NewEdge WEALTH

4Q24 Macro and Market Outlook

Chief Investment Office

October 9, 2024

Data as of: October 9, 2024

Agenda

1. 4Q24 Overview
2. Economic Outlook
3. Monetary Policy Outlook
4. Fiscal and Election Outlook
5. Tactical Asset Allocation Update
6. Taxable Fixed Income Outlook
7. Municipal Bond Outlook
8. Equity Outlook
9. Alternative Investments Outlook
10. Questions

Send Questions:

email@newedgecg.com

Summary for 4Q24

Continued resilience in the U.S. economy, with slowing still in the periphery

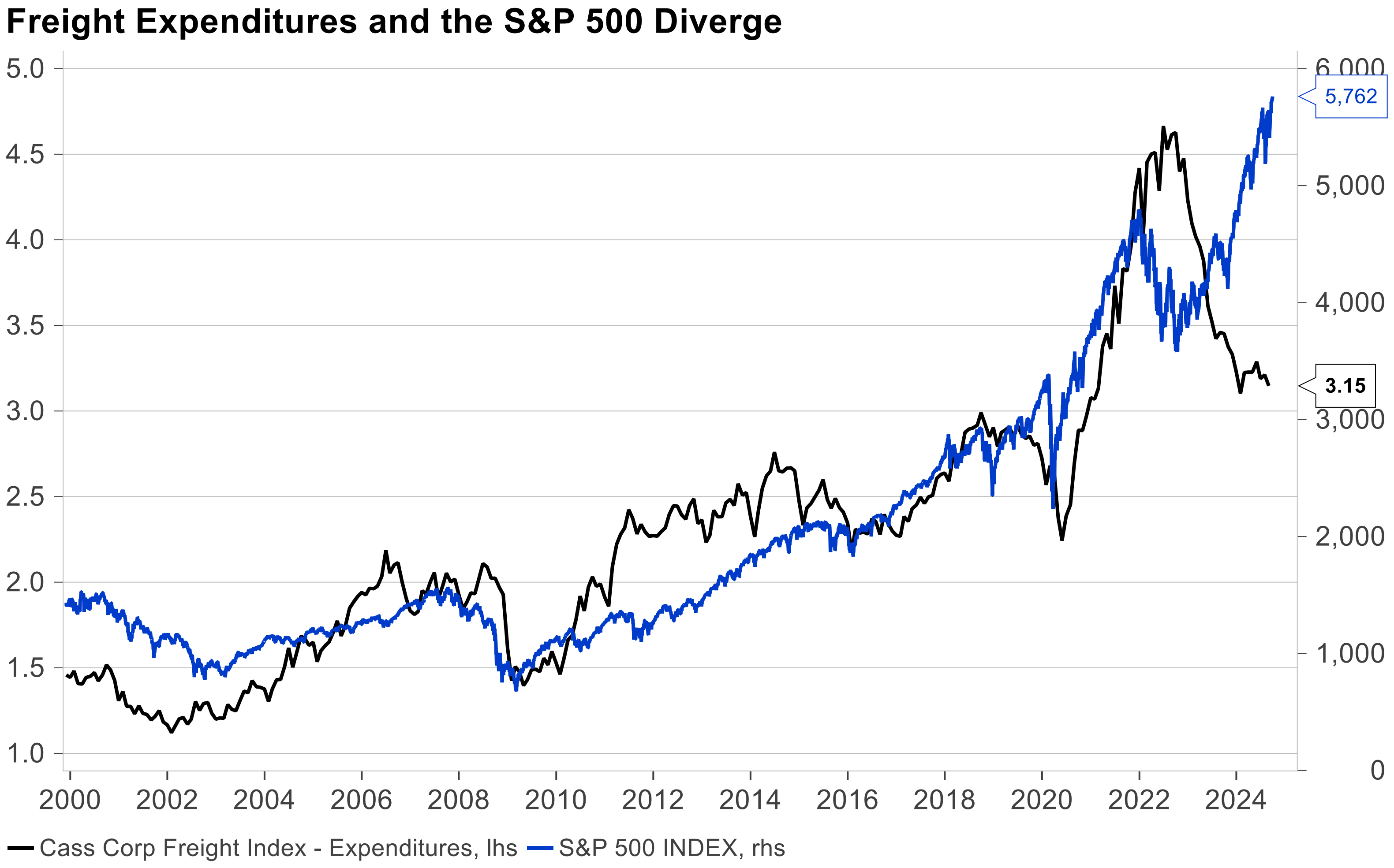
The continuation of the Fed cutting rates, but at a slower pace given resilience

Many risk asset markets priced for perfection, but helped by resilient growth and supportive policy

We expect continued choppy and rotational trading in equity markets, but volatility creates opportunity

The Strange Landing continues: stay vigilant for broken data relationships and changes in backdrop, as crowded markets could "reprice" quickly if data changes (such as a sharper slowing in economic and earnings growth)

The Strange Landing: Economic Activity Diverges from Stock Prices



Source: NewEdge Wealth, Macrobond, Bloomberg

Data as of: October 9, 2024

Key Questions for 4Q24

Will markets care if the Fed does not deliver on the entirety of expected rate cuts?

Will slower hiring morph into increased firing?

Will seasonality patters hold in a Strange 2024?

Will analysts keep robust 2025 EPS forecasts?

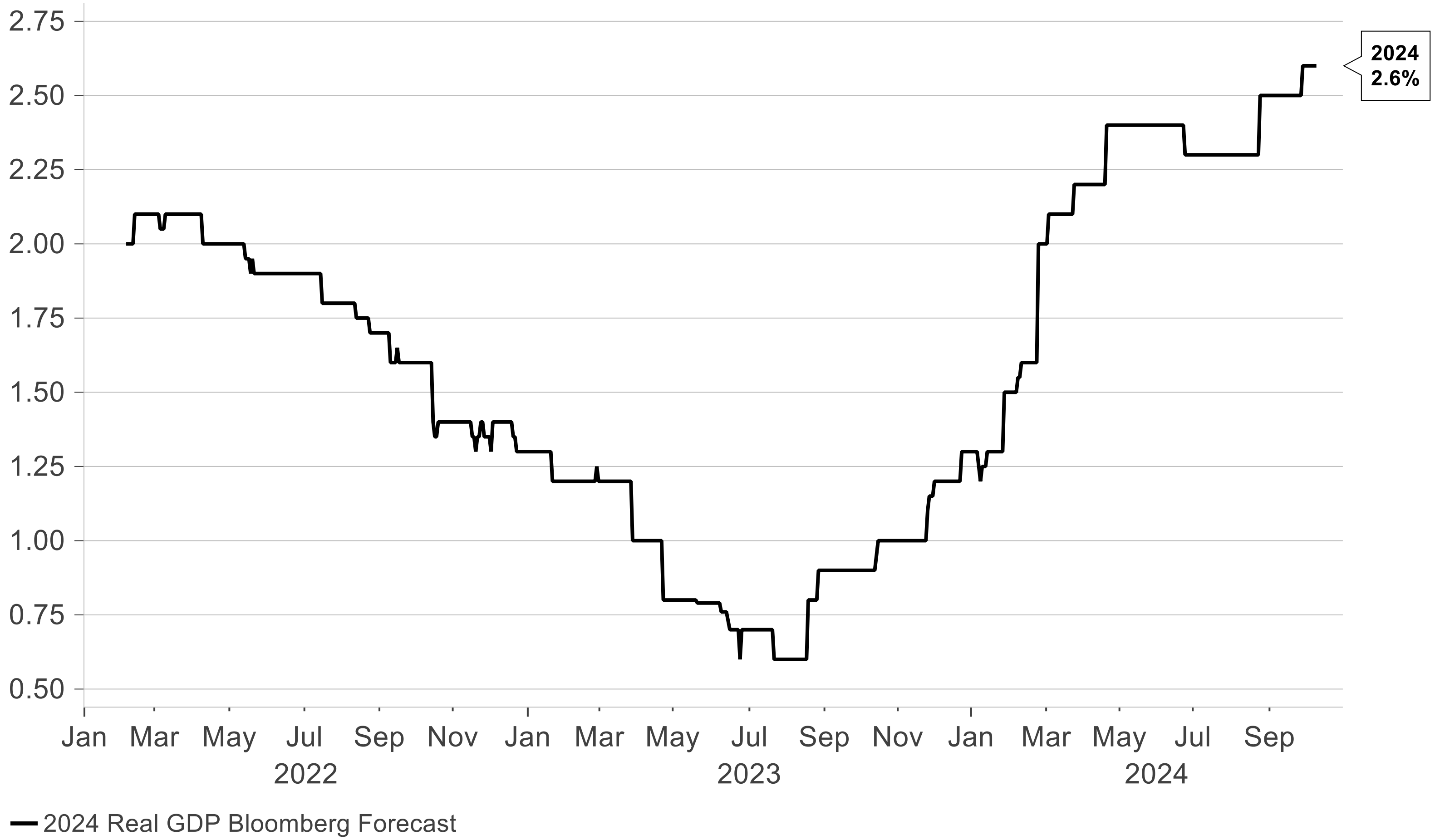
Will high valuations (equity and credit) become a challenge for returns?

Economic Outlook

Key Economic Themes for 4Q24

- Continued resilient growth
- Labor market remains strong but still cooling around edges: “less hire, no fire” for now
- Rate cuts have the potential to stimulate cyclical activity (housing, manufacturing)
- Little evidence of an inflation reacceleration for now
- Bifurcated consumer: strong asset markets keep high end consumers resilient, and stable jobs market keeps low end consumers able to spend (but note spike in delinquencies despite high employment)

Bloomberg Consensus U.S. Real GDP Growth Forecast for 2024



Source: NewEdge Wealth, Macrobond, Bloomberg

Economic Data Has Been Surprising to the Upside

Source: NewEdge Wealth, Macrobond, Bloomberg

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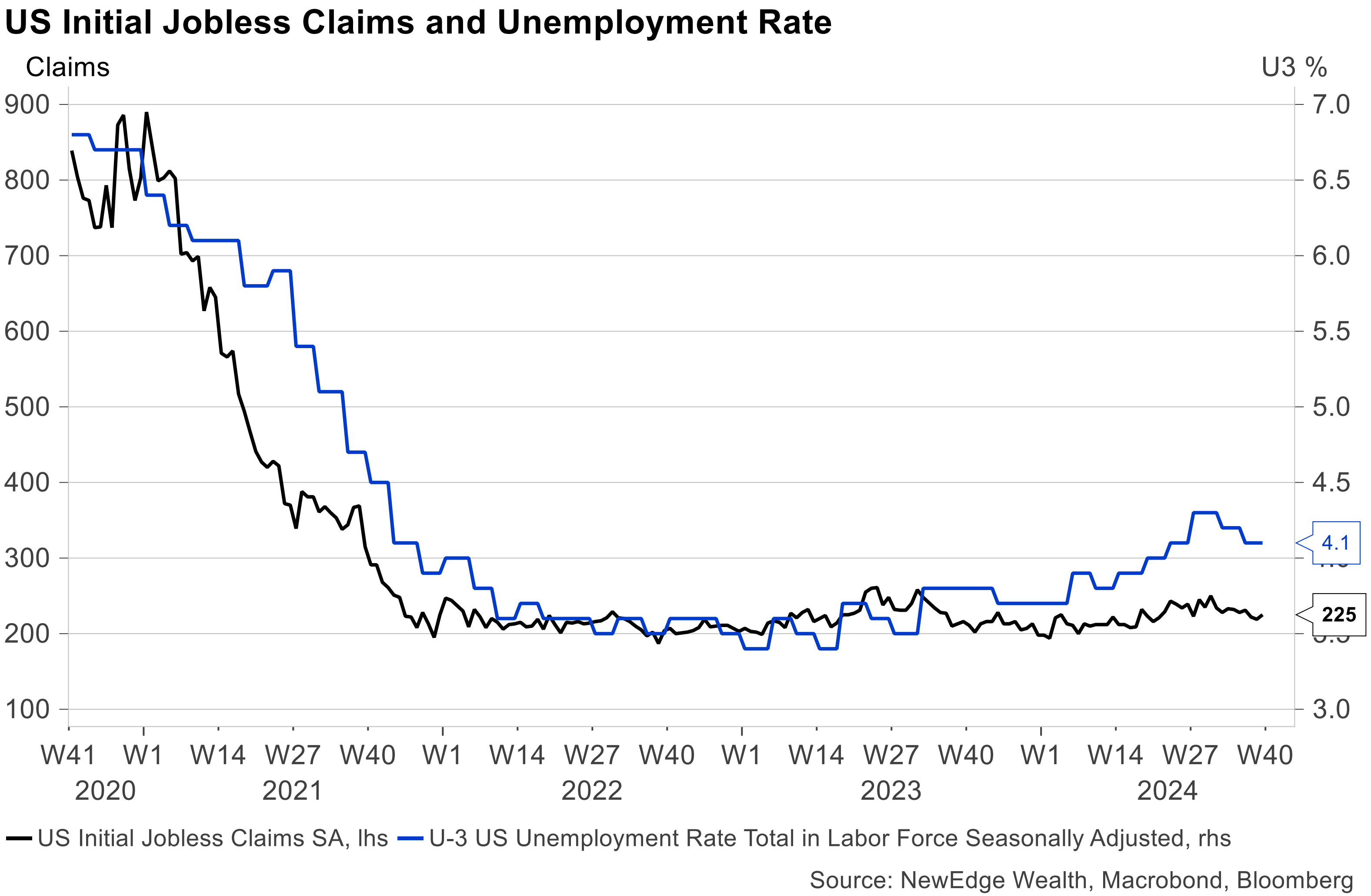
Labor Market Remains Relatively Strong



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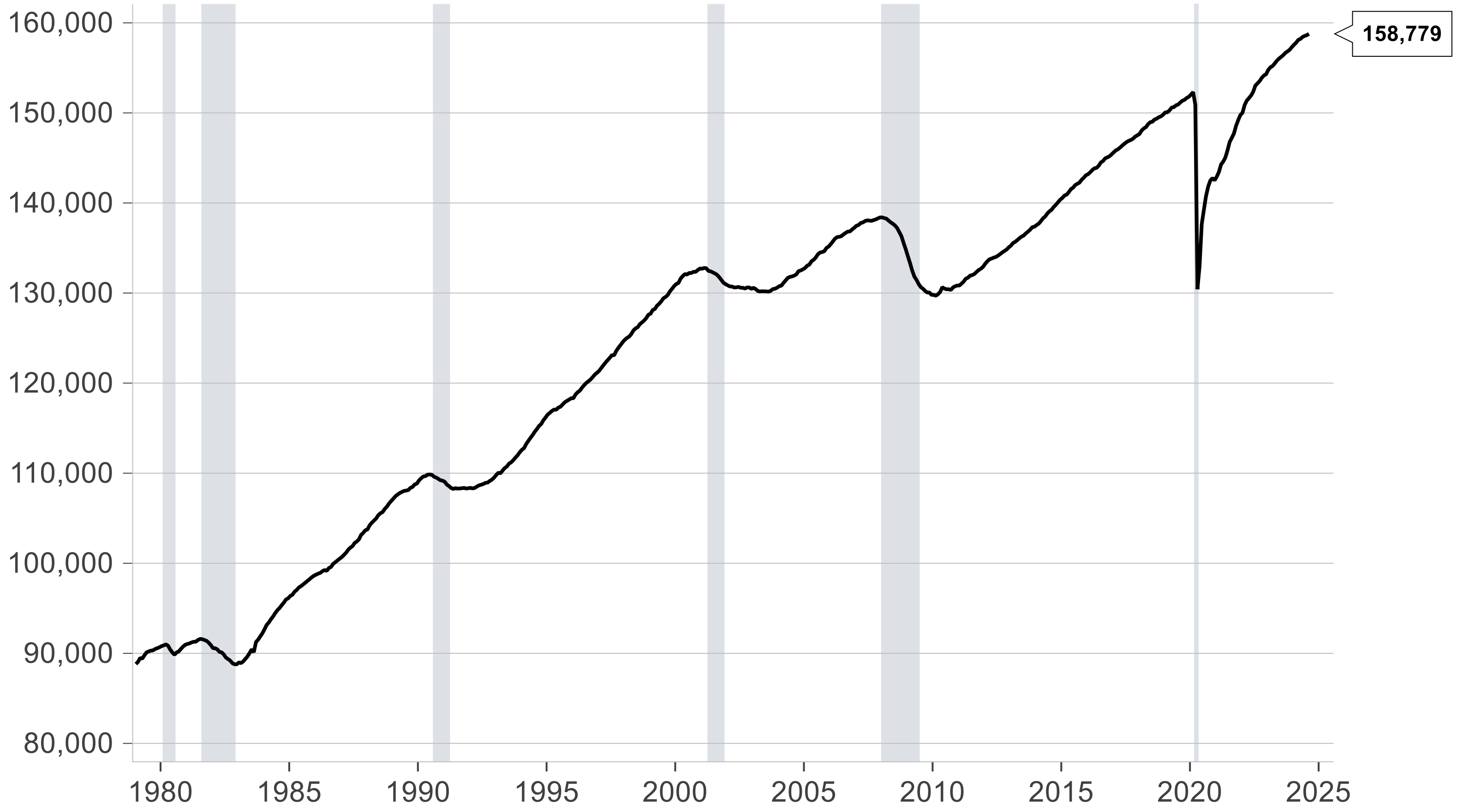
But Beware of Using the Past to Describe the Future Because Lagging Indicators… Lag

US Employees on Nonfarm Payrolls Total SA



Source: NewEdge Wealth, Macrobond, Bloomberg

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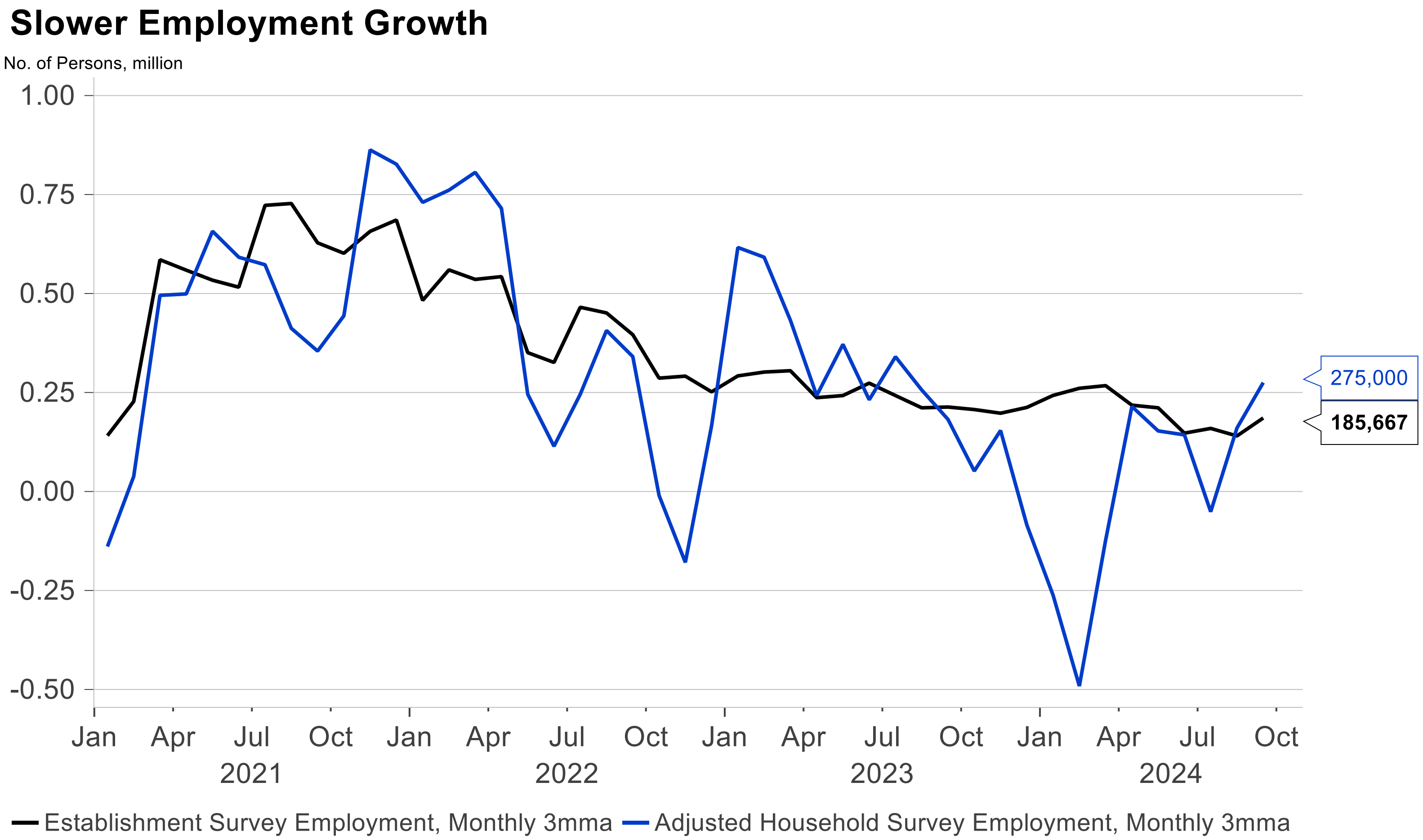
Employment Growth is Slowing, But Off of 2021 Fever Pitch Levels



Source: NewEdge Wealth, Macrobond, Bloomberg U.S. Bureau of Labor Statistics (BLS)

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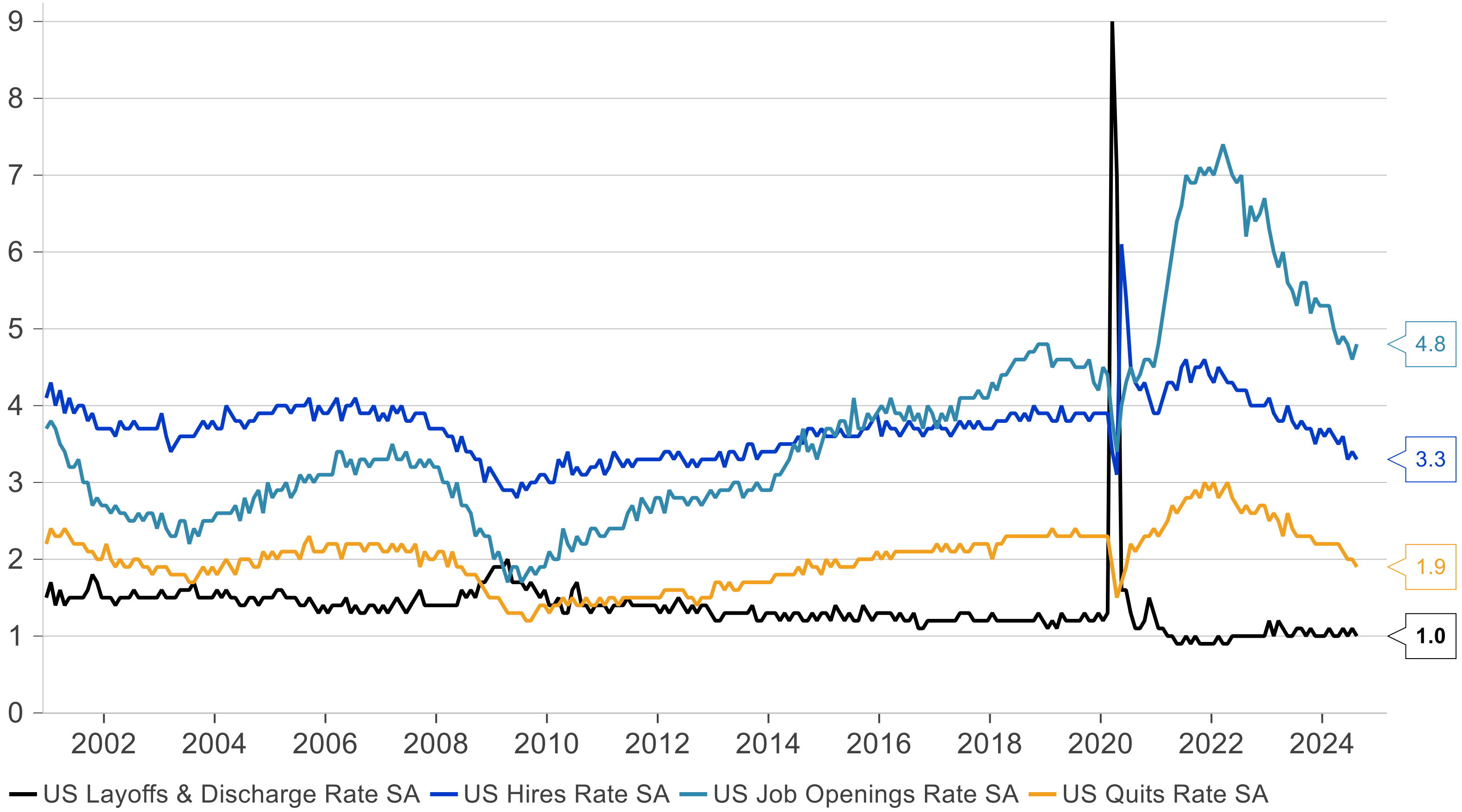
Less Hire, No Fire

JOLTS Data Shows Slower Hiring, Not Increased Firing



Source: NewEdge Wealth, Macrobond, Bloomberg

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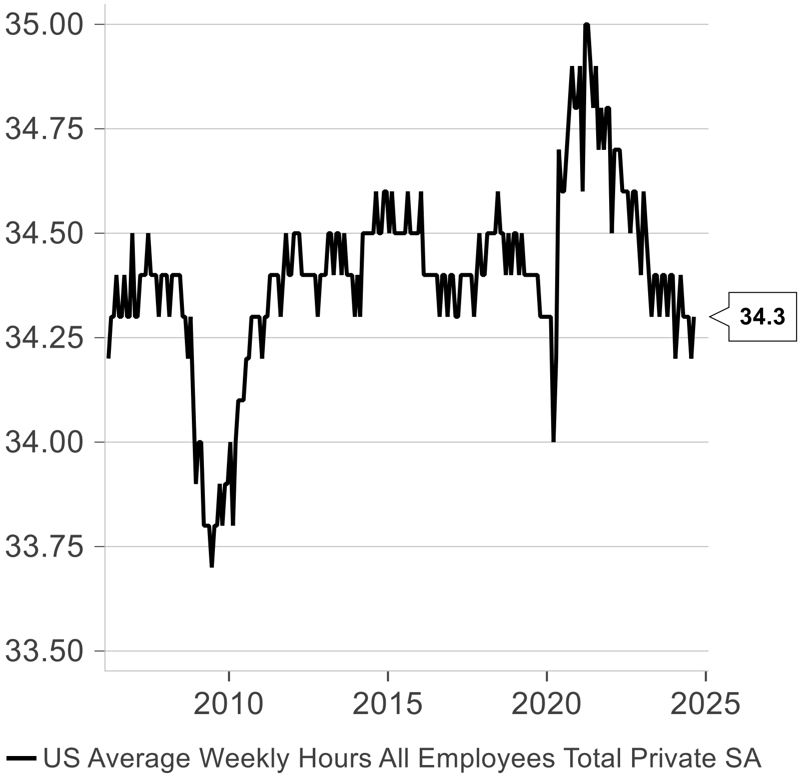
But Companies Are Finding Ways to Control Labor Costs

Weekly Hours Getting Trimmed

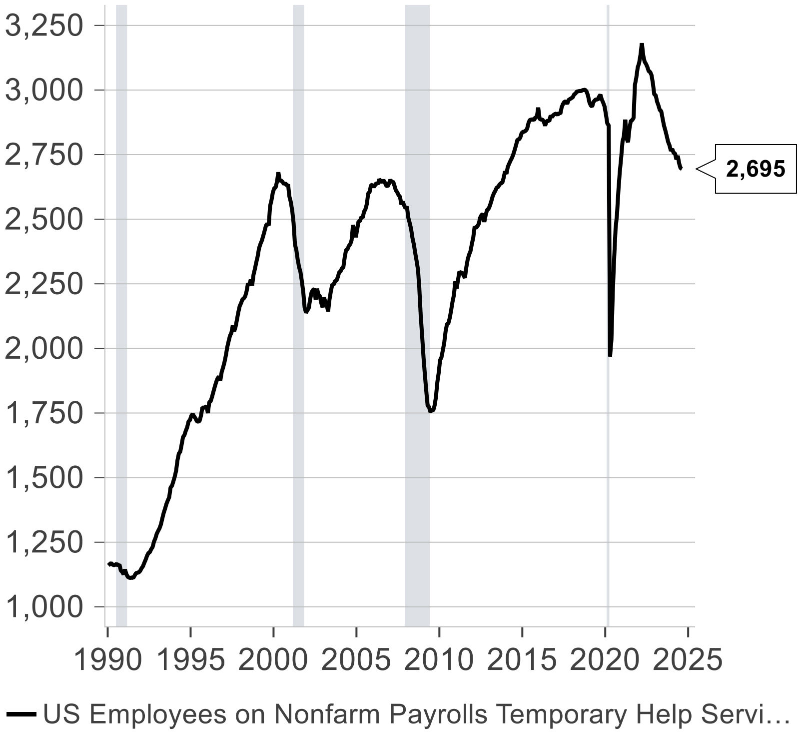
US Average Weekly Hours All Employees Total Private SA



Source: NewEdge Wealth, Macrobond, Bloomberg

Temporary Labor Rolling Over Similar to Prior Pre-Recssion Periods

US Employees on Nonfarm Payrolls Temporary Help Services SA



Source: NewEdge Wealth, Macrobond, Bloomberg

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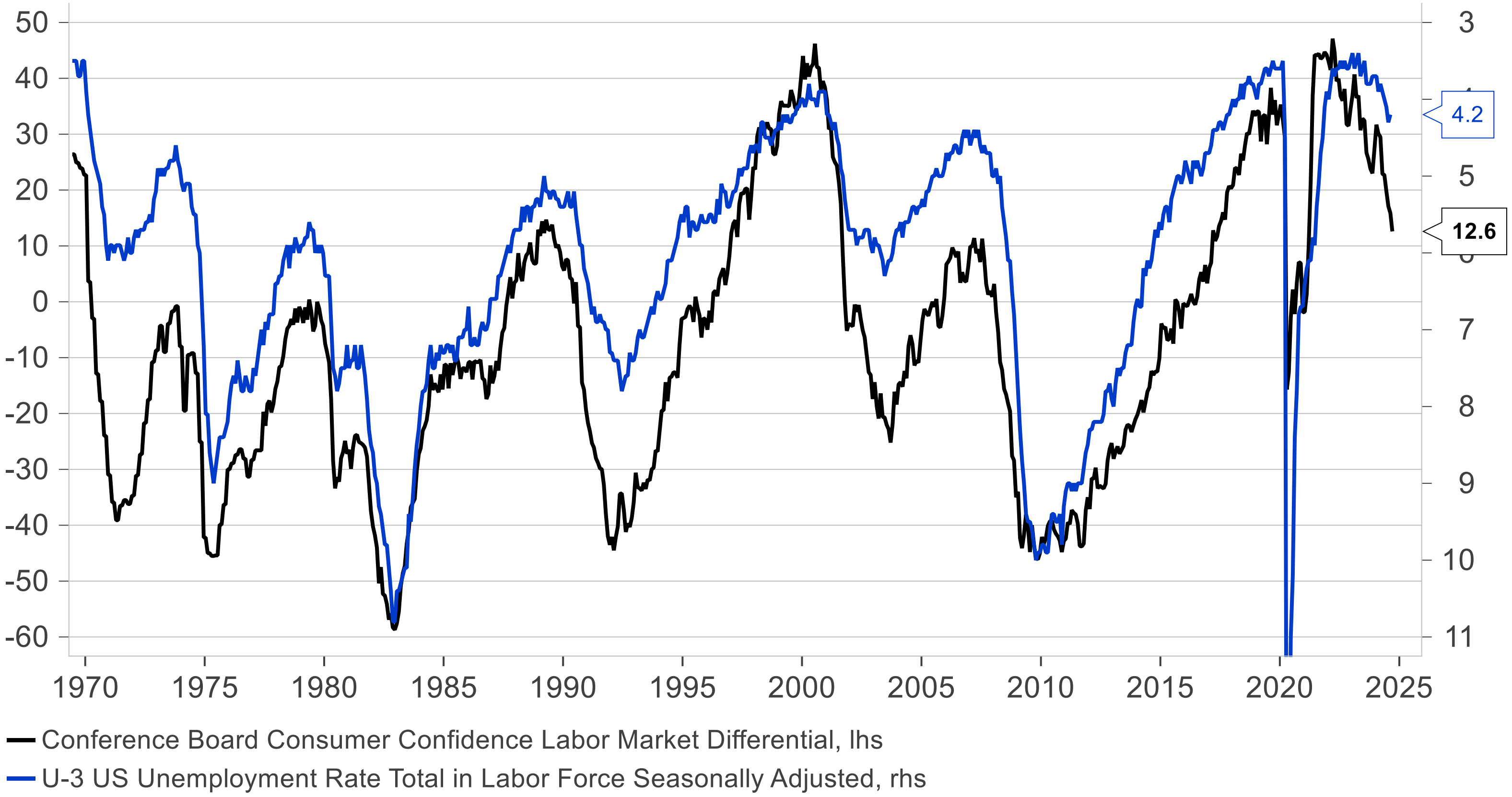
Consumers Turn Sour On the Labor Market

Labor Market Differential and Unemployment Rate (Inverted)

Labor Market Differential= Conference Board Jobs Plentiful - Hard to Get

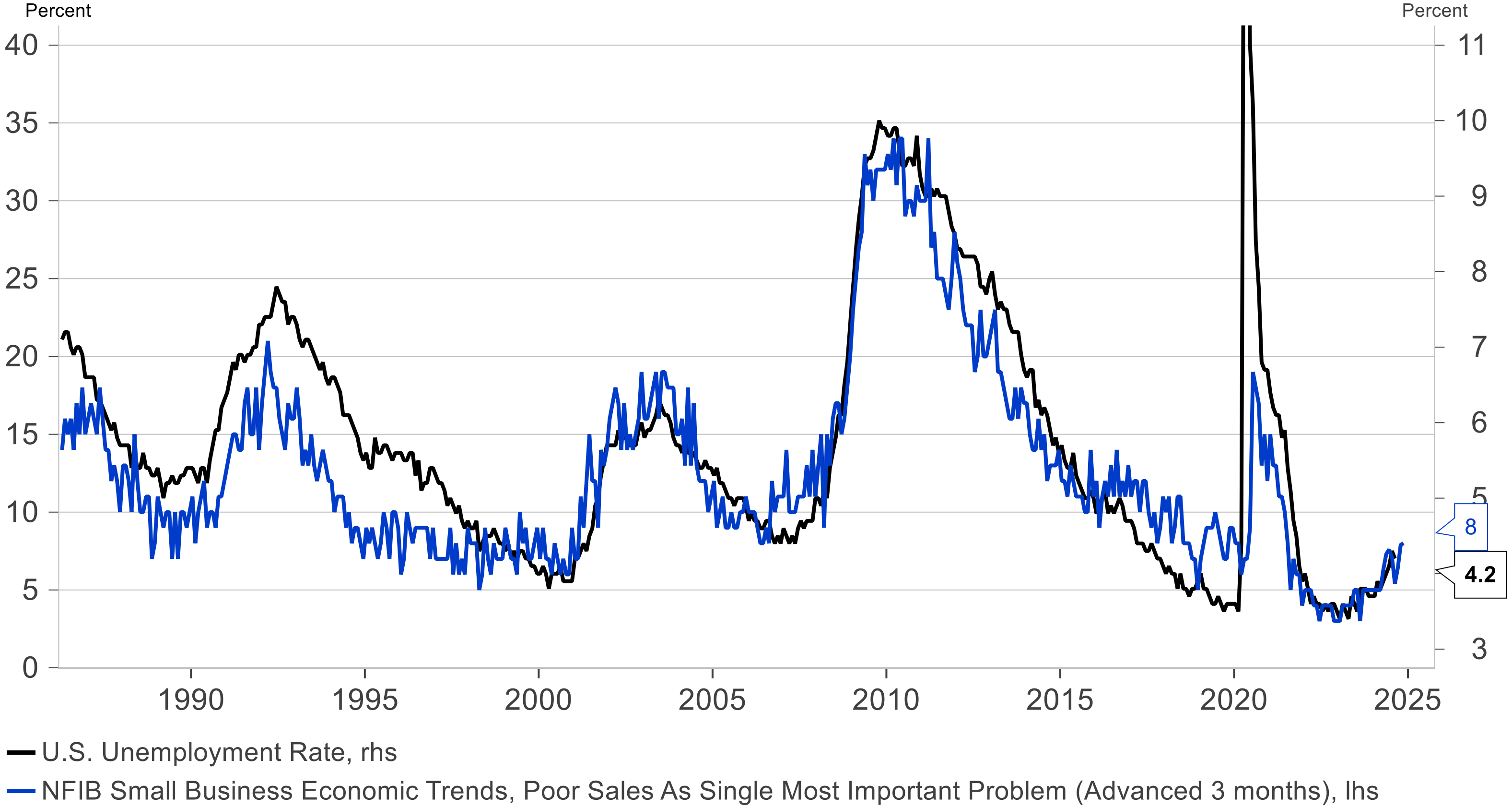


Source: NewEdge Wealth, Macrobond, Bloomberg

This is reflecting slower hirings today but has typically been followed by increasing firings in past cycles.

When Does Weak Hiring Turn into Layoffs? Ask a Small Business Owner

Small Businesses With Poor Sales Usually Means Weaker Jobs Market Ahead



Source: NewEdge Wealth, Macrobond, Bloomberg U.S. Bureau of Labor Statistics (BLS), National Federation of Independent Business

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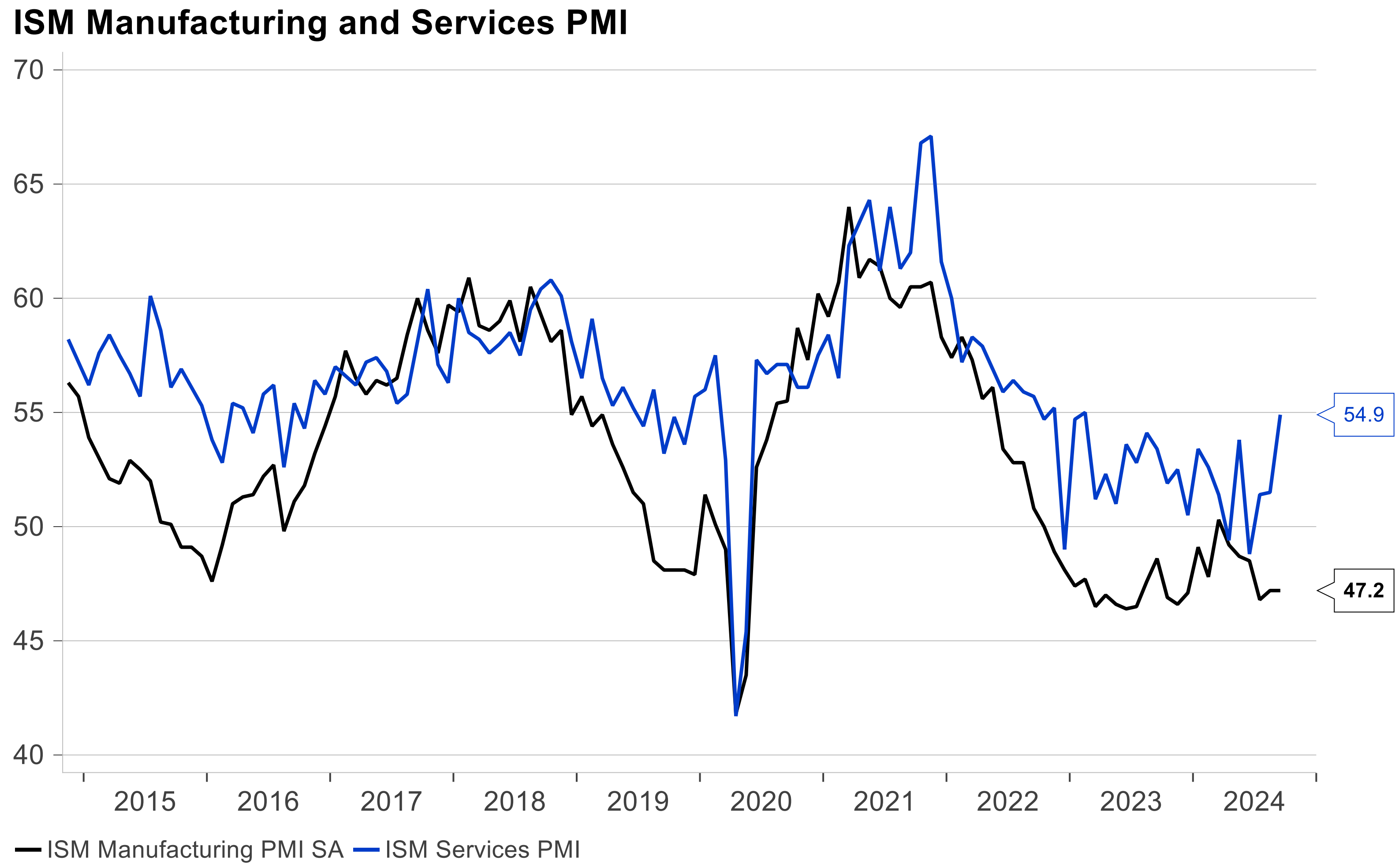
Will Cyclical Activity Get a Boost from Lower Rates?



Source: NewEdge Wealth, Macrobond, Bloomberg

NewEdge Wealth

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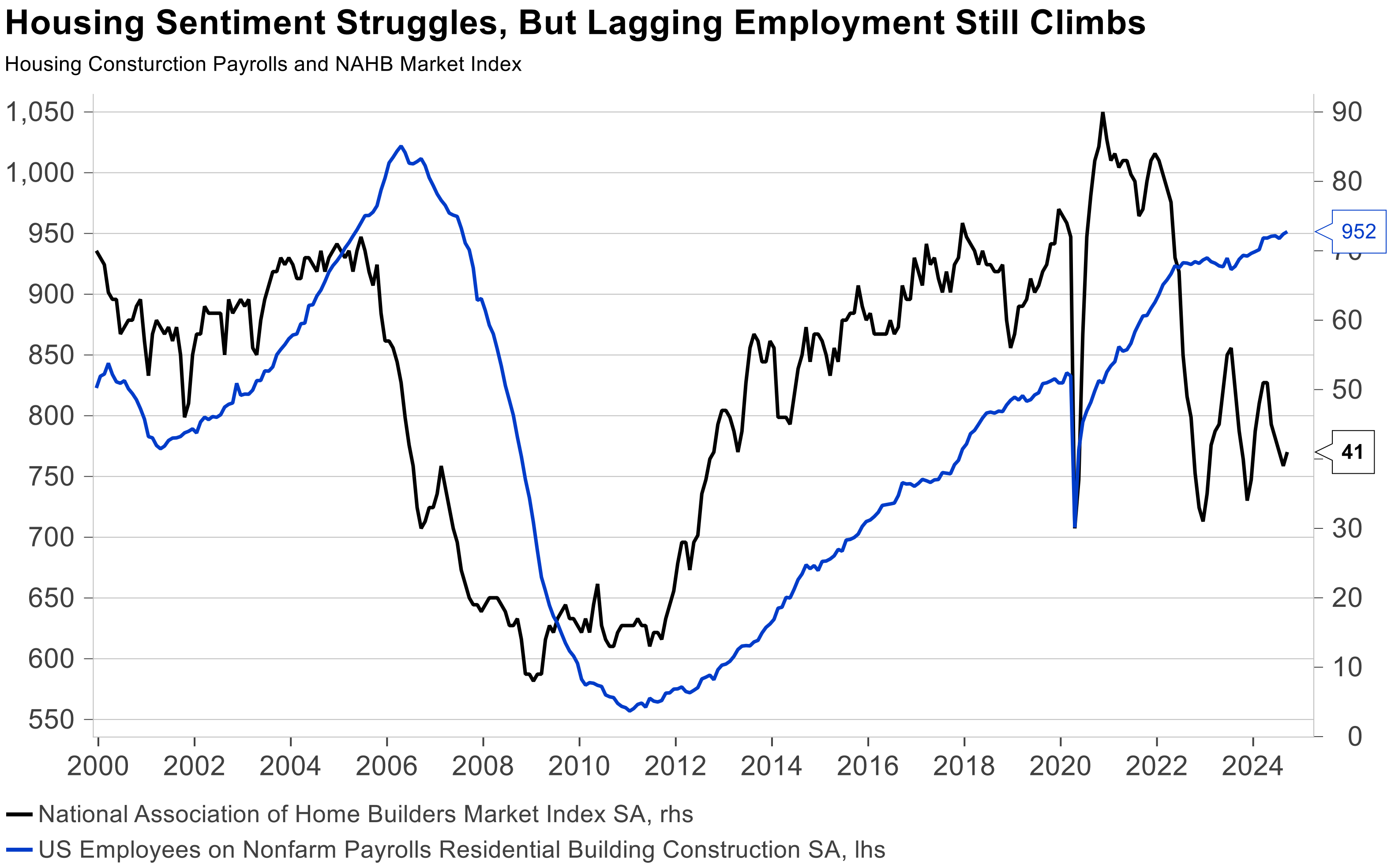
Lower Rates to Help Housing? Note Housing Labor Still Tight!



Source: NewEdge Wealth, Macrobond, Bloomberg

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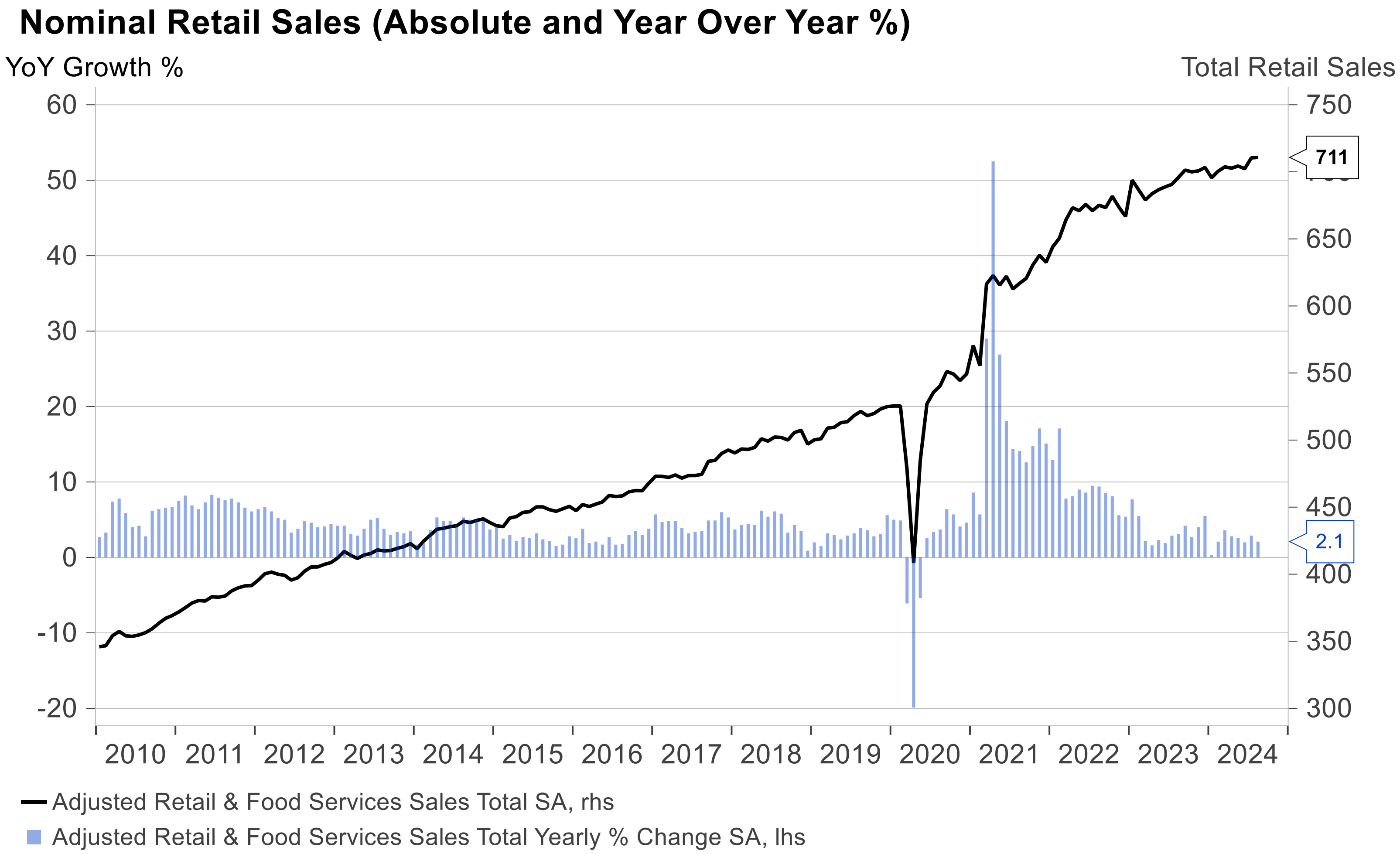
Consumers Just Keep Spending



Source: NewEdge Wealth, Macrobond, Bloomberg

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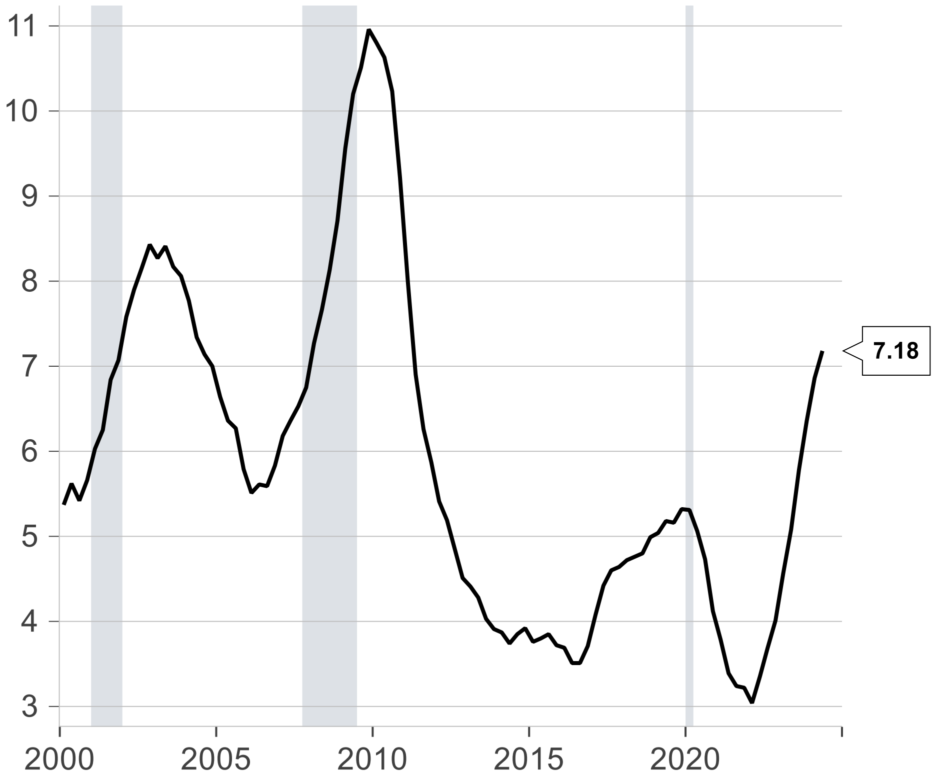
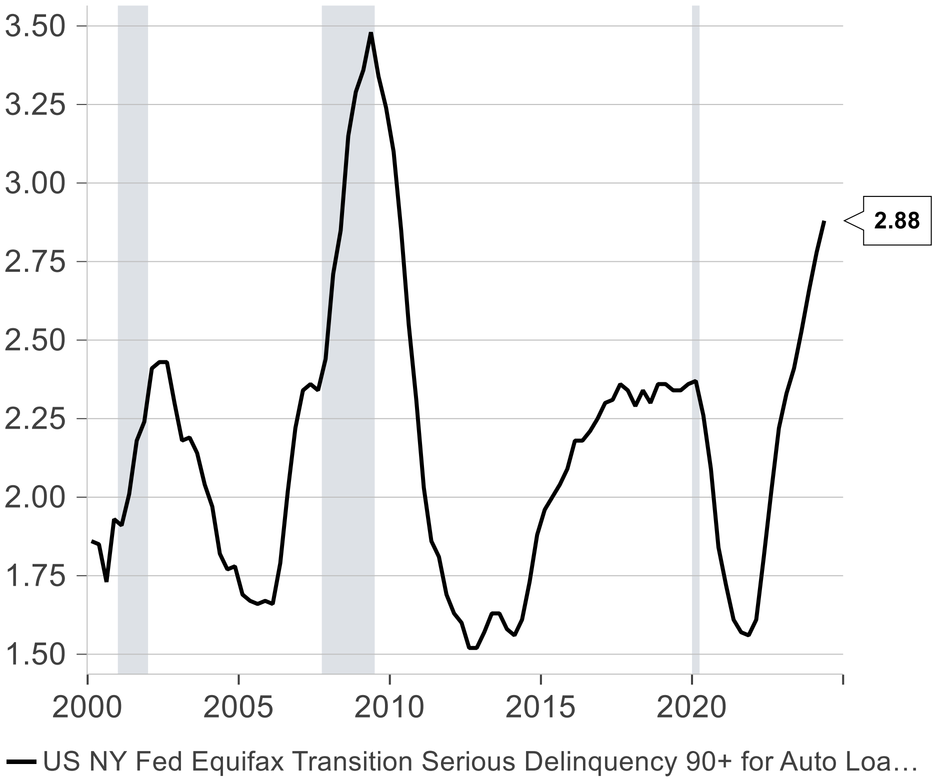
But Delinquency Rates Tell a Story of Bifurcated Consumers

US NY Fed Equifax Transition Serious Delinquency 90+ for Credit Card by Age All



Source: NewEdge Wealth, Macrobond, Bloomberg

US NY Fed Equifax Transition Serious Delinquency Rate 90+ for Auto Loans



Source: NewEdge Wealth, Macrobond, Bloomberg

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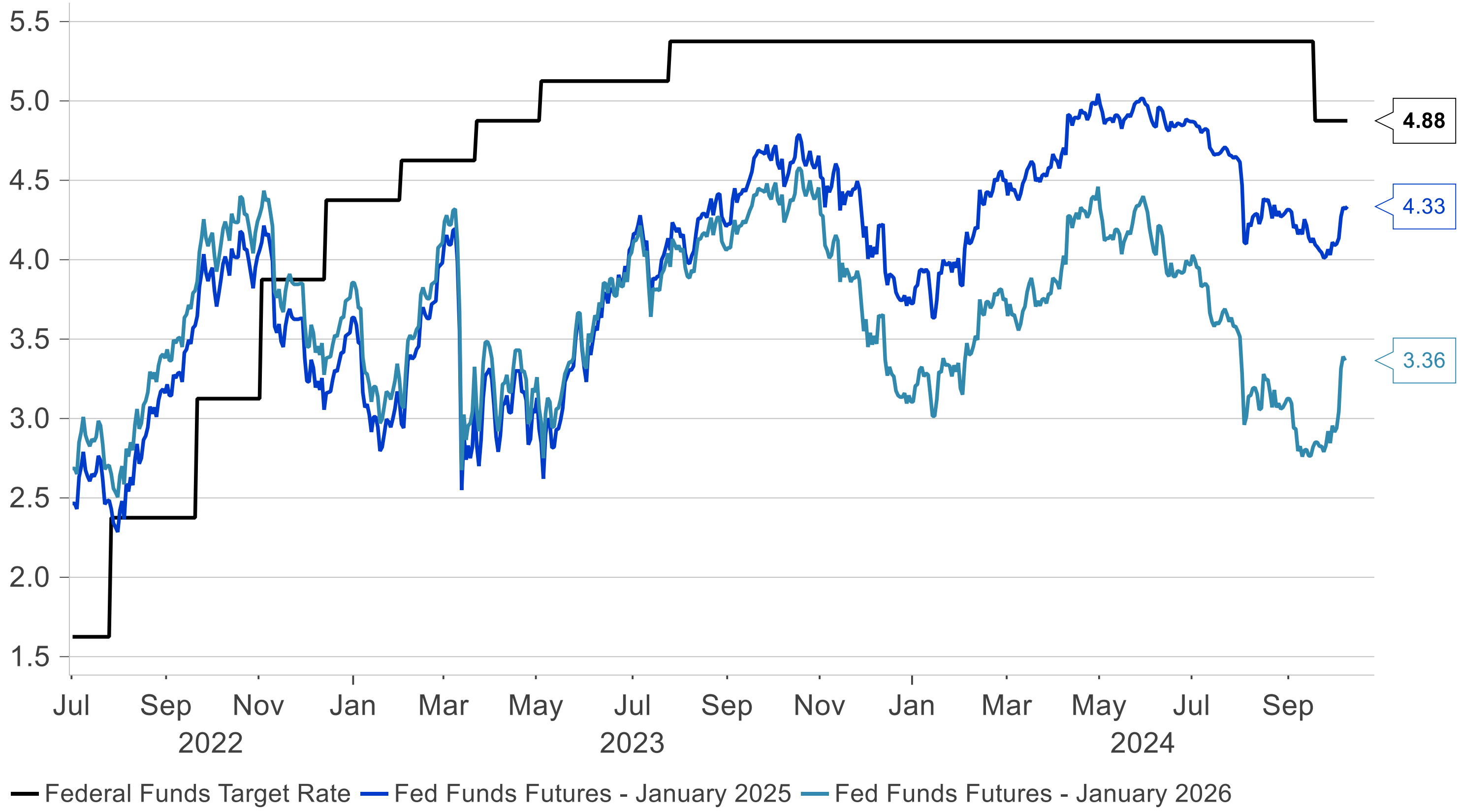
Monetary Policy Outlook

Key Monetary Policy Themes for 4Q24

- We see the Fed cutting twice more in 2024, with 25 bps in both November and December
- The bar is low for delivering another 50 bps cut IF labor market data is weaker than expected (note the October jobs data comes on November 1, a few days before the election and the Nov Fed meeting).
- The Fed is pursuing a "neutral" policy rate, but if growth remains resilient, it would suggest that the neutral rate is higher than current Fed and market forecasts. This translates to a shallower cutting cycle compared to current expectations.

Fed Funds and Fed Funds Futures Rate for January 2025 and 2026



Source: NewEdge Wealth, Macrobond, Bloomberg

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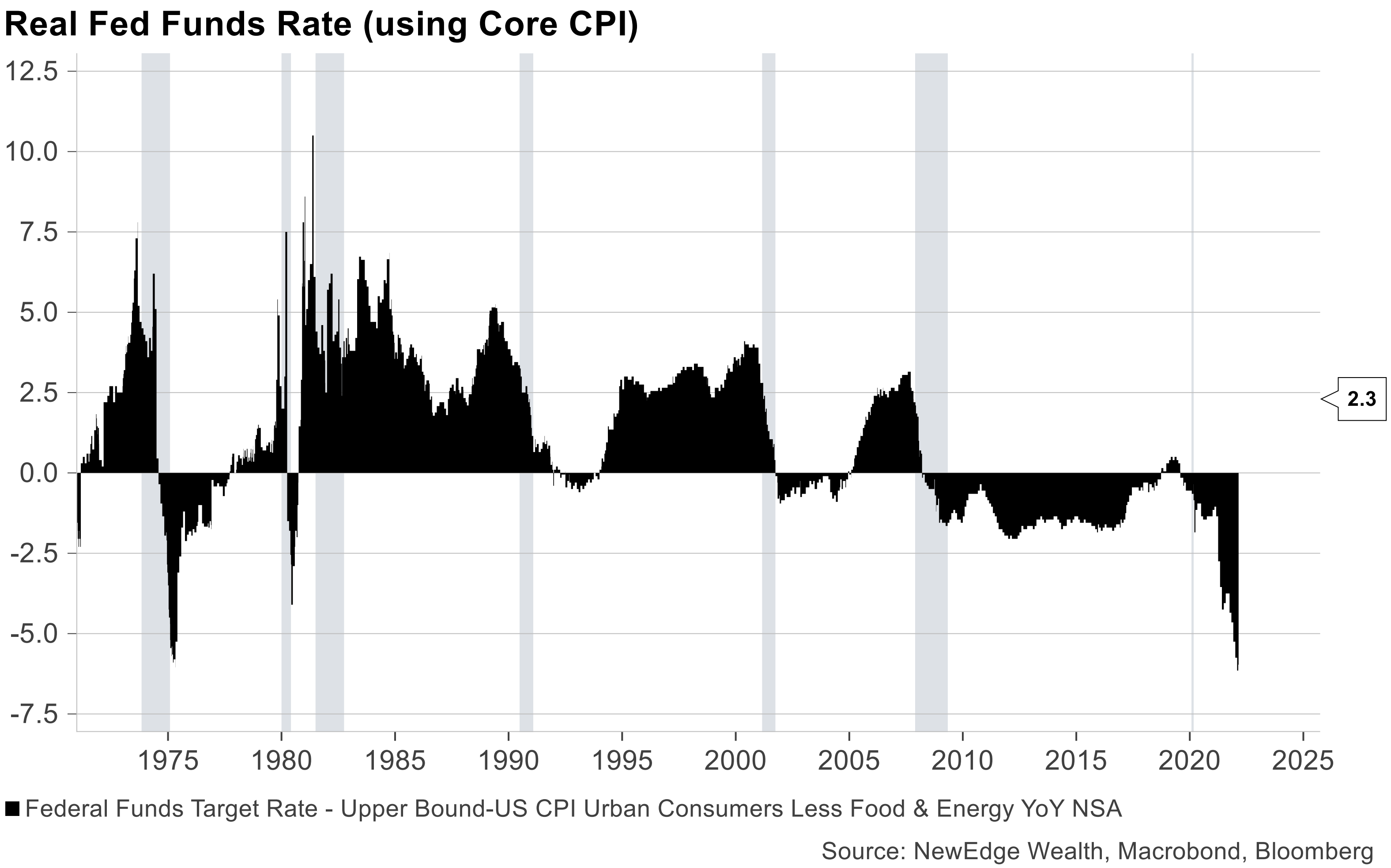
The Fed Sees Itself as Restrictive



The Real Fed Funds Rate (Fed Funds minus Core CPI) has only been positive since May of 2023. This is what the Fed cites as their primary reason to cut rates, meaning high Real Fed Funds will weigh on growth. But ever since May 2023, the U.S. economy has grown above trend!

Broad Based Financial Conditions Not Restrictive

Financial Conditions Still Relatively Easy

Bloomberg US Financial Conditions Index

Source: NewEdge Wealth, Macrobond, Bloomberg

This measure includes equity valuations and volatility, credit spreads, currencies, and yields.

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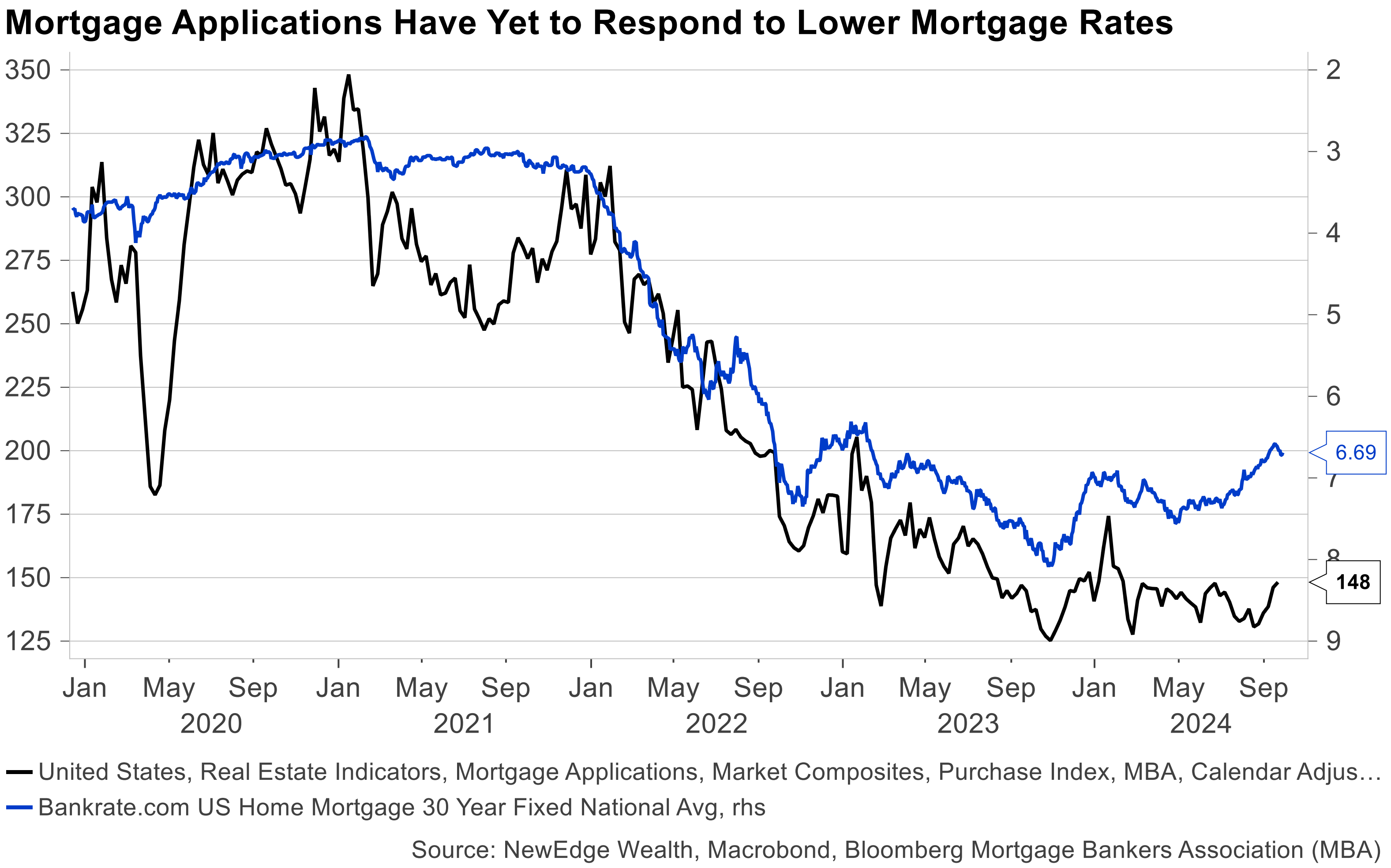
Will Fed Cuts Help Spur Growth Ahead?



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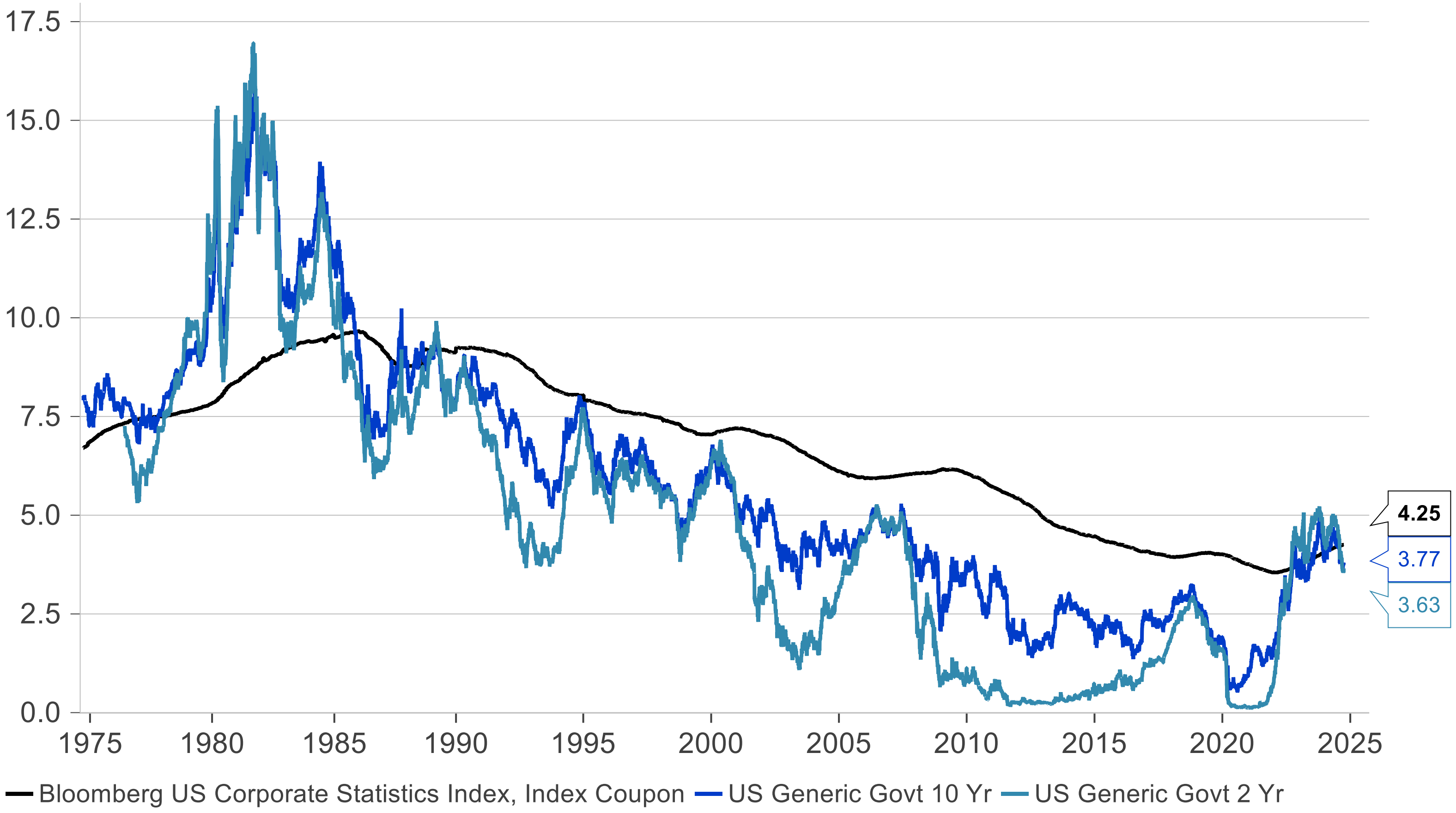
Lower Rates Do Help Corporate Balance Sheets With Refinancing Walls

Despite Recent Drop in Yields, Refinancing at Higher Yields is Still a Watch Item

Investment Grade Corporate Bond Index Average Coupon, 10 Year Treasury Yield, 2 Year Treasury Yield



Source: NewEdge Wealth, Macrobond, Bloomberg

For all of 2023 and 1H24, the entirety of the yield curve was above the average coupon rate for Investment Grade debt.

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What a Combo!

A Rare Setup:

Resilient economic growth

Elevated fiscal deficits

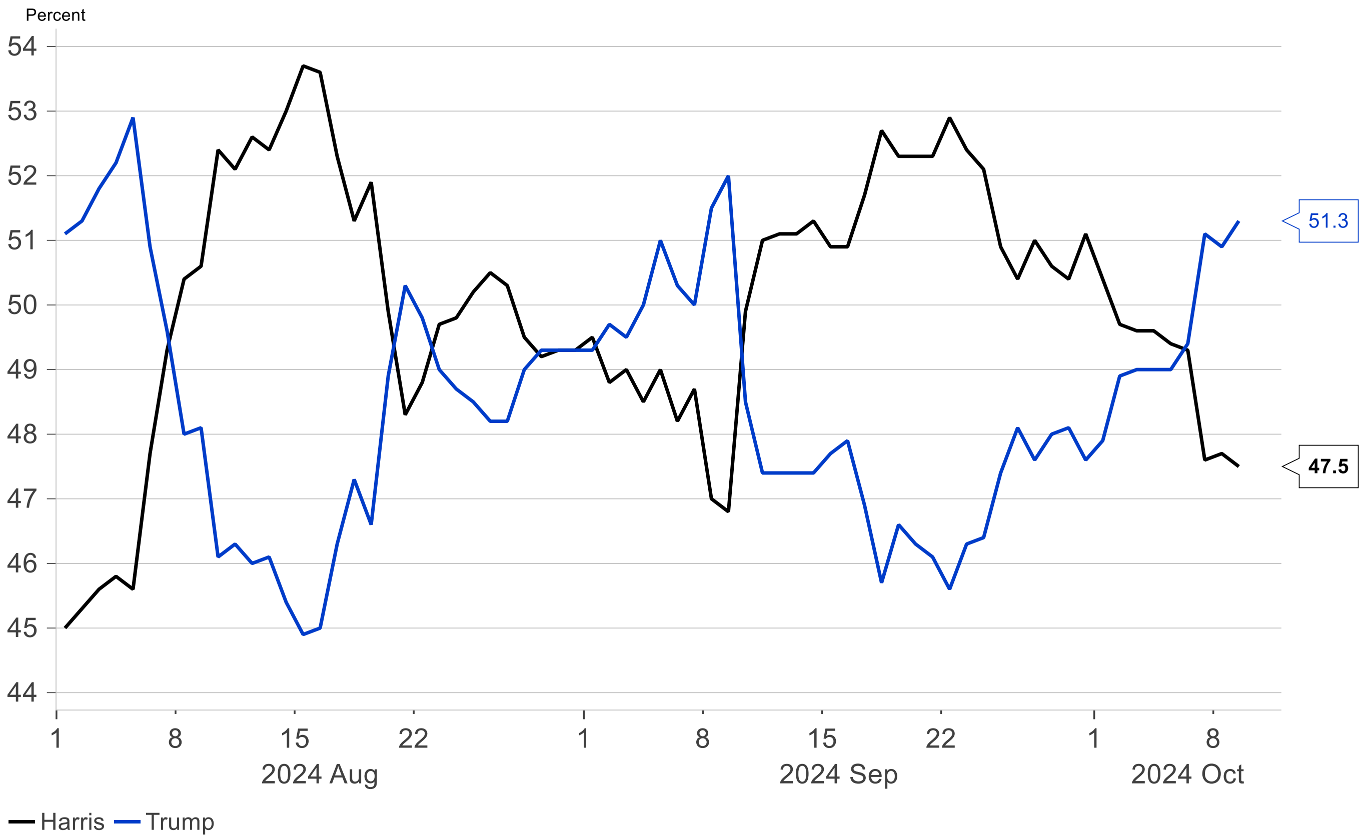
Pricing in the deepest non-recessionary Fed cutting cycle of the last 40 years

Data as of: October 9, 2024

Election and Fiscal Outlook

Election and Fiscal Key Items

- Polls and betting markets have the presidential race much too close to call even less than a month out
- Election results have not mattered as much for equity market returns compared to the overall economic cycle
- Expiring tax cuts in 2026 loom as the largest policy issue for 2025
- Tariffs, immigration and corporate tax increases all represent economic and market risks
- Debt and stimulus depend very much on the overall composition of government, not just the president



Source: NewEdge Wealth, Macrobond, Bloomberg RealClearPolitics (RCP)

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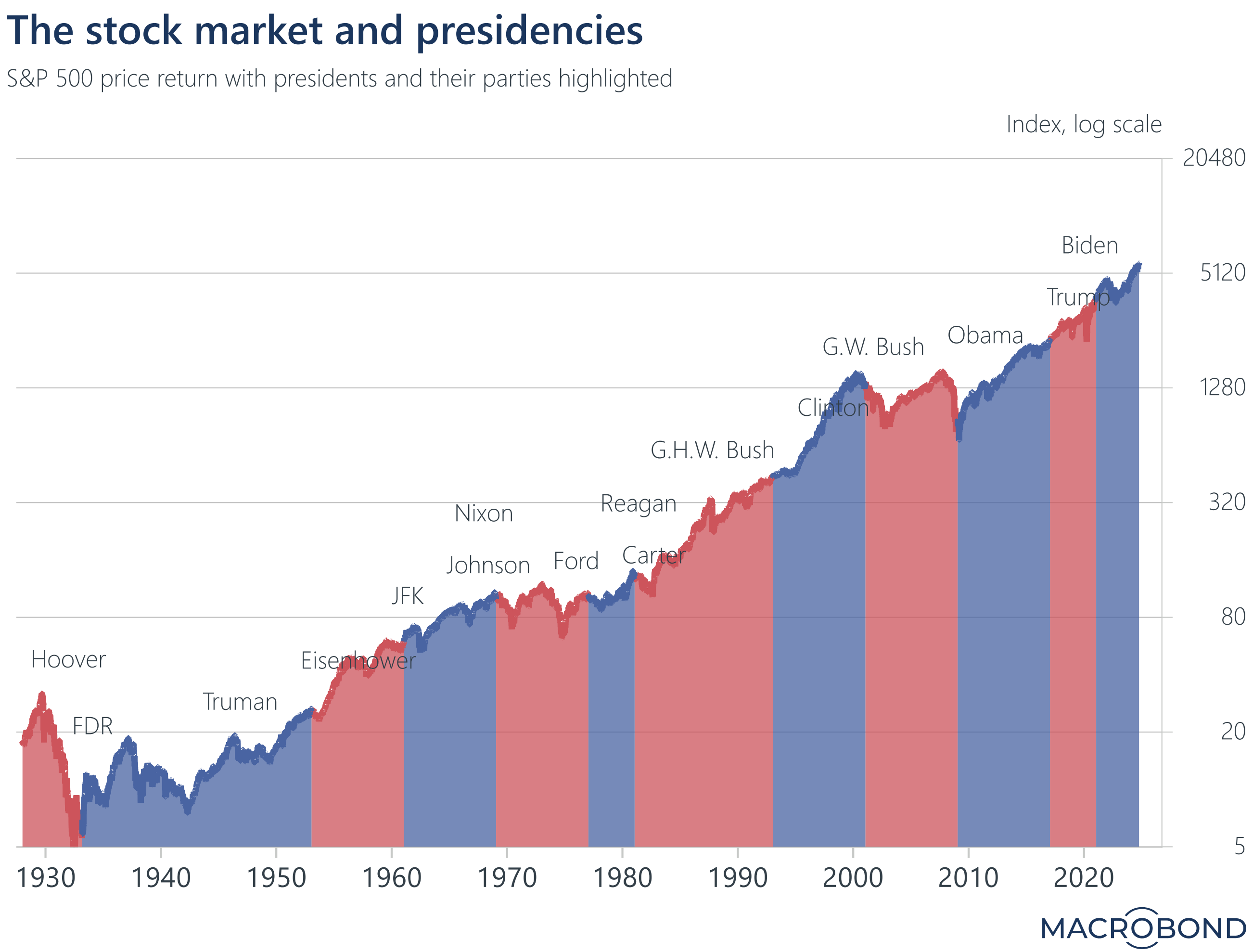
Election Outcomes Don't Tend to Drive Market Outcomes



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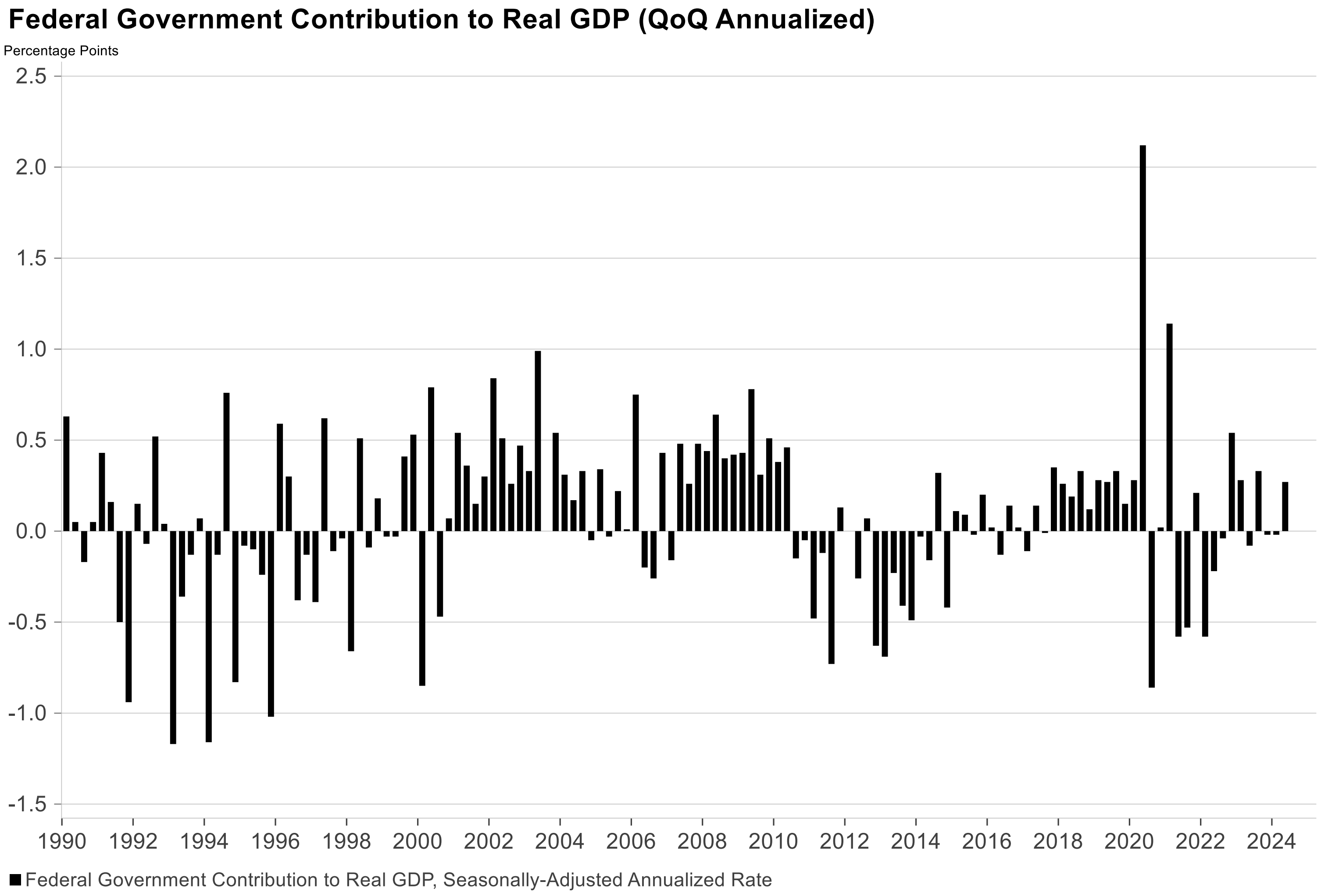
When it Comes to Debt and Stimulus, the Composition of Government Matters



Source: NewEdge Wealth, Macrobond, Bloomberg U.S. Bureau of Economic Analysis (BEA)

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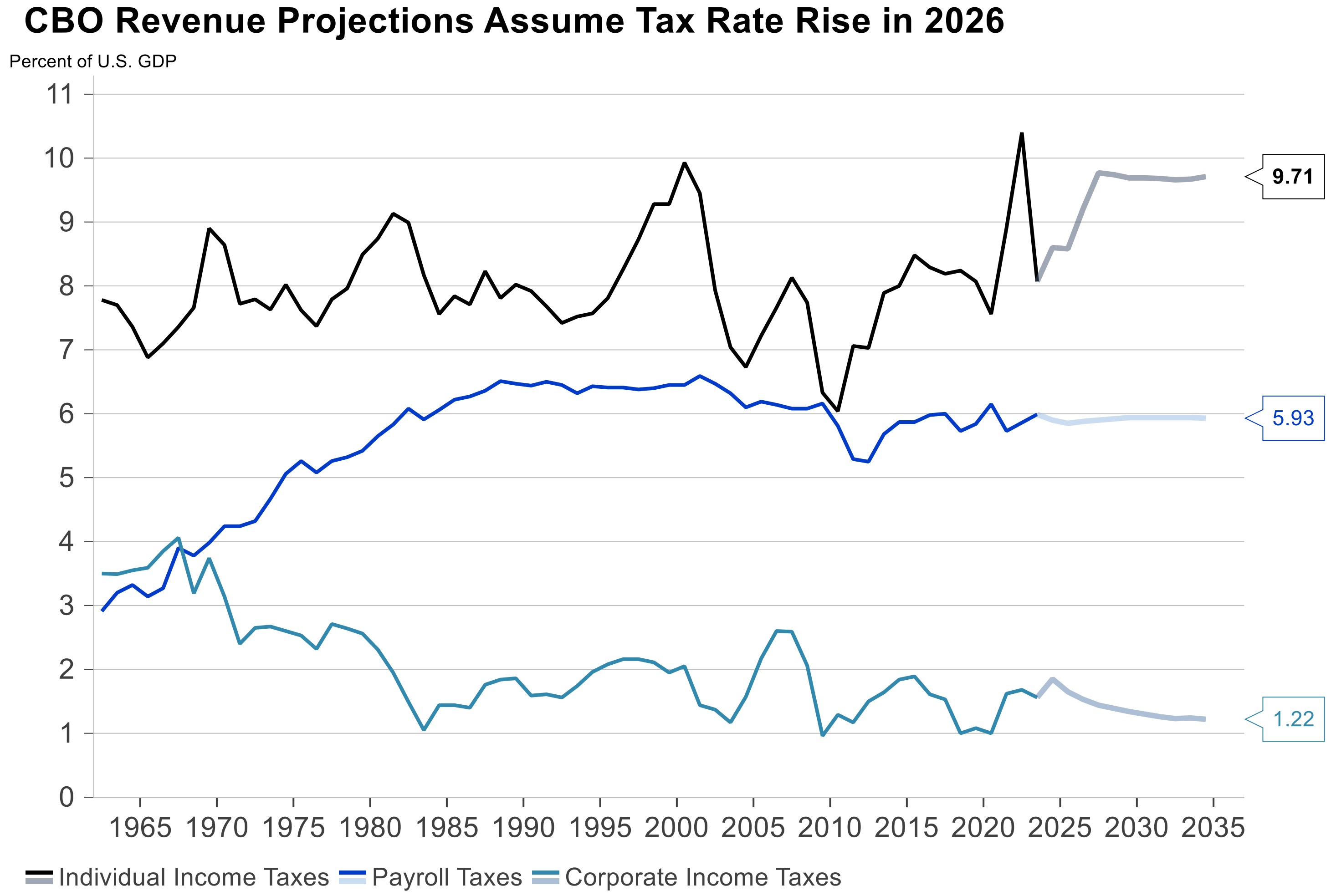
The Big Policy Issue in 2025...Regardless of the Election Outcome...Will Be Taxes



Source: NewEdge Wealth, Macrobond, Bloomberg U.S. Congressional Budget Office (CBO)

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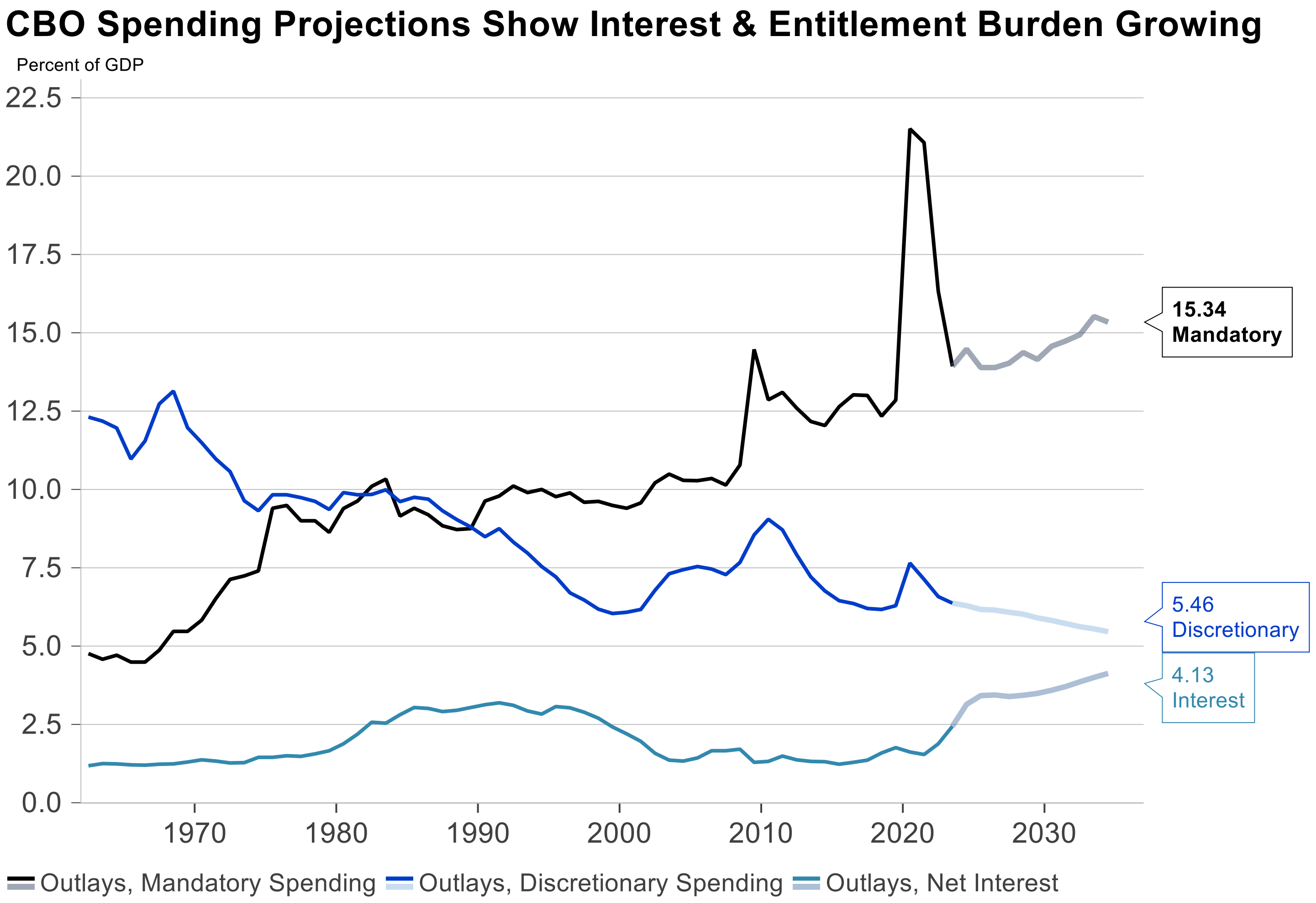
Significant Spending Cuts Are Unlikely, Especially to Programs that Drive the Debt



Source: NewEdge Wealth, Macrobond, Bloomberg U.S. Congressional Budget Office (CBO)

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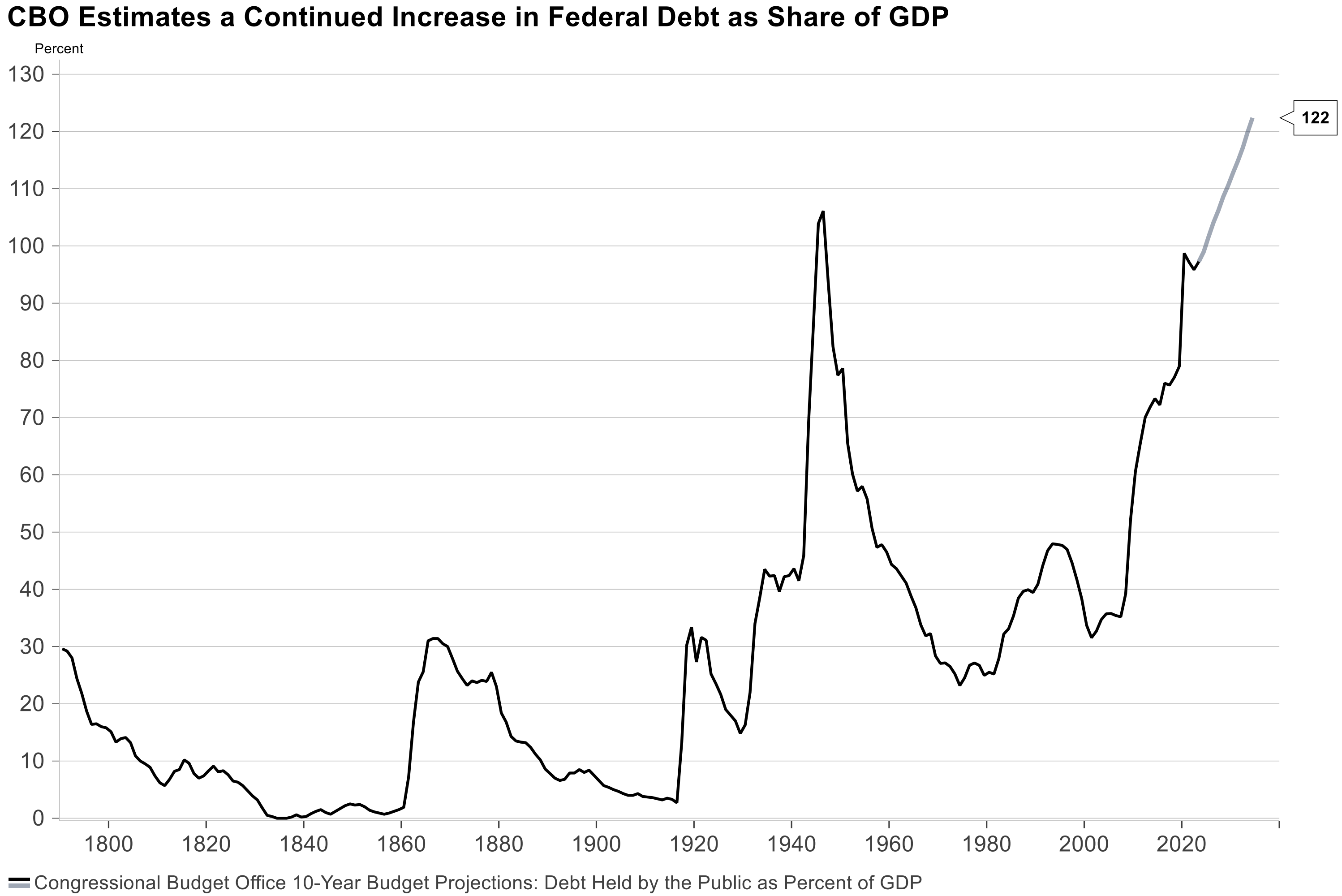
Will Exploding Debt Become a Problem in the Next President's Term?



Source: NewEdge Wealth, Macrobond, Bloomberg U.S. Congressional Budget Office (CBO)

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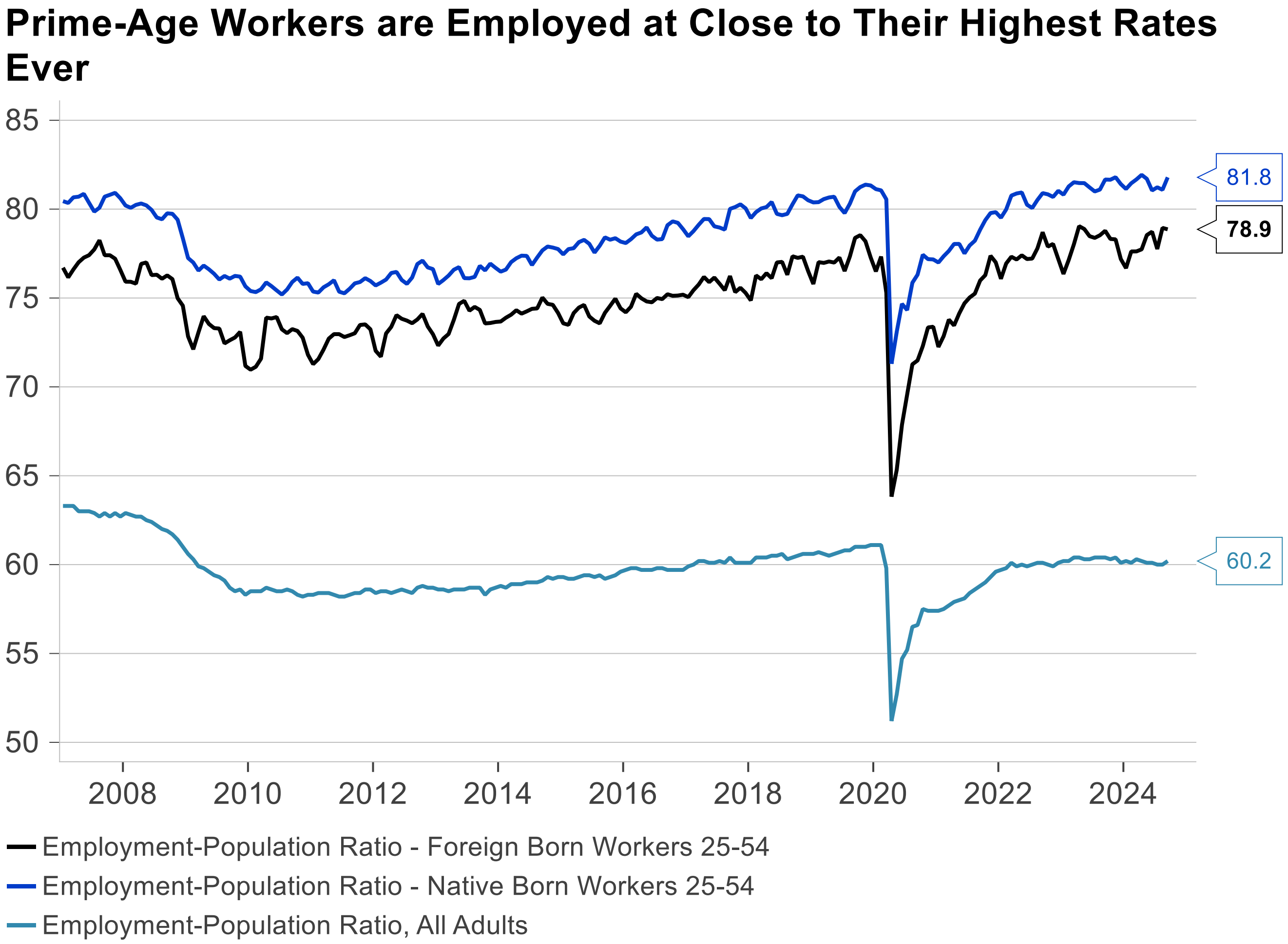
Risk #1: Large Tariff Increases Could be Tough for Consumers to Absorb

Source: NewEdge Wealth, Macrobond, Bloomberg United States International Trade Commission

Data as of: October 9, 2024

Risk #2: Immigration Restrictions Contribute to a Re-tightening Labor Market

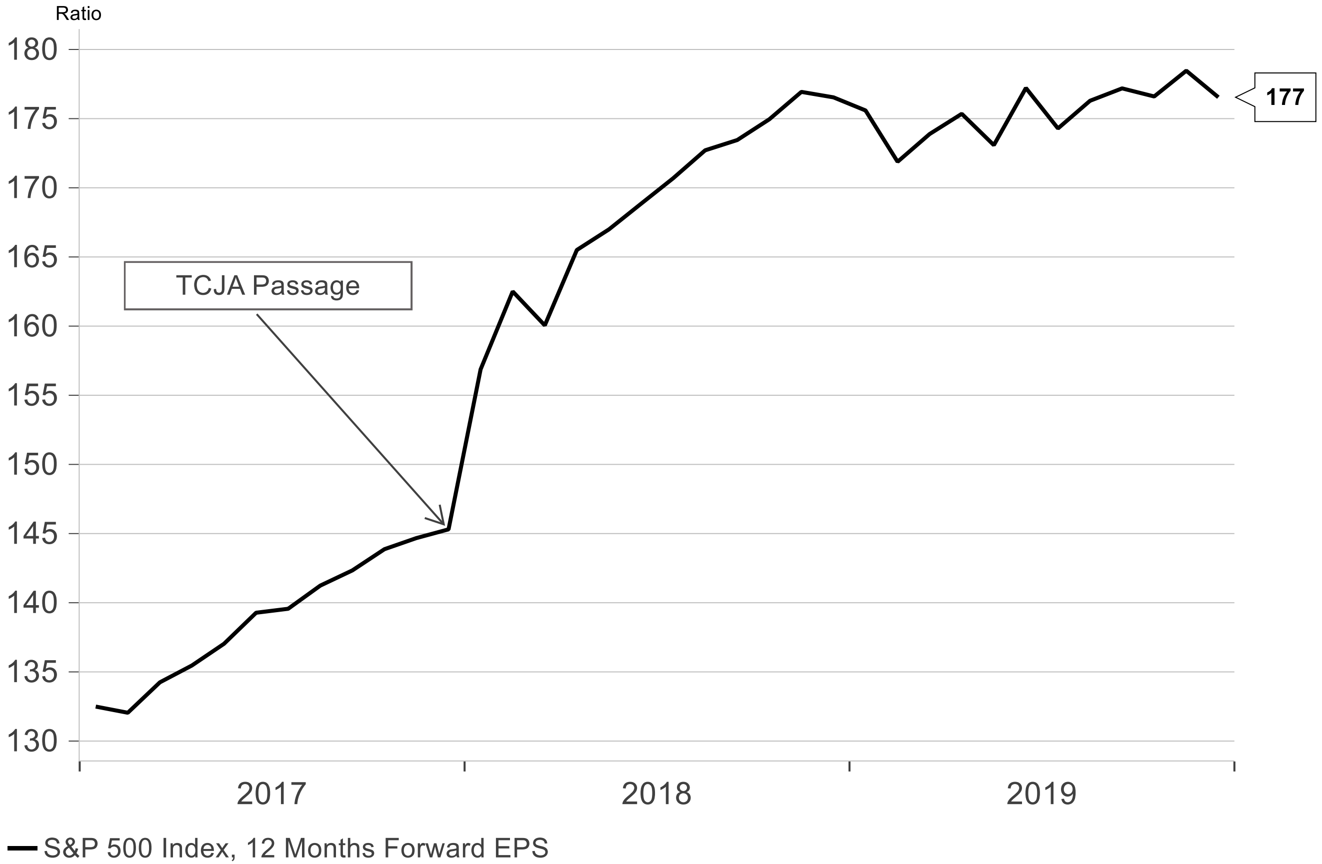


Source: NewEdge Wealth, Macrobond, Bloomberg U.S. Bureau of Labor Statistics (BLS)

Data as of: October 9, 2024

Risk #3: Higher Corporate Tax Rates Dent the Earnings Outlook for 2026

Corporate Tax Cuts in 2017 Powered Earnings Estimates for 2018 and Beyond



Source: NewEdge Wealth, Macrobond, Bloomberg S&P Global

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Tactical Asset Allocation

4Q 2024 Tactical Asset Allocation Tilts

Reflects a Tactical Shift from Previous Quarter

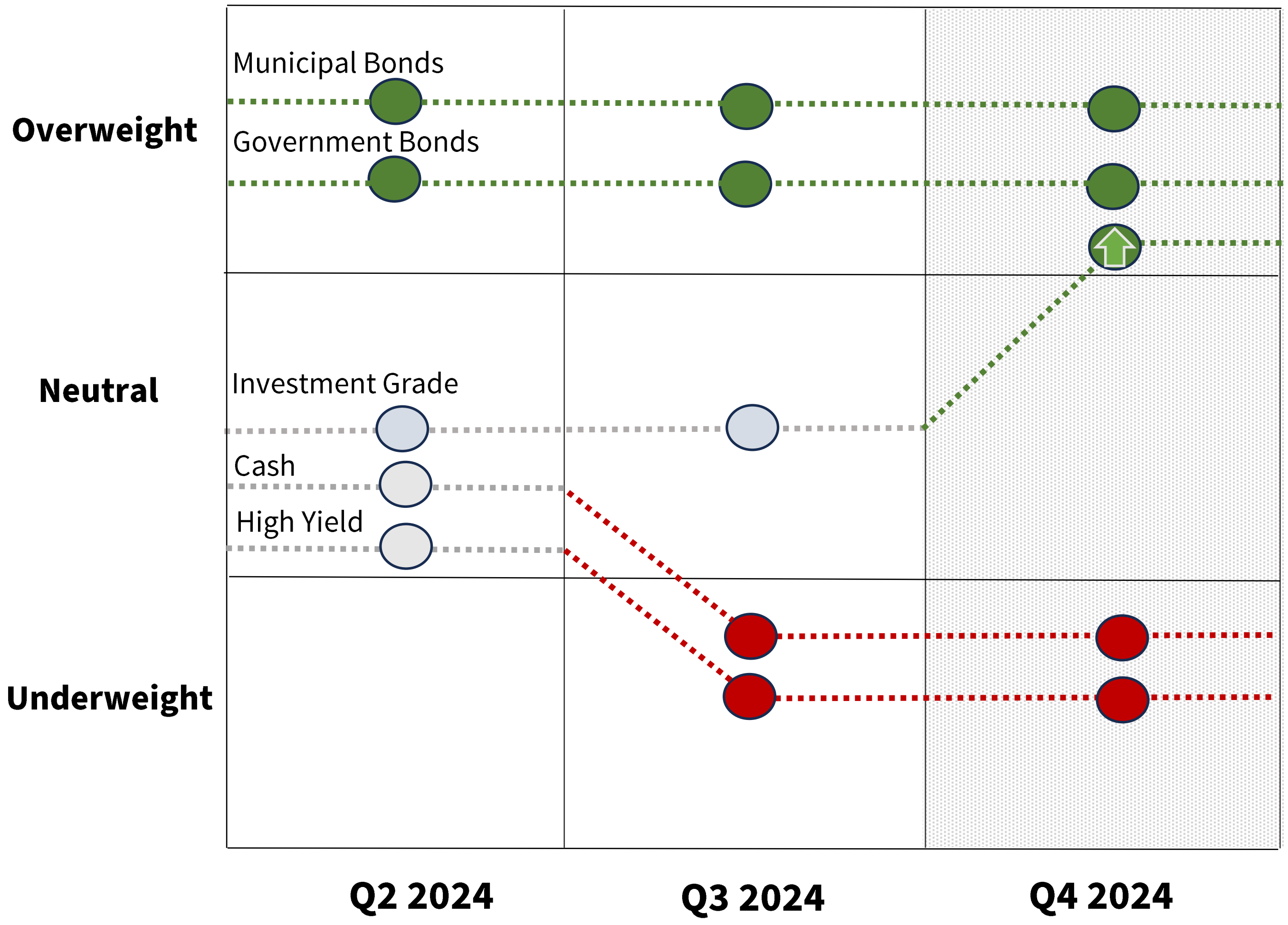
Fixed Income	Equities	Alternative Investments
—	—	↑

Fixed Income	
Cash	↓
Government Securities	↑
Municipal Bonds	↑
Investment Grade Credit	↑
High Yield Credit	↓

Equities	
U.S. Large Caps	—
U.S. Small Caps	—
International Developed	—
Emerging Markets	—

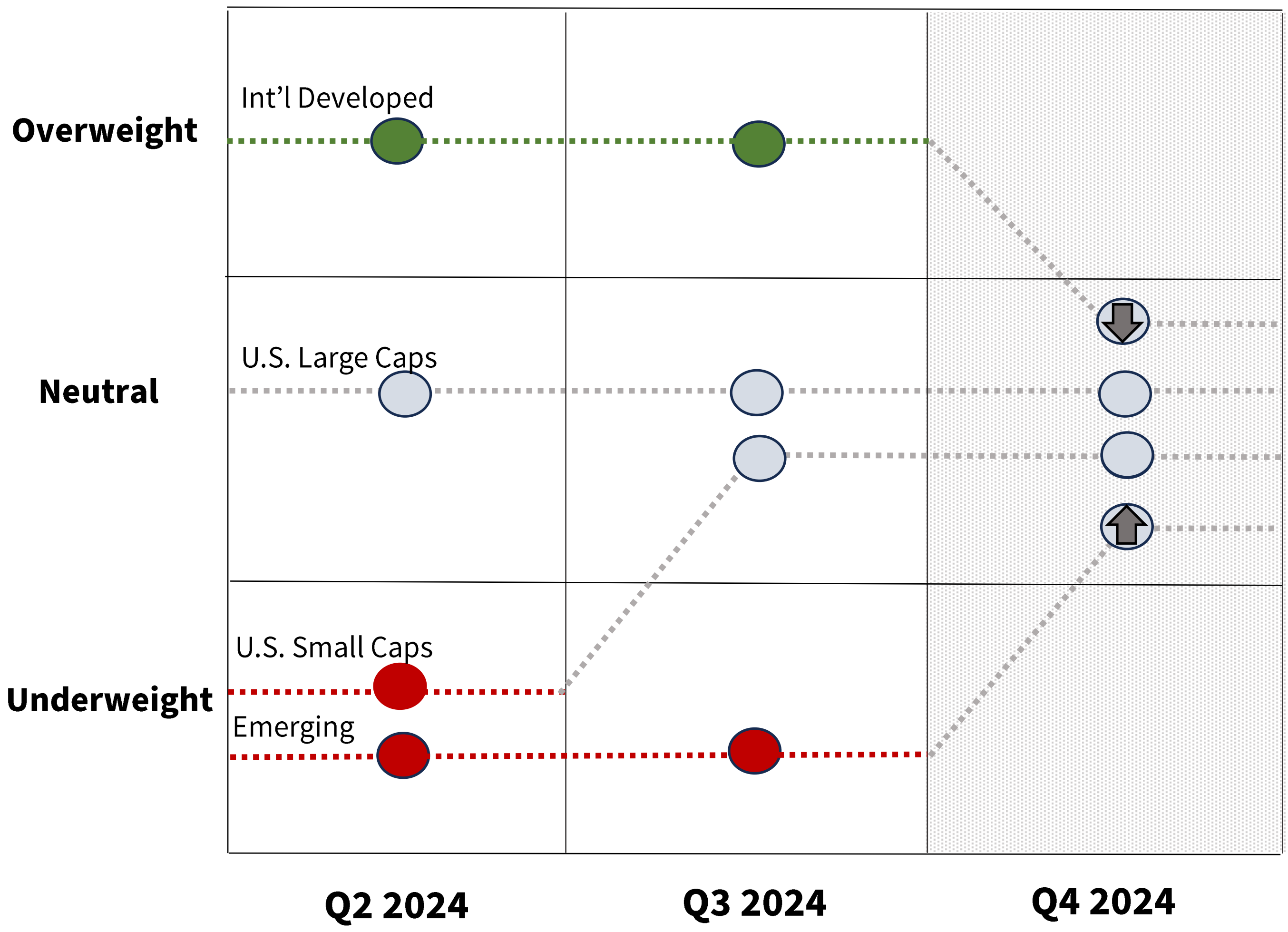
Alternative Investments	
Private Equity	↑
Private Credit	↑
Private Real Estate	—
Non-Directional Alternatives (Structured Products, Uncorrelated / Opportunistic PE)	↑
Hedge Funds	↓

Asset Class Outlooks: Fixed Income



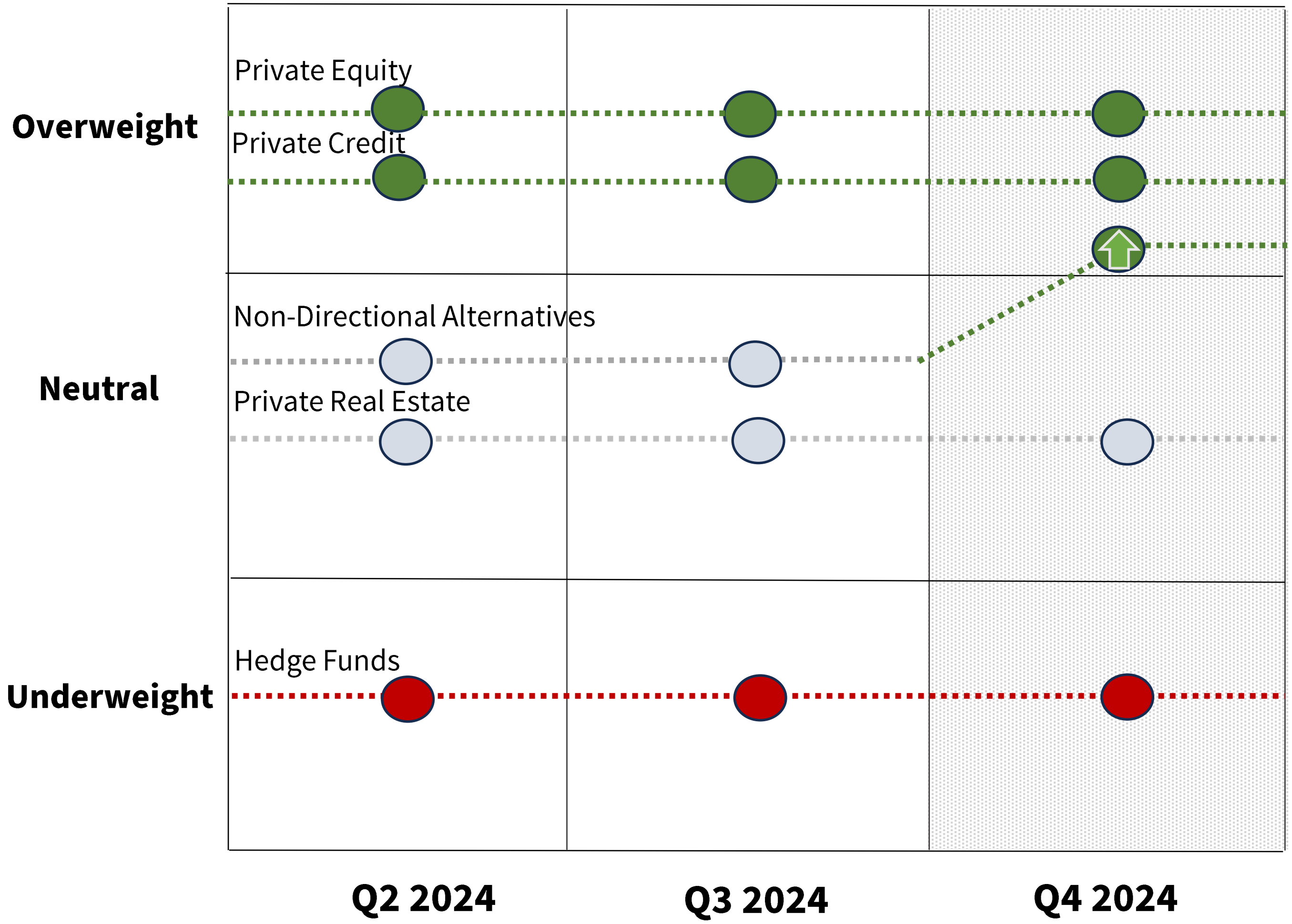
Asset Class	Positioning Notes
Cash	• We remain underweight cash as short-term rates will most likely continue to fall in the coming months, presenting reinvestment risk for investors with large cash holdings. • The market currently expects 100 bps of Fed rate cuts by June 2025, which will be immediately reflected in cash rates.
Govt. Securities	• We remain overweight Government Bonds and have a preference for intermediate/longer duration in light of softer inflation and weakness in labor market data – both of which would push the Fed to cut rates, putting a floor on yields. • We think the 10-year yield will remain rangebound around 3.25% – 4.25%, with the front end of the yield curve likely to experience more downward pressure than the long end. • Government bonds continue to offer attractive value against other fixed-income asset classes relative to history.
Municipal Bonds	• We remain overweight Municipal Bonds as the Muni curve continues to presents attractive opportunities to maximize total return (within the 15-25 year range). • Yields remain elevated and historically attractive when considered on a tax-equivalent basis.
IG Grade Credit	• We adjust our neutral position to Investment Grade Corporate bonds to overweight in light of our preference for higher quality issuance. • Credit fundamentals remain stable despite broader economic data signaling a potential slowing of growth • While a material degradation of U.S. economic growth would cause a sharp wide out in spreads, we see risks as skewed to the downside in the near term.
High Yield Credit	• We increase our underweight conviction to High Yield on spread valuations continuing to contract and be priced to perfection. They are now at their lowest levels since 2021 • Investors are not currently being well-compensated for incurring the additional volatility associated with rising defaults as refinancing looms for many borrowers in 2025.

Asset Class Outlooks: Equities



Asset Class	Positioning Notes
Large Cap	• We remain neutral U.S. Large Caps with a preference for quality companies with strong balance sheets and earnings resilience, which should continue to perform well in a slowing macro environment. • We remain balanced Value versus Growth 　○ We respect the uptrend in growth driven by underlying fundamentals despite elevated valuations and positioning. 　○ Rotation to less expensive, more economically sensitive value segment could continue if underlying economic activity accelerates and if investors abandon growth stocks because of the perceived risk that comes with their high valuation.
Small Cap	• We remain neutral U.S. Small/Mid Caps as simulative monetary policy via Fed rate cuts favor cyclical and more highly-levered companies. • Although earning estimates for 2025 have improved, we are cautious on the trajectory of a slowdown in growth which would hurt the asset class. • We continue to prefer high-quality companies with positive free cash flow generation.
Developed	• We adjust our overweight to International Developed equities to neutral due to sluggish growth in the European Union and uncertainties surrounding Japan's consumption outlook, which can complicate the Bank of Japan's rate hike plans. • These challenges are reflected in the valuation discounts seen in developed equities relative to the U.S., which are likely to persist until there is a more favorable outlook for growth. • Developed markets continue to provide a broader universe of high-quality companies and tends to be less cyclical relative to EM, which could offer more insulation in the event of a sharper slowdown.
Emerging	• We adjust our underweight to Emerging Markets to neutral, in light of the aggressive stimulus measures announced by the PBOC aimed to boost domestic consumption supporting Chinese equity markets in the near term. We are selective and prefer non-state-owned companies. • Despite the recent burst of outperformance (driven by the stimulus news on China), broadly across emerging markets we remain cautious given geopolitical/ regulatory risks factors and the highly cyclical composition of the index, in an environment of slowing growth.

Asset Class Outlooks: Alternatives



Asset Class	Positioning Notes
Private Equity	• We remain overweight Private Equity as current and upcoming vintages are poised to capitalize on opportunities from an economic reset and serve as a gateway to early-stage winners that will drive future growth. • We continue to see opportunities for quality growth across the lower middle market and middle market vs. the upper market, where the velocity of capital continues to be slower.
Private Credit	• We remain overweight on Private Credit as private equity firms turn to private markets for faster, more reliable access to capital. • We see long-term opportunities in private credit emphasizing strong underwriting and downside protection as new entrants, offering unique incentives, flood the market. • We expect gross yields to come down, but spreads remain intact for those managers with strong underlying fundamentals.
Private Real Estate	• We remain neutral Private Real Estate due to continued stress which has reduced new capital supply. • Market dislocations may create attractive pockets of buying opportunity in the next 12-18 months, particularly in distressed spaces such as office and commercial.
Non-Directional Alternatives (Structured Products, Uncorrelated PE / Opportunistic)	• We shift from a neutral to an overweight allocation in Non-Directional Alternatives, anticipating that upcoming volatility will present attractive opportunities. • We prefer yield focused structured notes that can take advantage of market dislocations to lock in positive returns with downside protection. We expect Structured Note yield spreads over 1-year Treasuries to increase dramatically as rates come down. • Uncorrelated Private Equity can enhance portfolio resiliency by focusing on long-term value creation that's not directly impacted by the same factors driving public equities.
Hedge Funds	• We remain underweight Hedge Funds as investors are not adequately compensated given the difficulty of generating above-average, after-tax returns, net of fees. • Working on forming better quality access points to the space broadly thinking about the tax implications for investors. • Selectivity is key as dispersion amongst managers has been meaningfully higher.

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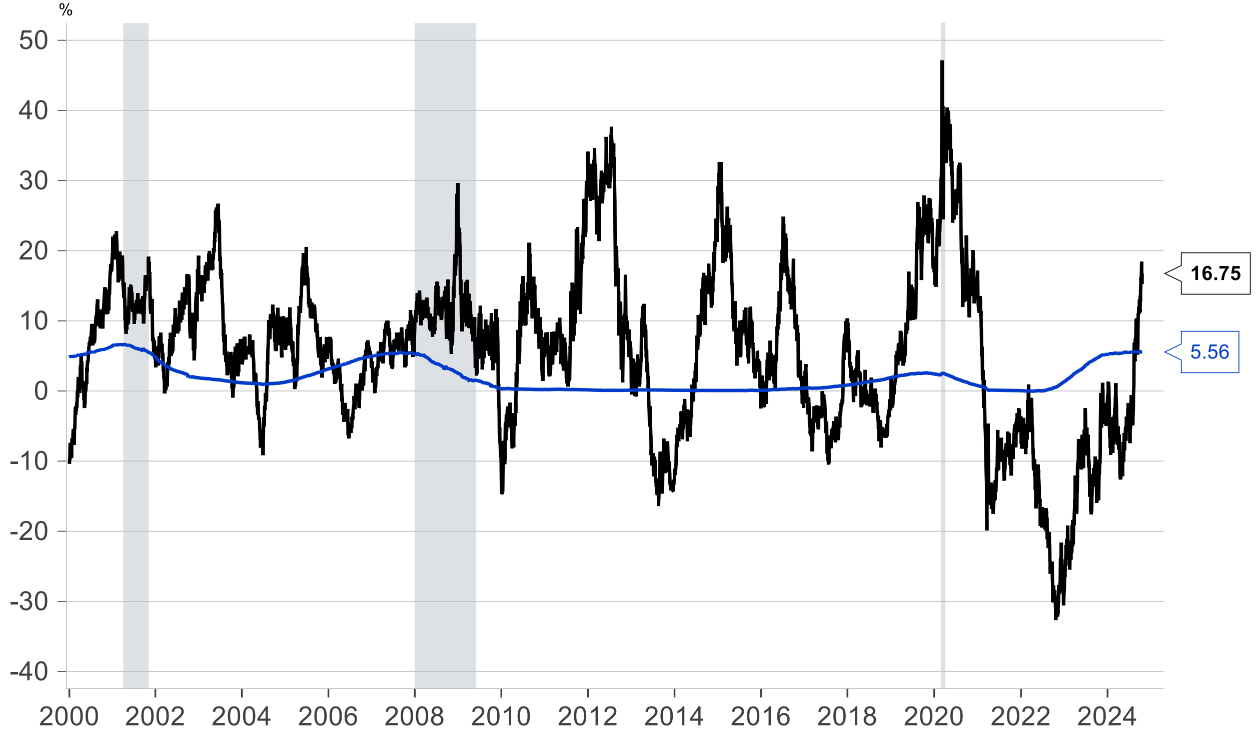
Fixed Income

Key Taxable Fixed Income Themes for 4Q24

- Interest rates have fallen and are likely to fall more in the coming year even without a recessions, but we do see potential for continued bond market volatility and upside to yields in the short term
- Higher inflation does not represent a significant risk to bond markets in 2025 based on current data, but exogenous shocks are possible
- Easing monetary policy and stimulative fiscal policy could keep a floor on rates compared to "normal" pre-COVID levels
- Corporate bond spreads are extremely tight, meaning investors are not being paid as much to incur greater default risk
- Bonds remain attractively valued compared to stocks, which matters for long-term investors

Long Bonds Have Begun to Reverse Years of Underperformance



Bloomberg US Long Treasury Total Return Index Value Unhedged
Bloomberg US Treasury Bills Total Return Index Value Unhedge

Source: NewEdge Wealth, Macrobond, Bloomberg

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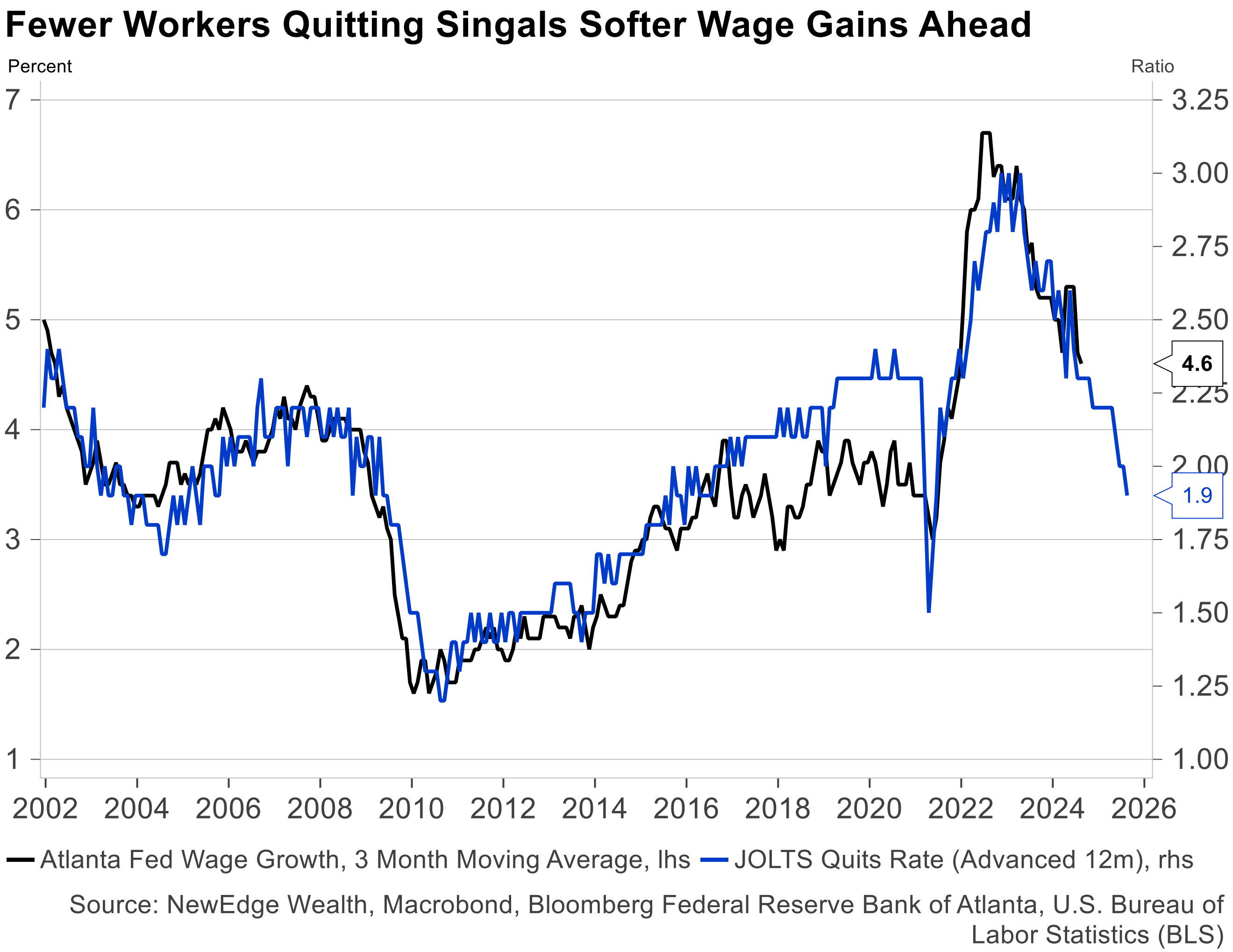
Higher Inflation Next Year? Not Based on the Falling Quits Rate



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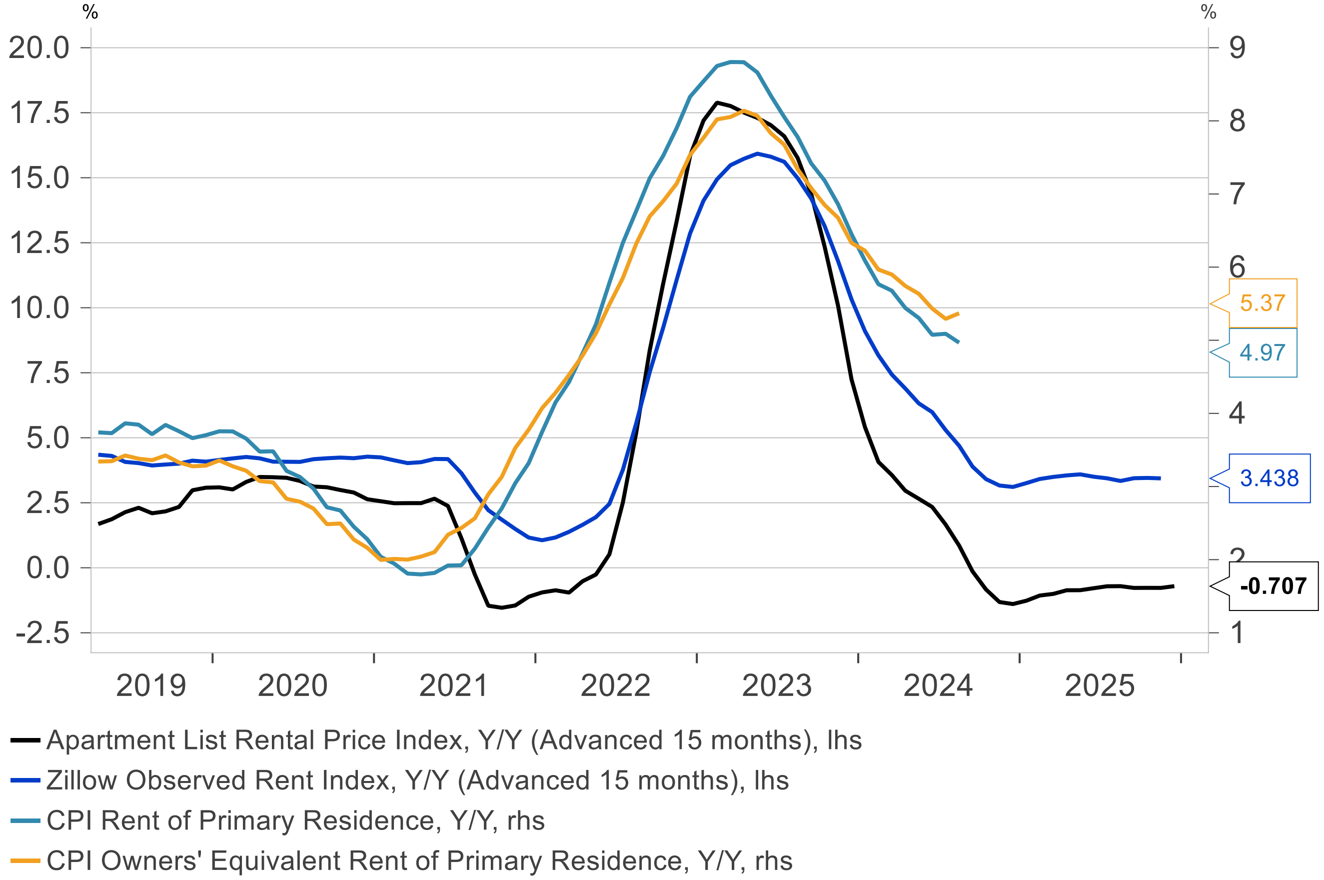
Higher Inflation Next Year? Not Through the Shelter Channel

Private Rent Indexes Indicate CPI Rent Inflation Has Further To Fall



Source: NewEdge Wealth, Macrobond, Bloomberg Apartment List, Zillow, U.S. Bureau of Labor Statistics (BLS)

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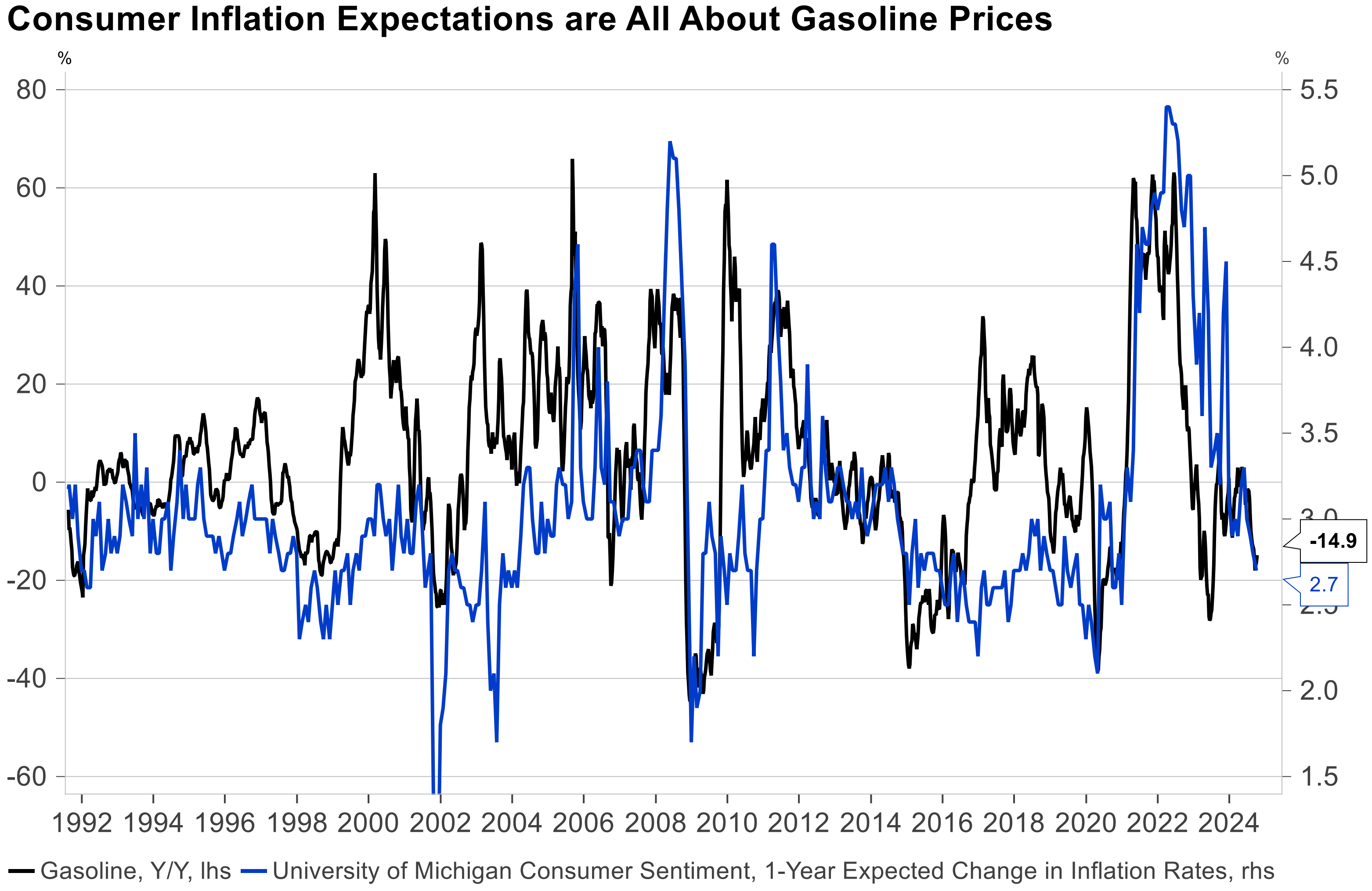
Higher Inflation Next Year? Consumer Expectations are Well-Anchored (by Gas)



Source: NewEdge Wealth, Macrobond, Bloomberg Energy Information Administration (EIA), University of Michigan

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Subdued Inflation Will Lead All This Cash to Underperform

Money Market Fund Assets Still Skyrocketing

Source: NewEdge Wealth, Macrobond, Bloomberg Investment Company Institute (ICI)

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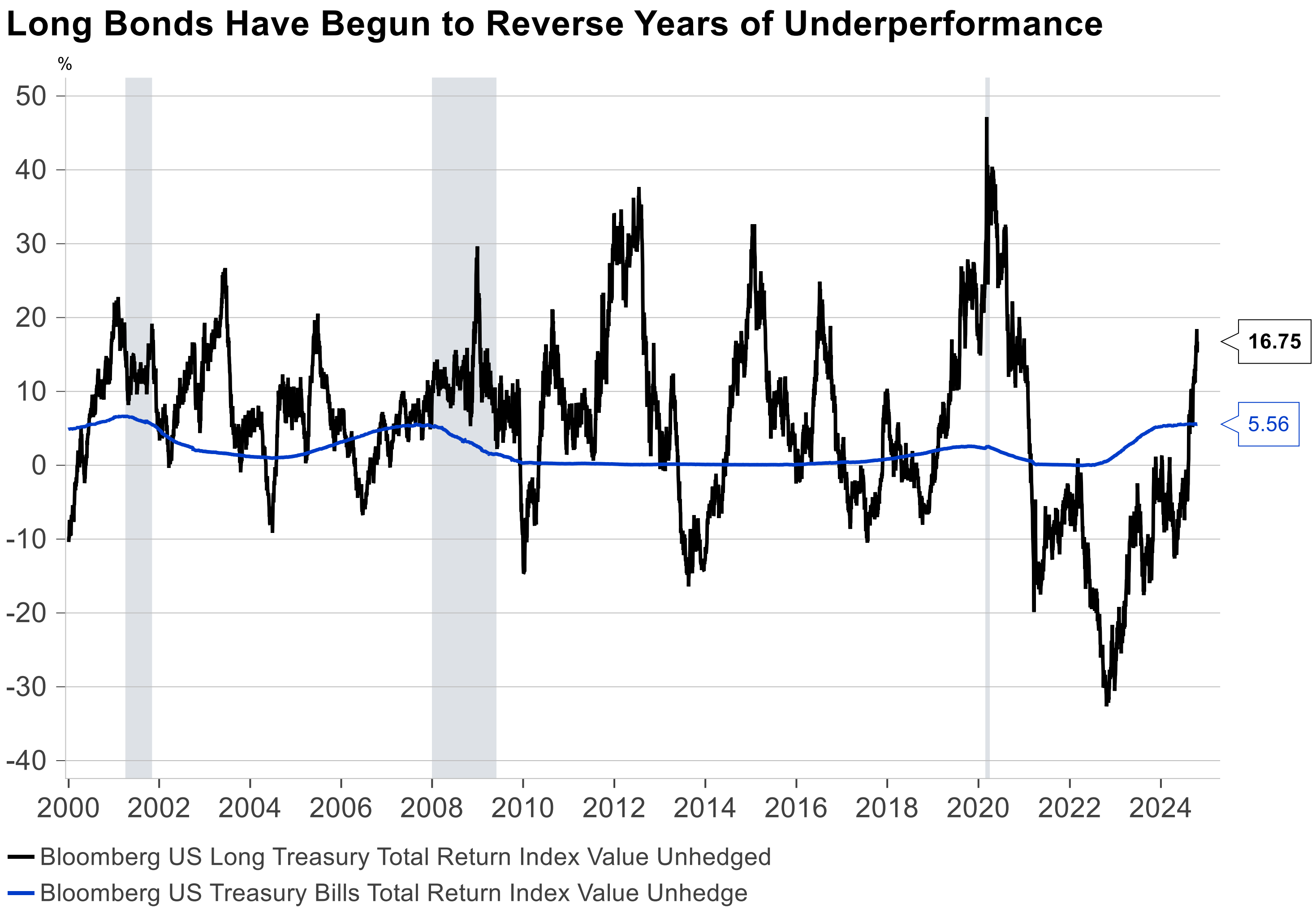
In Fact, it Already Has!



Source: NewEdge Wealth, Macrobond, Bloomberg

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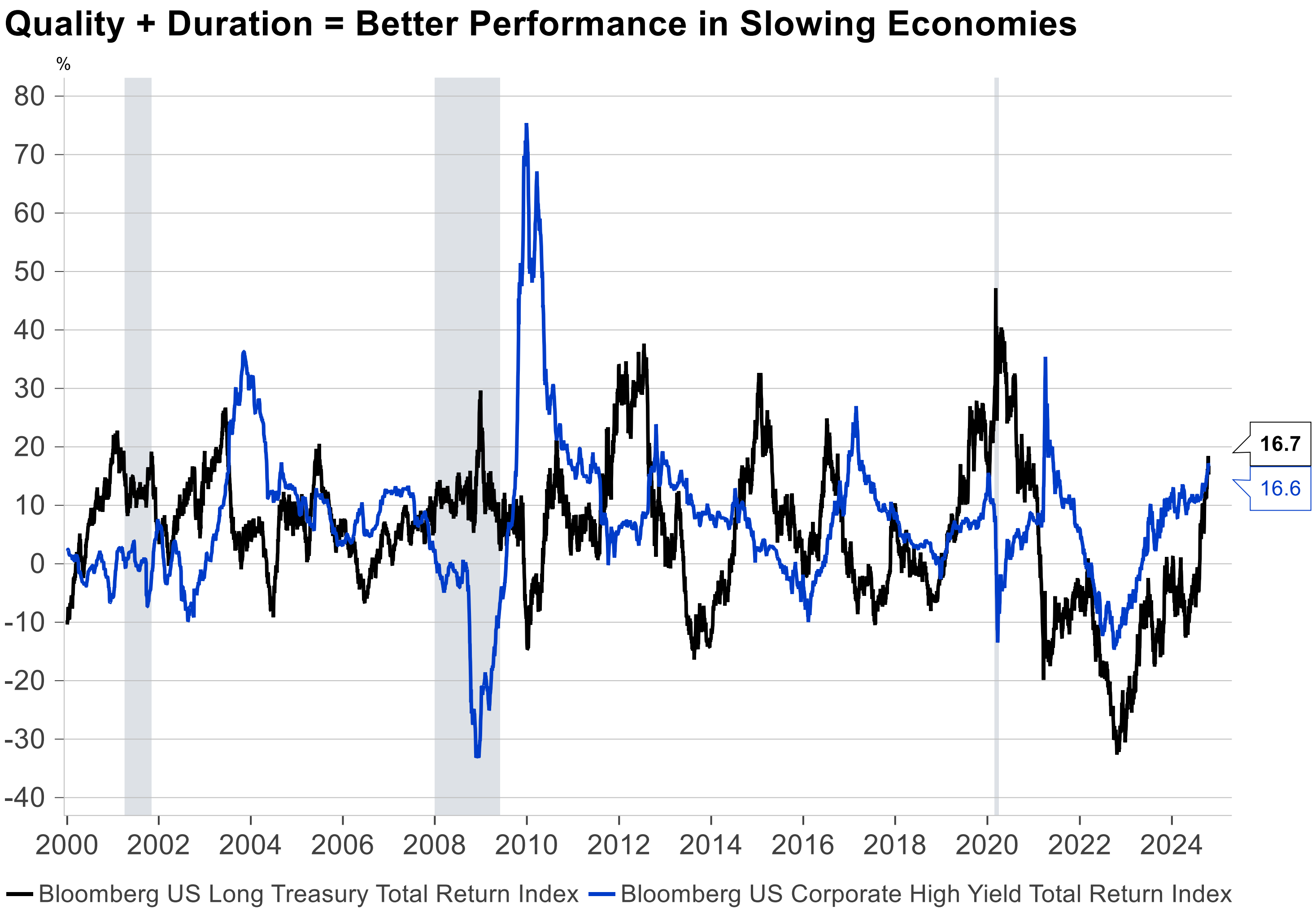
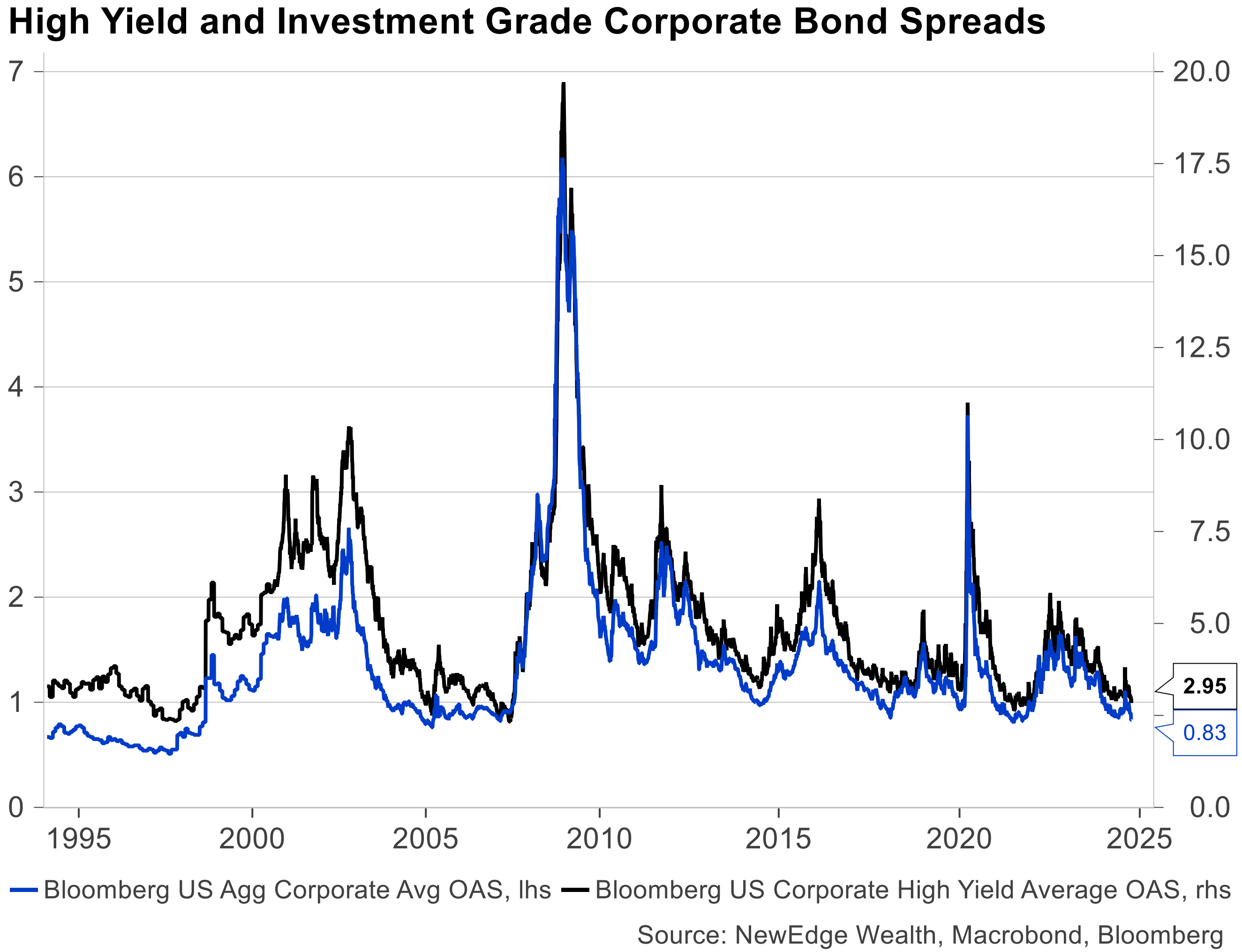
Quality Duration Has Been Making a Strong Comeback in 2024



Source: NewEdge Wealth, Macrobond, Bloomberg

Solid Growth Data is Keeping Corporate Credit Spreads Tight



Data as of: October 9, 2024

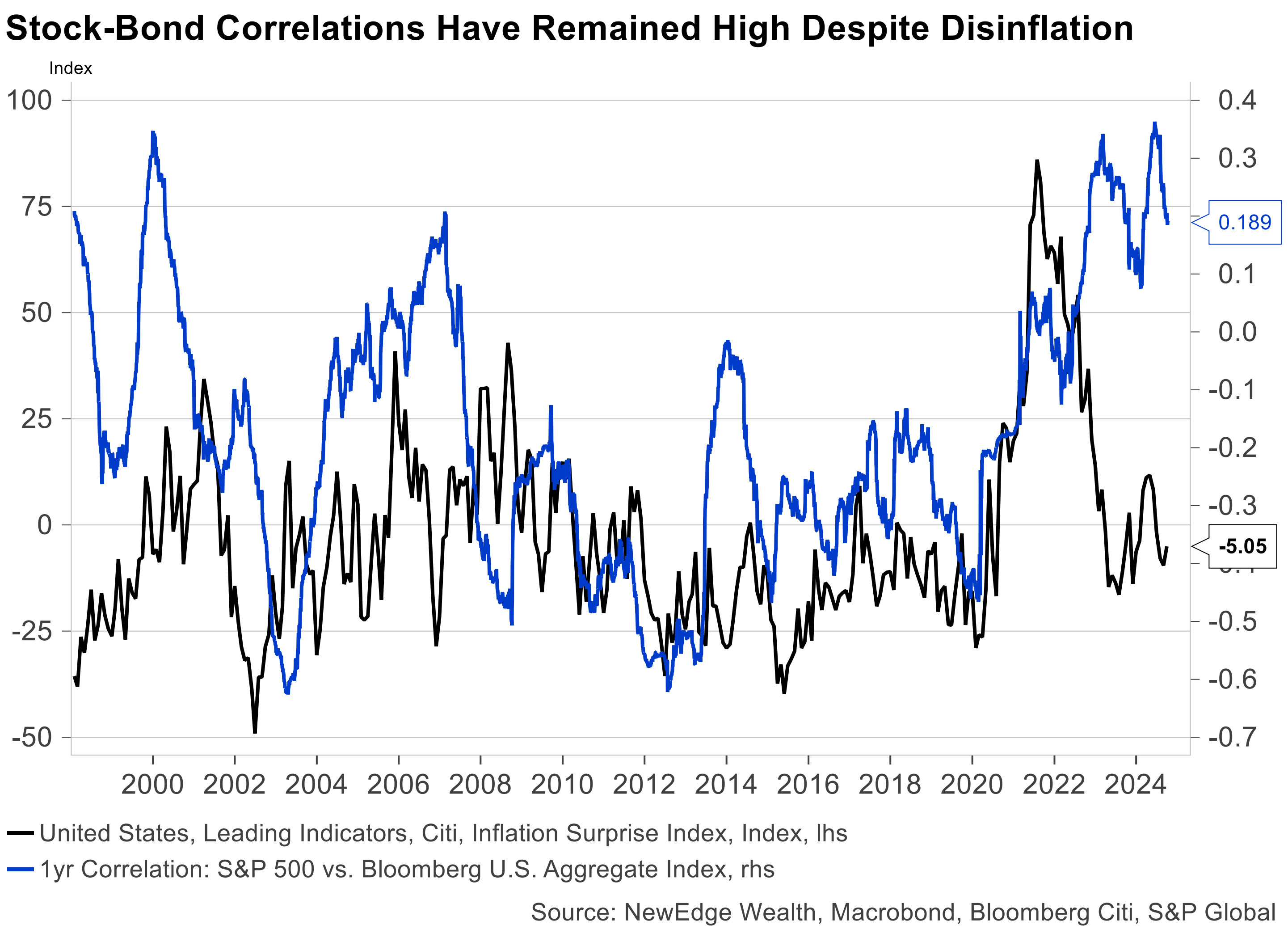
Strong Case for Owning Bonds in a Diversified Portfolio

Equity Risk Premium (S&P 500 vs. 10yr Treasury) is Quite Low

Source: NewEdge Wealth, Macrobond, Bloomberg Robert Shiller, Federal Reserve Bank of Cleveland, U.S. Department of Treasury

Data as of: October 9, 2024

Stock-Bond Correlation Only Beginning to Normalize



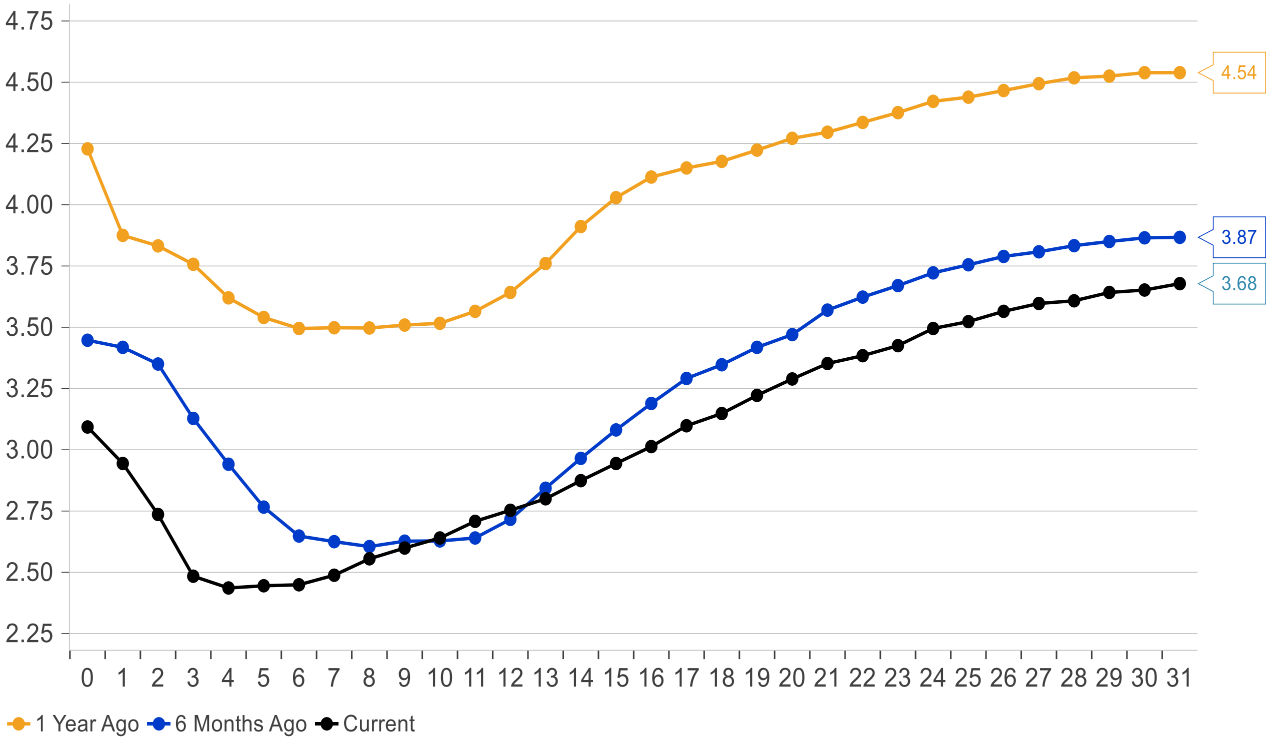
Data as of: October 9, 2024

Key Municipal Themes for 2H24

- Municipal yields remain elevated and are historically attractive especially when considered on a tax equivalent basis
- The 15-25 year area of the yield curve presents the best opportunity to maximize total return
- “Buy the dip” mentality
- HY Munis have outperformed in during the first 3 quarters of the year
- Issuance was 36% higher y/y and will most likely remain elevated but at a lower rate in 4Q24.
- Inflows have been positive and should remain supportive
- Municipal credit-rating upgrades significantly outpaced downgrades overall in 2023, and we expect positive momentum to continue into 2024, even as we’ve begun to see a slowing in tax collections

US AAA Muni Yield Curve Over Time

BVAL Muni AAA Yield Curve 3M-30Y



Source: NewEdge Wealth, Macrobond, Bloomberg

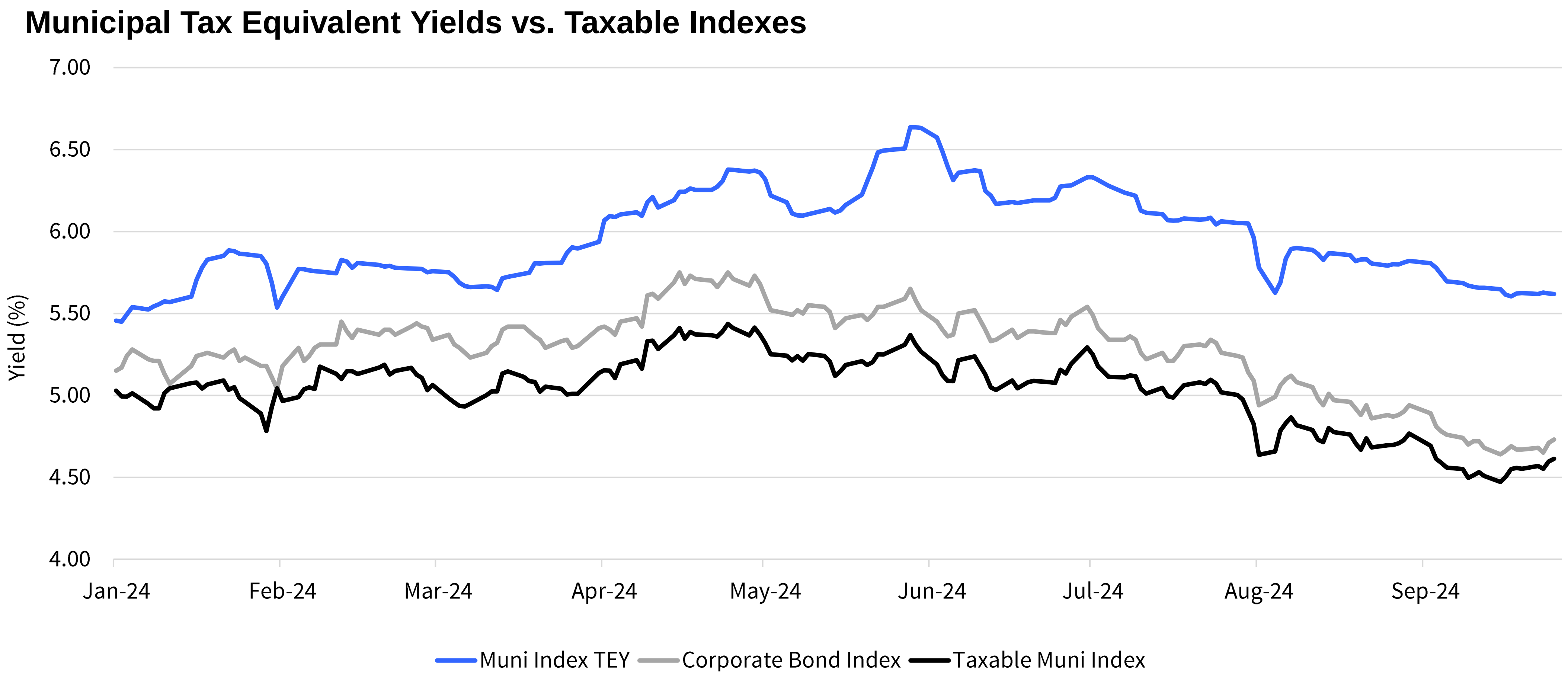
Data as of: October 9, 2024

Munis: Yields Remain Attractive

Source: NewEdge Wealth, Macrobond, Bloomberg

Data as of: October 9, 2024

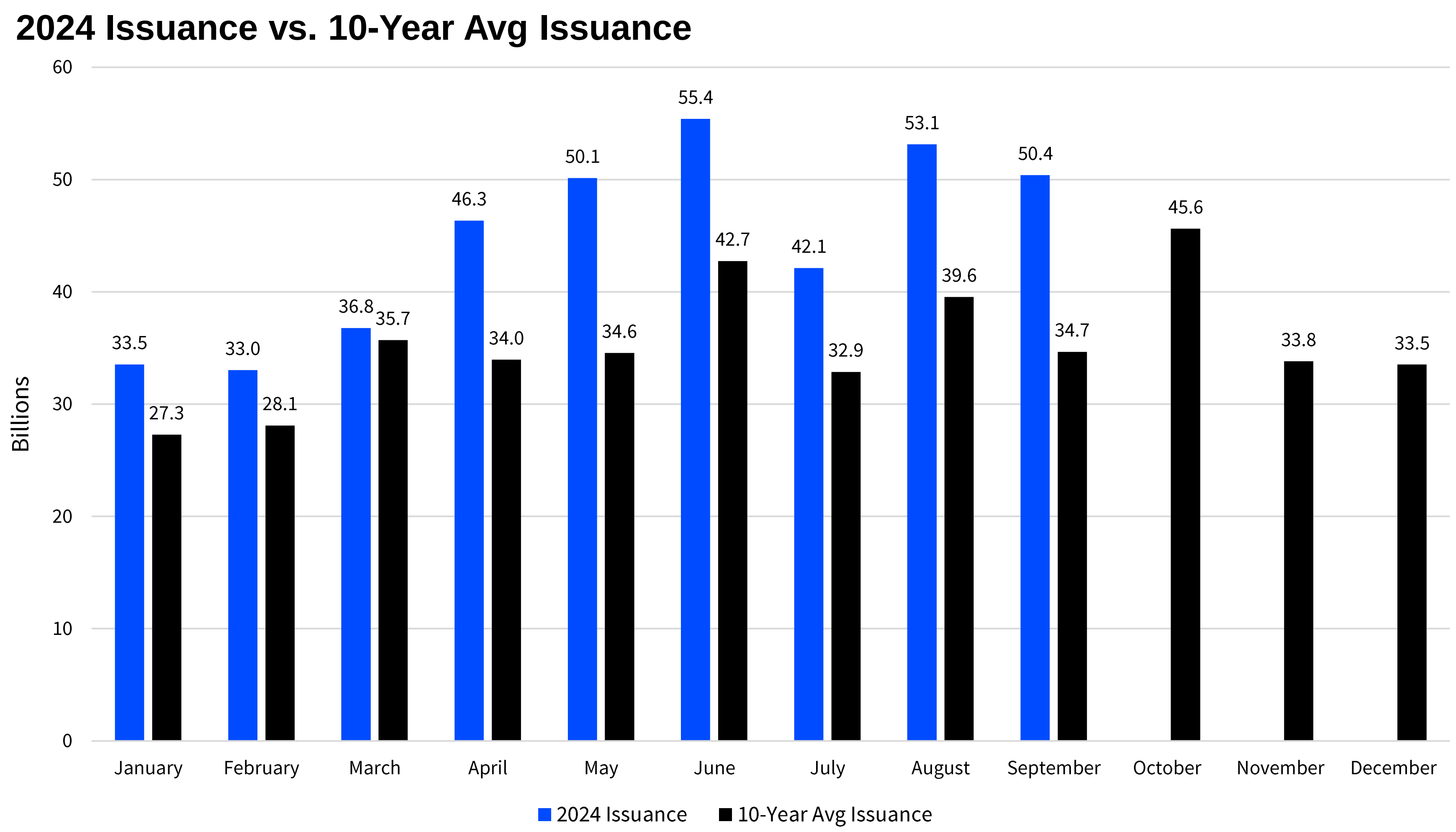
Munis: Yields Remain Attractive



Source: NewEdge, Bloomberg

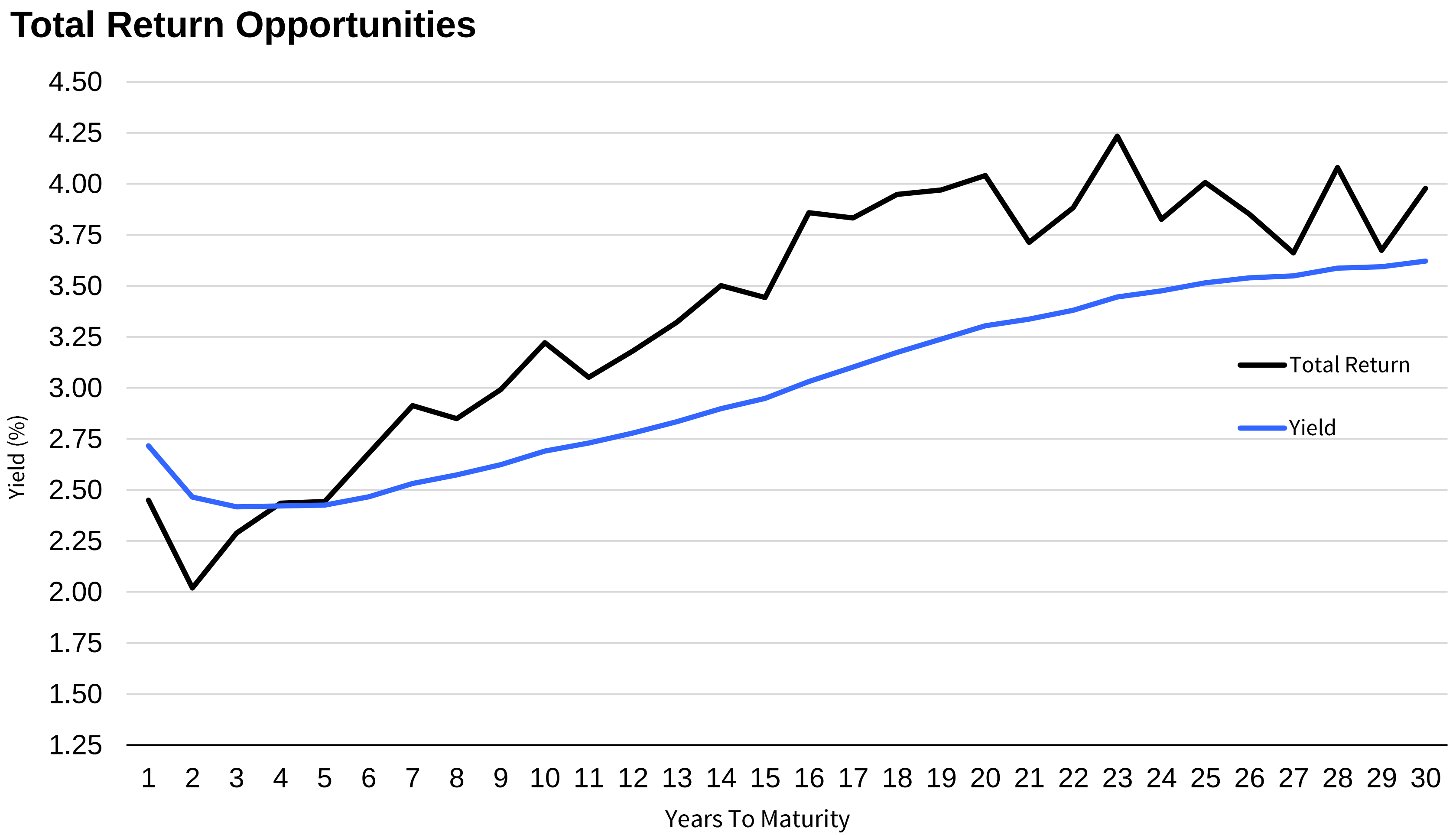
Data as of: October 9, 2024

Munis: Issuance up 36% in YTD, Well Above 2023 and Historical Averages



Data as of: October 9, 2024

Beyond 15 Years and Inside of 25 Presents Best Opportunity to Maximize Total Return



Data as of: October 9, 2024

Equities

Key Equity Themes for 4Q24

We expect global growth to continue to slow but remain positive, supported by resilient consumption and more accommodative Fed policy.

However, slowing growth, premium valuations, and stretched investor positioning makes equities more prone to “growth scares” and bouts of volatility.

Seasonal Tailwinds – Historically Q4 is the best quarter of the year for equities (generating 2-3x the average return of all other quarters since 1950).

Crowded Consensus – Consensus views that market dips are buying opportunities may make any pullbacks short lived, or lead to a melt up scenario.

Profits Under Pressure – Underlying earnings growth remains positive, but profitability will continue to be pressured by slowing top line growth, a tight labor market, and waning pricing power.

Lofty Expectations – Expectations for double digit EPS growth in 2025 and a return to peak margins will be difficult to achieve. Hints of weakness in guidance could lead to multiple contraction.

5 Key Watch Items for Equities

1. **Watch for a Continued Rotation Under the Surface** – Despite a volatile Q3, we have seen gradual improvement in market breadth and a rotation in leadership from growth to value segments, helping support index level performance. Continued momentum from the average stock and the first half laggards could help drive incremental upside despite a lack of leadership from the largest index weights.

2. **Key an Eye on Consumer Trends** – Despite higher prices and a softening labor market, consumer spending has remained resilient. Consumers continue to benefit from lower energy prices and asset appreciation, helping drive economic growth and overall corporate revenues, however recent shifts towards lower priced alternatives suggest more restrained spending is likely.

3. **Entering a Critical Period for Corporate Earnings & Guidance** – Corporate profitability has continued to exceed expectations, boosted by price increases and cost cutting measures. With the low hanging fruit picked over, and top line growth slowing, the extent that management teams can drive incremental efficiency will be key to continuing to meet expectations and guidance forecasts.

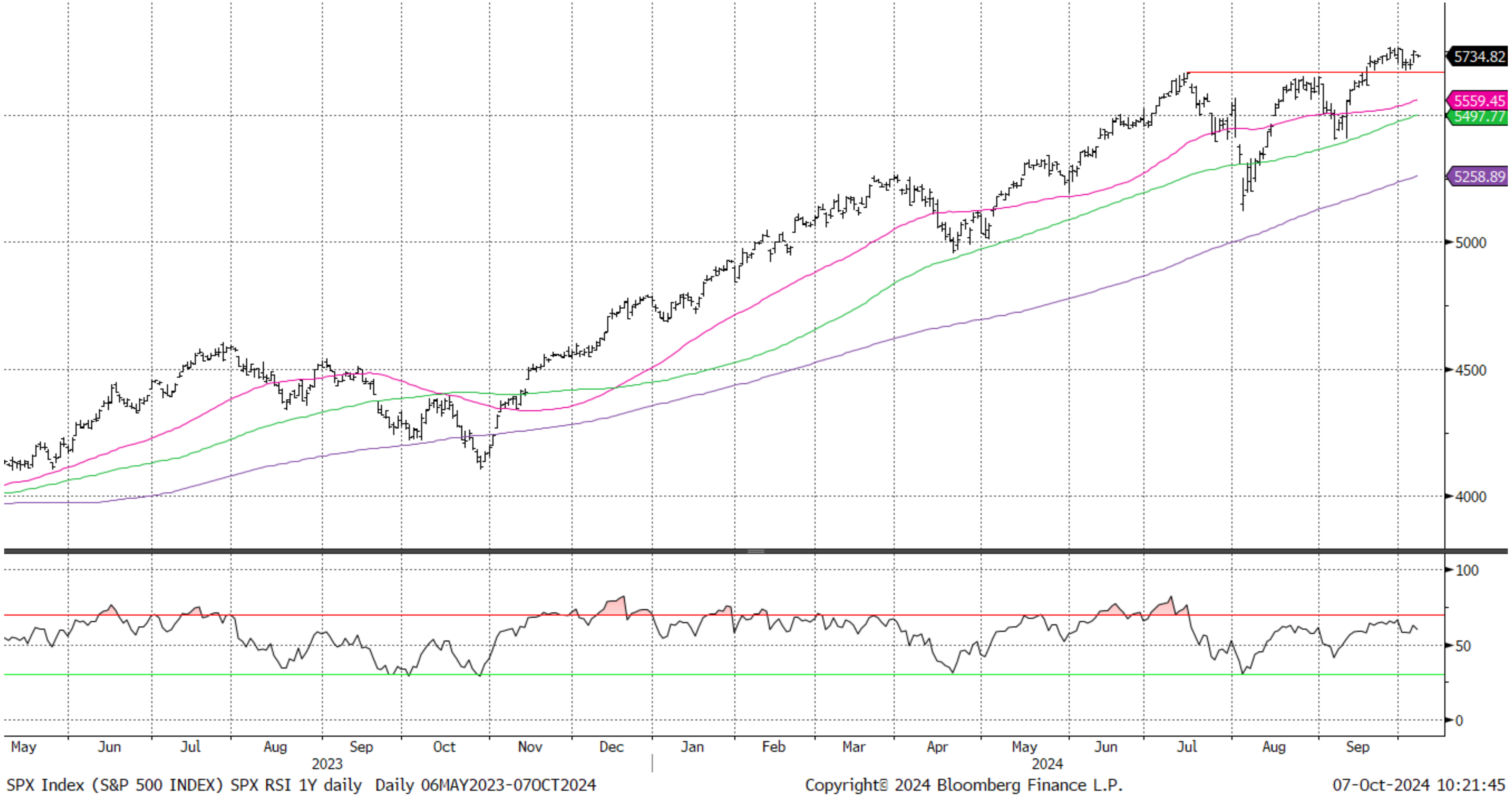
4. **Investor Positioning Remains Crowded** – We saw a modest reset in crowded long positioning in the third quarter, as a resurgence in volatility dinged overall sentiment and shook out some weaker hands, however investor sentiment and positioning remains elevated, which could exacerbate market volatility in any “growth scares” or unexpected geopolitical events.

5. **Elevated Valuations, but not a Reason to Sell** – Broad measures of valuation in equities remain above average in most categories. While valuation is historically a weak investing signal, it does suggest forward returns will be primarily driven by underlying earnings growth. This will likely make the equity markets more sensitive to corporate guidance and the direction of analyst revisions in the coming quarters.

Source: NewEdge Wealth, Bloomberg

Respect the Trend: S&P 500 Remains in Uptrend, But We Expect 4Q Volatility

S&P 500 and Daily RSI

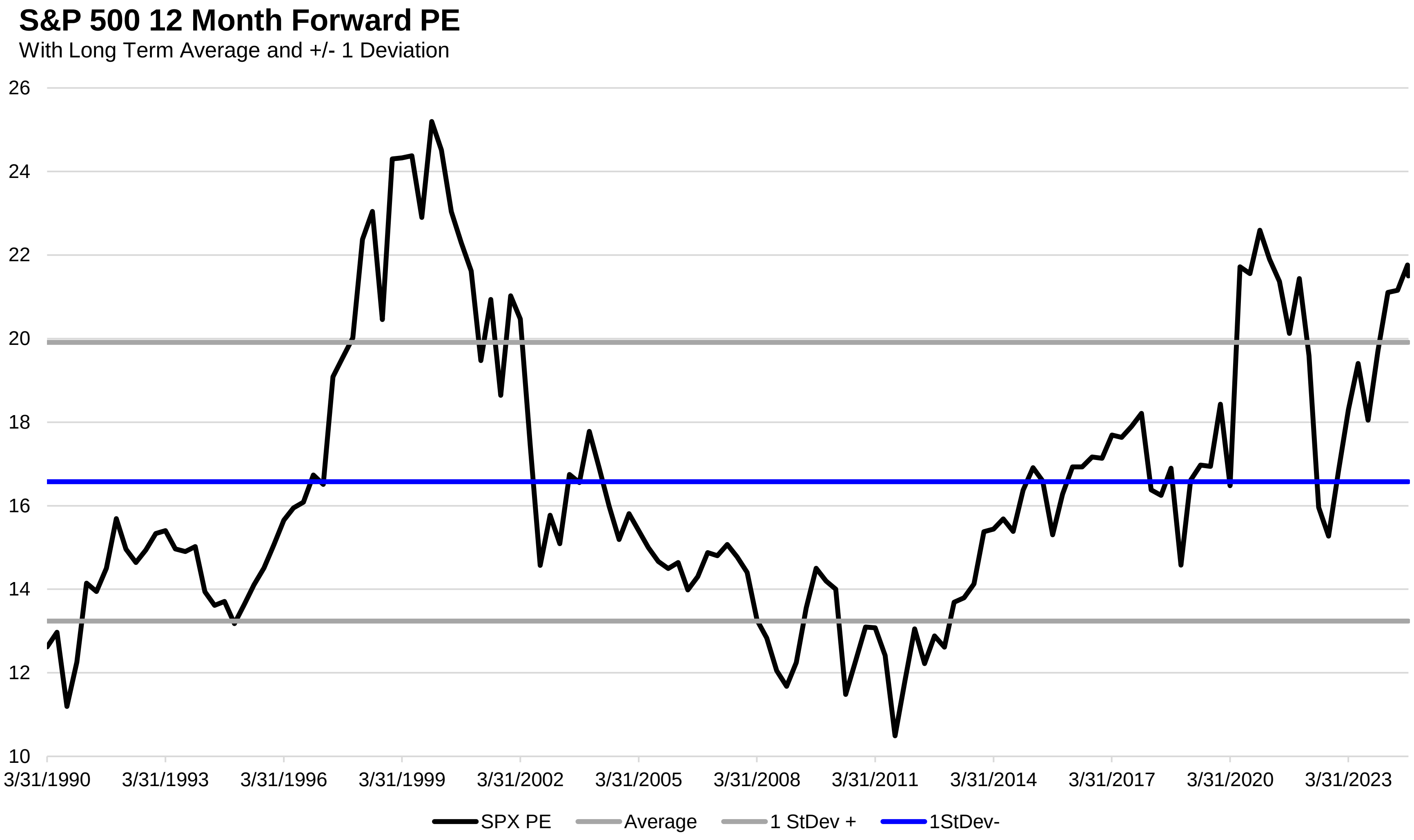


Source: NewEdge Wealth, Bloomberg

NewEdge WEALTH

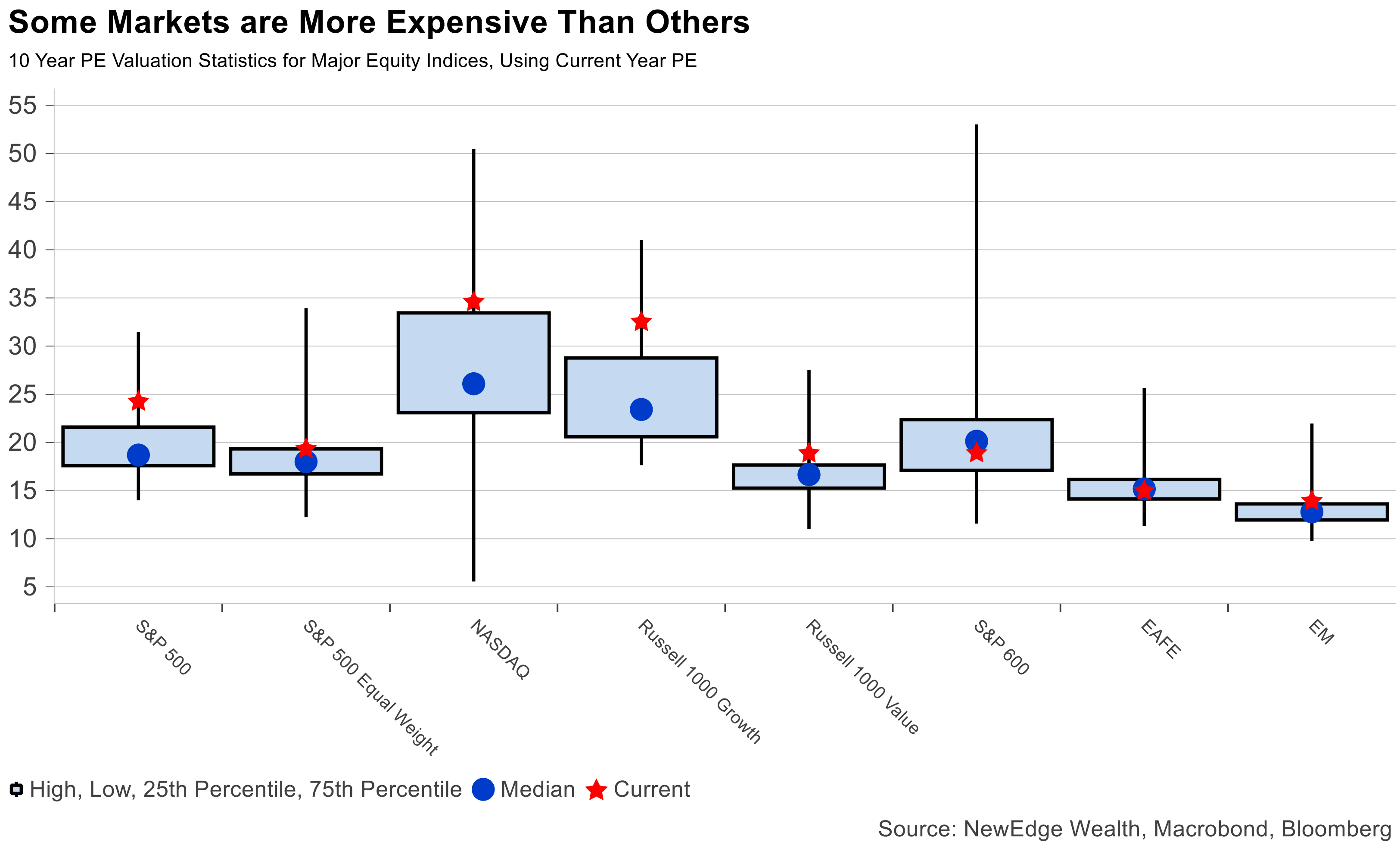
Data as of: October 9, 2024

Valuations: Above Average but not a Sell Signal, a Reason to be Diligent



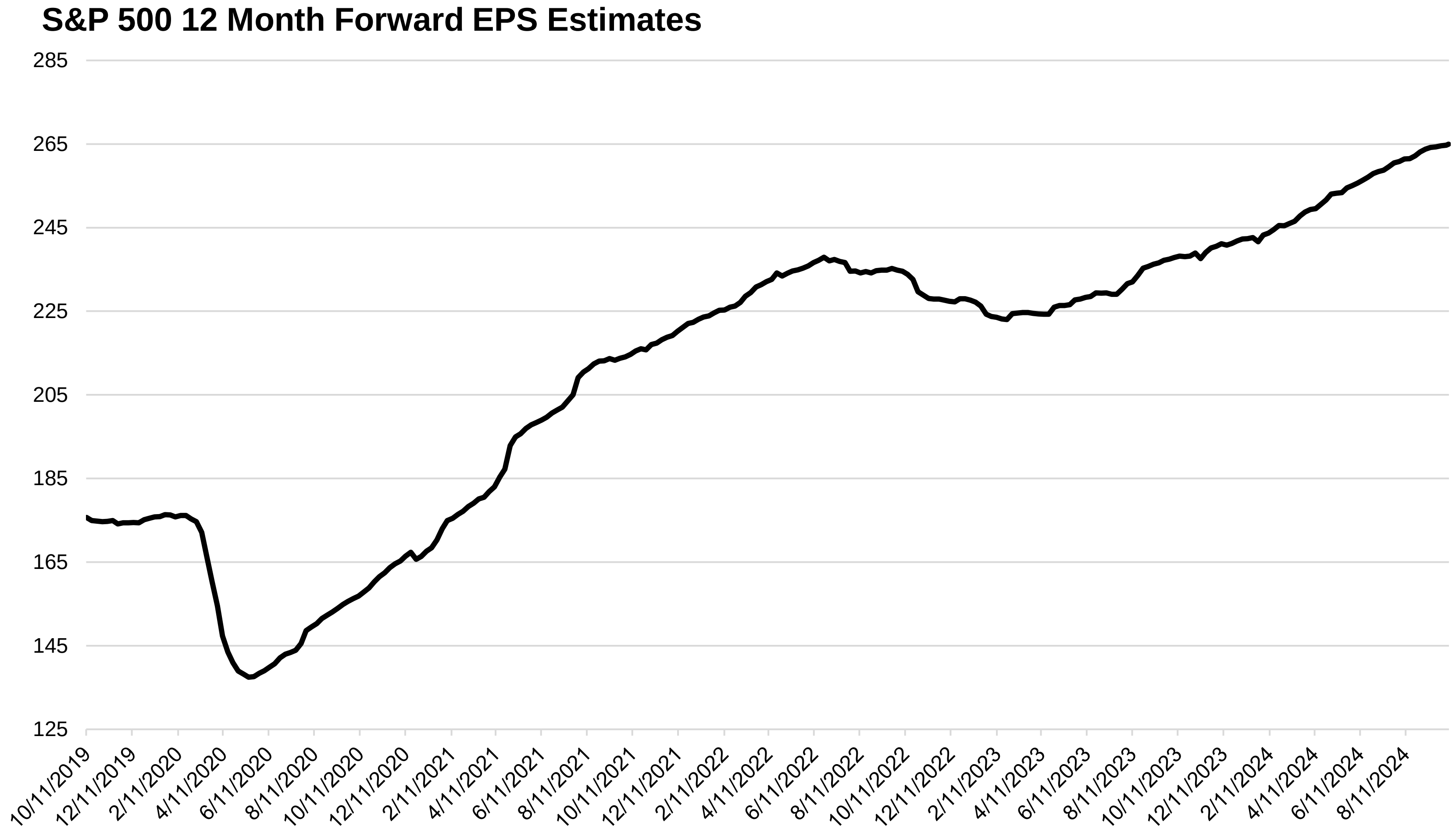
Source: NewEdge Wealth, Bloomberg

Valuations: More Reasonable in Smaller Cap and International Markets



Data as of: October 9, 2024

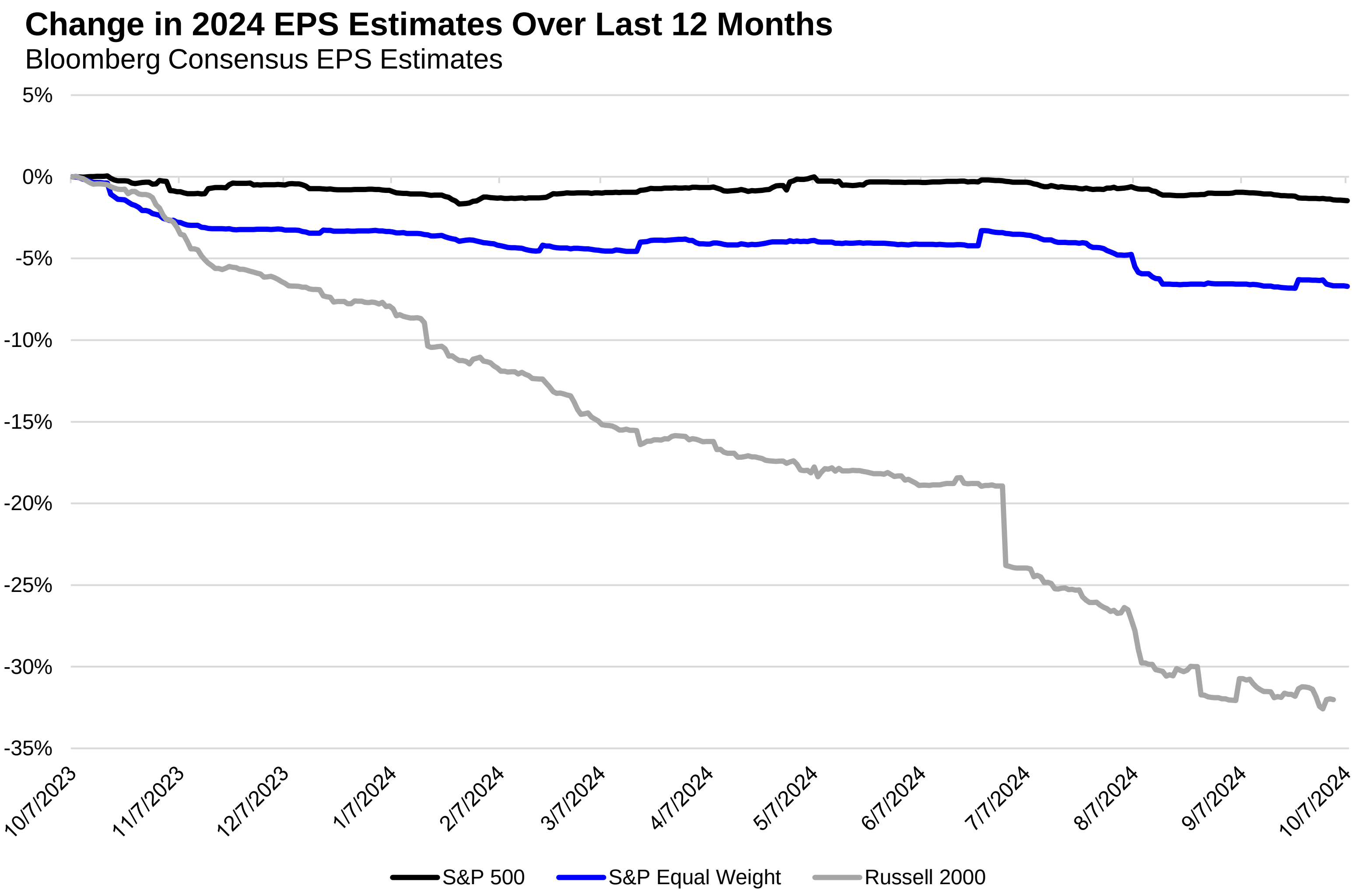
Rising 12 Month Forward EPS Has Supported This Rally But...



Source: NewEdge Wealth, Bloomberg

Data as of: October 9, 2024

Rotations: Earnings Revisions will be Key for Continued Momentum



Source: NewEdge Wealth, Bloomberg

Data as of: October 9, 2024

Corporate Earnings: Lofty Growth Expectations for 2025 & Beyond

S&P 500 Consensus	**2023A**	**2024E**	**2025E**	**2026E**
EPS	$225	$243	$277	$310
YoY Change	*1%*	*8%*	*14%*	*12%*
Revenue Growth	3.5%	5.0%	6.0%	6.0%
Operating Margin	13.6%	15.6%	16.9%	TBD

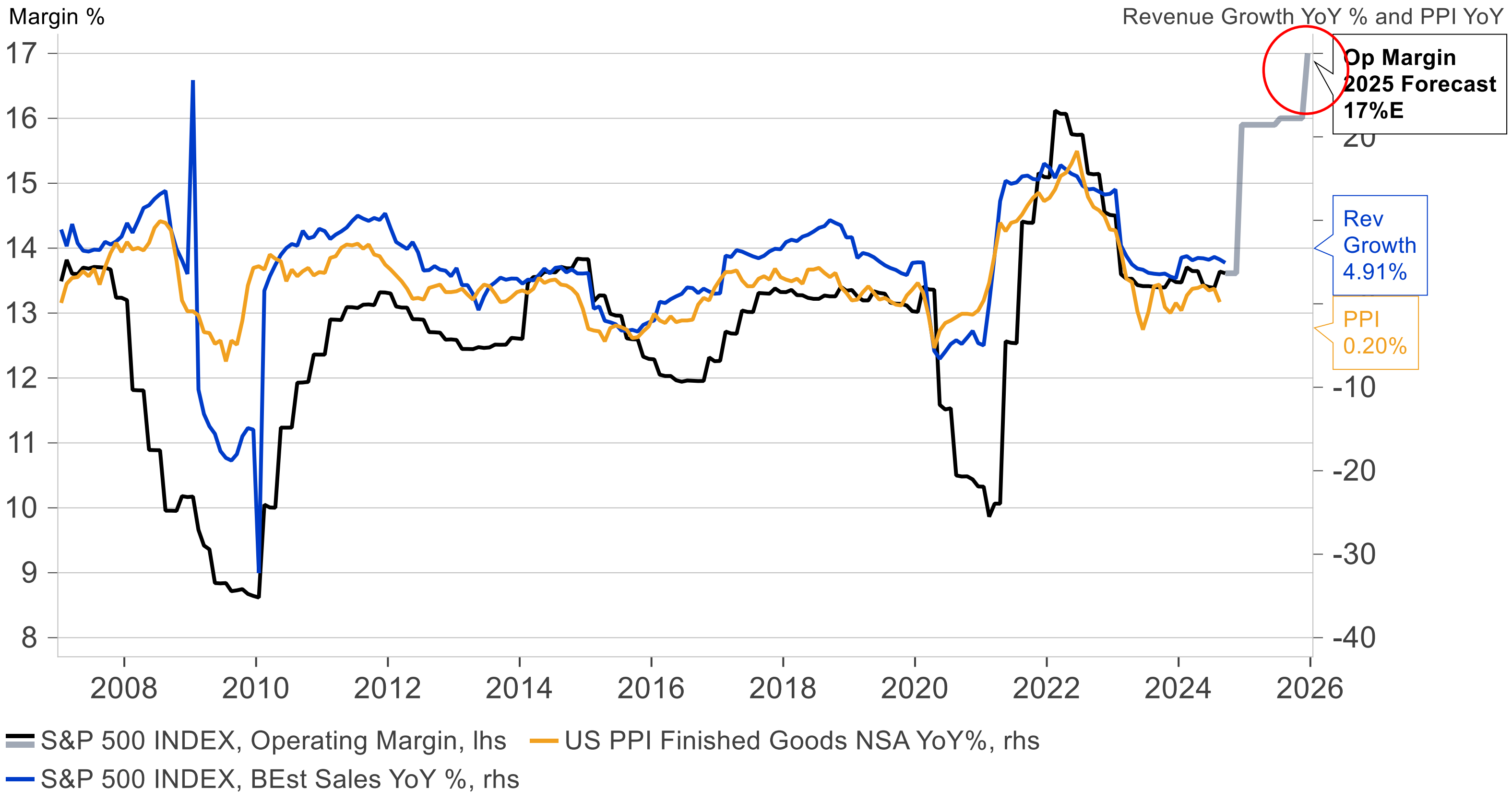
Source: Bloomberg Consensus, as of October 9, 2024

***The previous record high calendar year operating margin of 15.7% was recorded in 2021. A year that saw 15% YoY revenue growth for the S&P500 and consumer prices (CPI) rise by over 7%.**

Corporate Earnings: Expecting Record Operating Margins in 2025

S&P 500 Margins Related to Revenue Growth and Inflation

S&P 500 Operating Margin (with Bloomberg Consensus Forecast), S&P 500 Sales Growth, PPI YoY



Source: NewEdge Wealth, Macrobond, Bloomberg

The more inflation decelerates, the more likely that 2025 EPS estimates will get cut.

Without consumer inflation, companies do not have pricing power to drive revenue growth and pass on costs to customers, meaning companies have to absorb higher costs.

All of this means more margin pressure, not huge margin upside, as is forecasted.

Equity Scenarios

The S&P 500 at 5,696 is currently trading at:

23.5x 2024's $242
20.7x 2025's $275
21.6x blended 12 month forward

Consensus Target: 5,536

What the Bears (that are left) Say

Target: 4,200

This is the October 2023 low and is JP Morgan's target; they are the only firm with a sub-5,000 target, while 46% of analysts on the Street have a 2024 price target below today's levels.

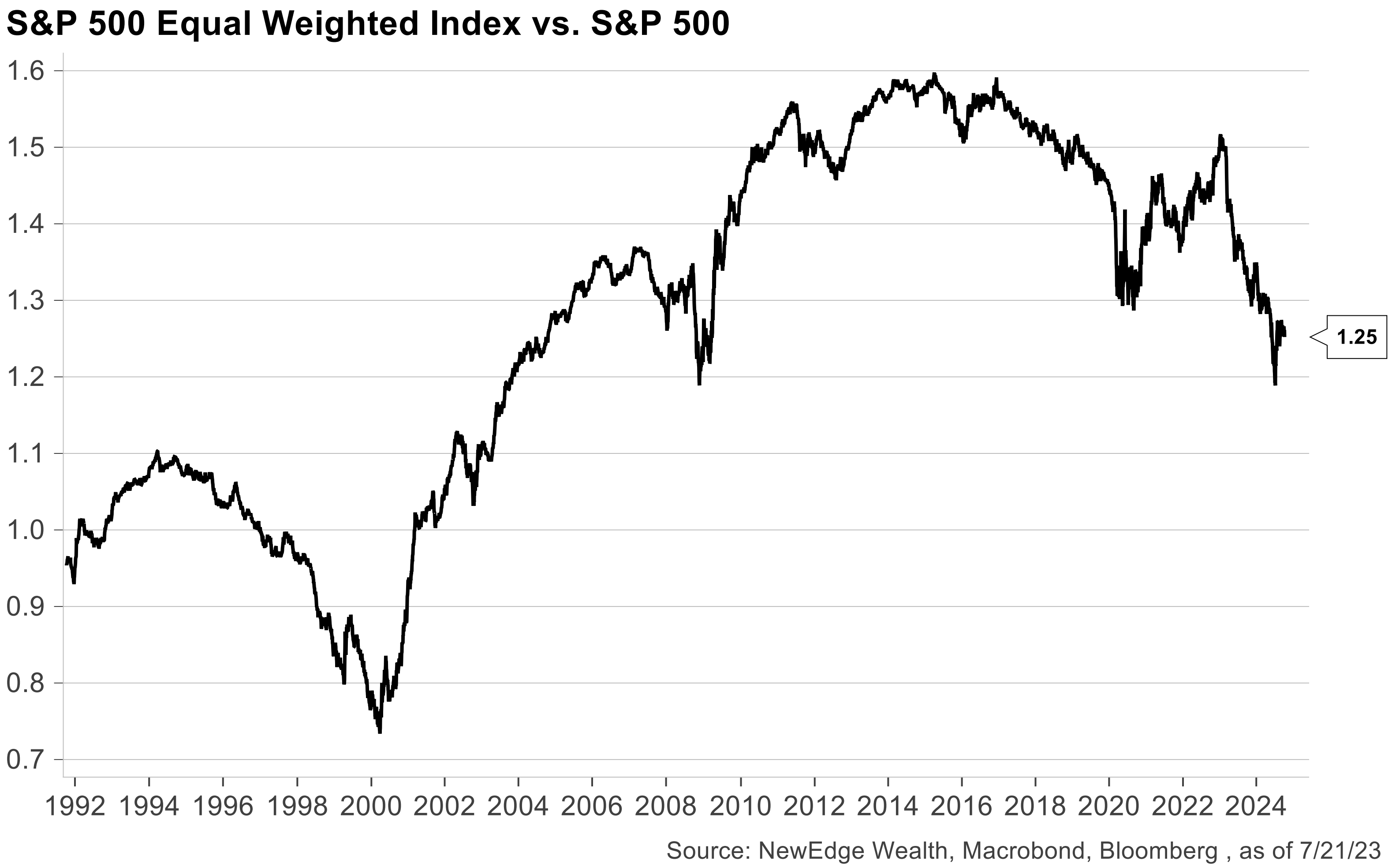
What the Bulls Say

Target: 6,000-6,100

This implies a 22x multiple on 2025 EPS, which is equivalent to the peak reached in the COVID policy bubble in 2020. This valuation level did not last, as multiples de-rate the next two years.

Source: NewEdge Wealth, Bloomberg

Rotations: Equal Weight vs Cap Weight S&P500 Relative Performance



Source: NewEdge Wealth, Bloomberg

Data as of: October 9, 2024

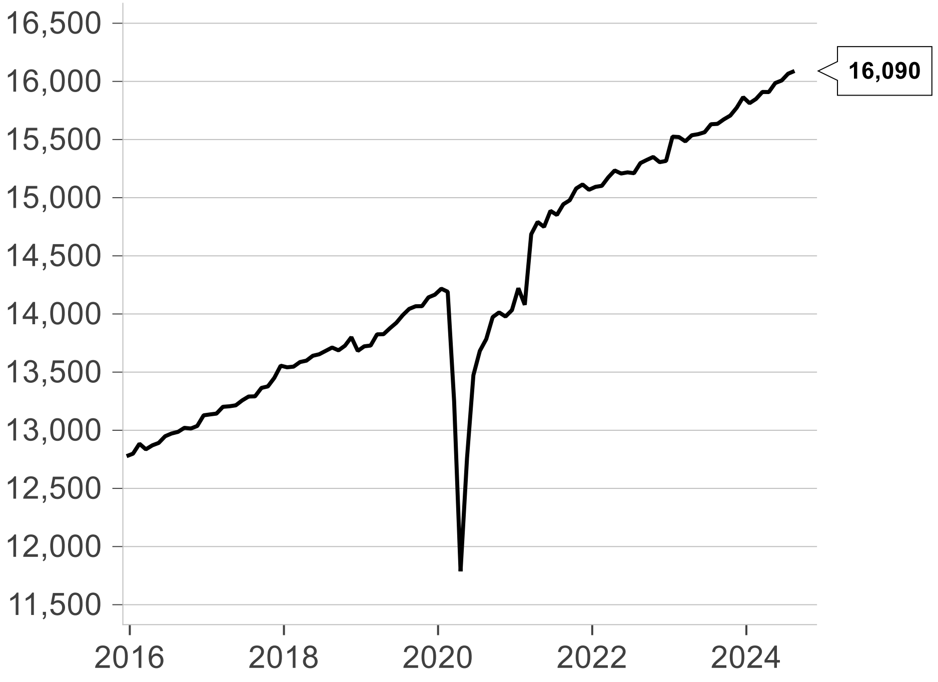
Rotations: Growth vs. Value Leadership Looks to Be Shifting

Data as of: October 9, 2024

Consumption: Consumers Just Keep Spending...Fueled by Rising Asset Values

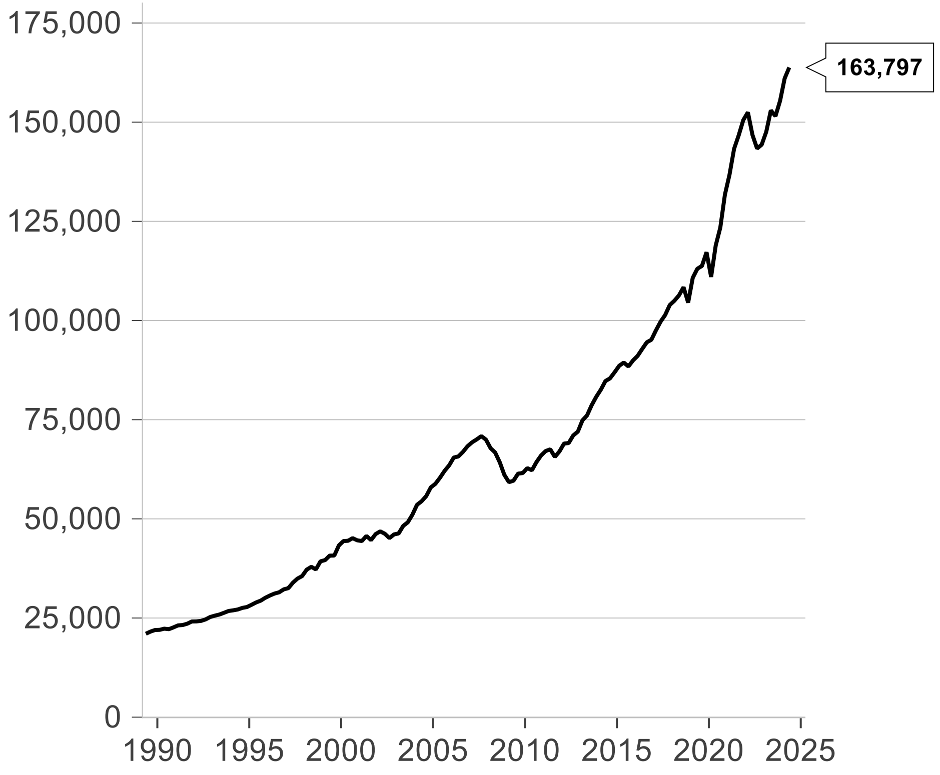
Consumer Spending Remains Healthy, Even After Adjusting for Inflation

U.S. Total Personal Consumption Expenditures (inflation adjusted)



Source: NewEdge Wealth, Macrobond, Bloomberg

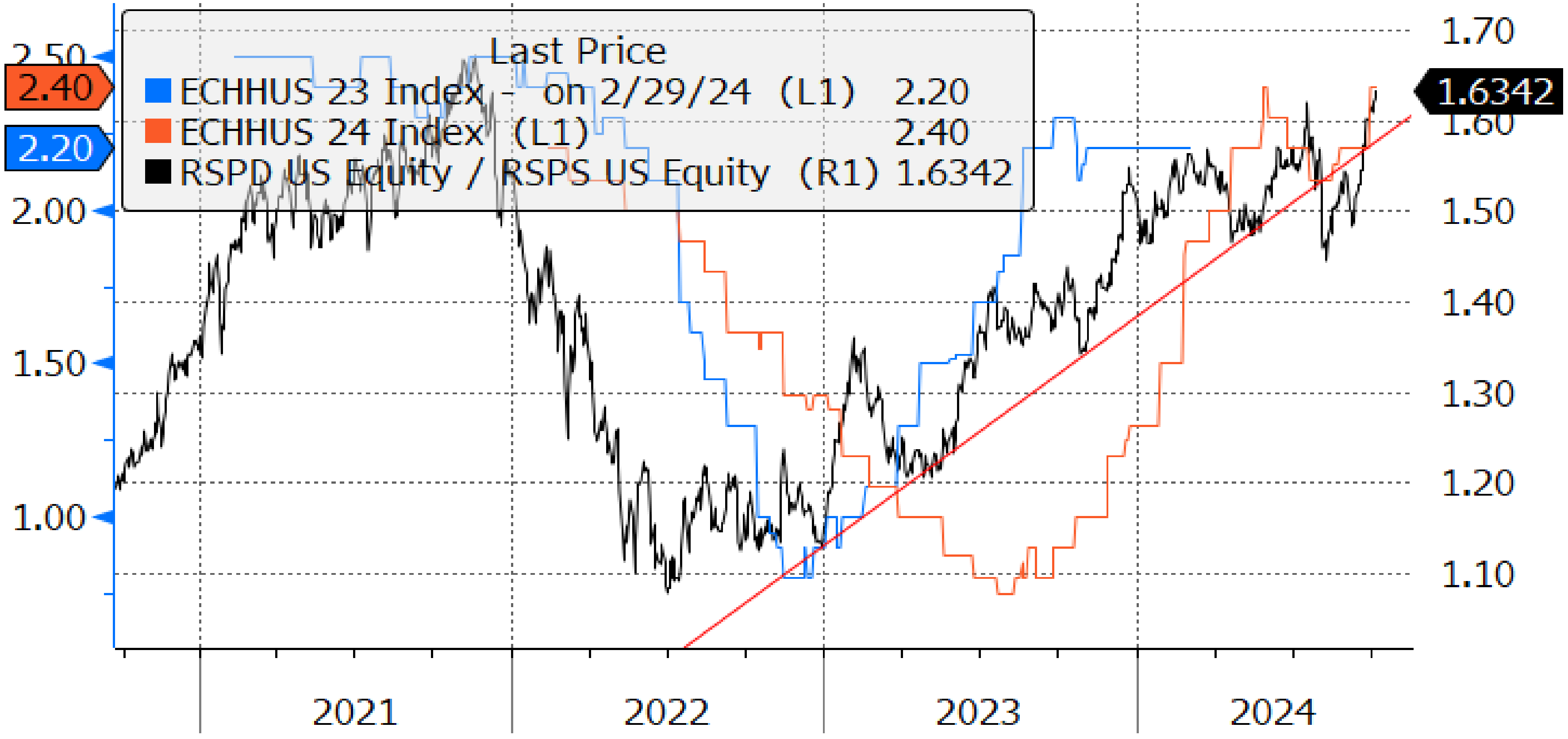
Household Net Worth Climbs to New High



Source: NewEdge Wealth, Macrobond, Bloomberg

Consumption: Consumer Discretionary vs. Staples Wobbled But Looks Healthy

Equal Weight Discretionary vs. Staples and
Household Consumption GDP Forecasts for 202 and 2024



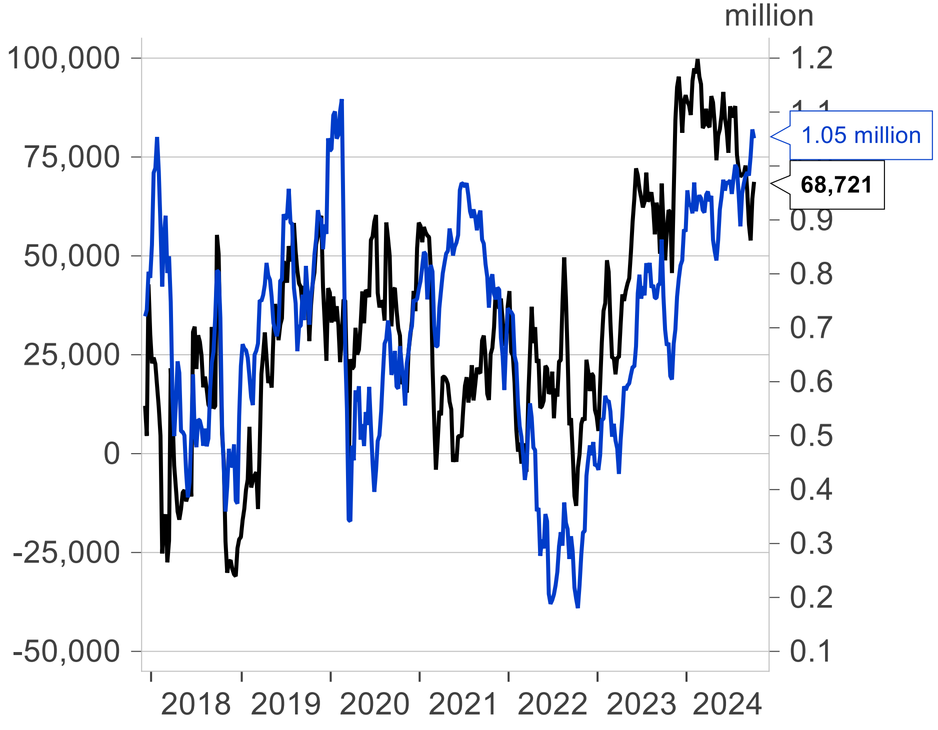
RSPD US Equity (Invesco S&P 500 Equal Weight Consumer Discretionary ETF) EW Disc vs. Staples Daily 20SEP2020-08OCT2024
 07-Oct-2024 19:49:34

Source: NewEdge Wealth, Bloomberg

Data as of: October 9, 2024

Positioning: Institutional & Retail Positioning Remains Elevated

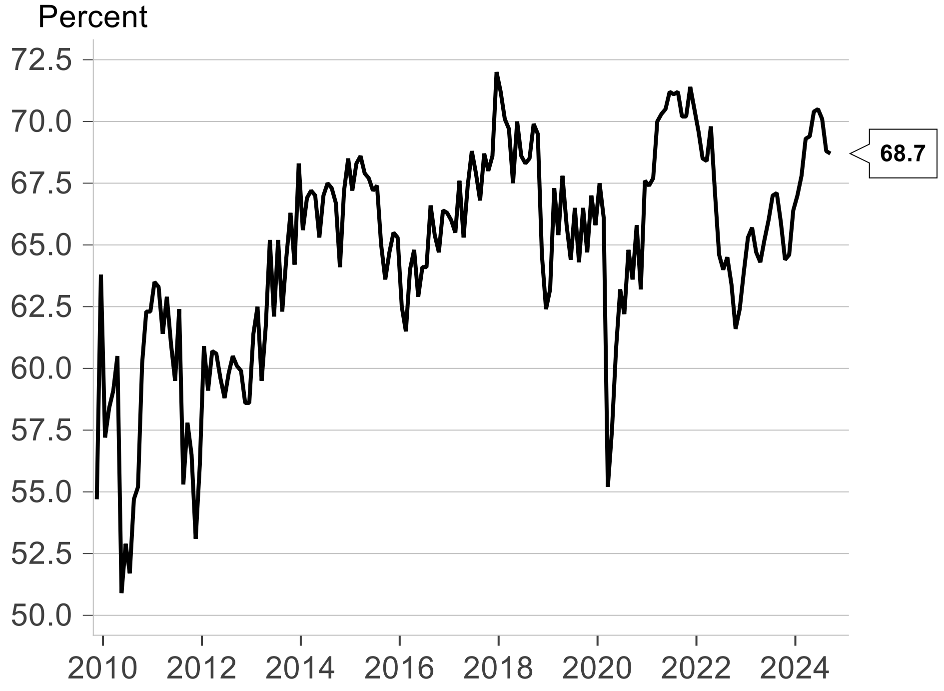
Institutional Investor Futures Positioning



— CFTC CME NASDAQ 100 Mini Asst Mgr Institutional Net Total/Future…
— CFTC CME E Mini S&P 500 Asst Mgr Institutional Net Total/Futures, rhs

Source: NewEdge Wealth, Macrobond, Bloomberg

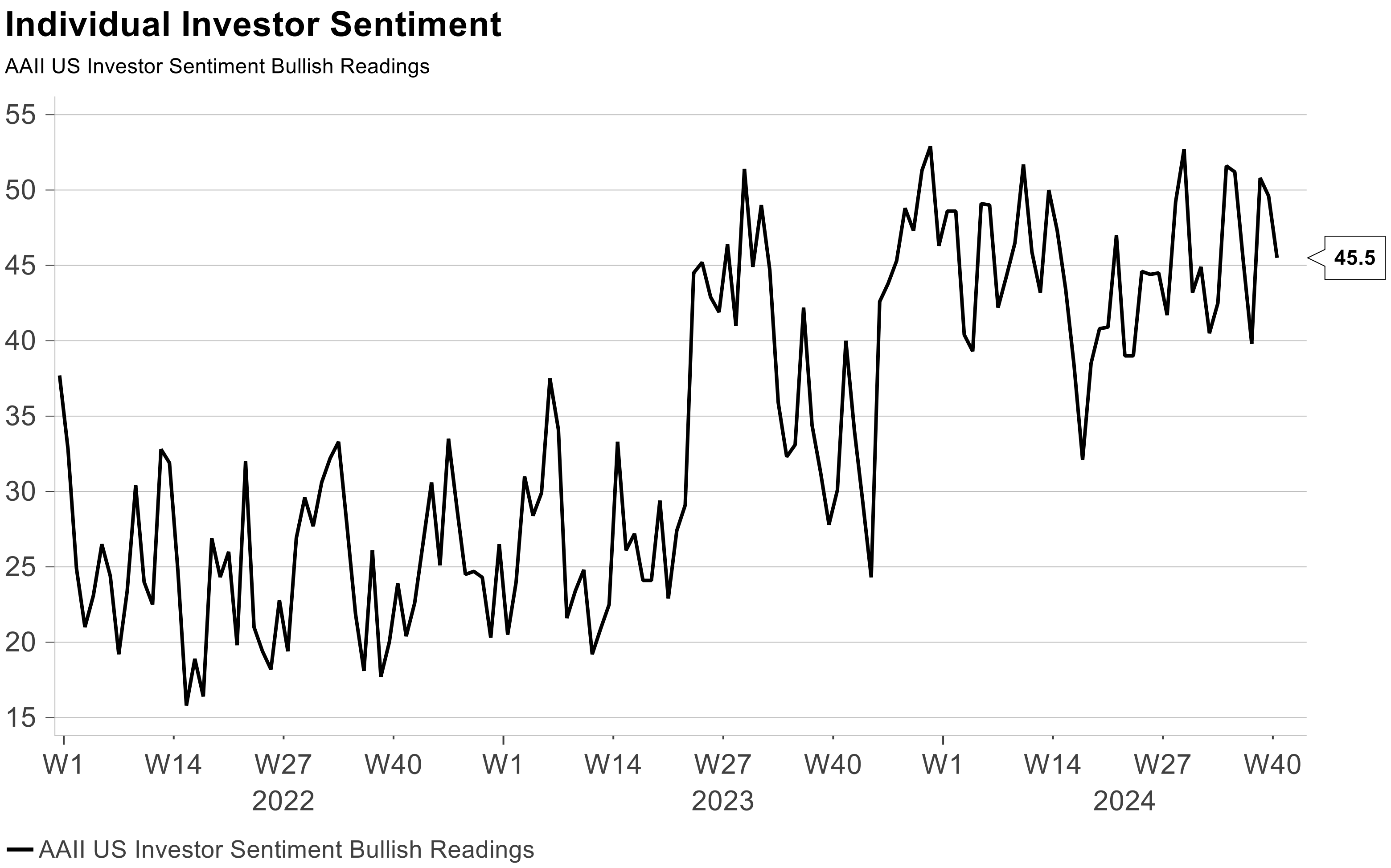
AAII Individual Investor Asset Allocation Survey: Stocks



— United States, Investor Surveys, AAII, Individual Investor Asset Alloca…

Source: NewEdge Wealth, Macrobond, Bloomberg American Association of Individual Investors (AAII)

Sentiment: Dinged By Recent Volatility, But Nowhere Near Washed Out



Source: NewEdge Wealth, Macrobond, Bloomberg

Data as of: October 9, 2024

Equity Playbook for Q424

Playbook

- Respect the uptrend but be diligent around position sizes and in areas with stretched valuations.
- Focus on diversification and move up in quality (companies that are adept at generating underlying earnings growth and profitability, with less reliance on debt and equity financing)
- New capital can be focused on less stretched parts of the market (Value, Dividends, SMID Cap, Non-U.S.). A reset in valuations and positioning in the growth segment may provide an attractive entry point for long-term investors
- A 7-10% pullback (or more for extended Growth indices) would be perfectly healthy in a long-term bull market

Alternative Investments

The State of Private Markets

Venture Equity

High-quality businesses are still getting funded.

Early-stage businesses continue to be pressed to focus on profitability.

Early-stage valuations have been resilient, with some pockets of significant valuation increase like AI.

Opportunities in emerging technologies but wariness around the potential for bubbles to form (particularly around AI).

The Opportunity: Activity continue to accelerate in venture, and we see opportunities to gain access to higher quality businesses at more attractive entry points with normalized valuations.

Private Equity

The cost of leverage and capital remains elevated, which pressures high leverage/financial engineering strategies.

Increasing focus on how return is generated at the company level.

Exit environment has begun to reopen yet the return of capital remains slow and so has the pace of new commitments. GPs and LPs looking for new ways to source liquidity (NAV loans, secondaries)

The Opportunity: We see more opportunities for quality growth across the lower middle market and middle market vs. the upper market, where the velocity of capital continues to be slower.

The search for liquidity continues to drive both LPs and GPs to search for new solutions creating opportunities to buy assets at advantageous prices.

Private Credit

A “golden age” for some (low defaults, high base rates), but risk management critical. Cracks beginning to emerge in portfolios.

Structure as the arbiter of return (i.e., leverage).

Focus on underwriting track record, downside protection, and stress testing.

Market oversaturation risk and manager selection becoming more critical.

The Opportunity: Although the syndicated loan markets are reopening, with the greater ease of access to loans in the private markets, private equity firms have continued to turn to private credit for the speed and surety of their capital. We see greater long-term opportunity across private credit with a critical eye towards underwriting and downside protection particularly as new entrants flood the marketplace.
New entrants offering unique incentives to draw capital.

The State of Private Markets

Secondaries

Accelerated pickup in secondary activity on both the LP Led and GP Led side.

Declining private equity valuations and LP desire to normalize the denominator has led to greater discounts.

GPs are being pushed by LPs to return capital to investors, at the risk of not getting the same commitments for successor vintages, which has increased the supply of GP-led deals.

Liquidity solutions are being tested – NAV lending, carve-outs, hybrid facilities. There are concerns that some of these solutions can begin to eat into returns.

The Opportunity: There has been a pickup in secondary deals across the market as LPs and GPs seek to generate liquidity for investors. Secondary funds will continue to take advantage of attractive pricing as valuations remain competitive.

Growth Equity

Tale of Two Cities: High quality businesses have continued to garnish support from investors while many growth equity companies are caught in limbo waiting for the IPO market to fully recover.

Valuations have continued to normalize and as exit opportunities ramp up we expect to see an increase in funding of later stage rounds (increased IPO and M&A activity).

Meaningful activity in deep tech areas – especially space and AI.

The Opportunity: Opportunities have begun to present themselves as M&A activity reaccelerates. Increased focus on funds that are true operators versus investors solely providing capital infusions.

Private Real Estate

Office real estate continues to be a slow burn. Some green shoots as major corporations have mandated a full return to office.

Most sectors have experienced near-record low vacancy & elevated rents (with the exception of commercial).

Within multifamily we are in a period of rent digestion and anticipate the rate of rent escalations to decelerate for the short term.

Stress in the space overall has reduced new capital supply.

The Opportunity: Market dislocations may create attractive pockets of buying opportunity in the next 12-18 months. We will likely see openings, particularly in distressed spaces in 2025, such as office and commercial, which could cause contagion across the industry. The opportunity in triple net lease is growing as we are seeing large corporations evaluate how they want to capitalize their balance sheets.

The State of Alternatives

Hedge Funds & Volatility Strategies

Renewed interest as anticipation for volatility increases and as markets grind higher.

Heightened focus on post-tax returns for individual investing.

Volatility levels generally are still muted relative to the broad markets, however, dispersion amongst managers has been meaningfully higher. Idiosyncratic pockets of volatility which have created opportunities for managers to put money to work and outperform.

Event driven strategies are wishing for more active capital markets. Merger spreads have to compete with relatively attractive yields of lower risk investments while IPOs remain limited.

Global macro strategies have benefitted from volatility and trends in areas like commodities where inflation and other supply/demand dynamics have driven up prices (coffee/cocoa). AI / Datacenter growth, general electrification of the grid and energy transition have increased hedge fund trading of copper futures.

Equity long/short continues to be challenged despite mixed performance outside of MAG7.

The Opportunity: Working on forming better quality access points to the space broadly thinking about the tax implications for investors.

Continue to believe that significant opportunity lies within the multi-strategy and less correlated strategies if the proper structures are in place especially given rising valuation across broader indices.

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TIPS: Bloomberg Barclays Global Inflation-Linked: U.S. TIPS Total Return Index Unhedged
Municipals 5-Year: Bloomberg Barclays Municipal Bond 5 Year (4-6) Total Return Index Unhedged USD
Core Bond: Bloomberg Barclays US Agg Total Return Value Unhedged USD
U.S. MBS: Bloomberg Barclays US MBS Index
High Yield Municipals: Bloomberg Barclays Muni High Yield Total Return Index Value Unhedged USD
High Yield: Bloomberg Barclays US Corporate High Yield Total Return Index Value Unhedged USD
Foreign Bond: Bloomberg Barclays Global Aggregate ex-USD Total Return Index Value USD (50/50 blend of hedged and unhedged)
EM Debt (unhedged): J.P. Morgan GBI-EM Global Diversified Composite Unhedged USD
U.S. Large Cap: S&P 500 Total Return Index
U.S. Small Cap : Russell 2000 Total Return Index
International Developed: MSCI EAFE Net Total Return USD Index
Emerging Markets: MSCI Emerging Markets Net Total Return USD Index
World: MSCI ACWI Net Total Return USD Index
U.S. Equity REITs: FTSE Nareit Equity REITs Total Return Index USD
Commodities: Bloomberg Commodity Total Return Index
Midstream Energy: Alerian MLP Total Return Index
Hedge Funds: Hedge Fund Research HFRI Fund of Funds Composite Index
U.S.: MSCI USA Net Total Return USD Index

Europe: Euro Stoxx 50
United Kingdom: UK FTSE 100
Japan: Tokyo TOPIX Stock Exchange Index
China: Hang Seng Index
Brazil: Ibovespa Brasil Sao Paulo Stock Exchange Index
India: NSE Nifty Index
South Korea: Korea Stock Exchange KOSPI Index
Taiwan: Taiwan Stock Exchange Index

REITS Diversified: FTSE Nareit Eqty Diversified Total Return Index
REITS Healthcare: FTSE Nareit Eqty Health Care Total Return Index
REITS Industrial: FTSE Nareit Eqty Industrial Total Return Index
REITS Lodging/Resorts: FTSE Nareit Eqty Lodging/Resorts Total Return Index
REITS Office: FTSE Nareit Eqty Office Total Return Index
REITS Residential: FTSE Nareit Eqty Residential Total Return Index
REITS Retail: FTSE Nareit Eqty Retail Total Return Index
REITS Self Storage: FTSE Nareit Eqty Self Storage Total Return Index
REITS Data Centers: FTSE Nareit Equity Data Centers Total Return Index
REITS Specialty: FTSE Nareit Equity Specialty Total Return Index
Real Assets Agriculture: Bloomberg Sub Agriculture Total Return Index
Real Assets Industrial Metals: Bloomberg Sub Industrial Metals Total Return Index
Real Assets Precious Metals: Bloomberg Sub Precious Metals Total Return Index
Real Assets Energy: Bloomberg Sub Energy Total Return Index

Any questions?

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