

## 4TH QUARTER 2024 MARKET OVERVIEW

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### SLIP SLIDING AWAY

The stock market staged its own version of this Paul Simon fabled song, during the final months of the year. Even the short lived surge after the election, was not enough to keep most stocks from lapsing into the red for the quarter. By year end, most stocks had declined at least 10% below their high prices. Many exemplary names experienced even further deterioration.

Stock market indices still eked out gains for the quarter, supported by a strong showing from select stocks; Apple, Tesla, Amazon, and Meta. These were the primary contributors for the 2.5% gain in the S&P 500. Meanwhile, the rest of the market languished in the fourth quarter. This “slip sliding” followed the strong performance in the previous nine months.

The biggest story-stock of 2024 was Nvidia. It marked an 11% advance during the fourth quarter and reclaimed the ‘world’s largest company’ moniker. It is important to realize, however, that Nvidia stock has not progressed since June, so we also have to count this name in the group of non contributors for investment accounts; at least for the second half of the year. Similarly, many other former market leaders have now lapsed into stall mode, as we begin 2025.

### THE OUTLOOK FOR 2025

Most people think the stock market will regain its winning ways for 2025. Brokerage firm strategists, collectively, are forecasting an 11% gain for the upcoming year. Stocks have now recorded exceptionally strong performance in the first nine months of 2024 and in 2023.

The bullish justifications are resoundingly similar and lean on the following reasoning.

Artificial intelligence promises to inject productivity gains, as companies plow vast resources into enhancing their capabilities in these areas. Next, earnings growth is expected to accelerate from 10% to 14% in 2025. Finally, “American Exceptionalism” makes the US stocks the most favored market for investors, worldwide.

These widely recognized factors are fodder for the bulls to expect solid gains for upcoming year.

We know that these are merely predictions. The track record of Wall Street forecasts have a tendency to miss their mark, particularly when they are clustered together. Last year, for example, strategists were forecasting a 3% gain for the market, far below the 23% gain actually recorded. Back then, the beginning of 2024 brought mounting worries and rendered a muted outlook, which ultimately missed by a mile. It’s a reminder of the words of legendary economist John Kenneth Galbraith about the market, “There are two kinds of forecasters. Those who don’t know and those who don’t know they don’t know.”

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...CONTINUED **THE OUTLOOK FOR 2025**

The process of “making assets thrive” is a dose of the age old wisdom, “planning for the best, but preparing for the worst.” Long term, the stock market has been doing well and the reason for optimism remains valid. We know from past experience that it is prudent to be balanced AND prepared, because unexpected occurrences happen frequently.

## PEREGRINE STRATEGY

An existential advantage for a stock market investor is to own stocks where business conditions are underrated. When positive dynamics are suddenly recognized, the stocks of these companies can surge. This is where investors in a single stock can be amply rewarded. Plainly, a conservative 2.50% investment in a stock that gains 50% in three months contributes 1.25% to an overall account. Naturally, this process can lead to robust long term returns if these gains can be repeated and consolidated.

When the broad market is rising energetically, the environment is actually more difficult for single stock investors. Stocks are rising but expectations are high so the likelihood of a company being underestimated is lower. This is when investor optimism closes the door on positive surprises. The good news is discounted in the price and it's more difficult to get that surprise element that is a positive catalyst for a stock.

**Following the decline in the fourth quarter, stocks may now be poised to surprise investors, again. This sort of environment seems to be presenting itself and it is why we view the slippage in the fourth quarter to carry a silver lining for 2025.**

In last quarter's report, we highlighted the appeal of industrial stocks. Unfortunately, these stocks were caught in the broad market selloff in the fourth quarter and notched lower. The business outlook for these companies remains bright, however. We are counting on select names from this group to be our focus during the initial stages of 2025. Examples of these underrated areas are in infrastructure, power generation, and industrial manufacturing.

In addition, there are a wide list of recovery candidates. It may be too early to point to Nike and Intel as representative, although they are certainly beleaguered. Many other examples exist. So far, we made unsuccessful forays in the fourth quarter in Humana, CVS, and alternate energy companies but the landscape of candidates is broad enough that it is reasonable to expect some of these stocks will rebound vigorously.

Many large, prominent healthcare stocks are down over 20%, including former darling weight loss maker, Lilly. These stocks could also improve.

The runway for the broad market might be limited during 2025, but sizeable gains promise to be brewing in selected areas. We aim to use these developments and make well-timed investments to reverse the “slip sliding” from the fourth quarter.

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