BLUE GRANITE CAPITAL, LLC

INVESTMENT COMMENTARY, JANUARY 2025

Good morning, and Happy New Year. We hope you had a wonderful holiday season.

2024 was another strong year for equities, with the S&P 500 gaining 25.02% and the tech-heavy Nasdaq rising 28.64%. This marks the first consecutive year of 20%+ gains since 1997-1998. The S&P 500 recorded 57 record closing highs, averaging roughly one per week. The market's strength erased the losses from 2022's bear market, bringing the index close to all-time highs entering 2025.

Since the election, 95% of the market's advance has been attributed to the Magnificent 7. Though stocks from many other sectors began to outperform in the third quarter, their rally was not sustained. Nasdaq has rallied more than 70% over the past two years. Rarely has the market seen such concentrated gains. For all of 2024, the Mag 7 stocks appreciated 67% while the other 493 stocks only gained 16.5%. That followed 2023 when Mag 7 gained 111% similarly outpacing the gains by the rest of the index by a wide margin.

While these returns are impressive, history suggests such concentrated leadership is unsustainable and implies more risk than most investors realize. Recent returns in Blue Granite's balanced portfolios lag the more concentrated index performance seen under current market conditions. That said, we remain confident in our diversified, high-quality stock portfolio strategy, with our focus on compelling long-term value and reduced risk. Over time, we anticipate a market rotation toward overlooked sectors, reinforcing the benefits of diversification, financial stability, and dividend-paying stocks.

After the strong gains of the past 2 years, the current equity markets are 'priced to perfection' and a market pullback would be logical, healthy and likely curb speculation. Current valuations are stretched, with gains concentrated in a handful of stocks, creating a less than desirable setup. For diversified investors, it has been challenging as Mag 7's outsized returns have overshadowed many fundamentally strong companies with attractive valuations. While these stocks may continue to rally, history favors broader sector participation. We expect investors will recognize the disconnect between fundamentals and valuations and reward prudent stock selection in a shift toward high quality, undervalued stocks in companies with strong business models.

The new Trump administration's policies will be a key driver of market sentiment. Much depends on whether proposed policies stabilize global concerns or heighten uncertainty. Meanwhile, the Federal Reserve faces the challenge of balancing interest rate policy with persistent inflation. Although inflation has cooled, it remains above the Fed's target, making further rate cuts uncertain. Since September, the Fed has reduced its benchmark rate by a full percentage point, supporting economic growth, but potential rate increases could still pose a headwind, Another major concern is the national debt, which has surpassed $36 trillion. Rising interest rates have increased annual interest expenses from $30 billion to $1 trillion, straining government budgets and limiting spending on essential programs such as Medicare, Social Security, and Defense. Unfortunately, Congress continues to defer addressing this pressing issue while simultaneously increasing the annual budget deficit to just under $2 trillion.

While the Mag 7 dominates headlines, other companies in the Blue Granite portfolios have delivered impressive long-term returns. One such holding is **Eaton Corp,** a manufacturer of electrical and industrial components and power distribution equipment for running entire plants. Over the past 5-10 years, Eaton's stock has appreciated between 305% & 830%, rewarding patient investors with strong revenue and earnings growth. Despite limited media coverage, Eaton's consistent performance is an example of the value of high-quality, long-term investments that we love to see in our clients' portfolios.

Other notable performers in Blue Granite's client portfolios include **Applied Materials, Blackstone, Costco, Nasdaq, and Walmart**, alongside Mag 7 leaders **Apple, Amazon, Alphabet (Google), and Microsoft**. These companies have demonstrated strong fundamentals and sustained growth, reinforcing the importance of a well-balanced investment approach, which we will highlight in future commentaries.

We remain committed to disciplined investing, focusing on quality, diversification, and long-term value. While market leadership has been too narrow, history suggests that opportunities will broaden, rewarding investors who maintain a well-structured portfolio.

Please call us with any questions you may have or to discuss your investments in greater detail.

Wishing you a prosperous 2025!

Warmest regards,
Scott, John & Dave