# 4Q24 Market Review and 1Q 2025 Outlook

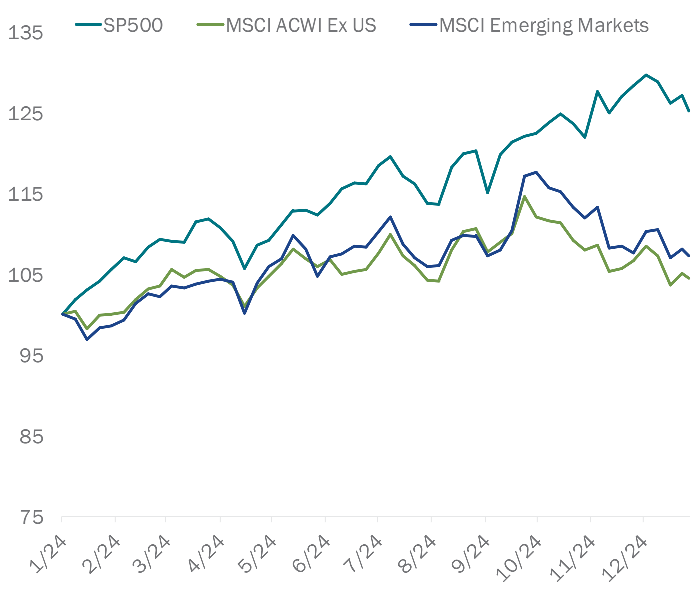
## Market Backdrop

US equities closed out a strong fourth quarter to end the year near record levels. The quarter's gains came as voters went to the polls in early November and chose to return Donald Trump to the White House. Markets then moved higher reflecting enthusiasm over campaign promises from the president elect to relax regulatory oversight targeted initially at the financial services and energy sectors. At the same time investors faced the prospects of increasing tariffs and greater trade friction as a result of the election. Yields on longer-term US government bonds moved higher in response to proposals around memorializing the original Trump administration tax cuts, increased deductions for state and local taxes, as well as potentially further miscellaneous tax reductions without concrete plans to raise offsetting revenue. The US 10-year yield closed out 2024 at approximately 4.5% versus approximately 3.9% at the start of the year. For the period, the US dollar gained against other currencies on the presumption that the new president's "America First" agenda likely comes at the expense of growth in other parts of the globe.

Moreover, the pace of US economic activity continued its moderating trend. The Federal Reserve, in response, trimmed an additional 25 basis points in its target fed funds rate to 4.25%–4.50%. The effective level of the funds rate closed the year at approximately 4.3% versus 5.3% when the year began. Unemployment reached 4.2% at the end of November, up approximately 50 basis points from the year earlier level.

Geopolitics remained fluid, with the ongoing conflicts in the Ukraine and the Middle East as well as trade tensions with China and the sudden collapse of the Assad regime in Syria.

### Market Index Performance




*As of December 31, 2024. Source: Jennison, FactSet, MSCI.*

## Style Performance

- Mid and large cap growth stocks led in the fourth quarter, while value underperformed across market caps.
- Large cap growth continues to lead market returns for the trailing one, three, and ten years.
- Small caps, especially value, lagged for all longer times periods.

### Style Index Performance

| 4Q24 | Value | Core | Growth |
|---|---|---|---|
| Large | -2.0 | 2.7 | 7.1 |
| Mid | -1.7 | 0.6 | 8.1 |
| Small | -1.1 | 0.3 | 1.7 |

| Trailing 1-Year | Value | Core | Growth |
|---|---|---|---|
| Large | 14.4 | 24.5 | 33.4 |
| Mid | 13.1 | 15.3 | 22.1 |
| Small | 8.1 | 11.5 | 15.2 |

| Trailing 3-Year | Value | Core | Growth |
|---|---|---|---|
| Large | 5.6 | 8.4 | 10.5 |
| Mid | 3.9 | 3.8 | 4.0 |
| Small | 1.9 | 1.2 | 0.2 |

| Trailing 10-Years | Value | Core | Growth |
|---|---|---|---|
| Large | 8.5 | 12.9 | 16.8 |
| Mid | 8.1 | 9.6 | 11.5 |
| Small | 7.1 | 7.8 | 8.1 |

*As of December 31, 2024. Source: Jennison, FactSet, MSCI.*

## Sector Performance

- There was significant disparity among sector returns in the fourth quarter. Consumer discretionary and communication services were the best performing sectors. Materials and health care lost double digits.
- Communication services led for the trailing one year, while energy had the strongest return for trailing three years. Information technology outperformed for longer time periods.
- Energy and real estate were the worst performing sectors over the past ten and five years, respectively.

### GICS Sector Performance - S&P 500® Index

| | 4Q | One Year | Three Years | Five Years | Ten Years |
|---|---|---|---|---|---|
| Consumer Discretionary | 14 | 30 | 5 | 14 | 14 |
| Communication Services | 9 | 40 | 10 | 15 | 11 |
| Financials | 7 | 31 | 9 | 12 | 11 |
| Information Technology | 5 | 37 | 16 | 25 | 22 |
| Industrials | -2 | 17 | 9 | 12 | 11 |
| Energy | -2 | 6 | 20 | 12 | 5 |
| Consumer Staples | -3 | 15 | 5 | 9 | 8 |
| Utilities | -6 | 23 | 5 | 7 | 8 |
| Real Estate | -8 | 5 | -4 | 5 | 7 |
| Health Care | -10 | 3 | 1 | 8 | 9 |
| Materials | -12 | -0 | -0 | 9 | 8 |
| Total | 2 | 25 | 9 | 15 | 13 |

*As of December 31, 2024. Source: Jennison, FactSet, MSCI.*

***Past performance is not a guarantee of future results.*** *See Disclaimer for index definitions, GICS classification and other important information. There is no guarantee our objectives will be met. All investments contain risk, including possible loss of principal. The strategy may vary significantly from the benchmark in several ways including, but not limited to, sector and issuer weightings, portfolio characteristics, and security types.*

**Sector Weights**

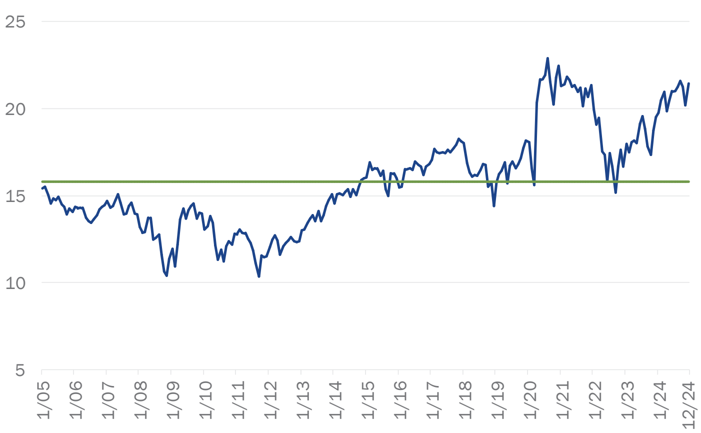
| | S&P 500 | MSCI ACWI ex US | Russell 1000 Growth | Russell 10000 Value |
|---|---|---|---|---|
| Information Technology | 32 | 14 | 49 | 9 |
| Financials | 14 | 24 | 6 | 23 |
| Health Care | 10 | 9 | 7 | 14 |
| Consumer Discretionary | 11 | 11 | 16 | 6 |
| Communication Services | 9 | 6 | 13 | 4 |
| Industrials | 8 | 14 | 4 | 15 |
| Consumer Staples | 6 | 7 | 3 | 8 |
| Energy | 3 | 5 | 0 | 7 |
| Utilities | 2 | 3 | 0 | 5 |
| Real Estate | 2 | 2 | 0 | 5 |
| Materials | 2 | 6 | 1 | 4 |

*As of December 31, 2024. Source: Jennison, FactSet, MSCI.*

**S&P 500® Index - YoY EPS Growth**


*As of December 31, 2024. YoY = Year over Year. Source: FactSet. Forecasts may not be achieved and are not a guarantee or reliable indicator of future results.*

**S&P 500® Index - NTM P/E**




*As of December 31, 2024. Source: Jennison, FactSet, MSCI.*

## Outlook from Jennison's Growth Teams

Several of the most popular US equity indices ended the period at or near record highs. US equities remain underpinned by earnings growth, a resilient albeit slowing economy, historically low unemployment, and inflation trends falling back into pre-Covid patterns. Equity price appreciation has fared better than we initially expected through the first nine months of the year, and we have benefited from our focus on companies with above-average growth rates. We see this trend as likely to continue as the pace of economic activity moderates.

We exit 2024 on the back of several strong years of share price recovery, particularly for growth stocks, following the sharp declines in late 2021 through 2022. The strength of corporate profits overall has been an important contributor amidst sustained growth of the US economy. While the rate of inflation has continued to decline, trends have also flattened out in recent months. The path to lower short-term interest rates rests on the dynamics between these factors, and we have less clarity in direction at the end of 2024 than the beginning of the year.

The effects of tariffs have also been much debated since the election. We do not doubt their likely use, though the degree and scope here also remain to be seen. Some argue that these measures need not prove inflationary if one-off in nature and buying preference shifts to lower priced alternatives. Most of the economic theory would point to higher prices from tariffs as headwinds to growth regardless of their duration. The uncertainty over their impact likely compounds economic and market uncertainty in the near term. We would expect actions taken in this area to be amongst the first of the new administration. Back-channel discussions have already taken place between world leaders and the incoming administration, but there is little clarity at this stage.

## Outlook from Jennison's Sector Teams

### Information Technology

Continuing the trend we saw throughout the year, the S&P 500 Index's information technology sector was up 4.8% in the fourth quarter of 2024 (outperforming the S&P 500's 2.4% return). For the trailing twelve months, the technology sector was up +36.6% vs. +25.0% for the S&P 500. This reflects continued better than expected fundamentals across a broad range of business models (mainly the AI leaders), along with an improving macro (primarily solid tech-driven CAPEX spend and the consumer holding up well). We are also seeing ongoing improvement in inflation expectations as we transition into 2025. Finally, the recent US election and its future implications around lower taxes and less regulation (an administration that is perceived as pro-business and pro-growth) has been an additional catalyst behind earnings growth expectations across a broad range of industries.

Fundamentals are being driven by the disruptive opportunity for AI and the digital transformation of the consumer and businesses, especially the mega cap companies in the space who can invest heavily to stay ahead with respect to innovation and disruption. The longer-term underlying strength in these business models and their

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secular revenue/profit trends remain solid and were highlighted across the overall sector's reported earnings these past few years.

The US economy continues to be holding up. Solid employment has sustained consumer spending at a steady pace. Consumer confidence currently reflects optimism in the labor market along with the net worth effect. Interest rates and spreads have started to come down, and the Fed has begun the process of lowering rates in response to rapidly improving inflation numbers. Consensus expectations are that the slope of the economy's trajectory will remain positive while employment remains healthy.

Trends in technology spending continue to be solid. The priority of the digital transformation, with an emerging impetus from AI (primarily driven by productivity opportunities), increasingly suggest an ongoing secular rebound in spending and sold longer-term CAPEX investment trends.

Longer term we believe the market will continue to favor companies with asset-light business models, high incremental gross profit margins, subscription model revenue streams, disruptive products with wide competitive moats, large total addressable markets (TAM), and faster organic growth with long and durable runways of opportunity.

It is important to recognize that technology is no longer a distinct sector; rather, it is woven through every industry in which we invest; a backdrop that creates an attractive environment for long-term champions of innovation. For example, we expect continued accelerated long-term CAPEX spend on tech, software, and R&D, especially since these expenditures have now become a "necessity for survival" for businesses instead of a way to reduce costs and a "nice to have." This can be seen across multiple fronts: technology-heavy capital expenditures in manufacturing; AI/deep-learning, e-commerce strategies; health care and medical technology, the enterprise transition to the cloud; direct-to-consumer business models; and software applications that extend across businesses. The long-term implications of this change in CAPEX spend will continue to be profound, again with AI the dominant driver.

We also see continued acceleration and long duration technology demand from the massive global millennial and Gen-Z populations, given their early uptake of so many digital-economy related products (many of which are driven through the smartphone) that are solving their real-world problems. We believe these large, global-oriented total addressable markets provide an ample runway for long-duration top-and bottom-line growth, with many disruptive trends expected to double over the next 4-5 years. Historically, earlier stages of mass adoption have spurred more innovation, greater ease of use, and an expansion of the ecosystem, which in turn has kept the virtuous cycle spinning with yet greater adoption.

### Investment Themes & Areas of Focus

- AI and the super high speed computing processing that it requires continues to drive accelerating demand across a broad range of chip and silicon companies (especially the most advanced). This also includes the software architecture and application players and cloud platform leaders, along with the high-end design and manufacturing/fabrication providers. This also extends into these new AI data centers and their unique demands for power consumption and control/distribution, along with cooling and signal processing within the stack.
- We would expect to see AI use cases and applications spread from technology providers and developers to a wide variety of industries and companies that use these tools to increase competitive positioning through improved time to market, streamlined customer service, and accelerated efforts to harness data in increasingly sophisticated ways (both to lower costs and improve profit margins).
- The use of digital technologies to create new (or alter existing) business processes and customer experiences has become a strategic imperative as enterprises seek to meet changing operating and market needs. This digital transformation has been driven by technologies such as social media platforms, mobile devices, artificial intelligence, and cloud computing.
- We look for companies positioned to benefit from increased business CAPEX spending on technology. This includes investing in industries such as business intelligence (AI), semiconductors, cloud storage and software, and life sciences tools.
- We think the continued ramping-up of data/information/entertainment usage across a broad range of devices and applications, along with digital payments, are among the areas that offer long-duration opportunities and huge addressable markets for companies with the right technologies. Business and consumer behaviors have clearly changed, with adoption and uptake continuing to inflect higher.

## Health Care

The S&P Composite 1500 Health Care Index (the Index) declined 9.8% in the fourth quarter, trailing the S&P 500, which gained 2.4%. Additionally, the Nasdaq Biotechnology Index declined 9.4%. Over the trailing 12-months, the Health care sector's 2.8% return trailed the overall Index's 25.0% gain.

The health care sector's recent underperformance, particularly in late 2024, has created a significant dislocation between perceived and intrinsic value. Despite the S&P 1500 Health Care index's relatively weak year-to-date return, which lagged broader market gains, the sector's long-term fundamentals remain strong. The short-term uncertainty, exacerbated by political factors such as potential leadership changes at the Department of Health and Human Services, has led to a nearly 10% drop in healthcare stocks from September to December 2024. This market inefficiency can present an exceptional opportunity for skilled active managers to capitalize on the favorable risk-reward profile. As the market grapples with regulatory changes and evolving dynamics, we believe astute investors can identify undervalued assets, positioning themselves for potentially outsized returns as sentiment normalizes and valuations realign with the sector's long-term growth prospects, driven by demographic trends and ongoing innovation.

### Investment Themes & Areas of Focus

- **Therapeutic advancements targeting massive total addressable markets - catalyst rich calendar going forward.**
  - We are very positive on the health care sector as there is significant innovation coming out of the pharma/biotech industries. In our view, we are at the beginning of a sustained period of biotech "renaissance" that will reward those companies producing truly differentiated products. From a thematic perspective, we remain excited about cardiovascular and metabolic diseases, certain segments of neurology

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and neuropsychiatry, endocrinology, inflammation, genetic medicines & rare diseases as well as renal & pulmonary conditions. Our portfolio is positioned with companies developing highly innovative therapies in big markets that we think will create compelling investment opportunities in 2025 and beyond.

- **Innovation in the sector expands beyond biotech and biopharma companies.**
  - A shift towards a value-based care model where costs are directly associated with the quality of the result is encouraging technology investments to increase efficiencies. Healthcare service providers are guiding this evolution through access to patient data and developing methods to monitor and optimize the delivery of care.
- **Improving capital markets activity.**
  - Since the second half of 2023, a healthy backdrop of successful capital raise and M&A have been just as impactful to the biopharma industry as scientific breakthroughs. As the trends for deals have been evolving, we believe the uptick is sustainable as cash rich larger cap biopharma companies continue to look to replace the loss in revenues from commercial drugs that are scheduled to come off patent in the coming years. Overall activity has been driven by the availability of clinical data as bolt-on and in-licensing deals have outpaced cost synergy driven acquisitions. Year to date, acquirers have targeted immune system disorders, oncology, and rare disease. The trend of science-led deals has benefited our portfolio as we have owned multiple acquisition targets year to date and for the trailing year. In addition, we expect a more industry friendly FTC to lead to increased M&A activity that will further propel the sector.
- **Significant investments in data management and AI.**
  - We believe health care will resemble information technology's trajectory from 2010-2020, with increased digitalization expanding throughout the sector.
  - Significant company creation of AI companies concentrated in drug discovery as they work with pharmaceutical companies to prioritize their resources and drive time and cost savings.
  - The US health care economy is undergoing a generational transformation to a value-based system, which will be further supported by technological advancements.
  - In our view, select HMOs will benefit from this dynamic as they are the backbone of these efforts over the medium to long term.

## Utilities

The utilities sector of the S&P 500 index ("utilities") was down this quarter, underperforming the broader market. During the fourth quarter of 2024, rising interest rates and uncertainty regarding President-Elect Trump's intentions for federal renewable energy policy (including the Inflation Reduction Act) contributed to an investing backdrop for the US utilities sector that skewed more challenging than during 3Q24. Additionally, rising investor expectations regarding potentially pro-cyclical legislation and policies from the incoming Trump-Vance administration paved the way for a reversal of 3Q24's "safe haven" trade as the utilities sector underperformed the broader market in 4Q24. Continued investor enthusiasm for the strong outlook for generative AI-related data center power demand growth propelled shares of our names in the independent power producers (IPPs) & renewables segment as well as midstream energy holdings higher during 4Q24. This was driven by continued rising expectations for forward power prices, regulated utilities electricity load growth, renewable energy development activity, and natural gas demand for gas-fired generation. We believe strong long-term fundamentals and still-reasonable valuations underscore the opportunity in the utilities sector. Utilities decreased by -5.5% in 4Q24, underperforming the 2.4% return of the S&P 500.

While absolute performance results were strong in 2024, the utilities sector was negative and experienced its worst relative performance in over 40 years in 2023 and the utilities sector has been one of the weakest sectors over the last five years. However, even during the economic volatility of the past few years, the companies have continued to execute operationally and deliver strong earnings while also de-risking their portfolios. Continued solid execution, along with the potential growth opportunities from renewable energy investments, should help to drive the sector's earnings going forward. In addition, despite investor volatility, the increase in power demand growth driven by AI presents both a challenge to meet that demand but also supports underlying earnings growth potential. Strong fundamentals and macro factors underscore the opportunity in the sector, especially given what remains a lower-than-average interest rate environment.

Utilities can be a compelling defensive growth proposition for investors for several reasons, both sector-specific and macro-related:

- The renewables opportunity: improving economics in wind and solar power continue to remain a growth driver for the overall sector; companies are only now beginning to incorporate renewables into their capex plans, allowing them to earn a regulated rate of return on their renewable investments.
- Predictable cash flow and earnings: Utilities are by nature a defensive sector and those companies with regulated or quasi-regulated (renewables) businesses generate long-duration cash flows and predictable rate base earnings; in addition to providing stable dividends even in periods of uncertainty, growth in renewables should help drive earnings above the sector's historical 3%-5% growth rate.
- More favorable interest rate environment provides relief: rapidly rising rates increased utilities' cost of capital in the near-term, but the beginning of the Fed rate cut cycle should continue to be tailwinds.
- Policy tailwinds: the Inflation Reduction Act (IRA) contains many provisions that are supportive of renewables development over the next decade as the US aims to lower carbon emissions and should help to sustain dividend growth.

### Investment Themes & Areas of Focus

- Regulated Utilities - companies operating in favorable regulatory environments and geographies, with above-average projected earnings and/or dividend growth driven by regulatory rate-base investment.
- Renewable Electricity – the energy transition is driving ongoing investment and usage of renewables and should continue to provide unique investment opportunities over the long-term.
- Midstream Energy - specifically companies with exposure to natural gas, a critical bridge fuel.

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## Midstream Energy Infrastructure

The fourth quarter of 2024 delivered another strong performance period as midstream energy infrastructure equities continued to rise ahead of both the broad energy sector and the S&P500. After being one of the best performing sectors in 1Q24, the energy sector was negative in the following three quarters, underperforming the broader market. Oil prices generally declined during the quarter after hitting a low during the year in early September. However, oil prices ended the year close to the levels at the beginning of the year, reiterating that OPEC+ will re-assess supply quota increases if prices are too low. Natural Gas spiked off multi-year lows as seasonal electricity demand expectations along with the long-term need for new electricity generation will benefit natural gas—the most environmentally friendly fossil fuel. Long term natural gas demand growth and high cash returns to shareholders remain positive tailwinds for the sector and recent bolt-on investment projects have the potential to drive accelerated cash flow growth over the next 3 to 5 years. For the full 3-month period, the Alerian Midstream Energy Index (AMNA) was up 13.5%, outperforming the 2.4% return of the S&P 500. The less diversified Alerian MLP Index (AMZ) advanced 4.9%.

In 2024, midstream continued its strong relative performance from last year, where it had the best returns within the energy sector and matched the gains of the S&P 500. The energy sector at large, including midstream infrastructure companies, is in the midst of an historic period of financial strength, shareholder friendly corporate discipline, and high capital returns. We believe that the midstream sector in particular is well-positioned for continued financial success, both in fundamental earnings drivers and equity performance. The sector continues to generate well above average free cash flow yields yet trades at a valuation discount to the broader market. We think this disconnect presents an opportunity given the significant transformation in the sector and the market appears to now be taking notice; 2024 produced compelling stock total returns driven by steady growth in cash flows throughout the year and management teams continuing to reiterate shareholder friendly capital policies.

We believe that over the longer-term, midstream energy companies will play an important role in our energy future. The global energy transition will require multiple sources of energy to be successful and hydrocarbons – especially natural gas - will continue to have a role, driving future demand not just for the commodities but for the essential logistical systems that move them. With physical steel in the ground, midstream energy infrastructure companies have difficult-to-replicate asset networks with high barriers to entry, and whose adaptability to transport other energy sources is underappreciated. Management teams are increasingly aware of the role they will play in our energy future, focusing not just on the environmental impact of their operations but also on how their asset bases can and will be part of a greener future.

### Investment Themes & Areas of Focus

- Companies with exposure to growth in natural gas volumes, liquefied natural gas (LNG) exports, and high-quality geographic areas.
- Higher capital discipline and healthier balance sheets that can withstand a downturn, but also invest in growth projects while returning capital to shareholders.
- Integrated business models – the larger, more integrated companies with multiple touch points along the energy value chain, higher barriers-to-entry, and steady cash-flows.
- Sound corporate governance policies and incentives that align with shareholder performance, safety, and returns on invested capital.

## Financials

Continuing the trend we saw throughout the year, the S&P 500 Index's financials sector was up 7.1% in the fourth quarter of 2024 (outperforming the S&P 500's 2.4% return). Leading industries were consumer finance, banks, and capital markets. Lagging industries were REIT's and insurance.

For the trailing 12 months, the financials sector of the S&P 500 was up +30.6% vs. +25.0% for the overall S&P 500. This reflects continued better than expected fundamentals across a broad range of business models, along with an improving macro (primarily credit conditions and the consumer holding up well). We are also seeing ongoing improvement in inflation expectations as we transition into 2025. Finally, the recent US election and its future implications around lower taxes and less regulation (an administration that is perceived as pro-business and pro-growth) has been an additional catalyst behind earnings growth expectations across a broad range of industries.

The US economy continues to steady growth, which supports ongoing positive trends in credit conditions. Solid employment has sustained consumer spending at a healthy pace. Consumer confidence currently reflects optimism in the labor market along with the net worth effect. Consensus expectations are that the slope of the economy's trajectory will remain positive while employment remains healthy.

Nevertheless, there is still a possibility of a hard landing recession due to the inherent time lags following aggressive Fed tightening (key here will be to what extent that the unemployment increases) and uncertainty around the level and timing of the terminal inflation rate. The financial sector would be negatively impacted if this would occur, specifically around higher credit losses and slowing consumer/ business lending activity.

Another positive is the ongoing easing by the Federal Reserve. Commentary from Fed board members in the past months emphasized the need to remain vigilant in the ongoing process of fighting inflation while recognizing the solid trends toward their sub-2.0% target. At the same time, they acknowledged the lagging impacts of the rate increases of the past year that have yet to fully reveal themselves in economic growth.

The sector's focus continues to be directed toward liquidity and the forward yield curve dynamics. In addition to liquidity, we believe another key risk to banking health is the status of loan quality. Banks carry significant exposure to commercial real estate (CRE), which is experiencing significant secular (post Covid) and cyclical challenges. As this economic cycle potentially turns, asset quality will need to be watched closely Future income statement pressure will also come from continued labor cost pressures, but this is being offset by improved tech driven efficiencies and generally better overall operation of the businesses by management.

## Investment Themes & Areas of Focus

- Overall, the large money center, consumer finance, and super-regional banks are significantly better positioned today across a broad range of balance sheet, capital, and risk management metrics.
- Valuations in the sector have normalized. We believe tailwinds for future earnings growth will be primarily driven by solid revenue trends and credit controls; growing net interest margins; ongoing expansion of their fee-based business opportunities; and continued efficiency improvements through better use of technology.
- Global alternative asset management business models have attractive valuations, especially given their strong recurring revenue businesses and consistent ability to raise fee-based assets to fund their ongoing deal-making activity along with optimizing their spread-based revenue streams.
- Fundamentals for P&C insurance companies are solid (driven by favorable pricing dynamics) and valuations remain attractive. This industry group continues to be a defensive safe haven for investors.
- Secular growth companies with defensive attributes (low leverage rates, asset light models, sustainable, high margin, and high free cash flow businesses) continue to attract investors looking for both quality and durability of growth. Several digital payment and financial technology companies meet these criteria.

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# 留意事項



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