Market Wise

Q4 2023

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- Wise Words
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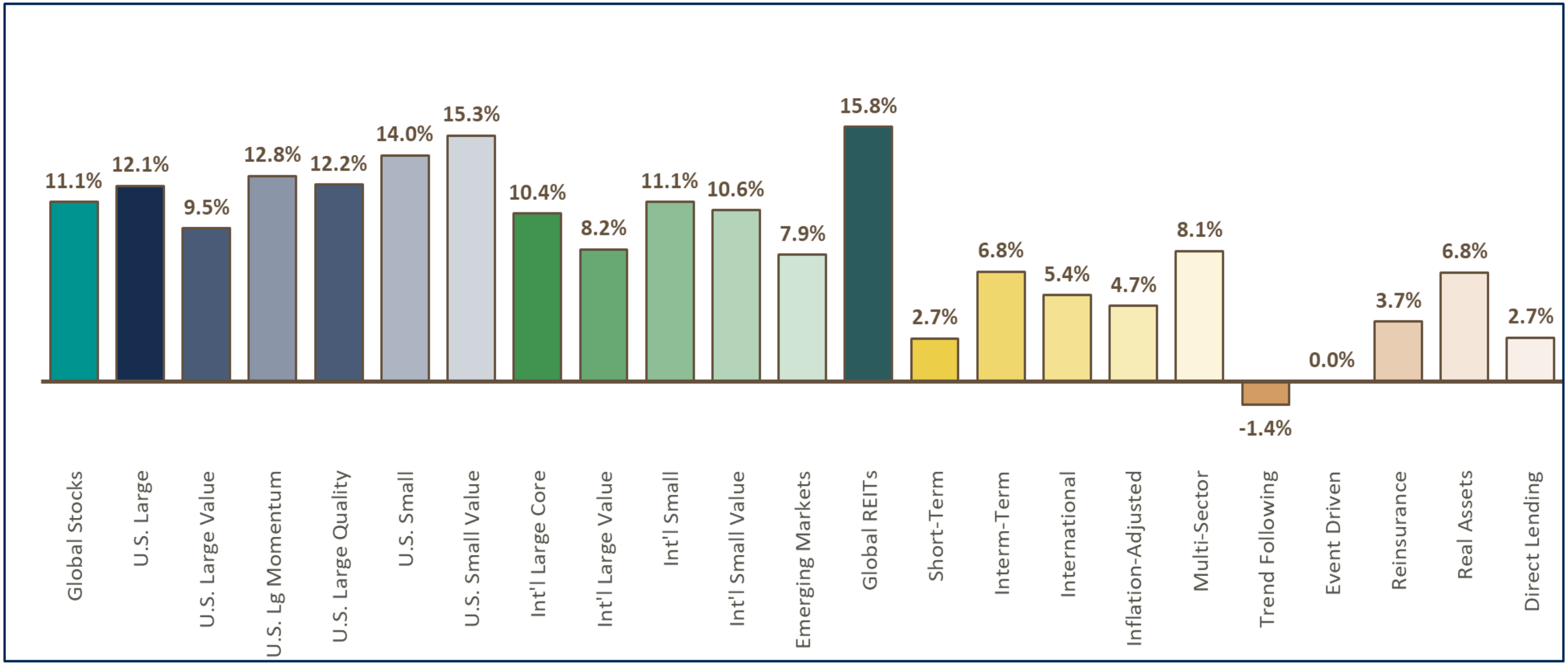
Quarterly Update

- After a difficult summer, global markets rallied into the fourth quarter as inflation continued to cool and the Federal Reserve signaled “dialing back” rates in 2024.
- All stock sectors, except for energy, rose during the quarter. Value and size factors outperformed, and alternative asset classes also held up well.
- After hiking interest rates in July to a target range of 5.25-5.5%, the Fed chose to keep the target for the federal-funds rate unchanged in December. FOMC members also released their Summary of Economic Projections, in which they forecast the median federal-funds rate would fall to 4.6% by the end of 2024.
- The most widely anticipated recession in history never came in 2023. Inflation has cooled off steadily and unemployment has remained low.
- However, growth is expected to slow in 2024 and there are some mixed economic signals present in labor markets, commercial real estate, and consumer balance sheets.

Last 3 Months

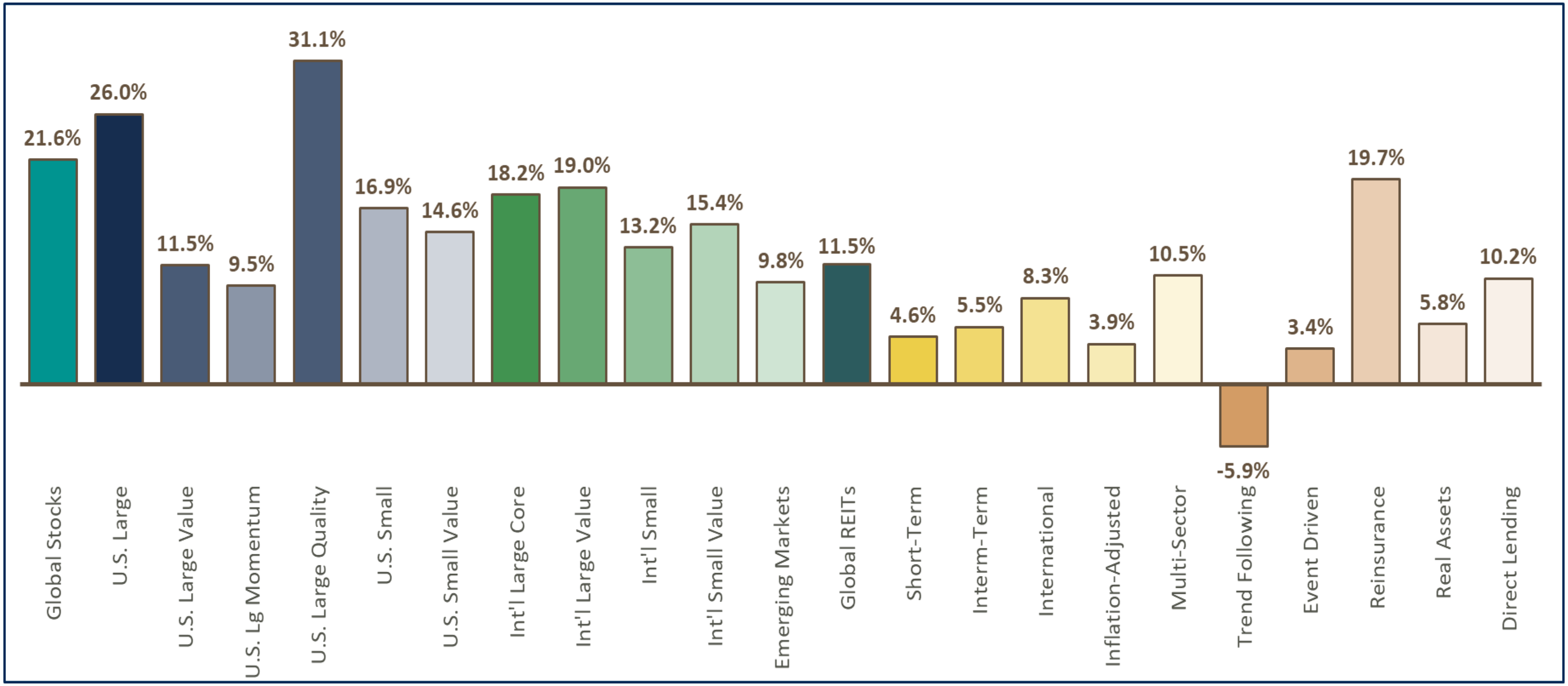
- Global stocks and bonds rallied during the quarter. Value, size, momentum, and quality factors all outperformed. Alt strategies, Trend Following and Event Driven, were the only areas of the market that did not participate in the quarterly positive broad market performance.



Source: Morningstar Direct. Data as of December 31, 2023. See Endnotes for indices represented.

2023

- Nearly all stock segments posted positive double digit returns in 2023. Bond returns also turned positive at the end of the year and several alternatives generated favorable contributions to portfolios.

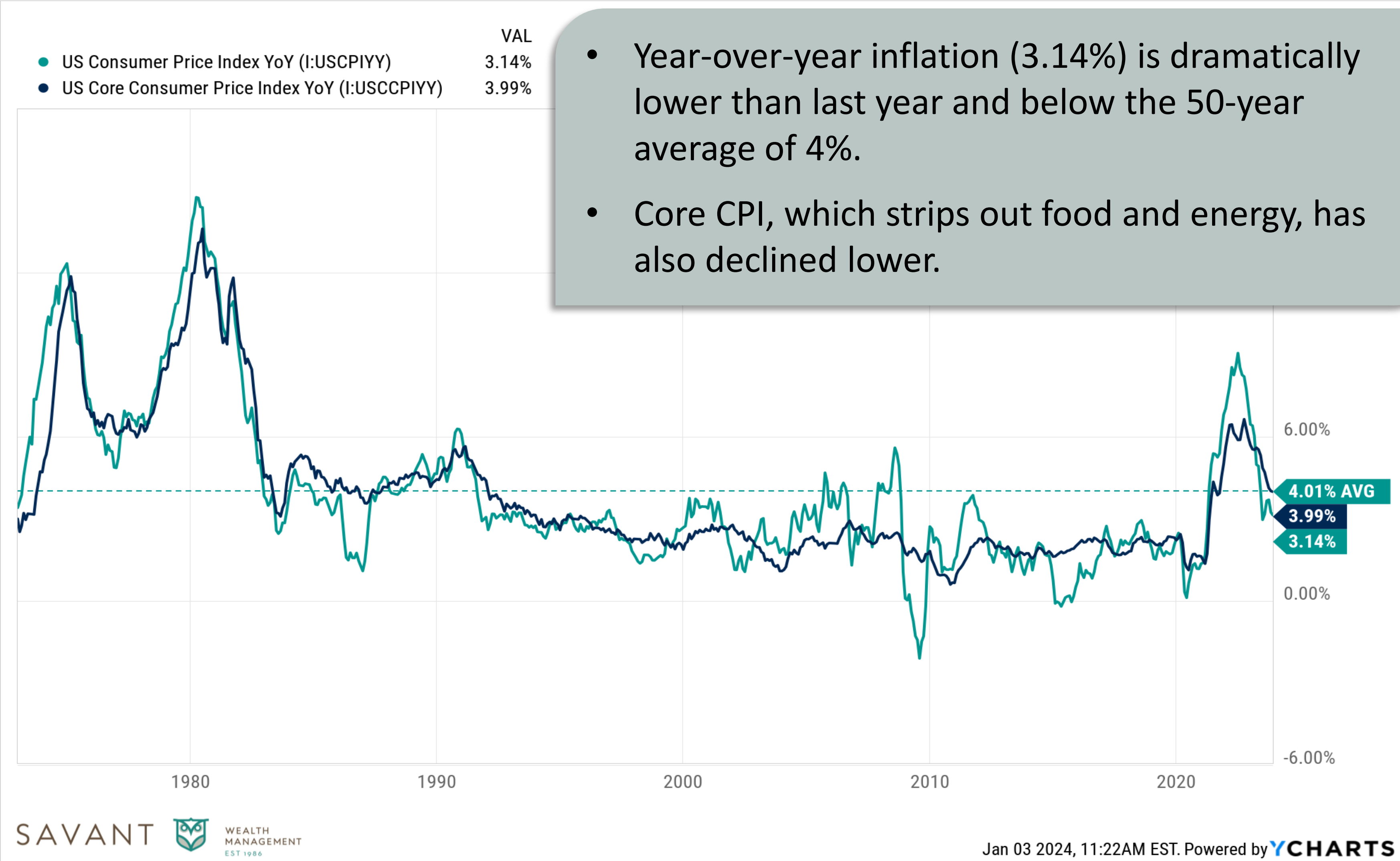


Source: Morningstar Direct. Data as of Dec 31, 2023. See Endnotes for indices represented.

- The Leading Economic Index (LEI) marked its 16th consecutive monthly declines with the latest drop driven by lower confidence in business conditions and lower manufacturing new orders.
- Economic growth (GDP) expanded at +4.3% for the latest annualized report.
- The low unemployment level (3.7%) is stable, while wage growth has moderated. Other measures, such as job openings and quits, have declined from highs.

Data as of 11/01/2023. Data sources: Morningstar Direct, FRED, The Conference Board's LEI.

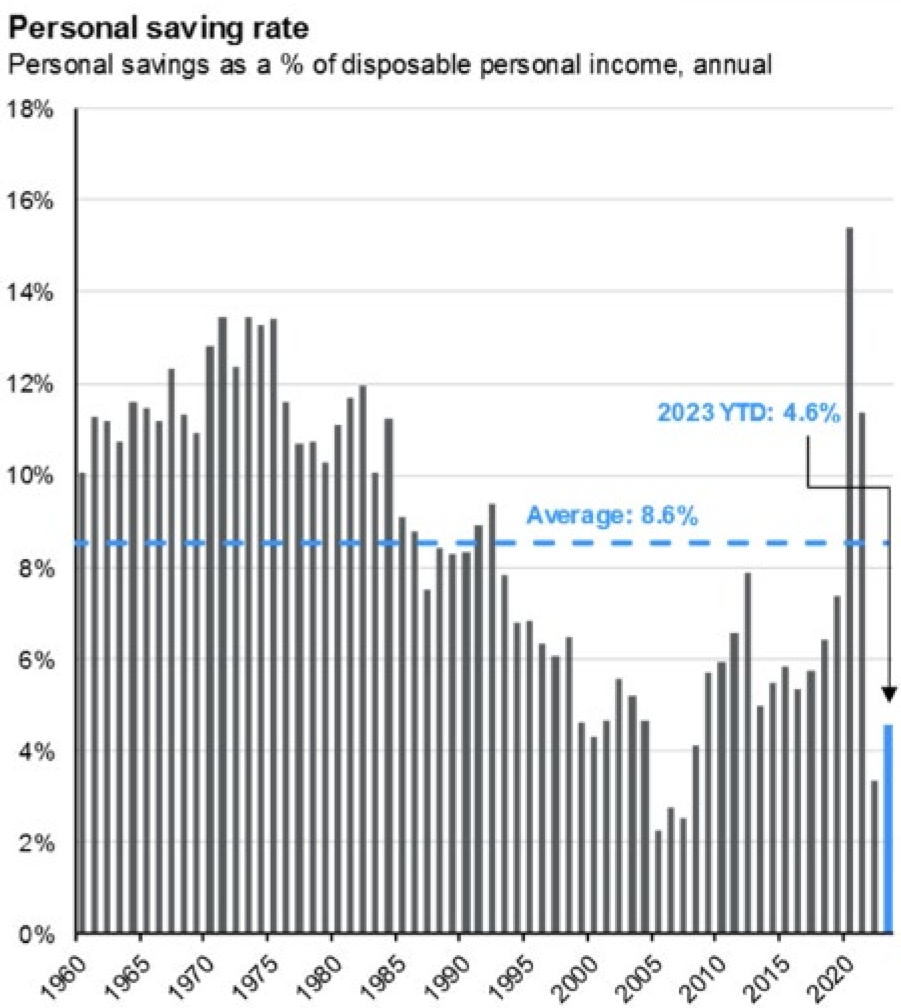
The Taming of Inflation Continues

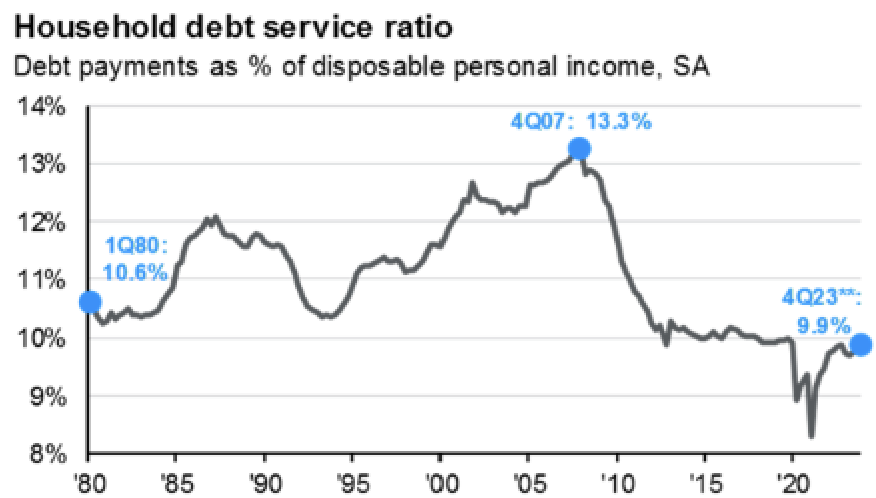


- Year-over-year inflation (3.14%) is dramatically lower than last year and below the 50-year average of 4%.
- Core CPI, which strips out food and energy, has also declined lower.

Source: YCharts. Date range: 1/1973 - 12/2023

Consumer Saving and Borrowing in Check



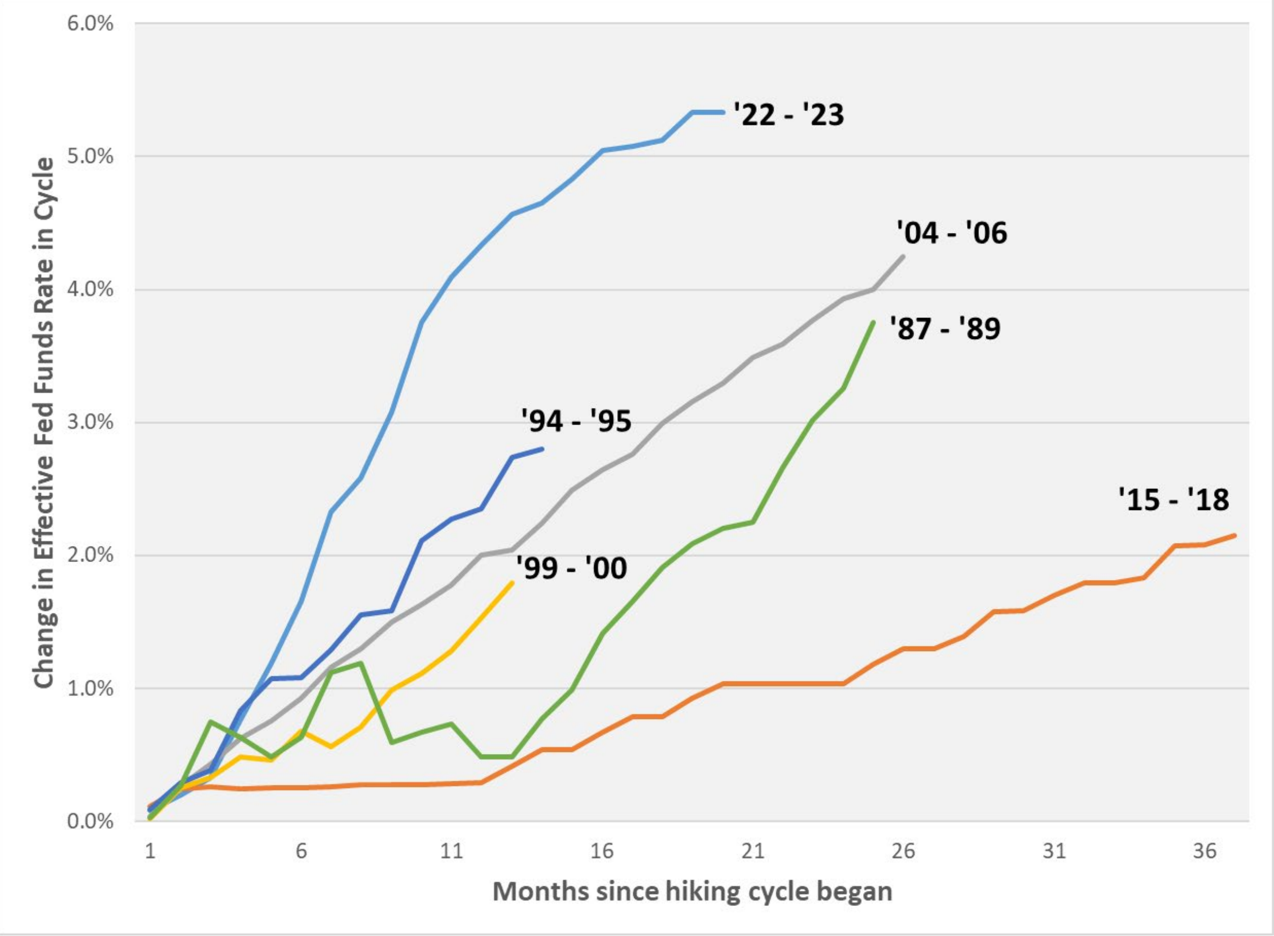


- Americans generally have healthy balance sheets, but the debt service ratio has risen.
- Q4 data on consumer spending showed shoppers still have power to keep buying.

Source: BEA, Federal Reserve, J.P. Morgan Asset Management. From March 2020 to August 2021, consumers amassed a peak $2.1 trillion in excess savings relative to the pre-pandemic trend. Since August 2021, consumers have drawn down on those excess savings.3Q23 figures for debt service ratio are J.P. Morgan Asset Management estimates. *Guide to the Markets – U.S.* Data are as December 31, 2023.

The Fed Hit Pause (again) in December

- After 11 rate hikes, the Fed paused on its most aggressive rate hiking in modern history.
- The end of this cycle may be near, but it will be data dependent in the coming quarters.



Source: FRED (Federal Reserve). Data illustrates the change in the Federal Funds rate since hiking began using the Effective Federal Funds Rate (monthly average). Data as of 1/4/24.

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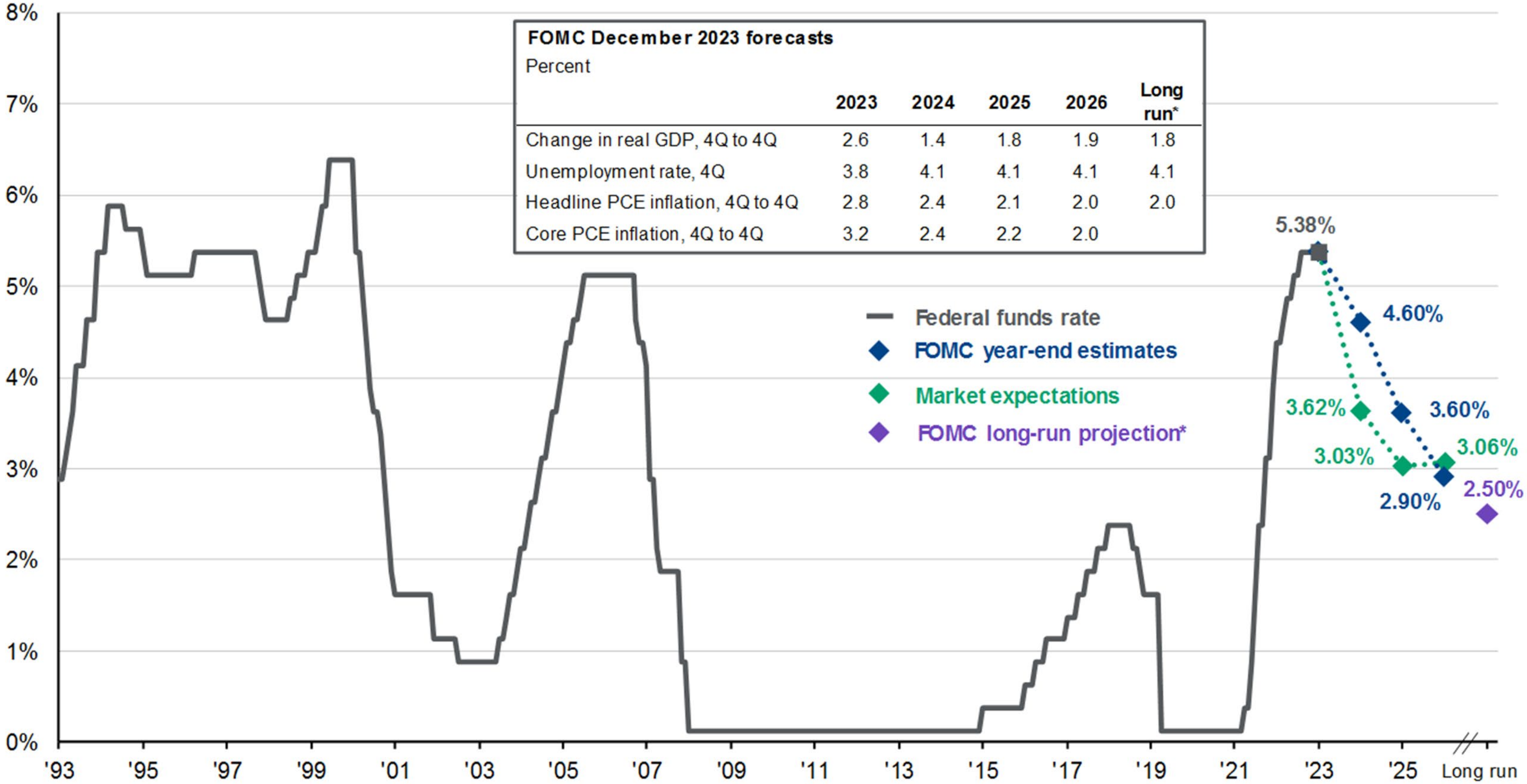
Rates are Expected to Move Lower in 2024

Federal funds rate expectations

FOMC and market expectations for the federal funds rate



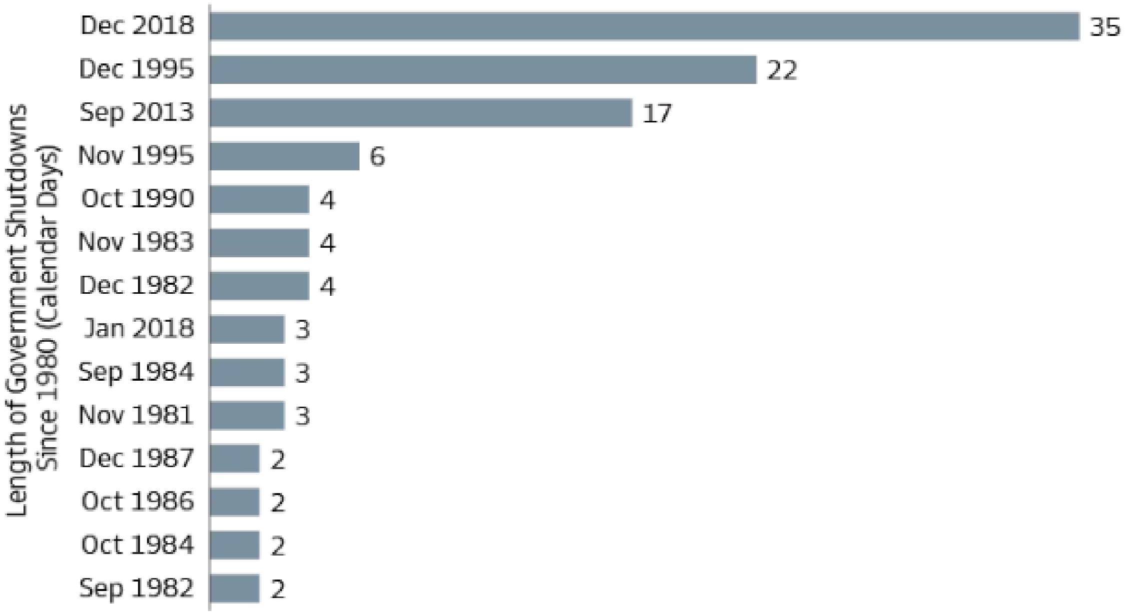
FOMC December 2023 forecasts

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	

Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management. *Guide to the Markets – U.S.* Data are as of December 31, 2023. Market expectations are based off of the respective Federal Funds Futures contracts for December expiry. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.

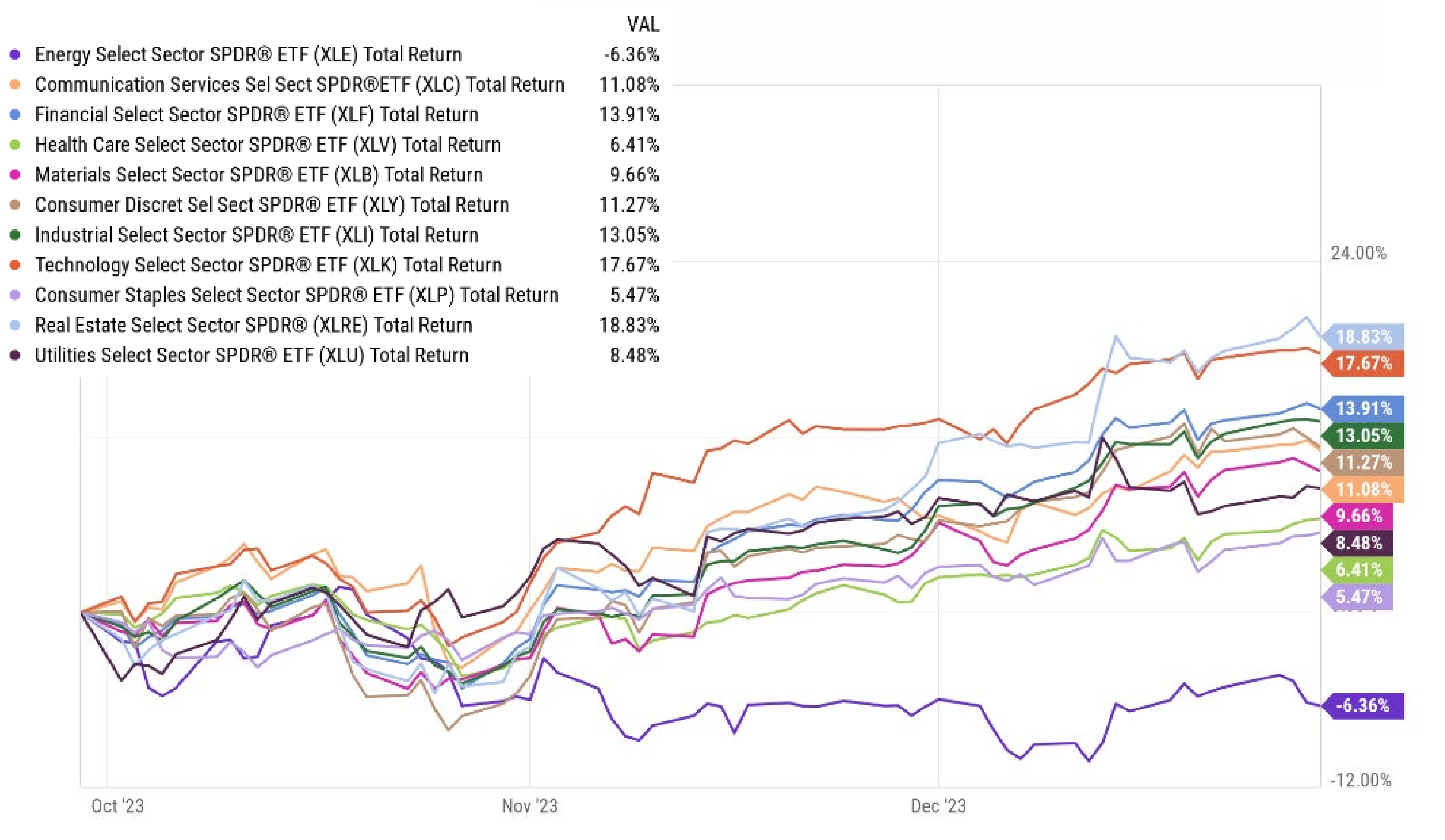
Shutdown Showdown



Source: Bloomberg and Goldman Sachs Asset Management. As of September 29, 2023.

- Since 1980, gov't shutdowns have lasted 4 days, on median. Estimates by Goldman Sachs, are a -0.2% impact on annualized growth for each week a shutdown lasts.
- Historical market impacts have been muted – since 1980, the S&P 500 delivered a median return of 0.75% during gov't shutdowns.

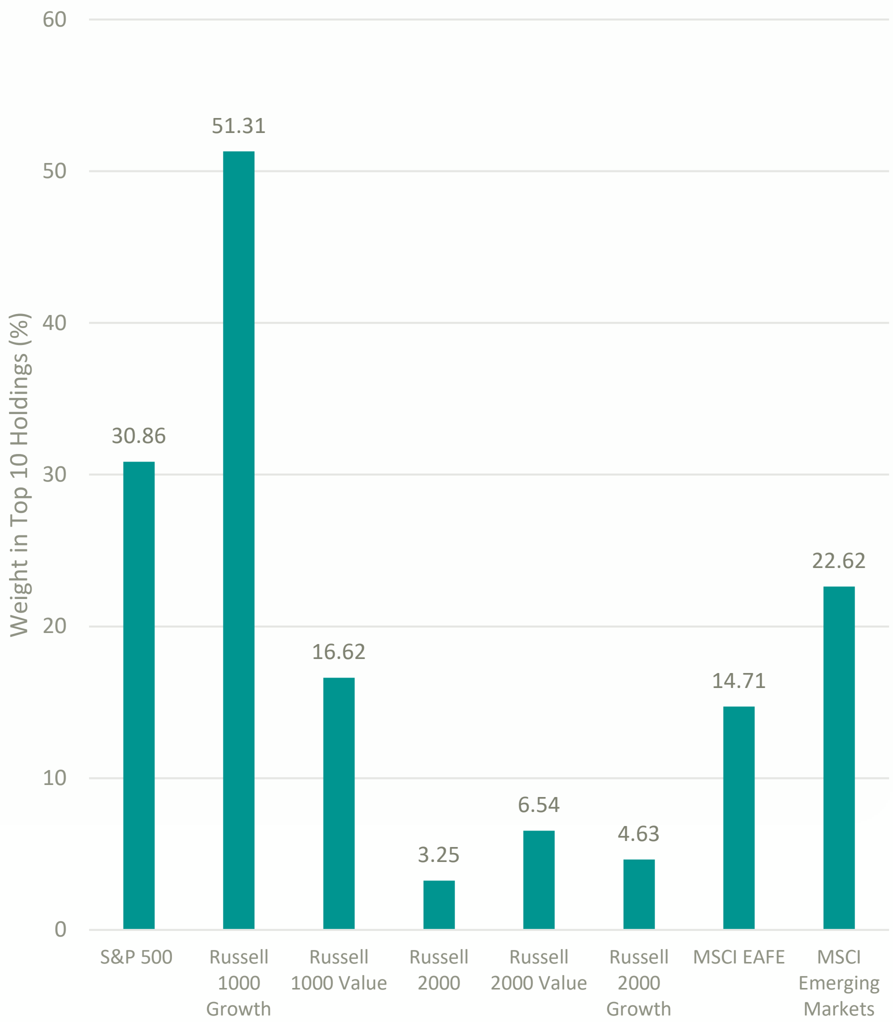
Q4: Nearly All Sectors Positive



Source: YCharts. Date range: 9/30/2023-12/31/2023.

Index Concentration is Greatest Among U.S. Large

- The chart represents the weight of the top 10 stocks in each index.
- U.S. large and large cap growth have increased meaningfully in recent years and the top 10 comprise the highest levels since the start of the century.
- Implication is a small subset of stocks will have a greater impact on return – whether good or bad.
- Diversification beyond these segments helps reduce risk.



Source: Morningstar, Date: 12/31/2023.

Valuations Beyond U.S. Large are Attractive

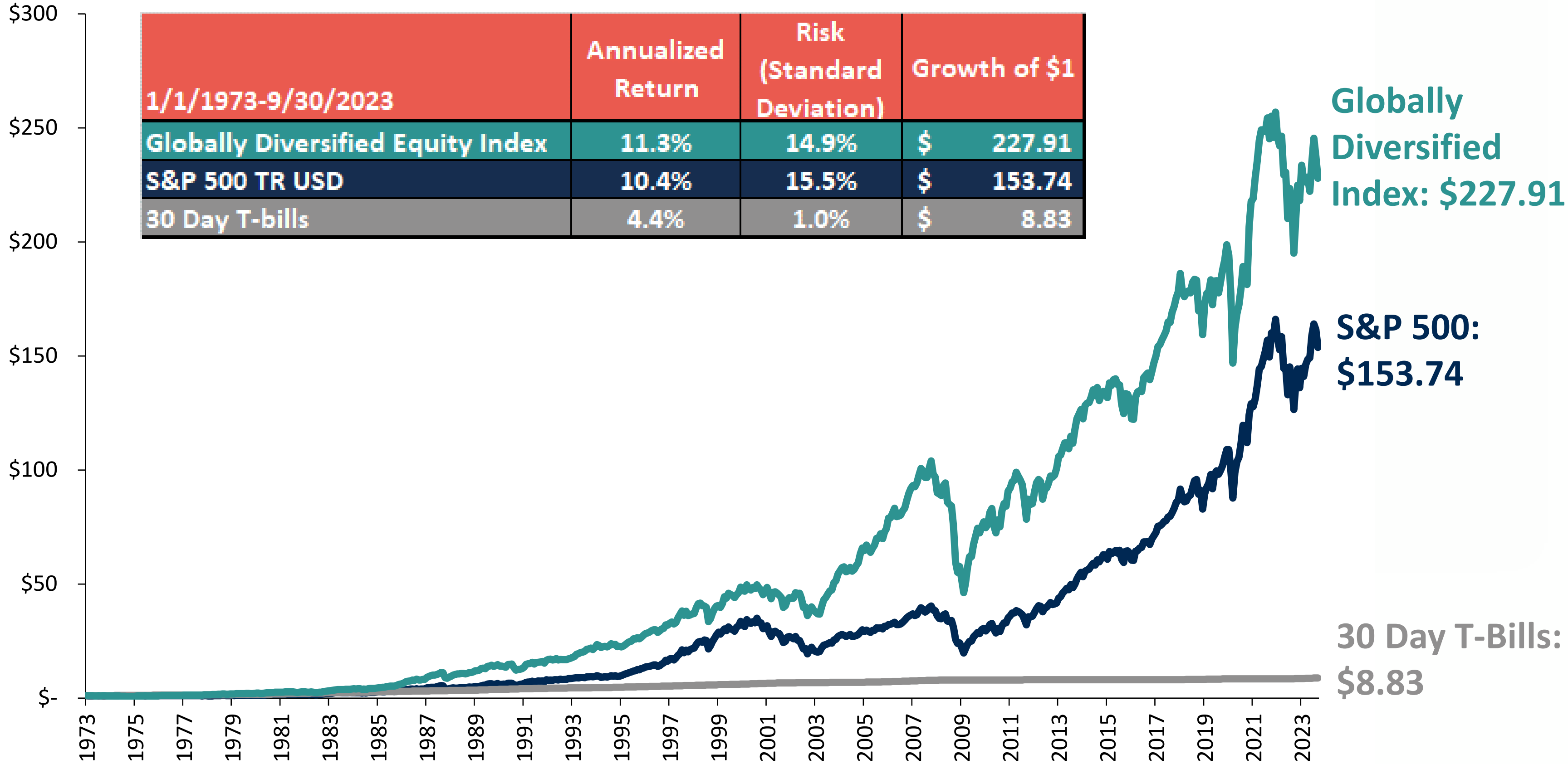
Market	Current P/E (NTM)	10 Year Average	Overvalued / Undervalued
US Large (S&P 500)	18.7	17.6	+1.1
US Large Growth (Russell 1000 Growth)	25.7	22.0	+3.7
US Large Value (Russell 1000 Value)	14.1	15.0	-0.9
US Small (Russell 2000)	19.5	23.6	-4.1
Int'l Developed (MSCI EAFE)	12.9	14.3	-1.4
Emerging Markets (MSCI EM)	11.6	12.1	-0.5

Source: Eaton Vance Monthly Market Monitor December 2023. Source: FactSet as of 11/30/23. NTM P/E is market price per share divided by expected earnings per share over the next twelve months. Data provided is for informational use only.

Global Diversification Outperformed with Less Risk

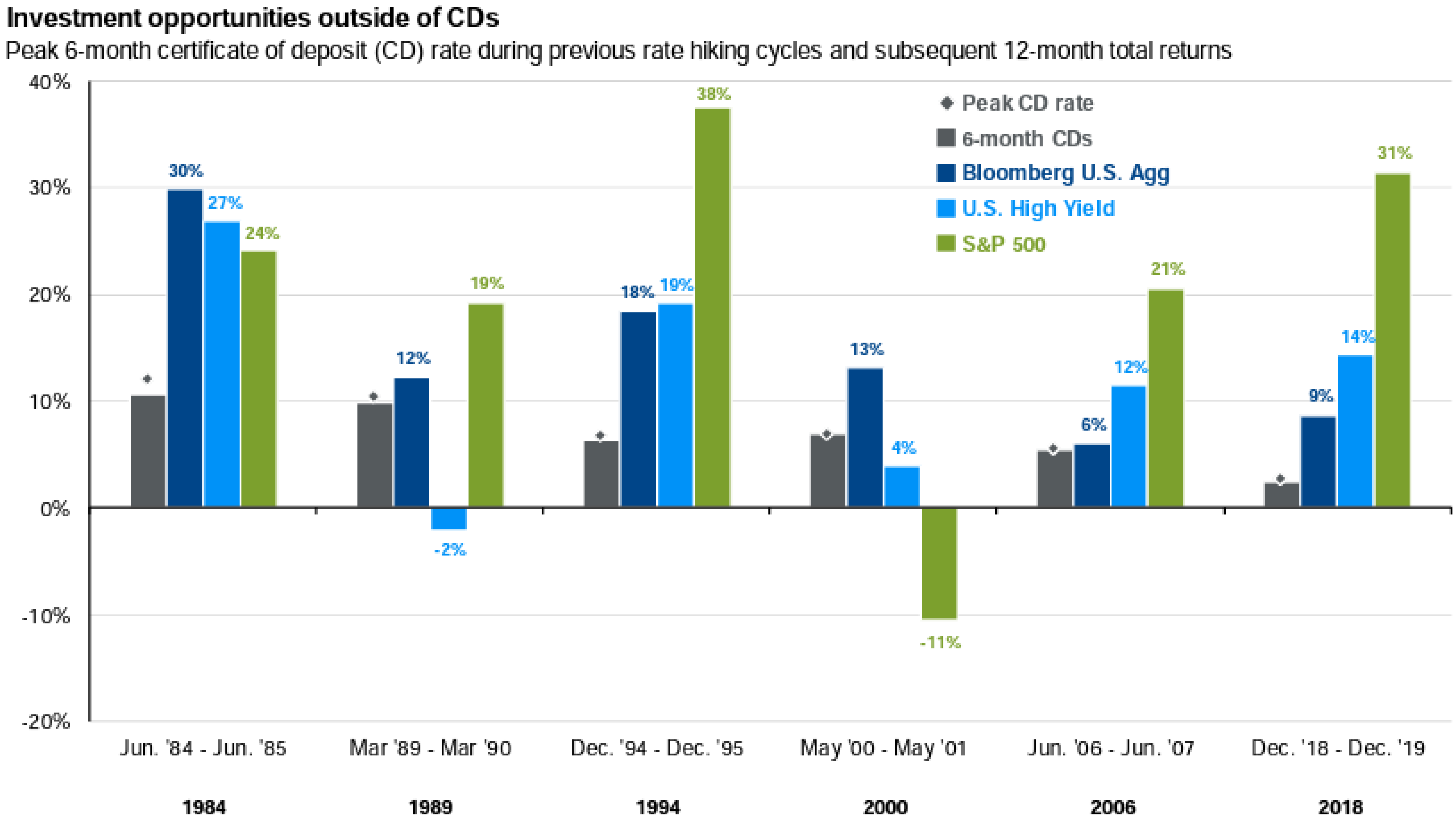
Despite outperformance in recent years by U.S. stocks (S&P 500), a globally diversified stock portfolio produced a higher return with less risk over the long run.

1/1/1973-9/30/2023	Annualized Return	Risk (Standard Deviation)	Growth of $1
Globally Diversified Equity Index	11.3%	14.9%	$ 227.91
S&P 500 TR USD	10.4%	15.5%	$ 153.74
30 Day T-bills	4.4%	1.0%	$ 8.83



Source: Morningstar Direct, Savant Analysis. Date range: 1/1/1973-9/30/2023. See endnote 2 for Globally Diversified Index Composition.

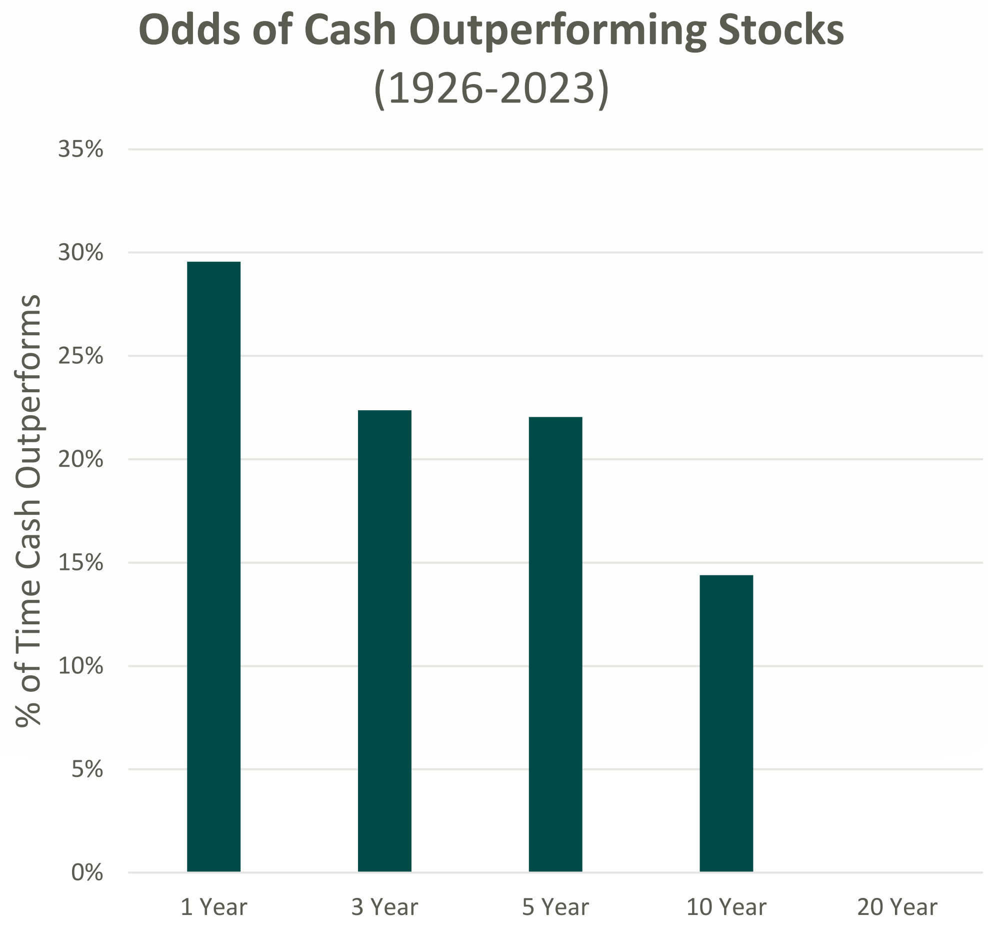
Cash is Not Always King



Source: Bankrate, Bloomberg, FactSet, Federal Reserve, Robert Shiller, J.P. Morgan Asset Management. U.S. High Yield: Bloomberg U.S. Corporate High Yield Index. The S&P 500 total return figure from the 1984 period was calculated using data from Robert Shiller. The analysis references the month in which the 6-month average CD rate peaked during previous rate hiking cycles. CD rate data prior to 2013 are sourced from the Federal Reserve whereas data from 2013 to 2023 are sourced from Bankrate. CD subsequent 12-month return calculation assumes reinvestment at the prevailing 6-month rate when the initial CD matures. *Guide to the Markets – U.S. Data are as of Sept 30, 2023.*

Opportunity Cost of Sitting in Cash is Huge

- When stocks are down, it may be tempting to go to cash.
- However, the probability of earning a higher return is small.
- On average, cash beat stocks only 30% of the time over one-year periods.
- As time goes on, the chances narrow significantly ending at 0% over 20 years.

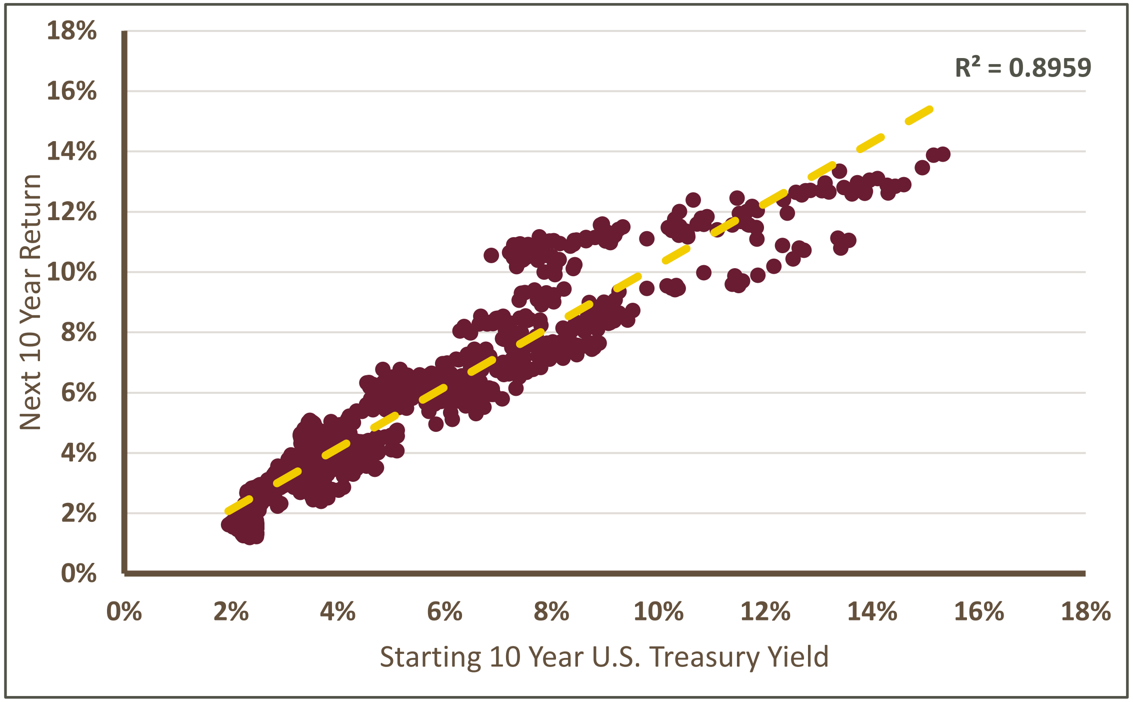


Source: Morningstar Direct. Stocks: IA SBBI US Large Stocks; Cash: IA SBBI US 30 Day Tbills; Data from 2/1/1926-12/31/2023 monthly rolling data.

Current Yields are Good Predictors of Returns

- A multi-sector approach to fixed income can offer a much-improved source of future return.
- Starting yields are the primary driver of long-term bond returns as evidenced by the historical data on the bottom right.

Bond Sector	Current Yield (YTW)
U.S. Aggregate	4.53%
U.S. IG Corps	5.06%
MBS	4.68%
U.S. High Yield	7.59%



Source: Ycharts, Bloomberg, FactSet, J.P. Morgan Credit Research, JPM Guide to the Markets, 12/31/23. Indices used are Bloomberg. Yield-to-worst is the lowest possible yield that can be received on a bond apart from the company defaulting. Current 10-Year Treasury Yield Regression data as of 12/31/2022. R2 refers to the predictive power a variable has in a regression. A higher R2 (maximum of 1.0) implies a variable is more significant. See Endnote 2 for additional disclosures.

Inflation

- Trend is your friend; inflation continues to slow across the economy
- Not out of the woods yet, but we're in final innings of policy tightening
- May take longer than expected to get to 2% target

Economy

- Nothing signaling imminent recession, but growth is expected to slow in 2024
- The "soft landing" few thought possible may indeed play out
- Economic forecasting is hard – the recession has been "six months away" for 18 months

Markets

- Risk-reward tradeoff in bonds has flipped from negative to positive
- Keep broad diversification across stocks and stay focused on long-term investment outcomes
- Timing the market is difficult; the hardest day to invest is always today

Asset Allocation

- Small cap and international stocks present attractive entry points
- Staying or moving to cash has opportunity costs
- Continued belief in "diversifying your diversifiers"
- Alternatives assets expected to continue to reinforce diversification and lower overall risk

DISCLOSURES

Endnote 1:

Indices used - Global stocks: MSCI ACWI IMI; U.S. Large Core: CRSP US Total Market; U.S. Large Value: Russell 1000 Value; U.S. Large Momentum: MSCI USA Momentum Index; U.S. Large Quality: MSCI USA Sector Neutral Quality Index; U.S. Small Core: Russell 2000; U.S. Small Value: Russell 2000 Value; International Large Core: MSCI EAFE; International Large Value: MSCI EAFE Value; International Small Core: MSCI EAFE Small Cap; International Small Value: MSCI EAFE Small Value; Emerging Markets: MSCI EM; Global REITs: S&P Global REIT; Short-Term Bond: Bloomberg US Govt/Credit 1-3 Yr; Intermediate-Term Bond: Bloomberg US Agg Bond; International Bond: Bloomberg Global Aggregate ex US Hdg USD; Inflation-Adjusted Bond: Bloomberg Gbl Infl Linked US TIPS; Multi-Sector Bond: 1/3 Bloomberg US Corporate High Yield, 1/3 Bloomberg US MBS, 1/3 Bloomberg EM Ex US Agg TR USD; Trend Following: Credit Suisse Mgd Futures Liquid; Event Driven: Wilshire Liquid Alt Event-Driven (appended with additional indices prior - available upon request); Reinsurance: SwissRe Global Cat Bond; Real Assets: In the current month – DJ Brookfld Global Infra; earlier – custom blend of DJ Brookfld Global Infra, S&P Global LargeMidCap Commodity and Res, S&P Global Timber & Forestry, DJ Commodity, DJ Brookfld Global Infra Broad Market Corp Bond, S&P Global LargeMidCap Commodity and Res Corp Bond, S&P Global Dev Sovereign Inflation-Linked Bond (appended with additional indices prior to inception - available upon request); Direct Lending: Cliffwater Direct Lending-Senior (most recent quarter uses Morningstar Lev Loan BB due to data lag).

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Historical performance results for investment indices, benchmarks, and/or categories have been provided for general informational/comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results.

DISCLOSURES

Endnote 2:

Index returns assume reinvestment of all distributions and unlike mutual funds, do not reflect fees or expenses. It is not possible to invest directly in an index.

Globally Diversified Index Constituent Indices

Treasury Bills – IA SBBI U.S. 30 Day T-Bill Index

U.S. Large Core Stocks – S&P 500 TR Index (1/1970-6/2000), CRSP US Total Market TR Index after 6/2000

U.S. Large Value Stocks – Fama-French Large Value (1/1973-1/1987), Russell 1000 Value TR Index after 1/1987

U.S. Large Momentum Stocks – Fama-French High Prior Return (1/1927 – 11/1981), MSCI USA Momentum GR USD after 11/1981

U.S. Large Quality Stocks – Fama-French US High Profitability Index (1/1/1973 – 11/1988), MSCI USA Sector Neutral Quality GR after 11/1988

U.S. Small Stocks – IA SBBI US Small Stock TR (1/1973-12/1978), Russell 2000 TR Index after 12/1978

U.S. Small Value Stocks – Fama-French Small Value (1/1973-12/1978), Russell 2000 Value TR Index after 12/1978

Int'l Large Stocks – MSCI EAFE NR Index

Int'l Large Value Stocks – MSCI EAFE Index (1/73-12/74), MSCI EAFE Value Index (after 12/74)

Int'l Small Stocks – Dimensional International Small Cap Index (1/1973-12/2000), MSCI EAFE Small Cap NR Index after 12/2000

Int'l Small Value Stocks – Dimensional International Small Cap Index (1/1973-5/1994), MSCI EAFE Small Value NR Index after 5/1994

Emerging Markets Stocks – MSCI EAFE NR Index (1/1973-12/1987), MSCI EM GR Index (1/1988-1/2000), MSCI EM NR Index after 1/2000

Asset Class	Weight
U.S. Large Core Stocks	16.79
U.S. Large Value Stocks	21.51
U.S. Large Quality Stocks	2.80
U.S. Large Momentum Stocks	2.80
U.S. Small Stocks	4.46
U.S. Small Value Stocks	8.65
Int'l Large Stocks	5.85
Int'l Large Value Stocks	7.45
Int'l Small Stocks	6.65
Int'l Small Value Stocks	6.65
Emerging Markets	11.40
Global REITs	5.00