

MERIDIAN
Financial Partners

Clarify the path. Enjoy the journey.

Quarterly Review + Market Outlook

January 8, 2025

Agenda

- Economy
- Consumer
- Markets



Economy

AI – Another Industrial Revolution?



Geoffrey Hinton, Physics
Nobel Prize winner 2024

💡 **"It will be comparable** with the Industrial Revolution. Instead of exceeding people in physical strength, it's going to exceed people in intellectual ability. We have no experience of what it's like to have things smarter than us," Hinton said on a call with reporters.

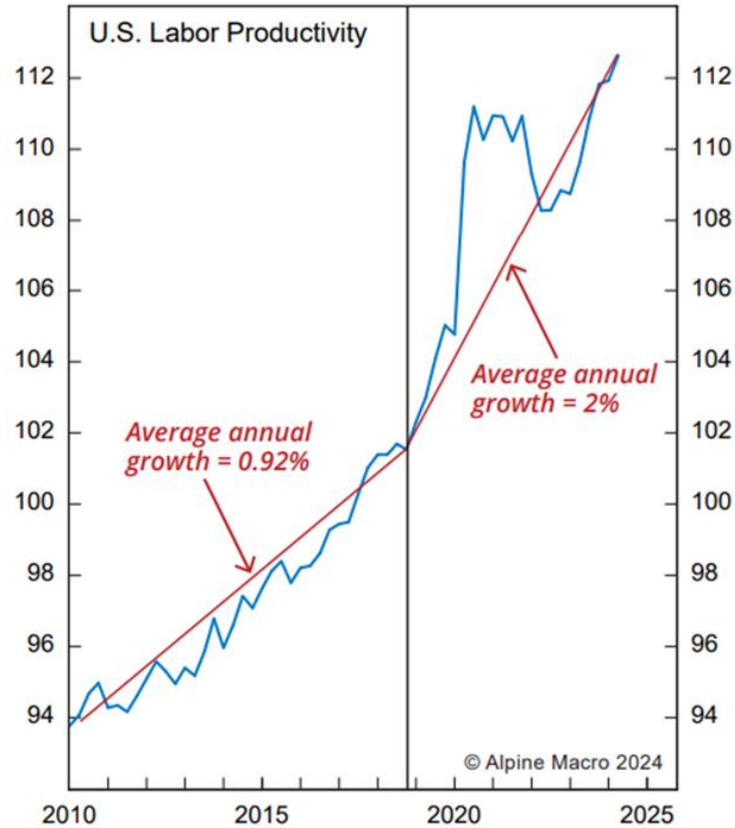
- **"It'll mean huge** improvements in productivity. But we also have to worry about a number of possible bad consequences, particularly the threat of these things getting out of control."

Source: Axios, 10/09/2024

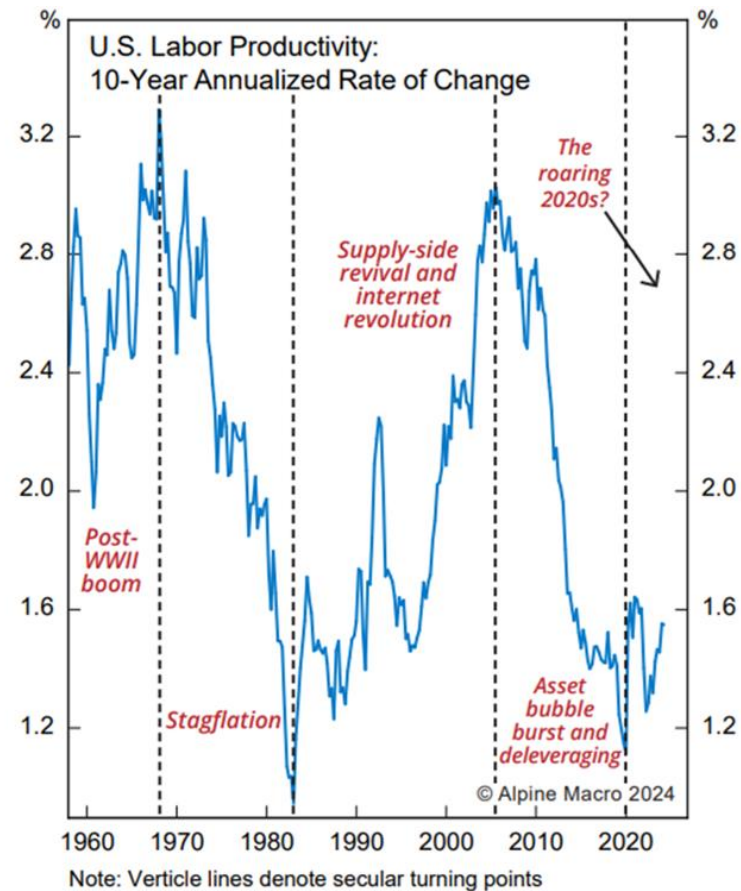
Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

This is all about productivity

Labor Productivity:
A Post-Pandemic Surge



Secular Trend In U.S. Labor
Productivity



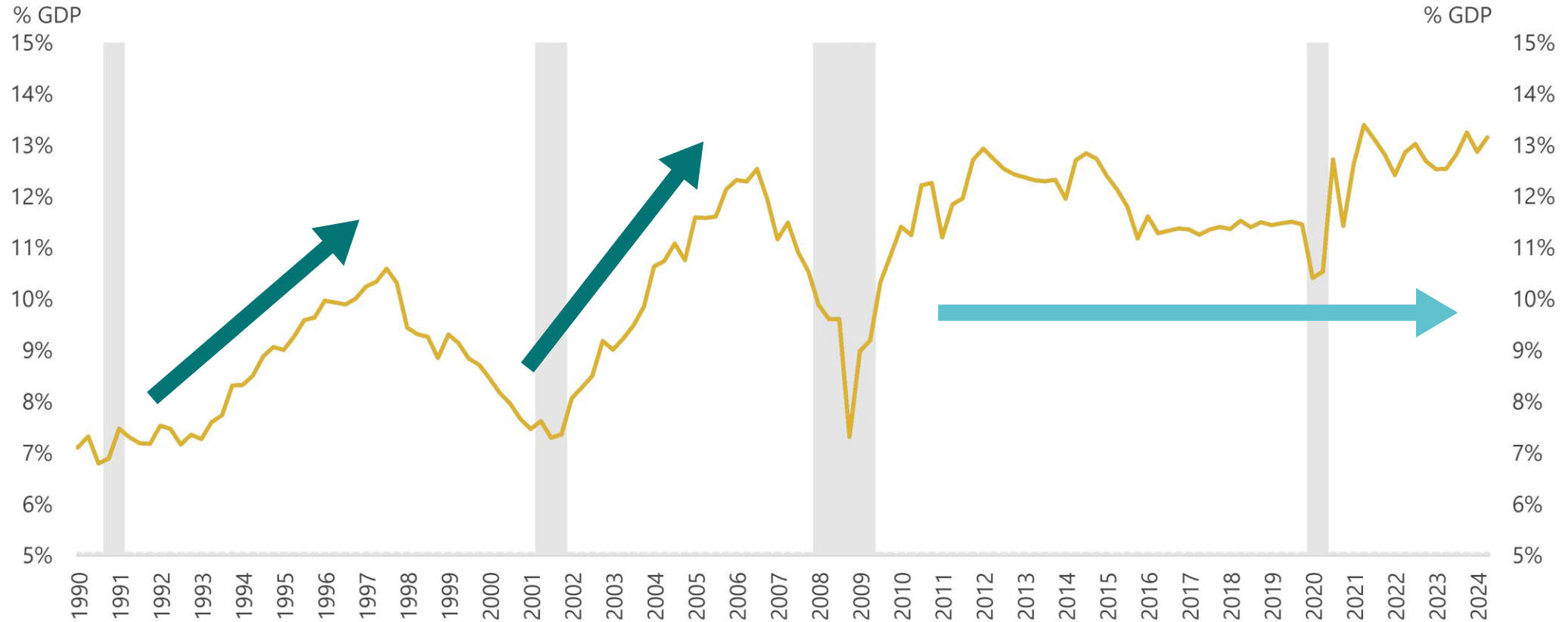
Source: Alpine Macro, 10/21/2024

Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

What happens if we get another productivity boom?

Corporate Profits Near All-Time Highs as a Share of Gross Domestic Product (GDP)

Corporate profits before tax with individual voluntary arrangement (IVA) and capital consumption adjustment

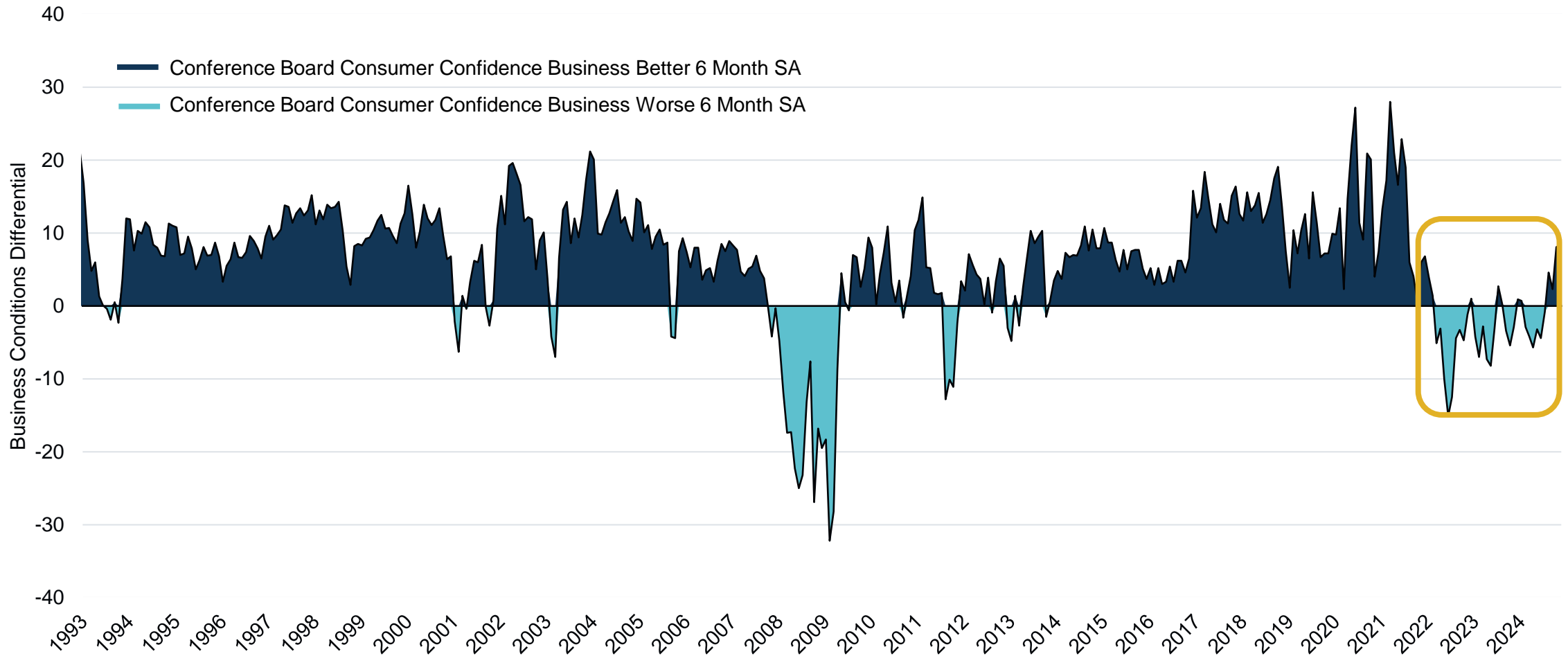


Source: Apollo, 11/09/2024. An "Inventory Valuation Adjustment (IVA)" is an adjustment made to corporate profits in national income accounting to remove "phantom profits" arising from changes in inventory values due to inflation, essentially reflecting the current cost of inventory rather than historical cost. "Capital Consumption Adjustment (CCAdj)" is an adjustment made to depreciation expense to reflect the current cost of capital goods instead of their historical cost, providing a more accurate measure of capital consumption in economic analysis.

Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

Companies FINALLY expecting better business conditions!

Six Month Forward Business Confidence:
Difference Between Conditions Better and Conditions Worse

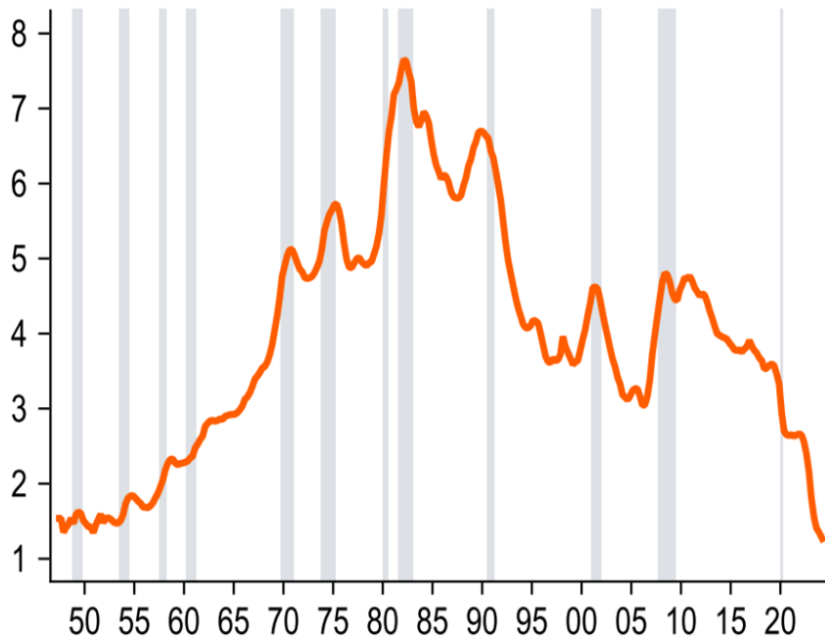


Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

Source: Bloomberg, calculations by Horizon Investments, 12/18/2024

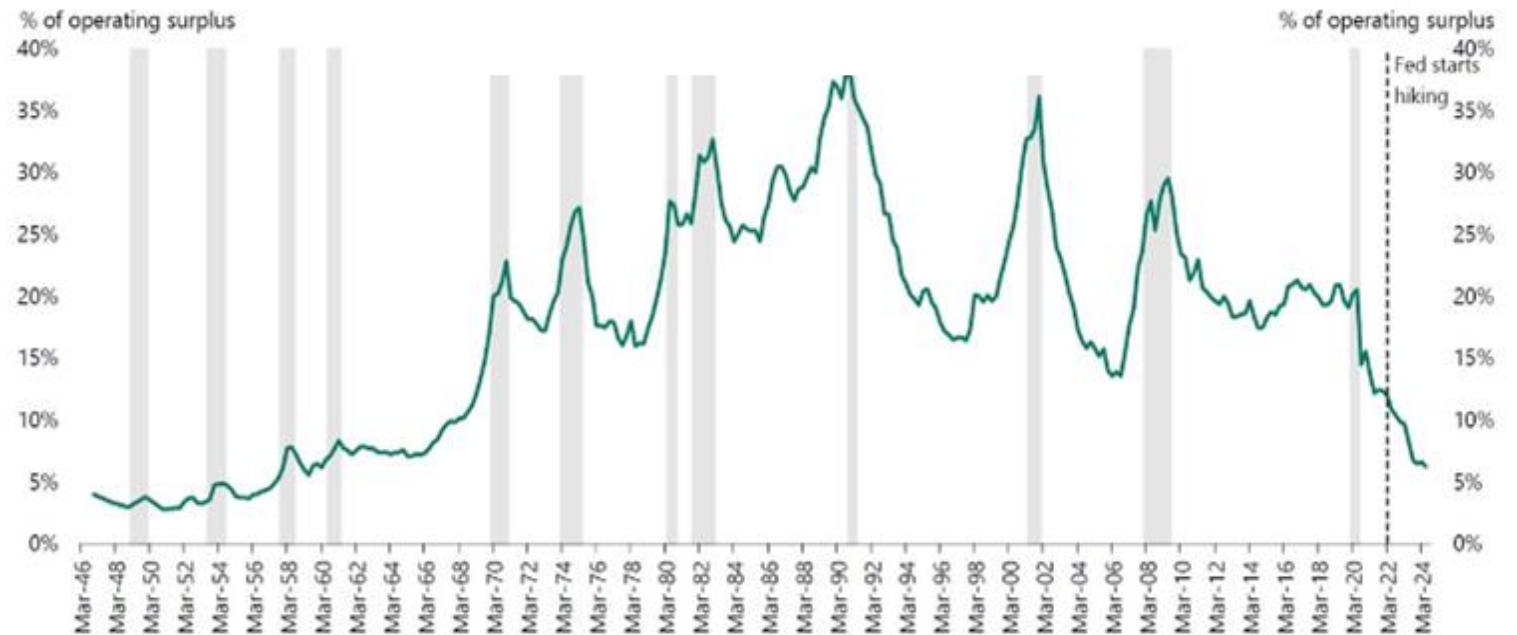
Why didn't the Fed's hiking campaign have a bigger impact?

**U.S. Nonfinancial Corporate Net Interest
% Debt Securities and Loan Liabilities**
2024 Q2: 1.2%



Source: Piper Sandler, 11/08/2024

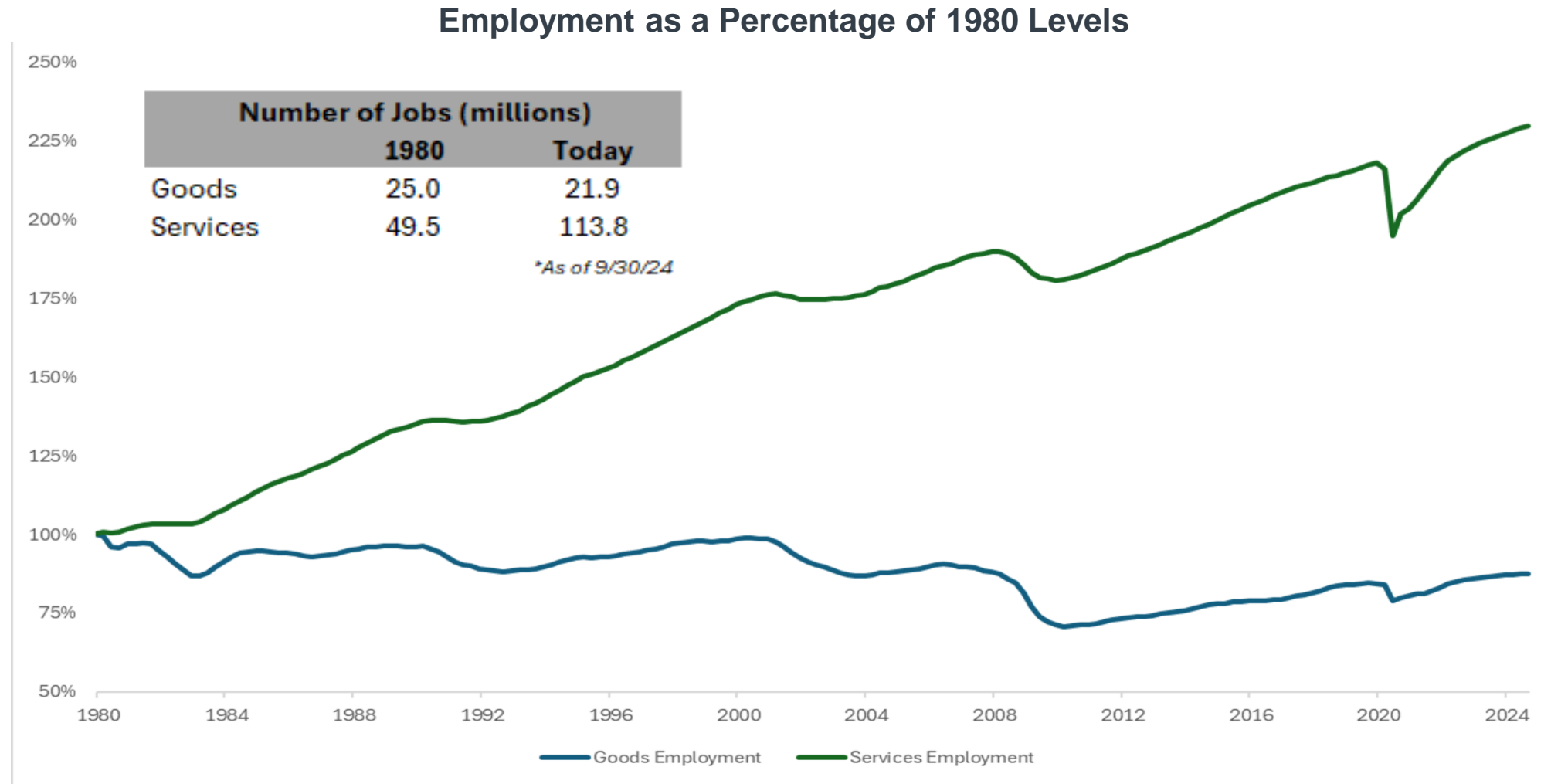
U.S. Nonfinancial Corporate Business Net Interest Payments



Source: Apollo, 10/23/2024

Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

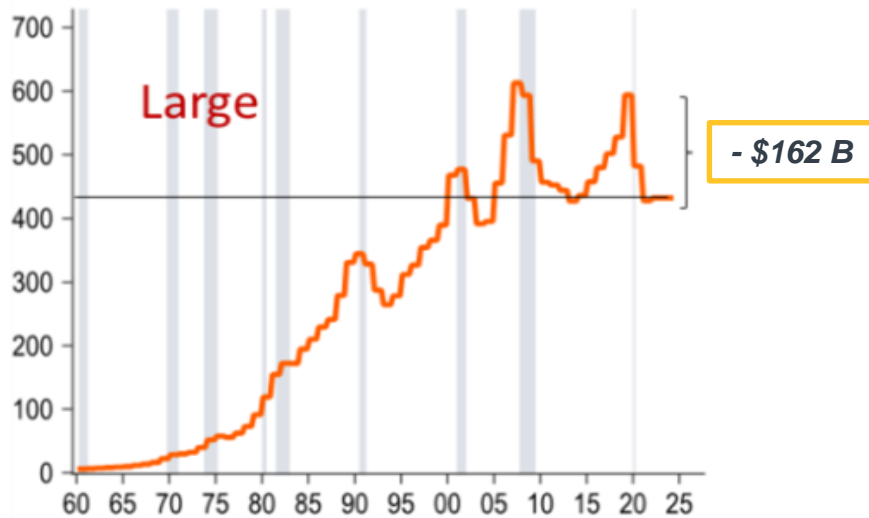
Lest we forget that services dominate our economy



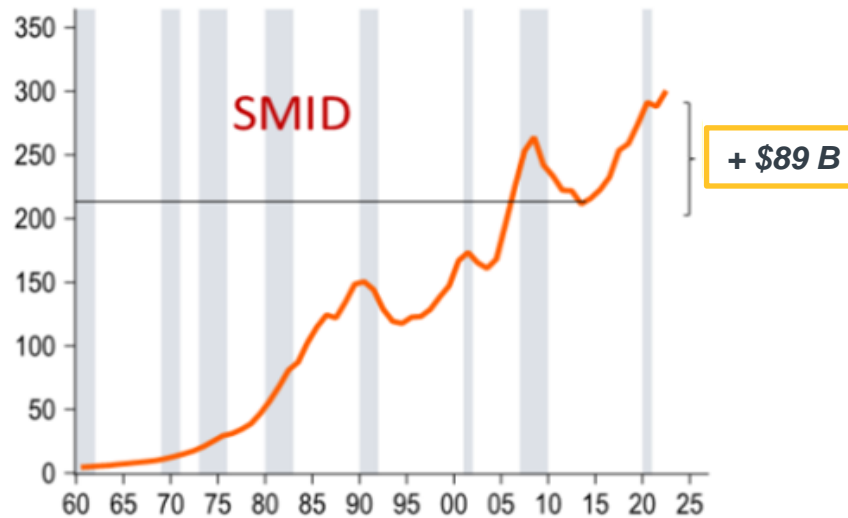
Source: Calculations by Horizon Investments, 10/15/2024

BUT...it did matter to some companies...

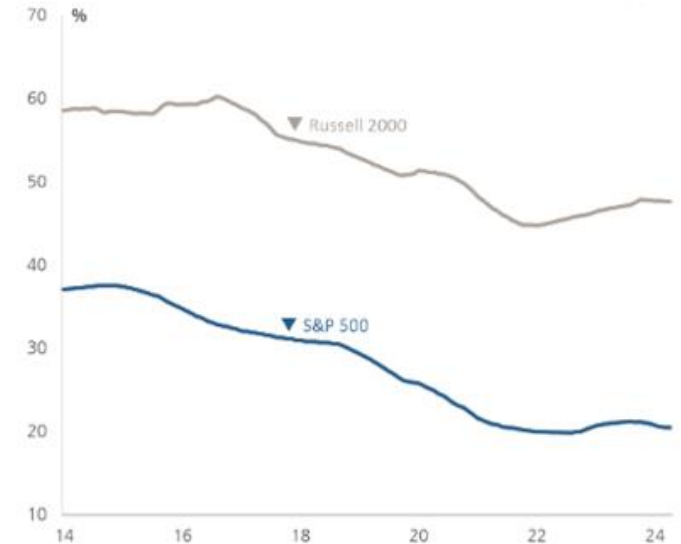
U.S. Corporate Net Interest Expense
2024 Q2: \$432.1 Billion



U.S. Noncorporate Net Interest Expense
2022: \$300.4 Billion



Variable/Total Debt – Large vs. Small Cap



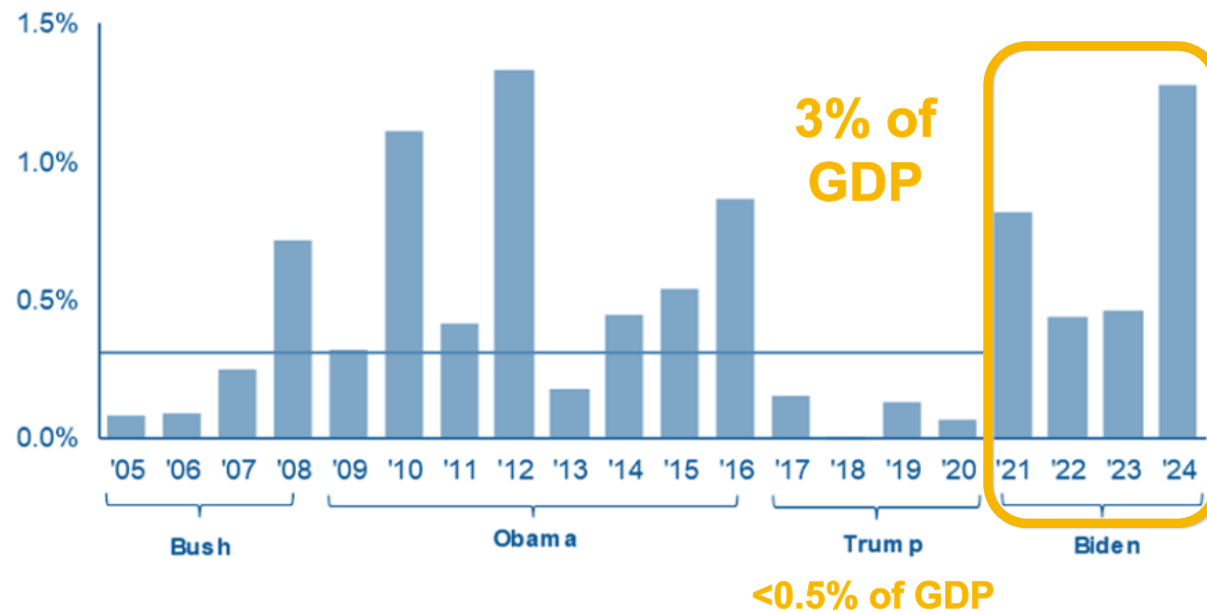
Source: Piper Sandler, 11/24/2024

Source: UBS, 12/02/2024

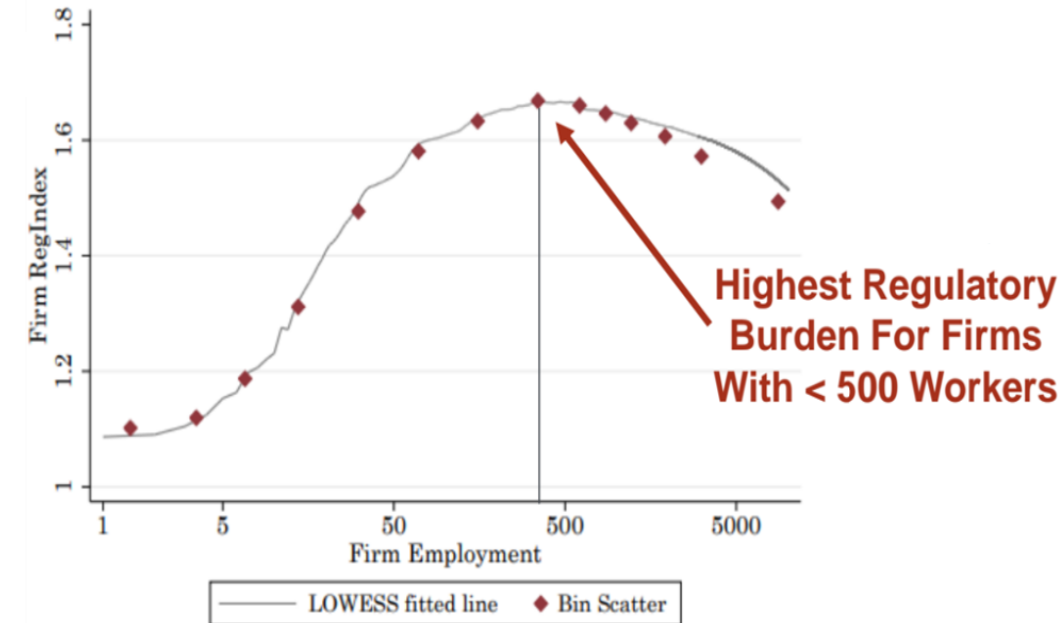
Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

Regulatory costs also matter...and more for smaller firms

Total Cost of Regulations by Year (% GDP)



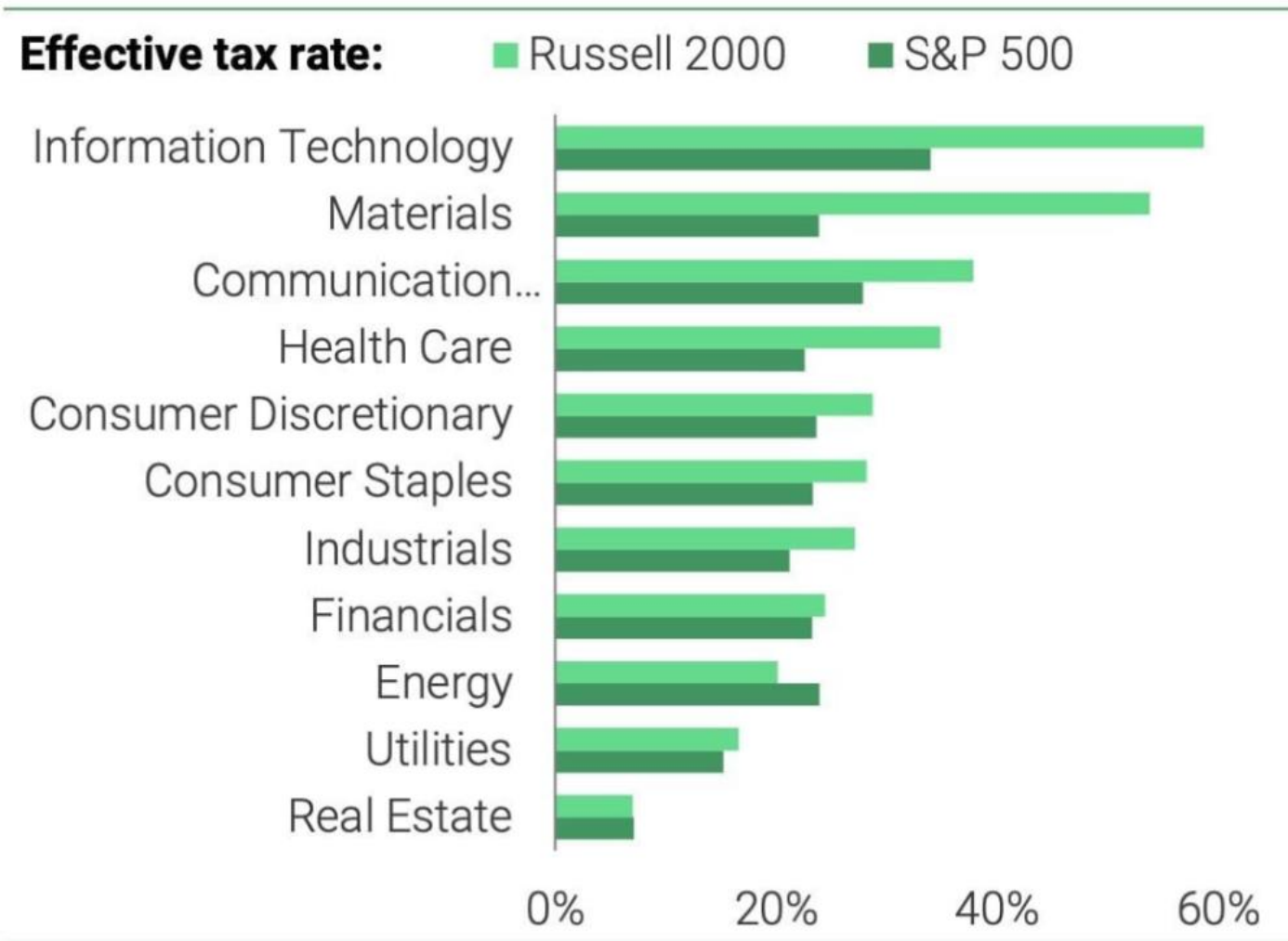
Firm-Level
Regulatory
Costs % Labor
Costs



Source: Piper Sandler, 11/20/2024

Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

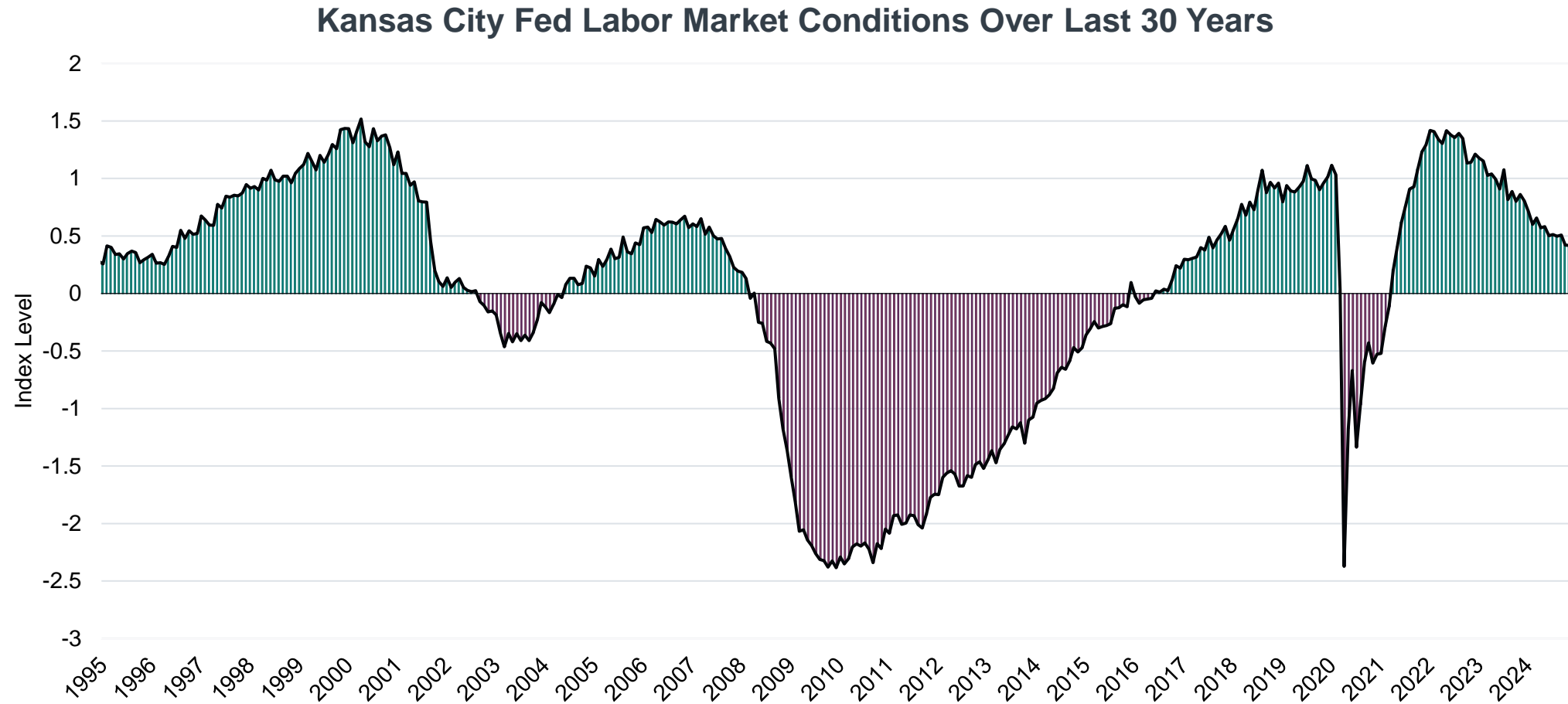
Don't forget about taxes...especially on small businesses!



Source: RBC, 11/12/2024

Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

The labor market is softening, but still objectively quite strong



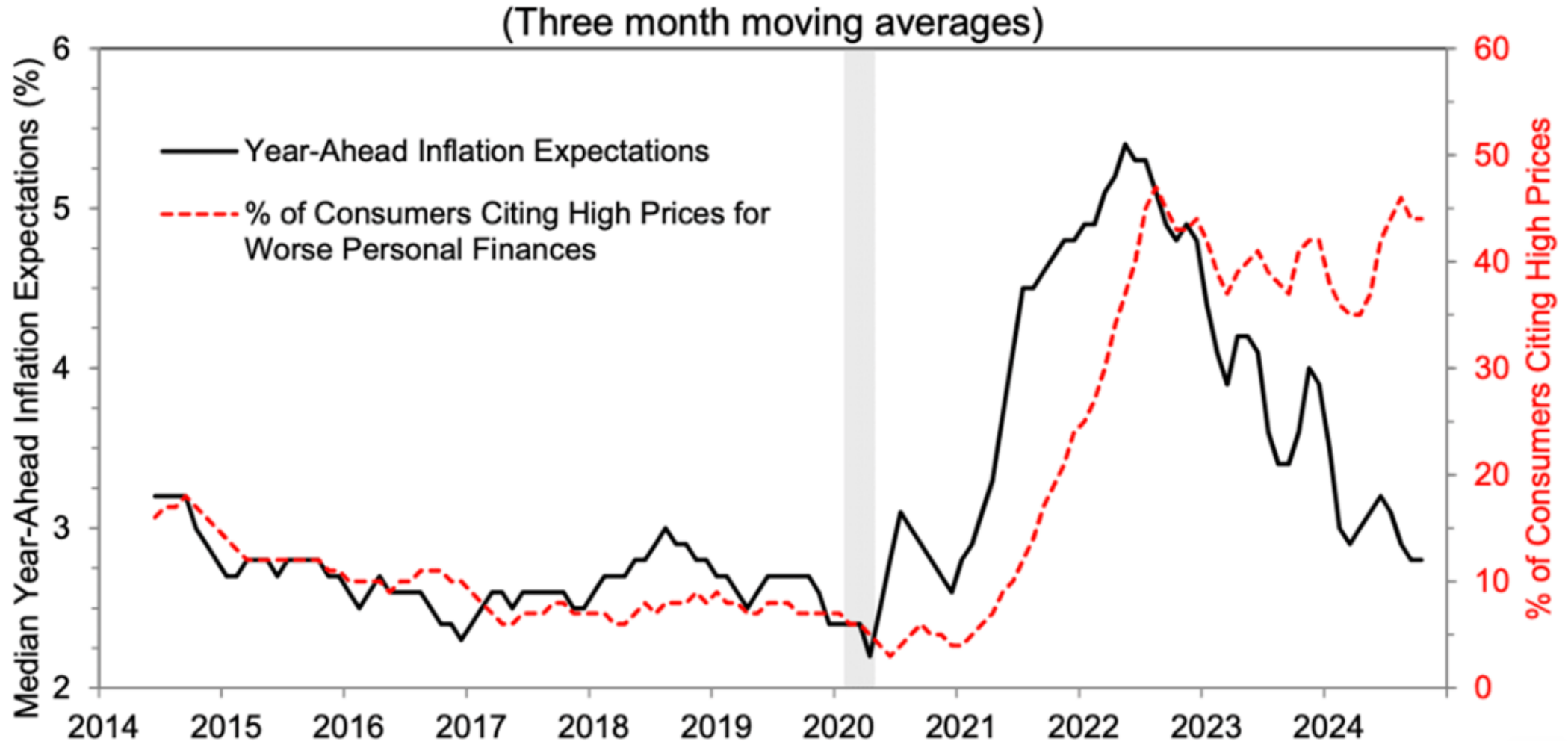
Source: Bloomberg, calculations by Horizon Investments, 12/18/2024

Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.



Consumer

Inflation expectations softening, but price concerns persist

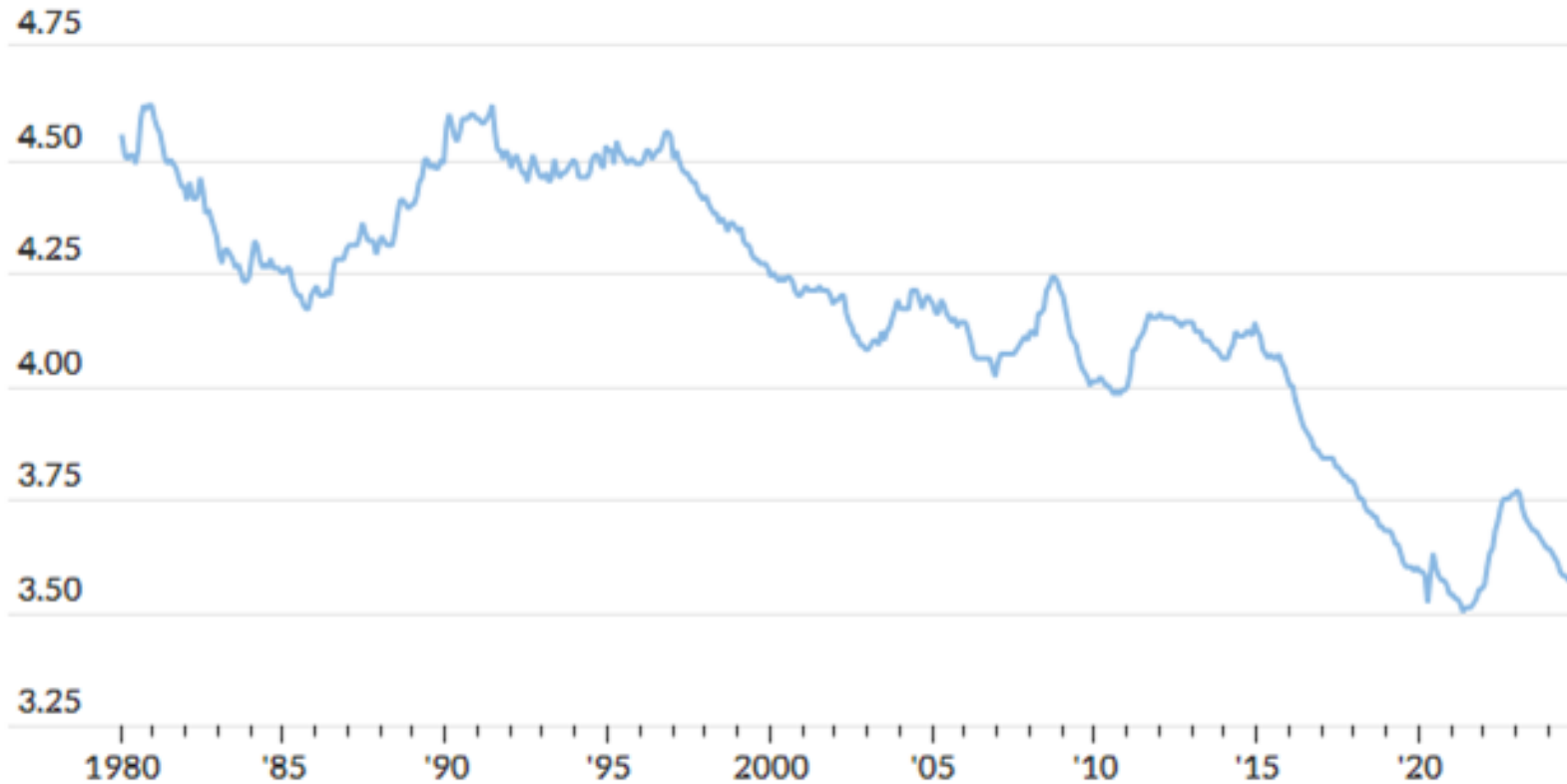


Source: University of Michigan, 10/11/2024

Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

Even though groceries are more affordable! (really???)

Hours of work to afford a week's worth of groceries:



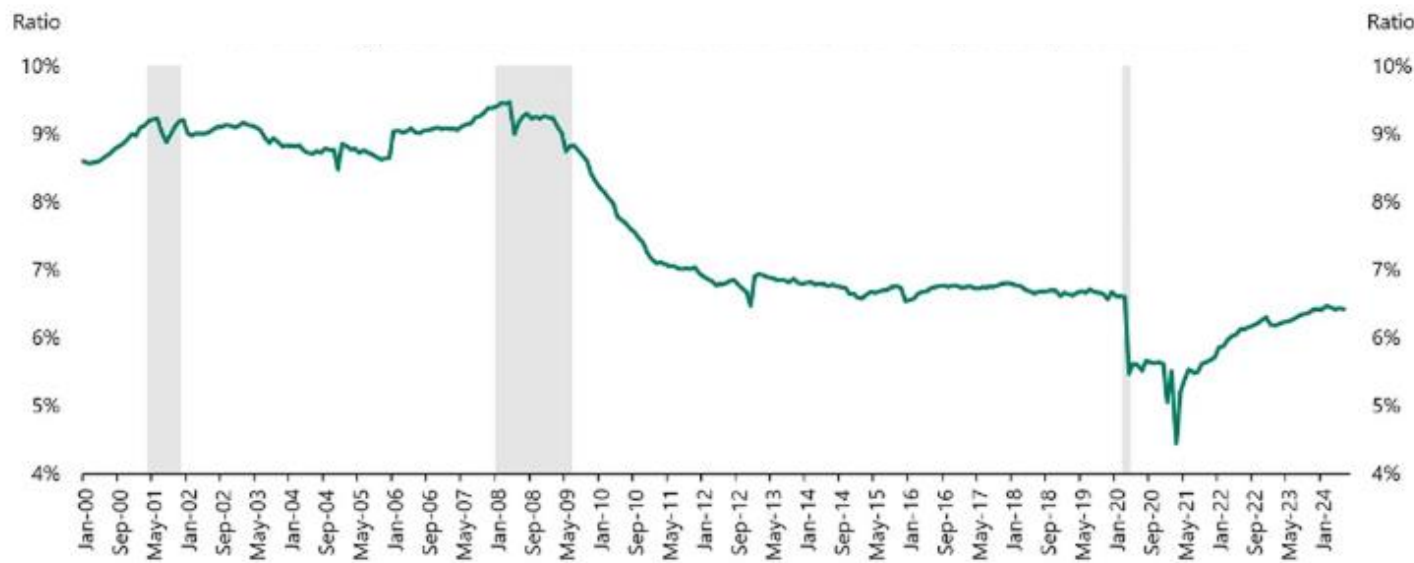
Note: Based on the average wage for production and non-supervisory employees and the 2019 annual spending of a middle-quintile household on food at home, adjusted for inflation

Source: MarketWatch, 10/10/2024

Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

Don't let the facts get in the way of a good story

U.S. Revolving Consumer Credit as a Share of Disposable Personal Income

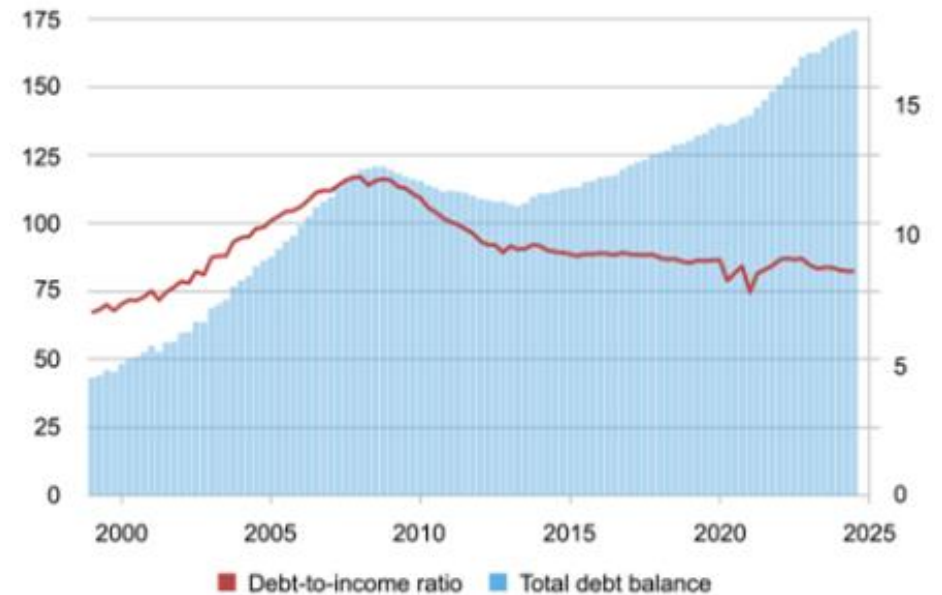


Source: Apollo, 10/13/2024

Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

Debt-to-Income Ratio (Percent)

Total Debt Balance (Trillions of Dollars)



Source: Liberty Street Economics, 11/13/2024

Inflation-adjusted Incomes are UP relative to pre-COVID

Annualized Inflation-Adjusted Percent Change

Q4 2019 – Q2 2024

■ CPI ■ PCE

4.0%

2.0

-2.0

Average Hourly
Earnings

ECI

Median Weekly
Earnings

Total
Compensation

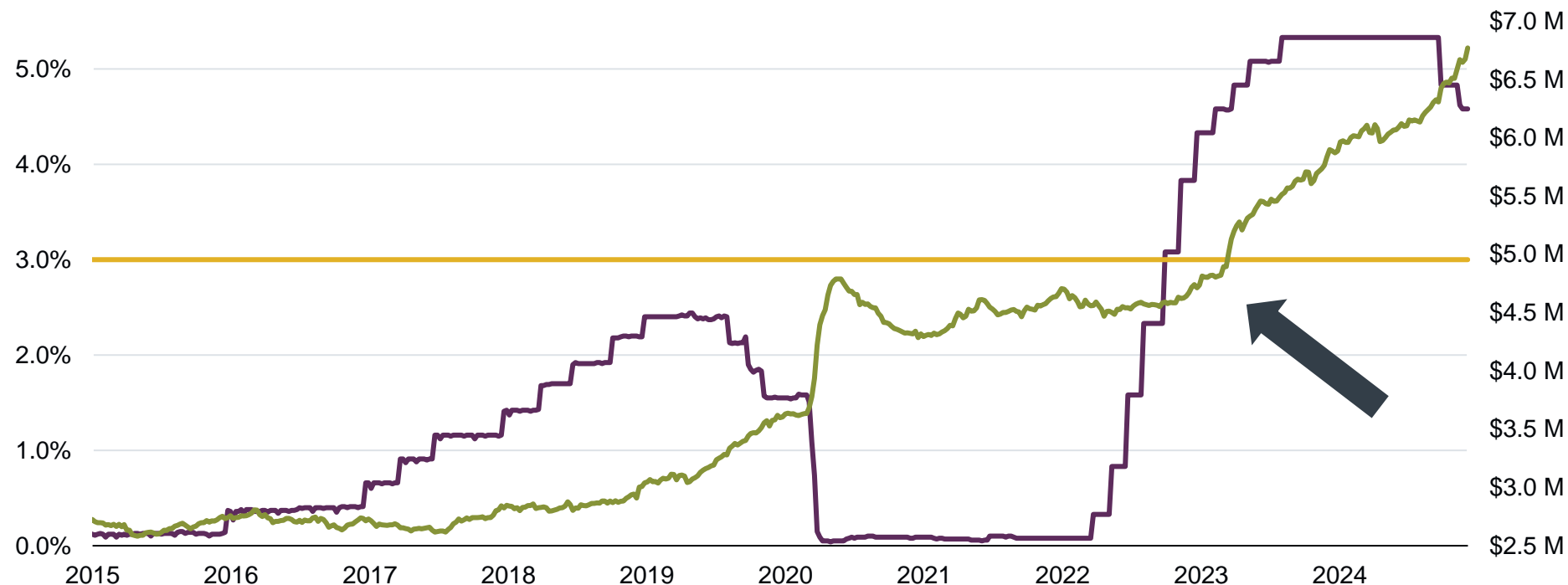
Key Differences in Pay Measures

Measure	Included compensation			Other factors accounted for		
	Wages	Salaries	Benefits	Hours worked	Non-earners	Changes in composition
Hourly earnings						
● Average Hourly Earnings	✓			✓		
● Employment Cost Index	✓	✓	✓			✓
Weekly earnings						
● Usual Weekly Earnings	✓	✓		✓		
Quarterly earnings						
● Total Compensation	✓	✓	✓	✓	✓	✓

And there's not a small amount of "dry powder" available

Net Assets in All Money Market Funds Over The Last Decade

— U.S. Federal Funds Effective Rate (Left)
— Investment Company Institute (ICI) All Money Market Funds Total Net Assets (Right)



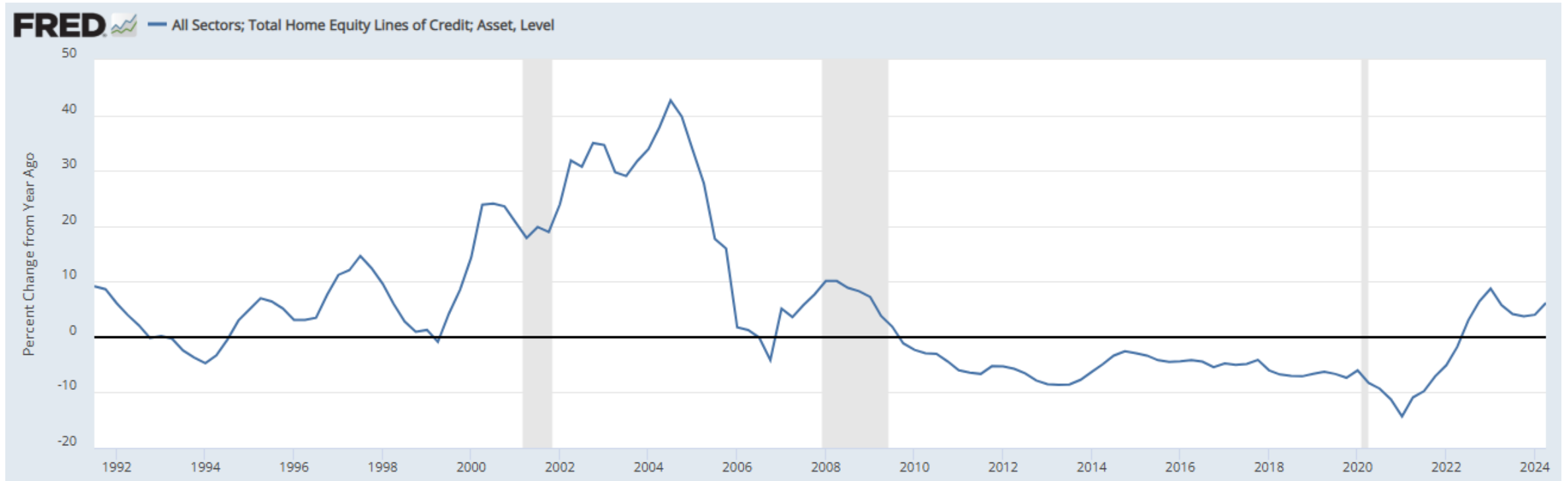
It took 4-6 months after rates hit 3% for \$2 trillion of money market funds to start flowing in.

When and where this money goes will be important for 2025, but it likely will not stay put.

Source: Bloomberg, calculations by Horizon Investments, 12/13/2024

Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

Home equity lines of credit are finally starting to increase



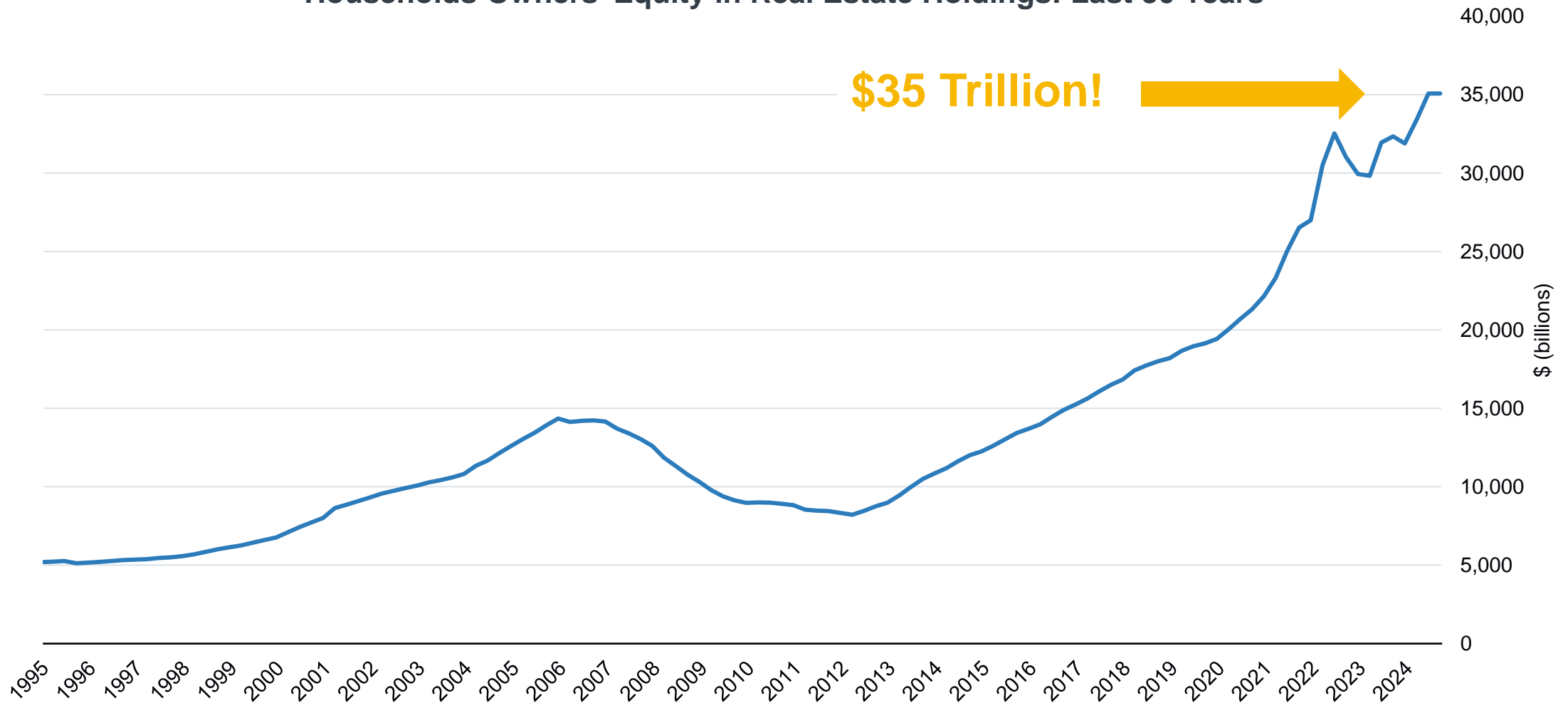
Shaded areas indicate U.S. recessions.

Source: Federal Reserve Economic Data, 12/12/2024

Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

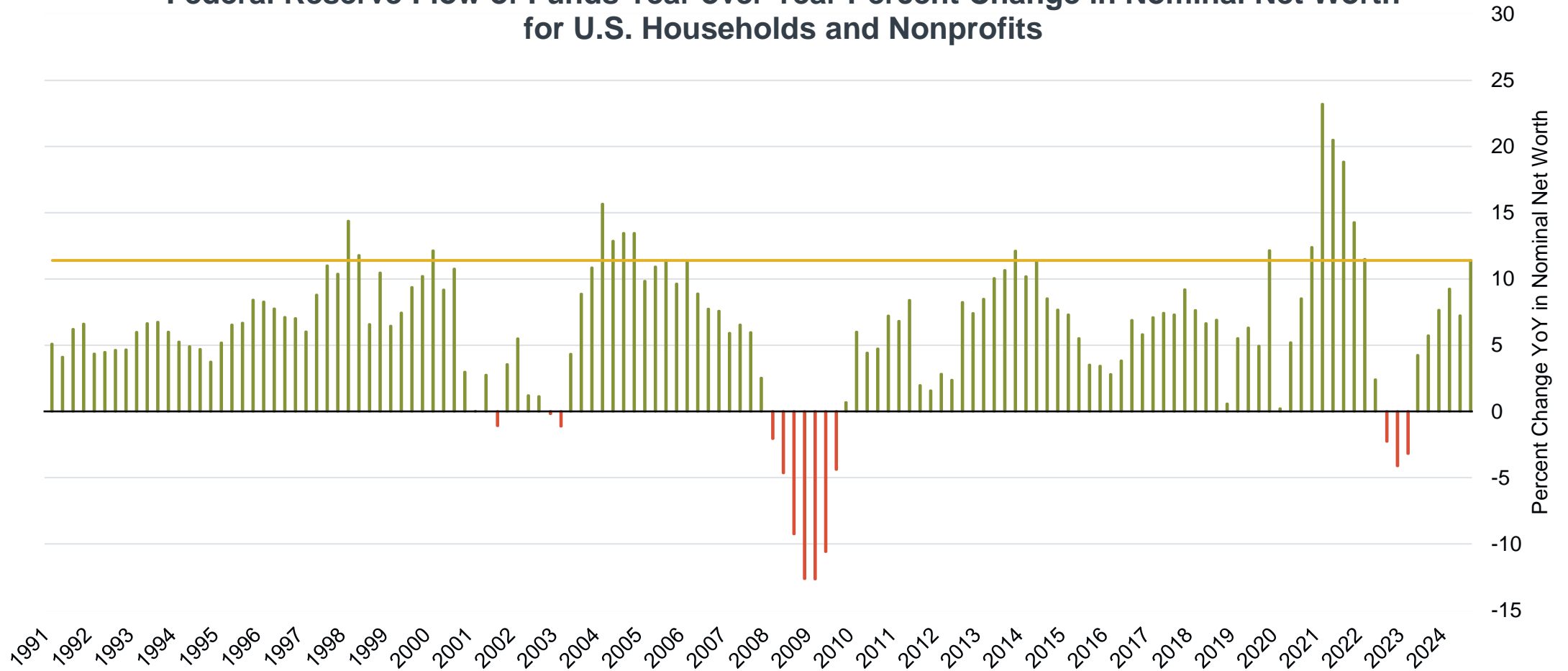
Which could be an important source of liquidity!

Households Owners' Equity in Real Estate Holdings: Last 30 Years



And part of the reason why household net worth continues to surge

Federal Reserve Flow of Funds Year over Year Percent Change in Nominal Net Worth for U.S. Households and Nonprofits



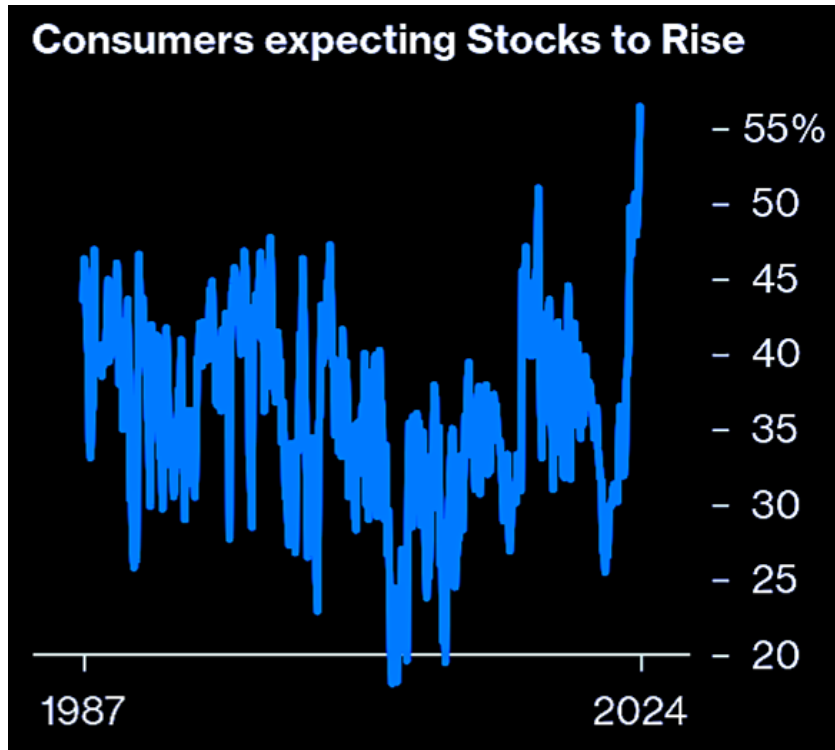
Source: Bloomberg, calculations by Horizon Investments, 12/16/2024

Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.



Markets

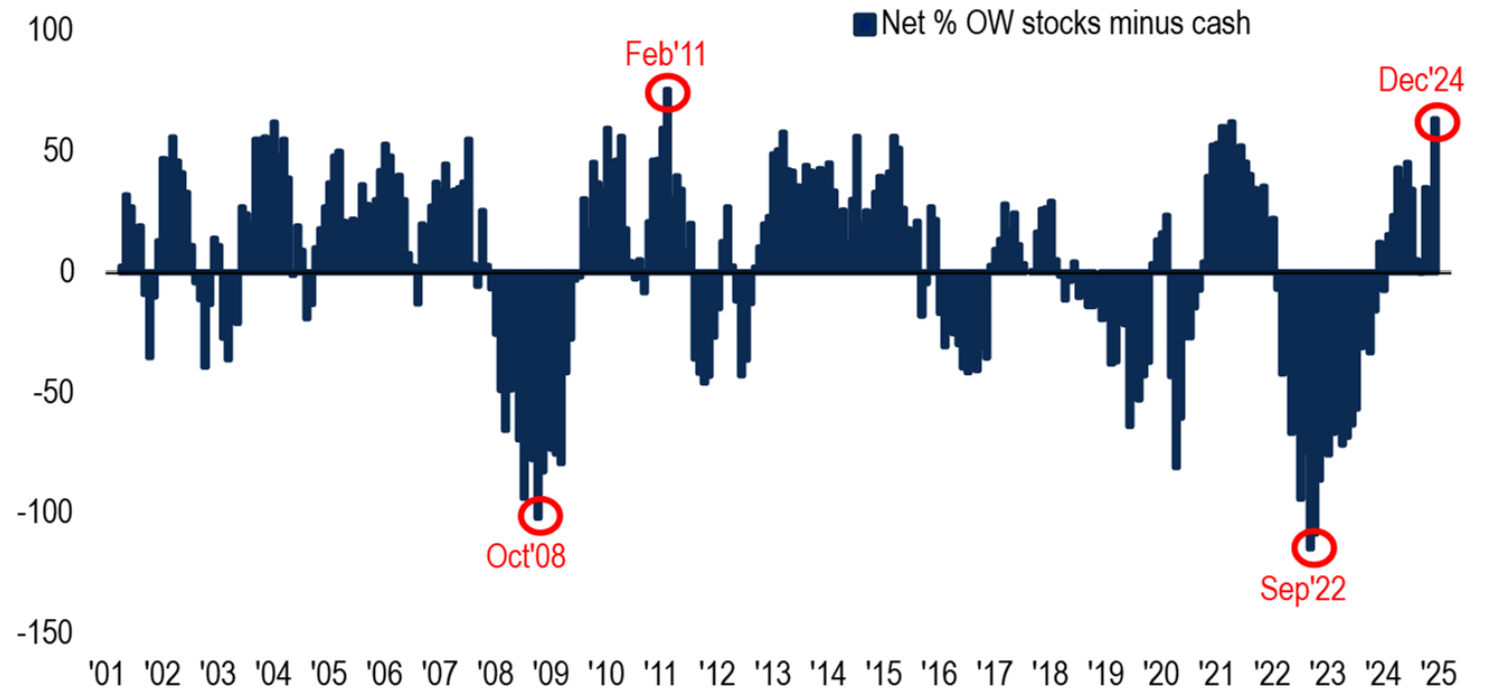
Sentiment & positioning...too bullish for our liking



Source: Bloomberg Opinion, 12/18/2024

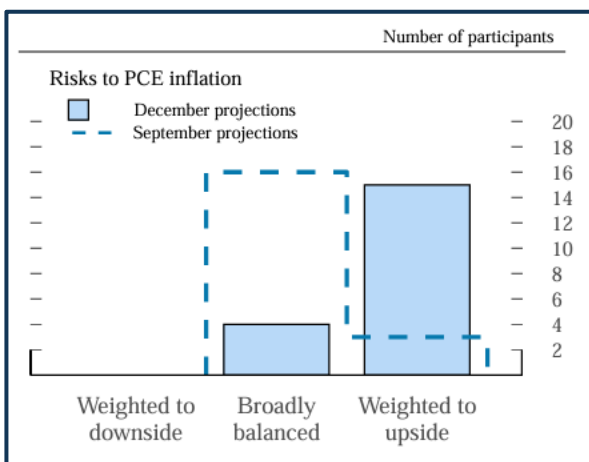
Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

Net % overweight equities - net % overweight cash

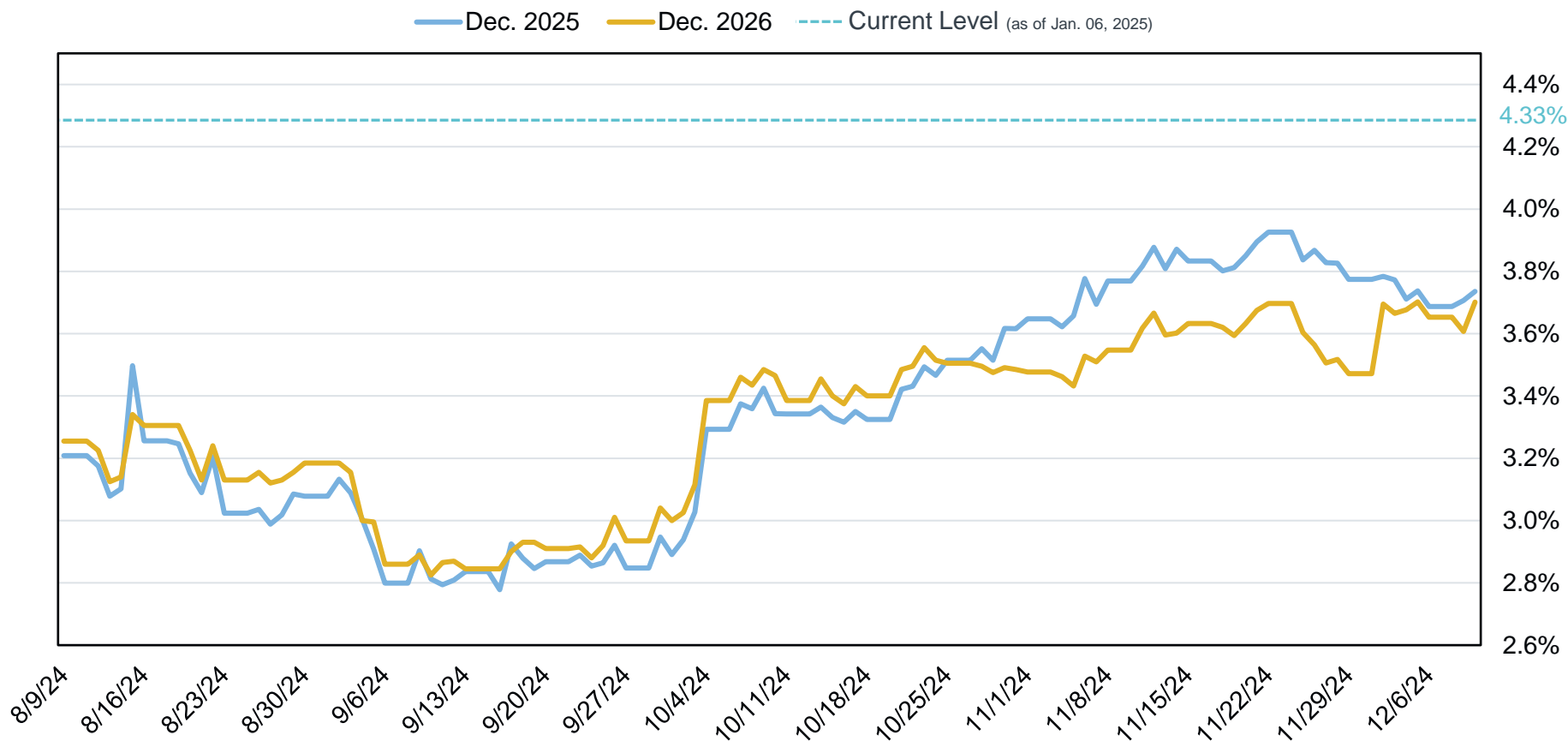


The Fed injected uncertainty during their December meeting

- Re-emphasizing inflation
- Calling rate cut cycle as mostly done
- Introducing modeling **currently unknown** Trump 2.0 policies into their forecasts



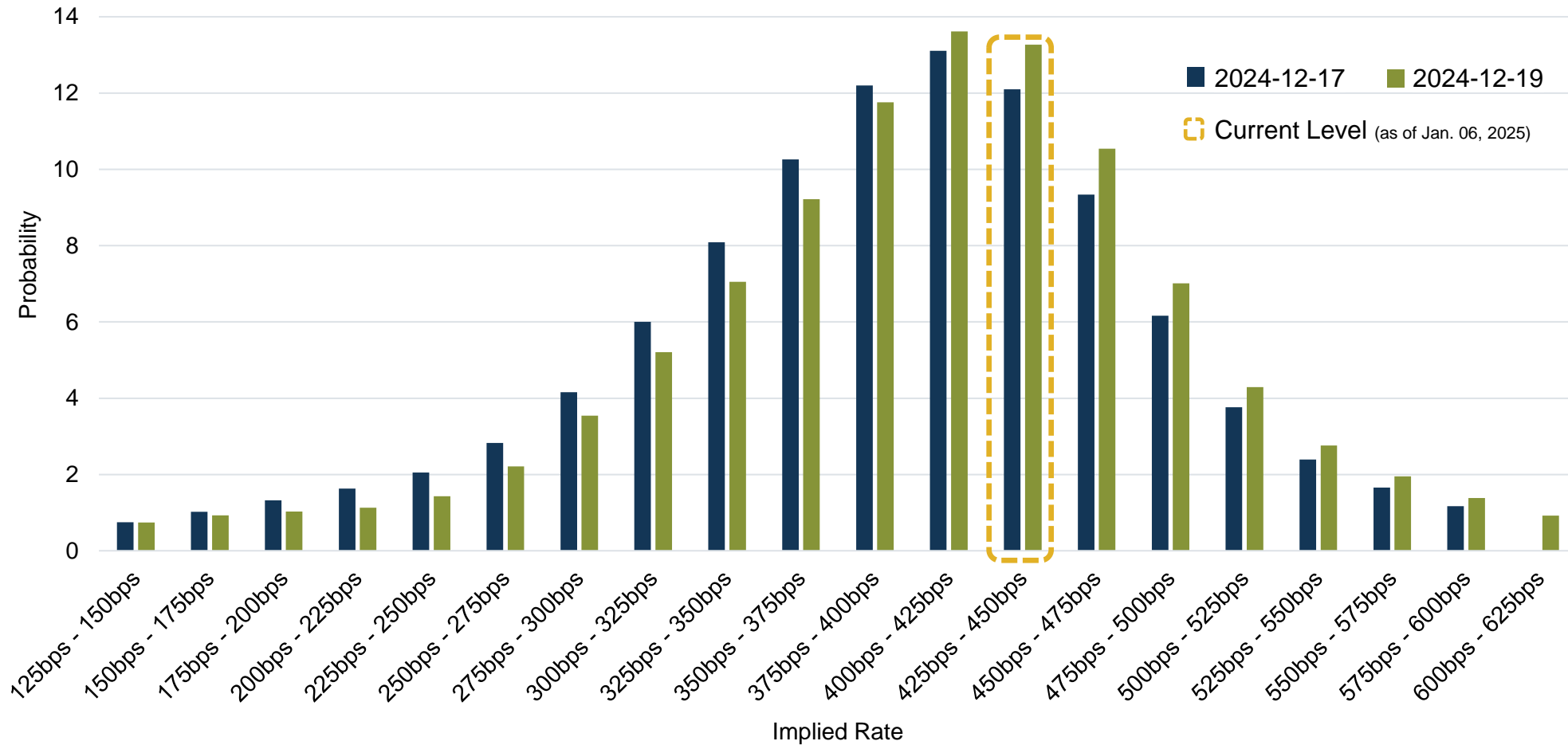
U.S. Implied Overnight Rates for December 2025 and December 2026: Futures Model



Source: Bloomberg, calculations by Horizon Investments, 12/19/2024
Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

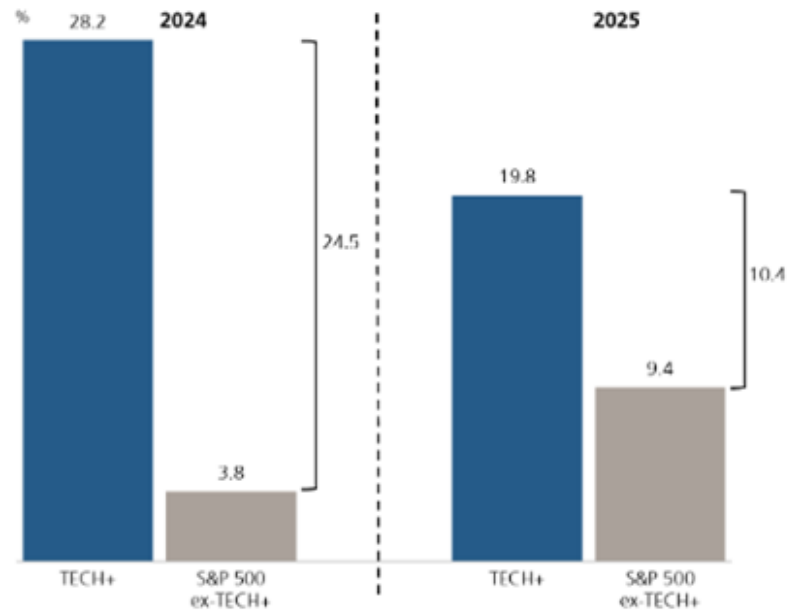
Increasing the chance of potential rate HIKES in 2025

Target Range Probabilities for December 2025



Don't lose sight of the important drivers: Fundamentals

Consensus EPS Growth Estimates – TECH+ vs. Rest of Market



Source: UBS, 12/02/2024

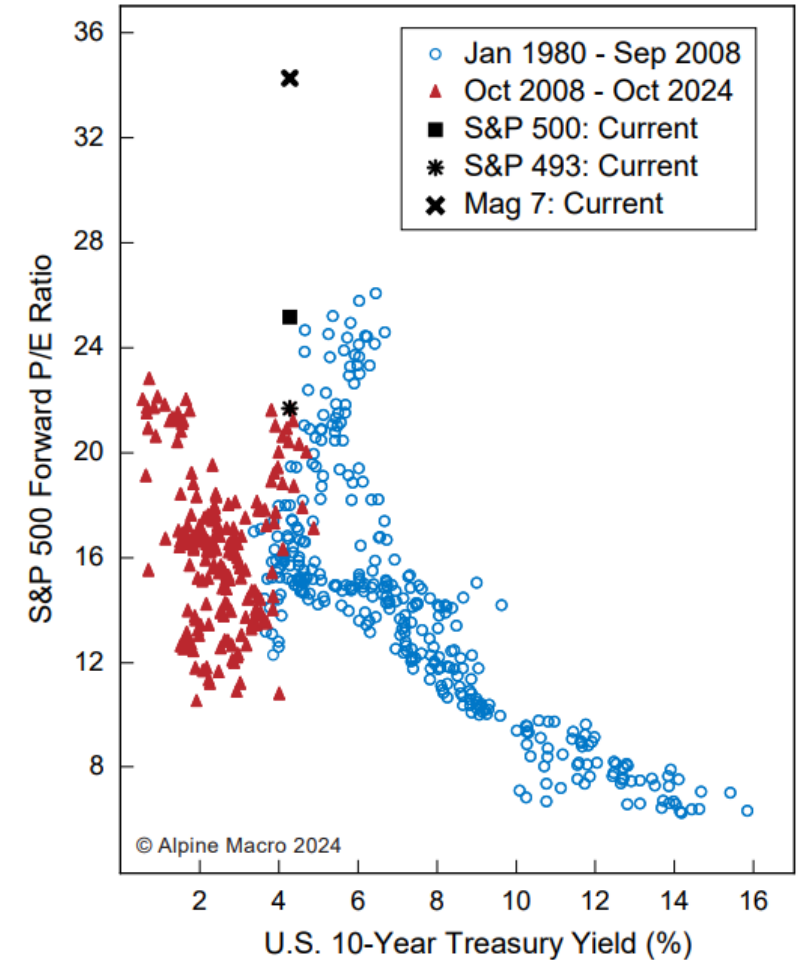
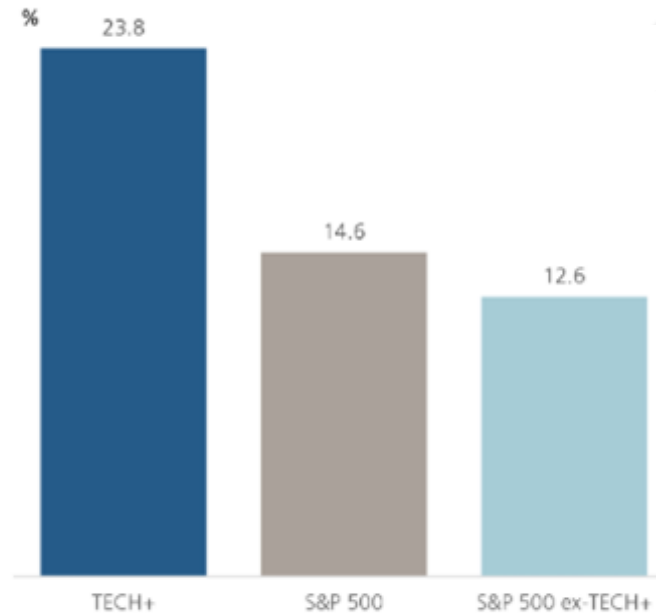
EPS = Earnings per share

EBIT = Earnings before interest and taxes

The S&P 500 or Standard & Poor's 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies. It is not possible to invest directly in an index.

Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

S&P 500 EBIT Margins



Source: Alpine Macro, 11/27/2024

Margin expansion: an underappreciated & levered EPS driver

50bp gain in Rev Growth
>> \$1-2 gain in EPS

2025 S&P 500 EPS Scenario Analysis:		Revenue Growth (%)					
		4.0%	4.5%	5.0%	5.5%	6.0%	6.5%
Margins (%)	12.5%	\$244	\$245	\$246	\$247	\$248	\$250
	13.0%	\$254	\$255	\$256	\$257	\$258	\$260
	13.5%	\$263	\$265	\$266	\$267	\$268	\$270
	14.0%	\$273	\$274	\$276	\$277	\$278	\$280
	14.5%	\$283	\$284	\$285	\$287	\$288	\$290
	15.0%	\$293	\$294	\$295	\$297	\$298	\$300

50bp increase in Margins
>> \$10 gain in EPS

Note: Projections based on consensus CY24 revenue

Source: Alpine Macro, 12/11/2024

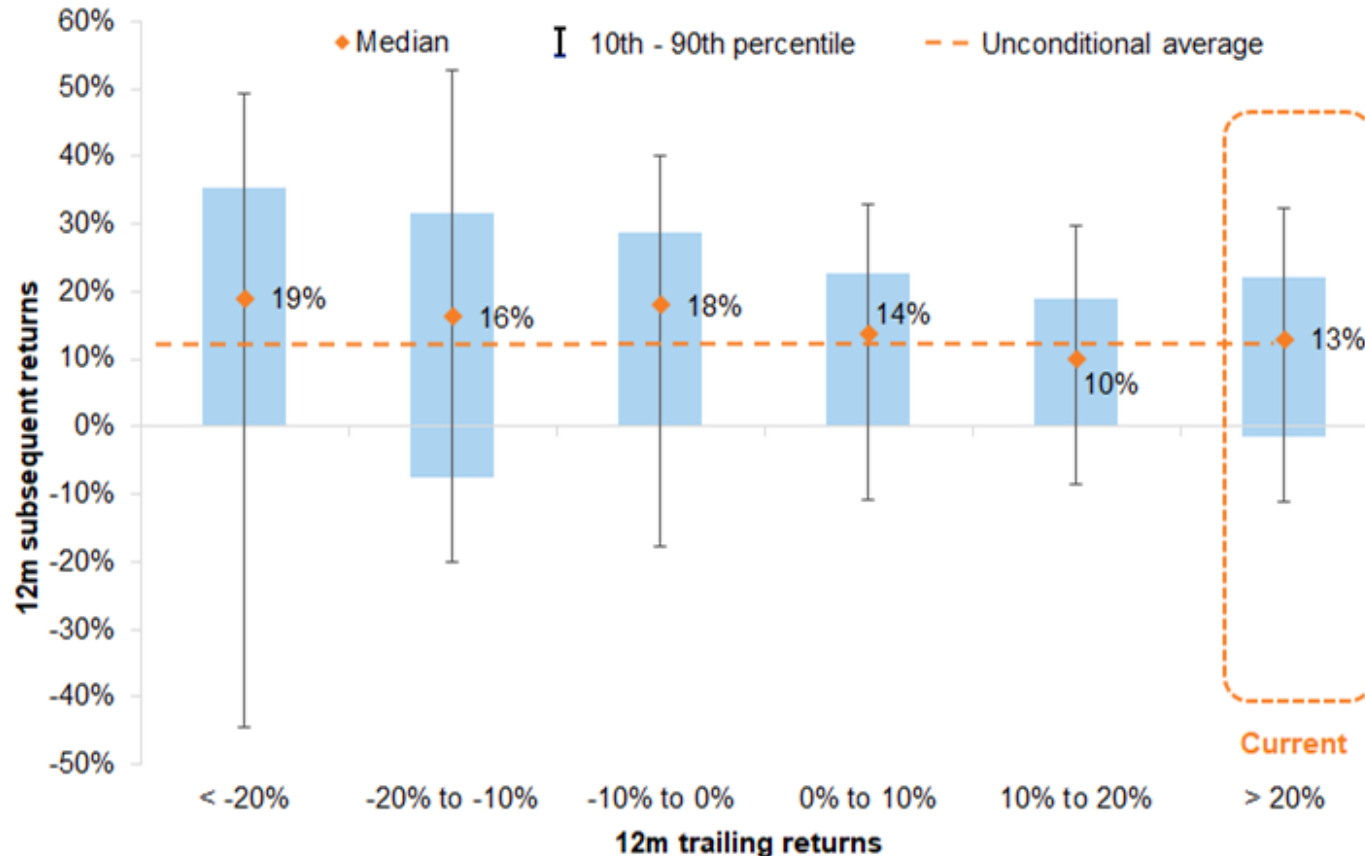
EPS = Earnings per share

The S&P 500 or Standard & Poor's 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies. It is not possible to invest directly in an index.

Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

History is on the side of the bulls for 2025

1-Year Forward S&P 500 Returns Following 1-Year Trailing Returns History Since 1929



Source: Goldman Sachs, 11/18/2024

The S&P 500 or Standard & Poor's 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies. It is not possible to invest directly in an index.

Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

Should we invest at all-time highs? Short answer...YES!

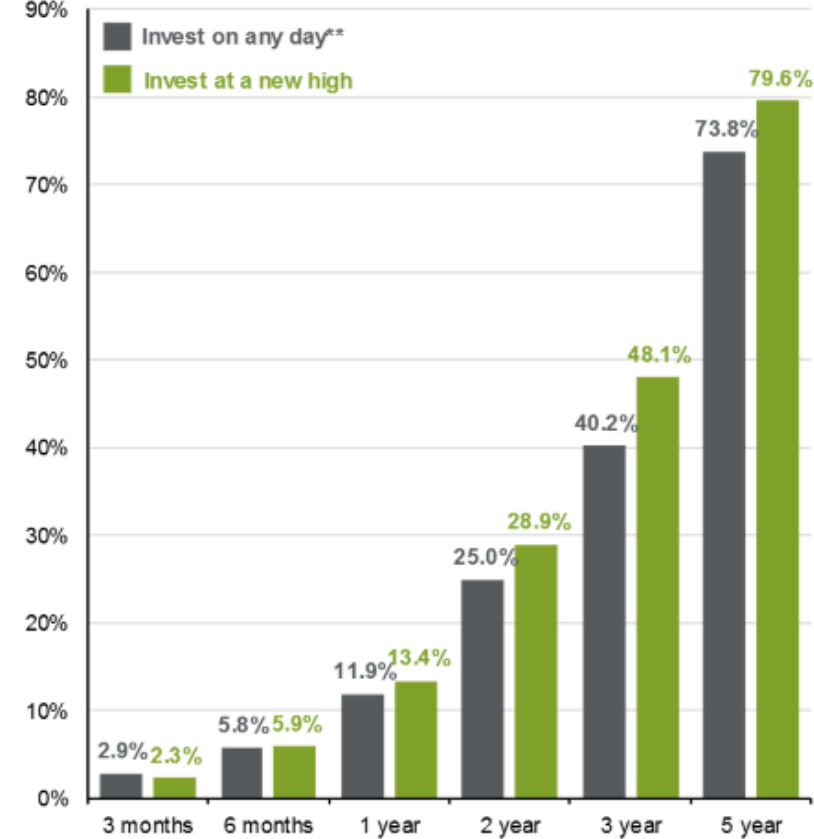
All-time highs and market floors

S&P 500 price index, daily, 1950 - today



Average cumulative S&P 500 total returns

Jan. 1, 1988 - Dec. 31, 2023



Source: JP Morgan, 09/30/2024

The S&P 500 or Standard & Poor's 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies. It is not possible to invest directly in an index.

Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

Trump 1.0

Year 1: Consensus U.S. > International forecasts.

Key Forecasts for U.S. vs. Non-U.S. Stocks in 2017

1. U.S. Stocks: Positive Outlook

- Tax cuts and Deregulation: Trump's proposed corporate tax cuts and deregulations were expected to boost U.S. corporate earnings, especially for domestic-focused companies.

2. Non-U.S. Stocks: Mixed to Negative Outlook

- **Emerging Markets Vulnerability:**
 - Fears of protectionist policies, tariffs, and a stronger U.S. dollar were expected to negatively impact emerging markets reliant on exports to the U.S.
 - Rising U.S. interest rates (anticipated due to potential inflation from fiscal stimulus) were also seen as a headwind for emerging markets, increasing borrowing costs and leading to capital outflows.
- **Europe and Developed Markets:**
 - Developed non-U.S. markets faced less direct risk than emerging markets but were expected to see slower relative to the U.S., partially due to political uncertainty (e.g., Brexit concerns).

3. Strong Dollar Impact

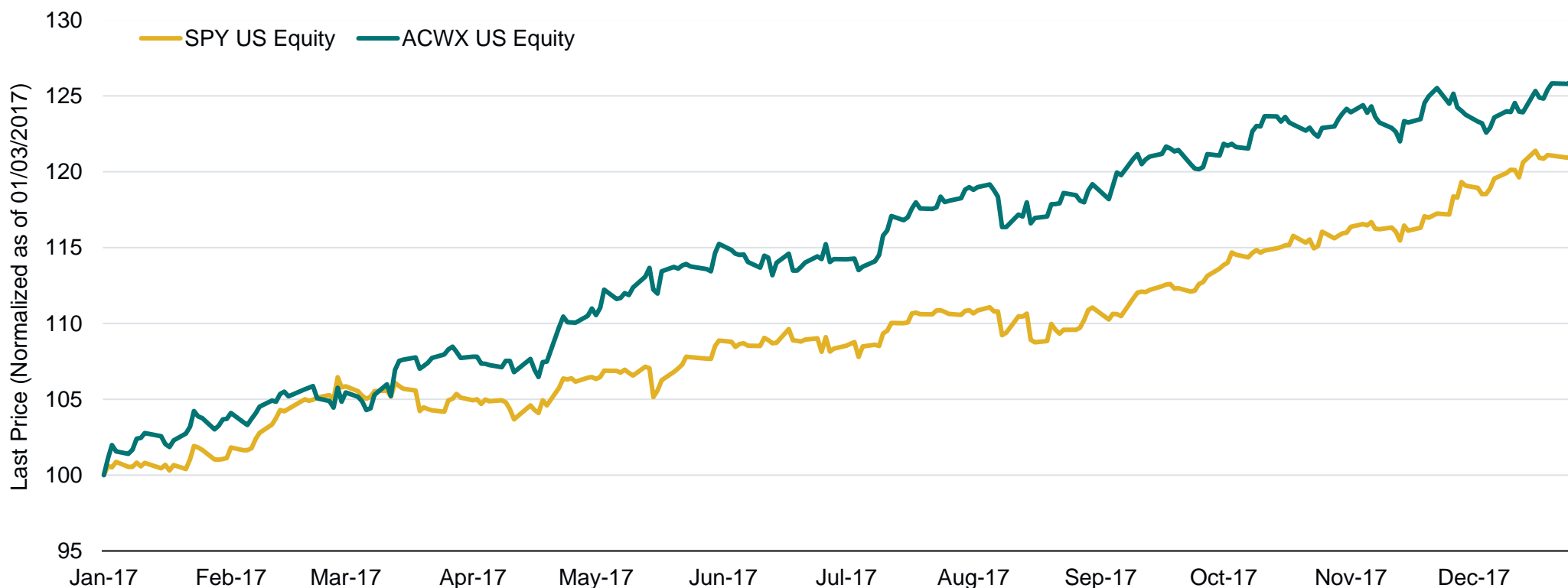
- A strengthening U.S. dollar, anticipated due to rising interest rates and investor confidence in U.S. policy changes, was expected to hurt U.S. exporters but benefit non-U.S. companies selling into the U.S. market. However, a strong dollar also made non-U.S. assets less attractive for U.S. investors.

4. Divergence Between Developed and Emerging Markets

- Developed markets (e.g., Europe and Japan) were viewed as more stable compared to emerging markets, but slower economic growth was expected to make U.S. equities more appealing.
- Emerging markets were seen as particularly vulnerable to U.S. trade policies, leading to forecasts of underperformance relative to U.S. stocks.

Trump 1.0 - Year 1: International stocks outperformed U.S.

All World Equities excluding United States vs SPY Returns During 2016
(Indexed to 100, Normalized as of 01/03/2017)

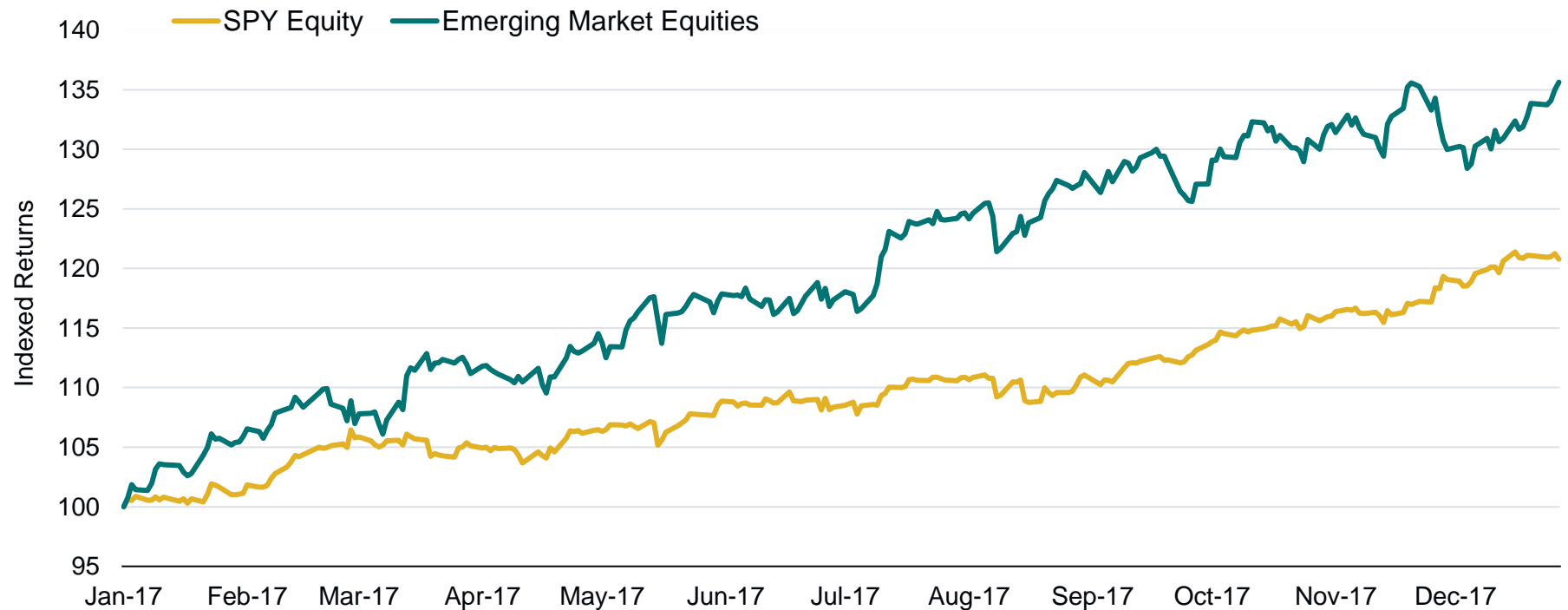


Source: Bloomberg, calculations by Horizon Investments, 12/13/2024. This is not a recommendation to buy or sell any security. Please see attached disclosures.

Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

Trump 1.0 - Year 1: EM stocks smoked U.S. stocks!

Emerging Market Equities vs SPY Returns During 2016
(Indexed to 100, Normalized as of 01/03/2017)



Source: Bloomberg, calculations by Horizon Investments, 12/13/2024

This is not a recommendation to buy or sell any security. Please see attached disclosures.

Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

Takeaways

- Companies are finally optimistic again and conditions may finally change in favor of smaller companies.
- The U.S. consumer remains in a very strong position, with personal balance sheets in a good position and household net worth growing at a record pace.
- Despite recent Fed uncertainty, fundamentals would suggest that these markets could continue to run...but it may not be the market segments we all expect!

Disclosure

This presentation should not be distributed to any other parties. This presentation is to be presented as a whole and should be altered in any way. Past performance does not guarantee future results. The commentary in this presentation is not a complete analysis of every material fact with respect to any company, industry, or security. The opinions expressed here are not investment recommendations but rather opinions that reflect the judgment of Horizon as of the date of the report and are subject to change without notice. Opinions referenced are as of the date of publication and may not necessarily come to pass. Forward-looking statements cannot be guaranteed. We do not intend and will not endeavor to provide notice if and when our opinions or actions change. Horizon Investments is not soliciting any action based on this document. This document does not constitute an offer to sell or a solicitation of an offer to buy any security or product and may not be relied upon in connection with the purchase or sale of any security or device.

The material presented has been obtained from sources considered to be reliable, but the accuracy and completeness cannot be guaranteed. The investments recommended by Horizon Investments are not guaranteed. There can be economic times when all investments are unfavorable and depreciate in value. Clients may lose money.

The S&P 500 or Standard & Poor's 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies. . The Russell 2000 Index is a small-cap U.S. stock market index that makes up the smallest 2,000 stocks in the Russell 3000 Index. References to indices or other measures of relative market performance over a specified period of time are provided for informational purposes only. Reference to an index does not imply that any account will achieve returns, volatility or other results similar to that index. The composition of an index may not reflect the manner in which a portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility, or tracking error targets, all of which are subject to change. Indices are unmanaged and do not have fees or expense charges, both of which would lower returns. It is not possible to invest directly in an unmanaged index.

Horizon Investments, LLC is an investment adviser registered with the U.S. Securities and Exchange Commission. Registration does not imply a certain level of skill or training. More information about Horizon's investment advisory services can be found in its Form ADV Part 2, which is available upon request.

Horizon Investments and Horizon H are all registered trademarks of Horizon Investments, LLC
© 2024 Horizon Investments, LLC.