Morningstar® Markets Observer

Q1 2025 Data as of Dec. 31, 2024

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Market Overview

Market Dashboard

US stocks performed well in 2024's fourth quarter. Growth stocks outperformed value, and large caps outperformed small caps on a quarterly and annual basis. International stocks lagged the US market, with developed and emerging markets showing similar quarterly losses but remaining positive for the year. US fixed-income indexes saw losses in the quarter as long-term Treasury yields rose. Commodities held flat as gains in energy were offset by declines in metals such as gold and silver.

		Return (%)					
Equities	**Dividend Yield**	**YTD**	**3 Mo**	**1 Yr**	**3 Yrs**	**5 Yrs**	**10 Yrs**
Morningstar US Large Cap	1.1	27.9	3.3	27.9	9.7	15.4	13.7
Morningstar US Small Cap	1.5	10.8	0.3	10.8	2.9	8.1	7.9
Morningstar Developed Markets ex-US	3.0	4.4	–7.5	4.4	1.2	4.8	5.3
Morningstar Emerging Markets	2.5	7.0	–7.8	7.0	-0.8	2.9	4.3
Fixed Income	**Yield to Maturity**						
Morningstar US Core Bond	4.9	1.4	–3.0	1.4	–2.4	–0.4	1.3
Morningstar US Corporate Bond	5.3	2.1	–3.1	2.1	–2.3	0.2	2.4
Morningstar US High-Yield Bond	7.6	8.2	0.1	8.2	3.0	4.2	5.2
Morningstar US Municipal Bond	4.0	1.6	–1.0	1.6	–0.5	1.1	2.4
Morningstar Emerging Markets Bond	6.4	4.3	–2.9	4.3	–1.4	0.1	3.0
Broad Commodities							
Bloomberg Commodity		5.4	–0.4	5.4	4.1	6.8	1.3

Fundamental Measures

P/E	P/B	P/S	P/C
29.2	5.8	4.1	21.1
18.1	2.3	1.5	11.1
16.0	1.7	1.4	9.4
14.0	1.7	1.4	7.4

Interest Rates (%)	Current	1 Yr Ago
2 Yr Treasury	4.3	4.2
5 Yr Treasury	4.4	3.8
10 Yr Treasury	4.6	3.9
20 Yr Treasury	4.8	4.0
Prime Rate	7.5	8.5
Commodities (USD)		
Brent Crude Oil	74	77
Gold	2,609	2,078

3-Month Return (%)

	Value	Blend	Growth
Large	–2.5	0.5	8.9
Mid	–2.3	–2.4	7.2
Small	0.8	–1.8	1.8

- >8.0
- 4.0 to 7.9
- 0.0 to 3.9
- –3.9 to –0.1
- –7.9 to –4.0
- <–8.0

1-Year Return (%)

	Value	Blend	Growth
Large	14.7	23.9	27.7
Mid	12.3	13.5	20.3
Small	9.7	9.7	12.9

- >20.0
- 10.0 to 19.9
- 0.0 to 9.9
- –9.9 to –0.1
- –19.9 to –10.0
- <–20.0

5-Year Return (%)

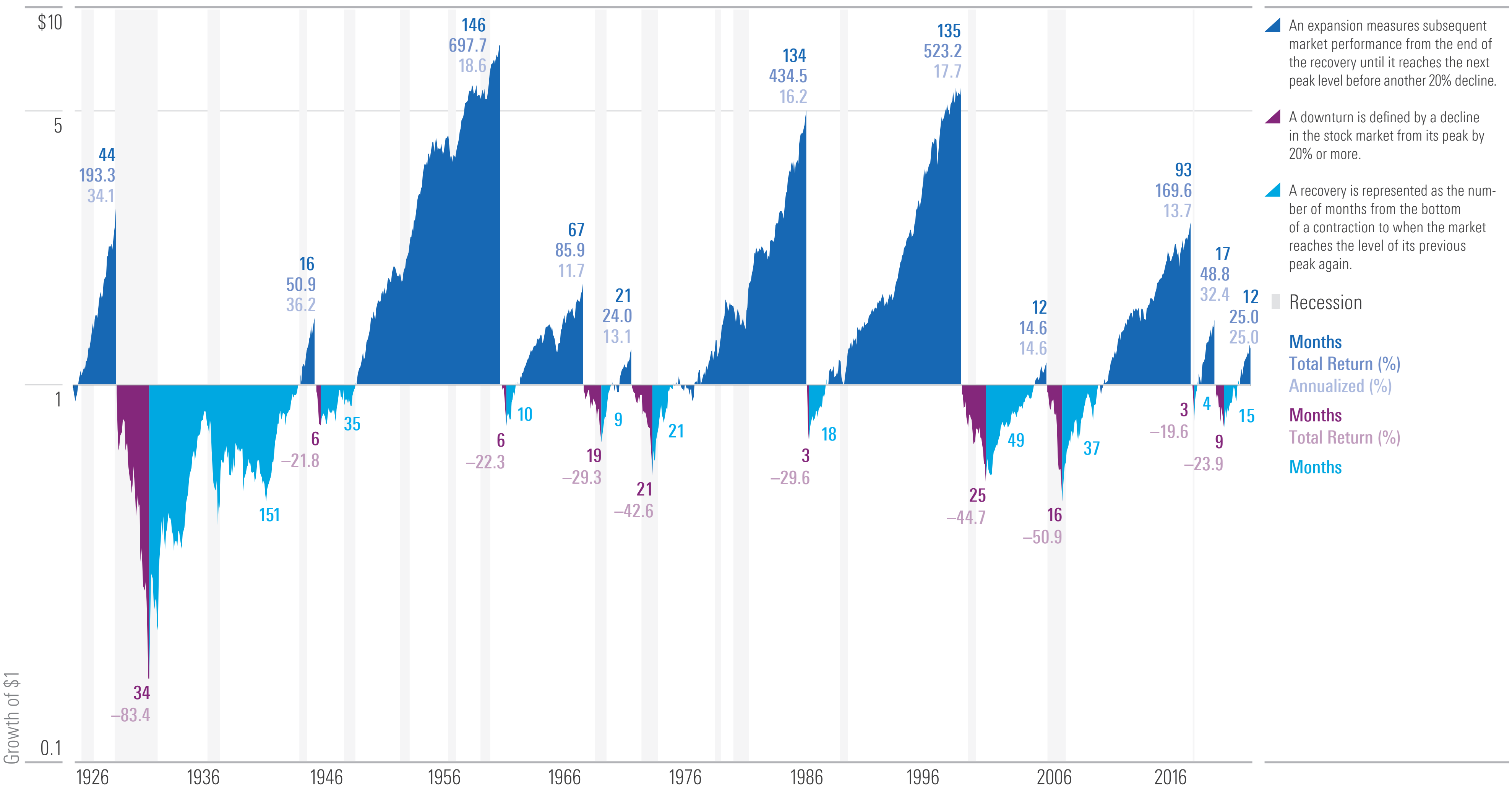
	Value	Blend	Growth
Large	9.2	14.2	13.6
Mid	8.6	9.8	11.4
Small	9.3	8.0	6.3

- >20.0
- 10.0 to 19.9
- 0.0 to 9.9
- –9.9 to –0.1
- –19.9 to –10.0
- <–20.0

US Market Expansion Forges Ahead in 2024's Fourth Quarter

After fully recovering from a downturn at the end of 2023, the US market expanded further in the fourth quarter of 2024. Unlike the previous quarter, this was a narrow expansion led by large-cap and mid-cap growth stocks. This marks a full year of market expansion since the previous downturn and recovery.

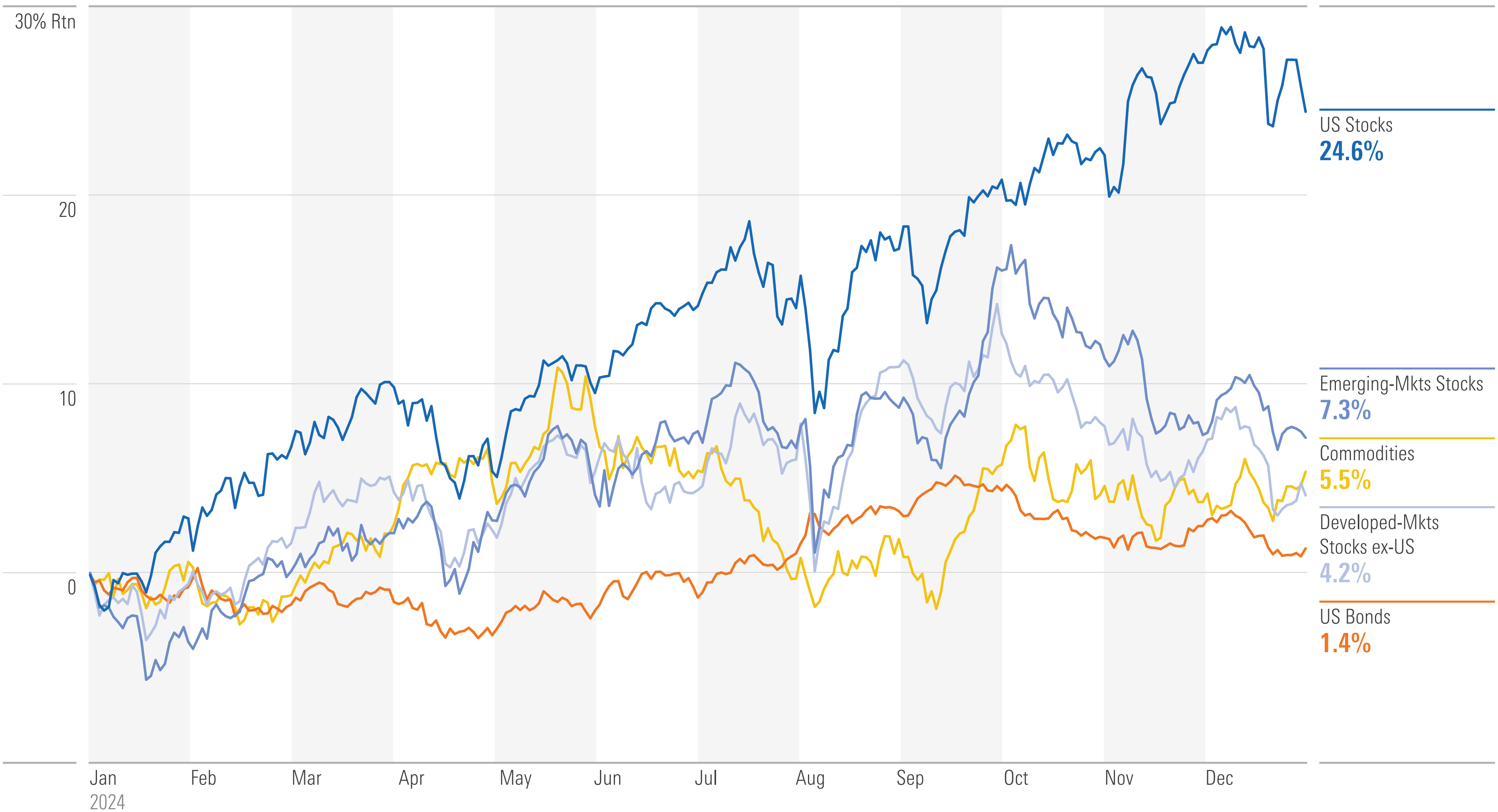
US Market Downturns, Recoveries, and Expansions



Source: Stocks—Ibbotson Associates SBBI US Large Stock Index. Recession data from the National Bureau of Economic Research (NBER). Data as of Dec. 31, 2024.

Trailing 12-Month Performance of Major Asset Classes

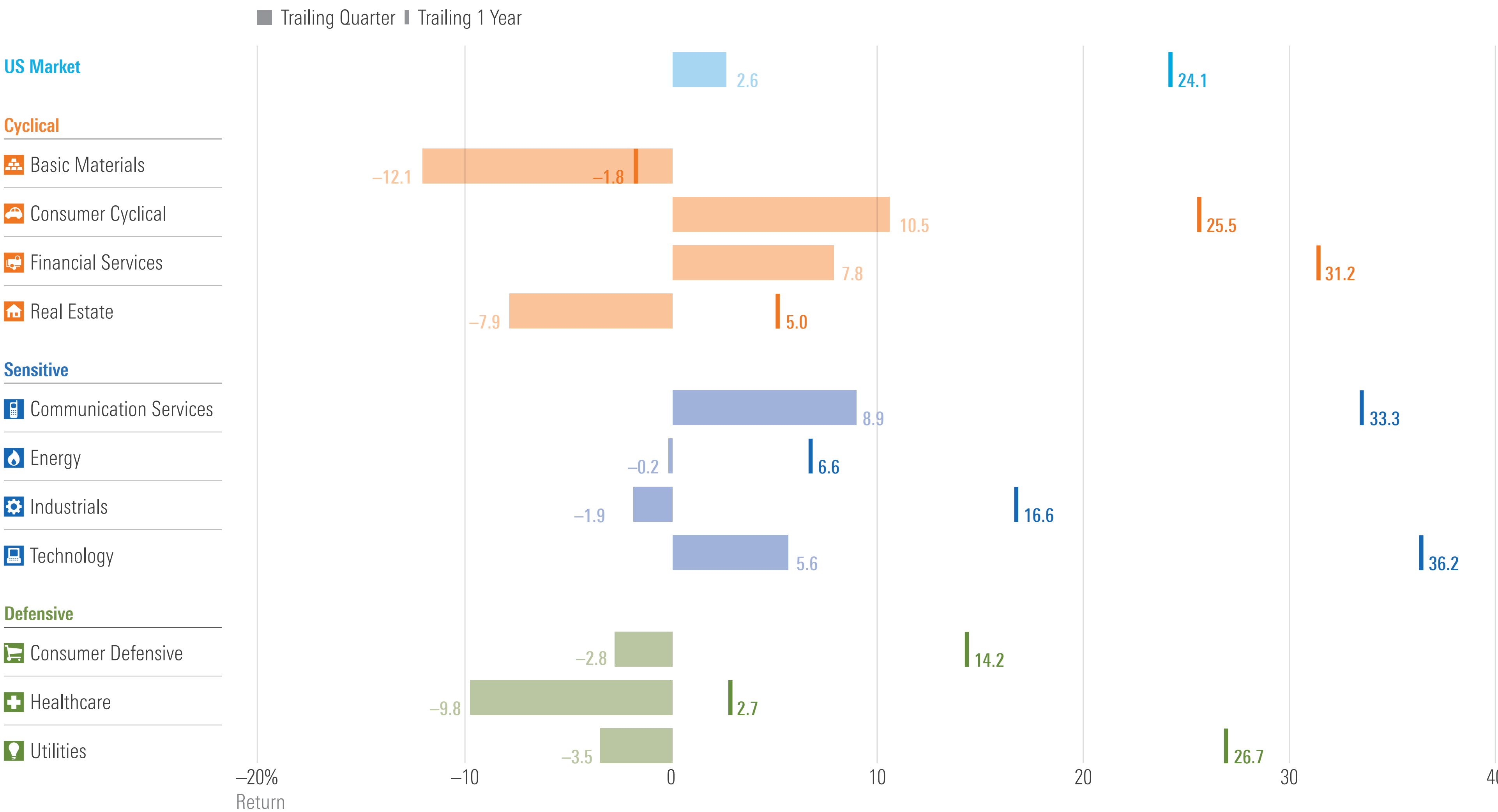
US stocks cemented their vast 2024 outperformance against international stocks with continued fourth-quarter gains. Outside the US, developed-markets stocks have fallen behind commodities after a poor fourth quarter, while emerging-markets stocks remain just ahead. US bonds remain flat amid lower short-term yields but higher long-term yields.



Source: US stocks—Morningstar US Market Index. Developed-markets stocks ex-US—Morningstar Developed Markets ex-US Index. Emerging-markets stocks—Morningstar Emerging Markets Index. US bonds—Morningstar Core Bond Index. Commodities—Bloomberg Commodity Index. Data as of Dec. 31, 2024.

US Equity Sector Performance

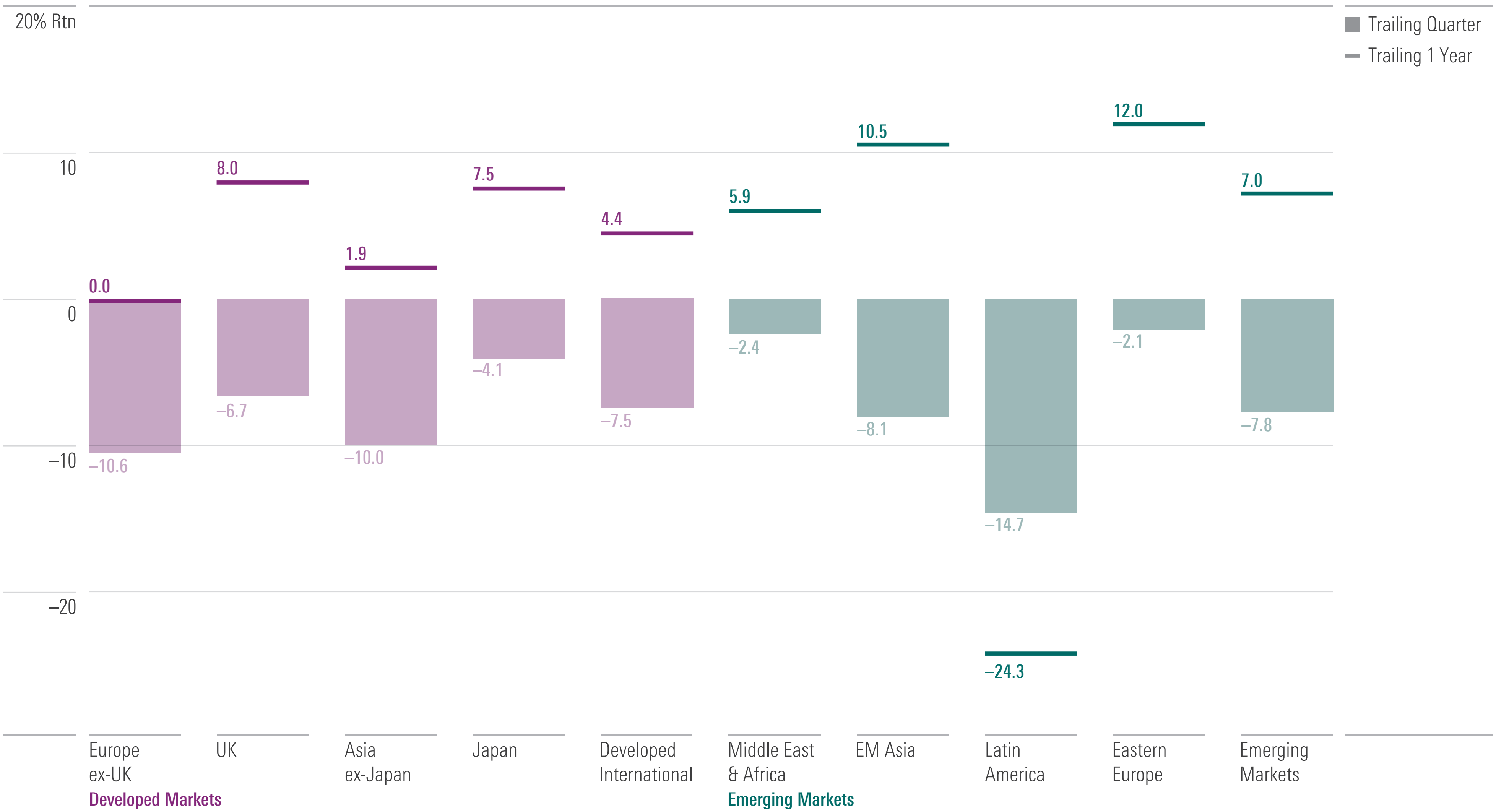
US sectors saw mixed returns in 2024's fourth quarter, with only four of 11 sectors in positive territory. Consumer cyclical, communication services, and technology—the sectors holding Magnificent Seven stocks—unsurprisingly posted solid returns. Financials also rallied after the US presidential election, led by banks. Meanwhile, health-care and basic materials struggled, and the latter was the only sector to post a loss for the year.



Source: Morningstar Sector Indexes; Data as of Dec. 31, 2024.

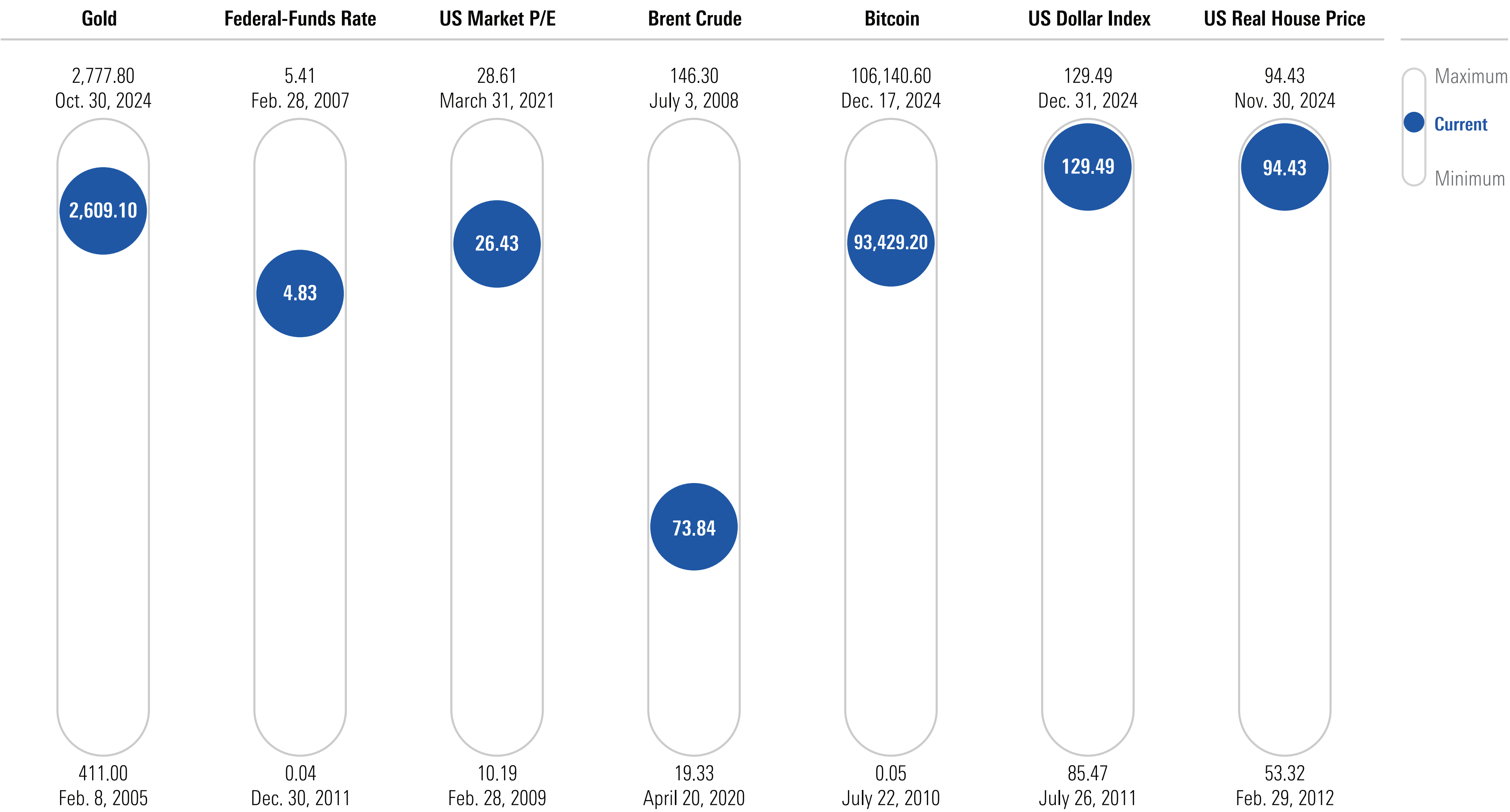
International Stock Market Performance

All international regions, both in developed and emerging markets, experienced losses in the fourth quarter. Latin America was the worst performer, with Brazil and Mexico posting double-digit losses, leading the region to lose nearly a fourth of its value in 2024. In developed markets, Europe ex-UK saw the steepest losses, driven by declines in Switzerland and France. Despite underperforming the US market, most international regions still posted positive returns for the year.



Market Thermometer

Markets sit in a unique position for the start of 2025 in the aftermath of the US presidential election. The price of gold, bitcoin, and housing all reached peak historical levels during the quarter; the US price/earnings multiple marched higher, too. The chart below displays where each indicator sits relative to its maximum and minimum of the past 20 years.



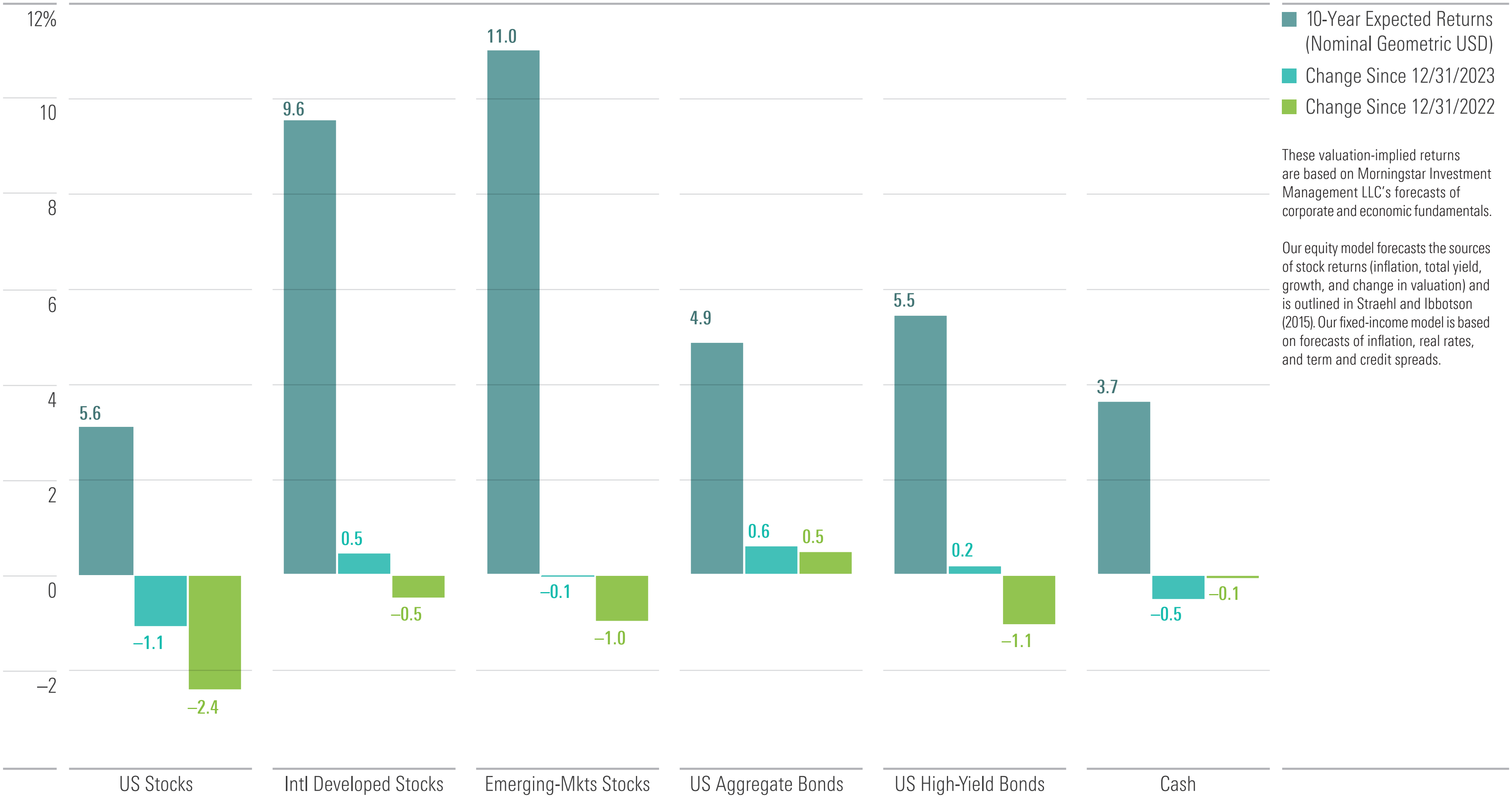
QM016

Source: Morningstar Direct, Federal Reserve Bank of St. Louis, National Association of Realtors, Macrobond. Minimums and Maximums for the period Jan. 1, 2005, to Dec. 31, 2024.

Valuation-Implied Returns: Short-Term Moderation, Longer-Term Improvement

One measure of valuation we find useful for cross-asset class comparisons is valuation-implied returns. Strong US equity market performance in 2024 had a moderating effect on its VIR. International-developed and emerging-markets stocks continued to look more attractive as of December 2024. Fixed-income VIRs, meanwhile, have increased versus the start of the year, outside of cash.

10-Year Valuation-Implied Returns



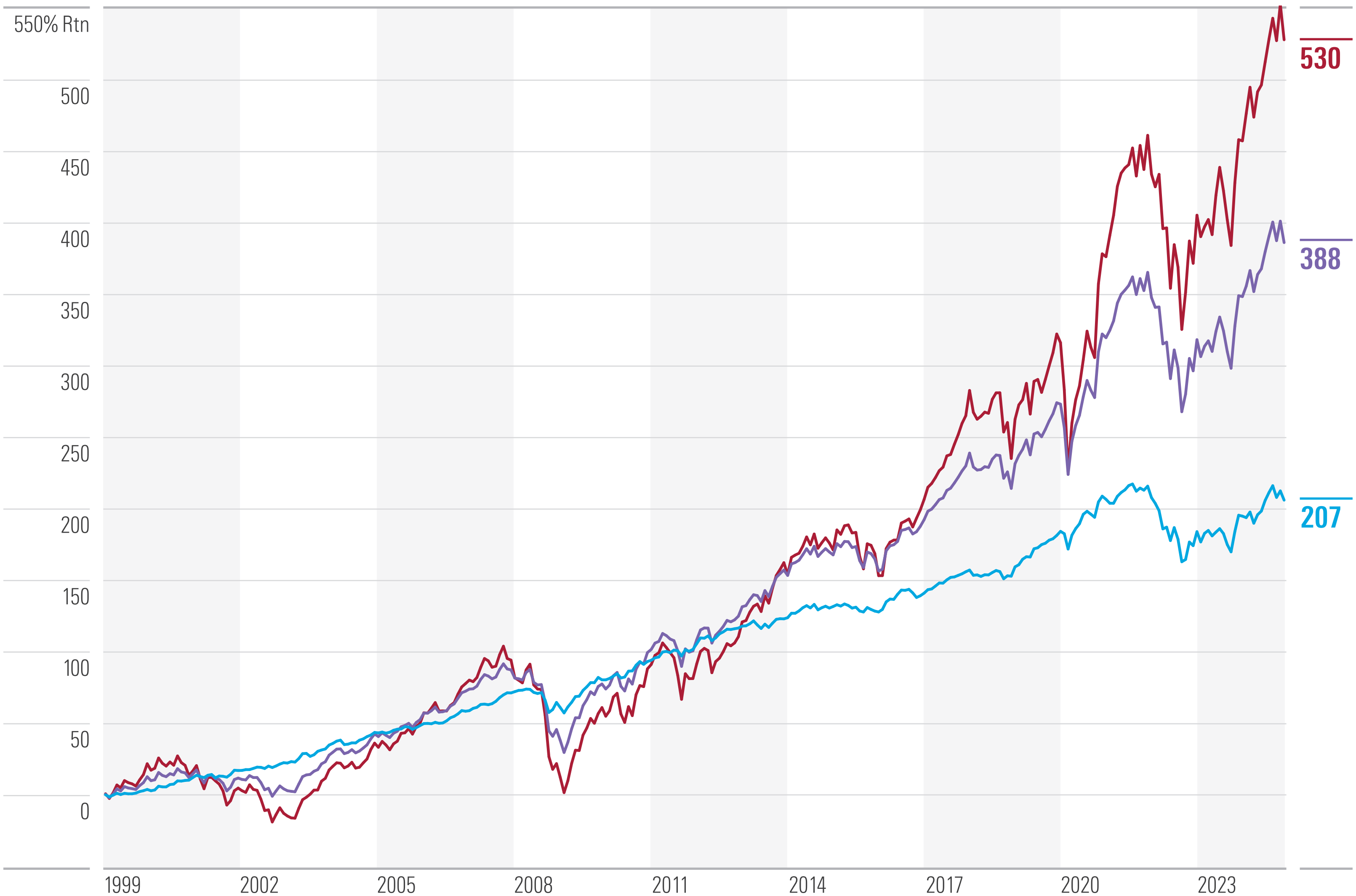
These valuation-implied returns are based on Morningstar Investment Management LLC's forecasts of corporate and economic fundamentals.

Our equity model forecasts the sources of stock returns (inflation, total yield, growth, and change in valuation) and is outlined in Straehl and Ibbotson (2015). Our fixed-income model is based on forecasts of inflation, real rates, and term and credit spreads.

Source: Ibbotson, R., & Straehl, P. 2015. "The Supply of Stock Returns: Adding Back Buybacks." Data as of Dec. 31, 2024.

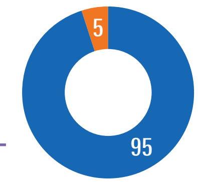
Performance of Risk-Based Portfolios

Risk-based portfolios saw losses of differing dispersion in 2024's fourth quarter. The international-equity and fixed-income exposures dragged down returns across portfolios despite US equities posting gains. The conservative portfolio declined 3.2% for the quarter, more than the moderate and aggressive portfolios, given it's more fixed-income-heavy at the expense of US equities. All the portfolios have delivered positive returns in 2024, no matter the risk tolerance.



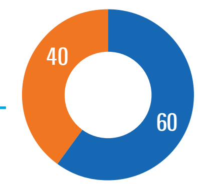
Aggressive Total Return (%)

Qtr	1 Yr	3 Yr	5 Yr	10 Yr	Risk
−2.3	12.5	3.8	8.2	8.5	14.8



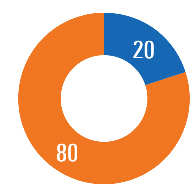
Moderate Total Return (%)

Qtr	1 Yr	3 Yr	5 Yr	10 Yr	Risk
−2.9	8.3	1.5	5.4	6.1	9.6



Conservative Total Return (%)

Qtr	1 Yr	3 Yr	5 Yr	10 Yr	Risk
−3.2	3.6	−1.0	1.7	2.9	4.7



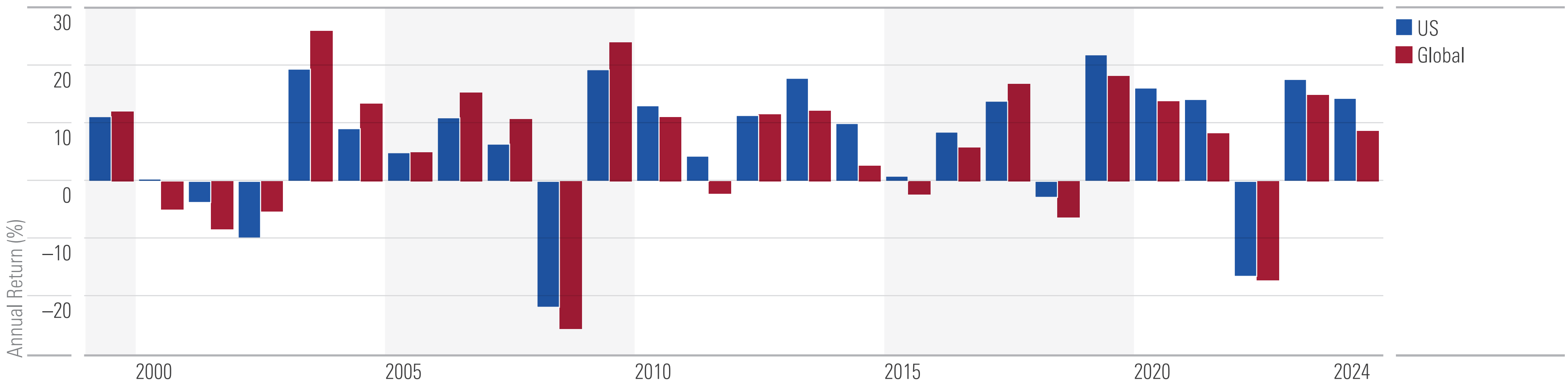
Stocks Bonds

Source: Conservative portfolio—Morningstar Conservative Target Risk Index. Moderate portfolio—Morningstar Moderate Target Risk Index. Aggressive portfolio—Morningstar Aggressive Target Risk Index. Returns for periods longer than one year are annualized. Data as of Dec. 31, 2024.

Are 60/40 Portfolio Valuations Back in the Danger Zone?

The classic 60/40 balanced portfolio continues to rebound from its sharp decline in 2022, with a US-focused blend delivering another double-digit return in 2024. When comparing US and global 60/40 portfolio valuations to their long-term averages, they are currently about one standard deviation above historical norms. This has been driven largely by the equity portion, with prices rising versus earnings expectations. Valuations still sit below the elevated levels seen in 2021, though.

Annual Returns of the 60/40 Portfolio



Rolling Valuations

QM019

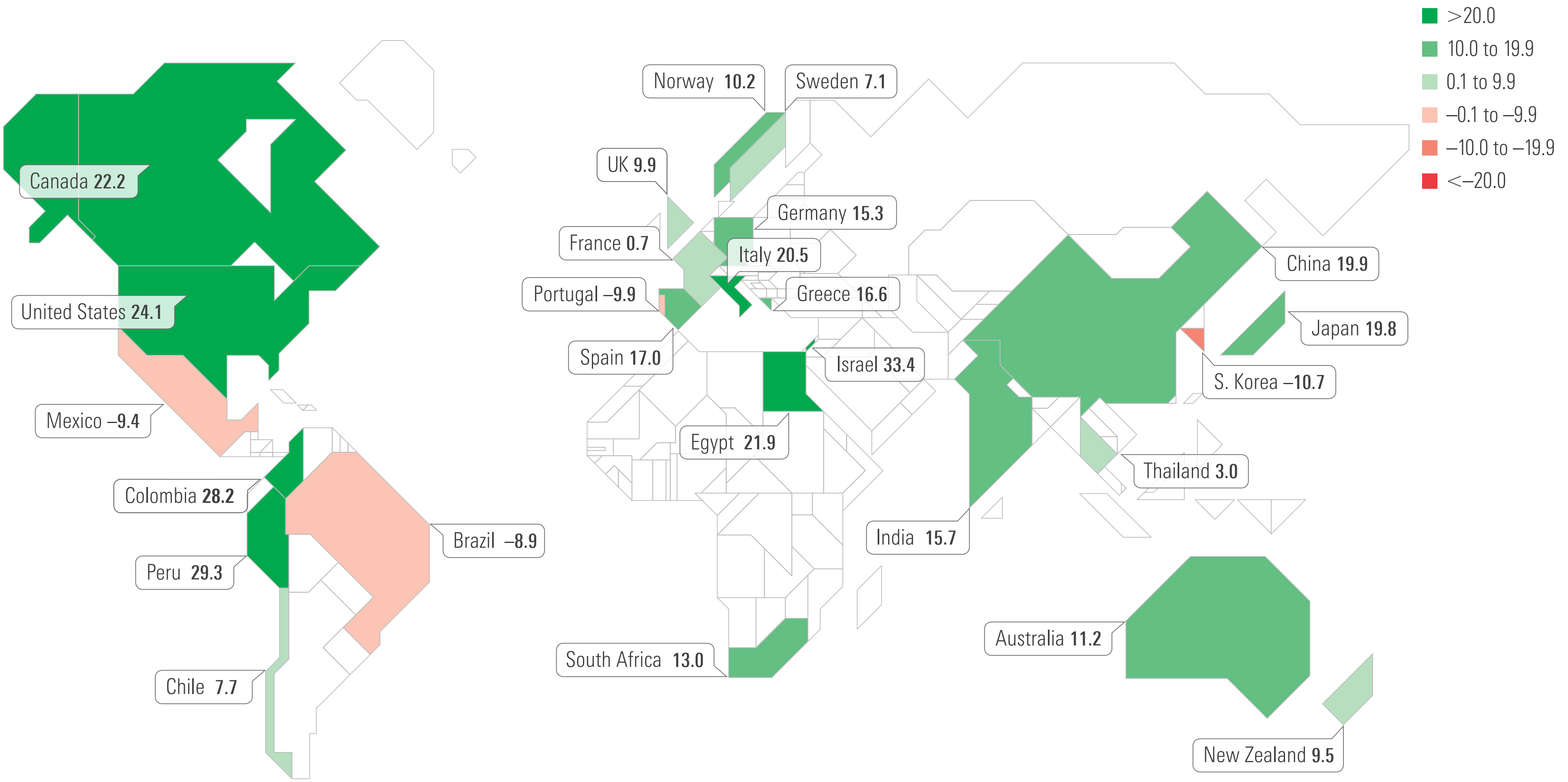
Source: Morningstar Direct, FactSet, Morningstar Investment Management LLC Analysis. US stocks — Morningstar US Market Index. US bonds —Bloomberg US Aggregate Index. Global stocks — Morningstar Global Markets Index. Global bonds — Bloomberg Global Aggregate Index. Data as of Dec. 31, 2024. For illustrative purposes only.

Equities

Global Market Barometer

Most equity markets posted strong returns in 2024. The US market continued to shine, but several other markets posted strong returns, too, including Israel, China, and Japan. There were some exceptions, though, namely South Korea and Mexico. Mexico had been a bright spot in emerging markets the previous two years but fell in 2024 as local elections in June raised rule-of-law concerns; the November US election and tariff prospects spurred more selling.

2024 Returns of Morningstar Country Indexes in Base Currency (%)



Equity Market Performance Decomposition

The below return composition shows that key regional drivers of 2024 returns were price/earnings and profit margin expansion. When analyzing sectors, results were mixed. Information technology and financials experienced P/E and margin expansion with sales growth, while P/E contractions slightly offset outsize margin improvement and sales growth in communication services. US dollar strengthening, particularly in the fourth quarter, was a drag on non-US returns.

2024 Return Decomposition

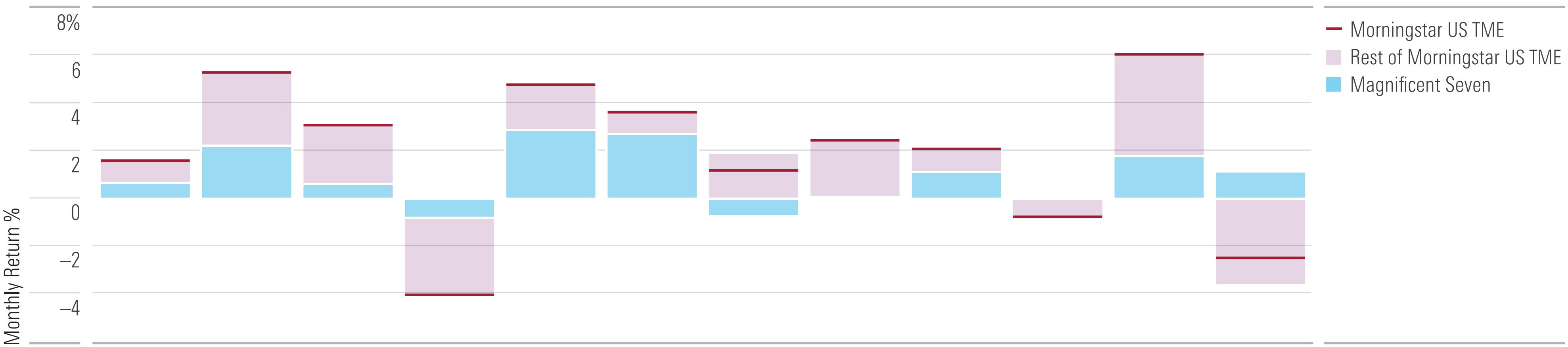
	USD Return (%)	≈ Total Yield (%)	+ Δ P/E (%)	+ Δ Margins (%)	+ Δ Sales (%)	+ Δ Currency (%)	+ Other (%)
Countries/Regions							
USA	24.6	2.7	11.2	4.6	5.2	0.0	0.9
World	18.7	2.9	10.8	0.8	6.1	–2.4	0.5
AC World	17.5	2.8	10.3	3.8	2.7	–2.7	0.5
AC Asia ex Japan	12.0	2.5	2.0	29.6	–18.5	–4.3	0.6
Japan	8.3	2.3	–5.7	18.6	4.1	–12.4	1.4
United Kingdom	7.5	4.1	8.0	4.1	–7.0	–1.9	0.2
EM	7.5	2.8	5.9	18.9	–14.8	–5.6	0.3
EAFE	3.8	3.3	2.1	–3.9	9.8	–7.5	–0.1
Europe	1.8	3.5	3.0	6.0	–4.2	–6.0	–0.6
Europe ex UK	0.2	3.3	1.3	5.1	–1.7	–7.1	–0.8
Developed-Market Sectors							
Communication Services	33.8	3.1	–14.4	34.1	9.6	–1.5	2.9
Information Technology	32.9	1.7	14.9	10.9	2.9	–1.1	3.5
Financial	26.7	3.8	8.5	3.7	11.9	–3.4	2.3
Consumer Discretionary	21.5	2.2	15.6	–1.8	6.8	–2.6	1.3
Industrials	13.1	2.5	15.6	–9.2	7.8	–3.6	0.0
Utilities	13.0	4.0	3.1	16.3	–7.8	–2.4	–0.2
Consumer Staples	5.7	3.2	8.4	–6.0	3.2	–2.4	–0.8
Energy	2.7	5.9	38.1	–33.5	–2.7	–2.3	–2.8
Healthcare	1.1	2.9	–8.0	–1.2	11.0	–1.9	–1.6
Materials	–5.5	3.3	20.0	–23.2	–0.5	–3.9	–1.2

Source: Morningstar Investment Management LLC analysis. Data as of Dec. 31, 2024. For illustrative purposes only.

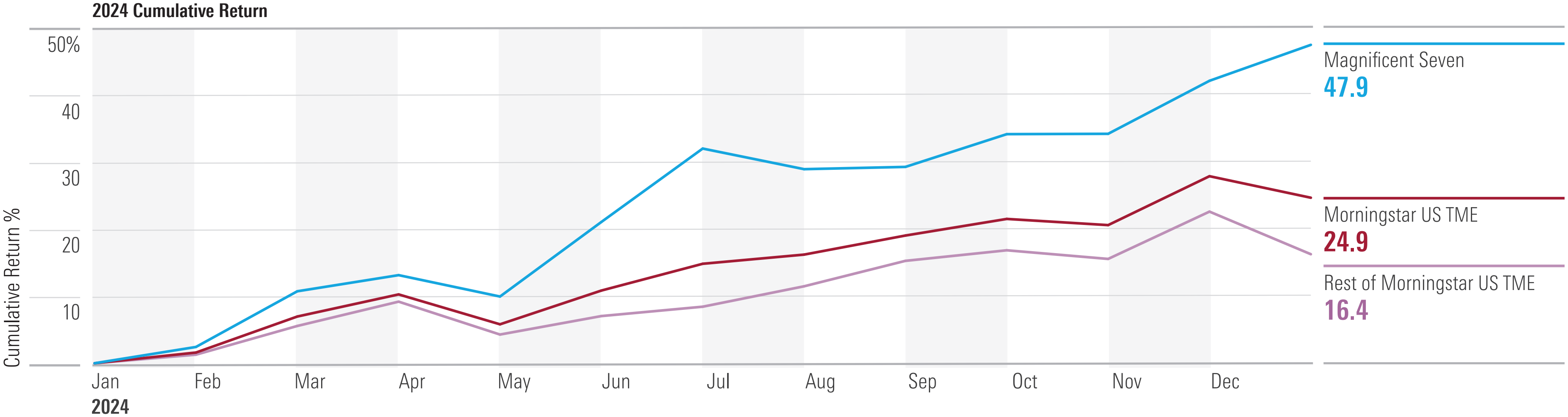
The ‘Magnificent Seven’ Continue to Ride High in 2024

We separated the so-called Magnificent Seven stocks (Alphabet, Amazon.com, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla) from the rest of the Morningstar US Target Market Exposure Index, and formulated an implied monthly return for both components. The 2024 return of the Magnificent Seven nearly doubled that of the broad index, with the second and fourth quarters of the year as key separators. They also outperformed in months when markers declined, such as December.

Morningstar US TME Monthly Return Contribution Breakout



2024 Cumulative Return



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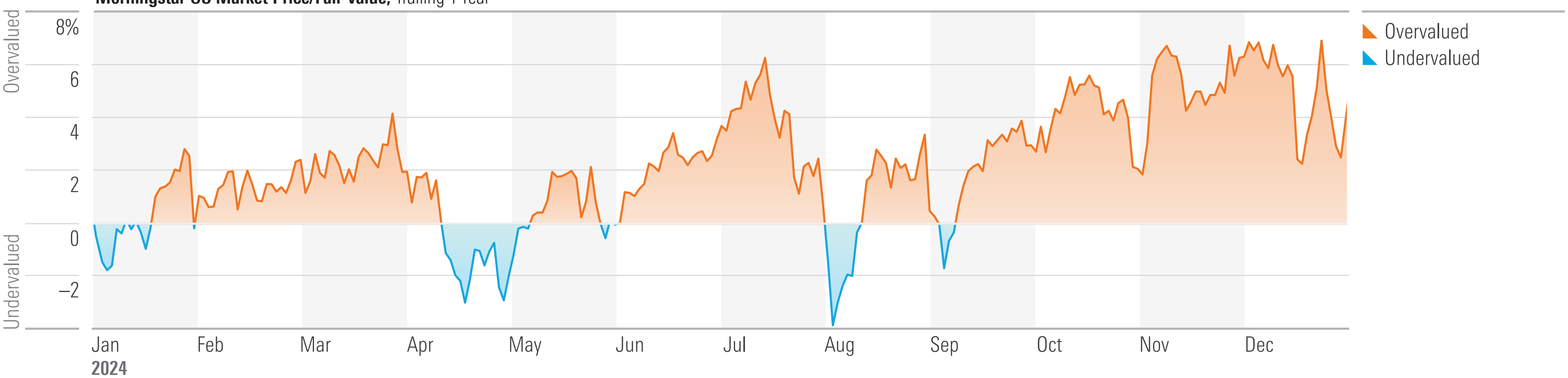
Source: Morningstar Direct, Morningstar Investment Management LLC Analysis. Data as of Dec. 31, 2024. For illustrative purposes only.

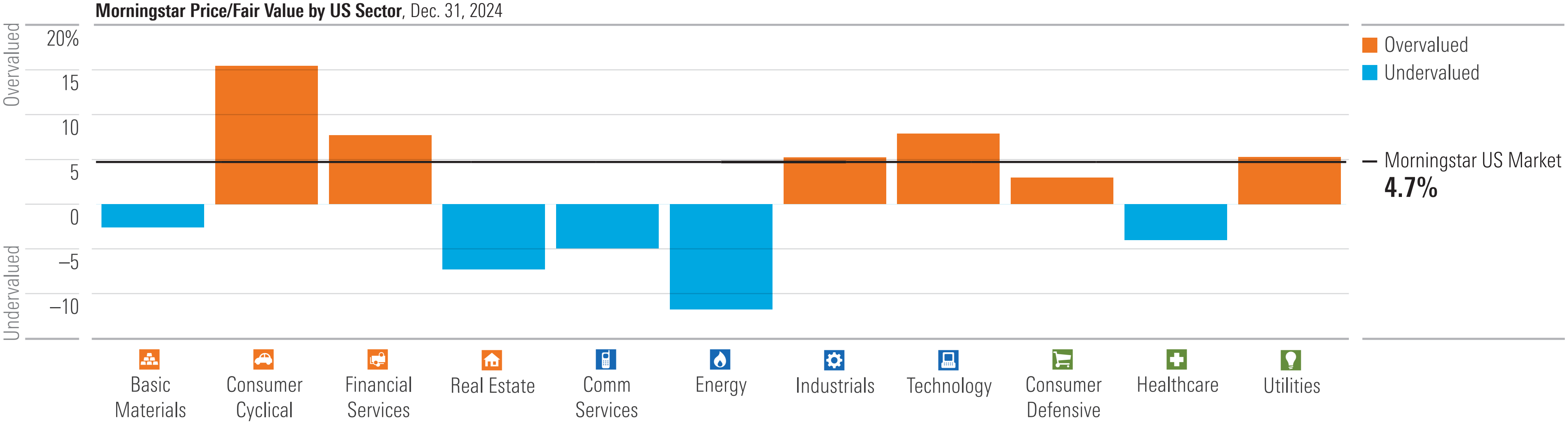
Morningstar Price/Fair Value

The median analyst-covered stock in the Morningstar US Market Index was modestly overvalued for much of 2024 as equities climbed higher. Despite a bumpy fourth quarter, the Morningstar US Market Index was 4.7% overvalued at the end of the year, with the consumer cyclical, technology, and financials sectors looking the most expensive. On the other hand, real estate and energy stocks looked much more attractive.

Morningstar US Market Price/Fair Value, Trailing 1-Year



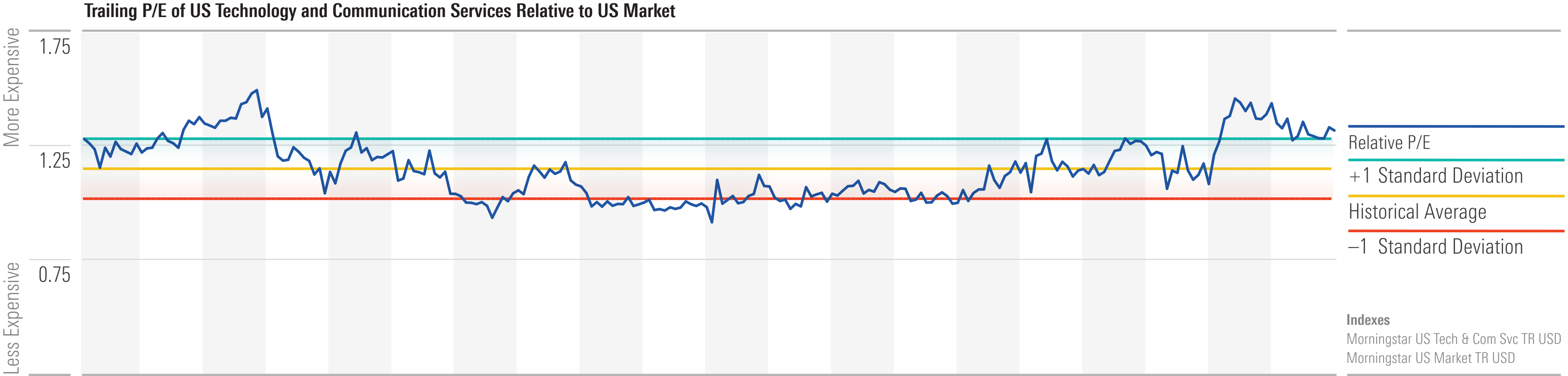
Morningstar Price/Fair Value by US Sector, Dec. 31, 2024

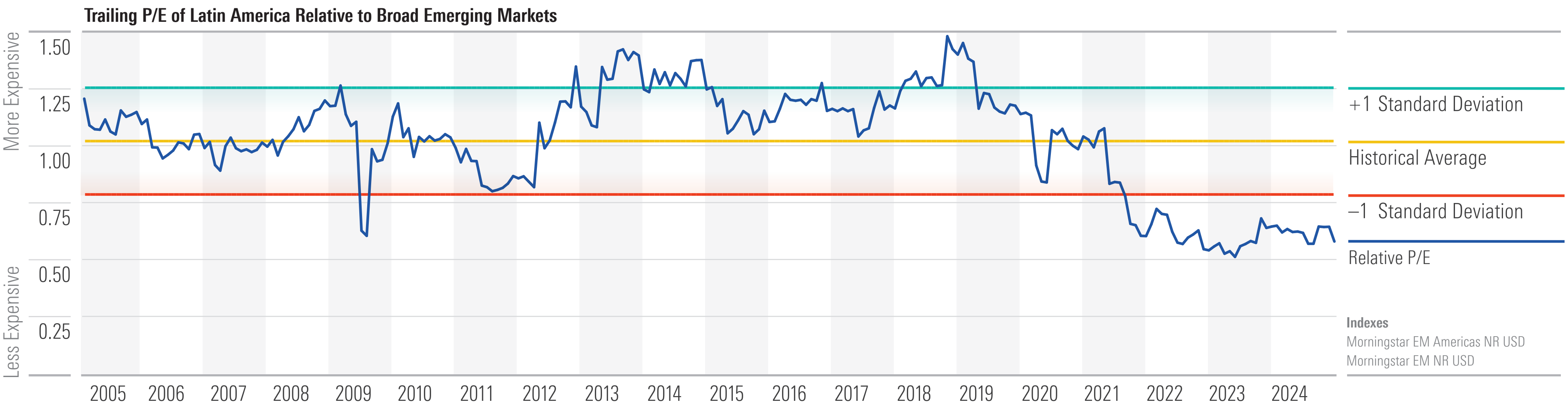


Source: Morningstar analyst fair value data. Data as of Dec. 31, 2024.

What's Cheap? Breaking Down Valuation Disparities in Global Markets

We examined price/earnings ratios on a relative basis over the past 20 years. Calendar-year 2024's top-performing US sectors, technology and communication services, look expensive relative to the broad US market, though this valuation gap narrowed throughout the year. Sluggish 2024 performance in Latin America meant that the region remained at low valuation levels relative to the broad emerging-markets index.



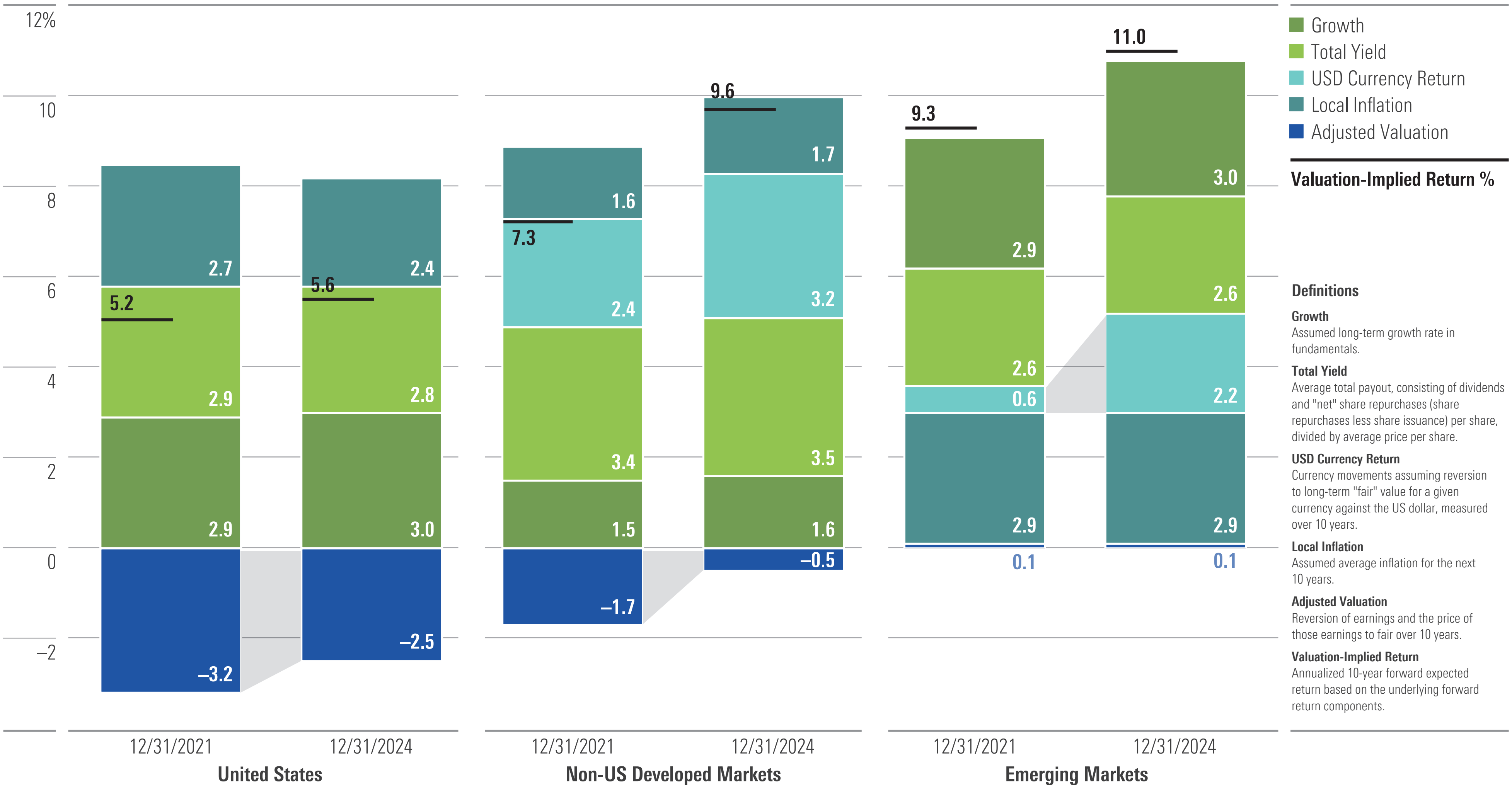


Source: Morningstar Direct, Morningstar Investment Management LLC Analysis. Data as of Dec. 31, 2024. For illustrative purposes only.

Understanding Sources of Forward-Looking Returns

As of Dec. 31, 2024, emerging-markets stocks had a valuation-implied return of 11.0% to US-dollar investors, far exceeding the comparable 5.6% estimate for US stocks. The difference stems primarily from valuation and currency rather than expected growth rates or total yields (dividends plus net share repurchases). Emerging-markets stocks are much closer to normal levels of earnings and valuation than their US counterparts, which are trading at elevated valuations.

Valuation-Implied Return Building Blocks



Definitions

Growth
Assumed long-term growth rate in fundamentals.

Total Yield
Average total payout, consisting of dividends and "net" share repurchases (share repurchases less share issuance) per share, divided by average price per share.

USD Currency Return
Currency movements assuming reversion to long-term "fair" value for a given currency against the US dollar, measured over 10 years.

Local Inflation
Assumed average inflation for the next 10 years.

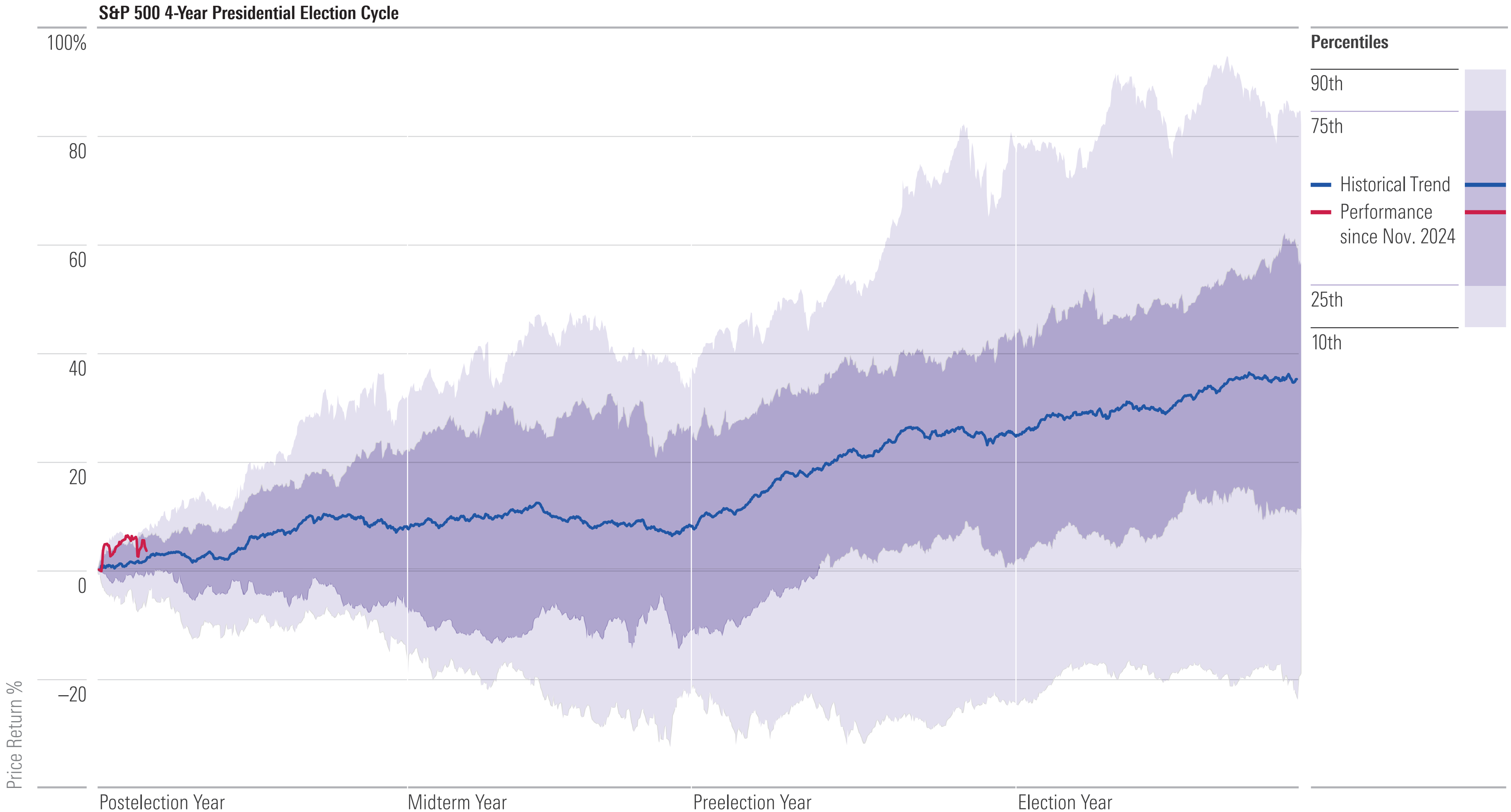
Adjusted Valuation
Reversion of earnings and the price of those earnings to fair over 10 years.

Valuation-Implied Return
Annualized 10-year forward expected return based on the underlying forward return components.

Source: Morningstar Direct; Morningstar Investment Management LLC Analysis. Data as of Dec. 31, 2024. For illustrative purposes only.

Election Cycles: A Historically Wide, but Typically Positive, Range of Outcomes

The below chart shows the distribution of daily price returns (that is, excluding dividends) for the S&P 500 over four-year US presidential election cycles dating back to 1928. Starting Nov. 1 of each election year, through Oct. 31 four years later, the average index price return is a cumulative 34%, though there's a wide range of outcomes. Through two months of the new cycle, returns are above the historical trend.



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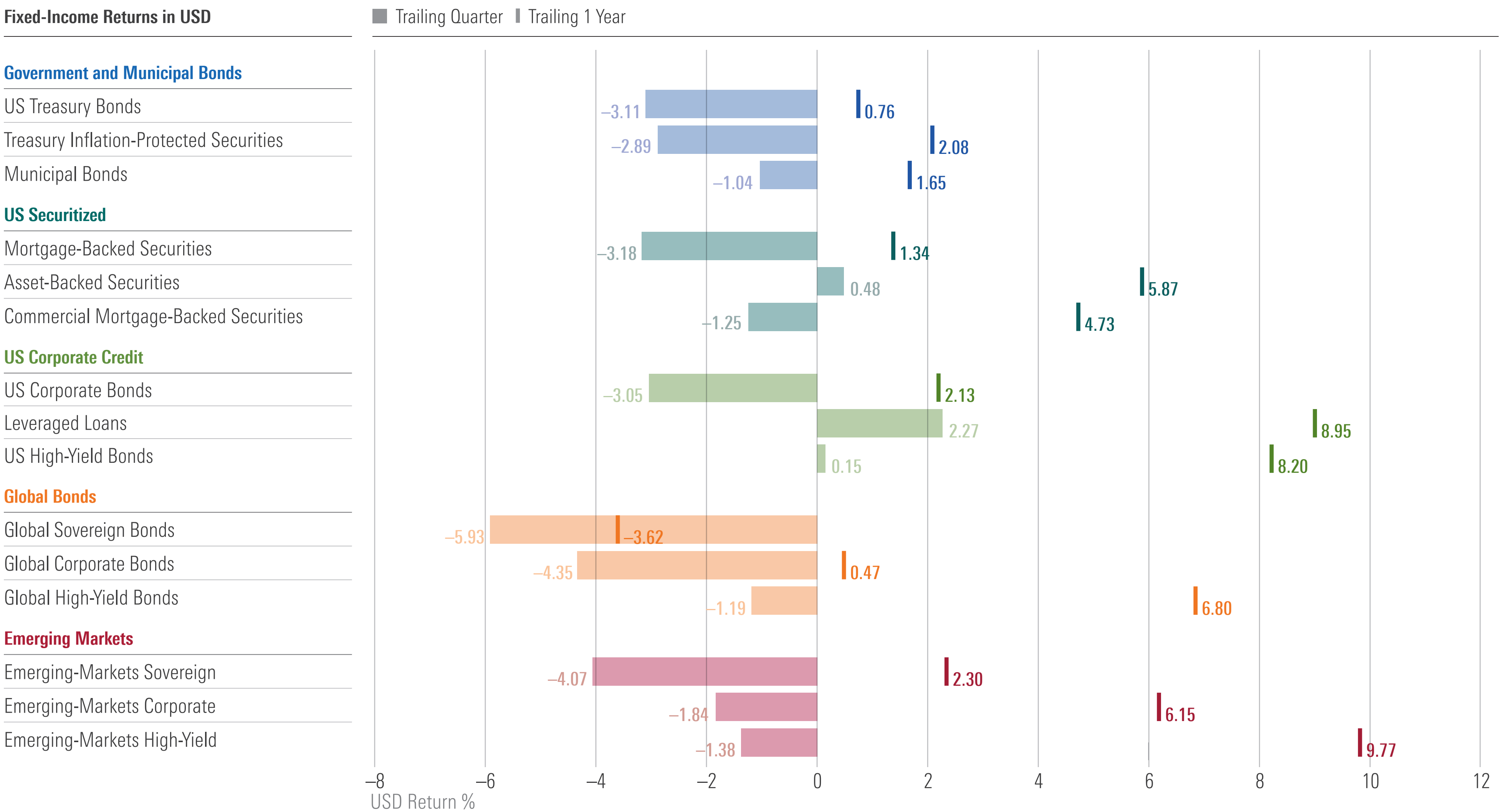
Source: Macrobond; Morningstar Investment Management LLC Analysis. Returns are Price Returns. Data as of Dec. 31, 2024. For illustrative purposes only.

Fixed Income

Most Fixed-Income Sector Returns Hit by Rising Long-Term Yields in 2024's Fourth Quarter

Fixed-income sectors with the least sensitivity to interest rates performed best in 2024's fourth quarter as long-term yields increased. Leveraged loans fared the best in an environment that also rewarded more credit risk. High-quality and long-duration bonds, like agency mortgages and investment-grade corporates, suffered losses during the quarter but still eked out gains in 2024.



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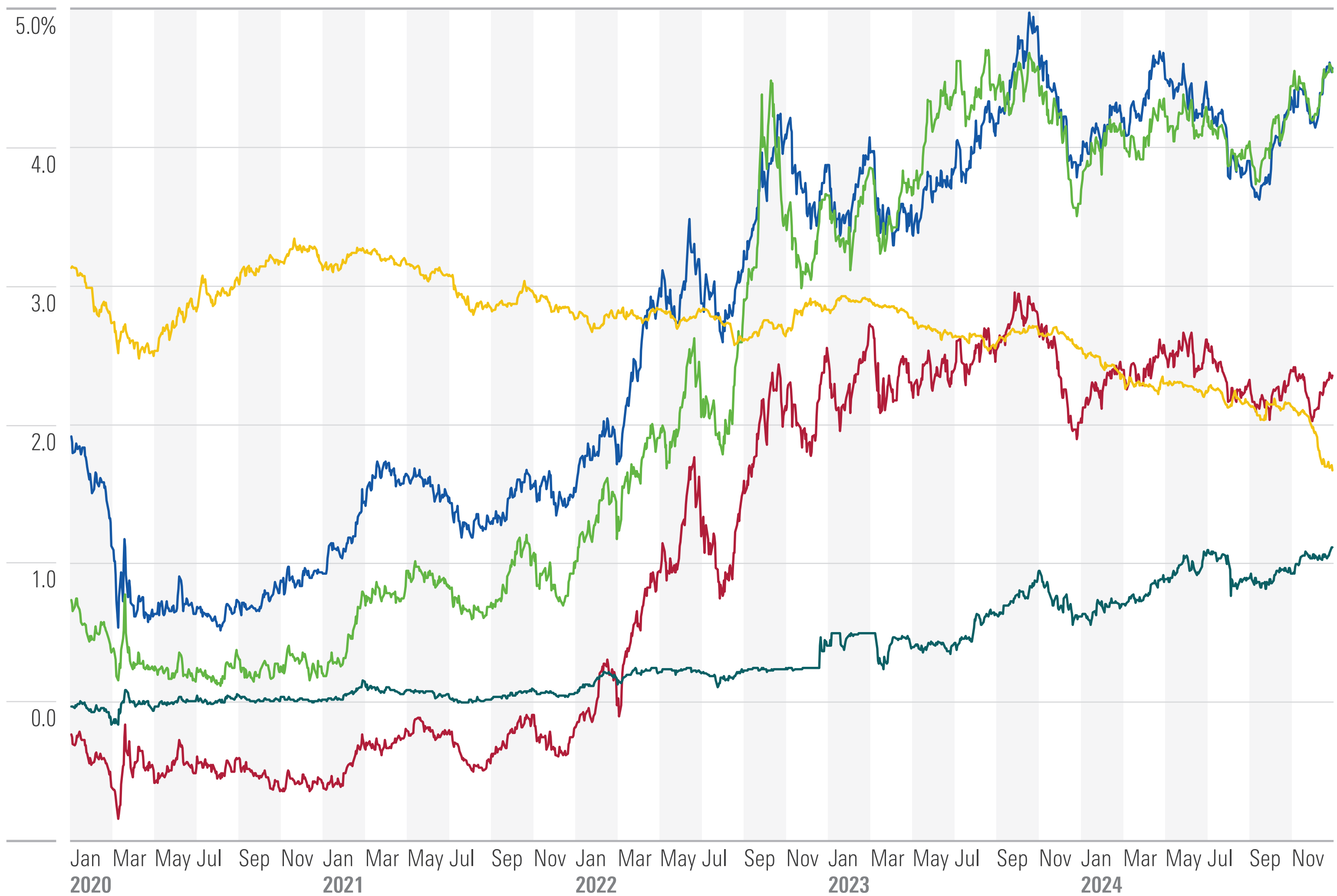
Source: Morningstar Indexes. Data as of Dec. 31, 2024.

Global Rates Climb Higher to Close Out 2024

Most central banks have signaled the onset of easing, but many sovereign 10-year yields—including the US, UK, and Japan—traded higher during 2024's fourth quarter. China was an exception, with its 10-year bonds falling and hitting a record low in the fourth quarter; the country's economic slowdown dominated headlines in 2024.

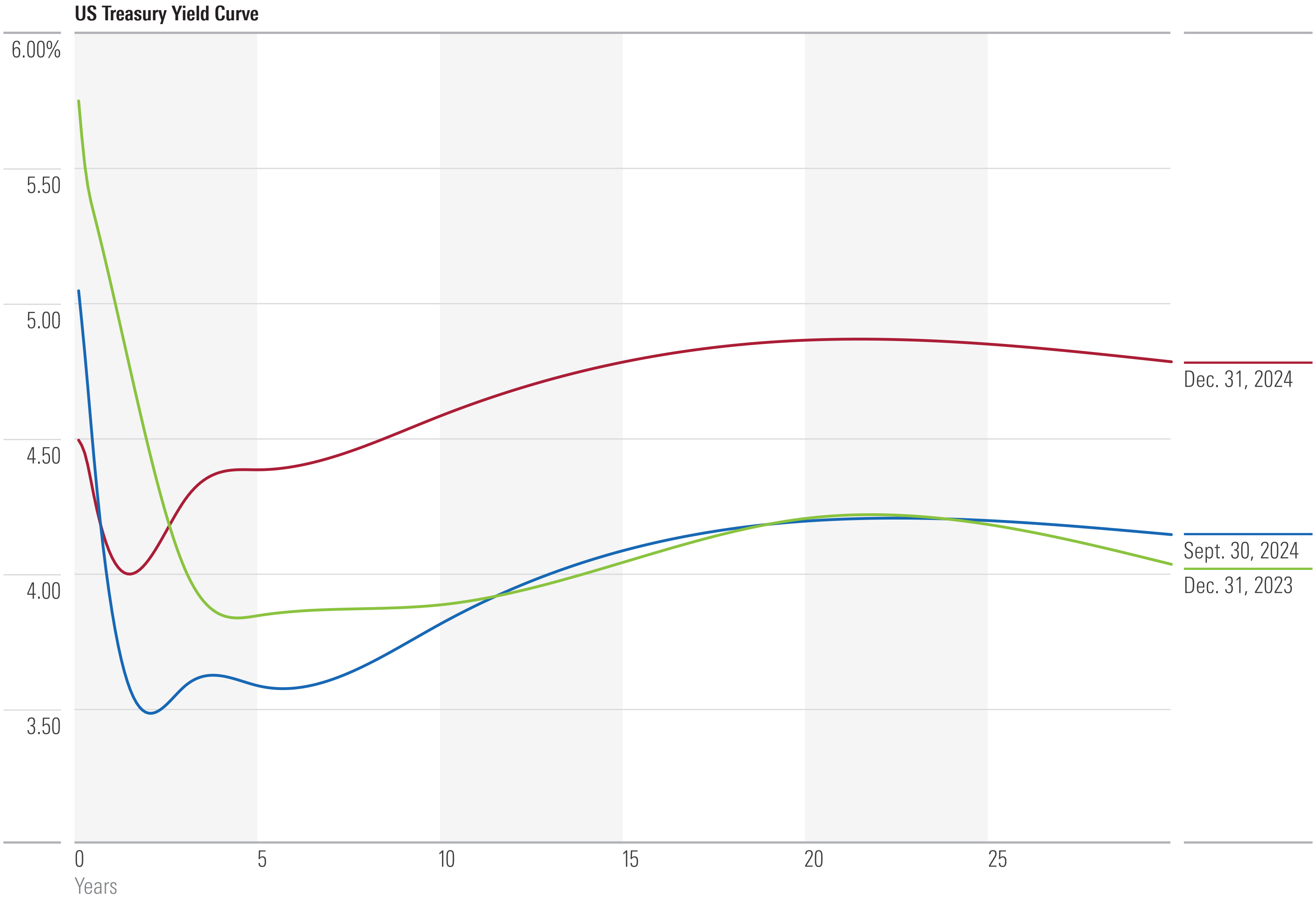
Global Sovereign Benchmarks 10-Year Yield



	Current Yield (%)	Change in Last Year (%)
United States	4.6	0.8
United Kingdom	4.6	0.6
Germany	2.4	0.2
China	1.7	–0.5
Japan	1.1	0.3

The Yield Curve Steepened Significantly in 2024's Final Quarter

While the Federal Reserve cut its short-term federal-funds rate by 25 basis points in November and December 2024, Treasury yields rose across much of the yield curve during the fourth quarter. The 10-year Treasury yield, which began 2024 at 3.9%, finished the year at 4.6% as stronger-than-expected economic data increased investors' optimism about the US economy.

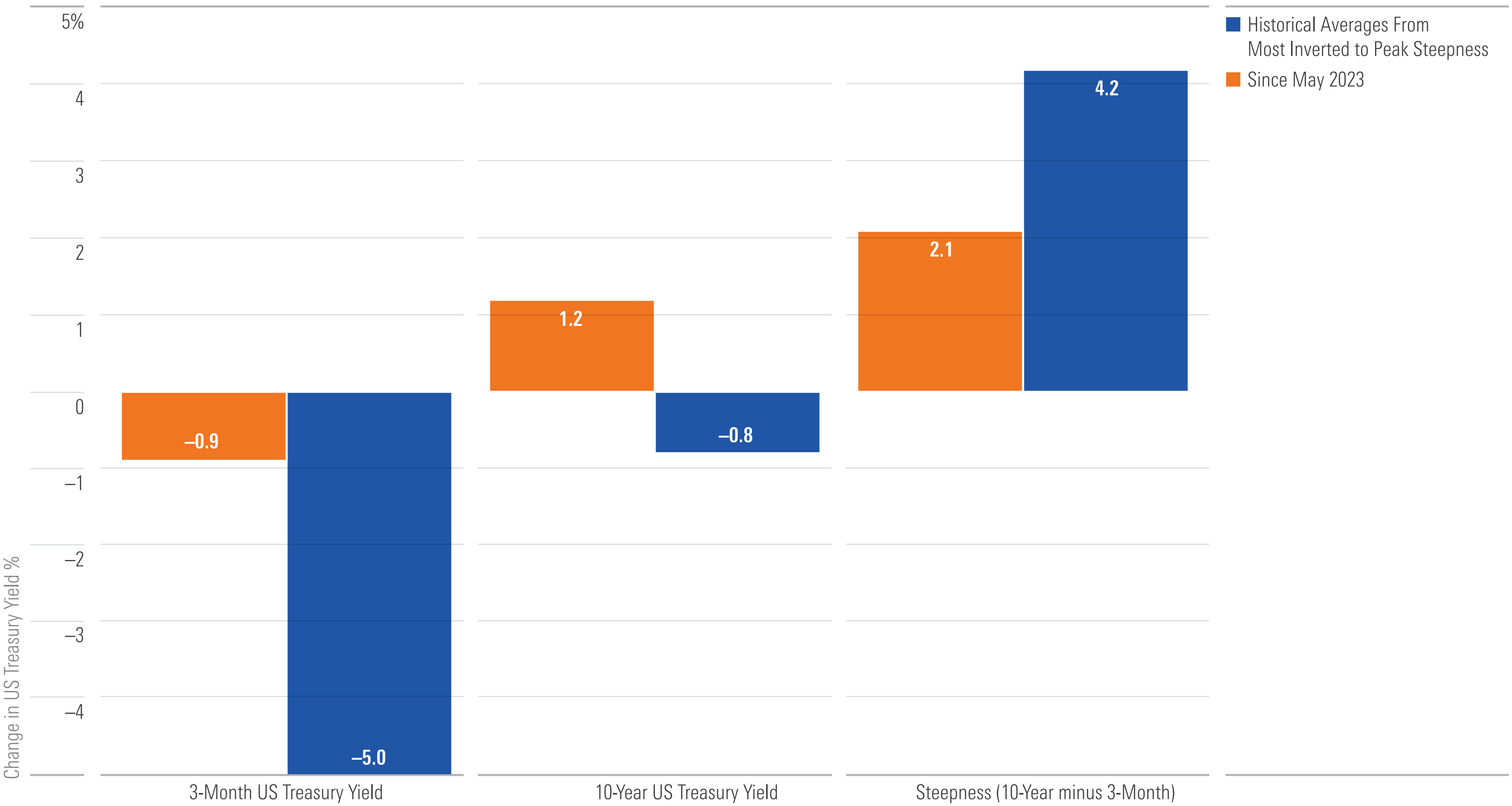


Yields	Dec. 31, 2024	3-Month Change %	12-Month Change %
3-Month	4.4	–0.4	–1.0
2 Year	4.3	0.6	0.0
5 Year	4.4	0.8	0.5
10 Year	4.6	0.8	0.7
30 Year	4.8	0.6	0.8
Spreads			
2s10s	0.3	0.2	0.7
5s30s	0.4	–0.2	0.2

Source: Macrobond Financial. Data as of Dec. 31, 2024.

The Yield Curve Has Room for Further Steepening

Since the yield curve hit its most inverted point in May 2023, we have observed a notable steepening, with the spread between the 10-year and three-month US Treasury yields widening by 2.1 percentage points, largely because of rising long-term yields. Despite this shift, there remains significant potential for further steepening, especially when compared with past periods when the curve uninverted and reached its maximum steepness.



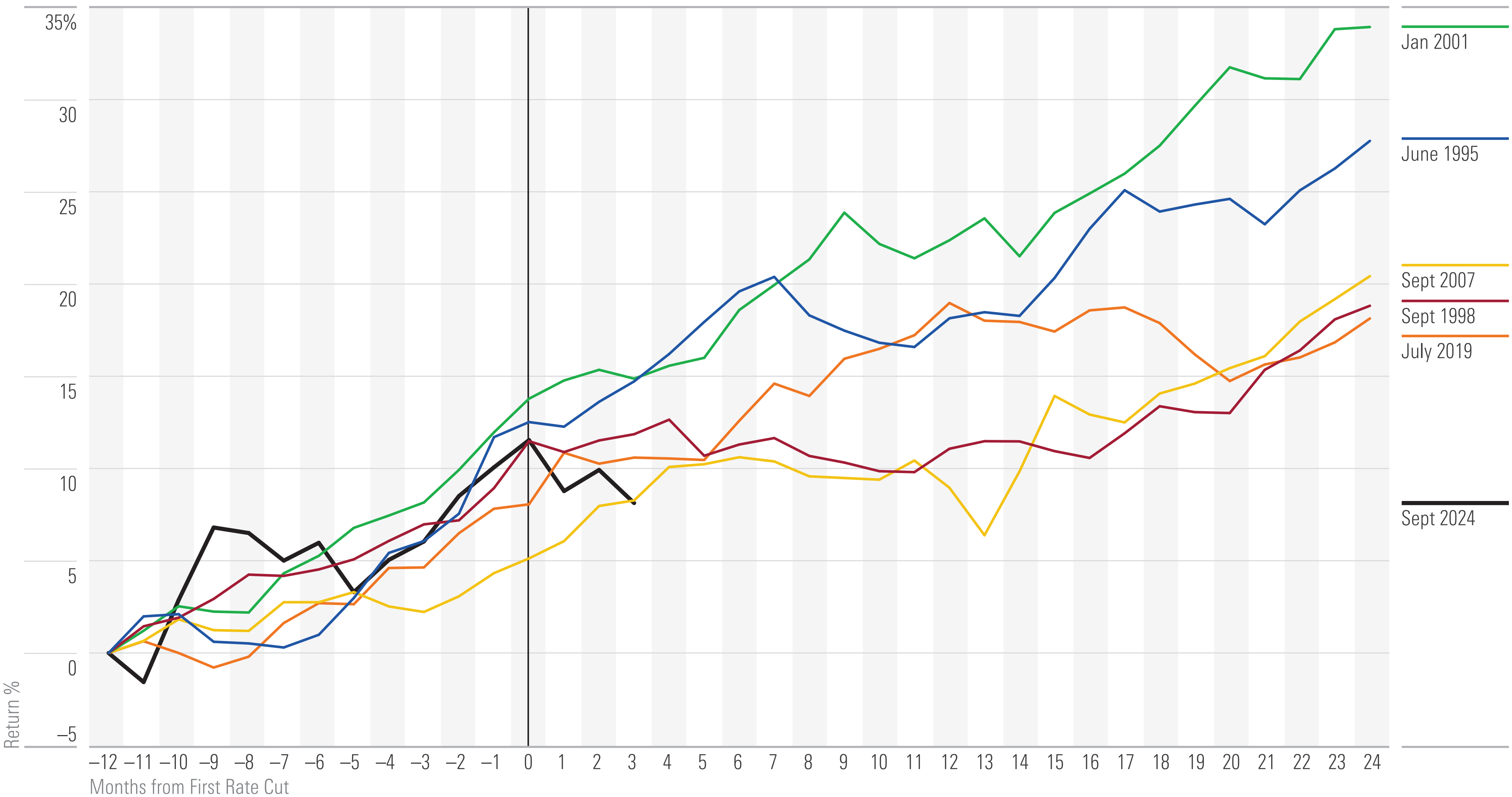
QFI61

Source: US Department of the Treasury. Data as of Dec. 31, 2024.

Bond Markets Have Historically Rewarded Investors During Rate Cuts

As bond investors have learned over the past few years, the path of interest rates is hard to predict. But bonds have historically posted strong returns after the Federal Reserve cuts its short-term rate. With the Fed cutting its short-term rate three times in 2024, the backdrop may be supportive for more positive returns if interest rates continue to fall.

Bond Market Returns When the Federal Reserve First Cuts Rates



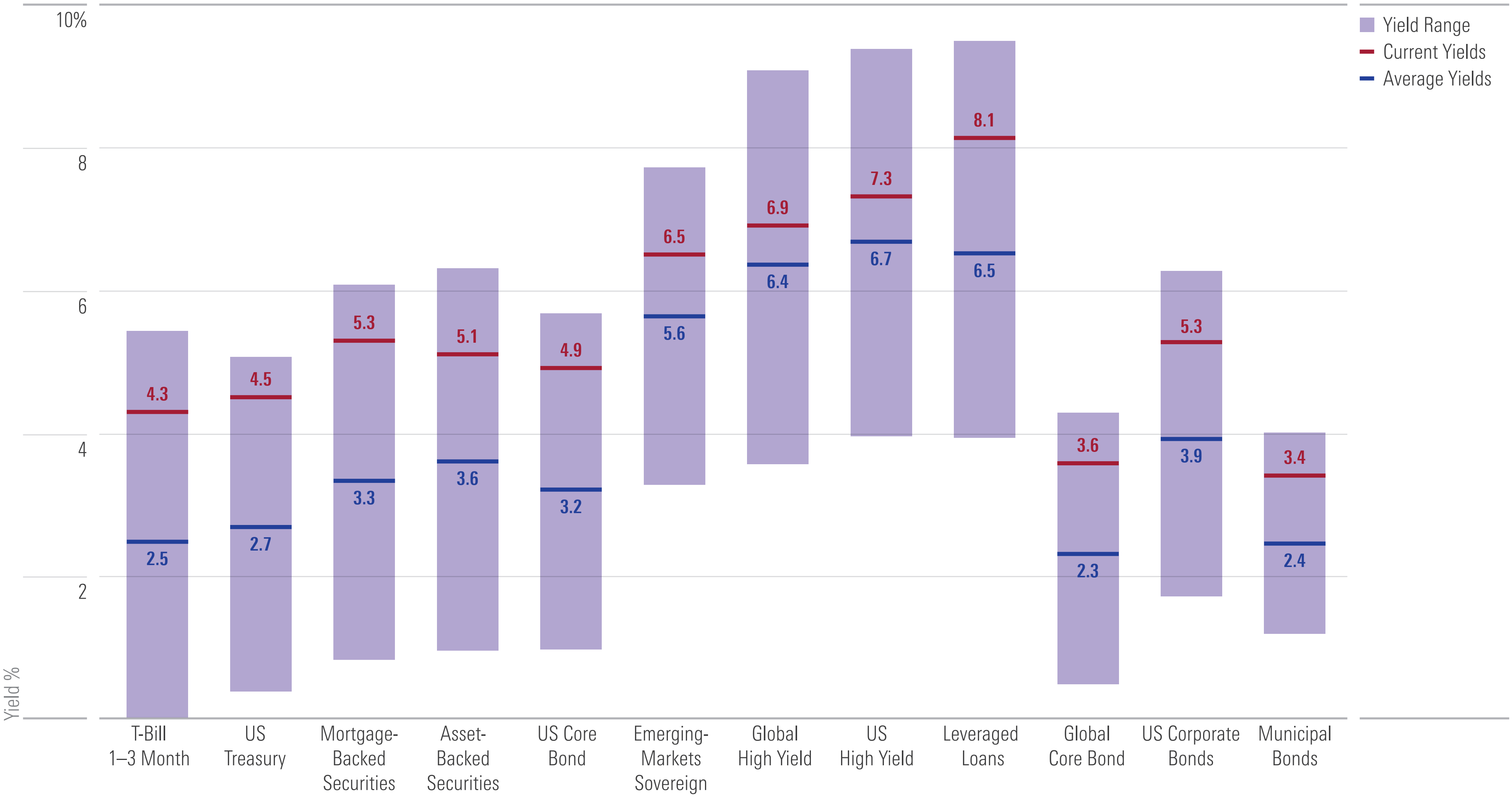
QFI55

Source: Morningstar Direct and Analyst Calculations. Bloomberg US Aggregate Bond Index. Data as of Dec. 31, 2024.

Yields Across Fixed Income Remain High

All major fixed-income sectors provided higher yields than their five-year averages as of December 2024, making bonds more attractive for yield-seeking investors. But investors' ability to earn relatively high yields in short-term and safer assets, like money market funds, may be short-lived if the Federal Reserve continues on its rate-cutting path.

Morningstar Index Yields: Five-Year Trailing Range

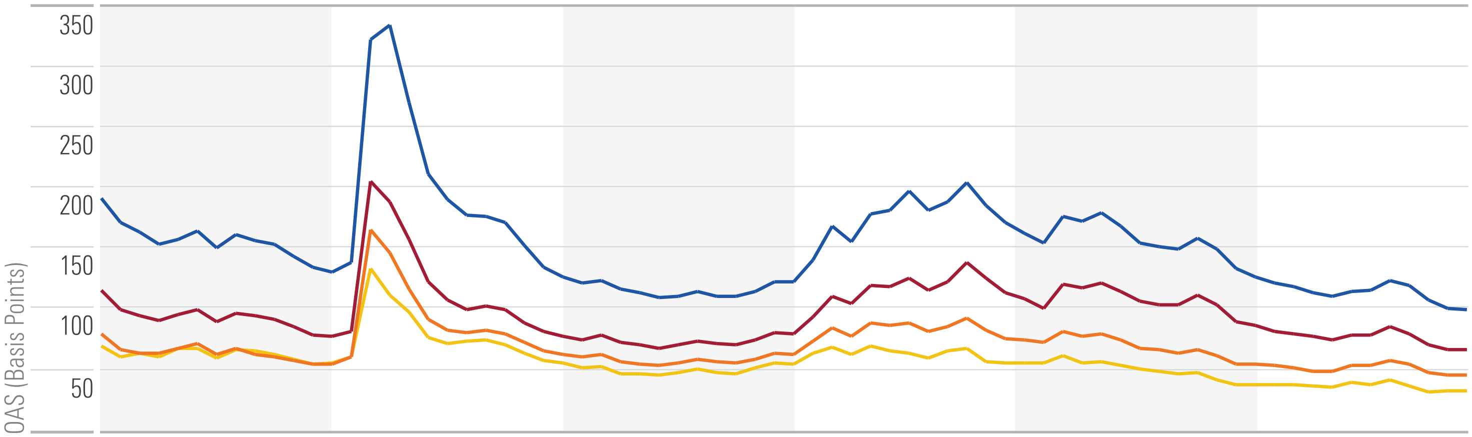


Source: Morningstar Direct. Data as of Dec. 31, 2024.

Credit Spreads Remain Tight

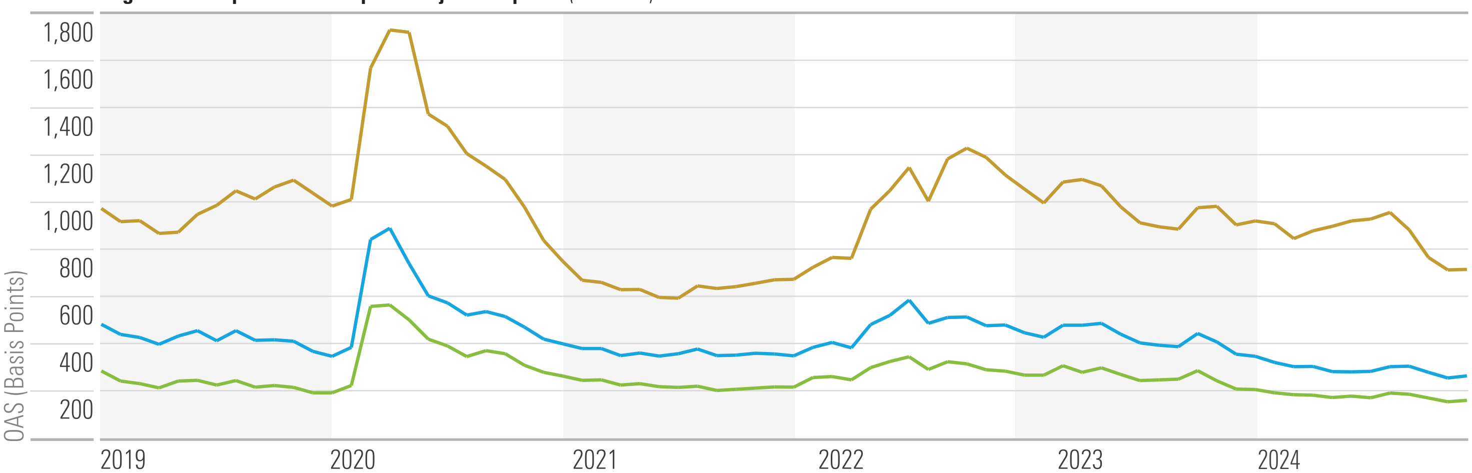
Corporate credit spreads, an indicator of the broader economy's health and investors' confidence in credit markets, remained at historically tight levels during 2024's fourth quarter, suggesting rich valuations. Spreads pushed even tighter during the quarter on the back of stronger-than-expected economic data and the market's reaction to the incoming US presidential administration's policies and growth agenda, which could provide tailwinds for credit markets going forward.

Investment-Grade Corporate Bond Option-Adjusted Spread (2019–24)



Spreads	Dec. 31, 2024	5-Year Average	5-Year High	5-Year Low
BBB	100	153	335	100
A	67	99	206	67
AA	46	71	166	46
AAA	37	56	134	32

High-Yield Corporate Bond Option-Adjusted Spread (2019–24)

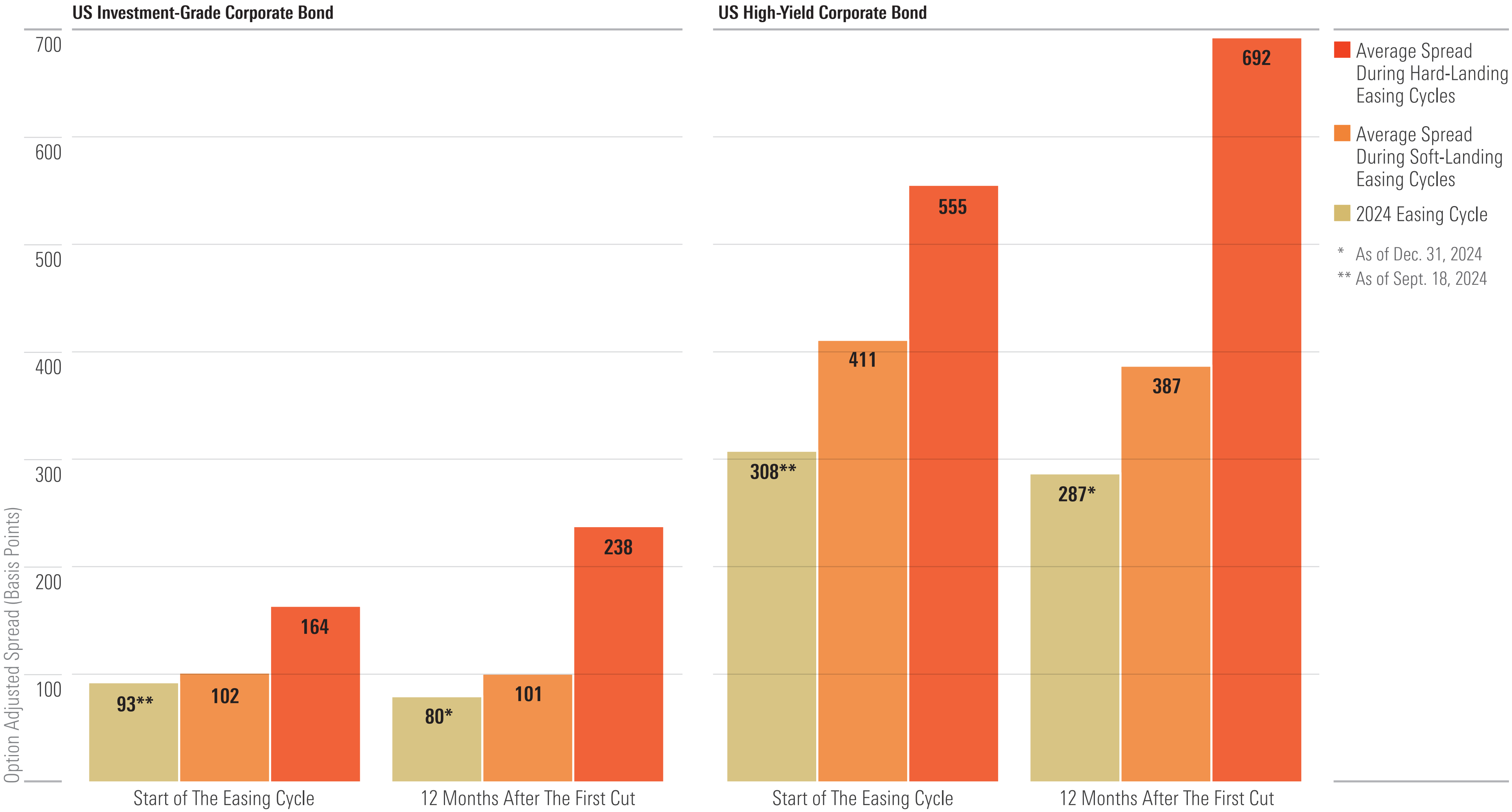


Spreads	Dec. 31, 2024	5-Year Average	5-Year High	5-Year Low
CCC	727	958	1,744	605
B	275	436	902	266
BB	171	277	576	165

Source: Federal Reserve Bank of St Louis. Data as of Dec. 31, 2024.

Credit Spreads Appear Tight Compared With Past Soft-Landing Episodes

Credit spreads are narrow, even compared with average levels of past easing cycles that coincided with a soft landing. Spreads historically don't contract much during easing cycles when markets price in a soft landing, but they could widen significantly in the event of a hard landing. As a result, today's tight spreads highlight the asymmetric range of potential outcomes.



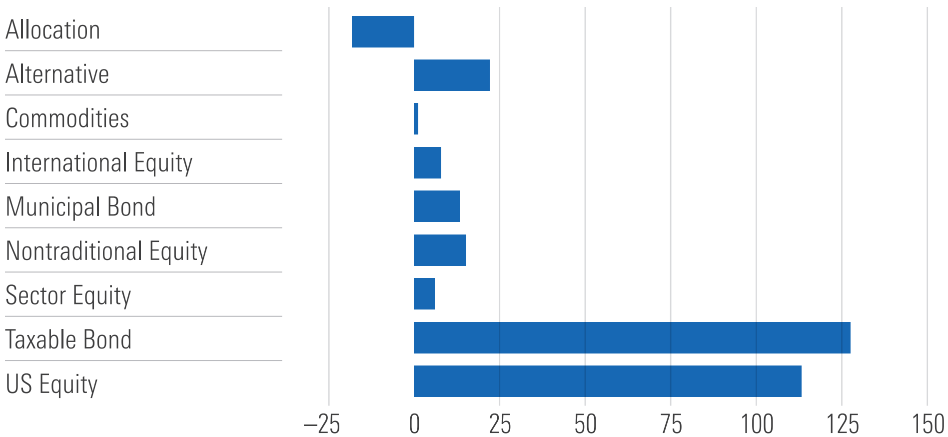
Source: Bloomberg. Data as of Dec. 31, 2024.

Funds

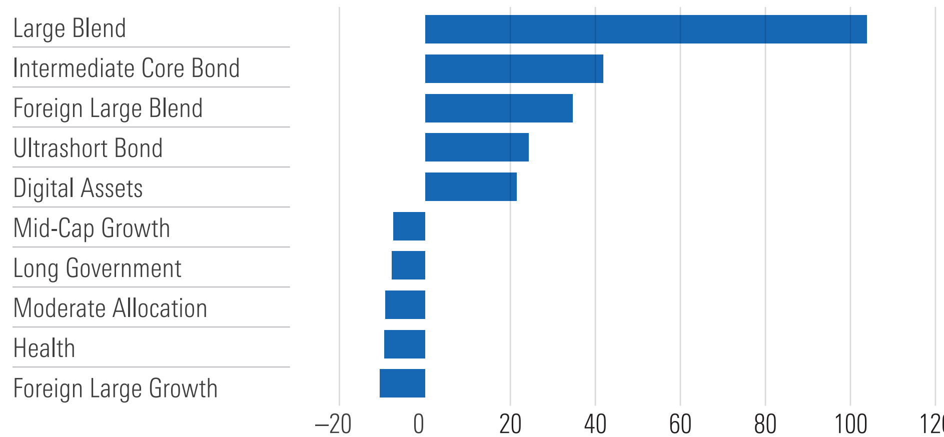
Top- and Bottom-Performing Morningstar Categories

Digital assets was the top-performing Morningstar Category in 2024's final quarter, outpacing the second-best performer (energy limited partnership) by a wide margin. A stronger dollar and falling commodity prices weighed on the Latin America stock category, landing it in the bottom spot for the quarter. And a selloff in long-term treasuries pushed the long government category into negative territory for the year.

Trailing Quarter Flows (USD Bil)



Top and Bottom Trailing Quarter Flows by Category (USD Bil)



Top-Performing Morningstar Categories	US Category Group	Return (%) Trailing Quarter	Return (%) Trailing 1 Year	Quarterly Flow ($ Mil)
Digital Assets	Alternative	37.9	57.9	21,492
Energy Limited Partnership	Sector Equity	9.3	35.5	1,326
Financial	Sector Equity	6.3	24.9	9,091
Technology	Sector Equity	6.0	22.0	4,832
Large Growth	US Equity	5.4	29.0	–862
Communications	Sector Equity	3.9	25.0	560
Mid-Cap Growth	US Equity	3.5	16.5	–7,396
Derivative Income	Nontraditional Equity	2.9	17.6	12,443
Consumer Cyclical	Sector Equity	2.5	15.7	899
Convertibles	Allocation	2.3	10.6	988

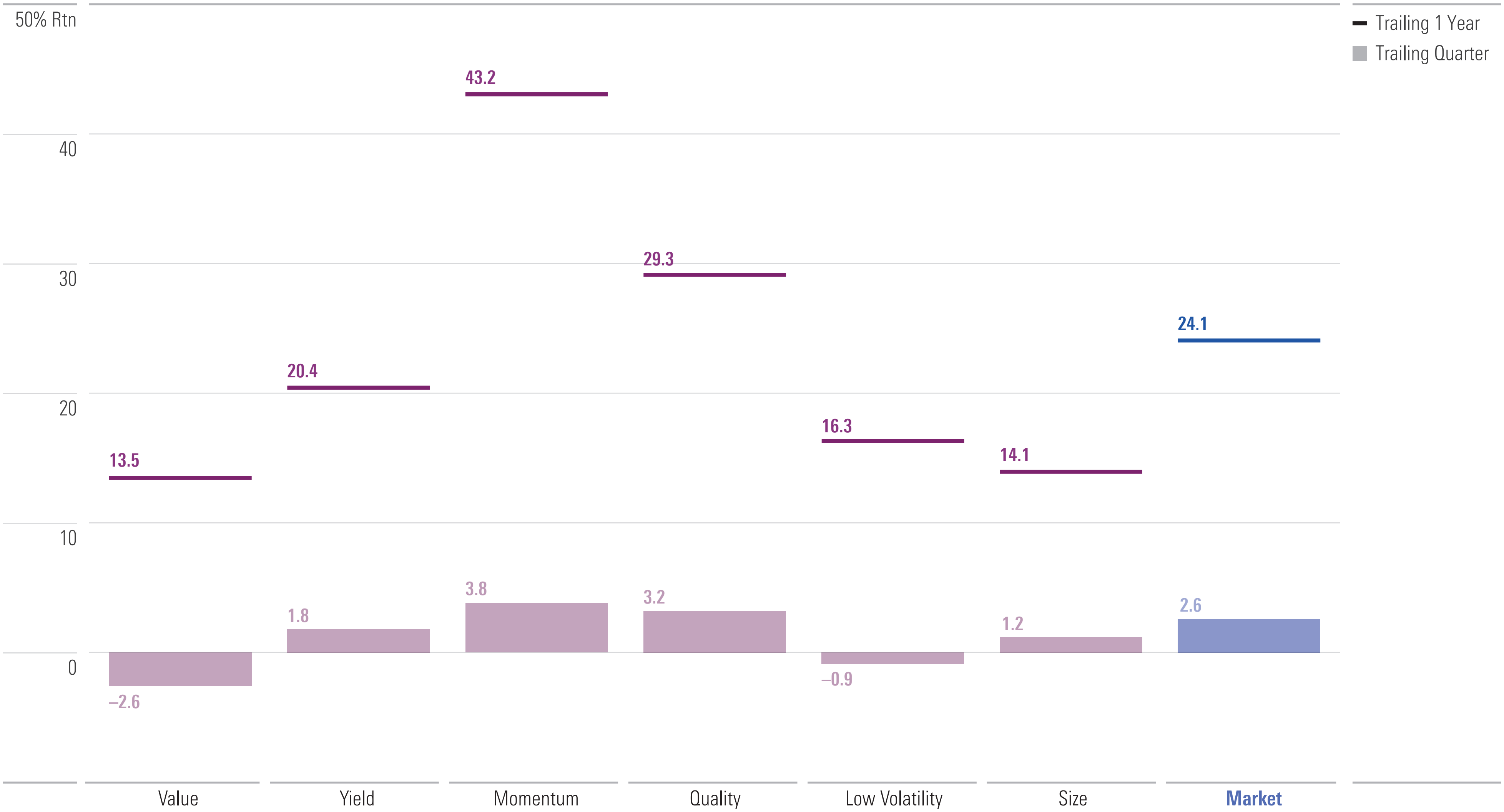
Bottom-Performing Morningstar Categories	US Category Group	Return (%) Trailing Quarter	Return (%) Trailing 1 Year	Quarterly Flow ($ Mil)
Latin America Stock	International Equity	–17.4	–26.5	–51
Equity Precious Metals	Sector Equity	–11.2	12.2	–763
Global Real Estate	Sector Equity	–10.1	0.2	398
Natural Resources	Sector Equity	–10.1	–4.2	–3,092
Long Government	Taxable Bond	–8.6	–6.5	–7,855
Health	Sector Equity	–8.6	1.0	–9,527
Europe Stock	International Equity	–8.1	3.2	–5,814
Foreign Small/Mid Blend	International Equity	–7.8	2.5	231
Diversified Pacific/Asia	International Equity	–7.7	6.3	–272
India Equity	International Equity	–7.4	12.3	–1,022

- >20
- 10 to 19.9
- 0 to 9.9
- –9.9 to 0
- –19.9 to –10
- <–20

Source: Morningstar Direct. Data as of Dec. 31, 2024.

Factor Index Performance

Within equities, several factors have been identified that have outperformed the market over long periods or have been associated with superior risk-adjusted performance. They include value, yield, momentum, quality, low volatility, and small size. Investor optimism around artificial intelligence spending sustained momentum in high-performing semiconductor stocks like Nvidia and Broadcom.

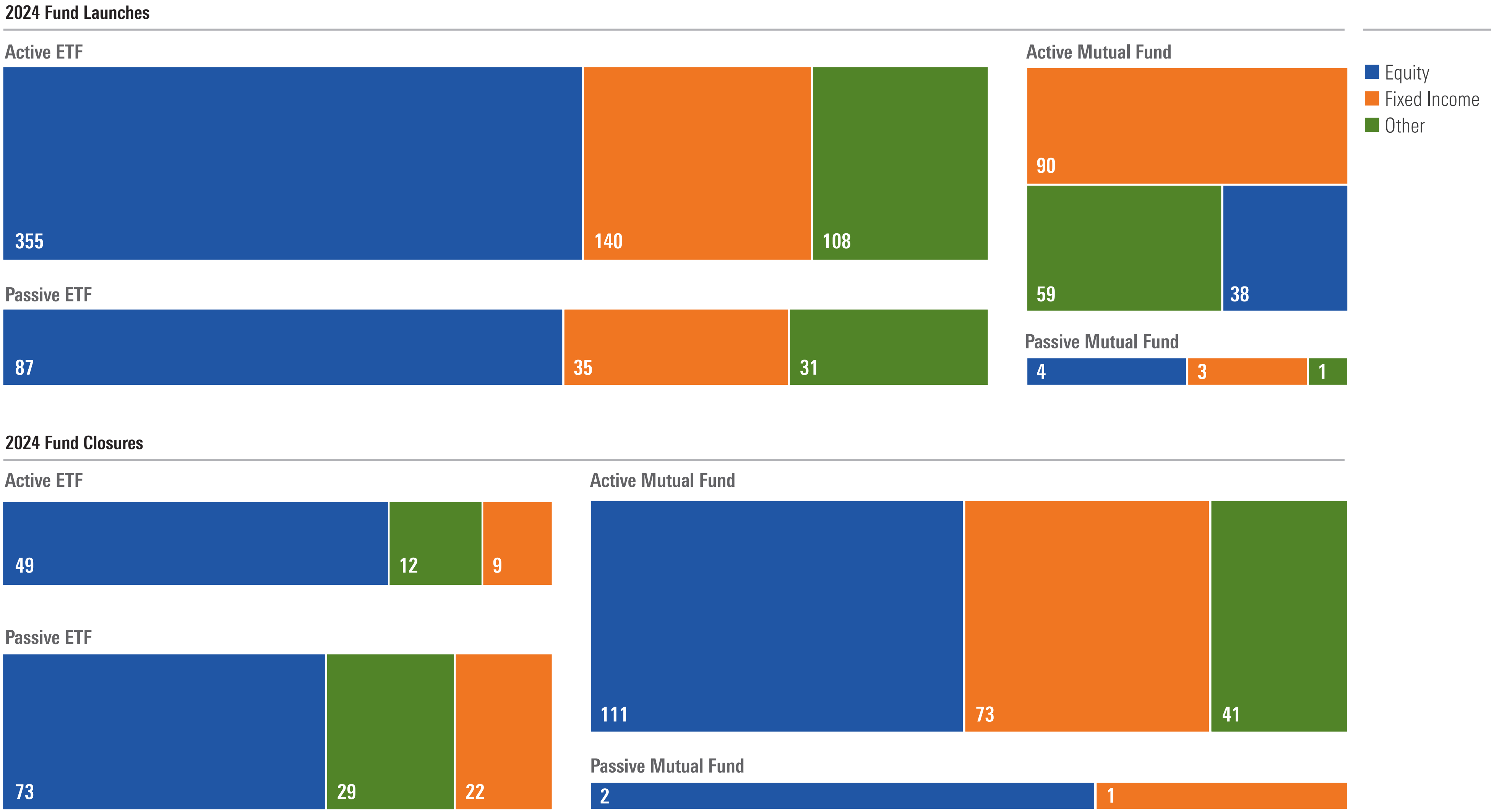


QMF36

Source: Morningstar Direct. Value—Morningstar US Value Factor Index, Yield—Morningstar US Yield Factor Index, Momentum—Morningstar US Momentum Factor Index, Quality—Morningstar US Quality Factor Index, Low Volatility—Morningstar US Low Volatility Factor Index, Size—Morningstar US Size Factor Index Market—Morningstar Market Index. Data as of Dec. 31, 2024

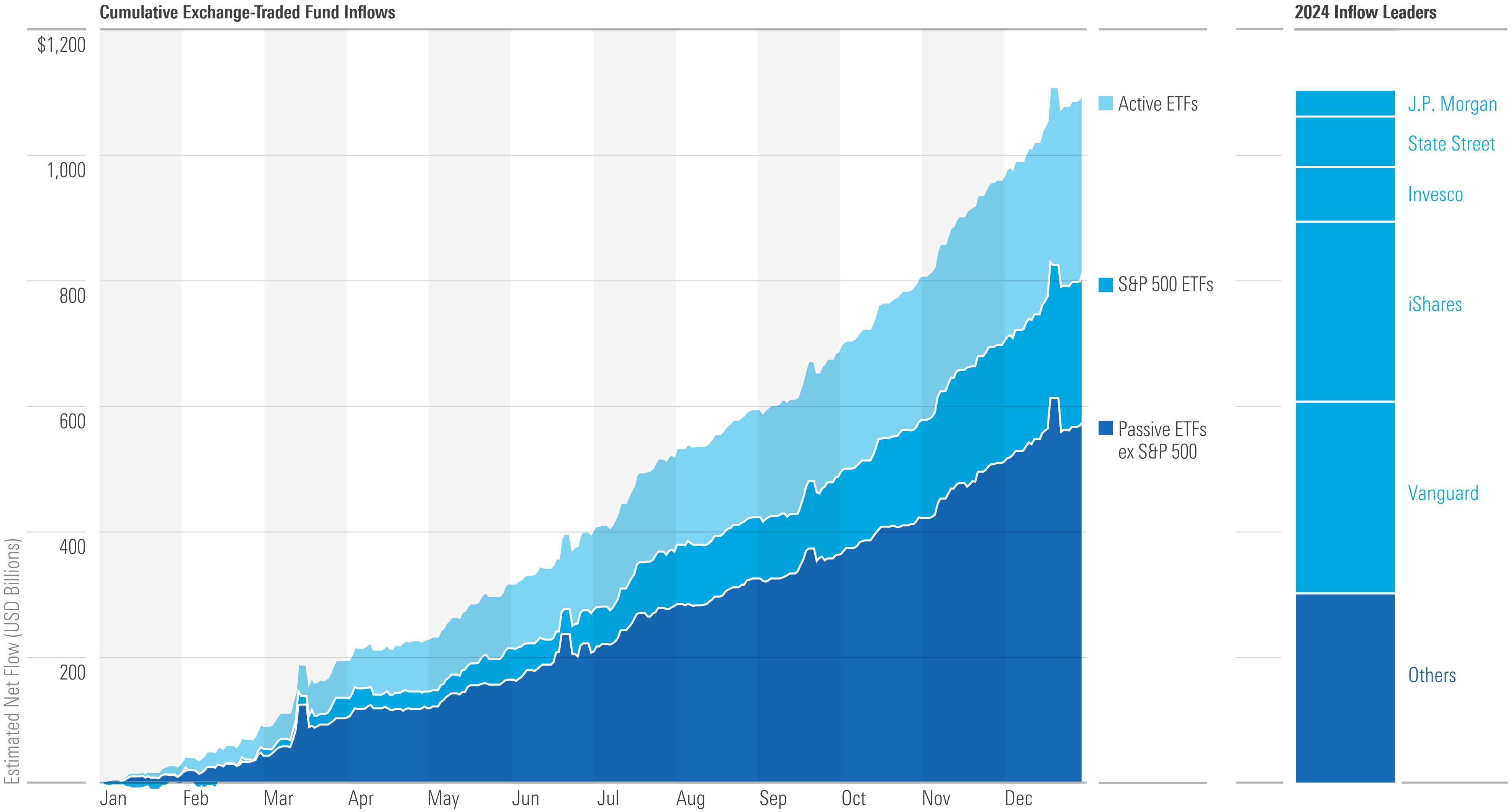
Active ETF Momentum Surged in 2024

Fund companies again favored exchange-traded funds in 2024. A record 603 active ETFs came to market, along with 153 new passive ETFs. While active mutual fund launches far outpaced their index-based siblings, they also saw the most closures during the year with 225 as firms shift resources to ETFs. As a result, 2024 closed with a net increase of 562 ETFs and a net reduction of 33 mutual funds.



ETF Inflows Soar Past USD 1 Trillion

Investors piled a record USD 1.1 trillion into exchange-traded funds in 2024. While investors had 4,000 ETFs to choose from, just four S&P 500 ETFs from Vanguard, State Street, and iShares collected a combined USD 240 billion. Passive ETFs remain popular, but active ones are gaining ground. Active ETFs garnered 26% of inflows in 2024 and claimed 8% of all ETF assets as of Dec. 31, 2024.

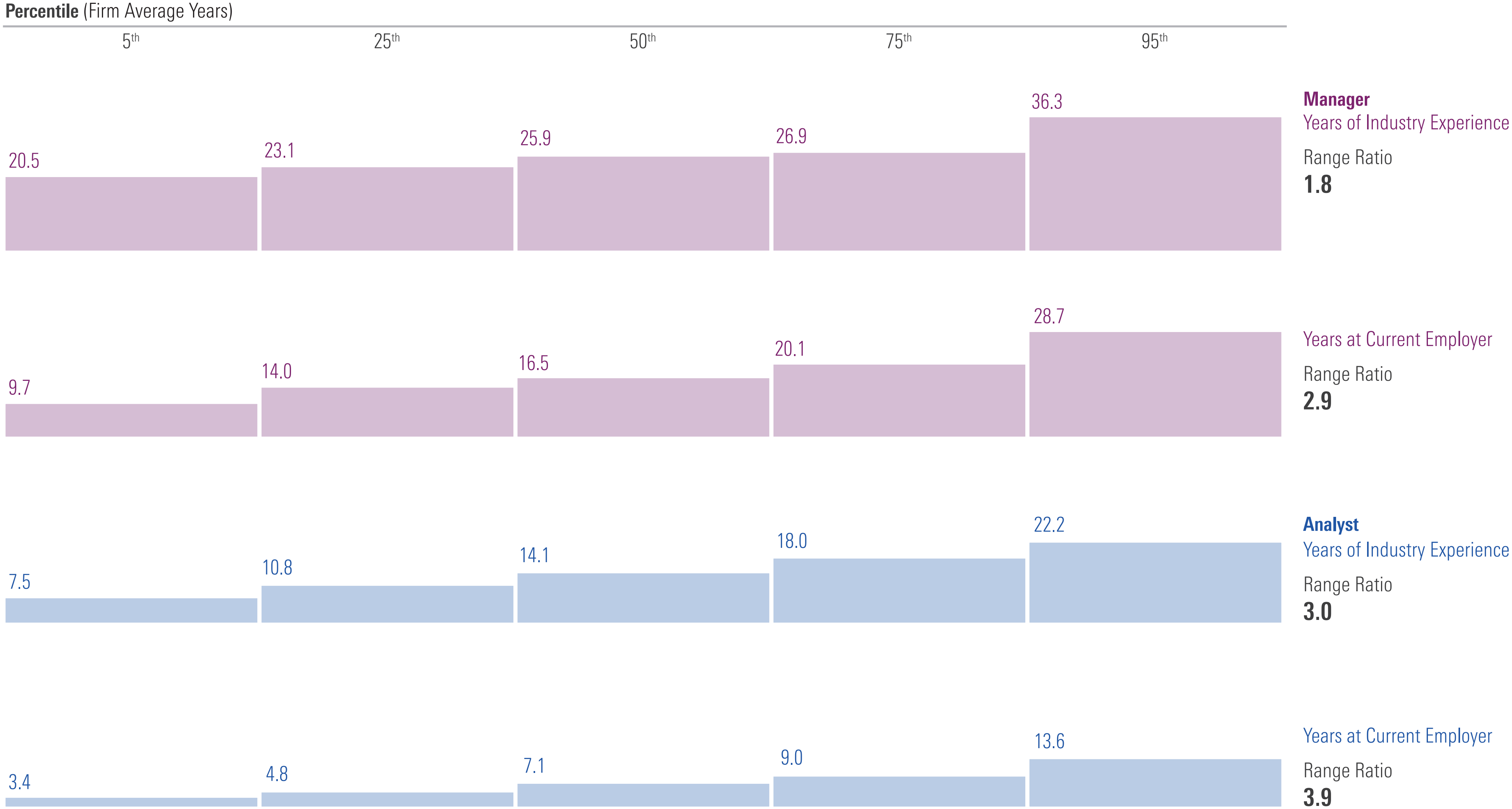


QMF79

Source: Morningstar Direct. Data as of Dec. 31, 2024. S&P 500 ETFs include iShares Core S&P 500 ETF IVV, SPDR Portfolio S&P 500 ETF SPLG, SPDR S&P 500 ETF Trust SPY, and Vanguard S&P 500 ETF VOO.

Manager Industry Experience Isn't a Differentiator, but Firm Tenure Is

Many firms advertise how experienced their portfolio managers are. Yet aggregated survey data indicate that nearly all named equity portfolio managers have many years of industry service. The length of time managers have spent in their current role or at their current firm shows greater dispersion, however, making those traits a better differentiator. Analyst years of experience and firm tenures also vary widely.

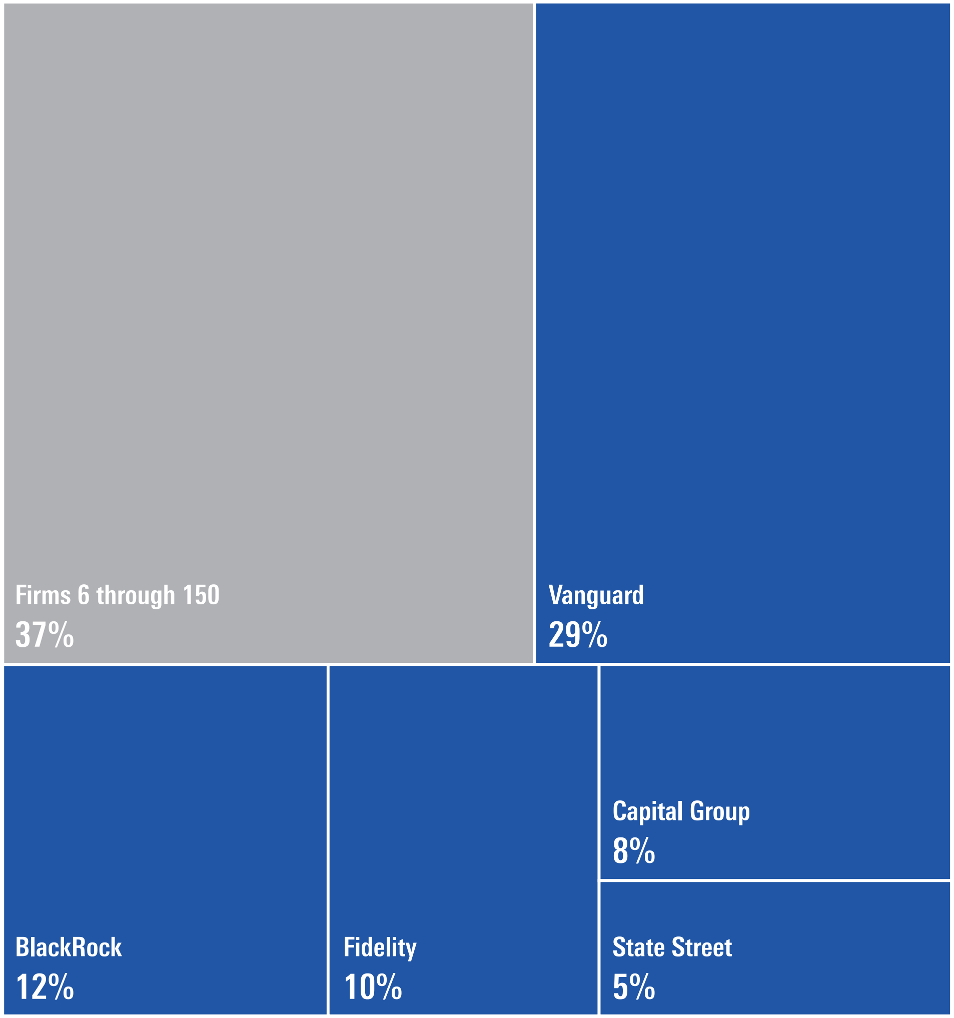


Source: Morningstar Active Equity Benchmarking Report by Adam Sabban. Surveyed data as of Dec. 31, 2023, or more recent. Range ratio is maximum divided by minimum.

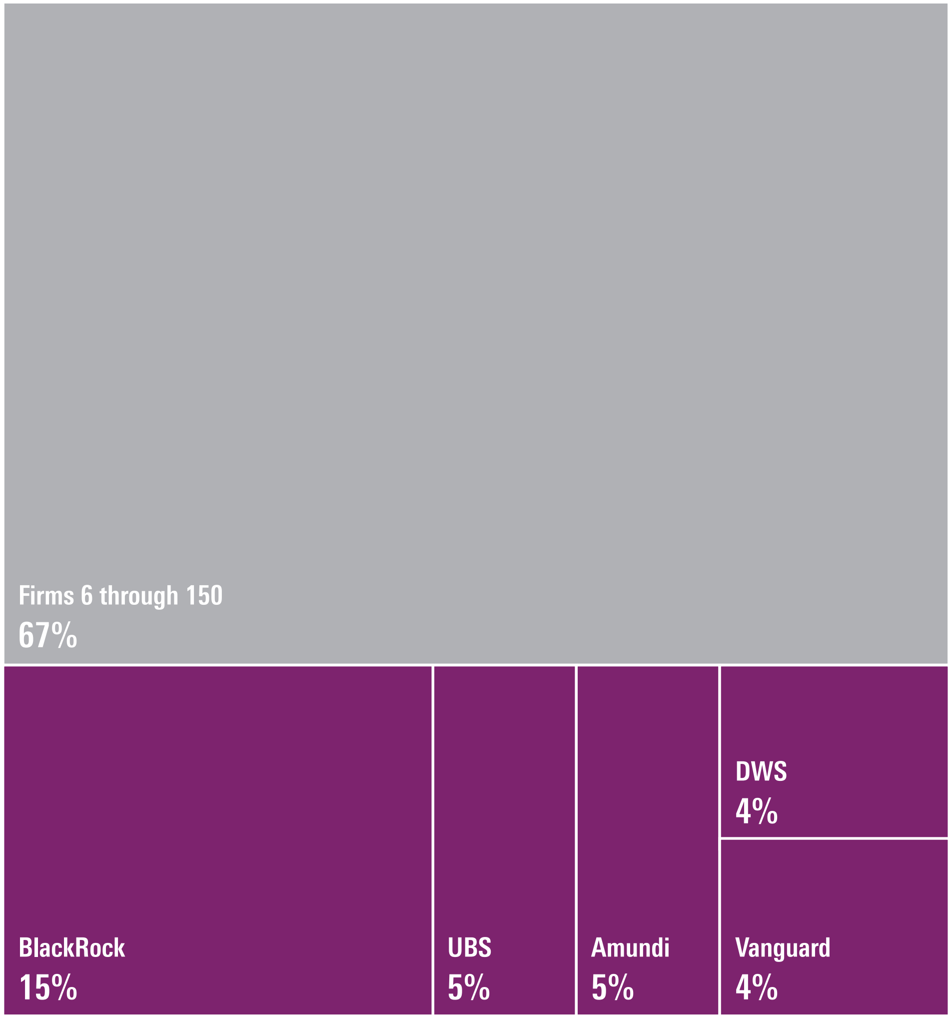
Fund Family Market Concentration

The US fund market is more concentrated than Europe's. In the US, the five largest firms made up nearly two thirds of assets under management as of August 2024, while the five largest European firms constituted about half that. The US market's concentration has risen in recent years as well, with the top four firms—Vanguard, Capital Group, Fidelity, and BlackRock—making up 59% of AUM as of August 2024, up from 43% 10 years earlier.

US Market Concentration (% of US AUM)



Europe Market Concentration (% of Europe AUM)



QMF81

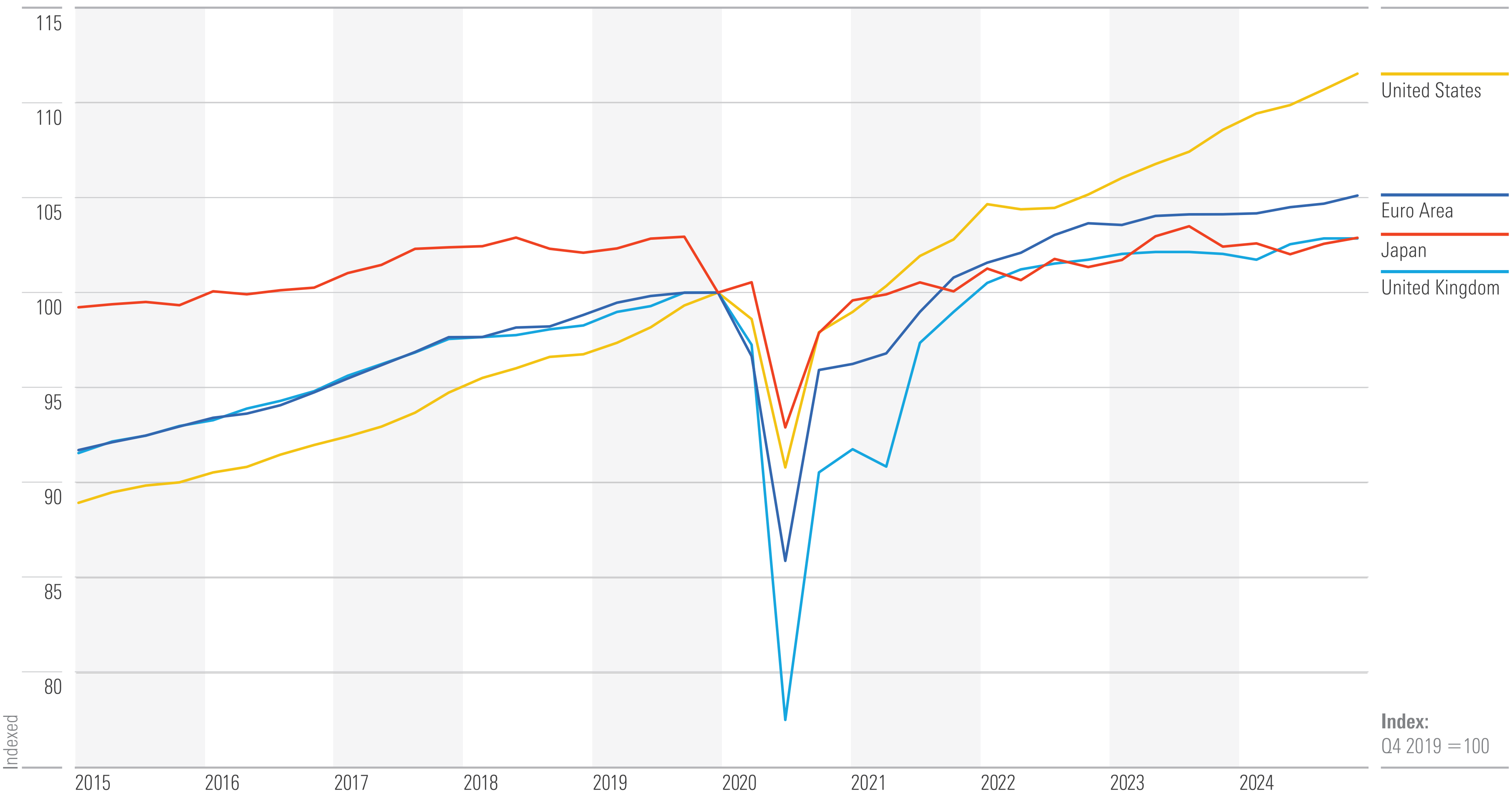
Source: Morningstar. Data as of Aug. 31, 2024. Includes US and Europe-domiciled open-end and exchange-traded funds. Excludes funds of funds, feeder funds, and money market funds.

Economic Indicators

US Economy Has Outperformed Since Start of Pandemic

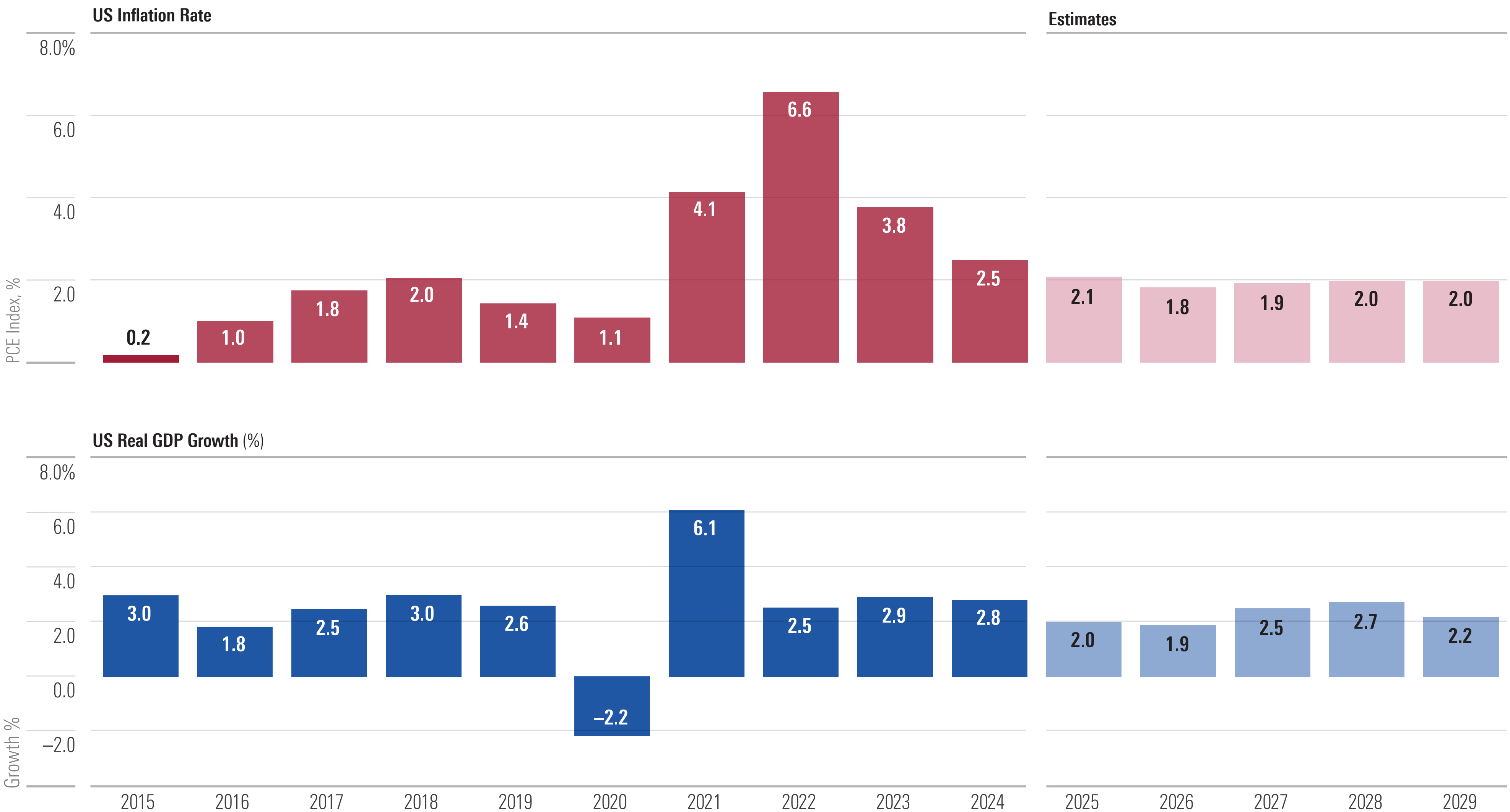
Over the period from the fourth quarter of 2019 through the third quarter of 2024, the US has grown at an annual rate of 2.3%, exceeding what most forecasters had projected on the eve of the pandemic. The US economy has soared past other major advanced economies over that time frame. Each of these economies is running near maximum output, so the causes of the divergence must be on the supply side. Productivity growth has been impressive in the US.

Real GDP for Selected Advanced Economies



US GDP Growth Will Trough in 2025-26 Before Recovering

We expect US gross domestic product growth to slow over the next year, owing to depleted household savings and other factors. The alleviation of supply constraints along with cooling demand is pushing inflation down, and we expect inflation about in line with the Federal Reserve's 2% target in 2025 and beyond. This should allow the Fed to continue to cut rates, triggering a GDP growth rebound in 2027 and following years.

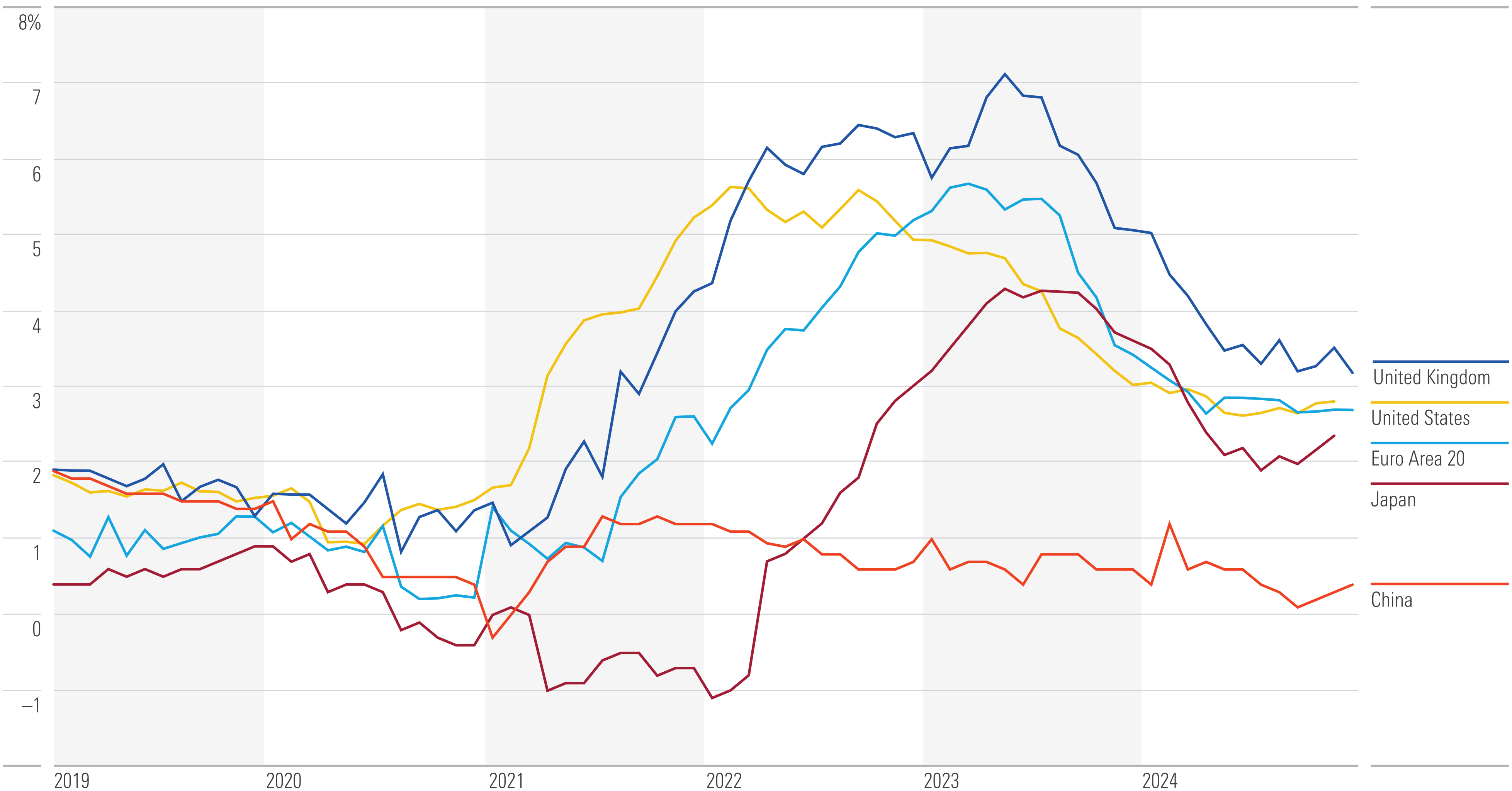


Source: US Bureau of Economic Analysis,

Inflation Is Marching Back to Normal

Core inflation for most major economies has receded greatly after peaking in 2022. We're not quite at the point to declare "mission accomplished" in the battle against high inflation, but it's very close. China could eventually transmit its low inflation to the rest of the world via expanded exports, though this is likely to run afoul of protectionist backlash. Alternatively, US tariff hikes could cause new inflation pressures to emerge.

Core Consumer Price Inflation (% Year Over Year)

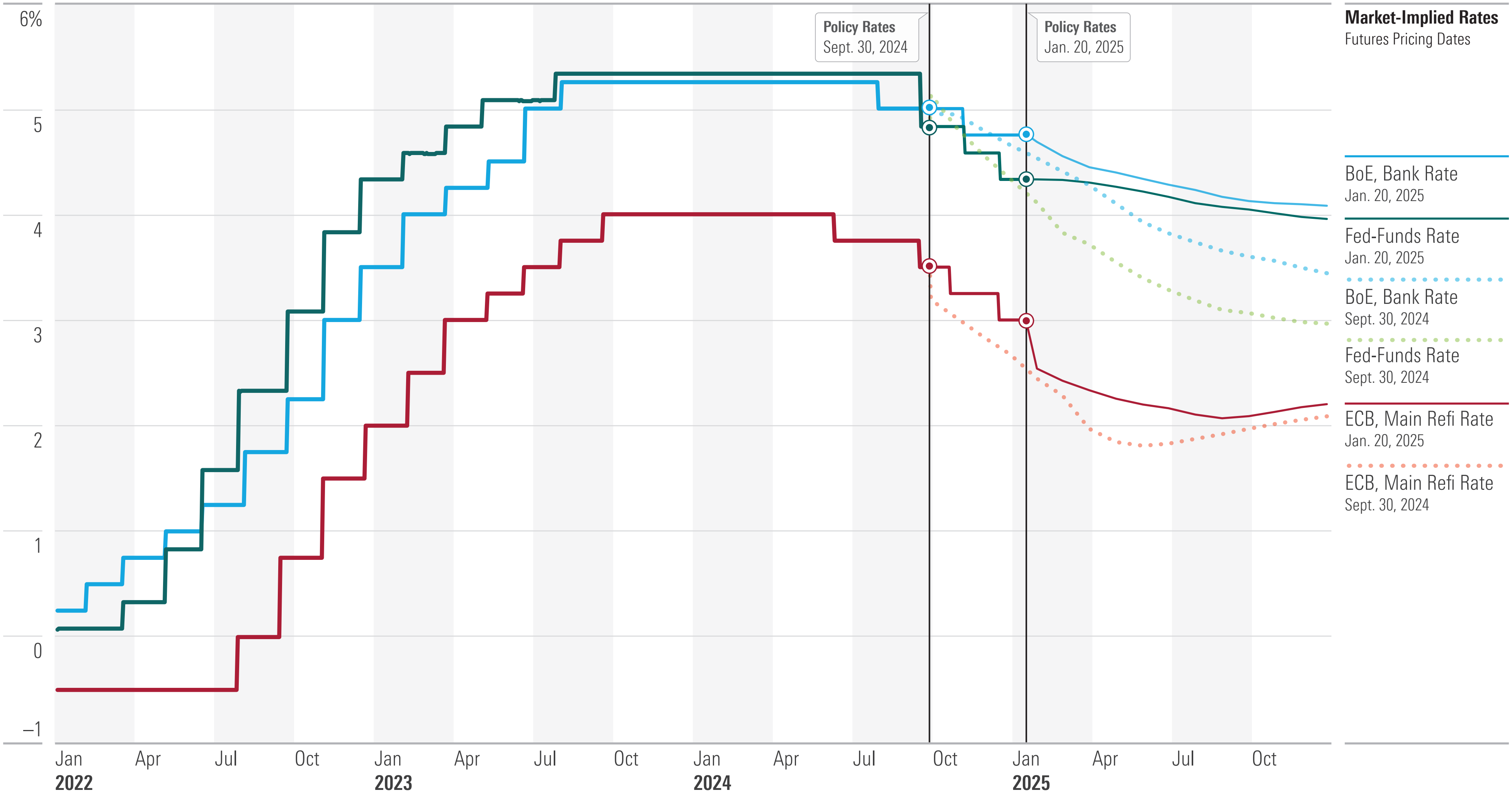


QEI246

Market Says Rate Cuts Almost Finished

The US federal-funds rate has been cut by 100 basis points since September 2024. The Bank of England and the European Central Bank also cut their key policy rates by 50 and 100 basis points, respectively, in 2024. However, market expectations for the paths of policy rates moved up in the closing months of 2024. In particular, investors now think the Federal Reserve is essentially finished with rate cuts, owing to continued strong GDP growth and other factors.

Fed, ECB, and BoE Market-Implied Paths of Policy Rates



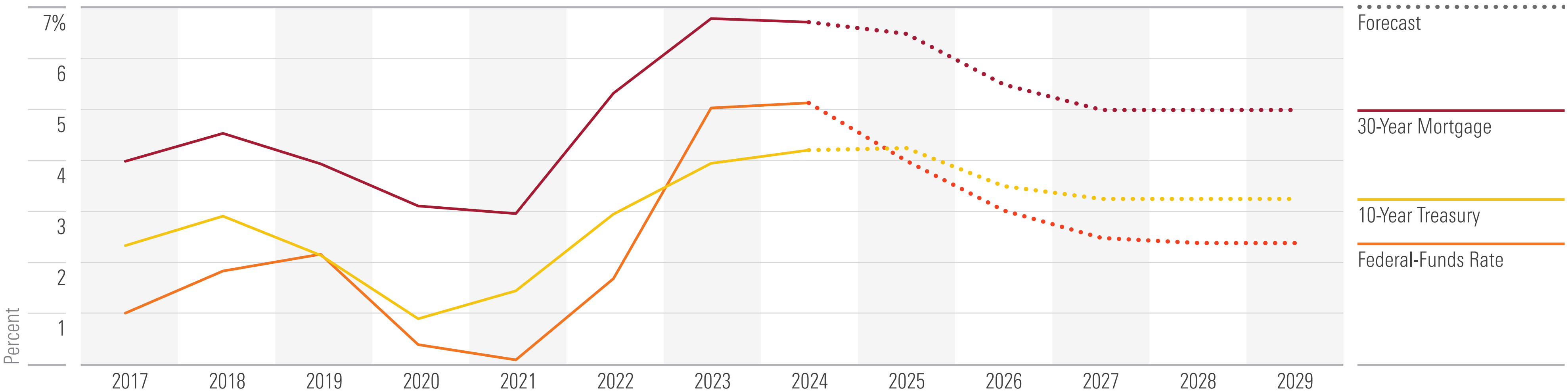
QEI213

Source: Macrobond.

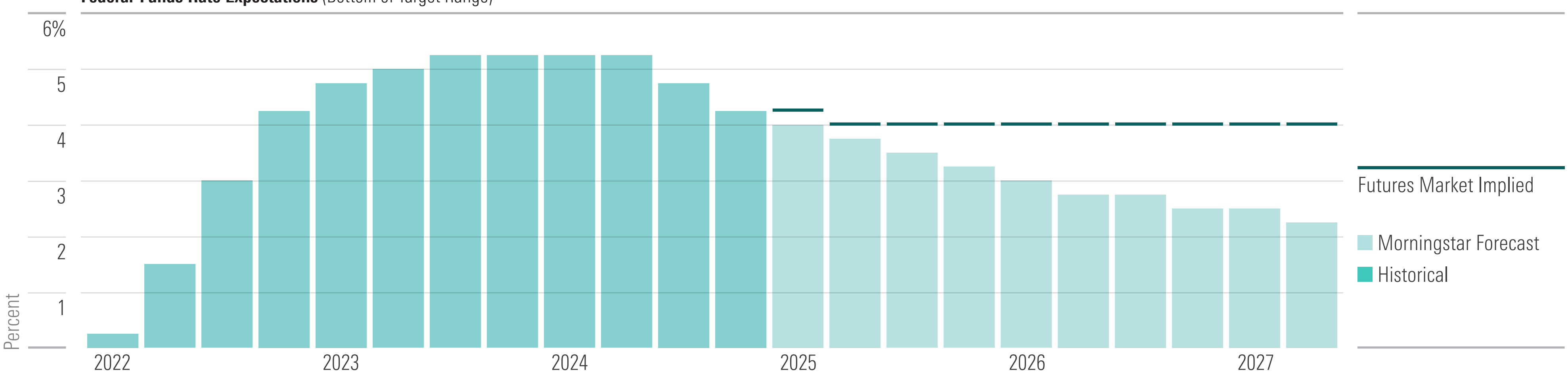
We Project US Interest Rates to Fall Lower Than Market Expects

Our forecasts for the federal-funds rate are well below market expectations, growing into a nearly 2-percentage-point gap by early 2027. Our optimism on inflation coming down is a key reason why we expect interest rates to fall faster than the market does. Also, we disagree with the emerging view that the neutral rate of interest has jumped compared with its prepandemic level. We expect the 10-year Treasury yield to reach 3.25% by 2027, down from 4.60% as of January 2025.

Interest-Rate Forecast (Annual Average)



Federal-Funds Rate Expectations (Bottom of Target Range)

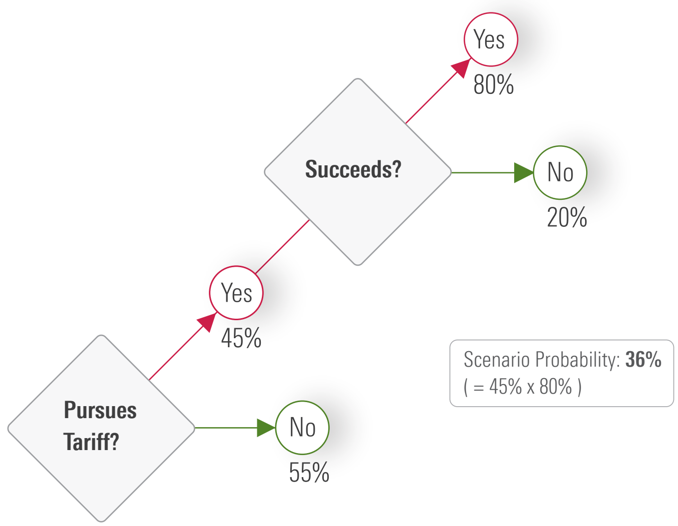


Higher Tariffs Could Reduce US Real GDP

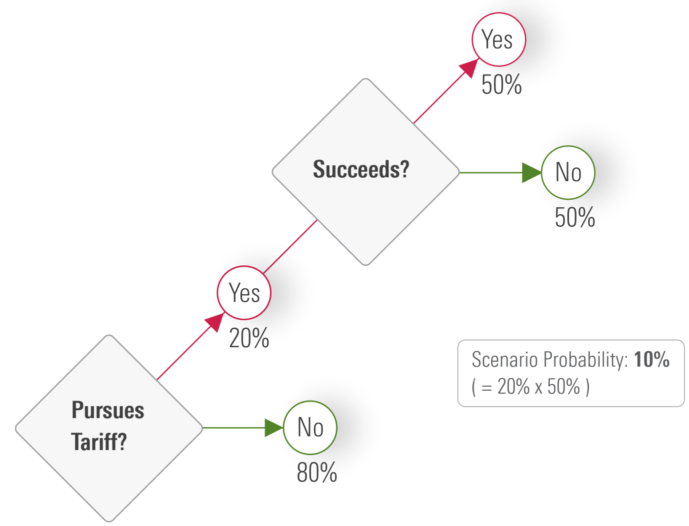
In contrast to most issues, US presidents can enact sweeping changes on trade without congressional approval. We estimate that President Donald Trump’s proposed tariff hikes would subtract 1.90% from the long-run level of US real GDP. Still, we think it’s more likely than not that Trump would back down from the threatened tariffs, particularly the 10% uniform hike. This leads to a probability-weighted impact of negative 0.32%. See our latest US Economic Outlook for further details.

Probability Trees

60% China Tariff Scenario



10% Uniform Tariff Hike Scenario

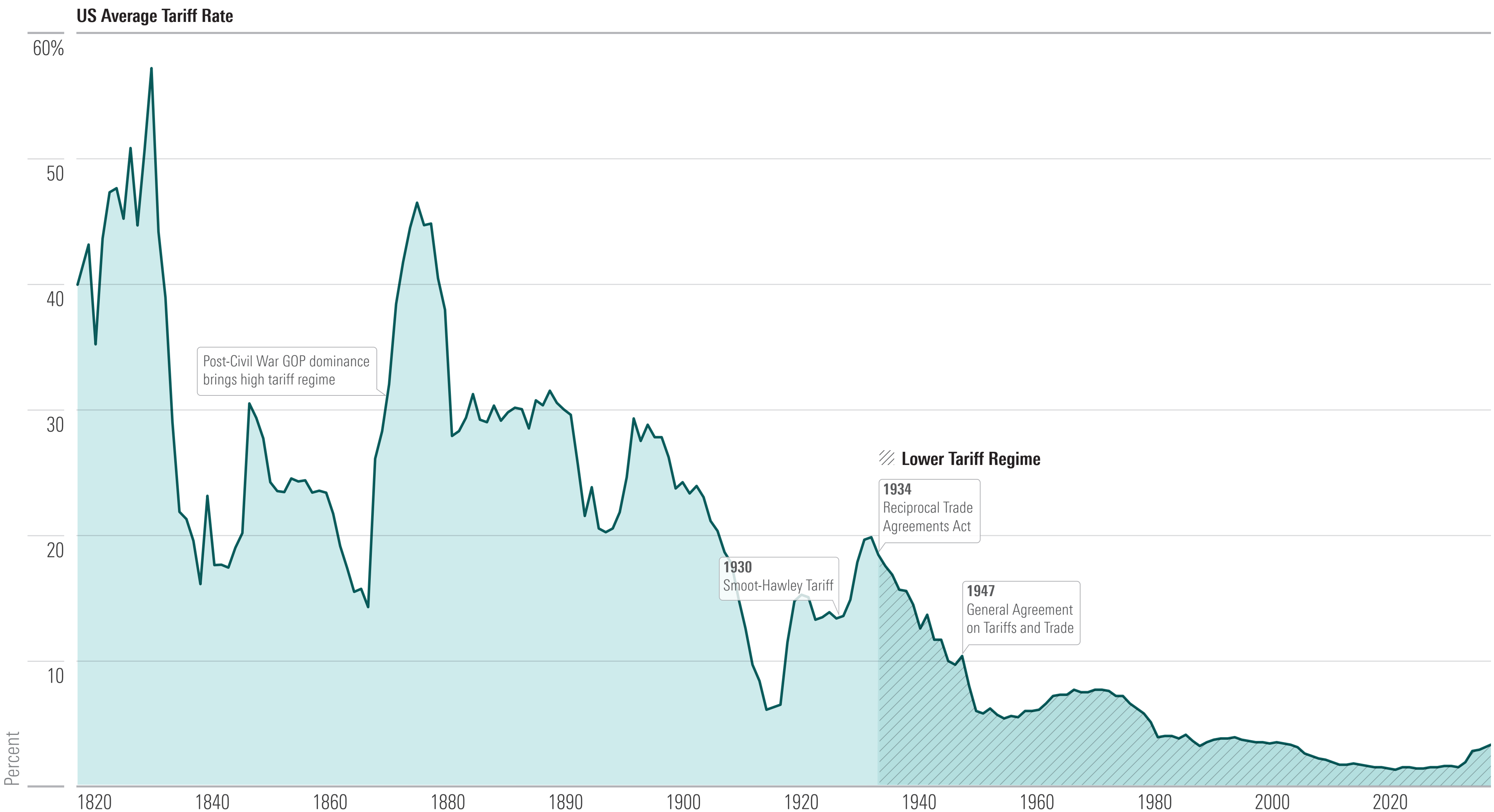


US GDP Impact of Tariff Hike Scenarios

	Impact (% GDP)	% Probability	Probability-Weighted Impact (% GDP)
10% Uniform Hike	1.40	10.00	0.14
60% on China	0.50	36.00	0.18
Total	1.90	—	0.32

High Tariffs Were Once the Norm for the US

Low tariff rates have been the standard for the US and most other major economies since the end of World War II, but that hasn't always been the case. From the second half of the 19th century to the early 20th, the US had very restrictive tariffs. One key lesson is that once tariffs are in place, they are very hard to dislodge, owing to vested interests and the need for unified control over government. Douglas Irwin's *Clashing Over Commerce* is an authoritative account of this history.

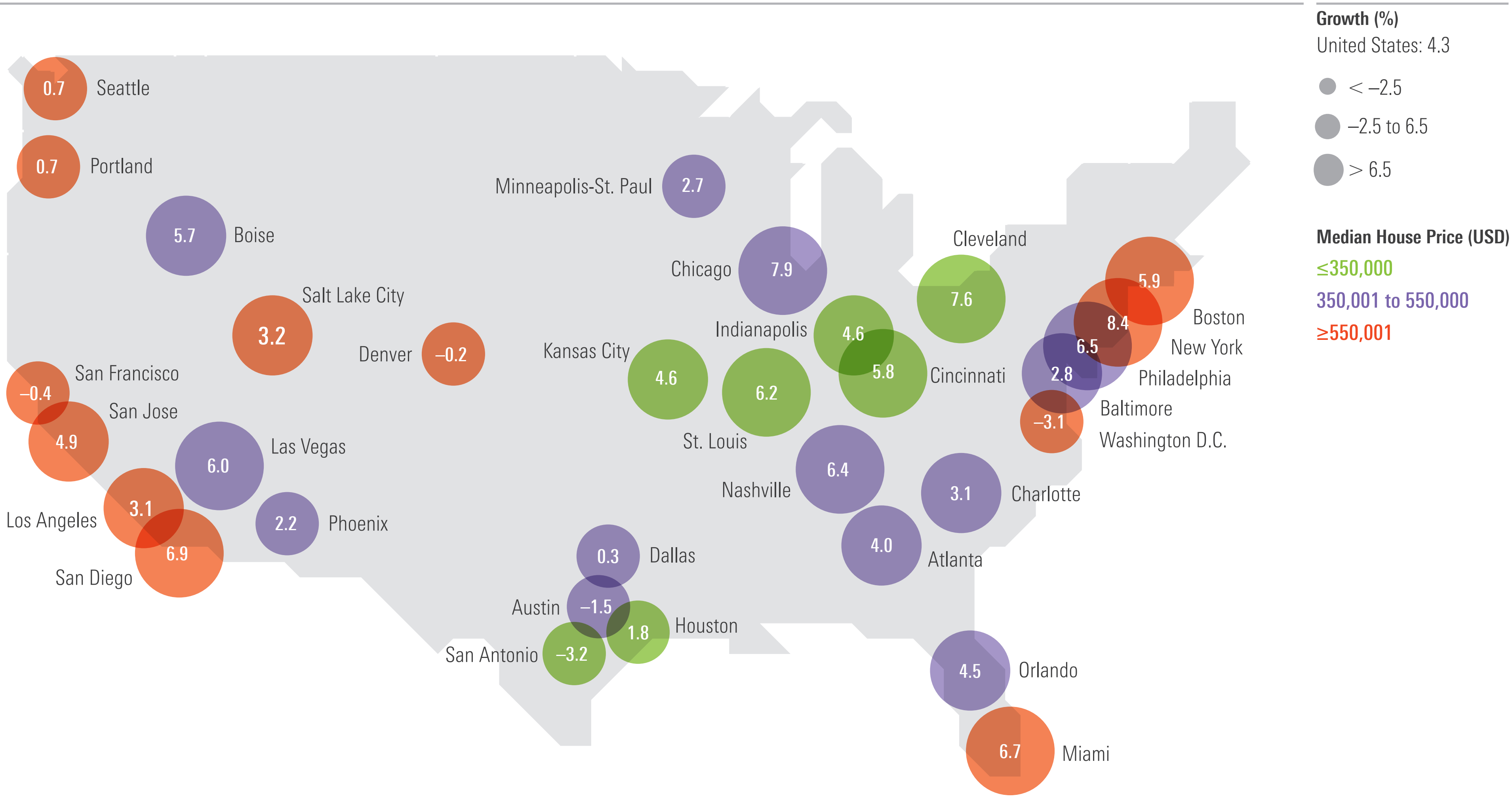


Source: US Census Bureau,

US Home Price Appreciation Running Hot Again

After a dip in 2022, housing price growth has been strong since mid-2023, and it stood at 4.3% year over year as of 2024's third quarter. Geographically, the gains are fairly broad-based. Price growth has been weaker in Texas markets, where supply is beginning to overtake demand thanks to vigorous building.

Year-Over-Year Price Growth Q3 2024

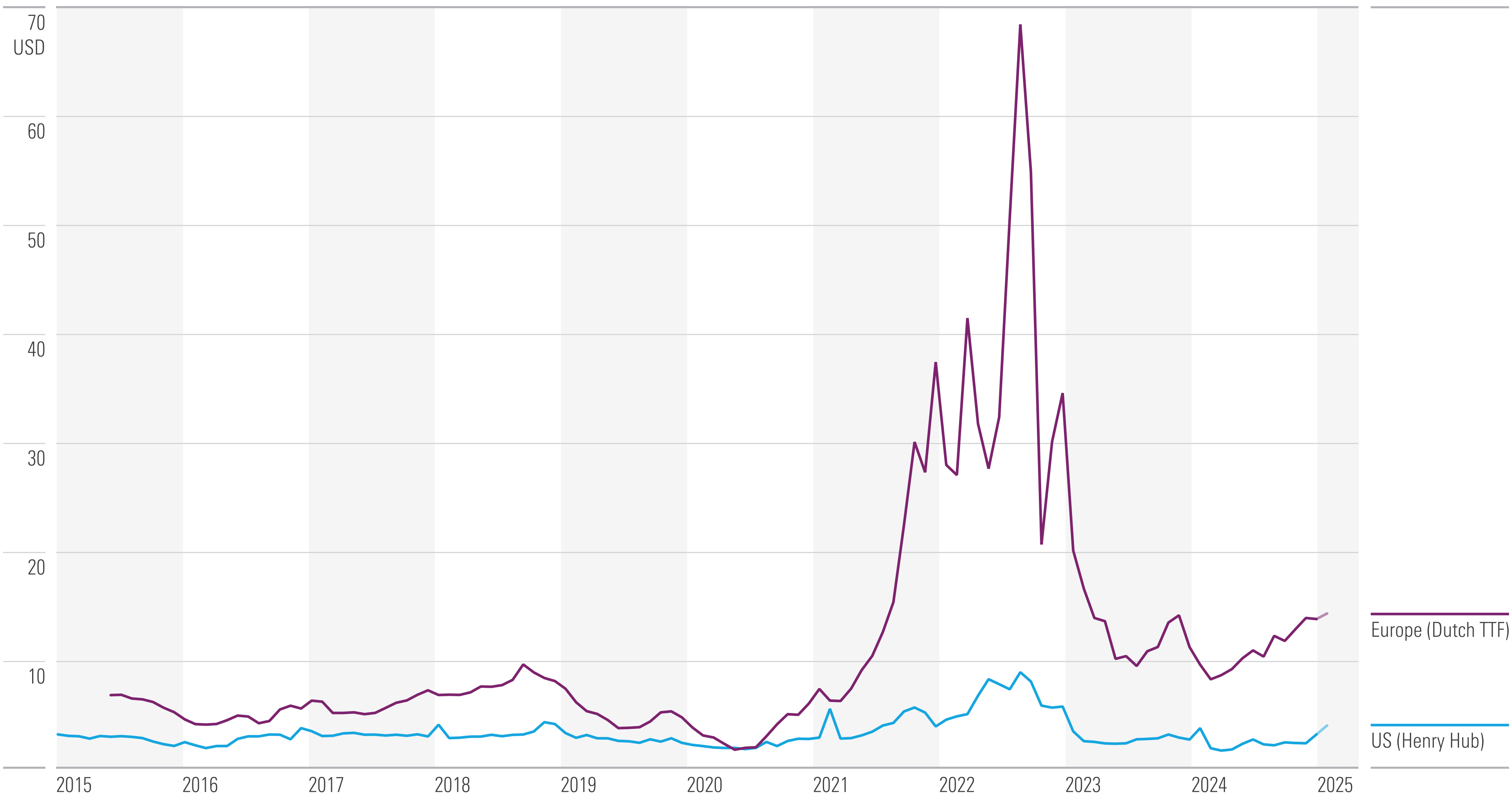


Source: National Association of Realtors, Federal Housing Finance Agency.

Strong Demand Propelling Natural Gas Prices

The International Energy Agency estimates that global natural gas consumption increased 2.8% in 2024 after having grown just 0.8% on average over 2020-23; that pushed up prices in 2024's second half. Natural gas prices remain far below the stratospheric heights seen in mid-2022. But prices in Europe and Asia are still more than double the 2015-19 average as increased liquified natural gas exports from the US and other producers have been insufficient to make up for lost Russian supply.

Global Natural Gas Prices (USD / Million Btu)



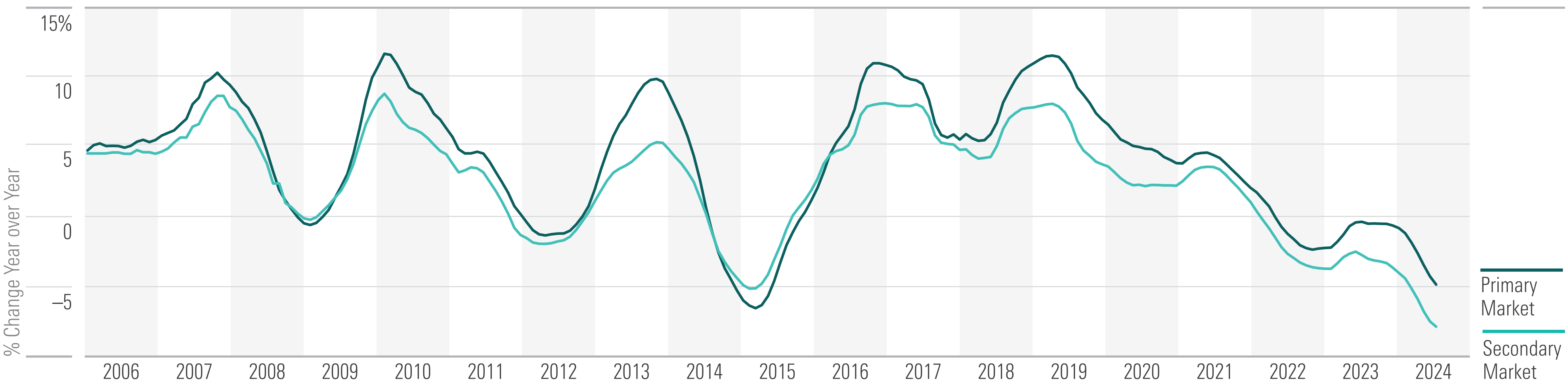
QEI257

Source: Macrobond, International Energy Agency.

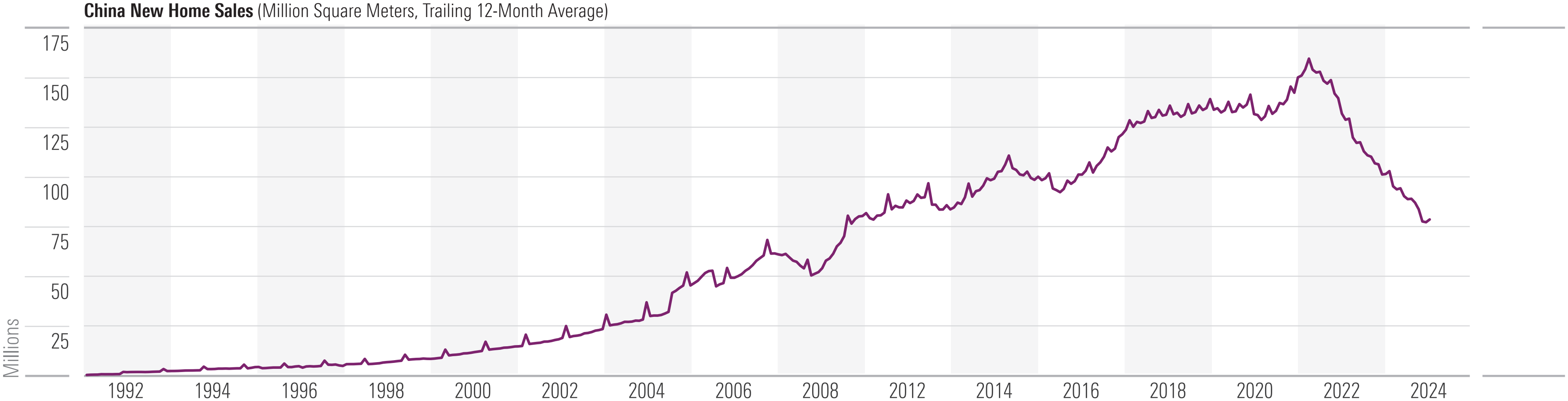
China's Real Estate Bust Continues

The unraveling of China's housing bubble continues, with new home prices down 5% year over year as of June 2024. Sales volumes of new properties have fallen to lows not seen in over a decade. After several years of restrictive policies to tame speculative excesses, policymakers are now scrambling to avoid a destabilizing bust. But interest-rate cuts and other supportive measures have been unable to offset the wave of negative sentiment.

China Home Price Growth (Year Over Year)



China New Home Sales (Million Square Meters, Trailing 12-Month Average)



Source: Macrobond, China National Bureau of Statistics.

Index and Disclosure

Index Definitions

The **Morningstar Style Index** family consists of 16 indexes that track the US equity market by capitalization and investment style to create an integrated system. The indexes were built using a comprehensive and nonoverlapping approach based on the methodology of Morningstar Style Box.

The **Morningstar Sector Index** family consists of 14 indexes—three Super Sector and 11 Sector indexes that track the US equity market using a consumption-based analysis of economic sectors in a comprehensive, nonoverlapping structure. The sector indexes are consumer defensive, healthcare, utilities, basic materials, consumer cyclical, financial services, real estate, communications services, energy, industrials, and technology.

The **Morningstar Global Equity indexes** offer a consistent view of global investment opportunities by applying the same rules for every market around the world. Covering 97% of stocks by market capitalization, the indexes encompass 45 countries in both developed and emerging markets. The index family is designed to work as an integrated system, allowing for meaningful global views across market capitalization and regions.

The **Morningstar Target Risk Index** family is designed to meet the needs of investors who would like to maintain a target level of equity exposure. The index family provides global equity market risk levels that are scaled to fit five equity market risk profiles: aggressive, moderately aggressive, moderate, moderately conservative, and conservative.

The **S&P 500 index** includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

The **Russell 2000 Index** measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

The **MSCI EAFE Index** captures the returns of large- and mid-cap equities across developed markets in Europe, Australasia, and the Far East, excluding the US and Canada.

The **MSCI Emerging Markets Index** captures the returns of large- and mid-cap equities across 23 emerging-markets countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

The **Bloomberg Commodity Index** represents 20 commodities, which are weighted for economic significance and market liquidity.

The **Bloomberg US Aggregate Bond Index** is a broad-based benchmark that measures the investment grade, US-dollar-denominated, fixed-rate taxable-bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and nonagency).

The **Bloomberg US 5–10 Year Corporate Bond Index** measures the investment return of US-dollar-denominated, investment-grade, fixed rate, taxable securities issued by industrial, utilities, and financial companies with maturities between five and 10 years.

The **BofA Merrill Lynch US High Yield Master II Index** tracks the performance of US-dollar-denominated below-investment-grade corporate debt publicly issued in the US domestic market. Qualifying securities must have a below-investment-grade rating (based on an average of Moody's, S&P, and Fitch).

The **Bloomberg Municipal Bond Index** measures the broad market for investment-grade, tax-exempt bonds with a maturity of at least one year.

The **JP Morgan EMBI Global Diversified Index** tracks the performance of dollar-denominated sovereign bonds issued by a selection of emerging-markets countries. The index limits the weights of countries with larger debt stocks by only including a specified portion of these countries' eligible current face amounts of debt outstanding.

The **London Fix Gold PM Index** is the price of gold per ounce at 15:00 GMT determined by the five members of the London Gold Pool.

The **Bloomberg Livestock Index** reflects the returns of an unleveraged investment in futures contracts on livestock commodities. The index consists of two commodity futures (lean hogs and live cattle).

The **Bloomberg Grains Index** reflects the returns of an unlevered investment in futures contracts on grains commodities. The index consists of three commodity futures (corn, soybeans, and wheat).

The **Bloomberg Precious Metals Index** reflects the returns of an unleveraged investment in futures contracts on precious-metals commodities. The index consists of two commodity futures (gold and silver).

The **Bloomberg Industrial Metals Index** reflects the returns of an unleveraged investment in futures contracts on industrial metals commodities. The index consists of four commodity futures (copper, aluminum, zinc, and nickel).

The **Bloomberg Energy Index** reflects the returns of an unleveraged investment in futures contracts on energy commodities. The index consists of five commodity futures (natural gas, WTI crude oil, Brent crude oil, unleaded gasoline, and heating oil).

The **Morningstar Long-Only Commodity Index** is a fully collateralized commodity futures index that is long all 20 eligible commodities and uses a dollar-weighted open interest weighting scheme.

The **Brent Crude Oil Index** tracks the spot price of Brent crude oil.

The **Morningstar US Market Index** covers the top 97% market capitalization of the US equity markets.

The **Morningstar Developed Ex US Index** captures the performance of the stocks located in the developed countries across the world. Stocks in the index are weighted by their float capital, which removes corporate cross ownership, government holdings, and other locked-in shares.

The **Morningstar Emerging Markets Index** captures the performance of the stocks located in the emerging countries across the world. Stocks in the index are weighted by their float capital, which removes corporate cross ownership, government holdings, and other locked-in shares.

The **Morningstar Core Bond Index** is a broad investment-grade index that includes the largest, most important sectors of the investment-grade US bond market. The index is composed of the Morningstar US Government Bond, US Corporate Bond, and US Mortgage Bond indexes.

The **Morningstar Intermediate US Government Bond Index** includes US Treasury and US government agency bonds with maturities between four and seven years. The Morningstar Intermediate Corporate Bond Index includes US corporate bonds with maturities of between four and seven years.

The **Morningstar US Corporate Bond Index** includes US corporate bonds with maturities of more than one year and at least USD 500 million outstanding.

The **Morningstar Short-Term Core Bond Index** includes all bonds in the Morningstar Core Bond Index that have maturities between one and four years.

The **Morningstar Emerging Markets Composite Bond Index** includes the most liquid sovereign and corporate bonds issued in US dollars by the governments and corporations of the most prominent emerging markets.

The **Morningstar US Mortgage Bond Index** tracks approximately 98% of the fixed-rate mortgages issued by Ginnie Mae, Fannie Mae, and Freddie Mac.

The **Morningstar Long-Term US Government Bond Index** includes US Treasury and US government agency bonds with maturities of seven years or longer.

The **Morningstar Long-Term Corporate Bond Index** includes US corporate bonds with maturities of seven years or longer.

The **Bloomberg US Corporate High Yield Index** represents the universe of fixed-rate, non-investment-grade debt.

The **Bloomberg US Corporate High Yield ex-Energy Index** represents the universe of fixed rate, non-investment-grade debt not in the energy sector.

The **Bloomberg US Treasury 7-10 Year Bond Index** measures the performance of US Treasury securities that have a remaining maturity of at least seven years and less than 10 years.

The **Bloomberg US Treasury 20+ Year Bond Index** represents the performance of US Treasury securities that have a remaining maturity of greater than 20 years.

The **Bloomberg Emerging Markets Local Currency Broad Bond Index** represents the performance of the sovereign, local-currency bond markets of emerging-markets countries. The Barclays Municipal Bond Index is representative of the broad market for investment-grade, tax-exempt bonds with a maturity of at least one year.

The **Citigroup WGBI Non-USD 5+ Year Bond Index** measures the performance of fixed-rate, local-currency, investment-grade sovereign bonds. It comprises debt from over 20 countries.

The **S&P/LSTA Leveraged Loan Index** tracks the universe of syndicated leveraged loans.

The **MSCI China A Local Currency Index** captures large- and mid-cap equities listed on the Shanghai and Shenzhen exchanges.

Disclosures

Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. The information, data, analyses, and opinions presented herein do not constitute investment advice, are provided solely for informational purposes, and therefore are not an offer to buy or sell a security or invest in a specific asset class or strategy. An investment cannot be made directly in an index. The data assumes reinvestment of all income and does not account for taxes or transaction costs. Diversification does not eliminate the risk of experiencing investment losses. Holding a portfolio of securities for the long-term does not ensure a profitable outcome, and investing in securities always involves risk of loss.

Risk and return are measured by standard deviation and compound annual return, respectively. Standard deviation measures the fluctuation of returns around the arithmetic average return of the investment. The higher the standard deviation, the greater the variability (and thus risk) of the investment returns.

Stocks are not guaranteed and have been more volatile than the other asset classes.

Small-company stocks are more volatile than large-company stocks and are subject to significant price fluctuations, business risks, and are thinly traded.

Government bonds and Treasury bills are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest. Bonds in a portfolio are typically intended to provide income and/or diversification. US government bonds may be exempt from state taxes and income is taxed as ordinary income in the year received. With government bonds, the investor is a creditor of the government.

With **corporate bonds**, an investor is a creditor of the corporation and the bond is subject to default risk. Corporate bonds are not guaranteed.

High-yield corporate bonds exhibit significantly more risk of default than investment grade corporate bonds.

Only insured **municipal bonds** are guaranteed as to the timely payment of principal and interest by issuer. However, insurance does not eliminate market risk. A municipal-bond investor is a creditor of the issuing municipality and the bond is subject to default risk. Municipal bonds may be subject to the alternative minimum tax (AMT) and state and local taxes, and federal taxes would apply to any capital gains distributions.

International bonds are not guaranteed. With international bonds the investor is a creditor of a foreign government or corporation. International investments involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, liquidity risks, and differences in accounting and financial standards.

International stocks involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, liquidity risks, and differences in accounting and financial standards. Liquidity is typically lower in emerging markets than in developed markets. The risk of principal and return may be significantly greater than that of other developed international markets.

Sector investments are narrowly focused investments that typically exhibit higher volatility than the market in general. Sector investments will fluctuate with current market conditions and may be worth more or less than the original cost upon liquidation.

Growth and value stocks: Although value stocks have outperformed growth stocks, please keep in mind that each type of stock carries unique risks which include, but are not limited to, economic risk, market risk, company risk, and strategy risk.

Gold/commodities investments will be subject to the risks of investing in physical commodities, including regulatory, economic and political developments, weather events, natural disasters, and market disruptions. Exposure to the commodities markets may subject the investment to greater volatility than investments in more traditional securities, such as stocks and bonds.

Holders of **preferred stock** are usually guaranteed a dividend payment and their dividends are always paid out before dividends on common stock. In event that the company fails, there's a priority list for a company's obligations, and obligations to preferred stockholders must be met before those to common stockholders. On the other hand, preferred stockholders are lower on the list of investors to be reimbursed than bondholders are.

Mutual funds are sold by prospectus, which can be obtained from your financial professional or the company and which contains complete information, including investment objectives, risks, charges and expenses. Investors should read the prospectus and consider this information carefully before investing or sending money.

Holding an exchange-traded fund does not ensure a profitable outcome and all investing involves risk, including the loss of the entire principal. Since each ETF is different, investors should read the prospectus and consider this information carefully before investing. The prospectus can be obtained from your financial professional or the ETF provider and contains complete information, including investment objectives, risks, charges and expenses. ETF risks include, but are not limited to, market risk, market trading risk, liquidity risk, imperfect benchmark correlation, leverage, and any other risk associated with the underlying securities. There is no guarantee that any fund will achieve its investment objective. In addition to ETF expenses, brokerage costs apply. Fees are charged regardless of profitability and may result in depletion of assets.

Credit/default risk: Debt securities are subject to credit/default risk, which is the risk associated with the issuer failing to meet its contractual obligations either through a default or credit downgrade.

Interest-rate risk: Debt securities have varying levels of sensitivity to changes in interest rates. In general, the price of a debt security tends to fall when interest rates rise and rise when interest rates fall. Securities with longer maturities and mortgage securities can be more sensitive to interest rate changes.

This publication contains certain forward-looking statements which involve known and unknown risks, uncertainties, and other factors that may cause the actual results to differ materially from any future results expressed or implied by those projected statements. Past performance does not guarantee future results.

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