KMR Financial Advisory, Inc. Market Commentary

4th Quarter 2024 Market Review & 2025 Outlook

4th Quarter 2024 Market Review

2024	Q1	Q2	Q3	Q4	4Q Year-to-Date
Dow Jones Industrial Index	5.6 %	(1.7)%	8.2 %	0.5 %	12.9 %
Nasdaq Composite Index	9.1 %	8.3 %	2.6 %	6.2 %	28.6 %
S&P 500 Index	10.2 %	3.9 %	5.5 %	2.1 %	23.3 %
Russell 2000 Index	4.8 %	(3.6)%	8.9 %	0.0 %	10.0 %
iShares Core US Aggregate Bond ETF	(0.7)%	0.03 %	4.7 %	(4.3)%	(0.6)%

Price Return, As of 12/31/24

Well, we are finally through 2024! All the angst and anticipation with the election is finally over and we can sit back and see how this plays out (see more below). And as far as the market is concerned, after a rocky start to the quarter with some interest rates concerns after the Fed somewhat unexpectedly cut rates more aggressively (50 basis points in September), and some international intrigue, and of course getting past the election, the markets for the most part recovered well and got into a post-election nirvana mostly because of how quick and decisive the results were. And after some moments of the gains being more broad-based in the quarter, towards the end of it the same big names seem to be leading the market directionally (i.e. the "Magnificent 7"). After rising 2.1% in Q4 the S&P 500 gained 23.3% for the year, not bad after gaining over 24% the year before.

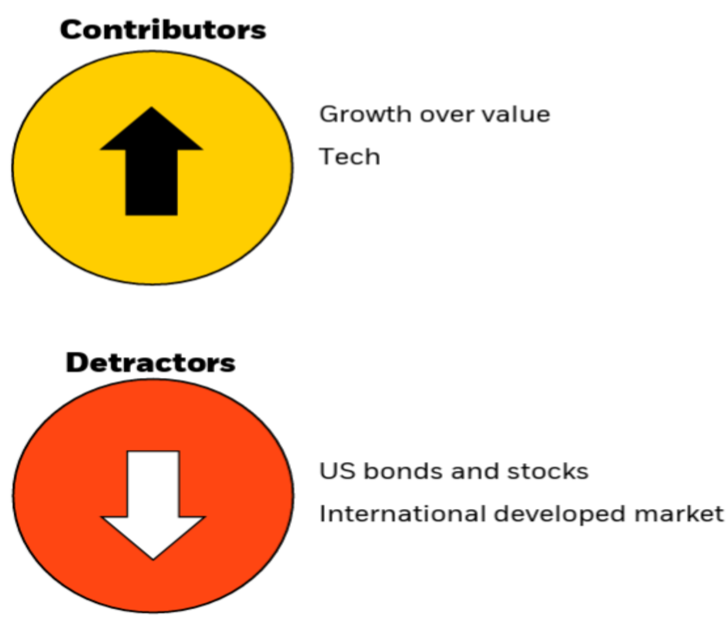
S&P 500 Sectors	Q4	4Q Year-to-Date
Consumer Discretionary	11.9 %	25.7 %
Communication Services	7.1 %	33.6 %
Technology	3.0 %	21.0 %
Industrials	(2.7)%	15.9 %
Materials	(12.7)%	(1.3)%
Energy	(2.4)%	3.0 %
Staples	(5.3)%	9.9 %
Health Care	(10.6)%	1.2 %
Utilities	(6.3)%	20.5 %
Financials	6.7 %	29.0 %
Real Estate	(9.0)%	2.2 %

International developed and emerging market stocks also lost their balance into year-end as the destabilizing effects of a strengthening US dollar and the return of volatility coming from Trump's threats took hold.

The bond market's New Year's resolution might well be to forget December altogether, as fixed income investors grappled with a sharp uptick in yields. While the Fed cut interest rates twice in the quarter, at its November and December meetings, their measured tone about future policy adjustments prompted investors to reshuffle expectations. As the year ended, the 10-year Treasury yield flirted with new highs for the year; with the AGG index (a broad-based bond index) dropped 4.3% for the quarter and 0.6% for the year.

Commodities ticked higher in Q4 as natural gas rallied and crude oil nudged higher, lifting the heavyweight energy component, while metals dipped due to global growth sluggishness. REITs came under pressure given spiking long term interest rates.

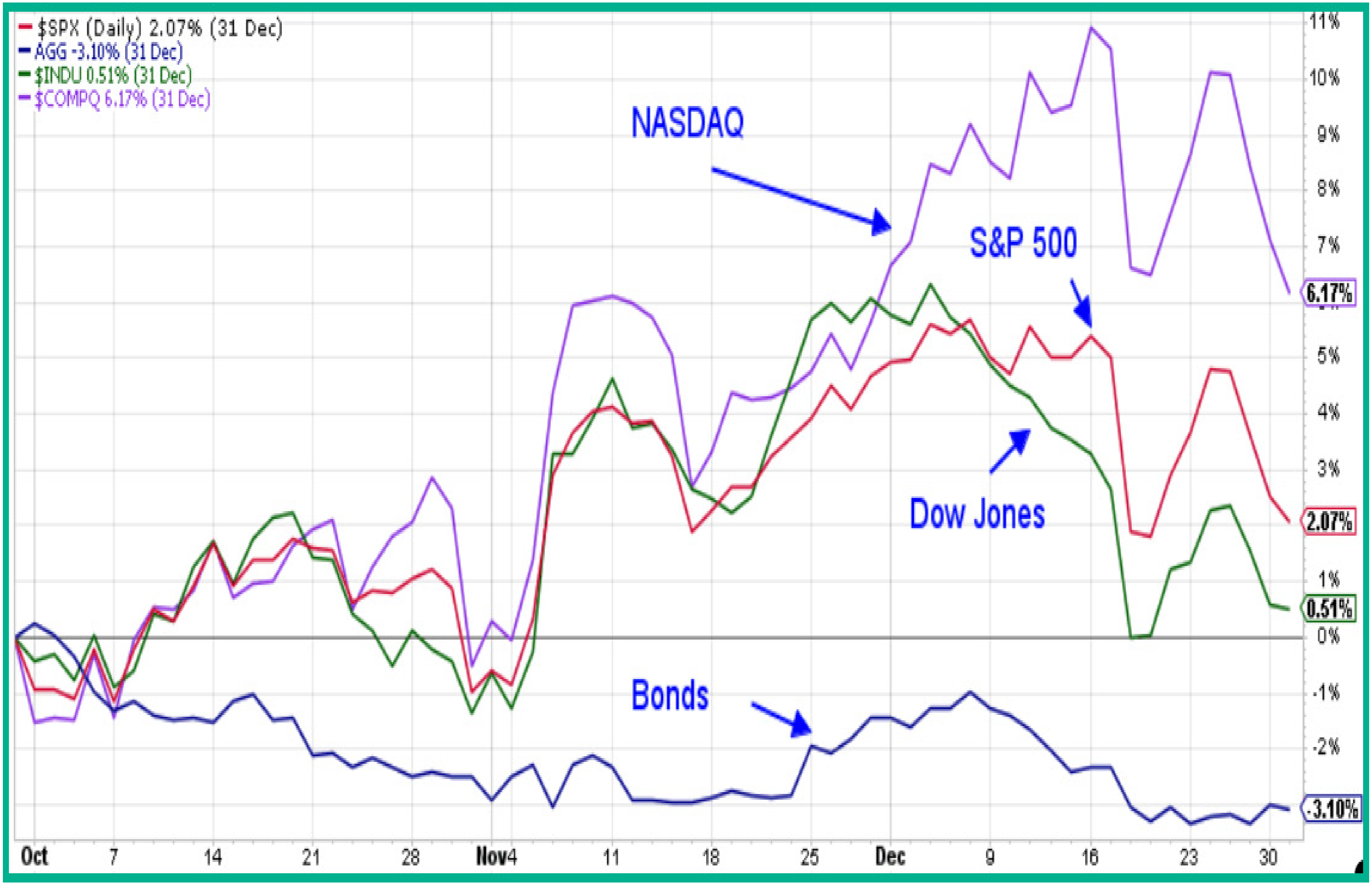
Regarding the **BlackRock models** KMR utilizes to help guide portfolio design, after the nice upswing in performance for November turned around the winners become losers in December. And exposure to core holdings like broad US bonds, broad US stocks, and international developed market and emerging market stocks were all detractors amidst the challenging month where there were few shelters of relief. All of the Blackrock model lost ground in Q4 of 2024 but were at or beat their benchmarks for the year.. Here is a graphic Blackrock used to explain the performance:



BlackRock views as of 12/31/24. Views are subject to change.

KMR Financial Advisory, Inc.

Q4 2024 Price Performance for Major Indexes



2025 Market Outlook

So, what will the new year bring on the investing horizon? If anyone has been watching week 1 for the second Trump presidency, then you would know there's a lot in store for us this year and beyond. But regarding the investing market there are some encouraging signs. Investors love less regulation that should boost earnings growth and earnings growth is a key driver of higher stock prices. There's been a bit of "animal spirits" unleashed since November 5, but that usually is transitory. And as I write this there was a big take-down in the AI-related stocks today because of a low-cost Chinese alternative in the wings (I believe this is over-blown and the impact will be short-lived…we'll see.). Nonetheless, there is a certain optimism in the market that may prove positive for U.S. investors.

Blackrock has published its extensive views n the global outlook for investing in 2025. They usually have lots of very smart people behind their research, so I thought I'd shared some of them:

From Blackrock 2025 Global Outlook:

- We have argued since 2020 that we are not in a business cycle. Historical trends are being permanently broken in real time as mega forces, like the rise of artificial intelligence (AI), transform economies. The ongoing outsized response of long-term assets to short-term news shows how unusual this environment is. We stay risk-on as we look for transformation beneficiaries and go further overweight U.S. stocks as the AI theme broadens out. We have more conviction that inflation and interest rates will stay above pre-pandemic levels.
- Mega forces are reshaping economies and their long-term trajectories – it's no longer about short-term fluctuations in activity leading to expansion or recession. 2024 has reinforced our view that we are not in a business cycle: AI has been a major market driver, inflation fell without a growth slowdown and typical recession signals failed. Volatility surged and narratives flip-flopped as markets kept viewing new data through a business cycle lens, not one of transformation.
- For decades, economies followed stable, long-term trends. Investors could focus almost entirely on navigating any temporary deviations around those trends. Growth would eventually converge back toward its trend. That has been a foundational tenet of portfolio construction. We think the environment is very different now. Economies are undergoing a transformation that could keep shifting the long-term trend, making a wide range of very different outcomes possible.
- This fundamentally different landscape upends the nature of investing, in our view. We think investors can find opportunities by tapping into the waves of transformation we see ahead in the real economy, with AI and the low-carbon transition requiring investment potentially on par with the Industrial Revolution.

All of this means that there are some forces at play that will e-shape our world forever. Who can say that when the Internet was coming along (I can remember that), that it would fundamentally change our lives. And it still is, and we may be on the verge of yet another new stage.

Blackrock reflects these views in their model constructions, where they are leaning into stocks; adding to higher-income bonds; and getting more creative with diversification. I show below their latest thinking on the compositions of the model KMR employs. Read on for more insight.

All this means we are in store for another very interesting year. I look forward to seeing these trends happen and how they affect our investments. So, as I always say, stay tuned!

Frank Brannon, CFP®
January 27, 2024

Big calls

Our highest conviction views on tactical (6-12 month) and strategic (long-term) horizons, December 2024

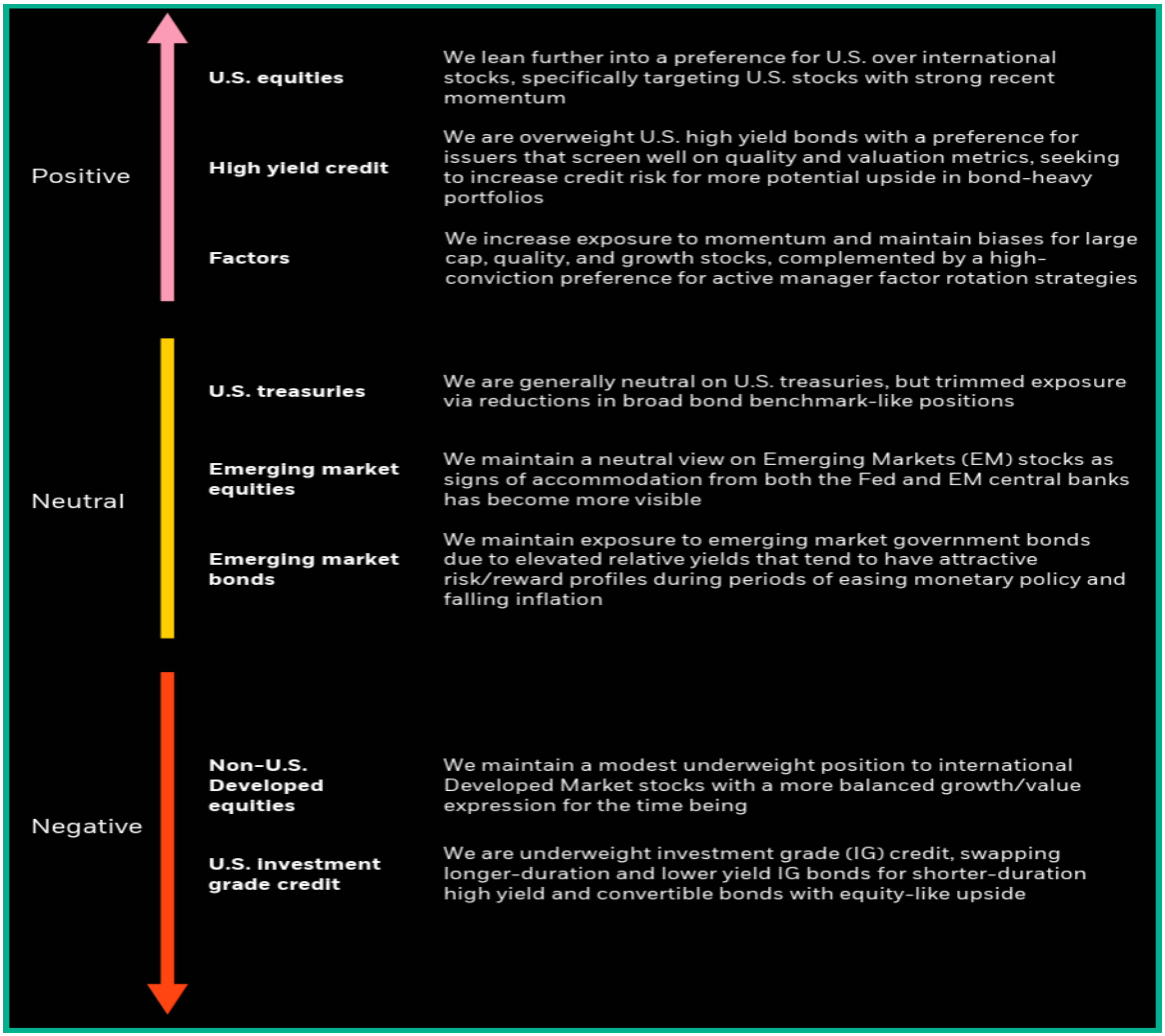
Tactical	Reasons
U.S. equities	• We see the AI buildout and adoption creating opportunities across sectors. We tap into beneficiaries outside the tech sector. Robust economic growth, broad earnings growth and a quality tilt underpin our conviction and overweight in U.S. stocks versus other regions. We see valuations for big tech backed by strong earnings, and less lofty valuations for other sectors.
Japanese equities	• A brighter outlook for Japan's economy and corporate reforms are driving improved earnings and shareholder returns. Yet the potential drag on earnings from a stronger yen is a risk.
Selective in fixed income	• Persistent deficits and sticky inflation in the U.S. make us more positive on fixed income elsewhere, notably Europe. We are underweight long-term U.S. Treasuries and like UK gilts instead. We also prefer European credit – both investment grade and high yield – over the U.S. on cheaper valuations.
Strategic	**Reasons**
Infrastructure equity and private credit	• We see opportunities in infrastructure equity due to attractive relative valuations and mega forces. We think private credit will earn lending share as banks retreat – and at attractive returns.
Fixed income granularity	• We prefer short- and medium-term investment grade credit, which offers similar yields with less interest rate risk than long-dated credit. We also like short-term government bonds in the U.S. and euro area and UK gilts overall.
Equity granularity	• We favor emerging over developed markets yet get selective in both. EMs at the cross current of mega forces – like India and Saudi Arabia – offer opportunities. In DM, we like Japan as the return of inflation and corporate reforms brighten the outlook.

Latest Model Portfolio Changes - Target Allocation ETF Models

Blackrock just made changes to their **Target Allocation ETF** models on **11/8/24**. Below is Blackrock's commentary explaining the changes made to their **Target Allocation ETF** models, and charts showing their current allocations and position changes for their models:

Key Takeaways:

- **Add 3% to stocks to increase overweight to 4%**, seeking to ride a potential post-election "risk-on" relief rally wave into year-end
- **Lean further into preference for U.S. over international stocks**, specifically targeting U.S. stocks with strong recent momentum
- **Introduce a tactical allocation to gold - funded from fixed income**, expecting continued purchases from global central banks and traditional gold narratives to continue to resonate with investors
- **Increase credit risk for potential upside in bond-heavy portfolios**, swapping longer-duration IG bonds for shorter-duration HY and convertible bonds



Target Allocation ETF Models - Latest Allocations as of 11/8/24

Latest Holdings (%)

Allocation as of 11/08/24

		As of Date	0/100	10/90	20/80	30/70	40/60	50/50	60/40	70/30	80/20	90/10	100/0
Net Expense Ratio (%)		12/31/24	0.12	0.13	0.14	0.15	0.15	0.15	0.16	0.17	0.17	0.18	0.19
Gross Expense Ratio (%)		12/31/24	0.14	0.14	0.15	0.16	0.16	0.16	0.17	0.17	0.17	0.18	0.19
US Equities			**-**	**10.0**	**16.0**	**23.5**	**31.5**	**38.5**	**44.0**	**51.0**	**59.0**	**65.5**	**68.0**
DYNF	iShares U.S. Equity Factor Rotation Active ETF		-	2.5	3.5	4.5	5.5	6.0	6.5	8.0	8.5	9.5	10.0
IVE	iShares S&P 500 Value ETF		-	-	1.0	2.0	2.5	3.0	4.5	4.5	5.0	5.5	6.0
IVV	iShares Core S&P 500 ETF		-	4.5	6.5	8.5	12.0	16.0	16.0	19.5	23.5	26.0	26.0
IVW	iShares S&P 500 Growth ETF		-	1.5	2.5	4.0	5.0	6.0	8.0	8.5	10.0	11.0	12.0
MTUM	iShares MSCI USA Momentum Factor ETF		-	-	-	1.0	1.5	1.5	2.0	2.5	3.0	3.0	3.0
QUAL	iShares MSCI USA Quality Factor ETF		-	1.5	2.5	3.5	5.0	6.0	7.0	8.0	9.0	10.5	11.0
International/Global Equities			**-**	**3.0**	**6.0**	**8.0**	**11.0**	**13.5**	**16.5**	**19.0**	**20.5**	**24.0**	**25.0**
EFG	iShares MSCI EAFE Growth ETF		-	1.0	2.0	3.0	4.0	5.0	6.0	7.0	7.5	8.5	9.0
EFV	iShares MSCI EAFE Value ETF		-	1.0	2.0	3.0	4.0	5.0	6.0	7.0	7.5	9.0	9.0
EMXC	iShares MSCI Emerging Markets ex China ETF		-	-	1.0	1.0	2.0	2.5	3.0	3.5	4.0	4.5	5.0
IEMG	iShares Core MSCI Emerging Markets ETF		-	1.0	1.0	1.0	1.0	1.0	1.5	1.5	1.5	2.0	2.0
Sector Equities			**-**	**-**	**1.0**	**1.5**	**1.5**	**2.0**	**3.5**	**4.0**	**4.5**	**4.5**	**5.0**
IFRA	iShares U.S. Infrastructure ETF		-	-	-	-	-	-	1.0	1.0	1.0	1.0	1.0
IYW	iShares U.S. Technology ETF		-	-	1.0	1.5	1.5	2.0	2.5	3.0	3.5	3.5	4.0
US Fixed Income			**94.0**	**81.5**	**71.5**	**62.0**	**51.5**	**41.5**	**32.0**	**23.0**	**13.0**	**3.0**	**-**
BINC	iShares Flexible Income Active ETF		10.0	9.0	8.5	6.5	6.0	5.0	3.5	2.5	-	-	-
GOVT	iShares U.S. Treasury Bond ETF		6.0	5.0	4.5	4.5	2.0	2.0	-	-	-	-	-
HYDB	iShares High Yield Systematic Bond ETF		3.0	2.0	2.0	2.0	1.0	1.0	-	-	-	-	-
ICVT	iShares Convertible Bond ETF		5.0	4.5	4.0	3.5	3.0	-	-	-	-	-	-
IUSB	iShares Core Total USD Bond Market ETF		50.0	43.5	37.0	32.5	28.5	24.0	20.0	15.0	10.0	2.0	-
MBB	iShares MBS ETF		15.0	13.0	11.5	9.5	8.0	7.0	6.0	3.5	2.0	-	-
TLT	iShares 20+ Year Treasury Bond ETF		5.0	4.5	4.0	3.5	3.0	2.5	2.5	2.0	1.0	1.0	-
International/Global Fixed Income			**3.0**	**2.5**	**2.5**	**2.0**	**1.5**	**1.5**	**1.0**	**-**	**-**	**-**	**-**
EMB	iShares J.P. Morgan USD Emerging Markets Bond ETF		3.0	2.5	2.5	2.0	1.5	1.5	1.0	-	-	-	-
Alternatives			**1.0**	**1.0**	**1.0**	**1.0**	**1.0**	**1.0**	**1.0**	**1.0**	**1.0**	**1.0**	**-**
IAU	iShares Gold Trust		1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	-
Cash & Cash Alternatives			**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**
CASH-USD	UNITED STATES DOLLAR		2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0

Latest Model Portfolio Changes - Target Allocation Tax-Aware ETF Models

Blackrock last made changes to their **Target Allocation Tax-Aware ETF** models on **6/6/24**. Below is Blackrock's commentary explaining the changes made to their **Target Allocation Tax-Aware ETF** models, and charts showing their current allocations and position changes for their models:

KEY TAKEAWAYS

- **Add 2-percent to equities as our bullish thesis has continued to play out**
- **More, more, more growth,** seeking to further amplify exposure to earnings-beaters
- **Close short position in emerging market (EM) stocks;** a successful but now mature trade potentially vulnerable to reversal as signs of accommodation from both the Fed and EM central banks has become more visible
- **Increase allocation to an active factor rotation ETF,** adding dexterity to help navigate turning tides in the market and take advantage of its recent strong performance

Trade Rationale:

"When the facts change, I change my mind."

For the most part, the facts haven't changed since our last trade, so neither have our minds (or our forecasts). Stocks over bonds. US over international. Mega-cap over small-cap. Growth over value.

That's been our anthem the last year plus and we haven't detected any compelling evidence to materially adjust our tune (at least at this time).

Stocks have continued to blossom in the face of adversity. Interest rate volatility, hawkish Fed talk, election scuttlebutt, and an escalating conflict in the Middle East have been no match for the earnings prowess of the megacap tech and growth-cohort juggernauts, who continues to defy even the most elevated analyst expectations. We expect the impact of the AI renaissance on capex spending and economic productivity to be a long-term structural tailwind for the US economy, further fortifying its position as the economic growth engine of the world.

Some may have been surprised by the stubbornness in inflation prints the last few months, but that's more so an indictment of the amount of noise in the complex corpus of inflation data. Based on some problematic seasonal adjustments loaded into the first half of the year, our understanding of the Consumer Price Index (CPI) components and their lagged effects (which, as we have illustrated in the past, can potentially be estimated using alternative data sources as real-time proxies), the observed bumps in reported inflation were to be reasonably expected. Thus, for us, there hasn't been any unforeseen information on the inflation front to warrant a change of mind.

However, we do expect those 'sticky' inflation prints to weaken and perhaps even surprise to the downside sometime late summer/early fall (provisioning the Fed with the requisite dove-bait to follow-through on their projected rate cuts before year-end). Out-of-favor trades like long duration, long EM stocks, and short dollar (among others) could potentially benefit in this scenario, so we're starting to nibble. If this forecast doesn't come to fruition, all else equal, then maybe the facts have changed and we may need to humbly heed the wisdom from John Maynard Keynes above. 'Til then, our song remains the same.

Target Allocation Tax-Aware ETF Models - Latest Allocations as of 6/6/24

Latest Holdings (%)

Allocation as of 6/06/24

		As of Date	0/100	10/90	20/80	30/70	40/60	50/50	60/40	70/30	80/20	90/10	100/0
Net Expense Ratio (%)		5/31/24	0.07	0.08	0.09	0.10	0.12	0.13	0.14	0.16	0.17	0.18	0.18
Gross Expense Ratio (%)		5/31/24	0.07	0.08	0.09	0.10	0.12	0.13	0.15	0.16	0.17	0.19	0.19
US Equities			**-**	**11.0**	**16.5**	**24.0**	**30.5**	**37.5**	**44.0**	**52.0**	**59.0**	**65.5**	**68.5**
DYNF	BlackRock U.S. Equity Factor Rotation ETF		-	2.5	2.5	4.0	4.5	5.5	6.5	8.0	9.0	10.0	10.0
ESGU	iShares ESG Aware MSCI USA ETF		-	-	-	1.5	2.0	3.5	5.0	5.5	5.5	6.5	6.5
IVV	iShares Core S&P 500 ETF		-	5.0	9.5	11.5	15.5	18.5	22.5	26.0	30.0	33.5	36.5
IVW	iShares S&P 500 Growth ETF		-	1.0	2.0	3.0	3.5	4.5	4.5	6.0	7.0	7.5	7.5
OEF	iShares S&P 100 ETF		-	1.0	1.0	2.0	2.5	3.0	3.0	3.0	3.0	3.5	3.5
QUAL	iShares MSCI USA Quality Factor ETF		-	1.5	1.5	2.0	2.5	2.5	2.5	3.5	4.5	4.5	4.5
International/Global Equities			**-**	**2.0**	**5.5**	**7.5**	**10.5**	**13.0**	**15.5**	**17.5**	**20.0**	**22.5**	**23.5**
EFG	iShares MSCI EAFE Growth ETF		-	-	2.0	2.5	3.5	4.0	5.0	6.0	6.5	7.5	8.0
EFV	iShares MSCI EAFE Value ETF		-	1.0	1.5	2.5	2.5	4.0	4.5	4.5	5.5	6.0	6.0
EMXC	iShares MSCI Emerging Markets ex China ETF		-	1.0	2.0	2.5	3.5	4.0	5.0	5.5	6.5	7.0	7.5
HEFA	iShares Currency Hedged MSCI EAFE ETF		-	-	-	-	1.0	1.0	1.0	1.5	1.5	2.0	2.0
Sector Equities			**-**	**-**	**1.0**	**1.5**	**3.0**	**3.5**	**4.5**	**4.5**	**5.0**	**6.0**	**6.0**
IXC	iShares Global Energy ETF		-	-	-	-	1.0	1.0	1.0	1.0	1.0	1.0	1.0
IYW	iShares U.S. Technology ETF		-	-	1.0	1.5	2.0	2.5	3.5	3.5	4.0	5.0	5.0
US Fixed Income			**98.0**	**85.0**	**75.0**	**65.0**	**54.0**	**44.0**	**34.0**	**24.0**	**14.0**	**4.0**	**-**
MUB	iShares National Muni Bond ETF		71.0	65.0	57.5	50.5	43.0	37.0	29.0	20.0	12.0	4.0	-
SUB	iShares Short-Term National Muni Bond ETF		15.0	9.5	8.0	6.5	4.5	2.0	-	-	-	-	-
TLH	iShares 10-20 Year Treasury Bond ETF		12.0	10.5	9.5	8.0	6.5	5.0	5.0	4.0	2.0	-	-
Cash & Cash Alternatives			**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**
CASH-USD	UNITED STATES DOLLAR		2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0

Latest Model Portfolio Changes - Target Income ETF Models

Blackrock also made changes to their **Target Income ETF** models on **11/15/24**. Below is Blackrock's commentary explaining the changes made to their **Target Income ETF** models, and charts showing their current allocations and position changes for their models:

Key Takeaways:

- **Broadly increasing risk,** making a variety of risk-on trades as uncertainty around the election clears up
- **Increase exposure to credit,** seeking yield by adding to investment grade and specific high yield exposures
- **Adding duration,** seeking to take advantage of recent selloffs in yield

Trade Rationale:

Clouds around the election have cleared and markets can now look forward with increased clarity. Economic activity chugged forward this fall as labor woes wound backward and GDP growth remained resilient. Dis-inflationary trends continue towards the Fed's inflation target, which we expect to continue in the near-term. This positive economic backdrop made markets come around to the Fed's promise to trim, not slash, rates. Yields bounced back up to July levels, pulling the price of longer tenor bonds downward. Market movements and tenacious economic data opened what we consider opportunities to buy into risk, both in rates and credit.

After a profitable quarter of disengaging risk, we are notching it back up by leaning into longer duration bonds and buying into select areas of credit. We are seeking to boost overall yield in the portfolio, using investment grade (IG) corporates and an array of high yield bonds as the ingredients of choice. A risk to our positioning this trade remains the possibility of recession, but resilient economic activity gives us confidence that this has a somewhat muted probability. Following the recent selloff in the long end of the curve, we are taking this as an opportunity for entry. We are trimming short- to medium-term treasuries and corporates to fund their longer-duration counterparts.

KMR Financial Advisory, Inc.

Target Income ETF Models - Latest Allocations as of 11/15/24

Latest Holdings (%)

Allocation as of 11/15/24

		As of Date	Core	Moderate	High	Aggressive
Net Expense Ratio (%)		12/31/24	0.15	0.19	0.28	0.33
Gross Expense Ratio (%)		12/31/24	0.15	0.19	0.30	0.35
US Fixed Income			**98.0**	**93.0**	**86.0**	**80.5**
BFRIX	BlackRock Floating Rate Income Fund Institutional shares		-	1.0	3.5	7.5
BHYIX	BlackRock High Yield Portfolio Fund Institutional Shares		-	3.5	9.0	8.0
BINC	iShares Flexible Income Active ETF		-	1.5	3.0	3.0
FALN	iShares Fallen Angels USD Bond ETF		7.5	9.5	20.0	23.0
FLOT	iShares Floating Rate Bond ETF		16.0	16.0	5.5	-
HYDB	iShares High Yield Systematic Bond ETF		-	-	2.5	4.0
IEI	iShares 3-7 Year Treasury Bond ETF		7.0	3.0	1.0	0.5
IGEB	iShares Investment Grade Systematic Bond ETF		15.0	15.5	13.5	15.0
IGLB	iShares 10+ Year Investment Grade Corporate Bond ETF		5.5	5.5	5.5	5.5
LQDH	iShares Interest Rate Hedged Corporate Bond ETF		-	-	5.0	7.5
MBB	iShares MBS ETF		5.0	6.0	1.5	-
SHV	iShares Short Treasury Bond ETF		5.0	3.0	-	-
SHY	iShares 1-3 Year Treasury Bond ETF		17.0	5.0	4.0	-
TFLO	iShares Treasury Floating Rate Bond ETF		20.0	15.5	6.5	4.0
TLT	iShares 20+ Year Treasury Bond ETF		-	8.0	5.5	2.5
International/Global Fixed Income			**-**	**5.0**	**12.0**	**17.5**
EMB	iShares J.P. Morgan USD Emerging Markets Bond ETF		-	2.5	4.5	5.0
EMHY	iShares J.P. Morgan EM High Yield Bond ETF		-	2.5	7.5	12.5
Cash & Cash Alternatives			**2.0**	**2.0**	**2.0**	**2.0**
CASH-USD	UNITED STATES DOLLAR		2.0	2.0	2.0	2.0

About KMR Financial Advisory, Inc.

KMR Financial Advisory is an independent, fee-only registered investment advisor specializing in the development of comprehensive financial plans and developing & managing investment portfolios.

Frank R. Brannon, CFP ®, is the president of KMR Financial Advisory, Inc. Frank's educational background includes:

- The Lovett School
- Tulane University, BA, Economics
- Georgia State University, Master of Decision Sciences

Frank is a Certified Financial Planner™ professional and achieved his license in 1996. Frank has worked most of his career in corporate financial planning for a Fortune 200 company. He has lived his entire life in Atlanta.

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