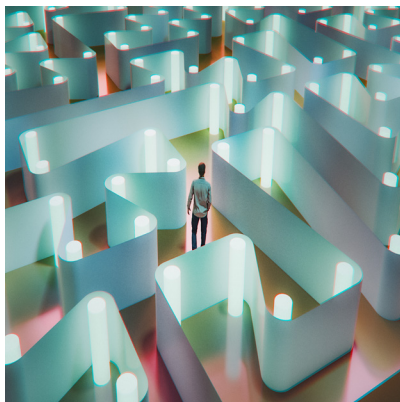




Outlook 2025

"A Complicated Path Forward"



OUTLOOK 2025

A COMPLICATED PATH FORWARD

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Outlook 2025 Lead Authors



John E. Chapman
Chief Executive Officer
Chief Investment Strategist



John W. Sleetng
Managing Partner, Family Office
Services



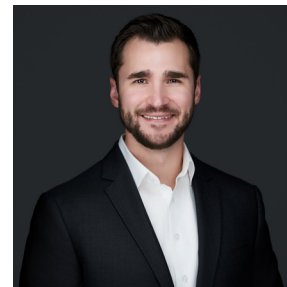
Jeffrey P. DeHaan
Managing Partner, Private Wealth
Management



Valerie N. Hogan
Wealth Advisor



James F. Chapman
Senior Wealth Advisor
Chief Innovation Officer



Tyler J. Beachler
Managing Partner, Portfolio
Mangement
Deputy Chief Investment Strategist



Greg W. Davis
Partner
Senior Wealth Advisor



Melissa Dailey-Newman
Wealth Advisor



Joshua M. Beachler
Wealth Advisor

About Clearwater Capital Partners

Clearwater Capital Partners was established by John Chapman in 2006 in response to the prevalent shortcomings within the financial industry, including conflicts of interest, non-disclosure of material facts, and broken promises. Recognizing the critical need for genuine advice on real issues, our firm set out to redefine industry standards. Investors deserve far more than the fragmented sales pitches often delivered by Wall Street. At Clearwater, delivering honest and competent advice guides our every action. The principles and insights that shaped our business model from the outset continue to be fundamental to our operations. Our firm has grown primarily through referrals, a testament to our enduring client loyalty. Today, we are a well-established and thriving firm.

The Clearwater Capital Team

Our team's expertise spans with designations that include: CFP®, CTFA®, CDFA®, AWMA®, CRPS®, CIMA®, AIFA®, QKA®, CPA®.

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John W. Sleeting
Jeffrey P. DeHaan
Heather J. Larson
Joesph Kutcha

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John E. Chapman
John W. Sleeting
Jeffrey P. DeHaan
James F. Chapman
Tyler J. Beachler
Katie Berganske-Frank
Danuta Garb

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John W. Sleeting
Jeffrey P. DeHaan
Greg W. Davis
James F. Chapman
Joshua M. Beachler
Melissa Dailey-Newman
Jacob M. Clark
Valerie N. Hogan

■ Institutional Advisory Services

Kevin G. Carani
Karie M. OConnor
John Ellis
Carter R. King

■ Portfolio Management

Tyler J. Beachler
Rocky A. Byrd
Noah Mule

■ Advanced Planning

Kevin J. Nolte
Conor A. Durkin

■ Global Strategies

Hunter Sims

■ Operations

Ty D. Sampson
Andrea L. Patterson
Braden C. Maher

■ Brand & Marketing

Katie Berganske-Frank
Hayley E. Holmes

■ Human Resources & Accounting

Al R. Krause
Danuta Garb

■ Client Experience

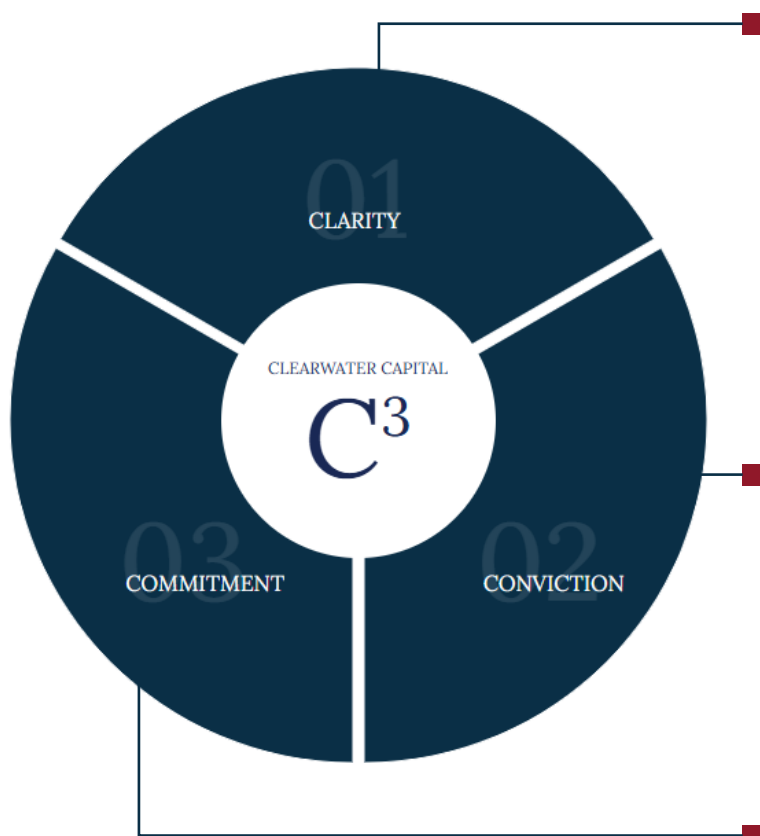
Katie Berganske-Frank
Liza D. Alexanian
Hayley E. Holmes

■ Compliance & Risk Management

Rocky A. Byrd
James F. Chapman
Ty D. Sampson
Jeffrey P. DeHaan

Clearwater Capital C³

Successful wealth management is the product of clear thinking, hard work, and consistent follow-through. At Clearwater Capital, we have developed a rigorous framework for decision-making that we call C3. This disciplined process guides successful individuals and families through the prioritization of long-term objectives, the evaluation of high impact tactics, and the implementation.



Clarity

01 Discovery Phase

- Identify / Prioritize Objectives
- Establish Assumptions
- Collect / Organize Data

Conviction

02 Analysis Phase

- Model and Test Scenarios
- Interpret Findings
- Establish Path Forward

Commitment

03 Execution Phase

- Establish Action Plan
- Implement
- Monitor / Maintain

Introduction

We are pleased to share with you the Clearwater Capital Partners **Outlook 2025** report entitled:

“A COMPLICATED PATH FORWARD”

Each January, we dedicate considerable effort to establishing a foundational set of economic assumptions and insights for the upcoming year, aiming to develop a wealth management framework to guide our investment strategies. Our approach remains steadfastly long-term, emphasizing the importance of owning quality financial assets throughout market fluctuations.

To prepare this report, we have reviewed market analyses from an array of respected economists and trusted research sources. We value the insights of Wall Street's leading thinkers, yet we strive to interpret these insights independently, crafting an economic thesis that supports informed decision-making.

This report seeks to objectively frame key questions about the global economy, offering conclusions drawn from careful evaluation of diverse opinions. In sorting through complex data, we navigate conflicting information and a broad range of potential interpretations, mindful of numerous unpredictable variables.

The complex forces driving our economy and capital markets are considered in this report with an appreciation for historical context. While anticipating evolving circumstances, this document captures our conclusions and sets forth our perceptions for the coming year.

In writing this report, we wrestle the challenges of providing actionable insight into a broad range of topics. Recognizing that not all readers have the time or inclination for a deep dive into economic theory or market strategy, we present a condensed version of our message underlined and highlighted in yellow. For those seeking more depth, the entire text awaits.

Importantly, this report is not intended for timing market movements or creating active trading strategies. Additionally, the content should not be interpreted as investment advice. Genuine guidance is only possible in the context of a personalized relationship with each individual client.

While our annual outlook reports have historically been helpful, we acknowledge that conditions can change unexpectedly. Therefore, we will remain proactive, offering timely updates ensuring our readers stay well-informed.

In 2025, investors are navigating a landscape marked by many challenges. Geopolitical tensions continue to impact global trade and investment flows, introducing a layer of uncertainty that affects market stability. Inflationary pressures remain a concern, with central banks balancing monetary policy to curb inflation without hampering growth. Technological disruptions and the rapid pace of innovation demand adaptability as industries evolve.

We deeply appreciate your continued trust in our ability to provide meaningful value to you and your family. We strive daily to earn your confidence through our committed efforts.

John E. Chapman, January 2025

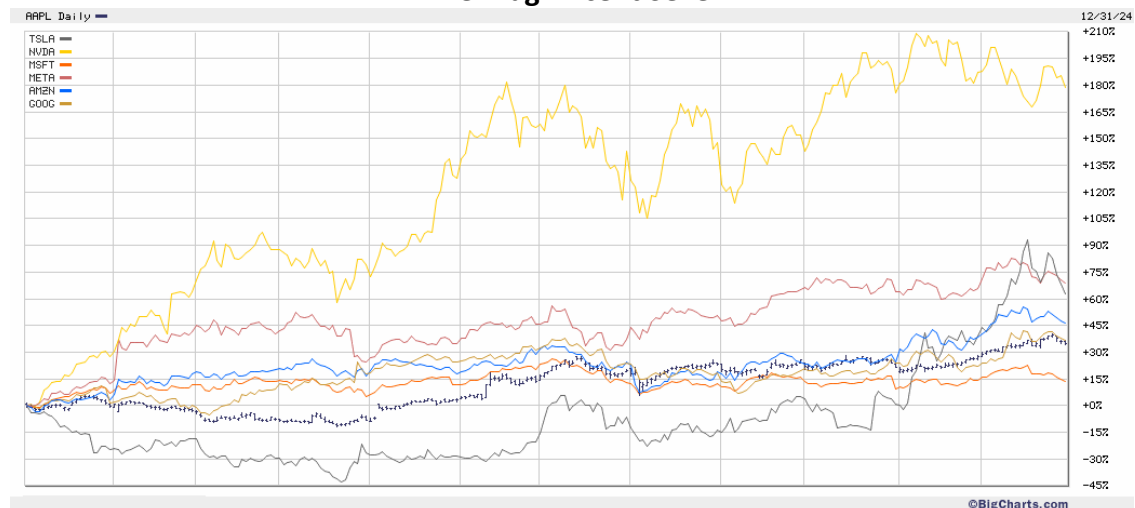
Looking Back at a Historic Bull Market

As 2024 ended, investment advisors and market analysts found themselves reflecting on a second consecutive year that had surpassed even the most optimistic expectations. The financial markets delivered an above average performance with stocks soaring to record levels amidst a mixed capital markets landscape.

The U.S. stock market emerged as the star performer of 2024. The S&P 500, **the benchmark index tracking the largest American companies, gained 23.3% over the year pushing the index past the psychologically significant 6,000-point mark for the first time in its history.** This marked the second year of gains exceeding 20%, a phenomenon not witnessed since the heady days of the late 1990s tech boom.

The tech-heavy Nasdaq Composite index outperformed the S&P 500, surging by an impressive 29.6%. This exceptional performance was largely driven by a group of stocks that came to be known as the "Magnificent Seven" - Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla. These tech giants collectively saw their values skyrocket by 67%, becoming so dominant that by year's end, **the top ten stocks in the S&P 500 accounted for nearly 40% of the index's total market capitalization, a level of concentration not seen in three decades.**

The Magnificent Seven

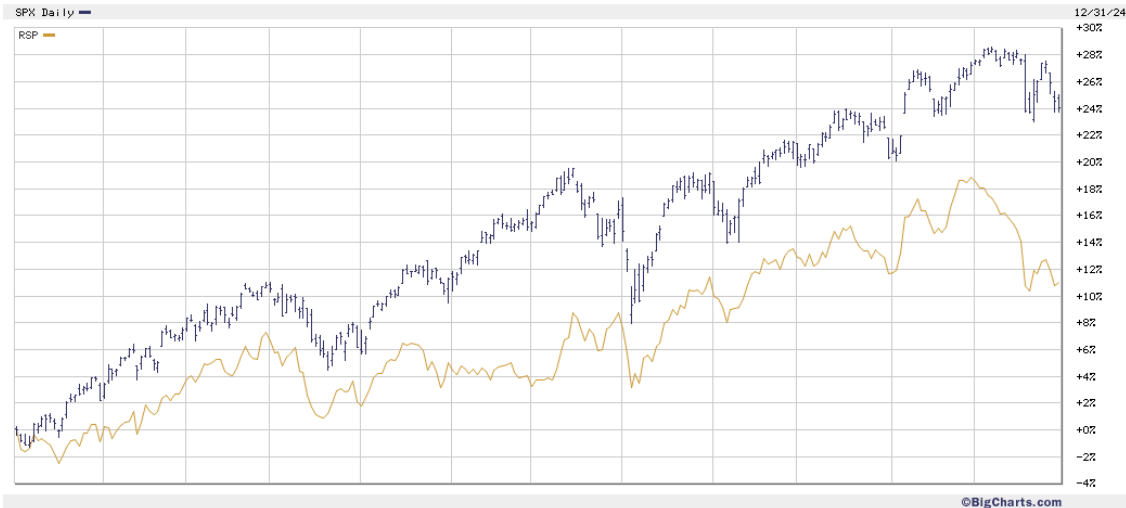


Microsoft (MSFT) saw the smallest gains of the Mag Seven stocks (+15%), while Nvidia led the way gaining about 180% (see chart above). For the entire S&P 500, the top performer was Palantir Technologies (PLTR) with a 340.5% return. Conversely, the worst performing stock from the index was the Walgreens Boots Alliance (WBA), with a significant decline of 64% in its stock price.

While it was an exciting year for a small handful of very large technology stocks, over longer time horizons, equal weighting has historically provided comparable or even superior returns due to its emphasis on smaller companies and sector diversification. When looking at 15-year and 20-year spans of time, the equal weight index has outperformed by an average of approximately 0.63% annually. The equal-weight index also trades at a lower valuation compared to the market cap-weighted index, representing more moderate valuations.

This was not the case last year when stock market performance was concentrated among a small group of stocks. By year-end, only a slim minority of stocks in the S&P 500 outperformed the index itself, reflecting narrow market breadth., The “average” stock performed much more modestly by comparison with the S&P 500 Equal Weight Index (RSP) registering a gain of approximately 13%.

S&P 500 Equal Weight Performance -VS- Market Cap Weighted 2024



It is fair to observe that investors having broadly diversified equity portfolios experienced more modest gains overall when compared to the S&P 500 Index.

This said, diversified investors should temper any disappointment that they “missed out” in 2024 by recalling that in 2022, the Magnificent Seven performed quite poorly when this narrow group of stocks collectively declined by approximately 39.9%.

The bull run wasn't confined to the U.S. Global markets (in local currency terms) registered gains with developed market equities delivering total returns of 19.2% (MSCI AC World Index). Japanese stocks were particularly strong performers, rising 20.5%. Even Chinese stocks, which were under pressure earlier in the year, rebounded sharply in the latter half, finishing the year up 19.8%.

While the stock market was breaking records, the bond market told a more nuanced story. The Bloomberg U.S. Aggregate Bond Index, a key measure of the U.S. bond market's health, managed a modest gain of 1.3%. This relatively subdued performance masked significant variations within the fixed income space.

One of the most notable developments in the bond market was the normalization of the yield curve after 27 months of inversion. This shift sparked intense debate among economists and market analysts about its implications for future economic growth.

An inverted yield curve has proven to be a relatively reliable leading indicator of recessions in the modern era. Since the 1950s, an inverted yield curve has preceded nearly all U.S. recessions by anywhere from 7 to 24 months. This said, it is important to note, there have been instances where an inversion occurred without a subsequent recession.

Multiple factors fueled capital market performance in 2024. The U.S. economy showcased exceptional resilience, with corporate earnings consistently surpassing expectations. The growing enthusiasm for artificial intelligence surged to new heights, propelling substantial gains in the tech sector. Meanwhile, the presidential election introduced both excitement and uncertainty, triggering sector rotations and periods of volatility.

The events of 2024 served as a powerful reminder of the dynamic and often unpredictable nature of financial markets. As attention turns to the year ahead, one thing appears certain, the stage is set for another fascinating chapter in the ever-evolving story of the capital markets.

A New Administration Takes Office

It is virtually impossible to evaluate economic conditions and the investment environment for 2025 without discussion of President Trump's policies and objectives for his second term. Candidly, the impact of the Trump administration's policies on the economic outlook for 2025 is significant, with both positive and negative implications across various sectors.

It is important for our readers to understand that Clearwater Capital Partners has no interest in taking political positions or in advocating for one political party over another. Our responsibilities and expertise are not political in nature, and our personal opinions are not relevant to fulfilling our mission of helping our clients achieve important goals. Fittingly, political opinions will not be expressed in this report.

Our objective in this report is to evaluate the impact of various economic policy initiatives – as we best understand them. Accordingly, our commitment to readers is summarized as follows:

- 1) We will only focus on the financial and economic impacts of the policies and not make comments on potential political implications.
- 2) We will focus on historical data and consider precedent cases when similar policies and initiatives were previously implemented.
- 3) Lastly, we will refrain from sharing personal opinions or political biases to maintain credibility and client trust.

Donald Trump completed a historic political comeback by returning to the Oval Office on January 20th. Despite facing legal issues, including four criminal indictments and a civil judgment, Trump won all seven key swing states: Arizona, Georgia, Michigan, Nevada, North Carolina, Pennsylvania, and Wisconsin – surpassing 270-vote electoral college threshold needed to win the presidency.

According to estimates, President Trump received approximately 77.3 million votes, accounting for 49.8% of the popular vote. This reflects a margin of around 2.3 million votes; however he did not achieve an absolute majority as his share was below 50%. These figures underscore the competitive nature of the 2024 election, highlighting a closely divided electorate.

President Trump's comeback stands out in U.S. political history as he became the first ex-president to reclaim the White House in over 130 years.

Since returning to the Oval Office in January 2025, President Trump has enacted a dramatic shift in U.S. policy across multiple fronts. Starting with immigration policies, President Trump reinstated the "Remain in Mexico" policy and suspended the U.S. Refugee Admissions Program, actions that drew praise from his base but criticism from immigration advocates. The president also directed the continuation of the border wall construction, a key campaign promise.

In the energy sector, the President withdrew the U.S. from the Paris Climate Agreement for a second time and took steps to boost domestic energy production, particularly in Alaska. He declared an energy emergency and signed orders to streamline permitting processes for oil and gas projects, moves that pleased industry leaders but alarmed environmentalists.

Perhaps the most significant economic announcement came in the form of a \$500 billion investment in Artificial Intelligence (AI) infrastructure. The new administration appears determined to position AI as a cornerstone of American technological dominance. This massive investment has been met with both excitement and concern from tech experts and policymakers alike.

On the international stage, Trump announced an "America First Trade Policy," signaling a return to his previous administration's approach to global commerce. This has already led to tensions with some of America's trading partners.

As President Donald Trump settles into his second term in early 2025, the U.S. economy finds itself at a crossroads. The incoming administration assumes responsibility for a relatively stable economy, with above-trend growth, low unemployment, and resilient non-cyclical sectors.

This said, President Trump's ambitious agenda has the potential to reshape this economic terrain in unexpected ways.

The cornerstone of Trump's economic strategy revolves around a promise to tackle inflation, a key factor in his electoral victory. He has repeatedly assured the American public that consumer prices will decrease. Yet, this pledge comes with significant risks and complications. Economists warn that achieving price decreases without triggering an economic downturn is a formidable challenge.

Central to President Trump's solution to the inflation problem involves increasing oil and gas production. This strategy, however, is not without its challenges, as many factors that determine inflation and energy prices are out of presidential control. Moreover, several of his proposed policies, including tax cuts, tariffs, and mass deportations, may very well add fuel to inflationary pressures instead of reducing them.

The most controversial part of Trump's economic agenda is his commitment to implementing broad tariffs. The administration has signaled intentions to impose a minimum 10% tariff on all imports, with rates potentially escalating to over 60% in various circumstances. This protectionist stance has sparked concerns among economists and business leaders over potential repercussions for American consumers and businesses.

The threat of widespread tariffs has created an environment of uncertainty that could dampen investment and growth in the U.S. Analysts at Oxford Economics estimate that this uncertainty alone could reduce growth by as much as 0.6% by mid-2025. The timing and details of these policies are particularly complex, as the U.S. economic expansion hangs in balance.

This said, tariffs, if well executed, also have the potential of enhancing long-term economic activity and could be very positive tool in achieving certain U.S. objectives.

At the time of this report, President Trump has proposed tariffs of 25% on imports from Canada and Mexico and a 10% tariff on goods from China. While the final level of traffic with these three trading partners remains to be seen, these tariffs are expected to raise prices for a wide range of goods, including automobiles, electronics, and food products. The combination of higher input costs for manufacturers, and retaliatory tariffs from affected countries, could lead to higher prices across various sectors, adding to inflation pressures.

While all U.S. Presidents have implemented various tariffs during their administrations, President Trump's tariff philosophy is a significant shift in U.S. policy that may have a devastating impact on consumers, businesses, and relations with other countries. They may raise consumer costs, hurt economic growth, and bring about significant trade friction with trading partners. It is important to note that while the concerns are justified, the feared negative outcomes from tariffs may never materialize.

On the fiscal front, Trump's administration is expected to focus on extending the expiring provisions of his 2017 tax cuts. Although this measure will prevent many Americans from paying more taxes, it is estimated by some economists that it will add more than \$4.5 trillion to the federal debt over the next decade. This fiscal expansion, coupled with promises to protect major programs like Social Security, has raised concerns about rising government debt and its potential inflationary consequences.

It is important to note that President Trump and his economic team have been aggressively promoting their belief that robust economic growth will be the key to reducing government deficits. Their argument, rooted in the principles of supply-side economics, foresees a virtuous cycle of prosperity and fiscal responsibility.

At the heart of their narrative is the concept of dynamic scoring, a method that attempts to calculate the economic effects of tax policy changes. President Trump's economic team claims that tax cuts and the deregulation will promote greater economic activity leading to more job creation, business development and growth. As employment rises and wages grow, consumer spending increases, further fueling economic expansion.

President Trump and his advisors forecast that this growth will lead to higher tax revenues that will ultimately be far greater than the initial reductions stemming from the lower tax rates.

However, this optimistic projection faces skepticism from some economists and budget analysts. Critics point to the Congressional Budget Office's estimate and argue that the stimulative effects of tax cuts are often overstated and rarely, if ever, fully pay for themselves.

The administration counters these concerns by emphasizing their commitment to reducing government spending, particularly through the newly established Department of Government Efficiency. However, the historic reality has been that meaningful cuts in spending have been hard to come by, given the rise of entitlements costs and the rise in the interest burden on the debt.

Despite these challenges, Trump and his advisors remain steadfast in their belief that their economic policies will usher in a new era of prosperity and fiscal health. They paint a picture of America where economic growth not only improves the lives of citizens but also solves long-standing budgetary challenges.

The true impact of these policies on economic activity and government deficits over time remains uncertain.

The U.S. equity markets have reacted positively to Trump's election victory in November 2024 and his subsequent inauguration in January 2025, echoing the market response seen after his unexpected win in 2016. Companies expected to benefit from corporate tax cuts saw their stock prices rise, while those with significant foreign exposure faced some headwinds due to concerns about potential trade policy changes.

In the coming months, all eyes will be on how the administration navigates the delicate balance between its ambitious agenda and economic realities. The tension between traditional pro-growth policies and the more populist elements of Trump's platform will likely define the economic narrative of 2025. Simply stated, investors will be watching closely to see if Trump can deliver on his promise of a "magnificent golden era for business" without derailing the economic progress achieved in recent years.

Economic & Market Conditions for 2025

Our base case evaluation of this complicated fact pattern argues for cautious optimism, with expectations of continued growth amid a wider than normal range of challenges and uncertainties. We believe the U.S. economy will continue to grow in 2025, albeit at a slower pace compared to 2024. Forecasts for real GDP growth range from 1.9% to 2.5%, with most estimates falling around 2.0-2.3%. Our view is that the U.S. economy will likely tilt to the lower end of this range.

While there's potential for further gains in global equities, we are concerned over a range of vulnerabilities in 2025. We see a confluence of factors that, when taken together, paint a picture of a market that may be priced for perfection. At the heart of these worries is the stretched valuation of the S&P 500 with the index's price-to-earnings ratio is sitting in the 90th percentile of its historical range. This elevated valuation suggests that investors are paying a premium for stocks relative to their underlying earnings, a situation that has historically preceded market corrections.

Adding to these concerns is the remarkable two-year rally that U.S. stocks have enjoyed. **The S&P 500's cumulative returns of over 57% for 2023 and 2024 combined rank among the top ten two-year periods in the market's history.** While this performance has been a boon for investors, it raises questions about sustainability and the potential for mean reversion.

Despite the market's robust performance, economic uncertainties linger. Inflation concerns, the potential for recession, and geopolitical risks continue to cast shadows over the economic landscape. We have concerns that these risks are not fully reflected in current stock prices, creating a disconnect between market valuations and economic realities.

Our view of historical data would suggest that the two-year bull market run, and today's high valuations are likely to limit forward returns in the near-term. **With the U.S. stock market at a 20-year peak, we see the potential for further significant gains may be limited** – at least until such time as the pro-growth initiatives of President Trump's second term produce their desired results.

From our perspective, the S&P 500 appears highly vulnerable to a correction in 2025. We observe that the top 10 S&P 500 stocks are trading at ~30x forward multiples, AI-related valuations are exceeding dot-com bubble levels, the insider selling ratio is at its highest recorded level in history, and the percentage of S&P 500 stocks trading above their 200-day moving average has been deteriorating.

Key Indicators

The U.S. economy expanded at an annualized 2.3% in fourth quarter of 2024, the slowest growth in three quarters, down from 3.1% in the third quarter and falling short of forecasts calling for growth of 2.6%. Personal consumption remained the main driver of growth, increasing 4.2%, the highest since the first quarter of 2023. Spending rose for both goods and services. On the other hand, fixed investment contracted for the first time since the first quarter of 2023.

United States GDP Growth Rate



U.S. Bureau of Economic Analysis

Despite this recent slowdown, the overall economic performance for 2024 remained strong, with GDP growing by 2.5% year-over-year.

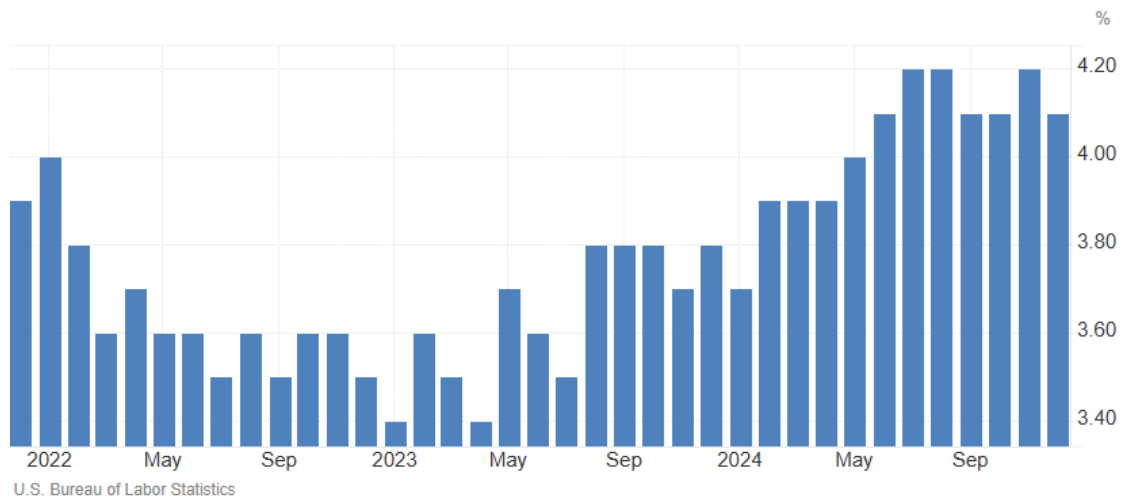
Looking ahead to 2025, forecasts suggest continued growth, although at a slightly reduced pace. Projections for 2025 GDP growth range from 1.9% to 2.5%, with most estimates clustering around 2.1% to 2.4%. This moderation is attributed to factors such as tightening financial conditions and early signs of labor market softening. However, the U.S. economy is still expected to outperform other developed economies.

The growth trajectory is supported by the anticipation of continued consumer spending and business investments. However, some analysts caution that the strong performance in late 2024 might have borrowed from future growth, particularly due to consumer stockpiling behavior ahead of anticipated tariff-driven price increases.

Despite these concerns, the overall macroeconomic outlook for 2025 remains positive, even if the pace of activity becomes more moderate.

As 2025 begins, the U.S. labor market demonstrates remarkable resilience and strength, despite ongoing economic uncertainties. The December 2024 jobs report, released in January 2025, paints a picture of robust job growth and a tightening labor market.

United States Unemployment Rate



The U.S. economy added 256,000 jobs in December 2024, significantly exceeding economists' expectations of about 150,000 jobs. This strong performance caps off a year of steady growth, with the economy adding an average of 186,000 jobs per month throughout 2024.

The unemployment rate in the United States went down to 4.1% in December of 2024 from 4.2% in the previous month, below market expectations of 4.2%. The number of unemployed individuals decreased by 235,000 to 6.886 million, while employment levels increased by 478,000 to 161.661 million.

While the current rate of unemployment is slightly higher than the 3.8% seen at the end of 2023, it remains historically low, indicating a reasonably tight labor market. Overall, employers continue to struggle with recruiting and retention.

It is worth noting that government jobs accounted for a significant portion of the total job growth in 2024, representing about one of every five jobs created. Adding healthcare and education related hirings, the percentage of new jobs created rises to over 50% of the total job growth in 2024.

This is a striking insight that might give economists pause for thought. While these sectors are undoubtedly vital to the functioning of society, their dominance in job creation paints a complex picture of the economy's true overall health.

One of the primary worries related to government dominating job creation is with productivity growth. Government jobs in these areas, while essential, are not typically known for rapid productivity increases. Unlike sectors such as technology or manufacturing, where innovations can lead to significant output gains, government service-oriented fields historically do not. This could potentially lead to slower overall economic growth and wage stagnation in the long run.

Another concern is the fiscal sustainability of this job growth pattern in a time of smaller government and government efficiency initiatives. Also, these sectors generally don't produce goods or services for export which could affect the country's trade balance and limit its competitive position in the global economy.

An economy heavily reliant on government, healthcare, and education job creation may be less resilient to economic shocks and have limited potential for the kind of dynamic growth and innovation often associated with a robust private sector.

As we look ahead to 2025 and beyond, the key question will be whether this pattern of job growth is a temporary phenomenon or a long-term shift in the structure of the U.S. labor market. We will be looking closely to see if private sector job creation can regain momentum, bringing a more balanced distribution of employment growth across various sectors of the economy.

The U.S. Leading Economic Index (LEI), published by The Conference Board, is a composite of ten individual economic indicators that, together, provide insight into future economic activity.

The LEI includes data points such as average weekly jobless claims, new orders for consumer goods, building permits, stock prices, and consumer expectations. These components are chosen for their ability to signal changes in the economic cycle, typically peaking before economic expansions transition to recessions, and vice versa.

The importance of the LEI lies in perceptions of its predictive capabilities. It is believed by many economists that by analyzing trends in leading indicators, businesses, and policymakers, investors gain foresight into potential economic turning points. This anticipation can potentially inform decision-making, whether in terms of investment strategies, policy adjustments, or business planning.

Consistent changes in the LEI over several months can often serve as an early warning system for economic shifts, making it a valuable tool for managing economic risks and opportunities.

While the LEI has shown a general downward trend throughout 2024, the rate of decline has slowed, and other economic indicators remain positive. Still, the LEI has indeed declined for 30 of the last 31 months representing a significant downturn over the past two years.

Traditional interpretation of this data would suggest headwinds for the U.S. economy and a potential economic slowdown in 2025.



While the LEI has been considered a strong predictor of recessions since 1960, its predictive power has been questioned in recent years due to several factors. The unique post-pandemic business cycle has made traditional predictions more difficult, and the LEI is overly weighted towards manufacturing data as the U.S. economy has become more services oriented.

We believe the LEI remains structurally accurate but struggles to capture the complexity of the current economic landscape. This said, we regard the LEI as one of many valuable tools that should be considered alongside other economic indicators rather than as a definitive predictor of economic conditions.

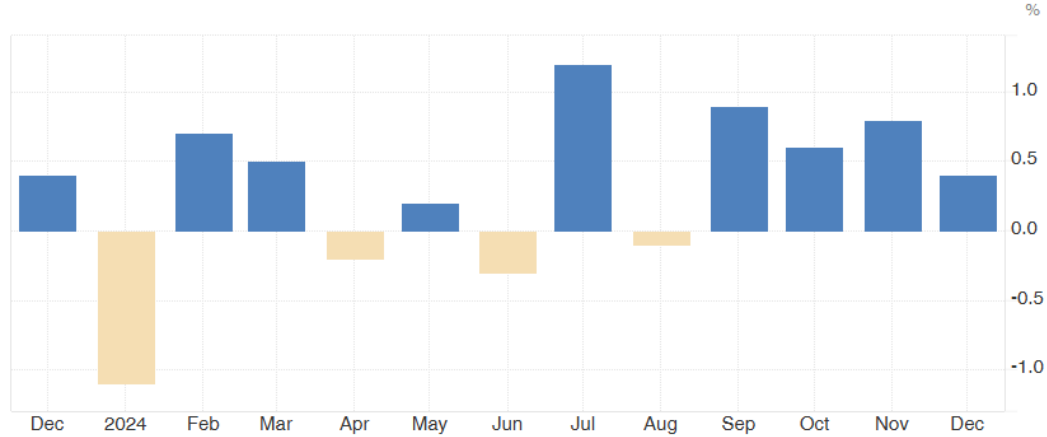
Retail sales in the United States ended 2024 on a solid note, driven by a robust holiday shopping season. The U.S. Census Bureau reported that retail trade sales were up 4.2% in December 2024 compared to the previous year.

As we have often observed, U.S. retail sales data reported by the Census Bureau are not adjusted for inflation. This means that the figures represent the nominal dollar value of goods sold, which can be misleading when trying to assess actual consumer spending patterns, especially during periods of high inflation. The real retail sales growth in the United States for 2024 was approximately 1.2%.

This “inflation adjusted” real growth representation of retail sales for 2024 indicates only a moderate expansion in consumer spending, accounting for the effects of inflation on purchasing power.

Most of 2024's retail strength was largely seen in the digital realm. Online sales skyrocketed, with an impressive 33.05% year-over-year increase in December alone. Online sales increased 8.7% for the full year.

Nominal U.S. Retail Sales



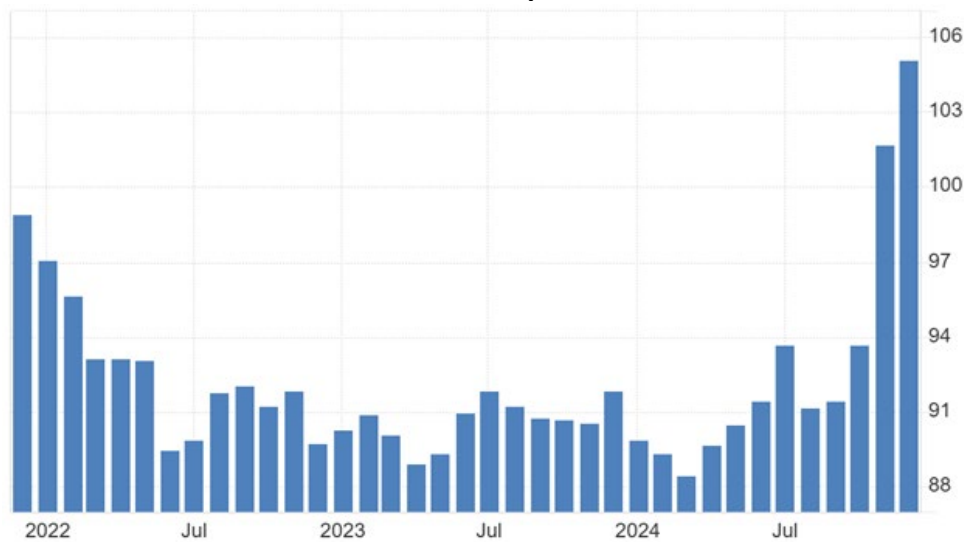
U.S. Census Bureau

As retailers looked ahead to 2025, there was a sense of cautious optimism in the air. Forecasts suggested that consumer spending would continue to grow, potentially by 3.1%.

Still, the specter of potential tariffs and higher-for-longer interest rates looms large on the horizon, threatening to upset the delicate balance of consumer confidence and spending power.

The NFIB Small Business Optimism Index for December 2024 soared with a wave of positive sentiment among small business owners, significantly influenced by the recent results of the November 2024 elections. The net percentage of business owners expecting the economy to improve rose to its highest level since the fourth quarter of 1983.

U.S. NFIB Business Optimism Index



Source: National Federation of Independent Business

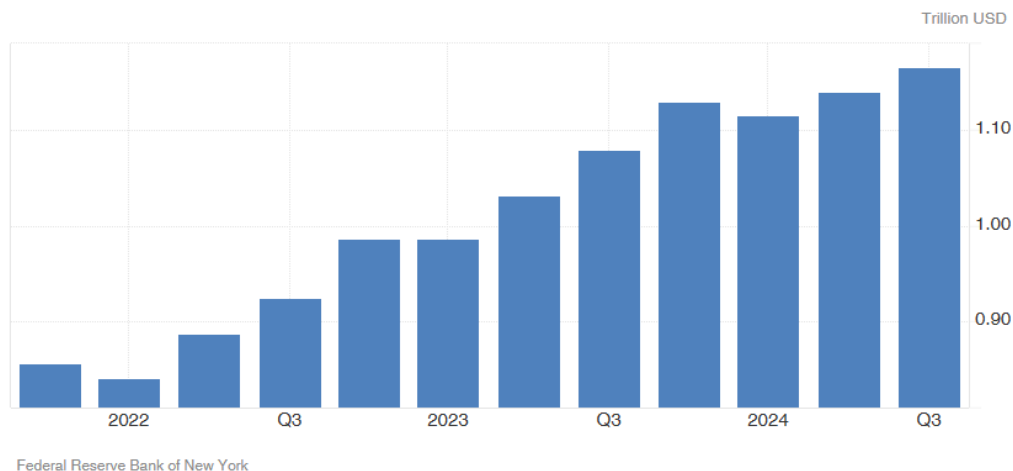
The outcome has provided a sense of stability and the expectation for a policy environment that aligns government priorities with small business interests. This has spurred plans for hiring and capital investments, signaling robust expansion efforts. While challenges such as labor shortages persist, there is renewed optimism that collaborative policy solutions will address these issues.

Overall, the election results have injected a fresh sense of optimism into the small business landscape, with owners feeling empowered to pursue growth opportunities in a supportive economic climate as they head into 2025.

The optimism and high expectations will need to be met by reality with economic activity increasing and corporate profitability remaining high. Any disappointments or economic disruptions would expose investors (and high valuations) to a large reversal in sentiment.

As we delve deeper into 2025, a cloud of unease continues to loom over the financial landscape, particularly in the realm of consumer credit. Credit card debt in the United States has reached unprecedented levels, surpassing \$1.17 trillion in the third quarter of 2024 and reaching an all-time high. This represents a significant increase from previous years, with the average household credit card debt standing at \$10,757. Such high levels of debt can strain consumers' finances and limit their ability to spend on other goods and services.

U.S. Credit Card Debt

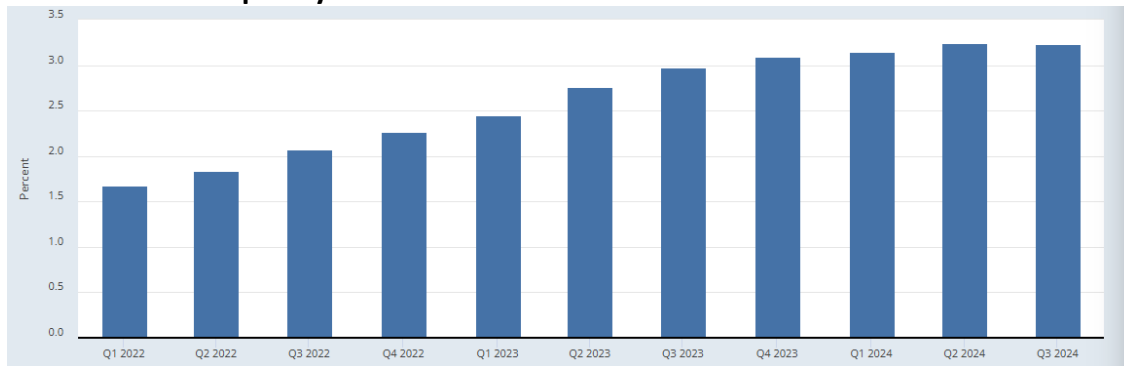


Equally worrisome is the persistent upward trend in credit card delinquencies, which serves as a stark reminder of the fragile economic recovery and the mounting pressures faced by American households. The percentage of credit card debt that is past due thirty days or more has been steadily rising over the past few years.

Credit card delinquencies are expected to rise again in 2025 marking the fifth consecutive year of increases. This trend suggests that a significant portion of consumers are struggling to meet their financial obligations, potentially setting the stage for a broader economic impact.

Of particular concern is the disproportionate effect on younger and lower-income households. These demographics, often more vulnerable to economic fluctuations, are bearing the brunt of financial stress. Their struggles could herald a generational setback in wealth accumulation and financial stability, with far-reaching consequences for the economy.

Delinquency Rate on Credit Card Loan – All Commercial Banks



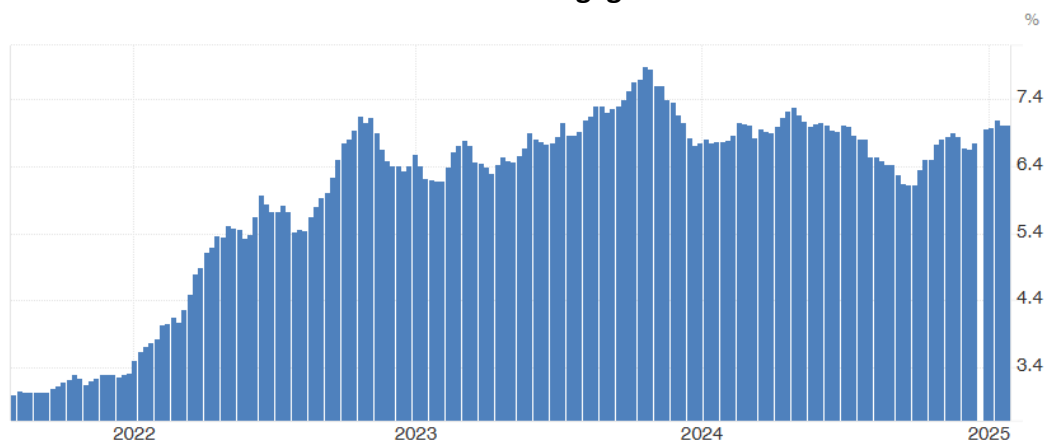
Source: FRED (fred.stlouisfed.org)

Moreover, the rise in delinquencies, **even as they remain below historical averages**, signals a potential erosion of the financial health of lending institutions. In turn, this could potentially lead to tighter credit conditions. **All in all, a negative feedback loop in the credit markets could emerge, further straining consumer spending and economic growth.**

As we navigate through 2025, the credit card delinquency trends serve as a canary in the coal mine, warning of potential broader economic challenges ahead. Policymakers, financial institutions, and consumers alike must remain vigilant and proactive in addressing these concerns to prevent a more severe economic downturn.

The housing market, a critical part of the U.S. economy, continues to face significant challenges in 2025. Affordability issues persist, and the market is still adjusting to the effects of higher interest rates and economic uncertainties.

U.S. 30-Year Mortgage Rate



Mortgage Bankers Association of America

Housing's combined contribution to GDP generally averages 15-18% and mortgage debt accounts for about 70% of all household debt. Changes in the housing market can significantly affect the stability of financial institutions and the overall financial system.

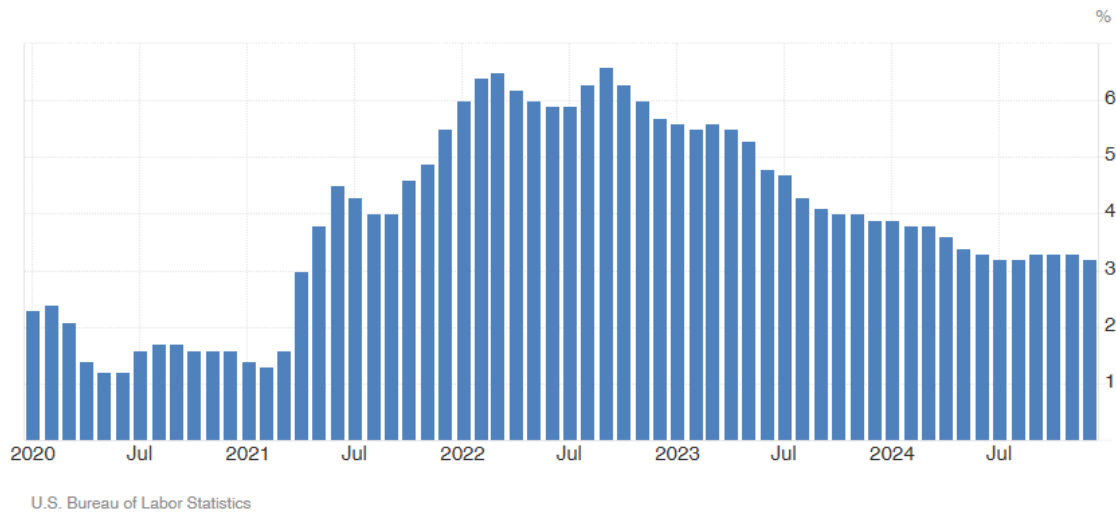
Mortgage rates are significantly higher than they were just three years ago, and the U.S. still faces a significant housing shortage of 2.4 to 3 million homes. Inventory levels are still 24.8% below typical 2017-2019 levels. The U.S. has consistently built too few homes almost every year since the housing crisis in 2007 (First Trust).

The average contract interest rate for 30-year fixed-rate mortgages with conforming loan balances (\$766,550 or less) in the U.S. stands at 7.02% in the week ended January 24th 2025.

Many home buyers have been priced out of the market. The typical mortgage payment for homebuyers has reached its highest level ever at \$2,290. This affordability issue is expected to persist throughout 2025, with mortgage rates projected to remain above 6%.

The annual core consumer price inflation rate in the U.S., which excludes items such as food and energy, stood at 3.2% in December 2024 – the same level as last July. The rate of inflation remains significantly above the Federal Reserve's 2% target, indicating that underlying inflationary pressures are still present in the economy.

United States Inflation Core Rate



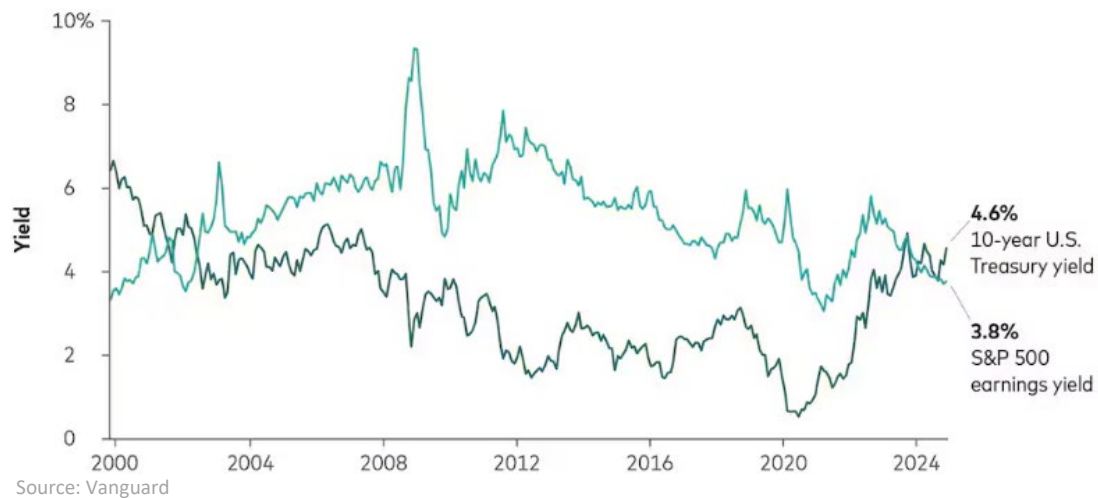
While recent data suggests a slight moderation in consumer inflation, there are several reasons to remain cautious about declaring victory over price pressures.

- 1) Higher inflation persistence could weaken aggregate demand, potentially bringing GDP growth to near zero in 2025 (Source: Federal Reserve).
- 2) Continued high wage inflation, above levels consistent with 2% inflation, could contribute to ongoing price pressures (Source: Federal Reserve Bank of Cleveland).
- 3) The "supercore" CPI, which focuses on underlying services inflation and is closely watched by Fed policymakers, was still at 4.2% annually in December, worse than the 3.9% reading in 2023.
- 4) The Federal Reserve is likely to maintain a cautious stance, with most forecasts suggesting interest rates will remain elevated through much of 2025.

A Reverse Yield Gap

With higher interest rates and stock prices surging to record highs (primarily due to multiple expansion versus earnings growth), the 10-year treasury yield now exceeds the S&P 500 earnings yield for the first time since 2008.

When the bond yield rises above the equity earnings yield, it has historically signified an important shift in the relative attractiveness of bonds compared to stocks. This situation is often referred to as a "reverse yield gap" and has several implications for investors and the broader financial markets.



In recent decades, there have been periods where bond yields have surpassed equity yields, especially during times of economic uncertainty or following stock market crashes (Source: Morningstar). When this happens, it implies a perception of rising risks in the equity markets and that fixed income investments are offering higher returns than equities on a yield basis. Should investors begin to reallocate funds to bonds, there is the potential for downward pressure on stock prices.

As is usually the case, there are varying opinions on how the data should be interpreted. In the case of the reverse yield gap, Professor Jeremy Siegel observes that using the nominal 10-year Treasury yield to assess equity risk premiums ignores the fundamental difference between nominal and real yields. He recommends using TIPS, to adjust for inflation. In this case, the forward-looking real return of equities remains higher than that of bonds.

Expert Perspectives

Professor Jeremy Siegel, Wharton School of the University of Pennsylvania, emphasizes the economy's resilience, noting strong GDP growth estimates between 2.5% and 3% for Q4 2024. He expects inflation to trend towards the Federal Reserve's 2% target, with core PCE inflation settling around 2.1-2.3% by year-end. Still, he advises caution due to uncertainties surrounding the new administration's economic policies and current market valuations.

Professor Siegel highlights that the S&P 500's forward price-earnings ratio near 23.5x is elevated, especially amid rising bond yields. While maintaining an optimistic view overall, he warns of potential market corrections reminiscent of the early 2000s.

Brian Wesbury, Chief Economist at First Trust Advisors, paints a sobering picture of the U.S. economic landscape. His outlook is tinged with caution, reflecting his belief that the nation is about to face the consequences of what he considers misguided policies implemented over the past half-decade. Wesbury foresees a mild recession looming on the horizon, with real GDP potentially contracting by 0.5% to 1% throughout the year.

Wesbury expresses concern about the combination of spending cuts, tax cut extensions, and new tariffs. He believes that current equity valuations are inflated by about 20%, setting the stage for a potential correction. His year-end target for the S&P 500 ranges between 5000 and 5400, with a specific projection of 5,200.

Edward Yardeni, President of Yardeni Research, maintains a bullish stance on the U.S. stock market emphasizing the importance of strong productivity growth as a key driver for both the economy and S&P 500 revenues. Yardeni projects S&P 500 operating earnings per share (EPS) to reach \$285 in 2025, representing an 18.8% year-over-year increase. This forecast is significantly higher than the Street's consensus of \$270. He also anticipates S&P 500 companies will achieve a record profit margin of 13.9%.

Based on these noticeably positive expectations, Yardeni forecasts that the S&P 500 could reach 7,000 by the end of 2025. He attributes this optimistic outlook to pro-business measures such as tax cuts and deregulation, which he believes will foster economic expansion.

David Kostin, Goldman Sachs' Chief U.S. Equity Strategist, presents an optimistic outlook for the U.S. economy and stock market in 2025. Kostin sets a year-end 2025 S&P 500 target of 6,500, representing an 6% to 7% rise from current levels. Kostin's outlook is based on expectations of continued economic and corporate earnings expansion, with stable bond yields. He anticipates S&P 500 earnings to increase by 11% in 2025.

While acknowledging high market concentration, Kostin doesn't view it as a short-term concern. However, he warns that high concentration may lead to lower returns over longer horizons. He also highlights potential risks including the threat of across-the-board tariffs and the possibility of higher bond yields.

Rick Rieder, BlackRock's Head of the Global Allocation Investment Team, presents a cautiously optimistic outlook for the U.S. economy and markets in 2025. Rieder projects a "solid" year for the equity market with potential buying opportunities in large-cap tech stocks, particularly those trading at lower multiples. He also anticipates Treasury yields to stabilize, with long-term rates potentially inching upwards slightly.

Rieder notes the significant amount of cash in the system, with assets in money market funds at nearly \$10 trillion. He believes this "dry powder" will need to be invested, providing technical support for asset markets. He also acknowledges the uncertainty surrounding the new administration's economic policies, particularly regarding tariffs. However, he expects a more measured approach to tariff implementation than what was promised during the campaign.

Mike Wilson, Morgan Stanley's Chief U.S. Equity Strategist, predicts a choppy first half of 2025 due to persistent inflation and high interest rates. However, Wilson is optimistic about the latter half of the year, contingent on favorable policy developments. Wilson highlights trade and tariffs as key areas of focus for equity investors due to their potential impact on earnings and growth. Despite the challenges in the first half, Wilson forecasts the S&P 500 to end 2025 around 6,500.

David Kelly, Chief Global Strategist at J.P. Morgan Asset Management, presents a cautiously optimistic outlook for the U.S. economy and markets in 2025. Kelly expects inflation to trend towards the Federal Reserve's 2% target, with headline PCE inflation projected to average 2.0%. Despite high valuations and concentration risks, Kelly believes the stock market rally can continue into 2025, supported by economic growth and rising corporate earnings.

Kelly highlights policy uncertainty from the Trump administration, particularly regarding potential tax cuts, higher tariffs, and immigration restrictions, as factors that could introduce volatility. He characterizes 2025 as a year of moderation and careful navigation, with the economy transitioning from recent extremes to a more normal pace of growth.

Thomas Lee, Head of Research at Fundstrat, paints a picture of a year that could be described as a "tale of two halves" for the U.S. economy and markets. Lee envisions a strong start to the year, with the S&P 500 potentially reaching a mid-year high of 7,000 underpinned by his expectations of continued economic expansion, a recovery in manufacturing, and a softening labor market that could keep the Federal Reserve in a dovish stance.

Lee anticipates headwinds in the latter part of 2025, leading to a market pullback. He projects the S&P 500 to end the year at 6,600, resulting in a more modest but still respectable 8% annual gain. This tempered second-half outlook reflects concerns about potential "echo" inflation and the impact of the Trump administration's policies, particularly regarding tariffs and government efficiency measures.

Jeffrey Kleintop, Chief Global Strategist at Charles Schwab, presents a cautiously optimistic outlook for the global economy and markets in 2025. While Kleintop expects the U.S. and Chinese economies to slow slightly, Kleintop notes that none of the top 45 economies in the world are expected to be in recession in 2025.

Kleintop expects more interest rate cuts outside the U.S. than inside, which could support rising stock valuations. He foresees solid performance for international stocks in 2025, potentially reaching double-digit returns.

The **Bespoke Investment Group** presents a positive perspective on the U.S. equity markets for 2025. Bespoke notes a positive trend in market performance that aligns with historical patterns of noticeable broadening of market participation. This suggests a broader range of stocks are beginning to contribute to overall market gains, which is a healthy sign for sustained growth.

Bespoke observes several positive factors supporting a favorable outlook including low credit spreads, the expansion of private credit markets, and softness in commodity markets that helps contain price pressures. They note that investor sentiment remains elevated reflecting a general optimism about economic conditions and corporate earnings in 2025.

Summary: There is clearly a wide range of expert opinions regarding the path forward in 2025. While mostly "cautiously optimistic", many commentators cite tariffs and trade tensions frequently as major concerns for the coming year. Consistent with our own writings over the past several years, many experts view current geopolitical risks, including ongoing conflicts and potential escalations, as adding to the uncertainty.

We value the divergent perspectives and observations of industry professionals and will continue to consider their commentary throughout the year.

The New Market Regime Revisited

Two years ago (*Outlook 2023*), we observed that the prevailing environment had shifted in three critical ways. Our observations have proven to be correct, and these critical trends continue to evolve as we move into a new year. In our 2023 report we wrote about:

- **The End of Loose Money Policies**
- **The Shift Towards Deglobalization**
- **The Rise in Geopolitical Instability**

Together, these three elements represent a noteworthy and ongoing transformation of the environment for businesses, consumers, and investors. These trends continue to suggest that everyone will need to adjust strategic thinking for years to come.

Clearwater Capital's Base Case for 2025

Our view of economic activity in the U.S. is one of continued resiliency, but with a downshift to the pace of growth. At the time of the writing this report, the consensus expectation for GDP growth in 2025 stands at about 1.9%. Our base case is that 2% growth is possible, however there is a downside risk to this forecast due to our belief that trade disputes could be disruptive, inflation will remain above target levels, and we will see limited Fed rate cuts throughout the year.

In many ways, we see 2025 as a transitional year. The economy will be adjusting to a new administration, bringing material changes to governance, philosophy, and policy. Inflation may be in the process of normalizing between 3% and 4% - compared to the past 20 years when it averaged just 2.5%. Interest rates have already normalized to higher levels and the Fed has signaled a cautious stance regarding additional interest rate cuts in 2025.

We believe interest rates will remain "higher for longer" given suborn levels of core inflation. According to Professor Jeremy Siegel, ***"a rise to levels approaching 5-5.5% on the 10-year Treasury yield would not be inconsistent with a normalizing term structure."***

The current administration's goal of reducing waste and deficit spending, if successful, would have the effect of putting downward pressure on economic activity in the short-term. Conversely, deregulation and lower taxes would have the opposite effect. Policy uncertainties, chiefly regarding trade and tariffs, further complicate the picture and are impossible to predict with any confidence. Potential new tariffs could significantly impact global trade and growth.

We believe the net effect of these challenges will cause the U.S. economy to experience an uptick in headwinds in the coming year and a short recession remains possible. Unlike last year, when we believed a recession was more likely than not, we now believe the odds favor the soft landing narrative wherein a downturn over the next twelve months is unlikely. If a recession does occur, we continue to believe it would be relatively mild in nature.

The labor markets appear to be stable as the new year gets underway, however we see employment as a lagging indicator of economic health. Businesses often wait to see if economic trend changes are

sustained before hiring new workers or laying off existing ones. Said another way, the unemployment rate tends to rise only after a downturn has been prolonged.

We believe corporate profitability may have trouble meeting current expectations for 2025 which are now forecasting earnings growth of 14% to 16% year-over-year. The predicate for these lofty forecasts will be further progress in lowering inflation, additional interest rate cuts from the Fed, and strong consumer spending. The ability of companies to achieve double digit earnings growth will be crucial in driving market performance and justifying current valuations. We believe earnings growth is likely to finish 2025 closer to 8% for the year.

Our view of U.S. equity markets is nuanced. While we generally have a constructive view of equities over the next several years, we are expecting a correction in 2025.

Market corrections are a normal part of investing and occur on average about once a year (defined as a decline of 10% or more from recent highs). When corrections do occur, they tend to be relatively short-lived, typically taking 5 months to establish the bottom of the downturn. The average correction sees the market drop by about 13-14% with the average recovery time taking approximately 4 months.

There were four stock market corrections in 2022, only one in 2023, and none in 2024. Five corrections occurred in 2020 alone. One could argue that the equity markets are overdue for a temporary downturn. When a correction does occur, it will likely “feel” worse than it is due to investors becoming somewhat “spoiled” over the past couple of years.

Much has been written by market commentators about U.S. equities being “priced for perfection” as we move into 2025. Research consistently shows an inverse relationship between high starting valuations and subsequent long-term performance.



Source: JP Morgan Asset Management

Current equity valuations as represented by the S&P 500 are currently more than one standard deviation above the 30-year average price/earnings multiple. While elevated, it is important to note that valuations have historically provided minimal insight into price movements over a subsequent 12-month period. High multiples can, and frequently do, become even more expensive in the near term.

Arguably, the S&P 500 appears to currently trade at elevated valuation levels. However, if we set aside the Mag Seven stocks from the index, we can observe that the other 493 stocks taken together trade at 16 times forward earnings, in line with historical averages. Smaller stocks, as represented by the S&P SmallCap 600 Index are trading at an average of 17 times forward earnings.

We believe the observations above signals opportunities in the equity markets (beyond the Mag Seven). Similarly, international equities have lagged U.S. equity performance, due in part to a strong dollar, and may present attractive relative valuations. It is often observed that today's leaders are often tomorrow's laggards, and today's laggards are often tomorrow's leaders.

The U.S. equity markets have come a long way from the Great Recession. Stocks have risen more than 300 percent since the 2007 peak which was right before the financial crisis. Between 2007 and 2024, an investment of \$100 in the S&P 500 would have yielded \$596.55, or 496.55 percent return, or 10.53 percent annually. In real terms, that is a return of 294.53%, or 8.00% annually.

Increases in equity prices have been significantly higher than the pace of growth in real GDP and corporate revenue over many years. Real GDP growth rate for the American economy has averaged less than 2% annually since 2007. Real corporate revenue growth for large companies has averaged about 5% over the past 20 years and has slowed to 3.6% annually following the pandemic.

The difference between the stock market performance and GDP and revenue growth can be explained by a variety of special circumstances. Nevertheless, it should be emphasized that such outstanding results may not be sustainable in the long run.

Conclusion for “A Complicated Path Forward”

Predicting market outcomes over the near-term is an impossible proposition, especially in periods of dramatic change such as the one we are currently in. The best we can do, is offer our view of current conditions and lay out various scenarios that appear to us as more likely than not. Then, as conditions shift throughout the year, provide updates on our strategies.

Calendar year 2024 ended with profoundly bullish sentiment – perhaps too bullish. Equity valuations are historically high, the rate of inflation is still too high, expectations for Fed rate cuts in the coming year may be running ahead of reality, and economic data has softened a bit in recent months.

Our view is that the bullish case indicates an upside potential for equities between 5% to 15%. Unfortunately, the bearish perspective suggests a downside risk for equities at -15% and that does not account for an unexpected geopolitical shock, or an escalating trade war triggered by aggressive tariff policies.

This said, we believe investors should remain constructive in 2025 while being especially attentive to the unique risk patterns present in our economy and around the globe. The long-term picture still appears bright with the further development of innovative technologies, the potential for meaningful advances in productivity, and government policies that unleash capitalism's animal spirits.

Notwithstanding this positive perspective, we see 2025 as a potentially difficult year of transition. We believe a recession is still possible and that the U.S. equity market is likely to experience a correction of

10% or more at some point in the coming year. These, and other, potential headwinds create a range of possible outcomes that are wider than we would normally expect.

Thank You

When it comes to life's unexpected twists and turns – whether they be opportunities or challenges – it is important to note that investors always have the opportunity to respond and adapt. We are powerless to determine the circumstances that will occur in our lives, but we are very much in a position to decide how we will act in response to them. Our goal is to approach each situation with resilience, striving to create a positive future for ourselves and our loved ones.

This philosophy is at the core of effective wealth management. A robust decision-making framework is essential, focusing on long-term planning rather than being swayed by short-term fluctuations. While our strategies may evolve as new information emerges, our commitment to understanding the broader economic landscape remains unwavering.

The economy and financial markets are inherently cyclical, with periods of growth and contraction alternating over time. The process of building and expanding wealth is an exhilarating challenge, but it's important to recognize that the path forward is often:

- Asymmetrical: Progress may not always be linear or balanced
- Volatile: Significant fluctuations in market conditions can occur quickly
- Frustrating: There will be moments of difficulty and uncertainty

Even seasoned investors can find market volatility and downturns unnerving. Please know that we are here to help you with relevant insights and perspectives to navigate these challenging periods effectively.

We do appreciate your spending your time reviewing our outlook and projections. There will be many opportunities in 2025, and we remain optimistic for the future. We have a deep appreciation for the trust and commitment that our clients have bestowed upon us. We look forward to working together to achieve a prosperous future.

Clearwater Capital Partners
January 2025

Major Equity Indices	TOTAL RETURNS									
	YTD	1 Wk	1 Mo	3 Mo	6 Mo	12 Mo	3 Yr [^]	5 Yr [^]	10 Yr ^{^^}	
S&P 500®	25.00%	-2.60%	-2.39%	2.39%	8.42%	25.00%	8.92%	14.51%	13.09%	
S&P MidCap 400®	13.89%	-1.12%	-7.12%	0.33%	7.30%	13.89%	4.83%	10.31%	9.66%	
S&P SmallCap 600®	8.65%	-1.32%	-7.96%	-0.59%	9.46%	8.65%	1.84%	8.29%	8.89%	
S&P Composite 1500®	23.93%	-2.49%	-2.81%	2.20%	8.38%	23.93%	8.51%	14.11%	12.77%	
S&P/TSX Composite	21.65%	-0.35%	-3.27%	3.77%	14.71%	21.65%	8.64%	11.13%	8.67%	
Russell 1000®	24.50%	-2.57%	-2.79%	2.74%	8.99%	24.50%	8.39%	14.26%	12.86%	
Russell 2000®	11.53%	-1.25%	-8.26%	0.33%	9.63%	11.53%	1.21%	7.38%	7.79%	
Russell 3000®	23.80%	-2.51%	-3.06%	2.63%	9.02%	23.80%	7.99%	13.85%	12.53%	
Dow Jones Industrial Average®	14.99%	-1.74%	-5.13%	0.93%	9.73%	14.99%	7.56%	10.55%	11.56%	
Nasdaq Composite®	29.60%	-3.58%	0.56%	6.36%	9.30%	29.60%	8.17%	17.54%	16.27%	
MSCI ACWI ex USA	6.09%	0.16%	-1.91%	-7.50%	0.05%	6.09%	1.35%	4.61%	5.31%	
MSCI Europe	-0.58%	0.39%	-2.48%	-9.98%	-4.35%	-0.58%	-1.18%	2.62%	2.51%	
MSCI EAFE	4.35%	0.71%	-2.25%	-8.06%	-1.33%	4.35%	2.17%	5.24%	5.71%	
MSCI Emerging Markets	8.05%	-0.81%	-0.09%	-7.84%	0.34%	8.05%	-1.48%	2.10%	4.04%	
MSCI ACWI	18.03%	-1.73%	-2.34%	-0.89%	5.78%	18.03%	5.95%	10.60%	9.81%	
Alerian MLP	24.05%	-1.03%	-7.19%	4.85%	5.52%	24.05%	26.92%	15.27%	3.54%	

Major Bond Indices	YTD	1 Wk	1 Mo	3 Mo	6 Mo	12 Mo	3 Yr [^]	5 Yr [^]	10 Yr ^{^^}
ICE BofA US High Yield Constrained	8.22%	0.20%	-0.41%	0.16%	5.48%	8.22%	2.92%	4.03%	5.08%
Morningstar® LSTA® US Leveraged Loan	9.01%	0.16%	0.59%	2.27%	4.41%	9.01%	7.00%	5.86%	5.15%
ICE BofA Fixed Rate Preferred Securities	7.06%	0.28%	-1.80%	-3.01%	2.57%	7.06%	0.25%	1.95%	4.21%
ICE BofA US Mortgage Backed Securities	1.35%	0.42%	-1.59%	-3.18%	2.21%	1.35%	-2.13%	-0.73%	0.92%
ICE BofA US Investment Grade Institutional Capital Securities	2.77%	0.14%	-1.76%	-2.84%	2.75%	2.77%	-1.98%	0.48%	2.52%
ICE BofA US-3 Month Treasury	5.25%	0.08%	0.40%	1.17%	2.55%	5.25%	3.89%	2.46%	1.77%
ICE BofA Current 2-Year US Treasury	3.77%	0.22%	0.20%	-0.20%	2.68%	3.77%	0.95%	1.06%	1.16%
ICE BofA Current 5-Year US Treasury	1.25%	0.30%	-1.00%	-2.72%	1.60%	1.25%	-1.78%	-0.26%	0.87%
ICE BofA Current 10-Year US Treasury	-1.67%	0.13%	-2.68%	-5.22%	0.24%	-1.67%	-5.41%	-2.05%	0.09%
ICE BofA Current 30-Year US Treasury	-8.00%	-0.46%	-6.23%	-9.53%	-2.24%	-8.00%	-14.73%	-6.85%	-1.67%
ICE BofA Global Corporate	1.24%	0.01%	-1.97%	-4.05%	2.06%	1.24%	-2.63%	-0.23%	1.55%
ICE BofA 7-12 Year US Municipal Securities	0.40%	0.27%	-1.09%	-1.25%	1.55%	0.40%	-0.45%	0.97%	2.28%
Bloomberg Municipal High Yield	6.32%	0.41%	-1.66%	-1.08%	2.09%	6.32%	0.30%	2.66%	4.28%
Bloomberg US Aggregate Bond	1.25%	0.19%	-1.64%	-3.06%	1.98%	1.25%	-2.41%	-0.33%	1.35%
Bloomberg Global-Aggregate	-1.69%	0.00%	-2.15%	-5.10%	1.52%	-1.69%	-4.52%	-1.96%	0.15%

Commodities Indices	YTD	1 Wk	1 Mo	3 Mo	6 Mo	12 Mo	3 Yr [^]	5 Yr [^]	10 Yr ^{^^}
Bloomberg Commodity	5.38%	0.65%	1.02%	-0.45%	0.23%	5.38%	4.05%	6.77%	1.28%
S&P GSCI®	9.25%	1.54%	3.28%	3.81%	-1.65%	9.25%	9.63%	7.12%	1.24%
S&P GSCI Gold	26.62%	0.29%	-1.11%	-0.47%	12.39%	26.62%	12.35%	10.42%	7.39%

S&P 500 Economic Sectors	YTD	1 Wk	1 Mo	3 Mo	6 Mo	12 Mo	3 Yr [^]	5 Yr [^]	10 Yr ^{^^}
S&P 500 Communication Services	40.23%	-3.12%	3.58%	8.87%	10.70%	40.23%	9.51%	14.57%	11.19%
S&P 500 Information Technology	36.61%	-3.51%	1.16%	4.84%	6.52%	36.61%	15.69%	24.55%	22.35%
S&P 500 Financials	30.50%	-1.44%	-5.46%	7.06%	18.46%	30.50%	9.37%	11.63%	11.38%
S&P 500 Consumer Discretionary	30.14%	-5.01%	2.39%	14.25%	23.17%	30.14%	5.26%	14.11%	13.61%
S&P 500 Utilities	23.43%	-1.06%	-7.93%	-5.51%	12.79%	23.43%	5.22%	6.62%	8.44%
S&P 500 Industrials	17.30%	-1.82%	-7.98%	-2.41%	8.86%	17.30%	9.38%	11.97%	10.71%
S&P 500 Consumer Staples	14.87%	-1.46%	-4.97%	-3.26%	5.41%	14.87%	4.69%	8.56%	8.43%
S&P 500 Energy	5.72%	1.15%	-9.47%	-2.44%	-4.70%	5.72%	19.91%	12.04%	4.86%
S&P 500 Real Estate	5.23%	-0.38%	-8.60%	-7.94%	7.87%	5.23%	-4.41%	4.55%	5.98%
S&P 500 Health Care	2.58%	-1.30%	-6.21%	-10.30%	-4.85%	2.58%	0.87%	7.99%	9.14%
S&P 500 Materials	-0.04%	-1.71%	-10.72%	-12.42%	-3.93%	-0.04%	-0.44%	8.69%	7.87%

S&P Style Indices	YTD	1 Wk	1 Mo	3 Mo	6 Mo	12 Mo	3 Yr [^]	5 Yr [^]	10 Yr ^{^^}
S&P 500 Growth	36.02%	-3.58%	0.85%	6.15%	10.08%	36.02%	7.67%	17.07%	15.28%
S&P 500 Value	12.27%	-1.52%	-6.81%	-2.68%	6.13%	12.27%	9.13%	10.46%	9.98%
S&P MidCap 400 Growth	15.93%	-1.57%	-7.56%	-0.80%	3.79%	15.93%	3.31%	9.98%	9.85%
S&P MidCap 400 Value	11.65%	-0.63%	-6.66%	1.52%	11.18%	11.65%	6.20%	10.16%	9.10%
S&P SmallCap 600 Growth	9.55%	-1.79%	-9.16%	-2.63%	6.07%	9.55%	0.34%	8.16%	9.48%
S&P SmallCap 600 Value	7.54%	-0.83%	-6.77%	1.42%	12.88%	7.54%	3.17%	8.04%	8.12%
S&P 500 Equal Weighted	12.98%	-1.42%	-6.28%	-1.89%	7.52%	12.98%	4.42%	10.73%	10.24%
S&P 500® Dividend Aristocrats®	7.08%	-1.27%	-7.63%	-6.22%	4.80%	7.08%	2.89%	8.32%	9.82%
MSCI USA Quality	24.03%	-2.44%	-3.15%	-0.62%	4.23%	24.03%	9.34%	15.45%	15.00%
MSCI USA Minimum Volatility	15.99%	-1.45%	-5.58%	-2.26%	6.87%	15.99%	4.97%	8.16%	10.36%
MSCI USA Momentum	32.33%	-2.72%	-3.37%	1.38%	5.26%	32.33%	6.18%	11.86%	13.33%
MSCI USA High Dividend Yield	11.66%	-0.94%	-6.53%	-4.18%	5.07%	11.66%	4.71%	7.32%	9.07%

Source: Bloomberg

Why Clearwater Capital Partners

Clearwater Capital Partners (CCP) is an independent Registered Investment Advisor registered with the Securities and Exchange Commission (SEC). The firm was founded in 2006, by John Chapman, as a locally owned, privately held professional services firm.

The firm provides comprehensive wealth management services to successful individuals and families through its Private Client and Family Office Practices. The firm's Institutional Advisory Group offers a suite of professional services to businesses, non-profit organizations, foundations, and ERISA governed retirement plans.

Our services are designed to help simplify the increasing demands and complexities related to making sound financial decisions.

As an independent advisory firm, we embrace the fiduciary responsibilities we have for our clients and are at liberty of delivering solutions we believe best reflect their unique needs.

We believe that our firm's only allegiance is to our client.

We do not represent the interests of any financial institution, brokerage firm or portfolio manager. We believe that the only valid wealth management strategy is one that accurately and objectively reflects the needs, preferences, and goals of the individual client.

Wealth management is a process; one that takes place over long spans of time, and one that is best served through dedicated expertise, meticulous evaluations, and disciplined judgment. Our process adheres to these precepts and seeks to create an intelligent framework for consistent and rational decision making.

Our process, named Clearwater C3, is a consistent system for prioritizing goals and setting forth a course of deliberate action with deep commitment. Our methods focus on each client's most critical objectives and are designed to achieve congruity between values and actions.

Wealth management firms vary widely in their philosophies and in the services they offer. Clearwater Capital is dedicated to a well-organized process that places the client at the center of our business model. We are uniquely qualified in the disciplines of wealth management, and our clients have entrusted us with the care of their most cherished ambitions. In return, we endeavor to meet this privilege with diligence and accountability.

We place a premium on commitment, objectivity, and transparency. We embrace the fiduciary duty we have for our clients, putting their objectives before all else. Our independence allows us the freedom to develop world-class solutions - without interference or a proprietary product bias.

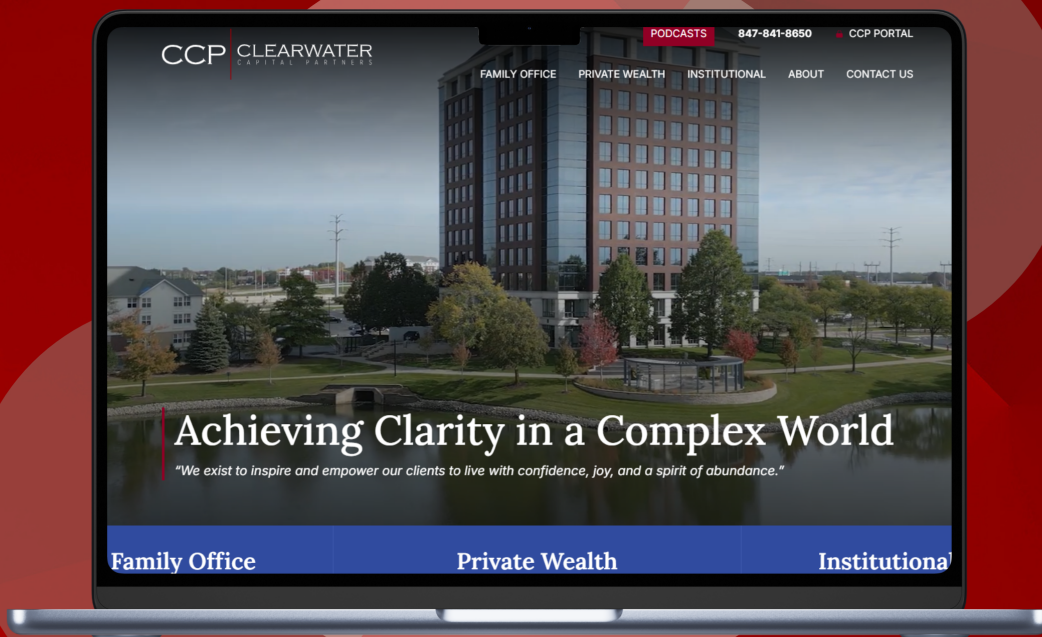
We exist to inspire and empower our clients to live with confidence, joy, and a spirit of abundance.

What can we do for your family in 2025?



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Are You Following “Clear Conversations”?

(The Clearwater Capital Podcast Platform)



“Clear Conversations” presented by Clearwater Capital Partners exists to inspire and empower clients to live with confidence, joy, and a spirit of abundance. Clear Conversations is a series of podcasts exploring the many complexities surrounding the principles of wealth and stewardship.

In the current episode, Executive Partner and Entrepreneurial Legacies host John Sleeting welcomes back John Chapman, Founder, and CEO of Clearwater Capital Partners, to discuss the firm’s evolution and future vision. Chapman shares insights on Clearwater Capital’s strategic growth, operational advancements, and unwavering commitment to excellence in wealth management.

View the Clear Conversation Podcast Lineup Here:

www.ccpwealth.com/clear-conversation/

IMPORTANT DISCLOSURES

The opinions presented are those of Clearwater Capital Partners and John Chapman, Chief Executive Officer, and Chief Investment Strategist, as of January 2025 and may change, without notice, as subsequent economic and market conditions vary.

This material is presented as opinion and commentary. It is not intended to be relied upon as forecast, research, or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. It is strictly intended for educational purposes only.

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International investment involves additional risks, including risks related to foreign currency, limited liquidity, less government regulation and the possibility of substantial volatility due to adverse political, economic or other developments.

Index performance is referenced for illustrative purposes only. You cannot invest directly in an index. The Dow Jones Industrial Average is owned by S&P Global, the S&P 500 is a registered trademark of The McGraw-Hill Companies, and The Russell 3,000 Index is maintained by FTSE Russell. Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

The two main risks related to fixed-income investment are interest rate risk and credit risk. Typically, when interest rates rise, there is a corresponding decline in the market value of bonds. Credit risk refers to the possibility that the issuer of the bond will not be able to make principal and interest payments.

High yield/junk bonds (grade BB or below) are not investment grade securities, and are subject to higher interest rate, credit, and liquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.

Municipal bonds are subject to availability and change in price. They are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise. Interest income may be subject to the alternative minimum tax. Municipal bonds are federally tax-free but other state and local taxes may apply.

Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

The payment of dividends is not guaranteed. Companies may reduce or eliminate the payment of dividends at any given time.

Nothing contained herein is offered as tax advice. Please consult qualified professionals with any tax planning needs or tax questions you may have.

Investment Advice offered through Clearwater Capital Partners, a Registered Investment Advisor. Please consult with a qualified investment professional before investing.

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CCP | **CLEARWATER**
CAPITAL PARTNERS

2800 W Higgins Road
Suite 1025
Hoffman Estates, IL 60169

847-841-8650
general@ccpwealth.com
www.ccpwealth.com