Quarterly Commentary

New York's 529 Advisor-Guided College Savings Program®

Oversight by J.P. Morgan's Multi-Asset Solutions Group

- Dedicated team of **over 100 investment professionals**[1]
- More than **$300 billion in global assets** under management[1]
- Builds 529 Plan portfolios, selects investments and **makes adjustments as market conditions change over time**

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Performance commentary

All of the Plan's age-based and asset allocation portfolios posted solid positive returns for calendar year 2024. Across portfolios, annual returns slightly trailed benchmarks after fees following a year-end decline in assets we were overweighting. Amid concerns over Federal Reserve (Fed) policy becoming more hawkish, risk assets fell in December to erase much of November's gains and contribute to negative fourth quarter results for portfolios.

▲ Performance contributors

An underweight duration position, taken to fund stock overweights, boosted returns as investors sold bonds and rates moved higher.

▼ Performance detractors

An overweight to risk assets hurt portfolios as positive stock markets reversed course in December.

Key macro views

- Our portfolios reflect a **pro-growth outlook** and strong preference for U.S. assets.
- Pro-growth economic policy should extend the business cycle in 2025. We believe the **impact of tariffs will be manageable** and won't deter the Fed from further rate cuts.
- U.S. economic exceptionalism is set to continue, but **we see growth and earnings broadening** out across the economy, with risks mitigated by resilient private sector balance sheets.
- We continue to **overweight stocks and credit** and are broadly neutral on global duration.
- **European stocks remain our preferred underweight**, but even a marginal shift in sentiment could boost markets.
- **Tight credit spreads shouldn't cause undue concern** given healthy distress ratios and attractive all-in yields.
- **Markets could be volatile at times** as the scale and sequence of policy unfolds in 2025, but we expect investors to buy on any dips.

[1] As of December 31, 2024.

Market commentary

Calendar year 2024 was another impressive period for the **U.S. economy**, with resilient consumer spending supporting a fourth consecutive year of above-trend growth. Looking ahead, policy uncertainty is casting a fog over the economic outlook. That said, none of the proposed policies appear to spell trouble for the U.S. economy, at least in the short run, and 2025 will likely see trend-like growth.

Continued U.S. strength helped developed markets **stocks** deliver 19.2% total returns for the year. A late rally in Chinese stocks coupled with strong results out of India and Taiwan drove emerging markets 8.1% higher.

Strong performance from U.S. mega cap tech companies ensured that global growth stocks dominated for the second year in a row. However, prospects for deregulation following the U.S. election boosted financials and lifted global value stocks by 12.3% in 2024. The good times for stock markets stalled in the fourth quarter, as policy concerns and robust economic growth called into question the pace of rate cuts in 2025. Developed markets stocks were roughly flat during the quarter.

In **bond markets**, central banks started normalizing policy in 2024, but resilient growth and sticky inflation caused markets to scale back expectations for rate cuts, particularly in the U.S. The combination of a strengthening dollar and rising yields resulted in negative returns of -1.6% for core U.S. bonds in 2024. U.S. high-yield credit remained a bright spot, up 8.2% for the year and 0.2% for the quarter.

Asset allocation and trade commentary

The portfolio management team remains bullish on the prospects for global financial markets, as we have throughout the year. We still have conviction in overweighting stocks, especially in the U.S., where robust earnings growth should continue.

Early in the quarter, the team removed an overweight to international developed stocks, deploying that capital into an overweight of U.S. mid caps instead. We also expanded our overweight to emerging markets stocks and added a small position in U.S. REITs, motivated by the view that a Fed easing cycle would benefit real estate. By quarter's end, we had removed the emerging markets stock position, choosing to focus overweights on the U.S.

In fixed income, the quarter began with an underweight to U.S. core bonds and an overweight to U.S. high yield as we extended credit risk to earn positive carry return. Over the next three months, high-yield spreads contracted to near cycle lows, and the team closed its position to lock in profits. We still maintain a short duration position via U.S. core bonds, used primarily to fund overweights to stocks.

Outlook

We see strong U.S. economic growth in 2025, with GDP not moderating to trend to 2% until the fourth quarter. Even allowing for tariff and deficit fears, lower rents and energy prices suggest that inflation is set to cool to around 2.8% in CPI terms by year end, or 2.5% in PCE terms. Moderating inflation would, in turn, allow the federal funds rate to fall to about 4% by mid-2025. This positive backdrop calls for a risk-on tilt in portfolios. But buckle up – the ride may still be a bit bumpy.

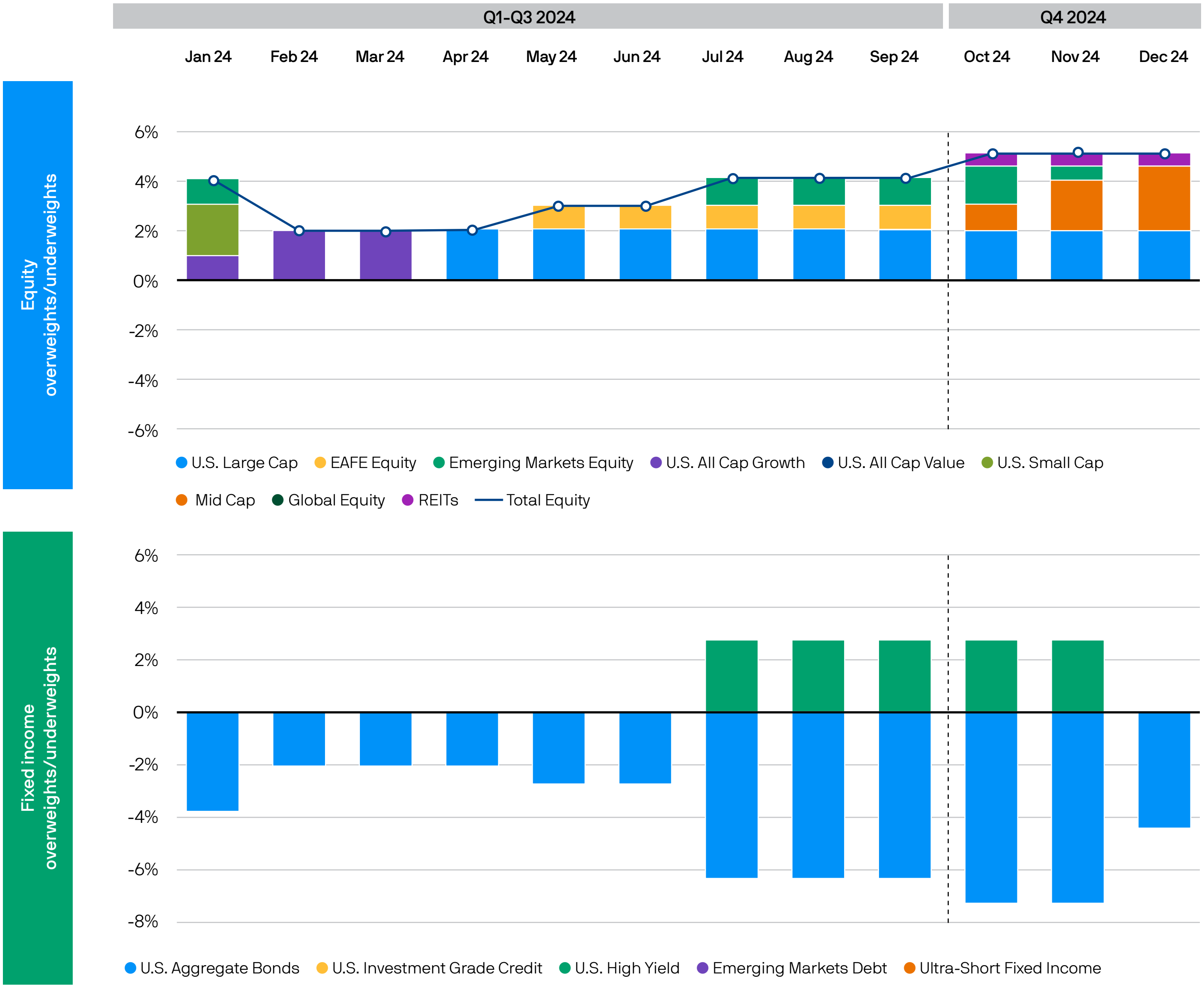
We expect President Trump's economic policies to be broadly positive for the U.S. economy. Importantly, the order in which specific policies are implemented will determine the trajectory of growth over the next two years. Greater emphasis on deregulation and fiscal boost from extending tax cuts could improve corporate confidence, open up capital markets, accelerate growth and enhance investment returns. However, an emphasis on immigration and tariffs could lead to disruptions in labor supply or trade, potentially dampening growth and triggering market volatility.

Despite this uncertainty, the U.S. economic exceptionalism of recent years looks poised to continue. While a strong U.S. economy provides a tailwind to global growth, the threat of tariffs is an acute issue for China. In addition, Europe faces political turmoil in its two biggest economies and a tangled web of regulation stifling corporate dynamism across the bloc.

Nevertheless, issues facing economies outside the U.S. are already well discounted in asset markets. If tariff threats strengthen China's policy response or corporate pressure eases European regulations (even at the margins), these unloved assets could rebound swiftly.

Our portfolios reflect a pro-growth outlook and strong preference for U.S. assets, but we continue to seek opportunities to diversify both domestically and globally. We remain overweight to stocks and credit and are broadly neutral on global duration.

Evolution of equity and fixed-income positions | Age-based portfolio (11-12)



Source: J.P. Morgan Asset Management; as of 12/31/2024. *Shown for illustrative purposes only.* **Past performance is no guarantee of future results.** The manager seeks to achieve the stated objectives. There can be no guarantee the objectives will be met. Tactical positions represent overweight/underweight relative to strategic asset allocation.

For more information

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- Consult your financial professional
- Visit www.ny529advisor.com
- Call 1-800-774-2108 (M-F, 8 a.m. - 6 p.m. ET)

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