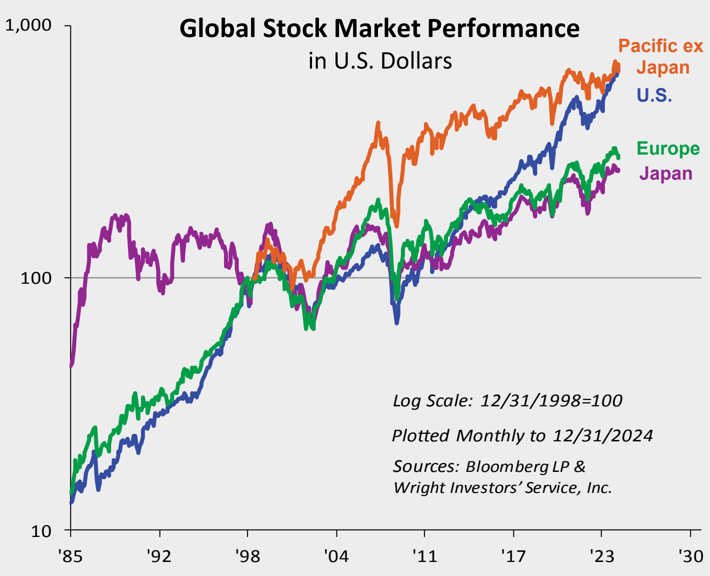
Quarterly Investment Report

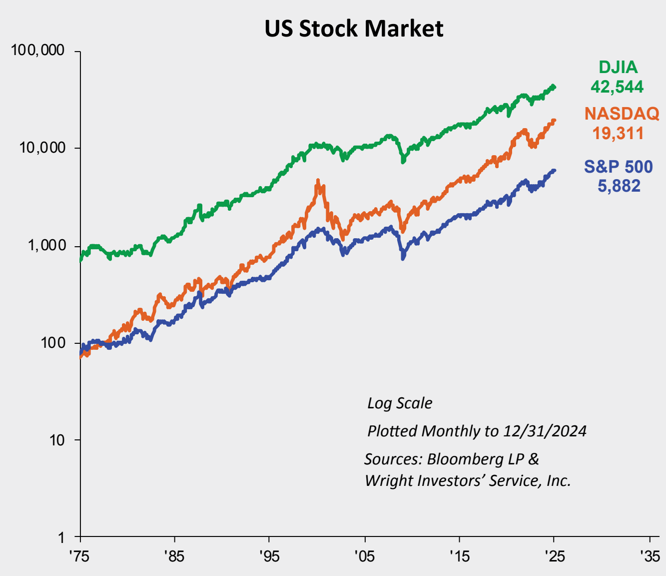
January 2025

Despite headwinds in December, U.S. equity markets delivered positive returns for the fourth quarter and ended the year on solid footing. The S&P 500 gained +2.4% in the fourth quarter, offsetting a -2.4% December decline, and achieved a robust +25.0% year-to-date gain. The Dow Jones Industrial Average struggled in December, down -5.1%, but gained +0.9% for the quarter and ended +15.0% for the year. The Nasdaq Composite outperformed, rising +6.3% in Q4 and an impressive +29.6% for the year. Sector-wise, Consumer Discretionary led Q4 gains, up +14.3%, while Materials declined -12.4%. Telecoms were the standout for the year, up +40.2%. U.S. equities outpaced most major developed markets in 2024. The U.S. dollar strengthened notably in Q4, rising +9.4% against the Yen. In fixed income, the Bloomberg US Aggregate index fell -3.1% for the quarter, trailing the US High Yield Bond index, which rose +0.2%. Commodities underperformed equities, with the Bloomberg Commodities Index down -0.4% for Q4. The MSCI US REIT Index fell -6.4%, weighed by higher mortgage rates and persistent housing supply challenges. US business activity surged, reaching a 33-month high as the S&P Global Flash US PMI Composite Output Index climbed to 56.6, supported by strong services growth despite a slight contraction in manufacturing. Year-over-year Core PCE inflation rose 2.8%, while overall PCE inflation ticked up to 2.4%, signaling ongoing inflationary pressures. The labor market remained resilient, adding 227,000 jobs in November. The Federal Reserve lowered interest rates by 25 basis points, emphasizing a balanced strategy to manage economic growth and inflation. Economic growth forecasts for 2025 were revised higher, though manufacturing inflation remains a concern. Housing permits surged alongside gains in existing home sales, but housing starts fell by -1.8% in November, reflecting persistent supply constraints. Overall, interest rate policy and economic initiatives under Trump's administration will remain focal points for investors in 2025.

Stock Market

U.S. markets posted declines in December, contrasting the strong gains of November. The S&P 500 fell -2.4% in December yet closed the fourth quarter of 2024 up +2.4%, bringing its year-to-date gain to an impressive +25.0%. Similarly, the Dow Jones Industrial Average dropped -5.1% in December, yet managed a modest quarterly gain of +0.9%. Meanwhile, the tech-heavy Nasdaq Composite displayed resilience, posting a +6.3% gain in the Q4 and delivering a stellar +29.6% year-to-date return. Large-cap growth stocks led performance, increasing +0.9% in December and +6.2% for the quarter.





Conversely, small-cap growth stocks struggled, falling -9.2% in December and -2.6% over the quarter. Large-cap value stocks declined -2.7% in Q4, while mid- and small-cap value stocks posted positive returns, highlighting mixed performance across market capitalization and styles. Sector performance in Q4 was similarly varied. Consumer Discretionary emerged as a top performer, gaining +14.3% for the quarter and +30.1% year-to-date. Materials saw the steepest decline, falling -12.4% in Q4 and ending 2024 flat making it the year's worst-performing sector. In contrast, Telecoms led all other sectors, gaining +8.9% in Q4 and achieving an exceptional +40.2% return for the year. Earnings growth was strong across most sectors, with Communication Services (+25.3%), Information Technology (+18.9%), and Healthcare (+14.1%) delivering notable gains. However, the Energy sector faced a decline in earnings growth at -23.9%, followed by Materials (-7.0%) and Industrials (-5.6%). Communication Services recorded the largest earnings surprise with a +12.2% beat, while the Real Estate sector disappointed with a negative earnings surprise.

Internationally, U.S. equities outperformed most major developed markets for both the quarter and the year. Over the quarter, the Europe-ex-UK markets declined the most, falling -10.6%, followed by the Pacific-ex-Japan markets, which dropped -9.1%. China also faced quarterly losses, declining -7.7%. For the year, Europe-ex-UK markets remained flat, underperforming most major global markets. The US dollar strengthened against most major currencies over the quarter and the year, with its most significant quarterly gain of +9.4% and a yearly rise of +11.5% against the Yen, reflecting robust demand for the dollar amidst global market volatility.

Bond Market

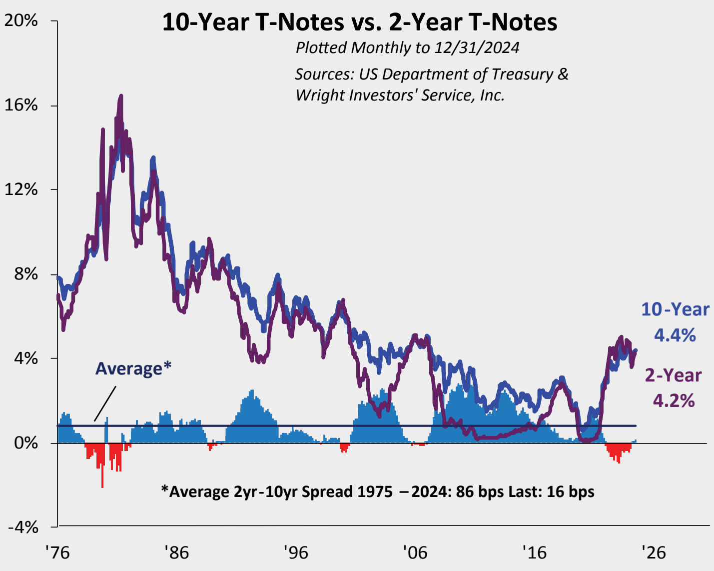
The Bloomberg US Aggregate, an index of taxable investment-grade, dollar-denominated bonds, decreased -3.1% during the quarter and -1.6% in December. It underperformed the Bloomberg US High Yield Bond index, which rose +0.2% for the quarter but dipped -0.4% for the month. Non-US dollar bonds, as represented by the Bloomberg Global Aggregate ex-US Index, fell -6.8% during the quarter, -2.6% in December, and -4.2% for 2024 overall. Treasury yields rose for maturities exceeding one year, maintaining an upward-sloping yield curve since September. The 10-year Treasury yield climbed from 3.78% at the end of September to 4.57% by year-end, while the 2-year yield increased from 3.64% to 4.24%. Markets signaled caution, with global bonds facing headwinds and US Treasuries adjusting to shifting rate expectations.

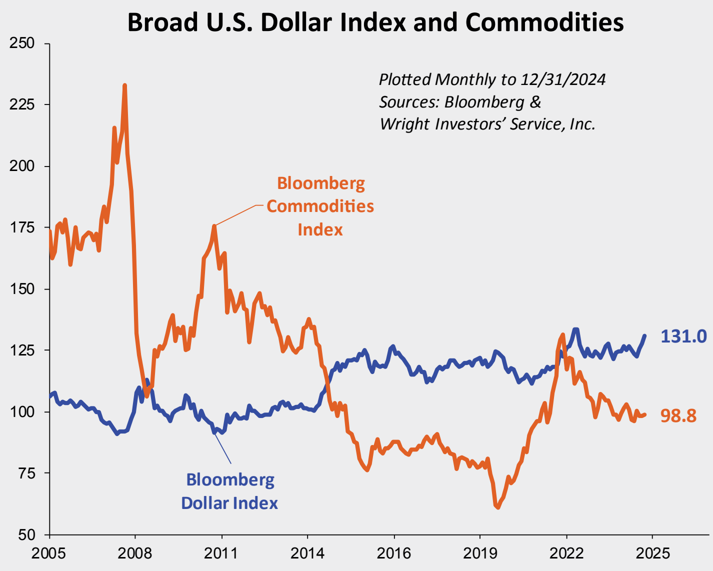
Alternatives

Commodities outperformed both bonds and equities in December but underperformed equities over the quarter. The Bloomberg Commodities Index dipped -0.4% for the quarter, with mixed performance across key sectors. Natural Gas led the gains, surging +24.3% in Q4 and an impressive +44.5% for the year. Crude oil rose +5.2% for the quarter but ended the year flat, while heating oil climbed +8.9% in Q4 yet remained down -9.1% for 2024. Among agricultural commodities, corn increased by +7.9% while wheat declined by -5.6%. Gold shined brightly, soaring +27.5% for the year. In contrast, real estate struggled. The MSCI US REIT Index fell -6.4% in Q4, weighed down by higher mortgage rates and rising home prices, highlighting challenges in the property market.

US Economy

In December, US business activity experienced its strongest growth in 33 months, fueled by a surge in the service sector, while manufacturers struggled with declining output and rising prices. Service sector activity surged in December, with new orders hitting their highest level since March 2022 and employment rebounding for the first time since July. The S&P Global Flash US PMI Composite Output Index climbed from 54.9 in November to 56.6, signaling robust expansion.





Service sector confidence reached a two-and-a-half year high, bolstered by expectations of a more business-friendly environment under the Trump administration, including looser regulation and heightened protectionism. The S&P Global US Services PMI soared to a 38-month high of 58.5, reflecting the sector's strong growth. In contrast, manufacturing showed persistent weakness. The S&P Global US Manufacturing PMI fell to 48.3 in December, marking its sixth consecutive month of contraction and the sharpest decline since September. Rising raw material costs, driven by supplier price hikes and higher shipping rates, weighed on the sector. Overall inflationary pressures eased, as slower service-sector price growth offset surging manufacturing input costs. December's modest increase in average goods and services prices was the slowest since June 2020. The goods-producing sector also reported subdued future expectations, partly due to concerns over potential tariffs adding to inflation. Weak wage growth in services and rising material costs in manufacturing highlighted the divergent pressures facing the two sectors.

The labor market remains robust, with significant gains across key industries amid ongoing economic uncertainties. In November 2024, total nonfarm payroll employment rose by +227,000, following October's modest increase of +36,000. Over the 12 months prior, payroll employment in the United States had grown by an average of +186,000 per month. The unemployment rate remained steady at 4.2%, with 7.1 million people unemployed, up from 3.7% and 6.3 million a year earlier. Key contributors to job gains were healthcare, leisure and hospitality, government, and social assistance. The labor force participation rate remained at 62.5%, while the employment-population ratio stood at 59.8%, showing little change in workforce engagement amid economic uncertainties.

The Federal Reserve's December 2024 Summary of Economic Projections (SEP) indicates continued economic expansion, with a resilient macroeconomic outlook despite challenges. The SEP projects a median unemployment rate of 4.3% by the end of 2025, aligning with expectations for the labor market's influence on inflation. In line with this outlook, the Fed slightly raised its 2025 PCE inflation forecast to 2.5%, with core PCE inflation also increasing to 2.5% from 2.2% in the previous quarter. Despite these inflationary pressures, the Fed remains focused on its dual mandate of maximum employment and a 2% inflation target. At the December Federal Open Market Committee (FOMC) meeting, the Fed lowered its target interest rate range by 25 basis points to 4.25%-4.50%, aiming to balance economic growth and price stability. Stronger-than-expected economic growth has kept inflation persistent at around 2.5%. The SEP now anticipates just two 25-basis-point rate cuts in 2025, down from four cuts projected in September, alongside an upward revision to the 2025 growth forecast from 2.0% to 2.1%. The US economy grew at an annualized rate of 3.1% Q3 2024, supported by robust gains in consumer spending, fixed investment, and state and local government expenditures.

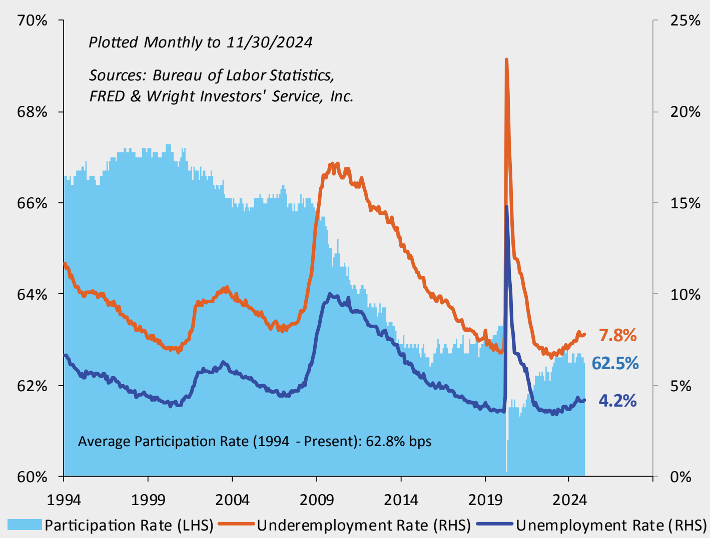
As of December, the average rate for a 30-year fixed mortgage stood at 6.85%, the highest since early June. This increase was attributed to rising US Treasury yields and market adjustments, as fewer Federal Reserve rate cuts were anticipated due to hawkish projections, stronger economic data, and lingering inflation concerns. In the housing market, existing home sales in the US rose 4.8% in November, reaching a seasonally adjusted annualized rate of 4.15 million, the highest in eight months, up from 3.96 million in October. Building permits also saw an uptick, increasing by 5.2% to a seasonally adjusted annualized rate of 1.493 million, revised slightly lower from the initial estimate of 1.505 million. This marked the largest increase since February 2023, bringing permits to their highest annualized level since February 2024. New home sales increased 5.9%, reaching an annualized rate of 664,000.

The U.S. Economy 2022–2025

		% Change In			End of Period Rates	
		Real GDP*	PCE Core Deflator*	Profits from Operations#	90-Day T-Bills	10-Year T-Notes
2022	Q1	**-1.0%**	**6.1%**	**47.7%**	**0.5%**	**2.3%**
	Q2	0.3%	4.8%	36.5%	1.6%	3.0%
	Q3	2.7%	5.2%	20.4%	3.2%	3.8%
	Q4	3.4%	4.7%	12.5%	4.3%	3.9%
2023	Q1	**2.8%**	**4.7%**	**4.7%**	**4.7%**	**3.5%**
	Q2	2.4%	3.8%	1.9%	5.3%	3.8%
	Q3	4.4%	2.4%	-1.3%	5.4%	4.6%
	Q4	3.2%	2.0%	-0.9%	5.3%	3.9%
2024	Q1	**1.6%**	**3.7%**	**1.1%**	**5.4%**	**4.2%**
	Q2	3.0%	2.8%	3.0%	5.4%	4.4%
	Q3	3.1%	2.2%	6.9%	4.6%	3.8%
	Q4 e	2.3%	2.8%	8.0%	4.3%	4.6%
2025	Q1 e	**1.9%**	**2.5%**	**36.0%**	**4.2%**	**4.2%**
	Q2 e	2.0%	2.5%	36.3%	3.8%	4.2%
	Q3 e	2.0%	2.5%	38.4%	3.6%	4.1%
	Q4 e	2.0%	2.4%	39.3%	3.5%	4.1%

e: Bloomberg Consensus Estimates; *: Quarter-Over-Quarter Annual Rates; #: Year-Over-Year Change in S&P500 EPS Sources: Bloomberg LP, Wright Investors' Service, Inc.

U.S. Employment

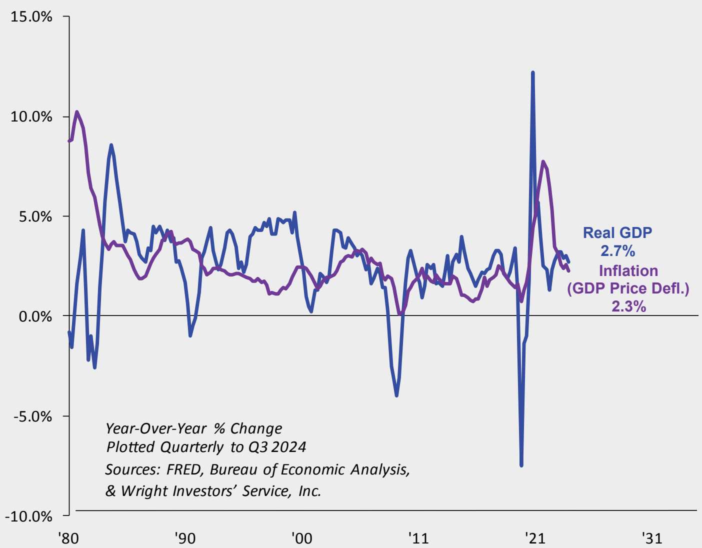


However, housing starts unexpectedly fell by -1.8%, dropping to a seasonally adjusted annualized rate of 1.289 million units in November, the lowest in four months. Despite the rise in sales and permits, the market demand continues to face significant challenges, primarily stemming from a substantial undersupply of homes.

Investment Outlook

As we enter 2025, the US economy is poised for continued growth, buoyed by optimism surrounding the incoming Trump administration, with the service sector leading the charge. This sector has experienced its strongest expansion since the COVID-19 reopening, driven by robust demand and improved employment conditions. While the manufacturing sector remains cautious, it shows resilience, and a return to hiring is anticipated, which should help maintain labor market strength. The median unemployment rate is expected to stay steady at 4.2%, reflecting a healthy labor market that underpins overall economic resilience. Inflation is forecasted to ease gradually, with headline inflation cooling significantly over the past couple of years. The yield curve is no longer inverted, and concerns about a U.S. recession have notably diminished. The housing market, however, faces persistent challenges, particularly from elevated mortgage interest rates, but signs of stabilization are emerging. Home sales are expected to continue their modest rebound, although high mortgage rates and ongoing home price inflation remain key headwinds. In summary, the investment outlook for 2025 suggests a year of balanced growth, with the service sector driving expansion while manufacturing continues to face challenges. Moderate inflation, a resilient labor market, and the Federal Reserve's careful policy decisions will also shape the economic environment. Investors should focus on sectors benefiting from strong demand, such as services, while maintaining diversified portfolios to navigate potential risks, including external factors like tariffs and inflation. A well-managed investment strategy that balances growth potential with risk mitigation will be essential for capitalizing on the opportunities in 2025.

Real GDP vs. Inflation



Global Investment Returns In U.S. Dollars

	Q4 2024		YEAR 2024	
	Stocks	Bonds	Stocks	Bonds
U.S.	**2.7%**	**-3.1%**	**24.6%**	**1.3%**
Canada	-1.8%	-6.6%	11.9%	-5.6%
Mexico	-10.6%	-3.8%	-27.1%	3.4%
Japan	**-3.6%**	**-10.3%**	**8.3%**	**-13.1%**
Pacific ex Japan	-9.1%	-3.4%	4.6%	2.5%
Australia	-11.4%	-11.5%	1.2%	-7.3%
China	-7.7%	-0.7%	19.4%	6.2%
Hong Kong	-9.8%	-2.5%	0.1%	3.3%
Europe	**-9.7%**	**-7.1%**	**1.8%**	**-3.8%**
France	-10.3%	-8.3%	-5.3%	-9.0%
Germany	-5.7%	-7.7%	10.2%	-5.7%
Italy	-6.7%	-7.1%	11.3%	-2.1%
Netherlands	-12.4%	-7.2%	1.4%	-5.3%
Spain	-9.2%	-6.7%	9.8%	-2.5%
Switzerland	-11.2%	-5.7%	-2.0%	-2.2%
U.K.	-6.8%	-9.1%	7.5%	-4.2%
World	**-0.2%**	**-5.1%**	**18.7%**	**-1.7%**
World ex U.S.	-7.4%	-6.8%	4.7%	-4.2%

Sources: MSCI Stock & Bloomberg Barclays Bond Indexes as of 12/31/2024