

GCM Quarterly Report

February 2025

Another Super Bowl is in the books. The dominant Philadelphia Eagles snatched Andy Reid's Chiefs' opportunity for a historic three-peat. As they are wont to do, Philadelphia's fans promptly celebrated their team's win with some [rioting](#) by tearing down traffic lights, setting things on fire, and engaging in generalized disorderly conduct. [Nielsen estimated](#) nearly 128 million people tuned into the big game, a record TV audience. Another record was set by advertisers who paid \$8 million for a 30-second ad spot. We can't think of a clever way to tie this into capital markets, so we're just going to dive right in...

4Q earnings season

Fourth quarter earnings season is nearly over with only a few major names yet to report. So far, the numbers are great; aggregate earnings for the quarter have increased 16.4% year-over-year, well above analyst forecasts and representing the strongest growth rate in 3 years. Importantly, revenues have grown as well, with the S&P 500's constituents on track for 17 straight quarters of positive revenue growth. For the full calendar year 2024 cycle (ending with this quarter's results), earnings are estimated to have increased about 10% over 2023. Looking forward to 2025, analysts are currently expecting calendar year growth of around 13%, though it's important to note that we typically see these forecasts adjusted (read: reduced) as the year goes on. A couple of interesting trends were noted during this quarter's earnings releases...

- Artificial intelligence has been the name of the game for some time now, and the market went into a tailspin earlier this year over the announcement of the Chinese open-source DeepSeek AI model that claims to challenge the best and brightest models from the likes of Microsoft/OpenAI, Meta, and Google. Investors who were concerned that DeepSeek may cause major AI players to reduce their spending should have been relieved to read their earnings reports. Meta indicated they would spend upwards of [\\$60 billion](#) in the coming year on AI-related R&D including a [four-million square foot data center in Louisiana](#). Google suggested 2025 spending in the neighborhood of \$75 billion and Amazon hinted at over \$100 billion, the vast majority of which will be spent on AWS and AI-related projects according to CEO Andy Jassy. We think this sets the stage for solid performance from chip makers and companies involved in AI-related infrastructure.
- It is no surprise that tariffs were mentioned a record number of times on earnings calls according to Factset's database, with about 50% of executives mentioning tariffs as a source of uncertainty for future guidance. Companies' responses to tariffs are mixed, with some reporting plans to pass increased costs onto consumers and others planning to shift their supply chains away from tariff-impacted suppliers.

With earnings up 13% during 2024 and the S&P 500 index up 25%, valuations as measured by the price-to-earnings ratio are stretching even further; the forward looking P/E multiple is now just above 22 versus a 5-year rolling average of 19.8 and a 10-year average of 18.2. While valuation is never a sufficient indicator to make investment decisions on its own, current valuation multiples indicate to us that continued strong earnings results are necessary to justify current stock prices and further appreciation. All earnings data in the prior paragraphs was sourced from [Factset Earnings Insights](#) dated 2/7/25.

Market Statistics	YTD	2024	3-Year Annl.	5-Year Annl.
S&P 500	2.78%	25.02%	11.91%	15.17%
Dow Jones Ind. Avg.	4.80%	17.25%	10.66%	12.16%
Russell 2000 (Small cap)	2.61%	11.11%	5.19%	8.26%
MSCI EAFE (Foreign developed)	5.26%	3.82%	5.12%	6.25%
MSCI ACWI (Global)	3.36%	17.49%	8.41%	11.04%
MSCI Emerging Mkts.	1.79%	7.50%	-0.71%	3.04%
Bloomberg US Aggregate Bond	0.53%	1.25%	-1.52%	-0.60%

Source: Morningstar, as of 01/31/2025

The economy & the Fed

Fourth quarter [GDP results](#) were released in January. GDP rose 2.3% for the quarter and full calendar year 2024 growth came in at 2.8%. Both of these figures were slightly below forecasts, but both are convincing evidence that the aggregate US economy is on stable ground nonetheless. On the other hand, [the January jobs report](#) presented a mixed bag of data. Job growth was lower than forecast, with just 146,000 jobs created during the month of January and total job creation for 2024 revised lower. However, unemployment fell to 4.0% and wages crept up a little bit, 0.5% for the month and 4.1% annualized.

The inflation [report for January](#) was not so good. The skyrocketing price of eggs thanks to an avian flu outbreak has been widely reported, but economists were still surprised how much other components of the Consumer Price Index rose during the month. In aggregate, the CPI increased 3.0% for the month, a tick above the 2.9% rate in December and the fourth consecutive month of heightened inflationary pressure since September's 2.4% read.

With the backdrop of a stable economy and stubborn inflation, plus the specter of tariffs on the horizon, we think the Federal Reserve is unlikely to do anything anytime soon. The Fed's dual mandate requires them to prioritize "full employment" (often cited as 4% unemployment) and "stable prices" (often cited as an inflation rate around 2%). Until and unless unemployment spikes and/or inflation makes convincing progress lower, we see the self-described "data dependent" Fed Board holding steady.

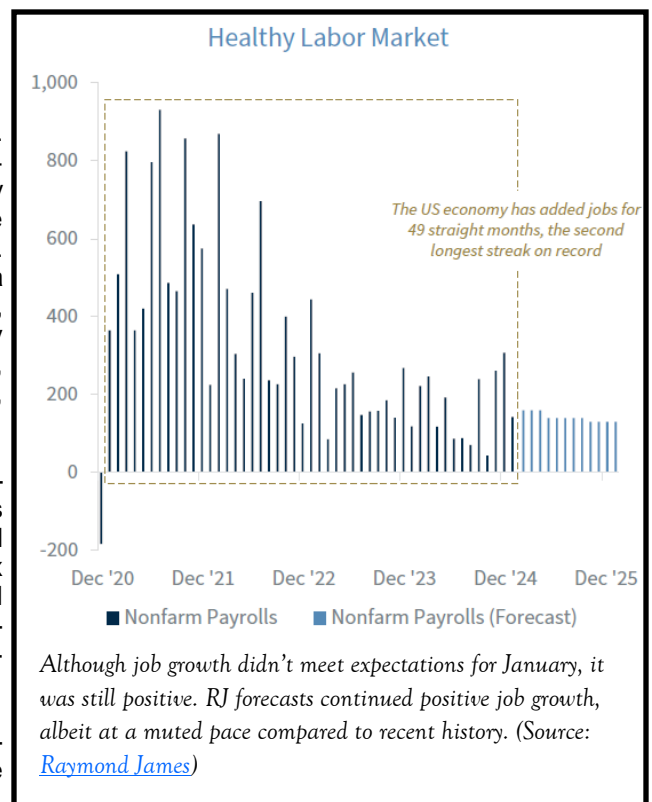
As a consequence of the Fed's actions (or forecasted lack of action), Raymond James's fixed income strategists believe the yield on the 10-year US Treasury, a common benchmark for bond yields throughout the market, is likely to end the year around 4.5%. The yield on the 10-year began 2025 around 4.6%, so this does not seem like a big move. However, factors described above, including economic strength, inflation, and tariffs are likely to drive heightened volatility in the interim as bond investors try to divine which way the economy is heading.

Politics

It's been about a month since the inauguration and the new administration has hit the ground running with a flurry of activity and executive actions. Some are already being challenged in court, paving the way for a potentially long and arduous resolution. We will be watching the president's decisions around tariffs and deregulation carefully, as we believe these two priorities have the largest potential impact on markets and the economy. Raymond James's economist Eugenio Aleman talked about these two forces during their most recent [monthly webinar](#), which we encourage you to watch.

What we'll be watching

Politics tend to cause a great deal of noise, consternation, and as a consequence, market volatility. However, over the long-term, markets tend to respond most meaningfully to changes in the fundamentals – things like earnings, margins, and the overall trend of GDP. These are the items we'll be following most closely. A few quarters of strong earnings, a stable employment picture, and steady GDP growth can set the stage for a healthy stock market trajectory, even if the political landscape produces uncertainty in the near-term. As always (well, almost always), we remain cautiously optimistic.



Ben's corner

I'm eschewing finance in my column this quarter, sorry. You can classify this one as "mental health related." There's a lot going on in the world right now; many of you may be feeling uncertain or stressed, and, at least for me, the best way to combat those feelings is to commune with nature, or "touch grass" as the kids say. My latest interest is birds.

The previous owners of our house installed a bird feeder in the back yard along with two bird houses. They were also kind enough (or forgetful enough) to leave a bag of bird seed in the garage. I've never had a particular affinity for birds, but I started filling the feeder mostly out of a mechanical sense of obligation... the bag of seed is here, there's an empty feeder in the yard, no reason to let either go to waste. But then I caught myself noticing various birds visiting the feeder and I would stop to watch them for a minute. There's a cardinal. Is that a woodpecker? What are these small whitish gray birds flitting about? They're chickadees, I learned. So began my trip down the slippery slope. I received a guide to Virginia birds for Christmas. I purchased binoculars. I started standing expectantly at the window waiting for something to fly by, book and binoculars in hand. I downloaded an app to identify birds and bird calls (it's called Merlin, it's great).

Biologists classify [birds as dinosaurs](#), following the evolutionary process of theropods like *Tyrannosaurus Rex* and *Archaeopteryx* that occurred over millions of years into the modern scientific class called *Aves*. Birds and crocodiles are the only extant members of the scientific order called *Archosauria*, indicating they are close relatives. It's odd to think that the crows pecking at my trash can are cousins to alligators and *T Rexes*, although I freely admit I don't understand how these biological links are determined.

A couple of bird facts:

- Woodpeckers have tongues that [wrap around their skulls](#) when retracted in order to protect their brains from impact.
- Crows [are considered to be](#) among the smartest animals on earth, with a similar ability to use tools and solve puzzles as some apes. It's been recently suggested that they may even understand numbers.
- Owl feathers are [not waterproof](#). The design of their feathers aids in silent flight, but also makes it difficult for them to hunt in rainstorms and heightens their risk of drowning in standing water.
- The scream the media typically attributes to bald eagles is actually made by [red-tailed hawks](#). In reality, bald eagles make a high pitched noise that sounds [more like a seagull](#).
- The wandering albatross, one of the largest birds, can fly [75,000 miles](#) in a single year, spending most of its time in the air.

We are fortunate to live in a wonderful area for bird habitats thanks to our mild seasons and proximity to water. The Chesapeake Bay watershed, particularly the James River area around Williamsburg, is a hot spot for bald eagle activity. An [aerial survey in 2020](#) estimated over 300 breeding pairs of eagles along the James River, roughly double the number from the early 2000s. Bald eagles have thrived nationwide since the 1970s when the government passed the Endangered Species Act and outlawed the use of pesticides which caused the birds to lay thinly shelled eggs, so much so that bald eagles are no longer on the endangered list. Our local roster of raptors doesn't stop at bald eagles either; the James River is host to plenty of ospreys and the woods are filled with various species of hawks and owls that are often heard and occasionally seen. We have a plethora of perching birds, wading birds, and aquatic birds too.

People joke that you start to become interested in birds as you get older, and maybe that's true. But I'm embracing it. Even if you're not all that interested in birds, I encourage you to take a look out your back window or up in the sky sometime. You might be surprised by what catches your attention.

The Super Bowl halftime show

The Super Bowl halftime show is always a spectacle and it usually generates a diverse range of opinions (this year's was no exception). I didn't know this until recently, but the halftime performer is not paid a traditional appearance fee. Instead, performers receive a stipend based on a union pay scale. It amounts to [about \\$1,000 per day](#), which isn't chump change, but it's not the millions you'd assume a famous musician would command. Since halftime only lasts about 30 minutes, performers and the staging team have to move quickly. Stage hands are given [6 minutes to assemble](#) the set and 6 minutes to break it down. The show itself is timed for about 15 minutes.

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