2025 1st Quarter: Prediction Season

The start of a new year is a great time to reflect on the past, set goals for the future, and tune out predictions from the financial industry.

The S&P 500 Index rose by 23.3% in 2024. This far exceeded expectations from analysts polled at the end of 2023, none of whom believed the S&P would grow by its historical average rate of return, 12.3%. In fact, nearly half of the analysts predicted a negative year for the index. Hopefully those analysts didn't eat their own cooking and divest from US stocks during such a strong year.

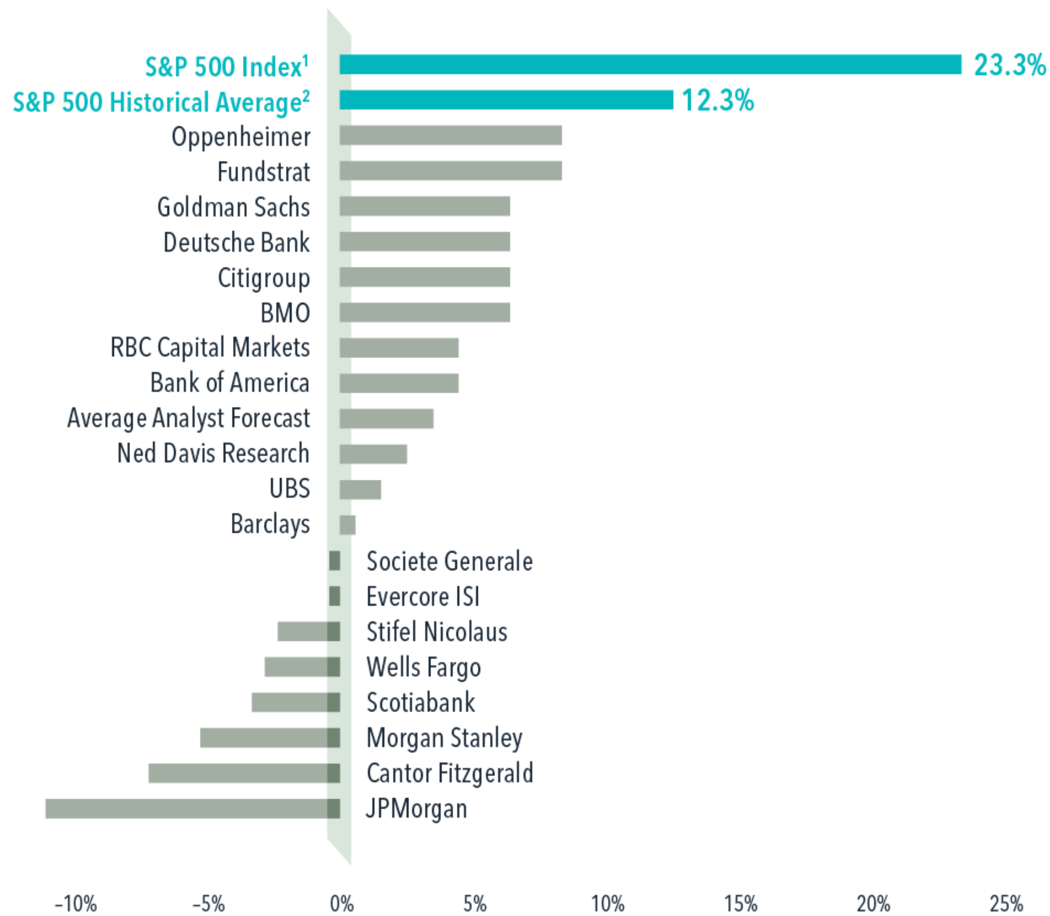
The dispersion in predictions for 2024 highlights the challenge with making asset allocation decisions based on forecasts. Individuals arrive at different expectations because they may see the world differently. The market aggregates these disparate viewpoints, offering a wisdom of the crowd that's very difficult to beat. As we enter year one of a new administration, depending on your outlook, you might think that we are poised for a breakout or are ready to take a tumble. The reality likely lies somewhere between these two outcomes.

If we think about catalysts from the past that knocked markets down a peg, they frequently came from sources nobody saw coming. Soaring interest rates (2022), COVID (early 2020), the global financial crisis (2007 to 2009), the bursting of the dot.com bubble (2000). All of these events seem obvious in retrospect. Everybody should have seen these things coming (except maybe COVID) and yet irrational expectations sometimes can cloud clear judgement. The next financial calamity is likely not even on the horizon so focusing on the controllable (saving, spending, asset allocation, diversification) continues to be the key to long term success with less stress in the near term.

EXHIBIT 1

Predictions Gone Wrong

Equity analyst predictions vs. actual for the S&P 500 Index calendar year return in 2024



Past performance is not a guarantee of future results.