



MARKET UPDATE

# Quarterly Conversations

December  
2024



MODERATOR

## Dave Goode

SVP and Manager  
Private Client Services  
First Horizon Bank



P R E S E N T E R

Tracy Bell, CFA<sup>®</sup>

Chief Investment Officer  
First Horizon Advisors, Inc.

## DISCLOSURE

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Indices are unmanaged and are not subject to fees and expenses typically associated with managed accounts. You cannot invest directly in an index.

S&P 500 Index is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

S&P MidCap 400 Index provides investors with a benchmark for mid-sized U.S. companies. The index, which is distinct from the large-cap S&P 500, is designed to measure the performance of 400 mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment.

S&P Small Cap 600 Index seeks to measure the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financial stable.

The FTSE Developed x North America Index is a stock market index that measures the performance of large, mid, and small cap companies in developed markets outside of the United States and Canada.

The FTSE All World Emerging Index is an international equity index that tracks stocks from emerging markets worldwide.

The US Aggregate Bond Index is a benchmark that tracks the performance of the US investment grade, fixed-rate, taxable bond market.

The iBoxx High Yield Corporate Bond Index is a rules-based index that tracks the performance of high yield corporate bonds in the United States. The index is made up of U.S. dollar-denominated bonds that are available for sale in the U.S.

The S&P National Muni Bond index is a market value weighted index that measures the performance of investment grade municipal bonds in the United States.

*Presentation prepared by First Horizon Advisors*

# The Fed's Latest Communication

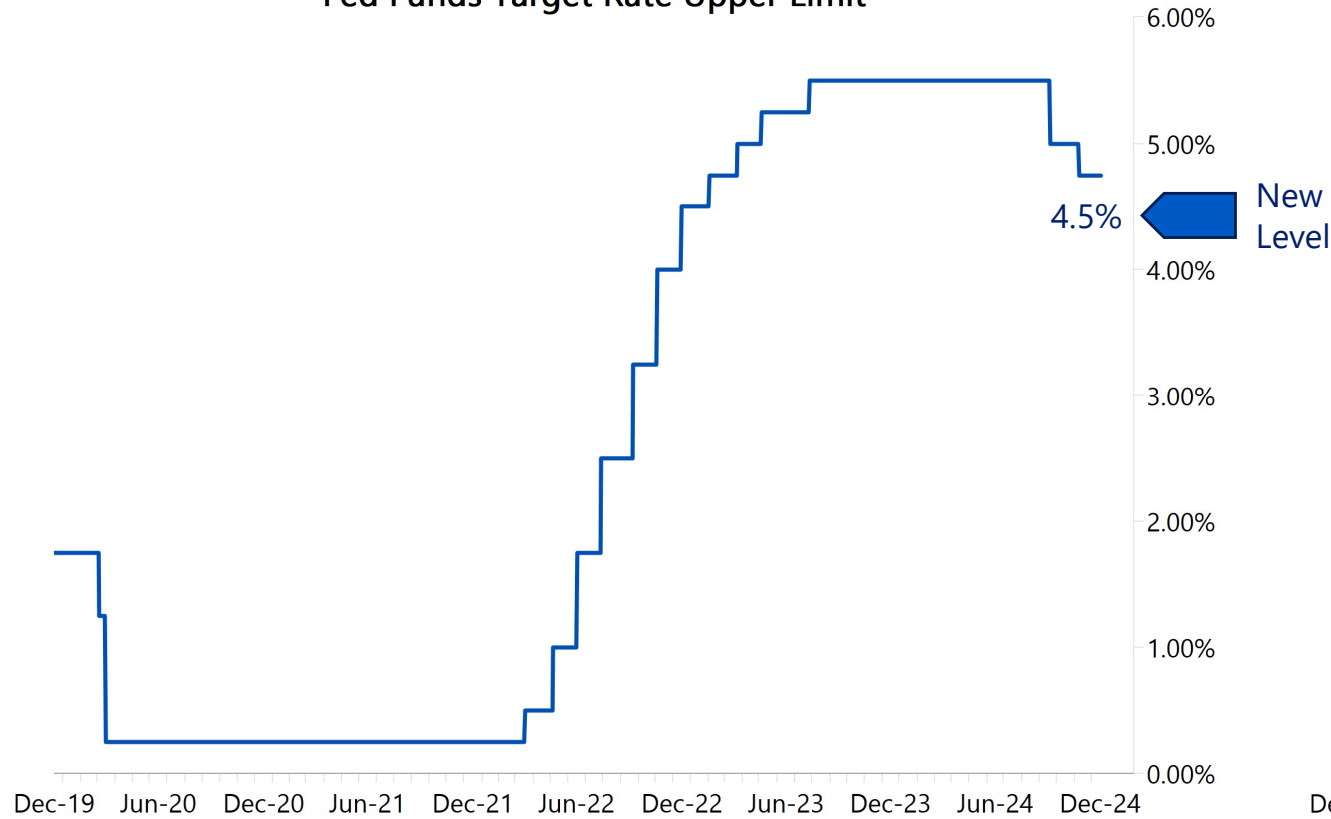
- Inflation remains “somewhat elevated” relative to goal
- Inflation expectations are “well anchored”
- The Fed sees inflation and employment as “roughly in balance”
- It was a “closer call” on the decision to lower rates by 0.25%
- Downside risk to employment seem to have diminished and it is cooling in an orderly fashion. We don't believe we need employment to cool further to lessen inflation.
- Slower cutting pace to reflect the higher inflation data more recently
- To cut further will need progression on inflation. We've reduced rates by 1% so we're closer to neutral but still restrictive
- Uncertainty around inflation and policy is higher. Some members considered policy uncertainty in the SEP projections.
- New phase where we have to move more slowly

-Chairman Jay Powell Press Conference, December 18, 2024

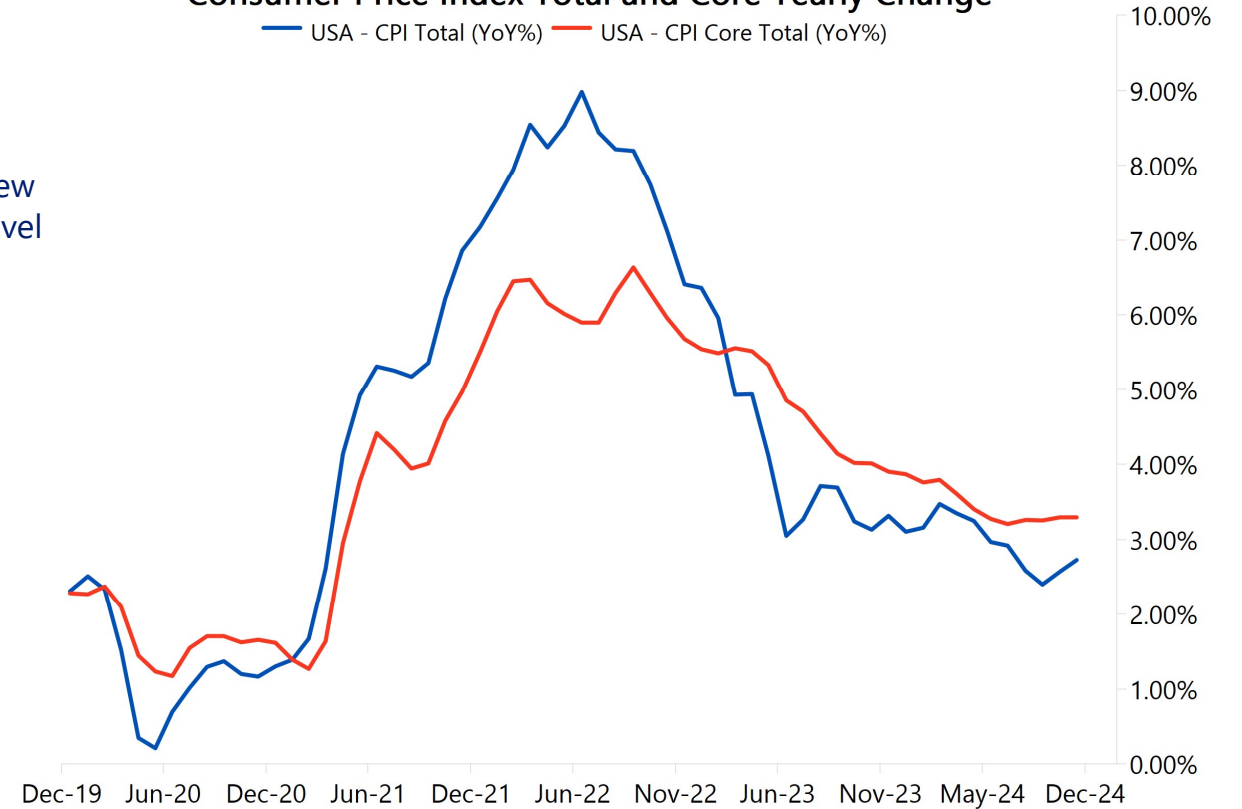
Source: Federal Reserve at <https://www.federalreserve.gov>

# Interest Rates & Inflation

Fed Funds Target Rate Upper Limit

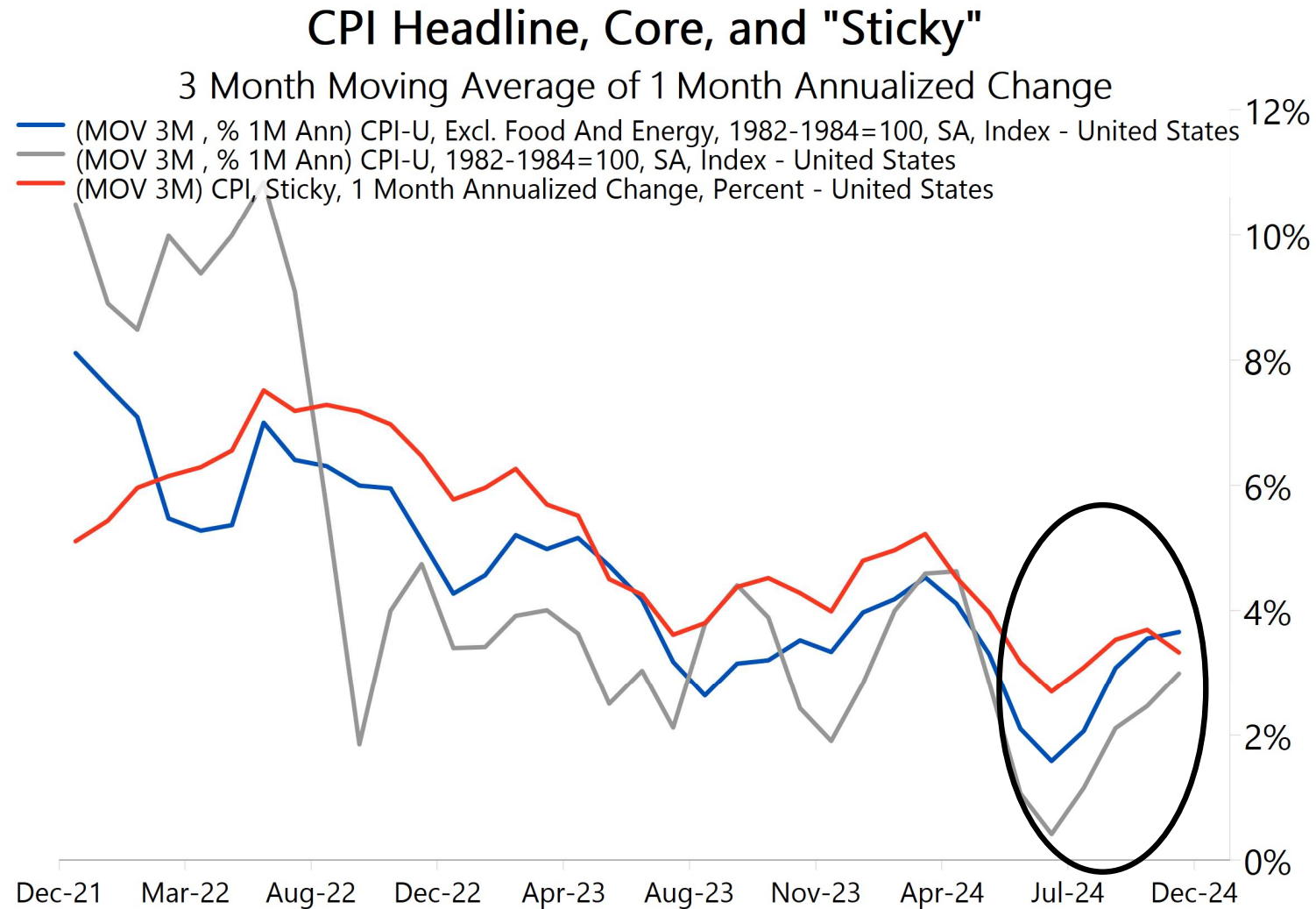


Consumer Price Index Total and Core Yearly Change



Source: FactSet, Federal Reserve, Bureau of Labor Statistics

# CPI Inflation



Source: FactSet, Bureau of Labor Statistics

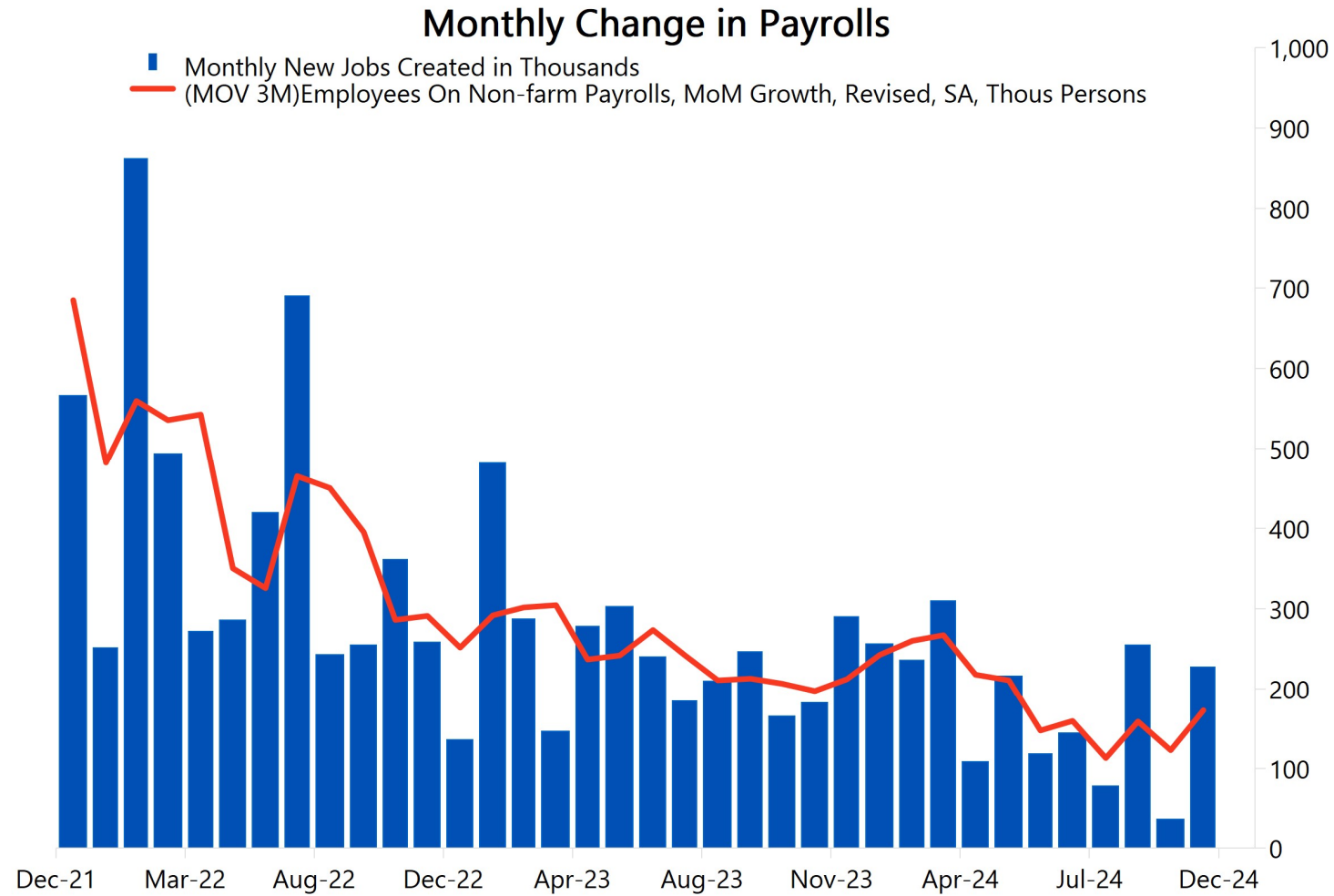
# Employment



Source: FactSet, Bureau of Labor Statistics

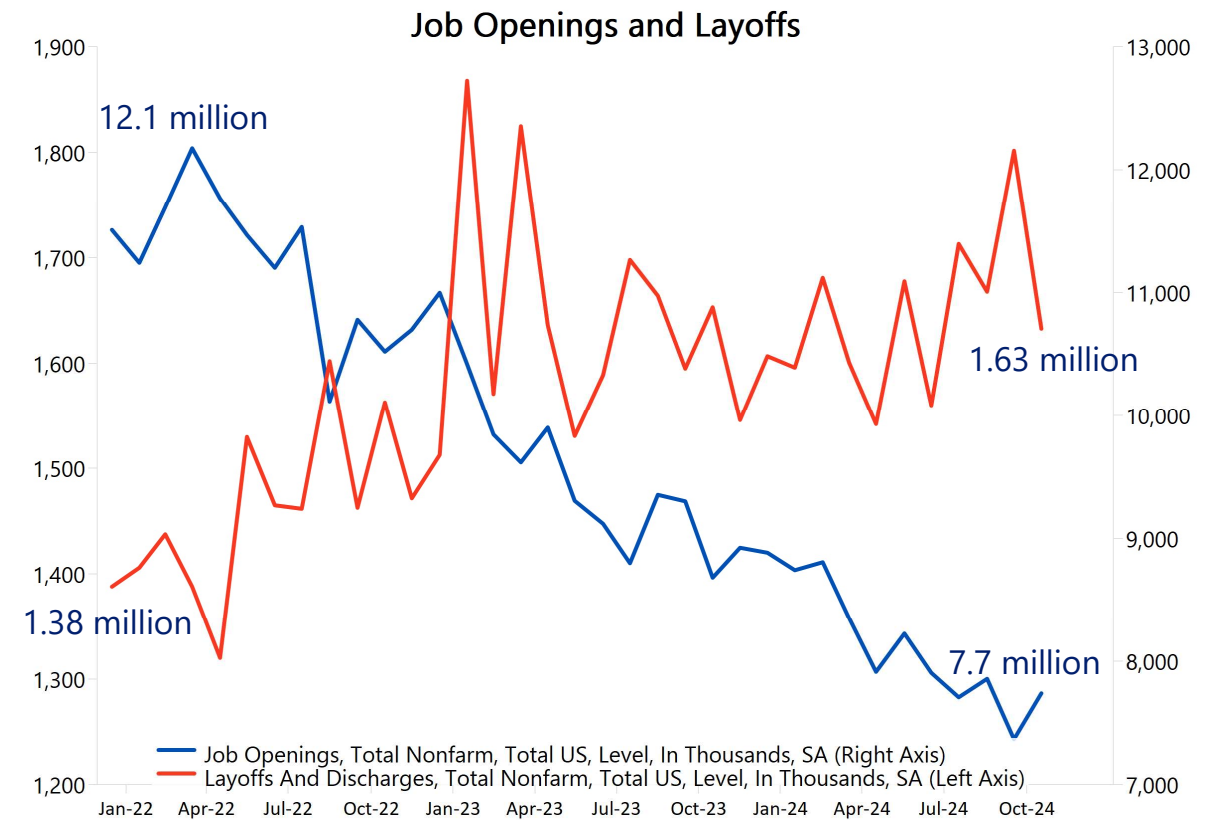


# Employment



Source: FactSet, Bureau of Labor Statistics

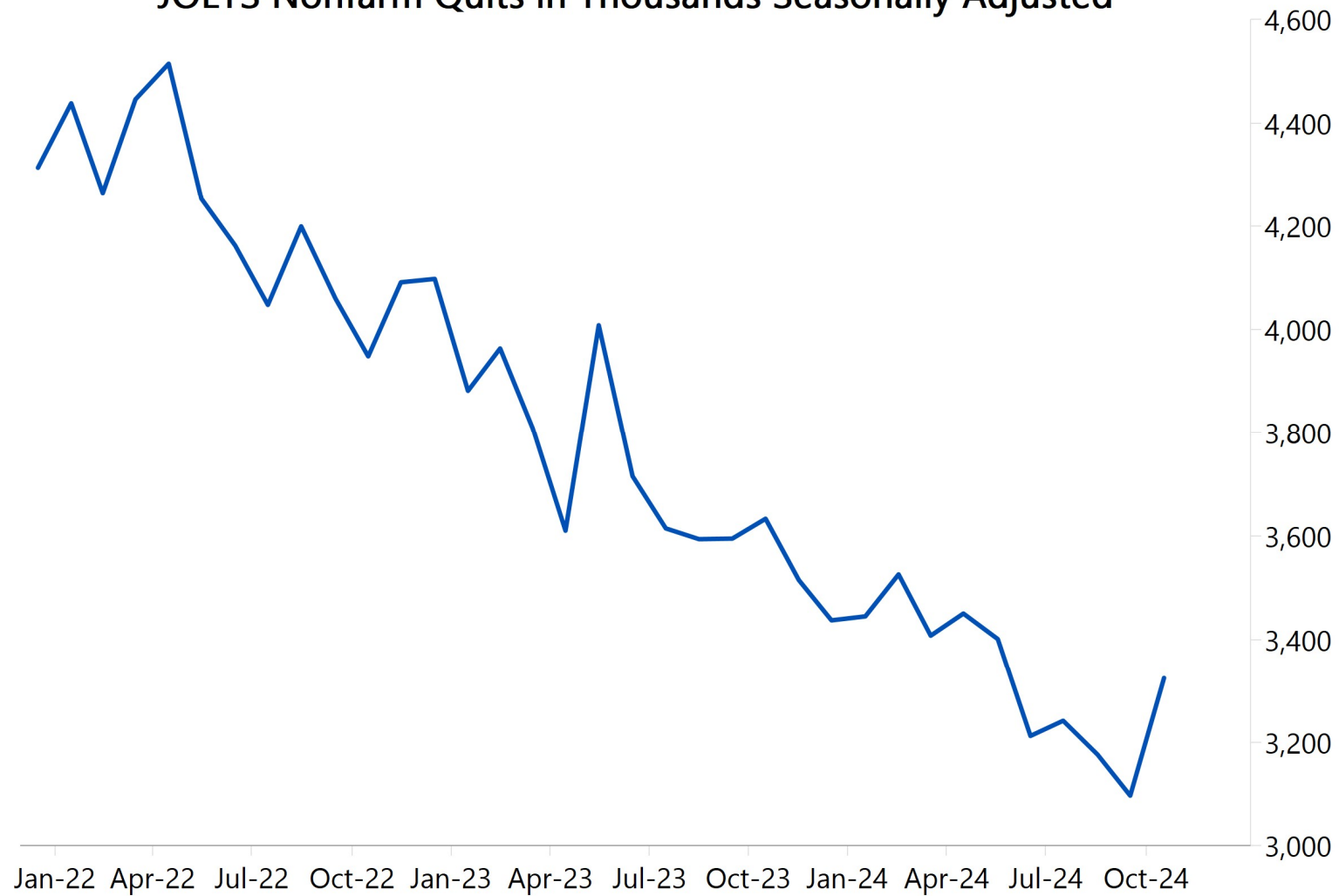
# Employment



Source: FactSet, Bureau of Labor Statistics

# Employment

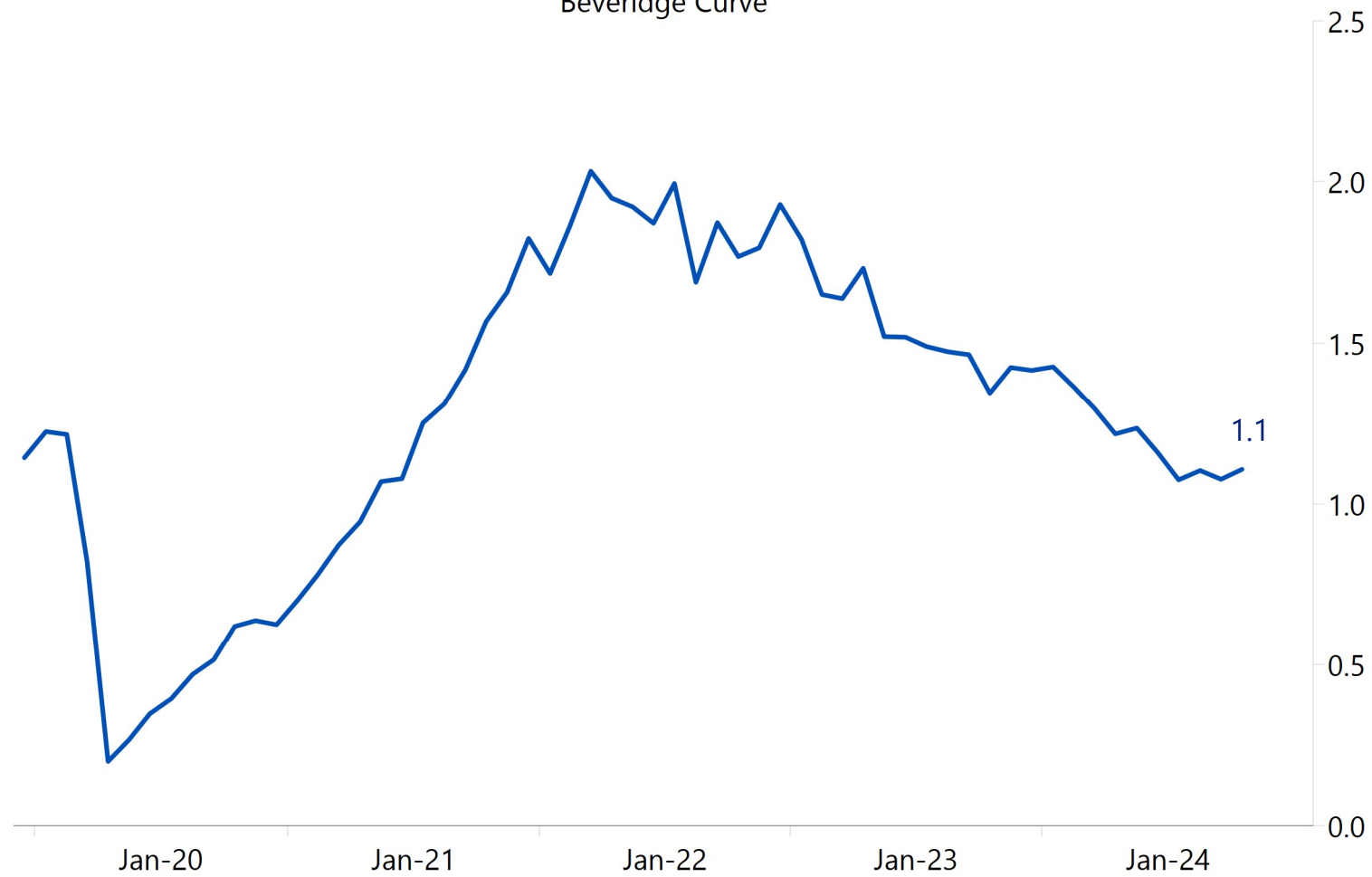
JOLTS Nonfarm Quits in Thousands Seasonally Adjusted



Source: FactSet, Bureau of Labor Statistics

# Employment

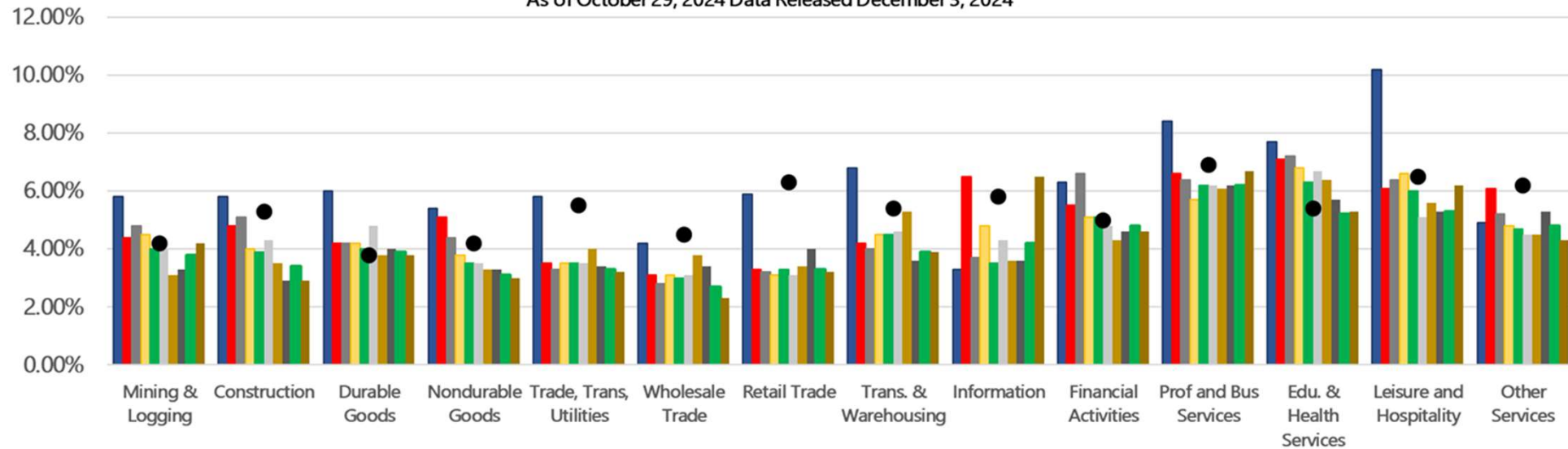
## Job Openings Per Job Seeker Beveridge Curve



Source: FactSet, Bureau of Labor Statistics

# Employment

Job Open Rates By Industry Category  
 October 2024 JOLTS Data  
 As of October 29, 2024 Data Released December 3, 2024

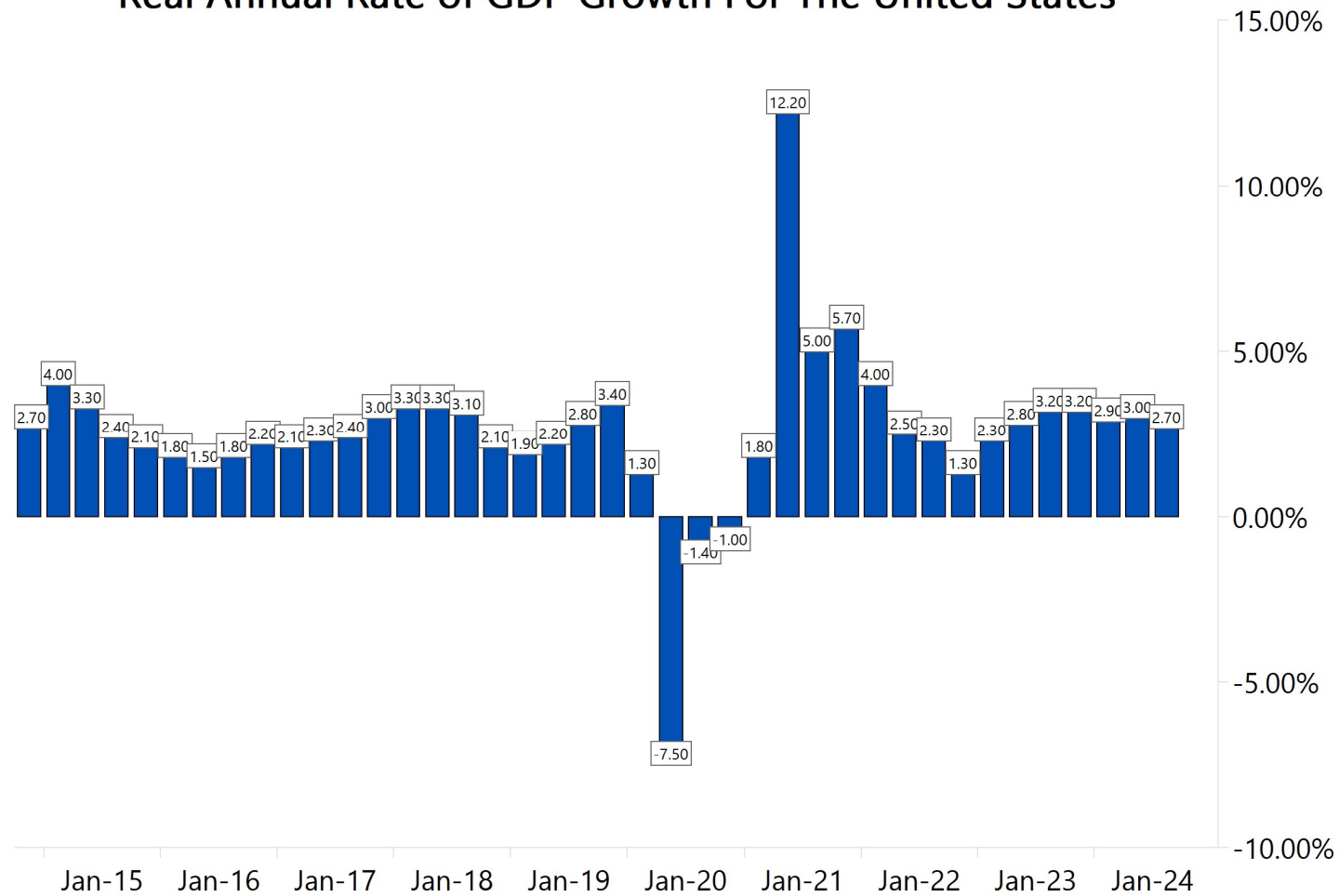


- Dec 2022 Open Rate
- January 2024 Open Rate
- February 2024 Open Rate
- March 2024 Open Rate
- April 2024 Open Rate
- May 2024 Open Rates
- June 2024 Open Rate
- July 2024 Open Rate
- Sept 2024 Open Rate
- Oct 2024 Open Rate
- 10 Year Pre-COVID Max Rate

Date Source: FactSet, Bureau of Labor Statistics  
 Chart Source: First Horizon Advisors

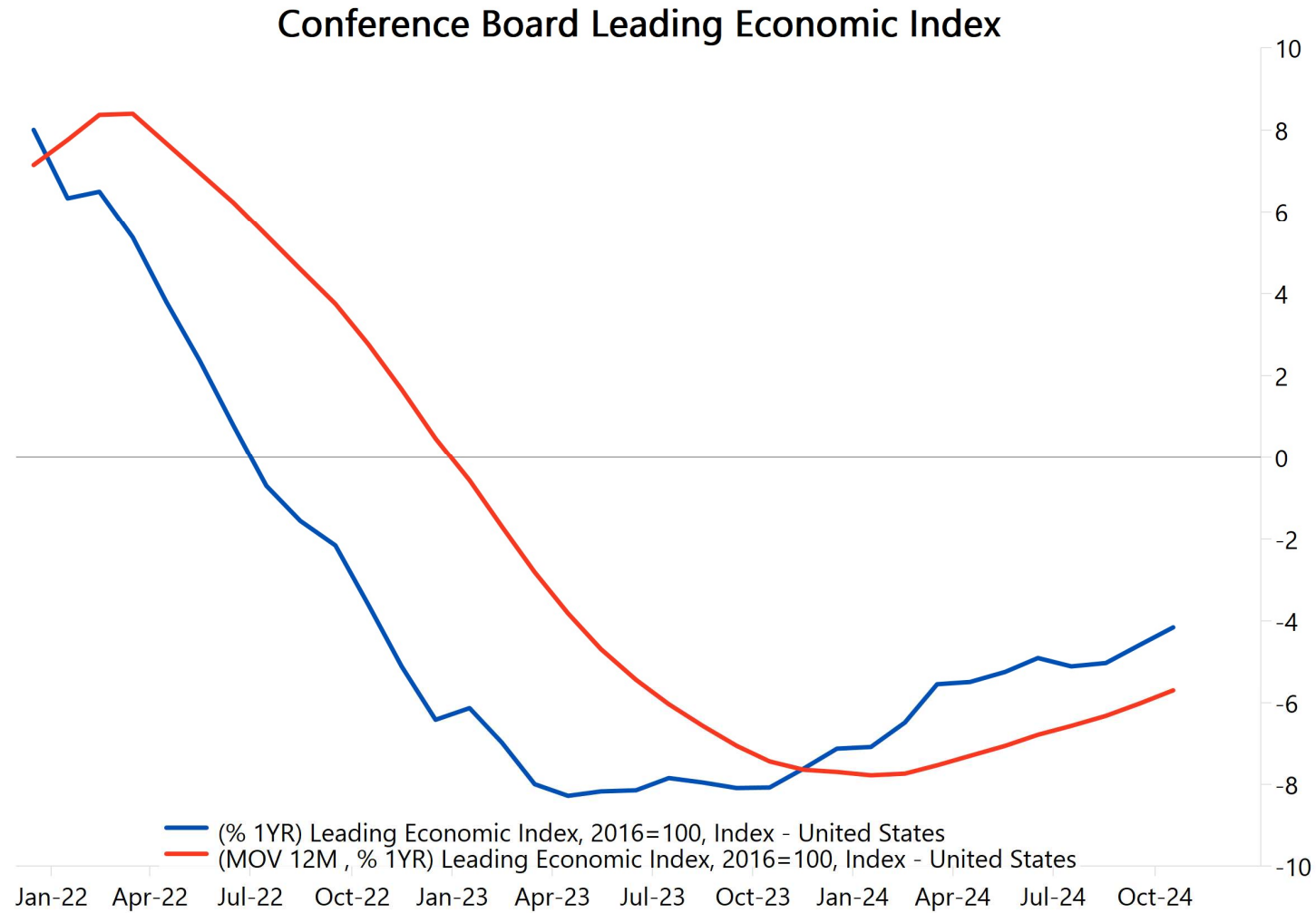
# GDP Growth

## Real Annual Rate of GDP Growth For The United States



Source: FactSet, Bureau of Economic Analysis

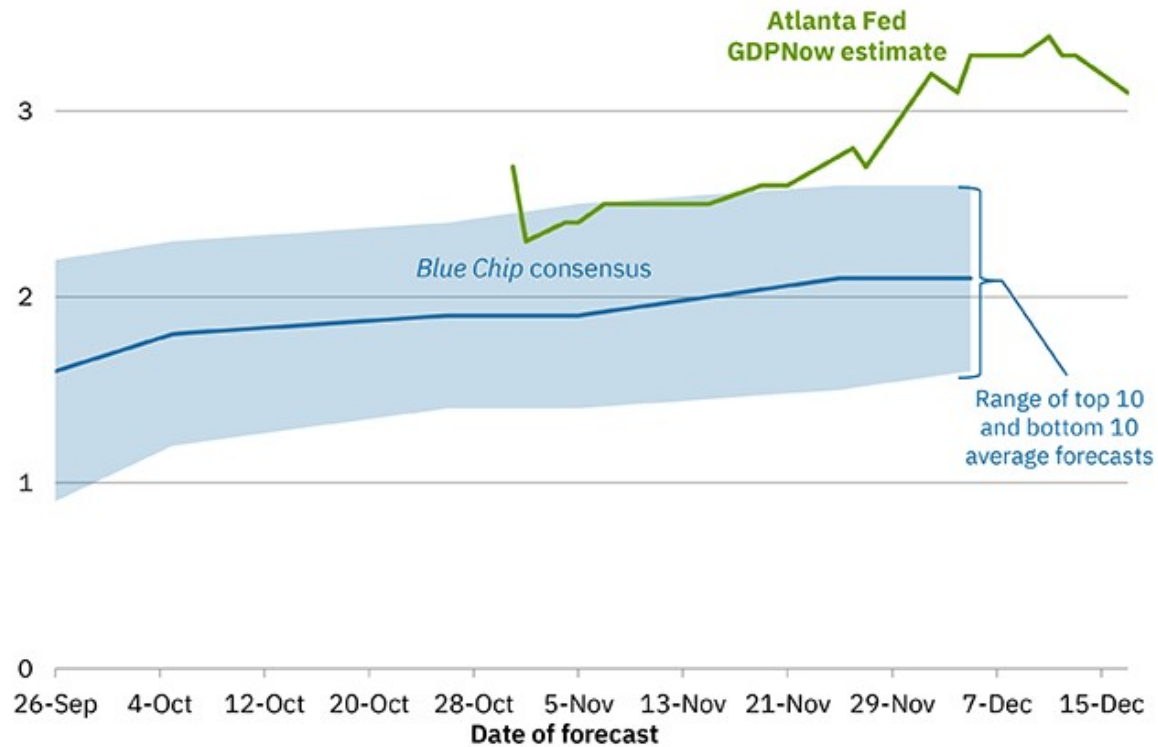
# GDP Growth



Source: FactSet, Conference Board

# GDP Growth

**Evolution of Atlanta Fed GDPNow real GDP estimate for 2024: Q4**  
Quarterly percent change (SAAR)



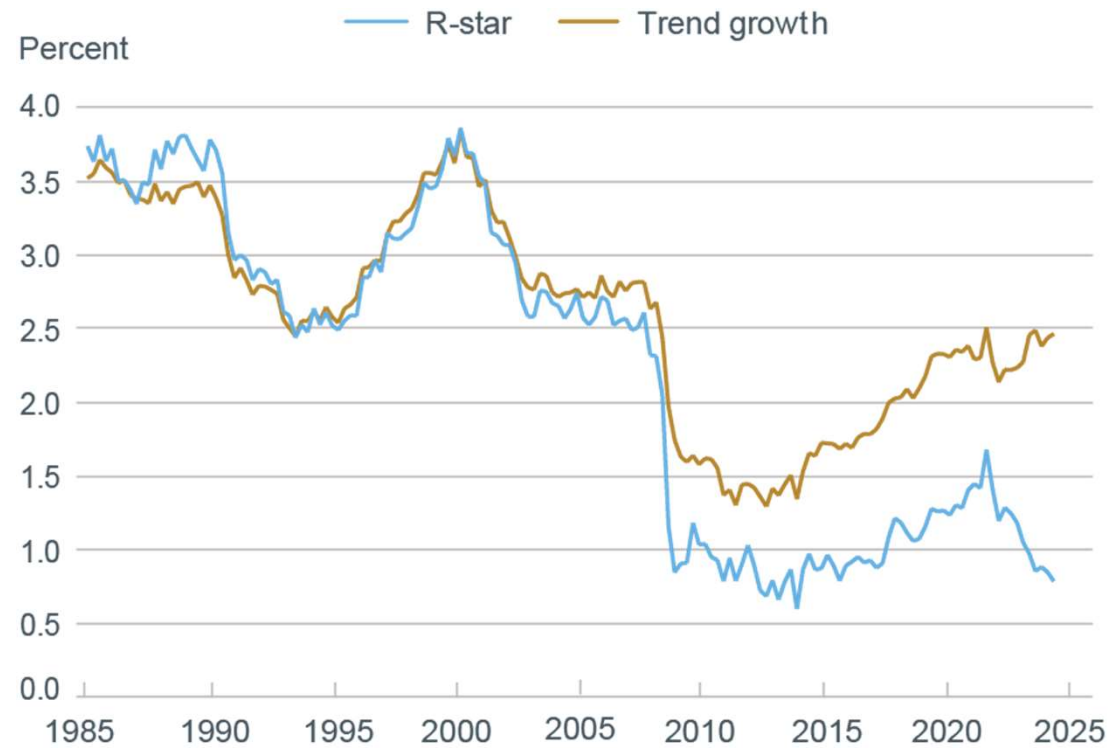
**Sources:** Blue Chip Economic Indicators and Blue Chip Financial Forecasts  
**Note:** The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

Source: Federal Reserve Bank of Atlanta  
<https://www.atlantafed.org/cqer/research/gdpnow>



# Natural Rate of Interest

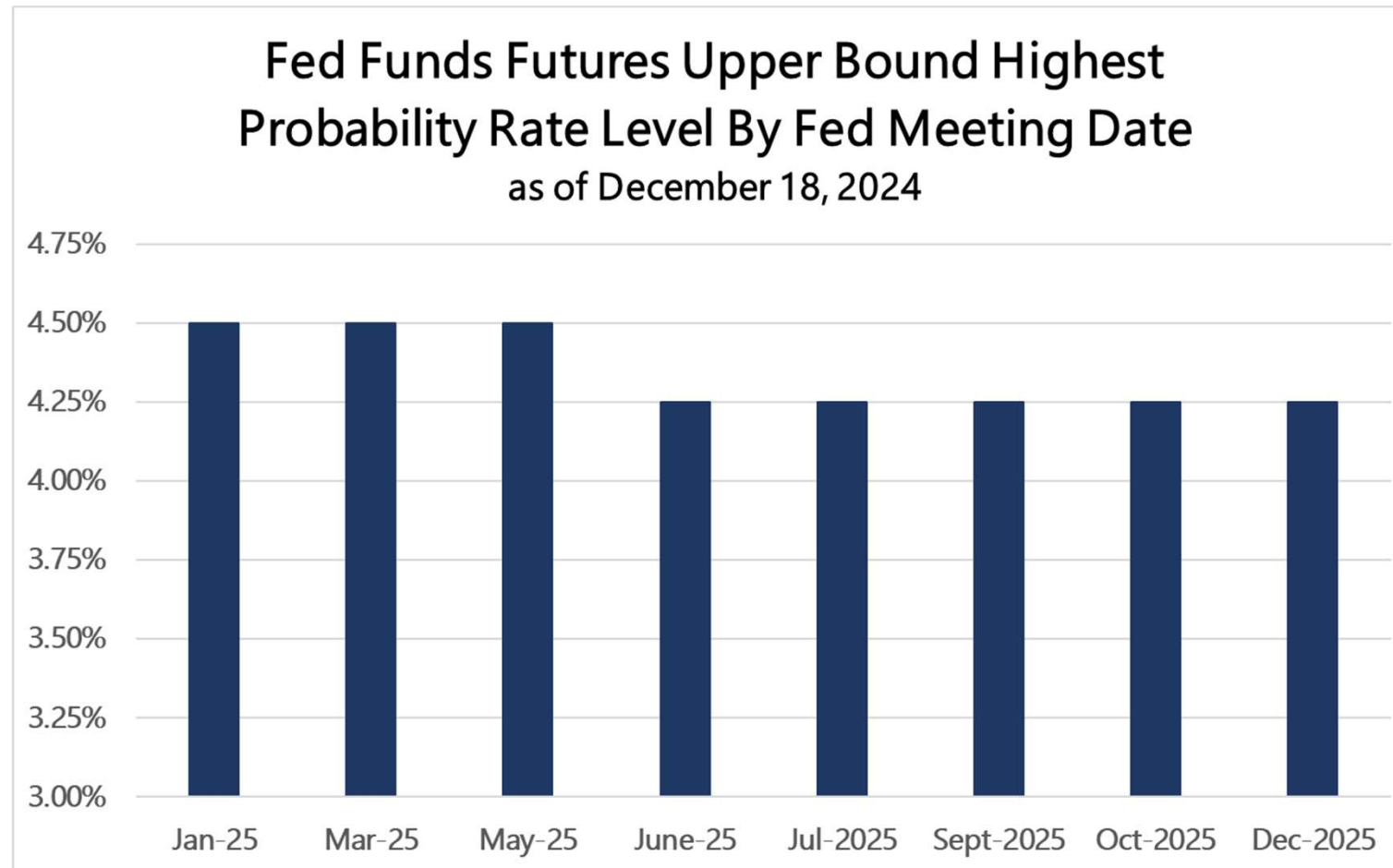
## HLW Estimate of natural interest rate for the United States



Sources: Holston, Laubach, and Williams (2017); Organisation for Economic Co-operation and Development (OECD).  
Notes: Estimates are GDP-weighted averages across the United States, Canada, and the Euro Area. We use OECD estimates of GDP at purchasing power parity. For dates prior to 1995, Euro-Area weights are the summed weights of the eleven original Euro-Area countries.

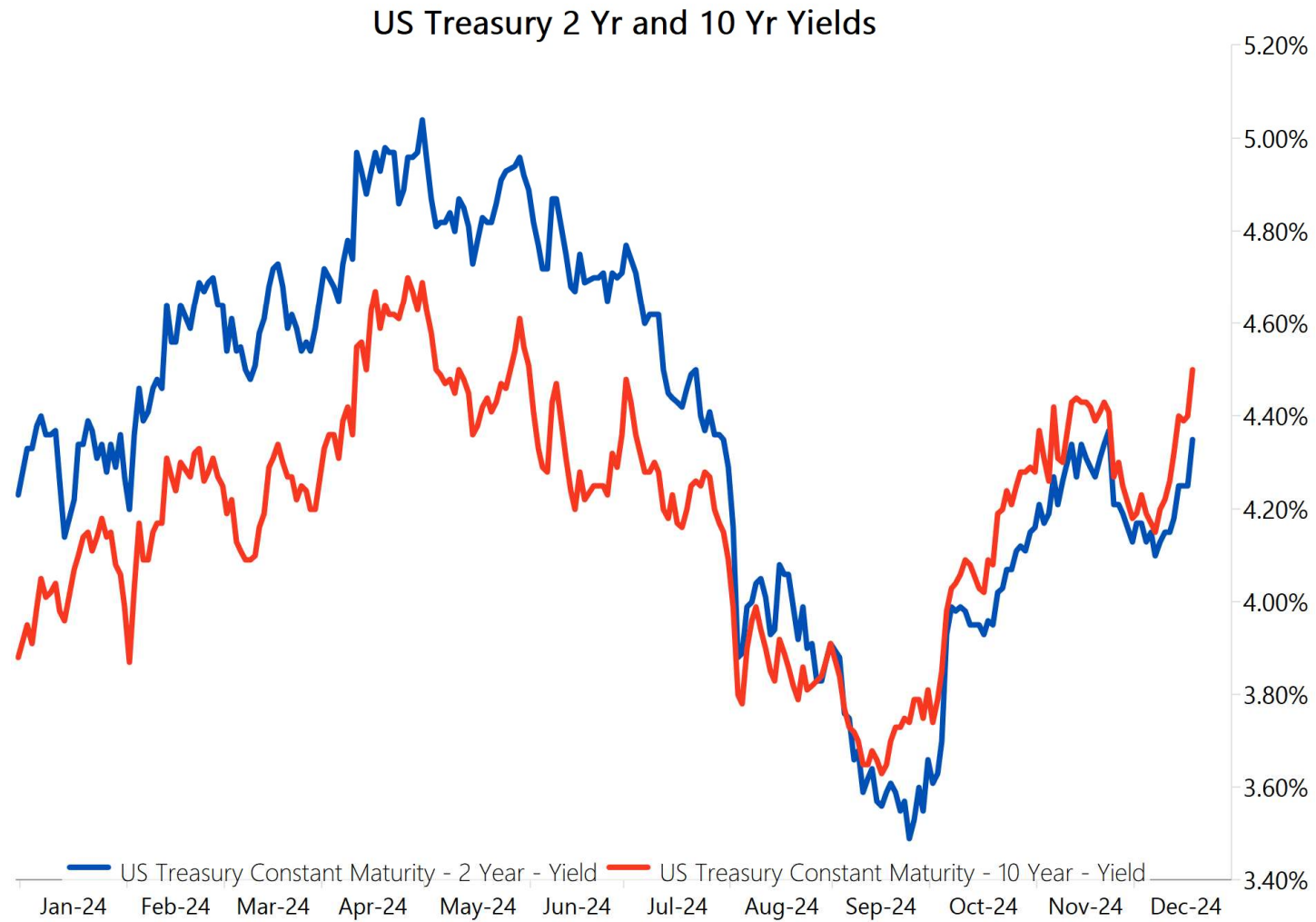
Source: Federal Reserve Bank of New York  
<https://www.newyorkfed.org/research/policy/rstar>

# Market Expectation of Federal Reserve Interest Rate Policy



Source: CME Group FedWatch Tool  
<https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html>

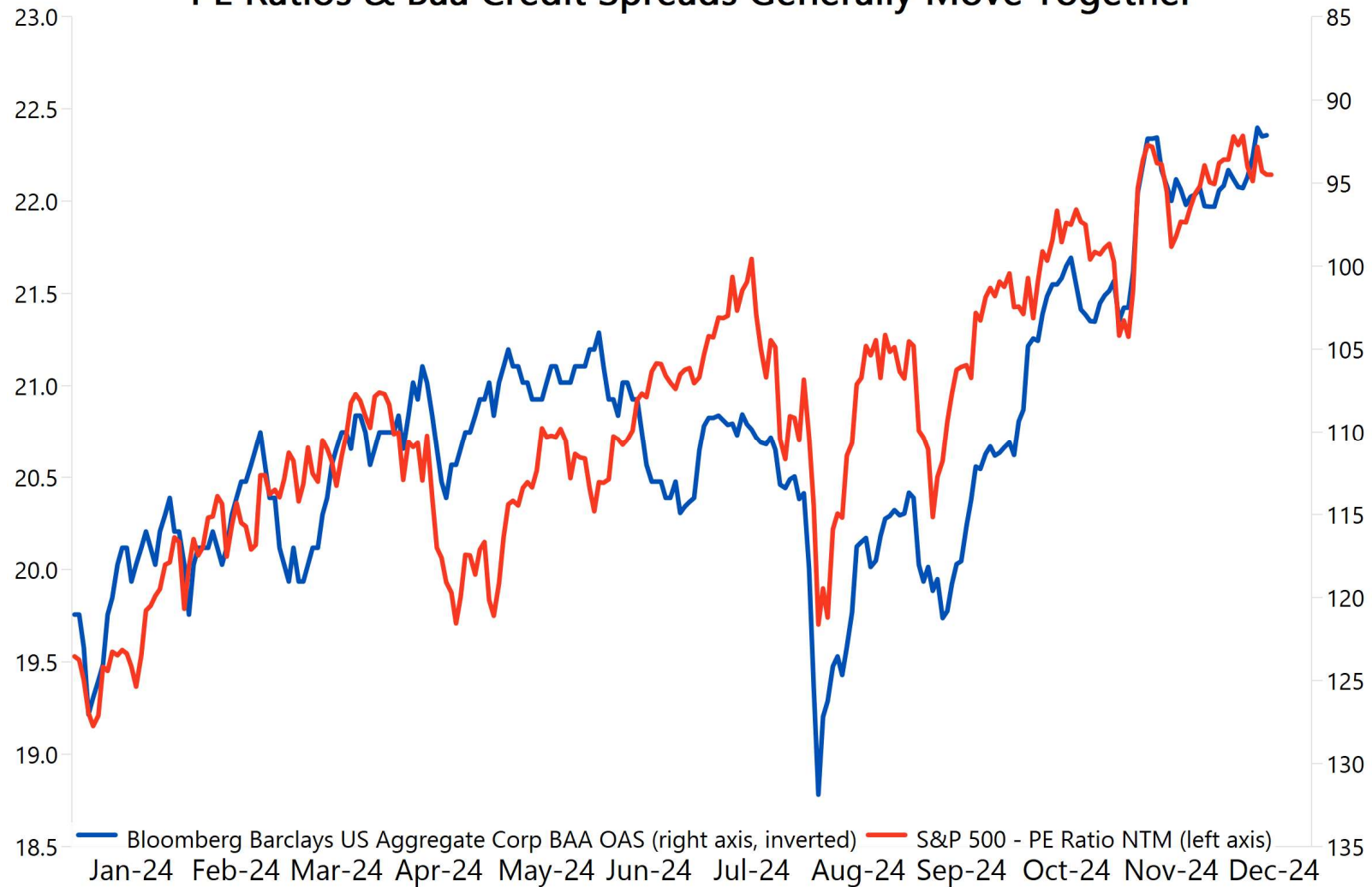
# Yield Curve Rate Reactions



Source: Factset, Federal Reserve

# Valuations for Stocks and Bonds

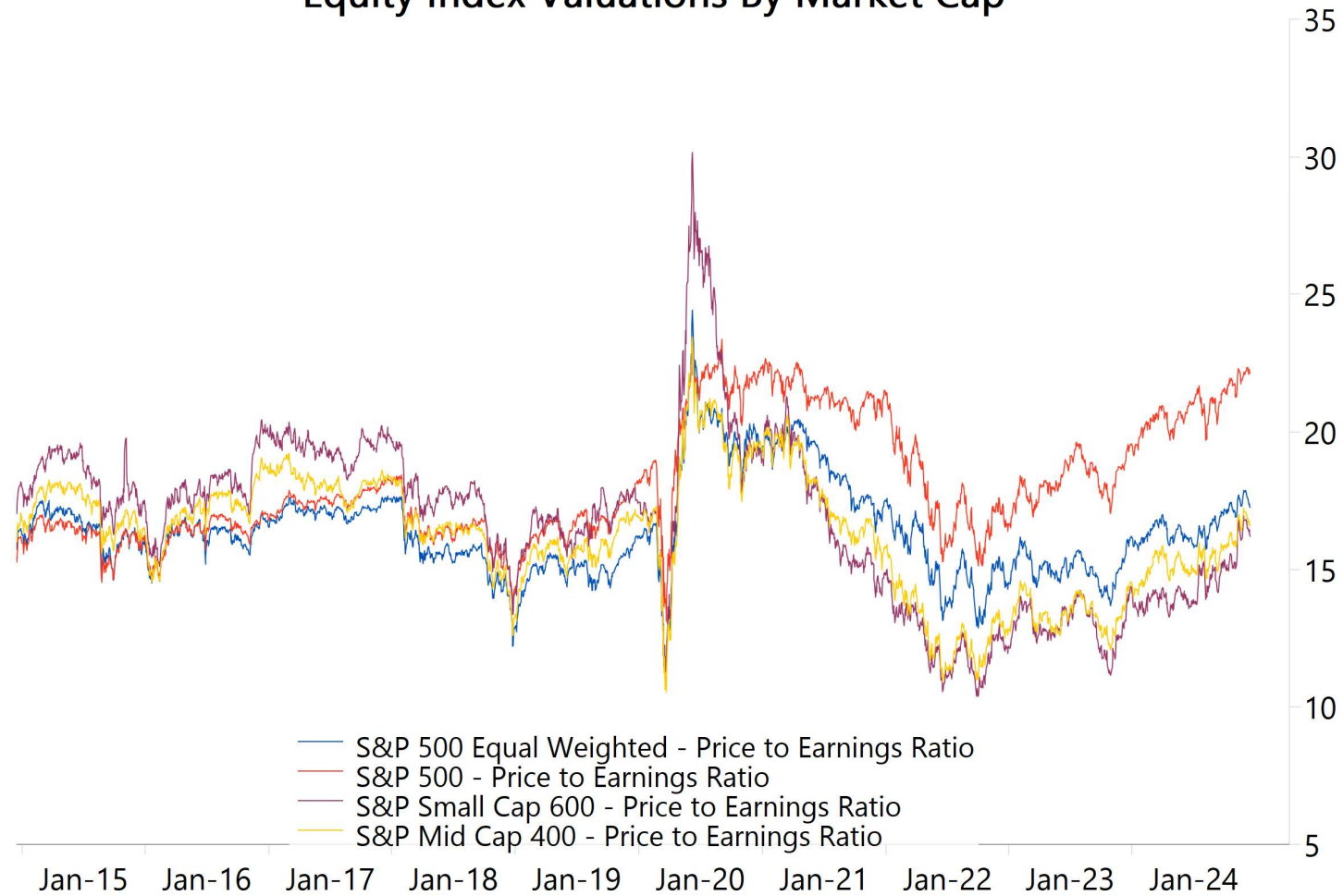
## PE Ratios & Baa Credit Spreads Generally Move Together



Source: Factset, Standard & Poors

# Valuations for Stocks

## Equity Index Valuations By Market Cap



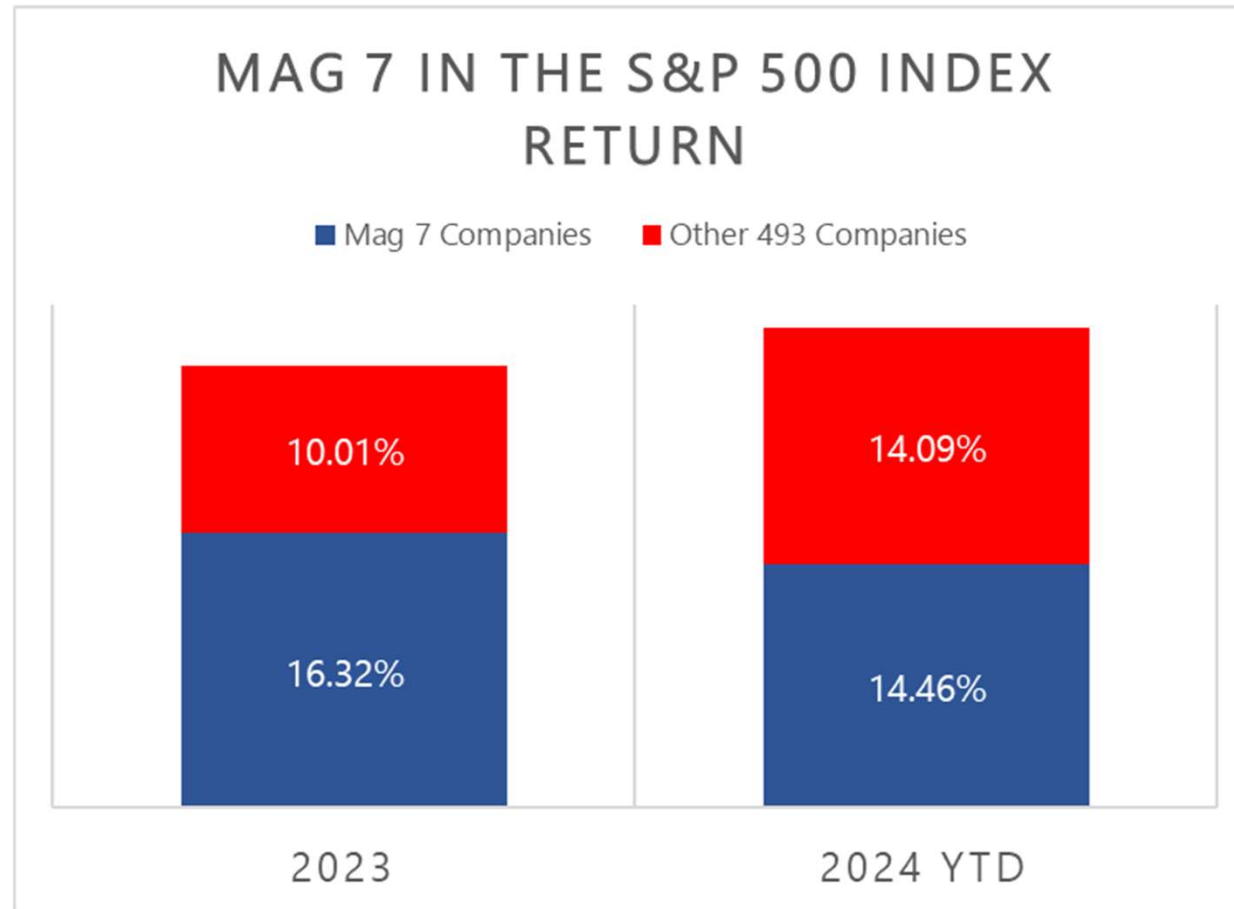
Source: Factset, Standard & Poors

# Financial Market Returns

Selected Financial Market Index Performance as of November 30, 2024	
S&P 500 Index	28.1%
S&P MidCap 400 Index	22.5%
S&P Small Cap 600 Index	18.1%
FTSE Developed x North America	12.2%
FTSE All World Emerging	12.2%
Core US Aggregate Bond Index	2.9%
iBoxx High Yield Corp. Bond Index	8.4%
S&P Natl AMT-Free Muni Bond Index	2.5%

Source: Factset, Bloomberg

# The Heavy Magnificent 7



Source: Factset, Standard & Poors  
Chart Source: First Horizon Advisors

Magnificent 7 companies include: Apple, Alphabet, Meta Platforms, Microsoft, Amazon.com, Tesla, NVIDIA

# Magnificent 7 Vs. S&P 500 Growth Rates

	<b>2023</b>	<b>2024</b>	<b>2025</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>
Mag 7 Average EPS Growth	52.02%	45.36%	24.13%
S&P 500 Index EPS Growth	6.10%	3.60%	14.70%

Source: Factset, Standard & Poors  
Chart Source: First Horizon Advisors

Magnificent 7 companies include: Apple, Alphabet, Meta Platforms, Microsoft, Amazon.com, Tesla, NVIDIA



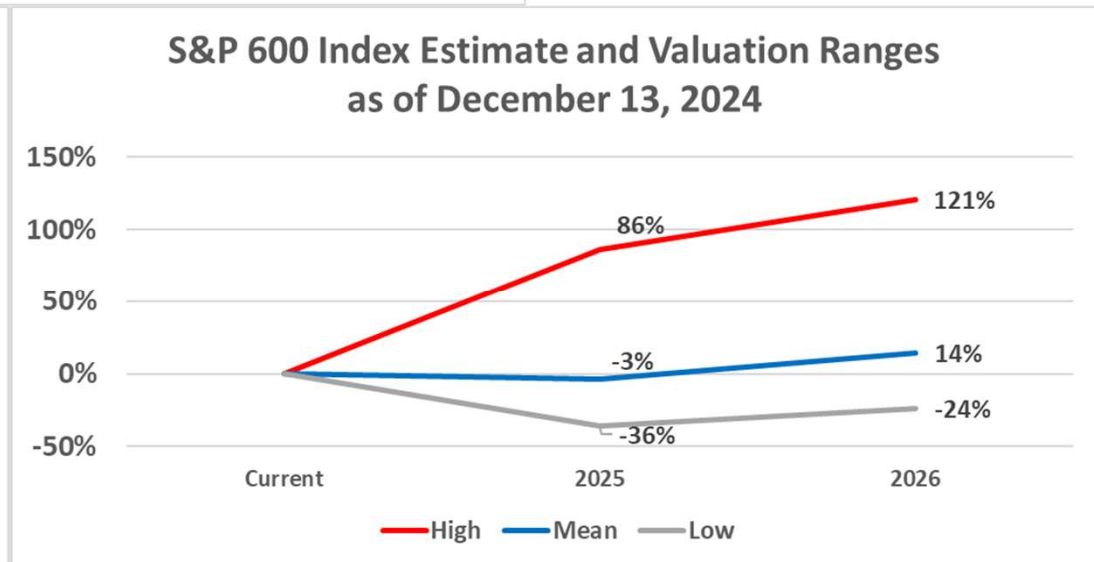
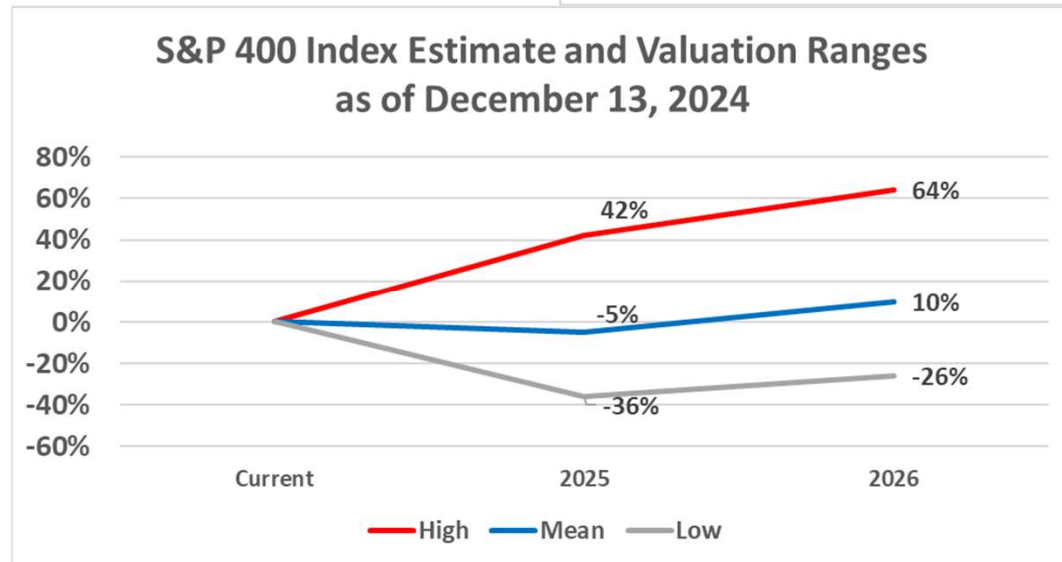
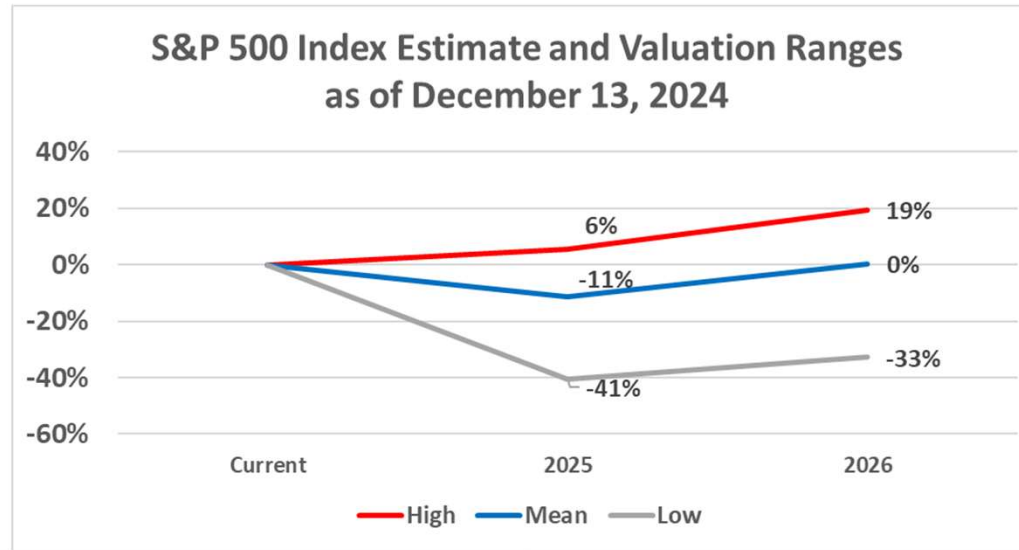
# Expected Growth Rates and Valuations

Earnings Per Share Growth By Equity Index				
	2023	2024	2025	Current
Index	Actual	Estimate	Estimate	NTM PE Ratio
S&P 500	0.4%	9.0%	14.7%	22x
S&P 400	-8.9%	-2.0%	13.2%	16x
S&P 600	-7.9%	-5.9%	16.7%	16x
MSCI EAFE	-0.4%	2.7%	7.4%	14x

Source: Factset, Standard & Poors  
Chart Source: First Horizon Advisors

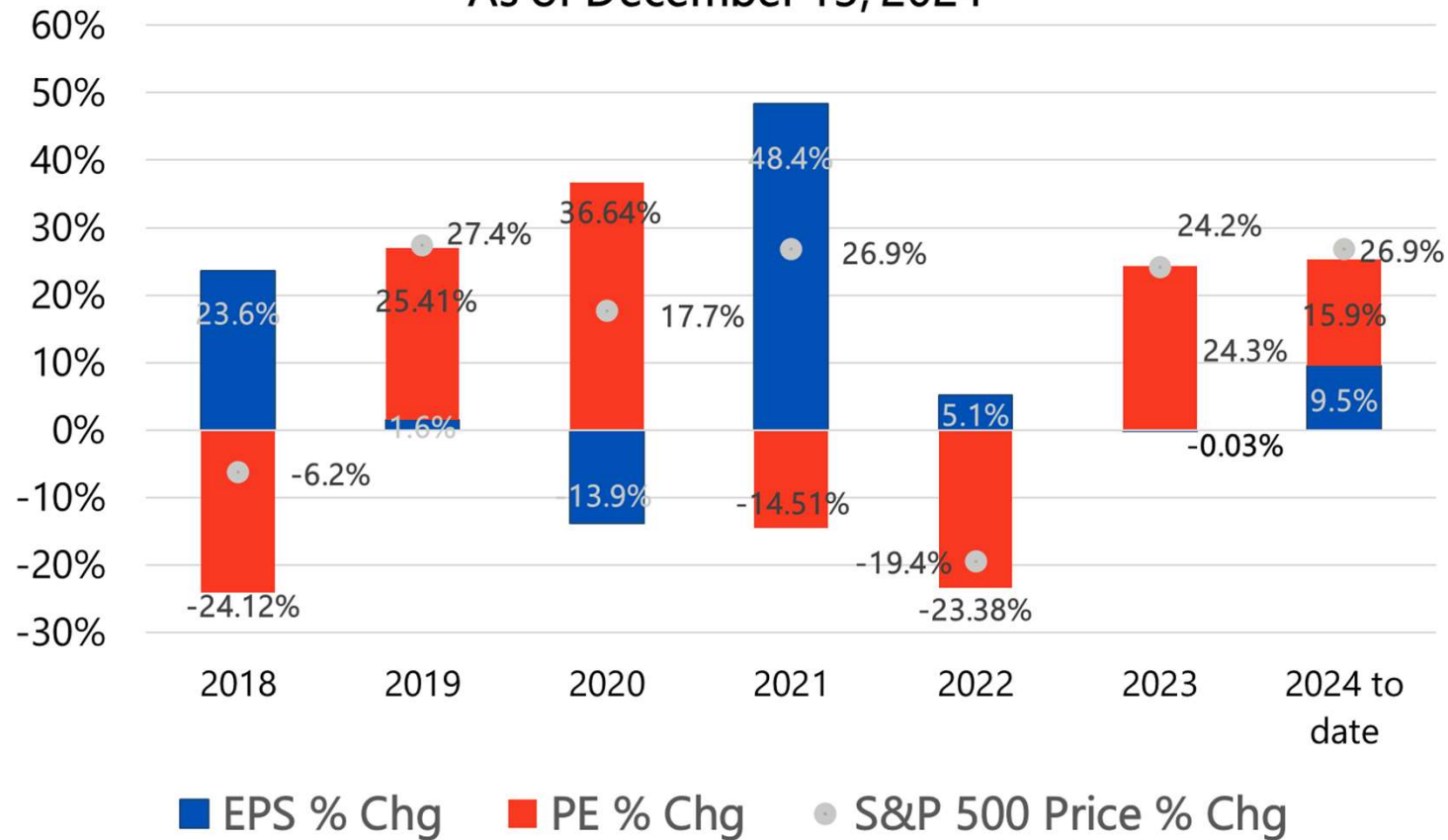
# Applying Valuations and Expected Earnings

Source: Factset, Standard & Poors  
 Chart Source: First Horizon Advisors



# How Earnings Growth and Valuations Interact

Earnings & PE Ratio Growth or Contraction Impact on  
S&P 500 Index Price  
As of December 13, 2024



Source: Factset, Standard & Poors  
Chart Source: First Horizon Advisors

# Five Factor Framework

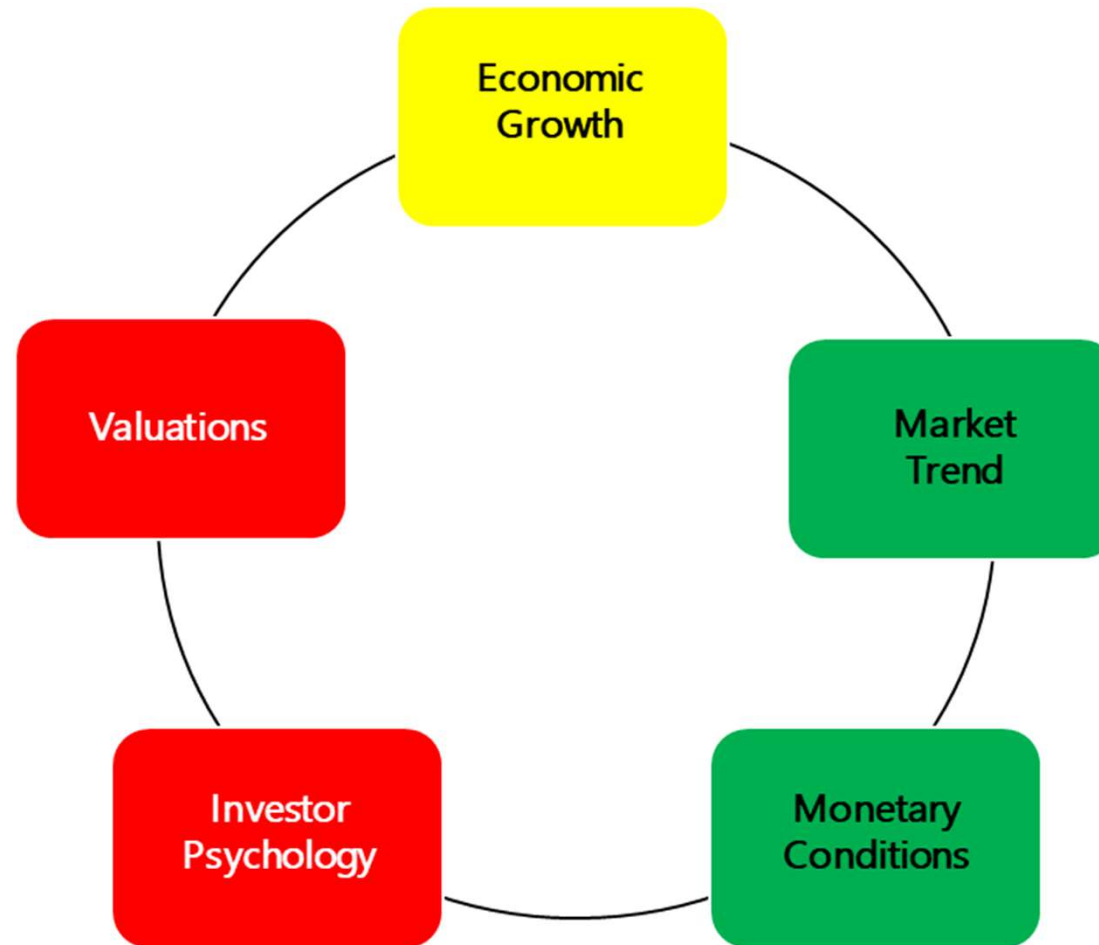


Chart Source: First Horizon Advisors

# Q&A



## Dave Goode

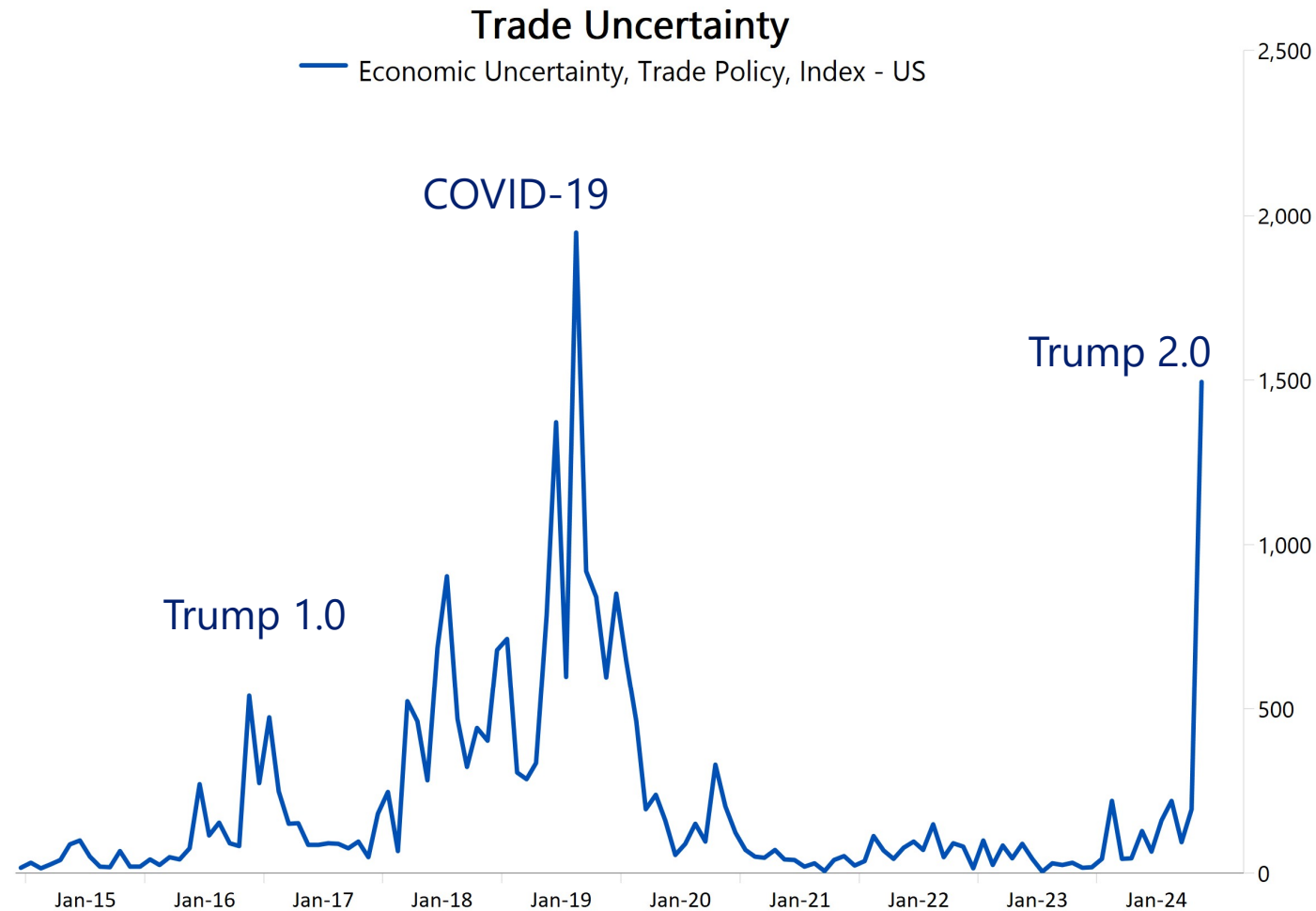
SVP and Manager  
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## Tracy Bell, CFA<sup>®</sup>

Chief Investment Officer  
First Horizon Advisors, Inc.

# Political Policy Uncertainty



TPU Index is a category specific index that measures the frequency of news articles about trade policy uncertainty in the United States. It is based on automated text searches of several major newspapers: the Boston Globe, Chicago Tribune, Guardian, Los Angeles Times, New York Times, Wall Street Journal, Washington Post.

Source: FactSet, Economic Policy Uncertainty

Please reach out to your banker or advisor with any questions or to set up a meeting with our economists.

A recording of this event will be forwarded next week.

Thank you.

