

Quarterly Market

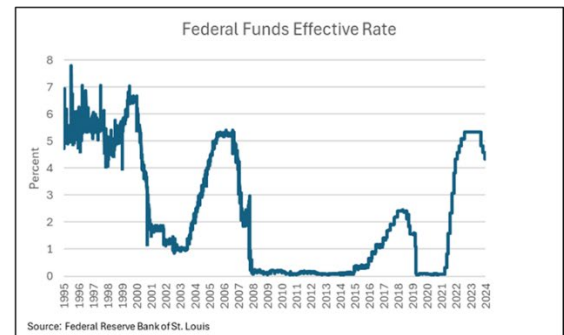


REPORT

REVIEW AND OUTLOOK 4th QUARTER 2024 REVIEW AND OUTLOOK

MARKET HEADWINDS: TRUMP AND THE FEDERAL RESERVE

Overview



Trump's victory in the presidential election has had several effects on financial markets. Stocks initially rallied (particularly small-caps) as optimism surged around an agenda supposedly favoring domestic companies over international and the renewal of an era of mergers and acquisitions which has been stymied under Biden's Department of Justice. The bond market began selling off after the Fed's first interest rate cut in September and continues as a new wave of expected tax cuts and tariffs under Trump suggest inflationary pressures may persist. Bond yields have risen, pushing the 10-year U.S. Treasury above 4.75%. The recent rise in interest rates took a bit of the shine off a great year for the stock market, which saw the S&P 500 increase 25% as the "Magnificent 7" served as the primary performance driver. Despite the strong year for the S&P 500, the small-cap S&P 600 rose 8.7% and the other 493 stocks in the S&P 500 actually outperformed since June 30th, which implies a broadening out of the market. However, as rates climbed in recent weeks, the market returned to a defensive posture: buying the "Magnificent 7" stocks, and selling everything else. The top 10 stocks in the S&P 500 by market

capitalization now represent almost 40% of the total index, as shown in the chart above.

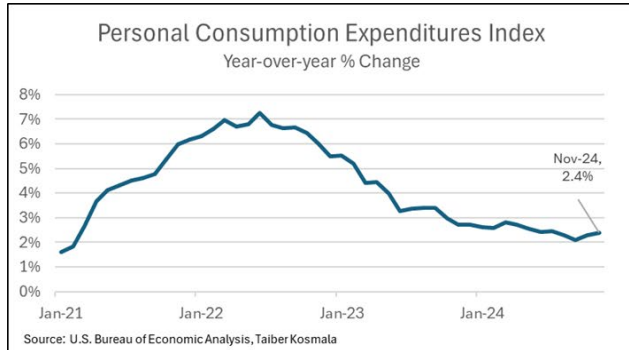
At its recent December meeting, the Fed indicated additional rate cuts are a way off. This may suppress the upward trajectory of the stock market, temporarily. However, the current landscape of 3.1% real GDP growth, 2.4% inflation, and a 4.2% unemployment rate appears supportive for most investment asset classes.

OUTLOOK

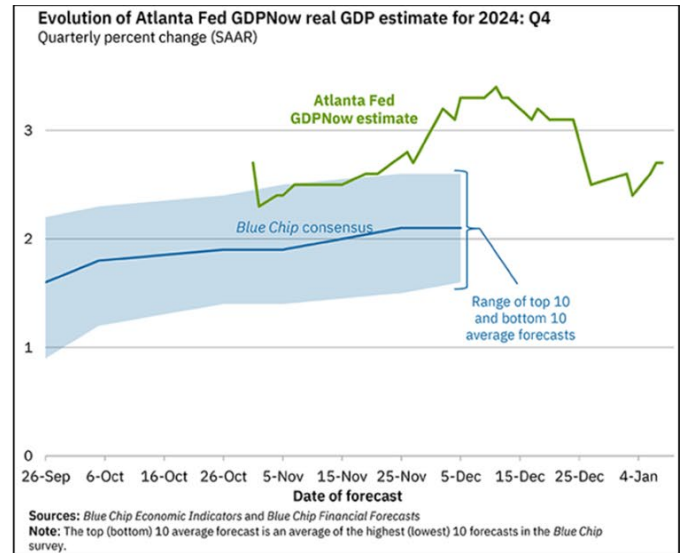
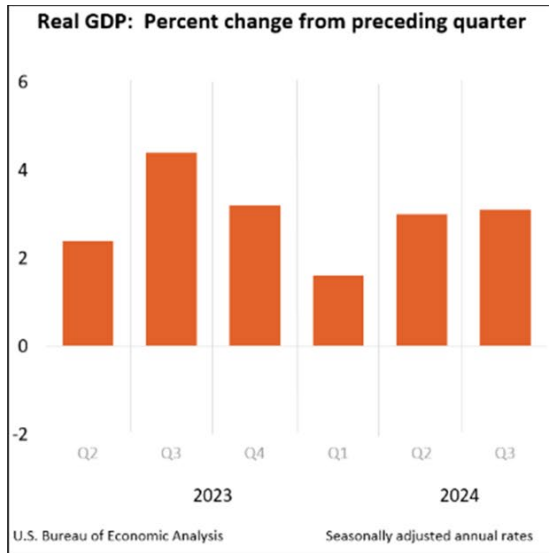
| Constructive Observations | Cautious Observations |
|---|--|
| <ul style="list-style-type: none">• Tight credit spreads suggest a relatively healthy outlook for corporate America.• A solid U.S. labor market supports consumer spending.• Business investment (especially technology and R&D) has been strong and trending higher.• Corporate earnings growth is robust with expectations for a 3-year high pending Q4 results.• Global central banks remain highly coordinated in easing monetary policy. | <ul style="list-style-type: none">• Forward P/E multiples on U.S. large-cap stocks are well above historical averages.• Investor complacency and waning fundamentals portend late-cycle weakness.• Momentum-driven leadership in equity markets foster vulnerabilities to sharp reversals.• Dollar strength continues and acts as a drag on earnings growth.• Housing remains sluggish due to low affordability. |

- Our intermediate-term outlook for equity markets was upgraded initially in September and was followed with a second upgrade in the first half of November while maintaining active tilts toward domestic mid/small cap and value-oriented equities. We favor U.S. equities over international, due to the uncertainty surrounding the scope and magnitude of tariffs likely to be imposed by the incoming Trump administration, as well as a perceived focus on deregulation and domestic manufacturing. We elevated our outlook on the U.S. dollar in late November given better growth prospects for the U.S. economy relative to the rest of the world, as well as increasing monetary policy divergences whereby U.S. interest rates are likely to remain elevated on the world stage.
- While market participants await policy details from the incoming U.S. administration and lawmakers, the expectation of a pro-growth fiscal policy and deregulation efforts should be supportive for risk assets in the near-term but ultimately will depend on the composition and sequencing of legislative/executive actions in 2025. Risks to a constructive outlook include protectionist trade policy (tariffs), delicate labor supply dynamics (immigration), and problematic fiscal deficits, all of which warrant close monitoring.
- From a duration standpoint, while acknowledging an upside bias on rates due to the improved growth outlook and potential inflationary pressures, we are maintaining a neutral duration stance at this time due to potentially disruptive trade and foreign policies in the coming months. Our view on corporate credit risk has marginally improved in sympathy with our view on the overall growth backdrop.

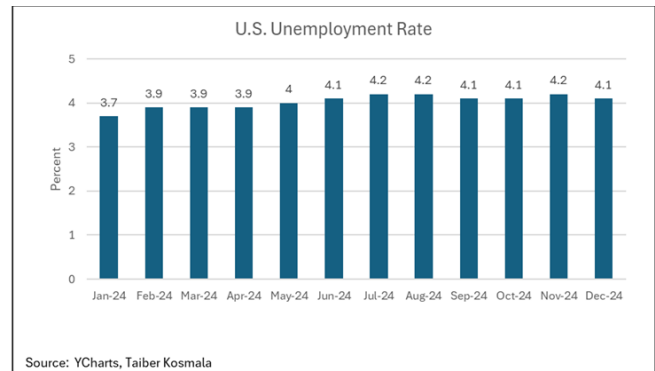
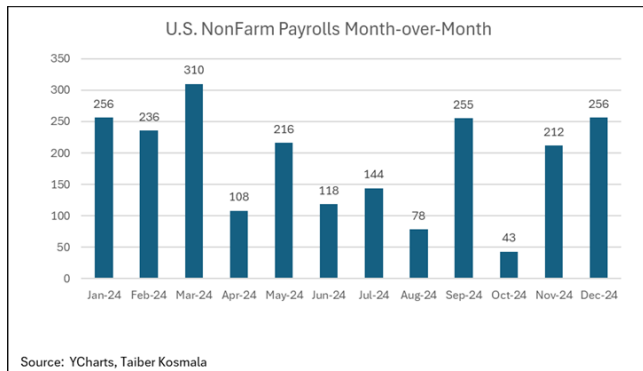
MACRO OVERVIEW



- The PCE Price Index, the Fed’s preferred inflation gauge, showed an increase of just 0.1% from October to November, and a 2.4% annual rate, still ahead of the Fed’s 2.0% goal. The report became available two days after the Fed cut its benchmark interest rate on December 18th another quarter percentage point to a target range of 4.25% - 4.5%, the lowest in two years. That marks the Fed’s third consecutive cut this year, which began with a 0.5% reduction in September, followed by a 0.25% cut at its November meeting.
- The Fed indicated that it probably would lower rates twice more in 2025, according to the “dot plot” matrix of individual members’ future rate expectations. The two cuts represent a halving of the committee’s intentions when the plot was last updated in September. The cut came even though the committee raised its projection for full-year 2024 gross domestic product growth to 2.5%, half a percentage point higher than September.
- Fed officials may have gotten ahead of themselves in terms of their lenient assessment of inflation. In September only three FOMC members saw upside risks to core PCE. In December, the number of members seeing upside risks to core PCE rose to fifteen. This was the largest meeting-by-meeting increase since at least 2017. The median inflation forecast for next year rose from 2.1% to 2.5%. The December rate cut was perceived by investors to be as hawkish as a rate cut can be. Equity markets have pulled back in recent weeks, adjusting to a shallower easing cycle.
- Shelter accounts for 17% of the core PCE Index and recently climbed to a 4.9% year-over-year rate. Limited new housing supply and high interest rates that may discourage existing homeowners from selling could delay the shelter recovery and keep prices high.



- GDP increased at an annual rate of 3.1% in the third quarter of 2024, according to the “third” estimate released by the U.S. Bureau of Economic Analysis, up from 3.0% in the second quarter.
- The Atlanta Fed projects economic growth at a 2.7% rate in the fourth quarter.

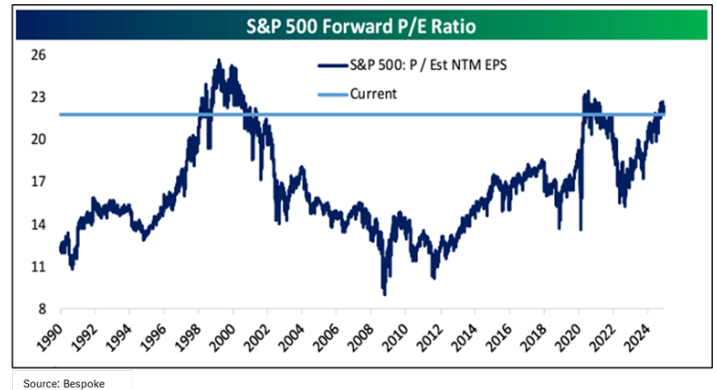
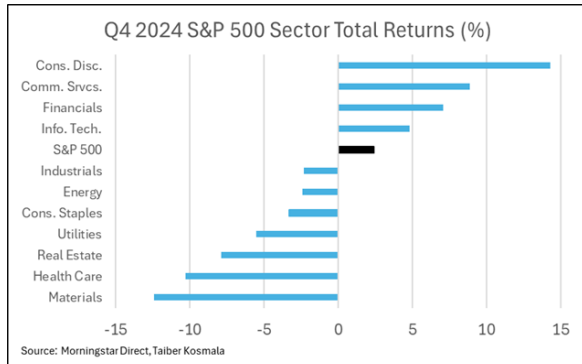


- Employment grew each month in 2024, though inconsistently, and at times raised questions about the possibility of a looming recession.
- December U.S. nonfarm payrolls grew by 256,000 well above the consensus forecast of 155,000 and the 12-month average of 186,000. November employment increased by 212,000 compared to a median estimate of 200,000. Employment was essentially unchanged in October (+43,000), falling significantly short of the anticipated 100,000 increase, but was heavily distorted due to the impact of hurricanes and the dockworkers’ labor strike.
- The economy added 2.2 million jobs in 2024. The U.S. has now added jobs 48 months in a row, tying the second largest period of employment expansion on record. The U.S. economy has recovered approximately 33% more than the 21.9 million job losses in March and April

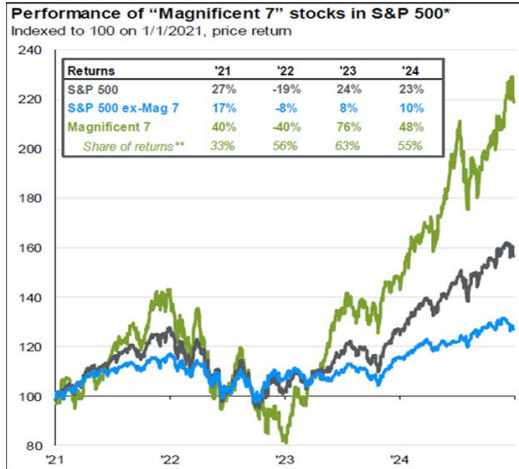
2020, at the onset of the Covid-19 pandemic.

- The unemployment rate has remained steady in the 4.1% - 4.2% range in recent months.

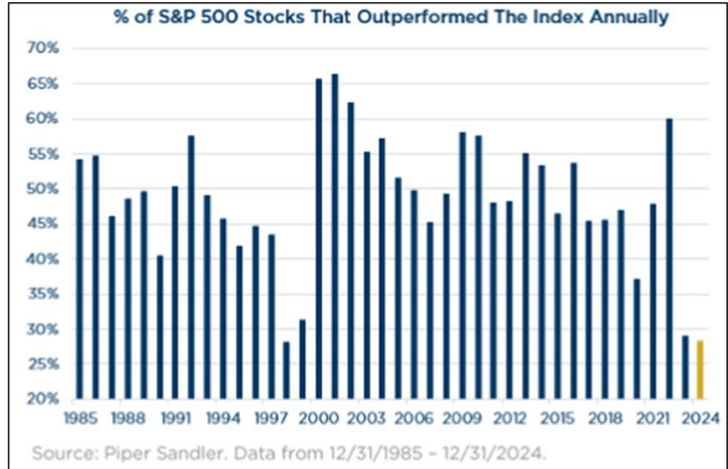
EQUITY OVERVIEW



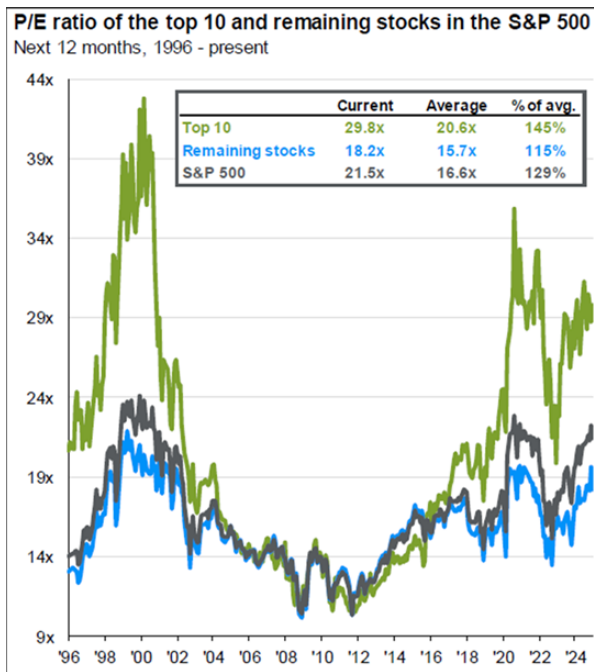
- The S&P 500 Index returned +2.4% in the fourth quarter. Growth outperformed value, as the S&P 500 Growth Index returned +6.2% and the S&P 500 Value Index returned -2.7%. For the full 2024 calendar year, growth has outperformed value by over 23% (+36.1% vs +12.3%).
- Stocks fell in October following disappointing earnings guidance from a few of the largest technology companies and amid uncertainty surrounding the U.S. election and the trajectory of interest rates. As Donald Trump emerged as the winner of the US presidential election and the Republican party gained control of congress, stocks made widespread gains in November around optimism that the new administration's policies would lift economic growth and lower taxes. Stocks pulled back in December after the Fed cut its federal funds rate by 25 basis points to 4.25% - 4.5% as its dot plot indicated expectations for just two 25 basis point cuts in 2025 (down from four cuts signaled in September). The typical "Santa Claus rally" that generally lifts stocks in the final trading days of the year never materialized, and stocks declined despite no major catalysts.
- Four of eleven sectors delivered positive returns for the quarter, led by Consumer Discretionary (+14.3%), Communication Services (+8.9%), Financials (+7.1%), and Information Technology (+4.8%).
- Large-cap stocks (+2.4%) outperformed mid-cap (+0.3%) and small-cap (-0.6%) stocks this quarter.
- The U.S. equity market is valued about where it was in late 2020 or early 1998 on a forward 12-month EPS basis.



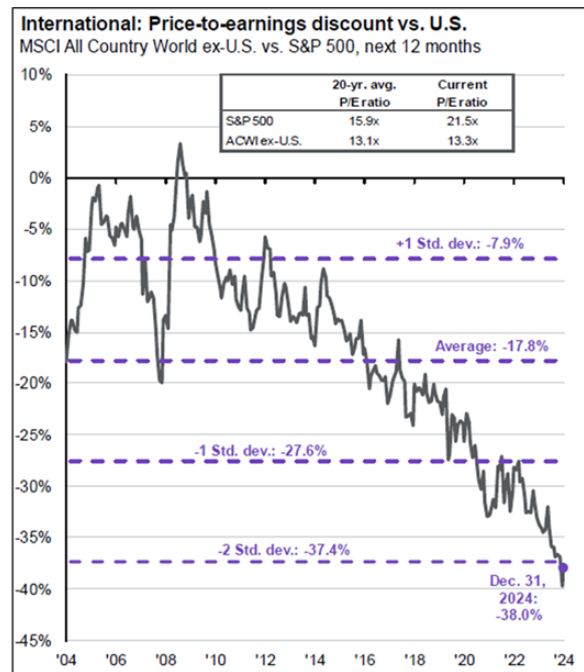
Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management



- The robust return of the S&P 500 in 2024 very closely mimicked its 2023 return, producing the strongest 2-year period for the S&P 500 since the late 1990's. The historically narrow market leadership has been noteworthy; market performance is still being driven by a handful of companies.
- Despite the dramatic double-digit "headline" return of the S&P 500 index this year, it's been two years in a row where less than 30% of stocks have beat the S&P 500 index. 72% of stocks in the S&P 500 Index underperformed its overall return in 2024; 31% had flat to negative performance.



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



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

- For years, U.S. stock market returns have largely dominated global stock market returns, but this dominance has come with a progressively higher price tag. As of the end of 2024, U.S.

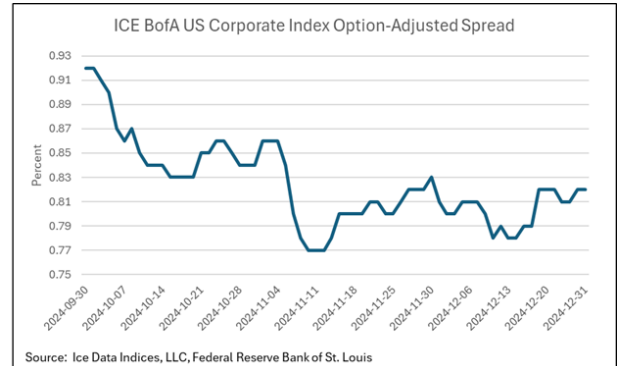
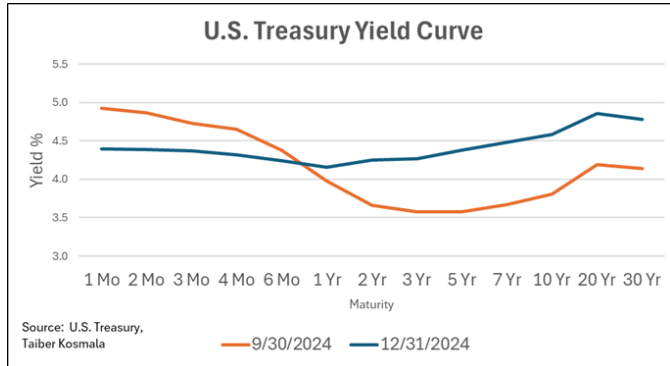
equities traded at a 61% premium to international equities (as measured by the forward price-to-earnings ratio): 21.5x vs. 13.3x earnings, respectively. (Inversely, that's a 38% discount to U.S. equities.)

- Corporate earnings growth overseas has not kept pace with the U.S. Valuation premiums in the U.S. compared to the rest of the world have expanded dramatically (around two standard deviations relative to history). Most non-U.S. countries are trading in-line with their long-term P/E averages; however, U.S. stocks are currently trading well above their 20-year historical average.



- International stocks underperformed U.S. stocks in the fourth quarter, primarily because the U.S. dollar strengthened significantly against almost every other major currency. Against a backdrop of tariff threats and rising U.S. interest rates, the MSCI EAFE Index of developed market stocks returned -8.1%, while the MSCI Emerging Market Index returned -7.8%. In aggregate, European stocks declined 9.7% and stocks in the Asia/Pacific realm declined 5.5% in U.S. dollar terms.
- While a strong dollar is great news for Americans vacationing abroad and U.S. businesses importing goods from overseas, it's a headwind for multinational U.S.-based corporations doing a lot of business in non-U.S. markets. The dollar is gaining strength as currency traders bet that companies will either move production to the U.S. or make other maneuvers to avoid tariffs. This will generally involve moving currency from overseas to the U.S.

FIXED INCOME OVERVIEW



- Treasury yields reversed course in October, rising across maturities in response to a shift in polls predicting a Donald Trump victory in the US presidential election, given the popular belief that the implementation of his policies could be inflationary. As widely expected, the Fed cut interest rates by 25 basis points at its November FOMC meeting to a range of 4.50% - 4.75%, citing continued progress in the fight against inflation and a normalizing labor market. Data highlighting continued economic resilience put bond investors on guard heading into the December FOMC meeting. The Fed cut the federal funds rate by 25 basis points at its December meeting to 4.25% - 4.50% but signaled that rates could remain higher next year than previously expected. Treasury yields, particularly longer maturities, rose in December with the 10-year yield hovering near a seven-month high at the end of the month.
- The Bloomberg U.S. Aggregate Bond Index returned -3.1% during the quarter. Shorter duration bonds (< 3 years) outperformed the longest duration bonds (> 10 years) by roughly 750 basis points. 1-3 year Treasuries returned -0.1%; whereas 10-20 year Treasuries returned -7.6%.
- Investment grade spreads tightened 10 basis points, starting the quarter at 92 basis points and ending the quarter at 82 basis points, near a multi-decade low, reflecting investor confidence in economic stability and corporate earnings growth amid moderate recession risks.
- The Bloomberg U.S. Corporate High Yield Index returned +0.20% in the fourth quarter. With lowered expectations around significant rate cuts from the Fed in 2025, spreads tightened and high yield bonds experienced a positive return. Lower-quality issues outperformed higher-quality issues; Bonds rated BB, B and CCC returned -0.49%, +0.30%, and +2.3%, respectively. New issuance was 20% higher as compared to Q4 2023 issuance, with \$50 billion of par value issued.

REAL ASSETS OVERVIEW



- Oil prices averaged \$77 per barrel (bbl.) in 2024. Daily prices stayed within a \$21/bbl. range between \$67/bbl. and \$88/bbl. Strong global growth in production of oil and slower demand growth (particularly in China) put downward pressure on prices, while heightened geopolitical tensions in the Middle East and Ukraine and voluntary production restrictions among OPEC+ members supported them. These offsetting factors kept oil prices within a relatively narrow range.
- The price of oil finished the year only marginally above where it started. After a big run-up during the first half of 2024, prices have mostly drifted lower over the past 6 months and were essentially flat around \$71/bbl. during the fourth quarter. Stable oil prices meant gasoline prices didn't fall as dramatically over the past three months, which helped keep inflation relatively sticky.
- Gold prices fell 0.5% in the fourth quarter. A stronger dollar was one factor that pushed gold prices lower, along with the prospect of a stronger economy in the year ahead. Copper prices, which are widely seen as a proxy for industrial demand, fell almost 12% in the quarter.

IMPORTANT DISCLOSURES

The information in this report was prepared by Taiber Kosmala & Associates, LLC. Opinions represent TKS' and IPIS' opinion as of the date of this report and are for general information purposes only and are not intended to predict or guarantee the future performance of any individual security, market sector or the markets generally. IPI does not undertake to advise you of any change in its opinions or the information contained in this report. The information contained herein constitutes general information and is not directed to, designed for, or individually tailored to, any particular investor or potential investor.

This report is not intended to be a client-specific suitability analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities. Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon.

This communication is provided for informational purposes only and is not an offer, recommendation or solicitation to buy or sell any security or other investment. This communication does not constitute, nor should it be regarded as, investment research or a research report, a securities or investment recommendation, nor does it provide information reasonably sufficient upon which to base an investment decision. Additional analysis of your or your client's specific parameters would be required to make an investment decision. This communication is not based on the investment objectives, strategies, goals, financial circumstances, needs or risk tolerance of any client or portfolio and is not presented as suitable to any other particular client or portfolio. Securities and investment advice offered through Investment Planners, Inc. (Member FINRA/SIPC) and IPI Wealth Management, Inc., 226 W. Eldorado Street, Decatur, IL 62522. 217-425-6340.