NorthCoast Asset Management

Quarterly Client Update

Q4 2024

December 31, 2024

"An investment in knowledge pays the best interest"

~ Benjamin Franklin

As we turn the page on 2024 and enter a new year, the traditional Wall Street predictions for the year ahead are arriving in my inbox. Reflecting on all the scenarios put forward by my peers, I always remind myself that they each have a probability of occurring and that investing in the stock market is much like racing in the Tour de France. Both require careful training and planning, strategic thinking, and the ability to navigate unexpected challenges.

Training and preparation are critical: Professional cyclists undergo rigorous, structured training programs that typically begin at least seven months before the event, focusing on building endurance, strength, and specialized skills. These programs include altitude training camps to improve oxygen utilization, targeted interval training to enhance power output, and specific race simulations to prepare for the varied terrain. Proper preparation also involves meticulous attention to nutrition, recovery, and injury prevention. Without this comprehensive approach to training, riders would be unable to withstand the grueling 21-stage race, which pushes athletes to their absolute limits over thousands of miles.

Strategic adaptation to each stage: Cyclists face various terrains and weather conditions, similar to how investors must adapt to market fluctuations and economic changes. Both endeavors reward those who stay informed, make calculated decisions, and remain resilient in the face of setbacks.

Navigating the unexpected: Just as a cyclist must choose the right moments to push ahead or conserve energy, an investor must decide when to buy, hold, or sell stocks. The race is not won in a single sprint but through sustained effort, much like building a successful investment portfolio over time.

Ultimately, reaching the finish line or achieving financial goals requires patience, perseverance, and a willingness to learn from every twist and turn along the way.

Continued review and realignment with financial goals is critical. Proper diversification, asset allocation, and regular reviews can help safeguard your investments.

Our goal is always to provide you with innovative solutions adapted to the uncertainty of investing, guiding you through an optimal allocation according to your financial goals and risk tolerance. Now for my view on the topics affecting your investments.

A CIO's View

Movement in these areas is monitored daily by our models. We also regularly cover these topics in our monthly Navigator and quarterly Fixed Income Commentary.

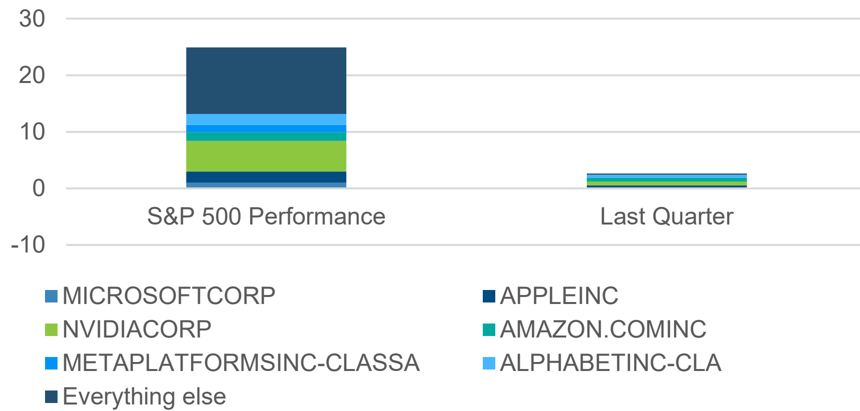
Market Return: A Narrow and Negative Quarter

Last quarter the artificial intelligence gold rush and some technology stocks were showing signs of cooling off. This past quarter was a clear year-end rally of these stocks which contributed to the entire S&P500 Index return and more, as the rest of the index had a negative contribution.

A few statistics: the S&P 500 Index was up 24.5%, for the year, with less than 29% of its stocks beating the index. The average stock return was 12.8% while the top six names (Microsoft, Apple, Nvidia, Amazon, Meta, Alphabet) were up 55% on average, and still disproportionately accounted for more than 13% of the 24.5% annual return (more than half of the performance).

The fourth quarter, the index was up 2.3% and the average stock in the index was down 1.9%, with 36% of the stocks beating the S&P Index (Exhibit 1).

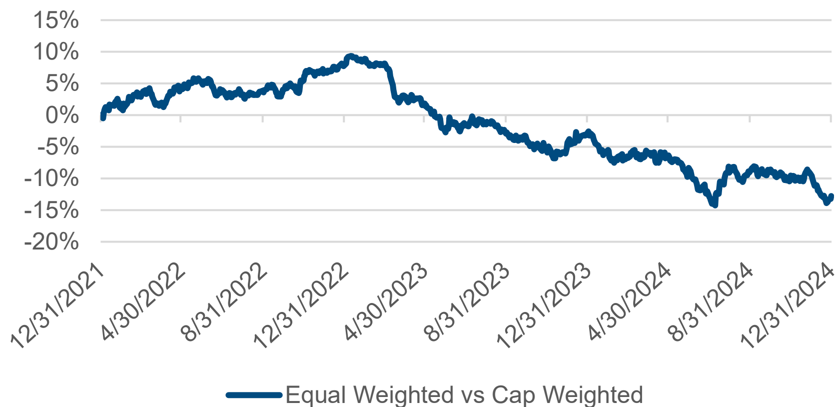
Exhibit 1: S&P Performance Q4 and FY 2024



Source: Bloomberg.

We like to measure the notion of market breadth by comparing the performance of the equal-weighted S&P 500 Index versus the cap-weighted index performance. You can see below that there was a strong 2022, followed by a challenging 2023, Q1/Q2 2024, a strong comeback in Q3 2024, which was given back in Q4 (Exhibit 2). For a longer term perspective on this important notion, please refer to our paper: https://21355211.fs1.hubspotusercontent-na1.net/hubfs/21355211/DoesSizeMatter_Commentary.pdf

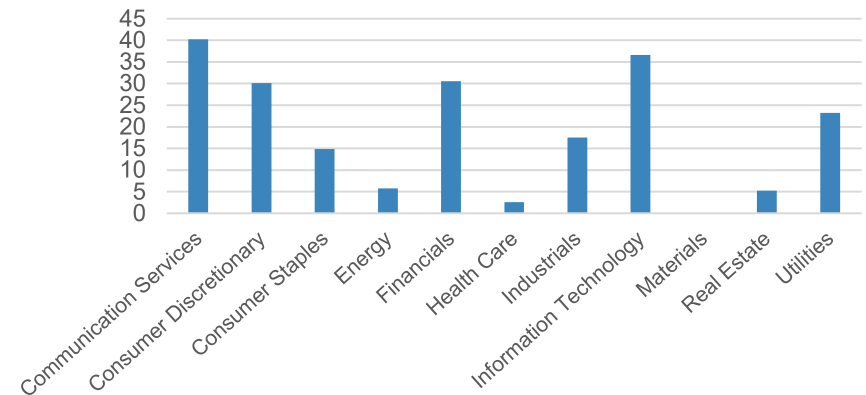
Exhibit 2: S&P500 Cap-Weighted vs. Equal-Weighted Performance



Source: Bloomberg.

We have stressed over the past quarters the importance of diversification. While the S&P 500 has extended its year-to-date gains to nearly 24.5%, the communication services sector gained 40.2%, technology gained 36%, and financial and consumer goods gained 30%. The laggards were utilities at 23%, industrials at 17%, consumer staples at 15%, energy and real estate at 5%, and materials at 0%. This sector perspective underscores the value of a well-diversified portfolio and a broadening of the 2024 rally that we had been expecting (Exhibit 3).

Exhibit 3: 2024 Sector Returns



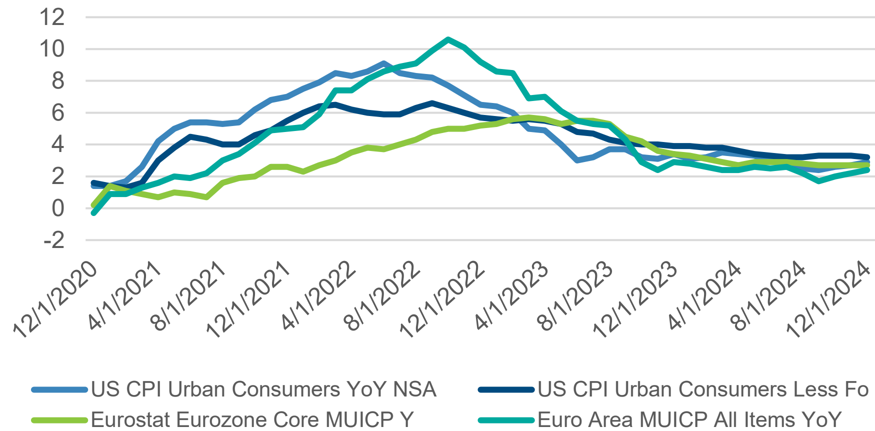
Source: Bloomberg.

Inflation: Improvements so far but resilience ahead

The January CPI report showed lower-than-expected inflation (Exhibit 4), with core CPI rising 0.2% month-over-month (3.2% year-over-year), mainly due to moderation in lodging prices and motor vehicle fees. The stock market welcomed the data since core CPE had increased 0.3% four straight months.

With this data in mind, the report is making the possibility of a March rate cut palatable and has caused Treasury yields to drop slightly.

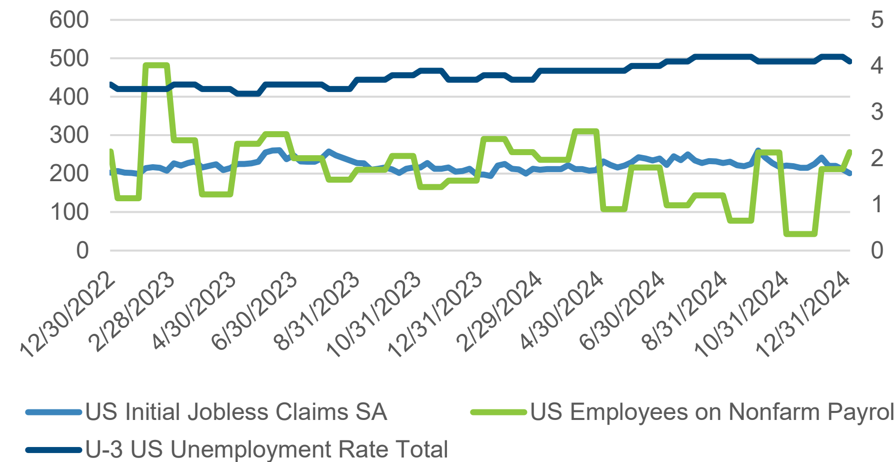
Exhibit 4: US/Europe Core Inflation Rates Ease Slightly



Source: Bloomberg.

In contrast, the labor market was well above expectations, in particular in December with nonfarm payrolls rising to 256,000 versus 165,000 estimated. The unemployment rate also fell to 4.1% (Exhibit 5). This news in isolation decreased the likelihood of the FOMC cuts in 2025 from three 25bps cuts to only two.

Exhibit 5: Unemployment/Nonfarm Payroll Display Resilient Economy



Source: Bloomberg.

FOMC September meeting: Majority Backs a 50bps Rate Cut Amid Cautious Economic Outlook

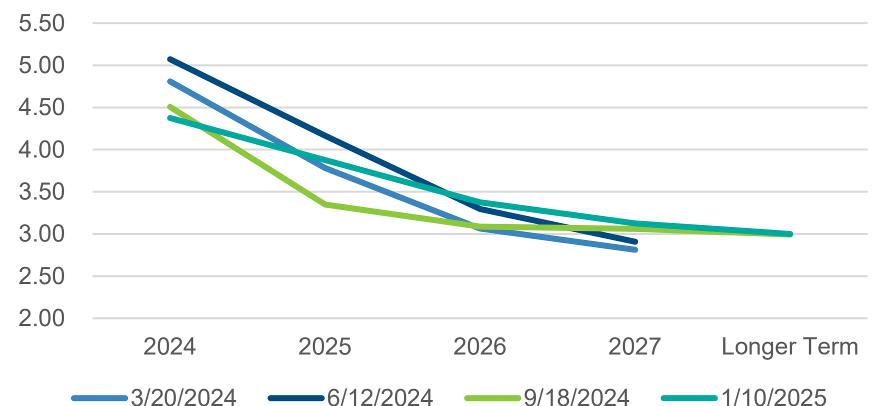
The December FOMC meeting minutes revealed that the Federal Reserve is approaching a point where it may slow the pace of interest rate cuts. Most participants noted continued progress in disinflation, but almost all acknowledged increased upside risks to inflation. The committee decided to lower the federal funds rate by 25 basis points, with a vast majority supporting this move.

The minutes highlighted a careful approach to future monetary policy decisions, given recent economic strength and inflation concerns. Many participants emphasized the need for caution in light of these factors. The committee generally viewed the current policy stance as meaningfully restrictive, allowing time for careful calibration of future changes.

Regarding the labor market, participants observed a gradual easing of conditions but noted that indicators merited close monitoring. The unemployment rate remained low, and there were no signs of rapid deterioration. The Fed staff slightly adjusted their economic projections, expecting slightly slower GDP growth and a marginally higher unemployment rate compared to November's forecast.

The dot plot is now at all forecasted horizons (Exhibit 6).

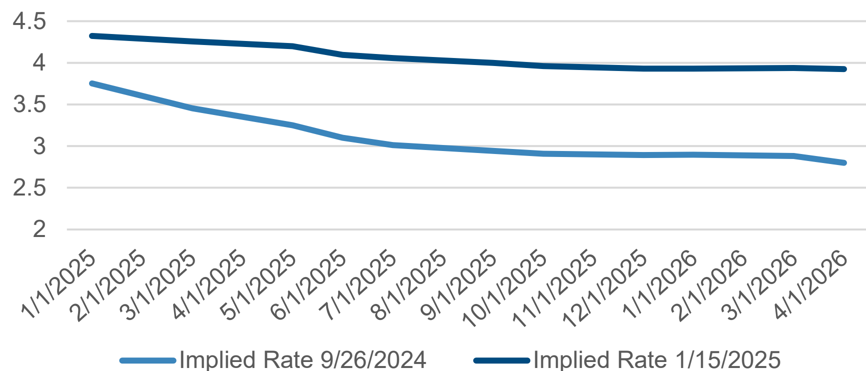
Exhibit 6: FOMC Dot Plots Continue to Signal High Rates for Longer



Source: Bloomberg.

The rates markets have incorporated this information (Exhibit 7) and are pricing in higher rates, optimistically expecting more cuts ahead, showing an implied rate curve higher than the ones of the last quarter.

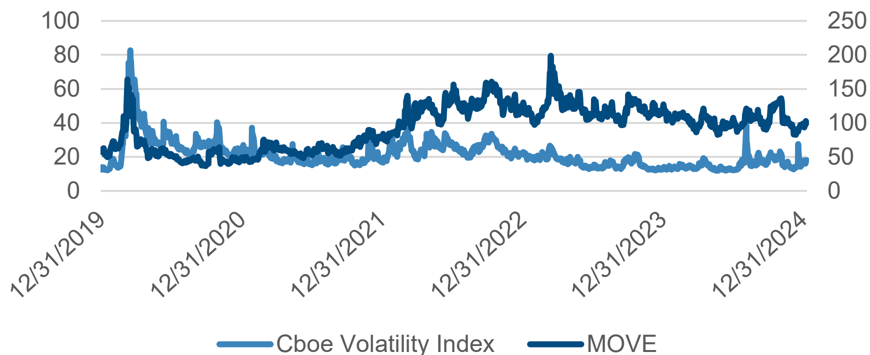
Exhibit 7: Implied Rates Have Significantly Increased in Q4



Source: Bloomberg.

Interest rate uncertainty is still high, as can be seen in Exhibit 8. The MOVE Index (implied volatility of a basket of OTC options on US interest rate swaps) illustrates the uncertain environment we are in. With a continuation of the positive trend this quarter, that uncertainty is a little lower than it used to be, indicating that the "higher for longer" scenario might be sinking in. Meanwhile the VIX (Volatility) Index has rebounded from its lows with a spike on December 18th as the Santa rally was unravelling and erased 3.6% from previous highs.

Exhibit 8: The MOVE Index Indicate Moderating Uncertainty in Interest Rates, while the VIX Index Indicates a Constructive Investment Narrative



Source: Bloomberg.

We continue to see US equities trading at multiples of 24X-27X with some mild signs of economic slowdown in combination with resilient inflation. The prudent thesis makes risk assets seem overbought, exposing vulnerabilities in US equities. The Shiller CAPE (cyclically adjusted price-earnings ratio) is 37, near the highs of the dotcom bubble. In contrast, the Euro Stoxx 50 is trading at 14X-15X multiples, the FTSE 100 Index is trading at 12X-15X, and the S&P TSX Index is trading at 17-28X, offering viable competing alternatives to US equities. Yield spreads continue to compress and are at 10-year lows by historical standards both in the corporate and high yield segments.

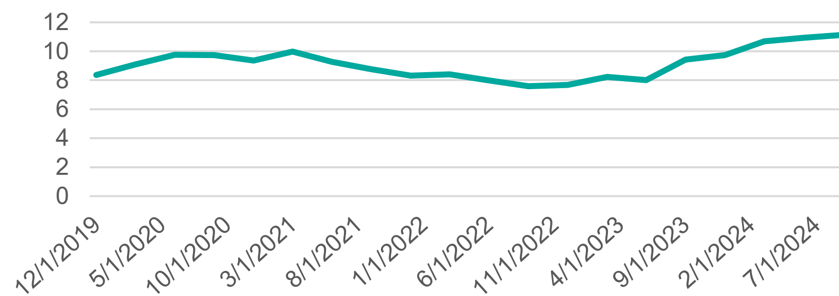
Economy: Resilient with a Moderate Slowdown

Recession risks have continued to inch lower however more recently recession probability has stayed constant over the past few quarters at a low 20%.

For 2025, we are continuing to see some further signs of slowdown which could grow more substantial: for instance, personal savings buffers are lower than post-pandemic which could diminish consumer strength. In addition, fiscal policy is uncertain with the potential lapsing of past policies, the additional labor participation rate looks more challenging, the delayed impact of variable rate debt is likely to be seen in more corners of the economy, political changes, and geopolitical tensions in the Middle East could create additional headwinds.

Relatedly, credit card delinquencies are rising to levels now higher than the 2020 recession (Exhibit 9).

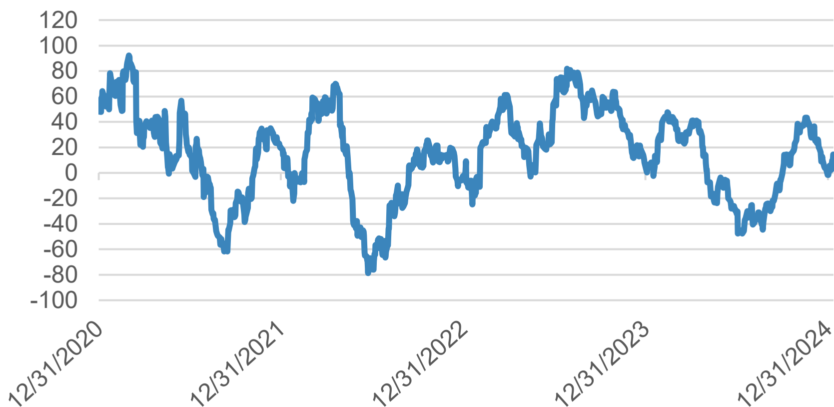
Exhibit 9: Credit Card Delinquencies Starting to Rise (% of balance delinquent 90+ days)



Source: Bloomberg

Another sign of economic slowdown is the Citigroup Economic Surprise Index which despite a rebound last quarter stayed in neutral territory, indicating that while still resilient, the US economy is no longer posting as many strong positive surprises as the majority of 2023 and 2024 (Exhibit 10).

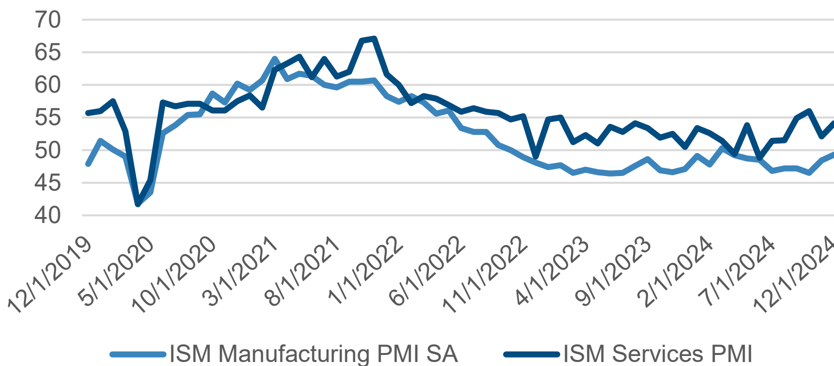
Exhibit 10: The Citigroup Economic Surprise Index Indicates How Economic Data Compares with Consensus Estimates



Source: Bloomberg, Citigroup.

Further signs of a moderate slowdown can be seen in the leading indicators of the PMI ISM surveys (Exhibit 11). Both indices are hovering around the neutral 50 level. While the declines seem to have stabilized and improved at the last reading they have not shown any clear signs of improvement over the past six months.

Exhibit 11: ISM Manufacturing and Services Indices are in Neutral Territory

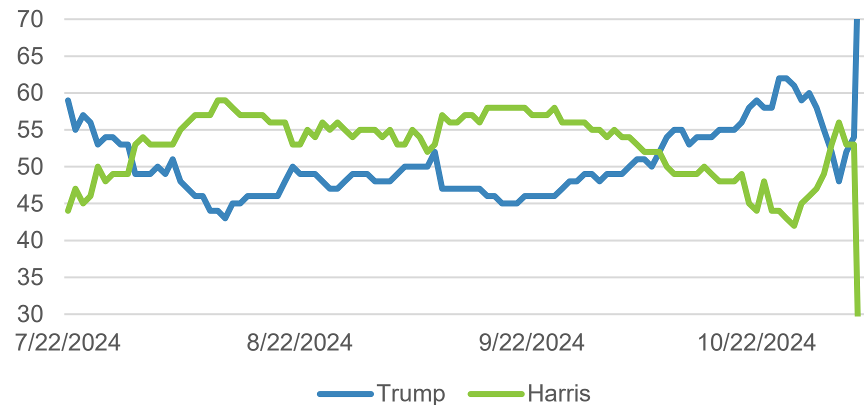


Source: Bloomberg.

US Elections: Uncertainty lifted leading to a relief.

We monitored the election, with some unprecedented developments for both candidates over the past year (Exhibit 12). The outcome of the election can yield significant changes to regulation, fiscal policy, trade policy and foreign policy. Of particular interest are the risks of higher tariffs and increased fiscal spending which could reinvigorate inflation risks. We anticipate some volatility as the year progresses and the agenda become more clearly defined on fiscal, trade, and regulatory policies.

Exhibit 12: Election Betting Odds



Source: Bloomberg, PredictIt

Investment Implications

Investing is like the Tour de France: it’s about enduring the climbs, mastering the descents, and knowing when to accelerate, all while relying on our training and preparation. True success doesn’t come from a single burst of speed, but from a consistent strategy and unwavering resilience.

By applying these lessons of preparation, diversification, adaptability, risk management, and seeking expert guidance, investors can navigate the complex financial landscape with greater confidence and skill.

Looking forward, while we still do not see any major risks to the upside or the downside, the current return/risk environment does not appear the most favorable, thus our cautious stance to look for higher quality equity and fixed-income segments, repositioning capital from short and long-term fixed income to intermediate maturities, more emphasis towards international

equities as well as a willingness to embrace any trading weaknesses to capitalize on future opportunities.

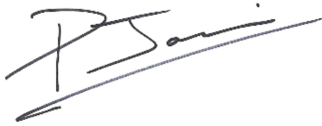
Given the current market conditions we reiterate our recommendations:

- Diversify-Diversify-Diversify: by asset class (bonds, equities, alternatives, options), by investment approach (long, tactical, premium income), by style (active, passive, defined outcome), by benchmark (equal-weighted vs. cap-weighted), by geography (US, international, global). Embrace other scenarios.
- Be realistic and remain cautious and opportunistic in the current environment with active risk management and tactical strategies.
- Follow a systematic and flexible approach and stick with it during episodes of volatility.

I hope this letter finds you and your family happy, healthy, and enjoying the new year. Our thoughts are also with those impacted by the recent LA wildfires, reminding us of the importance of resilience and community during challenging times.

If you have any questions about your portfolio or would like to discuss your current positioning, please contact your advisor at any time. Our team always has your best interests at heart and stands ready to help you meet your goals with the appropriate allocations and proactive financial planning. As always, we thank you for your trust and business.

Warm regards,



Patrick Jamin
President & CIO

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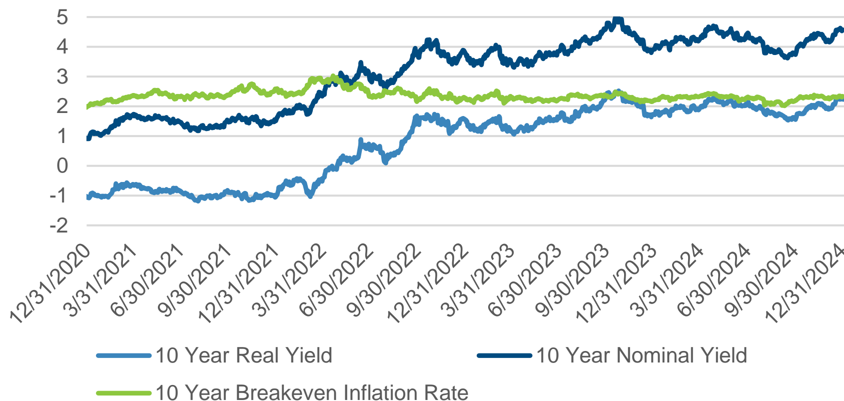
Fixed Income Perspectives: Navigating Volatility and Opportunities in 2025

Julia Zhu
Senior Vice President, Market and Security Research

Market Recap

Fixed income investments have seen some significant volatility in the fourth quarter. While the Bloomberg U.S. Aggregate Index (AGG) returned 5.20% in Q3, posting its second-highest quarterly performance since 1996, the index has since underperformed, returning -3.1% in the fourth quarter. The underperformance can be attributed to reduced expectations of aggressive rate cuts. These expectation changes were due to upside economic data surprises and renewed inflation concerns, particularly in light of proposed policies by President-elect Trump and the Fed's hawkish-looking interest rate projections for 2025. The 10-year U.S. Treasury yields climbed during the quarter, with the nominal 10-year yield ending the quarter at 4.57%, compared with 3.78% at the end of the previous quarter. The increase in real yield contributed primarily to the shift, with real yield up by 61 basis points for the quarter, while inflation expectations, measured by the 10-year inflation breakeven rate, saw a moderate increase from 2.18% at the end of the third quarter to 2.34% (see Exhibit 1).

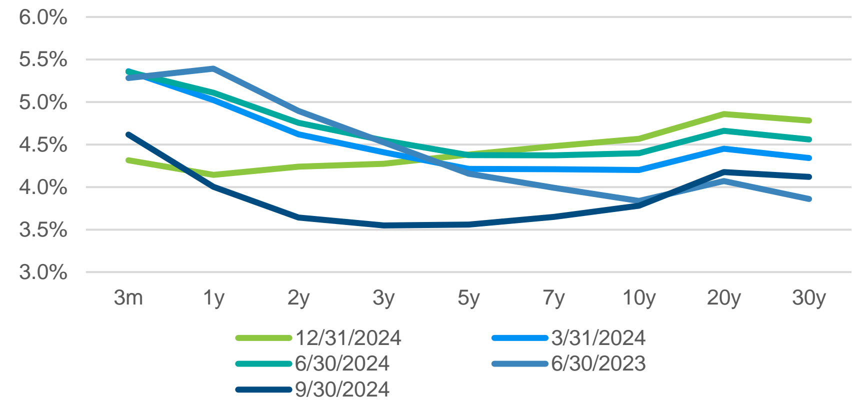
Exhibit 1: Treasury Yields Declined in the Fourth Quarter of 2024



Source: Bloomberg.

In the fourth quarter of 2024, Treasury yields across all maturities increased significantly except the three-month yield, leading to further normalization of the yield curve. At the end of September, the yield curve turned positive after a prolonged period of inversion, with the 10-year and 2-year Treasury yield spread at 0.14%. In the fourth quarter, the steepening trend of the yield curve continued, with the spread of 10-year and 2-year yield increasing to 33bps, which might suggest increased investor optimism about economic growth prospects (see Exhibit 2).

Exhibit 2: U.S. Treasury Yield Curve



Source: Bloomberg.

Macro Landscape

Resilient economy: The U.S. economy demonstrated some resilience recently, with Q3 GDP growth coming in at 3.1%. The most significant contributor to the growth has been consumer spending, which accounted for about 70% of real GDP growth in the last three quarters. Retail sales grew at a healthy pace for three consecutive months in the third quarter, with total sales rising by 0.7% in November after rising by an upwardly revised 0.5% in October. Also, business investment has been robust, with accelerating AI investment trends presenting significant upside growth potential. At the same time, housing market sentiment seems to improve with the NAHB

Housing Market Index continuing to rise, largely driven by the Fed's easing monetary policy.

We see the U.S. economy likely to achieve a soft landing – moderating growth and inflation without a recession. The main risks are slowing activity and labor market growth. Labor markets are cooling but remain relatively healthy at this stage, with the three-month average of payroll numbers ending in November at 173k, more in line with expectations. However, other measures, such as quit rates, have continued to decline. In the coming year, we see consumption is likely to contribute less to economic growth as the pent-up savings has largely faded. The household savings rate has recently dropped to 4.4%, below the historical average. Also, the manufacturing sector, facing sluggish global demand, has seen weak job growth and volatile new order activity. Other risks include potential policy changes of tariffs, immigration, fiscal policy and its implication of inflation and economic growth.

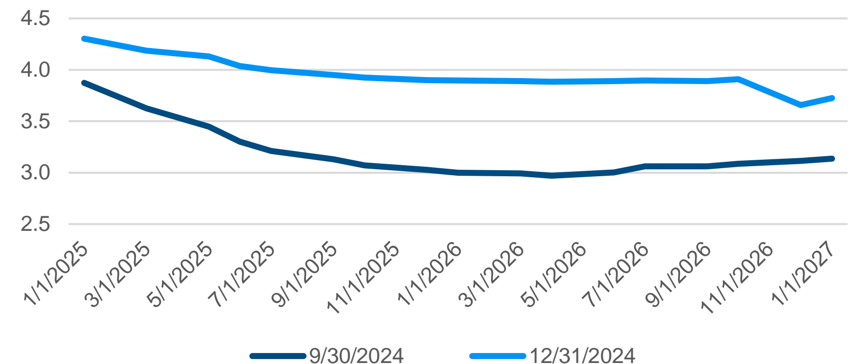
Inflation concerns: The fourth quarter inflation came in a bit stickier than expected but remains on a general trajectory of moderation. Both the November headline CPI and core CPI (excluding food and energy) increased by 0.3% from October. On a year-over-year basis, headline CPI edged up from 2.6% to 2.7%, while core CPI held steady at 3.3% for three consecutive months. The encouraging news is that shelter inflation, a key component of CPI, slowed significantly in November, with owners' equivalent rent rising only 0.2%, its smallest increase since early 2021. Meanwhile, producer prices increased more than anticipated, with PPI for final demand rising 0.4%, pushing the annual rate up from 2.6% to 3%, the highest level in about two years. The higher-than-expected PPI number may lead to potential upward pressure on consumer prices in the near future. Additionally, core PCE inflation, a key inflation measure, remained at 2.8% in November, higher than six months earlier, prompting the Fed to revise its 2025 inflation forecast upward to 2.5%.

We project inflation will continue to moderate in the coming year, though the trajectory remains uncertain. While shelter and services prices showed signs of slowing, their cooling is essential for broader inflation improvement. Base effects from early 2024 price increases will likely contribute to the ease of annual PCE inflation rates by early 2025. However, uncertainty surrounding potential tariffs and the incoming administration's policies could drive goods inflation higher.

A more cautious Fed: Following the substantial 50 basis rate cut in September, the FOMC cut its policy rate by 25 basis points at both its November and December meeting, bringing the Fed funds rate to a range of 4.25% to 4.5%. While the cut was largely expected, the FOMC's latest Summary of Economic Projections indicated a more cautious approach to policy easing in the coming year. The median committee member now expects only 50 basis points in rate cuts for 2025, down from the 100 basis points projected in its September meeting. At the same time, with the recent inflation proving to be stickier, FOMC's inflation projections have been revised upward: the median forecast for the PCE deflator by the end of 2025 increased from 2.1% to 2.5%.

Market expectations have adapted accordingly. During the fourth quarter, market expectations about the Fed's schedule for policy easing have changed significantly. As of 12/31/2024, the Fed funds futures market forecasted a fed fund rate of 3.9% by December 2025, compared with 3.0% forecasted at the end of the third quarter (see Exhibit 3). We now pared back the pace of the Fed's easing cycle, expecting the Fed to lower its policy by 50 basis points in the coming year.

Exhibit 3: Fed Fund Rate Implied by the Futures Market



Source: Bloomberg.

Fixed Income Outlook

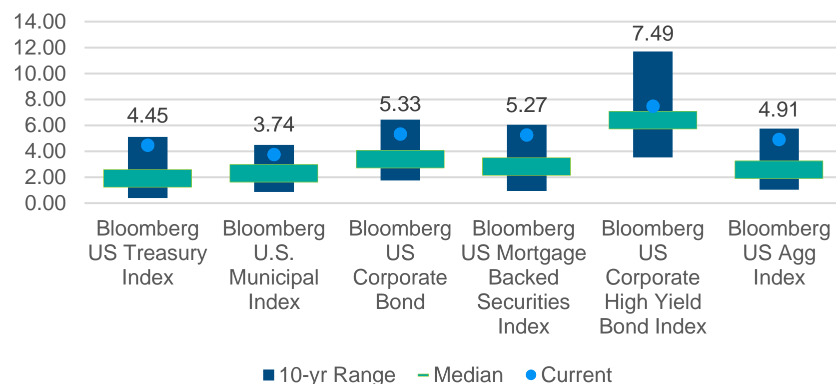
We believe that asset allocation decisions to invest in fixed income will prove rewarding in 2025, though we also anticipate some market volatility. The combination of high yields, moderating inflation, sound corporate fundamentals and the Fed's easing policy could provide investors with attractive income, capital gain potential and downside protection. In this commentary, we would like to highlight the following three main themes:

1. Yields are still attractive in both nominal and inflation-adjusted terms
2. Policy uncertainty could influence the Fed's easing cycle

3. Dynamic investment strategies are the keys to navigating uncertainty

First, current yields are still near the highest levels in more than 15 years. The Bloomberg US Aggregate Bond Index (AGG) yield currently stands at 4.9%, compared to the medium level of 2.6% over the last ten years (see Exhibit 4). Higher starting yields have significantly enhanced income potential and are strongly correlated with the future total return of fixed income investments. For example, historical data demonstrated that for the AGG Index, the yield-to-worst (YTW) explained more than 90% of the five-year forward return.

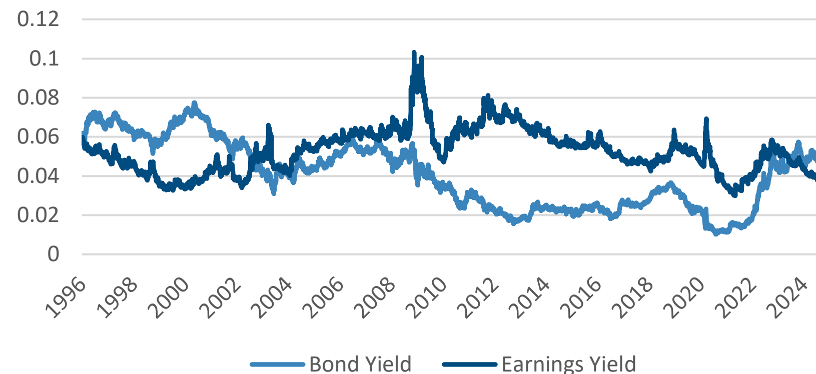
Exhibit 4: Yields Across Fixed Income Assets



Source: Bloomberg.

Also, current bond valuations are attractive relative to equity. As shown by Exhibit 5, the yield on the Bloomberg U.S. Aggregate Index has surpassed the earnings yield of the S&P 500 Index earnings yield. We feel strongly that now is the time to lock in the historically elevated yields and take advantage of the higher income potential while helping reduce overall risk in a portfolio.

Exhibit 5: Bond Yields vs. S&P 500 Earnings Yield



Source: Bloomberg.

Second, The Trump administration is expected to introduce a set of policy changes, including higher tariffs, lower taxes, and immigration reforms. The Trump economic agenda emphasizes imposing tariffs on US imports, including a 10% blanket tariff and a 60% tariff on Chinese imports. While full implementation is unlikely and the impact is not anticipated until late 2025, tariffs could have a stagflationary impact. On tax policy, the Trump Administration plans to extend all expiring tax cuts from the Tax Cuts and Jobs Act (TCJA) as well as additional cuts for domestic manufacturers, which could add significant deficits over the next decade. The impact of immigration may be less inflationary as the current supply and demand for labor are more balanced.

Overall, the combination of tariff policies, fiscal spending, and tax cuts is likely to heighten inflationary pressures, which could push up the Fed's terminal interest rate and influence the pace of rate cuts. For fixed-income investors, these expectations are reflected in the yield curve, which has shifted higher due to increased inflation expectations and rising term premia linked to the growing federal deficit. While Chair Powell has emphasized the Fed's independence, the potential policy changes could complicate the Fed's policy decisions.

Third, in the current environment characterized by policy uncertainty, inflation concerns, and shifting Federal Reserve policy, active management and dynamic investment strategies are becoming more critical in fixed income investments. In our base case of soft landing – moderating growth and inflation without a recession, high-quality duration asset-backed securities and corporate credit, including investment grade, high yields, and convertibles, will benefit. If risks such as renewed inflation or geopolitical

shocks lead to recession, fixed income investments, especially sovereign bonds, will still perform well.

As we enter a period of potential policy changes, active managers can dynamically adjust their portfolios to navigate the complexities under different economic scenarios, especially as the Fed continues its easing cycle while maintaining the balance between inflation pressures and growth risks. In today's fast-changing markets, we believe portfolio managers' ability to make dynamic decisions on duration and sector allocation is especially rewarding. In addition, we constantly explore opportunities beyond traditional fixed income sectors to achieve higher risk-adjusted returns.

Investment Implications

A moderating economic outlook, uncertainty around interest rates and potential policy shifts together with potential market volatility create a supportive environment for active fixed income investors, especially with an additional boost from falling interest rates. Historically, bonds have demonstrated strong performance during soft landings and even better in more challenging landing scenarios. While we still favor high-quality bonds, we emphasize the importance of active management as each sub-sector of fixed income has unique characteristics and risks, especially in the current changing interest rate environment. We are neutral in duration in our more static portfolios and slightly overweight duration in our more dynamic portfolios. For 2024, our Dynamic Income strategy returned 3.6% net of fees, outperforming the Global Aggregated Bond Index and U.S. Aggregate Bond Index by 5.2% and 2.3%, respectively. In the fourth quarter, we focused on several key themes in our strategies, outlined below:

- **Investment grade credit:** We believe investment grade bonds can enhance portfolio returns in the current environment and the coming year. Tight credit spreads are supported by solid credit fundamentals and investors seeking yield. Also, potential policy changes such as corporate tax cuts and fewer regulations could bolster corporate earnings, further supporting high-quality corporate credit.

- **Mortgage-backed securities:** We kept a significant allocation to U.S. agency mortgage-backed securities through investing in MBB (iShares MBS ETF), as the MBS sector appears attractively valued and was supported by solid fundamentals.

- **Inflation-linked bonds:** Adding to an allocation of inflation-linked bonds is appealing, with recent higher expected inflation and inflation proving to be more persistent than anticipated. Also, the proposed policy changes from the Trump administration, such as tariffs and tax cuts, could potentially be inflationary, making TIPS an attractive investment. We recently added modest exposure (2%) to iShares TIPS Bond ETF (TIP).

- **Convertible bonds:** Convertible bonds offer a unique combination of equity upside potential and downside protection. Convertible's exposure to growth-oriented sectors allows them to outperform other fixed income investments during equity market rallies while offering downside protection when equities decline. Also, the convertible bond market provides access to some companies that do not issue traditional corporate debt. We have a modest exposure (2%) to SPDR Bloomberg Convertible Securities ETF (CWB).

Important Disclosure Information

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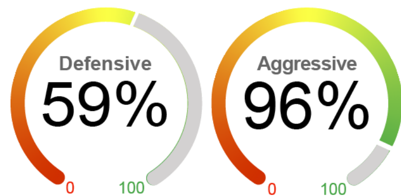
NorthCoast Navigator

Q4 2024 | December 31, 2024

Current Equity Exposure: We employ two distinctive dynamic market exposure models in our strategies: one tailored for growth-focused investors seeking aggressive opportunities and another designed for those with a more defensive approach, prioritizing capital preservation. As of 12/31/2024. Data provided by Bloomberg, NorthCoast Asset Management.



Current Equity Exposure

Summary: 2024 has ended with mixed results in the final month of the year. In December, the S&P 500 Index declined by 2.4%, and the Dow Jones dropped by 5.1%. However, the Nasdaq 100 Index, primarily comprised of companies in the technology sector, ended the month with a mild 0.5% gain. The broad declines began around the FOMC's December meeting, where it projected a more cautious approach to rate cuts in 2025. A Santa Claus rally helped pare back most of the index losses, but the decline resumed toward the end of the year. Despite the December pullbacks, 2024 concluded with positive results: the S&P 500 posted a 24.3% gain for the year, the Dow Jones rose by 14.9%, and the Nasdaq 100 saw a 25.7% gain. Economic data remains resilient, with moderating inflation and broadening earnings growth, along with expectations of fewer regulations and lower corporate tax rates under Republican control. However, risks such as high equity valuations, geopolitical tensions, and policy and trade uncertainties persist. We remain cautiously optimistic and have pared back our allocation to U.S. equities in our defensive tailored approach from 64% to 59%.

A more cautious Fed: At its December meeting, the FOMC cut its policy rate by 25 basis points, bringing the Fed funds rate to a range of 4.25% to 4.5%. While the cut was largely expected, the FOMC's latest Summary of Economic Projections indicated a more cautious approach to policy easing in the coming year. The median committee member now expects only 50 basis points in rate cuts for 2025, down from the 100 basis points projected in its September meeting. The estimate of the neutral interest rate has also increased, with the median long-run rate expectation now at 3%, compared with 2.9% in September and 2.5% in December 2023. At the same time, with the recent inflation proved to be stickier, FOMC's inflation projections have been revised upward: the median forecast for the PCE deflator by the end of 2025 increased from 2.1% to 2.5%. The Fed's more cautious stance than expected led to a negative market reaction, with the S&P 500 Index falling almost 3% on the announcement day.

Inflation concerns: The November CPI (Consumer Price Index) came in a bit stickier than expected but remains on a general trajectory of moderation. Both the headline CPI and core CPI (excluding food and energy) increased by 0.3% from October. On a year-over-year basis, headline CPI edged up from 2.6% to 2.7%, while core CPI held steady at 3.3% for three consecutive months. Although both grocery and vehicle prices edged higher, the encouraging news is that shelter inflation, a key component of CPI, slowed significantly, with owners' equivalent rent rising only 0.2%, its smallest increase since early 2021. Meanwhile, producer prices increased more than anticipated, with PPI for final demand rising 0.4%, pushing the annual rate up from 2.6% to 3%, the highest level in about two years. The higher-than-expected PPI number might lead to potential upward pressure on consumer prices in the near future. Additionally, the core PCE inflation, a key inflation measure, remained at 2.8% in November, higher than six months earlier, prompting the Fed to revise its 2025 inflation forecast upward to 2.5%.

China's stimulus policy: During the Politburo's policy meeting, China's leaders committed to implementing "more proactive" fiscal policies and "moderately" easing monetary policy next year in order to stimulate domestic consumption and stabilize the property markets. Also, the 2024 China Central Economic Work Conference (CEWC) outlined nine key strategies for addressing economic challenges in 2025, including boosting domestic demand and investment efficiency. The government also laid out plans to expand fiscal spending, raise the fiscal deficit ceiling, and reduce reserve requirements and interest rates. The Chinese equity market responded positively to the stimulus announcement, with the CSI 300 Index increasing 2.5% from December 4 to December 12. Despite the good news, challenges persist, including a housing downturn with property investment falling 10.4% from January to November. Retail sales grew less than expected, reflecting Chinese consumers' reluctance to spend. Investors are also concerned about a potential escalation in trade tensions between China and the U.S.

Macroeconomic

- Nonfarm payrolls rose by 227,000 in November, after the October data was impacted by the Boeing strike and hurricane. Initial jobless claims edged higher, with the four-week moving average up to 219,000 as of December 21.
- Retail sales rose 0.7% in November, while the October data was revised upward to 0.5%.
- U.S. industrial production declined 0.1% in November, marking three consecutive monthly declines.

Sentiment

- U.S. manufacturing activity contracted again in November, with the ISM manufacturing index rising to 48.4 from 46.5 in October, still below the neutral level of 50.
- The University of Michigan Consumer Confidence Index rose in December to 74.0 from 71.8 in November. Confidence remains under pressure due to high prices, high interest rates and cooling labor markets.
- The NAHB index remained unchanged at 46 in December.

Technical

- Technical indicators were positive overall, with positive momentum and fear signals outweighing neutral reversal signals.
- The S&P 500 was 6% above its 200-day moving average, 2% above the 100-day average, and 1% below the 50-day average.
- The VIX index increased with high realized market volatility during the month and settled at 17.4 at the month-end.

Valuation

- Valuation metrics for equity remained negative. P/E decreased from 27.0 at the end of November to 26.5 at the end of December.
- Forward P/E decreased to 25.0 at the end of December from 25.6 at the end of November.
- Inflation-adjusted valuation metrics continued to be negative.
- Equity valuation metrics relative to bonds turned negative with high bond yields.