



Global Strategic
NextGen OCIO

2024 YEAR END LETTER

**GLOBAL STOCKS
SURGE, AI RALLY &
FED CUTS OF 1.0%
FUEL INVESTOR
OPTIMISM**

Top 4 Takeaways

1. GLOBAL STOCKS SURGE 2024: TECH, AI, AND POTENTIAL POLICY SHIFTS FUEL OPTIMISM

Global stock markets performed well in 2024, especially the S&P 500, which surged 25% to notch one of its strongest years since the dot-com boom. The main drivers were improvements in artificial intelligence, robust corporate earnings, and strong economic indicators. International stock markets diverged in the 4th quarter mainly due to a strong US Dollar. In addition, uncertainties regarding potential tariffs and trade policies from the new administration weighed on international equities.

2. FEDERAL RESERVE CUTS THE FED FUNDS RATE BY 1%

The Federal Reserve reduced interest rates three times, totaling 100 basis points, bringing the federal funds target range to 4.25% – 4.50% by December 31. These cuts were to support economic growth in the face of cooling inflation and a moderating labor market. The Fed most recently hinted at a more cautious approach for 2025, projecting only two more quarter-point cuts, slower than previously expected. Fed Chairman Jerome Powell reiterated that the current economic data needs a careful assessment before further policy action is considered.

3. CAUTIOUS BOND MARKET RECOVERY

The Bloomberg U.S. Aggregate Bond Index returned 1.1%, while the Bloomberg Municipal Bond Index gained 1.3% in 2024. Long-term bond yields rose, with the 10-year Treasury yield increasing from 3.88% at the start of the year to 4.58% by year's end. This rise in yields led to a decline in bond prices, contributing to modest bond index fund returns for the year. The yield curve is now positively sloped for the first time since 2022.

4. SEMI-LIQUID PRIVATE MARKETS

Semi-liquid private market investment returns continue to provide strong risk-adjusted returns, lower volatility and diversification to public allocations. All three asset classes produced positive returns, resulting in **+9.7%** for the basket of investments (GSIS Model Weights).

2024 Market Returns

Asset Class	Index	4Q 2024	1 Year	3 years	5 Years
Global Equity	MSCI ACWI	1.4%	17.5%	5.4%	10.1%
US Large Cap	S&P 500	4.9%	25.0%	8.9%	14.5%
US Large Cap Growth	Russell 1000 Growth	6.1%	33.4%	10.5%	19.0%
US Large Cap Value	Russell 1000 Value	5.2%	14.4%	5.6%	8.7%
US Small Cap	Russell 2000	9.4%	11.5%	1.2%	7.4%
International	MSCI EAFE	-6.0%	3.8%	1.6%	4.7%
Emerging Markets	MSCI Emerging	-7.9%	7.5%	-1.9%	1.7%
Muni Bonds	Bloomberg Municipal Bond	0.2%	1.1%	-0.6%	1.0%
Taxable Bonds	Bloomberg Aggregate Bond	-1.4%	1.3%	-2.4%	-0.3%
High Yield Bonds	Bloomberg High Yield Bond	0.6%	8.2%	2.9%	4.2%

STOCKS

U.S. Stocks once again were the best performing equity asset class led by U.S. Large Cap Growth stocks that returned +33.4%. Large Cap Value +14.4% and US Small Cap +11.5% also had a very good year. International equities faded in the 4th quarter as the USD strength reduced what had been a good year for non-U.S. equities. The tech sector was the clear standout for the year, driven by explosive growth in artificial intelligence, cloud computing, and a strong recovery in semiconductor demand. In terms of regions, U.S. equities led the charge among developed markets, thanks to strong corporate earnings and a favorable macroeconomic environment. Emerging markets, however, struggled due to slower economic growth and currency challenges.

BONDS

The bond market returns for the year were less than the income received due to a modest increase in intermediate term yields. For the first time since 2022, the 10 year U.S. Treasury yield is higher than the 1 Month T-bill rate. This shift in the shape of the yield curve is due to the Fed Monetary actions, strong U.S. economic activity and potential pro-growth policies of the new administration.

PRIVATE MARKETS (GSIS MODEL WEIGHTS)

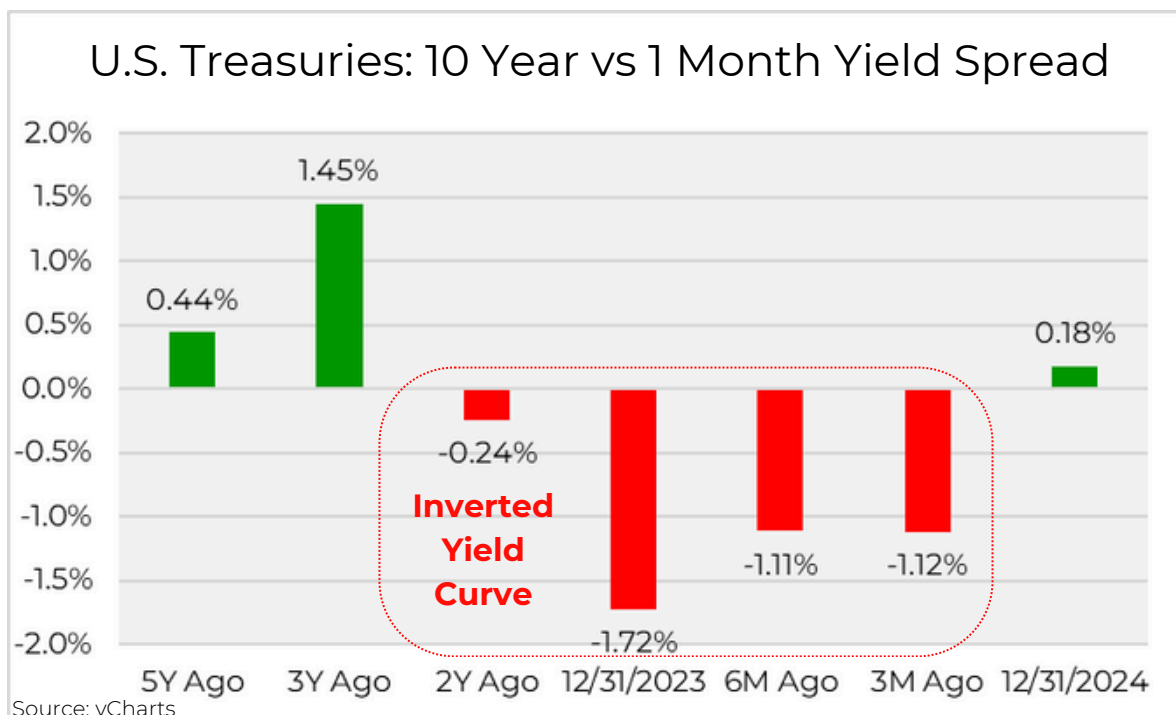
Private Credit produced strong returns in 2024, significantly outpacing US Bond indices. Yields remained more than 2 times that of the U.S. investment grade bond yields. **Private Equity** experienced double digit returns and was the best private markets asset class in 2024. The asset class experienced a positive impact toward the end of the year as M&A activity increased and new financing rounds were priced at higher valuations. **Private Real Assets** had mixed performance as infrastructure assets produced strong returns while real estate had muted returns.

Looking Ahead

In 2025, markets will likely be driven by central bank policies, inflation trends, and their impact on economic growth. Geopolitical events and trade relations will continue to cause volatility, while corporate earnings and guidance will remain key as companies adapt to evolving economic conditions.

FED FUNDS RATE CUTS - YIELD CURVE NORMALIZING

Since the Federal Reserve began to cut the federal funds rate, the yield curve has started to normalize, signaling a shift in market expectations. The yield curve has begun to steepen as short-term rates fell while longer-term yields rose. This adjustment reflects investor confidence in the Fed's actions to support economic growth while gradually reducing recessionary risks. This normalization of the yield curve is a good thing: It means monetary policy has become better attuned to economic conditions.

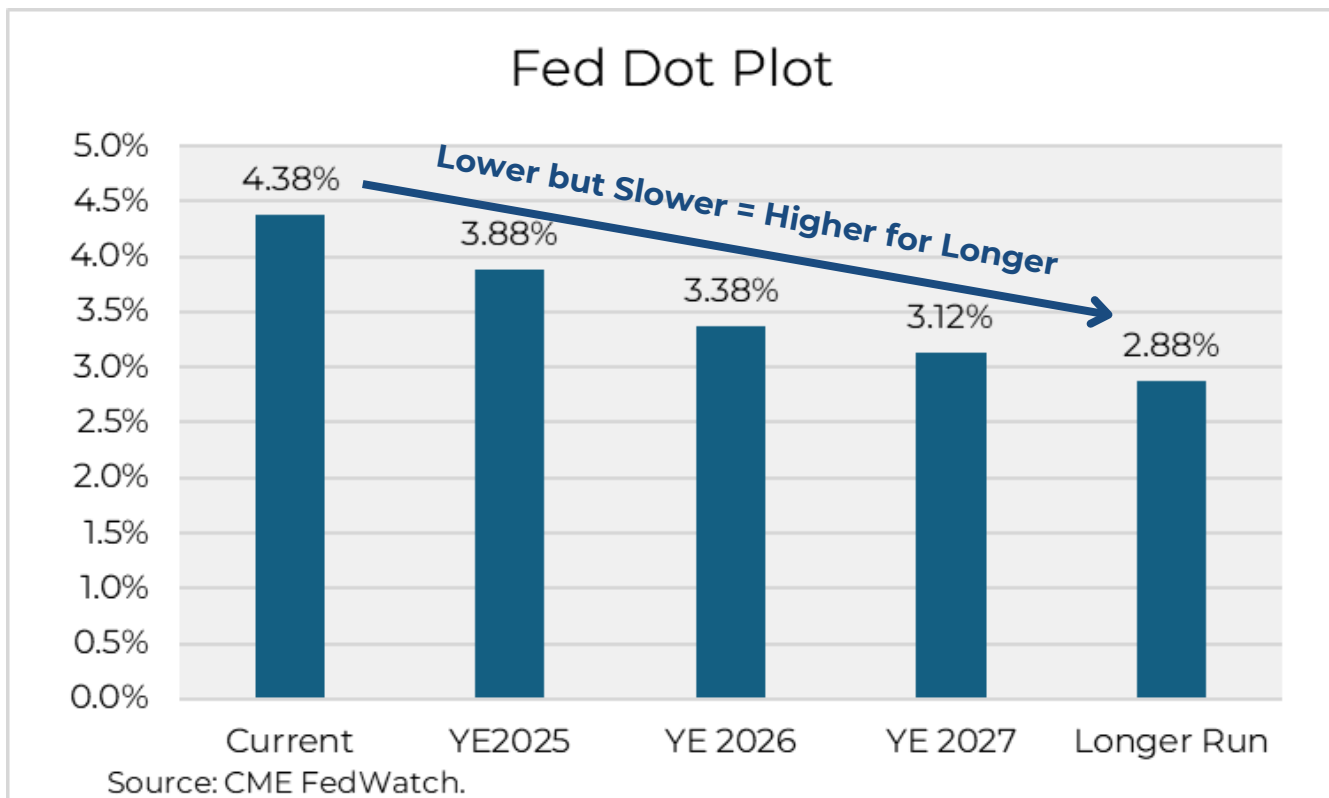


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of Days where 1Mo yield was higher than 10Yr yield.

FEDERAL RESERVE: 0.50% IN RATE CUTS IN 2025

Despite the Federal Reserve's recent monetary easing through lower federal funds rates, interest rates are expected to remain elevated in the broader economy. Persistent inflationary pressures and robust economic performance have kept long-term yields higher, reflecting market skepticism about rapid disinflation. Additionally, global factors, such as resilient demand for capital and tighter monetary policies abroad, contribute to the sustained higher-rate environment. As a result, borrowing costs for consumers and businesses may remain challenging even as the Fed takes steps to ease financial conditions.



Quick Takeaways

Federal Reserve Balance Sheet: The balance sheet has dropped by over \$2T since the high of almost \$9T in the Spring of 2022 (Board of Governors of the US Federal Reserve System).

USD Strength: The US Dollar outperformed a basket of international currencies (DXY Index) by 7% in 2024, all the outperformance coming in the 4th quarter.

U.S. Stock Market Profitable Companies Comparison: Wide dispersion, as reported by Bloomberg, between the large cap companies (7% of companies unprofitable) vs the small cap companies (43% unprofitable).

Magnificent 7 Outperforms: The Mag 7 stocks returned 48% in 2024, the remaining 493 stocks returned 10%.

P/E Ratio Next 12 Months: The top 10 largest S&P 500 companies are 1.45x more expensive than their long-term average, whereas the other 490 stocks are trading at 1.15x (Bloomberg).

S&P 500 Earnings Growth: 2024 estimated 11.9% year over year and 2025 projected at 14.8% (Factset Earnings Insight 12/20/2024).

2024 Analyst Expectations S&P 500: Wall Street Analysts expected the S&P 500 to end the year at ~4,770. The actual level on 12/31/2024 was ~5,882. The market outperformed the expectations by 23% (Avantis, GSIS).

European Stocks Relative Valuation: Forward Earning trade at 13x earnings versus 22x for the S&P 500, a record valuation discount (Barron's 1/4/2025).

Summary

The current market environment presents a unique blend of opportunities and risks.

Reasons for Optimism: Strong U.S. Economy with no major slowdown expected and potential less regulation. Undervalued Non-U.S. equities. Higher bond and private credit yields. Compelling Private Equity valuations and potential for increased M&A activity.

Reasons for Caution: Potential new administration policies that could lead to higher inflation, tariff wars and a stronger U.S. dollar. Elevated U.S. Equity valuations.

As always, we recommend maintaining a diversified portfolio and focusing on long-term goals to capitalize on opportunities while managing potential downside risks.

Thank you for your Trust and Confidence.



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