Market Review and Outlook
Q4 2024

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Market Environment

December 31, 2024

- Interest rates rose significantly in Q4 2024 as stronger than expected economic data appeared just after the Fed began its interest rate easing program in September. The Fed continued to ease through December despite stronger data while the market removed a significant amount of expected further easing in 2025 and beyond. Long term rates rose back toward their highs for the year with a significant move higher in December.

Index	December 2024 Return	QTD Return	YTD 2024 Return
Aggregate Bond	-1.7%	-3.1%	1.3%
Dow Industrials	-5.1%	0.9%	15.0%
S&P 500	-2.4%	2.4%	25.0%
NASDAQ	0.6%	6.4%	29.6%

- Equity markets rose in Q4 despite significant volatility and declines in December. Gains were again concentrated in the handful of Tech stocks that have dominated returns for the year. The sector rotation in Q4 reversed much of the rotation in Q3 amid opposite rate environments.

- In December, the market weighted S&P 500 fell -2.4% vs. -6.3% for the broader equal weighted market index. For the quarter, the market weighted index was up 2.4% vs. equal weighted was down -1.9%. YTD the market weighted index was up 25% vs. 13% for the broader index. The top 10 stocks that make up 35% of the market weight of the S&P 500 index were up 50% in 2024, compared with 14% return for the rest of the market.

- Shorter term interest rates are now closer to fair value and near equilibrium with the economy, but longer-term rates are still subject to upward pressures from significant Treasury debt issuance needs from the past three years of Fiscal spending commitments.

- The equity market, particularly the high-flying tech sectors related to AI, has reacted positively to falling rates; however, has not been influenced yet by the move higher in rates, while some of the rest of the equity market has. Equity market valuations remain at extraordinarily high levels, with expectations of very high growth in earnings, but may be challenged by a higher rate environment.

- Expectations of the incoming Trump administration are for lower taxes, less regulation, significant immigration reform, and higher tariffs. The market expectations are for potentially stronger economic and earnings growth, larger budget deficits, and an increase in inflation due to wage pressures and passed through tariffs.

- While service inflation remains high and sticky, we feel conditions could support disinflation through increased supply of goods with softening demand, lower energy costs, moderating wage pressures amid a more balanced labor market, and less tariff impact than expected. Monetary policy should be less of a factor, while fiscal policy will experience a significant structural shift that may or may not impact the deficit.

- Global economics have softened significantly, while geopolitical risk remains highly elevated as major country governments leaderships turn over.

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Market Environment

December 31, 2024

- **Policy**
  - The Federal Reserve has been an absolute mess in 2024, misdiagnosing current and expected economic conditions and whipsawing policy declarations by historically extreme levels in both directions, creating significant bond market volatility.
  - The Feds December 25bp rate cut brought a total rate reduction of 1% to 4.375% and the Fed indicated a slower steadier path of rate moves in 2025. This rate cut came amid significant disagreement within the Fed and with an increase in inflation expectations predicated on potential future economic policy by the incoming Trump administration.
  - Amid all the noise, we feel that the market is now correct in pricing in the potential for two cuts totaling .50% for 2025 then holding.
  - The European, Canadian, and other global central banks have entered easing modes, while Japan has shifted to a tightening mode.
  - Significant Treasury debt issuance of well over $2 trillion will be issued in 2025 with an interest expense of over $1 Trillion to support the heretofore stimulus packages such as Chips, Infrastructure, and Inflation acts that has stimulated activity, but accelerated the debt.
  - Continuous debt issuance will continue to pressure longer term rates, with future funding needs uncertain with the new administration.
  - It is expected that renewing 2017 tax cuts and additional tax cuts will expand the deficit, but there will also be other major spending cuts that may help offset to minimize expansion of the deficit. Debate regarding the debt ceiling will be a major issue.
  - The new Trump administration will shift focus back to fossil fuels that will enhance natural gas production, use, and export activity.
  - The upcoming deregulatory policy environment will impact many sectors. There is potential for increased M&A activity.

- **Economic Environment**
  - The US economy overall has been strong with Q3 GDP printing 3.1% with a price index at 1.9%, showing nominal GDP at 5.0%.
  - While overall GDP has slowed to ideal levels, the question is whether the economy has arrived at these levels, just passing through to softer conditions, or about to reaccelerate under renewed stimulative policies.
  - After stronger than expected growth early in Q4, recent economic activity has been softening across a number of indicators. Inflation has moderated but remains at elevated levels and overall prices remain at historically high levels. Services inflation is a driver.
  - The Manufacturing sector has been in contraction for 9 consecutive months and 24 out of the last 25, while the Services sector is robust.
  - Higher interest rates has curbed activity in the high-priced housing market increasing supply, and home price increases have stalled, while car sales have increased with broad based dealer incentives, pointing to lower inflation pressures from key economic goods sectors.
  - Employment trends including jobs available, additions to payrolls and the unemployment rate continue to incrementally soften.
  - Inflation continues to moderate amid broader rejection of high prices by consumers and businesses along supply chains, and may moderate further amid upcoming lower energy prices, and lower housing prices as the real estate market adjusts.
  - Geopolitical events continue to disrupt and stress international relations and trade flows, increasing economic and market risks.

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Market Outlook

December 31, 2024

- Interest rates seem to have risen to a point of equilibrium with the economy, while the equity market maintains historically high valuations across a wide variety of measures and have recently shown some instability.
- Expectations of monetary policy, with an easing of .25% around mid year and another .25% by year end seem reasonable.
- We will likely see short term rates stable to slightly lower, with longer term rates higher. 10-year notes will likely get above 5%, which will have an adverse impact on housing, and an uncertain impact on the economy and equity markets.
- Our expectations are for a slower economic environment, including a softening labor market that will provide the opportunity for the Fed to continue to ease rates due to labor market conditions, even though inflation may not yet reach their 2% target.
- The yield curve continues to revert to a more normal shape, moving toward its average yields since 1984 (see page 14), our base case scenario.
- The S&P 500 index has continued higher to new records in Q4; however, the driver was back to narrow leadership of the Top 10 at +10.5%, while the rest of the market corrected down -2%. Only 58 of the S&P 500 stocks were up in December.
- The reversion back to the few large cap Growth stocks from Value is concerning as we saw the broader market react negatively to higher interest rates, however the go-to large caps got relatively richer, until they too began to falter.
- Equity markets had moved higher on Fed rate cuts, as they have on hopes for so long, stretching valuations even more; however, a continued move higher in rates and any fundamental let down in earnings may lead to a correction.
- Some market sectors have corrected significantly and show better value, while many stocks remain over valued. The environment is becoming more of a stock pickers market.
- Corporate earnings, while on average stronger than expected, have been bifurcated with relatively strong reactions to earnings reports and varied corporate outlooks. High profit margins in some areas were maintained as companies continued to raise prices, while others saw significant volume declines due to a rejection of higher prices. Pricing power seems to have begun to diminish.
- We now expect stable to even lower short rates, normalization of intermediate interest rates around current levels with a risk of higher long-term rates. Equity markets may be vulnerable to higher long-term rates.
- With an adjustment of P/E ratios to lower levels, along with a reevaluation of earnings growth may bring equities to lower levels on a market weighted basis. The "equal weight" S&P 500 should outperform the "market weight" S&P 500 going forward.

Investment Strategy

December 31, 2024

- Our overall asset allocation is neutral to long term strategic targets; however, remains defensive within Equity and Fixed Income.
- In Fixed Income, our base case interest rate scenario continues to be a return to the average yields since 1987. We have achieved that in short and intermediate term rates but not yet longer-term rates, so the implications are for slightly lower short-term rates and slightly higher long-term rates and a steeper yield curve as we move through 2025.
- Our equity strategy can best be described as Growth and Income, with Growth at a reasonable price, and more "Equal Weight", or diversified, established using a top-down/bottom-up Economy, Industry, Company approach
- Fixed income strategy has successfully defended against rising interest rates for the past three years and have now moved out the yield curve into intermediate maturities but remain shy of longer-term maturities as more pain may be in store.
- Equity prices remain at extraordinarily rich valuations, particularly in high flying growth stocks, with expectations of strong earnings growth. We are curious if we are in the later stages of a dot.com 2.0 environment.
- Many of the non tech sectors have also appreciated significantly and maintain high valuations via their high PE and growth expectations; however, there are sectors and companies that have corrected and/or remain undervalued.
- We see opportunity in growth areas away from the (Magnificent 7) that are priced at reasonable levels.
- Small and mid cap sectors may do well with lower rates, less regulation, and potentially more active M&A activity.
- Rate sensitive sectors such as Utilities, Real Estate and Small Cap stocks, which got hit in the recent rate move higher, should provide a combination of growth, income, and stability to portfolio strategy going forward.
- If the economy slows materially, or growth and/or inflation reaccelerates and rate expectations reverse, markets are vulnerable…ie, they are currently priced to perfection.
- Risk premiums are low across financial assets including narrow spreads on corporate bonds and high P/Es across equities, with some exceptions. Mortgages provide enhanced yield without the credit risk, while some equity sectors are undervalued.
- We continue to underweight our allocation to the eight rich stocks that dominate the S&P 500, aka the "Mag 7". Core holdings do include an allocation to some, but not all or as heavy, in those market leaders. Strategy does have significant technology and growth exposure, and will continue to, but more diversified, and at what we consider at a reasonable price.
- We have begun to add allocations to Small and Mid cap stocks, which have underperformed, and further diversified the equity strategy with small allocations to the international equity markets where appropriate.
- Geopolitical risks have continued and will continue to have consequences on the global economy and markets.

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Investment Strategy – Fixed Income

December 31, 2024

- Fixed income strategy has successfully defended against rising interest rates for the past three years and have now moved out the yield curve into intermediate maturities but remain shy of longer-term maturities as more pain may be in store.
- Our base case interest rate scenario continues to be a return to the average yields since 1987. We have achieved that in short term rates but not yet longer-term rates, so the implications are for slightly lower short-term rates and slightly higher long-term rates and a steeper yield curve as we move through 2025.
- With expectations of stability in short term rates in a now positively sloped yield curve, strategy is to maintain a core position in intermediate (2-7 year) maturities to lock in these higher rates for longer, while increasing yield relative to shorter term and cash equivalents with funds not needed for liquidity. We are still cautious on longer term maturities.
- While longer term yields (10-30 year) have risen toward their highest levels reached in 2024, there may be continued upward pressure on long term yields amid continuous issuance of Treasury debt. There is also a risk the incoming Treasury may alter the debt issuance structure, shifting more borrowings to long term from rolling over T Bills.
- The current higher rate environment has negatively impacted the current high priced housing market, after helping to stimulate home purchases and refinancings at the lower Q3 rates – supporting our economic equilibrium stance for rates.
- Longer term rates may sway higher between debt issuance and lower amid slower growth, lower inflation, and a flight to quality. Earlier in the year we further extended into longer maturities as rates rose to lock in the higher yields for longer.
- Yield spreads on Corporate bonds have become historically tight, while Government guaranteed Mortgages continue to provide generous incremental income with no credit risk.
- We continue to maintain an allocation to shorter term and floating rate notes, as well as maintaining the two to five year notes and Mortgage Backed Securities we extended into to maximize income.
- Rates may continue to see periodic flights to quality as equity market adjustments occur, geopolitical risks escalate, or signs of economic slowdown present themselves, such as consumers rejecting higher prices or a slowdown in employment and inflation.

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Investment Strategy - Equity

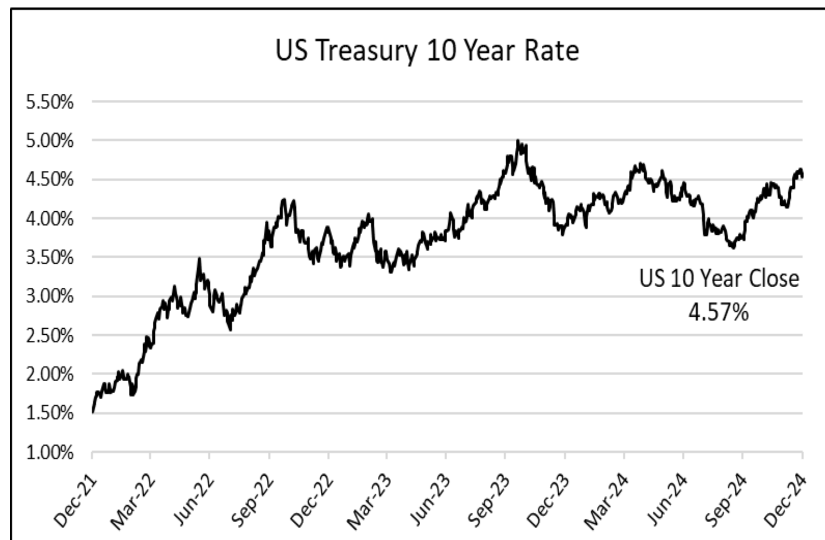
December 31, 2024

- The stock market is overvalued on so many measures in both absolute and relative terms.
- There is a "risk on" atmosphere with significant excess capital available from unprecedented money printing in recent years. Virtually all financial asset values are elevated, and AI related in particular. Are we in the later stages of Dot.com 2.0?
- While market participants have been pleased with overall earnings, price earnings multiples and expected future earnings growth are at extraordinarily high levels. One key measure, earnings yield, is at an extremely low level, particularly relative to bond yields.
- We reflect to the time when markets were buying significant amounts of 10-year Treasury notes yielding .50%. By any measure, the 10-year Treasury note was rich, yet continued to attract buyers. Rates have since risen over 400 basis points with a negative return of -25%.
- High valuations can go on for extended periods, until they don't…
- While extremely rich valuations are concentrated in a few large companies and sectors, much of the broader based market had also richened up, but recent market moves have brought the some of the rest of the market back closer to reasonable valuations.
- Overall equity strategy can best be described as Growth (at a reasonable price) and Income, and "Equal Weight".
- Favored Growth sectors do include Technology such as data center infrastructure and all their inputs, cyber security, and medical devices. While strategy does include some of the Great 8 large caps, there are a number of technology companies at a more reasonable price.
- Within Income, a more equal weighted market exposure and allocations to Value stocks such as Energy and certain Utilities, some Health Care, some Staples, and Industrials will provide Income and stability.
- Small and Mid Cap stocks also provide good relative value and growth opportunity, particularly with potentially increased M&A activity in the upcoming deregulatory administration.
- We also view some sectors as hybrid growth and income such as Energy, where expanded natural gas production, use, and export will provide high dividends as well as upside potential. Also, Utilities and other energy generation provide high and steady income, while also provide the energy source for data center growth. Natural gas will need to become more prominent as a transition energy source, for both exports for global energy, and increased domestic energy demand from data center demand, which continues to support Utilities.
- Utilities and other Value stocks may also serve as a flight to quality haven.
- A quantitative approach to Equity market valuations suggests implied earnings growth remains too high for the market weighted index suggesting a further setback; however, valuations across the broader market are closer to fair value suggesting opportunity elsewhere.
- The international market remains questionable amid economic slowdowns and government reformation.

Market Review

December 31, 2024

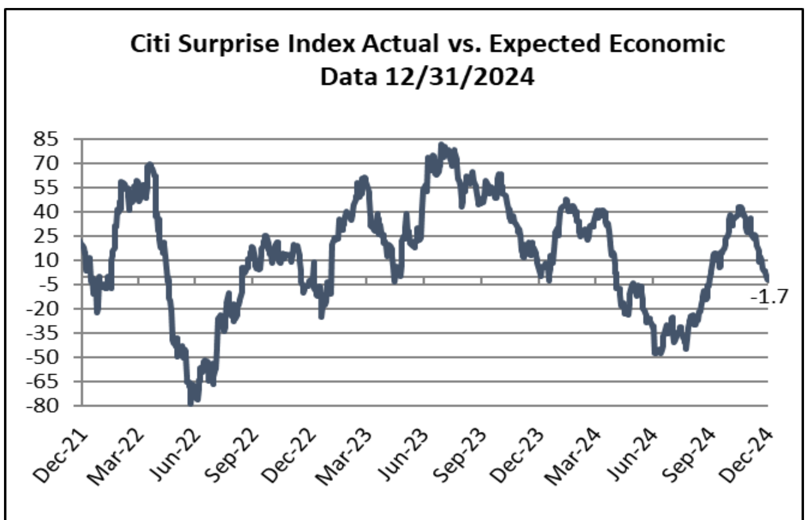
- Equity markets set new highs in December before rolling over as interest rates rose. The Fed and the market pulled back significantly on expected future interest rate cuts.
- In a reversal from Q3, the broad market pulled back significantly while the small group of large cap technology stocks resumed leadership.
- Yields rose amid sticky inflation and hawkish Fed talk. The market adjusted to a more hawkish Fed after they indicated only 2 cuts in 2025 at their December meeting.
- Treasury debt issuance is increasingly putting upward pressure on overall interest rates.

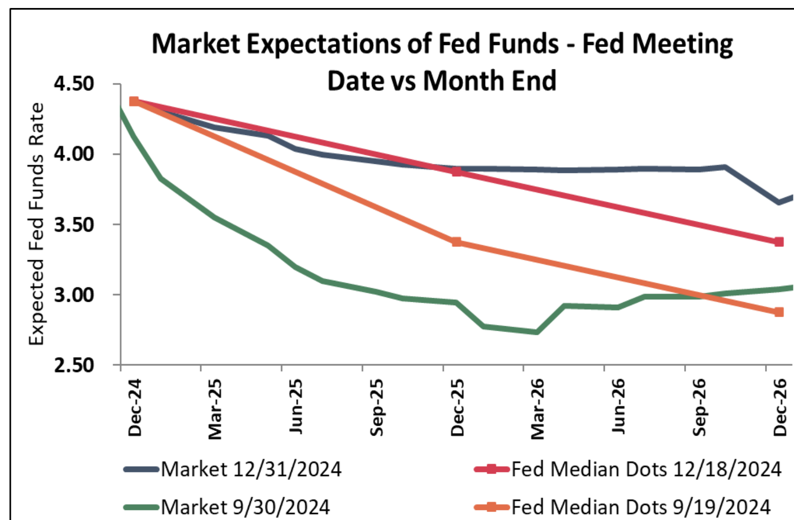


Market Review

Monetary/Fed Policy – December 31, 2024

- Economic Data has gone from stronger than expected, to softer than expected, to stronger than expected, and again softer than expected in Q4, seemingly immediately after, and counter to Fed meetings and policy shifts.
- The most recent December Fed meeting occurred amid stronger economic data, causing the Fed and the market to significantly reduce expectations of future Fed easing.
- The shift in market expectations of year end 2025 rates moved a full 1% higher in Q4, as did longer term interest rates in response.
- We feel the level of market rates has risen to a level near equilibrium with the economy, as we are seeing stimulative and restraint, such as in the housing market, as longer-term rates move lower and higher.
- The current market expectations of Fed Funds seems appropriate. If longer term rates continue to rise, we will likely see economic impact that will support incremental easing later in the year.

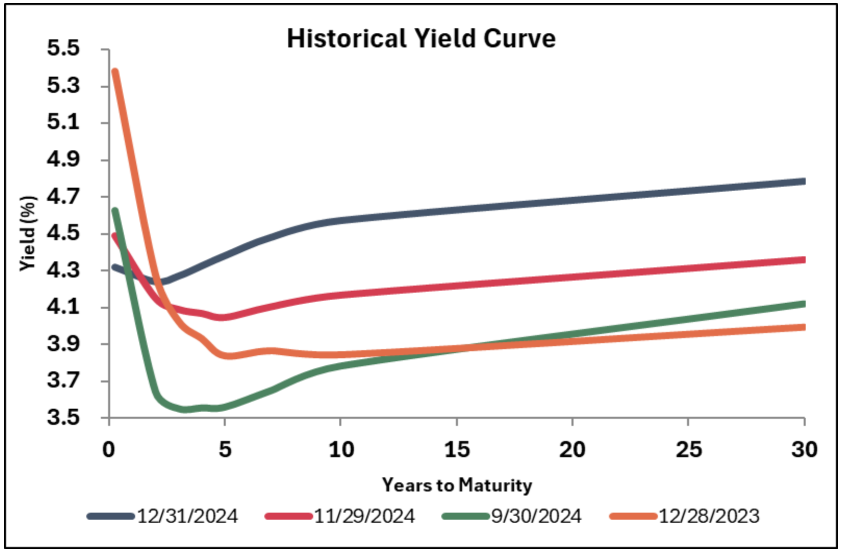


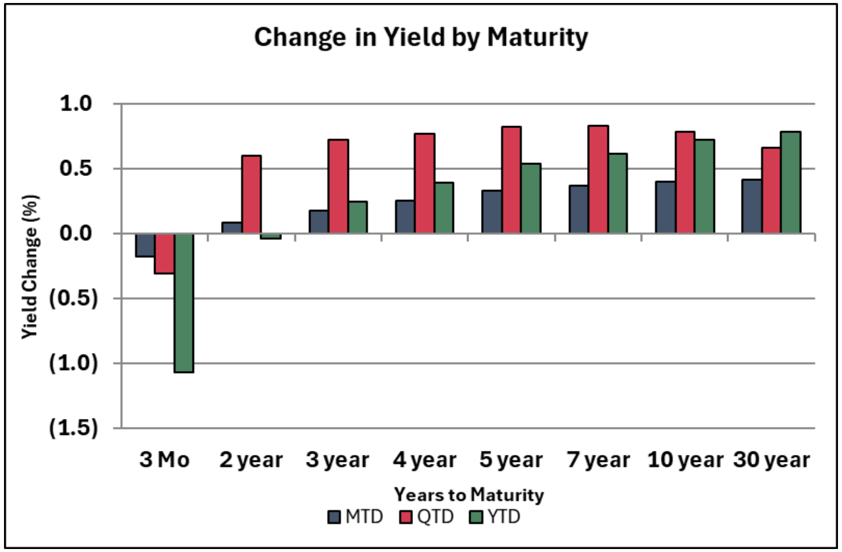


Market Review

Yield Curve – December 31, 2024

- Yields rose in Q4 with big moves in December and October in response to stronger economic data as well as continued Treasury debt issuance.
- The rise in rates was across the maturity spectrum and led by intermediate rates reflecting less Fed easing.
- Rates are now closer to fair value, and near equilibrium with the economy. The yield curve has "normalized" and is again positively sloped.
- Short rates are now above their long-term average, while longer term rates may have further to go.
- Longer-term rates are still at risk of rising due to a steady stream of Treasury debt to come.

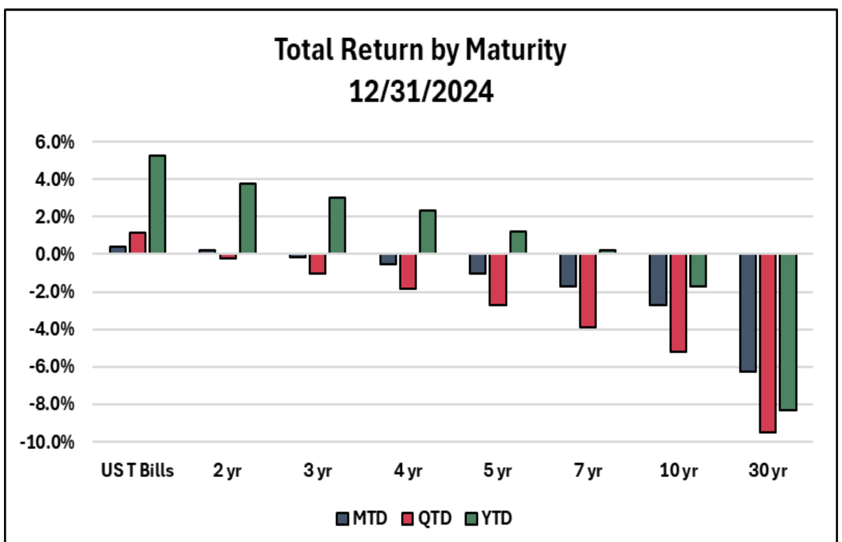


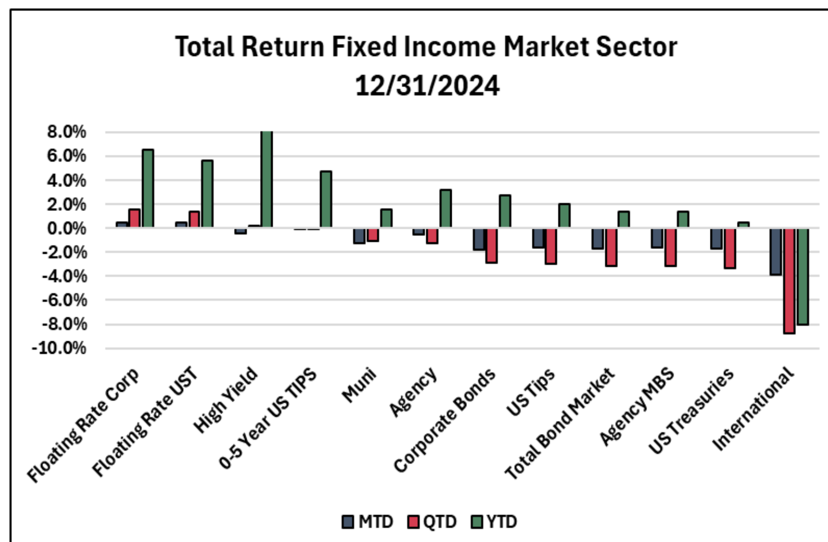


Market Review

Yield Curve – December 31, 2024

- Given the rise in yields across the curve, the longer the maturity the greater the loss. Longer duration assets turned negative for the year, again.
- Year to date, shorter maturities have generated positive returns as higher income more than offset limited price declines. Floating Rate Corporate and other short-term sectors have been the best performing sectors, while longer term sectors such as corporates have lagged due to price sensitivity, despite tighter yield spreads.
- Vectors Fixed Income strategy has been focused on shorter term maturities.
- International markets have significant negative returns as rates have risen from negative territory, and their currencies have depreciated vs. the dollar.
- While Mortgage-Backed securities have been negative, there is a significant difference among coupons within the sector. (see next page).

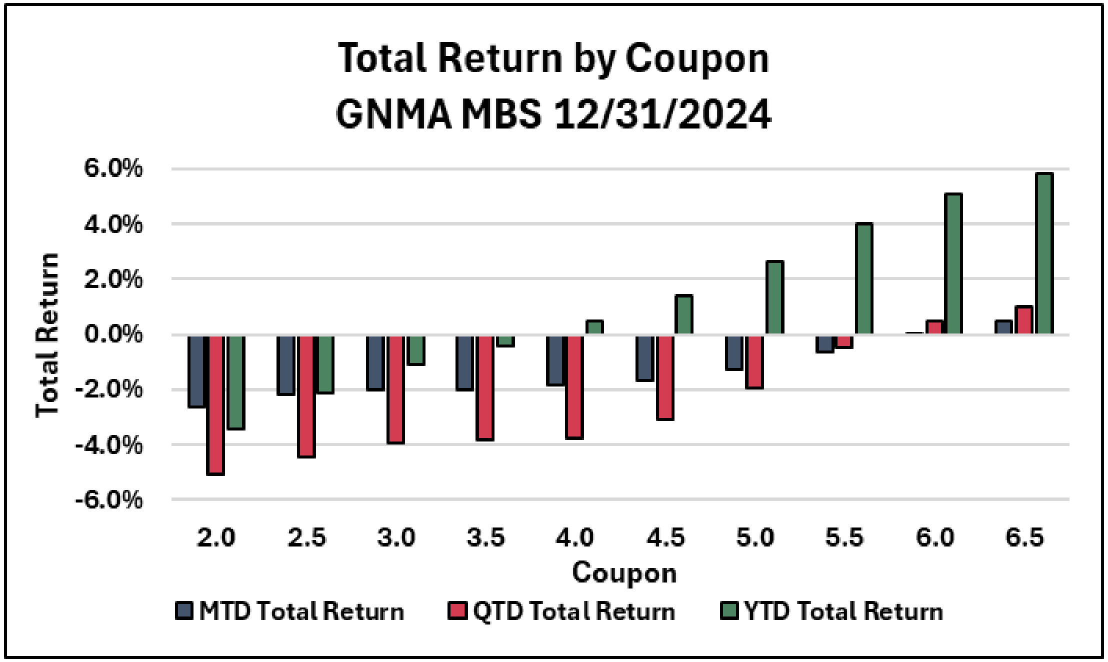




Market Review

Yield Curve – December 31, 2024

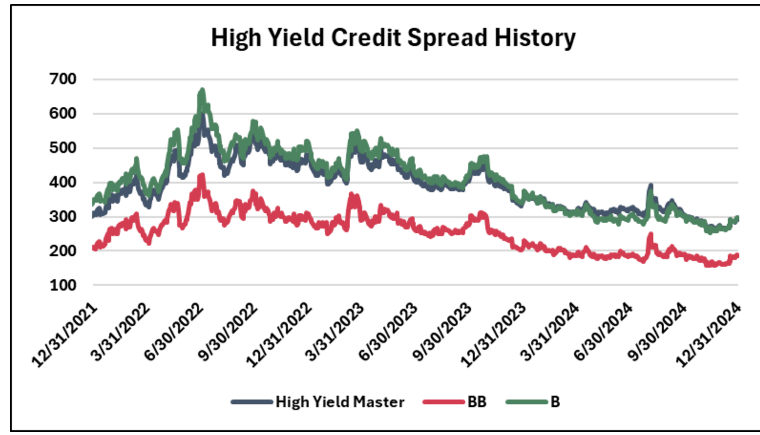
- Lower coupon mortgages are longer in duration and have generated negative returns in Q4 and YTD as interest rates have risen, pushing prices down.
- Higher coupon mortgages are shorter in duration and collect more income, given the lower sensitivity to changes in interest rates, they have generated positive returns YTD.
- Vectors strategy has focused on 4.5% through 6% coupons.

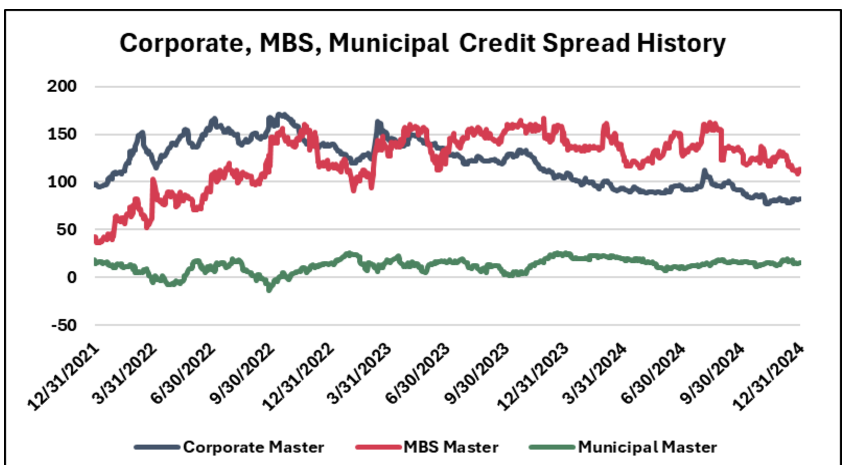


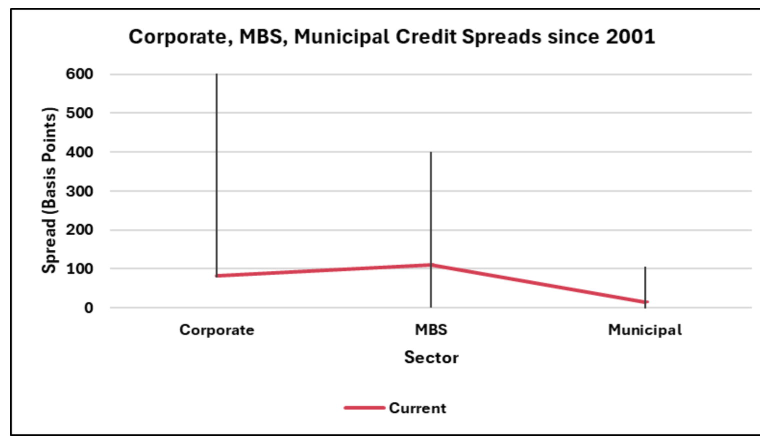
Market Review

Corporate Yield Spreads – December 31, 2024

- While Treasury rates have leveled off and equity prices rose, corporate bond risk premiums tightened near historic lows. Economic fundamentals have recently softened.
- Mortgage-backed securities also tightened but are still at historically wider spreads on an absolute basis and relative to other sectors such as Corporates and Munis and carry no credit risk.
- Municipals are also historically tight but are now closer to their historical median. However, the yield difference between MBS and municipals is significant with MBS producing much higher income, even after taxes.





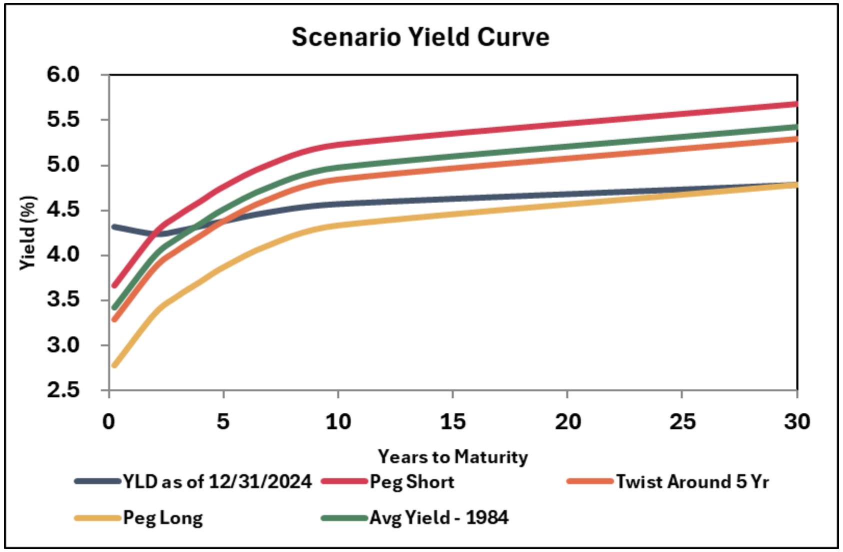


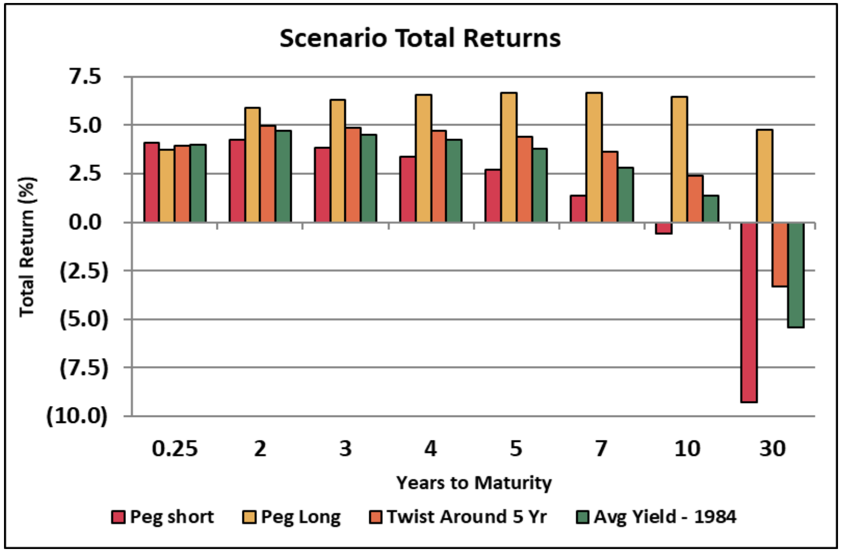
Spread	Corporate	MBS	Municipal
Current	82	111	15
Average	153	114	28
Median	134	103	20

Market Review

Yield Curve – December 31, 2024

- The yield curve is now positively sloped, providing higher yields for longer maturities.
- Five-year maturities and shorter at or above their long-term average yields, while longer term yields have further to go.
- In most scenarios returning the yield curve to its long-term average slope, including returning all yields to their average levels since 1984, 2–7-year maturities are most attractive, performing best in most scenarios.
- We feel that a return to average yields since 1984 is a reasonable base case scenario with potential for moderate Fed ease dropping short rates, and that longer term bonds remain vulnerable amid significant debt issuance.

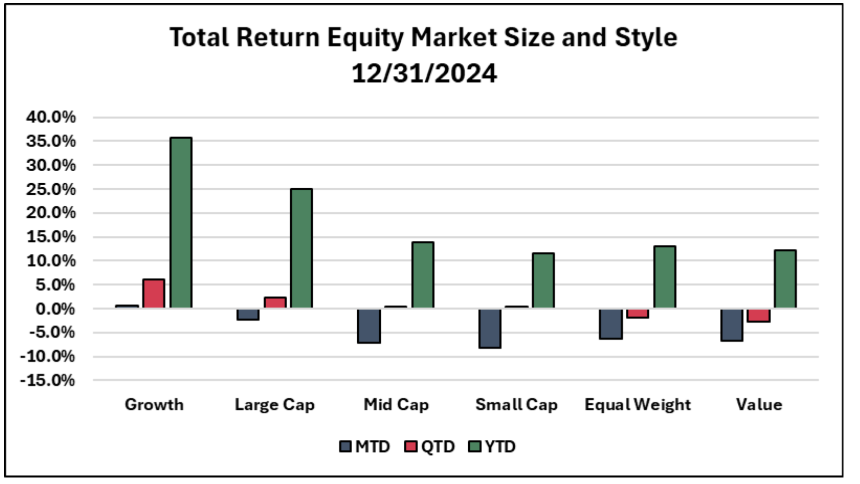


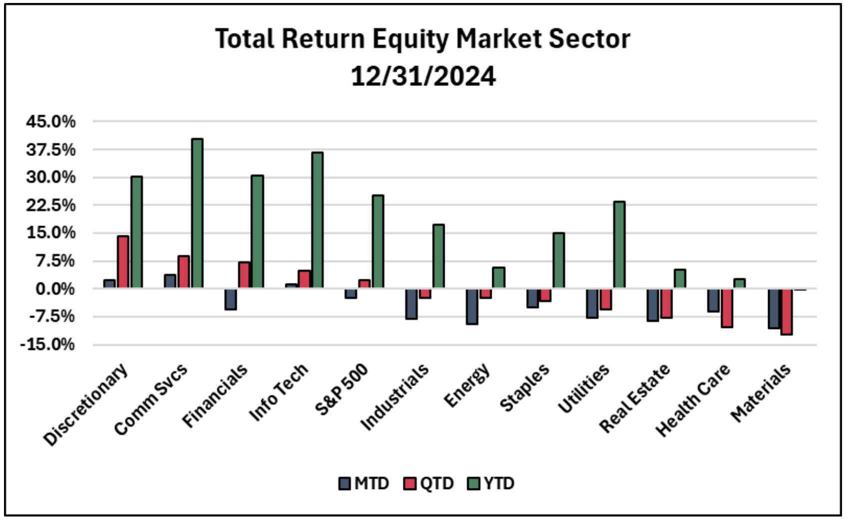


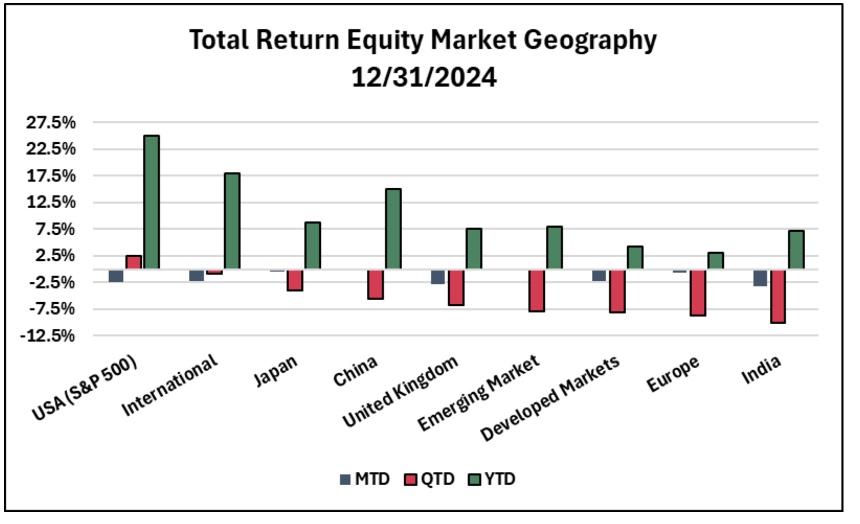
Market Review

Yield Curve – December 31, 2024

- Equity markets had a top-heavy quarter with a small group of growth and large caps ("Mag 7") having a final surge to end the year.
- The narrow group of growth stocks has led growth to outpace Value for the year by a large margin.
- Consumer Discretionary, Communications, and Financials were the best performing sectors in the quarter.
- USA stocks performed the best, Europe and emerging markets lagged the most.







S&P 500 Top 10

Equity Market – December 31,2024

- S&P 500 returns were again dominated only the few largest stocks which resurged in Q4.
- The top 10 stocks collectively now make up over 37% of the market weighted S&P 500 index.
- These largest companies have resurged in December and QTD and in fact were up 10.5% while the rest of the 490 stocks were down -1.9% Performance of these stocks are becoming more mixed and volatile.
- The equal weighted S&P 500 index (SPW) was down -1.9% in Q4 while the market weighted was up 2.4%.
- For all of 2024, the top 10 were up 50% vs. 14% for the rest of the 490 stocks in the S&P 500.

Top 10 Holdings Vs. Rest of S&P 500

Company	Name	12-31-2024 % Weight in SPX	11-30-2024 % Weight in SPX	MTD Return	MTD Contribution	QTD Return	QTD Contribution	YTD Return	YTD Contribution
AAPL	Apple Inc	7.6%	7.1%	5.5%	0.4%	7.6%	0.6%	30.7%	2.2%
NVDA	NVIDIA Corp	6.6%	6.7%	-2.9%	-0.2%	10.6%	0.7%	171.2%	5.2%
MSFT	Microsoft Corp	6.3%	6.2%	-0.5%	0.0%	-1.8%	-0.1%	12.9%	0.9%
AMZN	Amazon.com Inc	4.1%	3.8%	5.5%	0.2%	17.7%	0.6%	44.4%	1.5%
META	Meta Platforms Inc	2.6%	2.5%	2.0%	0.0%	2.4%	0.1%	66.0%	1.3%
TSLA	Tesla Inc	2.3%	1.9%	17.0%	0.3%	54.4%	0.8%	62.5%	1.1%
GOOGL	Alphabet Inc Class A	2.2%	1.9%	12.2%	0.2%	14.3%	0.3%	36.0%	0.7%
AVGO	Broadcom Inc	2.2%	1.5%	43.4%	0.6%	34.7%	0.6%	110.4%	1.3%
GOOG	Alphabet Inc Class C	1.8%	1.6%	11.8%	0.2%	14.0%	0.2%	35.6%	0.6%
BRK/B	Berkshire Hathaway Inc	1.7%	1.7%	-6.2%	-0.1%	-1.5%	0.0%	27.1%	0.4%
Top 10 of S&P 500		37.3%	34.8%	4.9%	1.7%	10.5%	3.6%	49.8%	15.3%
Rest of S&P 500		62.7%	65.2%	-6.3%	-4.1%	-1.9%	-1.3%	14.0%	9.7%
Total market Weighted S&P 500		100.0%	100.0%	-2.4%	-2.4%	2.4%	2.4%	25.0%	25.0%
Total S&P 500 Equal Weight Returns				-6.3%	-6.3%	-1.9%	-1.9%	13.0%	13.0%

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Market Review

S&P 500 Earnings – December 31, 2024

- Headline earnings grew 9.3% year-over-year for the last twelve months, and 8.2% comparing 4Q 2024 to 4Q 2023.
- The S&P 500 is trading at 24.3 times trailing earnings (actual earnings reported), above long-term historical averages by ever increasing margins.
- Earnings are expected to grow by 12.2% over the next twelve months based on current consensus.
- The S&P 500 is trading at 21.6 times forward earnings (expected earnings in 12 months), well above long-term historical averages.
- Analysts have historically overestimated forward earnings by about 6.9%, and at the current forward P/E, if earnings were only 5.3% growth the S&P 500 would trade at $5,520 at current P/E, and lower at historical averages
- 10.2% accounts for the average overestimation of earnings excluding extraordinary events (9/11 attacks, 2008/2009 financial crisis, 2020 Covid-19 pandemic)
- 32.2% is the earnings growth rate needed to return to the 10-year average P/E multiple at the current index price. The 20 year average P/E implies a 51% earnings growth rate.

S&P 500 Index

Headline EPS Blended Trailing		
LTM YoY Growth	9.4%	$242.5
4Q 2024 YoY Growth	8.2%	$63.8
P/E Matrix	P/E	SPX Price
12/31/2024	**24.3**	**$5,882**
5 Year Average	21.7	$5,271
10 Year Average	19.9	$4,831
15 Year Average	18.2	$4,418
20 Year Average	17.5	$4,248

S&P 500 Index

Headline EPS Blended Forward					
Est. YoY Growth		32.2%	**12.2%**	10.2%	5.3%
Est. EPS		$320.6	**$272.1**	$267.3	$255.4
P/E Matrix	P/E		SPX Price		
12/31/2024	**21.6**	$6,930	**$5,882**	$5,777	$5,520
5 Year Average	19.8	$6,352	$5,392	$5,296	$5,060
10 Year Average	18.3	**$5,882**	$4,992	$4,903	$4,685
15 Year Average	16.7	$5,349	$4,540	$4,459	$4,261
20 Year Average	16.0	$5,138	$4,361	$4,283	$4,093

Market Review

S&P 500 Equal Weight Earnings – December 31, 2024

- Headline earnings grew 5.5% year-over-year for the last twelve months for the average stock in the S&P 500.
- The Equal Weight (SPW) is trading at 18.3 times trailing earnings (actual earnings reported), below the 5-year average
- Earnings are expected to grow by 10.9% over the next twelve months based on current consensus.
- The SPW is trading at 16.5 times forward earnings (expected earnings in 12 months), below the 5 and 10-year averages, but above the 15-year average.
- 10.4% is the earnings growth rate needed to return to the 10-year average P/E multiple at the current index price

S&P 500 Equal Weight Index

Headline EPS Blended Trailing		
LTM YoY Growth	5.6%	$387.9
4Q 2024 YoY Growth	2.8%	$93.7
P/E Matrix	P/E	SPW Price
5 Year Average	19.0	$7,357
12/31/2024	**18.3**	**$7,101**
10 Year Average	18.1	$7,034
15 Year Average	17.3	$6,709

S&P 500 Equal Weight Index

Headline EPS Blended Forward					
Est. YoY Growth		10.4%	**10.9%**	8.9%	4.0%
Est. EPS		$428.1	**$430.1**	$422.3	$403.3
P/E Matrix	P/E			SPW Price	
5 Year Average	16.8	$7,214	$7,247	$7,116	$6,796
10 Year Average	16.6	**$7,101**	$7,134	$7,005	$6,690
12/31/2024	**16.5**	$7,068	**$7,101**	$6,973	$6,659
15 Year Average	15.8	$6,757	$6,788	$6,665	$6,365

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Market Review

S&P 400 and S&P 600 Earnings – December 31, 2024

- Midcap earnings grew 0.3% year-over-year over the last twelve months (LTM) but fell -4% vs. the one year ago quarter.
- Midcap earnings are expected to grow 12.4% over the next twelve months.
- Midcap P/Es are trading around long-term historical averages.
- Small-cap earnings shrank -6.9% over the last twelve months but grew 3.5% vs. the year ago quarter.
- Small-cap earnings are expected to grow 16.6% over the next twelve months.
- Small-cap P/Es are trading below long-term historical averages.

S&P Midcap 400 Index

Headline EPS Blended Trailing		
LTM YoY Growth	0.3%	$176.7
4Q 2024 YoY Growth	-4.0%	$44.9
P/E Matrix	P/E	MID Price
10 Year Average	17.9	$3,165
15 Year Average	17.9	$3,160
12/31/2024	**17.7**	**$3,121**
20 Year Average	17.5	$3,095
5 Year Average	17.3	$3,055

S&P Midcap 400 Index

Headline EPS Blended Forward		
Est. YoY Growth		12.4%
Est. EPS		$198.7
P/E Matrix	P/E	MID Price
10 Year Average	16.3	$3,230
15 Year Average	16.0	$3,174
12/31/2024	**15.7**	**$3,121**
5 Year Average	15.6	$3,097
20 Year Average	15.5	$3,083

S&P Smallcap 600 Index

Headline EPS Blended Trailing		
LTM YoY Growth	-6.9%	$80.2
4Q 2024 YoY Growth	3.5%	$22.1
P/E Matrix	P/E	SML Price
15 Year Average	19.3	$1,544
10 Year Average	19.1	$1,535
20 Year Average	18.4	$1,479
5 Year Average	18.0	$1,442
12/31/2024	**17.6**	**$1,408**

S&P Smallcap 600 Index

Headline EPS Blended Forward		
Est. YoY Growth		16.6%
Est. EPS		$93.5
P/E Matrix	P/E	SML Price
10 Year Average	16.4	$1,532
15 Year Average	16.3	$1,520
20 Year Average	15.8	$1,482
5 Year Average	15.2	$1,417
12/31/2024	**15.1**	**$1,408**

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Market Scoreboard

December 31, 2024

Market Summary -December 31st, 2024					
Bond Market	**MTD**	**QTD**	**YTD**	**1 Year**	**Yield**
Total Bond Market	-1.7%	-3.1%	1.3%	1.3%	4.9%
US Treasuries	-1.7%	-3.3%	0.5%	0.5%	4.5%
US MBS Index	-1.6%	-3.2%	1.3%	1.3%	5.3%
Corporate Bonds	-1.8%	-2.8%	2.8%	2.8%	5.4%
High Yield Corporates	-0.4%	0.2%	8.2%	8.2%	7.3%
US TIPS (Inflation Prot.)	-1.7%	-3.0%	2.0%	2.0%	2.1%
Merrill Muni Index	-1.3%	-1.1%	1.6%	1.6%	3.3%
Floating Rate Corp	0.5%	1.5%	6.5%	6.5%	4.9%
International Bonds	-3.9%	-8.8%	-8.0%	-8.0%	2.4%
Commodities/Other	**MTD**	**QTD**	**YTD**	**1 Year**	**End Value**
Gold	-0.7%	-0.4%	27.2%	27.2%	$2,625
Dollar Index	2.6%	7.6%	7.1%	7.1%	$108
Oil (WTI)	5.9%	6.5%	3.0%	3.0%	$72

Market Summary -December 31st, 2024					
Stock Market Indices	**MTD**	**QTD**	**YTD**	**1 Year**	**End Value**
DOW Jones Avg.	-5.1%	0.9%	15.0%	15.0%	$42,544
NASDAQ Composite	0.6%	6.4%	29.6%	29.6%	$19,311
Large Cap Core (S&P 500)	-2.4%	2.4%	25.0%	25.0%	$5,882
Large Cap Growth	0.7%	6.0%	35.8%	35.8%	$4,089
Large Cap Value	-6.8%	-2.7%	12.3%	12.3%	$1,886
Mid Cap Core	-7.1%	0.3%	13.9%	13.9%	$3,121
Mid Cap Growth	-7.6%	-0.8%	15.9%	15.9%	$1,476
Mid Cap Value	-6.7%	1.5%	11.7%	11.7%	$1,002
Small Cap Core	-8.3%	0.3%	11.5%	11.5%	$2,230
Small Cap Growth	-8.2%	1.7%	15.2%	15.2%	$10,787
Small Cap Value	-8.3%	-1.1%	8.1%	8.1%	$17,570
Europe	-0.7%	-8.8%	3.0%	3.0%	$505
England	-2.9%	-6.8%	7.5%	7.5%	$8,173
Japan	-0.5%	-4.1%	8.7%	8.7%	$39,895
Shanghi 300	-0.1%	-5.5%	15.0%	15.0%	$3,935
International	-2.3%	-8.1%	4.3%	4.3%	$2,262
MSCI China	2.7%	-7.7%	19.4%	19.4%	$507
Emerging Markets	-1.7%	-7.3%	6.5%	6.5%	$42

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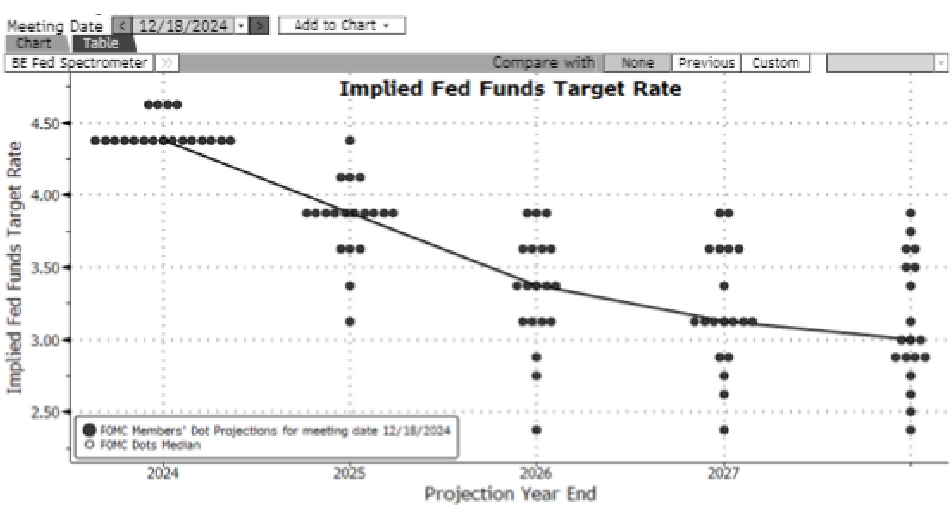
Market Review

Monetary Policy – December 31, 2024

- The Feds Dot Plot shows all Fed Governors thoughts on where rates will be at each time period.
- The median estimates looking forward are significantly higher than where they were in September.
- The dots show that 4 Fed Governors did not agree with the rate cut at the December meeting that moved funds rate to 4.375%, while the opinions going forward widely dispersed.
- The median Fed expectations are for .50% by the end of 2025, with a range of 4.375% to 3.375%.
- The long term expected Funds rate is 3%, which is higher than previously thought.
- Market expectations of inflation are running around 2.5% over the next 2-5 years, above the feds goal of 2%.



Current Fed Funds Rate
4.32

10 Year Tip	10 Year UST	Implied Inflation Premium
2.23	4.57	**2.34**

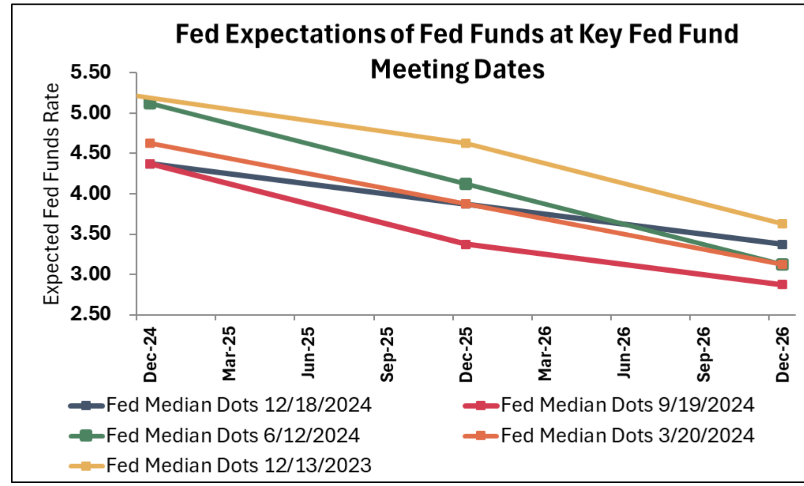
5 Year Tip	5 Year UST	Implied Inflation Premium
1.98	4.38	**2.40**

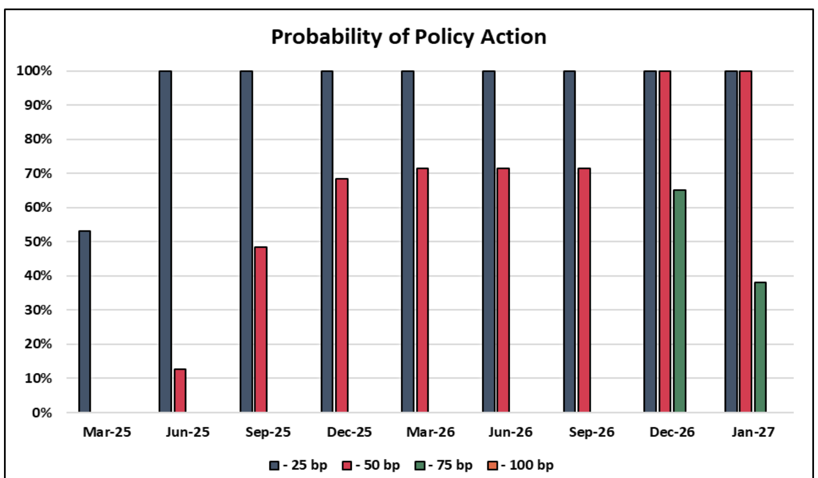
2 Year Tip	2 Year UST	Implied Inflation Premium
1.68	4.24	**2.56**

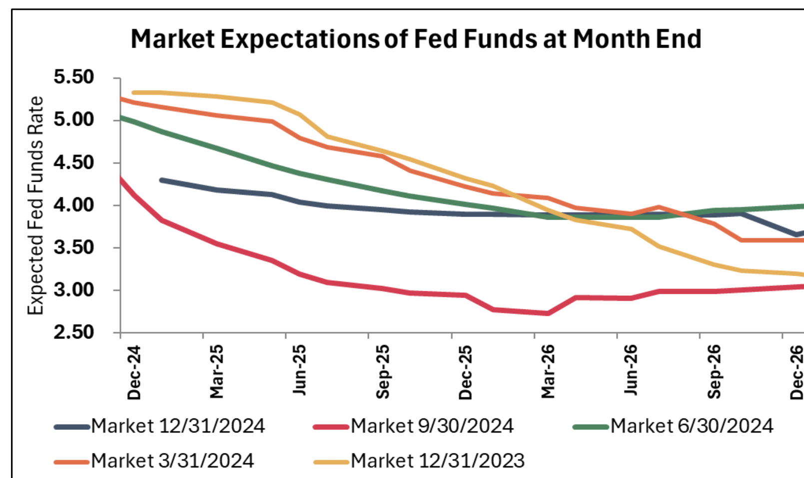
Market Review

Monetary/Fed Policy – December 31, 2024

- The Feds expectations, and their communications to the market of where they expected their Fed Funds rate to be at the end of 2024 and 2025 have varied considerably from meeting to meeting.
- There have been significant changes in both directions. Market expectations followed, and then some, creating significant interest rate volatility.
- The markets currently expect .25% by mid year, and another .25% by year end.







Market Review

Monetary/Fed Policy – December 31, 2024

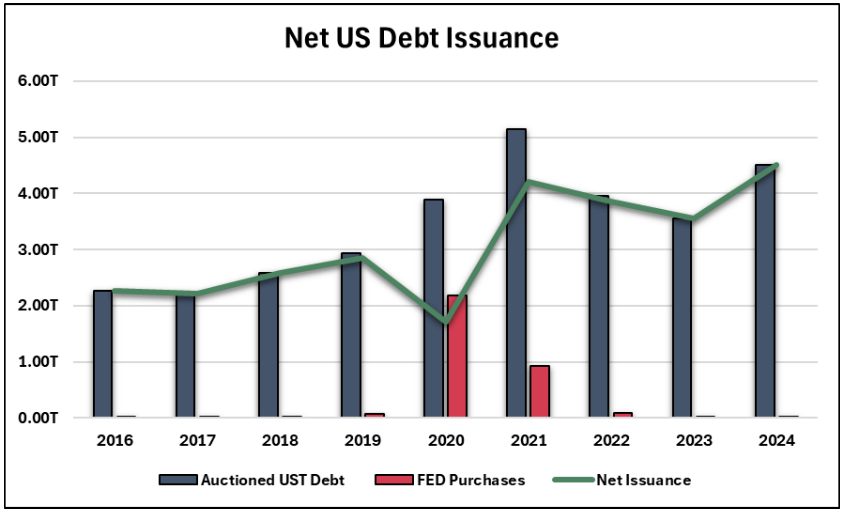
Federal Reserve Median Economic Projections As of 12/18/2024						
Change in GDP	**Actual**	**2024**	**2025**	**2026**	**2027**	**Longer Run**
December 2024 Projection		2.5	2.1	2.0	1.9	1.8
September 2024 Projection		2.0	2.0	2.0	2.0	1.8
June 2024 Projection		2.1	2.0	2.0	2.0	1.8
Actual Q3 2024	**3.1%**					
Unemployment Rate						
December 2024 Projection		4.2	4.3	4.3	4.3	4.2
September 2024 Projection		4.4	4.4	4.3	4.2	4.2
June 2024 Projection		4.0	4.2	4.1	4.1	4.2
Actual December 2024	**4.2%**					
PCE Inflation						
December 2024 Projection		2.4	2.5	2.1	2.0	2.0
September 2024 Projection		2.3	2.1	2.0	2.0	2.0
June 2024 Projection		2.6	2.3	2.0	2.0	2.0
Actual November 2024	**2.4%**					
Core PCE Inflation						
December 2024 Projection		2.8	2.5	2.2	2.0	
September 2024 Projection		2.6	2.2	2.0	2.0	
June 2024 Projection		2.8	2.3	2.0	2.0	
Actual November 2024	**2.8%**					
Projected Policy Path- Fed Funds						
December 2024 Projection		4.4	3.9	3.4	3.1	3.0
September 2024 Projection		4.4	3.4	2.9	2.9	2.9
Actual December 2024	4.4%					

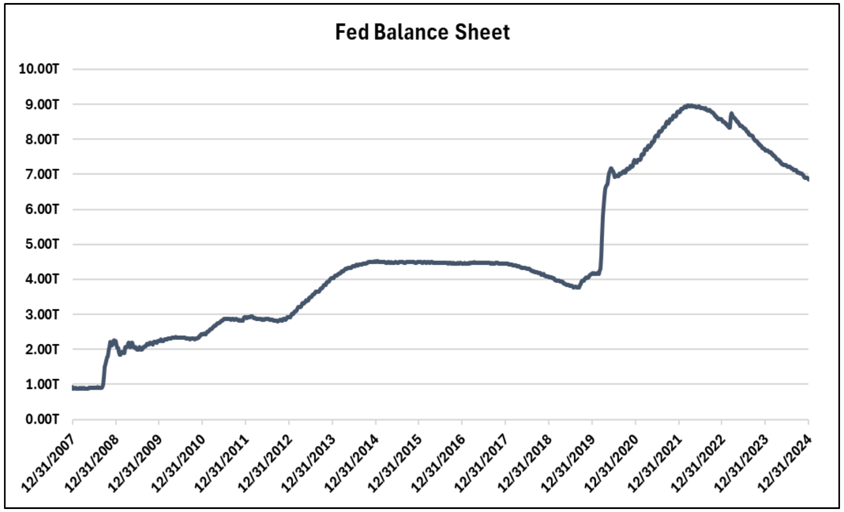
- The Fed reversed course by increasing its terminal 2025 expected rate by .50% after reducing it just 3 months before.
- Fed Expectations are now for 3.875% rate at year end 2025 vs previous expectations of a 3.375% rate at year end.
- The Fed continues to chase reality in their economic projections, increasing economic activity, employment, and inflation to reflect recent data.
- Economic data have begun to shift counter to the direction of Fed forecasts, as real data has begun to soften again.
- The Fed has gone against their previous declaration of not making policy on potential fiscal and other government policies, by explicitly factoring in a risk of higher inflation due to the impact of tariffs and trade by the new administration.

Market Review

Treasury & Fed – December 31, 2024

- The US Treasury has auctioned off around $3.5 Trillion in Debt in 2023, about 4.5 Trillion in 2024. They are expected to issue $ in 2025.
- The Federal Reserve has continued to work down its balance sheet, reducing previous quantitative easing, but has much further to go.
- The Fed still holds about $7 Trillion in US Debt.
- The Fed will not be buying additional debt as they unwind Quantitative Easing; however, the recently discussed limiting run off of the portfolio – another potential policy error.

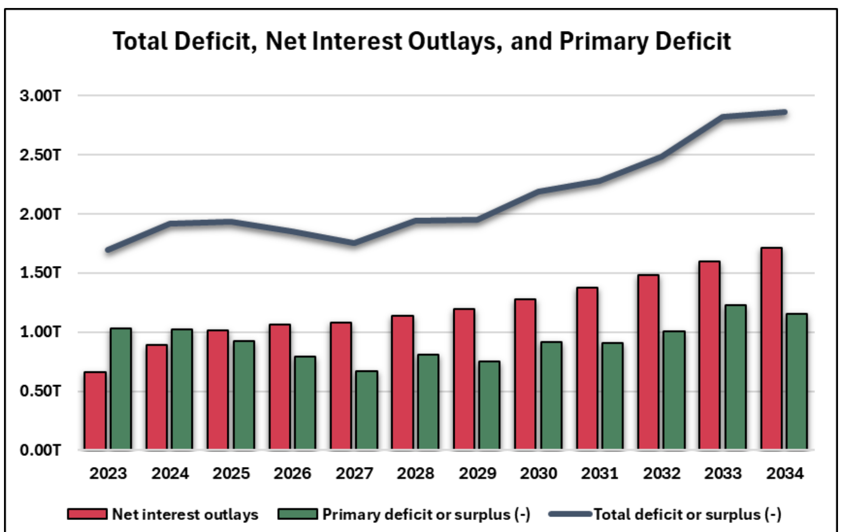


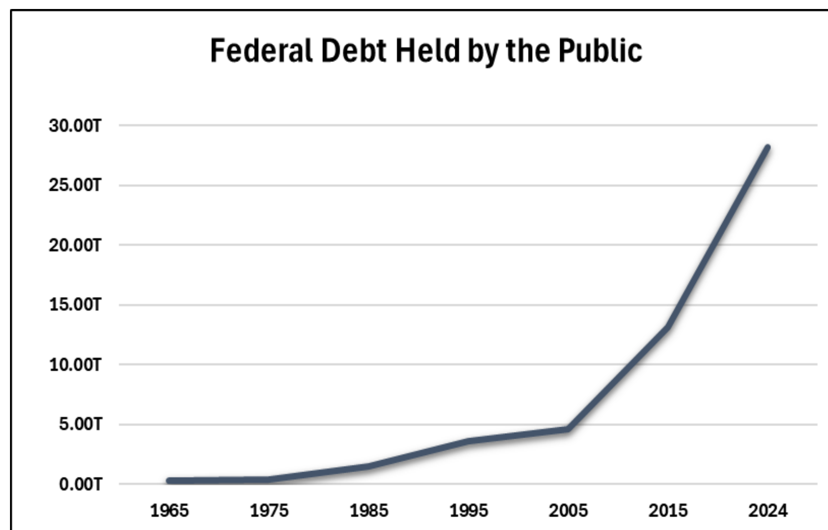


Market Review

Treasury & Fed – December 31, 2024

- The Federal Reserve sets monetary policy, which influences short term interest rates.
- Economic growth and inflation, as well as Fiscal policy drive longer term rates.
- Longer term interest rates may be influenced by Government debt issuance and investors willingness to lend money.
- The Federal budget deficit per the Congressional Budget Office is projected to significantly increase moving forward, with interest costs alone exceeding $1 trillion.

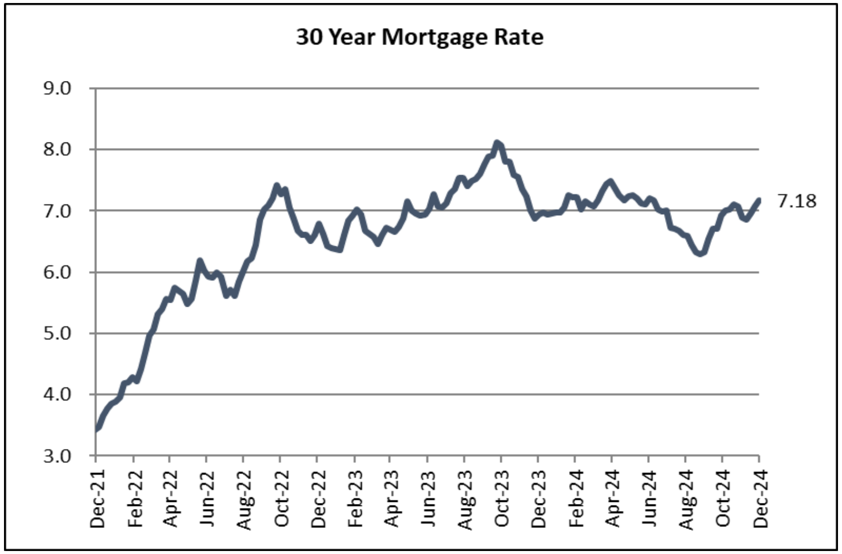


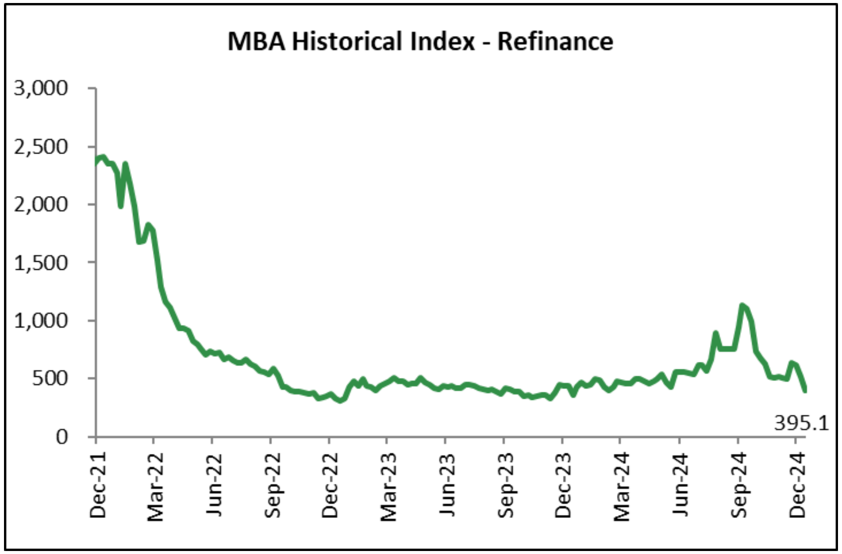


Economic Environment

December 31, 2024

- As a result of the beginning of an easing cycle by the Fed, accompanied by commentary that it was the beginning of a series of rate cuts, interest rates fell significantly in September, with mortgage rates dipping toward 6%.
- The lower mortgage rates spurred a bout of refinance activity and some home purchases as housing supply also increased.
- Recently, interest rates have shot back up as economic data including employment and inflation have remained strong, pushing back hopes of aggressive Fed rate cuts.
- Mortgage refinancing and home purchase activity has turned back down as a result.

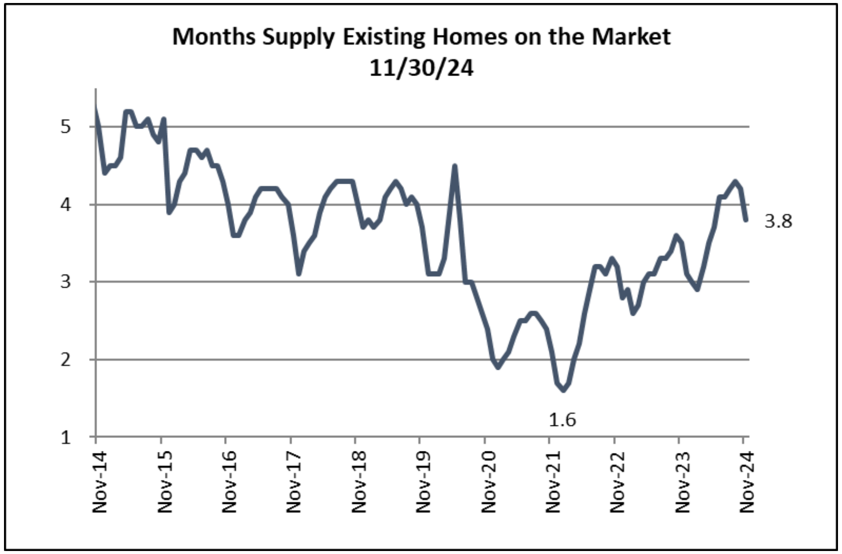


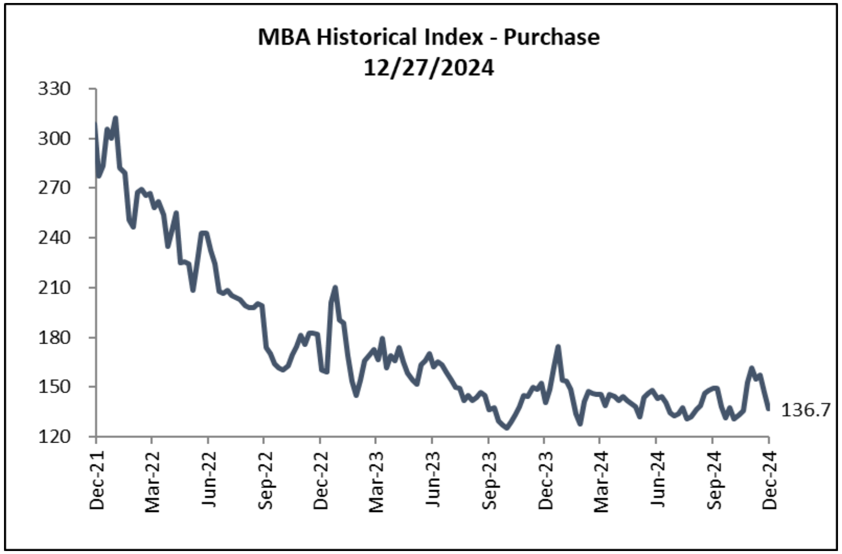


Economic Environment

December 31, 2024

- **Housing**
  - There has been a significant increase in the supply of homes in the market as higher home prices and rates slowed purchases, and new homes were built.
  - The recent drop in rates spurred an uptick in home purchases and a drop in inventory, however that quickly turned with the Q4 rise in rates.
  - Perhaps the greater inventory and home purchase are due to lower pricing, that may be discovered in the months to come.
  - The housing market behavior suggests an equilibrium mortgage rate between 6% and 7%.





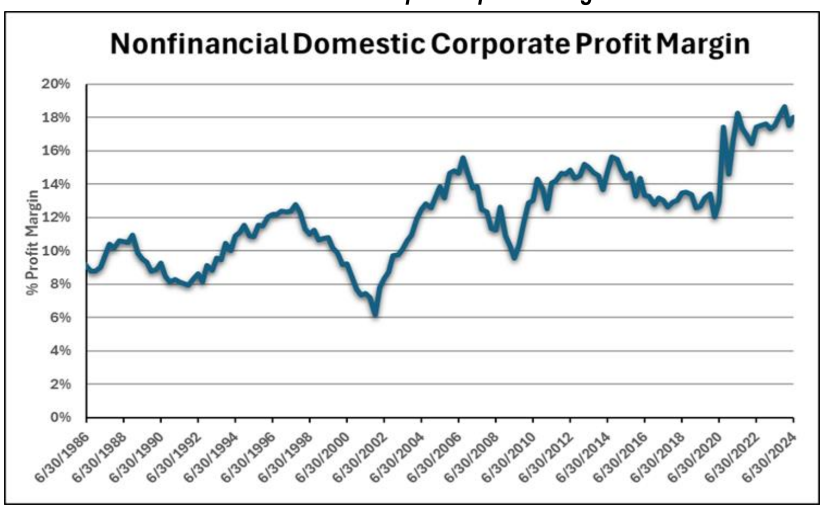
Market Environment
December 31, 2024

➢ Corporate profits have continued to climb on the back of continued pricing power by corporations.

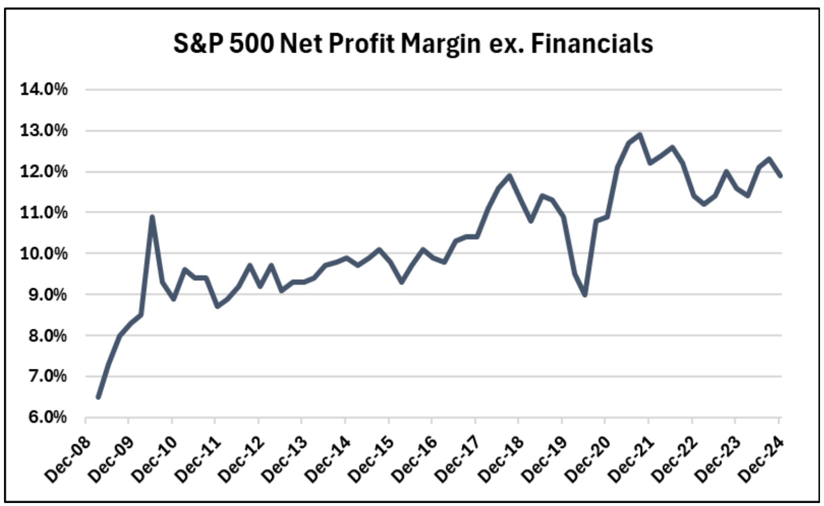
➢ Corporate profit margins remain at historically high levels.

➢ Recent reports of lower volumes and changes in consumer behavior suggest margins may normalize or begin to get squeezed in the near future.

Nonfinancial domestic corporate profit margins



Source: BEA, Santander US Capital Markets



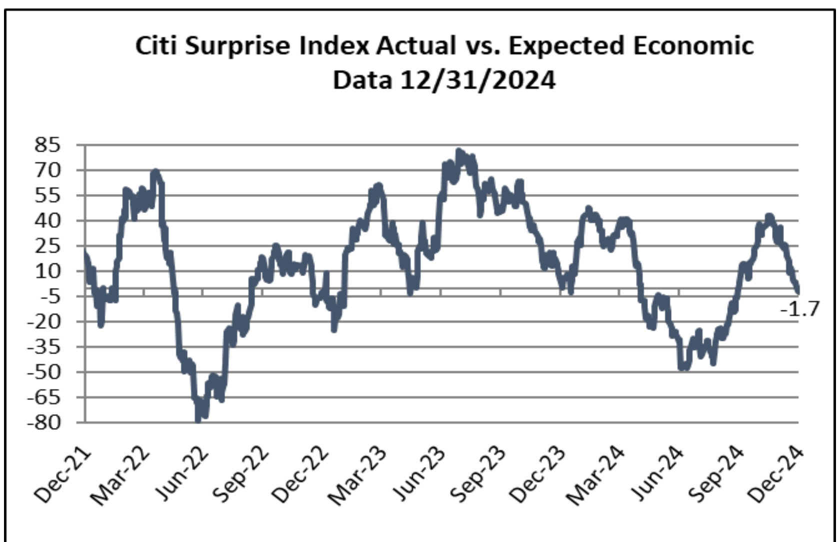
Market Environment

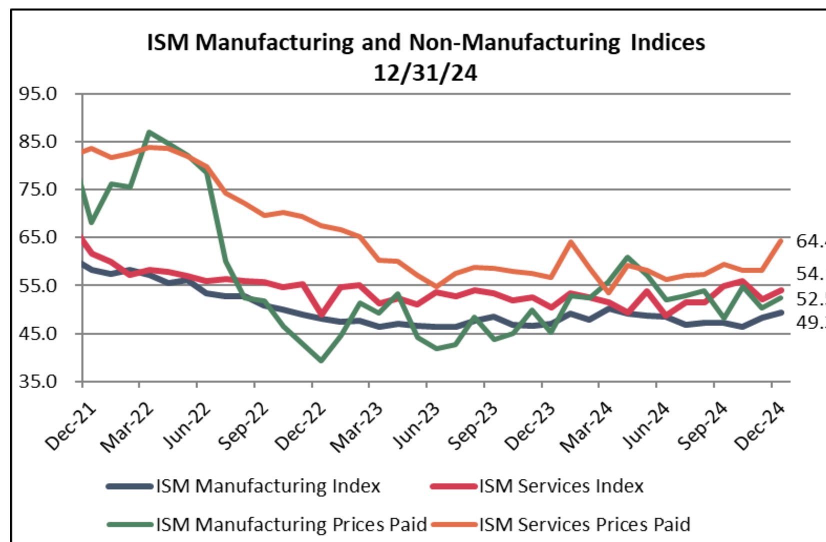
December 31, 2024

- The Citi Surprise index has turned negative, and recently more significantly.

- Economic activity has been solid amid continued steady employment gains and rising wages but has moderated considerably recently.

- The Manufacturing sector has been sluggish, while the services sector remains robust. Recently both have indicated upward pressure on prices, suggesting inflation remains an issue.





Economic Environment

December 31, 2024

12/31/2024

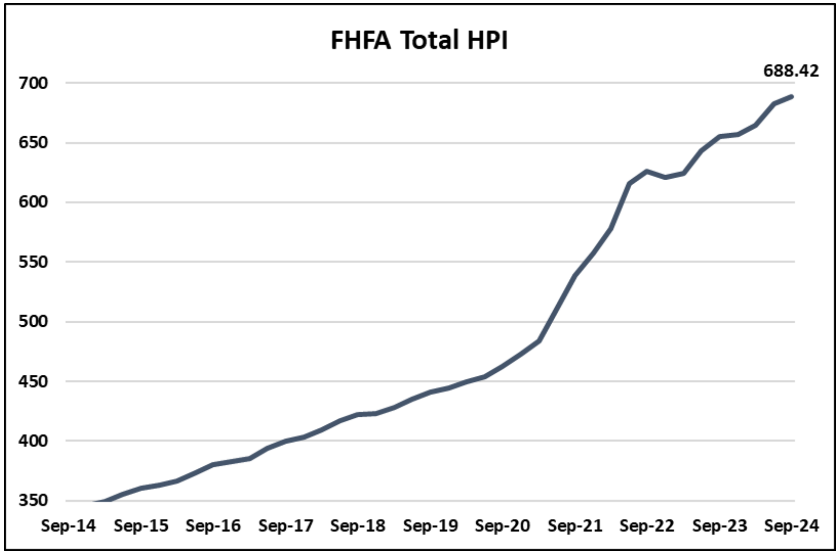
WEEKLY DATA	Last Update	This week	Last Week	4 WK AVG	YTD AVG	12 MO AVG	Px 1 yr Ago	Chg betw most recent & last	Chg betw most recent & 4wk avg	Chg betw most recent & ytd avg	Chg betw most recent & 12mo avg	Chg betw most recent Yr Ago
Mortgage Refi & Purchase Data												
Mtge Banker's Refi Index	1/3/2025	401	395	541	581	581	425	1.52%	-25.81%	-30.99%	-30.99%	-5.71%
Mtge Banker's Application Index	1/3/2025	168	175	206	211	211	191	-3.72%	-18.30%	-20.34%	-20.34%	-11.65%
Mtge Banker's Purchase Index	1/3/2025	128	137	149	143	143	149	-6.58%	-14.19%	-10.83%	-10.83%	-14.06%
Mortgage Rates and Creation Data		This week	Last Week	4 WK AVG	YTD AVG	12 MO AVG	Px 1 yr Ago					
Generic 10 yr UST	1/9/2025	4.69	4.56	4.43	4.21	4.21	4.01	0.13	(0.26)	0.48	0.48	0.68
Freddie Mac Enhanced PMMS US 15 Year	1/2/2025	6.13	6.00	5.93	5.96	5.96	5.89	0.13	(0.20)	0.17	0.17	0.24
Freddie Mac Enhanced PMMS US 30 Year	1/2/2025	6.91	6.85	6.72	6.72	6.72	6.62	0.06	(0.19)	0.19	0.19	0.29
30 Year Mortgage Rate (Bankrate.com)	1/7/2025	7.31	7.28	7.09	7.15	7.15	7.07	0.03	(0.22)	0.16	0.16	0.24
MBA US FRM 30-year Contract Rate	1/3/2025	6.99	6.97	6.63	6.83	6.83	6.81	0.02	(0.36)	0.17	0.17	0.18
Mortgage Vs Treasury		This week	Last Week	4 WK AVG	YTD AVG	12 MO AVG	Px 1 yr Ago					
Spread Betw10yr Gov & 15yr Mtge		1.44	1.44	1.50	1.75	1.75	1.88	(0.00)	(0.06)	(0.32)	(0.32)	(0.23)
Spread Betw10yr Gov & 30yr Mtge		2.22	2.29	2.29	2.51	2.51	2.61	(0.07)	(0.07)	(0.29)	(0.29)	(0.15)
Spread Betw15yr Mtge & 30yr Mtge		0.78	0.85	0.79	0.76	0.76	0.73	(0.07)	(0.01)	0.02	0.02	0.07
SOFR	1/9/2025	(48)	(50)	(49)	(42)	(42)	(37)	1.63	0.44	(6.06)	(6.06)	0.29

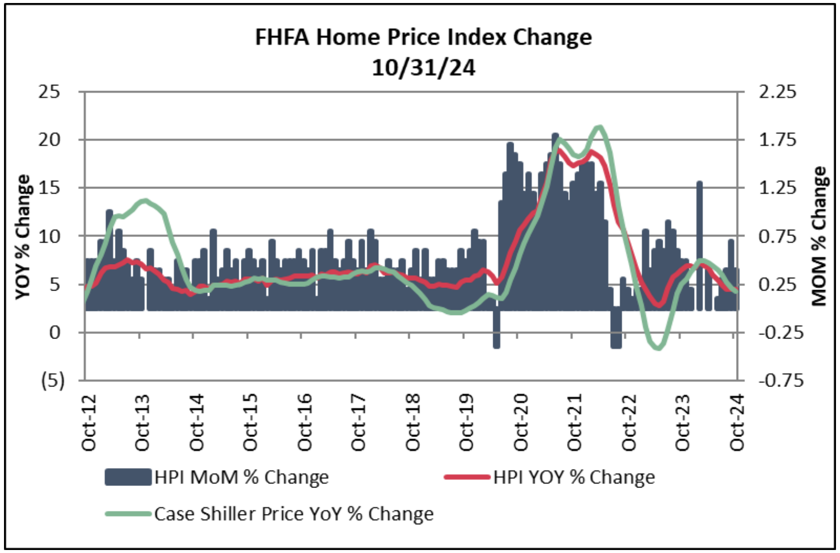
MONTHLY DATA	Last Update	12/31/2024	1 mo ago	4 MO AVG	YTD AVG	12 MO AVG	Px 1 yr Ago	Chg betw most recent & last	Chg betw most recent & 4wk avg	Chg betw most recent & ytd avg	Chg betw most recent & 12mo avg	Chg betw most recent Yr Ago
Traffic & Consumer Expectations												
Home Blders Traffic (Monthly)	12/31/2024	31	32	30	30	30	24	-3.13%	4.20%	3.91%	3.91%	29.17%
Home Blders Mkt Index (Monthly)	12/31/2024	46	46	44	45	45	37	0.00%	4.55%	2.60%	2.60%	24.32%
U of Mich Consumer Expectations (Monthly)	12/31/2024	73	77	75	74	74	67	-4.68%	-1.84%	-0.46%	-0.46%	8.75%
U of Mich Consumer Sentiment (Monthly)	12/31/2024	74	72	72	73	73	70	3.06%	3.35%	2.01%	2.01%	6.17%
Conference Board Expectations (Monthly)	12/31/2024	81	94	87	80	80	82	-13.45%	-7.18%	0.83%	0.83%	-0.98%
Conference Board Confidence (Monthly)	12/31/2024	105	113	107	104	104	108	-7.18%	-1.76%	0.58%	0.58%	-3.06%
Housing Data												
Total Housing Starts (sa-Monthly)	11/30/2024	1,289	1,312	1,334	1,349	1,349	1,510	-1.75%	-3.36%	-4.45%	-4.45%	-14.64%
1unit Housing Starts (sa-Monthly)	11/30/2024	1,011	950	1,003	1,006	1,006	1,126	6.42%	0.80%	0.45%	0.45%	-10.21%
Multi Unit Hsg Starts (sa-Monthly)	11/30/2024	278	362	331	343	343	384	-23.20%	-15.95%	-18.84%	-18.84%	-27.60%
New Home Sales (sa-Monthly)	11/30/2024	664	627	680	681	681	611	5.90%	-2.28%	-2.55%	-2.55%	8.67%
Existing 1 Family Home Sales (sa-Monthly)	11/30/2024	3.76	3.58	3.57	3.66	3.66	3.50	5.03%	5.25%	2.81%	2.81%	7.43%
S&P CoreLogic CS 20 City HPI	10/31/2024	332.94	333.72	334.32	330.07	330.07	319.46	-0.23%	-0.41%	0.87%	0.87%	4.22%
FHFA HPI	10/31/2024	432	431	429	425	403	414	0.39%	0.75%	1.71%	7.17%	4.45%

Economic Environment

December 31, 2024

- Home prices remain near record high levels due to strong demand and limited supply, curbing new home purchases.
- The supply of homes has increased significantly recently amid higher prices and higher rates, possibly easing price pressures.
- Higher prices have had a significant impact on continued higher than expected inflation, and potentially stalling home price appreciation may finally flow through to lower overall inflation.





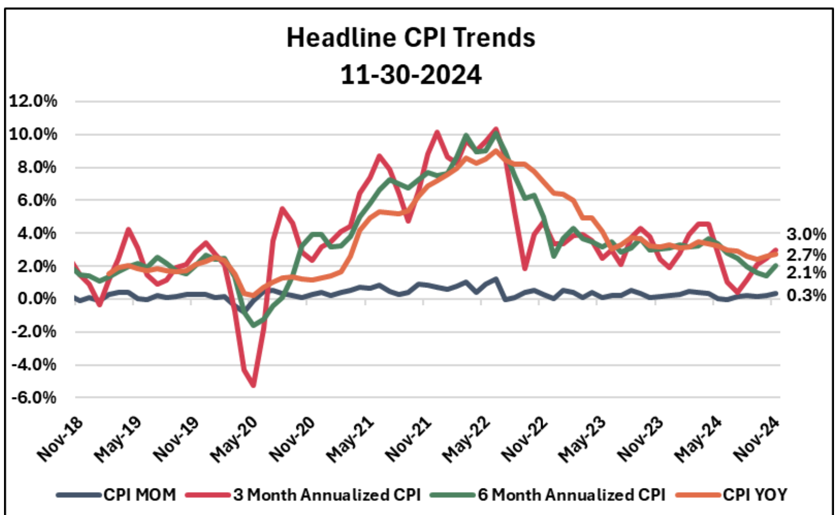
Economic Environment

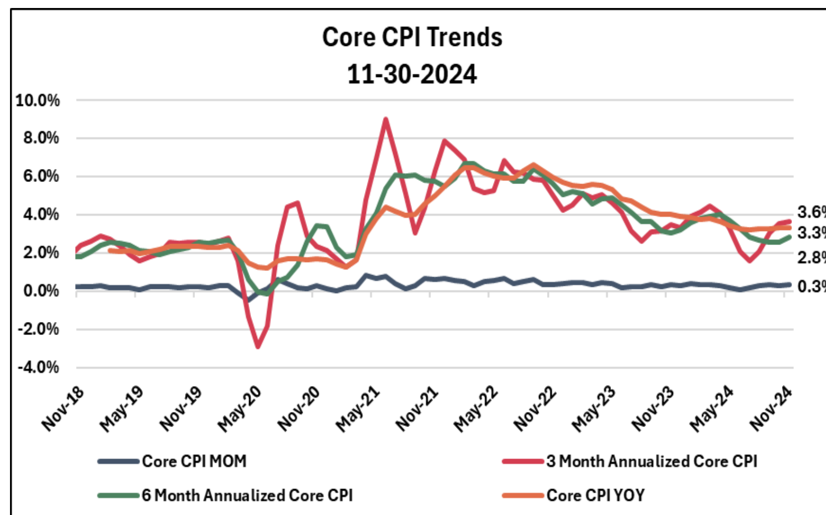
December 31, 2024

- Inflation has remained sticky and turned up as evidenced by 3-month and 6-month annualized rates for both headline and core measures.

- After declaring victory mid year with the drop in inflation, the recent higher inflation readings has caused the Fed to turn more cautious on additional rate eases.

- The Fed's inflation target remains at 2%, and the Fed had been expressing success in working toward their target with a mission accomplished message and again need to reverse course.

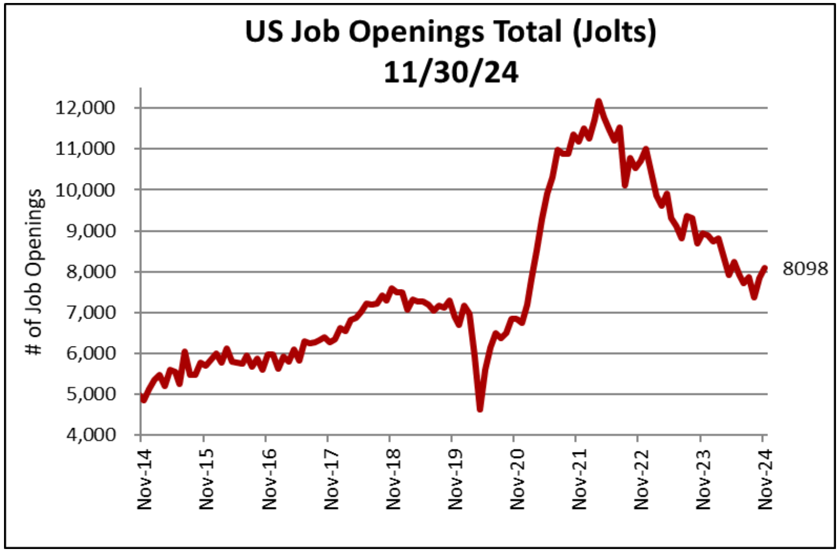


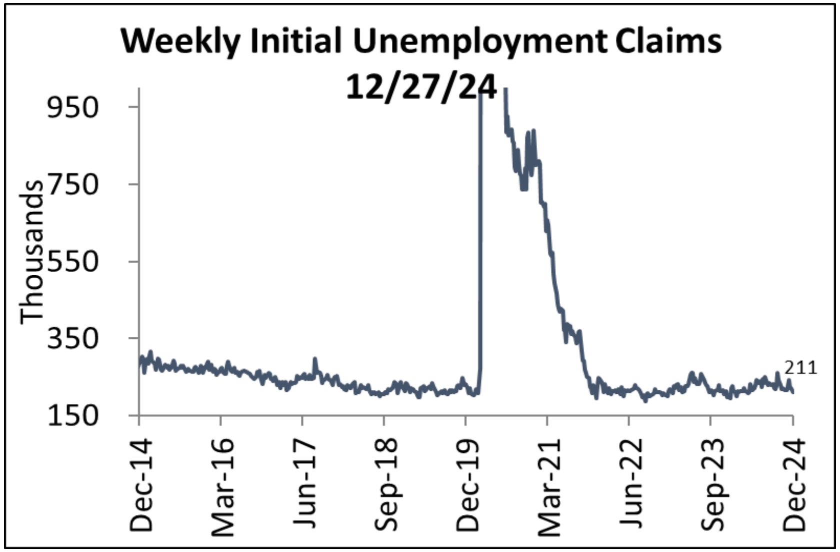


Market Environment

December 31, 2024

- Steady employment gains have reduced stress in the job market, bringing down the number of jobs openings.
- Job openings have reverted to near pre pandemic levels (with a healthy economy) and recently ticked up. The quits rate continues to decline.
- Weekly unemployment claims have remained steady at a low rate, suggesting limited layoffs; however, the continuing claims information is escalating, suggesting it is taking longer for those that are laid off to find new work.

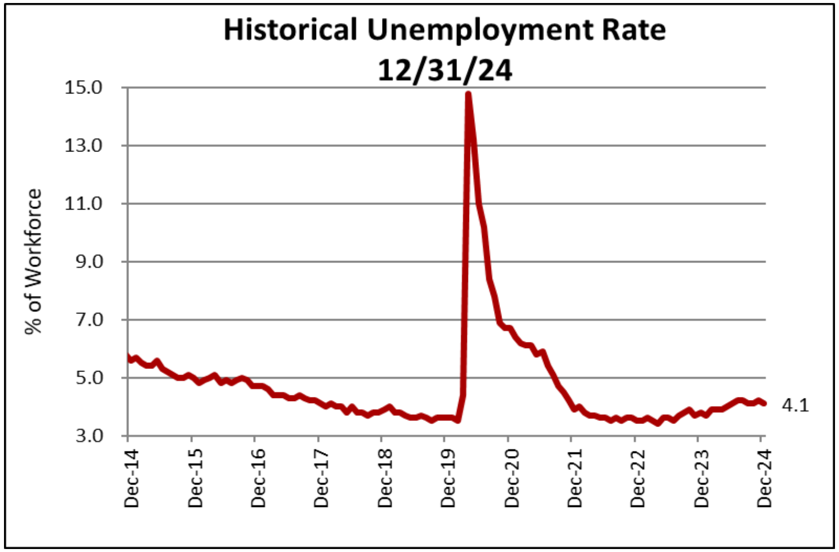


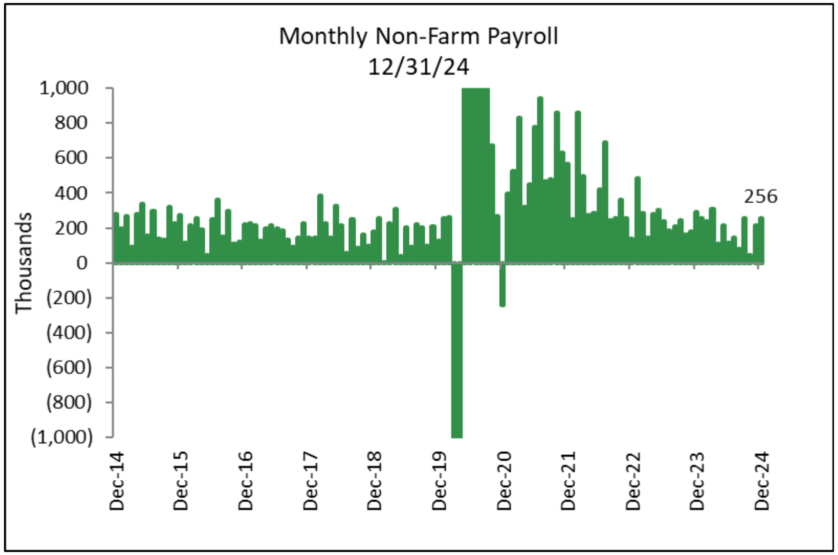


Economic Environment

Employment – Monthly Payrolls – December 31, 2024

- The unemployment rate has recently ticked up to just over 4% and is holding steady as the job market seems to have stabilized.
- Monthly payrolls additions have been volatile, but continue at strong levels, certainly stronger than market expectations. Jobs are being filled in government, health care, and services sectors.
- Layoffs continue in technology, and have spread to some other cyclical economic sectors, while new jobs are getting harder to find.

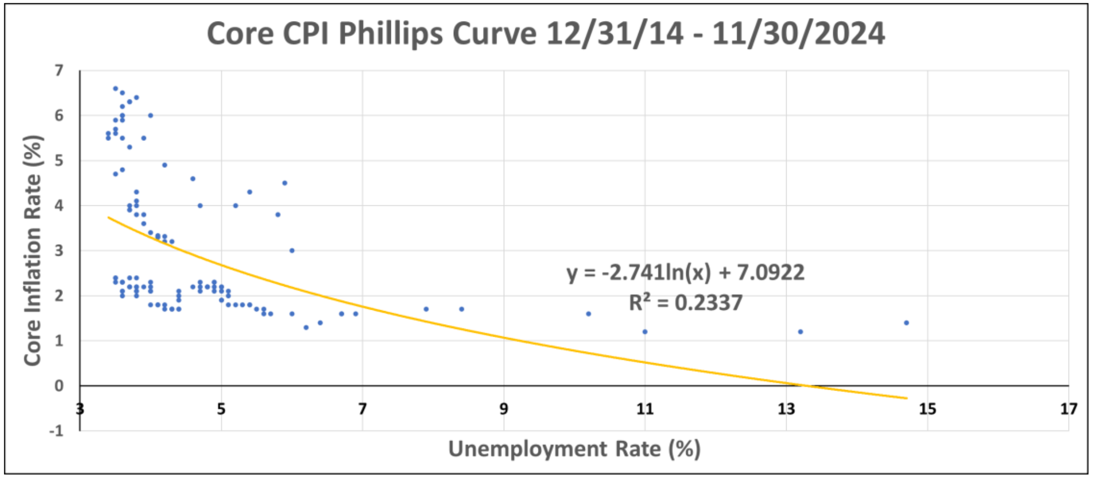


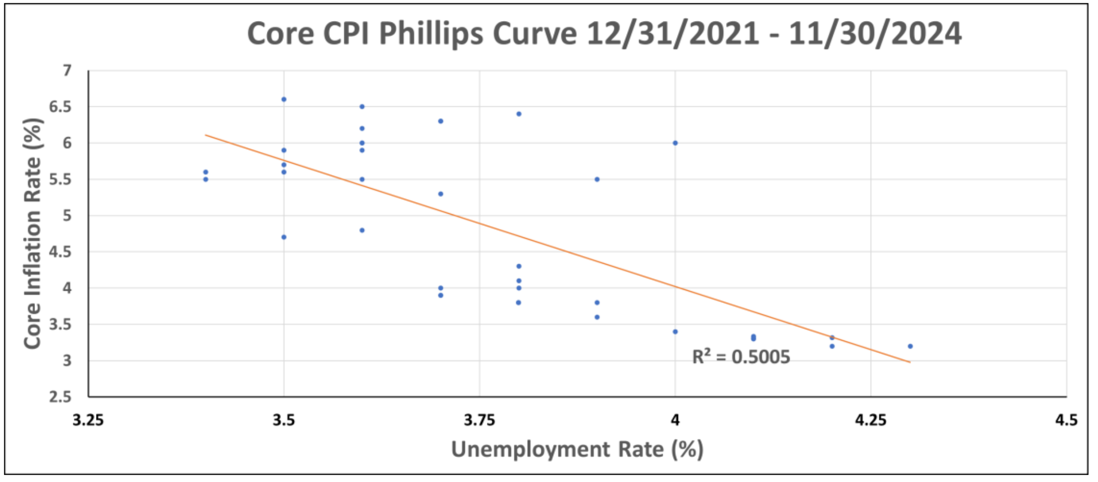


Economic Environment

Employment and Inflation – December 31, 2024

- In the last three years, the Phillips Curve has re-emerged.
- Inflation has workers demanding higher wages, and demand for labor has employers paying more to retain and hire workers, which in turn, increases costs and the need to raise prices.
- The strong demand for labor has provided for continued job switching for higher wages, as workers seek to offset higher costs of living, however the jobs switching has been slowing, as has wage pressures.
- As the inflation rate has subsided, real wages have been increasing recently.

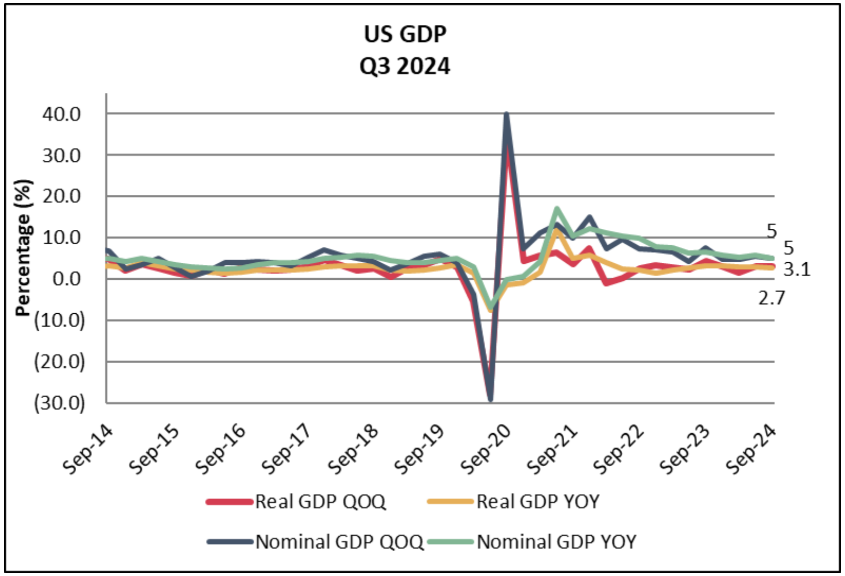




Economic Environment

December 31, 2024

- US Nominal and Real GDP remains firm, driven by service consumption and government spending.
- Global economic activity has slowed, with some areas such as Europe and Japan at or near recession.
- Inflation in off the boil in most areas around the globe, but in many areas still above target.
- Central banks around the world have moved into easing mode while curbing additional Fiscal stimulus, acknowledging the risk of recession to win the battle against inflation.
- Japan has shifted to tightening policy, stepping up from their long held negative rate policy.



GDP YoY % Change			
		One Year	
	Q3 2024	Ago	Change
US	2.70	3.20	(0.50)
Eurozone	0.90	0.00	0.90
Germany	(0.30)	(0.30)	0.00
France	1.20	0.80	0.40
Italy	0.45	0.14	0.31
UK	0.90	0.30	0.60
Canada	1.90	1.30	0.60
Mexico	1.65	3.54	(1.89)
Australia	0.80	2.10	(1.30)
Japan	0.50	1.10	(0.60)
China	4.60	4.90	(0.30)
Russia	3.10	5.70	(2.60)
Brazil	4.00	2.35	1.65

Inflation YoY % Change			
		One Year	
	Nov-24	Ago	Change
US	2.70	3.10	(0.40)
Eurozone	2.40	2.90	(0.50)
Germany	2.60	3.70	(1.10)
France	1.30	3.70	(2.40)
Italy	1.30	0.60	0.70
UK	2.60	3.90	(1.30)
Canada	1.90	3.10	(1.20)
Mexico	4.21	4.66	(0.45)
Australia	0.80	2.10	(1.30)
Japan	2.90	2.80	0.10
China	0.10	(0.30)	0.40
Russia	8.88	7.48	1.40
Brazil	4.87	4.68	0.19

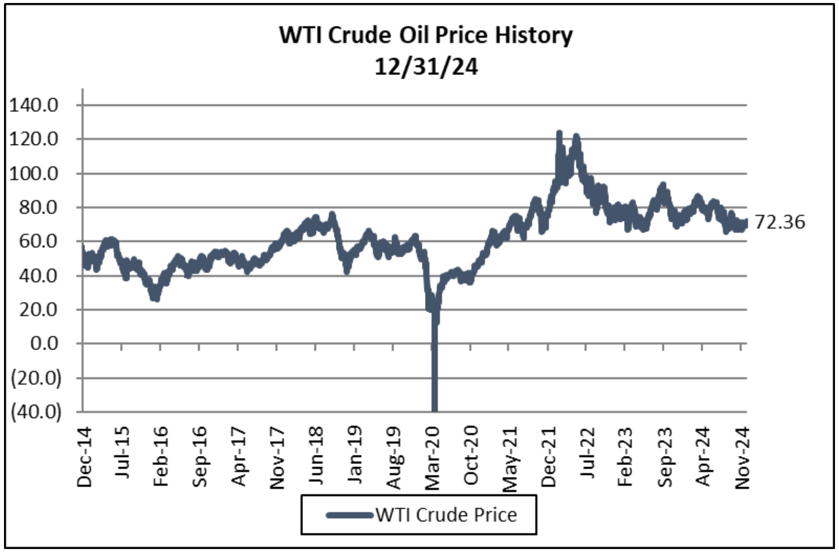
**Canada GDP as of 10/31/2024*
**All other GDP as of 9/30/2024*

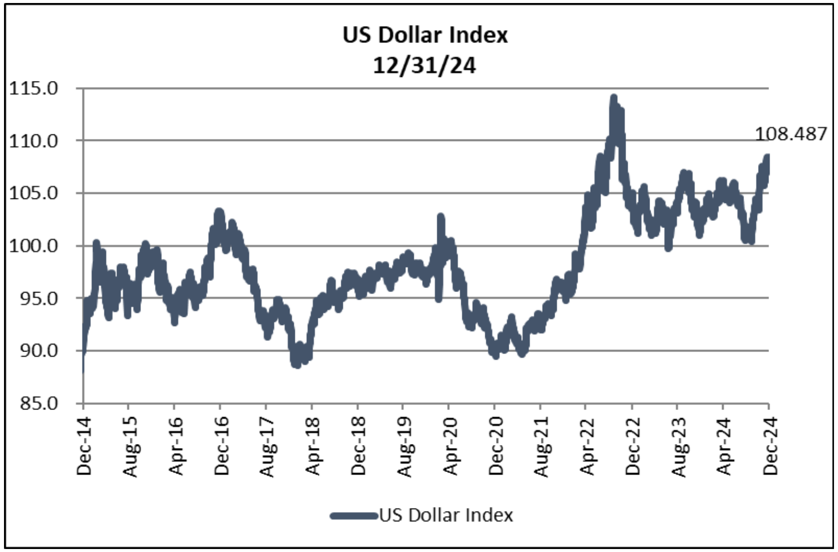
**UK, Canada, Japan, & China as of 11/30/2024*
**Australia CPI as of 9/30/2024*

Economic Environment

December 31, 2024

- Dynamics of energy and oil prices are about to materially change with the new Trump administration.
- OPEC+ continues to limit production overall, supporting/increasing the price of oil. It is working.
- Energy flows have shifted materially with Russian energy distribution shifting to China and India, while European supplies become sourced from the US and Middle East.
- Russian oil production and distribution has been robust amid lack of sanction enforcement, increasing global supply, while US has also been accelerating production.
- The Dollar strength has resurged as most global central banks have shifted toward easing and the Fed has changed course toward more stable monetary policy.
- Overall, the dollar remains strong and may continue its climb given the strength of the US economy and will also depend on perception of monetary policy.





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