BIRLING CAPITAL ADVISORS, LLC **Think Strategically**

Steady Gains, Volatile Days,Navigating Markets into 2025 As We Enter The Trump 2.0 Zone

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2024 A Year of Double Digit Returns and 2025 Outlook

As the year draws to a close, economies and markets are navigating a complex intersection of challenges and opportunities. The global economy continues to expand steadily, with inflation showing signs of easing. However, geopolitical tensions have intensified, with conflicts in the Middle East and Ukraine persisting. In the US, the aftermath of a contentious election adds to the uncertainty.Despite these headwinds, 2024 proved to be a remarkable year for markets, delivering robust gains.

Our 2025 Outlook examines how global monetary policy shifts and accelerating investment in transformative technologies like AI are poised to drive markets in the coming year. To navigate increasing macroeconomic uncertainties, focusing on income strategies and enhanced portfolio diversification will be vital to protecting and growing wealth.

The markets are en route to close with solid gains, supported by robust fundamentals as we head into 2025. As of Friday's market close, the five indexes we follow all have double-digit returns YTD 2024 with the results as follows:

- Dow Jones Industrial has a YTD return of **17.53%.**
- S&P 500 has a YTD return of **25.15%.**
- Nasdaq CompositeFriday'sTD return of **21.45%.**
- Birling Puerto Rico Stock Index has a YTD return of **17.25%.**
- Birling US Bank Index has a YTD return of **50.67%.**

A Five-Year Journey With The Five Indexes

Investing in the stock market offers a dynamic opportunity to grow wealth over time. Here's a look at how a $10,000 investment in each major indices at the start of 2020 would have performed over the past five years, showcasing the power of compounding and market resilience.

Dow Jones Industrial Average

- 2020 (+7.25%): $10,000 → $10,725
- 2021: +18.73% → $12,732
- 2022: -8.78% → $11,617
- 2023: +6.86% → $12,416
- 2024 (YTD): +17.53% → $14,594

Despite a downturn in 2022, the Dow's steady Performance highlights its resilience, with a total growth of 45.94% over five years.

S&P 500

- 2020: +16.26% → $11,626
- 2021: +26.89% → $14,752
- 2022: -19.44% → $11,881
- 2023: +9.54% → $13,010
- 2024 (YTD): +25.15% Dow's, 292

With a five-year growth of 62.92%, the S&P 500 demonstrates the strength of broad market exposure powered by its diverse composition of industries.

Nasdaq Composite

- 2020: +43.64% → $14,364
- 2021: +21.39% → $17,430
- 2022: -33.10% → $11,657
- 2023: +13.41% → $13,221
- 2024 (YTD): +21.45% → $16,064

The Nasdaq's tech-heavy focus has resulted in significant volatility, but its overall growth remains impressive at 60.64% over five years.

Birling Puerto Rico Stock Index

- 2020: -6.21% → $9,379
- 2021: +38.39% → $12,982
- 2022: -14Nasdaq's11,127
- 2023: +18.23% → $13,151
- 2024 (YTD): +17.25% → $15,417

The Birling Puerto Rico Stock Index highlights Puerto Rican companies' resilience and growth potential, achieving a total growth of 54.17% despite its setbacks.

Birling U.S. Bank Index

- 2020: -6.21% → $9,379
- 2021: +38.39% → $12,982
- 2022: -14.30% → $11,127
- 2023: +18.23% → $13,1companies' (YTD): +50.67% → $19,806

With a remarkable 98.06% growth over five years, the Birling US Bank Index stands out as a strong performer, fueled by a dramatic recovery and robust financial sector performance in 2024.

Total Growth Perspective

Investing $10,000 in each index at the start of 2020 would yield the following portfolio values by the end of 2024 (YTD):

- Dow Jones Industrial Average: $14,594
- S&P 500: $16,292
- Nasdaq Composite: $16,064

- Birling Puerto Rico Stock Index: $15,417
- Birling U.S. Bank Index: $19,806

Starting with $50,000 ($10,000 per index), your total portfolio value would now be $82,173, reflecting an average growth of 64.35% over five years. While individual indices showed varying levels of volatility, diversification across sectors and geographies cushioned risks and maximized returns.

The stock market rewards patience and diversification. Despite occasional setbacks, steady investment in multiple indices can yield substantial growth, turning challenges into opportunities and volatility into resilience.

Market Snapshot: Elevated Valuations with Selective Opportunities

While market valuations are above historical averages, driven by the dominance of mega-cap tech stocks, many other segments trade near or below their 10-year norms. This divergence suggests opportunities in overlooked areas like mid-cap, small-cap, and international equities, which are priced attractively relative to history.

Corporate earnings have been a critical driver, recovering from stagnation in 2023 to projected growth of 9% this year and potentially 10-15% in 2025. While broader market valuations seem stretched, solid fundamentals and profitability differentiate this cycle from past bubbles, particularly among tech giants. Investors may want to diversify beyond the concentrated S&P 500 for more balanced long-term returns. Also, after two years of solid growth, the tech sector is consolidating its gains.

Trade policies could reemerge as a critical concern, with proposed tariffs potentially introducing a one-off spike in inflation. Historically, tariffs have caused modest increases and weighed on economic growth.

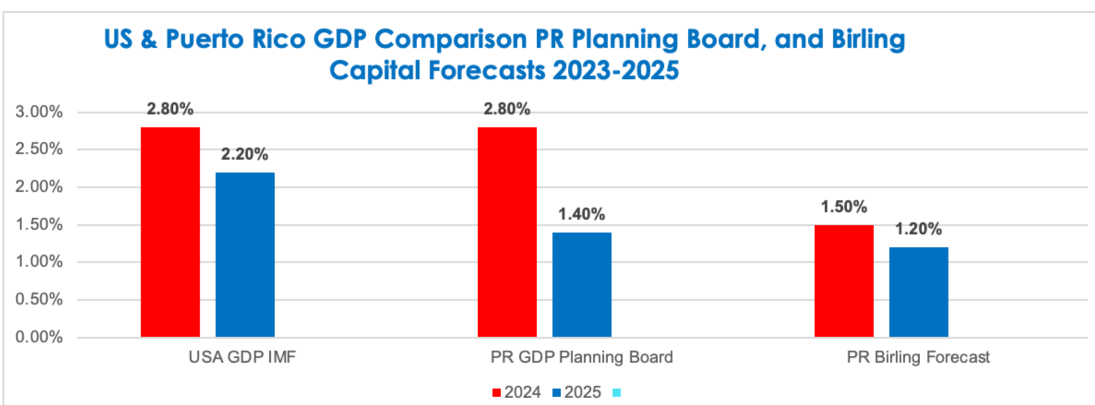
Portfolio Strategies For Investors

To navigate these risks, investors should consider:

1. Value-Style Investments: Value stocks tend to perform well in environments with strong domestic growth and lower tax rates.
2. Small- and Mid-Cap Companies: These firms generate significant domestic revenue, positioning them to benefit from U.S.-focused policies and resilient consumer spending.
3. Diversification: Reducing exposure to concentrated mega-cap tech stocks can help mitigate volatility and balance risk.

Looking Ahead: 2025 and Beyond

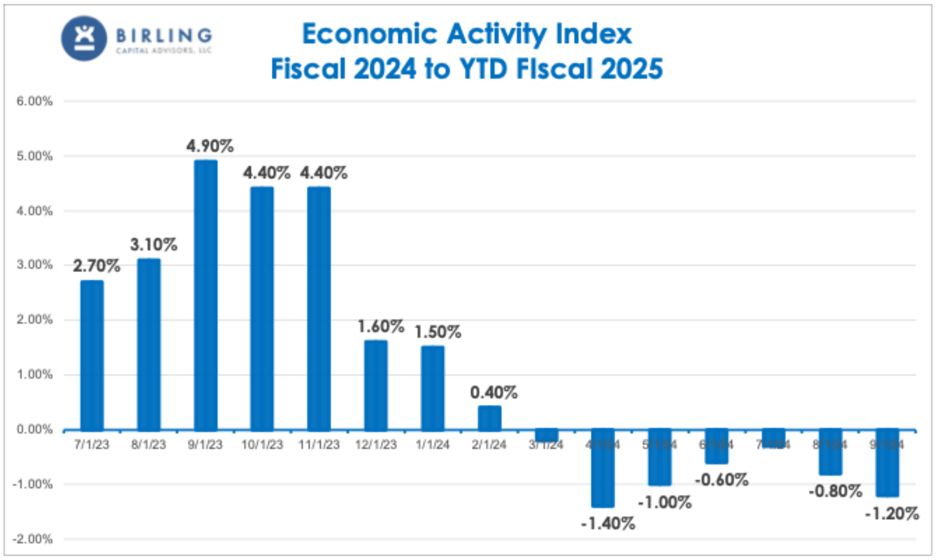
As we approach 2025, resilient consumer spending, rising corporate profits, and a potential rate-cutting cycle set a favorable stage. Diversification across sectors and asset classes can position portfolios to weather challenges while capturing long-term growth opportunities.



For 2024, the US is expected to grow at 2.80% GDP, with 2025 at 2.20% GDP; in Puerto Rico, the Puerto Rico Planning Board has a forecast of 2.80% GDP for 2024 and 1.40% GDP for 2025.

The GDPNow for the fourth quarter was updated on November 19, 2024, and the US Economy is rising to 2.60%, so the forecast of 2.80% appears achievable.

However, for Puerto Rico, the story is a bit different; the Economic Activity Index has recorded seven consecutive months of contractions since March 24 at -0.20%, April at -1.40%, May at -1.00%, June at -0.60%, July -0.30%, August -0.80% and September 2024 at -1.20%, with this evidence we do not envision Puerto Rico achieving the PR Planning board forecast of 2.80% GDP.



In our view, while the path may not be entirely smooth, the economic and market fundamentals suggest the potential for equities to extend their gains as leadership continues to evolve and broaden.

The Final Word: 2025 Entering The Trump 2.0 Zone

The incoming president will likely exacerbate the deficit, a reality underscored by the 2024 election results. The truth is, no matter who had won, deficits were already on track to grow. Most economists have estimated that President-Elect Trump's policies could Potentially add around $4 trillion to the deficit.

President Trump's strong showing in the 2024 election has set the stage for a new chapter of Trump-era policies, often called "Trump 2.0." While deregulation, increased merger and acquisition activity, and a renewed focus on domestic economic outcomes offer a bullish outlook, the slim chance of corporate tax cuts remains a wildcard. The market reaction is showing optimism, with investors focusing on US-focused assets, small-cap stocks, and regional banks instead of international markets.

However, the potential for higher inflation and ballooning budget deficits looms large. US Treasury yields have surged toward year-high levels, signaling expectations of looser fiscal policy. This rise and elevated mortgage rates could further dampen residential housing activity, intensifying the affordability crisis.

Additionally, much-discussed tariff policies pose significant risks to global economic growth. While sweeping tariffs on all imports seem unlikely, targeted duties on specific goods or countries could trigger retaliatory measures, worsening the strain on global trade dynamics.

The election results inject an air of caution for emerging markets, industrial commodities, and energy prices. Pro-growth policies favor domestic markets but dampen sentiment toward these asset classes. Moreover, the long-term implications of fiscal policy decisions, including potential revisions to the 2017 Tax Cuts and Jobs Act (TCJA), could shape economic outcomes well into 2025 and 2026. As the administration sets its course, markets and policymakers are bracing for opportunities and challenges in the years ahead.

The financial markets have already reacted with a sharp rise in bond yields, signaling expectations of looser fiscal policies ahead and the five indexes we follow have risen from November 5 to November 22; the Dow Jones is up 4.91%, the S&P 500 is up 3.23%, the Nasdaq Composite is up 3.06%, the Birling Puerto Rico Stock Index is up 10.06% and the Birling US Bank Index is up 13.67%, the markets are talking loud and clear.

While we await President Trump's inauguration, bear in mind that there are **56 days until January 20, 2025**, followed by **another 708 days until the Congressional Midterm Elections on November 3, 2026**, and lastly there are **1,443 days until the next Presidential Election on November 7, 2028**.

Remember the words from The Oracle of Omaha, Warren Buffett: **"Successful investing takes time, discipline, and patience. No matter how great the talent or effort, some things just take time".**

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