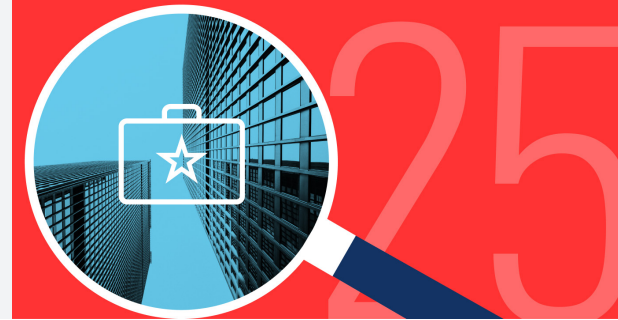


Accessing Our Best 2025 Investment Ideas

A disciplined, valuation-based approach that spans the globe.



Morningstar Wealth believes that consistent long-term performance adds far more value than spectacular short-term results.

Why Does Diversification Work?

Investor Howard Marks shared an example illustrating the power of diversification:

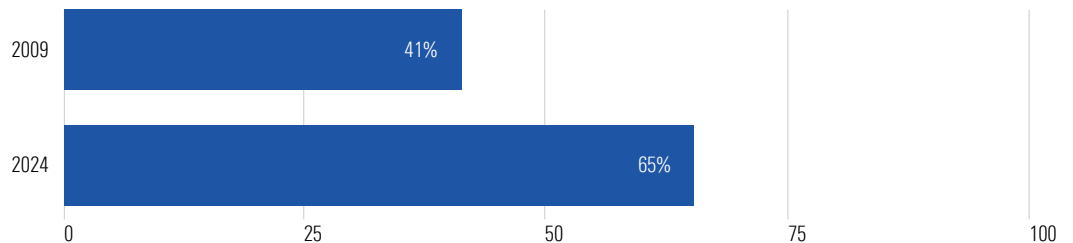
“Early in my career, I met with the head of the pension fund for General Mills. He explained to me over the 14 years he ran the fund his performance was never above the 27th percentile or below the 47th percentile in any year. As a result, he idled near the middle in terms of performance versus peers over those 14 years. The funny math about our business is he ended up in the 4th percentile for the entire 14-year period.”

The takeaway? Consistency, not brilliance, delivers better long-term outcomes, in our view.

Diversification More Important Than Ever

A little over a decade ago, US equities were considered unappealing. That deep pessimism ignited one of the greatest bull markets of all time. But today, the narrative has flipped. Many now view US stocks as the only asset class worth owning. As a result, their share of the global stock market has surged from 40% in 2009 to 65% today.

Exhibit 1: US Stocks as % Global Market Cap

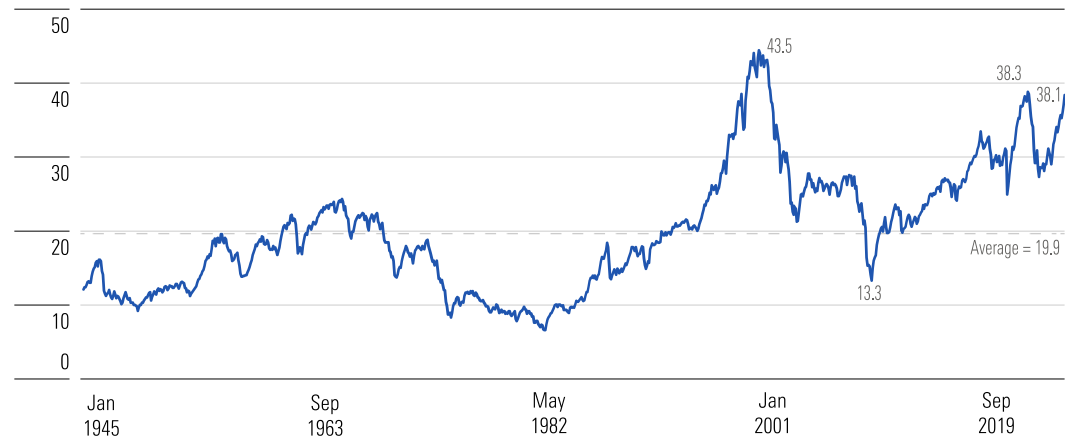


Source: Clearnomics. Data as of November 2024.

Diversifying Within the US

US stocks are expensive. The CAPE Ratio shows US equity valuations at their highest level since the late 1990s—placing them in the 98th percentile of historical readings.

Exhibit 2: CAPE Ratio US Large Cap Stocks



Source: Robert Shiller Data Library. Observation period = January 1945 – November 2024.

However, while the US stock market appears expensive, the same is not true for all US stocks. We continue to see opportunities in three major asset categories:

1. Value Stocks

Value stocks offer lower valuations—and expectations. Consider underlying data from Morningstar indexes: The top 10 holdings in the large-cap growth index trade at an average price-to-earnings (P/E) ratio of 41.9, while the top 10 holdings in the large-cap value index trade at a P/E of 18.4, offering a substantial discount.

Exhibit 3: Top 10 Holdings

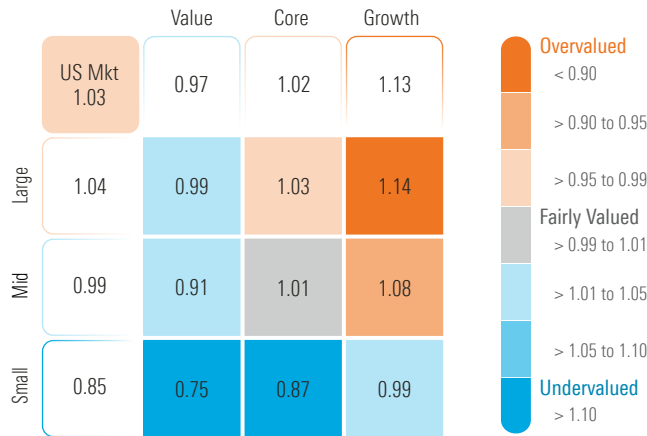
Morningstar US Large Growth			Morningstar US Large Value		
Company	Ticker	P/E	Company	Ticker	P/E
NVIDIA	NVDA	37.5	Berkshire Hathaway	BRK.A	23.1
Microsoft	MSFT	31.6	JPMorgan Chase	JPM	14.5
Amazon	AMZN	33.3	Exxon Mobil	XOM	13.3
Tesla	TSLA	103.1	Home Depot	HD	25.8
Salesforce	CRM	29.0	Johnson & Johnson	JNJ	14.3
Visa	V	27.8	AbbVie	ABBV	14.0
Netflix	NFLX	36.4	Walmart	WMT	31.8
Mastercard	MA	31.8	Bank of America	BAC	12.6
Airbnb	ABNB	28.2	Coca-Cola	KO	21.1
ServiceNow	NOW	60.6	Chevron	CVX	13.2
	Avg. P/E	41.9		Avg. P/E	18.4

Source: Morningstar Direct, Morningstar Indexes. Data as of November 21, 2024. References to specific securities not an offer to buy or sell.

2. Small Caps

Small-cap stocks currently trade at a 15% discount to fair value, making them the cheapest US asset class across the style box.

Exhibit 4: Price/Fair Value by Morningstar Style Box Category

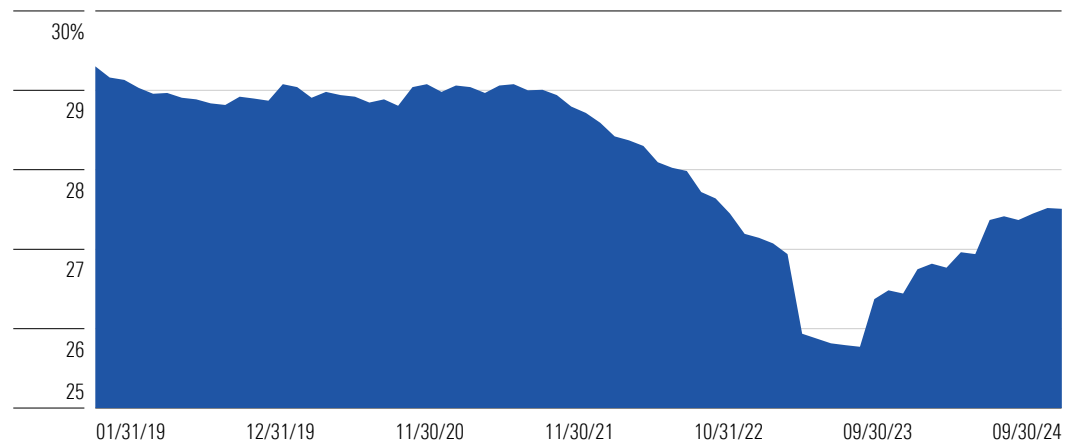


Source: Morningstar. Data as of September 23, 2024.

3. Consumer Staples

This sector faced significant challenges from inflation and supply chain disruptions, leading to underperformance in recent years as the market penalized it. However, profit margins hit their lowest point in 2023 and have since shown steady improvement—a trend we anticipate will persist.

Exhibit 5: Gross Margins—Consumer Staples

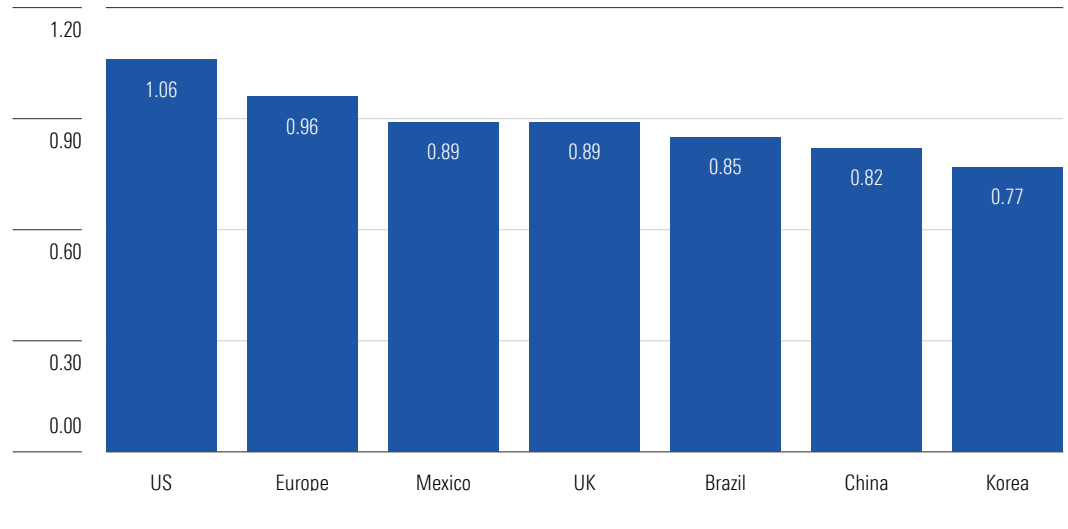


Source: FactSet. Data as of October 31, 2024.

Diversifying Outside the US

Looking ahead to 2025, our research identifies compelling opportunities outside the US, which we believe have the potential to offer better risk-adjusted returns compared to US equities over the next decade.

Exhibit 6: Market-Cap-Weighted Price/Fair Value Estimate by Region



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

We see three unique investment opportunities that deserve attention heading into 2025:

1. Europe

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

Exhibit 7



Source: Morningstar. Data as of September 19, 2024.

2. Brazil Equities

The country’s attractive valuation provides a margin of safety that is often hard to find. Coupled with the fact that inflation peaked at 12.1% in 2022, has significantly declined, and appears to be stabilizing, we believe double-digit annualized returns over the next 10 years are a realistic possibility.

Exhibit 8: Brazil Inflation Rate

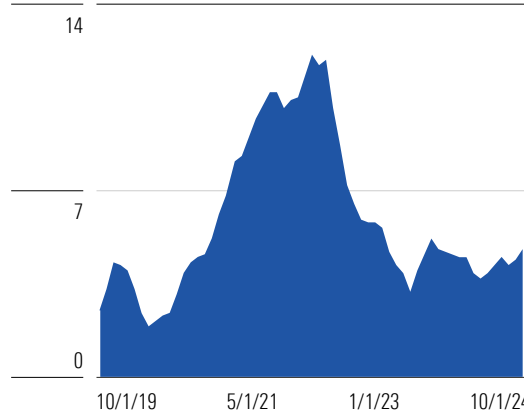
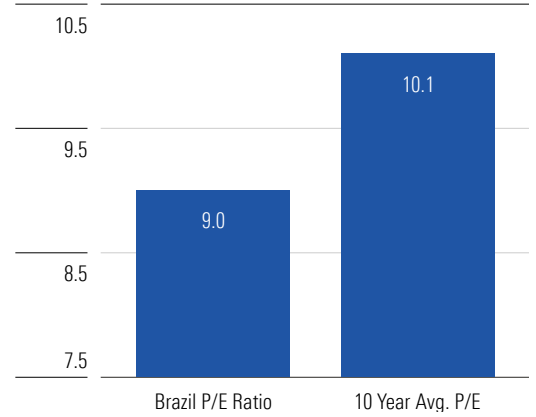


Exhibit 9: Valuation vs. Historical Avg.

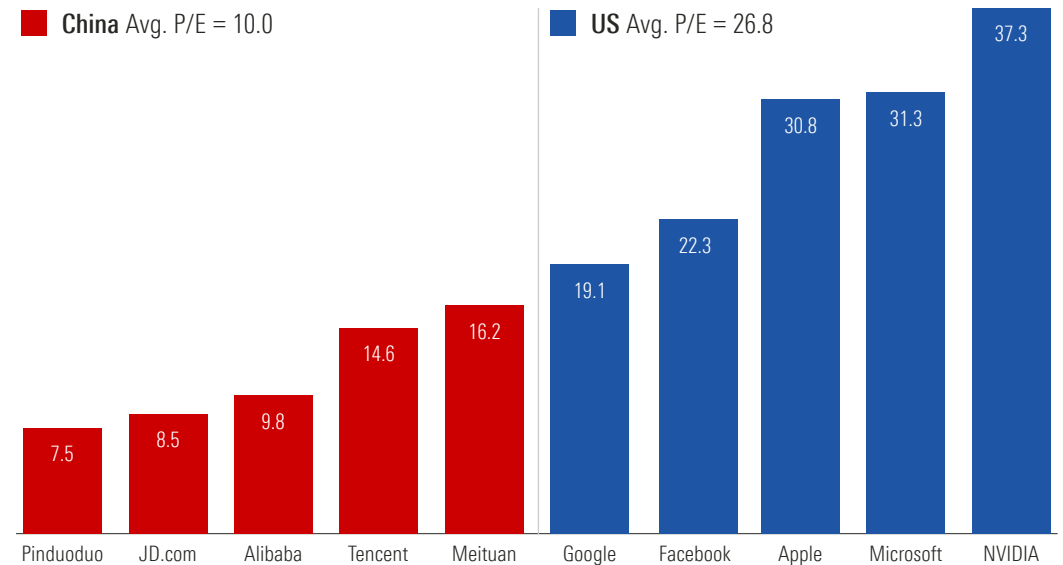


Source: FRED, Morningstar Direct. Data as of December 2024.

3. Chinese Tech

Great investment opportunities aren’t often made by buying what everybody else likes — they’re made buying what is underestimated. No country has likely been underestimated as much as China and it’s evident in valuations, especially compared against the US.

Exhibit 10: China Tech vs. US Tech (Forward P/E)



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

Strategies Meeting the Moment: Accessing These Ideas for Clients

Advisors may seek strategies that incorporate these themes into their investment selection criteria. Below are three strategies that offer diversified exposure to these themes:

01

Asset Allocation Portfolios

A core portfolio of diversified investments across asset classes and investment vehicles.

Includes risk-based Active/Passive, ETF, and Mutual Fund focused strategies.

Incorporates additional investment managers to complement Morningstar investment capabilities.

Constructed with cost and tax-awareness in mind.

Provide flexibility to help you reach your financial goals—even if they change over time.

Strategy Goal

- Leveraging the strengths of active and passive investing, these strategies seek the most efficient way to invest across asset classes.

Ideal Client Type

- Investors who want globally diversified equity and fixed-income exposure.
- Investors seeking capital appreciation, with an emphasis on valuation-driven investing, even when that leads to owning out-of-favor asset classes.

Conditions to Thrive

- As a long-term holding for those with a moderate to high risk tolerance.
- Market backdrop that favors value-investing typically defined as cheaper securities.

Risks and Challenges

- Diversification provides no guarantee against investment losses.

02

US Small-Mid Cap Portfolio SMA

Portfolio seeks to provide long-term growth of capital by using a value-oriented investment philosophy for selecting shares.

Meaningful diversifier for investors who prefer smaller US companies.

Portfolio construction places large emphasis on durable and growing competitive advantages.

Desire to own fair priced or undervalued securities with a long-term mindset.

Strategy Goal

- Seeks to capture broad-based and diversified exposure to small- and mid-cap US stocks.

Ideal Client Type

- Investors with higher risk tolerance interested and willing to diversify down the market cap spectrum to access cheaper valuations.

Conditions to Thrive

- As a long-term holding for investors comfortable with equity risk.
- In periods of market volatility, it could offer relative protection.

Risks and Challenges

- Small caps tend to be more volatile than large caps.
- Small caps have underperformed large caps in recent years, and the possibility exists that trend continues.

03

International Equity ADR Portfolio SMA

Portfolio seeks to invest in international companies of all sizes and investment styles.

A high-conviction actively managed portfolio.

Flexible in its approach to investing.

A vehicle to directly invest in international companies with competitive advantages that are undervalued relative to their peers.

Strategy Goal

- Seeks undervalued and competitive non-US companies.

Ideal Client Type

- Investors with higher risk tolerance interested and willing to diversify globally to access cheaper valuations.

Conditions to Thrive

- As a long-term holding for investors comfortable with equity risk.
- In periods of market volatility, it could offer relative protection.

Risks and Challenges

- International stocks have underperformed US stocks in recent years, and the possibility exist that trend continues.
- Given our value-bias, it's possible this strategy lags peers in a bull market led by international growth stocks.

Like any investment, a strategy that is globally diversified remains subject to risks. Below we detail some of the risks that can be associated with these investment strategies:


Diversification Not Bullet-Proof: Diversification and asset allocation are methods used to help manage risk. They do not ensure a profit or protection against a loss.


Concentration Risk: Utilizing an SMA that owns individual securities will increase a portfolios concentration relative to owning a fund that provides broader exposure to the asset class.

Qualitative Judgement: Identifying undervalued securities is possible to misjudge. Therefore, despite careful analysis, it is possible that certain companies that are undervalued may not perform well.

Ready to Turn Ideas into Actions?
Let Morningstar Wealth Help You.

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A debt security refers to money borrowed that must be repaid that has a fixed amount, a maturity date(s), and usually a specific rate of interest. Some debt securities are discounted in the original purchase price. Examples of debt securities are treasury bills, bonds and commercial paper. The borrower pays interest for the use of the money and pays the principal amount on a specified date.

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Stocks of small and mid-cap companies tend to be more volatile and less liquid than stocks of large companies. Small and mid-cap companies, as compared to larger companies, may have a shorter history of operations, may not have as great an ability to raise additional capital, may have a less diversified product line making them susceptible to market pressure, and may have a smaller public market for their shares.

Investments in mutual funds involve risk, including as a result of market and general economic conditions, and will not always be profitable. Investing in international securities, including international or emerging market securities, involves special additional risks. These risks include, but are not limited to, currency risk, political risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

In addition, Portfolio assets may also be invested in American Depositary Receipts ("ADRs") or foreign stocks listed on an U.S. exchange. There are investment risks associated with ADRs and foreign stocks including, but not limited to, currency exchange rate, inflationary, and liquidity risks as well as the risk of adverse political, economic and social developments taking place within the underlying issuer's home country. In addition, the underlying issuers of certain ADRs are under no obligation to distribute shareholder communications to ADR holders, or to pass through to them any voting rights with respect to the deposited securities.