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2025 Outlook

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Economy: Economic output has continued its steady ascent while inflation has shown enough stability to give the Fed the confidence it needed to begin shifting policy back to a slightly more accommodative stance.

- The Atlanta Fed's most recent data-driven projections show Q4 GDP growth should come in at about 3.1%. Official BEA figures had Q2 and Q3 growth at 3.0% and 3.1%, respectively. This strength, resilience and consistency has defied the expectations of many market observers that have been suggesting the Fed's restrictive policy would most likely lead to recession. With no signs of a pending debt crisis and credit still widely available (although at higher rates and lower releases), no economic deceleration has emerged. Instead, the US consumer has continued to spend and drive GDP higher. With slightly easier monetary conditions and a couple of years of very strong gains in the stock market creating a "wealth effect" supportive of even more spending, the most likely outcome for 2025 is something close to a repeat of the past year.

- The labor market began to normalize in the middle of 2024, sparking concerns that it was weakening and building negative momentum. Instead, the labor market appears to have stabilized at healthy levels of employment, still supporting overall growth and wage increases. This normalization, or perceived weakness, helped push the Fed to move away from its seemingly restrictive monetary policy and now we must monitor if the shift was premature.

- We believe inflation is generally controlled, although it appears to have gotten stuck in the high 2%'s instead of falling back to longer-term targets in the low 2%'s. We continue to look at shelter inflation and generally negative market rents nationally as a headwind for inflation, likely preventing a potential spike back higher in 2025 even with more accommodative Fed policy now in place. Fundamental imbalances in the housing and rental markets do create the risk of reaccelerating inflation in 2026 and beyond.

- These fundamental imbalances in the multifamily housing market create an interesting opportunity set for investors. In the short term, high growth markets are seeing oversupply of newly constructed units, with these new units all coming online at the same time and competing against one another. This results in rent concessions, competition, and an overall headwind for rent growth until those new units fill up. This oversupply was driven by an

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abundance of new development deals coming together during the easy money, zero interest rate environment of 2021 and early 2022. Construction debt was cheap and widely available and equity capital was easily raised due to excess risk taking and the "TINA" (There Is No Alternative) mindset. The markets currently digesting these new units are the clear laggards in rent growth, and the weakness appears to be pushing buyers to more cautious decision making until they see resolution. We see that resolution as likely to be achieved by the end of next Summer. As interest rates shot up, the development pipeline shut off. These growth markets, as well as others, could actually see a supply shortage within the next year as very few new units are on track for completion. Meanwhile, demand is strong as population and job growth continue in these markets while for-sale housing appears non-viable as an alternative due to high costs and mortgage rates. These dynamics should support existing multifamily investments and make new investments worth evaluating.

- Private markets are still facing challenges due to illiquidity. The past couple of quarters have seen a notable uptick in M&A activity, but large exits in PE and VC require access to public market capital. The IPO window has largely remained closed through the end of 2024, and we are looking for more companies to go public with the major stock indices near all time highs in 2025. This would bolster both liquidity and risk appetite in private markets.

Stocks: The S&P 500 closed 2024 out at 5,882, representing a 23.3% gain for the year and an increase of over 1,100 points in price.

- Hollencrest sees the most likely path for stocks as being higher in 2025. We expect the S&P 500 could surpass 6,600 and possibly reach 7,000 at some point during the year. Continuing economic growth combined with productivity and tech investment should result in earnings growth that will support the next leg higher in the market. Other boosts could come from margin improvement with any favorable change in corporate taxes as well as the overall expectation of less regulation under the newly elected administration.

- Despite the bullish expectations for the year, we enter 2025 with some volatility and a market that looks like it may be correcting. After hitting an all-time closing high of 6,090 on the S&P 500 in early December, volatility began to emerge and the index fell 3.4% from that high. At the market's high, sentiment was extremely positive, which can give rise to these modest corrections. Breadth has deteriorated significantly with a high number of stocks now trading below key moving averages. Although it creates a negative outlook for the short-term, this is a near-requisite condition that is usually met before the market can deliver a thrust creating the momentum to achieve our aforementioned expectations.

- One of the more common objections to a strongly bullish call for 2025 is that it seems unlikely that the market could rise significantly three years in a row. We disagree. This thinking could have an investor missing out on a year of strong returns in a sustained, long term bull market. Valuation is certainly a concern in this equation, but strong economic and earnings

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growth allows stocks to grow into their prices, especially with a moderate price correction to start the year.

- Although Hollencrest's market indicators are more mixed than they have been in recent months, we maintain, and will continue to maintain, equity exposure near maximums until we get a clear sell signal. Additionally, for our more aggressive clients with risk tolerance for more concentrated equity exposure and its associated volatility and potential for drawdown, we have begun to implement a new equity strategy consisting of a custom basket of stocks. The strategy focuses on both the largest companies by market cap in the major indices as well as those that have performed best recently, with technical screens in place to make sure we buy names that are exhibiting strength and sell when their uptrends end. While many money managers seek ways to mitigate concentration risk generated by high weightings to mega cap stocks in the broad indices, we believe these stocks generally have the best potential for continuing appreciation. To have achieved such enormous market capitalizations and their associated weightings in the indices, these companies almost always have exhibited a powerful combination of tremendous earnings growth and positive price action - they are great companies exhibiting great growth. The strategy is also built on the principle of momentum, which we believe is one of the most powerful drivers of price appreciation in public markets. Diversifying out of these names often creates underperformance potential for active managers, and we seek the opposite.

Bonds and Rates: Treasury yields generally rose throughout Q4 after the Fed's policy shift and new concerns about fiscal discipline and inflation potential caused some skittishness in the bond market.

- The Fed was very convincing with their communication heading into Q4, setting expectations for a meaningful easing cycle as inflation continued to decline to their long-term targets. During Q4, the lack of further improvement in inflation combined with continued economic growth and market concerns about a resumption of inflation mean that the Fed will have a tough time cutting Fed Funds meaningfully from the current 4.25% to 4.5% target range, at least for the foreseeable future.

- The 10-Year Treasury's yield rose to 4.57%, up nearly 80 bps for the quarter. The yield curve steepened and dis-inverted as the Fed cut rates and buyers' longer-term yield requirements rose. With inflation still likely to settle in somewhere between 2% and where it is today, the premium over inflation expectations is fairly high. This yield premium for longer term bonds represents additional compensation required currently for the uncertainty over what might occur in the coming years. This creates potential that any news or policy item that creates more certainty in the bond market's outlook could cause yields to pull back.

- Credit spreads remain tight and credit is generally available to strong borrowers. We continue to monitor these credit indicators for any meaningful shifts as a freeze in credit markets is usually the trigger for a more widespread pullback in economic growth and risk markets.

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