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MARKET VIEW QUARTERLY

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Before entering 2024, two questions dominated investors' minds; could the "Magnificent 7" (Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, and Tesla) continue to rise and support the market rally? Will the Federal Reserve (Fed) lower interest rates in March? As we sit at the end of the first quarter of 2024, we have the answers to those questions. First, the majority of the aforementioned mega-cap tech names have continued to push higher, however, Apple and Tesla are significantly negative for the year, turning the "Magnificent 7" into the "Fabulous 5." This seems to be the beginning of a welcome sign for a healthier market dynamic as we have seen gains more broadly spread across stock market names. Second, the Fed did not cut rates in March but continues to support the case for three rate cuts this year. Unlike most historical episodes, the Fed is not considering cutting rates because the economy is too weak. Instead, it is doing so because inflation is heading in the right direction, and there is no longer a need for such a restrictive policy. If the Fed is right and can engineer a soft landing, (decreasing inflation after increasing interest rates, without causing negative GDP growth or an uptick in unemployment) then 2024 could continue to be a good year for both stock and bond investors alike.

DOMESTIC EQUITIES

The first quarter saw U.S. equities continue to rally. The Dow Jones Industrial Average, NASDAQ Composite, and S&P 500 indices each set all-time highs in March. This marked the first month since November 2021 that the trio of indices closed at an all-time high in tandem. What may be more impressive is that for the first time since 2012, the S&P 500 Index posted two consecutive quarters of returns greater than 9% (Q4 of 2023 and Q1 of 2024).[1] Gains were supported by a strong earnings season which gave market participants confidence in the durability of earnings growth through the rest of the year. Although returns continued to be concentrated within large-cap growth equities, which returned 11.41%,[1] other areas in the market also posted strong returns. This is a positive development given the market concentration we witnessed in 2023. Large-cap value returned 8.99%, mid-cap stocks returned 8.60% and even small-cap stocks were positive, returning 5.18% in the first quarter.[1] Although stocks are at all-time highs the path forward may still be higher. History shows that markets favor election years, with an average return of 12%. Over the past two decades, the only times markets have performed negatively during an election year were due to anomalies such as the dot-com bubble in 2000, and Global Financial Crisis in 2008. In addition, the Fed's consideration of lowering rates may offer additional support to the economy and risk assets like stocks.

INTERNATIONAL EQUITIES

International equities underperformed U.S. equities in the first quarter of 2024, with the S&P 500 returning 10.56%[1], while the MSCI EAFE Index returned 5.78%.[1] While lagging U.S. equities, international domestic stocks were still higher as Japanese stocks (the largest constituent in the MSCI EAFE Index) reached an all-time high in

the first quarter. However, market performance is disjointed from the economic picture, as many developed countries outside the U.S. are plagued by slow growth. Japan narrowly avoided a recession after printing a quarter of negative GDP growth, the United Kingdom slipped into a technical recession in the fourth quarter of 2023 by notching the second consecutive quarterly GDP decline, and Germany had GDP growth shrink by -0.3% in the full year of 2023. Couple this with the geopolitical conflicts (i.e., the ongoing war between Russia and Ukraine and the situation in the Middle East) and the risk-reward tradeoff for international stocks looks less than attractive.

The MSCI Emerging Markets (EM) Index, which posted a return of 2.37%,[1] lagged both internationally developed and U.S. markets. A sizable portion of this underperformance can be attributed to a strong dollar, which gained 3.12% in the first quarter of 2024. Continued economic struggles out of the largest EM benchmark constituent (China) also hampered index returns, with the MSCI China index down -2.19%. On a bright note, for many Emerging Market countries, some commodity prices have started to increase, such as oil which is up over 18% YTD.[2] Given that most EM countries are commodity exporters, those countries could see a broad lift if commodity prices rise.

FIXED INCOME

Coming into 2024, the 10-year yield had fallen from a peak of over 5% in October 2023, down to 3.88%.[2] This looked to be the beginning of a downtrend as the Fed hinted that rate cuts were coming soon due to inflation continuing to moderate. Remember, falling yields are positive for your bond holdings as the price of a bond moves higher when yields fall. However, in the first three months of 2024, we have seen a reversal in the 10-year treasury yield. The main factor driving yields back up was hotter-than-expected inflation readings in both January and February. We can measure inflation with the Consumer Price Index (CPI), which is like a lengthy list that shows how prices for things we buy, like groceries and gas, etc. change over time. When the CPI goes up, it means things are getting more expensive, and when it goes down, it means things are getting cheaper. In January, the overall CPI rose 3.1% from a year earlier, which was down from 3.4% in December but more than the 2.9% that investors had forecast.[2] In February, CPI showed prices rose 3.2% from a year earlier, more than what was forecasted and an acceleration from January's annual gain.[2] Market participants have watched for any signs that inflation has cooled enough to allow the Fed to begin cutting interest rates and what January and February inflationary readings told us is that some progress had been made on inflation, but more work is needed to get done to reach the Fed's 2% CPI target. This pushed bond yields higher from 3.88% at the start of the year to 4.20% as of the end of March.[2] As mentioned earlier, higher bond yields lead to lower bond prices. As a result, the Bloomberg U.S. Aggregate Bond Index returned -0.78% for the first quarter.[1] The cause and effect of higher bond yields and lower bond returns are two-fold. For one, if investors expect higher inflation in the future, they may demand higher yields to compensate for the loss of purchasing power. This can push the 10-year treasury yield higher. Secondly, expectations for interest rate cuts have now been moved to later in the year, with investors now widely expecting the first rate cut to take place in June rather than the March date that was expected at the start of the year. Although off to a lackluster start, we still expect the Fed's anticipated three rate cuts to come to fruition this year[2], which leaves bonds set to deliver potential price appreciation.

ALTERNATIVES AND REAL ESTATE

Gold prices rallied sharply through March, closing the quarter up 6.54% to $2229.87/Oz.[2] Higher gold prices have been supported by central bank buying. Central banks collectively bought more than 1,000 tonnes of gold for each of the past two years. To put that in perspective, the average amount of gold bought by the central bank over the past 10 years has only been 500 tonnes.[2] However, the retail investor is selling their gold holdings. Despite the remarkable returns in the precious metal, it did little to quell gold ETF outflows, which continued for a ninth consecutive month in February. While central banks around the world are looking to strengthen their respective balance sheets and gain liquidity, retail investors see gold as less attractive in a high bond yield environment. In bonds, investors can clip a coupon that is higher than the rate of inflation, unlike gold which generates no income. As interest rates dip, gold could become more appealing compared to alternative investments like bonds, which would yield weaker returns in a low-interest rate environment.

Mortgage rates gradually pushed higher during the quarter, with the average 30-year fixed-rate mortgage ending March on a disappointing upswing after a mid-month reprieve, settling

at 7.25%[3]. Optimistically, current rates are over 0.84% lower than their highs seen in October 2023. February data showed housing starts surged back after a weather-induced January slump, while existing home sales surprised to the upside again, continuing a positive trend. Tight inventory remains a significant storyline, keeping prices elevated and affordability a major headwind, with the median price of an existing home rising to $384,500, up 5.7% versus a year ago.[2]

CONCLUSION

Recession calls have faded as the economy gained additional steam with the latest GDP reading showing annualized growth of 3.2%. The strong labor market remains the centerpiece. In February, the economy created 275,000 jobs[2] and the 3-month average for job growth is running at 265,000.[2] For perspective, monthly job growth in 2019 averaged 166,000.[2] This was also the 25th consecutive month with an unemployment rate below 4%, the longest streak since the late 1960s. The U.S. labor force participation rate among 25-54-year-olds (prime working age) moved up to 83.5% in February, tied for the highest level since May 2002.[4] Ultimately, a healthy labor market is keeping wages elevated and supporting consumer spending. Adding fuel to the fire, history is on our side. Since 1950, there have been 28 years during which the S&P 500 had positive returns in January and February (such as we have seen in 2024). In an amazing 27 of those 28 years, the next 10 months were also positive, providing an average return of 12.2%.[5] With Fed rate cuts on the horizon and history on our side in more ways than one, we believe the current market is poised to deliver an optimal environment for a diversified portfolio in 2024.

Economic Definitions

CPI (headline and core): Consumer prices (CPI) are a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

Existing Home Sales: This concept tracks the sales of previously owned homes during the reference period. Total existing home sales include single-family homes, townhomes, condominiums and co-ops. All sales are based on closings from Multiple Listing Services. Foreclosed homes are only counted in the inventory if the bank is working with a realtor. Foreclosed homes that sell via auction (or other closings outside of the Multiple Listing Services) are not included.

Federal Reserve (Fed): The Federal Reserve System is the central banking system of the United States of America.

GDP: Gross domestic product (GDP) measures the final market value of all goods and services produced within a country. It is the most frequently used indicator of economic activity. The GDP by expenditure approach measures total final expenditures (at purchasers' prices), including exports less imports. This concept is adjusted for inflation.

West Texas Intermediate (WTI): West Texas Intermediate (WTI) is crude stream produced in Texas and southern Oklahoma which serves as a reference or "marker" for pricing a number of other crude streams and which is traded in the domestic spot market at Cushing, Oklahoma.

Nonfarm Payrolls: This indicator measures the number of employees on business payrolls. It is also sometimes referred to as establishment survey employment to distinguish it from the household survey measure of employment.

Unemployment Rate: The unemployment rate tracks the number of unemployed persons as a percentage of the labor force (the total number of employed plus unemployed). These figures generally come from a household labor force survey.

Labor Force Participation Rate: The labor force participation rates is calculated as the labor force divided by the total working-age population. The working age population refers to people aged 15 to 64. This indicator is broken down by age group and it is measured as a percentage of each age group.

Mortgage Rate: A mortgage rate, or mortgage interest rate or interest rate, is part of what it costs to borrow money from a lender. Instead of paying your mortgage lender a lump sum, the interest is paid as part of your monthly payment for your home loan.

Fed Funds Rate: The effective federal funds rate (EFFR) is calculated as a volume-weighted median of overnight federal funds transactions reported in the FR 2420 Report of Selected Money Market Rates. The New York Fed publishes the EFFR for the prior business day on the New York Fed's website at approximately 9:00 a.m.

US Dollar: The U.S. Dollar Index is an index of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of U.S. trade partners' currencies. The Index goes up when the U.S. dollar gains "strength" when compared to other currencies.

Index Definitions

S&P 500: The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

NASDAQ: The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

Dow Jones Industrial Average: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Russell 1000 Growth: The Russel 1000 Growth measures the performance of the large-cap growth segment of the US equity securities. It includes the Russell 1000 index companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Value: The Russell 1000 Value measures the performance of the large-cap value segment of the US equity securities. It includes the Russell 1000 index companies with lower price-to-book ratios and lower expected growth values.

Russell Mid-Cap: Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.

Russell 2000: The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

MSCI EAFE: The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

MSCI EM: The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI China Index: The MSCI China Index captures large and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). With 717 constituents, the index covers about 85% of this China equity universe. Currently, the index includes Large Cap A and Mid Cap A shares represented at 20% of their free float adjusted market capitalization

Bloomberg Barclays US Agg Bond: The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

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1 Data Obtained from Morningstar as of 3/31/2024.

2 Data Obtained from Bloomberg as of 3/31/2024.

3 Mortgage Rates - Freddie Mac.

4 https://bilello.blog/2024/the-week-in-charts-3-11-24.

5 https://www.carsongroup.com/insights/blog/why-stocks-up-in-both-january-and-february-is-quite-bullish.

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