# Quarterly Market Review
## Fourth Quarter 2024

## Executive Summary

As we look back on 2024, a year marked by significant global events and market fluctuations, we see resilience and adaptability at the forefront. From historic elections and geopolitical tensions to groundbreaking advancements in technology and space exploration, this year has underscored the dynamic and ever-evolving nature of our world and our economy.

The U.S. economy expanded at an annualized rate of 3.1% in the third quarter of 2024, surpassing initial estimates and marking the best quarter of the year so far. Real GDP has grown at approximately 3% for three of the last four quarters, indicating a robust economic performance and making 2024 a strong year overall. An imminent recession remains unlikely.

Inflation, as measured by the Consumer Price Index (CPI), decreased modestly from 3.1% in January 2024 to 2.7% in November. Core CPI, which includes key categories such as shelter, also showed improvement, decreasing from 3.9% to 3.3% over the same period.

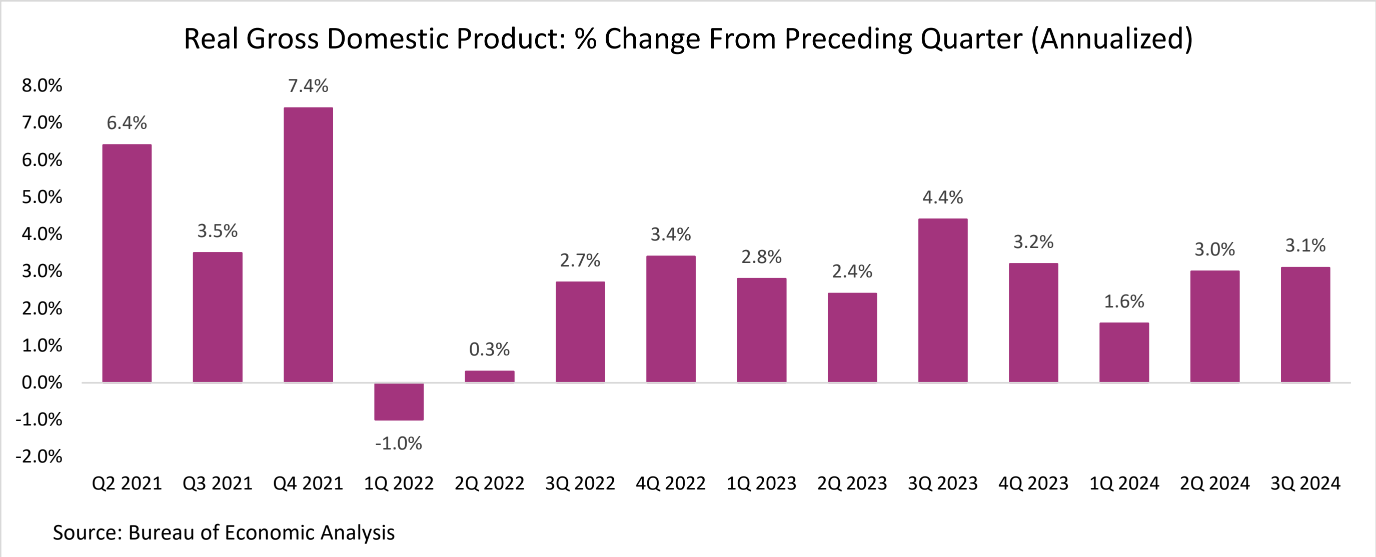
Despite cooling, the labor market remains positive, adding nearly two million net new jobs in 2024. The unemployment rate trended higher, reaching 4.2% in November, as more eligible workers entered the job market.

In December, the Federal Reserve cut interest rates by 0.25%, marking the third consecutive cut and lowering the federal funds rate by a total of 1% in 2024. Earlier in the year, Chairman Powell had signaled a change in focus from inflation to the softening labor market. However, his most recent comments shifted the focus again, stating that additional cuts would be contingent on further progress on inflation. Investors are now anticipating a slower pace of rate reductions in 2025.

The post-election rally ignited optimism for a potential pickup in investments, corporate mergers, and possible reforms in government spending. Large-cap equity markets posted an exceptional year, with the S&P 500 rising over 25%. Bond yields trended lower after the first rate cut but rose later in the year as concerns over inflation returned since the election. The Bloomberg US Aggregate index returned 1.25% for the year.

## U.S. Economy Posts Stronger Growth in Q3

Third-quarter annualized GDP growth rebounded to 3.1%, marginally surpassing Q2 and significantly exceeding the first quarter's 1.6%. Compared to the second quarter, the acceleration in real GDP primarily reflected acceleration in consumer spending, exports, and federal government spending. These movements



were partly offset by a downturn in private inventory investment and a larger decrease in residential fixed investment. Personal spending increased at the fastest pace since Q1 2023, boosted by a 5.6% surge in consumption of goods and robust spending on services. Fixed investment has continued to slow, but equipment spending was robust, rising by a seasonally adjusted annual rate of 10.8%. Imports accelerated by 10.7%, likely as businesses rushed to build up inventory ahead of a threatened port workers strike in late September.

The U.S. economy continues to be bolstered by job growth, consumer spending (supported by a resilient labor market), and strong capital expenditure. Consumption remains the biggest driver of the economy, accounting for roughly 80% of growth in the first three quarters of 2024. Business spending on capital and labor is still supporting consumer spending on goods and services.

The Atlanta Fed's GDPNow, a running estimate of real GDP growth based on available economic data, is tracking the economy through the fourth quarter at a growth rate of 3.1%.

## Federal Reserve Likely to Slow Rate-Cutting Pace

The Federal Reserve lowered the federal funds rate by an additional 0.25% in December, as anticipated, bringing the total decrease in 2024 to 1%. The target rate as of year-end is 4.25% - 4.50%. This was the third reduction in the rate-cut cycle, which began in September after the central bank hiked aggressively during 2022 and 2023. Based on the forecasts released along with the decision, it appears the pace of rate cuts will slow in the months ahead. Inflation has declined from an annualized rate of 9% to below 3% but has stalled in its downward trend toward the 2% goal. The Fed's forward-looking projections reflect only modest revisions in median inflation forecasts; the number of FOMC members who say the risks of core PCE inflation are weighted to the upside rose to the highest level since 2023. The Federal Reserve is also paying close attention to the potential for tariffs, as Chair Powell mentioned the potential inflationary effects of tariffs as a reason some FOMC members might have raised their inflation forecasts for the coming year and increased the perceived upside risks to prices.

Meanwhile, the labor market has slowed but the unemployment rate is still low by historical standards. The economy is still strong, with GDP growth averaging just over 3% for consecutive quarters. Market consensus anticipates the Federal Reserve will reduce rates by 0.50% throughout 2025, lowering the target rate to 4%. The Fed's dot plot projections also suggest just two cuts next year. Certainly, skipping a cut in January would slow the current cadence of policy rate cuts and buy additional time to see what fiscal policies might be forthcoming.

Canada has made progress bringing down inflation, allowing the Bank of Canada to reduce its target for overnight interest rates by another 50 basis points to 3.25% at its December meeting. Lower rates should help on a number of fronts and already appear to be boosting both housing activity and consumer spending. The Canadian economy could use the help after growing by a less-than-expected 1% in Q3. The incoming Trump administration is considering tariffs on Canadian exports to the U.S., complicating Canada's central bank forecasting.

The European Central Bank (ECB) has executed four rate cuts since June 2024, totaling a 1% reduction to a target of 3%. Similar to the U.S., the ECB has signaled that the recent uptick in inflation might slow the rate reduction trend. Eurozone annual inflation accelerated in November to 2.2% from 2% a month earlier and above the EBC's 2% target. The ECB uses a similar weighted-basket approach to measure inflation, with specific items and weights differing due to regional consumption patterns.

The Bank of England cut interest rates twice in 2024 but held steady at a target of 4.75% at year-end as the economy experienced an uptick in inflation.

## Rising Tensions And Soaring Debt: Navigating The Fiscal Challenges Ahead

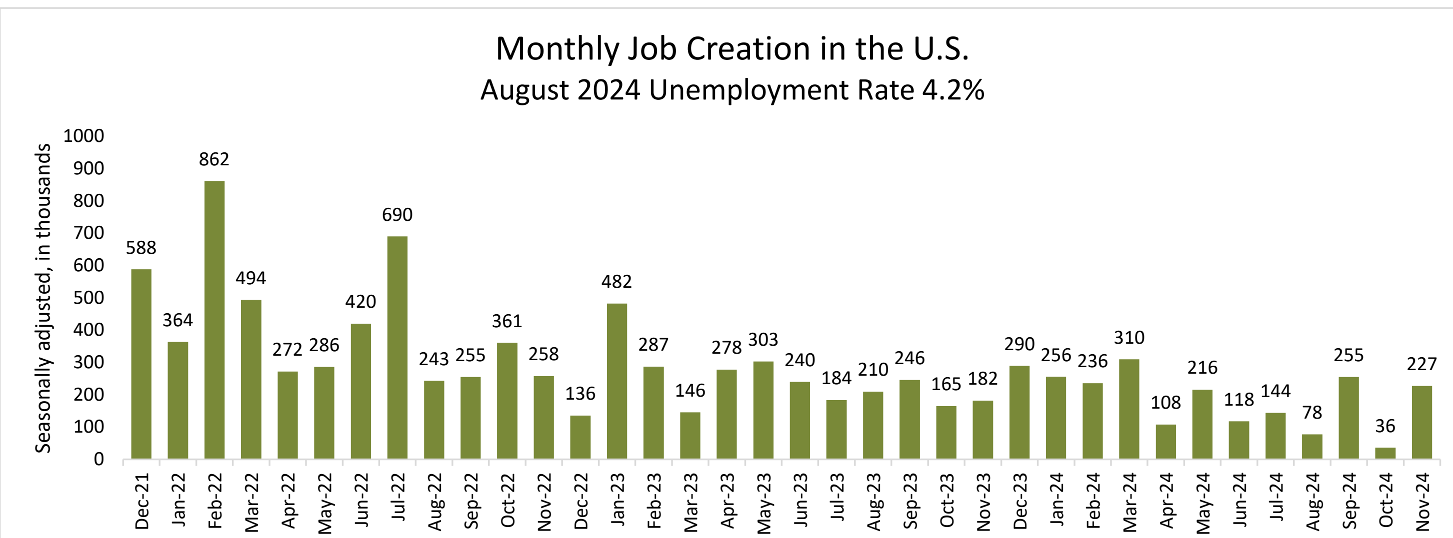
Geopolitical tensions and risks continue to escalate, with potential flare-ups as countries seek to exploit the U.S. transition of power. While investors anticipate less conflict under President-elect Trump, bipartisan support exists for increased U.S. defense spending to address rising risks and replenish stockpiles depleted by ongoing conflicts in Ukraine and the Middle East.

Currently, U.S. debt interest payments of $882 billion exceed defense spending. Net of interest earned on government investments, this amount represents the third-largest budget outlay, exceeded only by Social Security and health care. Debt-servicing costs are rising for the first time in 35 years due to higher inflation and interest rates, now consuming over 18% of tax revenues. Elevated federal spending has led to a $1.83 trillion deficit.

Total accumulated deficits, measured by federal debt held by the public, are estimated at 99% of GDP, surpassing GDP for the first time since 1946 when WWII spending drove debt higher. The Congressional Budget Office projects the debt-to-GDP ratio will reach 122% in ten years. Chairman Powell noted in the November FOMC press conference that fiscal policy is on an unsustainable path. While most agree, finding a solution in the coming years will be challenging.

## November Jobs Report: Strong Hiring Rebound Despite Earlier Disruptions

Labor market conditions remain solid. After strikes and hurricanes disrupted activity in October, the November jobs report showed a strong rebound in hiring. Nonfarm payrolls rose by 227,000, surpassing expectations, with upward revisions adding 56,000 to the previous two months. The private sector accounted for 85% of November's growth, led by health care and leisure and hospitality.




While payroll job gains have slowed from earlier in the year, they averaged 173,000 per month over the past three months. Nearly two million jobs were added in 2024 through November, and wages increased by 4% year over year.

The U.S. job market has undergone a dramatic transformation in recent years. The "great resignation" of 2021 and 2022 has evolved into what some labor economists call the "great stay," characterized by reduced levels of hiring, quits, and layoffs. As the economy reopened following the pandemic, employers were desperate to hire. Job openings rose to historic levels, unemployment fell to its lowest point since the late 1960s, and wages grew at their fastest pace in decades as businesses competed for talent. More than fifty million workers quit their jobs in 2022, breaking a record set just the year prior, attracted by better and ample job opportunities elsewhere.

The unemployment rate of 4.2% in November, while higher than a year ago, remains historically low. The number of unemployed individuals — those seeking employment in the four weeks prior to the survey — increased by 877,000 from December 2023 to November 2024. Job openings have decreased over the past year, from 8.9 million in December to 7.74 million in October.

## November Inflation Report Sends Mixed Signals

Consumer prices rose at a faster annual pace in November, a reminder that inflation remains an issue both for households and policymakers. The consumer price index showed a 12-month inflation rate of 2.7% after increasing 0.3% in November. Core inflation, which better reflects underlying trends, maintained a rate of 3.3% for the third consecutive month. On the surface, this suggests stalling, but underlying data is more encouraging. Much of the increase came from core services, which rose 0.3% and have been one of the most stubborn components of inflation. Within core services, rents – which are responsible for more than half of core services inflation – have slowed to their weakest pace in more than three years, and new leases point to further moderation ahead. A measure within the shelter component that asks homeowners what they could get in rent for their properties increased 0.2%, as did the actual rent index. They are the smallest monthly respective increases since April and July 2021. This suggests that inflation progress has not truly stalled, with more cooling potentially in the pipeline. However, President-elect Trump's proposed tariffs could reignite core goods inflation, derailing future progress.

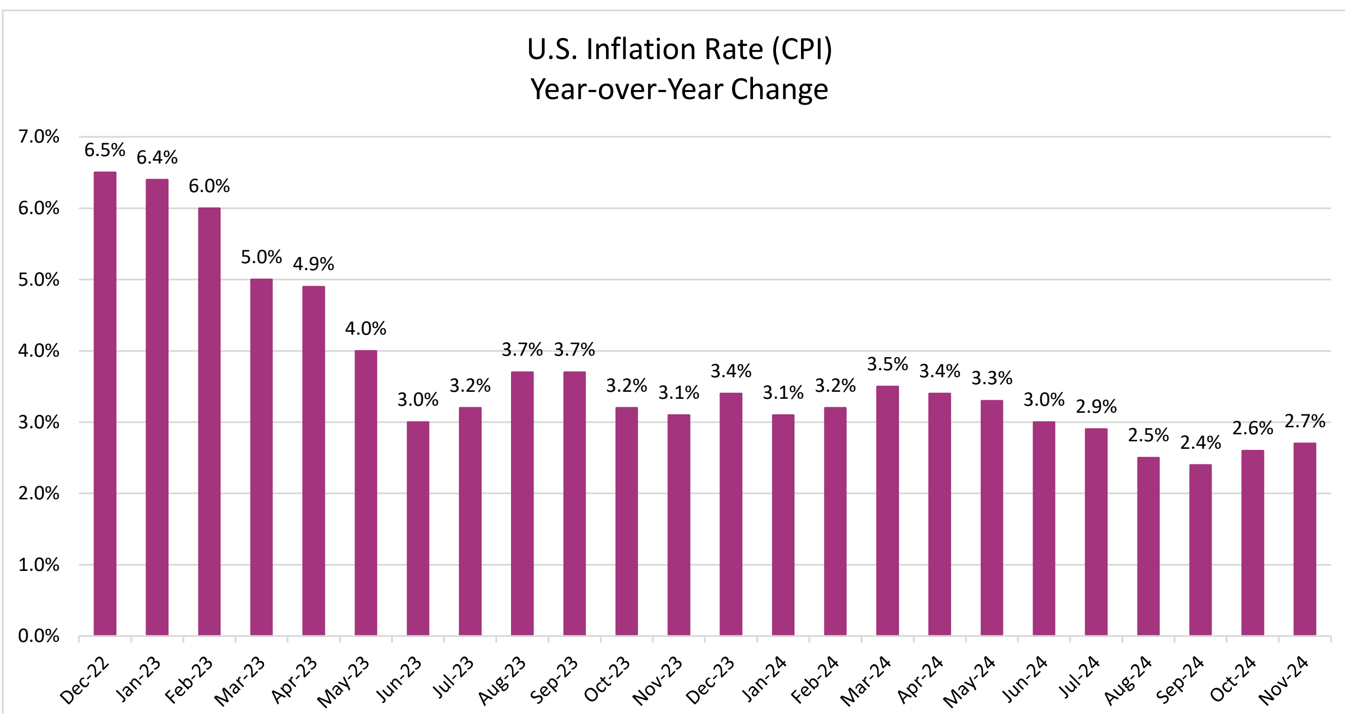
The most recent release of the Federal Reserve's preferred gauge for inflation, the Personal Consumption Expenditures (PCE) price index, also indicates that price pressures have eased. In November, prices rose just 0.1% from the previous month, and core prices, which exclude food and energy, also increased by 0.1%. Year over year, inflation edged up slightly to 2.4%, while core inflation remained steady at 2.8%. This cooling of inflation comes after two months of sharper gains and suggests that price pressures are moderating, although they remain above the Fed's 2% target.

Producer prices in the U.S. increased 3% year on year in November 2024, the biggest rise since February 2023.

prices. Supply chain strikes were a major headline in 2024, and labor battles could cause more trade shocks in 2025.

Amazon warehouse workers, led by the Teamsters, are striking during the holidays, just weeks before a possible strike by dock workers at 36 ports along the U.S. East and Gulf Coasts. The biggest potential disruption could occur by mid-January, with a January 15 deadline for U.S. ports and the International Longshoremen's Association to reach a deal on automation. Talks have recently broken down, and President-elect Donald Trump has voiced support for the union's stance against automation, raising speculation about the impact on contract talks.

Geopolitical conflicts, especially in key supply corridors, remain a risk. The Middle East war has led to the ongoing Red Sea shipping crisis. Additionally, weather-related disasters like hurricanes, tornadoes, earthquakes, and fires continue to cause damage and disruptions. Supply chains have been dramatically restructured since the first trade war, with the percentage of total U.S. imports from China dropping from 21% in 2017 to 14% today, while imports from Mexico and Southeast Asia have surged.




## Threats To The Supply Chain

Improvement in the supply chain has been a key driver of slowing inflation. As we enter 2025, a critical issue is whether supply disruptions will negatively impact

## Consumer Spending and Debt Trends

Despite high retail prices, resourceful consumers managed to stretch their budgets and increase spending in 2024. Inflation-adjusted consumer spending grew 3.0% in Q3, up from 2.7% in Q2, driven by strong gains in real after-tax income. High-income households, benefiting from significant wealth gains and strong investment income, dominated consumption. Meanwhile, other consumers remained cautious but continued to spend.

Consumer spending, accounting for 68% of GDP, remains a key driver of economic growth, contributing to nine consecutive quarters of GDP growth since the pandemic. Recent data shows retail sales up 3.8% year on year as of November, with personal spending rising for the twentieth consecutive month to an annualized rate of $20.2 trillion. MasterCard reports a 3.8% increase in holiday spending over last year, including a 6.7% rise in online sales, 4% on jewelry, 3.6% on apparel, and 3.7% on electronics.

As spending continues, debt levels rise. Total household debt increased by $147 billion, reaching just under $18 trillion at the end of the third quarter, according to the New York Federal Reserve's Quarterly Report on Household Debt and Credit. Aggregate delinquency rates edged up slightly, with 3.5% of outstanding debt in some stage of delinquency. Mortgage balances rose by $75 billion to $12.59 trillion by the end of September. Credit card balances increased by $24 billion to $1.17 trillion and auto loan balances rose by $18 billion to $1.64 trillion.

Despite the rise in aggregate debt since the pandemic, Americans' disposable personal income has also grown, reaching $21.80 trillion. The ratio of total debt to income is now 82%, just below the pre-pandemic level of 86% in 2019. Relative to income, debt balances are actually lower than they were before the pandemic. Employment remains a crucial factor for consumer spending, and with a mostly solid labor market, consumer spending should continue to support decent economic growth.

The University of Michigan Consumer Sentiment Index provides insights into how consumers feel about the economy. As of December 2024, the index rose to 74, marking its highest value since April 2024. This increase reflects a positive trend, with consumer sentiment improving for the fifth consecutive month. Overall, consumers are feeling more optimistic about the economy, particularly regarding buying conditions, which saw a 32% improvement. However, while sentiment has improved, it is still midway between the all-time low in June 2022 and pre-pandemic levels.

## Housing Market Recovery Hindered by Affordability and Availability

After five turbulent years, the housing market is showing signs of recovery. September's dip in mortgage rates has boosted home sales in the latter half of the year. Sales of previously owned homes rose 4.8% in November compared with October and were 6.1% higher than in November 2023. This is the third-highest pace of the year and the largest annual gain in three years. Although new listings are still nearly 14% lower than pre-pandemic levels, this is a significant improvement from the 25% deficit seen in March 2024. For-sale inventories are now about 26% below the normal levels of 2018 and 2019, marking the smallest shortfall since September 2020.

With the ongoing U.S. housing shortage, homes occupied by "empty nesters" are increasingly viewed as a potential source of new inventory. Many hope that downsizing by "empty nesters" — those over 55 who have lived in the same home for 10-plus years, have no children at home, and have at least two extra bedrooms — will provide additional inventory. About 21 million households are estimated to fit the definition of empty nesters in 2022. Out of the fifty biggest U.S. cities, they have the greatest concentrations in Pittsburgh, Pennsylvania; Buffalo, New York; and Cleveland, Ohio. Cities with the highest population under age 44 are San Jose, California; Austin, Texas; and Denver, Colorado.

While availability remains a concern, affordability is an even greater challenge. Five years ago, the median home price was around $318,400; today, it stands at $420,400. With mortgage rates at approximately 6.85%, the monthly mortgage cost is $1,300 per month higher than it was five years ago, not accounting for the substantial increases in insurance, utilities, and real estate taxes. This decline in housing affordability has significantly changed how younger Americans view homeownership. According to a recent Bankrate Survey, 88% of Baby Boomers consider homeownership part of the "American dream," compared to only 68% of Gen Z.

The biggest sales gains continue to be on the higher end of the market. Sales of homes priced over $1 million surged 24.5% from November of last year, while sales of homes priced below $100,000 dropped 24.1%. First-time homebuyers have gained some ground, representing 30% of November sales, up from 27% in October but slightly lower than a year ago. Cash is still king at 25% of sales. Purchases by investors, however, pulled back to just 13% of sales, down from 18% in November of last year.

## Legislative Maneuvers Prevent Debt Ceiling Crisis, Again

The Senate approved a slimmed-down, temporary spending plan just before Christmas, averting a federal government shutdown. The legislation funds the government through March 14, setting up another showdown early in the Trump administration. A failed GOP package would have suspended the debt ceiling until January 2027. The debt ceiling, established by Congress, is the maximum amount the federal government can borrow to finance obligations already approved by lawmakers and presidents. Since Congress did not raise the debt ceiling in the year-end funding bill, the U.S. hit its debt limit on January 1. Consequently, the Treasury cannot issue new debt and will spend down its cash holdings in the Treasury General Account (TGA), expected to hold slightly more than $700 billion on December 31.

**Key Rates**

| | 12/31/2023 | 09/30/2024 | 12/31/2024 |
|---|---|---|---|
| 2-yr U.S. Treasury | 4.25% | 3.64% | 4.25% |
| 10-yr U.S. Treasury | 3.88% | 3.79% | 4.58% |
| 30-yr Fixed Mortgage Rate | 6.61% | 6.08% | 6.85% |
| Fed Funds Target Rate (upper) | 5.50% | 5.00% | 4.50% |
| U.S. Dollar Index | 101.38 | 100.82 | 108.48 |
| Crude Oil | $71.65 | $68.17 | $71.87 |
| Gold | $2,072 | $2,659 | $2,639 |
| Unemployment Rate | 3.70% | 4.20% | 4.20%* |

*As of November 2024 | Source: *The Wall Street Journal*

Lawmakers likely have until mid-year to act, using cash on hand and other measures to keep paying bills. Republicans will control both the House and Senate, but thin margins and the debt ceiling add to an already-full legislative plate. Elon Musk played a significant role in squashing the initial bipartisan agreement and suggested this could be the start of his activist role as co-chair of the Department of Government Efficiency (DOGE), a new advisory body created by President-elect Trump. Musk, the world's richest man and CEO of Tesla and SpaceX, and his DOGE co-chair, Vivek Ramaswamy, a biotech-company founder and 2024 Republican presidential candidate, aim to cut $2 trillion in federal spending, roughly 30% of the federal budget, while slashing regulations and the federal workforce.

Many believe that the most significant threat to America's long-term prosperity may be its tendency to spend beyond its means and finance long-term obligations with short-term debt, leading to an increasing cumulative deficit. The new administration's policies present both opportunities and risks, particularly in their ability to implement tighter fiscal measures without causing long-term damage to the overall economy.

## Global Growth Expected At Below-Trend Rate

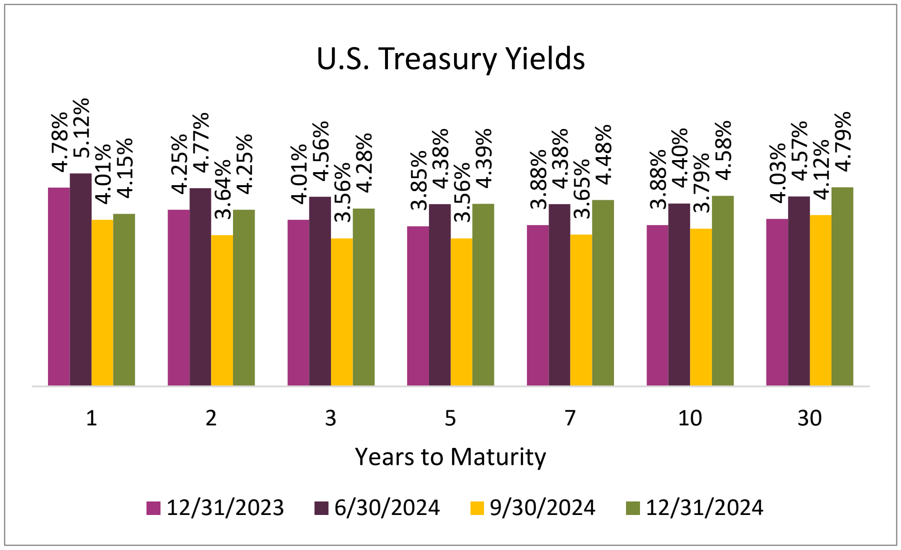
According to the World Economic Outlook from the International Monetary Fund, the global economy is expected to grow at a consistent but below-trend rate for the next several quarters. The global economy is expected to expand by 3.2% in 2024 and 2025. Although decent, these rates are below the long-term historical global growth of 3.8% due to the impact of inflation and high interest rates. Emerging economies' growth forecasts are for 4.3% in 2024 and 4.2% in 2025, including China, India, Saudi Arabia, and Brazil. The leaders are expected to be India and China, although the growth triggers differ. Population growth will continue to propel expansion in India, with an expected growth rate of 6.8% in the next two years. Productivity growth will benefit China, with growth expected to be 4.7%. Mexico and Canada could be wild cards in the coming years, as both have been targeted for tariffs by President-elect Trump.

## Market Commentary

The S&P 500 finished the year with a total return of 25%, bolstered by strong corporate profits and artificial intelligence investment enthusiasm. Large-cap U.S. equities dominated in 2024 with fifty-seven record highs and positive returns in all four quarters. Large-cap growth outperformed value, returning 33% compared to 14%. Outperformance of growth was consistent across all size categories.

Smaller companies, represented by the Russell 2000 index, had an uneven year with strong returns in the first and third quarters but declines in the other two. After gaining almost 22% through late November, the index closed the year up 11.5%.

International equity markets also faced challenges, with developed international markets (MSCI EAFE) up 3.8% and emerging markets up 7.5%. Returns on foreign assets were negatively impacted by the rising U.S. dollar, especially in the last quarter of the year.




As 2024 drew to a close, the stock market experienced increased volatility. Investors, while not panicking, quickly adjusted their positions in response to the news, aiming to protect gains in what has been another strong year for equities. Despite stumbling in the last few trading days, the broad U.S. stock index posted its best consecutive years since 1997 and 1998.

The Communications sector, led by Meta, Netflix, and Alphabet, was the best-performing sector in 2024, up 40% for the year. Financials posted a strong return of 30.6% for the year. The Consumer Discretionary sector, led by Tesla and Amazon, posted a strong final quarter (+14%) to end the year up 30%. Utilities rose by 23.4% and Technology rose 36.6%, boosted by solid returns from NVIDIA, Apple, and Broadcom. Industrials and Consumer Staples saw double-digit gains but lagged the broader market. However, Energy, Real Estate, Health Care, and Materials lagged with returns of 5% or less.

U.S. stocks' capitalization rose by $1.62 trillion the day following the election, marking their fifth-best one-day showing ever, following Donald Trump's decisive victory. This surge highlights the opportunities that investors, bankers, and others in finance hope to embrace over four years of tax cuts, deregulation, and economic expansion.

In 2024, the "Magnificent 7" stocks—Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla—continued to dominate the market, significantly outperforming the broader S&P 500. While the S&P 500 saw a robust increase of 25%, the Magnificent 7 collectively surged by an impressive 48%. This stark contrast highlights the substantial impact these tech giants have on the overall market, as their performance drove much of the index's gains. In comparison, the S&P 500 excluding the Magnificent 7 experienced more modest growth of 10%, underscoring the concentrated influence of these leading companies.

The bond market saw heightened volatility in 2024. With the Fed starting its easing cycle in September – later than initially anticipated – and concerns emerged later in the year about whether the rate reduction cycle will end sooner than expected. Investors' concerns focus on three key questions: has inflation progress stalled, could proposed tariffs derail it, and what might the impact be on the Fed's easing cycle? Treasury bond yields have been rising in recent weeks as concerns over inflation have returned since the election.

Since a year ago, rates on the short end of the curve have descended as the Fed lowered rates. The 1-year U.S. Treasury bill was 4.78% at the end of 2023 and sits at 4.15% as of 2024. The 2-year rate is almost unchanged at 4.25%, although it ranged between a high of 5.05% and a low of 3.5% during the year. The longer end of the curve, represented by the 10-year U.S. Treasury note, is higher at 4.58% versus 3.88% a year ago. Because of this dynamic, short-term bonds rose for the year with the Bloomberg 1-3 year U.S. Treasury index posting a 4% return and the Bloomberg U.S. Aggregate Bond gaining only 1.25%.

## Trump 2.0 — What Can We Expect?

The 2024 U.S. election will significantly alter Washington's public policy environment. Business organizations and governments worldwide are assessing the impact of a second Trump

| Index Total Return | Q4 2024 | 2024 | Last 3 Years (annualized) | Last 5 Years (annualized) |
|---|---|---|---|---|
| MSCI All-Cap World Index | -1.24% | 16.29% | 4.83% | 9.63% |
| S&P 500 Index | 2.41% | 25.02% | 8.94% | 14.52% |
| Russell 2000 | 0.33% | 11.54% | 1.24% | 7.40% |
| MSCI EAFE Index | -8.11% | 3.82% | 1.64% | 4.73% |
| MSCI Emerging Markets Index | -8.01% | 7.50% | -1.92% | 1.70% |
| Bloomberg 1-3 Year U.S. Treasury | -0.10% | 4.03% | 1.43% | 1.36% |
| Bloomberg U.S. Aggregate Bond | -3.06% | 1.25% | -2.41% | -0.33% |
| Bloomberg Municipal Index | -1.22% | 1.05% | -0.55% | 0.99% |

Source: Morningstar Direct

administration. Drawing from his first term and campaign promises, we can anticipate his priorities.

In the first one hundred days, expect executive actions focusing on extending the Tax Cuts and Jobs Act, promoting onshoring, reducing corporate tax rates, and expanding tariffs, particularly targeting China. Anticipated deregulation in technology, banking, energy, and environmental sectors will reverse Biden's initiatives and promote growth in these sectors.

President Trump will need support from Congress to enact lasting changes, benefiting from Republican control for at least two years. The expiration of many provisions in the Tax Cuts and Jobs Act will drive early debates, with Trump supporting an extension and lower corporate rates. President-elect Trump wants to increase tariffs on China and has called for a 10-20% tariff on all goods imported into the United States. It has been widely speculated that Trump's call for 25% tariffs on goods from Canada and Mexico is likely related to immigration to get their cooperation on tackling migration and fentanyl before he takes office. Climate and environmental policies will mirror his first term, focusing on traditional fuel sources. On labor, immigration, and workforce issues, Trump will aim to undo Biden's policies and reshape the federal workforce.

## Investment Themes For 2025 And Beyond

Large-cap equity market returns over the past decade have been exceptionally high, averaging 13.1% for the S&P 500, while fixed-income returns have been much lower, averaging 1.35% for the Bloomberg Aggregate Bond Index. Based on where we sit today, the large cap equity market appears expensive when compared to historical standards. The S&P 500 traded towards the year-end at 22 times its projected earnings over the next 12 months, according to FactSet, above a 10-year average of 18.5 times. Current high valuations may be sustained in the near term by innovation and increased productivity. Analysts also predict strong earnings growth to continue, albeit unevenly, with an overall earnings growth rate of 14.8% in 2025, according to data from FactSet. And, despite rich valuations, the Conference Board recently reported that the percentage of consumers expecting stock prices to rise within the next year hit an all-time high. Meanwhile, fixed-income markets do offer more attractive opportunities in the form of higher interest rates than was the case three years ago. The 10-year U.S. Treasury note provides a yield of 4.57% as compared to 1.72% at the end of 2022.

As we move forward into 2025, we will be mindful of the following investment themes:

- Central banks worldwide are expected to ease rates modestly, though this trend may be tempered as inflation potentially rises in some countries, including the United States.
- The new U.S. administration's focus on protectionist policies and tighter immigration controls may lead to a more inward-looking economy. The most significant wave of globalization occurred from the 1990s to early 2000s, driven by technological advancements and trade liberalization, which significantly boosted international trade and investment. This era saw the rise of multinational corporations, the expansion of global supply chains, and increased cultural exchange. Several factors could reverse globalization in 2025: increased tariffs and trade barriers from the U.S. and China, ongoing conflicts in the Middle East and Ukraine, and advances

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17335 Golf Parkway
Brookfield, WI 53045

Northeast Wisconsin:
3913 W. Prospect Avenue
Appleton, WI 54914

Kansas City Metro:
11141 Overbrook Road
Leawood, KS 66211

in automation and AI reducing the need for offshoring. These changes may disrupt global supply chains and reduce international trade.

- AI has the potential to substantially increase productivity and address systemic labor shortages resulting from an aging population and declining foreign worker numbers. By automating routine tasks and enhancing decision-making processes, AI can increase efficiency across various industries. AI-driven tools can streamline administrative work, optimize supply chains, and improve customer service, allowing human workers to focus on more complex and strategic tasks. Additionally, AI can support sectors facing labor shortages by filling gaps in the workforce, such as in health care, where AI-powered diagnostic tools and robotic assistants can alleviate the burden on medical professionals. As the global workforce continues to evolve, AI's ability to enhance productivity and compensate for labor deficits will be crucial in maintaining economic stability and growth. Consequently, significant investment in AI technology will continue to be a major driver of investment opportunities.
- Our investment team is finalizing the 2025-2034 capital market projections, which will guide the evolution of our FOLIObuilder® investment strategies and portfolio compositions. In the near future, our investment experts will deliver comprehensive insights on these updated market forecasts and explain how they will impact our investment methodology and your individual portfolios.

## Wishing You A Happy New Year Filled With Health, Happiness, And Success!

As we close the chapter on another dynamic year, we are filled with gratitude for your continued trust and partnership. This year has been marked by significant milestones and achievements that have strengthened our market position and delivered exceptional value to our clients.

Looking ahead, we are excited about opportunities the new year holds. We are poised to build on our successes, explore new opportunities, and introduce innovative solutions that will further enhance your experience with us. Our team is dedicated to continuing to provide you with the highest level of service and support.

Thank you for your trust and collaboration. We look forward to another year of shared success and growth.

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