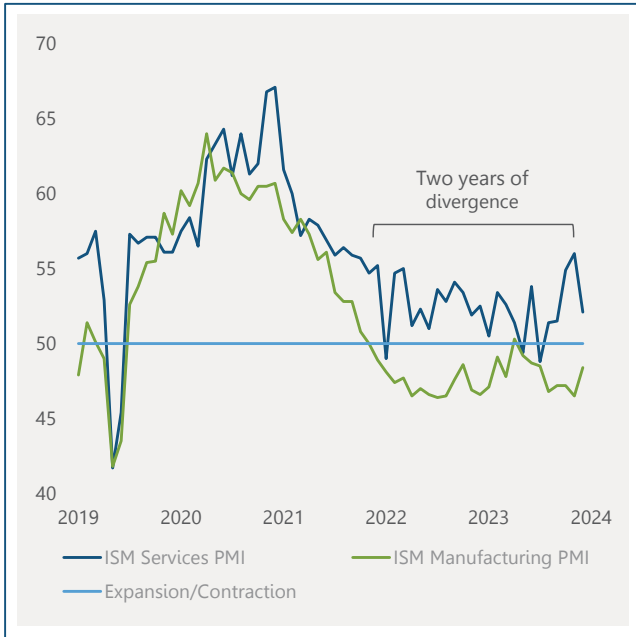


December 2024

Market Review



The Experience-Driven Economy
ISM Services vs. Manufacturing PMIs



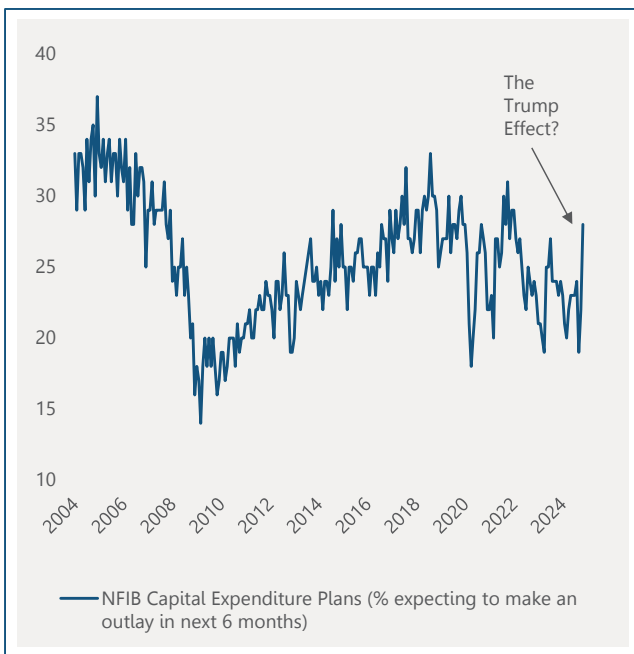
Source: Bloomberg. Past Performance does not guarantee future results.

The Institute for Supply Management’s (ISM) gauge of domestic services activity surprised to the downside in November, expanding at the slowest pace in three months amid elevated policy uncertainty related to the election. Meanwhile, factory activity in the U.S. contracted for an eighth straight month but beat consensus expectations on the back of an improvement in new orders.

Industries that produce goods have struggled to stabilize after explosive growth in 2020 and 2021 related to pandemic-driven purchases of big-ticket items gave way to a sharp pullback in this type of spending beginning in 2022. As the pandemic waned, U.S. consumers directed more of their dollars to restaurants, travel, and general leisure activities. This shift in spending supported spending on services relative to goods.

Mortgage rates that are still very elevated compared to the last 15 years and uncertainty surrounding trade policy with the incoming Trump administration could continue to weigh on U.S. manufacturing sector activity. These potential headwinds could be offset, however, by a Trump-Vance White House that directs federal policy support toward U.S. manufacturers via 1) lower tax rates for domestic goods producers; 2) increased oil and gas production; 3) less burdensome regulations.

Small Business Sentiment Percolating
NFIB Capital Expenditure Plans



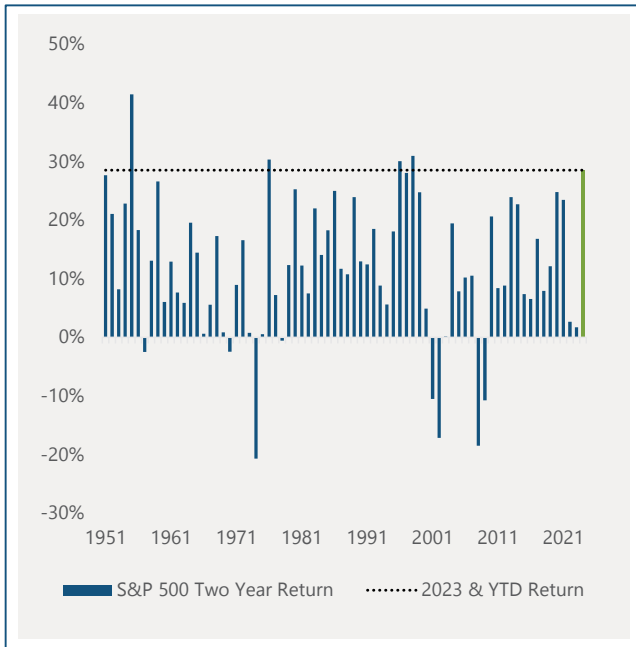
Source: Bloomberg. Past Performance does not guarantee future results.

U.S. small business sentiment in the U.S. as measured by the National Federation of Independent Business (NFIB) surged in November to a three-year high in large part due to expectations for tax and regulatory policies that could benefit independent small businesses.

The NFIB surveys a sample of independent businesses throughout the country on a monthly basis to gauge sentiment and confidence across the domestic business community. The survey has been produced on a monthly basis since 1986. The November NFIB survey included responses from 532 member businesses.

As seen in the accompanying chart, a nine-point increase in the survey’s capital expenditures expectations sub-index from September (19) to November (28) was the largest two-month jump in the data over the last 20 years. The reading indicates 28% of the NFIB survey’s respondents expect to make a capital outlay in the next six months, the highest level since January 2022 and above the 20-year average of 25.4%. Increased capital spending has historically been an important driver of economic growth given the multiplier effect it has on activity within global supply chains.

S&P 500 On Track For Two Consecutive 20% Years
S&P 500 Two-Year Annualized Return At Each Year End*



Source: Morningstar. *2023 through YTD 11/30/24 return is the most recent time period. Past Performance does not guarantee future results.

November was the S&P 500's strongest month of the year with a 5.87% return, its ninth gain in the last 11 months. The Republican sweep in the U.S. election was the primary driver of stocks' solid performance as the GOP controlled Congress will presumably enable president-elect Trump to enact his policies including reducing the corporate tax rate, easing regulation, and trade.

The Russell 2000 and S&P 500 Financials indexes gained over 10% as U.S. small cap and financials stocks were anticipated to be among the largest beneficiaries of Trump's policies. The S&P 500 Pharmaceutical and S&P 500 Biotechnology indexes declined 2.28% and 7.49% in the month due to policy uncertainty from Trump nominating Robert F. Kennedy Jr. to be the Secretary of the Department of Health and Human Services (HHS).

The S&P 500 is on pace to return over 20% for a second consecutive year. This would be the index's first time with two consecutive 20% return years since the late 1990s technology bubble. Prior to the 1990s, the four other occurrences since 1950 with 20% or greater returns in consecutive years all happened while the U.S. economy recovered from recessions.

Economic Reforms Boost Argentina Stock Market
Cumulative Performance Since November 2023



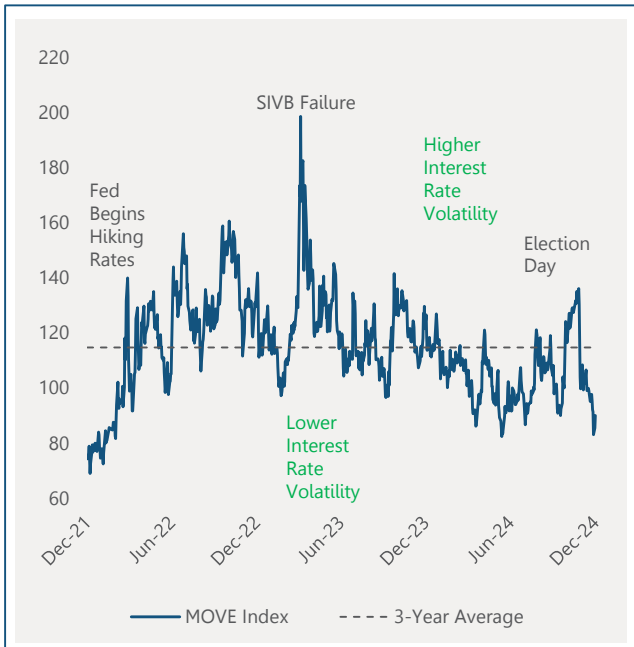
Source: Morningstar. Past Performance does not guarantee future results.

Argentina's stock market has surged over the last year in response to President Javier Milei's economic reforms. The MSCI Argentina index is up 207% since Milei won the election in November 2023. His administration undertook significant measures, referred to as "shock therapy," this year to address the country's fiscal challenges, stagnant economy, and hyperinflation above 100%.

Milei's policies to reduce government spending included cutting the number of government ministries from 18 to 9, slashing expensive energy and transportation subsidies, scaling back or halting public infrastructure projects, and holding government employee salaries and pensions at steady levels rather than giving inflation-adjusted raises. These policies led to Argentina achieving its first budget surplus in over a decade.

Milei aimed to stimulate economic activity and stabilize prices through reducing regulations to create a more business-friendly environment and improving labor market flexibility. He has also sought to end rent controls and food price controls, and provide tax incentives to attract foreign investment. These policies appear to be helping as market and economic indicators have improved over the past few months. Monthly inflation slowed to 2.7% in October, the lowest level in three years, from 20% at the start of the year.

Collapse of Interest Rate Volatility
The MOVE Index



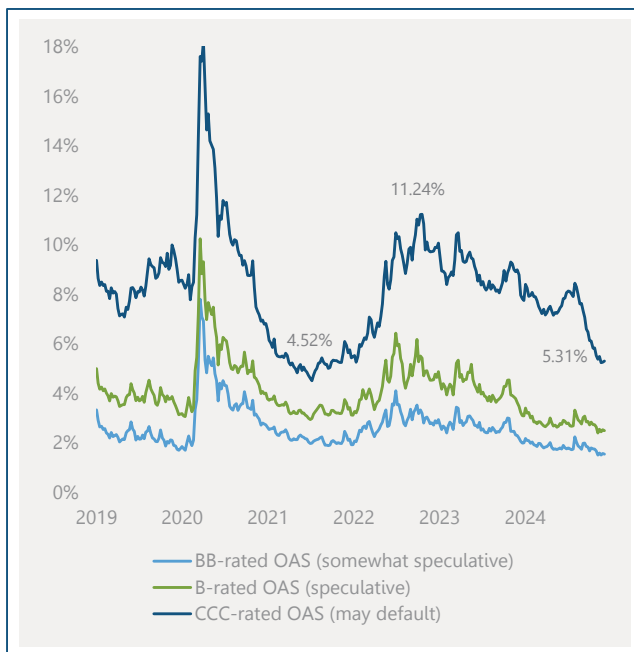
Source: Bloomberg. Past Performance does not guarantee future results.

The MOVE Index, a measure of expected volatility in interest rate markets based on the pricing of 30-day options on U.S. Treasury securities, has declined sharply in the seven weeks since it reached a one-year high the day before Election Day.

This reversed a sharp rise in interest rate volatility in 5-6 weeks leading up to the election driven by uncertainty about 1) the outcome of the election and 2) the spending and tax priorities of a prospective unified Republican government.

The expected nomination by president-elect Trump of hedge fund manager and fiscal conservative Scott Bessent as Treasury Secretary likely helped subdue rate volatility throughout November. Bessent, who was formally nominated by Trump on November 22, is viewed as a more traditional candidate for the post than others under consideration by the Trump team. The MOVE Index, sometimes referred to as “the bond market’s VIX,” had been on a downward trajectory since peaking in the spring of 2023 during the regional banking crisis. The end of Fed rate hikes in July 2023 and a decline in the frequency and magnitude of inflation data surprises over the last 18 months helped contain rate volatility until October.

Credit Market Optimism
U.S. High Yield Option-Adjusted Credit Spreads



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

Strong demand and constructive corporate fundamentals reflected in stable leverage ratios and ample cash positions have kept credit spreads very narrow for most of 2024. This indicates investors have required less additional yield over similar-maturity Treasury securities to take on the credit risk inherent in corporate bonds that is not present in U.S. government issues.

Historically, investors have paid close attention to credit markets as the proverbial “canary in the coal mine.” This is because stress in more speculative areas of the corporate bond market tends to signal an economic contraction before weakness shows up in most economic data or the equity market.

As seen in the accompanying chart, there was a bit of spread-widening in the lowest-quality sector of the U.S. high yield bond market during the summer as CCC-rated Option-Adjusted Spreads (OAS) moved from a two-year tight of roughly 7.15% in early May to 8.31% by the first week of August. Over the ensuing four months, however, this spread-widening was completely reversed amid a supportive mix of solid economic data, Fed policy easing, and subdued issuance.

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