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Investment Outlook

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Solid fundamentals should help drive positive credit and equity market performance into 2025.

One of the most bullish themes in the US economy is the broadening of earnings growth across sectors. Looking back, it was essentially mega-cap growth companies in the technology and communication sectors that generated nearly all of the S&P 500's earnings growth in 2024.[1] Recently, earnings growth for large-cap technology has been slowing and formerly lagging sectors have begun to experience growing earnings.

In our view, this broadening in sources of earnings growth implies that the credit cycle has plenty of room to progress in the mid-expansion phase. We think US investment grade and high yield corporate credit look attractive because we anticipate limited downgrades and a very mild default rate of approximately 3.2%. Yields across global credit markets appear attractive and we believe they could drift lower as central banks pursue cutting cycles.

Investment Themes:

KEY TAKEAWAYS

PAGE 3 Macroeconomic Drivers

Regionally, 2025 economic growth rates may vary widely. We expect the US to once again outpace other developed market countries. Inflation data is progressing closer to central bankers' long-run target levels and we think that will continue.

PAGE 4 Corporate Credit

Our frameworks suggest credit market risk premiums are slim, but the Bloomberg US Aggregate Index yield is currently attractive.

PAGE 5 Government Debt & Policy

Tariffs and potential trade partner retaliation could complicate the new US administration's pro-growth policies.

PAGE 6 Currencies

Future trade agreements will likely influence US-dollar strength.

PAGE 7 Global Equities

Earnings growth should support global equities in 2025, but US valuations have less room to expand.

PAGE 8 Potential Risks

What happens in the US impacts the rest of the world and significant shifts in US policies are on the horizon.

PAGE 8 Asset Class Outlook

There is potential opportunity in non-US markets where valuations are compelling and sentiment is more muted, especially relative to the US.

Our Views on Macroeconomic Drivers

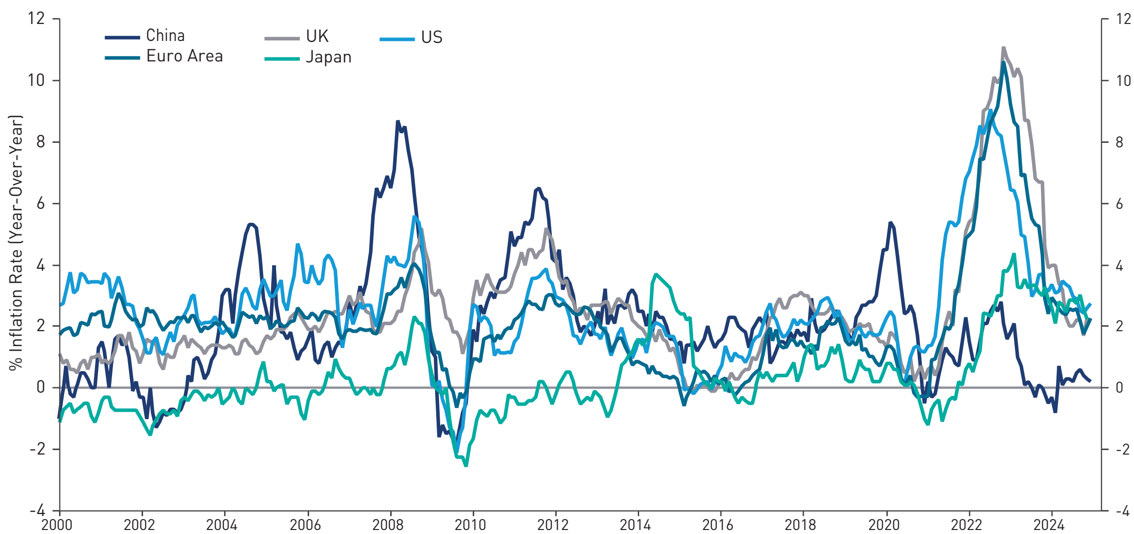
Lower short-end interest rates, slightly lower long-end rates and decent economic growth should continue to support investor risk appetite. However, valuations are already fair if not somewhat richly valued.

- We think the Federal Reserve (Fed) will undertake four 25-basis-point cuts—one at every other 2025 meeting.
- The US labor market is likely to soften at the margin.
- With personal consumption expenditures being two-thirds of US gross domestic product, record household net worth should fuel demand.
- We see the Bank of England's (BoE) Monetary Policy Committee in a position similar to that of the Fed.
- Euro area inflation should come down faster than that of the US because demand is much less robust.
- Conditions are different in Japan, where inflation is around 2.0% and small rate hikes are possible.

WITH INFLATION ESSENTIALLY UNDER CONTROL, CENTRAL BANK POLICIES ARE BECOMING LESS RESTRICTIVE

Globally, inflation has been heading lower for several quarters. We see room for further decline.

Source: LSEG Datastream, data as of 13 December 2024.



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Our Views on Corporate Credit

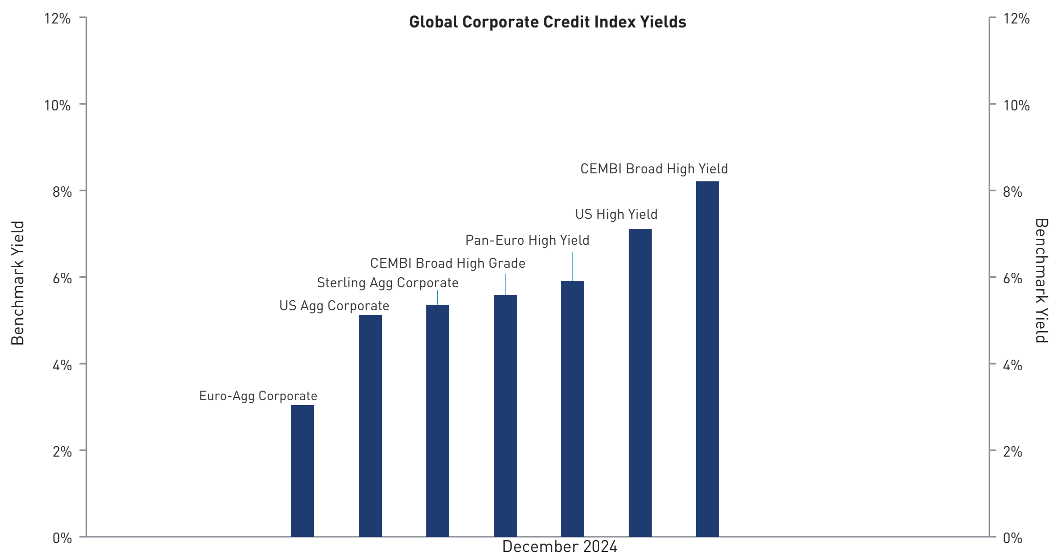
Credit investors have the potential to outperform US Treasurys given higher yield levels and the possibility of tighter spreads.

- Based on bottom-up fundamental analysis, our credit research team suggests 93% of Bloomberg US Aggregate Index industries are in the expansion phase of the credit cycle.
- Of the industries under our credit analysts' coverage, 36% had positive credit outlooks, a significant rise from 13% in June of 2024.
- Our analysts' upgraded outlooks are predominantly based on better expectations for margins and free cash flows.
- Our risk premium framework estimates credit losses within investment grade and high yield credit to be below historical averages in expansion/late cycle regimes. That could be a key reason why spreads are so tight.
- Yield spreads for high yield credits rated BB and B appear historically very tight, while CCC credits only recently started to look rich.
- Our favored US markets, ranked by expected total return, are leveraged loans, investment grade and high yield. Within global credit, the emerging market space has higher return potential than euro or sterling markets.

GLOBALLY, EARNINGS GROWTH SHOULD LIFT OVERALL CORPORATE HEALTH IN 2025

We recognize tight spreads and skinny risk premiums, but yields are still compelling to us.

Source: Refinitiv Datastream, Bloomberg Barclays, JP Morgan, S&P Global, data as of 13 December 2024.



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Our Views on Government Debt & Policy

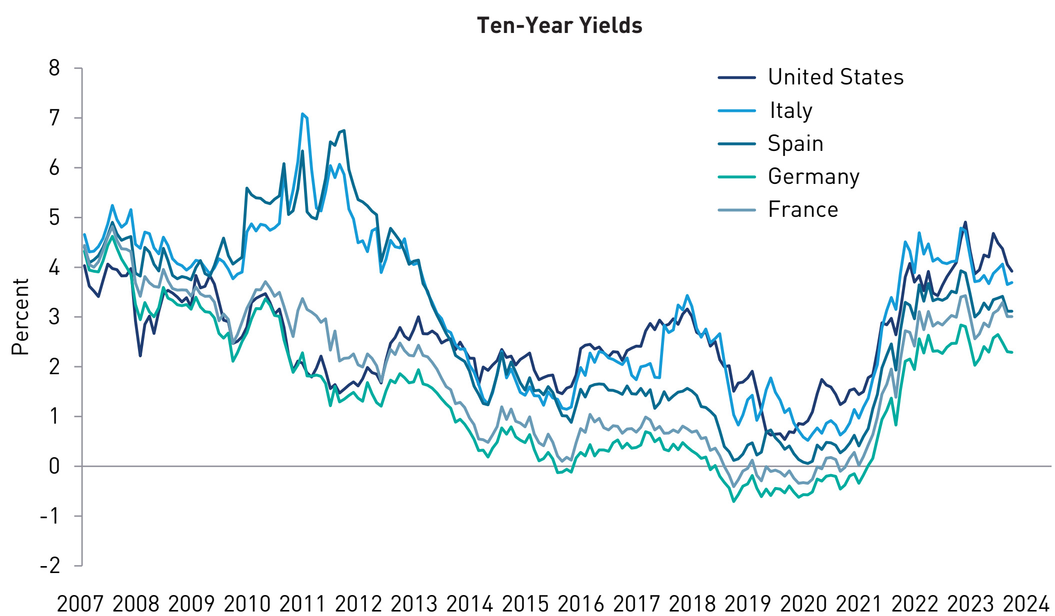
Disinflationary trends should remain in place near term; therefore we see downside for government bond yields.

- Under the new US administration, we think existing and possibly increased tariffs, tax cut extensions and adjustments to current policies appear likely.
- Lack of clarity on potential US fiscal policy makes it nearly impossible to accurately model economic outcomes. However, we created a range of scenarios that suggest inflation may run a bit hotter than expected pre-election.
- Policy changes are not likely to interrupt the economic expansion.
- The US yield curve is likely to steepen as the Fed trims the short-rate and longer-term yields do not decline as much. By the end of 2025, the federal funds rate could reach approximately 3.5% and the 10-year bond yield about 4.0%.

A GLOBAL RATE CUTTING CYCLE IS UNDERWAY, BUT IT HAS BEEN SHALLOW GIVEN STILL-DECENT ECONOMIC CONDITIONS

Central banks, excluding Japan, will likely reduce rates since recent data indicates inflation is largely under control.

Source: LSEG, National Sources, as of 13 December 2024.



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Our Views on Currencies

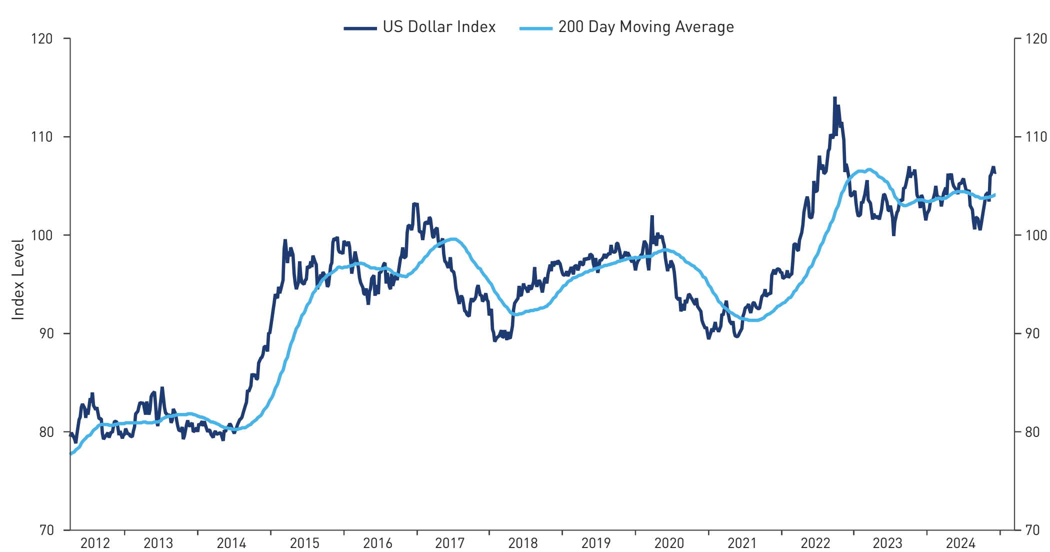
US dollar valuation is rich relative to emerging and developed market currencies. If the tide turns, we could see foreign currencies improve quickly.

- With limited divergence in central banks' policies, short-term interest rate differentials are less likely to influence US dollar performance.
- Factors like relative economic growth, trade policy, risk appetite and expected performance of US assets could buoy the US dollar in the very near term.
- Globally, relative US economic performance may attract overseas demand for dollars.
- Oftentimes, the dollar is perceived as a global safe-haven asset and there is no shortage of geopolitical risk.
- Risks associated with US government deficits are rising, and we do not see major changes to the path forward.
- We remain cautious on China, but view upside economic surprises as possible, which would benefit the country and its emerging market neighbors.
- Latin America and South Africa are attractive regions to add foreign exchange exposure.

THE US DOLLAR INDEX HAS TRADED IN A TIGHT RANGE SINCE EARLY 2023, OFFERING FEW TRADING OPPORTUNITIES

Recent dollar strength could reverse course depending on trade negotiation outcomes.

Source: LSEG Datastream, data as of 13 December 2024.



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Our Views on Global Equities

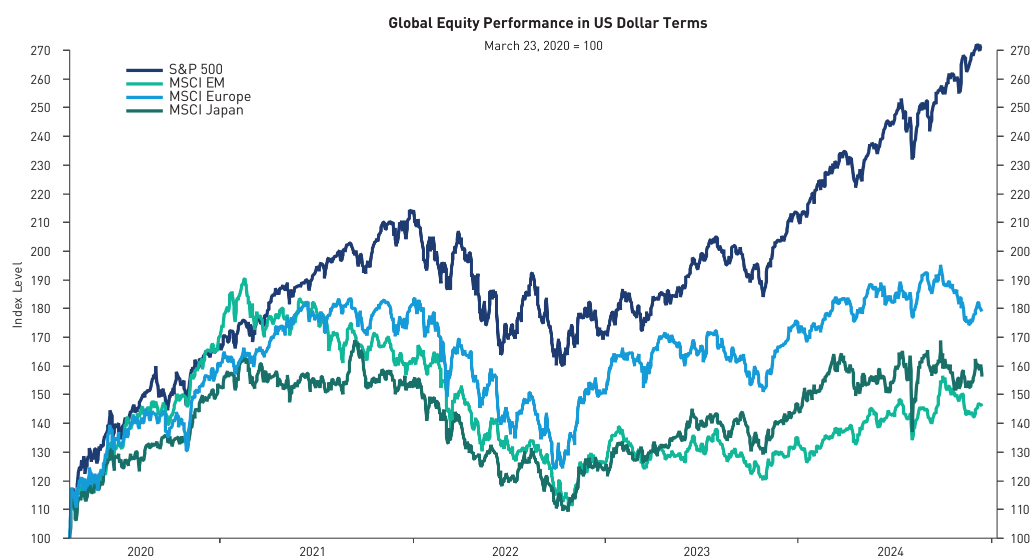
The macro landscape could be more challenging for equity markets, particularly after such strong 2024 performance.

- Bottom-up consensus earnings expectations suggest the MSCI Europe Index could rebound from flat growth to a mid-single-digit pace in 2025. The S&P 500 Index and MSCI Emerging Markets Index are expected to grow earnings by more than 10%.
- We are conservatively positive about corporate earnings growth relative to consensus.
- US equity outperformance has been significant over recent years. But the S&P 500's price-to-earnings (PE) multiple has also expanded, helping to drive total return.
- Annual total returns are more likely to be in line with the rate of earnings growth that the S&P 500 Index delivers.
- In the global indices, trailing PE multiples are slightly beneath their five-year averages.

US EQUITY OUTPERFORMANCE DRIVEN BY LARGE EXPOSURE TO HIGH-GROWTH COMPANIES WHERE EARNINGS HAVE BEEN EXCEPTIONAL FOR YEARS

We think positive earnings growth rates and relatively cheaper valuations could boost global equity performance in 2025.

Source: LSGE Datastream and MSCI, data as of 13 December 2024.



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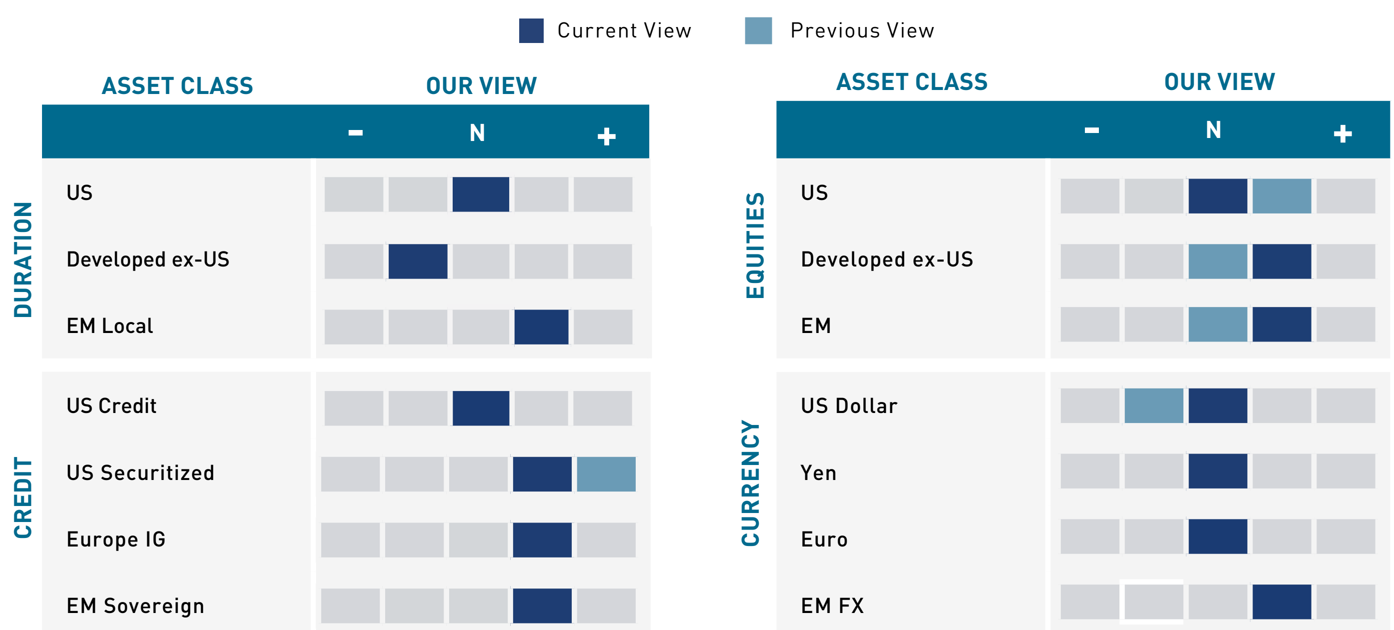
Our Views on Potential Risks

There is a tremendous amount of market optimism regarding the new US administration, however the implications of potential trade policies have yet to play out.

- Global credit and US equity valuations are historically expensive. Most markets are priced for solid economic and corporate earnings growth.
- Many consumer and business sentiment measures surged after the US election. It is possible that sentiment has become too frothy.
- Inflation has been trending lower globally; economies need that to continue.
- Most government bond yields could turn higher if inflation returns in a meaningful way.
- The US has been a beacon of economic strength over the past three quarters, but we expect some slowing is on the horizon. The extent of the slowing and how it impacts the labor market will guide risk appetite.
- Escalating military conflict is never positive for investor sentiment, so we are monitoring developments closely.

Asset Class Outlook

There is potential opportunity in non-US markets where valuations are compelling and sentiment is more muted, especially relative to the US.



Fourth Quarter Review

INDEX RETURNS BY SECTOR
as of 31 December 2024

INDEX				
US BROAD MARKET	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG US AGGREGATE BOND	-1.64	-3.06	1.98	1.25
BBG US GOVERNMENT/CREDIT	-1.67	-3.08	1.87	1.18

Risk appetite was strong in the final quarter of 2024 as corporate credit spreads were able to grind lower. However, the impact of strong risk appetite was more than offset by a rise in Treasury yields, which was the primary factor for the negative returns in the fixed income space.

US GOVERNMENTS	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG US TREASURYS	-1.54	-3.14	1.45	0.58
3-MONTH T-BILLS	0.41	1.18	2.57	5.29
2-YEAR TREASURY	0.18	-0.19	2.66	3.79
5-YEAR TREASURY	-1.02	-2.69	1.62	1.19
10-YEAR TREASURY	-2.67	-5.19	0.31	-1.73
30-YEAR TREASURY	-6.08	-9.38	-2.02	-8.09
BBG US TIPS	-1.58	-2.88	1.12	1.84
BBG US AGENCY	-0.50	-1.06	2.31	3.16

Treasurys generally fell throughout the fourth quarter, as investors repriced a higher probability of the Fed carrying out a shallower cutting cycle in 2025 compared to where expectations were three months ago. The rising term premium was also a notable factor, indicating the worsening US fiscal situation is a growing concern among investors.

US MUNICIPALS	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG US MUNICIPALS	-1.46	-1.22	1.46	1.05

Municipal bonds fell this past quarter; however, they notably outperformed Treasurys. As with most fixed income assets at this point in time, higher overall yields have provided a counter-balance to tighter valuations.

US SECURITIZED	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG MBS	-1.65	-3.16	2.20	1.20
BBG ABS	-0.05	-0.05	3.30	5.02
BBG CMBS	-0.55	-1.48	3.10	4.68

The US securitized market lost value this quarter. Asset-backed securities were the relative outperformers in the sector, owing to their shorter duration.

Data Sources: Bloomberg indices from Bloomberg Live; currency returns, JPMorgan and Citigroup indices from Bloomberg; bank loans from S&P Global Market Intelligence.

All returns in US dollars, unless noted.

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INDEX RETURNS BY SECTOR
as of 31 December 2024

INDEX CORPORATES	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG US INVESTMENT GRADE	-1.94	-3.04	2.62	2.13
AAA	-3.31	-5.88	0.64	-2.35
AA	-2.23	-3.94	1.89	0.24
A	-1.98	-3.31	2.35	1.63
BBB	-1.82	-2.58	3.03	2.97
BBG EUROPEAN INVESTMENT GRADE *-LOCAL CURRENCY RETURNS*	-0.38	0.87	4.17	4.74
AAA	-0.99	0.42	3.93	2.61
AA	-0.53	0.47	3.65	3.64
A	-0.46	0.75	3.94	4.15
BBB	-0.28	1.04	4.44	5.40
BBG STERLING INVESTMENT GRADE *-LOCAL CURRENCY RETURNS*	-0.57	-0.32	2.06	1.71
AAA	-1.47	-1.37	0.80	-2.32
AA	-0.98	-1.02	1.35	-0.14
A	-0.81	-0.76	1.64	0.83
BBB	-0.25	0.24	2.62	2.93

US investment grade corporate debt lost value. Even though spreads compressed by 10 basis points, the move higher in US rates more than offset the higher risk appetite. Within the investment grade corporate sector globally, the US significantly underperformed the euro and sterling markets.

CORPORATES	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG US HIGH YIELD	-0.43	0.17	5.47	8.19
BB	-0.65	-0.49	3.74	6.30
B	-0.31	0.31	4.86	7.38
CCC	0.09	2.26	12.69	15.09
BBG PAN-EURO HIGH YIELD *-LOCAL CURRENCY RETURNS*	0.73	2.00	5.73	9.14
BB	0.66	1.88	5.11	8.14
B	0.99	2.28	6.45	10.68
CCC	0.50	3.04	9.47	11.78

US high yield debt was able to squeeze out marginally positive returns. While the move higher in US rates would also negatively impact the high yield fixed income market, the higher yields these bonds offer (as the name implies) were able to provide investors with enough carry to weather the rising rate environment.

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INDEX RETURNS BY SECTOR
as of 31 December 2024

INDEX				
BANK LOANS	1 MONTH	3 MONTH	6 MONTH	1 YEAR
S&P/LSTA LEVERAGED LOAN	0.57	2.27	4.36	8.95
BB	0.54	2.21	4.16	8.15
B	0.54	2.51	4.77	9.55
CCC	0.60	0.17	2.25	8.87

Bank loans performed well this past quarter, as they generally have floating-rate rather than fixed-rate coupons. Therefore, they can do well in a rising rate environment, and in the period were outperformers given their low duration.

DEVELOPED COUNTRIES	1 MONTH	3 MONTH	6 MONTH	1 YEAR
CITIGROUP WGBI *-LOCAL CURRENCY RETURNS*	-1.00	-1.41	2.25	0.96
CITIGROUP NON-USD WGBI	-0.62	-0.19	2.79	1.15
UNITED STATES	-1.51	-3.10	1.48	0.65
CANADA	-0.37	-0.70	3.64	2.91
JAPAN	-0.07	-1.62	0.18	-4.27
AUSTRALIA	0.11	-1.28	2.00	1.64
UNITED KINGDOM	-2.57	-3.58	-1.18	-4.29
EUROPEAN GBI	-1.40	-0.13	3.87	1.86
FRANCE	-1.53	-0.62	2.86	-0.82
GERMANY	-1.50	-0.49	2.79	0.63
IRELAND	-1.33	0.01	4.72	2.37
ITALY	-1.05	0.51	5.78	5.32
SPAIN	-1.24	0.28	4.36	3.49

Nearly all developed economy debt lost value this quarter. It is notable that US debt was the underperformer, as the market shifted focus to a potentially shallower Fed cutting cycle compared to what was previously anticipated. European "peripheries" (Ireland, Italy and Spain) were able to deliver marginally positive returns.

EMERGING MARKET BONDS	1 MONTH	3 MONTH	6 MONTH	1 YEAR
JP MORGAN EMBIG *-SOVEREIGN/QUASI-SOVEREIGN, USD*	-1.50	-2.12	3.82	5.73
JP MORGAN CEMBI BROAD DIVERSIFIED *-CORPORATES, USD*	-0.54	-0.80	3.64	7.63
JP MORGAN GBI-EM GLOBAL DIVERSIFIED *-GOVERNMENTS, LOCAL CURRENCY*	-0.29	-0.38	3.71	5.35

EM bonds, no matter their currency denomination, nor whether they were corporate or government, also lost value this quarter. Shorter-duration CEMBI bonds were able to outperform the longer-duration government bonds found in the EMBIG index.

Data Sources: Bloomberg indices from Bloomberg Live; currency returns, JPMorgan and Citigroup indices from Bloomberg; bank loans from S&P Global Market Intelligence.

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INDEX RETURNS BY SECTOR
as of 31 December 2024

INDEX CURRENCY MARKETS	1 MONTH	3 MONTH	6 MONTH	1 YEAR
DOLLAR BLOC				
CANADIAN DOLLAR	-2.63	-5.97	-4.90	-7.93
AUSTRALIAN DOLLAR	-4.98	-10.49	-7.23	-9.16
NEW ZEALAND DOLLAR	-5.44	-11.89	-8.17	-11.47
WESTERN EUROPE				
EURO	-2.11	-7.01	-3.35	-6.21
NORWEGIAN KRONE	-3.21	-7.36	-6.21	-10.66
SWEDISH KRONA	-1.57	-8.23	-4.28	-9.01
SWISS FRANC	-2.91	-6.81	-0.95	-7.27
BRITISH POUND	-1.72	-6.42	-1.02	-1.69
EMERGING EUROPE & AFRICA				
CZECH KORUNA	-1.89	-6.98	-4.03	-8.14
HUNGARIAN FORINT	-1.82	-10.26	-7.21	-12.64
POLISH ZLOTY	-1.62	-6.85	-2.56	-4.71
RUSSIAN RUBLE	-6.18	-18.07	-24.45	-21.18
SOUTH AFRICAN RAND	-4.17	-8.36	-3.45	-2.55
TURKISH NEW LIRA	-1.85	-3.27	-7.34	-16.48
ASIA				
JAPANESE YEN	-4.73	-8.63	2.34	-10.28
CHINESE RENMINBI	-0.72	-3.84	-0.44	-2.73
INDONESIAN RUPIAH	-1.60	-5.97	1.70	-4.38
MALAYSIAN RINGGIT	-0.55	-7.80	5.48	2.72
PHILIPPINE PESO	1.37	-3.11	1.33	-4.25
SINGAPORE DOLLAR	-1.92	-5.91	-0.71	-3.32
SOUTH KOREAN WON	-5.08	-10.68	-6.48	-12.49
LATIN AMERICA				
ARGENTINE PESO	-2.00	-6.04	-11.59	-21.58
BRAZILIAN REAL	-3.34	-11.78	-9.44	-21.37
CHILEAN PESO	-2.13	-9.67	-5.50	-11.65
COLOMBIAN PESO	0.63	-4.51	-5.74	-12.50
MEXICAN PESO	-2.17	-5.45	-12.05	-18.51
PERUVIAN NEW SOL	0.53	-0.97	2.73	-0.97

The US dollar strengthened against every single currency listed above for the final quarter of 2024. This was due to the relatively higher-rate environment in the US, making US-dollar-denominated fixed income relatively more attractive as the quarter progressed.

Data Sources: Bloomberg indices from Bloomberg Live; currency returns, JPMorgan and Citigroup indices from Bloomberg; bank loans from S&P Global Market Intelligence.

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GLOBAL EQUITY MARKETS
as of 31 December 2024

INDEX TOTAL RETURNS (%)

INDEX	3 MONTH	1 YEAR	3 YEAR	5 YEAR
S&P 500®	2.41	24.81	8.92	14.47
MSCI ALL COUNTRY WORLD	-0.89	17.87	5.92	10.54
MSCI EUROPE	-9.68	2.41	1.84	5.51
MSCI JAPAN	-3.57	8.61	3.17	5.17
MSCI EMERGING MARKETS	-7.84	7.99	-1.48	2.10

US equity performed well in the past quarter, though not as strong in the prior three quarters of 2024. Still, it was the only index listed above that produced positive returns, as all of the international equity markets lost value.

US EQUITY MARKETS
as of 31 December 2024

INDEX TOTAL RETURNS (%)

INDEX	3 MONTH	1 YEAR	3 YEAR	5 YEAR
RUSSELL 1000®	2.75	24.30	8.39	14.22
GROWTH	7.07	33.06	10.45	18.88
VALUE	-1.98	14.25	5.62	8.65
RUSSELL MIDCAP®	0.62	15.22	3.78	9.88
GROWTH	8.14	21.92	4.03	11.43
VALUE	-1.75	12.96	3.87	8.56
RUSSELL 2000®	0.33	11.44	1.24	7.38
GROWTH	1.70	15.03	0.21	6.83
VALUE	-1.06	7.99	1.94	7.26

After underperforming in the third quarter, large-cap stocks resumed their outperformance of small-cap stocks in the fourth quarter. Also following the recent norms, growth stocks were able to outperform value stocks. It was still a solid quarter for equities, though price growth momentum did slow down by year-end.

Data Source: FactSet. All returns quoted in US dollars. Performance for one and multi-year periods is annualized. Sorted by index quarterly returns. Due to rounding, sector totals may not equal 100%.

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S&P 500 SECTORS
as of 31 December 2024

SECTOR PERFORMANCE ATTRIBUTION (%)

INDEX	3 MONTH	1 YEAR	3 YEAR	5 YEAR
CONSUMER DISCRETIONARY	14.25	30.01	5.32	14.14
COMMUNICATION SERVICES	8.87	40.05	9.49	14.57
FINANCIALS	7.09	30.43	10.24	12.20
INFORMATION TECHNOLOGY	4.84	36.45	16.10	24.82
INDUSTRIALS	-2.27	17.40	9.47	12.01
ENERGY	-2.43	5.70	20.02	12.14
CONSUMER STAPLES	-3.26	14.81	4.58	8.49
UTILITIES	-5.51	23.33	5.23	6.61
REAL ESTATE	-7.94	5.21	-4.40	4.56
HEALTHCARE	-10.30	2.57	0.88	7.99
MATERIALS	-12.42	-0.03	-0.43	8.64

Performance by sector varied significantly this quarter. Consumer discretionary was the outperformer with a double-digit return. Healthcare and materials underperformed, losing more than 10%.

Data Source: FactSet. All returns quoted in US dollars. Performance for one and multi-year periods is annualized. Sorted by index quarterly returns. Due to rounding, sector totals may not equal 100%.

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Endnote

[1] FactSet, 13 December 2024. S&P 500 CY 2024 Earnings Preview: Analysts Expect Earnings Growth of 9.5%.

Disclosure

All data and views are as of 31 December 2024, unless otherwise noted.

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Any investment that has the possibility for profits also has the possibility of losses, including the loss of principal.

Diversification does not ensure a profit or guarantee against a loss.

Market conditions are extremely fluid and change frequently.

Commodity, interest and derivative trading involves substantial risk of loss.

Indices are unmanaged and do not incur fees. It is not possible to invest directly in an index.

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Index Definitions

Bloomberg US Aggregate Bond Index *represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the US investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.*

Bloomberg US Government/Credit Index *includes securities in the government and credit indices. The government index includes treasuries -i.e., public obligations of the US Treasury that have remaining maturities of more than one year and agencies -i.e., publicly issued debt of US Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the*

US Government. The credit index includes publicly issued US corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

Bloomberg US Treasury Index *includes public obligations of the US Treasury with at least one year until final maturity, excluding certain special issues such as state and local government series bonds -SLGs, US Treasury TIPS and STRIPS.*

Bloomberg US Treasury Inflation Protected Securities Index *consists of inflation-protection securities issued by the US Treasury that have at least one year to maturity and at least $250 million par amount outstanding.*

Bloomberg US Agency Index *includes agency securities that are publicly issued by US Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the US Government -such as USAID securities.*

Bloomberg US Municipal Index *is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. The index has four main sectors: general obligation bonds, revenue bonds, insured bonds -including all insured bonds with a Aaa/AAA rating, and prerefunded bonds.*

Bloomberg Mortgage-Backed Securities -MBS Index *is a component of the Bloomberg Aggregate Index covering mortgage-backed pass-through securities of Ginnie Mae -GNMA, Fannie Mae -FNMA and Freddie Mac -FHLMC. The MBS Index is formed by grouping the universe of over 600,000 individual fixed rate MBS pools into approximately 3,500 generic aggregates.*

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