Equity Risk Management Strategy

Portfolio Manager Commentary

As of 12/31/2024

EquityCompass

Q4 2024 Overview

During the fourth quarter of 2024, the market's attention turned to the U.S. Presidential election. On the heels of President Trump's victory, chief executive officers (CEOs) instantly became more optimistic about the economy.

With expectations of continued lower corporate tax rates, coupled with the prospect of less government regulations, investors rushed back into the market to quickly snap up stocks. In the six weeks from election day on November 5 through December 17, the Dow Jones Industrial Average (Dow) gained 3.25%, the S&P 500 Index was up 4.84%, and the NASDAQ Composite advanced 9.20%.

However, the market euphoria was short-lived. In its last Federal Open Market Committee (FOMC) meeting of the year on December 18, the Federal Reserve (Fed) decision matched the market expectations by reducing the overnight funds rate by 25 basis points (bps). This marked the third consecutive reduction in interest rates, bringing the cumulative rate cuts for this cycle to 100 bps. However, the stock market reaction was swift and painful following the Fed's announcement. The Dow dropped 2.58%, the S&P 500 Index declined 2.98%, with the technology-centric NASDAQ Composite falling the most at 3.68% on the market's realization that the Fed was no longer committed to aggressively cutting interest rates in 2025.

For reference, at the FOMC meeting earlier in September, the Fed's dot plot—an estimated forecast for future interest rates—guided to 100 bps of rates cuts in 2025. But in the December meeting, the Fed projected only 50 bps in interest rate cuts next year. It was described as a "hawkish cut"—meaning the Fed essentially reduced the amount of expected stimulus over the next 12 months.

Further, at the Fed's press conference, Chairman Jerome Powell acknowledged that decisions about future monetary policy had become uncertain due to the unpredictability for inflation to recede back to the Fed's 2% target. This uncertainty around inflation expectations is further complicated when contemplating the potential for higher tarrifs under the Trump administration, which could be inflationary. In all, Chairman Powell has signaled monetary policy is now in a "pause-phase," which means materially lower interest rates may no longer be a near-term catalyst for stocks.

Allocation Overview

The **Equity Risk Management Strategy (ERMS)** remained in a neutral position during the fourth quarter, as it had throughout the full year—allocated between 50% equity and 50% cash and higher yielding short-term 1–3 month Treasuries.

Corporate earnings expectations, while upward trending, paint a mixed outlook. Earnings growth during the third quarter of 2024 was largely driven by a handful of companies. During the time period, the Magnificent 7 stocks collectively grew their earnings by 54%—representing 25% of S&P 500

Objective

Tactical allocation strategy that seeks to adjust a portfolio's equity exposure to potentially provide downside risk mitigation and volatility control

Portfolio Management Team

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About EquityCompass

EquityCompass is a Baltimore-based SEC registered investment adviser offering a broad range of portfolio strategies and custom plans for individuals, financial intermediaries, and institutional clients in the U.S. Formally organized in 2008, EquityCompass provides portfolio strategies with respect to total assets of approximately $5.2 billion as of December 31, 2024.*

The EquityCompass team of professionals represents deep industry experience in security analysis, capital markets, and portfolio management. We are committed to a consistent investment process that relies on enduring principles, sound empirical reasoning, and the recognition of a dynamic investment environment with a global reach.

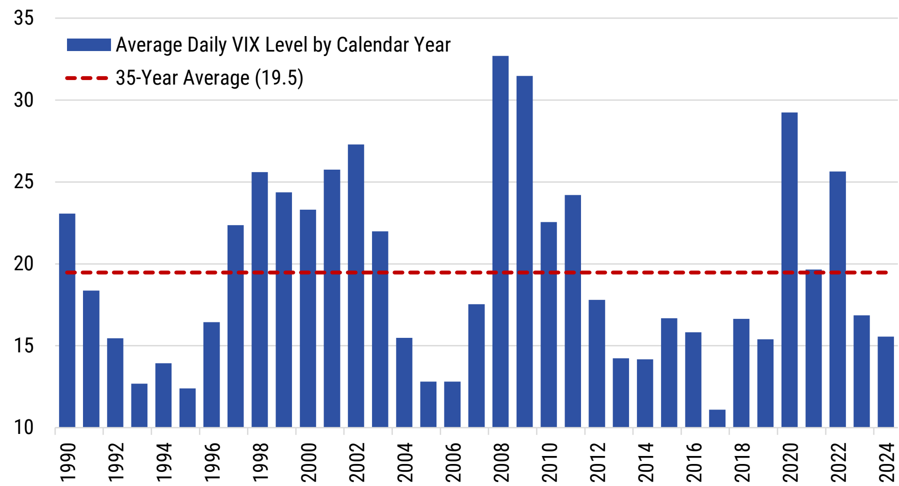
	Total Returns			Annualized Returns					Calendar-Year Returns									
	3-Mos	6-Mos	YTD	1-year	3-year	5-year	10-year	Incp.	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Gross %	1.19	5.75	12.04	12.04	0.53	5.86	5.61	7.89	-0.41	7.32	21.24	-5.45	5.97	2.91	27.15	-18.75	11.60	12.04
Benchmark %	1.74	5.76	12.30	12.30	3.97	8.15	6.34	6.61	-0.97	5.47	13.29	-7.14	13.71	17.89	11.67	-10.13	11.37	12.30
Net %	0.43	4.18	8.71	8.71	-2.46	2.74	2.50	4.72	-3.31	4.15	17.70	-8.25	2.82	-0.10	23.50	-21.19	8.33	8.71

As of 12/31/2024; Inception – October 1, 2012; Benchmark = HFRI Equity Hedge Index
ERMS performance represents the standalone Separately Managed Account (SMA) strategy on Stifel's Custom Advisory Portfolio platform.
Net returns reflect the deduction of the potential maximum managed account fee of 3.00% which includes the wrap sponsor fee and EquityCompass investment management fees. Actual fees may vary.

earnings—versus -2% for the other 490+ S&P 500 constituents. While earnings expectations currently suggest a more favorable growth outlook, we will continue to monitor those trends for materialization across a broader range of companies.

Average Daily VIX Level By Calendar Year **Chart 1**

1990—2024 | CBOE Volatility Index (VIX) | Source: Bloomberg Finance, LP



From an economic perspective, although high-frequency data showed signs of improvement during the fourth quarter, it continues to confirm the mixed picture for corporate earnings and the economy. At the end of the year, economic conditions were generally healthy—characterized by solid growth (2.5%–3.0%) and moderate inflation. However, the economy remains heavily reliant on consumption from upper-income households, with major sectors, including housing and manufacturing, providing little contribution to overall growth. While recession odds over the next 12 months are reasonably low, there continues to be a relatively small margin for error against potential adverse developments, which we believe supports our continued neutral positioning within the tactical strategy.

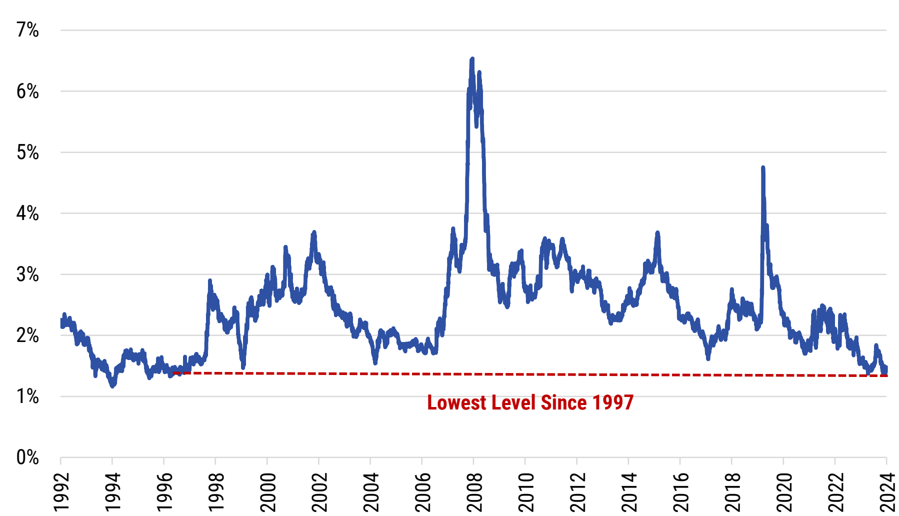
From a technical perspective, during the year, the market experienced two meaningful and sudden increases in volatility as measured by the CBOE Volatility Index (VIX)—also referred to as the "Fear Index." The most notable spike in the VIX first occurred in early August on global concerns over Japanese interest rates and their respective equity markets, which had suffered substantial volatility on the heels of unexpected monetary policy changes. As a result, the VIX briefly spiked to its third highest level on record, hitting an intra-day high of 65.7 on August 5.

In mid-December, the VIX sustained a lesser, but significant, spike after the Fed signaled a lower-than-expected pace along its interest rate easing trajectory. As a result, on 12/18/2024, the VIX observed its third largest percentage daily change in volatility in its history. While both events signaled a rapid shift in investor sentiment and heightened fear, neither were long-lived, as the VIX subsided almost as quickly as it rose. In both cases, the VIX retreated to lower than pre-event levels within the same month, respectively.

While 2024 delivered a few moments of heightened implied risk, as a whole it was fairly complacent, with the daily VIX level averaging 15.6 over the full year—well below its long-term daily average level of 19.5 (**Chart 1**).

Credit Yield Spread **Chart 2**

Corporate Baa *Minus* 10-Year U.S. Treasury | 12/31/1992—12/31/2024 | Source: Bloomberg Finance, LP



Another measure of implicit risk we monitor is the yield spread between investment-grade corporate bonds and the 10-year U.S. Treasury. Throughout the year, these spreads continued to move lower, ending 2024 near the narrowest levels since 1997—a 27-year low (**Chart 2**).

With yields on short-term 1–3 month U.S. Treasury bills offering a compelling opportunity to lower the risk profile of the portfolio, without deterring from its long-term objectives, we remain comfortable with the current positioning of the tactical allocation as we enter 2025.

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The Equity Risk Management Strategy invests primarily in ETFs, which are subject to the risk that the values will fluctuate with the value of the underlying investments or indices the ETFs are tracking. ***Exchange Traded Funds (ETFs) represent a share of all stocks in a respective index. ETFs trade like stocks and are subject to market risk, including the potential for loss of principal, and may trade for less than their net asset value. The value of ETFs will fluctuate with the value of the underlying securities. Investors should review the prospectus and consider the ETF’s investment objectives, risks, charges, and expenses carefully before investing. Prospectuses are available through your Financial Advisor and include this and other important information.*** Due to rapidly changing market conditions and the complexity of investment decisions, supplemental information and other sources may be required to make informed investment decisions based on your individual investment objectives and suitability specifications.

The **S&P 500® Index** is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market. The **Dow Jones Industrial Average (DJIA)** is an unmanaged, price-weighted index that consists of 30 blue chip U.S. stocks selected for their history of successful growth and interest among investors. The price-weighted arithmetic average is calculated with the divisor adjusted to reflect stock splits and occasional stock switches in the index. The **NASDAQ Composite Index**, comprised mostly of technology and growth companies, is a market value-weighted index of all common stocks listed on NASDAQ. The **HFRI Equity Hedge Index** is a fund-weighted index of strategies that maintain positions both long and short in primarily equity and equity derivative securities. The Chicago Board Options Exchange (CBOE) created the VIX (**CBOE Volatility Index**) to measure the 30-day expected volatility of the US stock market, sometimes called the “fear index.” The VIX is based on the prices of options on the S&P 500 Index and is calculated by aggregating weighted prices of the index’s call and put options over a wide range of strike prices. All index returns are shown on a total return basis and assume that all cash distributions, such as dividends, are reinvested. The volatility of the indices identified in this report may be materially different from the volatility of the model portfolios presented by EquityCompass. Indices are unmanaged, do not reflect fees and expenses, and are not available for direct investment.

*Total assets combines both Assets Under Management and Assets Under Advisement as of December 31, 2024. Assets Under Management represents the aggregate fair value of all discretionary and non-discretionary assets, including fee paying and non-fee paying portfolios. Assets Under Advisement represent advisory-only assets where the firm provides a model portfolio and does not have trading authority over the assets.

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