MARCUM
WEALTH

Strategy Newsletter – 1st Quarter 2025

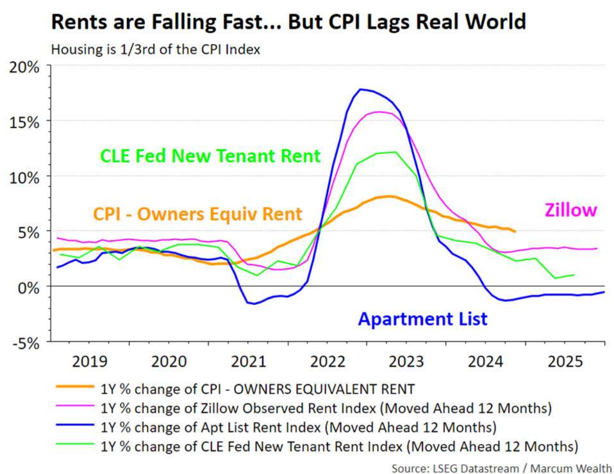
- Inflation staying high while unemployment ticks higher outside the US.
- A narrow stock market rally continues with strong results for the year.
- Interest rates rose as the Fed slowed its pace of cuts.
- REITs remain in a challenging environment.

Economy

While the rate of price increases has fallen from the peak of 9% in 2022, inflation continues to be a challenge.

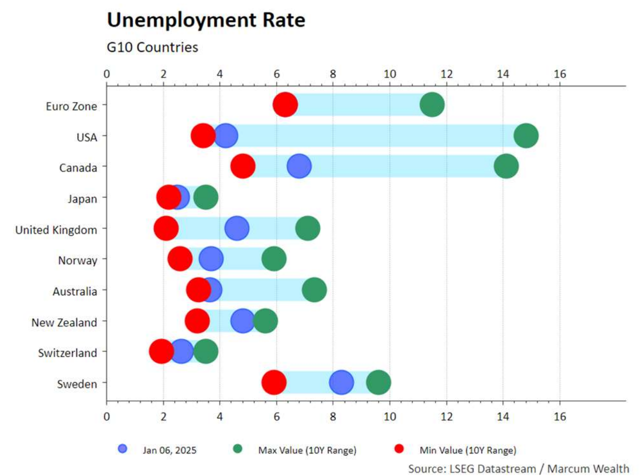
One problem is the calculation of home prices. The data collection around rents is murky, so some of the indices use estimates. The problem is that these often lag the real world.

The rise in rental rates is back to pre-2020 levels. Yet, the Consumer Price Index (CPI) calculation of owners' equivalent rent is higher than before 2022. This is despite what Zillow, Apartment List, and the Cleveland Fed's New Tenant Rent Index show.



As we turn to labor, the US stands out as a winner among the largest ten developed market countries. The unemployment rate in the US is at 4.1% as of the end of the year, the same level it reached this past June.

In contrast, many countries are well off the lowest levels reached in the past few years. Canada, Sweden, New Zealand, and the UK have all seen levels of unemployment rise over 2% from the lows over the prior few years.



Countries already under pressure from weaker growth and low productivity do not need tariffs on their plates next. Higher import costs, along with geopolitical risks in Europe, the Middle East, and Asia, make it a challenging time.

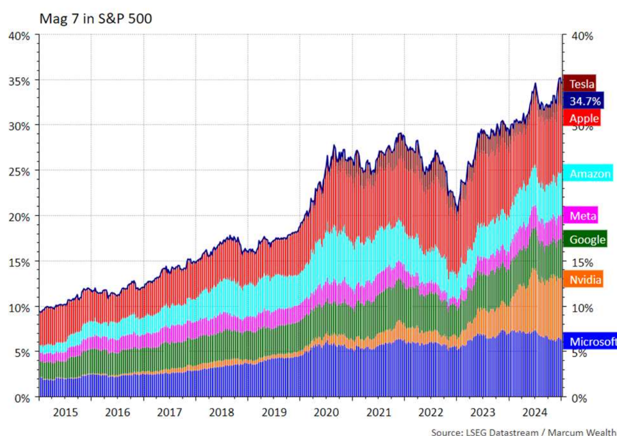
The policy changes with the new administration will bring more volatility as tariffs, deregulation, and immigration have a mix of positive and negative impulses to short-term growth and prices. The hope is that the confidence of businesses and consumers can look past the uncertainty to continue moving the economy in the right direction.

Equity

Domestic stocks jumped after the presidential election and rallied into the first half of December. A multi-week selloff ended the year as the Fed indicated fewer interest rate cuts in 2025.

U.S. Equity	4Q 2024
Large Cap Stock	
S&P 500	2.4%
Small & Mid Cap Stock	
S&P 400 Mid Cap	0.3%
S&P 600 Small Cap	-0.6%
All Cap Style Indices	
S&P 1500 Value	-2.3%
S&P 1500 Growth	5.6%
International Equity	**4Q 2024**
MSCI EAFE	-8.1%
MSCI EAFE Value	-7.1%
MSCI EAFE Growth	-9.1%
MSCI Emerging Markets (EM)	-7.8%
MSCI EM Value	-8.9%
MSCI EM Growth	-6.9%

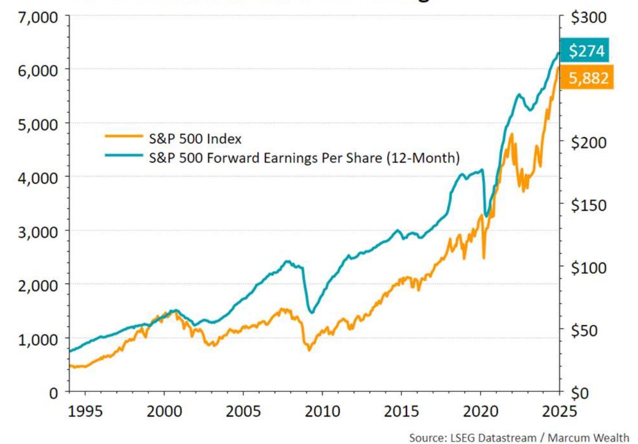
Growth stocks were the main positive performing style (along with mid-caps eking out a victory). There were a narrow number of names comprising the usual suspects of the "Magnificent 7" (Apple, Amazon, Nvidia, Google, Facebook, Tesla, and Microsoft).



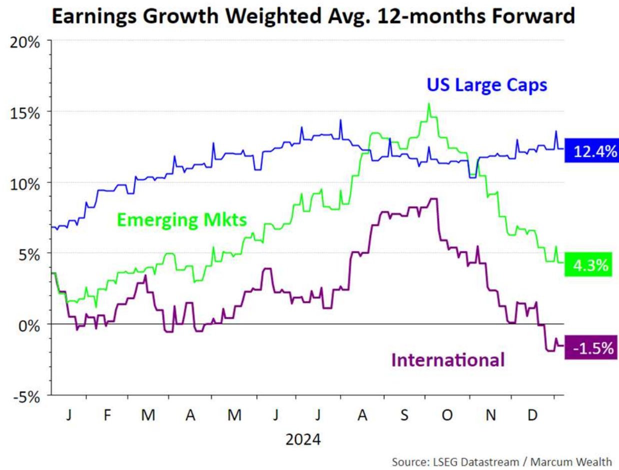
While many are quick to call these seven companies a bubble, we must remember many of these companies are conglomerates of some of the most innovative technology companies over the last 20 years. Many of the companies were able to gobble up competitors before they could compete and add them to the flywheel of growth. The free cash flow and margins are staggeringly high.

On the other hand, the weightings in the S&P 500 Index have grown to levels we have only seen in some of the most speculative eras for markets. The late 1990s tech bubble and the Nifty Fifty in the 1960s are the times when we see the fervor for such a group of stocks. Just ten years ago, these seven companies made up only 9% of the S&P 500 Index. Today, that weighting is 35%. Watching closely for the growth outlook will be key as market expectations continue to move higher.

The reason we must watch growth is because earnings are what drive markets over the long term. In years when earnings rise, stocks tend to do well. The focus on artificial intelligence and hyper-scaling has created a virtuous circle for many names.



When we examine earnings, the US is still expected to be the king, as it has been for most of the last 15 years. Analysts see international earnings falling over the next twelve months. For emerging markets, estimates now fell to 4% after briefly tagging a 15% estimate back in September.



Equities within the Marcum Wealth Asset Allocation Frameworks have moved to an underweight, driven mainly by lower-than-averaging holdings abroad.

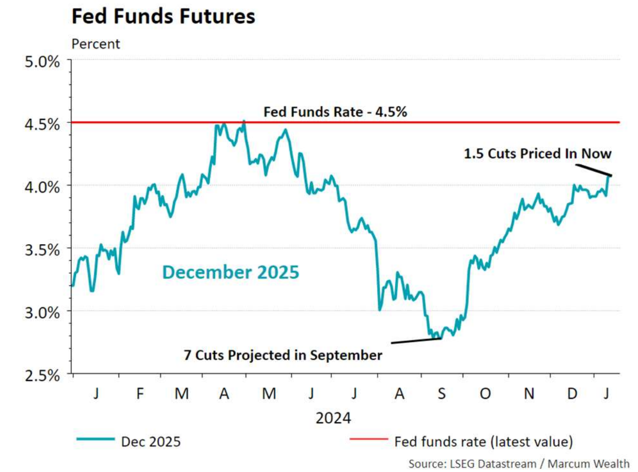
Fixed Income

After falling in the third quarter from 4.37% to 3.78%, the 10-year Treasury yield closed the year at 4.57%.

Fixed Income	4Q 2024
Bloomberg U.S. Aggregate Bond	-3.2%
Bloomberg Corporate Inv. Grade	-3.1%
Bloomberg High Yield Bond	0.2%
Bloomberg Global ex. U.S. Treas.	-8.9%
Bloomberg Municipal Bond	-1.3%
Bloomberg TIPS	-4.0%

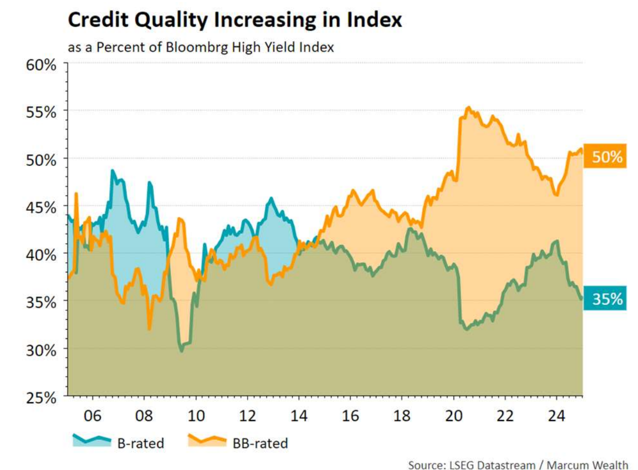
The Fed began its interest rate-cutting cycle in September. This was the low point in interest rates for the year. This is odd compared to past interest rate-cutting cycles. One would intuitively think that as the Fed cuts interest rates, they should move lower. But this time, investors demanded more yield for potentially higher growth and inflation as it looks ahead over the coming years.

In September, the market expected seven interest rate cuts during 2025. As we turn the page to the New Year, just 1.5 cuts are priced into the market. The bond market is keying in on the resilience in the US jobs market along with the Fed's likely path for interest rates. This incorporates a potential for higher inflation due to tariffs and the immigration policy.



Bond investors were hurt by duration exposure this year. Yet credit and the performance of corporate America remain strong. The spreads are low but looking under the surface shows something else happening.

In high yield, there has been an increase in quality of the index. Bonds rated "BB" now make up half of the index, compared to as low as 35% in 2008. And these are high-quality companies that may graduate to investment-grade status with a BBB rating.



There were many refinancings in the loan market during 2025. Balance sheet health is good for corporations. Margins are expanding. We even witnessed the lowest level of defaults for low-rated debt during this past year.

As short-duration interest rates remain higher for longer, there are opportunities to earn yield with lower interest rate risk. The Marcum Wealth Asset Allocation Frameworks hold fixed income at equal weight to the strategic targets.

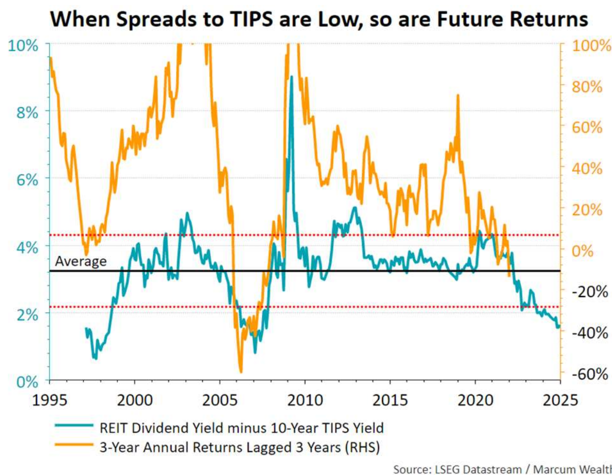
Real Estate

REITs underperformed the broader market during the quarter as interest rates rose and the fundamental outlook remains challenging.

Real Estate	4Q 2024
Wilshire U.S. REIT	-5.0%
Wilshire Int'l REIT	-15.9%

In looking at the value of REITs compared to alternatives, it started to become clear that prices were not cheap. By some metrics, like the dividend yield to Treasuries, the prices are outright expensive. For these reasons, we decided to trim holdings in REITs.

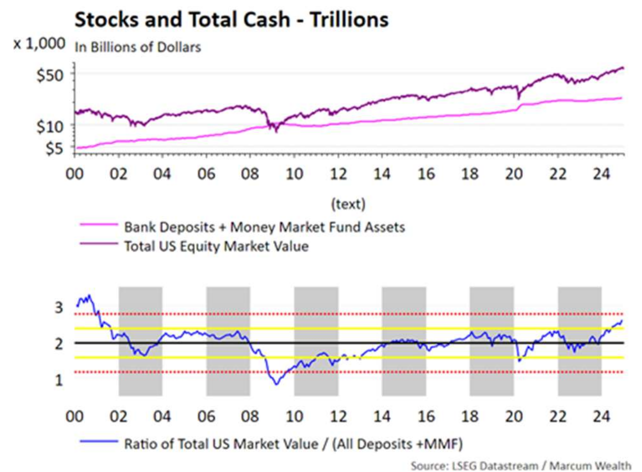
Spreads were only lower in 1996 along with 2006-2007. After both time periods, poor future returns followed, as indicated by the low three-year returns.



The Marcum Wealth Asset Allocation Frameworks are now underweight REITs.

Closing Thoughts

Interest rates paid by banks on savings accounts are still low relative to how much the Fed has raised rates in the last three years. Investors poured money into money market funds in search of yield. Today, households are close to the highest level of equity exposure in history. The total value of deposits and money market funds just hit $23 trillion. The US equity market began the year just shy of $60 trillion in total market value. The bottom half of the chart shows the ratio of total stock market value versus all deposits and money market funds. Many think the flows into money markets will find their way into stocks. Yet, the ratio was only higher in the calendar year of 2000. The flows will likely come from continued stock buybacks from corporations themselves and be driven by long-term earnings growth.



Marcum Wealth Asset Allocation Frameworks

	Income	Conservative	Balanced	Moderate	Growth
Asset Class	Strategic	Strategic	Strategic	Strategic	Strategic
Equity	**20%**	**35%**	**50%**	**65%**	**80%**
U.S. Equity	12%	21%	30%	39%	48%
International Equity	6%	11%	15%	20%	24%
Emerging Markets Equity	2%	4%	5%	7%	8%
Fixed Income	**77%**	**62%**	**47%**	**32%**	**17%**
US Fixed Income	69%	56%	42%	29%	15%
Global Bonds	8%	6%	5%	3%	2%
Real Estate / REITs	**3%**	**3%**	**3%**	**3%**	**3%**

The risk designations are relative only to the five Strategic Allocation targets and do not represent comparisons with any other investment or risk of the overall strategies.

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