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Princeton Capital Management LLC

THE VIEW FROM PRINCETON

Market Commentary ⬩ January 3, 2025

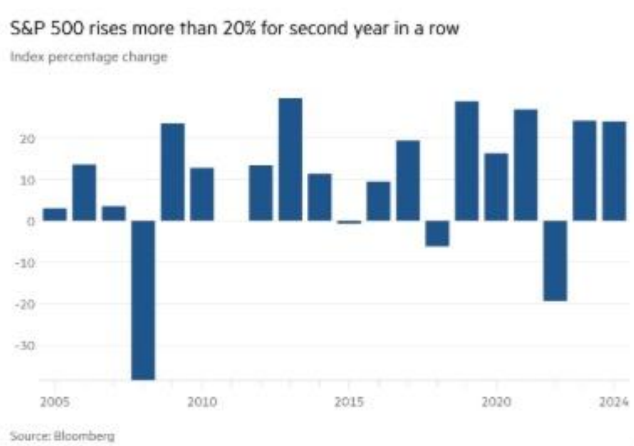
Thoughts On 2024

We hope your year ended with family, friends and neighbors gathered in your favorite traditions and places; we wish you peace, health, and prosperity ahead. Investment notes will hit your mailboxes with their usual volume in the coming days and weeks, alongside 4Q earning reports and some key macroeconomic data. We thought we would reach out with quick thoughts crossing into the new year ahead of our annual letter later this month.

As always, we are grateful for our relationships with all of you. We look forward to collaborating over the course of the year to offer investment insights to you and your clients as you may need. We are always here to chat, to answer questions about our investment strategies, or merely to exchange ideas.

Four topics of conversation (source for all data: FactSet StreetAccount Summary – US Annual Recap 12/31/2024).

1. **MARKETS. Last year was a good year. The year before was a good year. They say, good things come in threes.** Can we make 2025 the third leg of the market performance trifecta? We think it is possible, but key elements must fall into place. First some recap numbers (source: FactSet Research): 57 record highs for S&P 500 in 2024, Index up 23% but Equal-Weighted up only 11%, narrow contributors like NVDA all year, or TSLA really gaining speed since November election. Elsewhere, Treasuries weakened, the yield curve steepened (but some call it a "bear steepener"), the dollar was firm (relative growth trumps concerns over reserve status by far), Gold was buoyant for a heavy metal and Bitcoin soared like a Muskian rocket to new planets. Oil was flat. Many are pointing to two strong years not seen for a while, although history shows it's not all that unusual in the grand scheme of things. (Source for graph: Financial Times, 12/31/24, "US stocks soar more than 20% for second year in a row.")



Princeton Office
17 Hulfish Street Suite 220
Princeton, NJ 08542
609.924.6867

Red Bank Office
151 Bodman Place Suite 101
Red Bank, NJ 07701
201.332.9800

Baltimore Office
1014 West 36th Street
Baltimore, MD 21211
410.630.1430

www.princap.com

2. **MACRO. The economy grew, inflation declined, and workers worked. Consumers felt comfortable spending. We never landed.** That's a well-known construct for corporate revenue and earnings on the rise, taking their equities with them. Earnings drive stocks is the common mantra. GDP grew the slowest in Q1 2024 and it was better from there. There was job growth and a rising unemployment rate but that was ok – labor participation was better. The CPI was reported +2.7% in November, which was lower than the prior year that clocked in at more than 3%. The Fed turned the corner on rates, drove into the new neighborhood of rate cuts, and then showed us their foot remained near the brake pedal to close the year. Perhaps not "higher for longer," but "slower for certainty." That's manageable.

3. **COMPANIES. At the end of the day, maybe it is still about corporate earnings driving corporate equities.** We have seen more than a year's worth of quarterly positive earnings growth out of S&P 500 constituents. Last year, plenty of companies beat forecasts, and there was less than historical negative earnings revisions. Full-year 2024 earnings growth for S&P constituents is forecasted near 9.5%. Solid. The Financial Times reported ("The Source of 2024's Returns," 1/2/2025) a neat disaggregation of S&P 500 returns into key components: dividends 1.2%, higher valuations 10% (p/e rose from 20.5 to 22.6 according to their work), and 13% rising earnings expectations (5% revenue growth, 8% margin expansion). We take them at their word on the numbers, but the general point seems reasonable.

4. **OUTLOOK. If we get more of the same, maybe we get more of the same.** It seems most commentators and strategists are holding a place for continuation of market appreciation, though more in the 10% range rather than leap to the edge and call for something stronger. It's not a game we play, but we can see the setup: if the economy grows, inflation remains contained, labor markets hold up, and corporate earnings hit their marks, with an accommodative Fed, the recipe for another year of gains is intact. These are the places to watch. And we know that the years can prove volatile. A former president is about to become the new president, and he has narrow majorities in Congress. Big plans but a restive political scene. The budget, the border (immigration and trade), and the bureaucracy are all in play.

We are constructive. Optimistic. Open-eyed to all the ways in the past a good set-up yielded to forces external or internal that altered the trajectory of financial markets abruptly. We like our key strategies PCM Core Equity and PCM Growth Equity, and we think there are opportunities to add new investments in important areas. Just when the term Artificial Intelligence has become quite mainstream, announced advances in Quantum Computing reignite the imagination for what is on the horizon from a technology perspective. We are still very early innings with foundational developments that will eventually make their way into everyday commerce, all oriented toward "better, faster, cheaper." The pundits are concerned about inflation – the scientific breakthroughs offer to reduce the cost curves for society and ramp the revenue opportunities.

Please reach out with any questions, concerns, or conversation. We look forward to working with you over the year ahead. Banks will open the reporting season in a couple of weeks, and we will get the first inflation report of the year. Both could be tone setters.

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Alfred R. Berkeley	Joseph A. Cajigal	Hugh Fitzpatrick	John A. Heffern	Caelan McCarthy