2025 OUTLOOK

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Stay the Course

Life is a journey marked by moments of challenge, celebration and growth. Just as life has its difficulties, investing is also a journey often shaped by uncertainty. A financial plan serves as a personalized road map, guiding individuals toward their goals through prudent investment and tax-efficient strategies. It encompasses creating and managing wealth, protecting against unforeseen risks and planning for the eventual transfer of assets to future generations.

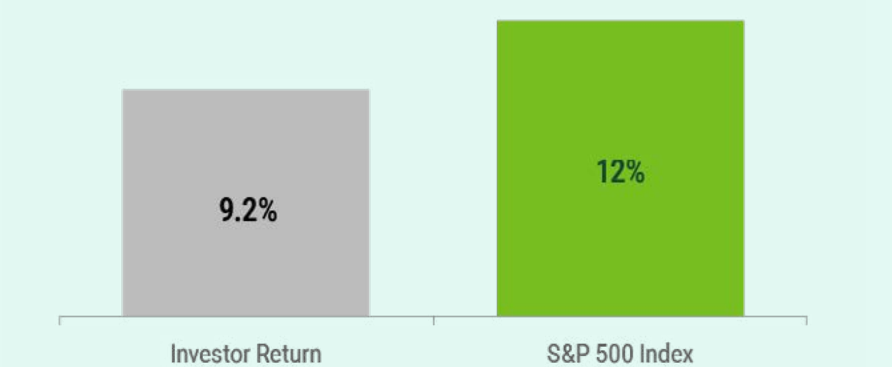
Your financial journey is marked by major life events that can frequently challenge your adherence to the plan. Each time period presents its own set of investment goals, which require planning and effective asset management. We identify the following planning stages:

In this year's Outlook, we focus on "Future Planning," highlighting the importance of asset allocation and diversification. Our team shares its opinion on the economy and market conditions as well as key trends impacting investment portfolios.

Over the long-term, market volatility can test an investor's resolve and lead to emotional decisions. Investors sometimes allow personal beliefs and prior experiences to influence portfolio changes. They may sell out of markets when they become volatile, follow the herd on popular investments, or buy high and sell low.

The "High Cost of Investor Behavior" chart depicts the difficulty investors have in maintaining their stock exposure through market cycles. As shown, the average retail investor significantly underperformed the stock market by 2.8% over the last 10 years. This is likely a result of selling after market downturns and missing subsequent recoveries.

The High Cost of Investor Behavior | 2012-2023



Source: Russell Investments; Value of an Advisor, 2024

OUR PERSPECTIVE

Asset allocation is the primary factor driving the investor experience.

Asset allocation and diversification are key factors in portfolio construction. Historically, stocks offer the highest returns of any asset class over longer periods of time. While stocks come with higher volatility, investors who are many years from retirement will likely have enough time to recover from market declines. The longer the holding period, the more investors may benefit from a higher stock allocation. Bonds and cash provide lower average returns, with bonds offering moderate stability and cash being the most stable option.

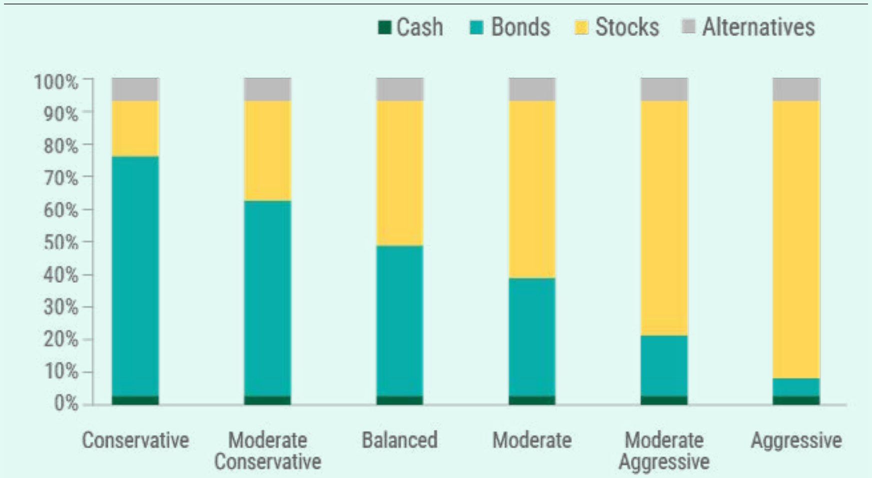
Income Oriented
Low Risk

Growth Oriented
High Risk

Conservative ▶ Moderate Conservative ▶ Balanced ▶ Moderate ▶ Moderate Aggressive ▶ Aggressive

Finding the right asset mix is a personal decision based on financial goals, time horizon and risk tolerance. We tailor portfolios from conservative to aggressive to accommodate a client's investment objective. When advising clients on the objective decision, we ask detailed questions to understand hopes, concerns and prior investment experiences.

Investment Objectives



Source: FNBO as of December 31, 2024

Asset allocation involves diversifying investments among different asset classes like stocks, bonds, cash and alternatives. Proper asset allocation can manage risk, hedge against market volatility and enhance returns over time, significantly impacting one's financial journey. The "Investment Objectives" graph is used as the starting point to determine the appropriate level of assets invested in each area. The primary difference in the objectives is the amount invested in stocks relative to bonds as cash and alternatives are held constant.

The asset allocation plan should be reviewed regularly and adjusted as circumstances or goals change. It is important to avoid making emotional decisions, such as selling equities during market downturns, as they can lead to permanent portfolio losses.

OUR PERSPECTIVE

Diversification and rebalancing portfolios are critical to investment success.

Diversification offers several advantages for investors:

1. Risk Reduction: Holding multiple securities and sectors help minimize losses by lessening the impact of any single investment or industry decline.
2. Low Correlation: Diversified assets often respond differently to market conditions, creating balance in a portfolio.
3. Return Stability: Diversification helps smooth out returns, reducing volatility when individual investments underperform.

Asset Class Returns

2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD
Large Cap 1.4%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.5%	Small Cap 20.0%	Large Cap 28.7%	Cash 1.5%	Large Cap 26.3%	Large Cap 28.1%
Fixed Income 0.5%	Large Cap 12.0%	DM Equity 25.6%	Fixed Income 0.0%	Small Cap 25.5%	EM Equity 18.7%	Small Cap 14.8%	ALTs -5.3%	DM Equity 18.9%	Small Cap 21.6%
Cash 0.0%	EM Equity 11.6%	Large Cap 21.8%	ALTs -4.0%	DM Equity 22.7%	Large Cap 18.4%	DM Equity 11.8%	Fixed Income -13.0%	Small Cap 16.9%	ALTs 9.3%
DM Equity -0.4%	Fixed Income 2.6%	Small Cap 14.6%	Large Cap -4.4%	EM Equity 18.9%	ALTs 10.9%	ALTs 6.2%	DM Equity -14.0%	EM Equity 10.3%	EM Equity 8.1%
ALTs -0.4%	DM Equity 1.5%	ALTs 7.8%	Small Cap -11.0%	Fixed Income 8.7%	DM Equity 8.3%	Cash 0.0%	Large Cap -18.1%	ALTs 6.1%	DM Equity 6.8%
Small Cap -4.4%	ALTs 0.6%	Fixed Income 3.5%	DM Equity -13.4%	ALTs 8.4%	Fixed Income 7.5%	Fixed Income -1.5%	EM Equity -19.7%	Fixed Income 5.5%	Cash 4.9%
EM Equity -14.6%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 2.2%	Cash 0.5%	EM Equity -2.2%	Small Cap -20.4%	Cash 5.1%	Fixed Income 2.9%

Source: JP Morgan Asset Management; Guide to the Markets; Data as of November 2024
Large Cap: S&P 500, Small Cap: Russell 2000, ALTs: HFRI Fund of Funds Composite, EM Equity: MSCI Emerging Markets; DM Equity: MSCI EAFE, Cash: Bloomberg 1-3 Month Treasury; Fixed Income: Bloomberg U.S. Aggregate.
See page 15 for index definitions

As illustrated in the "Asset Class Returns" table, the best performing asset class typically varies from year to year. Broad diversification across asset classes provides exposure to the leading asset classes without being derailed by the laggards.

While cash usually underperforms in most years, it can be valuable when bond and stock returns are negative and provides liquidity to make portfolio changes. Additionally, portfolios should diversify within each asset class, particularly in equities.

Portfolio Rebalancing

Balanced portfolio from January 2003 – December 2023

	Buy and Hold	Active Rebalancing
Annualized Return	6.90%	6.73%
Standard Deviation	11.03%	9.83%
Risk-Adjusted Returns	4.01%	4.12%

Source: Russell Investments; Value of an Advisor, 2024

We believe establishing the long-term asset allocation and managing a diversified portfolio are components of a broader strategy that leads to investment success. Maintaining a disciplined approach and a prudent rebalancing plan is also important. Effective rebalancing of portfolios entails buying the laggards each year and trimming outperforming asset classes.

As shown in the "Portfolio Rebalancing" chart, the primary benefit is not return enhancement but risk reduction. After the last two years of strong equity performance, rebalancing a portfolio is paramount, especially with ongoing geopolitical concerns and post U.S. election economic risk. On a risk-adjusted basis, active rebalancing results in higher returns as compared to the buy-and-hold investor experience. We believe in annual rebalancing at the minimum and opportunistic trading to take advantage of market volatility.

The U.S. economy is expected to grow, driven by ongoing consumer and government spending.

Our investment process begins with an evaluation of the U.S. and global economies as we believe fundamentals drive investment results. The U.S. economy experienced an acceleration in economic growth to around the 3% level in mid-2024, led by consumer and government spending.[1] On a relative basis, the U.S. economy is strong with Europe close to a recession and Asia decelerating due to the slowing Chinese economy.

Forecasting the U.S. economy is a challenge due to the potential impact of various government policy proposals, if they are approved by Congress. We monitor tax policy, deficit spending and debt levels, trade and tariffs, regulations and immigration.

The "U.S. Economic Forecasts" table shows economic growth initially slowing this year, followed by a modest rebound, inflation staying above the 2% level and a slight rise in unemployment. **The Federal Reserve reduced interest rates by 1% in 2024 and is expected to lower rates by 0.5% this year.**

The U.S. economy is diverse but largely dependent on the consumer. As illustrated in the "U.S. GDP Components" graph, personal consumption accounts for over two-thirds of activity. Consumer spending can be broken down further into services and goods, with services the majority of consumption.[2] The services sector includes healthcare, housing and utilities, financial services and insurance, food and accommodations, recreation and transportation.

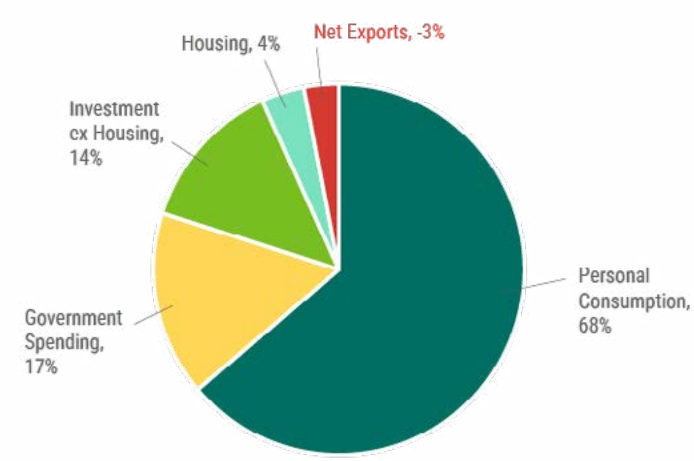
We believe there are two implications from the increase in size of the services economy. First, spending on services is relatively constant as compared to the variation of goods consumption. **We believe U.S. economic activity is therefore less cyclical in nature and will experience longer expansion periods.** The last two recessions, for example, were caused by financial and healthcare crises, not a cyclical downturn. Second, there is less sensitivity to interest rates due to changing demographics. The retiree population has expanded and now comprises 18% of the population.[3] This segment likely benefits from higher interest rates due to increased income on investments, offsetting the negative impact of higher rates on interest rate sensitive sectors.

U.S. Economic Forecasts

	Q3 2024	Q4 2024	Q1 2025	Q2 2025	2H 2025
Real GDP Growth	3.1%	2.3%	1.9%	1.9%	2.0%
Real Consumer Spending	3.7%	2.6%	2.0%	2.0%	2.0%
Inflation (CPI)	2.3%	2.5%	2.2%	2.2%	2.4%
Unemployment Rate	4.2%	4.2%	4.3%	4.3%	4.3%
Fed Funds Target	5.00%	4.50%	4.25%	4.25%	3.80%

Source: Bloomberg Economic Forecasts; Data as of December 31, 2024

U.S. GDP Components



Source: U.S. Bureau of Economic Analysis; Real gross domestic product (GDP); Data as of Q3 2024

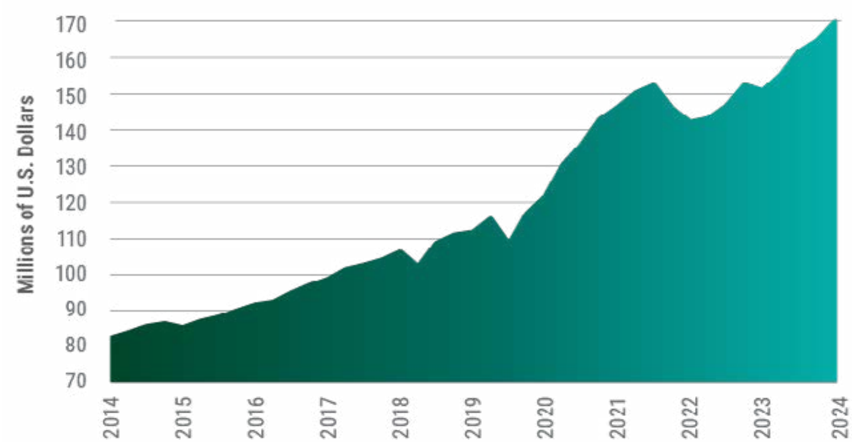
OUR PERSPECTIVE

Rising net worth and real wage growth are boosting consumption.

The outlook for consumption (68% of GDP) is dependent on trends in consumer net worth, disposable income, the ability of consumers to finance spending and confidence levels. A positive correlation exists between consumption and net worth, a phenomenon often referred to as the "wealth effect." People tend to spend more when they feel wealthier from stock market appreciation and increases in housing prices.

We believe the impact of the wealth effect is growing as an influence on consumption due to the expanding retiree population. Research indicates that retirees often liquidate assets to fund consumption. On the positive side, the "Household Net Worth" graph illustrates the steady expansion in wealth over the last 10 years. After the 2022 decline in the stock and bond market, net worth rebounded sharply over the last two years. As of the third quarter 2024, household net worth increased by 12% as compared to the prior year.[4]

Household Net Worth

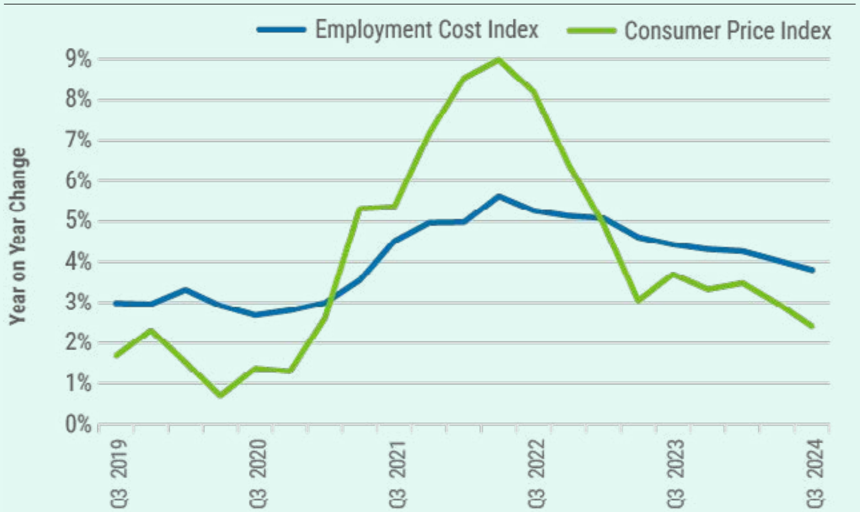


Source: Board of Governors of the Federal Reserve System, Household Net Worth; Data as of Q3 2024

Individuals also use growth in income, reduced savings and increased debt to counteract inflation. Historically, there is a positive correlation between changes in real disposable personal income (RDPI) and consumption. RDPI reflects the after-tax income available to households, adjusted for inflation, with its primary source being employment compensation. **When adjusted real income rises, people generally spend more on goods and services.**

As highlighted in the "Inflation and Wage Growth" chart, inflation decelerated below 3% for the Consumer Price Index (CPI). With wage growth close to 4%, real income has been positive for the last two years. Although a plus for ongoing economic expansion, there remains a bifurcation of the consumer by income levels due to high inflation and sharply negative real wages in 2021 and 2022. High prices on consumer items have endured, which means many Americans continue to face affordability challenges on goods and services. The core CPI, which excludes food and energy, was 3.3% in November, indicating overall inflation remains a risk to the U.S. economy.[5]

Inflation and Wage Growth

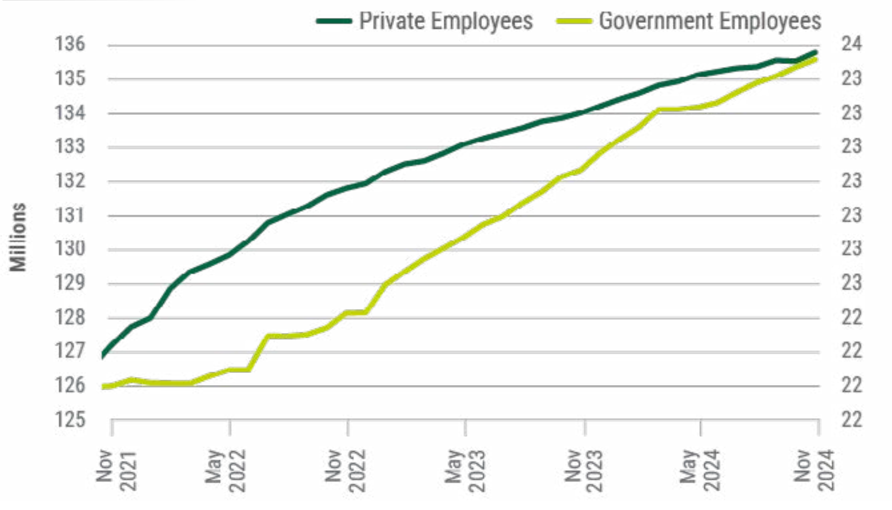


Source: U.S. Bureau of Labor Statistics, Employment Cost & Consumer Price Index; Data as of Q3 2024

OUR PERSPECTIVE

The labor market is balanced between demand and supply with manageable household debt levels.

Private and Government Employees

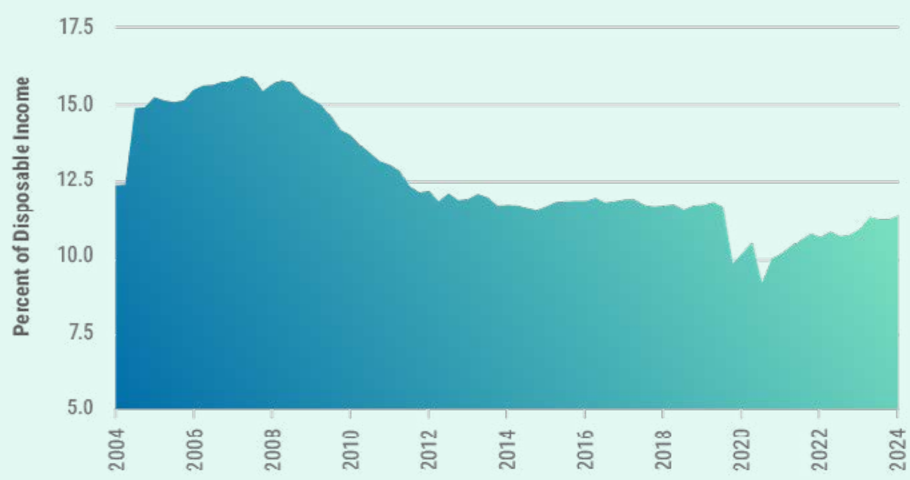


Source: U.S. Bureau of Labor Statistics; Data as of December 2024

The strength of the labor market remains a key factor in disposable income. After several quarters of moderation, we characterize employment as "balanced" for the following reasons. First, the unemployment rate is low at 4.2%. This represents an increase of 0.5% from November 2023 but remains below the 20-year average of 5.8%.[6] Second, the level of jobs available at 7.7 million is close to parity with the number of people unemployed and looking for work at 7.1 million.[7] Lastly, the quits ratio and corporate layoffs are at low levels, which may indicate that jobs are harder to find, and companies remain modestly concerned about labor supply.

The U.S. experienced robust growth in employment over the last three years as highlighted in the "Private and Government Employees" graph. Initially, the increase in jobs was primarily in private employment. **Although government employees represent only 15% of total jobs, the growth rate in this sector exceeded the increase in private employment.** With the newly created Department of Government Efficiency potentially reducing federal employment, private employment growth will need to accelerate to offset the possible reduction in government jobs.

Household Debt Service Payments



Source: Board of Governors of the Federal Reserve System; Data as of Q3 2024

The last two factors we analyze in forecasting consumption comprise Americans' ability and willingness to use debt and/or savings to finance spending. The personal savings rate at 4.4% is lower than historic averages, which could indicate a spending contraction if individuals lose confidence.[8] There are few signs of that occurring as the Consumer Confidence Index remains close to the top of the range that has prevailed over the past two years.[9]

The aggregate data on Americans' ability to utilize debt and repay obligations is positive. The "Household Debt Service Payments" chart portrays payments at 11.3% of disposable personal income, below the 20-year average. This likely reflects that individuals previously took advantage of low interest rates and refinanced their mortgages. The outlook for lower income individuals is less positive, reflecting the bifurcation of the economy. Emerging consumer stress is indicated by the rise in credit card delinquencies to close to 10-year highs, signaling persistent inflation remains an issue.[10]

OUR PERSPECTIVE

Government spending is driving short-term growth, while corporate investment provides a more sustainable foundation.

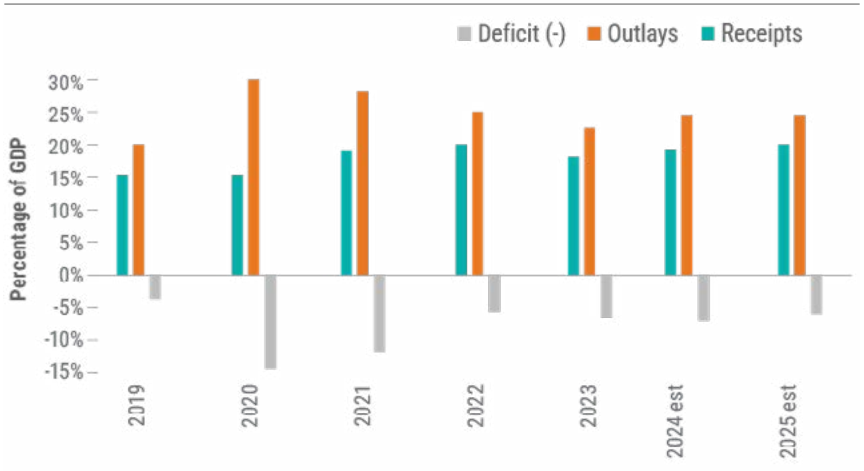
Government spending (17% of GDP) is dependent on ongoing deficit spending and capacity to utilize debt. Whereas consumer balance sheets show overall financial stability, the same is not true for the federal government. The "Federal Government Receipts and Outlays" chart highlights the extent of the budget deficit over the last few years. In the fiscal year ending September 2023, total government spending exceeded receipts by $1.8 trillion. The federal government's deficit as a percentage of GDP was 6.3%, which is materially higher than the 50-year average of 3.7%.[11]

For the fiscal year ending September 2024, federal net outlays are expected to grow 10% to $6.75 trillion. This excess spending contributed to GDP growth but comes with a long-term cost. **With government debt rising, it's becoming increasingly expensive to service debt as interest costs grow as a percentage of the budget.** Increased Treasury issuance to fund the deficit could lead to higher interest rates and an even larger deficit. How the Trump administration and Congress approach the national budget will be crucial to the long-term health of the U.S. economy.

Corporate profitability, financial strength and business optimism determine the level of investment spending (14% of GDP, excluding housing). The outlook is constructive as after-tax corporate profit margins of 12.9% remain just below the all-time high in 2021.[12] **With profitability high and credit defaults at low levels, corporations are investing their excess cash flow.** The "Total Capital Expenditures" graph illustrates the steady growth of investments over the last two years. Stronger business spending is focused on outlays in technology, particularly research and development in intellectual property and artificial intelligence (AI).

The housing market (4% of GDP) faces challenges due to limited demand and insufficient supply. Many Americans struggle with home affordability as a result of high prices and elevated mortgage rates as evidenced by the low number of mortgage applications. Housing starts remain subdued, constraining inventory for sale. While the Federal Reserve recently lowered the Fed Funds rate, long-term interest rates increased, driving mortgage rates even higher.

Federal Government Receipts and Outlays



Source: U.S. Office of Management and Budget; Data as of December 2024

Total Capital Expenditures

Source: Board of Governors of the Federal Reserve System; Data as of Q3 2024

OUR PERSPECTIVE

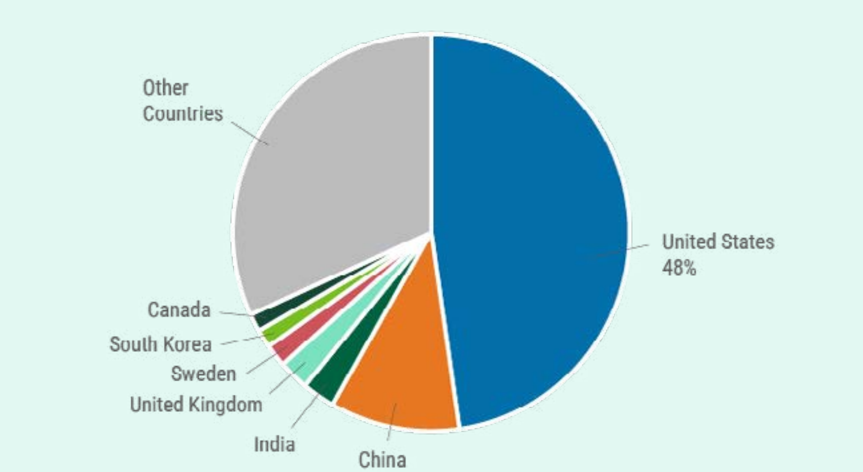
The U.S. is leading the way in AI investment, which may lead to productivity gains and long-term economic growth.

Global spending on AI, including AI-enabled applications, infrastructure and IT services, accelerated over the last five years. Countries are effectively competing for future economic and productivity benefits.

The U.S. remains the investment leader in AI with $67.9 billion spent in 2023 and $328.5 billion over the last five years, far surpassing China, Europe and other Asian countries.[13] As shown in the "2023 AI Investment Spending by Country (2023)" graph, the U.S. accounted for almost half of the worldwide investment of $142.3 billion. China, the second largest investor by country, invested less in 2023 than in 2019.

According to the International Data Corporation, AI investment will increase at an annual growth rate of 29% through 2028, with total capital spending reaching $632 billion.[14] This forecasted global investment includes the private sector, global technology companies, venture capital and government outlays. The five companies that have invested the most in AI startups are Amazon, Google, Microsoft, NVIDIA and Salesforce.[15]

AI Investment Spending by Country (2023)

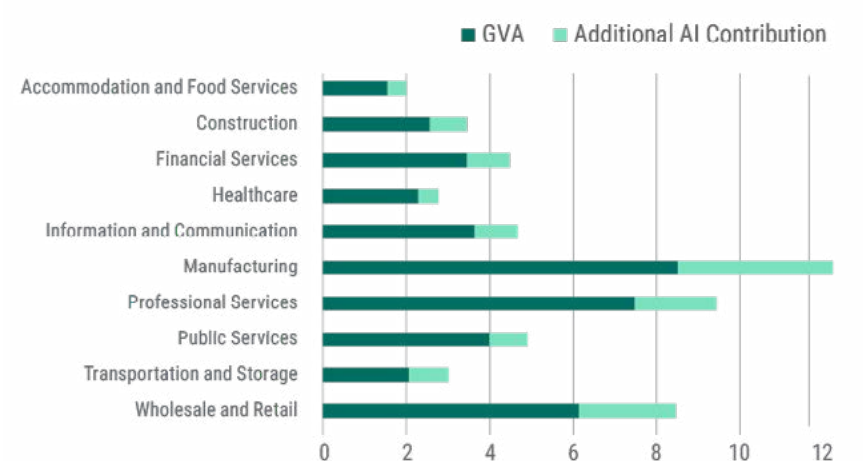


Source: IFA Magazine; AI Investment Race; May 25,2024

Corporations investing in AI are not just the mega-cap technology names. In a recent survey, 83% of companies claim that using AI in their business strategies is a top priority. While the potential of AI is massive, only 5.4% of U.S. companies utilized AI as of February 2024, with 6.6% forecasted by fall 2024.[16] AI is transforming customer service with applications from chatbots and virtual assistants to personalized engines, sales and marketing assistants, and voice AI for call centers.

How much AI investment will result in productivity enhancements versus hype remains a question. Gross Value Added (GVA) is an economic metric that measures the value of goods and services in an industry or sector of an economy. The "AI Gross Value Add by Industry (2035)" chart illustrates one estimate of the additional AI contribution over the next decade. **Manufacturing, professional services, and wholesale and retail are expected to benefit the most from AI investment with strong growth expected in information and communication and financial services.**

AI Gross Value Add by Industry (2035)



Source: Edge Delta; 7 Key AI Investment Statistics Every Investor Should Know; May 24, 2024

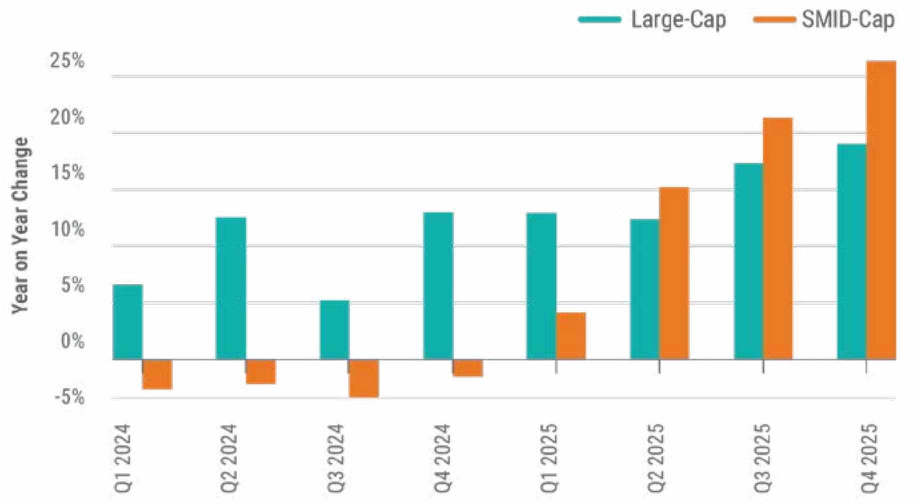
OUR PERSPECTIVE

Profits in the U.S. are projected to accelerate, though international earnings estimates remain modest.

AI investment spending and its positive impact on corporate profitability continue to influence global equity returns. The best performing area of the U.S. market has been large-cap growth stocks, led by the Magnificent Seven. These mega-cap technology-related companies (Apple, Microsoft, NVIDIA, Alphabet, Meta Platforms, Amazon, Tesla) are outperforming the market in part due to their strong fundamentals. In the second half of 2024, we started to see a profit rebound in other large-cap sectors, specifically financials and utilities.

The "U.S. Profit Growth" chart highlights the strong quarterly earnings of U.S. large-cap companies relative to small- and mid-cap (SMID). **SMID-cap earnings contracted last year but are expected to recover sharply in 2025.** The profit rebound is broad-based at the sector level, with estimated growth greater than 15% for the next twelve months in healthcare, basic materials and information technology.[17] The SMID-cap forecast is dependent on U.S. economic growth and the prospect of further Fed interest rates reductions.

U.S. Profit Growth



Source: FactSet; Data for the S&P 500 (Large-Cap) and S&P 1000 (SMID-Cap); Data as of December 31, 2024

U.S. Dollar Index

Source: Board of Governors of the Federal Reserve System; Real Broad Dollar Index; Data as of December 2024

U.S. relative economic strength impacted international currencies. Even with the recent decline in the Fed Funds rate, U.S. interest rates remain at high levels relative to other developed countries. The increase in investment spending also positively impacted U.S. trade flows. As shown in the "U.S. Dollar Index" graph, the real broad dollar index strengthened since the low in July 2011 and spiked higher after the election. This confounded economists who expected the dollar to weaken due to the budget and trade deficit. Potential policy changes by the incoming Trump administration, specifically the prospect of higher tariffs, could result in further U.S. dollar advancement.

We believe the U.S. economy will continue to outperform the rest of the world and expect the dollar to reflect that strength. Due to weaker economies, the corporate profit growth in international developed markets is expected to only modestly increase this year.[18] From an equity perspective, this impacts the international equity allocation as we continue to tilt portfolios toward U.S. stocks.

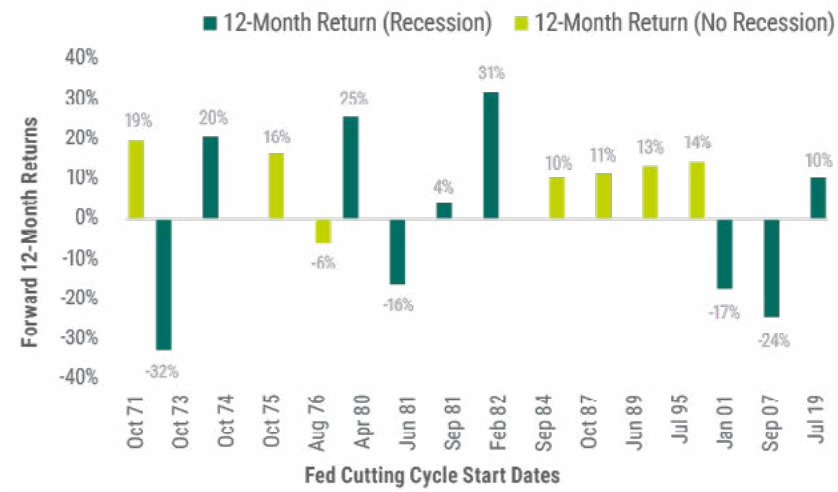
OUR PERSPECTIVE

Stocks often perform well during Fed easing cycles, but high valuations in U.S. large-caps may limit returns.

The Federal Reserve began its easing cycle with reductions in the Fed Funds rate in September (0.50%), November (0.25%) and December (0.25%). Historically, the stock market has responded positively to easing cycles as illustrated in the “Equity Returns with Fed Easing Cycles” chart. There are differences in stock performance based on whether the U.S. economy is in a recession. Four of the five stock market downturns occurred when the Fed was reducing interest rates in an economic contraction. This confirms our belief that economic fundamentals and profit growth is a major driver of stock market returns.

As highlighted, easing cycles typically result in positive returns when the U.S. economy is expanding. In that environment, corporate profits are likely advancing as companies benefit from lower financing costs. The Fed is also providing downside protection in the event the economy weakens. With inflation stubbornly high and potentially reigniting with policy changes, the risk of a short easing cycle has increased. This could lead to higher volatility in the stock market.

Equity Returns with Fed Easing Cycles



Source: JP Morgan Asset Management; Guide to the Markets; Data as of November 30, 2024

Global Equity Valuations

Equities	NTM P/E	15-Year Ave P/E	P/E Premium
U.S. Composite	20.9x	16.5x	23.6%
U.S. Large-Cap	21.5x	16.6x	29.7%
U.S. Mid-Cap	15.8x	15.9x	-.09%
U.S. Small-Cap	15.3x	16.6x	-7.8%
International Developed	13.7x	13.6x	.8%
International Emerging	12.0x	11.7x	2.6%

Source: FactSet data for Next Twelve Month & Avg P/E; Data as of December 31, 2024

We believe U.S. equities, especially large-cap, are expensive on a valuation basis, which may constrain future returns. Valuations are essentially a sentiment indicator in how investors feel about the state of the economy, both growth and inflation, as well as company fundamentals. The “Global Equity Valuations” table portrays the price-to-earnings (P/E) multiple of 21.5x for the S&P 500, indicating most if not all the good news is priced into large-cap equities. Market valuations are historically a poor market timing tool as high valuations can remain elevated for extended periods.

We believe the best opportunity for equity returns lies in U.S. small- and mid-cap stocks. Valuations are at a slight discount to their 15-year average, with these companies benefiting from lower interest rates. In addition, SMID-cap companies have less exposure to international economies and the risk of a trade war. We don’t believe international markets are as attractive, even with average valuations, due to the higher economic risk and lower profit growth.

OUR PERSPECTIVE

For risk-averse investors, Treasuries and municipal bonds offer appealing after-tax yields.

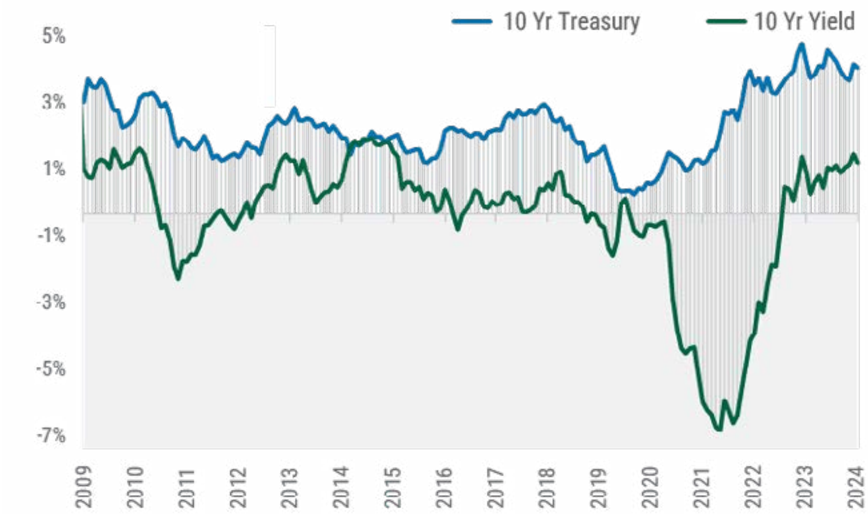
The fixed income market is attractive on a valuation basis with interest rates close to 15-year highs. The "Treasury Yields Adjusted for Inflation" graph highlights the current 10-Year Treasury yield of 4.3% and adjusts by the CPI to assess if bond investor returns exceed inflation. From late 2019 to mid-2023, fixed income yields were negative on a real basis due to low yields and high inflation. In the last 18 months, real yields turned positive as interest rates rose and inflation decelerated. The current 10-year real yield of 1.7% compares favorably to the 15-year average of 0.3%, indicating value in Treasuries.

Whereas the Federal Reserve controls interest rates with short-term maturities, intermediate and long-term Treasury yields reflect current and expected inflation. Currently, there are variances in estimates on inflation. According to the bond market, the five-year forward inflation expectation rate is 2.2%.[19] Consumer forecasts of inflation are more pessimistic, with the latest survey showing 2.9%.[20] We believe a bond and stock market correction would occur if inflation rebounds above 3%.

Fixed income investors have been rewarded the last two years by taking credit risk in corporate bonds, both investment-grade and high-yield. The spread or yield advantage over government bonds compensates corporate bond investors for the additional default risk. Historically, there is a strong correlation between spreads and delinquency rates, as indicated in the "Corporate Bond Spreads and Delinquency Rates" graph. Current spreads and delinquency rates are low relative to the last 20 years, likely due to the resilient U.S. economy, higher corporate profitability and low financing risk.

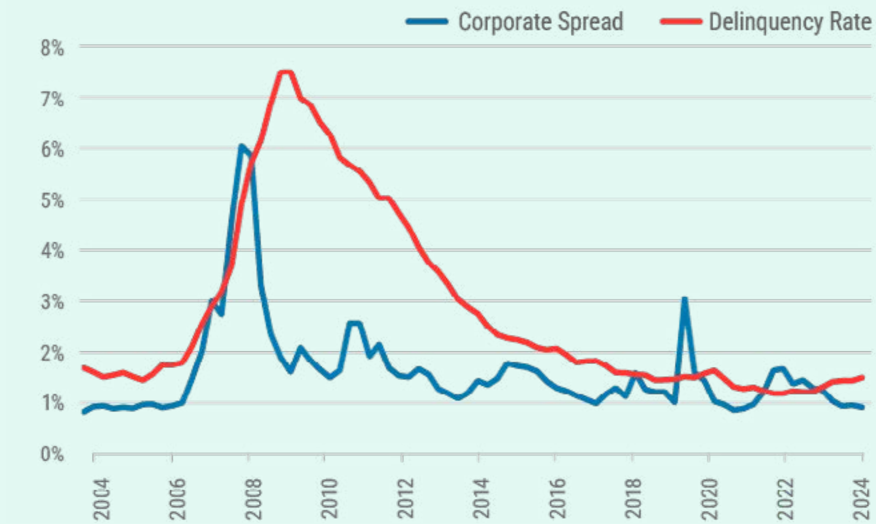
We believe there are opportunities in other segments of the fixed income market. For individuals in high tax brackets, high-quality municipal bonds offer reasonable after-tax yields compared to Treasuries. Asset-backed and mortgage-backed securities offer higher yields with limited credit risk. To further diversify bond portfolios, we are maintaining exposure to a short-term opportunistic credit and floating rate mutual fund.

Treasury Yields Adjusted for Inflation



Sources: Board of Governors of the Federal Reserve System; U.S. Bureau of Labor Statistics, Data as of November 2024

Corporate Bond Spreads and Delinquency Rates



Source: Board of Governors of the Federal Reserve System; Ice Data Indices, Data as of Q3 2024

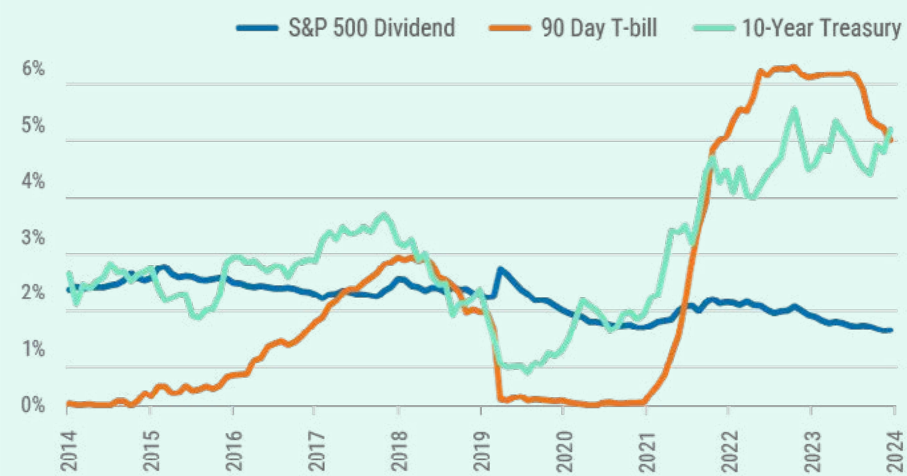
OUR PERSPECTIVE

Given market valuations, it's prudent to rebalance portfolios to the targeted long-term asset allocation.

We evaluate stocks, bonds, cash and alternatives (ALTs) with the goal of optimizing investment portfolios. In the last two years, the return/risk characteristics improved for cash, fixed income and ALTs as all three asset classes benefited from higher interest rates. This created an opportunity for investors to earn returns in conservative investments with less risk. The "Investment Income" chart depicts that cash and bond yields are currently above 4%. This is materially higher than the income generated from equities, as the S&P 500 dividend of 1.25% is close to a 10-year low.

The cash yield of 4.37% is attractive but will decrease if the Federal Reserve continues to reduce the Fed Funds rate. An allocation to cash remains prudent as it will hold its value if inflation reignites. Fixed income yields are attractive and will provide downside protection in a recessionary environment. Equities provide a long-term upside if corporate profits expand as expected. **With recent strong stock returns and our expectation of higher volatility, we believe clients should stay disciplined and rebalance portfolios to their long-term asset allocation.**

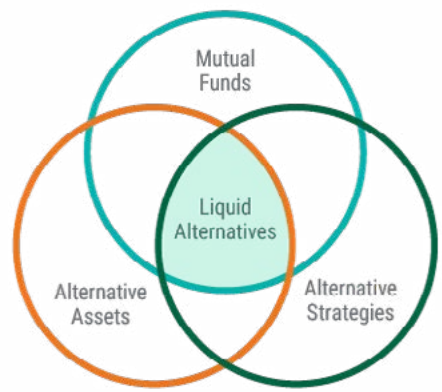
Investment Income



Source: U.S. Board of Governors of the Federal Reserve System and multpl.com, Data as of December 31, 2024

As we analyze opportunities in other asset classes, our focus is on portfolio construction and risk management. We believe ALTs offer a solid diversification strategy to tactically manage risk, while striving to meet client return goals. The liquid ALTs universe has increased with more strategies offered in mutual funds and exchange-traded funds (ETF). The "Liquid Alternatives" diagram illustrates how ALTs are created inside mutual funds.

Liquid Alternatives



Source: Russell Investments; A Primer on Liquid Alternatives

Alternative assets include real estate, infrastructure, commodities, currencies, private equity and non-traditional fixed income such as private credit. Alternative strategies include long-short, leverage and derivatives.

Our focus has been on liquid alternatives, investing in various mutual funds and an ETF to obtain exposure. We typically have used ALTs to manage an economic risk such as inflation or higher interest rates. Currently, our primary holding is a hedged equity mutual fund that provides exposure to U.S. equities while offering some downside protection through the use of derivatives.

The attractive, risk-adjusted returns of the alternative funds have contributed to improving the overall portfolio characteristics. We are evaluating additional investment options to add exposure to this asset class, including private investments for accredited investors.

Our Perspectives Asset allocation is the primary factor driving the investor experience. Diversification and rebalancing portfolios are critical to investment success. The U.S. economy is expected to grow, driven by ongoing consumer and government spending. Rising net worth and real wage growth are boosting consumption. The labor market is balanced between demand and supply with manageable household debt levels. Government spending is driving short-term growth, while corporate investment provides a more sustainable foundation. The U.S. is leading the way in AI investment, which may lead to productivity gains and long-term economic growth. Profits in the U.S. are projected to accelerate, though international earnings estimates remain modest. Stocks often perform well during Fed easing cycles, but high valuations in U.S. large-caps may limit returns. For risk-averse investors, Treasuries and municipal bonds offer appealing after-tax yields. Given market valuations, it's prudent to rebalance portfolios to the targeted long-term asset allocation.

We understand that macro-economic uncertainty and the political rhetoric may be creating concerns about your financial journey. Our focus is to understand your investment goals and guide you to the appropriate asset allocation to meet those objectives. History shows that investors are rewarded by maintaining a disciplined approach, a long-term time horizon and a prudent rebalancing plan. Now is the ideal time to meet with your Wealth Management team to discuss any questions regarding the investment portfolio and confirm you're on the road to meet your financial goals.

Thank you for your interest and the trust you place in us.

Kurt Spieler

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Index Definitions:

Securities indexes assume reinvestment of all dividends and interest payments. Indexes are unmanaged and do not take into account fees or expenses. It is not possible to invest directly in an index.

The Bloomberg 1-3 Month Treasury Index includes all publicly traded zero-coupon U.S. Treasury Bills with a remaining maturity of less than 3 months and more than 1 month and have more than $250 million or more of outstanding face value.

The Bloomberg U.S. Aggregate Index is broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, fixed rate agency MBS, ABS and CMBS (agency and non-agency).

The Consumer Price Index is a measure of the changes over time in the prices paid by urban consumers for a market basket of consumer goods and services.

The HFRI Fund Weighted Composite Index is a global, equal-weighted index of single-manager funds that report to HFR Database. Constituent funds report monthly net of all fees performance in U.S. dollars and have a minimum of $50 million under management or a twelve (12) month track record of active performance. The HFRI Fund Weighted Composite Index does not include Funds of Hedge Funds.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity performance in global developing markets.

The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure equity performance of developed markets, excluding the U.S. and Canada.

The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

The S&P 500® Index measures the performance of 500 leading publicly traded U.S. companies from a broad range of industries.

The S&P 1000® Index combines the S&P MidCap 400® and the S&P SmallCap 600® to form an investable benchmark for the mid- to small-cap segment of the U.S. equity market.

The S&P 1500® index combines three leading indices (the S&P 500®, the S&P MidCap 400® and the S&P SmallCap 600®), to cover approximately 90% of U.S. market capitalization.

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