

## Aptus Market Outlook: December 2024 Highlights

### 2024 in Review and the 2025 Theme

The bull market continued its momentum over the past year, with the S&P 500 surging 70.3% since the rally began in October 2022. As we approach 2025, Aptus remains optimistic about the market's potential. While political and economic challenges could introduce short-term volatility, the market's structural strengths and the resilience of the broader economy provide a strong foundation for sustained growth. Aptus' philosophy underscores a long-term bullish stance on equities, embracing the potential for growth even amid periods of turbulence.

### Consumer Strength and Market Resilience

A key driver of market performance remains the strength of the U.S. consumer. Rising wages, stable employment, and increased financial asset values have left households in a robust position to sustain spending. Revised savings data further highlights this strength, showing consumers are better prepared than previously thought. This financial resilience supports economic activity and market stability, reinforcing optimism for the year ahead.

### Equity Market Insights

The U.S. equity market, particularly large-cap stocks, is poised to maintain its leadership. These companies benefit from significant operating leverage, enabling earnings to grow at a multiple of revenue. While some view high valuations as a concern, Aptus takes a more nuanced approach, recognizing that today's market is fundamentally different from past decades. The shift toward asset-light, innovation-driven businesses has enhanced efficiency and profitability, making traditional valuation metrics less meaningful.

### Fixed Income Challenges

The fixed income market faces persistent headwinds as elevated interest rates continue to weigh on long-term bonds. With \$7 trillion in U.S. debt scheduled for refinancing in 2025, liquidity and yield curve dynamics will be critical factors to monitor. Despite these challenges, the broader resilience of the U.S. economy and the flexibility of fiscal policy provide some reassurance against downside risks.

## **Inflation and Fiscal Policy**

Inflation remains above the Fed's target, but the trend toward moderation is encouraging. The Fed has shown willingness to tolerate inflation at elevated levels for a longer period to support overall economic stability. Fiscal policy continues to play a pivotal role, with policymakers focusing on strategies to grow nominal GDP and manage debt levels without resorting to austerity. This approach aligns with Aptus' view that long-term market opportunities outweigh short-term risks.

## **Portfolio Strategy for 2025**

Aptus' investment approach for the coming year emphasizes overweighting equities, particularly U.S. large caps, while reducing reliance on traditional bonds. This strategy leverages the growth potential of high-quality companies while maintaining a risk-neutral stance. In addition, hedging strategies remain attractively priced and offer an effective way to mitigate downside risks. Aptus' philosophy of "owning more stocks, fewer bonds, and thriving in tail-risk scenarios" continues to guide portfolio construction.

## **Political and Structural Considerations**

The political landscape will play a significant role in shaping market dynamics in 2025. Key issues, including tax reform, debt ceiling negotiations, and fiscal initiatives, could introduce volatility. While such factors are worth monitoring, Aptus emphasizes the importance of maintaining a long-term perspective and focusing on the structural strengths of the market.

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