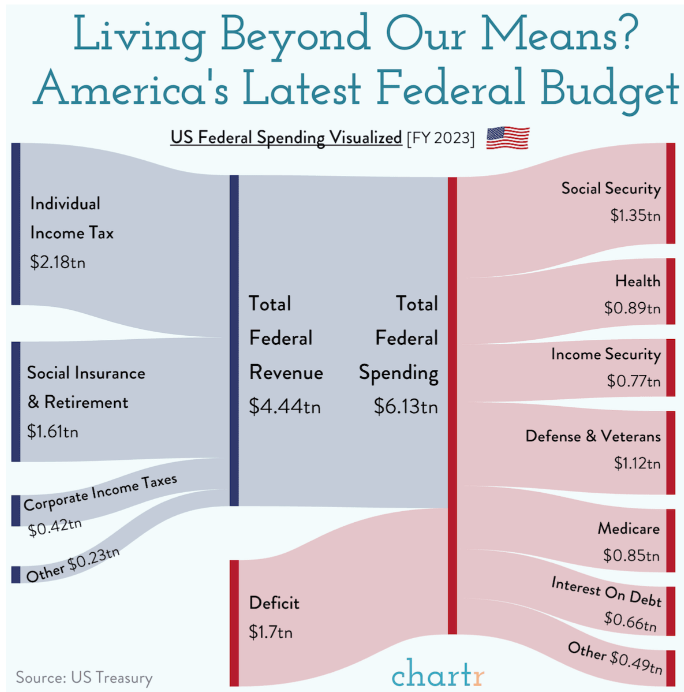
A Change in Direction?
2024 Year-End Commentary

Last quarter, all eyes were focused on the presidential election, and it felt as though we were at real crossroads in the direction of our country. The pollsters told us that the outcome was too close to call and would come down to a coin-flip. The economic agendas laid out for the future were in stark contrast.

One party promised continued Fiscal stimulus programs for ordinary citizens and students, continued unrestricted immigration, continued involvement and support for Ukraine, and expiration of Tax Cuts and Jobs Act of 2013 (TCJA). The other party promised the extension of tax-cuts, getting inflation under control by curbing government spending, energy independence (again) with "drill, baby, drill," and tougher trade negotiations. Each had its benefits and consequences.

We now know the will and temperature of the majority of the country favored President Trump's vision, as he secured a landslide victory as only the second president in history to serve two non-consecutive terms. One of the hot issues that should be in the interest of all of our country is efforts to begin bending the curve on the rate of deficit spending.

We are on the brink of a death spiral, where the debt load has a strangle-hold on our economy. If the $36 trillion in national debt continued to swell, our interest expense alone will consume other important budget items, such as defense, social security, healthcare, etc., unless real cost-cutting measures are instituted.



The equity and bond markets are forward-looking mechanisms that factor in economic, government, geo-political, and social conditions to predict future outcomes with security prices.

We have all been on Fed watch (Federal Reserve Open market committee) as we eagerly anticipate the decline of interest rates, as promised. The Federal Reserve has delivered on their promise by cutting the short-term (overnight bank lending rate) for three consecutive months (see the downward pointing arrows on the left of the graph below). However, the market forces determine the longer-term rates that really affect consumers (i.e., car loans, home loans, business loans).

These market forces have voted, and they have less faith in the credit worthiness/risk and demand a higher rate of return for our government debt. The red line in

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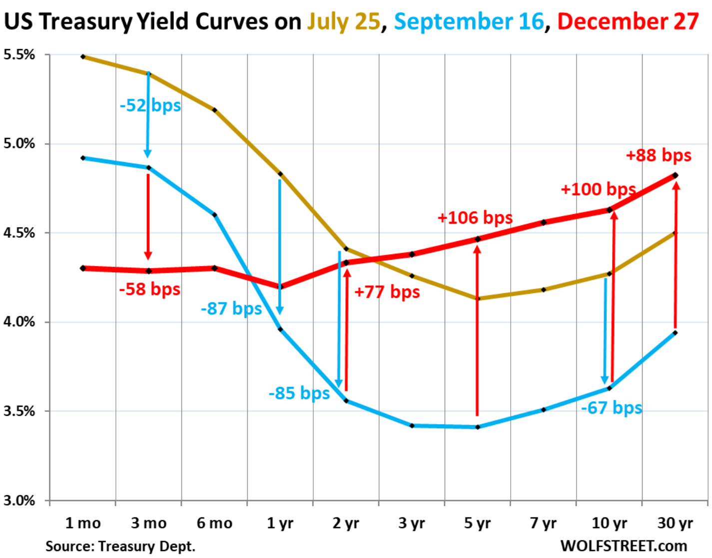
the graph tells the story of a steepening yield curve, as longer-term rates are increasing (1% rise since September).



Every 1% rise in interest rates on the current $36 trillion in debt equates to an additional $360 billion interest expense annually!

DOGE (Department of Government Efficiency) was established, appointing Elon Musk and Vivek Ramaswamy to root out and eliminate extreme government waste, and there is much. We should all be rooting for them for the sake of our children and America's future. DOGE will have to act quickly, prior to mid-term elections, to attack the low-hanging fruit, such as excess federal employees that are being paid but have not returned to work, vacant government offices, bloated departments, and pet programs that are tagged onto each bill that hits the floor of congress.

However, there will be some pain in the process. When the largest consumer in our economy (federal government) has its spending curtailed, the economic impact will be felt. We hope that this negative effect will be offset by economic growth from regulation reform and tax cuts, but can it offset the reduction in years of waste to which we have become accustomed?

We all agree that spending should be controlled, but we need to be prepared when those cuts land at our doorstep. How will potential program cuts that have always subsidized our central Illinois farmers affect our agriculture base, our grain processors, etc.?

As we head into 2025, we continue to have a lot of questions that remain unanswered. Last quarter, we addressed problems of extreme overvaluation of the equity markets. The amount of liquidity pumped into the economy over the last few years flowed downhill into stock prices.

We had a Trump victory rally in November as the Standard and Poors 500 Index gained +5.73%. However, the typical Santa Claus rally was taken over by the Grinch as the same S&P Index declined sharply in the last two weeks, resulting in a negative 2.50% return for December. Looking into 2025, the hinge points for the direction of markets seems to be focusing on the direction of long-term interest rates (higher rates are negative for equities) and the ability of earnings to continue growing to support such high valuation of prices to earnings.

Our team strives to always manage using a goal achievement and risk reductions priority. We have long held the philosophy to never take more risk than necessary to meet long-term financial goals. It is often easy to get pulled by the emotion of greed out of the prudent diversified allocation into the AI/technology frenzy that delivered the second year in a row of S&P 500 Total returns over 20%. This is not normal, as the

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chart below clearly illustrates the top ten stocks' concentration and impact on the entire index is historically high, at nearly 40% of the total capitalization. By contrast, the Dow Jones Industrial Average trailed by more than 10 percentage points in performance.

Weight of the top 10 stocks in the S&P 500

% of market capitalization of the S&P 500

Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. The top 10 S&P 500 companies are based on the 10 largest index constituents at the beginning of each quarter. As of 12/31/2024, the top 10 companies in the index were AAPL (7.6%), NVDA (6.6%), MSFT (6.3%), AMZN (4.1%), GOOGL/GOOG (4.0%), META (2.6%), TSLA (2.3%), AVGO (2.2%), BRK.B (1.7%) and JPM (1.4%). The remaining stocks represent the rest of the 492 companies in the S&P 500.

Artificial Intelligence is, and will continue to be, a dramatic disruptive technology that is transforming many aspects of our daily lives. However, the risks associated with the meteoric rise and concentration in these "Magnificent Seven" stocks further reinforces the need to keep your portfolio prudently diversified to meet your goals.

We appreciate your continued confidence and trust!

The Brechnitz Group

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IMPORTANT DISCLOSURES:

All investments are subject to risk, including loss. There is no assurance that any investment strategy will be successful. Asset allocation and diversification does not ensure a profit or protect against a loss. It is important to review the investment objectives, risk tolerance, tax objectives and liquidity needs before choosing an investment style or manager.

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The information contained in this report has been obtained from sources deemed to be reliable; however, we do not guarantee the accuracy and completeness of such information.

ASSET CLASS RISK CONSIDERATIONS

Depending on the type of strategy in which you are investing, some or all of the following, risks may apply.

Every type of investment, including mutual funds, involves risk. Risk refers to the possibility that you will lose money (both principal and any earnings) or fail to make money on an investment. Changing market conditions can create fluctuations in the value of a mutual fund investment. In addition, there are fees and expenses associated with investing in mutual funds that do not usually occur when purchasing individual securities directly.

This strategy may contain Exchange Traded Funds (ETF) and/or Mutual Funds. Investors should carefully consider the ETF and mutual fund investment objectives, risks, charges, and expenses before investing. The prospectus contains this and other information and can be obtained from the ETF or Mutual Fund sponsor as well as from your financial advisor. The prospectus should be read carefully before investing.

ETF shareholders should be aware that the general level of stock or bond prices may decline, thus affecting the value of an exchange-traded fund. Although exchange-traded funds are designed to provide investment results that generally correspond to the price and yield performance of their respective underlying indexes, the funds may not be able to exactly replicate the performance of the indexes because of fund expenses and other factors.

The process of rebalancing may carry tax consequences. No investment strategy can guarantee success.

Equities: Investors should be willing and able to assume the risks of equity investing. The value of a client's portfolio changes daily and can be affected by changes in interest rates, general market conditions and other political, social and economic developments, as well as specific matters relating to the companies in which the portfolio has invested. Companies paying dividends can reduce or cut payouts at any time.

Fixed Income: All fixed income securities are subject to market risk and interest rate risk. If fixed income securities are sold in the secondary market before maturity, an investor may experience a gain or loss depending on the level of interest rates, market conditions and the credit quality of the issuer. There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices generally rise. Please note these portfolios may be subject to state, local, and/or alternative minimum taxes. You should discuss any tax or legal matters with the appropriate professional.

International investing involves additional risks over developed countries and is greater in emerging markets. Additional information is available upon request. The S&P 500 is an unmanaged index of 500 widely held stocks. You cannot invest directly in an index.

Earnings per share (EPS) are the total company earnings divided by the number of shares outstanding.

Companies engaged in business related to a specific sector are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. Biotechnology companies are affected by patent considerations, intense competition, rapid technology change and obsolescence, and regulatory requirements. Investing in the energy sector involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors. International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

Forward-looking statements are subject to uncertainties that could cause actual developments and results to differ materially from the expectations expressed. Price Earnings Ratio (P/E) is the price of the stock divided by its earnings per shares

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