

QUARTERLY MARKET PERSPECTIVES

Q4 2024

2024 YEAR-END REVIEW

NOTABLE MARKET THEMES ACROSS STOCKS AND BONDS

KEY THEMES

- 2024 delivered solid returns for diversified investors, with equities leading the way and fixed income posting modest gains. US stocks outperformed, while higher bond yields and a less accommodative monetary policy outlook weighed on fixed income returns late in the year.
- The year's strong gains were supported by resilient economic growth, despite elevated interest rates. Inflation proved sticky and exceeded the Fed's 2% target. Entering 2024, investors were anticipating rate cuts of at least 1.5% during the year. Ultimately, the Fed only reduced rates by 1%, forcing fixed income investors to recalibrate.

FIXED INCOME

- Bond investors saw a positive 2024 as higher yields offset fluctuating interest rates driven by shifting inflation trends. The yield on the benchmark 10-year Treasury started the year just below 4%, climbed to 4.7% in April, dropped to 3.6% in September, and ended the year back at 4.6%. These swings supported bond values by anchoring higher initial yields.
- Looking ahead, bond performance in 2025 will hinge on Federal Reserve monetary policy and its response to potential shifts in inflation and US fiscal strategy.

EQUITIES

- US large cap delivered an impressive 25% return last year, following a 26% gain in 2023—the best consecutive years of gains since 1997 and 1998. The Magnificent 7 mega-cap technology stocks surged 67%, accounting for over half of the S&P 500's returns. Investment gains outpaced earnings growth two-to-one last year, leaving valuations stretched.
- Fundamentally, 2025 is shaping up to be a solid year for the economy, but valuation and concentration pose the biggest risks to equities in the year ahead.



MARKET DASHBOARD

KEY RETURNS AND STATISTICS

Bond Index Returns					Annualized
	Q4	YTD	1 Yr	3 Yr	5 Yr
Bloomberg Municipal 1-10Yr Index	-0.9%	0.9%	0.9%	0.1%	1.0%
Bloomberg US Aggregate Bond Index	-3.1%	1.3%	1.3%	-2.4%	-0.3%
Bloomberg US High Yield Index	0.2%	8.2%	8.2%	2.9%	4.2%

Treasury Yields					
	1 Yr	2 Yr	5 Yr	10 Yr	30 Yr
Yield by Maturity	4.1%	4.2%	4.4%	4.6%	4.8%

FX and Commodity Returns					Annualized
	Q4	YTD	1 Yr	3 Yr	5 Yr
Bloomberg Dollar Index	7.1%	8.0%	8.0%	3.7%	2.0%
Bloomberg Commodity Index	-1.6%	0.1%	0.1%	-0.1%	4.1%
WTI Crude Oil	8.3%	13.7%	13.7%	11.7%	2.1%
Natural Gas	1.2%	-26.2%	-26.2%	-32.6%	-25.6%
Copper	-11.6%	5.5%	5.5%	-1.5%	8.4%
Gold	-0.5%	26.6%	26.6%	12.3%	10.4%

Equity Index Returns					Annualized
US Equities	Q4	YTD	1 Yr	3 Yr	5 Yr
Russell 3000	2.6%	23.8%	23.8%	8.0%	13.8%
S&P 500	2.4%	25.0%	25.0%	8.9%	14.5%
Russell 2000	0.3%	11.5%	11.5%	1.2%	7.4%
Non-US Equities	Q4	YTD	1 Yr	3 Yr	5 Yr
MSCI All Country World ex. US	-7.6%	5.5%	5.5%	0.8%	4.1%
MSCI EAFE	-8.1%	3.8%	3.8%	1.6%	4.7%
MSCI Emerging Markets	-8.0%	7.5%	7.5%	-1.9%	1.7%

US Equity "Style Box" Returns*

Q4			1 Yr		
	Value	Core	Growth		
Large	-2.0%	2.7%	7.1%	Large	14.4%
Mid	-1.7%	0.6%	8.1%	Mid	13.1%
Small	-1.1%	0.3%	1.7%	Small	8.1%
					24.5%
					33.4%
					22.1%
					15.2%

Source: Bloomberg. As of December 31, 2024. *US Equity Style Box based on returns for Russell Indices. **Past performance is no guarantee of future results.**



MORE OF THE SAME

MAGNIFICENT 7 STOCKS LED THE MARKET HIGHER—AGAIN—IN 2024

Since the beginning of 2023, an index of the Magnificent 7 stocks has outperformed other major indices by over 200%. Despite strong headline performance the last two years, a historically low percentage of S&P 500 constituents beat the market's returns during that period—evidence of narrow leadership.

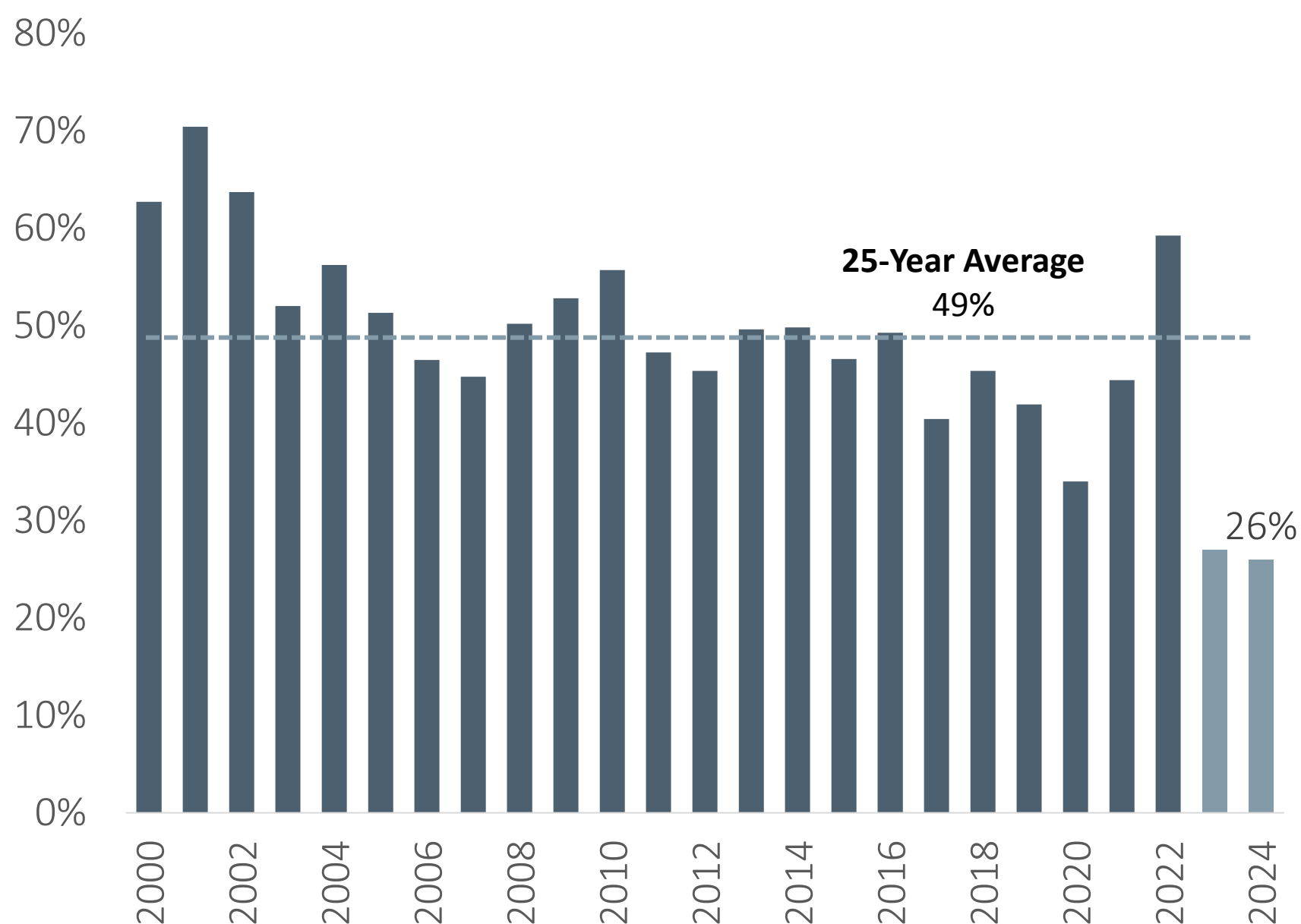
Magnificent 7: The Only Game in Town

Trailing 24 Mo Cumulative Returns



Few Stocks, Big Impact on Market Returns

% Stocks Outperforming the S&P 500 Index



Source: Crescent Grove Advisors, Bloomberg, S&P, Russell. As of December 31, 2024. Magnificent 7 include Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta Platforms and Tesla. Asset classes represented by the following indices: Small Caps (Russell 2000 Index), International (MSCI EAFE Index).



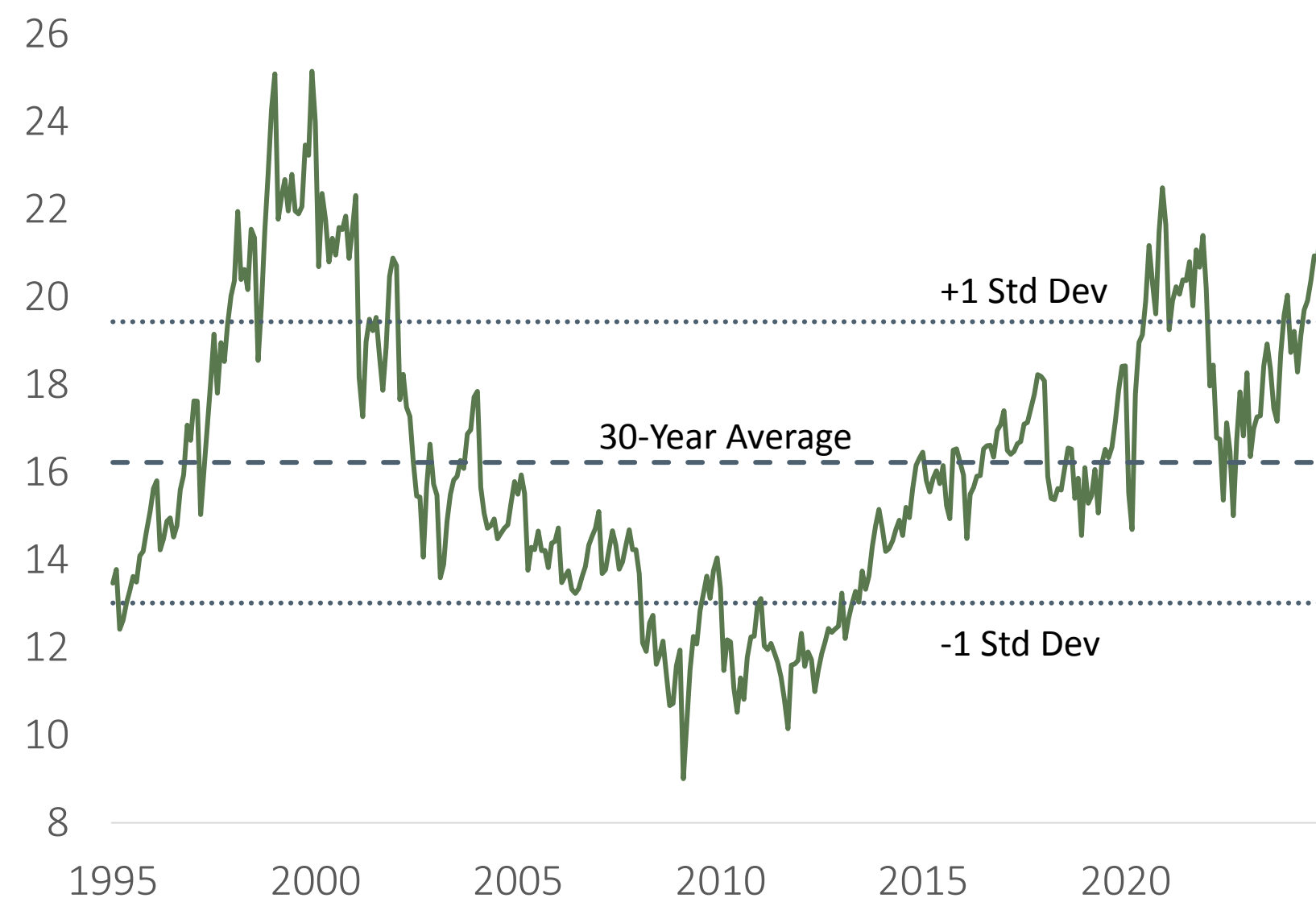
WHERE DO WE GO FROM HERE?

LOFTY VALUATIONS, HIGH CONCENTRATION—DUAL THREATS TO MARKET RETURNS IN 2025

S&P 500 valuations are approaching dot-com-era highs, but a multi-decade valuation gap between the most and least expensive stocks offers a silver lining. This dynamic is likely to drive elevated index-level volatility but also sets the stage for stock pickers to capitalize, particularly as earnings breadth improves.

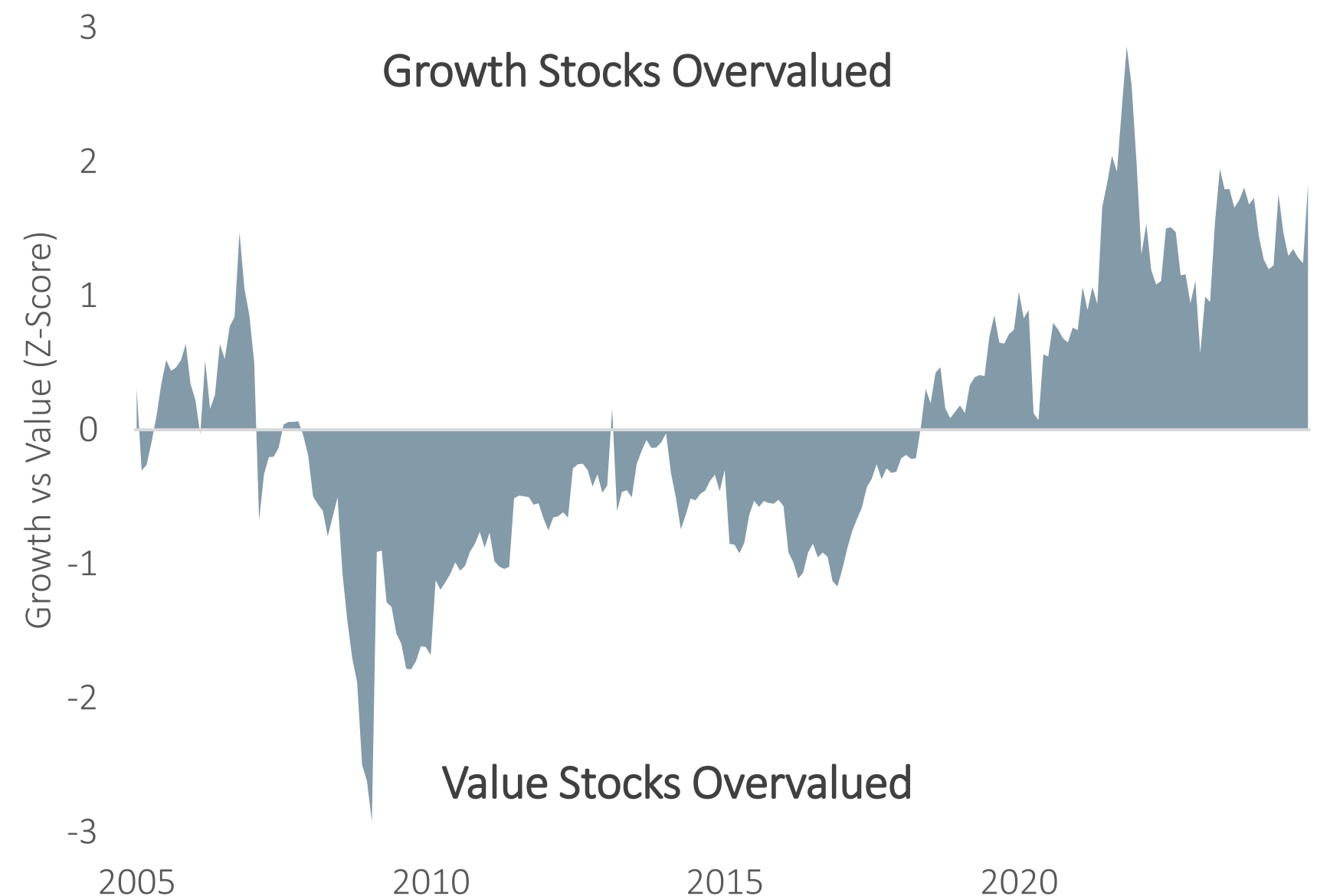
Market Valuations Have Soared

S&P 500 Index: Forward Price/Earnings Ratio



Value Is Dead, Long Live Value!

Forward P/E Z-Score: Growth vs Value



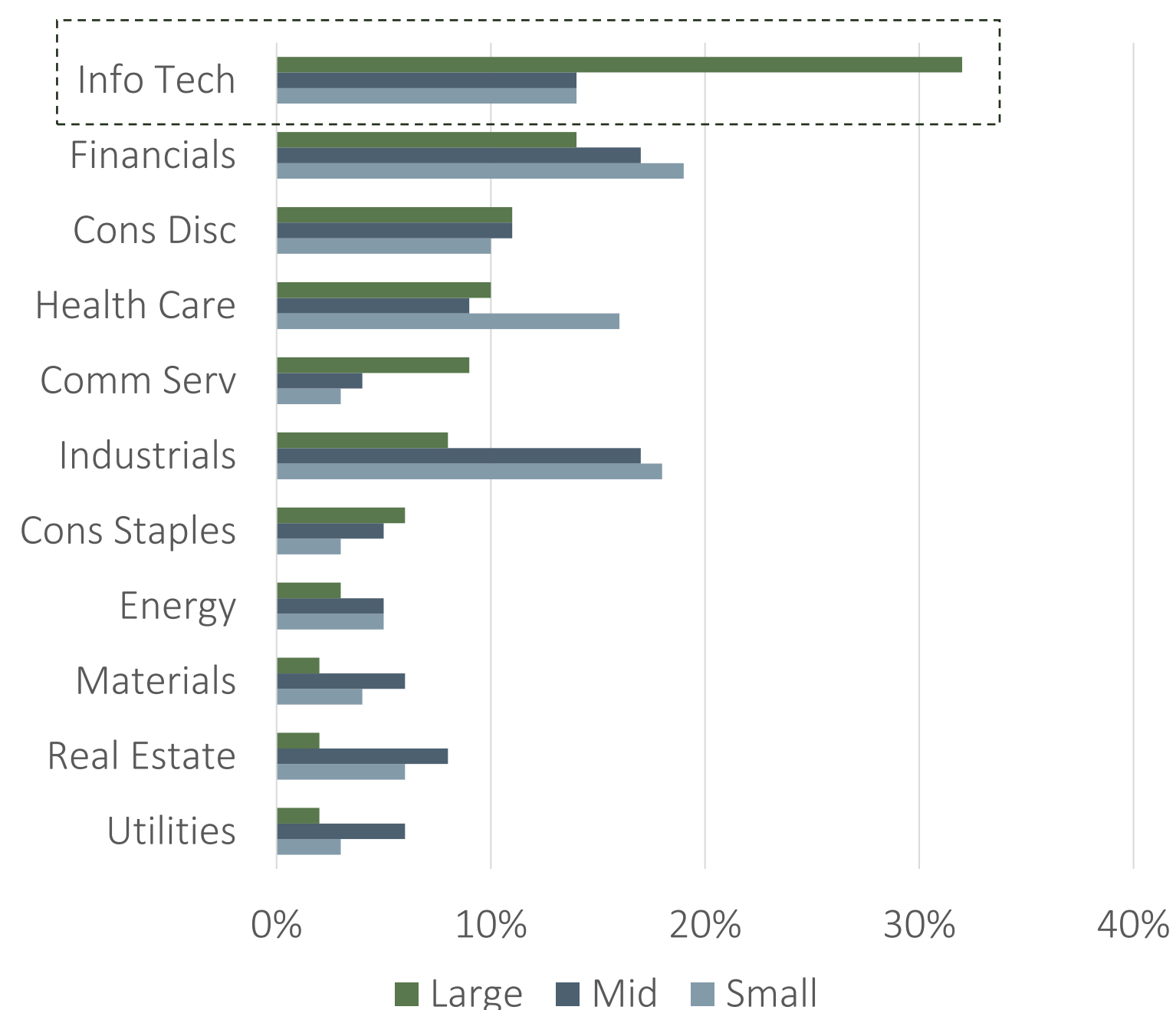
BROADENING OUT OF MARKET LEADERSHIP

OPPORTUNITIES BEYOND THE S&P 500

Mega cap tech stocks have driven US markets higher over the past two years, but we continue to believe that the rally in US equity markets will eventually broaden beyond a narrow set of names, as the non-mega cap segments have greater scope for earnings growth and valuation expansion.

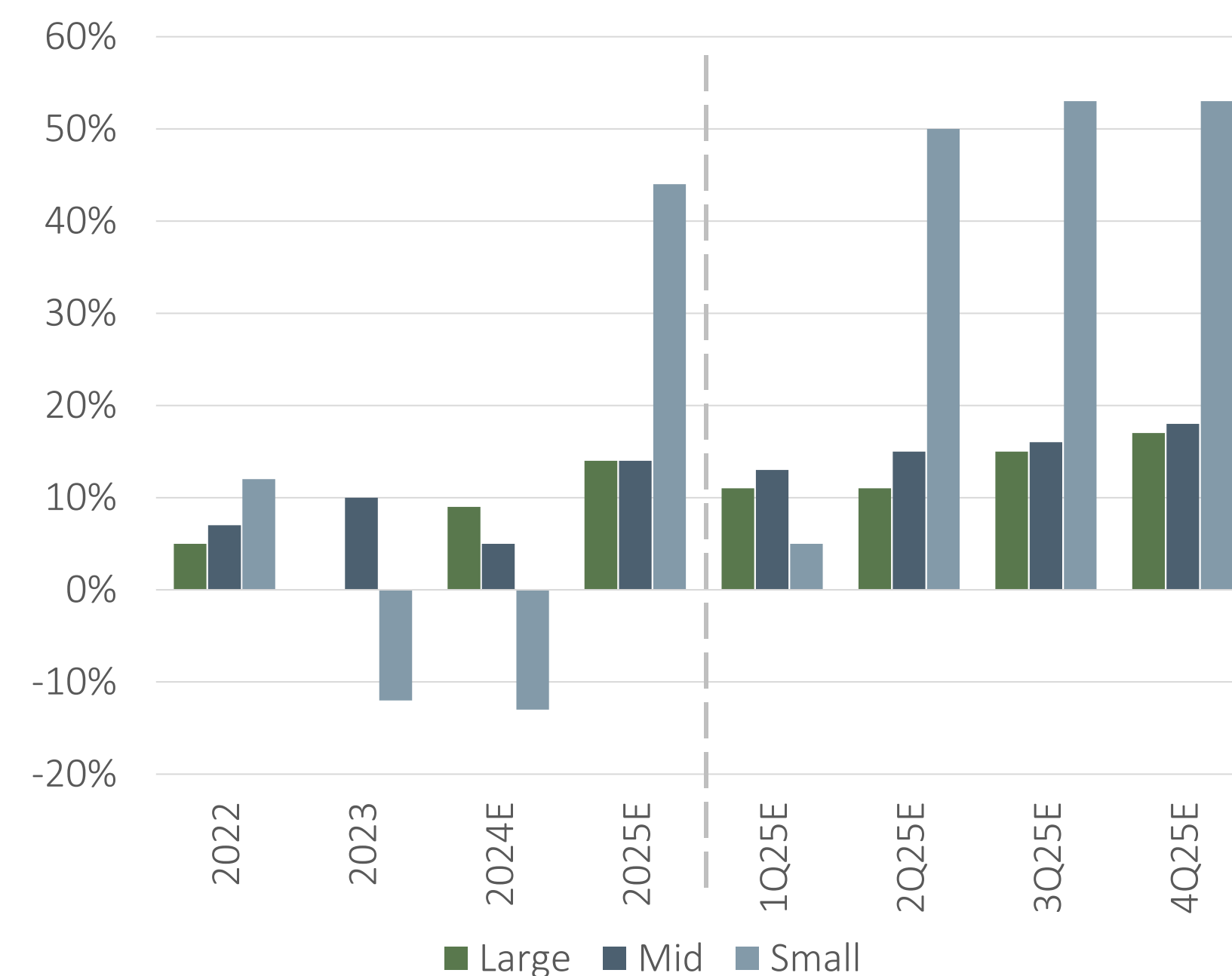
Bad Breadth: Market Concentration Across Sectors

Sector Composition: Large, Mid, Small Caps



Looking Beyond the S&P 500 Index for Opportunities

Earnings Growth YoY: Large, Mid, Small Caps



Source: Crescent Grove Advisors, Bloomberg, JPMorgan. As of December 31, 2024.



TRUMPONOMICS 2.0: NAVIGATING A NEW LANDSCAPE

THE ECONOMY LOOKS MUCH DIFFERENT THIS TIME AROUND

The policies and implications of a second Trump administration are difficult to predict, but what is clear is that the economic backdrop today is vastly different from the start of his first term. Today's economy faces higher inflation, higher borrowing costs, and a richly valued stock market.

The Economic Landscape Is Much Different This Time Around

Comparing US Economies: 2016 vs. 2024

Category	2016 Last Reading*	2024 Last Reading*	Difference: Now vs. Then
Nominal GDP Growth	2.7%	5.0%	+2.3%
CPI YoY	1.6%	2.7%	+1.1%
Unemployment Rate	4.9%	4.2%	-0.7%
Consumer Sentiment	93.8	71.8	-22.0
Fed Funds Rate	0.5%	4.5%	+4.0%
10-year Treasury Yield	1.8%	4.6%	+2.8%
S&P 500 Fwd. P/E Ratio	16.7	21.7	+4.0x

Source: Crescent Grove Advisors, Bloomberg, US Bureau of Economic Analysis. *Data reflects the last reading prior to the 2016 election and as of December 31, 2024.



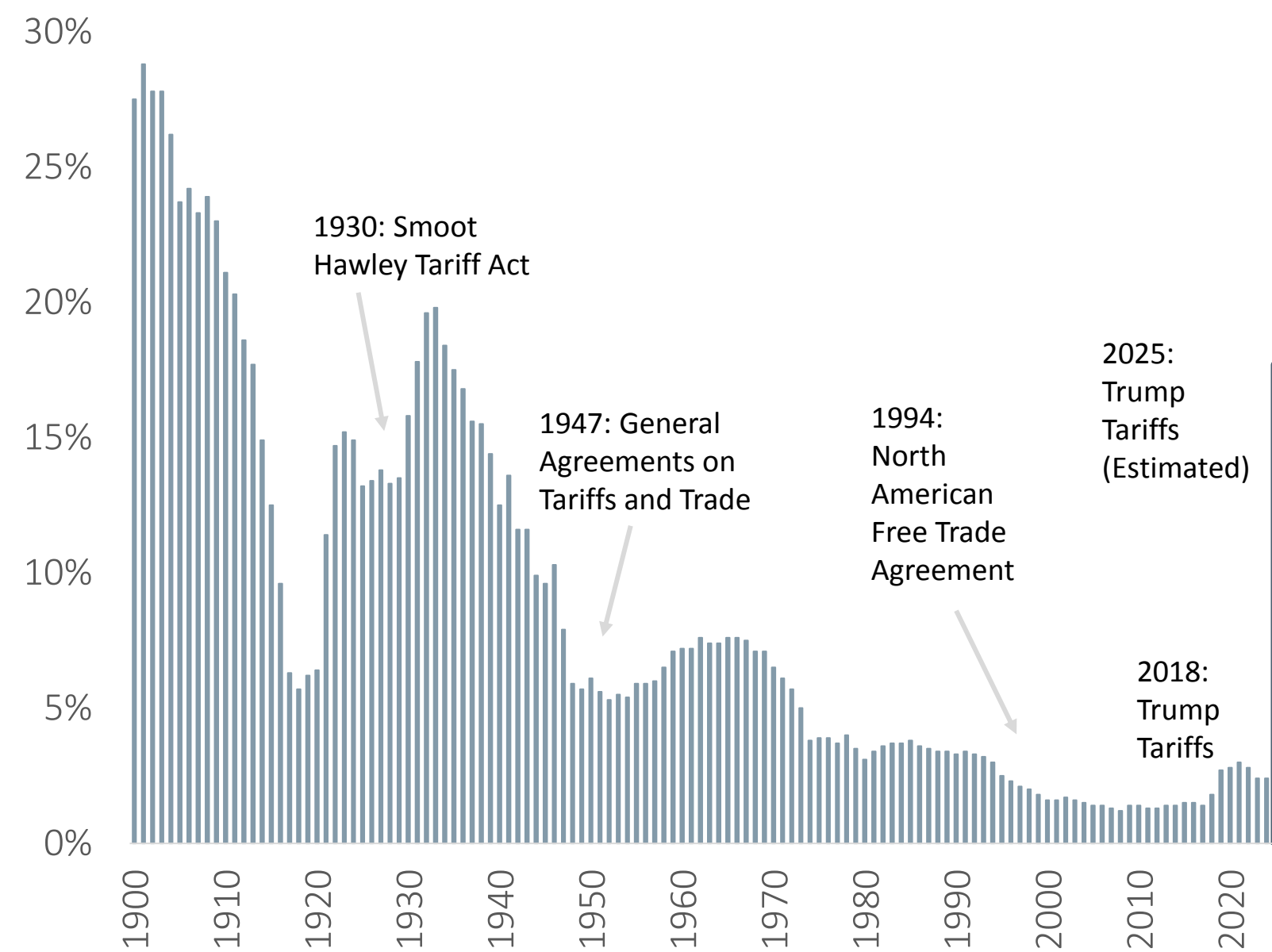
TRUMPONOMICS 2.0: TRADE, TARIFFS, AND INFLATION

POLICY UNCERTAINTY IS LIKELY TO BE A COMMON THEME THROUGHOUT 2025

Tariffs are a cornerstone of the Trump administration's policy agenda. Beyond curbing imports, aggressive tariffs run the risk of provoking retaliatory trade measures, reigniting inflationary pressures, and deepening uncertainty in an unclear economic landscape.

The Most Beautiful Word in the Dictionary.....

Average Tariff Rate of all US Imports



A Trade War Could Prolong The Fed's Inflation Fight

Import Prices vs. CPI (YoY)



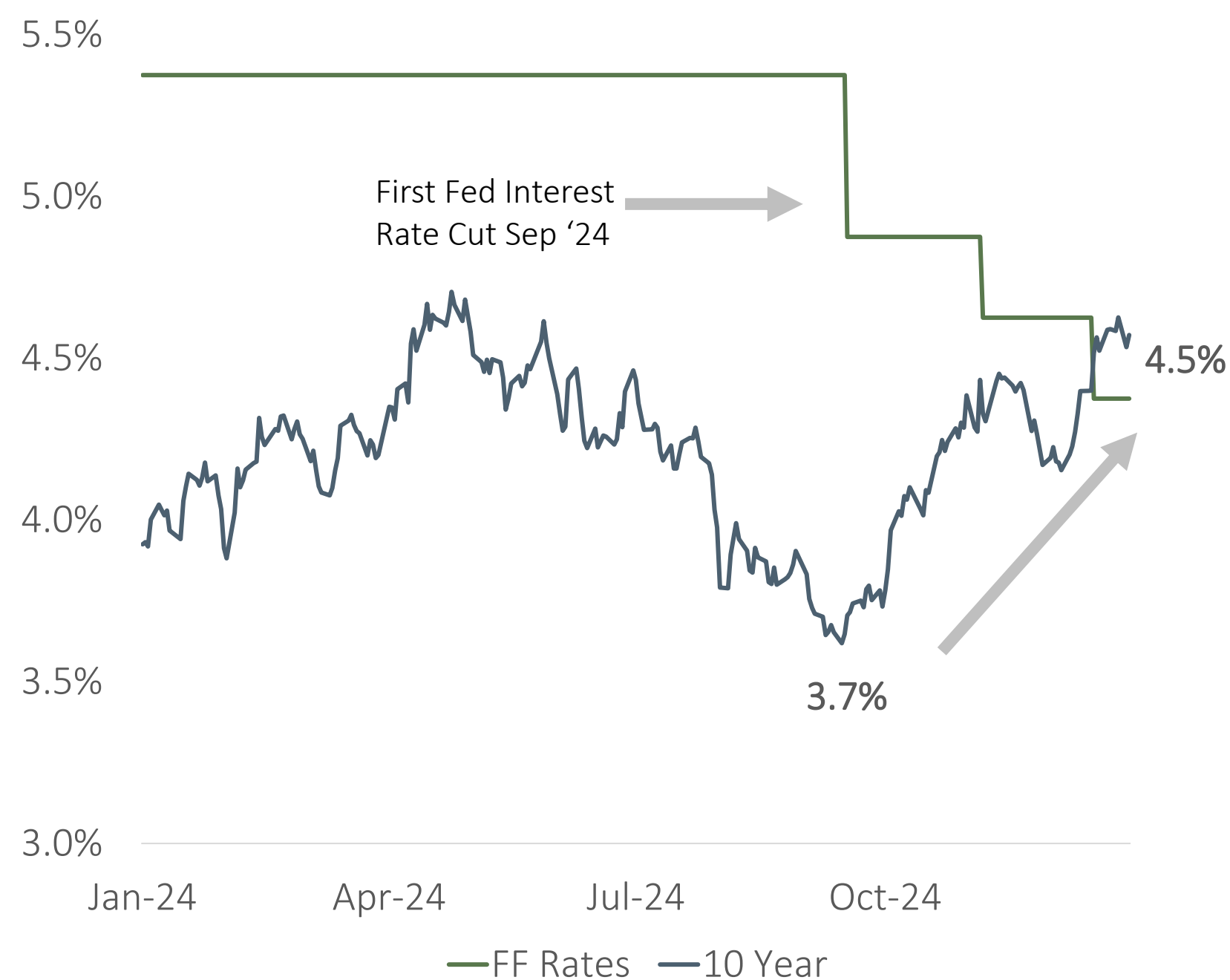
FED SPEAK: RECALIBRATING RATE EXPECTATIONS

A MORE CAUTIOUS PATH FORWARD

Economic uncertainties led the Federal Reserve to signal a slower pace of policy rate cuts in 2025 and beyond. With building inflation concerns, bond yields responded by moving meaningfully higher into year-end despite cuts in benchmark interest rates.

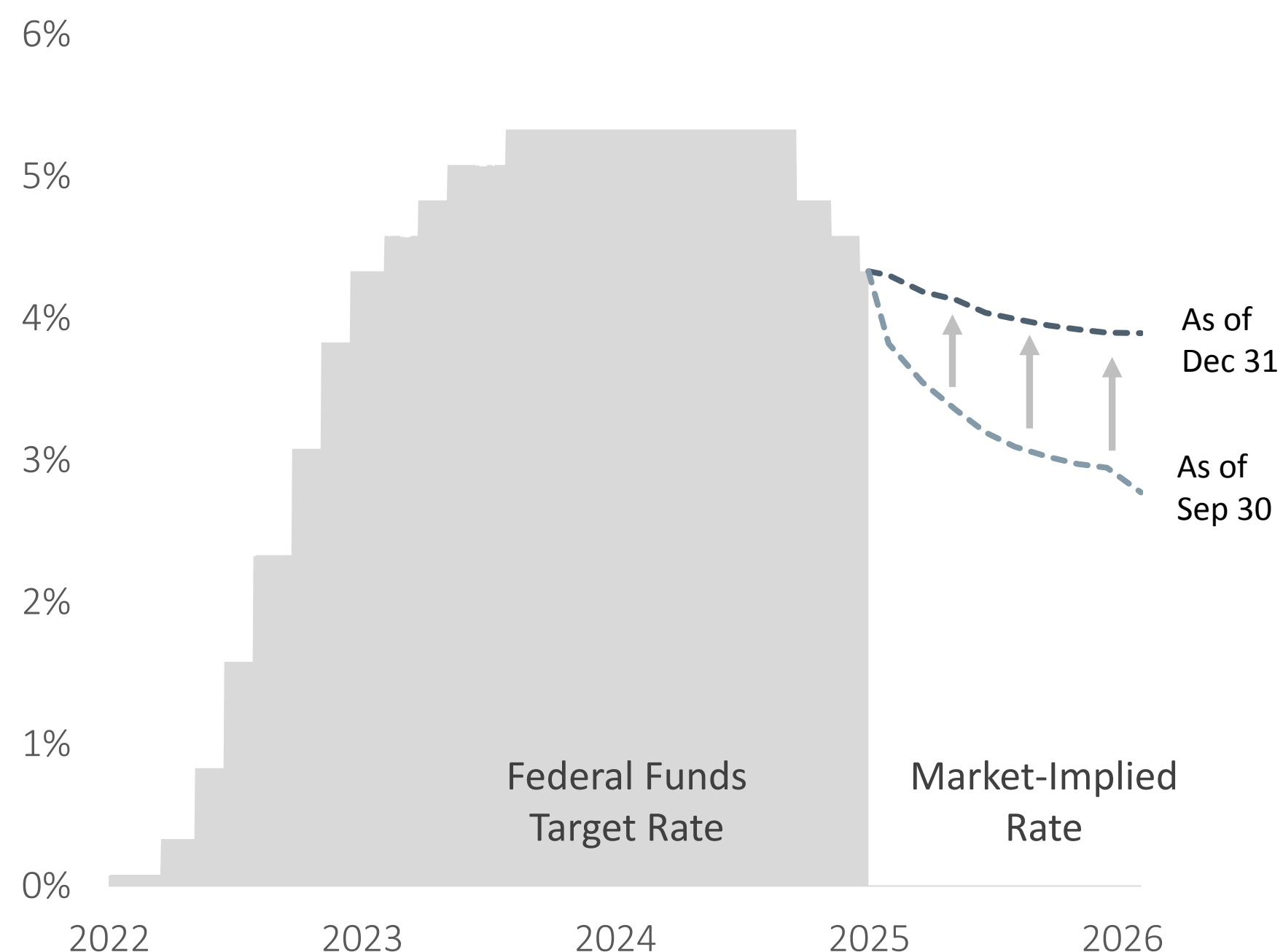
Diverging Forces: Embracing Higher-For-Longer

Fed Funds Rate vs. 10 Year Treasury Yield



Market Pricing In Fewer Cuts in 2025

Market Implied Fed Funds Rate



Source: Crescent Grove Advisors, Bloomberg. As of December 31, 2024. Market implied Fed Funds rate based on Fed Funds Futures.



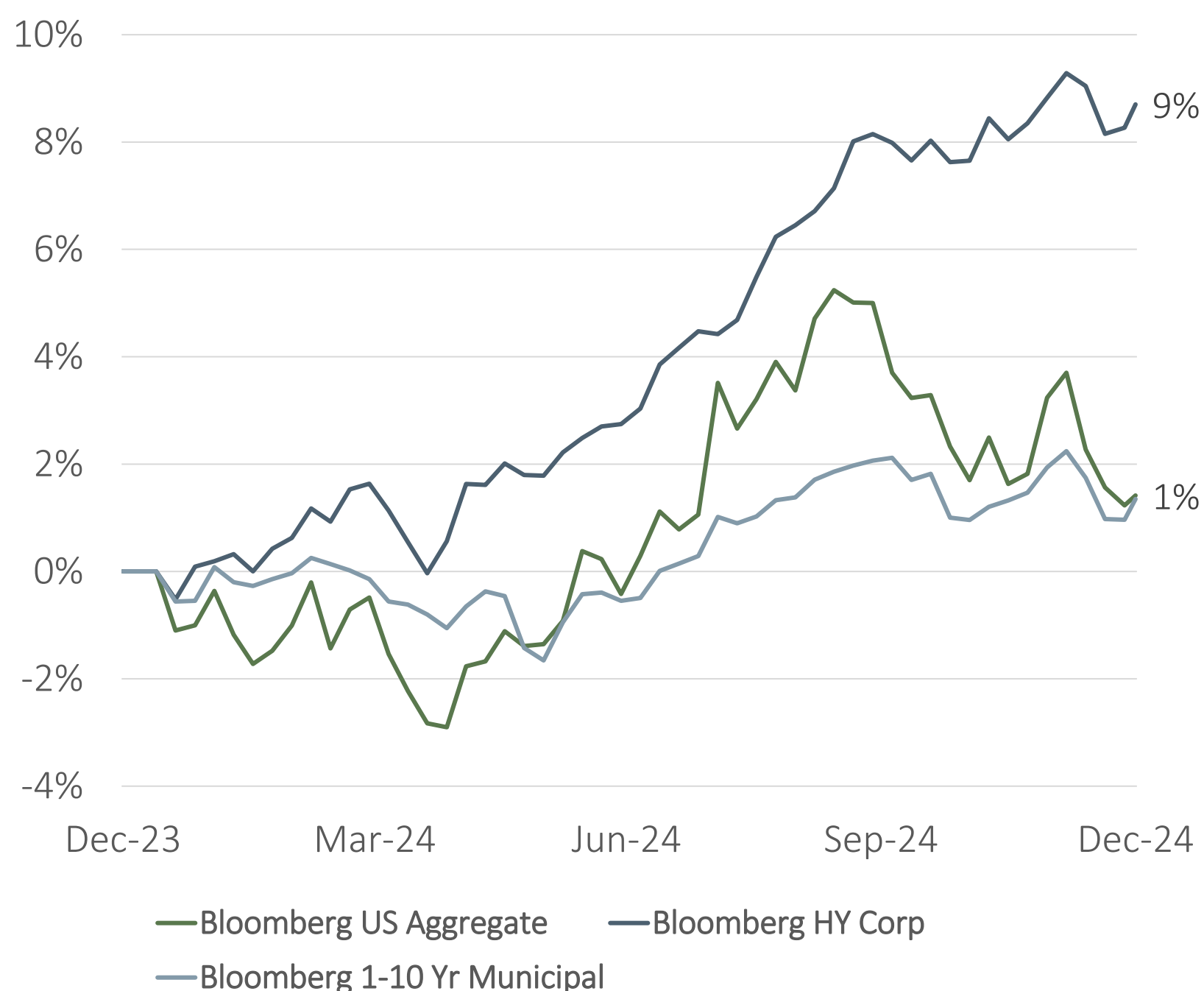
BOND MARKET RETURNS

RETURNS FOR MAJOR BOND INDICES

Long duration bonds were challenged in 2024, while shorter maturity and credit-sensitive sectors outperformed. In 2025, opportunities exist to capture attractive yields while managing interest rate risk. Given rate uncertainty, shorter and intermediate-term bonds will likely provide a better balance of yield and risk.

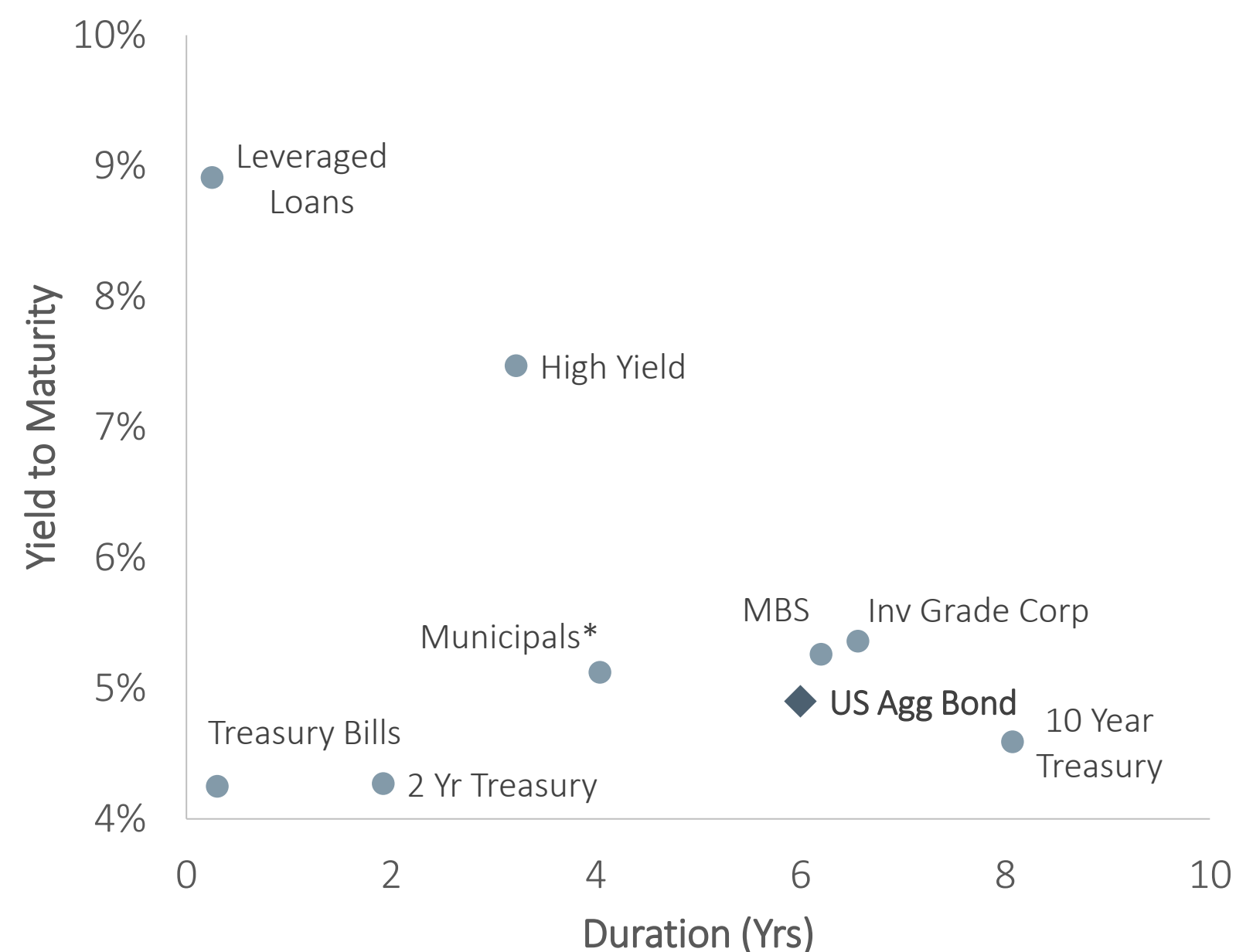
Core Bonds Struggled with Uncertain Rate Outlook

Major Bond Index Returns – YTD



Striking the Balance Between Yield and Duration

Fixed Income Sectors: Yield vs. Duration



Source: Crescent Grove Advisors, Bloomberg. Bond sectors represented by the following indices: Leveraged Loans (S&P/LSTA Leveraged Loan Index), High Yield (Bloomberg Corporate High Yield Index), Municipals (Bloomberg 1-10 Yr Municipal Index), MBS (Bloomberg Mortgage Backed Securities Index), Investment Grade Corp (Bloomberg US Corporate Index), US Agg Bond (Bloomberg US Aggregate Bond Index). *Municipal yield reflects taxable equivalent yield for 37% federal income tax bracket. **Past performance is not a guarantee of future returns.**



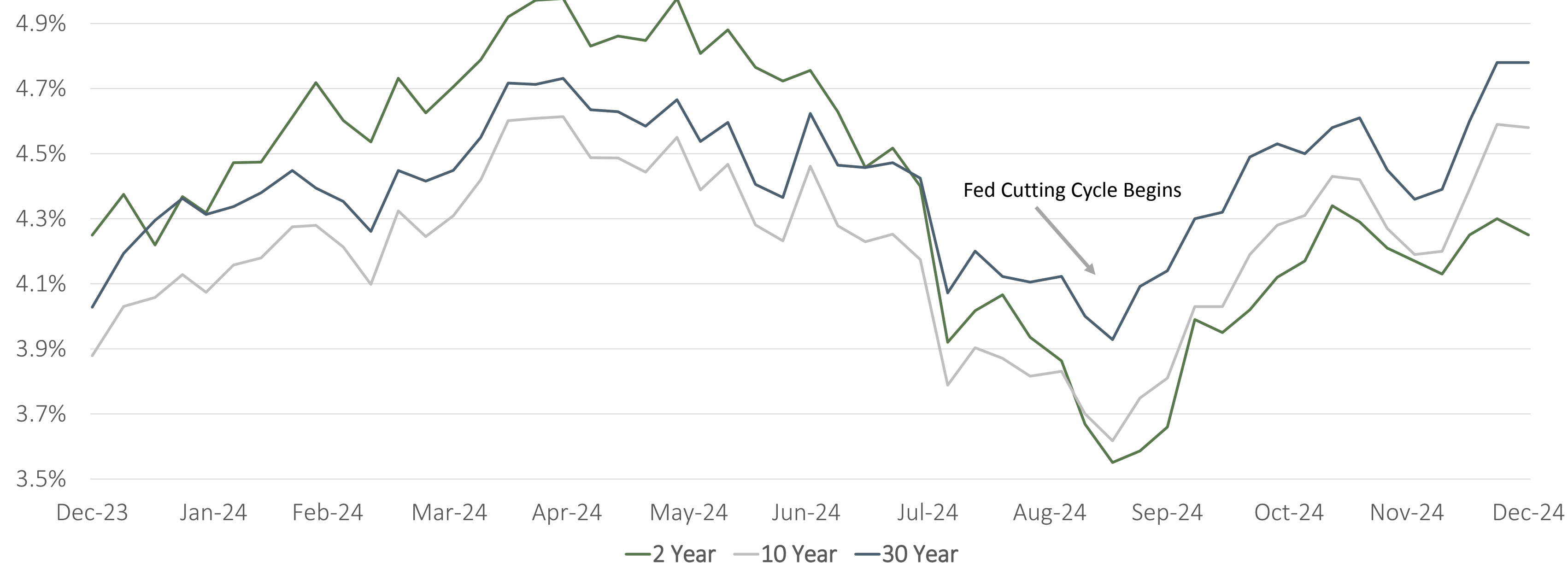
TREASURY YIELDS

BENCHMARK TREASURY YIELDS

Bond markets saw a major selloff in the fourth quarter, sparked by the outcome of the US presidential election and the potential for stronger economic growth, inflationary policies, and more deficit spending in the years ahead. While the path for rates is likely lower in 2025, policy uncertainty and sticky inflation will likely keep interest rate volatility elevated.

Renewed Inflation Fears Send Yields Higher

Treasury Yields – YTD



Source: Crescent Grove Advisors, Bloomberg. As of December 31, 2024.



CREDIT SPREADS

INVESTMENT GRADE AND HIGH YIELD CREDIT SPREADS

Corporate debt looks priced to perfection, meaning risks are arguably tilted to the downside. But yields are solid, central banks are cutting rates, and default risks are seen as relatively low. This setup continues to favor credit over government bonds as a source of income.

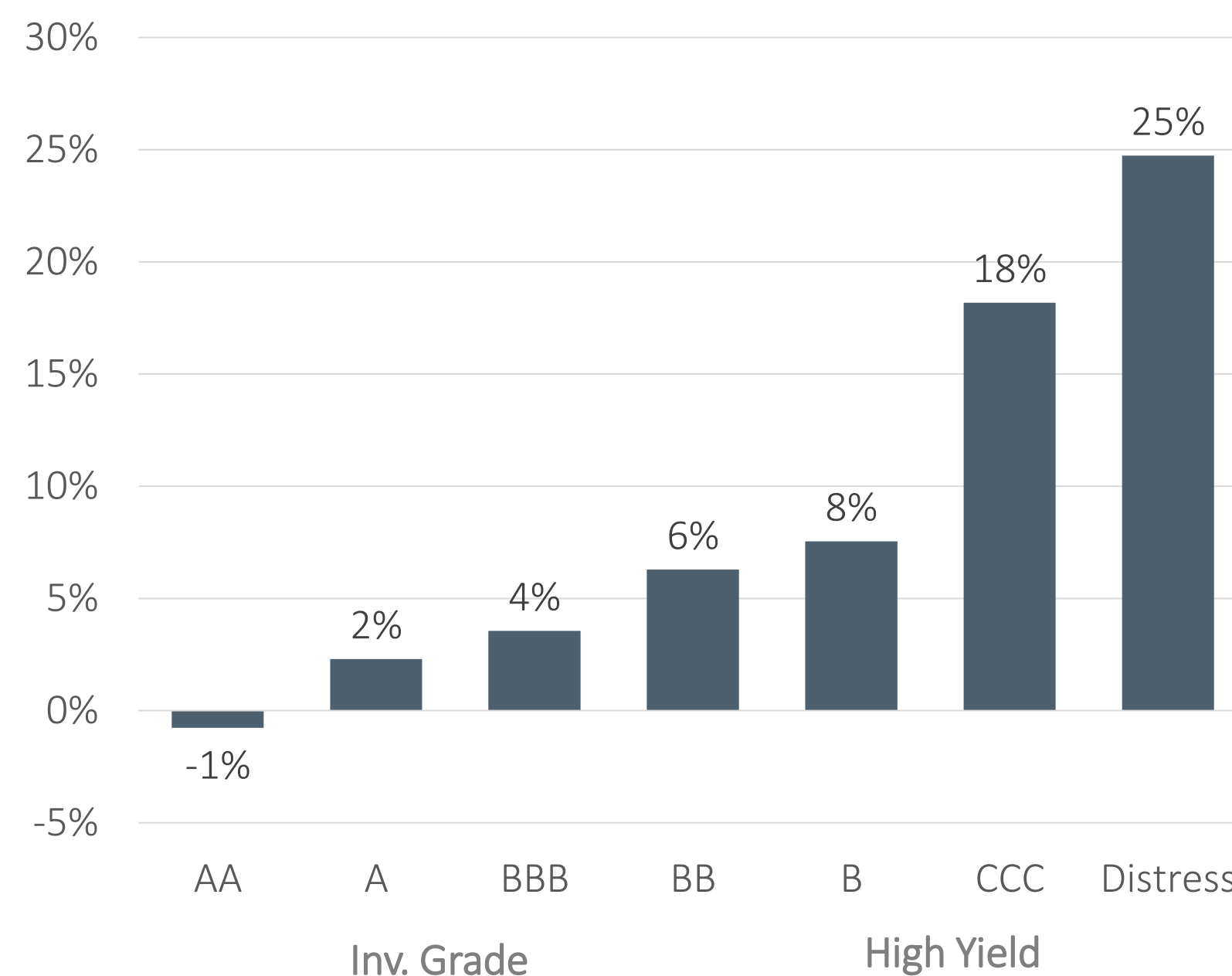
How Low Can They Go: Spreads Approaching Record Tights

Investment Grade and High Yield Corporate Spreads – YTD



The Most Speculative Credits Outperformed in 2024

2024 Corporate Bond Returns by Ratings



Source: Crescent Grove Advisors, Bloomberg. As of December 31, 2024. Asset classes based on the following indices: Investment Grade Corporate (Bloomberg US Corporate Index); High Yield (Bloomberg US Corporate High Yield Index).



STOCK MARKET RETURNS: US VS. NON-US

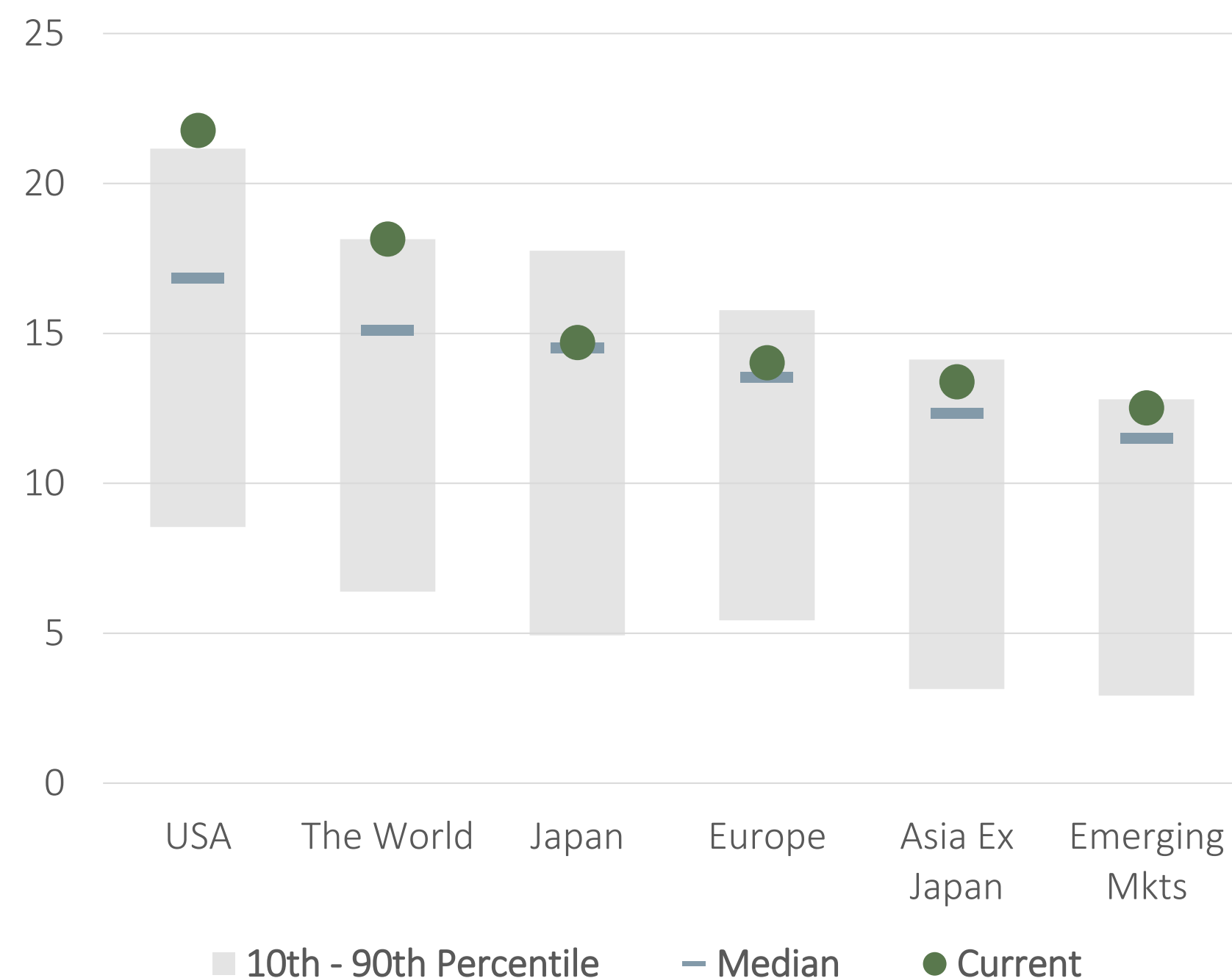
RUSSELL 3000 VS. MSCI ACWI-EX USA INDEX

International stocks, weighed down by slowing global growth and trade concerns, currently trade at meaningful discount relative to their domestic peers. This valuation mismatch makes 2025 a good time for investors to consider boosting international exposure in their portfolios.

So Sick of Winning: US Stocks Best Non-US Indices Again US (Russell 3000) vs. Non-US (MSCI ACWI ex. USA)



Finding Value Abroad: Int'l Stocks Appear Cheap Relative to US MSCI Regions: 12-Mo Forward P/E Relative to Last 20 Years



Source: Crescent Grove Advisors, Bloomberg. **Past performance is no guarantee of future results.**

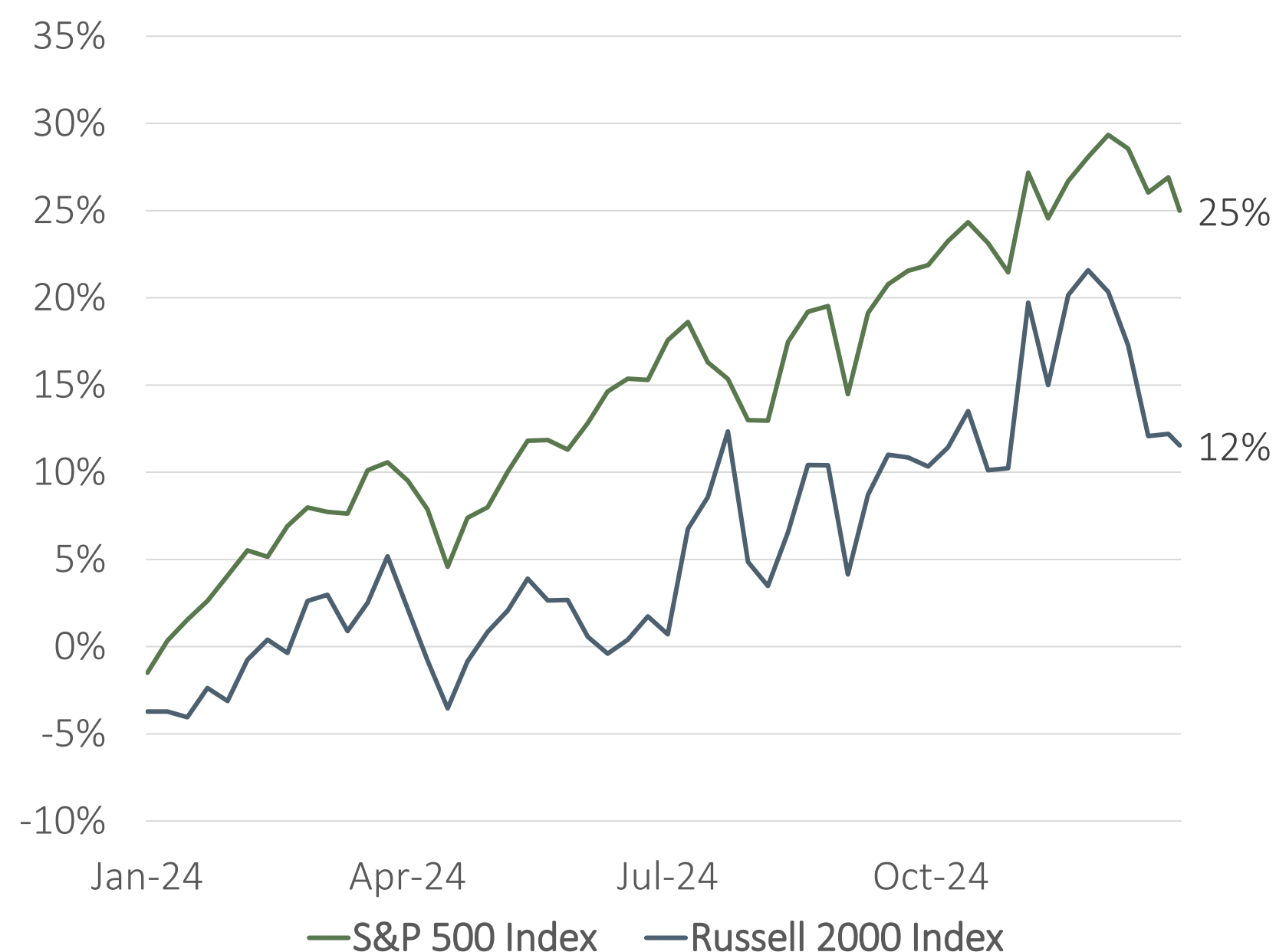


STOCK MARKET RETURNS: US LARGE VS. SMALL

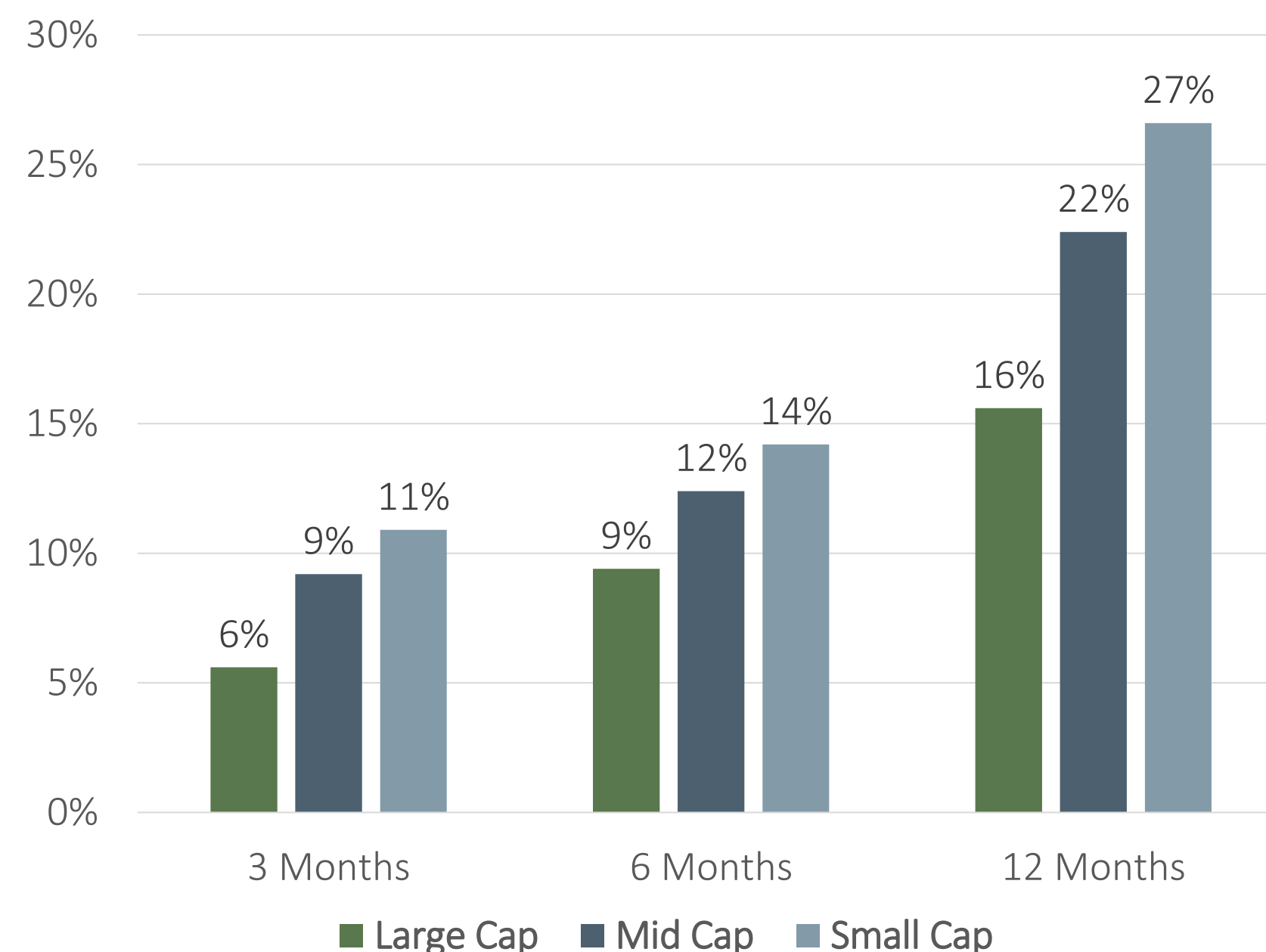
S&P 500 INDEX VS. RUSSELL 2000 INDEX

Large cap stocks have long outpaced smaller peers, but signs of a reversal are emerging. Small caps—with higher leverage and more floating-rate debt—are poised to benefit from falling interest rates and cheaper valuations.

Unloved: Large Caps Continue Dominance Over Small US Large Caps (S&P 500) vs. Small Caps (Russell 2000)



Small Caps Gain the Most During Fed Cutting Cycles Forward Returns Following First Rate Cut



Source: Crescent Grove Advisors, Bloomberg. **Past performance is no guarantee of future results.**



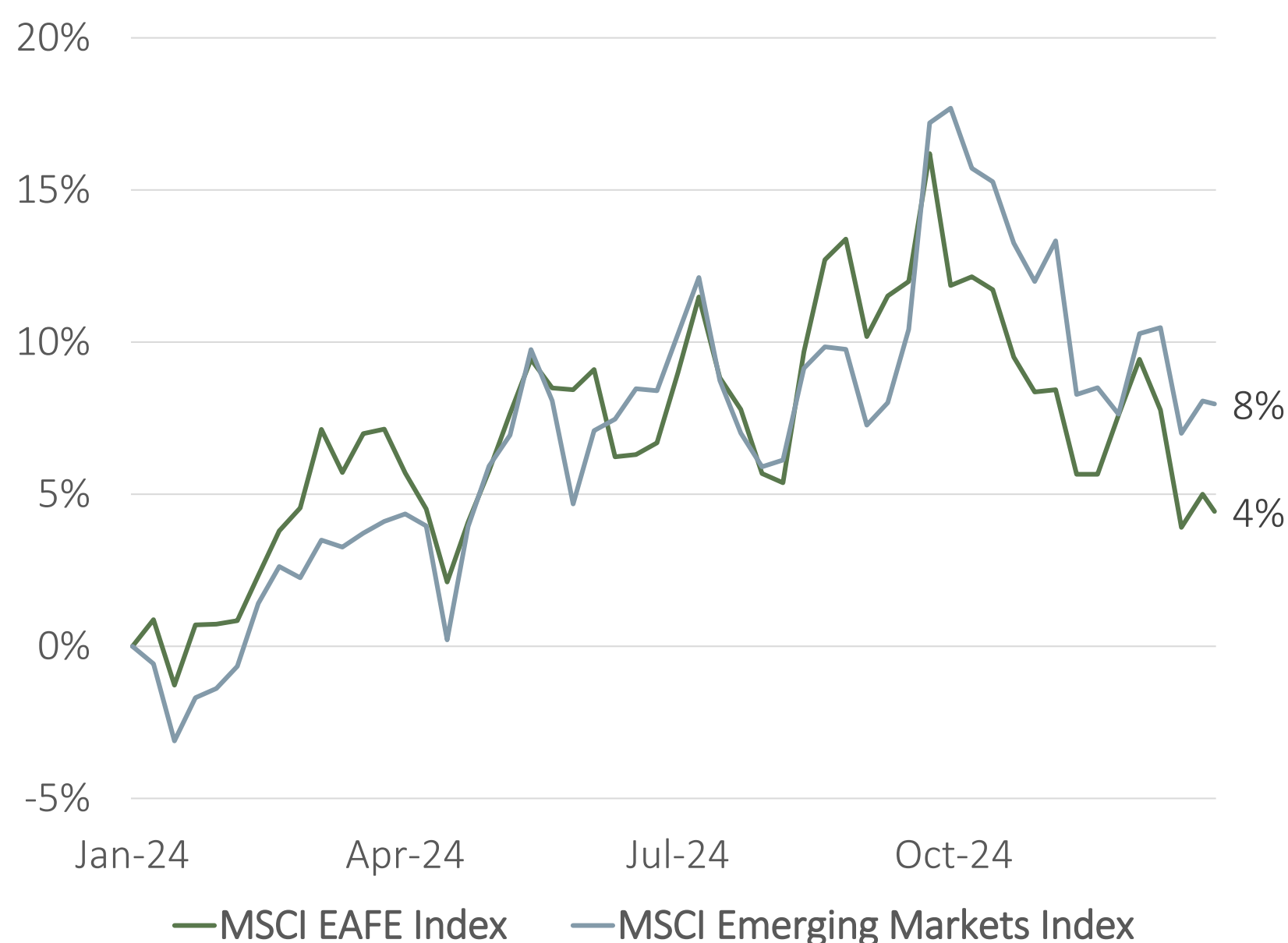
STOCK MARKET RETURNS: DEVELOPED INT'L VS. EM

MSCI EAFE INDEX VS. MSCI EMERGING MARKETS INDEX

Emerging markets edged ahead of developed peers in 2024, despite pressures from global trade tensions and a stronger dollar. Looking ahead, emerging markets valuations are trading near two-decade lows relative to developed peers, signaling potential for further outperformance in 2025.

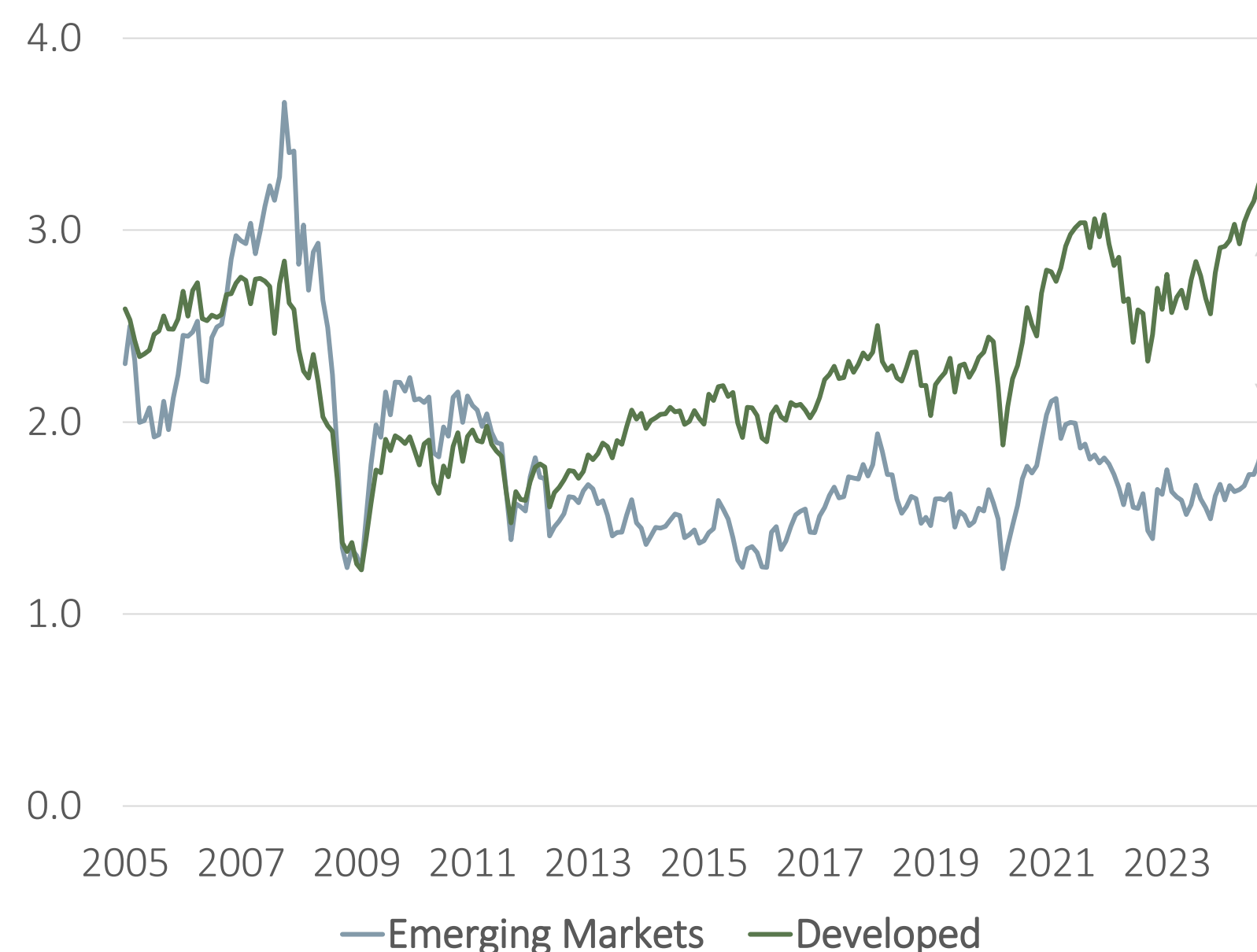
EM Beats Developed for First Time Since 2020

Dev Int'l (MSCI EAFE) vs Emerging Markets (MSCI EM)



Valuations Could Drive Further EM Outperformance in 2025

Price-to-Book Ratio: Emerging vs Develop Markets



Source: Crescent Grove Advisors, Bloomberg. **Past performance is no guarantee of future results.**



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Crescent Grove Advisors, LLC
2025

