

# Asset Allocation Overview

## Thoughts on the Markets, the Economy, and Positioning



The U.S. stock market eclipsed 20%+ for the second consecutive year and turned in its best two-year run since 1998. Most areas of the market finished in positive territory — none better than the tech sector, headlined by the +29.3% gain for the NASDAQ Composite. The S&P 500 finished up +24.8%. Inflation, earnings, and the outlook for monetary and fiscal policy represented key positive catalysts, as the U.S. economy avoided a much-feared recession. Corporate profit growth, driven by AI enthusiasm, came in at 7% for the year but also reflects even higher expectations for 2025, with 15% earnings growth possible. Inflation continued to moderate from its 2022 high, down to approximately 2.7% on an annual basis, prompting the Fed to ease its Fed Funds Rate by 50 basis points in September and two additional quarter-point cuts in 4Q. A resilient U.S. consumer and getting through the November election proved to be additional tailwinds. It was not a great year for international stocks or traditional fixed income. The MSCI All Country World ex-USA Index rose +6.1% and the Bloomberg US Aggregate Bond Index added +1.2%. Political turmoil overseas, coupled with growth concerns in China, a strong dollar, and a feared slowdown in trade represented headwinds for ex-U.S. companies. Despite the Fed's rate cuts, long-dated yields rose over the past twelve months, signaling that we may have longer to go on the inflation front. The 10-year Treasury yield settled at 4.57%.

### Key Talking Points

Markets have worked in our favor over the past two quarters, as diversifying areas of the market caught a bid. While small caps gave back gains in the final trading week of the year, we are encouraged by the near +20% move higher, following the election. Potentially lower taxes, lower borrowing costs, attractive valuations, and improving corporate earnings underpin our optimism for the asset class. While fixed income has been challenging the past few years, we are comfortable with higher credit quality and neutral duration as the short-term forecast for long-dated yields is uncertain. As such, we are maintaining a similar asset allocation construct as 4Q.

POSITIONING - STOCKS	CHANGE	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
Domestic Equity			●	
International Equity			●	
Emerging Markets			●	
Large Cap		●		
SMID Cap				●
Growth			●	
Value			●	

POSITIONING - BONDS	CHANGE	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
Government Bonds				●
MBS			●	
Corporate Credit		●		
Duration			●	

### Rationale

- Easing monetary policy, AI, positive earnings growth, and post-election clarity
  - Rate cuts and valuations are attractive, but offset by geopolitical risk and USD
  - Stimulus in China and low valuations offset by strong USD and geopolitical risk
  - Elevated valuations and lofty investor expectations
  - Potentially lower borrowing costs and taxes, moderating inflation, and historically attractive valuations
  - Growth has become expensive of late, but remains attractive over the long term
  - Value stocks were out of favor in '24 but should do well if breadth expands
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- Treasuries offer attractive yield and downside protection
  - Mortgage yields are historically attractive
  - Narrow credit spreads favor investment grade over high yield credit
  - Yield uncertainty warrants neutral duration exposure



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Orion's OCIO offering can help your firm grow and scale your business with a complete suite of investment and operational services, customizable to your firm's needs. From the original client interaction to the allocation of the account, our investment management team can help you through the entire client acquisition process. If you can provide a current brokerage statement from a client, we will help you do the rest! We'll create a customized investment report, an 'Audit', that is designed to expose the current investment inefficiencies in their portfolio. If you want, we can help at the point-of-sale to help close the client account as well. From there, this same team will create a customized proposal based on what the client needs from their portfolio. In part due to this process, since 2018 advisory firms that have partnered with Orion OCIO have collectively averaged an impressive year-over-year growth rate of over 67%.<sup>1</sup> Our Trade Desk has a disposition towards accuracy and communication, and staff our desk accordingly. Our desk of 15+ traders is available from market open to end-of-day via phone and email. Led by a leadership with a combined 25+ years of experience in Trading within the Orion environment and in managing single-strategy accounts, or UMAs/sleeved accounts. Whether you are needing contributions/distributions, DCAs, and TLH requests (to name a few), we intend to trade so that you don't have to.

**Don't Work With Us Yet?  
Let's Change That.**

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<sup>1</sup>Source: Proprietary Orion data, as of 6/18/2024.

Source: TownSquare Capital Information is accurate as of September 30, 2024. These and specific funds utilized to implement themes are discussed within the context of TownSquare's managed asset allocations and are based on current market conditions and constitute TownSquare's judgment and opinions, which are subject to change without notice. Past performance does not guarantee future results. Statements referring to future actions or events, such as the future financial performance of certain asset classes or market segments, are based on the current expectations and projections about future events provided by various sources, including TownSquare's Investment Management Group. These statements are not guarantees of future performance and actual events may differ materially from those discussed. OCIO services offered through TownSquare Capital, LLC, an Orion Company, a Registered Investment Advisor. TownSquare Capital, LLC, is an affiliated company of Orion Portfolio Solutions, LLC. The views expressed herein are exclusively those of Townsquare Capital, LLC, a registered Investment Advisor, and are not meant as investment advice and are subject to change. For financial professional use only. Not intended for public distribution.