FOURTH QUARTER 2024

SEI *Forward.*

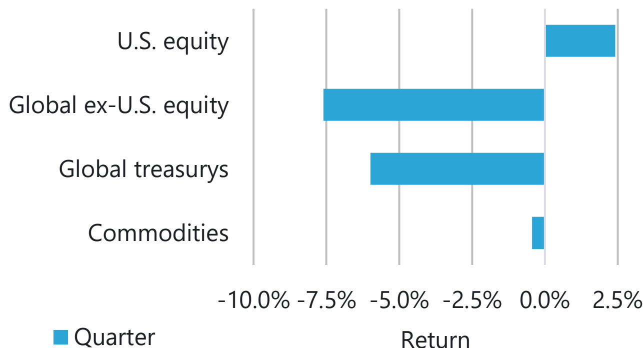
James Smigiel
Chief investment officer

Year in review

Global investors weathered quite a year in 2024, including global central bank pivots to easy monetary policy, voter pivots to opposition parties, rapidly rising national debt levels, and escalating geopolitical strife. Markets responded with solid returns for risk assets as monetary stimulus was added to the fiscal stimulus punch bowl. Fixed-income returns struggled, with rising longer-term yields fostered by stubborn inflation and swelling government debt. Precious metals and cryptocurrencies were notable performers on heightened demand from central banks and retail investors, respectively, while familiar themes repeated themselves—including another banner year for the Magnificent 7 in the U.S. and another disappointing (if not slightly encouraging) year for Chinese stimulus expectations. Lastly, investors were treated to a lump of coal from U.S. policy-makers in December, as the Federal Reserve (Fed) took a hawkish turn, calling into question the future path of policy rates in the world's largest economy.

With that highly abridged look back, let us turn our attention to 2025 and the road that lies ahead. Last year at this time, we expressed our contrarian market views that inflation would remain stubborn instead of subdued and that longer-term interest rates were likely to increase rather than follow central bank policy rates lower. This year, we find ourselves in a somewhat uncomfortable position of being *in consensus* with market expectations...at least in part. After two consecutive years of strong equity returns, most market strategists are predicting more of the same in 2025. Our view is slightly more nuanced, as we do find ourselves broadly positive on risk assets (both equities and credit) yet also keenly aware of the potential challenges in the coming year.

Tales of the tape*



Source: Bloomberg, SEI as of 12/31/24.
Past performance does not guarantee future results.
Returns in USD unless otherwise noted.

Notables for the quarter

- **Emerging equity:** Down 8% on tariff concerns.
- **Bitcoin:** Up over 45% on new U.S. administration favorable to crypto.
- **Tesla:** Gained 54%, boosted by Elon Musk's relationship with new U.S. administration.
- **U.S. 10-Year Treasury yield at 4.6%:** Stronger data and a hawkish Fed push interest rates up about 80 basis points.

© 2025 SEI®

Balancing act

We believe that the relatively robust state of the global economy, particularly in the U.S., combined with continued monetary stimulus measures from central banks around the world, will be enough to keep the rally going into the New Year. However, we say "in part" given what we also see as a precarious balancing act for global markets in 2025. Investors will need to weigh pros and cons on several fronts, including:

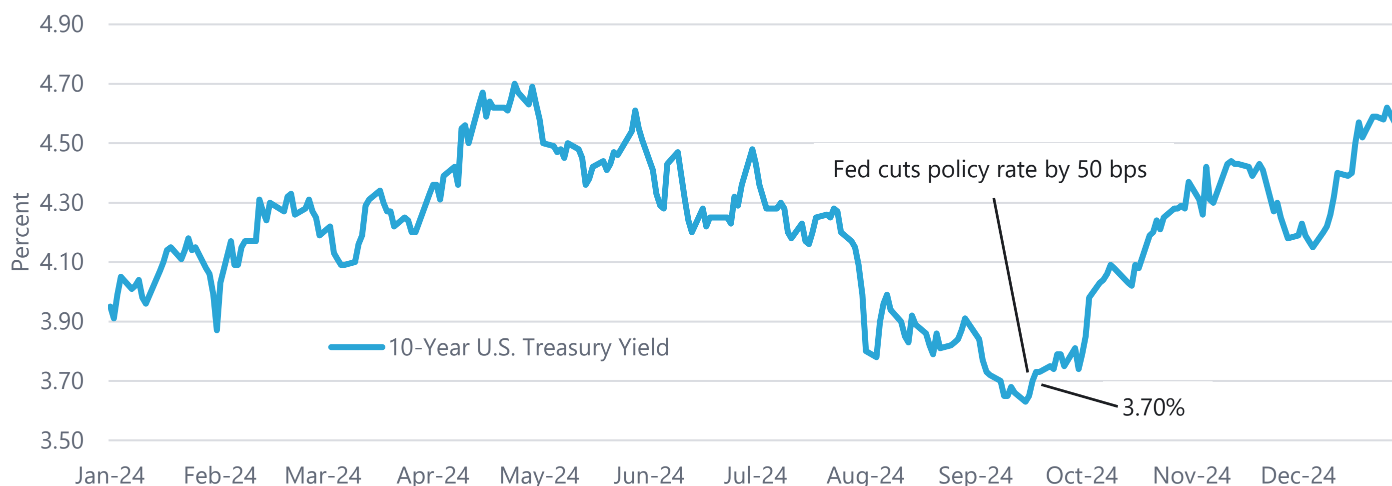
- Higher earnings from less regulation and lower corporate taxes versus higher inflation from tariffs and immigration policies.
- Easy monetary and fiscal policies boosting risk assets in underperforming economies versus stimulus measures leading to higher interest rates in outperforming countries.
- Austerity efforts leading to meaningful long-term reform versus tax cuts and inertia failing to alter the current growth rate in government debt.
- Policy changes lessening pressures on commodity prices versus escalating global conflicts and trade wars keeping prices and volatility high.
- Broadening earnings supporting higher equity valuations in the U.S. versus lofty earnings expectations setting the bar too high for elevated price/earnings multiples.

Our trepidation is due to our own weighing exercise and what we see as too many potential outcomes leading to a reacceleration in inflation and higher long-term interest rates.

Guide for '25

The bond market seems to share our concerns, as long-term U.S. yields have *risen* roughly 90 basis points since the Fed pivoted to lower interest rates with a surprising 50-basis-point cut in mid-September of 2024. Equity markets began to pay attention into year-end as yields rebounded from a post-election rally. In short, we think inflationary pressures and higher interest rates can potentially spoil the risk-rally party. The yield on the 10-year U.S. Treasury is *our guide for 2025*. We will get concerned about equity markets once the yield reaches 5%, as tighter financial conditions may begin to weigh on growth prospects.

Exhibit 1: Will higher yields spoil the party?



Source: Federal Reserve Economic Data, Federal Reserve Bank of St. Louis, January 1, 2024 to December 31, 2024.

Within equities, we continue to expect a broadening of participation in the rally. Earnings have surprised to the upside and have shown strength outside of big tech, while lower taxes and less regulation should be a bigger boost to mid- and small-sized companies. In addition, markets outside of the U.S. are far from priced to perfection as both earnings expectations and valuation multiples have more room to move higher. We expect additional stimulus from the European Central Bank given weakness in the core of Europe and further efforts from China to find the right mix of both fiscal and monetary stimulus measures.

Not surprisingly, we maintain our strategic recommendations for investors to stay diversified globally and focus on profitable companies with strong earnings momentum trading at reasonable prices. Given our views on the likelihood of higher interest rates and heightened volatility, we continue to lean into **value** and **active management** across our equity strategies. We favor sectors such as financials, industrials, and staples.

© 2025 SEI®

Within fixed-income markets, we remain cautious on interest rates and sanguine on credit. We believe the Fed is still biased toward lower rates (although we may see a pause in early 2025) despite core consumer price index and gross domestic product readings both above 3%. In addition, the reality of tariffs and immigration reforms may add additional fuel to the inflation fire early in the year. Therefore, given our outlook for higher long-term interest rates, we see headwinds for fixed-income returns. On a more positive note, while credit spreads have limited room to tighten, absolute yields remain attractive, defaults remain low, and maturities have been extended. Carry strategies in high-yield bonds and collateralized loan obligations (CLOs) should perform well.

Commodities represent a mixed bag for 2025. The energy complex could buck the inflationary trend on increased supply, while precious metals should benefit from central bank demand. We remain overweight, but cautious, in this space as an inflation hedge.

Currencies could exhibit some notable moves in 2025 as monetary policy divergences and protectionist saber-rattling will likely increase volatility. While the U.S. dollar (USD) appears overvalued, it should remain in a strong position in the short term on interest rate differentials alone. The Japanese yen managed to finish 2024 substantially weaker on slower-than-expected policy responses to inflationary pressures but looks undervalued. The euro has weakened in response to a lagging economy and could test parity with the USD in early 2025.

We wish all our *Forward* readers a prosperous and happy New Year.

Summary views

Macro/Cross-asset	• Inflation risks are biased to the upside on monetary stimulus and protectionist policies. • Monetary policy is likely to diverge in the New Year, with Europe and China continuing to add stimulus while the Fed pauses early in 2025. • Government debt levels will continue to put upward pressure on interest rates. • The USD should continue to outperform in the short term. • Commodities remain an attractive inflation hedge.
Equity	• Diversity in equity markets remains a focus, particularly in capitalizations and countries. • Strategic holdings in value, quality, and momentum; emphasis on value. • Active management should benefit from reflation, particularly in U.S. large-cap stocks. • We remain cautious, but optimistic in China and emerging equity.
Fixed income	• Higher 10-year yields in the U.S. • Positioned for a continued steepening in the U.S. yield curve. • Remain defensively positioned in credit. Favor securitized versus corporate debt. • Absolute yields in high yield and CLOs remain attractive.

Indexes

*Tales of the tape: U.S. equity: S&P 500 Index; Global ex-U.S. equity: MSCI ACWI ex-U.S. Index; Global Treasurys: Bloomberg Global Treasury Index; Commodities: Bloomberg Commodity Index.

Indexes definitions

The **Bloomberg Commodity Index** comprises futures contracts and tracks the performance of a fully collateralized investment in the index. This combines the returns of the index with the returns on cash collateral invested in 13-week (three-month) U.S. Treasury bills.

The **Bloomberg Global Treasury Index** tracks fixed-rate, local currency government debt of investment grade countries, including both developed and emerging markets.

The **MSCI ACWI ex USA Index** tracks the performance of both developed-market and emerging market countries, excluding the United States.

The **S&P 500 Index** is a market-weighted index that tracks the performance of the 500 largest publicly traded U.S. companies and is considered representative of the broad U.S. stock market.

© 2025 SEI®

Glossary

A **basis point** equals .01%.

A **carry trade** involves borrowing at a low interest rate and then investing in an asset with a higher interest rate.

Collateralized loan obligations (CLOs) are securities that have been created by pooling smaller high-yielding fixed income assets such as bank loans. These pools are then packaged into various tranches (a slice or portion of a structured security) according to credit quality, maturity, etc.

Momentum is a trend-following investment strategy that is based on acquiring assets with recent improvement in their price, earnings, or other relevant fundamentals.

Quality comprises a long-term buy-and-hold strategy that is based on acquiring shares of companies with strong and stable profitability with high barriers of entry (factors that can prevent or impede newcomers into a market or industry sector, thereby limiting competition).

Risk assets, such as equities, commodities, high-yield bonds, real estate, and currencies, carry a degree of risk and generally are subject to significant price volatility.

Value is an investment strategy that is based on acquiring assets at a discount to their fair valuations. Mean reversion is a theory that prices and returns eventually move back towards their historical average.

Important information

Index returns are for illustrative purposes only and do not represent actual investment performance. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events or a guarantee of future results.

Statements that are not factual in nature, including opinions, projections and estimates, assume certain economic conditions and industry developments and constitute only current opinions that are subject to change without notice. Nothing herein is intended to be a forecast of future events, or a guarantee of future results.

Certain economic and market information contained herein has been obtained from published sources prepared by other parties, which in certain cases have not been updated through the date hereof. While such sources are believed to be reliable, neither SEI nor its affiliates assumes any responsibility for the accuracy or completeness of such information and such information has not been independently verified by SEI.

There are risks involved with investing, including loss of principal. The value of an investment and any income from it can go down as well as up. Investors may get back less than the original amount invested. Returns may increase or decrease as a result of currency fluctuations. Past performance is not a reliable indicator of future results. Investment may not be suitable for everyone.

This material is not directed to any persons where (by reason of that person's nationality, residence or otherwise) the publication or availability of this material is prohibited. Persons in respect of whom such prohibitions apply must not rely on this information in any respect whatsoever.

The information contained herein is for general and educational information purposes only and is not intended to constitute legal, tax, accounting, securities, research or investment advice regarding the strategies or any security in particular, nor an opinion regarding the appropriateness of any investment. This information should not be construed as a recommendation to purchase or sell a security, derivative or futures contract. You should not act or rely on the information contained herein without obtaining specific legal, tax, accounting and investment advice from an investment professional.

The views contained herein are not to be taken as advice or a recommendation to buy or sell any investment in any jurisdiction. Our outlook contains forward-looking statements that are judgments based upon our current assumptions, beliefs and expectations. If any of the factors underlying our current assumptions, beliefs or expectations change, our statements as to potential future events or outcomes may be incorrect. We undertake no obligation to update our forward-looking statements.

The opinions and views in this commentary are of SIEL only and are subject to change. They should not be construed as investment advice.

This information is issued by SEI Investments (Europe) Limited (SIEL) 1st Floor, Alphabeta, 14-18 Finsbury Square, London EC2A 1BR, United Kingdom. SIEL is authorised and regulated by the Financial Conduct Authority (FRN 191713).

© 2025 SEI®

This commentary is intended for information purposes only and the information in it does not constitute financial advice as contemplated in terms of the Financial Advisory and Intermediary Services Act.

SEI sources data directly from FactSet, Lipper, and BlackRock unless otherwise stated.

The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

This document has not been registered by the Registrar of Companies in Hong Kong. In addition, this document may not be issued or possessed for the purposes of issue, whether in Hong Kong or elsewhere, and the Shares may not be disposed of to any person unless such person is outside Hong Kong, such person is a "professional investor" as defined in the Ordinance and any rules made under the Ordinance or as otherwise may be permitted by the Ordinance.

This information is made available in Latin America, the Middle East, the Nordics, and Australia FOR PROFESSIONAL (non-retail) USE ONLY by SIEL.

Any questions you may have in relation to its contents should solely be directed to your Distributor. If you do not know who your Distributor is, then you cannot rely on any part of this document in any respect whatsoever.

SIEL is not licensed under Israel's Regulation of Investment Advising, Investment Marketing and Portfolio Management Law, 5755-1995 (the "Advice Law") and does not carry insurance pursuant to the Advice Law. No action has been or will be taken in Israel that would permit a public offering or distribution of the SEI Funds mentioned in this email to the public in Israel. This email and any of the SEI Funds mentioned herein have not been approved by the Israeli Securities Authority (the "ISA").

Issued in South Africa by SEI Investments (South Africa) (Pty) Limited FSP No. 13186 which is a financial services provider authorised and regulated by the Financial Sector Conduct Authority (FSCA). Registered office: 3 Melrose Boulevard, 1st Floor, Melrose Arch 2196, Johannesburg, South Africa.

© 2025 SEI®