

MONTH IN REVIEW

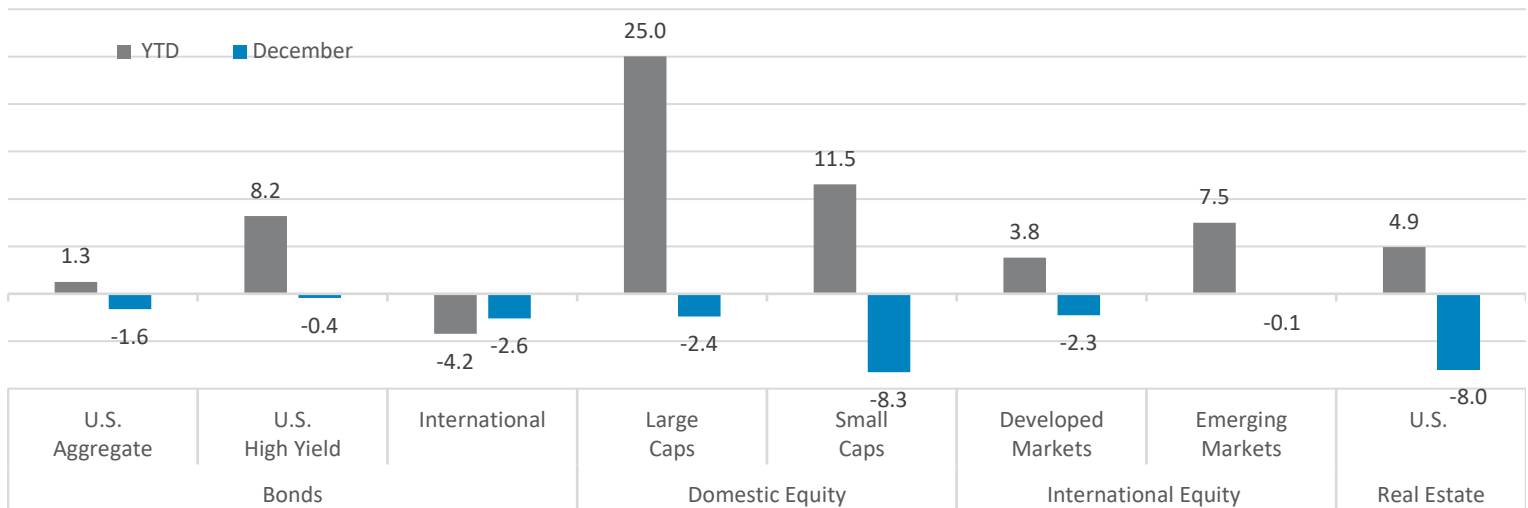


Quick Takes

- Stock Markets Woes.** Equity markets fell during a more challenging December after rallying November. A combination of Fed outlook changes, policy uncertainty, global conflict escalation, and other events hurt investors in December.
- Inflation and Interest Rates.** The 10Y treasury yield rose in December from 4.2% to nearly 4.6%. Unemployment rose slightly from 4.1% to 4.2% and nonfarm payrolls increased by 227k. CPI inflation rose to 2.7% in November from 2.6% in October. PCE inflation came in at 2.4%, below the forecasted 2.5%. The Fed cut rates by 25 bps.
- Labor Strikes.** Workers at Amazon and Starbucks went on strike leading into the holiday season in December. 5,500 Amazon workers across the country went on strike just 10 days before Christmas. The Starbucks strike began at a few locations in major cities on December 20. 5,000 baristas across the US were on strike by Christmas Eve.
- Assad Regime Falls.** Syrian President Bashar al Assad's government was overthrown by the opposition in Syria in early December after years of civil war. Assad had been in power for 24 years. The fall of his government was a geopolitical shock to Russia and Iran that were his main foreign backers.

Asset Class Performance

Large caps outperformed small caps in December. US stocks lagged international markets during the month amid tariff and trade concerns and a more cautious Fed rate outlook for 2025. Domestic and international assets alike ended the month lower including both fixed-income and equities.



Source: Bloomberg, as of January 2, 2025. Asset-class performance is presented by using total returns for an index proxy that best represents the respective broad asset class. U.S. Bonds (Barclays U.S. Aggregate Bond TR), U.S. High Yield (Barclays U.S. HY 2% Issuer-Capped TR), International Bonds (Barclays Global Aggregate ex USD TR), Large Caps (S&P 500 TR), Small Caps (Russell 2000 TR), Developed Markets (MSCI EAFE NR USD), Emerging Markets (MSCI EM NR USD), Real Estate (FTSE NAREIT All Equity REITS TR).

December 2024

Markets & Macroeconomics

Inflation Comes in Cooler, Yields Rise even as Fed Cuts Rates

10Y US Treasury Yield vs Upper Bound of FOMC Rate Target



Source: Bloomberg

Economic data releases in December generally indicated strong continued activity in the US and lower-than-expected price pressures for consumers. Headline PCE inflation for November came in at 2.4% versus the 2.5% year-over-year increase anticipated by economists. The Core PCE figure was also lower than forecasted at 2.8% versus the projected 2.9%. CPI and Core CPI inflation were both in line with expectations at 2.7% and 3.3% respectively for November. One sticking point in the inflation numbers was producer price inflation. PPI inflation came in at 3.0% versus the forecasted 2.6% for November while Core PPI inflation was 3.4% compared to a consensus projection of 3.2%. In the labor market, the US added 227k jobs, ahead of the expected 220k in November. Despite better-than-expected job growth, the unemployment rate rose to 4.2% from 4.1% and the Labor Force Participation Rate (LFPR) fell slightly from 62.6% in October to 62.5% in November. Real wage growth also slowed in November from a 1.4% year-over-year increase in both hourly and weekly wages in October to a 1.3% and a 1.0% increase respectively in November. Consumers continued to spend in November, but spending shifted toward cars as retail sales growth month-over-month in November came in at 0.7% versus the expected 0.6%, but retail sales excluding car sales grew just 0.2% compared to the forecasted 0.4% for the month.

While services activity remains strong, industrial activity continues to be weaker. Industrial production fell 0.1% from October levels in November, much lower than the 0.3% growth expected by economists. The Preliminary US Manufacturing PMI came in at just 48.3 versus the expected 49.5 for December. The FOMC decided to cut rates by 25 bps at their December 18 meeting but indicated that there will likely be fewer rate cuts in 2025 than previously anticipated by investors. The FOMC will meet next on January 29 and interest rate derivative markets have priced in a near 89% probability of no change in rates. Given the more hawkish rate outlook, treasury yields rose and stocks fell in December despite the Fed rate cut. The 10Y treasury yield ended 2024 just below 4.6% and the 30Y mortgage rate ended the year at over 7%.

Bottom Line: In an effort to maintain a strong labor market, the Fed is still looking to cut interest rates, but must balance the risks to the labor market against still above-target inflation. A more hawkish rate outlook for 2025 as announced at the latest FOMC meeting on December 18 hurt stock and bond performance through the end of the year as investors reset their macroeconomic expectations.

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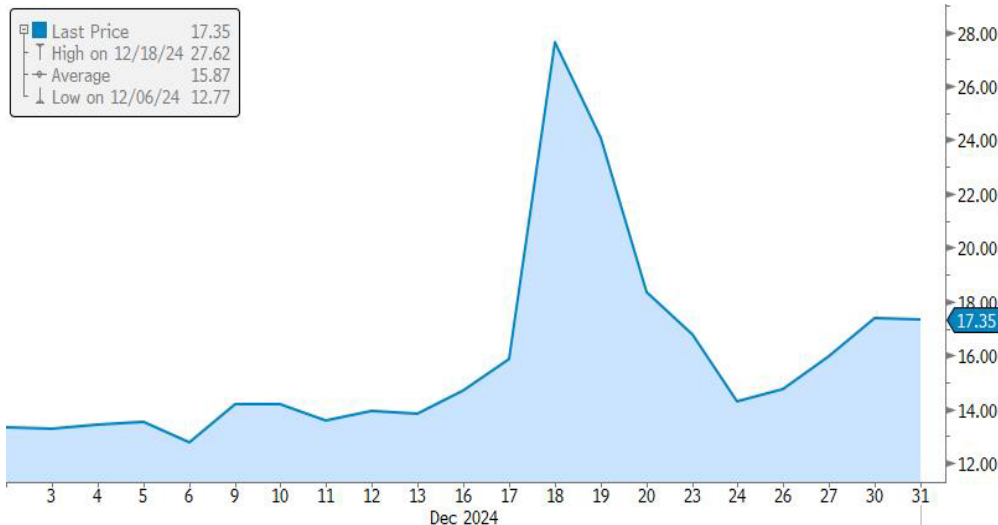
What's Ahead

Uncertainty defined December, both at home and abroad

Investors experienced a particularly chaotic December this year complete with the murder of a health insurance executive, to a Federal Reserve rate outlook for 2025 that resulted in the worst one-day move in stocks on a Fed announcement since 2001, to a debt ceiling fight between congressional Republicans and the incoming Trump administration among other events. On the morning of December 4, UnitedHealthcare CEO Brian Thompson was walking outside of the Manhattan Hilton hotel in New York City when he was fatally shot in the back. Thompson was attending an analyst day in the city. The shooting would result in the analyst day being cut short and would send UnitedHealth Group and other health insurance stocks plummeting in the coming days and weeks. Luigi Mangione was later indicted for the murder of Thompson in New York on a variety of evidence, including Mangione's writings strongly criticizing the American healthcare industry. Two weeks after the shooting, the FOMC held a rate meeting where it announced a 25 bp rate cut, but also indicated that 2025 would likely only see two rate cuts as inflation falls back to 2%. The market reaction sent the

CBOE Volatility Index (VIX)

The VIX fell sharply following the Fed's rate announcement on December 18



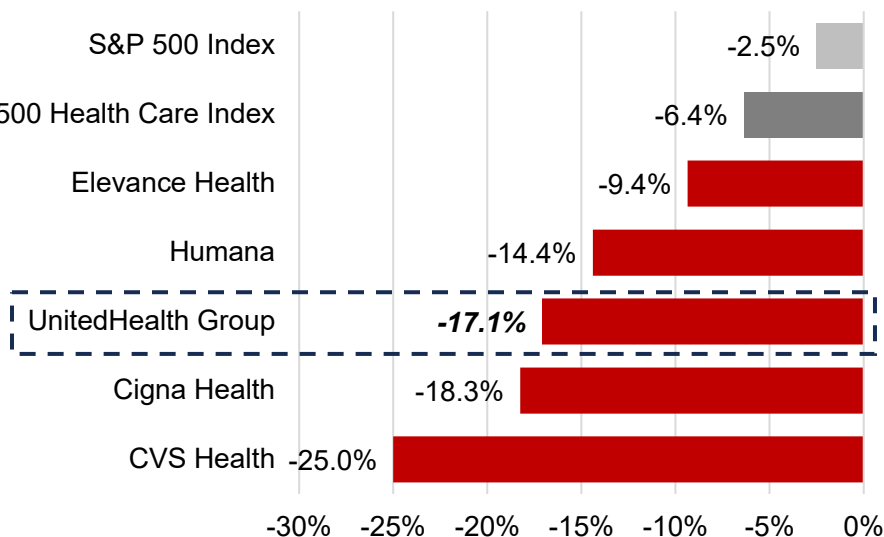
Source: US Census Bureau

CBOE Volatility Index (VIX) soaring from under 16 to over 27. From December 17 to December 19, the S&P 500 fell 3%. The Fed now expects the federal funds rate to be around 3.9% by the end of 2025 and 3.4% by the end of 2026. Despite interest rate cuts over the last few months, longer-term treasury yields have risen. The final two weeks of December were defined by Elon Musk,

President-Elect Trump's pick for running the to-be-formed Department of Government Efficiency (DOGE), and the President-Elect himself fighting Congress over raising the debt ceiling and funding the government. After US House Speaker Mike Johnson reached a funding deal with Democrats to avoid a government shutdown, Trump and Musk announced their opposition to the bill because of excessive spending and no increase in the debt ceiling. This forced Congressional Republicans to reach a new deal. It also led to a fight over whether Mike Johnson will keep his position as Speaker of the House, which is still an ongoing debate.

Health Insurance Stock Returns in December

Health insurance stocks fell sharply following Brian Thompson's shooting



Source: Bloomberg

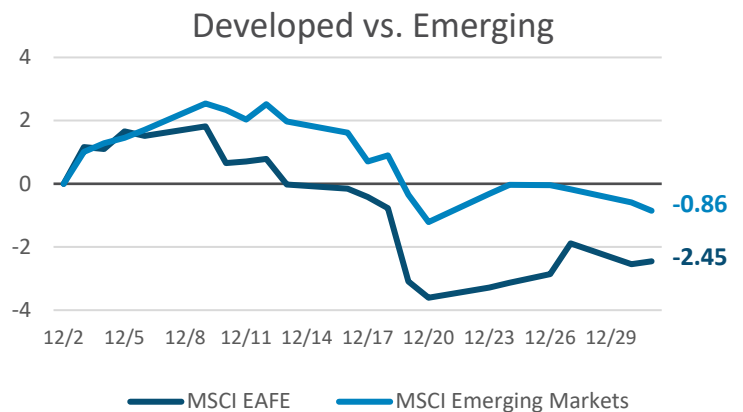
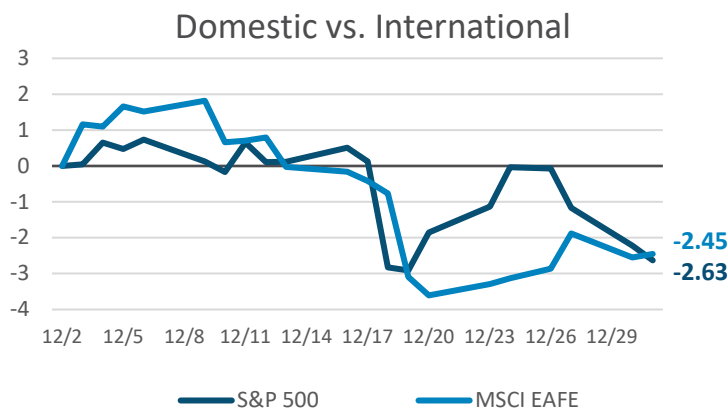
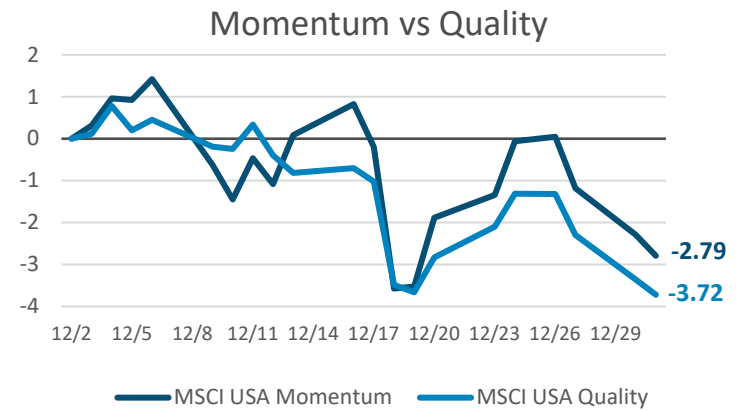
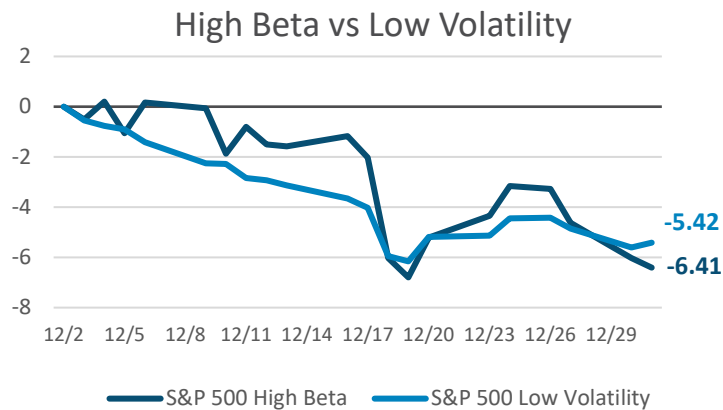
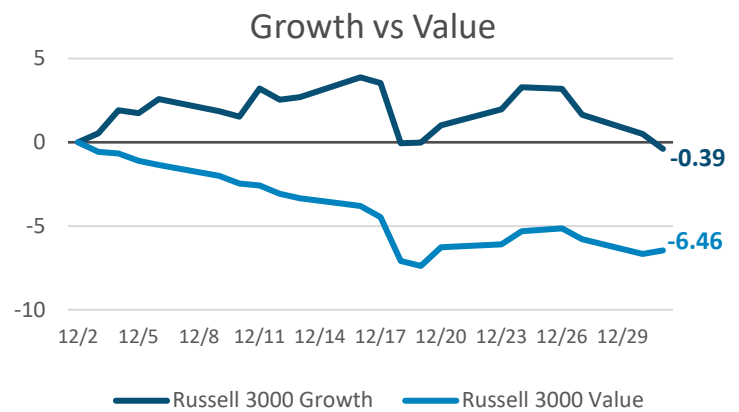
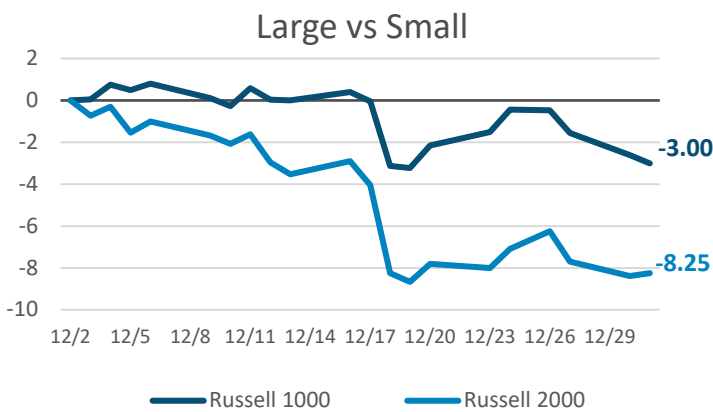
Bottom Line: December's chaotic political and economic environment spooked investors. If December offers any insight into what government officials and economic policymakers will be dealing with in 2025, it may be an eventful year for markets. This will particularly be the case if international conflicts in the Middle East, Europe, and elsewhere escalate or if trade tensions become even more severe than investors are expecting.

December 2024

Equity Themes

What Worked, What Didn't

- **Large Outperformed Small while Growth Outperformed Value.** Market participants moved significantly more into large-cap growth stocks in December more so than small-cap or value, a reversal of November's movements and then some.
- **Low Vol and Momentum Outperform.** Low volatility outperformed High Beta in December, but only by a margin of 99 bps. Momentum outperformed quality again in December.
- **International Over Domestic, Emerging Over Developed.** International equities very narrowly outperformed domestic stocks in December. Emerging markets outperformed developed international markets by 159 bps.



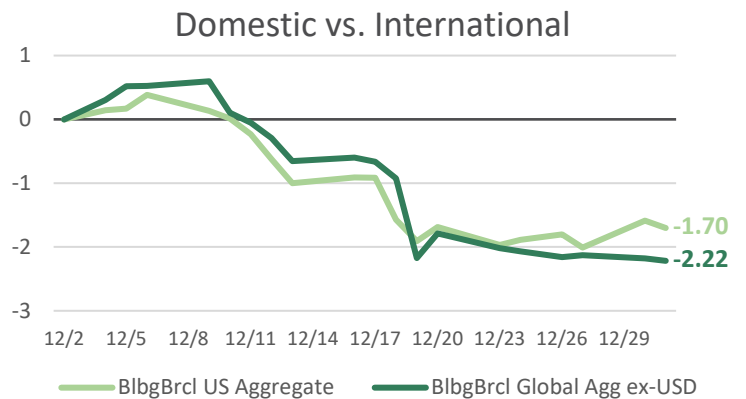
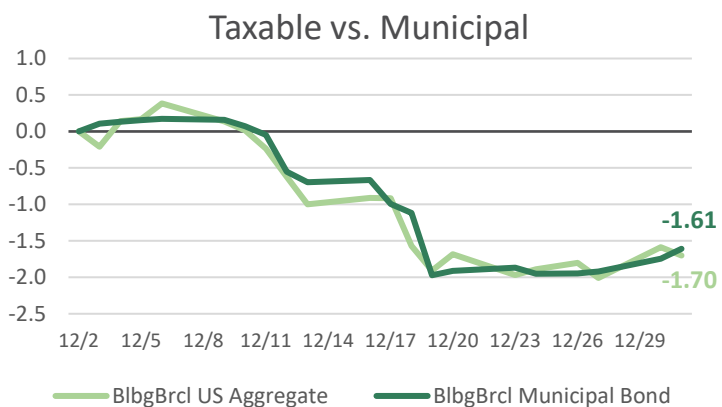
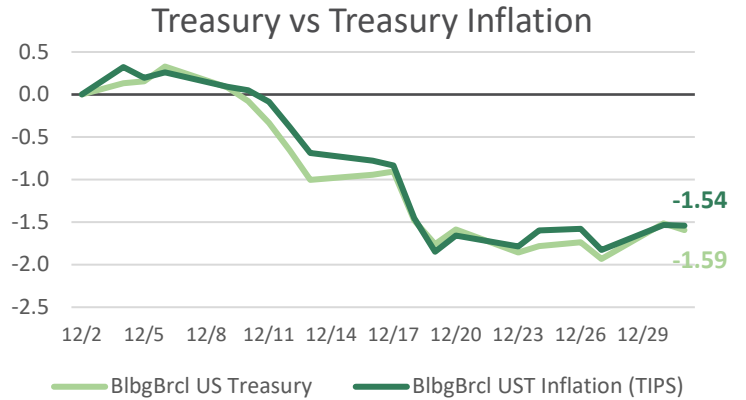
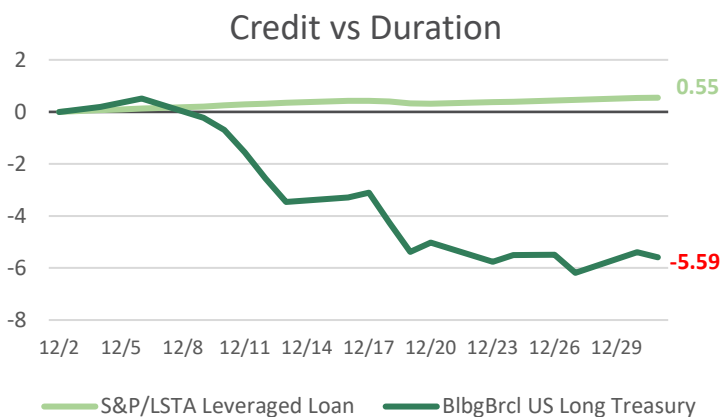
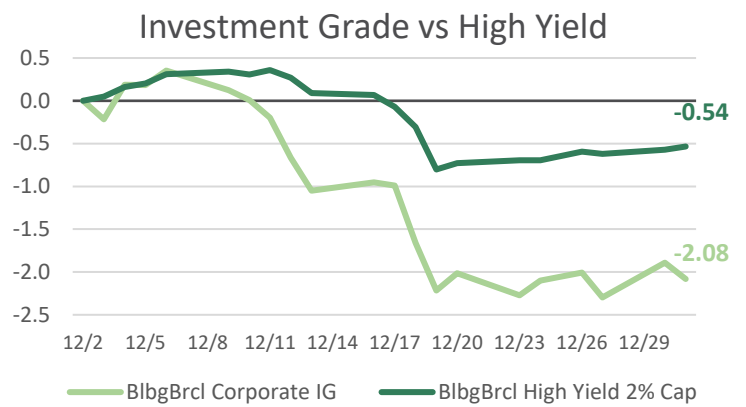
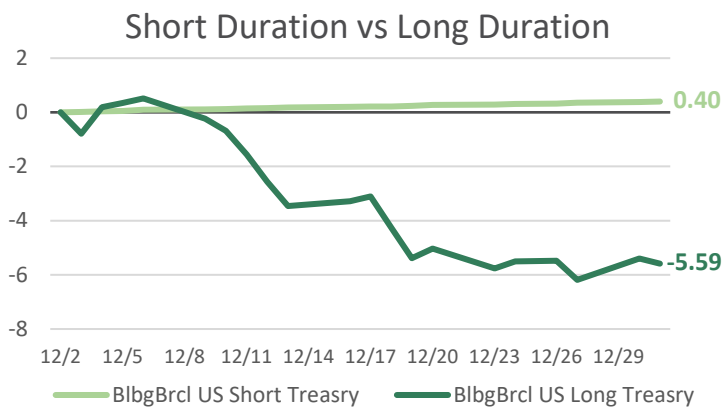
Source: Bloomberg.

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Bond Themes

What Worked, What Didn't

- **Short Duration and High Yield Outperform.** Short Duration Treasuries performed better in December outperforming Long Duration by nearly 600 bps. Investment Grade lagged in December losing to High Yield by 154 bps.
- **Credit Tops Duration while Treasuries and TIPS were Near Even.** In December, Long Duration considerably underperformed Credit while TIPS outperformed Treasuries by 5 bps.
- **Munis and Taxable were Near Even and Domestic Outperforms.** Tax-exempt Municipal bonds outperformed Taxable Aggregate, while U.S. bonds outperformed their International peers in December.



Source: Bloomberg.

December 2024

Asset Class Performance

The Importance of Diversification. From period to period there is no certainty what investment will be the best, or worst, performer. Diversification mitigates the risk of relying on any single investment and offers a host of long-term benefits, such as less portfolio volatility, improved risk-adjusted returns, and more effective compounding.

	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-23	Dec-24	Dec-26	Dec-27	Dec-30	Dec-31	Dec	YTD
High	LCG 0.87	MCG 0.62	LCG 1.42	EM 0.66	MCG 1.12	EM 2.05	HYB 0.05	LCG 1.68	RE -0.19	IBD 0.28	LCG 1.18	USB 0.00	USB -0.76	EM 0.33	MCG 1.87	LCG 1.01	LCG 1.29	SCG 1.19	IBD 0.00	USB 0.39	RE 0.85	LCG 0.94	LCG 34.32
	EM 0.39	LCG 0.59	MCG 1.15	IBD 0.55	SCG 0.84	RE 0.28	IBD -0.10	MCG 0.98	MCV -0.26	LCG 0.19	SCG 1.04	IBD -0.10	HYB -1.02	MCG 0.12	RE 1.82	IEQ 0.65	SCG 0.99	SCV 0.83	IEQ -0.14	HYB 0.14	SCV 0.29	HYB -0.73	MCG 22.60
	IEQ 0.28	IEQ 0.57	SCG 0.68	IEQ 0.49	LCG 0.75	SCV -0.06	USB -0.12	IEQ 0.63	HYB -0.28	EM 0.09	MCG 0.31	IBD -0.16	LCG -1.38	LCG 0.01	MCV 1.37	EM 0.57	MCG 0.92	IEQ 0.47	USB -0.21	IBD -0.28	LCV 0.26	USB -1.58	SCG 15.25
	SCV 0.06	EM 0.21	60/40 0.34	USB 0.02	USB 0.28	IEQ -0.06	SCV -0.24	SCG 0.56	USB -0.41	60/40 -0.24	SCV 0.20	HYB -0.21	60/40 -2.15	HYB -0.10	LCV 1.26	RE 0.43	SCV 0.90	IBD 0.42	HYB -0.34	60/40 -0.40	MCV 0.17	EM -1.75	LCV 13.88
	MCG 0.04	60/40 0.01	USB 0.32	60/40 0.02	60/40 0.17	HYB -0.13	LCG -0.27	SCV 0.42	LCV -0.43	IEQ -0.28	HYB 0.19	EM -0.23	EM -2.33	IBD -0.20	LCG 1.08	LCV 0.16	LCV 0.82	HYB 0.25	EM -0.45	RE -0.42	IEQ 0.00	IBD -2.31	MCV 12.73
	60/40 0.04	HYB 0.00	EM 0.25	LCG -0.06	HYB 0.16	IBD -0.20	LCV -0.46	EM 0.41	MCG -0.48	LCV -0.28	USB 0.09	60/40 -0.30	IEQ -2.45	60/40 -0.23	SCG 1.02	60/40 0.15	MCV 0.73	MCV 0.21	60/40 -0.52	SCV -0.43	HYB -0.01	60/40 -2.97	60/40 8.62
	USB 0.01	USB -0.19	IBD 0.24	HYB -0.09	SCV 0.05	60/40 -0.21	60/40 -0.54	60/40 0.26	EM -0.50	HYB -0.29	60/40 0.02	LCG -0.34	LCV -2.64	USB -0.26	SCV 0.87	MCV 0.12	RE 0.67	RE 0.20	LCV -0.62	IEQ -0.66	USB -0.12	IEQ -3.22	HYB 7.98
	HYB -0.04	IBD -0.31	HYB 0.24	RE -0.31	IEQ -0.01	USB -0.29	SCG -0.68	MCV 0.13	60/40 -0.57	USB -0.38	IBD -0.07	RE -0.48	MCV -3.27	LCV -0.30	IBD 0.70	SCV -0.15	60/40 0.46	60/40 0.17	MCV -0.71	EM -0.80	60/40 -0.14	MCV -5.69	SCV 7.33
	IBD -0.20	MCV -0.50	SCV 0.13	LCV -0.40	RE -0.03	MCV -0.40	MCV -0.85	HYB 0.03	LCG -0.62	RE -0.42	RE -0.29	LCV -0.70	LCG -3.39	IEQ -0.32	HYB 0.63	IBD -0.24	IEQ 0.36	LCV 0.17	RE -0.99	SCG -0.90	SCG -0.18	LCV -6.55	EM 6.85
	SCG -0.28	LCV -0.51	IEQ 0.08	MCV -0.50	IBD -0.10	LCV -0.62	IEQ -0.90	RE -0.18	IEQ -0.88	MCG -0.48	MCV -0.31	MCG -0.80	RE -4.07	MCV -0.38	60/40 0.58	HYB -0.27	HYB 0.32	USB 0.07	SCV -1.39	MCV -0.90	EM -0.33	MCV -7.04	RE 3.54
	MCV -0.46	SCG -0.57	MCV 0.02	MCG -0.54	EM -0.16	LCG -0.65	MCG -1.42	LCV -0.21	IBD -0.89	MCV -0.52	IEQ -0.33	MCG -0.90	MCV -4.16	SCG -0.38	EM 0.40	MCG -0.29	EM 0.31	MCV 0.02	MCG -1.41	LCV -1.00	IBD -0.49	RE -7.82	IEQ 3.51
	LCV -0.59	RE -0.57	LCV -0.12	SCV -1.01	MCV -0.31	SCG -1.00	RE -1.58	USB -0.23	SCV -1.20	SCG -0.59	LCV -0.49	SCG -1.14	SCG -4.22	SCV -0.68	USB 0.27	USB -0.31	USB 0.11	LCG -0.15	LCG -1.45	MCG -1.07	MCG -0.60	SCG -8.00	USB 1.43
Low	RE -1.34	SCV -0.92	RE -0.33	SCG -1.41	LCV -0.34	MCG -2.12	EM -1.61	IBD -0.38	SCG -1.49	SCV -0.66	EM -0.55	SCV -1.34	SCV -4.41	RE -1.53	IEQ -0.28	SCG -0.36	IBD -0.25	EM -0.35	SCG -1.77	LCG -1.19	LCG -0.89	SCV -8.82	IBD -2.33

Legend	Large Growth (LCG)	Mid Growth (MCG)	Small Growth (SCG)	Intl Equity (IEQ)	U.S. Bonds (USB)	Intl Bonds (IBD)
	Large Value (LCV)	Mid Value (MCV)	Small Value (SCV)	Emg Markets (EM)	High Yield Bond (HYB)	Real Estate (RE)

Source: Sources for this market commentary derived from Bloomberg. Asset-class performance is presented by using market returns from an exchange-traded fund (ETF) proxy that best represents its respective broad asset class. Returns shown are net of fund fees for and do not necessarily represent performance of specific mutual funds and/or exchange-traded funds recommended by the Prime Capital Financial. The performance of those funds October be substantially different than the performance of the broad asset classes and to proxy ETFs represented here. U.S. Bonds (iShares Core U.S. Aggregate Bond ETF); High-Yield Bond (iShares iBoxx \$ High Yield Corporate Bond ETF); Intl Bonds (SPDR® Bloomberg Barclays International Corporate Bond ETF); Large Growth (iShares Russell 1000 Growth ETF); Large Value (iShares Russell 1000 Value ETF); Mid Growth (iShares Russell Mid-Cap Growth ETF); Mid Value (iShares Russell Mid-Cap Value ETF); Small Growth (iShares Russell 2000 Growth ETF); Small Value (iShares Russell 2000 Value ETF); Intl Equity (iShares MSCI EAFE ETF); Emg Markets (iShares MSCI Emerging Markets ETF); and Real Estate (iShares U.S. Real Estate ETF). The return displayed as "Allocation" is a weighted average of the ETF proxies shown as represented by: 30% U.S. Bonds, 5% International Bonds, 5% High Yield Bonds, 10% Large Growth, 10% Large Value, 4% Mid Growth, 4% Mid Value, 2% Small Growth, 2% Small Value, 18% International Stock, 7% Emerging Markets, 3% Real Estate. 080223006 - MAH

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