GRANT STREET ASSET MANAGEMENT, INC.
QUARTERLY LETTER
4th QUARTER 2024
JANUARY 15, 2025

The last twelve months proved to be fruitful in many respects. Household wealth for the United States is at an all-time high, thanks to the continued rise of real estate values and back-to-back years of solid stock returns. While the battle to tame inflation continues, the progress over the last 18 months has been remarkable. When considering the pace at which the Federal Reserve (the "Fed") raised rates, a more drastic deterioration in the labor market seemed likely, but broadly resilient employment data has been a bright spot in the economy. This past year also provided more clarity around some of our largest questions concerning interest rates and the political landscape. The Fed lowered their target interest rate by one full percentage point, after pausing for more than a year, and the election season has finally come to a close. Although, the Fed's path forward, along with the new administration's policies have invoked new uncertainties that will keep our attention for 2025.

To gauge the current economic landscape, we refer to the data table below:

Economic Data Point	Most Recent Reading	One year prior	50-year Avg.
Number of Job Openings	7.7 million *(Oct. '24)*	8.7 million *(Oct. '23)*	*5.4 million
Unemployment Rate	4.2% *(Nov. '24)*	3.7% *(Nov. '23)*	6.2%
Headline Consumer Price Index	2.7% *(Nov. '24)*	3.1% *(Nov. '23)*	3.7%
Core Consumer Price Index	3.3% *(Nov. '24)*	4.0% *(Nov. '23)*	3.7%

Source: JPMorgan Asset Management, Federal Reserve Bank of St. Louis
**The Job Openings and Labor Turnover survey began in 1999.*

- **Inflation:** The Consumer-Price-Index (CPI) is a measure of inflation that reflects the average price change over time for a basket of consumer goods and services. As shown in the table above, inflation, has continued to trend down over the last year, as prices for consumer goods are increasing at a slower pace. While absolute prices haven't fallen in recent years from their elevated levels, the pace of increase has slowed, and both headline and core (excludes food and energy) CPI readings are below their measurements from one year ago and their long-term averages. The most recent headline CPI measurement showed a 2.7% annual rate of price increases, which is down from 3.1% just one year ago. We anticipate progress on the overall inflation measurement to remain modest in 2025, however some areas should provide more relief than others. The "shelter" component of inflation remains the largest contributor to the overall increase as housing costs remain elevated.

- **Labor Market**: As expected, the U.S. labor market has shown signs of softness over the last twelve months but remains strong by historical standards. The unemployment rate started tick up in 2024 after spending all of 2023 below 4%, including some of the lowest measurements seen in the last fifty years. The most recent unemployment reading of 4.2% (November) is slightly elevated from one year ago but should be no cause for concern, as it remains in a healthy range to promote sustainable growth. The number of job openings has receded from a high of 12 million in 2022, however, the number of openings remains above the average experienced over the last 25 years and is still greater than the number of unemployed workers seeking to fill those roles.

- **Consumer Spending:** Buoyed by stable employment and modest wage growth throughout the year, consumers spent at a record pace this holiday season. During the five days beginning on Thanksgiving Day, shoppers spent a record $41.1 billion. Black Friday and Cyber Monday online purchases were up 10% and 7%, respectively, from last year. A noticeable trend also emerged this year as more than half of online purchases were placed through a mobile phone. As U.S. consumers enjoyed wage growth that outpaced inflation in 2024, this growth allowed Americans to bolster their balance sheets, with some deciding to reward themselves for their hard work. For example, many families decided to spend the holiday season at sea as reflected by domestic and international cruise bookings over Thanksgiving holiday that were up 20% in 2024 from 2023.

Shifting our focus to securities markets, please see below the summary performance of various equity indexes.

Equity Index	**Q4**	**2024**
MSCI ACWI (All Country World Index)	-1.2%	16.3%
MSCI EAFE (Europe, Australia & Far East)	-8.1%	3.8%
MSCI Emerging Markets	-8.0%	7.5%
Nasdaq 100 (Technology-heavy)	4.9%	25.9%
Russell 2000 (Small-sized Companies)	0.3%	11.5%
S&P 400 (Mid-sized Companies)	0.3%	13.9%
S&P 500 (Large Companies)	2.4%	25.0%

Source: Morningstar Direct

Considering markets over the last four quarters and reflected in the table above, equity market performance varied wildly across regions and company size. However, overall investors enjoyed solid positive returns for the year in 2024. For the second year in a row, U.S. domestic equities, specifically large growth companies, were the top performers for the year. The S&P 500 index notched over 50 record highs in 2024, closing the year up 25%. International stocks continued their decade-and-a-half long trend of underperformance versus large cap U.S. equities partially due to a stubbornly strong U.S. dollar. The largest and most valuable companies in the world continued to dictate the majority of performance in the equity markets, given their significant concentration in many indexes.

For example, the “Magnificent Seven” which includes Apple, Amazon, Google, Meta, Microsoft, Nvidia, and Tesla, continue to make up over 33% weighting of the S&P 500. To put this in perspective, the smallest 430 companies in the index have the same combined weighting as the Magnificent Seven. As such, these seven companies are responsible for more than 55% of the S&P 500 return in each of the last three years. In fact, one stock, Nvidia, accounted for a whopping 25% of the S&P 500 return this year. These companies have a done a great job delivering solid earnings growth for shareholders, but their current premium valuations and concentrated weightings are at historic levels. When investors sold risk assets in 2022, a time of similar valuation level, these same high-fliers were down 40% on average compared to around 18% for the broader market. While their dominance may continue, our Investment Committee believes prudent diversification is especially important at this phase of the cycle.

There are pockets of equity markets that are currently trading at more reasonable valuations. International large value stocks, as measured by the MSCI EAFE Large Value index, trade at a 93% valuation of their 20-year average, while small cap value stocks, as measured by the S&P Small Cap 600 Value index, trade at an 84% valuation of their 20-year average. International markets and small caps have their own headwinds to overcome, but when we contrast them with the top 10 largest stocks in the S&P 500 trading at 145% of their long-term average, there is a compelling case for valuation diversification. The other 490 stocks of the S&P 500 are trading at a premium valuation of 115% of their long-term average. We believe this dispersion in valuations across asset classes indicates there continues to be opportunities within equites.

Shortly after the presidential election results were confirmed, positive equity performance was widespread among companies of all sizes and sectors. Most notably in November, small cap companies and financial sector stocks soared as investors began anticipating future deregulation initiatives from the newly elected administration. However, the astonishing performance was short-lived after a dismal December in which equities reversed most post-election gains across the board. One of the only bright spots in the equity market in December was the reliable large cap tech sector, which finished slightly positive. Even with the sluggish December performance, investors were rewarded with positive returns for the quarter.

Within fixed income assets, rate volatility throughout 2024 lead to swinging bond values, but the year ended mostly positive across the board for bonds.

Fixed Income Index	**Q4**	**2024**
Morningstar US Core Bond	**-3.0%**	1.4%
U.S. 10-year Treasury	**-5.2%**	-1.7%
ICE BofA 1-3 Yr. U.S. Treasury	**-0.1%**	4.1%
U.S. 3-month T-Bills	**1.2%**	5.3%
ICE BofA U.S. High Yield	**0.2%**	8.2%
ICE BofA 7-10 Yr. Municipal Bond	**-1.3%**	0.5%

Source: Morningstar Direct

While bonds have not provided the same eye-popping performance as equities, they have served their purpose to provide consistent income and dampen overall portfolio volatility through low correlation to stocks. Through the first three quarters of the year, investors holding longer dated bonds were rewarded as the expectation for lower future interest rates resulted in an increase of the prices on those bonds. However, in the fourth quarter that changed when future inflation concerns were reignited based on the new administrations' potential tariffs and how those may impact consumer prices. Theoretically, if investors perceive inflation to be stagnant or even increasing, they expect the Fed to lower its target rate at a slower pace, or potentially revert to rate increases. That would result in shorter term bonds outperforming their intermediate counterparts. At the most recent Fed meeting in December, the rhetoric provided by Fed Chairman Jerome Powell telegraphed less rate cuts than investors expected for 2025. After these comments, longer dated bonds were adversely affected as investors shifted expectations away from accelerated rates cuts and into a "higher for longer" environment and bond prices suffering accordingly, as shown in the table above. High-yield bonds, although riskier from a credit perspective, continued to produce strong fixed income returns. The Grant Street Investment Committee continues to favor high-quality short-term and intermediate-term fixed income over cash for conservative investors. We do believe the Fed will continue to cut rates in 2025 as they receive more favorable data on their battle with inflation. As a result, money market yields will decrease quickly, and investors sitting in cash could miss the potential price appreciation of traditional bonds.

2025 has the potential to be another solid year for stocks overall. Within Grant Street's equity allocation, the committee continues to favor exposure to domestic companies across the market cap spectrum, with a continued overweight to the large cap asset class. We remain committed to the large cap companies in the tech sector that will play a pivotal role in the demand and growth of artificial intelligence, but we continue to be diversified to balance risk associated with today's heightened valuations. Decreasing interest rates and a potentially more favorable environment from the incoming administration may be just the catalyst needed to close the gap on those asset classes trading at enticing valuations.

We remain committed to being our clients' go-to resource for all wealth issues. You may have noticed new online content authored by Grant Street's advisors and posted on various social media outlets throughout 2024. If you have not seen these pieces, we welcome you to reference them in our extensive online library. You can find them on our website on the home page as well as under Resources/Thought Leadership.

We appreciate your confidence in our team, and we thank you all for a successful 2024. We look forward to a prosperous new year in 2025.

Sincerely,
The Grant Street Investment Committee