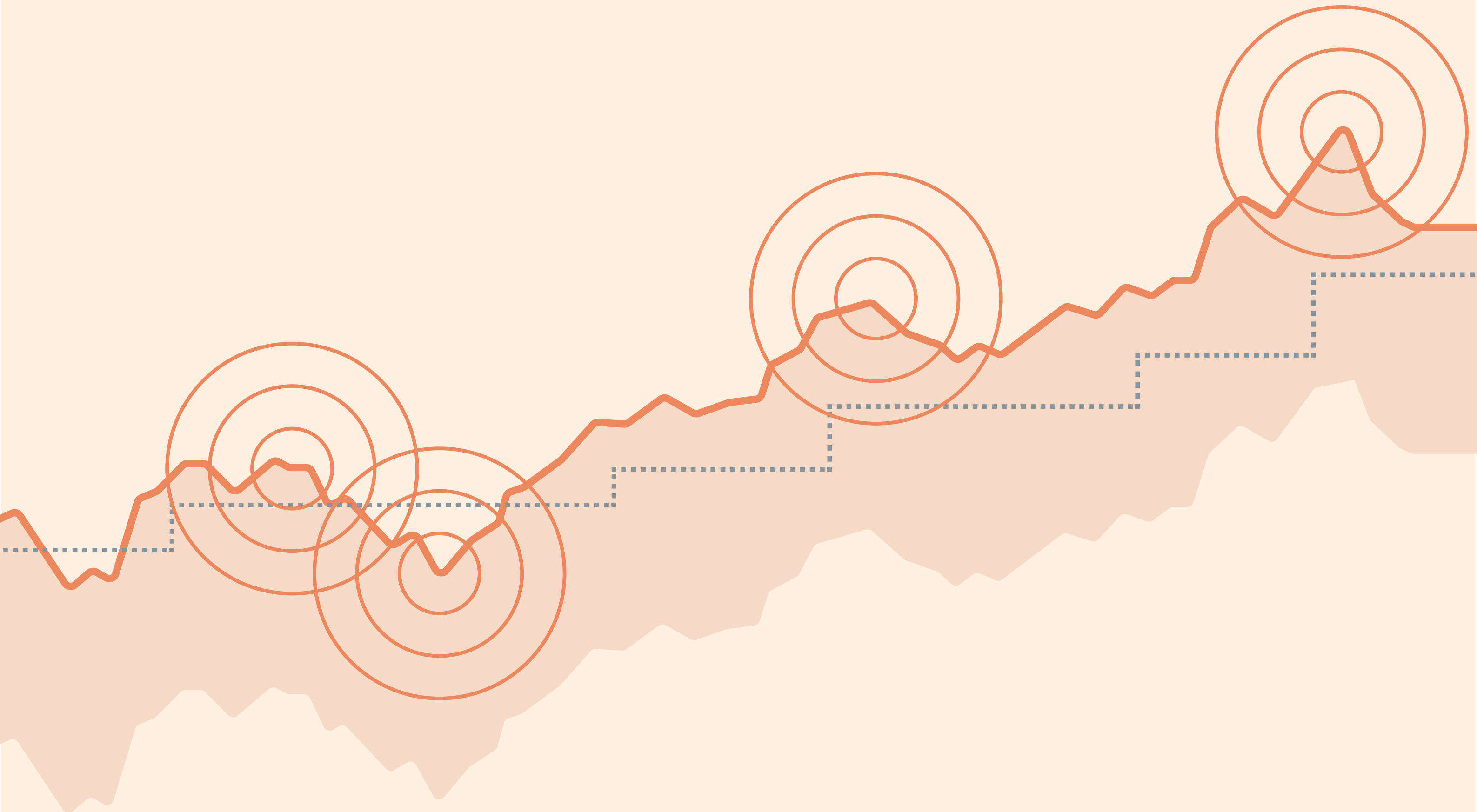
Pensionfriend

2024 Market and Portfolio Review



Foreword

Dear Pensionfriend Customer,

Here is our second annual market update from Pensionfriend, a service you might expect from a high-end money manager, but you also get with us.

2024 was another stellar year for stocks.

Our global portfolio did exceptionally well. For two years in a row, we have seen returns of about 25%–measured in Euro. Well beyond the long-term expected 8%.

A few themes dominated 2024. The Trump election and the continued hegemony of a few large stocks, the magnificent 7.

1. The Trump election and America First politics have boosted US stocks, and the dollar and given US small-cap stocks a big uplift. They were a downer for most other markets including the EU.

2. The increased role of the winner takes all companies that are very US-based has contributed to further US dominance. By now almost ¾th of the MSCI world index are US stocks.

What does it mean for your investments going forward?

1. Please don't try to time the market even when it feels highly valued. It rarely works. Just stay put. Markets will continue to go up and also go down. For example, right now the markets are down as they await the Trump fiscal policies.

2. The reason why we favor the US market has not changed: large-scale companies supported by deep capital markets can capture global growth faster.

3. We continue to believe in small caps. Their fundamentals remain good and will be boosted by Trump policies. The large-cap valuation is high and eventually, these companies need the innovation power of the small ones.

4. Harvest the power of rebalancing. Small-cap stocks had a big late-year rebound in 2024, and so the value of all the small-cap you acquired for low prices got boosted. This does not show up in the indices, but it does show in your portfolio value. Having a balanced portfolio also protects against large-cap overvaluation.

5. We are adding a few ETFs to boost possible returns over the long run:
    - A slightly different S&P 500 ETF as they manage an additional 20 basis point annual return through smart management techniques.
    - An India ETF. The Indian market has become investable. We believe it is the best way to capture growth outside the US.
    - A corporate bond ETF that yields slightly more than government bonds and boosts returns for those that avoid full stock market exposure.
    - A longer government bond index to lock in the current higher interest rates for longer. It is much better than your bank deposits!

In 2025, we may see continued volatility. US politics remain very noisy, and it is unclear what type of responses we see from China and Europe. Will they be wise and hold their horses, or retaliate with trade tariffs and boost government spending to artificially boost growth?

As always, we will keep our eyes on the long term. Holding a good basket of stocks has you invested in the economy and its long-term growth.

We wish you a great 2025!

Dr. Chris Mulder

2024 Market and Portfolio Review

Pensionfriend's portfolios performed well above long-term stock market averages in 2024:

	Large Cap	Small Cap	Overall	In Euro
Global Portfolio (US dollar)	25,39 %	11,37 %	18,38 %	25,76 %
Global Green Portfolio (US dollar)	23,60 %	11,37 %	17,49 %	24,81 %
Euro Green Portfolio (Euro)	15,31 %	7,46 %	12,28 %	12,28 %

Stock market

Stock markets overall did very well in 2024. The S&P 500 returned 25,39 % in 2024 measured in US dollars, and **33,21 %** if measured in Euro. This is well above the historic long-term trend of 9,3 % compounded return, and our long-term market forecast for the S&P 500 of about 7 %.

S&P 500 (USD) - YoY: 25,39 %

With hindsight, it looks almost like a continuous ascent. But in August, the outlook suddenly turned sour, with stubborn inflation data and fear regarding the US elections. In the end, the US election results in November boosted stocks.

Overall 2024 was the year of the large stocks. The top 7, the magnificent 7, now contribute ⅓ to the S&P 500. Their average return in 2024 was 63,19 %. This meteoric rise has much to do with the sudden high expectations of AI.

We would be surprised if this continues. The application of AI will require small companies. Moreover, in the end monopolies will also solicit government intervention to counter excessive power and profits.

#	Company	Symbol	Weight	Return 2024
1	Apple Inc.	AAPL	7,63 %	34,90 %
2	Microsoft Corp	MSFT	6,52 %	13,65 %
3	Nvidia Corp	NVDA	6,46 %	178,78 %
4	Amazon.com Inc	AMZN	4,19 %	46,33 %
5	Meta Platforms, Inc. Class A	META	2,61%	69,08 %
6	Tesla, Inc.	TSLA	2,43 %	62,56 %
7	Alphabet Inc. Class A	GOOGL	2,22 %	37,01 %
8	Broadcom Inc.	AVGO	2,04 %	113,60 %
9	Alphabet Inc. Class C	GOOG	1,83 %	36,46 %
10	Berkshire Hathaway Class B	BRK.B	1,65 %	25,06 %

The bond market always tells an interesting story–it tends to be more reliable as an indicator than the stock market, which is more sentiment-driven.

You can see the optimism in the bond market about inflation starting around May 2024. You also see that the bond market started anticipating Trump's election in October and his expansionary interest increasing policies. And in December some more reality sank in regarding this policy outlook with the US Federal Reserve signaling that interest rates would stay high for longer.

US 10-year bond yield - YoY: 4,57 %

Small-cap late-year rally and ESG underperformance

Small-cap stocks are expected to outperform large-cap stocks by a significant margin in the long term. This year they initially missed out on the exuberance that lifted up the large-cap stocks.

If we look at the stock price in relation to profits, the large-cap stocks' P/E ratio catapulted from 18 to 21. In contrast, it only grew from 14 to just over 15 for the small-cap stocks reflecting optimism that small stocks benefit from the shift to Republican control in the US.

This late-year rally added a lot of value to the portfolio as regular monthly investors acquired many small-cap stocks at low prices and even more so, as the large-cap stock value was lifted.

With the valuation of small-cap stocks still low compared to the long-term averages, they remain a very attractive long-term proposition. Moreover, they provide a counterweight for possible excessive optimism in large-cap stocks.

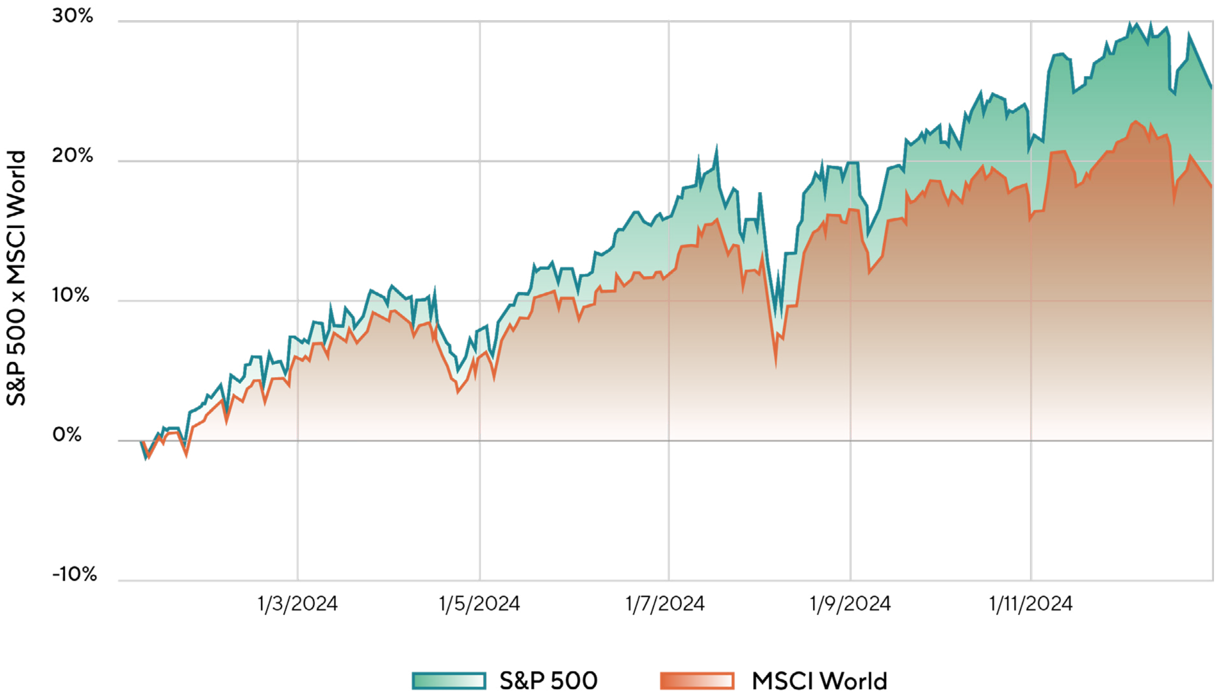
Small-cap (USD) - YoY: 11,37 %

The ESG version of the S&P 500 this year had a modest 1,8 % underperformance in contrast to previous years trend. This too is related to the shift in the US towards republican hegemony. Overall we remain fairly agnostic in terms of the outlook of the ESG index vs the non ESG one, as we see this mainly as a one off recalibration.

Comparison

The S&P 500, driven by the stellar performance of the US market, had a powerful outperformance of the MSCI world index in 2024 of about 9 %.

MSCI World - YoY: 17,00 % vs S&P 500- YoY: 25,39 %



The above shows the S&P 500 ETF that we use. The ETF did, as usual, slightly better (0,18 %) than the index.

The S&P 500 massively outperformed large-cap European stocks, which have suffered from the fear of being squeezed between US and Chinese policies focused on their interests. French stocks were especially subdued, staying flat, with the markets pessimistic about the change in government.

Still, our well-diversified and preferred index (Stoxx 600) performed well from a historical perspective. The slowdown in inflation and modest growth helped the market to a very respectable 9 % increase.

Stoxx 600 - YoY: 9,07 %

Bond portfolio (1-3 years) in Euro	3,14 %
Euro/US dollar rate	- 6,23 %

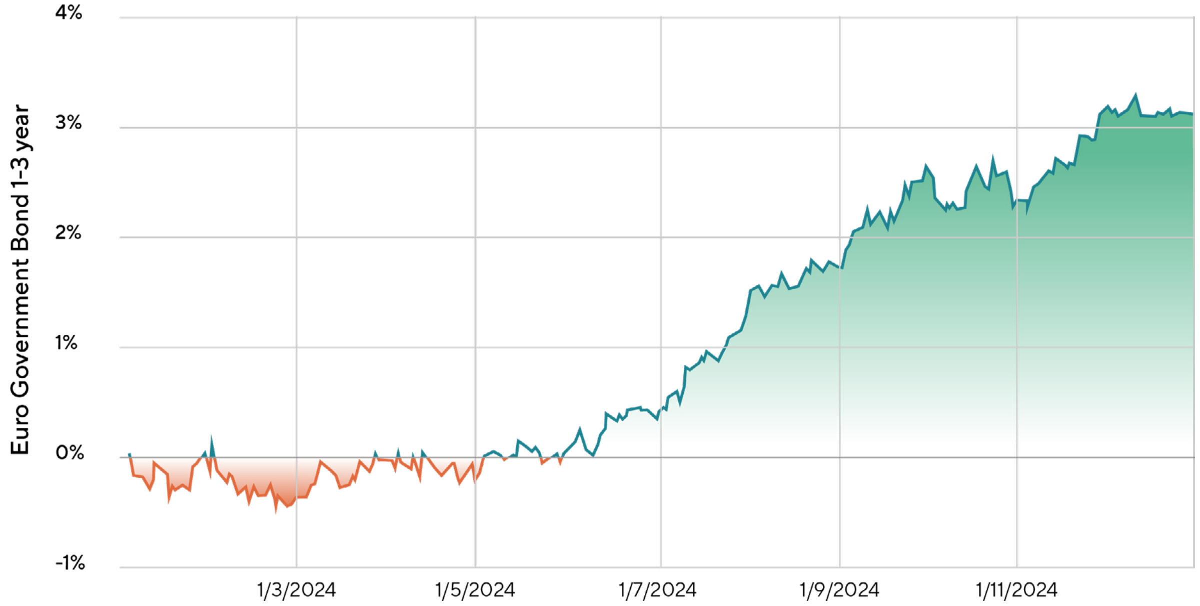
Bond portfolio return

For those that have bonds in their portfolio to reduce the risk of a drawdown, it is noteworthy that bonds had a good year. The return on bonds was at 3,14 % well above interest rates available at normal banks certainly for a liquid investment.

The first half of the year saw the 1-3 year bond prices flat. This results from rising interest rates. But this was recouped in the second half with interest rates declining again.

At the moment this bond investment is expected to yield about 3-4 %

Euro Government Bond 1-3 year - YoY: 3,14 %



US dollar movement

Those of you with a global portfolio will have seen the Euro value of your portfolio increase substantially in the wake of the US elections. For the years as a whole, the appreciation is 6,23 %.

The underlying reason is that the expected fiscal expansion in the US has been driving up the US interest rates. The gap between US and European bond rates has expanded to about 2 ¼ % for 10-year bonds, compared to 1,9 % at the beginning of the year.

USD/EUR - YoY: 6,23 %

Outlook

A reliable short-term prediction is, similar to market timing, nearly impossible, so we keep our focus on the long-term. Indeed, while we are worried about global trade wars, we remain optimistic regarding the small-cap stocks, and stocks more generally. Overall, we see no adequate reasons to alter our long-term outlook, where stocks continue to provide significant growth.

As noted in the introduction we are adding a few more ETFs that can benefit investors seeking either protection to stocks or exposure to fast-growing markets. And also an ETF that should be able to generate a small additional return in the US markets.

We will provide you with specific advice in the near future.

Notes

» This annual portfolio review does not constitute investment advice. Although best effort is made to ensure that the information is accurate, occasional errors and misprints may occur. No warranty or representation is made by Pensionfriend and Hypofriend Gmbh as to its correctness, completeness, timeliness or accuracy.

» Please note that your portfolio result will not match the aggregate results, as it depends on when exactly you started and how much you contributed during subsequent periods. Also, individual portfolios can differ, for example, due to an allocation to bonds, or the percentage of ESG investment you requested.