

1Q 2024 Market Summary

Equity markets continued to rally during the first quarter, buoyed by enthusiasm for artificial intelligence and increased confidence that the US economy would avoid a severe recession. Bond markets, however, struggled to keep up with stocks as expectations for a rate cut receded and interest rates resumed their climb higher.

While still in its early stages, businesses are spending heavily to build out infrastructure for artificial intelligence capabilities, leading to impressive growth for the companies that provide AI building blocks. For example, the Morningstar US Semiconductor Index rose 46.3% in just the first three months of this year.

Partly due to these trends, the widely followed S&P 500 Index has become increasingly concentrated in its largest 10 companies, which now make up 34% of the index's value, compared to 18% 10 years ago. The index benefited from the growth of these globally dominant businesses, but these companies will have a much larger impact on future returns. We also see growing signs of speculative activity in the market, as reflected in the S&P 500 Momentum Index up 22.2% in the first quarter, suggesting investors may be chasing returns.

These trends are noteworthy given the market's evolving view on inflation and interest rates. Inflation has improved from last year, with the recent Core Personal Consumption Expenditures Price Index (Core PCE is a widely followed metric of inflation) declining from 4.8% a year ago to 2.8%, but remains above the Fed's long-term target of 2% inflation.

At the start of this year, the Fed futures market had priced in six Fed funds interest rate cuts throughout 2024, however, that market is now pricing in just three cuts. These changing expectations resulted in interest rates rising across the yield curve during the quarter, with two-year Treasuries increasing .37% to 4.6% and 10-year Treasuries up .32% to 4.2%. Rising rates caused bond prices to decline broadly, but corporate bonds fared slightly better than government bonds due to strong economic trends.

Many consider an inverted yield curve (where short-term rates are higher than longer-term rates) a precursor to a recession. Economic trends are difficult to predict, but the ongoing yield curve inversion does suggest more changes to interest rates in the future.

Going forward, investors should be mindful of elevated equity valuations, with the S&P 500 trading at a forward price-to-earnings ratio of almost 21 times, well above its historical average. With continued uncertainty around inflation and interest rates, we expect to see volatility in bond prices as well. An upcoming election will likely add to the market's uncertainty over the next few months. Investors should be mindful of both the opportunities and risks this environment provides, while maintaining a long-term focus.

Equities

The S&P 500 returned 10.6% in the quarter, with most sectors participating. Tech-heavy sectors like

communication services and information technology returned 15.8% and 12.7%, respectively. More traditional sectors also participated, with financials up 12.5% and industrials up 11%. The Russell Mid Cap Index returned 8.6% in the quarter, while small capitalization stocks, measured by the Russell 2000 Index, returned 5.2%.

In overseas markets, the MSCI EAFE Index returned 5.8% boosted by semiconductor and pharmaceutical companies, but currency effects shaved off slightly more than 400 basis points of return during the quarter. Emerging markets returned 2.4%.

Fixed Income

The Bloomberg US Aggregate Bond Index fell 0.8% due mostly to rising interest rates. Shorter-term bonds and corporate bonds fared slightly better, with the Bloomberg US Government/Credit 1-3 year Index generating a modest, but positive, 0.4% return. Lower quality high-yield bonds also performed well, with the Bloomberg US Corporate High Yield Index returning 1.5%.

Commodities

The Bloomberg Commodity Index rose 2.2% in the quarter. Gold prices rallied 7.3%, while oil prices rose from \$70 to \$84 for a barrel of West Texas crude oil.

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 Core Personal Consumption Price Index measures the changes in the price of goods and services purchased by consumers for the purpose of consumption, excluding food and energy.

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

The Morningstar US Semiconductor Index measures the performance of companies that operate in the semiconductors industry in the US. This Index does not incorporate Environmental, Social, or Governance (ESG) criteria.

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

The S&P 500 Momentum Index is designed to measure the performance of securities in the S&P 500 universe that exhibit persistence in their relative performance.

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.

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