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Fourth Quarter 2024 Market Summary

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Fourth Quarter 2024 Market Summary

As we close the chapter on 2024 and welcome the New Year, we reflect on the key economic and market trends that shaped the past 12 months. The U.S. economy demonstrated remarkable resilience; surpassing expectations set at the beginning of the year. This growth was primarily driven by a combination of strong consumer spending and substantial corporate investments, particularly in artificial intelligence (AI) technologies. Inflationary pressures, a major concern in recent years, continued easing. At the same time, the labor market remained healthy despite concerns of deteriorating data.

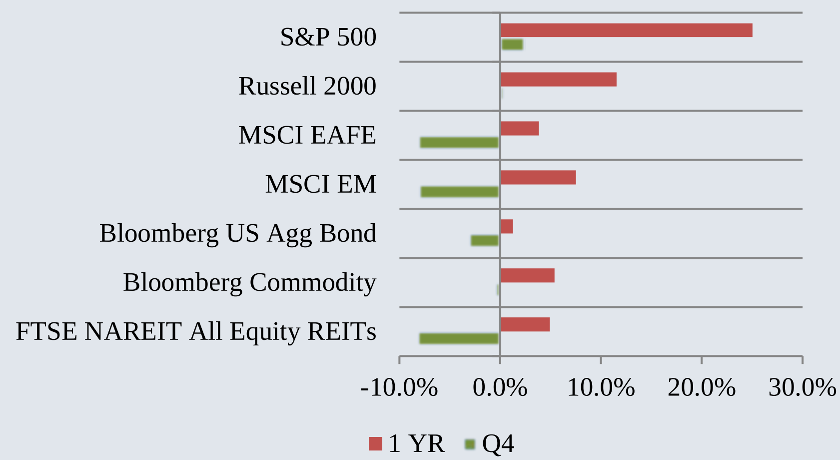
2024 Markets in Review

Asset returns had another strong year, led by U.S. equities. The chart below shows that U.S. large company stocks (i.e., S&P 500 Index) posted a 25.0% gain during the year and U.S. small company stocks (i.e., Russell 2000 Index) rose 11.5%. The technology and consumer sectors were the primary drivers of performance, with the "Magnificent 7" stocks accounting for over 50% of the S&P 500's returns for the third consecutive year. In contrast, the health care, energy and real assets sectors underperformed. Looking ahead, robust earnings growth is anticipated in 2025 and 2026, which could offer further support for equities, including opportunities for non-technology companies to play a more prominent role in market gains.

International stocks, represented by the MSCI ACWI ex U.S. Index, gained 5.5% during 2024. However, local currency returns were stronger at 12.6%, with the appreciating U.S. dollar acting as a headwind for international performance. Emerging markets outpaced developed international markets, driven by strong gains in China, Taiwan, and India. China initiated a series of stimulus packages aimed at revitalizing economic growth, as concerns over slower economic momentum and a real estate market slump had weighed on investor confidence. These initiatives fueled a substantial rally in Chinese equities, boosting overall emerging market performance.

The Bloomberg Barclays U.S. Aggregate Bond Index, representing a broad basket of bonds, delivered a small positive return during the year. Fixed income performance remained volatile, despite yields in the 4-5% range, as rising interest rates created headwinds. In 2024, interest rates on U.S. Treasuries with maturities beyond three years rose, while short-term rates declined following rate cuts by the Federal Reserve. The credit-sensitive areas of the bond market (i.e., investment grade corporates, high yield, securitized bonds, etc.) outperformed as they are less affected by interest rate fluctuations. High-yield bonds, for instance, delivered gains of 8.2%. The Fed began its rate-cut cycle in September and made subsequent cuts in November and December, reducing rates by a total of 1%. The Fed's guidance signals further rate cuts in 2025, albeit at a more gradual pace.

Broad Market Index Returns
Fourth Quarter 2024



While asset returns were strong for the year overall, most asset classes experienced weaker performance in the fourth quarter. Market sentiment has notably shifted since the election, reflecting a blend of optimism and caution as investors anticipate potential policy changes under a new administration. There is the potential for lower tax rates, increased tariffs, reduced regulation, immigration reform, and shifting geopolitical diplomacy. Such policies could have various and, in some cases, conflicting impacts on economic growth, inflation, and interest rates. Despite these uncertainties, no immediate catalysts are expected to put significant pressure on the markets as they transition into the new year.

Fourth Quarter 2024 Market Summary (continued)

Looking Ahead

Despite two consecutive years of strong performance, there are several reasons for continued optimism. Anecdotally, markets often follow strong years with additional gains, and we are still in the early stages of the current bull market, which typically spans 3-5 years. That said, markets may experience periods of consolidation, allowing fundamentals to align with prices. Given the impressive returns of the past two years, it's prudent to recognize that such trends may not continue at the same pace.

Considering these market dynamics, fixed income presents a compelling opportunity. Real yields are currently available, offering a foundation for solid returns even amid potential interest rate volatility in the coming year. Historically, there has been a strong correlation between starting yields and future returns, suggesting that today's fixed-income investors are well-positioned to benefit from attractive yields.

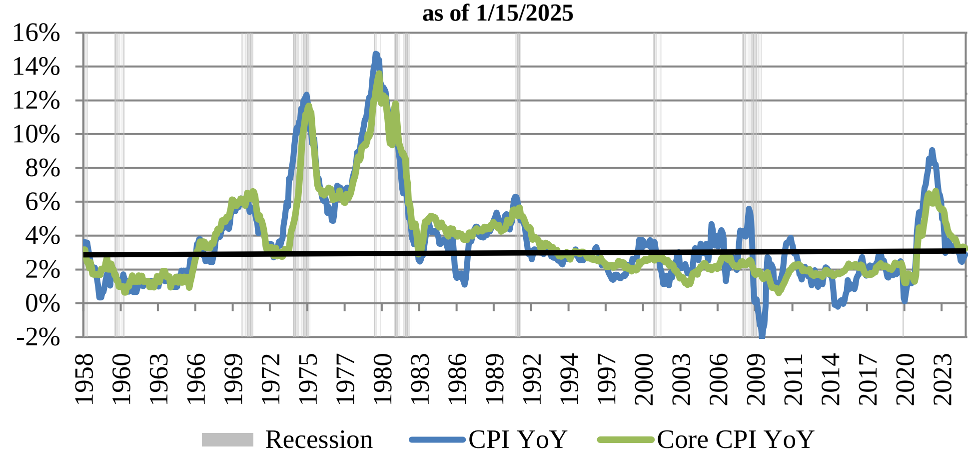
While optimism remains, it's important to acknowledge risks such as market concentration and high valuations in U.S. equities. Some of this can be reasoned away: large-cap U.S. equities have stronger fundamentals than in the past, such as higher profit margins, so valuations should be higher. While valuations may not be reliable indicators of short-term returns, they become more meaningful over the long term, with higher valuations often leading to lower future returns. Additionally, if growth slows, investors may reassess their holdings, which could lead to a market correction.

Some investors may be feeling the itch to cull weaker performing parts of their portfolio, but we encourage maintaining diversification, as the years ahead may unfold differently than in the past. Despite uncertainties, markets have historically trended upward, driven by earnings growth, in the face of persistent concerns over geopolitics, the economy, or valuations. On balance, the strengths in the economy continue to outweigh the weaknesses. Thus, we suggest investors do not make any dramatic shifts in the portfolios as the outlook for both stocks and bonds remains positive, guided by fundamental drivers: earnings growth for equities and yields for fixed income.

MACROECONOMICS

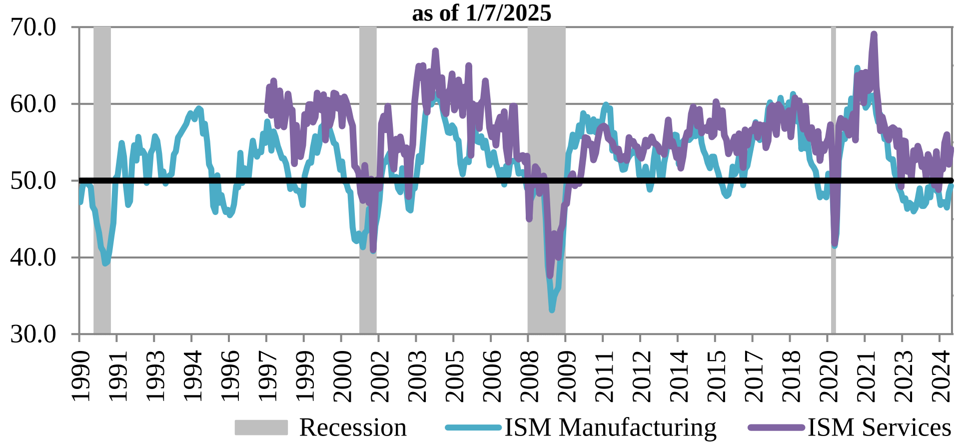
- The Bureau of Economic Analysis released the advanced estimate of fourth quarter 2024 real GDP, an annual rate increase of 2.3% from the preceding quarter.
- Inflation continues to grind lower and is now within the Federal Reserve's target range of 2-3%. In December, headline CPI increased 2.9% year-over-year. Core CPI, which excludes food and energy, had a 3.2% increase.

Inflation - Consumer Price Index (CPI)
as of 1/15/2025



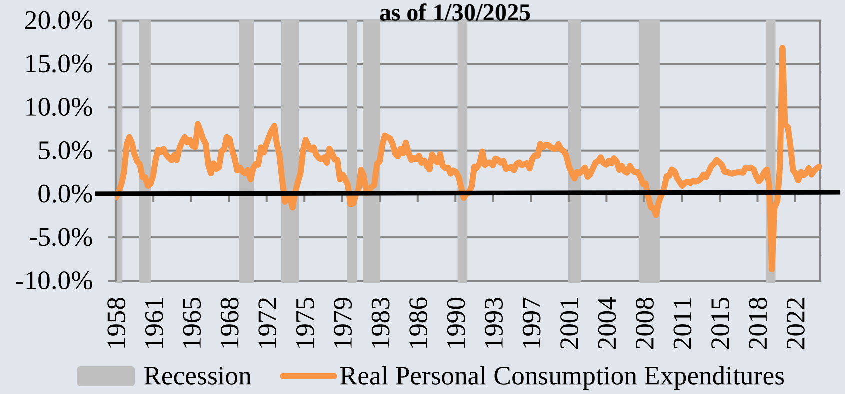
- The ISM Manufacturing Index increased during the quarter, finishing at 49.3 versus 47.2 in September. Typically, when the ISM Index is above 55 it is bullish and when it is below 45 it is bearish. Conversely, the ISM Non-Manufacturing Index was slightly lower during the quarter and finished at 54.1 in December.

ISM PMI Indices
as of 1/7/2025



- In December, the Conference Board Leading Economic Index decreased 0.1% month-over-month to 101.6. The index, which is a composite of leading employment, housing, manufacturing, and market indicators, remains at a contractionary level but the trend is slightly improving.
- The Real Personal Consumption Expenditures grew at 3.2% year-over-year in 4Q, indicating consumers continue to fuel economic growth.

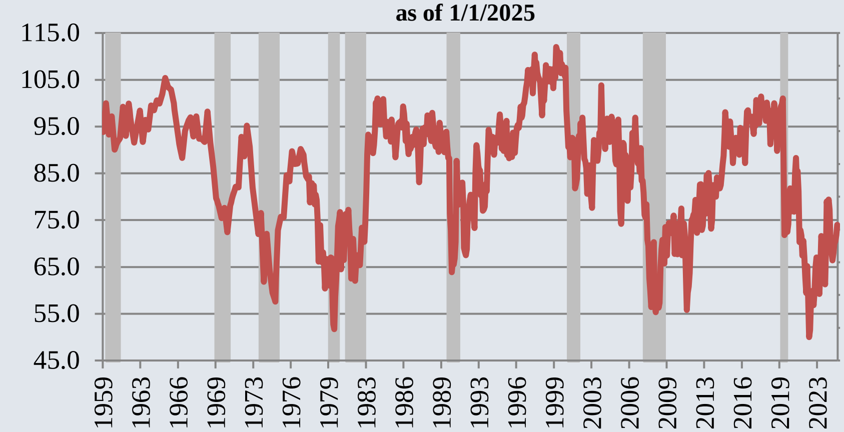
Real Personal Consumption Expenditures
as of 1/30/2025



CONFIDENCE METRICS

- The Conference Board's Consumer Confidence Index December reading was 104.7, an increase from 99.2 in September. Consumers remain concerned with the economy and a weakening labor market.
- The University of Michigan Consumer Sentiment Index final reading for December was 74.0, which was an increase from the third quarter.

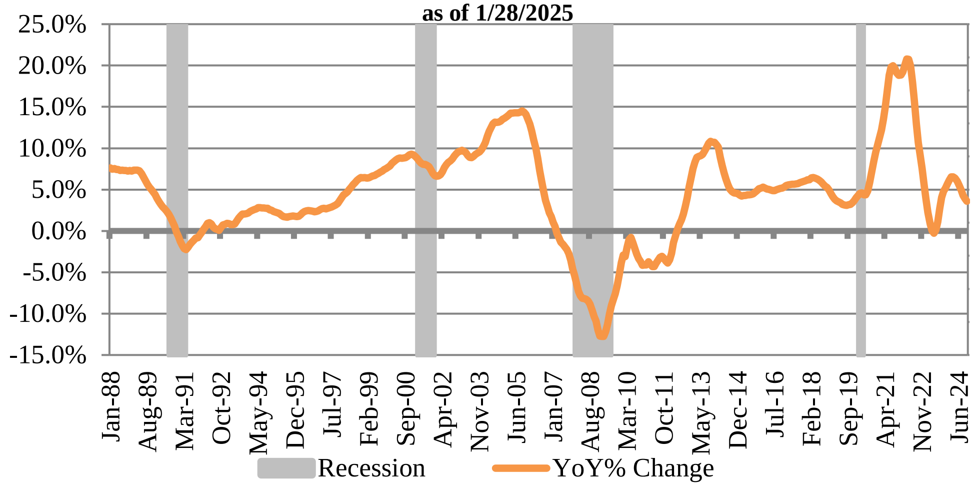
University of Michigan Consumer Sentiment Index
as of 1/1/2025



HOUSING

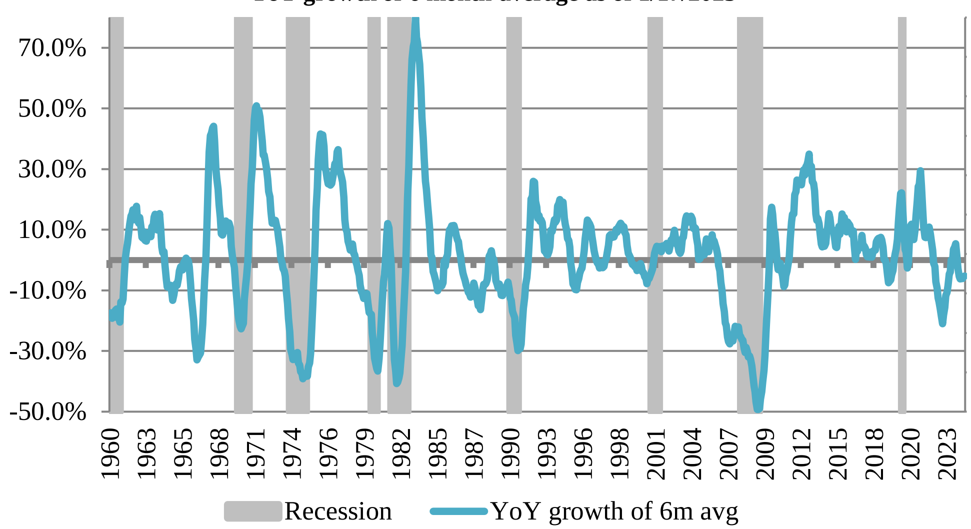
- S&P Case-Shiller U.S. National Home Price Index (seasonally adjusted) showed home prices increased 3.8% year/year in November, a deceleration from earlier in the year.

S&P Case-Shiller U.S. National Home Price Index, YoY growth
as of 1/28/2025



- Housing starts have declined over the past two years, in part, due to higher financing costs. The housing market remains supply-challenged.

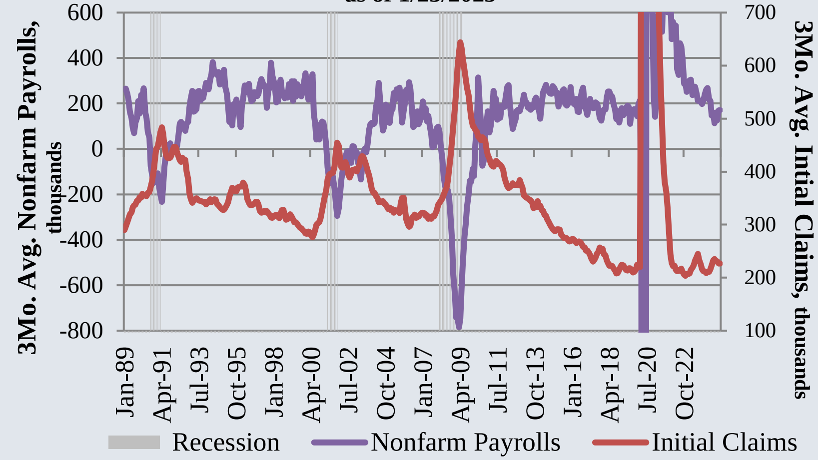
Housing Starts
YoY growth of 6 month average as of 1/17/2025



EMPLOYMENT

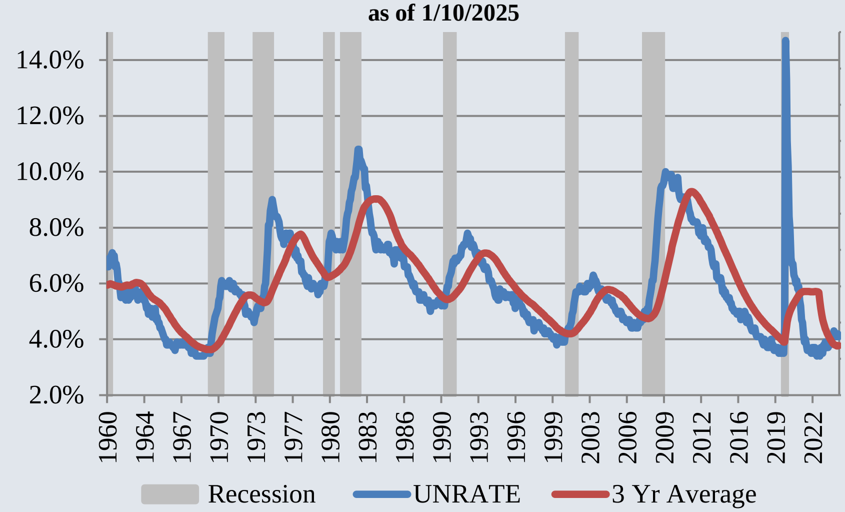
- During the quarter, nonfarm payrolls averaged 170,333 jobs added per month, while initial claims remain low.

3Mo Avg. Nonfarm Payrolls & Initial Claims
as of 1/23/2025



- The unemployment rate was flat during the quarter at 4.1% but remains slightly above its three-year average, showing potential weakness.

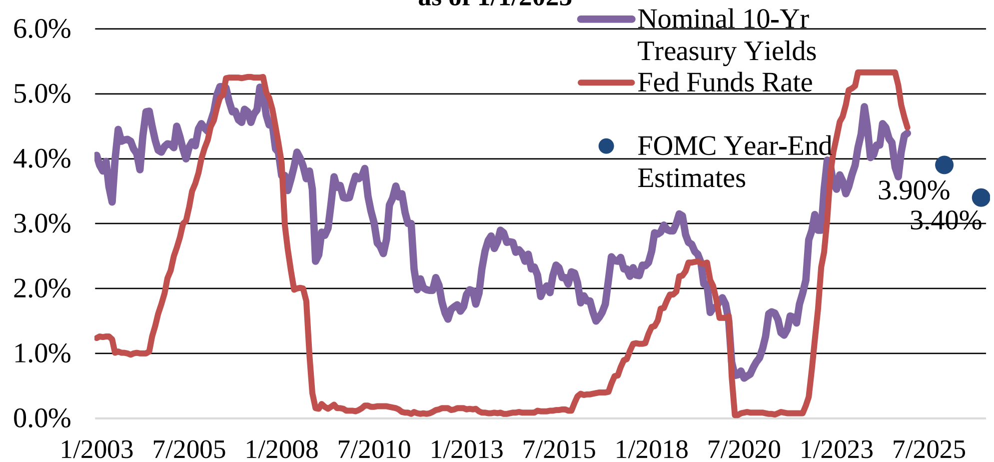
Unemployment Rate
as of 1/10/2025



FED POLICY

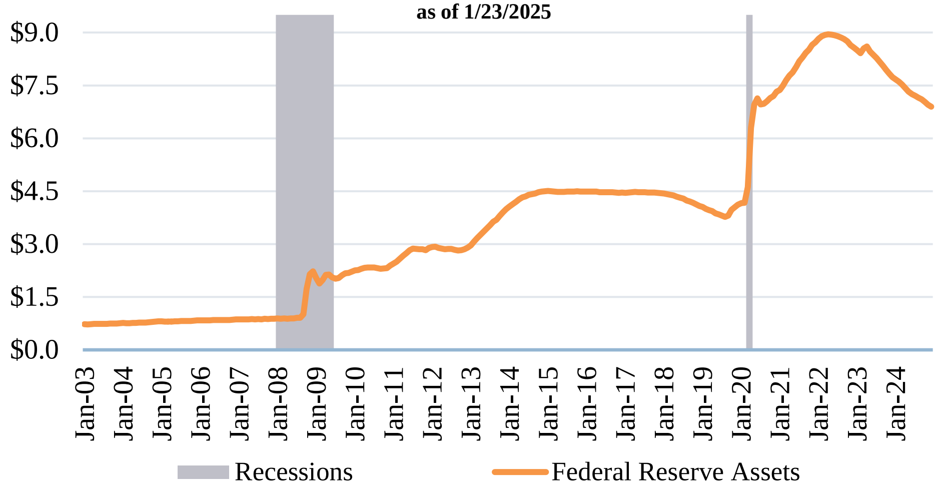
- During the quarter, the Federal Open Market Committee (FOMC) lowered the federal funds rate to 4.25%-4.50% with a 25bps cut in November and another 25bps in December. The Fed indicated they will slow the pace of easing going forward.

U.S. 10-Year Treasury Yield vs. Fed Funds Rate
as of 1/1/2025



- In 2022, the Fed started to reduce its holdings of Treasuries and Agency MBS. There have been no recent adjustments to the quantitative tightening plan.

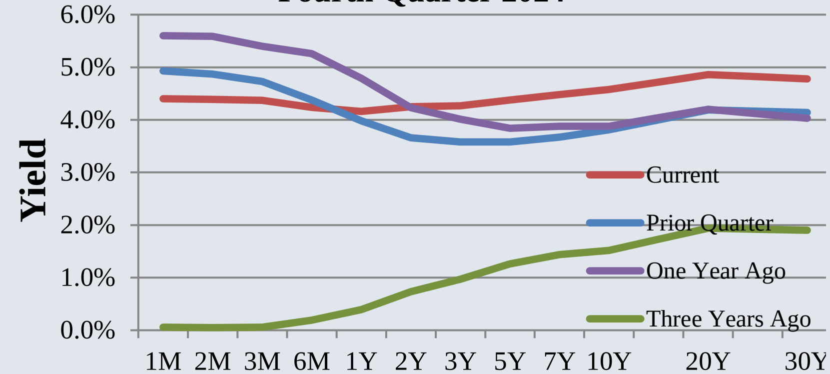
Federal Reserve Balance Sheet, assets in trillions $
as of 1/23/2025



FIXED INCOME

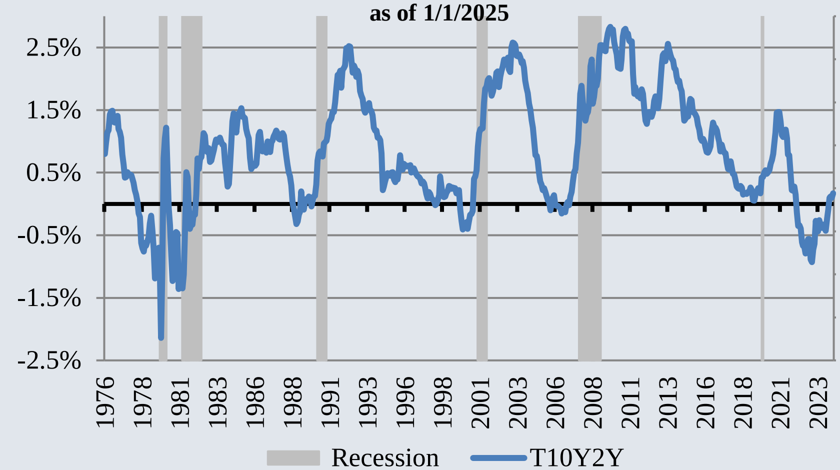
- Yields on the front-end of the U.S. Treasury curve fell during the quarter, while yields beyond a year rose. Short-term interest rates are controlled or heavily influenced by central banks, whereas long-term interest rates are affected by market forces and economic growth.

U.S. Treasuries Yield Curve
Fourth Quarter 2024



- The spread between short and intermediate-term Treasuries un-inverted in September. The curve had been inverted for over two years, the longest such occurrence. Historically, an inverted yield curve has signaled a recession. This time, while the overall economy avoided one, certain sectors, such as manufacturing, faced downturns.

U.S. Treasury Spread 10-year vs. 2-year
as of 1/1/2025



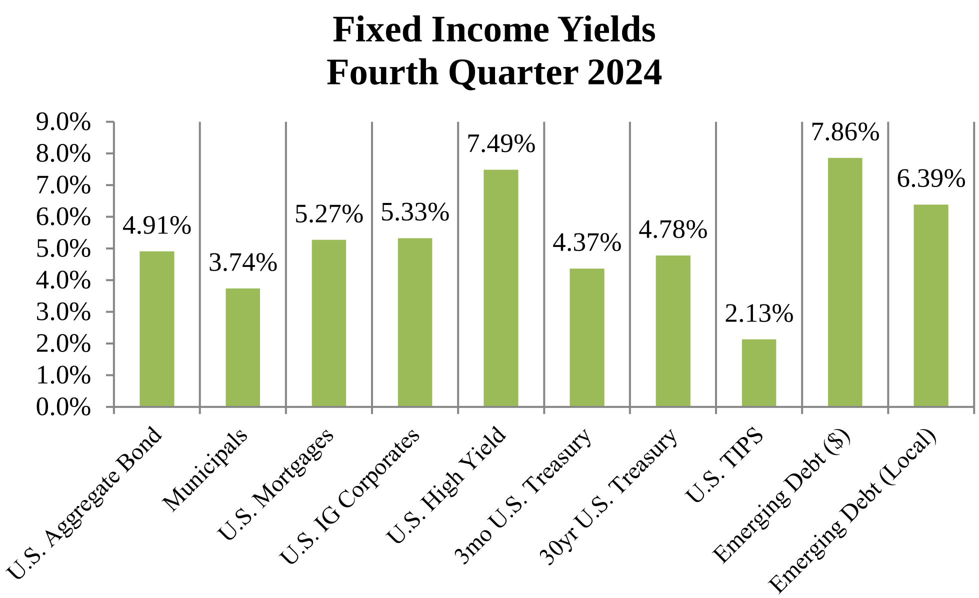
FIXED INCOME (continued)

- During the quarter, the Bloomberg Barclays U.S. Aggregate was down 3.1%. Bonds with less interest rate sensitivity, performed better as rates increased.

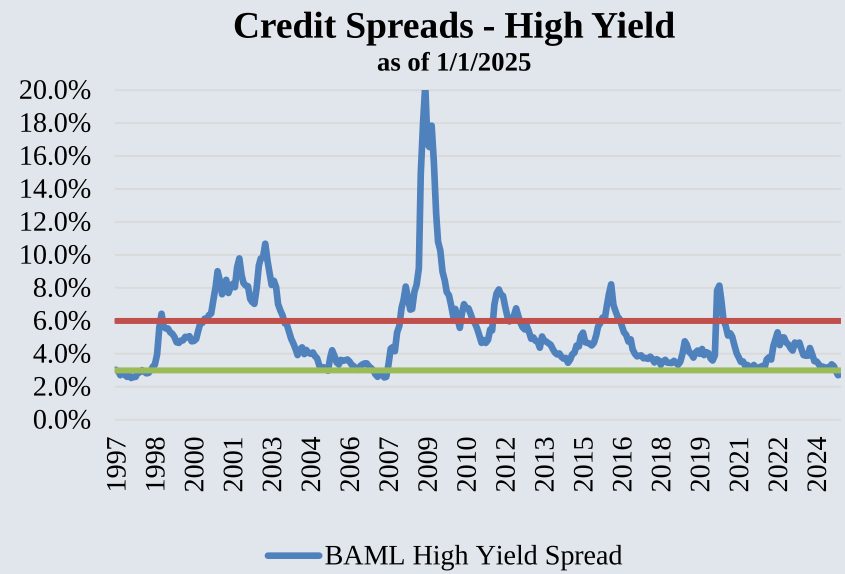
	4Q 24 Return	1-Yr Return	5-Yr Return	10-Yr Return
U.S. Aggregate Bond	-3.06%	1.25%	-0.33%	1.35%
Municipals	-1.22%	1.05%	0.99%	2.25%
U.S. Mortgages	-3.16%	1.20%	-0.74%	0.91%
U.S. IG Corporates	-3.04%	2.13%	0.30%	2.43%
U.S. High Yield	0.17%	8.19%	4.21%	5.17%
3mo U.S. Treasury	1.18%	5.29%	2.51%	1.80%
30yr U.S. Treasury	-9.38%	-8.09%	-6.68%	-1.56%
U.S. TIPS	-2.88%	1.84%	1.87%	2.24%
Emerging Debt ($)	-2.30%	6.20%	-0.10%	3.00%
Emerging Debt (LCL)	-6.70%	-2.40%	-1.80%	0.10%

Bloomberg and JPMorgan Indices

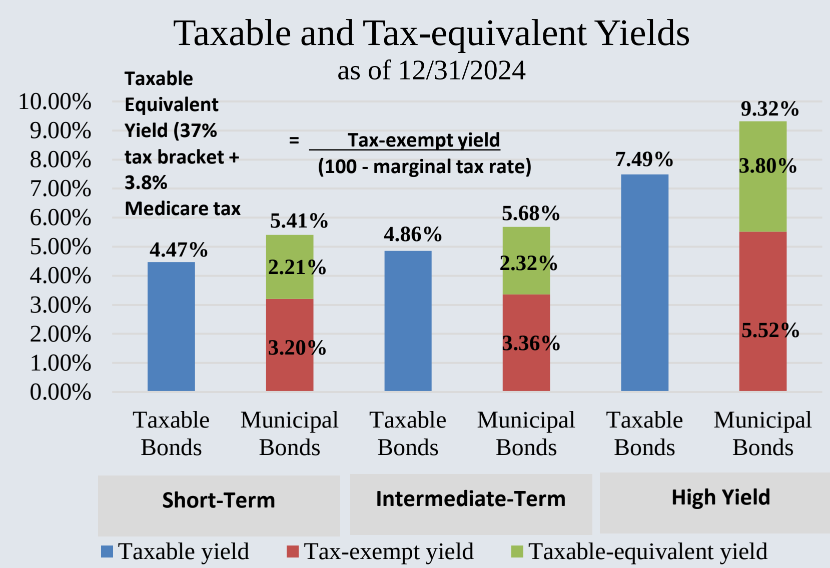
- Yields increased during the fourth quarter and remain at attractive levels.



- Credit spreads narrowed during the quarter, reaching their lowest levels since 2007.



- Municipals are currently more attractive relative to taxable bonds on an after-tax basis for investors in the highest marginal tax bracket.



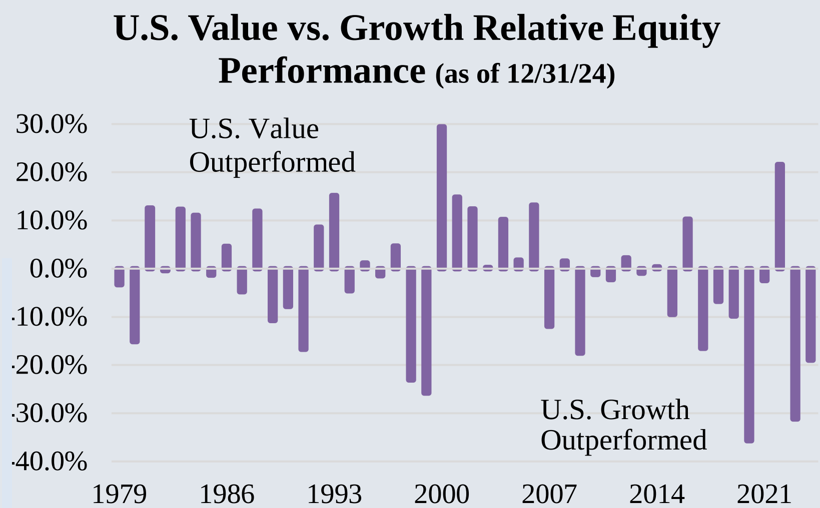
DOMESTIC EQUITIES

Fourth Quarter 2024 Returns			
	Value	Core	Growth
Mega Cap		5.5%	
Large Cap	-2.0%	2.8%	7.1%
Mid Cap	-1.8%	0.6%	8.1%
Small Cap	-1.1%	0.3%	1.7%
Micro Cap	2.7%	5.9%	11.6%

- The Russell 1000 Index, comprising of large and mid-capitalization stocks, posted a positive total return of 2.8% during the fourth quarter. On a year-over-year basis, the Russell 1000 Index has increased 24.5%.
- Small capitalization stocks, as represented by the Russell 2000 Index, increased 0.3% during the fourth quarter. On a year-over-year basis, the index has increased 11.5%.

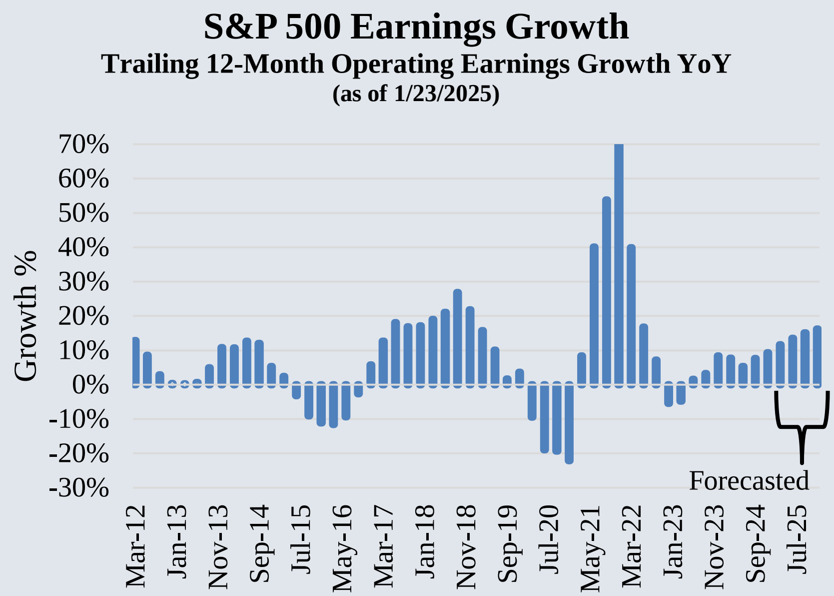
	S&P 500 Weight	Russell 1000 Value Weight	Russell 1000 Growth Weight	4Q 24 Return	1-Yr Return	10-Yr Return
Energy	3.2%	6.7%	0.4%	-2.4%	5.7%	4.9%
Materials	1.9%	4.2%	0.6%	-12.4%	0.0%	7.9%
Financials	13.6%	23.1%	6.5%	7.1%	30.6%	11.4%
Industrials	8.2%	14.7%	4.2%	-2.3%	17.5%	10.7%
Cons. Disc.	11.3%	6.2%	15.9%	14.3%	30.1%	13.6%
Technology	32.5%	9.3%	48.6%	4.8%	36.6%	22.4%
Comm. Services	9.4%	4.4%	13.3%	8.9%	40.2%	11.2%
Real Estate	2.1%	4.7%	0.5%	-7.9%	5.2%	6.6%
Health Care	10.1%	14.2%	6.6%	-10.3%	2.6%	9.1%
Cons. Staples	5.5%	7.9%	3.3%	-3.3%	14.9%	8.4%
Utilities	2.3%	4.6%	0.2%	-5.5%	23.4%	8.4%
S&P 500 Index	100.0%	100.0%	100.0%	2.4%	25.0%	13.1%

- During the quarter, technology and financials outperformed, while seven of eleven sectors had negative performances. For the year, strong returns were largely driven by AI trends.



Russell 1000 Value TR vs. Russell 1000 Growth TR

- Growth outperformed Value during the quarter and significantly over the past two years. Growth has outperformed for thirteen out of the past eighteen years.



- Corporate earnings are expected to grow by nearly 9% in 2024 and by mid-double digits in 2025, with profit margins remaining strong.

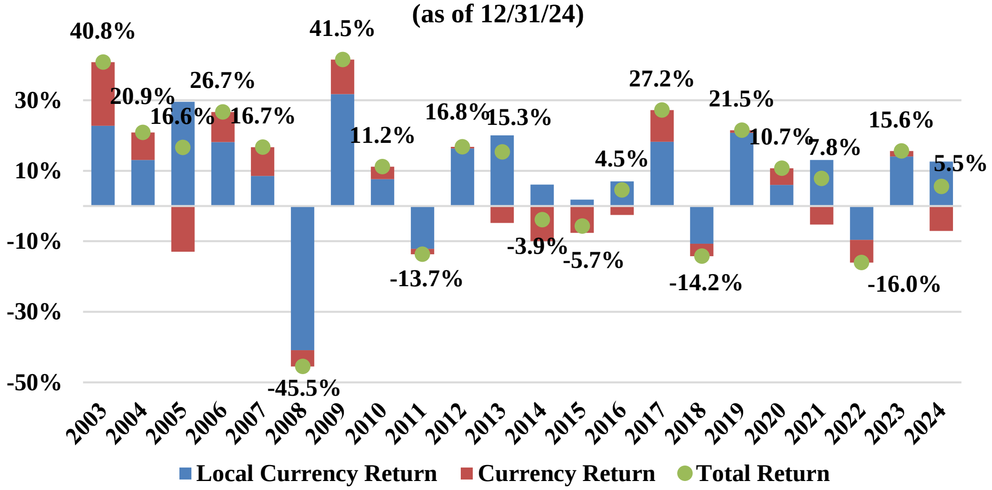
INTERNATIONAL EQUITIES

- Developed international stocks, as represented by the MSCI EAFE, were down 8.1% during the quarter, but were up 3.8% on a year-over-year basis.
- Emerging market stocks outperformed developed markets during the fourth quarter as the MSCI Emerging Markets Index was down 8.0%. On a year-over-year basis, emerging market stocks are beating developed markets with a return of 7.5%.

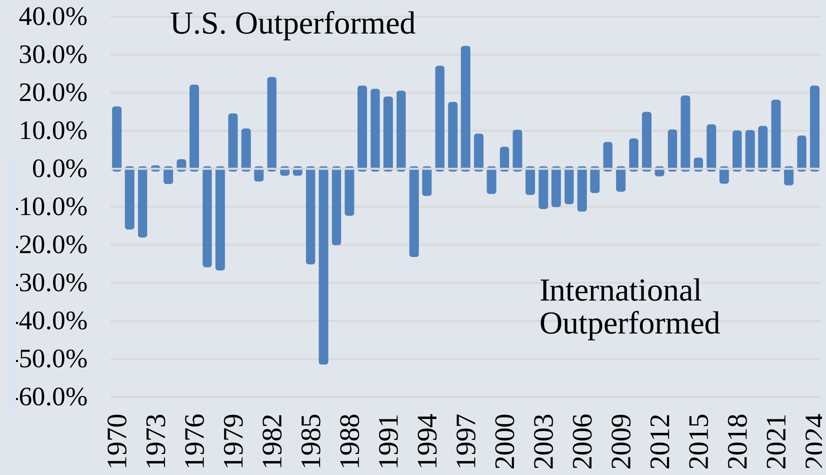
	4Q 24 Return	1-Yr Return	5-Yr Return	10-Yr Return
World	-1.0%	17.5%	10.1%	9.2%
World Ex-U.S.	-7.6%	5.5%	4.1%	4.8%
EAFE	-8.1%	3.8%	4.7%	5.2%
Europe	-9.7%	1.8%	4.9%	5.0%
Japan	-3.6%	8.3%	4.8%	6.2%
Pacific Ex-Japan	-9.1%	4.6%	3.2%	4.4%
Emerging Markets	-8.0%	7.5%	1.7%	3.6%
EM (Asia)	-7.9%	12.0%	3.0%	4.8%
EM (Latin America)	-15.8%	-26.4%	-3.4%	0.3%
EM (Eastern Europe)	-8.5%	-1.9%	-23.3%	-6.2%

- Currency detracted from international equity returns during the quarter. The U.S. dollar has been very strong the past ten years, but currency trends tend to be cyclical.

MSCI ACWI ex U.S. Index, total return and currency impact (as of 12/31/24)



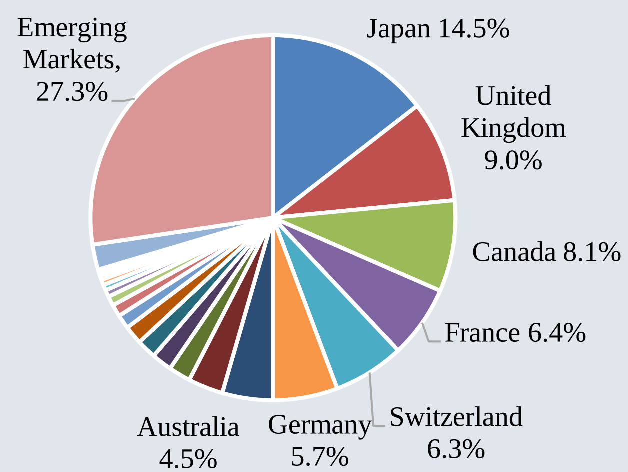
U.S. vs. International Equity Performance (as of 12/31/24)

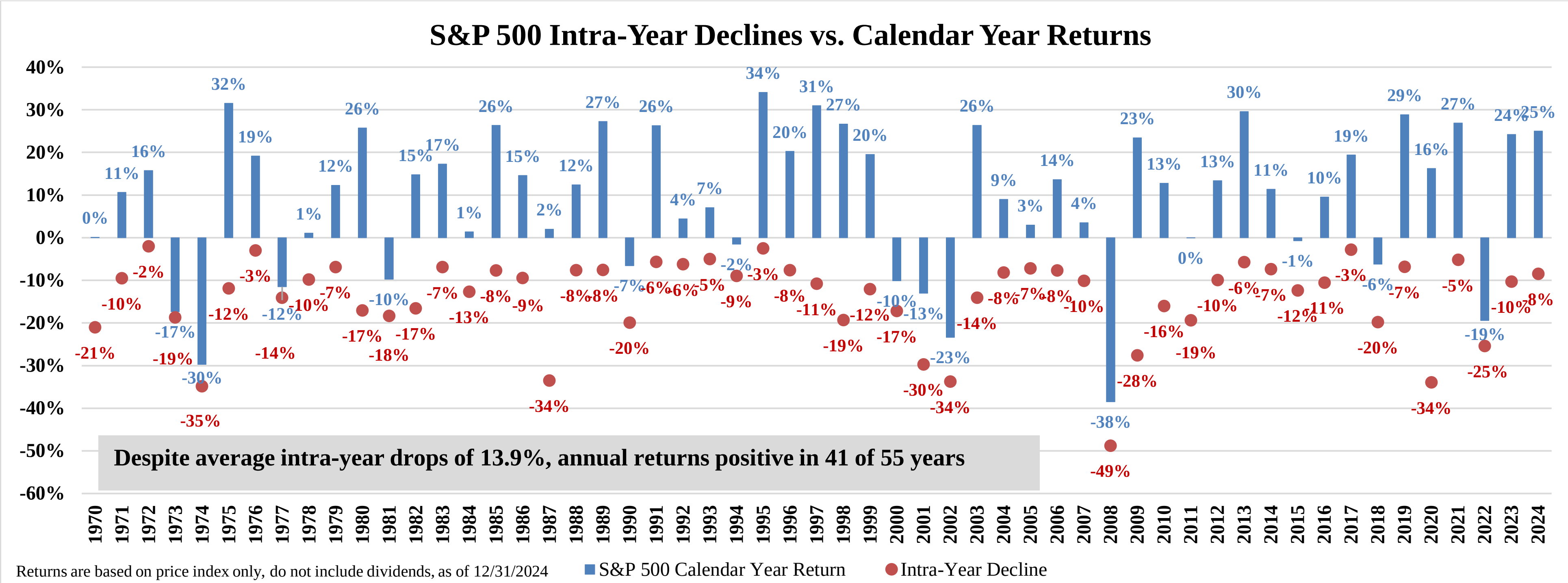


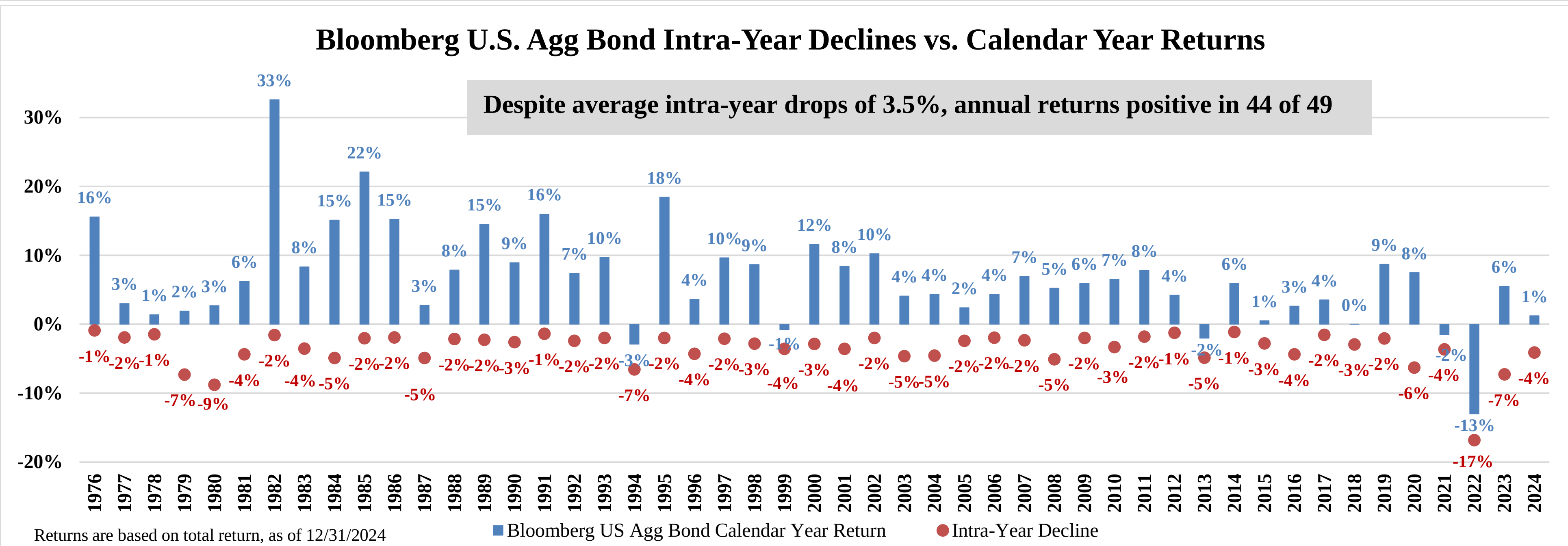
S&P 500 TR vs. MSCI EAFE NR

- International equities performed worse than U.S. equities during the quarter. International equities have underperformed U.S. equities in twelve out of the last fifteen years. Performance is cyclical as shown in the chart above.

Country Weighting in MSCI ACWI ex U.S. (as of 12/31/2024)




S&P 500 Intra-Year Declines vs. Calendar Year Returns
Despite average intra-year drops of 13.9%, annual returns positive in 41 of 55 years
40%
-60%
1970
2024
Returns are based on price index only, do not include dividends, as of 12/31/2024
S&P 500 Calendar Year Return
Intra-Year Decline


Bloomberg U.S. Agg Bond Intra-Year Declines vs. Calendar Year Returns
Despite average intra-year drops of 3.5%, annual returns positive in 44 of 49
30%
-20%
1976
2024
Returns are based on total return, as of 12/31/2024
Bloomberg US Agg Bond Calendar Year Return
Intra-Year Decline

Market leadership changes. Focus on asset allocation and diversification.

Best

Asset Class Performance

Worst

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	10-yrs ‘15-’24 Return	10-yrs ‘15-’24 Volatility
Small Cap 38.8%	Real Estate 28.0%	Real Estate 2.8%	Small Cap 21.3%	Emerging Markets 37.8%	Cash 1.8%	Large Cap 31.5%	Small Cap 20.0%	Real Estate 41.3%	Commodities 16.1%	Large Cap 26.3%	Large Cap 25.0%	Large Cap 13.1%	Small Cap 20.7%
Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	International 25.6%	Fixed Income 0.0%	Real Estate 28.7%	Emerging Markets 18.7%	Large Cap 28.7%	Cash 1.5%	International 18.9%	Small Cap 11.5%	Small Cap 7.8%	Real Estate 17.7%
International 23.3%	Fixed Income 6.0%	Fixed Income 0.6%	Large Cap 12.0%	Large Cap 21.83%	Real Estate -4.0%	Small Cap 25.5%	Large Cap 18.4%	Commodities 27.1%	High Yield -12.7%	Small Cap 16.9%	Asset Allocation 10.2%	Asset Allocation 6.4%	Emerging Markets 17.1%
Asset Allocation 14.9%	Asset Allocation 5.3%	Cash 0.0%	Commodities 11.8%	Small Cap 14.7%	High Yield -4.1%	International 22.7%	Asset Allocation 10.5%	Small Cap 14.8%	Fixed Income -13.0%	Asset Allocation 14.2%	High Yield 9.2%	Real Estate 5.8%	Large Cap 15.4%
High Yield 7.3%	Small Cap 4.9%	International -0.4%	Emerging Markets 11.6%	Asset Allocation 14.5%	Large Cap -4.4%	Asset Allocation 19.4%	International 8.3%	Asset Allocation 13.5%	Asset Allocation -13.9%	High Yield 14.0%	Emerging Markets 8.1%	International 5.7%	International 15.2%
Real Estate 2.9%	Cash 0.0%	Asset Allocation -2.0%	Real Estate 8.6%	High Yield 10.4%	Asset Allocation -5.8%	Emerging Markets 18.9%	Fixed Income 7.5%	International 11.8%	International -14.0%	Real Estate 11.4%	Commodities 5.4%	High Yield 4.5%	Commodities 13.8%
Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Allocation 8.3%	Real Estate 8.7%	Small Cap -11.0%	High Yield 12.6%	High Yield 7.0%	High Yield 1.0%	Large Cap -18.1%	Emerging Markets 10.3%	Cash 5.3%	Emerging Markets 4.0%	Asset Allocation 10.3%
Fixed Income -2.0%	Emerging Markets -1.8%	Small Cap -4.4%	Fixed Income 2.7%	Fixed Income 3.5%	Commodities -11.3%	Fixed Income 8.7%	Cash 0.5%	Cash 0.0%	Emerging Markets -19.7%	Fixed Income 5.5%	Real Estate 4.9%	Cash 1.8%	High Yield 8.6%
Emerging Markets -2.3%	International -4.5%	Emerging Markets -14.6%	International 1.5%	Commodities 1.7%	International -13.4%	Commodities 7.7%	Commodities -3.1%	Fixed Income -1.5%	Small Cap -20.4%	Cash 5.1%	International 4.4%	Fixed Income 1.4%	Fixed Income 5.03%
Commodities -9.5%	Commodities -17.0%	Commodities -24.7%	Cash 0.3%	Cash 0.8%	Emerging Markets -14.3%	Cash 2.2%	Real Estate -5.1%	Emerging Markets -2.2%	Real Estate -25.0%	Commodities -7.9%	Fixed Income 5.5%	Commodities 1.3%	Cash 0.6%

Performance of all sited indices is calculated on a total return basis and includes dividend reimbursement. Indices are not available for direct investment. Past performance is not indicative of future results. It is important to remember that there are risks inherent in any investment and there is no assurance that any asset class or index will provide positive performance over time.

* Large Cap – S&P 500 Index
* Small Cap – Russell 2000 Index
* International – MSCI EAFE GR Index
* Emerging Markets – MSCI EM GR Index
* Fixed Income – Barclays Capital Aggregate Bond Index
* Real Estate – FTSE NAREIT All Equity REIT Index
* Commodities – Bloomberg Commodity Index
* High Yield – Barclays Global High Yield Index
*Cash – Barclays 1-3m Treasury Index

The “Asset Allocation” portfolio assumes the following weights: 25% S&P 500, 10% Russell 2000, 15% MSCI EAFE, 5% MSCI EM, 25% Barclays Agg, 5% Barclays 1-3m Treasury, 5% Barclays Global High Yield Index, 5% Bloomberg Commodity Index, 5% FTSE NAREIT All Equity REIT Index

Source: Morningstar, through 12/31/2024

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