Fiduciary Financial Group

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Historical data is included in this presentation. Past performance doesn't necessarily predict future results. Investments are subject to fluctuation, including the possible loss of principal.

January 2025 Market Update

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Fiduciary Financial Group

Our Team:

FFG has a deep roster of professionals with decades of investment, tax, accounting, & legal experience who can deliver an unmatched value proposition. We serve high net worth retirees, executives, tech professionals, & successful business owners & strive to ensure they are maximizing their financial efforts. Our comprehensive advice spans across financial investments, real estate assets, tax strategies, equity compensation, estate plan design, insurance packages, & more. We earn no trade or financial product sales commissions & only have a fiduciary duty to our clients. This model, coupled with our partners' spotless records, reinforces a relationship built on trust & transparency.

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CliffsNotes

- U.S. stocks delivered strong returns, while other asset classes, including foreign stocks, bonds, and alternatives, showed more muted performance for diversified investors.
- Political regime changes have minimal predictive power for short-term stock market performance.
- Heading into the election, tax professionals expected major tax legislation before the end of calendar year 2025 if Republicans swept.
- Leading economic indicators are mixed, but the LEI index is trending upward for the first time in over two years.
- The U.S. stock market is dangerously concentrated, historically leading to subpar or negative 10-year forward returns.
- For all our caution on the S&P 500, not all US stock segments appear expensive. Small & value stocks remain reasonably priced vs. historical norms.
- Cycles of U.S. vs. foreign stock market outperformance are historically common.
- Foreign stocks are at historically low valuations, both at the index and sector levels.
- Valuation metrics, such as CAPE, are useful for long-term forecasting. Current extremes resemble the tech bubble of 2000, signaling potential poor 10-year returns for the S&P 500.
- Consecutive boom years like 2023-2024 offer no reliable basis for predicting future market performance.
- Term spreads turning positive support a cautious extension of bond portfolio durations, though spreads remain historically narrow.
- Credit spreads below historical averages keep the focus on investment-grade and government bonds, with some potential in high-yield bonds given low historical default rates and meaningful bankruptcy recovery rates.
- Contrary to common narratives, bonds have outperformed stocks in certain historical contexts, often when stock valuations are high, and yield spreads are negative. Current conditions favor bonds as an attractive risk/reward proposition.
- While alternatives may not match historical stock market returns (9–12% annually), their diversification benefits and institutional demand support their inclusion in portfolios.

Table of Contents

Historical Market Review

Market Review – Return summaries since the dawn of higher rates (2022)

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BENCHMARK RETURNS (2022, 2023, & 2024)					
Diversified Benchmark Fund	**Ticker**	**Full Year 2022**	**Full Year 2023**	**Full Year 2024**	**Hypothetical Growth of $10,000: 01/01/2022 - 12/31/2024**
Core Conservative Allocation	AOK	-14.03%	10.84%	6.49%	$ 10,147
Core Moderate Allocation	AOM	-14.46%	12.29%	7.85%	$ 10,359
Core Growth Allocation	AOR	-15.30%	15.24%	10.61%	$ 10,796
Core Aggressive Allocation	AOA	-16.21%	18.28%	13.39%	$ 11,238
Asset Class Benchmark Funds	**Ticker**	**Full Year 2022**	**Full Year 2023**	**Full Year 2024**	**Hypothetical Growth of $10,000: 01/01/2022 - 12/31/2024**
Total US Stock Market	IWV	-19.34%	25.80%	23.58%	$ 12,540
All-World ex-US Stock Market	ACWX	-16.02%	15.46%	5.19%	$ 10,200
US Investment Grade Bond	AGG	-13.06%	5.59%	1.37%	$ 9,306
Global Real Estate	REET	-23.92%	10.43%	2.40%	$ 8,603
Crude Oil (change in price)	N/A	6.04%	-10.73%	0.10%	$ 9,476
Gold	GLD	-0.82%	13.35%	26.09%	$ 14,175

These are benchmark returns provided for reference only. These are NOT related to your own household returns. Your returns can be found on the following pages.

Data from Morningstar.com >> Ticker Symbol >> Performance >> Calendar Year NAV Performance
For oil prices changes, data pulled from finance.yahoo.com >> "Crude Oil" historical data - YoY price changes

Market Review – 2024 Detailed returns data & sector weightings

Region Summary							12/31/2024
Region	**1 Week**	**1 Month**	**3 Month**	**YTD**	**1 Year**	**3 Year**	**5 Year**
U.S. Stock	-1.45%	-3.06%	2.63%	23.81%	23.81%	8.01%	13.86%
Global Stock Ex U.S.	0.15%	-1.94%	-7.60%	5.53%	5.53%	0.82%	4.10%
Emerging Markets	-0.82%	-0.14%	-8.01%	7.50%	7.50%	-1.92%	1.70%
Europe Stock	0.39%	-2.44%	-9.74%	1.79%	1.79%	1.20%	4.90%
Asia Pacific Stock	0.14%	-0.90%	-6.75%	9.56%	9.56%	0.36%	3.58%
Latin America Stock	-0.98%	-6.11%	-15.84%	-26.38%	-26.38%	2.10%	-3.36%

Equity Style Summary							12/31/2024
Region	**1 Week**	**1 Month**	**3 Month**	**YTD**	**1 Year**	**3 Year**	**5 Year**
Large Growth	-2.47%	0.47%	6.98%	32.73%	32.73%	9.24%	18.41%
Large Blend	-1.58%	-2.41%	2.75%	25.15%	25.15%	8.57%	14.51%
Large Value	-0.35%	-6.32%	-2.51%	16.00%	16.00%	7.46%	9.93%
Mid Growth	-1.81%	-6.01%	4.52%	16.48%	16.48%	0.71%	10.62%
Mid Blend	-1.05%	-6.83%	0.45%	15.25%	15.25%	2.82%	9.86%
Mid Value	-0.42%	-7.60%	-2.95%	14.04%	14.04%	4.88%	8.79%
Small Growth	-1.15%	-6.92%	4.82%	16.48%	16.48%	0.36%	7.66%
Small Blend	-0.65%	-7.34%	1.66%	14.21%	14.21%	3.57%	9.26%
Small Value	-0.27%	-7.69%	-0.77%	12.42%	12.42%	5.74%	9.89%

Sector Snapshot	12/31/24
Sector	**YTD Return**
Comm. Services	34.70%
Financials	30.55%
Consumer Cyclical	26.51%
Utilities	23.28%
Technology	21.63%
Industrials	17.31%
Consumer Defensive	12.19%
Energy	5.52%
Real Estate	5.07%
Health Care	2.47%
Materials	0.14%

S&P 500 Sector Weights*	12/31/24
Sector	**Weight**
Technology	34.13%
Financials	12.98%
Consumer Cyclical	11.43%
Health Care	10.04%
Comm. Services	9.56%
Industrials	7.15%
Consumer Defensive	5.36%
Energy	3.16%
Utilities	2.51%
Real Estate	2.04%
Materials	1.64%

Politics

Politics – Returns under varying regimes (White House & Congress)

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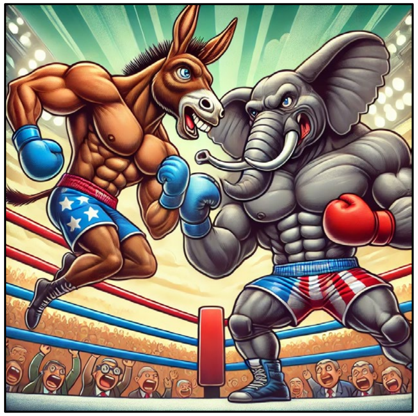
Situation	Number of Years	S&P 500 Avg. Yr. Return
Unified Republican	13 years	14.52%
Unified Democrat	36 years	14.01%
Divided with Republican President	34 years	7.33%
Divided with Democrat President	15 years	16.63%



Data from 1926 through 2023. Unified government means that the Presidency, the House of Representatives and the Senate are all controlled by a single party. Divided government means that at least one houses of Congress or the Presidency is controlled by the other party. Indexes are not available for direct investment. For educational purposes only.

Source: French, B. (2024, September 6). *Are Republicans or Democrats better for the stock market?*. Retirement Researcher. https://retirementresearcher.com/are-republicans-or-democrats-better-for-the-stock-market/

Politics – Tax policy forecasts based on election outcomes

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Federal Tax Policy: Action Outlook

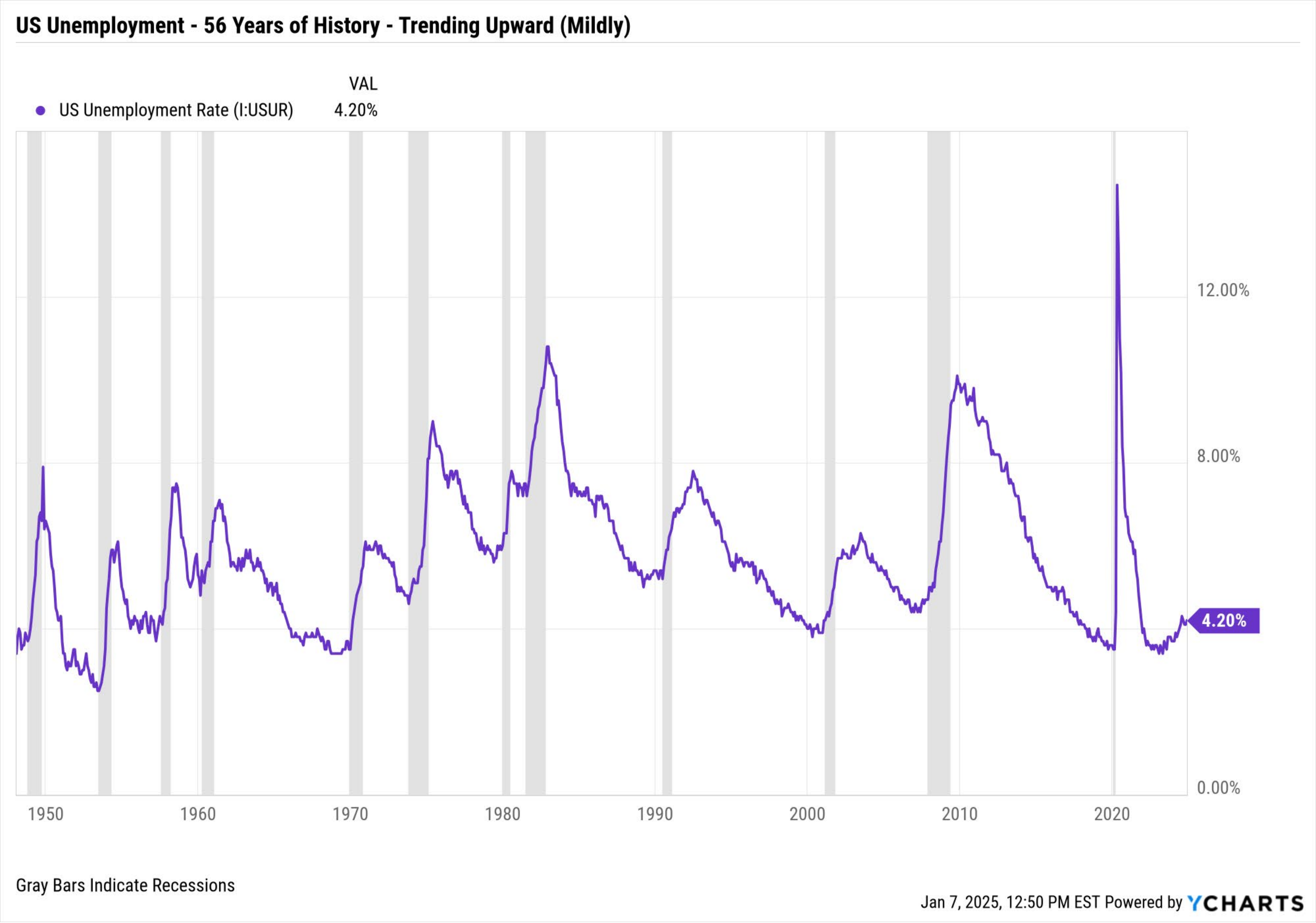
	Democratic President		Republican President	
Potential Action	DEM HOUSE DEM SENATE	DEM GOP		GOP HOUSE GOP SENATE
Major Year End 2025 Tax Bill	Very Likely	Possible	Possible	Very Likely
Small Year End 2025 Tax Bill	Unlikely	Likely	Possible	Very Unlikely
Tax Preparer Regulation	Very Likely	Likely	Unlikely	Very Unlikely
SALT Reform (Small / Large)	Likely (Large)	Possible (Small)	Possible (Small)	Possible (Small)
Major Tax Administrative 2025 Improvement Bill	Very Likely	Very Likely	Possible	Possible
Year End 2024 Tax Bill (Wyden-Smith) *(Lame Duck Consideration??)*	Very Likely	Possible	Possible	Very Unlikely

AICPA #AICPATownHall CPA.com

Source: *AICPA Town Hall Series*. Webcasts | AICPA & CIMA. (2024, November). https://www.aicpa-cima.com/cpe-learning/webcast/aicpa-town-hall-series

Economic Update

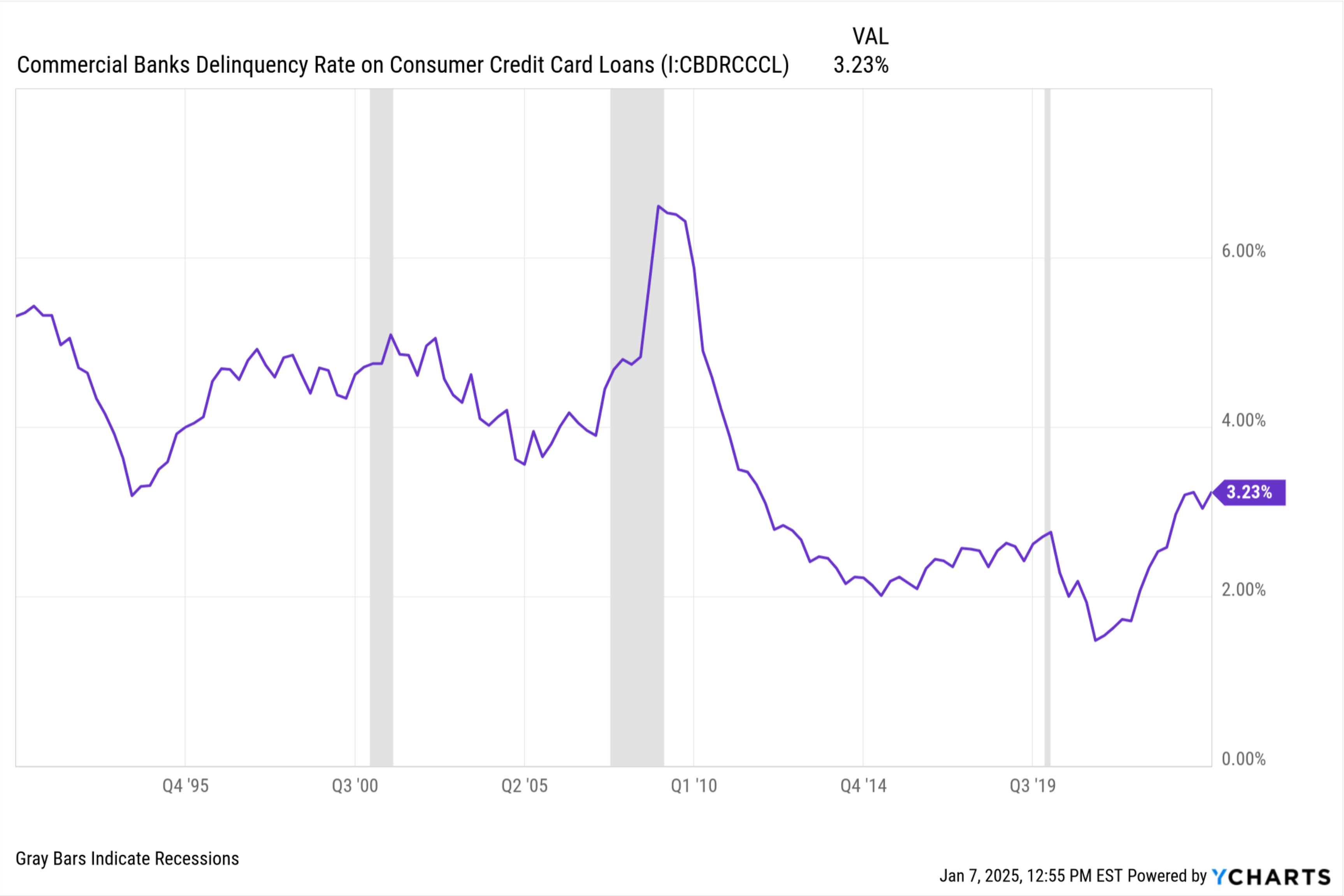
Economic Update – (Un)Employment



Source: FFG YCharts terminal

Economic Update – Consumer health

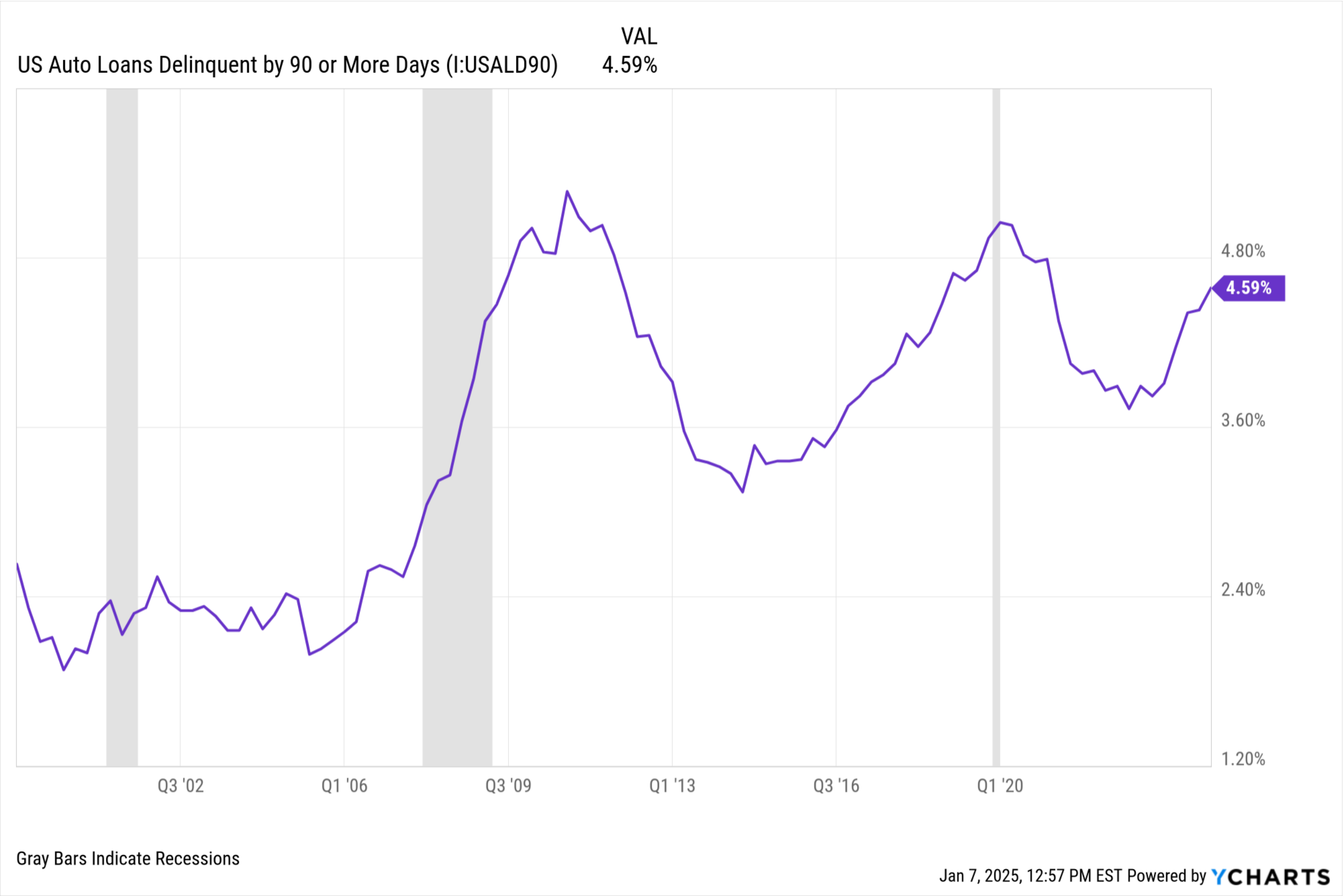
Credit card delinquencies at highest level since Q4’2011 but still low for history



Source: FFG YCharts terminal

Economic Update – Consumer health

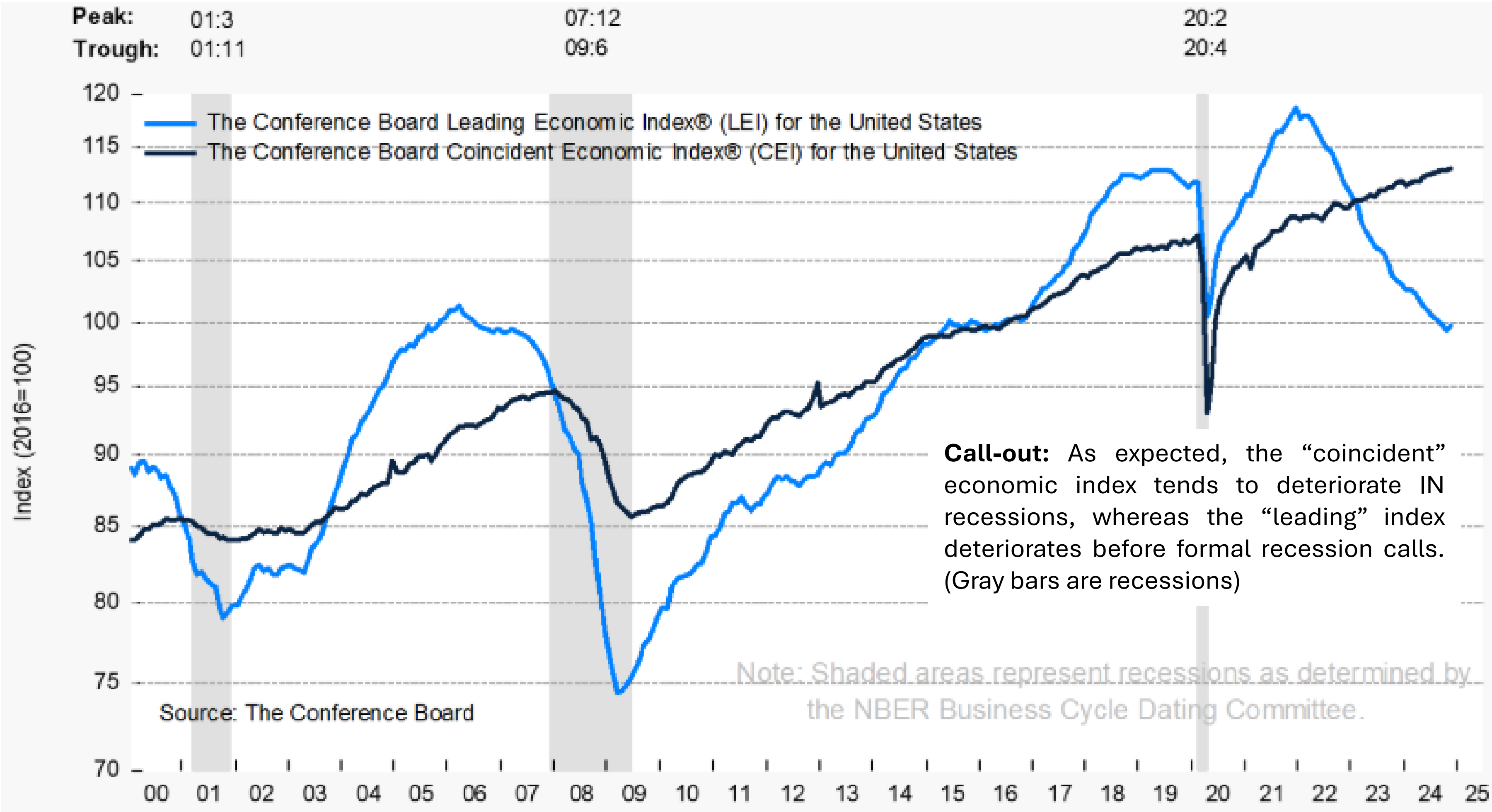
Serious auto loan delinquencies on the rise



Source: FFG YCharts terminal

Economic Update – Leading & Coincident Economic Indicators

Declining for most of the year, the LEI index recorded it's first gain in >24 months in Nov'24



Source: US leading indicators. The Conference Board. (2024, Dec 19).

Economic Update – Economic Indicators

Leading economic indicator components

Source: US leading indicators. The Conference Board. (2024, Dec 19).

Asset Class Review

Stocks – Index Concentration

Extreme index concentration has been connected to sub-par forward returns.
Are some index investors in the dark about their lack of diversification?

S&P 500

Ten- Year Forward Return form each point

A: +6.89%/yr

B: +5.63%/yr

C: +7.22%/yr

D: <0.80%>/yr

Average Annual Return from 1926-2024

+10.42%/yr

Source for Graph: Chisolm, J. (2024, March 8). Here's what 100 years of history shows about periods ... MarketWatch. https://www.marketwatch.com/story/heres-what-100-years-of-history-shows-about-periods-of-extreme-market-concentration-according-to-goldman-sachs-340ca243

Stocks – Index Concentration

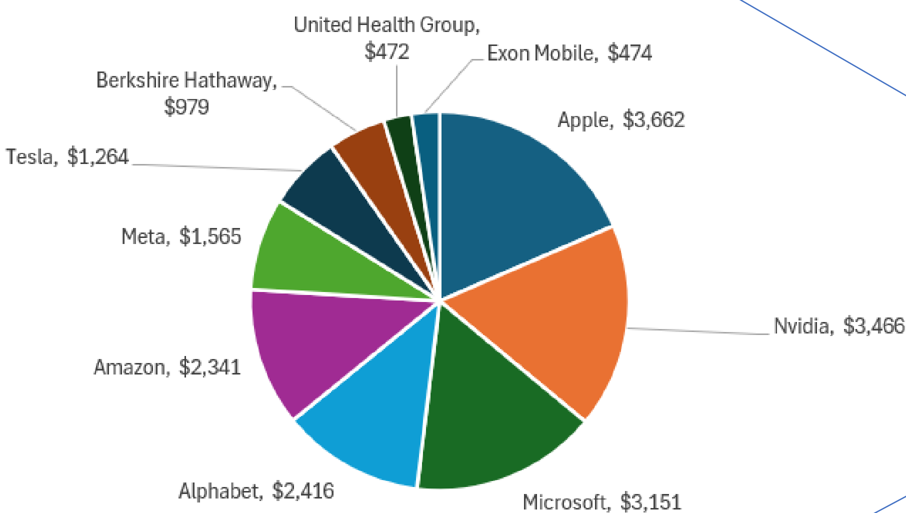
Extreme index concentration has been connected to sub-par forward returns
You’re investing in 500 companies… “kinda”. Nearly ½ of every dollar dumped in this index benefits only 10 companies.

Source: JP Morgan Asset Management. (2025, January 2). Guide to the markets. https://am.jpmorgan.com/us/en/asset-management/institutional/insights/market-insights/guide-to-the-markets/ slide 41

Stocks – Index Concentration (Extreme)

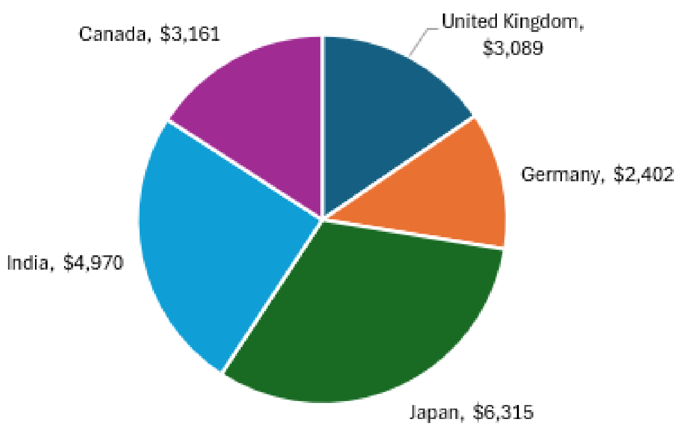
Top 10 Us Companies vs. Entire Country Stock Markets

Top 10 Lagest US Companies (Billions) | Total: ~$20 Trillion



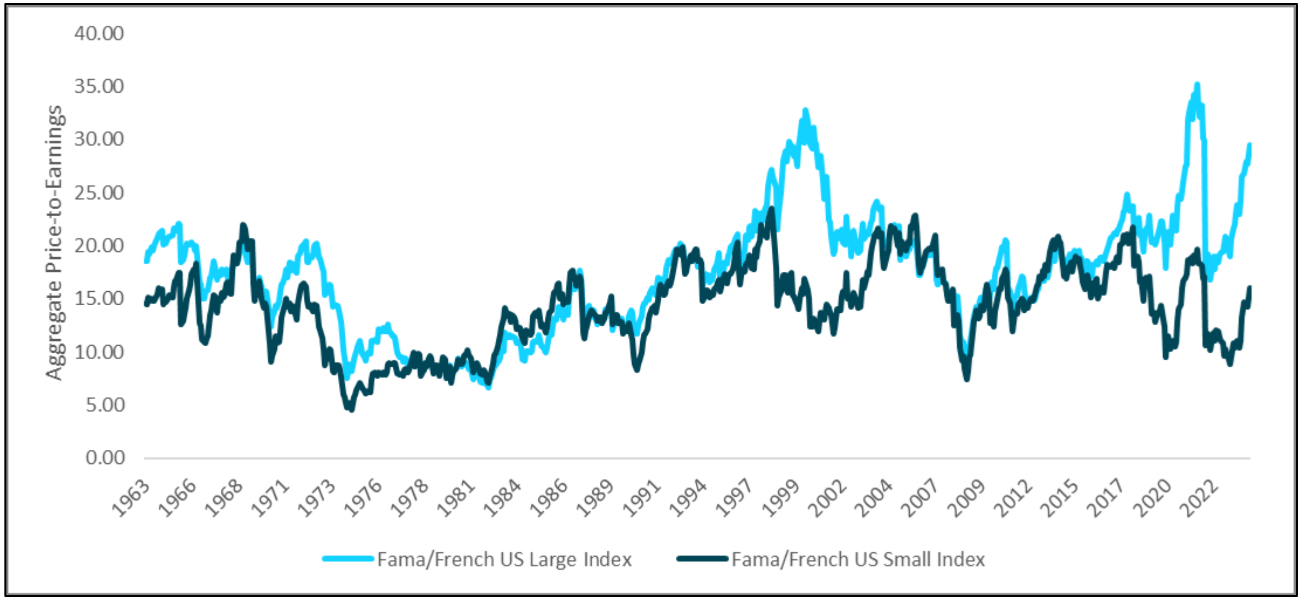
Note: *10 US Mega Caps now command the same valuation of 5 of the world's largest country's entire stock markets*

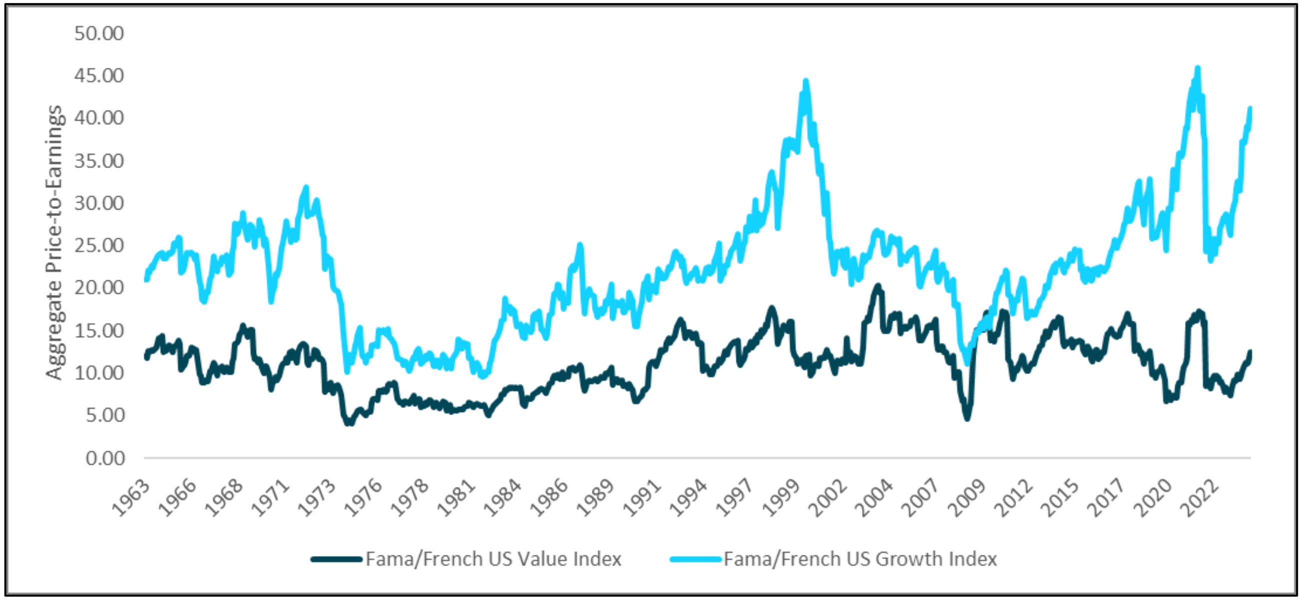
Major COUNTRY Aggregate Market Values| Total: ~$20 Trillion



Stocks

US Large Cap Growth Stocks vs. Other US Stock Segments





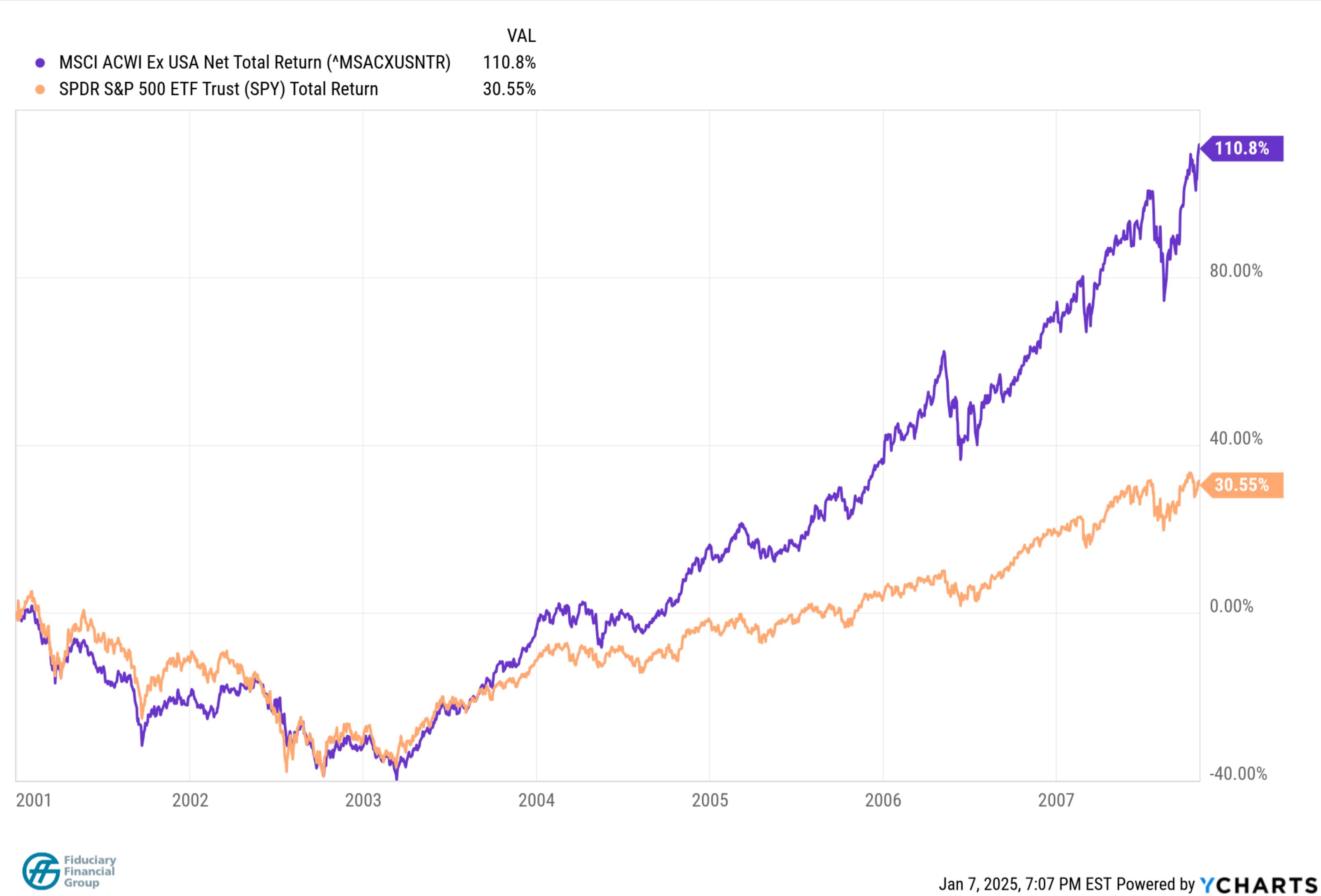
Notes: It's not all doom and gloom. US Small Cap stocks and US Value stocks, both of which are not heavily represented in the S&P 500, trade at modest valuations now vs. history. To estimate this, we look at the price investors are paying for their share of profits on these companies at present against the last 60 years.

Source: MyDimensional.com >> Fama/French US Market P/E historical data (monthly increments)

Stocks – US vs. Foreign Equities

Relative Performance – US vs. Foreign Developed Markets (12/2000 – 10/2007)

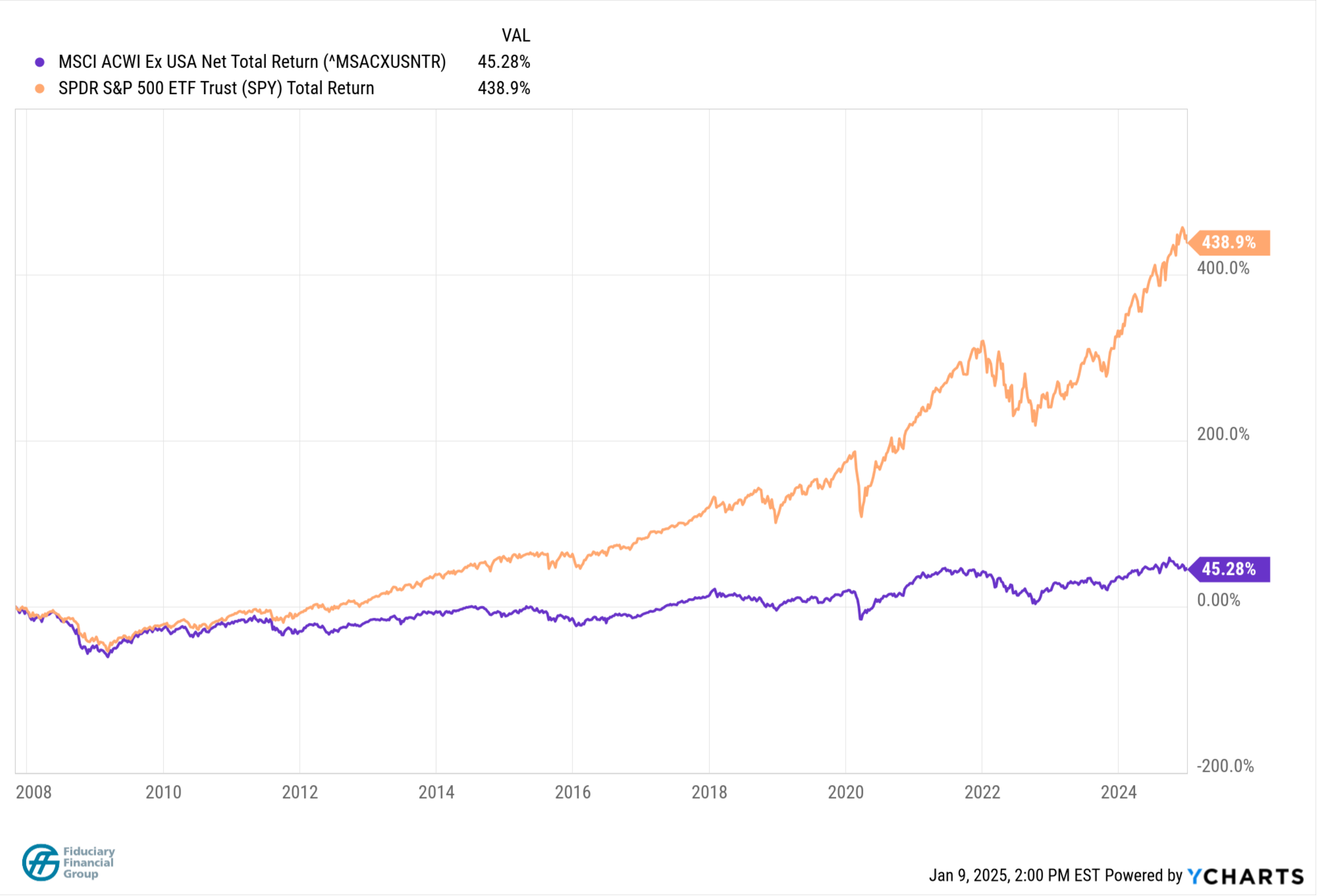
Regime change is common



Stocks – US vs. Foreign Equities

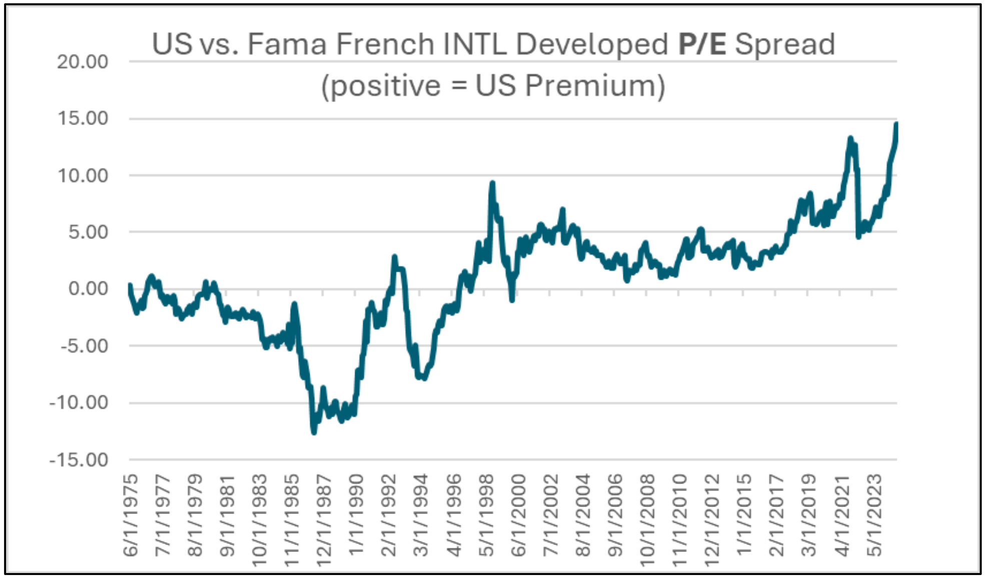
Relative Performance – US vs. Foreign Developed Markets (11/2007 – 12/2024)

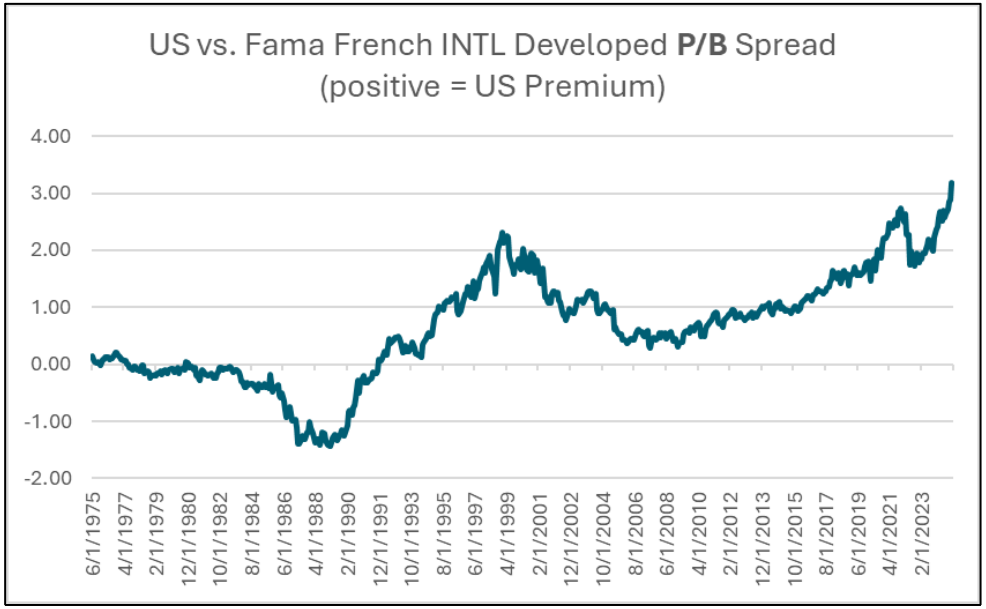
Regime change is common



Stocks – US vs. Foreign Equities

Relative Valuations – US vs. Foreign Developed Markets



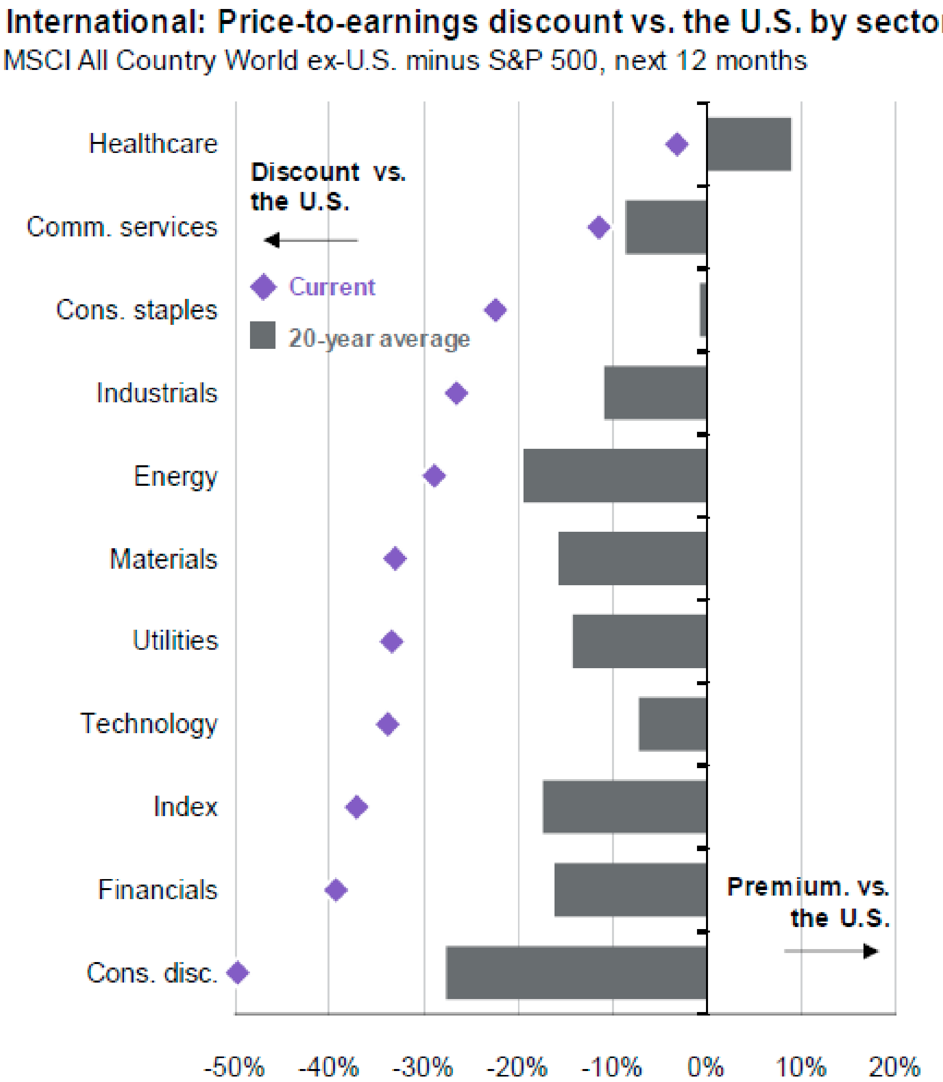


Notes: *Valuation spreads between the US & Foreign Developed stock markets are at 60-year highs*

Source: MyDimensional.com >> Fama/French US Market Index and Fama/French Foreign Developed Market Index P/E and P/B historical data

Stocks – US vs. Foreign Equities

Relative Valuations – US vs. Foreign Developed Markets

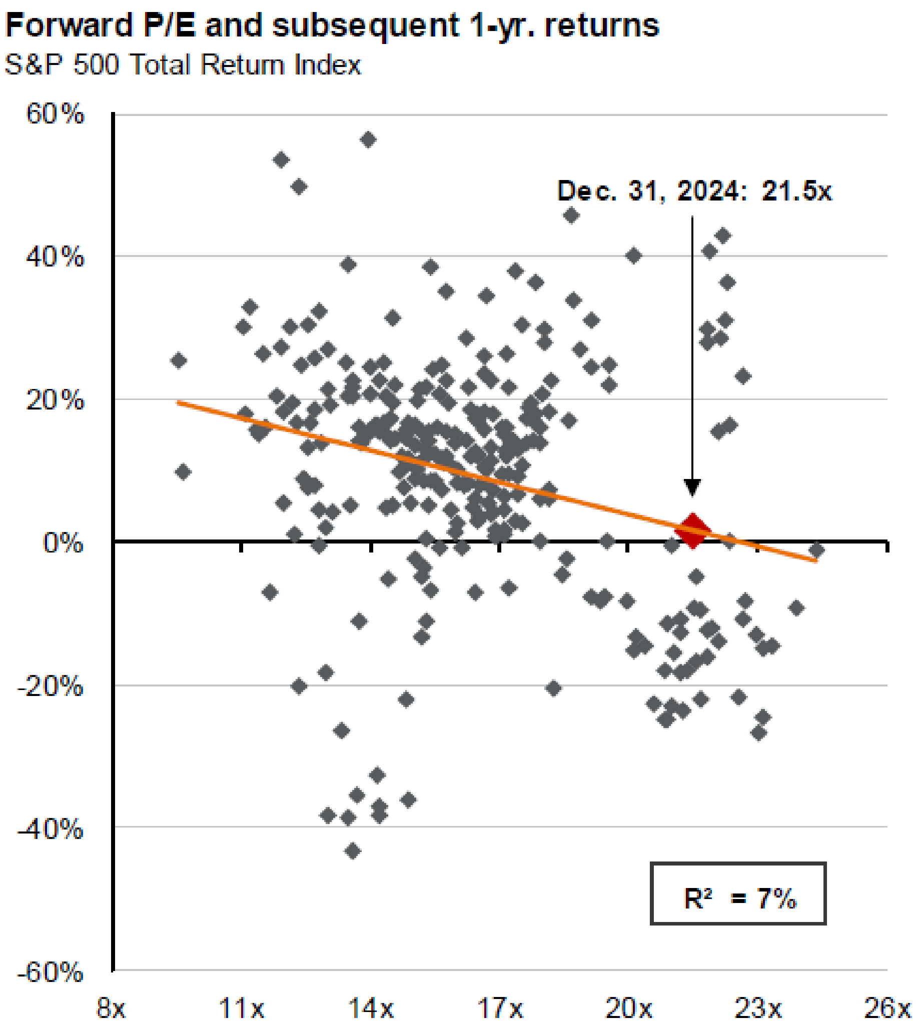


Note: An increase in the S&P 500 index's weighting to technology stocks over the last 20 years (relative to the weighting of technology stocks in the foreign developed market index) does NOT explain the 60-year spread in valuations. All sectors trade at above average discounts on multiples of earnings.

Source: JP Morgan Asset Management. (2025, January 2). Guide to the markets. https://am.jpmorgan.com/us/en/asset-management/institutional/insights/market-insights/guide-to-the-markets/ slide 45

Stocks – Valuations

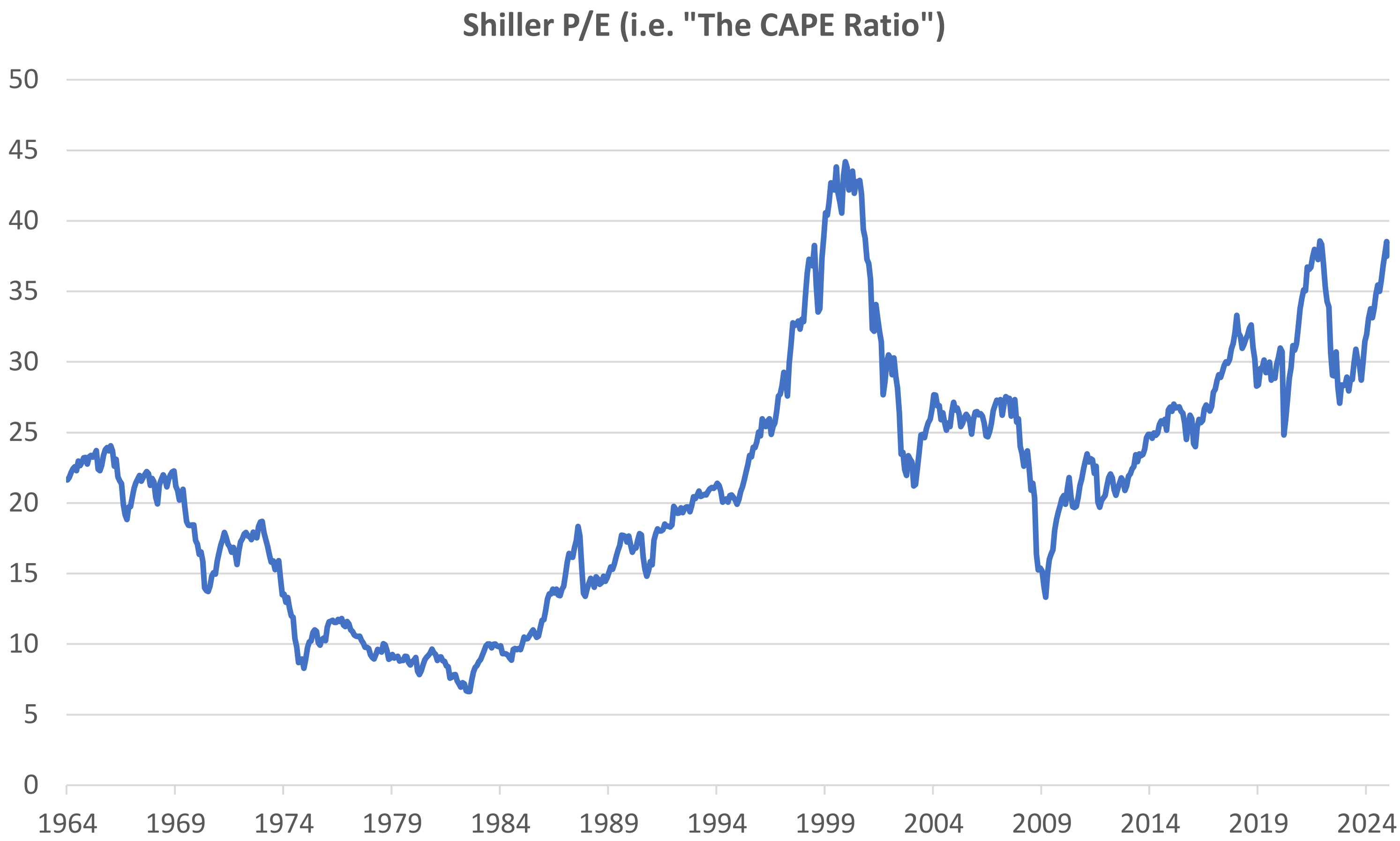
Understanding these metrics' short-run limitations & long-run predictive power



Source: JP Morgan Asset Management. (2025, January 2). Guide to the markets. https://am.jpmorgan.com/us/en/asset-management/institutional/insights/market-insights/guide-to-the-markets/ slide 6

Stocks – Valuations

Understanding these metrics' short-run limitations & long-run predictive power

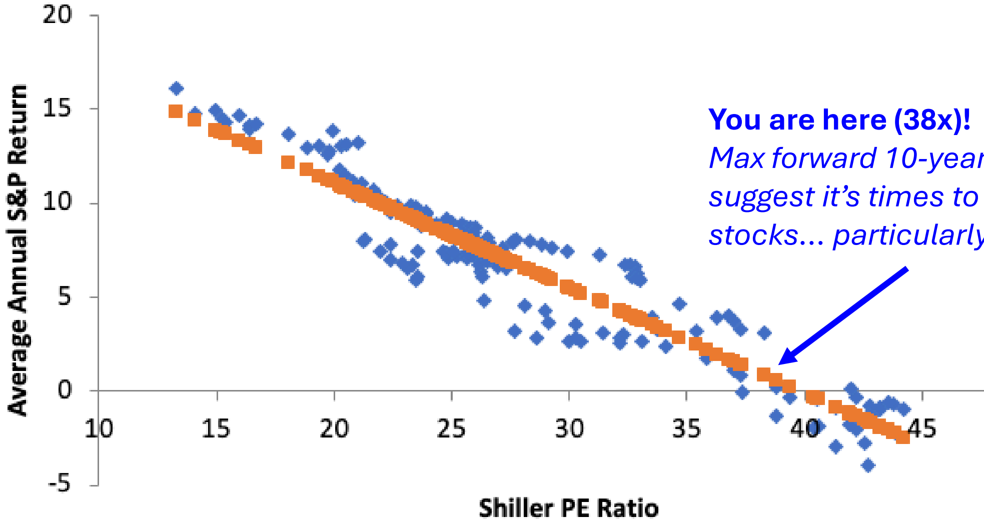


Source: *Shiller PE Ratio By Month*. Multpl. (2024, December 31). https://www.multpl.com/shiller-pe

Stocks – Valuations

Understanding these metrics' short-run limitations & long-run predictive power

CAPE Predicted 10-Year S&P Returns vs. Actual Returns 1995-2020



You are here (38x)!
Max forward 10-year returns less than 5% suggest it's times to explore other categories of stocks… particularly foreign equities.

S&P 500 INDEX: CAPE RATIO RANGES VS. AVERAGE ANNUALIZED FUTURE RETURNS
1881 to present

CAPE ratio	1 year	3 year	5 year	7 year	10 year
< 5	29.1%	19.4%	21.8%	23.1%	16.6%
5 to 10	12.9%	12.9%	13.2%	11.8%	10.2%
10 to 15	11.6%	9.0%	6.7%	6.6%	7.8%
15 to 20	6.9%	4.9%	6.0%	6.1%	6.0%
20 to 25	2.4%	5.6%	6.3%	5.9%	4.5%
25 to 30	3.9%	2.1%	1.0%	2.8%	5.1%
30 to 35	0.7%	5.4%	0.5%	-1.1%	1.8%
35 to 40	2.1%	-4.8%	-2.4%	0.1%	-2.5%

SOURCE: NOAH SOLOMON — GIGI SUHANIC / FINANCIAL POST

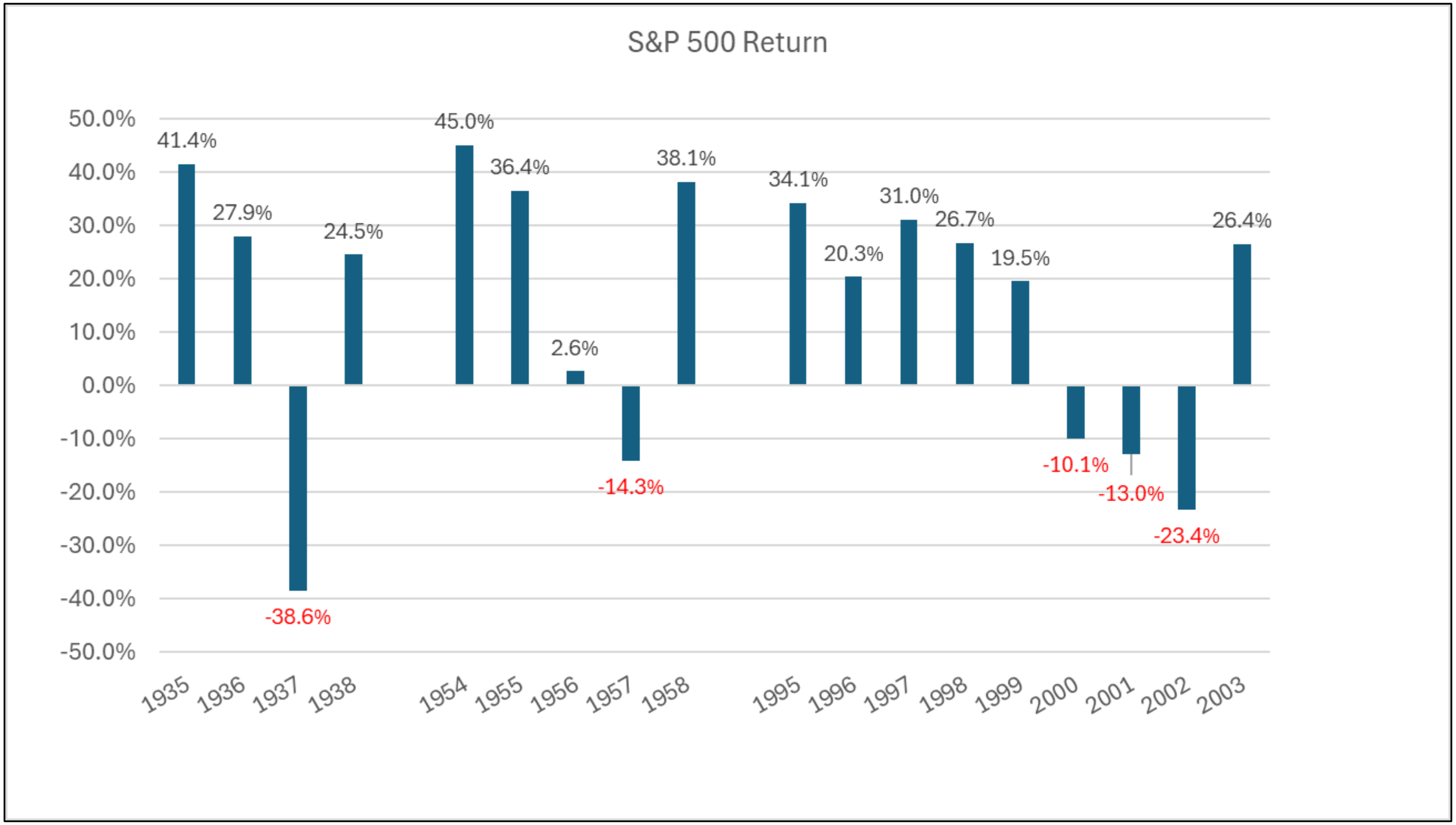
Sources:

Finke (2020, Jul'20). *The Remarkable Accuracy of CAPE (i.e., Shiller PE) as a Predictor of Returns*. VettaFi Advisor Perspectives

Solomon, N. (2025, January 2). What the cape ratio signals about the U.S. stock market. https://financialpost.com/investing/what-cape-ratio-isignalling-about-u-s-stock-market

Stocks – Do booms always lead to busts?

History does not suggest this is a reliable short-term indicator

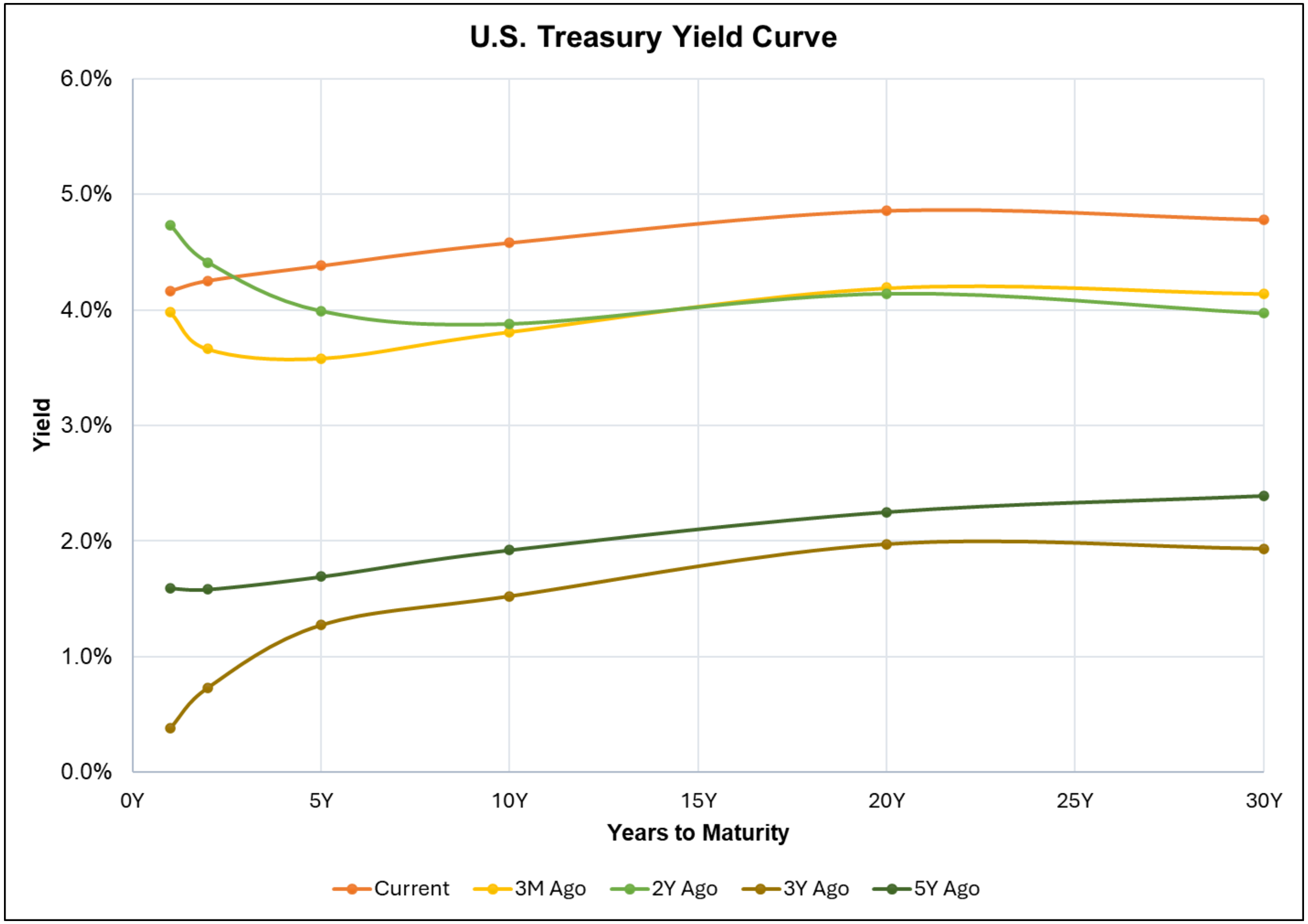


Sources:
Stone, B. (2025, January 3). 2025 market outlook: Stocks and bonds through the Looking-Glass. Forbes. https://www.forbes.com/sites/bill_stone/2024/12/28/2025-market-outlook-stocks-and-bonds-through-the-looking-glass/

Fixed Income (Bonds)

Fixed Income (Bonds)

Term Spreads - The yield on longer vs. short-term bonds has (finally) turned positive as shown below with the upward sloping yield curve (orange line). For ~2 years, the yield curve was inverted with short-term treasury bills paying more than 10-year bonds.



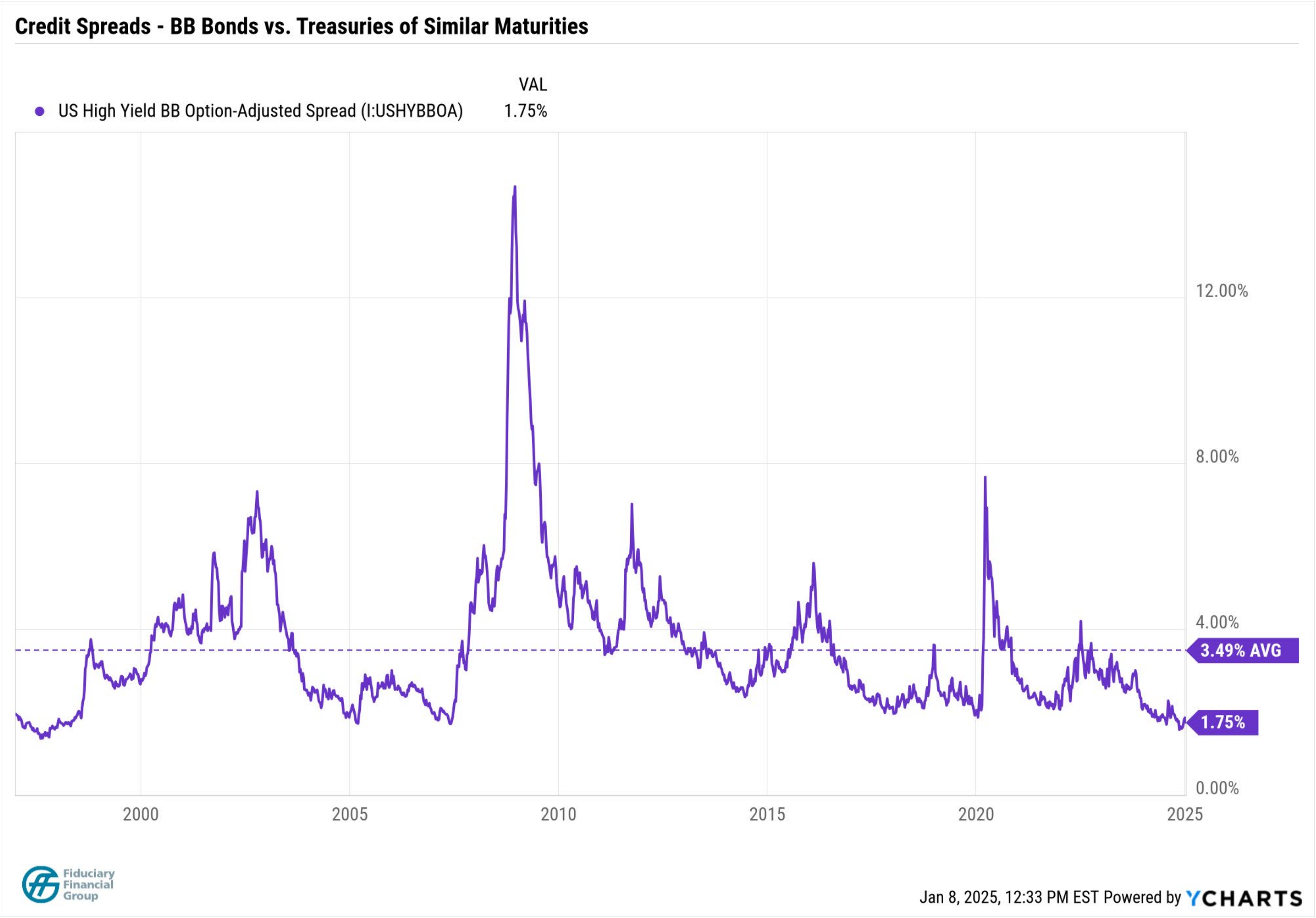
Source: FFG YCharts Terminal

Note: What a difference 3 years makes. Despite 4% higher overnight rates and 3% higher 10-year yields, US stocks have returned a cumulative ~25% since 1/1/2022 (7.8% IRR). The same period yielded a cumulative loss of ~7% for the Barclays Aggregate Bond Index, it's worst 3-year period in almost a century.

While the FED began its rate easing process in Sep'24, having dropped the Fed Funds Rate from a high of ~5.25% to ~4.25% now, longer maturity treasuries, and mortgage rates alike, have marched higher, which has resulted in the yield curve "disinverting". This has historically occurred before recessions and been a buy signal for longer duration bonds.

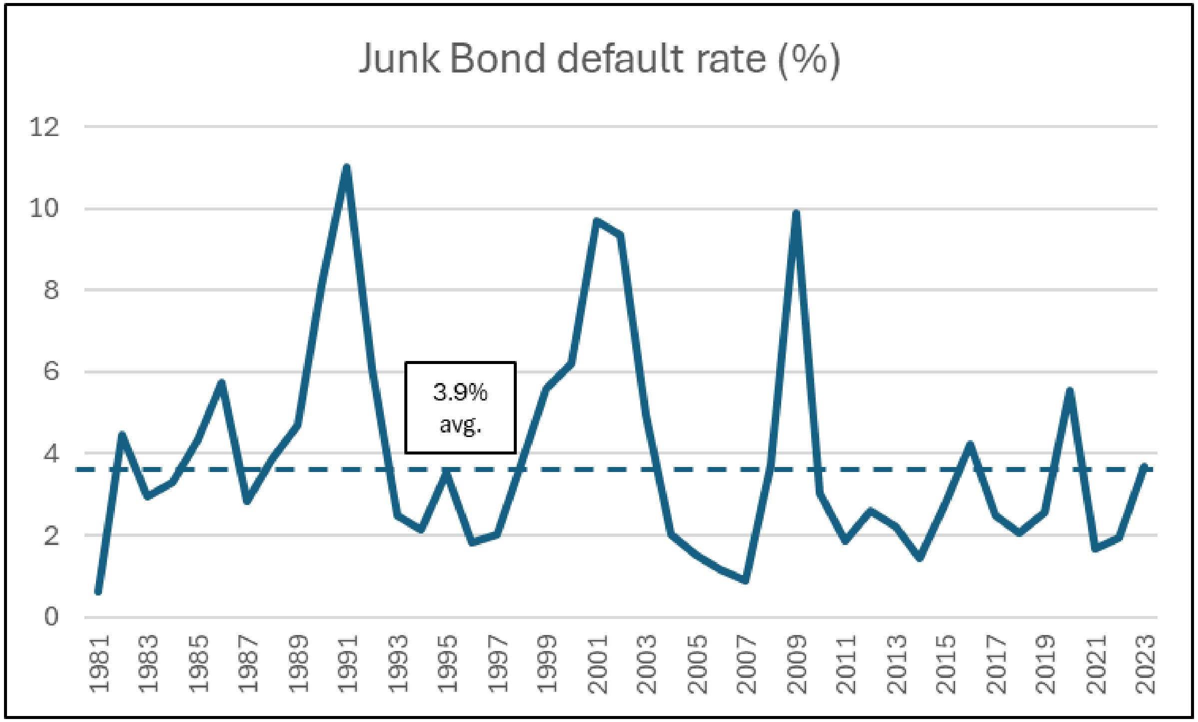
Fixed Income (Bonds)

Credit Spreads – Bond investors are receiving only a small boost from taking on credit risk with high yield bonds instead of just owning treasuries of similar maturities.



Fixed Income (Bonds)

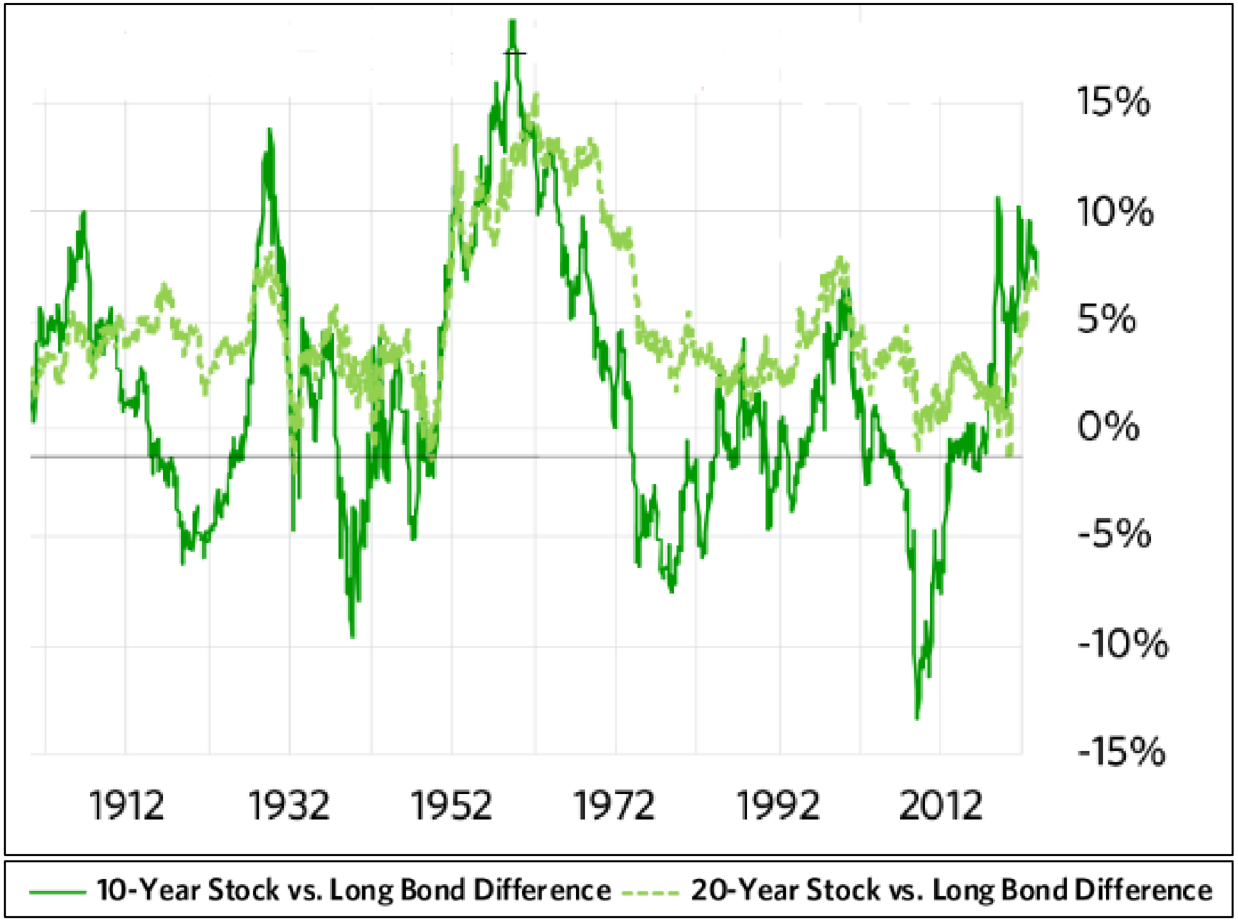
Default rates – Even in the worst debt crisis of the last 90 years, high yield bond default rates only hit ~12% in late 2008 (blue line below) with bankruptcy recoveries and the yield earned on performing bonds in the index offsetting much of these losses. While spreads vs. treasuries are low, this is useful context for understanding the relative risk (which is generally lower) of even high yield bonds vs. stock index.



Source: S&P Global. (2024b, March 28). *Default, transition, and recovery: 2023 Annual global corporate default and rating transition study*. Default, Transition, and Recovery: 2023 Annual Global Corporate Default And Rating Transition Study | S&P Global Ratings. https://www.spglobal.com/ratings/en/research/articles/240328-default-transition-and-recovery-2023-annual-global-corporate-default-and-rating-transition-study-13047827

Fixed Income (Bonds)

Historical long-term performance of stocks vs. long-term bonds

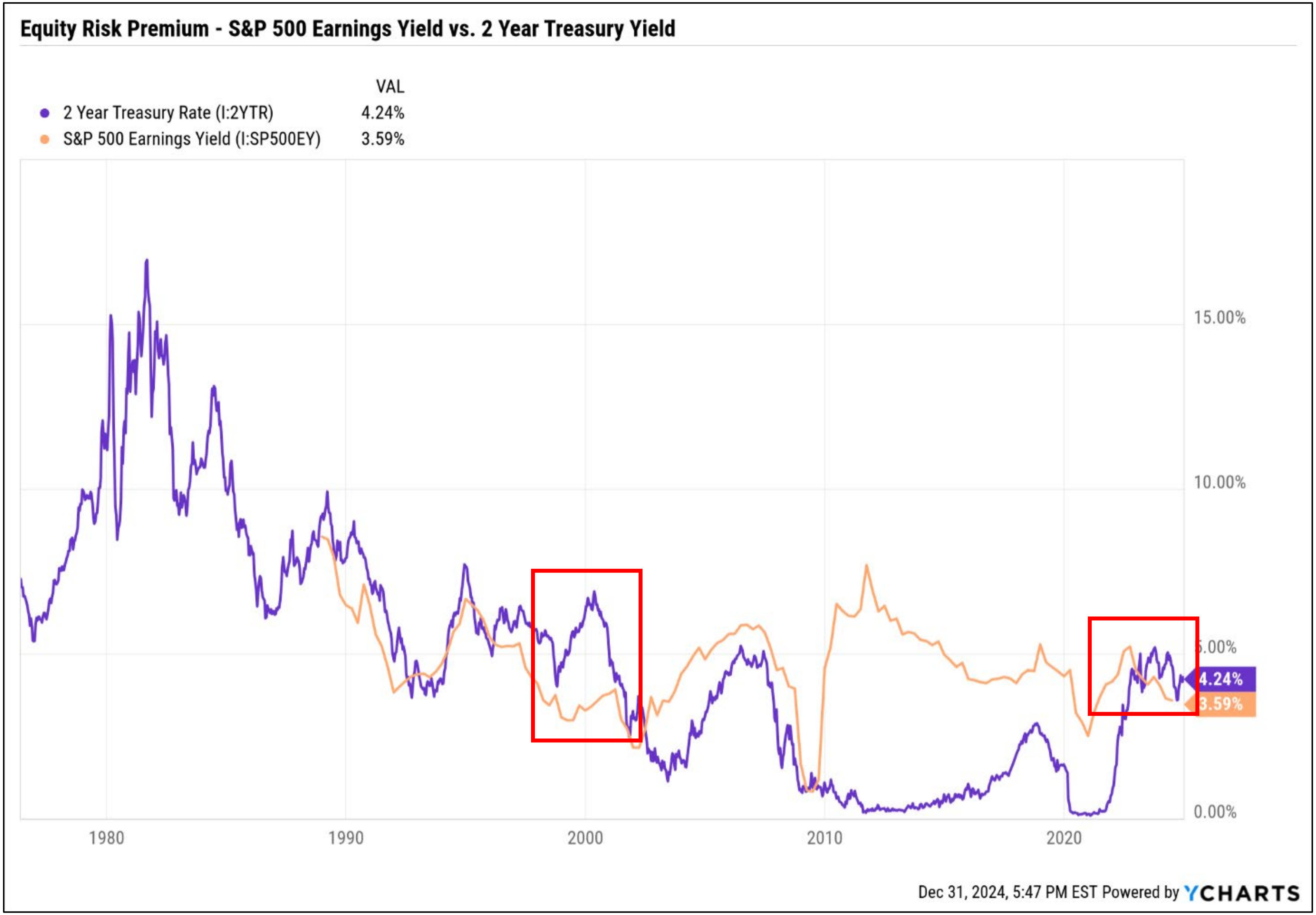


Note: While a 20-year period of stock underperformance (vs. long maturity bonds) has not happened in the last 120 years, there are several 10- year periods when stocks have underperformed – the Depression era of the 1930s, the stagflation era of the 1970s/80s, briefly after the tech wreck of the early 2000s, and most recently in the years following the Great Recession. These periods are marked by abnormally high bonds yields (not the case now but becoming increasingly attractive), and/or abnormally high equity valuations, something we do see today. **Translation? >> Now is not the time to neglect bonds.**

Source: Arnott, R. (2024, November). The equity risk premium: Nine myths (JPM series): Research Affiliates. researchaffiliates.com. https://www.researchaffiliates.com/publications/articles/1064-equity-risk-premium-myths

Fixed Income (Bonds)

S&P 500 Earnings Yield vs. Treasury Bond Yields Turns Negative



Real Estate & Other Alternatives

Alternatives – The menu is long

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- Real Estate
  - Residential / Commercial
  - Cash flowing (i.e., stabilized properties) vs. value-add plays
  - Land / speculation

- Commodities
  - Productive
  - Precious metals

- Private Debt
  - Collateralized vs. Unsecured

- Private Equity
  - Angel investments all the way to stock investments in evergreen / mature companies

- Specialty Alternatives
  - Life insurance settlements
  - Litigation finance
  - (and many more)

Alternatives – Historical value-add in dampening volatility

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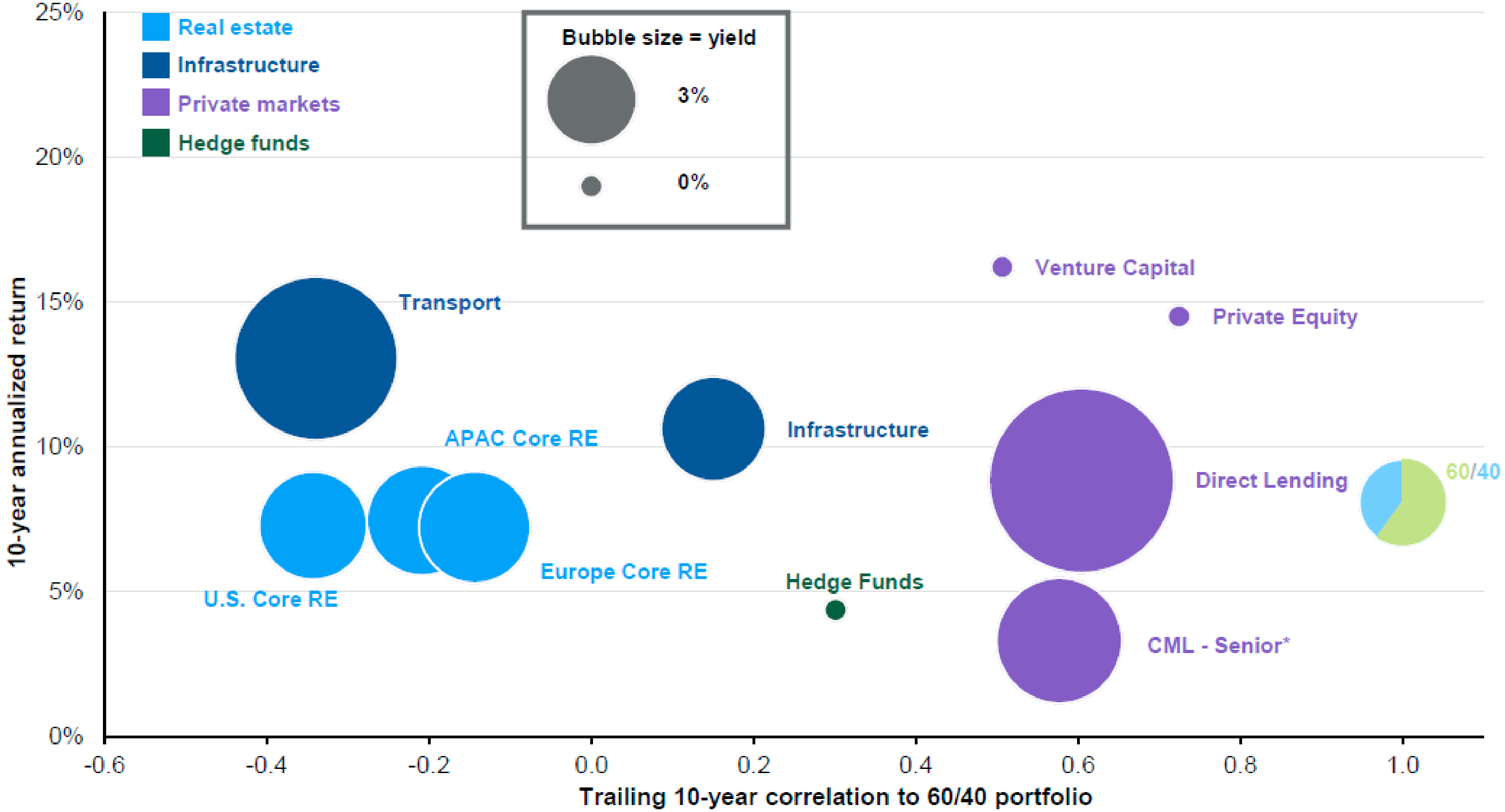
Correlations, returns and yields

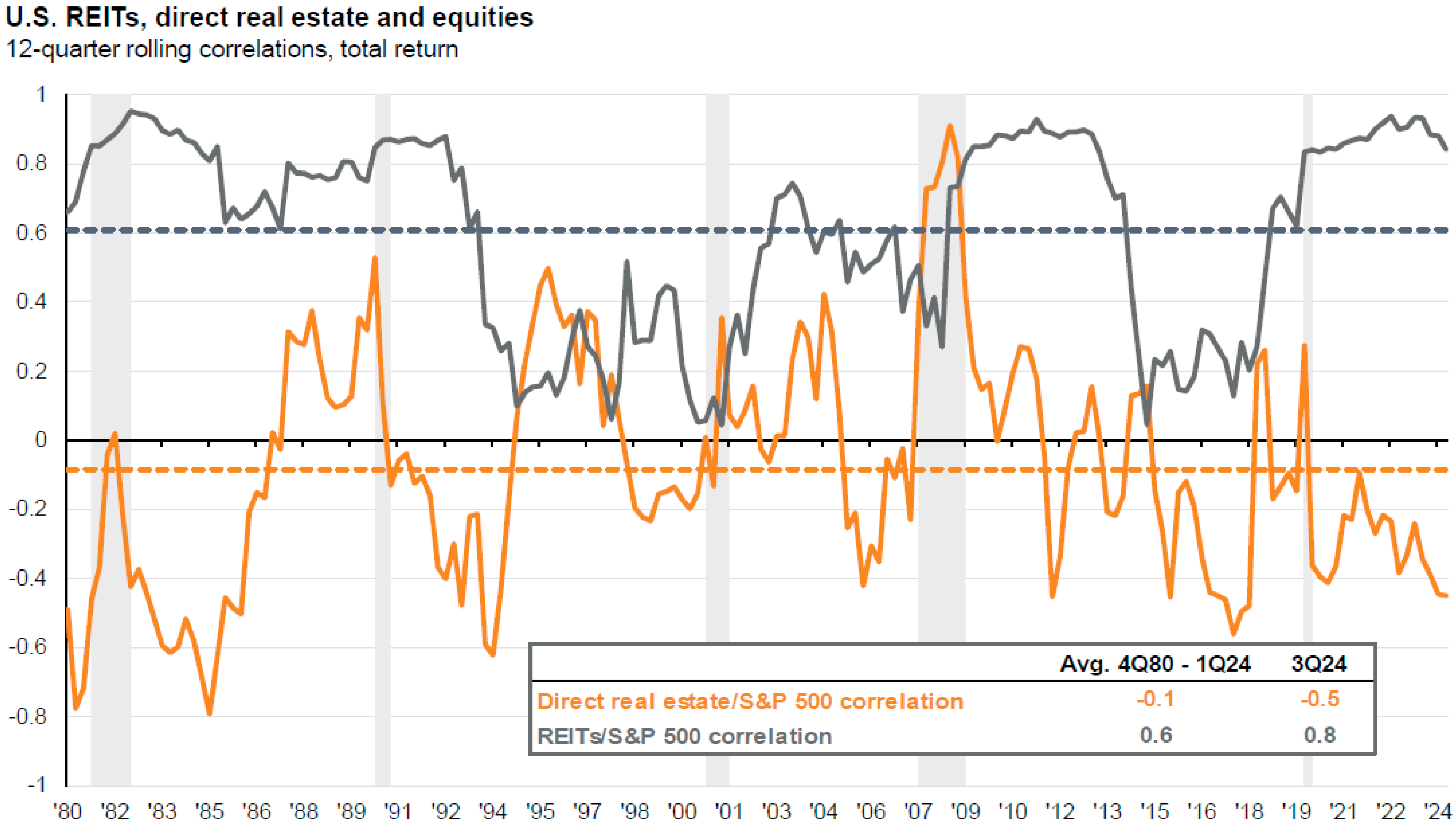
10-year correlations and 10-year annualized total returns, 3Q14 – 2Q24



Notes: Burgiss, Cliffwater, FactSet, Gilberto-Levy, BFRI, MSCI, NCREIF, J.P. Morgan Asset Management. Correlations are based no quarterly returns over the past 10 years from 3Q14-2Q24. A 60/40 portfolio is comprised of 60% stocks and 40% bonds. Stocks are represented by the S&P 500 Total Return Index. Bonds are represented by the Bloomberg U.S. Aggregate Total Return Index. 10-year annualized returns are calculated from 1Q14-4Q23. More information on indices and data used for alternative asset class returns and yields can be found via the citation below.

Source: JP Morgan Asset Management. (2025, January 2). Guide to the markets. https://am.jpmorgan.com/us/en/asset-management/institutional/insights/market-insights/guide-to-the-markets/ slide 54

Alternatives – Private & Public Real Estate – Correlations to S&P 500



Source: JP Morgan Asset Management. (2025, January 2). Guide to the markets. https://am.jpmorgan.com/us/en/asset-management/institutional/insights/market-insights/guide-to-the-markets/ slide 56

CliffsNotes (copied from above)

- U.S. stocks delivered strong returns, while other asset classes, including foreign stocks, bonds, and alternatives, showed more muted performance for diversified investors.
- Political regime changes have minimal predictive power for short-term stock market performance.
- Heading into the election, tax professionals expected major tax legislation before the end of calendar year 2025 if Republicans swept.
- Leading economic indicators are mixed, but the LEI index is trending upward for the first time in over two years.
- The U.S. stock market is dangerously concentrated, historically leading to subpar or negative 10-year forward returns.
- For all our caution on the S&P 500, not all US stock segments appear expensive. Small & value stocks remain reasonably priced vs. historical norms.
- Cycles of U.S. vs. foreign stock market outperformance are historically common.
- Foreign stocks are at historically low valuations, both at the index and sector levels.
- Valuation metrics, such as CAPE, are useful for long-term forecasting. Current extremes resemble the tech bubble of 2000, signaling potential poor 10-year returns for the S&P 500.
- Consecutive boom years like 2023-2024 offer no reliable basis for predicting future market performance.
- Term spreads turning positive support a cautious extension of bond portfolio durations, though spreads remain historically narrow.
- Credit spreads below historical averages keep the focus on investment-grade and government bonds, with some potential in high-yield bonds given low historical default rates and meaningful bankruptcy recovery rates.
- Contrary to common narratives, bonds have outperformed stocks in certain historical contexts, often when stock valuations are high, and yield spreads are negative. Current conditions favor bonds as an attractive risk/reward proposition.
- While alternatives may not match historical stock market returns (9–12% annually), their diversification benefits and institutional demand support their inclusion in portfolios.

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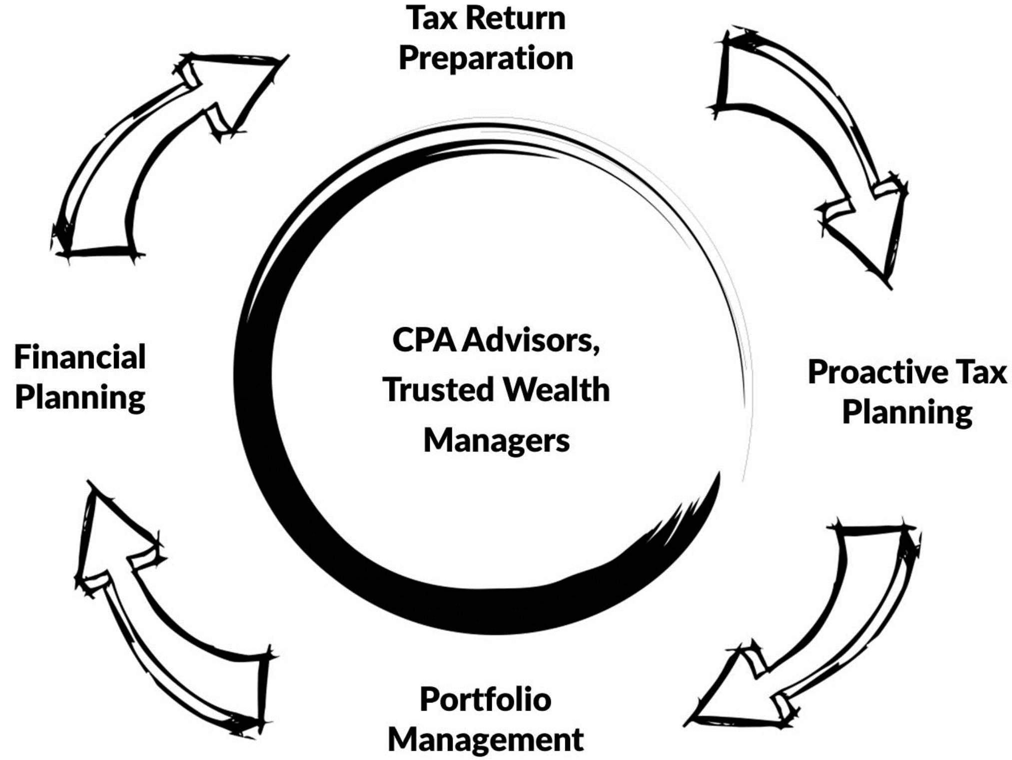
The FFG Difference

As committed fiduciaries, we leverage our institutional partnerships and industry leading research to implement a planning-driven investment approach focused on value investing. We prioritize long-term, steady growth and the mitigation of permanent losses over short-term gains. Above all, we are dedicated to putting our clients' interests first and always acting with integrity and transparency. These guiding principles help us navigate the complex financial world, meet and exceed our clients' needs, and provide the highest level of wealth management service, all while safeguarding our clients' financial futures.



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