COLONY
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Market Backdrop and Investment Outlook

January 2025

Market Backdrop and Investment Outlook
Executive Summary

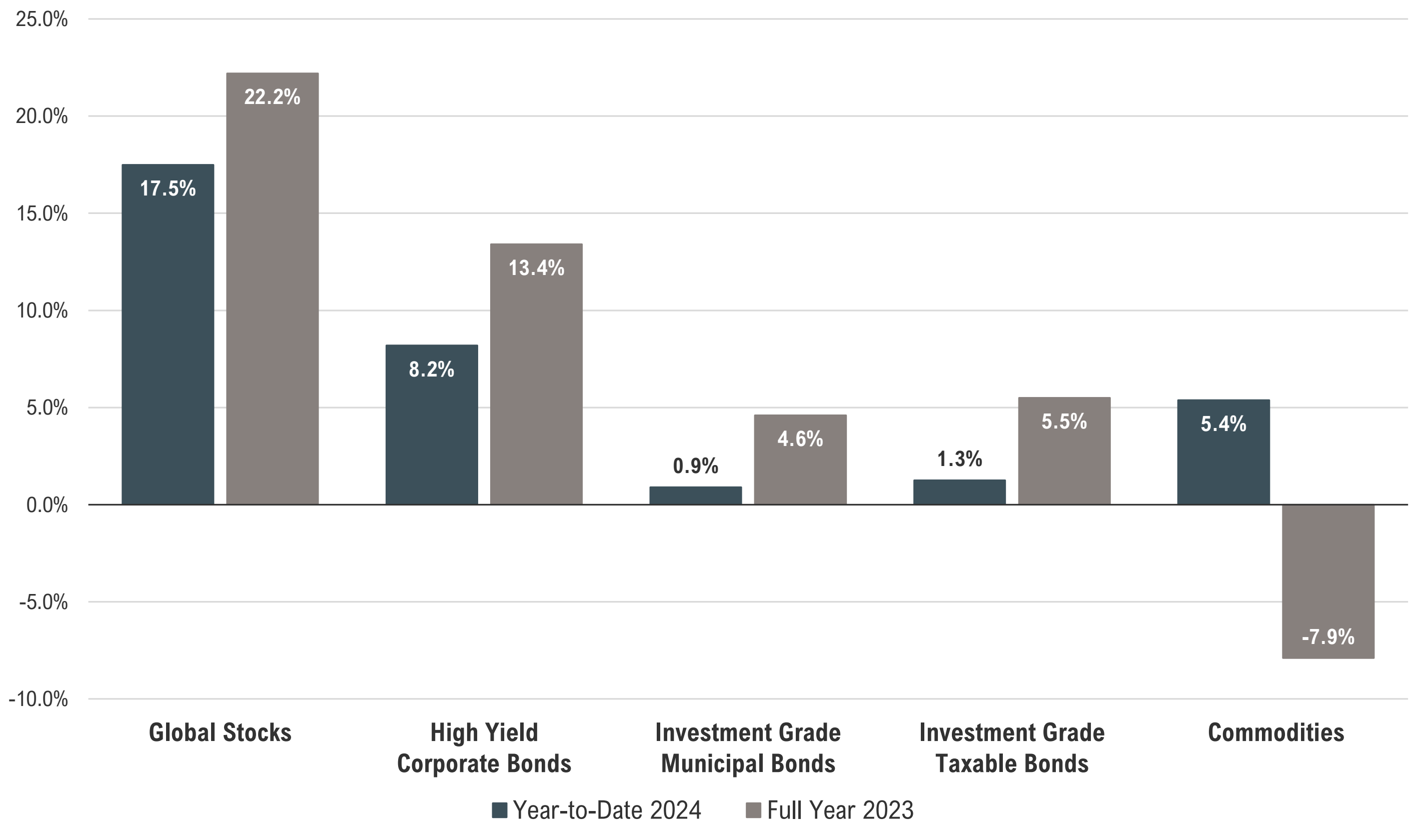
- A resilient US economy helped propel stock prices and bond yields higher
  - The Federal Reserve cut its policy rate in the fourth quarter but acknowledged that additional monetary easing would depend on progress towards its inflation target—this uncertainty helped fizzle out the post-election gains in stocks

	Macro Backdrop	Financial Markets
4Q24 Review	▪ The global economic expansion continued, but monetary and political uncertainty rose ▪ Both headline and core inflation measures declined significantly from 2022's highs, but core CPI remained sticky, ending the year above 3%	▪ US stocks rose but most other asset categories dropped amid the rise in bond yields and US dollar strength ▪ After a pause in the third quarter, US large cap growth and technology stocks resumed their market leadership
Outlook	▪ The global business cycle remains in expansion, with a broad shift toward monetary easing and a stable earnings outlook ▪ A healthy consumer remains supportive of US economic growth given positive real wage growth and high levels of wealth, though many labor market indicators softened during 2024 ▪ Persistent core inflation in the US implies additional Fed rate cuts may be difficult to achieve without greater cyclical slowing ▪ Near-term recession risks appear muted, but tariffs and immigration policy pose a risk to growth	▪ Markets continue to enjoy easier financial conditions, but upside surprises may be more difficult amid higher valuations for riskier assets and lofty earnings expectations ▪ The base case assumes a continuation of the current economic cycle, which should remain supportive of corporate profits ▪ Sticky inflation, higher yields, fiscal policy uncertainty, and the Fed's response are key risks to the outlook ▪ Stretched valuations and concentration pose a risk to US large cap stocks, but small caps and non-US equities appear attractively priced

Source: Fidelity Investments.

Market Backdrop
Broad Asset Category Performance

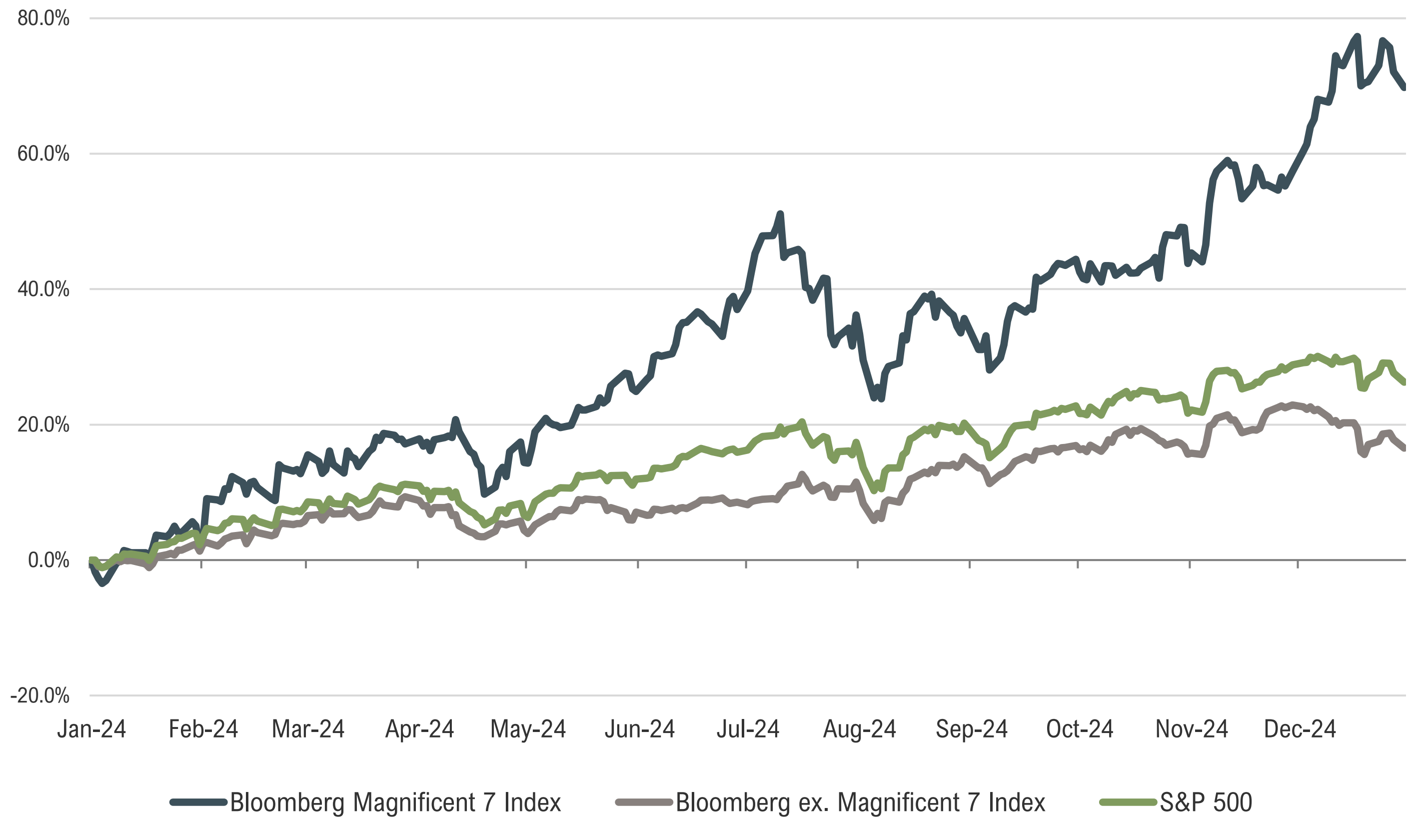
- The global stock market rally continued in 2024 against a backdrop of continued global economic expansion and moderating inflation
  - The chart below illustrates broad asset category performance defined by market benchmarks



Note: Performance data as of December 31, 2024. Benchmark data obtained from Addepar. Past performance is not indicative of future results. Global stocks (MSCI All Country World Index), high yield corporate bonds (Bloomberg US Corporate High Yield Index), commodities (Bloomberg Commodity Index), investment grade municipal bonds (Bloomberg 1-10 Year Municipal Bond Index Index), and investment grade taxable bonds (Bloomberg US Aggregate Bond Index).

Market Backdrop
US Equity Market Performance

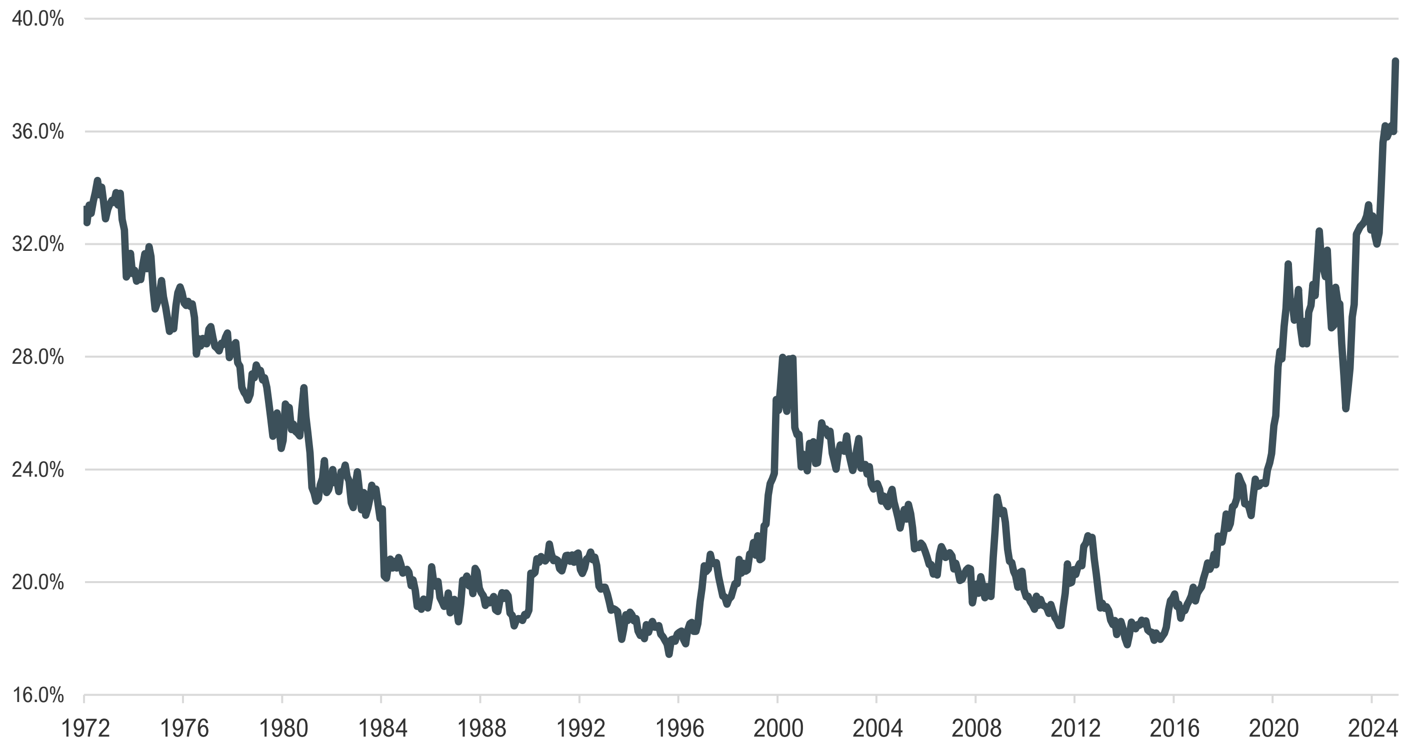
- Stock prices of the largest US companies—concentrated in the technology and communications sectors—finished 2024 with another dominant performance relative to smaller stocks
  - The chart below plots performance of the Bloomberg Magnificent Seven Index and US Large Cap Index excluding the Magnificent Seven



Source: Litman Gregory AdvisorIntelligence and Bloomberg as of December 31, 2024. The "Magnificent Seven" stocks include Alphabet, Amazon.com, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla.

Market Backdrop
US Equity Market Concentration

- Given continued strong performance of large cap growth stocks, concentration within the S&P 500 is at highest level in 50 years as the 10 largest stocks account for almost 40% of total market capitalization
  - The chart below plots the top 10 market cap stocks as a percentage of total S&P 500 market capitalization



Top 10 Market Cap Stocks as % S&P 500 Market Cap

Source: Litman Gregory AdvisorIntelligence and Ned Davis Research as of December 31, 2024.

Market Backdrop
Periodic Table of Returns

- The rise in Treasury bond yields during the fourth quarter created a headwind for most asset categories as the broad 2024 rally fizzled—but most assets exhibited positive calendar year returns
  - The table below illustrates annual returns for various asset classes ranked in order of performance

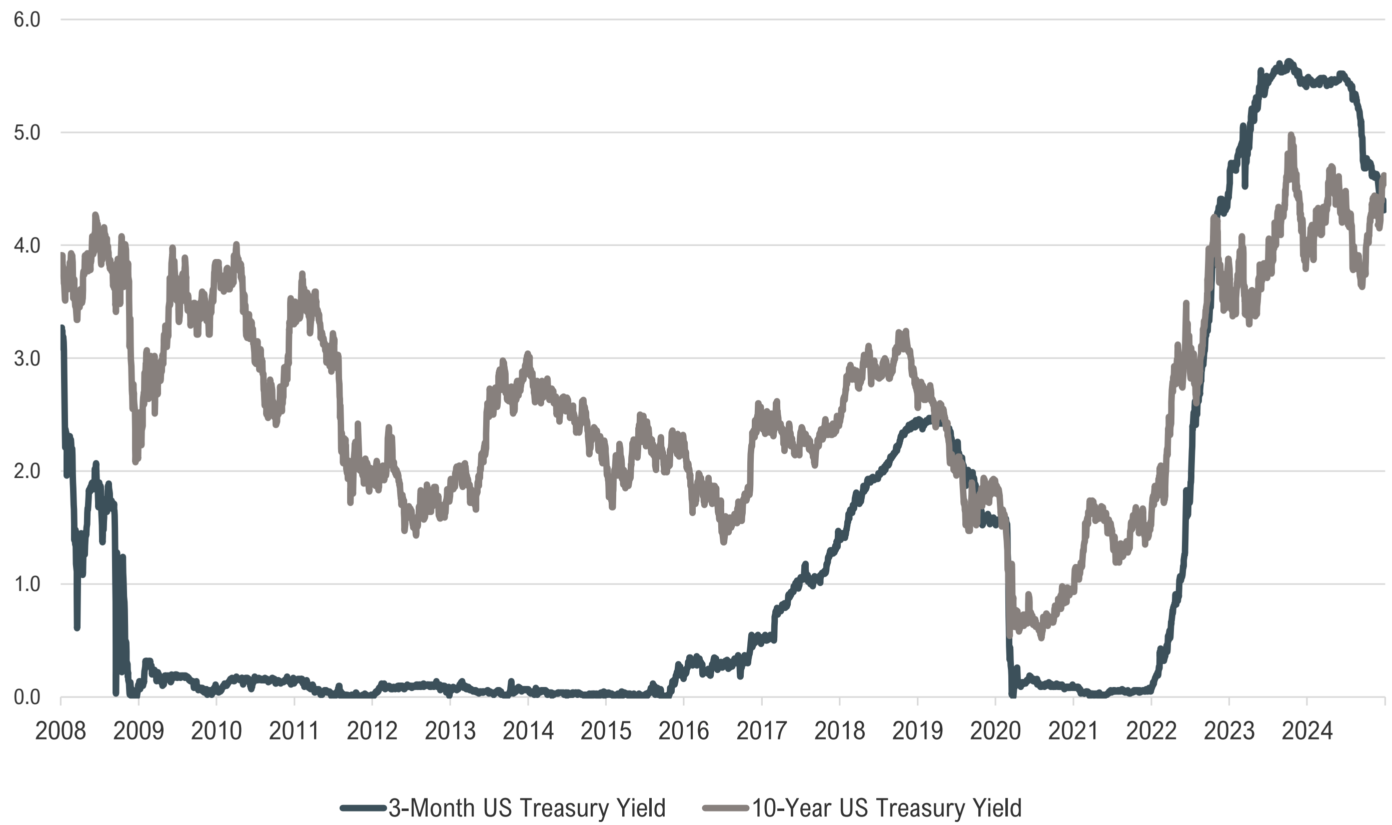
2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Private Equity 10.0%	Energy MLPs 18.3%	Emerging Markets Equity 37.3%	Private Equity 11.2%	US Large Cap 31.5%	Private Equity 32.9%	Energy MLPs 40.2%	Energy MLPs 30.9%	Energy MLPs 26.6%	US Large Cap 25.0%
Municipal Bonds 2.5%	US Large Cap 12.0%	International Equity 25.0%	Cash 1.9%	REITs 28.1%	US Large Cap 18.4%	REITs 39.9%	Commodities 16.1%	US Large Cap 26.3%	Energy MLPs 24.4%
REITs 2.3%	Commodities 11.8%	US Large Cap 21.8%	Municipal Bonds 1.6%	International Equity 22.0%	Emerging Markets Equity 18.3%	Private Equity 37.9%	Cash 1.5%	International Equity 18.2%	Bank Loans 9.0%
US Large Cap 1.4%	Emerging Markets Equity 11.2%	Private Equity 21.0%	Bank Loans 0.4%	Emerging Markets Equity 18.4%	International Equity 7.8%	US Large Cap 28.7%	Bank Loans -0.8%	Bank Loans 13.3%	Emerging Markets Equity 7.5%
Cash 0.1%	Bank Loans 10.2%	REITs 9.3%	US Large Cap -4.4%	Private Equity 17.7%	Hedge Funds 6.8%	Commodities 27.1%	Hedge Funds -4.4%	REITs 11.5%	Commodities 5.4%
Bank Loans -0.7%	REITs 9.3%	Hedge Funds 6.0%	REITs -4.4%	Bank Loans 8.6%	Municipal Bonds 4.2%	International Equity 11.3%	Municipal Bonds -4.8%	Emerging Markets Equity 9.8%	Hedge Funds 5.3%
International Equity -0.8%	Private Equity 9.0%	Bank Loans 4.1%	Hedge Funds -6.7%	Hedge Funds 8.6%	Bank Loans 3.1%	Bank Loans 5.2%	Private Equity -6.1%	Private Equity 8.6%	Cash 5.3%
Hedge Funds -3.6%	Hedge Funds 2.5%	Municipal Bonds 3.5%	Commodities -11.3%	Commodities 7.7%	Cash 0.7%	Hedge Funds 3.7%	International Equity -14.5%	Cash 5.0%	REITs 4.3%
Emerging Markets Equity -14.9%	International Equity 1.0%	Commodities 1.7%	Energy MLPs -12.4%	Energy MLPs 6.6%	Commodities -3.1%	Municipal Bonds 0.5%	US Large Cap -18.1%	Municipal Bonds 4.6%	International Equity 3.8%
Commodities -24.7%	Cash 0.3%	Cash 0.9%	International Equity -13.8%	Municipal Bonds 5.6%	REITs -5.9%	Cash 0.1%	Emerging Markets Equity -20.1%	Hedge Funds 3.1%	Private Equity 2.5%
Energy MLPs -32.6%	Municipal Bonds -0.1%	Energy MLPs -6.5%	Emerging Markets Equity -14.6%	Cash 2.3%	Energy MLPs -28.7%	Emerging Markets Equity -2.5%	REITs -25.1%	Commodities -7.9%	Municipal Bonds 0.9%

**Private Equity data is final as of June 30, 2024.*

Note: Performance data as of December 31, 2024. Benchmark data obtained from Zephyr Associates. Past performance is not indicative of future results. US Large Cap (S&P 500 Index), International Equity (MSCI EAFE Index), Emerging Markets Equity (MSCI Emerging Markets Index), REITs (FTSE Nareit All REITs Index), Bank Loans (S&P/LSTA US Leveraged Loan Index), Municipal Bonds (Bloomberg 1-10 Year Municipal Bond Index, Energy MLPs (Alerian MLP Index), Commodities (Bloomberg Commodity Index), Hedge Funds (HFRX Global Index), Private Equity (Cambridge Private Equity Index) and Cash (BofA Merrill Lynch US 3-Month Treasury Bill).

Market Backdrop
Interest Rate Environment

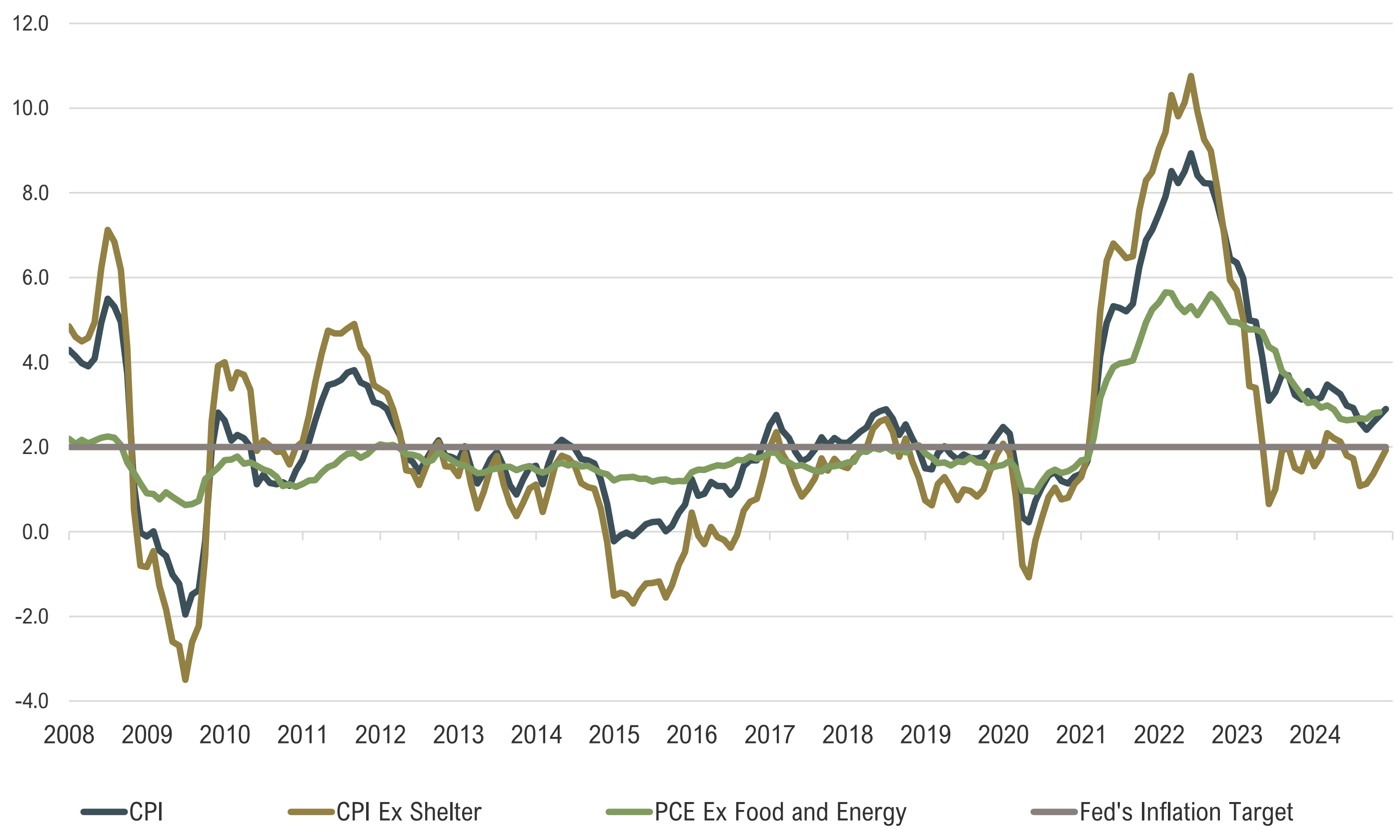
- 10-year Treasury bond yields surged nearly 90 basis points during the fourth quarter as investors lowered their expectations for Fed easing in 2025 and inflation expectations ticked up modestly
  - The chart below plots both the 3-month and 10-year US Treasury yield



Source: Federal Reserve Bank of St. Louis, Economic Research Division as of December 31, 2024.

Market Backdrop
Inflation

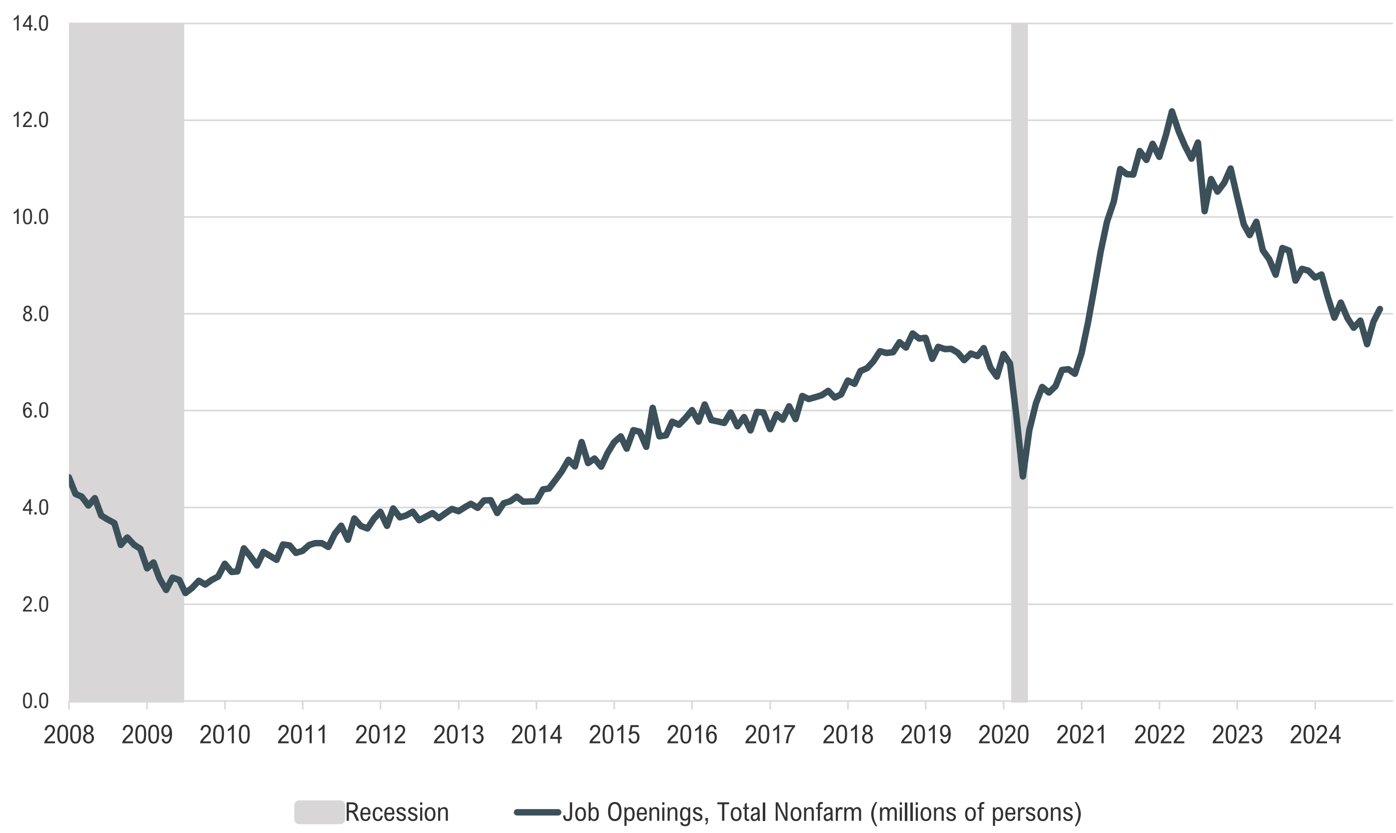
- The decline in inflation stalled in the fourth quarter as services and shelter inflation remain elevated, partly due to structural supply-related constraints in labor and housing
  - The chart below plots the year-over-year change in CPI, CPI excluding shelter and PCE Price Index excluding food and energy



Source: Federal Reserve Bank of St. Louis, Economic Research Division, U.S. Bureau of Labor Statistics. Consumer Price Index (CPI) data as of December 31, 2024 and Personal Consumption Expenditures (PCE) Price Index data as of November 30, 2024.

Market Backdrop
US Labor Market

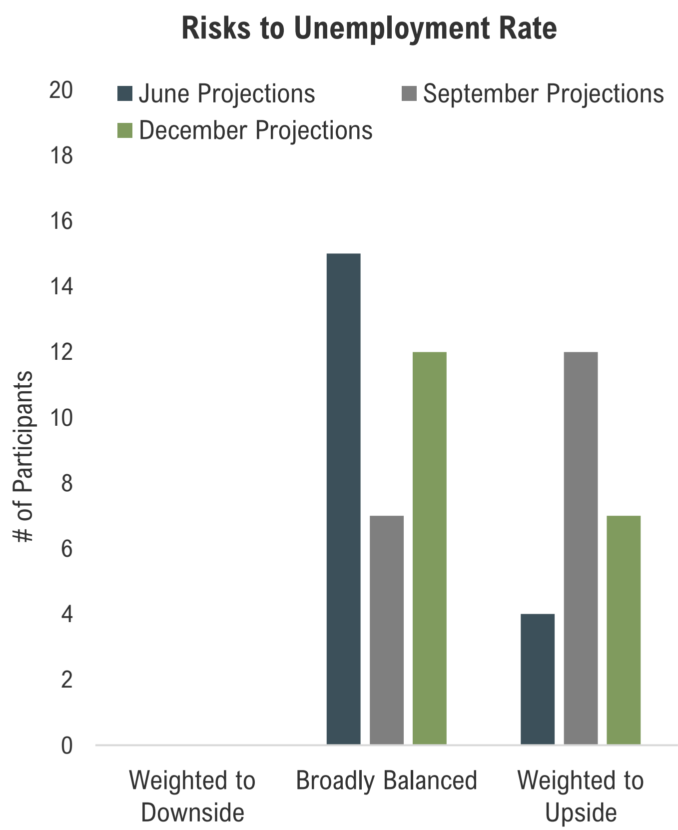
- Many labor market indicators softened during 2024, but overall employment conditions remained tight—job openings steadied at a level that still exceeded the total number of unemployed workers
  - The chart below plots the total nonfarm job openings in the United States

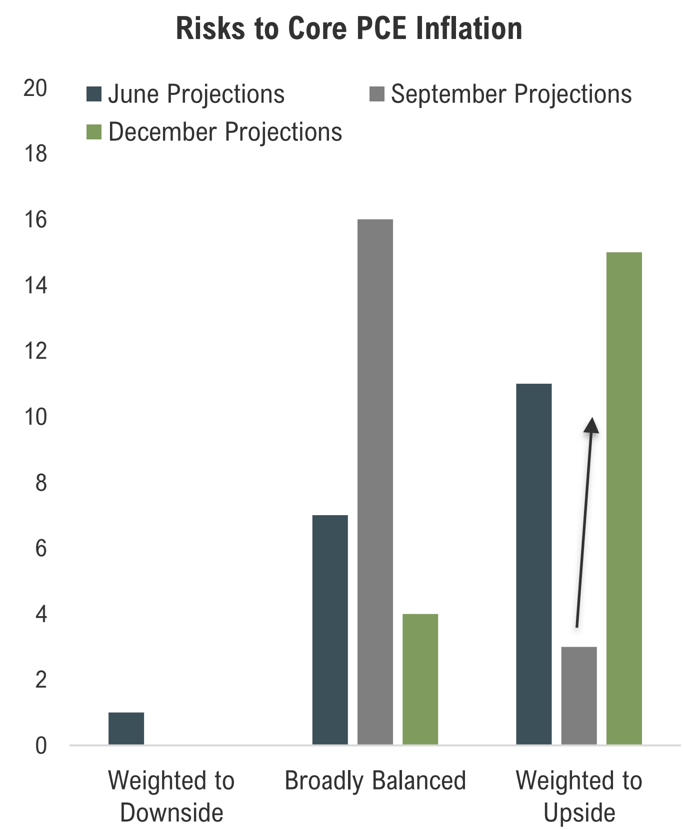


Source: Federal Reserve Bank of St. Louis, Economic Research Division, U.S. Bureau of Labor Statistics as of December 31, 2024.

Market Backdrop
Monetary Policy Considerations

- At its December meeting, the Fed showed a renewed concern over inflation and introduced language around the "extent and timing" of future rate cuts
  - The charts below summarize Fed policymakers' assessments of the risks to the unemployment rate and Core PCE Inflation

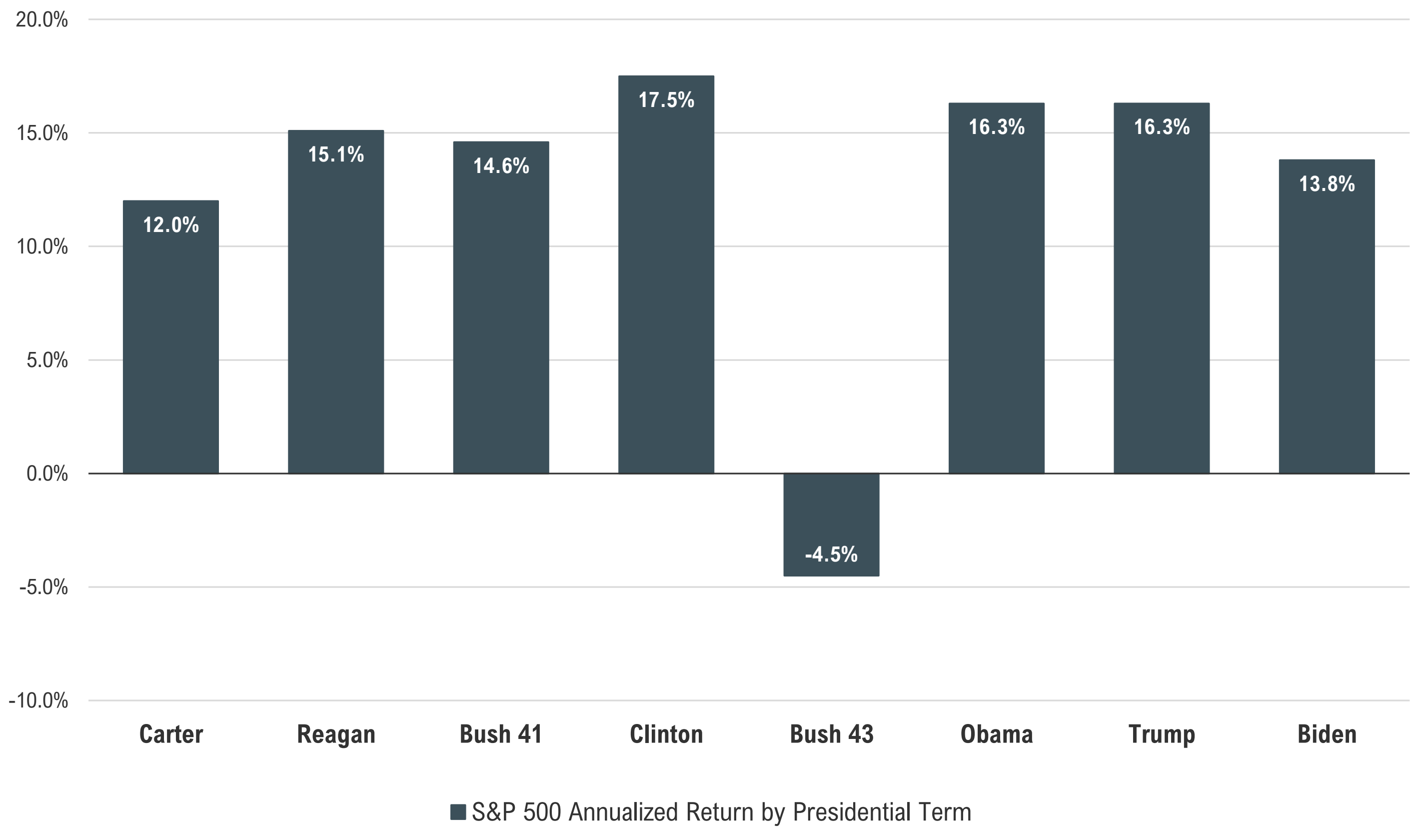




Source: Litman Gregory AdvisorIntelligence and Federal Reserve Summary of Economic Projections as of December 18, 2024.

Market Backdrop
Presidential Election

- History suggests presidential elections are not nearly as important to financial markets as the media suggests—while US presidents may have an impact on market returns, so do many other factors
  - The chart below illustrates the S&P 500 Index annualized returns by presidential time in office for each of the last eight presidents



Source: Richard Bernstein Advisors, LLC and Bloomberg Finance LP. Presidential term is measured by inauguration dates. The Biden return is calculated as of January 20, 2025.

Market Outlook
Capital Market Assumptions and Tactical Views

	10-Year	10-Year	Current Tactical Views				
	Trailing Return	Strategic Return Assumption	Strong Underweight	Underweight	Neutral	Overweight	Strong Overweight
Inflation	3.0%	2.3%					
Cash							
Cash	1.8%	3.1%			■		
Fixed Income							
US Investment Grade Bonds	1.4%	4.7%			■		
Tax-Free Municipal Bonds	2.3%	3.4%			■		
High Yield Credit	5.2%	6.6%			■		
Equities (Public & Private)							
US Large Cap	13.1%	6.9%		■			
US Small Cap	7.8%	9.3%				■	
Non-US Developed Markets	5.7%	7.9%			■		
Emerging Markets	4.0%	7.9%			■		
Private Equity		10.7%					
Real Assets (Public & Private)							
Commodities	1.3%	4.9%				■	
Private Real Estate (Opportunistic)		9.7%					
Flexible/Alternative Strategies							
Diversifying Hedge	3.8%	5.1%			■		

Note: Trailing returns shown as of December 31, 2024. Inflation based on the Consumer Price Index (CPI). Strategic return assumptions are arithmetic and net fees, based on research provided by Greycourt & Co. Tactical views reflect a three-year investment horizon. Suggested asset class weights are influenced by Greycourt's detailed quarterly tactical analysis and are used as a starting point in assessing client portfolio weights against strategic targets which typically reflect a ten-year investing horizon. Past performance is no guarantee of future results. Please see the disclosure pages at the end of this presentation.

Market Outlook
Portfolio Positioning Themes

- Don’t tilt too far away from an appropriate strategic asset mix

- Remain fully invested in core/investment grade fixed income given compelling yields
  - Starting bond yields, which historically are highly correlated with future returns, are still near the highest levels in 15 years, offering both attractive income and potential downside cushion

- Maintain an underweight position in US large cap equities while emphasizing high quality stocks, but increase exposure to small caps that stand to benefit from attractive valuations
  - Heightened valuations and greater concentration pose a risk to US large cap stocks; therefore, we recommend an underweight position and a tilt towards reasonably priced higher quality companies (those with strong balance sheets, stable earnings, and high margins)
  - Small cap stocks have significantly trailed their large cap counterparts this cycle—we believe the asset class appears attractively priced and could benefit from structural shifts in the economy, like deglobalization and reshoring

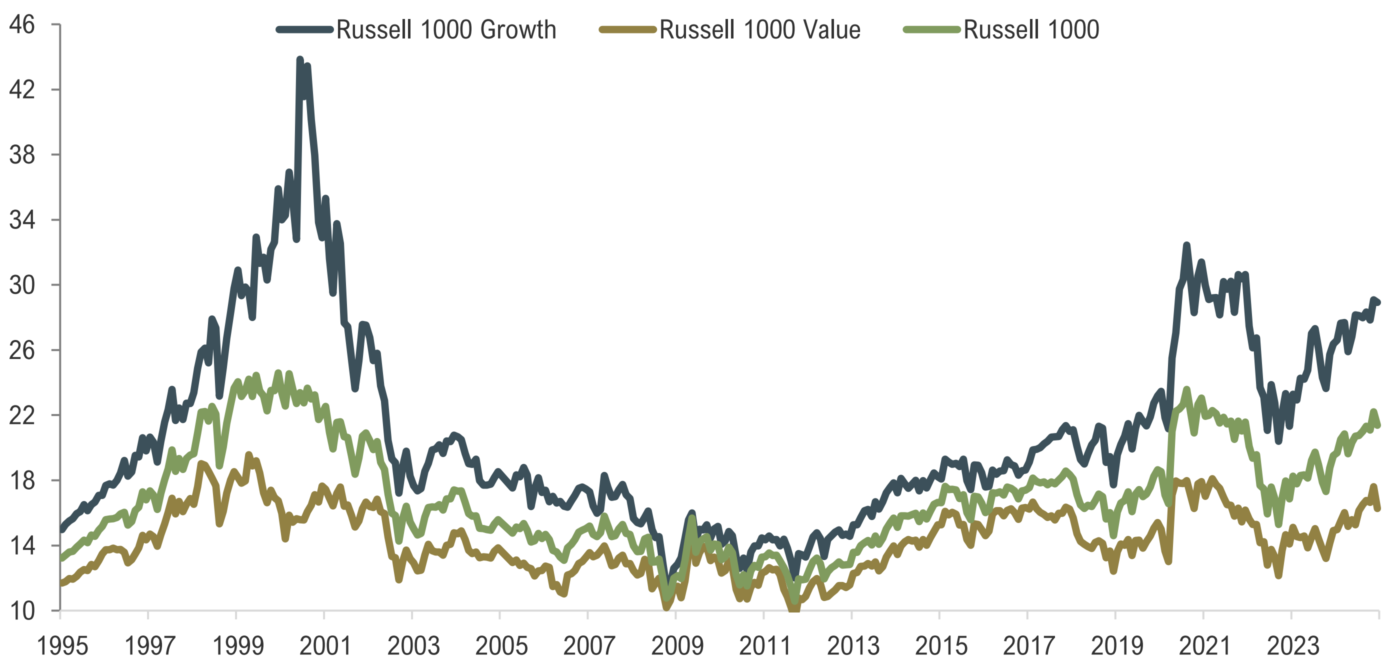
- Continue to target a slight overweight position in real assets
  - Traditional asset classes can be vulnerable to unexpected increases in inflation, while commodities can offer a potential hedge
  - A prolonged period of limited supply-side investment along with the secular transition toward renewable energy sources could further support commodities prices and commodity-producer stocks

- Where appropriate, continue to develop private equity and private real estate investment programs
  - Slower fundraising for private equity, especially venture, may offer attractive entry points while a better exit environment is expected as M&A and IPO windows open

Market Outlook
US Large Cap Stock Valuations

- After several years of strong performance, US stocks—particularly US large cap growth stocks—are trading at expensive valuations, making future gains harder to come by
  - High P/E ratios may be partly justified due to strong expected earnings growth combined with an easier regulatory environment
  - The chart below plots the price-to-earnings ratios for the Russell 1000 Growth, Russell 1000 Value, and Russell 1000 indexes

US Large Cap Index Forward 12-Month Price-Earnings (P/E) Ratios

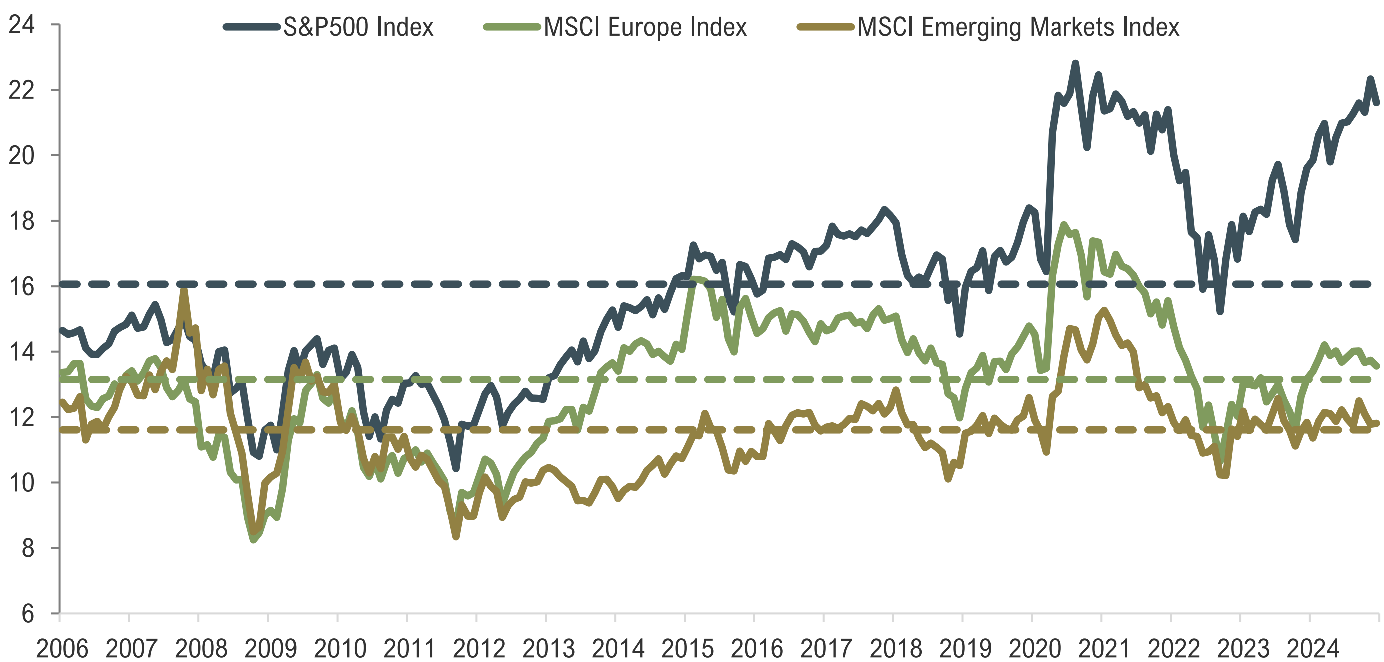


Source: Litman Gregory AdvisorIntelligence and Bloomberg as of December 31, 2024. Price-to-earnings ratio (P/E) is the stock price divided by earnings per share.

Global Stock Market Valuations

- US stocks continue to trade at a significant premium to overseas markets
  - The price-to-earnings (P/E) ratios for both Europe and emerging markets stocks relative to the US are well below their long-term averages, indicating a disconnect in relative valuations
  - The chart below plots the price-to-earnings ratios for the US, Europe, and emerging markets

Global Stock Market Forward 12-Month Price-Earnings (P/E) Ratios

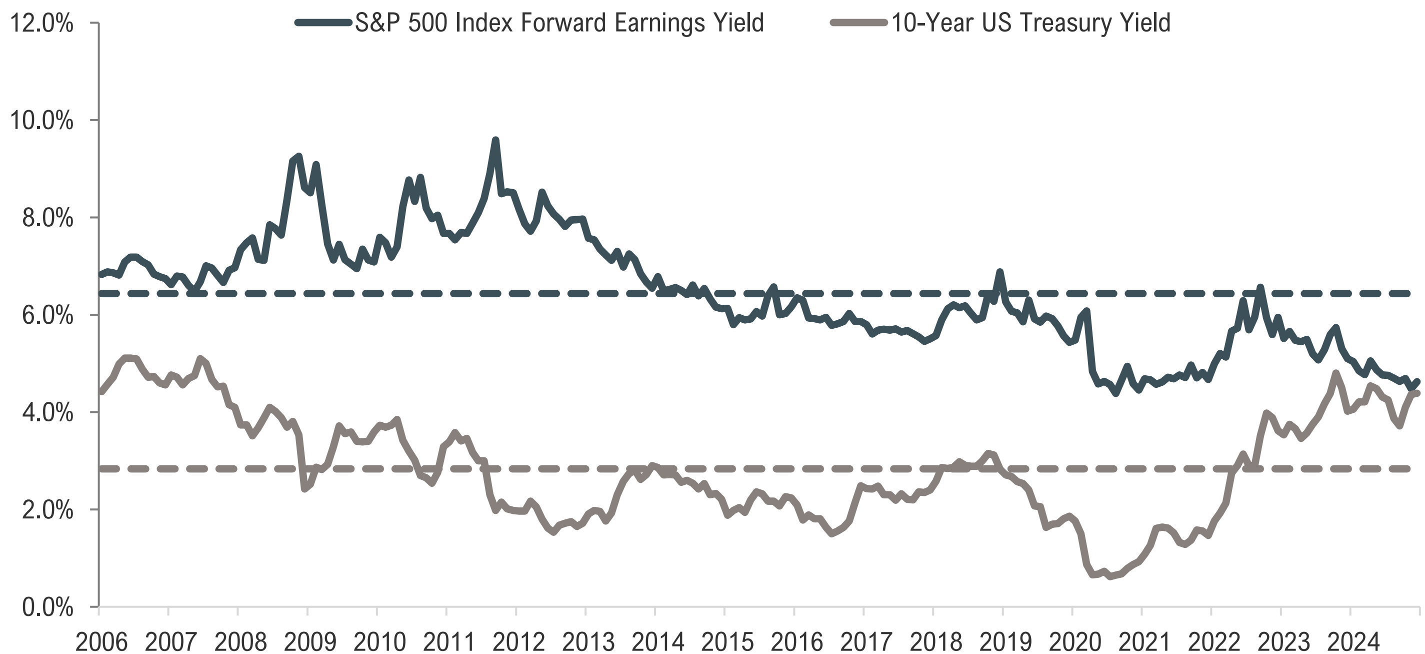


Source: Litman Gregory AdvisorIntelligence and Bloomberg as of December 31, 2024. Price-to-earnings ratio (P/E) is the stock price divided by earnings per share.

Market Outlook
Equity Risk Premium

- US stocks also look relatively expensive on a comparison of earnings yields to bond yields
  - The so-called equity risk premium—or the extra return an investor can expect for investing in the stock market instead of risk-free 10-year Treasuries—is at its lowest level in about 20 years
  - The chart below plots both the S&P 500 Index forward earnings yield and 10-year US Treasury yield

Comparison of S&P 500 Forward Earnings Yield and 10-Year US Treasury Yield

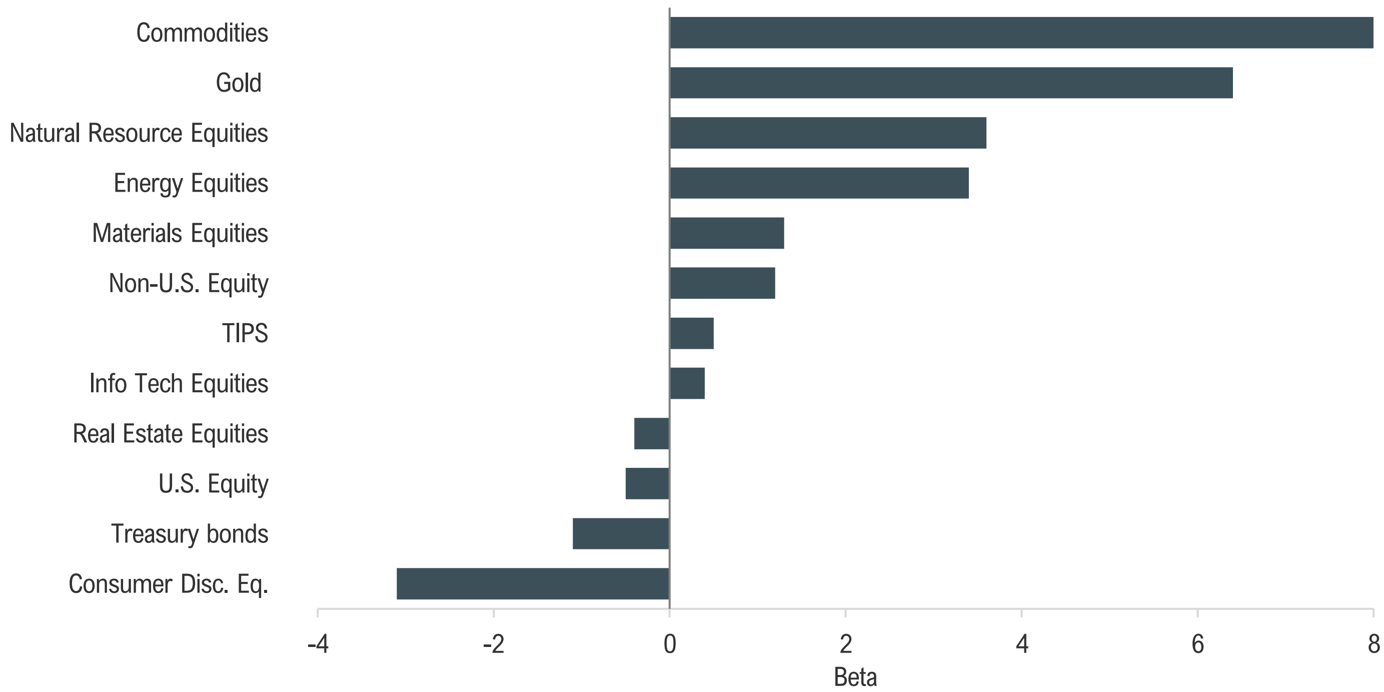


Source: Litman Gregory AdvisorIntelligence and Bloomberg as of December 31, 2024. Forward earnings yield is calculated by taking the projected earnings over the next 12 months divided by the current price at the time of calculation.

Market Outlook
Inflation-Sensitive Assets

- The potential for a period of sustained higher inflation represents a risk factor for a diversified portfolio
  - Inflation-resistant assets, including commodities and commodity-producer equities, can help hedge against surprise increases in inflation while providing potential for capital appreciation in a higher nominal-growth environment
  - The chart below illustrates the historical return sensitivity (or beta) of certain asset classes (based on index proxies) to inflation surprises

Historical Return Sensitivity to Inflation Surprises



Source: Bureau of Labor Statistics, Fidelity Investments, data from 1972 through 2023. Past performance is no guarantee of future results. Inflation sensitivity measured relative to CPI, an index that tracks the percentage change in the price of a specified "basket" of consumer goods and services. Beta is a measure of a variable's sensitivity (response) relative to changes (volatility) in a reference (benchmark), which has a beta of 1.

Market Outlook
Long-Term Considerations

- A combination of greater policy experimentation and "peak globalization" trends pose a longer-term inflation risk
  - Inflation and interest rates likely more volatile going forward

- The longstanding global regime of relatively stable and investment-friendly policies, politics, and regulation is likely nearing an end
  - Rising populism, geopolitical destabilization, and deglobalization pressures are driving the change
  - This transition presents a much broader distribution of potential political and economic outcomes than investors have had to consider in recent decades

- On a strategic basis, greater portfolio diversification overall is needed to help guard against a broader array of potential outcomes
  - Higher secular inflation risks argue for portfolio inclusion of an allocation to inflation-resistant assets
  - Deglobalization and idiosyncratic political risks may reduce global asset correlations, which could produce greater diversification benefits from investing across other countries

Source: Fidelity Investments.

Appendix

Appendix
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