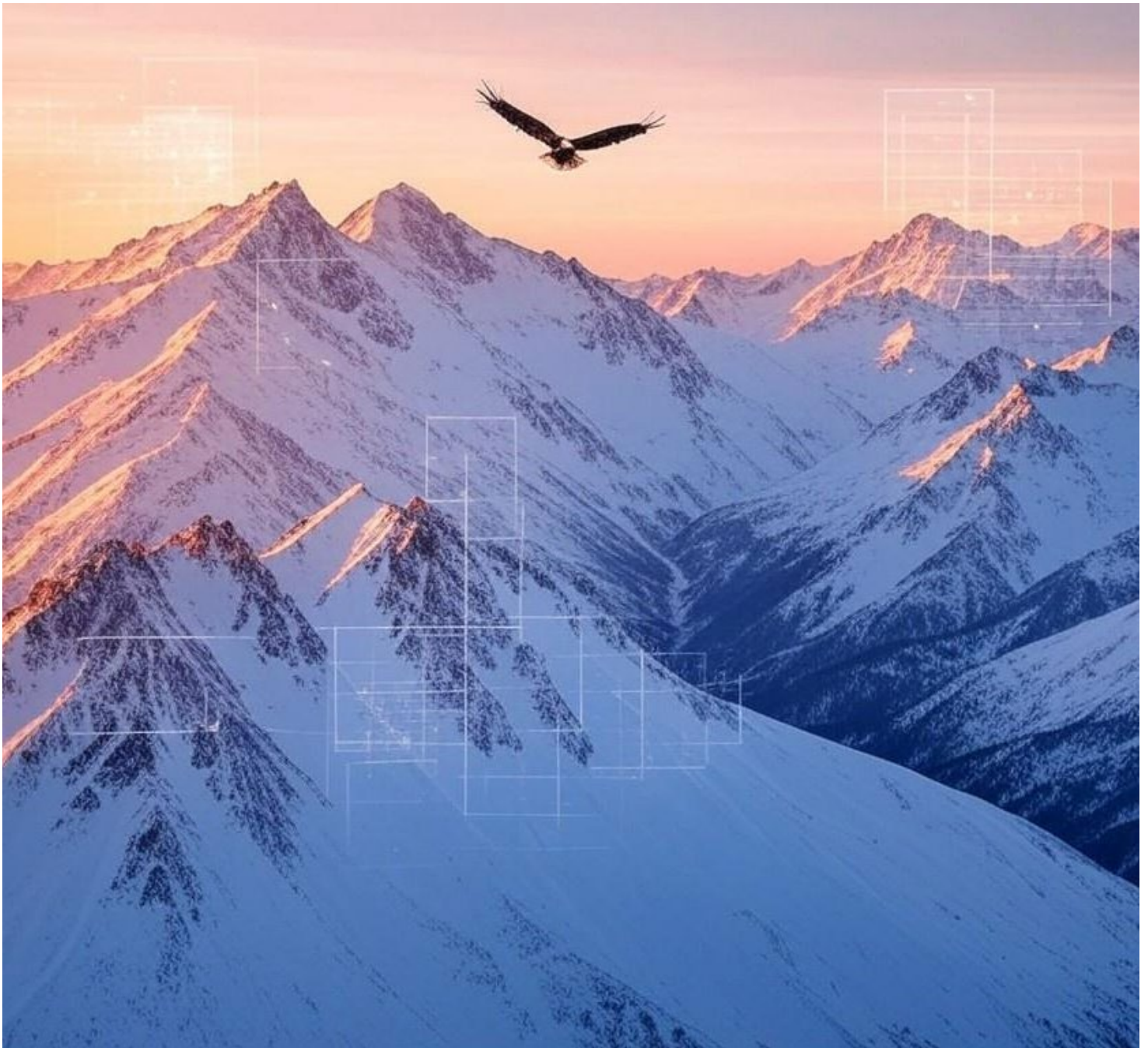




**BlackDiamond
Financial**

INVESTMENT INSIGHTS

FOURTH QUARTER 2024



Volume # 68

*AI generated image of majestic mountains with black diamond ski trails.
Features a bald eagle in flight denoting US Exceptionalism in 2024.*



The past two years have been a remarkable period for the stock market. The S&P 500 delivered a 53% rally, marking the best two-year performance in decades.

In 2024 alone, the index climbed 25%, driven primarily by the "Magnificent Seven" group of tech giants, which on average gained 61%. International stocks lagged, offering only a 5.5% return for the year.

Economic resilience underpinned this performance. U.S. GDP growth for 2024 is expected to be 2.7%, supported by strong consumer spending. Businesses have ramped up investments, spurred by the demand for AI technologies. The labor market also remains healthy, with unemployment at 4.2%, near historic lows.

The S&P 500 now trades at a premium valuation with a next twelve months P/E ratio of 22x, significantly higher than the recent pre-COVID average of 16x. However, this valuation is largely driven by tech giants. Broader markets, including small capitalization and international stocks, are trading near long-term averages. Substantial earnings growth continues to support valuations. S&P 500 earnings per share are expected to increase by 10% and 12% in 2024 and 2025, respectively, meaningfully exceeding the 7% historical average.

In the fixed income arena, the yield on the Bloomberg US Aggregate Bond Index surpassed the Federal Reserve's short-term policy rate, signaling more normalized bond market conditions.

As we look ahead to 2025, we remain vigilant about potential risks. Geopolitical tensions, tariff disputes, persistent inflation, shifts in consumer spending, slower than anticipated AI progress, and declining corporate earnings are all factors we are closely monitoring.

We recommend a disciplined, long-term approach focusing on asset allocation, diversification, and prudent risk management, rather than attempting to time the market.

Comparative Returns

	Annualized Performance				
	Q4 2024	1 Year	3 Years	5 Years	10 Years
Large Cap U.S. Stocks ¹	2.4%	25.0%	8.9%	14.5%	13.1%
Small Cap U.S. Stocks ²	0.3%	11.5%	1.2%	7.4%	7.8%
International Stocks ³	(7.6%)	5.5%	0.8%	4.1%	4.8%
Real Estate ⁴	(6.4%)	7.5%	(3.4%)	3.1%	4.4%
U.S. Bonds ⁵	(3.1%)	1.3%	(2.4%)	(0.3%)	1.4%

1 S&P 500 index. 2 Russell 2000 index. 3 MSCI ACWI ex-U.S. index. 4 MSCI U.S. REIT index. 5 Bloomberg Barclays Aggregate Bond index.

“You can’t predict. You can prepare.”

Howard Marks – Founder of Oaktree Capital Management

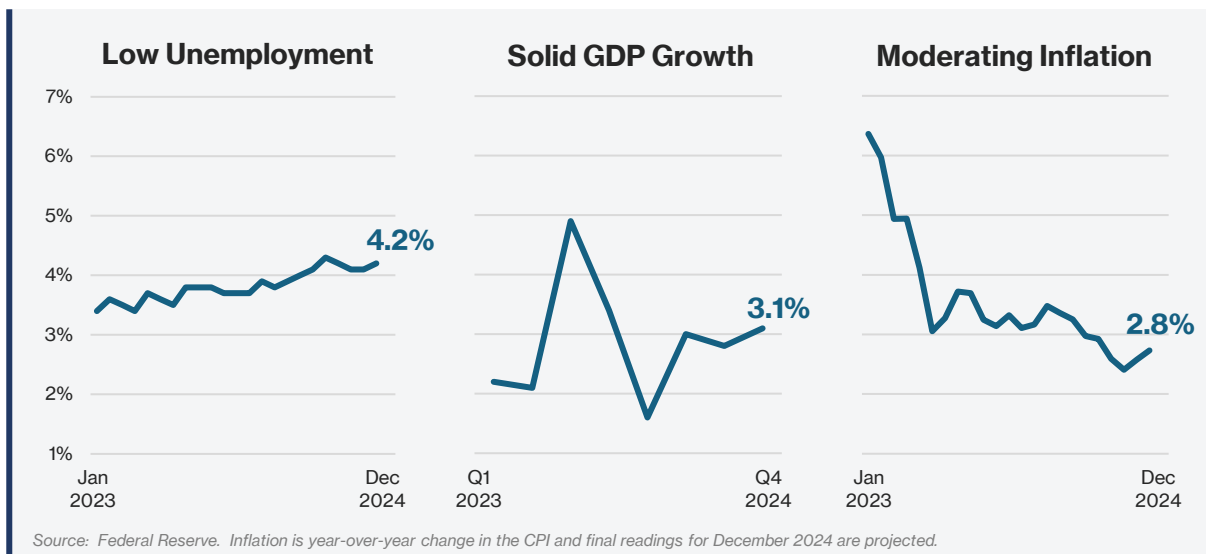
U.S. Economic Expansion Continues

We often ask ourselves where we are in the market cycle to calibrate client portfolios for the future. This positioning is best explained by renowned investor Howard Marks, who emphasizes that the best way to optimize a portfolio at a given point in time is by deciding its balance between aggressiveness and defensiveness. In other words, we focus on determining the appropriate level of risk for our client portfolios.

Currently, U.S. economic expansion has been uninterrupted since the pandemic. Solid GDP growth, low unemployment rates, and moderate inflation define today’s economy. The U.S. continues to benefit from tailwinds that distinguish it from the global economy:

- **AI Boom:** The U.S. is experiencing exceptional growth in artificial intelligence investment, fueling advancements in semiconductor manufacturing, data center infrastructure, and supply chain automation. This widespread focus on AI is reshaping industries.
- **Expansionary Fiscal Policy:** Policies such as the CHIPS Act, the Inflation Reduction Act, and the Infrastructure Act have created a construction boom across sectors like semiconductors, electric vehicles, batteries, solar panels, and wind turbines. Following the pandemic, the U.S. government’s fiscal response totaled over \$5 trillion, providing strong tailwinds to economic growth.

The U.S. economy remains solid with no current signs of a major slowdown. However, uncertainties persist, including geopolitical challenges, rising U.S. trade tensions, and potential shifts in policy following the election. Additionally, expanding government deficits and a premature easing of monetary policy by the Federal Reserve could increase inflation and interest rates, complicating economic stability. By closely monitoring evolving risks and opportunities, we aim to help our clients successfully position their portfolios.





ABOUT US

Black Diamond Financial, LLC is a fee-only registered investment adviser with a unique and holistic focus on preserving and enhancing wealth. Our mission is to help you achieve your financial goals through the use of low cost, tax-efficient investment strategies. We create individualized investment portfolios for each client that are risk-appropriate, return optimized, and tax-efficient. Where appropriate, we incorporate institutional quality private investments to capture illiquidity premiums or yield opportunities. Furthermore, we believe cost is a critical factor in any successful investment strategy and therefore offer fully transparent pricing that is below industry standard. As an employee-owned firm focused on our fiduciary duty, we make our clients' interests our highest priority.

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