Stamper Capital & Investments, Inc.

"Focusing on Upside Potential and Downside Protection Since 1995."

2025 Market Commentary & Forecasts

(Note: Please see our previous Annual Forecasts and our Blogs
for considerable background on our forecasts)

The U.S. Equity markets had a strong 2024, on the surface but, to us, it seems most things are now waning. The Dow Jones Industrial Average was up fairly consistently over the year at a rate of 14%. The S&P progressed similarly but returned quite a bit more at 26.5%. The NASDAQ Composite experienced more volatility but returned even more at 35.1%. These indicies all ended the year near their All-Time-Record Highs. Important to us, is that most of the increases in those indices came from one category - "AI" (so called "Artificial Intelligence") reviewed below and from a few "AI"-associated stocks. However, the Dow Jones Transports had a different story (I guess they haven't found a way to use "AI" for transportation), returning just 3.2% with more volatility and its all time peak on 11-24-2024 was about 10% higher than its 2024 year-end close. The Russell 2000 returned 16% for the year but its year end close was below its previous All-Time High back in June 2021. The Russell's current All-Time High, which is somewhat higher, is in November 2024 (same as for the Transports). Thus, we think we can see a huge spread-out-price top in equities (which has been going on for years now).

For **Industrial Commodities**, oil was essentially unchanged for 2024 but Copper was up 7%. For Financial Commodities, Gold was up a lot at 29.5% and Silver was up 29%.

For the **Bond Market**, the yield of the U.S. 30 Year Long Bond rose from 4.036 % up to 4.785% or by about 75 basis points up near its previous All-Time high since its All-Time low of 2.67% in December 2020. At the same time, the yield of the Six Month U.S. Treasury dropped by almost 100 basis points from 5.265% down to 4.276%. Thus, the Yield Curve largely "un-inverted" with both the yield at the long end rising and yields at the short end falling, as we had forecasted. We note that often times, the stock market has a notable drop from highs about a year to 18 months after the yield curve "un-inverts."

Housing – prices held, even with longer term mortgage rates rising but sales volumes dropped precipitously (see below). However, interestingly, the iShares U.S. Real Estate ETF "IYR" was up 7.3% for 2024 but its All-Time Top is still way back in December 2021 – a Huge spread out market top divergence.

For 2024, the **two main drivers** of the economy and finance that we discussed in last year's Annual Forecast did have impacts. The Wars did continue but the largest impact was probably **"AI"** (Artificial Intelligence programs/databases/software and related) which propelled the equity market indicies but based on a narrower and narrower rate of participation – fewer and fewer stocks driving the prices of the indices upwards. Thus, if you did not own those few special stocks (or indicies they were in), you did not fare nearly as well; if you did, hats off to you! Narrow and Narrowing participation in conjunction with higher and higher indice prices is very often indicative of a market top.

Looking Forward to 2025 – We see a lot of mixed messages in the data above from 2024. To us, Mixed Messages from the data is typical in the transition from Rising to Falling; the larger the market top, the longer the transition takes, until, the downturn picks up steam. We have also noted the many divergences – different markets topping at different times. At this point the markets are continuing in the huge topping process, but the transition is getting very long in the tooth. Fundamentally, a huge top makes sense to us as the prices of so many things seem far too high relative to the underlying fundamentals, including average incomes of individuals and families. These situations have been going on for a very long time; hence, indicating to us that this is a huge, all encompassing market top.

Tariffs & Psychology - A likely Major Market Driver – Tariffs are very interesting. Some see tariffs as pushing prices up and that can be true as the cost of purchasing something from a country with a new tariff on it will be higher. However, if psychology and confidence and money supply etc. are unchanged, people will offset the higher prices of those items by lowering their purchases of them or other items – Net their would be no change overall, but definitely "Winners & Losers." However, generally, we believe tariffs are implemented when times are becoming difficult - that is when "protectionists policies are typically implemented." Thus, generally the psychology at that time is more negative and forecasts results can be seen as "contractionary" or even "deflationary" - causing/resulting in or, maybe more correctly, reflecting economic contraction and even declining price levels – although I've not seen many people presenting it that way recently. Apparently, the U.S. is implementing a number of international tariffs. Importantly, we are doing this near asset price tops in what, to us, is this Huge Asset Price Bubble Top, where "push is coming to shove." We think implementing tariffs at this time could result in/contribute to or reflect a contraction of world economies and accompanying deflationary price declines; including asset price declines. We hope this does not happen (it may be a negotiation tactic) but we are attuned to its possibility/probability.

Equities - While last year we said the two likely drivers were War and AI, for this year, 2025, we think the likely drivers are Tariffs (discussed above), the Bond Market and, again, "AI," but in reverse. Without AI in 2024, likely all the equity indicies would have been flat or negative – maybe "the top would have been in." We've seen the hope of economic growth from Technology push up equity prices before – like the tech rally into the 2000 equity tops. Back then, everything got far far ahead of itself and the following "Tech Wreck" down from 2000 into late 2003, resulted in the NASDAQ dropping by a whopping 78%! If it turns out, as we believe, that the economic benefits of "AI" have been far over-promised and over-believed, we would not be surprised to see similar price action to that of the Tech Wreck. Of course, if that happens, equity prices in general will also be dropping precipitously. In addition, as we mentioned above, very often after the Yield Curve "un-inverts," the stock market drop precipitously one year to 18 months later (probably in conjunction with interest rates haven risen). These and other factors make us very cautious with respect to equities. To us, they have very poor upside potential but likely downside possibility with little downside protection.

Bonds & Interest Rates & Inflation - We expect long term interest rates to rise to take out their previous All-Time highs since their All-Time Bottoms, by notable amounts. Since interest rates at the short end are already fairly high, and we are not expecting more inflation currently, we are less certain as to whether the entire yield curve will be shifting upwards but it could. Still, rising long term rates would push down prices of everything heavily financed like houses, stocks, financial commodities, etc. along with dropping prices of long term bonds. **Junk taxable bonds** and **High Yield municipal bonds** peaked in price years ago and look to us, like they have recently started new price declines – they could be “leaders” in this cycle.

Importantly, the **U.S. Housing** market maintained its price levels in 2024 geographically even with mortgage rates rising notably, but their sales volumes have recently dropped precipitously to the lowest level in 40 years. Our experience is that sales volume declines precede price declines. Given just the size of the sales volume decline, to us, it seems a proportionate sales price decline is in order. Of course, there are many underlying factors, but one very large one that is very easy to see is “affordability.” It seems to us, that very few people who own their own homes could afford to purchase them at anything near current prices. Another way to look at it is that the incomes people are earning do not, in general, come anywhere near the levels needed to support current prices. In this regard, prices are much higher than the Housing Bubble Top from 2005 to 2007 (that resulted in the Financial Crash down into 2009 to 2012). Thus, we believe we are in an extreme position with respect to prices of single family homes, etc. - i.e. we think prices could easily fall precipitously; however, prices of houses typically follow the other markets by 18 months to two years. And, real estate can often be regional but probably not during a general downdraft.

All Everything Market Top – We've reviewed that the Equity market with its very very narrow leadership from “AI” stocks is similar to the Y2K 2000 Market top (if not higher). We have also reviewed how real estate is priced higher than the Housing Bubble Top of 2005-2007. Thus, we have two major markets at their highest levels. We noted that the domestic Bond Market was at its highest level (lowest All-Time yield) in December 2020 and interest rates have been rising (bond prices falling) since then. “Interest rates already rising” is, to us, typical of the topping process of other major markets. We also note some “sub-bubbles” whose price activity could be leading indicators. Certain sectors greatly benefited from government Covid Stimulus payments but have basically “given it all back.” We have seen this situation in prices of lots of sporting goods, for example. What we are saying is that this market top has been essentially all encompassing but certain sectors are pairing off downwards in price. We have not talked about commercial real estate, for example, which has been in a downturn for several years. Also, commodities – suffice it to say that if we are in an economic contraction, industrial commodity prices would most likely be dropping. Another financial investment that is at its All-Time price top is Gold; however, silver is lagging. If interest rates are going up and/or we are in a contraction, we also expect that prices of financial commodities (which are often heavily financed) would see their prices fall. Also, if prices in general are falling, the value of the U.S. Dollar, at least domestically would be rising domestically. Forecasting internationally at this time is a whole different ball game that we will skip.

Conclusions – We see both fundamental and technical indicators that are giving off signals that the market rises are extended, and are tired, and are at very high relative price levels. While these situations have been going on for some time- many years in many cases - it seems, to us, that the “topping process” is about over and the “decline period” is about to begin, unfortunately. As previously, we see little upside potential, little downside protection; and lots of downside possibility and even probability in most asset categories. Thus, per all the discussion above, we would be postured very defensively.

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Please review our previous Annual Forecasts and Blogs if you want to get considerable background information why we are making these forecasts.

As always, we at Stamper Capital will continue to focus on the upside potential and downside protection of the assets we manage.

Thank you for your patronage,
Stamper Capital & Investments, Inc.

“'Safety' was our Watchword” starting in 2001, at the beginning of “The Tech Wreck” down into 2003/2004 bottom. Then again for the Housing Bubble to the Financial Crash “Safety was our Watchword.” And, unfortunately, “'Safety' is our Watchword” yet again for this Super Bubble Top, until we get to the final bottom, which we believe is much much lower.

(Posted 1-31-2025)

FOOTNOTES:

Stamper Capital Composite Return Calculation Footnote:
Returns are presented in United States Dollars. Composite returns are calculated monthly using a Monthly Discounting Model. No cash carve outs are made. Quarterly returns are time-weighted rates of return calculated by geometrically linking the composite’s monthly returns. Annual returns are time-weighted rates of return calculated by geometrically linking the composite’s quarterly returns. Gross Returns are after transaction costs but are before management fees; Net Returns are after Stamper Capital management fees. Investment advisory fees will reduce client’s returns. Fees are hypothetically taken out of non-fee paying accounts when reporting net-of-fee returns. Other costs reducing returns are custody account

fees and possibly ticket charges, which can vary depending upon the custodian used. Also, see Disclaimer, below.

Morningstar & Lipper Total Returns Calculation Footnote:
Returns - Figures quoted are total returns calculated for the share class and time periods shown. Performance includes the reinvestment of income dividends and capital gains distributions. Performance does not reflect the deduction of taxes that a shareholder would pay on a fund distribution or the redemption of fund shares. Please go to Morningstar's and/or Lipper's website for more information.

Calculation of Risk-Adjusted Performance Returns Footnote:
Statistical Standard Deviation is the measure typically used, and we are using, as a proxy for risk. Standard Deviation is measured versus a composite's or competitor's own returns. Importantly, Standard Deviation is an attempt to measure risk that has been experienced; however, there may or may not be other risks that were taken on (by our clients or our competitor's clients, etc.) that were not experienced and/or that were not measured by Standard Deviation. Importantly, those risks will likely ultimately, at some time, be realized as we saw in the financial collapse of 2008. Stamper Capital's Upside Potential/Downside Protection Analysis and Implementation attempts to consider these risks and we believe is, in a large part, responsible for our historical outperformance during more unusually volatile periods. Of course, past performance is not necessarily and indication of future success.

Morningstar Risk-Adjusted Star Rating Footnote:
For each fund with at least a 3-year history, Morningstar calculates a Morningstar Rating based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (includeing the effects of sales charges, loads and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category reveive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. Please go to Morningstar's website for more information.

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