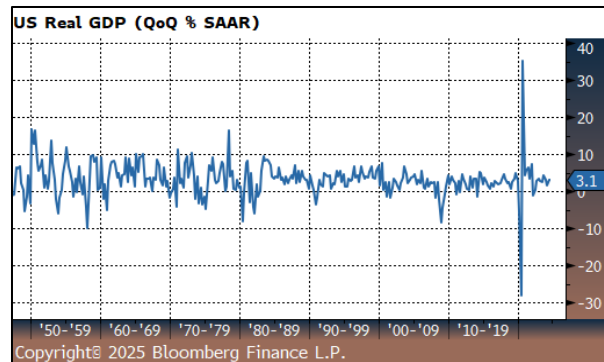
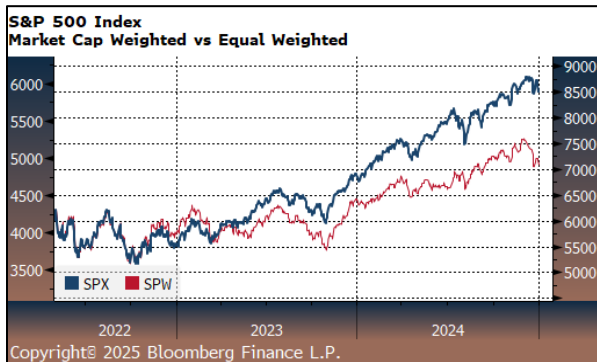


Executive Summary:

- Large-cap growth stocks led the S&P 500 Index to double-digit returns in 2025; higher stock prices were supported by a robust economy and AI optimism.
- Adding exposure to small caps and international stocks may offer an attractive risk/return tradeoff.
- The FOMC will likely slow its pace to cut rates—two 0.25% cuts projected for 2025.

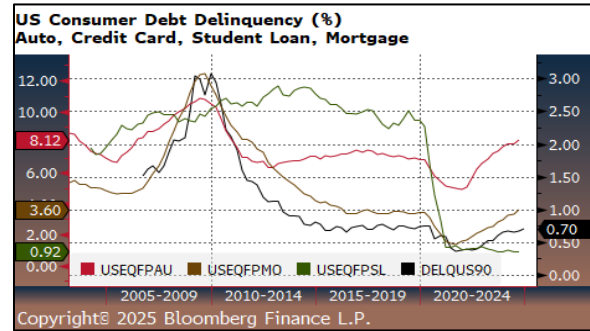
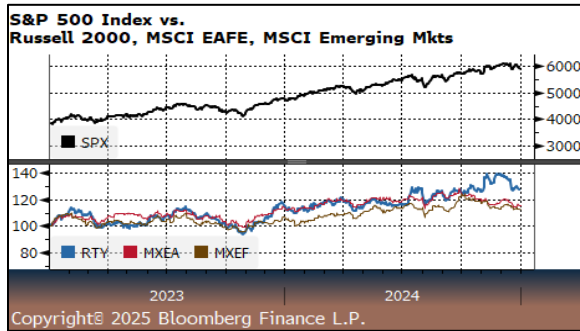


Domestic equities finished another strong year led once again by large-cap growth stocks, marking the strongest back-to-back annual run since 1998. The S&P 500 Index led major indices with a 25% total return, driven mostly by tech-related stocks and the top market caps designated as the *Magnificent Seven* (M7). Microsoft was the only M7 stock to underperform the Index in 2024 while Nvidia earned a triple-digit total return for the second year in a row. The U.S. economy’s resiliency helped to support the U.S. stock market’s rise by contributing to strong corporate earnings, and further optimism for artificial intelligence (AI) continued to give Big Tech a boost. Investors hope the stock market’s upward trend will persist into the new year despite the elevated risks and a jittery December month-end. Conversely, while international stocks finished 2024 positive, total returns were in the single digits as weaker economies, fewer technology companies to participate in the AI enthusiasm, and a strong U.S. dollar limited performance.

Our base case is for the bull market in U.S. equities to remain intact, but we would like to see broader participation. The disparity between the market cap-weighted and equal-weighted S&P 500 Indices gives an indication of how stock prices for some mega-caps have become extended compared to the majority of stocks within the benchmark. The total return of the S&P 500 Equal Weighted Index was 12.98%, which is closer to the Dow Jones Industrial Average at 14.99%. While much could go right in 2025 to justify higher equity prices, the valuation extremes amid a still restrictive FOMC policy warrant concerns for a period of heightened volatility. Equities that may be priced to perfection increase the risk of a meaningful selloff should their earnings results not meet expectations. At some point, adding small caps and international stocks could improve the risk-to-reward profile for equity portfolios as those categories appear to have more attractive valuation metrics.

We expect the U.S. economy to slow down in 2025 with the prospects for a “soft landing” still likely. Expectations for corporate profits remain strong, which should support another year of positive returns for equities. However, total returns are more likely to be modest compared to 2023 and 2024. Fed Chair Jerome Powell has made it clear that the Fed needs more progress on inflation before making additional cuts. As a result, the restrictive monetary policy will continue to impact housing and manufacturing sectors due to higher borrowing costs. Additionally, consumers with

credit card debt, mortgages, and other loans may struggle to meet their debt obligations should labor market trends weaken further. Finally, while Trump’s presidential victory promises tax cuts and corporate-friendly policies, the implementation of tariffs could create short-term havoc on the financial markets as companies grapple with potential supply-chain challenges and investors deal with uncertainty.



SECTORS	2023	2024	EQUITY INDICES	2023	2024	COMM. & CURRENCIES	LAST CLOSE	YTD
S&P 500 COMM SVC	55.80%	40.23%	S&P 500 INDEX	26.26%	25.00%	WTI CRUDE FUTURE Feb25	71.72	0.31%
S&P 500 CONS DISCRET IDX	42.30%	30.14%	DOW JONES INDUS. AVG	16.18%	14.99%	BRENT CRUDE FUTR Mar25	74.64	0.66%
S&P 500 CONS STAPLES IDX	0.52%	14.87%	NASDAQ COMPOSITE	44.70%	29.60%	NATURAL GAS FUTR Feb25	3.63	-0.63%
S&P 500 ENERGY INDEX	-1.42%	5.72%	S&P 400 MIDCAP INDEX	16.39%	13.89%	LME COPPER 3MO (\$)	8,768.00	2.44%
S&P 500 FINANCIALS INDEX	12.10%	30.50%	RUSSELL 1000 GROWTH INDX	42.67%	33.35%	Gold Spot \$/Oz	2,624.50	0.42%
S&P 500 HEALTH CARE IDX	2.06%	2.58%	RUSSELL 1000 VALUE INDEX	11.41%	14.35%	Silver Spot \$/Oz	28.90	-0.06%
S&P 500 INDUSTRIALS IDX	18.08%	17.30%	RUSSELL MIDCAP RT INDEX	17.19%	15.34%	Euro Spot	1.04	-0.61%
S&P 500 INFO TECH INDEX	57.84%	36.61%	RUSSELL 2000 INDEX	16.88%	11.53%	British Pound Spot	1.25	-0.30%
S&P 500 MATERIALS INDEX	12.55%	-0.04%	MSCI ACWI ex US	15.62%	5.53%	Japanese Yen Spot	157.20	-0.38%
S&P 500 REAL ESTATE IDX	12.35%	5.23%	MSCI EAFE	18.95%	4.43%	DOLLAR INDEX SPOT	108.49	---
S&P 500 UTILITIES INDEX	-7.08%	23.43%	MSCI EM	10.20%	7.97%			

Source: Bloomberg

As of: 1/1/2025

Total Return

Bloomberg Barclays Bond Indices	2023	2024	YTD	Effective Duration	Avg. Maturity	Yield-to-Worst	Key Rates	
U.S. Aggregate	5.53%	1.25%	0.00%	6.08	8.35	4.91%	Effective Fed Funds	4.33%
Intermediate	5.24%	3.00%	0.00%	3.81	4.23	4.60%	2-yr Treasury	4.24%
Global Agg ex USD	5.72%	-4.22%	0.00%	7.03	8.57	2.60%	10-yr Treasury	4.57%
Inv Grade Corporate	8.52%	2.13%	0.00%	6.98	10.54	5.33%	10-yr German Bund	2.36%
U.S. Corporate High Yield	13.45%	8.19%	0.00%	3.48	4.72	7.49%	Prime Rate	7.50%
Tax Exempt							30 Year Fixed Mortgage	7.28%
Muni 1-10 Yr Blend (1-12)	4.61%	0.91%	0.00%	4.03	6.27	3.36%		

Source: Bloomberg

As of: 1/1/2025

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