

SUMMIT PERSPECTIVE

ASKING THE RIGHT QUESTIONS FOR 2025



The sun has officially set on 2024. As the New Year dawns, let's pause to review our progress and look toward the possibilities that may lie ahead in 2025. Over the last 12 months, the equity markets made a mockery of Wall Street predictions, delivering another remarkable performance. This marks the second consecutive year in which the markets have outperformed industry forecasts.

At the start of the year, consensus estimates from major Wall Street firms projected approximately 6% growth for the S&P 500.¹ This followed a near-universal expectation of a recession in 2023. Yet, contrary to these predictions, the S&P 500 delivered two consecutive years of growth exceeding 20%, despite the challenges of high interest rates, a contentious election cycle, and global unrest.

This raises an important question: Why should anyone rely on Wall Street forecasts? We would argue that for long-term investors focused on achieving their financial goals, short-term market predictions are often irrelevant. Recent history underscores this point—making it clear that investment decisions based on Wall Street consensus would not have served our clients well in recent years!

We are not in the business of making market predictions. If you are seeking forecasts for 2025, you won't find them here. Instead, we believe the key to successful investing lies in maintaining a disciplined approach aligned with your long-term financial objectives.

That said, every new year brings its share of economic and market uncertainties. Rather than attempting to predict the future, we turn our

attention to asking the right questions—those that will arise in the current financial and political climate. By framing the discussion around these issues, we hope to provide valuable insights as we navigate the road ahead together.

Where Will Interest Rates Go?

Few predictions have been as consistently off-target in recent years as those concerning interest rates. The rapid inflation brought on by the pandemic-induced government spending spree was far greater than predicted, and in response, the Federal Reserve embarked on a rapid tightening cycle that pushed interest rates up faster than at any time in history.

While some predicted inflation would force higher interest rates, few predicted the speed and severity of the rise. Given that rapid advance, many on Wall Street predicted rate cuts far ahead of when they began, and then predicted far more than have occurred to date. As recent as last quarter, consensus estimates called for six rate cuts in 2025. Following the Fed's December meeting, those estimates have been slashed to just two cuts for next year.

Despite the Fed lowering short-term rates, longer-term rates have remained stubbornly high, and don't seem to be dropping. This leads to higher mortgage rates, and higher costs for long-term borrowers. The truth is simple: no one knows with certainty where rates will go, and making investment policy out of rate predictions is unwise. Nevertheless, interest rates remain a critical economic factor, and we will closely monitor their movements in the year ahead.

Continued on page 2



INSIDE THIS EDITION

Feature Article:
Asking the Right Questions for 2025

Summit Spirit Award:
Robert Avey and The Morgan Hill Community Foundation

Summit University:
Our Winter/Spring Schedule is Here!

Staff Spotlight:
New Hires and New Designations

Meet Our New Year's Baby, Mariko!

Summit Trivia Challenge

“
To ask the right question is already half the solution of a problem.
– Carl Jung
”

How Will Tariffs Impact the Economy?

As the new administration takes office in January, tariffs are poised to dominate economic headlines. Will the campaign trail rhetoric translate into actual policy, or will the reality be more tempered?

The key questions loom: Will tariffs lead to higher costs for consumers as foreign suppliers raise prices in retaliation? Or will corporate profit margins absorb the impact, allowing the economy to continue its momentum? We are hopeful that business metrics will be considered as tariffs are deployed, and that the greater economic impacts will have more sway than campaign promises. Clearly there are more questions than answers when it comes to tariffs, and it will be one of the major economic themes of 2025.

How Will Artificial Intelligence Impact Stocks in 2025?

Artificial Intelligence (AI) has captured global attention, and for good reason. Not since the internet has a technological advance held as much promise and mystery as AI. Clearly it is going to have a big influence on our lives. It's also clear that a struggle is present between huge productivity gains on one hand, and some frightening "loss of control issues" on the other.

We are a long way from having this worked out, but AI is here to stay. From a market perspective, AI-related companies have experienced extraordinary growth. The key question is whether this growth is sustainable or whether the markets have prematurely priced in its potential.

We have seen this movie before when the internet boom of the late 1990s caused a large bubble that burst in the early 2000s. However, there are differences this time around, as (on balance) the AI companies of today have much larger sales and profits than the internet startups of yesteryear.

We find it impossible to predict the winners in the AI space in a similar way that it was difficult to predict the winners of the internet age. Just as many "can't-miss" internet companies faded away, today's AI landscape is likely to evolve unpredictably. We plan to invest across the totality of the markets without trying to guess which sector or companies will win the AI battle. If AI is as life changing as believed, a diversified approach will result in plenty of upsides as its productivity takes hold.

Will Breadth Return to Our Markets?

We have written at some length about the concentration of huge tech firms in the S&P 500 and Nasdaq indices. As of late 2024, the top 10 companies in the S&P 500 represent nearly 40% of the index. As such, their movements dominate the results of the index as a whole.

For a few months in 2024, we welcomed the remaining companies in the S&P 500 outperforming the big tech names for the first time in several years. However, after the election, big tech surged forward again and as of this writing they are back to

dominating the results. The U.S. markets outpaced international markets by the largest margin since 2000, and large-company stocks outperformed small-company stocks approximately two-to-one.

While such trends may feel persistent, history suggests they don't continue indefinitely. The concern is that investors will inadvertently become too concentrated and experience negative results if these supersized enterprises experience a drawback in value.

Will the current trend continue in 2025 or will there be a step back where international stocks and small-company stocks have their day in the sun? We cannot know, but we prepare portfolios by remaining diversified. While it is difficult to remember a time in recent history when it's been so slanted in one direction, past performance is not indicative of future results, and we do not recommend going "all in" on something just because it has been winning lately.

What Are the Unknown Unknowns?

While interest rates, tariffs, AI, and market concentration are pressing issues, they are unlikely to trigger massive market shifts. That's because these topics are already known variables. True volatility often stems from "unknown unknowns"—events that catch markets entirely off guard.

Despite this unpredictability, such surprises should never deter long-term investors. Market downturns are normal; 2024 itself was unusually stable, with the largest peak-to-trough decline for the S&P 500 being just 8%. Historically, corrections of 10-15% are common in any given year.

As you plan for 2025, work with your advisor to ensure your portfolio aligns with your financial goals and cash flow needs, rather than market predictions. Resilience through unexpected events is key to achieving long-term financial success.

In Summary

While uncertainty is a given, we would never recommend betting against capitalism or the largest most well-run companies on earth in the long run. The new year will bring its own set of challenges and perhaps answers to some of today's most pressing questions. But in the end, your success will be a function of your planning, saving, and persistence through the apocalypse du jour (There always seem to be several!).

Our economy and markets have endured countless crises, tragedies, and game-changing technological advancements throughout our history. More are sure to come. But those same markets have created incredible wealth and prosperity over that same timeframe. We thank you for trusting us to light your path and guide your journey. We wish you a Happy and Prosperous New Year. Cheers to you and yours!

¹Source: Goldman Sachs Insights January 2025

KUDOS!

Summit Spirit Award:

Each quarter, Summit recognizes a team member who stands out for going above and beyond, earning praise from peers and managers alike. The winner is honored with a \$1,000 donation to the charity of their choice. This quarter, we're thrilled to announce Financial Advisor Robert Avey as the recipient of the Summit Spirit Award!

When asked about his choice of charity, Robert shared:

"I am donating my Summit Spirit Award to the Morgan Hill Community Foundation. Their mission statement, 'Give where you live,' resonates deeply with me. I admire that the organization not only supports the community but also empowers others to create lasting change. They offer grants, high school student scholarships and serve as a sponsor to several local groups. They serve as a bridge between donors and projects in need, offering funding, education, and guidance. By functioning as an incubator for groups seeking 501(c)(3) status, they help cultivate a spirit of giving and community support that can sustain itself over time."



Congratulations to Robert for embodying the Summit Spirit and making a meaningful impact in the community!

To learn more about this organization, visit morganhillcf.org.

Raymond James Financial Services is not affiliated with the above independent or charitable organization.

SUMMIT UNIVERSITY



Upcoming Workshops

It's time to sign up for our winter/spring retirement seminars!

RETIREMENT PLANNING TODAY



Whether you plan to retire 20 years from now or have just recently retired, the information you'll learn in this class can deliver rewards throughout your lifetime. During this two-evening workshop, you will learn how to create an informed retirement plan and set goals for a successful retirement.

Second Saturday Divorce Workshop

Are you considering divorce, or in the midst of a divorce? As you contemplate your next steps and possibly plan your next chapter, it is important to have the tools needed to evaluate the impact divorce can have on your personal and financial life. This workshop run by an attorney, a therapist, and a financial advisor will touch on the legal, emotional, and financial topics involved with divorce.



Learn more and register for classes through the Summit University page on our website:

summitadvisors.com/education/university/

You may also scan the QR code.



New Year, New Joy! Baby Mari has Arrived!

We are overjoyed to announce the arrival of Mariko Terezia Horikoshi, the first child of Client Services Coordinator, Kimberly Horikoshi, and her husband, Kevin!

Mariko made her grand entrance into the world on New Year's Eve at 1:21 PM, weighing 7 lbs.,13.8 oz. What a perfect way to close out the year and welcome 2025.

Congratulations to Kimberly and Kevin on this incredible blessing. We can't wait to watch Mariko grow and shine! Welcome to the world, little one!



STAFF SPOTLIGHT

Meet the Newest Members of Our Financial Planning Team

Welcome Austin Muto and Jack Hollmeyer, Summit's newest Financial Services Assistants. Each bring diverse skills and a shared passion for helping people achieve their financial goals. Working closely with our advisors, they help craft tailored financial plans for our clients. Their expertise and enthusiasm make them integral to the team.



Austin Muto

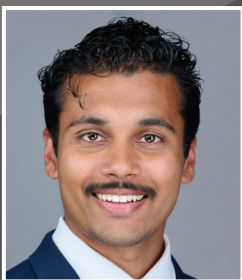
Austin has a background in public accounting and a degree in finance from San Diego State University. A Bay Area native currently residing in Walnut Creek, Austin enjoys restoring classic cars, snowboarding, and playing basketball, with plans to establish a Basketball Club at Summit.



Jack Hollmeyer

Jack, a Pleasanton native and Chico State graduate, co-founded the Financial Planning Club as a finance major in college and completed an internship in the industry before bringing his skills to Summit. Outside of work, Jack enjoys film photography, adding to his vinyl record collection, and playing basketball.

Welcome, Pranay Mohan!



As our new Trading Coordinator, Pranay executes trades and supports advisors in managing client portfolios, driven by a passion for investments and expanding his financial expertise.

A University of Oregon graduate, Pranay began his career in tech consulting before transitioning to financial services. His interest in finance dates back to high school, inspired by an ambition to join

the FBI's White-Collar Crime Division.

Outside work, Pranay enjoys traveling, golfing with his dad, and time with family. With roots in India and Fiji, he often visits relatives abroad.

Congratulations, Vanessa and Gina!

We are proud to announce Summit Financial Advisors Vanessa Savage and Gina Morais have earned the Private Wealth Advisor designation from Raymond James. This designation reflects their experience managing the financial concerns of families, individuals, and organizations of significant wealth, and their mastery of methods and resources necessary to support their expansive financial interests.



Vanessa Savage



Gina Morais



SUMMIT TRIVIA CHALLENGE

The answer to this quarter's question can be found on the Summit Facebook page, facebook.com/summitfinancialgroup/. Each person submitting the correct response will be entered to win a \$25 Starbucks gift card.

Ready? Here it is ...

Which nonprofit organization did Summit support this holiday season?

Know the answer? Email it to angela@summitadvisors.com by February 21. The Trivia Challenge winner will be notified via email.

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