

# Quarterly Market Update – Q1 2025

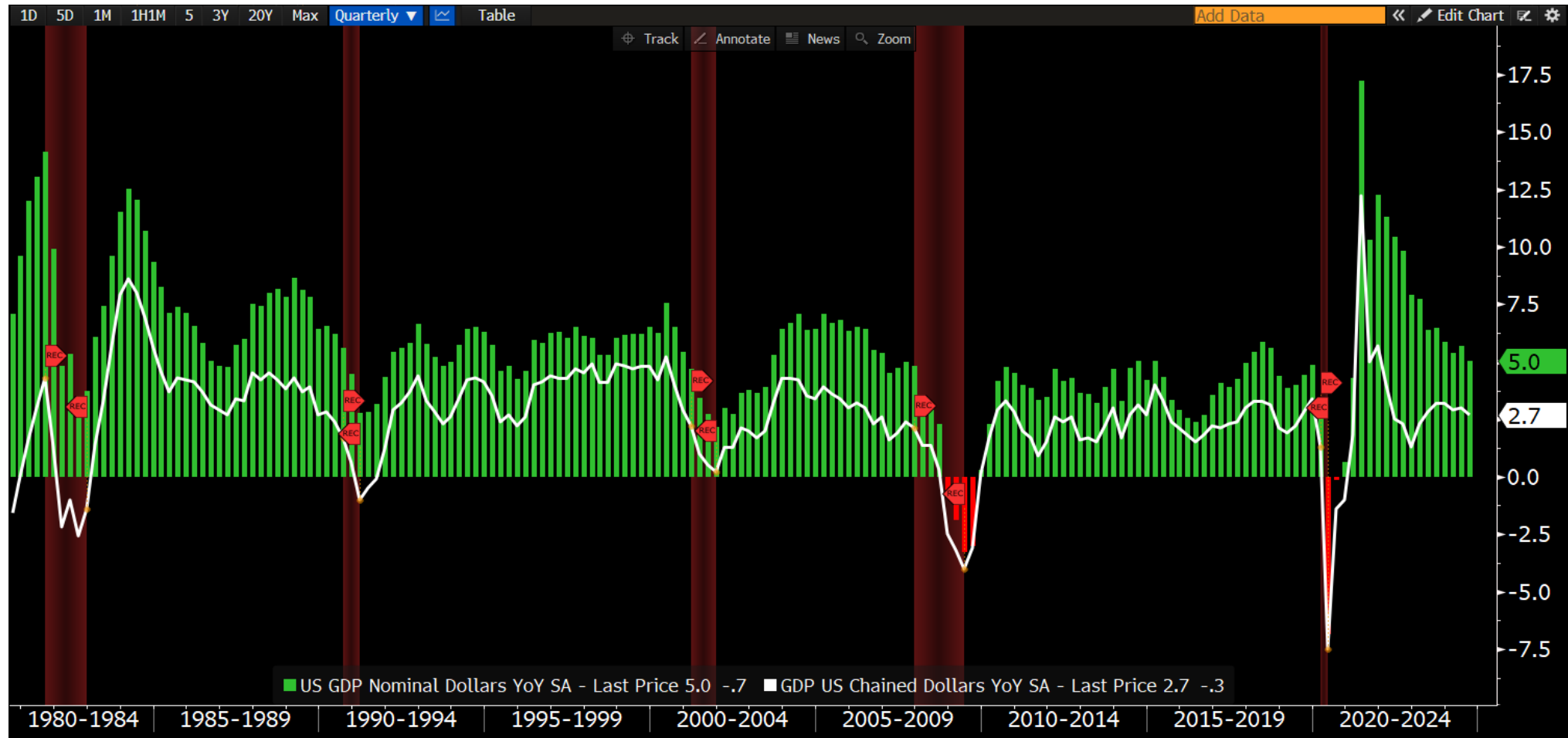
Jeff Dicks - Co-Chief Investment Officer

Jan 2025

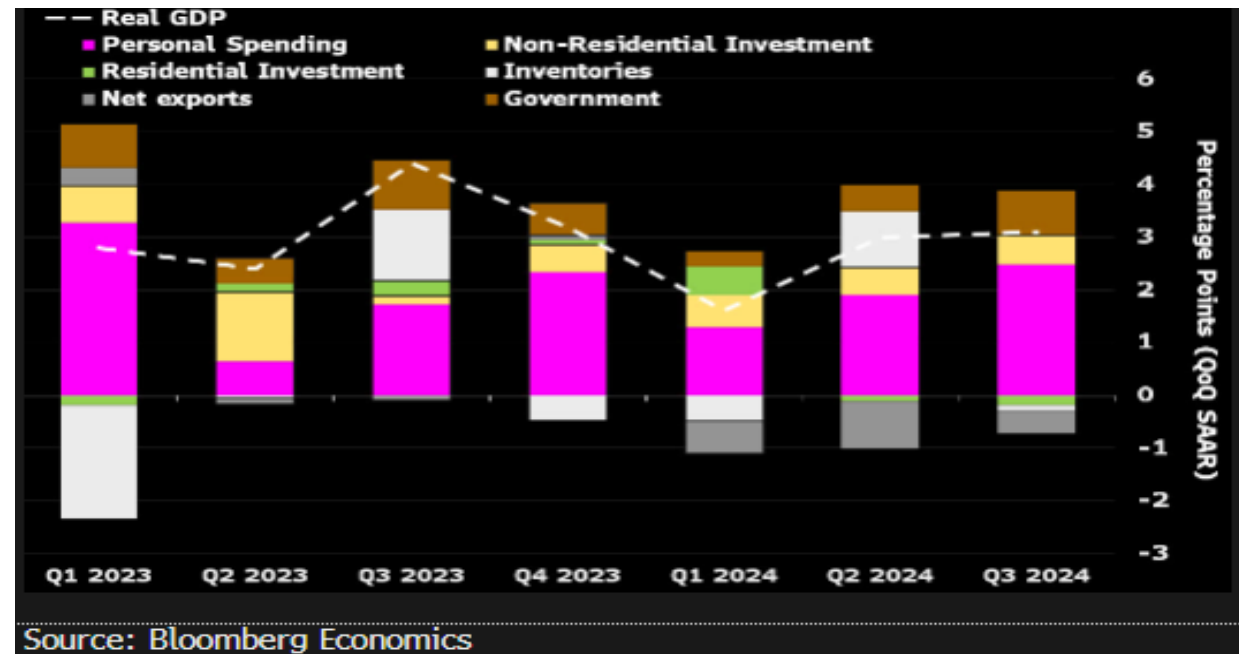
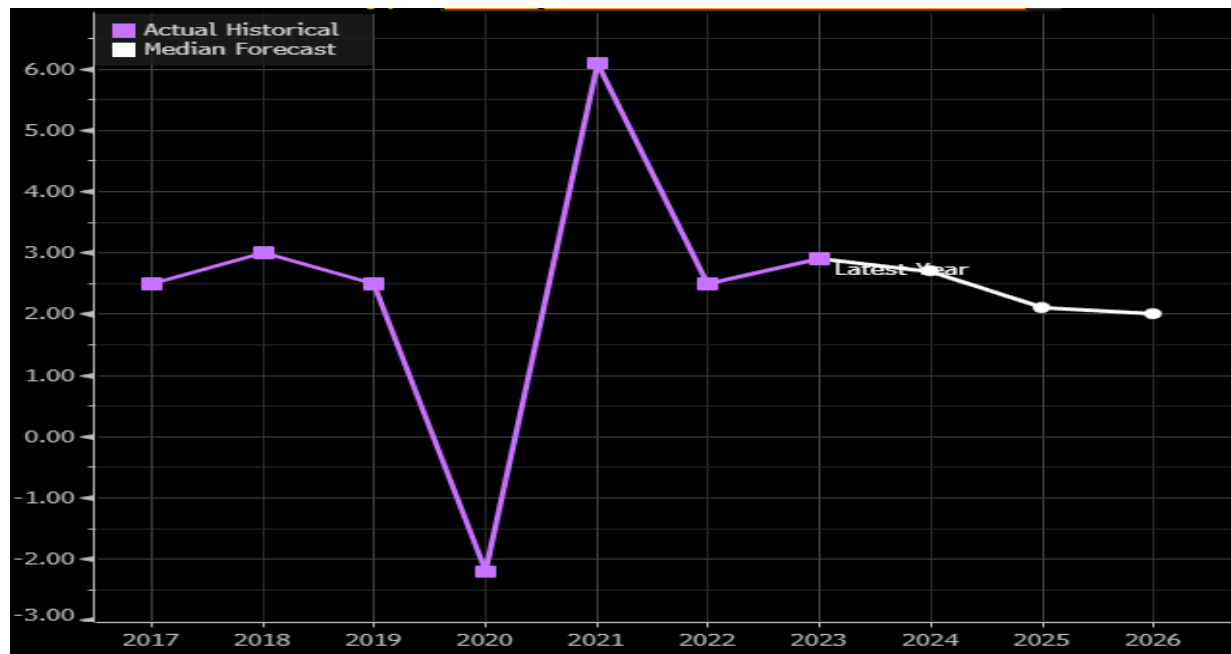


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# Nominal and Real US GDP Growth Remains Resilient

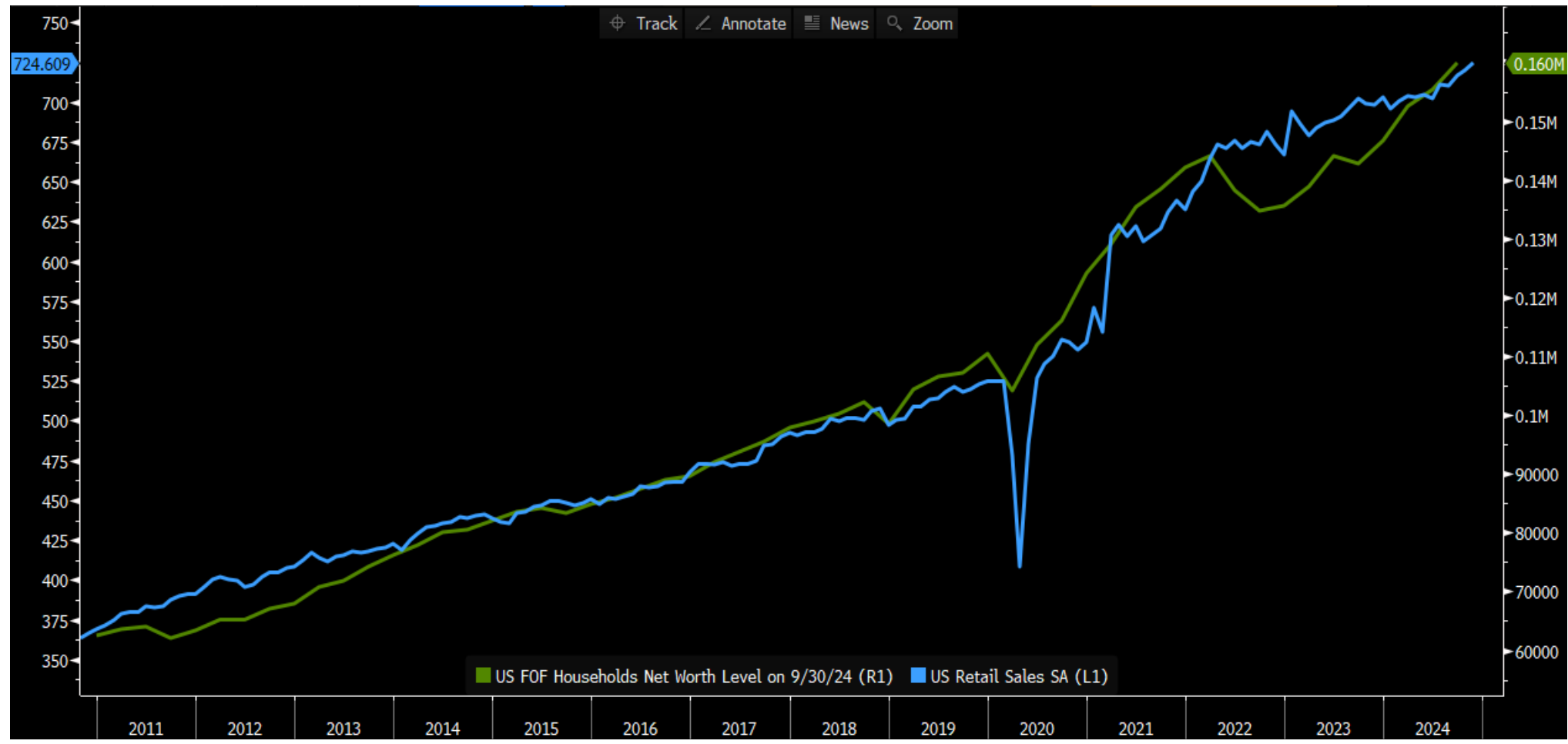


# GDP Estimates Point Towards Slower, but Reasonably Strong Growth

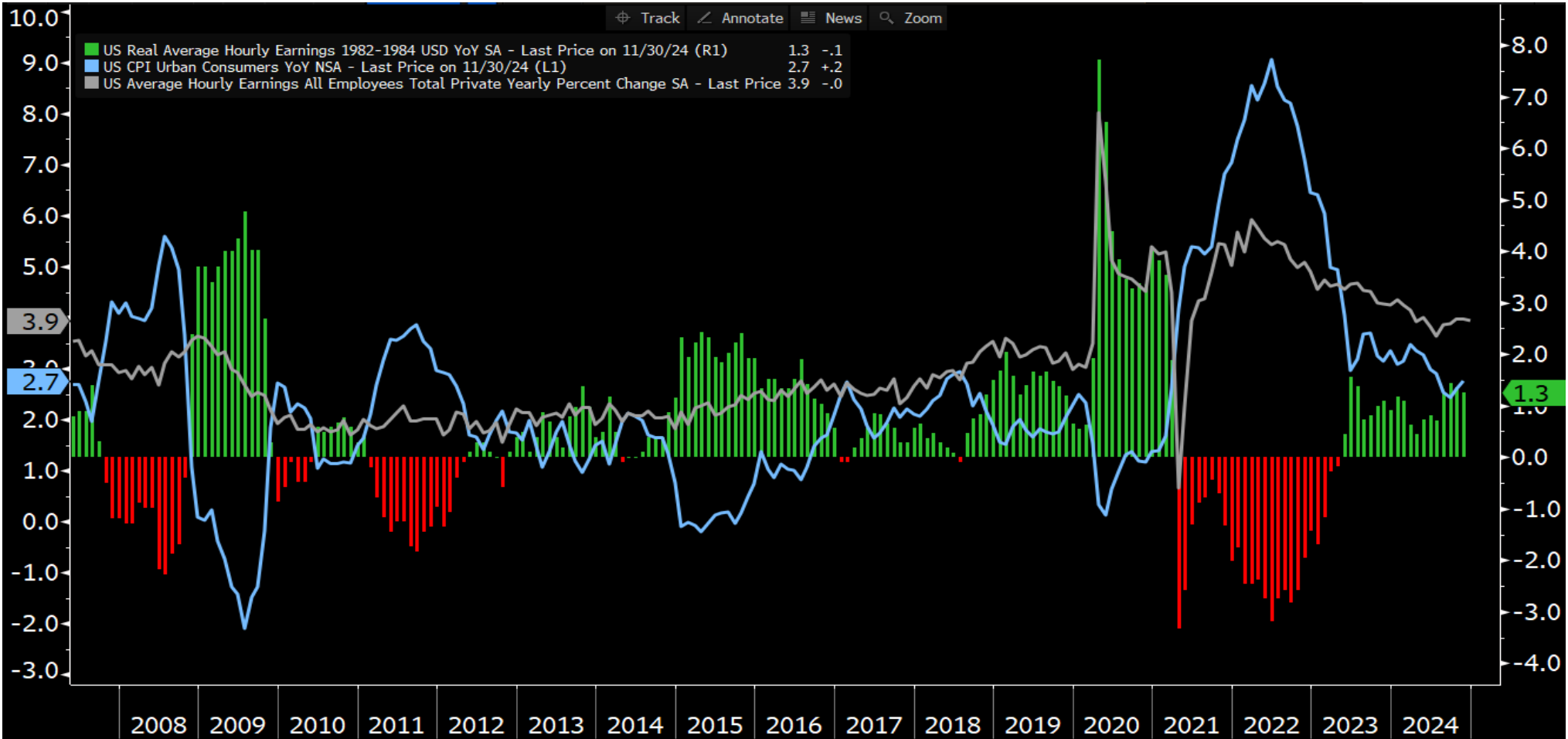


Source: Bloomberg Economics

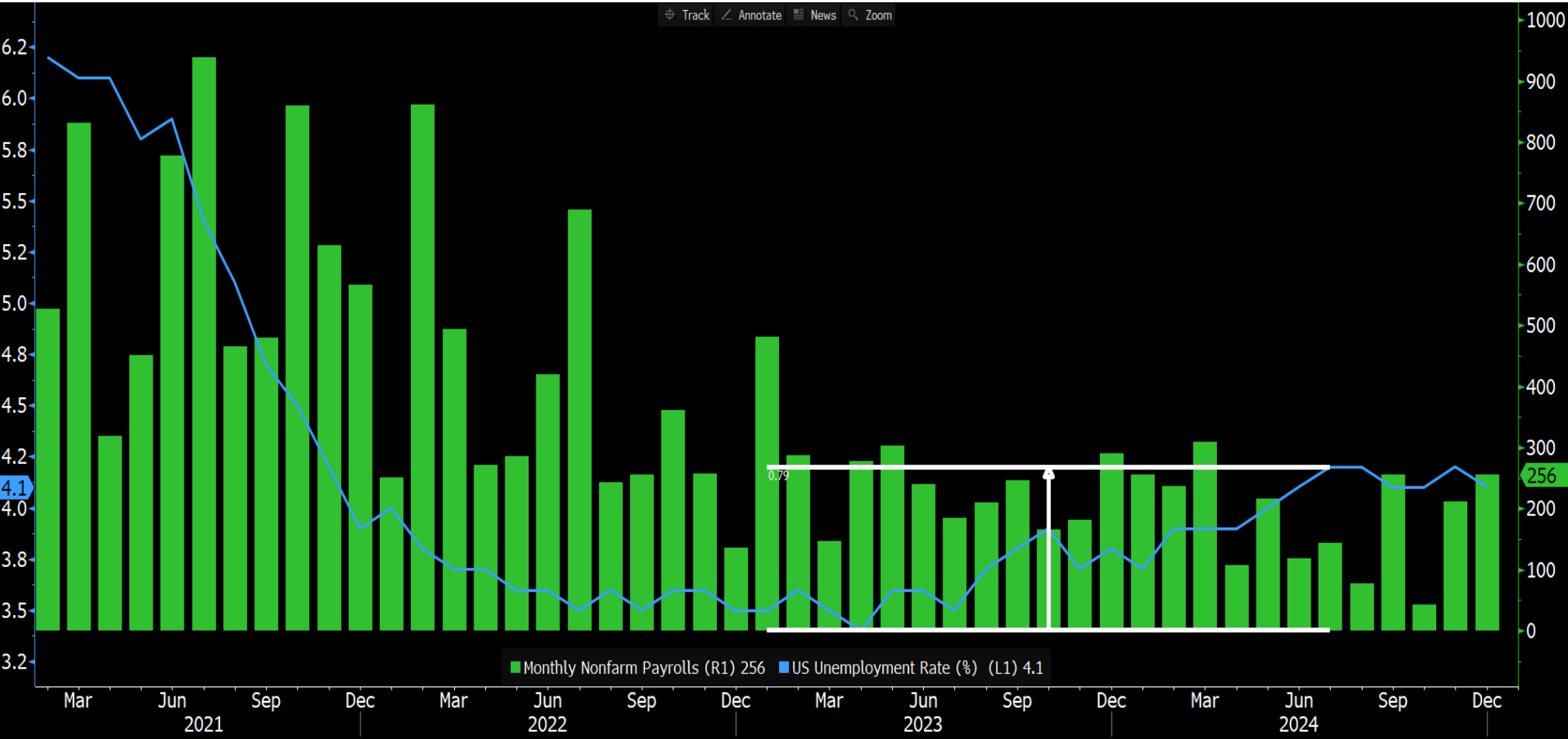
# Retails Sales Continue to Register New Highs Along with Household Net Worth



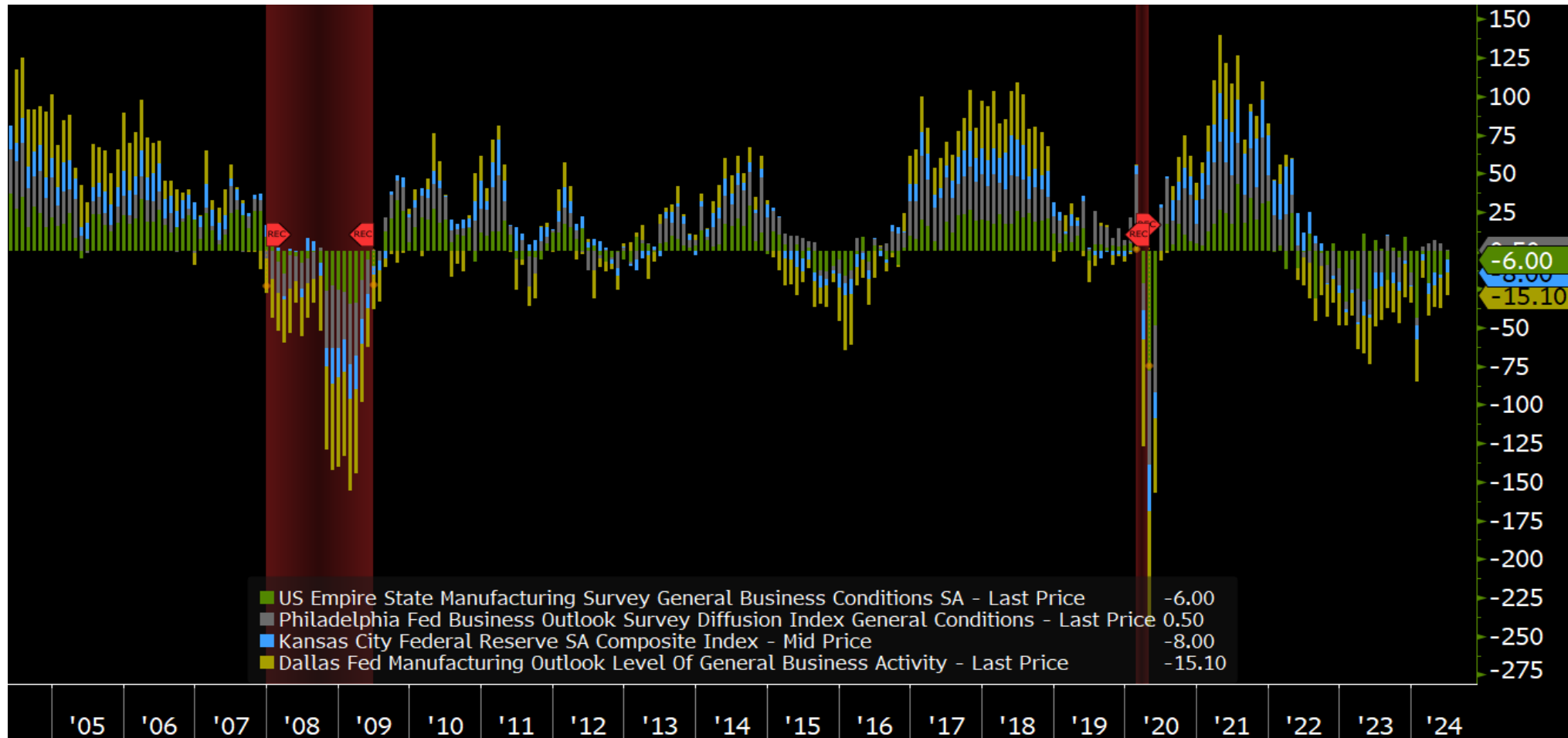
# Consumer Real Wages Expanding Point Towards Continued Consumer Strength



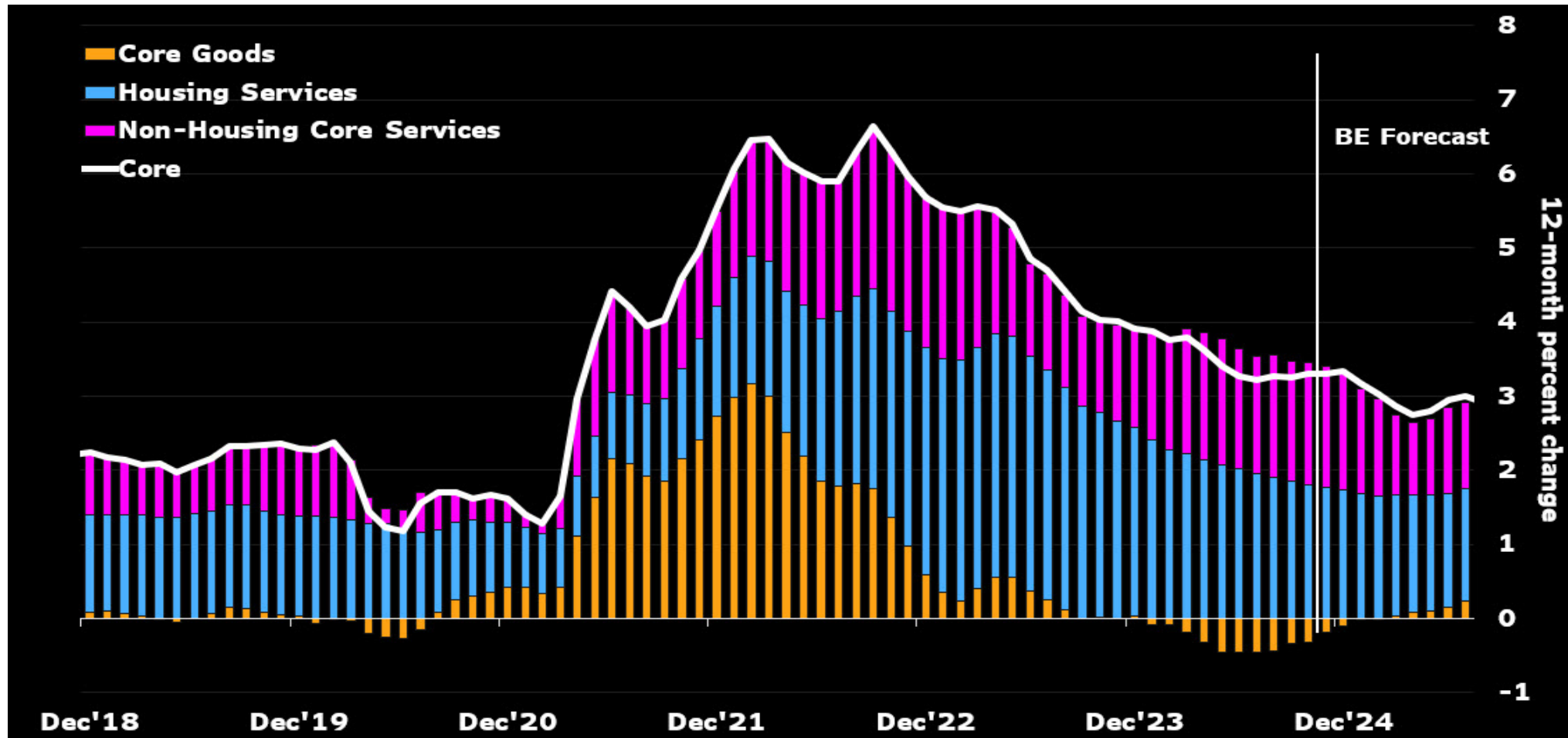
# The Jobs Market Softened in 2024, but Has Stabilized



# Manufacturing Sector Still in Contraction but Slowly Improving



# Inflation Has Come Down Sharply but Now Moving Sideways

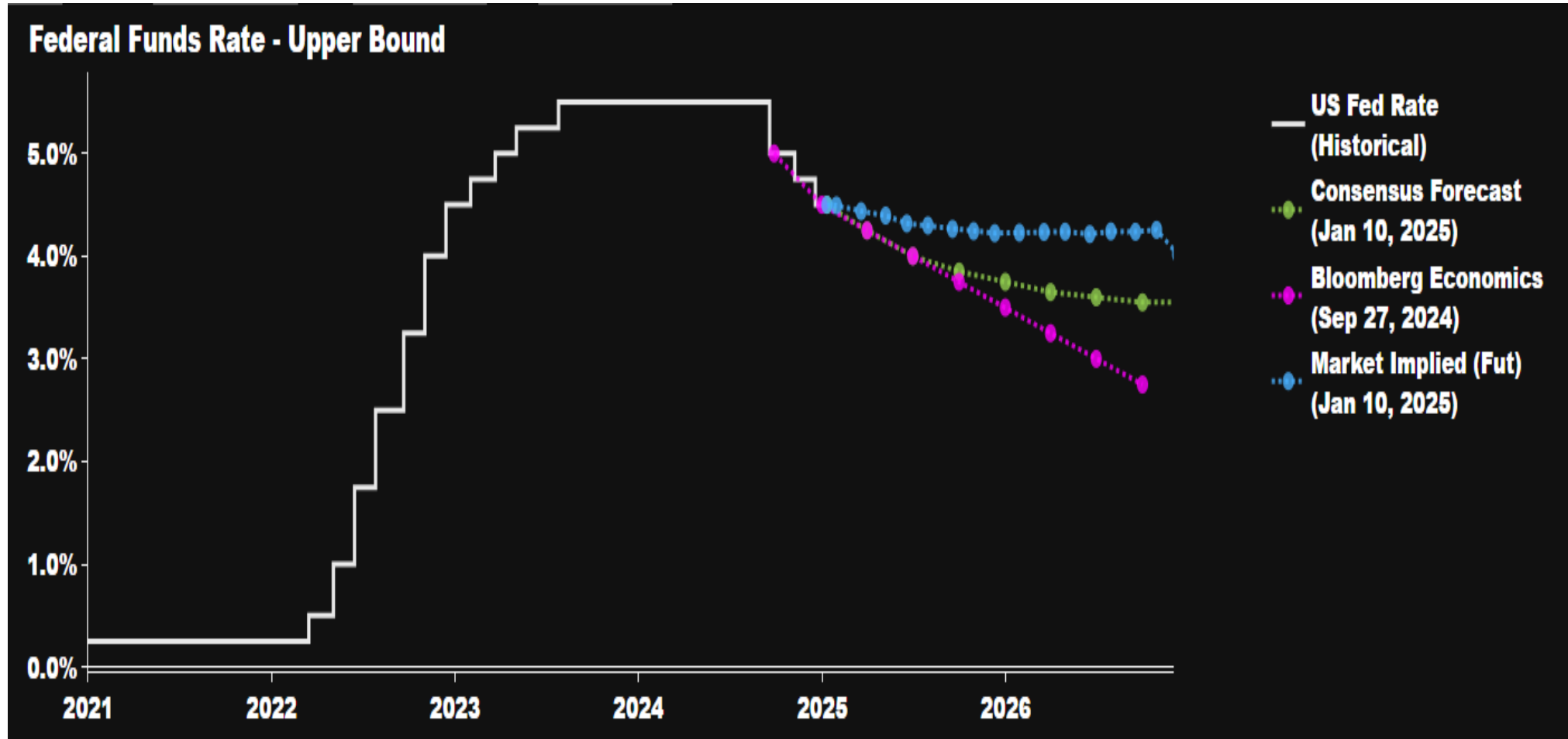




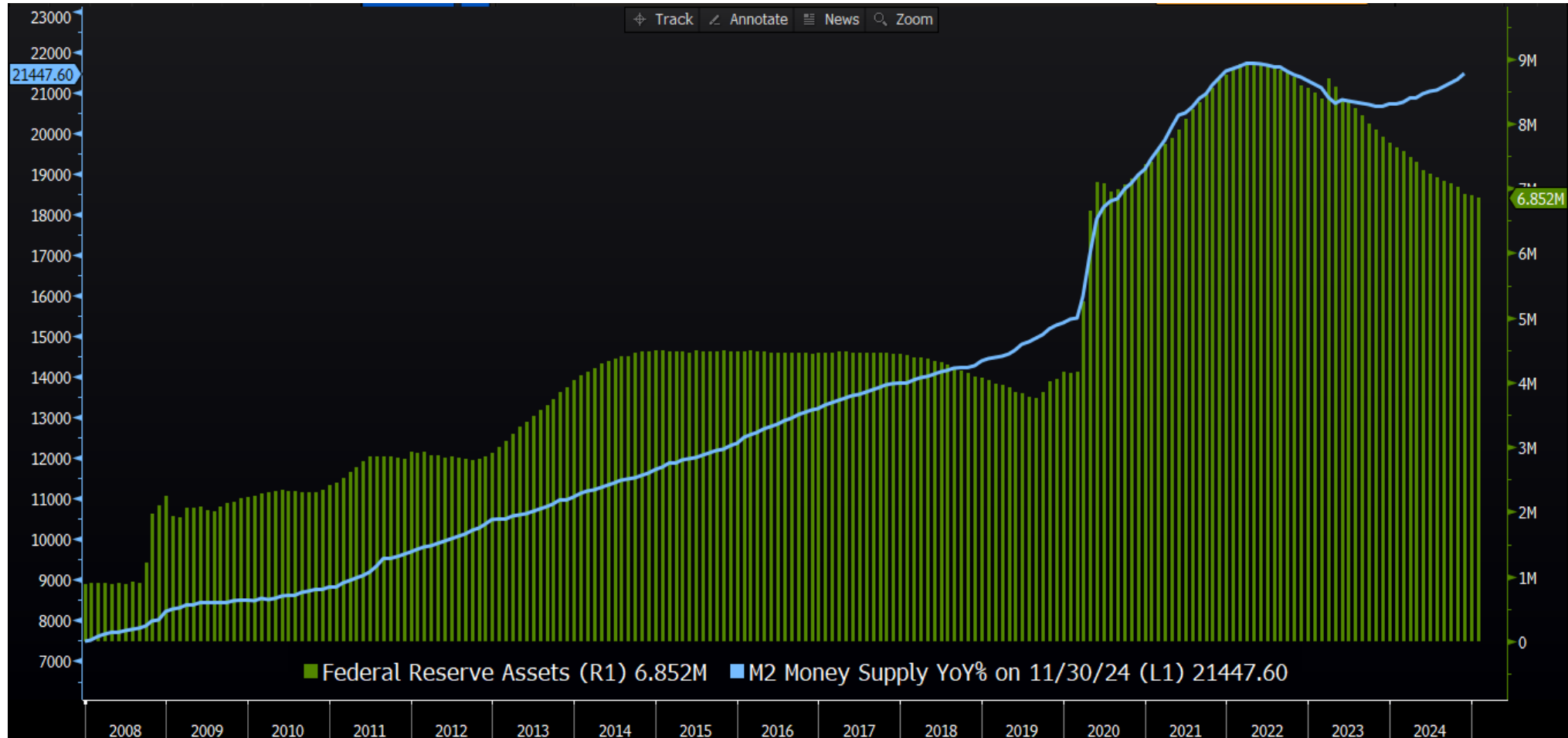
# While Inflation Expectations Have Moved Sharply Higher



# The Forward-Looking Fed Funds Rate Has Also Moved Higher



# And The Fed Balance Sheet Continues to Shrink



# Rising Inflation Expectations, Fewer Rate Cuts, and Shrinking Fed Balance Sheet Has Caused a Steep Rise in Rates



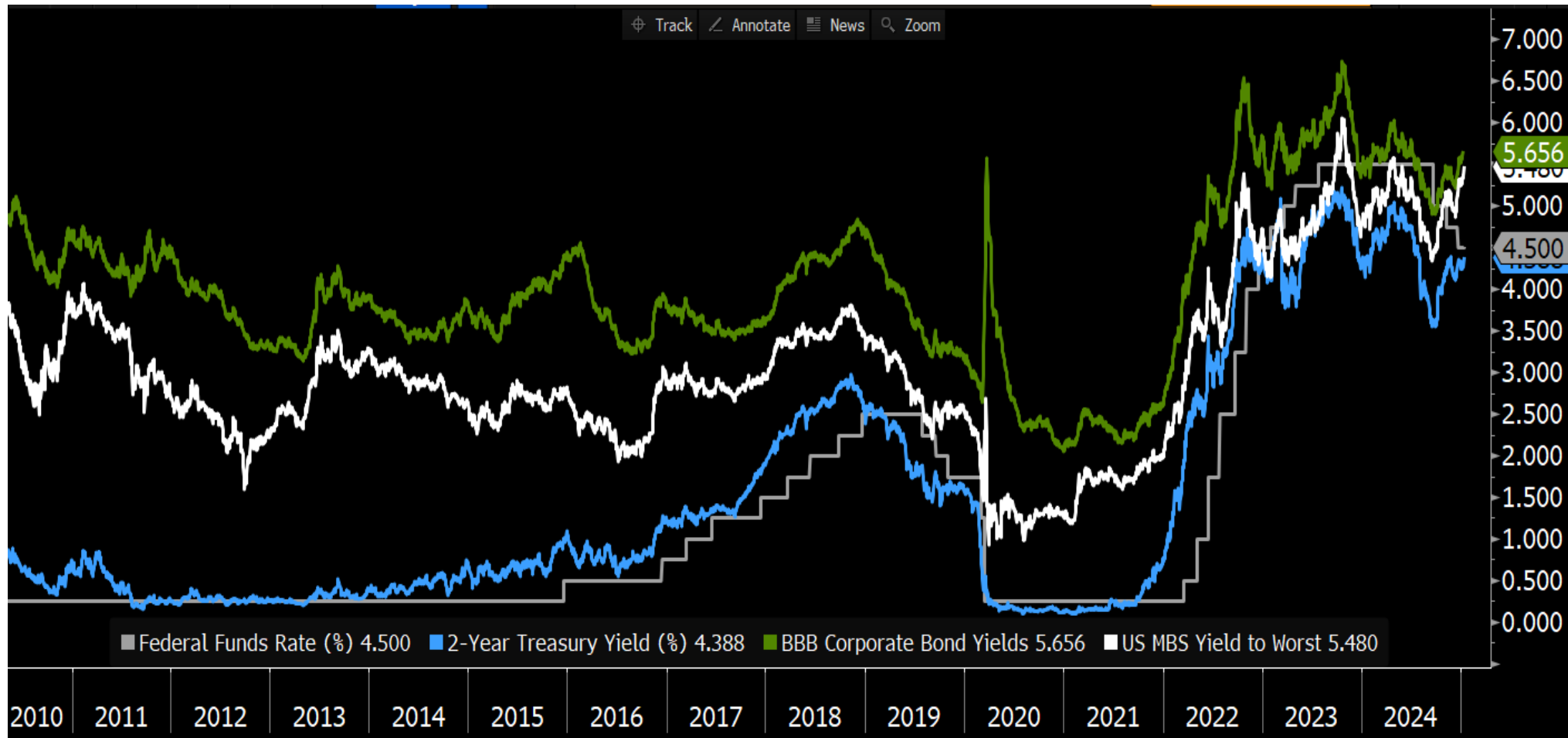
# This Has Led to Another Tough Year for Bonds



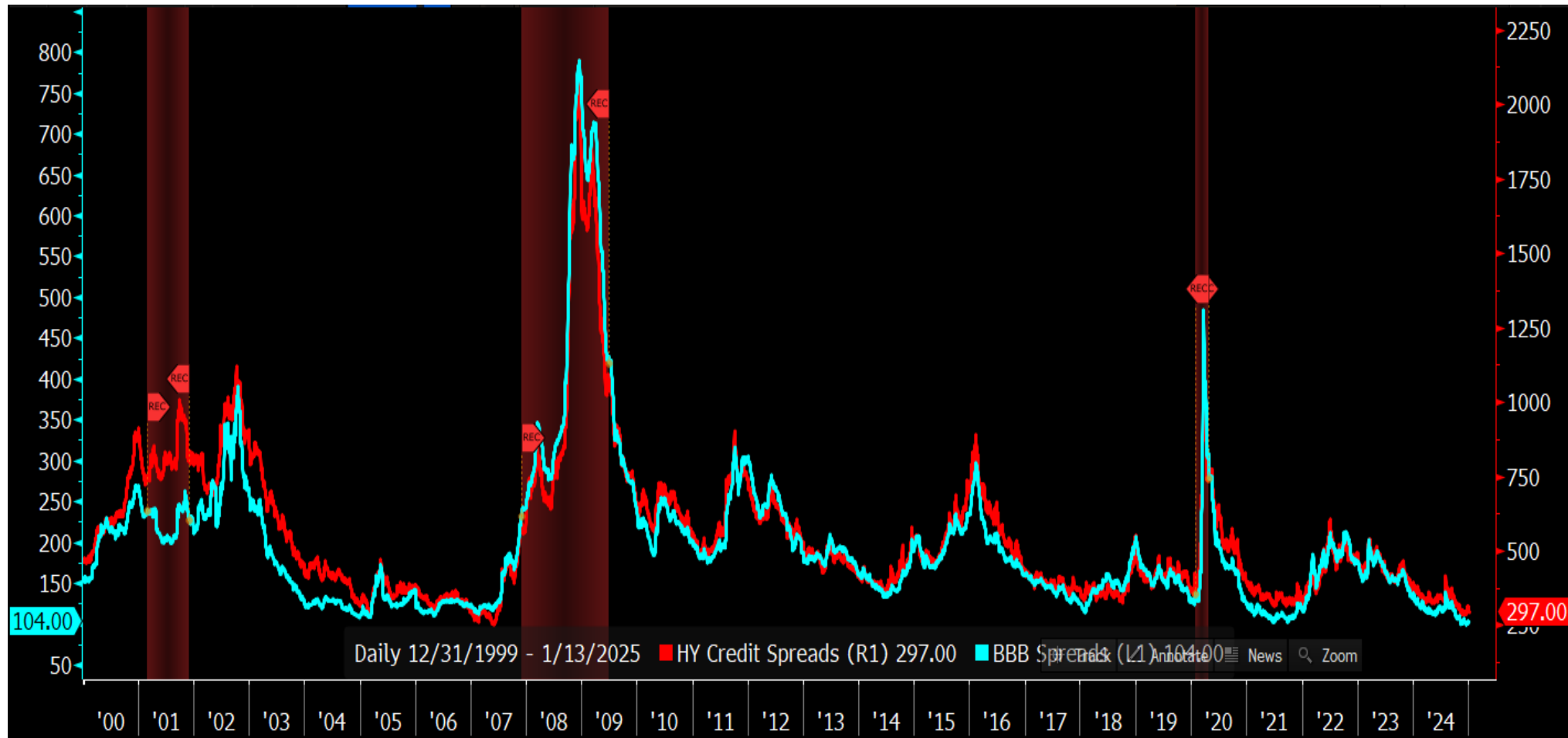
# And the Worst 5-Years Stretch For Bonds in the Last 20-Years



# Higher Rates Now Point to Attractive Forward Returns For Bonds



# Credit Spreads are the Tightest in 25-Years

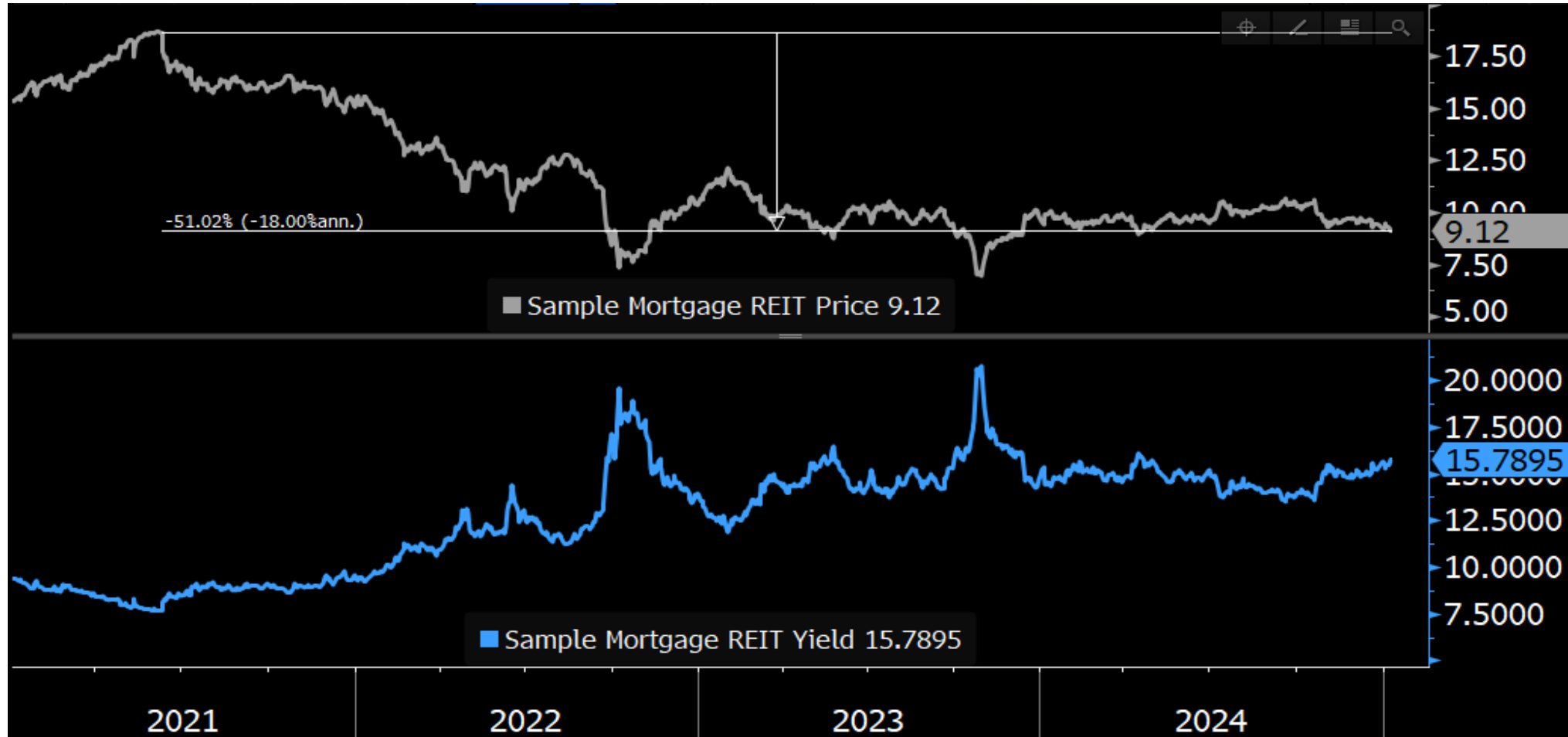




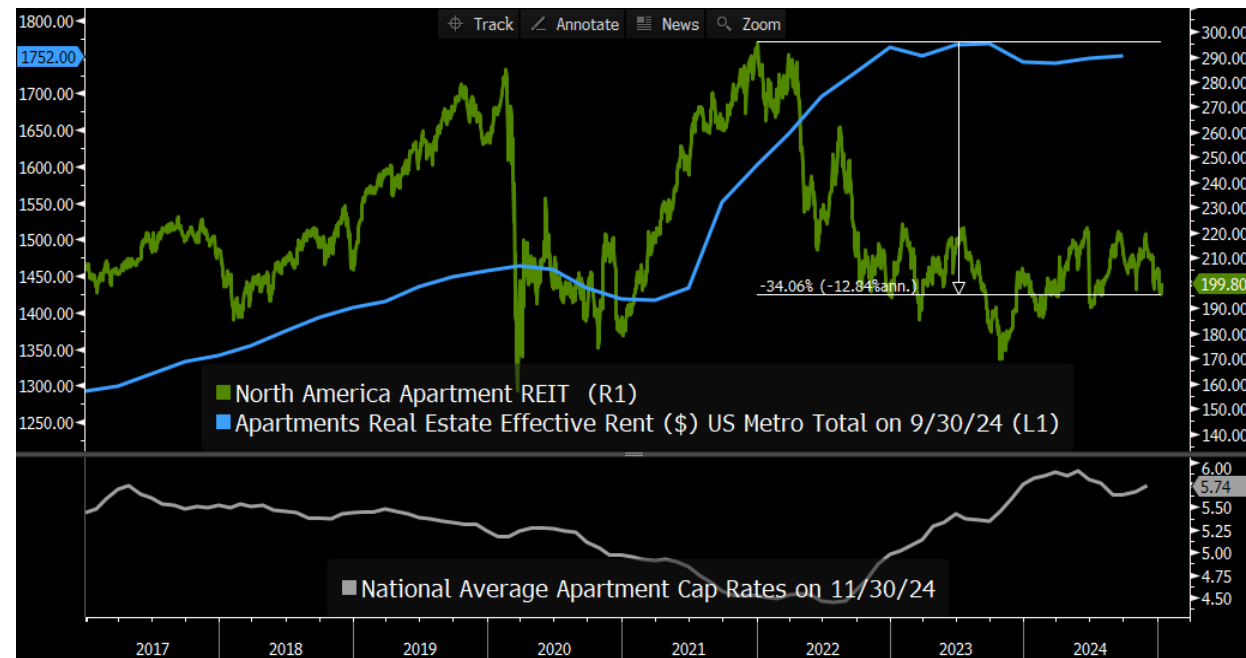
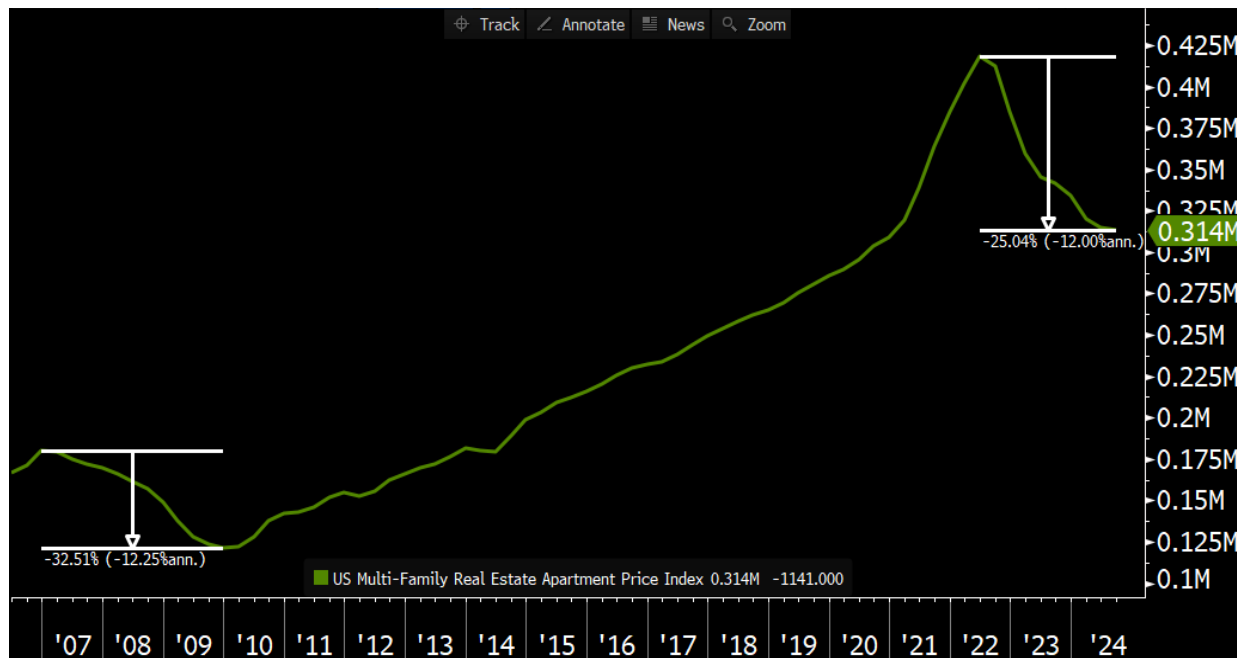
# Agency Mortgage-Backed Bond Spreads on the Other Hand Look Attractive



# Mortgage REITs Look Depressed and Offer High Cash Flows



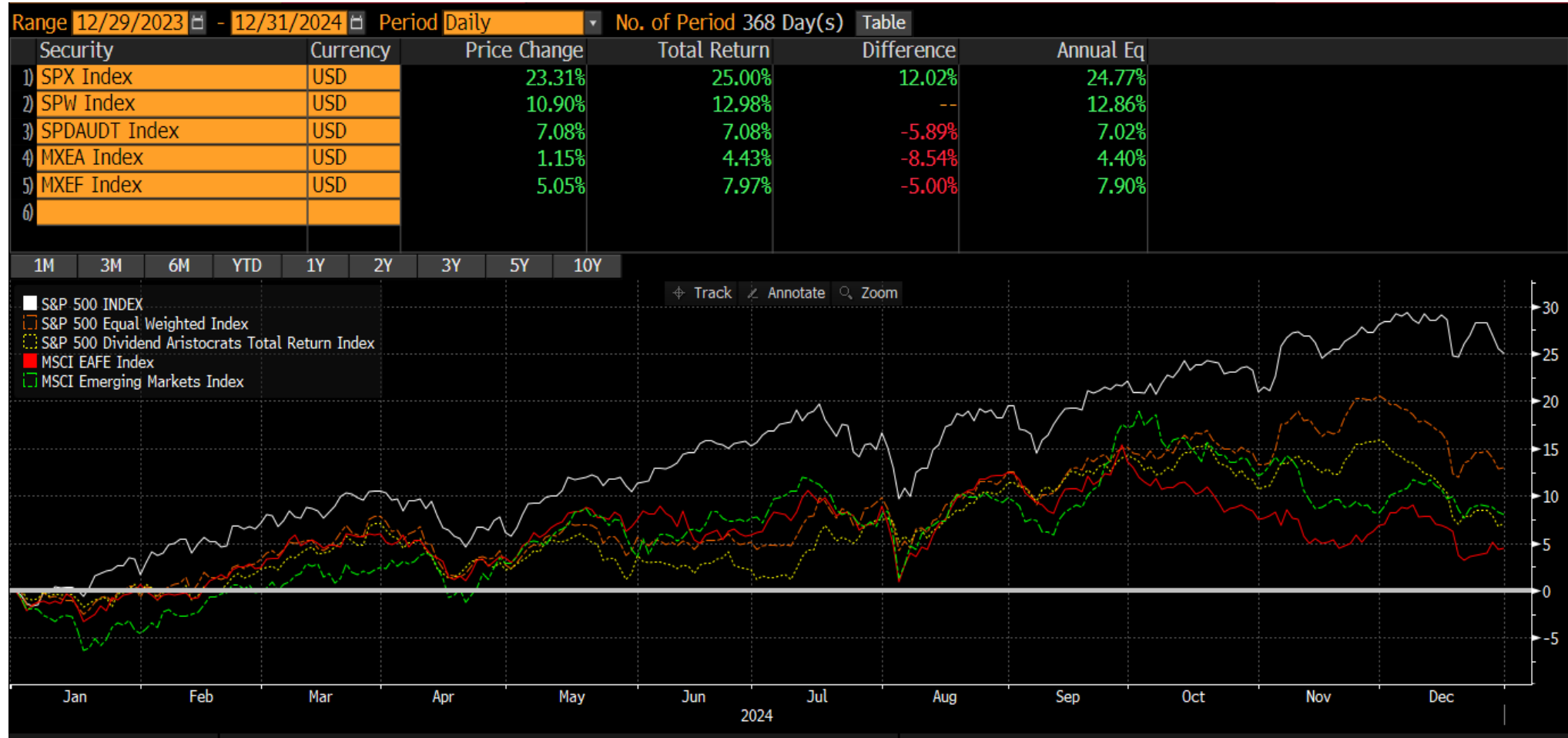
# Private and Public Multi-Family Real Estate Look Relatively Attractive



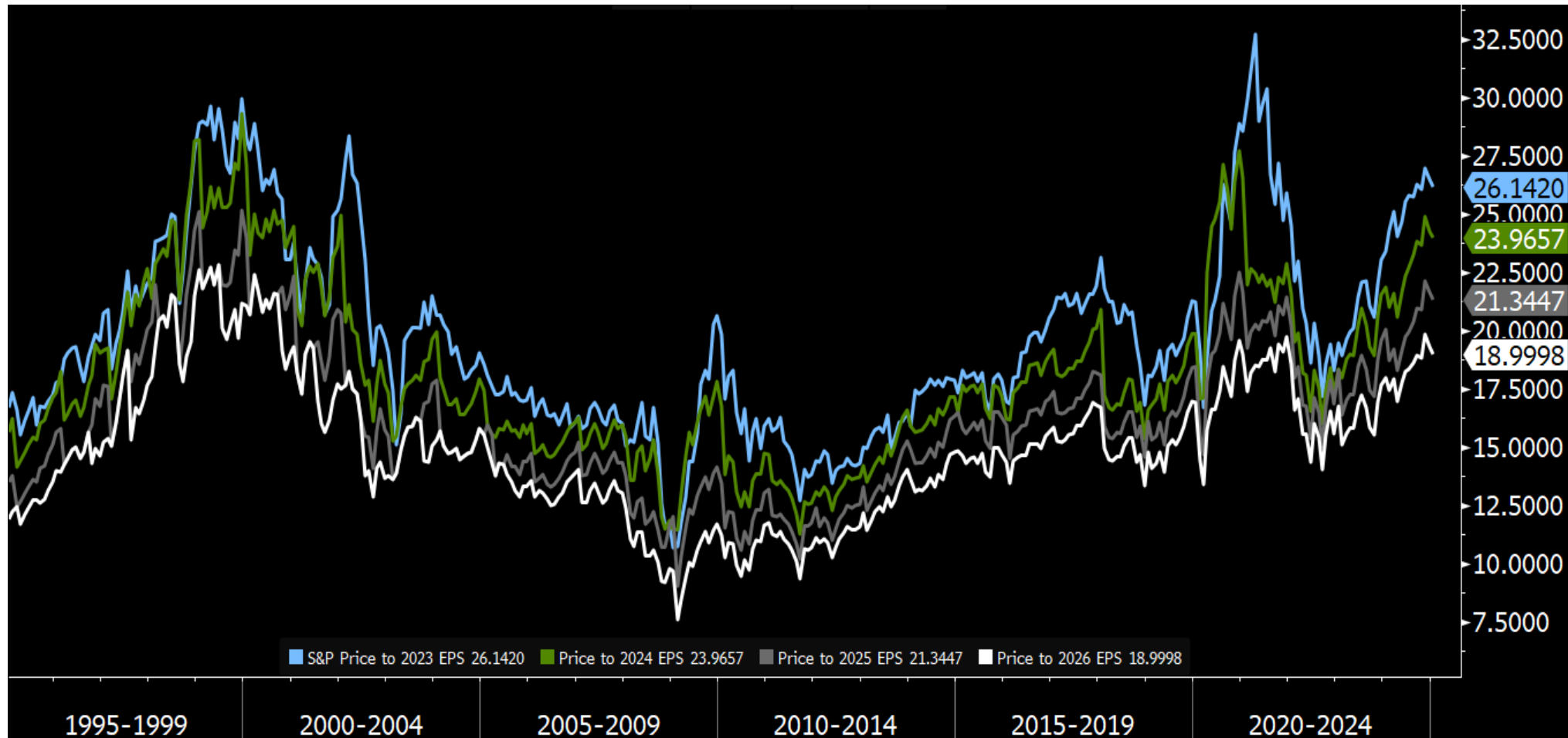
# Midstream Energy Still Screens Cheap with a Supportive Technical Uptrend



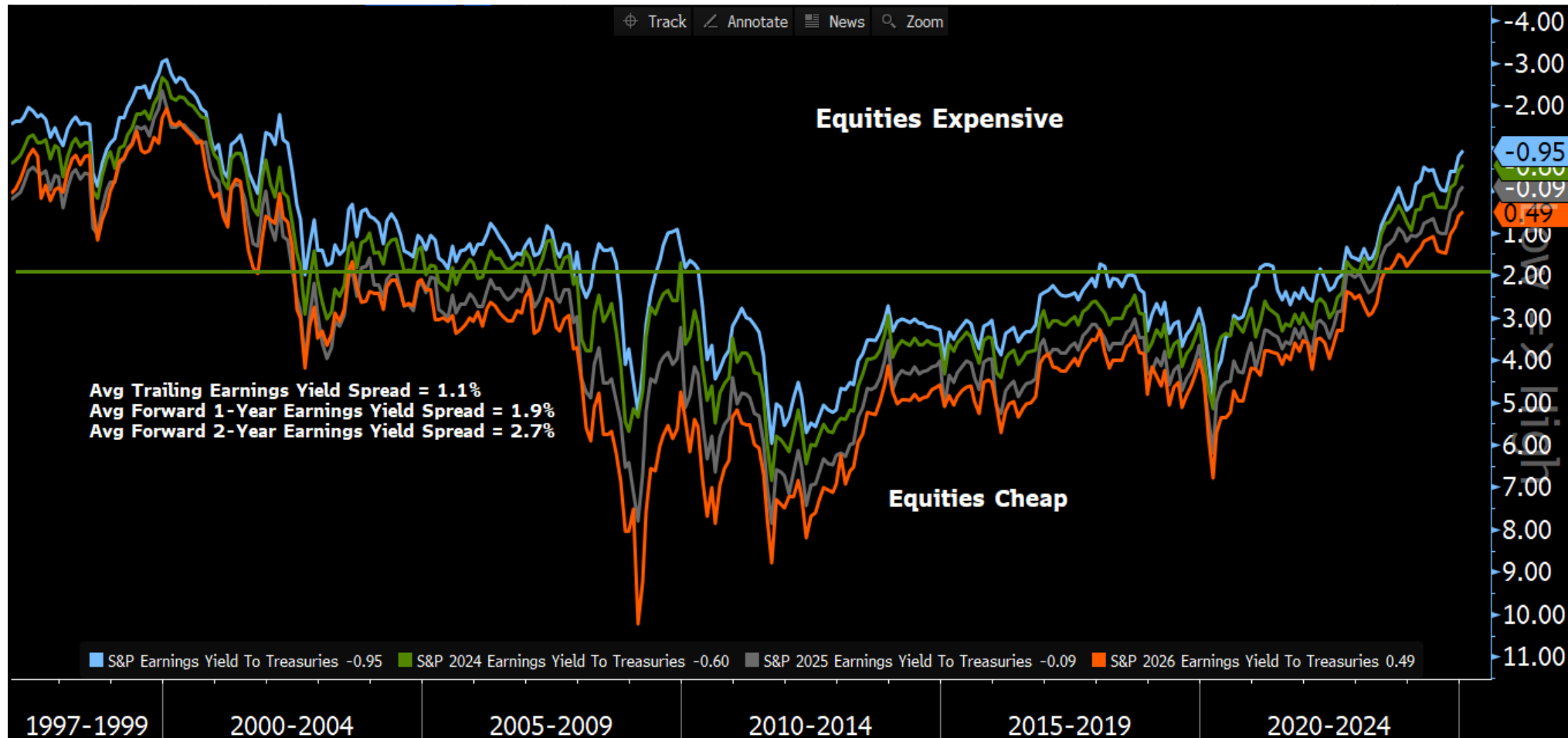
# Last Year Was Another Profitable Year for Stocks but Narrow Leadership



# Equity Market Valuation Looks Very Expensive



# Valuation Relative to Interest Rates Looks Even More Pricey



# The Magnificent 7 Look The Most Stretched

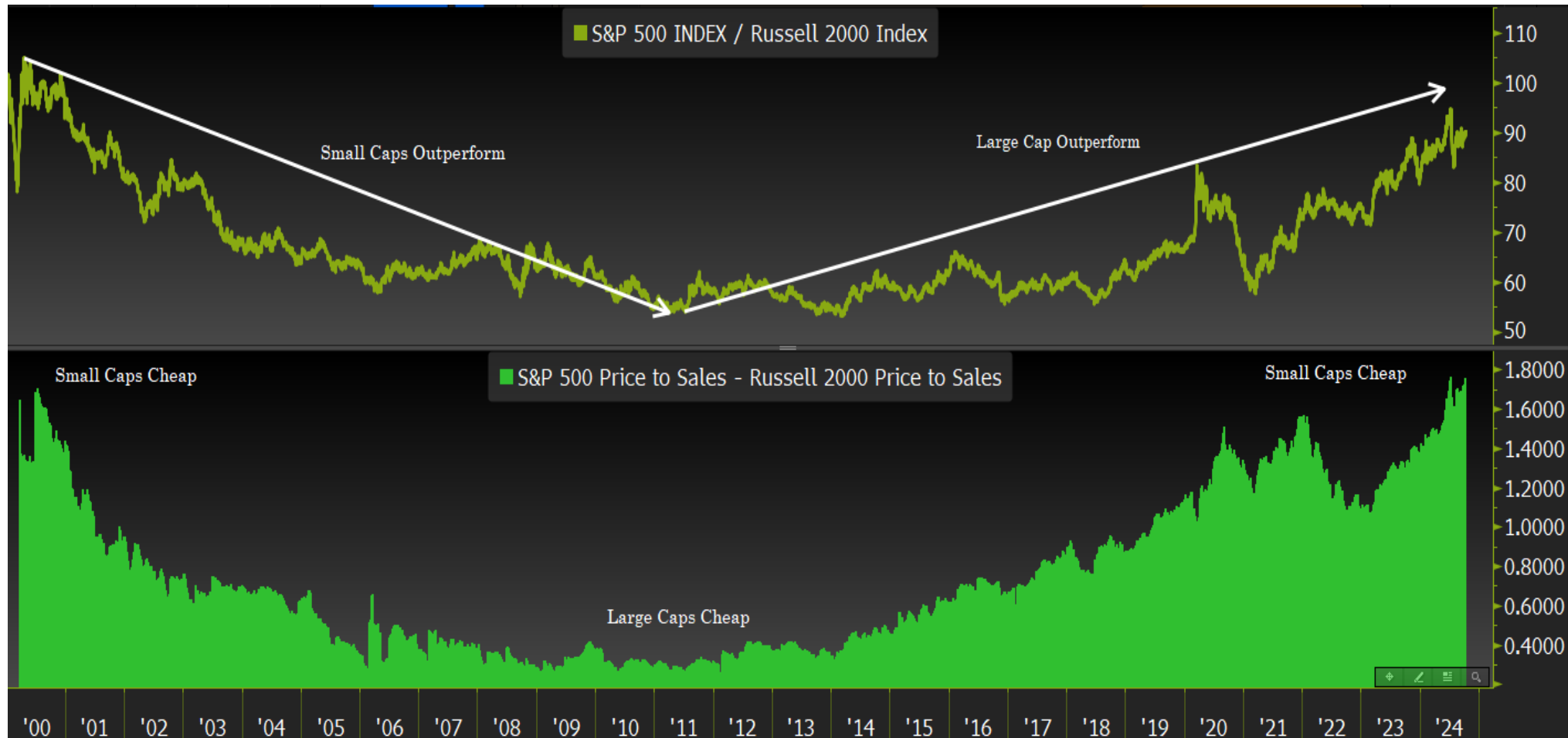




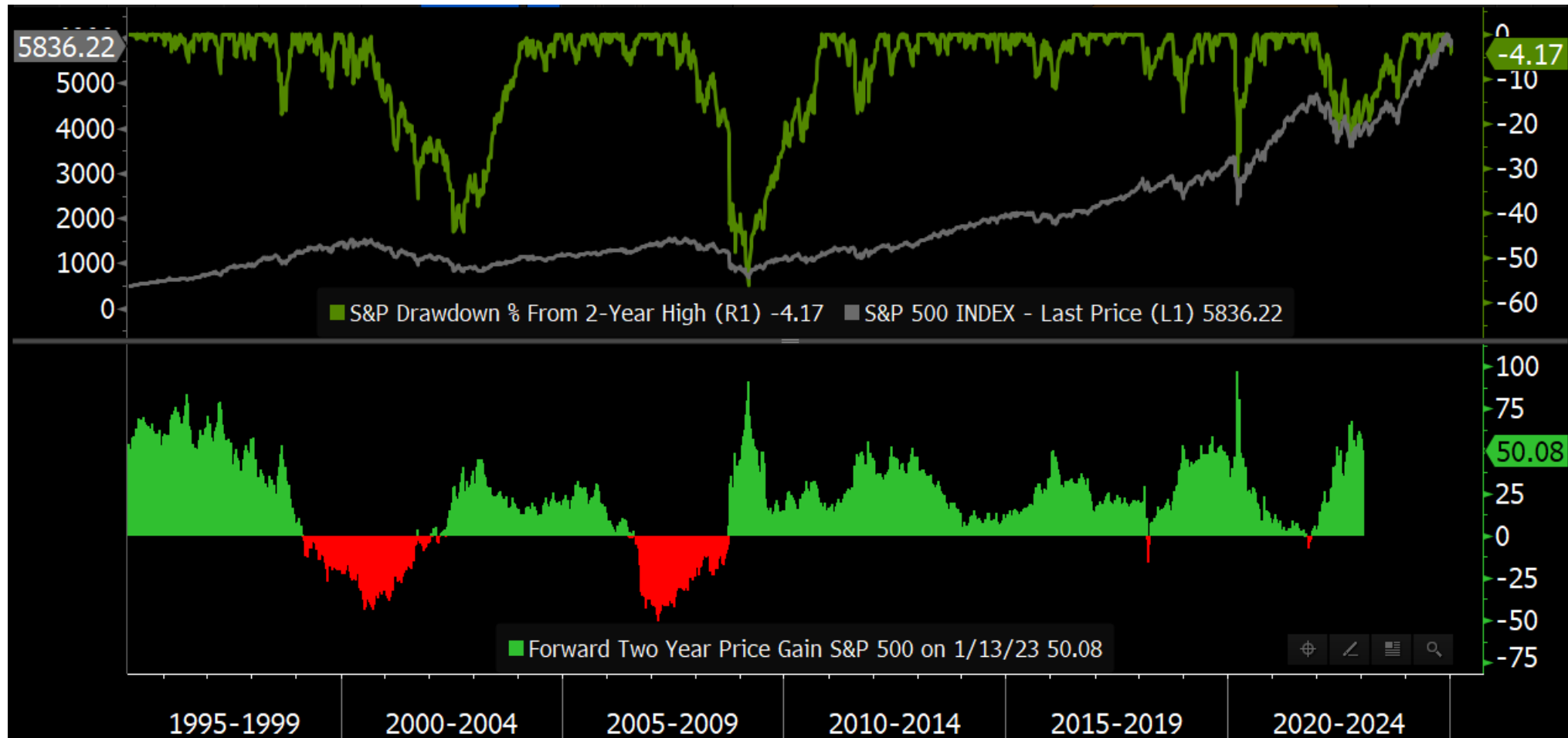
# Large Cap Growth Very Expensive vs. Large Cap Value



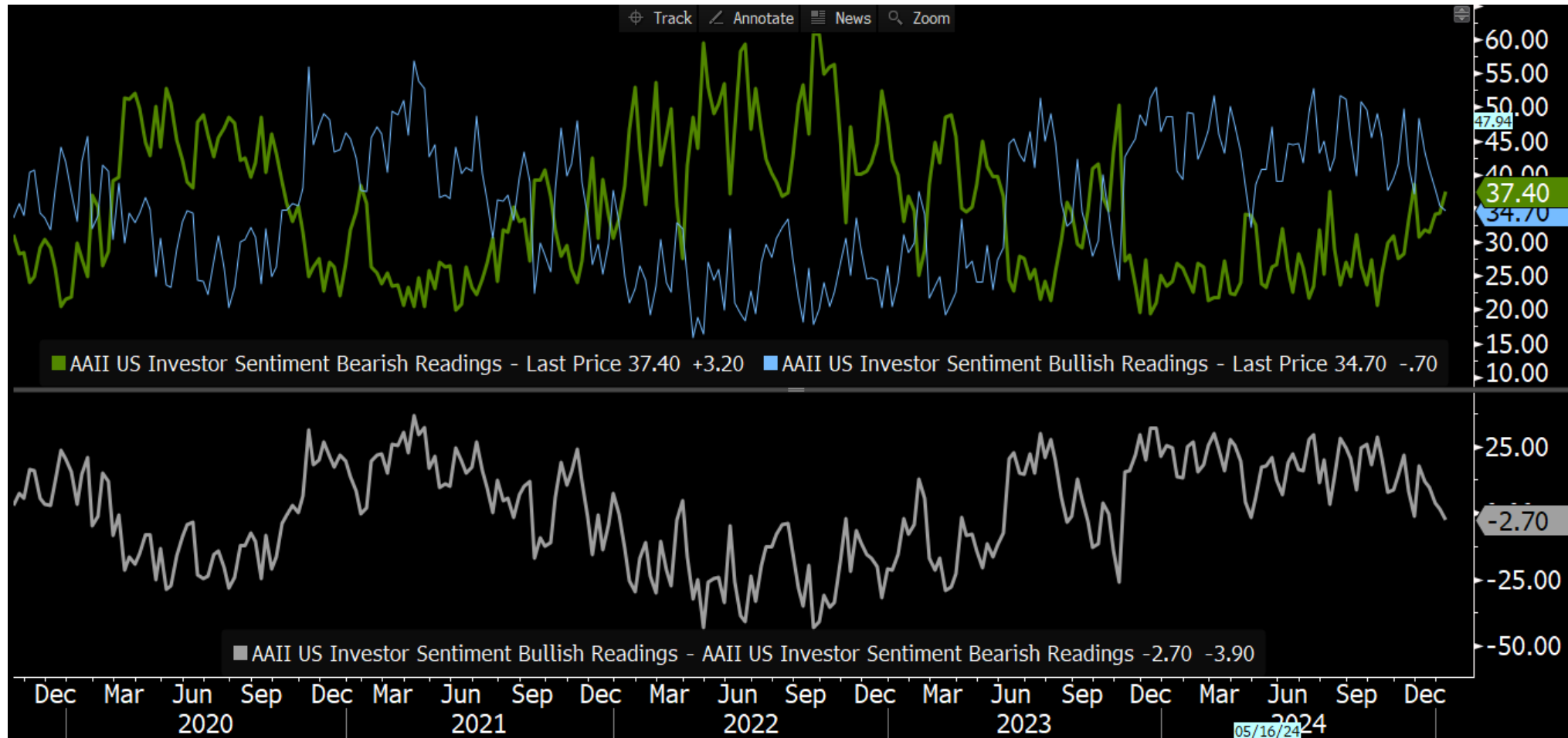
# Small Cap Stocks Trade Very Cheap Relative to Large Caps



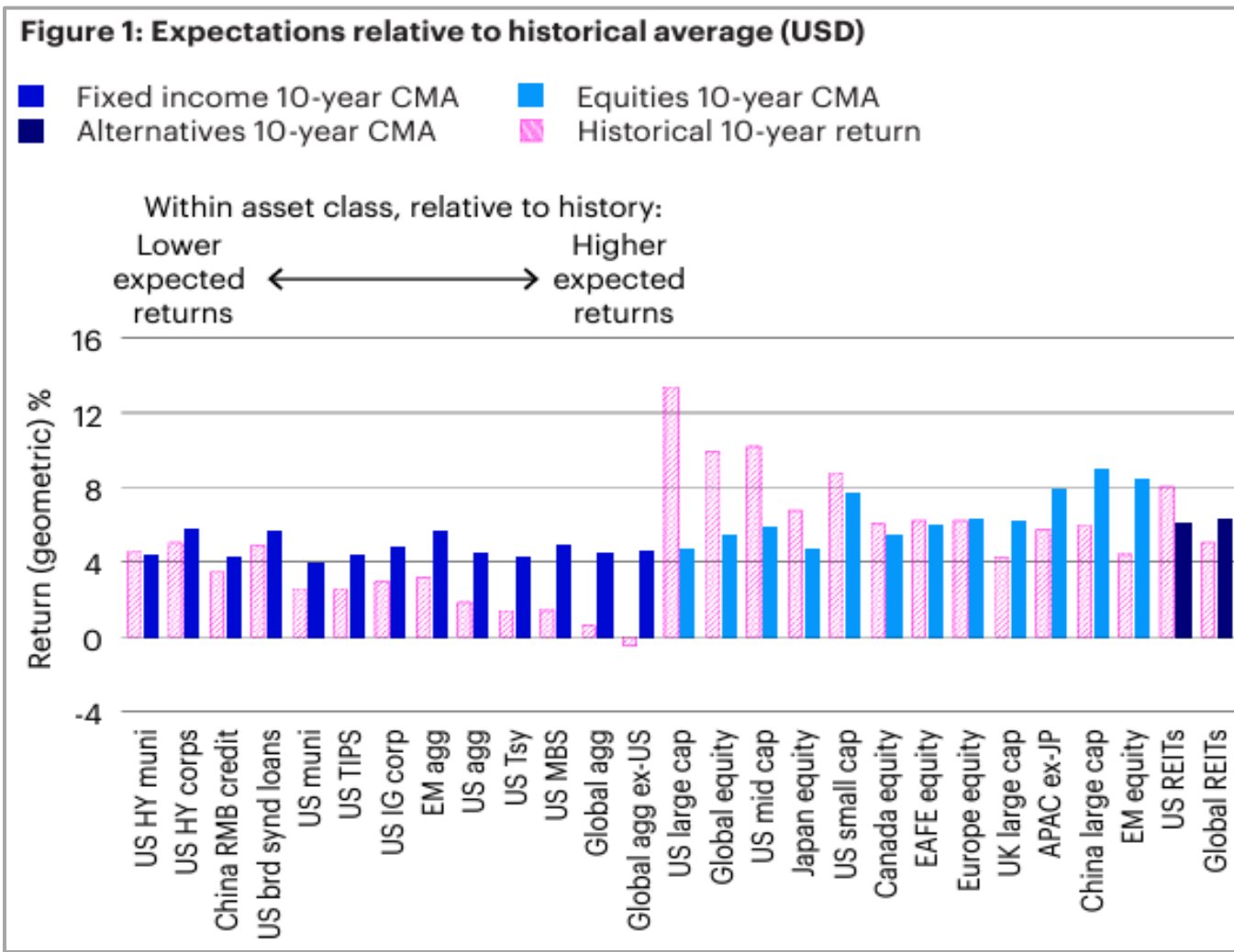
# Trailing 2-Year Returns Point Towards Consolidation or a Correction



# Wait for Sentiment to Become More Bearish to Get More Aggressive



# Capital Market Assumptions – Equity Returns Expectations Lower, Bonds Higher



Source: Invesco estimates as of 09/30/2024



Thank you!

Jan 2025

**Jeff Dicks**  
Co-Chief Investment Officer



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# Index Definitions

- *US GDP in Nominal Dollars is a statistic that represents the total market value of all final goods and services produced within the United States in a specific period, evaluated at current market prices.*
- *Chained-dollar GDP is a method of calculating the Gross Domestic Product (GDP) of a country by adjusting for inflation. This allows for comparisons to be made between different periods of time and is calculated by the Bureau of Economic Analysis.*
- *Real gross domestic product (GDP) is an inflation-adjusted measure that reflects the value of all goods and services produced by an economy within a given year and is sourced by the Bureau of Economic Analysis.*
- *Personal spending, Residential Investment, Non-Residential Investment, Inventories, and Government spending are all components that are added together to arrive at a cumulative GDP figure. This data is aggregated together by the Bureau of Economic Analysis.*
- *The GDP median forecast is the middle projection of a group of economists' GDP forecasts, arranged from lowest to highest.*
- *US FOF Households Net Worth Level NSA measures the non-seasonally adjusted net worth held by households calculated by subtracting total liabilities from total assets, collected and published by the Federal Reserve Board.*
- *US Retail Sales measures the total sales within the US economy excluding food services. Retail sales are a coincident indicator of how the economy, and particularly the consumer, is doing.*
- *US Real Average Hourly Earnings tracks the real (including impacts from inflation) aggregate weekly payrolls per hour worked by all employees, data collected and provided by the Bureau of Labor Statistics (BLS).*
- *The Consumer Price Index for All Urban Consumers (CPI-U) is a price index that measures the change in prices paid by urban consumers for goods and services and is published by the Bureau of Labor Statistics (BLS).*
- *Average Hourly Earnings is a monthly statistic published by the BLS representing the average wage rate calculated by dividing the total hourly wages paid over a given period by the number of hours worked.*
- *Monthly nonfarm payrolls is published by the Bureau of Labor Statistics and tracks payrolls within the US, excluding jobs that involve farming, self-employed individuals, nonprofit employment, as well as military and intelligence employment.*
- *US Unemployment Rate tracks the number of unemployed persons as a percentage of the labor force (the total number of employed plus unemployed), data collected and published by the Bureau of Labor Statistics (BLS). The US unemployment rate further includes discouraged workers to the labor force to provide a broader picture of underemployment.*
- *US Empire State Manufacturing Survey General Business Conditions SA is a survey conducted on a monthly basis by the Federal Reserve Bank of New York and tracks sentiment among manufacturers in the state of New York.*
- *Philadelphia Fed Business Outlook Survey Diffusion Index General Conditions is a survey, conducted on a monthly basis, and tracks sentiment among manufacturers in the Philadelphia Fed's district.*
- *Kansas City Federal Reserve SA Composite Index is a survey, conducted on a monthly basis, that tracks sentiment among manufacturers in the Kansas City Fed's district.*
- *Dallas Fed Manufacturing Outlook Level of General Business Activity is a survey, conducted on a monthly basis by the Federal Reserve Bank of Dallas, that tracks sentiment among manufacturers in Texas.*
- *The Core Consumer Price Index is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services excluding food and energy. Core goods & services and housing services are aggregated together by the BLS to total the Core Consumer Price Index.*
- *10-year inflation expectations represent the average rate at which market participants expect prices to rise.*
- *5-year inflation expectations represent the average rate at which market participants expect prices to rise.*
- *The FDTR Index, or Federal Funds Target Rate Index, is a measure of the target interest rate set by the central bank to influence short-term interest rates as a part of its monetary policy strategy.*
- *The Federal Funds Target Rate, Upper Bound, is the upper limit of the target interest rate range set by the FOMC.*
- *US Condition of All Federal Reserve Banks Total Assets is a weekly statistic that represents the total value of the assets of all Federal Reserve Banks as reported in the weekly balance sheet.*
- *Federal Reserve United States Money Supply M2 SA is the Federal Reserve's estimate of the total money supply available in the economy.*
- *Treasury Yield is the effective annual interest rate that the U.S. government pays on a given debt obligations (2-year, 5-year, 10-year, etc.), representing the annual return investors can expect from holding a U.S. government security with a given maturity.*
- *The Bloomberg U.S. Aggregate Bond Total Return Index is designed to measure the performance of publicly issued U.S. dollar denominated investment-grade debt.*
- *The Markit iBoxx USD Liquid Investment Grade Index consists of liquid USD investment grade bonds, which provide a balanced representation of the USD liquid investment grade corporate bond universe.*
- *The Markit iBoxx USD Liquid High Yield Index consists of liquid USD high yield bonds, selected to provide a balanced representation of the USD high yield corporate bond universe.*
- *BBB Bond Yields represents the effective yield of the ICE BofA BBB US Corporate Index, or the lowest-rung of the Investment-grade bond universe.*
- *The yield-to-worst (YTW) of US mortgage-backed securities (MBS) is the lowest yield that could be received on an agency issued MBS bond if it were to be retired early. YTW is a way to evaluate the worst-case scenario for a bond's yield.*
- *HY Credit Spreads are the additional interest rates above U.S. Treasuries, that investors demand to hold high yield (lower credit quality) corporate bonds, indicating the compensation for the increased credit risk associated with these bonds.*
- *BBB Spreads are the difference in yields between corporate bonds with a BBB credit rating and U.S. Treasuries, indicating the premium investors require to hold medium-grade corporate debt compared to safer government bonds.*
- *The spread of a mortgage-backed security (MBS) is the difference between the yield on an MBS and the yield on a comparable U.S. Treasury.*

# Index Definitions

- The Russell 2000 Index tracks performance of 2,000 small-cap publicly traded companies in the United States weighted based on market capitalization published FTSE Russell as a benchmark for small-cap stocks.
- The S&P 500 PS Ratio, or Price-to-Sales Ratio, is a measure that compares the current market price of S&P 500 stocks to their sales per share. The PS ratio for the S&P 500 is calculated by dividing the current market price of the S&P 500 by the total sales per share of its constituent companies.
- The Russell 2000 PS Ratio, or Price-to-Sales Ratio, is a measure that compares the current market price of Russell 2000 stocks to their sales per share. The PS ratio for the Russell 2000 is calculated by dividing the current market price of the Russell 2000 by the total sales per share of its constituent companies.
- A mortgage REIT (mREIT) is a specialized financial vehicle that invests in mortgages and mortgage-backed securities (MBS), generating income primarily through interest payments. Unlike equity REITs that directly own and manage physical real estate, mREITs focus on debt associated with real estate properties.
- The Multi-Family Real Estate Apartment Price Index is a metric that tracks the price of multifamily properties. It can be used to understand how the multifamily investment environment is changing over time and is compiled by the Board of Governors of the Federal Reserve System quarterly.
- BI North America Apartment REIT Valuation Peer Group is an equal-weighted basket of peers in the apartment space with their corresponding prices.
- Apartments Real Estate Effective Rent (\$) gives an average rent amount in U.S. metropolitan areas.
- A Cap Rate is net operating income divided by the market value or sales price of a building helping to value an asset based on the cash flow profile of the asset.
- The Alerian MLP Index is the leading gauge of energy infrastructure Master Limited Partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX).
- The Standard and Poor's 500, or simply the S&P 500, is a stock market index tracking the stock performance of 500 of the largest companies listed on stock exchanges in the United States and is weighted using a free-float market capitalization methodology.
- The Performance differential of the Alerian MLP Index and the S&P is the total return of the Alerian MLP Index minus the S&P 500 total return 500 and is indexed to 100 at the inception of the presented time series.
- The Price/Cash Flow ratio of the S&P 500 and the Price/Cash Flow ratio of the Alerian MLP Index is the market price of each index divided by the respective operating cashflow of each company multiplied by their weight within each index. These two multiples are presented as a differential between the Alerian MLP Index P/CF and the S&P 500 Index P/CF.
- The S&P 500 PE Ratio, or Price-to-Earnings Ratio, is a measure that compares the current market price of S&P 500 stocks to their earnings per share. The PE Ratio for the S&P 500 is calculated by dividing the current market price of the S&P 500 by the total earnings per share of its constituent companies for each corresponding year. This can also be measured on a forward estimate basis.
- The S&P 500 Earnings Yield to Treasuries is a measure of the 12-month earnings of the companies in the S&P 500 Index divided by the index level, providing a snapshot of the earnings generated for each dollar invested in the S&P 500, it is typically compared to the yield of a 10-year Treasury.
- The Standard and Poor's 500 Equal Weighted Index is a stock market index tracking the stock performance of 500 of the largest companies listed on stock exchanges in the United States with all 500 companies weighted equally within the index.
- The Magnificent Seven are some of the largest and most recognizable stocks globally, they are Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla.
- Russell 1000 Growth Index tracks the performance of large-cap United States companies projected to have strong growth potential weighted by market capitalization and published by FTSE Russell.
- The Russell 1000 Value Index is a measure of the performance of the large-cap value segment of the US equity universe, including those within the Russell 1000 Index that have a relatively low price-to-book ratio and lower forecasted growth, published by FTSE Russell.
- The Russell 1000 Growth Index PE Ratio, or Price-to-Earnings Ratio, is a measure that compares the current market price of Russell 1000 growth stocks to their earnings per share. The PE Ratio (TTM) for the Russell 1000 Growth index is calculated by dividing the current market price of the Russell 1000 Growth index by the total earnings per share of its constituent companies over the past twelve months.
- The Russell 1000 Value Index PE Ratio, or Price-to-Earnings Ratio, is a measure that compares the current market price of Russell 1000 value stocks to their earnings per share. The PE Ratio (TTM) for the Russell 1000 value index is calculated by dividing the current market price of the Russell 1000 Value index by the total earnings per share of its constituent companies over the past twelve months.
- The AAI US Investor Sentiment Bearish Readings Index is a weekly survey conducted by the American Association of Individual Investors (AAII) that measures the percentage of individual investors who are bearish about the direction of the stock market for the next six months.
- The AAI US Investor Sentiment Bullish Readings Index is a weekly survey conducted by the American Association of Individual Investors (AAII) that measures the percentage of individual investors who are bullish about the direction of the stock market for the next six months.
- The Capital Market Assumptions are Invesco's forward-looking 10-year estimates of geometric returns for a variety of asset classes.



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