VIEWPOINTS

DECEMBER 2024

Buy America

Since 1987, the average annual return of a portfolio consisting of 60% stocks[1] and 40% bonds[2] has been 8%. So far in 2024, it is up 12%, the second consecutive year of above-average returns for balanced portfolios. Global equities have gained 19%, led by U.S. large caps. Fixed income has produced lower but positive returns, as high yield bonds have buffered modest performance from high- grade credit and Treasurys. Going forward, we expect more modest gains for 60/40 portfolios with U.S. equities leading the charge again.

We maintain a preference for equities over fixed income, reflecting our base case of continued economic growth. As shown in the exhibit, the expected level at which the Federal Reserve policy rate settles this cycle has materially increased since mid- September. We believe this reflects a mix of stronger growth expectations and risk of higher inflation.

Our top two risk cases incorporate the possibility of inflation as a result of potential U.S. presidential policies. In the more benign risk scenario, stronger growth accompanies inflation. We believe this would result in equities outperforming fixed income. Equities historically have been able to maintain today's valuations with inflation at or even above 4%, but growth is important. In the second risk scenario, there is no positive growth impulse. We would expect higher inflation to weigh on equities and most other major assets, with few other assets such as gold ending up as beneficiaries.

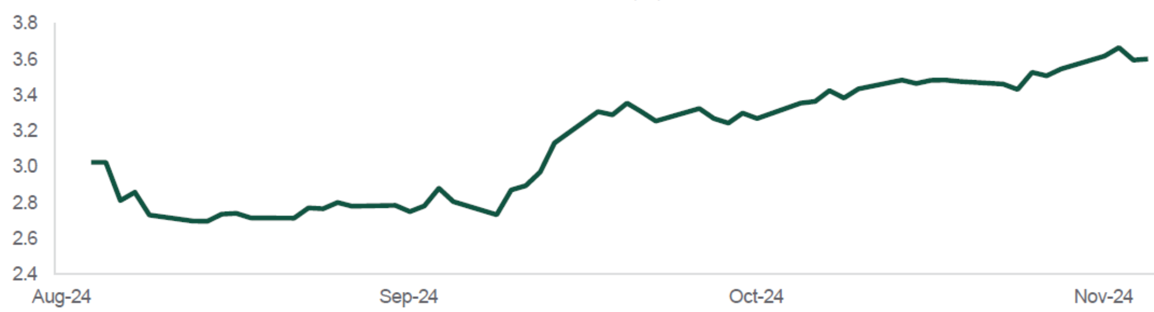
"Buy America" is another one of our key tactical calls. We expect U.S. equities to benefit from a better economic backdrop and healthier corporate profits than most other regions. We also believe that non-U.S. companies are more negatively exposed to the policies floated by the incoming U.S. government. For example, higher tariffs likely would weigh on Chinese and European company profits, while non-U.S. regions would see little benefit from U.S. tax cuts and reduced regulation. With that said, there is a wide range of potential outcomes, supporting regional diversification in a portfolio.

Within fixed income, we continue to like high yield. Its starting yield of above 7% is attractive given strong fundamentals and a supportive technical backdrop. We see more limited upside for investment grade credit and Treasurys given historically tight investment grade spreads and low odds of a sharp drop in rates.

Higher Expectations

The expected level at which the Fed policy rate settles this cycle has increased since mid-September

EXPECTED MINIMUM FED POLICY RATE THROUGH 2026 (%)



Source: Northern Trust Asset Management, Bloomberg. Consensus expectations for the Fed Funds rate through 2026. Expectations are from 8/31/2024 through 11/13/2024. Historical trends are not predictive of future results. [1]As represented by the MSCI All World Country Index (ACWI), which tracks the performance of equities globally. [2]As represented by the Bloomberg U.S. Aggregate Bond Index, which tracks to performance of the U.S. bond market. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest in any index.

Interest Rates

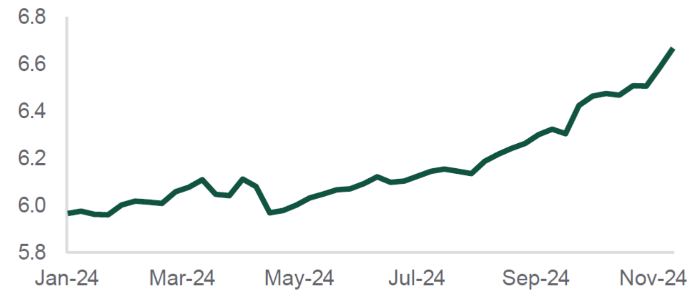
Intuition may suggest that as yields on money market funds move lower along with policy rates they would be less attractive and drive outflows, but we've seen the opposite in 2024, consistent with historical experience. Money market fund industry AUM has increased by more than half a trillion dollars, setting all-time-high records throughout the year. Money market fund AUM has been going up even as rates are going down.

As a reminder, changes in the Federal Funds Target range are the biggest driver of changes in money market fund yields. While we agree with market pricing for the remainder of 2024, uncertainty around the economic outlook and monetary policy in 2025 has increased substantially. A fairly wide range of outcomes with respect to the Federal Funds Target range are possible. While we believe the Fed will continue to gradually cut its policy rate, we and the markets see little chance that rates return to the zero lower bound anytime soon – a welcome change from much of the past 15 years of very low yields on cash.

MONEY FUNDS UP WHILE RATES HAVE COME DOWN

Despite less attractive yields, money market fund AUM has continued to increase.

MONEY MARKET FUNDS AUM ($, TRILLION)



Source: Northern Trust Asset Management, Bloomberg, Investment Company Institute (ICI). Data from 1/3/2024 through 11/13/2024. AUM = Assets under management. Historical trends are not predictive of future results.

- Money Market Fund AUM has been going up even as rates are going down.
- Uncertainty around the outlook for monetary policy in 2025 has increased substantially.
- We'll continue to monitor money markets closely for any signs of stress that may impact Fed balance sheet policy.

Credit Markets

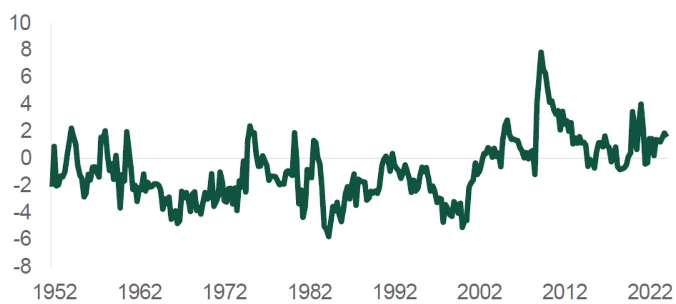
High yield saw the weakest monthly performance since April as rates sold off after an impressive employment report in early October and firmer than expected inflation data. Market participants reassessed both the pace and magnitude of upcoming Federal Reserve rate cuts. For the high yield bond market, duration-driven price declines were partially offset by spread tightening as the strong economic backdrop has proven favorable for risk assets.

High yield spreads continued to rally to new post-Great Financial Crisis lows after the election. However, the financing surplus[1] continues to be a supportive backdrop for high yield. There has been a persistent positive financing surplus of the U.S. non-financial corporate sector since 2020. A positive financing surplus means that the corporate sector is saving, so there is no need to raise new funding. This savings means reductions in net debt as companies increase cash balances, thus helping support high yield valuations. With the backup in yields across the asset class and new issuance continuing to be suppressed, this could serve as an attractive entry point for total return investors despite tight spread valuations.

HIGH YIELD FUTURE FINANCING

There has been a persistent positive financing surplus of the U.S. non-financial corporate sector since 2020.

U.S. CORPORATE FINANCING SURPLUS % OF GDP



Source: Northern Trust Asset Management, Federal Reserve, J.P. Morgan. Quarterly data from 12/31/1951 through 6/30/2024. The financing surplus[1] is proxied by the difference between corporate cash flows and capex as a percentage of U.S. GDP. Historical trends are not predictive of future results.

- A positive financing surplus means that the corporate sector is saving, so there is no need to raise new funding.
- This saving means reductions in net debt as companies increase cash balances, thus helping support high yield valuations.
- With the backup in yields across the asset class and new issuance continuing to be suppressed, this could serve as an attractive entry point.

Equity

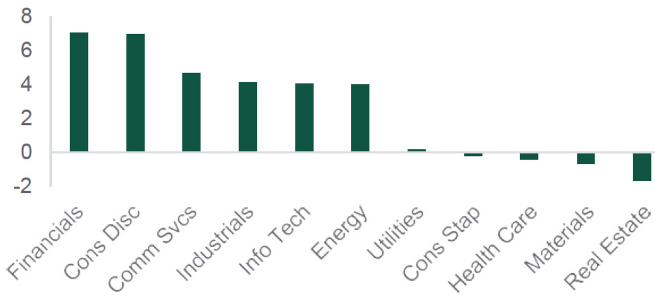
U.S. large caps were range bound in October, finishing down -0.7% and ending a 5-month winning streak. Volatility stayed elevated heading into the election on November 5. However, following a convincing Republican win of the White House and Senate, markets shot higher and volatility dropped precipitously with the VIX1 sinking 7 points in the week following the election. Broadly speaking, the day after the election, the relative winners and losers were thematically aligned with an unwinding of hedges, along with an anticipation of Trump policy initiatives. Despite some reversion in subsequent trading sessions, these gains have largely held.

With election uncertainty resolved, uncertainty around the net effect of Trump policies comes to the fore. Weighing policy implications, strong expected earnings growth over the next two years, and a likelihood of further rate cuts from the Fed, we maintain our overweight to equities. We believe the incoming administration's policy initiatives raise the odds of U.S. outperformance, especially versus Europe.

CHINA GIVES EMERGING MARKETS A BOOST

China rallied the most since 2008.

WINNERS AND LOSERS (%, NOV. 5 - 12)



Source: Northern Trust Asset Management, FactSet, MSCI. Total return data for MSCI USA sectors from 11/5/2024 through 11/12/2024. VIX1 = CBOE Volatility Index. Past performance is not indicative or a guarantee of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index..

- The initial market reaction to election results was largely consistent with Trump policy initiatives.
- Potential policy initiatives raise the odds of U.S. outperformance over Developed ex-U.S. equities.

Base Case Expectations

Soft Landing

Global growth will settle around trend, supported by ongoing U.S. economic strength and labor market/ consumer resilience. Inflation will continue to ease toward 2%.

Central Bank Easing

Lower inflation has allowed major central banks to start cutting policy rates. We expect central bank easing to continue, though the timing and trajectory may vary depending on regional economic conditions.

Risk Case Scenarios

Reflation

Policies of the incoming U.S. Administration have a net stimulative effect, leading to above-trend growth, persistent inflation and a pause in the Fed rate-cutting cycle.

Supply Restraint

Supply-side disruptions from immigration restrictions and higher tariffs weigh on economic activity and halt the disinflationary process until a recession takes shape.

Indexes Used and Definitions:

MSCI ACWI: A free-float weighted equity index that includes both emerging and developed world markets.

S&P 500 Index: Widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

S&P Global Infrastructure Index: The S&P Global Infrastructure Index includes exposure to 75 companies from around the world tha represent the listed infrastructure universe.

INVESTMENT PROCESS

The asset allocation process develops both long-term (strategic) and shorter-term (tactical) recommendations. The strategic returns are developed using five-year risk, return and correlation projections to generate the highest expected return for a given level of risk. The objective of the tactical recommendations is to highlight investment opportunities during the next 12 months where the Investment Policy Committee sees either increased opportunity or risk.

The asset allocation recommendations are developed through the Tactical Asset Allocation, Capital Markets Assumptions and Investment Policy Committees.

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ViewPoints reflects data as of 11/19/24.

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Are Not Insured by Any Federal Government Agency		May Lose Value

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