FOURTH QUARTER 2024

INCOME WITH MODERATE GROWTH

In the fourth quarter, the U.S. continued to grow at a solid pace that beat expectations, activity in Europe remained weak with dispersion across countries, and China's challenges persisted. Meanwhile, most major central banks continued cutting policy rates, with the Federal Reserve signaling a more cautious approach to rate cuts moving forward in December. The U.S. election resulted in Donald Trump being elected President and a Republican sweep overall outcome. Fourth quarter asset class returns were mostly negative though this was overshadowed to a degree by ongoing gains in U.S. equities. Interest rates moved up across the curve most notably in the leadup to the U.S. election and after the December Fed meeting. This left broader fixed income indexes in negative territory for the quarter. U.S. equities drifted slightly upwards early on in the quarter and then responded favorably to the Republican sweep U.S. election outcome. However, equities began to fade in December with a dip lower following the Fed meeting. Outside the U.S., equities struggled with headwinds from a less-robust economic backdrop, some political uncertainty and additional policy risk (e.g., tariffs) from the U.S. election outcome.

We made one change in asset allocation in the quarter. In November, we added to our U.S. equities overweight and reduced developed ex-U.S. equities from equal-weight to underweight. This move reflected our expectation of a more supportive economic and corporate earnings backdrop in the U.S. relative to Europe, which is also more exposed to tariff risk. We also added to inflation-linked fixed income (moving to equal-weight from underweight), funded by a reduction in investment grade fixed income. This change reflected our expectations around incrementally higher inflation risks as a result of the incoming U.S. Administration's potential policies and limited upside for investment grade fixed income given historically-tight credit spreads and low odds of a sharp drop in rates. Currently, the portfolio has overweights in high yield fixed income, U.S. equities, emerging market equities, global real estate and global listed infrastructure, funded by underweights across investment grade fixed income, cash, developed ex-U.S. equities and natural resources. The portfolio ended the quarter with a modestly higher risk level than its strategic benchmark.

The portfolio underperformed in the quarter due to headwinds from fund implementation, partially offset by benefits from strategic positioning and tactical positioning. Strategic positioning helped performance as benefits from inflation-linked fixed income and cash outperforming investment grade fixed income outweighed some drag from weaker returns in real assets in relation to global equities. Tactical positioning helped performance with benefits from the underweight to natural resources, the overweight to U.S. equities and the overweight to high yield fixed income outweighing some drag from the overweight to global real estate and the underweight to cash. Our quality dividend U.S. equity (QDF), our diversified investment grade fixed income (BNDC) and our global listed infrastructure (NFRA) were the main detractors in terms of fund implementation, while our global quality real estate (GQRE) and our broader-based developed markets ex-U.S. factor tilt (TLTD) were the main contributors.