INVESTMENT REVIEW AND OUTLOOK

December 31, 2024

Market Summary

Equity markets produced mixed results in the fourth quarter. What started as a quiet October turned into a market rally as investors showed approval of Donald Trump's victory in the election. Small cap stocks led the rally, with the Russell 2000 Index up nearly 10% in the first week of November. That index, with smaller, more domestically focused companies, was viewed as potentially the biggest beneficiary of a Trump 2.0 administration.

Index Total Returns

Source: NBW Capital

	Three Months Ended 12/31/2024	Twelve Months Ended 12/31/2024
S&P 500 (Equities)	2.41%	25.02%
Bloomberg U.S. Aggregate Bond Index (Bonds)	-3.06%	1.25%
Alerian Total Return Index (MLPs)	4.94%	24.41%
Russell 2000 Index (Small-Cap Stocks)	0.33%	11.54%
MSCI EAFE (Foreign Stocks)	-8.06%	4.35%

*December 31, 2024 quarter end point in time data. The above returns are industry index benchmark returns, your actual portfolio return can be located on the "Performance Overview" page of your reporting package.

However, the rally faded as we entered December. The most widely watched index, the S&P 500, was holding up well, but the smaller and mid-capitalization stocks faded fast. Propping up the S&P 500 was the return to the Magnificent 7 mega-cap stocks (Amazon, Apple, Google, Meta, Microsoft, Nvidia and Tesla). Tesla, in particular, helped with an over 50% gain in the quarter as the stock seems to be benefitting from Elon Musk's new role in the Trump administration (although it is questionable to us whether that will ultimately benefit the company).

Source: Strategas

At the end of the quarter, the S&P 500 delivered a respectable return of 2.41% (helped again by the 15.89% return from the Magnificent 7, which now represents over a third of the weight in that index). Small and mid-cap stocks managed to hold on to very small gains. One of the weakest indices in the quarter was the equal-weighted S&P 500, where every stock has a 0.2% weight in the index. This index was down 1.89% in the quarter, highlighting the lack of breadth in the market. The chart to the left also highlights the lack of breadth and weakness in the market as we were heading into year end.

The bond market was weak in the fourth quarter as interest rates moved higher at the longer end of the yield curve. We have intentionally kept our bond holdings much shorter than the Bloomberg U.S. Aggregate Bond Index due to concerns about higher rates (helping us outperform that benchmark). Also weak were international markets, with the MSCI EAFE index down over 8%, mainly on stronger dollar concerns. We have limited exposure to international markets, owning roughly 2% in select country ETFs.

Turning to year-to-date, it was another stellar year for the S&P 500 representing back-to-back years of over 20% returns. For our Growth and Income and Balanced strategy clients, they also benefitted from the strong performance in the MLP category. Small caps posted returns that, in any normal year, would be considered good, but the underperformance to U.S. large cap has been dramatic. It is our belief that this may normalize, but market sentiment and ETF flows make the timing hard to predict.

Election results are in

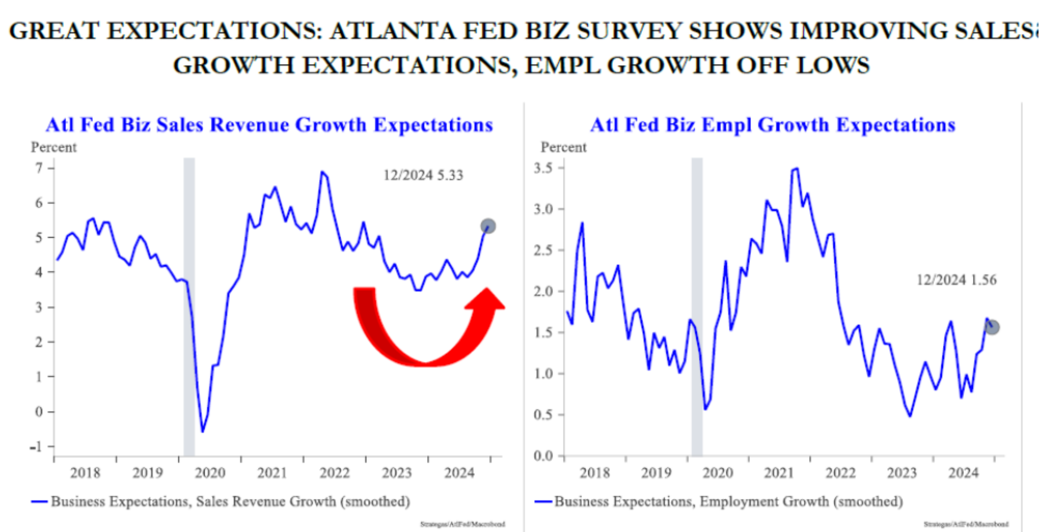
Donald Trump and the Republican Party delivered a decisive victory in the November elections and since there was little to challenge with the results, there was a peaceful transfer of power. The market took the results favorably, sparking a significant rally. The second Trump administration will follow the playbook of pro-business policies and less regulations. Certain sectors, such as financials, industrials and energy are viewed as the prime beneficiaries of policy changes. In post-election meetings with the management teams of companies in these industries, there is a sense of cautious optimism.

The U.S. dollar started appreciating as Trump took the lead in election polls, with a more pronounced move up after the election. The expectations of a stronger domestic economy and potential weakness abroad led to a flight to quality in the dollar. Tariffs will likely have an impact on imports, driving strength in the dollar; however, the risk of retaliatory tariffs or a trade war may dampen that impact over time.

Economic Outlook

The U.S. economy continues to surprise to the upside. With most of the data already in, the U.S. economy expanded around 2.7% in 2024. A little over a year ago, that number was expected to be 0.6%. Importantly, GDP estimates for 2025 have moved up considerably over the past few months. At the start of the quarter, economists were expecting growth to slow to 1.7% in 2025. However, by the end of the quarter, the consensus estimate had risen to 2.1%. While this number would still represent a slowdown from 2024, the upward trend suggests that by the end of the year growth may be on par with the solid growth seen in 2024.

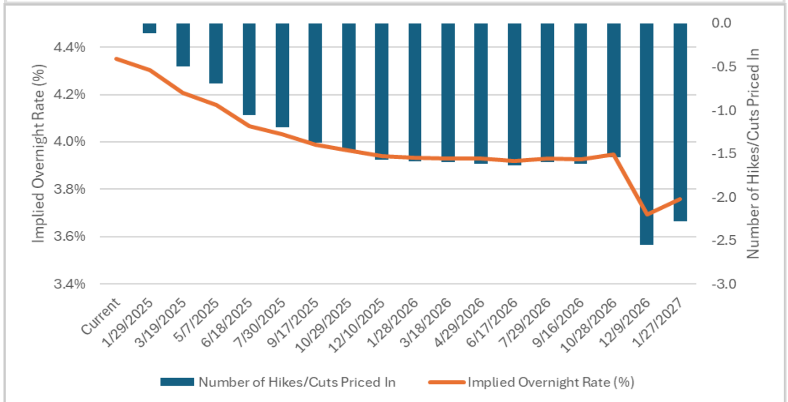
Highlighting the improving business sentiment, a chart that caught our eye is seen below (courtesy of Strategas). The recent Atlanta Federal Reserve business surveys showed a clear turn in revenue growth expectations as well as hiring trends. The ISM Manufacturing Index managed to post two months of improving numbers in November and December. Perhaps more importantly, the ISM New Orders Index surprised to the upside and moved solidly into expansion territory.



Federal Reserve tempers rate cut expectations

In December, the Federal Reserve followed through on an expected 0.25% cut in the Fed Funds Rate. However, they reigned in expectations for rate cuts in 2025 from 3 to 2. Repeating a chart we used last quarter, the market is pricing in roughly 2 cuts of 0.25% and a terminal Fed Funds Rate of 3.8% at year end. Last quarter, this chart showed 6 cuts and a terminal rate close to 3.0%, highlighting the significant reduction in rate cut expectations.

Fed Funds Expectations
Source: Bloomberg

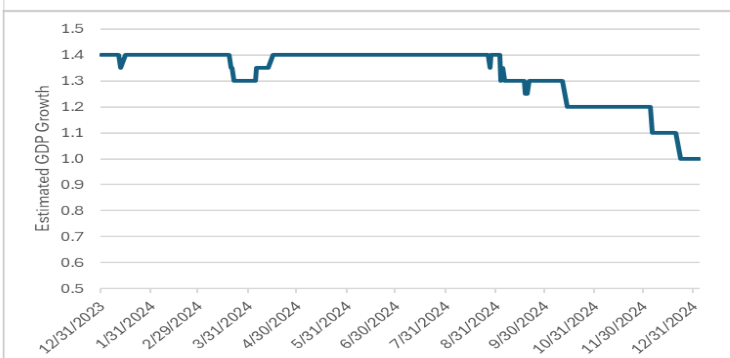


The stronger than expected economy gives some justification for the cautious stance from the Federal Reserve. They seem determined to stick with their 2% inflation target but also state that they will be data dependent. We have seen a modest uptick in inflation expectations, but nothing too alarming. Time will tell what the impact on inflation from increased tariffs will be, but for now, the Federal Reserve is maintaining a somewhat restrictive policy rate.

Global Landscape

Geopolitical tensions remain high with the escalation of the Middle East conflict and no end in sight to the Ukraine war. The year 2025 will prove to be interesting as President-elect Trump tries to deliver on his comment that he can end the Ukraine war in one day. He will also bring his style of negotiating to the Middle East conflict. We, as most, are skeptical he can bring a quick end to the Ukraine war as the two sides remain far apart. But the headlines around negotiations may bring some signs of hope. The Middle East remains even harder to predict. We wish the new President the best of luck in settling these conflicts but expect them to continue to be challenging.

Eurozone estimated GDP growth (2025)
Source: Bloomberg

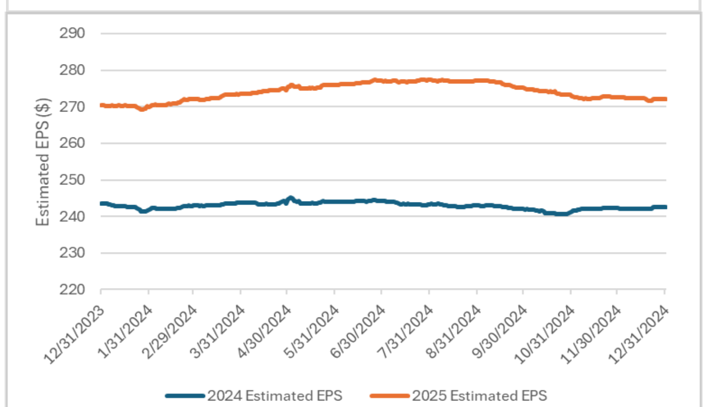


On the economic front, we have started to see signs of weakness. Last quarter, we talked of a global easing cycle, which remains the case. However, we are seeing signs of weakness in some economies, particularly in Europe and Asia. China's large stimulus program announced in September doesn't seem to be having the impact it intended as it seems they are pushing on a string. More recently, we have seen GDP estimates for the Eurozone come down in part due to the uncertainty of increased tariffs.

Earnings and valuations

There was a brief period of concern after the second quarter earnings season which abated after a solid third quarter earnings season. For the S&P 500, 76% of the companies reported better than expected earnings with an average surprise of 6.82%. These results were strong enough for the 2024 estimated EPS to remain steady and head into year-end on a slight uptick. For 2025, estimated EPS has pulled in a bit but ended the year 2024 slightly higher than where it began. Importantly, the 2025 estimated EPS represents 12.2% growth.

2024/2025 S&P 500 Estimated EPS
Source: Bloomberg



As we enter the new year, we are often asked for a return outlook (something that is very hard to predict) and most of us get wrong to either the upside or downside. We know of no one that was predicting the S&P 500 to be up 25% this year. But, if the earnings come in line with current expectations and the earnings multiple stays the same, investors would receive 12.2% price return and about 1.3% in dividends. The challenge there is that the S&P 500 is trading at 22.5 times forward earning, which is the upper end of the range. Predicting earnings multiples in the future is extremely challenging, but we would suggest there is risk to the downside. So, after back-to-back years of over 20% returns, we are guiding investors to expect single digit returns in the benchmark index as we digest some multiple contraction.

529 Plan Update

As you may be aware, we actively manage 529 college savings and 401K plans. We mentioned at the beginning of last year that we shifted our allocation towards domestic equities and away from foreign equities. This move proved beneficial as the funds focused on U.S. large cap equities, which were up more than 20%, while the global and international funds were up mid-single digits. Additionally, for those clients nearing college age or approaching college age, our decision to use a short duration bond fund helped as that fund was up over 6%, well ahead of a typical bond fund.

It is important to note our 529 asset allocation has been more aggressive than the typical target date fund offered by most institutions. In general, we have maintained more equity exposure right up to the entry to college. This has benefited our clients considerably in recent years. Based on market conditions, you will find us more active than large institutions in shifting allocations and that we will work within our client’s risk tolerance to customize the allocation

DISCLOSURES

Except where otherwise indicated, the information contained in this presentation is based on matters as they exist as of the date of preparation of such material and not as of the date of distribution or any future date. This document does not constitute advice or a recommendation or offer to sell or a solicitation to deal in any security or financial product. It is provided for information purposes only and on the understanding that the recipient has sufficient knowledge and experience to be able to understand and make its own evaluation of the proposals and services described herein, any risks associated therewith and any related legal, tax, accounting or other material considerations. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to their specific portfolio or situation, they are encouraged to consult with the professional advisor of their choosing, and recipients should not rely on this material in making any future investment decision.

We do not represent that the information contained herein is accurate or complete, and it should not be relied upon as such. Opinions expressed herein are subject to change without notice. Certain information contained herein (including any forward-looking statements and economic and market information) has been obtained from published sources and/or prepared by third parties and in certain cases has not been updated through the date hereof. While such sources are believed to be reliable, NBW Capital does not assume any responsibility for the accuracy or completeness of such information. NBW Capital does not undertake any obligation to update the information contained herein as of any future date.

Any illustrative models or investments presented in this document are based on a number of assumptions and are presented only for the limited purpose of providing a sample illustration. Any sample illustration is inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond NBW Capital's control. Any sample illustration may not be reflective of any actual investment purchased, sold, or recommended for investment by NBW Capital and are not intended to represent the performance of any investment made in the past or to be made in the future by any portfolio managed or advised by NBW Capital.

The statements in this presentation, including statements in the present tense, may contain projections or forward-looking statements regarding future events, targets, intentions or expectations. Due to various risks and uncertainties, actual events or results may differ materially from those reflected or contemplated in such forward-looking statements. Past performance is no guarantee of future results. Investments are subject to risk, including the possible loss of principal. No representation, warranty or undertaking is made as to the reasonableness of the assumptions made herein or that all assumptions made herein have been stated. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly in this document, will be profitable, equal any corresponding indicated performance level(s), or be suitable for your portfolio.