LYNCH & Associates
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Dear Valued Client:

Returns for the major stock indexes for 2024 and the current bond and money market yields are as follows:

Index	2024 Year End
Dow Jones Industrial Average	14.99%
S&P 500	25.02%

Fixed Income Yields	1 year	2 year	5 year	10 year	30 year
Municipals	2.97%	2.82%	2.90%	3.13%	3.87%
US Treasuries	4.14%	4.24%	4.38%	4.57%	4.78%

Fidelity Government Cash Reserves Money Market Fund	4.28%
Fidelity Money Market Fund Class Premium	4.37%

Happy New Year! The markets delivered strong results again in 2024. The S&P 500 has now logged back-to-back years of 25%+ returns, a feat not recorded since the late 1990s internet boom. Every major equity index, sector, and style has performed strongly, and long-term investors have again been rewarded. The US markets have been dominating the rest of the world. The market capitalization of the US now captures 65% of the global market, a record high, with Japan coming in 2nd at just 5% of the global market share. It is an understatement to say optimism abounds, and US equity investors are pleased.

At LYNCH & Associates, our responsibilities include evaluating markets in a historical perspective and making the most well-balanced and sound investment decisions possible. The current markets are littered with anomalies that are hard to ignore. Below are a few of the most compelling, though many more notable examples are grabbing our attention as well.

1) The size and performance of the US equity markets relative to the rest of the world are at extraordinary levels. Emerging markets relative performance against the S&P 500 is at 25-year lows, and the MSCI World ex-US Index is at 16-year relative lows.
2) The top 10 companies now make up 38% of the S&P 500 index, with Nvidia, Microsoft, and Apple comprising 20% of the index - the largest percentages dating back over four decades.
3) The yield curve has uninverted. In previous letters, we cited the correlations between inverted yield curves and recessions. Recessions often begin soon after the curve uninverts; six of the last six inversions preceded a recession. We are currently coming out of the longest inverted curve in history.
4) The S&P 500 dividend yield is at multi-decade lows at just 1.21%.

5) The total return ratio between the S&P 500 and Russell 2000 small cap index is at late 1990s levels. Many investors did not want to own small caps in the late 1990s before they went on to multiple years of significant outperformance.
6) The total return ratio between Growth and Value stocks is at multi-decade disparities.
7) Housing prices relative to median incomes are hovering near all-time highs (higher than the 2008 housing bubble).
8) Stock valuations relative to their trailing 12-month earnings (PE) and sales are at multi-decade highs.

We mention this list to highlight some of our convictions about the current state of markets. We believe these examples, and more (the cryptocurrency mania), are hard to overlook and explain away as irrelevant. We understand that markets are a general summation of consensus views and can become gripped by phenomena and compelling stories of hope and fear. The prospects of artificial intelligence's impact on the world are wide-ranging, and admittedly, the possibilities for exponential growth and productivity are captivating. Markets, however, are often too quick to put excessive premiums on these concepts.

We continue to reconcile the current market enthusiasm while knowing that market valuations can stay elevated for long periods. The large societal advancements, like the internet of the late 1990s, smartphones in the mid-2000s, cloud computing, or the AI theme of today, are often overestimated by markets in the short run. We remind ourselves of the famously cautionary cliché in the investment world, "*It's different this time*." While markets and their corresponding products and services are often different, human behavior is never different; prices will move on fear, greed, and emotion in the short run.

Etched in our minds at LYNCH & Associates and at the forefront of our current thoughts is the wealth destruction in the early 2000s following the internet boom. We are not advocating for market timing, but we see too many similarities to the late 1990s enthusiasm to get carried away with chasing hot trends with any exuberance. During those times, the counter-narrative was the transition from large growth to value, small-cap, and even international stocks. Diversifying into these out-of-favor areas would have made a significant difference for investors. In 2025, we anticipate adding to our value bias in equities while continuing to mitigate market exposure when appropriate. The bond market spreads are at their tightest in a generation, and with their yields in the 4% range and two more expected rate cuts, we are still not inspired to be too bullish on their current prospects.

We encourage our clients to remain focused on their long-term investment goals. Our team is here to provide guidance and support as needed, and we remain committed to helping you achieve your investment objectives. We thank you for your continued confidence in LYNCH & Associates.

Sincerely,

Ryan T. Lynch, CFP® ChFC®
President

Form ADV Part II and III of the LYNCH & Associates Uniform Application for Investment Advisor Registration and the LYNCH & Associates Code of Ethics are available to all clients at any time. If you would like to receive a copy, please contact Evan Lynch at (812) 853-0878.