

4Q 2023 Market Summary

Financial markets ended 2023 with a robust fourth quarter as investors expressed enthusiasm over easing inflation data and the Federal Reserve's indication of a potential end to its two-year interest rate hiking cycle.

The Federal Reserve began raising rates in March 2022 to combat inflation, hiking its key Federal Funds rate from 0% to a range of 5.25-5.50%. However, the Fed has left this range unchanged since its July 2023 meeting. During the same time, the Consumer Price Index (CPI), a widely followed measure of inflation, trended down from a high of a 9.1% annual rate in June of 2022 to 3.1% most recently. Following this downward trend, the Fed's recent statement in mid-December indicated an increased possibility of interest rate cuts in 2024.

Investors started 2023 concerned about a potentially deep recession given the Fed's most aggressive tightening cycle since the early 1980s. That said, economic and market conditions remained relatively stable throughout the year even after a regional bank crisis in March. Equity markets were buoyed by attractive starting valuations and a sharp rebound for mega-capitalization technology stocks. Bond markets declined most of the year but surged in the fourth quarter as interest rates declined. Most bonds also generated higher income during the year, which helped to offset price volatility caused by fluctuating interest rates.

Looking forward to 2024, we expect investors will continue to calibrate their near- and long-term expectations for inflation, interest rates and economic growth. Geopolitical tensions remain high, and an upcoming US presidential election may also add uncertainty and increase volatility throughout the year.

These broad economic factors are important and will continue to drive markets in the short term. However, rather than attempt to predict near-term economic outcomes, we are focused on longer-term investing outcomes built around your specific goals.

For example, interest rates and bond prices will likely continue to fluctuate, but we also recognize opportunities to generate higher income from relatively safe Treasury bonds than in the past. And while near-term uncertainty may cause stock market volatility, we believe that high-quality equities trading at reasonable valuations will continue to generate positive long-term returns.

Equities

The S&P 500 Index rallied 11.7% in the fourth quarter, as every sector besides energy posted strong gains. Financials rebounded on the prospects of a soft economic landing, while the technology sector continued its year-long upward trajectory boosted by excitement for the prospects of artificial intelligence. While large-capitalization stocks led the market for most of the year, mid- and small-capitalization stocks joined the party in the fourth quarter. The Russell Mid-Cap Index returned 12.8% in the quarter while the Russell 2000 Index (small cap index) climbed 14.0%.

Non-US stocks also performed well in the quarter. The MSCI EAFE Index returned 10.4% in the quarter, boosted in part by a declining US dollar, while emerging markets returned 7.9%.

Fixed Income

Bonds staged an impressive fourth quarter comeback as interest rates declined. The 10-year Treasury rate peaked at just below 5.0% in October before falling to end the quarter and year at 3.8%. That quick plunge led to the Bloomberg US Aggregate Bond Index returning 6.8% for the quarter, helping to turn the index positive for the full year.

Despite the fourth-quarter rally, that index has still lost money at a negative -3.3% annualized clip over the past three years, highlighting the impact of rising interest rates on bond prices during that time. High-yield bonds benefited from lower rates and improving economic sentiment and the Bloomberg US Corporate High Yield Index returned 7.2% during the fourth quarter.

Commodities

The Bloomberg Commodity Index fell 4.6% during the quarter, reflecting one of the few negative asset classes during the quarter. Oil prices and other commodity prices fell, although gold prices performed admirably returning 11.4% during the quarter.

Important Information:

The Bloomberg Commodity Index is a broadly diversified commodity price index distributed by Bloomberg Index Services Limited.

The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.

The Bloomberg US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

The Bloomberg US Government/Credit 1-3 Year Index is an unmanaged index considered representative of performance of short-term US corporate bonds and US government bonds with maturities from one to three years.

The Bloomberg US High Yield Corporate Bond Index is a rules-based, market-value-weighted index engineered to measure publicly issued non-investment grade USD fixed-rate, taxable and corporate bonds.

The LBMA Gold Price Index is the global benchmark for unallocated gold and silver delivered in London.

The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. and Canada.

The MSCI Emerging Markets Index is an index designed to measure equity market performance in global emerging markets.

The Russell 1000 Growth Index is a broadly diversified index predominantly made up of growth stocks of large US companies.

The Russell 1000 Value Index is a broadly diversified index predominantly made up of value stocks of large US companies.

The Russell 2000 Index is a small-cap stock market index of the bottom 2,000 stocks in the Russell 3000 Index. The index is maintained by FTSE Russell, a subsidiary of the London Stock Exchange Group.

The Russell Midcap Index is a market capitalization-weighted index comprised of 800 publicly traded U.S. companies with market caps of between \$2 and \$10 billion.

The Standard & Poor's 500 Index, often abbreviated as S&P 500, is an American stock exchange market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. The S&P 500 index components and their weightings are determined by S&P Dow Jones Indices.

The S&P 500 Energy comprises those companies included in the S&P 500 that are classified as members of the GICS energy sector.

The S&P/LSTA US Leveraged Loan 100 Index is designed to reflect the performance of the largest facilities in the leveraged loan market.

The West Texas Intermediate (WTI) oil, also known as Texas light sweet, is a grade of crude oil used as a benchmark in oil pricing. This grade is described as light because of its relatively low density, and sweet because of its low sulfur content.

Bloomberg Commodity Index (BCOM) is calculated on an excess return basis and reflects commodity futures price movements.

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