"I got bills to pay and children who need clothes.
I know there's fish out there,
But where God only knows.
They say these waters aren't what they used to be.
But I got people back on land
Who count on me."

-Billy Joel, *The Downeaster 'Alexa'*

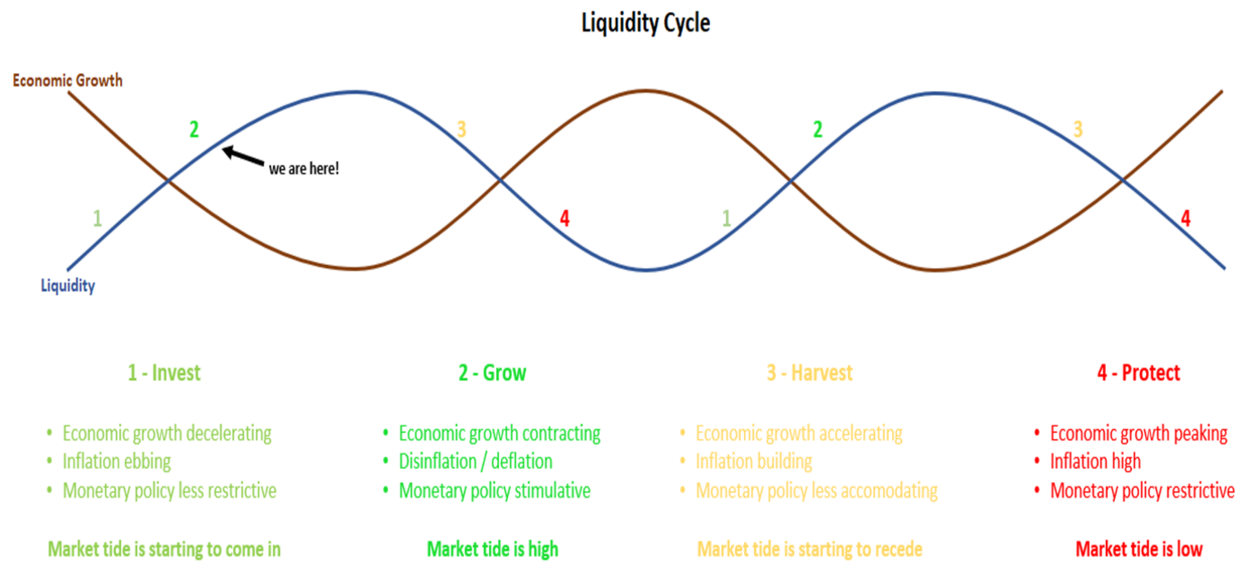
Hello again, and a belated Happy New Year to all! It has been a minute since our last missive…has anything happened? ;) Joking aside, our hearts go out to the people of California impacted by the horrific wildfires. We have family and friends in the area and spent a few worried nights checking in on their status. They were fortunate in that they are well and their houses were spared, but they know people that lost everything. We have all seen the apocalyptic images of the devastation wrought by hurricane-force winds whipping flames and spreading embers for miles. Please keep those impacted front of mind in both thoughts and, if you are able, action.

Now, let's dive in to our 2025 market outlook…

We are big fans of the show Deadliest Catch! If you are unfamiliar, the show documents the trials and tribulations of several crab fishing boats in the Bering Sea. As you watch the show you quickly understand that danger is EVERYWHERE! Massive waves seemingly build out of nowhere and are capable of capsizing a boat. Deck hands dodge seven-hundred-pound steel crab pots swinging around in the air. At any minute the boat's power may shut down or an electrical fire may start in the engine room. And despite it all, year after year (the show is in its 20th season) the captains and crews show up for another shot at the elusive crab. What they are really showing up for is a shot at the American Dream! And that is why the show is so captivating. We watch these fishermen put themselves through hell and we cheer for their success. When crab pots come up empty, we feel their disappointment. When they are full, we celebrate these entrepreneurs on a quest for a bigger piece of the pie!

Many crab boats and captains have come and gone, but a few have stood the test of time. We are most fond of The Northwestern, captained by Sig Hansen. In an industry fueled by superstition and omens, Sig stands out for his pragmatism. "All you have to do is work hard," he has said. "If you work hard, you're going to win." What is not obvious to the layman watching from their couch at home is that a school of crab (or biomass) is always on the move in chase of its fleeing prey. Thus, a boat can be "on the crab," producing full pot after full pot and suddenly, poof, they are gone! What is working today may not work tomorrow. To be successful, a captain must be willing to shift strategy when he senses a pending shift in the fishing.

It is a relentless effort to stay ahead of the crab.



We enter 2025 "on the crab!" Monetary policy stimulus, waning economic growth and disinflation have moved us into **Phase 2** of the current liquidity cycle (see above). The liquidity cycle moves into **Phase 2** midway through a bull market in equities as the Federal Reserve begins providing stimulus (cutting interest rates or purchasing bonds). **Phase 2** is the most bullish phase for markets and is typically characterized by a broadening out of the U.S. equity market rally, strength in International equity markets and falling short-term interest rates. The investing pots are coming up full!

This week we are going to do a deep dive on our bullish outlook for the first part of 2025. We say first part because we believe at some point this year the crab will be on the move. Our concerns center around a potential acceleration in economic growth and building inflation. An explanation…

On December 18th the Federal Reserve delivered an expected rate cut to markets, but unexpectedly raised their 2025 inflation forecast and warned that future rate cuts were no a sure thing. "The forecasted slower pace of cuts for next year really reflects both the higher inflation readings we've had this year and the expectation that inflation will be higher," Fed Chairman Jerome Powell told reporters in comments after the meeting.

Accompanying Powell's hawkish comments on inflation is the potential for President Trump's economic policies to drive an acceleration in economic growth. Deregulation, privatization and pro-growth executive orders could all provide a spark to the growth of the economy. "I've been doing this for 49 years, and we're going from the most ant-business administration to the opposite," said legendary investor Stan Druckenmiller in a CNBC appearance on inauguration day. "We do a lot of talking to CEOs and companies on the ground. And I'd say CEOs are somewhere between relieved and giddy. So we're a big believer in animal spirits."

Man, that sure sounds good! I mean, who wouldn't want the economy to grow faster and businesses to feel good about their prospects. The problem is that faster economic growth in an environment of higher inflation is negative for liquidity. The three characteristics of **Phase 3** of the liquidity cycle are accelerating economic growth, building inflation and less accommodating monetary policy. In his CNBC interview Druckenmiller concluded, "There is this pull of a strong economy and bond yields rising. That kind of makes me not have a strong opinion one way or another on the market."

For our part we will continue to follow the data. It is the data that drives our process, and this is what it is telling us as we enter 2025…

Liquidity

	Liquidity			Money Growth		Economic Growth		Inflation	
	Phase	Level	Rank	Level	Rank	Level	Rank	Level	Rank
Jan-25	2	4.4828%	8	3.80%	2	-0.899%	2	0.2175%	3
Dec-24	2	4.0152%	8	3.05%	2	-0.290%	3	-0.6818%	2
Nov-24	2	5.4614%	8	2.35%	1	-0.734%	3	-2.3933%	2
Oct-24	1	2.7594%	7	1.82%	1	-0.049%	3	-0.8871%	2
Sep-24	1	0.3574%	6	1.21%	1	-0.518%	3	1.3753%	4
Aug-24	1	-0.6554%	5	1.04%	1	0.875%	4	0.8091%	4
Jul-24	1	0.5489%	6	1.20%	1	-0.001%	3	0.6477%	4
Jun-24	1	1.6306%	7	0.82%	1	-0.840%	2	0.0272%	3
May-24	1	1.0147%	6	-0.04%	1	-0.288%	3	-0.7652%	2
Apr-24	1	-0.1663%	6	-1.68%	1	-0.072%	3	-1.4470%	2
Mar-24	1	2.4358%	7	-2.18%	1	-1.231%	2	-3.4282%	1
Feb-24	1	-0.2258%	6	-2.57%	1	0.790%	3	-3.1140%	1
Jan-24	1	0.8831%	6	-3.24%	1	-0.212%	3	-3.9144%	1
Dec-23	1	0.9327%	6	-3.60%	1	-0.837%	2	-3.7233%	1
Nov-23	1	-0.2862%	6	-3.84%	1	-0.217%	3	-3.3460%	1
Oct-23	1	0.3492%	6	-4.12%	1	-0.073%	3	-4.4022%	1
Sep-23	1	2.6781%	7	-4.07%	1	0.021%	3	-6.7722%	1
Aug-23	1	5.8155%	8	-3.99%	1	-0.429%	3	-9.4169%	1
Jul-23	1	3.0412%	7	-4.11%	1	0.015%	3	-7.1659%	1
Jun-23	1	-1.7913%	5	-4.66%	1	0.313%	3	-3.1669%	1
May-23	1	-2.9241%	4	-3.92%	1	0.137%	3	-1.1353%	2
Apr-23	4	-5.6661%	2	-2.33%	1	0.937%	4	2.3783%	5
Mar-23	4	-8.9409%	1	-1.75%	1	1.515%	4	5.5889%	8
Feb-23	4	-8.6193%	1	-1.09%	1	0.624%	3	6.8613%	9
Jan-23	4	-9.9447%	1	0.19%	1	1.814%	4	8.1673%	9

Source: Meridian Wealth Management, Federal Reserve Bank of St. Louis

We are firmly in **Phase 2** of the liquidity cycle (see above). Fed rate cuts have driven money supply growth to its fastest pace since October 2022. These rate cuts are in response to an overall slowdown in economic growth and waning inflation. Given this backdrop, the investment team anticipates the following for the first part of 2025….

US Equity Markets

Broad market strength
Small-cap and mid-cap stock outperformance

	Cycle 5.1.2023 - present		Phase 1 5.1.2023 - 6.30.2024		Phase 2 7.1.2024 - present	
Asset Class Return Annualized Return	Large Cap Growth 68.3% 35.1%	1	Large Cap Growth 47.7% 39.8%	1	Mid Cap Growth 23.0% 44.0%	1
	Mid Cap Growth 51.2% 27.0%	2	S&P 500 31.0% 26.2%	2	Small Cap Growth 14.6% 27.0%	3
	S&P 500 46.3% 24.6%	3	All Cap 29.8% 25.1%	3	Large Cap Growth 14.0% 25.9%	4
	All Cap 46.3% 24.6%	4	Mid Cap Growth 22.8% 19.3%	5	All Cap 12.7% 23.5%	5
	Small Cap Growth 34.1% 18.5%	6	Small Cap Growth 16.6% 14.2%	7	S&P 500 11.7% 21.6%	6
	Mid Cap Value 26.6% 14.6%	8	Small Cap Value 14.3% 12.1%	9	Mid Cap Value 11.3% 20.9%	7
	Small Cap Value 26.0% 14.3%	9	Mid Cap Value 13.8% 11.8%	10	Large Cap Value 11.0% 20.2%	8
	Large Cap Value 24.7% 13.6%	10	Large Cap Value 12.4% 10.6%	11	Small Cap Value 10.5% 19.2%	9

Source: Meridian Wealth Management, Thomson One

(A brief primer on how to read the data above. Each box is an asset class. The number directly under the asset class name is the return during the time period. The number below that is the annualized return. The number to the right of the asset class is its ranking for the time period out of 27 total asset classes.)

Above is the performance of U.S. equity market asset classes thus far in the liquidity cycle that began in May 2023. **Phase 1** of this cycle was characterized by narrow market leadership driven by Large Cap Growth (typical). During **Phase 2**, market performance has broadened out with Small Cap Growth and Mid Cap Growth stocks leading the way. Since the beginning of **Phase 2**, Mid Cap Growth has outperformed the S&P 500 by 11.3%, almost doubling the index's performance. We anticipate this outperformance to persist while we remain in **Phase 2**. This doesn't mean we are sanguine on the prospects for the S&P 500. Far from it. We just think that the potential for index-beating performance exists in these asset classes.

The "animal spirits" that Stan Druckenmiller spoke about during his CNBC interview should also be favorable for Small Cap Growth and Mid Cap Growth stocks as they would be seen as prime beneficiaries of accelerating economic growth.

Of note, every U.S. equity asset class has been a top 10 performer in **Phase 2** of this liquidity cycle and has significantly outperformed their International and Emerging Market peers. This is not unusual, but it is something we expect to change in 2025.

International and Emerging Market Equities

Relative performance improvement versus the U.S.
Policy-driven volatility

	Cycle 5.1.2023 - present		Phase 1 5.1.2023 - 6.30.2024		Phase 2 7.1.2024 - present	
Asset Class Return Annualized Return	MSCI ACWI 34.1% 18.5%	7	MSCI ACWI 22.9% 19.4%	4	MSCI ACWI 8.8% 16.1%	10
	Japanese Equity 16.4% 9.2%	11	Japanese Equity 16.1% 13.7%	8	Asia Pac ex-Japan Equity 4.9% 8.7%	12
	Emerging Market Equity 9.8% 5.5%	12	Emerging Market Equity 9.2% 7.9%	12	European Equity 3.8% 6.7%	13
	European Equity 8.9% 5.1%	15	International Growth 6.7% 5.7%	13	International Value 2.8% 4.9%	16
	International Value 8.5% 4.8%	17	International Equity 6.6% 5.6%	14	International Equity 1.1% 2.0%	18
	International Equity 7.6% 4.3%	19	International Value 5.8% 5.0%	16	Emerging Market Equity 0.8% 1.5%	19
	International Growth 6.9% 4.0%	20	European Equity 4.9% 4.2%	17	Japanese Equity 0.4% 0.6%	22
	Asia Pac ex-Japan Equity 2.2% 1.3%	21	Asia Pac ex-Japan Equity -2.5% -2.2%	25	International Growth 0.1% 0.2%	24

Source: Meridian Wealth Management, Thomson One

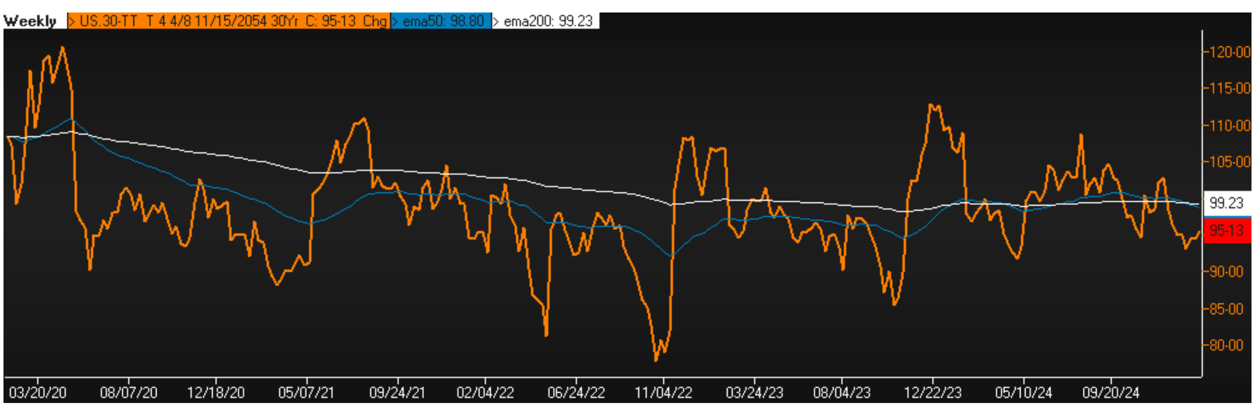
Since President Trump's election victory, the tariff threat has weighed heavily on International and Emerging Market Equities. A driving factor behind this weak performance has been the incessant strength of the U.S. dollar. A strong dollar can be bearish abroad, especially for countries with dollar-denominated debt whose currencies are weakening in response to dollar strength. The good news for these countries, however, is that the tariff threat is being somewhat curtailed, and the dollar has weakened (see below).

Source: Thomson One

We think a continued dollar reprieve coupled with investor-friendly shifts in policies could lead to strengthening International and Emerging Market Equity performance (see Argentina). The caveat is that this improvement will come with volatility. Tomorrow President Trump could suggest enacting tariffs on a new country and that would definitely impact the performance of that country's equity market. That said, we like this space and think it is a candidate for "most improved" asset class in 2025.

Treasury Bonds / Interest Rates

Continued stubborn rise in long-term rates
Slight decline in short-term rates
Steepening yield curve



Source: Thomson One

Above is a chart of the 30-Year Treasury Bond. From its peak price of $120 during the 2020 Covid outbreak, it has fallen -20.5%. From a cycle perspective, Long Duration Treasuries are the worst performing asset class since this liquidity cycle began and during each Phase.

To this we would simply say deficits matter and the more our perpetual deficits add to our mountain of debt, the more Long Duration Treasuries will fall in price and the higher long-term interest rates will go. This is less a liquidity cycle story and more a secular spending issue. This year the U.S.

Treasury will need to refinance $7 trillion in debt. It is very likely this debt burden will continue to put upward pressure on long-term rates.

Source: Thomson One

The short end of the curve will continue to be influenced by the Fed's interest rate policy. Powell's protestations aside, we would not be shocked if the Fed cut rates a few times in 2025 (especially with President Trump "demanding" lower rates). As short-term rates fall, the interest rate earned on money market funds and in savings accounts also falls. In 2025 short-term rates fell 100 basis points to 4.36% (see above). To see a 50 basis point decline to 3.86% we would need inflation to continue to fall. That said, such a move would be liquidity positive and keep us bullish on markets!

Fixed Income

Credit outperformance
General malaise for traditional fixed income
Increased utility in alternative sources of income generation

	Cycle 5.1.2023 - present		Phase 1 5.1.2023 - 6.30.2024		Phase 2 7.1.2024 - present	
Asset Class	High Yield Bonds		Emerging Market Bonds		High Yield Bonds	
Return	5.8%	19	2.7%	19	3.4%	14
Annualized Return	3.3%		2.3%		6.0%	
	Emerging Market Bonds		High Yield Bonds		Emerging Market Bonds	
	4.9%	20	3.3%	20	2.1%	17
	2.8%		2.8%		3.7%	
	Short Duration Bond		Int'l Investment Grade Bonds		Short Duration Bond	
	1.9%	22	2.1%	21	0.6%	20
	1.1%		1.8%		1.1%	
	Int'l Investment Grade Bonds		Short Duration Bond		Inflation Protected Bonds	
	1.6%	23	1.6%	22	0.6%	21
	0.9%		1.4%		1.1%	
	Ultra Short Bond		Ultra Short Bond		Ultra Short Bond	
	0.6%	24	0.8%	23	0.2%	23
	0.3%		0.7%		0.3%	
	Inflation Protected Bonds		Total Bond		Int'l Investment Grade Bonds	
	-2.5%	25	-1.6%	24	-0.1%	21
	-1.5%		-1.4%		-0.2%	
	Total Bond		Inflation Protected Bonds		Total Bond	
	-3.0%	26	-1.8%	25	-0.1%	26
	-1.7%		-1.5%		-0.1%	
	Long Duration Treasuries		Long Duration Treasuries		Long Duration Treasuries	
	-18.1%	27	-11.0%	27	-5.0%	27
	-10.9%		-9.5%		-8.6%	

Source: Meridian Wealth Management, Thomson One

Credit (represented by the orange shaded asset classes above) typically does well during **Phase 1** and **Phase 2** of the liquidity cycle. This cycle has been no different with High Yield Bonds, Emerging Market Bonds and International Investment Grade Bonds all performing well. We expect credit to continue to outperform Treasuries in the first part of 2025. Given our outlook for International markets we would not be surprised to see the International Investment Grade Bond asset class catch up in performance.

The traditional core bond allocation is a mix of Treasury bonds, investment grade bonds, high yield bonds and mortgages. Core bonds have experienced some difficulty as the diversification that was their hallmark has turned against their performance in a rising rate environment. Given our outlook for rising long-term rates and our bullishness in other areas, we expect continued difficulties for this space. As such, we remain bullish on the opportunities available in alternative income producing investments like private credit and real estate.

Alternative Investments

Continued positive performance for money "stores of value" (Gold, Bitcoin)

	Cycle 5.1.2023 - present		Phase 1 5.1.2023 - 6.30.2024		Phase 2 7.1.2024 - present	
Asset Class	Gold		Gold		Gold	
Return	38.3%	5	16.3%	7	18.9%	2
Annualized Return	20.6%		13.9%		35.7%	
	Real Estate		Real Estate		Real Estate	
	9.5%	13	2.8%	15	6.6%	11
	5.4%		2.4%		11.9%	

Source: Meridian Wealth Management, Thomson One

Gold is the 5th best performing asset class this liquidity cycle. The precious metal outperformed the S&P 500 in 2024. We view gold as inversely correlated to the collective faith in government's fiscal prudence. As such, we remain bullish!!! ☺ We can't directly opine on the merits (or lack thereof) of Bitcoin investments, but we will say that we view Bitcoin as a leveraged and volatile form of the same faith.

Market Hedge

Relative performance improvement from hedged investments

	Cycle 5.1.2023 - present		Phase 1 5.1.2023 - 6.30.2024		Phase 2 7.1.2024 - present	
Asset Class	Hedge Funds		Hedge Funds		Hedge Funds	
Return	9.1%	14	5.9%	18	3.0%	15
Annualized Return	5.2%		5.1%		5.4%	

Source: Meridian Wealth Management, Thomson One

Hedges performed admirably in 2024 and we expect them to continue to do so in 2025. Hedges are designed to protect assets during Phase 3 and **Phase 4** of the liquidity cycle. As such, the mid-tier performance of Hedge Funds is an acceptable outcome and in keeping with our expectations. We do look for hedges to play a more critical role in our strategies as the year progresses and their relative performance likely improves.

The liquidity cycle is in **Phase 2** and we remain bullish. Market pots are coming up full and the crew is high fiving. That said, in our 26 years in this business the hardest lessons and the deepest scars have come from over-staying our welcome…from holding on too long after the fishing turned south.

Like the crab of the Bering Sea, markets are an ever-moving biomass. At some point this year markets could move into Phase 3 of the liquidity cycle. We will continue to follow the data and use our process in an effort to keep our pots ahead of the crab.

Next week we will talk about what that means for our market and asset class outlook during the second part of the year!

"Tell my wife I am trolling Atlantis.
And I still have my hands on the wheel.

Yay-o"

risk that the issuer will redeem the debt at its option, fully or partially, before the scheduled maturity date. The market value of debt instruments may fluctuate, and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer. Bonds are subject to the credit risk of the issuer. This is the risk that the issuer might be unable to make interest and/or principal payments on a timely basis. Bonds are also subject to reinvestment risk, which is the risk that principal and/or interest payments from a given investment may be reinvested at a lower interest rate.

International investing may not be appropriate for every investor and is subject to additional risks, including currency fluctuations, political factors, withholding, lack of liquidity, the absence of adequate financial information, and exchange control restrictions impacting foreign issuers. These risks may be magnified in emerging markets.