Q1 2024

Market Perspectives

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All charts and data from Bloomberg

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Market Dashboard

Overview | Chart of the Qtr. | Key Themes | Fixed Income | Equities

Bond Index Returns

Annualized

	Q1	YTD	1 Yr	3 Yr	5 Yr
Bloomberg Municipal 1-10Yr Index	-0.4%	-0.4%	2.2%	-0.0%	1.4%
Bloomberg US Aggregate Bond Index	-0.8%	-0.8%	1.7%	-2.5%	0.4%
Bloomberg US High Yield Index	1.5%	1.5%	11.2%	2.2%	4.2%

Treasury Yields

	1 Yr	2 Yr	5 Yr	10 Yr	30 Yr
Yield by Maturity	5.0%	4.6%	4.2%	4.2%	4.3%

FX and Commodity Returns

Annualized

	Q1	YTD	1 Yr	3 Yr	5 Yr
Bloomberg Dollar Index	2.7%	2.7%	1.2%	2.6%	0.8%
Bloomberg Commodity Index	0.9%	0.9%	-5.7%	6.0%	4.2%
WTI Crude Oil	17.7%	17.7%	21.8%	23.9%	3.5%
Natural Gas	-28.7%	-28.7%	-50.1%	-28.4%	-31.6%
Copper	3.7%	3.7%	0.3%	1.7%	7.1%
Gold	7.4%	7.4%	12.1%	8.5%	10.2%

Equity Index Returns

Annualized

US Equities	Q1	YTD	1 Yr	3 Yr	5 Yr
Russell 3000	10.0%	10.0%	29.3%	9.8%	14.3%
S&P 500	10.6%	10.6%	29.9%	11.5%	15.0%
Russell 2000	5.2%	5.2%	19.7%	-0.1%	8.1%
Non-US Equities	**Q1**	**YTD**	**1 Yr**	**3 Yr**	**5 Yr**
MSCI All Country World ex. US	4.7%	4.7%	13.3%	1.9%	6.0%
MSCI EAFE	5.8%	5.8%	15.3%	4.8%	7.3%
MSCI Emerging Markets	2.4%	2.4%	8.2%	-5.0%	2.2%

US Equity "Style Box" Returns*

*Uses Russell indexes

Q1

	Value	Core	Growth
Large	9.0%	10.3%	11.4%
Mid	8.2%	8.6%	9.5%
Small	2.9%	5.2%	7.6%

1 Yr

	Value	Core	Growth
Large	20.3%	29.9%	39.0%
Mid	20.4%	22.3%	26.3%
Small	18.8%	19.7%	20.3%

Q1 2024 Recap

Overview | Chart of the Qtr. | Key Themes | Fixed Income | Equities

Key Themes

- Growth and labor market data continued to surprise to the upside in Q1, while inflation figures stalled above the Fed's 2% target. Investors backtracked on their dovish Fed bets, reducing the number of implied rate cuts in 2024 from six to three.
- Slides 6-9 explore where the consensus views have missed the mark since the beginning of 2023 and what to watch going forward.

Fixed Income

- Bond yields retraced some of their dramatic Q4 declines as investors acknowledged that policy rates may need to stay higher for longer to combat stubbornly-high inflation.
- Credit markets sidestepped the hit from higher rates during the quarter as high yield bonds remained well bid.

Equities

- Equities remained buoyant in Q1, driven by ongoing leadership from megacap tech names. The rally broadened in March to include more value and small cap participation, but large cap growth continued to dominate on a trailing 12-month basis.
- US dollar strength was a headwind for non-US returns in Q1, but Japan and Europe posted strong performance in the period. Data out of China showed signs that the worst may behind the biggest weighting in the EM index, but EM stocks continued to be laggards in a global portfolio.

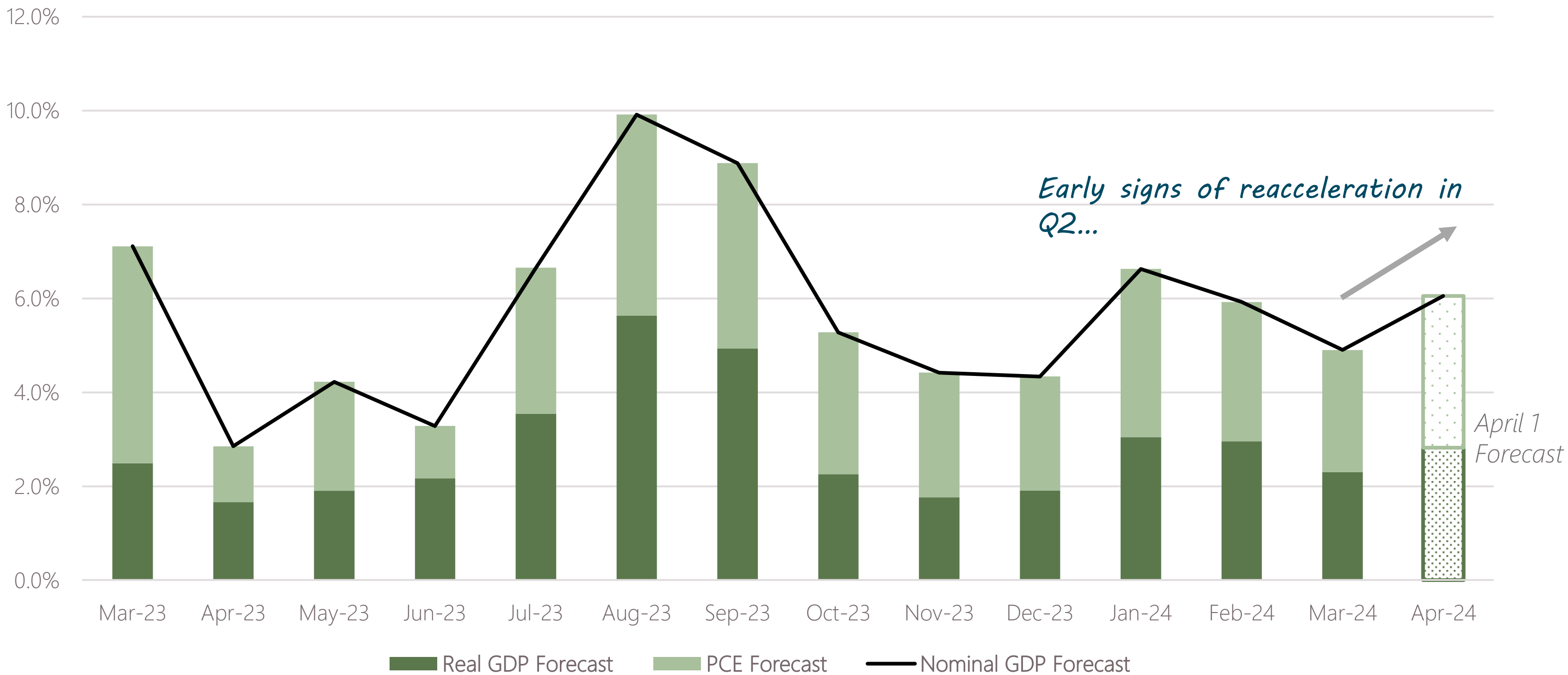
Chart of the Quarter – Nominal GDP

Overview | Chart of the Qtr. | Key Themes | Fixed Income | Equities

- Real-time forecasting models from the Atlanta Fed point to a healthy nominal GDP environment. Expectations for a "soft landing" that featured moderating growth and inflation data are giving way to a "no landing" scenario.

No Landing: Strong Economic Growth and Sticky Inflation

Atlanta Fed GDPNow Real GDP and PCE Inflation Forecasts (Month-End)



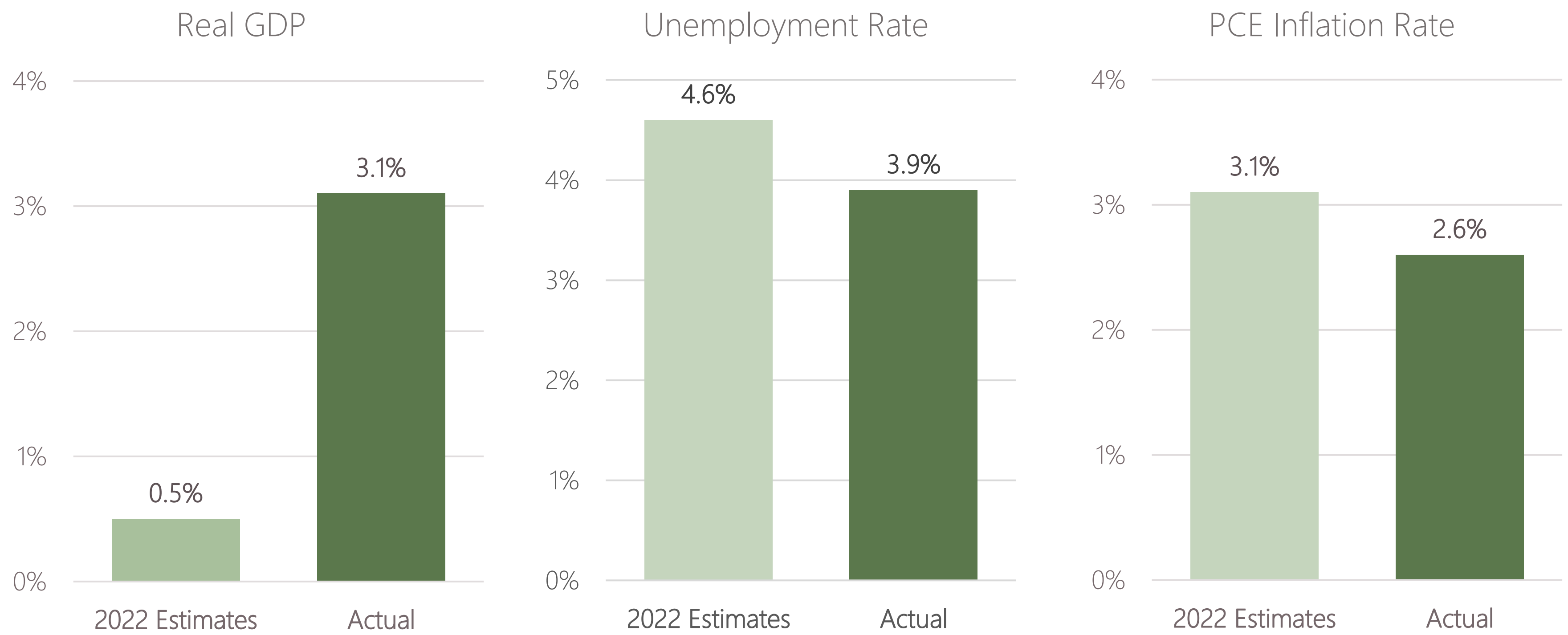
US Economy: Defying Expectations

After widespread calls for a recession, the economy continues to exceed expectations

Overview | Chart of the Qtr. | Key Themes | Fixed Income | Equities

- Economic data was surprisingly good in 2023—particularly relative to the Fed's expectations. The graphic below shows the difference between Fed forecasts and realized figures across growth, the labor market, and inflation.

2023 Economic Data: Fed Estimates (in Dec. 2022) vs. Realized Figures



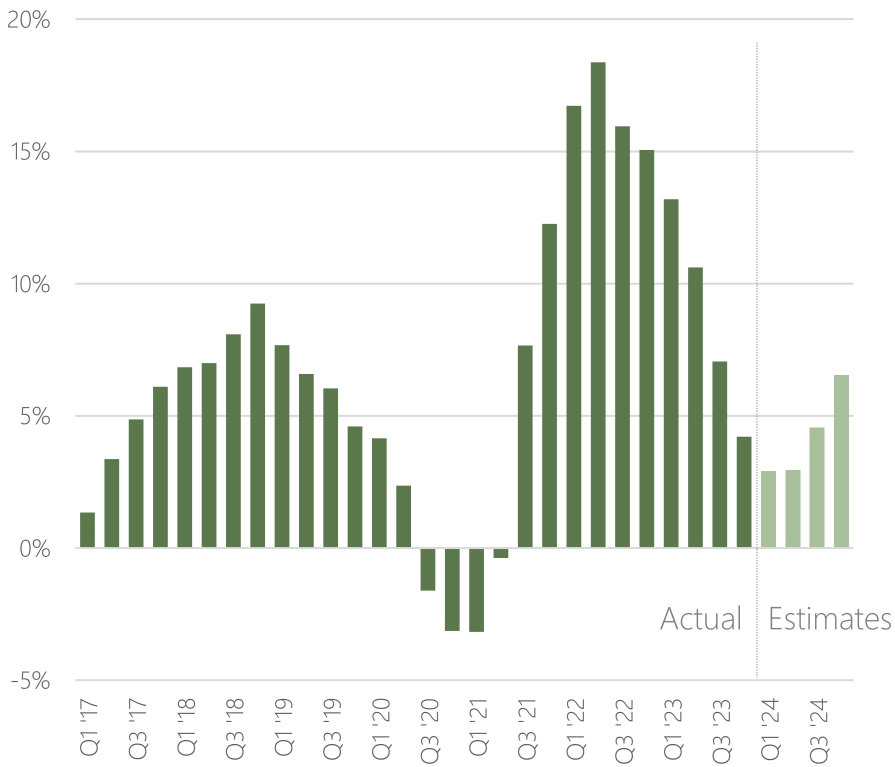
Corporate Health: Sidestepping a Downturn

Strong corporate fundamentals have supported the market rally

- Concerns about a deteriorating economic backdrop impacting corporate health appear to be waning. In fact, revenue growth is expected to inflect higher over the balance of 2024.

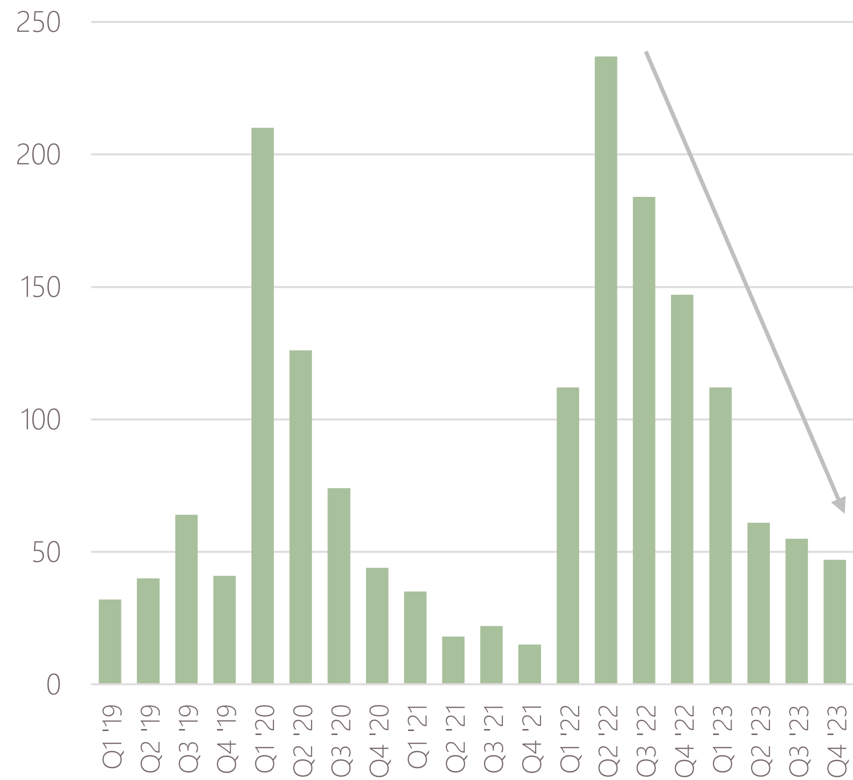
Revenue Growth Expected to Accelerate as 2024 Progresses

S&P 500 Revenue Per Share Growth (YoY)



Recession Fears Are in the Rearview

# of S&P 500 companies citing "recession" on earnings calls

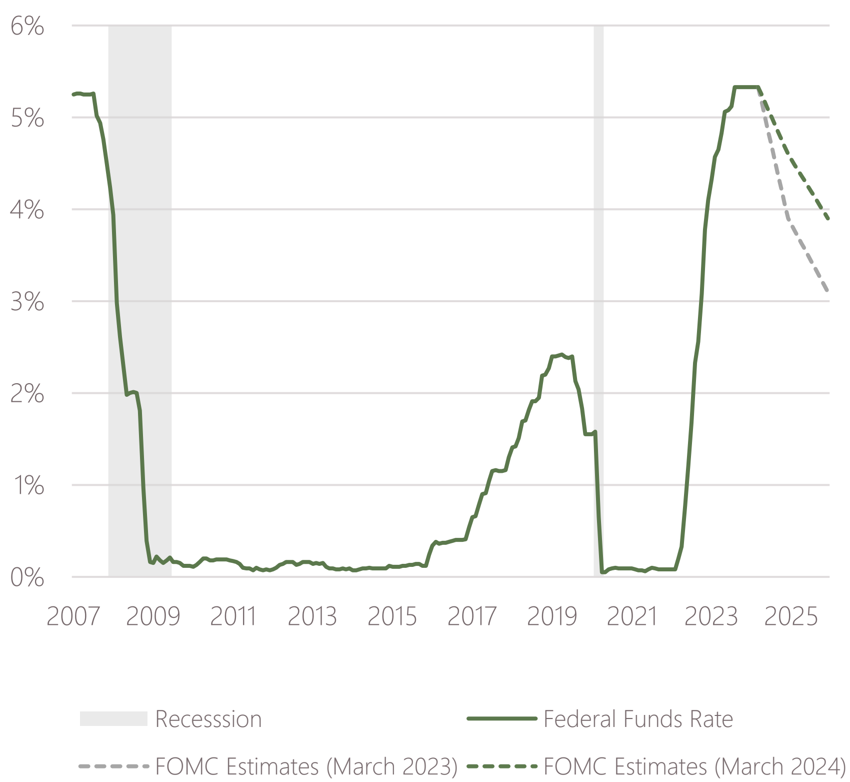


Federal Reserve: Pause, Pivot, and Party On

A better-than-expected economy has tempered expectations for more aggressive easing

- Following a rapid rate hiking cycle, the Fed paused and pivoted to a more dovish stance in 2023. Investors assumed the Fed would cut rates aggressively in 2024, but strong economic data has lessened the need for policy easing.

Higher for Longer: Resetting Interest Rate Expectations
Federal Funds Rate and FOMC Estimates



Number of Rate Cuts Expected in 2024
Based on Federal Funds Futures

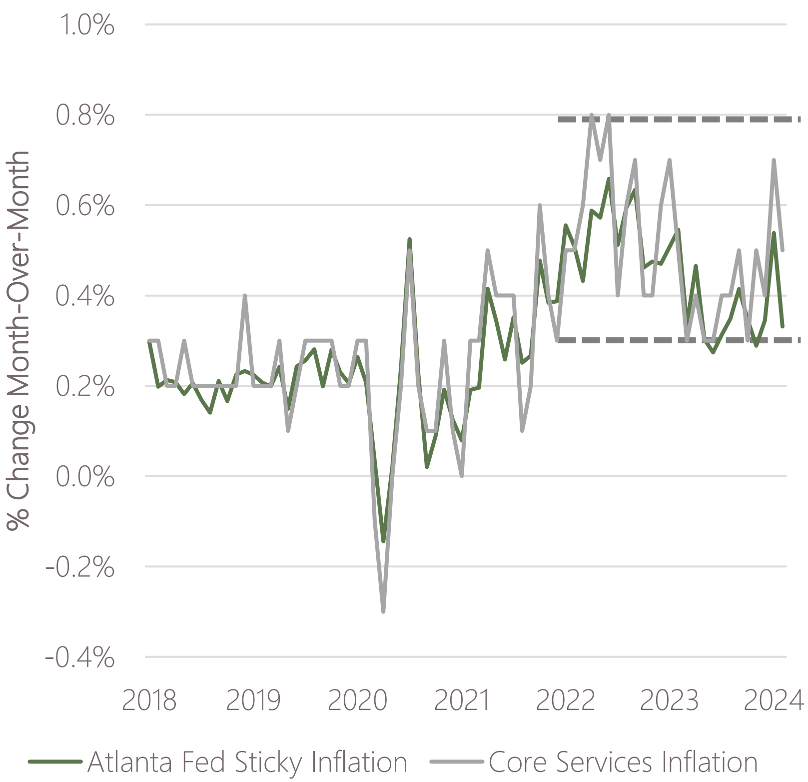
Inflation: The Last Mile Gets Bumpier

Sticky inflation is the biggest challenge faced by the Fed in its fight against rising prices

- After inflation declined meaningfully in 2023, recent data points suggest the "last mile" to the Fed's 2% target will be challenging. Stubbornly high prices would imply fewer rate cuts and likely put upward pressure on yields.

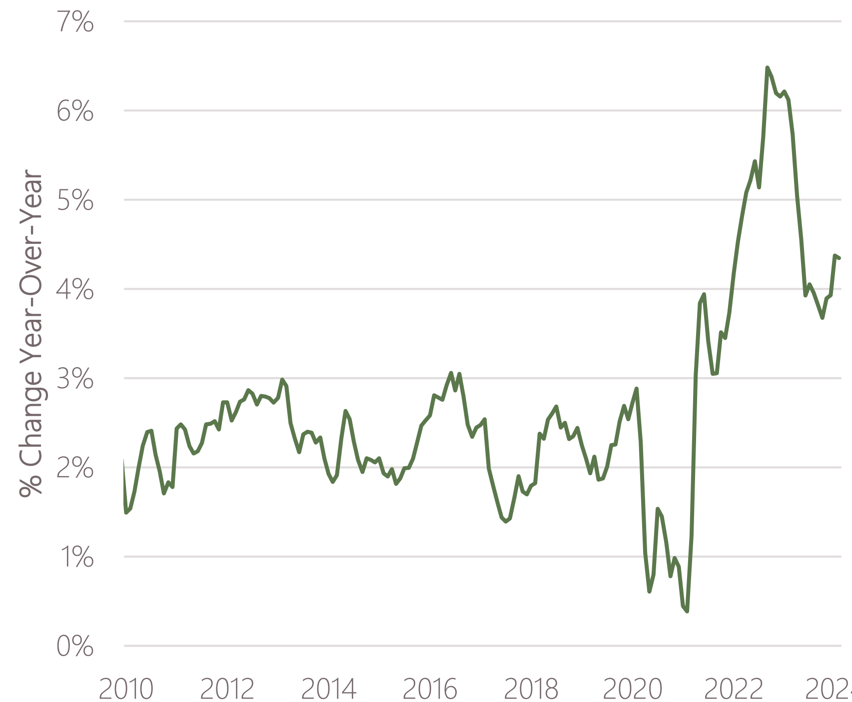
Stubborn Inflation Could Derail Any Policy Pivot

Core Services and Atlanta Fed Sticky Inflation (% MoM)



Supercore Inflation Has Started to Rebound

Core Services Excluding Housing (% YoY)



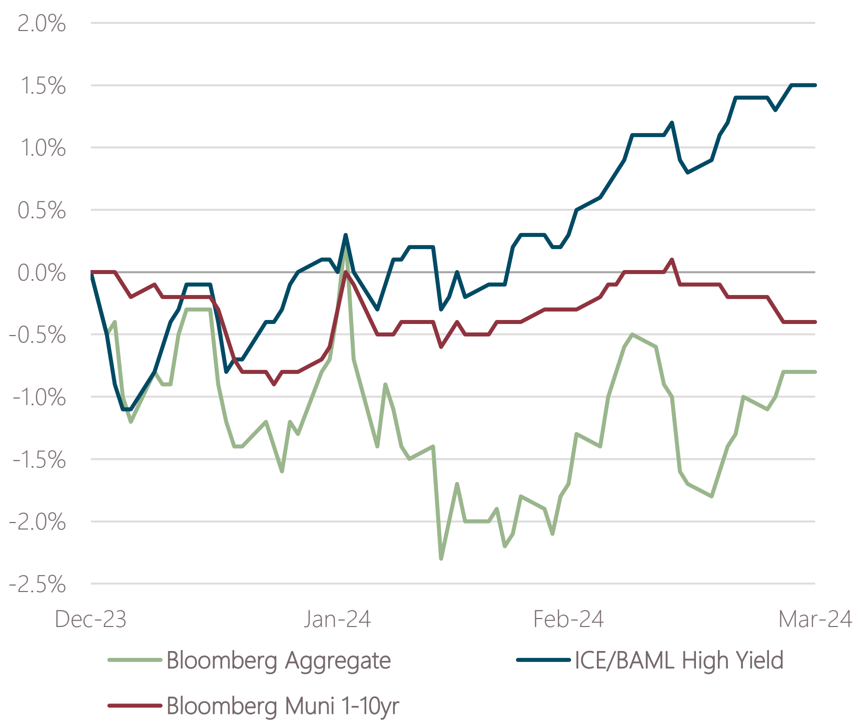
Bond Market Returns

Returns for major bond indices

- Interest rates rose during the quarter as investors grappled with a "higher for longer" Fed policy regime. Rising rates were a headwind for core taxable and tax-exempt returns in the quarter. Credit fared better; investors showed little concern about default risk and embraced the income premium on offer within high yield.

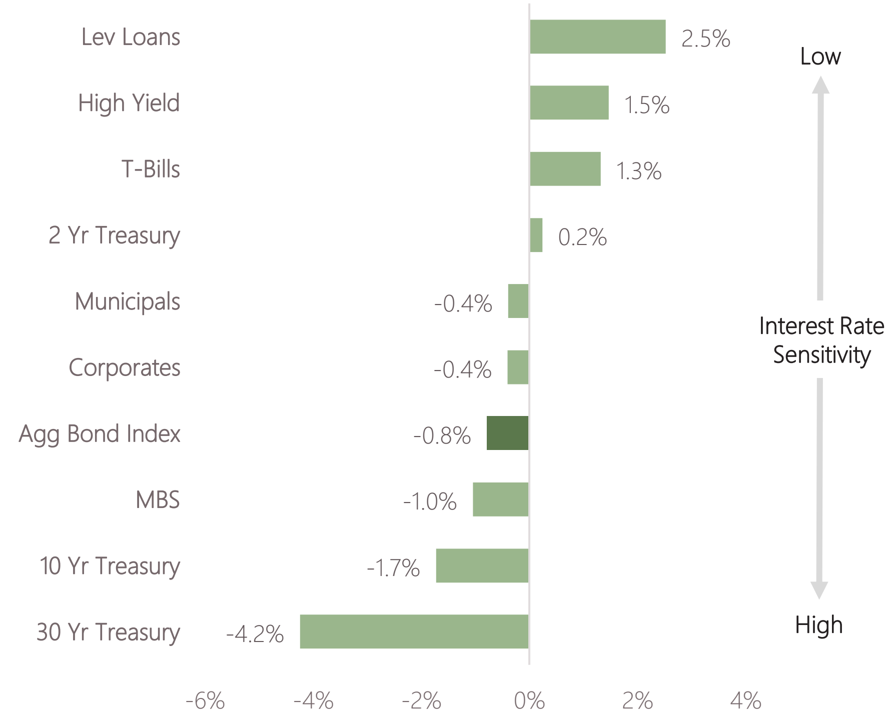
Higher Rates Were Headwinds for Core Bonds

Major Bond Index Returns – YTD



Shorter Duration Segments Outperform in Q1

Returns – YTD



- Short-term Treasury yields are most heavily influenced by the immediate path of Fed policy and reflected the likelihood of fewer cuts in 2024. Longer-term Treasury yields responded to further evidence that Fed policy is not as restrictive as initially thought, suggesting that we may be shifting to a structurally higher interest rate regime.

Waiting for Cuts… Rates Drift Higher in Q1
Treasury Yields – YTD

- The significant repricing in fixed income markets has restored "income" to fixed income. With current bond yields close to decade highs and meaningfully above the past 10-year averages, today's higher yields improve the availability of income and improve the risk/reward for the asset class over the long-term.

Fixed Income Yields Remain Historically Attractive

Current Yields vs 10-Year Range

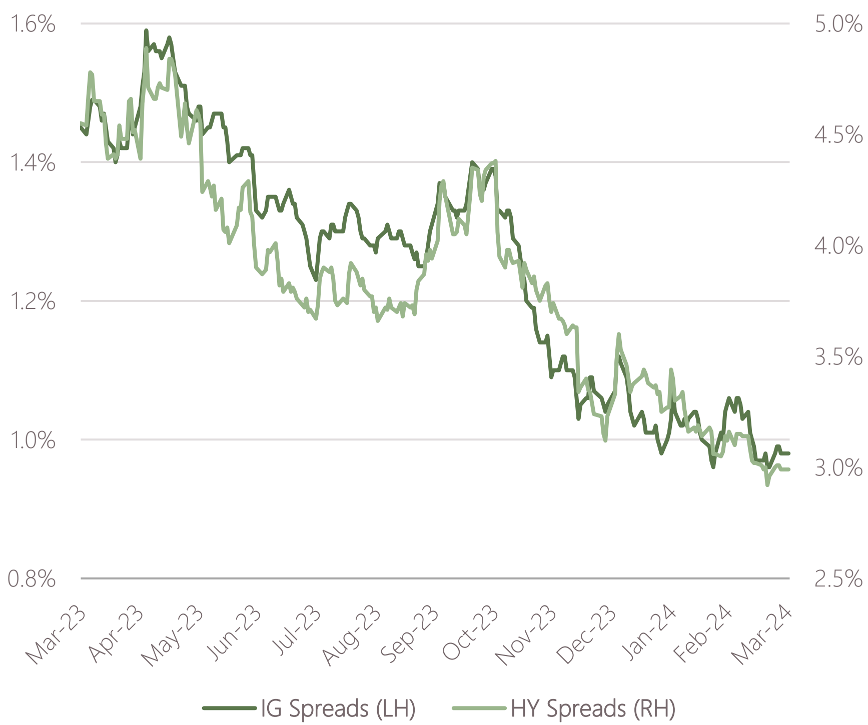
Credit Spreads

Investment grade and high yield credit spreads

- The incremental yield investors command for owning risky bonds over Treasuries continued to compress in Q1, reflecting an upbeat assessment of corporate fundamentals. As long as economic growth remains solid in 2024, expect capital to continue flowing into credit.

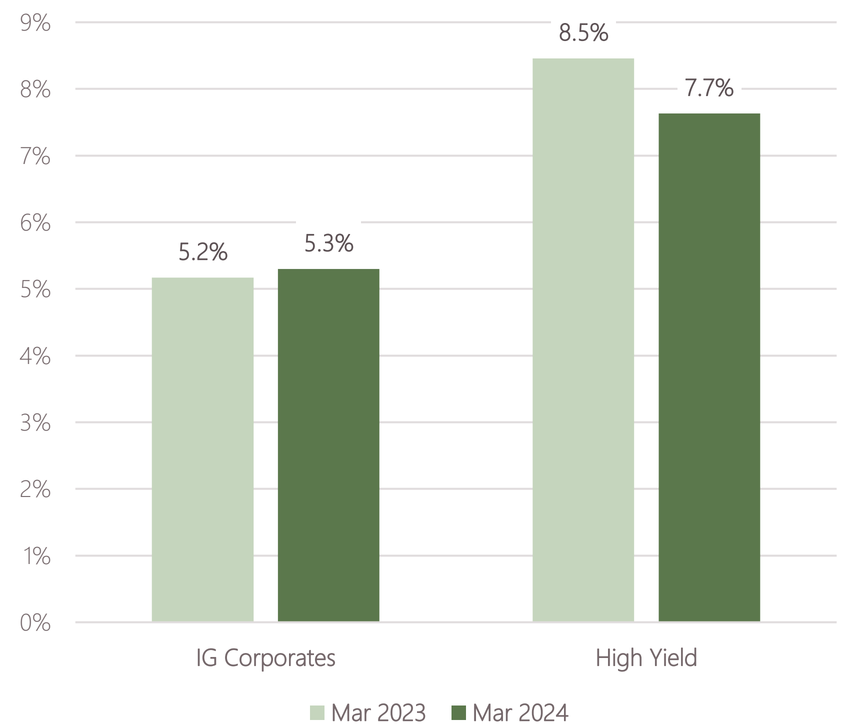
What Default Risk? Spreads Show No Signs of Fear

Investment Grade and High Yield Corporate Bond Spreads



Declining Credit Risk Has Offset Higher Interest Rates

Yield to Worst: Investment Grade and High Yield Bonds



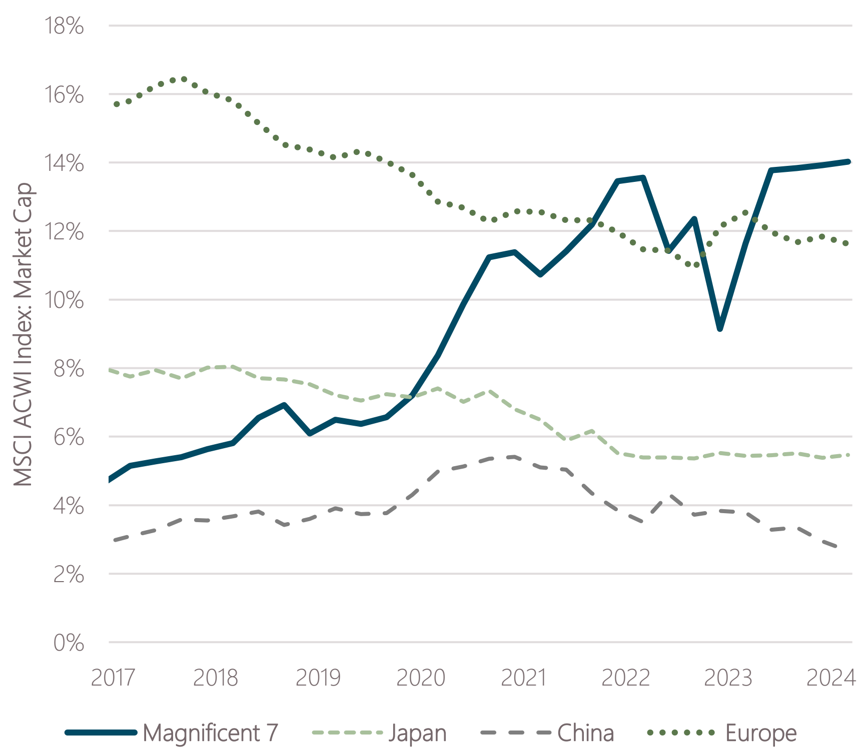
Stock Market Returns YTD – US vs. Non-US

Russell 3000 vs. MSCI All Country World ex. USA

- US stocks, led by a cohort of megacap tech leaders, continued to outperform non-US stocks in Q1. Foreign exchange was also a headwind for US dollar-based investors in Q1; the stronger dollar was roughly a 3.5% drag on returns for the ACWI ex. USA Index.

US Stocks Bested Non-US Markets Again in Q1
US (Russell 3000) vs. Non-US (MSCI ACWI ex. USA)

Magnificent 7 Constituents Dominate Global Markets
Global Market Cap %: Magnificent 7 vs. Major Countries/Regions

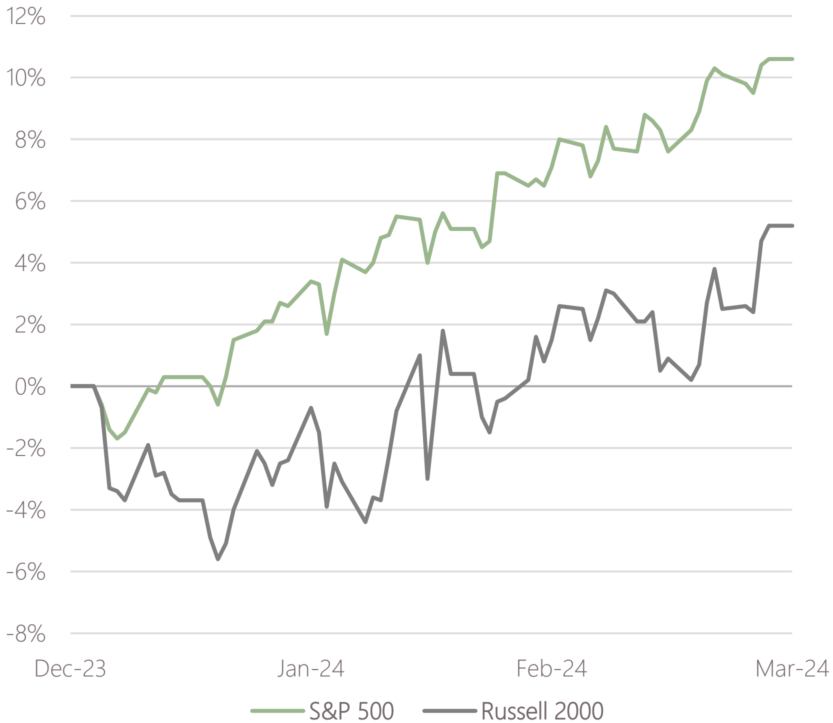


Stock Market Returns YTD – US Large vs. Small

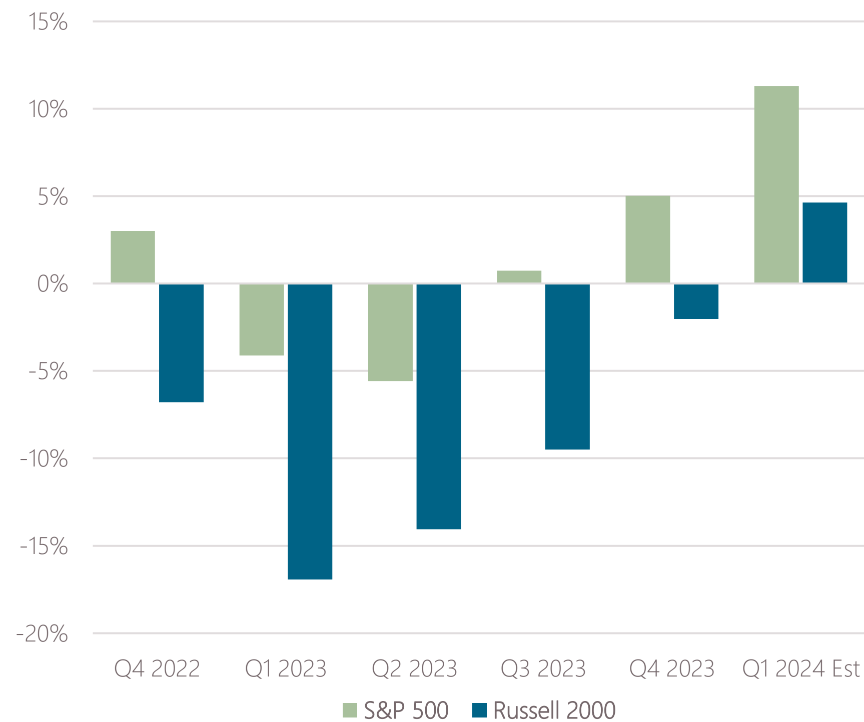
S&P 500 vs. Russell 2000

- Uninspiring earnings growth and outsized exposure to regional banks—still under pressure after last year's bank failures—have held back small cap stocks despite favorable relative valuations. Megacap tech leaders have continued to deliver strong earnings growth and garner investor flows.

The Bigger, The Better: Large Cap Stocks Continue to Outperform
US Large Caps (S&P 500) vs. Small Caps (Russell 2000)



Large Cap Dominance Supported by Strong Earnings Growth
Year-Over-Year Earnings Growth: Large vs Small Cap



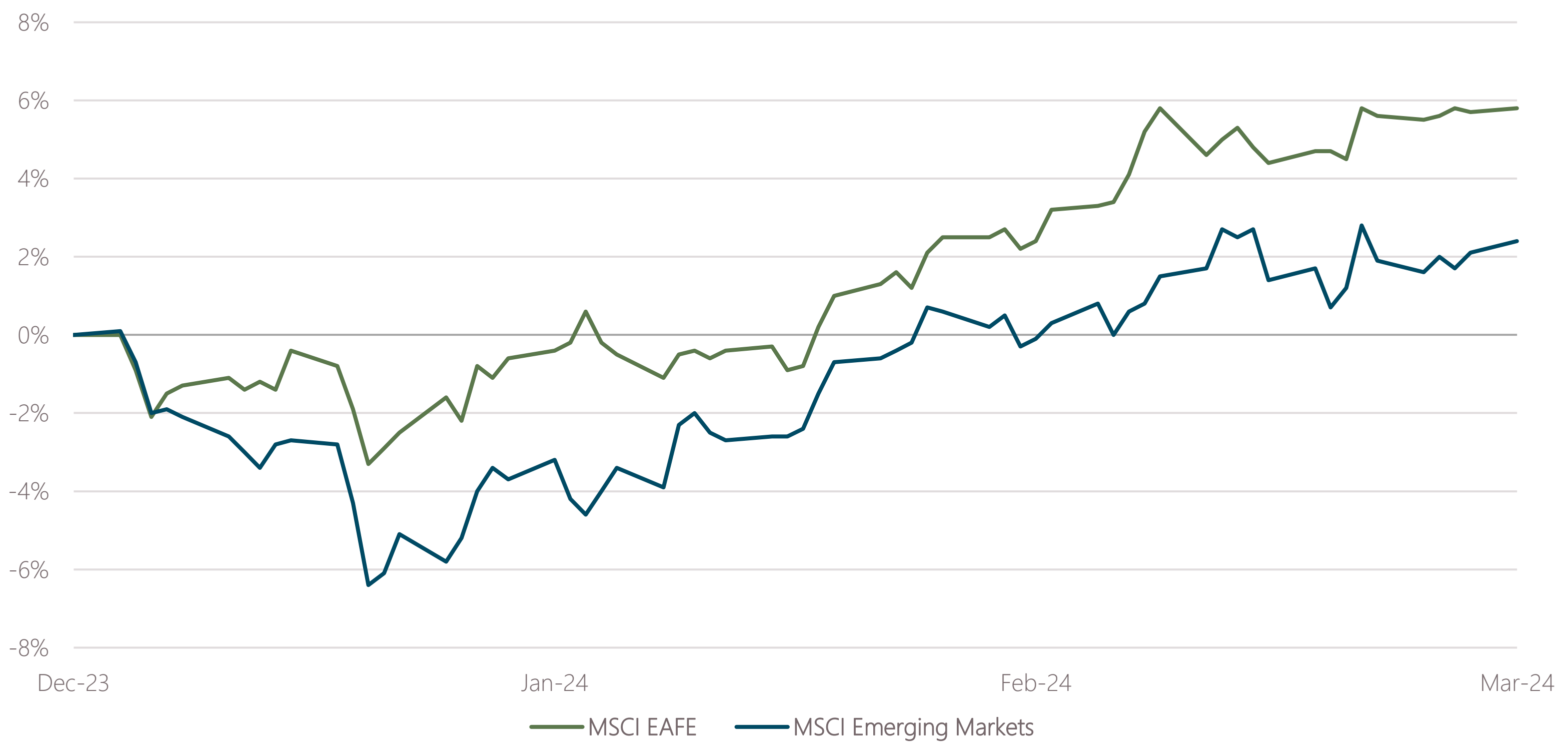
Stock Market Returns YTD – Developed Int'l vs. EM

MSCI EAFE vs. MSCI Emerging Markets

- Global trade and manufacturing data began pointing toward a cyclical upswing – a welcome development for economically-sensitive markets like Japan and Europe. EM stocks again lagged their developed markets brethren, but signs of a budding recovery in China could provide a catalyst for stronger performance going forward.

Japan and Europe Drove Developed International Outperformance

Developed International (MSCI EAFE) vs. Emerging Markets (MSCI EM)



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