



Investment, Finance and Audit (IFA) Committee
ZOOM Meeting
Tuesday, January 7, 2025

Chairman Craig Little called the IFA Committee meeting to order at 12:02 p.m. with the following present: Drs. Robert Farrar, Ben Adams, Robbie Lake, Deidre Crockett, Carol Baker, Mona Ellis, and Bill Cranford. Also participating were SCDA & Member Benefits Group staff Phil Latham, Mark Brown and Deanna Slomzenski. Absent from the meeting was Dr. David Moss.

The Executive Director's direct expenses were unanimously approved on a motion by Dr. Baker, seconded by Dr. Lake.

Mr. Cavanaugh was unable to attend the meeting, but later sent a written report which is shown below.

There being no further business, the meeting was adjourned at 12:20 p.m.

Respectfully Submitted,

John P. (Phil) Latham

WRITTEN REPORT FROM MR. CAVANAUGH

Market Recap:

The S&P 500 Index finished the year with a 25.02% increase, half of which was attributed to the Mag 7 tech stocks. In contrast, the S&P 500 Equal Weight Index, which treats each stock equally regardless of market cap, was up 10.90%.

Returns for Mid-Cap stocks were +15.34%, Small Caps +11.54%, with International equities +5.53%. The best performing sectors of the S&P 500 were Communication Services (+40.23%), Information Technology (+36.61%), followed by Financials (+30.56%) and Consumer Discretionary (+30.14%).

Lagging sectors were Materials (-0.04%), Real Estate (+1.73%, and Healthcare (+2.58%).

The bond market as measured by the Barclays Aggregate Bond Index was slightly positive a 1.25%. Best performing commodities were Natural Gas (+40.23%), Gold (+27.5%), and Silver (+21.5%).

Market Commentary:

Although the markets rallied following the election, we didn't get the "Santa Claus Rally" as expected. This was partly due to a "Hawkish" Fed meeting where they cut rates by 25 bp's but suggested that there may only be 2 rate cuts totaling 50 bp's in 2025. Inflation remains stubborn and the economy continuing to grow.

Profit taking in the final week of the year led to additional selling and the month of December finished down 2.38% for the S&P 500.

Looking towards 2025, markets don't like uncertainty and there seems to be more uncertainty than normal:

- 1) Fed Policy – Rate increases not off the table.
- 2) Fiscal Policy of the new administration – Can the Republicans govern and get the budget & debt ceiling issues resolved?
- 3) Tariffs & Immigration – Do tariffs create trade wars & add to inflation? Will the labor supply tighten due to mass deportations?
- 4) Regulatory Environment – Will we see de-regulation as with the first Trump administration? Can DOGE (Musk & Ramaswamy) deliver?

Some Certainties:

- 1) The economy is relatively healthy.
- 2) Fed leaning towards 2 rate cuts of 25 bp's each.
- 3) Corporate profits are accelerating.
- 4) May not see tax cuts, but don't see them going up.

Outlook:

Most firms are cautiously optimistic about 2025 with solid returns, but don't predict a "3 Peat" of +20% returns of the last two years. Solid returns being upper single digits including dividends.

The Republican sweep supports the market with earnings friendly tax cuts and deregulation. Quality growth stocks have led for the 2 years. We need to see broader market participation. History suggests that we may finally see value and low volatility stocks deliver for investors. Not all firms are bullish. First Trust's Capitalized Profits model shows stocks are overvalued by 20%. They don't expect a Bear Market but think we could see the S&P 500 Index at 5200 (-12.5%) by year end.

UBS Forecast – AI rally continues with AI stock earnings growing 25%. Overall corporate earnings grow 11% and S&P 500 Index at 6600 (+10%) by year end 2025.

Base case of 4 rate cuts (100 bp's in total) changed to 2 rate cuts (50 bp's in total).

Neutral on Fixed Income. 10-Year Treasury range from 3.5% to 4.0%.

Still positive on Gold, price target reduced by \$50/oz. to \$2850/oz. by year end.

Portfolio Reports:

Investment Accounts – Member Benefits/SCDA Main/Foundation

Page 2: Overall Asset Allocation = 34% Fixed Income/66% Equity (56% US-10% Int'l)

Member Benefits & SCDA Main are 32% Fixed Income/68% Equity

Foundation is 4% Money Market/68% Fixed Income/28% Equity

Dollar Return = ~\$729k (~\$362k Dividends & Interest/~\$367k Appreciation)

Page 3: Sector Analysis – Underweight Communication Services & Info Technology
Overweight Financials & Industrials

Page 4: Performance – Overall +9.20%

Member Benefits & SCDA Main ~+9.45%

Foundation +4.63%

Page 5: Asset Class Performance-

Cash = +1.81%

Fixed Income = +2.73% vs Barclay's Agg benchmark +1.25%

US Equity = +16.68% vs Russell 3000 benchmark +23.81%

Large Caps +19.65% vs S&P 500 benchmark +25.02%

(LCG +25.97%/LCV +15.03% allocation bias to Value)

Mid-Caps +12.38% vs Russell Mid Cap benchmark +15.34%

Small Caps +6.04% vs Russell 2000 benchmark +11.54%

(added Gabelli Small Cap Growth mid-October – -2.42% - bad timing)

International +7.16% vs MSCI AC World xUS benchmark +6.09%

Reserve Account:

Page 2: Asset Allocation = 6% Money Market/65% Fixed Income/29% Equity

(money market yield 4.38%)

Dollar Return = ~\$52K (~\$18k Dividends & interest/~\$34k Appreciation)

Page 4: Performance - +9.91%

Holding consists of 2 broad based ETF's – Vanguard S&P 500 & Vanguard Short-term Corporate Bond fund. Passive/Indexing has proved to work best in a momentum-based market.

Recommendations:

There are two recommendations, replace the William Blair Large Cap Growth Fund with a JP Morgan Large Cap Growth Fund and consider adding to the SCDA Investment Policy Statement inclusion of Morning Metallic rating to the fund selection criteria.