# INVESTMENT PERSPECTIVE

Quarterly Report

31 December 2023

During the fourth quarter, the S&P 500 Index rose 11.69% while the Russell 2000 Value Index gained 15.26%. International equity markets also increased with the MSCI EAFE Net Index rising 10.42%. Improving supply chains, rising employment participation rates, and the lagging influence of stabilized home prices and rental inflation continue to promote disinflationary conditions. Declining inflationary pressures, combined with stable economic growth, produced a material improvement in financial conditions as the market discounted future Fed rate cuts without any corresponding decrease in earnings expectations or economic weakness. The resulting decline in interest rates led to a powerful fourth quarter rally in equity and fixed income markets.

As we enter 2024, we expect modest economic weakness in the first half of 2024 followed by economic stability and an improvement in growth heading into the 2024 election cycle. Inflationary pressures will likely remain above the Federal Reserve's 2% target, and, with the recent dramatic easing in financial conditions, inflation may begin increasing in the fourth quarter of 2024. Should inflation expectations begin firming, we would expect some modest downward pressure on equity valuations.

The Bloomberg Aggregate Index returned 6.82% for the quarter and finished the year up 5.53%. The ICE BofA 1-10 AAA-A Municipal Index returned 4.91% during the quarter and finished the year up 4.13%. During the quarter, the Federal Reserve paused raising interest rates after increasing the target rate by 75 basis points during the year to 5.50%. Now that inflation has peaked with the PCE Core Price Index (the Federal Reserve's preferred inflation gauge) approaching 3.0%, the Fed is likely finished raising interest rates. In fact, the market is currently pricing in six 25 basis point interest rate cuts in 2024, implying a 4.0% terminal rate by the end of the year.

U.S. Treasuries rallied significantly after Fed Chair Powell's dovish testimonies and following economic data releases that confirmed easing inflationary pressures. After closing at 4.99% on October 19, 2023, the 10-year Treasury finished the year exactly where it started at 3.88%.

Investment grade credit spreads tightened 20 basis points during the quarter. Credit spreads peaked in the first quarter after the Silicon Valley Bank and First Republic Bank failures jolted the market. As contagion fears dissipated and as the Federal Reserve's monetary policies contained inflation, credit spreads narrowed from +150 basis points at the end of the first quarter to +93 basis points at year-end. With spreads now trading inside historical averages and with volatility levels low, we anticipate better opportunities to add to corporate bonds in 2024 should credit spreads widen.

During the year, we increased duration across our fixed income strategies to lock in higher yields for longer. With the Fed likely at the end of its tightening cycle, we plan to maintain a longer duration, and we anticipate positive bond returns in 2024 as the Fed cuts interest rates.

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