

Can the Bull Market Continue in 2025?

After Two Strong Years in a Row, the Bar is High for Equities in 2025

Although fixed income struggled along with venture capital and private equity, public equities and digital assets had a banner year in 2024. After posting two strong years in a row, we see the S&P as extended and public markets challenging. The specter of new policy initiatives (tariffs, DOGE) vs. Fed policy and earnings will likely make for an interesting year.

Rockingstone Performance

Despite our mostly equal weight positioning for individual equities vs. concentrated indices, we generally outperformed benchmarks across our five strategies in 2024. A combination of stock selection (CRWD, NTRA, SPOT) and generally correct sector weightings helped returns. For balanced accounts, our underweight in fixed income also aided relative performance, and for global accounts we benefited from underweights in foreign securities.

Navigating Cross Currents in 2025 is Likely to be Challenging

We see a concentrated and relatively expensive S&P 500 as offering limited returns. Meanwhile policy initiatives from a Republican-led government could help small to mid-caps but questions remain about immigration limits, tariffs and the geopolitical landscape. We believe “value”, small and mid-caps and non-US markets appear relatively attractive.

Implications for Portfolios

Passive investing has routed active management for an extended period. However, 2025 may put that dynamic to the test. We expect some leadership change among the major indices (i.e. more limited large cap tech returns), and notably YTD, foreign securities have outperformed most US equity markets. While we don’t see much risk of recession, this year could see more portfolio moves as investors react to an unpredictable world.

S&P500 Forecast & Other Key Indicators

We forecast: EPS (2025: \$265), S&P500 (2025 year-end = 5565), GDP (2025: +2.2%), Gold (\$2850), Oil (\$65), 10-yr US Bond Yield (4.5%), Inflation (2.5%), 5-yr expected CAGR (US Large Cap -1%, US Mid Cap +6%, US Small Cap +8%, Developed +4%, EM +6%).

ABOUT US

Rockingstone Advisors LLC is a boutique asset management and corporate advisory firm co-managed by Brandt Sakakeeny and Eric Katzman, CFA.

As an SEC-registered investment advisor, we provide multi-asset investment strategies to individuals, families and small institutions through separate accounts.

Our investment strategies attempt to capitalize on pricing inefficiencies across broad asset classes and then across individual securities, with a strong emphasis on fundamental research and analysis.

Thank you for your interest. You can find more information (and some interesting articles) at:

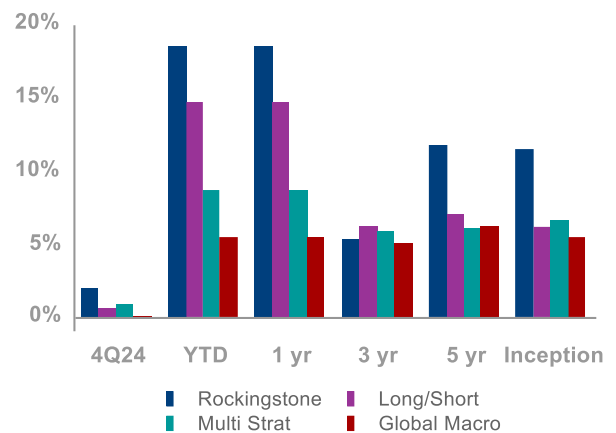
www.rockingstoneadvisors.com

Figure 1: 4Q24 Asset Class Performanceⁱ



Source: FactSet

Figure 2: Rockingstone: 4Q24 & Historical Annualized Returnsⁱⁱ



Source: Rockingstone Advisors, Morningstar, DJ Credit Suisse Indices, Inception = 5/30/2009

Table of Contents

Rockingstone: 2024 Performance	3
A Detailed Review of our Strategies and Performance.....	3
Absolute Return.....	3
Balanced	4
Best Ideas	6
Global Equities.....	8
Personalized Portfolios.....	9
Yield.....	10
Forecast: 2025	11
Rockingstone Advisors: Our Latest Forecasts	11
Five Year Asset Value Forecast	12
Large-cap Returns Continue to Look Muted.....	12
Equity Performance Review	14
Once Again Large Cap US Equities Lead the Charge	14
Fixed Income Performance Review	15
The Federal Reserve Finally Pivots.....	15
Commodity Performance Review	16
Mixed Performance	16
Digital Asset Performance Review	17
The Trump Trade	17
Chart Book	18
Leading Indicators.....	18
Real-time Recession Risk Indicators	19
Labor Market Indicators	20
Production and Business Activity Indicators.....	21
Consumer and Household Activity Indicators.....	22
Housing and Construction Indicators.....	23
Price Indicators	24
Valuation Indicators.....	25
Valuation and Volatility Indicators.....	26
Bond Market Indicators	27
Liquidity and Other Indicators	28
Appendix	29
Important Regulatory Disclosures and End Notes	29

Rockingstone: 2024 Performance

A Detailed Review of our Strategies and Performance

We review Rockingstone's portfolio strategies and relative performance at the end of each calendar year. Our firm does not manage a fund where all investors are pooled into a single portfolio. We manage "separate accounts," meaning each account is customized to the individual needs of the client, but within the constraints of his or her benchmark. In turn, the benchmarks used are broadly centered around six distinct strategies:

- **Absolute Return** (a portfolio where we will be more actively short, albeit with a long bias -- in attempting to achieve 6-8% annual returns with less volatility -- than in our more aggressive strategies; benchmark includes CS Multi Strategy Index);
- **Balanced** (a broad-based portfolio comprised of equities, preferreds, real estate and debt, typically benchmarked against a balanced mutual fund such as VSMGX or VASGX);
- **Best Ideas** (a US focused all-equity portfolio typically benchmarked against the market cap weighted S&P 500 by using the SPY ETF);
- **Global Equities** (a global equity portfolio typically benchmarked against the MSCI All-Country World index);
- **Personalized Portfolios** (portfolios constructed to meet a specific client need or requirement such as no mining or gambling stocks or no high carbon energy investments; the benchmark typically used is the Impax Sustainable Allocation Fund but this can vary by client);
- **Yield** (a portfolio where we attempt to generate 4-6% annual income without material interest rate risk).

We work with our clients to get a perspective on their risk tolerance and then mutually agree on the benchmark that works best for their particular circumstances. In general, we are benchmark agnostic. Lastly, in the sections below, we highlight that the portfolio management statistics detailed for each strategy are relative to that specific strategy's benchmark. For example, in our "Best Ideas" portfolios we use the alpha and beta figures relative to the S&P 500.

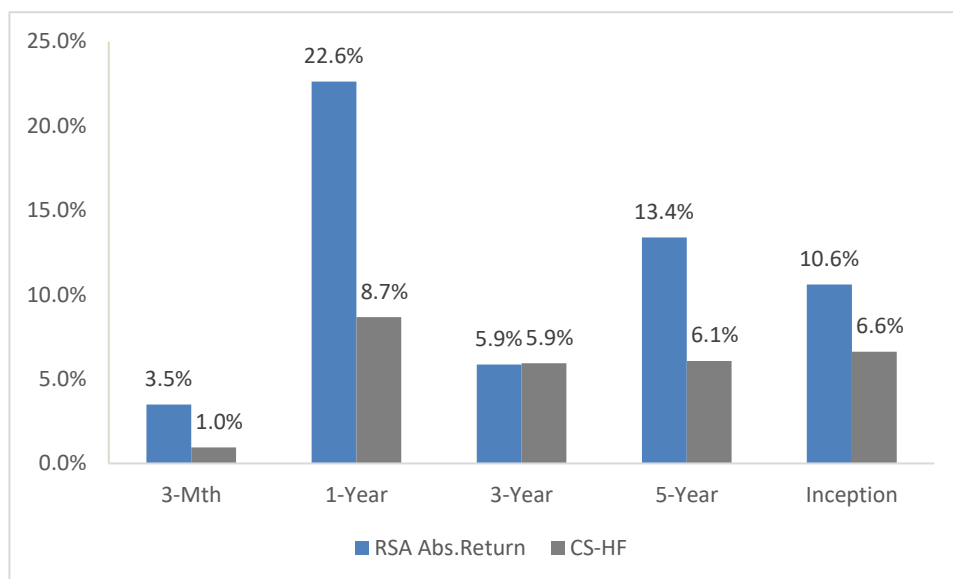
Absolute Return

Our "Absolute Return" portfolios use the Credit Suisse Multi-Strategy Index as the primary benchmark. We use an unconstrained strategy to generate the highest, risk-adjusted return possible. For example, in the "Absolute Return" strategy we may short more aggressively or have greater exposure to commodities or potentially use options to enhance returns. In some respect our "Absolute Return" strategy is like investing in a hedge fund but without the associated elevated fee structure.

Because we believe stocks generally go up over the long term, our bias is to be long and to use shorts selectively to manage through events we believe may lead to a sustained period of equity declines (primarily recessions). Given that we manage individual accounts with restrictive margin allowances, we cannot hedge to the same extent assumed within the CS Hedge Fund indices.

Our 2024 year-end allocation reflected the following: 79% US stocks, 9% non-US stocks, 8% fixed income 1% other and 3% cash. Using our Morningstar portfolio software, we note the 3, 5 and 10-year beta for our “absolute return” portfolio has been 0.48, 0.98 and 1.15, respectively. We emphasize that even with the 10-year relatively high beta, our alpha generation has been solid: 3-year = 2.35, 5-year = 8.34, 10-year = 5.45.

Figure 3: RSA “Absolute Return” (Blue) vs. CS Multi-Strategy (Gray)



Source: Rockingstone Advisors, Morningstar Office, Inception = 5/30/2009.

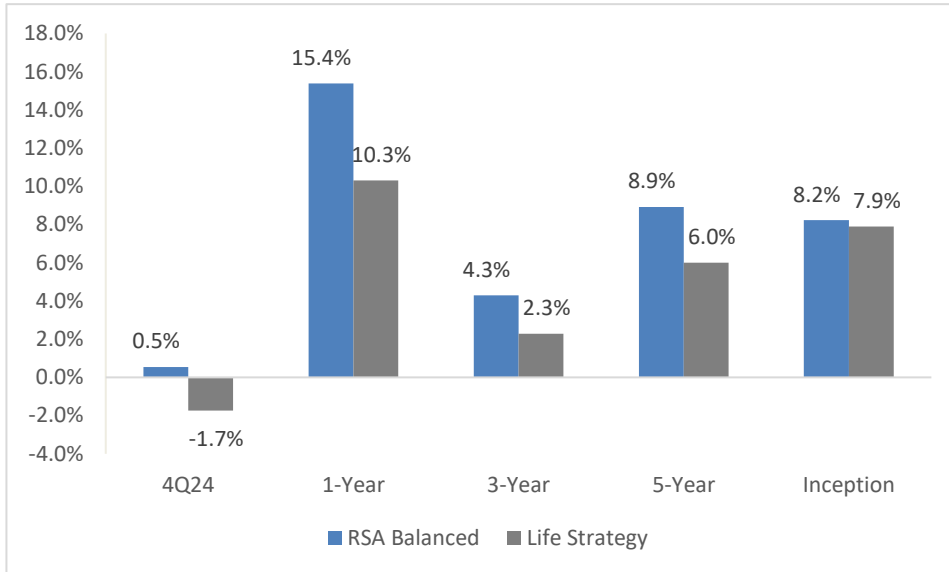
Our top 5 individual stock investments at the end of 2024 included: (i) NVIDIA, (ii) Apple, (iii) Amazon, (iv) Alphabet, (iv) Intuitive Surgical. The top 5 ETFs included: (i) JPST – Ultra Short Duration Income, (ii) VGSH - Short Term Treasury, (iii) XLK – Technology, (iv) IWM – Russell 2000, (v) IGV - Software.

Balanced

Our “balanced” portfolios include a combination of global equities, fixed income and hybrids. For comparison purposes, the key benchmark we use for clients is the Vanguard LifeStrategy Moderate Growth Fund (VSMGX). VSMGX has an allocation of 37% US stocks, 23% non-US Stocks, 39% bonds and 1% cash. We note for some clients that need or are willing to take more risk, the benchmark is the Vanguard LifeStrategy Growth Fund (VASGX), which has a higher allocation to both US and non-US stocks.

This past year we were significantly over-weight US stocks, under-weight non-US stocks as well as under-weight bonds vs. the benchmark. The above weightings materially helped performance. In terms of the equity allocation, we had relatively less exposure to Asia as well as Europe and from a sector perspective our slight overweight in Technology and Communication Services contrasted to less exposure (vs. the benchmark) in Consumer Cyclical and Financial Services. Individual equities that aided performance included Natera (a new position), CrowdStrike, LiveNation and Spotify. As “balanced” accounts are inherently less risky vs. all equity portfolios, we note portfolios last year held a greater amount of short duration bond ETFs, including JPST.

Figure 4: RSA “Balanced” (Blue) vs. Benchmark Vanguard Life Strategy (Gray) Portfolio Perf.



Source: Rockingstone Advisors, Morningstar Office, Inception = 7/24/2009.

Rockingstone has out-performed over the bulk of the time periods measured, which was achieved with lower portfolio risk than the benchmark. During the 3, 5, and 10-year time periods the “balanced” portfolios had a beta of 0.91, 0.86, and 0.90, respectively. In terms of alpha generation, we note the following statistics: 3-year = 2.43, 5-year = 3.85 and 10-year 1.68.

At the end of 2024, our top 5 individual stock investments included: (i) NVIDIA, (ii) Apple, (iii) Microsoft, (iv) Intuitive Surgical, (v) Meta. Meanwhile our top 5 ETFs included: (i) JPST – JP Morgan Ultra-Short Income, (ii) XLK – Technology, (iii) VGK – Europe, (iv) IWM – Small Caps, (v) VEA – Non-US Developed Markets.

Best Ideas

Our “Best Ideas” portfolios use the S&P 500 as a benchmark. The S&P 500 is a 100% US-based market-cap weighted index, therefore with an inherent bias towards large-cap companies. Indeed, a subset of large cap stocks--colloquially referred to as the “Magnificent 7”-- now represent close to 30% of the Index’s value. Another way to emphasize this high level of concentration is to note that the remaining 493 stocks account only for 70% of the Index!

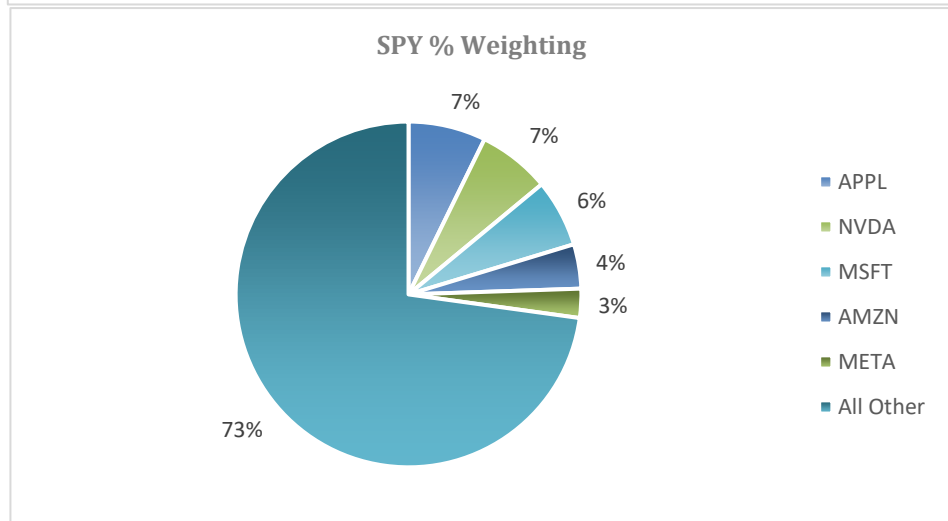
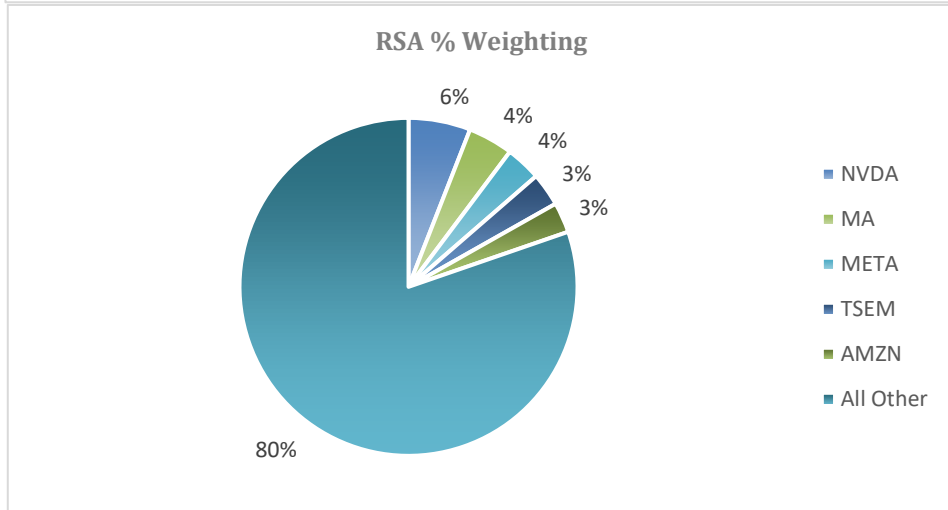
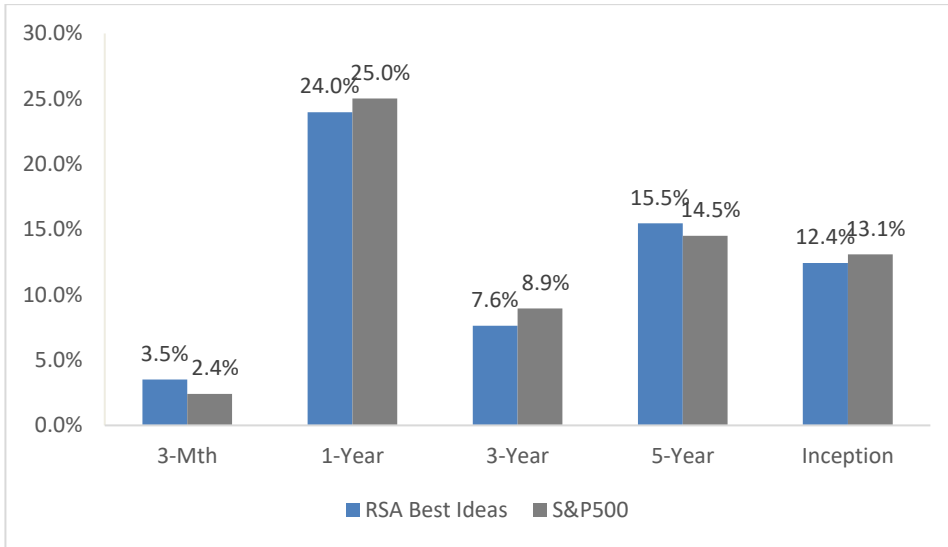
Investors familiar with our portfolio strategy recognize that we manage more equal weight positions among individual stocks. This is in contrast to the S&P 500, which is weighted by market capitalization. Our view is that an average 2-3% weighting for each individual stock allows for better risk adjusted returns over the long term.

In addition to the performance graph exhibited in Figure 5 (next page), we also display how our “Best Ideas” portfolio differs in terms of concentration vs. the S&P 500. Rockingstone’s top five individual stock holdings accounted for just 20% of the total portfolio. Meanwhile we contrast that with the S&P 500 where the top five positions accounted for 27% of the Index. While this may not seem like a major difference, it is the equivalent of 3-4 additional positions resulting in improved diversification, in our opinion.

In keeping with our risk management guidelines, we typically start trimming an individual stock once rises above 5% of a portfolio. Looking back the last few years, such risk discipline has limited returns in our portfolios as market concentration around US large cap stocks continued to expand. Yet our analysis (see Section “Five Year Asset Return Forecast” on page 12) indicates the S&P 500 will offer limited returns over the next half decade.

As this newsletter is set to be published, the euphoria around AI and related investment ideas had boosted the S&P 500 to record levels in January 2025. When a Chinese-based AI company, *DeepSeek*, introduced its open source code algorithm that used more commonly available semiconductors on January 25-26, investors in US based AI stocks (and derivative plays) rushed to sell. Whether it is a temporary change in market sentiment or the beginning of an unwinding in everything AI related, we believe our more diversified approach should help client portfolios better navigate the volatility.

Figure 5: RSA “Best Ideas” (Blue) vs. S&P500 (Gray) Portfolio Performance



Source: Rockingstone Advisors, Morningstar Office, Inception = 1/1/2015.

The 3, 5 and 10-year beta for our “Best Ideas” portfolio was 0.94, 0.90, and 0.91, respectively, which implies we have managed risk to being between 90-95% of the market. Although we essentially created no “alpha” in the last 3 years (-0.13), we emphasize our 5-year and 10-year periods generated solid alpha of 2.81 and 1.16, respectively. As a reminder, “alpha” is used to measure the excess return created by a portfolio manager above whatever return is generated by the market / benchmark.

At the end of 2024, our top five individual stock investments include: (i) NVIDIA, (ii) Mastercard, (iii) Meta, (iv) Tower Semiconductor, (v) Amazon. Meanwhile our top 5 ETFs included: (i) SPY – S&P500, (ii) XLK – Technology, (iii) IWM – Russell 2000, (iv) IGV – Software and (v) VO – Vanguard Mid Cap.

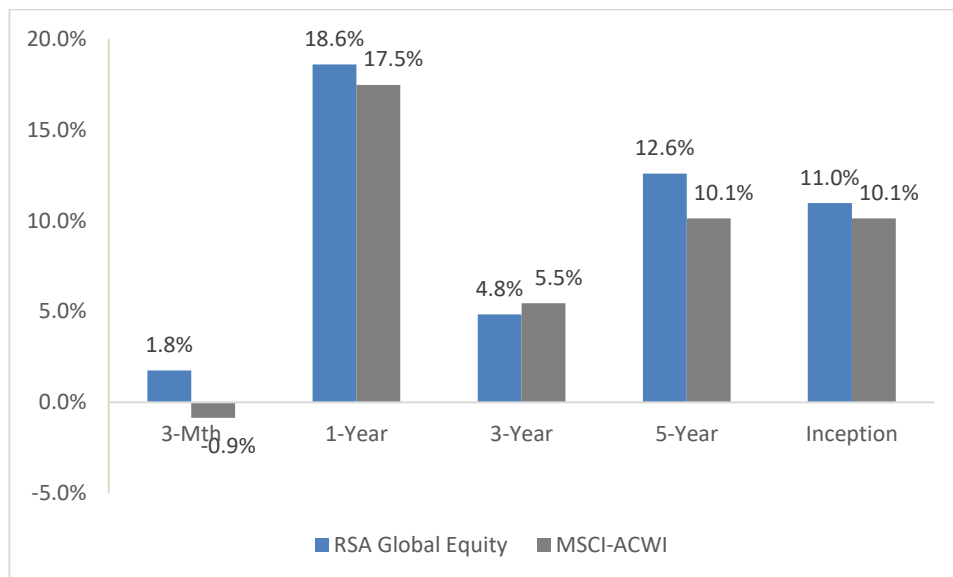
Global Equities

Our “Global Equities” portfolios use the MSCI All-Country World Index (ACWI) as a benchmark. The MSCI-ACWI uses a non-US stock weighting of 33%. Specifically, the geographic exposure includes 15% Europe, 15% Asia and 70% Americas.

Rockingstone’s portfolios outperformed the ACWI in 2024. This was due to a combination of having less exposure to non-US markets vs. the benchmark, as well as being relatively overweight some strong-performing stocks, such as Natera and Spotify.

We note the 3-, 5- and 10-year beta for our “Global Equities” portfolio is 0.92, 0.85 and 0.86, respectively. This highlights that despite the presence of some single stock names, our portfolios have about 85-90% of the risk of holding the MSCI-ACWI alone. Therefore, our alpha generation over the last 3-, 5- and 10-years reflects 0.36, 4.16 and 2.36, respectively.

Figure 6: RSA “Global Equity” (Blue) vs. Benchmark MSCI-ACWI (Gray) Portfolio Performance



Source: Rockingstone Advisors, Morningstar Office, Inception = 1/2/2015.

We typically have greater ETF exposure in our “global equity” portfolios as compared to the “best ideas” portfolio. At the end of 2024, our top five individual stock investments included: (i) NVIDIA, (ii) Apple, (iii) Celestica, (iv) Microsoft, (v) Meta Platforms. Meanwhile

our top 5 ETFs included: (i) VEA – Developed Markets, (ii), XLK - Technology, (iii) XLV - Healthcare, (iv) IWM – Russell 2000, (v) SPY – S&P500.

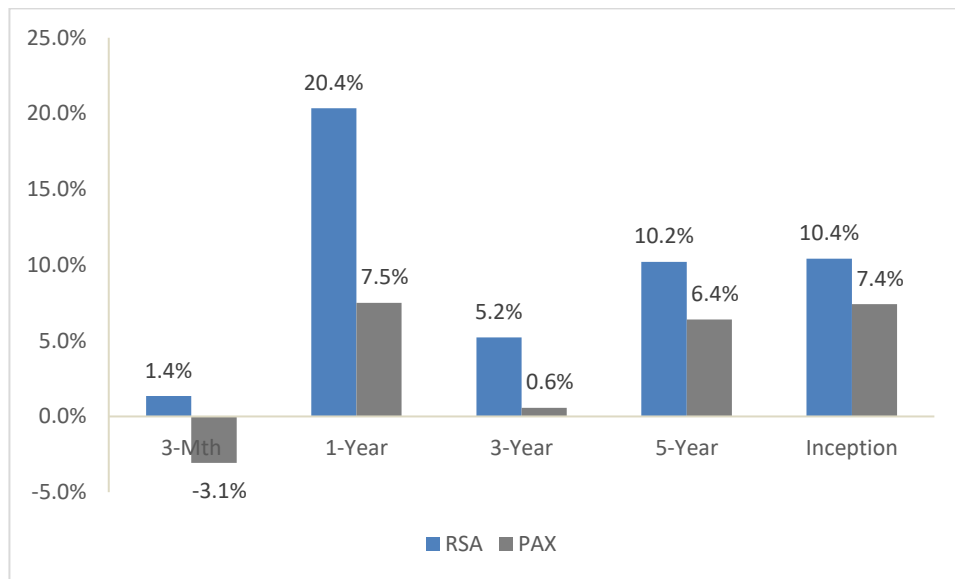
Personalized Portfolios

Because Rockingstone manages individual portfolios, there are occasions where a particular client may want to exclude certain securities. For example, a client may want to exclude mining or gambling or hydro-carbon intensive businesses. Alternatively, we may manage a portfolio for a client that has inherited a significant amount of a particular stock with a low tax basis and thus need to consider that over-weight position and the tax consequences to a greater degree than other clients.

As a result, we emphasize the “Personalized Portfolios” as a group is less indicative of performance vs. one particular benchmark. We are using the Impax Sustainable Allocation Fund (PAXWX) to reflect one client’s preference for portfolios not holding any carbon intensive individual stocks. The benchmark is a balanced fund, i.e. it includes US stocks (52% weighting), non-US stocks (10%) as well as bonds (36%) and cash (2%). Similar to other strategies, we use both ETFs and individual stocks to construct the portfolio.

Using our Morningstar portfolio software, we note the 3-, and 5-year beta for these portfolios has been 1.03 and 1.09 respectively. This indicates there is about 10% more volatility in our personalized portfolios vs. the benchmark. This is a function of holding significantly less bond exposure than the benchmark. Alpha generation has been positive including 4.74 for the last 3-years and 3.40 for 5-years.

Figure 7: RSA “Personalized Portfolios” (Blue) vs. Sustainable Allocation (Gray) Performance



Source: Rockingstone Advisors, Morningstar Office, Inception = 10/20/2016.

Our top 5 individual stock investments at 2024-end included: (i) Costco, (ii) Apple, (iii) S&P Global, (iv) Mastercard, and (v) TransDigm. Meanwhile our top 5 ETFs included: (i) KLD – MSCI Social 400, (ii) SPYX – S&P500 excluding Fossil Fuels, (iii) XLK – Technology, (iv) VT – Vanguard Total World Market Index, and (v) QQQ – Invesco Nasdaq.

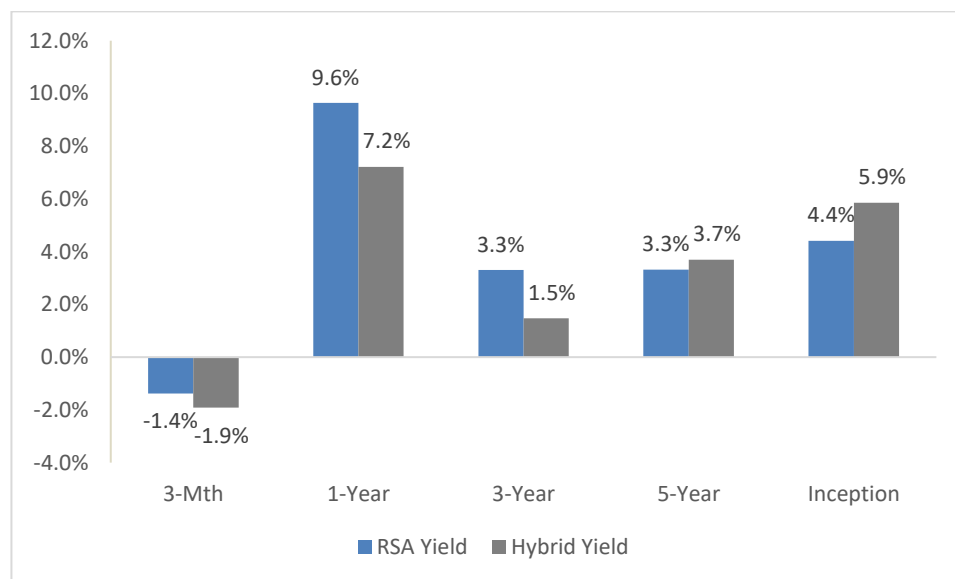
Yield

For retirement accounts and those investors interested in generating income, we construct portfolios using a combination of high dividend yielding stocks and ETFs, select bond ETFs as well as hybrid ETFs. Our goal with these portfolios is to generate an absolute annual return of 4-6% over the long term, with the bulk of that return coming from dividends / income.

For an extended period of time, it was difficult to generate income without taking either significant duration, spread or equity risk. That changed dramatically in 2022 with the Federal Reserve's pivot and a multi-year period of rising interest rates. Investors with cash benefitted from the higher, virtually risk-free rates. As is well known, the Federal Reserve started lowering interest rates in the fall of 2024. While short term rates moderated, long term rates increased.

For "yield" accounts, we continue to rely on a number of short duration bond ETFs, including JPST (JP Morgan short duration bonds) and VGSH (Vanguard short duration Treasuries). Yet we will need to keep an eye on this key position assuming the Federal Reserve continues to lower rates (which is partly dependent on inflation moderating in 2025).

Figure 8: RSA "Yield" (Blue) vs. Simple Global Yield Benchmark (Gray) Portfolio Performance



Source: Rockingstone Advisors, Morningstar Office, Inception = 12/27/2011.

Our "yield" portfolios over the 5-year and since inception (2011-end) have generated returns toward the middle to lower end of our 4-6% target. We emphasize the following portfolio statistics: Beta (3-year = 0.89, 5-year = 0.89, 10-year = 0.97), Alpha (3-year = +2.04, 5-year = +0.19, 10-year = -0.71).

Our top five liquid holdings at the end of 2024 included: (i) JPST – Ultra Short Income, (ii) VYMI – High Intl Dividend Yield, (iii) VYM – High Dividend Yield, (iv) SPY – S&P 500 Index, (v) VIG – Vanguard Dividend Appreciation. We note individual stocks make up a smaller weighting in this strategy.

NB: We note portfolio analytics generated by our Morningstar software, specifically alpha and beta referenced in the above section, are based off of gross return calculations.

Forecast: 2025

Rockingstone Advisors: Our Latest Forecasts

With 2024 in the rearview mirror, we set our sights on 2025 and how key economic metrics will play out during the year. As noted elsewhere in this newsletter, the change afoot in Washington DC makes for tough forecasting.

Figure 9: Key Metric Forecast

Metric	Year End December	
	Band	Point
US Real GDP (2025)	+2.0% to +2.4%	2.2%
S&P 500 2024 EPS (RSA/Street)	NA	\$235 / \$233
S&P 500 2025 EPS (RSA/Street)	NA	\$265 / \$271
S&P 500 2025 Index	5500 - 6000	5565
10-Yr US Treasury Yield	4.2% - 4.7%	4.5%
Oil (WTI-2025 End)	\$60 - \$70	\$65
Gold (2025 End)	\$2,500 - \$3,000	\$2,850
Inflation (PCE - NTM)	+2.2% to +2.7%	2.5%

Source: Rockingstone Advisors, The Economist, Standard and Poor's, NYSE Arca, St. Louis Federal Reserve

A few observations and comments:

1. **S&P 500 2025 EPS.** With 2024 corporate earnings close to finalized, we maintain our EPS forecast at \$235 (which is slightly above the \$233 consensus). This implies about 9% growth vs. the final \$214 EPS in 2023. Although EPS expectations have moderated since 3Q24, we note in the last few weeks the earnings outlook has crept up a bit. Looking to this full year, we forecast S&P500 EPS of \$265 (vs. consensus of \$271). Our forecast implies EPS growth just shy of 13%, which would be a stellar year by any measure. Yet we note consensus is anticipating an aggressive 16% jump! While the Atlanta Fed's *GDPNow* forecast assumes a moderation in macroeconomic growth this year, it is possible that companies will accelerate share repurchases as well as benefit from lower corporate tax rates given Republican control. The combination of these variables should allow for strong EPS growth, although we are reluctant to embrace a high teens rate.
2. **S&P 500 2025 Index.** As detailed in the next section of this newsletter, we continue to be cautious on the total return outlook for the large-cap dominated S&P 500. In our view, a combination of valuation pressure and lower profit margins will offset sales growth and dividend yield, thus crimping total returns. We noted above that our 2025 EPS forecast of \$265 is below Street consensus. We apply a 21x P/E multiple to that EPS forecast and derive an S&P 500 price target that implies the index is about 8% over-valued. One could even argue that with a 4.5% 10-year bond yield, even using a 21x forward P/E is aggressive! Again, as analyzed in the next section, we see many other parts of the equities market (and even bonds at these interest rates) as relatively compelling. But with a handful of large-cap, tech-oriented companies dominating the S&P and responsible for a significant part of earnings growth, we think it is prudent to be more cautious on the P/E multiple applied when deriving a price target.

Five Year Asset Value Forecastⁱⁱⁱ

Large-cap Returns Continue to Look Muted

Our main assumptions regarding capital markets are that asset values mean-revert (with respect to margins and P/E multiples) over time. Despite a world that has been led by growth and the S&P500 seemingly becoming a quasi-large cap tech index over the last decade, we see no reason to question this value-biased axiom.

We analyze equities using four variables, including (i) historical sales growth, (ii) corporate profit margins, (iii) dividend yields, and (iv) valuation to determine potential long-term returns. Using valuation as an example, P/E multiples should theoretically decline (if currently above the historical mean) or expand (if currently below the historical mean) over the long term.

As usual based on our outlook for total returns, we expect the “give” of sales growth, valuation and dividends to be partly offset by the “take” of mean-reverting margins. We expect sales growth to be relatively close to long-term average performance, although how a potential recession vs. pass-through pricing impacts top line results is unclear. Profit margins are back above historical levels, so they are now dilutive to expected returns.

We have noted for several quarters that our most recent analysis points to US large cap stocks offering poor long-term return potential from current levels based on margin pressure and valuation / multiple contraction. The remaining equity indices offer more reasonable returns, in our view.

Figure 10: Five-Year Total Equity Return Calculations (Incremental Contribution)

Five Year Total Equity Return Calculations (Incremental Contribution)

<u>Asset</u>	<u>Index</u>	<u>LT Exp. Return</u>		<u>Sales</u>		<u>Profit Margin</u>		<u>Div.Yield</u>		<u>Valuation</u>
US Large Cap Stock	S&P500	-1.0%	=	5.3%	-	1.3%	+	1.3%	-	6.3%
US S&P Equal Weight	RSP	7.4%	=	3.9%	+	1.6%	+	1.9%	-	0.1%
US Mid Cap Stock	S&P400	6.3%	=	4.9%	-	0.1%	+	1.5%	-	0.1%
US Small Cap Stock	S&P600	7.9%	=	5.5%	+	2.4%	+	1.8%	-	1.8%
Foreign DM Stock	MSCI-EAFE	4.1%	=	1.7%	-	3.2%	+	3.5%	+	2.1%
Foreign EM Stock	MSCI-EM	6.0%	=	4.4%	-	1.3%	+	2.9%	-	0.1%

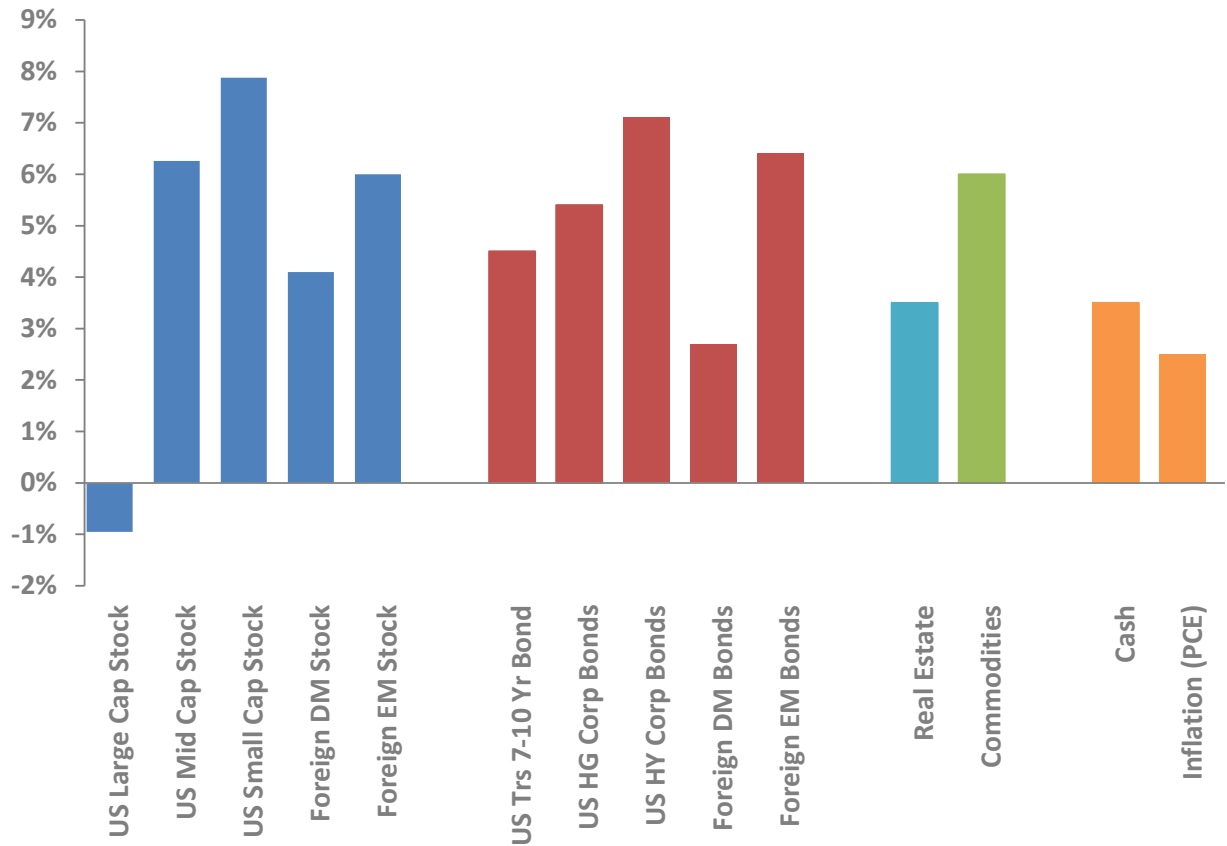
Source: Rockingstone Advisors

In fixed income (see the next page for various assumptions), we are assuming the yield curve and current rates don’t change much from current levels. Thus, the existing yield on the various fixed income instruments should equal the total return, in our view. With yields having moved up significantly since last summer, we note that fixed income is offering compelling yields.

One metric often employed to determine whether stocks are relatively cheap or expensive vs. bonds is called the Fed Model, which compares the yield on the 10-year US Treasury (currently 4.55%) to the earnings yield of the S&P 500 (calculated by taking 1/S&P 500 Price/S&P 500 EPS or 1/(\$6012/\$265) for stocks (currently 4.44%). Currently, the 10-year

yield of 4.55% is above the 4.44% earnings yield for the S&P 500, again emphasizing that bonds could offer relatively attractive returns vs. the large cap tech dominated index.

Figure 11: Five-Year Asset Class Total Return Forecast



Source: Rockingstone Advisors

Equity Performance Review

Once Again Large Cap US Equities Lead the Charge

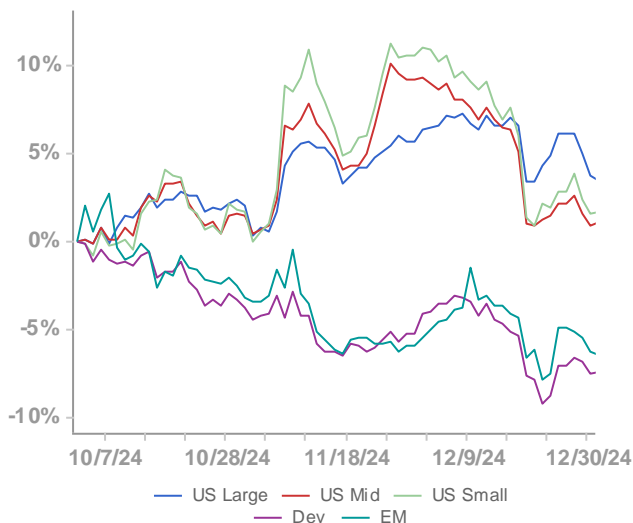
Although equity markets were not as narrow in terms of leadership in 2024 as they were in 2023, nevertheless US Large Cap stocks continued to surge ahead and set the pace for almost all other segments / geographies. Investors that held concentrated positions in the “Magnificent 7” saw their portfolio values jump with almost any moves toward diversification resulting in under-performance vs. the widely tracked S&P 500.

To be sure the “Magnificent 7” are great companies with dominant (if not monopolistic) positions generating excellent growth and cash flows. US Large Cap stocks have dominated performance measures for an extended period making most other geographies (non-US developed markets, emerging markets) and sectors / styles (small or mid-caps, value) challenging to justify in a portfolio. As evidenced by the figures below, 2024 was no exception.

Yet at some point the valuation of non-US Large Cap names will be too compelling. Whether it is an economic recovery or metrics (such as price / book value) or a combination of the two, investors will seek out alternatives. Despite our client portfolios being relatively equal weighted stock positions, we performed well in 2024 and expect our diversification to yield above benchmark returns over the long term.

We note the following performance regarding 4Q24 and 12M24, respectively, results: US large-cap (+3.4% and +25.0%), US mid-cap (+1.1% and +13.6%), US small-cap (+1.7% and +13.8%), Developed (-7.5% and +3.1%), Emerging (-6.5% and +10.6%).

Figure 12: 4Q24 Equity Performance ^{iv}



Source: FactSet

Figure 13: 12M24 Equity Performance



Source: FactSet

Fixed Income Performance Review

The Federal Reserve Finally Pivots

The Federal Reserve had tightened interest rates throughout 2023, remained neutral midway through 2024 but started a more dovish cycle in September of last year. As evidenced by the chart below, investors had anticipated a rate cut on the back of moderating inflation. Indeed, US government bonds along with spread products (i.e. those debentures with theoretically more relative risk) rallied into the fall.

As most investors understand, the Federal Reserve has control only over short term rates. The rest of the yield curve, with varying maturities, is influenced more by market forces than the Fed. Thus, it is notable that despite the inception of rate cuts in September 2024, yields since that time have risen sharply. For accounts with a “balanced” benchmark (i.e. 25-40% fixed income weighting), returns were actually flat to down in 4Q24.

It remains unclear what the new President and Congress will do from a policy perspective and how the fixed income markets will react. As we have noted in past newsletters, policy alternatives will result in countervailing forces. For example, tariffs could be inflationary but also provide revenue to the US Treasury. DOGE, if successfully implemented, will reduce expenses (i.e. helping lower deficits), while deportation of illegal immigrants could prove to be inflationary. At this point investors must await policy promulgation.

We focus on the following performance numbers for 4Q24 and 12M24, respectively: US High Grades (-4.2% and +0.9%), US Governments (-4.7% and -0.6%), US High Yield (+0.4% and -0.6%), Int'l Developed (-7.0% and -3.5%), Emerging Markets (-3.0% and +5.2%).

Figure 14: 4Q24 Fixed Income Performance^v



Source: FactSet

Figure 15: 12M24 Fixed Income Performance



Source: FactSet

Commodity Performance Review

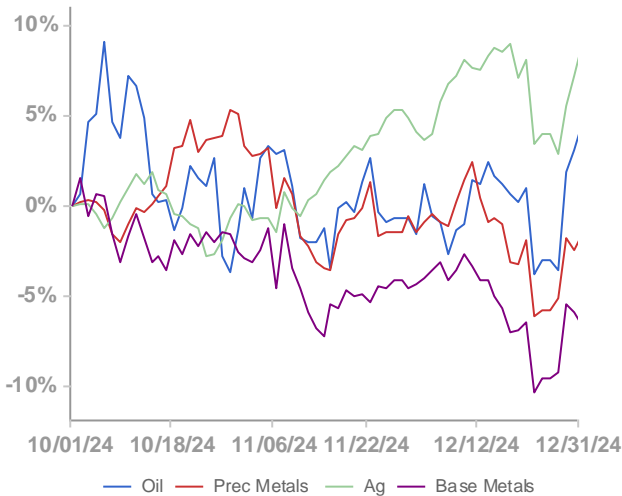
Mixed Performance

As noted in the past, we emphasize investors should normally expect greater volatility in commodity prices relative to equities or bonds. This is because unlike stocks and bonds, commodities do not generate a stream of cash flows that can be discounted back to present value. Commodities are also frequently susceptible to sudden supply and demand shocks impacting their price. Lastly, because commodities are most often priced in \$US and traded globally, they are considered a store of value, especially if the dollar declines.

In 4Q24 and for much of the year, agriculture prices jumped. But this was largely due to more esoteric dynamics within specific components (such as coffee and cocoa) of the ag complex. Cocoa and coffee both witnessed higher prices due to supply constraints from insect infestation, a historical lack of reinvestment and geopolitical issues in key growing regions. Precious metal prices also jumped during 2024, although base metals and oil saw modest gains. The latter two commodities, typically when weak, signal potential recession risk. However, a majority of leading indicators suggest minimal recession risk on the horizon.

We typically invest in commodities via ETFs and the graphs below display what we view as representative performance for the underlying commodities. We highlight the following returns during the 4Q24 and 12M24, respectively: Oil (+3.1% and +6.6%), Precious Metals (-1.8% and +6.6%), Agriculture (+8.6% and +33.6%), Base Metals (-6.5% and +7.9%).

Figure 16: 4Q24 Commodity Performance^{vi}



Source: FactSet

Figure 17: 12M24 Commodity Performance



Source: FactSet

Digital Asset Performance Review

The Trump Trade

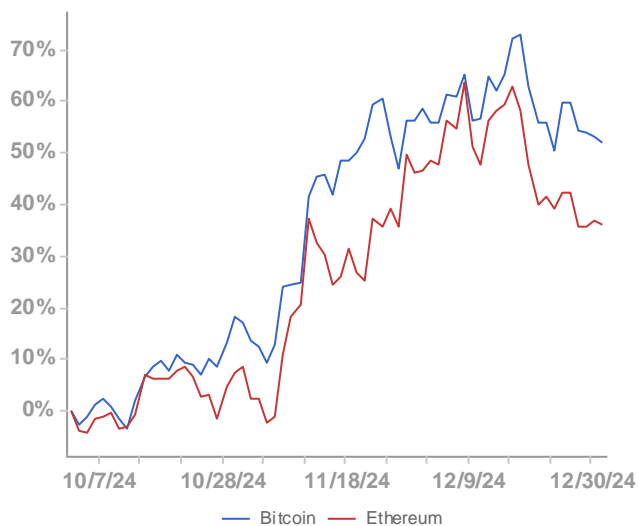
Despite the existential challenges that rocked the digital asset space in 2023, including numerous bankruptcies and criminal convictions— particularly those at FTX— the asset class stabilized and eventually rebounded strongly in 2024. Indeed, Bitcoin arguably became a leading indicator on the Trump Presidential election outcome (see chart below) as the largest digital asset by market capitalization began its strong ascent in mid-summer 2024.

As we have written in the past about digital assets, our belief is that they are not a substitute for equities or bonds or other cash flow-driven securities. There is no cash flow associated with the asset class, and as value investors, we generally prefer to acquire a stream of free cash flow. Yet it is worth recognizing that many assets do not generate cash flows but are widely recognized as being stores of value, including art or precious metals or coins or rare books. All of these “non-cash flow generating” assets trade with intermittent price discovery, albeit through Dutch or private auctions.

Leaving aside the question of whether digital assets can replace fiat currencies, the blockchain technology behind digital assets remains a potential disruptor to existing payment and online file systems. Blockchain technology has what is often referred to as a “trilemma” of balancing (i) security, (ii) scalability and (iii) decentralization. The conundrum has been allowing for all three characteristics to be optimized. While we are not experts, our suspicion is that with time a solution or improvement will occur thus making digital assets have more relevance to cash flow generating activities (i.e. justifying a certain value).

We note the following performance regarding 4Q24 and 12M24, respectively, results: Bitcoin (+51.8% and +121.5%) and Ethereum (+36.0% and +42.1%).

Figure 18: 4Q24 Digital Asset Performance ^{vii}



Source: FactSet

Figure 19: 12M24 Digital Asset Performance

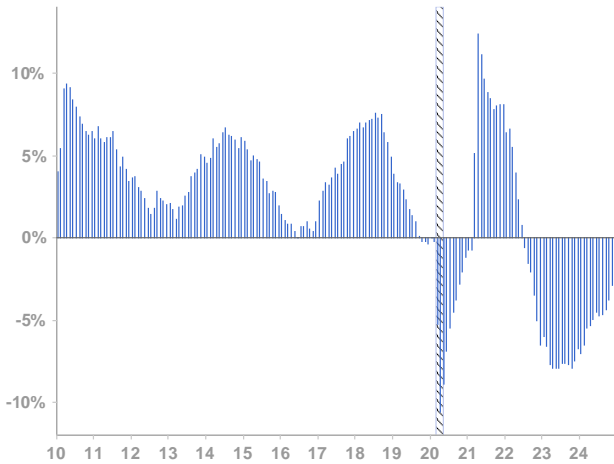


Source: FactSet

Chart Book

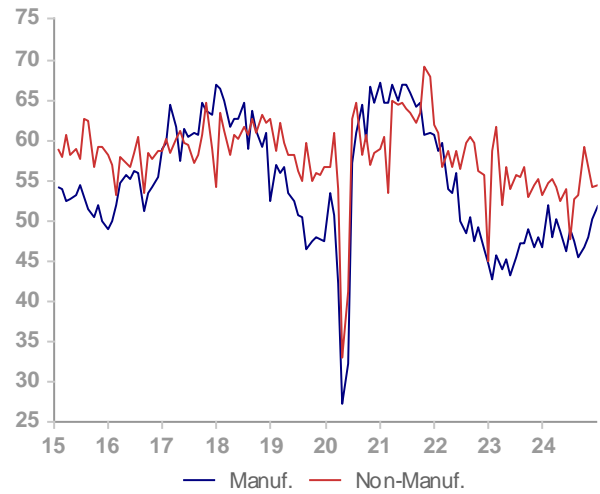
Leading Indicators

Figure 20: Index of Leading Economic Indicators



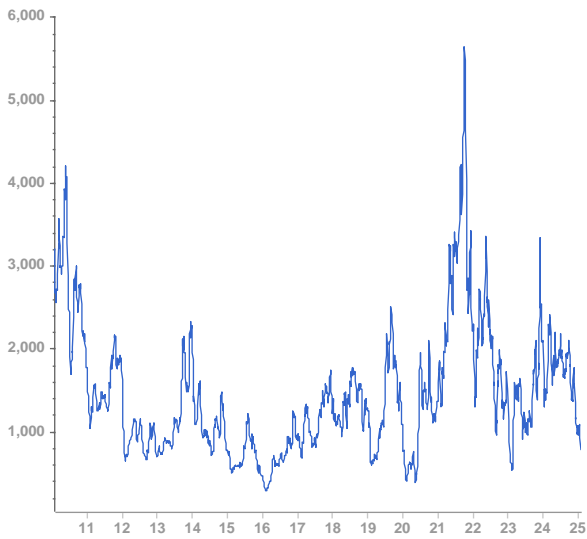
Source: FactSet

Figure 21: ISM New Orders



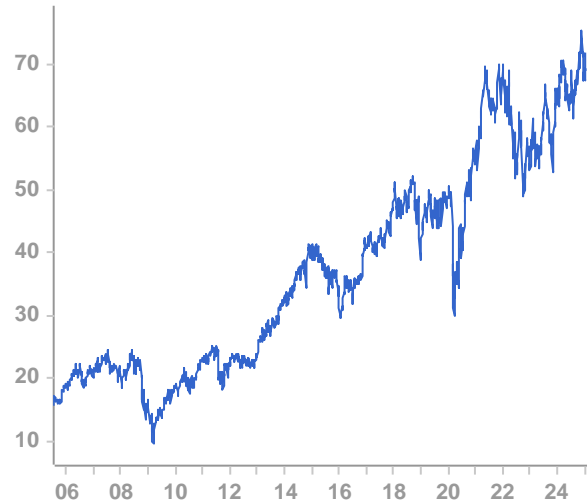
Source: St. Louis Federal Reserve, FRED Database

Figure 22: Baltic Freight Index



Source: FactSet

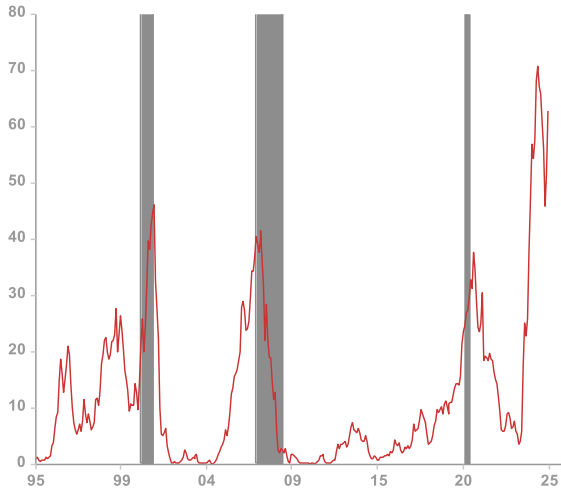
Figure 23: DJ Transports



Source: FactSet

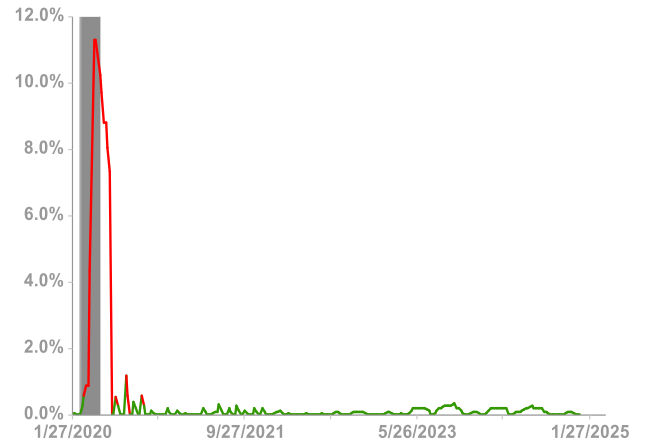
Real-time Recession Risk Indicators

Figure 24: Treasury Spread Recession Predictor



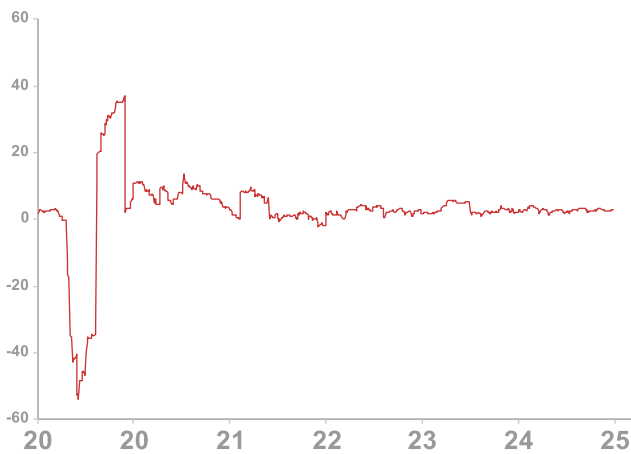
Source: FactSet, FRED Database

Figure 25: Sahm Real-time Recession Predictor



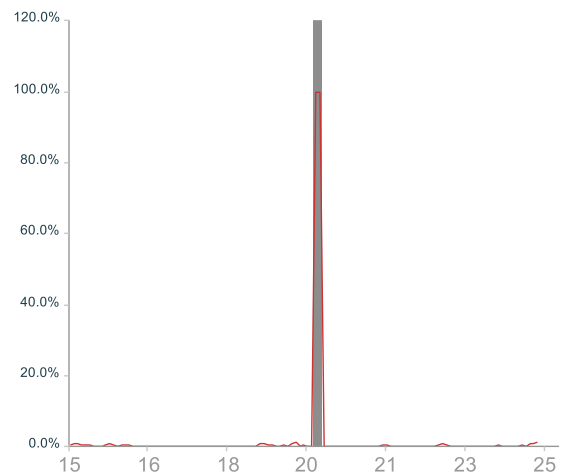
Source: St. Louis Federal Reserve, FRED Database

Figure 26: GDP Now (Atlanta Fed)



Source: FactSet, FRED Database

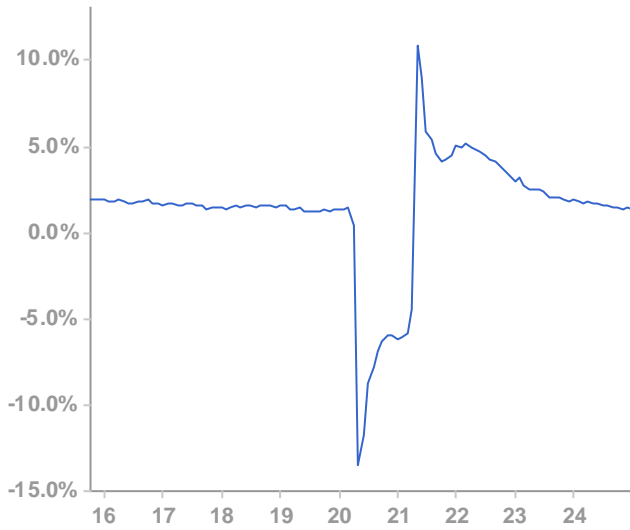
Figure 27: Smoothed US Recession Probabilities



Source: FactSet, FRED Database

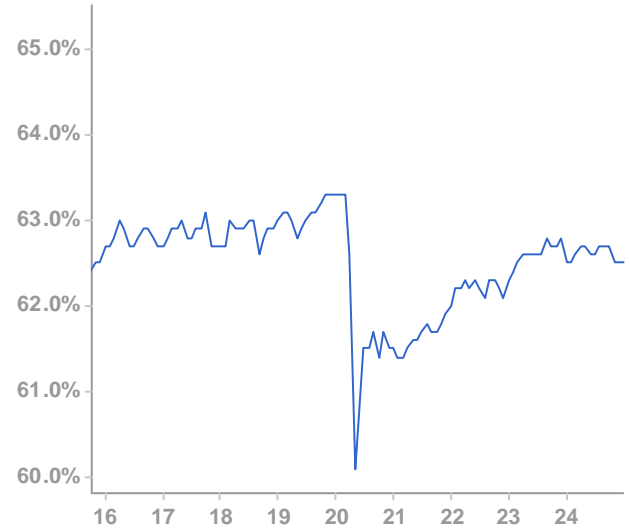
Labor Market Indicators

Figure 28: Payroll Growth (Establishment Survey, % Chg YoY)



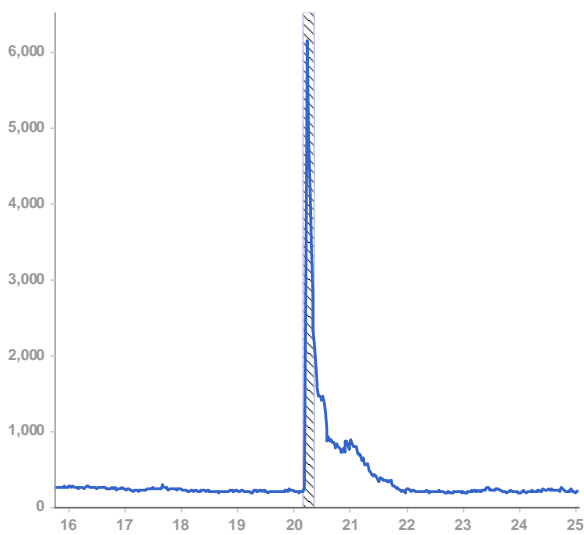
Source: FactSet

Figure 29: Labor Participation Rate (% of Workforce)



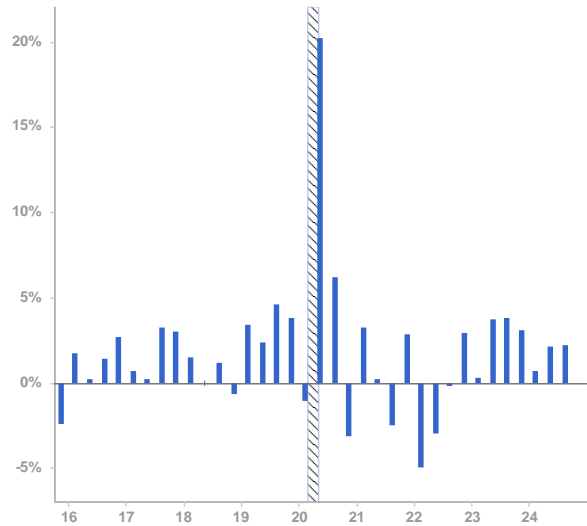
Source: FactSet

Figure 30: Initial Unemployment Claims



Source: FactSet

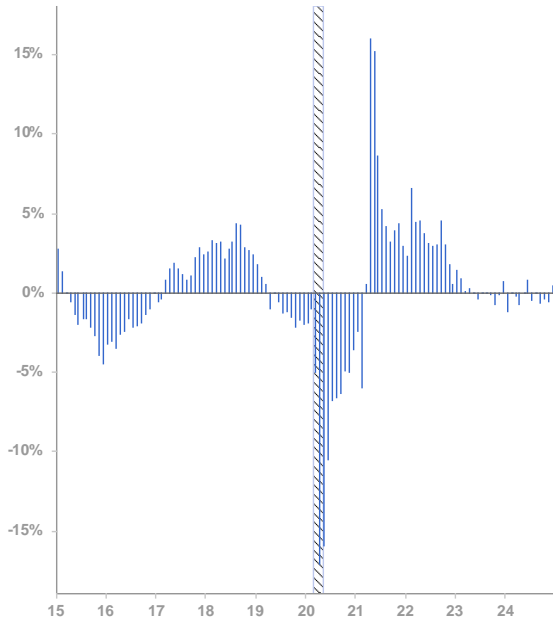
Figure 31: Non-Farm Productivity (% Chg YoY)



Source: FactSet

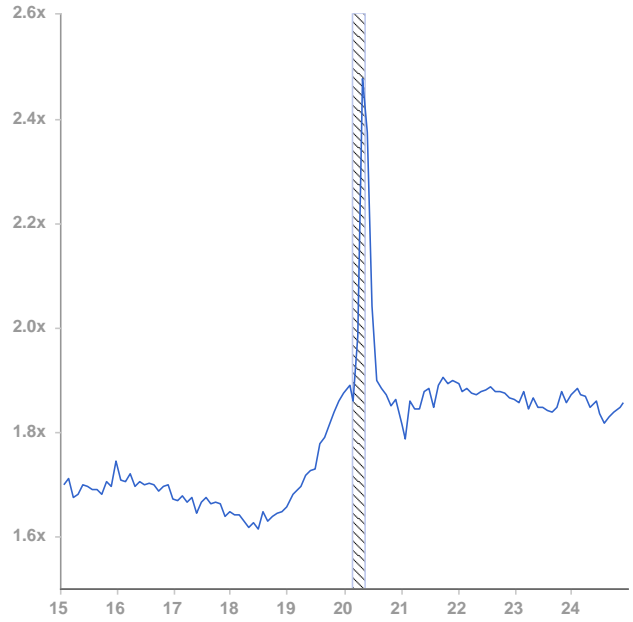
Production and Business Activity Indicators

Figure 32: Industrial Production (% Chg YoY)



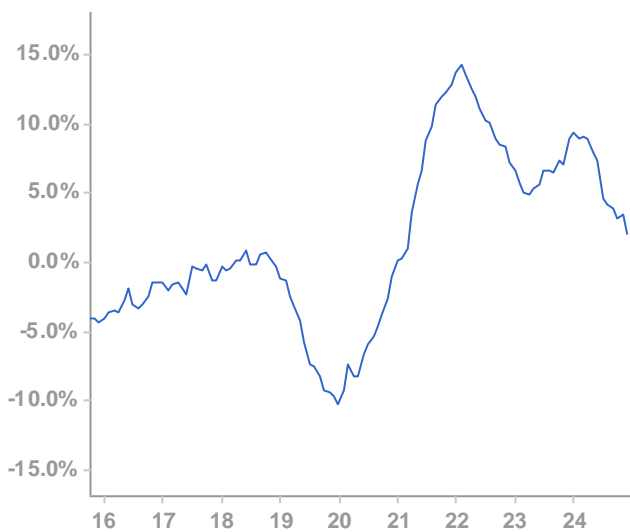
Source: FactSet

Figure 33: US Inventory to Shipment Ratio



Source: FactSet

Figure 34: Unfilled Orders (% Chg. YoY)



Source: FactSet

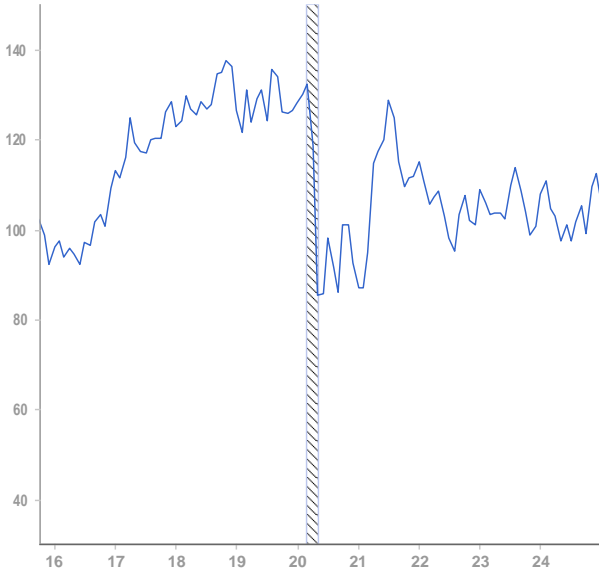
Figure 35: Business Sales (% Chg. YoY)



Source: FactSet

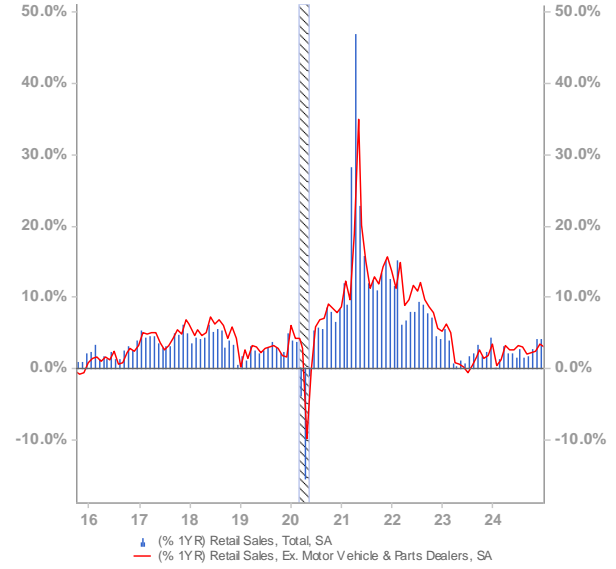
Consumer and Household Activity Indicators

Figure 36: University of Michigan Consumer Sentiment



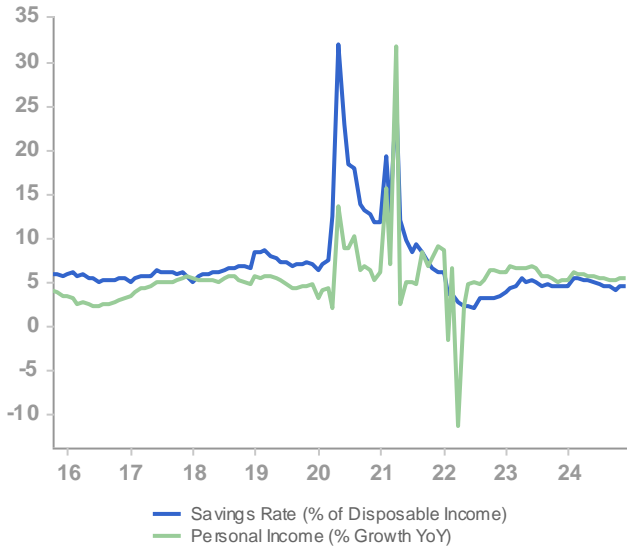
Source: FactSet

Figure 37: Retail Sales



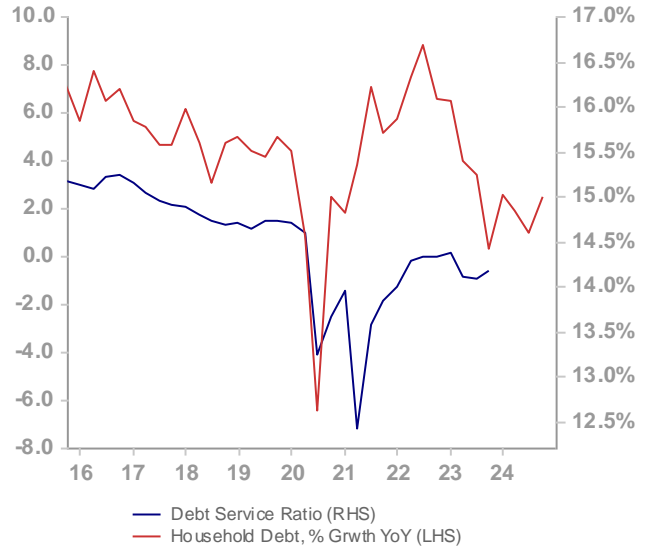
Source: FactSet

Figure 38: Personal Income and Savings Rate



Source: FactSet

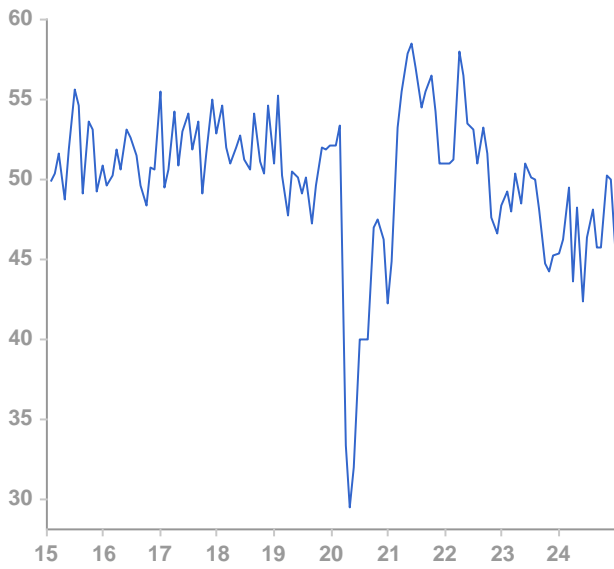
Figure 39: Household Debt



Source: FactSet

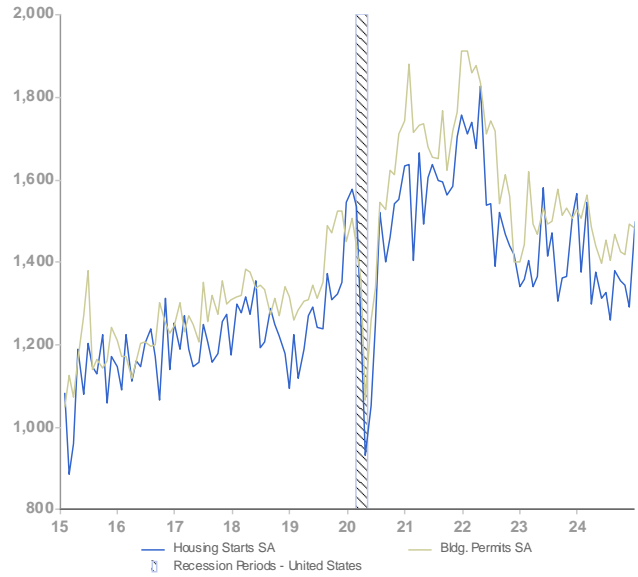
Housing and Construction Indicators

Figure 40: Architecture Billings Index



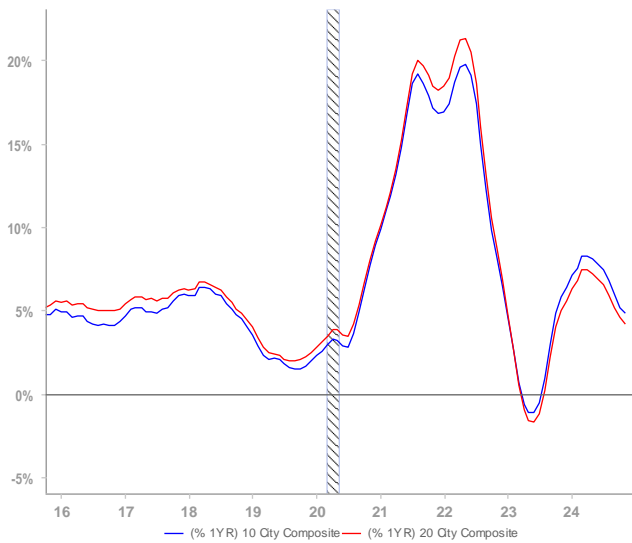
Source: FactSet

Figure 41: Housing Starts and Building Permits



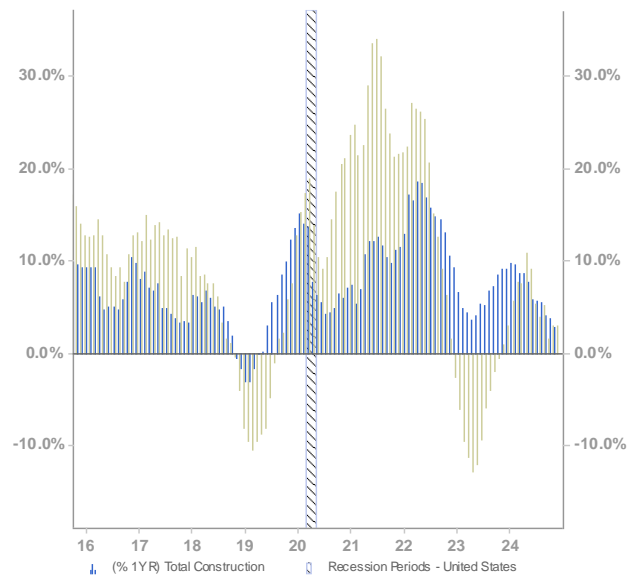
Source: FactSet

Figure 42: Case-Shiller 20-City & 10-City Index, % Chg YoY



Source: FactSet

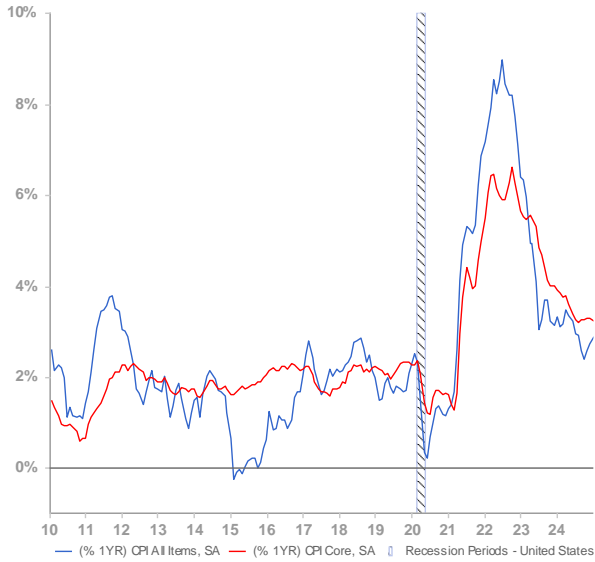
Figure 43: Private and Total Construction (% Chg YoY)



Source: FactSet

Price Indicators

Figure 44: Consumer Price Index



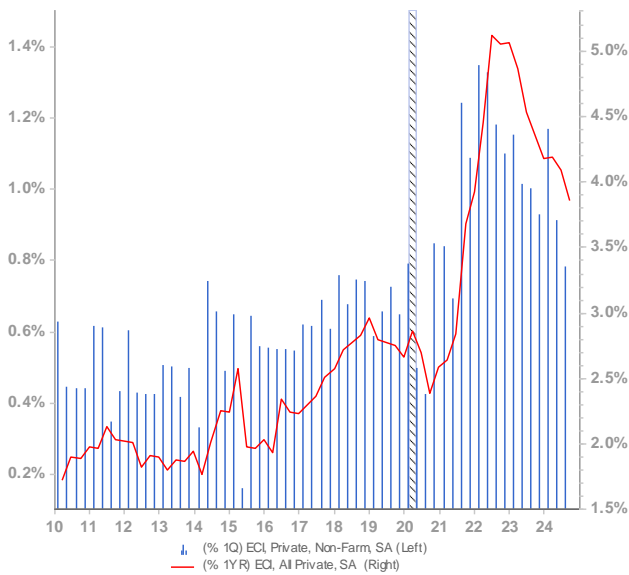
Source: FactSet

Figure 45: Producer Price Index



Source: FactSet

Figure 46: Employment Cost Index



Source: FactSet

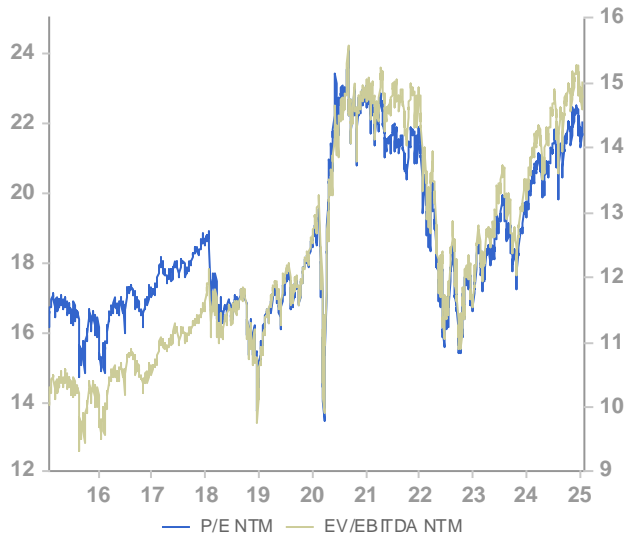
Figure 47: 10-Year, 5-Year Forward Inflation Expectations



Source: FactSet

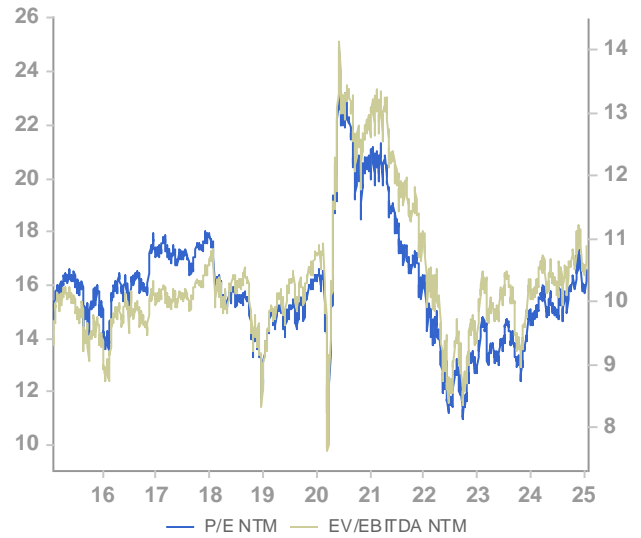
Valuation Indicators

Figure 48: S&P 500 P/E (LHS) & EV/EBITDA (RHS)



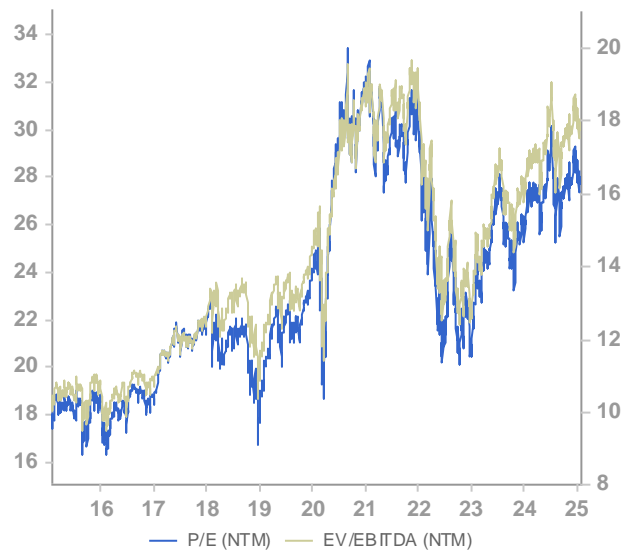
Source: FactSet

Figure 49: S&P Midcap 400 P/E (LHS) & EV/EBITDA (RHS)



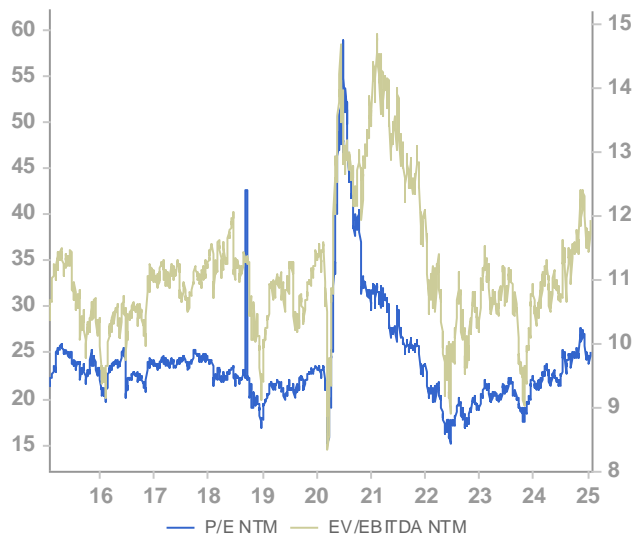
Source: FactSet

Figure 50: Nasdaq 100 P/E (LHS) & EV/EBITDA (RHS)



Source: St. Louis Federal Reserve, FRED Database

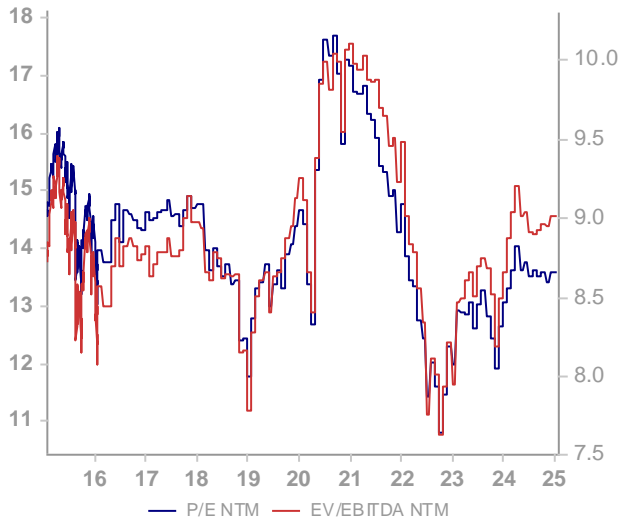
Figure 51: Russell 2000 P/E (LHS) & EV/EBITDA (RHS)



Source: St. Louis Federal Reserve, FRED Database

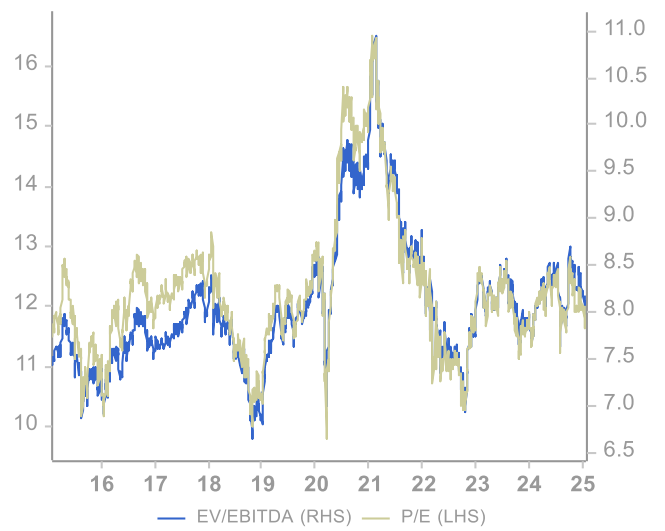
Valuation and Volatility Indicators

Figure 52: Intl Developed P/E (LHS) & EV/EBITDA (RHS)



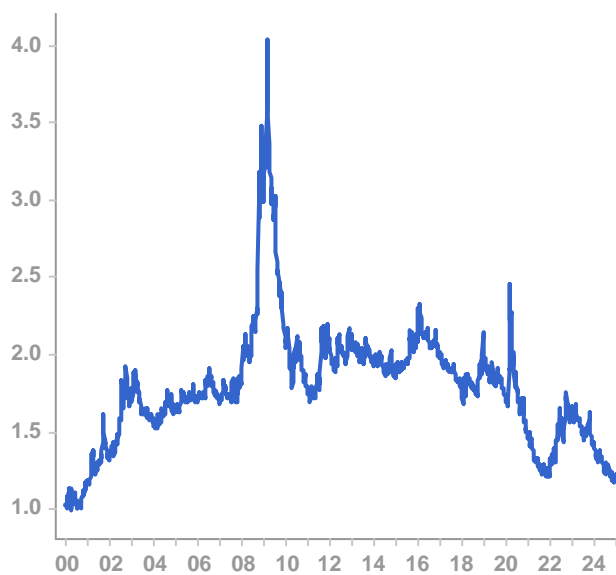
Source: Robert Shiller, Yale University, Rockingstone Advisors, Standard & Poor's

Figure 53: Emerging Markets P/E (LHS) & EV/EBITDA (RHS)



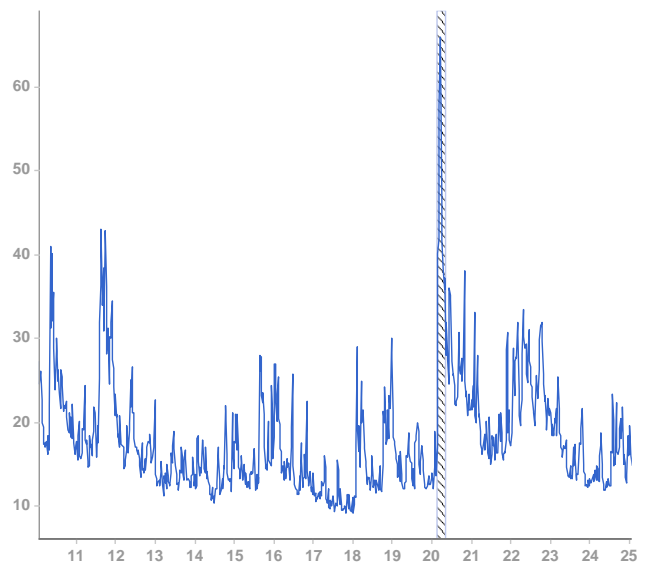
Source: Robert Shiller, Yale University, Rockingstone Advisors, Standard & Poor's

Figure 54: S&P 500 Dividend Yield



Source: FactSet

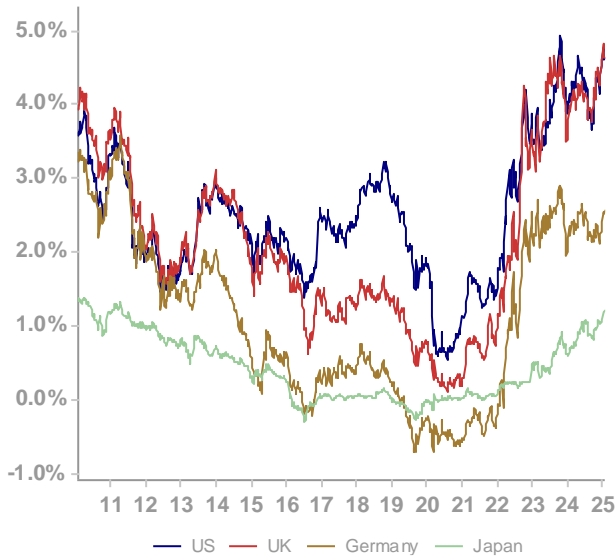
Figure 55: CBOE Volatility Index



Source: FactSet

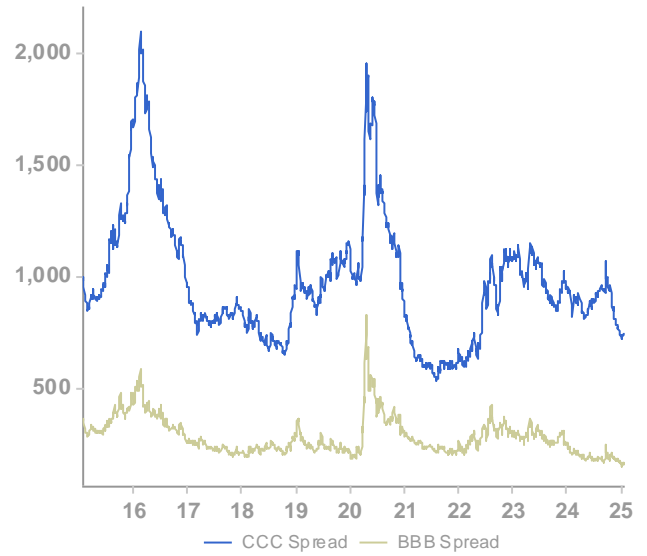
Bond Market Indicators

Figure 56: 10-Year Global Bond Yields



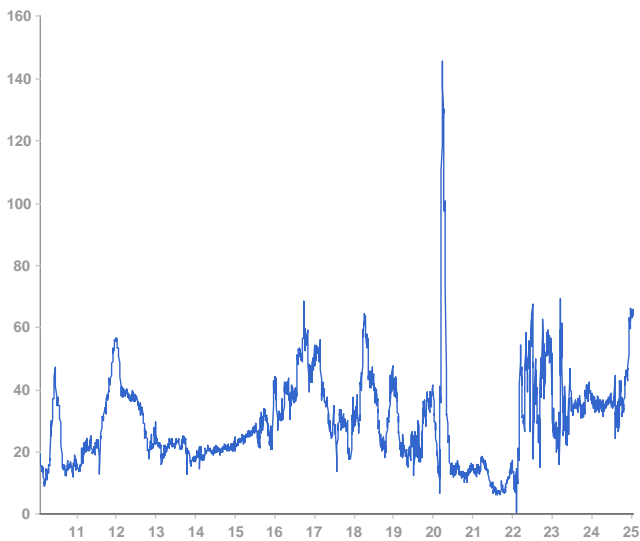
Source: FactSet

Figure 57: CCC and BBB Spreads (Option Adjusted)



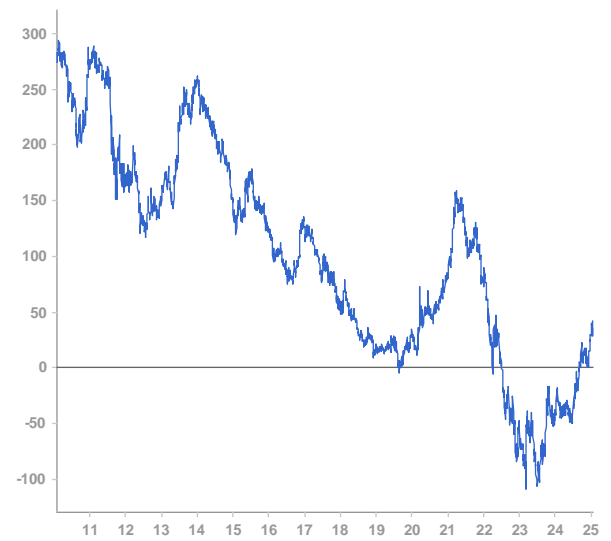
Source: FactSet

Figure 58: TED Spread (bps)



Source: FactSet

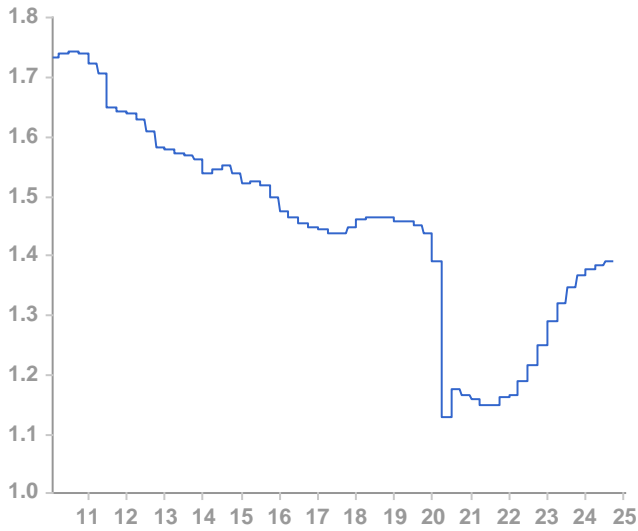
Figure 59: 10-Year Minus 2-Year Treasury



Source: FactSet

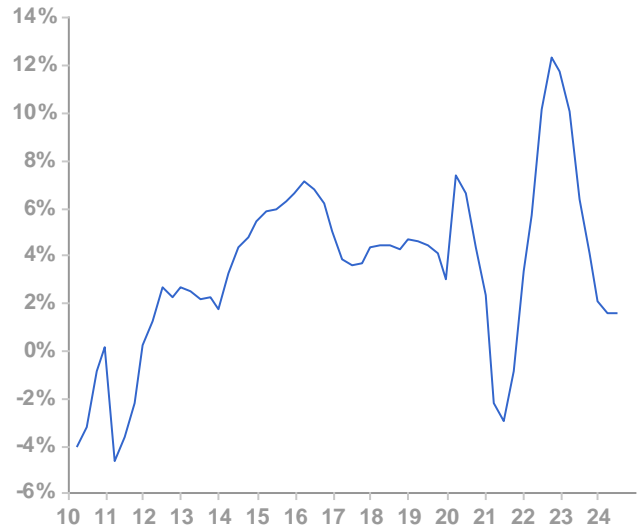
Liquidity and Other Indicators

Figure 60: Velocity of M2 Money Stock



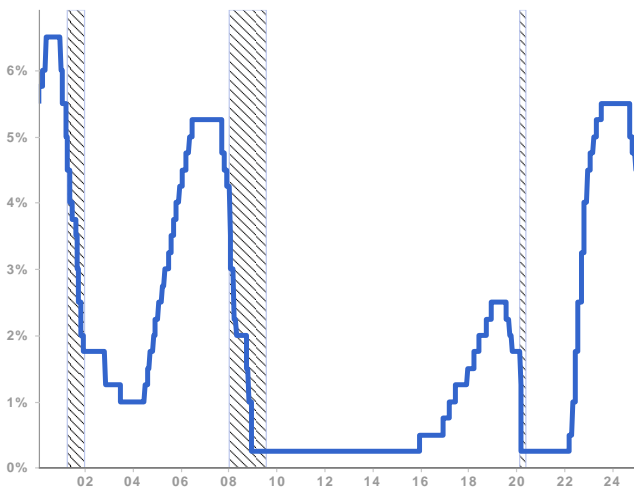
Source: FactSet

Figure 61: Loan Growth (Non-Financial, Private Sector)



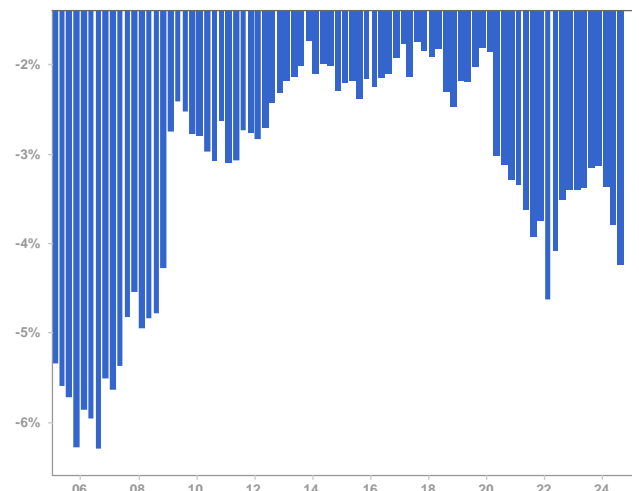
Source: FactSet

Figure 62: Fed Funds Target Rate



Source: St. Louis Federal Reserve, FRED Database

Figure 63: Current Account Deficit (as % of GDP)



Source: St. Louis Federal Reserve, FRED Database

Appendix

Important Regulatory Disclosures and End Notes

Form ADV available upon request. This quarterly is only for informational purposes and not a solicitation to buy or sell securities or as a source of specific investment, legal or tax recommendations.

Rockingstone Advisors is solely responsible for the content of this Quarterly. The information and statistical data contained herein have been obtained from sources we believe are reliable but cannot guarantee.

Rockingstone Advisors performance charts depict the mean aggregate return of all accounts invested with a similar objective and risk tolerance during the entire return period; individual account performance may materially differ according to strategy and portfolio composition. Returns are calculated using time-weighted method (TWM) and are weighted by portfolio assets. Returns can be influenced not only by the actual performance of the underlying portfolios, but by the mix (composition) of portfolios in any given year and the number of portfolios within the sample set. Public equity returns are calculated by Morningstar based on information received from our custodian(s). Other investment returns, including private equity and real estate investments are calculated based on valuation data from parties other than Rockingstone Advisors or at cost. Fixed income returns generated by private notes are recognized when the cash coupon is paid, rather than on an accrued interest basis (except for PiK securities). Annualized return is based on portfolios invested as of June 1, 2009. The sample set of portfolios within each annual cohort has increased over time and the mix changes every year. Our investment returns may reflect investment opportunities that are unavailable to all of our clients, for reasons including: (i) certain funds in which we have invested are now closed to new investors, (ii) certain clients may not meet “accredited investor” standards, (iii) certain investments are available only to officers or directors of a business, and /or (iv) we may believe that historical returns most likely will not be generated by a specific security or strategy and thus are no longer allocating new capital to a specific security or strategy. Past performance is neither indicative of-- nor a predictor of-- future performance. Mean reversion is a powerful force, meaning periods of outperformance are typically followed by periods of underperformance. All figures are net of fees and expenses. Rockingstone’s performance must be assessed in light of not just how we performed relative to the benchmarks, but how much risk we assumed in generating portfolio returns.

Quarterly Data prices are as of December 31, 2024; most other prices and yields are as of January 27, 2024.

We are happy to provide the raw data and source links for any of the charts or tables in this Quarterly. We are also happy to provide individual account performance data by annual cohort or by IRR (instead of TWM) so you can better understand the range of portfolio returns. We thank you for your interest and always appreciate any feedback.

Our contact information:

Brandt Sakakeeny & Eric Katzman, CFA
Rockingstone Advisors LLC
212-430-2240

brandt@rockingstoneadvisors.com
eric@rockingstoneadvisors.com

ⁱ Asset class performance charts depict Equity (SPY ETF), Bonds (BND ETF), Commodities (DBC ETF), Preferred (PFF ETF) and Real Estate (VNQ ETF) price change plus dividends and interest during the selected period.

ⁱⁱ Rockingstone Advisors performance charts depict the mean aggregate return of all accounts invested with a similar objective and risk tolerance during the entire return period; individual account performance may materially differ according to strategy and portfolio composition. Returns are calculated using time-weighted method (TWM) and are weighted by portfolio assets. Returns can be influenced not only by the actual performance of the underlying portfolios, but by the mix of portfolios in any given year. Public equity returns are calculated by Morningstar based on information received from our custodian(s). Other investment returns, including private equity and real estate investments are calculated based on valuation data from parties other than Rockingstone Advisors. Fixed income returns generated by private notes are recognized when the cash coupon is paid, rather than on an accrued interest basis. Annualized return since inception is based on portfolios invested as of June 1, 2009. The sample set of portfolios within each annual cohort has increased over time. Our investment returns may reflect investment opportunities that are unavailable to all of our clients, for reasons including: (i) certain funds in which we have invested are now closed to new investors, (ii) certain clients may not meet “accredited investor” standards, (iii) certain investments are available only to officers or directors of a business, and /or (iv) we may believe that historical returns most likely will not be generated by a specific security or strategy and thus are no longer allocating new capital to a specific security or strategy. Past performance is not indicative or a predictor of future performance. Mean reversion is a powerful force, meaning periods of outperformance are typically followed by periods of underperformance. All figures are net of fees and expenses. Rockingstone’s performance must be assessed in light of not just how we performed relative to the benchmarks, but how much risk we assumed in generating portfolio returns.

ⁱⁱⁱ Our Five-Year Forecast is updated quarterly and reflects our best judgment on future performance based on current valuations relative to historical valuations, as well as our outlook for earnings and macroeconomic conditions. We caution that predicting outcomes is inherently risky and subject to change.

^{iv} Equity performance charts depict U.S. large-cap (SPY ETF), U.S. mid-cap (VO ETF), U.S. small-cap (IWM ETF), International Developed (VEA ETF), and Emerging Markets (VWO ETF) price change plus dividends and interest during the selected period. We note that Vanguard highlighted a trading glitch in the shares of VO during March 31, 2015 that led to prices materially higher than underlying NAV. Hence you should assume VO’s valuation and total return was inflated as of the end of the first quarter.

^v Fixed income performance charts depict Intermediate Government (IEF ETF), High Yield Corporates (JNK ETF), High Grade Corporates (LQD ETF), International Corporates (PICB), and Emerging Markets bonds (EMB ETF) price change plus interest income earned over the selected period.

^{vi} Commodity performance charts depict Precious Metals (DBP ETF), Base Metals (DBB ETF), Oil (DBO ETF), and Agriculture (DBA ETF) price change.

^{vii} Digital asset performance charts depict the price changes of Bitcoin (BTC) and Ethereum (ETH) over the selected time frame.