Ropes Wealth Asks for Somebody to Call Santa

So much good was achieved in 2024, including an economy with GDP growth of 3.1% in its most recent estimate and an unemployment rate of 4.2%. Likewise, corporate earnings growth was 9.5%, a stunning reversal from the meager 1% growth companies delivered in 2023. We had it all, it seemed, to end the year on a high note, including optimism over the tax and business friendly policies of our incoming president-elect Donald Trump. But it appears this year's holiday trading may not deliver on the 'Santa rally' to which we have become accustomed.

Why? Ebeneezer Powell, as some are now calling him, is the culprit. For this week, the Federal Reserve Open Market Committee (FOMC) led by Powell decided to cut rates but did so with such a hawkish outlook for the future that the negative reaction on Wall Street was swift and severe. Markets suffered their second worst drop of the year following the announcement, though stocks remain not terribly off from all-time highs.

The Fed's new range for the Federal Funds target is now 4.25-4.50%. However, the Committee signaled a significant reduction in its forecast for additional policy adjustments over the next 24 months as well as an uptick in expectations for inflation and growth. According to the dot plot of future expectations, the majority of Fed officials see just two interest rate cuts in 2025, another two rate cuts in 2026 and one more cut in 2027, resulting in a terminal rate of 3.00%, revised up from 2.875% by 2026 in the September forecast.

The Fed's outlook also noted they believe inflation will remain stubbornly elevated at 2.5% in 2025, while unemployment will tick up slightly to 4.3% and GDP growth will clock in at 2.5%. While the Fed maintained its positive characterization of the economy, noting an ongoing *"solid pace,"* with unemployment still *"low,"* they described inflation as having only made some *"progress"* towards the Committee's target, highlighting how prices remain *"somewhat elevated."*

Notably, Cleveland Fed President Beth Hammack, who only joined the FOMC this year, dissented in favor of holding rates steady. It was the first dissent by a regional president since 2022 and is an indication of a more bifurcated committee as the bank makes less progress than forecast on cooling inflation.

The case for a Santa rally was also hindered by the fact we seem to be careening toward a government shutdown. Congress had been close on the passage of a bipartisan continuing resolution that extended government funding into next year and reauthorized an array of lapsed health, agriculture, and other programs. But Trump's team, led by Elon Musk, derailed the negotiations in the past 48 hours, announcing their opposition to the bill on social media and pushing GOP leaders to demand more concessions — including a temporary or permanent lifting of the debt ceiling. That has thrown Republican congressional leadership into a tailspin as today is the deadline to fund the government and avoid a shutdown over the weekend.

It is clear 2025 is going to be complicated, and stretched valuations are tempering our optimism as investors will need to wade through the complexity of a solid economy with shifting monetary and fiscal policy aspects. Santa may not come to investors this year, but not because we have been naughty. Rather, a Santa rally may not come because it already came early and often in 2024. We have experienced the gift that keeps on giving with the continuation of this bull market that took off at the end of 2022. But do not despair, because there is nuance in the opportunity set offered by a market with such narrow leadership for far too long. Indeed, many companies without the AI halo are not as expensive as those 'Magnificent 7' stocks that have captured such focus that their shares are now worth more than the annual GDP of every country in the world with the exception of the U.S. and China.

However, it is also true these companies are growing earnings at an impressive clip, are not interest rate sensitive, and may even function as a safe haven in 2025 as market volatility advances in response to the Trump administration taking hold.

All in all, it is a good time for reflection and recalibration, and we are here to offer our advice in navigating what might be tricky terrain ahead, starting with a prudent rebalancing for most investors stretching over this tax year and into 2025. But it is not time to lose faith. While the presidential, fiscal, and monetary transitions ahead may seem daunting, it is important to remember these are shifts that the market has navigated before, and we believe they will do so again. It helps to have a strong economic and earnings base as the jumping off point, and we have those conditions today. Santa comes to those who believe, and believing in the long-term growth of companies is how investors are rewarded for their good behavior year after year.

I want to wish everyone a happy holiday season and extend my thanks for your interest in our weekly investment commentary. If you would like to speak personally with a member of our team at any time, please click **here**.

Ropes Wealth Advisors
800 Boylston Street Boston, MA 02199-3600