Market Commentary | January 2025

Benchmark Review & Monthly Recap

A Solid Start to 2025 for Stocks; Bonds Gain as Well

Highlights

Stocks: After a challenging December, stocks kicked off 2025 with solid gains. Small- and large-caps; value and growth; and U.S. and international stocks also started the year on a positive note.

Bonds: Yields were flat in January. After a steep rise at the start the year, yields fell in the latter half of January, which helped bonds to post positive returns for the month. The 10-year U.S. Treasury yield ended 2024 and January 2025 at 4.58%.

U.S. Economy: Economic data released in January (largely covering December) showed ongoing signs of solid economic growth. The first reading of fourth-quarter GDP showed a 2.3% annualized growth rate in the final quarter of 2024.

Federal Reserve: After three consecutive meetings of cuts, the Fed paused in January and the FOMC left policy rates unchanged. This was a widely anticipated move as the Fed is expected to only raise rates once in 2025. (Per CME FedWatch tool as of 2/3/25)

Equity Markets

The broadening theme we experienced in 2024 resumed in the new year. U.S. and international stocks enjoyed gains in January. See **Table 1** for January 2025 and calendar year 2024 results.

Table 1 | Equity Markets

Index	Jan 2025	2024
S&P 500	2.78%	25.02%
S&P 500 Equal Weight	3.50%	13.01%
DJIA	4.78%	14.99%
Russell 3000	3.16%	23.81%
NASDAQ Comp.	1.66%	29.57%
Russell 2000	2.62%	11.54%
MSCI ACWI ex U.S.	4.03%	5.53%
MSCI Emerging Mkts Net	1.79%	7.50%

Source: Morningstar. For illustrative purposes only. Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses are reflected. You cannot invest directly in an index. Past performance is not indicative of future results.

Reflecting the broad progress of U.S. equities and gains beyond the mega-cap growth companies, the equal-weighted S&P 500 Index outpaced its large-cap counterpart in January. That was an uncommon event in 2024. The tech-driven Nasdaq Composite Index had the weakest relative gains in January, a reversal from strong relative returns experienced in 2024 as shown when comparing the indices in Table 1. This reflects the broadening of the bull market at the outset of 2025. While one month does not establish a trend, market leadership shifted across different sectors throughout 2024, and a continued broadening across various areas of the U.S. stock market wouldn't be unexpected. It is important to acknowledge that 2024 was another year dominated by large-cap growth companies. Developed international stocks had some of the strongest results to begin the new year. After years of underperformance compared to U.S. stocks, the MSCI ACWI ex. U.S. Index started 2025 on a strong note. Emerging market stocks also started the year positively but lagged in developed international market equities.

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Fixed Income

The seemingly relentless rise in rates during the fourth quarter of 2024 paused in January as rates were flat. The 10-year U.S. Treasury yield ended 2024 and January 2025 at 4.58%. However, that does not tell the whole story. Rates rose at the start of the year and peaked at 4.79% on January 13, but fell sharply for the remainder of the month. This rate decline helped bonds advance for the month. See **Table 2** for bond index returns for January 2025 and calendar year 2024.

Table 2 | Fixed Income Markets

Index	Jan 2025	2024
Bloomberg U.S. Agg	0.53%	1.25%
Bloomberg U.S. Credit	0.56%	2.03%
Bloomberg U.S. High Yld	1.37%	8.19%
Bloomberg Muni	0.50%	1.05%
Bloomberg 30-year U.S. TSY	0.16%	-8.09%
Bloomberg U.S. TSY	0.52%	0.58%
MSCI ACWI ex U.S.	4.03%	5.53%

Source: Morningstar. For illustrative purposes only. Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses are reflected. You cannot invest directly in an index. Past performance is not indicative of future results.

In last month's Benchmark Review, we noted "Modest and volatile returns were the themes for the bond market in 2024 outside of high-yield bonds." That theme continued in January, but on a positive note, the trend of rising rates seemed to be broken (or at least disrupted) during the second half of the month as rates declined. Returns were similar across different bond indices except for high-yield bonds and the lagging 30-year U.S. Treasuries. High-yield bonds continued their leadership from 2024 to start 2025. (Our tactical fixed income strategy has been allocated to high-yield bonds since early November 2023 and we maintain that exposure as of this writing). In our 2025 outlook, we put an upper-end range on the 10-year U.S. Treasury yield at 5%. We did not hit that level early in the month, but yields moved in that direction until the mid-month reversal in rates. We believe rates on the front end of the yield curve will be pressured lower as the Fed (albeit slower) cuts rates and longer rates will remain more volatile, but with broader pressure to the downside.

We maintain our long-standing position that favors credit versus pure rate exposure in this interest rate environment as it served us well in 2024 and so far in 2025. Additionally, we believe bonds provide stable cash flow and help to offset the long-term volatility of stocks in the long run. Furthermore, we believe bond yields remain attractive, as witnessed by some of the strongest bond yields in years, especially considering the recent rate increase. In our opinion, having an active bond management approach makes sense in volatile times.

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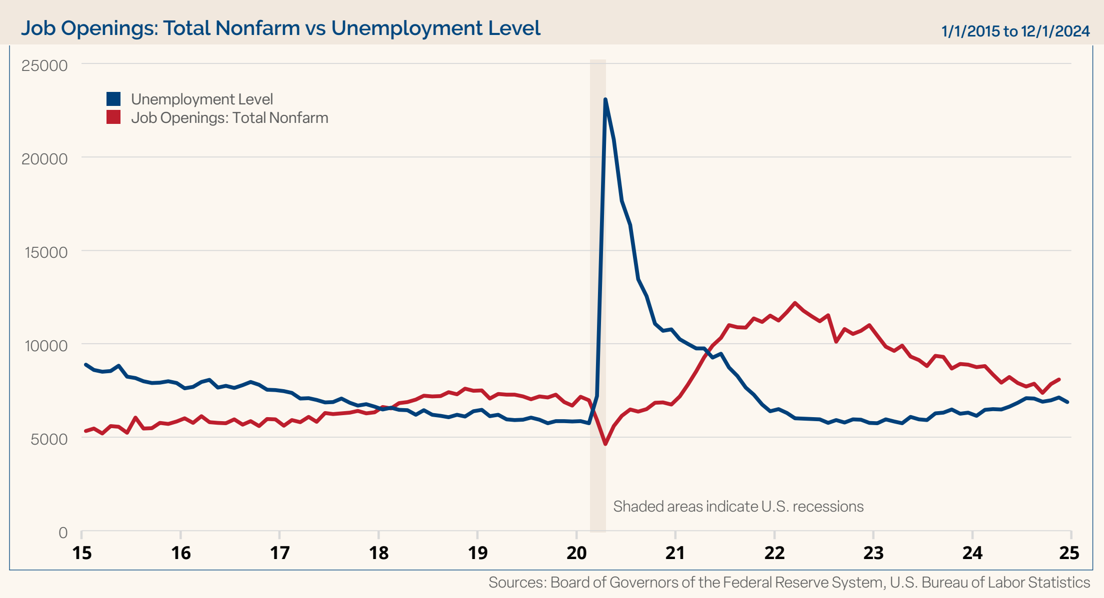
Economic Data Highlights and Outlook

Jobs: The new year began with another solid reading from the job market. In December, payrolls increased by 256,000, well ahead of the expected 165,000 additions. Furthermore, the unemployment rate surprisingly dropped to 4.1%, down from the expected and prior month's level of 4.2%. Overall, the job market remains healthy with a low unemployment rate and plentiful job openings. Consumer spending accounts for about 70% of the U.S. economy, so monitoring job market data is critical as it directly impacts consumer spending. One data point we are monitoring is job openings compared to the unemployment level — there are still more jobs available than people seeking jobs. This ratio has narrowed during the last few years. However, the latest readings show a tick higher in job openings and a tick lower in the unemployment level. **Chart 1** shows the number of unemployed compared to the number of job openings in the U.S.



For illustrative purposes only. Past performance is not indicative of future results.

Inflation: Inflation data was largely flat but better-than-expected for December . The producer price index excluding food and energy was flat compared to the 0.3% monthly increase that was expected. The annual gain was flat at 3.5%, compared to the anticipated 3.8% increase. The headline reading was higher on an annual basis compared to last month, but lower than expected. The consumer price index was in line with expectations on a headline basis and slightly better (lower) on a core basis for the month and year. Finally, the annual gains for the personal consumption expenditures price index, both headline and core (the preferred inflation measure of the Fed), were in line with expectations for December. The core reading matched the prior month's annual gain while the headline reading was higher for the year through December than it was through November. (For specific data, please refer to the end of this report.)

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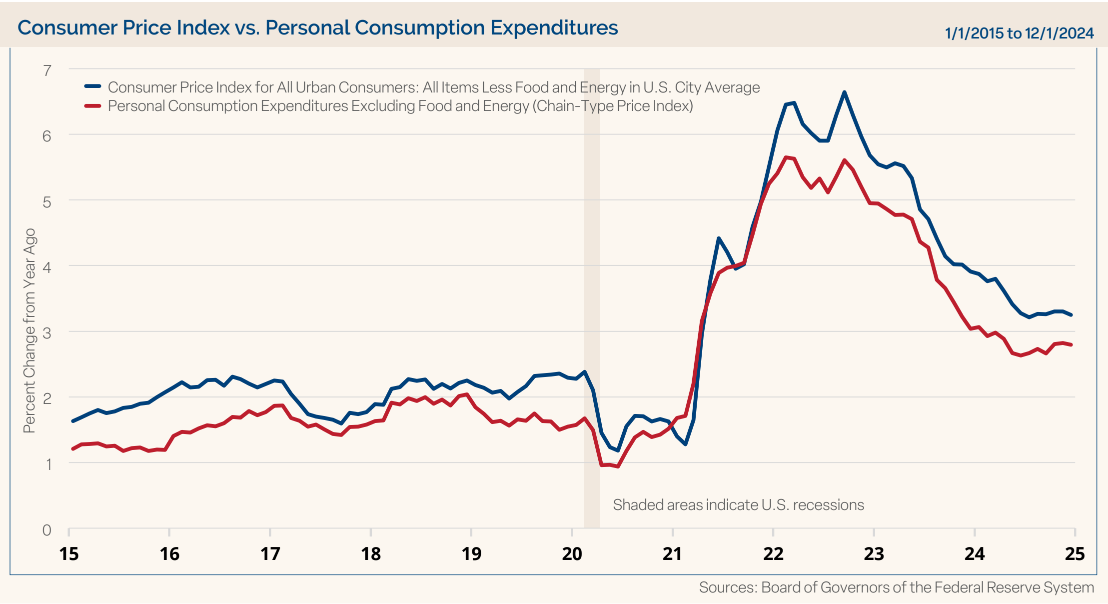
Overall, we believe inflation continues to make progress toward the Fed's ultimate stated goal of around 2% for the core PCE price index reading. We expect this path to be bumpy, but believe the trend continues to show progress on the inflation front. Fed Chairman Powell said he will continue to lead the Fed until his term expires in May 2026, which includes overseeing monetary policy decisions. The market is pricing in only one rate cut in 2025 and the FOMC paused rate cuts during the January meeting. While some inflation concerns linger as we change to a new administration, driven largely by concerns about the impact of new tariffs, slower and fewer rate cuts should ease some of that fear. **Chart 2** shows the core CPI and PCE price indices (recall the Federal Reserve targets the core PCE reading).



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GDP: The first reading of the fourth quarter of 2024 GDP was somewhat disappointing. Following a surprisingly positive final reading of the third quarter GDP of 3.1%, the advance or preliminary reading of the fourth quarter GDP showed a 2.3% annualized growth rate. Expectations were calling for a reading of 2.6%. The Atlanta Fed GDP Now estimate for the first quarter of 2025 growth is 3.9% (as of 2/3/25), indicating a potentially solid beginning to the new year. We believe that GDP growth has the potential to be around 2.5% in 2025. **Chart 3** shows GDP readings from the second quarter of 2021 through the first estimate of the fourth quarter of 2024.

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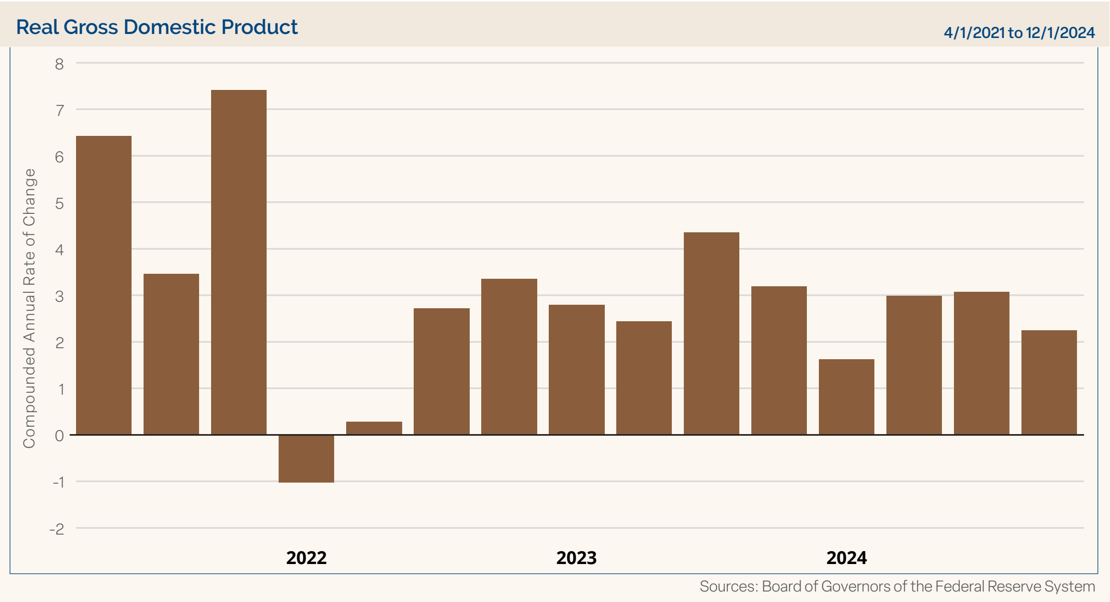

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Other Economic Data Points: The ISM indices were better than expected in December. The ISM Manufacturing Index came in at 49.3 compared to expectations of 48.2 but remained below the expansion/contraction line of 50. (However, the ISM reading for January was 50.9, surpassing estimates of 50.0, and moving into expansion territory for the first time in over two years). The ISM Non-Manufacturing Index, which covers the much larger service industries in the U.S. economy, rebounded to 54.1 compared to expectations of 53.5. Both readings improved from November levels.

Housing, which has faced a headwind of recent higher rates, found some footing in December with better-than-expected readings across the board. Housing starts, preliminary building permits, and new and existing home sales surpassed expectations when data was released in January. Furthermore, all readings except for preliminary building permits improved from November.

Retail sales (ex. auto and gas) noted a 0.3% monthly gain in December but were behind expectations of 0.4% growth. The preliminary University of Michigan Sentiment reading for January fell to 73.2 compared to expectations and the prior reading of 74.0. The Conference Board's Leading Index fell back into negative territory with a -0.1% reading after posting a revised 0.4% gain in November.

The stock market began the new year on a positive note. Following two years of solid gains, 2025 started with a broad-based stock market advance as well. Bonds were modestly positive in January after fighting off rising rates at the start of the month. While ultimately flat, rates moved lower during the latter part of January and bonds advanced. From a market perspective, there is an overall sense of a more business and regulation-friendly environment with the new administration, but there is also concern regarding tariffs and their potential impact. This year we will monitor new policies and their influence on the market and economy, but emphasize that chasing news headlines is ill-advised in a very fluid environment. Focusing on market fundamentals, we believe the economy is solidly growing, the Fed will cut interest rates (slower than expected), and the fairly reasonably valued stock market and S&P 500 companies have the potential to increase their earnings by approximately the mid-teens in 2025. We like that fundamental backdrop as we begin 2025. As always, we believe investors must stay focused on their long-term goals and not let short-term swings in the market derail them from their longer-term objectives.

Clark Capital's Top-Down, Quantitative Strategies

The economy ended 2024 on a high note, increasing 2.3% in the fourth quarter. For the 2024 year, the economy grew at a 2.5% pace. Starting in 2025, the economic momentum continues and, as such, the Federal Reserve held overnight rates steady at its January 29 meeting after cutting rates during the prior three sessions. After faltering in December, the markets posted solid returns in January – the S&P 500 gained 2.78%, the Russell 2000 gained 2.62%, the S&P 500 Equal Weight gained 3.50%, and the MSCI ACWI ex-US gained 4.03%. Fixed income indices also posted gains – the High Yield Index was up 1.37%, and the 7-10 Year Treasury Index was up 0.67%.

Historically, February is the second worst month of the year for S&P 500 returns; September is the first. While DeepSeek and tariff news have caused volatility, the markets are muting the noise and focusing on solid fundamentals. In our 2025 outlook, we stated that we believe it will be a good year for stocks, but not a straight line higher, and with increased volatility. So far, it looks like we are getting that.

Clark Capital's Bottom-Up, Fundamental Strategies

U.S. equities gained in January, supported by positive market breadth. The S&P 500 Equal Weight outperformed the cap-weighted S&P 500 Index by over 70 basis points, while small-caps recovered from their December decline. Treasuries were firmer with the yield curve steepening amidst the Trump administration deregulation dynamics.

Chinese AI maverick DeepSeek suppressed gains in large-cap growth, AI infrastructure, and utility stocks at month's end as their model's gains from cheaper semiconductors raised questions about the potential return on expensive CapEx investment. The next 12-month earnings expectations continue to breach new highs for the S&P 500. If 2025 earnings growth fails to meet expectations, a market defensive rotation could benefit dividend stocks. Treasury yields were steady during the month as 2-year and 10-year Treasury yields stayed near 4.2% and 4.5%, respectively.

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Economic Data

Event	Period	Estimate	Actual	Prior	Revised
ISM Manufacturing	Dec	48.3	49.3	48.4	—
ISM Services Index	Dec	53.5	54.1	52.1	52.5
Change in Nonfarm Payrolls	Dec	165k	256k	227k	212k
Unemployment Rate	Dec	4.20%	4.10%	4.20%	—
Average Hourly Earnings YoY	Dec	4.00%	3.90%	4.00%	—
JOLTS Job Openings	Nov	7740k	8098k	7744k	7839k
PPI Final Demand MoM	Dec	0.40%	0.20%	0.40%	—
PPI Final Demand YoY	Dec	3.50%	3.30%	3.00%	—
PPI Ex Food and Energy MoM	Dec	0.30%	0.00%	0.20%	—
PPI Ex Food and Energy YoY	Dec	3.80%	3.50%	3.40%	3.50%
CPI MoM	Dec	0.40%	0.40%	0.30%	—
CPI YoY	Dec	2.90%	2.90%	2.70%	—
CPI Ex Food and Energy MoM	Dec	0.30%	0.20%	0.30%	—
CPI Ex Food and Energy YoY	Dec	3.30%	3.20%	3.30%	—
Retail Sales Ex Auto and Gas	Dec	0.40%	0.30%	0.20%	—
Industrial Production MoM	Dec	0.30%	0.90%	-0.10%	0.20%
Building Permits	Dec P	1460k	1483k	1493k	—
Housing Starts	Dec	1327k	1499k	1289k	1294k
New Home Sales	Dec	675k	698k	664k	674k
Existing Home Sales	Dec	4.20m	4.24m	4.15m	—
Leading Index	Dec	-0.10%	-0.10%	0.30%	0.40%
Durable Goods Orders	Dec P	0.60%	-2.20%	-1.20%	-2.00%
GDP Annualized QoQ	4Q A	2.60%	2.30%	3.10%	—
U. of Mich. Sentiment	Jan P	74	73.2	74	—
Personal Income	Dec	0.40%	0.40%	0.30%	—
Personal Spending	Dec	0.50%	0.70%	0.40%	0.60%
S&P CoreLogic CS 20-City YoY NSA	Nov	4.24%	4.33%	4.22%	4.23%

Source: Bloomberg; T=Third, P=Preliminary.

For illustrative purposes only. Past performance is not indicative of future results. Neither past actual, projections, nor other forward looking statements regarding future financial performance of markets are only projections and actual events or results may differ materially.

Disclosures

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The manager utilizes a proprietary investment model to assist with the construction of the strategy and to assist the manager with making investment decisions. Investments selected using this process may perform differently than expected as a result of the factors used in the model, the weight placed on each factor, and changes from the factors' historical trends. There is no guarantee that Clark Capital's use of a model will result in effective investment decisions.

Fixed income securities are subject to certain risks including, but not limited to: interest rate (changes in interest rates may cause a decline in market value or an investment), credit, prepayment, call (some bonds allow the issuer to call a bond for redemption before it matures), and extension (principal repayments may not occur as quickly as anticipated, causing the expected maturity of a security to increase).

Non-investment-grade debt securities (high-yield/junk bonds) may be subject to greater market fluctuations, risk of default or loss of income and principal than higher-rated securities.

The value of investments, and the income from them, can go down as well as up and you may get back less than the amount invested.

Equity securities are subject to price fluctuation and possible loss of principal. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices. Certain investment strategies tend to increase the total risk of an investment (relative to the broader market). Strategies that concentrate their investments in limited sectors are more vulnerable to adverse market, economic, regulatory, political, or other developments affecting those sectors.

JOLTS is a monthly report by the Bureau of Labor Statistics (BLS) of the U.S. Department of Labor counting job vacancies and separations, including the number of workers voluntarily quitting employment.

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

The Core Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services.

The PCE price index, released each month in the Personal Income and Outlays report, reflects changes in the prices of goods and services purchased by consumers in the United States.

The Producer Price Index (PPI) is a monthly report that measures the average change in prices received by domestic producers for their goods and services.

References to market or composite indices, benchmarks or other measures of relative market performance over a specified period of time (each, an "index") are provided for your information only. Reference to an index does not imply that the portfolio will achieve returns, volatility or other results similar to that index. The composition of the index may not reflect the manner in which a portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility or tracking error targets, all of which are subject to change. Investors cannot invest directly in an index.

The Dow Jones Industrial Average® (The Dow®), is a price-weighted measure of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities.

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The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

The Bloomberg US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index.

The NASDAQ Composite is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market.

The S&P 500 measures the performance of the 500 leading companies in leading industries of the U.S. economy, capturing 80% of U.S. equities.

The S&P 500® Equal Weight Index (EWI) is 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 S&P 500 EWI is allocated a fixed weight or 0.2% of the index total at each quarterly rebalance.

The University of Michigan Consumer Sentiment Index rates the relative level of current and future economic conditions. There are two versions of this data released two weeks apart, preliminary and revised. The preliminary data tends to have a greater impact. The reading is compiled from a survey of around 500 consumers.

The Russell 1000 Index is a stock market index that tracks the highest-ranking 1,000 stocks in the Russell 3000 Index, which represent about 93% of the total market capitalization of that index.

The Russell 2000 Index is a small-cap stock market index that represents the bottom 2,000 stocks in the Russell 3000.

The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

Nonfarm payrolls (NFPs) are the measure of the number of workers in the United States excluding farm workers and workers in a handful of other job classifications.

A municipal bond, commonly known as a muni, is a bond issued by state or local governments, or entities they create such as authorities and special districts.

The CBOE Volatility Index (VIX) is a real-time index that measures the expected volatility of the S&P 500 over the next 30 days.

The U.S. Treasury index is based on the recent auctions of U.S. Treasury bills. Occasionally it is based on the U.S. Treasury's daily yield curve.

The 30 Year Treasury Rate is the yield received for investing in a US government issued treasury security that has a maturity of 30 years.

The Bloomberg Barclays U.S. Corporate High-Yield Index covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable 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 Bloomberg Barclays U.S. Credit Index measures the investment grade, U.S. dollar denominated, fixed-rate taxable corporate and government related bond markets.

The Bloomberg Aggregate Bond Index or "the Agg" is a broad-based fixed-income index used by bond traders and the managers of mutual funds and exchange-traded funds (ETFs) as a benchmark to measure their relative performance.

The Bloomberg US Trsy Bellwethers 30Y is a U.S. Treasury debt obligation that has a maturity of 30 years.

The ISM Non-Manufacturing Index is an index based on surveys of more than 400 non-manufacturing firms' purchasing and supply executives, within 60 sectors across the nation, by the Institute of Supply Management (ISM). The ISM

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Non-Manufacturing Index tracks economic data, like the ISM Non-Manufacturing Business Activity Index. A composite diffusion index is created based on the data from these surveys, that monitors economic conditions of the nation.

ISM Manufacturing Index measures manufacturing activity based on a monthly survey, conducted by Institute for Supply Management (ISM), of purchasing managers at more than 300 manufacturing firms.

The MSCI Emerging Markets Index captures large and mid cap representation across 27 Emerging Markets (EM) countries.

The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 27 Emerging Markets (EM) countries. With 2,359 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.*

The S&P CoreLogic Case-Shiller 20-City Composite Home Price NSA Index seeks to measures the value of residential real estate in 20 major U.S. metropolitan areas. The U.S. Treasury index is based on the recent auctions of U.S. Treasury bills. Occasionally it is based on the U.S. Treasury's daily yield curve.

The Leading Economic Index provides an early indication of significant turning points in the business cycle and where the economy is heading in the near term.

In the United States, the Core Personal Consumption Expenditure Price (CPE) Index provides a measure of the prices paid by people for domestic purchases of goods and services, excluding the prices of food and energy.

The Conference Board's Leading Indexes are the key elements in an analytic system designed to signal peaks and troughs in the business cycle. The leading, coincident, and lagging economic indexes are essentially composite averages of several individual leading, coincident, or lagging indicators. They are constructed to summarize and reveal common turning point patterns in economic data in a clearer and more convincing manner than any individual component – primarily because they smooth out some of the volatility of individual components.

Gross domestic product (GDP) is the standard measure of the value added created through the production of goods and services in a country during a certain period.