2025 ECONOMIC & MARKET OUTLOOK

New Year, New Policies, Same Economic Expansion

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Executive Summary

- The bull market of 2024 defied widespread recession expectations, with equities reaching new highs and most major asset classes posting positive returns.
- Productivity gains, easing credit conditions and potential policy support should help sustain the late-stage expansion in 2025.
- Investors should avoid complacency in a late-stage expansion, recognizing there are still a handful of risks from inflation to consumer debt and geopolitics.
- The incoming administration brings with it a host of potential policy changes aimed at supporting the economy and businesses overall, though some, such as tariffs, pose risks.
- Premium valuations and a late-stage expansion justify neutral risk positioning as well as active rebalancing and diversification into other opportunities such as small caps.

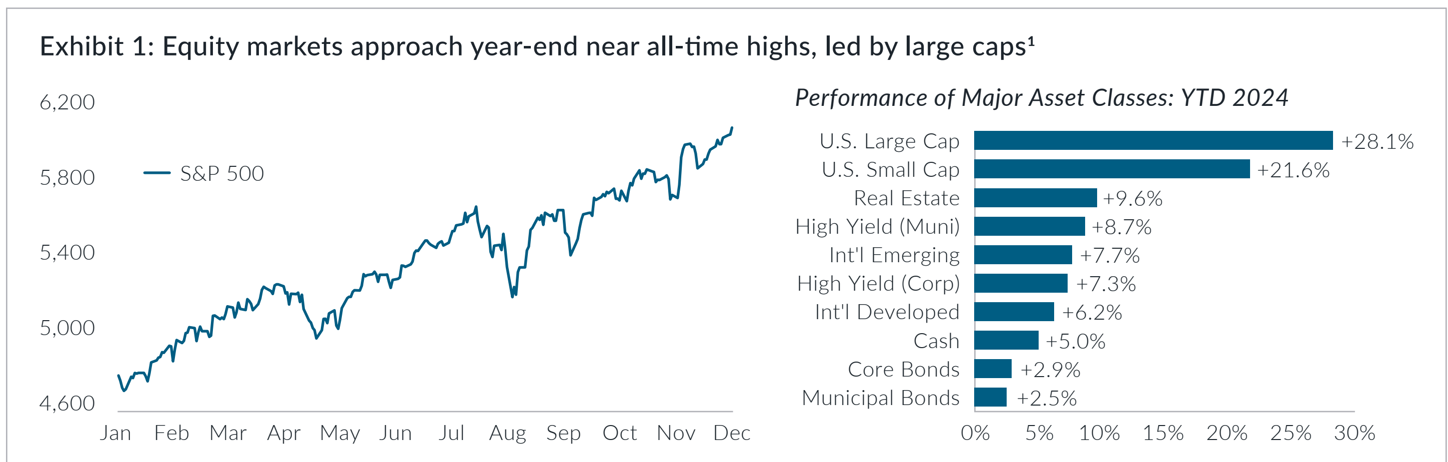
2024: A Resilient Economy and Markets

"Let the good times roll." – *The Cars*

By many counts, the story of 2024 was of a bull market that beat the odds. In Blue Chip Economics' December 2023 survey of economists, 47% expected recession in the U.S. over the proceeding 12 months. Reality was much sunnier than those dour predictions, as that much-feared recession failed to appear. The economy and markets held up reasonably well throughout the year, bucking those pessimistic outlooks.

Equity markets continued to plot new all-time highs into year-end. From its mid-2022 lows, the S&P 500's ongoing bull market celebrated its second birthday in the second half of 2024 by eclipsing the 6,000 mark for the first time in its history (Exhibit 1). While there were some modest corrections along the way, investors might be hard pressed to find examples of a more resilient market than seen in 2024. In fact, most major asset classes posted positive total returns over the last year, led by domestic equity markets. Even core bonds bounced back despite a volatile year for interest rates.

Exhibit 1: Equity markets approach year-end near all-time highs, led by large caps[1]



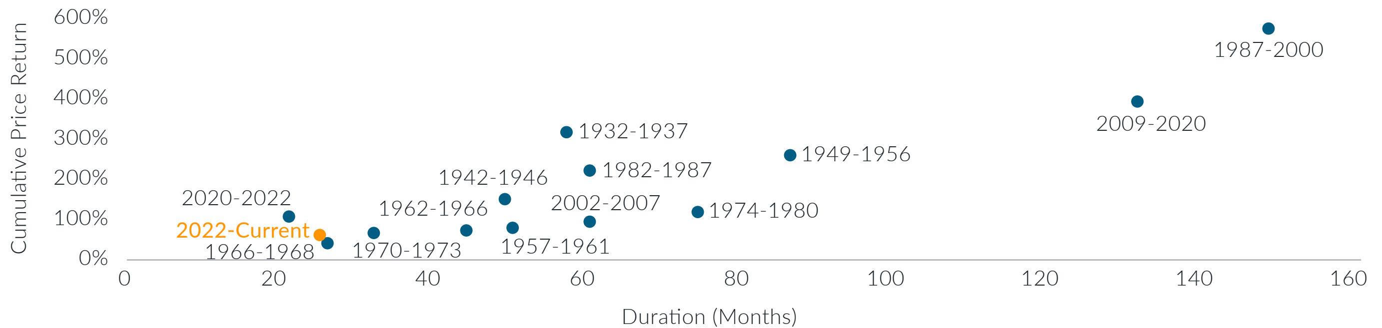
Source: Glenmede, FactSet Data as of 12/4/2024

What are the prospects for a two-year-old bull market heading into 2025? Should investors be bracing for the terrible twos? Or will this bull market, like a fine wine, only get better with age? At a simple level, history suggests that time itself is not the enemy of a bull market, in this case defined as a continuous period without a 20%+ drawdown in the S&P 500. While the current boom from 2022 to present has seemed quite extraordinary, it has actually been the second shortest, with the second smallest cumulative gains since 1928 (Exhibit 2).

[1] Shown in the left panel is the S&P 500, which is a market capitalization weighted index of U.S. large cap stocks. Shown in the right panel are year-to-date 2024 total returns for various asset classes represented by the following indices: U.S. Large Cap (S&P 500), U.S. Small Cap (Russell 2000), Int'l Developed (MSCI EAFE), Int'l Emerging (MSCI EM), Real Estate (FTSE EPRA/NAREIT Developed), Core Bonds (Bloomberg U.S. Aggregate), Municipal Bonds (Bloomberg Municipal), High Yield (Corp) (Bloomberg U.S. High Yield Ba to B), High Yield (Muni) (Bloomberg Municipal High Yield), Cash (FTSE 3-Month Treasury Bills). Past performance may not be indicative of future results. One cannot invest directly in an index.

Exhibit 2: The bull market has been relatively modest in duration/scale[2]

S&P 500 Historical Bull Markets (1928 - Present)



Source: Glenmede, FactSet Data as of 11/30/2024

Time itself is not lethal for bull markets. There is no ticking timer or doomsday clock that spells the fate of upswings. Of course, each bull market has intra-cycle volatility with periodic corrections. Yet years of financial market analysis are consistent with the old market adage that bull markets do not die of old age — there tend to be events or exogenous shocks that precipitate a repricing of risk assets. As a result, investors should maintain an investment process rooted firmly in the economic fundamentals, casting eyes on the horizon for clues as to where conditions may be heading.

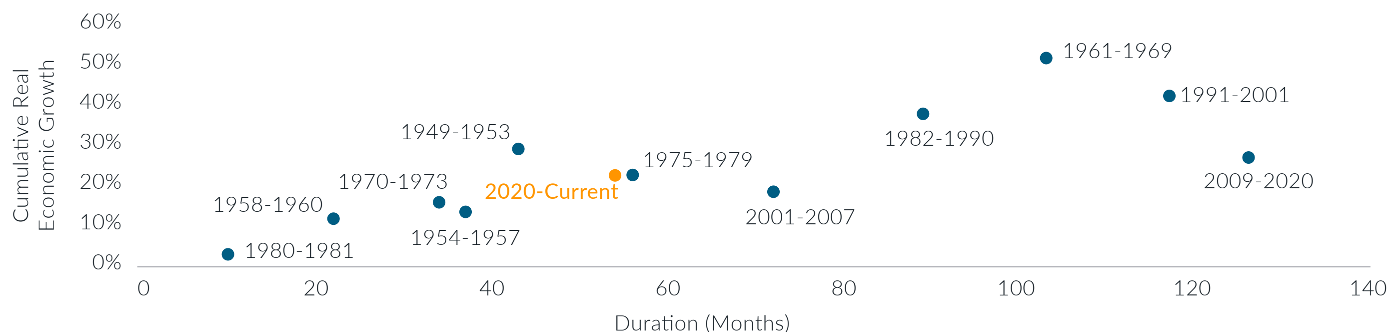
New Year, Same Economic Expansion

"Don't stop thinking about tomorrow, don't stop, it'll soon be here." – *Fleetwood Mac*

The U.S. economy remains on solid footing heading into 2025. Almost five years after the end of the COVID-19 recession, the current expansion appears more mature than the bull market in equities (Exhibit 3). In fact, the expansion appears to be notably more robust than the other two expansions since the turn of the millennium. Part of that growth has been from a low base, given the unusually steep (albeit short-lived) decline in real gross domestic product (GDP) around the pandemic. Still, that rapid growth has been a contributing factor to this expansion's transition to the late stage.

Exhibit 3: Approaching its fifth year, the economic expansion is more mature than the bull market in equities[3]

Historical U.S. Economic Expansions (1949 - Present)



Source: Glenmede, FactSet Data as of 9/30/2024

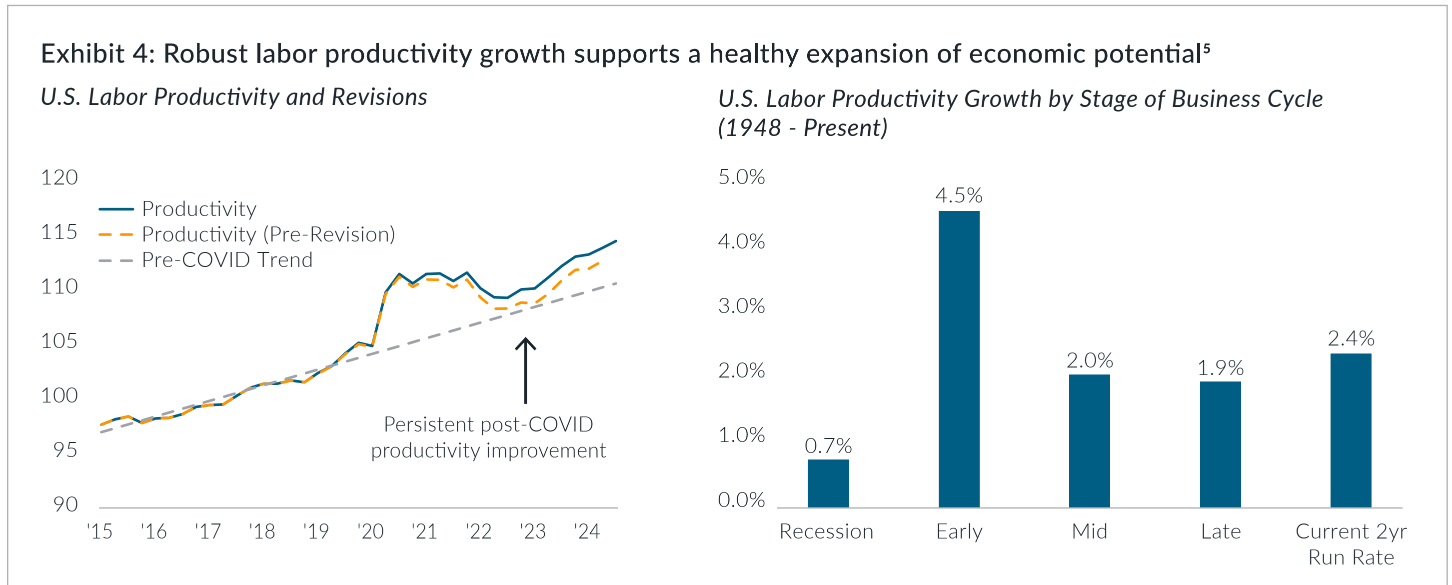
[2] Each dot shown represents a bull market for the S&P 500 since 1928, as defined by a continuous stretch of time without a 20%+ decline. Dots are graphed along the x-axis according to their duration in months and along the y-axis according to their cumulative price return. The S&P 500 is a market capitalization weighted index of U.S. large cap stocks. Past performance may not be indicative of future results. One cannot invest directly in an index.

[3] Each dot shown represents an economic expansion in the U.S. Dots are graphed along the x-axis according to their duration in months and along the y-axis according to their cumulative real economic growth. Cumulative real economic growth is measured by the total increase in a country's inflation-adjusted output of goods and services (real GDP). Past performance may not be indicative of future results.

In more ways than one, the U.S. economy is showing classic signs of a late-stage expansion. The level of GDP currently exceeds its potential,[4] labor markets are tight, inflation remains above the Federal Reserve's target and monetary policy is on a tight (but loosening) footing. A late-stage expansion does not necessarily mean that recession is just around the corner. What it does mean is that investors must be extra cautious, proactively searching for economic excesses or turns in the fundamentals that may imperil the ongoing expansion.

There are several tailwinds that could help extend this cycle into the new year. For example, productivity growth has been running at an unusually brisk pace for a late-stage expansion (Exhibit 4). This may be a promising sign of payoff from artificial intelligence initiatives and other digital technology investments. In addition, there are credible arguments that remote work arrangements are a productivity tailwind. What are the odds that the most productive use of a worker's labor sits within a commutable distance of their home? Rather than being confined to employment opportunities within driving or train distance, work-from-home benefits should lead to better placement of workers in roles that maximize their potential.

Exhibit 4: Robust labor productivity growth supports a healthy expansion of economic potential[5]



Source: Glenmede, FactSet, Piper Sandler, Bureau of Labor Statistics — Data as of 9/30/2024

Another tailwind may be the dissipating overhang from election uncertainty. This is more than the sigh of relief from Americans knowing it will be some time before they get bombarded with election advertisements again. Small business owners reported the greatest uncertainty in the history of the National Federation of Independent Business's survey ahead of the election. Uncertainty of that magnitude has consequences on economic activity, as it appears many businesses balked at new hiring and capital expenditure plans until there was more certainty on the state of government policy. That overhang from the election may no longer hold back smaller firms from expanding in the new year. This is important because small businesses employ almost half of the American workforce and represent more than 40% of U.S. GDP.

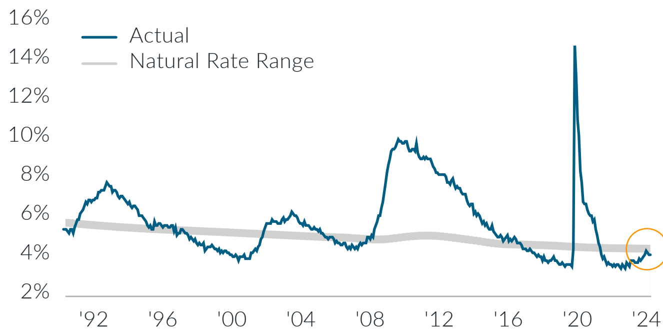
As always, the Fed will be a key player influencing the economy in 2025. The central bank has a dual mandate, to seek maximum employment and price stability. Over the past few years, the Fed has been laser focused on the price stability half of that mandate, but now that inflation has moderated from its 2022 highs, the Fed is likely to take a much more balanced approach to its goals. In practice, this means a sharper focus on the state of the labor market while keeping an eye on inflation (Exhibit 5).

[4] Potential GDP is the theoretical level of GDP an economy can sustainably produce when operating at full capacity, without causing inflationary pressure, as measured by the Congressional Budget Office.

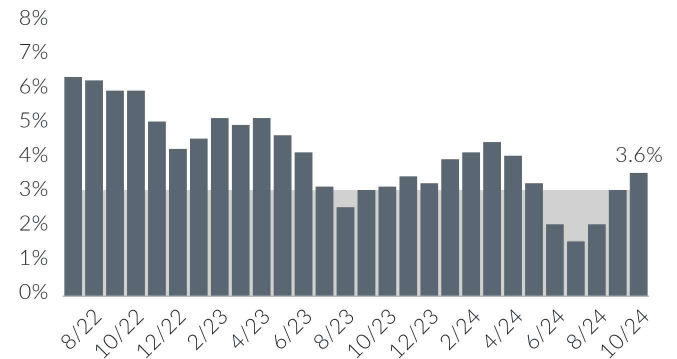
[5] Shown in the left panel is U.S. non farm labor productivity, measured as output per hour for all U.S. persons employed by non farm businesses. Both final and pre revision labor productivity figures are shown compared to the pre-COVID trendline based on 2015-2019 data. Shown in the right panel are average annualized growth rates in U.S. nonfarm productivity by stages of the business cycle. The stages of the business cycle are based on several factors including GDP gap, which is the difference between a country's actual GDP and its potential GDP. Potential GDP is the theoretical level of GDP an economy can sustainably produce when operating at full capacity, without causing inflationary pressure, as measured by the Congressional Budget Office.. Past performance may not be indicative of future results.

Exhibit 5: The Fed is likely to take a more balanced approach to its dual mandate[6]

U.S. Unemployment Rate vs. Natural Rate



Core CPI (ex. Food & Energy), 3M Annualized % Change



Source: Glenmede, FactSet, Bureau of Labor Statistics, Congressional Budget Office — Data as of 10/31/2024

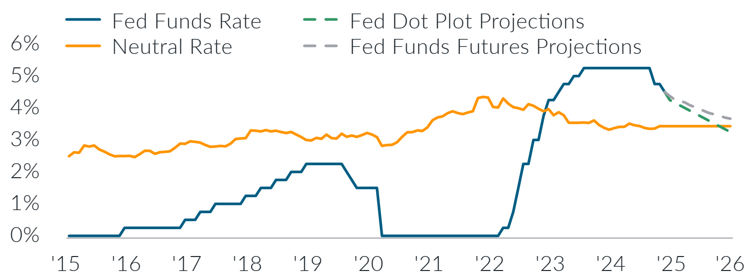
There is a fine line between labor market normalization and deterioration. For much of the post-pandemic period, the unemployment rate has sat below its natural rate, which is an estimate of the baseline level of joblessness that persists in a well-functioning economy due to frictional and structural factors. Over the last year or so, the labor market has come into much better balance, with the unemployment rate now within the neighborhood of its natural rate. So far, this has looked like a normalization process, but investors and the Fed alike are watching closely for signals that the process could degenerate into deterioration.

Inflation has made considerable progress falling from its mid-2022 highs. For most of 2024, the core CPI has sat within 0–3% on a 3-month annualized basis, a range in which the Fed is most likely to find comfort. However, inflation has been drifting a bit higher lately, particularly driven by sticky services prices. Full employment and price stability are separate and distinct goals, but there are linkages between the two. For example, a tight labor market puts pressure on wages, which in turn is an input cost for many goods and services that make up the Consumer Price Index. A labor market in better balance may alleviate wage pressures that have been contributing to services inflation, but that trend must continue to play out before fully alleviating fears of a brewing second inflation wave.

With both sides of the dual mandate reasonably balanced, the Fed is likely to continue the process of normalizing interest rates into the new year. After a couple of rate cuts in 2024, the Fed has quickly cut rates more than halfway from its recent peak to neutral (Exhibit 6). However, there are good reasons to suspect that the Fed will slow-walk further cuts as it feels its way to a neutral setting. For one, the Fed is likely to remain highly attentive to unfolding economic data, as it wants to make sure an aggressive rate cut campaign does not sow

Exhibit 6: The Fed has started cutting rates, but expect it to slow-walk further cuts as it feels its way to a neutral setting[7]

Fed Funds vs. Neutral with Projections



Source: Glenmede, FactSet — Data as of 11/30/2024

[6] Shown in the left panel is the U.S. unemployment rate for persons ages 16 years and over on a seasonally adjusted basis in blue and a range estimate provided by the Congressional Budget Office with a Glenmede-defined buffer of the natural rate of unemployment in gray, which is the baseline level of joblessness that persists in a well-functioning economy due to frictional and structural factors. Shown in the right panel is the 3-month annualized percent change in the U.S. CPI excluding food and energy. CPI measures the price of a basket of goods & services consumed by U.S. households. The gray region represents the Fed's target range consistent with its longer-term price stability objective.

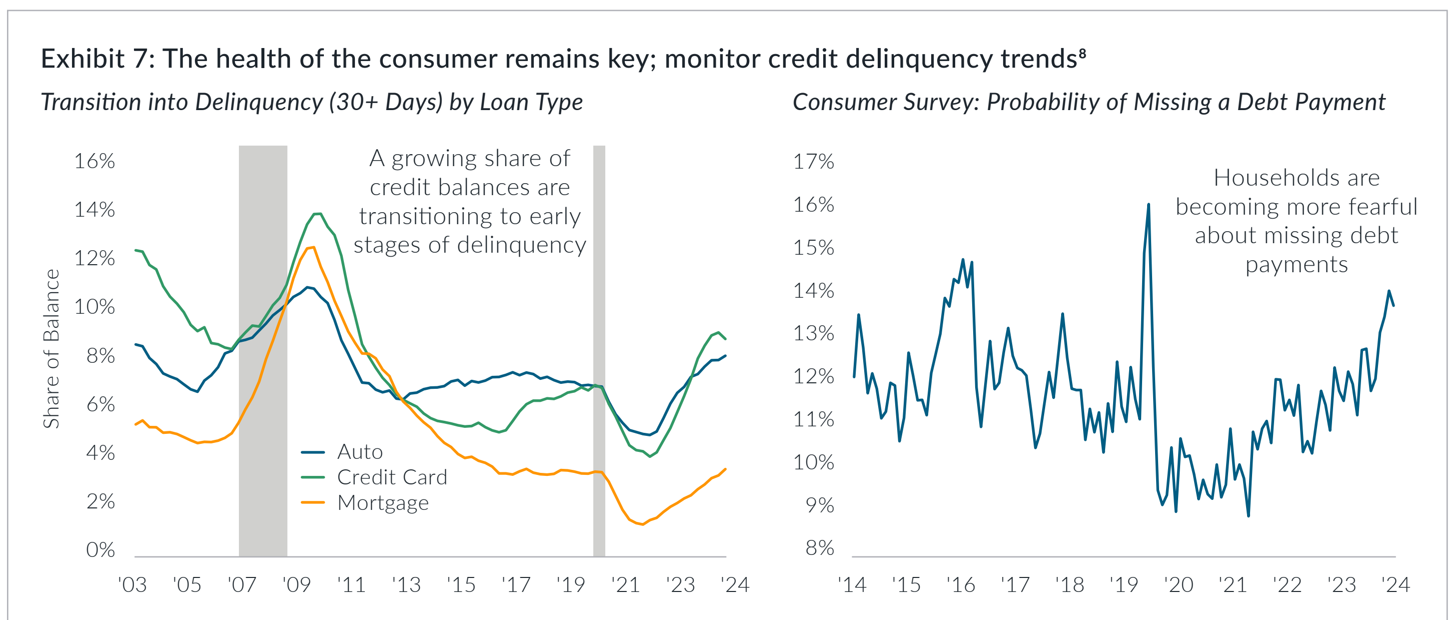
[7] Data shown in orange are Glenmede's estimates of the neutral federal funds rate over time (i.e., the level of rates that is neither economically stimulative nor restrictive) based on expectations for real interest rates via the Holston-Laubach-Williams model and Glenmede's 10 year inflation expectations. Fed Funds Rate in blue is the target rate midpoint. The dashed green line represents projections based on the median response in the Federal Open Market Committee's latest dot plot survey. The dashed gray line represents projections based on fed funds futures as of the latest date shown. Actual results may differ materially from projections.

the seeds for a second wave of inflation. Additionally, the neutral rate is notoriously difficult to pin down. Glenmede has constructed an estimate of neutral, but the idea itself is an abstract concept. Neutral is difficult, if not outright impossible, to measure with precise confidence. Fed Chair Jerome Powell likes to say that we ultimately know neutral by its works. It's like recognizing a well-tuned engine by how smoothly it runs — we see the effects rather than the exact setting. As the Fed approaches the area it thinks neutral lies, it is likely to slow down the pace of cuts so it can monitor the health of the economy more closely as the effects of more accommodative policy flow through.

Lower rates should lead to a virtuous cycle in credit that can help extend the late-stage expansion. Lending standards for commercial and industrial loans have already begun to ease, which tends to be a leading indicator for loan growth. Greater availability of credit can provide businesses the capital they need to expand, create jobs and drive overall economic growth.

Altogether, the prevailing crosscurrents heading into the new year should be conducive to continued economic expansion in 2025. However, this is not an environment without risks. Chief among them is the state of the consumer, without whom the wheels of growth would cease to turn. While households continue to spend at a healthy clip, pockets of stress are appearing. A growing share of consumer loans are transitioning to early-stage delinquency, and households are becoming more fearful about missing debt payments (Exhibit 7). Those trends appear relatively contained for now but bear monitoring in the new year.

Exhibit 7: The health of the consumer remains key; monitor credit delinquency trends[8]



Source: Glenmede, Federal Reserve Bank of New York, Equifax — Data as of 10/31/2024

Another risk to watch is inflation. The rapid acceleration in prices over the past few years, metaphorically speaking, was like an economic earthquake. Like geological earthquakes, inflation spikes have historically come with aftershocks that gain steam in the years following an initial shock. Inflation spikes do not have to follow the same pattern, but investors must be wary of prematurely claiming victory. Caution is particularly warranted now given the threat of conflict escalation in the Middle East, which could jeopardize regional energy production and lead to higher prices at the pump.

[8] Shown in the left panel are four quarter rolling sums of the percent of outstanding balance for U.S. auto loans (in blue), credit card debt (in green) and mortgage debt (in orange) that have transitioned into delinquency after 30 or more days of nonpayment. Gray bars represent recession periods in the U.S. Shown in the right panel is the average response from the Federal Reserve Bank of New York's Consumer Delinquency Expectations Survey in which consumer respondents estimated the probability they will miss a minimum debt payment over the next three months.

New Year, New Policies

"Meet the new boss, same as the old boss." – *The Who*

With the 2024 election now in the rearview mirror, 2025 may bring some key policy changes. The result of the election itself brought policy clarity directionally, but it did not bring certainty. What we do know is that the Republicans swept the White House, Senate and House of Representatives, but small majorities in Congress will likely be a constraint. The GOP fell well short of the 60-vote threshold needed to end a filibuster, which may place limits on some of President-elect Trump's more ambitious policy proposals.

Several policy shifts proposed on the campaign trail may have either direct or indirect effects for the economy (Exhibit 8). Those policies range from most likely to possible given slim margins for error to push through legislative change. The likely policy shifts add up to a modest net positive for the economy, but there are pieces of the possible scenarios that could be notable headwinds.

Exhibit 8: A number of likely policy shifts aggregate to a modest net positive, but among the "possible" are some risks[9]

Trump Administration Policy Scenarios

	Most Likely	Impact	Possible	Impact
Taxes (Individual)	Full extension of TCJA (no change)	Tax headwind averted	Tips/overtime exemptions, Raising SALT Limit	Up to additional ~ 0.2% GDP tailwind
Taxes (Corporate)	Full extension of TCJA (R&D expensing)	~ 0.2% GDP tailwind	15% corporate tax rate	Up to additional ~ 0.4% GDP tailwind
Other Fiscal	SNAP, student loan program cuts	~ 0.2% GDP headwind	Range of program cuts and/ or additions	+/- 0.2% of GDP
Trade	60% China tariffs, 25% Canada/Mexico tariffs	Up to 0.8% GDP headwind	10% universal tariffs	Up to additional 0.7% GDP headwind
Immigration	Immigration restrictions	Up to 0.5% GDP headwind	Deportations Immigration reform	Up to 0.3% GDP headwind
Energy	All-in support of U.S. energy production	Upside for traditional energy	N/A	N/A
Regulation	Freeze new regulations	~ 1.0% GDP tailwind	N/A	N/A
Net Impact	~ 0.3% tailwind to GDP (+$3.5 Trillion to Deficit)		Incremental -1.2% to +0.8% to GDP	

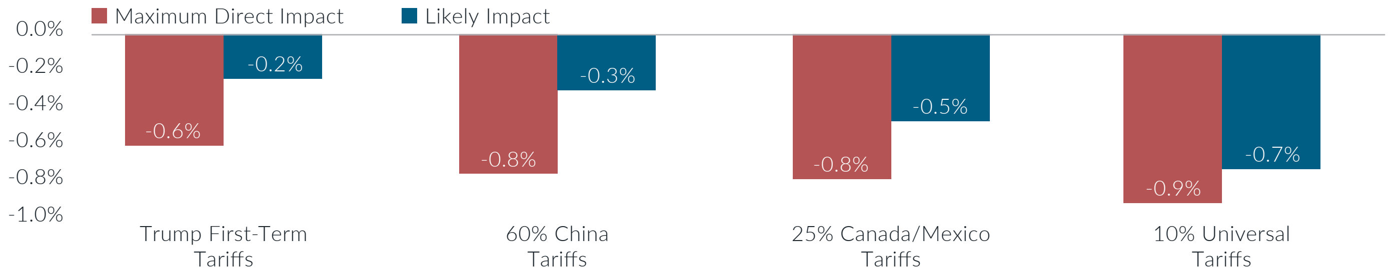
Source: Glenmede, Piper Sandler
Data as of 11/30/2024

Chief among those risks are tariffs, as investors have already begun considering the impact of a more mercantilist approach to trade. Trump has proposed several flavors of import duties: 60% tariffs on Chinese imports, 10% universal tariffs on all imports and most recently 25% tariffs on Canada and Mexico. If the tariffs are taken at face value, they could prove to be a notable headwind to economic growth (Exhibit 9). The maximum direct impact of the three proposed tariffs, assuming direct demand destruction via a one-time, tariff-induced shock, would be a roughly 2.5% headwind to real GDP growth. However, the reality is that tariffs do not often have a one-for-one impact to economic growth, as some factors such as reconfigured supply chains and substitution effects could offset them to a more probable impact of around 1.5%.

[9] This information provides a general overview of the most likely Trump administration policy platforms and is not exhaustive. TCJA refers to the Tax Cuts and Jobs Act of 2017. The Impact reflects Glenmede's expectations for potential outcomes measured in impact to GDP growth, ranging from the most likely scenario to possible outcomes that include additional policy changes. State and Local Tax (SALT) Limit. Actual policies implemented and their resulting impacts may differ materially from expectations.

Exhibit 9: Trump has proposed meaningful tariffs, though firms may adjust accordingly to offset some of the impact[10]

Estimated Tariffs as a % of GDP



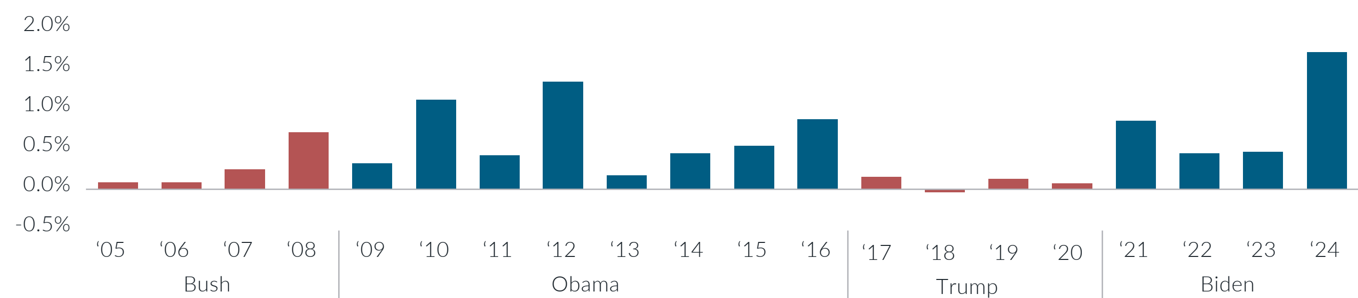
Source: Glenmede, U.S. Census Bureau | Data as of 11/30/2024

How much leeway would Trump have to unilaterally impose tariffs? The U.S. Constitution is pretty clear on the subject: Article I, Section 8 of the U.S. Constitution states that "Congress shall have power to lay and collect taxes, duties, imposts and excises." However, there are exceptions to the rule, as Congress has delegated some of this authority to the president in matters related to national security and combatting unfair trade practices. Those exceptions could be used as justification for the tariffs that target individual companies, but it may be difficult to rationalize using that authority on universal tariffs. There are also open questions whether these tariffs are means to an end in broader negotiations or ends in and of themselves. What becomes implemented may differ materially from proposals. Nevertheless, it is important for investors to be prepared for all possibilities.

On the contrary, there are policy priorities that such as regulatory reprieve may counteract these headwinds. The regulatory policy of Trump's first term in office was one of the least burdensome in recent memory, as measured by its total cost as a percentage of GDP (Exhibit 10). There have been some perhaps hyperbolic claims that the recently announced Department of Government Efficiency can save multiple trillions of dollars in government spending. Even if those estimates prove unrealistic, a slower pace of new government rules (or outright repeal of some rules) could save businesses meaningful amounts of paperwork hours and allow them to focus on their core value-add responsibilities.

Exhibit 10: The next administration is likely to return to a more business-friendly regulatory approach[11]

Total Cost of Regulations as % of GDP



Source: Glenmede, Piper Sandler, American Action Forum | Data as of 11/15/2024

[10] Estimated tariffs reflect the tariff rate applied fully to all associated imports and are shown as a percent of GDP. The maximum direct economic impact of proposed tariffs assumes full demand destruction via a tariff-induced price shock and that tariffs are implemented fully and in isolation, with no changes to the sourcing of the imports, no other offsetting policies and no retaliatory tariffs. Likely impact accounts for offsetting factors such as reconfigured supply chains and substitution effects. Actual results may differ materially from expectations or projections.

[11] Data shown represent the estimated cost of new regulations as a % of GDP by year and grouped by presidential administration. American Action Forum is an independent, non profit organization and is not formally affiliated with or controlled by any political group, but may not be a completely unbiased source as it was established to promote "center-right" economic and fiscal policy. The use of its data should in no way be construed as an endorsement of the group's political leaning, policy preferences or accuracy of estimates.

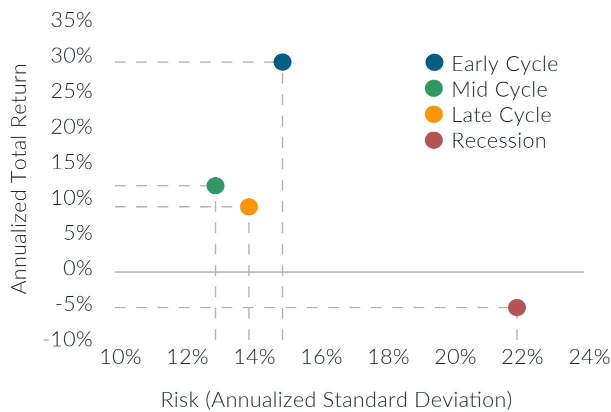
2025 Investment Playbook

"Don't look back, a new day is breakin'." – *Boston*

What might 2025 have in store for markets? For one, investors should temper their return expectations during late-stage expansions (Exhibit 11). The S&P 500 has historically delivered 9% returns during late cycle. That may not be as robust as in early (30%) and mid cycle (12%), but strong enough to warrant a full weight to risk assets. Yet investors should avoid complacency and remain watchful for excesses due to higher recession risks in a late-stage expansion.

Exhibit 11: Investors should temper their return expectations during late-stage expansions and be watchful for excesses[12]

S&P 500: Risk/Reward by Stage of Economic Cycle



U.S. Economy: Stages of the Cycle & Key Statistics

	Early Cycle	Mid Cycle	Late Cycle	Recession
Percent of Time	7%	57%	24%	12%
Average Length (Range in Months)	6.3 (1-16)	19.9 (1-83)	12.3 (1-28)	10.1 (2-18)
Frequency of Recession (Next 12 Month)	10%	6%	35%	-

Source: Glenmede, FactSet — Data as of 11/30/2024

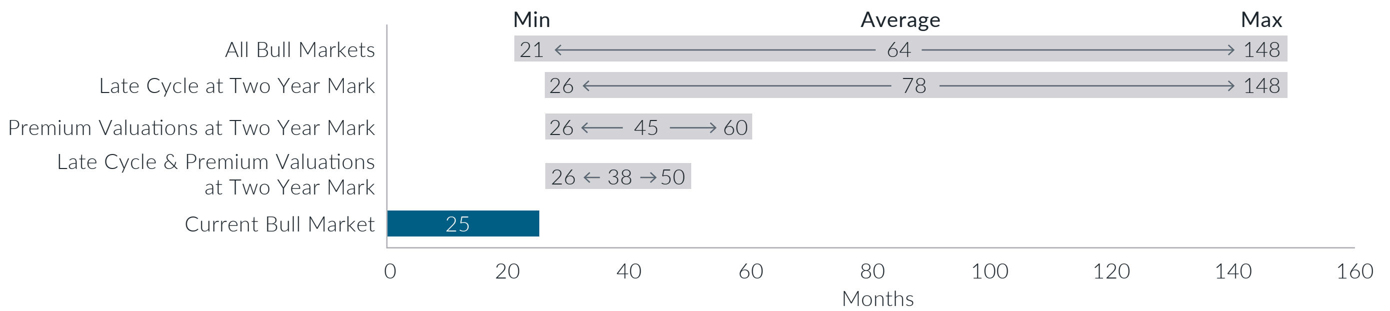
Another dimension investors must consider is valuations, as the price one pays for an investment is a key determinant of returns over the long run. Domestic large cap equities appear expensive heading into the new year, currently at the 86th percentile of longer-term fair value based on various metrics, including normalized earnings, cash flows, dividend yield and book value.

This backdrop begs a larger question: Does a late-cycle bull market with premium valuations have further room to run? History says yes (Exhibit 12). The average bull market in the S&P 500 since 1928 has lasted 64 months, with upswings ranging from 21 to 148 months. The subset of those bull markets that were both late cycle and had premium valuations at the two-year mark lasted on average 38 months, with a 26 to 50 month range. The current bull market is 25 months old, suggesting that this need not be a fatal combination for equities. However, that combination does justify a neutral overall risk posture given the relatively balanced implications for risk assets.

[12] Shown in the left panel are annualized total returns (y-axis) and annualized standard deviations of total returns (x-axis) for the S&P 500 during the various stages of the economic cycle since 1962. The stages of the economic cycle are defined as the following: Recession refers to periods of economic downturn, Early Cycle to rebounds from recessions, Mid Cycle to ongoing growth up to the economy's potential and Late Cycle to periods where the economy is operating at or above potential. The table shown in the right panel shows key statistics around the stages of the business cycle in the U.S. since 1962 based on a Glenmede analysis of typical economic behavior from a handful of leading and excess indicators. The S&P 500 is a market capitalization weighted index of large cap stocks in the U.S. Past performance may not be indicative of future results. One cannot invest directly in an index.

Exhibit 12: Does a late-cycle bull market with premium valuations have further room to run? History says yes[13]

S&P 500 Duration of Bull Markets (1928 - Present)

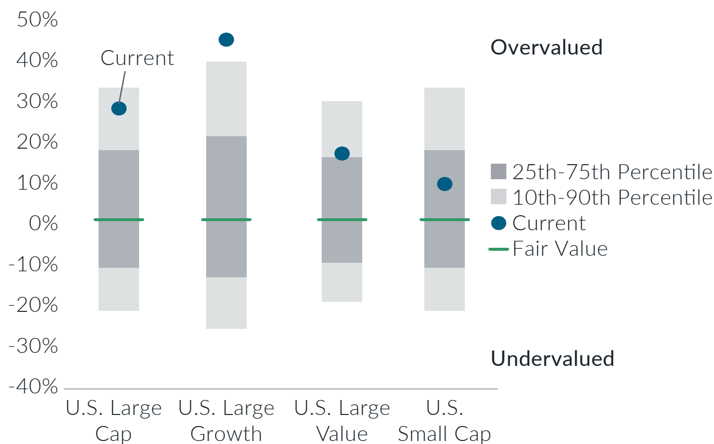


Source: Glenmede, FactSet | Data as of 11/30/2024

Not all classes of equities should be painted with the same broad brushstrokes, as there are meaningful dispersions in opportunities beneath the surface (Exhibit 13). While U.S. large cap appears to command premium valuations, that is mostly driven by growth stocks which sit at the 93rd percentile, significantly extended compared to their value counterparts at the 76th percentile. Better still are valuations for U.S. small cap at the 64th percentile. Cheaper valuations combined with better earnings growth expectations in 2025 underpin a thesis that argues for tilting portfolios in favor of small cap equities.

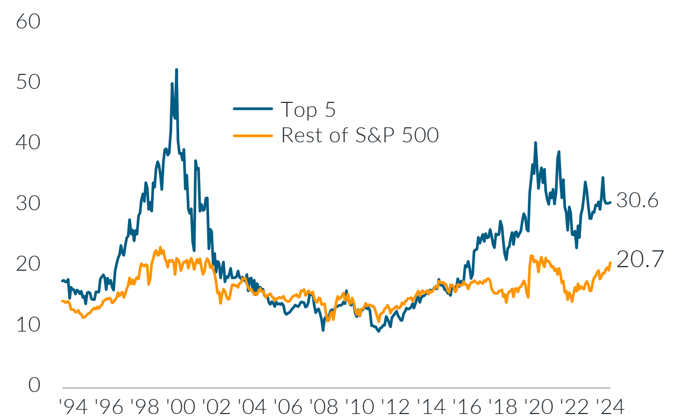
Exhibit 13: Extended valuations appear quite concentrated[14]

Long-Term Normal Valuation & Ranges



Source: Glenmede, MSCI, FactSet
Data as of 11/30/2024

5 Largest Names by Market Cap: Price/Earnings (NTM) vs. Rest of S&P 500



Source: Glenmede, FactSet, Compustat Snapshot
Data as of 11/30/2024

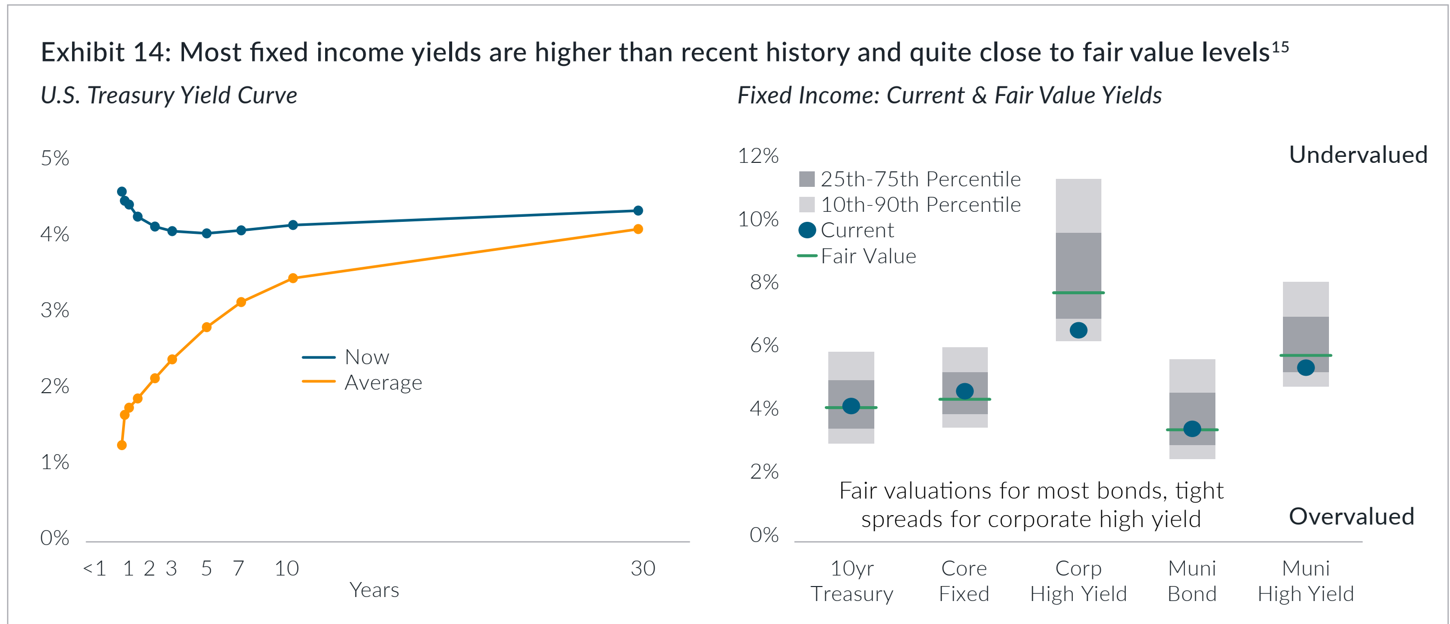
[13] Data shown are statistics for the duration of various bull markets in U.S. large cap equities, as represented by the S&P 500. All Bull Markets includes every bull market since 1928. Late Cycle at Two-Year Mark refers only to bull markets that were in the late stage of a U.S. economic expansion two years in. Premium Valuations at Two-Year Mark refers only to bull markets in which U.S. large cap equities had premium valuations two years in. Late Cycle & Premium Valuations at Two-Year Mark refers only to bull markets that are included in both prior criteria. Current Bull Market refers to the ongoing bull market which began in 2022. The S&P 500 is a market capitalization weighted index of large cap stocks in the U.S. Past performance may not be indicative of future results. One cannot invest directly in an index.

[14] Data shown in the left panel are Glenmede's estimates of long-term fair value for U.S. Large Cap (MSCI USA), U.S. Large Cap Growth (MSCI USA Growth), U.S. Large Cap Value (MSCI USA Value) and U.S. Small Cap (MSCI USA Small Cap) based on normalized earnings, normalized cash flows, dividend yield and book value of each index. Data on the right in blue illustrate the cumulative next-12-month (NTM) price-to-earnings ratios for the top 5 stocks in the S&P 500 by market capitalization vs. the rest of the index in orange. The S&P 500 is a market capitalization weighted index of U.S. large cap stocks. Past performance may not be indicative of future results. Glenmede's estimates of fair value are arrived at in good faith, but longer-term targets for valuation may be uncertain. One cannot invest directly in an index.

In bond markets, the U.S. Treasury yield curve remains inverted, but that may not be the case for much longer. The short-end of the curve is expected to drift lower as the Fed continues to cut rates into the new year. Investors should expect the shape of the yield curve to more closely resemble the upward slope of long-term averages next year.

Most major fixed income markets are priced quite close to fair value levels, though corporate high yield remains a notable exception due to historically tight credit spreads (Exhibit 14). When investors are not sufficiently compensated for taking higher credit risk, it can often lead to an asymmetric future return profile. The best case scenario is one in which investors pick up a small amount of extra yield, while the worst case is a repricing of those spreads that leads to larger losses. That lopsided payoff profile justifies an underweight to corporate high yield. Importantly, a distinction must be made between corporate and municipal high yield since the latter is much more fairly priced in comparison.

Exhibit 14: Most fixed income yields are higher than recent history and quite close to fair value levels[15]



Source: Glenmede, FactSet

Data as of 11/30/2024

In summary, while the U.S. economy appears to be in good shape for now, equity market valuations do appear relatively extended, particularly for large cap growth. It is not uncommon to see premium valuations in late cycle, a state which could persist for quite some time. As a result, investors should maintain a neutral risk allocation, proactively seeking opportunities to rebalance and diversify where appropriate. Rebalancing is a key risk management tool and is particularly prudent after years of strong returns. Those efforts may be able to add additional value on the margins with tilts toward more fairly valued small cap equities and away from premium large cap growth and corporate high yield.

It is as important as ever that investors remain committed to their longer-term investment plans. An effective goals-based investment approach assumes unexpected twists and turns in the market are inevitable and can provide investors with the ability and confidence they need to ride out volatility.

[15] Shown in the left panel is a snapshot of the U.S. Treasury yield curve in blue and the average of each maturity's yields over the past 20 years in orange. Shown in the right panel are Glenmede's estimates of long-term fair value for taxable and tax-exempt debt securities. Proxy indexes for each asset class are as follows: Core Fixed (Bloomberg U.S. Aggregate Index), Corp High Yield (Bloomberg U.S. Aggregate Credit Corporate High Yield BB Index), Muni Bond (Bloomberg Municipal Bond Index), Muni High Yield (Bloomberg Municipal High Yield Index). Glenmede's estimates of fair value are arrived at in good faith, but longer-term targets for valuation may be uncertain. One cannot invest directly in an index.

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GLM-WTP-001-Z02

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