2024 AND BEYOND — STRATEGY & MARKET UPDATE

Kostas Grigorakis, CFA®, Managing Director – Investments, Senior PIM Portfolio Manager

January 9, 2025

[We encourage you to read and share our recent publication, 'Insights from Our Investment Process,' which offers a deeper look into our unique investment management approach. This year, we began publishing fresh, timely research and topical market commentary on **LinkedIn**. After debuting there, select pieces are shared via email with our investors and followers before being archived on our **website** for reference. Follow our LinkedIn page and share this valuable content with your investor network.]

EXECUTIVE SUMMARY

- Q4 2024: Growth Reigns Amid Volatility Spikes
  After a brief countertrend in Q3, Q4 reasserted the dominance of US Tech/Innovation/Growth assets. Growth (+6.17%) and Momentum (+4.97%) led the winners, while December's unexpected losses, driven by Federal Reserve uncertainty, tempered returns across most asset classes.
- 2024 in Review: Stocks Shine, Bonds Struggle
  The S&P 500 posted its second consecutive 20%+ return year, a rare feat, while bonds remained mired in a historic bear market. Blended portfolios performed well, with Aggressive models (+13.55%) far outpacing Conservative ones (+6.57%), underscoring the challenges posed by inflation and *lifeflation*[6] to conventional, age/life-stage, risk-rated, and goal-oriented paint-by-the-numbers strategies.
- The Case for Adaptation Looms Large
  Our research shows[9] that static portfolios anchored to age, risk tolerance, or goals are market-unaware and fail to meet modern financial challenges. Instead, we advocate for dynamic strategies that shift between Conservative, Moderate, Growth, and Aggressive orientations based on market regime status, balancing adaptability, risk control, and tax efficiency.
- 2025 Outlook: Bullish Market Regime Continues until…Further Update
  As 2025 begins, our strategies confirm a continued bullish market regime underpinned by supportive economic activity and well-functioning markets. While risks like hyper-concentration in the S&P 500 remain, no immediate signals suggest a bearish shift.
- Ongoing Updates
  Our disciplined, adaptive approach empowers investors to navigate evolving markets confidently. Future updates on our assessments will be shared in Quarterly Reports and interim LinkedIn posts.

Q4 2024: Trend Resurgence with a Jittery Twist

As noted in our last update, Q3 reignited fears among trend-followers and fueled contrarians' hopes for a shift in market leadership away from the primacy of US-focused Tech/Innovation/Growth assets. While some pundits hastily recommended repositioning portfolios, we cautioned against it: "Regarding the question of a market leadership change, our strategies' reply is, 'Not so fast!'" [1].

The countertrend fizzled early in Q4 as the market restored the long-standing dominance of US-focused Tech/Innovation/Growth assets. The quarterly winners included Growth (+6.17%), Momentum (+4.97%), and Nasdaq 100 (+4.74%), while the laggards were led by Materials (-12.42%), Non-US Developed Markets (-7.87%), and US High Yield Dividend Aristocrats (-6.31%).

Yet, the trend resurgence came with a jittery twist: December, typically one of the calendar's strongest months, defied expectations by delivering widespread losses (e.g., Materials -10.72%, Enhanced Value -8.13, S&P 500 -2.38%). These declines tempered returns across nearly all asset classes but failed to disrupt the annual ranking within the prevailing trend.

Why the December aberration?

Blame it on the US Fed. Despite delivering the widely anticipated quarter-point rate cut, the Fed unsettled the markets with its ambiguous messaging, signaling policy 'uncertainty'—a polite euphemism for 'confusion' and 'ineffectiveness.' Count us still among the Fed's most consistent critics.

2024: The Year in Review

By all measures, 2024 was a constructive year for stocks:

> For starters, it was a broadly positive year both in the US (only Materials bucked the trend with a scratch loss of -0.04%) and globally (with the notable exception of a -22.16% decline in the Latin America 40 Index).
>
> Moreover, 2024 marked the second consecutive year of 20%+ returns for the widely followed S&P 500—a distinction only matched by the 1997-1998 precedent.

Bonds, however, fared decisively worse. The Bloomberg US Aggregate Bond Index eked out a mere +1.25% gain, down from its still-anemic +5.65% 2023 return, failing again to reverse the consequential -13.02% drop bonds registered in 2022.

This underscores a sobering reality: Bonds remain in the largest bear market in fixed-income history—a fact that has yet to be fully reflected in mainstream finance theory or sufficiently integrated into how managers and investors understand and use bonds as tools for risk mitigation, income stability, and overall portfolio sustainability.

And, aside from single indices, how did real-life, blended-asset investor portfolios fare in 2024?

The S&P Dow Jones organization reports that their Target Risk Conservative[2] Index model portfolio rose by +6.57%, the Moderate[3] by +7.94%, the Growth[4] by +10.67%, and the Aggressive[5] by +13.55%.

Is there a message here?

Consider the same portfolios' 10-year annualized total returns: Conservative +4.02%, Moderate +4.82%, Growth +6.93%, and Aggressive +7.92%.

With regular inflation—reflecting the rising cost of maintaining a static standard of living—averaging about 3.3% annually over the last decade, and *lifeflation*[6]—capturing the additional cost of adapting to life's modernization pressures—effectively adding another 4%, the total purchasing power erosion amounts to approximately 7% per years. Among conventional portfolios, only the Aggressive has generated robust enough returns to surpass this hurdle.

This challenges the classical paint-by-the-numbers approach of creating market-unaware portfolios that are purely calibrated around investors' age/life-stage (accumulation/retirement), risk (conservative/moderate/aggressive), or goals (income/growth/both). For instance, "conservative" portfolios have failed to preserve capital on an inflation-adjusted basis over the past decade.

So, would the solution be for all investors to embrace an aggressive portfolio orientation permanently?

Assuredly not.

Aggressive portfolios have their own historical shortcomings. For example, S&P 500-tracking portfolios recorded a loss during the first decade of this century and registered protracted declines during the Great Stagflation (1966-1982) or the Great Depression (1929-1942).

So, what is the solution?

We have consistently argued that the market is an open sea, offering no safety anchors for investor portfolios—whether Conservative, Moderate, Growth, or Aggressive. Rather than clinging to illusory anchors, investors can achieve better outcomes by constructing portfolios that dynamically adapt to shifting market regimes. This approach emphasizes market adaptability, risk control, and tax efficiency. Market conditions dictate that there is a time to be Conservative, a time to be Moderate, a time to prioritize Growth, and a time to be Aggressive. Our research and decades of market experience demonstrate that this market-driven, adaptive portfolio orientation can benefit investors across all life stages, risk appetites, and financial goals. This is the template that underpins our strategies.

As we enter 2025, we invite you to review the results our strategies have achieved for you individually.

2025: Reading the Unfolding Trends while Discarding Predictions

Ahead of 2024, the average Wall Street target for the S&P 500 at year-end was 4,850[7] , yet the index finished at 5,881.63—a stark but all too common forecasting error, as we have highlighted elsewhere[9].

That is precisely why our strategies programmatically eschew all forecasting and instead focus on tracking unfolding trends, aiming to adapt to market-regime shifts while risk-controlling and tax-rationalizing the transitions. Our research shows that such discipline produces robust performance while enhancing portfolio sustainability.

As 2025 begins, our market scans confirm the continuation of the bullish regime. Specifically, our CORE and FOCAL strategies show that the US economy—the focal point of their current exposures—remains supportive and outside the recession zone. In parallel, our QUAD strategy affirms that the market operates without dysfunction.

While regimes can and do shift, our studies indicate that such transitions do not occur without specific, discoverable signals of a bearish market regime shift.

For adaptive strategies like ours, every assessment is time-stamped. We will continue to keep you informed of any changes through our Quarterly Reports and interim updates debuting on LinkedIn before they are sent to your inbox.

Finally, an important note on the key risk we have been tracking—market overconcentration.

The S&P 500 remains highly concentrated, with its top-ten holdings comprising nearly 40% of the index's total capitalization. This hyper-concentration, typical for unadaptive and singular indices, creates a susceptibility to bubbles, making such benchmarks unsuitable for guiding portfolios. We delve further into the adverse effects of this characteristic in our recent LinkedIn post, "Copycat Portfolio Benchmarking – The Case Against the S&P 500."

Still, while problematic, hyper-concentration alone cannot end a bullish market regime. A broader constellation of factors must align to bring about a bearish market regime shift, a pattern that our strategies are on the lookout to recognize. In the absence of such a convergence, bullish market regimes tend to produce further upside.

Last Word

We invite you to spread the word about your GNH Capital Group experience within your circles of influence. The last five years have been challenging for most investors. They have been battered by the historic bond bear market and whipsawed in the steep downdraft of 2018, the crash of 2020, and 2022's rolling turmoil. And throughout the last fifteen years, they have been torn between the Scylla of speculation and greed and the Charybdis of worry and indecision. As our veteran clients have discovered, our strategies' adaptability and risk controls have been an excellent antidote to haphazard performance and a booster of investor confidence. Please assist us in spreading the word.

We remain grateful for your trust, loyalty, support, and friendship!

On behalf of GNH Capital Group's entire team with Henrik, Richard, Chad, and Isabel,

Kostas

Kostas Grigorakis, Managing Director – Investments, Senior PIM Portfolio Manager
Henrik Nielsen, First Vice President – Investments, PIM Portfolio Manager
Richard Harding, First Vice President – Investments
Chad Pate, Senior Registered Client Associate
Isabel Bassi, Registered Client Associate

[1] https://fa.wellsfargoadvisors.com/gnh-capital-group/mediahandler/media/669816/GNH%20Capital%20Group%20-%202024%20Q3%20Strategy%20and%20Market%20Update.pdf
[2] https://www.spglobal.com/spdji/en/indices/multi-asset/sp-target-risk-conservative-index/#overview
[3] https://www.spglobal.com/spdji/en/indices/multi-asset/sp-target-risk-moderate-index/#overview
[4] https://www.spglobal.com/spdji/en/indices/multi-asset/sp-target-risk-growth-index/#overview
[5] https://www.spglobal.com/spdji/en/indices/multi-asset/sp-target-risk-aggressive-index/#overview
[6] https://fa.wellsfargoadvisors.com/gnh-capital-group/mediahandler/media/645387/GNH%20Capital%20Group%20-%20Lifeflation.pdf
[7] YCharts, Bloomberg
[8] https://fa.wellsfargoadvisors.com/gnh-capital-group/mediahandler/media/676001/GNH%20Capital%20Group%20-%20Pundit-Proof%20your%20Investment%20Plan.pdf
[9] https://fa.wellsfargoadvisors.com/gnh-capital-group/mediahandler/media/455234/GNH%20Capital%20Group%20-%20Our%20Offering.pdf