WORTH KNOWING®

Annual Investment Update

Economic Review and Outlook

DECEMBER 31, 2024

As 2024 ended, the U.S. economy appeared to be in great shape. Most metrics depicted a healthy environment with rising wages, moderate inflation, strong consumer spending, steady gross domestic product (GDP) growth, and low unemployment. Despite the favorable data, however, not everyone felt optimistic about their situation.

The NAHB/Wells Fargo Housing Market Index, which represents overall homebuilder sentiment, was in the low-to-mid-40s for much of the year. A reading under 50 indicates the majority of builders do not feel confident about the current and near-term outlook for housing. Optimism among small businesses, as tracked by the NFIB Small Business Optimism Index, also remained depressed and below its 50-year average for most of the year.

Consumer opinion, as measured by the University of Michigan Consumer Sentiment Index, fell through the first half of 2024, and despite rising in the second half, ultimately ended the year lower than where it was in January. The University of Michigan survey noted a sharp partisan split in inflation expectations around the election. Democrats, who pre-election had been hopeful about inflation falling, were worried about a reversal after the election results, while Republicans, who had previously been concerned about rising prices, were largely optimistic post-election.

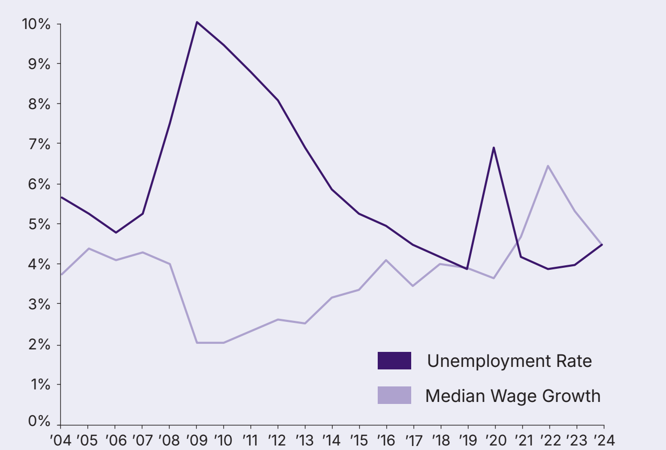
Sticking the Landing? The elusive soft landing, characterized by the central bank raising interest rates enough to slow inflation without causing a recession, is always the goal. However, this has historically been tough to achieve, as the U.S. Federal Reserve (the Fed) is credited with only one widely accepted successful instance in the last 50 years. A recession has typically followed when inflation peaks above 5%—as was the case in 1970, 1974, 1980, 1990, and 2008.

Key Economic Releases

EMPLOYMENT	As of	Expected	Actual	Prior
Unit Labor Costs (3Q)	DEC	1.3%	0.8%	2.4%
Unemployment Rate	NOV	4.1%	4.2%	4.1%
Average Hourly Earnings (YoY)	NOV	3.9%	4.0%	4.0%
Change in Manufact. Payrolls	NOV	30K	22K	-48K
Change in Non-Farm Payrolls	NOV	220K	227K	36K
INFLATION (year over year)	**As of**	**Expected**	**Actual**	**Prior**
Consumer Price Index	NOV	2.7%	2.7%	2.6%
CPI Ex Food & Energy	NOV	3.3%	3.3%	3.3%
Producer Price Index	NOV	2.6%	3.0%	2.6%
PPI Ex Food & Energy	NOV	0.2%	0.4%	0.3%
HOME PRICES (year over year)	**As of**	**Expected**	**Actual**	**Prior**
S&P/Case Shiller Top 20 Mkts.	OCT	4.1%	4.2%	4.6%
MANUFACTURING ACTIVITY	**As of**	**Expected**	**Actual**	**Prior**
Capacity Utilization	NOV	77.3%	76.8%	77.0%
Leading Indicators	NOV	-0.1%	0.3%	-0.4%
GDP Annualized (3Q)	DEC	2.8%	3.1%	3.0%
PRODUCTIVITY	**As of**	**Expected**	**Actual**	**Prior**
Non-Farm Productivity (3Q)	DEC	2.2%	2.2%	2.1%
Industrial Production	NOV	0.3%	-0.1%	-0.4%

Source: Bloomberg

Unemployment and Wages



Source: Bloomberg

CONTACT US
TOLL-FREE 888.720.8382
LOCAL 206.359.6462
trust.perkinscoie.com

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ECONOMIC REVIEW AND OUTLOOK (CONTINUED)

With inflation sitting at 2.7%, unemployment at 4.2%, and GDP still growing late in the year, the U.S. economy seemed to have stuck a soft landing heading into 2025.

Of note, though, were some cracks in the economy. Manufacturing activity contracted during the second half of the year. The labor market remained relatively robust, but job openings fell by almost one million and unemployment rose enough to trigger the Sahm Rule. Occurring when the three-month moving average unemployment rate rises by 0.5% or more from its 12-month low, this indicator has historically been an early recession signal.

The pace of price increases cooled significantly from a 40-year high of 9.1% in 2022, but goods and services still cost about 20% more in August 2024 compared to February 2020, per Consumer Price Index (CPI) data. Higher prices particularly squeezed lower-income consumers, as the cost of necessary items like food, shelter, and clothing exceeded the headline inflation figure most months.

Despite elevated prices, Americans still spent. This is important as consumer spending accounts for nearly 70% of U.S. GDP. In December, the S&P Global US Services PMI (Purchasing Managers' Index), a survey that includes companies in transport, communication, hoteling, and financial, business, and personal services, pointed to the strongest growth in the services sector since late 2021.

The increased purchasing activity was buoyed by wealth effects from strong stock market returns and wages that have been rising faster than prices since early 2023. Employment is a significant factor on consumption, and as long as unemployment stays low, Americans are likely to continue spending.

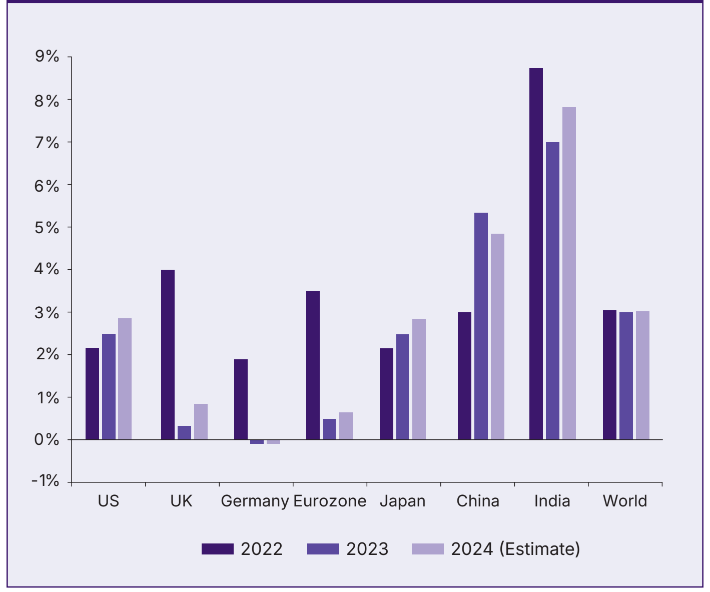
A Losing Year for Incumbents The year 2024 was a historic one for political change and a tough one for incumbents. Over 60 countries held elections, and voters largely voiced their frustration with the status quo. In the United States, the winning presidential party changed for the third election in a row. Incumbent parties also saw setbacks in the UK, France, Germany, Canada, India, Japan, and South Africa. While local factors had an impact on every election, economic challenges—including inflation—were a consistent issue for voters across the globe. As the election outcomes seem to indicate, prices matter.

Cross Currents Into 2025 The election results mean a wider range of outcomes has opened up for the global economy.

Investor confidence fell in Europe as the economies there weakened and uncertainty around future policy and tariffs grew. Chinese consumer confidence, satisfaction, and expectations remained exceptionally low, despite multiple stimulus efforts by the government to revive the country's floundering economy. Meanwhile, Japan's recent wage growth and corporate policy changes make it a potential bright spot, though currency moves could affect its export-heavy economy.

In the United States, surveys tracking business optimism, consumer expectations, homebuilder sentiment, and future activity outlooks all rose to end the year. With a new administration stepping in, and inflation seemingly under control, the Fed will likely no longer be the biggest influence on the economy. Fiscal policy, while uncertain at this point, is anticipated to lead the way forward. If the Trump administration's primary approach is boosting growth through less regulation and lower taxes, that should be positive for the economy, with spillovers across the globe. However, if the focus is on aggressive tariffs and restrictive immigration, that would be negative for growth and likely result in higher inflation domestically.

GDP Growth by Region



Source: Bloomberg

Bond Market Review and Outlook

DECEMBER 31, 2024

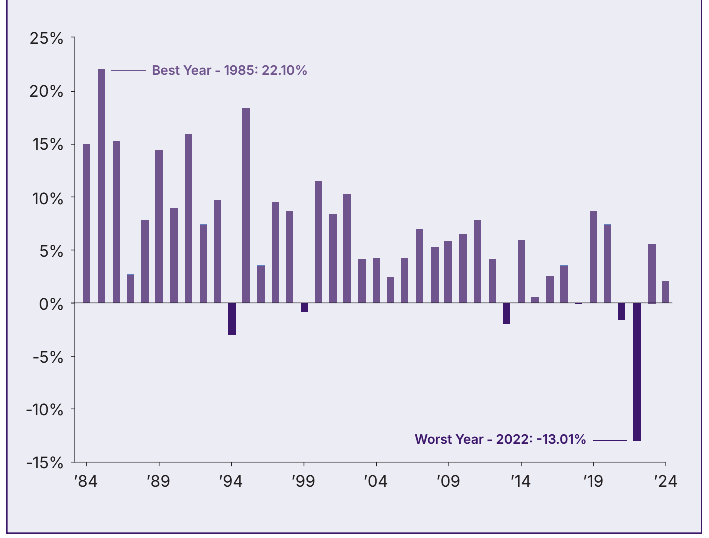
The Bloomberg U.S. Aggregate Bond Index, a benchmark that measures U.S. government and corporate bond returns, closed the year up just 1.25% after being tossed around by shifting market expectations driven by fluctuating federal funds forecasts. Corporate bonds fared much better than treasuries as U.S. companies continued to generate healthy profits with sustainable debt loads, while concerns mounted about how the U.S. government will repay its growing debt. Municipal bonds, which help fund state and local government through tax-exempt debt issuance, were not spared from the volatility of interest rate predictions and finished the year up just 1.05% as measured by the Bloomberg Municipal Bond Index.

The Path to Stable Prices Is Not a Straight Line The bond market began the year optimistic that inflation had been tamed and interest rate cuts were imminent but was quickly humbled by sharply rising prices in the spring as the CPI climbed from 3.1% back toward 3.5%. As we progressed through the summer, additional data confirmed the structural downward nature of inflation in the current economic cycle and a resumption of the downward trend to 2.5%. The fall of inflation toward the Fed's 2% target allowed both the market and the Fed to turn their attention to the softening labor market and the need for lower interest rates to sustain economic growth.

The Beginning of the End Continuing jobless claims, a measure of folks filing for unemployment, grinded higher throughout the year and ended at 1.844 million people currently receiving unemployment benefits, which translated to an unemployment rate of 4.2%. The shifting balance between still-too-high inflation and the need to support a weakening labor market tilted in favor of a more accommodative stance from the Fed. This resulted in 100 basis points of interest rate cuts, or a decrease of 1% in the effective federal funds rate, beginning with a decisive rate cut of 50 basis points in September followed by two more cuts of 25 basis points each in November and December. The bond market widely anticipated these rate cuts and had a substantial rally throughout the summer.

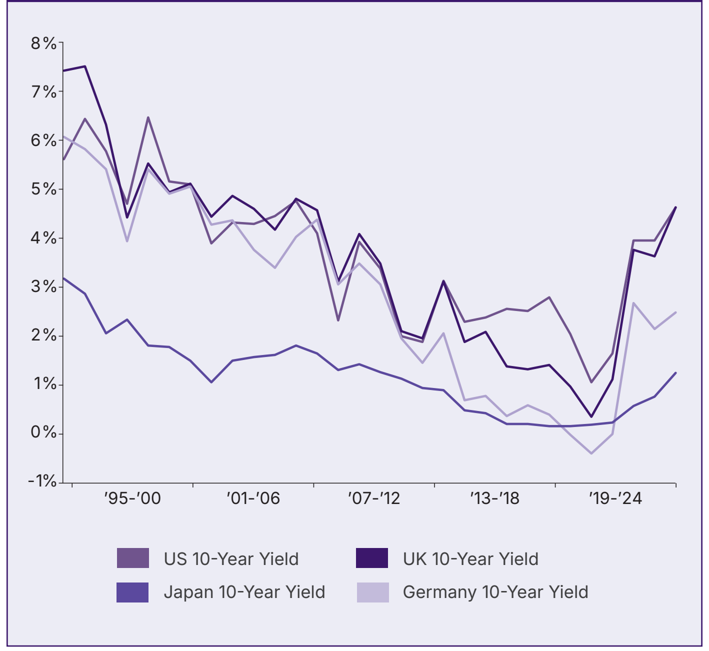
US Corporate Debt Dynamics U.S. corporate borrowers were favored by the bond market with the Bloomberg U.S. Corporate Index outpacing the Bloomberg U.S. Treasury Index

Bond Market Calendar Year Returns 1984-2024



Source: Bloomberg

10-Year Bond Yields of Major Developed Economies



Source: Bloomberg

BOND MARKET REVIEW AND OUTLOOK (CONTINUED)

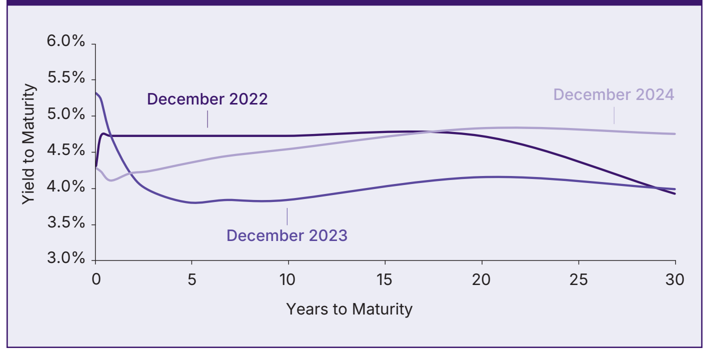
by 1.55%. What was viewed as unusually tight corporate spreads, or the yield offered to lenders above what a treasury yield offers as compensation for additional risk, continued to tighten throughout the year, reaching an all-time low of just 1.02% in December. That is the lowest spread in the 24-year history of the Bloomberg U.S. Corporate BBB/Treasury 10 Year Spread Index. While this makes corporate bonds look relatively expensive, there are reasons to believe that the valuations are justified.

Corporate debt defaults remain very low, the average credit quality in the index has crept up over the past few years, and balance sheets are relatively healthy. The formation of private credit funds in the wake of the Great Financial Crisis has led to a change in the makeup of the publicly listed bond market, with many of the riskier companies seeking financing outside of channels accessible to retail bond investors. This has led to fewer credit problems, but it also has resulted in lower yields compensating for the lower risk.

The End of the Beginning? Economic, fiscal, and policy outlooks could face numerous changes in the wake of the November election. The Fed, acknowledging the uncertainty on the near horizon, indicated in its December meeting a notably “hawkish” pivot, or a resumption of diligence against potential inflationary pressures from tariffs, immigration policies, and economically stimulative measures such as deregulation and tax cuts. This was notable as the Fed has historically avoided speculating on policy outlooks and instead insists upon its reliance on data.

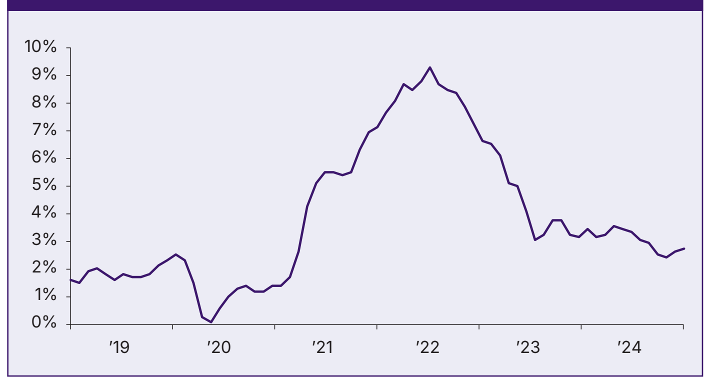
The sudden unexpected renewal of vigilance caught the market by surprise and sent bond markets tumbling. Chairman Powell did characterize the current Fed interest rate policy in his statements as “meaningfully restrictive,” indicating the Fed is unlikely to hike rates unless core inflation reaccelerates above 3%. Additionally, the Fed unexpectedly raised its 2025 projections for core personal consumption expenditure, a favored measure of inflation, to 2.5% from 2.2% and moved its forward rate guidance from an expected four rate cuts to just two in 2025. Suddenly the market is discussing the end of rate cuts rather than the beginning. However, should the labor market resume weakening, we would expect the Fed to quickly pivot back to a more “dovish” stance with lower rates.

U.S. Treasury Yield Curve Comparison



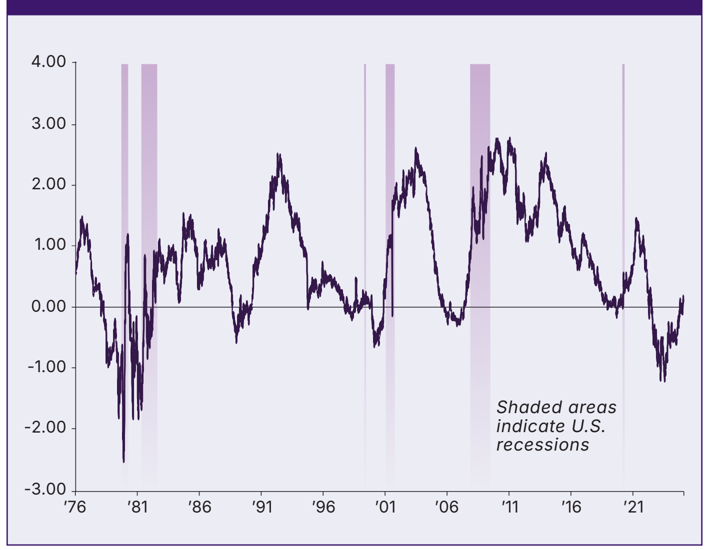
Source: Bloomberg

Consumer Price Index (CPI)



Source: Bloomberg

10-Year Treasury Constant Maturity Minus 2-Year Treasury Constant Maturity



Source: Bloomberg

Stock Market Review and Outlook

DECEMBER 31, 2024

Another Stellar Year for US Stock Market The U.S. stock market had another great showing in 2024, with the S&P 500 Index returning 25% to mark its second consecutive year of returns over 20%. The S&P 500 hit 57 new highs throughout the year, and although seemingly ever-climbing valuations can rattle the nerves of some investors, all-time highs are much more common than you might think. According to JPMorgan Chase, the S&P 500 has historically closed at a new all-time high every 15 trading days with nearly one-third of those highs becoming new floors, meaning upward momentum typically begets more upward momentum.

Although S&P 500 activity continued to be driven by technology stocks, its performance broadened out significantly from the total domination we saw in 2023 by the so-called “Magnificent 7” stocks (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla), with six of eleven sectors up over 15% for the year. That said, four Big Tech companies—Alphabet, Amazon, Meta, and Microsoft—continued their race to grab market share and profit from artificial intelligence (AI), increasing their capital spending in 2024 by over 50% and surpassing their $100 billion pledge in the first six months. Included in this spending are new investments into nuclear power, most notably the reopening of Three Mile Island under an agreement to sell power exclusively to Microsoft. The plant is expected to become operational in 2028.

Since GLP-1 drugs have exploded in popularity, and scientists now believe drugs such as Eli Lilly’s Zepbound could help address a whole host of health issues in addition to obesity, the companies producing these drugs experienced great performance for most of the year. While demand is still strong, Zepbound and other GLP-1 drugs were recently taken off the U.S. Food and Drug Administration’s shortage list after roughly two years, which means pharmacies will now have to stop compounding knockoff versions that were allowed to be manufactured during the shortage.

Election Impact While volatility soared in the markets during the weeks before the U.S. presidential election, November 6, 7, and 8 all saw successive S&P 500 highs as promises of tax cuts and deregulation fueled stock market optimism. The month of November was the S&P 500’s best since 1980.

Gold and Bitcoin also reached all-time highs, with Bitcoin breaching $100,000 in mid-November and gold hitting $2,790.10 per ounce at the end of October.

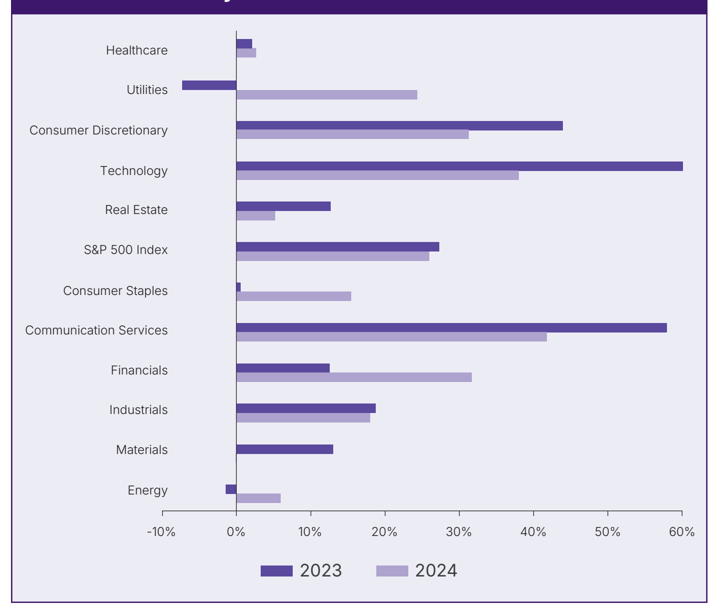
In the days immediately following the election, banks, industrials, and small-cap companies did relatively well in light of promised deregulation and lower corporate tax rates. However, healthcare, solar, and Chinese companies generally took a downturn as a result of potential prohibitive tariffs, spending cuts, and unexpected appointments to key

Stock Market Returns	Latest Quarter	12 Months	Last 3 Years*
S&P 500	2.39%	25.00%	8.92%
Russell 1000 Growth	7.07%	33.35%	10.47%
Russell 1000 Value	-2.00%	14.35%	5.60%
S&P 400 MidCap	0.33%	13.89%	4.83%
MSCI Developed (EAFE)	-8.06%	4.43%	2.26%
MSCI Emerging Markets	-7.86%	7.97%	-1.55%
Alternative Assets			
Bloomberg Commodity	-1.57%	0.12%	-0.14%
MSCI World Real Estate	-7.79%	4.86%	-4.14%
S&P Global Infrastructure Index	-2.53%	14.94%	7.01%

Source: Bloomberg

**Returns are annualized*

S&P 500 Returns by Sector



Source: Bloomberg

STOCK MARKET REVIEW AND OUTLOOK (CONTINUED)

healthcare positions. It remains to be seen which sectors will outperform after the change in administration, as many different economic factors influence sector and market performance outside the policies of the president. Keep in mind that markets have historically gone up no matter the makeup of the executive and legislative branches. Even with a one-party sweep, there is no guarantee of harmony within that party or that any positive past performance can ensure future success. Because of this, it is important to take a disciplined approach to investing, staying focused on company fundamentals and the current economic climate.

Emerging Markets Finally Emerging? Emerging markets saw varying outcomes in the past year. After China announced a stimulus package including a few tools to boost the stock market, its key index, the CSI 300, saw the greatest single-week run in nearly 16 years. However, a continued rally seems to be stalling as many want an even bolder stimulus package and measures to address deflation and the country's weak economy.

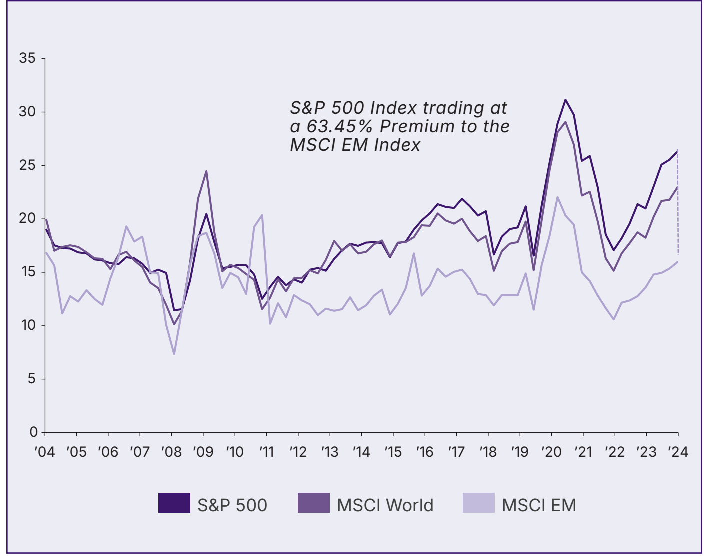
India saw what many are calling a stock market revolution, with nearly 1 in 5 households participating in the stock market as opposed to 1 in 14 just five years ago. The country's financial regulator says a new mutual fund with a minimum monthly contribution of 250 rupees, or roughly $3 USD, will be launched soon. This mutual fund structure is a way for the average investor to get into the stock market by owning small splices of publicly traded companies. Emerging markets as a whole experienced an 11% return over the last five years, well below India's 122%. Much of India's stock market success is due to increased digitization of its financial sector and, thus, greater access to investment accounts.

International Markets Mixed Developed international markets saw mostly tepid performance in 2024, with Germany's economic woes deepening and France's debt crisis looming. The UK's economic recovery was underway, and, in November, UK stocks saw their first monthly net inflow in four years.

Japan's Nikkei index, the second-largest index in the world, rebounded to beat a 1989 peak as the country emerged from a deflationary environment and welcomed shareholder reforms. One such measure has been the adoption of a Stewardship Code and Corporate Governance Code, which aligns shareholder and corporate interests more closely and requires more transparent reporting.

2025 Outlook AI is likely to remain on the forefront of U.S. markets in 2025 as firms race to make the technology profitable and more widely used before investor enthusiasm wanes. President-elect Trump's campaign promises relating to lower corporate tax rates and deregulation tend to be pro-growth and good for stocks, although stock market performance is the result of a myriad of factors. With this in mind, we look to the fundamentals; companies' earnings and margins remain strong and substantiate the returns we saw in 2024 as we move into 2025 with optimism.

U.S. vs. International vs. EM Valuation



Source: Bloomberg

Investment Management Services

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Patrick A. Casey is President & Chief Executive Officer of Perkins Coie Trust Company. He has over four decades of experience in the financial services industry advising private clients. Patrick graduated from St. John's University with a Bachelor of Science in finance and received his MBA in management from Fairleigh Dickinson University.

Andrew Elofson is the Chief Investment Officer of Perkins Coie Trust Company. He is responsible for investment-related activities and is a member of the Perkins Coie Trust Company management team. Andrew has over two decades of financial services and investment experience across numerous asset classes, including international equities, domestic equities, taxable fixed income, and asset allocation. Andrew graduated from the University of Washington with a Bachelor of Arts in business administration.

Samantha Sundberg is a Senior Investment Officer at Perkins Coie Trust Company and is responsible for investment research, due diligence, and management of investment portfolios for individuals, trusts, and estates. Samantha has over a decade of financial services industry experience, focusing on investment management. She graduated from the University of Michigan with a Bachelor of Arts in economics.

George Cheng is an Investment Officer at Perkins Coie Trust Company. He is responsible for investment research, due diligence, and management of investment portfolios for individuals, trusts, and estates. He graduated from Lancaster University with a Bachelor of Arts in economics. George has also earned a master's in mathematical trading and finance and an MBA in business administration.

Aenea Sandvig is an Investment Officer at Perkins Coie Trust Company. She is responsible for investment research, due diligence, and management of investment portfolios for individuals, trusts, and estates. Aenea graduated from the University of Washington with a Bachelor of Arts in business administration — accounting.

Investment Process

1. **LEARN** Client Goals and Needs
2. **ESTABLISH** Client Investment Objective and Strategy
3. **DETERMINE** Asset Allocation Strategy
4. **CONSTRUCT** and Monitor Investment Portfolio
5. **REVIEW** and Reassess Client Needs

Trust Company Service

The investment process at Perkins Coie Trust Company is always client driven.

We meet routinely with clients to ensure that we incorporate changing life cycle needs into our investment strategies.

Annual Investment Update

Perkins Coie Trust Company