SMB Trust Services

Fourth Quarter 2024

Quarterly Market Insights

Shifting Expectations

EXECUTIVE SUMMARY

- Lowered recession risk = higher bond yields
- White House focused on inflation and energy policy
- AI data center buildout presents opportunities
- Deregulation could more than offset tariff risks

The final three months of 2024 was a period defined by a reset in market and policy expectations. The Federal Reserve and most other major global central banks continued down the path of policy easing, yet long-term U.S. Treasury yields moved markedly higher. After a bout of summer weakness in official labor market data, a resumption of nonfarm payroll growth in the autumn consistent with a healthy level of demand for workers led markets to reprice higher growth and inflation expectations. The GOP sweep election victory on November 5 ignited a rally in small cap stocks and cyclical sectors as investors seemed to cheer a clear result and express enthusiasm about the fiscal and regulatory components of the incoming Trump administration's policy platform. This broadening of market leadership and related rotation away from mega cap technology in November faded in December, however, upended by higher bond yields and guidance from Fed officials for fewer rate cuts in 2025 than previously anticipated. For the quarter, the S&P 500 returned 2.4%, while the Nasdaq advanced 6.4% and the small cap Russell 2000 eked out a 0.3% gain.

The power shift in Washington, D.C. has raised hopes that certain areas of the economy (energy production, domestic manufacturing, capital markets) could be on the cusp of an acceleration in growth due to changes in federal policy priorities. At the same time, some market participants have expressed concerns that a policy mix of tighter immigration controls, increased tariffs, and lower tax rates could create an environment in which domestic inflation reaccelerates in 2025 and never reaches the Fed's 2% annual goal. Inside the U.S. stock market, excitement has begun to build about potential beneficiaries of the next phase of the generative AI spending cycle. Until recently, this powerful market theme has been dominated by a handful of companies at the forefront of high-end semiconductor design and manufacturing. In the second half of the year, stocks of various companies tied to nuclear energy production, natural gas distribution, and physical data center infrastructure saw significant upward earnings revisions and higher valuations.

We continue to see the U.S. economic expansion and equity bull market intact supported by resilient consumer spending and stabilizing inflation. The first half of 2025 is likely to produce episodes of market volatility, however, as the Trump administration works out its approach to major policy areas, including tax, trade, immigration, healthcare, defense, energy production, and Treasury issuance.

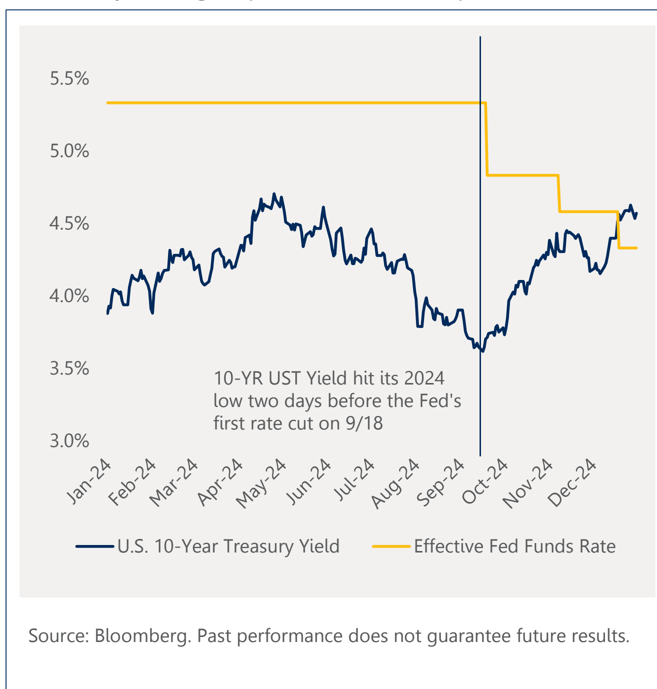
Fed Rate Cuts = Higher Bond Yields?

As seen on Chart 1, the 10-year U.S. Treasury yield recorded its closing low for the year of 3.62% just two days before the Federal Open Market Committee kicked off its rate-cutting cycle with a 0.50% reduction in the policy rate on September 18. At the time, policymakers were likely responding to what appeared to be weakness in the labor market. Readers may recall soft nonfarm payroll reports for July and September released August 2 and September 6, respectively. The unemployment rate unexpectedly rose to 4.3% in July. This triggered the so-called Sahm rule, which stipulates if the 3-month average of the unemployment rate gathers enough upward momentum, a recession is likely to be around the corner.

As the calendar turned to October, it became increasingly clear that the late summer "growth scare" would have a short shelf life. Nonfarm payrolls accelerated in September to net monthly gain of 254,000 and the unemployment rate settled down to 4.1%, bringing the Sahm rule's brief time in the spotlight to an end. In addition to the strong jobs data, upside surprises in the September ISM Services Purchasing Managers Index (PMI) on October 3 and September retail sales on October 17 seemed to confirm minimal risk of an imminent slowdown. The initial estimate of third quarter U.S. real gross domestic product (GDP) on October 30 showed the U.S. economy expanded at a solid

CHART 1

Fed Policy Easing Improved Growth Expecations



Source: Bloomberg. Past performance does not guarantee future results.

annualized clip of 2.9% in the third quarter on the back of strong personal consumption.

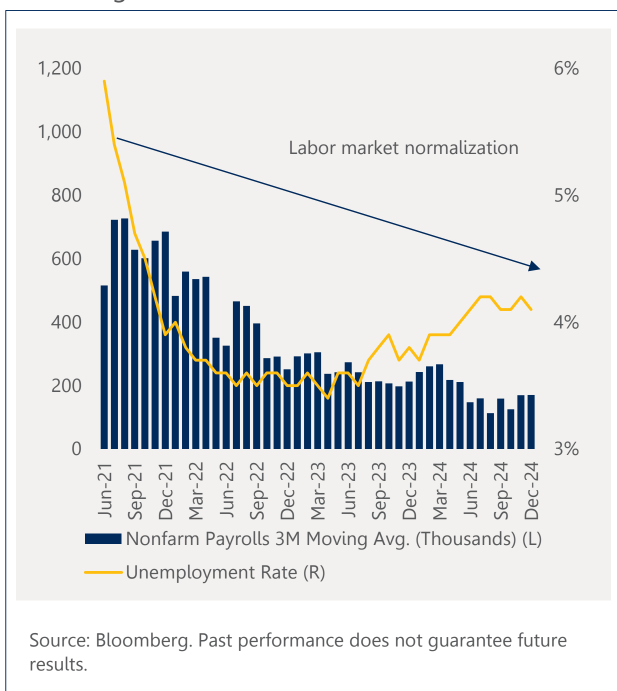
And so, fading recession fears pushed long-term Treasury yields higher in October and November as bond markets repriced a shallower trajectory of Fed rate cuts and a higher neutral rate. The neutral rate is a theoretical level rates at which the policy rate is neither restrictive (risking an economic contraction) nor stimulative (risking an overheated economy).

Getting Back to Normal

In our view, the U.S. labor market is likely going through a normalization process rather than deteriorating in a way that would be expected leading up to a recession. Monthly nonfarm payroll figures continue to regulate toward pre-pandemic ranges, while the unemployment rate has steadied near 4% after briefly tripping the aforementioned Sahm rule this summer. As seen in Chart 2, the three-month moving average of nonfarm payroll gains steadily declined from the summer of 2021 through the summer of 2024 but has stabilized near 150,000 in recent months. Using a 3-month moving average helps to smooth the month-to-month volatility in the data. Most economists estimate the U.S. economy needs to create roughly 100,000 jobs per month to keep up with population growth and new entrants to the labor force. Thus, a monthly average of 150,000 net new job gains can be seen as evidence of an economy experiencing a healthy rate of growth that is probably not on the verge of overheating and stoking excess inflation as was the case in 2021. For context, nonfarm payroll gains averaged 177,000 in the 36 months spanning 2017 through 2019, a period in which U.S. real GDP growth averaged 2.7% per year.

CHART 2

A Slowing But Still Stable Job Market



Source: Bloomberg. Past performance does not guarantee future results.

Higher frequency jobs data never confirmed the deterioration in the employment picture that spooked some investors and commentators over the summer. The four-week moving average of weekly initial claims for unemployment insurance exceeded 240,000 for just one week in late July. This was up significantly from readings around 200,000 in January but in the middle of the range of 201,500 to 301,250 that was in place from 2015 through 2019. In the final five months of the year, the four-week moving average of weekly claims moved back down under 230,000 except for several weeks in October amid a bout of temporary hurricane-related layoffs in southeastern states.

Labor Market Checklist

In our view, trends in temporary hiring, advanced layoff notices, and residential construction payrolls do not currently suggest an imminent increase in the unemployment rate. Slowdowns in temporary hiring have been useful historically as a leading indicator of broader labor market weakness. This is because companies are more likely to part ways with temporary workers prior to reducing their full-time workforce. Employees characterized as “temporary” on U.S. payrolls declined for 29 of the 31 months from April 2022 through October 2024. After reaching a post-pandemic high of 3.18 million in March 2022, temporary payrolls fell 17% to a 11-year low of 2.65 million in October. Leading up to and during the Great Financial Crisis, the number of workers classified as temporary plunged 34% from 2.65 million in August 2006 to 1.75 million in July 2009. Encouragingly, temporary payrolls increased by about 11,000 in the final two months of 2024, suggesting a potential shift in U.S. employer’s willingness to expand their workforces.

After trending higher in the first half of the year, advanced layoff notices by U.S. companies have stabilized around 20,000 per month in the second half of 2024. The Worker Adjustment and Retraining Notification (WARN) Act requires employers with 100 or more employees to provide notification to workers and state labor departments 60 days in advance of large planned layoffs. WARN Notices averaged 20,200 per month in the ten-and-a-half-year period from August 2009 (the first month after the end of the GFC recession) through February 2020 (the last month before the Covid lockdowns). According to research by Cleveland Fed economists, WARN data has historically been a leading indicator of state-level unemployment claims and the national unemployment rate.

Residential construction jobs remain at cycle highs as homebuilders continue to work through elevated backlogs. A surge in pandemic-driven demand for larger houses and supply chain shortages in 2020 through 2022 pushed new single-family home backlogs higher than in prior cycles and significantly extended the time-to-completion of new units. Even though there are only about 1 million residential construction jobs in the U.S., this sliver of the economy has an outsized multiplier effect. This is because of how closely the industry is tied to demand for durable goods, landscaping, HVAC/electrical, and mortgage

finance. As 3Fourteen Research co-founder and strategist Warren Pies pointed out in a recent interview on the Forward Guidance podcast that aired January 15, drawdowns of 8% to 10% in residential construction payrolls typically precede modern recessions in the U.S. by several quarters.

Various measures of the average 30-year mortgage rate in the U.S. once again backed up to near 7% in late December and unsold completed inventories have increased at several large homebuilders. These developments warrant monitoring as potential signs of residential construction layoffs later in 2025. As of mid-January however, it seems premature to declare weakness in this small but important area of the U.S. economy.

Inflation: Is 3% the new 2%?

A cooling in annual wage growth to between 3.5% and 4.0% in the second half of the year is another sign of a normalizing job market and an improved equilibrium between job seekers and employers. Job openings averaged about 7.8 million over second half of 2024, down from 8.3 million in the first six months of the year and 9.5 million in 2023. In December, the ratio of job openings (8.1 million) to total unemployed persons in the labor force (6.9 million) was 1.18, down from 1.43 in December 2023 and record high of 2.03 in March 2022. All other things equal, lower levels of this ratio indicate more labor market slack, while higher levels suggest a tight labor market. From 2017 through 2019, the ratio averaged 1.07 with a range of 0.75 (January 2017) to 1.24 (October 2019). The current ratio of 1.18 suggests a much healthier balance between supply of labor and demand.

As we show in Chart 3, the median annual pay increase for U.S. workers who switched jobs in 2022 (when the ratio of job openings-to-unemployed persons surged) was around 15% based on ADP data. This acute wage pressure amplified the amount of excess inflation in the U.S. economy brought about by supply chain disruptions and massive fiscal outlays. It is no coincidence that the apex in private worker wage gains coincided with the peak in the year-over-year consumer price index in the summer of 2022. Fast forward two-and-a-half years, and the annual change in headline CPI has oscillated between 2.5% and 3.5% for most of 2024 (see the shaded region of Chart 3). There was a reacceleration in CPI in the fourth quarter from a multi-year low of 2.4% in September to 2.9% in December as core services categories including auto insurance and medical visits remained sticky. Federal Reserve officials continue to publicly express confidence that annual core inflation (which excludes energy and food prices) will decline to their stated target of 2% throughout the economic cycle. It might be the case, however, that a growing number of Fed policymakers may have privately accepted 3% as a more realistic average inflation target in the post-pandemic U.S. economy. We would argue this is not necessarily a bad thing. But it would mean that long-term bond yields are unlikely to return to sub-3% levels any time soon and financing costs for corporations and homeowners are likely to stay elevated compared to the previous decade.

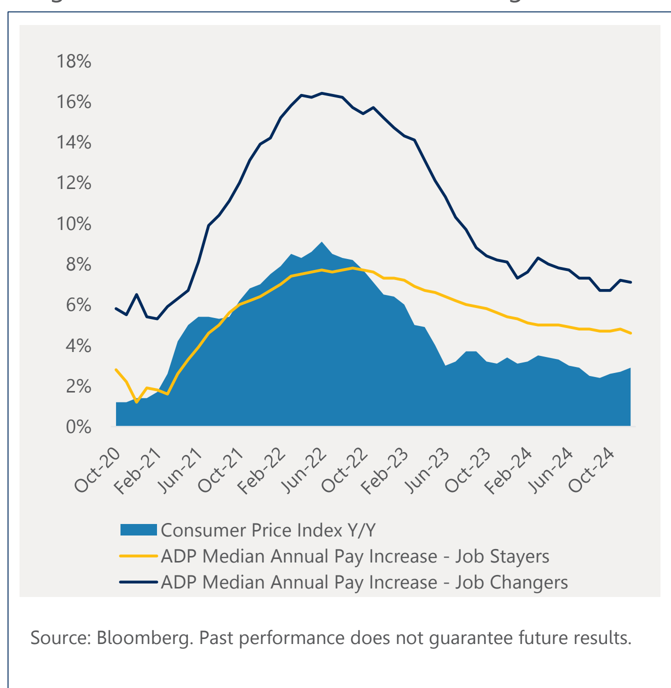
The Anti-Inflation Mandate

One of the main pillars of the Trump-Vance campaign was the promise to direct policy and legislation toward eradicating excess inflation in the present and future. This seemed to strike a chord with many middle-class and working-class American voters that still bear the scars of the inflation spike of 2022 and related loss of purchasing power. President Trump has not been shy about his support for increased domestic oil and gas production as a way to potentially increase export revenue and keep energy prices low for U.S. consumers and businesses.

Any doubt about his intentions should have been put to rest by a sweeping energy agenda announced January 20. The was headlined by the declaration of a "national energy emergency," with current leasing, development, production, transportation, and generation capacity "…far too inadequate to meet our nation's needs." Trump described the overhaul of U.S. energy policy as necessary to ensure the prosperity of the country, achieve energy independence, and fight inflation. The flurry of orders included plans to refill the U.S. Strategic Petroleum Reserve, pull the U.S. out of the 2015 Paris Agreement on global warming, and end leasing federal land to wind power projects. There were also directives to open U.S. waters to deep-sea drilling, lift the Biden administration's freeze on liquefied natural gas (LNG) exports, "end the electric vehicle mandate," and promote energy exploration and production in Alaska. The agenda to promote American energy dominance is generationally ambitious and likely to face significant legal challenges.

CHART 3

Wage Growth and Inflation are Normalizing



Source: Bloomberg. Past performance does not guarantee future results.

Within the U.S. energy sector, companies focused on transportation and distribution of oil and natural gas (as opposed to exploration and production firms) are probably best positioned to benefit from a combination of lower commodity prices and higher volumes. One caveat would be natural gas production firms with assets in close proximity to data center clusters across the Mid-Atlantic region. Northern Virginia is estimated to account for nearly 20% of current U.S. data center capacity. Companies specializing in exporting LNG and servicing oil and gas production could also be beneficiaries of the new policy landscape. Outside of the energy sector, well-managed companies in the industrial manufacturing, mining, and chemical production industries could see significant profit margin improvements from lower energy commodity input costs.

The AI Connection

As with many important market and policy developments these days, the incoming Trump administration's energy agenda is linked to the explosion in demand for generative artificial intelligence (AI) processing power. According to a recent analysis by Barclays Research, the advent of AI-driven large language model training and subsequent inference processing could see the electricity needs of U.S. data centers as a percentage of overall electricity demand more than double by 2030 (see Chart 4).

Unlike most industries or energy-consuming activities, data centers must operate continuously to satisfy the needs of general cloud computing or AI workloads. Thus, the energy demand of data centers is always "at peak" and leads to higher levels of overall peak power demand across the grid. Crucially, the intermittent nature of renewable energy makes it a suboptimal power source for AI-focused data centers, which require a constant source of power. And so, natural gas (and to a lesser extent nuclear energy) is increasingly being viewed by the largest AI-focused technology companies as an attractive source of abundant, cheap, and reliable power with a less onerous carbon footprint than oil or coal.

On January 22, President Trump announced a joint venture led by Oracle (ORCL), Japanese technology conglomerate SoftBank Group, and ChatGPT owner OpenAI to increase private investment in AI infrastructure to a least $500 billion. Trump said the federal government will work to fast-track the construction permits, regulatory reviews, and energy access related to these investments. The joint venture announcement, dubbed Stargate, seems to underscore the new administration's genuine focus on ensuring the U.S. retains its lead over China in the development of sophisticated AI systems. AI prominence has important implications for cross-border cyber warfare and key geostrategic initiatives, including the unparalleled ability of the U.S. Navy and Air Force to project power across the globe.

AI: The Next Chapter

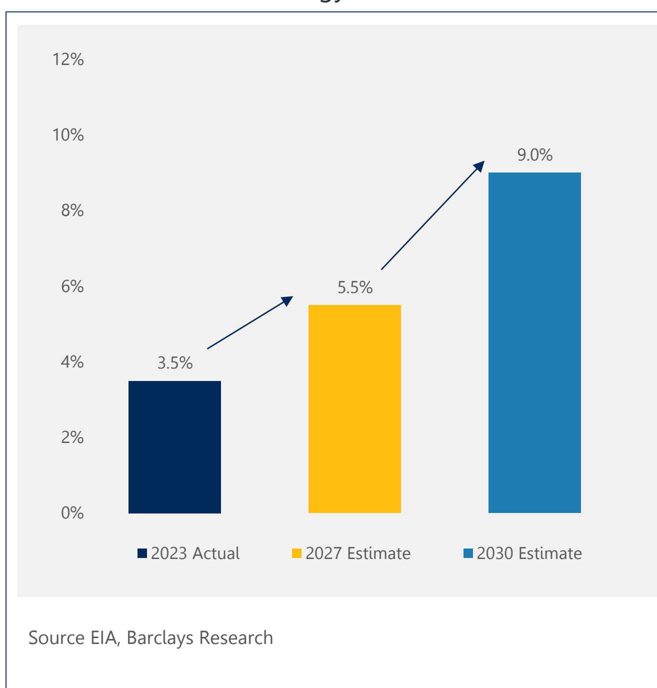
NVIDIA (NVDA) has clearly dominated the generative AI theme in public markets in 2023 and 2024 with its industry-leading graphic processing units (GPUs) highly calibrated for largescale AI training jobs. Yet as the AI story unfolds, several interesting secondary themes and addressable markets have emerged. Powerful chips built for specific AI applications (also known as custom silicon) have grown in popularity with the major cloud hyper-scalers including Amazon's AWS, Microsoft Azure and Google Cloud. These chips are probably better suited for AI inference processing and stand in contrast to the overwhelming raw accelerated computing power provided by NVIDIA's GPUs. Broadcom (AVGO) and Marvell Technology (MRVL) are widely viewed as two of the best positioned U.S. companies in the custom silicon space.

AI agent applications recently launched by Salesforce (CRM) and ServiceNow (NOW) designed to automate certain tasks related to scheduling, communication, customer service, and general business productivity have also garnered plenty of investor enthusiasm in recent months. Global IT consultant Accenture (ACN) has seen impressive sequential growth in "AI-related bookings" related to helping its corporate customers preparing data sets for AI processing.

In the physical realm, companies like Eaton (ETN), GE Vernova (GEV), and Johnson Controls (JCI) have enjoyed impressive sales momentum in sales of natural gas turbines, power distribution systems, and HVAC systems to data center customers during 2024. Caterpillar (CAT) and Cummins (CMI) have reported accelerating sales of industrial-scale generators which provide a

CHART 4

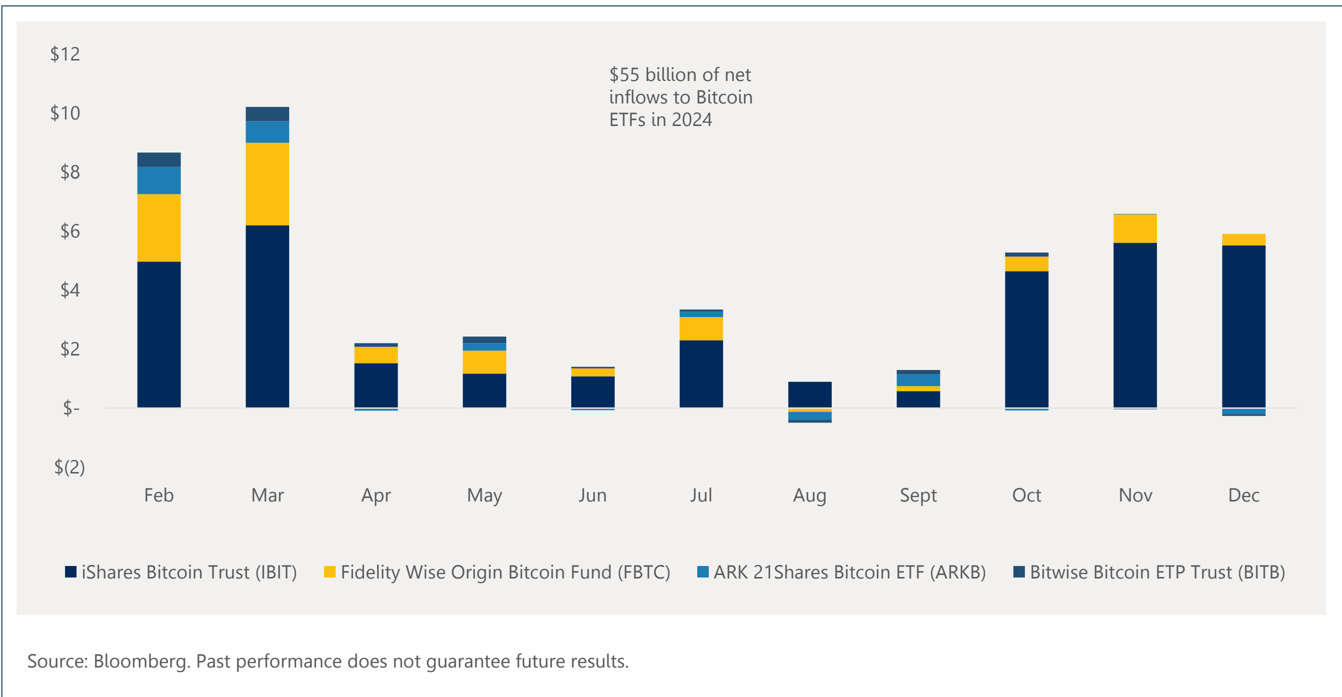
Data Center % of U.S. Energy Demand



Source EIA, Barclays Research

CHART 5

Bitcoin ETF Inflows Surged in 4Q



Source: Bloomberg. Past performance does not guarantee future results.

critical backup power source for data centers in the event of a grid disruption. Independent utilities with nuclear power production assets were among the best performers in the entire S&P 500 last year as major data center operators sought partnerships with them to secure access to conventional nuclear power sources. Finally, exposure to physical AI in the form of advanced robotics for manufacturing and medical applications can be accessed via companies like Tesla (TSLA) and Intuitive Surgical (ISRG).

Deregulation and Animal Spirits

Similar to the energy production and data center-focused segments of the U.S. economy, banking and financial services also look primed to benefit from the incoming Trump administration's policy orientation. Shares of most consumer finance firms, investment banks, traditional banks, and private asset managers saw strong gains in the fourth quarter in anticipation of a looser regulatory environment and a pickup in capital markets activity. The S&P 500 Banks Index (+38.2%) handily outpaced the broad index (+25.0%) in 2024 after underperforming by 15% in 2023 – a year of widespread regional banking sector stress. We expect less regulatory pressure on banks' capital moving forward. The 2023 Basel 3 Endgame originally proposed a 19% increase in capital for the largest U.S. banks. The odds of this being significantly reduced to near 10% or lower appear good given the power shift in Washington. Such a development should enable large U.S. banks to grow their loan books at a faster pace, achieve improved profitability, and return more excess capital to shareholders.

Furthermore, the Federal Trade Commission and anti-trust division of the Department of Justice are likely to be much more open to merger and acquisitions (M&A) than during the Biden administration. This could provide opportunities for regional banks to expand into new markets and improve efficiency through cost savings. It could also unlock a wave of pent-up demand for initial public offerings (IPOs) and broad-based dealmaking that should benefit investment banks and private asset managers. To underline the point, on Morgan Stanely's (MS) third quarter conference call, CEO Ted Pick expressed straightforward optimism on capital markets activity when he said, "I am bullish on IPOs and M&A coming back… (referring to the bank's corporate clients) …these are going to be global, mature companies that are very much going to need our advice."

Bitcoin

The explosive gains in Bitcoin in the fourth quarter take the sentiment surrounding deregulation, animal spirits, and risk asset enthusiasm one step further. The approval of spot-price Bitcoin ETFs early in 2024 and the Trump campaign's embrace of the broad cryptocurrency industry leading up to the election propelled a 120% surge in Bitcoin in 2024. As seen in Chart 5, roughly $55 billion of net inflows into ETFs that track Bitcoin's spot price last year highlight its increased popularity across the investor community. President Trump's nomination of cryptocurrency supporter Paul Atkins as chair of the Securities and Exchange Commission (SEC) in early December and his appointment of venture capitalist David Sacks as his "AI and Crypto Czar" helped drive Bitcoin from around $67,000 on

November 4 to over $100,000 by year-end. Industry luminaries have long sought the regulatory clarification surrounding market structure (security vs. commodity) and stablecoins that an Atkins-led SEC is expected to provide. Meanwhile, Sacks and other members of the Trump transition team have discussed the potential for a Bitcoin "strategic reserve." Legislation introduced in late 2024 by Wyoming Senator Cynthia Loomis would transfer existing US holdings of bitcoin (most acquired via asset seizures) to the Treasury and purchase 1 million bitcoins (equivalent to nearly 5% of total supply) over the course of five years.

Outlook: Let's not ignore the risks…

Uncertainty surrounding trade and immigration policy could dent market sentiment this year. If expectations rise for higher input costs due to a more aggressive-than-expected set of tariffs and a sharp drop in the supply of undocumented workers, business investment could slow and S&P 500 profit margin assumptions might need to be revised lower. For context, the escalation in the US-China trade war in 2018 drove a slowdown in business investment and likely caused the Federal Reserve to pivot toward policy easing in early 2019. Around this time, the S&P suffered a nearly-20% drawdown in the fourth quarter of 2018. A stabilization in the Washington-Beijing trade dispute in early helped pave the way for strong stock market gains that year.

Although there could be some upside risk to long-term U.S. Treasury yields in coming months, we would likely recommend adding to duration at levels near 5%. We expect short-to-intermediate-term U.S. government bonds and high-quality corporate bonds will play an increasingly important role in dampening the volatility of diversified portfolios in 2025 due to the improved coupon cushion they offer after a nearly three-year period of interest rate normalization.

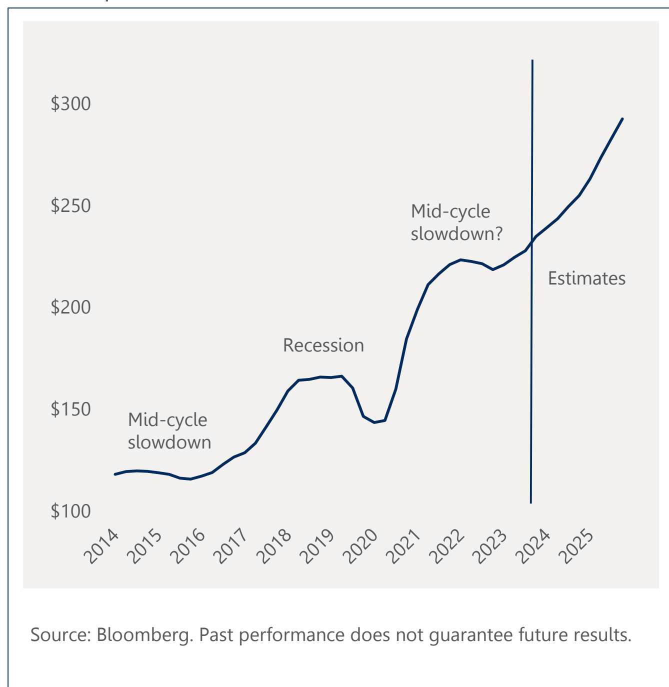
U.S. equity market valuations are surely extended relative to history, with a mid-January S&P 500 price-to-earnings-multiple of 22.4 based on expectations for operating earnings per share in 2025 of $272. This is about 25% above its 30-year average of 17.6, but 20% below its all-time high near 27 in the speculative fervor of early 1999. It is admittedly difficult to see much valuation expansion for the S&P 500 in 2025 as earnings growth will likely need to drive gain index-level gains.

…But this is starting to feel like mid-cycle

We anticipate periods of market volatility in 2025 as investors adjust to incoming economic data and changes in the direction of policy on many fronts. Stretches when long-term bond yields threaten to push above 5% or when labor market data seems like it might be rolling over will probably put the most pressure on risk assets. We saw several short-lived instances of both scenarios in 2024 that could reemerge this year. Investors will do well, however, to remind themselves that the combination of lower policy rates, a stabilizing labor market, resilient consumer spending, and expectations for solid corporate earnings growth (see Chart

CHART 6

U.S. Corporate Profit Growth Set to Reaccelerate



Source: Bloomberg. Past performance does not guarantee future results.

6), are likely to put a floor under both economic weakness and market weakness in 2025.

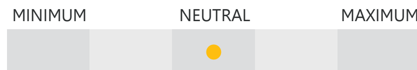
Global monetary policy is shifting toward a more neutral posture than in 2022-2024 as the Federal Reserve and most other major central banks are lowering rates. Domestic inflation might not fall all the way to the Fed's 2% target, but it seems unlikely to accelerate above 3% as demand and supply in the labor market, rents, energy commodities has become more balanced. Over the last 40 years, the U.S. stock market has performed well when Fed rate cuts occurred during periods when economic growth did not roll over. Of the seven Federal Reserve rate-cutting cycles since 1984, three occurred outside of a recession (1985-1986, 1995-1997, 1998-1999). On average, these easing cycles 1) lasted 17 months from the first cut to next hike and 2) coincided with a 37.3% average cumulative price return for the S&P 500.

Fiscal stimulus from 2021 and 2022 focused on infrastructure and domestic manufacturing capacity is still coursing through the system. A new U.S. administration with a congressional majority (albeit narrow) focused on deregulation, energy production, and supporting cutting-edge technology could spark an acceleration in capital investment and productivity, while keeping inflation constrained. If this type of environment takes shape, we see a realistic path to a third straight year of double-digit returns for the S&P 500. Such an outcome would probably require the 10%-15% profit growth projected by bottom-up estimates to materialize, along with stable or modestly lower valuations.

Economic Outlook and Investment Policy

ECONOMIC FACTORS	CURRENT OUTLOOK
U.S. GDP Growth	We expect domestic economic growth to decelerate modestly to between 2.0% - 2.5% in 1H25 after above-trend growth of 3% in 2H24.
Federal Funds Rate	The Fed is expected to lower its policy rate by another 50 basis points in 2025 after cutting by 100 basis points in the last four months of 2024.
Inflation	Disinflationary forces in the economy should gradually push measures of core annual inflation from 3.0% to near 2.5% by mid-2025.
Employment	Monthly payroll gains around 150,000 and an unemployment rate under 4.5% in coming months would suggest U.S. economic resilience.
Consumer Confidence	Still-elevated price levels and policy uncertainty following the election could weigh on sentiment in coming months.
Oil	Expectations of weak demand in China and Europe have offset Middle East tensions. This will likely keep WTI around between $70-$80/barrel.
Housing	Activity in the existing homes market remains suppressed with low inventory levels and the average 30-year mortgage rate back above 7%.
International Economies	Plus-5% GDP growth in India and Indonesia in 2025 is likely to be offset by lackluster growth in the euro zone, UK, China, and Mexico.

FIXED INCOME



FIXED INCOME	MINIMUM		NEUTRAL		MAXIMUM
Core Bonds				●	
TIPS	●				
Non-Investment Grade			●		
International	●				

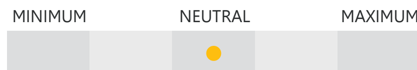
CURRENT OUTLOOK

We prefer to hold short to intermediate-term US government bonds and investment-grade corporate bonds. We expect this posture will benefit from a continued steeping of the the yield curve (when the gap between short rates and long rates expands). High quality bonds are likely to play a key role in dampening the volatility of diversified portfolios in 2025 and beyond due to 1) significant coupon income and 2) price appreciation potential in the event of another "growth scare" similar to what we saw in the summer of 2024.

If longer-term Treasury yields approach 5%, we would consider extending the duration in client portfolios. We would expect Treasury and Fed officials to take various actions to stem increases in longer-term yields much above 5% given their constraining impact on large parts of the economy.

U.S. high yield corporate bond spreads have narrowed nearly 300 basis points since the regional banking stress of early 2023 amid resilient economic data and favorable supply-demand dynamics. Although we do not see signs of economic slowdown, tight credit spreads will probably limit the price appreication potential of high yield bonds moving forward.

EQUITIES



EQUITIES	MINIMUM		NEUTRAL		MAXIMUM
Large Cap			●		
Mid Cap				●	
Small Cap		●			
Developed International			●		
Emerging Markets		●			

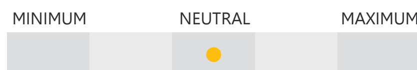
CURRENT OUTLOOK

We think the most important underlying components of the U.S. economy (aggregate job growth, wages, consumer spending) should continue to remain resilient. Historically, investors have not been rewarded for being underweight U.S. stocks relative to bonds and cash during periods when the Federal Reserve is cutting rates and the domestic economy avoids a recession.

Expectations are for an expansion of U.S. corporate earnings growth to more sectors and industries outside of the top 10-20 S&P 500 stocks in 2025. This could create the conditions for an earnings growth-driven leg of the current bull market that would likely include many more groups than the narrow leadership of 2023 and 2024. Valuations in U.S. large cap stocks are extended relative to history, however, so further price-multiple expansion in 2025 seems unlikely.

Given the balance of risks and opportunities, we think it makes sense to keep equity allocations focused on areas of the market that exhibit quality characteristics in terms of leverage, earnings volatility, and return on capital. Small cap, value style, and international stocks could become more appealing if we see signs of a durable cyclical reacceleration in the global economy accompanied by lower interest rates and subdued inflation.

ALTERNATIVES*



ALTERNATIVES*	Cap Pres	IWSG	Balanced	GWSI	Growth
Gold		●	●	●	
Hedged Equity					
Arbitrage					

CURRENT OUTLOOK

We recommend most portfolios maintain a moderate allocation to gold given our assessment that the economic, policy, and geopolitical backdrops remain well suited for the precious metal. The beginning of a Fed rate cut cycle, two active wars, and strong global central bank demand outside the U.S. should position gold to improve the risk-adjusted returns of portfolios in 2025. Our alternatives allocations, as seen in the table to the left, are designed to decrease the overall risk profile of our five investment objective-based portfolios (CAP PRES, IWSG, BAL, GWSI, and GROWTH.)

The above minimum/neutral/maximum recommendations represent MainStreet Advisors' current positions relative to our Strategic Asset Allocation ranges. Views expressed have a 6-12 month horizon and are those of the MSA Investment Committee.
*Cap Pres: Capital Preservation, IWSG: Income with some growth, GWSI: Growth with some income

IMPORTANT DISCLOSURE INFORMATION

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