Quarterly Commentary

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RWA Roberts Wealth Advisors

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New Opportunities in a New Year

The stock market posted a second consecutive year of above average returns in 2024, with growth stocks again leading the way. The S&P 500 returned 25.0%[1] in the year with the growth company constituents contributing a 35% return. Investors' attention shifted in early November with election results and the speculation on how the Trump 2.0 administration's agenda will impact the economy. There are certain to be changes in the areas of foreign trade, immigration, and the regulatory environment at the federal level, along with the promise of a renewed focus on deficit spending after more than two decades of ballooning national debt. It is difficult to handicap the efficiency and effectiveness of proposed policy changes, but we highlight some areas of focus as we enter the new year.

Interest Rates and Fed Open Market Committee (FOMC) Policy
Chairman Jerome Powell and his FOMC colleagues will be a source of consternation for market participants. In 2024, the FOMC followed through with their guidance of reducing the benchmark Federal Funds rate in response to stabilization in inflationary trends. Starting in the summer, the FOMC announced three rate cuts that totaled a 1.00% reduction, ending the year with the benchmark rate at 4.50%.

The most dramatic impact has been felt on the short end of the yield curve. The yield on a U.S. Treasury bond that matures in 1-year started 2024 at 4.80% and finished the year at 4.20%[1], a reduction of 0.60%. Contrast this to the yield on a U.S. Treasury Bond that matures in 10-years which started the year at 3.90% and finished at 4.55%, an increase of 0.65%. The 10-year bond has not traded at these elevated yield levels in over 16 years. The "normalization" of the yield curve, where yields on longer maturities are higher than yields on shorter maturities, reflects bond market participants' disappointment in the pace at which anticipated future FOMC rate cuts are made.

The expectation remains for both FOMC policymakers and those at many global central banks to continue the recent trend of rate reductions. This global easing cycle is supportive of economic growth. The U.S. economy enjoyed real GDP growth of 3.1%[2] over the past year and similar growth is expected as the FOMC is poised to reduce the Fed Funds rate by another one percent. To date, however, rate reductions have not been manifested in lower borrowing costs. In the U.S., the 30-year mortgage rate moved with longer-term interest rates, rising to 6.85%, nearly ¼% higher than in the beginning of the year. The elevated borrowing costs should ease over the next year, further supporting economic growth.

Sectors in Focus. The accelerating pace of technological innovation, particularly in artificial intelligence (AI) and automation, is a trend that promises to significantly impact both the economy and the stock market in 2025. The significant deployment of capital supporting this trend is expected to continue and will allow companies in the technology sector to post growing revenues. After back-to-back years of leading the stock market's rise, stock valuations and the

Continued from page 1

underlying expectations that fuel them are lofty. Innovative companies are not exclusive to the technology sector and there are several themes that will generate returns beyond the technology sector and impact portfolio returns.

Energy consumption has grown with the computer processing power necessary to fuel demand for cryptocurrencies and artificial intelligence. Goldman Sachs predicts that data centers would account for 8% of U.S. energy use in 2030, up from 3%[3] today. The electricity required to power data center processing and then to cool the resulting heat is taxing the existing electric grid infrastructure. Capital expenditures to meet the growing demand of data center energy consumption are necessary. More power will likely come from nuclear energy. Microsoft's agreement to restart Three Mile Island nuclear power plant is just one of the developments that suggests a nuclear renaissance is underway.

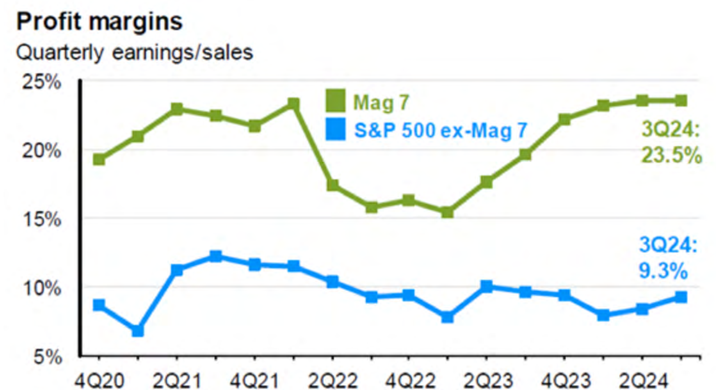
On Christmas Day the NFL matchup between the Baltimore Ravens and Houston Texans was watched by 27.2 million fans. Notable about the game was that it was streamed on Netflix. The ***Consumer Discretionary*** sector and its content streaming companies continue to disrupt and innovate the way customers consume their entertainment content. The introduction of events like live sports streaming is one of the latest developments. Brand advertisers are hungry for ways to engage with big audiences and streaming companies are poised to pounce on the trend.

Falling interest rates and the expectation of a receptive regulatory environment could lead to a revival in capital market activity. Merger and acquisition activity is at the lowest level since 2013 as higher borrowing costs and recession risks have kept deal flow suppressed. The expected tick down in interest rates will help to release pent up demand for the IPO market as well as mergers and acquisitions, providing the ***Finance*** sector with the platform to monetize the increase in opportunities.

Healthcare is likely to be the sector most immediately impacted by artificial intelligence. Industries like healthcare, with their high share of labor costs, coupled with jobs that could be enhanced or displaced by AI-driven large language models (LLMs), are particularly ripe for disruption. Economists have estimated that nearly two-thirds of tasks performed by healthcare technology employees are exposed to AI disruption. Add to that the potential for improvement in quality and quantity of pharmaceuticals that progress from early-stage trials to market bolstering the potential for drug and biotech companies. J.P. Morgan estimates that a 5% increase in the success rate for bringing drugs to market could mean $70 billion4 in incremental revenue over the next decade.

Labor Market The U.S. employment market continued to be strong throughout 2024. The unemployment rate crept up to 4.2% from its pandemic-era low of 3.4% in April of 2023, but wages continued to improve. U.S. productivity continues to outpace expectations with the greatest potential boon still ahead in the form of AI-driven gains. It is widely expected that the pace of immigration will slow when President Trump takes office in January of 2025. Immigration has largely been credited with keeping labor costs in check and there is speculation that a sudden change in available labor will have a direct impact on labor costs. Productivity enhancements will increase in importance, particularly for industries with a high share of costs associated with labor.

Market Concentration Concerns have been raised about the concentration of the S&P 500 in a few large companies. The expectation is that the market will broaden, leading to the outperformance of the broader market. Indications of those expectations playing out in market returns have occurred in short periods, yet last year was a continuation of the dominance of the Magnificent Seven resulting in an increase in concentration. The largest seven names of the S&P 500 (Apple, NVIDIA, Microsoft, Amazon, Alphabet, Meta, Tesla) are now over 34% of the value of that size-weighted index and as a group appreciated 43%, compared to 14% for the remaining stocks. The worst performance of those seven stocks, Microsoft, is up 77.8% in the last 24 months.



The outsized returns of those seven stocks have been well deserved. The profit margins in the 3Q2024 were 23.5% versus 9.3% of the remaining 493 names of the S&P, and the earnings growth of 21% outpaced the 13% growth of the remaining companies.

The economy retains the potential to grow in the coming year. The current environment is conducive to maintaining or accelerating the rate of growth experienced in the past twelve months. There are many potential applications of nascent A.I. technology that will benefit multiple economic sectors and the investment required to support that growth will be a further catalyst for economic growth. Current stock market levels are already reflective of the potential, though further gains will result as those opportunities are realized.

[1]YCharts)
[2]Bureau of Economic Analysis
[3]The New York Times
[4]JP Morgan Outlook

Planning for Healthcare Costs During Retirement

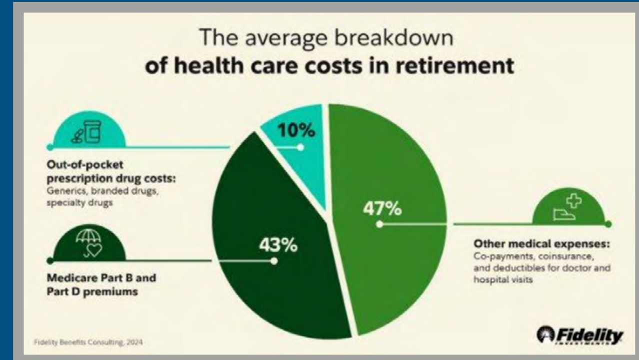
Understanding the Scope of Healthcare Costs

As life expectancy increases, more individuals are enjoying longer retirements. While this is a cause for celebration, it brings about retirement planning challenges, particularly when it comes to the cost of healthcare. Some living expenses decline during retirement, but healthcare is one that almost certainly goes up and can become the largest component of a retiree's budget. Understanding these expenses and planning ahead is essential to ensuring financial security and peace of mind during your golden years.

1. **Medicare Premiums:** While Medicare provides a crucial safety net, it is not free. Most retirees pay monthly premiums for Part B (medical insurance) and possibly for Part D (prescription drug coverage). For 2025, Medicare premiums range from $2,220 to ~$8,600 per year per person depending on income level.

2. **Medicare Premiums:** Many retirees opt for Medigap policies or Medicare Advantage plans to cover gaps in Medicare's coverage, such as copayments and deductibles.

3. **Out-of-Pocket Expenses:** These include costs like dental, vision, and hearing care, which surprisingly, Medicare often does not cover, as well as copayments and deductibles.

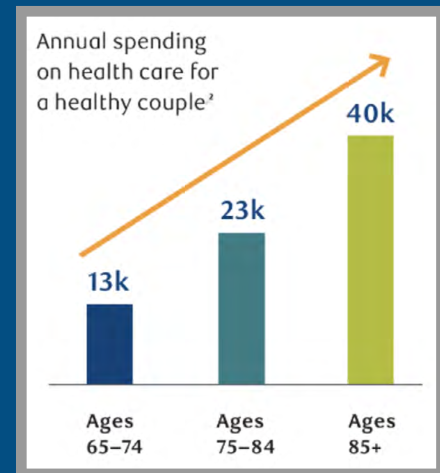


4. **Long-Term Care:** This is one of the most significant and often overlooked expenses. Nursing homes, assisted living facilities, and in-home care can add up to hundreds of thousands of dollars over time. The duration varies from person to person, but the average stay in a long-term care facility is one year or less. In 2024, the average annual cost for a private nursing room was $120,000[1].

Projecting the Real Cost of Care

The actual cost of healthcare during retirement is almost impossible to predict, given geographic location, health status, lifespans, and ever rising costs. Some reports show the average future cost of care for a 65-year-old couple in the U.S. who retired in 2024 is almost $700,000[2]. The chart to the right shows how the average annual cost of health care for a healthy couple increases dramatically from age 65 to 85+.

Any type of expense incurred over a 20 to 30-year period can look daunting when summed up, but it's important to remember that it is an average and will be spread out over many years. Many retirees won't come close to spending this much, and some will spend more. By approaching healthcare costs as an annual expense, it can be easier to envision and plan for.



What If I Retire Before Medicare Age of 65?

When retirement comes early, bridging the gap between employer care and Medicare (age 65) is important. Several options may be a fit:

- Transition to your spouse's plan
- COBRA coverage allows you to stay on your existing plan for up to 18 months following your last day of work. This can be expensive, since you'll likely pay the entire premium.
- Purchase an ACA (Affordable Care Act) Marketplace plan or a private health insurance plan.

Tools to Prepare

In addition to general retirement savings, a Health Savings Account (HSA), when started early, is one of the most powerful tools to fund healthcare expenses in the future. HSA's offer a tax-efficient way to build savings by delivering a unique triple tax benefit. Contributions are tax-deductible, growth is tax-free, and withdrawals for qualified expenses are tax-free. When invested, it can experience significant growth when used as a long-term savings vehicle. The range of HSA qualifying medical expenses is quite broad and includes most common health care costs.

2025 HSA Contribution Limits
Single *$4,300*
Family *$8,550*
55+ *Extra $1,000*

Can I use my Health Savings Account (HSA) to pay Medicare premiums?

Once enrolled in Medicare, an individual can no longer contribute to an HSA; however, you can use HSA distributions to pay for qualified medical expenses, such as premiums for Part B, a Medicare Advantage plan (Part C), a prescription drug plan (Part D), long-term care insurance, and Medicare expenses, such as copayments and deductibles. You cannot use HSA funds to pay premiums for Medicare supplemental policies, also known as Medigap policies.

Healthcare costs in retirement are substantial but not insurmountable. Preparing for and funding your care during retirement is an important step in the wealth planning process. Please reach out if you are interested in opening a Health Savings Account or other specific healthcare cost-related planning.

[1] LongTermCare.gov
[2] RBC Wealth Insights Report

Portfolio Activity

Portfolio activity in the fourth quarter focused on trimming existing names, while adding new positions in key thematic areas that may benefit from regulatory changes in 2025. In aggregate, we were net sellers, deploying the proceeds into short-term fixed income. Much of the portfolio equity transaction volume in the quarter came in line with the rebalancing moves highlighted below.

The changes to the portfolio this quarter were a result of thematic additions, liquidation of higher-risk positions, and tax-efficient rebalances. On the buy side, we added to existing positions in Williams-Sonoma (WSM), Treehouse Foods (THS), and Merck (MRK) while initiating positions in Cameco (CCJ) and Zimmer Biomet (ZBH). On the sell side, we exited our positions in Pfizer (PFE) and Roblox (RBLX) while trimming Qualcomm (QCOM), J.P. Morgan (JPM), and Medtronic (MDT). Lastly, we unwound our tax loss harvesting trade in Nike (NKE) prior to year end.

Cameco is a nuclear services provider specializing in the mining and refining of uranium across global markets. Nuclear energy is expected to play a prominent role in meeting the exponential growth of power demand[1]. We are confident that Cameco's market leadership and vertical integration positions them as a continual driving force in the future of nuclear energy.

Another portfolio addition, Zimmer Biomet, operates in the orthopedic market to design, manufacture, and market reconstructive implants as well as surgical tools and robotics. Amid a shift in the competitive landscape, we believe the company can leverage their immense customer base and market-leading innovation to capitalize on the flourishing orthopedic surgeries market[2] driven by demand from the baby boomer generation. This move diversifies our healthcare exposure beyond pharmaceuticals and biotechnology, while complementing our existing MedTech exposure.

Index Performance	Q4	2024
Dow Jones Industrial	0.93%	14.99%
Standard & Poor's 500	2.41%	25.02%
Nasdaq Composite	6.35%	29.57%
MSCI EAFE (Europe, Australasia, Far East)	-8.11%	3.82%
Russell 2000 (Small Company)	0.33%	11.54%
MSCI ACWI (All Country World Index)	-0.99%	17.49%
Barclays Intermediate Term Bond	-3.06%	1.25%
Barclays Municipal Bond	-1.22%	1.05%
Barclays Short Term Bond	-0.71%	3.76%

We increased positions in Williams-Sonoma and Merck. Williams-Sonoma refined their direct-to-consumer business model as the home furniture market stagnates, instilling confidence in margin growth ahead of the expected consumer demand rebound. We believe the exceptional performance by Merck's immune-oncology products, both at market and in development, vastly outweigh the headwinds from the Asian market and warranted a larger position on the stock price weakness.

We exited portfolio positions in Pfizer and Roblox in the fourth quarter. Pfizer continued to struggle to reorient their business post-Covid, and the lackluster performance of their oncology drug offering, mixed with no viable late-stage weight loss solution, led to our exit. Roblox's internal control issues and reports of insufficient underage user protections[3] led us to realize a short-term gain, concluding the inherent risk did not warrant further exposure to the stock. We trimmed positions in Qualcomm and Medtronic as both companies are experiencing growth uncertainty amid competitive market shifts, while J.P. Morgan was a profit-taking trim following exceptional recent performance.

Finally, we executed the tax loss harvesting moves in Nike this quarter. Nike has been reduced to our target allocation, and we remain optimistic in the long-term opportunity of the world's leading athletic brand[4].

TOP 10
U.S. HOLDINGS

- Alphabet
- Microsoft
- Apple
- Amazon
- Trane Technologies
- The Walt Disney Co.
- J.P. Morgan
- Qualcomm
- Williams-Sonoma
- Verizon

[1]Nuclear Sentiment Report (University of Michigan)
[2]Zimmer Biomet (Annual Report)
[3]Roblox Report (WSJ)
[4]Nike (EMR)

Firm Announcment

Roberts Wealth Advisors is excited to announce the newest addition to our team, Connor Augusta, who has joined the firm as a Research Analyst. Connor is a recent graduate from Colgate University, where he majored in Mathematical Economics and was a member of Colgate's Division I football team. When he is not in the office, Connor enjoys snowboarding, hockey, sampling new cuisines, and exploring his new backyard in the Wasatch Mountains.

Featured Stock: Sea Ltd. (SE)

Sea Limited is an entertainment and commerce juggernaut with a specific focus in Southeast Asia and an emerging presence in Latin America. The company's name reflects its two key goals – first, an emphasis on global expansion, and two, Sea is an acronym for Southeast Asia where the bulk of its current revenues are generated. Unlike our typical core equity holdings, Sea is internationally headquartered (in Singapore) and generates little revenue from the U.S.; however, we believe the opportunity set for the company is enormous and we initiated a position in the stock in late July of this year.

What does Sea Ltd. do? Sea's business is split into three separate divisions – gaming (Garena), financial services (SeaMoney), and e-commerce (Shopee). The gaming division is Sea's original operating segment and accounted for more than half of total revenues prior to the Covid-19 pandemic, though that has since given way as e-commerce has grown in size[1,2].

However, Garena is still a substantial part of the overall business – the segment's main function is to adapt and localize existing games for other game publishers in new markets, though the overwhelming majority of Garena's revenues come from its own self-published game "Free Fire". This title has consistently been amongst the most downloaded mobile games globally for the last few years and has become a major cash cow for Sea.

The second division, SeaMoney, is a more emerging business and is similar in function to PayPal, Square, and other digital wallet/payment systems. Key services include payments, mobile wallet, banking, consumer and SMB credit, and insurance services, as well as a booming business in buy now, pay later (BNPL). As opposed to Free Fire, which is generally available globally, SeaMoney is only available in a handful of countries thus far but will continue to expand both as a payment option for e-commerce and a banking option on and off-platform. The success of the e-commerce business has been a natural launching point for SeaMoney, similar to how success on Amazon's platform powers Amazon Pay or increased use of Chrome benefits Google Pay.

The third division, Shopee, is the company's branded e-commerce service and has become the number one e-commerce platform in the majority of its markets. Shopee is similar to Amazon in its layout and functionality, but two key items distinguish it – first, companies can build 'storefronts' on Shopee which allows them more customization than on Amazon, and second, Shopee is a much more diverse collection of business and individual sellers vs. Amazon's primarily B2C structure. Thus, Shopee operates as more of an Amazon/eBay combination than a pure marketplace between companies and consumers.

We believe Sea has one of the largest growth opportunities of any company in our portfolio. Garena has rebounded after a post-pandemic lull, Shopee is rapidly expanding and is becoming profitable in most of its markets, and SeaMoney is a margin amplifier that will make the success of Shopee more evident in margins. The company should also be a major beneficiary of the global reshoring movement and the advancement of the developing world's middle class.

Source: Ycharts

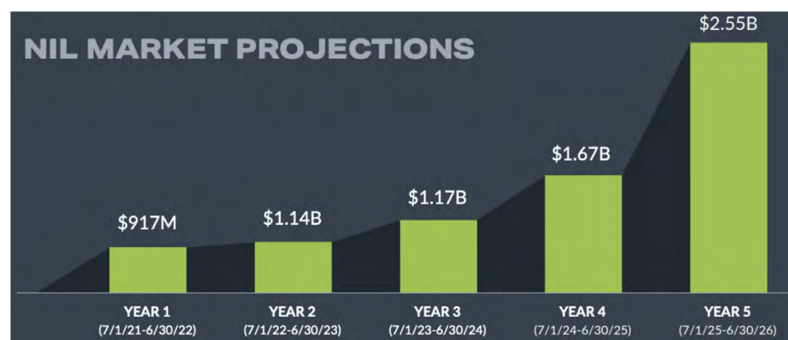
[1] Sea.com
[2] Annual Reports

Source: Ycharts

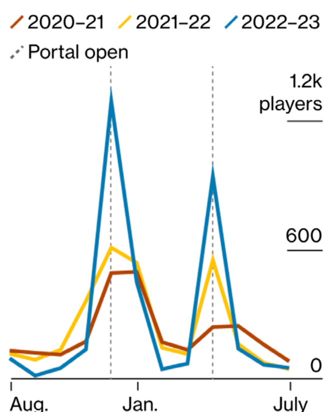
A Modern Wild West: The Impact of NIL and Transfer Portal on College Football

Topic Spotlight

The world of college athletics has shifted from amateurism, where student-athletes were not paid to play, to a business that treats players like professionals. In 2021, the Supreme Court ruled against the National Collegiate Athletic Association (NCAA) and allowed college athletes to receive compensation for their name, image, and likeness (NIL) in addition to educational support[1]. In the years since, we have begun to see the dramatic impact of this ruling.



With over 500,000 student-athletes competing in NCAA sports, total compensation for participants has exploded following the NIL ruling. The total NIL market during the '23-'24 school year topped $1.17B, including both university-facilitated collective deals and commercial ventures like brand sponsorships and fan engagement activities[2]. Popular athletes like Colorado football player Shedeur Sanders, LSU gymnast Livvy Dunne, and Iowa basketball player Caitlyn Clarke have earned millions from NIL activity while excelling in their respective sports. However, the distribution of NIL income is not surprisingly skewed by superstar outliers and sports of choice. Over 66% of NIL income goes to football players, while women's (10.2%) and men's (8.6%) basketball are a distant second and third[2]. The disparity between sports reflects the relative popularity of college football and the willingness of advertisers to fund NIL collectives to access athletes.



College football players have also benefited financially from post-NIL ruling due to their use of the transfer portal. Created in 2018, "the portal" enables an athlete to transfer schools after their season concludes without penalty. University football programs had leveraged the transfer portal significantly more than any other sport prior to NIL[4], and the utilization has only accelerated. Universities with large alumni-backed NIL funds can lure in talent and poach top-tier players from smaller schools. This played out in the football game between undefeated teams Notre Dame and Army; Federal law prohibits players at service academies from receiving NIL profits while Notre Dame has a top-tier QB, a transfer from Duke, receiving over $1M having entered the portal and transferring prior to the season[3]. The Fighting Irish went on to trounce the Army Black Knights by a score of 49-14, emphasizing the impact of NIL and the transfer portal on game outcomes. In fact, of the starting quarterbacks for this years final four teams in the College Football Playoff, only one of them, Penn State's Drew Allar, started his college career in their current program.

It is hard to blame student-athletes for exploring the portal system as transfers average 70% more in NIL income when compared to those who stay[2]. This has created a feeding system within college football, where premier programs attract stars, who get handsomely paid, often from smaller football programs. Players who suffer injuries or underperform expectations are losing NIL deals and being pushed to leave by coaches looking to open roster spots. While every Division I athletics program has explicit policies against this behavior, activity has outpaced enforcement and is illustrative of a shortcoming of these new policies for athletes.

The collegiate athletics landscape is much different after the NIL and transfer portal rulings by the Supreme Court. Fans cheering for their teams in an expanded College Football Playoffs are having a much different experience than alumni from small schools, like Colgate, that reluctantly watch their best players leave for better funded programs. The NCAA continues to recognize the volatility of collegiate athletics and is working on a potential revenue-sharing program to make the playing field more level.

[1] National Collegiate Athletic Association vs. Alston (2021)
[2] Three Year NIL Report (Opendorse)
[3] Notre Dame Football (Sports Illustrated)
[4] Like It Or Not: College Football is Becoming More 'Professional'

Past performance is not necessarily a guide to future performance. There are risks involved in investing, including possible loss of principal. This information is provided for informational purposes only and does not constitute a recommendation for any investment strategy, security or product described herein. Please contact us for a complete list of portfolio holdings.
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