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CLA Outlook 2025

Creating Opportunity in Today's Environment

December 4, 2024

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CLA's Approach to Economic and Market Analysis

Our outlook uses the mosaic theory to formulate opinions and insights about general economic activity and the relative value of various investment options.

The **big macroeconomic drivers** of our mosaic are defined as:

- **Consumer finances** — Analysis of household spending, borrowing, and saving decisions made over time.
- **Business conditions** — Analysis of profitability, business optimism, inventory management, etc.
- **Labor market** — Analysis of unemployment, wage gains, nonfarm payrolls, and job openings, etc.
- **Federal Reserve policy** — Analysis of the federal funds rate and the Federal Reserve balance sheet.
- **Fiscal policy** — Analysis of government taxes, spending, and regulation.

When analyzing **financial markets**, our mosaic compares current valuations to **historic values**, tempered by current and expected macroeconomic conditions, specific to:

- **Equity markets** — Publicly-traded equities, large-, mid-, and small cap, as well as developed and emerging international markets.
- **Fixed income markets** — Publicly-traded government, corporate, and mortgage debt.
- **Private markets** — Credit, real estate and equity funds, generally formed as partnerships or LLCs.

Mosaic theory

- *A financial analyst gathers and interprets large quantities of information from many sources.*
- *Analysts seek and use such information to compare and contrast investment alternatives.*
- *Analysts are in the business of formulating opinions and insights that are not obvious to the general investing public about the attractiveness of particular securities.*

Source: Excerpts from CFA Institute, *Standards of Practice Guidance*



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Economy

While CLA does not see a recession, an incremental slowdown is likely as high interest rates impact activity and sentiment.

Key Takeaways

Policy

Expect continued political and regulatory change given the sunset of the Tax Cuts and Jobs Act and new presidential administration.

Industry

CLA sees more industry differentiation given elevated interest rates and an aging demographic will lead to more business transitions.

Markets

Diversified portfolios can navigate elevated volatility and valuations – after taxes and expenses.





Current Economic Conditions



Current Economic Conditions - Snapshot

Strong overall

Current Conditions - Overall

- Economic Growth

GDP was strong at +2.8% in 3Q24.

Consumer Strength

- Income/Spending
- Consumer Finances

Consumer spending and balance sheets remain strong.

Business Conditions

- Earnings Growth
- Profit Margins
- ISM Purchasing Managers Index®
- Small Business Confidence

Large cap stocks have generated strong earnings growth. Small business owners are worried about rising costs and their inability to fill open positions. More firms are reducing inventories.

Labor

- Unemployment Rate
- Wage Gains
- Number of Job Openings

Labor markets remain strong, although there is an intense focus on automation using artificial intelligence.

Fed Policy

- Interest Rates
- Inflation
- Fed's Balance Sheet

The Fed has increased interest rates and reduced its balance sheet to dry up excess liquidity and fight inflation.

Fiscal Policy

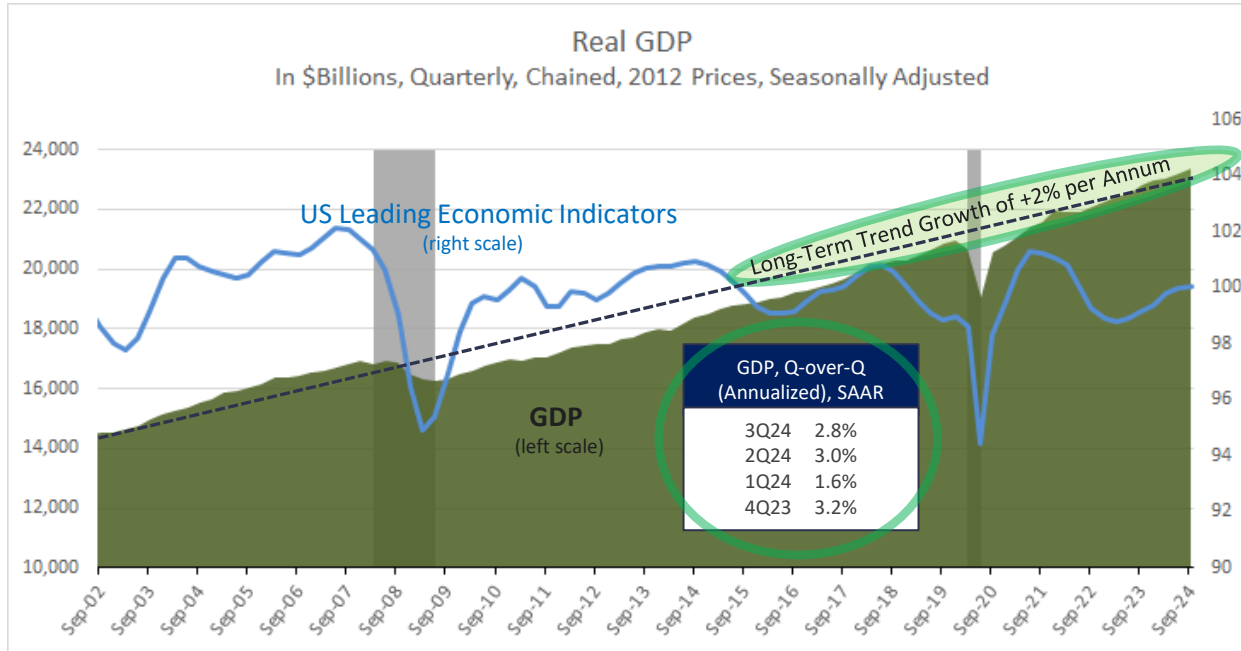
- Spending
- Taxes
- Regulatory Environment

Government spending has helped maintain economic growth but rising deficits and increasing regulation are a concern.



Macroeconomic Overview Shows a Resilient Economy

GDP has defied all recessionary expectations since rebounding in second half of 2022

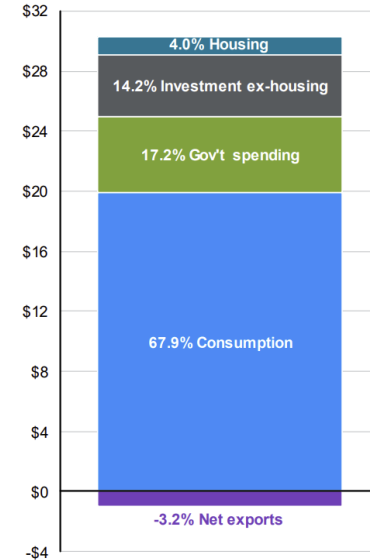


Grey areas denote recessions.

Source GDP: U.S. Bureau of Economic Analysis, Federal Reserve Bank of St. Louis, CLA Wealth Advisors

Source LEI: OECD, Main Economic Indicators, Copyright, 2016, OECD. Reprinted with permission.

Components of GDP
3Q24 nominal GDP, USD trillions



Source: BEA, FactSet, Standard and Poor's, J.P.

Morgan Asset Management

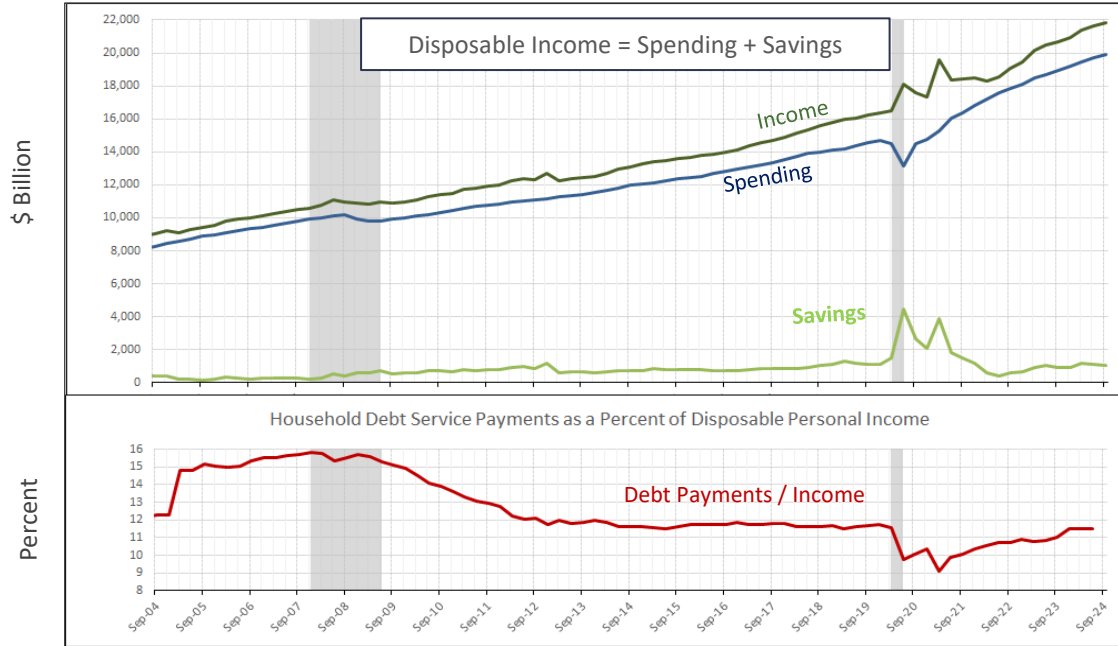
Data is based upon availability as of 10/31/2024





Consumer Finances Remain Strong

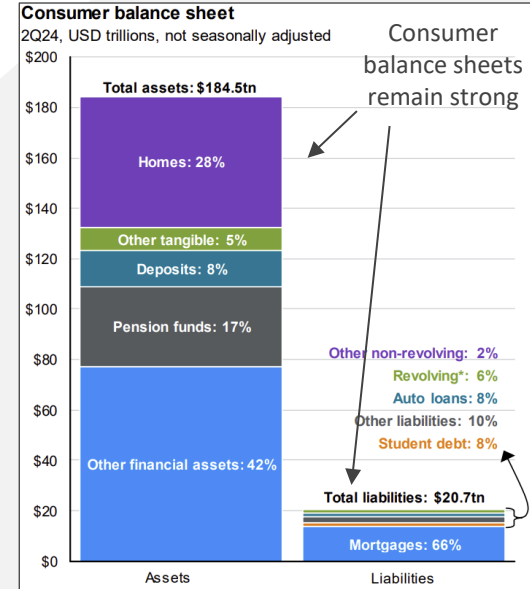
Rising consumer income and spending have contributed to economic growth



Grey areas denote recessions.

Data is based upon availability as of 10/31/2024.

Source: U.S. Bureau of Economic Analysis, Federal Reserve Bank of St. Louis, Board of Governors of the Federal Reserve System, FactSet, JP Morgan Asset Management, CLA Wealth Advisors



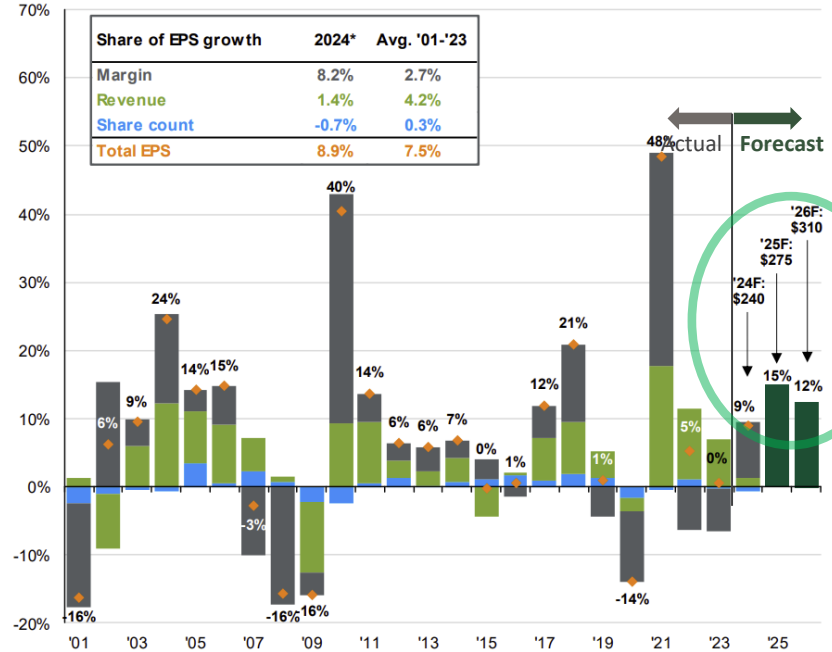


Businesses Show Impressive Profit Growth

Earnings are expected to rise in 2025-26, even as future business optimism declines

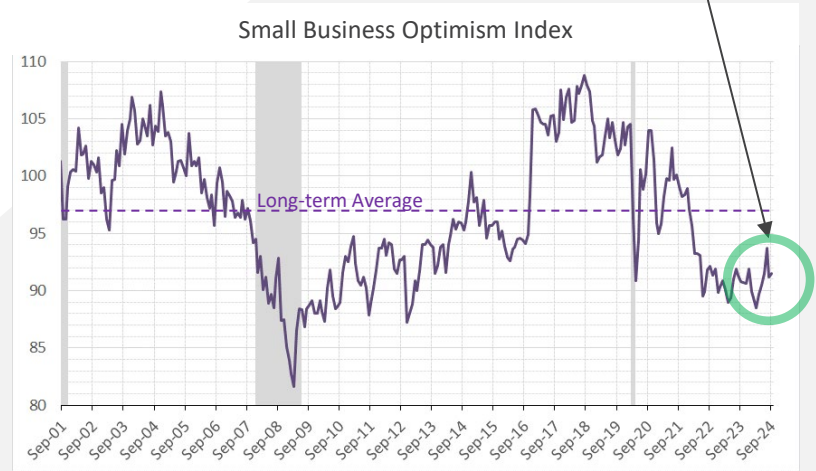
S&P 500 year-over-year pro-forma EPS growth

Annual growth broken into changes in revenue, profit margin and share count



Source: Compustat, FactSet, Standard and Poor's, J.P. Morgan Asset Management

NFIB Chief Economist Bill Dunkelberg: "Uncertainty is at a historically high level. The services sector is still holding up, while manufacturing and housing remains weak."



Source: Bureau of Economic Analysis, National Federation of Independent Business ("NFIB"), U.S. Census Bureau, Manufacturers: Inventories to Sales Ratio, Federal Reserve Bank of St. Louis, CLA Wealth Advisors

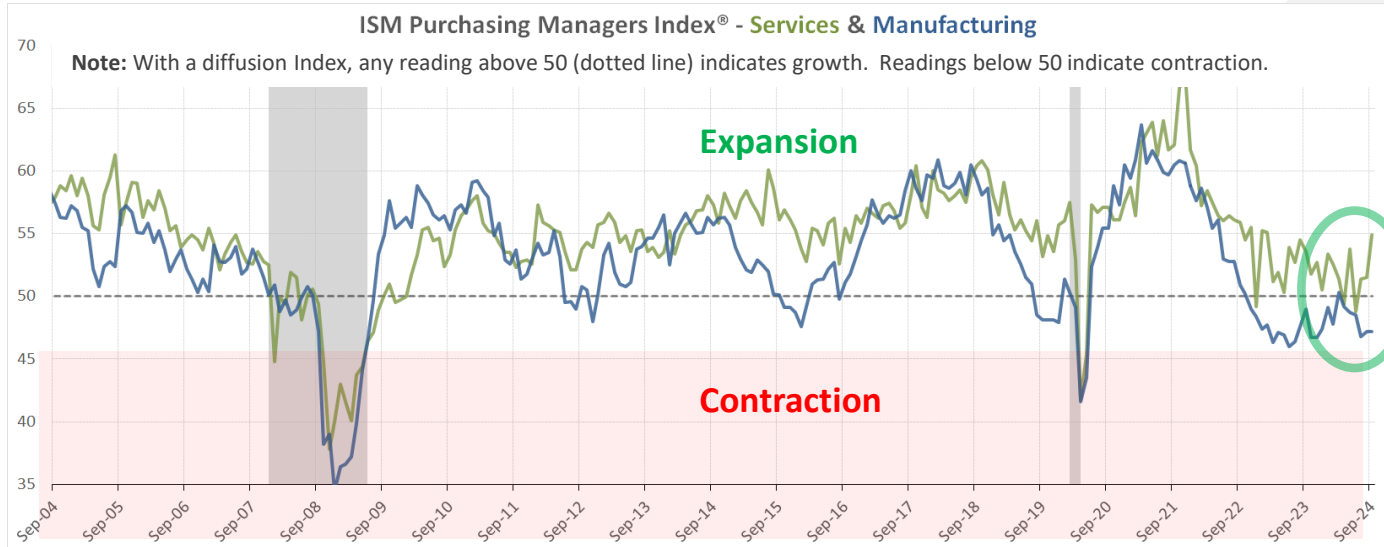
Grey areas denote recessions.
Data is based upon availability as of 10/17/2024.





Performance is Mixed Across Industries

Services are expanding, while manufacturing is contracting



Services include real estate, utilities; construction; education; information; transportation and warehousing; health care and social assistance; public administration; finance and insurance; management of companies and support services; professional, scientific and technical services, agriculture, forestry, fishing and hunting; and arts, entertainment and recreation; and other services.

Manufacturing includes mineral products; petroleum and coal; transportation equipment; computer and electronic products; printing and related activities; plastics and rubber products; primary metals; machinery; food, beverage and tobacco products; wood products; apparel, leather and allied products; furniture and related products; paper products; chemical products; fabricated metal products; and electrical equipment, appliances and components.

Grey areas denote recessions.

Source: Institute for Supply Management, CLA Wealth Advisors
Data is based upon availability as of 10/17/2024

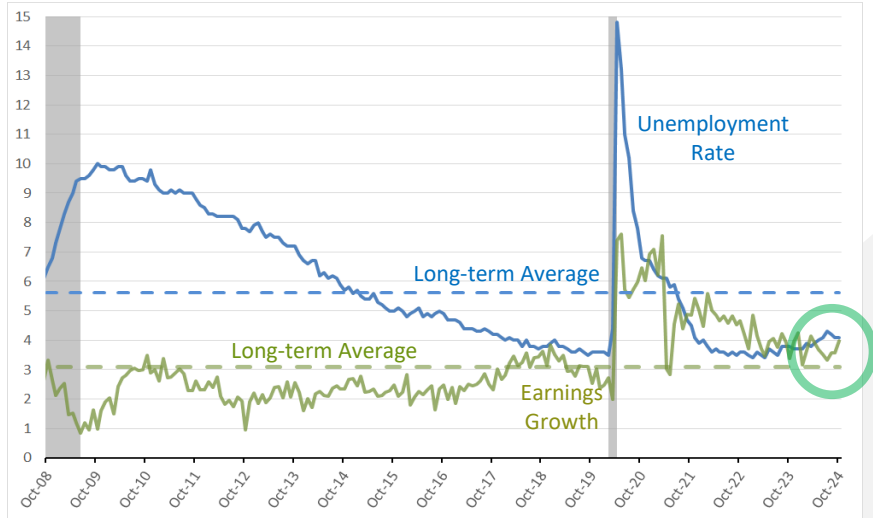




Labor Market is Still Robust

Unemployment rate is low, while weekly earnings growth remains above average

Unemployment Rate and Percent Change in Average Weekly Earnings From One Year Ago

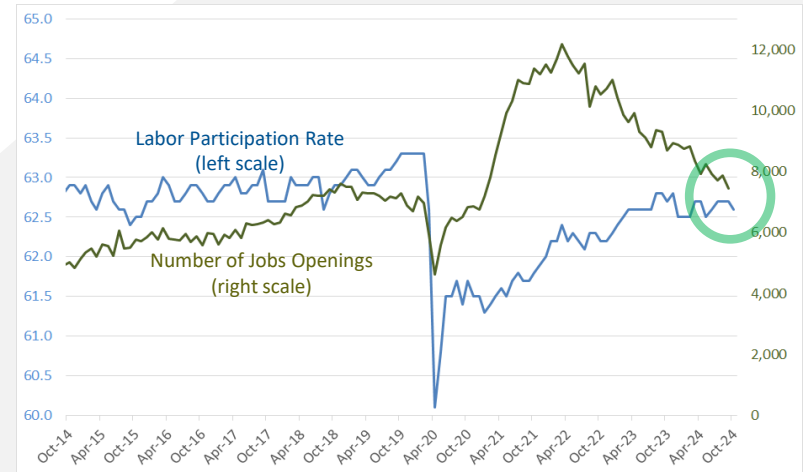


Grey areas denote recessions.

Source: U.S. Department of Labor, U.S. Bureau of Labor Statistics, Atlanta Federal Reserve, CLA Wealth Advisors

Data is based upon availability as of 11/1/2024

The number of job openings has fallen sharply from its record high but remains elevated. The labor participation rate remains near its recent high.

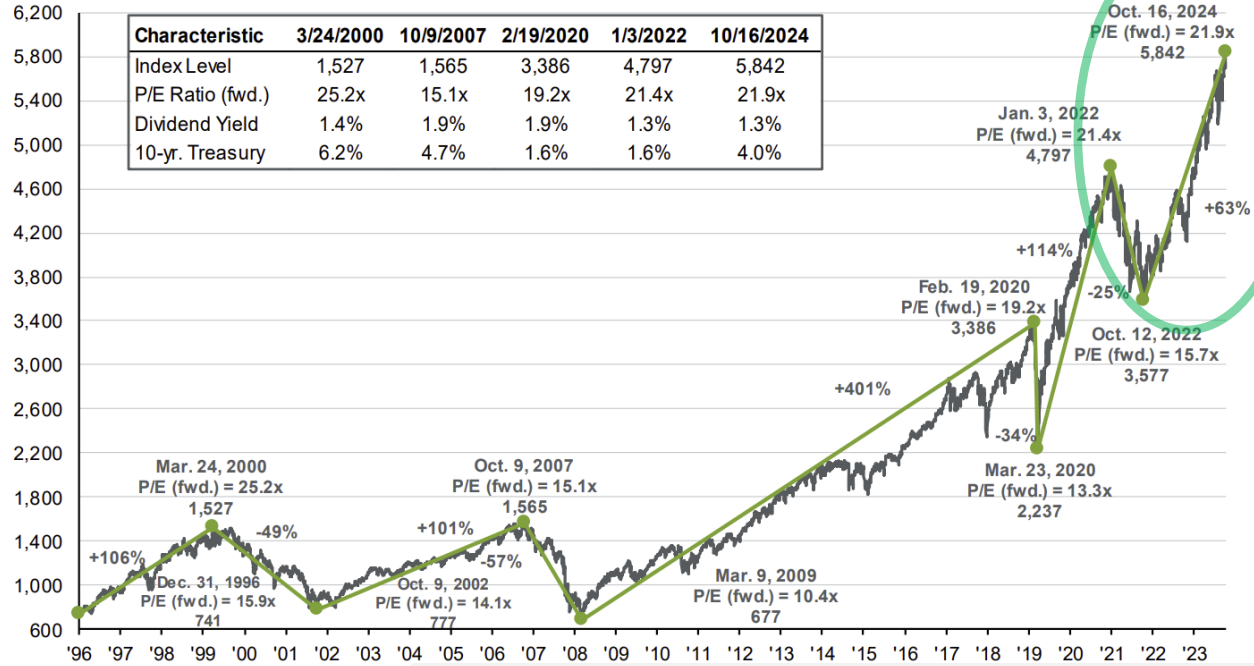




Equity Markets Reflect a Strong Economic Backdrop

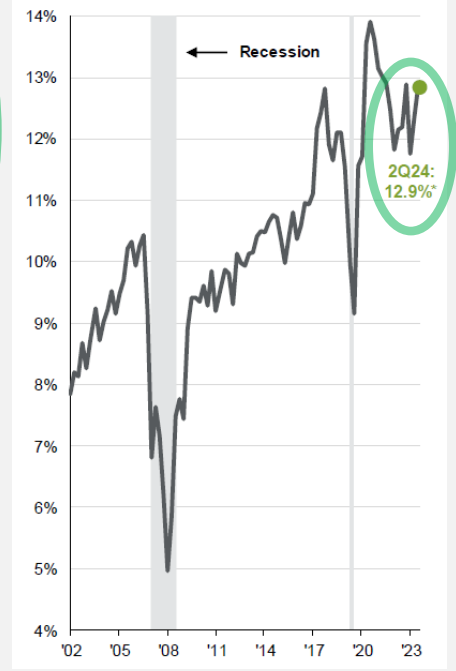
S&P 500 was up 63.3% from Oct. 2022 to Oct. 2024; Profit margins remain strong

S&P 500 Price Index



S&P 500 profit margins

Quarterly earnings/sales



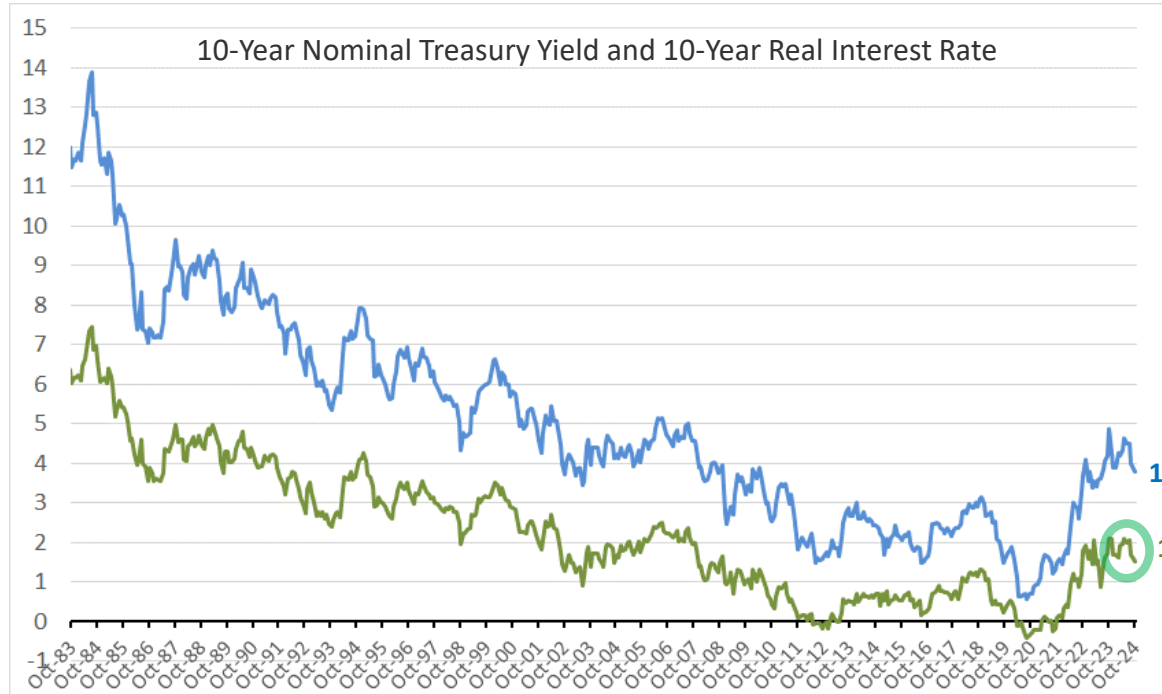
Source: Compustat, FactSet, Federal Reserve, Refinitiv Data Stream, Standard and Poor's, J.P. Morgan Asset Management
Data is based upon availability as of 10/17/2024





Higher Interest Rates Persist Given the Resilient Economy

10-year “real interest rate” is at its most attractive level in nearly 20 years



Real Interest Rate = Nominal Rate – Inflation

The “real” interest rate is the return an investor or lender expects to receive after factoring in the effects of inflation.

10-Year Nominal Treasury Yield

10-Year Real Interest Rate

Source: Federal Reserve Bank of Cleveland, Federal Reserve Bank of St. Louis, CLA Wealth Advisors. Data is based upon availability as of 10/17/2024

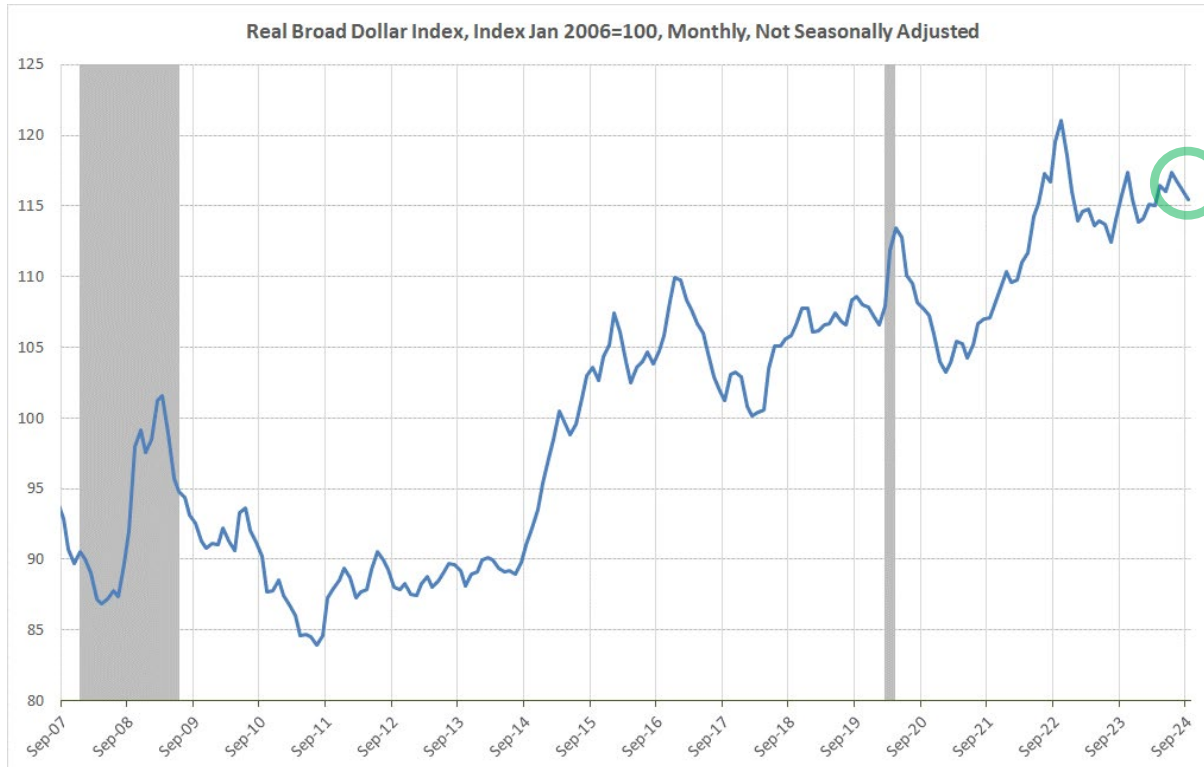
“The Federal Reserve Bank of Cleveland estimates the expected rate of inflation over the next 30 years along with the inflation risk premium, the real risk premium, and the real interest rate. Their estimates are calculated with a model that uses Treasury yields, inflation data, inflation swaps, and survey-based measures of inflation expectations.”





Value of the U.S. dollar Also Shows Our Economic Strength

The dollar shows continued strength against a basket of other currencies



The exchange rate of any two currencies is influenced by some combination of the:

1. Inflation differential between the two currencies
2. Interest rate differential between the two countries
3. Trade surplus/deficit of each country
4. Overall level of public debt of each country
5. Level of economic growth of each country

The USD is considered a “safe haven” currency, which means it tends to increase in value during times of international turmoil and economic slowdowns.

Grey areas denote recessions.

Source: Board of Governors of the Federal Reserve System, Federal Reserve Bank of St. Louis, CLA Wealth Advisors

Data is based upon availability as of 10/17/2024



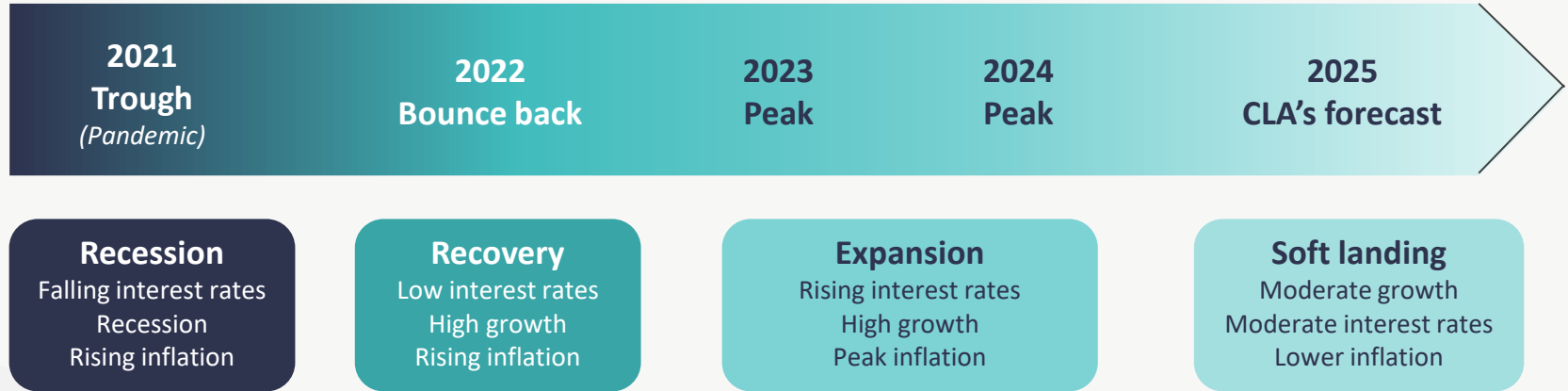


CLA 2025 Outlook



Macroeconomy

Where are we in the economic cycle?



Economic Outlook 2025

Future economic conditions likely to slow from current levels

Current Conditions - Overall

- ↓ ● Economic Growth

U.S. Economic growth to slow from the current levels.

Consumer Strength

- ↓ ● Income/Spending
- Consumer Finances

Spending may slow amid higher interest rates and slower wage growth.

Business Conditions

- Earnings Growth
- ↓ ● Profit Margins
- ISM Purchasing Managers Index®
- Small Business Confidence

Profit margins likely to compress given sticky input costs. Small business concerned about lower sales volumes.

Labor

- Unemployment Rate
- ↓ ● Wage Gains
- Number of Job Openings

Labor market continues to weaken while wage gains moderate.

Fed Policy

- ↑ ● Interest Rates
- ↑ ● Inflation
- Fed's Balance Sheet

Even with lower inflation, the impact of higher interest rates will not be felt for 12-18 months.

Fiscal Policy

- ↓ ● Spending
- ↑ ● Taxes
- ↑ ● Regulatory Environment

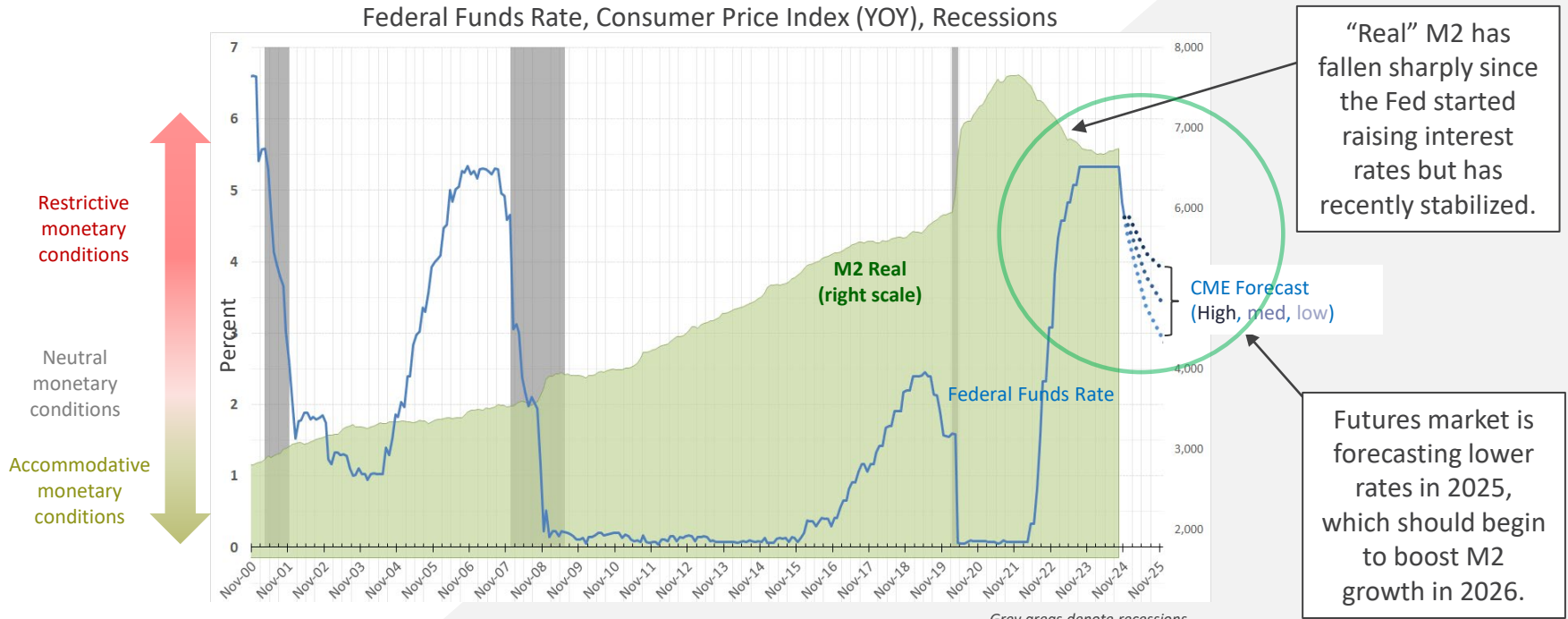
A new Trump administration is likely to cut spending, while the post-election market rally sees tax cuts and lower regulation.





Economy – Higher Interest Rates Are Starting To Impact Growth

By raising interest rates, the Fed reduces lending which dampens the money supply



Source: Board of Governors of the Federal Reserve System, U.S. Federal Open Market Committee, Federal Reserve Bank of St. Louis, NBER, Organization for Economic Co-operation and Development, CLA Wealth Advisors

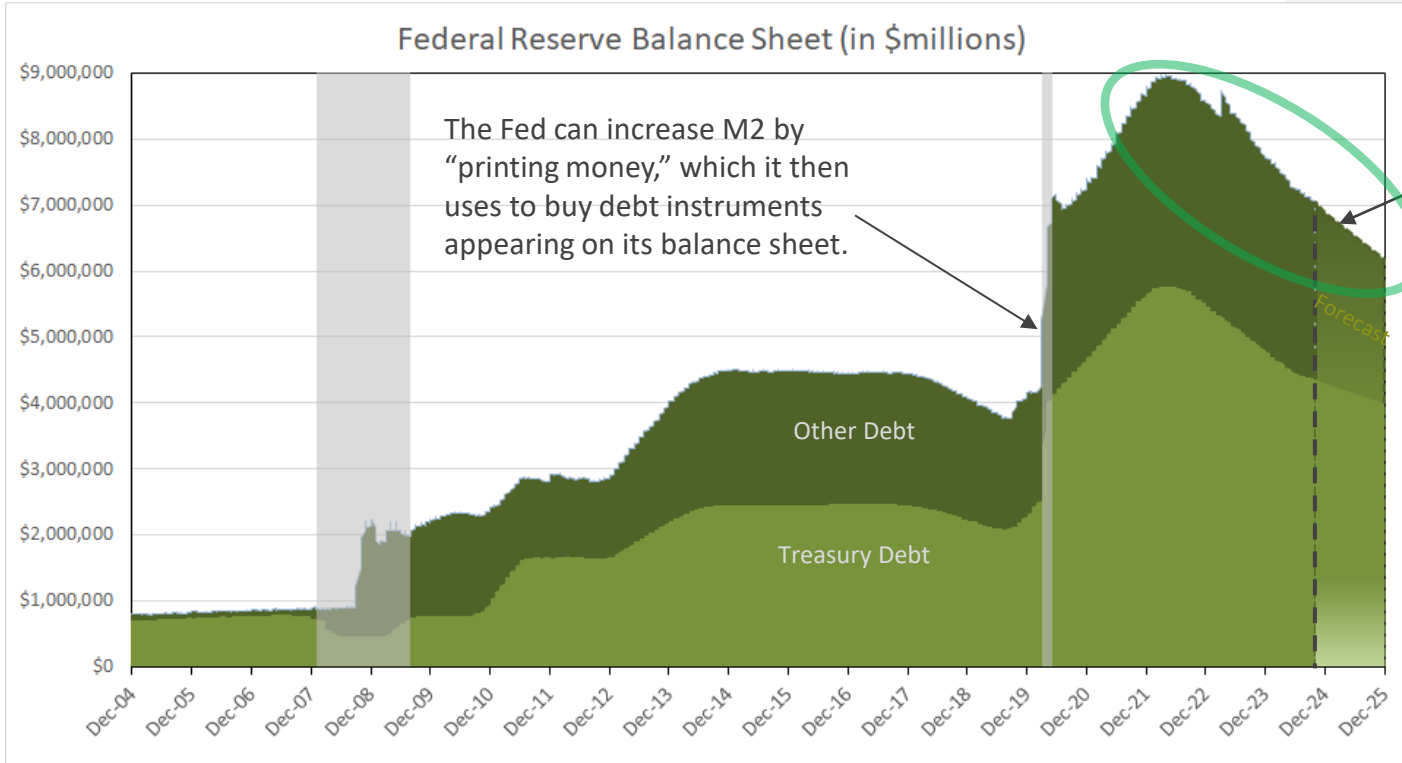
Data is based upon availability as of 10/23/2024





The Federal Reserve Is Also Unwinding Quantitative Easing

As conditions renormalize, the balance sheet is shrinking providing less stimulus



When those debt instruments mature, the Fed's balance sheet contracts, and M2 shrinks immediately.

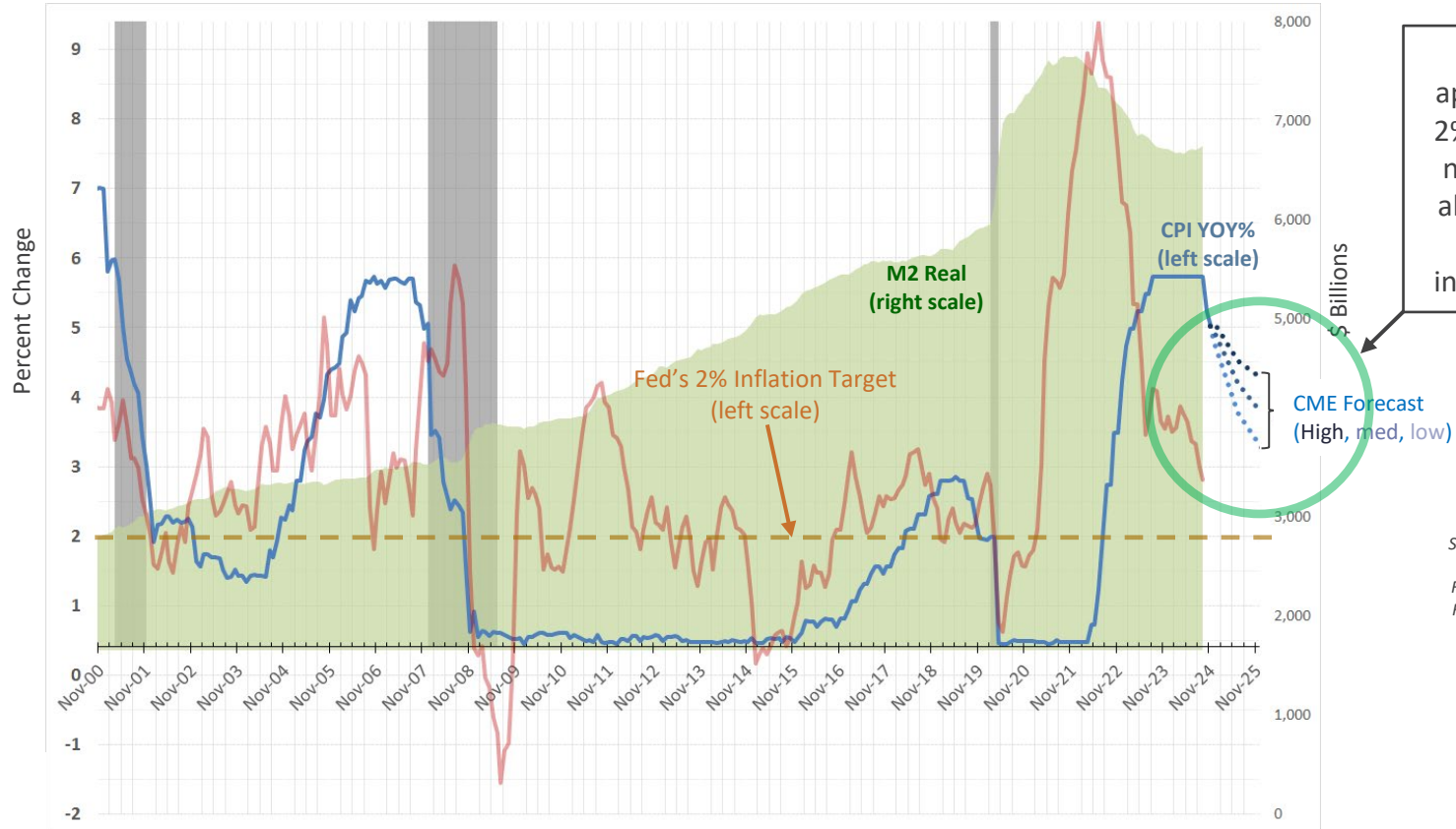
Grey areas denote recessions.

Source: Board of Governors of the Federal Reserve System, Federal Reserve Bank of St. Louis, NBER, CLA Wealth Advisors
Data is based upon availability as of 10/17/2024



The Fed Can Now Start To Cut Rates As Inflation Approaches 2%

With the inflation target of 2%, the Fed expects to continue cutting rates into 2025



Inflation is rapidly approaching the Fed's 2% target, but the Fed needs to be cautious about cutting rates to avoid reigniting inflationary pressures.

Source: Board of Governors of the Federal Reserve System, U.S. Federal Open Market Committee, Federal Reserve Bank of St. Louis, NBER, CLA Wealth Advisors

Data is based upon availability as of 10/17/2024

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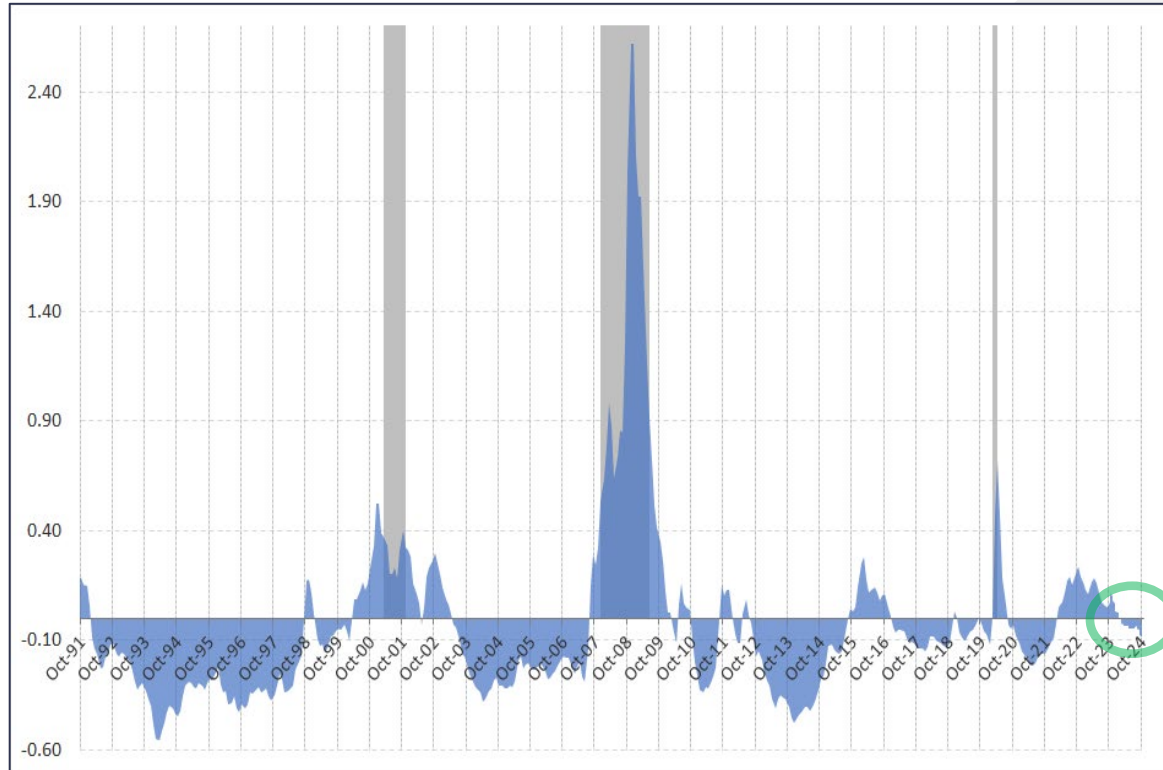




Financial Markets Are Not Pricing in a Recession

Credit spreads are very low

Chicago Fed National Financial Conditions Credit Subindex Index (NFCI), Monthly



Data is based upon availability as of 10/17/2024

Source: Federal Reserve Bank of St. Louis, CLA Wealth Advisors

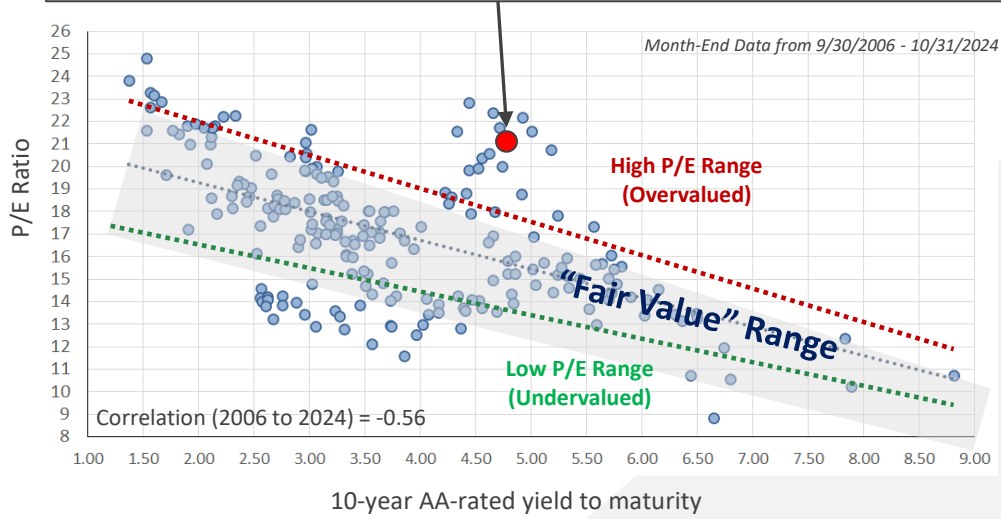




CLA Equity Market Forecast Shows Muted Future Returns

Stock valuations remain elevated, although REITs are now more attractive

On 10/31/2024, the S&P500 P/E ratio hit 21.1x forward consensus earnings, which lies above the “fair value” range, given the 10-year AA-rated corporate yield of 4.77%.



Source: St Louis Federal Reserve, Morningstar, Barclays, CLA Wealth Advisors

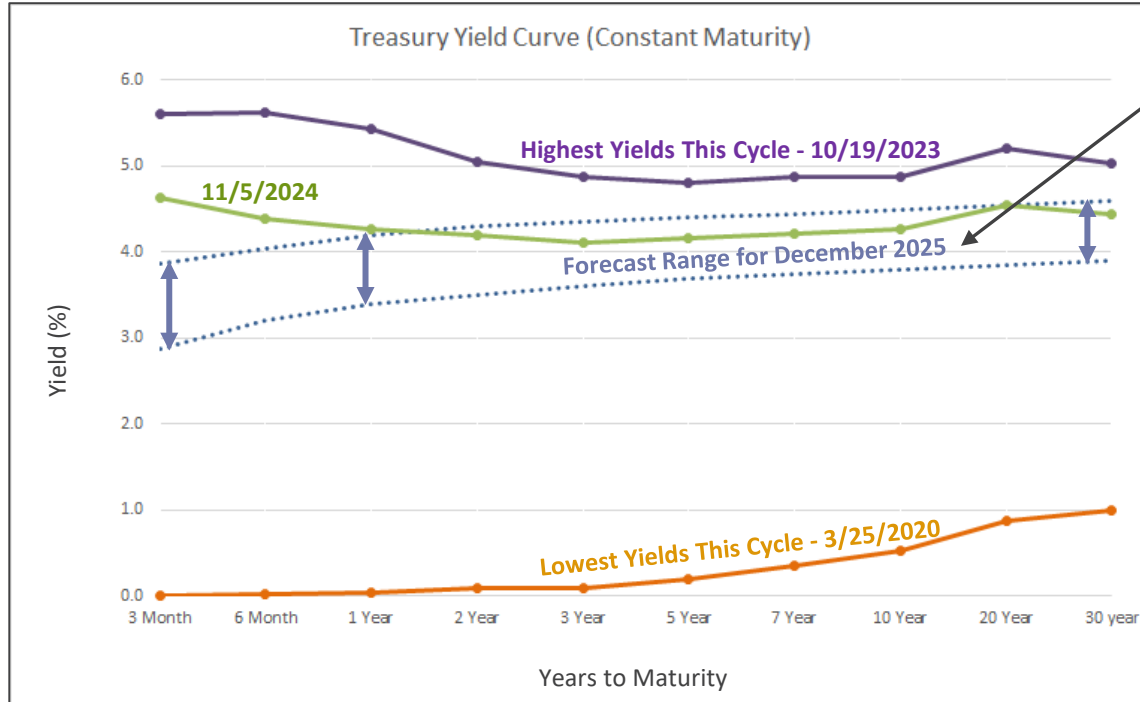
5-7 Year Return Estimates			
Asset Class	2025 Return Estimates	2024 Return Estimates	Change
US Large Cap Stocks	6.50	7.95	↓ -1.45
US Small Cap Stocks	6.86	8.70	↓ -1.84
US REITs	7.53	5.95	↑ 1.58
Int'l Developed Stocks	8.07	9.15	↓ -1.08
Emerging Market Stocks	7.85	9.70	↓ -1.85





CLA's Interest Rate Forecast Sees an Upwards Sloping Yield Curve

Short-term rates should fall but long-term rates will likely remain higher for longer



Bond yields are now generating a real return much higher than the inflation rate. We particularly like the after-tax returns municipal bonds at these levels.

5-7 Year Return Estimates

Asset Class	2025 Return Estimates	2024 Return Estimates	Change
Cash	3.30	3.40	↓ -0.10
Inflation Protected	4.19	4.25	↓ -0.06
Municipal Bonds	3.85	3.70	↑ 0.15
High Yield Municipals	4.69	5.20	↓ -0.51
US Bonds – Short	4.08	3.60	↑ 0.47
US Bonds – Total	4.65	4.20	↑ 0.45
US Bonds – Long	4.92	5.20	↓ -0.28
US High Yield Bonds	5.98	6.85	↓ -0.87

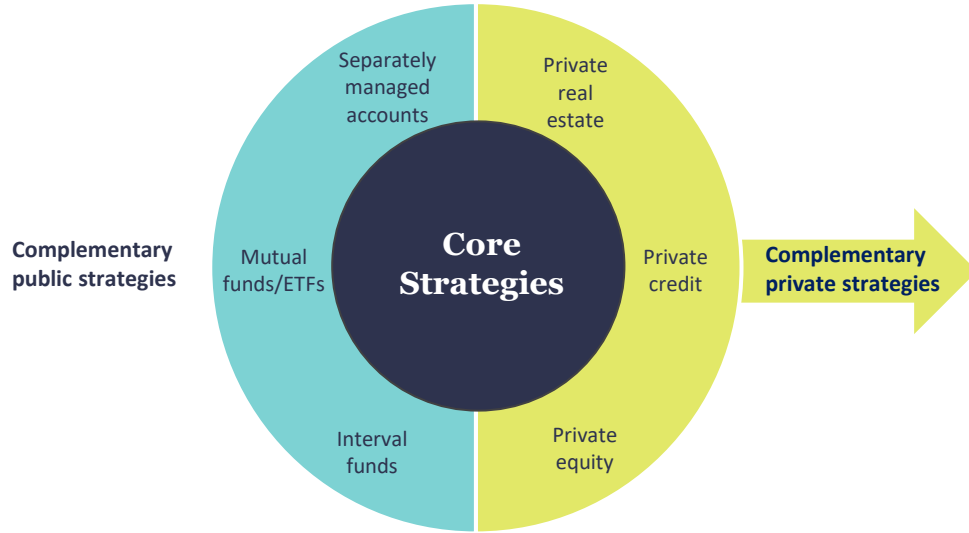
Source: Board of Governors of the Federal Reserve System, St Louis Federal Reserve, CLA Wealth Advisors

Data is based upon availability as of 10/16/2024



Private Investments Provide Important Diversification and Return

Outlook for private credit and private equity remains attractive, private real estate improves



5-7 Year Return Estimates			
Asset Class	2025 Return Estimates	2024 Return Estimates	Change
Private Credit	8.26	8.10	↑ 0.16
Private Real Estate	9.11	7.70	↑ 1.41
Private Equity	9.63	9.75	↓ -0.12



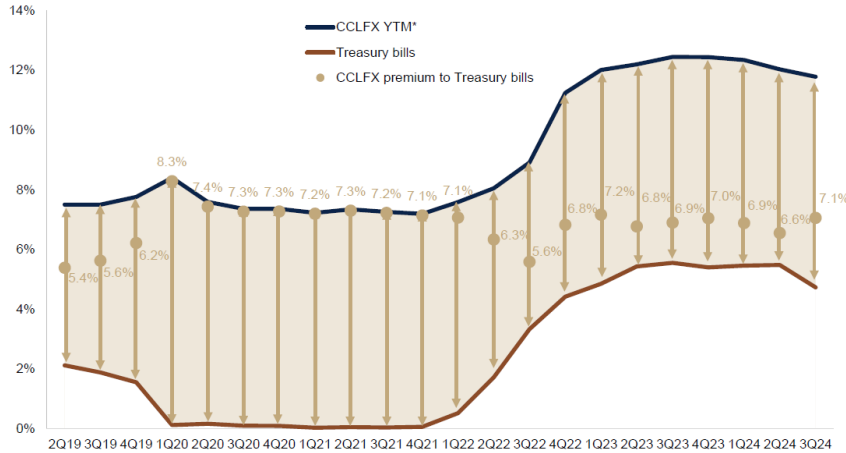


Private Credit

Private credit spreads remain attractive, default rates remain relatively low

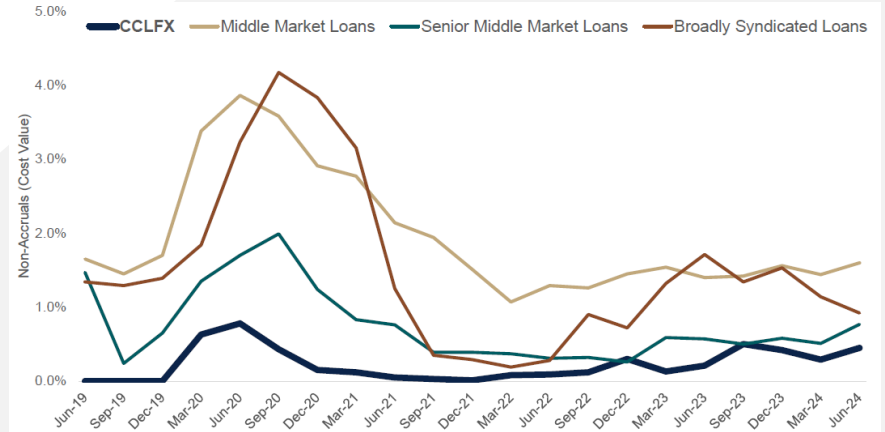
Increasing regulatory pressures have caused regional banks to exit some their traditional lending markets, leaving a void for private credit funds to fill.

Private Credit Spreads



Source: Cliffwater, St Louis Federal Reserve Data

Private Credit Defaults



Source: Cliffwater, Morningstar

Data is based upon availability as of 10/17/2024



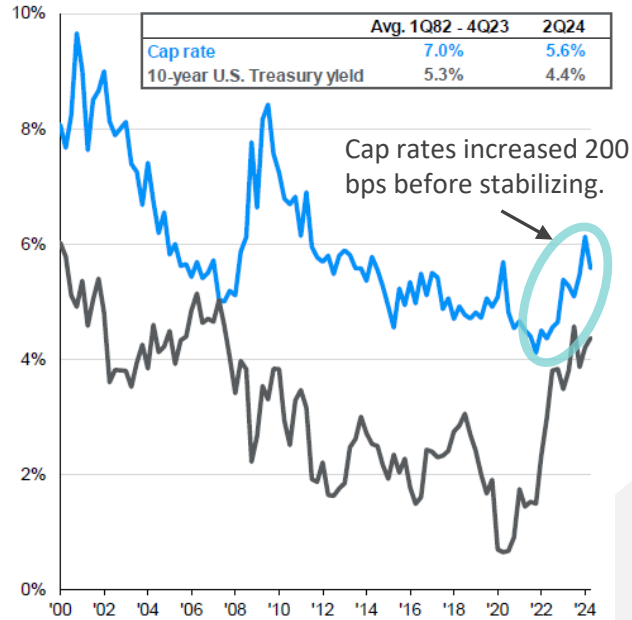


Private Real Estate Poised for Rebound As Uncertainty Eases

Cap rates appear to have peaked; transactions and prices should begin to normalize

U.S. real estate cap rates and interest rates

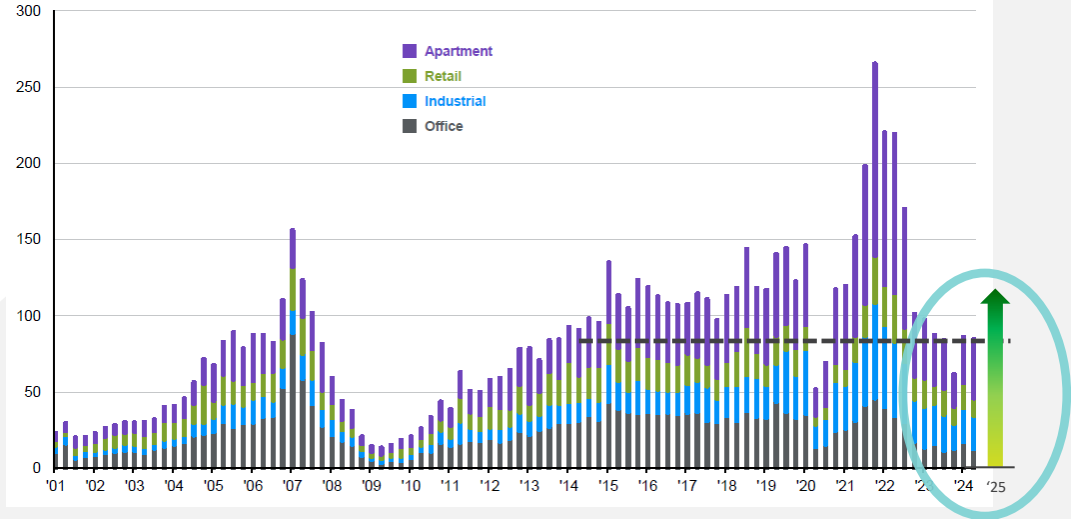
Transaction based, 10-year U.S. Treasury yield



Source: NCREIF, Refinitiv Datastream, J.P. Morgan Asset Management
Data is based upon availability as of 10/17/2024

U.S. real estate transaction volumes

USD billions, seasonally adjusted, 1Q01 – 2Q24



Source: RCA, J.P. Morgan Asset Management

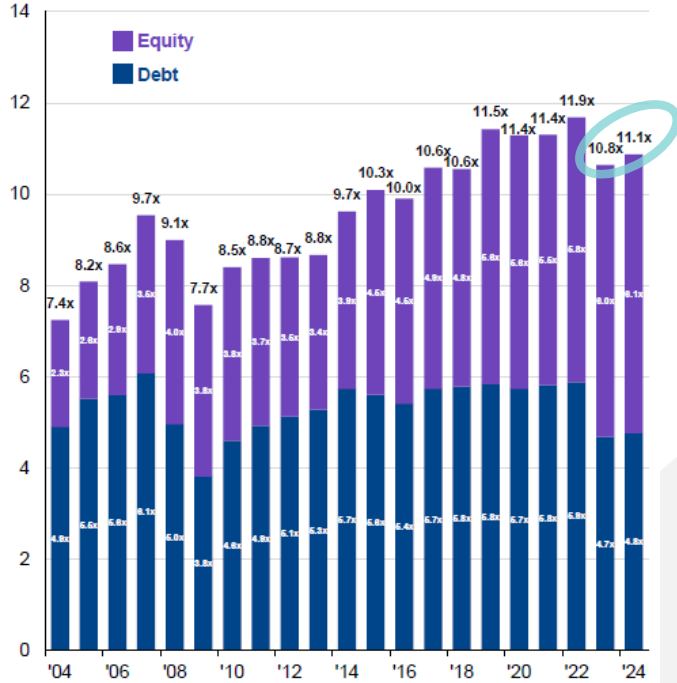




Private Equity

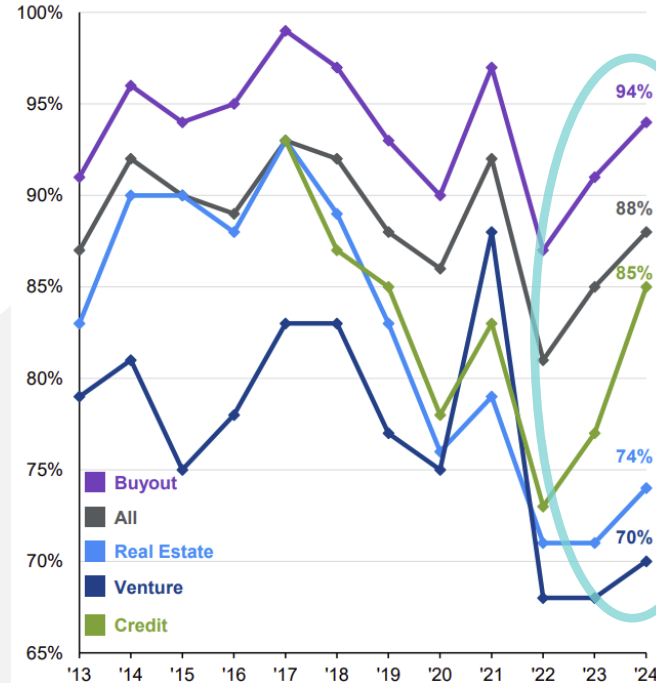
Buyout and secondary appear attractive as valuations stabilize

U.S. LBOs: purchase price multiples
Equity and debt over trailing EBITDA



Source: Golub Capital, Pitchbook, LCD, JP Morgan Asset Management,

Secondary pricing*
Percent of net asset value (NAV)

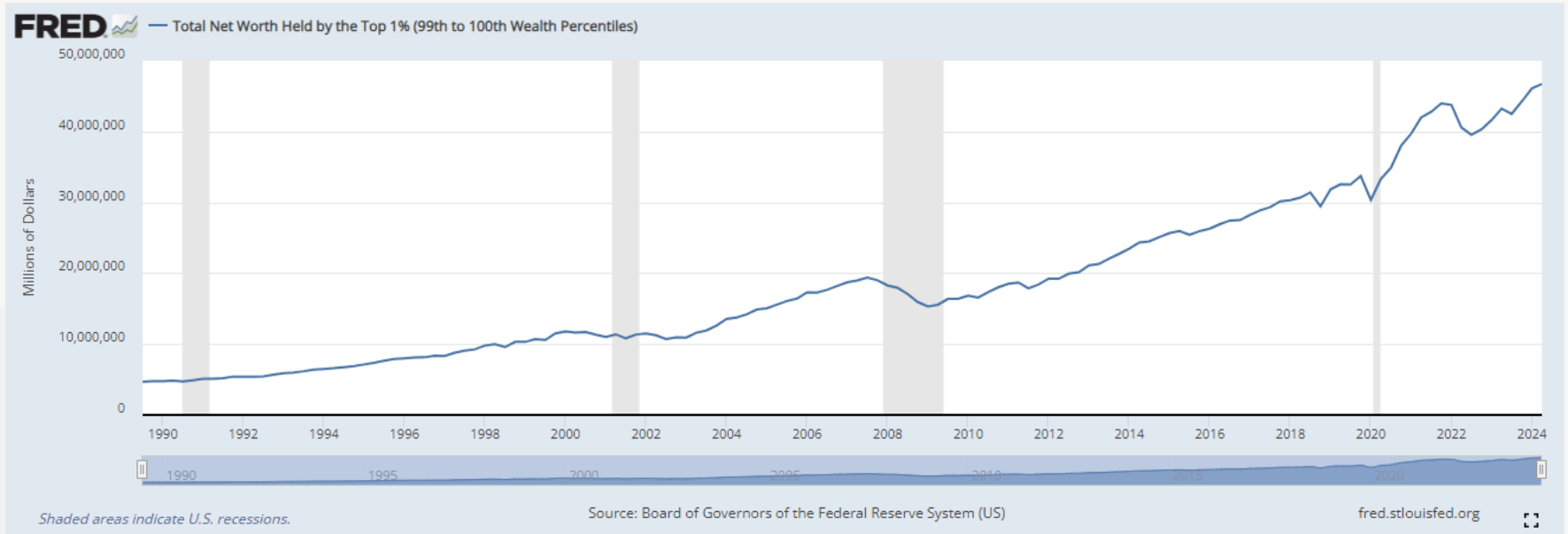


Source: Greenhill Jeffries, JP Morgan Asset Management



Rising Markets Have Created Record Wealth

99% percentile: At least \$2.5 million or more in business and personal assets
(representative of CLA clients)

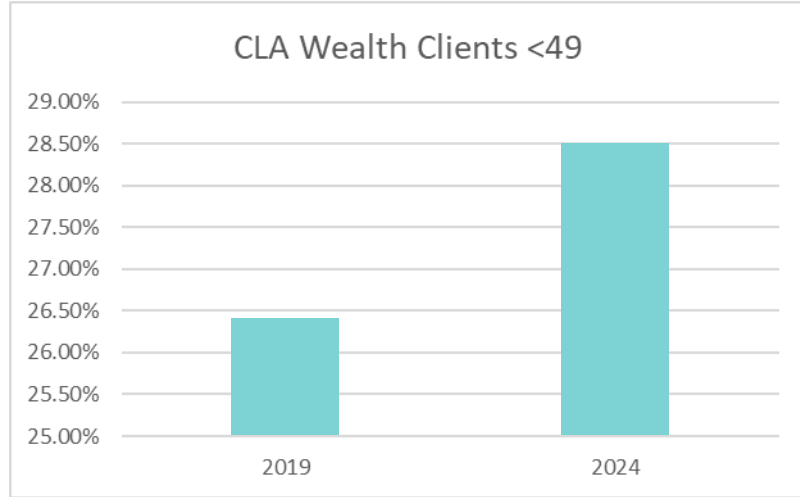


Sources: CLA Wealth Advisors

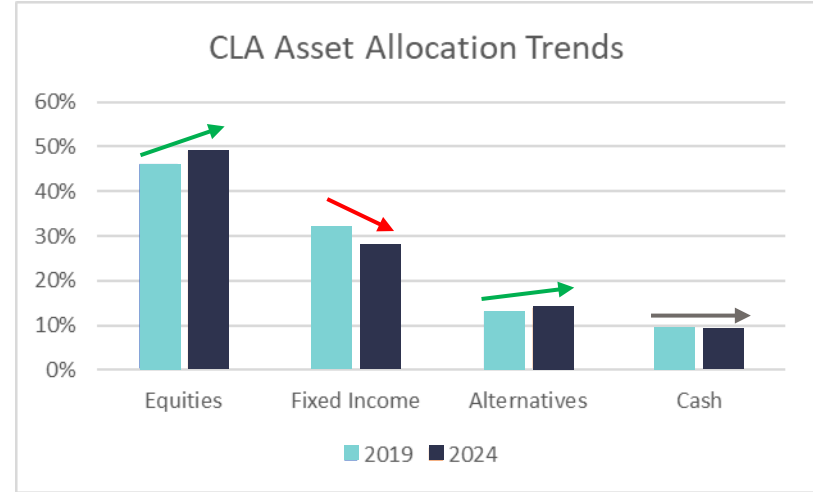


We are Seeing the Great Wealth Transfer in Action

Transfer of Wealth to Younger Generations



Driving More Equity and Alternatives Exposure



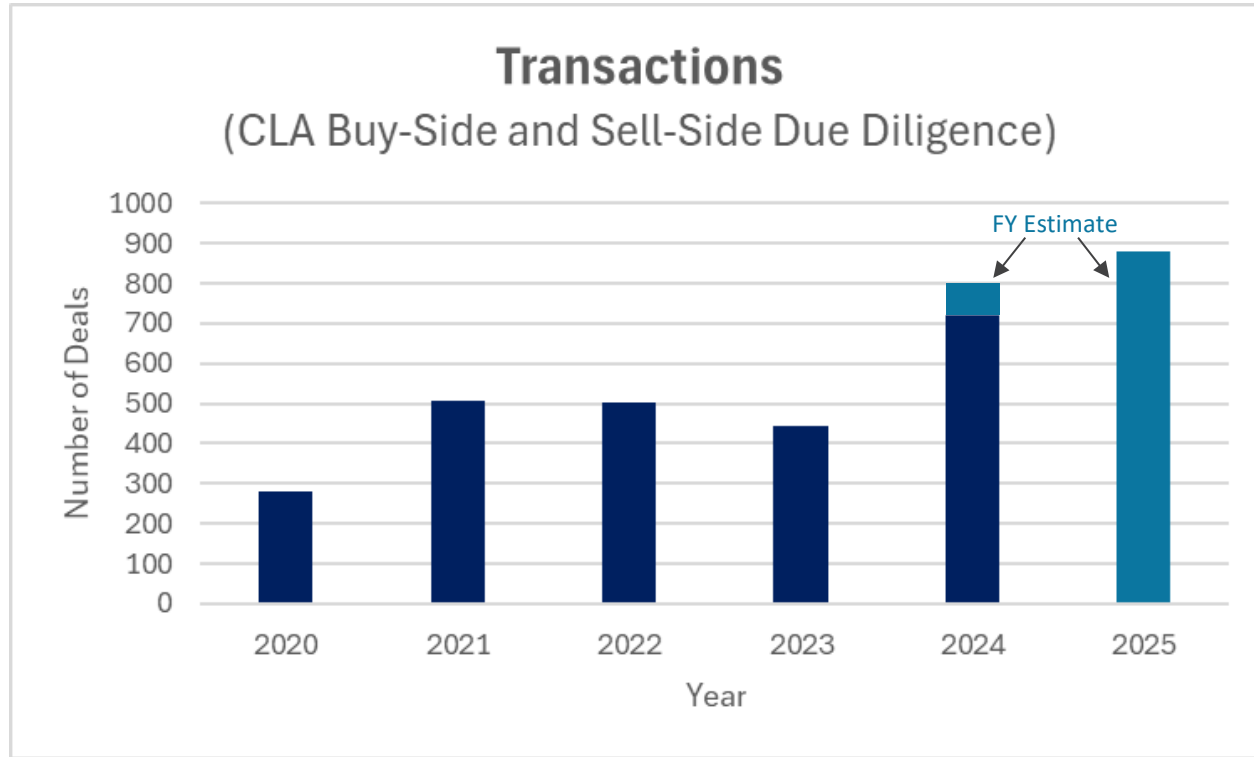
Other Trends

- **More tax and wealth planning:** 13% increase YoY in clients with a completed financial plan.
- **Investing rather than trading:** 30% decrease in trading volume with younger clients positioning for longer-term.
- **Cash management is important** to fund alternatives exposure and living expenses.

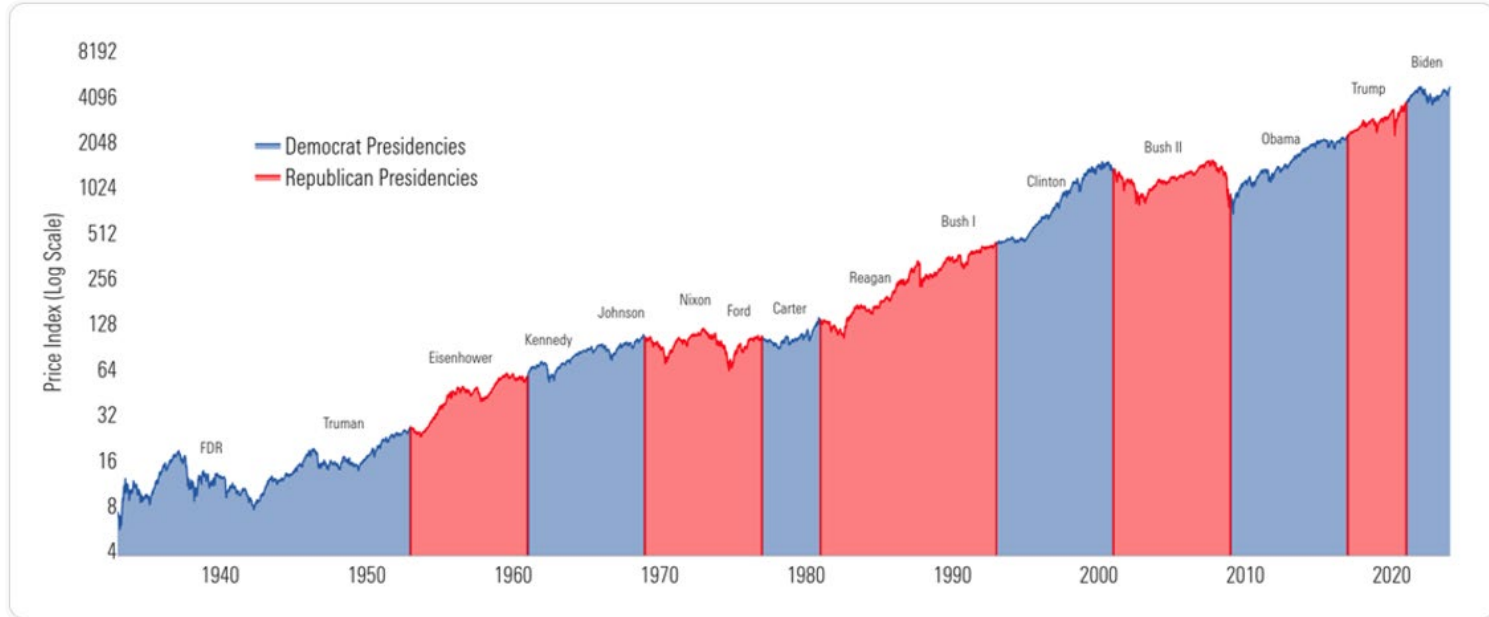
Sources: CLA Wealth Advisors



CLA is seeing a Pick-up in Business Owners Looking to Sell



Markets Go Up Regardless of Which Party Wins












Source: Morningstar, CLA Wealth Advisors



TCJA Sunsets Unless Congress Acts

Changes effective January 1, 2026:

-  Individual tax rate reverts from 37% to 39.6%
-  20% 199A QBID deduction eliminated
-  Standard deduction cut in half
-  \$10k SALT cap eliminated
-  Mortgage cap reverts to \$1M/\$100k from \$750k
-  Cash contribution limit drops from 60% to 50%
-  Pease limitation reinstated for itemized deductions
-  Lifetime estate/gift exemption cut in half (\$13.99M in 2025 to \$7M)
-  AMT changes





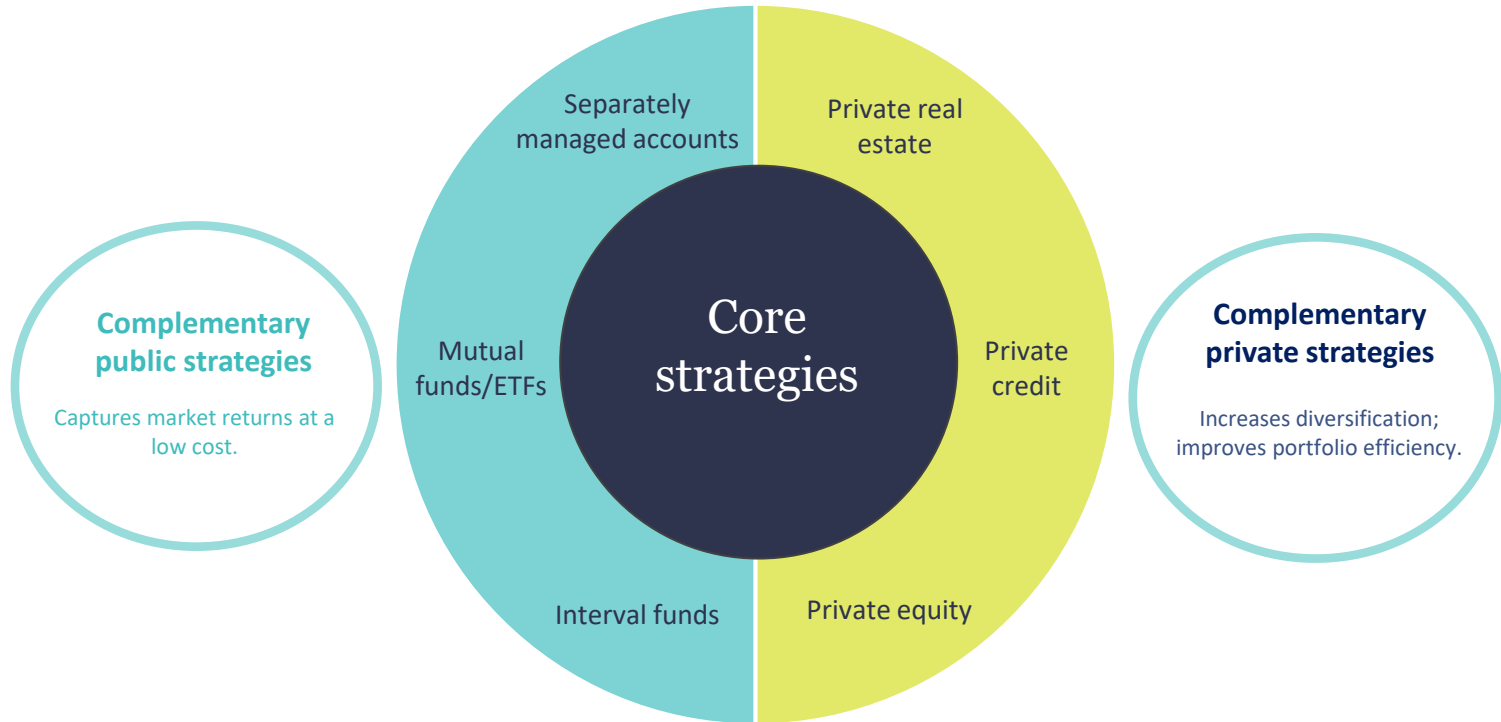
CLA Total Return Portfolios



CLA Total Return Portfolios - Overview

Core strategies and complimentary strategies, with three risk/return targets

CLA's robust investment platform uses both public and private strategies overseen by our investment committee.



CLA Total Return Portfolios - Overview

Core strategies and complimentary strategies, with three risk/return targets

At CLA, we believe portfolios should be diversified, low cost, and tax efficient.

We construct targeted portfolios with three different risk/return objectives:

Growth

"80/20"

Return target: 7.1%

Risk budget: 13.2%

Highest expected total return (price appreciation plus some income) and the highest level of risk (volatility).

Balanced

"60/40"

Return target: 6.6%

Risk budget: 10.7%

Provides both growth and income, with a moderate level risk (volatility).

Income

"20/80"

Return target: 5.4%

Risk budget: 7.5%

Highest level of projected income, along with a lower level of expected risk (volatility).



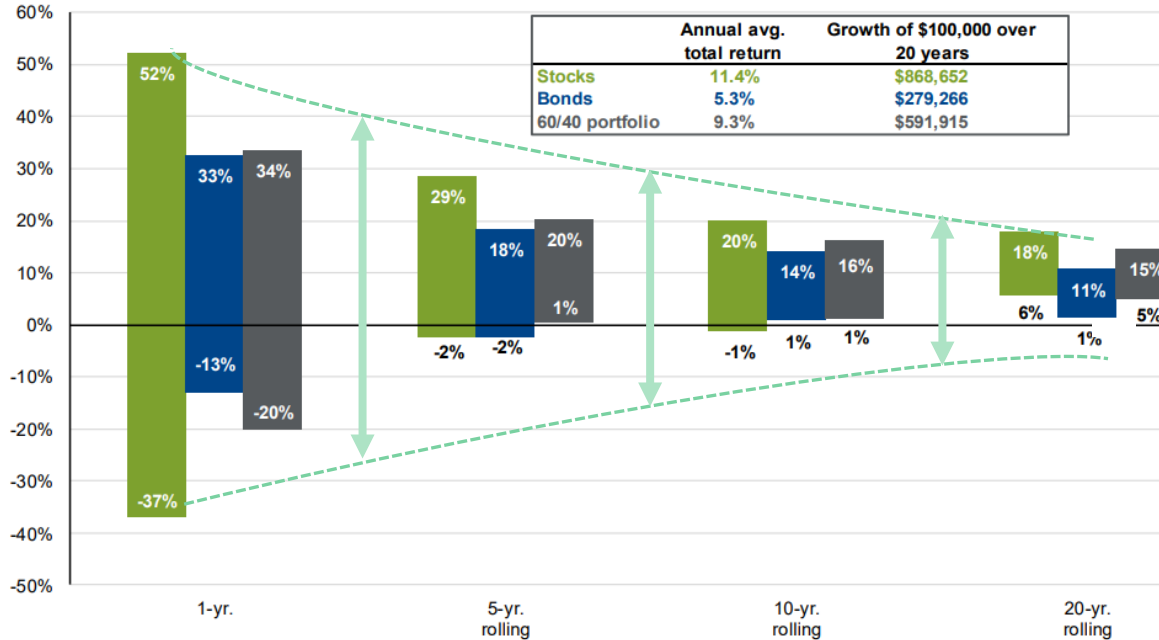


A Financial Plan Helps You Weather Volatility in the Long-Run

By aligning your risk return – and revisiting it annually – you increase your chances of success

Range of stock, bond and blended total returns

Annual total returns, 1950-2023



Diversified portfolios can navigate elevated volatility.

Source: Bloomberg, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management.

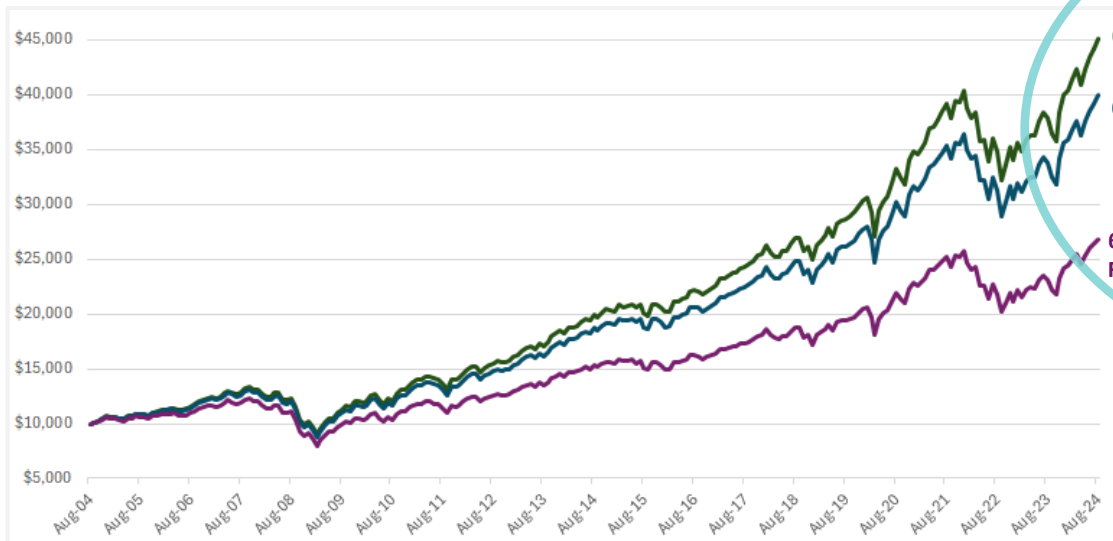
Data is based upon availability as of 10/17/2024



Low-Cost, Tax-Efficient Portfolios

Taxes and product expenses can drag down returns

Simulation
20-year time horizon growth of \$10,000



	<u>Average Annual After-tax Return</u>	<u>Ending Value</u>
60/40 Less ETF Fees	7.81%	\$45,037
60/40 Less Mutual Fund Fees	7.17%	\$39,995
60/40 Less Mutual Fund Fees & Taxes	5.06%	\$26,832

Assumptions:

- Returns are based on historical performance of 60% S&P 500/40% U.S. aggregate bond index, less fees.
- 0.06% = ETF fees
- 0.66% = Mutual fund fees
- 2.00% = Tax savings per year



Contact us to discuss how we can serve you and help you achieve your goals.



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