Quarterly Market Report

Fourth Quarter 2024

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Fourth Quarter Highlights

Election results, mixed economic growth, inflation, and rate cuts led to volatile markets

Financial Markets

- Equity markets were volatile and ended the quarter with mixed returns. Despite a post-election surge in November, U.S. equities were pressured by hawkish Federal Reserve (Fed) comments and economic concerns weighed on various foreign markets. Artificial intelligence (AI) related stocks were the performance leaders.
- Bond yields rose and prices fell as central banks became more cautious on further rate cuts, due to sticky inflation, which hurt interest rate sensitive sectors.
- The U.S. dollar moved higher as the interest rate differential and growth outlook between the U.S. and other countries widened.

Overview of the Economy

- Earnings reports for the third quarter were better than expected with the majority of companies beating analysts' forecasts, helped by solid sales growth and high margins. U.S. gross domestic product (GDP) growth of 3.1% outpaced other economies such as the Eurozone which had GDP growth of 0.4%.
- The U.S. labor market is mixed. Both the number of layoffs and the number of job openings are trending lower. It is taking longer for the unemployed to find a job. However, the unemployment rate has been relatively steady at just over 4% and wage growth increased for the last three months at well over the rate of inflation.
- Inflation ticked higher in the U.S., Europe, and Japan. The U.S. consumer price index (CPI) rose for three consecutive months.
- Surveys still show weak manufacturing activity around the world while services activity remains in expansion.

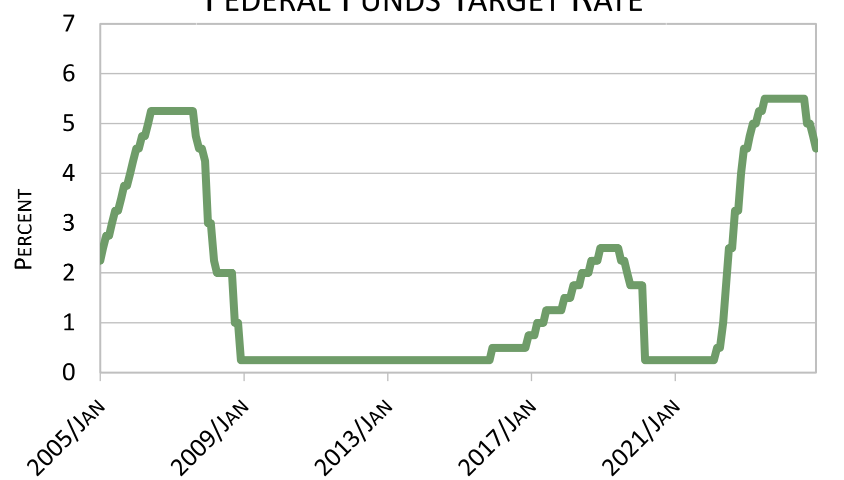
Notable Events

- The Fed cut the fed funds rate by a quarter of a percentage point twice but shifted its forecast to fewer cuts in 2025. Several other central banks also cut rates again.

FOURTH QUARTER HIGHLIGHTS

THE GLOBAL CENTRAL BANK EASING CYCLE CONTINUED EVEN THOUGH INFLATION TICKED HIGHER

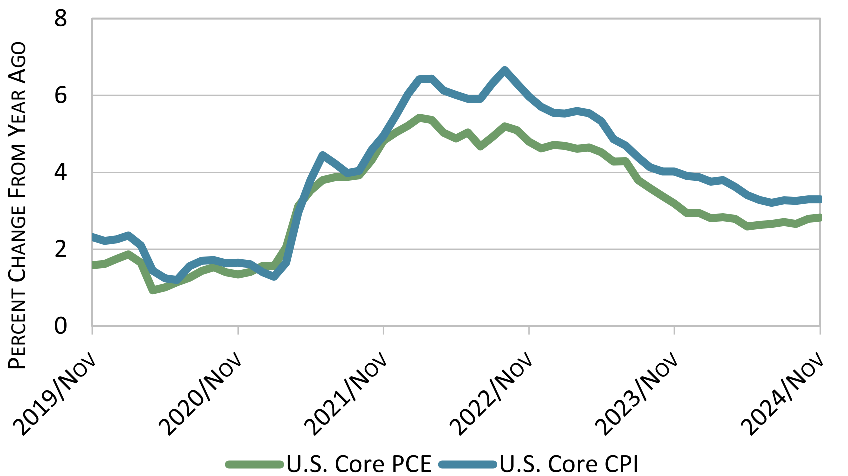
FEDERAL FUNDS TARGET RATE[1]



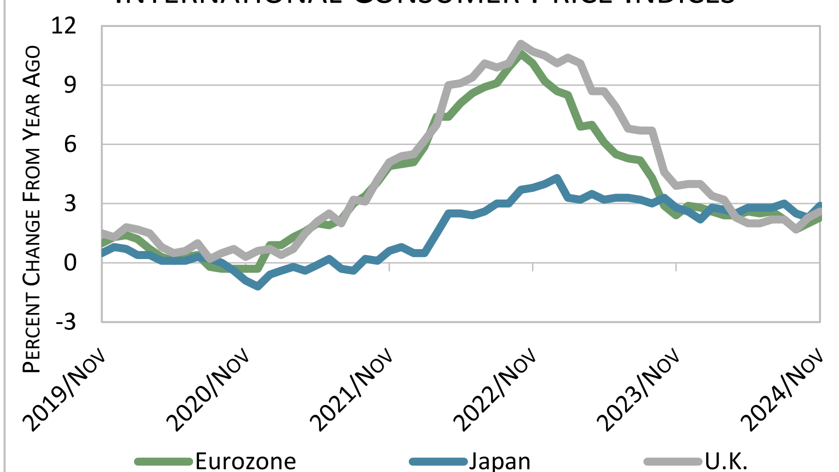
SELECT CENTRAL BANK ACTIONS

BANK	ACTION
U.S. FED	QUARTER PERCENTAGE POINT CUT IN BOTH NOV. AND DEC.
BANK OF CANADA	CUT RATE IN OCT. AND DEC.
BANK OF ENGLAND	CUT RATE IN NOV.
BANK OF KOREA	CUT RATE IN OCT. AND DEC.
EUROPEAN CENTRAL BANK	CUT RATE IN OCT. AND DEC.

U.S. CORE INFLATION INDICES[1]



INTERNATIONAL CONSUMER PRICE INDICES[1,2]



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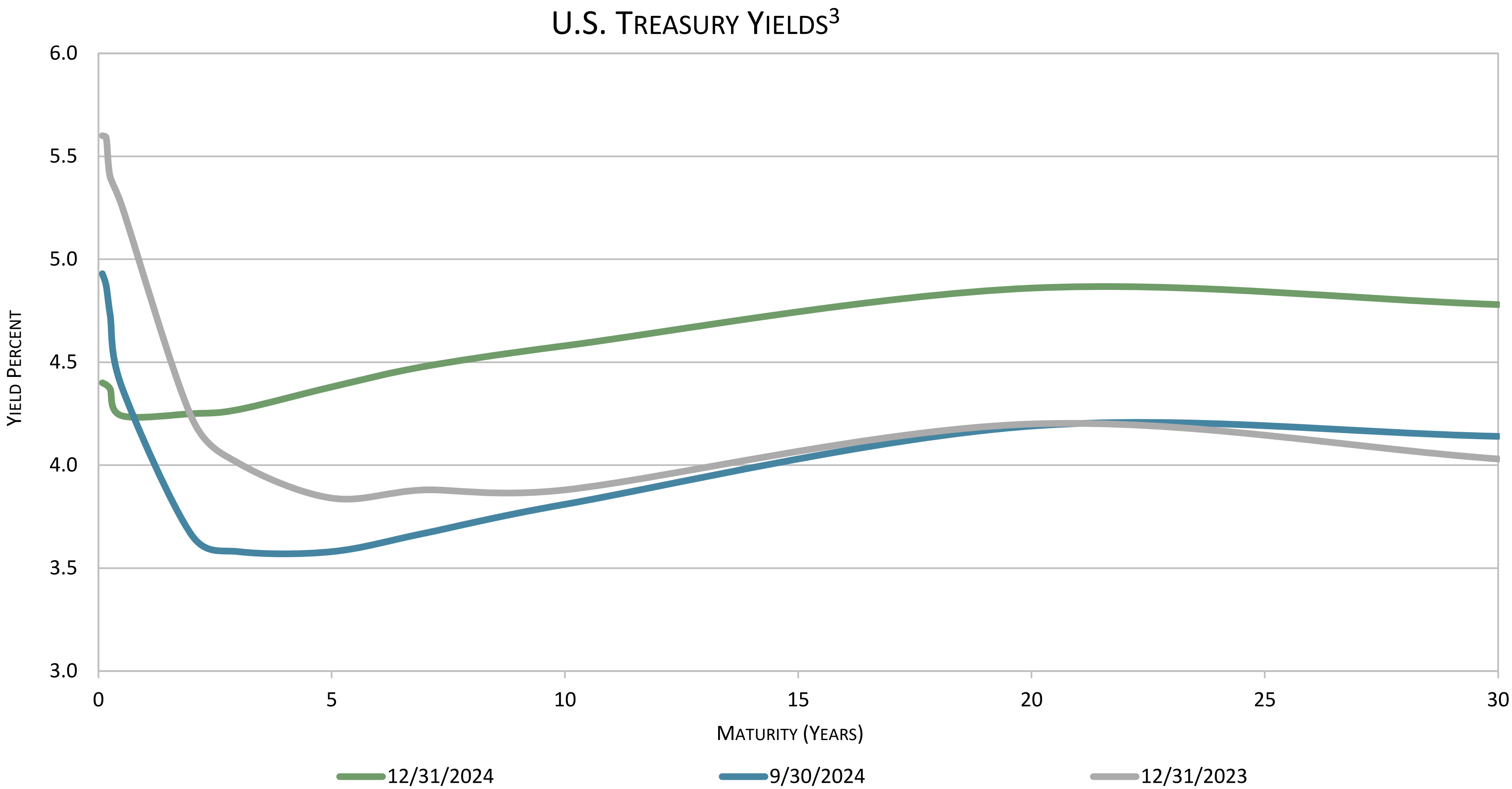
Fourth Quarter Highlights

Yields on all but the shortest maturity bonds rose sharply on sticky inflation and a hawkish Fed

The Fed cut interest rates twice during the quarter and yields on the shortest maturity bonds fell. However, yields for bonds with a maturity of over two years rose markedly on the shift to a "higher for longer" outlook. In reaction to inflation rates stalling above its target with economic growth data mostly holding up, the Fed raised its estimate for the fed funds rate in 2025 and 2026 meaning fewer cuts coming.



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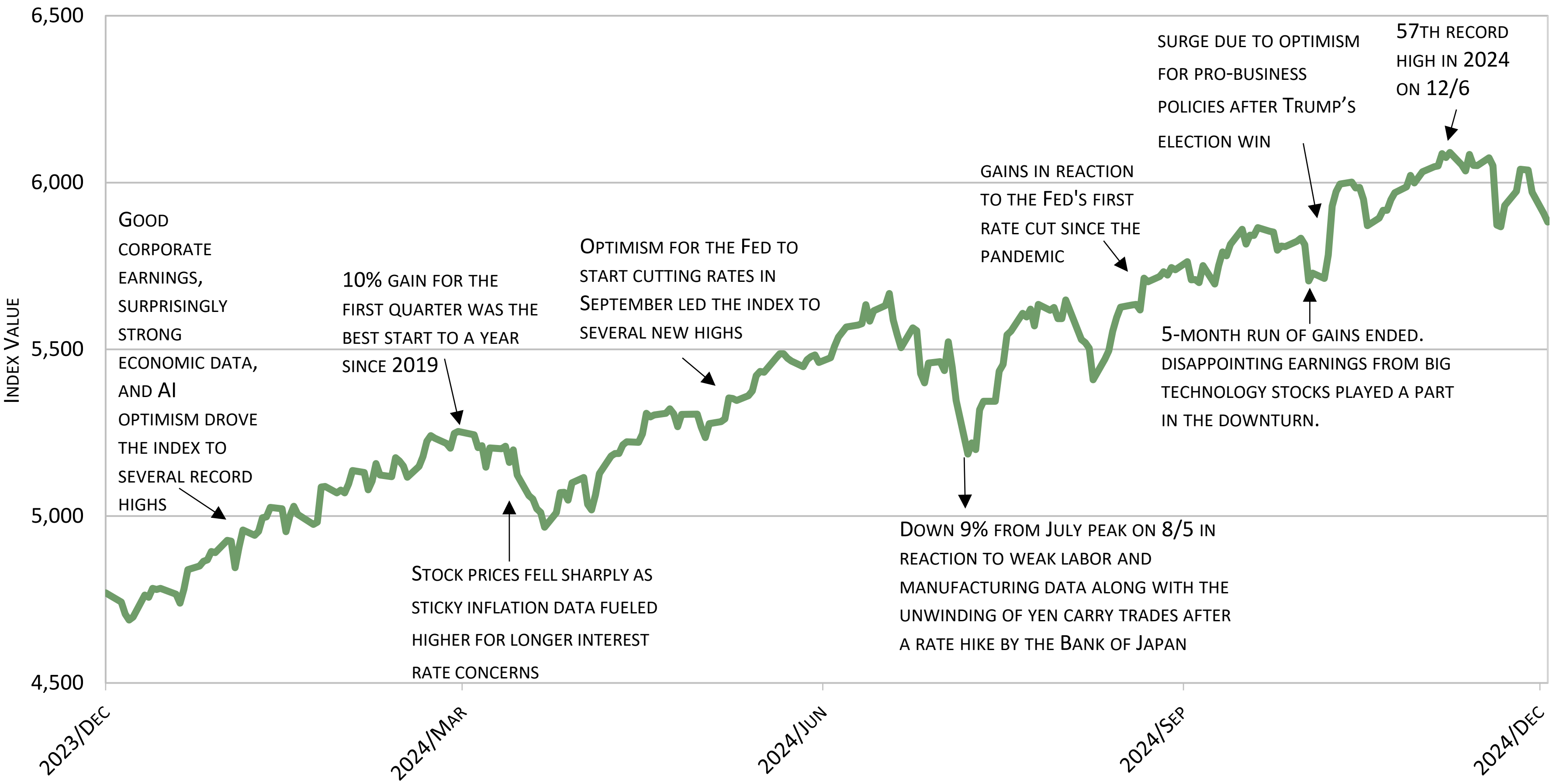
Fourth Quarter Highlights

The S&P 500 index had a strong year setting multiple record highs and avoiding a correction

Solid economic growth, good corporate earnings, the AI frenzy, declining inflation rates, and interest rate cuts drove equity prices, particularly large-cap stock prices, higher throughout the year. There were a few brief pullbacks on some disappointing news, but the S&P 500 ended the year without experiencing a drop of 10% or more (a correction), which is unusual.

S&P 500 Index[1]



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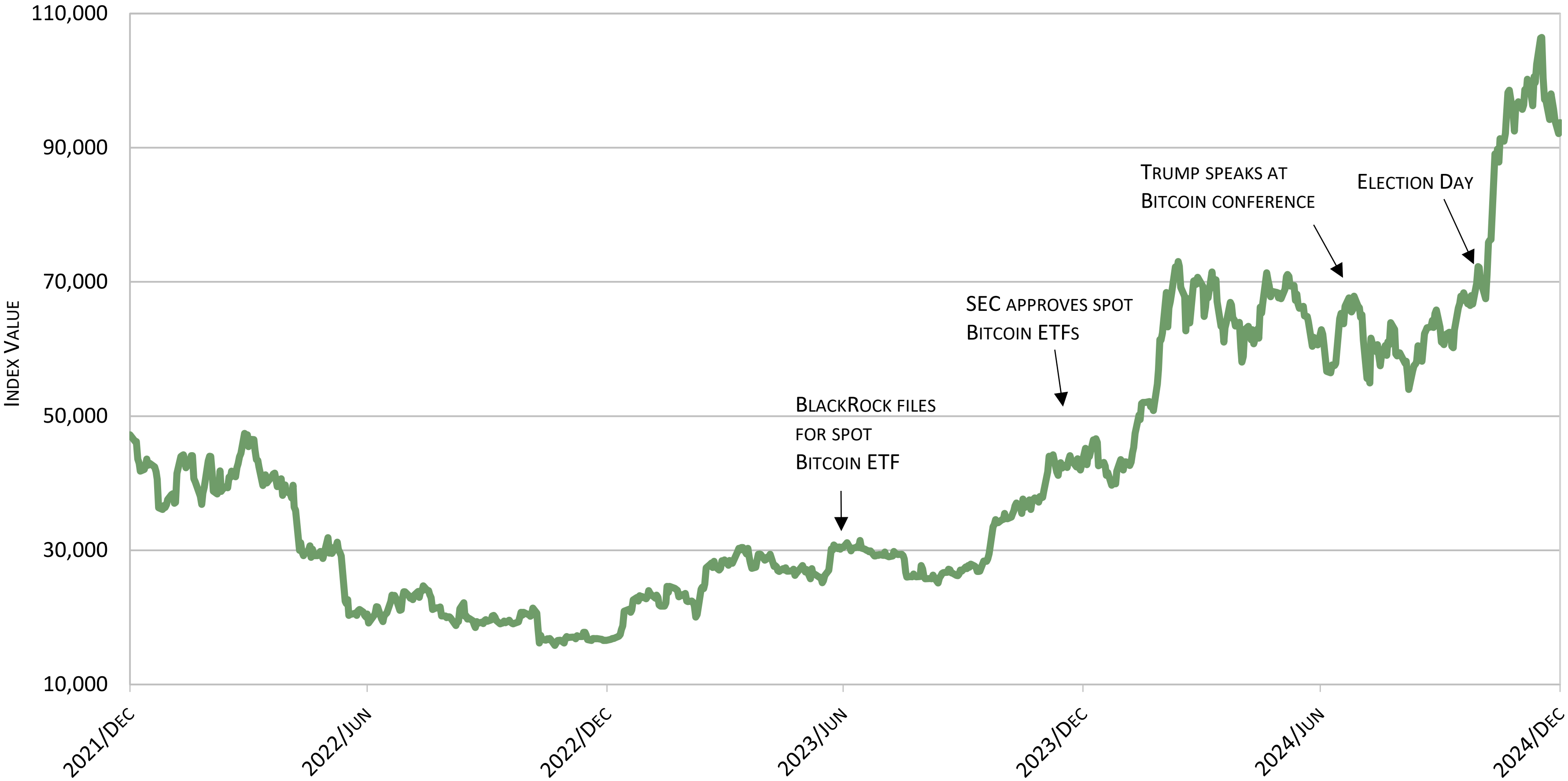
Fourth Quarter Highlights

Bitcoin surged to over the $100,000 mark on hopes for easier regulation

The price of bitcoin surged to record highs after Trump, who promised a national stockpile of bitcoin, won the election and nominated pro-crypto Paul Atkins to the Securities and Exchange Commission. Investors expect a more favorable regulatory climate and growing demand for the crytocurrency from individuals and institutions. However, the price retreated along with stock prices in late December.

Bitcoin Price[1]



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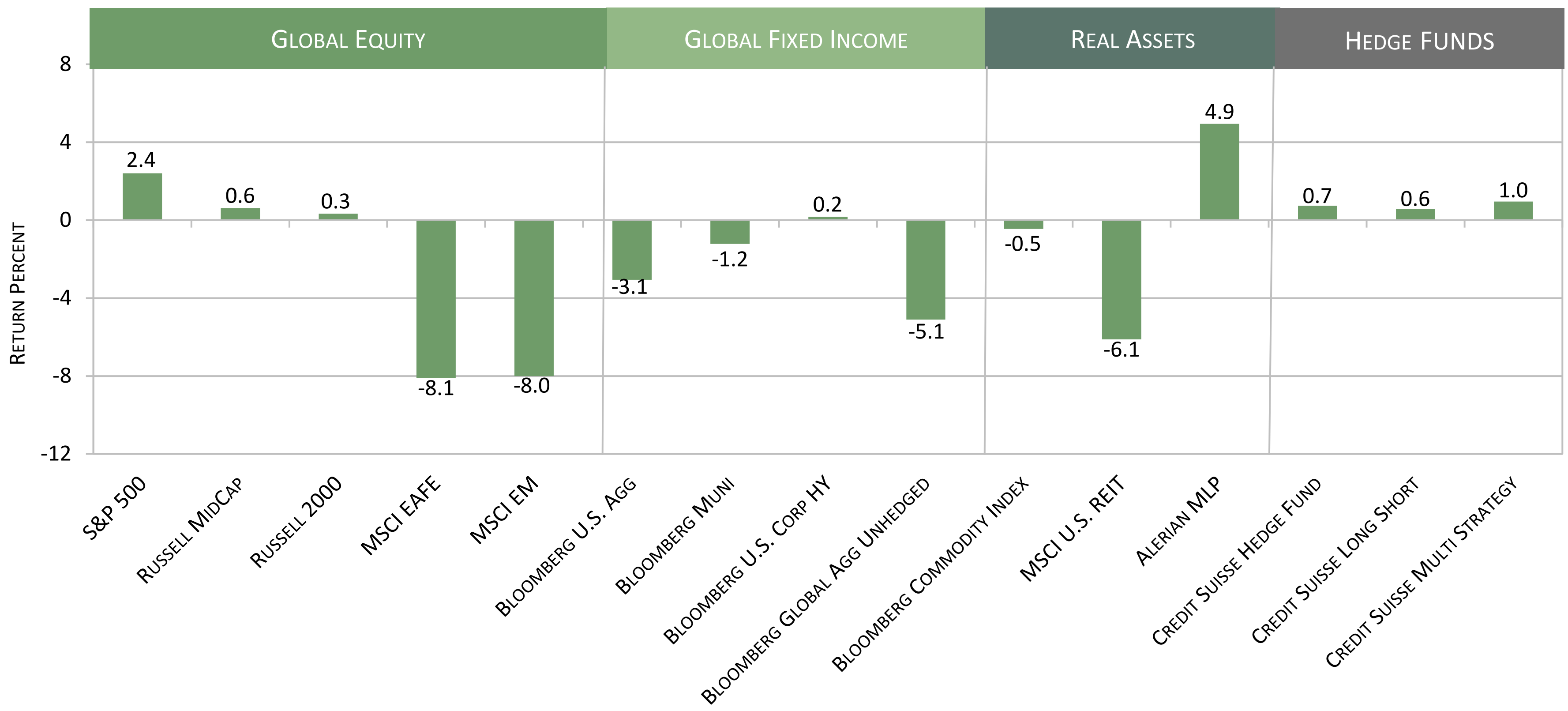
Fourth Quarter Highlights

Election results, sticky inflation, and fewer rate cuts ahead led to mixed quarterly results

U. S. equities posted gains even though the post-election, pro-growth optimism surge in prices reversed when the Fed scaled back its forecast for interest rate cuts. Prices for bonds and interest rate sensitive sectors such as REITs fell sharply on the dampend outlook for rate cuts. Concerns about weak macroeconomic conditions and worries about the impact of possible U.S. tariffs hurt non-U.S. equity prices.

Market Returns: Fourth Quarter 2024[4]



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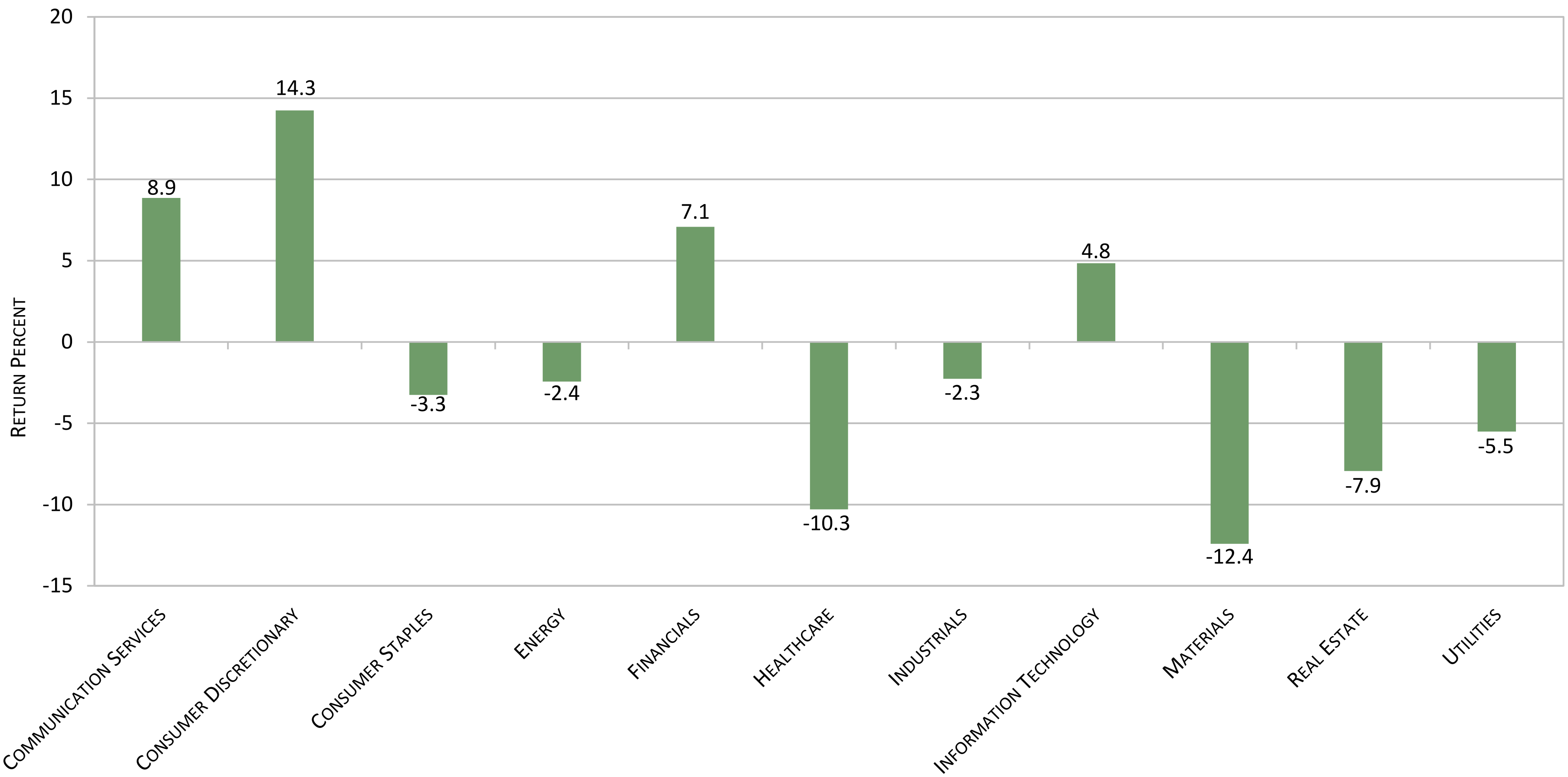
Fourth Quarter Highlights

Equity sector returns varied widely in the quarter on macro conditions and election results

The consumer discretionary sector was the performance leader helped by resilient consumer spending and a surge in the price of Tesla. The communications sector was also a top performer boosted by strong ad revenue growth. Uncertainty about changes to the regulatory climate for healthcare in the Trump administration hurt stocks in that sector. The materials sector was the laggard due to weak demand.

S&P 500 Sector Returns: Fourth Quarter 2024[4]



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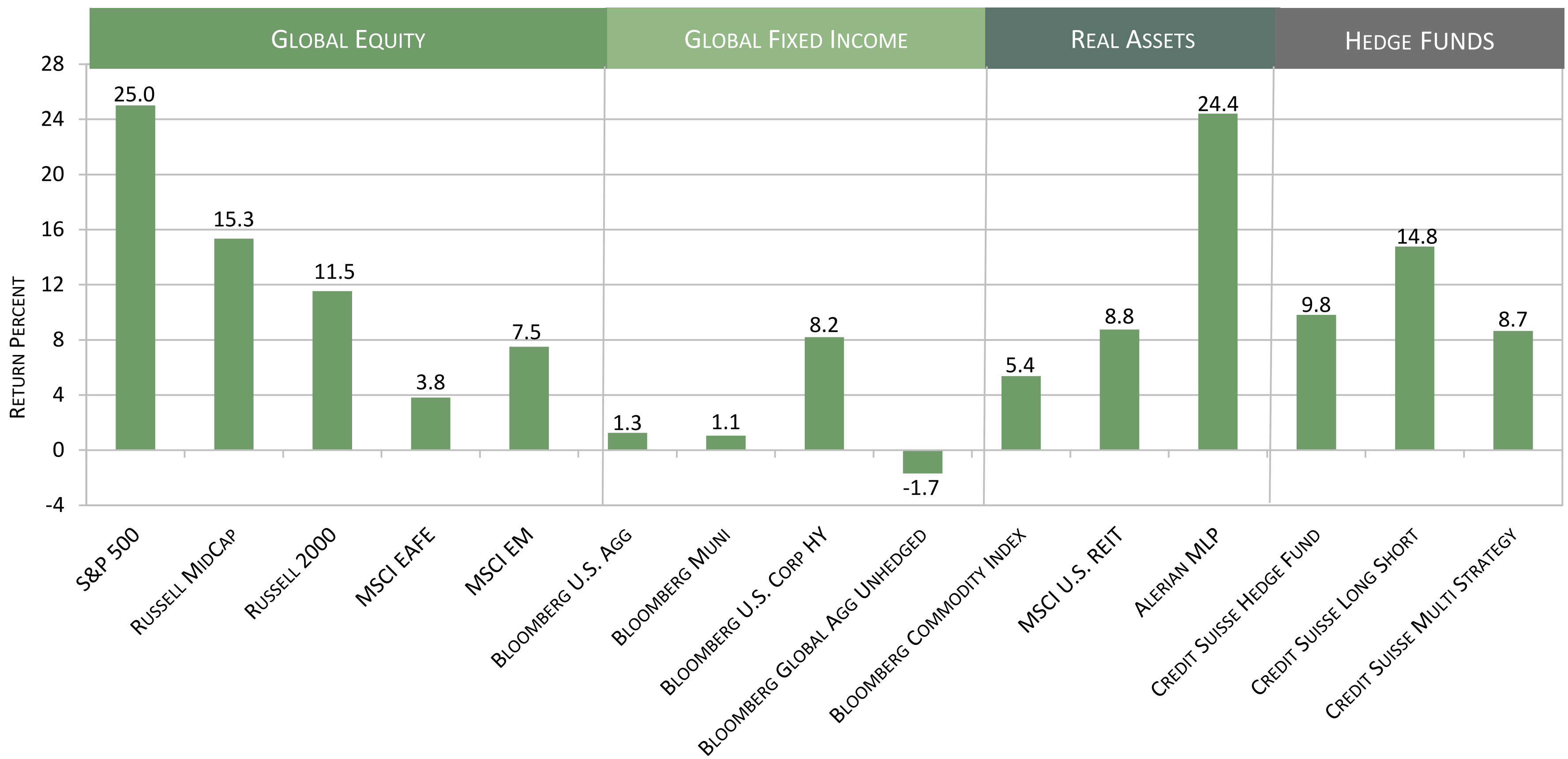
FOURTH QUARTER HIGHLIGHTS

2024 WAS A STRONG YEAR FOR INVESTORS WITH MOST ASSET CLASSES POSTING POSITIVE RETURNS

Equity markets provided solid returns with the U.S. market leading. Strong corporate profits, interest rate cut optimism, and AI enthusiasm were key drivers of equity gains. Non-U.S. returns were lower due to the strengthening dollar. Bonds were volatile as rate expectations shifted but posted modest gains. REITs rose as interest rates fell. MLPs rose due to strong cash flows amid high demand.

MARKET RETURNS: 2024[4]



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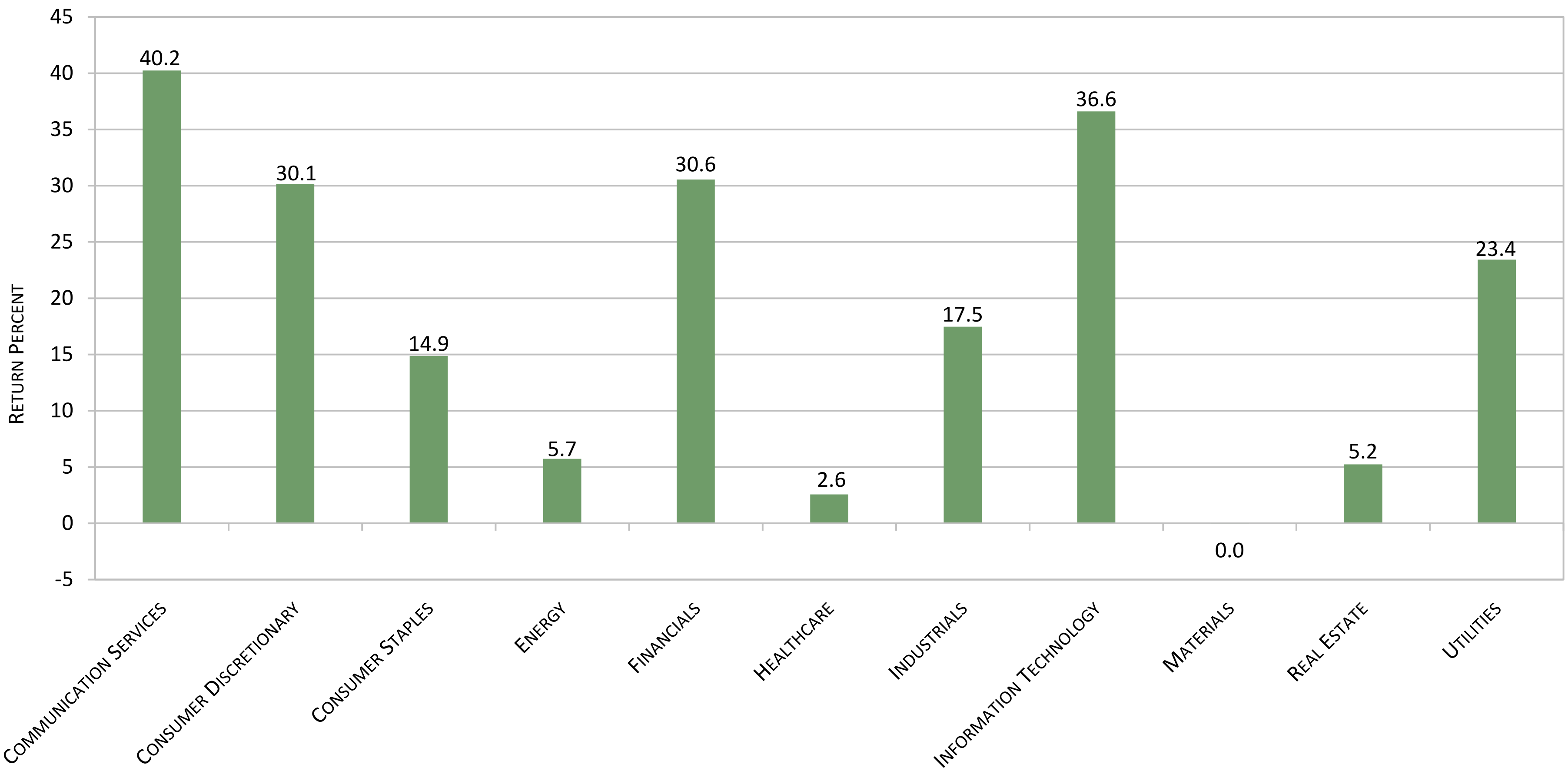
Fourth Quarter Highlights

Most equity market sectors posted double-digit gains in 2024

The sectors related to the AI frenzy including technology, communications, and utilities were performance leaders in 2024. The healthy labor market boosted the consumer sectors. The financials sector was boosted by better fundamentals and expectations for less regulation. Materials and energy were laggards due to weak demand. Healthcare also underperformed hurt by rising costs in the industry.

S&P 500 Sector Returns: 2024[4]



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Fourth Quarter Highlights

U.S. Equities and MLPs Posted Double-Digit Gains in Four of Last Five Years

Calendar Year Returns[4]					
Asset Class	**2020**	**2021**	**2022**	**2023**	**2024**
U.S. Large-cap Stocks	18.1%	28.7%	-18.1%	26.3%	25.0%
U.S. Small-cap Stocks	20.0%	14.8%	-20.4%	16.9%	11.5%
Foreign Stocks	7.8%	11.3%	-14.5%	18.2%	3.8%
Emerging Market (EM) Stocks	18.3%	-2.5%	-20.1%	9.8%	7.5%
U.S. Bonds	7.5%	-1.5%	-13.0%	5.5%	1.3%
Commodities	-3.1%	27.1%	16.1%	-7.9%	5.4%
REITs	-7.5%	43.1%	-24.5%	13.7%	8.8%
Hedge Funds	6.3%	8.2%	1.1%	5.8%	9.8%
Master Limited Partnerships (MLPs)	-28.7%	40.2%	30.9%	26.6%	24.4%

Outlook

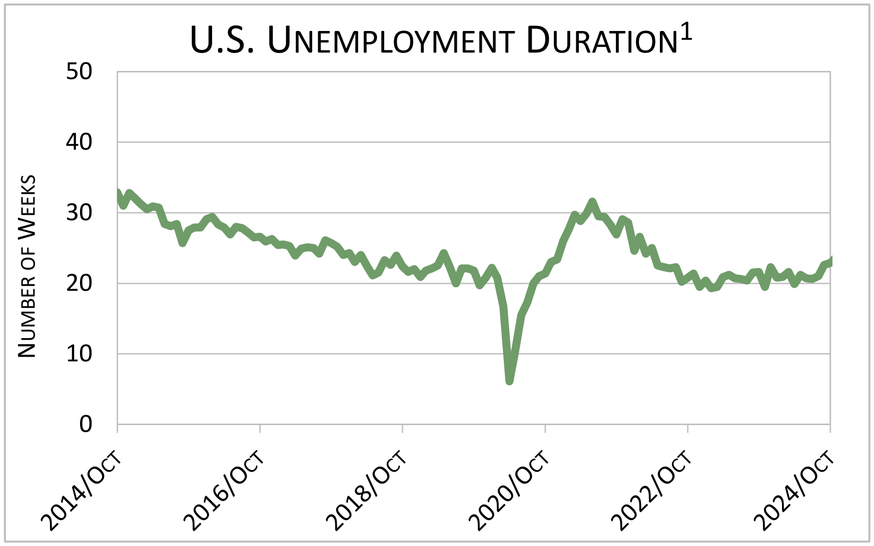
Inflation, labor markets, and Fed policy are still the main focus for investors

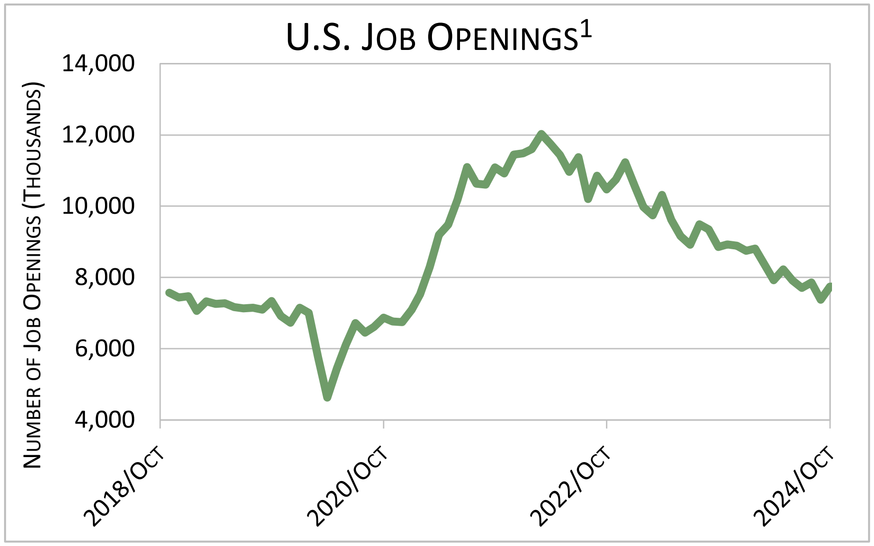
- It is unlikely the U.S. will experience a recession in the near term which should support corporate earnings growth.
  - The manufacturing sector is still in contraction. However, the services sector, which is the largest part of the economy, continues to grow fueled by consumer spending which is supported by a solid labor market.
  - Forecasts point to continued growth in the broad U.S. economy. The Atlanta Fed GDPNow forecast is showing GDP growth of about 2.5%. Innovations and increased productivity, especially from AI, are expected to be a key driver of growth. However, strong economic data is driving bond yields higher and is likely to slow the pace of any further Fed rate cuts. Therefore, there is a risk that impacts from high interest rates will work through the economy and could cause a deeper slowdown than consensus forecasts currently point to.
  - Inflation and employment data will continue to be key indicators for clues to the path of interest rates.
- The outlook in Europe and the United Kingdom is mixed with inflation down but economic activity on the weak side, particularly in manufacturing. Those conditions could lead to more interest rate cuts than in the U.S.
- China's economy continues to be constrained by debt problems in the property sector and dampened consumer sentiment. The recent more aggressive stimulus moves could be a positive for global growth if the moves spur consumer spending, lending, and refinancing activity in China.
- Valuations across financial markets are not cheap after the gains of 2024. The S&P 500 was trading at year-end at about 22 times projected earnings, which is above the 10-year average. High valuations increase the risk of bouts of volatility if earnings reports, central bank comments, or economic data disappoint market participants.
- Geopolitical events could be a source of volatility. At the top of the list is uncertainty about the impact to the U.S. and trading partners from changes to U.S. tax and trade policy and regulation. Trump will need Congressional support to enact many of his policy goals making the timing and final details of policy changes uncertain.

Outlook

Labor market seen as key to U.S. interest rate policy

The strong labor market has been a key driver of the resilient economic activity during the Fed's fight against inflation with high interest rates. Recently, labor data has started to show some cracks, such as an uptick in the number of weeks it is taking unemployed people to find a job, the unemployment rate moving up to the highest level since during the Covid crisis, and the number of job openings continuing to trend lower. Further weakening will likely cause the Fed to lean toward more interest rate cuts.





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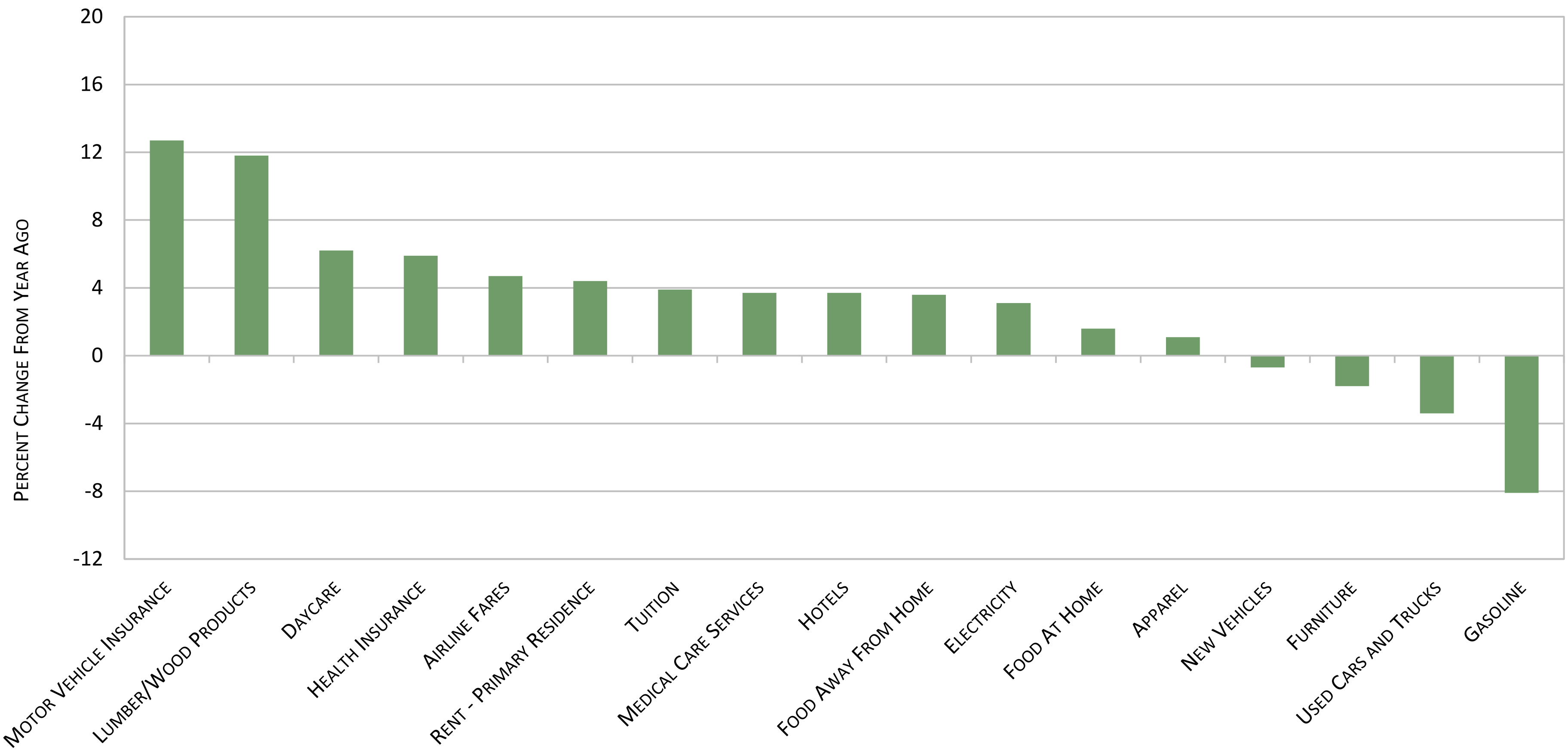
Outlook

Inflation will still be an issue to watch in 2025 for impacts on earnings and Fed policy

The rate of inflation has stalled above the Fed's target due to persistent increases for essential services. Tight labor markets could keep pressure on services prices. New tariffs could fuel inflation for goods as the added expense is passed on to consumers or by causing disruptions to supply chains. For now, the impact of tariffs is highly uncertain as to timing, amounts, and what goods may be targeted.

Consumer Price Index By Expenditure Category[5]



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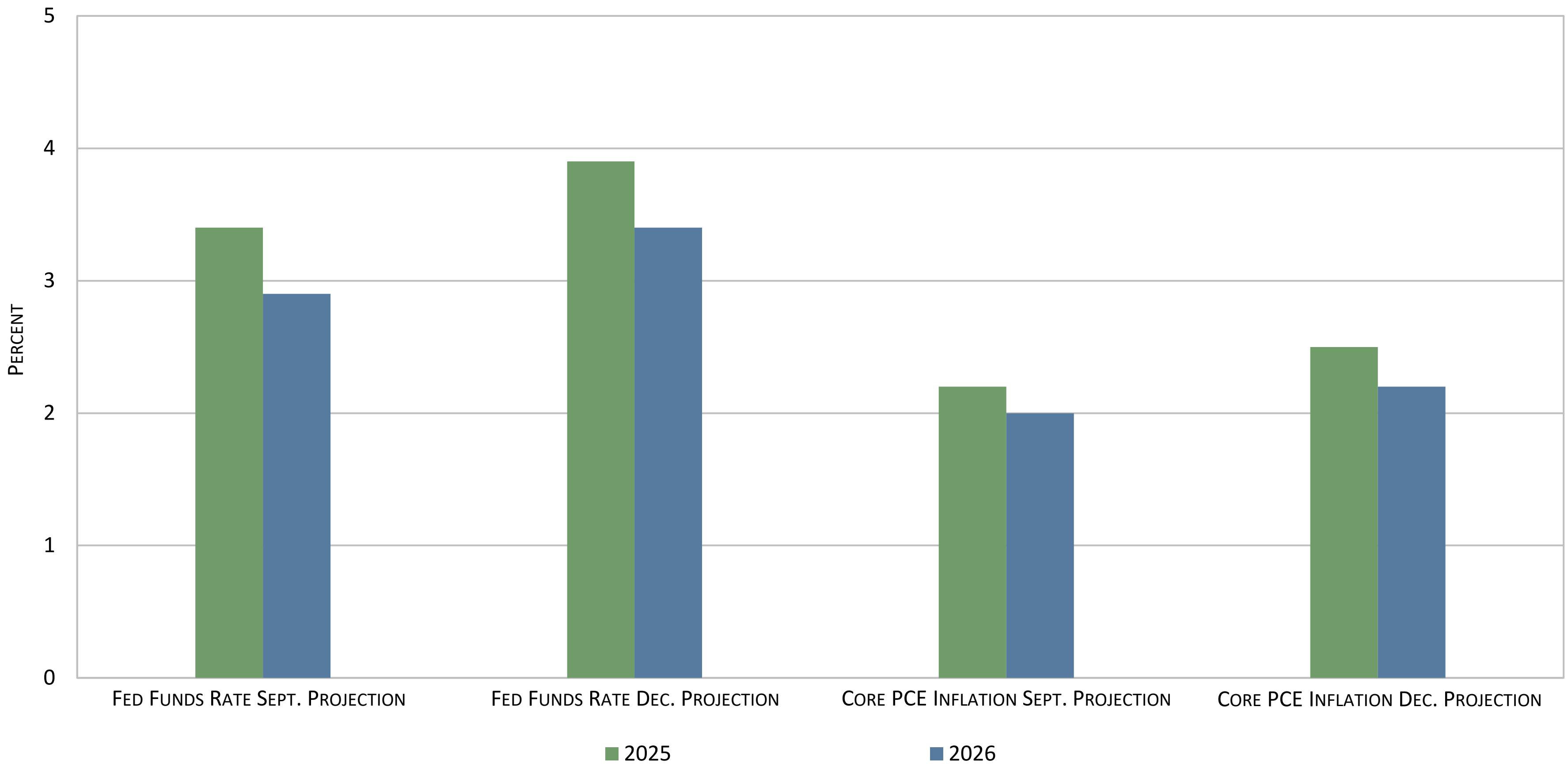
Outlook

Interest rates look to be higher for longer in 2025 than previously forecasted

The Fed raised its projections for inflation and interest rates in 2025 and 2026 at its December meeting. Higher interest rates than forecast just weeks ago may prove to be a headwind for corporate earnings and stock prices in 2025 if not offset by stronger economic activity from improved sentiment or stimulus actions such as tax cuts.

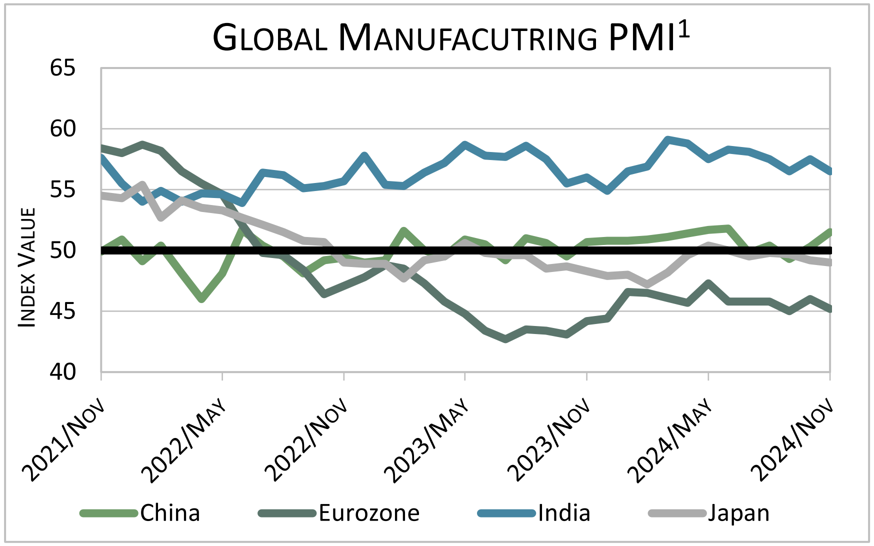
Fed Funds Rate and Core PCE Inflation Projections[6]

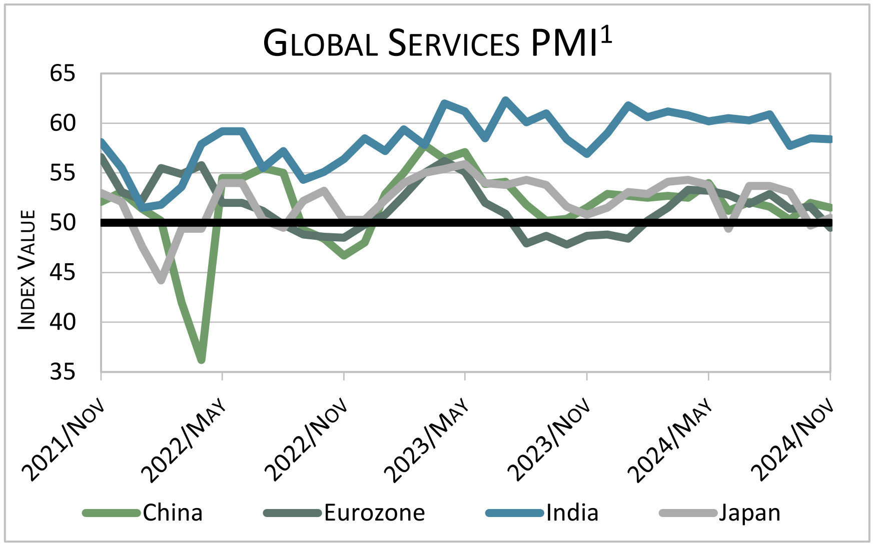


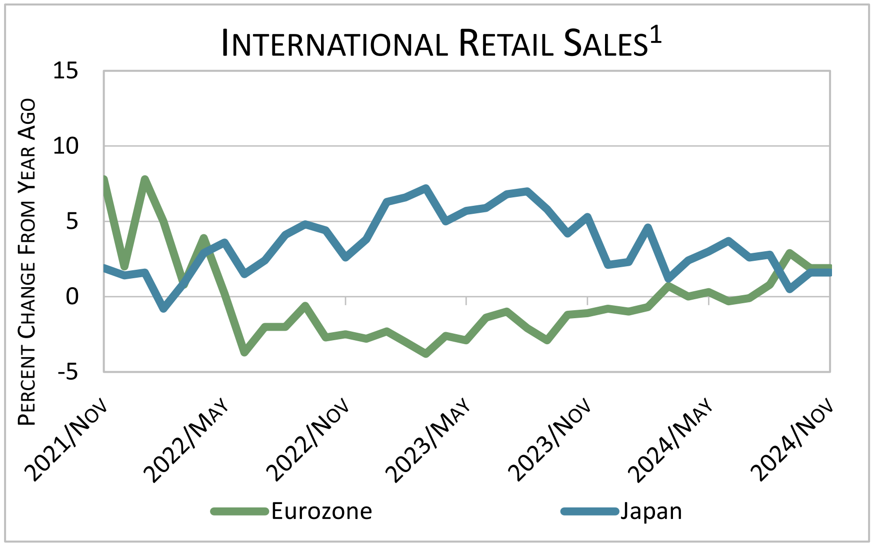
OUTLOOK

ECONOMIC DATA OUTSIDE U.S. IS MIXED

Manufacturing activity remains weak in much of the world with India the main exception. Improvement in 2025 is uncertain due to the impacts of continuing weak demand from China and the potential impacts of changes to U.S. tariff and trade policy. However, tariffs are likely to be targeted rather than broad based. Services activity is stronger but is trending lower. Interest rate cuts could provide a boost to demand for goods and services in Europe and China but rates are likely going up in Japan. In Europe, political instability is an additional risk to consumer confidence.







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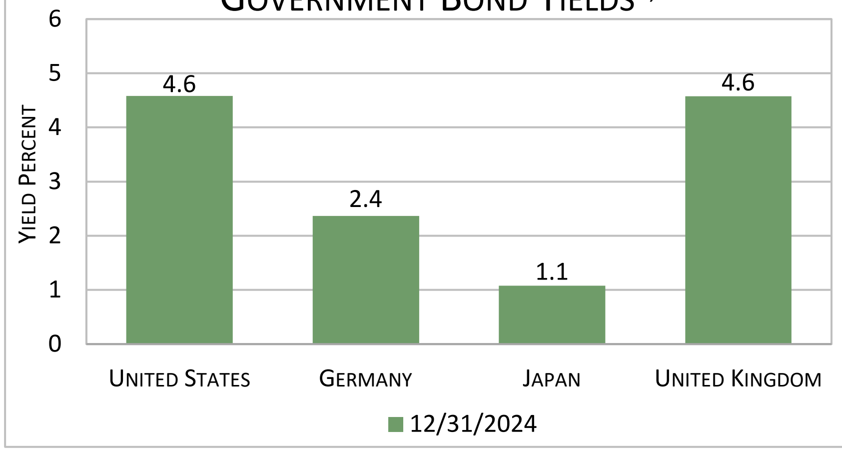
Outlook

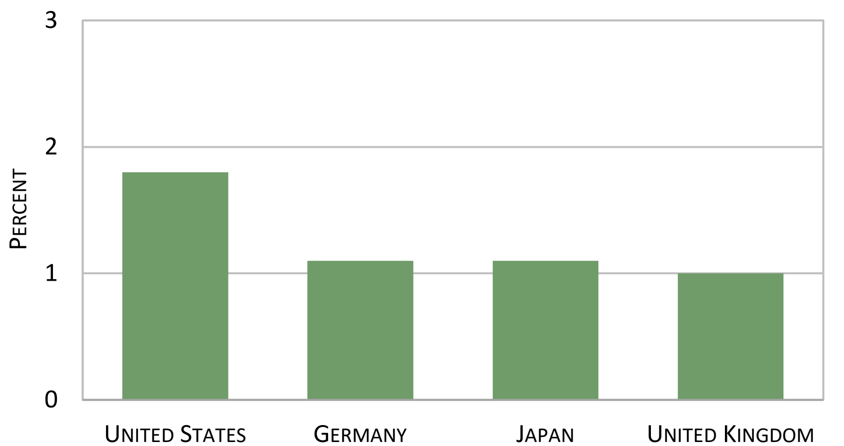
Dollar is likely to be strong which is a headwind to exports and non-U.S. asset returns

The gap between bond yields in the U.S. and several key trading partners is wide due to stronger U.S. economic growth and monetary policy differences. Trump's America First policies of boosting U.S. manufacturing, deregulation, and increasing tariffs could spur economic growth and/or inflation that could keep U.S. interest rates higher for longer which would support the value of the dollar. A strong dollar makes U.S. exports more expensive, hurts earnings of U.S. companies with significant international exposure, and reduces returns from non-U.S. investments.

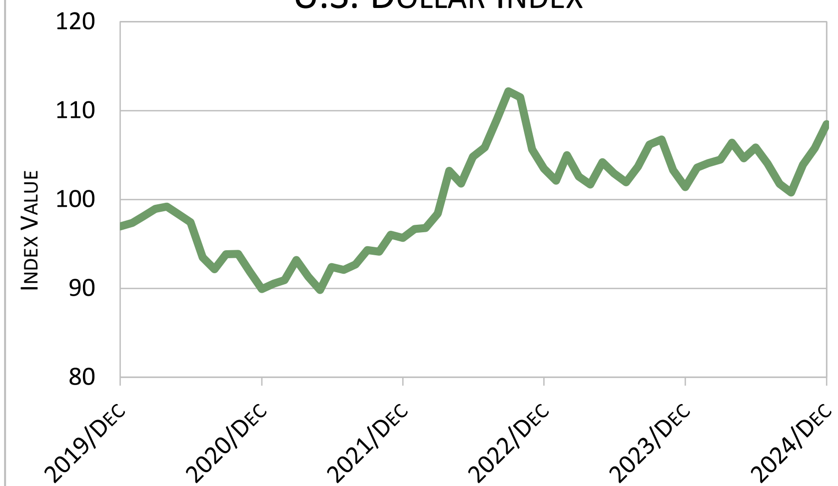
U.S. and International 10-Year Government Bond Yields[1,3]



2025 GDP Growth Forecasts[7]



U.S. Dollar Index[1]



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Outlook

Market cap sector return differentials are likely to narrow in 2025

Performance broadened in the second half of 2024 and is set to continue. Easing interest rates, less restrictive regulatory conditions, less inflationary pressure, increasing signs of the benefits of AI across the economy, and America First policies are expected to help drive earnings growth and improve outlooks for sectors beyond the mega cap technology stocks that led the market in 2023 and early 2024.

Asset Class Returns[4]

Asset Class	First Half 2024	Second Half 2024
S&P 500	15.3%	8.4%
Mid-Cap Index	4.9%	9.9%
Small-Cap Index	1.7%	9.6%
Mag 7 ETF	35.5%	21.6%
Equal Weight S&P 500 Index	5.0%	7.5%

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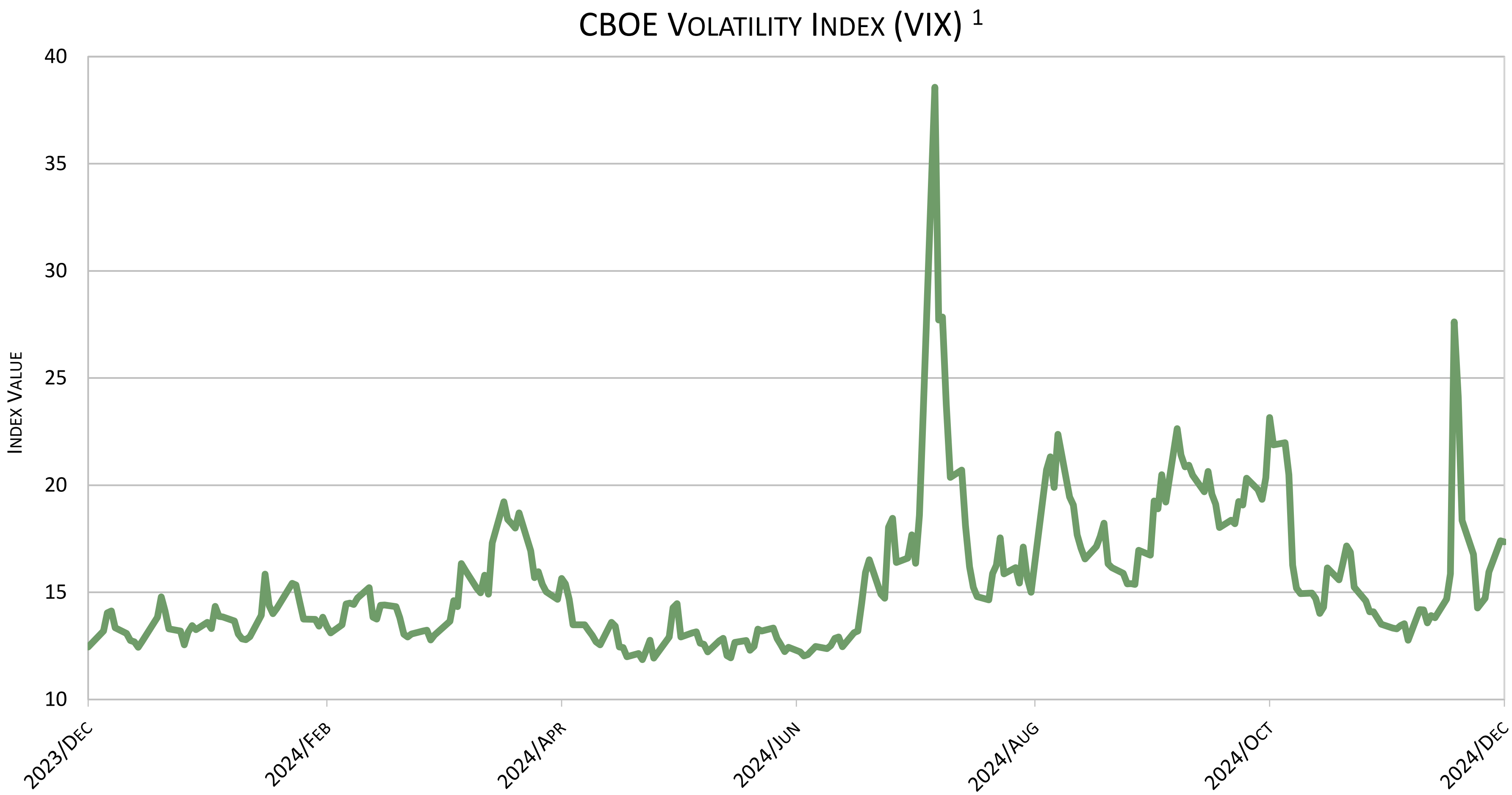
Outlook

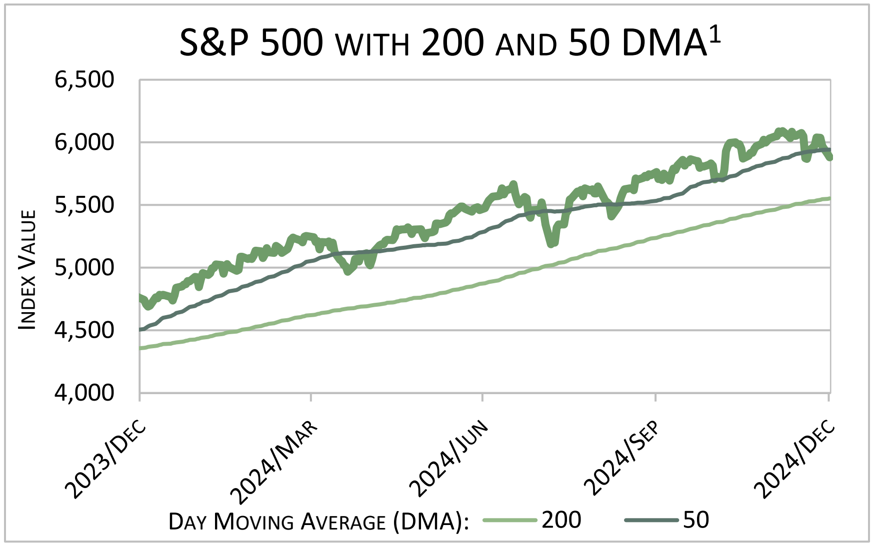
A key gauge of "fear" in the equity market is at a moderate level but is trending higher

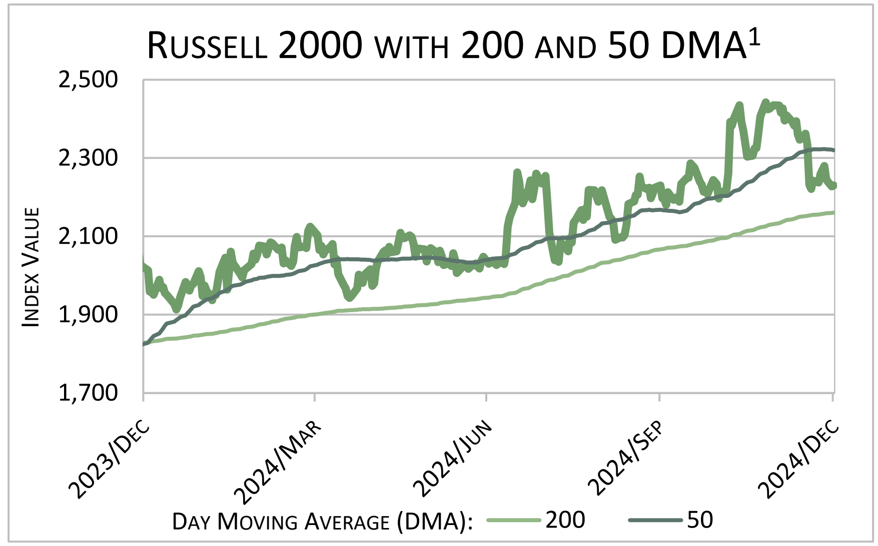
The VIX index measures the market's expectation of near term volatility determined by stock index option prices. The index is essentially neutral compared to its 50-day moving average but the index is trending up indicating investors may be becoming increasingly uncertain.

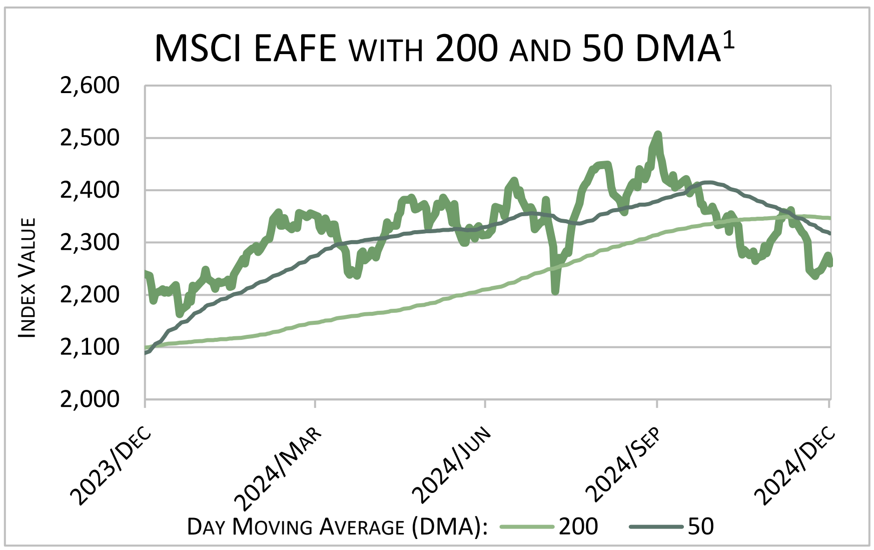


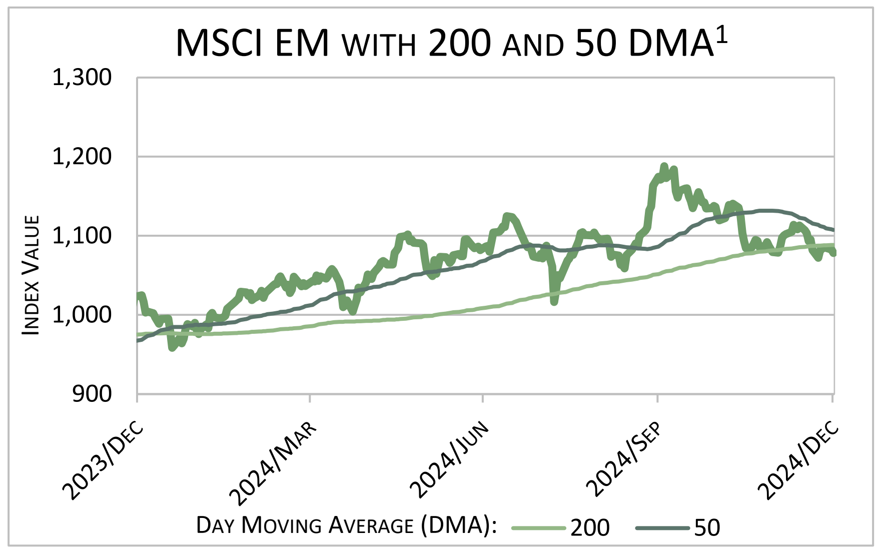
Outlook

Technical market indicators are mixed with sentiment neutral but trends weakening









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Vogel Tactical Recommendations

Favor U.S. over foreign equities. Overweight cash.

Asset Class	Action	Commentary
Domestic Large-Cap Equity	Equal weight	Earnings growth and resilient economic activity are likely to support equity prices but there is a risk that sticky inflation, higher for longer interest rates, stretched consumers, or new trade policy impacts fuel a slowdown. Valuations are high.
Domestic Mid-Cap Equity	Equal weight	Earnings growth and resilient economic activity are likely to support equity prices but there is a risk that sticky inflation, higher for longer interest rates, stretched consumers, or new trade policy impacts fuel a slowdown. Valuations are high.
Domestic Small-Cap Equity	Equal weight	Deregulation moves, a pick-up in acquisition activity, and a resilient economy could provide a boost to small-cap prices.
International Developed Equity	Underweight	Inflation is slowing so rate cuts are likely since concerns remain about weakness in exports and manufacturing. A stronger dollar and potential U.S. trade policy moves could be a headwind.
International Emerging Market Equity	Underweight	Growth outlooks are mixed by country with India and technology centric economies set for stronger growth but valuations are high in higher growth regions. Stimulus measures have not resolved structural issues in China but more are expected.
Fixed Income	Equal weight	The highest yields in years are a source of income and diversification. Fundamentals are still solid so default risk for corporate and structured product bonds is low, but valuations are high.
Hedge Strategies	Underweight	The flexibility to position for various risk scenarios can provide return opportunities, but rapid and sharp market swings can be challenging for some strategies.
Real Assets	Equal Weight	High income potential for real estate assets is attractive. Demand is driving prices for precious metals but valuations are high. Stimulus moves in China along with AI and decarbonization buildout have potential to lift demand for industrial commodities.
Cash	Overweight	Yields are off peaks but still attractive. Cash still provides a hedge against macro risks.

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DISCLOSURES

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Sources: *Number below corresponds to the superscript notation in chart titles and text blocks*

Sources:

1. Telemet America, Inc.
2. https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/l55o/mm23
3. Daily Treasury Yield Curve Rates, retrieved from U.S. Department of Treasury; https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield, January 3, 2024.
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6. Projection materials retrieved from https://www.federalreserve.gov/monetarypolicy.htm.
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