

**December 2024**

# Monthly **CIO View**



Strategy Snapshot

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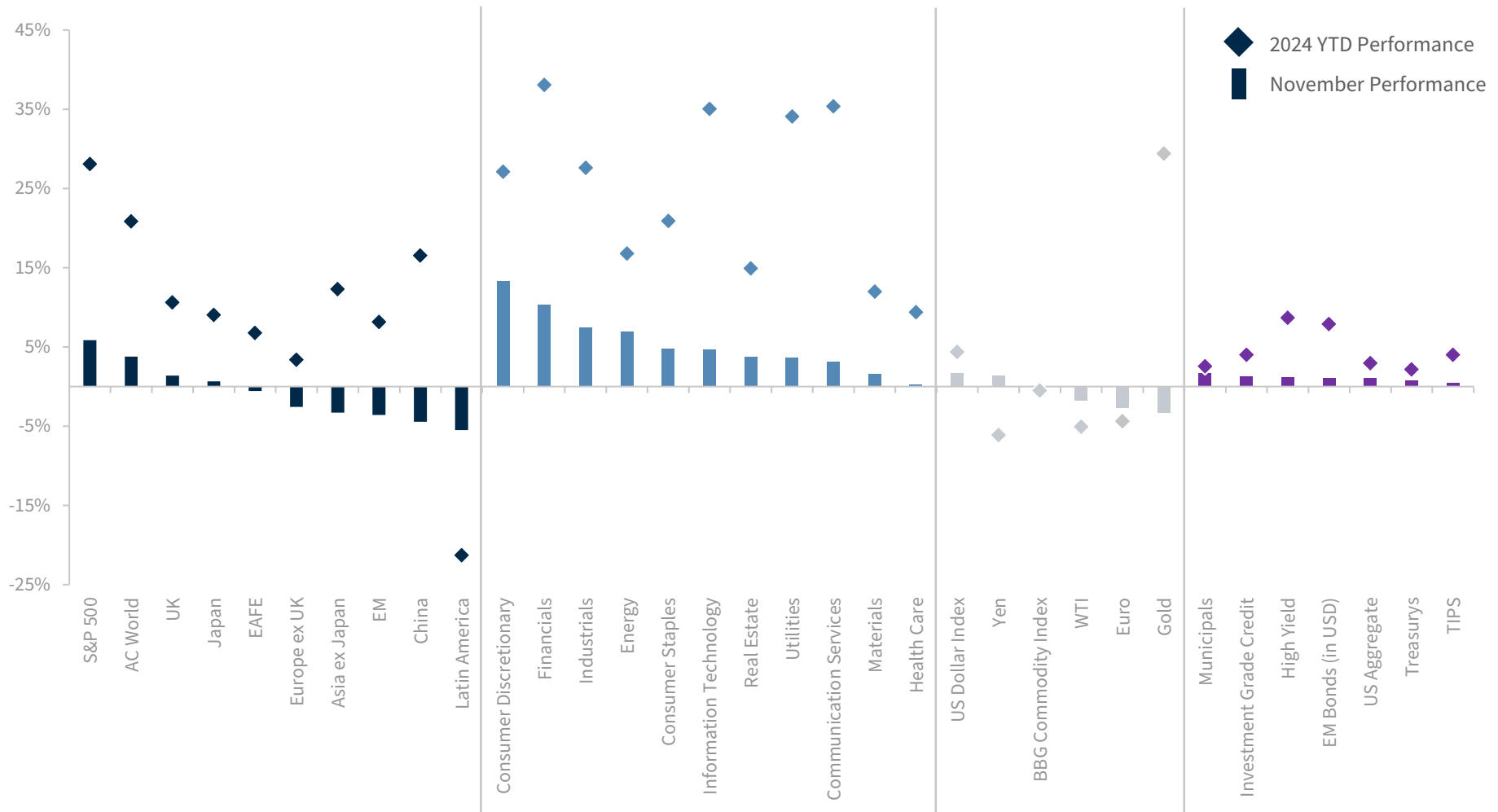
# Returns by Asset Class | November and 2024

**Equities:** US Equities Outperformed Regions Vulnerable To Tariffs Following Trump’s Victory.

**Sectors:** All Eleven S&P 500 Sectors Were Positive—Led By Consumer Discretionary and Financials.

**FX:** US Dollar Moved Higher While Gold Retreated.

**Fixed Income:** Declining Treasury Yields Drove Positive Returns Across Sectors.



Data as of 11/30/2024. Source: FactSet

All international equity indices are MSCI indices and are in USD. Diamonds in chart represent the year-to-date total returns and the bars represent monthly returns.

## Global Economy | US Economic Outperformance Continues

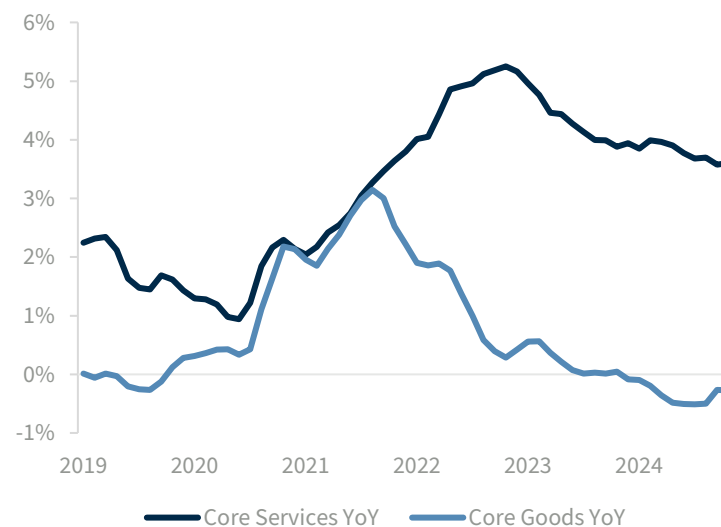
### Global Economy | Recent Trends

- **Headline inflation edged higher in October** lifting the YoY rate to 2.6%, while core CPI was unchanged at 3.3%. Disinflation in the core goods sector stalled, while core service prices (~74% of core CPI) remain stubbornly elevated—largely due to sticky shelter costs. Despite stalling progress, the Federal Reserve remains on track to cut interest rates in December.
- **Labor market conditions remain solid, although hurricane-related distortions have depressed recent employment data.** Declining job vacancies, easing quits rates (suggesting confidence amongst workers is decreasing) and moderating wages suggest demand for labor has slowed. However, with layoffs remaining low, the job market is still healthy overall.
- **Consumer spending has been surprisingly resilient.** Real-time indicators suggest US consumers (who make up ~70% of GDP) continue to spend freely. For example, OpenTable restaurant bookings are up ~10% YoY, hotel occupancy is seasonally elevated, and TSA data projected a record 18.3M air travelers over the Thanksgiving holiday season, up 6% YoY.
- **Euro Zone PMI data is sounding the alarm about growth again.** The region's Composite PMI, which combines the manufacturing and service sectors, fell to its lowest level (48.1) since January. The service sector contracted again after nine consecutive months of growth—prompting calls for more aggressive ECB rate cuts with six cuts priced in through 2025.

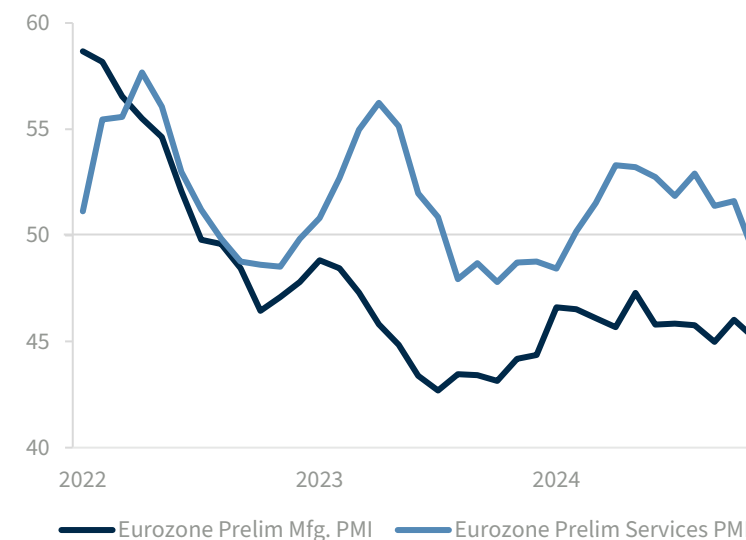
### Global Economy | 12-Month Outlook

- The US economy is growing at a solid pace, on track to expand 2.7% in 2024. **We expect growth to decelerate to a trend-like pace of 2.1% in 2025** as the labor market cools and consumers turn more cautious about spending. However, if the economy sustains its momentum, there are upside risks to our 2025 growth forecast.
- **Our outlook for a soft landing is supported by ongoing disinflation, slowing, but still positive job growth, consumer spending, and fiscal tailwinds.** President-elect Trump's pro-growth agenda combined with ~75% of the \$1.7 trillion CHIPS and IRA stimulus that has yet to be distributed should help sustain economic growth at a solid pace.
- While the path back to the Fed's 2% target may be bumpy, **well-anchored inflation expectations, easing wage pressures, and a cooling labor market suggest the disinflationary trend remains intact.** This should allow the Fed to deliver more rate cuts (we have four penciled in for 2025) but the economy's recent momentum may result in fewer cuts.
- **Softening growth and cooling inflation should give the ECB the green light to cut rates further,** particularly as incoming US trade policy signals further economic pressure ahead. Despite China's recent stimulus to stabilize growth and improve sentiment, **further fiscal support is needed to address the nation's structural challenges.**

### US CPI: Core Services CPI Remains Elevated



### Euro Zone Services Joins Manufacturing In Contraction



## Equities | US Equities Soar Following Trump's Election Victory

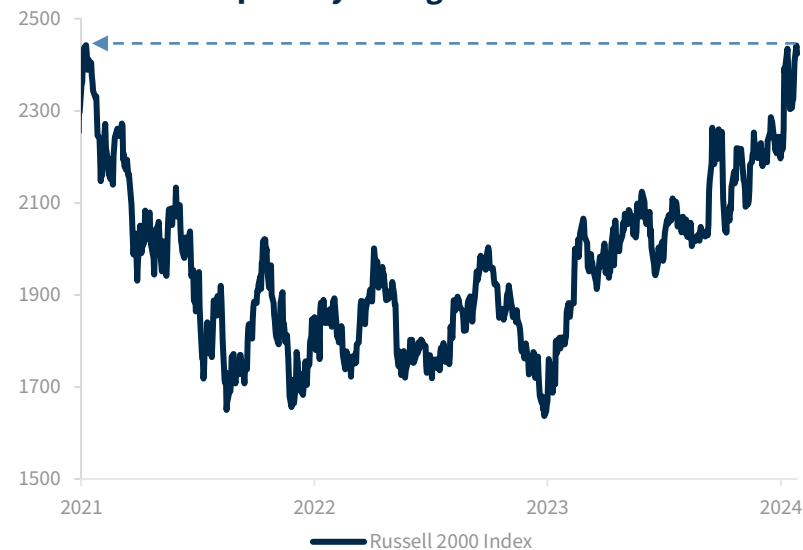
### Global Equities | Recent Trends

- **The S&P 500 soared +5.9% MoM, posting its best month since Nov. '23, and is up 28.1% YTD.** Following Trump's decisive victory, the Index notched six record highs (55 YTD) and soared above the 6,000 mark for the first time on record. The Dow and tech-heavy NASDAQ also hit new all-time highs, climbing 21.2% and 28.9%, YTD, respectively.
- **Small caps were one of the largest beneficiaries of a Trump win** with the Russell 2000 (+11.0% MoM) rocketing close to its highest level in three years. A second Fed rate cut and a heavy weighting to Financials (the largest sector in the R2000) have lifted the Index, with small caps climbing 18.4% over the last six months, outperforming the S&P 500 by nearly 3%.
- **3Q24 earnings season delivered its fifth straight quarter of positive EPS growth (+5.6% YoY).** Over 74% of S&P 500 companies beat EPS estimates, roughly equal the 10-year average. Companies that beat on both top and bottom lines were rewarded, outperforming the Index by ~2% in the three days following the release while those that missed were punished.
- **European equities (MSCI Europe ex-UK -2.6% MoM) underperformed US stocks by their widest monthly gap since 2010** as the looming threat of tariffs exposes Europe to further economic pain. A strong US dollar, PMI releases highlighting a stagnating economy, and a ratcheting up in tensions between Russia/Ukraine also pressured European stocks.

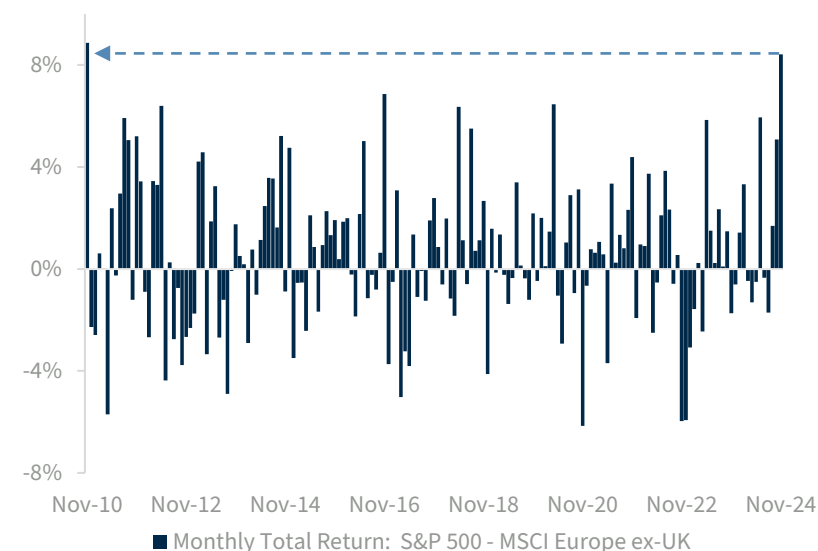
### Global Equities | 12-Month Outlook

- **Solid earnings growth and a favorable macro backdrop remain supportive for US equities.** Positive earnings growth, shareholder-friendly activity, and further Fed rate cuts should help sustain the current bull market. However, after two consecutive years of 20+% gains, future returns will likely be more muted.
- **If stronger economic growth is sustained, it could pose an upside risk to our 5,850 (\$265 EPS & 22x P/E multiple) S&P 500 target.** For the market to move higher, earnings will need to deliver. However, with a lot of good news already priced in, stretched valuations, and uber-bullish investor optimism, the market remains vulnerable to a pullback.
- **Our favorite sectors are Tech, Health Care, and Industrials.** Tech is supported by the highest revenue growth and margins and AI momentum while attractive valuations, an aging population, and the GLP-1 theme support Health Care. Data center construction and ongoing disbursements from prior fiscal stimulus benefits Industrials. **We also favor small caps.**
- We **prefer US stocks over International DM counterparts** due to stronger economic growth, more dynamic US consumers, and higher exposure to our favorite sectors (Tech). While **Chinese stimulus and a global easing cycle have piqued interest in EM equities**, potential tariffs and a strong dollar present headwinds. Selectivity within EM remains essential.

### Small Caps Rally To Highest Level In 3 Years

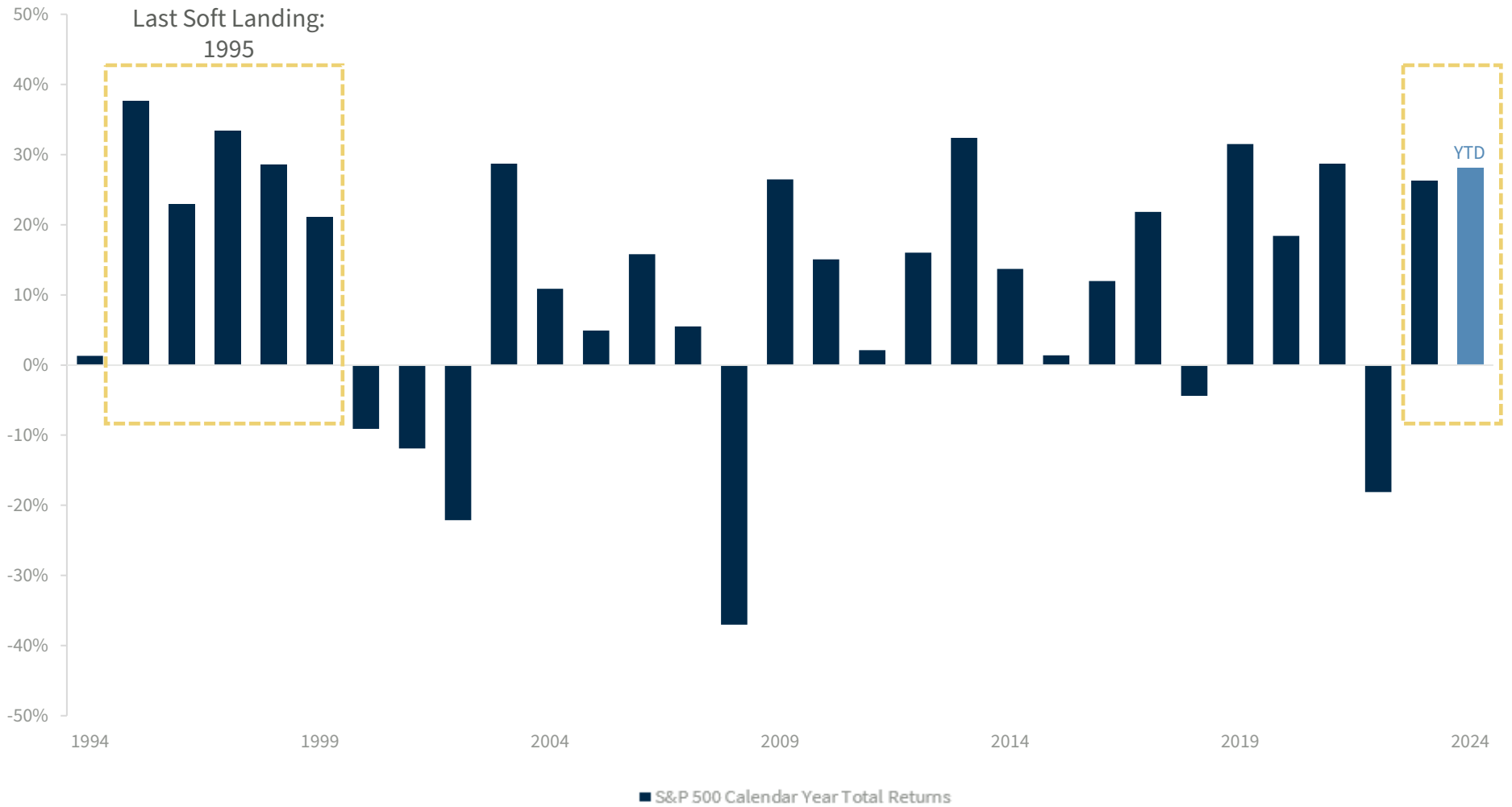


### Europe Underperform US By Widest Gap In 14 Years



## Soft Landing Redux?

Back-To-Back Years of 20+% Gains Last Seen In The Mid-1990s



Source: FactSet, Data as of 11/30/2024.

## Fixed Income | Fed Rate Cuts Expectations Still Moderating

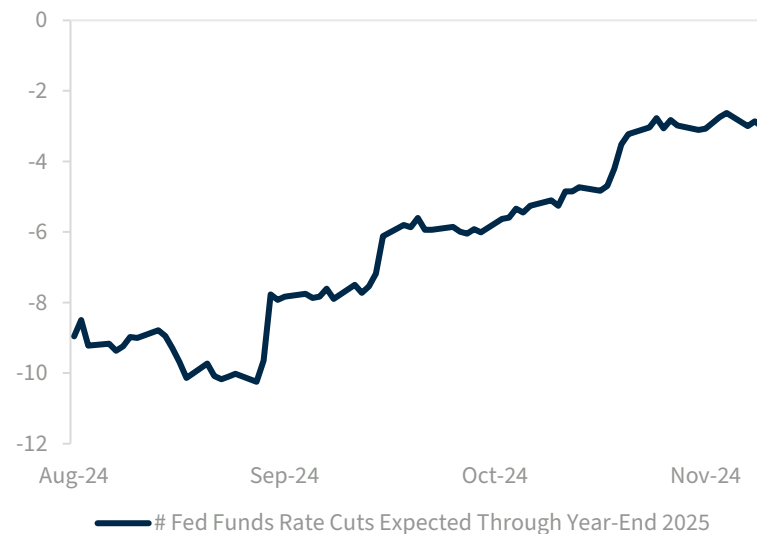
### Global Bonds | Recent Trends

- **The Federal Reserve cut its overnight policy rate by 25 bps to 4.50-4.75%**, the second reduction since the start of the easing cycle in September. The economy's resilience has cast doubt on the Fed's expected rate path, with the market only anticipating three rate cuts between now and the end of 2025—down from five in October.
- **Despite some election-related volatility, Treasury yields modestly declined during the month.** Solid growth and fears that President-elect Trump's policies would stoke inflation drove the 10-year Treasury yield to its highest level since July (~4.5%). However, yields declined back to 4.17% after Trump nominated a market-friendly Treasury Secretary.
- **Corporate credit spreads have compressed to historically tight levels**, with the additional risk premium required by investors on US investment grade (IG) corporate bonds hitting its lowest level in 26 years (74 bps) while lower-quality, high yield credit spreads reached 2007 levels (253 bps). The tight spreads reflect investors' confidence in the economy.
- **Bloomberg's Municipal Bond Index (+1.7% MoM) saw its largest monthly outperformance vs. Treasuries since April (+1.0%).** November provided a favorable technical backdrop for municipals, as election-related uncertainty, muted issuance, and reinvestment demand strengthened ahead of another Fed rate cut and a historically strong seasonal period.

### Global Bonds | 12-Month Outlook

- **We expect the 10-year Treasury yield to coalesce around 4.0% over the next 12 months.** Resilient economic growth has spurred a repricing in yields as the market prepares for a more gradual pace of Fed rate cuts in the coming months. With the market now pricing in a shallow rate cycle, yields could decline further if growth expectations falter.
- **With the federal debt limit returning in January, concerns about rising deficits and debt dynamics could push Treasury volatility higher.** However, bond yields remain attractive, largely due to elevated coupons. The income component can cushion against unforeseen increases in Treasury yields while offering the potential for capital appreciation if rates fall.
- **Further Fed rate cuts should drive the Treasury yield curve to a more normal, positively sloped shape** (i.e., not inverted) in the months ahead. Shorter maturities will be more responsive to Fed rate cuts, while longer maturities will react to growth, inflation, and fiscal dynamics. This could provide attractive roll-down opportunities as the curve normalizes.
- **High-quality corporates and municipals are our preferred sectors.** Despite historically tight spreads, resilient growth, solid corporate profits, low default risk, and attractive yields (>5%) support IG corporates. Higher-rated munis benefit from appealing tax-equivalent yields and steeper curves vs. Treasuries. Lower supply into year end can also benefit both sectors.

### Markets Unwind Fed Rate Cut Expectations



### US IG Corporate Bond Spreads Tighten To 1998 Lows



## Commodities & Currencies | A Stronger US Dollar Pressures Oil And Gold Lower

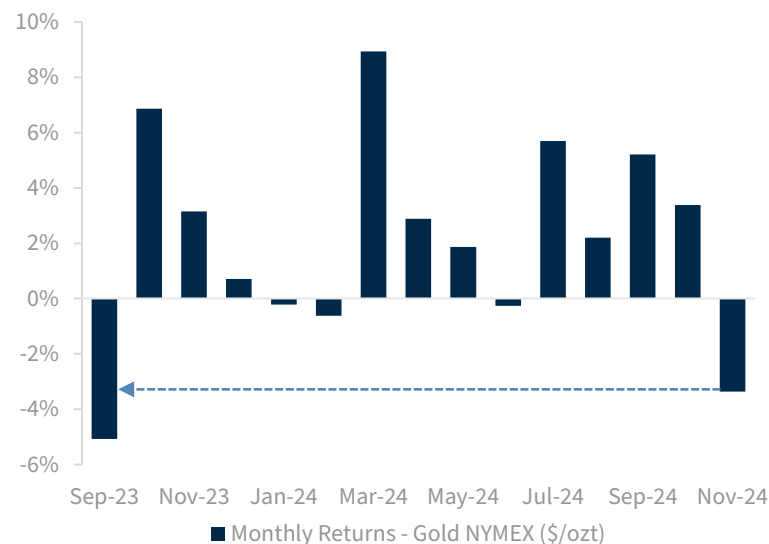
### Commodities & Currencies | Recent Trends

- **The Bloomberg Commodity Index was essentially flat in November** (+0.05% MoM) as a stronger dollar and generally sluggish global demand weighed on prices. However, a sharp rise in natural gas (+24.2% MoM) driven by escalating Ukraine-Russia tensions amid peak demand season and an unexpected cold snap in the US benefited the energy sub-index.
- **Crude oil prices** (WTI -1.8% MoM) **traded at the lower end of their YTD range** (~\$65-\$88/barrel) as concerns over Chinese stimulus efforts and the outlook for oversupply weighed on prices. Reports that OPEC+ may push back the end of its voluntary supply cuts into 1Q25 (the third extension this year) did little to change the recent trend.
- **Declines in gold** (-3.4% MoM) **and silver** (-6.4% MoM) **dragged Bloomberg's Precious Metals sub-index to its worst monthly return** (-4.1%) **since Sept. 2023**. Gold posted its worst monthly decline since September 2023 as election uncertainty lifted, Fed rate cut expectations dwindled and the US dollar strengthened.
- **The US dollar followed its 2016 playbook, rising after the election** (+1.7% MoM) as markets priced in President-elect Trump's pro-growth policies—pushing the Dollar Index (DXY) to its highest level in two years. The euro sharply weakened against the USD (1.04) as potential tariffs and projections for deeper ECB rate cuts versus the US weighed on sentiment.

### Commodities & Currencies | 12-Month Outlook

- **Commodity prices should stay relatively stable as global central bank easing helps offset slowing economic growth.** However, pockets of volatility and divergent performance within sub-indices could be generated by rising geopolitical tensions in commodity-producing regions, protectionist political agendas, and unpredictable weather events.
- Global stimulus can increase oil demand—particularly in China, the world's largest oil importer. But record US production, plans from Saudi Arabia to increase its production, and the reversal of voluntary supply cuts by OPEC+ countries should keep oil prices in a well-defined range. **Our target for the price of oil (WTI) is \$75/barrel over the next 12 months.**
- **Near term, the dollar is supported by lowered expectations for Fed cuts, stronger relative economic growth, and Trump's America First policies.** For now, the balance of risks remains tilted in the dollar's favor, particularly against the euro. However, longer term, the USD's upside is limited given its high valuation.
- **Europe's sluggish economic growth and political volatility pose a downside risk to our expected 1.05-1.15 range for the euro.** Divergent monetary policy between the US and Japan should incrementally narrow interest rate differentials which should allow the yen to modestly strengthen vs. the dollar.

### Gold Suffers Worst Monthly Decline Since Sep '23



### The US Dollar Surges To A Two-Year High



## Summary | Key 12-Month Forecasts and Views

### 1 ECONOMY

US GDP: +2.1%

Growth has been surprisingly strong in 2024, with the economy on track to expand 2.7% this year. Slowing, but still positive job growth, resilient consumer spending and strong business investment (AI tailwinds and fiscal stimulus, such as CHIPS, IRA and Infrastructure Act) have been key factors supporting growth. Fed rate cuts should also serve to prolong the expansion. While we expect growth to decelerate to a near-trend pace of 2.1% in 2025, if the economy's recent momentum is sustained it could pose an upside risk to our growth forecast.

### 2 BOND MARKET

10-Year Treasury: 4.0%

Fed rate cuts have historically driven bond yields lower, but this cycle has seen some unusual twists. Progress on the inflation front has allowed the Fed to kick off its easing cycle, which should continue into 2025 as the Fed seeks to return policy rates to a more neutral setting. This should lead to a more positively sloped curve in 2025 and drive the 10-year toward 4.0%. However, resilient growth and policy uncertainty could cause the Fed to slow down its easing cycle, posing an upside risk to our 10-year yield target. Our preferred sectors are Inv. Grade corporates and municipals.

### 3 EQUITIES

S&P 500: 5,850

The macro backdrop (strong growth, Fed rate cuts) and solid fundamentals (positive earnings growth, shareholder-friendly activity) remain supportive for equities. Our S&P 500 target is 5,850 (\$265 EPS, 22x P/E)—however, sustained economic (and earnings) growth could push it higher. Stretched valuations, uber-bullish investor sentiment, & two consecutive years of 20+% returns suggest future gains are likely to be more muted. We favor the Tech, Health Care, and Industrials sectors, are bullish on small caps and favor US stocks over International DM and India within EM.

### 4 DOLLAR DIRECTION

EUR/USD: 1.10

Sovereign interest rate differentials will remain the key driver of the US dollar in the upcoming year. While the US dollar's strength is likely limited given its high valuation, diverging growth outlooks between the US and the rest of the world may keep the dollar supported until a global recovery takes shape. Europe's sluggish growth and political volatility pose a downside risk to our 1.05-1.15 range for the euro. The Japanese yen could strengthen as the BOJ tightens monetary policy, while the Fed eases further—narrowing its rate differentials with the US.

### 5 OIL

Oil: \$75/barrel

Geopolitical tensions in the Middle East may temporarily boost oil prices, but any spikes should quickly subside provided a full-scale conflict and supply disruptions are avoided. Over the next year, supply/demand imbalances should be the bigger driver of prices. Record US production, Saudi Arabia's efforts to regain market share, OPEC+ phasing out production cuts, and weak Chinese demand are likely to keep oil prices in check. We anticipate WTI crude oil prices to trade around our 12-month forecast of \$75 per barrel given these offsetting dynamics.

### 6 VOLATILITY

Higher

Equity and bond volatility quickly retreated following the passing of the US election. However, against a backdrop of optimistic earnings forecasts, stretched valuations, ongoing geopolitical tensions and uncertainty surrounding President-elect Trump's upcoming policy initiatives could quickly reignite interim spikes in the VIX. In fixed income, with the debt ceiling expiration looming in early 2025 and concerns over rising debt and deficits, increased Treasury supply, and fluctuating Fed rate cut expectations could push bond volatility higher.



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Diversification does not ensure a profit or guarantee against a loss. Investing in small cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor.

A credit rating of a security is not a recommendation to buy, sell or hold the security and may be subject to review, revision, suspension, reduction or withdrawal at any time by the assigning Rating Agency. Ratings and insurance do not remove market risk since they do not guarantee the market value of the bond.

**INTERNATIONAL INVESTING** | 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 including India.

**SECTORS** | Sector investments including tech are companies engaged in business related to a specific economic sector and are presented herein for illustrative purposes only and should not be considered as the sole basis for an investment decision. Sectors 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.

**OIL** | Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

**CURRENCIES** | Investing in currencies is generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

**GOLD** | Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated.

**FIXED INCOME** | Fixed-income securities (or “bonds”) are exposed to various risks including but not limited to credit (risk of default of principal and interest payments), market and liquidity, interest rate, reinvestment, legislative (changes to the tax code), and call risks. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise. Municipal securities typically provide a lower yield than comparably rated taxable investments in consideration of their tax-advantaged status. Investments in municipal securities may not be appropriate for all investors, particularly those who do not stand to benefit from the tax status of the investment. Municipal bond interest is not subject to federal income tax but may be subject to AMT, state or local taxes.

**US TREASURYS** | US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value.

**US DOLLAR** | The US Dollar Index is an index (or measure) of the value of the United States dollar relative to a basket of foreign currencies,[1] often referred to as a basket of U.S. trade partners' currencies.[2] The Index goes up when the US dollar gains "strength" (value) when compared to other currencies.

### DEFINITIONS

**AGGREGATE BOND** | Bloomberg US Agg Bond Total Return Index: The index is a measure of the investment grade, fixed-rate, taxable bond market of roughly 6,000 SEC-registered securities with intermediate maturities averaging approximately 10 years. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

**HIGH YIELD** | Bloomberg US Corporate High Yield Total Return Index: The index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

**CREDIT** | Bloomberg US Credit Total Return Index: The index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

**VIX** | The CBOE Volatility Index® (VIX® Index®) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

**MUNICIPAL** | Bloomberg Municipal Total Return Index: The index is a measure of the long-term tax-exempt bond market with securities of investment grade (rated at least Baa by Moody's Investors Service and BBB by Standard and Poor's). This index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

## Disclosures cont.

**BG COMMODITY INDEX** | Bloomberg Commodity Index is calculated on an excess return basis and reflects commodity futures price movements.

**BLOOMBERG INDUSTRIAL METALS INDEX** | Bloomberg Industrial Metals Index reflects the returns that are potentially available through an unleveraged investment in the futures contracts on industrial metal commodities.

**BLOOMBERG ENERGY INDEX** | Bloomberg Energy Index is composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas. It reflects the return of underlying commodity futures price movements only and is quoted in USD

**MSCI EM ASIA INDEX** | The MSCI Emerging Markets (EM) Asia Index captures large and mid cap representation across 8 Emerging Markets countries\*. With 1,160 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

**NASDAQ** | The Nasdaq Composite Index is a market capitalization-weighted index of more than 3,700 stocks listed on the Nasdaq stock exchange. As a broad index heavily weighted toward the important technology sector, the Nasdaq Composite Index has become a staple of financial markets reports.

**S&P 500** | The S&P 500 Total Return Index: The index is widely regarded as the best single gauge of large-cap U.S. equities.

**EMERGING MARKETS EASTERN EUROPE** | MSCI EM Eastern Europe Net Return Index: The index captures large- and mid-cap representation across four Emerging Markets (EM) countries in Eastern Europe. With 50 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

**ASIA EX JAPAN INDEX** | The MSCI AC Asia ex Japan Index captures large and mid cap representation across 2 of 3 Developed Markets (DM) countries\* (excluding Japan) and 9 Emerging Markets (EM) countries in Asia. With 983 constituents, the index covers approximately 85% of the free float adjusted market capitalization in each country.

**AC WORLD INDEX** | The MSCI AC World Index is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI is maintained by Morgan Stanley Capital International (MSCI) and is comprised of stocks from 23 developed countries and 24 emerging markets.

**EMERGING MARKETS LATIN AMERICA** | MSCI EM Latin America Net Return Index: The index captures large- and mid-cap representation across five Emerging Markets (EM) countries in Latin America. With 116 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

**EMERGING MARKETS** | MSCI Emerging Markets Net Return Index: This index consists of 23 countries representing 10% of world market capitalization. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 23 countries.

**JAPAN** | MSCI Japan Net Return Index: The index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 319 constituents, the index covers approximately 85% of the free float- adjusted market capitalization in Japan.

**EUROPE** | The MSCI Europe Index captures large and mid cap representation across 15 Developed Markets (DM) countries in Europe\*. With 428 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

**MSCI EAFE** | The MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations.

**MSCI EM** | The MSCI Emerging Markets Index captures large and mid cap representation across 25 Emerging Markets (EM) countries\*. With 1,420 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

**CITIGROUP ECONOMIC SURPRISE INDEX** | Citigroup Economic Surprise Index represents the sum of the difference between official economic results and forecasts. With a sum over 0, its economic performance generally beats market expectations. With a sum below 0, its economic conditions are generally worse than expected.

## Disclosures cont.

**PCE INDEX** | Personal Consumption Expenditures (PCE) Index: The PCE price index looks at U.S. inflation by measuring changes in the cost of living for households. It tracks the prices of a basket of goods and services, each with different weightings, to reflect how much a typical household spends every month.

**ISM MANUFACTURING INDEX** | The ISM Manufacturing Index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at more than 300 manufacturing firms.

**CPI** | The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

**EMPLOYMENT COST INDEX** | The Employment Cost Index (ECI) measures the change in the hourly labor cost to employers over time.

**MOVE INDEX** | The MOVE index, or Merrill Lynch Option Volatility Estimate Index, is a gauge of interest rate volatility in the Treasury market.

**THE DOW JONES INDUSTRIAL AVERAGE** | The Dow Jones Industrial Average, Dow Jones, or simply the Dow, is a stock market index of 30 prominent companies listed on stock exchanges in the United States.

**THE RUSSELL 2000** | The Russell 2000 Index is a small-cap U.S. stock market index that makes up the smallest 2,000 stocks in the Russell Index.

**THE MSCI EUROPE EX UK** | The MSCI Europe ex UK Index captures large and mid cap representation across 14 Developed Markets (DM) countries in Europe excluding UK.

**THE BLOOMBERG PRECIOUS METALS SUBINDEX** | The Bloomberg Precious Metals Subindex is a commodity group subindex of the Bloomberg Commodity Index (BCOM) that reflects the returns of gold and silver futures contracts.

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