

## Nothing is So Stable as Change

### TAM US Q4 2024 Review and Outlook Chartbook

We thought the Bob Dylan quote in our title was timely and appropriate given the current environment. Last year was characterized by change, whether it was monetary policy, politics, the economy or the market, things changed. Overall, despite recent weakness, **the S&P remains in a secular bull market**. We think the investment occurring in AI, Infrastructure and manufacturing, has led to better productivity and profitability. That trend probably has staying power. Change can be good, and we like what we are seeing on many fronts. Let's review where we stand on major drivers of the markets and the changes occurring to them:

**Economic Growth- Growth prospects remain resilient and the soft landing continues.** Economic growth is getting "normal" again after the pandemic. Consumers are employed in the US, and wages are growing. Recent hiring activity has been strong and is likely to continue so. The weak part of the economy has been manufacturing and housing, while services remain robust. We anticipate some cyclical recovery in manufacturing this year.

**Interest Rates- Since the Fed started reducing policy rates, short rates are down 100 basis points, while long term interest rates are up 100 basis points.** The yield curve (spread between long- and short-term rates) is supposed to steepen in a "normal" economy. **Given firm economic data, the Fed may pause easing until later in 2025.** We believe long term rates probably stay higher for longer, especially if pro-growth policies take hold.

**Inflation- Inflation is down, but probably not out.** US CPI on the core basis is below 3% year over year, but still not back to the Fed target of 2%. Recent trends suggest it is firming again, and potential policy from the new administration appears to be modestly inflationary.


**Profits- S&P 500 EPS turned the corner in late 2024 and are improving** after a Fed Funds rate induced profits recession in 23. Importantly, earnings growth is spreading from the large capitalization technology leaders to include the rest of the S&P 500. Services growth is driving profits, which could be augmented by any manufacturing or durables recovery.

**Politics- Change is occurring everywhere with the Republican sweep in the US, and opposition parties gaining strength in Germany, France, Japan, the UK, India and most other regions.** The world is unhappy with their politicians, which we think leads to further stimulus measures. Geopolitics saw change as well. The overthrow of Syria's dictator tells us that Iran and Russia's power is diminished.


**Valuation/Technical Charts- Despite recent weakness, the S&P 500 remains in an uptrend.** The number of stocks making new highs has declined, so the market rotated to the old Tech winners late in the year after a period where more stocks had been participating. **Valuations are stretched for the large cap leadership and better value exists in the average stock.** If investors get comfortable with the economy, that value should be realized.

**We remain constructive on markets but could see some volatility over the near term** as investors deal with higher market interest rates and policy uncertainty from the Fed and White House.

We present our performance comparison in the following chart and would urge you to **review our individual strategy commentaries for further details**. We still believe the outlook for value-oriented strategies is good. Call us if you care to discuss this.

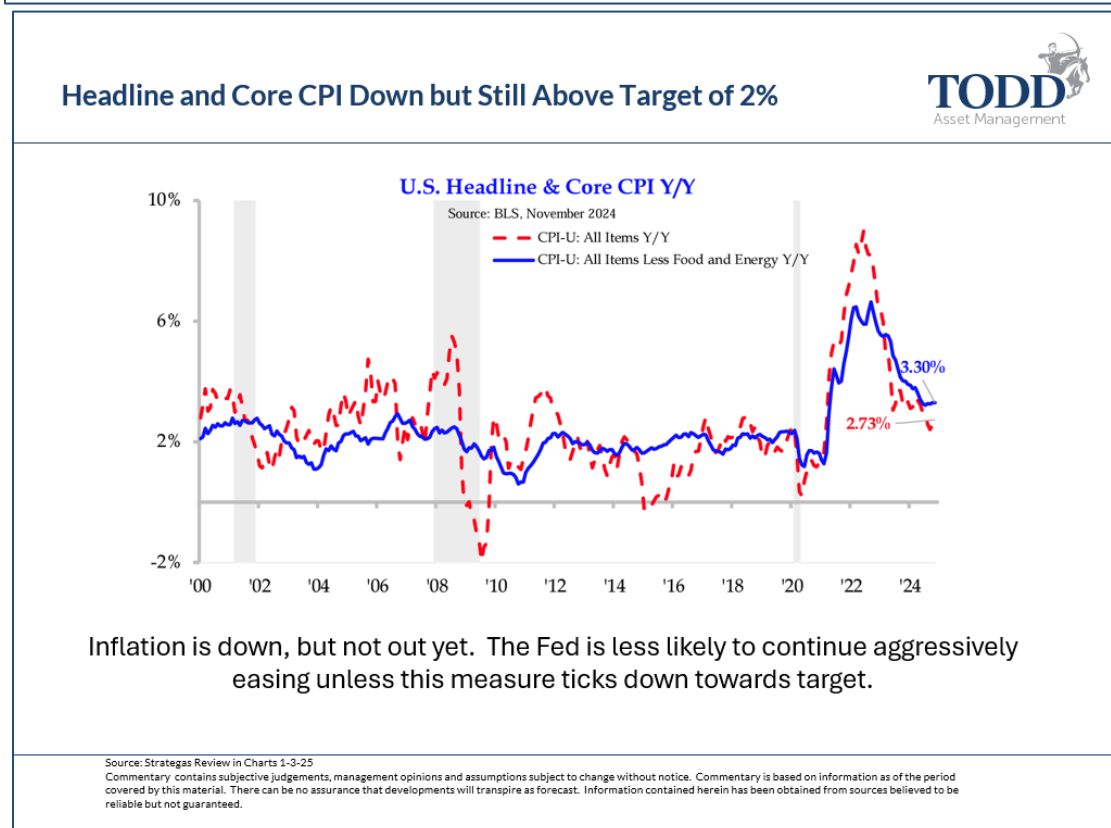
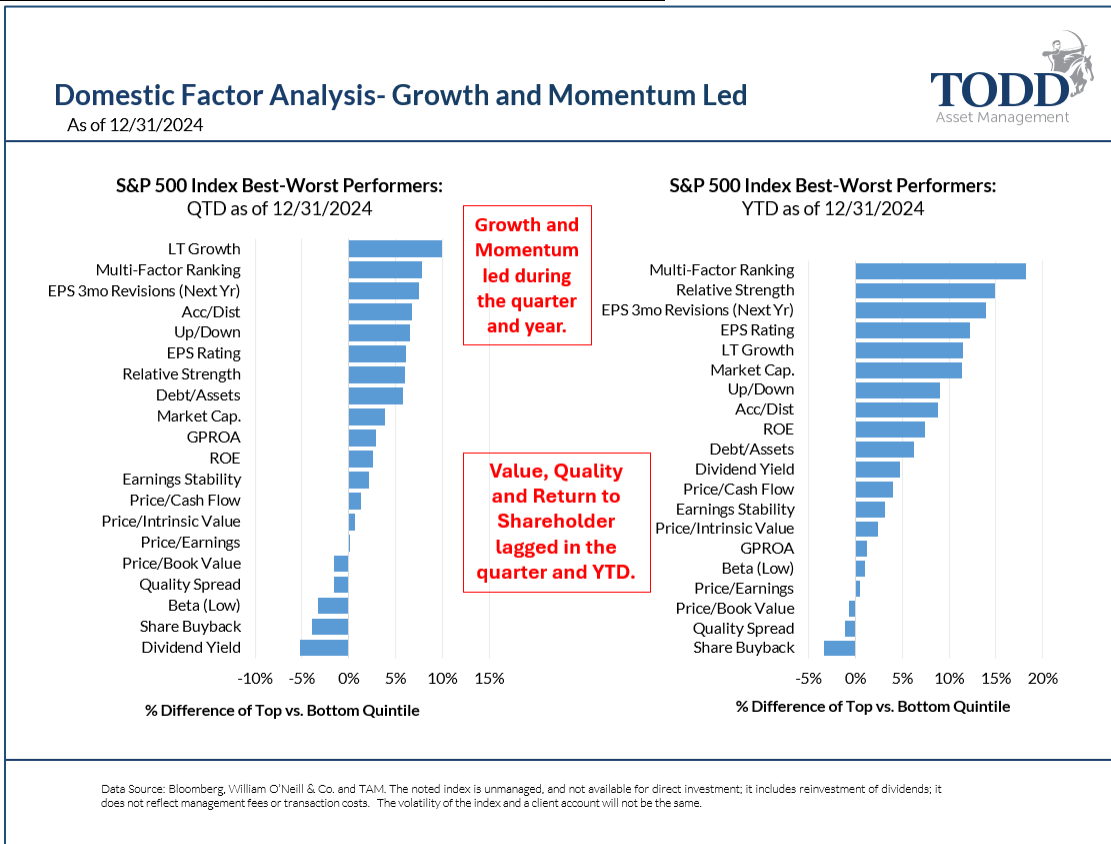
<b>Large Cap Intrinsic Value Annualized Returns (%)</b>								
All Periods Ending 12/31/2024								
Inception Date: January 1, 1981		QTD	YTD	1 Yr.	3 Yrs.	5 Yrs.	7 Yrs.	10 Yrs.
<b>Large Cap Intrinsic Value (Net)</b>	<b>-2.04</b>	<b>18.51</b>	<b>18.51</b>	<b>6.61</b>	<b>11.64</b>	<b>9.74</b>	<b>9.77</b>	
S&P 500	2.41	25.02	25.02	8.94	14.52	13.83	13.10	
LCIV Net Excess Return	-4.45	-6.51	-6.51	-2.33	-2.88	-4.09	-3.33	
<b>Russell 1000 Value</b>	<b>-1.98</b>	<b>14.37</b>	<b>14.37</b>	<b>5.63</b>	<b>8.68</b>	<b>8.41</b>	<b>8.49</b>	
LCIV Net Excess Return	-0.06	4.14	4.14	0.98	2.96	1.33	1.28	
<b>Large Cap Intrinsic Value (Gross)</b>	<b>-1.89</b>	<b>19.20</b>	<b>19.20</b>	<b>7.25</b>	<b>12.31</b>	<b>10.39</b>	<b>10.42</b>	
S&P 500	2.41	25.02	25.02	8.94	14.52	13.83	13.10	
LCIV Gross Excess Return	-4.30	-5.82	-5.82	-1.69	-2.21	-3.44	-2.68	
<b>Russell 1000 Value</b>	<b>-1.98</b>	<b>14.37</b>	<b>14.37</b>	<b>5.63</b>	<b>8.68</b>	<b>8.41</b>	<b>8.49</b>	
LCIV Gross Excess Return	0.09	4.83	4.83	1.62	3.63	1.98	1.93	

Data Source: Todd Asset Management, Standard and Poor's® and Russell® Indexes. QTD and YTD returns are not annualized. Past performance does not provide any guarantee of future performance, and one should not rely on the composite as an indication of future performance. There is no guarantee that this investment strategy will work under all market conditions. Refer to the Performance Disclosure and Additional Disclosures for more information on the performance numbers and benchmark data presented. These notes are an integral part of this chart and should not be reproduced or duplicated without these notes.

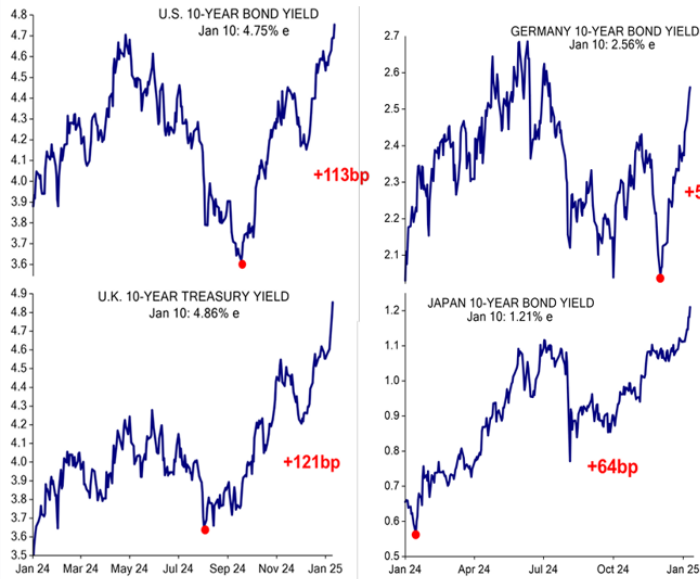
<b>Intrinsic Value Opportunity Annualized Returns (%)</b>								
All Periods Ending 12/31/2024								
Inception Date: April 1, 2006		QTD	YTD	1 Yr.	3 Yrs.	5 Yrs.	7 Yrs.	10 Yrs.
<b>Intrinsic Value Opportunity (Net)</b>	<b>9.41</b>	<b>33.65</b>	<b>33.65</b>	<b>12.35</b>	<b>14.43</b>	<b>12.04</b>	<b>8.61</b>	
S&P 500	2.41	25.02	25.02	8.94	14.52	13.83	13.10	
IVO Net Excess Return	7.00	8.63	8.63	3.41	-0.09	-1.79	-4.49	
<b>Russell 1000 Value</b>	<b>-1.98</b>	<b>14.37</b>	<b>14.37</b>	<b>5.63</b>	<b>8.68</b>	<b>8.41</b>	<b>8.49</b>	
IVO Net Excess Return	11.39	19.28	19.28	6.72	5.75	3.63	0.12	
<b>Intrinsic Value Opportunity (Gross)</b>	<b>9.64</b>	<b>34.76</b>	<b>34.76</b>	<b>13.29</b>	<b>15.38</b>	<b>12.98</b>	<b>9.52</b>	
S&P 500	2.41	25.02	25.02	8.94	14.52	13.83	13.10	
IVO Gross Excess Return	7.23	9.74	9.74	4.35	0.86	-0.85	-3.58	
<b>Russell 1000 Value</b>	<b>-1.98</b>	<b>14.37</b>	<b>14.37</b>	<b>5.63</b>	<b>8.68</b>	<b>8.41</b>	<b>8.49</b>	
IVO Gross Excess Return	11.62	20.39	20.39	7.66	6.70	4.57	1.03	

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## Charts we are sharing with clients this quarter:



## Global Bond Rout



**Long term interest rates are rising** across the globe. Short term rates are likely to decline in Europe, Rise in Japan, and remain stable in the US.

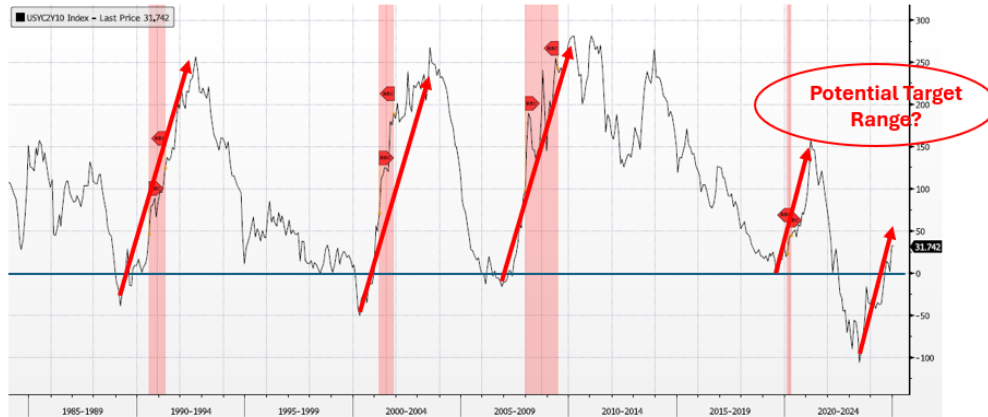
Worries driving rates higher include **global political uncertainty**, expected US **pro-growth policies**, concerns the Fed will **pause easing**, and **resilient growth/stickier inflation**.

Source: Evercore ISI Morning Economic Outlook 1-10-25.  
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## History Suggests 10 Year Government Yields Rise Further



### Yield Curve- 10 Yr – 2Yr Govt Yields



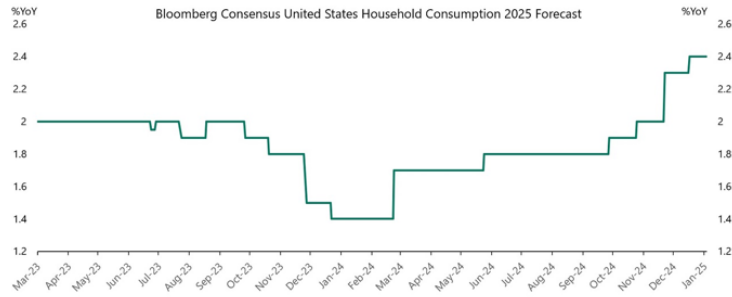
- Following inverted curves, the 10-year bond yield rises to 150 -250 basis points higher than the 2-year bond yield.
- After this inversion, that spread is only 40 basis points. Rates probably go up from here.

Source: Bloomberg, Todd Asset Management. Data as of 12/31/24.  
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## Consumer Outlook Remains Strong



Consensus revising higher the 2025 outlook for the US consumer



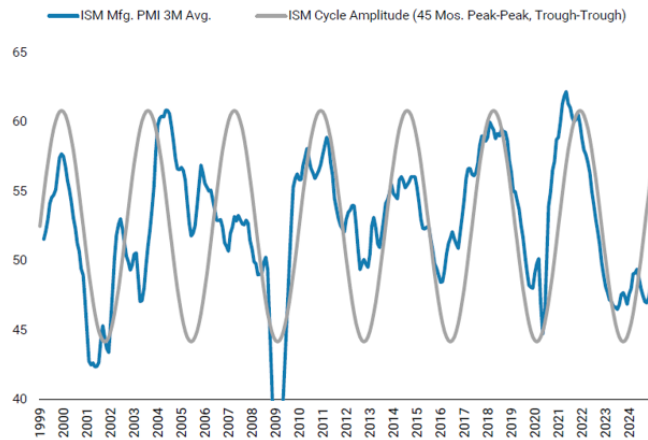
Forecasts for 2025 consumption have been rising and should remain firm. Employment and wages are growing, and consumer finances are in good shape. The weak point is housing, as higher rates have hurt demand.

Source: Apollo- Torsten Sliok 1-5-25  
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## Industrials- Cycle Basing and Should Turn



Historical ISM Cycle Pattern Suggests An Inflection Is Coming This Year



Source: Bloomberg, Morgan Stanley Research.

Cycles occur with regularity. Manufacturing has been in a downturn since the start of the tightening cycle. Cyclically, a recovery is due.

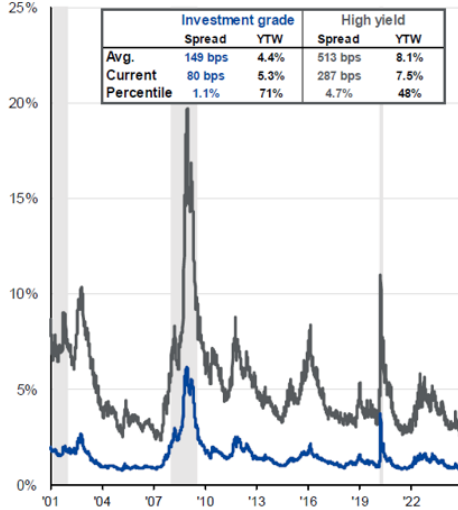
Source: Morgan Stanley- Wilson Weekly Warmup 1-5-25  
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## Corporate Credit: Priced for Low Recession Risk



### Corporate credit spreads

Option-adjusted spread, 2001 - present

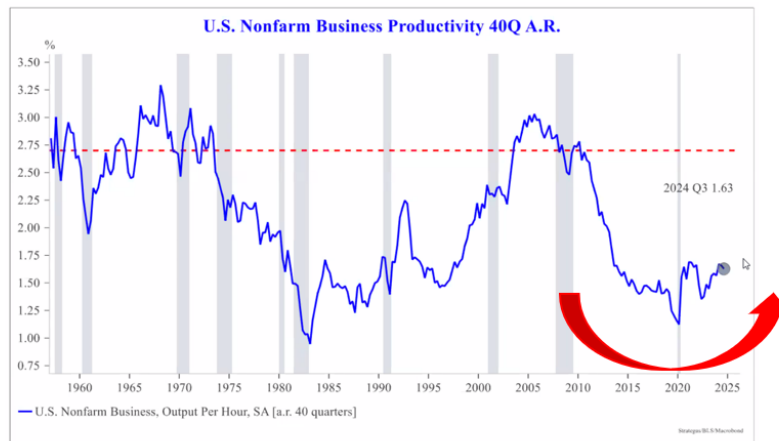


- **Credit Spreads are a good measure of investor sentiment** about risk to the economy.
- Good news- Investment grade and high yield spreads are low indicating **investors think recession risk is low.**
- Bad news- credit spreads are at generational lows, so **sentiment may be at maximum optimism.**

Source: JPM Guide to the Markets Q1 25

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## Productivity Rebounding



Productivity is rising, something that allows wage increases without increasing inflation. If this trend continues, it should be good for markets and the economy.

Source: Strategas-Risemiller outlook call 1-14-25

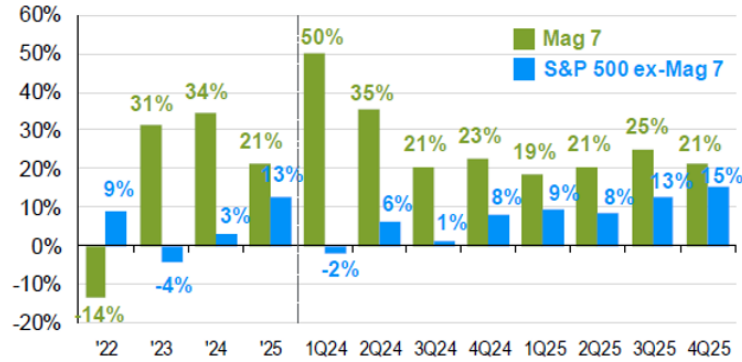
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## EPS Growth Resumes for Non Mag7 Stocks



### Earnings Growth/ Mag 7 Vs Rest of S&P 500

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



The MAG 7 have excellent earnings growth. The non-MAG 7 are seeing earnings growth resume after a slowdown in 2023 and H1 24.

Source: JP Morgan- Guide to the Markets Q1 25. MAG 7 includes AAPL, AMZN, GOOGL, META, MSFT, NVDA and TSLA. Forecasts based on consensus estimates. Commentary contains subjective judgements, management opinions and assumptions subject to change without notice. Commentary is based on information as of the period covered by this material. There can be no assurance that developments will transpire as forecast. Information contained herein has been obtained from sources believed to be reliable but not guaranteed.

## Valuation- Expensive on Index, Average on Equal Weight



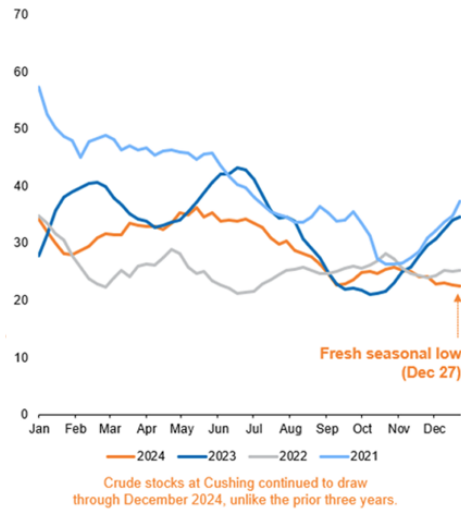
- On the market cap weighted index measure, valuations are expensive (top chart).
- On an equal weighted measure, valuations are average (bottom chart).
- We know the largest seven stocks in the index are expensive, which poses risks in our opinion. The other 493 do not carry the same valuation risk as the largest ones.

Source: Strategas Review in Charts 1-3-25  
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## What Glut?- Oil Inventories at Multi-Year Lows



**Crude Oil Inventories in Cushing, Oklahoma**  
million barrels



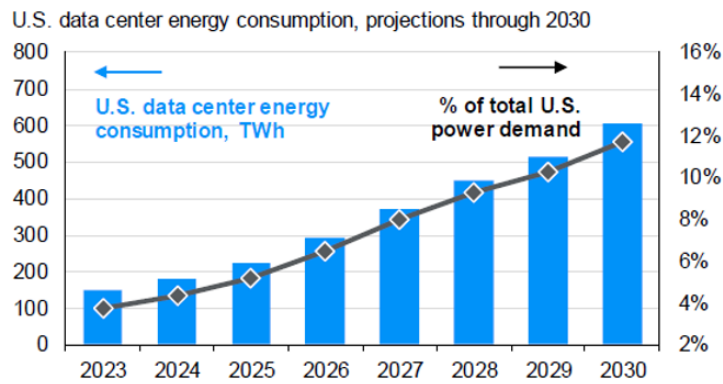
- Oil Inventories over the past four years are illustrated in this chart.
- Oil prices have been pressured in 2024 with oversupply concerns.
- 2024 oil inventories (yellow line) exited December at the lowest level in four years.
- We suspect a resilient economy, and low inventories could see oil prices firm in 2025.

Source: 22V Colin Fenton- 1-2-25 Oil Inventory Monitor  
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## Data Center Electricity Demand Should Triple by 2030



### Data Center Electricity Demand



- AI drives demand growth for electricity
- This benefits utilities, capital equipment manufacturers, renewables, and energy companies.

Source: JP Morgan- Guide to the Markets Q1 25. MAG 7 includes AAPL, AMZN, GOOGL, META, MSFT, NVDA and TSLA. Forecasts based on consensus estimates.  
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## The Reason For Diversification into Value and International



Top 10 as a % Weighting of S&P 500



The largest 10 stocks make up almost 40% of US core index funds. After the last peak (2000, internet) the core index went sideways for 13 years, while Value and International advanced.

Source: Strategas Review in Charts 1-3-25  
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We appreciate your support and attention. As always, if you need any additional information, please feel free to contact any of us.

Curt Scott, CFA  
Jack White, CFA  
Jack Holden CFA  
Shaun Siers, CFA

01/16/25  
S&P 500 – 5,937  
Russell 1000 Value – 1,873

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The Large Cap Intrinsic Value Composite contains fully discretionary, tax-exempt accounts that use either the S&P 500 Index or Russell 1000 Value Index as the benchmark. Prior to April 1, 2010, this Composite was known as the Relative Value Equity Composite; no changes in the strategy were made in conjunction with the name change. All fee-paying, fully discretionary portfolios under our management are included in a Composite. Accounts are eligible for inclusion in the Composite at the beginning of the first calendar quarter after the month of initial funding and upon being fully invested.

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The performance information is presented on a trade date basis, both gross and net of management fees, net of transaction costs and includes the reinvestment of all income. Net of fee performance was calculated using the applicable annual management fee schedule of .60% applied monthly. Prior to September 2001, the management fee schedule applied to the Composite was .50%. Actual investment advisory fees incurred by clients may vary. The currency used to calculate and express performance is U.S. dollars. All cash reserves and equivalents have been included in the performance.

The Composite performance has been compared to the following benchmarks. The indexes are unmanaged, and not available for direct investment; they include reinvestment of dividends; they do not reflect management fees or transaction costs. The volatility of the index and a client account will not be the same.

S&P 500 Index is a widely recognized index of market activity based on the aggregate performance of a selected portfolio of publicly traded common stocks. The performance data was supplied by Standard & Poor's. It is included to indicate the effect of general market conditions.

Russell 1000 Value Index is a widely recognized index of market activity based on the aggregate performance of common stocks from the Russell 1000 Index, with lower price-to-book ratios and lower forecasted growth values. The performance data was supplied by Frank Russell Trust Company.

Risks - Investments involve varying degrees of risk, and there can be no assurance that this product is suitable or profitable for your investment portfolio. The LCIV product is designed for long-term investors, who are willing to accept short-term market price fluctuations. Stock market and business risks are general risks associated with the product. There are times the overall market may not favor value-style investing, and it is possible the intrinsic value of the underlying stocks may never be realized.

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