acquisitions would be allowed to flourish, hope that a business-friendly Government would unleash animal spirits. All these hopes pointed to one potential outcome -- booming business profits. In short, there was hope that the Trump administration would foster the economic conditions that would spur growth in America.

These hopes were initially rewarded with higher investment prices starting the night of the election right up until Valentine's Day. As the saying goes "Hope is not a strategy".

Economic conditions haven't felt like we're in a love fest since February 14th. What started as a Trump "bump" has in recent weeks turned into a Trump "dump".

I think it is safe to say that the average consumer suffered in 2024. Persistent inflation was a big reason for the pain of the American consumer. It seems that the cost of nearly every product or service has increased dramatically over the last 3 years. The price of eggs is a prime example. Prices have gone from an average of \$1.47 per dozen at the end of 2020 to \$5.90 at the end of February 2025.

There were two significant events in investment markets in 2024:

- (1) The continued outperformance of large company stocks.
- (2) Artificial Intelligence went mainstream.

Last year marked another year of large companies outperforming small companies. Aside from 2022 (When Small caps lost 16% in value vs a 18% loss in large caps), there has been only one year in the last 10 when small company performance bested that of large companies. (In 2016 small caps posted returns of 26% vs 12% for large cap companies).

In 2024, we observed the widest differential between large company and small company performance over the last 10 years: the large cap S&P 500 returned 23%, compared to the 10% returns for the small cap Russell 2000. The performance of large U.S. companies have persistently bested that of U.S. small and mid-size companies for quite some time now. Similarly, U.S. large cap returns have thumped the performance of international (including European shares) and emerging markets shares over a significant period.

For this reason, we do find it notable that European and Chinese shares lead the way as top performers in the first quarter of 2025. We wonder whether this could be the start of a trend, or a simple temporary anomaly.

We also wonder whether a potential new era of business-friendly policies in Washington will create a steady environment that would incentivize large corporations to start buying small and mid-sized companies. Such an environment would likely drive-up overall valuations for this segment of stocks, in the process.

It has been an open question in our office how and whether the recent persistent underperformance of small and mid-cap stocks relative to large caps could correct itself. A period of increasing Mergers and Acquisitions (M&A) activity would be welcome among CEOs that manage small-cap companies. Prices in this area of the market have not been cheaper in any recent memory. What's more, many large enterprises running up against limits to growth inside their own businesses need ways to improve their trajectories – acquisitions just may be the way forward.

AI is the other big story of 2024. Artificial Intelligence is a technology that will likely touch all our lives going forward, in ways big and small. Looking back, 2024 will be remembered as the year when ChatGPT went mainstream. A steadily and rapidly growing number of users are turning to AI for creating content, improving customer support, enabling research, writing reports, and broadly enhancing their productivity. From our point of view, this is just the start of a trend that will play out over the coming years and decades. AI in many forms, including General Intelligence, personal assistants, virtual worlds, and humanoid robots are coming.

Costs in this industry are decreasing incredibly quickly, and AI models are improving at an unbelievable speed. Each new version seems to get 100 times better than the last. This pattern is familiar and parallels that which society observed in previous similar technological revolutions -- as computers became mainstream and as the internet weaved its way into the fabric of our personal and business lives, innovations came with an increasingly rapid pace.

In the current AI revolution, companies of all types (not just in tech) are investing significant sums to create, integrate and execute their AI strategy. To say we are at the beginning of a new technological era would be an understatement.

To this point, the obvious winners of the AI buildout have been hardware producers like **Nvidia (NVDA)** and **Broadcom (AVGO)**. What has us excited is the potential profits that should emerge in other areas, as companies come to grips with how best to take advantage of this emerging technology.

As with each new technology there will be a new group of stock market winners. Unlike the Tech Boom 1.0 (when many of the best performing stocks were pre-revenue and certainly pre-profit), the AI era features companies with strong business models, positive profit margins, with generally more shareholder-friendly management teams.

WHAT LOOKS INTERESTING?

The markets have been understandably wobbly in the early days of 2025. As the 1st quarter ended, the sectors posting positive returns aren't the sectors that we expect to lead in a raging bull market. The market leaders so far in 2025 reveal investors seeking safety. Sectors like Gold, Consumer staples, Healthcare, Energy and Utilities have been leading early in 2025. These are holdings investors buy when they are temporarily seeking safety.

European and Chinese markets also show decent gains so far in 2025. International markets are likely strong because of U.S. dollar weakness, coupled with government stimulus programs underway in Germany and China. International stock returns have trailed U.S. returns over the past

3-, 5- and 10-year time frames. We will see if the current momentum of investors allocating to the safety trade and international shares continues. We are doubtful.

Bonds are showing slight gains to start 2025, but without interest rates decreasing or a severe recession, I'm not sure that bonds will appreciate much from here.

■ Income Securities

This is an area that has our attention. We define income securities as stock holdings with yields of 6% or higher. Most of the annual return of income securities is derived from the income they pay investors. Their income is generated from a variety of activities: Mortgages, Infrastructure, Oil Pipelines, Mining, Shipping, Lending and Real Estate, just to name several examples.

The basket of Income securities that we have built over the last year pay annual income yields ranging from 6%-12%. Another aspect that we like is that many income securities pay tax-advantaged income. Unlike bonds whose interest payments are taxed as ordinary income, many of the income securities we follow pay qualified dividends (taxed at the often lower capital gains tax rate).

Bonds almost always pay interest semiannually. In contrast, many Income Securities pay distributions to investors quarterly and some even distribute income *monthly*.

We are optimistic about finding companies whose shares could appreciate substantially in the years ahead. However, in the short term, markets could fall further until we have clarity regarding the effect of the policies of the Trump Administration. Given that climate, additional allocations to this basket of income securities could be a prudent play.

Many investors have taken advantage of higher interest rates and purchased CDs over the past 2-3 years. Others are still adding cash to their growing pile of cash at the bank. Unfortunately, banks are still far too stingy with yields they pay in checking and savings accounts. Income securities could be a solution to investors desire for more stability and consistent income while earning a return above inflation. *Note that prices of income securities do fluctuate as they are stocks, but typically they fluctuate less than the overall stock market.*



SIZING UP THE INVESTING CLIMATE

I am often asked for my thoughts on the current investment climate. At Left Brain, we want you to understand our current views of the investing landscape through the "Left Brain Lens." The "Lens" (our decision-making process) never changes, but the landscape we see through that lens is ever-changing. Here is what we see through the Left Brain Lens for 2025:

■ Interest Rates

Interest rates affect nearly every part of the economy. Auto Loans, mortgages, student loans and credit cards are all set based on the level of interest rates, usually the U.S. 10-year Treasury Rate. In 2024, U.S. 10-year Treasury rates ranged from 3.6% to 4.7%.

There was a lot of hope that interest rates would decrease significantly throughout 2024. The Federal Reserve told investors to expect 5 interest rate cuts, as 2024 began. As the economy continued to run hot and inflation persisted stubbornly, we only saw 2 rate cuts. Fortunately, the markets did well without the added large dose of elixir “interest rate cuts.” That was mainly because inflation rates cooled as 2024 unfolded.

Today (April 2), Treasury rates are 3.9% and 4.2% for the 1-year and 10-year, respectively. At present, markets are only pricing in 1 interest rate cut in 2025. Interest rate policy will likely be heavily influenced by the market response to President Trump’s “tariff tantrum”. If the implementation of tariffs leads to higher prices for goods and services (reigniting inflation), it is hard to believe that the Federal Reserve will be able to lower short-term interest rates substantially.

If economic conditions weaken while prices are rising (which is the definition of stagflation) this will likely be the nightmare scenario that will leave the Federal Reserve with limited options. Conversely, there is a chance that the economy remains steady while prices trend down a bit. This would be a dream scenario for the Fed. That would allow rates to come down without risking higher prices. If this all sounds a bit confusing, I would agree.

For that reason, we are calling the Interest Rate Environment:

Neutral

■ Inflation

In last year’s note we were enthused that inflation had eased from 9% in 2022 to a more modest 3% rate in 2023. That looks to be where the improvement stopped. The U.S. economy has been stuck in this 3% inflation range for much of the last two years. There was modest improvement to rates last year, but not much. Inflation has been anchored at 3%. It is not just \$6 eggs that have the American people concerned. Nearly every good or service has increased over the last four years. Price increases are sticking. When is the last time you remember the cost of something worthwhile falling? Unfortunately, with Trump’s aggressive tariff plan it looks like lower prices are just a dream for now. Let’s hope retaliatory tariffs only get to the negotiating table and not to price labels.

The market cast its first vote starting in mid-February 2025. That’s when markets started a skid that has turned into a correction. Aside from a recession it is hard to see how inflation retreats from here this year.

Thus, we are calling the inflation outlook:

Unfavorable.

■ Earnings

The ongoing profitability of a company explains most of a stock’s long-term returns. The consensus forecast for S&P 500 earnings this year calls for 7% growth over 2024 earnings (Source: Factset). That refers to the market as a whole. After the April 2nd “Liberation Day” tariff announcement analyst will

start bringing down their earnings estimates for 2025. However, at some point investors will start looking through 2025 and start focusing on next year's earnings.

The stock market is a market of stocks – in other words, within the overall market, there are many companies that will grow more slowly than average and some that will grow their earnings much faster. It is this latter group that has our attention.

Companies in the technology, communications, financial and industrial sectors seem primed to grow earnings much faster than other sectors. With the dawn of the 4th Industrial Revolution, we expect higher margins and more profitable businesses, specifically in those sectors that we favor.

Markets have been choppy this year, as investors await the fallout of the economic uncertainty involving tariffs and global trade. What is certain is that companies are generally very motivated to post attractive returns for shareholders. Once the tariff and trade dust settles we still expect U.S. companies to generate attractive returns for shareholders. For now, CEO's and their inner circles are at the conference table hammering out strategies to navigate these tricky economic circumstances.

We are calling the Earnings outlook:

Neutral

■ **Valuations**

A common criticism of the U.S. markets is that they are expensive. In contrast, stocks in Europe have traded at "cheap" valuations for more than a decade. Similarly, stocks in Latin America have been cheap for many years. Chinese stocks are unbelievably cheap.

In each case shares are cheap for a reason. The European economic system is not dynamic. The economy has been stuck in neutral for years. Regulations stifle innovation. Corporations are run mostly for the benefit of labor and to the detriment of shareholders. Big companies are treated like bad guys.

Latin American countries have been marked by political instability, currency crisis and unsteady economies.

China is a quasi-communist economy and is in the midst of a multiple year recession and a rapidly aging population. Add to that the fact that the government does not embrace capitalism (at least in any way that would be recognizable to us here in the Western world). In each case shares are cheap and deserve to be.

In contrast, the U.S. is not only the greatest country in the world, but also is widely viewed as the safest for shareholders. Legal rights of owners are respected and protected here. Capital markets here are the deepest and most transparent. If a company needs to raise money to fund a world changing idea, chances are they are coming to the States, as are the intelligent hard working non-Americans who wish to raise their family under the Stars and Stripes.

Companies in the U.S are generally run by professional well-paid managers. These managers are hard-working, bright and understand that they must deliver returns for their owners -- *The shareholders.*

Yes, U.S. stocks are more expensive than those of other countries, but with good reason, as they are of higher quality.

Over time, U.S. stocks have been safer and have posted higher returns for their owners. As of now, the S&P 500 trades at a forward price/earnings multiple of 20 times earnings. As long as earnings continue to grow for American companies, we don't find valuations terribly troublesome given the price of alternatives abroad. In short, U.S. stocks are more expensive than foreign counterparts, but in our view, **worth it**. We don't see this valuation premium changing anytime soon.

We are calling the Valuations outlook:

Favorable

SUMMARY – OUR 2025 PLAYBOOK

This month marks the 5-year anniversary of Covid. Right now, we are seeing a faint similarity to the investment climate that existed when the markets reopened during Covid. Markets were then panicked about the raging pandemic. High quality holdings could be purchased at really good prices. To a lesser extent, we are seeing a similar dynamic in today's market.

We are also finding attractive investment opportunities in today's markets, but there is no doubt that investors are currently facing a jittery market environment in the short term. As we have often stated, temporary bouts of volatility can usher in long-term opportunity.

President Trump rode into office riding a wave of optimism. The Trump Administration ushered in hope for a better tomorrow. So far, tomorrow is looking a bit rockier than yesterday. Through the first quarter of 2025 optimism has quickly morphed into a large wave of pessimism. There has been so much disruptive change so quickly, that the world is stunned and confused. The current level of tariff "tit for tat" and U.S. aggressiveness toward traditional American allies has the world on edge.

In our view, these unconventional tactics employed by the Trump Administration have been much more disturbing to the American people. The fear in many circles is that America could become more like Russia or China in the way that Trump is attempting to consolidate centralized control over courts, corporations, and government institutions. This administration is certainly on a mission. We wish that they would do a better job of explaining the mission to the American people, as the uncertainty is causing significant disruption to the business world.

So far, instead of Making America Great Again it has been murmured that Trump has only MEGA'd -- Made Europe Great Again. Here at Left Brain, we think reducing Government waste, fraud and abuse, is good policy. We are in favor of smaller Government. We are certainly in favor of less onerous regulations.

Since most of the U.S. tariff policies were adopted to help other economies rebuild after World War II we think a fresh look has merit. In the long run these new policies have potential to create a stronger America. Rebuilding America's manufacturing sectors, reviving rust belt cities, and creating higher

paying jobs are worthy pursuits. Time will tell whether the current course will achieve those stated goals. Let's hope the costs aren't more than we can bear.

The job market is steady, but unspectacular. There are now Government layoffs that could portend an easing in the overall job market. Job uncertainty isn't a great backdrop for consumers to go out and spend.

Companies now feel emboldened to require employees to return to the office. This may indeed be good for employers as well as for the employees, but for now, it seems the bosses are the only ones who are smiling about it. It remains to be seen what impacts this change could create.

That brings us to housing. This may be the biggest pain point for the consumer. Though real estate transactions decreased in 2024, prices still rose. Mortgage rates are still firmly above 6%, which makes current levels of housing affordability quite low historically.

Beyond housing, the cost of nearly everything seems to keep increasing, stretching household budgets. Putting together trends in employment, housing, and the prices of nearly everything, the net result is a frustrated consumer.

There is a fear that the U.S. economy is facing an imminent economic slowdown which could end in recession. Could we face retaliatory tariffs that hurt U.S. consumers? Could inflation spike? Could we experience stagflation (high inflation and a stagnant economy)?

Indeed, some economic indicators are starting to weaken. We are most concerned about the actions of corporations which are dealing with these crosscurrents. It can be nearly impossible to plan and invest for the future when there is uncertainty how costs and future demand will look. Increasing costs are unwelcome. Decreasing demand is unwelcome. Increased costs and lower demand are most definitely unwelcome. Uncertainty is kryptonite to the investment markets. Let's hope for clarity (and quickly).

We are hopeful that the Federal Reserve Board will come to the rescue with interest rate cuts later this year. The market now sits and debates whether we will get the interest rate cuts the Fed has telegraphed for 2025. With inflation still running relatively hot, I'm not sure how we get interest rate cuts, unless the economy really starts to weaken.

With all of this as a background we do think the conditions are ripe for higher investment prices. You may be wondering where our bullishness comes from.

What makes us bullish is that we have entered the 4th Industrial Revolution. Productivity and Investment are both set to increase meaningfully. Artificial Intelligence has set in motion a technological arms race. To compete companies will need to spend to keep up.

Unlike the technology boom 1.0 (1995-2000), we think this revolution will impact nearly all industries. Companies and governments understand that technology in general (and AI specifically) will allow them to do more, while eventually spending less.

Digital transformation, Cybersecurity and Artificial Intelligence spending makes companies more productive and profitable. These are reasons that tech spending is mission critical.

To usher in this new era there will need to be more computing resources. To do more computing, we need more computing power. To generate more power, companies will need to spend on power generation. More investment equals more corporate profits. Higher investment prices follow higher profits.

No matter the short-term issues that our country is faced with today, in the end the solution to most of the country's challenges is growth. Quite simply we need our economy to grow. Investors need their portfolios to grow. Those still building wealth need growth.

We want to reiterate that retirees most certainly need growth. Many retirees have picked up the "sport" of spending -- spending on new homes or remodeling old homes, spending on new cars, spending to travel, spending on other extravagances, spending on self-care, the grandkids, etc.

Right now, as many economic crosscurrents persist, defense is on the field as we start 2025. At some point we will get clarity, and offense will take over. Remember, markets have the habit of changing quickly and unpredictably.

No matter what the markets bring we will be here looking for winners to help you build your family fortune.

Thanks for reading. We appreciate the fact that our group of enlightened readers continues to grow.

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