Market Review and Outlook
Q4 2023

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Market Environment

December 31, 2023

- Fed Chair Powell again injected unnecessary volatility into markets and worked against the Feds own goals by furthering market participants expectations of significant rate cuts in 2024, further juicing financial asset prices and easing financial conditions. Virtually all risk assets rose in Q4 as a result, furthering already rich assets and driving interest rates lower.

Index	Dec. 2023 Return	Q4 2023 Return	YTD 2023 Return
Aggregate Bond	3.8%	6.7%	5.4%
Dow Industrials	4.9%	13.1%	16.2%
S&P 500	4.5%	11.7%	26.3%
NASDAQ	5.6%	13.8%	44.7%

- Fed Monetary policy and constant pleas for the Fed to cut interest rates was a persistent preoccupation of stock and bond markets all year, which were exacerbated in Q4 and December in particular, while a challenging earnings environment has been absent in market participant considerations. Q1 2024 earnings season and corporate expectations has a lot to live up to.

- While equity market index returns were driven by Fed expectations, AI hype and the Big 8 stocks that made up most of the market index returns, most all stocks rose in Q4 on the back of the December Fed meeting, enabling the Equal weighted S&P index to match the market weighted index at 11.8%, but underperformed by 13.7% vs 26.3% in for all of 2023.

- Bond markets were positive in Q4, turning YTD returns positive for the year, breaking a historical period of losses amid years of rising interest rates and finally giving bond market participants a much needed boost.

- Higher interest rates encouraged investors to begin locking in higher long term rates, not seen for decades, for longer.

- We view the rate environment as returning to “normal” levels, and closer to economic equilibrium.

- Significant risk and uncertainty lie ahead in 2024 amid Government’s simultaneous economic stimulus and constraint, uncertain economic direction, corporate earnings uncertainty, high asset valuations, and significant geopolitical risk.

Market Environment

December 31, 2023

- **Policy**
  - The Fed reversed course in Q4, just three months after a "higher for longer" mantra in Q3. The Fed's expected terminal 2024 rate moved from 5.125% to 4.625% and did not reach expected rates of 5.625% at year end 2023. Markets expect even lower rates in 2024.
  - Chair Powell encouraged already strong investor expectations of significant rate cuts in 2024 at the December post meeting presser, stating that "you wouldn't want to wait until inflation gets to 2% before easing". Financial conditions eased significantly.
  - Most Fed officials have tried to persuade markets they will not tighten as much or as soon as expectations, to no avail.
  - Regardless, the Fed is near their target interest rate and have transitioned to holding steady, subject to new data.
  - Global Central Banks remain in a tightening mode amid still high inflation, but also seem to be reaching a pause stage. Props to Lagarde of the ECB and her firmness and conviction in communicating policy. Powell and the Fed could do much better.
  - After massive fiscal stimulus packages and little reduction in current spending levels, significant Treasury debt issuance is coming to market including over $330 Billion of notes in bonds in January. Significant additional debt issuance will continue to hit the markets.
  - Congress comes into 2024 having to address a $1.66 Trillion budget deal that remains uncertain, as well as outstanding debate on funding for Ukraine, Israel, Taiwan and Immigration reform. A government shutdown remains as a possibility.
  - The dynamics of Energy policy that conflict fossil fuels and alternative energy will be exacerbated moving forward.

- **Economic Environment**
  - Economic activity remains solid amid continued strong employment environment and rising wages. Inflation has slowed its climb on a change basis, however significantly higher prices have been established and remain, challenging consumers and businesses.
  - Employment gains have been concentrated in Government, Healthcare and Services, with reductions in some cyclical sectors.
  - Consumer spending remains robust due to strong employment environment and continued spending on services, despite higher prices.
  - Consumptions is becoming bifurcated, with inflation hitting lower income earners while older and higher income earners are less sensitive to higher prices.
  - Capital Investment is strong as it relates to Fiscal Stimulus packages; however, is curious as it relates to the degree of corporate investment in AI and other technology investment amid higher interest rates and other increased cost pressures.
  - The Fiscal Stimulus funds for environment, chips and infrastructure are beginning to be deployed and will provide a boost to economic activity, however slow government rollout, rising costs and shortage of workers are inhibiting execution.
  - The US Dollar had gained significant strength, including levels vs. Japanese Yen not seen since 1990, that may begin to impact international trade, while China's trade levels decline significantly with a shift to other emerging countries.
  - Geopolitical events continue to disrupt and stress international relations and trade flows, increasing economic and market risks.

Market Outlook

December 31, 2023

- The Fed brought the punch bowl back out to the party, much to the pleasure of the financial markets that pushed interest rates significantly lower and stock prices higher in Q4.
- While the market was already ahead of the Fed in pushing expected policy rates lower even when the Fed was proclaiming higher for longer, the shift in Fed policy exacerbated market expectations for significant easing in 2024. Many members of the Fed board are now trying hard to persuade the market that they wont ease as much or as soon.
- While the Fed is near its terminal level in short term interest rates and may ease back a bit in 2024, it will not be as significant as market expectations, while longer term rates move higher amid significant debt issuance.
- While Monetary policy is restrictive, Fiscal policy remains stimulative amid continued deployment of previously passed stimulus packages and still extraordinarily Federal spending and high budget deficits.
- The resulting debt burden from fiscal policy is accelerating the pace of debt issuance by the US Government that will put upward pressures on longer term interest rates. There will be at least $1.7 Trillion in additional borrowing this year.
- Continued Fiscal stimulus, along with a strong labor market and wages will continue to provide support to the overall economy, however current high prices exist from years of high inflation will challenge business profitability and consumers.
- Equity markets continue to be extremely preoccupied by fed policy and hopes for easing and continue to largely ignore a declining earnings environment, resulting in persistently high equity valuations.
- Some market sectors have corrected significantly and show better value, while many stocks remain over valued.
- We expect market corrections in equities in 2024 similar to bouts of corrections in 2023 due to earnings realities that were bailed out by hopes of rate cuts, supported by Fed Chair Powell.
- We continue to expect normalization of interest rates and P/E ratio's, along with a reevaluation of earnings growth to bring equities into a range of 3,800 to 4100 for the S&P 500. This will likely take the form of a decline in the big 8 with undervalued value companies recovering. The "equal weight" S&P 500 should outperform the "market weight" S&P 500.
- Interest rates should find their equilibrium with the economy between 4% and 5%, with higher rates curbing activity while lower rates providing stimulus. The yield curve may return to its average yields since 1984. (see page 18)
- **Income may dominate total returns in financial markets in 2024.**

Investment Strategy

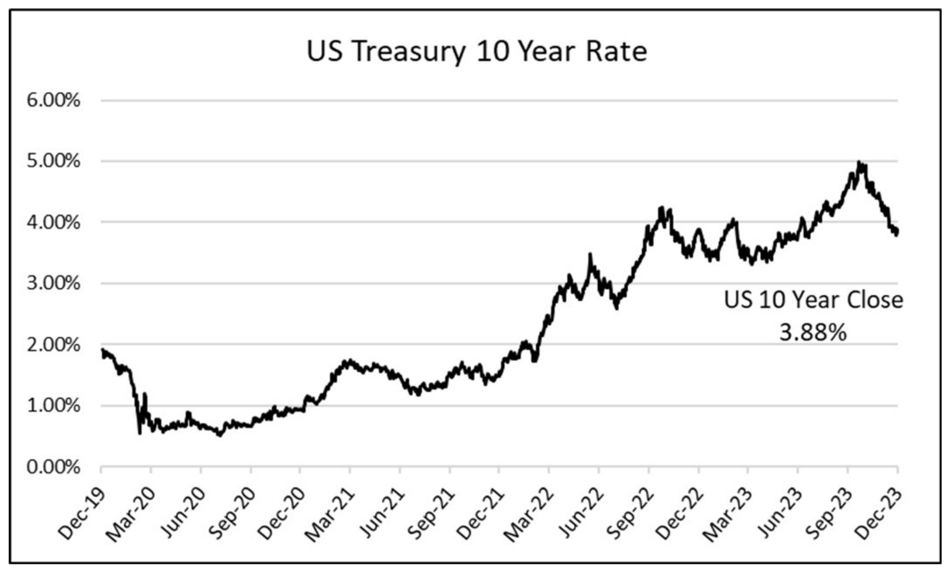
December 31, 2023

- We remain defensive in both equity and fixed income markets amid high valuations and rising interest rates; however, have increased equity allocation and extended bond maturities into now relatively cheap sectors of markets, and will continue to do so.
- The Fixed Income strategy took advantage of higher rates seen last year by reinvesting maturities of defensive short term bonds and extending into longer term maturities to lock in higher rates for longer.
- Allocations focused on short term US Treasuries at 5% - 5.5% yield while also adding core positions in high coupon GNMA Mortgage-Backed securities (full faith and credit of US Government) at over 6% yield. We intend to add to these positions.
- We remain relatively defensive as longer rates have room to rise. The recent drop in rates was excessive.
- We continue to maintain corporate credit exposure, but to a limited degree given potential for increased credit risk amid a challenging earnings environment, and significant spread widening. Where appropriate, we incorporate short duration High Yield.
- Inflation has had a negative impact on demand for goods and signs are beginning to appear that high services inflation is beginning to curb demand there as well. Inflation itself may have more impact on demand than Fed policy.
- The continued underweight allocation to equities is primarily reflected in the underweight of the eight rich stocks that dominate the S&P 500. Core holdings include an allocation to some, but not all or as heavy, those 8 stocks where we see value.
- Added equity positions include companies that have declined significantly and/or not participated in the market index run up, such as industrials, healthcare, and other value oriented companies, and even include some underappreciated technology companies.
- Small and mid cap stocks have underperformed, and their value looking forward is uncertain, but merit consideration in portfolio.
- International equities also merit consideration; however, economics, currency fluctuation and geopolitical risks must be considered.
- Geopolitical risks have continued and will continue to have consequences on the global economy and markets.
- International markets continue to be strained with high inflation, rising rates, and slower growth. Japan continues easy policy with the rest of the world tightening. Europe is returning to recession, and China stagnant with significant structural issues.
- Significant economic activity with low unemployment should mitigate risk of deep recession. However, continued high inflation pressures with reduced demand increases uncertainty on corporate profits and may lead corporations to reduce costs.

Market Review

December 31, 2023

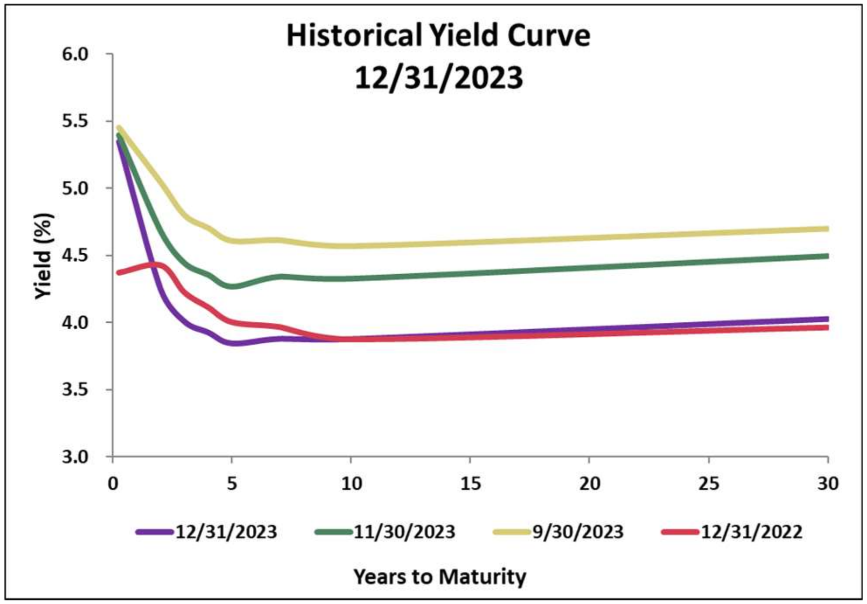
- Interest rates fell significantly on expectations of the Federal Reserve to ease rates by as much as 1.5%, starting as soon as March, and despite significant Treasury debt issuance.
- While many Fed Governors have tried to walk back market expectations of such significant rate cuts, or as soon, some Governors have indicated "mission accomplished" for a soft landing, dividing the Fed.
- Bond market performance turned positive for the year as the rate drop pushed bond prices higher.
- Higher income levels also helped drive higher returns in fixed income markets for the first time in years.
- Equity markets rallied amid shifting Fed policy and expectations of even more aggressive rate cuts.
- After a year of gains enjoyed by only 8 stocks while 492 were flat to negative for the S&P 500 Index, gains in Q4 were broad based, with most gains in December after the Fed meeting.
- Higher dividend paying Energy, and Utility sectors remained in negative territory for the year.

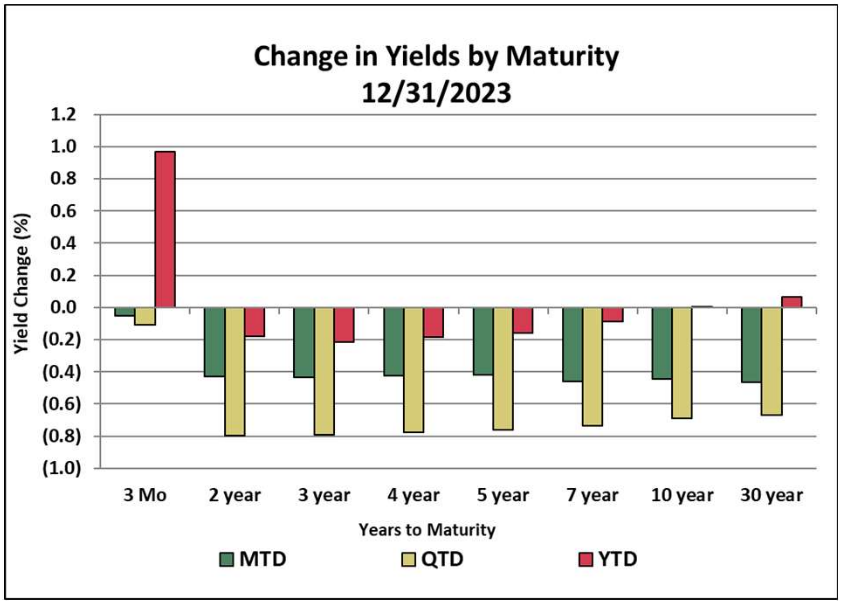


Market Review

Yield Curve – December 31, 2023

- Interest rates fell across the maturity spectrum in Q4 in mostly parallel fashion, but led by short term interest rates, reflecting increase expectations of Fed ease.
- The Fed reversed policy expectations from tightening, to holding steady, to expectations or greater ease in 2024 over the course of Q4. The market took it many steps further, pushing rates down significantly.
- Coming out of Q3 with higher rates and lower stock prices, some Fed Governors proclaimed the market was doing their work for them by tightening financial conditions; however the Q4 market response to Fed commentary and action more than reversed financial conditions, which are now among easiest in history.
- There will be continued volatility in the bond market as the FOMC (Federal Open Mouth Committee) continues to manipulate markets, and as significant debt issuance comes to market to fund the deficit.

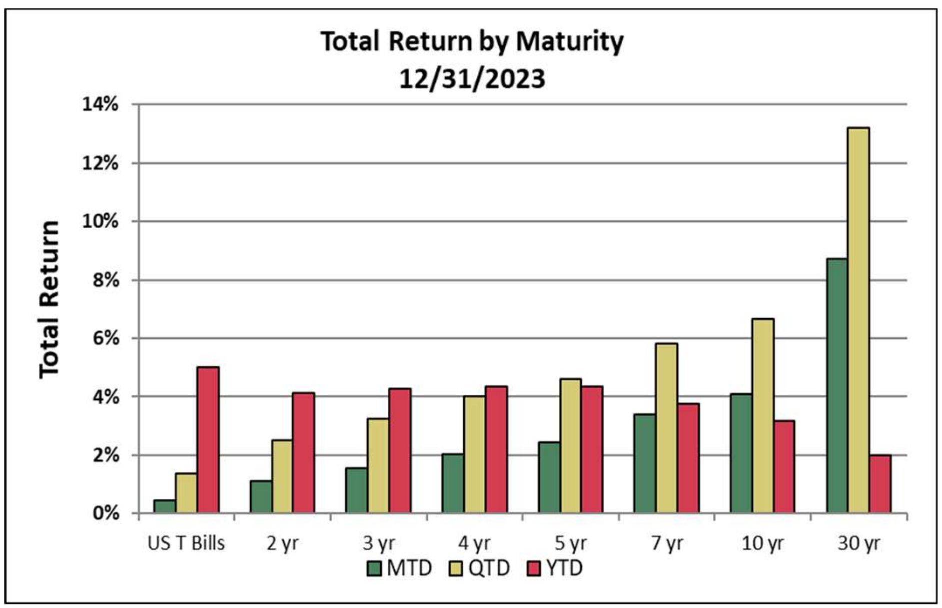


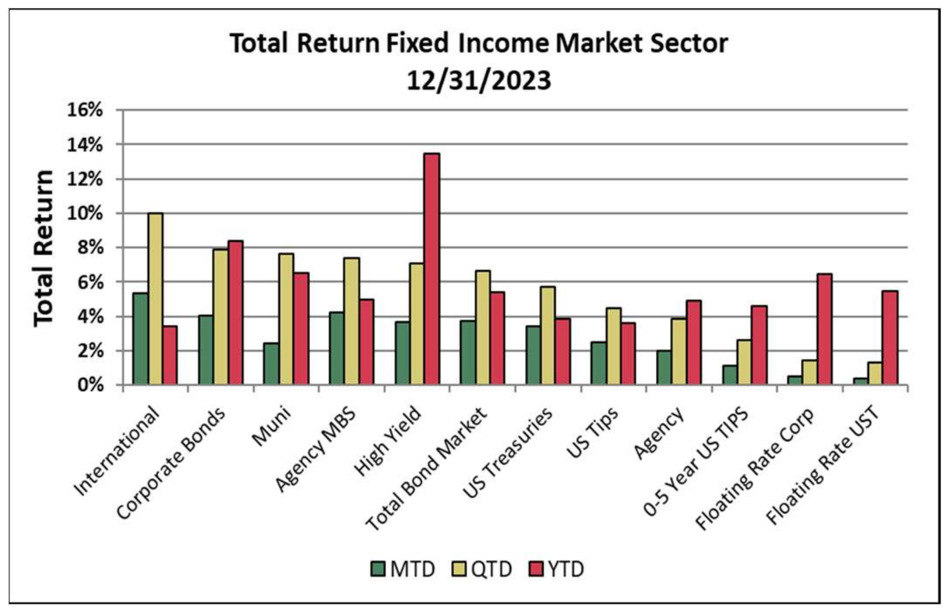


Market Review

Yield Curve and Sector Returns – December 31, 2023

- The drop in rates generated positive returns across the maturity spectrum, bringing YTD gains positive.
- Higher income levels on short term maturities drove much of their returns, while price gains in Q4 turned longer term maturities positive on the year.
- Longer term maturities have greater price sensitivity to yield changes so saw the largest price gains in Q4.
- Increased expectations of Fed ease also tightened risk premiums in all sectors, generating relatively strong returns in Corporate, Muni, and Mortgage Backed securities in Q4.
- The total bond market benchmark is now positive YTD, for the first time in three years.

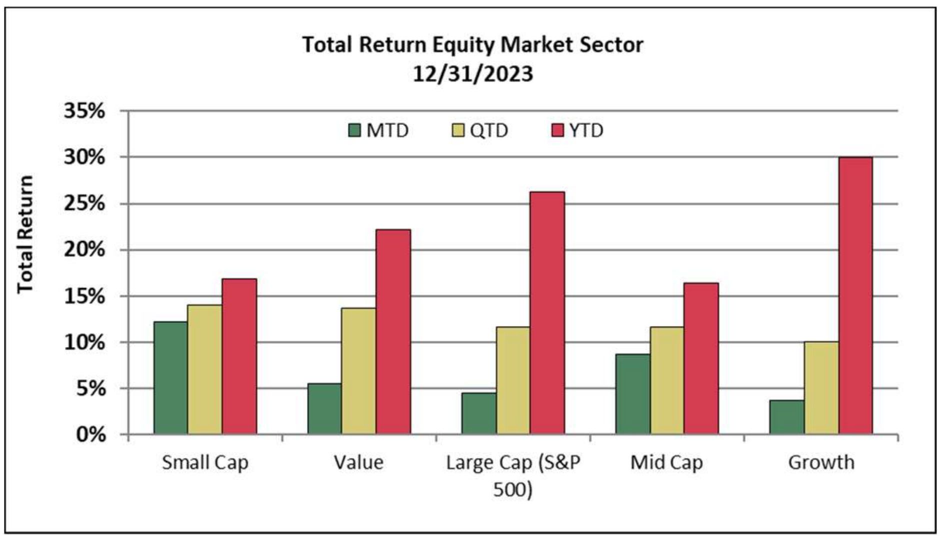


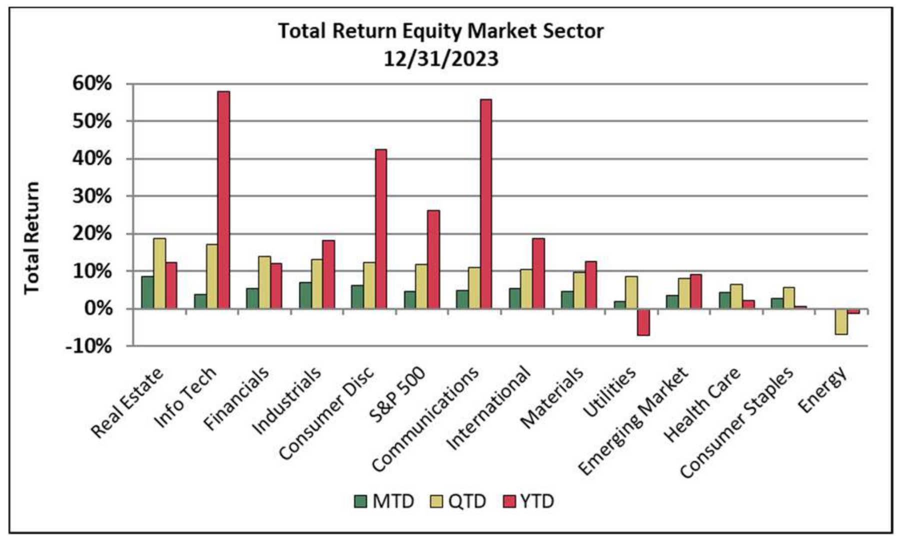


Market Review

Equity Market Returns – December 31, 2023

- While Q4 equity market gains were broad based, the big 8 stocks in the Info Tech, Consumer Discretionary, and Communications sectors continued to drive returns. In fact, most other stocks in those sectors did not keep pace.
- It was a recovery quarter for Real Estate, Financials and Industrials, while Utilities, Staples and Energy continued to lag.
- Small Cap stocks also recovered, as did most Value oriented stocks, but lag for the year as a whole.
- The equal weighted S&P 500 Index performed well relative to the market weighted in Q4, but lagged significantly YTD.





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Market Scoreboard

December 31, 2023

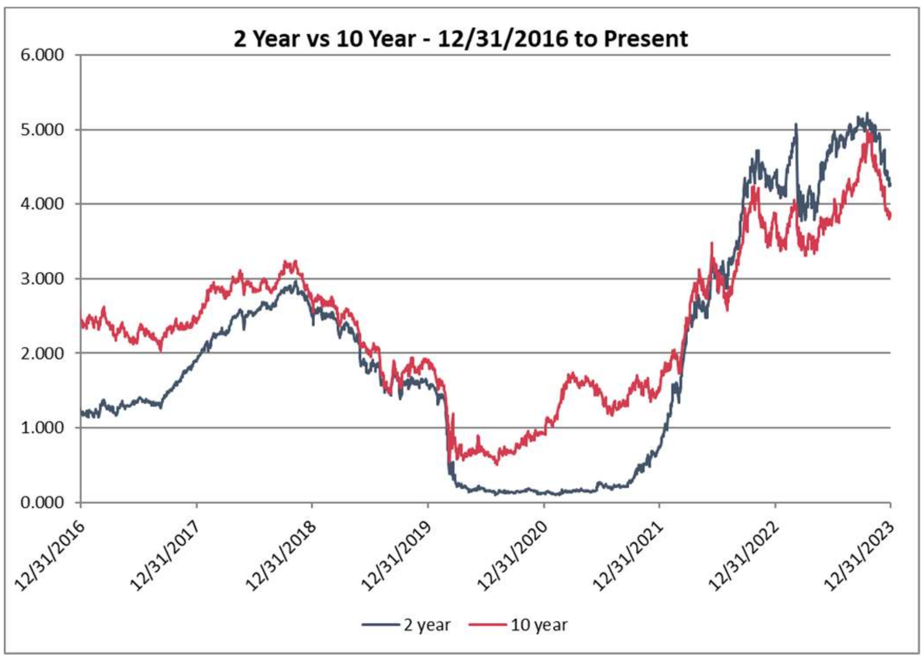
Market Summary - December 31st, 2023					
Bond Market	**MTD**	**QTD**	**YTD**	**1 Year**	**Yield**
Total Bond Market	3.8%	6.7%	5.4%	5.4%	4.6%
US Treasuries	3.4%	5.7%	3.9%	3.9%	4.1%
US TIPS (Inflation Prot.)	2.5%	4.5%	3.6%	3.6%	4.5%
Corporate Bonds	4.0%	7.9%	8.4%	8.4%	5.1%
Floating Rate Corp	0.5%	1.5%	6.4%	6.4%	6.0%
US MBS Index	4.2%	7.4%	5.0%	5.0%	4.7%
High Yield Corporates	3.7%	7.1%	13.5%	13.5%	7.4%
Merrill Muni Index	2.4%	7.6%	6.5%	6.5%	2.9%
International Bonds	5.3%	10.0%	3.4%	3.4%	2.1%
Commodities/Other	**MTD**	**QTD**	**YTD**	**1 Year**	**End Value**
Oil (WTI)	-5.8%	-16.0%	-6.1%	-6.1%	72
Gold	1.3%	11.6%	13.1%	13.1%	2,063
Dollar Index	-2.1%	-4.6%	-2.1%	-2.1%	101

Market Summary - December 31st, 2023					
Stock Market Indices	**MTD**	**QTD**	**YTD**	**1 Year**	**End Value**
DOW Jones Avg.	4.9%	13.1%	16.2%	16.2%	37,690
NASDAQ Composite	5.6%	13.8%	44.7%	44.7%	15,011
Large Cap Core (S&P 500)	4.5%	11.7%	26.3%	26.3%	4,770
Large Cap Growth	3.7%	10.1%	30.0%	30.0%	3,030
Large Cap Value	5.5%	13.6%	22.2%	22.2%	1,718
Mid Cap Core	8.7%	11.7%	16.4%	16.4%	2,782
Mid Cap Growth	7.4%	9.9%	17.4%	17.4%	1,286
Mid Cap Value	10.2%	13.6%	15.4%	15.4%	916
Small Cap Core	12.2%	14.0%	16.9%	16.9%	2,027
Small Cap Growth	12.0%	12.7%	18.7%	18.7%	9,367
Small Cap Value	12.4%	15.3%	14.6%	14.6%	16,260
Europe	4.9%	12.8%	23.4%	23.4%	474
England	5.0%	7.0%	13.6%	13.6%	7,733
Japan	5.3%	11.6%	21.8%	21.8%	33,464
Shanghi 300	-1.3%	-4.2%	-11.8%	-11.8%	3,431
International	5.3%	10.4%	18.8%	18.8%	2,236
MSCI China	-2.4%	-4.2%	-11.2%	-11.2%	425
Emerging Markets	3.6%	8.0%	9.0%	9.0%	40

Market Review

2 Year vs 10 Year – December 31, 2023

- Short term and long term interest rates moved higher in 2023, getting back toward a more "normal" historical level, and a level that better reflects current economic conditions.
- In Q4, rates reversed direction on expectations of a significant monetary policy shift, but maintain some of the higher levels established over the past couple of years.
- While markets rate expectations may have gotten ahead of themselves in Q4, the overall rate structure seems to be establishing an economic equilibrium as these lower rates have spurred some activity such as in housing, while higher rates are curbing some activity such as costs of funding.

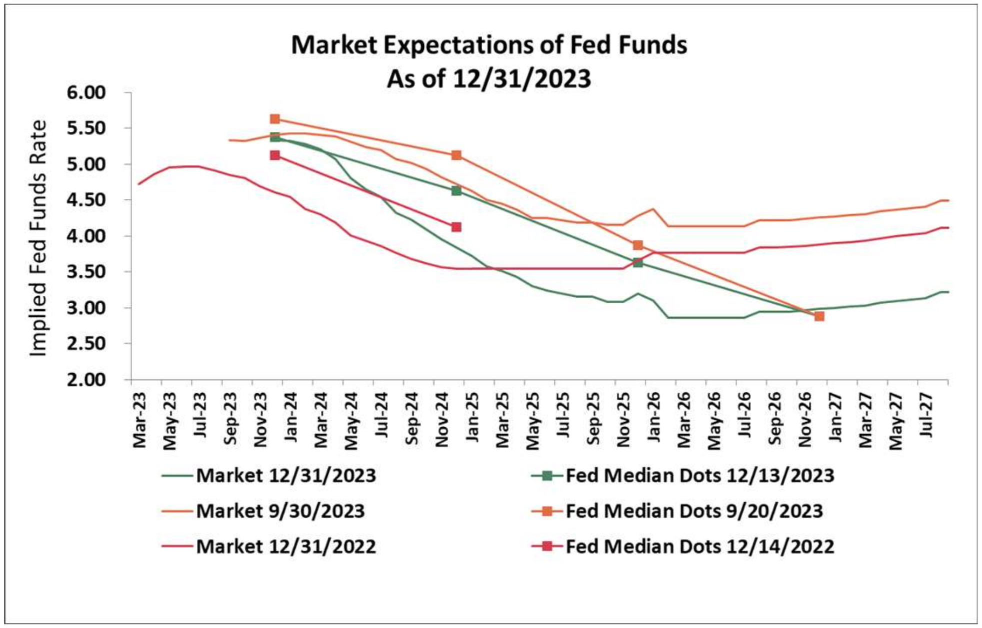


Market Review

Monetary/Fed Policy – December 2023

Federal Reserve Median Economic Projections As of 12/13/2023						
Change in GDP	**Actual**	**2023**	**2024**	**2025**	**2026**	**Longer Run**
December 2023 Projection		2.6	1.4	1.8	1.9	1.8
September 2023 Projection		2.1	1.5	1.8	1.8	1.8
June 2023 Projection		1.0	1.1	1.8		1.8
March 2023 Projection		0.4	1.2	1.9		1.8
Actual Q3 2023 yoy/qoq	**2.7%/4.5%**					
Unemployment Rate						
December 2023 Projection		3.8	4.1	4.1	4.1	4.1
September 2023 Projection		3.8	4.1	4.1	4.0	4.0
June 2023 Projection		4.1	4.5	4.5		4.0
March 2023 Projection		4.5	4.6	4.6		4.0
Actual December 2023	**3.7%**					
PCE Inflation						
December 2023 Projection		2.8	2.4	2.2	2.0	
September 2023 Projection		3.2	2.5	2.2	2.0	2.0
June 2023 Projection		3.2	2.5	2.1		2.0
March 2023 Projection		3.3	2.5	2.1		2.0
Actual December 2023	**2.8%**					
Core PCE Inflation						
December 2023 Projection		3.2	2.4	2.2	2.0	
September 2023 Projection		3.7	2.6	2.3	2.0	
June 2023 Projection		3.9	2.6	2.2		
March 2023 Projection		3.6	2.6	2.1		
Actual December 2023	**3.3%**					
Projected Policy Path- Fed Funds						
December 2023 Projection		5.4	4.6	3.6	2.9	2.5
September 2023 Projection		5.6	5.1	3.9	2.9	2.5
June 2023 Projection		5.6	4.6	3.4		2.5
Actual December 2023	5.4%					

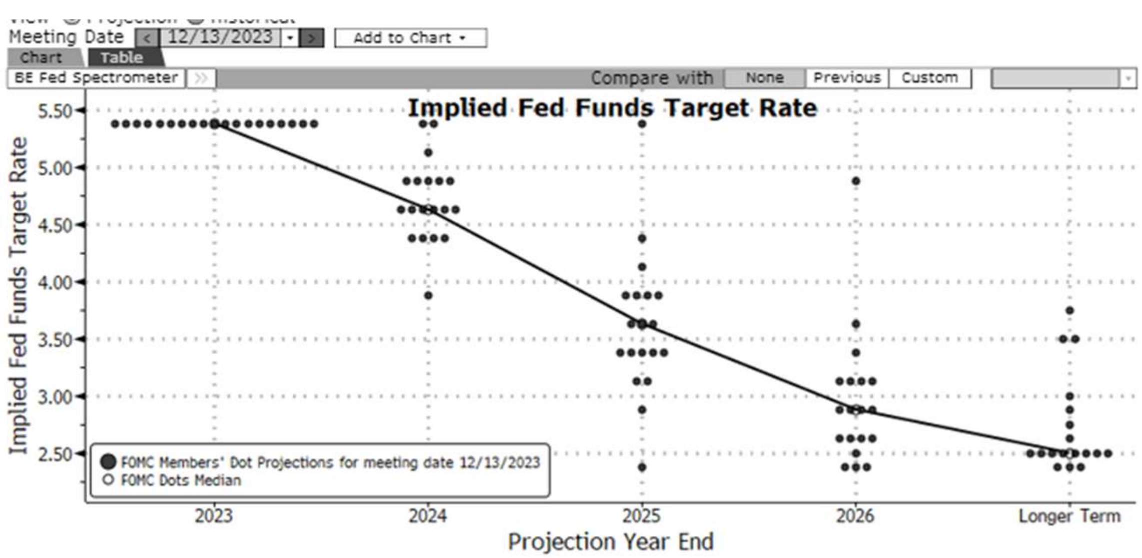
- The Fed reversed course by reducing its terminal 2024 expected rate after raising it just 3 months before.
- Fed Expectations are for a 4.625% rate at year end, while markets expectations are bellow 4%.
- The Fed continues to chase reality in their economic projections, but downshifted economic expectations for 2024.
- Financial markets made a significant adjustment with lower long term rates and higher equity prices, however continue to discount the Fed's resolve to maintain a higher funds rate than Fed expectations, as always…



Market Review

Monetary Policy – December 2023

- The Feds Dot Plot shows all Fed Governors thoughts on where rates will be at each time period, with the median showing a downshift in levels from 2023, with a wide dispersion of opinion.
- The Fed never achieved previously expected terminal rate of 5.625% for 2023, and moved terminal rate for 2024 down to 4.625% from recent expectations of 5.125.
- The opinions across the Fed board have become divergent with some declaring a soft landing mission accomplished, some fearing risk of recession, and some fearing much more work is needed to conquer inflation.
- Market inflation expectations remain extremely low as implied by TIPS at under 2% for the next 2 years, and slightly over for 5 and 10 years, pricing in the Feds ultimate objective has been achieved.



Current Fed Funds Rate
5.33

10 Year Tip	10 Year UST	Implied Inflation Premium
1.71	3.88	**2.17**

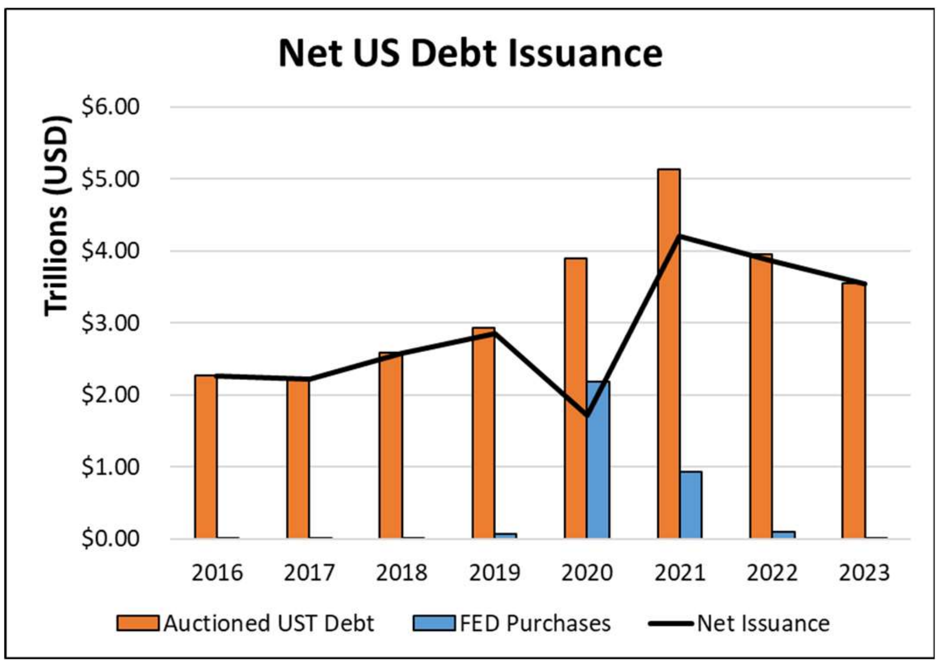
5 Year Tip	5 Year UST	Implied Inflation Premium
1.71	3.85	**2.14**

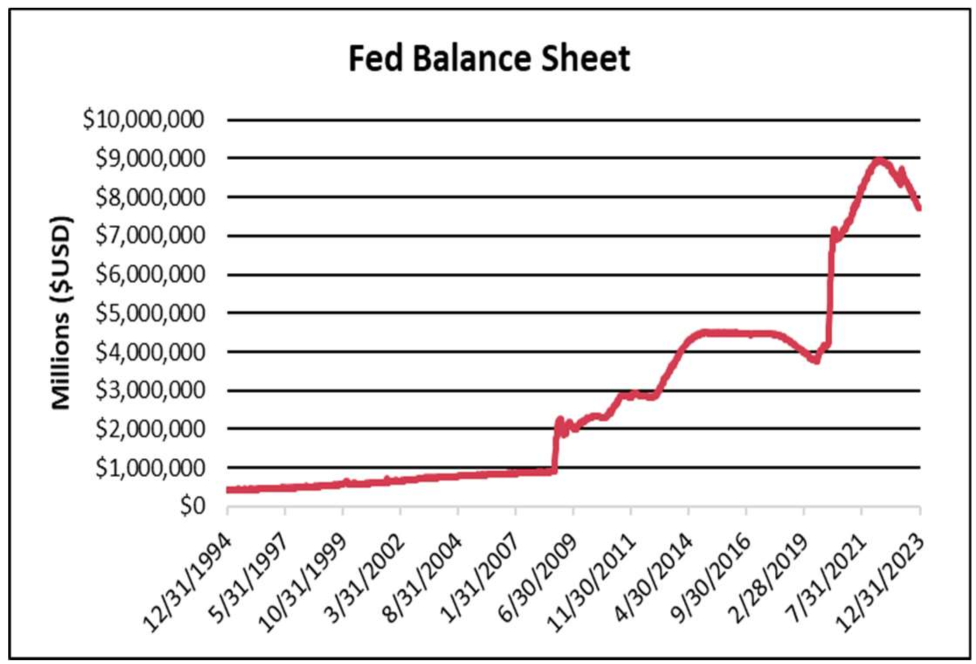
2 Year Tip	2 Year UST	Implied Inflation Premium
2.30	4.25	**1.95**

Market Review

Treasury & Fed – December 2023

- The US Treasury has auctioned off nearly $3.5 Trillion in Debt in 2023.
- The Federal Reserve has nearly stopped all purchases, outside of $750M in "Small Dollar" Operations as it slowly works down its balance sheet.
- The Fed still owns nearly 8 Trillion in US Debt.
- The Fed will not be buying additional debt as they unwind Quantitative Easing; however discussions of resuming purchases has resurfaced – another potential policy error.

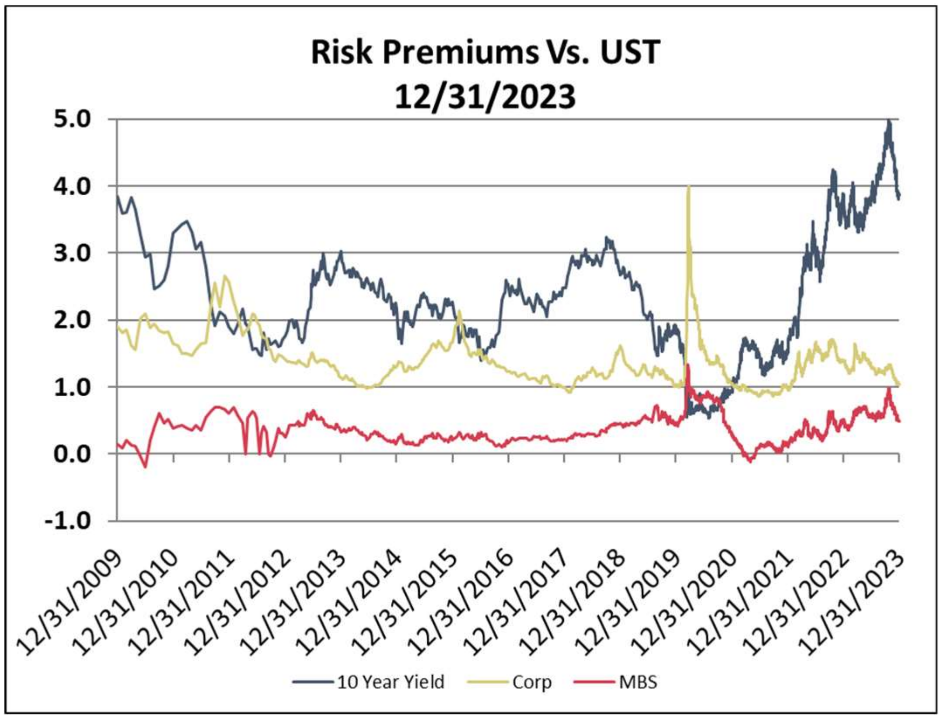


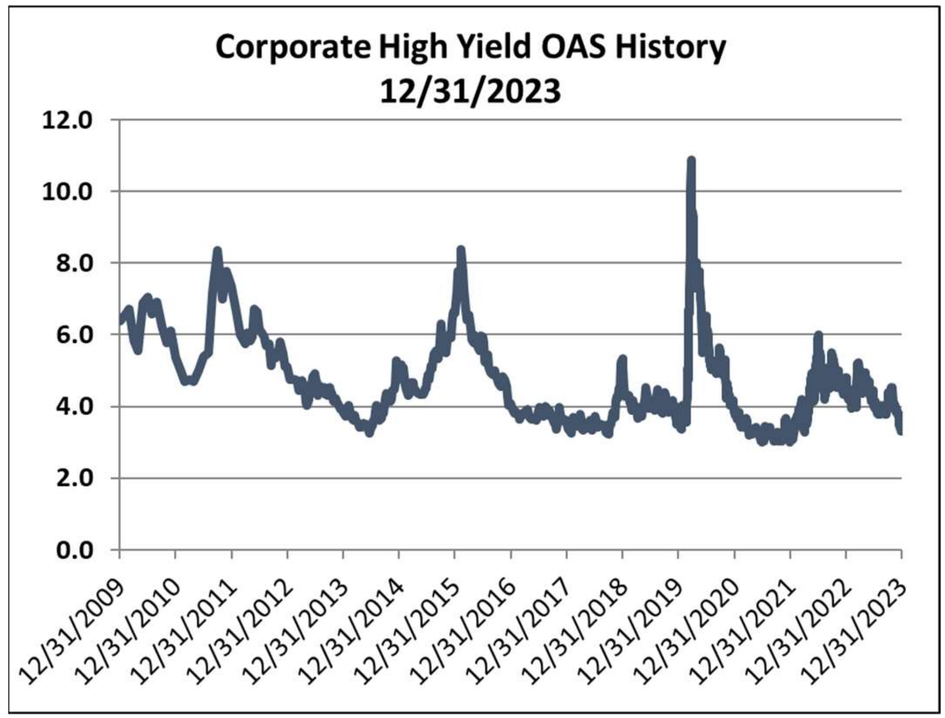


Market Review

Yield Spreads – December 2023

- While Treasury rates fell and equity prices rose, corporate bond risk premiums tightened.
- Corporate credit conditions have been strong; however, higher rates, slower overall economic activity, and tighter earnings margins may begin to put pressure on companies with higher debt levels. Corporate spreads at near their historically tight levels.
- Mortgage-backed securities also tightened and may be more stable going forward given lack of credit risk.

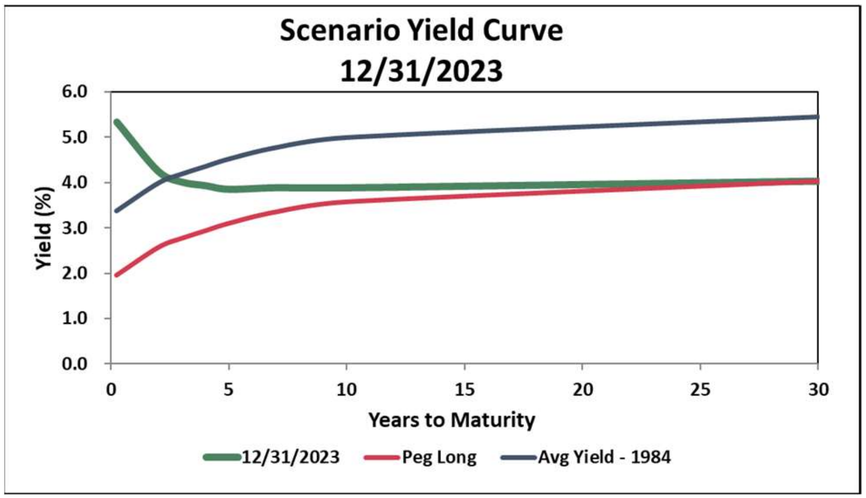


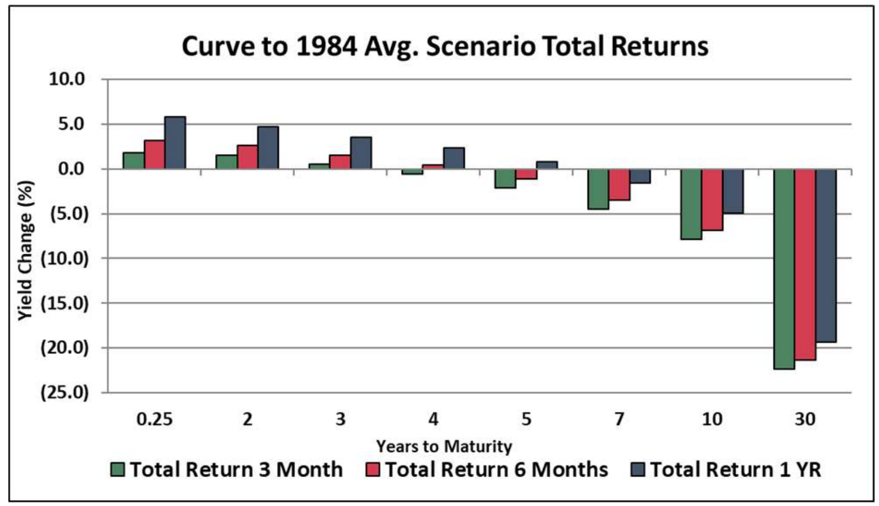


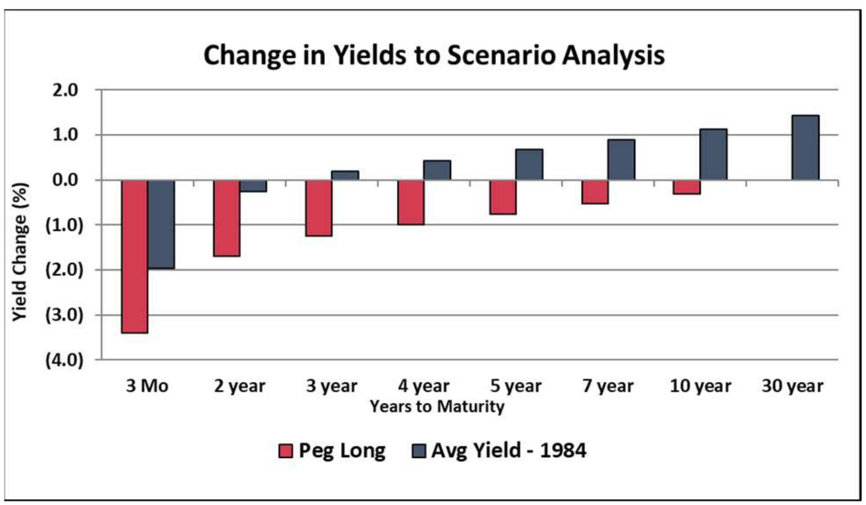
Market Review – Yield Curve Analysis

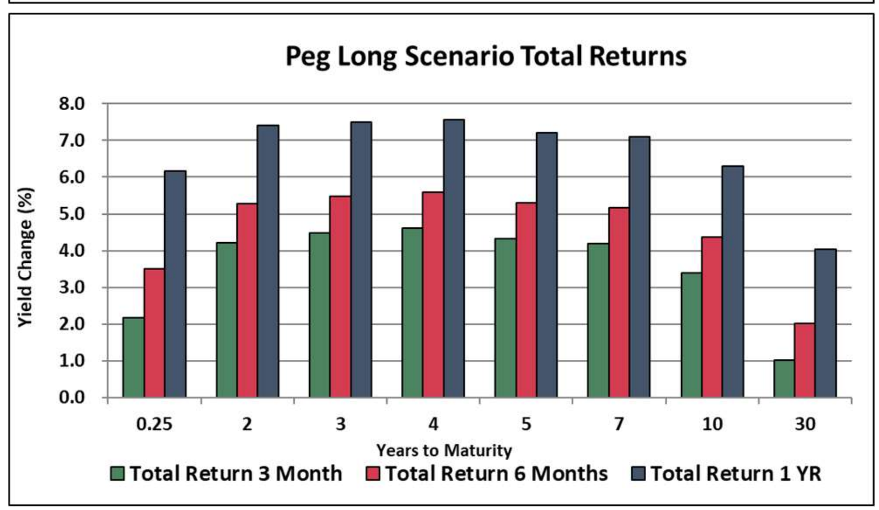
December 31, 2023

- In scenario analysis that returns yields across the maturity spectrum to their average levels since 1984, and in a scenario that pegs the 30 year note and returns the curve to its average slope since 1984, shorter term maturities, particularly in 2-4 years continue to provide superior total returns than longer term maturities.





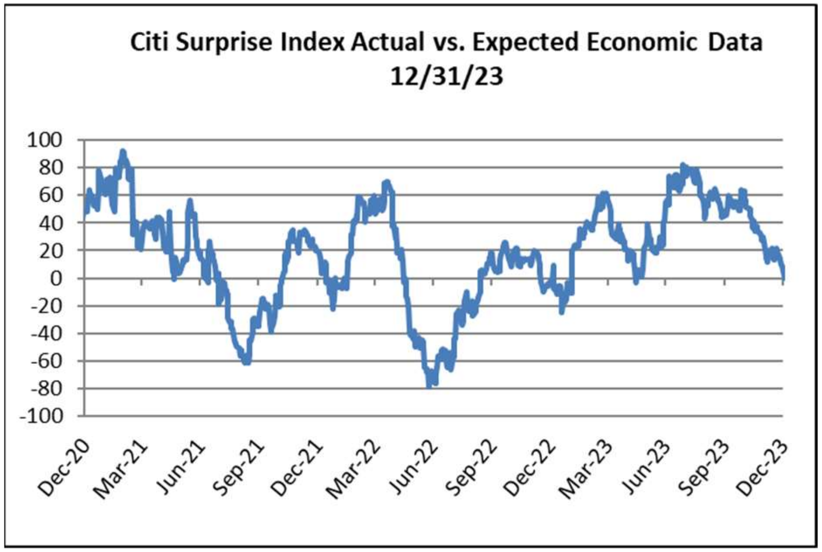




Economic Environment

December 2023

- Economic activity remains solid, but has been coming in near market expectations rather than so far above. This is due to a combination of higher expectations and some softer economic data.
- Global economic activity has begun to slow, with some areas such as Europe at or near recession.
- Inflation in off the boil in some areas, but remains elevated around many areas of the globe.
- Central banks around the world have raised interest rates aggressively but have moved toward holding and curbing additional Fiscal stimulus, acknowledging the risk of recession to win the battle against inflation.



GDP YoY % Change

	Q3 2023	One Year Ago	Change
US	2.90	1.70	1.20
Eurozone	0.00	2.40	(2.40)
Germany	(0.40)	1.30	(1.70)
France	0.60	1.30	(0.70)
Italy	0.14	2.61	(2.47)
UK	0.30	2.10	(1.80)
Canada	0.90	2.80	(1.90)
Mexico	3.31	4.98	(1.67)
Australia	2.10	5.80	(3.70)
Japan	1.50	1.50	0.00
China	4.90	3.90	1.00
Russia	5.50	(3.50)	9.00
Brazil	1.96	4.32	(2.36)

**Canada GDP as of 10/31/2023*
**All other GDP as of 9/30/2023*

Inflation YoY % Change

	Dec-23	One Year Ago	Change
US	3.40	6.50	(3.10)
Eurozone	2.90	9.20	(6.30)
Germany	3.70	8.10	(4.40)
France	3.70	5.90	(2.20)
Italy	0.60	11.60	(11.00)
UK	3.90	10.70	(6.80)
Canada	3.10	6.80	(3.70)
Mexico	4.66	7.82	(3.16)
Australia	2.10	5.80	(3.70)
Japan	2.80	3.80	(1.00)
China	(0.50)	1.60	(2.10)
Russia	7.48	11.98	(4.50)
Brazil	4.62	5.79	(1.17)

**UK, Canada, Japan, & China as of 11/30/2023*
**Australia CPI as of 9/30/2023*

SPX Headline Earnings Scenario Analysis

- Bloomberg reports that Headline* earnings shrank -2.39% year-over-year to $217.72 as of December 29th, down from $219.84 on September 30th.
- This indicates the P/E ratio for the last twelve months is 21.91x earnings, above the 10-year average, median, mode, and harmonic average.
- Consensus estimates are for headline earnings to grow by over the next twelve months by 7.80% to $234.70
- This indicates the P/E ratio for the next twelve months is 20.32x earnings, also above the 10-year average, median, mode, and harmonic average.
- Historical scenarios are based on daily data from 9/30/2003 to 9/30/2023.
- *Headline earnings use the market convention for each security and is a mix of GAAP, Adjusted, and special metrics (FFO Per Share for REITs, etc.)

Headline EPS TTM

	Actuals 12/29/2023	
	YoY Growth	-2.39%
	Act. EPS	$ 217.72
SPX Index	P/E	SPX Price
12/29/2023	**21.91**	**$ 4,770**
Average	19.33	$ 4,209
Harmonic	18.94	$ 4,124
Median	18.48	$ 4,023
Mode	17.00	$ 3,701

Headline EPS NTM

	Estimates 12/29/2023					
	Est. YoY Growth	9.80%	8.80%	7.80%	5.00%	0.00%
	Est. EPS	$237.60	$235.44	$ 234.70	$227.22	$216.40
SPX Index	P/E	SPX Price				
12/29/2023	**20.32**	$ 4,829	$ 4,785	**$ 4,770**	$ 4,618	$ 4,398
Average	18.30	$ 4,349	$ 4,309	$ 4,296	$ 4,159	$ 3,961
Harmonic	18.04	$ 4,286	$ 4,247	$ 4,234	$ 4,099	$ 3,904
Median	17.63	$ 4,189	$ 4,151	$ 4,138	$ 4,006	$ 3,815
Mode	17.00	$ 4,039	$ 4,002	$ 3,990	$ 3,863	$ 3,679

vectors research management llc

The "Great 8" S&P 500

- S&P 500 returns have been largely dominated by 8 stocks: Apple, Microsoft, Amazon, Nvidia, Google (x2), Meta, and Tesla. Their valuations are currently very rich.
- YTD these 8 stocks collectively attributed to the majority of the index total return (generating 15.00% of the 26% return for YTD 2023).
- In Q4, returns were more broad based, but with the top 8 still leading the way.
- This trend has been developing since the start of the year and as it continues, we see significant risks in the index and these stocks as their relative weights have grown to about 28% of the index itself.
- The equal weighted S&P 500 returned 11.8% in Q4, and 13.7% YTD, achieving most of its return in Q4.

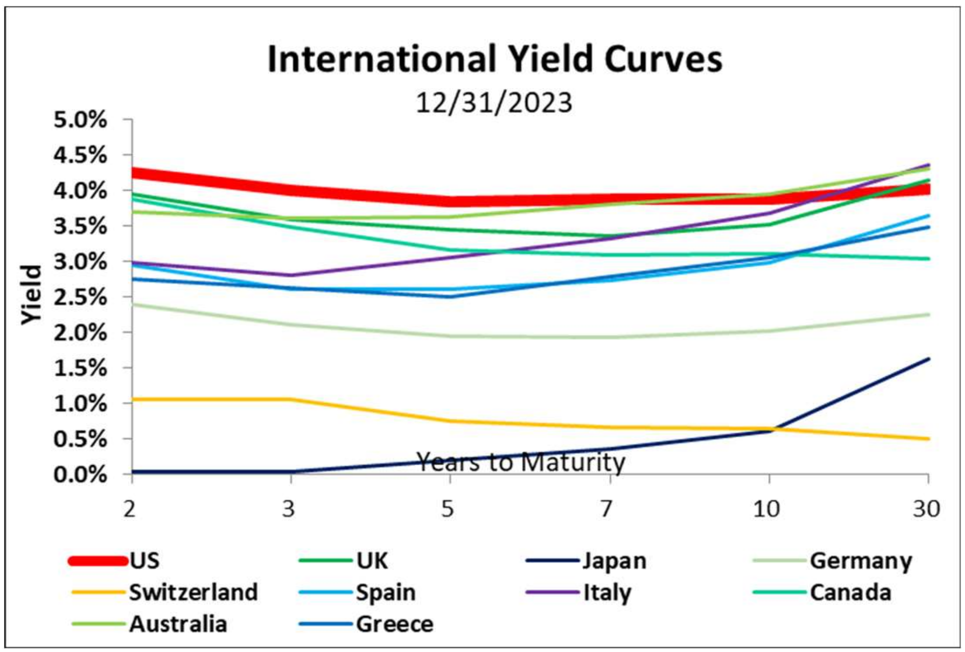
Top 8 Holdings Vs. Rest of S&P 500 - QTD & YTD

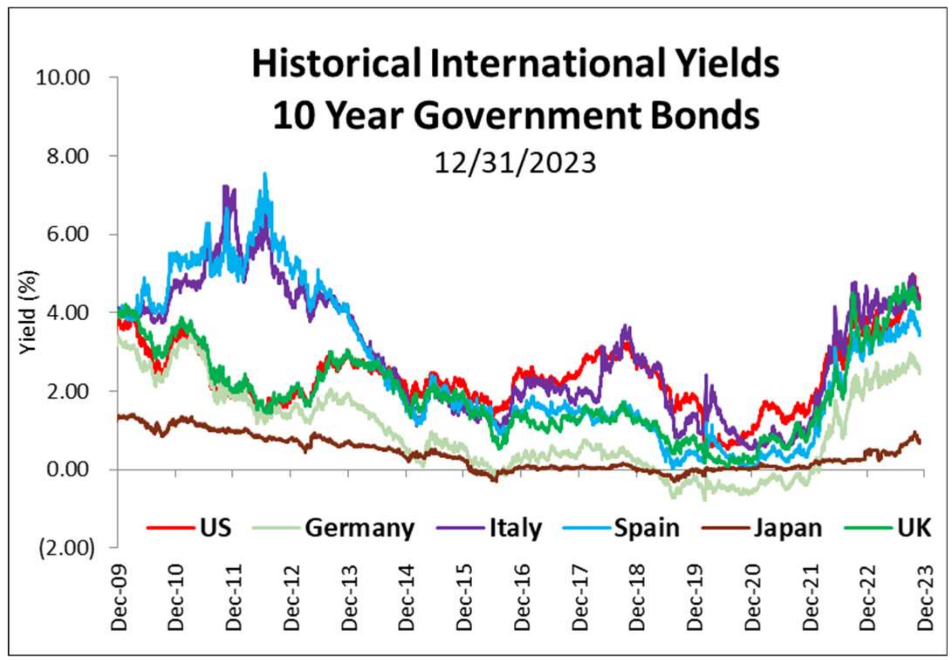
Company	12-31-2022 % Weight in SPX	9-30-2023 % Weight in SPX	12-31-20223 % Weight in SPX	QTD % Return	QTD % Contribution	YTD % Return	YTD % Contribution
AAPL	6.03%	7.00%	7.01%	12.60%	0.88%	49.00%	2.95%
MSFT	5.55%	6.50%	6.96%	19.34%	1.26%	58.19%	3.23%
AMZN	2.31%	3.20%	3.44%	19.52%	0.62%	80.88%	1.87%
NVDA	1.13%	3.00%	3.05%	13.86%	0.42%	239.02%	2.70%
GOOGL	1.64%	2.20%	2.06%	6.75%	0.15%	58.32%	0.96%
META	0.84%	1.90%	1.96%	17.90%	0.34%	194.13%	1.63%
GOOG	1.46%	1.90%	1.75%	6.89%	0.13%	58.83%	0.86%
TSLA	1.03%	1.90%	1.71%	-0.70%	-0.01%	101.72%	1.05%
Top 8 of SPX	**19.99%**	**27.60%**	**27.94%**	**13.72%**	**3.79%**	**76.28%**	**15.25%**
Rest of SPX	**80.01%**	**72.40%**	**72.06%**	**10.90%**	**7.89%**	**13.76%**	**11.01%**
Total	100.00%	100.00%	100.00%	11.68%	11.68%	26.26%	26.26%

Market Review

International Yield Curves – December 2023

- Inflation has been a global phenomenon and interest rates have risen globally.
- Central banks globally have tightened policy in 20233 with some central banks starting to pause on further hikes while others still have more work to do.
- The US continues as one of the highest yielding developed countries, however longer-term rates some countries have risen above the US. UK inflation, and interest rates are higher.
- Japan is the lone holdout maintaining excessive easy monetary policy, but has hinted at a shift to back off of yield curve control.

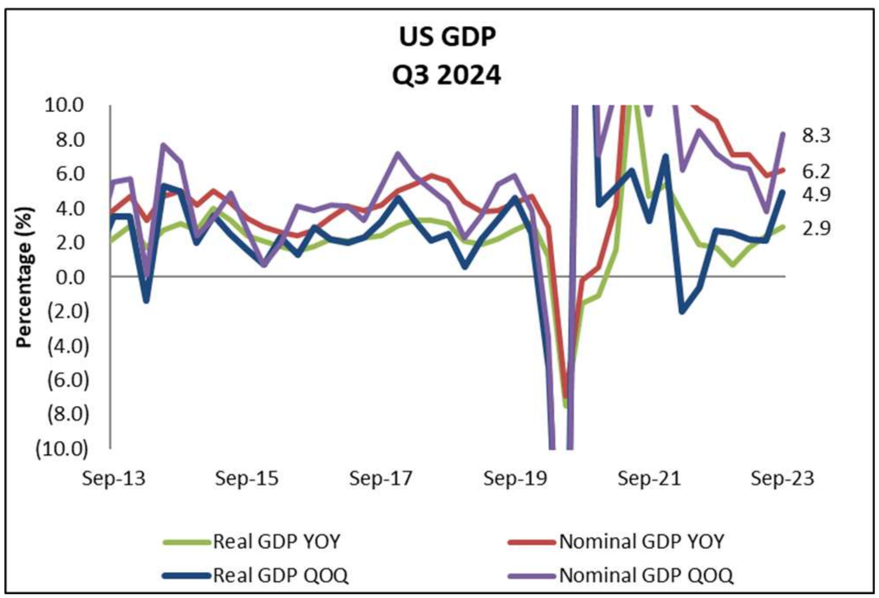


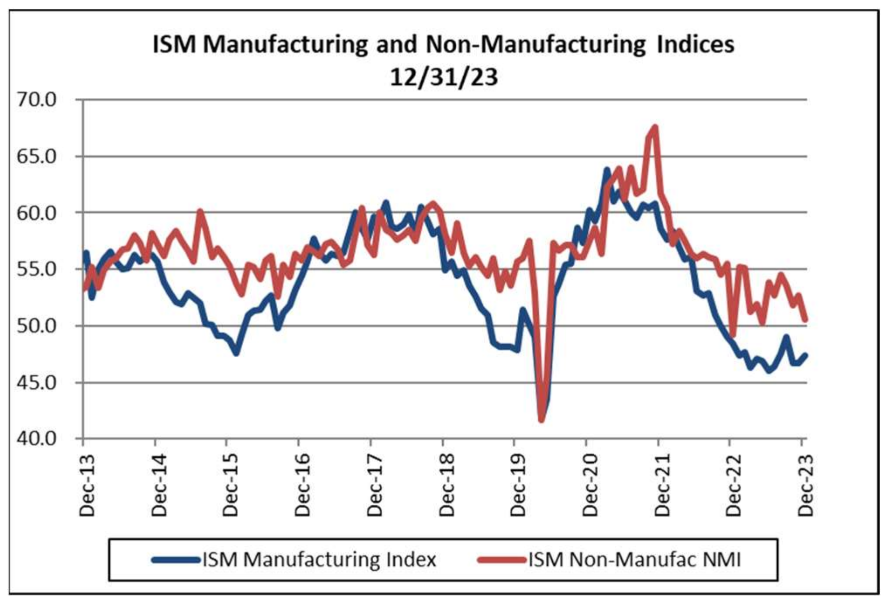


Economic Environment

December 2023

- US Economic activity was robust in Q3 2023, with Nominal GDP running at an 8.3% pace, and Real GDP up almost 5%. The GDP inflation index was 3.4%.
- On a Year over Year basis, Nominal growth exceeded 6%, while Real growth was only 2.9% due to a still high inflation index of 3.3%.
- While the level of activity resulting from the excess monetary and fiscal stimulus of the past number of years persists, we are beginning to see moderation as high prices begins to curb activity.
- The manufacturing Goods sectors of the economy has held steady at a level below 50, which shows contraction, while the robust services sector has turned down to the 50 level, showing neither growth nor contraction, but is clearly off the boil.

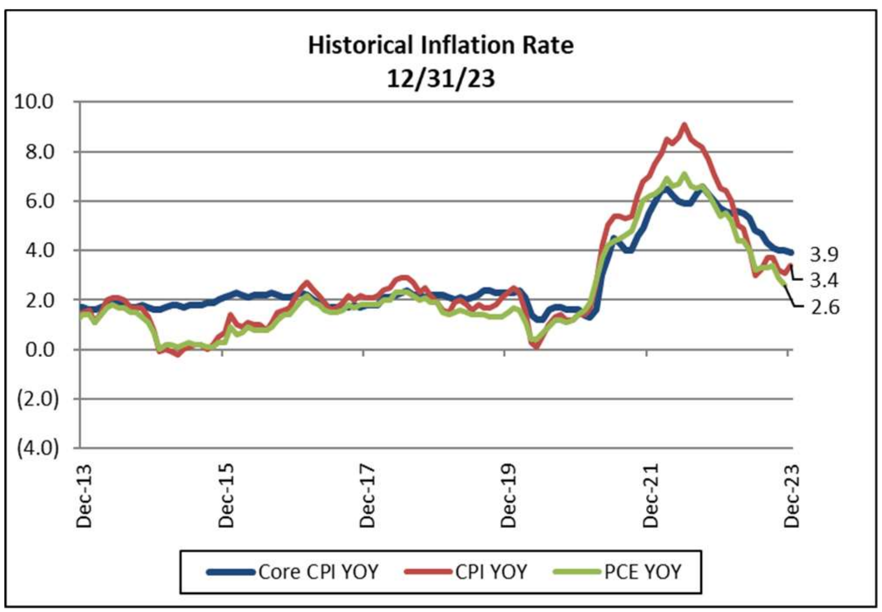


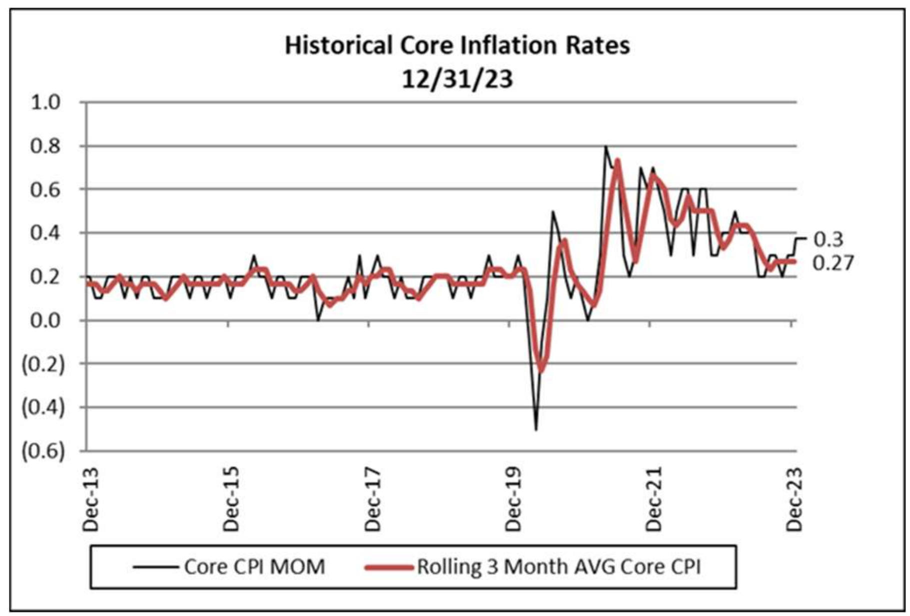


Economic Environment

December 2023

- Inflation has come off the boil, however remains well above Fed target levels of 2%, and recently ticked up.
- While the rate of change in prices has declined, absolute level of prices has continued to climb and remain at elevated levels, curbing consumer and business demand.
- Continued wage pressures and sustained demand have provided upward pressure on inflation, while recently falling energy prices has provided some relief.
- Company earnings reports continue to report higher revenues on lower volumes, but that has started to shift as consumers and business have begun to fight back on pricing power.
- Upcoming earnings reports will be telling.

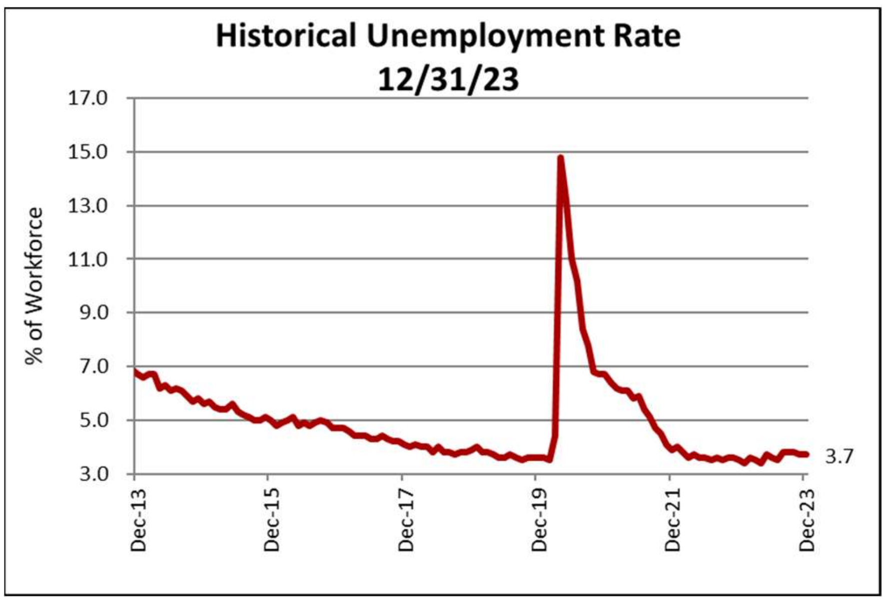


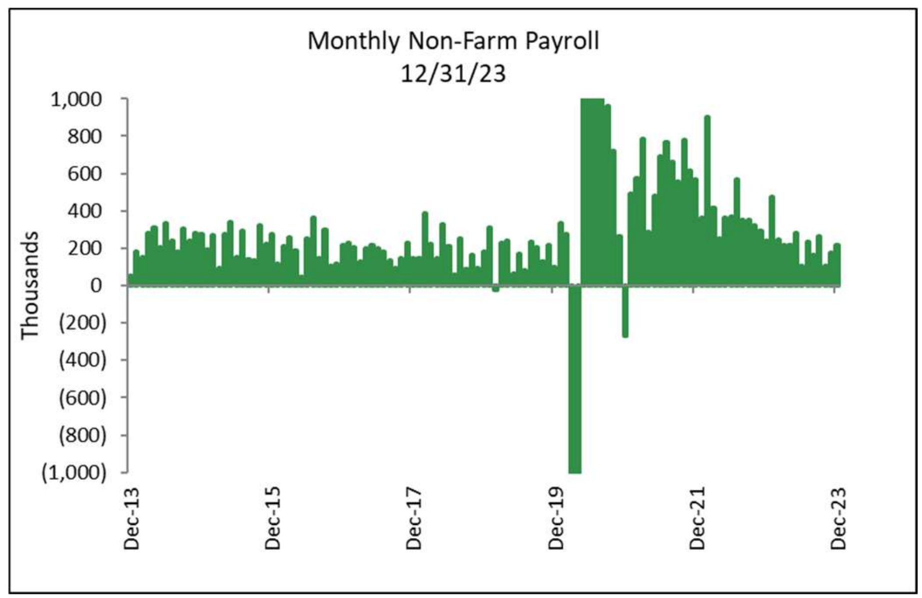


Economic Environment

Employment – Monthly Payrolls – December 2023

- The unemployment rate remains at a historically low rate of 3.7% as demand for workers continues to outnumber availability of workers and layoffs remain extraordinarily low.
- Monthly payrolls additions continue at strong levels, certainly stronger than market expectations. Jobs are being filled in government, health care, and services sectors.
- Layoffs continue in technology, and have spread to some other cyclical economic sectors, but laid off workers are quickly finding new jobs.

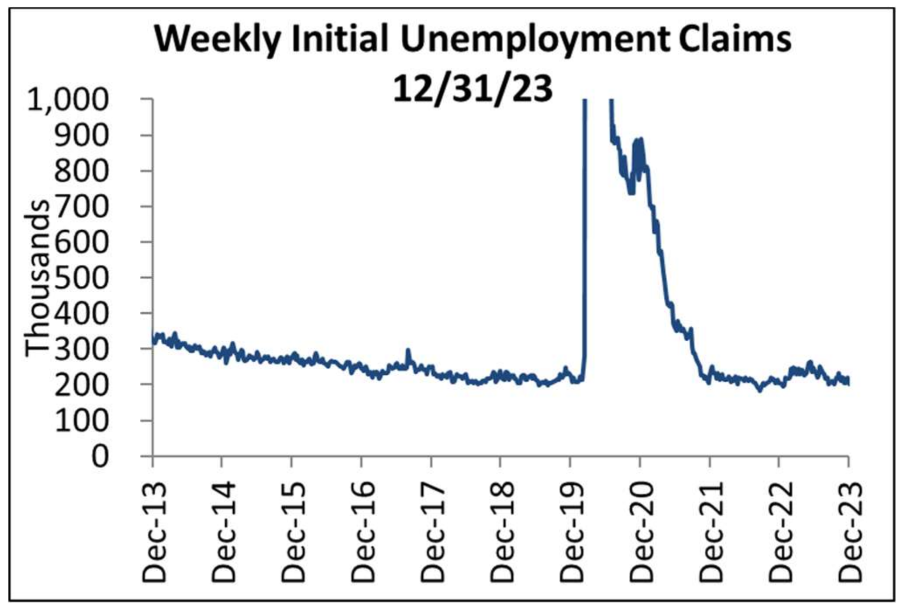




Economic Environment

Employment – Jobs – December 2023

- Virtually all employment indicators suggest a very strong labor market, but may have begun to equalize as many jobs are getting filled, and further add needs are being reduced.
- The number of jobs available remains surprisingly high, and after consistently dropping has recently turned higher again. There are 1.58 jobs available for every unemployed worker.
- Layoffs remain extremely low as seen by the weekly initial claims for unemployment running near 200,000. The "quits" rate has fallen suggesting less job hopping.



Economic Environment

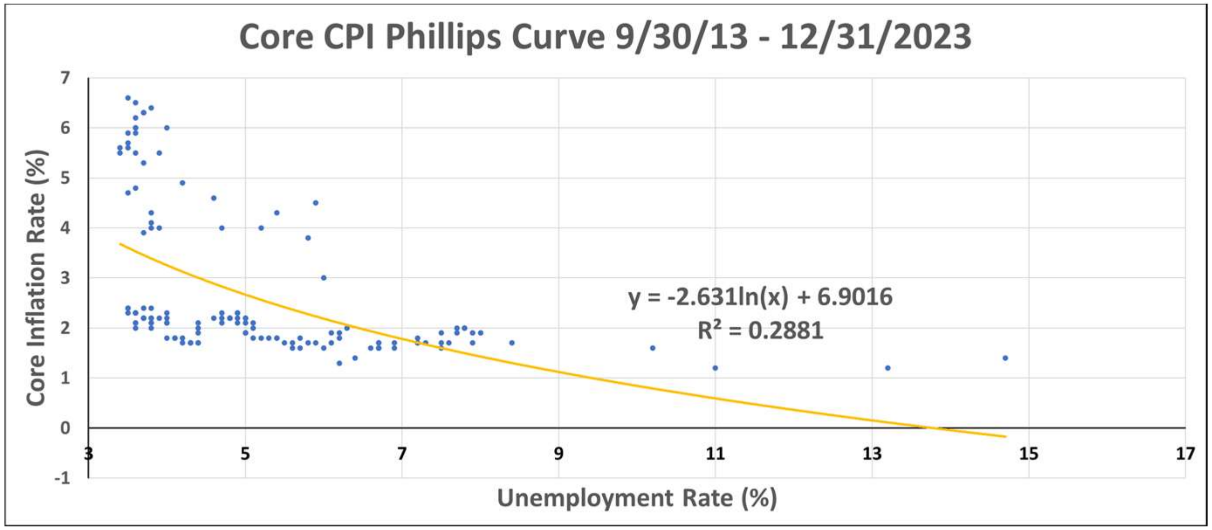
Employment and Inflation – December 2023

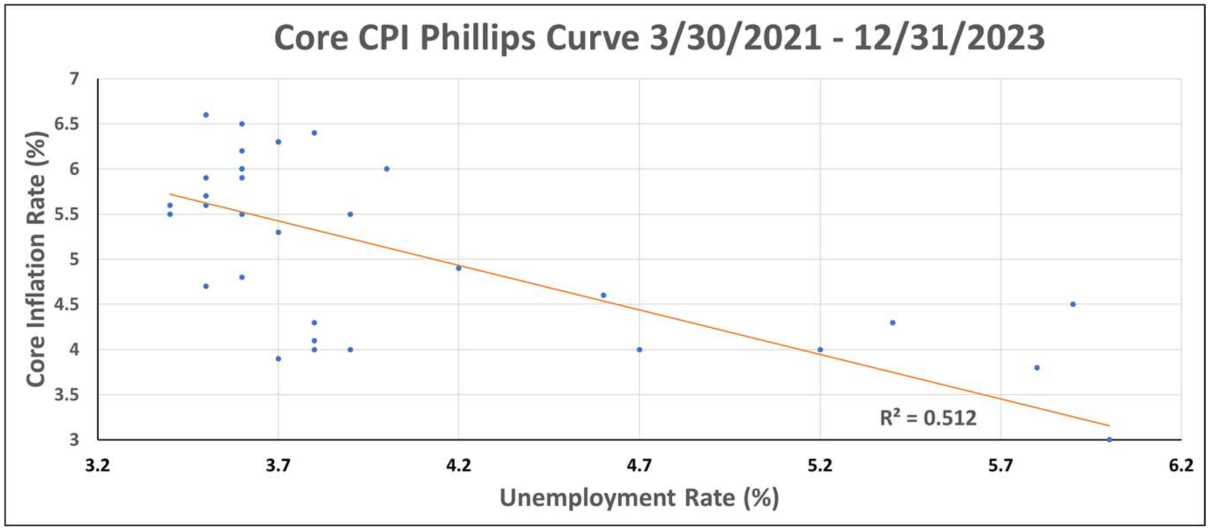
- The prime working age participation rate has begun to roll over after hitting new highs, as has the total participation rate, for unknown reasons.
- The demand for labor has pushed up wages and pulled workers off the sidelines, however additionas to the labor force have clearly receded.
- The strong demand for labor has empowered employees, evident by Union behavior and wage gains, and continue to push significant wage pressures on corporations and inflation.
- Average hourly earnings have ticked back up after decelerating from high levels, perhaps due to the larger contributions from additions to the lower wage service sector, but wage growth remains high.

Economic Environment

Employment and Inflation – December 2023

- In the last three years, the Phillips Curve has re-emerged.
- Inflation has workers demanding higher wages, and demand for labor has employers paying more to retain and hire workers, which in turn, increases costs and the need to raise prices.
- The strong demand for labor has provided for continued job switching for higher wages, as workers seek to offset higher costs of living.
- As the inflation rate has subsided, real wages have been increasing recently.

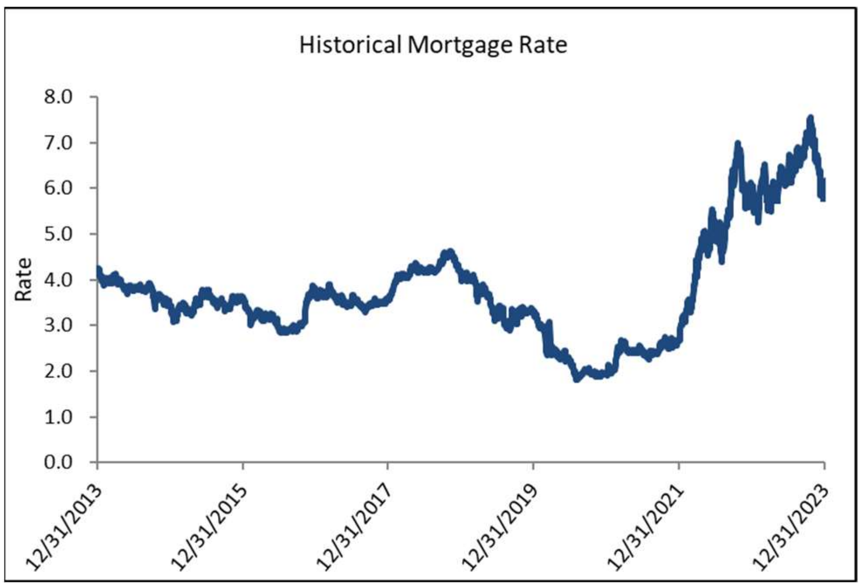


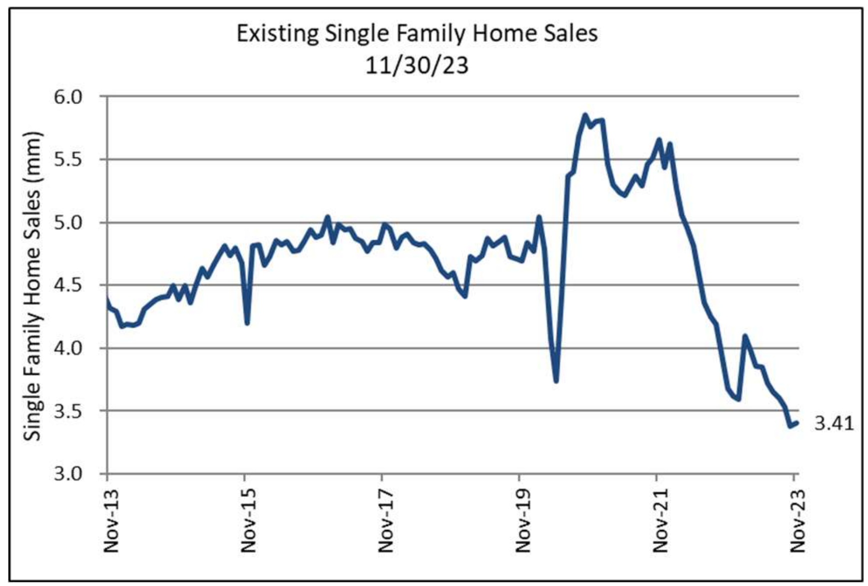


Economic Environment

Mortgage Rates and Housing – December 2023

- Mortgage rates had been rising, returning closer to more long term historical normal levels, but dropped significantly in Q4, falling back below 7%.
- The rise in mortgage rates along with record high home prices has reduced home affordability dramatically slowed housing activity, particularly with still low inventory levels.
- New home sales had ticked up amid a drop in price and rates earlier in the year, however have fallen back again amid another push higher in rates and prices.
- The recent drop in rates may have spurred incremental home purchases.

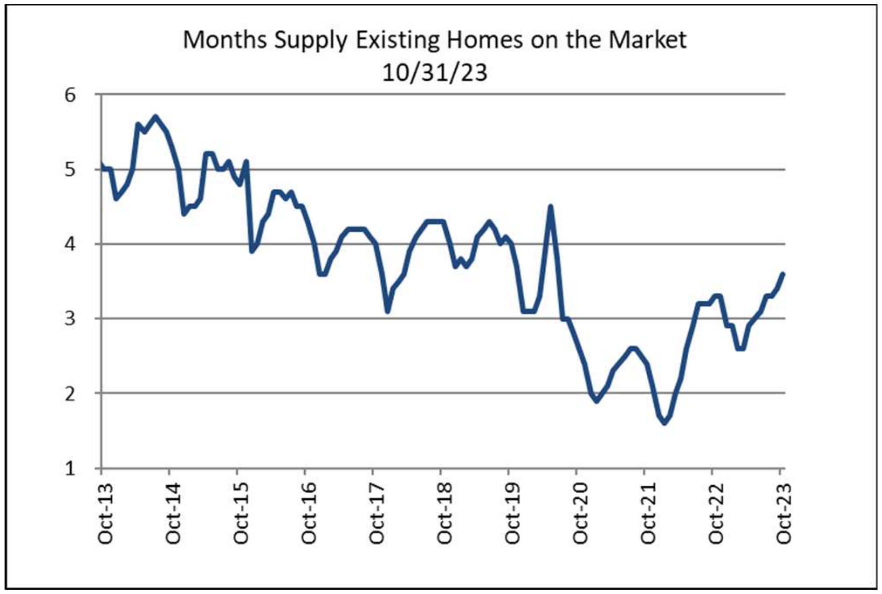


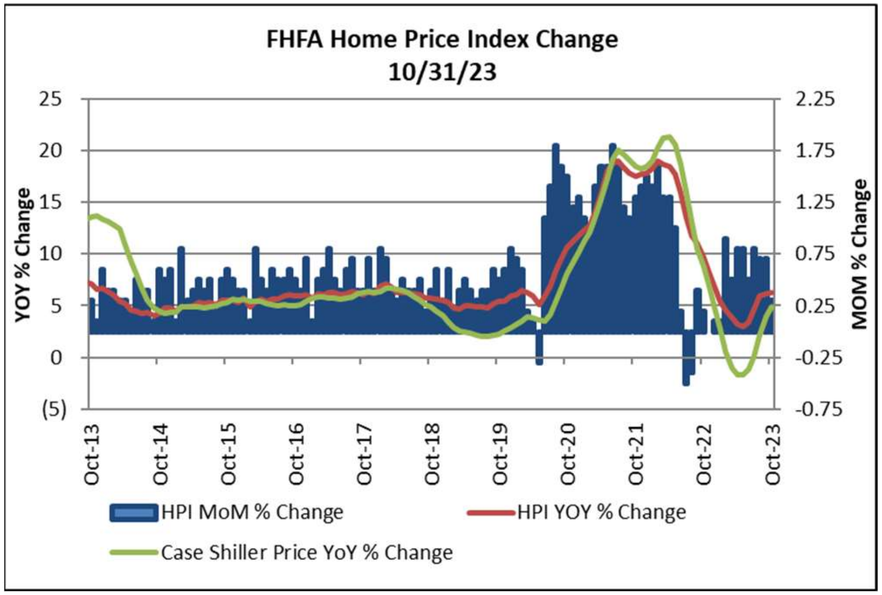


Economic Environment

Mortgage Rates and Housing – December 2023

- The higher rates and prices that curbed demand in Q3 provided an opportunity for an increase in homes to come to market, increasing supply. Higher rates and prices also slowed institutional buyers.
- Home builders have been actively building single family and multi family homes.
- After a drop in prices from the highs, continued demand has stabilized prices. Despite higher mortgage rates, home prices have rebounded and have increase for the last 10 consecutive months.
- The lagged impact of home prices in CPI has contributed to higher levels, but has begun to slow. However, significant expected declines may not come to fruition if home purchases and prices continue to accelerate.

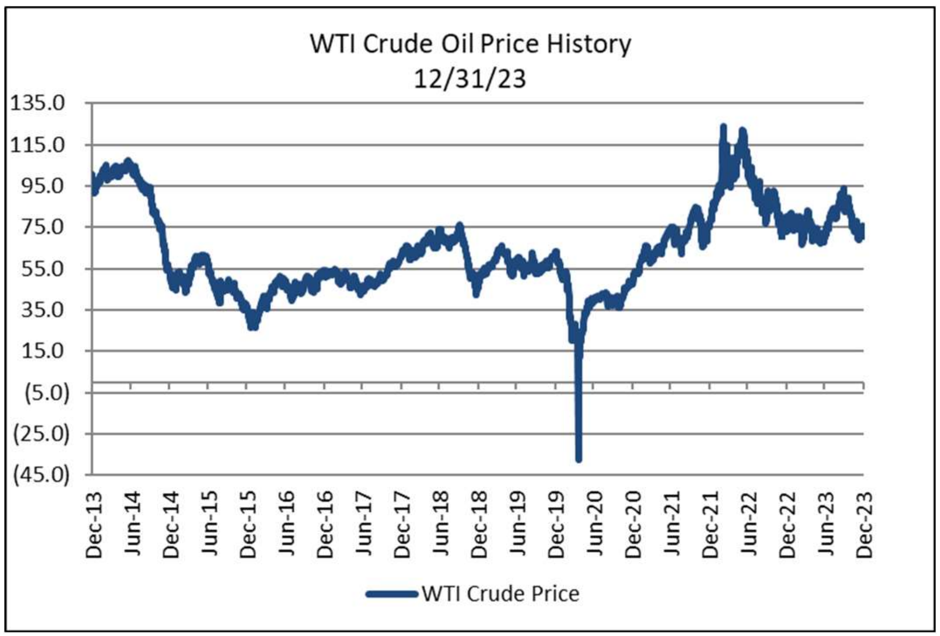


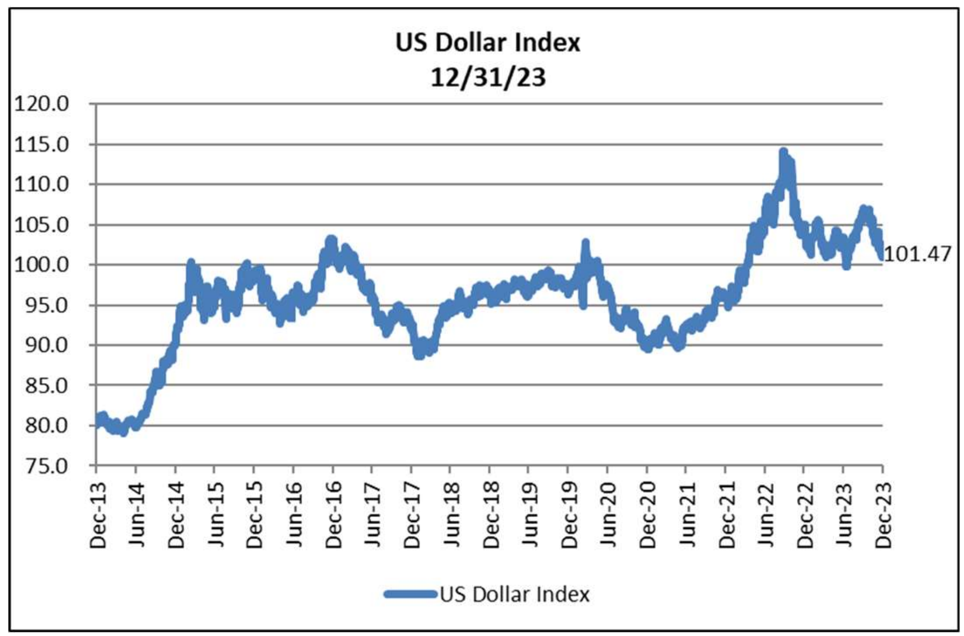


Economic Environment

December 2023

- OPEC+ continues to limit production in an effort to support/increase the price of oil. It is working.
- Energy flows have shifted materially with Russian energy distribution shifting to China and India, while European supplies become sourced from the US and Middle East.
- Russian oil production and distribution has been robust amid lack of sanction enforcement, increasing global supply, while US has also been accelerating production.
- The Dollar strength has moderated as most global central banks have shifted toward more stable monetary policy.
- Overall the dollar remains strong and may resume its climb given the strength of the US economy, but may depend on perception of monetary policy.





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