

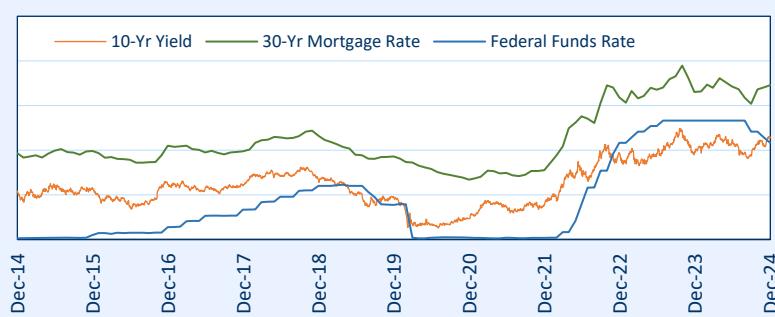
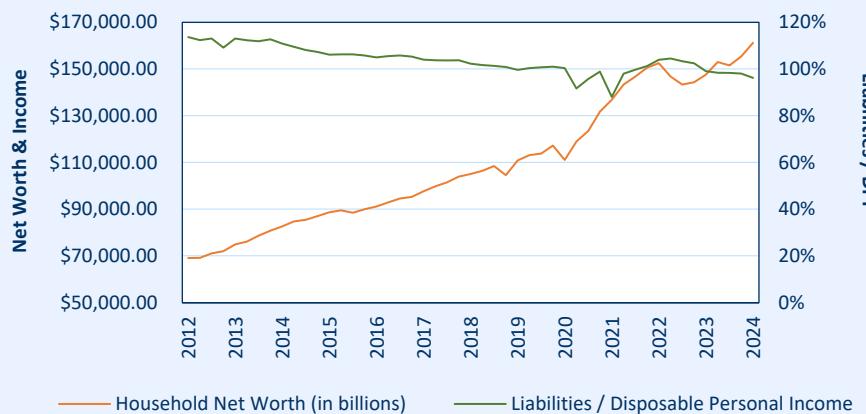
U.S. Economic Conditions

Despite the continued tightness of financial conditions, the U.S. economy displayed impressive resiliency throughout 2024. This helped to ease concerns about a recession, but underlying consumer strength has kept inflation above the Federal Reserve's 2.0% target. Regardless, FOMC policymakers felt that enough progress had been made on the inflation front in the 3rd quarter to shift their policy stance and start the process of reducing rates (with the expectation of cutting the Federal Funds rate in half by early 2026 - from 5.0% to 2.5%). However, within weeks of this change in policy, new economic data and the anticipated impact of changes in fiscal policy (due to the election result) cast a shadow of doubt on the degree to which policymakers would ultimately cut rates. As of the writing of this commentary, the anticipation of consistent and meaningful rate cuts is almost completely off the table for 2025. In fact, many economists and institutional investors are now predicting just one or two 0.25% rate cuts this year. With this said, given the meaningful uncertainties present in the U.S. and overseas, economic forecasts should be received with heightened recognition that the range of potential outcomes is wider than normal currently.

U.S. Gross Domestic Product and Unemployment

Interest Rates and Yields

Date	3/31/2024	6/30/2024	9/30/2024	12/31/2024
10-Year Yield	4.20	4.36	3.81	4.58
30-Year Mortgage Rate	6.79	6.86	6.08	6.91
Federal Funds Rate	5.33	5.33	4.83	4.33

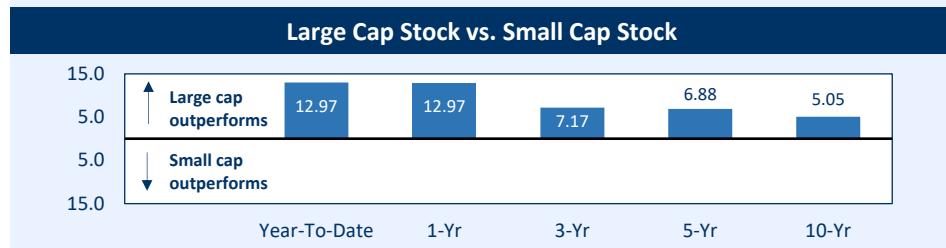
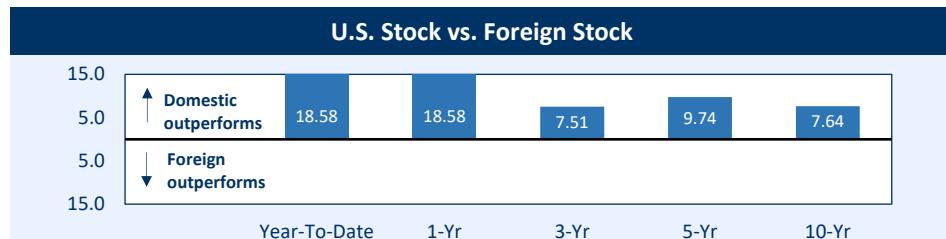

Consumer Finances

Corporate Earnings


U.S. Stock Market

Following a strong year in 2023, the broader U.S. equity market as measured by the Russell 3000 Index gained more than 20% for the second consecutive year in 2024. *Back-to-back gains of 20% are somewhat rare historically.* Overall, most segments of the market posted positive returns, but as was the case in 2023, mega-cap growth stocks (especially Tech stocks) led the advance. Unsurprisingly, the continuation of strong gains has further extended U.S. equity valuations, and the S&P 500 Index is now trading at 143% of its own 20-year Price-to-Earnings (P/E) average as of yearend - *see the top right table below.* However, it is notable that this is being heavily influenced by Technology stock optimism (trading at 166% of the 20-yr average) since this sector has a 33.7% allocation in the index. In other areas of the market (e.g., smaller-cap and value-oriented categories), valuations are much more compelling.

Moving forward, it may be unreasonable to expect the same degree of market upside experienced in recent years (especially given higher valuations, policy uncertainties, and geopolitical risks), but there is a positive outlook for corporate earnings in 2025, which could provide further justification for higher prices.

Market Segment		YTD	1-Year	3-Year	5-Year	10-Year
Russell 3000	Broad Indices	23.8%	23.8%	8.0%	13.9%	12.5%
S&P 500		25.0%	25.0%	8.9%	14.5%	13.1%
Russell 2000		11.5%	11.5%	1.2%	7.4%	7.8%
Large Growth	Category	29.0%	29.0%	6.7%	15.4%	14.0%
Large Blend		21.4%	21.4%	7.2%	12.9%	11.6%
Large Value		14.3%	14.3%	6.1%	9.3%	8.7%
Mid Growth		16.5%	16.5%	-0.1%	9.3%	10.1%
Mid Blend		14.4%	14.4%	4.1%	9.8%	8.9%
Mid Value		11.4%	11.4%	5.2%	9.0%	8.0%
Small Growth		15.0%	15.0%	-1.3%	8.5%	9.3%
Small Blend		11.1%	11.1%	2.6%	8.6%	7.9%
Small Value		8.9%	8.9%	4.5%	9.3%	7.6%



Sector	YTD Return	Trailing Price-to-Earnings Ratio		
		Dec. 31 2024	20-yr Avg	Relative to 20-yr Avg.
S&P 500 Index	25.0%	27.1	18.9	143%
Basic Materials	-1.8%	21.9	18.6	118%
Consumer Cyclical	25.5%	28.1	20.5	137%
Financial Services	31.2%	16.8	14.2	118%
Real Estate	5.0%	32.9	29.3	113%
Comm. Services	33.3%	24.0	19.2	125%
Energy	6.6%	13.5	14.9	90%
Industrials	16.6%	24.4	19.5	126%
Technology	36.2%	38.1	22.9	166%
Consumer Defensive	14.2%	24.4	20.3	120%
Healthcare	2.7%	30.2	22.0	137%
Utilities	26.7%	20.9	18.2	115%



Foreign Economic Conditions & Stock Markets

As evidenced by economic results and equity market performance, international economies have not displayed as much strength as the U.S. in recent years. However, broadly speaking, foreign economies did grow modestly in 2024. From a regional standpoint, Eurozone countries collectively had a better year after experiencing weakness in 2023, but substantive issues remain - such as lingering manufacturing headwinds caused by the Russia / Ukraine war and the impact this has had on the region's supply of energy. In China, despite positive manufacturing and export data, restrained domestic demand prompted a coordinated policy response in late 2024 to boost economic growth. This triggered a rally in Chinese stocks, and when combined with strong results out of India and Taiwan, these countries helped Emerging Market equities outperform the stocks of Developed Market foreign countries (the MSCI EM IM Index posted a gain of 7.1% vs. 3.6% for MSCI EAFE IM Index). *After more than a decade of foreign underperformance relative to U.S. stocks, market insiders have been calling for a pivot. However, there are simply too many variables at play to determine when this might occur.*

Currency Impact on Foreign Investment (made by U.S. investors)



Return	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
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In Local Currency	1.9%	7.0%	18.2%	-10.6%	20.8%	6.0%	13.0%	-9.6%	14.1%	12.6%
Currency Impact	-7.6%	-2.5%	9.0%	-3.6%	0.7%	4.7%	-5.2%	-6.4%	1.5%	-7.1%
Net In U.S. Dollars	-5.7%	4.5%	27.2%	-14.2%	21.5%	10.7%	7.8%	-16.0%	15.6%	5.5%

Global Gross Domestic Product



Foreign Stock Performance

Market Segment	YTD	1-Year	3-Year	5-Year	10-Year
MSCI ACWI ex-U.S. IM	Broad Indices	5.2%	5.2%	0.5%	4.1%
Developed Markets		3.6%	3.6%	0.9%	4.4%
Emerging Markets		7.1%	7.1%	-1.4%	2.5%
Foreign Large Growth	Category	5.2%	5.2%	-3.1%	4.1%
Foreign Large Blend		4.8%	4.8%	0.8%	4.5%
Foreign Large Value		4.4%	4.4%	3.5%	4.7%
Foreign Small/Mid Growth		1.4%	1.4%	-7.3%	2.2%
Foreign Small/Mid Blend		2.5%	2.5%	-2.1%	3.3%
Foreign Small/Mid Value		5.2%	5.2%	2.9%	5.5%

Foreign vs. U.S. Performance and Allocation

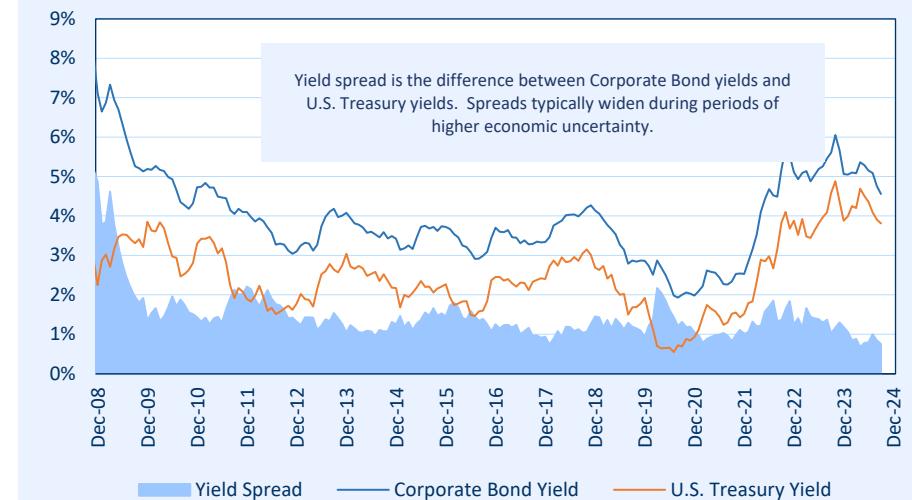
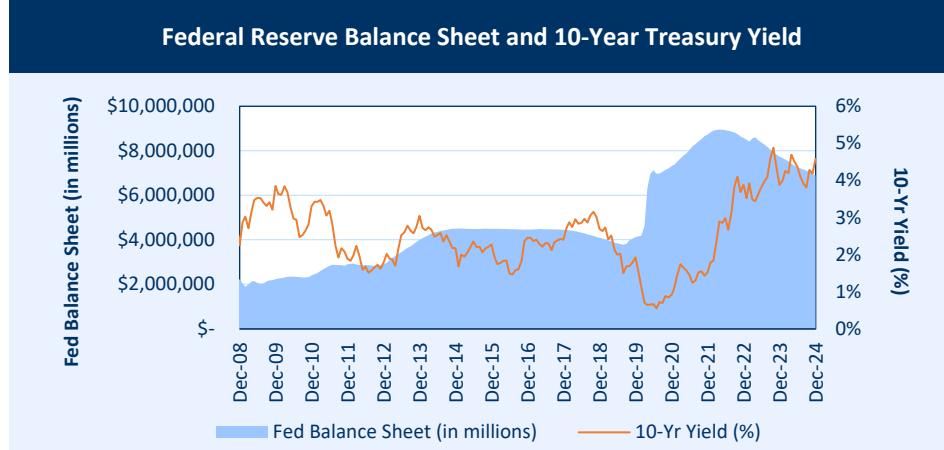
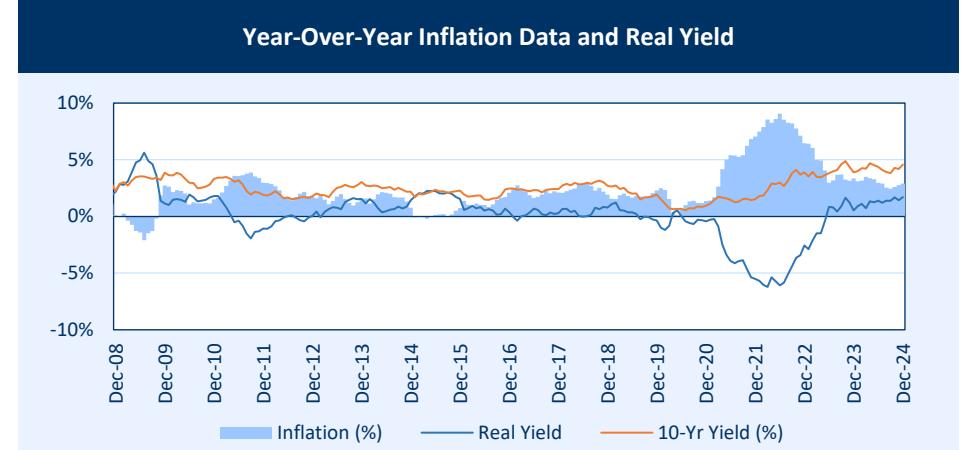


Fixed Income Markets

Fixed income returns took a hit later in the year as market-based rates unexpectedly rose 0.77% in the 4th quarter (as measured by the 10-year Treasury Yield). However, despite this short-term setback, most areas of the fixed income market managed to post positive results for all of 2024. *Rising levels of interest income in bond portfolios is having a more meaningful impact on bond returns - helping to offset negative moves in the price of bonds like we experienced in the 4th quarter.* Long-term bonds were the only market area that experienced losses (since they are more sensitive to interest rate movements and inflation), while medium to short-term bonds experienced low-to-mid single digit returns, respectively. From a sector perspective, higher-risk areas like High-Yield and Emerging Markets posted the strongest returns, while U.S. Treasuries, Investment Grade Corporates, and Agency Mortgage-Backed Securities all posted modest gains. Lastly, from a regional standpoint, foreign bonds outperformed domestic bonds for the fourth consecutive year, but differences in domestic vs. foreign monetary policy has been a key factor over this period.

Fixed Income Performance

Sector, Maturity, Region	Avg. Yield	Avg. Maturity	YTD	1-Yr	3-Yr	5-Yr	10-Yr
Agency MBS	5.27%	7.8	3.2%	3.2%	0.0%	0.8%	1.6%
U.S. Treasuries	4.44%	6.6	1.2%	1.2%	-2.0%	-0.3%	0.9%
U.S. TIPS	2.13%	7.1	1.8%	1.8%	-2.3%	1.9%	2.2%
Municipals	3.74%	13.6	1.1%	1.1%	-0.6%	1.0%	2.3%
Invest. Grade Corporate	5.33%	10.5	2.1%	2.1%	-2.3%	0.3%	2.4%
High-Yield Corporate	7.49%	4.7	8.2%	8.2%	2.9%	4.2%	5.2%
Emerging Markets	6.20%	11.8	6.6%	6.6%	-0.5%	0.6%	3.2%
Short-Term Bond	4.42%	3.3	5.1%	5.1%	1.8%	1.9%	2.0%
Intermediate-Term Bond	4.48%	8.6	2.4%	2.4%	-1.9%	0.2%	1.6%
Long-Term Bond	4.78%	19.4	-1.2%	-1.2%	-6.5%	-1.9%	1.7%
Foreign Bond	2.88%	8.8	5.0%	5.0%	0.9%	1.0%	2.4%
U.S. Bond	4.91%	8.4	1.3%	1.3%	-2.4%	-0.3%	1.3%

Yield Spreads

Federal Reserve Balance Sheet and 10-Year Treasury Yield

Year-Over-Year Inflation Data and Real Yield


Definitions:

Federal Funds Rate - The interest rate set by the Federal Open Market Committee (FOMC), the governing body of the Federal Reserve Bank, which determines the amount banks charge for overnight lending of their reserve balances to other financial institutions. **Disposable Personal Income (DPI)** - The amount of total discretionary income received by a household net of taxes. **Liabilities / DPI** - The amount of total debt owed by households in relation to their DPI, measured as the aggregate of the entire U.S. population.

Data Sources:
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Gross Domestic Product (GDP): Second quarter 2024 GDP is an advanced estimate from the U.S. Bureau of Economic Analysis. **Unemployment**: U.S. Bureau of Labor Statistics, Unemployment Rate, retrieved from FRED, Federal Reserve Bank of St. Louis. **10-Year Treasury**: U.S. Treasury, Daily Treasury Yield Curve Rates. **30-Year Mortgage Rates**: FreddieMac, Monthly Average Commitment Rate And Points On 30-Year Fixed-Rate Mortgages Since 1971. **Fed Funds Rate**: The effective federal funds rate (EFFR) is calculated as a volume-weighted median of overnight federal funds transactions reported in the FR 2420 Report of Selected Money Market Rates. Data from the Federal Reserve Bank of New York. **Household Net Worth**: Board of Governors of the Federal Reserve System (US), Households and Nonprofit Organizations; Net Worth, Level [TNWBSHNO], retrieved from FRED, Federal Reserve Bank of St. Louis. **Median Household Income**: U.S. Census Bureau, Real Median Household Income in the United States [MEHOINUSA672N], retrieved from FRED, Federal Reserve Bank of St. Louis. **Liabilities / Disposable Personal Income**: Board of Governors of the Federal Reserve, Balance Sheet of Households and Nonprofit Organizations, 1952 - 2024. **Earnings**: Standard & Poor's Global.

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Index Data: Source - Morningstar Direct. Indices listed are as follows: Russell 3000 Index (broad U.S. market), S&P 500 (U.S. large cap), Large Growth (Russell 1000 Growth), Large Blend (Russell 1000), Large Value (Russell 1000 Value), Mid Growth (Russell Mid Cap Growth), Mid Blend (Russell Mid Cap), Mid Value (Russell Mid Cap Value), Small Growth (Russell 2000 Growth), Small Blend (Russell 2000), Small Value (Russell 2000 Value). **Sector Performance Data**: Source - Morningstar Direct. Represents Morningstar sector index performance. **Price to Earnings Data**: P/E ratios are trailing 12-month, sourced from Morningstar Direct. **Factor Performance Data**: Source - Morningstar Direct. U.S. Stock vs. Foreign Stock (Russell 3000 vs. MSCI ACWI ex-U.S. IM Index), Growth vs. Value (Russell 3000 Growth vs. Russell 3000 Value Index), Large Cap Stock vs. Small Cap Stock (S&P 500 vs. Russell 2000 Index), Quality Stock vs. Low Quality Stock (S&P 500 Quality Index vs. S&P 500 Index).

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Gross Domestic Product: Source - imf.org. Gross Domestic Product (GDP) for Developed markets (advanced economies), Emerging markets (emerging and developing economies), and World represent year-over-year economic growth data. **Foreign Stock Performance**: Source - Morningstar Direct. In order from top to bottom, the indices used are as follows: the MSCI ACWI ex-U.S. IM Index (broad foreign market), the MSCI EAFE IM Index (Developed Markets), the MSCI EM IM Index (Emerging Markets), the MSCI ACWI ex-U.S. Large Growth Index, the MSCI ACWI ex-U.S. Large Blend Index, the MSCI ACWI ex-U.S. Large Value Index, the MSCI ACWI ex-U.S. Small/Mid Growth Index, the MSCI ACWI ex-U.S. Small/Mid Blend Index, and the MSCI ACWI ex-U.S. Small/Mid Value Index. **Currency Impact on Returns**: Source - Morningstar Direct. Represents the yearly returns for the MSCI ACWI ex-U.S. Local Currency Index (Local Currency) and the MSCI ACWI ex-U.S. USD Index (U.S. Dollar). The currency data represents the difference between the yearly returns of the MSCI ACWI ex-U.S. Index in U.S. dollars versus Local Currency. **Foreign vs. U.S. Performance and Allocation**: Source - Morningstar Direct. Represents 1) the 10-year rolling return difference between the Russell 3000 Index (domestic) and the MSCI ACWI ex-U.S. IM Index (foreign) and 2) the U.S. historical weight within the MSCI ACWI ex-U.S. Index.

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Fixed Income Performance: Source - Morningstar Direct. Indices/categories listed are as follows: Agency MBS (Bloomberg US MBS Index), U.S. Treasuries (S&P/BGCantor U.S. Treasury Bond Index), U.S. TIPS (Bloomberg U.S. Treasury U.S. TIPS Index), Municipal (Bloomberg Municipal Index), Invest. Grade Corporates (Bloomberg US Corp Bond Index), High-Yield Corporates (Bloomberg High Yield Corporate Index), Emerging Markets (JPM EMBI Global Diversified Index), Short-Term Bond (Morningstar Short-Term Bond Category), Intermediate-Term Bond (Morningstar Intermediate Core-Plus Bond Category), Long-Term Bond (Morningstar Long-Term Bond Category), Foreign Bond (Bloomberg Global Agg ex USD Hedged USD), U.S. Bond (Bloomberg U.S. Aggregate Bond). **Yield Spreads**: Corporate Bond Yield - U.S. Department of the Treasury, 10-Year High Quality Market (HQM) Corporate Bond Par Yield [HQMCB10YRP], retrieved from FRED, Federal Reserve Bank of St. Louis. Treasury Yield / Real Yield - U.S. Treasury, Daily Treasury Yield Curve Rates. **Federal Reserve Balance Sheet Size & 10-Year Treasury Yield**: Fed Balance Sheet - Board of Governors of the Federal Reserve System (US), Assets: Total Assets: Total Assets (Less Eliminations from Consolidation): Wednesday Level [WALCL], retrieved from FRED, Federal Reserve Bank of St. Louis. **Inflation Data & Real Yield**: Source - inflationdata.com. U.S. Treasury, Daily Treasury Yield Curve Rates. Real yield represents the 10-Year Treasury Bond Yield less the year-over-year change in the Consumer Price Index (CPI).

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