

Cougar Global Viewpoints

Can the streak continue?

DECEMBER | 2024

The S&P 500 Index has been on a historic run: The 5-year annualized return for the index is now almost greater than 16%, even after the nasty bear market of 2022. The bulls continue to sprint toward year-end, with S&P 500 Index gains nearing a mind-boggling 30%-plus on a total return basis thus far in 2024. Assuming we avoid hiccups in the final couple of weeks, the S&P 500 Index could continue its streak by finishing with a return of more than 20% for its second consecutive year.

Looking at the chart below that goes back almost 100 years, there have been several years of greater than 20% returns, but only a handful of years where those returns clustered consecutively, and only one instance where it happened three years in a row (1995–1999).

It's a reasonable bet that the streak will not continue in 2025. The ever-present wall of worry has no shortage of cracks, whether due to the law of large numbers or to apparent market disconnects. As one example, the 10 largest U.S. stocks by market capitalization made up more than 20% of the entire world's stock market value as of Dec. 11, 2024. At the same time, the U.S. Federal Reserve has embarked on a rate-cutting cycle, and 10-year U.S. Treasury yields might end the year higher than they started.

Which asset class will win going forward? While bond investors fancy themselves to be the smarter investors, equity investors have been winners for the past couple of years. But it's doubtful that equity markets can ignore bond yields forever – at some point the two asset classes will have to reconcile.

What has fixed income markets concerned? Take your pick:

- December's core Consumer Price Index (core CPI) came in at an annualized 3.3% for the fourth month in a row.
- The Personal Consumption Expenditures (PCE) Price Index, excluding food and energy, came in at 0.3% in October, for the second straight month (greater than 3.5% annualized).
- And everybody wants to debate tariffs – how high, how long, and the potential winners and losers.

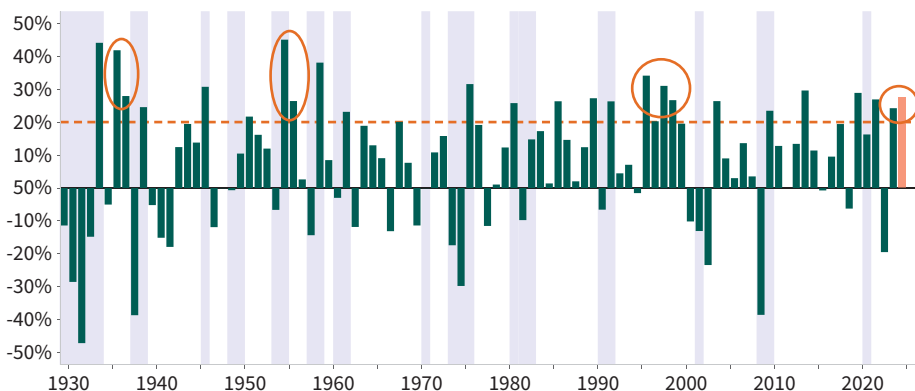
In theory, domestic industries could see greater customer demand if tariffs are implemented. Then again, consumers might not be able to purchase as much if prices for several baskets of goods rise concurrently or if production is disrupted. And if the United States initiates tariffs, other countries would consider retaliating with tariffs of their own.

Throw in the potential for deregulation, less immigration, and perhaps even further tax cuts, and there's no shortage of potential inflation triggers in 2025.

In total, we believe the odds are against a third consecutive year of greater than 20% returns for the S&P 500 Index in 2025, although we are considering the possibility with our allocations. We have a host of concerns, including geopolitics and a generally weaker global environment. However, the United

S&P 500 Index annual returns

Year-to-date as of 11-Dec-24 for the current year



Source: Cougar Global Investments, Macrobond as of Dec. 11, 2024

MACROBOND

States has plenty of fiscal support from various federal programs, which may eventually be boosted by further fiscal support (despite early efforts around improving government efficiency).

There's also plenty of investor and market optimism compared to the past few years. At this point, even struggling economists and forecasters are turning more

positive in their economic outlooks. With any luck, this isn't the ultimate contrarian indicator.

Here's to a happy, healthy, and prosperous New Year! Thank you for all of your continued support. We appreciate it.

Jason Richey, CFA
Portfolio Manager

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as Cougar MES indicates and there can be no guarantee that these strategies promoted will be successful. Past performance is no guarantee of future results. Macro Economic Scenarios: Growth – U.S. economy is growing at or above its potential growth rate, Recession – U.S. economy is shrinking (negative quarter over quarter growth rate), Stagnation – U.S. economy is growing at lower than its potential growth rate, Inflation – Consumer Price Index (CPI) inflation rate is higher than U.S. economy's potential growth rate, Chaos – a high impact, low probability event ("Black Swans").

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lower trading volume, higher levels of inflation, political and economic instability, greater risk of a market shutdown and more governmental limitations on foreign investments in emerging market countries. High Yield/Junk Bonds are not investment grade securities, involve substantial risks and generally should be part of the diversified portfolio of sophisticated investors. Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity and redemption features. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price. Mortgage-Backed Securities are subject to credit, default risk, prepayment risk that acts much like call risk when you get your principal back sooner than the stated maturity, extensions risk, the opposite of prepayment risk, and interest rate risk. Investing in IAU involves additional risks. The market price of the Shares will be as unpredictable as the price of gold has historically been and the price received upon the sale of Shares may be less than the value of the gold represented by them. Government bonds and Treasury bills are guaranteed by the U.S. Government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. The fund's concentrated holding will subject it to greater volatility than a fund that invests more broadly. The fast price swings of commodities will result in significant volatility in an investor's holdings. Precious metal investing is subject to substantial fluctuation and potential for loss. All indexes mentioned are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results. The indexes don't reflect charges, expenses, fees and is not indicative of any particular investment. Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, disease, and regulatory developments.

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DEFINITIONS

Contrarian investing is term used to describe the decisions of investors who intentionally go against prevailing market trends, buying when others sell, and selling when others buy, and contrarian indicators are the signs that these investors use to identify these trends.

Core inflation, as measured by the "Consumer Price Index for All Urban Consumers: All Items Less Food & Energy" is an aggregate of prices paid by urban consumers for a typical basket of goods, that does not include food and energy. Core CPI is widely used by economists because food and energy typically have very volatile prices.

The law of large numbers is a concept from probability and statistics that holds that as a sample size grows, it tends to approach the average of the entire data set being examined because the sample becomes more representative of the whole as it grows larger.

Market capitalization, or market cap, refers to the total dollar market value of a company's outstanding shares of stock.

The Personal Consumption Expenditures (PCE) Price Index, excluding food and energy, known as the core PCE index, is a measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services. The PCE price index, released monthly by the U.S. Department of Commerce Bureau of Economic Analysis, is known for capturing inflation or deflation across a wide range of consumer expenses and reflecting changes in consumer behavior.

Total return, when measuring performance, is the actual rate of return of an investment or a pool of investments over a given period of time. Total return includes interest, capital gains, dividends, and distributions realized over the specified period. Total return accounts for two categories of return: income including interest paid by fixed-income investments, distributions, or dividends and capital appreciation, representing the change in the market price of an asset.

Equities are said to climb a "wall of worry" when share prices move upwards despite widespread concerns or negative factors in the economy.

INDICES

The S&P 500 Index measures change in stock market conditions based on the average performance of 500 widely held common stocks. It is a market-weighted index calculated on a total return basis with dividends reinvested. The S&P 500 represents approximately 75% of the investable U.S. equity market.

ABOUT COUGAR GLOBAL INVESTMENTS

Cougar Global Investments is a global macroeconomic asset allocation manager that believes the goal of investing is to achieve compound annualized returns for clients. We use a disciplined portfolio construction methodology combining post-modern portfolio theory and risk management to pursue our clients' objectives.

ABOUT RAYMOND JAMES INVESTMENT MANAGEMENT

Raymond James Investment Management is a global asset management company that combines the exceptional insight and agility of individual investment teams with the strength and stability of a full-service firm. Together with our boutique investment managers – Chartwell Investment Partners, ClariVest Asset Management, Cougar Global Investments, Eagle Asset Management, Reams Asset Management (a division of Scout Investments) and Scout Investments – we offer a range of investment strategies and asset classes, each with a focus on risk-adjusted returns and alpha generation. We believe providing a lineup of seasoned, committed portfolio managers – spanning a wide range of disciplines and investing vehicles – is the best way to help investors seek their long-term financial goals.

To learn more about Cougar Global's strategies, philosophy and capabilities visit cougarglobal.com or call 1.800.521.1195.

