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Investment Committee Review

Outlook Q1 2025

SS&C ALPS Advisors is an open architecture boutique investment manager offering portfolio building blocks, active insight and an unwavering drive to guide clients to investment outcomes across sustainable income, thematic and alternative growth strategies.

Asset Class Reviews

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Introduction

2024 Review

Risk assets posted positive returns across sectors in 2024, led by solid double digit returns to US equities of approximately 25%. The Federal Reserve (Fed) implemented its third rate cut of the year in December, but fears of inflation re-igniting in 2025 drove longer duration bond yields higher, keeping a lid on fixed income returns. Public real estate started to recover in the second quarter and enjoyed strong returns until late in the year when treasury yields impacted stocks negatively in December. Commodities were modestly positive after seeing negative returns in 2023.

2025 Outlook

Executive Summary

We believe the economy and the job market show signs of softening, but GDP should continue to grow through 2025. The Fed's rate cuts in the second half of 2024 reflected some concern of further weakness in the job market. Fears of inflation rearing its ugly head again dampened returns late in 2024 and could cause the Fed to pause or lengthen its easing cycle.

Equities

The stock market delivered strong returns in 2024, with the S&P 500 and Nasdaq 100 Indexes both gaining 25% annual returns, driven initially by artificial intelligence (AI)-fueled technology growth and later by interest rate-sensitive sectors benefiting from lower rates. Elevated valuations and higher debt refinancing costs warrant a cautious approach in 2025, favoring low-volatility stocks and quality investments over highly leveraged companies. With accommodative monetary policies, a weakening dollar and stimulus from China, international and emerging markets offer attractive opportunities, but diversification and risk management will be critical in navigating the evolving economic landscape.

Fixed Income

The US bond market delivered mixed performance in 2024, as initial gains from Fed rate cuts were offset by post-election concerns over fiscal policies and inflation, leading to losses in long-duration Treasuries while short-duration and high-yield sectors outperformed. The Fed projects only two rate cuts in 2025, citing persistent inflation and fiscal spending risks, while the un-inverted yield curve signals a regime shift that favors intermediate-duration bonds and supportive monetary policy. We continue to believe investors can be well served by actively managed fixed income. We recommend diversification away from treasuries, selectively extending duration, a focus on higher quality credit across sectors and taking advantage of attractive valuations in asset-backed securities and municipal bonds.

Real Estate

Real Estate Investment Trust (REIT) returns declined in Q4 2024, with Data Centers and Lodging outperforming and Cell Towers, Industrial and Self Storage underperforming. Improving fundamentals, such as lower vacancies and Fed rate cut expectations, have renewed investor interest, though valuations remain below pre-COVID-19 levels despite signs of recovery. Looking forward, we expect REIT returns to be driven primarily by earnings growth and would not be surprised to see an uptick in merger and acquisition (M&A) activity, as REITs generally have strong balance sheets and a relatively low cost of capital.

Commodities

Commodities delivered mixed performance in Q4 2024, with industrial metals lagging and livestock leading, while energy markets were stable. Rising United States-China trade tensions, a stronger US dollar and potential tariffs pose downside risks, particularly for industrial metals, though energy markets could see upside risk from geopolitical instability in the Middle East. Despite recent pauses in precious metals' growth, protectionist policies may support central bank purchases, but overall, near-term risks and volatility warrant a cautious outlook.

Summary

We continue to believe investors should remain fully invested at target allocations. In equities, we prefer quality, dividend paying stocks and see an opportunity in international equities. For fixed income allocations, we would selectively extend duration and take advantage of sectors with attractive valuations. We believe returns in REITs should closely mirror earnings growth plus dividend yield going forward. We are cautious on commodities in the short-term but remain constructive over the long-term due to supply constraints.

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Macro Summary

Liquidity Cycle

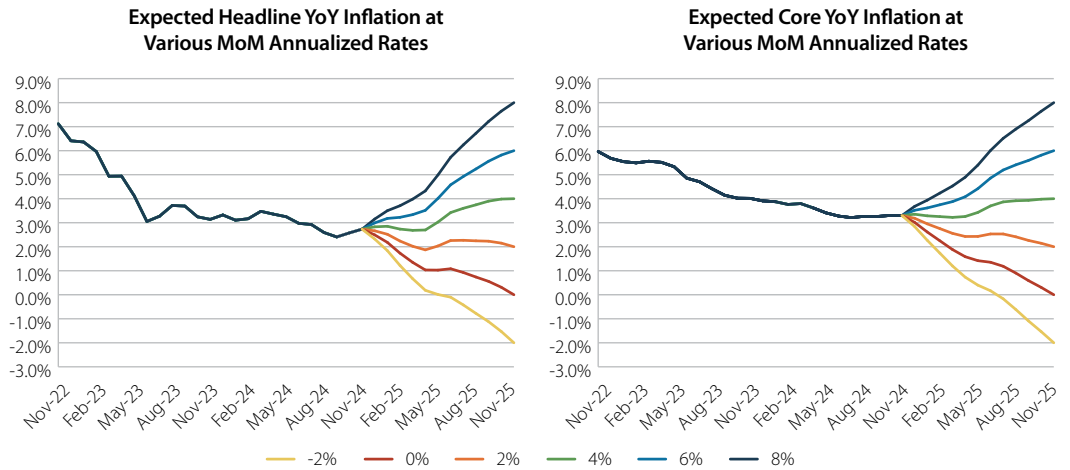
Equities climbed again in Q4 2024 through mid-December. After lifting in Q3, Core Bonds struggled as economic data in October and November surprised to the upside. The better economic data closed the door for consensus on the growth scare in Q3 and the Fed continued lowering their benchmark rate to the tune of 100 basis points (bps) cumulatively since September. The US election was decisive, reducing temporary asset price uncertainty into the end of the year and launching a rally in small caps, cyclicals and the US dollar.

US financial conditions are great and appear to be moving slowly off their highs made in February of 2024. Stocks near all-time highs and credit spreads near all-time tights are contributing to the blissful state. The US dollar strength mentioned above poses a potential problem for high earnings expectations, liquidity conditions and asset prices if it continues unabated. The US Treasury General Account has had a positive impact on liquidity conditions during Q4, offsetting the Fed's quantitative tightening (QT) in the background. Meanwhile, the Fed's Reverse Repurchase Facility has continued its steady descent from \$465 billion to \$98 billion on the quarter as of mid-December, as investors continue to chase risk assets from large cash positions.

Inflation Cycle

In November, headline inflation month-over-month came in at +0.31%, a touch higher than the rates seen in Q3. As we have discussed all year, inflation is likely to slow to the Fed's target. In fact, the 6-month average month-over-month headline Consumer Price Index (CPI) is running at 2.06% on an annualized basis.

Our outlook for 2025 is for headline inflation to remain between 2% and 3% and core inflation to remain between 2.5% and 3.5%. The tax and international trade policies of the incoming Trump administration are currently viewed by consensus as pro-growth and potentially inflationary. While there is some microeconomic evidence for tariffs influencing goods prices, the macroeconomic evidence from the 2018-2019 trade war with China showed the price increases to be roughly equally offset by Chinese currency devaluation versus the US dollar. Furthermore, the administration's immigration policy may have a short-term negative effect on the United States working population growth, a key component of growth and price inflation.



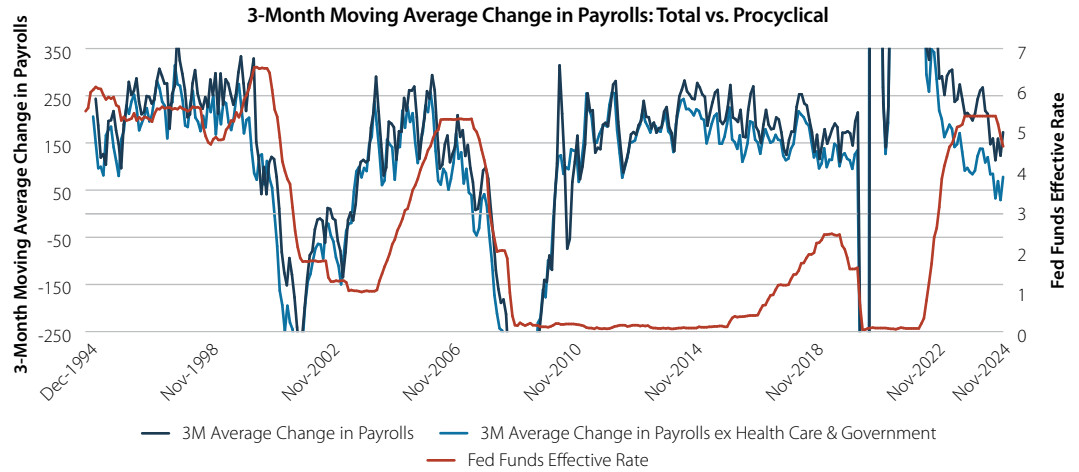
Source: Bloomberg, 11/30/2022 – 11/30/2025
 Headline Inflation represented by the Consumer Price Index (CPI) and Core Inflation represented by the Personal Consumption Expenditures Price Index (PCE).

Growth Cycle

Over the last six months we have written on the topic of growth of the US consumer and labor markets, noting that these two driving forces for US economic growth may be finally softening from their remarkable runs over the last several years. Real-time data of US economic growth shows we are not currently in a downturn, reminding us we are amid a soft landing. However, all hard landings start soft, so we continue to keep an eye on the possibility for slowing economic conditions.

As mentioned last quarter, job openings have fallen below the pre-COVID-19 Pandemic trend line and the unemployment rate reached a level in May of 2024 that was equivalent to the Fed's real-time consensus expectation for the end of 2024. The rapid pace of cooling in the job market in 2024 and its significant downward revisions made by the Bureau of Labor Statistics (BLS) in August are likely what led the Fed to continue cutting rates into year-end.

We continue to look at the internals of the Nonfarm Payrolls (NFP) reports for clues. As shown in the chart below, the three-month average of payrolls (excluding Government and Health Care) has been hovering in pre-recession territory for four months. The ongoing softening of the job market leaves us content with a full bond allocation, as the probability of a mild recession in the US economy in the next three to nine months remains higher than our estimates last year. We would like to see a monthly payrolls recovery in cyclical sectors to convince us that this income-led economic growth will continue strong into 2025.



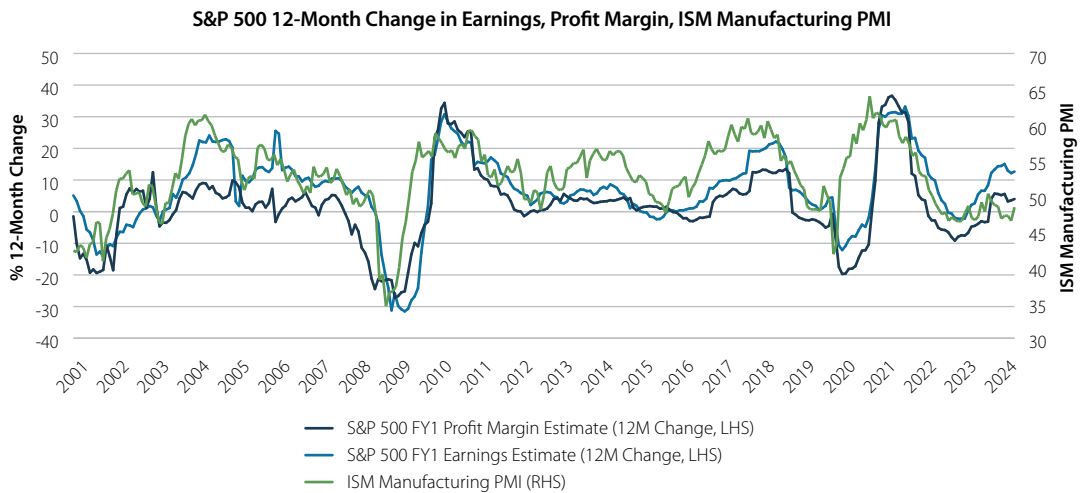
Source: Bloomberg, SS&C ALPS Advisors Proprietary Research, as of 11/30/2024

Profit Cycle

A continuation of earnings growth remains anticipated by consensus estimates, with S&P 500 Index earnings per share for 2025 expected to be 14% higher than current earnings. However, beginning in September, forward earnings per share estimates had been revised lower by 2%. While the profit cycle remains modestly positive, we continue to look for effects of the softening macroeconomic environment.

Notably, the US Dollar Index has advanced nearly 8% in Q4 against its basket of trading currencies. To the extent this continues, earnings for the largest firms may need to be revised lower again. The self-reflexivity of lower revisions on the US equities risk appetite of international investors and global tariffs on a stronger US dollar is a possible tail risk scenario that could destabilize an otherwise modestly positive profit cycle.

We also remain acutely focused on the profits from recent capital expenditures in AI. The demand for bottlenecked AI chips and orchestration software is profound. To the extent profitable demand manifests outside of the current data center buildout, the investment theme may continue to carry the profit cycle forward in this mid- to late-cycle macroeconomic environment.



Source: Bloomberg, as of 11/30/2024

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Equities Summary

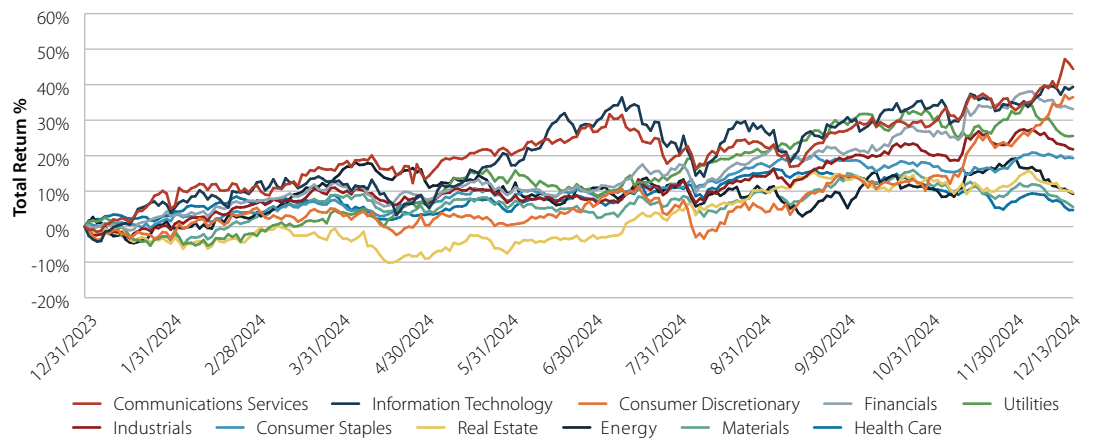
2024 Review

The stock market delivered another stellar year, marking the second consecutive year of robust returns across major indices. The S&P 500 and Nasdaq 100 Indexes both gained 25% annual returns, while the Dow Jones Industrial Average Index climbed nearly 15%. 2024's market performance was defined by two distinct narratives driving returns, creating a dynamic and shifting landscape for investors.

In the first half of the year, the rally was heavily technology-driven, building on the momentum from the 2022 market bottoms. This surge was fueled by growing excitement surrounding AI advancements, which spurred a wave of optimism and significant capital inflows into the tech sector. The enthusiasm for AI-driven innovation captured investor imagination, bolstering the performance of major technology companies and driving indices higher.

The second half of the year, however, told a different story. The focus shifted to more interest rate-sensitive sectors and smaller-cap companies. This rally was initially ignited by a cooling inflation report, which signaled a potential easing of economic pressures. Later in the year, the Fed's decision to set lower interest rates provided additional tailwinds, particularly for sectors such as Financials, Utilities and Consumer Discretionary. These developments helped broaden market participation beyond the technology-heavy gains of the earlier months.

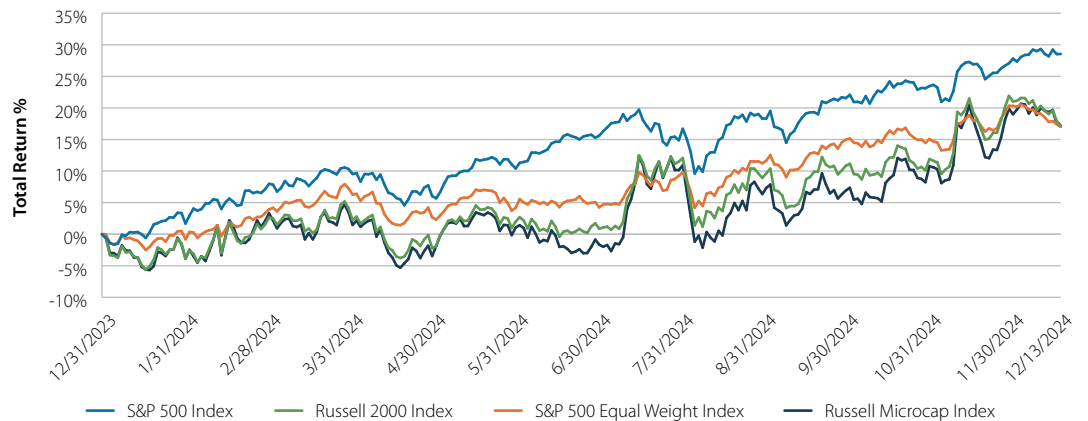
S&P 500 Returns by Sector



Source: Bloomberg, 12/31/2023 – 12/13/2024

Past performance is no guarantee of future results.

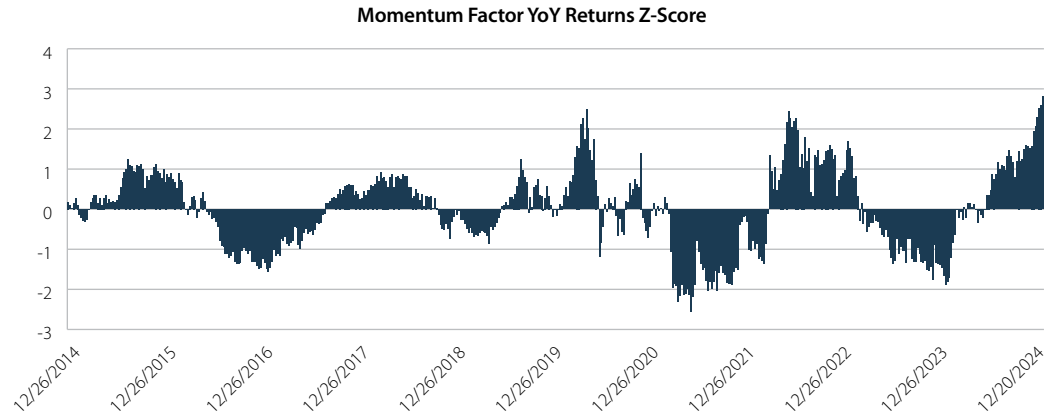
Returns by Market Cap



Source: Bloomberg, 12/31/2023 – 12/13/2024

Past performance is no guarantee of future results.

A unifying theme across both halves of the year was the extraordinary performance of the momentum factor, which had one of its strongest years in history. The MSCI USA Momentum Index, a benchmark that tracks stocks with strong recent performance trends, reflected this shift. At the start of 2024, the Index had over 50% of its weight allocated to Technology companies, riding the wave of AI enthusiasm. By year-end, the sector allocation had shifted significantly, with Technology comprising approximately 25% and Financials rising to nearly 25%. This rotation underscored the evolving market dynamics and adaptability.



Source: Bloomberg, MSCI USA Momentum Index, 12/26/2014 – 12/20/2024

2025 Outlook

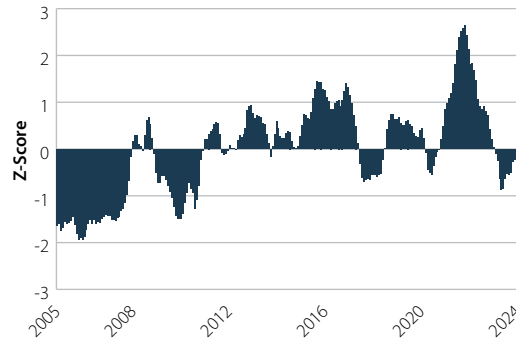
The election win and incoming presidency of Donald Trump have sparked a post-election rally, partly driven by memories of strong market performance during Trump’s first term. However, it is essential to recognize that the starting points for 2025 and 2017 are fundamentally different. When Trump began his first term in 2017, the forward price/earnings (P/E) ratio of the S&P 500 Index stood at approximately 17x. Today, that valuation has climbed to just over 22x—a nearly 30% higher multiple. These elevated valuations are also more broadly distributed, as the accompanying chart illustrates the relatively normal gap between the top quantile of expensive stocks and the median valuation.



Source: Bloomberg, 12/31/2004 – 11/30/2024

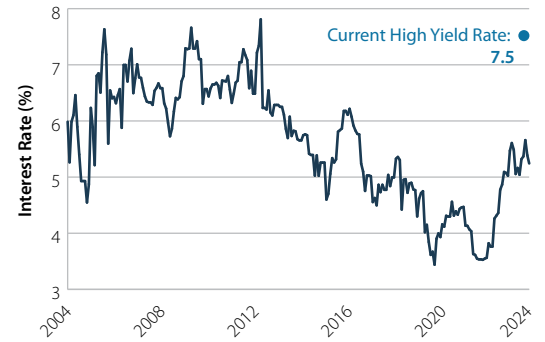
While the Fed has recently initiated a series of rate cuts, we remain cautious about highly leveraged companies. Even in a more favorable interest rate environment, these companies often fail to offer significant value due to the higher cost of refinancing their debt. We anticipate that upcoming debt maturities and refinancings will lead to increased overall interest payments, as highlighted in the accompanying chart.

Z-Score Valuation Spread Between Top and Bottom Quantiles Based on Leverage



Source: Bloomberg, Bloomberg US 1000 Index, 11/30/2005 – 11/30/2024; leverage is the net debt/trailing twelve month earnings before interest, taxes, depreciation and amortization (EBITDA)

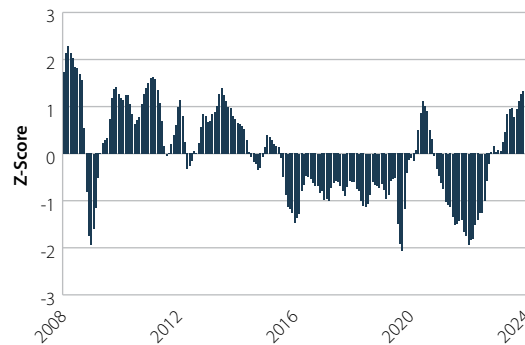
Median Interest Rate for Companies with Interest Coverage < 2



Source: Bloomberg, Bloomberg US Corporate High Yield Bond Index, 12/31/2004 – 11/30/2024, yield-to-worst

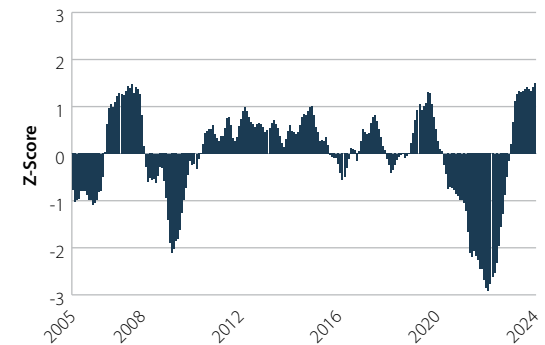
While we expect margins and earnings to grow across the broader equity market, the elevated valuations call for a more cautious approach. In this environment, we see a compelling opportunity in low-volatility stocks compared to growth stocks, as they offer a more advantageous starting point as illustrated in the accompanying charts. Growth stocks appear increasingly expensive, while low-volatility stocks are relatively more attractively priced, presenting a better risk-reward profile for investors seeking stability and value.

Z-Score Valuation Spread Between Top and Bottom Quantiles Based on Volatility



Source: Bloomberg, Bloomberg US 1000 Index, 11/30/2008 – 11/30/2024; volatility is the standard deviation of 36-month price changes

Z-Score Valuation Spread Between Top and Bottom Quantiles Based on Growth



Source: Bloomberg, Bloomberg US 1000 Index, 11/30/2005 – 11/30/2024; growth is the trailing twelve month revenue growth

Our base case outlook suggests relatively accommodative conditions for equities. Monetary policy is now more aligned with fiscal policy, creating a supportive environment for economic growth. With lower interest rates, we continue to promote international and emerging markets. Historically, US rate-cutting cycles have allowed emerging markets to reduce their own rates and stimulate growth. Additionally, we expect the US dollar could weaken to support President Trump’s desire to close the import/export gap. Combined with recently announced stimulus policies from China, we believe this will create fertile ground for returns outside the US.

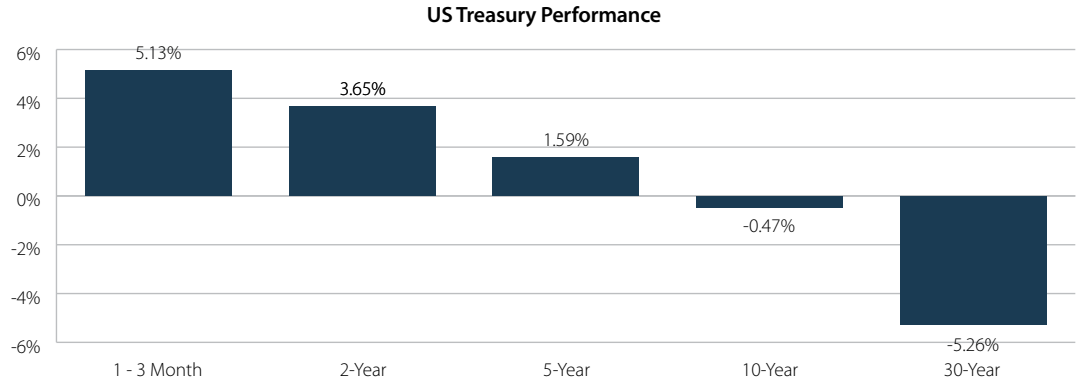
In conclusion, while the incoming Trump administration has sparked optimism in the markets, the elevated starting valuations and evolving economic landscape call for a measured and diversified approach. Lower interest rates, aligned monetary and fiscal policies and supportive global dynamics provide a favorable backdrop for equities, particularly in international and emerging markets. However, balancing these opportunities with caution around leveraged companies and high valuations will be key to navigating the complexities of 2025. A focus on quality investments, low-volatility stocks and global diversification remains essential for capturing growth while managing risk.

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Fixed Income Summary

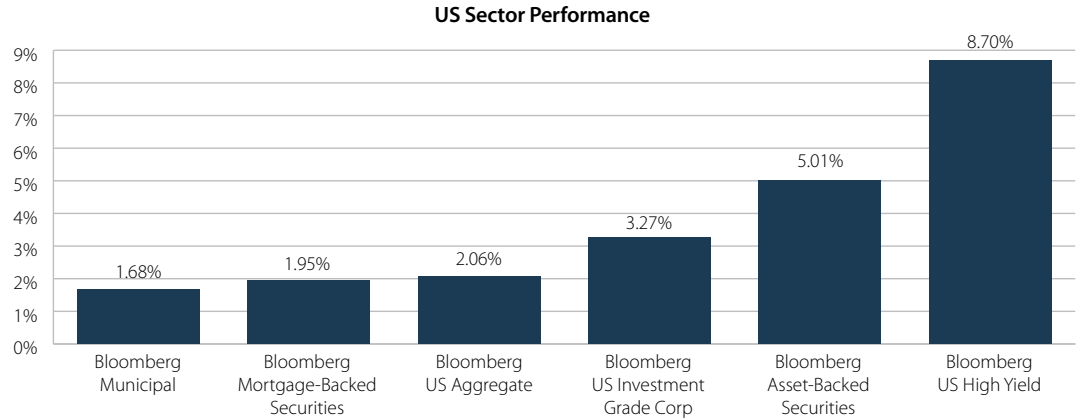
2024 Review

The US bond market delivered mixed performance in 2024. Despite the Fed embarking upon a series of 25 bps rate cuts in the second half of the year, the core bond market posted only modest returns. Bond yields initially declined when the Fed's first rate cut began in the summer but have since given back some of its gains after the national election. There is renewed speculation that changes to fiscal and tax policy could reignite the economy (and inflation) which would slow the pace, or existence of future rate cuts in 2025. As a result, longer duration Treasuries have suffered losses while short-duration sectors which are less sensitive to rates, such as high yield, continued to outperform, as shown in the nearby charts.



Source: Bloomberg, year-to-date total returns, as of 12/17/2024

Past performance is no guarantee of future results.



Source: Bloomberg, year-to-date total returns, as of 12/17/2024

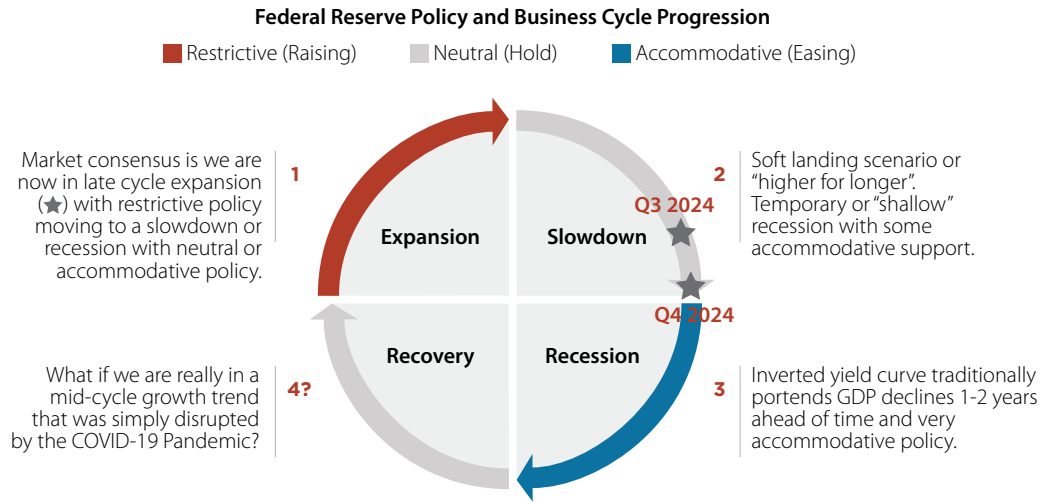
Past performance is no guarantee of future results.

Policy Analysis and 2025 Outlook

The Fed continues to aim for a “soft landing” for the economy. The decision to lower rates aligns with data showing a modestly slowing economy, with unemployment having bottomed a year earlier and inflation trending lower. However, the Fed acknowledged that “stickier” inflation persists, especially in service sectors such as housing and rental markets. Combined with uncertain growth and inflation impacts of the Trump administration’s fiscal policies, the Fed has increased its estimate of inflation to 2.5% for 2025. This remains higher than its 2% goal and pared its rate cut estimate for 2025 to only two more cuts.

For the Treasury markets in particular, concerns over the level of fiscal spending and national debt management present a challenge for policymakers. While these factors may elevate economic risks and increase volatility in fixed income markets, they could also create opportunities for actively managed strategies.

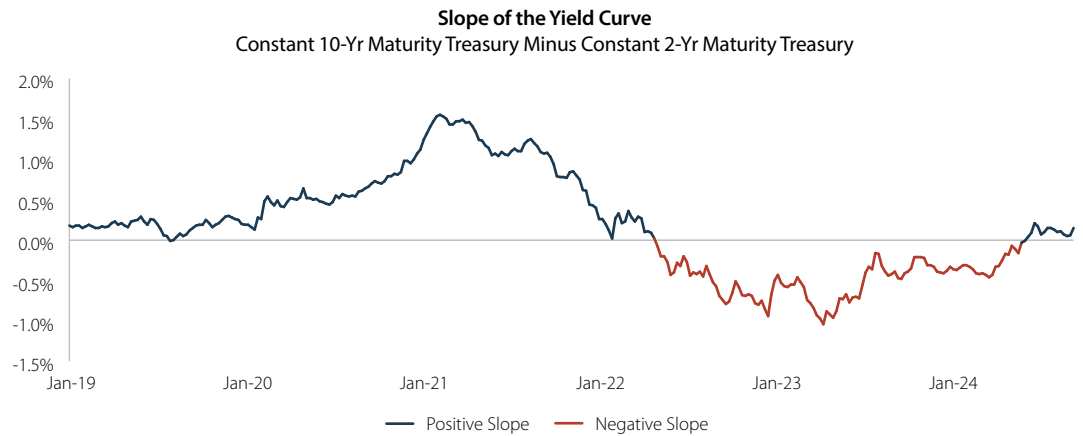
We view the risks of policy error as it relates to inflation and growth risks as roughly balanced and maintain a constructive outlook for fixed income in 2025. The transition of the business cycle, paired with a clearer shift in monetary policy forms the foundation for our outlook, as depicted in the nearby chart.



Source: SS&C ALPS Advisors Proprietary Research
For Illustrative Purposes Only

Yield Curve

A notable signal of regime change is the recent shift in the yield curve, which has un-inverted, meaning it is now positively sloped (as measured by the spread between the 10-year and 2-year Treasury yields).

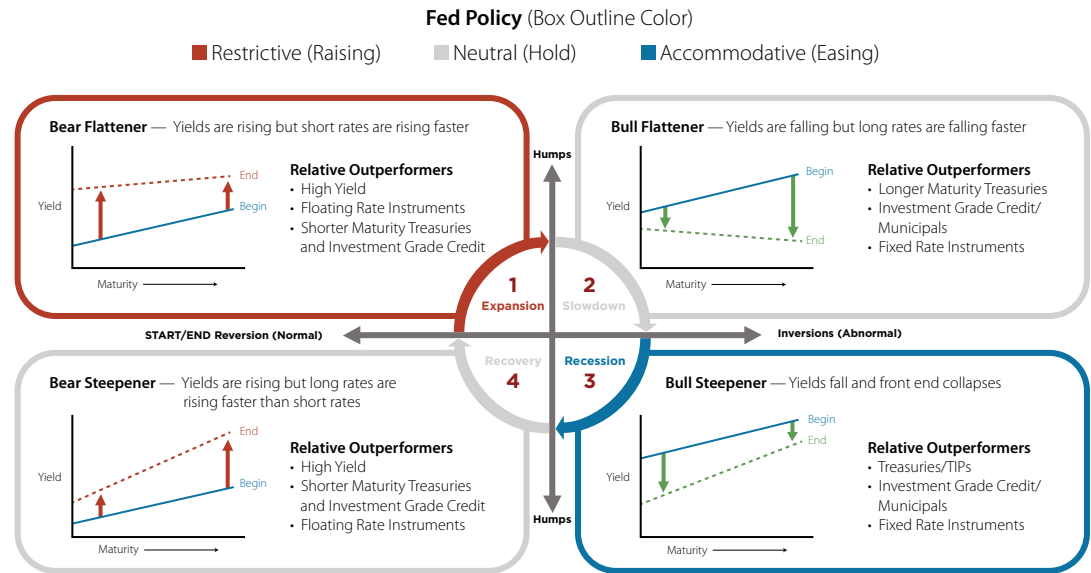


Source: Federal Reserve Economic Data-FRED, 10-Year Treasury constant maturity minus the 2-Year Treasury constant maturity yield, 1/23/2019 – 12/18/2024

This yield curve shift has impacted investor preferences, with many seeking higher yields further along the curve. Historically, core intermediate bonds have performed best when the yield curve is positively sloped and when monetary policy is deemed supportive. The Fed’s anticipated rate cuts for 2025 reinforces this trend. Moreover, the long-term flows into fixed income continue to serve as a potential hedge against equities.

Positioning

Historically, fixed income has generated positive returns in late business cycle phases, as seen in Quadrant Three below. Fixed-rate, high-quality investments tend to perform well in a slowing economy, while floating-rate, short-term and high-yield assets often struggle until a sustainable recovery takes hold.



Source: SS&C ALPS Advisors Proprietary Research
For Illustrative Purposes Only

Recommendation – Actively Strengthen Your Core

It is important for bond investors to recognize that shifts in policy and market sentiment generally lead to higher volatility, and to adjustments within a risk-conscious framework. Even if a recession is avoided, slower trend growth supports a favorable environment for fixed income.

However, in the current environment—marked by rising debt loads in Treasury sectors—we believe that the market-weighted Bloomberg US Aggregate Bond Index does not adequately reflect the bond market’s risks and opportunities. The Index is heavily skewed towards US government-related debt, representing two-thirds of its composition, and certainly does not capture the benefits of active sector diversification.

We feel it is a prudent time to **Strengthen Your Core with Active Management**. We recommend the following actions as market conditions allow:

- **Selectively extend duration** into the Core (Intermediate sectors).
- **Upgrade in Credit Quality**, even within High Yield allocations.
- **Shift into sectors with better valuations**. Our favorites would be high quality (AAA/AA) **Asset-Backed Securities (ABS)** and **Investment Grade Municipal Bonds**.
- **Maintain diversification** and avoid getting over-weighted in US Treasuries as volatility is likely to continue, especially heading into the Debt Ceiling events of early 2025. We do favor a slight overweight in **Agency Mortgage-Backed Securities (MBS)** in the intermediate part of the yield curve.

Though risks remain for fixed income investors in the coming year, higher short-term rates are unlikely to be among them. In this transitional environment, active management is increasingly likely to add value to an overall asset allocation strategy.

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Real Estate Summary

Fourth Quarter Review

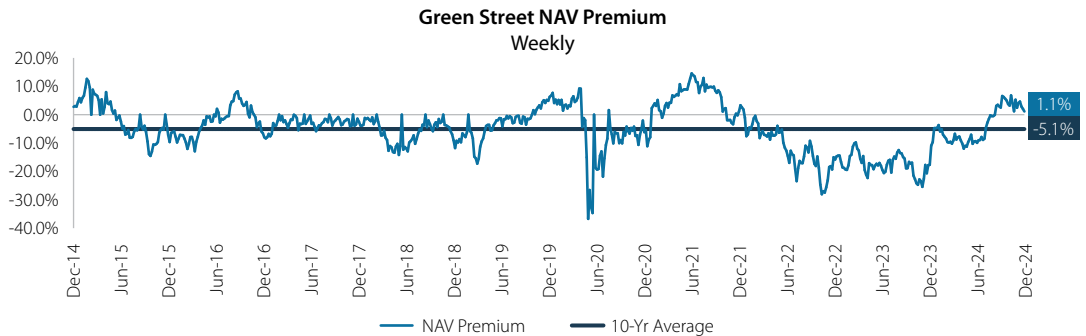
REIT returns moderated in Q4 2024, with the FTSE NAREIT All Equity REITs Index returning -4.37% quarter-to-date (QTD) and 10.37% for the prior twelve months. Data Centers (11.47% QTD), Lodging (7.73%) and Office (3.76%) sectors outperformed while Cell Towers (-14.50%), Warehouses/Industrial (-12.37%) and Self Storage (-12.17%) sectors lagged.

Lower vacancies, improving cost structures, net operating income (NOI) growth and Fed rate cut guidance are generally favorable catalysts that have renewed investor interest in real estate. Overall, REITs appear to be emerging from the negative sentiment of work-from-home and its impact on record levels of commercial office space vacancies.

REIT Indices	QTD	YTD	1 Year
	10/1/2024 - 12/15/2024	1/1/2024 - 12/15/2024	12/16/2023 - 12/15/2024
FTSE NAREIT All Equity REITs	-4.37	9.24	10.37
REIT Sector Indices:			
Residential			
FTSE NAREIT Equity Residential	-2.14	15.23	16.01
Retail			
FTSE NAREIT Equity Retail	0.33	18.41	17.96
Lodging			
FTSE NAREIT Equity Lodging/Resorts	7.73	2.42	5.44
Office			
FTSE NAREIT Equity Office	3.76	26.92	24.69
Industrial Warehouses			
FTSE NAREIT Equity Industrial	-12.37	-13.48	-13.65
Technology - Cell Towers and Data Centers			
FTSE NAREIT Infrastructure REITs	-14.50	-8.57	-6.41
FTSE NAREIT Equity Data Centers	11.47	29.14	30.13
Health Care			
FTSE NAREIT Equity Health Care	-4.06	27.20	27.57
Self Storage			
FTSE NAREIT Equity Self Storage	-12.17	5.33	10.19
Diversified			
FTSE NAREIT Equity Diversified	-8.40	-7.02	-6.05
Specialty			
FTSE NAREIT Equity Specialty	-5.07	42.96	45.38

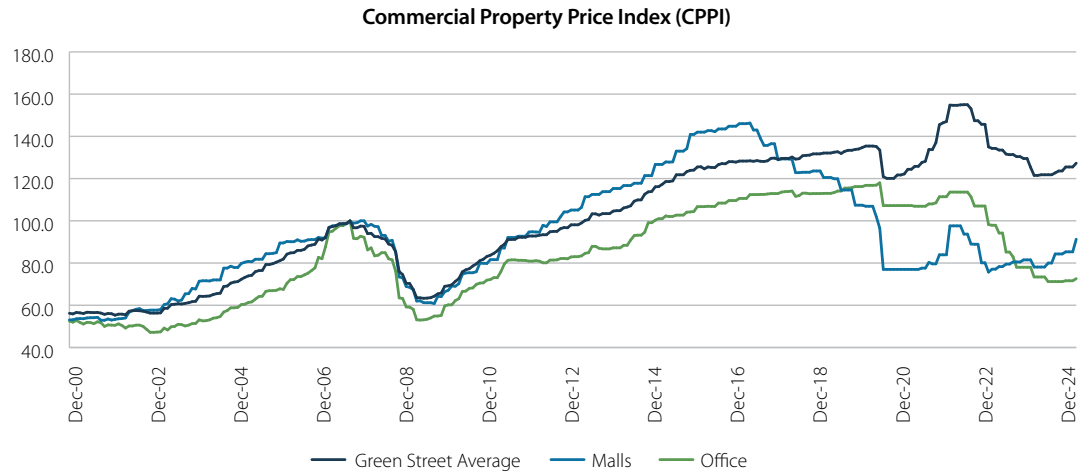
Source: Morningstar, as of 12/15/2024, returns presented are total return
Past performance is no guarantee of future results.

REIT net asset value (NAV) premiums also moderated, with QTD values at +1.1%, a sharp contrast to persistent discounts during 2021 through 2023.



Source: Green Street, as of 12/15/2024

According to the Green Street Commercial Property Price Index (CPPI), REIT valuations overall, as well as those of the beleaguered Office and Mall sectors, appear to have bottomed as office and mall fundamentals continue to improve.



Source: Green Street, as of 12/15/2024

First Quarter Outlook

Easing inflation and a potential rate-cutting cycle provide favorable tailwinds for REITs in the near-term. In addition, we expect REITs to continue their path of normalization where earnings growth is the primary driver of investment performance. However, a slowing economy could provide headwinds for sectors related to discretionary spending.

Commercial properties recovered almost 5% in 2024. Although pricing levels remain below pre-COVID-19 peaks, we anticipate valuations to improve as managers continue efforts to enhance occupancy rates, cost structures and earnings growth.

We anticipate an uptick in real estate M&A as REITs with strong balance sheets and low cost of capital could benefit from key current market conditions including:

- It is typically cheaper to buy properties than to build from zero.
- Upcoming debt maturities, especially in private real estate, could spur transactions, benefitting well-capitalized REITs.

Overall, we maintain a market weight for REITs overall and for major sectors, with an unfavorable outlook for Lodging, Industrial and Self Storage sectors.

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Commodities Summary

Fourth Quarter Review

The commodity complex had a lackluster Q4 2024 as of mid-December, with -0.75% return, pulled negative primarily by industrial metals returning -4.8%.¹ Energy commodities held steady after a large decline in Q3, with +0.98% return for the sector and oil prices mostly trending sideways around \$70.² Precious metals were almost perfectly flat, registering +0.03% return, with some enthusiasm apparently leaking out of the sector after an incredibly strong year. Agriculture was slightly negative, with -1.77% return, and livestock was the top performer, with 6.6% return.

First Quarter Outlook

We are downgrading our broad commodities outlook to negative for the near-term. The US dollar appreciated 6.2% in the last quarter, in part due to expectations of protectionist trade policies by the incoming US presidential administration.^{3,4} While the translation from statement to policy can be a difficult calculation, the translation from a depreciating Chinese Yuan (CNY) to metals prices is more straightforward, as China accounts for more than 50% of industrial metals demand.⁴ We see expansion of the US-China trade war as one of the key risks facing commodity markets, as expansion of tariffs targeting Chinese goods would push down the CNY and make imports into China more expensive, potentially decreasing demand and prices for key industrial metals such as copper and nickel.⁴

While it seems unlikely that tariffs will be implemented to the full extent they have been telegraphed, it seems equally unlikely that the idea will simply evaporate. We anticipate increased volatility and downside risk as trade tensions escalate.

Energy

After a solid decline in Q3, energy markets have been relatively well behaved in Q4. Oil supply growth is still predicted to outpace demand in 2025, and the Organization of the Petroleum Exporting Countries (OPEC) continues to delay plans to reintroduce production that the cartel pulled from the market at the end of 2023.⁵

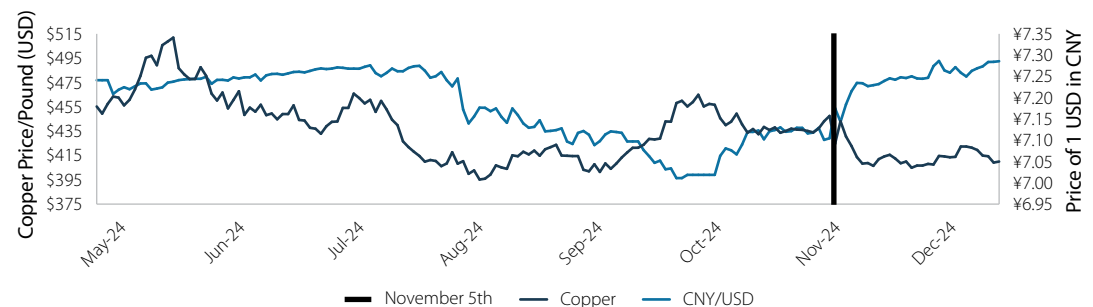
The Middle East finally saw a significant easing of tensions, as Israel and Hezbollah agreed to a ceasefire at the end of November.⁶ As Hezbollah was Iran's most powerful proxy, the ceasefire removes—at least temporarily—the specter of Israeli strikes on Iran's energy infrastructure and closure of the Strait of Hormuz. Iran seemed content with the deal, which lends credence to the idea that the Islamic Republic was overstretched, a hypothesis further supported by the fall of the Assad regime in Syria.^{7,8}

China's poor growth has been a continuous source of disappointment in oil markets, and the recent stimulus measures seem to have been largely ineffectual thus far.⁹ The Chinese Communist Party (CCP) convened in December to set their policy outlook for 2025 and acknowledged the need for additional stimulus, but we are not confident that they will be able to kick-start any significant turnaround in consumption in the near-term.¹⁰ The threat of US tariffs adds further downside risk to China's growth woes.

Industrial Metals

Industrial metals are the sector most likely to experience an outsized response to tariffs and other nationalistic trade policies targeting China, which accounts for >50% of industrial metals demand.⁴ The run up in copper prices in early October has been entirely undone, with prices settling back to where they were in September before the stimulus announcement.

The Results of the US Election Highlighted the Correlation Between the CNY/USD Exchange Rate and Copper Prices

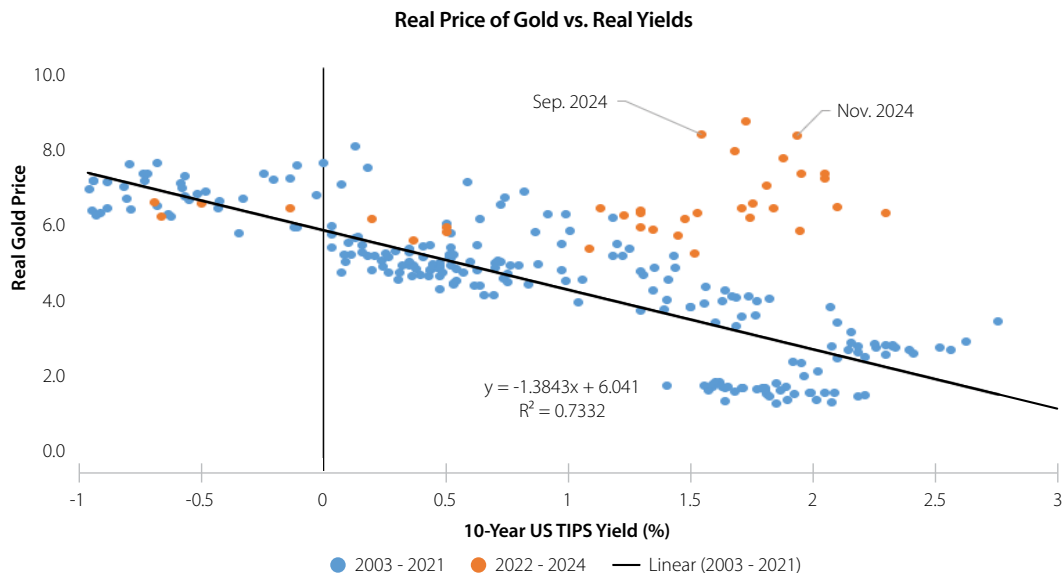


Source: Bloomberg, 5/1/2024 – 12/13/2024

If tariffs targeting China are implemented, depreciation of the CNY will likely push down prices for China’s raw metal imports like copper and nickel.⁴ While longer-term supply constraints are still a major concern in the industrial metals space, we think prudence dictates patience in the face of such obvious risks.

Precious Metals

Precious metals finally stalled their meteoric climb, as a strong US dollar, growth concerns and a pro-crypto administration seem to be tempering the recent optimism. After \$4.3 billion in inflows in October, which was the highest one-month total since March 2022, gold exchange-traded funds (ETFs) saw \$2.1 billion in outflows in November.¹¹ At the same time, the real price of gold is still elevated relative to real interest rates, and we remain concerned about a reversion to the longer-term trend.



Sources: Bloomberg, SS&C ALPS Advisors Proprietary Research, 1/31/2003 – 11/30/2024
Real gold price is calculated as the spot price of gold in USD divided by the same date’s CPI value.
The trend line and the regression formula displayed on the chart cover only the time period of 1/31/2003 – 12/31/2021.

This historically strong relationship has broken down in recent years, and reversion to the trend would require either a dramatic drop in real gold prices or negative real interest rates. One path to this outcome is through the sub-component of each variable—inflation. However, barring another global supply shock, resurgent inflation is not our base-case scenario.

On the positive side, protectionist trade policies and a more combative US administration may lead to an increase in central bank purchases, providing some measure of downside support.

Risks to Outlook

A key component of the commodities downgrade is the expectation of CNY depreciation, achieved through tariffs or other policies targeting trade with China, and the currency’s impact on industrial metals demand. The predictability of this outcome means it will also be easier to plan for, and the CCP may be able to take sufficient action through loose fiscal and monetary policy to compensate for the higher domestic price of imported metals.

Additionally, it seems unlikely the Trump administration will stick to policies that noticeably and directly damage the US economy. Tariffs will likely be more measured or more targeted (or both) than what has been circulated thus far. It is possible that this restraint coupled with excessive compensatory stimulus could lead to a neutral or even positive result for industrial metals.

In the energy sector, while tensions have eased recently with the Israel-Hezbollah ceasefire deal, Israeli Prime Minister Benjamin Netanyahu stated that the truce will allow Israel to “focus on the Iranian threat.”⁷ It is possible Israel will use

Iran's moment of weakness to further target the regime directly, which could easily include targeting of Iran's energy infrastructure and closure, in whole or in part, of the Strait of Hormuz. This scenario presents a significant upside risk to our energy outlook.

There is also potential for stricter sanctions on Iran and Venezuela under the Trump administration, as the incoming Secretary of State, Marco Rubio, has a reputation as a hawk on both countries.¹² This scenario also presents upside risk to the energy sector, though less severe than expansion of the Israel-Iran conflict.

Returns for indices are total returns, while returns for individual commodities are price returns only.

All performance data sourced from Bloomberg.

The energy sector proxy used for this analysis is the Bloomberg Energy Subindex Total Return (BCOMENTR Index). The precious metals proxy is the Bloomberg Precious Metals Subindex Total Return (BCOMPRTR Index). The industrial metals sector proxy is the Bloomberg Industrial Metals Subindex Total Return (BCOMINTR Index). The agriculture sector proxy is the Bloomberg Agriculture Subindex Total Return (BCOMAGTR Index).

¹ Q4 time period is 9/30/2024 – 12/13/2024.

² Crude oil price is proxied using the generic front-month WTI crude oil contract listed on the NYMEX exchange (CL1 Comdty).

³ US dollar (USD) appreciation proxied by the US Dollar Index (DXY), which averages the exchange rates between the USD and major world currencies. Time period is 9/30/2024 – 12/13/2024.

⁴ O'Kane, D., Jones, P., Antonova, A., Cunningham, C., Bhattad, V., & Schearer, G. C. (November 22, 2024). CNY Me a River: Reduce Exposure to Metals & Mining. JP Morgan Europe Equity Research: EMEA Metals & Mining.

⁵ IEA. (December 2024). Oil Market Report (OMR). IEA.

⁶ Boxerman, A., Rasgon, A., Ward, E., & Levenson, M. (November 26, 2024). Israel approves cease-fire with Hezbollah to halt war in Lebanon. *The New York Times*.

⁷ Agencies, & TOI Staff. (November 27, 2024). Iran welcomes ceasefire in Lebanon, indicates it may influence plans to strike Israel. *The Times of Israel*.

⁸ Grajewsky, N. (December 9, 2024). Why did Iran allow Bashar al-Assad's downfall? Carnegie Endowment for International Peace.

⁹ Lim, C., & Tam, T. (December 18, 2024). China Consumption Hopes into 2025. *Bloomberg Intelligence*.

¹⁰ Tobin, M., & Liu, J. (December 12, 2024). China pledges more stimulus to shore up flagging economy. *The New York Times*.

¹¹ World Gold Council. (December 5, 2024). Gold ETF Flows: November 2024. *World Gold Council*.

¹² Gardner, T., & Sequera, V. (November 14, 2024). Trump pick Rubio could harden oil sanctions on Iran, Venezuela. *Reuters*.

Definitions

Basis Point (bps): a unit that is equal to 1/100th of 1% and is used to denote the change in a financial instrument.

Bloomberg Agriculture Subindex (BCOMAGTR Index): formerly known as the Dow Jones-UBS Agriculture Subindex (DJUBAGTR), the index is a commodity group subindex of the Bloomberg CTR. The index is composed of futures contracts on coffee, corn, cotton, soybeans, soybean oil, soybean meal, sugar and wheat. It reflects the return on fully collateralized futures positions and is quoted in USD.

Bloomberg Energy Subindex (BCOMENTR Index): a commodity index composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas. It reflects the return of underlying commodity futures price movements only and is quoted in USD.

Bloomberg Industrial Metals Subindex (BCOMINTR Index): reflects the returns that are potentially available through an unleveraged investment in the futures contracts on industrial metal commodities.

Bloomberg Intermediate US High Yield Index: measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. The intermediate duration segment of the index includes bonds with maturities of 1 to 10 years.

Bloomberg Municipal Index: serves as a benchmark for the US municipal bond market.

Bloomberg Precious Metals Subindex (BCOMPTR Index): reflects the returns that are potentially available through an unleveraged investment in the futures contracts on precious metals commodities. The Index currently consists of two precious metals commodities futures contracts (gold and silver).

Bloomberg US 1000 Index: a float market-cap-weighted benchmark of the 1000 most highly capitalized US companies.

Bloomberg US Aggregate Bond Index: a broad-based benchmark that measures the investment grade, US 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).

Bloomberg US Asset-Backed Securities Index: a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index only includes ABS securities.

Bloomberg US Corporate Bond Index: measures the investment grade, fixed-rate, taxable corporate bond market.

Bloomberg US Corporate High Yield Bond Index: measures the USD-denominated, high yield, fixed-rate corporate bond market.

Consumer Price Index (CPI): a measure of the average change over time in the prices paid by urban consumers for a representative basket of consumer goods and services.

Dow Jones Industrial Average: a stock market index of 30 prominent companies listed on stock exchanges in the United States. The DJIA is one of the oldest and most commonly followed equity indexes.

Federal Funds Rate: the target interest rate set by the Federal Open Market Committee (FOMC). This target is the rate at which the Fed suggests commercial banks borrow and lend their excess reserves to each other overnight.

FTSE NAREIT All Equity REITs Index: a free-float adjusted, market capitalization-weighted index of US equity REITs. Constituents of the index include all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets other than mortgages secured by real property.

FTSE NAREIT Equity Data Centers Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Data Center REITs in the parent index.

FTSE NAREIT Equity Diversified Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Diversified REITs in the parent index.

FTSE NAREIT Equity Health Care Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Health Care REITs in the parent index.

FTSE NAREIT Equity Industrial Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Industrial REITs in the parent index.

FTSE NAREIT Equity Lodging/Resorts Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Lodging/Resorts REITs in the parent index.

FTSE NAREIT Equity Office Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Office REITs in the parent index.

FTSE NAREIT Equity Residential REIT Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Equity Residential REITs in the parent index.

FTSE NAREIT Equity Retail Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Retail REITs in the parent index.

FTSE NAREIT Equity Self Storage Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Self Storage REITs in the parent index.

FTSE NAREIT Equity Specialty Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Specialty REITs in the parent index.

FTSE NAREIT Infrastructure REITs Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Infrastructure REITs in the parent index.

Green Street Commercial Property Price Index (CPPI): a time series of unleveraged US commercial property values that captures the prices at which commercial real estate transactions are currently being negotiated and contracted. Features that differentiate this index are its timeliness, its emphasis on high-quality properties, and its ability to capture changes in the aggregate value of the commercial property sector.

Investment Grade (IG): a rating that signifies that a municipal or corporate bond presents a relatively low risk of default. To be considered an investment grade issue, the company must be rated at 'BBB' or higher by Standard and Poor's or Moody's. Anything below this 'BBB' rating is considered non-investment grade.

ISM Manufacturing PMI: measures the change in production levels across the US Economy from month to month.

MSCI USA Momentum Index: captures large and mid-cap stocks of the US market and is designed to reflect the performance of an equity momentum strategy by emphasizing stocks with high price momentum, while maintaining reasonably high trading liquidity, investment capacity and moderate index turnover.

Municipal Bond: a debt security issued by a state, municipality, or county to finance its capital expenditures, including the construction of highways, bridges, or schools. They can be thought of as loans that investors make to local governments. Municipal bonds are often exempt from federal taxes and most state and local taxes (for residents), making them especially attractive to people in higher income tax brackets.

NASDAQ 100 Index: one of the world's preeminent large-cap growth indexes. It includes 100 of the largest domestic and international non-financial companies listed on the Nasdaq Stock Market based on market capitalization.

Nonfarm Payroll (NFP) Industry Diffusion Index: the percent of industries with employment increasing plus one-half of the industries with unchanged employment, where 50 percent indicates an equal balance between industries with increasing and decreasing employment.

Personal Consumption Expenditures Price Index (PCE): a measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services. The PCE is known for capturing inflation (or deflation) across a wide range of consumer expenses and reflecting changes in consumer behavior.

Price/Earnings (P/E) Ratio: a valuation ratio of a company's current share price compared to its per-share earnings.

Quantitative Tightening: a monetary policy strategy used by central banks where they reduce the pace of reinvestment of proceeds from maturing government bonds in an attempt to raise interest rates, decrease the supply of money, and reduce lending to consumers and businesses.

Real Estate Investment Trust (REIT): companies that own or finance income-producing real estate across a range of property sectors. Listed REITs have characteristics of both the income potential of bonds and growth potential of stocks.

Russell 2000 Index: measures the performance of the small-cap segment of the US equity universe.

Russell Microcap Index: measures the performance of the microcap segment of the US equity market.

S&P 500 Equal Weight Index: the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the index is allocated a fixed weight.

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

US Dollar Index: measures the value of the US dollar relative to a basket of foreign currencies.

Yield Curve: a graphical representation of the yields (y-axis) on debt instruments with different maturities (x-axis).

Z-Score: a numerical measurement that describes a value's relationship to the mean of a group of values, measured as standard deviations from the mean. If a Z-score is 0, it indicates that the data point's score is identical to the mean score. A Z-score of 1.0 would indicate a value that is one standard deviation from the mean.

One may not invest directly in an index.

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