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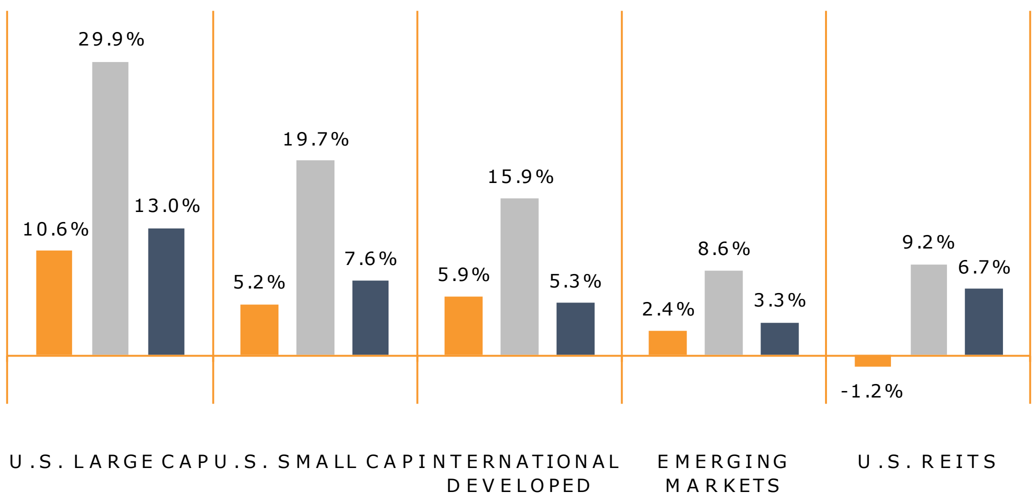
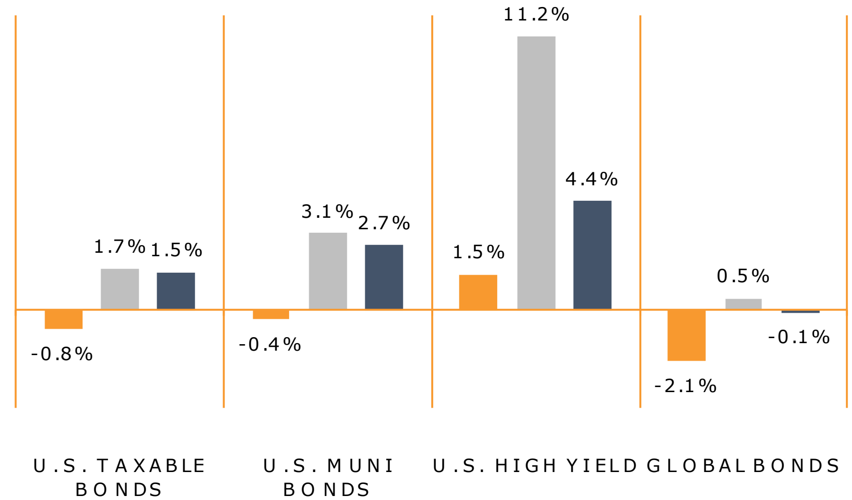
Q1’24 Market Review

■ YTD: 03/28/24 ■ 1 Year ■ 10 Year*

EQUITY MARKETS HIGHLIGHTS



FIXED INCOME MARKETS HIGHLIGHTS



- **U.S. Large Cap Stocks** continued the ascent that began in late October 2023 in Q1’24, with the blended Index up +10.6% in Q1. The rally was broad based with continued leadership from Large Cap Growth +10.5% from a style perspective,.
  - Stocks largely looked through a backup in yields that impacted other asset classes. Broader participation was evident and though the style box looked like prior quarters, sector leadership changed significantly. Energy +13.5% and Financials +12.4%, traditional value sectors, were both in the Top 3, while Technology +8.4% lagged despite an 80%+ rally from 4.5% constituent NVDA.
- **U.S. Small Cap Stocks** lagged their larger peers +5.2% for the quarter. Market repricing to three rate cuts from six entering the year rekindled fears of higher rate impacts on leveraged businesses.
- **International Developed Stocks** lagged the broad U.S. market up +5.9% for the quarter, U.S. dollar strength was a headwind to returns.
- **Emerging Markets Stocks** continued its laggard position +2.4% for the quarter as China weakness continues to be a headwind for the market, while LATAM consolidated some of the gains from the prior year.
- **U.S. REITS** gave back some of the prior quarters gains down -1.2%, driven by an increase in long-term interest rates.

- **U.S. Taxable Bonds** fell -0.8% in Q1 due to the repricing of the path and timing of interest rate cuts. Credit spread impacts were mild.
- **U.S. Muni Bonds** were slightly stronger, down -0.4% in Q1, on falling credit spreads.
- **U.S. High Yield** credit markets were up +1.5% in Q1 as higher carry offset an increase in rates with credit spreads roughly flat.
- **Global Bonds** were down -2.1% in Q1. A strengthening U.S. dollar was a major headwind to global bonds while economic activity outside the U.S. continues to be relatively weak.

*Annualized daily returns as of 3/31/2024.

Source: YCharts, Inc.; underlying indices are S&P 500® TR Index, Russell 2000® TR Index, MSCI EAFE TR, MSCI Emerging Markets Index TR, Dow Jones US Real Estate Index TR, Barclays Municipal Bond Index, Barclays U.S. Aggregate Bond Index, Barclays U.S. Corporate High Yield Bond Index and the Barclays Global Aggregate Bond Index.

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Q1'24 U.S. Market Snapshot

US Equity Market Snapshot	3/31/24
Sector	**3 Month Return**
Energy	13.5%
Comm. Services	12.7%
Financials	12.4%
Industrials	10.8%
Materials	9.0%
Health Care	8.7%
Technology	8.4%
Consumer Defensive	6.8%
Utilities	4.5%
Consumer Cyclical	3.1%
Real Estate	-0.7%

CRSP Equity Style Snapshot			3/31/24
3 Month	**Value**	**Blend**	**Growth**
Large	9.5%	10.1%	10.5%
Mid	7.7%	7.3%	6.9%
Small	6.1%	6.3%	6.5%

Market Indicators

Name	As of	Last Month**	1 Month Ago	1 Mo. % Change	1 Year Ago	1 Year % Change	Freq.
Key Interest Rates							
1 Month Treasury	3/28/24	5.49%	5.50%	-0.2%	4.24%	29.5%	Daily
2 Year Treasury	3/28/24	4.59%	4.64%	-1.1%	4.02%	14.2%	Daily
10 Year Treasury	3/28/24	4.20%	4.27%	-1.6%	3.55%	18.3%	Daily
30 Year Mortgage	3/28/24	6.79%	6.90%	-1.6%	6.42%	5.8%	Weekly
US Corporate AAA	3/31/24	4.80%	4.87%	-1.4%	4.32%	11.1%	Daily
US Corporate BBB	3/31/24	5.56%	5.67%	-1.9%	5.53%	0.5%	Daily
US Corporate CCC	3/31/24	12.96%	13.21%	-1.9%	15.04%	-13.8%	Daily
Effective Federal Funds	3/29/24	5.33%	5.33%	0.0%	4.83%	10.4%	Daily
U.S. Economy							
Consumer Sentiment	3/31/24	79.40	76.90	3.3%	62.00	28.1%	Monthly
Unemployment Rate	2/29/24	3.90%	3.70%	5.4%	3.60%	8.3%	Monthly
Inflation Rate	2/29/24	3.15%	3.35%	-5.9%	6.04%	-47.8%	Monthly
Manufacturing PMI	3/31/24	50.30	47.80	5.2%	46.30	8.6%	Monthly
Non Manufacturing PMI	2/29/24	52.60	50.50	4.2%	55.10	-4.5%	Monthly

Source: YCharts, Inc.

Q1'24 No Rate Cuts? No Matter.

The rally that got underway in Q4 '23 continued in earnest in Q1 '24 as investors further embraced the idea that recession is no longer imminent. Economic data remained supportive of the market's conclusion showing a stable, though not robust, economy. Inflation and jobs data remained steady, warmer than hoped in some ways. In response markets priced out half the rate cuts that were penciled in to start the year, though fixed income was the lone asset class penalized.

Calling it a broad-based rally overstates the level of participation and understates a singular factor, price momentum, that dominated all others. In some areas full-fledged manias ensued: Artificial Intelligence, Crypto/Bitcoin, even Cocoa? Yes, seriously, Cocoa. An overbought S&P 500 has rallied for over 5 months now without a 2% pullback. That this has coincided with passive officially surpassing active in AUM might be more than mere coincidence.

- **US Stock Valuations** – stretched valuations mean a lot must go right to justify current pricing. Under the surface there is opportunity.
- **Bond Market Valuations** – Spreads are still tight but long-term risk-free yields above 4% keep the overall moderately attractive.
- **Policy Impacts** – Fed & market still grappling over timing and magnitude of rate cuts. Continued strength and stability in jobs and inflation data are causing consternation.

The idea that interest rate policy can go from near zero for a decade to where it is today and have no impact on the economy or markets remains far-fetched in our humble opinion. That said, we acknowledge that other parts of monetary policy have combatted what on the surface appeared to be aggressive policy tightening. Still, the impact lag of this current cycle has surprised everyone.

Positioning and sentiment measures show that investors have simply given up on the idea that rates matter. The result: a broadly expensive equity market with minimal volatility despite the most attractive potential returns in over a decade in less risky areas. In 2007 Chuck Prince, then CEO at Citigroup, was quoted saying "As long as the music is playing, you've got to get up and dance. We're still dancing." Market participants appear to be taking his advice at this stage. While we may not be headed for a GFC-like event, the market action of the last six months warrants a more cautious approach.

Exhibit 24: Fund portfolios carry a record tilt toward Momentum

Source: Goldman Sachs Global Investment Research