

2025 INVESTMENT OUTLOOK

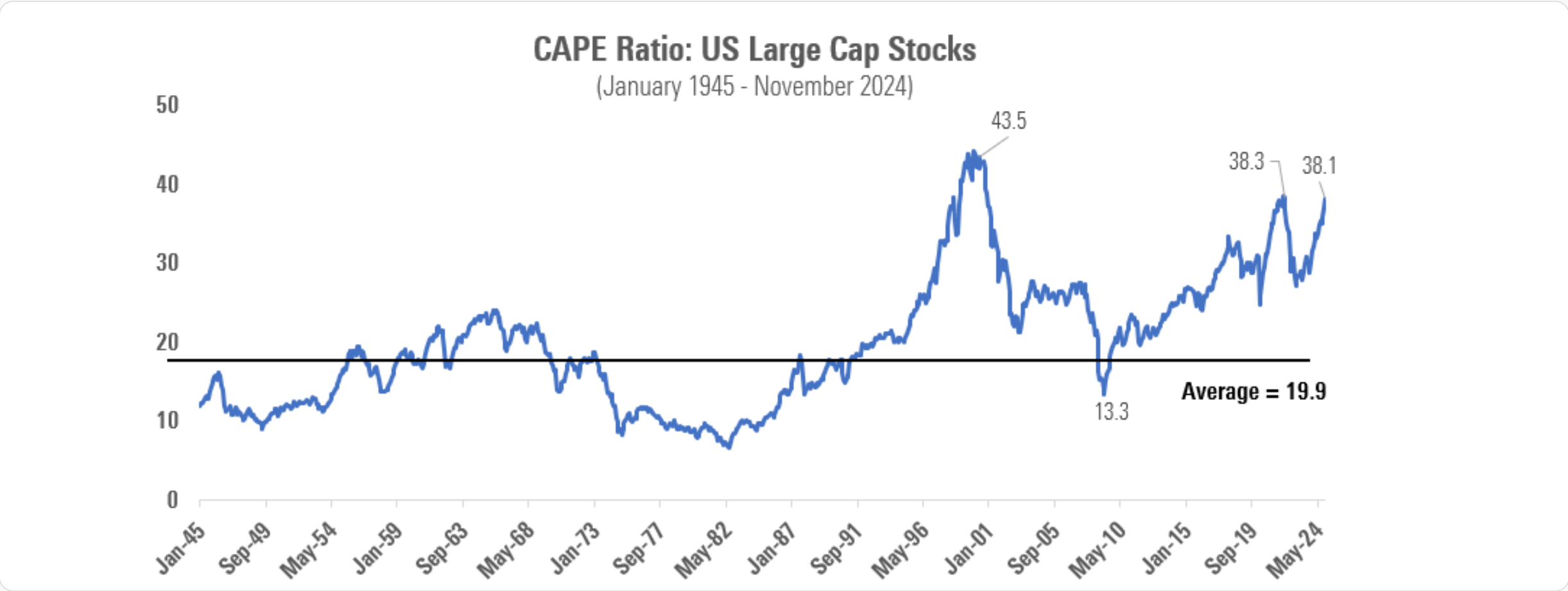
Investment Opportunities for Globally Diversified Portfolios

1. US Stocks are Expensive
2. Finding Value in an Expensive Market: Three US Investment Ideas
3. Spinning the Globe to Access Better Opportunities
4. Opportunities Abroad: Three Non-US Investment Ideas



US Stocks are Expensive

The CAPE Ratio, shows US equity valuations are at their highest since the late 1990s, sitting at 38.1 and placing it in the 98th percentile of historical readings.



Source: Robert Shiller Data Library. Observation period = Jan. 1945 – Nov. 2024.

US Theme #1: Large Cap Value

Expensive valuations may mean there are fewer attractive investment opportunities in the US, that doesn't mean they're nonexistent either.

Tale of Two Markets Inside US Large Caps

1. **High-valuation (expensive) segment**, which has fueled most of the recent performance and captures the bulk of media attention.

Top 10 Holdings (Morningstar US Large Growth)		
Company	Ticker	P/E
NVIDIA	NVDA	33.7
Microsoft	MSFT	31.6
Amazon	AMZN	32.1
Tesla	TSLA	105.3
Salesforce	CRM	30.7
Visa	V	27.6
Netflix	NFLX	37.5
Mastercard	MA	31.9
Airbnb	ABNB	29.4
ServiceNow	NOW	62.9
	Avg. P/E	42.3

2. **Low-valuation (cheaper) segment**, which has been largely overlooked.

Top 10 Holdings (Morningstar US Large Value)		
Company	Ticker	P/E
Berkshire Hathaway	BRK.A	24.0
JPMorgan Chase	JPM	14.8
Exxon Mobil	XOM	13.7
Home Depot	HD	26.6
Johnson & Johnson	JNJ	14.5
AbbVie	ABBV	14.9
Walmart	WMT	32.9
Bank of America	BAC	12.8
Coca-Cola	KO	21.6
Chevron	CVX	13.4
	Avg. P/E	18.9

Source: Morningstar Direct. Morningstar Indexes used for analysis. Data as of November 15, 2024.

US Theme #2: Small Caps

The Three U's: An asset class that has gotten less attention — and expectations have been lower — has been small caps.

Unloved

Interest Declining



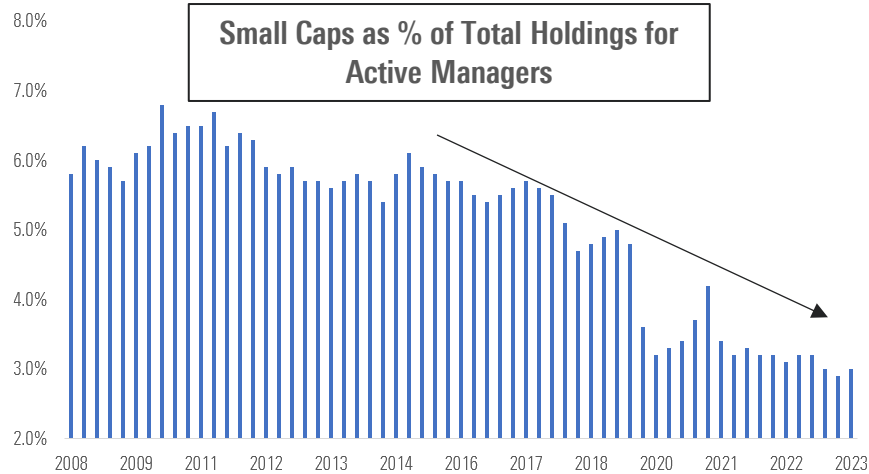
Underperforming

Underperformance



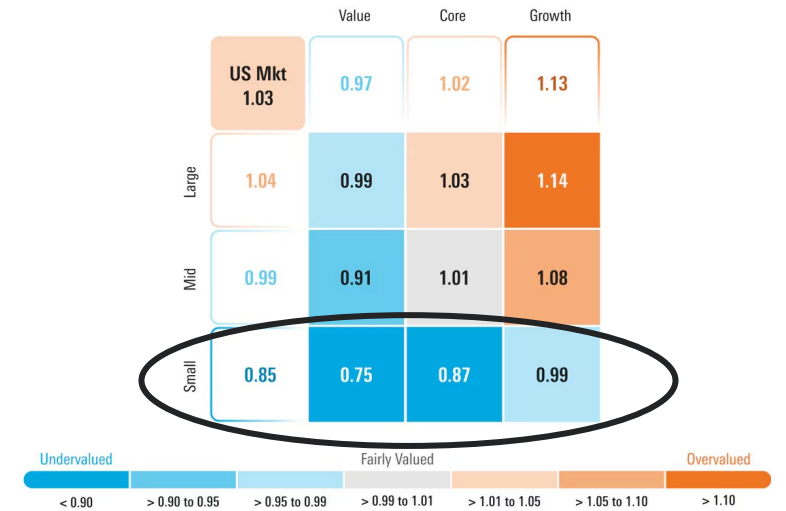
Undervalued

Cheaper Valuations & Future Opportunity



Asset Class	10 Year Annualized	10 Year Total Return
Large Caps	13.1%	245.3%
Small Caps	8.8%	134.1%

Price/Fair Value by Morningstar Style Box Category



Source: Bank of America US Equity Strategy Research. FactSet.

Source: Morningstar Direct. Past performance is no guarantee of future results. For illustrative purposes only, an investment can not be made directly in an index. Russell indexes used for analysis.

Source: Morningstar. Data as of September 2024.

US Theme #2: Small Caps

A catalyst? History strongly indicates rate cuts been favorable for small caps.

	Small Cap Forward Returns Post Rate Cut				
First Rate Cut	3 Months	6 Months	1-Year	3-Year	5-Year
5/30/1980	23.0%	40.6%	53.3%	29.5%	16.2%
11/2/1981	-5.2%	-5.9%	11.7%	11.7%	13.6%
11/21/1984	17.8%	16.3%	22.2%	4.4%	10.7%
6/6/1989	3.4%	-2.4%	-1.2%	4.9%	8.0%
7/6/1995	5.6%	9.4%	20.2%	18.5%	14.3%
9/29/1998	12.5%	9.7%	16.8%	4.8%	7.2%
1/3/2001	-11.8%	3.1%	3.8%	6.5%	8.2%
9/18/2007	-6.2%	-14.9%	-15.0%	-5.6%	2.8%
7/31/2019	0.2%	5.5%	-3.7%	7.5%	8.7%
Average	4.4%	6.8%	12.0%	9.1%	10.0%
Median	3.4%	5.5%	11.7%	6.5%	8.7%
% Time Positive	66.7%	66.7%	66.7%	88.9%	100.0%

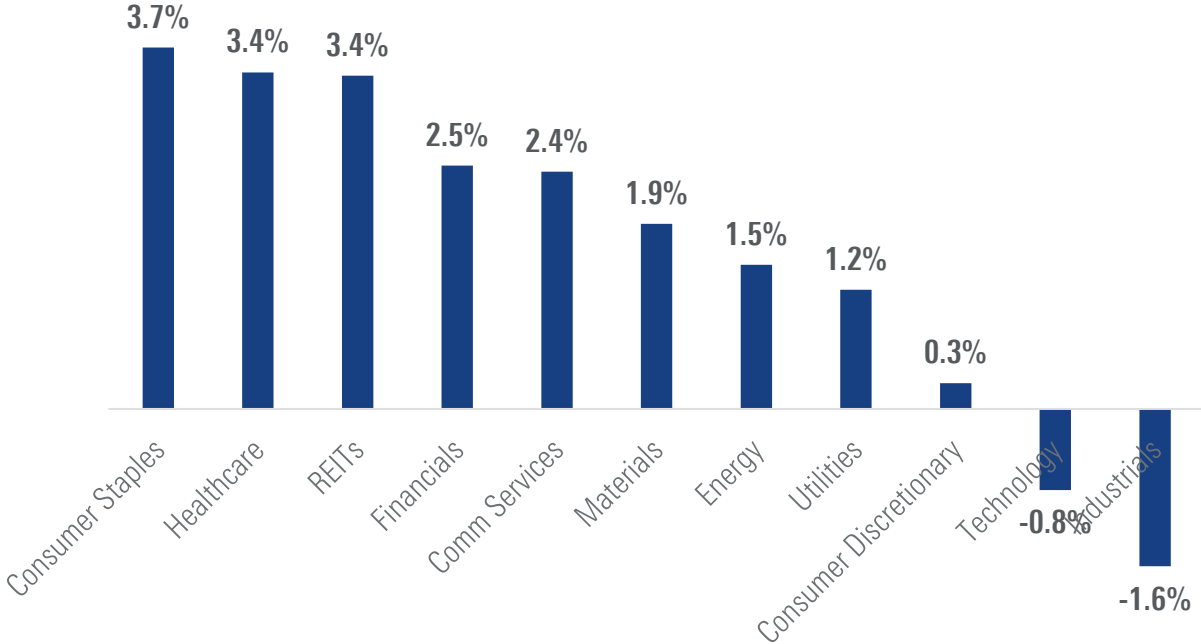
Source: Ned Davis Research, Bloomberg, Patient Capital Mgmt. Russell 200 Index used for analysis. Past performance no guarantee of future results.

US Theme #3: Consumer Staples

Our research indicates consumer staples has the most attractive forward-return prospects among all US sectors.

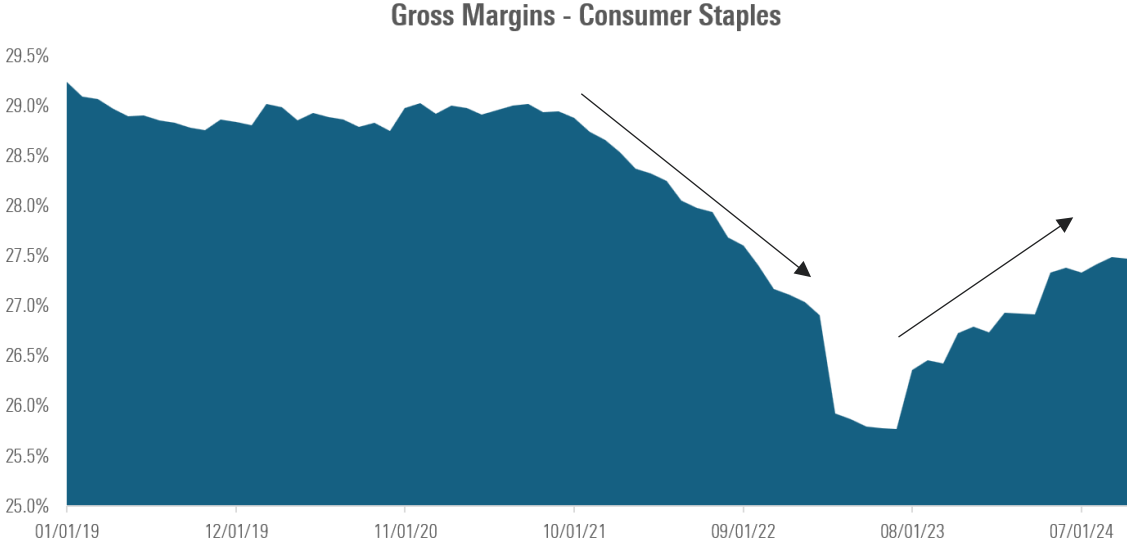
Expected Sector Returns (10 Year Annualized)

Consumer staples has the most attractive forward-return prospects among all US sectors.



Margins are Inflecting

Profit margins bottomed out in 2023 and have started to recover gradually and consistently, a trend we believe will continue.



Source (Left): Morningstar Investment Management. Data as of December 1, 2024.
 Source (Right): FactSet. Data as of October 31, 2024.

US Theme #3: Weight Loss Drugs *Weighing* on Consumer Staples?

Our differentiated view? GLP-1s not the sector killer many have assumed.

Commentary from Industry Leaders

While much has been made about the negative impact of weight loss drugs on the sector, the reality might be something different!



Largest retailer in the world:

"Our US health and wellness business in Walmart and Sam's Club, primarily due to sales of GLP-1 drugs, is contributing to our strong comp sales."



Largest grocery store operator in the US:

"We're still excited about (GLP-1s), because it's high demand with our customers and helps drive traffic into our stores."



Seller of soft drinks and snacks:

"We have a lot of panels and conversations with consumers, it's not impacting us."



Largest chocolate seller in the US:

"All the analysis we've done has continued to show that the impact is not significant. Every piece of data that we've seen has indicated that."



Manufacturer of beer cans:

"I find it hard to believe that anybody whose watched consumption levels of food products by Americans actually believes it's going to have an impact on our desire to drink and gather and have a good time."

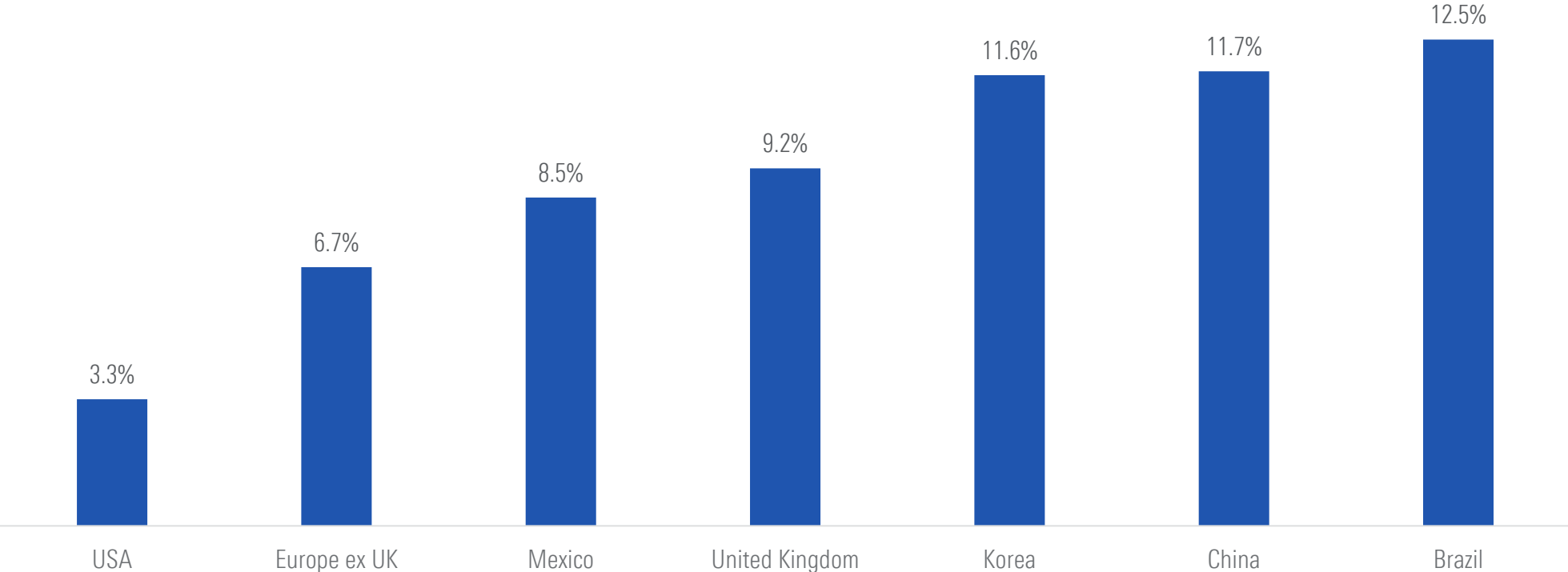
Source: Pitchbook. Quotes taken from conference call transcripts. References to specific securities not an offer to buy or sell.

Spinning the Globe to Access Better Opportunities

US has the lowest expected returns of any major global equity market

10 Year Expected Returns

The US is a comfortable place to invest given recent trends. However, what is *comfortable* isn't always the most rewarding.



Source: Morningstar Investment Management. Data as of December 2024.

Non-US Theme #1: Europe & the UK

Current US equity valuations position Europe—and the UK in particular—as the most attractive developed market region globally.

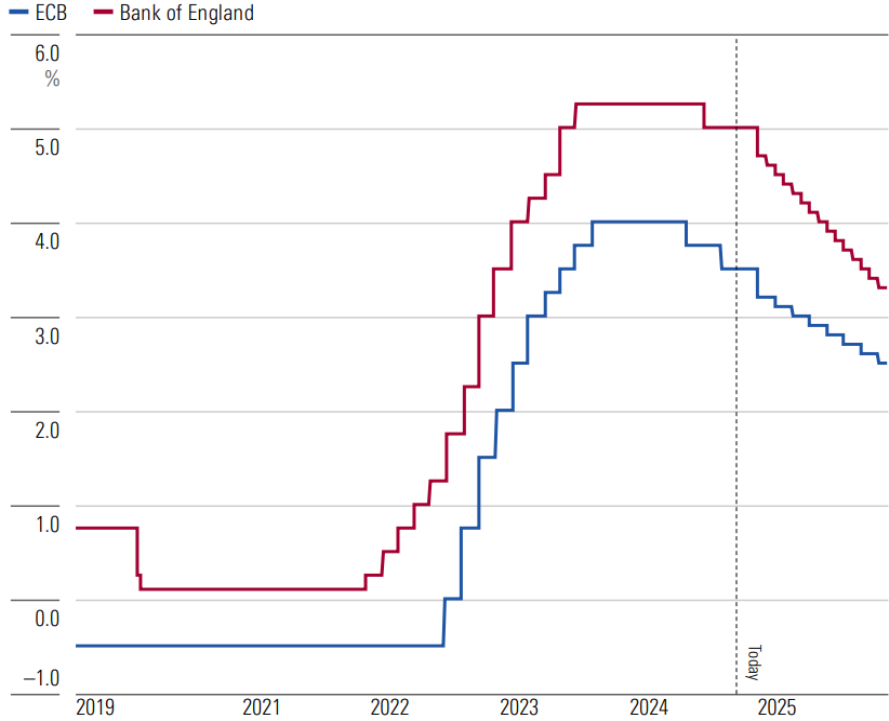
European Equities Not Expensive....

Trade at a 7% discount to our fair value estimate.



...and the Backdrop is Improving

Rate cuts pave the way for growth and corporate profitability.



Source (left): Morningstar Investment Management. Data as of October 2024.
 Source (right): Capital Economics, Bank of England, ECB, October 2024.

Non-US Theme #1: Europe & the UK

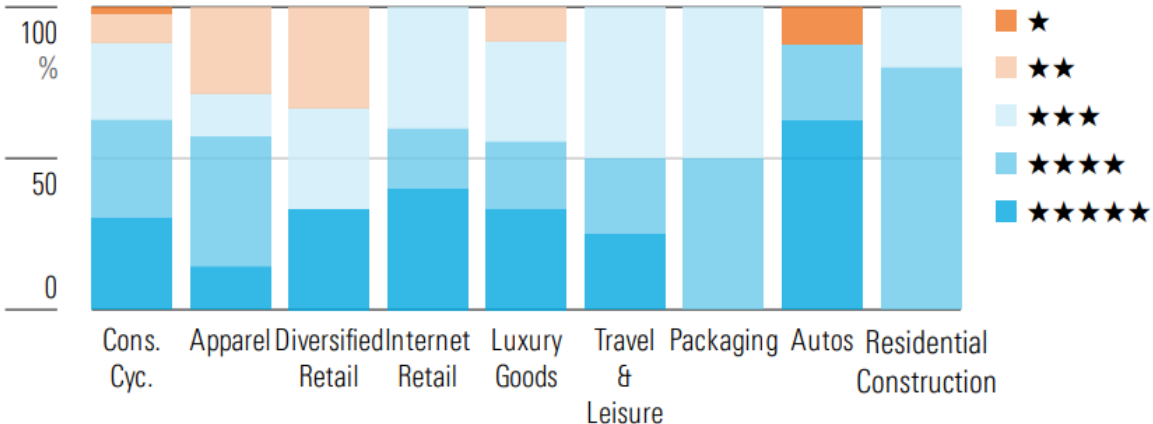
A few industry groups offer attractive discounts & potential catalysts to help their share prices converge with our estimate of fair value.

Attractive Industries Within Europe

A few subsectors with attractive discounts and relatively near-term catalysts to help their share prices converge with our perception of fair value.

- Homebuilders:** UK homebuilders lost two thirds of their value from the 2021 highs. Share prices have rallied over the past year, but we still believe this industry still has significant upside. Lower interest rates are feeding through to more affordable mortgages, and supportive government policy should help pave the way in 2025.
- Autos:** It has been the perfect storm for auto manufacturers: An influx of Chinese EVs, a weak Chinese consumer, and potential tariffs on exports to the US. However, we also believe that with so much negativity baked in, it doesn't take much good news to move share prices in a positive direction.

Consumer Cyclical Star Rating Distribution by Industry

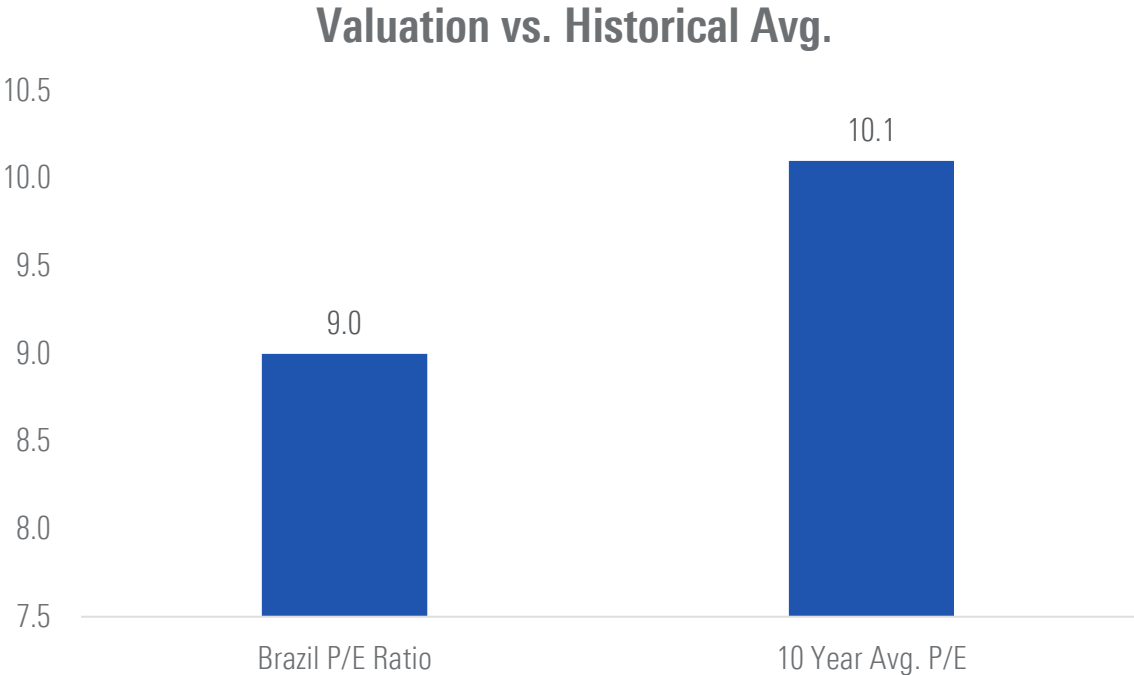
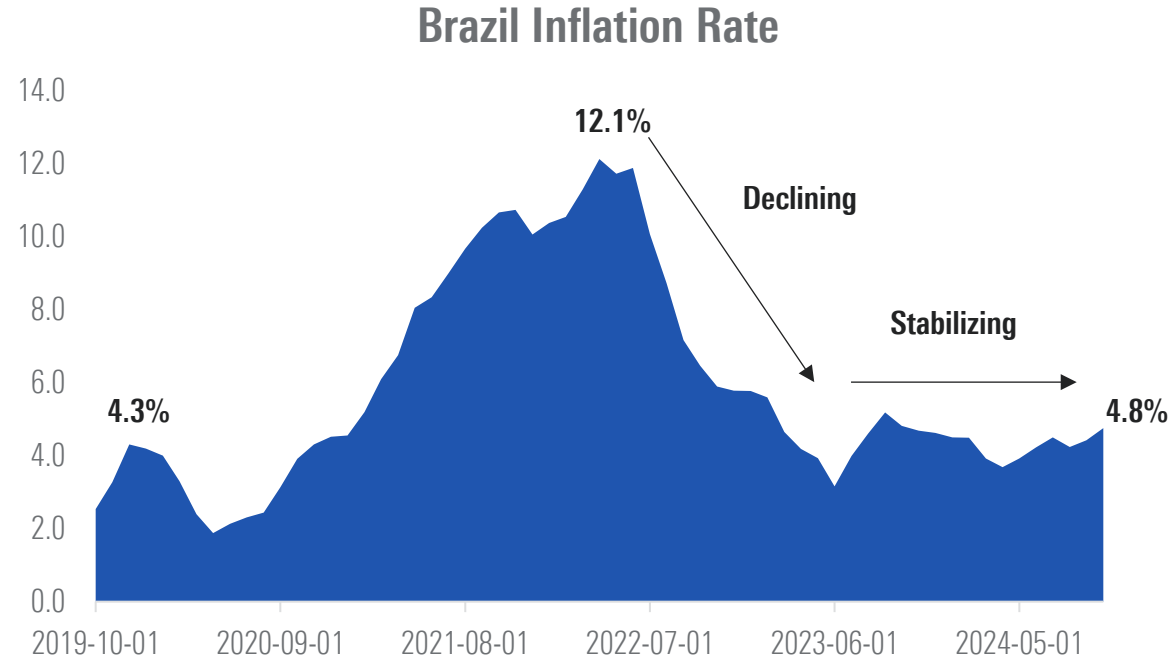


Source: Morningstar Investment Management. Data as of December 2024.

Non-US Theme #2: Brazilian Equities

Market's cheap valuation offers a margin of safety not often found.

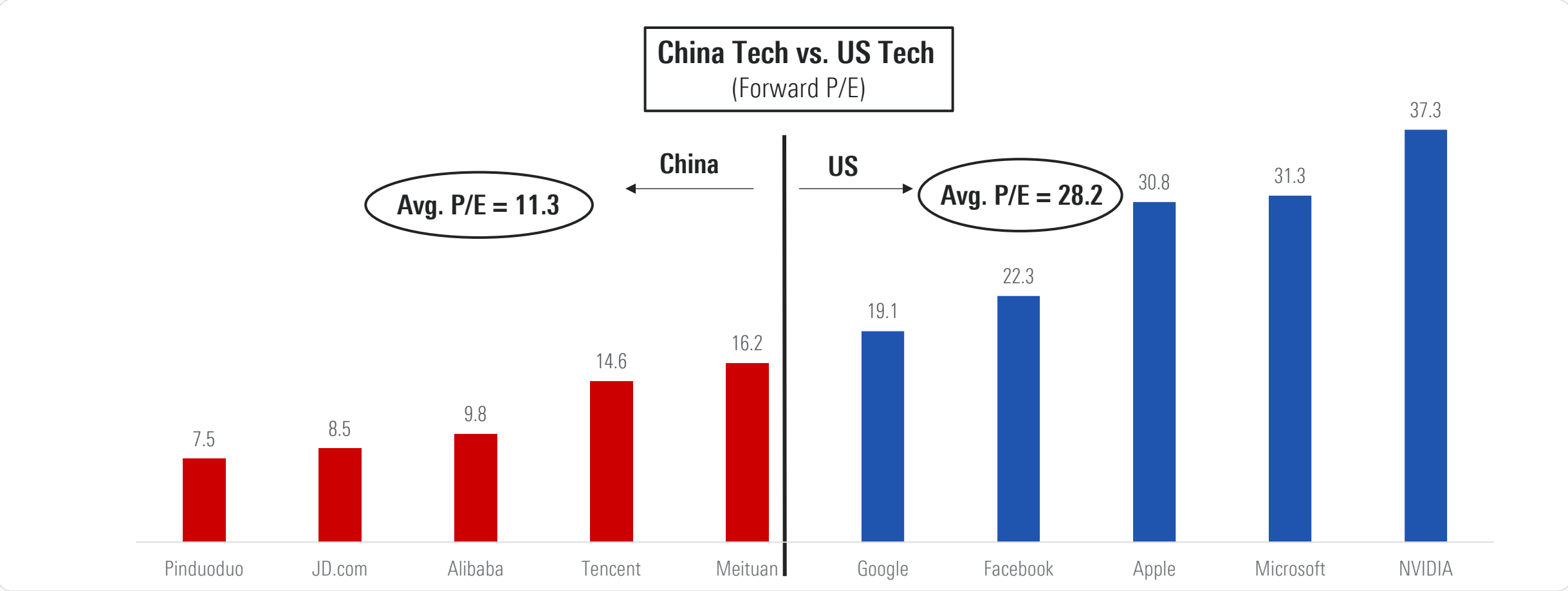
More than Enough Uncertainty Priced In
Inflation problem normalizing and valuations remain cheap.



Source: FRED, Morningstar Direct. Data as of December 2024.

Non-US Theme #3: Chinese Tech Stocks

Great investment opportunities aren't often made buying what everybody else likes — they're made buying what is underestimated.



Source: Morningstar Direct. Forward P/E ratios, data as of December 2024. Companies chosen based on weighting in country technology sector. References to specific securities not an offer to buy or sell.

Non-US Theme #3: Chinese Tech Stocks

Small sample size but a potentially interesting catalyst...

China Bond Market Pricing a Doom Scenario?

Chinese bonds trading at yields only seen two other times: December '08 and March 2020



What Followed After?

December 2008 and March 2020 both opportunistic times to buy Chinese stocks.

China Equity Performance 1-Year Later

Time Period	Total Return
Dec. 2008 - Dec. 2009	78.5%
March 2020 - March 2021	64.2%

Source: Tradingeconomics.com. Data period: 2001 – August 2024. References to specific securities not an offer to buy or sell.

Source: Morningstar Direct. MSCI China Index used for analysis. Past performance no guarantee of future results. Can not invest directly in an index.

Disclosures

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The Price/Earnings Ratio or P/E Ratio is a stock’s current price divided by the company’s trailing 12-month earnings per share from continuous operations.

The CAPE Ratio is a valuation measure that uses real earning per share (EPS) over a 10-year period to smooth out fluctuations in corporate profits that occur over different periods of a business cycle the ratio is generally applied to broad equity indexes to assess whether the market is undervalued or over valued.

Individual index performance is provided as a reference only. Each index is unmanaged and is not available for direct investment. Since indexes and/or composition levels may change over time, actual return and risk characteristics may be higher or lower than those presented. Although index performance data is gathered from reliable sources, Morningstar Investment Management cannot guarantee its accuracy, completeness, or reliability.

S&P 500: Market-capitalizing-weight index of 500 widely held stocks. Member companies are chosen based on market size, liquidity, and industry group representation. Included are the stocks on industrial, financial, utility, and transportation companies.

Disclosures (Continued)

Morningstar U.S. Market: The index is a diversified broad market index that targets 97% market capitalization coverage of the investable universe. The index is float market capitalization weighted, reconstituted semi-annually, and rebalanced quarterly.

Morningstar U.S. Large Cap: The Index measures the performance of U.S. large-cap stocks. These stocks represent the largest 70% capitalization of the investable universe.

Morningstar U.S. Mid-Cap: The index tracks the performance of the U.S. mid-cap stocks that fall between 70th and 90th percentile in market capitalization of the investable universe. In aggregate, the Mid-Cap Index represents 20% of the investable universe.

Morningstar U.S. Small-Cap: The index tracks the performance of U.S. small-cap stocks that fall between 90th and 97th percentile in market capitalization of the investable universe. In aggregate, the Small-Cap Index represents 7% of the investable universe.

MSCI ACWI ex-USA: The MSCI ACWI ex-USA Index captures large- and mid-cap representation across 23 Developed Markets (“DM”) countries (excluding the U.S.) and 26 Emerging Markets (“EM”) countries.

MSCI EAFE: The MSCI EAFE Index is an equity index which captures large- and mid-cap representation across Developed Markets countries around the world, excluding the U.S. and Canada.

MSCI EM: A free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

Bloomberg Barclays U.S. Universal: The index measures the performance of USD-denominated, taxable bonds that are rated either investment grade or high-yield. It represents the union of the U.S. Aggregate Index, U.S. Corporate High Yield Index, Investment Grade 144A Index, Eurodollar Index, U.S. Emerging Markets Index, and the non-ERISA eligible portfolio of the CMBS Index.

Bloomberg Barclays U.S. Agg Bond: The index measures the performance of investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM passthroughs), ABD, and CMBS. It rolls up into other Barclays flagship indices, such as the multi-currency Global Aggregate Index and the U.S. Universal Index, which includes high yield and emerging markets debt.

Bloomberg Barclays U.S. Government Bond: The index measures the performance of the U.S. Treasury and U.S. Agency Indices, including Treasuries and U.S. agency debentures. It is a component of the U.S. Government/Credit Index and the U.S. Aggregate Index.

Bloomberg Barclays U.S. Corporate Bond: The index measures the performance of the investment grade, U.S. dollar-denominated fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by U.S. and non-U.S. industrial, utility, and financial issuers that meet specific maturity, liquidity, and quality requirements.

Bloomberg Barclays U.S. Corporate High Yield: The index covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody’s, Fitch, and S&P 500 is Ba1/BB+/BB+ or below. The index excludes emerging market debt.

Bloomberg Barclay’s Gbl Infl Linked U.S. TIPS: The index tracks inflation-protected securities issued by the U.S. Treasury. In order to prevent the erosion of purchasing power, TIPS are indexed to the non-seasonally adjusted Consumer Price Index for All Urban Consumers.

Bloomberg Barclays Municipal Managed Money: The index measures the performance of tax-exempt bond market. All bonds in the National Municipal Bond Index must be rated Aa3/AA- or higher by at least two of the following statistical ratings agencies: Moody’s, S&P 500, and Fitch. It is rules-based, and market-value weighted.

Disclosures (Continued)

Citi WGBI Non-USD: The index measures the performance of government bonds issued by governments outside the U.S.

JPM EMBI Plus: The JP Morgan Emerging Markets Bond Index Plus (EMBI+) tracks total returns for traded external debt instruments (external meaning foreign currency denominated fixed-income) in the emerging markets. The regular EMBI Index covers U.S. dollar denominated Brady bonds, loans, and Eurobonds. The Index comprises a set of broker-traded debt instruments widely followed and quoted by several market makers.

JPM GBI-EM Global Diversified: The index measures the performance of fixed-rate, investment grade local currency debt securities, including regularly traded, liquid fixed-rate, domestic currency government bonds to which international investors can gain exposure. The GBI-EM Global consists of treasury securities from emerging markets and is diversified weighted.

MORNINGSTAR Wealth

