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Highlights

- **Interest rates rose and credit spreads narrowed further leading to tepid absolute returns. Most of our strategies outperformed even as riskier sectors were further rewarded.**
- **The economy showed resilience, yet the Fed still cut rates twice during the quarter. Long term rates rose nearly 70 b.p. reflecting inflation and deficit concerns.**
- **In December, the world received surprisingly good news with the ouster of Syria's dictator. The world has a timely opportunity to neutralize the momentum of authoritarian regimes.**

Markets

		Returns (%)			
GIA	Average Quality	4Q24 Gross	4Q24 Net	12 Months Gross	12 Months Net
Core Plus Composite	**(A+)**	**-2.36**	**-2.45**	**3.01**	**2.65**
Global Investment Grade Composite	**(A-)**	**-2.38**	**-2.48**	**3.59**	**3.18**
Global Credit Plus Composite	**(BBB+)**	**-1.35**	**-1.48**	**5.23**	**4.71**
Global High Yield Composite	**(BB-)**	**-1.11**	**-1.25**	**6.82**	**6.18**
Emerging Market Corporate Debt Composite	**(BB+)**	**-1.26**	**-1.40**	**9.22**	**8.56**
Benchmark Bonds					
Bloomberg U.S. Agg. Index	(AA)	-3.06		1.25	
Treasury	(AA+)	-3.14		0.58	
Corporate	(A-)	-3.04		2.13	
Mortgage	(AA+)	-3.16		1.20	
Government/Credit	(AA)	-3.08		1.18	
ICE BofA U.S. Corporate & Yankees	(A-)	-2.85		2.58	
ICE BofA U.S. Corporate	(A-)	-2.84		2.76	
ICE BofA U.S. High Yield	(B+)	0.16		8.20	
ICE BofA Global High Yield Constrained Index (USD)	(B+)	-1.14		7.46	
ICE BofA EM Corporate Plus	(BBB)	-1.48		6.26	
ICE BofA Global Gov't ex-US	(AA-)	-0.97		-0.51	
JPM Emerging Markets EMBI GD	(BB+)	-1.94		6.54	
JPM CEMBI Broad Diversified	(BBB-)	-0.80		7.63	
JPM GBI-EM Global Diversified	(BBB+)	-6.98		-2.38	
Benchmark Equities					
S&P 500	NA	2.07		23.31	
Nasdaq Composite	NA	6.17		28.64	
Russell 2000	NA	0.01		10.02	
MSCI EAFE	NA	-8.38		1.15	
MSCI Europe	NA	-9.96		-1.08	
MSCI Japan	NA	-3.80		6.05	
MSCI Emerging Markets Equity	NA	-8.15		5.05	

* Please refer to the respective factsheets for the long-term composite and benchmark returns for each strategy.

Markets

As the fourth quarter began, upcoming events elicited caution in financial markets. After its conclusion, the most notable observation is that lower probability scenarios materialized, and the worst consequences were averted. In the contested U.S. presidential election, pundits forecasted a divided government, yet Donald Trump won convincingly, and Republicans flipped senate while retaining a slim majority in the house. In the Middle East, the war escalated between Israel and its multiple adversaries without broadening out of control. On monetary policy, the Fed's 50 b.p. rate cut in September introduced a note of caution on the economy's strength, although it remained surprisingly robust. Taken together, the quarter's events unleashed further stock market bullishness and interest rate caution. The S&P 500 reached 6,000 for the first time in December, capping off 57 record closes in 2024 and the best two-year performance in 25 years. The Dow and Nasdaq also delivered superior returns with the three indexes (Dow, S&P 500, and Nasdaq) delivering impressive returns of 0.51%,2.07%, 6.17% and 12.88%, 23.31%, 28.64% for the quarter and full year respectively. Non -U.S. equity markets also rose, although the U.S. currency's fourth quarter appreciation muted returns in dollar terms.

Results for bonds were a different story as interest rates rose relentlessly during the quarter. Sturdy economic activity halted the improvement in price gauges and deficit worries grew following the U.S. election. For the quarter, the Bloomberg U.S. Aggregate Index returned -3.06% after yields rose between 60 and 80 b.p. along the curve. For the full year, the Aggregate returned 1.25%. Foreign government bonds experienced more muted rate increases during the quarter, although total returns in U.S. dollars suffered a meaningful hit after the U.S. currency appreciated about 7.8% relative to other developed market currencies.

Investment grade credit had another strong year considering spreads started at a relatively tight level and narrowed further to a 20-year low in early November. A combination of solid financial performance, attractive absolute rates, and steady fund inflows helped spreads narrow again during the quarter. Rising interest rates hurt absolute returns, although the sector still generated meaningful excess returns. For the quarter, the investment grade corporate bond index, the ICE BofA U.S. Corporate Index (C0A0), was down -2.84%, which lowered the year-to-date return to a modest 2.76%. Despite poor absolute returns, investment grade credit generated about 82 b.p. of excess return for the quarter and a healthy 246 b.p. for all of 2024. Corporate option adjusted spreads (OAS) narrowed by 10 b.p. to 82 b.p., while the yield to worst of the index rose 62 b.p. from 4.72% to 5.34%. Borrowing turned sluggish during the final quarter with issuers raising a paltry $237.7 billion. That was enough, however, to lift the annual credit issuance to $1.76 trillion, the second highest since 2020 when interest rates were at historical lows.

The high yield market also had a remarkable year considering many strategists expected rising defaults and widening spreads. Instead, consistent with a buoyant economy, the sector delivered another year of excellent returns. The ICE BofA U.S. High Yield Index (H0A0) was up 0.16% for the quarter and 8.20% for the year, ahead of most fixed income sectors. At quarter-end, the spread to worst was narrower by 26 b.p. from 334 b.p. to 308 b.p. The yield to worst remained compelling at 7.41% compared to 6.99% in September. After adding money to high yield funds for much of the year, investors withdrew funds in December leading to a modest $1.0 billion inflow for the quarter. Over 2024, inflows totaled $16.4 billion. The default rate, including distressed exchanges decreased further to 1.47% from 1.64% at the end of September (0.36% not including distressed exchanges). While defaults remained well behaved for high yield bonds, the leveraged loan market experienced a noticeable increase driven by distressed exchanges. For the year, the high yield bond default rate declined 1.41%. The new issue market remained subdued at $49.1 billion for the quarter and $288.8 for the year. Total high yield borrowing remained well below the $483.0 billion raised in 2021.

Emerging markets hard currency bonds performed surprisingly well considering a few countries faced complex domestic issues. Brazil confronted a budget crisis while the president was hospitalized to treat an emergency medical condition. In South Korea, the president and his acting successor were impeached. Meanwhile, the armed conflicts in Ukraine and the Middle East continued unabated. Despite this, emerging market debt delivered good relative returns. Regionally, Africa was the best performing area while Latin America and Asia were the worst. In Asia, China continued to underperform, and South Korea languished while Brazil brought down Latin America. However, a few former laggards like Argentina, Ukraine, and Central American countries experienced a healthy recovery. The Emerging Market Bond Index – Global Diversified (EMBIGD), a dollar denominated sovereign index, was down -1.94% for the quarter but was up 6.54% for the year. Similarly,

the JPM Corporate Emerging Markets Broad Diversified Index (CEMBI BD) fell -0.80% over three months but was up 7.63% for the full year. On the other hand, the JPM Global Bond Index – Emerging Markets Global Diversified (GBI-EM Global Diversified), a local markets index, had weak quarterly performance of -6.98% on the back of depreciating currencies. Year-to-date, local markets returned -2.38%.

Economy

Once again, the U.S. economy surprised on the upside, a notable outcome given the Fed's "emergency-like" 50 b.p. cut in September. Despite indications of softness, the labor market ended the year on a strong note. Similarly, consumer spending continued to lift GDP with service sector indicators suggesting consumers were not downshifting their spending. Throughout the year, economists were forced to acknowledge the economy sustained a more robust trajectory than most expected. The first estimate of the fourth quarter's GDP will be released on Jan. 30, 2025. On average, economists surveyed by the Wall Street Journal expect the number to reach 2.5% (annualized) compared to 1.7% in October's Survey.

This improved momentum carried over into forecasts for the first half of 2025 when growth is expected to remain above 2.0%, with a slight dip below 2.0% in the second half. Financial markets and economists expect a growth-boosting agenda from the incoming Trump Administration. While many proposed policies should be expansionary, a few noteworthy ideas may not. Specifically, extending the 2017 tax cuts does not, in itself, provide stimulus, and may have longer term deficit implications. Furthermore, the Administration has spoken widely about tariffs. Depending on their implementation and breadth, tariffs can have a damaging effect on global economic activity.

Away from the U.S., the post-pandemic recovery seems to have stalled. The IMF recently upgraded growth forecasts for the U.S. while downgrading them for Europe and Canada. Expectations for Chinese and other emerging economies hinge on further government stimulus which has not yet been bold enough. Ideally, for growth to become independently sustainable, policies will encourage long-term investment.

Scenarios

We propose three scenarios for the U.S. economy over the next 6 months:

1. Our most likely case has the U.S. economy growing at a steady clip of about 2.0% in 1Q and 2Q 2025. The economy ended 2024 with upward momentum driven by strong labor markets, real wage growth, and elevated consumer confidence. This momentum will likely carry the economy while the new Administration unveils policy proposals and these get negotiated in congress for approval. With inflation well behaved and the Fed likely on hold, the economy can continue to expand at a healthy pace. PROBABILITY 65%

2. A second scenario has the economy slowing to a rate of 0.0% to 1.0% at an annual rate during the next six months. In this scenario, the Fed's rate cut pause has a more chilling effect on the economy than its policy had in 2024. This happens in large part due to higher long-term rates that have a dampening impact on housing and investment. In this scenario, the administration faces difficulty getting key policies approved in congress and there is no additional fiscal stimulus. Also, activity overseas fails to lift off giving limited support to the global economy. PROBABILITY 15%

3. A third scenario has the economy expanding at a stronger pace of 2.5% to 3.0% at an annual rate during the next six months. In this scenario, the economy's momentum is boosted by productivity enhancing investments and more buoyant personal consumption. Despite the Fed's pause, the administration's growth-oriented policies encourage long-term investments across various industries. The unemployment rate remains low and rising wages enable consumers to spend. Even though interest rates remain elevated, consumers and businesses

can withstand the higher financing costs. Furthermore, China and Europe achieve better growth which helps boost the global economy. PROBABILITY 20%

Market Outlook

Credit spreads narrowed further during the quarter reflecting sturdy creditworthiness and supportive investor demand. At current levels, they remain tight relative to history. We believe the economic outlook continues to warrant exposure to credit sectors, although it remains prudent to cull the riskiest names and participate judiciously in the new issue calendar. The rise in interest rates will likely encourage investors to lift their fixed income allocations. Given this, GIA believes the portfolio should remain exposed to credit markets to take advantage of the income benefit from higher rates.

Consistent with our outlook, the portfolios hold exposures to high yield and emerging markets, although tilted toward higher quality. In investment grade we are near market weight with a preference for BBB rated securities. Also, we continue to raise our exposure to mortgage-backed securities focusing on the higher coupon stacks. The new issue market still offers opportunities to upgrade our credit exposure and improve yield without conceding creditworthiness. All in, given the outlook for the economy and the central bank's inclination to move toward a neutral policy stance, it makes sense to earn healthy yields while avoiding the riskiest borrowers.

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Important Information

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Management Fees, as well as account minimums and other important information are described in GIA's Form ADV - Part IIA. Since management fees are deducted quarterly, the compounding effect will be to increase the impact of such fees by an amount directly related to the account's performance. For example, an account with a 10% gross annual return and a 1% annualized management fee that is deducted quarterly will have a net annual return of about 8.9%.

Index Definitions

Bloomberg U.S. Aggregate Index
The Bloomberg U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

Bloomberg U.S. Treasury Index
This index is the U.S. Treasury component of the U.S. Government index. Public obligations of the U.S. Treasury with a remaining maturity of one year or more.

Bloomberg U.S. Government/Credit Index
The Government/Credit Index includes securities in the Government and Credit Indices. The Government Index includes treasuries and agencies. The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

Bloomberg U.S. Corporate Index
This index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers. (Future Ticker: I02765US)

Bloomberg U.S. Mortgage-Backed Securities Index
This index is the U.S. MBS component of the U.S. Aggregate index. The MBS Index covers the mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

ICE BofA U.S. Corporate & Yankees Index
The ICE BofA U.S. Corporate & Yankees Index tracks the performance of US dollar denominated investment grade debt publicly issued in the US domestic market by US and non-US corporations and non-US quasi-governments.

ICE BofA U.S. Corporate Index
The ICE BofA U.S. Corporate Index tracks the performance of US dollar denominated investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch) and an investment grade rated country of risk (based on an average of Moody's, S&P and Fitch foreign currency long term sovereign debt ratings).

ICE BofA U.S. High Yield Index
The ICE BofA U.S. High Yield Index tracks the performance of below investment grade US dollar-denominated corporate bonds publicly issued in the US domestic market.

ICE BofA Global High Yield Constrained Index
ICE BofA Global High Yield Index tracks the performance of USD, CAD, GBP and EUR denominated below investment grade corporate debt publicly issued in the major domestic or eurobond markets and issuer exposure is capped at 2%..

ICE BofA US Emerging Markets Corporate Plus Index (EMUB)
The ICE BofA US Emerging Markets Corporate Plus Index is a subset of The ICE BofA Emerging Markets Corporate Plus Index including all securities denominated in US dollars.

ICE BofA Global Government Excluding the U.S. Index (N0G1)
The ICE BofA Global Government Excluding the U.S. Index tracks the performance of publicly issued investment grade sovereign debt denominated in the issuer's own domestic currency. N0G1 excludes U.S. government bonds.

Emerging Markets Bond Index Global Diversified (EMBI® Global Diversified):
The EMBI Global Diversified is a uniquely-weighted version of the EMBI Global. It limits the weights of those index countries with larger debt stocks by only including specified portions of these countries' eligible current face amounts of debt outstanding. The countries covered in the EMBI Global Diversified are identical to those covered by the EMBI Global.

JP Morgan Corporate Emerging Markets Bond Index Broad Diversified (CEMBI Broad Diversified)
The CEMBI tracks total returns of US dollar-denominated debt instruments issued by corporate entities in Emerging Markets countries. Two variations are available: CEMBI Broad and CEMBI. The CEMBI Broad is the most comprehensive corporate benchmark followed by the CEMBI, which consists of an investable universe of corporate bonds. The CEMBI Broad Diversified limits the weights of those index countries with larger corporate debt stocks by only including a specified portion of these countries' eligible current face amounts of debt outstanding.

JP Morgan Government Bond Index-Emerging Markets (GBI-EM)
The GBI-EM is the first comprehensive, global local Emerging Markets index, and consists of regularly traded, liquid fixed-rate, domestic currency government bonds to which international investors can gain exposure. Variations of the index are available to allow investors to select the most appropriate benchmark for their objectives.

S&P 500 Index
An index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

Nasdaq Composite Index
An index that tracks the change in the total market value of all companies listed on the Nasdaq Stock Market.

Russell 2000 Index
An index measuring the performance of the 2,000 smallest companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks. The Russell 2000 serves as a benchmark for small cap stocks in the United States.

MSCI EAFE Index
The index is a capitalization weighted index that monitors the performance of stocks from Europe, Australasia and the Far East.

MSCI Europe Index
The index is a free-float weighted equity index measuring the performance of Europe Developed Markets.

MSCI Japan Index
The index is a free-float weighted equity JPY index.

MSCI Emerging Markets Equity

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.