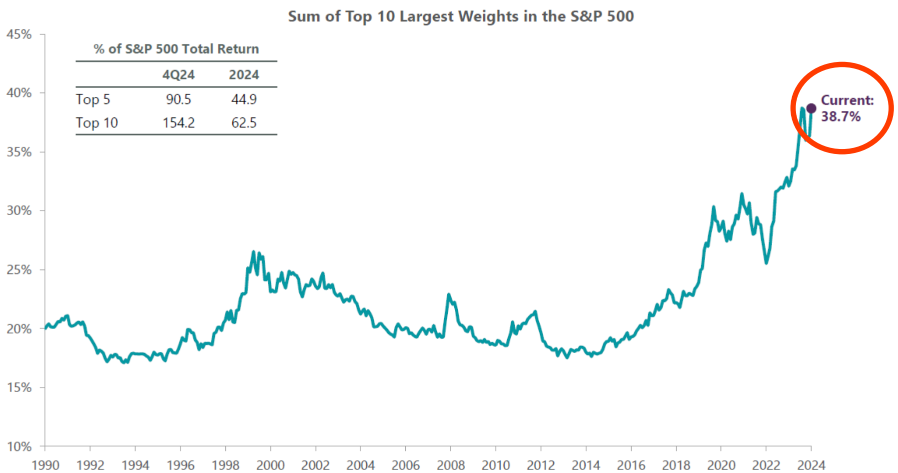
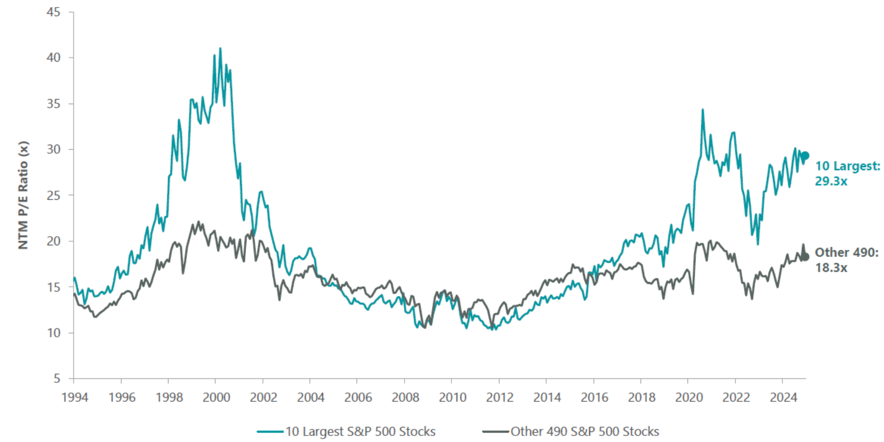
CORNERSTONE
MANAGEMENT

Market & Economic Insights

Q1 2025

Trouble Concentrating?



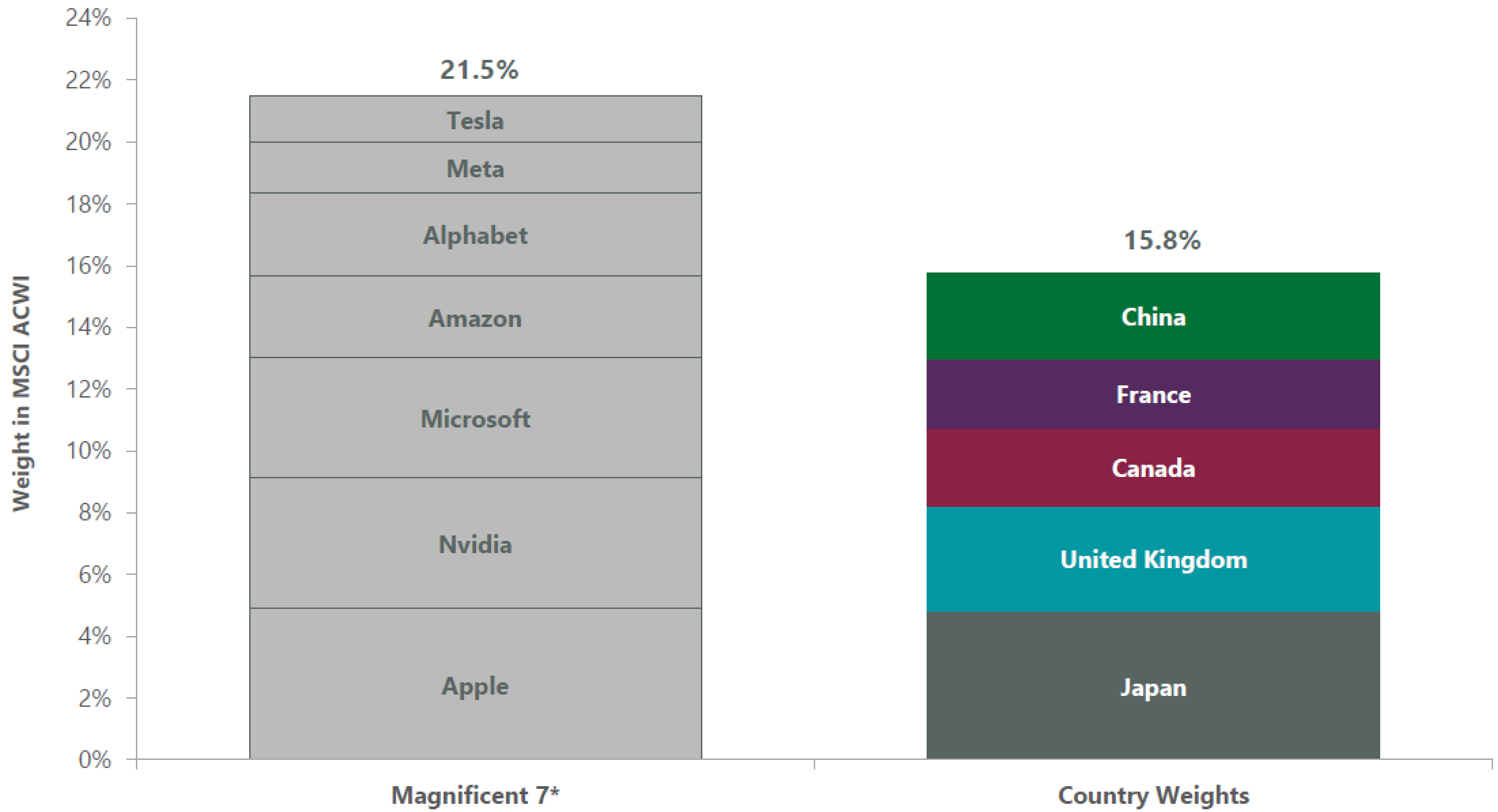


Earnings contribution of the top 10 in the S&P 500
Based on last 12 months' earnings

Returns	'21	'22	'23	'24
S&P 500	27%	-19%	24%	23%
S&P 500 ex-Mag 7	17%	-8%	8%	10%
Magnificent 7	40%	-40%	76%	48%
*Share of returns***	*33%*	*56%*	*63%*	*55%*

Source: J.P. Morgan Asset Management; ClearBridge

Magnificent 7 in a Global Context



- **The weight of the Magnificent 7 in the ACWI is now greater than the combined weight of Japan, the United Kingdom, Canada, France, and China.**

Source: ClearBridge

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Top 10 Companies at Decade End

Top 10 Companies by Market Value at Decade End

1980	1990	2000	2010	2020
IBM	NTT	Microsoft	Exxon	Apple
AT&T	Bank of Tokyo	GE	PetroChina	Microsoft
Exxon	Industrial Bank of Japan	NTT Docomo	Apple	Alphabet
Standard Oil	Sumitomi Mitsui	Cisco	BHP Billiton	Amazon
Schlumberger	Toyota	Walmart	Microsoft	Facebook
Shell Oil	Fuji Bank	Intel	ICBC	Alibaba
Mobil	Dai-Ichi Kangyo Bank	NTT	Petrobras	Berkshire Hathaway
Eastman Kodak	IBM	Exxon	China Construct. Bank	Tencent
Atlantic Richfield	UFJ Bank	Lucent	Royal Dutch Shell	JPMorgan
GE	Exxon	Deutsche Telecom	Nestle	Visa

- **The largest companies in the world have rarely held onto their leadership position for prolonged periods in the past.**

Source: ClearBridge

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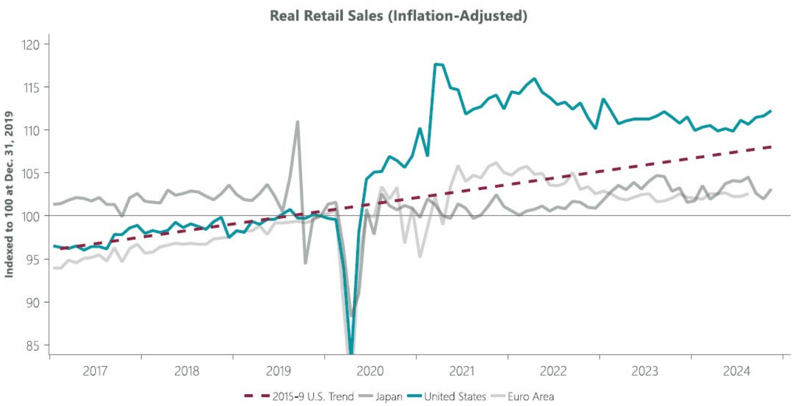
U.S. Exceptionalism: AI & Consumption

Growth in Big Tech Market Cap with AI Boom in 2023 & 2024

Company	Jan 2023	Apr 2023	Jul 2023	Oct 2023	Jan 2024	Apr 2024	Jul 2024	Oct 2024	Nov 2024
Nvidia	-54B	274B	599B	690B	759B	1.8T	2.6T	2.5T	3.0T
Microsoft	-194B	236B	595B	489B	853B	1.2T	1.5T	1.2T	1.2T
Apple	-345B	274B	622B	362B	511B	252B	1.0T	1.1T	1.1T
Amazon	-116B	65B	339B	351B	549B	892B	1.1T	958B	1.1T
Meta	21B	239B	418B	476B	572B	955B	979B	1.1T	1.1T
Alphabet	-166B	30B	222B	388B	438B	620B	987B	754B	845B
Total	**-854B**	**1.1T**	**2.8T**	**2.8T**	**3.7T**	**5.8T**	**8.2T**	**7.6T**	**8.4T**

U.S. Consumption Strong



Sources: Eurostat, U.S. Census Bureau, Japanese Ministry of Economy, Trade & Industry, Macrobond.
Data last updated on: 10/7/2024, latest available as of Dec. 31, 2024.

- **The U.S. consumer has been a source of strength for the economy during the current cycle, with retail sales spending well above the pre-pandemic trend.**
- **This stands in contrast to other major developed economies that have seen more lackluster consumption growth.**

Source: Clearbridge, Visual Capitalist

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2025 Key Issues

Economic Outlook – 5 Factors

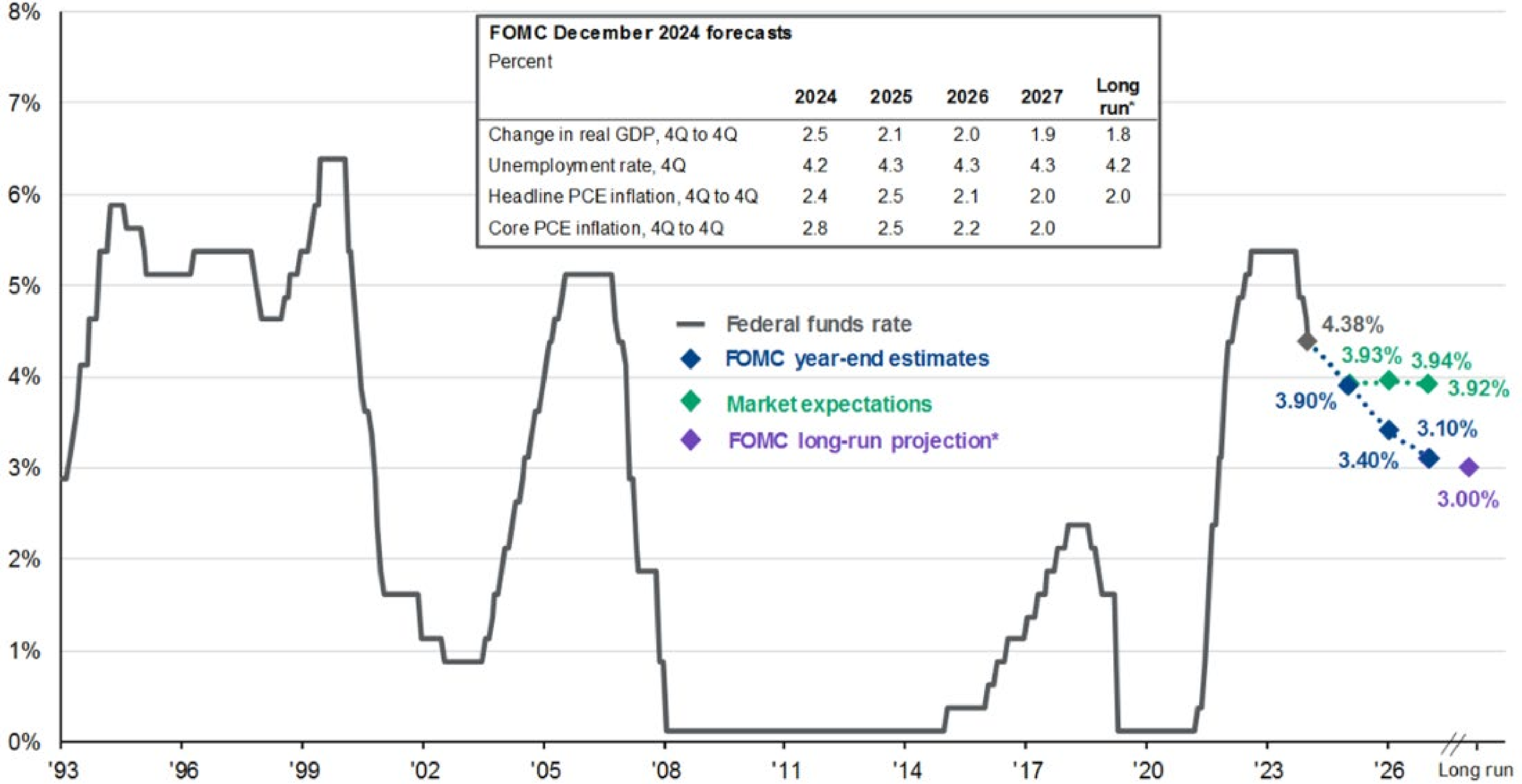
Rating Date: Jan. 2025

5 Factors	Comments	Positive/ Neutral/ Negative	Trend
Monetary Policy	• Fed cut rates 1.0% in 2024 • December 2024 Fed Statement of Economic Projections (SEP) projected 0.50% 2025 rate cuts. Market currently projecting in line with Fed for 2025, but fewer cuts in future years. • Balance sheet reduction still ongoing	NEUTRAL	●
Fiscal Policy	• "America First" Policies • De-regulation, Tax Cuts, Energy Production, Manufacturing On-Shoring • Inflation Reduction Act Remainders: Infrastructure Spending • Challenges: Budget Deficits, High National Debt, Tariffs	POSITIVE	●
Macro Environment	• Inflation → Moderate • Economic activity →Moderate global growth; Resilient U.S. Consumer, AI productivity gains • Known risks→ War in Ukraine; War in Israel/Gaza/Lebanon and Syria	POSITIVE	●
Valuations	• U.S. equity market valuations look expensive due to mega cap concentration • Equity valuation dispersion favors value stocks and lower capitalization stocks • Absolute bond yields positive; spreads tight	NEUTRAL	●
Sentiment	• Consumer Confidence weaker than average, but rising dramatically • Stable labor market • Investor sentiment bullish • Small Business Optimism	NEGATIVE	●

Monetary Policy – Rate Cut Expectations

Federal funds rate expectations

FOMC and market expectations for the federal funds rate



FOMC December 2024 forecasts

Percent

	2024	2025	2026	2027	Long run*
Change in real GDP, 4Q to 4Q	2.5	2.1	2.0	1.9	1.8
Unemployment rate, 4Q	4.2	4.3	4.3	4.3	4.2
Headline PCE inflation, 4Q to 4Q	2.4	2.5	2.1	2.0	2.0
Core PCE inflation, 4Q to 4Q	2.8	2.5	2.2	2.0	

Source: J.P. Morgan Asset Management

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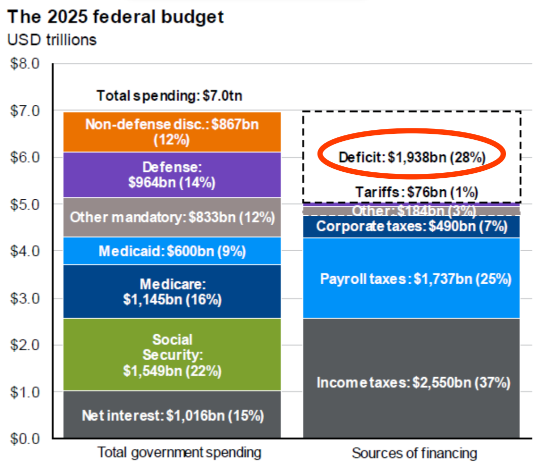
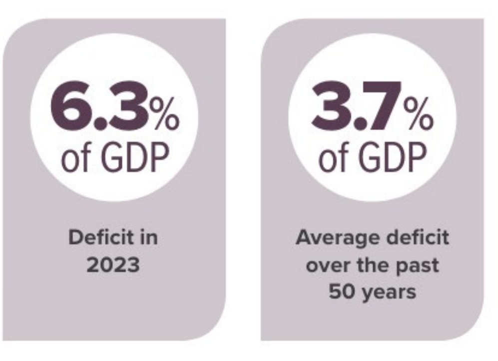
Fiscal Policy – Overspending leading to High Deficits

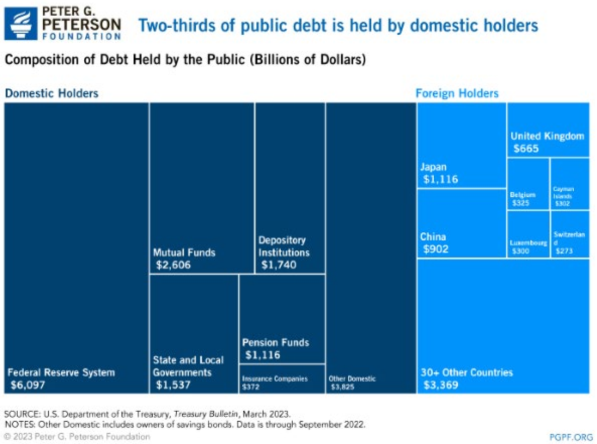
Budget



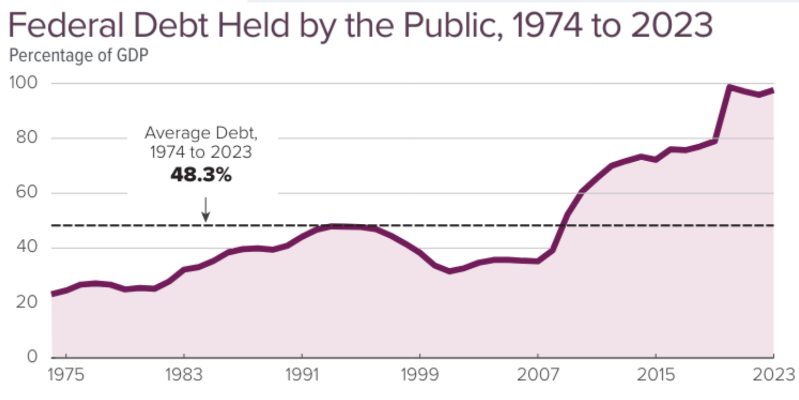
Deficit



Debt Composition



Debt



Source: J.P. Morgan Asset Management; Peter G. Peterson Foundation, Congressional Budget Office (CBO)

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Bull and Bear Markets

This chart shows daily historical performance of the S&P 500 Index throughout the U.S. Bull and Bear Markets since 1942. We believe looking at the history of the market's expansions and recessions helps to gain a fresh perspective on the benefits of investing for the long-term.

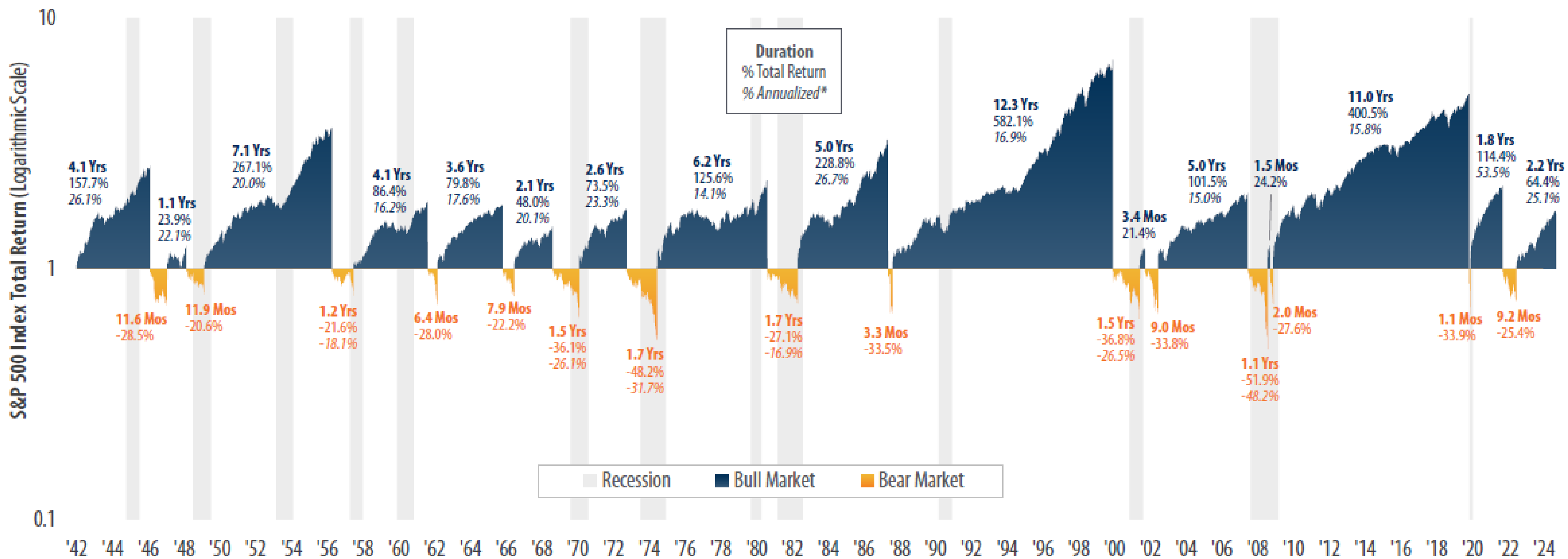
- The average **Bull Market** period lasted 4.3 years with an average cumulative total return of 150.0%.
- The average **Bear Market** period lasted 11.1 months with an average cumulative loss of -31.7%.

BULL

From the lowest close reached after the market has fallen 20% or more, to the next market high.

BEAR

When the index closes at least 20% down from its previous high close, through the lowest close reached after it has fallen 20% or more.



Bull Markets→ +150%; 4.3 Years

Bear Markets → -32%; 11 months

Source: First Trust

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Panic Attacks and the Market

Year	Panic Attacks	S&P 500 Max Drawdown	Cumulative S&P 500 Price Return*
1999	Y2K	-12.1%	248.8%
2000	Tech Bubble Bursts	-17.2%	191.9%
2001	September 11th, 2001 Recession	-29.7%	224.8%
2002	Final Tech Bubble Flush, Corporate Scandals (Worldcom)	-33.8%	273.5%
2003	Iraq War	-14.1%	387.4%
2004	Oil Price Breakout	-8.2%	285.6%
2005	Hurricane Katrina	-7.2%	253.8%
2006	Fed Culminates Hiking Cycle	-7.7%	243.5%
2007	Subprime Cracks Emerge	-10.1%	202.3%
2008	Global Financial Crisis, Bank Failures, Auto Bailouts	-48.8%	192.0%
2009	Global Financial Crisis Culminates	-27.6%	374.7%
2010	European Debt Crisis, Flash Crash	-16.0%	284.5%
2011	S&P Downgrades U.S. Debt, Greek Debt Writedowns	-19.4%	241.0%
2012	Euro Crisis, Second Greek Bailout	-9.9%	241.0%
2013	Taper Tantrum	-5.8%	200.7%
2014	Ebola	-7.4%	132.0%
2015	Chinese Slowdown, Yuan Devaluation, Deflation Scare	-12.4%	108.3%
2016	Brexit, Global Negative Rates	-10.5%	109.8%
2017	North Korea Tensions Escalate	-2.8%	91.5%
2018	Trade Wars, Short Vol Unwind	-19.8%	60.4%
2019	Repo Crisis, Yield Curve Inversion	-6.8%	71.1%
2020	COVID-19 Pandemic	-33.9%	32.7%
2021	COVID-19 Variants, Chinese Regulatory Crackdown	-5.2%	14.2%
2022	Russian Invasion of Ukraine, Fed's Hawkish Pivot	-25.4%	-10.0%
2023	Regional Bank Crisis, Debt Ceiling Drama	-10.3%	24.2%
2024	Inflation Scare, Sahm Rule Triggered	-8.5%	23.3%

*Cumulative S&P 500 price return is calculated from day prior to the new year (ex. 1999 looks at Dec. 31, 1998) to present. Data as of Dec. 31, 2024. Sources: Bloomberg, Federal Reserve, S&P. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Source: ClearBridge

Disclosures

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Market & Economic Insights Contacts:

Bryan Taylor, Winters Richwine, and Chad Crawford

Phone: 770-449-7799

Email: bryan@cornerstonemgt.net
winters@cornerstonemgt.net
chad@cornerstonemgt.net

Web Address: www.cornerstonemgt.net