52 North Wealth Group

Wealth Management

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We made it.

Happy New Year from your friends at 52 North Wealth Group.

There is a lot going on in the world, not all of which is encouraging, but December 31 came and went and we're still here. That's the good news. The bad? We all still need to plan and save for the future. We suppose that's a good problem to have.

While January 1 is technically just another day, metaphorically turning the page on the old and looking to the future as a clean sheet has a certain psychological appeal. So, pour yourself a glass of leftover holiday nog. Let's give it a whirl and see where things stand.

The US economy remains resilient.

As we look forward, here are some things our team believes we can collectively feel good about.

- The economy is still growing. Through the end of the third quarter, GDP grew 2.9% year over year.[1]
- Jobs are still being created, averaging 186K/month through November.[1] While the rate of job creation fell in recent months as compared to the first half, this is nevertheless a healthy clip.
- The unemployment rate at the end of November stood at 4.2%, 0.5% higher than it was a year earlier[1] but still quite low in absolute terms. A bit of loosening in labor markets, all else being equal, is a good thing for employers in search of new workers, and probably with respect to wage inflation.

Not a "Fed hawk," but a red-tailed hawk as viewed from our office.

- While the path of inflation is rarely smooth, it has trended lower over the course of the last two years. Headline CPI as of 11/29/24 was 2.73%, down from 3.1% a year earlier and 7.1% two years ago[2]...just the prescription that "Dr." Powell had in mind.
- As of September 30, the Employment Cost Index, a measure of wage inflation, posted 12-month growth of 4.59% for government workers and 3.80% for private workers.[2]

The data cited above suggest the economy is still strong, producing new jobs, and most people who want jobs have them. The rate of price increases is generally slowing (not to be confused with prices going down, in most cases), and wages of late have been growing faster than inflation. Given a US economy that is over 2/3 consumer driven, that is an encouraging backdrop.

A strong economy, yes, but also a spendy market.

In RBC's "Global Insight—Global Equity Perspective" dated January 2025, our firm's own Jim Allworth notes that, *"As the new year gets underway, investors find themselves in much the same place they were 12 months ago. Back in January of 2024...the S&P 500 Index looked expensive at 22x the latest 12-month earnings-$219 per index share."* Fast forward to year-end 2024, and Jim points out that *"the S&P 500 ended the year at a rich 24.4x full-year consensus earnings estimates of $243 per share."* Valuation is a notoriously bad timing tool in the short run, but we believe that what we pay for investments matters over the long term, and is one important part of how we manage risk.

The election is done. What now?

The election is behind us, and thank goodness for that. While roughly half of the country is newly unhappy with who is in charge, the other half is newly pleased, the world did not end, and the market did not collapse. Truly surprising to us, given the political climate, was that either party could unify control of the Presidency and both houses of Congress. But it happened. In light of the Republican sweep, there are two main areas that strike us as likely near-term positives from an economic perspective, and two which jump out as potentially counterproductive.

[1] Broadridge Annual Market Review 2024

[2] RBC Q4-2024, Q4-2023, and Q4-2022 Macro Monitors

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Potential positives: Less regulation. Lower taxes.

It is widely expected that deregulation will be a priority of the new administration and Congress. Regulation often serves a valuable purpose, and it is not all bad, but talk to many business owners and you'll hear tales of bureaucracy gone too far. We do believe that the elimination of red tape and simplification of rules and regulations for businesses large and small, should it occur, can serve as an economic tailwind that drives incremental GDP and earnings growth.

Further, the tax cuts that were set to expire on January 1, 2026, enacted during the first Trump administration, are now more likely to be extended. Lower taxes leaves more money in workers' pockets, allowing more spending, which could be stimulative in the shorter term. Longer term, of course, lower taxes could exacerbate already large federal deficits and growth in the national debt, which could cause headaches and put upward pressure on interest rates at some point.

Potential negatives: More tariffs. Fewer workers.

The president-elect campaigned hard on the use of broad-based tariffs on imports from most countries, including those from many of our allies. Whereas targeted tariffs can serve useful purposes (cudgels against our enemies, or to target dumping (selling goods too cheaply to gain market share abroad)), broad-based tariffs are simply a tax by another name. If instituted, tariffs could put upward pressure on prices if those costs are passed on to consumers.

Similarly, any actions that might reduce the pool of available labor—such as deportations or limiting future, legal immigration—will likely serve to tighten the US labor market, which has only recently started to loosen up a bit. We are concerned that this could also be inflationary.

The one-two punch of tariffs and reducing the labor supply could undo some of the good work that's been done over the last two years in taming the rate of inflation.

Where things land, nobody knows.

Will we actually see deregulation and an extension of tax cuts? Will we see tariffs and a shrinking labor supply? If so, will tailwinds produced by the former outweigh the headwinds presented by the latter? Even if they do, will the possible benefits to economic and earnings growth be enough to compensate for an already expensive stock market? There is no clear-cut answer, and smart people can disagree.

Michael Roedl, writing in RBC Wealth Management's Global Insight Weekly (dated 1/9/25) points out that "*the 10-year Treasury benchmark reached an intra-day high of 4.73% on Wednesday, pushing close to the 5% peak from back in October 2023."* He goes on to note that this is in part due to *"...concerns about the incoming Trump administration's plans for tariffs and tax cuts [which] could set the stage for higher-for-longer policy rates."*

On the other hand, Eric Savoie and Dan Chornous of RBC Global Asset Management opine in their "Executive summary-New Year 2025 (dated 12/15/24): *"While uncertainty remains as to which of President-Elect Donald Trump's ideas will be implemented, we assume that his proposed tariff and immigration policies will be significantly tempered, allowing for the effects of tax cuts, deregulation and rising animal spirits to dominate."* To that we say...a politician might not follow through on campaign promises? Hogwash...that never happens! For economic reasons, we hope they're right.

Liquidity in a pinch (for emergencies or otherwise)...where would yours come from?

2024 seemed to be a year of hurricanes. 2025 started with devastating wildfires in Los Angeles. Tragedies of that sort, and sometimes just life, often lead to a need for cash with little or no notice. One option is to pull money from bank or investment accounts. But what if you are low on cash, and do not want to disrupt your investments or perhaps realize capital gains? If you find yourself in a situation like that, or simply want to discuss it conceptually (i.e. "What would I do if...?"), reach out to us to brainstorm and talk about what options we may have for you. As always, hope for the best, but plan for the worst. In either scenario, we're here to help.

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