2024 2ND QUARTER
Economic and Financial Market Commentary

The economy has reported six straight quarters of positive GDP growth and appears to have avoided a recession. Over the last few months, economists increased forecasts for economic growth and raised inflation estimates. Achieving a “soft landing” for the economy continues to be the Federal Reserve’s goal as it weighs reducing interest rates against inflation, which remains above forecast, and a moderating labor market.

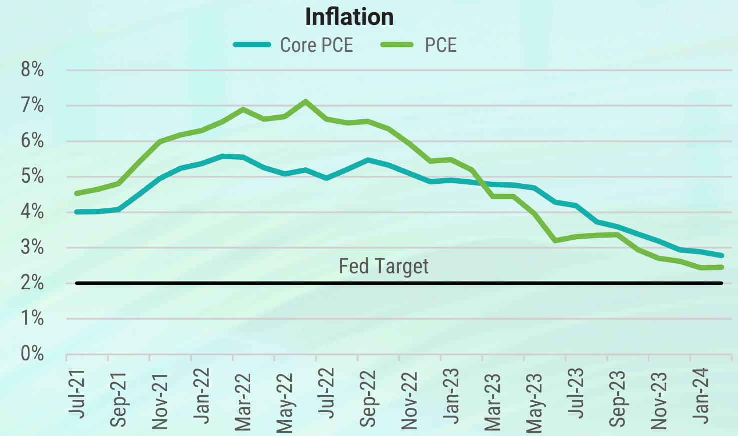
Economy (page 1)
- Inflation and Interest Rates: The dollar’s purchasing power is down 20%.
- Labor Market: Unemployment is low but there are increased signs of weakness.

Investments (page 2)
- Earnings: Resumption of growth is positive, but market concentration is a risk.
- Corporate Spreads: In the bond market, default risk is low, and liquidity is high.

Inflation and Interest Rates

Inflation as measured by the personal consumption expenditures (PCE) index is +2.5% year over year. As shown in the Inflation chart, PCE has decelerated recently, but remains above the Federal Reserve target. The Fed’s preferred measure of inflation (Core PCE), which excludes food and energy, is higher at +2.8%. Individuals typically view inflation over periods longer than a year, with food and other consumer prices up over 20% since COVID. Inflation has been more “sticky” than anticipated, especially in the service industries, and elevated inflation has kept interest rates and financing costs at high levels. Credit card rates are above 20%, auto loans are between 6 and 10% for new cars, and 30-year mortgages exceed 7%.

Even with the most restrictive Fed monetary policy since September 2007, the market has reduced expectations of interest rate cuts with traders now pricing in a 20% probability of a reduction by June.* We expect the Fed to stay patient, waiting for increased confidence that inflation is moving toward its 2% target before easing monetary policy. In our opinion, persistent inflation and the subsequent impact of higher interest rates are the top risks to both the economy and stock market.



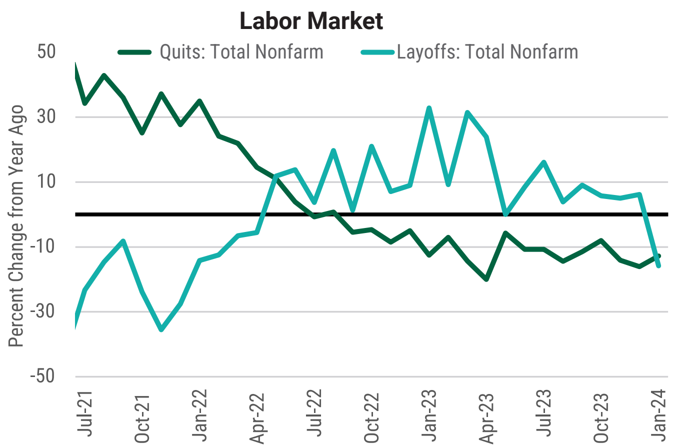
Source: U.S. Bureau of Labor Statistics; Data as of January 2024

Labor Market

On the surface, private employment remains solid as jobs continue being created in the United States. The unemployment rate has modestly risen 0.4% since March 2023, but is still low at 3.8%. As portrayed in the Labor Market graph, corporate layoffs, which had been increasing since 2022, recently reversed course and turned negative. This indicates companies remain concerned about whether workforce availability can meet expected demand. Strength in the labor market is also highlighted by growth in average hourly earnings, which are running about 1% higher than the pre-COVID level.

A deeper assessment of employment numbers starts to paint a different picture. The quits rate is highly correlated to wage gains and has been negative for over a year, indicating new jobs are harder to find. Additionally, the average work week is down, reflecting that most new jobs are part-time. Full-time employment growth over the last year is just 0.2% compared to the part-time employment growth rate of 3.2%. Another concern is that employment growth has been led by government hiring, not private industry.

In summary, the market for existing workers remains solid but demand for new, permanent employees may be waning. The modest slowing in the labor market may increasingly play a role in Fed policy and give the committee an additional runway to leave interest rates higher for longer.



Source: U.S. Economic Bureau of Analysis; Data as of February 2024

Please see important disclosures on the following pages.

Economic and Financial Market Commentary

Market Returns

Asset Class	Index	Total Return 3 Month (%)	Total Return YTD (%)	Total Return 1 Year (%)	Annualized 3 Year (%)	Annualized 5 Year (%)
Global Equities:	Diversified Equity Benchmark**	8.46%	8.46%	24.99%	7.85%	12.11%
Domestic Equities:	S&P 500 (Large-cap)	10.56%	10.56%	29.88%	11.49%	15.05%
	Russell 2000 (Small-cap)	5.18%	5.18%	19.71%	-0.10%	8.10%
International Equities:	MSCI EAFE (Developed)	5.78%	5.78%	15.32%	4.78%	7.33%
	MSCI Emerging Markets	2.37%	2.37%	8.15%	-5.05%	2.22%
Fixed Income:	Barclays Intermediate U.S. Gov't/Credit	-0.15%	-0.15%	2.69%	-1.06%	1.09%
	Barclays Municipal Short-Intermediate 1-10 Years	-0.36%	-0.36%	2.07%	-0.04%	1.34%

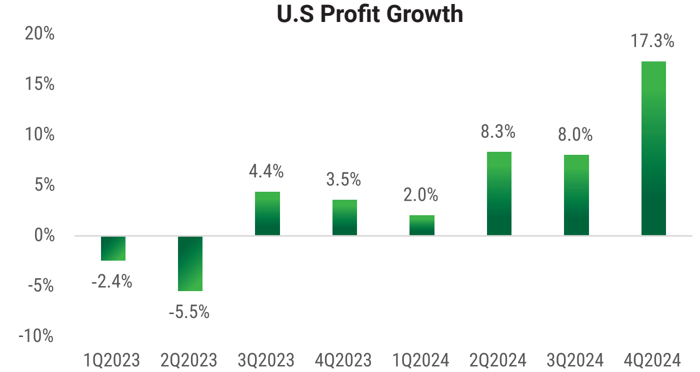
Source: Morningstar Direct Data as of March 31, 2024

Earnings

After multiple negative quarters, corporate profitability turned positive late in 2023. The U.S. Profit Growth chart highlights the expected earnings acceleration this year. Large-cap earnings were primarily concentrated in a few AI-related stocks but recently began to broaden. Small-cap and mid-cap (SMID) stocks, which underperformed relative to large-caps, may be turning the corner with earnings projected to rebound. This segment would also benefit from lower interest rates when they eventually occur. With valuations attractive compared to large-caps, we remain overweight SMID-cap.

Equity valuations remain elevated relative to history and bonds. In addition, the outsized returns of just a few stocks led to high concentration as the top 10% of stocks in the S&P 500 now represent 75% of the entire index. The top five companies by market cap (Microsoft, Apple, Alphabet, Amazon and Nvidia) comprise over 25% of the S&P 500's total market cap, higher than the 17% level during the dot-com bubble. Critical to further upside in equities is realization of the expected profit growth and participation by more industries and companies.

U.S Profit Growth

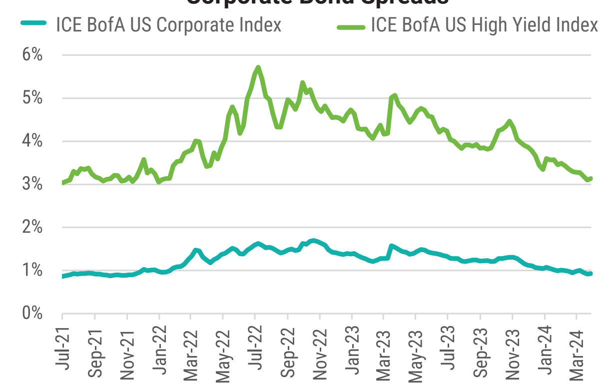


Source: FactSet; Data as of March 28, 2024, for the S&P 1500 Historical and Estimated Earnings

Corporate Spreads

We continue to maintain exposure to core fixed income as yields are attractive. As illustrated in the Corporate Bond Spreads graph, investment grade and below investment grade bond spreads have compressed. The tight spreads indicate a level of comfortability with current economic conditions, and markets are discounting the low likelihood of defaults. Our fixed income team currently favors Treasuries and high-quality corporate bonds with no exposure to high yield. An overweight allocation to structured products, specifically mortgage-backed and asset-backed securities, remains part of our strategy to enhance returns.

Corporate Bond Spreads



Source: ICE Data Indices; Data as of March 29, 2024

Alternative Investments

We diversified our liquid alternative mutual funds with the goal of reducing portfolio risk and still participating in the market rally. The primary holding is a hedged equity that has performed extremely well but will protect on the downside in the event of an extended market selloff. We also have an allocation to an enhanced equity income strategy that uses derivatives to boost the fund yield to between 7% and 11%.

*Source: Bloomberg World Interest Rate Probability; April 2, 2024
** Benchmark consists of Russell 3000 (76%), MSCI ACWI ex US (20%) and FTSE EPRA/NAREIT Global (4%)

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Index Definitions:

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Barclays Global Intermediate: This index measures global investment grade debt from 24 local currency markets, including treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Barclays Intermediate US Government/Credit Index: The index is a broad-based flagship benchmark that includes investment grade, US dollar-denominated, fixed-rate Treasuries, government-related and corporate securities, within a 2-10 year maturity range.

Barclays Municipal Short-Intermediate 1-10 Years: Index that measures the performance of US municipal bonds with time to maturity of between one and ten years.

MSCI EAFE - Developed International: This index reflects the performance of small- to large-cap stocks across the developed regions of Europe, Australasia, and the Far East (EAFE). The index was developed by Morgan Stanley Capital International (MSCI) in 1969 and lists 926 stocks from 21 countries in the EAFE.

MSCI Emerging Market: An index used to measure equity market performance in global emerging markets, consisting of 23 economies including Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and the United Arab Emirates.

Russell Indices: The Russell 3000 is a market-capitalization-weighted equity index maintained by the FTSE Russell that provides exposure to the entire U.S. stock market. The index tracks the performance of the 3,000 largest U.S. traded stocks which represent about 98% of all U.S. incorporated equity securities. The Russell 2000 index measures the performance of approximately 2,000 of the smallest companies in the Russell 3000 index.

S&P Indices: The S&P 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies by market value. Other popular indices include the S&P MidCap 400, which represents the mid-cap range of companies and the S&P SmallCap 600, which represents small-cap companies. The S&P 1000 is a combination of the S&P 400 and 600, representing the small and mid-cap market. The S&P 500, S&P MidCap 400 and S&P SmallCap 600 combine to create a U.S. all-capitalization index known as the S&P Composite 1500.

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