

1Q 2025 Market Letter

Stocks are on a Pedestal

We like to think of ourselves as independent thinkers, and in this business, being contrarian can oftentimes be beneficial. However, a recent memo by Howard Marks, the legendary investor, brought together our seemingly separate concerns into a cohesive idea. We credit him for the title "Stocks are on a Pedestal."

When something is placed on a pedestal it becomes the object of intense admiration and unrealistic expectations. This elevated status often leads to overvaluation, as investors flock to the asset assuming it can only appreciate further. This popularity can create a dangerous situation where risks are overlooked, and a herd mentality takes hold.

The pedestaled asset becomes increasingly vulnerable to significant declines if it fails to meet the lofty expectations placed upon it. When reality inevitably sets in and the asset fails to live up to its exalted status, the result can be sharp corrections.

This underscores the critical importance of maintaining a balanced, rational approach to investing, even in the face of seemingly irresistible opportunities.

As the calendar turns to 2025, stocks – especially Big Tech – are clearly on a pedestal, and we aren't convinced they deserve to be. Yes, excitement about artificial intelligence has boosted shares, but anyone who has used this current generation of AI products can attest, there is a long way to go before the technology is ready for prime time.

In reviewing the menu of investment options, we find more safety and value outside of Big Tech. Smaller companies in other industries have not quite captured the public's imagination. Entire sectors like Health Care and Consumer Staples are in the wilderness. Bonds haven't been this attractive compared to stocks in decades and has the potential to yield enough return to satisfy many of our financial plans.

We've dusted off our Trump 1.0 playbook to look for areas of similarity. We can expect more volatile markets as presidential negotiations play out publicly, but take comfort in knowing economic momentum is a hard thing to disrupt. Our job this year will be to protect the downside, versus squeezing every bit of juice from the fruit. Rebalancing and diversification will be key themes of our review meetings as we look to tax efficiently realign client portfolios after such a strong run.