INVESTMENT COMMENTARY

Stock market momentum continued into 4Q24, while bond investors were left out of the party, as interest rates rose across the yield curve, despite two sequential 25bp rate cuts. The Federal Open Market Committee's (FOMC) December statement highlighted, "The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. The Committee judges that the risks to achieving its employment and inflation goals are roughly in balance. The economic outlook is uncertain, and the Committee is attentive to the risks to both sides of its dual mandate. In support of its goals, the Committee decided to lower the target range for the federal funds rate by 1/4 percentage point to 4-1/4 to 4-1/2 percent. The Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities." U.S. Real Gross Domestic Product (GDP) increased at an annual rate of 3.1% during the third quarter. Inflation, as measured by the U.S. Consumer Price Index (CPI), rose by 2.7% for the twelve-month period ending November 2024. The Bureau of Labor Statistics (BLS) reported the unemployment rate remained stable in November at 4.2%, while the U6 measure, which includes not only the unemployed but also underemployed workers and those marginally attached to the labor force, increased slightly to 7.8%. The Conference Board Consumer Confidence Index declined to 104.7 in December, well below its 2024 high of 114.8 set back in January 2024. The Conference Board Index of Leading Economic Indicators (LEI) for the U.S. declined 1.6% over the six months ending in November 2024, slightly less than its 1.9% decline over the previous six months.

The S&P 500 continued to generate solid returns, returning +2.39% in the fourth quarter and +25.00% for the calendar year, while the tech-heavy NASDAQ 100 returned an impressive +4.93% for the quarter and +25.88% for the year. The Bloomberg U.S. Aggregate Index suffered from rising interest rates during the fourth quarter, generating a negative return of -3.06% for the quarter, while grinding out a positive return of +1.25% for the year. The 2-year Treasury yield rose by 60 bps to 4.24%, while the 10-year Treasury yield climbed 79 bps to finish the year at 4.57%. In the fourth quarter, U.S. Treasuries returned -3.14%, while all other major investment grade bond sectors were also negative – Investment Grade (IG) corporate bonds (-3.04%), U.S. Agency Securities (-1.26%), Mortgage-backed Securities (-3.16%), Commercial MBS (-1.48%) and Asset-backed Securities (-0.05%). U.S. High Yield Corporate Bonds bucked the trend once again generating a positive return of +0.17% in the fourth quarter.

Stock and bond market investors had been pinning their hopes on rate cuts since the Fed began holding rates steady back in July 2023. Thus, we were curious about the muted market reaction to the oversized 50bps rate cut on September 18th, as the markets appeared unsure and seeking clarity. Did the 50bps rate cut indicate the Fed was confident they had finally gotten ahead of inflation, or did the Fed foresee increasing employment weakness that would portend an economic contraction? The market didn't need to wait long for clarity – The BLS released a very healthy jobs report on October 4th, followed by a CPI report on October 17th that exceeded expectations and confirmed the continued stickiness of U.S. inflation. As improbable as it was, the Fed appears to have successfully reduced inflation from its 9.1% peak in mid-2022 to the current 3% level, while avoiding an economic contraction. Equally remarkable, fiscal policy helped to sustain GDP growth of around 3% annually for the past two years, aided by the U.S. transition from a labor-shortage economy to a labor-balanced economy. As healthy economic data persisted through year-end, markets needed to readjust to lower recession risk and persistently sticky inflation. The Fed cut another 50bps in the fourth quarter and projects to cut another 50bps in 2025. Today, the markets appear far less confident in rate cuts due to broadening inflation concerns following the Presidential election.

President-elect Trump is preparing to start his 5th year in the White House, while his sense of conviction and urgency for policy implementation has many investors playing "wait and see." Most are optimistic about the growth prospects from reduced regulations and taxes, which require congressional approval. However, many have a more cautious attitude toward trade tariffs and deportations, which do not require congressional approval and have inflationary implications. These inflationary implications may result in higher-than-expected rates and eventually pinch consumer demand. Additionally, the uncertainty surrounding Trump's ideologies about Fed intervention, imperialism, fiscal spending, abolishing the U.S. debt ceiling, and

resolving the Russia-Ukraine conflict appears to be increasing the required equity and bond risk premiums. We believe the dramatic increase in interest rates following the September 18th FOMC meeting primarily reflects an increase in real yields, predominantly driven by expanded term premiums commensurate with policy and economic uncertainty. While real wage growth slowed to 0.7% by year-end, several Trump proposed policies have the potential to increase U.S. inflation. That said, Trump has proven to be a strong advocate of deregulation, which will likely attract foreign capital and free up domestic capital while loosening bank lending. Economic growth is generally a healthy catalyst for higher rates, and as previously stated, the U.S. economy had multiple pre-GFC periods of sustainable growth at/above trend with fed fund rates at/above 5%.

The PIA Investment Strategy Group (ISG) anticipates continued volatility in interest rates throughout the first quarter or at least until we have greater clarity on presidential policy, with the likelihood the yield curve may steepen further. We continue to believe the Fed's 2% inflation target will be challenging to achieve without an economic contraction. Presently, the markets are pricing in just one 25bp rate cut for the year. While we believe this rate outlook will likely change over time, we anticipate the current environment may result in another pause to determine future data paths from policy implications. The corporate bond market continues to be healthy with strong balance sheets, high cash flow, and solid fundamentals. However, credit spreads are, in our opinion, priced to perfection with their tightest spreads in over a quarter century. Therefore, if the economy begins to slow or contract, credit spreads will prove to offer inadequate compensation at current levels.

In the fourth quarter through year-end, PIA portfolio duration remained at the long end of our neutral duration range (+/- 0.25 years relative to our respective benchmark). We continue to modestly overweight corporate debt, focusing on high-quality credits with strong balance sheets. Our Industrial credits provide incremental risk-adjusted yield and our Financial credits are senior domestic debt, which we believe offer attractive compensation for their sector volatility. We maintained our modest overweight in Agency MBS during the quarter. In our Plus strategies, we maintained modest high-yield credit exposure, as current yield levels continue to offer value.

PIA Investment Strategy Group

INDEX RETURNS	QTD	YTD	1-Year
Bloomberg			
Universal	-2.73%	2.04	2.04%
Aggregate	-3.06	1.25	1.25
Gov-Credit	-3.08	1.18	1.18
Int. Gov-Credit	-1.60	3.00	3.00
IG - Corporate	-3.04	2.13	2.13
Treasury only	-3.14	0.58	0.58
1-3 year Gov	-0.09	4.04	4.04
High Yield Corporate	0.17	8.19	8.19

INDEX RETURNS	QTD	YTD	1-Year
Bloomberg			
Global Aggregate	-5.10%	-1.69%	-1.69%
Emerging Markets Debt	-1.47	6.58	6.58
ICE BofA -1-year T-Note	0.70	4.75	4.75
S&P 500	2.39	25.00	25.00
DJIA	0.93	14.99	14.99
NASDAQ 100	4.93	25.88	25.88
MSCI EAFE	-8.06	4.43	4.43

SECTOR RETURNS	QTD	QTD (Excess)	YTD	YTD (Excess)
Treasury (actual returns)	-3.14%	——	0.58%	——
U.S. Agency	-1.26	0.08	3.14	0.48
Mortgage Backed Security	-3.16	-0.13	1.20	0.37
Commercial Mtg Backed Security	-1.48	0.66	4.68	2.80
Corporate	-3.04	0.82	2.13	2.46
Financials	-2.22	0.62	3.91	2.88
Industrials	-3.40	0.89	1.17	2.07
Utilities	-3.67	1.16	1.74	3.40
AAA-rated	-5.88	0.07	-2.35	1.03
AA-rated	-3.94	0.39	0.24	1.27
A-rated	-3.31	0.53	1.63	1.95
BBB-rated	-2.58	1.18	2.97	3.15
High Yield Corporate	0.17	1.17	8.19	5.02

Source: Bloomberg
Excess returns are the return achieved by a security (or portfolio of securities) above the return of a benchmark.

CREDIT SPREADS	12/31/24	9/30/24	12/31/23
All Index Treasuries (yield)	4.5	3.8	4.1
U.S. Agency	25.0	24.1	24.2
Mortgage Backed Security	76.5	84.7	81.3
Commercial Mortgage Backed Security	82.3	95.3	128.3
IG - Corporate	81.5	90.5	100.6
Financials	83.7	91.8	113.6
Industrials	79.7	89.2	92.2
Utilities	84.3	94.0	107.6
AAA-rated	34.5	33.4	38.5
AA-rated	46.5	47.6	48.1
A-rated	69.5	74.6	85.9
BBB-rated	98.9	112.7	123.7
High Yield Corporate	313.5	332.7	346.4

Source: Bloomberg

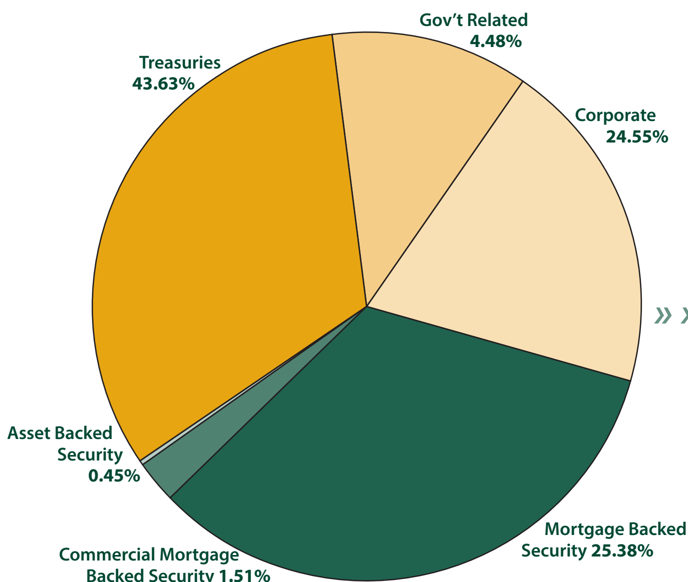
KEY INDICATORS	12/31/24	12/31/23
U.S. $ Index (DXY)	108.49	101.33
Oil (CL1)	71.7	71.7
Commodity Research Bureau (CRB)	296.7	263.8
Gross domestic Product (GDP)	3.1	3.2
Consumer Price Index (CPI)	2.7	3.4
Core CPI (Ex - Food & Energy)	3.3	3.9
Consumer Confidence	104.7	108.0
Unemployment Rate	4.2	3.7
S&P/Case Shiller - Comp - 20	4.2	6.3

Source: Bloomberg

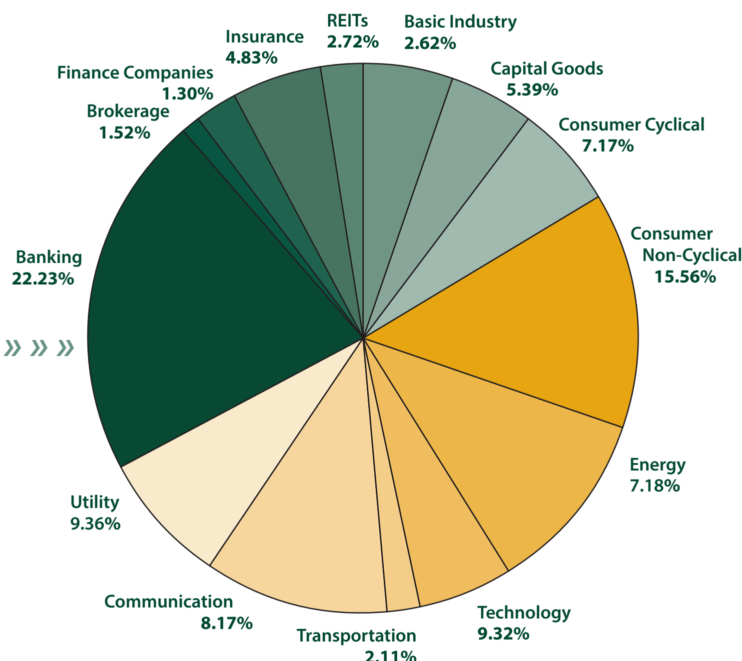
KEY RATES	4Q24	3Q23	4Q23	QTD Return	YTD Return
Fed Funds	4.5-4.75%	5.0-5.25%	5.25-5.5%	n/a	n/a
On-the-Run's					
3 Months	4.32	4.63	5.34	1.17	5.25
6 Months	4.27	4.41	5.26	1.13	5.35
2 Years	4.24	3.64	4.25	-0.20	3.74
5 Years	4.38	3.56	3.85	-2.72	1.23
10 Years	4.57	3.78	3.88	-5.22	-1.69
30 Years	4.78	4.12	4.03	-9.53	-8.03

Source: Bloomberg

BLOOMBERG **AGGREGATE**



BLOOMBERG **CORPORATE**



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INDEX DESCRIPTION

Bloomberg U.S. Universal Index represents the union of the U.S. Aggregate Index, U.S. Corporate High-Yield Index, Investment-Grade 144A Index, Eurodollar Index, U.S. Emerging Markets Index, and the non-ERISA eligible portion of the CMBS Index. The index covers USD-denominated, taxable bonds that are rated either investment-grade or below investment-grade. Some U.S. Universal Index constituents may be eligible for one or more of its contributing subcomponents that are not mutually exclusive. These securities are not double-counted in the index.

Bloomberg U.S. Aggregate Bond Index is an unmanaged index that covers the investment grade fixed rate bond market with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. The issues must be rated investment grade, be publicly traded, and meet certain maturity and issue size requirements.

Bloomberg U.S. Government/Credit Bond Index includes securities in the Government and Credit Indices. The Government Index includes treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government). The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

Bloomberg U.S. Intermediate Government/Credit Bond Index is the Intermediate component of the U.S. Government/Credit index. The Government/Credit Index includes securities in the Government and Credit Indices. The Government Index includes treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government). The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

Bloomberg U.S. Corporate Bond Index covers USD-denominated, investment-grade, fixed-rate, taxable securities sold by industrial, utility, and financial issuers. It includes publicly issued U.S. corporate debentures and secured notes that meet specific maturity, liquidity, and quality requirements. Securities in the index roll up to the U.S. Credit and U.S. Aggregate indices. The U.S. Corporate Index was launched on January 1, 1973.

Bloomberg U.S. Treasury Index includes public obligations of the U.S. Treasury. Treasury bills are excluded by the maturity constraint but are part of a separate Short Treasury Index. In addition, certain special issues, such as state and local government series bonds (SLGs), as well as U.S. Treasury TIPS, are excluded. STRIPS are excluded from the index because their inclusion would result in double-counting. Securities in the Index roll up to the U.S. Aggregate, U.S. Universal, and Global Aggregate Indices.

Bloomberg U.S. 1-3 Year Government Bond Index consist of securities in the U.S. Government Index with a maturity from 1 up to (but not including) 3 years. Securities issued by the U.S. Government (i.e., securities in the Treasury and Agency Indices). Inclusions: Public obligations of the U.S. Treasury with a remaining maturity of one year or more. Publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government.

ICE BofA 1-Year US Treasury Note Index is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month that issue is sold and rolled into a newly selected issue. The issue selected at each month-end rebalancing is the outstanding Treasury note that matures closest to, but not beyond, one year from the rebalancing date. To qualify for selection, an issue must have settled on or before the month-end rebalancing date.

Bloomberg Corporate U.S. High Yield Index - covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (e.g., Argentina, Brazil, Venezuela, etc.) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included. The index includes both corporate and non-corporate sectors. The corporate sectors are Industrial, Utility, and Finance, which include both U.S. and non-U.S. corporations. The Yankee sector has been discontinued as of 7/1/00. The bonds in the former Yankee sector have not been removed from the index, but

have been reclassified into other sectors.

Bloomberg Global Aggregate Index provides a broad-based measure of the global investment-grade fixed-rate debt markets. The Global Aggregate Index contains three major components: the U.S. Aggregate Index (USD 300 million), the Pan-European Aggregate Index (EUR 300 million), and the Asian-Pacific Aggregate Index (JPY 35 billion). In addition to securities from these three benchmarks (94.4% of the overall Global Aggregate market value), the Global Aggregate Index includes Global Treasury, Eurodollar (USD 300 million), Euro-Yen (JPY 35 billion), Canadian (CAD 300 million), and Investment-Grade 144A (USD 300 million) index-eligible securities not already in the three regional aggregate indices. The Global Aggregate Index family includes a wide range of standard and customized subindices by liquidity constraint, sector, quality, and maturity. The Global Aggregate Index is a component of the Multiverse Index.

The Bloomberg EM USD Aggregate Index is a flagship hard currency Emerging Markets debt benchmark that includes USD denominated debt from sovereign, quasi-sovereign, and corporate EM issuers. The index is broad-based in its coverage by sector and by country, and reflects the evolution of EM benchmarking from traditional sovereign bond indices to Aggregate-style benchmarks that are more representative of the EM investment choice set. Country eligibility and classification as an Emerging Market is rules-based and reviewed on an annual basis using World Bank income group and International Monetary Fund (IMF) country classifications. This index was previously called the Barclays US EM Index and history is available back to 1993.

S&P 500 Index – The S&P 500 index includes 500 leading companies in leading industries of the U.S. economy. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

The Dow Jones Industrial Average (DJIA) is an index used to measure the performance of the U.S. financial markets. Introduced on May 26, 1896 by Charles H. Dow, it is the oldest stock price measure in continuous use. Over the past century "the Dow" has become the most widely recognized stock market indication in the U.S. and probably in the entire world. Most of the stocks included in the index are listed on the New York Stock Exchange, and are all large blue-chip companies that reflect the health of the U.S. economy. All but a handful of these have major business operations throughout the world, thus providing some insight into the economic well-being of the global economy.

The NASDAQ-100 Index is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international issues listed on the NASDAQ. No security can have more than a 24% weighting. The index was developed with a base value of 125 as of February1, 1985. Prior to December 21, 1998 the Nasdaq 100 was a cap-weighted index.

MSCI EAFE Index is a capitalization weighted index that monitors the performance of stocks from Europe, Australiasia, and the Far East.

Indexes are unmanaged, do not incur management fees, costs, and expenses, and cannot be invested in directly.

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