



January 2025

**“Ch-ch-ch-changes, Turn and face the strange, Ch-ch-changes”
David Bowie**

We are excited about the many changes anticipated for 2025. Bowie’s lyrics do resonate with today’s times; change can often feel strange. During times of dramatic change, uncertainty prevails. For investors, uncertainty can present an opportunity to find attractive values during a time when others may be hesitant. We believe there are significant changes occurring simultaneously that may have an impact on our investment outlook for the next several years. First, the expansion of artificial intelligence technology, which for example, will allow us to analyze immense amounts of data quickly with unimaginable detail and may enable new innovations. Second, the change from a Democratic to a Republican administration that will introduce different government policies. And lastly, the massive increase in global migration over the past decade changed the demographic composition and political complexion of many countries, bringing with it a dynamic array of social changes.

The introduction of ChatGPT launched investor awareness of the potential for change that artificial intelligence (AI) may offer in enhancing growth and increasing productivity. Subsequently, the companies at the forefront of the AI rollout benefited from increased demand, accelerating their earnings growth which ultimately led to the “Magnificent 7” companies representing approximately 34% of the market capitalization of the S&P 500 at the end of 2024, up from 22% in 2022. We are in the early years of experiencing the advantages of AI technology in our daily lives. The S&P 500 increased 25% in 2024 following an increase of 26 % in 2023. Back-to-back equity returns of greater than 20% have not occurred since the late 1990’s, a similar period of technological advancement during which Internet applications gained traction.

The inauguration of Donald Trump will bring changes in the direction of public policy. Deregulation across many industries will provide businesses with greater flexibility and an added incentive to make investments to achieve future growth. Additionally, changes in taxes, tariffs, immigration and energy policies may cumulatively impact consumer, business and government spending which in turn will help drive higher economic growth.

Finally, the unusual increase in global migration in recent years has led to a change in demographics across mostly in Europe and the US. These changes have begun to impact election outcomes as well as foreign policy alliances. We are monitoring how these changes may influence global economic growth. A more peaceful world often is positive for stability, consumer confidence and global economic growth.

At AHB, we “face the strange,” by identifying changes in sectors, industries and companies that will lead to higher earnings growth. Anticipating change is a central tenet of our Core Equity investment philosophy. We recognize that the impact of increased productivity from new technologies and/or policies may benefit companies across many industries and sectors. Equity portfolios are overweight Information Technology, Communication Services and the Financial Services sectors.



Fixed income investors have been surprised by the resiliency of the US economy and the persistence of higher inflation. In December, the Federal Reserve cut the federal funds rate 25 basis points to 4.25-4.5% and reduced the number of cuts expected for 2025. Furthermore, January data confirmed that core inflation is at an annual rate of 3.2%, higher than the Fed target of 2%, and the unemployment rate remains relatively low, with more than 2 million jobs created in 2024. AHB intermediate-term bond portfolios are currently positioned to capitalize on higher interest rates because the ladder maturity structure provides opportunities for reinvestment. In 2024, we gradually increased the average duration of the client bond portfolios.

We expect 2025 to be transitional in many respects. Our efforts are focused on building client portfolios that provide resilience to any turbulence the economy may face in this period of change. Thank you for the confidence that you have placed in our firm's investment management.

We wish you a safe, healthy, and prosperous 2025.