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QUARTERLY INVESTMENT REVIEW & OUTLOOK– Q1 2024

Stocks continued their strong growth in Q1 and the economy showed resilience while bonds held steady with short Treasuries and US high yield bonds leading the way through evolving expectations for Fed rate cuts.

- **Equities:** The S&P 500 returned 10.6% in Q1. The "Magnificent 7", representing ~29% of the index, accounted for ~36% of this return (although Apple & Tesla experienced declines). This broadening was an improvement from 2023 in which the "Mag 7" accounted for ~58% of the 26.3% gain. The S&P 500 forward P/E now sits at 22.4 vs 20.2 at the beginning-of-year (BOY), above long-term averages. The "Mag 7" sits closer to 33.5 vs. 30.8 at BOY while the other 493 stocks moved from 17.8 to 19.7; Pure Growth vs. Pure Value P/E's are at 28.6 vs 13.0, respectively. Ultimately, stocks do not appear cheap. Large-caps continued to outperform small and international by a wider margin, although mid-caps closed the gap during the quarter.

- **Fixed Income:** Rates rose during Q1 as expectations for Fed cuts shifted from 6 to 3. The 6-month Treasury yield continued to hover near 5.3% while the 2-year moved from 4.2% to 4.6% and the 10-year moved from 3.8% to 4.2%. This yield curve inversion (short rates higher than long rates), typically an indicator of recession, has now been the longest on record. There have been six periods of inversion longer than 30 days since 1976. In five, the economy experienced a recession (in 1982 we were already in recession when the inversion occurred). In the Great Financial Crisis, the Fed changed monetary policy from a scarce reserves regime to an ample reserves regime in which banks held substantial cash reserves, although the US is effectively in an abundant reserves regime currently in which banks hold far more reserves than necessary. We'll see if the traditional inversion-recession relationship holds under this new dynamic. For now, the economy has been resilient. Credit spreads have been stable and remain historically tight, benefiting high-yield bonds which offer higher yields with greater risks. Investors should be cautious of the risks. Treasuries and FDIC-insured CD's continue to offer appealing yields relative to inflation expectations, while tight spreads and interest rate expectations suggest a bias towards higher quality and extended duration.

- **Economy:** Personal consumption growth (+4.9% YOY) has outpaced personal income growth (+4.6%) as consumers have dipped into savings and credit card debt has increased to keep up with spending. Q4 GDP growth was revised higher to 3.4% YOY from 3.2%, while the ISM Manufacturing PMI surprised at 50.3 in March, beating the consensus of 48.3 and denoting expansion for the first time after 16 months of contraction. The highest category reading came from the prices index, which might not be a good sign for inflation. The ISM Non-Manufacturing index declined to 51.4 in March, showing continued expansion in services but with slowing new orders and rising prices for the 82nd month in a row. M2 money supply was down 1.7% from a year ago and down 4.3% from the peak in

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April 2022. This is something to monitor and could pose challenges for future growth. Inflation has moderated but remains a concern as recent readings have drifted up slightly and we still have a way to go before reaching the 2% Fed target.

2024 PERFORMANCE – BENCHMARK INDEXES

Index	Quarter	YTD	5 Yr Ann	10 Yr Ann	15 Yr Ann
S&P 500 (US large cap stocks)	**+10.6%**	**+10.6%**	**+15.0%**	**+13.0%**	**+15.6%**
S&P 400 (US mid cap stocks)	**+10.0%**	**+10.0%**	**+11.7%**	**+10.0%**	**+14.7%**
Russell 2000 (US small cap stocks)	**+5.1%**	**+5.1%**	**+8.1%**	**+7.6%**	**+12.9%**
MSCI EAFE (devel int'l large cap) - US$	**+5.8%**	**+5.8%**	**+7.3%**	**+4.8%**	**+8.4%**
MSCI EM (emerging mkts int'l) - US$	**+2.4%**	**+2.4%**	**+2.2%**	**+3.0%**	**+6.7%**
Barclays US Aggregate (US bonds)	**-0.8%**	**-0.8%**	**+0.4%**	**+1.5%**	**+2.6%**

Returns represent total returns (dividends & capital appreciation/depreciation). Past performance is NOT predictive of future performance.