

Currents: Looking ahead in 2025

As we start a new year, it is natural to look to the future and attempt to project what will happen. Below are our thoughts on what we anticipate for stocks and bonds moving through 2025. We'll also touch on how we plan to incorporate these viewpoints into our investment strategies.

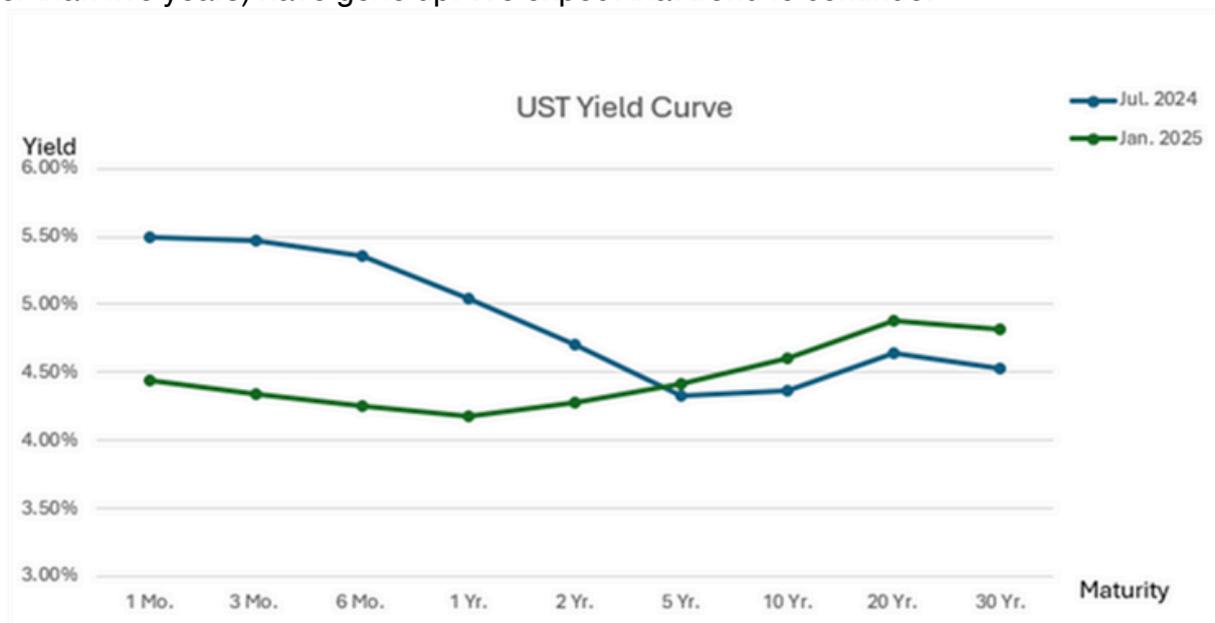
1. BONDS: The yield curve continues its journey towards normalization.

In 2025, we expect the yield curve to fully return to a normal slope. This means longer term bonds will pay higher interest rates than shorter term bonds. The yield curve's return to normal will be helped by both the Federal Reserve and the investing public. Short-term rates (money markets included) should continue to fall due to a few additional Federal Reserve interest rate cuts. The long end of the yield curve should continue upwards as the investing public continues to accept that 4% is not an expected future rate for long-term bonds. Our belief is that maturities over ten years will settle in above a 5% yield and Treasury Bills (maturities one year and under) will dip below 4%.

Below is a graph showing how the yield curve has shifted over the last six months.

- The blue line represents the inverted yield curve from six months ago.
- The green line is the current yield curve, reflecting the continued journey toward normalization.

Short-term rates (maturities less than a year) have come down and long-term rates (maturities greater than five years) have gone up. We expect that trend to continue.



2. STOCKS: Opportunities exist globally and strategic tilts will help.

Stock markets worldwide have had a great run over the last two years. As a group, the largest companies in the United States performed best (over 50% return since the start of 2023 as measured by the S&P 500 index) and emerging markets performed the worst (still up over 16%)[1]. Non-U.S. stocks remain out of favor relative to their U.S. counterparts but are currently priced as a better value. On average, foreign stocks with comparable earnings to U.S. stocks currently trade at about half the price [2]. We believe it is important to maintain broad global market exposure as each asset category offers unique opportunities.

After reviewing research from major investment banks, private equity firms, and top-rated independent analysts whom we trust, our investment committee aims to slightly overweight our allocations to U.S. small companies, infrastructure, energy and financials.

3. OUR APPROACH:

This section is intentionally broad as every portfolio is tailored to each investor's situation. However, these general strategies provide a sense of our direction.

As one-month T-Bills drop toward 4% and 20-year Treasury Bonds yield over 5%, we will be looking at purchasing bonds to build our allocation back up as it was prior to the initial Fed rate cuts in 2022.

Rebalancing stock allocations will capture realized capital gains for most investors. Capital gains realized in the first quarter of 2025 will have tax obligations due by April 2026 allowing the proceeds to remain working in client portfolios for the duration of 2025. The intention of our rebalancing will be to bring overweighted stock allocations back down to target, protect profits accrued over the past year, and shift slightly towards our identified areas of expected growth.

We appreciate you and our ongoing partnership. We are here to serve.

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[1] www.koyfin.com

[2] Comparing price to earning ratios between the S&P Index and the MSCI EAFE Index | www.koyfin.com