WINTER 2025 MARKET OUTLOOK

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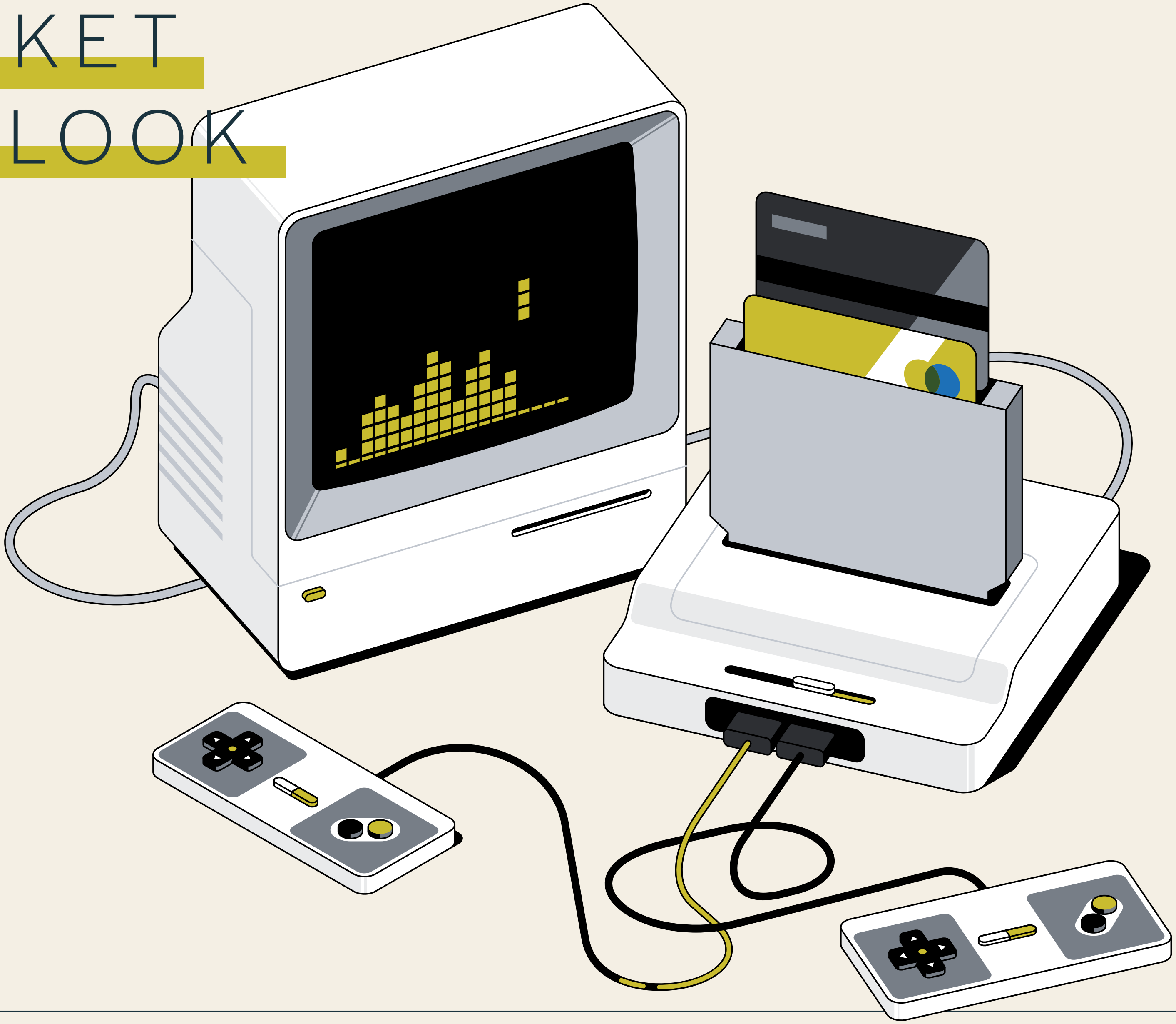

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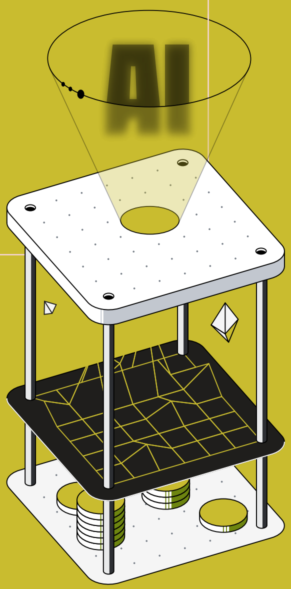
2025 Investment Outlook

Our outlook for 2025 is based on the following factors that we believe are most likely to impact investment returns:

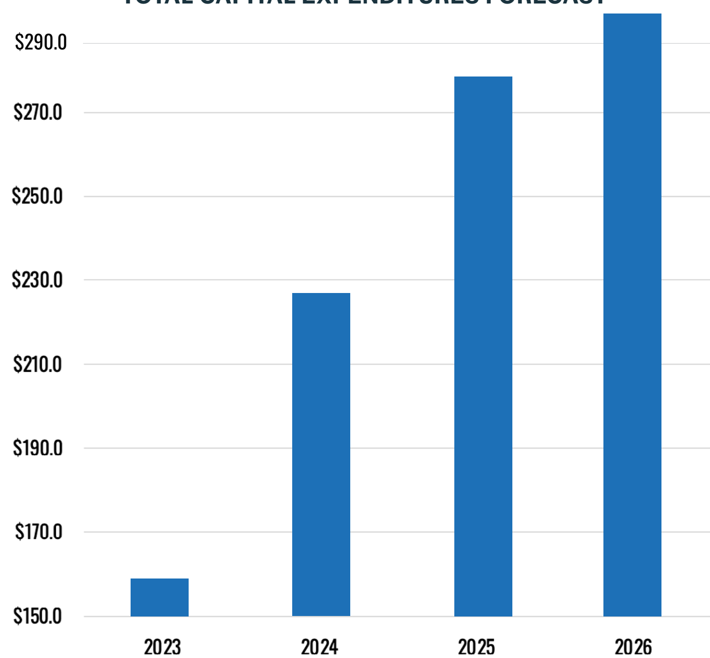
- Artificial Intelligence Investments and Commercialization of AI Applications
- Labor Market Conditions
- Inflation
- Fiscal and Monetary Policy



We expect demand for artificial intelligence semiconductor chips and other equipment to remain robust in 2025 due to substantial performance gains and significant investments from major tech companies like Microsoft, that are rapidly scaling up their AI infrastructure to meet anticipated demand for new applications and avoid competitive disadvantage. Forecasts for AI investment spending in 2025 have been consistently revised upward. AI chip leader Nvidia will continue its rapid pace of innovation as it plans for a steady cadence of new chip launches over the next several years.

BIG TECH CLOUD SERVICE AND INTERNET COMPANIES

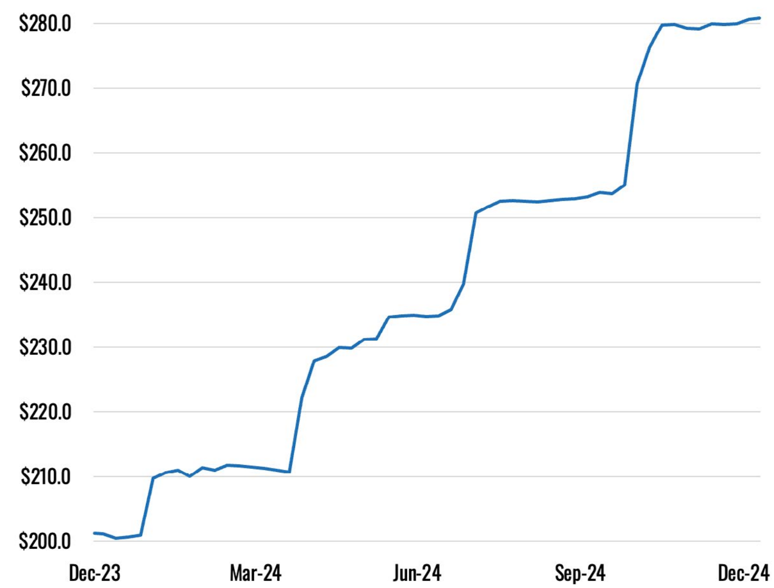
TOTAL CAPITAL EXPENDITURES FORECAST



Source: Bloomberg, Consensus Forecasts (MSFT, ORCL, AMZN, GOOG, TSLA, META)

BIG TECH CLOUD SERVICE AND INTERNET COMPANIES

TOTAL 2025 CAPITAL EXPENDITURES CONSENSUS FORECAST REVISIONS

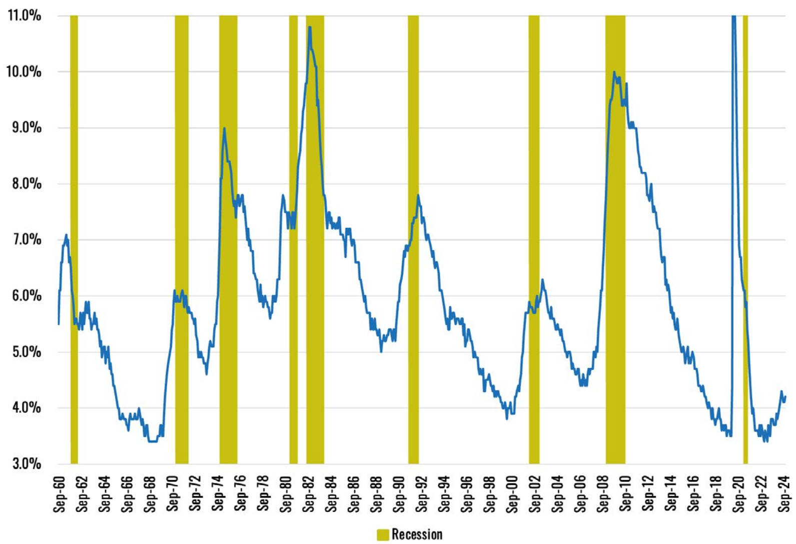


Source: Bloomberg, Consensus Forecasts (MSFT, ORCL, AMZN, GOOG, TSLA, META)

While we are confident in robust growth in AI infrastructure spending in 2025, the commercial success of new AI applications will ultimately be necessary to sustain this momentum. The semiconductor industry is cyclical, and given the substantial market value of Nvidia, any disappointment in AI semiconductor spending could pose a significant risk to both tech stock performance and the broader S&P 500 Index. In 2025, we will closely monitor the capital spending plans of major tech companies and the performance of their new AI applications.

New unemployment claims have remained very low, the unemployment rate is low compared to history but it is up since 2023, and the number of new employees hired has slowed.

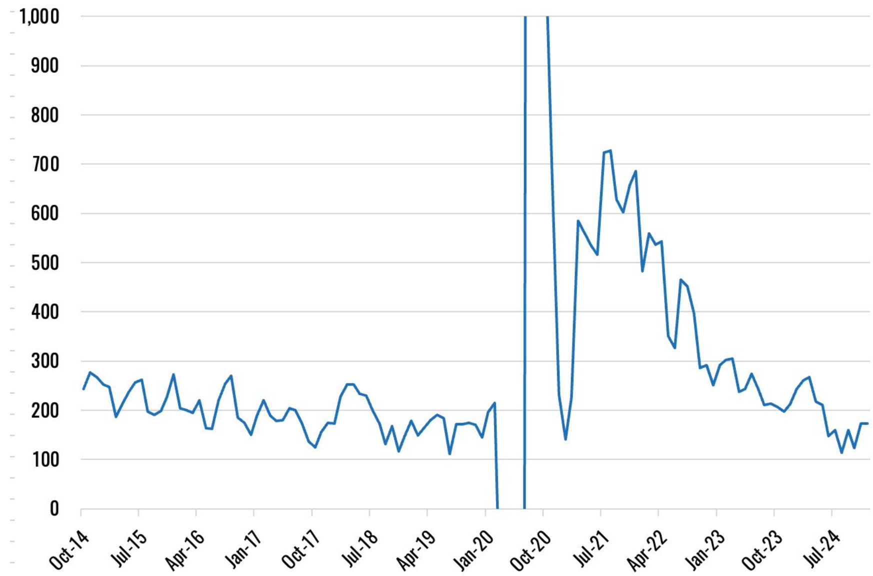
U.S. UNEMPLOYMENT RATE



Source: Bloomberg, Bureau of Labor Statistics

NONFARM PAYROLL ADDITIONS

(3 MONTH AVERAGE, THOUSANDS)



Source: Bloomberg, Bureau of Labor Statistics

While none of the current metrics are problematic, history shows that when the labor market begins to weaken, the decline typically does not reverse quickly. Instead, it is often followed by more pronounced deterioration. Our base case assumption is that pandemic-related distortions will lead to a different outcome this time. However, any further weakening of the labor market would pose a challenge for both the Federal Reserve and investors, especially given inflation data, as discussed below.

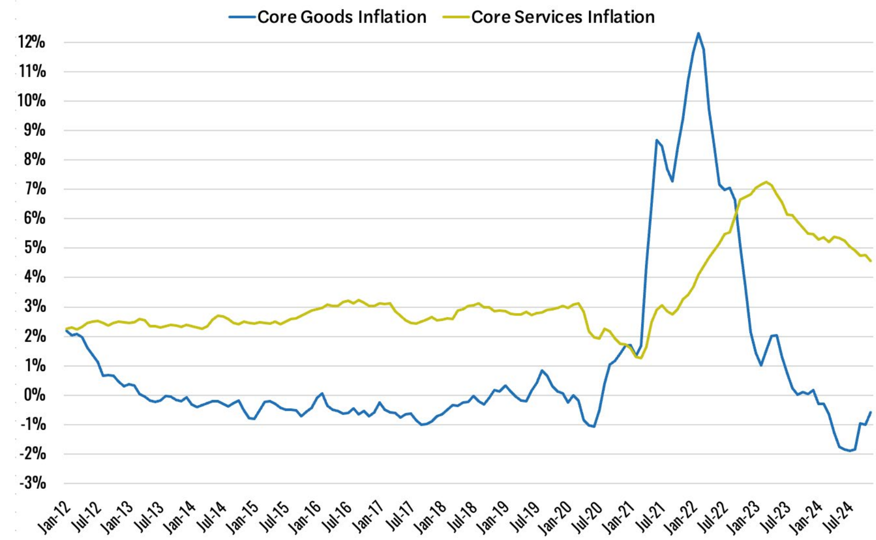
INFLATION

Inflation has decreased from its peak to 2.8% as of December 2024, but it remains above the Federal Reserve's 2.0% target. Recent data suggest that bringing inflation back to 2.0% will be more challenging than previously anticipated. While services inflation is gradually declining, a tight labor market and robust wage growth may slow the pace of this decline in 2025. Goods prices, which fell through 2024, appear to be hooking back up, consistent with rising input costs for manufacturers in recent data releases. Our base case assumption is that inflation will remain between 2.5% and 3.0% in 2025. We don't expect this to surprise investors, and as a result, we believe stocks and bonds can perform well in this inflationary environment. Fiscal policy, discussed below, poses an upside risk to our inflation forecast.

CPI Y/Y CHANGE

Source: Bloomberg, Bureau of Labor Statistics

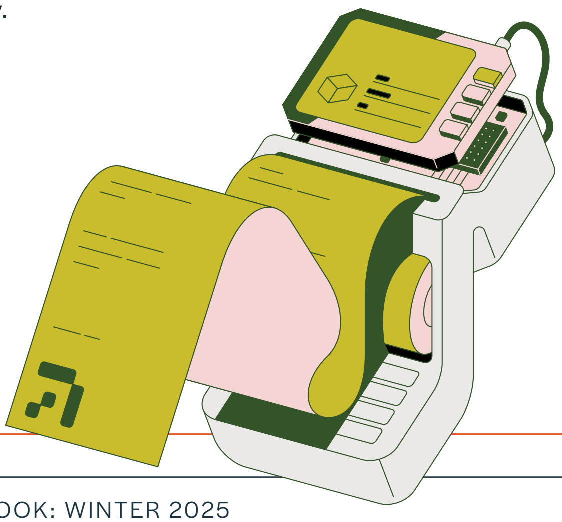
CORE GOODS AND SERVICES CPI Y/Y CHANGE



Source: Bloomberg, Bureau of Labor Statistics

FISCAL POLICY

Investors anticipate an extension of tax cuts set to expire at the end of 2025, more tariffs, reduced immigration, and minimal cuts to federal spending, although uncertainty surrounding each of these is high. Failure to pass tax legislation would surprise investors, likely having a material negative impact on stocks but a positive effect on bonds. While targeted tariffs are expected and could significantly affect certain businesses, they are unlikely to drastically affect overall economic growth or investment returns. Broad tariffs are not widely anticipated, but if implemented, they could negatively affect economic growth, inflation expectations, and investment returns. Following a surge in immigration during the Biden Administration, a decline below trend is anticipated under the Trump Administration, which could modestly strain the labor supply and increase inflationary pressure. Investors also do not expect significant, broad budget cuts, given the political challenges of reducing popular programs. While the consensus outlook is likely correct, we anticipate a heated debate over budget cuts this year, which could result in market volatility.



MONETARY POLICY

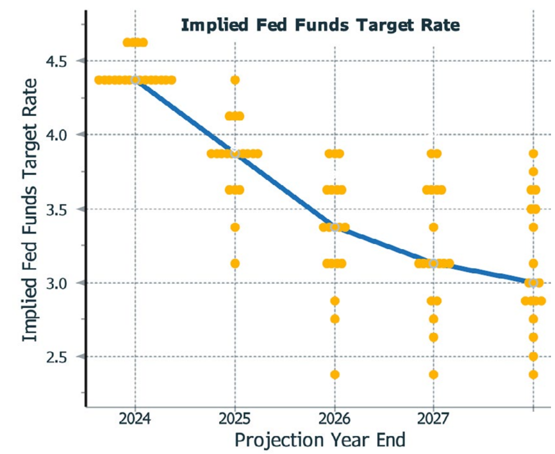
Stock valuation multiples surged in 2024, partly driven by the Federal Reserve's looser monetary policy. However, since the Fed's September 2024 meeting, where they cut rates by 0.50%, stocks have stagnated, and bonds have performed poorly. This is unusual, as stocks and bonds typically perform well during a rate-cutting cycle in the absence of a recession. We believe this atypical outcome is due to growing investor concerns over persistent inflation, large budget deficits, and monetary and fiscal policies that may exacerbate these issues.

At the December FOMC meeting, the Fed increased its 2025 inflation forecast from 2.2% to 2.5% and slashed their expectations for interest rate cuts in 2025. These actions are unusual considering that the Fed had just enacted a large 0.50% rate cut in September. Our base case assumption is that there will be few, if any, rate cuts in 2025.

If monetary policy is loosened more than anticipated in 2025, we believe it will likely result from worsening economic and labor conditions, which would not be favorable for stock valuations. Although we view the threshold for FOMC interest rate hikes as high, a reacceleration of inflation above 3.0% or a rapid rise in long-term rates would negatively affect both stock and bond prices, regardless of the Fed's actions or statements.

INTEREST RATES

FED DOT PLOTS



Note: Each dot represents one FOMC member's forecast. Source: Bloomberg

The Federal Reserve's recalibration of monetary policy, intended to reduce restrictiveness, has delivered mixed results. In light of a more uncertain outlook, the Fed revised its 2025 projections, eliminating two previously anticipated rate cuts from its September forecast. It now projects a median Federal Funds Rate of 3.875% by year-end 2025, highlighting lingering uncertainty around economic growth and inflation.

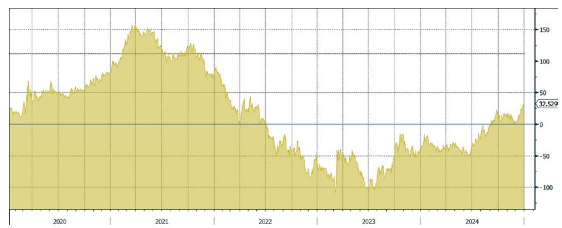
BOND MARKET WEAKNESS CAPS OFF 2024

Despite a 0.25% rate cut by the Federal Reserve, fixed income markets experienced broad losses in December. The benchmark Treasury index declined by 1.54%, marking its third-weakest month of 2024 after April and October. Intermediate-term securities posted a -0.57% return for December, effectively negating November's 0.52% gain. This shift reflects a slightly more hawkish adjustment in near-term Fed policy expectations.

Although year-to-date returns for bonds and Treasuries remained positive overall, securities with maturities beyond 10 years ended 2024 in negative territory. Yields on 10-year Treasuries neared their annual highs in December as investors sought higher compensation for the risks tied to a potentially elevated long-term neutral fed funds rate and the bond-negative effects of anticipated federal policy changes.

Persistent inflation, diminishing prospects of an imminent economic slowdown, and ongoing concerns about increased future Treasury issuance drove the maturity risk premium on 10-year Treasuries 40 basis points higher in December.

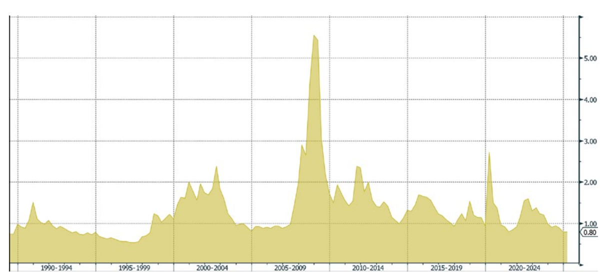
10- YEAR US TREASURY YIELD VS 2- YEAR US TREASURY YIELD SPREAD



Note: 10year/2year Spread. Source: Bloomberg

Despite ongoing uncertainties, the bias remains toward further curve steepening. While the number of future rate cuts may fall short of what financial markets anticipated in September, the likelihood of near-term rate hikes remains slim, maintaining downward or stable pressure on yields in the belly of the curve. However, the long end faces upward yield risks from policies that could widen deficits, fuel inflation, and support growth. By the end of 2024, the 10-year and 2-year spread had risen to approximately +30 basis points, marking a significant step toward normalization after nearly two years of curve inversion that concluded in September.

INVESTMENT GRADE CREDIT SPREADS

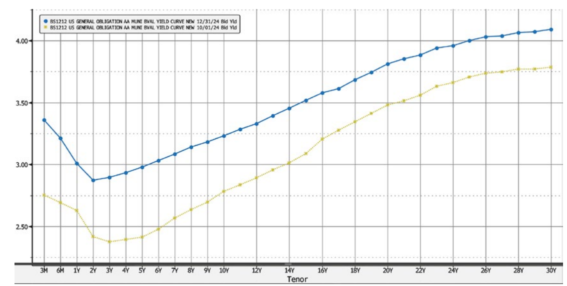


Source: Bloomberg

The investment-grade (IG) corporate debt index fell 1.94% in December but closed 2024 with a 2.13% total return. Yields remain just below 2009 highs, supporting credit spreads that are tighter than historical averages. While fundamentals are solid and valuations are attractive relative to yields and prices, credit spreads appear expensive as markets continue to price in a soft landing.

Strong corporate balance sheets support current yields, and we favor higher-quality IG credit for its relative value amid tighter spreads. Despite near record low spreads, healthy balance sheets, ample cash, and declining default rates keep us constructive on credit.

MUNI YIELD CURVE



Note: Yellow line – Muni yield curve 10/01/24 & Blue line – Muni yield curve 12/31/24. Source: Bloomberg

Municipal bond yields rose in the fourth quarter of 2024 as investors adjusted expectations for a slower pace of Federal Reserve rate cuts. New issuance in the municipal bond market reached a record high of over $500 billion for the year. While demand for municipal bonds remained strong into year-end, it was not sufficient to prevent yields from climbing.

The yield curve closed the year with a slope similar to that of the third quarter but shifted higher across all maturities. Despite rising yields, the municipal bond market delivered total returns of approximately 1% to 2% for 2024.

Looking ahead, 2025 could bring another year of elevated new issuance. We maintain a positive outlook on municipal bonds, viewing both nominal yields and taxable-equivalent yields as attractive in the current environment.

The S&P 500 Index posted a total return of 25% in 2024, marking the second consecutive year with returns above 20%, following a 26% return in 2023. This is the first time since 1998 and 1999 that the index has achieved back-to-back returns of over 20%. Just five stocks, Nvidia, Apple, Amazon, Google, and Broadcom, accounted for 46% of the return in the S&P 500 Index. In contrast, the equally weighed S&P 500 Index, which gives each stock an equal share, returned just 13%, highlighting the market's narrow leadership. Due to the S&P 500 market capitalization-weighted structure, the index is now more concentrated in a small group of stocks than it has been since at least the mid-1960s, the earliest period for which we have data. This reflects the exceptional performance of big tech stocks in recent years.

WEIGHT OF THE TOP 10 STOCKS IN THE S&P 500

% OF MARKET CAPITALIZATION OF THE S&P 500

Source: J.P. Morgan Asset Management, FactSet, Standard & Poor's

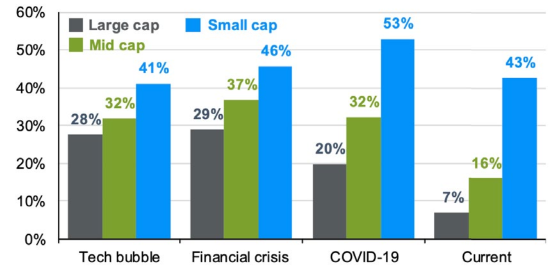
BUBBLE IN BIG TECH STOCKS?

Due to the significant outperformance of big tech stocks in recent years, their heavy weighting in stock market indexes, and the valuation premium they command over other sectors, some market commentators and investors have raised concerns about a potential bubble, drawing comparisons to the tech stock bubble of the late 1990s.

While there are similarities, we believe the analogy to the late 1990s is unfounded. Unlike the companies of that era, today's market leaders have established businesses with strong competitive advantages and high profit margins. For example, during the tech bubble, over 25% of S&P 500 companies were unprofitable, compared to just 7% today.

PERCENT OF UNPROFITABLE COMPANIES

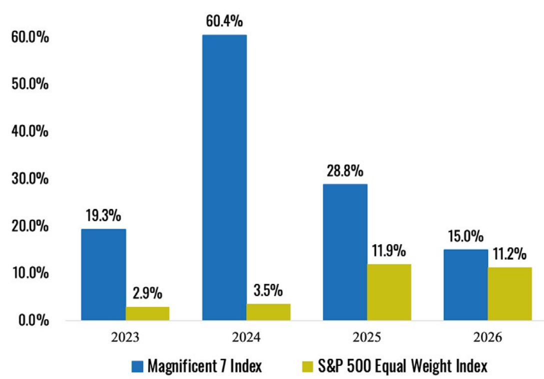
PRO FORMA EPS



Source: JPMAM

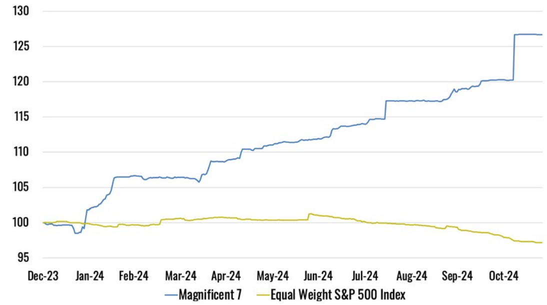
Earnings of the Magnificent 7 companies have been growing rapidly and consistently exceeding expectations, with analysts continually raising their forward earnings estimates. In contrast, the S&P 500 Equal Weight Index has seen much slower earnings growth, and consensus forecasts for future EPS are being revised downward. We expect this trend to persist for at least the next few quarters, driven by the rapid pace of AI advancements fueling growth in the tech sector, while higher interest rates exert downward pressure on EPS growth expectations for smaller, more cyclical companies.

EPS GROWTH, REPORTED AND CONSENSUS FORECAST



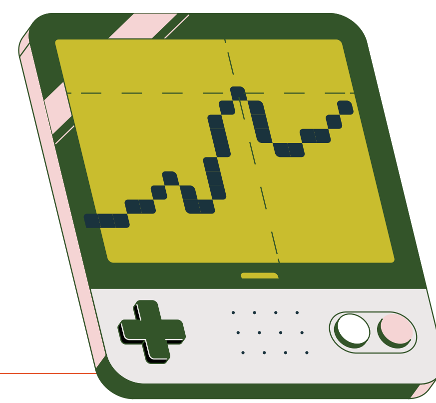
Source: Bloomberg

2025 CONSENSUS EPS REVISIONS FROM 12/31/2023 TO 1/2/2025 (INDEXED TO 100)

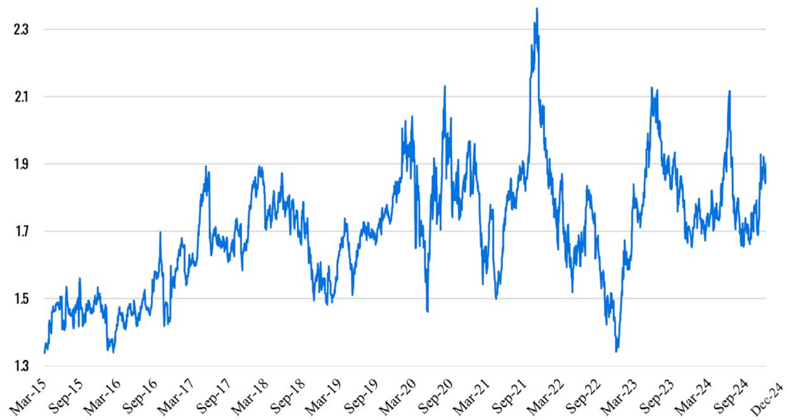


Source: Bloomberg

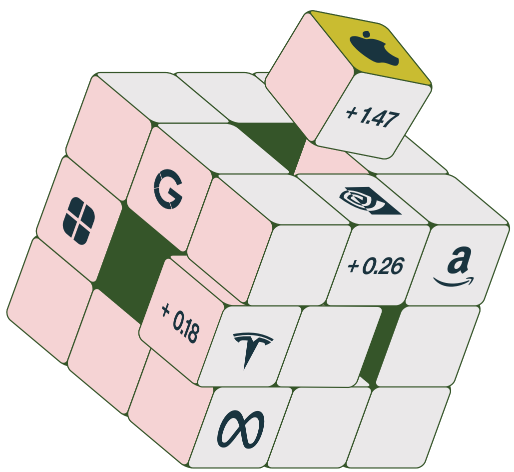
The current valuation of tech stocks contradicts the narrative of a tech bubble akin to the late 1990s dot-com era. The substantial appreciation of the Magnificent 7, along with most leading tech stocks, has been driven by strong earnings growth. While these stocks, as well as tech stocks more broadly, trade at a higher valuation compared to the S&P 500 Equal Weight Index, the premium is not dramatically higher than it was in the mid-2010s. Additionally, the S&P 500 Information Technology Index currently trades at a 33% premium to the broader market, which is slightly above its 19% average premium since 1990. However, this is still far below the 238% premium it reached in March 2000.



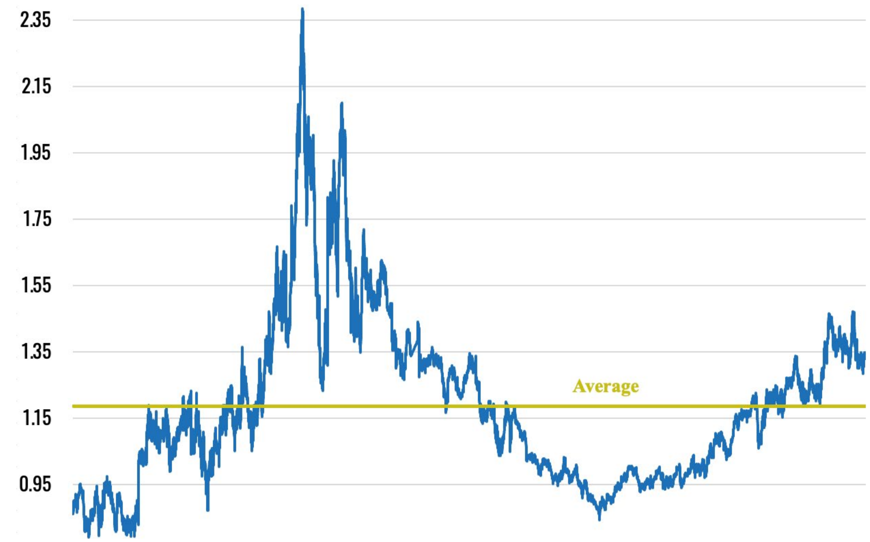
MAGNIFICENT 7 FORWARD PE VALUATION RELATIVE TO S&P 500 EQUAL WEIGHT INDEX



Source: Bloomberg



S&P TECH PE VALUATION RELATIVE TO S&P 500 INDEX



Source: Bloomberg

Although the current high market concentration and premium valuations of the major tech leaders increase risk, we do not view this as a bubble or anticipate a repeat of the dot-com era bust. In our assessment, the two primary risks to tech stocks are potential disappointments in the commercialization of AI technology and the effects of higher inflation or interest rates. Disappointments in these areas could lead to a significant correction in tech stocks, but we do not expect a crash like the dot-com era.

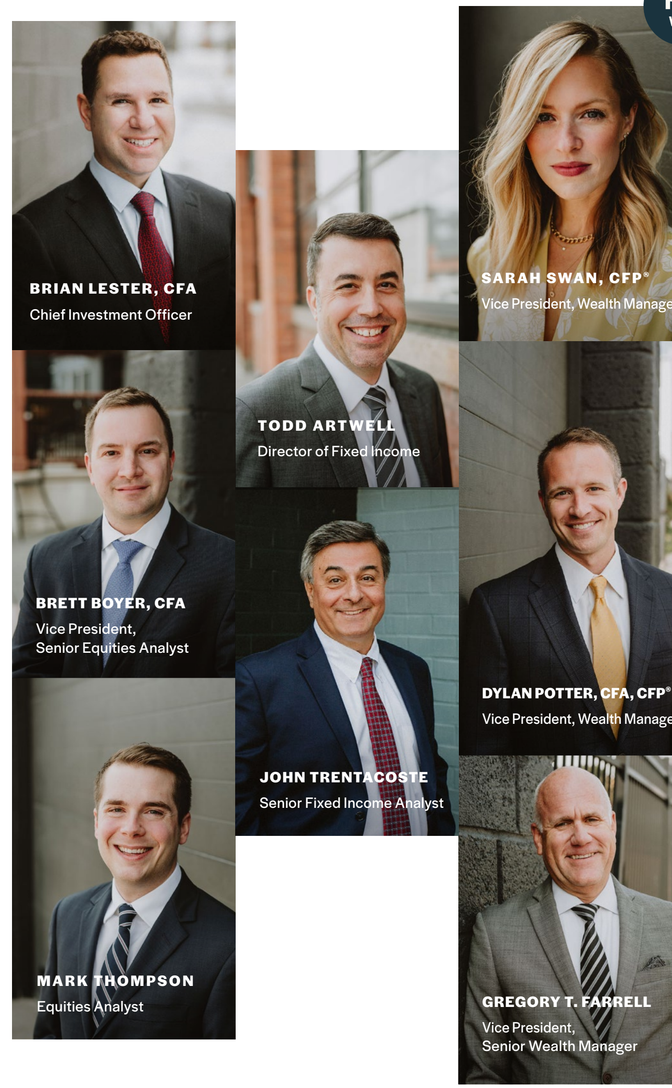
Our Outlook

Our base case assumes moderate economic growth in the low-single digits, persistent inflation ranging from 2.5% to 3.0%, and no significant policy changes from the Federal Reserve. We also expect substantial fluctuations in fiscal policy expectations, robust growth in tech and AI sectors, and slower earnings growth across most other industries.

We believe the risks are skewed towards higher inflation, fewer interest rate cuts, less significant fiscal policy changes, stronger AI and tech growth, and weaker relative performance for the S&P Equal Weight index (which represents smaller companies) compared to consensus expectations. While many market commentators advocate for a substantial underweight in tech and a heavy overweight in cyclicals and small-cap stocks, we disagree with this strategy. We previously outlined our reasons for disagreeing with the view that tech stocks are wildly overvalued. The rationale for overweighting cyclicals and small cap stocks is based on expectations for looser financial conditions, which will drive a sharp acceleration in profit growth. However, as we noted before, we do not expect a material loosening of financial conditions in 2025, unless there is notable deterioration in the economy or labor market. In such scenarios, economically sensitive stocks would underperform, in our opinion. Furthermore, valuation multiples of some cyclical sectors, such as industrials, are near an all-time high, while defensive sectors like consumer staples and healthcare trade at all-time low multiples relative to the S&P 500. This reflects a strong consensus view that economically sensitive sectors will benefit from accelerating economic and profit growth in 2025. In our view, for cyclicals and small-cap stocks to achieve sustained and meaningful outperformance, we would first need to see more pronounced investor pessimism about economic growth or further compression in relative valuations. Therefore, we prefer reasonably priced secular growth companies that do not need meaningful economic growth acceleration to outperform.

The bond market enters the new year with a complex and evolving outlook, shaped by the Federal Reserve's cautious policy stance and ongoing economic resilience. Despite recent Fed rate cuts totaling 100 basis points, Treasury yields have risen sharply as markets adjust to expectations of fewer rate cuts and stronger economic data. This aligns with our view that financial conditions are unlikely to loosen significantly in 2025 without notable economic or labor market deterioration. Real yields remain attractive, particularly in intermediate-duration bonds, offering compelling opportunities for investors to lock in higher yields. Persistent policy uncertainty under the new administration and concerns over budget deficits are expected to contribute to market volatility but are unlikely to trigger inflation or fiscal instability. In line with our base case of moderate economic growth and persistent inflation between 2.5% and 3.0%, we anticipate a stable environment with solid real yields. Given tighter credit spreads and elevated valuations in some risk assets, we favor high-quality fixed income to balance risk and return.

Based on our assessment of valuations, opportunities, and risks, we are slightly overweight bonds vs. stocks. We are vigilantly monitoring inflation and economic data and will adjust allocations as warranted.



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