



**TO:** PDL VEBA Committee                      **DATE:** January 29, 2025  
**RE:** Account Update from Alerus            **FROM:** Shauna Anderson,  
Director

Overall, the administration of VEBA benefits underwent a significant reorganization in 2024 with updates to the plan that allow for a more cost-effective approach to retiree healthcare for Medicare-eligible retirees. This was completed in partnership with MERS and Aptia Healthcare consultants. We also addressed a long-standing misinterpretation of VEBA age requirements that were not properly administered, to ensure that benefits were maintained to those who had been receiving them.

The plan remains financially viable and self-supporting, especially with the recent updates made. As we are able to provide more cost-effective and high-quality medical insurance to our current employees, we plan to close the plan to current ineligible staff members and support those staff in an HRA setup that would decrease our VEBA liabilities even further, while providing a more sustainable long-term solution to retiree healthcare support for our younger generations of current employees.

I plan to bring this solution to the board after our insurance renewal, in the latter half of 2025, to ensure that the financial implications are included in our next full actuarial valuation. That should conclude the years-long transition that we have been working through to reform our VEBA administration for long-term sustainability.

Alerus Account Representative, Stanton Shields, will be presenting remotely on the current status of our VEBA account. Supplementary information on the annual performance of the trust and current market conditions are attached to this memo.

ACCOUNT NUMBER: 1050615699

STATEMENT PERIOD: JANUARY 01, 2024 THROUGH DECEMBER 31, 2024



PLYMOUTH DISTRICT LIBRARY  
 ATTN: SHAUNA ANDERSON  
 223 S MAIN ST  
 PLYMOUTH, MI 48170

ACCOUNT NAME:	PLYMOUTH DISTRICT LIBRARY VEBA AGENCY
ACCOUNT NUMBER:	1050615699
ADVISOR:	STANTON SHIELDS 602-598-7960 stanton.shields@alerus.com
ASSOCIATE:	MORGAN BROWN 480-905-2428 MORGAN.BROWN@ALERUS.COM
INVESTMENT OBJECTIVE:	MICHIGAN ACCOUNT



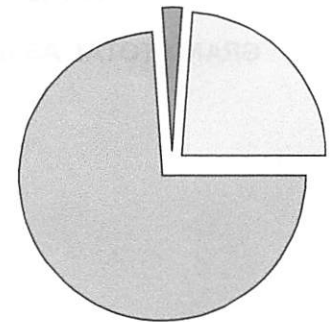
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FOR YOUR INFORMATION

THE 2024 COMPOSITE FORM 1099s ARE GENERALLY MAILED BY FEBRUARY 28, 2025. THIS ALLOWS COMPANIES MORE TIME TO PROCESS FILES AND APPLY REALLOCATIONS, PRODUCING A MORE COMPLETE STATEMENT AND REDUCING THE NUMBER OF CORRECTED 1099s.

PORTFOLIO SUMMARY

MARKET VALUE AS OF	01/01/24	12/31/24	% OF ACCOUNT
BONDS	747,056.36	733,499.83	24.0%
CASH & CASH EQUIVALENTS	71,600.30	65,719.65	2.1%
EQUITIES	1,925,598.89	2,258,228.81	73.9%
<b>Total</b>	<b>2,744,255.55</b>	<b>3,057,448.29</b>	<b>100.0%</b>



ACTIVITY SUMMARY

	THIS PERIOD	YEAR TO DATE	REALIZED CAPITAL GAINS / LOSSES		
				THIS PERIOD	YEAR TO DATE
BEGINNING MARKET VALUE	2,744,255.55	2,744,255.55			
INCOME	70,204.01	70,204.01			
CASH DISBURSEMENTS	76,084.66-	76,084.66-			
CHANGE IN MARKET VALUE	319,073.39	319,073.39	TOTAL GAINS / LOSSES	0.00	0.00
ENDING MARKET VALUE	3,057,448.29	3,057,448.29			

ACCOUNT NUMBER: 1050615699

STATEMENT PERIOD: JANUARY 01, 2024 THROUGH DECEMBER 31, 2024

PORTFOLIO STATEMENT

QUANTITY	DESCRIPTION	MARKET VALUE	COST BASIS
<b>CASH &amp; CASH EQUIVALENTS</b>			
65,719.650	ALERUS FINANCIAL MMKT	65,719.65	65,719.65
<b>TOTAL</b>	<b>CASH &amp; CASH EQUIVALENTS</b>	<b>65,719.65</b>	<b>65,719.65</b>
<b>BONDS</b>			
<b>MUTUAL FUND - BONDS</b>			
33,715.001	VANGUARD TOTAL BOND INDEX ADMIRAL FUND #584	319,618.21	358,480.16
48,350.657	VANGUARD INTERMEDIATE TERM CORPORATE FUND ADMIRAL SHARES, FUND #571	413,881.62	448,658.27
<b>TOTAL</b>	<b>MUTUAL FUND - BONDS</b>	<b>733,499.83</b>	<b>807,138.43</b>
<b>TOTAL</b>	<b>BONDS</b>	<b>733,499.83</b>	<b>807,138.43</b>
<b>EQUITIES</b>			
<b>MUTUAL FUND-EQUITY</b>			
5,000.148	FIDELITY SMALL CAP INDEX	138,404.10	107,700.00
1,755.136	VANGUARD SMALL CAP INDEX ADMIRAL FUND #548	202,121.46	104,162.78
2,914.838	VANGUARD 500 INDEX ADMIRAL FD 540	1,582,057.47	559,998.63
<b>TOTAL</b>	<b>MUTUAL FUND-EQUITY</b>	<b>1,922,583.03</b>	<b>771,861.41</b>
<b>MUTUAL FUNDS - INTERNATIONAL</b>			
21,851.939	VANGUARD DEVELOPED MARKETS INDEX ADM	335,645.78	284,818.24
<b>TOTAL</b>	<b>MUTUAL FUNDS - INTERNATIONAL</b>	<b>335,645.78</b>	<b>284,818.24</b>
<b>TOTAL</b>	<b>EQUITIES</b>	<b>2,258,228.81</b>	<b>1,056,679.65</b>
<b>GRAND TOTAL ASSETS</b>		<b>3,057,448.29</b>	<b>1,929,537.73</b>

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ACCOUNT NUMBER: 1050615699

STATEMENT PERIOD: JANUARY 01, 2024 THROUGH DECEMBER 31, 2024

TRANSACTION SUMMARY

	CURRENT PERIOD		YEAR TO DATE	
	CASH	COST	CASH	COST
BEGINNING BALANCE	0.00	1,935,418.38	0.00	1,935,418.38
<b>RECEIPTS</b>				
INTEREST	4,655.23		4,655.23	
DIVIDENDS	65,548.78		65,548.78	
<b>TOTAL RECEIPTS</b>	<b>70,204.01</b>	<b>0.00</b>	<b>70,204.01</b>	<b>0.00</b>
<b>CASH DISBURSEMENTS</b>				
TO OR FOR CUSTOMER	60,000.00-		60,000.00-	
FEES	16,084.66-		16,084.66-	
<b>TOTAL CASH DISBURSEMENTS</b>	<b>76,084.66-</b>	<b>0.00</b>	<b>76,084.66-</b>	<b>0.00</b>
<b>SALES/MATURITIES</b>				
NET CASH MANAGEMENT	5,880.65	5,880.65-	5,880.65	5,880.65-
<b>TOTAL SALES/MATURITIES</b>	<b>5,880.65</b>	<b>5,880.65-</b>	<b>5,880.65</b>	<b>5,880.65-</b>
ENDING BALANCE	0.00	1,929,537.73	0.00	1,929,537.73

TRANSACTION DETAIL

DATE	QUANTITY	DESCRIPTION	TRANSACTION TYPE	CASH	COST BASIS
01/01/24		BEGINNING BALANCE		0.00	1,935,418.38
<b>RECEIPTS</b>					
INTEREST					
01/03/24		ALERUS FINANCIAL MMKT INTEREST ON ALERUS FINANCIAL MMKT PAYABLE 01/01/24 TAX EFFECTIVE 12/31/23	INTEREST RCVD	286.82	
02/02/24		INTEREST ON ALERUS FINANCIAL MMKT PAYABLE 02/01/24	INTEREST RCVD	326.33	
03/04/24		INTEREST ON ALERUS FINANCIAL MMKT PAYABLE 03/01/24	INTEREST RCVD	308.17	
04/02/24		INTEREST ON ALERUS FINANCIAL MMKT PAYABLE 04/01/24	INTEREST RCVD	349.35	
05/02/24		INTEREST ON ALERUS FINANCIAL MMKT PAYABLE 05/01/24	INTEREST RCVD	361.44	
06/04/24		INTEREST ON ALERUS FINANCIAL MMKT PAYABLE 06/01/24	INTEREST RCVD	377.46	
07/02/24		INTEREST ON ALERUS FINANCIAL MMKT PAYABLE 07/01/24	INTEREST RCVD	379.98	
08/02/24		INTEREST ON ALERUS FINANCIAL MMKT PAYABLE 08/01/24	INTEREST RCVD	434.19	
09/04/24		INTEREST ON ALERUS FINANCIAL MMKT PAYABLE 09/01/24	INTEREST RCVD	439.32	
10/02/24		INTEREST ON ALERUS FINANCIAL MMKT PAYABLE 10/01/24	INTEREST RCVD	438.62	
11/04/24		INTEREST ON ALERUS FINANCIAL MMKT PAYABLE 11/01/24	INTEREST RCVD	482.61	
12/03/24		INTEREST ON ALERUS FINANCIAL MMKT PAYABLE 12/01/24	INTEREST RCVD	470.94	
TOTAL INTEREST				4,655.23	0.00

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STATEMENT PERIOD: JANUARY 01, 2024 THROUGH DECEMBER 31, 2024

TRANSACTION DETAIL ( CONTINUED )

DATE	QUANTITY	DESCRIPTION	TRANSACTION TYPE	CASH	COST BASIS
DIVIDENDS					
07/01/24		FIDELITY SMALL CAP INDEX DIVIDEND ON 5,000.148 SHS FIDELITY SMALL CAP INDEX AT .034 PER SHARE PAYABLE 07/01/24 EX DATE 06/28/24	DIVIDEND	170.00	
12/23/24		DIVIDEND ON 5,000.148 SHS FIDELITY SMALL CAP INDEX AT 0.25 PER SHARE PAYABLE 12/23/24 EX DATE 12/20/24	DIVIDEND	1,250.04	
01/02/24		VANGUARD TOTAL BOND INDEX ADMIRAL FUND #584 DIVIDEND ON VANGUARD TOTAL BOND INDEX ADMIRAL FUND #584 PAYABLE 01/02/24 EX DATE 12/29/23 TAX EFFECTIVE 12/31/23	DIVIDEND	933.64	
02/01/24		DIVIDEND ON VANGUARD TOTAL BOND INDEX ADMIRAL FUND #584 PAYABLE 02/01/24 EX DATE 01/31/24	DIVIDEND	937.03	
03/01/24		DIVIDEND ON VANGUARD TOTAL BOND INDEX ADMIRAL FUND #584 PAYABLE 03/01/24 EX DATE 02/29/24	DIVIDEND	900.32	
04/01/24		DIVIDEND ON VANGUARD TOTAL BOND INDEX ADMIRAL FUND #584 PAYABLE 04/01/24	DIVIDEND	961.83	
05/01/24		DIVIDEND ON VANGUARD TOTAL BOND INDEX ADMIRAL FUND #584 PAYABLE 05/01/24 EX DATE 04/30/24	DIVIDEND	945.99	
06/03/24		DIVIDEND ON VANGUARD TOTAL BOND INDEX ADMIRAL FUND #584 PAYABLE 06/03/24 EX DATE 05/31/24	DIVIDEND	975.76	
07/01/24		DIVIDEND ON VANGUARD TOTAL BOND INDEX ADMIRAL FUND #584 PAYABLE 07/01/24 EX DATE 06/28/24	DIVIDEND	969.29	
08/01/24		DIVIDEND ON VANGUARD TOTAL BOND INDEX ADMIRAL FUND #584 PAYABLE 08/01/24 EX DATE 07/31/24	DIVIDEND	1,000.88	
09/03/24		DIVIDEND ON VANGUARD TOTAL BOND INDEX ADMIRAL FUND #584 PAYABLE 09/03/24 EX DATE 08/30/24	DIVIDEND	1,007.21	
10/01/24		DIVIDEND ON VANGUARD TOTAL BOND INDEX ADMIRAL FUND #584 PAYABLE 10/01/24 EX DATE 09/30/24	DIVIDEND	984.42	
11/01/24		DIVIDEND ON VANGUARD TOTAL BOND INDEX ADMIRAL FUND #584 PAYABLE 11/01/24	DIVIDEND	1,015.16	
12/02/24		DIVIDEND ON VANGUARD TOTAL BOND INDEX ADMIRAL FUND #584 PAYABLE 12/02/24	DIVIDEND	998.22	
03/18/24		VANGUARD DEVELOPED MARKETS INDEX ADM DIVIDEND ON 21,851.939 SHS VANGUARD DEVELOPED MARKETS INDEX ADM AT .0913 PER SHARE PAYABLE 03/18/24 EX DATE 03/15/24	DIVIDEND	1,995.08	
06/24/24		DIVIDEND ON 21,851.939 SHS VANGUARD DEVELOPED MARKETS INDEX ADM AT .1473 PER SHARE PAYABLE 06/24/24 EX DATE 06/21/24	DIVIDEND	3,218.79	

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ACCOUNT NUMBER: 1050615699

STATEMENT PERIOD: JANUARY 01, 2024 THROUGH DECEMBER 31, 2024

TRANSACTION DETAIL ( CONTINUED )

DATE	QUANTITY	DESCRIPTION	TRANSACTION TYPE	CASH	COST BASIS
09/23/24		DIVIDEND ON 21,851.939 SHS VANGUARD DEVELOPED MARKETS INDEX ADM AT .0456 PER SHARE PAYABLE 09/23/24 EX DATE 09/20/24	DIVIDEND	996.45	
12/23/24		DIVIDEND ON 21,851.939 SHS VANGUARD DEVELOPED MARKETS INDEX ADM AT .2283 PER SHARE PAYABLE 12/23/24 EX DATE 12/20/24	DIVIDEND	4,988.80	
01/02/24		VANGUARD INTERMEDIATE TERM CORPORATE FUND ADMIRAL SHARES, FUND #571 DIVIDEND ON VANGUARD INTERMEDIATE TERM CORPORATE FUND ADMIRAL SHARES, FUND #571 PAYABLE 01/02/24 TAX EFFECTIVE 12/31/23	DIVIDEND	1,497.55	
02/01/24		DIVIDEND ON VANGUARD INTERMEDIATE TERM CORPORATE FUND ADMIRAL SHARES, FUND #571 PAYABLE 02/01/24	DIVIDEND	1,522.12	
03/01/24		DIVIDEND ON VANGUARD INTERMEDIATE TERM CORPORATE FUND ADMIRAL SHARES, FUND #571 PAYABLE 03/01/24	DIVIDEND	1,538.31	
04/01/24		DIVIDEND ON VANGUARD INTERMEDIATE TERM CORPORATE FUND ADMIRAL SHARES, FUND #571 PAYABLE 04/01/24	DIVIDEND	1,567.83	
05/01/24		DIVIDEND ON VANGUARD INTERMEDIATE TERM CORPORATE FUND ADMIRAL SHARES, FUND #571 PAYABLE 05/01/24	DIVIDEND	1,571.10	
06/03/24		DIVIDEND ON VANGUARD INTERMEDIATE TERM CORPORATE FUND ADMIRAL SHARES, FUND #571 PAYABLE 06/03/24	DIVIDEND	1,613.23	
07/01/24		DIVIDEND ON VANGUARD INTERMEDIATE TERM CORPORATE FUND ADMIRAL SHARES, FUND #571 PAYABLE 07/01/24	DIVIDEND	1,617.50	
08/01/24		DIVIDEND ON VANGUARD INTERMEDIATE TERM CORPORATE FUND ADMIRAL SHARES, FUND #571 PAYABLE 08/01/24	DIVIDEND	1,625.87	
09/03/24		DIVIDEND ON VANGUARD INTERMEDIATE TERM CORPORATE FUND ADMIRAL SHARES, FUND #571 PAYABLE 09/03/24	DIVIDEND	1,636.09	
10/01/24		DIVIDEND ON VANGUARD INTERMEDIATE TERM CORPORATE FUND ADMIRAL SHARES, FUND #571 PAYABLE 10/01/24	DIVIDEND	1,622.21	
11/01/24		DIVIDEND ON 48,350.657 SHS VANGUARD INTERMEDIATE TERM CORPORATE FUND ADMIRAL SHARES, FUND #571 AT .034203 PER SHARE PAYABLE 11/01/24	DIVIDEND	1,653.73	
12/02/24		DIVIDEND ON VANGUARD INTERMEDIATE TERM CORPORATE FUND ADMIRAL SHARES, FUND #571 PAYABLE 12/02/24	DIVIDEND	1,657.41	



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ACCOUNT NUMBER: 1050615699

STATEMENT PERIOD: JANUARY 01, 2024 THROUGH DECEMBER 31, 2024

TRANSACTION DETAIL ( CONTINUED )

DATE	QUANTITY	DESCRIPTION	TRANSACTION TYPE	CASH	COST BASIS
03/25/24		VANGUARD SMALL CAP INDEX ADMIRAL FUND #548 DIVIDEND ON 1,755.136 SHS VANGUARD SMALL CAP INDEX ADMIRAL FUND #548 AT .3242 PER SHARE PAYABLE 03/25/24 EX DATE 03/22/24	DIVIDEND	569.02	
07/01/24		DIVIDEND ON 1,755.136 SHS VANGUARD SMALL CAP INDEX ADMIRAL FUND #548 AT .4056 PER SHARE PAYABLE 07/01/24 EX DATE 06/28/24	DIVIDEND	711.88	
09/30/24		DIVIDEND ON 1,755.136 SHS VANGUARD SMALL CAP INDEX ADMIRAL FUND #548 AT .3376 PER SHARE PAYABLE 09/30/24 EX DATE 09/27/24	DIVIDEND	592.53	
12/24/24		DIVIDEND ON 1,755.136 SHS VANGUARD SMALL CAP INDEX ADMIRAL FUND #548 AT .4329 PER SHARE PAYABLE 12/24/24 EX DATE 12/23/24	DIVIDEND	759.80	
03/25/24		VANGUARD 500 INDEX ADMIRAL FD 540 DIVIDEND ON 2,914.838 SHS VANGUARD 500 INDEX ADMIRAL FD 540 AT 1.543 PER SHARE PAYABLE 03/22/24 EX DATE 03/22/24	DIVIDEND	4,497.59	
07/01/24		DIVIDEND ON 2,914.838 SHS VANGUARD 500 INDEX ADMIRAL FD 540 AT 1.7842 PER SHARE PAYABLE 07/01/24 EX DATE 06/28/24	DIVIDEND	5,200.65	
09/30/24		DIVIDEND ON 2,914.838 SHS VANGUARD 500 INDEX ADMIRAL FD 540 AT 1.6385 PER SHARE PAYABLE 09/27/24 EX DATE 09/27/24	DIVIDEND	4,775.96	
12/24/24		DIVIDEND ON 2,914.838 SHS VANGUARD 500 INDEX ADMIRAL FD 540 AT 1.7392 PER SHARE PAYABLE 12/23/24 EX DATE 12/23/24	DIVIDEND	5,069.49	
		TOTAL DIVIDENDS		65,548.78	0.00
		TOTAL RECEIPTS		70,204.01	0.00
		CASH DISBURSEMENTS TO OR FOR CUSTOMER			
12/20/24		ACH DISTRIBUTION TO JPMORGAN CHASE CHECKING ACCT # XXXXX1517	DISBURSEMENT	60,000.00-	
		TOTAL TO OR FOR CUSTOMER		60,000.00-	0.00
		FEES			
01/18/24		TRUSTEE FEE ALERUS FINANCIAL NA FOR THE PERIOD 01/01/24 TO 03/31/24	DISBURSEMENT	3,928.18-	
04/16/24		TRUSTEE FEE ALERUS FINANCIAL NA FOR THE PERIOD 04/01/24 TO 06/30/24	DISBURSEMENT	3,984.40-	
07/17/24		TRUSTEE FEE ALERUS FINANCIAL NA FOR THE PERIOD 07/01/24 TO 09/30/24	DISBURSEMENT	4,007.95-	

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ACCOUNT NUMBER: 1050615699

STATEMENT PERIOD: JANUARY 01, 2024 THROUGH DECEMBER 31, 2024

TRANSACTION DETAIL ( CONTINUED )

DATE	QUANTITY	DESCRIPTION	TRANSACTION TYPE	CASH	COST BASIS
10/16/24		TRUSTEE FEE ALERUS FINANCIAL NA FOR THE PERIOD 10/01/24 TO 12/31/24	DISBURSEMENT	4,164.13-	
TOTAL FEES				16,084.66-	0.00
TOTAL CASH DISBURSEMENTS				76,084.66-	0.00
SALES/MATURITIES					
NET CASH MANAGEMENT					
12/31/24	5,880.650-	ALERUS FINANCIAL MMKT NET WITHDRAWAL ALERUS FINANCIAL MMKT	NET CASH MGMT	5,880.65	5,880.65-
TOTAL NET CASH MANAGEMENT				5,880.65	5,880.65-
TOTAL SALES/MATURITIES				5,880.65	5,880.65-
12/31/24		ENDING BALANCE		0.00	1,929,537.73



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# INDICATOR | JANUARY 2024

## ALERUS WEALTH UPDATE



### 2024: Year of Resilient Growth, Sticky Inflation, and Sturdy U.S. Stocks

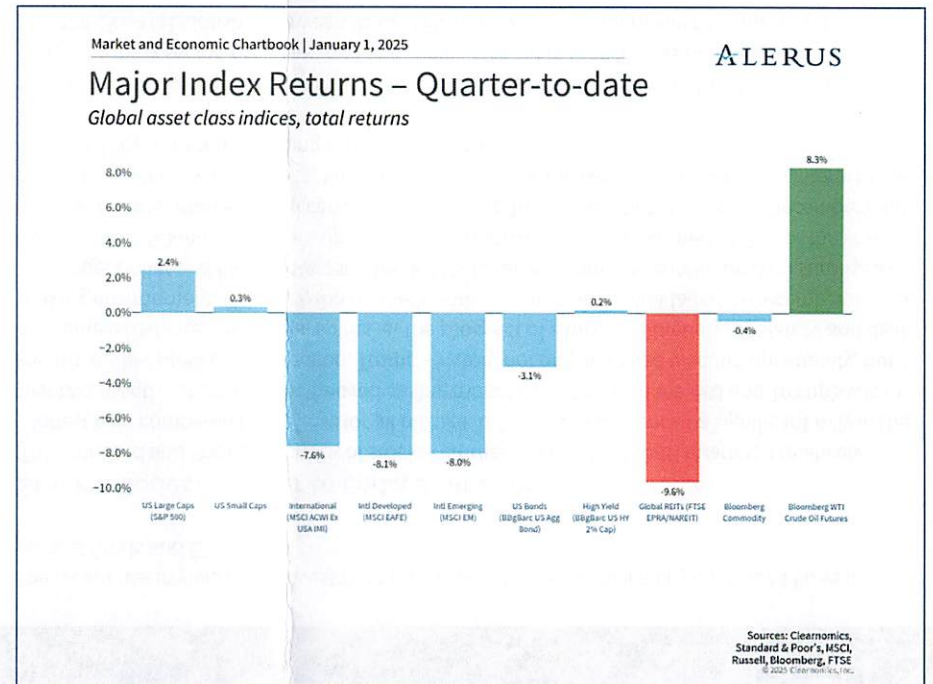
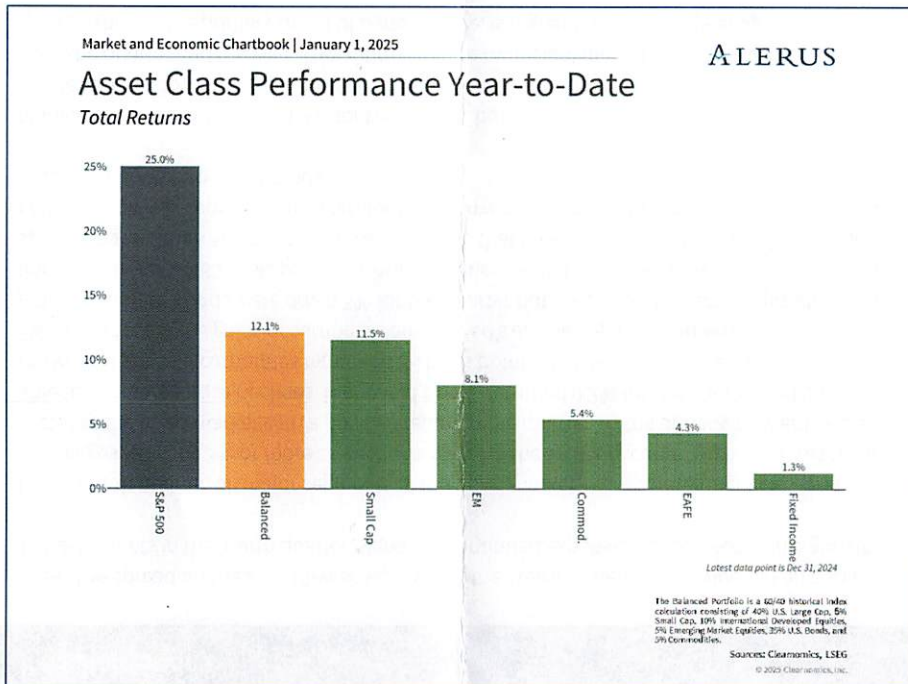
Following a slow first quarter, the U.S. economy showed surprising strength throughout the rest of the year, growing at 3.0% in both the second and third quarters. This economic growth was driven by robust consumer spending, a slowing yet resilient labor market, and significant corporate spending in the technology sector, particularly in areas related to artificial intelligence. As a result of this stronger growth, inflation spiked, prompting the Federal Reserve (Fed) to delay its rate-cutting cycle until September. In 2024, the Fed cut its benchmark rate by 100 basis points, primarily to support a weakening labor market and low-income households struggling with high prices and interest rates. But with inflation remaining persistent and the potential for Trump's policies to reignite it, we expect the Fed to pause its rate-cutting cycle until further data indicates the need for additional cuts.

With growth exceeding expectations and inflation remaining stubborn, the yield on the 10-Year Treasury note rose by 70 basis points, ending the year at 4.58%. This increase occurred despite the Fed's 100 basis point rate cut. Most of the Treasury yield curve is now upward sloping and

normalized, as the market anticipates an imminent soft landing for the U.S. economy. Rising yields led to a third consecutive year of struggling bond returns, with balanced portfolio returns driven primarily by U.S. stocks. The Standard and Poor's 500 index delivered a total return of 25% in 2024, marking the best two-year performance in a quarter century. While U.S. small and mid-cap stocks also delivered strong returns, they underperformed large caps. International stocks, burdened by a strong dollar, underperformed U.S. stocks.

### Bonds: A Challenging Quarter, a Year of Flat Returns

Following a 50-basis points rate cut, the Fed reduced its benchmark rate by another 50 basis points in the fourth quarter, bringing it to 4.25% - 4.5%. Despite this, yields rose across the Treasury yield curve as U.S. economic growth and the labor market proved more resilient, and inflation remained stickier than expected. The yield on the 10-year Treasury note rose 78 basis points, from 3.79% at the beginning of the quarter to 4.57% at the end of the year. The Bloomberg U.S. Aggregate Bond Index fell by 3.1% in the fourth quarter but had a positive return of 1.5% for the full year. Strong income production from bonds helped offset price declines in late



2024. The spread on the 2-to-10-year segment of the Treasury yield curve widened an additional 18 basis points in the fourth quarter, signaling continued expansion of U.S. economic growth.

In the fourth quarter, all major segments of the bond market — corporates, agencies, and mortgages — fell by 3% or more as yields rose across the Treasury curve. High yield was the only sector of the bond market with a positive return in the quarter, as the underlying yields were able to overcome price declines. High-yield bonds returned 0.2% for the quarter and 8.2% for the year. High yield corporates tightened 36 basis points in 2024, delivering excess returns of 5%, with most of the gains occurring before the Fed’s easing began in September. Investment grade corporate bonds were down 3% for the quarter but up 2% for the year. Corporate spreads finished the year at 80 basis points, having tightened by 19 basis points over the year. Corporate spreads tighter than +80 basis points are at levels that have not occurred since 2005. Spread compression was supported by a resilient economy, strong issuer fundamentals, and continued industry inflows into credit funds.

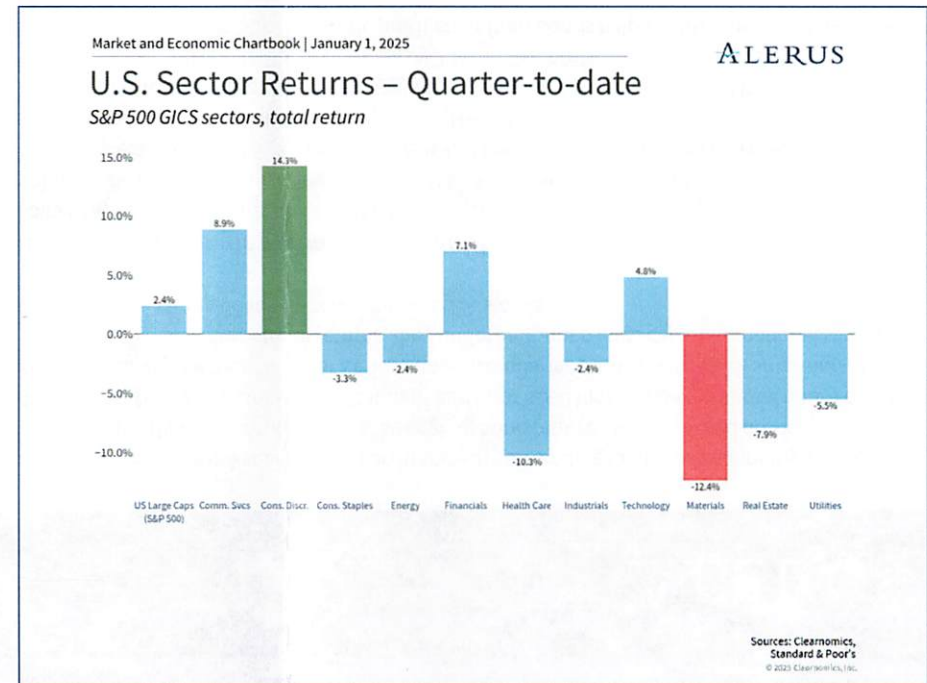
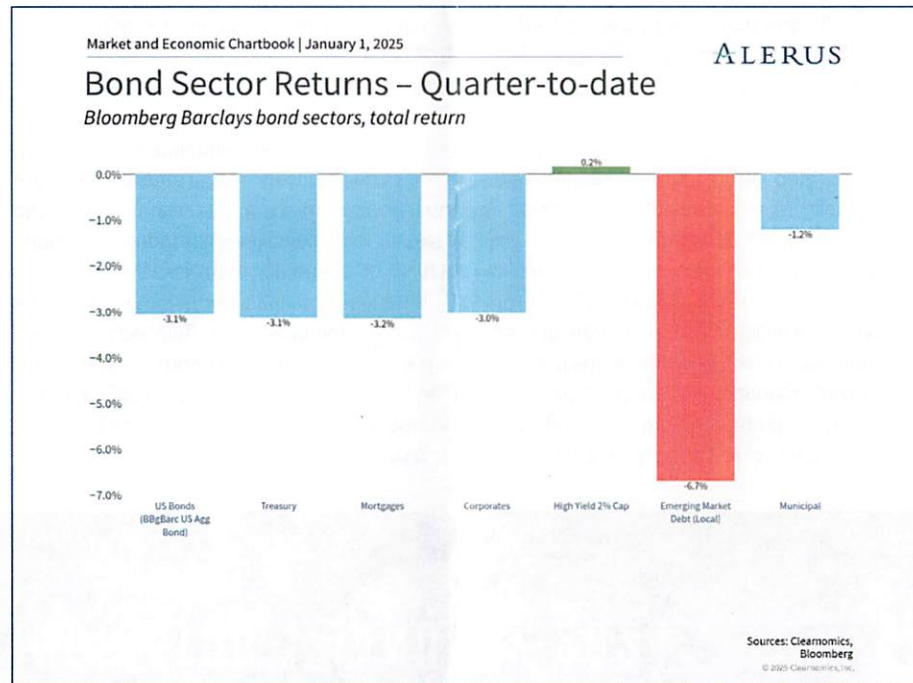
Municipal bonds were down 1.4% for the quarter but up 1% for the year. The fourth quarter rise in rates pulled down full year results. Short-term maturities outperformed longer maturities for both the quarter and the year. The outlook for the municipal market in 2025 is favorable. Income (yield), which is the primary driver of performance, is higher than it was a year ago thanks to

the recent rise in yields. The investment backdrop is further enhanced by continued flows into mutual funds and ETFs.

### Stocks: Modest Quarter to End a Banner Year

The Standard and Poor’s 500 index of stocks returned 2.4% in the fourth quarter; a relatively modest gain compared to the 25% for all of 2024. U.S. stocks experienced a significant rally in the first two months of the quarter, buoyed easing monetary policy from the Fed and Trump’s win in the November presidential election. Trump’s victory not only removed election uncertainty, but also unleashed investor ‘animal spirits’ at the prospect of a business-friendly regulatory and deal-making environment. However, the market’s enthusiasm in November faded in December due to a stronger dollar and higher interest rates as U.S. labor, economic, and inflation data surprised to the upside. U.S. small caps were up 0.3% in the fourth quarter and returned 11.5% for the year. Like the broader market, small caps rallied following Trump’s win but slumped in December after the Fed signaled fewer rate cuts. Small caps tend to be more sensitive to changes in interest rates because they have more floating-rate debt than their large-cap peers.

Sector leadership changed significantly in the fourth quarter. Consumer discretionary was the top performing sector, propelled by Tesla, which rose more than 50% as markets speculated that the close relationship between its CEO Elon Musk and President elect Trump would



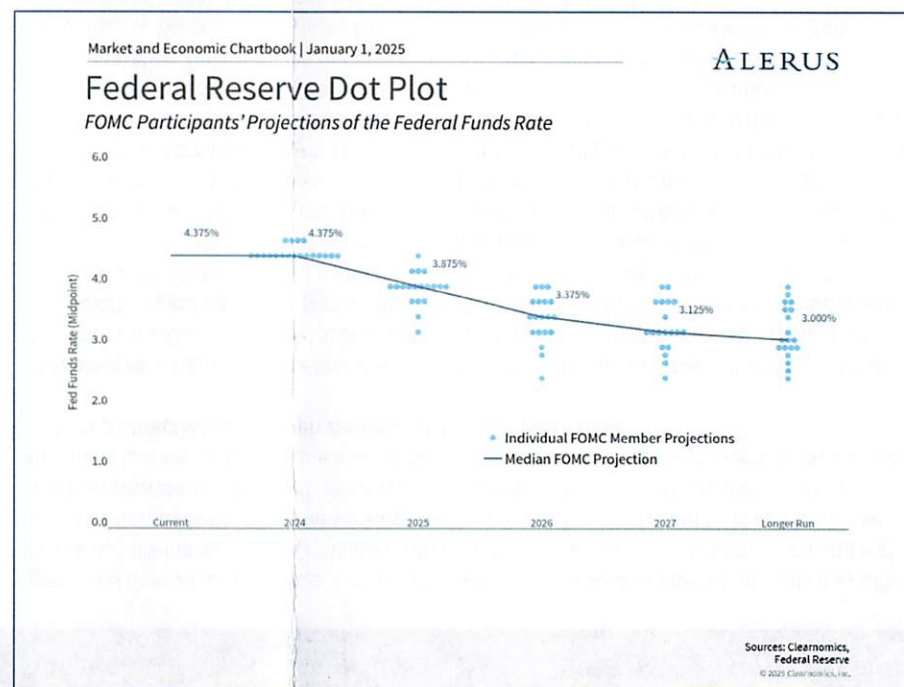
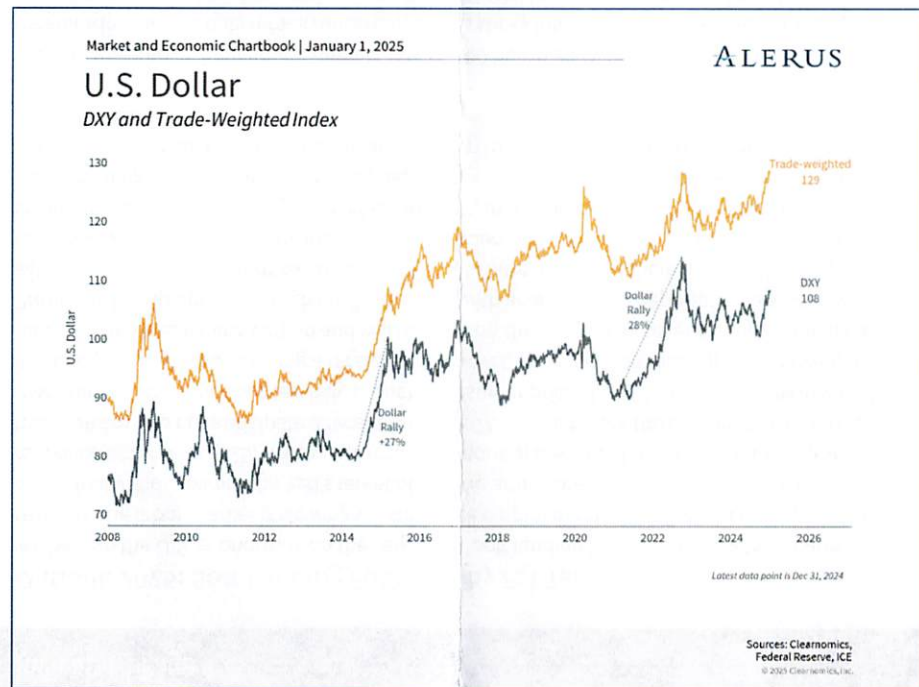
benefit the company. The financial sector was the second-best performing sector as markets priced an easier regulatory environment for banks and a better environment for mergers and acquisitions. Interest rate-sensitive industries such as real estate, housing, and utilities declined. Interestingly, healthcare, which was thought to be less tied to election results than in prior cycles, was a significant underperformer due to political headwinds. While enhanced scrutiny on vaccine manufacturers was anticipated, additional subsectors including pharmacy benefit managers (PBM) and managed care organizations (MCO) were caught in the crosshairs of the new administration. Despite expectations for improving economic growth, materials was the worst-performing sector, hurt by the same forces as emerging markets: a more hawkish Fed and tariff fears. Lastly, energy was down in the quarter despite oil being the best performer among global asset classes. Energy's weakness was attributed to higher projected oil supply driven by a more favorable regulatory environment, which pressured future oil pricing.

In the fourth quarter of 2024, international stocks fell by high single digits due to a strong U.S. dollar and concerns among market participants about the impact of Trump's policies on international economies. International markets also struggled with ongoing economic stagnation, compounded by negative impacts from a stronger dollar and the likelihood of higher U.S. tariffs. Last quarter's surge in Chinese equities reversed due to a multitude of structural headwinds. Excess housing units and production capacity have led to a significant debt burden

and deflation in China. Chinese overcapacity also hurts the European Union's export-led model. China faces well known demographic challenges impacting economic growth. These demographic woes are exacerbated by a two-tier system that has long made rural workers leave offspring behind in villages, cutting into projected birthrates. Emerging markets were also down in the fourth quarter, hampered by a stronger dollar and the likelihood of higher tariffs, both of which are inversely correlated with commodity prices. While an improved U.S. economy should be positive for commodities in the long term, a more hawkish Fed keeping interest rates higher for longer and increased tariffs are adversely impacting commodities in the near term.

### Currencies: King Dollar

The U.S. dollar wrapped up one of its best quarters and an epic year, rising almost 8% against a basket of currencies. The currency benefited significantly from the American economy growing faster than most large and developed world economies. While most of Europe appears stuck in a rut and China struggles to contain the fallout from its property meltdown., the Fed's hesitancy to cut interest rates in the face of sticky inflation and the potential impact of policies of the incoming Trump administration added to the dollar's strength in the fourth quarter. Emerging market currencies struggled the most against the dollar, with the Mexican peso falling 20% and the Brazilian real down 30% in 2024.



### Outlook 2025: Soft Landing Followed by Fat Tails

We believe the U.S. economy is on the verge of a “soft landing.” Economic growth remains resilient, the labor market is slowing yet still at full employment and inflation is sticky but likely to gradually slide toward the Fed’s target of 2%. We anticipate the Fed to cut its benchmark rate once or twice in 2025, which may result in a normal upward-sloping yield curve – a sign that investors do not anticipate a recession soon. This would mark the culmination of the Fed’s monetary policy, which successfully brought consumer prices from their highs of 9% in 2022 to its target of 2% without causing a recession. However, once the “soft landing” is achieved, the outlook becomes far less certain and will depend on the substance, severity, and sequencing of President Trump’s policies. High tariffs, coupled with an aggressive deportation agenda, would act as significant headwinds to equity and fixed income markets if there are no offsetting efforts. Conversely, policies advancing industry deregulation and scrutinizing overall government spending would have the opposite effect. In short, much will depend on the policy direction the upcoming administration chooses. Depending on their impact, a wide range of potential outcomes – from an uptick in growth and inflation to an economic slowdown or even a recession – are possibilities.

The Fed lowered its benchmark interest rate by 100 bps in 2024. However, the timing and magnitude of future cuts remain uncertain due to sticky inflation and resilient economic growth and labor market. Huge fiscal deficits and the potential impact of Trump’s policies have also caused term premiums to move higher. We anticipate a continued trend toward normalization of the yield curve slope, to a steeper structure through lower short-term rates and more stable but higher long-term yields. We believe government-backed mortgages are attractive and are overweight in this sector. The sector has wider-than-average spreads, no credit risk, and limited issuance given high rates and low refinance activity. Low demand from banks and the Fed, historically two of the largest holders of mortgages, has pushed spreads wider. We believe the spread widening presents an attractive opportunity for investors. Our mortgage overweight is funded by an underweight to the U.S. Treasury sector. We are also overweight in investment-

grade and high-yield corporates. Economic growth accompanied by interest rate cuts may offer a favorable tailwind for credit. Combined with attractive yields, investment-grade credit and high-yield bonds may benefit income-seeking investors. Spreads are tight, but yields are attractive and may provide investors with reasonable returns. We anticipate the favorable backdrop of the municipal sector to continue in 2025. Several factors are driving the demand for municipals, including attractive yields when viewed on a tax-equivalent basis.

Corporate earnings will take center stage this quarter as companies provide their first full-year guidance for 2025. Market participants will focus intensely on forward-looking commentary, particularly regarding margin preservation, pricing power, and labor cost trends. Investors also remain watchful for any sign of a broadening of equity returns away from the longstanding, but narrow, outperformance of large, well-capitalized technology companies. The incoming administration’s policies are also a key variable. The impact of these policies will not only drive the overall performance of the stock market but also determine which sectors and industries will outperform the broader market. The pursuit of artificial intelligence by those large companies, as they race for a competitive advantage, remains the dominant theme of equity markets. Notably, the high costs to scale of artificial intelligence preclude all but the largest technology companies from competing, underpinning our preference for large, capitalized companies over their smaller counterparts. We continue to favor stocks in the technology and communications sectors, along with financial stocks, which may benefit from a better regulatory and deal-making environment. A strong dollar makes it challenging for U.S. investors to invest in international markets, and we continue to favor domestic equities.

### Risks

- Trump policies lead to higher inflation
- Fed raising rates drives the economy into a recession
- Middle East war broadens



**Sunil Swami**  
Chief Investment Officer

Alerus Financial, N.A.

Sources: FactSet, Jefferies, Morning Star, Morgan Stanley, Goldman Sachs, Wall Street Journal, Bloomberg, Financial Times

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