



MODEL UPDATE: JANUARY 2, 2025

The beginning of the year is a time of reflection. Last month, we penned our [2025 Outlook](#). For those new to 3Fourteen Research, our service breaks down into two large components. The first is our strategy work. These reports are long-form thought pieces. Of course, we always remain data-driven in our analysis. But, ultimately, our strategy recommendations—whether asset allocation or stock picks—are discretionary. The second broad component is the 3Fourteen model suite. We review models and provide our thoughts on the underlying drivers every other week in these Model Update reports. Today, we review how our models performed in 2024 and update their positioning heading into 2025. To begin, our Real Asset Allocation Model (RAAM) returned 19% in 2024, beating 60/40 by almost 400 bps. Heading into January, the RAAM has again dialed up a massive equity overweight (66% vs 50% benchmark). Both alternatives (11% vs 20% benchmark) and fixed income (23% vs 30% benchmark) are underweight.

CORE RAA

DEC 31, 2024

Alternatives	11%
Equities	66%
Fixed Income	23%

SIMPLE RAA

DEC 31, 2024

Alternatives	9%
Equities	64%
Fixed Income	27%

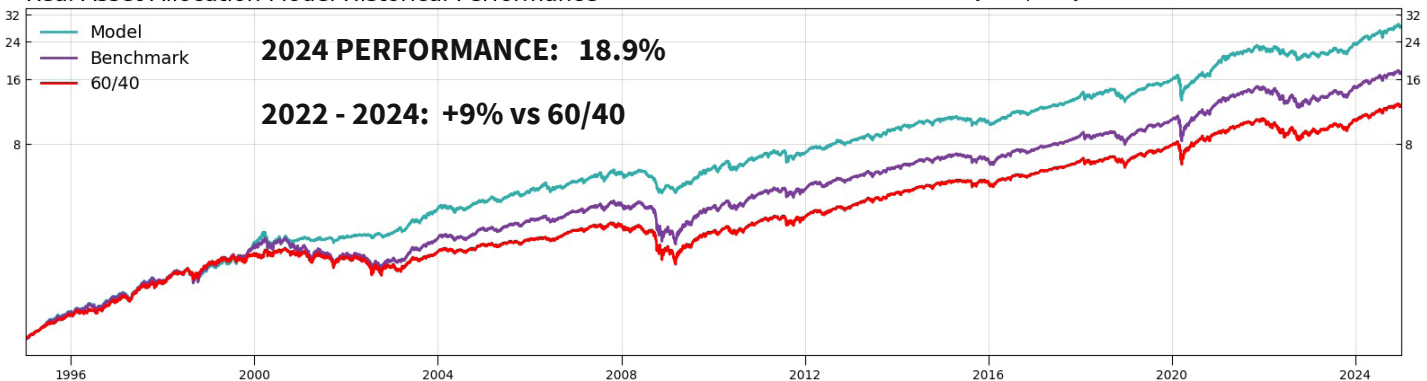
FULL-CYCLE TREND

DEC 31, 2024

APD	CTAS	FICO	LDOS	ORCL	SHW
MTD	MPWR	KLAC	GOOGL	AMAT	AAPL

Real Asset Allocation Model Historical Performance

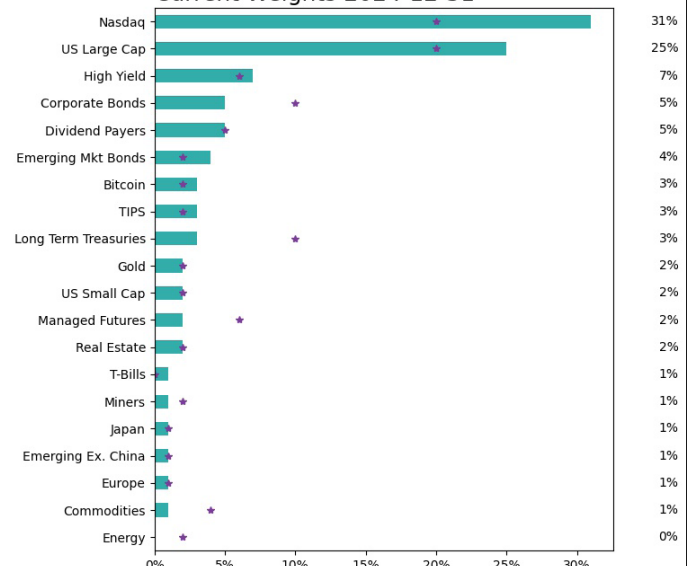
Daily Frequency 1995-01-02 to 2024-12-31



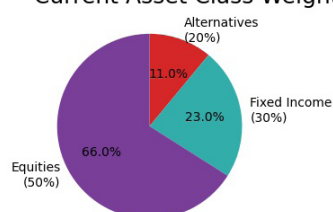
Performance Metrics

Metric	Real AA	Benchmark	60/40
Annual Return	11.74%	9.91%	8.63%
Sharpe Ratio	1.14	0.87	0.79
Ann Stdev	9.84%	11.17%	10.90%
Max Drawdown	-23.63%	-37.14%	-35.81%
MTD Return	-1.82%	-2.32%	-2.09%
YTD Return	18.85%	15.02%	15.03%

Current Weights 2024-12-31



Current Asset Class Weights





REAL ASSET ALLOCATION

MODEL UPDATE

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Asset	Related Tickers	Benchmark	Dec 31 (Official)	Nov 29	Oct 31	Max Wgt
Alternatives		20%	11%	22%	21%	
Bitcoin	BITO, GBTC	2%	3%	3%	3%	3%
Commodities	PDBC, GSG	4%	1%	4%	3%	16%
Energy	XLE	2%	0%	4%	3%	10%
Gold	GLD	2%	2%	4%	3%	10%
Managed Futures	DBMF, CTA	6%	2%	4%	4%	16%
Miners	PICK	2%	1%	1%	3%	10%
Real Estate	USRT	2%	2%	2%	2%	16%
Equities		50%	66%	56%	61%	
Dividend Payers	SDY, NOBL	5%	5%	4%	7%	10%
Emerging Ex. China	EMXC	1%	1%	2%	2%	10%
Europe	IEV	1%	1%	1%	2%	10%
Japan	EWJ	1%	1%	1%	1%	10%
Nasdaq	QQQ	20%	31%	26%	23%	40%
US Large Cap	SPY	20%	25%	20%	24%	40%
US Small Cap	IWM	2%	2%	2%	2%	10%
Fixed Income		30%	23%	22%	18%	
Corporate Bonds	LQD	10%	5%	5%	4%	30%
Emerging Mkt Bonds	EMB	2%	4%	4%	3%	10%
High Yield	JNK, HYG	6%	7%	8%	5%	20%
Long Term Treasuries	TLT	10%	3%	1%	3%	40%
T-Bills	BIL	0%	1%	1%	1%	20%
TIPS	TIP	2%	3%	3%	2%	40%

Over benchmark weight Under benchmark weight

SIMPLE RAA

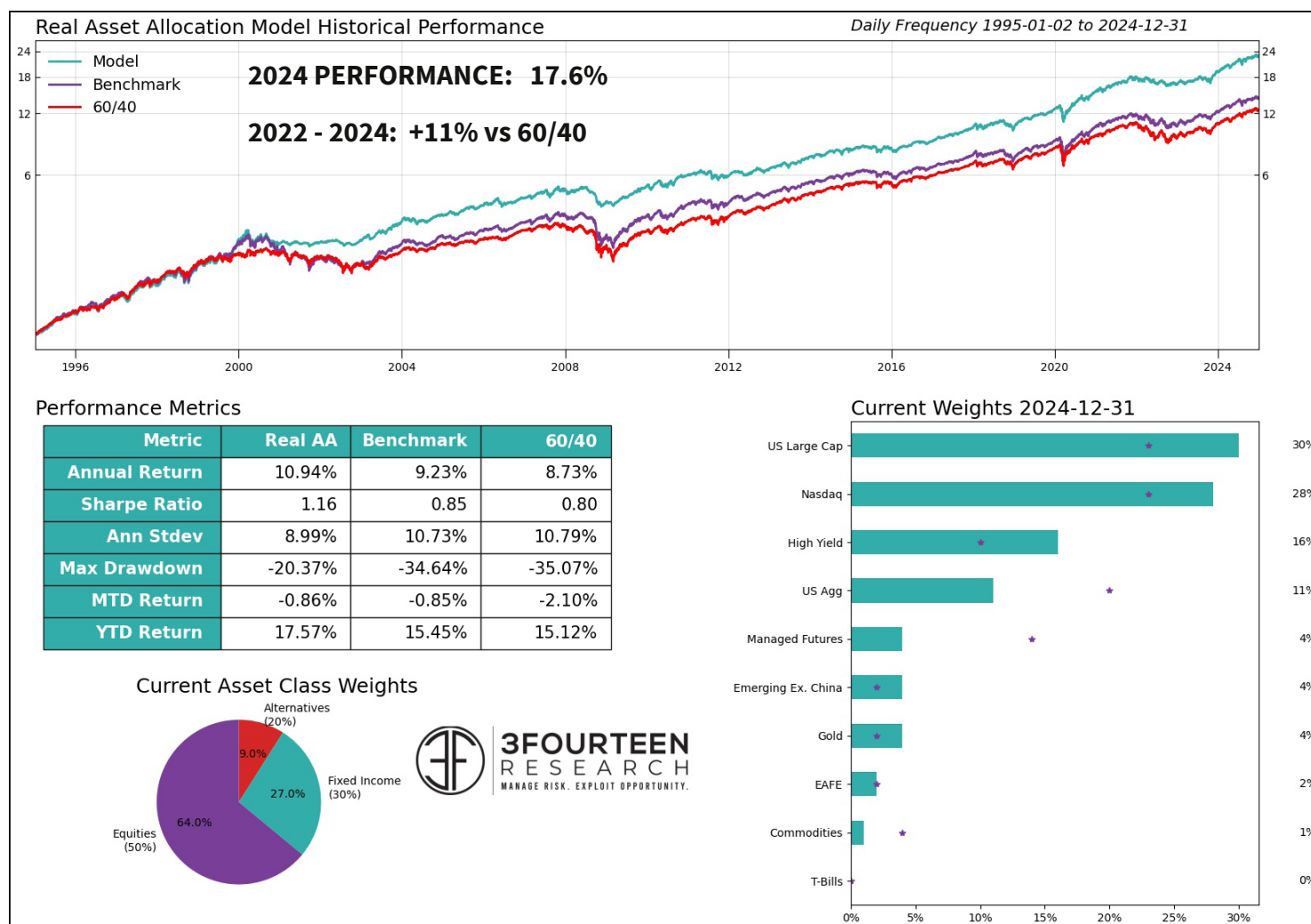
MODEL UPDATE

JANUARY 2, 2025

For clients who want to minimize turnover, the Simple RAAM utilizes 10 assets instead of 20 and runs on a quarterly rebalance schedule instead of monthly. To be clear, if you can stomach the turnover, we believe a larger asset menu and more frequent rebalancing is a superior option for today's investing environment. In 2024, the Simple RAAM returned 17.6% (130 bps below Core RAAM). Notably, the benchmark weight of each model (i.e. a static portfolio of assets held constant in the prescribed benchmark weights) performed in line with 60/40. Therefore, the entire 2024 outperformance came from our trend and risk parity overlay. Zooming out, both versions of the RAAM have beaten 60/40 by ~10% over the past three years (2022 through 2024). For January, the Simple RAAM is positioned similarly to the Core RAAM with a large equity overweight, 64% vs 50% benchmark. The Simple RAAM is even more negative on alternatives (9% weight with very little commodity exposure outside of gold). Fixed income is closer to a benchmark weighting (27%).

Asset	Benchmark	Dec 31 (Official)
Alternatives	20%	9%
Commodities	4%	1%
Gold	2%	4%
Managed Futures	14%	4%
Equities	50%	64%
EAFE	2%	2%
Emerging Ex. China	2%	4%
Nasdaq	23%	28%
US Large Cap	23%	30%
Fixed Income	30%	27%
High Yield	10%	16%
T-Bills	0%	0%
US Agg	20%	11%

Over benchmark weight Under benchmark weight





SIMPLE RAA

MODEL UPDATE

JANUARY 2, 2025

Asset	Related Tickers	Benchmark	Dec 31 (Official)	Sep 30	Jun 28	Max Wgt
Alternatives		20%	9%	15%	13%	
Commodities	PDBC	4%	1%	2%	2%	20%
Gold	GLD	2%	4%	4%	6%	20%
Managed Futures	DBMF	14%	4%	9%	5%	20%
Equities		50%	64%	50%	56%	
EAFE	IEV	2%	2%	2%	6%	20%
Emerging Ex. China	EMXC	2%	4%	2%	2%	20%
Nasdaq	QQQ	23%	28%	25%	28%	40%
US Large Cap	SPY	23%	30%	21%	20%	40%
Fixed Income		30%	27%	35%	31%	
High Yield	JNK	10%	16%	14%	17%	20%
T-Bills	BIL	0%	0%	0%	0%	10%
US Agg	AGG	20%	11%	21%	14%	40%

Over benchmark weight

Under benchmark weight

SECTOR ROTATION

MODEL UPDATE

JANUARY 2, 2025

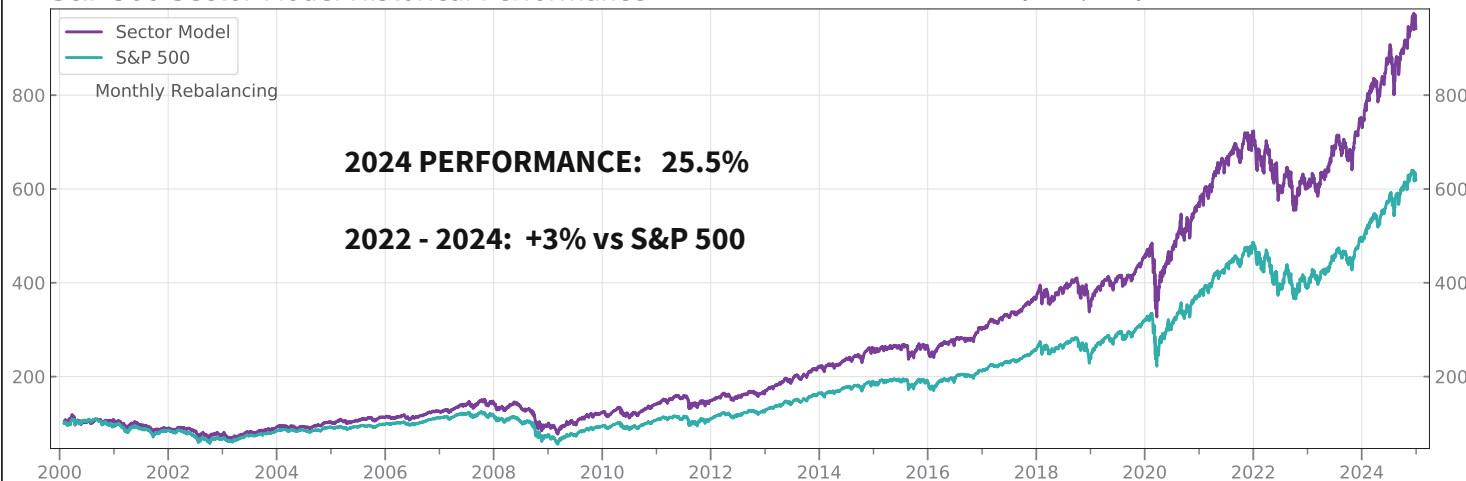
The Sector Rotation Model returned 25.5% in 2024. For two years now, the Model has stayed on the right side of the major trend of being overweight Tech and underweight a revolving door of lagging sectors. Again, if we zoom out and view the Model's three-year performance, it is up by 31.4% (ahead of the S&P 500 by 300 bps). Our goal for the Sector Rotation Model is to beat the market by a modest 100-250 bps per year by tilting into sector strength. During a rough period of sector volatility, the Model has performed well. For January, it is pairing the Tech and Comm Service overweight with Financials and Discretionary sectors. Health Care, Industrials, and Staples are the largest underweights. Despite favorable seasonality, every sector besides Comm, Discretionary, and Tech was lower in December.

SECTOR	TREND (TB)	FLWS	TACTICAL ML	TOTAL	BENCHMARK WGT	MODEL WGT	ACTIVE WGT
Tech	3	0	0	3	31.7%	45.3%	13.6%
Financials	2	1	0	3	13.3%	19%	5.7%
Discretionary	3	1	1	5	11.7%	16.7%	5%
Communication	3	1	1	5	9.6%	13.8%	4.2%
Materials	0	0	1	1	1.9%	0.3%	-1.6%
Real Estate	0	0	0	0	2.1%	0.3%	-1.8%
Utilities	1	0	0	1	2.3%	0.4%	-1.9%
Energy	0	0	0	0	3.2%	0.5%	-2.7%
Staples	0	0	0	0	6.1%	1%	-5.1%
Industrials	0	0	0	0	8.1%	1.3%	-6.8%
Health Care	0	0	0	0	10.1%	1.6%	-8.5%

■ Sector Overweight
 ■ Sector Underweight

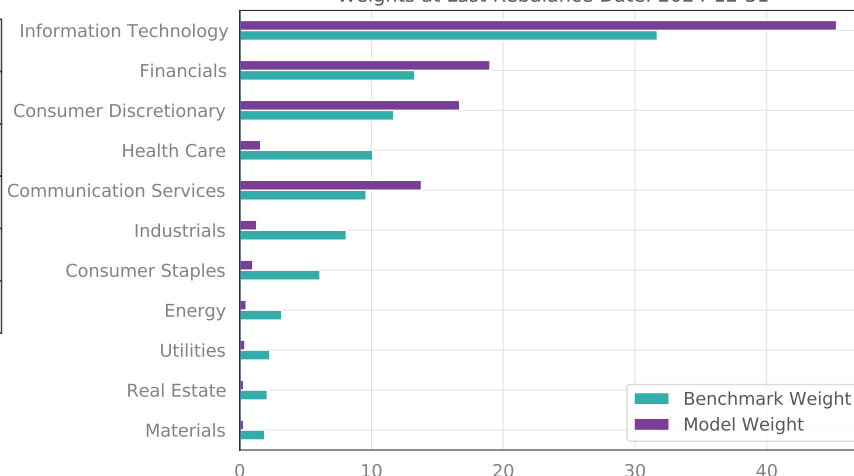
S&P 500 Sector Model Historical Performance

Daily Frequency 2000-01-31 to 2024-12-31



Weights at Last Rebalance Date: 2024-12-31

Metric	Sector Model	S&P 500
Annual Return	9.41%	7.58%
Sharpe Ratio	0.57	0.48
Ann Stdev	19.14%	19.32%
Max Drawdown	-48.86%	-55.32%
Longest Drawdown	2367 Days	2263 Days



FULL-CYCLE TREND

MODEL UPDATE

JANUARY 2, 2025

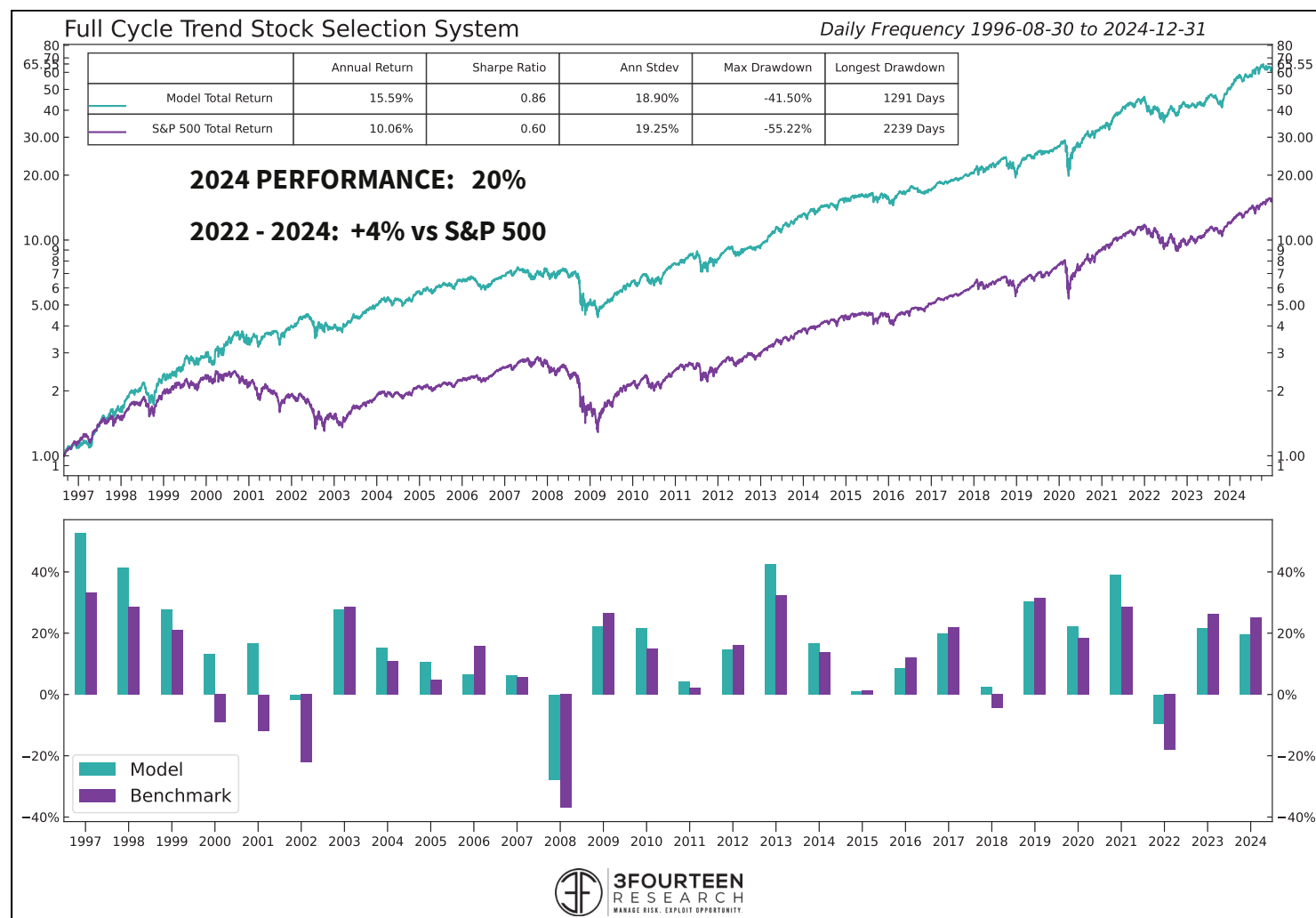
In 2024, the Full-Cycle Trend stock selection model returned ~20%. FCT trailed the cap-weighted S&P 500 by 550 bps, but beat the equal-weighted S&P 500 by 700 bps. As a reminder, [the FCT strategy equally weights 20 high-quality equities and rebalances monthly](#). Overall, 2024 was not a disaster for the Model. However, it ended on a rough note. In Q4, FCT fell by more than 6% and underperformed the S&P 500 by more 900 bps. This marks the worst relative performance quarter for the strategy ever! There is a silver lining. Historically, the strategy has rebounded in the three months directly following a negative quarter (+5.5% on average in the subsequent quarter) with a ~70% positive rate. In short, buying the pullback of a quality-based system is generally a good move. For January, FCT has sold the bounce of MPWR, AAPL and GOOGL. Trends in MTD, KLAC and AMAT deteriorated enough to move them out of the portfolio. New additions include APD, CTAS, FICO, LDOS, ORCL, and SHW.

FCT BUYS & SELLS

TICKER	COMPANY	SECTOR
APD	Air Products and Chemicals Inc	Materials
CTAS	Cintas Corp	Industrials
FICO	Fair Isaac Corp	Information Technology
LDOS	Leidos Holdings Inc	Industrials
ORCL	Oracle Corp	Information Technology
SHW	Sherwin-Williams Co/The	Materials
MTD	Mettler-Toledo International Inc	Health Care
MPWR	Monolithic Power Systems Inc	Information Technology
KLAC	KLA Corp	Information Technology
GOOGL	Alphabet Inc	Communication Services
AMAT	Applied Materials Inc	Information Technology
AAPL	Apple Inc	Information Technology

Buys

Sells





CRUDE MODEL

MODEL UPDATE

JANUARY 2, 2025

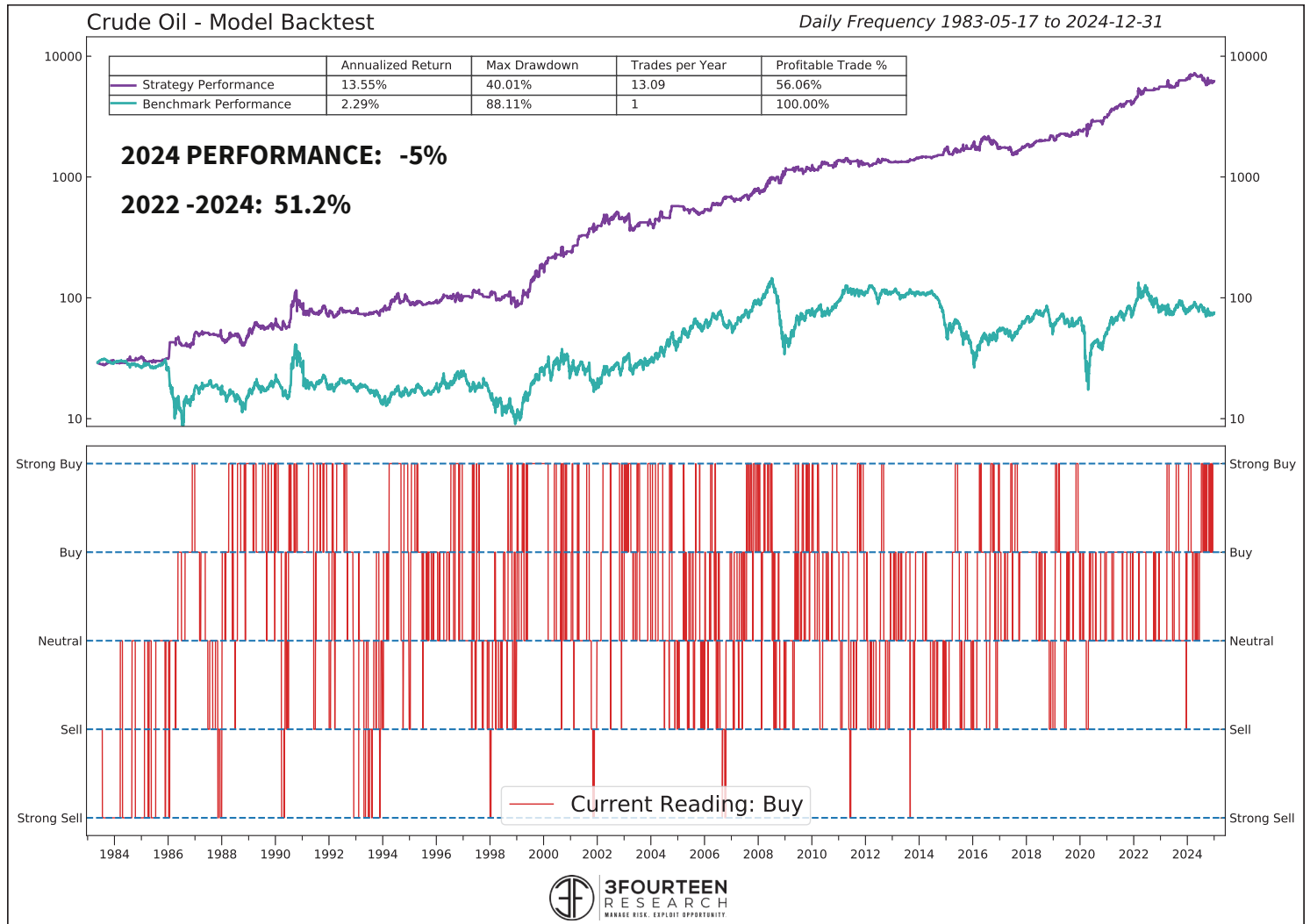
The 3Fourteen Research Core Crude Oil Model ended the year with a negative 5% return, which is roughly in line with the flat crude oil price for 2024. Given that the Model was long for most of the year, this result is not surprising. A static long position is not normal for the Crude Oil Model. From 2022 through 2024, the Model returned 51.2% cumulatively. In comparison, flat crude price is DOWN 2.6% over the same period. So, 2024 was an outlier for the Model. Entering 2025, the Model remains on a BUY. Other than Technicals, all other Model components are on a STRONG BUY (inventories, physical market, and positioning). However, for the past couple of months, we have shied away from following the Model. Our view has been that weak seasonals and the return of OPEC supply could push oil dramatically lower. The Model was not equipped to consider either risk. Now, with the weak seasonal window behind us and OPEC (seemingly) settled on a delayed return of oil to the market, are we ready to get back in line with the Model?

Readings

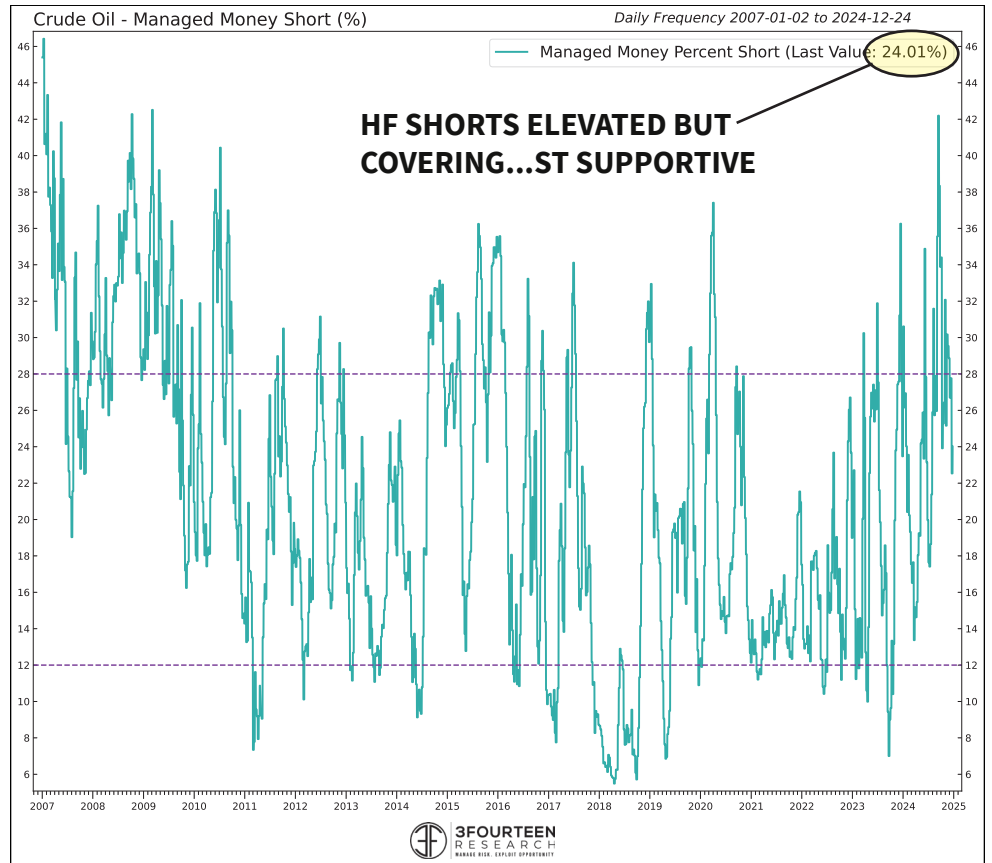
DEC 31, 2024

BUY

Inventories	● STRONG BUY
Physical Market	● STRONG BUY
Positioning	● STRONG BUY
Technicals	● NEUTRAL



In short, we think it is now time to get back to our discipline of following the Model. Our worst fears failed to materialize and there are now a few nascent positive developments taking hold of the narrative. First, on December 30 according to Reuters, Beijing instructed local governments to provide more direct financial relief to people in need. Details are scarce, but this is the kind of fiscal stimulus that could break China out of its balance sheet recession. Second, a polar vortex forecasted for January has pushed up the price of nat gas. This should support heating oil demand through the winter. Finally, the New Year's Eve terrorist attacks could prompt President Trump to retaliate, which, once again, expands geopolitical risk premium. All of this is taking place against the backdrop of extreme hedge fund pessimism.



Crude oil managed money short positioning is now falling from elevated extremes. Technically, oil has been in an extremely tight consolidation for 2.5 months (trading between \$70 and \$75 Brent). With the removal of the negative narratives (OPEC and seasonality), there is a void in the market. Against the backdrop of extreme short positions, any of these new bullish stories could push the price modestly higher. We will watch the Technical component of our model to confirm a more sustainable breakout.

Zooming out, our view is that oil is likely to remain rangebound. The range may expand to the upside early in 2025 as positioning normalizes. However, Dollar strength lurks as the next major bearish catalyst. 2025 is unlikely to provide a sustainable move in either direction for oil.



GOLD MODEL

MODEL UPDATE

JANUARY 2, 2025

The 3Fourteen Research Core Gold Model returned only a little more than 3% for the year. With gold up 29% in 2024, this performance is more than disappointing. It does reiterate a lesson we learned long ago when modeling the yellow metal: [Gold is a chameleon asset](#). How it moves—and the indicators that call it—depends heavily on the macro regime. The silver lining is that we advised clients to ignore the Model and stay long. Early in the year, many analysts were confounded by gold's rally alongside rising real interest rates. [We looked through the higher real rates and saw a new secular bull](#). Another thing that made 2024 an anomalous year for gold was the strong US Dollar. In the scatter plot below, we compare the calendar year returns for gold and the DXY. Last year was the only on record where gold rallied by >25% and the DXY Index rose by >5% (purple dot). In the face of higher real rates and a US Dollar, gold's powerful 2024 is noteworthy. This behavior is indicative of a secular bull. Investors should stay overweight. Hopefully, our Model gets the message this year.

Readings

DEC 31, 2024

STRONG BUY

Asset Allocation

● NEUTRAL

Positioning

● STRONG SELL

Real Rates

● STRONG BUY

Technicals

● STRONG BUY

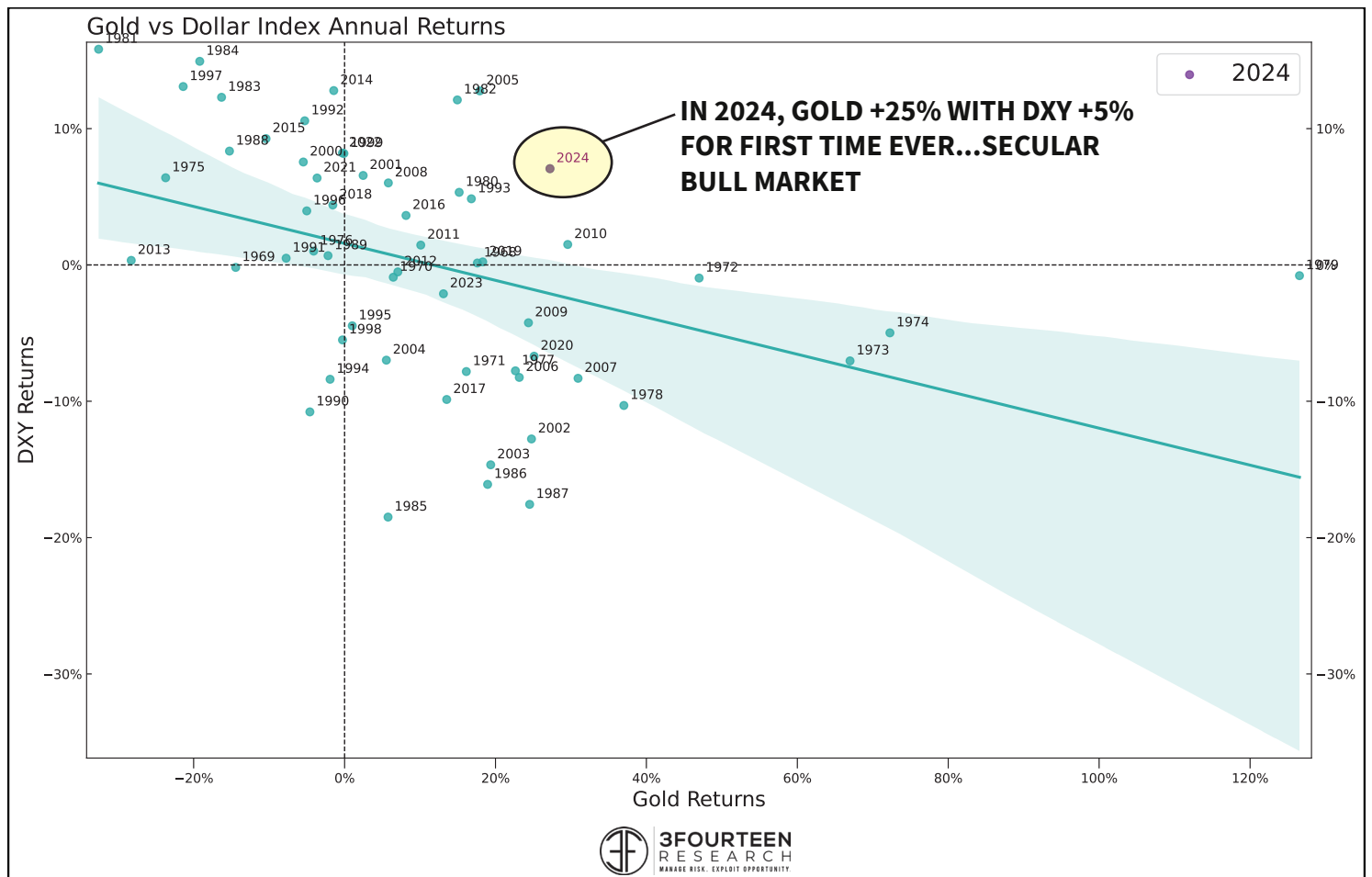




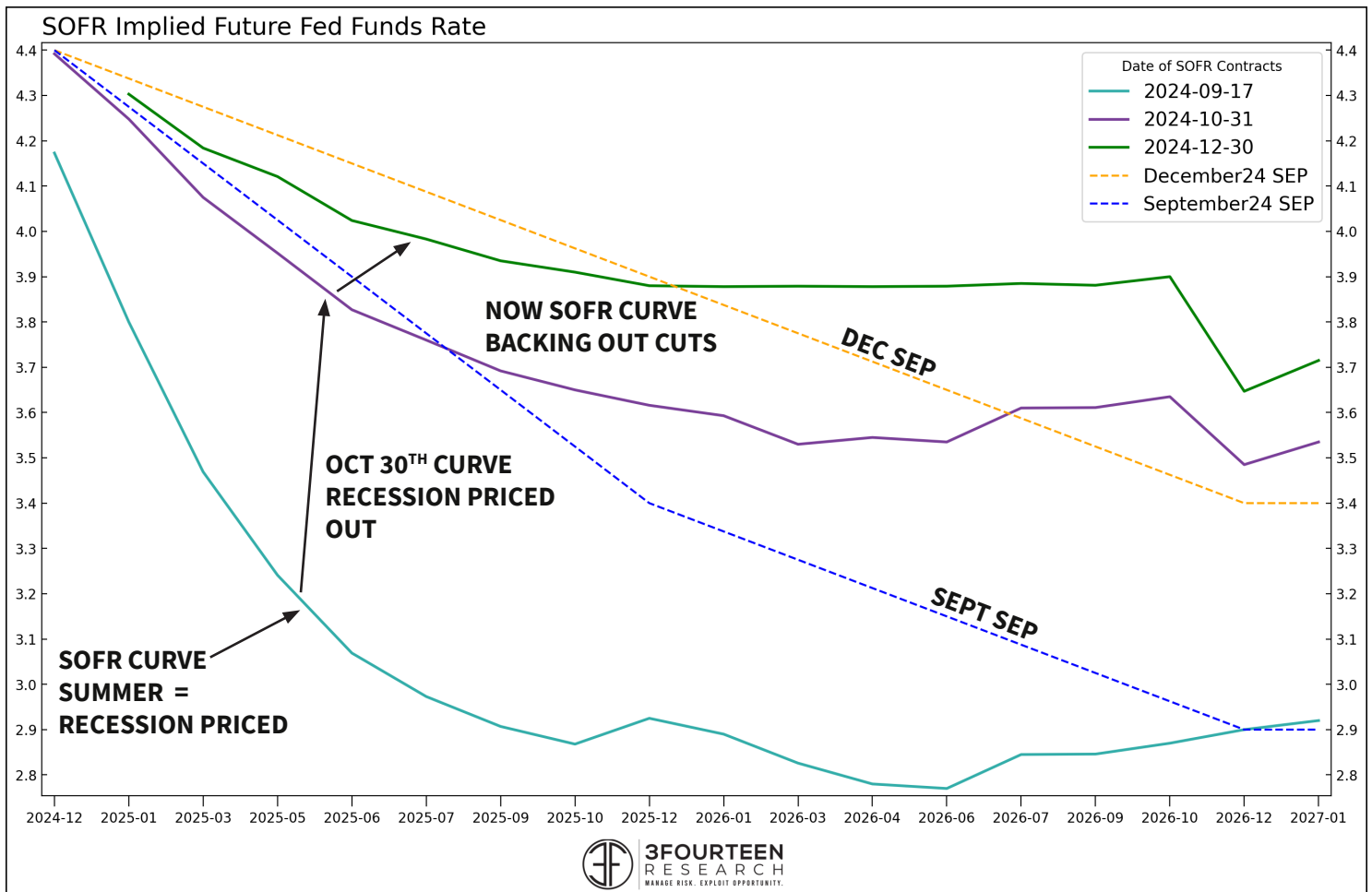
CHART OF THE WEEK

MODEL UPDATE

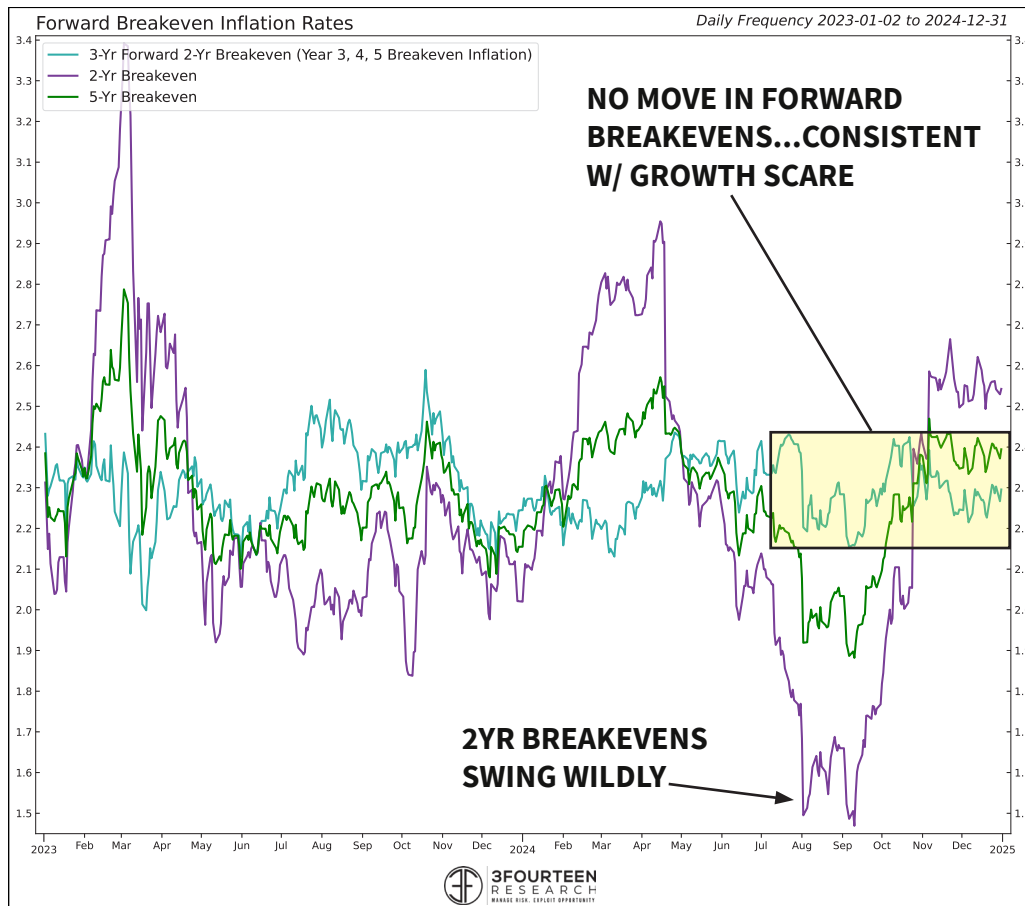
JANUARY 2, 2025

Coming into 2025, there is no more hotly debated question than what is going on with the bond market. Yields bottomed on the day the Fed began cutting and ramped higher in the three months following. How you interpret this bond selloff will dictate your macro view. One, increasingly loud, camp argues that the Fed made a mistake by cutting 50 bps in September. They point to the 100-bp selloff in the 10-year that took place in a straight line from mid-September to late December. In their framework, the post-cut rise in yields is prima facie evidence of a Fed mistake. Some go further and point to the rise in breakeven inflation to support this conclusion. From mid-September, 2-year breakeven inflation has surged by 100 bps (from 1.5% to 2.5%). This camp sees the risk of inflation bubbling back up because the Fed has lost the nerve to fight it. Financial conditions are loose. The economy is overheating. The Fed is not restrictive. We disagree.

The “Fed mistake” thesis ignores initial conditions. By the time the Fed first cut, the market had priced in a high probability of recession. This was evident in the inverted FFR-10Yr and FFR-2Yr yield curves. With the Fed providing its full support to the labor market, this recession trade unwound. This is our mental model to explain the first part of the bond selloff. Then, as the jobs data improved and Trump won the election, the market began to price out some of the cuts included in the SEP. In today’s Chart of the Week, we can see this evolution. Here, we plot the Fed Fund’s Rate implied by SOFR futures through time. Pre-September cut, the SOFR curve expected that the Fed would need to cut rates below 3% by the end of 2025 (signaling high recession probability). By late October, the recession cuts were out of the market (December SOFR implied 3.7% FFR). With the election passing, the curve shifted up to reflect a shallow cut cycle (December SOFR at ~4%).



In the chart to the right, we plot the evolution of the FFR implied by December 2025 SOFR contract. Again, the summer growth scare drove implied yields below 3%. The combination of the Fed and a positive September jobs report (bond selloff stage 1 - chart right - highlight) catalyzed an unwind of the recession trade. The prospect of a Trump presidency and a (consequently) more hawkish Fed pushed the expected December 25 rate up in stage 2. What about inflation expectations? The chart below plots three measures of inflation expectations: 2yr breakevens (months 1-24 purple line), 5yr breakevens (months 1-60 green line), and the 3yr forward 2yr breakevens (inflation expectations contained in months 25 to 60). Notice the powerful move in 2yr breakevens came from a depressed (i.e. recessionary) level. On the other hand, the 3y forward, 2y breakevens remained constant throughout this crisis.



In short, all of the inflation action has occurred in the very short-term part of the curve. First came the deflation expected in a growth scare, then came the reflationary rebound as the market normalized. Structural inflation expectations have barely moved. In short, this market action is in line with our view that the bond selloff is primarily due to the unwind of recession bets.

Going forward, the inflation and jobs data will dictate Fed moves and SOFR pricing. As laid out in our [2025 Outlook](#), we believe that by the end of Q1, the market will be back to worrying about a growth scare. Housing data is softening and will be the canary in the coal mine. Simultaneously, shelter disinflation should provide a tailwind to inflation data. Bottom Line: Despite the consensus, now is not the time to get bearish bonds.

FULL-CYCLE TREND: CURRENT HOLDINGS (1/2/2025)

TICKER	DATE	COMPANY	SECTOR	RANKING	% CHANGE	S&P 500 % CHG
PHM	2023-08-31	PulteGroup Inc	Consumer Discretionary	4	34.2%	32.9%
META	2024-04-30	Meta Platforms Inc	Communication Services	20	36.5%	17.9%
GD	2024-06-28	General Dynamics Corp	Industrials	19	-8.3%	8.4%
NTAP	2024-07-31	NetApp Inc	Information Technology	15	-8.2%	7.1%
BRO	2024-09-30	Brown & Brown Inc	Financials	7	-1.4%	2.4%
CL	2024-09-30	Colgate-Palmolive Co	Consumer Staples	17	-12.0%	2.4%
RMD	2024-09-30	ResMed Inc	Health Care	12	-6.1%	2.4%
HCA	2024-10-31	HCA Healthcare Inc	Health Care	14	-16.2%	3.3%
MMM	2024-10-31	3M Co	Industrials	16	1.0%	3.3%
TT	2024-10-31	Trane Technologies PLC	Industrials	5	-0.0%	3.3%
ANET	2024-11-29	Arista Networks Inc	Information Technology	18	8.9%	-2.4%
LMT	2024-11-29	Lockheed Martin Corp	Industrials	13	-7.6%	-2.4%
NVR	2024-11-29	NVR Inc	Consumer Discretionary	10	-11.4%	-2.4%
PM	2024-11-29	Philip Morris International Inc	Consumer Staples	11	-8.5%	-2.4%
APD	2024-12-31	Air Products and Chemicals Inc	Materials	6	0.0%	0.0%
CTAS	2024-12-31	Cintas Corp	Industrials	2	0.0%	0.0%
FICO	2024-12-31	Fair Isaac Corp	Information Technology	1	0.0%	0.0%
LDOS	2024-12-31	Leidos Holdings Inc	Industrials	3	0.0%	0.0%
ORCL	2024-12-31	Oracle Corp	Information Technology	8	0.0%	0.0%
SHW	2024-12-31	Sherwin-Williams Co/The	Materials	9	0.0%	0.0%
MTD	2024-08-30	Mettler-Toledo International Inc	Health Care		-15.0%	4.6%
MPWR	2024-11-29	Monolithic Power Systems Inc	Information Technology		4.5%	-2.4%
KLAC	2024-08-30	KLA Corp	Information Technology		-22.9%	4.6%
GOOGL	2024-08-30	Alphabet Inc	Communication Services		16.2%	4.6%
AMAT	2024-07-31	Applied Materials Inc	Information Technology		-23.0%	7.1%
AAPL	2024-11-29	Apple Inc	Information Technology		5.5%	-2.4%

 Buys

 Sells



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