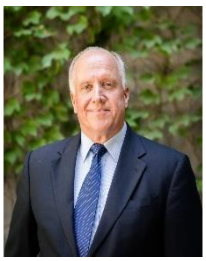
2024 – 4th Quarter Review & 2025 Outlook

Economic and Investment Review



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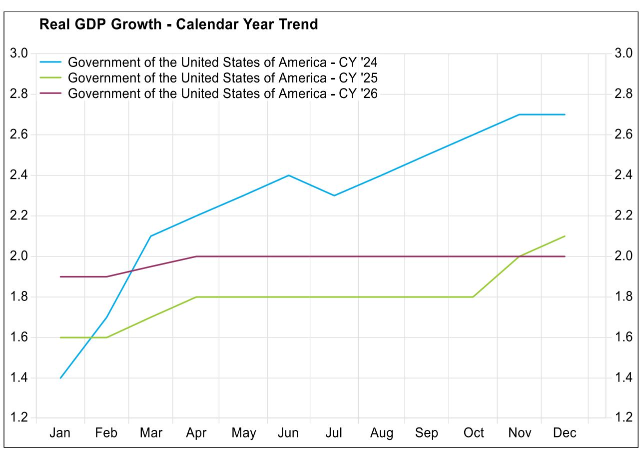
Economic Growth: The consensus forecast for Q4 2024 GDP growth is currently 2.20% Q/Q and 2.4% Y/Y. Estimates rose steadily throughout the year from 1.50% in January. This compares with 3.2% for the same period last year and 3.1% for the previous quarter. Continued strong consumer spending along with ongoing



Source: FactSet

government fiscal expansion in the form of the CHIPS, IRA (Inflation Reduction Act), and Infrastructure Act kept the economy growing. Business investment on AI and cyber security was also a plus.

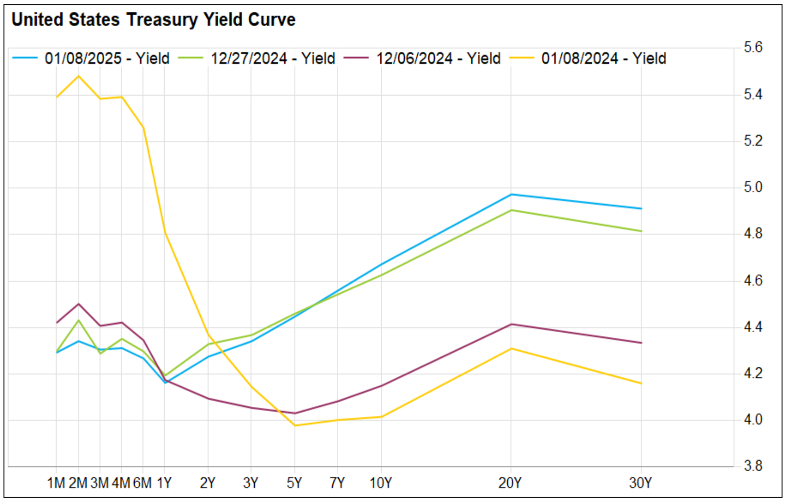
Consumers are supported by nearly two years of real wage gains and four years of job gains. Spending is also supported by consumers feeling wealthier due to rising house and investment valuations.

Estimates for each of the first three quarters of 2025 have also increased over the same period, but more modestly. The consensus forecast for 2024 increased significantly from 1.4% to 2.7% during the past year.

GDP growth in 2025 is expected to be a little slower than in 2024 but estimates have also been revised upward to 2.1%. Goldman Sachs expects that policy changes under the incoming Trump administration will weigh on growth in 2025 before providing a roughly offsetting boost in 2026. They point to reduced immigration and tariffs as being a drag on growth in 2025 and an offset from tax cuts in 2026. The expected implementation of the deregulation agenda should result in more available capital, increased energy production, and greater efficiencies.

Inflation: Estimates for inflation in 2024 have remained steady at 2.9% over the past three months. Estimates for 2025 have risen slightly over the same period but continue to indicate a downward trend to 2.4%. The rate of decline towards the Fed's 2.0% target has been slower than they anticipated due to sticky shelter and insurance costs. The Fed's preferred inflation gauge, PCE (personal consumption expenditures) was 2.4% (headline) and 2.8% (core) in November. The potential impact of tariffs and deportation of illegal immigrants on inflation will be closely monitored.

Interest rates: Fed officials have signaled that they expect inflation to be stickier in 2025 than previously anticipated. This has resulted in a reduction in the number of projected rate cuts from four to two in the calendar year and an upward shift in the U.S. Treasury yield curve. Interest rates have also been impacted recently by stronger than expected economic numbers and concern about the level of government debt. ISM Services and job openings numbers were stronger than consensus expectations pushing the 10 and 30-year Treasury rates to their



Source: FactSet

highest levels since Oct-Nov 2023.

The Fed Funds target rate has been cut three times since September 2024 from 5.50% to 4.50%. Two additional rate cuts would put the target rate at 4.0% at the end of the year.

Labor: There was some labor market softening in 2024, which can be attributed at least in part to the large number of illegal immigrants entering the labor force. Mass deportations would reduce the labor supply; however, the labor market remains strong and looks healthy. December nonfarm payrolls grew by 256K vs consensus 150K – 160K. The unemployment rate ticked lower m/m from 4.2% in November to 4.1% in December. David Kelly, Chief Global Strategist at J.P. Morgan Asset Management, expects the unemployment rate to remain close to 4% in 2025.

Global: The global economy is expected to generate real GDP growth of 2.7% in 2025. India is expected to continue to have the strongest growth for individual countries at 6.3%. The Euro Area looks to be relatively weak, particularly in Germany, France, and Italy. The World Bank sees China's GDP at 4.9% for 2024 and 4.5% for 2025. Relocation of manufacturing out of China is having a negative impact. Consumption growth may be muted due to the negative wealth effect from lower home prices.

Equity Markets

The U.S. large-cap equity market continued to perform well in Q4. The S&P 500 was up 2.41% for the quarter with growth stocks again leading the way. The S&P 500 Growth index was up 6.17% compared with -2.67% for the S&P 500 Value index for the same period. The S&P 500 returned 25.02% for 2024. The Growth index was up 36.07% compared with 12.29% for the Value index for the year.

The Magnificent 7 stocks (AAPL, AMZN, GOOGL, META, MSFT, NVDA, and TSLA) were up an average of 48% in 2024. The S&P 500 ex-Mag 7 was up just 10% for the year. The largest ten stocks in the S&P 500 now account

Source: FactSet, Standard & Poor's, J.P. Morgan Asset Mgt.

for 38.7% of the market cap of the index.

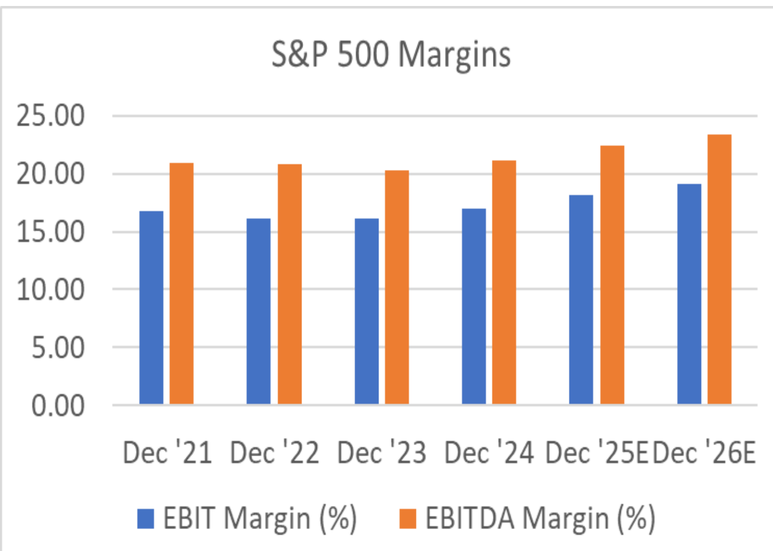
The S&P 500 currently trades at 21.2x the next 12 months' earnings estimate. That is 127% of the 30-year average of 16.7x. The Top 10 stocks currently trade at 29.3x the next 12 months' earnings estimates. The multiple is 142% of the 30-year average of 20.6x. The remaining 490 stocks trade at 18.0x or 114% of the 15.8x average.

	Current	Average	% of avg.
Top 10	29.3x	20.6x	142%
Remaining stocks	18.0x	15.8x	114%
S&P 500	21.2x	16.7x	127%

Source: FactSet, Standard & Poor's, J.P. Morgan Asset Mgt.

Valuations are definitely at historically high levels and multiple expansion has been a big contributor to total return over the past two years. Part of the reason for the multiple expansion has been the evolution of the makeup of the index. High growth sectors, including technology and communication services have become a larger part of the index and command higher PE multiples.

We are not likely to see the continuation of significant multiple expansion in 2025; however, higher-than-average multiples may be maintained due to continued strong sales growth, margin improvement and impressive earnings growth. Sales are expected to grow at about a 6% rate over the next two years. Margins improved in 2024 and are expected to continue to trend upward over the next two years. Potential tax cuts and deregulation



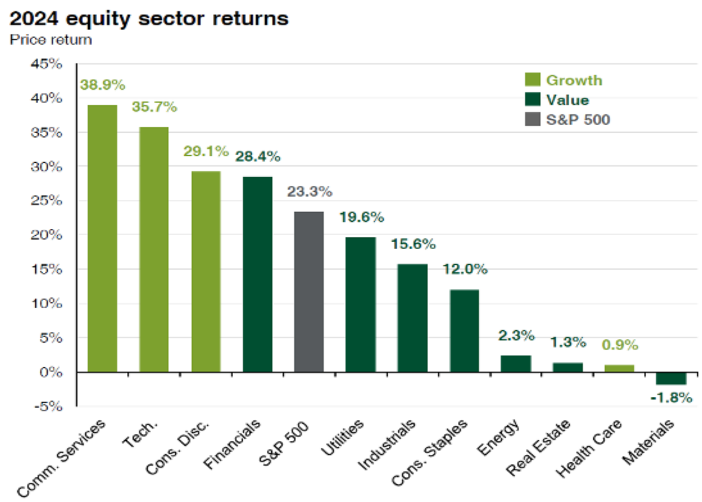
Source: FactSet

could also work to support and improve margins.

Earnings growth is expected to be reported near 9.5% for 2024 and improve to 14.5% in 2025 and 13.7% in 2026.

We expect interim volatility but forecast the S&P 500 to reach 6,450 by year-end based on adjusted EPS of 272 for 2025 and 307 for 2026. Raymond James forecasts 6,375 and Goldman Sachs forecasts 6,500 for the year.

Sector returns for the year were lead by Communications Services, Technology, Consumer Discretionary and Financials. Laggards were Energy, Real Estate, Health Care and Materials.



Source: msci.com

Mid-cap stocks trailed large-cap stocks for the quarter and the year returning 0.34% and 13.93% respectively. Small-cap stocks were down 0.58% for the quarter and up 8.70% for the year. Much of the debt for small-cap stocks is floating rate, so they should benefit from additional rate decreases. Mid-cap and small-cap stocks should be less impacted by tariffs than large-cap stocks due to a greater percentage of business being domestic. Re-shoring efforts may also be a plus to revenue and earnings. Care should be taken with small-cap stocks as a smaller percentage of the asset sub-class is profitable.

International stocks declined in Q4 in response to tariff concerns, weakness in Europe, and structural issues in China.

2024 Q4 Returns

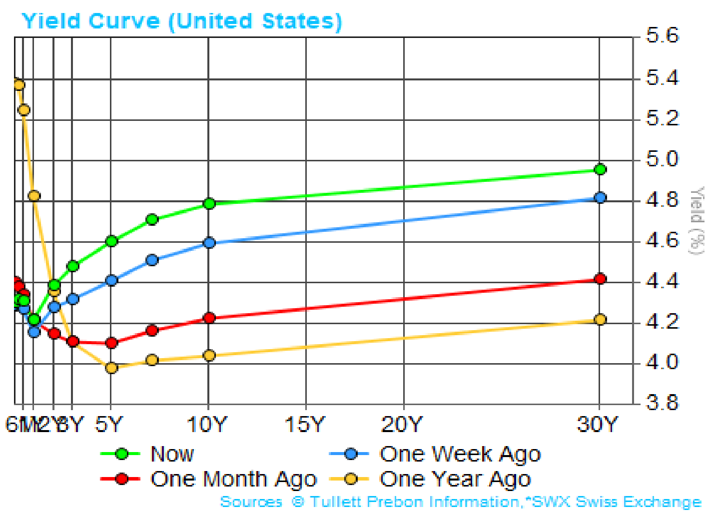
EQUITY	Q4 2024	YTD 12.31.24	1 Year 12.31.24	3 Years Annualized
S&P 500	2.41	25.02	25.02	8.94
S&P 500 Value	-2.67	12.29	12.29	9.16
S&P 500 Growth	6.17	36.07	36.07	7.70
Dow Jones Ind Avg	0.93	14.99	14.99	7.56
NASDAQ Composite	6.35	29.57	29.57	8.13
S&P Mid Cap 400	0.34	13.93	13.93	4.87
S&P Small Cap 600	-0.58	8.70	8.70	1.91
MSCI EAFE	-8.11	3.82	3.82	1.65
MSCI Emerging Mkts	-8.01	7.50	7.50	-1.92

Source: FactSet

Developed international stocks (MSCI EAFE) were down -8.11% for the quarter and up only 3.82% for the year. Emerging market stocks (MSCI Emerging Markets) were down -8.01% for the quarter and up 7.50% in 2024.

Fixed Income Markets

Fixed income looked to have the green light for positive returns due to Fed rate cuts but stronger than expected economic growth, and labor numbers, as well as the potential for continued sticky inflation, have pushed intermediate and long-term rates higher. Rates on the 10-year U.S. Treasury have



Source: FactSet

increased by nearly 60 basis points (0.60%) over the past month.

The Bloomberg US Aggregate Bond Index was down -3.06% in Q4 and up just 1.25% for 2024. Municipal bonds were slightly less impacted, declining -0.95% for the quarter and matching the taxable index at 1.25% for the year. High Yield bonds fared

2024 Q4 Returns				
FIXED INCOME	**Q4 2024**	**YTD 12.31.24**	**1 Year 12.31.24**	**3 Years Annualized**
Bloomberg US Agg Bond	-3.06	1.25	1.25	-2.41
ICE AMT-Free Nat'l Muni	-0.95	1.25	1.25	-0.35
Markit iBoxx USD Liquid High Yield Index	0.16	7.95	7.95	2.84

Source: FactSet

somewhat better, returning 0.16% for the quarter and 7.96% for the year.

The U.S. Yield Curve will likely steepen further as additional Fed rate cuts are announced. The Fed reduced the target rate by 1.0% in 2024 to 4.50% and is projecting two additional 25 basis point rate cuts in 2025. However, the market expectations are for just one cut during the year.

Credit spreads for investment-grade bonds are tight and are expected to remain that way through 2024. If we see any widening in spreads during 2025, investors will likely be quick to snap them up in their quest for yield.

Money market fund assets have increased by more than $500 billion in 2024 even as rates have started to adjust downward. This is likely to continue as the Fed eases rates further.

Excess amounts in money market funds should be moved out to short-term bond funds to maintain a higher yield for longer and to benefit from the duration impact of declining rates on the short end of the yield curve.

Real Assets

Real Estate Investments Trusts (REITs) faced serious interest rate headwinds in December causing returns to decline -7.84% for Q4. What looked to be a good year earlier turned out to be somewhat of a disappointment, returning just 4.86% in 2024. Improving occupancy rates is a bit of good news for the office segment.

2024 Q4 Returns				
REAL ASSETS	**Q4 2024**	**YTD 12.31.24**	**1 Year 12.31.24**	**3 Years Annualized**
Dow Jones U.S. R/E	-7.84	4.86	4.86	-4.13
S&P GSCI	3.81	9.25	9.25	9.63

Source: FactSet

Energy accounts for about 60% of the S&P GSCI commodities index. Crude oil prices trended down in 2024 but have jumped up about $10/bbl. in January. The energy segment of the index was up 9.25% in 2024. Agriculture is the second largest segment of the index at about 18% and was slightly positive for the year. Precious metals remain elevated. Gold is near all-time highs at $2,685/oz.

Asset Allocation

Selecting the appropriate asset allocation is extremely important. Investors should always take age/time horizon and risk tolerance into account when constructing or rebalancing an investment portfolio. No one asset class is always the best performer. A balanced approach will help to smooth out the ride. U.S. large-cap equity has led the way over the past two years but lagged significantly in 2022. A 60/40 stock-bond allocation five years ago would have drifted to a 73/27 allocation today without rebalancing. The additional return over the period would be appreciated but the additional risk assumed may turn into more of a painful downside experience than can be well tolerated.

Source: Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management

Disclosures

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