



# Hollow Brook Quarterly Roundup

4Q 2024



# Market Overview

As we begin 2025, we find ourselves reflecting on an economic landscape as dynamic and complex as ever. From all-time market highs to dramatic geopolitical shifts, 2024 was a historic period that underscored the importance of a steadfast focus on long-term objectives amidst headline-grabbing developments. Here is our perspective on the quarter, the year and its implications for our mission of protecting and growing your capital so your portfolios are in a position to support your goals.

History has shown that our balanced, disciplined, long-term investment approach consistently delivers the best outcomes from a risk and return perspective.

## *American Exceptionalism Leads in an Unsteady Global Economy*

The U.S. economy continued to demonstrate resilience, recording GDP growth of 3.1% in Q3, driven by robust consumer spending, strong labor markets, and ongoing fiscal stimulus. The S&P 500 closed the fourth quarter of 2024 at record highs, up 23% for the year on a price return basis, with the tech-heavy NASDAQ outperforming most other indices. However, the gains were largely driven by a handful of companies—the “Magnificent 7” tech giants (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, Tesla)—which accounted for most of the market’s gains.

Without these seven companies, the S&P 500’s return for 2024 would have been a modest 6.3%, underscoring the increasingly narrow breadth of

market leadership. This concentration in large-cap tech raises questions about sustainability and rising market risk. Our friends at GaveKal research in Hong Kong recently noted, “US equity market and US dollar outperformance have also brought us to the point where the US, with 4% of the world’s population, roughly a quarter of global GDP and a third of global profits, now accounts for more than two-thirds of the MSCI World index’s capitalization. Such an imbalance has not been seen since the late 1980s, when Japan’s economy contributed less than a fifth of global GDP yet accounted for 45% of the MSCI World index.” As students of history, we are keenly aware of how painfully a similar dynamic ended for the Japanese market decades ago.

Globally, markets painted a mixed and complex picture in 2024.

- **China Slowdown:** After years of rapid expansion, China’s economy lost momentum. Exports slowed, the property sector continued to struggle, and government stimulus efforts were required to support government growth targets. Still, China’s benchmark indices gained nearly 20%, signaling cautious optimism that ongoing reforms and stimulus measures might stabilize the economy.
- **European Malaise:** Is the dominant European economy going kaput? Germany, Europe’s largest economy, slipped into its second consecutive year of recession, dragged down by high energy costs, underinvestment in infrastructure, and lackluster manufacturing performance. Europe’s broader indices managed to eke out low single-digit gains, but growth concerns persist throughout the region.
- **Emerging Markets Resilience:** Countries like Argentina (+113% in USD terms) and Taiwan (+19.8%) outperformed due to



idiosyncratic factors such as political reform and tech-sector resilience.

### ***Balancing Growth and Risk***

At HB, we continue to believe that in general markets have a negative asymmetry to them. This conclusion is currently supported by:

1. A noted narrowness or concentration in equity indices that is coupled with historically elevated valuations.
2. A complacency by market participants in their views on credit risk given the chance interest rates could stay “higher for longer” than currently expected.
3. Continued geopolitical instability in both Europe and the Middle East.
4. The increasing capital intensity of AI, which poses a threat to margins, could become even more pronounced as competition continues to grow. Over the weekend, China’s DeepSeek AI challenged Western dominance, proving smarter, more efficient algorithms may outperform massive budgets. It is being reported that the Chinese creators spent just \$6 million on their model, rivaling the billion-dollar giants. This looks like a wake-up call for the AI ecosystem – bigger may not always be better. Marc Andreessen called this “AI’s Sputnik moment.” Whatever you feel certain about today may seem incredibly foolish tomorrow.
5. A risk of tariff confusion—a negotiating tactic or something more sinister unleashing global stagflation.

However, we do not enter 2025 with a lot of pessimism about the economy and therefore believe there are several tailwinds for investors to note:

1. Consumer confidence has recently reached its highest level since before the pandemic (a short-term comment).
2. Potential for pro-growth tax policy discussed by Trump.
3. Continued low household debt servicing costs.
4. Continued strength in the labor market, with jobs growth in every month of 2024 and now 48 months in row. This is tied for the second longest streak in history.
5. Wages have now outpaced inflation on a year-over-year basis for 19 straight months, giving a boost to the all-important U.S. consumer.
6. Will the combination of rising deficits and the desire for “less” government lead to a larger role for the private sector in key growth markets? For example, picks and shovels and energy infrastructure required to support the scaling of AI, digital infrastructure, space exploration and defense.
7. Given a pro-business political backdrop will it drive a resurgence in mergers and acquisitions (M&A) as well as initial public offerings (IPOs)?

The aforementioned headwinds and tailwinds highlight the complexity of the environment. This evolving backdrop reaffirms our focus on liquidity and portfolios that maintain balanced exposure across geographies, sectors, and asset classes.

### ***Trump 2.0 and Economic Trajectories***

2024 was a remarkable year for politics. More than 60 countries had elections that turned out to be difficult for incumbents and traditional political parties. It appears that voters sent a message of frustration after experiencing rising prices and a



multitude of cultural issues driving anger towards the status quo. We are reminded of the concept in political science and sociology called the Overton Window. This is a concept that suggests that ideas or policies travel through stages and move from being seen as extreme or unthinkable to becoming widely accepted and adopted as policy. Overton's six stages are: Unthinkable - outside of acceptable thought. Radical - at the edge of discussion. Acceptable - starting to gain traction. Sensible - reasonable and widely discussed. Popular - widely supported. Policy - acted upon and implemented. This framework has helped us make sense of frequent ongoing political changes along with the associated market risks and opportunities.

For those of us in the U.S., Donald Trump's reelection was the defining event of the quarter, promising another four years of economic nationalism and pro-business initiatives. Markets reacted with enthusiasm, rallying sharply on expectations of lower taxes, reduced regulation, and continued America-first trade policies.

However, beneath the optimism lies a complex landscape. Equities are up as we enter 2025 but rising bond yields and potential inflationary pressures remain a concern.

Liquidity in financial markets is a given until it's suddenly nowhere to be seen.

Key economic implications of Trump's second term include:

- **Growth-Oriented Policies:** As re-affirmed in his inauguration speech, Trump's administration is expected to push for policies that support increased oil and gas production independence, infrastructure investment, and industrial resurgence.

Initiatives such as revitalizing the energy sector, expanding fossil fuel production, and fostering AI-driven innovation could provide tailwinds for growth-oriented sectors.

- **Inflation Risks:** trade protectionism—potential tariffs and restrictions on immigration—could exacerbate inflationary pressures by raising input costs and tightening labor markets. Economists are predicting that 25% tariffs on Canada and Mexico could be imposed by February 1<sup>st</sup>.
- **Fiscal Pressures:** The national debt has exceeded \$36 trillion, rising 57% in five years and growing by \$1 trillion every 100 days. Interest payments now total \$308 billion, consuming 17% of the federal budget. Since 2022, average borrowing costs have climbed from 2.07% to 3.32%. In 2025, over \$3 trillion in low-interest debt is maturing and set to be refinanced at rates above 4%. This escalating cycle of higher costs and deeper deficits threatens fiscal stability.

## Investment Outlook & Portfolio Positioning

Considering these developments, HB remains committed to disciplined, diversified strategies that balance growth potential with risk and liquidity management. Our mission remains to protect and grow capital and endeavor to provide our clients with a real return above inflation while providing appropriate liquidity that supports client goals. As always, we constantly explore opportunities throughout the investable universe, seeking out-of-favor or under-appreciated opportunities that have an attractive asymmetry. Here is how we are navigating the current environment:



- **Focus on Quality:** We continue to favor companies with low debt, strong free cash flows, pricing power, and resilient business models that can weather inflationary pressures.
- **Diversification:** While equities remain the core of HB client portfolio wealth creation, we maintain deep expertise in allocating to many asset categories outside of conventional equities. With valuations at all-time highs, for larger portfolios we tend to balance our risks with less correlated alternatives like opportunistic credit, farmland, real assets, and unique episodic investments where upside optionality exists.
- **Sector Rotation:** Energy, industrials, and health care are areas where we see attractive long-term opportunities, particularly as technology accelerates and fiscal stimulus supports infrastructure and energy projects.
- **Focus on Liquidity:** Liquidity in financial markets is a given until it's suddenly nowhere to be seen. We believe that the cornerstone of prudent portfolio management and risk control is to continually monitor liquidity and position portfolios so a client's life is not disrupted should there be a change in market liquidity.

### *Staying the Course*

We remain steadfast in our belief that successful investing is a marathon, not a sprint. As we look ahead, we must bifurcate our thoughts between the economy and investment markets. We remain cautiously optimistic about the U.S. economy. However, we are closely monitoring the myriads of risks posed by lofty valuations and market concentrations, tight credit spreads, risks of rising inflation and geopolitical instability. While it is tempting to react to every market fluctuation or headline, history has shown that our balanced, disciplined, long-term investment approach

consistently delivers the best outcomes from a risk and return perspective.

HB continues to grow. We have been strategically adding to our capabilities and resources. Today, we offer our clients a world-class full-service wealth management experience. Beyond sophisticated investment management, we also provide a holistic suite of family office services including business and personal accounting, bill pay and cash management, consolidated financial reporting, tax planning and coordination, family governance and generational planning in collaboration with estate planning. Our ongoing investment in infrastructure, software, and technology is meaningful. Talent is our most valued asset and having an exceptional team remains our priority and focus. Our goal is to serve clients with the highest service intensity and provide the best resources and services. The world is growing more complex, and we are adding resources to help bolster our ability to navigate an ever changing social, economic, and political landscape.



*"The little pig with the portfolio of straw and the little pig with the portfolio of sticks were swallowed up, but the little pig with the portfolio of bricks withstood the dip in the market."*

Over the last twelve months, we have welcomed six new members to the HB team. Tim Whelan has joined us as Head of Family Office Services & Development. Tim is a CPA with an enviable resume of business experience, most recently as CEO of



publicly traded Wireless Telecom (WTT). Aubrey Kandell, CPA, joined us as a Senior Accountant working within our Family Office Services group. Chelsea Birzon, CPA, joined HB and is dedicated to our various accounting initiatives. We have also added three individuals to our growing investment team. Michael Meechan, CFA, has joined as Director of Investments and comes to us from Ladenburg Asset Management where he was a Senior Investment Analyst. Jordan Artope, a graduate of Bentley University, joined us as Junior Research Analyst and Courtney McCormack has assumed the role of Senior Analyst and was formerly with Goldman Sachs. Finally, Rob McNerney, MBA, joined us as Director of Marketing coming from 3M's Strategy and Marketing Development program. We look forward to you getting to know our growing team. Talented, engaged, and passionate employees are the lifeblood of our business. We are proud of our team and our distinguished advisory board. Together the HB team is well credentialed with decades of cumulative experience, education, and rigorous designations—CPA, CFP, CFA, MBA, and ESQ.

In conclusion, we believe it is critical to maintain a disciplined investment process while adhering to time-tested principles of diversification and liquidity. As always, we are here to guide you through the complexities of this market environment, ensuring that your portfolio is aligned with both current opportunities and your personal long-term goals. Thank you for your trust and partnership. As always, we are here to answer your questions and provide the guidance you need to achieve and exceed your financial goals.

Sincerely,

The HB Team

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<b>Equity Indices</b>	<b>Price</b>	<b>MTD</b>	<b>QTD</b>	<b>YTD</b>
S&P 500	5881.63	-2.39%	3.35%	25.00%
Nasdaq	21012.17	0.46%	6.46%	25.88%
Dow Jones Industrials	42544.22	-5.13%	1.34%	14.99%
Russell 2000	2230.158	-8.26%	1.83%	11.53%
Russell 3000	3356.823	-3.06%	3.59%	23.80%
<b>S&amp;P 500 Sectors</b>				
Utilities	384.95	-7.93%	-6.27%	23.43%
Consumer Disc.	1831.164	2.39%	14.84%	30.14%
Telco	341.66	3.58%	8.44%	40.23%
Consumer Staples	853.65	-4.97%	-3.00%	14.87%
Industrials	1115.65	-7.98%	-2.40%	17.30%
Technology	4609.52	1.16%	7.70%	36.61%
HealthCare	1604.75	-6.21%	-9.85%	2.58%
Materials	529.77	-10.72%	-12.17%	-0.04%
Financials	804.44	-5.46%	7.64%	30.50%
Energy	654.85	-9.47%	-4.57%	5.72%
Real Estate	255.92	-8.60%	-7.38%	5.23%
<b>US Interest Rates</b>				
3 Month	4.31	-3.31%	-5.57%	-19.09%
2-Year Note	4.24	1.48%	17.68%	-0.19%
5-Year Note	4.38	7.23%	24.89%	13.90%
10-Year Bond	4.57	9.05%	22.44%	17.79%
30-Year Bond	4.78	9.62%	17.43%	18.69%
<b>Commodities</b>				
Crude (WTI)	71.72	5.91%	4.24%	3.05%
Brent	74.64	4.39%	2.54%	0.66%
N. Gas	3.63	13.39%	6.07%	-1.41%
Gold	2624.50	-0.71%	-1.45%	27.22%
Silver	28.90	-5.63%	-8.12%	21.46%
<b>Currencies</b>				
DXY	108.49	2.60%	7.21%	7.06%
EUR	1.04	-2.11%	-6.45%	-6.26%
CAD	1.44	2.70%	6.63%	8.65%
GBP	1.25	-1.72%	-5.80%	-1.66%
JPY	157.20	4.96%	9.49%	11.58%

Source: Bloomberg as of 12/31/2024



## Quotes of the Quarter

**“ People are trying to be smart – all I am trying to do is not to be idiotic, but it’s harder than most people think.”**

Charles Munger

**“ Today, I signed a pardon for my son Hunter.”**

Joe Biden

**“ You’ll find a more pro-business, pro-resource extraction, smaller government, smaller spending, tougher-on-crime kind of a government.”**

Christopher Hernandez-Roy

**“ Despite the best efforts of the State of New Jersey trying to thwart New York’s ability to reduce congestion on our streets while making long-overdue investments in public transit, our position has prevailed in court on nearly every issue.”**

Kathy Hochul

**“ Alcohol is a well-established, preventable cause of cancer responsible for about 100,000 cases of cancer and 20,000 cancer deaths annually in the United States.”**

Vivek Murthy

**“ We are, of course, a nation of differences. Those differences don't make us weak. They're the source of our strength.”**

Jimmy Carter





# 4Q 2024: What Happened and What Mattered

## **Biden Commutes 1,500 Prison Sentences**

In an unprecedented clemency effort, President Joe Biden commuted the sentences of 1,500 federal prisoners, focusing on reducing over-incarceration and addressing inequities in the justice system.

## **McKinsey to Pay \$650M in Opioid Settlement**

McKinsey & Company has agreed to a \$650 million settlement over its role in advising pharmaceutical companies during the opioid epidemic, which contributed to widespread addiction and overdose deaths.

## **Trump's Ties to SoftBank Raise Questions**

Donald Trump's business dealings with SoftBank are under scrutiny, with critics questioning potential conflicts of interest and the financial implications of these connections.

## **AI Privacy Concerns Grow Amid Rapid Growth**

The rise of artificial intelligence across industries has triggered significant concerns about data privacy, ethical usage, and the potential for misuse of this rapidly evolving technology.

## **Lebanon Ceasefire Holds Amid Mediation**

A ceasefire agreement in Lebanon has brought a temporary halt to hostilities, with diplomatic efforts underway to achieve a more lasting resolution to the conflict.

## **Trump Picks Scott Bessent for Treasury**

Donald Trump's nomination of Scott Bessent for Treasury Secretary has drawn criticism, with opponents citing concerns about his close ties to Wall Street while supporters point to his extensive experience in financial markets and investment strategy.

## **DOJ Drops Charges Against Trump**

The Department of Justice has dropped certain charges against Donald Trump related to the January 6 Capitol riot, citing challenges in assembling sufficient evidence for prosecution.

## **Proposed Kroger-Albertsons Merger Blocked**

A federal judge has blocked the merger of Kroger and Albertsons, citing concerns that the deal would harm competition and negatively impact consumers.

## **FBI's Drone Testing Sparks Privacy Concerns**

The FBI's use of drones for surveillance in New Jersey has raised debates about privacy rights and the ethical implications of deploying advanced technology in law enforcement.

## **Bald Eagle Reaffirmed as National Bird**

Legislation has been signed reaffirming the bald eagle as the national bird of the United States, reflecting a continued commitment to its protection and conservation.

## **Former President Jimmy Carter Dies at 100**

Jimmy Carter, the 39th President of the United States and a dedicated advocate for peace and humanitarian causes, has passed away at the age of 100.

## **Prime Minister Justin Trudeau Steps Down**

Justin Trudeau has announced his resignation as Canada's Prime Minister, concluding his tenure and prompting discussions about his political legacy.

## **Cybertruck Standoff at Las Vegas Trump Hotel**

A convoy of Tesla Cybertrucks caused a standoff at the Trump International Hotel in Las Vegas after hotel security restricted their access to valet parking due to size constraints. The incident highlights challenges in accommodating larger electric vehicles in urban environments.

## **Popeye and Tintin Enter Public Domain in 2025**

Iconic characters Popeye and Tintin are among the creative works entering the public domain in 2025, allowing for unrestricted use and reinterpretation. This milestone expands opportunities for new adaptations and creative projects featuring these classic characters.

## **Biden Blocks Sale of U.S. Steel to Nippon Steel**

President Joe Biden has blocked the proposed sale of U.S. Steel to Japan's Nippon Steel, citing national security concerns. The decision underscores the administration's focus on protecting domestic industries critical to economic and strategic interests.



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