

Volatility and the Market

The fourth quarter started out fairly quiet, with the market trading slightly down in October as the presidential election loomed closer. November saw the GOP sweep the 2024 elections, and the post-election rally pushed the market to all-time highs. The Fed cut rates by 25 bps in November in line with expectations. The markets continued to set records in early December before rolling over and seeing the S&P 500 end down for the month but still recorded impressive returns on a full-year basis. In 2024 the S&P 500 rose by 25% and the Nasdaq returned a solid 25.88%. Looking forward, markets are trying to gauge the impact the incoming administration and its policy changes could have on stocks and inflation and continue to watch the Fed closely to determine the path of rate cuts for 2025.

Reviewing sector performance, the leaders for the quarter were Financials (+7.06%), Telecommunications (+8.87%), and Consumer Discretionary (+14.25%). The worst performing sectors this quarter were Materials (-12.42%), Health Care (-10.30%), and Real Estate (-7.94%). On a full-year basis only Materials (-0.04%) ended negative, while Telecommunications (+40.23%) outpaced all other sectors.*

Looking back on economic data for the quarter, inflation increased slightly but still stayed below 3%. Unemployment stayed fairly steady, briefly ticking up to 4.2% before ending the quarter at 4.1% where it began. Looking forward, the market is expecting one or two rate cuts by the Fed in 2025, though it doesn't expect the first to come until June and the odds of a second are very close to even.

Shelton Equity Income Strategy

During the fourth quarter, the Equity Income Portfolio underperformed the CBOE BuyWrite Index (BXW) by 5.50%, delivering a gross return of 0.28% (-0.05% net) compared to the BXW return of 5.78%. On a full-year basis the strategy underperformed BXW by 0.78%, delivering a gross return of 19.34% (17.75% net) compared to BXW at 20.12%. The strategy generated 1.58% cash flow from option premiums and 0.36% from dividends during the fourth quarter, bringing the year-to-date cash flow up to 7.60% (6.21% net).

Our strongest performers this quarter were Tapestry Inc (TPR), Fortinet Inc (FTNT), Amazon.com Inc (AMZN), Fiserv Inc (FI), and Alphabet Inc (GOOGL). We have been transitioning out of TPR and FI but continue holding FTNT, AMZN, and GOOGL as we still view them as having attractive valuations relative to their peer group.

Our underperformers for the quarter were Dow Inc (DOW), Pultegroup Inc (PHM), Applied Materials Inc (AMAT), Mondelez International Inc (MDLZ), and Omnicom Group Inc (OMC). We continue to hold PHM but have begun writing calls aggressively against the others with the intention of having the stock called away.

What We See Moving Forward

Moving forward into 2025, the market will be closely watching changes in policy from the incoming administration. With so much focus on the Fed's rate path and inflation, any policies that are seen to impact inflation will be closely scrutinized as we look to complete a soft landing for the economy. The myriad political risks that were present all last year have yet to abate, and how the new administration handles them could be different than what we've seen previously. With the market starting to trade with a bit more volatility and being so close to all-time highs, we believe the Equity Income strategy is well positioned to capitalize on the volatility and buffer any pullbacks we may see in the near term.

*Source: Bloomberg

IMPORTANT INFORMATION

Option trading is not suitable for all investors. Prior to buying or selling an option, a person must receive a copy of Characteristics and Risks of Standardized Options. Copies of this document may be obtained from your Investment Advisor, from any exchange on which options are traded or by contacting The Options Clearing Corporation, One North Wacker Dr., Suite 500, Chicago, IL 60606 (1-800-678-4667). All analysis and projections depicted herein are for illustration only, and are not to be representations of generalized Shelton Equity Income performance or expected results. Past performance is not a guarantee of future results. Supporting documentation for any claims, comparisons, recommendations, statistics or other technical data will be furnished upon request to Shelton Capital Management. Investing involves risk, including possible loss of principal. The information contained in this document is given on a general basis without obligation and on the understanding that any person acting upon or in reliance on it, does so entirely at his or her own risk. Any projections or other forward-looking statements regarding future events or performance of countries, markets or companies are not necessarily indicative of, and may differ from, actual events or results. This information is intended to highlight views of the authors at the time created and not to be comprehensive or to provide advice. These views are subject to change at any time based on market and other conditions. Data and other materials appearing that are provided by third-parties are believed by Shelton Capital Management to be obtained from reliable sources, but Shelton Capital Management cannot guarantee and is not responsible for their accuracy, timeliness, completeness or suitability for use. For a complete list of portfolio strategy investments and their respective contribution for the preceding 12 months, and the methodology for calculating contributions, please call 1-800-955-9988. **INVESTMENTS ARE NOT FDIC INSURED OR BANK GUARANTEED AND MAY LOSE VALUE.**

Strategy Management

Shelton Capital Management

Founded by Richard Shelton in 1985, Shelton Capital is a privately owned investment management firm with over \$5.5 billion AUM (9/30/2024). The firm offers its investment management through a series of open-end mutual funds and separately managed accounts (SMAs).

Barry Martin, CFA

Senior Portfolio Manager



Barry Martin, CFA, joined the firm in 2008 and is a Portfolio Manager for Shelton Capital Management's Option Overwrite Strategies. Prior to joining Shelton Capital, Barry was Senior Vice President of portfolio management for an investment management firm specializing in option strategies and has been managing options for over 20 years.

Nick Griebenow, CFA

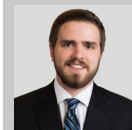
Portfolio Manager



Nick Griebenow, CFA, joined the firm in 2018 and is a Portfolio Manager for Shelton Capital Management's Option Overwrite Strategies. Prior to joining Shelton Capital, Nick was a Senior Derivatives Trader for a large national brokerage firm.

Jason Goldenberg

Investment Operations Analyst



Jason Goldenberg joined Shelton Capital Management in 2017 and is an Investment Operations Analyst that services all strategies of the Separate Account program.