

MAXIMAI Investment Partners

1Q 2025 Outlook



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INVESTMENT PARTNERS

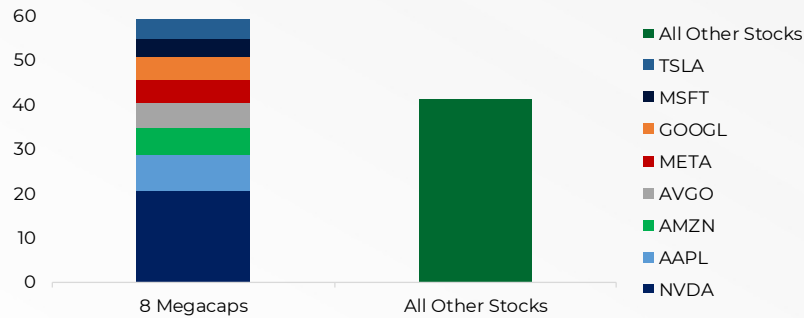
By: Sinan Kermen, CFA
Head of Investment Strategy & Research

Another Dominant Year From the Mega-Caps, Led by NVDA

2024 Recap

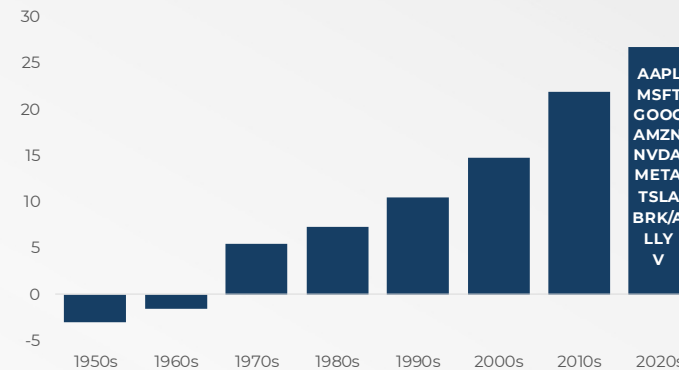
The eight Mega-caps with \$1+ trillion valuations now make up 36% of market capitalization in the S&P 500 and accounted for ~60% of S&P 500 returns in 2024. The Mega-caps are not all hype, though: They are delivering in terms of Free Cash Flow as well...

Share of S&P 500 2024 Total Return (%)



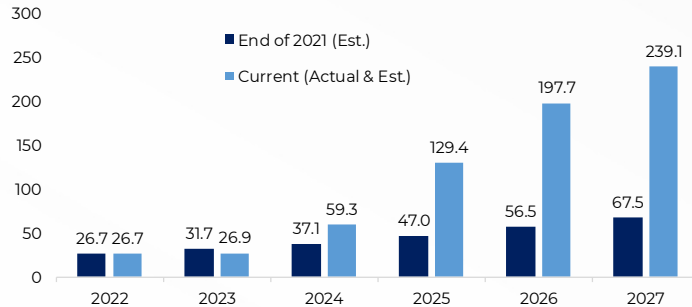
Source: Bloomberg, Bespoke Investment Group, JP Morgan

Free Cash Flow Margins by Decade: Ten Largest Stocks



Source: Empirical Research, JP Morgan

NVDA Revenues By Fiscal Year (\$ bn)



Source: Bloomberg, Bespoke Investment Group

Performance of "Magnificent 7" stocks in S&P 500*
Indexed to 100 on 1/1/2021, price return

Returns	'21	'22	'23	'24
S&P 500	27%	-19%	24%	23%
S&P 500 ex-Mag 7	17%	-8%	8%	10%
Magnificent 7	40%	-40%	76%	48%
Share of returns**	33%	56%	63%	55%

Source: Bespoke Investment Group

Broad Equities Rally with Recent Trends Persisting...

2024 Recap

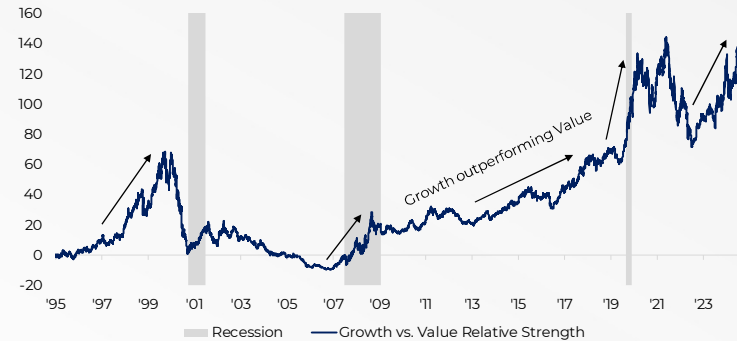
US Related		
ETF	Description	YTD
SPY	S&P 500	24.89
DIA	Dow 30	14.82
QQQ	Nasdaq 100	25.58
IJH	S&P Midcap 400	13.93
IJR	S&P Smallcap 600	8.64
IWB	Russell 1000	24.32
IWM	Russell 2000	11.39
IWV	Russell 3000	23.49
IVW	S&P 500 Growth	35.82
IJK	Midcap 400 Growth	15.69
IJT	Smallcap 600 Growth	9.34
IVE	S&P 500 Value	12.04
IJF	Midcap 400 Value	11.64
IJS	Smallcap 600 Value	7.34
DVY	DJ Dividend	16.26
RSP	S&P 500 Equalweight	12.78
EFA	EAFE	3.51
EEM	Emerging Mkts	6.50
SHY	1-3 Yr Treasuries	3.92
IEF	7-10 Yr Treasuries	-0.64
TLT	20+ Yr Treasuries	-8.06
AGG	Aggregate Bond	1.31
BND	Total Bond Market	1.38
TIP	T.I.P.S.	1.65

- **Large Cap > Mid Cap > Small Cap**
- **US > International:**
 - Driven by companies in the US, Artificial Intelligence has been a major theme with promise of major productivity gains for domestic businesses
- **Growth > Value:**
 - Value continued to be out of favor: The two-year performance spread between growth and value hit a record high. In Q4, Value was down 14 consecutive days in a row which has never happened before
- **Equities > Fixed Income:**
 - Another difficult year for Fixed Income with Fed cut expectations lowered and pushed out, particularly for longer duration securities

US vs. MSCI All World Ex. US Total Return (%) Since 2000



S&P 500 Growth vs. Value Relative Strength Since 1995



Source: Bloomberg, Bespoke Investment Group

2024 Rolling Macro Shocks: A Prelude to Higher Volatility in 2025?

2024 Recap / 2025 Outlook

July CPI/Russell 2000 Rotation

Following a soft inflation report, small caps soared meaningfully as investors anticipated increased rate cuts. While this move upward wasn't substantiated, the velocity of the move is something to note.

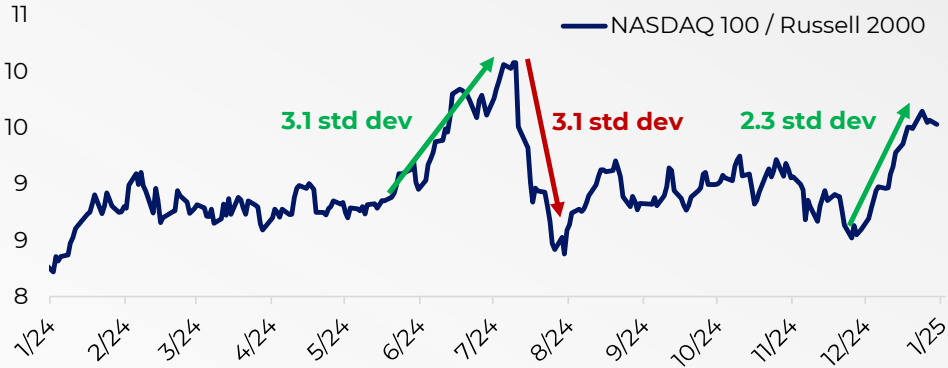
August Yen Volatility Quake

The VIX spiked to 60, courtesy of a surprise rate hike from the Bank of Japan in August, forcing a global carry trade unwind and causing a 3+ standard deviation move down in the NASDAQ.

September China Melt-up

Global investors were caught off-sides as capital poured into the "ex-China" narrative earlier in the year, leading many to miss a multi-standard deviation surge in Chinese stocks in response to policy stimulus.

Rolling Shocks Throughout The Year



Source: Bespoke Investment Group



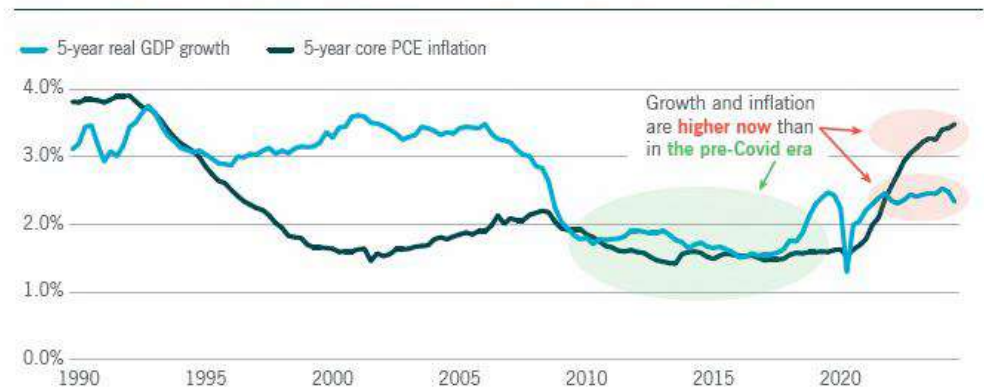
Growth & Inflation Expectations Moving up...

2025 Outlook

We agree with the following quote from Nuveen Global Investment Committee Outlook:

“Ultimately, nominal growth is the principal driver of market performance. For equities, it determines overall earnings potential and it drives yield levels for fixed income. U.S. nominal growth performance versus the rest of the world also drives the U.S. dollar’s valuation. We expect to settle in to a new normal of around 5% nominal growth, rather than the pre-Covid trend of sub-4%. This means that rates are unlikely to fall as much as many expect, and risk assets are likely to be supported. We expect the 10-year Treasury yield to remain mostly rangebound from here, and for Fed rate cuts to be both slower and smaller than many expect.”

Figure 2: Long-term U.S. growth and inflation have moved structurally higher



Data source: Bloomberg, L.P., Dec 1989 to Sep 2024. Data represents five-year moving averages of quarterly growth and inflation readings.

Source: Nuveen Global Investment Committee

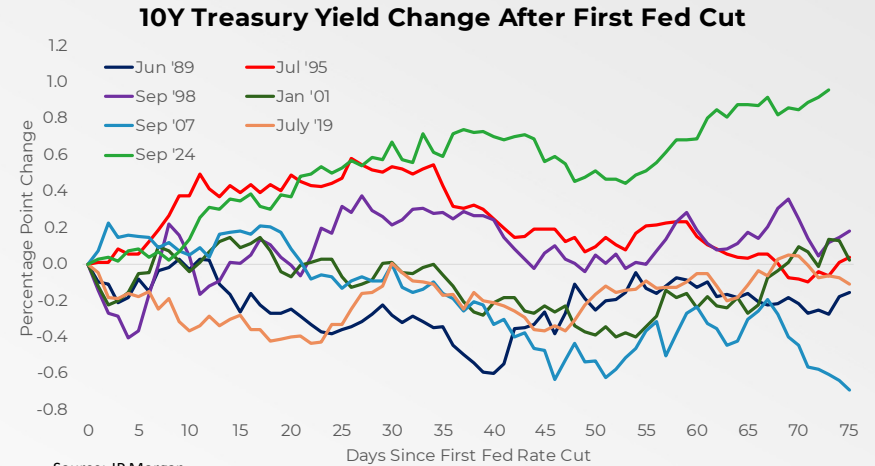
...Changing Fed Expectations

2025 Outlook

Since the Fed lowered the Federal Funds Rate, 10 Year Yields have gone 100bps+ higher, which is highly unusual.

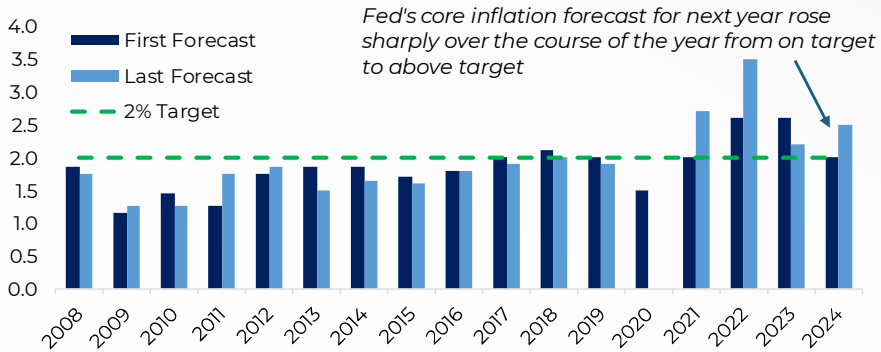
10 Year yields need to be monitored.

Stickier inflation and higher for longer rates mean the Fed is no longer a tailwind for equity markets



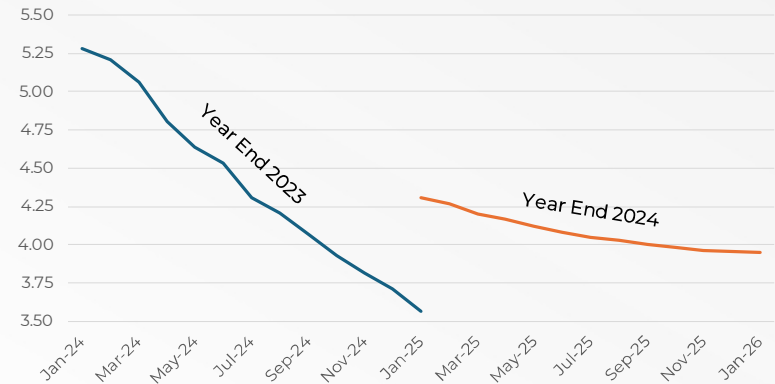
Source: JP Morgan

Fed Core PCE Forecasts For Subsequent Year (%)



Source: Bespoke Investment Group, JP Morgan

Fed Funds Target Rate: Year End 2023 vs. Year End 2024



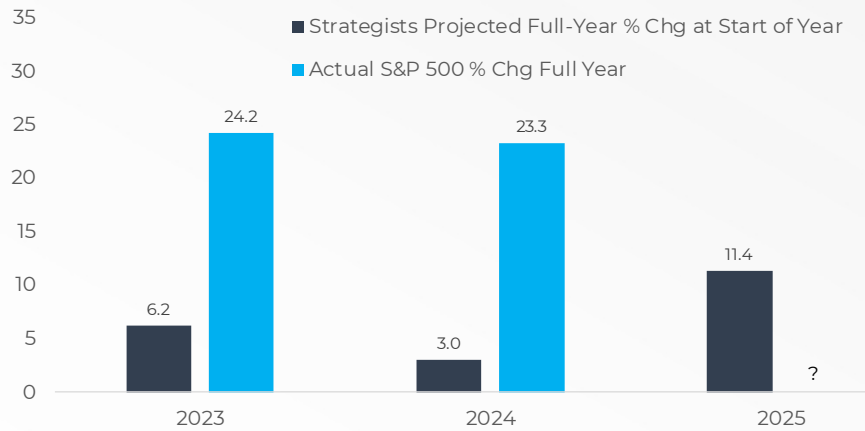
Source: JP Morgan



Investors & Strategists Are Expecting Another Year of Market Gains

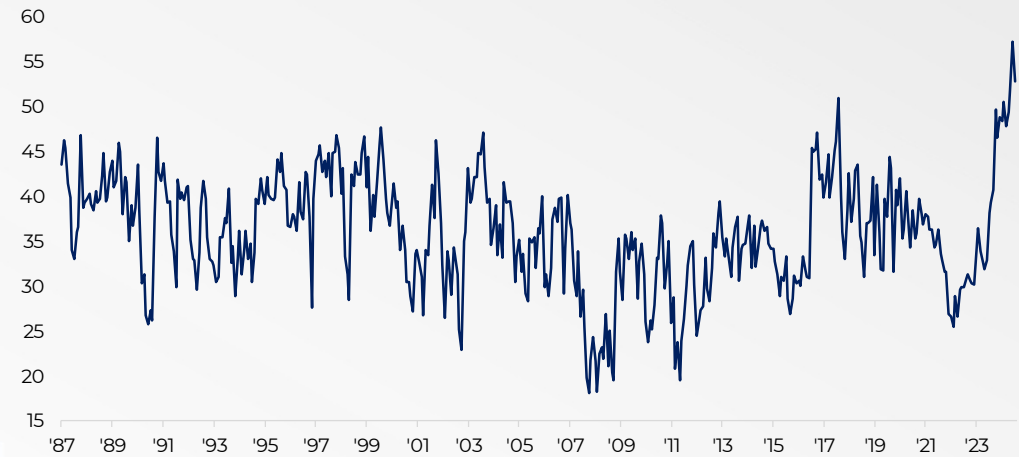
2025 Outlook

Wall Street Strategists Projected S&P 500 % Chg vs. Actual % Chg



*Bloomberg Collected Year-end Price Targets From Major Wall Street Strategists

% of Households Expecting Higher Stock Prices in 12 Months*



*From Confidence Boards' Monthly Consumer Confidence Survey



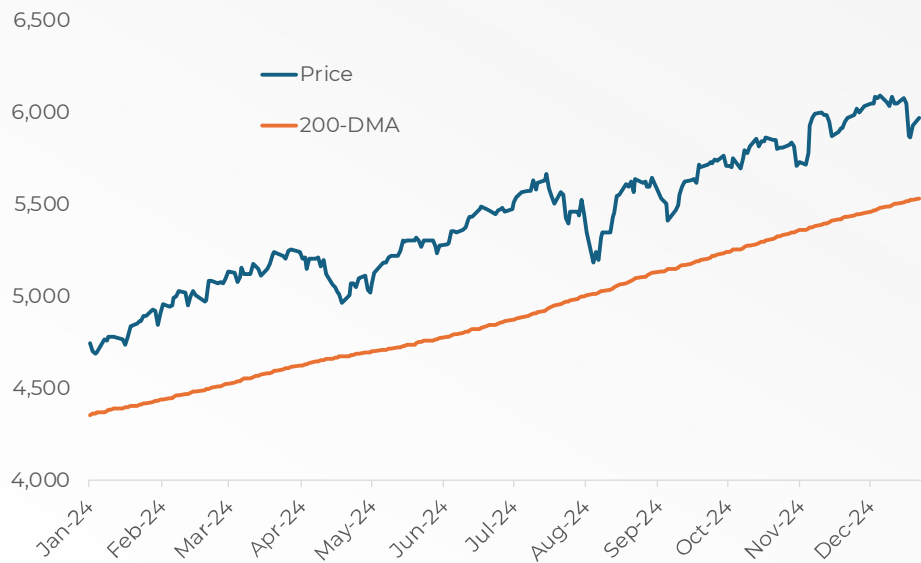
Source: Bespoke Investment Group

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But Markets Have Already Had Quite the Run...

2025 Outlook

S&P 500 Price vs. 200-Day Moving Average: 2024



The S&P traded above its 200-day moving average for the entirety of 2024, which has happened only eleven other times since 1952.

S&P 500: Above 200-DMA All Year

Year	Full-Year % Chg	% of Days Above 200-DMA	Avg. % Above 200-DMA	Next Year's % Chg
1954	45.0	100	11.4	26.4
1955	26.4	100	12.2	2.6
1961	23.1	100	8.5	-11.8
1964	13.0	100	5.9	9.1
1989	27.3	100	9.4	-6.6
1993	7.1	100	3.5	-1.5
1995	34.1	100	9.4	20.3
1997	31.0	100	11.8	26.7
2013	29.6	100	8.3	11.4
2017	19.4	100	6.4	-6.2
2021	26.9	100	11.3	-19.4
2024	23.3	100	10.3	?
Avg.	25.51		Avg.	4.6
S&P Avg. % Chg. All Years Since 1952:				9.2

The S&P has averaged a gain of 4.6% (median gain of +2.6%) in the year after prior years where the S&P has traded above its 200 DMA all year. That 4.6% average next-year change for the S&P is about half the normal ~9% gain the index has seen for all years since 1952.

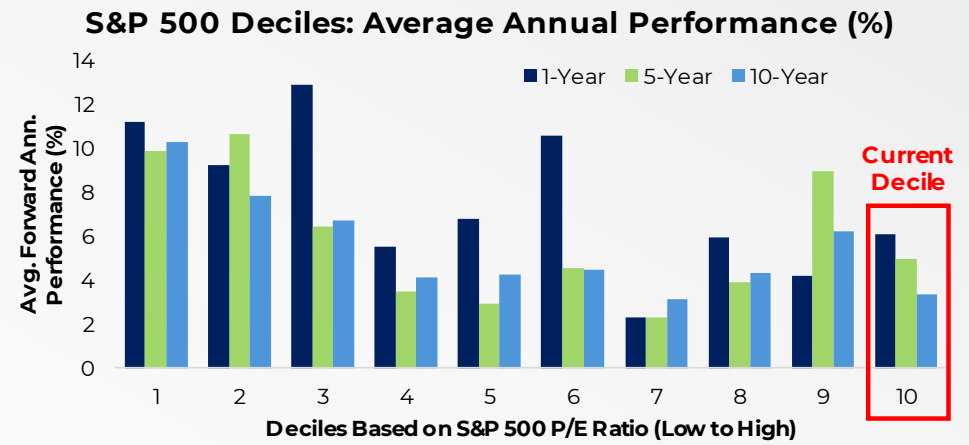


Source: Bespoke Investment Group

...And Valuations are Elevated

2025 Outlook

The S&P is currently in the top decile of valuations, which have historically been followed by weaker long-term returns, with 10-year expected returns in low single digits.



Data Source: Robert Shiller

Data Source: Professor Robert Shiller | shillerdata.com, 2024

Investment Implications

1. There is value in Fixed Income but you need to find it:

Interest rates will likely be lowered more slowly than previously anticipated. In fixed income, this calls for less emphasis on duration positioning and more on generating alpha via credit selection and relative spreads. With more volatility in duration, finding smart income through active managers should prove prudent in areas like securitized products and agencies. We recommend UW positioning in IG and High Yield corporates with spreads near all-time tights. For taxable investors, we do like municipals: The municipal yield curve is steeper than the Treasury curve, and credit fundamentals look solid.

2. Private Credit presents a solid alternative to Fixed Income:

Competitive yields to maturity keep direct lending attractive to institutional and individual investors. We expect it to maintain outperformance over public debt markets in a “higher for longer” rate environment.

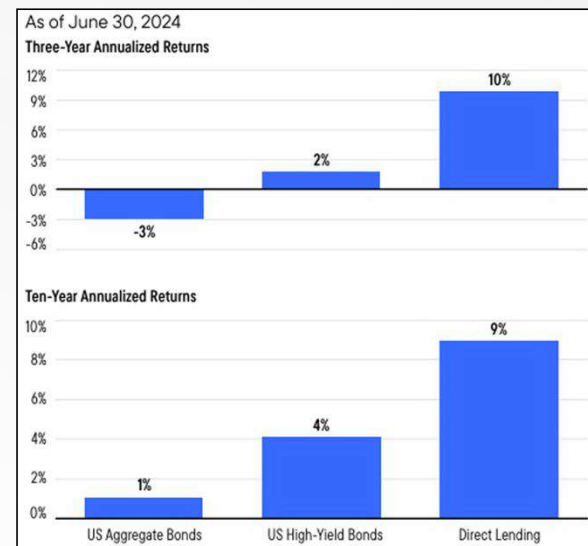
Benefits of Private Credit:

- **Illiquidity Premium:** Private credit offers an attractive illiquidity premium compared to core and high-yield bonds.
- **Floating Rate & Short Duration:** With its floating rate structure and short duration profile, private credit minimizes interest rate risk.

Figure 1: Focus on attractive credit sectors



Source: Nuveen



Source: Analysis by Franklin Templeton Institute

Indexes used: Bloomberg US Aggregate Total Return Value Unhedged USD, ICE BofA US High Yield Index, and Cliffwater Direct Lending Index. Indexes are unmanaged, and one cannot directly invest in them. They do not include fees, expenses or sales charges. Past Performance is not an indicator or guarantee of future results. Important data provider notices and terms available at www.franklintempletondatasources.com.

Investment Implications

3. Stocks are expensive but should be ok in the short-term with the US economy poised to achieve a soft landing:

“What justifies valuations that are richer than average, though, is a set of fundamentals that are better than average. Markets have grown more certain that the U.S. economy and company fundamentals are sound, and this could send valuations yet higher...” *

In the absence of monetary policy tailwinds, returns are going to be determined by earnings. We recommend Quality and prefer US over International

4. Diversify using Private Markets:

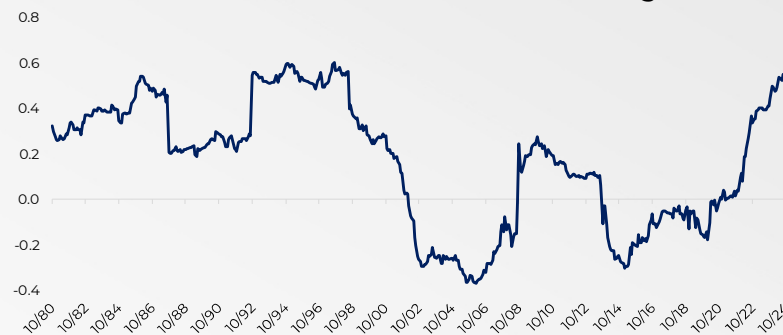
The correlation between total returns for stocks and bonds has risen to the highest levels since the end of the 1990s. In a higher for longer rate environment with potential upside on inflation, we would expect this to continue, making the case to diversify using private markets.

While IPOs and equity markets are beginning to regain momentum, the need for growth equity capital continues to rise, fueled by an unprecedented backlog of unicorns. With companies staying private longer, it makes sense to access a portion of growth equity exposure through private markets.

* Morgan Stanley 2025 Investment Outlook: Get Ready to Pivot, 11/27/24



Stocks-Bonds Correlation Is At 25 Year Highs



The Number of PE-backed Companies and Publicly-Listed Companies



Source: Bespoke Investment Group, Apollo Chief Economist

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