2023 Market Review

Quarter 1-2024 Outlook

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2023 Summary

- The year 2023 was a roller coaster ride for the global stock market, marked by a blend of highs and lows, unexpected turns, and notable trends. As investors navigated through economic shifts, policy changes, technological advancements, and geopolitical tensions, the markets exhibited resilience, facing challenges while delivering remarkable performances across various sectors.

- **Major Indices Performance**
  - Throughout the year, key indices experienced fluctuations. The S&P 500, representing the top 500 U.S. companies, demonstrated impressive growth, hitting record highs multiple times. In contrast, other markets like the FTSE 100 (UK) and the Nikkei 223 (Japan) faced volatility due to economic uncertainties and geopolitical tensions.

- **Sector Performance**
  - Technology stocks remained a focal point, continuing their upward trajectory as companies embraced digital transformation. The healthcare sector saw remarkable growth, propelled by advancements in biotechnology and pharmaceuticals, while energy struggled due to fluctuating oil prices and environmental concerns.

- **Economic Indicators**
  - The global economy witnessed mixed signals. Inflationary pressures persisted in certain regions, impacting consumer confidence and market sentiments. Central banks adopted diverse monetary policies to combat inflation while sustaining economic growth.

2024 Market Outlook

- **The Stock Market**
  - We expect earnings growth in the S&P 500 of 2-3%. However, absent rapid easing from the Federal Reserve we expect a more challenging year for stocks.
  - The equity concentration we are seeing in the S&P 500 is at levels not seen since the 1970s (Slide 4).
  - This dynamic has been seen ahead of previous economic slowdowns – along with an end to a period of recording pricing power as 40-year high inflation begins to soften – suggests corporate margins are set to face major headwinds in 2024.
  - Equities are trading equal to a composite of fair value estimates, while Value stocks and small-cap stocks are still trading at attractive discounts.

- **The Bond Market**
  - The current inflation rate remains at 3% and is still above the Federal Reserve's target inflation rate of 2%.
  - While many analysts have speculated interest rate cuts in 2024, we believe this may occur in Quarter 3 or 4 and would only occur if inflation numbers remain near or sub 3%.
  - This provides longer duration fixed income investments to catch up with current monetary policy.
  - Given the potential for continued elevated interest rates and/or interest rate cuts, we are more bullish on intermediate term, high yield and TIPS fixed income investments (Slide 8).

- **The Economy**
  - Current monetary tightening policy has been the steepest and fastest over the past 40 years, yet far less restrictive than the policy during the 1970s and 1980s. While the economy has held up better than expected in the face of this tightening cycle, we still expect that the rate of economic growth will slow throughout most of 2024.

JP Morgan: Market Outlook for 2024
Morningstar: 2024 Market Outlook

S&P 500 Index through 12/31/2023

S&P 500 Price Index

Characteristic	3/24/2000	10/9/2007	2/19/2020	1/3/2022	12/31/2023
Index Level	1,527	1,565	3,386	4,797	4,770
P/E Ratio (fwd.)	25.2x	15.1x	19.2x	21.4x	19.5x
Dividend Yield	1.4%	1.9%	1.9%	1.3%	1.5%
10-yr. Treasury	6.2%	4.7%	1.6%	1.6%	3.9%

S&P 500 Index is comprised of the 500 largest US Companies, by market capitalization.

Since February 19, 2020, we have seen large swings in the market in a relatively short period

- Feb. 19, 2020 to Mar. 23, 2020: **-34%**
- Mar. 23, 2020 to Jan. 3, 2022: **+114%**
- Jan. 3, 2022 to Oct. 12, 2022: **-25%**
- Oct. 12, 2022 to Dec. 31, 2023: **+33%**

S&P 500: Index Concentration

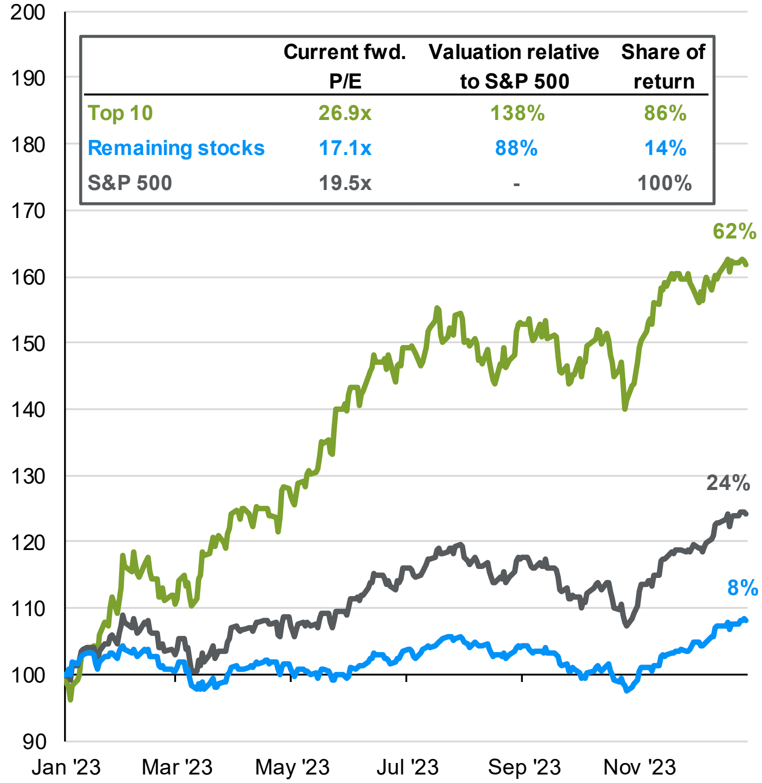
In 2023, <u>10 stocks accounted for **86%** of</u> the S&P 500 Index return of **24%**

Apple, Microsoft, Amazon, NVIDIA, Alphabet (Class A & C), Tesla, Berkshire Hathaway, Meta (Facebook), United Healthcare

<u>The other 490 stocks</u> accounted for only an **8%** return

Performance of the top 10 stocks in the S&P 500

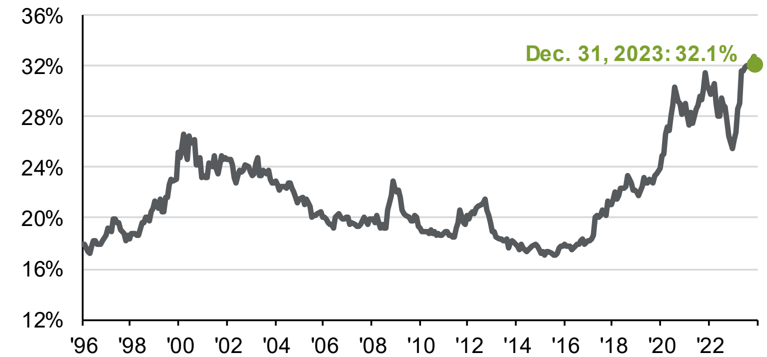
Indexed to 100 on 1/1/2023, price return, top 10 held constant



	Current fwd. P/E	Valuation relative to S&P 500	Share of return
Top 10	26.9x	138%	86%
Remaining stocks	17.1x	88%	14%
S&P 500	19.5x	-	100%

Weight of the top 10 stocks in the S&P 500

% of market capitalization of the S&P 500



Earnings contribution of the top 10 in the S&P 500

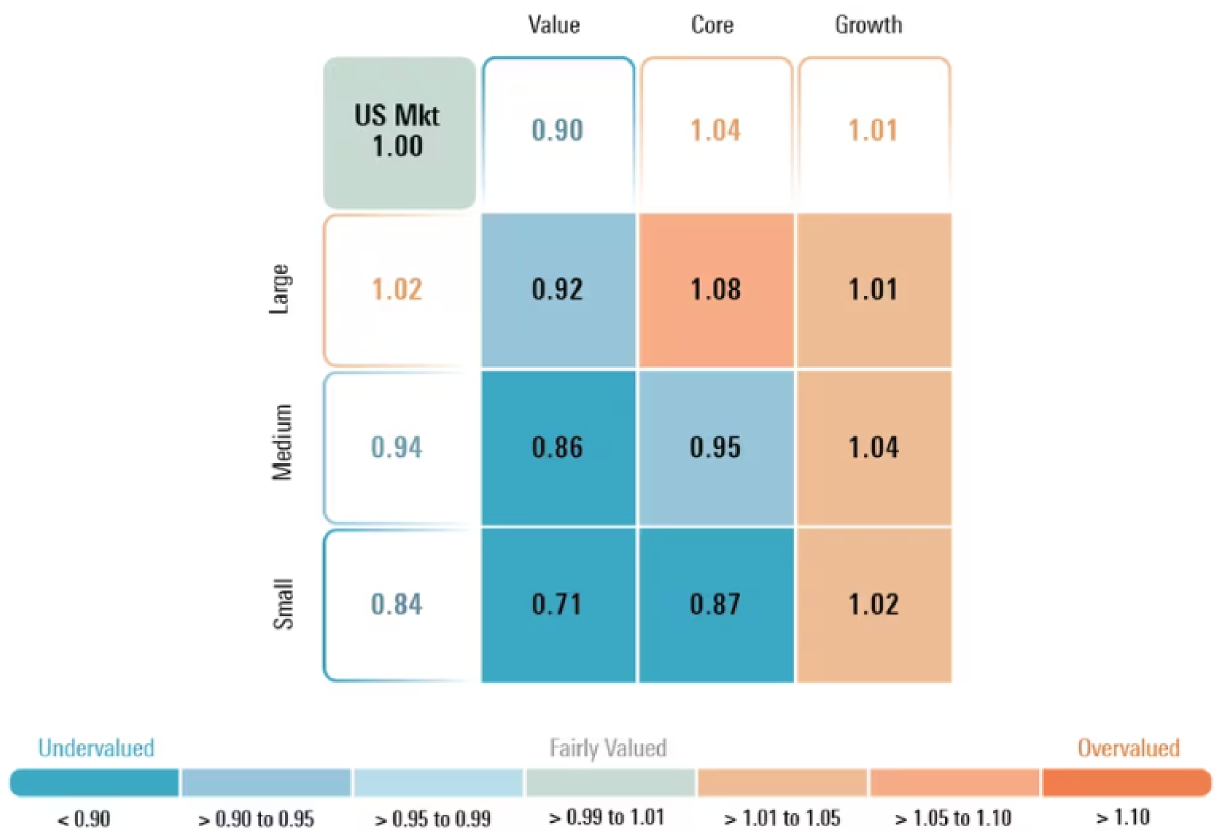
Based on last 12 months' earnings

Evaluating Current Equity Market Conditions

Broken out by **Size** (Large, Medium, Small) and **Style** (Growth, Value, Core-Blend) we see that most categories are either **Undervalued or Fairly Valued**

Historically, investing in undervalued or fairly valued asset classes allows a portfolio more opportunity for growth, as these asset classes have more "room to grow".

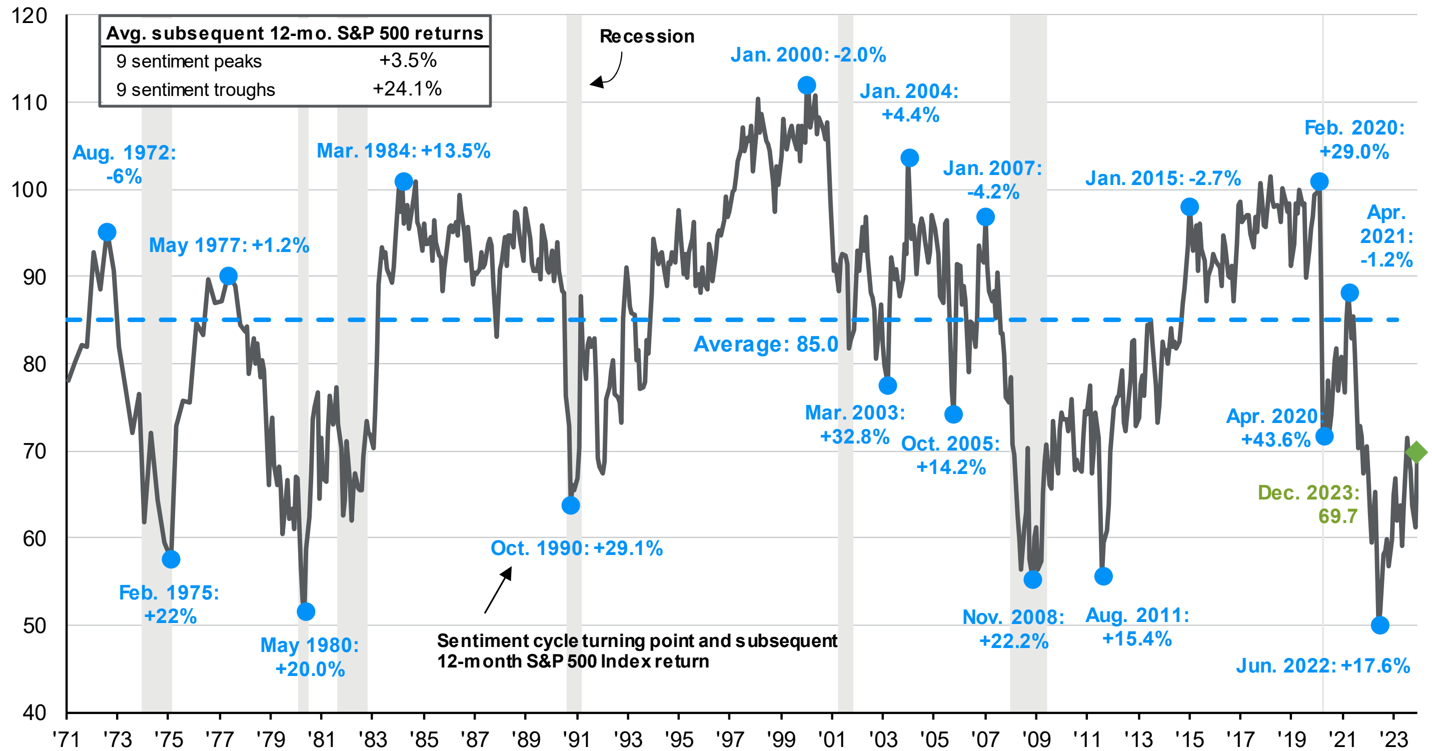
Price/Fair Value by Morningstar Style Box Category



Morningstar: 2024 Market Outlook

Consumer confidence and the stock market

Consumer Sentiment Index and subsequent 12-month S&P 500 returns



Consumer Confidence: simply measures how the average investor feels about the Stock Market.

Historically, when investors felt best about the market and investing, the 12-month subsequent return in the **S&P 500 averaged 3.5%.**

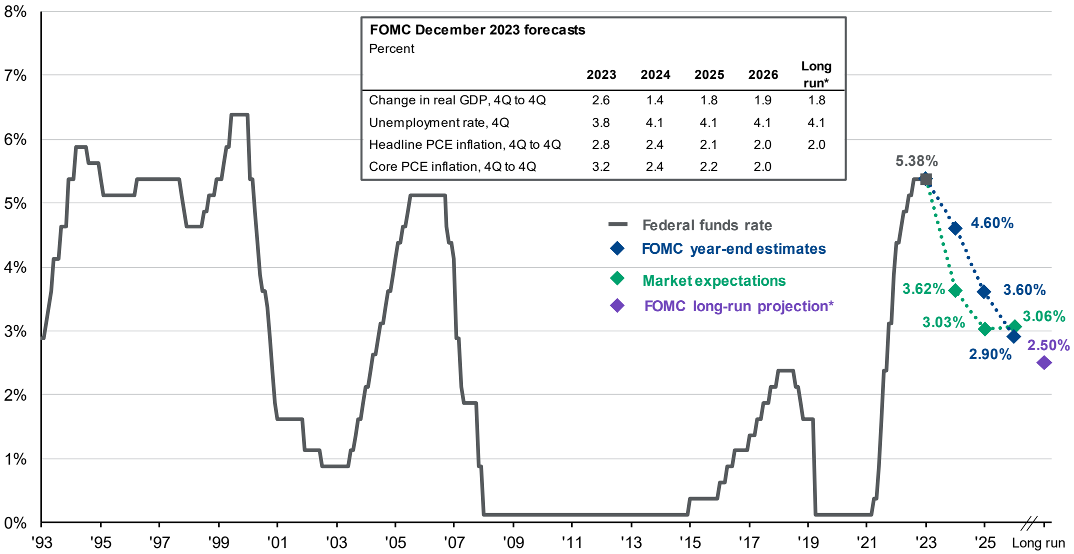
Conversely, when investors felt worst about the market, the subsequent 12-month return in the **S&P 500 averaged 24.1%.**

"Be fearful when others are greedy, and be greedy when others are fearful" – Warren Buffet

Interest Rates – Federal Reserve Monetary Policy

Federal funds rate expectations

FOMC and market expectations for the federal funds rate



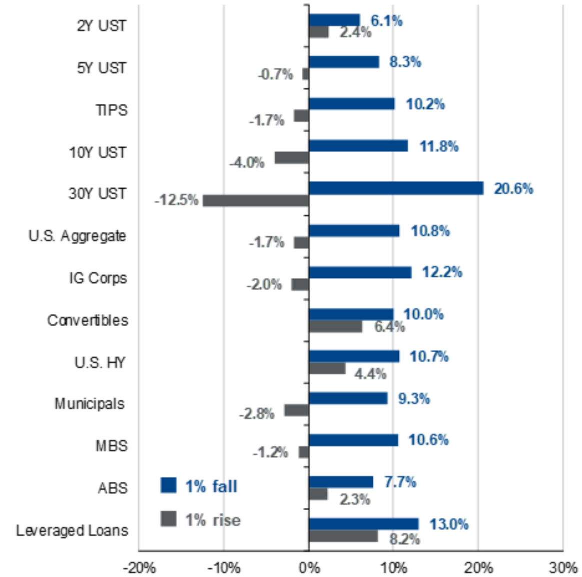
FOMC December 2023 forecasts

Percent

	2023	2024	2025	2026	Long run*
Change in real GDP, 4Q to 4Q	2.6	1.4	1.8	1.9	1.8
Unemployment rate, 4Q	3.8	4.1	4.1	4.1	4.1
Headline PCE inflation, 4Q to 4Q	2.8	2.4	2.1	2.0	2.0
Core PCE inflation, 4Q to 4Q	3.2	2.4	2.2	2.0	

Impact of a 1% rise or fall in interest rates

Total return, assumes a parallel shift in the yield curve



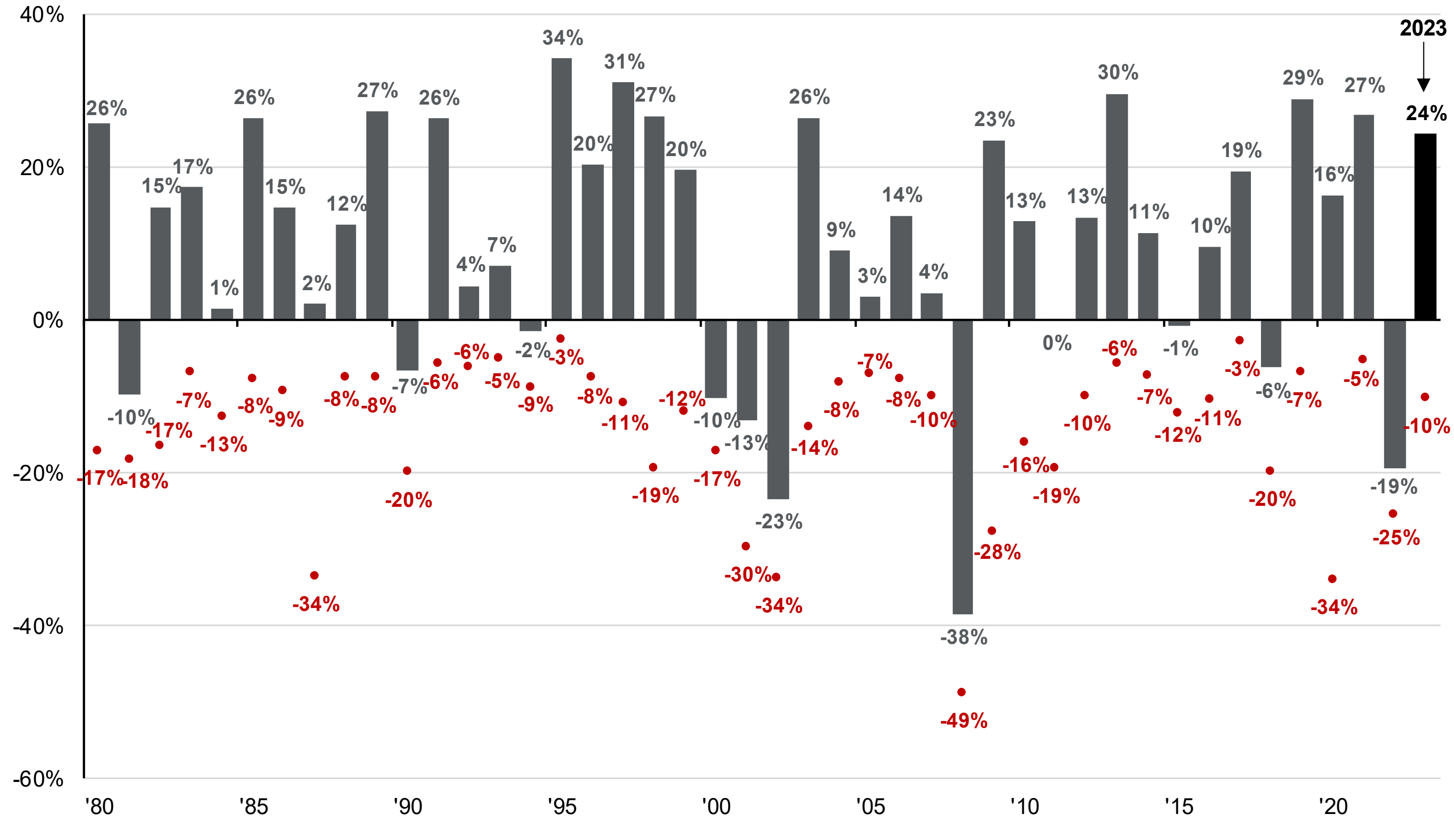
- We saw bonds take a hit in 2022, due to the rapid rise in interest rates.
- The chart above illustrates that historically the Federal Reserve moves slowly. However, due to rapid inflation, they were forced to act swiftly and thus devalued all current issue bonds.
- As you can see on the chart on the right, Longer Duration Bonds (10-30 years) are more interest rate sensitive.
- However, given elevated yields we believe there is opportunity in the following bond asset classes:
  - Intermediate Term Bonds – 3 to 7 Year Terms
  - Treasury Inflation Protected Securities – Not overweight, but a component of a diversified fixed income approach
  - High Yield Bonds – Again, not overweight, but a component of a diversified fixed income approach that elevates the yield in the portfolio substantially.

Annual returns and intra-year declines

- While the Stock Market may continue to face volatility as we progress through turbulent times, it is important to note that it rarely ends the year where it “bottoms out”.
- In addition, it is rare for the Stock Market to face consecutive years of negative return. The chart illustrates this only occurring during the Tech Bubble in 2000-2002 (during given time period).
- We believe we will continue to see stock market volatility and price swings in the shot-term. However, over the long term we believe that Stock Market prices are driven by Corporate Profitability.

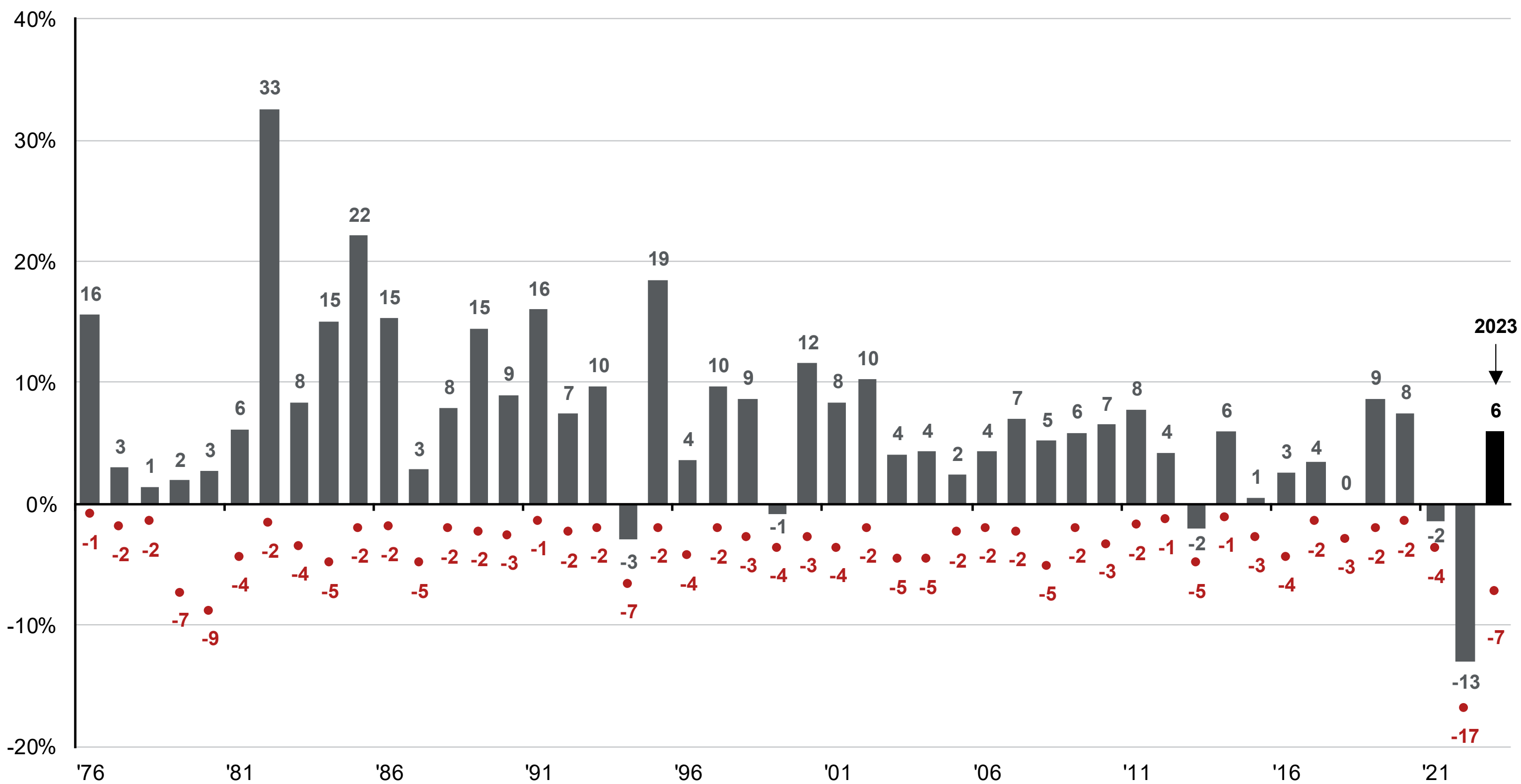
S&P intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.2%, annual returns were positive in 33 of 44 years



Bloomberg U.S. Aggregate intra-year declines vs. calendar year returns

Despite average intra-year drops of 3.4%, annual returns were positive in 43 of 48 years



BONDS

- There are not many "rules of thumb" when it comes to finance. There are many different views on investing, trading, taxes, etc.
- However, the closest we can get to a "rule of thumb" is that starting yields for bonds and their subsequent forward returns is "VERY STRONG".
- Bond investing or the 60/40 portfolio is in a healthier position today than it has been in the previous 15 years.

JP Morgan: Guide to the Markets

The Importance of Diversification – ranking asset classes based on performance since 2008

- The table illustrates how diversification benefits portfolios. The White Square is a diversified portfolio consisting of 60% Equities and 40% Fixed Income.
- While you will notice that the White Square is never in the top 20% for performance, it is also not in the bottom 30% of performance.
- The two columns on the far left illustrate that through diversification, investors are able to achieve performance in the top 50% percentile, while reducing volatility to the lowest quartile.

2009-2023																	
Ann.	Vol.	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Large Cap 14.0%	Small Cap 21.9%	Fixed Income 5.2%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.5%	Small Cap 20.0%	REITs 41.3%	Comdty. 16.1%	Large Cap 26.3%
Small Cap 11.3%	REITs 21.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Fixed Income 0.0%	REITs 28.7%	EM Equity 18.7%	Large Cap 28.7%	Cash 1.5%	DM Equity 18.9%
REITs 10.9%	EM Equity 20.3%	Asset Alloc. -25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs -4.0%	Small Cap 25.5%	Large Cap 18.4%	Comdty. 27.1%	High Yield -12.7%	Small Cap 16.9%
High Yield 8.6%	DM Equity 18.4%	High Yield -26.9%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	High Yield -4.1%	DM Equity 22.7%	Asset Alloc. 10.6%	Small Cap 14.8%	Fixed Income -13.0%	Asset Alloc. 14.1%
Asset Alloc. 8.1%	Comdty. 16.6%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	Asset Alloc. 19.5%	DM Equity 8.3%	Asset Alloc. 13.5%	Asset Alloc. -13.9%	High Yield 14.0%
DM Equity 7.4%	Large Cap 16.1%	Comdty. -35.6%	Large Cap 26.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	EM Equity 18.9%	Fixed Income 7.5%	DM Equity 11.8%	DM Equity -14.0%	REITs 11.4%
EM Equity 6.9%	High Yield 11.5%	Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	Small Cap -11.0%	High Yield 12.6%	High Yield 7.0%	High Yield 1.0%	Large Cap -18.1%	EM Equity 10.3%
Fixed Income 2.7%	Asset Alloc. 11.5%	REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -11.2%	Fixed Income 8.7%	Cash 0.5%	Cash 0.0%	EM Equity -19.7%	Fixed Income 5.5%
Cash 0.8%	Fixed Income 4.5%	DM Equity -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -13.4%	Comdty. 7.7%	Comdty. -3.1%	Fixed Income -1.5%	Small Cap -20.4%	Cash 5.1%
Comdty. -0.2%	Cash 0.7%	EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 2.2%	REITs -5.1%	EM Equity -2.2%	REITs -24.9%	Comdty. -7.9%

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