VERDENCE CAPITAL ADVISORS

Key Takeaways:

- A spin on the 12 days of Christmas song; a 2025 wish list!
- Can DOGE be successful?
- Five golden rings!
- Who would not like to see S&P 500 at 7,000?
- We wish for further broadening in the equity rally in 2025.

12 Days of Christmas Wishlist for 2025

As we close out a good year for investors regarding performance and we make the mad rush through the holiday shopping season, we wanted to offer our wish list for 2025. In this weekly, we offer our traditional spin on the 12 days of Christmas song with some things we are hopeful for in the year ahead. We admit some of these are just wishful thinking (and highly unlikely) but in the spirit of the holidays it never hurts to wish!

- **First day of Christmas:** The Federal Reserve started cutting interest rates in 2024 for the first time since 2020. This has helped equity markets and supported growth. However, we wish for ***one*** more rate cut at their meeting next week. Then we hope they will pause and assess the inflation dynamic. Especially since progress on inflation has slowed.
- **Second day of Christmas:** The Federal deficit is a troublesome scenario and not looking to improve anytime soon. We are hopeful that President Trump's creation of the Department of Government Efficiency can deliver a realistic plan to reduce the federal budget by ***$2 trillion***.
- **Third day of Christmas:** U.S. GDP is expected to slow in 2025 (to 2.1%). While it is unlikely, ***3%*** GDP would be great!
- **Fourth day of Christmas:** Treasuries take their direction from inflation and economic growth. If we could see the 10 YR Treasury yield stay below ***4.0%,*** we could also see mortgage rates drop and boost the housing market.
- **Fifth day of Christmas**: Gold prices made a fresh record high multiple times in 2024. While prices have fallen from their record high, at $2633/oz. Who wouldn't want ***five*** golden rings?!
- **Sixth day of Christmas**: We wish for a 30-year mortgage rate below ***6.0%.*** Historically, when the rate is between 5.0-6.0%, the average annual sales pace of homes is ~6 million. This is ~ 2 million more than the current sales pace.
- **Seventh day of Christmas**: We expect more muted S&P 500 returns than the double-digit pace we have seen the prior two years. It doesn't mean we can't wish for S&P 500 at ***7,000***, a ~15% gain!
- **Eighth day of Christmas**: The office vacancy rate hit a record high (20%) in 2024 and is forecast to rise to 24% by 2026. We wish that the rate could fall ***8%,*** which would bring it in line with the historical average.
- **Ninth day of Christmas:** We wish for a ***9%*** dividend growth rate in the MSCI EAFE. The current estimate is ~7%, but 9% may draw attention to this unloved area of the equity market and its dividend growth expectation is superior to the U.S.
- **Tenth day of Christmas:** We witnessed a broadening in the equity rally in 2024. However, the return difference between the S&P 500 Market Cap and its equal weight counterpart is still ~***10%.*** We wish to see that narrow in 2025.
- **Eleventh day of Christmas:** While it is wishful thinking with a slowing economic backdrop, we wish for at least ***11%*** earnings growth in 2025.
- **Twelfth day of Christmas:** Who would not wish for ***12*** consecutive months of positive stock and bond returns?! A great deal for a diversified portfolio.

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Weekly Economic Recap –

Jobs Data in Full Focus Ahead of Last Fed Meeting of Year

Manufacturing activity shrank in November by less than forecast as the ISM Manufacturing Index increased to its highest level since March (48.4). New factory orders moved into expansion territory for the first time in eight months. The employment index increased by the most in more than two years.

U.S. service sector activity expanded at the slowest pace in three months and posted a monthly decline for the first time since June. The new orders gauge fell to a three-month low and the business activity gauge fell to the lowest since August. Notably, respondents cited apprehension about the potential for increased tariffs after Trump's election victory

Job openings, as tracked by the JOLTS report, increased in October to 7.74 million and layoffs eased. The increase in openings was driven by professional and business services. The quits rate increased to the highest level since May (2.1%) and the hiring rate fell to the lowest since June (3.3%).

The U.S. trade deficit narrowed in October to $73.8 billion. Companies pulled back imports of consumer goods and business equipment, specifically, driving the value of imports to a four-month low ($339.6 billion).

The U.S. economy added slighly more jobs than expected in November (227K vs. 200K). The unemployment rate increased to 4.2% and long-term joblessness reached its highest in almost three years. The labor force itself declined, pushing the labor force participation rate lower to 62.5%, the lowest since May.

Consumer sentiment as tracked by the University of Michigan increased for the fifth consecutive month and recorded its highest reading since April (74). Respondents reported increasing optimism surrounding the current economic environment.

Key Takeaways:

- Manufacturing sector improves, but still in contraction.
- U.S. economy adds more jobs than expected.
- Consumer confidence increases for fifth straight month.
- Global equities higher as investors rotate back to tech.
- Treasury yields fall after strong employment data
- Commodities lower; geopolitics supports grains.

Weekly Market Recap –

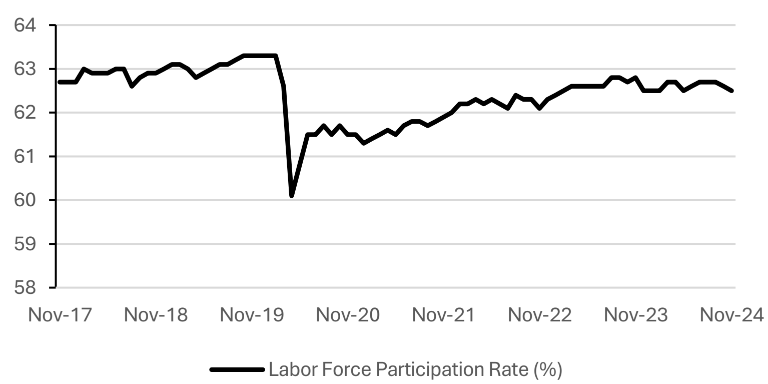
Investors Rotate Back to Tech Outperformers as Yields Fall

Equities: The MSCI AC World Index was higher for the third straight week as investors rotated back into growth and tech sectors. In the U.S., large-cap growth was the best sector. The tech-heavy Nasdaq and S&P 500 each finished the week at fresh record highs. South Korean equities finished the week lower after political turmoil rattled investor sentiment.

Fixed Income: The Bloomberg Aggregate Index was higher for the third straight week. Treasury yields were broadly lower for the week after employment data suggested the Fed will likely be able to move forward with its expected rate cut next week. All sectors of fixed income were higher led by investment grade corporates and high yield debt.

Commodities/FX: The Bloomberg Commodity Index was lower for the second straight week. Crude oil was moderatly lower amid expectations of a supply surplus in 2025 despite the delay in OPEC+ supply increases. Agriculture products, including wheat, were higher as tensions in the Russia/Ukraine war remain elevated.

Labor Force Participation Rate at Lowest Since May



Footnotes: Data is as of November 2024.
Data Source: FactSet Research Systems, Verdence Capital Advisors.

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Equities Rally on Rotation Back into Tech

U.S. Equities	Current	1WK	1MO	3MO	1YR	YTD
Dow Jones Industrial Average	44,643	-0.5%	2.4%	11.1%	26.1%	20.6%
S&P 500	6,090	1.0%	2.9%	13.0%	35.7%	29.3%
Russell 1000 Growth	4,154	3.6%	5.7%	19.6%	43.8%	37.0%
Russell 1000 Value	1,924	-1.9%	0.6%	8.0%	27.0%	20.5%
Russell Midcap	3,782	-0.6%	3.5%	14.2%	31.6%	23.3%
Russell 2000	2,409	-1.0%	0.8%	15.5%	31.9%	20.3%
Nasdaq	19,860	3.4%	4.7%	19.2%	41.5%	33.2%

International Equities	Current	1WK	1MO	3MO	1YR	YTD
MSCI AC World (USD)	874	1.3%	2.3%	9.2%	28.0%	21.9%
MSCI EAFE (USD)	2,355	1.7%	1.7%	-0.7%	13.1%	8.1%
MSCI Europe ex UK (USD)	2,586	2.5%	1.2%	-2.4%	9.7%	5.1%
MSCI Japan (USD)	4,033	2.1%	3.2%	1.0%	14.8%	11.0%
MSCI UK (USD)	1,258	0.4%	0.9%	-1.5%	15.8%	11.1%
MSCI EM (USD)	1,105	2.5%	-2.3%	3.0%	16.0%	10.3%
MSCI Asia ex Japan (USD)	721	2.5%	-2.0%	5.0%	20.4%	14.6%

Fixed Income	Current Yield	1WK	1MO	3MO	1YR	YTD
U.S. Aggregate	4.6%	0.5%	2.1%	-1.0%	5.8%	3.4%
U.S. Govt/Credit	4.5%	0.4%	2.0%	-0.9%	5.5%	3.3%
U.S. 10 Year Treasury	4.1%	0.4%	2.7%	-2.5%	3.8%	1.4%
U.S. TIPS (1-10YR)	4.2%	0.2%	0.8%	0.2%	5.9%	4.2%
U.S. High Yield	7.0%	0.4%	1.3%	2.4%	12.3%	9.1%
EM Bonds (USD)	6.4%	0.6%	2.2%	1.5%	11.5%	8.5%
Municipal Bonds	3.4%	0.3%	2.7%	1.1%	4.6%	2.9%

Commodities	Current	1WK	1MO	3MO	1YR	YTD
Bloomberg Commodity Index	235	-0.6%	-0.3%	5.2%	5.2%	3.7%
Crude Oil (USD/bbl)	$68.1	0.1%	-2.2%	-0.6%	-3.1%	-3.5%
Gold ($/oz)	$2,633.4	0.9%	-0.8%	6.2%	32.8%	29.1%
Copper	$413.9	3.3%	-2.3%	3.0%	10.2%	8.2%
Wheat	$557.3	3.1%	-4.0%	-4.0%	-16.5%	-16.9%
U.S. Dollar	106	-0.5%	0.9%	4.3%	1.8%	4.5%
VIX Index	12.8	-5.5%	-21.5%	-42.9%	-1.5%	2.6%

Footnotes: Data is as of December 6, 2024.
Data Source: Bloomberg Finance LP, Verdence Capital Advisors.

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Past performance is not indicative of future returns.

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