



The Compass Rose Group at Morgan Stanley

Cardinal Directions - *Our Thoughts*

December 2024

Election season has ended and shifted to absorbing results. Nearly a month since election night, we have some perspective as to what a Republican sweep means for markets, and the economy. Focusing on overall capital and labor inputs while staying high-level on what to expect from a Trump Administration and Republican Congress, five areas deserve further thought: (1) The Inflation Battle; (2) Government Efficiency; (3) Addressing the TCJA; (4) Tariff Approach; and (5) Immigration Responses.

The Inflation Battle: It's our opinion that the inflation fight is currently winding down. We want inflation to be hovering around the Fed's 2% target, signifying relatively healthy financial growth. It appears the continued inflation battle comes down to reducing the price of energy. The Trump Administration has voiced doing this by expanding oil and gas production and embracing nuclear in a larger way. If successful, this should improve growth from expanding capital in these projects and reducing input costs from less expensive energy.

Government Efficiency: Addressing what is believed to be wasteful government spending was a core promise by the Trump campaign. And looks to have materialized in what is being called the Department of Government Efficiency ran by both Vivek Ramaswamy and Elon Musk, voicing goals of cutting civilian government jobs anywhere from 50% to 75% over a two-year period. We obviously see this impacting the U.S. employment situation with two million folks in these roles currently. Thus, reducing government employment by roughly 1.5 million people begs whether that will be large enough to put our economy into a recession. The total U.S. employment level is over 161 million people, with the cuts in question being just less than one percent of our total employment figure. We do not see this cut as substantial enough relative to our working population to put us into a meaningful economic decline. It is also unclear how much spending by government agencies will be cut. Assuming a reduction in government spending by about a trillion dollars, the reduction in economic output from these cuts will be felt through lower GDP but it is unlikely to put us into a recession. Further, the reduction in agency regulation should increase economic output, as private projects can happen more quickly and with less financial cost.

Addressing the TCJA: It's clear that a Trump Administration will look to make the 2017 Tax Cuts and Jobs Act (TCJA) legislation permanent. We have a high expectation that the cuts will at least be extended. Lower tax rates stimulate an economy. They also boost stock prices, as more money is being returned to the shareholder rather than going to the government.

Tariff Approach: For us, tariffs continue to be the election wildcard, but it's evident that they will be a large component of Trump's policy via a desire to make the United States the manufacturing superpower, to bring home critical supply chains, and to secure independence from China. All of these imply tariffs. Through a variety of approaches, we see the tariff affect leading to higher domestic sales, lower foreign sales, a growing manufacturing base in the United States, and less reliance on foreign supply chains. In the short run, this can be a negative for the economy through higher costs. But the medium- and long-term consequences can be beneficial through increases in our capital base and the efficiency of our own capital.

Immigration Response: The Trump campaign has voiced to implement "the largest deportation program in American history." From an economic perspective, we look at this as a decrease in worker supply. If millions of people are deported our cost to fill those jobs increases. This can be good for the people who want those jobs as they will be at a higher wage, but it increases costs for companies and is inflationary for those that are purchasing those goods. For this reason, combined with the unpredictable nature of other policy proposals, we think that the Fed will be slower to reduce interest rates than previously predicted.

Overall, companies have been increasing growth estimates for 2025 and 2026. They are telling us that earnings growth in 2025 should be over 14%, and in 2026 should be over 12%. We have not seen earnings growth to this magnitude since the 1990s. The stock market is trading at a relatively higher price-to-earnings ratio but is in-line or even a little low when we adjust for growth. This means we see valuations as being fair in the stock market right now.

Scheduling Your Next Portfolio Review

The Compass Rose Group operations team is continuing to find solutions to help provide efficient and effective levels of service to clients, including scheduling biannual portfolio review meetings.

In case you have not seen it yet, we are sending out an email every six months inviting clients to schedule time with their primary advisor. When you see "Scheduling Your Next Portfolio Review" in your inbox, simply open the message and click the button "Send Meeting Request" to generate an email to our scheduling team. The email will prompt you to fill in relevant information including your name, preferred day of the week, preferred time of day, and preferred location (i.e., in-person, via Zoom, or by phone). Once you hit send, a service associate will follow-up with a few options that meet your preferences.

You can also schedule directly by calling Craig Jones, our Registered Client Service Associate, at 505-889-2826.

Market Moves

Click the link below to review the recent movements and current standings of the Capital Market Indices (As of 11/26/24)

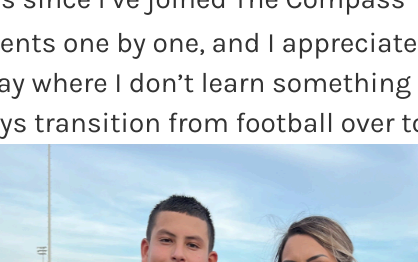
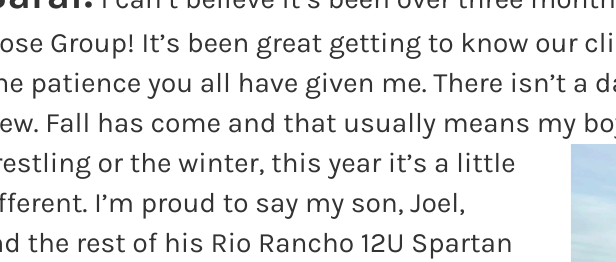
Capital Market Indices

Personal Notes:

Chuck: With Thanksgiving a week late this year, already seems like I am behind on the Christmas rush. Went to San Jose to spend Thanksgiving with Mike and Robert and the two California grandkids. Ate too much but had a wonderful time. A perfect way to spend Thanksgiving. Stopped in Phoenix on the way home for a wedding and now on to December. So many things to be grateful for. I feel very blessed and lucky to have such a wonderful family.

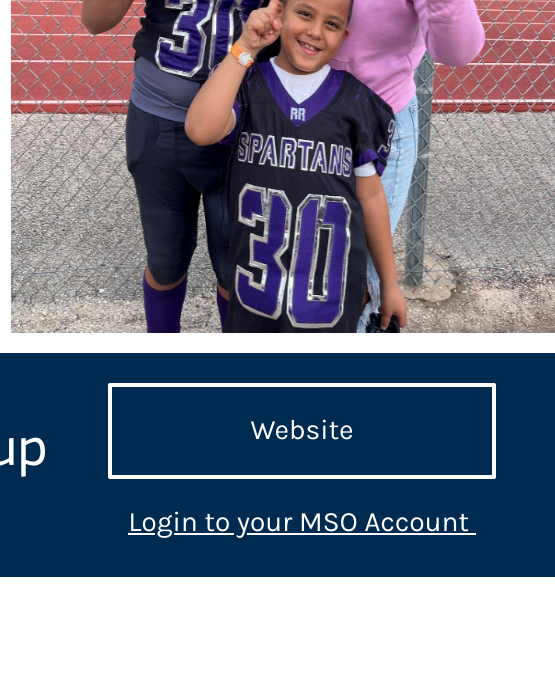
Jake: We enjoyed two Thanksgiving dinners this year, one with my family and some friends on Wednesday and then again with Amber's family on Thursday. I think we should do that every year! Bella came up from Texas Tech and was full of stories before she was full of turkey. Prue continues to amaze us with how quickly she is picking up the piano. Amber has been taking more Roling courses in Colorado and is moving into a teaching path. Lexi is engaged and we are hearing that a destination wedding may be coming up soon! I have been putting miles in on my mountain bike and Tom has been showing me some trails out in Arizona. We feel blessed.

Will: Lots to be thankful for again this year. Rach and I are so blessed with our little ones and family. So blessed that we decided to get a puppy to make the family a bit bigger. Meet Skipper Reardon, our rescue and most recent addition. She is very loved, but my youngest, Rosalee (1), is the most taken by her!



Ken: Along with our granddaughter Kiana we attended the mystery play "Clue" at Popejoy and enjoyed it very much. We were also very busy attending Kiana's performances at Rio Rancho High School. She leaves to college next year and is the youngest of our five grandchildren. No more grandchildren in town. Both of the boys and their families will be here for the Holidays, and we are looking forward to that. I would like to take this opportunity to wish Happy Holidays to all!

Sarai: I can't believe it's been over three months since I've joined The Compass Rose Group! It's been great getting to know our clients one by one, and I appreciate the patience you all have given me. There isn't a day where I don't learn something new. Fall has come and that usually means my boys transition from football over to wrestling or the winter, this year it's a little different. I'm proud to say my son, Joel, and the rest of his Rio Rancho 12U Spartan team have finished a season 11-1 as state champions in Dallas and Austin! They are so proud to represent New Mexico in the Pop Warner National Finals in Florida next month. Wish us luck! Between work, travel, fundraising and most importantly keeping up with school, we've got a busy few weeks coming up. Nonetheless, Go Spartans!

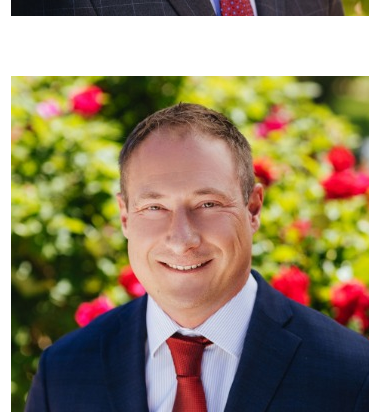


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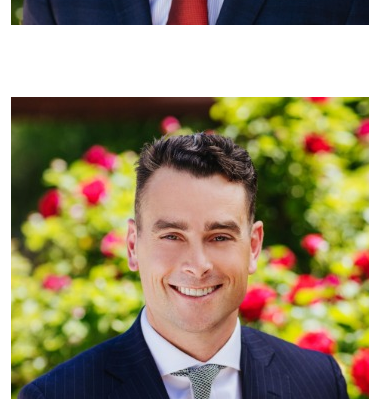


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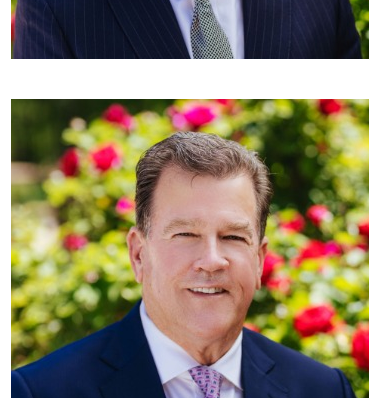


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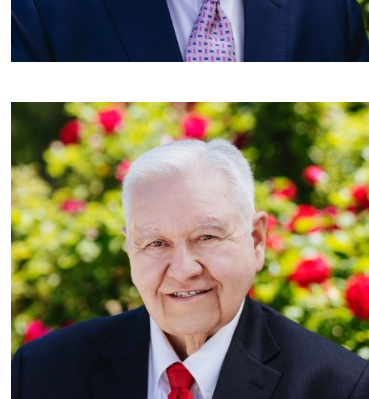


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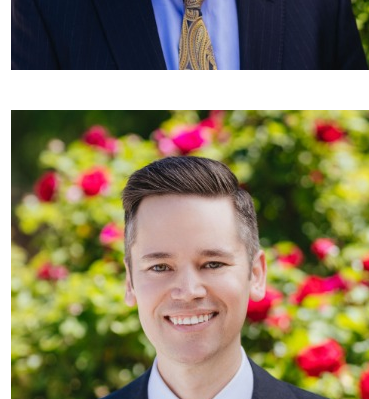


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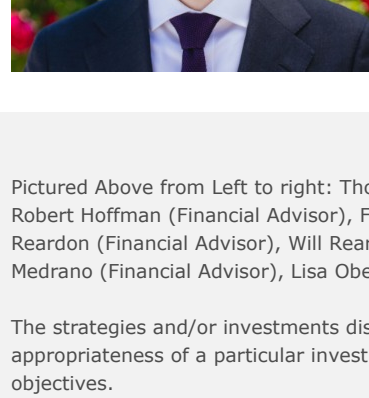


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Pictured Above from Left to right: Thomas Batson (Financial Advisor), Jesse Casaus (Client Service Associate), Robert Hoffman (Financial Advisor), Fallon Peace (Portfolio Associate), Jake Tolk (Financial Advisor), Charles Reardon (Financial Advisor), Will Reardon (Financial Advisor), JoAnn Trevino (Client Service Associate), Justin Medrano (Financial Advisor), Lisa Obeji (Financial Advisor), Kenneth Montoya (Financial Advisor).

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