Monthly CIO View

Strategy Snapshot

March 2024

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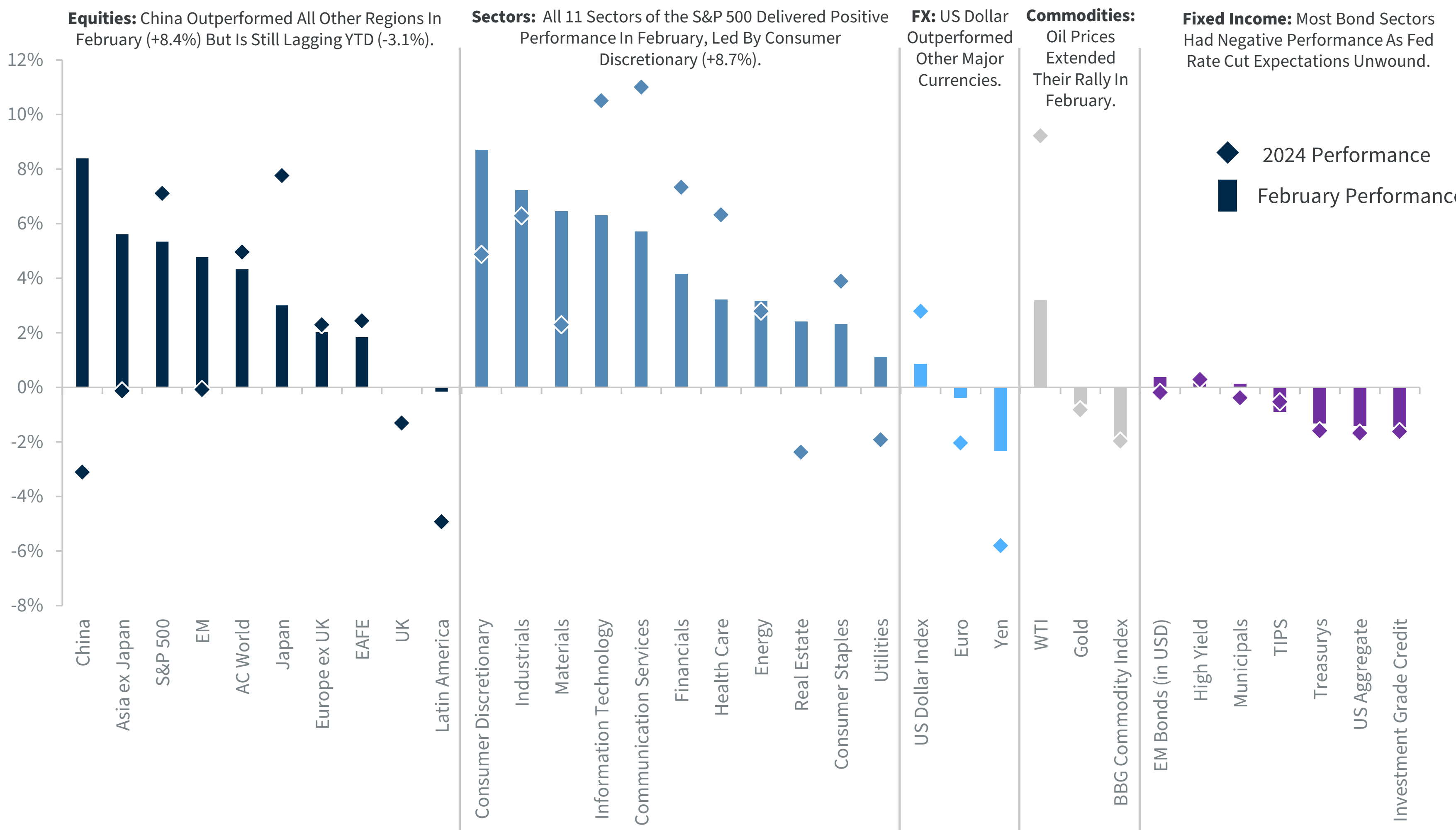
Chief Investment Officer

Returns By Asset Class | February 2024

Returns by Asset Class



Data as of 2/29/2024. All international equity indices are MSCI indices and in USD. Diamonds represent the year-to-date total returns and bars represent monthly returns.

Global Economy | The US Economy Remains A Standout

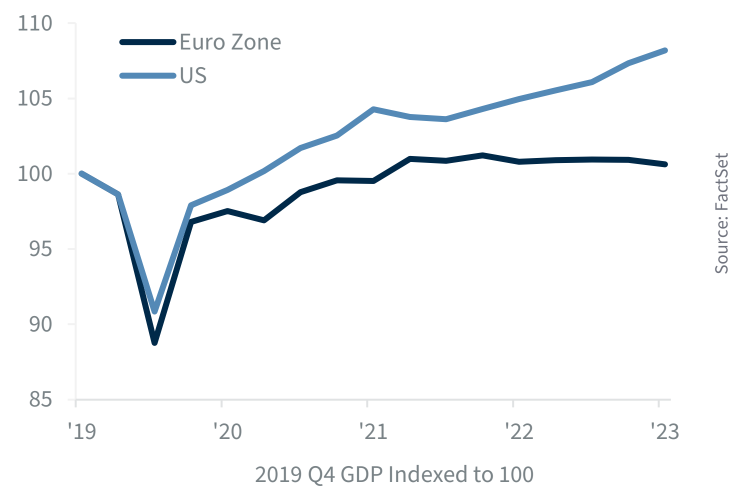
Global Economy | Recent Trends

- **Global growth is diverging, with the US economy remaining in the driver's seat, European growth flatlining and China's economy is still struggling to recover.** US growth surpassed expectations in 2023 (+2.5%) and that momentum has carried forward into the new year, with the Atlanta Fed GDPNow forecasting 1Q24 growth of 2.1%.
- **Strong jobs growth has been the key to a resilient US consumer, however, there are signs that consumption growth may be getting fatigued.** While the labor market remains healthy (the unemployment rate has been at or below 4.0% for 26 consecutive months), slowing retail sales, rising credit card delinquencies and climbing debt levels are a concern.
- **The hotter than expected inflation print (+0.4% MoM) and strong payrolls report (+353k) caused a big repricing in Fed rate cut expectations.** While investors climbed a wall of worry, the Fed's preferred measure of inflation (core PCE) slowed to an annual pace of 2.8%—its lowest level since March 2021. The cycle peak was 5.6% in February 2022.
- **Underlying inflation in Europe has remained on a steady, downward path.** In fact, inflation has fallen at a faster clip than ECB officials expected (thanks to falling energy prices), declining to 2.6% from a peak of 10.6% in October 2022. **China's battle with deflation** (-0.8% YoY) continued, prompting policymakers to stimulate more aggressively.

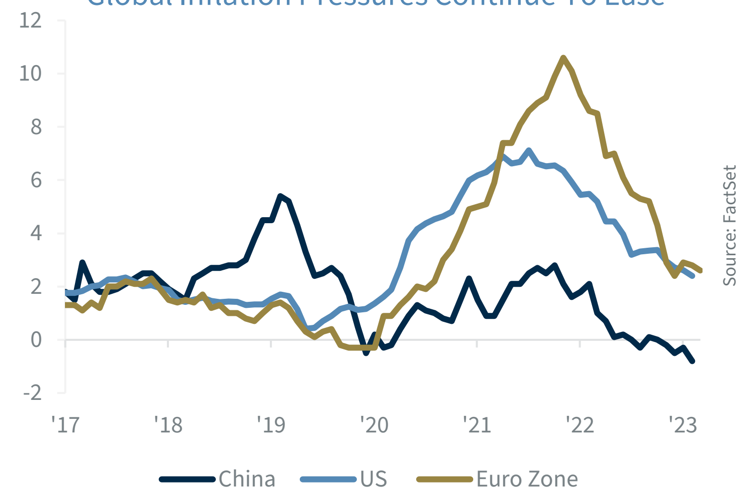
Global Economy | 12-Month Outlook

- **US economic growth has entered 2024 with solid momentum,** underpinned by an historically tight labor market and a strong consumer, which continues to be powered by solid income growth. We expect growth to slow from an above-trend pace to a 1.7% pace in 2024 as the lingering impacts from the Fed's restrictive policy weigh on economic activity.
- **There are growing signs that consumer spending is getting fatigued.** While the labor market remains strong and consumer balance sheets are still healthy, cracks are beginning to appear (i.e., rising credit card balances, climbing delinquencies, and falling savings rates). There have also been anecdotal reports of rising layoff announcements.
- **Europe's economy flatlined in 2023 and is entering 2024 on a weak note.** Economic activity has been hampered by aggressive monetary policy tightening, subdued consumer spending and a manufacturing downturn, particularly in Germany (the largest country in the region). On a brighter note, inflation pressures are receding faster than expected.
- **Policymakers are taking more aggressive actions to prop up the Chinese economy,** which has been reeling from a deep property crisis, subdued consumer demand and high youth unemployment. Deflationary pressures have shown no signs of easing, prompting calls for the government to do more to counteract the negative sentiment.

European Growth Trails The US By A Wide Margin



Global Inflation Pressures Continue To Ease



Equities | Stocks Hit Record Highs

Global Equities | Recent Trends

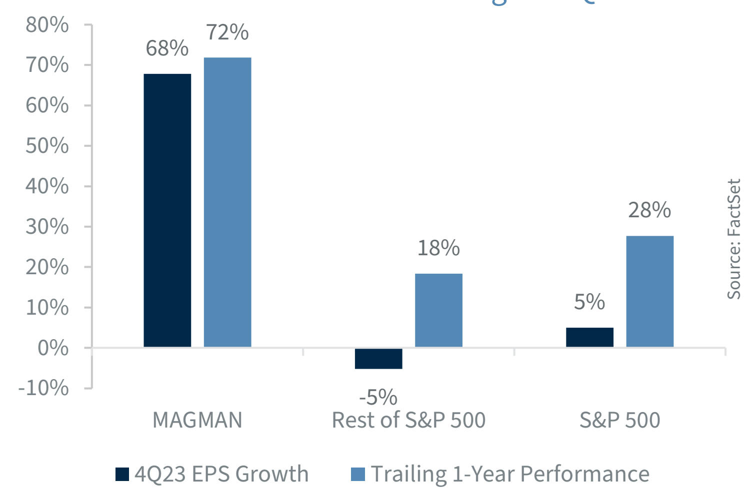
- **US equity markets continued to rally in February (+5.2%) with the S&P 500 Index climbing to another record high** (5,096) to close out the month. While February is typically a weaker month, the S&P 500 notched seven record highs during the month, while posting its second-best February over the last 30 years. Optimism for a soft landing, a solid finish to 4Q23 earnings season, continued AI euphoria, and increased buybacks drove returns.
- **With 4Q23 earnings season wrapping up, the S&P 500 posted its second consecutive quarter of EPS growth** (+5% YoY, slightly below 3Q23's +7% pace). Earnings were driven by Tech-related names as our composite of MAGMAN (Microsoft, Apple, Google, Meta, Amazon and NVIDIA) saw their earnings rise ~68% YoY while the rest of the Index saw a decline of 5%.
- **US small-cap equities (+5.7%) extended gains,** posting positive returns for the third time in four months. Despite recent gains and positive inflows from retail investors, the sector remains relatively undervalued and is ~15% below all-time highs.
- **Japanese equities (+3.0%) reached an all-time-high in February for the first time since 1989**, rallying for the fourth straight month despite the country entering a 'technical recession.' Within the emerging markets, **Asia outperformed LATAM by the widest margin since November 2022** as improving sentiment in the country pushed the region higher.

Global Equities | 12-Month Outlook

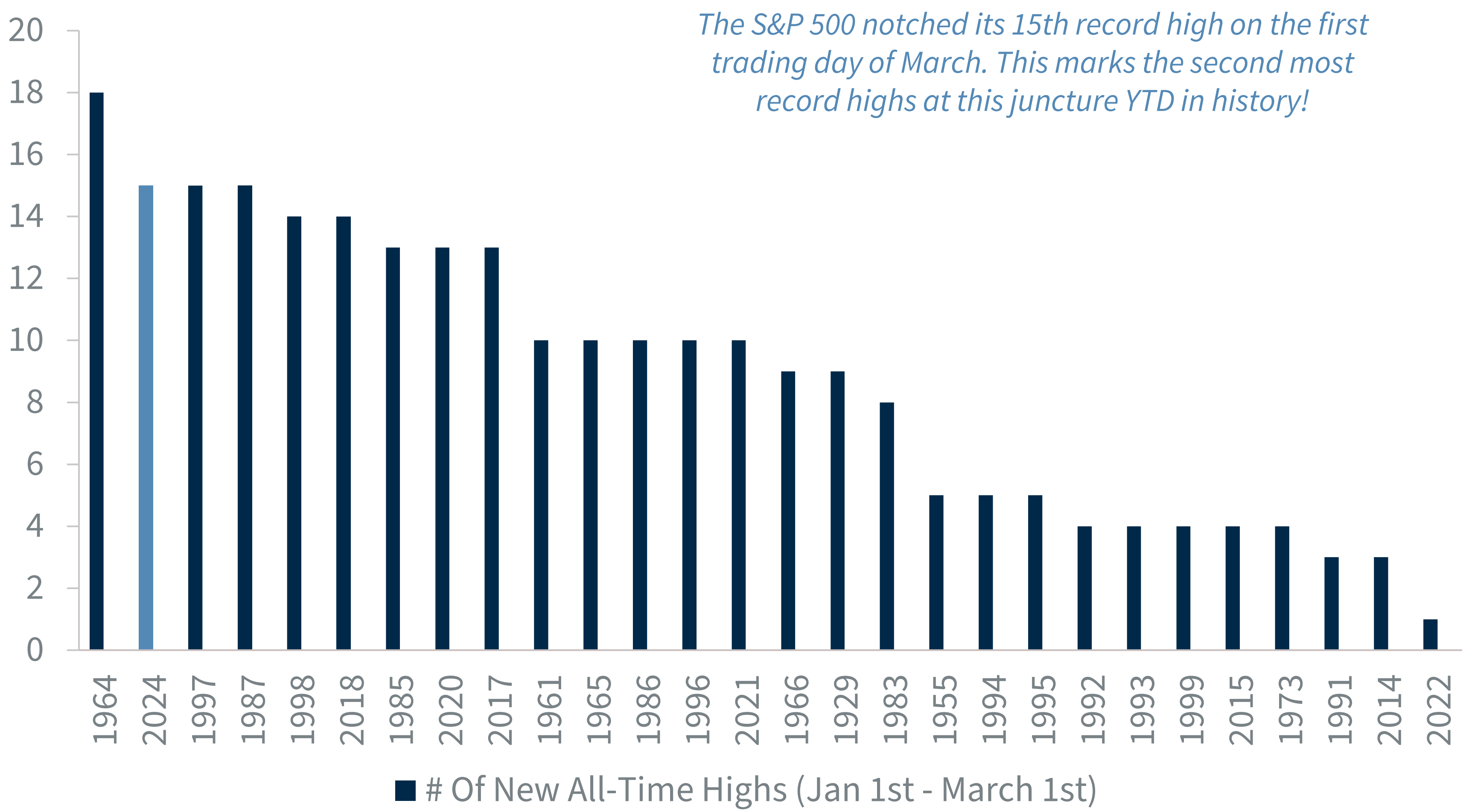
- **Given the extraordinary rally over the past four months, we believe investors should remain cautious given elevated valuations.** An expected slowdown in economic activity and earnings expectations should lead to increased volatility. P/E multiples are elevated relative to average as a lot of the good news has been priced into valuations. Our year-end target for the S&P 500 remains 4,850 ($225 EPS forecast and a 21.5x multiple).
- **We remain cautious on the market near term but continue to expect gains over the longer-term horizon.** From a magnitude and duration basis relative to averages, the current bull market remains in its early stages. Secular trends such as AI should continue to boost the market over the longer term. We would use periods of weakness to build positions.
- **On a relative valuation basis, European equities still appear attractive vs. their US counterparts.** However, fundamentals still favor US stocks. Stronger economic growth, more dynamic consumers, and higher weights to our favored sectors (Tech, Health Care and Industrials) lead us to believe US equities will continue to outperform.
- **We remain constructive on emerging market equities where selection is paramount.** While China faces headwinds, EM Asia (i.e., India) and LATAM (i.e., Mexico/Brazil) should benefit from attractive valuations and recent friendshoring trends.

S&P 500 Has Elevated Valuation After Recent Rally

MAGMAN Drives Earnings in 4Q23



THE S&P 500 INDEX IS OFF TO A STRONG START IN 2024



Source: FactSet, Data as of 3/1/2024. Returns are price return.

Fixed Income | Bond Yields Climb On Repriced Fed Expectations

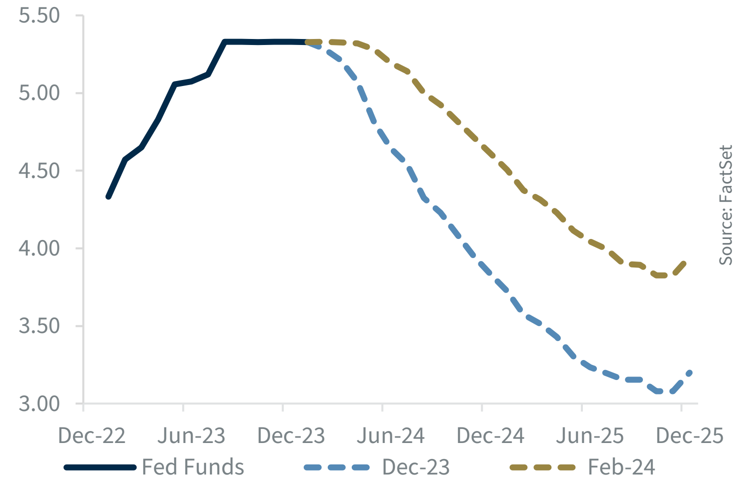
Global Bonds | Recent Trends

- **Solid economic growth and a surprise uptick in the monthly inflation rate (+0.4% MoM) pushed Treasury yields sharply higher across the curve.** The policy sensitive 2-year Treasury yield climbed 41 bps to 4.63% and the 10-year shot up 29 bps to an intra-month high of 4.31%—its highest level in over three months.
- **Fed policymakers were united with their messaging that there will be no March rate cut,** particularly given the economy's solid growth momentum and the latest inflation reading. The Fed's initial rate cut has been pushed back to June and the market has removed several
- of the excessive rate cuts that were priced in heading into 2024.
- **Corporate credit spreads have narrowed to historically tight levels** as low volatility, strong investor demand and hopes of a soft landing for the economy underpin the market. The investment grade, emerging markets and high yield markets ended the month with spreads of 96, 277, and 312 bps, respectively.
- **US companies have flooded the market with over $400 billion in new investment grade bond issuance** since the start of the year—the highest amount on record. European markets also had record amounts of issuance (€507B), which were met with strong demand. Investors are rushing to lock-in higher yields in advance of central bank rate cutting cycles.

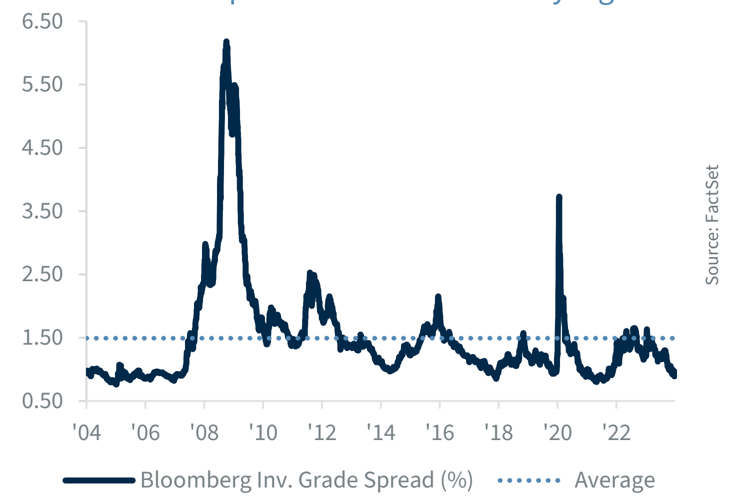
Global Bonds | 12-Month Outlook

- **Fed officials pushed back the market's overly optimistic expectations for rate cuts this year.** With the market removing several rate cuts since the beginning of the year, the market is now in alignment with the Fed's forecast (and ours) for three cuts by year-end 2023. The timing for the Fed's first rate cut has been delayed to June, as we expected.
- **Slowing economic activity and decelerating inflation should drive the 10-year Treasury yield to 3.5% by year end.** However, with bond market volatility remaining elevated and policymakers preaching patience, the market will continue to be whipped around by important data releases (i.e., employment and inflation) as we await a growth slowdown.
- **Bond yields offer generous levels of income—the highest in over a decade.** The recent back up in yields provides an opportunity to lock in higher rates before the Fed commences with its easing cycle. Higher yields can help cushion against unexpected rate increases, while offering diversification benefits from equity risk.
- **Credit spreads across all sectors of the bond market—investment grade, high yield, emerging markets) remain at historically tight levels.** However, yields remain attractive. We favor investment grade over high yield as lower quality credits are likely to be more vulnerable as we move into a more challenging economic environment.

Fewer Fed Rate Cuts Are Expected



Inv. Grade Spreads Reach Historically Tight Levels



Commodities & Currencies | Commodity Weakness Amid Stronger Dollar Continues

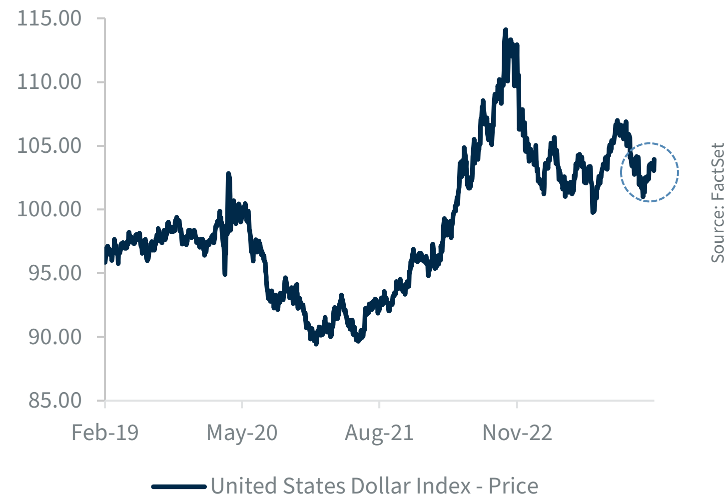
Commodities & Currencies | Recent Trends

- **The Bloomberg Commodity Index (February: -1.9%) weakened further,** declining for the seventh consecutive month, the longest streak since 2016, as the Index reached its lowest level since December 2021. Despite higher oil prices and the resilience of US economic data, the broad commodity index declined due to lower natural gas and grains prices.
- **Persistent geopolitical risks (Houthi attacks in the Red Sea) and a possible extension of voluntary oil output cuts by OPEC+ into 2Q24** lead to a rise in crude oil prices. Markets adjusted to the reality of the persistent impacts on supply from the situation in the Red Sea, but further upside was capped by expectations of slowing momentum in global oil demand.
- **The US Dollar Index (+0.9%) continued its YTD rally.** The US dollar strengthened on the outperformance and resiliency of the US economy, the relative attractiveness of higher US interest rates, and as expectations for the start of a Fed rate cutting cycle continue to be pushed later into the year. The euro stayed within a tight range vs. the dollar as the ECB continued to verbally match the Fed's commitment to bring down inflation while the Japanese yen nears lows last seen in 1990 vs. the dollar.
- **Precious and industrial metals continue to fall.** Although not as extreme as January's retreat, gold and silver prices declined. Weakness in China weighed on industrial metals.

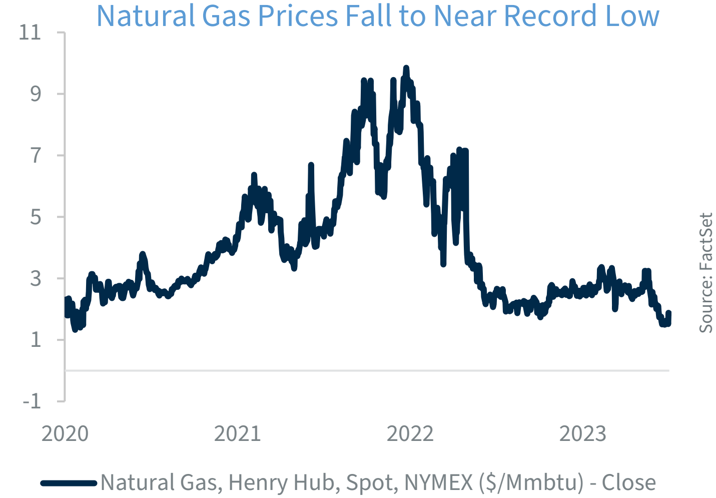
Commodities & Currencies | 12-Month Outlook

- **Commodity prices should start to stabilize in 2024,** but trends within the sub-indices are likely to remain divergent. Geopolitical flare-ups, particularly with ongoing wars in commodity-producing regions, rising tensions in the Red Sea, and weather-related disruptions could lead to bouts of elevated volatility within the sub-components.
- **Supply dynamics are likely to remain a key driver of oil prices in 2024.** Ramped up US and non-OPEC+ production has offset the voluntary production cuts from OPEC+ members which began last November. The US government's need to refill its Strategic Petroleum Reserve and recovering demand later in the year should push oil prices up to our **$85/barrel** forecast.
- **The US dollar has likely peaked for this cycle.** However, a sustained move lower vs. other developed market currencies will require a continuation of healthy risk appetite and sustained economic resiliency. The US dollar should fall under pressure once the Fed easing cycle begins and US real rates become relatively less attractive for global investors.
- **The euro should remain stable vs. the US dollar, staying in a 1.05 to 1.10 range in 2024.** While the ECB maintains its hawkish bias, weak growth amid rapidly declining inflation should push policymakers to cut rates this year. **However, the deeply depressed Japanese yen could strengthen as the BOJ** bucks the DM central bank rate cutting trend in 2024.

US Dollar Rebounds to Begin 2024



Natural Gas Prices Fall to Near Record Low



Summary | Key Year-End Forecasts and Views

1 ECONOMY

US GDP: +1.7%

The US economy has remained remarkably resilient. The lagged impact of the Fed's restrictive monetary policy, high borrowing costs and our expectation for a cooling labor market should dampen consumption in the months ahead. The economy should experience a mild recession, lasting two quarters (2Q/3Q), with growth moderating to +1.7%. Inflation will slow toward the Fed's 2.0% target over the course of the year, and the unemployment rate will peak at 4.9%.

2 BOND MARKET

10-Year Treasury: 3.5%

Slowing growth and cooling inflation will allow the Fed to dial back some of its policy restraint in 2024. We expect three to four rate cuts by year end. The end of the Fed's tightening cycle has historically been a catalyst for yields to move lower, and we expect the 10-year Treasury yield to fall to 3.5% by year end. However, supply concerns and overly optimistic rate cut expectations may cause some volatility along the way. We favor high quality bonds over lower rated credits.

3 EQUITIES

S&P 500: 4,850

The equity market's strong gains over the last few months has dampened our near-term optimism for the market. A more challenging macro backdrop in the coming months should lead to more earnings volatility at a time when P/E multiples are elevated. Our year-end target for the S&P 500 remains 4,850 ($225 EPS, 21.5x P/E multiple). We prefer US over international equities, remain constructive on emerging markets (India in particular) and expect small caps to outperform.

4 DOLLAR DIRECTION

EUR/USD: 1.0750

The US dollar has peaked. However, weak global growth and a more resilient US economy should limit the dollar's downside. Once the easing cycle begins and a global recovery gets underway, the US dollar should gradually weaken. Stagnant growth in Europe and the prospect of ECB rate cuts should limit the euro's upside, with the currency remaining broadly stable. The Japanese yen should continue to strengthen as the BOJ exits negative interest rate policy in 2024.

5 OIL

Oil: $85/barrel

Supply dynamics will remain a key driver of oil prices in 2024. While OPEC+ nations are trying to stabilize prices with voluntary production cuts, ramped up production from the US and non-OPEC+ nations has filled the gap. The US Government's need to refill the Strategic Petroleum Reserve should put a floor under oil prices and bias it higher throughout the year. While demand remains subdued, once a global recovery is in sight, oil prices should climb toward our $85/barrel target.

6

Volatility: ↑

Supply chain normalization, disinflation and the end of the Fed's tightening cycle have driven equity volatility toward its pre-pandemic levels. While equity volatility is low, it could easily rise given elevated geopolitical risks, optimistic earnings, the US presidential election and seasonality. In contrast, bond volatility has remained elevated. Fiscal dynamics, Treasury supply, market expectations for Fed rate cuts or an unforeseen credit event could drive bond volatility higher.

DISCLOSURES

Diversification does not ensure a profit or guarantee against a loss. Investing in small cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor.

INTERNATIONAL INVESTING | International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

SECTORS | Sector investments are companies engaged in business related to a specific economic sector and are presented herein for illustrative purposes only and should not be considered as the sole basis for an investment decision. Sectors are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

OIL | Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

CURRENCIES | Investing in currencies is generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

GOLD | Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated.

FIXED INCOME | Fixed-income securities (or "bonds") are exposed to various risks including but not limited to credit (risk of default of principal and interest payments), market and liquidity, interest rate, reinvestment, legislative (changes to the tax code), and call risks. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise.

Investments in municipal securities may not be appropriate for all investors, particularly those who do not stand to benefit from the tax status of the investment. Municipal bond interest is not subject to federal income tax but may be subject to AMT, state or local taxes.

US TREASURYS | US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value.

US DOLLAR | The US Dollar Index is an index (or measure) of the value of the United States dollar relative to a basket of foreign currencies,[1] often referred to as a basket of U.S. trade partners' currencies.[2] The Index goes up when the US dollar gains "strength" (value) when compared to other currencies.

DEFINITIONS

AGGREGATE BOND | **Bloomberg US Agg Bond Total Return Index:** The index is a measure of the investment grade, fixed-rate, taxable bond market of roughly 6,000 SEC-registered securities with intermediate maturities averaging approximately 10 years. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

HIGH YIELD | **Bloomberg US Corporate High Yield Total Return Index:** The index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

CREDIT | **Bloomberg US Credit Total Return Index:** The index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

MUNICIPAL | **Bloomberg Municipal Total Return Index:** The index is a measure of the long-term tax-exempt bond market with securities of investment grade (rated at least Baa by Moody's Investors Service and BBB by Standard and Poor's). This index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

PCE INDEX | **Personal Consumption Expenditures (PCE) Index:** The PCE price index looks at U.S. inflation by measuring changes in the cost of living for households. It tracks the prices of a basket of goods and services, each with different weightings, to reflect how much a typical household spends every month.

BG COMMODITY INDEX **| Bloomberg Commodity Index** is calculated on an excess return basis and reflects commodity futures price movements.

BLOOMBERG INDUSTRIAL METALS INDEX | **Bloomberg Industrial Metals Index** reflects the returns that are potentially available through an unleveraged investment in the futures contracts on industrial metal commodities.

BLOOMBERG ENERGY INDEX | **Bloomberg Energy Index** is composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas. It reflects the return of underlying commodity futures price movements only and is quoted in USD

MSCI EM ASIA INDEX | The **MSCI Emerging Markets (EM) Asia Index** captures large and mid cap representation across 8 Emerging Markets countries*. With 1,160 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

NASDAQ | The **Nasdaq Composite Index** is a market capitalization-weighted index of more than 3,700 stocks listed on the Nasdaq stock exchange. As a broad index heavily weighted toward the important technology sector, the Nasdaq Composite Index has become a staple of financial markets reports.

S&P 500 | The **S&P 500 Total Return Index:** The index is widely regarded as the best single gauge of large-cap U.S. equities.

EMERGING MARKETS EASTERN EUROPE | **MSCI EM Eastern Europe Net Return Index:** The index captures large- and mid-cap representation across four Emerging Markets (EM) countries in Eastern Europe. With 50 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

ASIA EX JAPAN INDEX | **The MSCI AC Asia ex Japan** Index captures large and mid cap representation across 2 of 3 Developed Markets (DM) countries* (excluding Japan) and 9 Emerging Markets (EM) countries in Asia. With 983 constituents, the index covers approximately 85% of the free float adjusted market capitalization in each country.

AC WORLD INDEX | **The MSCI AC World** Index is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI is maintained by Morgan Stanley Capital International (MSCI) and is comprised of stocks from 23 developed countries and 24 emerging markets.

EMERGING MARKETS LATIN AMERICA | **MSCI EM Latin America Net Return Index:** The index captures large- and mid-cap representation across five Emerging Markets (EM) countries in Latin America. With 116 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS | **MSCI Emerging Markets Net Return Index:** This index consists of 23 countries representing 10% of world market capitalization. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 23 countries.

JAPAN | **MSCI Japan Net Return Index:** The index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 319 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

EUROPE | The **MSCI Europe Index** captures large and mid cap representation across 15 Developed Markets (DM) countries in Europe*. With 428 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

MSCI EAFE | The **MSCI EAFE** (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations.

MSCI EM | The **MSCI Emerging Markets Index** captures large and mid cap representation across 25 Emerging Markets (EM) countries*. With 1,420 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

CITIGROUP ECONOMIC SURPRISE INDEX | **Citigroup Economic Surprise Index** represents the sum of the difference between official economic results and forecasts. With a sum over 0, its economic performance generally beats market expectations. With a sum below 0, its economic conditions are generally worse than expected.

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DATA SOURCES

FactSet as of 3/4/24.

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