2024 Research Investment Themes Scorecard

Theme	Our Prediction	Results	Score
Inflation will fall faster than anticipated	Supply chain bottlenecks and massive fiscal stimulus drove inflation up in 2021 and 2022. The resulting disinflation throughout the second half of 2022 and 2023 was partially a result of the reversal of those trends, which we believe will continue in 2024. More importantly, we may see the shelter portion of CPI fall significantly. Shelter, referred to as Owners' Equivalent Rent (OER), makes up 30% of the core inflation basket[1] and is the "implied rent" that owners would have to pay if they were renting their homes. The CPI shelter component lags measures of market rents by around a year as it reflects leases signed over the past year and only gradually shows changes in market rents as leases are renewed. If OER were to be replaced with real-time market rent data, November Core CPI would have come in at -0.18% on a year-over-year basis instead of 3.2%.[1] Excluding the possibility of a significant spike in energy prices, as the long and variable lags of monetary policy continue to show up in interest rate-sensitive parts of the economy, such as housing, we will see a quicker rate of disinflation.	Inflation declined at a quicker pace than anticipated in 2024. Year-over-year CPI fell from 3.1% to 2.7%, marking a 13% drop in price growth. The lagging shelter component, Owners' Equivalent Rent (OER)—which accounts for 30% of core CPI—moderated significantly, decreasing from 6.1% to 4.7%. Energy prices remained stable, with gas prices dipping from $3.22 to $3.00 per gallon, easing further pressure on inflation.	✓
Rolling Recession leads to a decline in GDP below the historical average of 2%	Full-year 2023 GDP is projected to come in at 2.4%[1], supported by a strong services sector. While not seeing a full-blown recession, we saw pockets of the economy falter in 2023. Manufacturing has been in contraction since December 2022, commercial real estate has struggled due to higher rates, and several notable regional banks failed in 2023. The economy remained resilient as these sectors encompass a small portion of economic activity. As we move into 2024, other areas of the economy are still vulnerable as the lagged effects of the Fed's hikes show up. The longer that tighter financial conditions persist, the greater the chance that the effects will finally hit other parts of the economy. For example, pandemic-era excess savings should be completely depleted in early 2024; therefore, the current rate of consumer spending may not easily be sustained. Given that the consumer and services sector accounts for 70% of economic activity[1], an area that once propped up the economy may see some weakening back to normal levels, keeping GDP below the historical average in 2024.	Contrary to predictions of GDP falling below historical averages, the U.S. economy grew at an annualized 3.1% in Q3 2024. A 5% surge in goods consumption and a 3.7% rise in services spending fueled this growth. While the personal saving rate declined moderately from 5.5% to 4.4%, consumers leaned heavily on credit and "buy now, pay later" options, driving record holiday spending. Despite concerns over tighter financial conditions, GDP remained resilient, underpinned by strong consumer activity.	✗

Overall scoring: ✓ Right call ✗ Wrong call — Neutral

Theme	Our Prediction	Results	Score
Bonds regain footing again & stand out as an asset class	The Bloomberg U.S. Aggregate Bond Index, the most widely used benchmark for U.S. investment-grade bonds, finally posted a positive year in 2023 after two years of negative returns. With data going back to 1974, the Bloomberg U.S. Aggregate Bond Index had never experienced two consecutive calendar years of negative returns, and before 2021, it had only posted negative returns four times in 46 years.[1] Poor performance in recent years has been primarily driven by yields moving higher from historically low levels. Despite continued interest rate hikes by the Fed and historically high interest rate volatility, positive returns for bonds prevailed in 2023. Markets are now pricing in rate cuts for next year, which will lower interest rates. Using the historical relationship between interest rate-cutting cycles by the Fed and bond performance as a guide, the periods following peak interest rates have led to strong returns in many parts of the fixed-income market.	Bond yields remained stubbornly elevated throughout 2024. However, the Bloomberg U.S. Aggregate Bond Index rose 1.25%, supported by high starting yields. U.S. corporates delivered a 2.03% return, while high-yield bonds outperformed with an 8.19% gain. Although the Federal Reserve cut rates by 0.50% in September and another 0.25% in November and December (bringing the target range to 4.25%-4.50%), Treasury yields defied expectations, driven by inflation fears, rising deficits, and a resilient labor market. Bonds still delivered positive performance for diversified portfolios.	—
Above average equity market performance	Since 2000, the equity market has averaged a return of 6.98%.[1] We are optimistic that stocks will surpass this rate of return in 2024 despite the outsized gains seen in 2023. Supporting this thesis is a more dovish Fed, pent-up cash on the sidelines, double-digit earnings expectations, and an election year. The Fed is expected to cut rates no less than three times in 2024. After the first Fed rate cut, stocks typically return 5-6%.[2] As rates fall, retail investors and institutions will look to deploy the more than $5.9 trillion they have on the sidelines in money market funds.[1] Additionally, earnings are expected to grow 11.8% in 2024, above the 10-year average growth rate of 8.4%. Strong earnings usually translate to strong stock performance.[1] On top of all this, equity markets have also shown tremendous outperformance in election years, earning an average return of over 12%.[1] However, gains will not be without volatility. A balanced 60/40 portfolio has suffered an average intra-year pullback of 10% over the past four decades. Yet the full-year return has been positive in 32 of those 43 years since 1980.[3]	The S&P 500 surged over 25.02% year-to-date in 2024, achieving 57 record highs. This strong performance was driven by robust earnings growth, with Q3 marking a 5.8% year-over-year increase—the fifth consecutive quarter of gains. Rate cuts by the Federal Reserve in September and November provided additional momentum. Historically strong market performance in election years was amplified by investor optimism surrounding a pro-growth, deregulation-focused president-elect.	✓
Market breadth will widen in 2024	Almost all of the S&P 500's returns in 2023 were driven by the Magnificent Seven (Apple, Amazon, Tesla, Nvidia, Microsoft, Meta, and Alphabet). Together, this group comprises nearly 30% of the index but accounted for 100% of the index's return for the year.[1] If you were to remove these names from the S&P 500, the index would have been negative in 2023.[1] Strong performance relative to other parts of the market created wide valuation gaps, which may prompt investors to take profits in this stretched area of the market and redeploy cash to the other 493 names where valuations are more reasonable or attractive.	The "Magnificent 7" tech stocks continued their strong start to 2024, but leadership broadened as smaller-cap stocks gained momentum. The Russell 2000 outperformed the Nasdaq Composite by over 11 percentage points in July alone—the widest margin since 2001. This shift highlighted a more inclusive rally, with a growing number of stocks reaching new highs, signaling improved market breadth beyond the mega-cap names.	✓

Overall scoring: ✓ Right call ✕ Wrong call — Neutral

Economic Definitions

CPI (headline and core): Consumer prices (CPI) are a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

GDP: Gross domestic product (GDP) measures the final market value of all goods and services produced within a country. It is the most frequently used indicator of economic activity. The GDP by expenditure approach measures total final expenditures (at purchasers' prices), including exports less imports. This concept is adjusted for inflation.

Federal Reserve (Fed): The Federal Reserve System is the central banking system of the United States of America.

Federal Funds Rates (Fed Funds rate): The Federal funds rate refers to the target interest rate set by the Federal Open Market Committee (FOMC). This target is the rate at which commercial banks borrow and lend their excess reserves to each other overnight.

Owners' equivilent rent (OER): OER is the amount of rent that would have to be paid in order to substitute a currently owned house as a rental property. This value is also referred to as the rental equivalent. In other words, OER figures the amount of monthly rent that would be equivalent to the monthly expenses of owning a property (e.g. mortgage, taxes, etc.).

10-year Treasury yield: The 10-year Treasury yield is the annualized rate of return you would earn on a 10-year Treasury note issued by the U.S. government if you held the note to maturity.

2-year Treasury yield: The 2-year Treasury yield is the annualized rate of return you would earn on a 2-year Treasury note issued by the U.S. government if you held the note to maturity.

Earnings Growth: Earnings growth is the change in an entity's reported net income over a period of time. The measure is usually a period-to-period comparison, such as from quarter to quarter, from year to year, or a comparison of the current quarter's results to those of the same quarter last year.

Index Definitions

S&P 500: The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

Bloomberg Barclays US Agg Bond: The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

Disclosures

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1 Data Obtained from Bloomberg as of 12/31/2024

2 https://www.fa-mag.com/news/be-careful-what--fed-rate-cuts--you-wish-for-75721.html?print

3 https://www.jpmorgan.com/insights/outlook/market-outlook/the-good-the-bad-and-the-volatility-what-investors-might-not-be-noticing

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