Capital Market Review

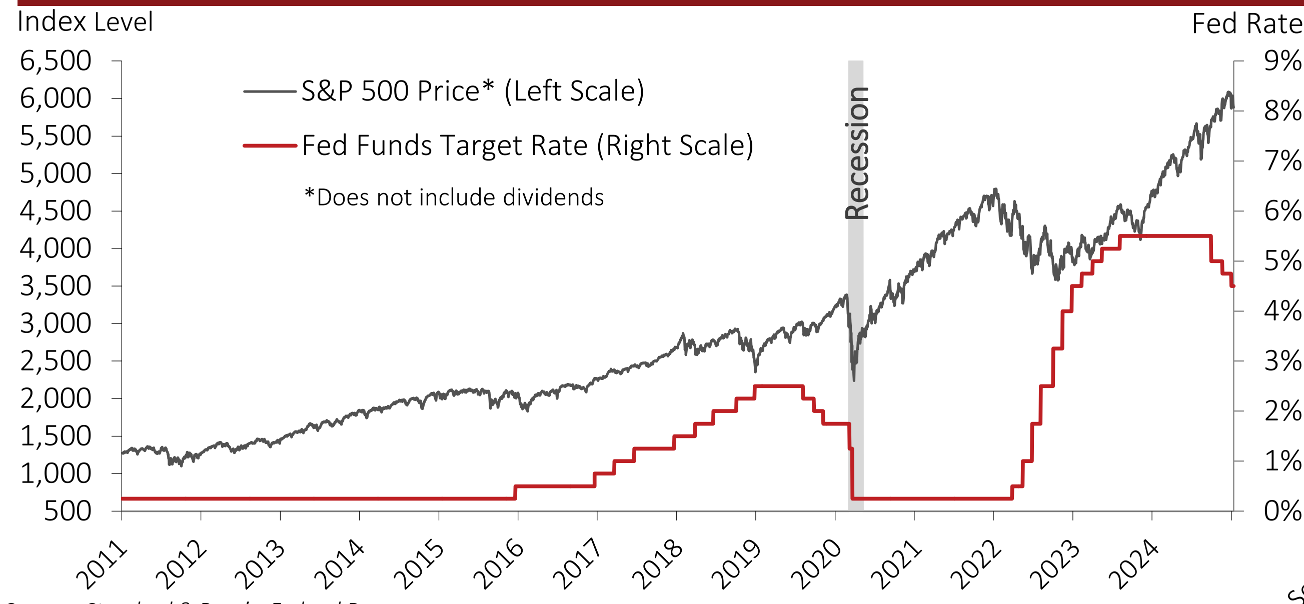
December 31, 2024

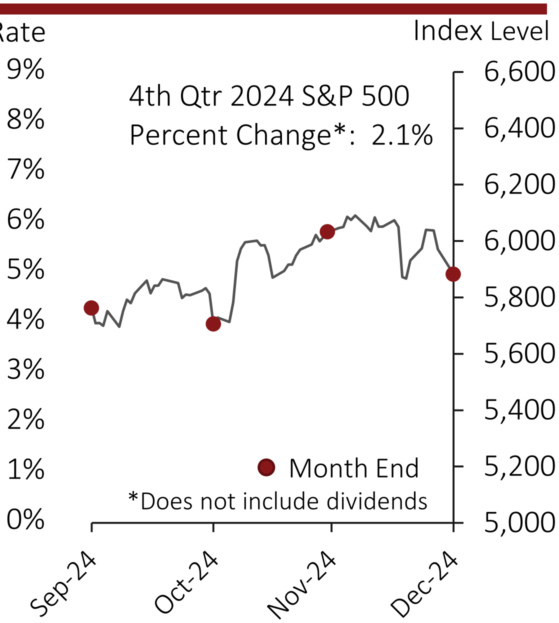



DeMarche

[Watch the Capital Markets Review Key Takeaways Video]

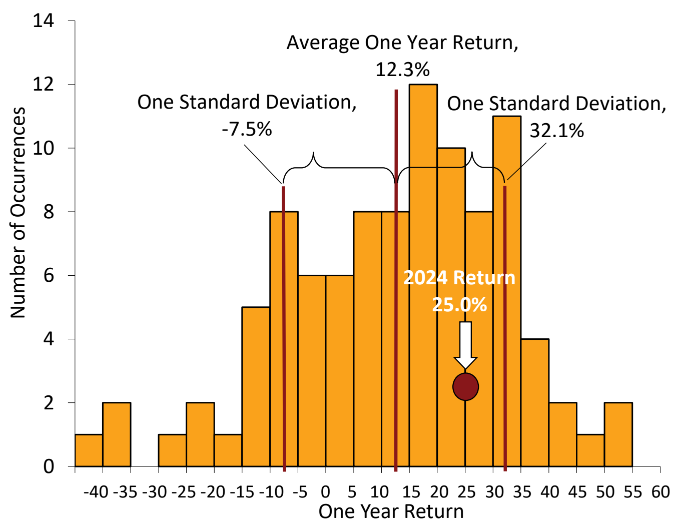
Will Higher Long Term Rates Derail Stocks?





Source: Standard & Poor's, Federal Reserve

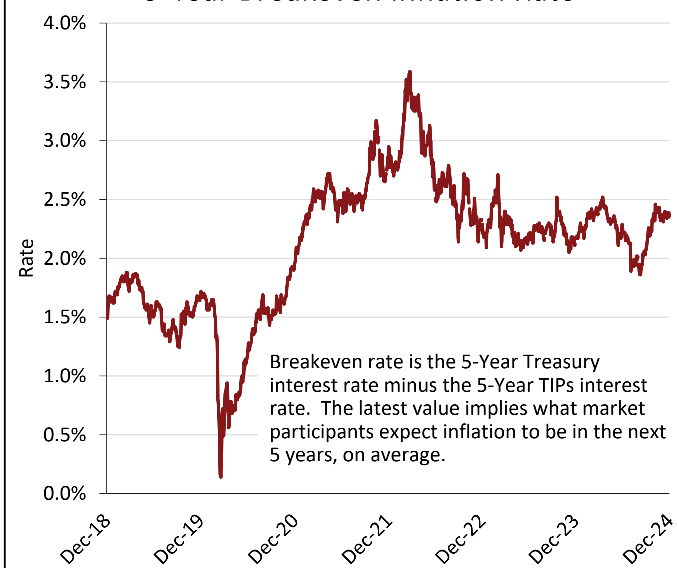
Frequency Distribution of S&P 500
One Year Total Returns 1Q1927 - 4Q2024



Source: S&P and DeMarche Associates, Inc.

2024 started out strong for the capital markets and the winning streak continued throughout the year. The S&P 500's 25% return for 2024 is well above the average one year return during the past 97 years. Inflation continues to be stubborn as the rate of change has been consistently above 2.4% in each month of 2024. In fact, when the Fed cut rates in December, their rhetoric suggested that they may only cut rates twice in 2025. On that day, stocks dropped in response to the prospect of higher long term rates. In addition, interest rates along the yield curve increased, creating a headwind for bond returns. The Bloomberg Aggregate returned a meager 1.3% for the year, and once again failed to provide a "real" return after inflation.

5-Year Breakeven Inflation Rate



Source: Federal Reserve of St. Louis

Broad Market Overview

December 31, 2024

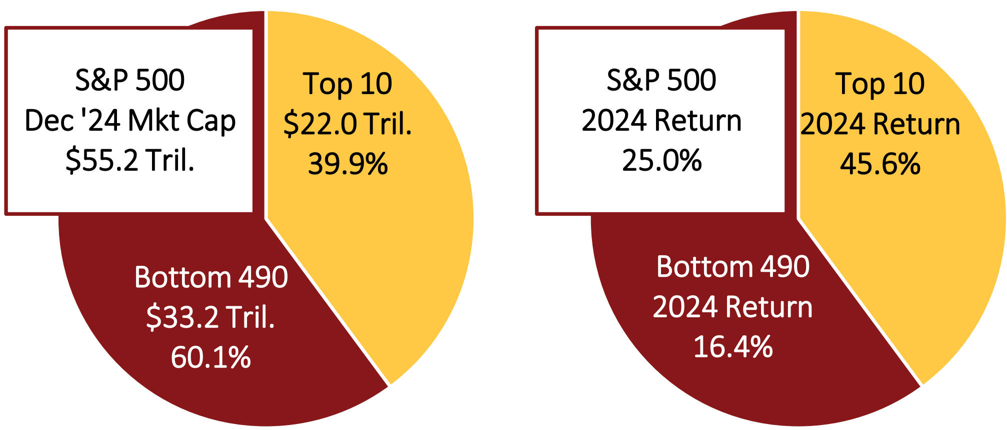
INDEX	4th Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI World	-0.2	18.7	6.3	11.2	9.9
Russell 3000	2.6	23.8	8.0	13.9	12.5
S&P 500	2.4	25.0	8.9	14.5	13.1
MSCI EAFE USD	-8.1	3.8	1.6	4.7	5.2
MSCI Emerging Markets USD	-8.0	7.5	-1.9	1.7	3.6
Bloomberg Aggregate	-3.1	1.3	-2.4	-0.3	1.3
Bloomberg Global Aggregate	-5.1	-1.7	-4.5	-2.0	0.2
FTSE Non-US Gov't Bond	-7.1	-5.3	-7.9	-4.8	-1.5
NAREIT (Public RE)	-8.2	4.3	-4.5	2.8	5.6
Bloomberg Commodity	-0.4	5.4	4.1	6.8	1.3

Notes: Data are presented as percent returns. All 3-, 5-, and 10-year returns are annualized.

U.S. Indicators Yr. Ending 12/31	2024	2023	2022	2021	50 Yr. Average
GDP Annual Growth Rate*	3.0	3.1	0.7	5.4	2.7
Unemployment	4.1	3.7	3.5	3.9	6.2
Inflation (CPI)	2.9	3.4	6.5	7.0	3.7
10-Year Interest Rates	4.6	3.9	3.9	1.5	5.9

**Note: Prior to the GDP quarterly release from BEA, we show the annual GDP Now forecast from the Atlanta Federal Reserve as the most recent year.*

The Top 10 Stocks in the S&P 500 Are Now 40% of the Index As of 12/31/2024



Source: Morningstar, S&P 500.
Note: Top 10 stocks change monthly, depending on market cap.

- The S&P 500 posted a positive return for the quarter of 2.4%. However, when the Fed cut rates on December 18th, the market fell precipitously as the Fed also made comments suggesting that it may only cut rates twice in 2025.
- Bond returns for 2024 were heavily influenced by the backup in interest rates during the fourth quarter. At the end of the third quarter, the ten-year Treasury yield was 3.80%, but by the end of the fourth quarter it had increased to 4.57%. The Bloomberg Aggregate posted a negative 3.1% return for the quarter and a 1.3% return for the year.
- The U.S. dollar strengthened against a trade weighted basket of currencies in the fourth quarter due to the Fed changing its rhetoric about future rate cuts. Interest rates in the U.S. have been relatively attractive compared to global rates, thereby boosting the dollar. This is a significant reversal of the dollar's weakening in the third quarter.
- The top ten names in the S&P 500 continue to account for outsized returns and weights relative to the rest of the index. While the bottom 490 stocks posted a decent return for the year (16.4%), those names were not able to keep up with the top ten names (45.6%). Keep in mind, as the year progressed some stocks fell out of the top ten and were replaced by other names, meaning the top ten were not static.

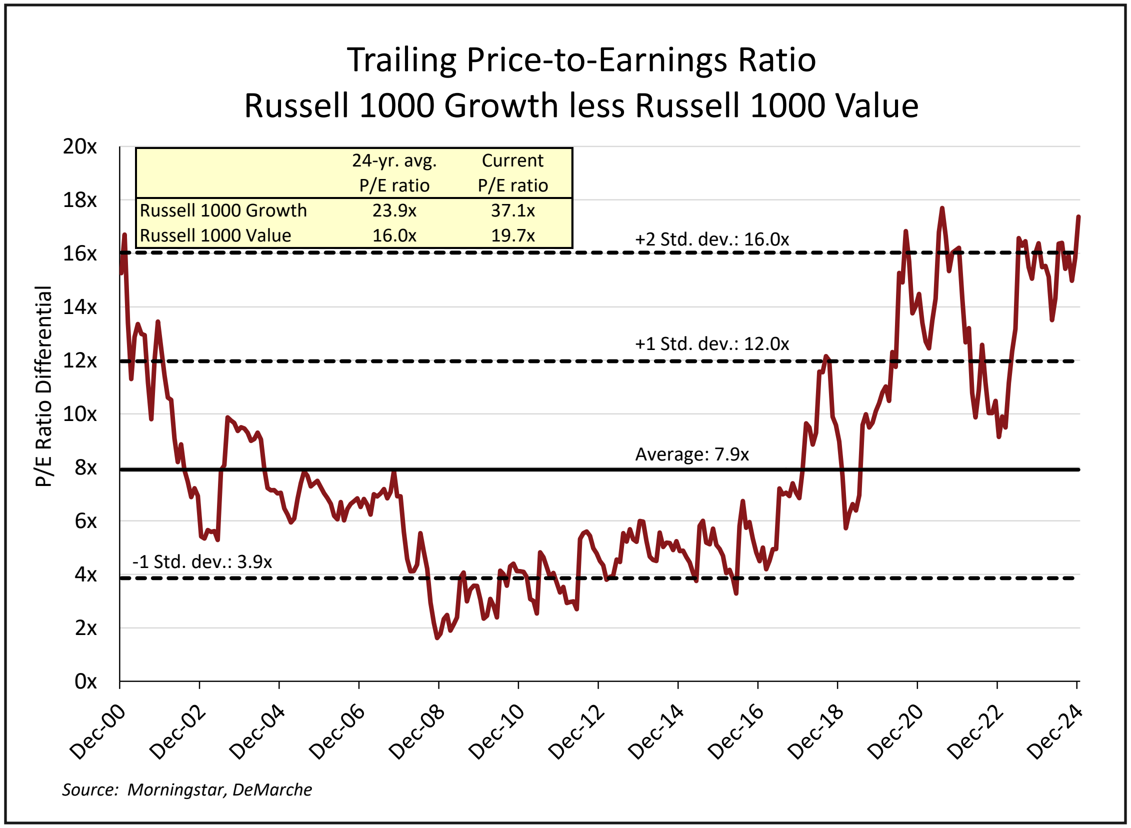
DeFact

The Federal Reserve cut interest rates 25 basis points in December. After the previous two cuts, the total adds up to 100 basis points for 2024. The last time the Fed cut rates by 100 basis points (outside of COVID) was in late 2007, which mirrored the cuts of 2024 – 50 basis points in September, 25 basis points in October and 25 basis points in December 2007. ~DeMarche

Domestic Equities

INDEX	4th Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
S&P 500	2.4	25.0	8.9	14.5	13.1
S&P Mid-Cap 400	0.3	13.9	4.9	10.3	9.7
S&P Small-Cap 600	-0.6	8.7	1.9	8.4	9.0
Russell 1000	2.7	24.5	8.4	14.3	12.9
Russell 1000 Growth	7.1	33.4	10.5	19.0	16.8
Russell 1000 Value	-2.0	14.4	5.6	8.7	8.5
Russell 2000	0.3	11.5	1.2	7.4	7.8
Russell 2000 Growth	1.7	15.2	0.2	6.9	8.1
Russell 2000 Value	-1.1	8.1	1.9	7.3	7.1

Notes: Data are presented as percent returns. All 3-, 5-, and 10-year returns are annualized.



- Large growth stocks led the way again in the quarter after value stocks briefly triumphed in the third quarter. The mega cap consumer discretionary (Tesla, Amazon) and communications services (Alphabet, Netflix) sectors outperformed technology in the quarter.
- Small cap stocks posted modest returns for the quarter and lagged large cap for the year. Small cap performance is helped by falling interest rates and as rates increased along the yield curve (despite the Fed cutting short rates), its performance faced headwinds. Interest rate sensitive sectors such as real estate and utilities led the downturn in the quarter.
- As you can see in the table, small cap value has held up well compared to small cap growth in the past number of years. Small cap growth has a large weight in the health care sector, which has performed poorly on a relative basis.
- We have talked a lot about large cap growth stocks being dominant. Since the downdraft of 2022, when large growth names came back to earth, they have gotten pretty pricey. Led primarily by mega caps, the Growth Index's current P/E ratio is 37x. Over the last 24 years, value stocks have rarely been as cheap relative to growth as they are today.

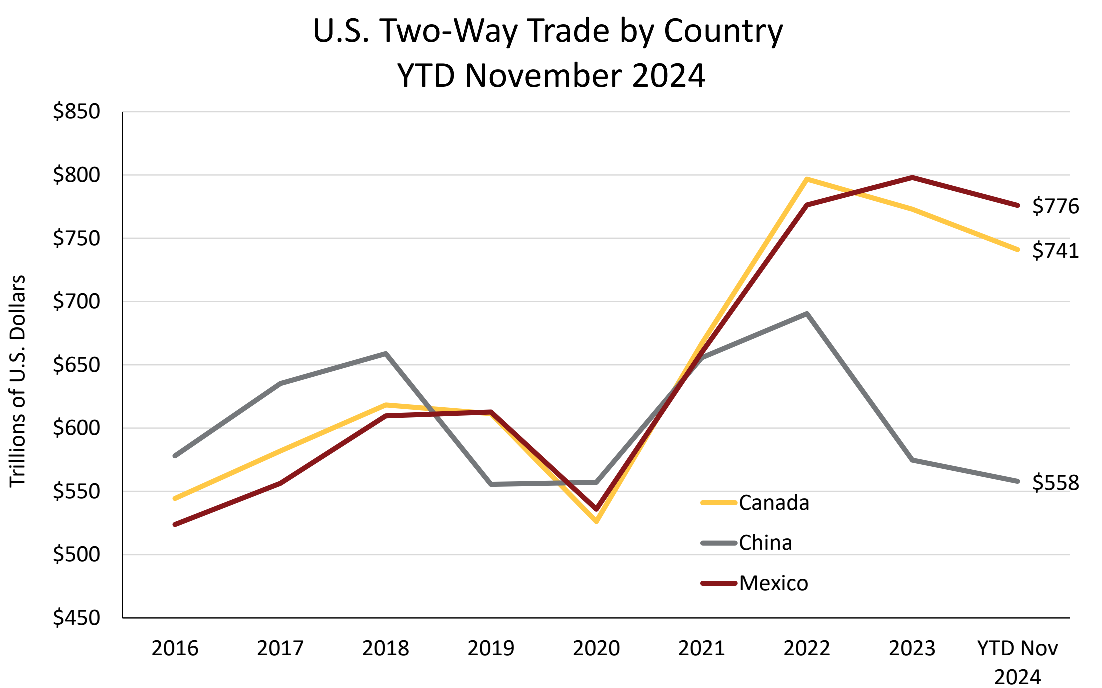
DeFact

The S&P 500 posted a 25.0% return for the year. In 2023, the S&P 500 returned 26.3%. The last time the S&P 500 posted back-to-back returns of 20% or more was 1998 and 1999. Domestic stocks have proven to be resilient in the past two years, after a negative 2022 in the face of increasing interest rates.

International Equities

INDEX	4th Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI EAFE Local	-0.6	11.3	6.3	7.6	7.1
MSCI EAFE USD	-8.1	3.8	1.6	4.7	5.2
Growth	-9.1	2.0	-2.6	4.0	5.8
Value	-7.1	5.7	5.9	5.1	4.3
MSCI All Country-ex US	-7.6	5.5	0.8	4.1	4.8
MSCI AC Asia-ex Japan	-7.6	12.0	-1.6	2.6	4.5
MSCI Emerging Markets	-8.0	7.5	-1.9	1.7	3.6
MSCI EAFE Small Cap	-8.4	1.8	-3.2	2.3	5.5
MSCI Japan	-3.6	8.3	2.8	4.8	6.2
MSCI China	-7.7	19.4	-6.1	-3.4	1.9
MSCI Germany	-5.7	10.2	1.7	4.3	4.1
MSCI France	-10.3	-5.3	-0.1	4.4	6.2
MSCI UK	-6.8	7.5	5.3	4.4	3.8

Notes: Data are presented as percent returns. All 3-, 5-, and 10-year returns are annualized



Source: U.S. Census Bureau

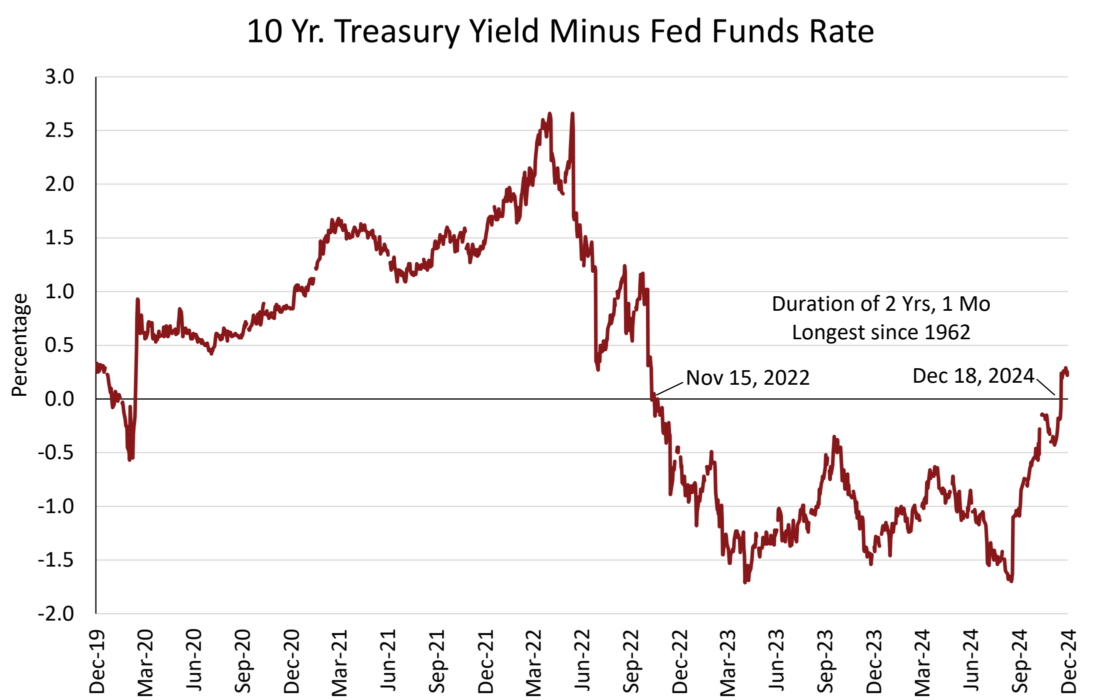
- As longer-term interest rates increased in the quarter, the dollar strengthened against other currencies. The Euro has weakened towards parity with the dollar, a point last seen in late 2022 when the Fed was still hiking rates. This move contributed to negative performance for the EAFE and Emerging Markets indexes for the quarter.
- The dominance of U.S. stock performance over the past decade can be traced back to the large weight of growth stocks in the top 10 names of the S&P 500. In the MSCI EAFE index, the top ten names make up 14% of the index and contains only two technology companies – ASML and SAP.
- The Bank of Japan hiked rates in March 2024 to 25 basis points. It decided not to increase rates at the latest meeting in December 2024, and is now close to its June 2024 level of weakness compared to the dollar. Before that, it was the mid 1980's that we saw this level of exchange rates.
- The talk about tariffs and global trade has dominated the news. The chart to the left show the current level of trade between the U.S. and its largest trading partners. The U.S. traded more with Mexico and Canada versus China in the past few years. Primary imports are cars, energy (Mexico and Canada), and computers/communications equipment (China).

DeFact

Over the past six years, trade with China has decreased primarily due to tariff activity under section 301 of the 1974 Trade Act, amended in 2018. Since 2018, approximately $380 billion of products imported from China have had tariffs imposed upon them. In December 2024, tariffs were increased on about $18 billion of Chinese goods such as electric cars and semiconductors. ~Taxfoundation.org

INDEX	4th Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
Bloomberg Aggregate	-3.1	1.3	-2.4	-0.3	1.3
Bloomberg 1-3 Gov Credit	0.0	4.4	1.7	1.6	1.6
Bloomberg Gov Credit Long	-7.4	-4.2	-9.2	-3.3	1.0
Bloomberg US TIPS	-2.9	1.8	-2.3	1.9	2.2
ICE BofA Merrill Lynch High Yield	0.1	8.0	2.9	4.0	5.1
CSFB Leveraged Loan (bank loans)	2.3	9.0	6.8	5.7	5.1
Bloomberg Global Aggregate	-5.1	-1.7	-4.5	-2.0	0.2
JPM EmgMkt Bd Glbl Dvrsfd (hard)	-2.1	5.7	-1.2	-0.1	2.8

Notes: Data are presented as percent returns. All 3, 5-, and 10-year returns are annualized.



Source: St. Louis Federal Reserve (FRED)

- Since the start of its easing cycle on September 18th, the Fed has cut rates by a total of 100 basis points in 2024. Conversely, over that same time-frame the yield of the 10-year Treasury increased by 88 basis points, from 3.69% to 4.57% at the end of the year. The headwind caused by increasing rates further out along the maturity curve was a significant drag on intermediate and long duration bond performance.
- While investment grade bonds performed poorly in the quarter, high yield bonds did better due to their higher coupon rates and shorter duration relative to investment grade indexes, such as the Bloomberg Aggregate.
- The chart to the left shows the ten-year treasury yield and the Fed Funds rate moving in opposite directions. The increase in yield of the ten-year Treasury is a signal that the market is still concerned about inflationary pressures and the growing entrenchment of the Fed's "higher for longer" mantra. During this quarter the Treasury yield curve became upward sloping between the fed funds rate and the ten-year Treasury for the first time since 2022.

DeFact

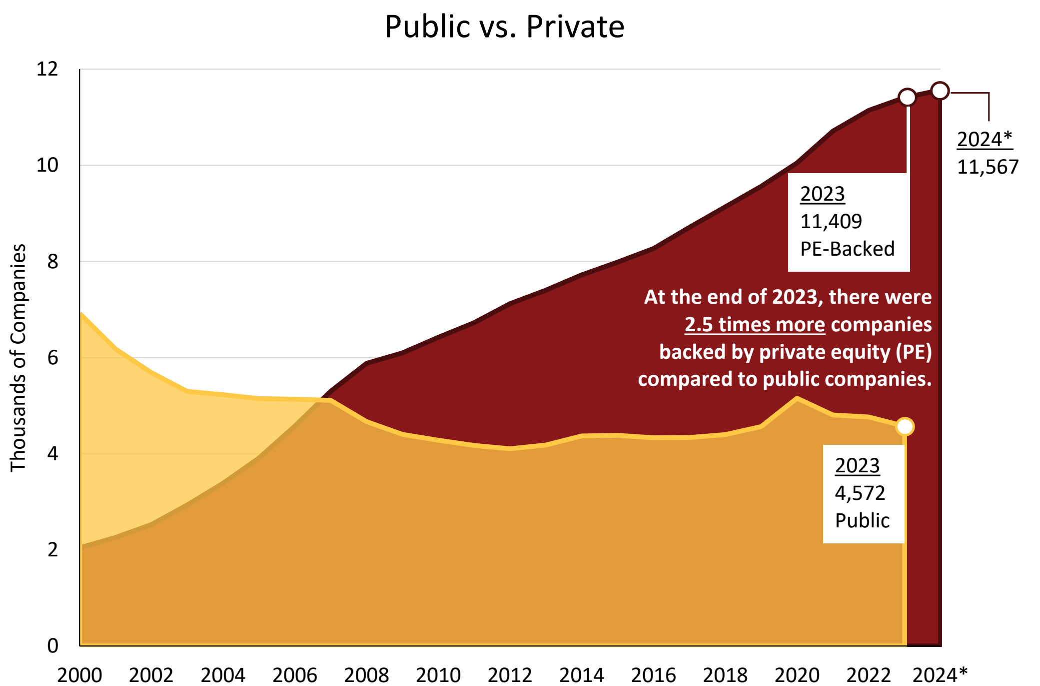
Historically, an inverted yield curve has foreshadowed a recession. While considered a reliable indicator, the yield curve's inversion recession signal lacks timing precision. Currently, the curve un-inverted as Fed Funds rate fell and the 10-year Treasury rate increased. However, when we look back at history, the Treasury curve regained its upward slope prior to a recession being declared. The economy may not yet be out from under the recession cloud. ~DeMarche

Less Liquid Strategies – Lagged One Quarter

December 31, 2024

INDEX	3rd Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
NCREIF ODCE	0.2	-7.3	-0.2	2.9	6.1
NCREIF Property (Private RE)	0.8	-3.3	0.9	3.3	5.9
Residential	1.1	-2.7	2.1	4.3	6.0
Industrial	1.1	-0.8	8.1	13.0	13.4
Office	-0.9	-5.1	-6.7	-2.6	2.5
Retail	1.9	2.3	2.5	0.3	3.7
NCREIF Timberland	1.5	10.0	10.9	7.5	5.9
NCREIF Farmland	-0.2	2.6	6.2	5.6	6.7
HFR FOF Composite	1.9	10.2	2.5	5.4	3.7
Conservative	1.6	7.1	3.7	5.2	3.6
Diversified	1.4	9.1	2.9	5.5	3.7
Preqin Private Equity	0.6	5.3	4.6	14.2	13.7
Private Debt	1.7	8.8	7.9	9.2	8.4
Preqin Infrastructure	1.4	8.3	11.1	9.5	9.6

Notes: Data are presented as percent returns. All 3-, 5-, and 10-year returns are annualized.
All data in the table above are as of 9/30/24



Source: *VisualCapitalist.com, Pitchbook* *As of June 30, 2024.

- Real estate returns turned positive in the third quarter after posting negative quarterly returns for seven straight quarters. While clouds remain, such as commercial office space struggling, some bright spots have emerged such as the need for data centers to crunch large amounts of data for AI applications.
- Private credit continues to grow in assets under management and in doing so lenders are becoming more specialized. Lenders to smaller deals (under $250 million) have been able to negotiate and include stronger covenants than lenders of large deal sizes, per industry analysts. Direct lending to companies stood at just over $1.5 trillion in the fourth quarter 2024.
- Private companies have grown substantially in the past few decades as more and more funding and vehicles have become available and fees have fallen. In addition, the costs and regulations surrounding "going public" have increased, making a public exit less attractive than in the past. As the chart to the left shows, many opportunities for investment now exist in private equity.

DeFact

While metro areas are still struggling with high vacancy rates in 2024, the quality of the space is becoming a key differentiator. Class A and newer offices attract firms looking for high quality amenities for their workforces in order to get people back in the office. According to a PWC report, fully two-thirds of office workers follow a hybrid or a fully remote schedule, estimated at about 35 million workers. ~PWC

Celebrating 50 Years

We're celebrating fifty years of helping our clients achieve their investment goals. Q4 2024, and the month of December specifically, marked fifty years since Bob Marchesi and Sam DeKinder started DeMarche in the basement of Bob's house in Kansas City. Being the savvy businessmen they were, the company quickly grew from that modest start into an institutional investment consultant with a national footprint. Our founders infused innovation into our company's DNA from the start to ensure that we always provide best-in-class service to our clients.

The firm's first product in 1974 was performance measurement and evaluation, which created a new industry standard. Over the decades, we have continued to rapidly innovate to meet client needs and create investment products that match real-world market conditions. In quick succession, we added manager search, asset allocation, benchmarking, OCIO, and, most recently, expanded alternatives expertise. DeMarche has been a research leader in the development of style indexes, an expected return factor model, and market cycle phase analysis, which helps illuminate when each manager will have its best and worst relative performance. With our history of leadership and client success in mind, DeMarche continues to be a leader and innovator in investment consulting.

The industry has matured and undergone major changes in the past 50 years, but our core values remain unchanged - concentrating on value-added activities that enhance client portfolios, knowing markets and managers better than any other consulting firm, maintaining extraordinary ethical and professional standards, and being on the leading edge of investment-related research.

Today, DeMarche is led by Tim Marchesi, CFA, President and CEO, the son of our founder Bob Marchesi, and a team of consultants with more than 300 years of experience. We are grateful to everyone who has contributed to our success and is working hard to build for the next fifty years.

DeMarche
CELEBRATING 50 YEARS 1974-2024

1974 – DeMarche founders Bob Marchesi (right) and Sam DeKinder (left) in the company's first office in Bob's home basement.

DeMarche
CELEBRATING 50 YEARS 1974-2024