

Capital Markets Review | 4th Quarter 2024

December 31, 2024



Overview

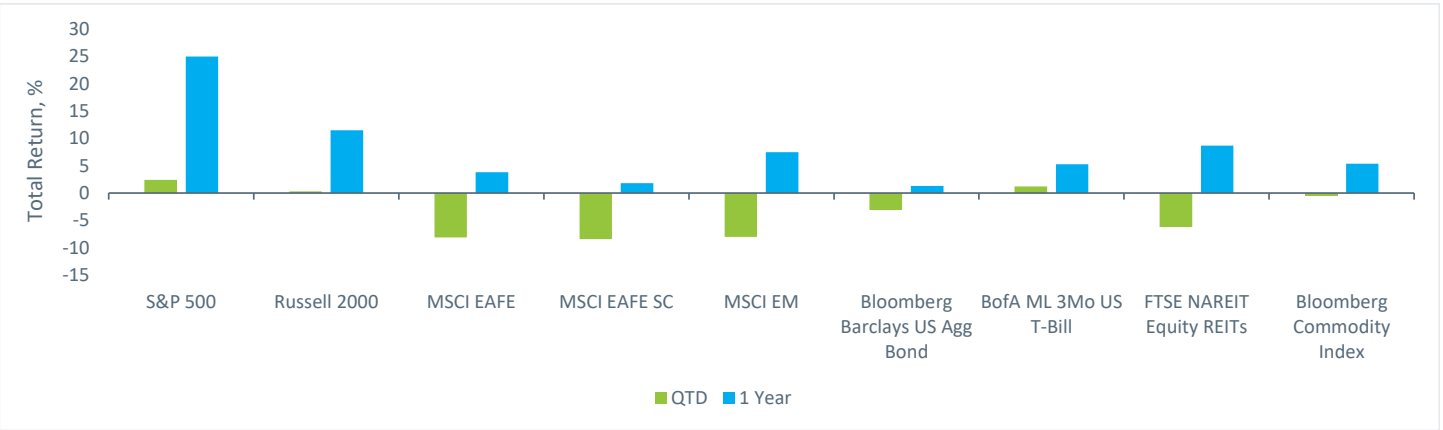
Despite multiple risks to economic growth—including persistent pockets of inflation, ongoing wars, and the prospect of renewed trade disruptions—risk assets delivered robust returns in 2024. For the calendar year, the MSCI All Country World Investable Market Index generated returns of 16.9%, primarily due to the returns of the US stock market and many of its largest companies. However, during Q4, investor sentiment for Chinese and other non-US securities weakened due to the trade measures expected from the second Trump administration, which caused global stock markets to experience a minor retracement. The decline was mainly observed through negative returns from value-oriented stocks and companies based outside of the US.

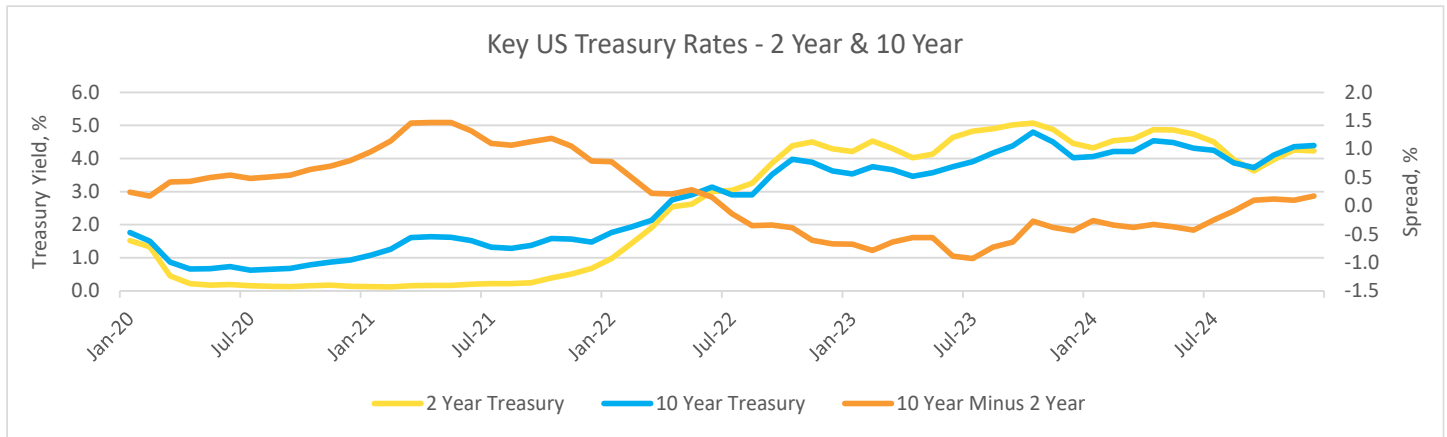
Credit spreads within debt markets continued to tighten throughout the year, leading to attractive returns for non-investment grade, leveraged loan, securitized, and hard currency emerging markets debt. Longer-dated and higher quality debt produced more modest returns given the trend of rising yields. With the debt load of major economies and risks to economic growth mounting, term premiums for longer-dated debt issuance have steadily increased. Among real assets, precious metals generated high returns for the calendar year, outpacing broad commodity indexes (which include significant weights to energy which posted more muted returns in 2024).

Globally, broad GDP growth and inflation projections did not shift substantially during the quarter. In December, the Organisation for Economic Co-operation and Development (OECD) Economic Outlook report forecasted global GDP growth of 3.2% for 2024, with a slight increase to 3.3% in 2025 and 2026. Similarly, the OECD forecasts for headline inflation in G20 economies for 2024 and future years only declined marginally compared to prior forecasted levels. The OECD estimate for global headline inflation in 2024 remained at 5.4%, with projections declining to 3.5% and 2.9% in 2025 and 2026, respectively.

Throughout 2024, most economic indicators pointed to stable US GDP growth and incremental progress toward inflation targets. The year-over-year Headline Consumer Price Index change was 2.9% according to the December reading, representing a decline from 3.4% at the end of 2023. The Federal Open Markets Committee (FOMC) continued its trend of reducing the Federal Funds Rate with a 0.25% cut in December, following a *(continued on next page)*

4th Quarter and 1 Year Performance



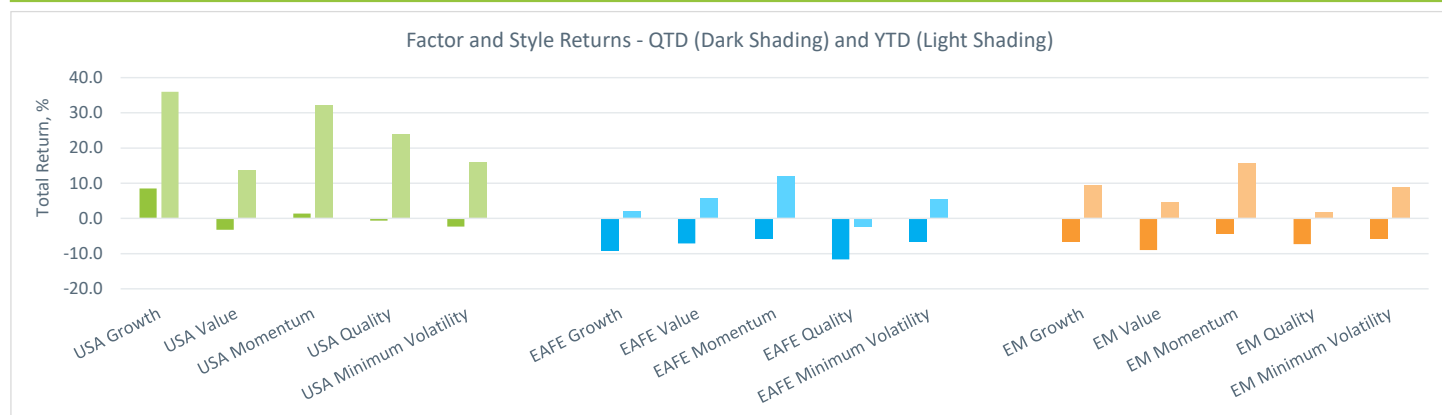


0.25% cut in November and 0.50% cut in September. The range for the Federal Funds Rate is now 4.25%–4.50%, down from its recent peak range of 5.25%–5.50%. The minutes from the December FOMC meeting revealed that the committee was largely comfortable with holding rates steady at their upcoming meeting should inflation, growth, and labor conditions remain stable. The labor market showed surprising resiliency to end the year, as the job growth was above consensus estimates in December. There were over 2 million more jobs created in 2024 than projected at the start of the year. The unemployment rate held relatively steady throughout 2024, ending at 4.1%, with wage growth moderating while staying in positive territory.

Outside the US, central banks largely followed courses set earlier in the year. The European Central Bank reduced its policy rate by 0.25% in December, marking the fourth cut of 2024. The interest rate had been at 4% in June and now stands at 3%. The Bank of Japan maintained its current interest rate of 0.25% at its December meeting. In late December, the People’s Bank of China projected an intention to further reduce interest rates after its most recent cut during its September meeting. During Q4, Chinese officials decided to target a budget deficit of 4% in 2025, an increase from the 3% target used in 2024, and they indicated that further economic stimulus was being contemplated.

Expanded Review of Key Economic Indicators

	Q4 2024	Q3 2024	Q2 2024	10 Year Average
Federal Funds Rate	4.33%	4.83%	5.33%	1.76%
Treasury (2-Year)	4.25%	3.66%	4.71%	1.99%
Treasury (10-Year)	4.58%	3.81%	4.36%	2.48%
Treasury (30-Year)	4.78%	4.14%	4.51%	2.92%
Breakeven Inflation (5-Year)	2.40%	2.09%	2.28%	1.95%
Breakeven Inflation (10-Year)	2.34%	2.19%	2.29%	1.99%
Breakeven Inflation (30-Year)	2.32%	2.20%	2.30%	2.03%
BB US Corp: Hi Yld Index - OAS	2.87%	2.94%	3.09%	4.17%
Capacity Utilization	76.80%	77.96%	78.17%	77.38%
Unemployment Rate	4.10%	4.10%	4.10%	4.67%
ISM PMI - Manufacturing	49.30%	47.20%	48.50%	53.13%
ISM PMI - Service	54.10%	54.90%	48.80%	56.15%
Consumer Confidence (Conf. Board)	104.70	98.70	100.40	110.38
CPI YoY (Headline)	2.90%	2.40%	3.00%	2.92%
PPI YoY - Producer Prices	3.30%	1.80%	2.60%	2.74%
US Dollar Total Weighted Index	128.70	121.53	124.52	115.34
WTI Crude Oil per Barrel	\$72	\$68	\$82	\$62
Gold Spot per Ounce	\$2,612	\$2,636	\$2,337	\$1,599



US Equity

US equities began on a strong note in Q4, supported by easing monetary policy and optimism related to anticipated policies from the incoming administration. This positive momentum lasted through much of the quarter but was disrupted after the December FOMC meeting. During the meeting, guidance was provided that interest rates could remain higher than expected, triggering a sharp market correction. US markets still ended Q4 in positive territory, with the Russell 3000 Index gaining 2.6% in Q4 and 23.8% for the year.

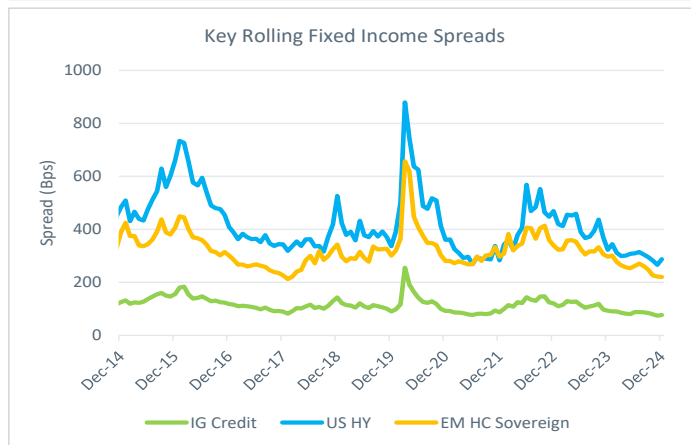
The "Magnificent Seven" rebounded after underperforming in Q3, with Tesla and Amazon leading the resurgence. Tesla delivered an impressive return of 54.4%, while Amazon followed with 17.7%. This rally further widened the gap between large-cap growth and small-cap value stocks. The Russell 1000 Growth Index gained 7.1%, while the Russell 2000 Value Index declined by -1.1%. Gains were concentrated in a few sectors, with only 4 of the 11 GICS sectors posting positive results. The Consumer Discretionary sector led with a 12.1% return, buoyed by strong consumer sentiment, while materials lagged the most, declining by -12.3%.

Active managers faced headwinds during the quarter, with median core and growth managers underperforming across size spectrums. Value managers fared the best, with median large-cap and small-cap value managers generating incremental excess returns.

Non-US Equity

Developed international markets posted significant negative results in Q4, with the MSCI EAFE Index generating returns of -8.1% in Q4. International value stocks continued to outperform growth stocks during the quarter—outperforming by a wide margin for the year. Small-cap slightly underperformed large-cap stocks for Q4 and all of 2024. Most country returns finished the quarter in negative territory. Israel was a standout, with double-digit positive returns, while Singapore, Taiwan, and Austria posted more modest gains. European securities continue to struggle due to subdued investor sentiment and lackluster economic forecasts.

Emerging markets slightly outperformed developed international markets for Q4. For 2024, emerging markets outperformed with the MSCI Emerging Markets Indexes returning 7.5% compared to 3.8% for the MSCI EAFE Index. Within emerging markets, growth stocks outperformed value stocks in Q4 and the year. Small-cap stocks outperformed large-cap stocks in Q4. China continues to dominate headlines. In Q4, returns for Chinese securities turned negative as investors worried about the impact of tariffs from the incoming Trump administration. Investors also became more skeptical of Chinese government stimulus efforts, which were previously buoying the market. In November, the government introduced a \$1.4 trillion dollar bailout package for local governments, and additional support is expected in 2025.

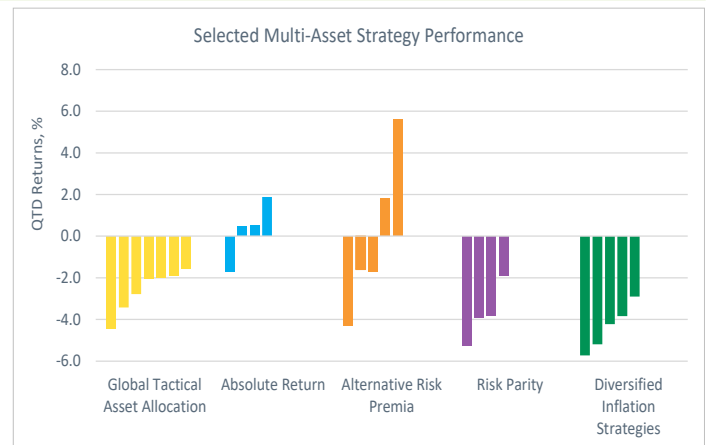


Fixed Income

Treasury yields rose across most maturities in 2024, with a sharp increase in Q4, while the 2-year Treasury yield remained stable. The results of the US election boosted expectations for economic growth, inflation, and deficits, contributing to an increase in the premium for longer-dated debt. Throughout 2024, investor focus was on the Treasury yield curve and spreads between key maturities commonly used as recession indicators. The inversion between the 2-year and 10-year Treasuries ended in Q3 while the inversion between the 3-month and 10-year Treasuries ended in December. No recession materialized during the yield curve inversion, but some managers have cautioned that prior recessions have tended to occur following the end of past inversions.

The Bloomberg US Aggregate Bond Index declined by -3.1% in Q4 but finished the year with a 1.3% gain. Risk assets showed resilience, with lower-rated bonds outperforming. The Bloomberg US Corporate Investment Grade Index posted -3.0% for Q4 and 2.1% for the year, while the Bloomberg US Corporate High Yield Index returned 0.2% in Q4 and 8.2% for the year.

Emerging market debt had mixed results. The JPMorgan EMBI Global Diversified Index, tracking hard currency bonds, fell -1.9% in Q4 but gained 6.5% for the year. In contrast, local currency bonds struggled due to a strong US dollar, with the JPMorgan GBI-EM Global Diversified Index returning -7.0% in Q4 and -2.4% for the year.

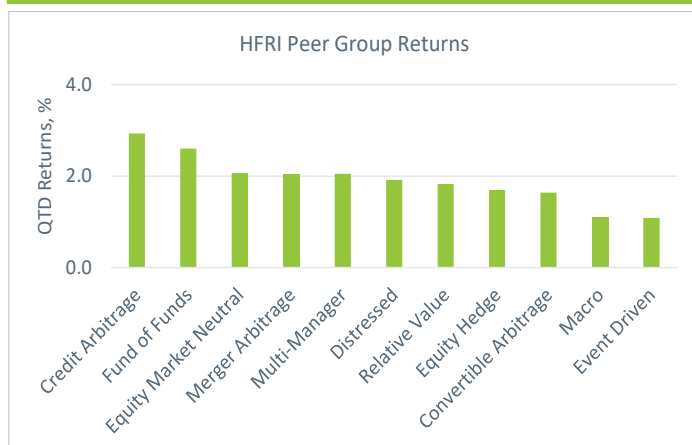


Multi-Asset

Global Tactical Asset Allocation (GTAA) strategies that RVK follows closely posted negative returns in Q4 to close a challenging year for long-biased active managers, as all underperformed a US-centric blend of 60% equity and 40% fixed income (60/40 blend) in Q4 and 2024. In Q4, the top performing long-biased GTAA strategies featured a higher allocation to high yield credit, US Financials stocks, and mega-cap stocks that were less sensitive to interest rates. Underperforming peers tended to hold larger exposures to emerging markets and long duration government bonds.

Absolute return strategies targeting low volatility and limited sensitivity to traditional asset classes posted disparate positive returns, outperforming a static 60/40 blend. Alternative Risk Premia strategies tracked by RVK also posted widely disparate returns. The best performers benefitted from factor exposures within equities, commodities, and fixed income.

Diversified inflation strategies (DIS) closely monitored by RVK reported positive performance for the first three quarters of the year. However, this positive trend reversed in Q4 as rate-sensitive sectors faced pressure following the December FOMC meeting. DIS managers ended the year with negative absolute performance, underperforming a 60/40 blend in Q4 and for the year. Managers with larger exposures to REITs and natural resource equities lagged peers most significantly.



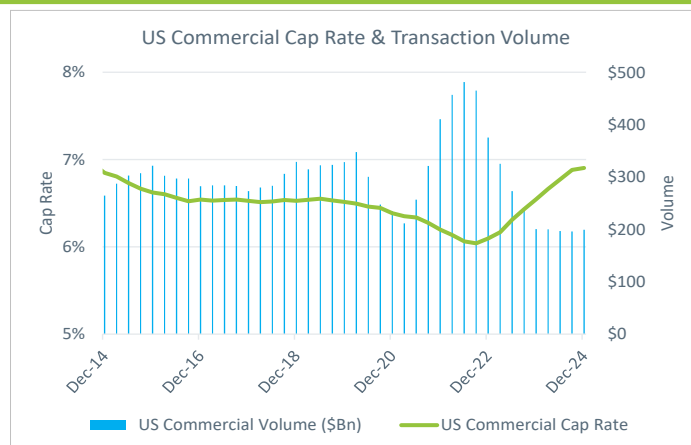
Diversified Hedge Funds

Hedge funds finished the year strongly, with the HFR Composite Index returning 2.5% in Q4, resulting in a total return of 9.2% for 2024. All major strategy indices posted positive results during the quarter. Positive performance primarily came during November, as the US presidential election served as a positive catalyst for various strategies.

The top performing strategy type in Q4 was Credit Arbitrage, with a return of 2.9% for the index. Credit Arbitrage managers continued to find opportunities as volatility remained elevated due to the disparity of inflation expectations between policy makers and the bond market, with yields creeping higher despite recent rate cuts.

The Fund-of-Funds space provided the second highest results in Q4, delivering a return of 2.6%. Event Driven strategies were the weakest group, finishing with a small gain of 1.1% during the quarter as corporate deal-making activity was subdued in the lead up to the election.

The top performing strategies for the full year were volatility driven strategies such as Credit Arbitrage and Equity Hedge strategies, returning 10.3% and 12.3%, respectively.



Real Estate

Core private real estate generated a 1.2% total return in Q4 (on a preliminary and gross of fee basis), as reported by the NFI-ODCE Index, with the total return comprised of 1.0% from income and 0.1% from price appreciation. Income returns were generally flat for quarter-over-quarter and remained slightly elevated compared to recent years. The 1-year income return of 4.1% is in line with the 10-year average while outperforming the 3- and 5-year averages. This is the first quarter of positive overall price appreciation returns after nine consecutive quarters of negative returns. Investors of publicly traded real estate significantly underperformed their private market counterparts. Publicly traded real estate securities delivered a total return of -8.2% in Q4, as measured by FTSE/NAREIT All REITs Index, finishing 2024 with a 4.9% return.

The trend of price depreciation in institutional real estate continues to slow. Transaction markets continue to improve, though prices are still below prior peaks. The FOMC decision to cut rates, while anticipated, further helped to reinforce an inflection point experienced during the second half of 2024. These positive developments and indicators have prompted optimism among some managers that return volatility may further narrow, as properties have experienced significant write-downs and now more accurately reflect the reality on the ground.

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