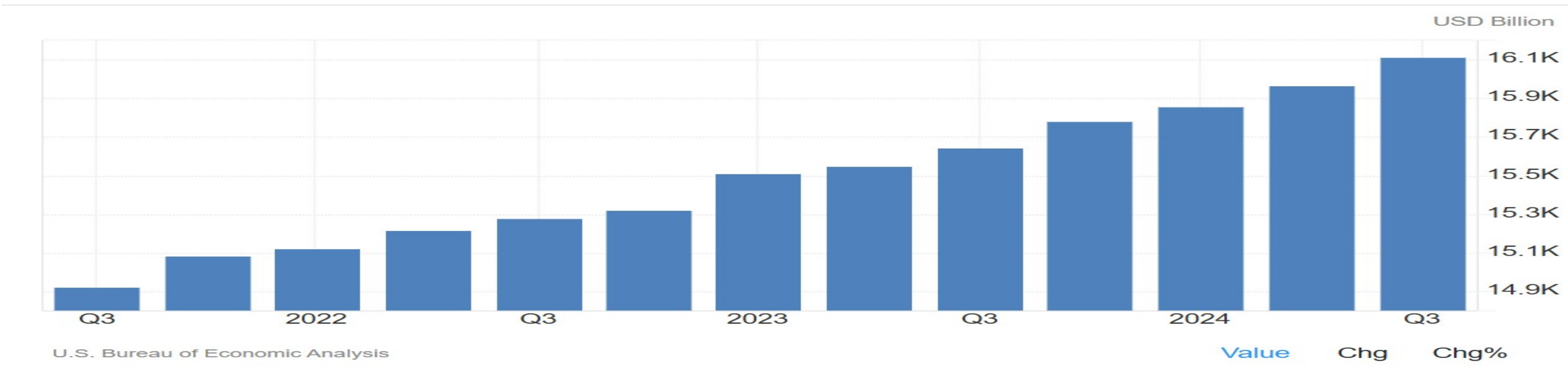
ECONOMIC AND INVESTMENT OUTLOOK
Winter 2025

The Economy the U.S. economy has made significant progress toward a soft landing. U.S. real growth has slowed to a still-robust rate of 2.7% on a year - over-year basis. Inflation has eased to 2.7% and excluding housing it is even lower at 2.1%. While inflation still remains above the Fed's 2% goal, it has eased enough to allow the Fed to start cutting its policy rate. The Federal Reserve will most likely make cuts of .25 basis points at its next meeting, going forward we would expect them to watch the data closely.

Sales and Spending Motor Vehicles and e-commerce accounted for almost all of the 0.7% November gain in retail sales. Vehicle sales are showing unusual strength for this time of the year, with a 1.8% gain in October and a 2% jump in November. The strength in ecommerce sales was impressive since Cyber Monday sales got pushed into December this year because of the late Thanksgiving. This indicates that consumers are not pulling back yet, which bodes well for retail spending going into 2025. Still high interest rates on consumer loans will likely continue to dampen lower-income households spending power. (See chart: Consumer Spending 3 Year)



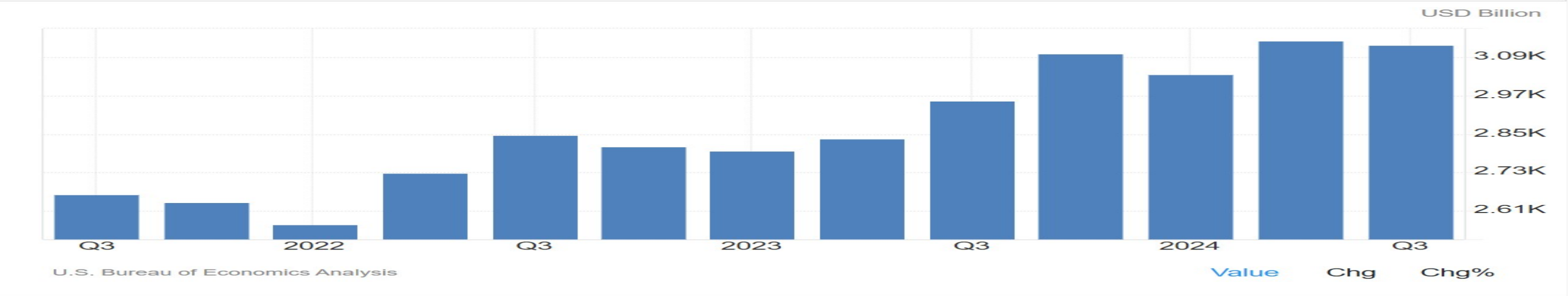
Inflation remained stuck for the second month, ticking up to 2.7% in November and remaining at 3.3% for the third month in a row, excluding food and energy. Used car prices are no longer decline, but rising as well as new vehicles prices have seen a bump up. The prices of groceries rose 0.5%, their largest rise in two years. On the plus side, shelter costs are flat, and this looks to continue to ease going forward. If those monthly improvements continue this fall, then expect the annual inflation rate to show a significant move towards the Fed's target of 2% to 2.5% in the early months of 2025.

Monetary Policy The federal funds rate is the most powerful tool in the Federal Reserve's monetary policy toolkit. Monetary policy is controlled by a nations central bank, in the U. S. it's the Fed. We expect the Fed to continue its path to normalization by cutting rates in a controlled manner.

Fiscal Policy In the aftermath of US elections we expect fiscal policy to have a significant effect on the U.S. economy given the potential for lower US corporate tax rates and domestic-friendly policies. And these policies stand a better chance of passing with unified control of the White House and Congress.

The Dollar We expect_the US economy to outperform other economies. The dollar is quite strong. Our outlook for the euro area was already subdued since the European economy has slowed significantly in recent months, and the situation now looks even more precarious. China growth continues to suffer, and while both monetary and fiscal easing are in train, more will be needed in our view.

Corporate Profits in the United States rose from previous period compared to the preliminary estimate of flat results in the previous period. On a year-over-year basis, corporate profits rose by 5.9%, down from an earlier estimate of 6.4% (See chart: Corporate Profits 3 Years)



MARKETS

Uncertainties, The United States inflation problem creeping back, the Ukraine / Russian war and the possible of an Israeli war with Iran.

Positives Looks like inflation is declining as well as prices on consumer goods. Brisk consumer spending and the hope of the Federal Reserve continuing to reduce rates.

Negatives Possibility of economic slowdown coming and the risk of the Federal Reserve does not lower rates. Mortgage rates are staying high on average.

Interest Rates the Federal Reserve cut short-term interest rates by a quarter-point on December 18, but it also threw the financial markets into a tizzy by reducing their expected rate cuts in 2025 from four to two. Expect future rate cuts to be only a quarter point unless the economic situation worsens. The forecast was significantly less optimistic than the Fed's previous inflation forecast released at its September meeting. Yet, Chair Powell himself appears to still be optimistic that inflation will continue to trend down in 2025 and 2026. This should go on through 2025 making mortgage rates, home loans and car loans much more attractive to consumers.

Common Stocks The S&P 500 finished the year up over 23%. More stocks are participating in the S&P 500's latest march to record highs, easing concerns over a rally that had been concentrated in a handful of giant technology names for much of 2024. The S&P 500 had a brilliant start, a saggy middle and then a flat thud. The broad-based index blazed through the gates right from the start of 2024. The market in the final quarter of 2024 limped forward just 2%. The Santa Clause rally never came but a gain is a gain. That said, a relatively weak end to the year wasn't enough to derail the ascent of the S&P 500 in 2024. Artificial Intelligence stocks were behind much of 2024's gains and look to them this year as well. But uncertainties await the markets this year. Investors will have to contend with the incoming Trump administration's policies, possibly higher-than-expected rates for the year, which in turn are keeping Treasury yields elevated, among other headwinds. As always will remain patient and stick to the long-term plan as we navigate this global market.

January 10, 2025