MONTHLY **INVESTMENT OUTLOOK** | JANUARY 2025

KEY POINTS

The US economy and US stocks outperformed nearly all other major economies in 2024. The US economy remained resilient as real GDP expanded to 2.7%, inflation fell to 2.9%, and operating earnings grew 9%. The Fed's easing cycle began with 100 bps of rate cuts in 2024. Optimism soared on the election of a new President-elect and the pro-growth policies of deregulation, extended tax cuts, and a pro-business administration. US stocks surged more than 20% for the second year in a row as equity markets broadly made new record highs last year. Mega cap tech stocks led again on the AI theme. All the major asset classes were positive in 2024, driving growth in investment portfolios.

MACRO LANDSCAPE ENTERING 2025: Globally, growth is expected to be a solid 2.6% in 2025 driven by consumer income growth and easier financial conditions due to the continued global rate-cutting cycle. U.S. growth will likely continue to outpace Europe and other developed markets. China's recent fiscal stimulus has been disappointing. Odds of a recession appear quite low with resilient consumer spending, strong labor markets, growing corporate earnings, and tight credit spreads. Global inflation continues to moderate toward the 2.5% level on easing goods inflation, shelter, and wage inflation.

FEDERAL RESERVE MORE CAUTIOUS ON RATE CUTS: The Fed finally began cutting short-term rates in 2024. Initially, markets overestimated the number of rate cuts. In the December Fed meeting, Chairman Powell turned more neutral indicating that additional cuts would require progress on returning inflation to target pushing rate cuts further out in the future than previously indicated. The yield curve has un-inverted as long-term rates rose and short-term rates fell after the Fed begin rate cuts. The Fed is expected to cut rates twice in 2025. Cash and short-term bond yields of over 4% continue to be attractive for fixed income investors.

SCALE BACK EQUITY PERFORMANCE EXPECTATIONS: Equity fundamentals remain healthy with US earnings expected to grow 9% for 2024 and 14% in 2025 (likely to be high). Valuations are stretched at 22 times forward earnings vs. the long-term average of 16-17 times, which requires expectations to be scaled back. Fiscal policy will act as a modest economic drag with limited room to maneuver given $2T deficits and the upcoming debt ceiling. Equity market performance will likely be dependent on the success of the new Administration in enacting pro-growth policies and whether DOGE can stop the fiscal bleeding in Washington. The gap between the stock dividend yield (1.3%) and 10 yr. Treasury yields (4.6%) remains unsupportive of stocks.

ASSET ALLOCATION: Asset allocation remains a key factor and is more important than ever for investors' portfolios with the evolving macro landscape. Fiscal and monetary policies are decoupling across countries. Trade protectionism and reshoring of supply chains are transforming the global landscape amid rising competition between the US and China. AI is a disruptive technology transforming economies. Other challenges include high global debt levels, higher-for-longer interest rates, and declining demographic trends in developed markets.

We favor balanced positioning with a quality tilt as equity valuations are stretched and bonds provide a solid income cushion. Going into 2025, U.S. equities remain favorable relative to the Euro area and emerging markets due to underlying growth fundamentals and the strong dollar, despite the relative valuation divergence. In fixed income, we continue to take advantage of the higher yields that provide income and portfolio protection during recession or geopolitical turmoil. We include gold and alternatives to enhance diversification and lower portfolio volatility. In 2025, we see greater macro and market volatility leading to higher dispersion of returns across styles, sectors, and geographies, which creates an opportunity for active management of portfolios.

KEY TAKEAWAYS FOR INVESTORS:

- The 2025 roadmap suggests a higher and more volatile path for equities based on potential higher growth from pro-business policies and ongoing Fed easing.
- Greater volatility is creating opportunities across sectors and geographies that leads to a need to be more dynamic in portfolio asset allocations.
- Bond yields remain attractive for portfolios providing an income cushion, portfolio diversification and capital preservation during recessions.
- The key to reaching your long-term investment goals is diversification, balanced asset allocation, and focus on the long-term horizon.

SUCCESSFUL INVESTMENT PRINCIPLES: FOCUS ON THE LONG GAME

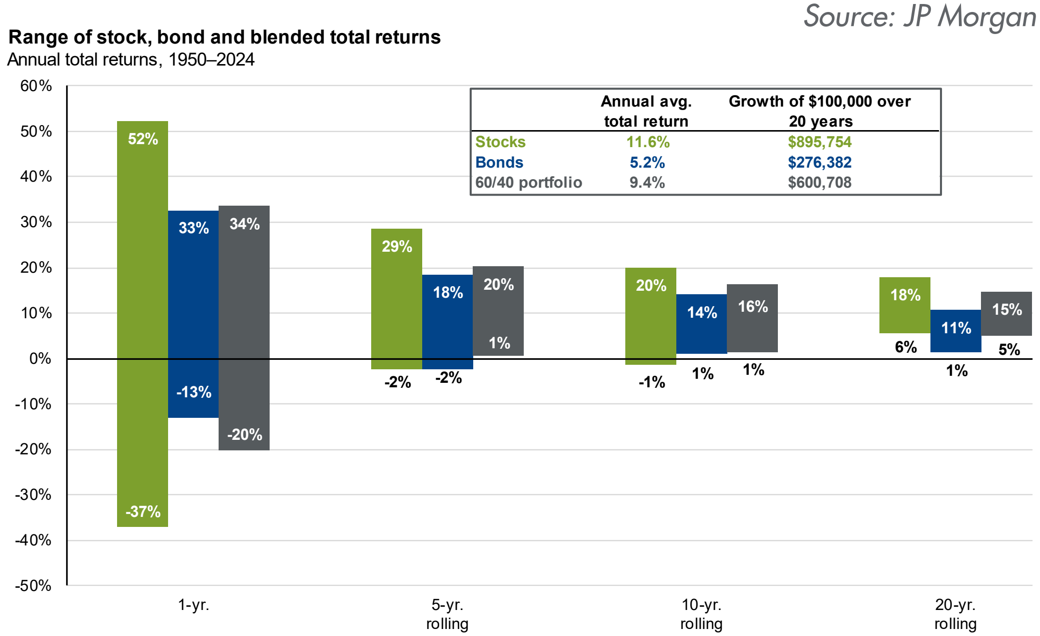
Successful investors maximize the odds of success by focusing on the long term and maintaining a long-term investment plan based on their goals. Studies show individual investors significantly underperform the broad stock market. Individuals are more likely to be driven by emotions that lead to reducing equity and risk assets after market declines during times of volatility.

By taking a multi-year view, investors stack the odds in their favor of achieving investment success and achieving their goals. As can be seen in the chart below, over any one-year period the annual return for the S&P 500 can be volatile with returns from -37% to +52% since 1950. Over any 5-year period, the range shrinks to -2% to +29%. Most importantly, there has never been a twenty-year period since 1950 where equities have experienced losses, as returns ranged from +6% to 18% per year for the S&P 500.

For balanced accounts, data shows that there has never been a rolling 5-, 10-, or 20-year period where a simple 60/40 portfolio of stocks and bonds had a negative return. Overall, from 1950 to 2024, a 60/40 portfolio compounded 9.4% per year. The lesson here is that the more time you have and the more diverse your portfolio, the less risk there tends to be and, lastly, to focus on the long term to achieve your goals.

TIME, DIVERSIFICATION, AND THE VOLATILITY OF RETURNS

Source: JP Morgan



ECONOMIC DATA

- Global growth is forecasted to be solid yr.-over-yr. in 2025 reflecting real household growth and easing financial conditions from continued rate cuts. For 2024, growth has surprised to upside with estimates for the U.S. of 2.7% and global growth of 2.6%. For 2026, consensus estimates for global growth are 2.6%, while U.S. growth is estimated to slow to 2.1%. U.S. 2025 growth has the potential to increase based on the new administration's pro-growth policies.
- S&P 500 earnings were $208 (+48%) in 2021, $219 (+5%) in 2022, and $220 (+1%) in 2023 (FactSet). Estimates for 2024 are $240 (+9%) with estimated revenue growth of 5.0%. Estimates for 2025 are $274 (+14%) with estimated revenue growth of 5.8%.
- Valuations continue to be above the long-term historical averages.
- The trailing 12-month operating price-earnings ratio is 24.5 times operating earnings compared to the 5-year average of 24.2 times and the 50-year average of 14.2 times.
- The forward operating price-earnings ratio is 21.5 times earnings, which is above the 5-year historical average of 19.7 times earnings and above the 30-year average of 16.9 times earnings.

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MARKET RECAP (AS OF DECEMBER 31, 2024)

- For the month of December, U.S. equities turned lower after the Federal Reserve reduced expectations for rate cuts as inflation remains elevated above its 2% target. The yield on the U.S. 10-yr. Treasury yield increased from 4.17% at the end of November to 4.57% at the end of December. Small and mid-caps stocks and value had significant declines. International developed markets were hampered by the strong dollar and ended 2.7% lower.
- Year-to-date, the S&P 500 gained over 20% for the second consecutive year, ending near record highs, driven by mega-cap tech stocks benefiting from AI. U.S. equities outperformed international markets, with developed and emerging markets rising 4% and 7%, respectively. Large-cap outpaced small- and mid-caps, while Growth led with a 33% gain versus Value's 14%.
- The 10-year bond yield ended December at 4.57%. The Bloomberg U.S. Aggregate Bond index fell 1.6% in December, trimming its gain for the year to 1.3%. Credit outperformed the investment grade sector as the economy remained resilient and spreads remained tight. Floating rate bank loans rose 9.0% and emerging market debt gained 6.5% for the year.
- Gold led all major asset classes with a gain of 27.5% in 2024, adding to a 13% advance in 2023, proving its value as a hedge against geopolitical risk and excess money printing. Oil had a volatile year and ended 3% higher.
- Alternatives: Overall, fixed income substitutes and unconstrained alternatives had strong returns year-to-date, well in excess of nominal bond returns.

Period Ending December 31, 2024 *Source: Bloomberg.* *Past performance is not indicative of future results.*

			Trailing Performance (annualized for periods > 1 year)				
Asset Class	**Index**	**MTD**	**YTD**	**1Y**	**3Y**	**5Y**	**10Y**
EQUITIES							
Benchmark	MSCI All Country World IMI	(2.7)	16.4	16.4	4.9	9.7	9.0
Large Cap	S&P 500	(2.4)	25.0	25.0	8.9	14.5	13.1
Long-Short	[50% S&P 500, 50% ICE 0-3m T-Bill]	(1.0)	15.2	15.2	6.4	8.5	7.4
Small/Mid Cap	Russell 2500	(7.5)	12.0	12.0	2.4	8.7	8.8
International	MSCI World Ex US IMI (net)	(2.7)	4.4	4.4	1.2	4.8	5.3
Emerging Markets	MSCI Emerging Markets IMI (net)	(0.3)	7.1	7.1	(1.4)	2.5	3.9
FIXED INCOME							
Benchmark	FTSE World Broad Investment Grade	(2.2)	(1.5)	(1.5)	(4.6)	(2.1)	0.1
U.S. Aggregate	Barclays US Aggregate	(1.6)	1.3	1.3	(2.4)	(0.3)	1.3
U.S. TIPS	Bloomberg US TIPS	(1.6)	1.8	1.8	(2.3)	1.9	2.2
Tax Exempt	S&P Municipal Bond Index	(1.1)	1.9	1.9	(0.2)	1.2	2.3
U.S. Corp High Yield	Bloomberg US Corporate High Yield	(0.4)	8.2	8.2	2.9	4.2	5.2
U.S. Floating Rate	S&P/LSTA Leveraged Loan	0.6	9.0	9.0	7.0	5.9	5.1
International	FTSE Non USD WGBI	(2.9)	(5.3)	(5.3)	(7.9)	(4.8)	(1.5)
Emerging Markets	JPM Emerging Markets	(1.4)	6.5	6.5	(0.9)	0.1	3.1
REAL ASSETS							
Benchmark	Gold	(1.5)	27.5	27.5	13.0	11.6	8.4
Inflation	*Consumer Price Index (CPI)*	0.3	2.7	2.7	4.1	4.1	3.0
Commodities	Bloomberg Commodities	1.0	5.4	5.4	4.1	6.8	1.3
ALTERNATIVES							
Benchmark	[20% S&P 500, 80% ICE 0-3m T-Bill]	(0.2)	9.2	9.2	5.0	4.9	4.0
Multi-Strategy	Credit Suisse Multi-Strategy I		7.3	7.3	5.5	5.8	5.0
Global Macro	Credit Suisse Global Macro Ind		6.0	6.0	5.2	6.3	4.7
Managed Futures	Credit Suisse Managed Futures		1.5	1.5	5.5	5.3	2.3