



Monthly CIO View

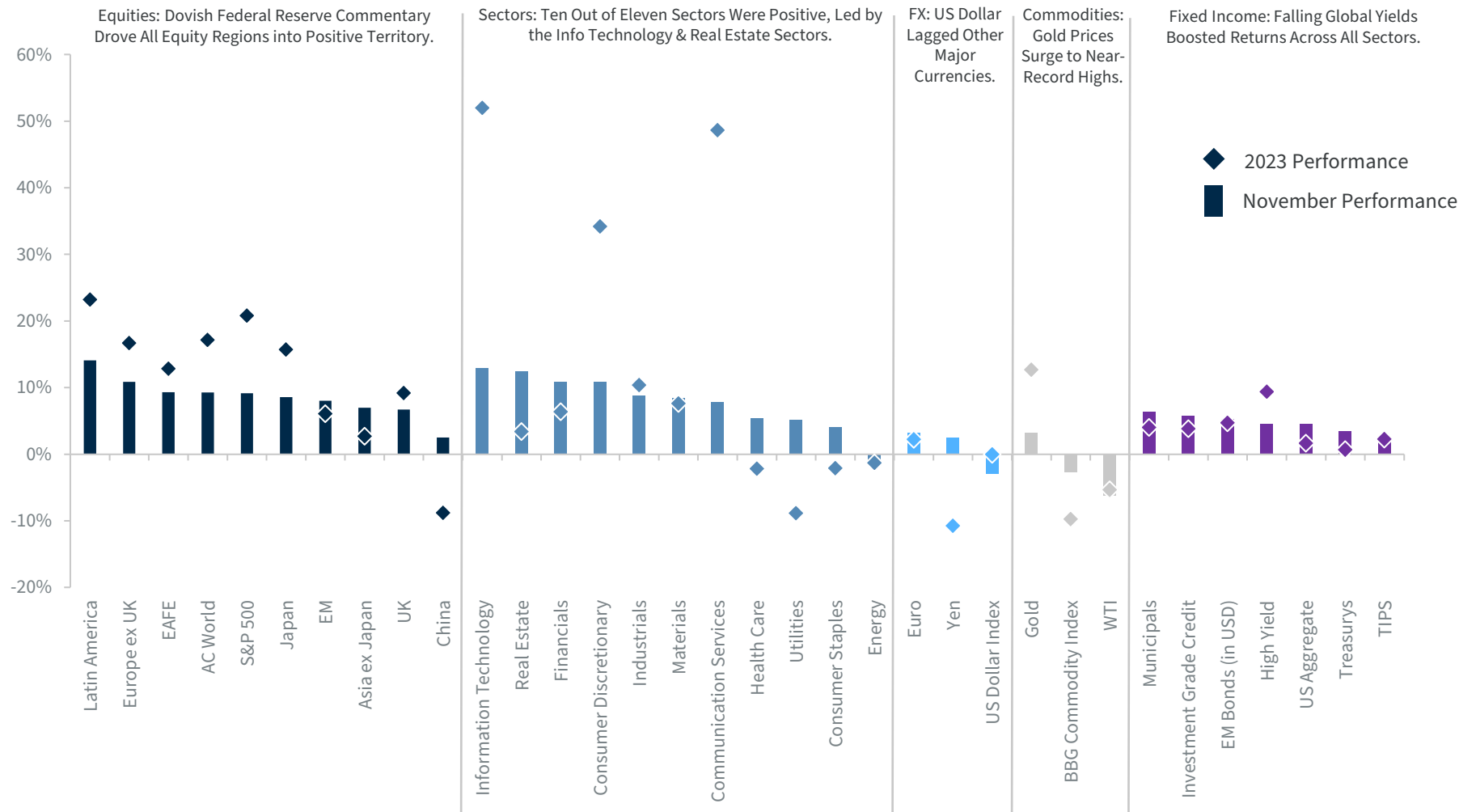
Strategy Snapshot

December 2023

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Chief Investment Officer

Returns By Asset Class | Monthly & YTD Returns

Returns by Asset Class



Data as of 11/30/2023. 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 | Disinflationary Momentum Continues

Global Economy | Recent Trends

- **US economic activity has been moderating throughout Q4.** Rising delinquencies, a weak retail sales print and cooling inflation pressures supported the market's view that the Federal Reserve (Fed) (and other central banks around the world) are done with their tightening cycles. This prompted speculation that rate cuts are on the horizon.
- **Falling energy prices have been a key factor behind the sharp drop in inflation across the globe.** Headline inflation in the US fell to 3.2% YoY. The core measure, while still elevated, declined to 4.0%—its lowest level since September 2021. Inflation in Europe and the UK was also sharply lower, falling to 2.4% YoY and 4.6%, respectively.
- **The labor market is showing clear signs of deceleration,** with the pace of job growth slowing to 199k/month, down sharply from the beginning of the year. The unemployment rate has ticked up to 3.7% after hitting a low of 3.4% in April 2023. Initial/continuing claims and the number of job openings have also softened.
- **European economic data remains weak as the lagged impact of the ECB's past rate hikes are restraining activity.** Money supply growth and net lending to businesses and households remain weak. **The Chinese government continues to provide policy support;** however, the property sector remain a formidable challenge.

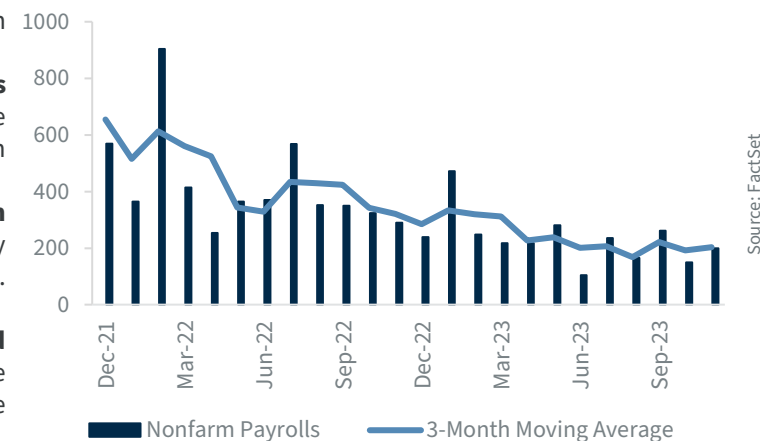
Global Economy | 12-Month Outlook

- **While the US economy proved far more resilient than expected in 2023, a mild recession remains our base case in 2024.** We expect softening job growth and the lagged impact of the Fed's restrictive policy to dampen consumer spending in the months ahead. Growth should slow to a below-trend pace of +1.0% in 2024, with the recession starting in Q2.
- **Slowing growth and cooling inflation pressures suggests the Fed's tightening cycle is now complete.** With the current disinflationary trend intact, rate cuts are likely on the horizon. While the market is more optimistic about the pace and magnitude of rate cuts in 2024, we only expect the Fed to cut rates by 50 bps.
- **High interest rates and substantially tighter lending conditions continue to restrain economic activity in Europe.** While inflation has remained elevated, the disinflationary process is gathering momentum. Fiscal policy is also likely to turn contractionary in 2024. This should set the stage for the ECB to lower rates in 2024.
- **China's recovery is likely to remain tepid as the ongoing property downturn and depressed consumer confidence continue to weigh on growth in 2024.** Chinese authorities continue to ramp up their efforts to shore up growth and keep a floor under the government's 5.0% growth target. More stimulus will be needed to keep growth steady.

Inflation Is Down Sharply Across The Globe



Pace of Job Growth Is Decelerating



Equities | Global Equities Soar

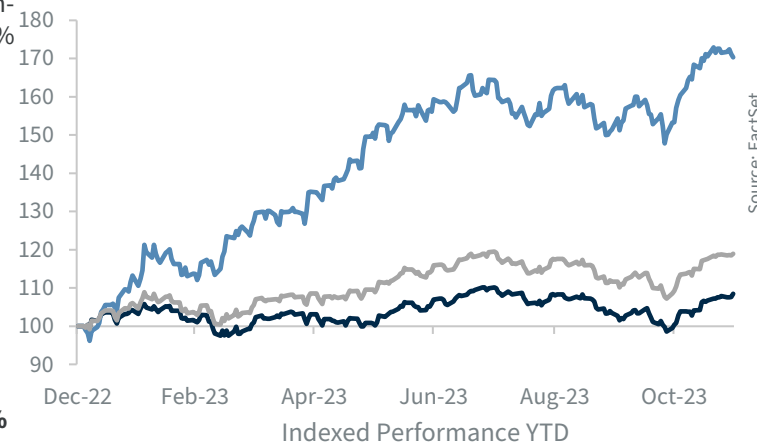
Global Equities | Recent Trends

- **Global equity markets soared in November fueled by signs of resilient earnings, a powerful rally in bond yields and rising expectations for rate cuts.** The S&P 500 and tech-heavy NASDAQ posted their largest monthly gains since July 2022, climbing 9.1% and 10.8% MTD, respectively. Small-cap equities also surged, rising 9.1% MTD.
- **The more cyclical/rate sensitive sectors of the market (i.e., Info Tech, Real Estate) outperformed,** delivering returns in excess of 10% MTD. However, the broader market of stocks (i.e., S&P 500 equal weight index) lagged the S&P 500 by 14.2% YTD. The VIX Index (a measure of market fear) fell to its lowest level since before the pandemic.
- **3Q23 earnings wrapped up and on balance the results were better than expected.** After three consecutive quarters of YoY declines in earnings growth, 3Q results were generally positive, with earnings up ~6.0%. Mega-cap tech companies (MAGMAN) have outperformed the rest of the S&P 500 Index by over 60% YTD.
- **European equities and Latin American stocks outperformed the S&P 500.** Broad based weakness in the US dollar aided the move with the MSCI Europe ex UK Index up 10.9% MTD and the MSCI LATAM index climbing 14.1% MTD. However, **EM Asian equities lagged (+6.2% MTD)**, held back by Chinese equities, which only gained 1.9% MTD.

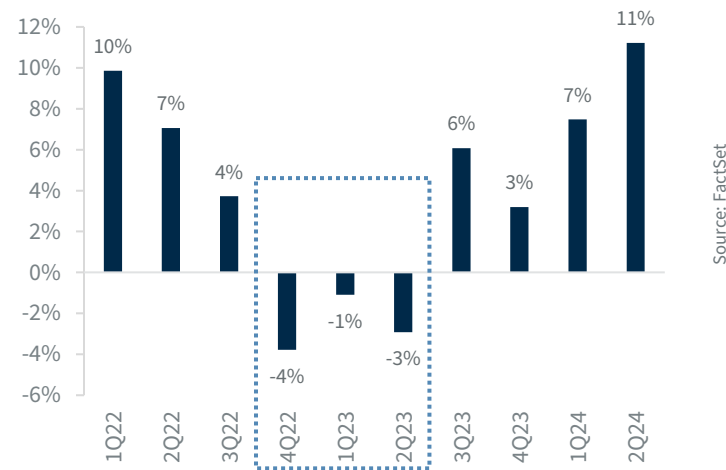
Global Equities | 12-Month Outlook

- **We are cautiously optimistic on the S&P 500 heading into 2024.** After the strong November gains, we see modest upside with a 2024 year-end forecast of 4,850. Our call for a mild recession should temper earnings growth in 2024 and we are expecting below consensus EPS of \$225 (consensus currently estimates \$245).
- While much of the good news has been captured in the earnings multiple, **the prospect of lower long-term yields, easing inflation and a looser Fed should support a modest expansion in the multiple back up to ~21.5x.** While recessionary headwinds will temper the S&P 500's upside potential, we expect broader market participation in 2024.
- European equity valuations are historically undervalued relative to US stocks, however the **weak macro backdrop and tight credit conditions across the region are likely to be a headwind for earnings and margins in the year ahead.** Given the uncertainties, we prefer US equities relative to Europe.
- **We remain constructive on emerging market equities; however, selectivity remains crucial.** Further stimulus should support China's recovery and could lift share prices from depressed levels, however structural challenges remain a headwind. We prefer EM Asia (particularly India) and Latin America, which stand to benefit from shifting supply chains.

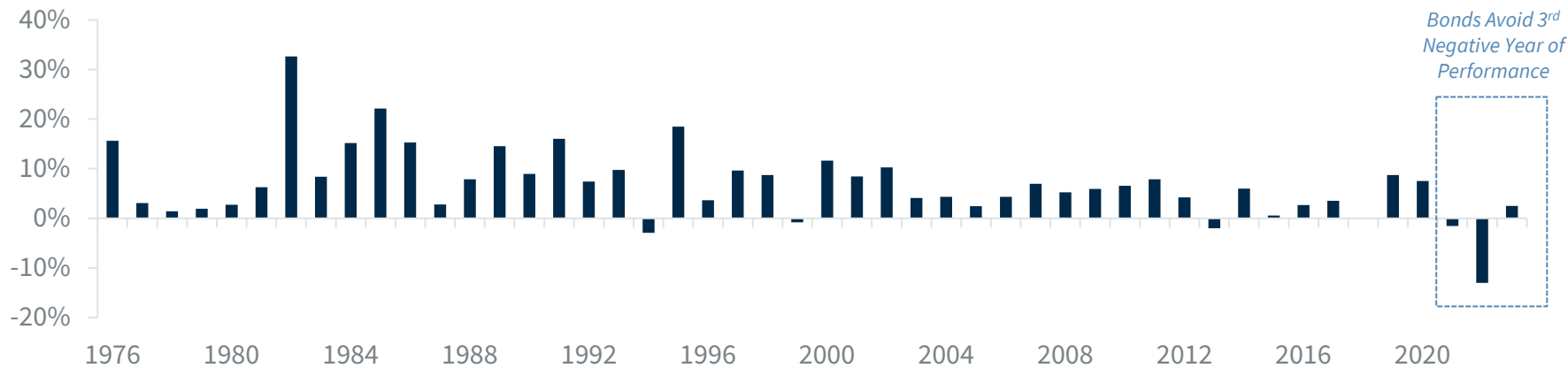
Mega-Cap Tech-Related Stocks Outperform



S&P 500 Earnings Recession Ended in Q3



2023 Has Been A Decent Year



■ Bloomberg Agg Annual Total Return



— S&P 500 - Total Return (%)

Source: FactSet, Data as of 12/11/2023

Fixed Income | 10-Year Treasury Yields Plummet After Breaching 5.0%

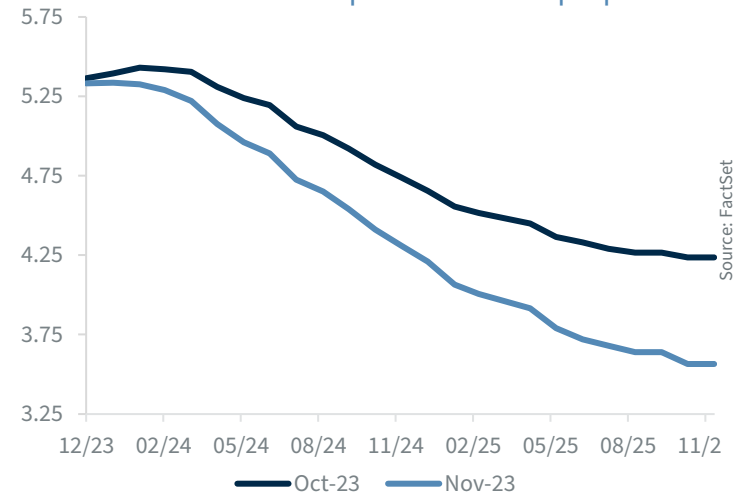
Global Bonds | Recent Trends

- **The Fed held the fed funds rate steady at 5.25%-5.50% at its November meeting.** However, slowing growth and cooling inflation pressures suggest the Fed's tightening cycle is likely complete. While policymakers are keeping the option open for further hikes, the market believes otherwise.
- **Growing optimism around a peak in the fed funds rate and some dovish comments led to a big shift in rate expectations during the month.** The market is now pricing in five 25 basis point cuts by year-end 2024. This led to a significant easing in the Goldman Sachs Financial Conditions Index, which had its biggest monthly decline since 1990.
- **Yields across all fixed income sectors were down sharply.** After breaching the psychologically important 5.0% level, the 10-year Treasury yield fell over 50 bps to 4.36%. The Bloomberg US Aggregate Bond Index and Bloomberg Municipal Bond Index posted their best monthly performance since the 1980s, up 4.5% and 6.4%, respectively.
- **Corporate bond spreads continue to narrow and remain well below their historic averages.** Corporate credit has been among the best performers this year, with the Bloomberg Investment Grade Corporate Bond Index climbing 4.0% YTD and the Bloomberg High Yield Bond Index producing equity-like returns of 9.4% YTD.

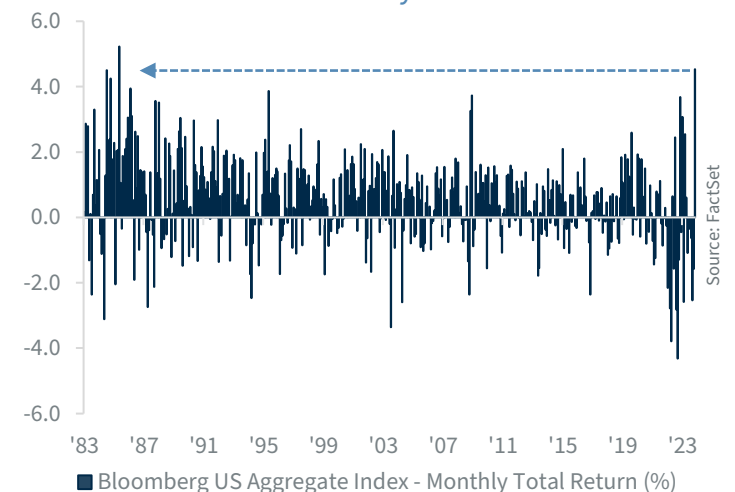
Global Bonds | 12-Month Outlook

- The Fed's rapid rate increases over the last few years have pushed the fed funds rate to its highest level since 2001 and yields further out the curve to more than a 15-year high. **With yields now at their highest level in over a decade, fixed income investors have an opportunity to lock-in these attractive rates.**
- **The Fed's policy is at an inflection point and rate cuts now appear on the horizon.** Our expectation for a mild recession and further disinflation will allow the Fed to pivot to rate cuts in July 2024. We expect the Fed to deliver two 25 basis point rate cuts by year-end 2024. As rates begin to normalize, we see the 10-year Treasury yield falling to 3.5%.
- **The end of the Fed's tightening cycle has historically led to strong forward performance for the bond market.** This is a time when intermediate and longer-duration bonds outperform cash and lower-quality credits underperform when the economy heads into a recession. Default rates are climbing but remain below longer-term historic averages.
- **While there is scope for credit spreads to widen from current levels, yields on investment grade corporates remain attractive** given limited default risk. We remain cautious on high yield bonds given historically tight credit spreads and weaker fundamentals (i.e., inverted yield curve, higher borrowing rates, greater leverage and rising default rates).

Fed Rate Cut Expectations Ramp Up



Bonds Had Best Monthly Return Since 1985



Commodities & Currencies | Commodities Slip Despite Weaker Dollar

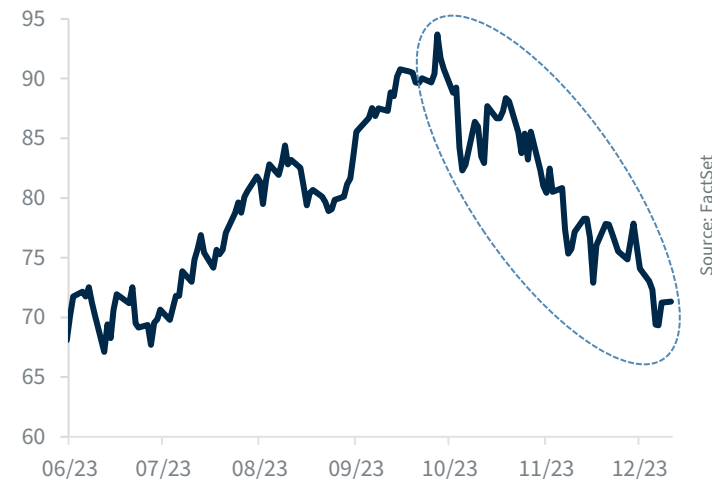
Commodities & Currencies | Recent Trends

- **Crude oil prices tumbled ~\$6 to \$76.04/barrel (-6.2% MoM) in November, falling below \$70 in early December.** Despite elevated geopolitical risk and weakness in the dollar, oil prices continue to trend lower driven by record US production and OPEC failing to agree on meaningful cuts in oil production. Growing EV adoption provided another headwind.
- Following a surge in October, **natural gas prices plummeted 27% in November, posting its worst monthly decline since January.** In fact, prices are now ~20% lower YTD. Similar price action occurred in the European gas markets (Dutch TTF Gas Price down -12% MTD and -45% YTD), and storage levels are almost full compared to supply concerns last year.
- **Continued geopolitical tensions in the Middle East and hopes for lower interest rates helped drive gold prices sharply higher**—up ~3.2% MoM and briefly trading at the record high price of ~\$2,100. On the other hand, industrial metals (-0.1% MoM) declined for a third time in four months, despite copper prices rising (+5.5% MoM) due to supply concerns.
- **After a sharp reacceleration over the last few months, the US dollar was weak in November, falling 3.0% MoM, and erased all YTD gains.** This weakness comes as market expectations for future rate hikes fell, and, consequently, narrowing interest rate differentials between US and its developed market counterparts.

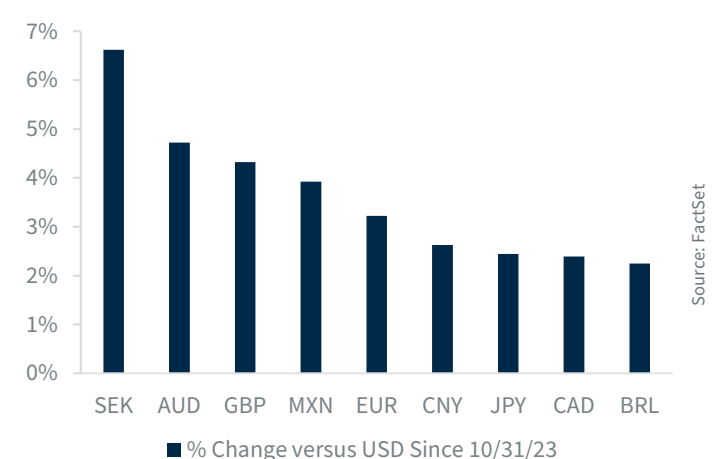
Commodities & Currencies | 12-Month Outlook

- **Commodity prices could start moderating in 2024 after sharp YTD declines across most sectors.** However, geopolitical flare-ups and weather-related disruptions (i.e., el Nino or the possibility of extreme conditions) are among the key risks that could lead to interim volatility and unforeseen spikes in certain commodity sectors.
- **While oil prices were down sharply from their recent peak,** ongoing supply cuts from OPEC+ members, capital discipline from US oil producers and a global recovery spurred by a turn in the monetary policy cycle in 2H24 should lift oil prices back up to our \$85-90/barrel forecast over the next twelve months.
- **The US dollar has peaked, but a sustained move lower relative to other developed market currencies will require a rebound in risk sentiment and a recovery in the global economy.** The trend is likely to reverse once the global easing cycle gets underway, which will likely occur in 2H24.
- **Continued weakness in the euro zone economy and a faster than expected decline in inflation should limit the euro's ascent** and leave the broad 1.0 to 1.1 range versus the US dollar intact. However, the deeply depressed Japanese yen could strength as the Bank of Japan starts to normalize policy in 2024.

Oil Prices Are Sharply Lower



Broad Weakness In US Dollar



Summary | Key 12-Month Forecasts and Views

1

ECONOMY

US GDP: 1.0%

The US economy is starting to lose momentum after a stronger than expected 2023. High borrowing costs, the impact of the Fed's restrictive policies, and slowing job growth should dampen consumption in the months ahead. We expect a mild recession to unfold in 2Q, with growth decelerating to a +1.0% pace in 2024. Inflation should gradually ease back to the Fed's 2.0% target over the course of the year, with the unemployment rate rising to a peak of 5.1%.

2

BOND MARKET

10-Year Treasury: 3.5%

Policymakers are not ready to signal a turn in the monetary policy cycle just yet; however, rate cuts are on the horizon. A faster than anticipated deceleration in inflation and a mild recession will pave the way for a Fed pivot in the 2H 2024. Yields will move lower in advance of the Fed's upcoming easing cycle, with the 10-year Treasury yield expected to reach 3.5% by year end. Heading into a recession we prefer longer duration versus cash and high-quality bonds over the lower rated sectors.

3

EQUITIES

S&P 500: ~4,850

We remain cautiously optimistic on the equity market over the next 12 months. While earnings are likely to tread water in 2024 as the macro backdrop becomes more challenging, the earnings multiple should get a modest boost from declining bond yields. We expect the S&P 500 to rise to 4,850 in 2024 (assumes a \$225 EPS and 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: 1.05

Weak global growth and a more resilient US economy should underpin the US dollar in 1H24. However, the USD's upside should be limited. Once the easing cycle begins and a global recovery gets underway, the US dollar's momentum should start to fade. Stagnant growth in Europe and the prospect of ECB rate cuts should be a headwind for the euro. The Japanese yen is likely to strengthen as the BOJ exits negative interest rate policy.

5

OIL

Oil: ~\$85-\$90/barrel

Oil prices have given up their gains in recent months amid global growth concerns, ramped up US production and softer demand. However, OPEC+ production cuts, ongoing capital discipline from US producers and a global recovery should drive oil prices back toward our \$85-\$90/barrel forecast in the coming year. The need to refill the Strategic Petroleum Reserve should also put a floor under the price of oil in the coming months.

6

VOLATILITY

Volatility: 

Equity market volatility has returned to its pre-pandemic level as war related concerns are fading into the background, supply chains normalize, and inflation is on a clear decelerating trend. Interim flare-ups should be expected as geopolitical tensions remain high and the US election is less than a year away. Interest rate volatility is likely to remain elevated as fiscal dynamics remain in the spotlight and there is uncertainty about how much the Fed will cut rates in 2024.

DISCLOSURES

Diversification does not ensure a profit or guarantee against a loss

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.

SMALL CAP STOCKS | Investing in small cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor.

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.

GOLDMAN SACHS FINANCIAL CONDITIONS INDEX | **Goldman Sachs Financial Conditions Index** is a weighted average of short-term interest rates, long-term interest rates, the trade-weighted dollar, an index of credit spreads, and the ratio of equity prices to the 10-year average of earnings per share.

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DATA SOURCES

FactSet as of 12/11/2023.

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