

First Quarter 2025 Investment Environment

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February 26, 2025



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Agenda

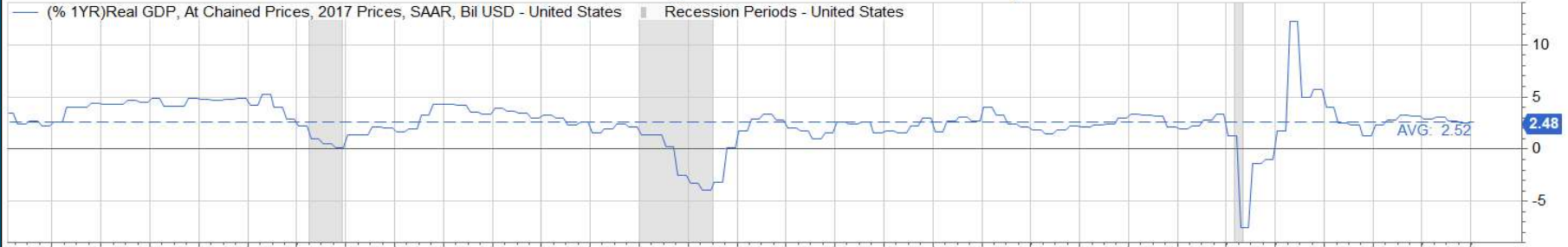
- The Economy
- Equities
- Fixed Income

The Economy

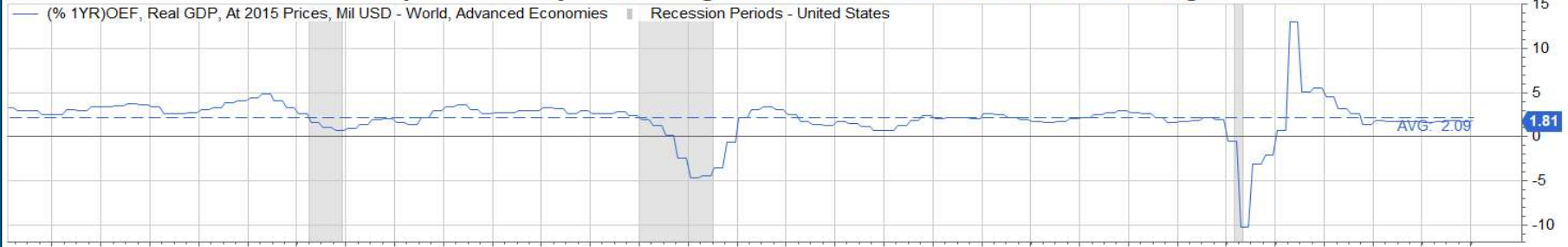
- Solid economic growth in the US and weaker economic growth abroad
- Improving US leading economic indicators from weak levels
- Persistent inflation means fewer near-term interest rate cuts
- Policy concerns



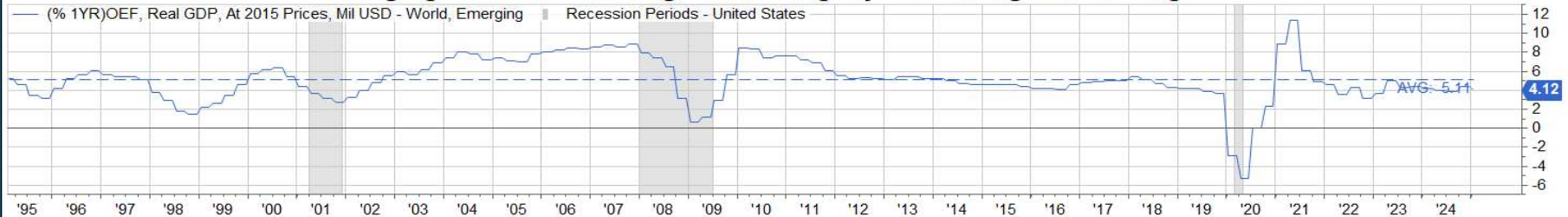
US real GDP growth is in line with history



Developed economy real GDP growth is weaker than historical average



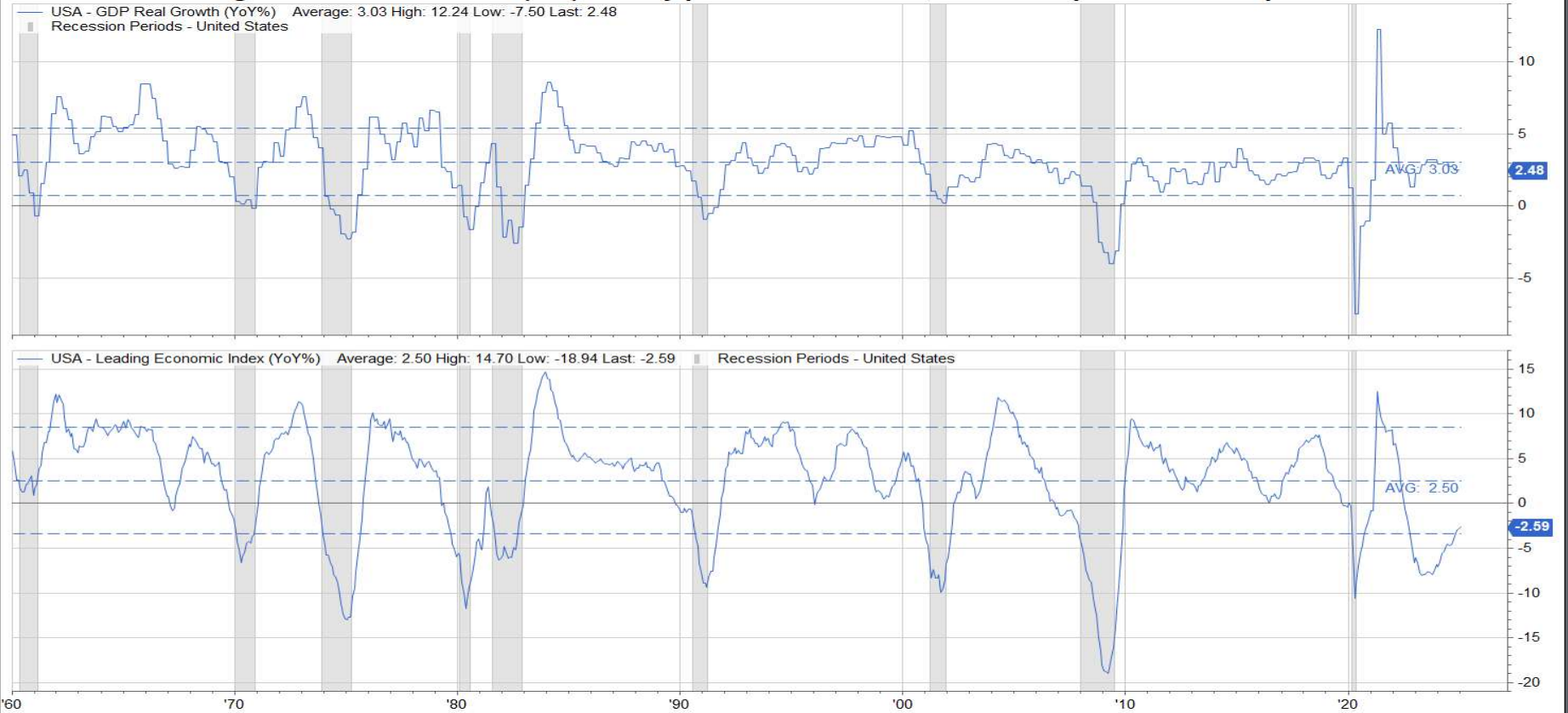
Emerging market real GDP growth is slightly below long term averages



Source: FactSet



Weak Leading Economic Indicators (LEI) usually point to recessions, LEI has improved from depressed levels



According to NBER, a recession is defined as a significant decline in economic activity lasting more than a few months. Most stock bear markets, defined as a 20% decline in stock prices; occur around recessions.
Source: FactSet



US Inflation has retreated from COVID related highs but remains above 30 year averages

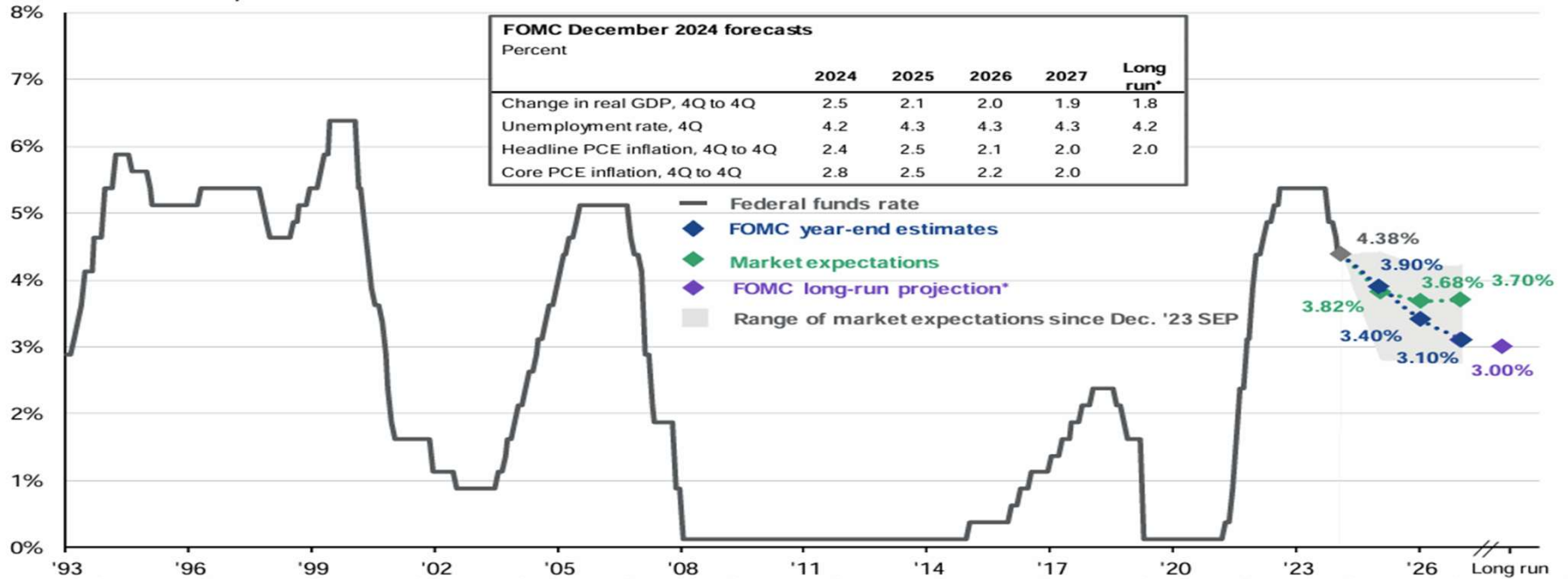


Source: FactSet

Persistent inflation has caused the Federal Reserve and investors to count on fewer rate cuts

Federal funds rate expectations

FOMC and market expectations for the federal funds rate



Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.

Market expectations are based off of USD Overnight Index Swaps. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated. *Guide to the Markets - U.S.* Data are as of February 24, 2025.

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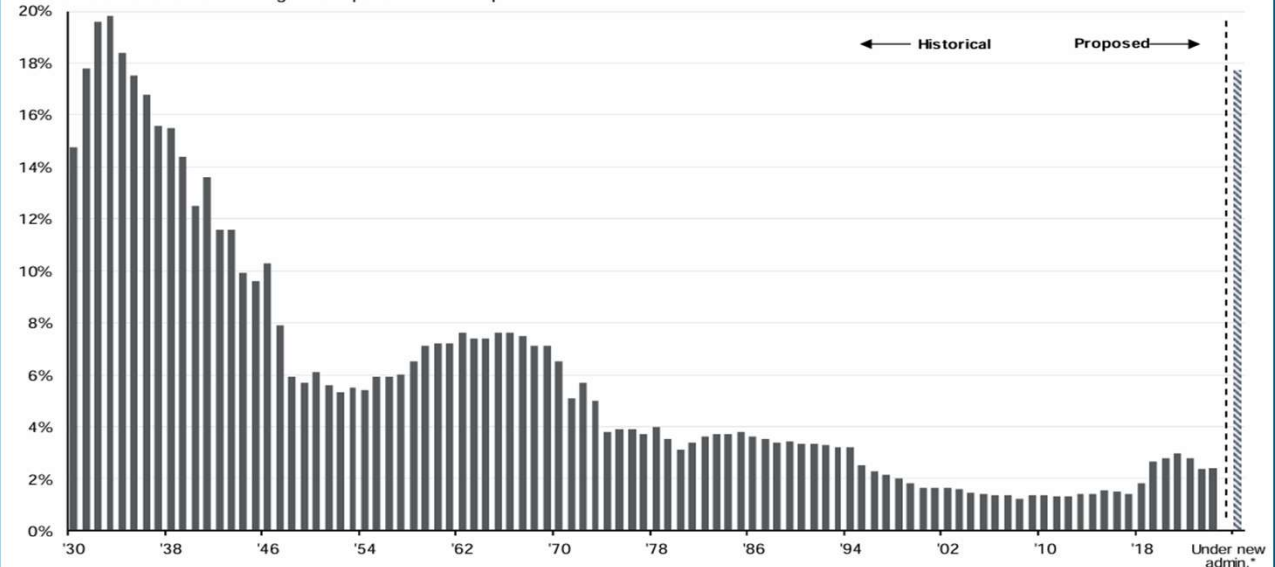
Some investors are worried higher tariffs may cause inflation pressures and limit economic growth

Tariffs on U.S. imports

GTM U.S. 31

Average tariff rate on U.S. goods imports for consumption

Duties collected / value of total goods imports for consumption



Source: Tax Foundation, United States International Trade Commission, U.S. Department of Commerce, J.P. Morgan Asset Management. Imports for consumption: goods brought into a country for direct use or sale in the domestic market. *Estimate is by the Tax Foundation as of October 2024 and assumes a 20% universal tariff as well as a 60% tariff on Chinese imports. May not be updated as of the latest announcements regarding tariffs and U.S. trade policy and is subject to change. Forecasts are based on current data and assumptions about future economic conditions. Actual results may differ materially due to changes in economic, market and other conditions. *Guide to the Markets - U.S.* Data are as of February 24, 2025.

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Analysis by the Tax Foundation and Tax Policy Center found that if some to all of the Trump proposed tariffs are implemented, US households would pay \$800 - \$3,000 in tariffs equal to about 1-3% of their income, Source: NPR, CNBC



A growing US federal deficit may lead to higher interest rates and slower economic growth

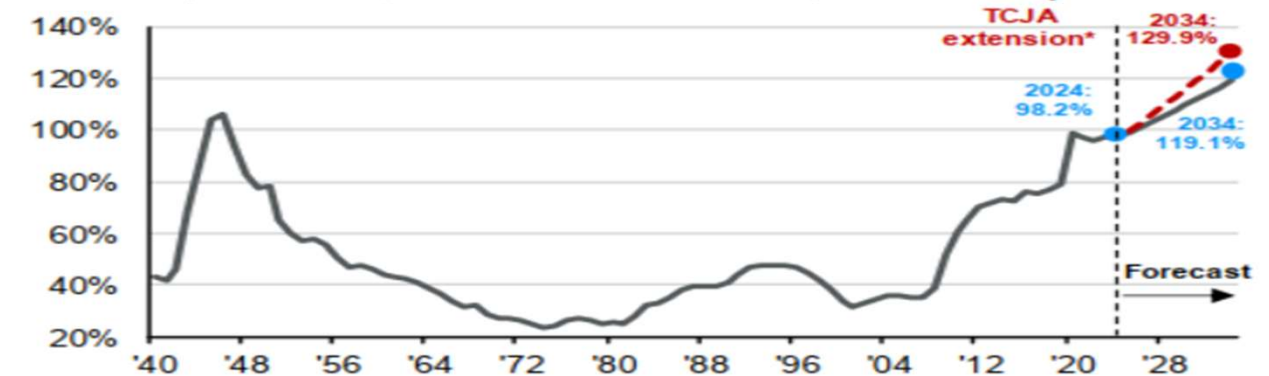
Federal deficit and net interest outlays

% of GDP, 1973-2034, CBO Baseline Forecast



Federal net debt (accumulated deficits)

% of GDP, 1940-2034, CBO Baseline Forecast, end of fiscal year



Source: JP Morgan Asset Management, BEA, Treasury Department and Congressional Budget Office



Equities

- US equities have a good run in part due to solid earnings growth
- We have an elevated and top-heavy US stock market
- The next 5 years may see more muted stock returns
- Opportunities in value, small cap and international stocks
- The importance of staying invested



US equities have had a good run

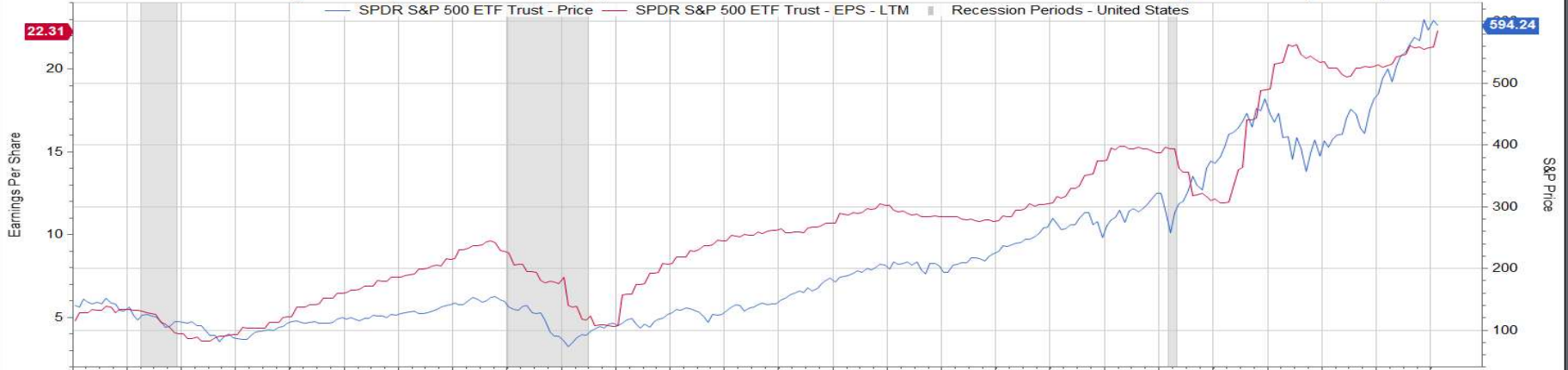
S&P 500 Price Index



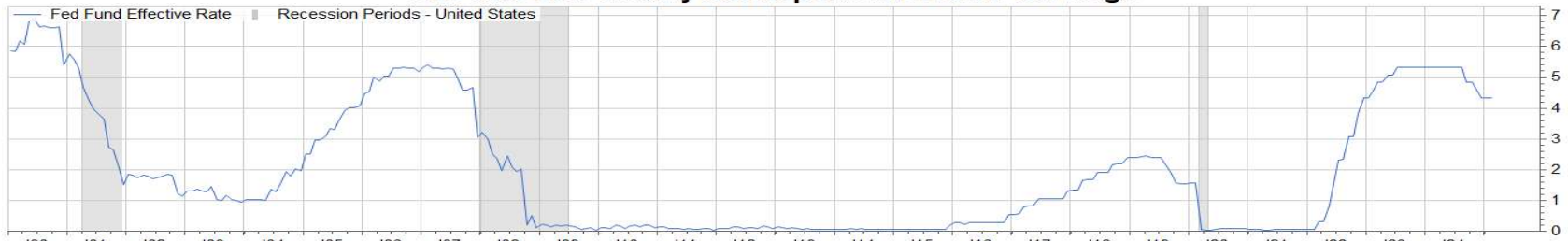
Source: Compustat, FactSet, Federal Reserve, Refinitiv Datastream, Standard & Poor's, J.P. Morgan Asset Management. Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by Compustat. Forward price-to-earnings ratio is a bottom-up calculation based on IBES estimates and FactSet estimates since January 2022. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns. Guide to the Markets - U.S. Data are as of February 24, 2025.

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The stock market generally follows earnings over time. If/when a recession occurs stock prices may feel pressure.



Fed rate cuts usually correspond with lower earnings



Source: FactSet

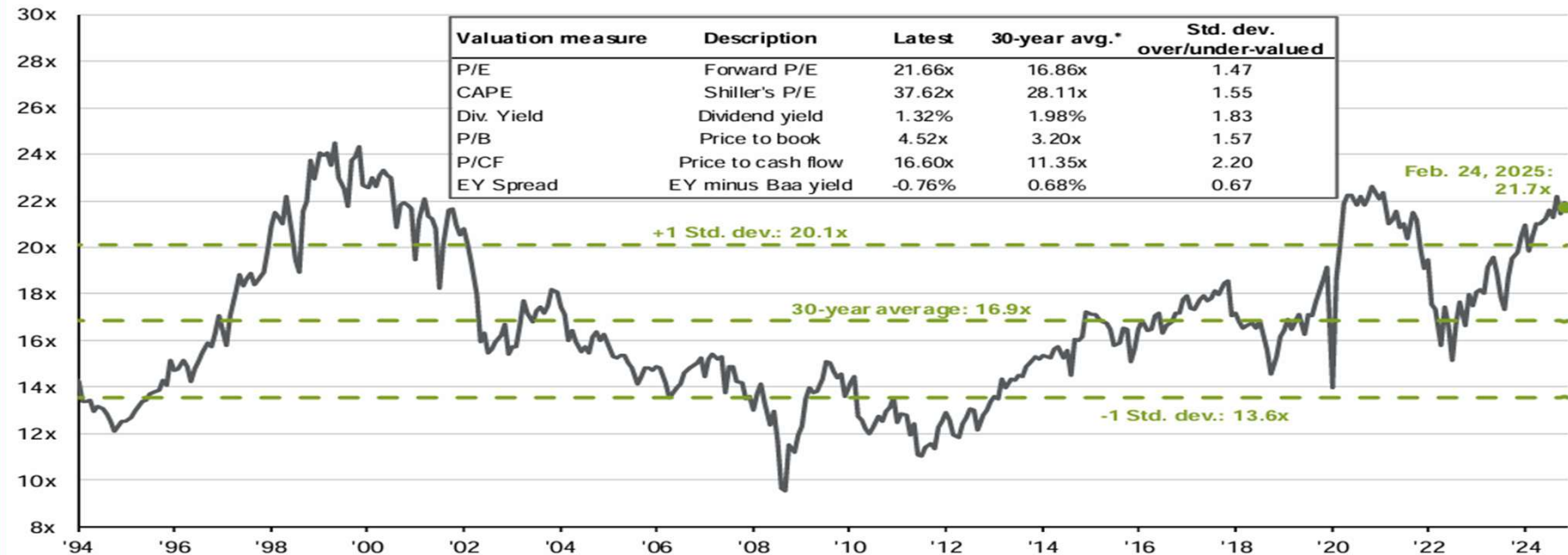
S&P earnings grew 16.9% in 4Q 24 and are expected to grow 12.7% in 2025
 Source: FactSet & FactSet Earnings Insight 2/14/25

Past performance is not a guarantee or predictor of future performance.



The US stock market is elevated now

S&P 500 Index: Forward P/E ratio

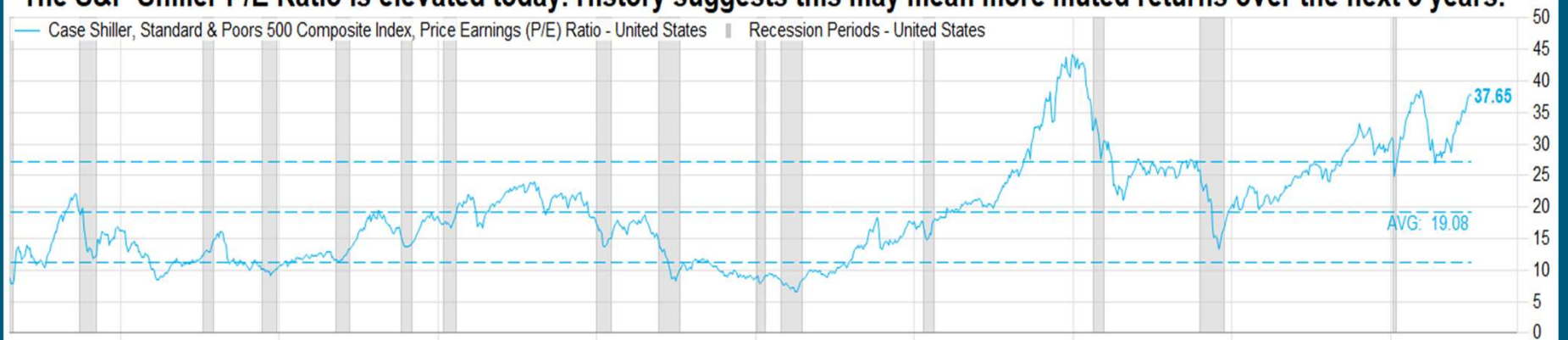


Source: FactSet, FRB, Refinitiv Datastream, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management. Price-to-earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since March 1994 and by FactSet since January 2022. Average P/E and standard deviations are calculated using 30 years of history. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as the next 12-months consensus dividend divided by most recent price. Price-to-book ratio is the price divided by book value per share. Price-to-cash flow is price divided by NTM cash flow. EY minus Baa yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Bloomberg US corporate Baa yield since December 2008 and interpolated using the Moody's Baa seasoned corporate bond yield for values beforehand. Std. dev. over-/under-valued is calculated using the average and standard deviation over 30 years for each measure. *Averages and standard deviations for dividend yield and P/CF are since November 1995 due to data availability. Guide to the Markets - U.S. Data are as of February 24, 2025.

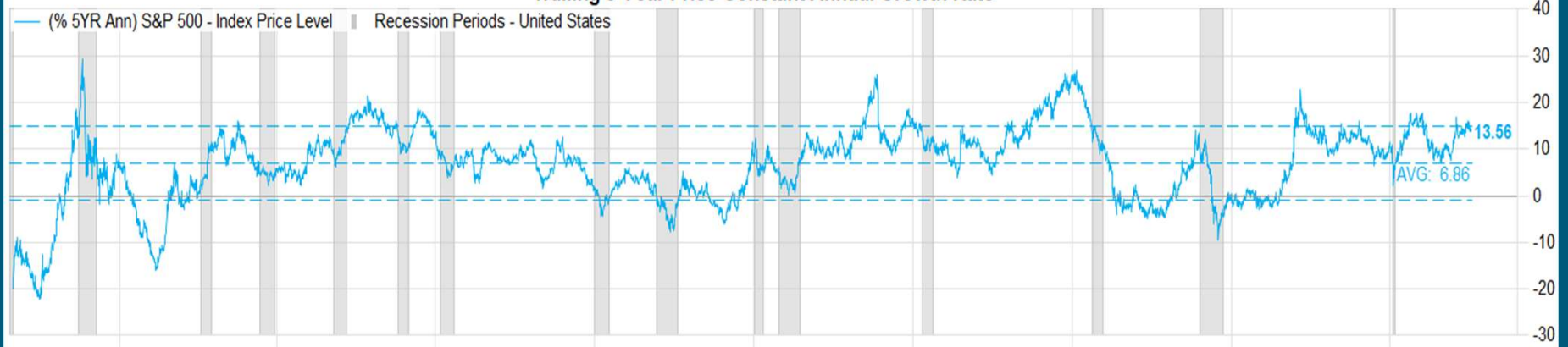
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The S&P Shiller P/E Ratio is elevated today. History suggests this may mean more muted returns over the next 5 years.



Trailing 5 Year Price Constant Annual Growth Rate



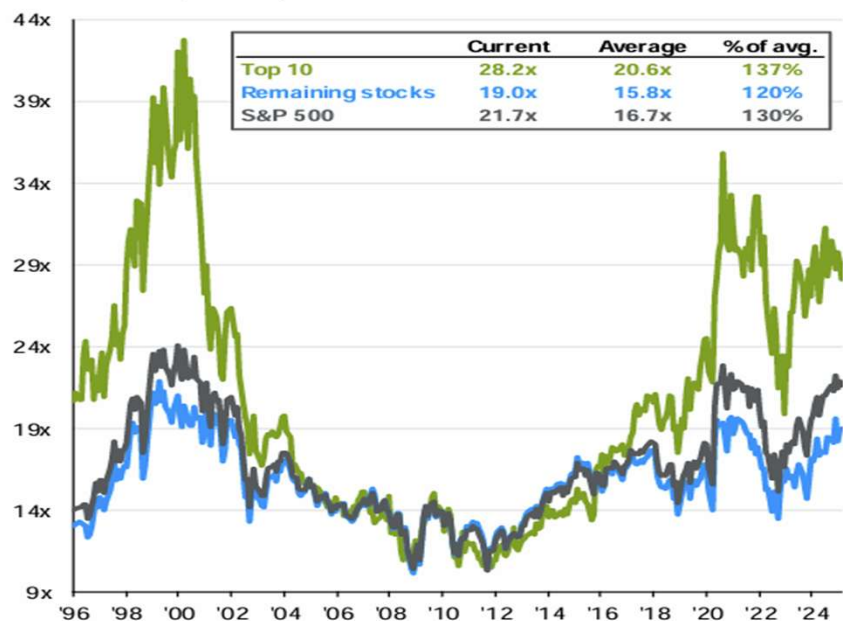
Source: FactSet

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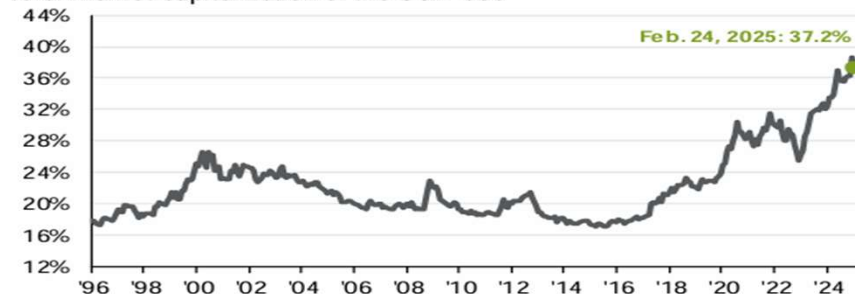


The top 10 stocks' valuations and S&P weighting are elevated versus the broader market

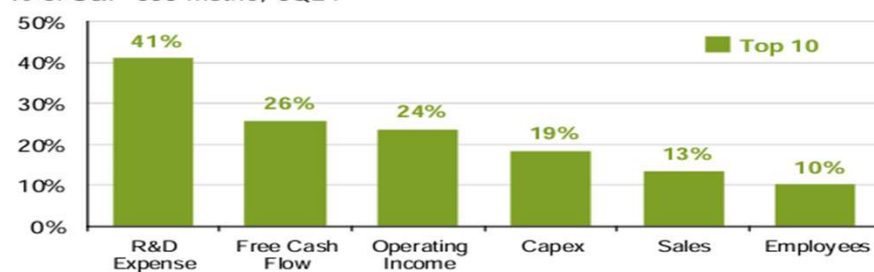
P/E ratio of the top 10 and remaining stocks in the S&P 500
Next 12 months, 1996 - present



Weight of the top 10 stocks in the S&P 500
% of market capitalization of the S&P 500



Economic concentration in the S&P 500
% of S&P 500 metric, 3Q24



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. The top 10 S&P 500 companies are based on the 10 largest index constituents at the beginning of each quarter. As of 1/31/2025, the top 10 companies in the index were AAPL (7.0%), MSFT (6.0%), NVDA (5.8%), AMZN (4.3%), GOOGL/GOOG (4.2%), META (2.9%), TSLA (2.2%), AVGO (2.0%), BRK.B (1.7%) and JPM (1.5%). The remaining stocks represent the rest of the 492 companies in the S&P 500.
Guide to the Markets - U.S. Data are as of February 24, 2025.

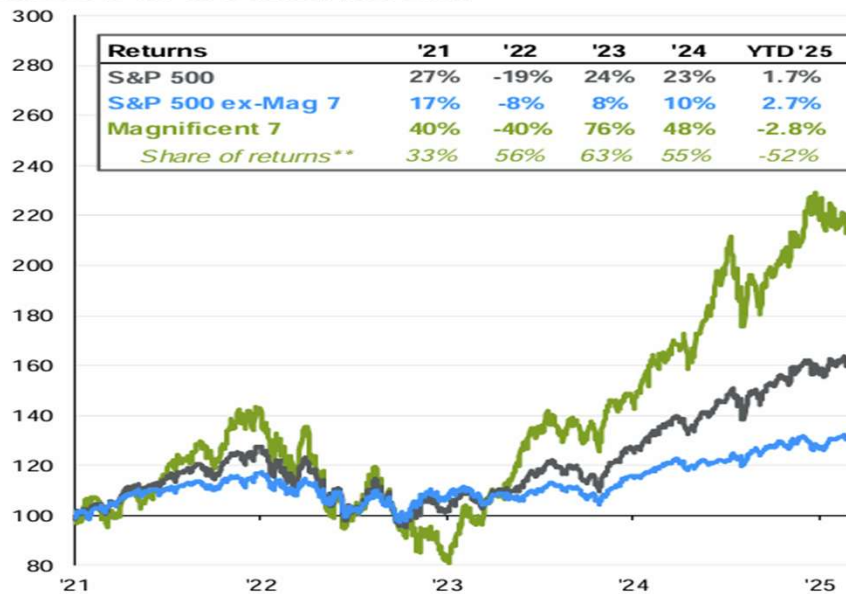
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The Magnificent 7 contributed 55-63% of S&P returns from 2022-2024. Mag 7 relative earnings growth advantage is moderating.

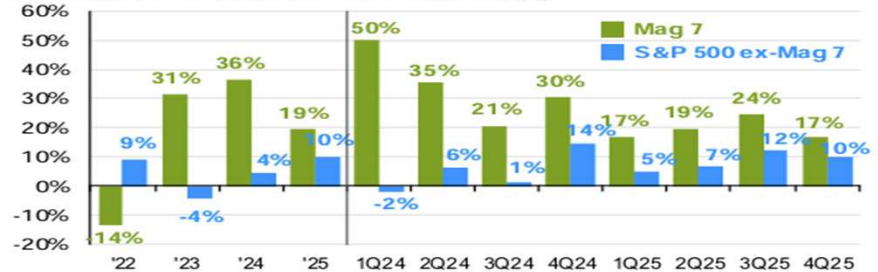
Performance of “Magnificent 7” stocks in S&P 500*

Indexed to 100 on 1/1/2021, price return



Earnings growth

Pro forma EPS, estimates 4Q24 onwards, y/y



Profit margins

Quarterly earnings/sales



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.

*Magnificent 7 includes AAPL, AMZN, GOOG, GOOGL, META, MSFT, NVDA and TSLA. Earnings estimates for 2024 and 2025 are forecasts based on consensus analyst expectations. **Share of returns represent how much each group contributed to the overall return.

Guide to the Markets – U.S. Data are as of February 24, 2025.

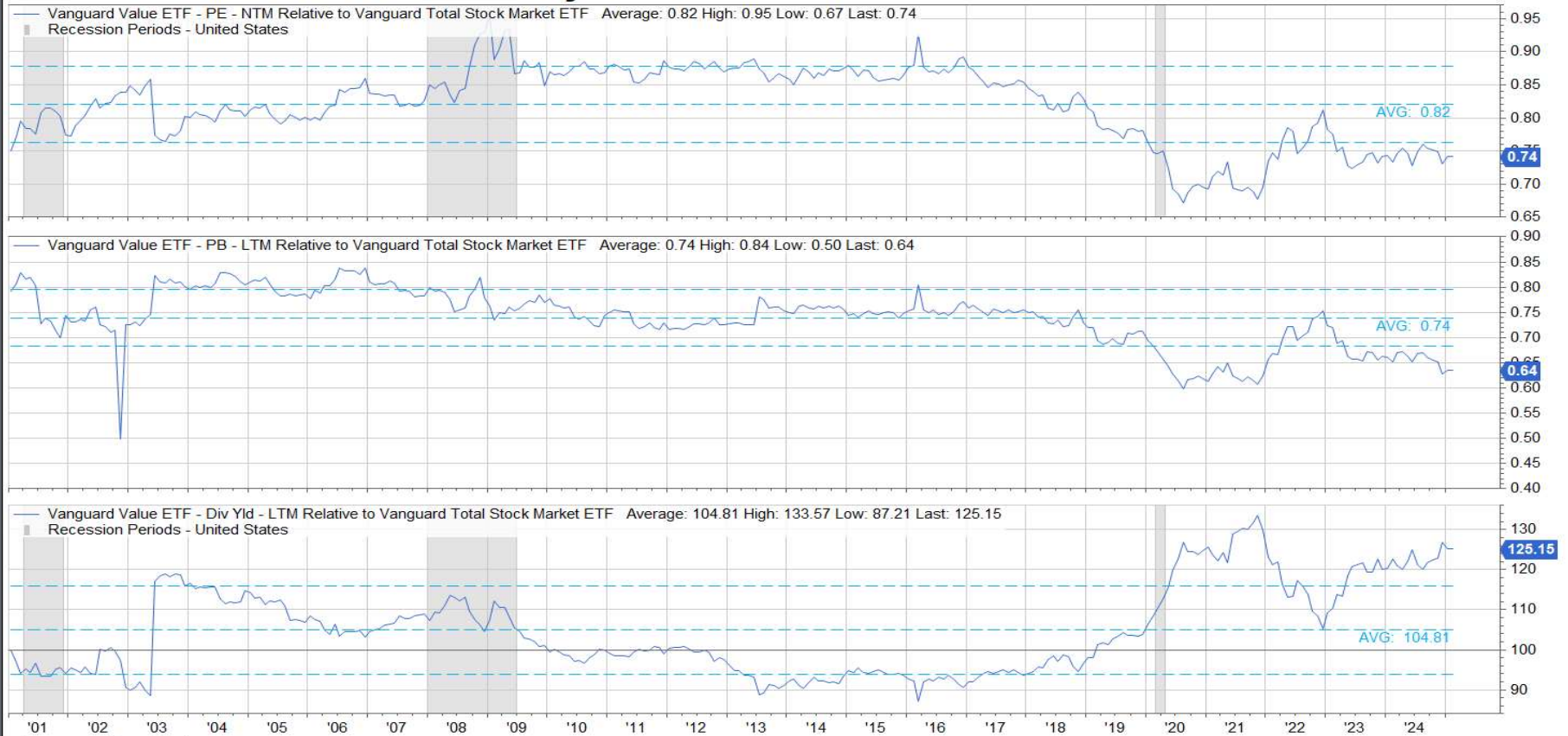
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US value is relatively attractive versus the US stock market

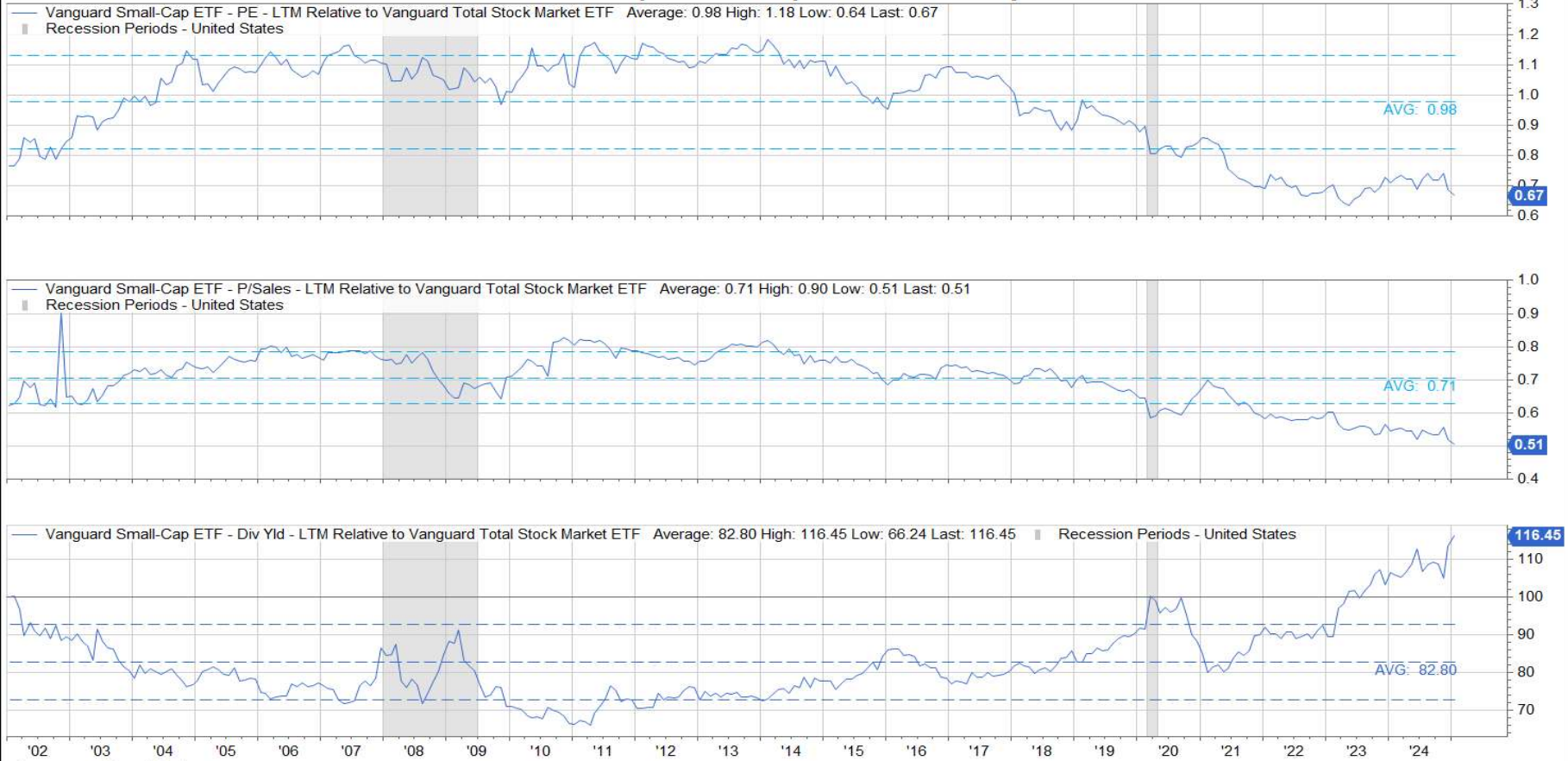


Source: FactSet

Past performance is not a guarantee or predictor of future performance.



US small cap looks inexpensive vs history



Source: FactSet

Past performance is not a guarantee or predictor of future performance.



The US outperformed most of the last 17 years. The US is a much smaller % of world GDP and population.



	2024 GDP	% of Total	Population	% of Total	Current % of Market Cap
US	29.17	26.5%	336,810,000	4.3%	65.00%
Advanced Economies Excluding US	64.68	58.8%	763,190,000	9.6%	25.00%
Emerging and Developing Economies	45.38	41.2%	6,820,000,000	86.1%	10.00%
World	110.06		7,920,000,000	100.00%	

Source: JP Morgan Asset Management and International Monetary Fund
 Past performance is no guarantee of future results

Performance Scorecard:
 US equities outperformed the last 15 years and in 2024. The US is underperforming 2025 YTD.

Returns	YTD 2025		2024		15-years	
	Local	USD	Local	USD	Ann.	Beta
Regions						
U.S. (S&P 500)	-	1.9	-	25.0	14.4	1.0
AC World ex-U.S.	5.5	7.1	13.2	6.1	5.8	1.0
EAFE	6.0	8.3	11.8	4.3	6.4	1.0
Europe ex-UK	10.4	11.8	8.1	1.0	7.0	1.1
Emerging markets	5.2	5.8	13.7	8.1	3.9	1.0
Selected Countries						
Japan	-1.7	3.4	21.2	8.7	6.3	0.8
United Kingdom	6.3	7.1	9.5	7.5	5.6	1.0
France	9.5	10.7	1.8	-4.6	6.9	1.2
Canada	2.1	3.1	23.0	12.7	6.7	1.1
Germany	12.7	14.0	18.4	11.0	6.9	1.3
China	16.2	16.3	19.8	19.7	3.2	0.9
Taiwan	1.4	1.5	44.3	35.1	12.7	1.0
India	-6.8	-8.0	15.7	12.4	7.0	0.9
Brazil	4.9	11.9	-11.4	-29.5	-1.0	1.3

Source: JP Morgan Guide to The Markets. Past performance is no guarantee of future performance.

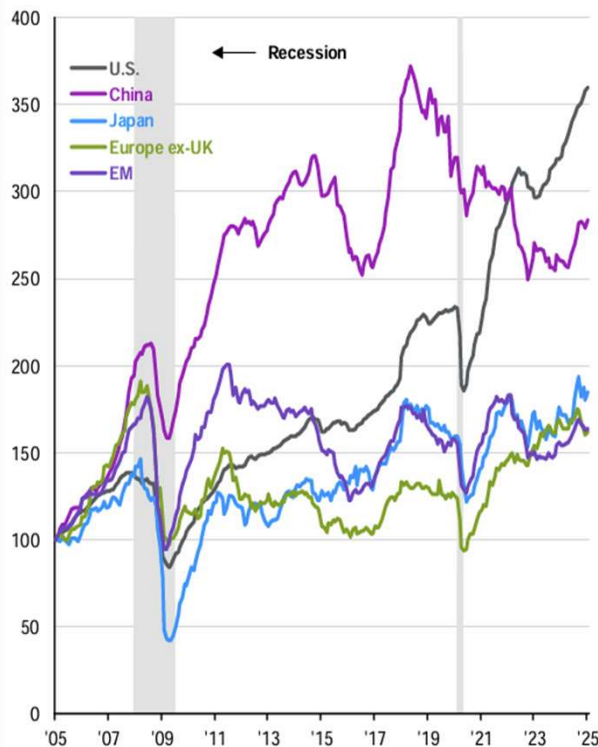
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The International Conundrum: Slower earnings growth but more attractive valuations

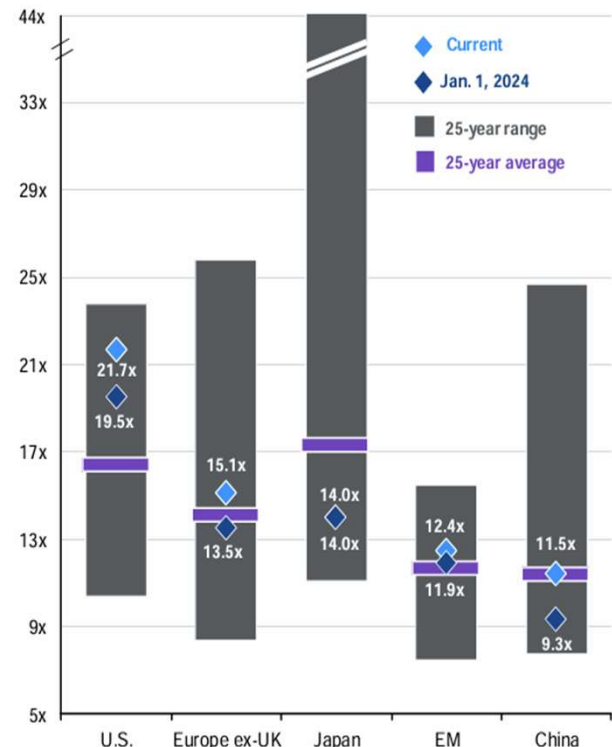
Global earnings estimates

Jan. 2005 = 100, next 12 months consensus estimates, U.S. dollars



Global valuations

Current and 25-year next 12 months price-to-earnings ratio



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management. (Left) Next 12 months consensus estimates are based on pro-forma earnings and are in U.S. dollars. (Right) The purple bars for EM and China show 20-year averages due to a lack of available data. Past performance is not a reliable indicator of current and future results. Guide to the Markets – U.S. Data are as of February 24, 2025.

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Riding out a potential rough patch is usually the best advice for most stock investors over the long run.

Month Where US Large Cap Stocks Total Return Cumulative Decline Surpassed 20%	10 Year Compound Annual Growth Rate From Start Date			
	10 years Hence	Ride it Out	Sell out and Invest 3 years Later	Sell Out and Invest 5 Years Later
October-29	October-39	-1.0%	10.1%	6.4%
May-31	May-41	2.3%	3.5%	-1.5%
September-31	September-41	6.3%	5.0%	-1.7%
December-31	December-41	6.4%	3.0%	-3.8%
April-32	April-42	8.7%	2.0%	-4.5%
May-32	May-42	12.3%	2.3%	-3.8%
November-32	November-42	9.4%	0.7%	1.3%
October-37	October-47	8.1%	7.4%	7.7%
March-38	March-48	11.9%	6.9%	11.9%
May-40	May-50	13.8%	8.6%	5.2%
September-46	September-56	18.4%	15.8%	9.7%
June-62	June-72	10.5%	4.8%	3.3%
August-74	August-84	14.2%	9.1%	6.0%
October-87	October-97	17.2%	13.8%	9.5%
July-02	July-12	6.3%	2.6%	0.6%
October-08	October-18	13.2%	14.3%	5.5%
March-20	March-21	?	?	?
Averages		9.9%	6.9%	3.2%
Pre 1950 Averages		7.2%	4.5%	1.3%
Since 1950 Averages		13.4%	9.9%	5.7%

Source: CFA Institute, Ibbotson, Candor Asset Advisors

Past performance is not a guarantee or predictor of future performance. Stocks are not guaranteed and have been more volatile than other asset classes.

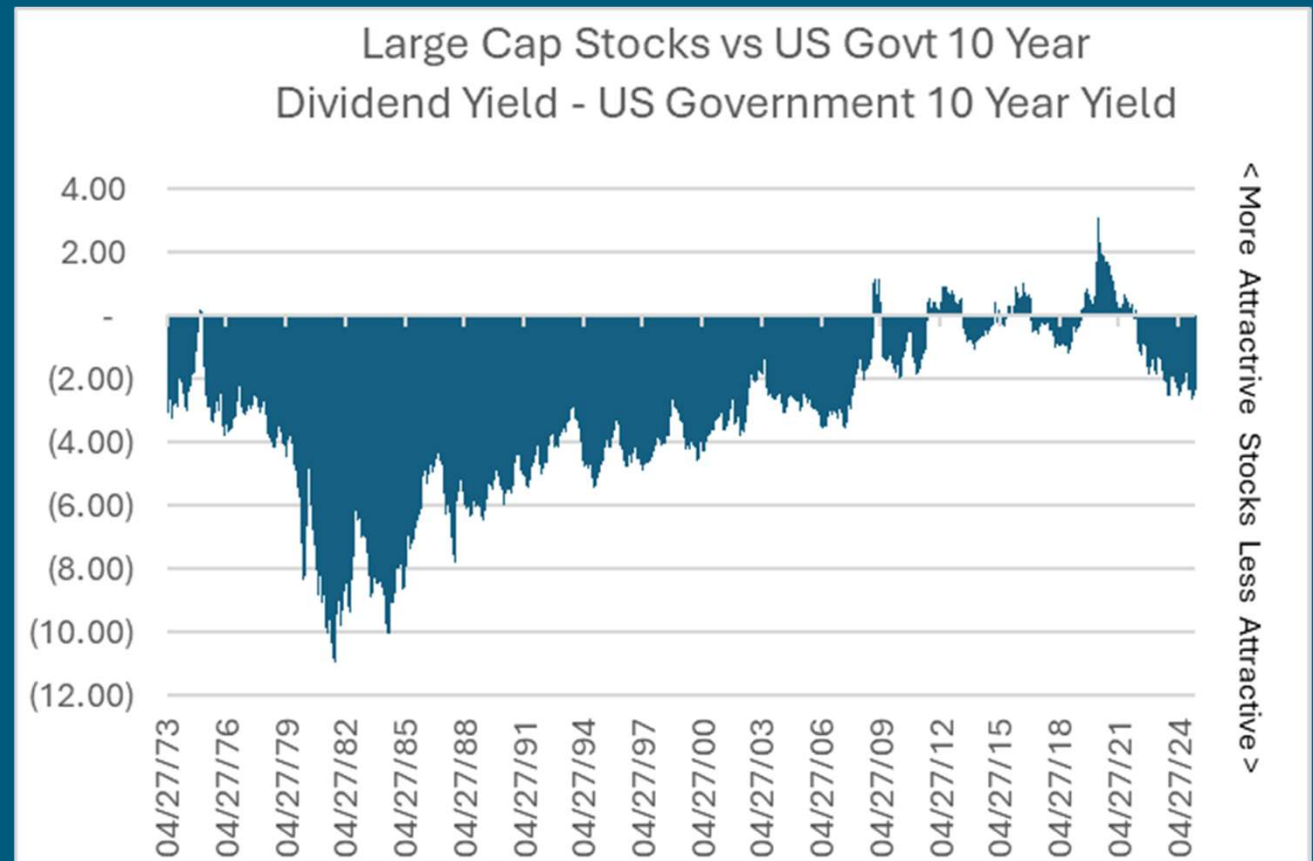


Fixed Income

- Fixed income is now more competitive versus stocks
- US yields remain relatively high
- We have a more normal yield curve
- Credit spreads are narrow while yields are higher than recent history
- Mortgage-backed securities and US Treasury Inflation Protected Securities (TIPS) look interesting



With the recent rise in rates stocks and the stock market rally, US stocks don't look as attractive versus fixed income

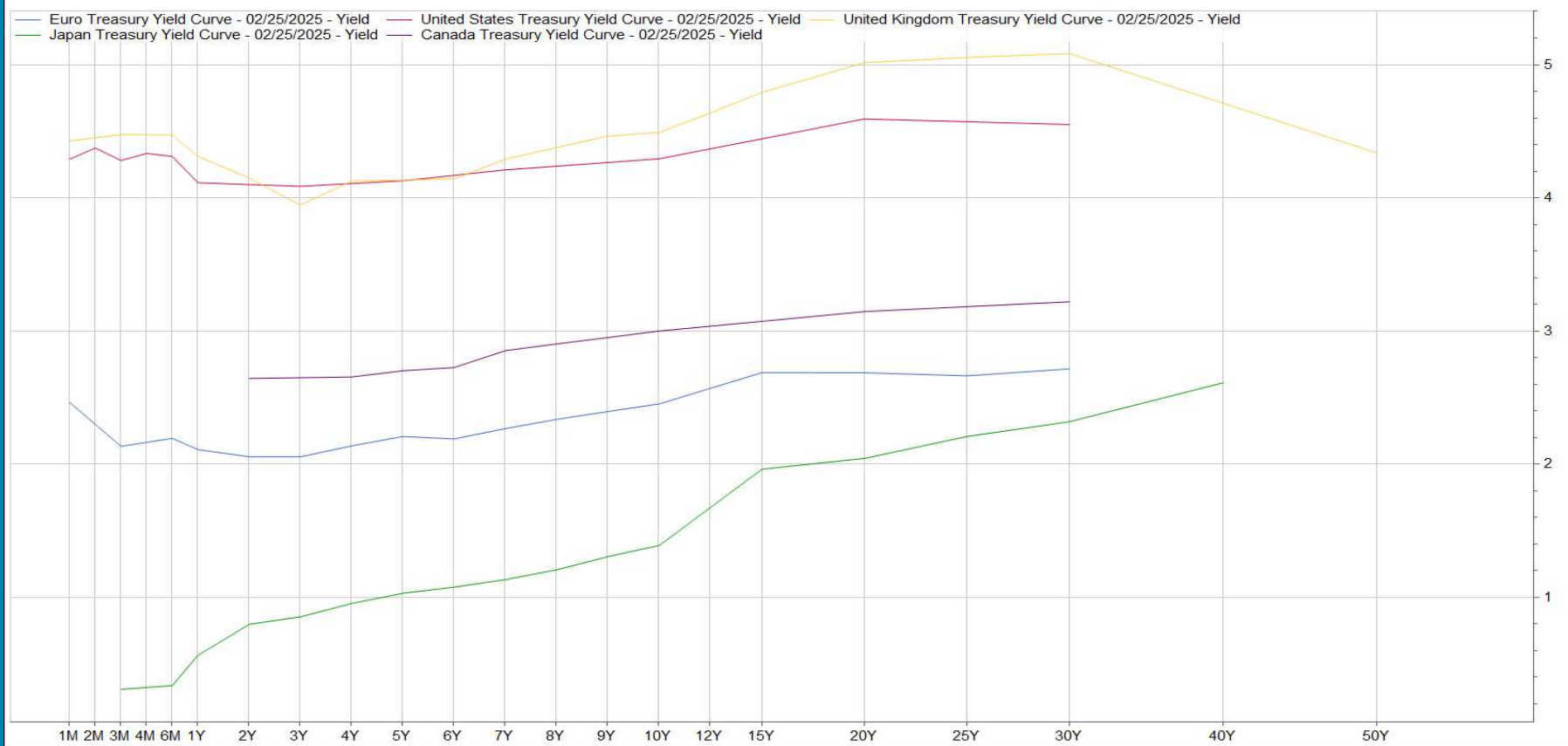


Source: Value Line Investment Survey

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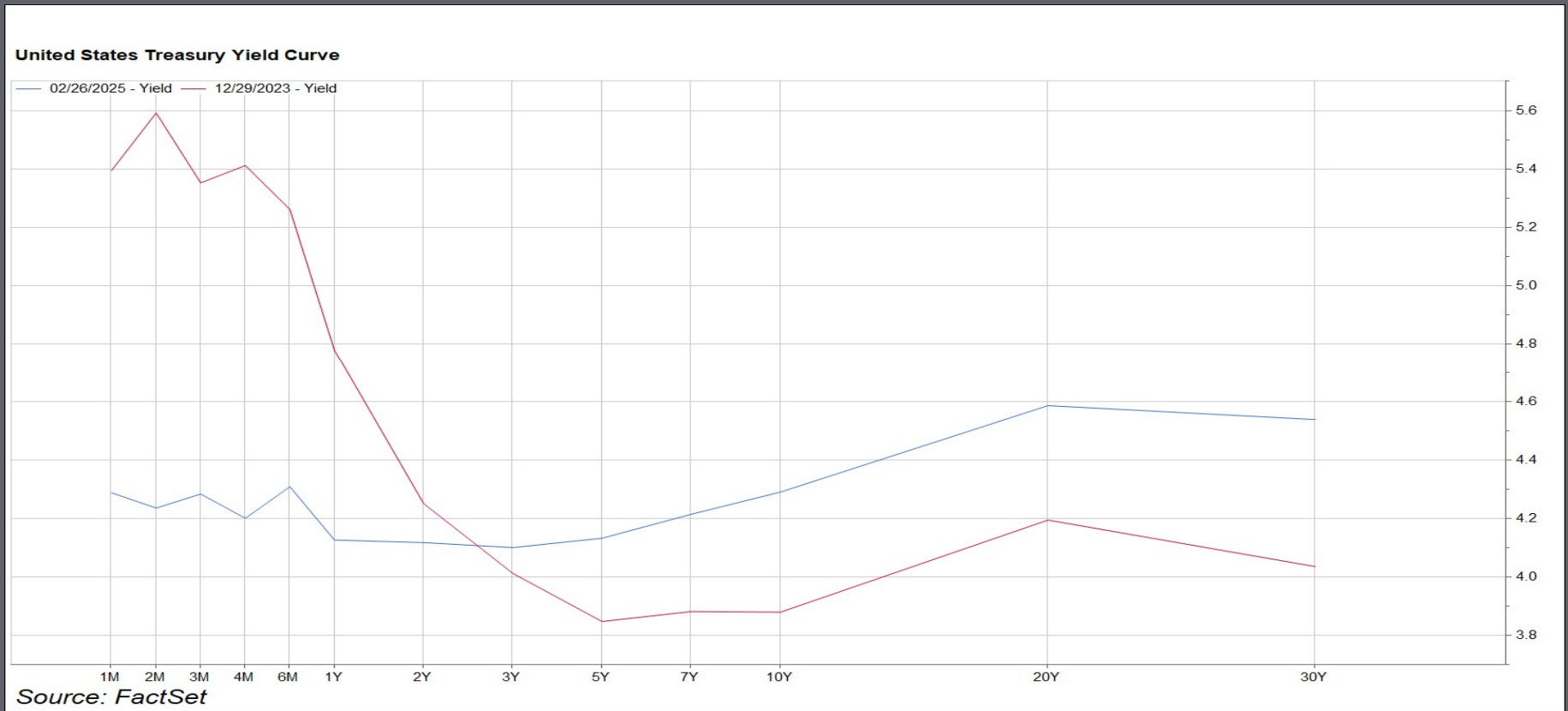


US and UK Government Yields Are Above Most Of The Developed World

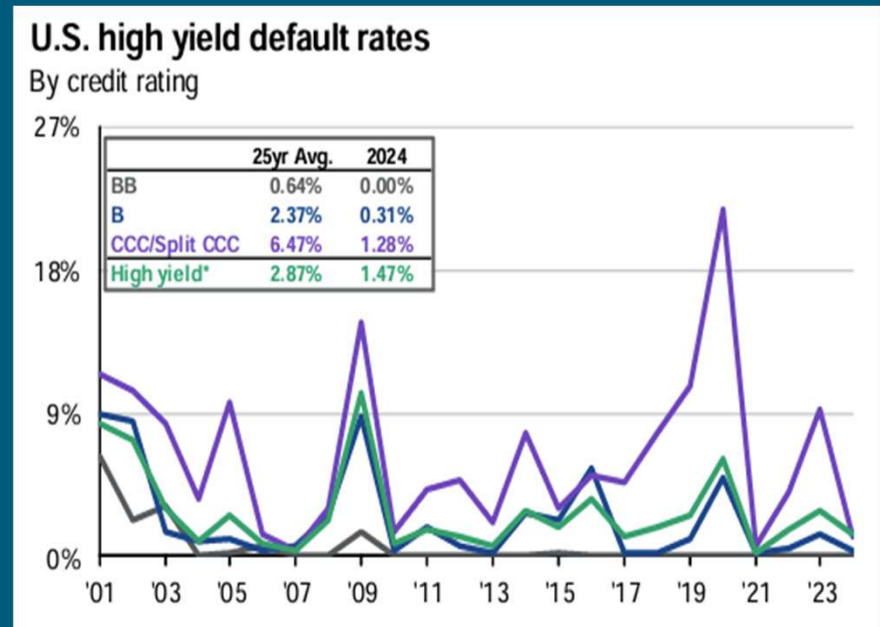
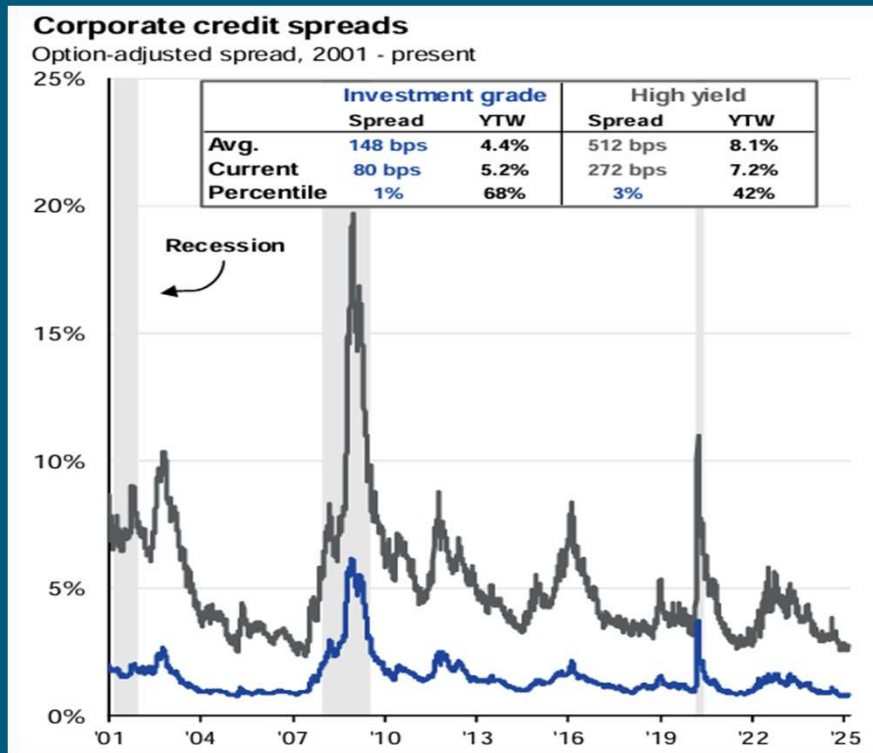


Source: FactSet

The US treasury yield curve is no longer significantly inverted suggesting inflation may run higher longer and the odds of a recession have diminished



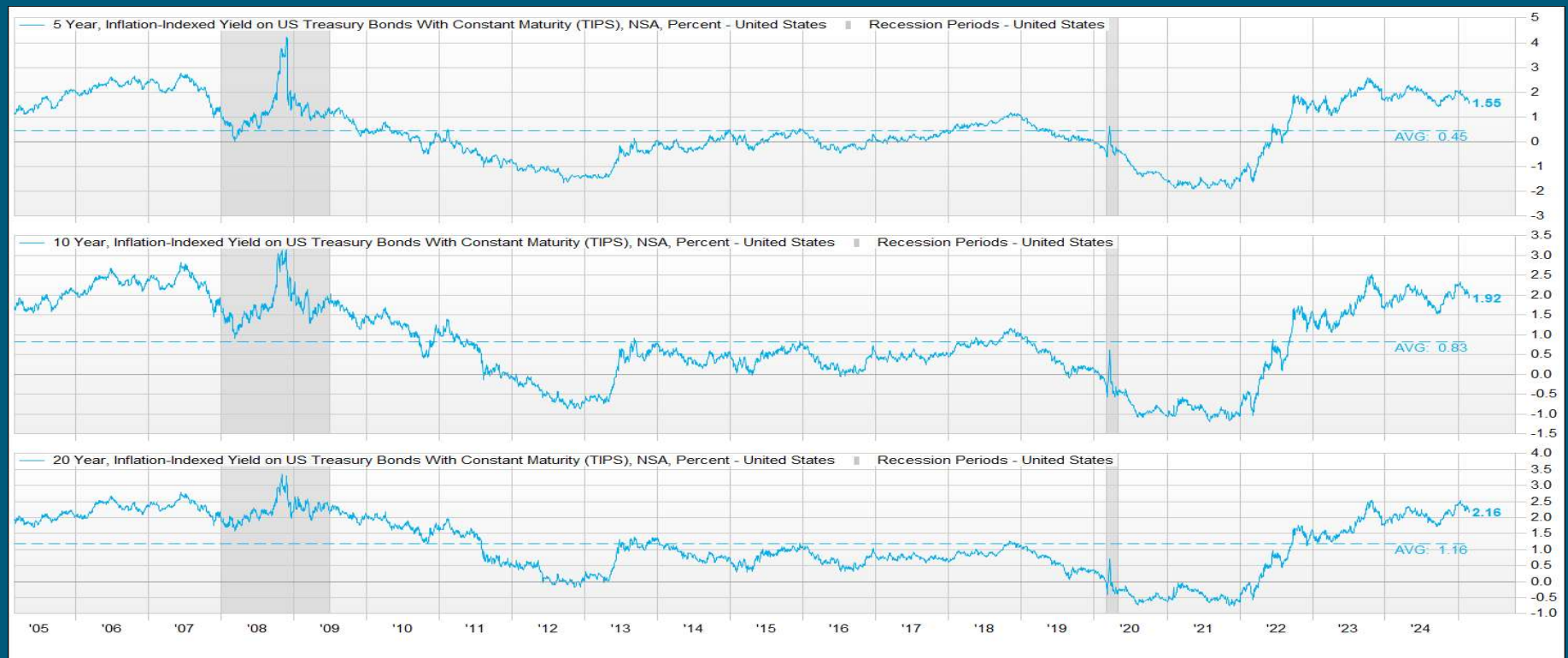
Corporate credit spreads are narrow while yields are competitive versus 25-year history, default rates remain low



Source: JP Morgan Asset Management



US TIPS look relatively attractive

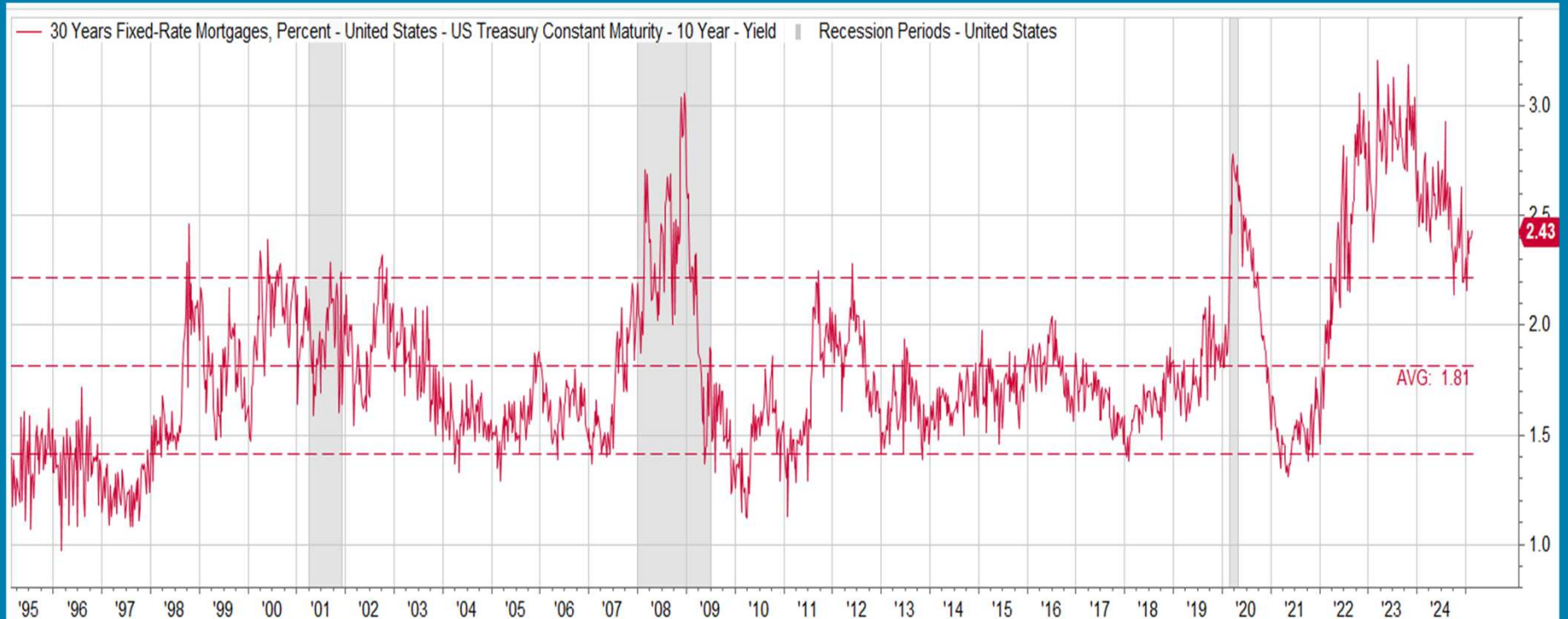


Source: FactSet

Past performance is not a guarantee or predictor of future performance.



US mortgage-backed securities look interesting



Source: FactSet

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For more information

- Check out our website at:
www.candorassetadvisors.com



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Achieving these financial goals helps you realize what's important to you -- whether that's purchasing a home, funding a child's education, taking the vacation of your dreams, starting a business, providing care for loved ones, making charitable donations, or retiring on your terms.

Honesty, integrity and customer service are at the heart of everything we do. We believe open communication is essential. We employ a collaborative process to understand your goals, constraints, life events, risk tolerance and time horizon so that we can tailor our recommendations to you.

Thank you for your interest in our firm. Please [reach out](#) if you would like to know more.

- We discuss where we see opportunities in stocks, fixed income and other asset classes in our investment strategy commentaries
- Sign up to receive our insights by emailing us at:
 - info@candorassetadvisors.com
- To schedule a conversation, use the following link:
 - https://calendly.com/bhawes-1/brief_conversation

William E. Hawes, CFA, CFP® President and Chief Investment Officer

With over 26 years of industry experience, Bill brings a wealth of knowledge in investment management and financial planning. Prior to earning his MBA, Bill worked in mortgage banking and insurance, and the insights gained provided him with a broader perspective of the financial issues facing clients.

Bill has been a Chartered Financial Analyst since 2000 and is a Certified Financial Planner. Bill also enjoys golf, travel, studying history, watching his favorite sports teams, and spending time with family.

Before founding Candor Asset Advisors®, Bill co-created and managed Century Management's Large Cap Absolute Value and Large Cap Value strategies. Bill also analyzed companies in a variety of industries for the firm's all-cap value strategy.

Prior to moving back to Texas, Bill served as an equity analyst for Engemann Asset Management in Southern California. He co-managed a mid-cap growth fund and served as a multi-sector analyst for the mid-cap and large-cap growth teams.

After graduate school, Bill served as co-portfolio manager and equity analyst at Franklin Templeton. While there he served as portfolio manager on All Cap, Large Cap Core, and Consumer Sector portfolios. Notable institutional clients included CalPers, Mitsui Trust, Norges Bank, and Penn Mutual. He also spent considerable time analyzing auto, transportation, and consumer stocks.

Bill earned his Master in Business Administration from the University of Southern California. While there he also served on USC's MBA student investment fund.

Between his graduate and undergraduate studies, Bill worked at North American Mortgage Company in California as a management trainee and later as a financial analyst and marketing coordinator. The experience gave him a better understanding of the mortgage and real estate markets which he leverages to this day.

Bill earned his Bachelor of Business Administration from the University of Texas at Austin. While a student, he also served as a special agent for Northwestern Mutual. The experience gave him an understanding of life and disability insurance and the work ethic, tools, and temperament needed to grow a financial services practice.





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- Financial plans are hypothetical in nature and intended to help you in making decisions on your financial future based on information that you have provided and reviewed. Assumptions need to be reviewed regularly.
- Stocks are not guaranteed and have been more volatile than other asset classes. Government bonds and Treasury bills are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest.
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