



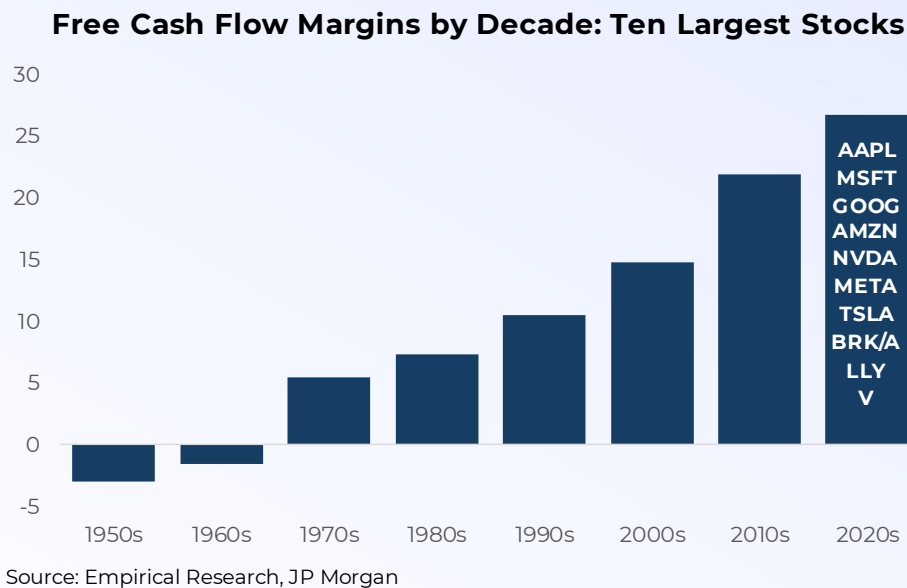
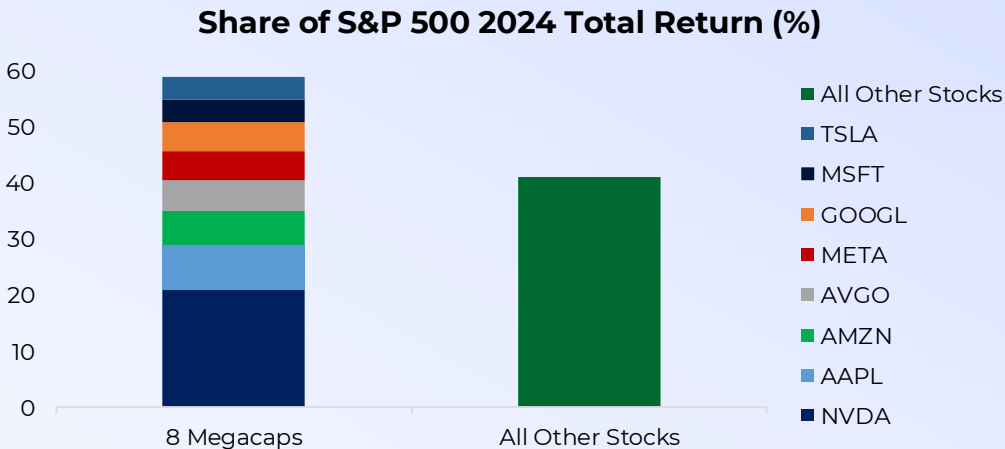
2024 Review 2025 Outlook

Another Dominant Year from the Mega-Caps

2024 Recap

The eight mega-caps with \$1+ trillion valuations now make up 36% of market capitalization in the S&P 500 and accounted for 60% of S&P 500 returns in 2024.

But, they are delivering.

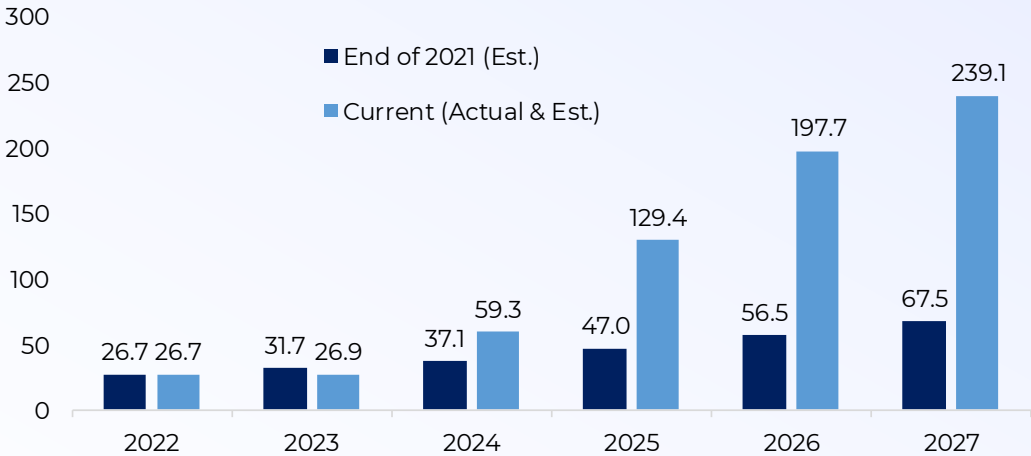


Source: Bloomberg, Bespoke Investment Group, JP Morgan

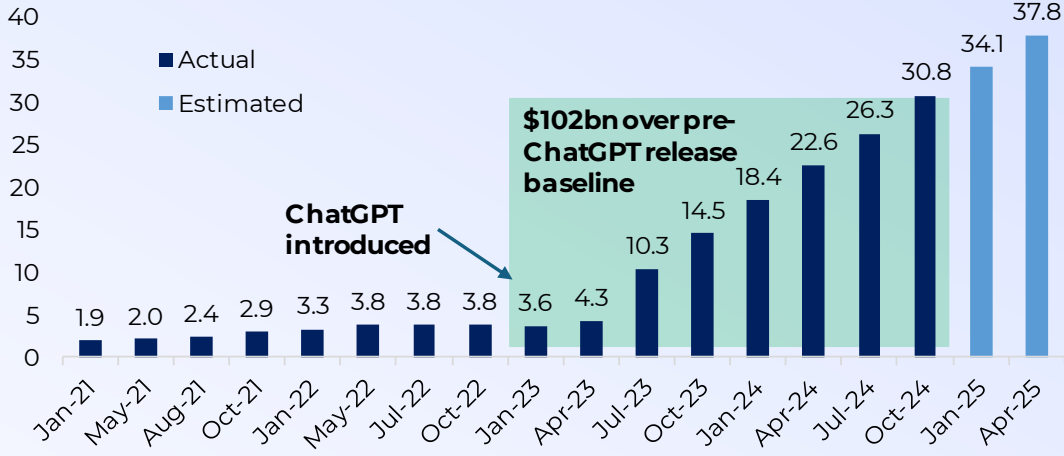
NVDA + Hyperscalers Drove Returns, Not the Fed

2024 Recap

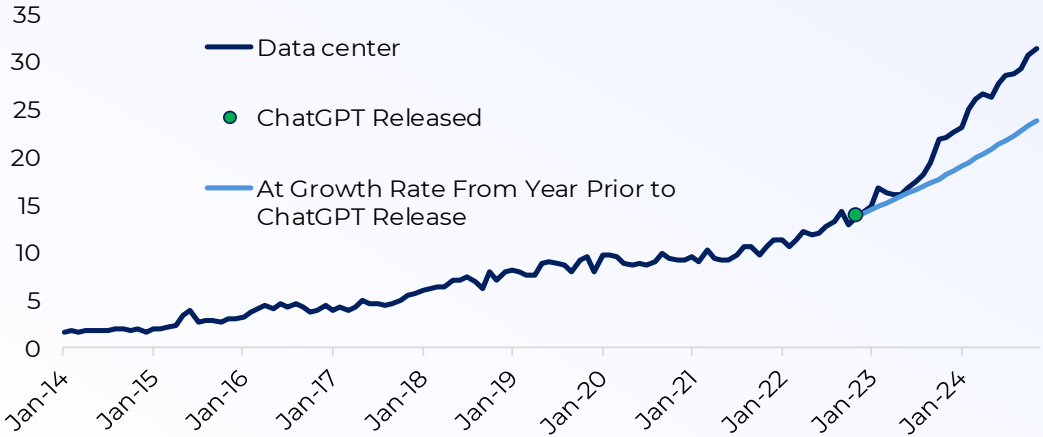
NVDA Revenues By Fiscal Year (\$ bn)



NVIDIA (NVDA): Data Center Segment Revenues (\$ bn)



US Data Center Construction Spending: \$ bn, SAAR



Source: Bloomberg, Bespoke Investment Group

Growth Trumps Value, Again

2024 Recap

Value Continued to be out of Favor

The two-year performance spread between growth and value hit a record high. In Q4, Value was down 14 consecutive days in a row which has never happened before.

Major Factor Performance Dispersion

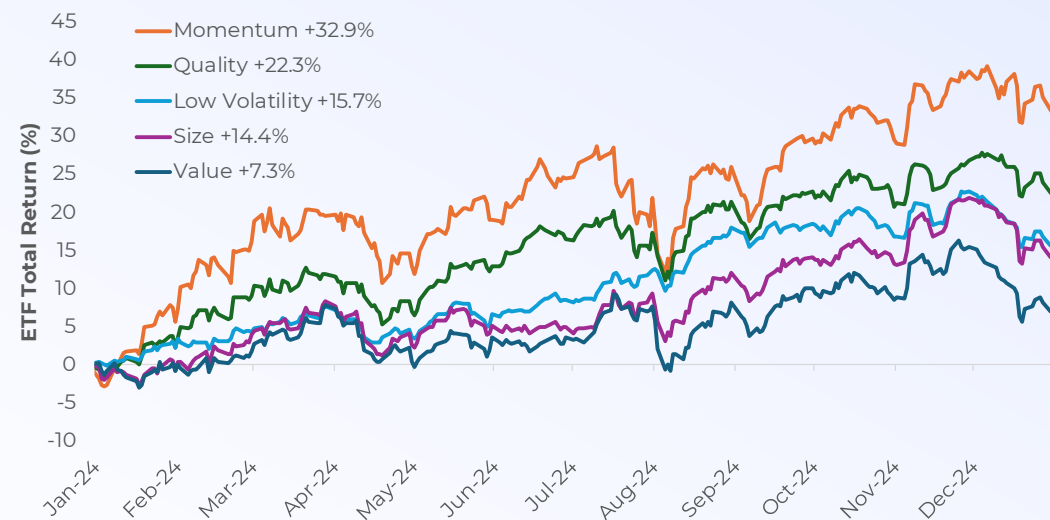
Momentum Factors substantially outperformed the market driven by the AI narrative, earnings, and continuation of the consistent theme.

Getting your factors right in 2024 was key to portfolio outperformance.

S&P 500 Growth vs. Value Relative Strength Since 1995



Momentum Factor Dominated Value in 2024



Source: Bloomberg, Bespoke Investment Group

American Exceptionalism Kicks Into Overdrive

2024 Recap

Tech and AI Further Along

Driven by companies in the US, Artificial Intelligence has been a major theme with promise of major productivity gains for domestic businesses.

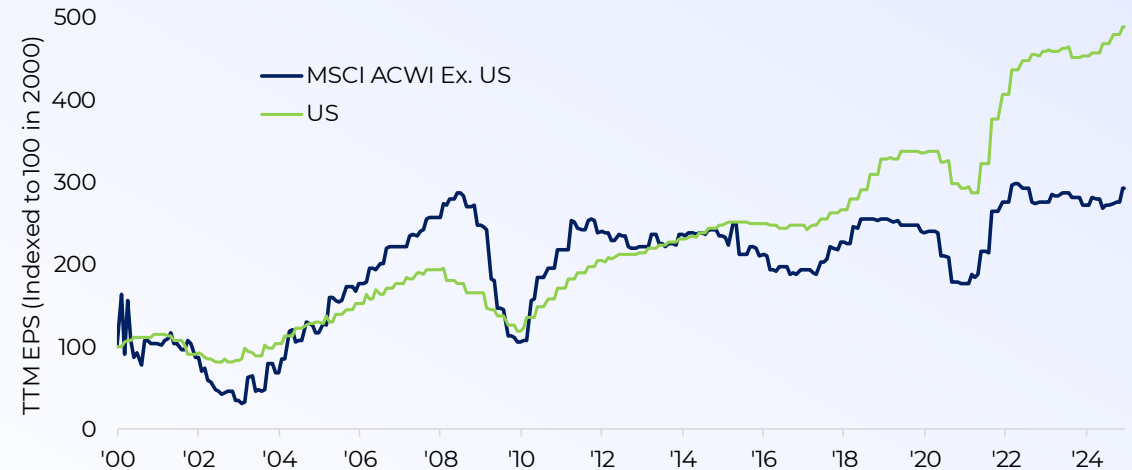
Earnings and Margins

The US has grown margins and earnings more than companies abroad, and is home to one of the most innovative technologies to drive productivity.

US vs. MSCI All World Ex. US Total Return (%) Since 2000



US vs. Rest of World Earnings Growth Since 2000

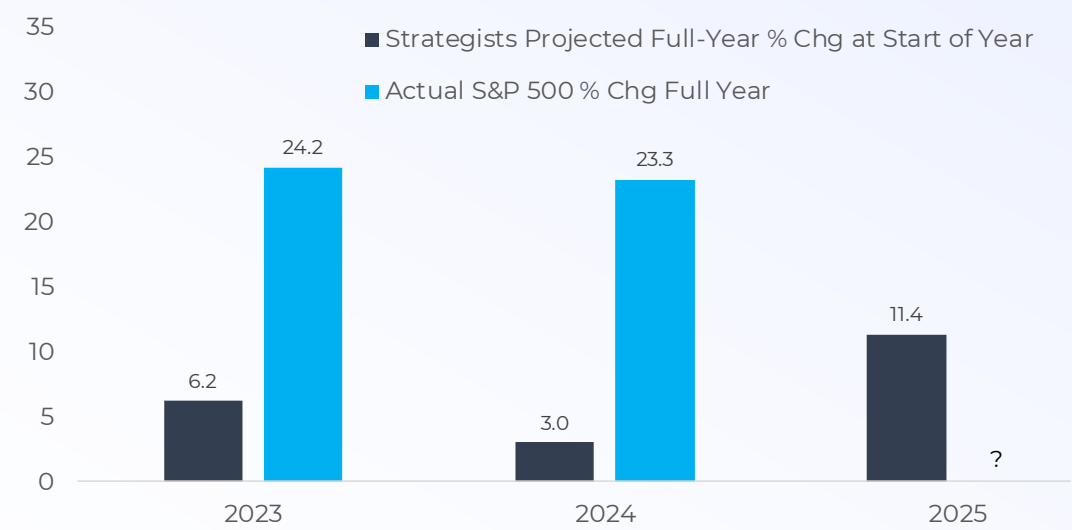


Source: Bloomberg, Bespoke Investment Group

Investors & Strategists Are Expecting Another Year of Market Gains

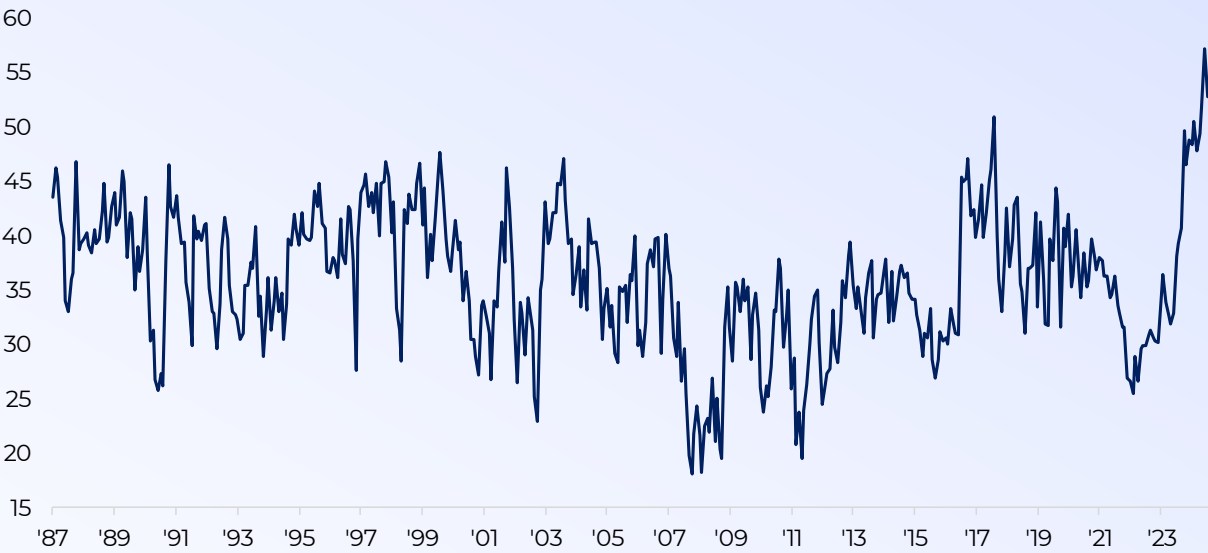
2025 Outlook

Wall Street Strategists Projected S&P 500 % Chg vs. Actual % Chg



*Bloomberg Collected Year-end Price Targets From Major Wall Street Strategists

% of Households Expecting Higher Stock Prices in 12 Months*

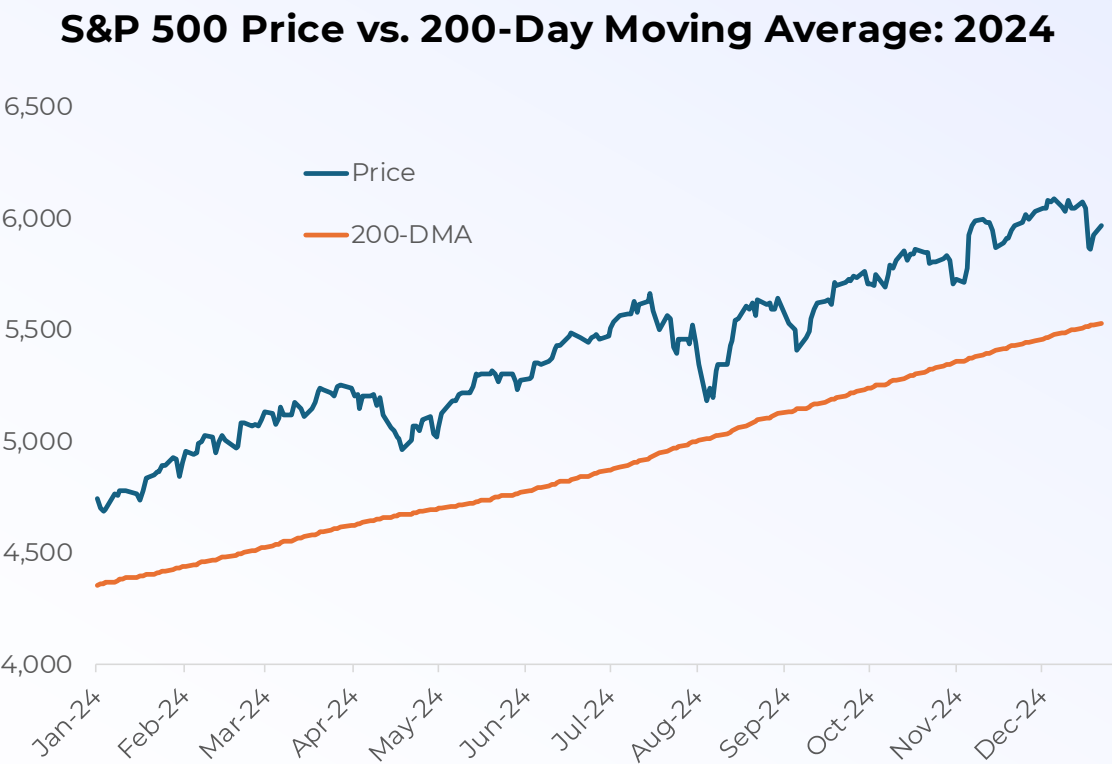


*From Confidence Boards' Monthly Consumer Confidence Survey

Source: Bespoke Investment Group

But Markets Have Already Had Quite the Run

2025 Outlook



The S&P traded above its 200-day moving average for the entirety of 2024, which has happened only eleven other times since 1952.

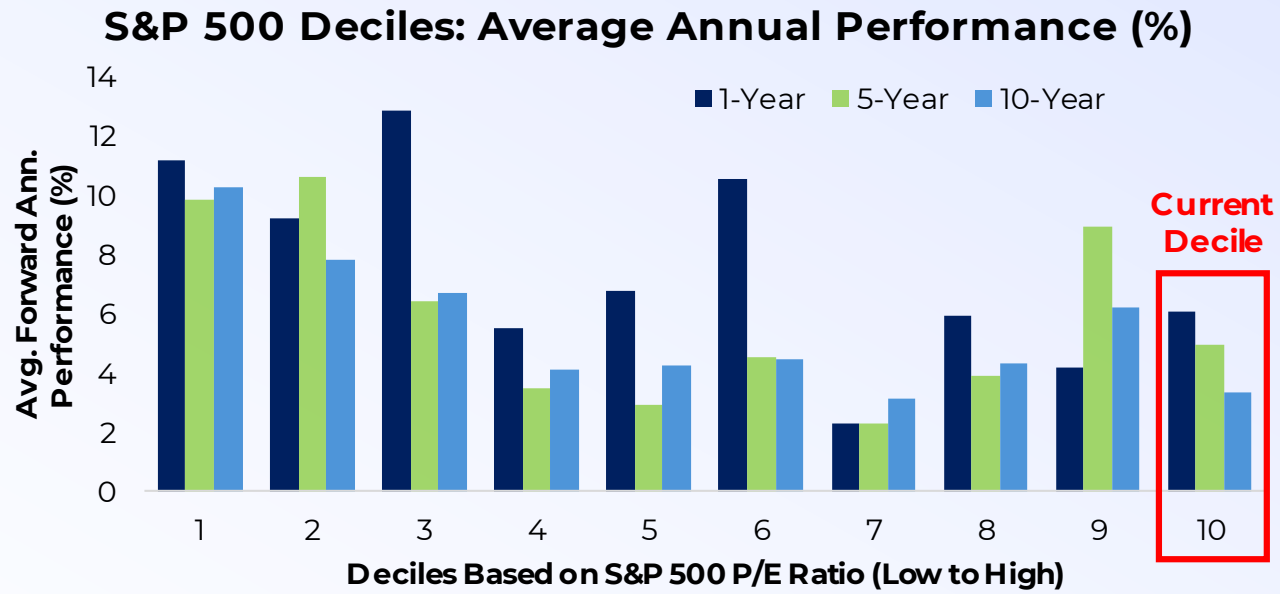
| S&P 500: Above 200-DMA All Year | | | | |
|---------------------------------------|-----------------|-------------------------|----------------------|-------------------|
| | Full-Year % Chg | % of Days Above 200-DMA | Avg. % Above 200-DMA | Next Year's % Chg |
| Year | | | | |
| 1954 | 45.0 | 100 | 11.4 | 26.4 |
| 1955 | 26.4 | 100 | 12.2 | 2.6 |
| 1961 | 23.1 | 100 | 8.5 | -11.8 |
| 1964 | 13.0 | 100 | 5.9 | 9.1 |
| 1989 | 27.3 | 100 | 9.4 | -6.6 |
| 1993 | 7.1 | 100 | 3.5 | -1.5 |
| 1995 | 34.1 | 100 | 9.4 | 20.3 |
| 1997 | 31.0 | 100 | 11.8 | 26.7 |
| 2013 | 29.6 | 100 | 8.3 | 11.4 |
| 2017 | 19.4 | 100 | 6.4 | -6.2 |
| 2021 | 26.9 | 100 | 11.3 | -19.4 |
| 2024 | 23.3 | 100 | 10.3 | ? |
| Avg. 25.51 | | | Avg. 4.6 | |
| S&P Avg. % Chg. All Years Since 1952: | | | | 9.2 |

The S&P has averaged a gain of 4.6% (median gain of +2.6%) in the year after prior years where the S&P has traded above its 200 DMA all year. That 4.6% average next-year change for the S&P is about half the normal ~9% gain the index has seen for all years since 1952.

Source: Bespoke Investment Group

And Valuations are Elevated

2025 Outlook



Deciles represent equally sized groups of months, sorted by the S&P 500's price to earnings ratio at the time, sorted lowest to highest. Y-axis shows these groups' average performance going forward the next year, 5 years, and 10 years on an annualized basis.

Data Source: Professor Robert Shiller | shillerdata.com, 2024

The S&P is currently in the top decile of valuations, which have historically been followed by weaker long-term returns.

Source: Bespoke Investment Group

2024 Rolling Macro Shocks: A Prelude to Higher Volatility in 2025?

2025 Outlook

July CPI/Russell 2000 Rotation

Following a soft inflation report, small caps soared meaningfully as investors anticipated increased rate cuts. While this move upward wasn't substantiated, the velocity of the move is something to note.

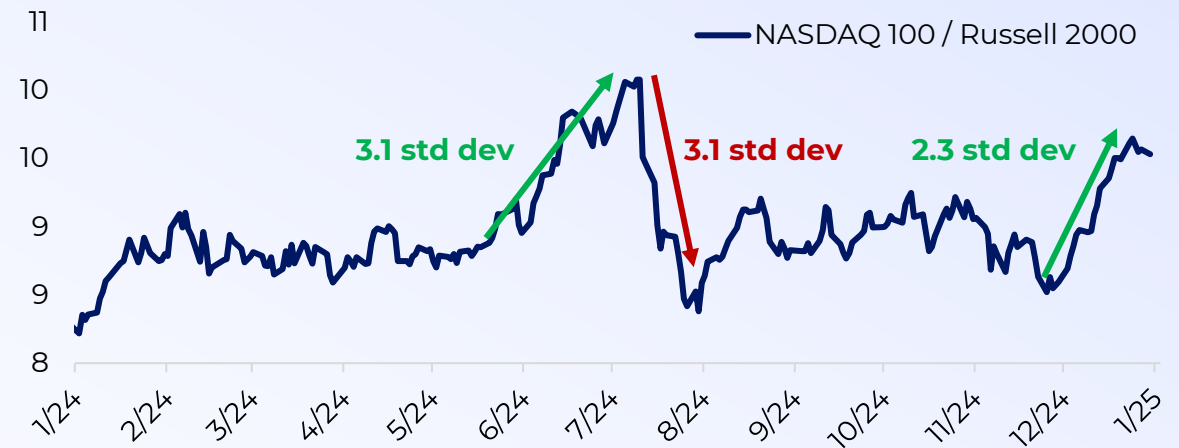
August Yen Volatility Quake

The VIX spiked to 60, courtesy of a surprise rate hike from the Bank of Japan in August, forcing a global carry trade unwind and causing a 3+ standard deviation move down in the NASDAQ.

September China Melt-up

Global investors were caught off-sides as capital poured into the “ex-China” narrative earlier in the year, leading many to miss a multi-standard deviation surge in Chinese stocks in response to policy stimulus.

Rolling Shocks Throughout The Year



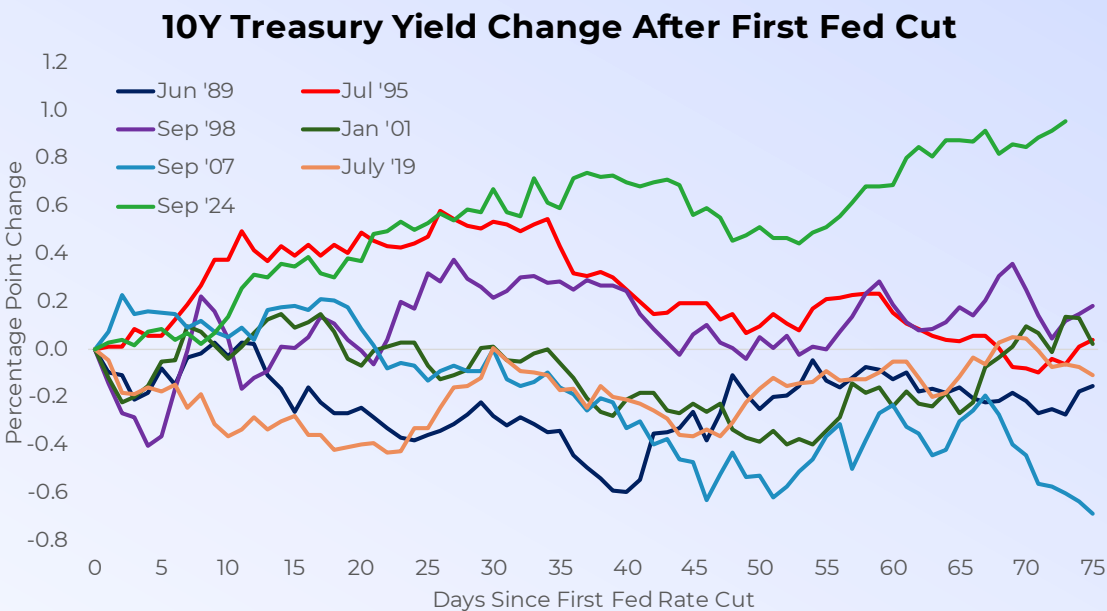
Source: Bespoke Investment Group

Policy Mistake?

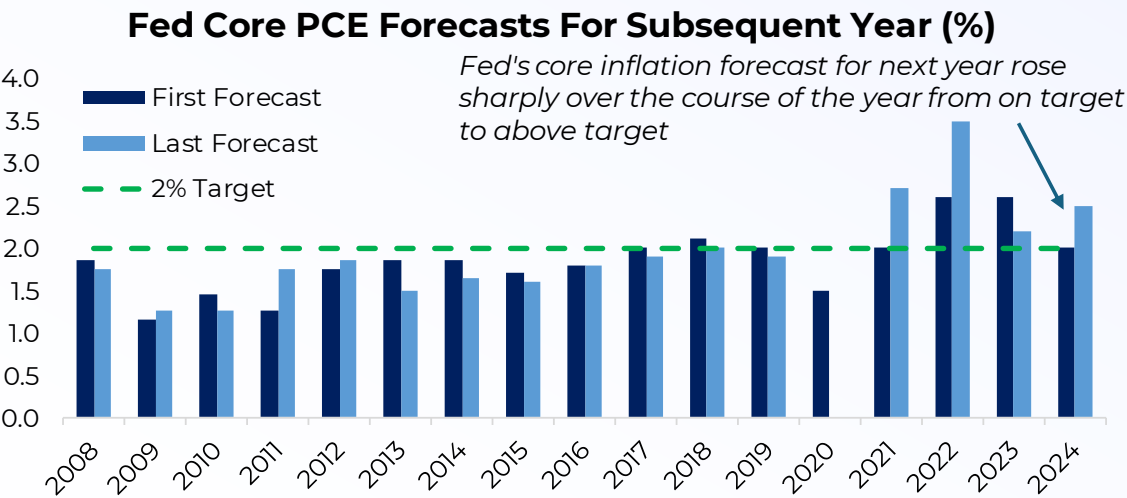
2025 Outlook

Since the Fed lowered the Federal Funds Rate, 10 Year Yields have gone 100bps+ higher, highly unusually, and a sign of a policy mistake. 10 Year yields need to be monitored.

Stickier inflation and higher for longer rates mean the Fed is no longer a tailwind for equity markets

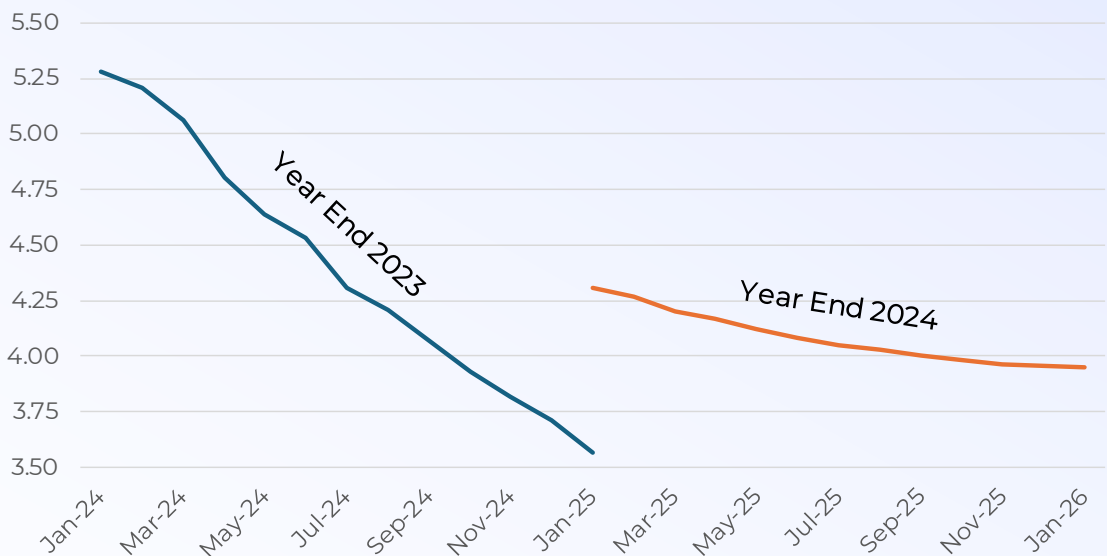


Source: JP Morgan



Source: Bespoke Investment Group, JP Morgan

Fed Funds Target Rate: Year End 2023 vs. Year End 2024

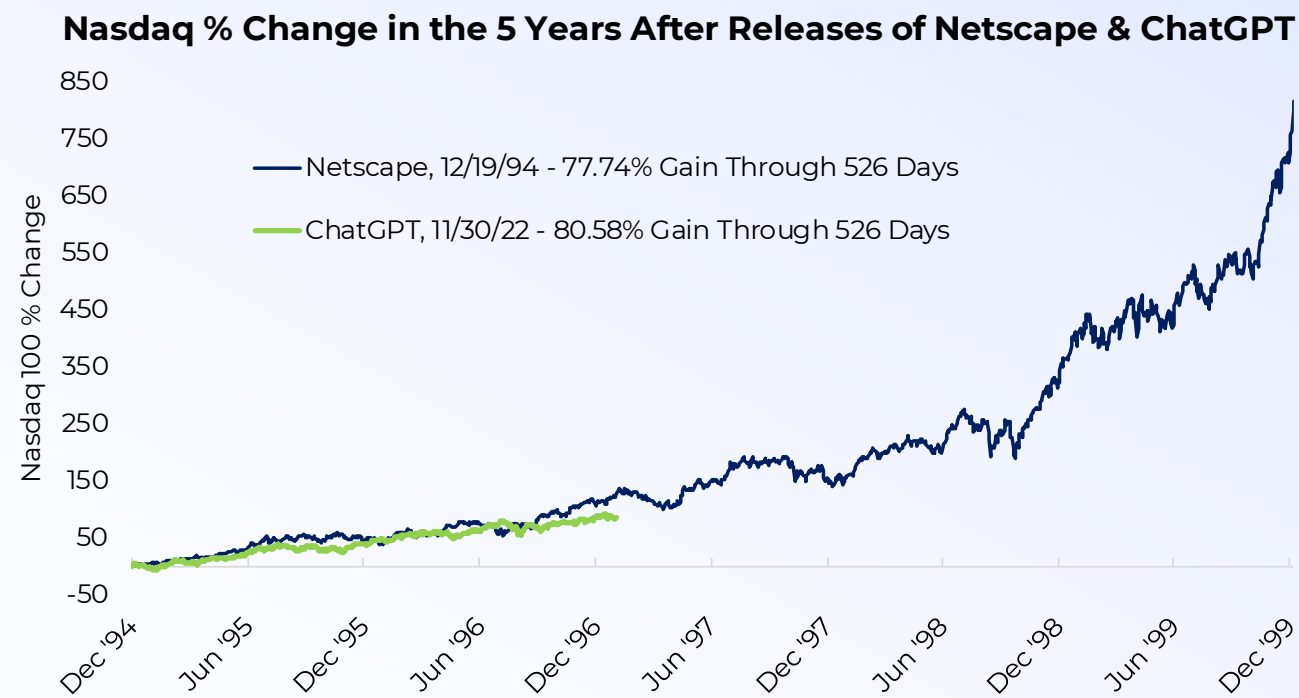


Source: JP Morgan

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Artificial Intelligence Created This Slide

2025 Outlook



Companies will be under increased pressure to deliver on earnings and ROI given the high levels of capex spend on building out AI

Source: Bespoke Investment Group

More Companies Are Staying Private

Private Market Ideas

1. Diversify using Private Markets

The correlation between total returns for stocks and bonds has risen to the highest levels since the end of the 1990s. In a higher for longer rate environment with potential upside on inflation, we would expect this to continue, making the case to diversify using private markets.

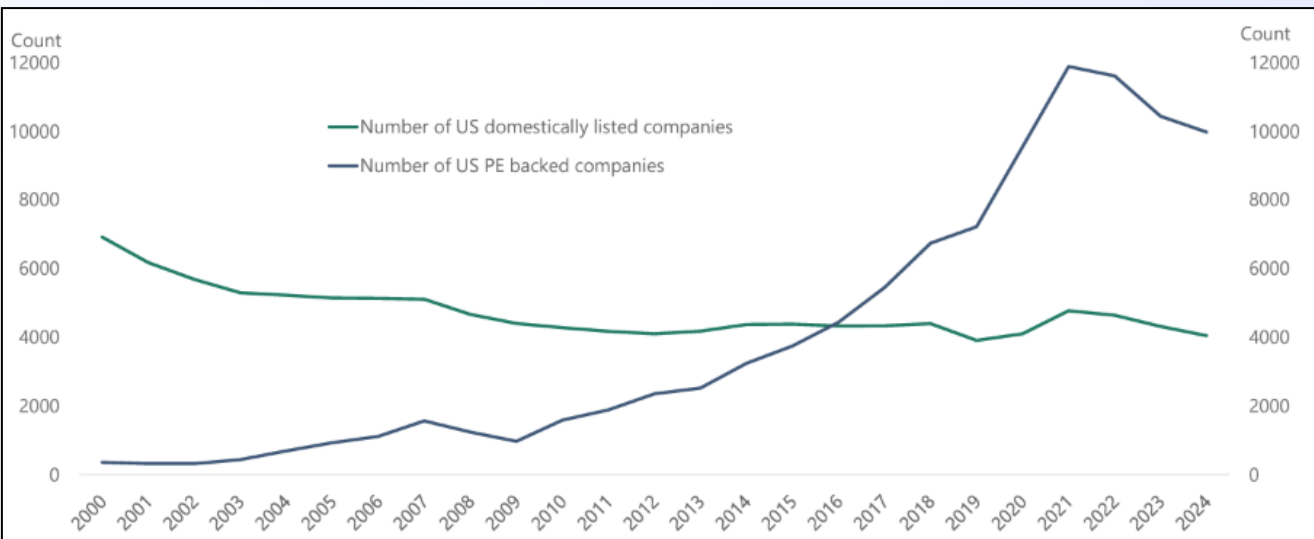
Stocks-Bonds Correlation Is At 25 Year Highs



2. Growth Equity Through Private Channels

While IPOs and equity markets are beginning to regain momentum, the need for growth equity capital continues to rise, fueled by an unprecedented backlog of unicorns. With companies staying private longer, it makes sense to access a portion of growth equity exposure through private markets.

The Number of PE-backed Companies and Publicly-Listed Companies



Source: Bespoke Investment Group, Apollo Chief Economist

Higher for Longer

Private Market Ideas

3. Fixed Income Replacement Using Private Credit

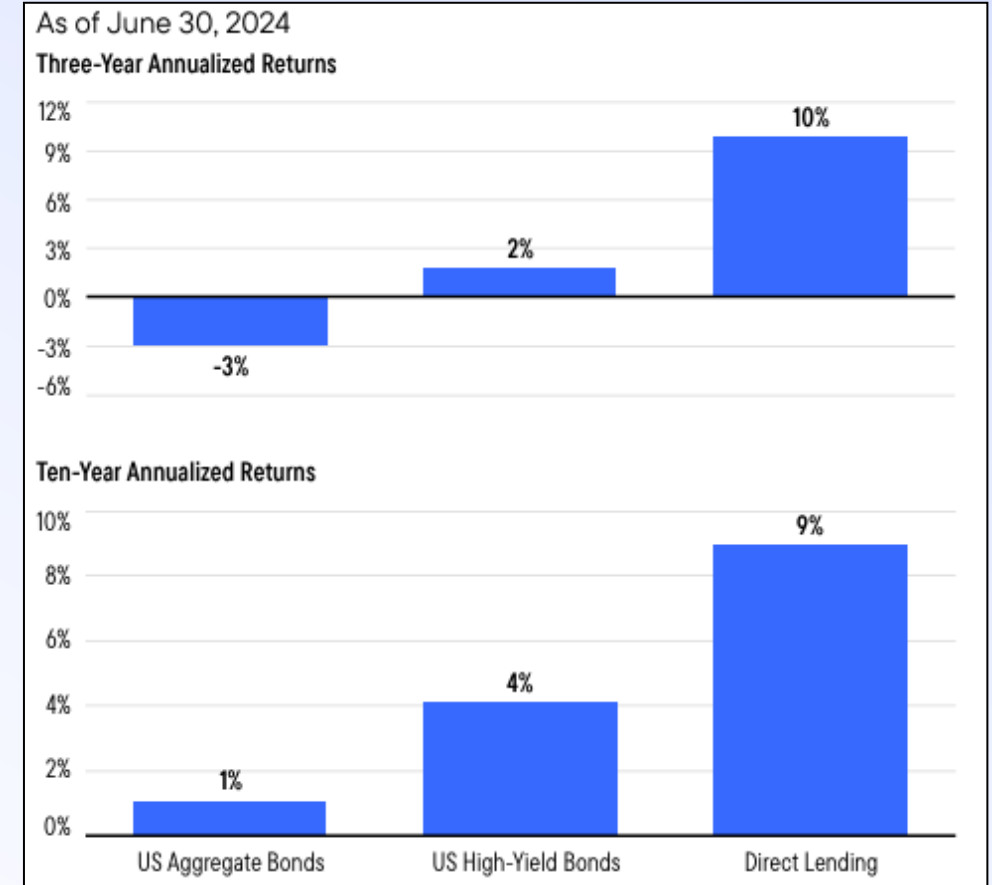
Competitive yields to maturity keep direct lending attractive to institutional and individual investors. We expect it to maintain outperformance over public debt markets in a “higher for longer” rate environment.

Benefits of Private Credit:

Illiquidity Premium: Private credit offers an attractive illiquidity premium compared to core and high-yield bonds.

Floating Rate & Short Duration: With its floating rate structure and short duration profile, private credit minimizes interest rate risk.

Illiquidity Premium – Public vs Private Markets



Source: Analysis by Franklin Templeton Institute

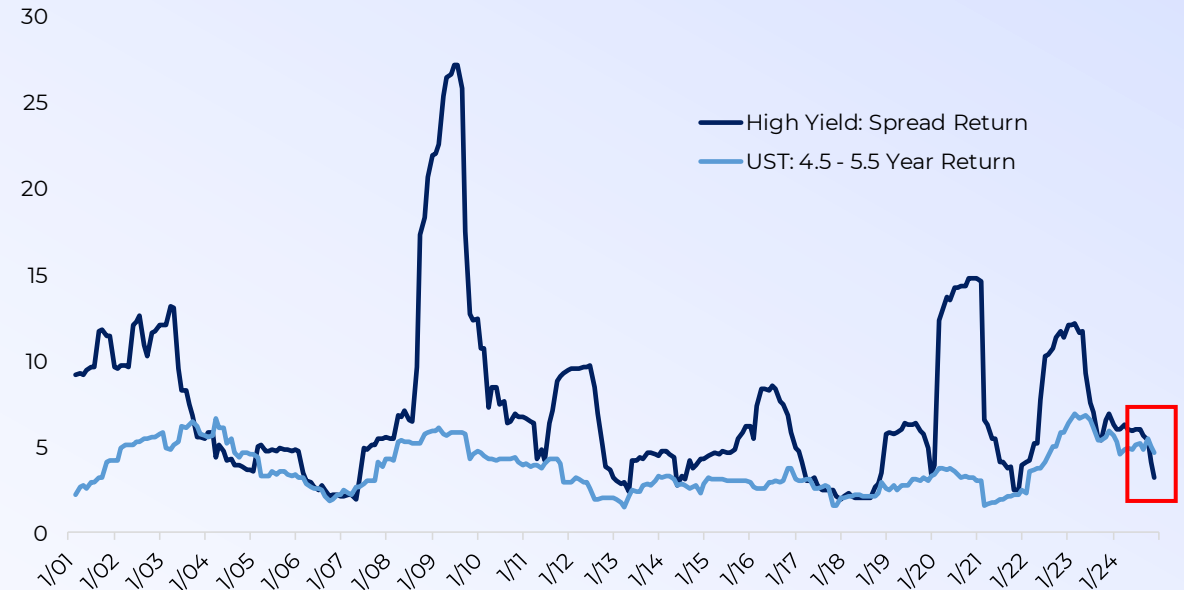
Indexes used: Bloomberg US Aggregate Total Return Value Unhedged USD, ICE BofA US High Yield Index, and Cliffwater Direct Lending Index. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. Past Performance is not an indicator or guarantee of future results. Important data provider notices and terms available at www.franklintempletondatasources.com.

Public Market Ideas

1. Income Over Duration

High yield spread returns are now less volatile than interest rates, a very unusual development for fixed income markets. With more volatility in duration, finding smart income through active managers should prove prudent in areas like securitized, agencies, and other IG and Treasuries in the belly of the curve.

Realized Monthly Volatility, Rolling 1y: Lower Spread Volatility Than Rates!



Source: Bloomberg, Bespoke Investment Group

Public Market Ideas

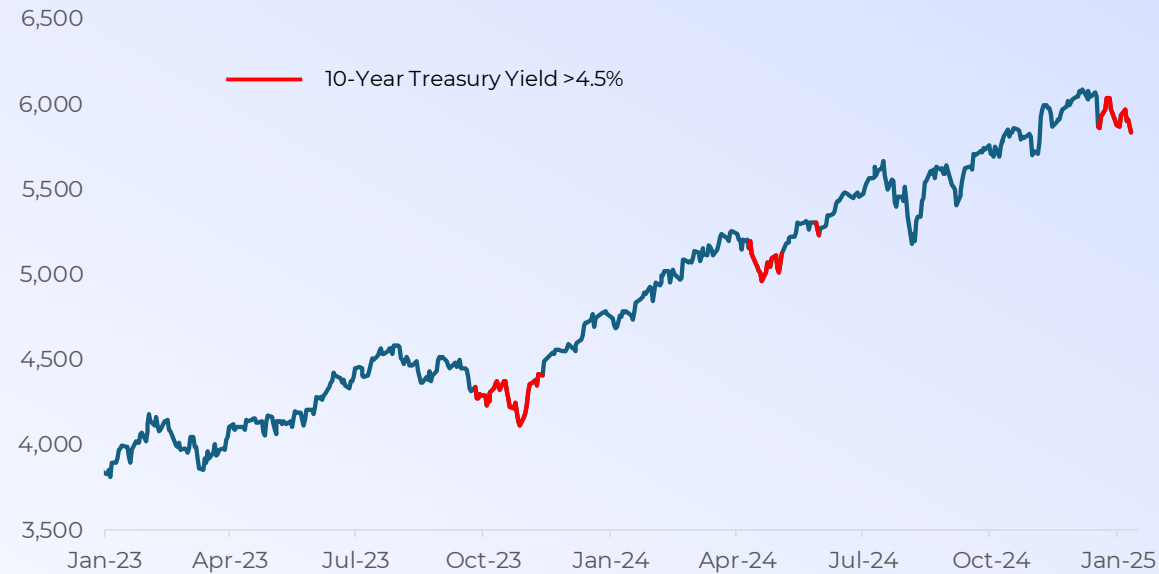
2. Hedged Equity & Structured Products for a Smoother Ride in Q1

Expect increased cross-asset volatility in equities and 10 year yields continue to rise and US dollar strength weighs on valuations and stretched sentiment. To provide a smoother ride for clients, hedged equity and structured products can play this role in the equity portfolio.

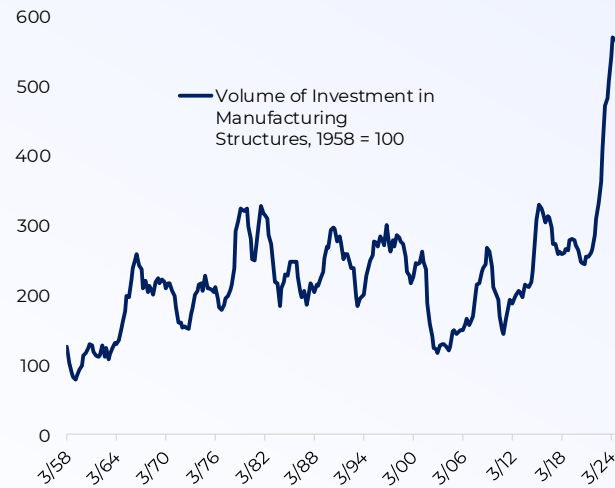
3. Staying with the US Industrial Renaissance Theme

Factory construction is booming and the US energy pipeline is stuffed to the gills with solar, wind, and battery development as those technologies outcompete fossil fuels. With an aging power grid and more on-shoring due to deglobalization, the US will need to modernize its infrastructure to regain economic independence.

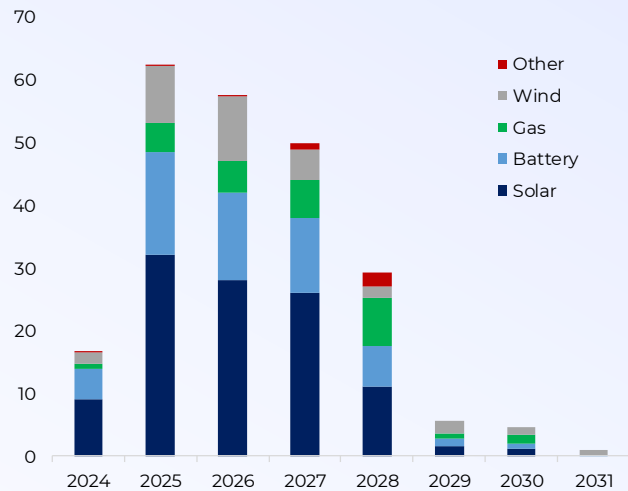
S&P 500 Since 2023



Historic Boom In American Factory Construction



US Grid Additions: GW of Capacity, By Year



Source: Bespoke Investment Group



Public Market Ideas

4. **Potential Upside Surprise with Policy**

While the market seems to be bracing for the inflationary shock of tariffs and deportations, we think the stronger and currently underpriced probability is that Trump will prioritize pro-growth and lower inflation policies, which would be more market friendly.

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