KEY POINTS

February was a very strong month for global equities, despite bond yields moving higher and expectations for rate cuts being reduced by half. The major equity indices were higher across the board. The S&P 500 was up for the fourth consecutive month and has traded higher 16 of the last 18 weeks, which hasn't occurred since 1971. The equity market is overbought in the short term and a near-term pullback could occur at any time.

RESILIENT U.S. ECONOMY: The U.S. economy continues to motor along with estimates of 2% growth for the first quarter of 2024. Consumption has been steady due to low unemployment and solid wage growth. A key contributor is deficit fiscal spending that continues to run at a $2 trillion annual rate, which is unlikely to be reined in during an election year. However, pressures on the consumer are mounting, as can be seen with rising delinquency rates on credit cards, softening retail sales, rising layoffs, and falling savings. In January, the employment report and inflation (CPI) print were both hotter than expected, showing the economy to be in better shape than expected. As a result, bond yields have increased 50 basis points (0.5%) this year and market expectations for rate cuts in 2024 have been reduced from six to three, with the first occurring in June.

SOLID GROWTH & INFLATION PUSH RATE HIKE CYCLE OUT FURTHER: At the beginning of the year, the market expected six rate cuts, beginning in March. The Fed was forecasting three cuts and pushed back, indicating they needed more data to confirm that inflation was trending back toward their 2.0% target. With the hotter economic data year-to-date, the market and the Fed views are more in alignment. The dilemma for the Fed is that if the solid economic data and sticky inflation persist, the Fed might push out rate cuts further keeping rates higher for longer.

CORPORATE EARNINGS & EQUITY VALUATIONS: Analysts expect corporate earnings to grow 11% this year for the S&P 500, which is welcome after flat growth in 2023. Profit margins are moderating, revenue growth is softening, and interest costs are increasing. With valuations stretched at 21 times forward earnings, higher earnings are needed to sustain the recent stock market advance. The gap between the stock dividend yield and risk-free Treasury yields is at a multi-decade high, making the relative valuation of bonds favorable.

GLOBAL RISK IN 2024: Macro risk is high with the ongoing war in Ukraine and escalating war in the Middle East resulting in Red Sea shipping disruptions and higher energy prices. The U.S. election in November could result in important policy changes and have market implications. Overall, we see greater macro and market volatility risk leading to higher dispersion of returns across geographies and sectors, which creates an opportunity for a more dynamic approach to managing portfolios.

POSITIONING: The macro landscape remains a concern with economic growth firm but moderating, elevated inflation, high debt levels, and geopolitical conflict. We favor balanced positioning with a quality tilt as valuations are elevated and bond yields are near highs of the last decade. In fixed income, we continue to take advantage of the higher yields that provide portfolio protection in case of recession or geopolitical disruptions.

KEY TAKEAWAYS FOR INVESTORS

- Overall, global growth remains below trend but enters 2024 on a better footing.
- Rate cuts by the Federal Reserve and other Central Banks have been likely delayed until summer.
- Bond yields remain near 16-year highs and provide income generation, portfolio diversification and capital preservation during recessions.
- The key to reaching your long-term investment goals is diversification, balanced asset allocation and focus on the long- term horizon.

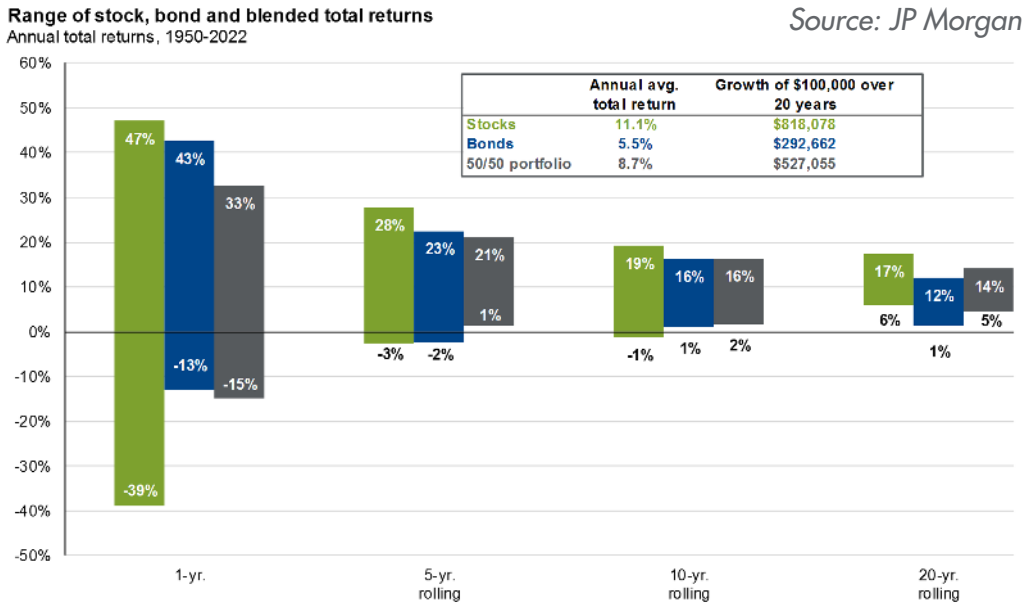
SUCCESSFUL INVESTMENT PRINCIPLES: FOCUS ON THE LONG GAME

Successful investors maximize the odds of success by focusing on the long-term and maintaining a long-term investment plan based on their goals. Studies show individual investors significantly underperform the broad stock market. Individuals are more likely to be driven by emotions that lead to reducing equity and risk assets after market declines during times of volatility.

By taking a multi-year view, investors stack the odds in their favor of achieving investment success and achieving their goals. As can be seen in the chart below, over any one-year period the annual return for the S&P 500 can be volatile with returns from -39% to +47% since 1950. Over any 5-year period, the range shrinks to -3% to +28%. Most importantly, there has not been a 20-year period since 1950 where equities have experienced losses, as returns ranged from +6% to 17% per year for the S&P 500.

For balanced accounts, the data shows that there has never been a rolling five, ten, or 20-year period where a simple 50/50 portfolio of stocks and bonds had a negative return. Overall, from 1950 to 2022, a 50/50 portfolio compounded 8.7% per year. The lesson here is that the more time you have and the more diverse your portfolio, the less risk there tends to be over a longer time of having a negative return, and, lastly, to focus on the long term to achieve your goals.

TIME, DIVERSIFICATION, AND THE VOLATILITY OF RETURNS



	Annual avg. total return	Growth of $100,000 over 20 years
Stocks	11.1%	$818,078
Bonds	5.5%	$292,662
50/50 portfolio	8.7%	$527,055

ECONOMIC DATA

- Global growth continues to cool year-over-year and remains below long-term trend due to high debt levels, higher for longer interest rates, and deglobalization. For 2024, estimates are for growth in the U.S. to slow to 2.0% and global growth to 2.3%.
- S&P 500 earnings were $208 (+48%) in 2021 and $219 (5%) in 2022. Final 2023 earnings are estimated to be $220 (1%) (FactSet). Estimates for 2024 have ticked higher recently to $243 (+11%) with estimated revenue growth of 5%.
- Valuations continue to be stretched above the long-term historical averages.
- The trailing 12-month operating price-earnings (PE) ratio is 23.1 times operating earnings compared to the 50-year average of 14.2 times earnings.
- The forward operating PE ratio is 20.9 times earnings, which is above the 10-year historical average of 17.6 times earnings and above the 25-year average of 16.8 times earnings.

MARKET RECAP (AS OF FEBRUARY 29, 2024)

- February was a strong month for risk assets, except for bonds as yields rose. The S&P 500 and NASDAQ both closed at all-time record highs. The Russell 2000 (small caps) made a 52-week high but remains 17% below its all-time high.
- Year-to-date, U.S. stocks continue to lead international equities as the S&P 500 gained 7.1%, while international developed equities were 1.7% higher and emerging markets were unchanged. Large-cap stocks continue to dominate small and mid-caps continuing the trend in 2023. A stronger dollar and weaker growth have been a headwind for international stocks. The Growth style continued to lead with a gain of 9.5%, while Value was up 3.8%.
- Bond yields rose 50 basis points year-to-date on stronger than expected economic data. The Bloomberg U.S. Aggregate Bond Index fell 1.7%. Floating rate loans were higher by 1.6% for the year. Emerging market debt was 0.1% lower on China challenges and a stronger dollar.
- Gold was lower by 0.5% after a gain of 13% in 2023 proving its value as a hedge against geopolitical conflict and excess money printing. Oil prices rebounded 8.7% on firmer demand and geopolitical concerns.
- Alternatives in 2024: fixed income substitutes performed well, while unconstrained alternatives had positive returns, excluding commodity-related strategies.

Period Ending February 29, 2024 *Source: Bloomberg.* *Past performance is not indicative of future results.*

			Trailing Performance (annualized for periods > 1 year)				
Asset Class	**Index**	**MTD**	**YTD**	**1Y**	**3Y**	**5Y**	**10Y**
EQUITIES							
Benchmark	MSCI All Country World IMI	4.2	4.4	21.6	5.4	10.0	8.1
Large Cap	S&P 500	5.3	7.1	31.0	11.0	14.6	12.7
Long-Short	S&P 500 / LIBOR plus 3	2.9	4.0	18.2	6.8	8.3	7.0
Small/Mid Cap	Russell 2500	5.4	2.7	12.1	1.1	8.6	8.3
International	MSCI World Ex US IMI (net)	1.5	1.7	12.7	3.3	6.5	4.4
Emerging Markets	MSCI Emerging Markets IMI (net)	4.5	0.0	8.4	(5.5)	2.7	3.3
FIXED INCOME							
Benchmark	FTSE World Broad Investment Grade	(1.4)	(2.5)	4.0	(5.8)	(1.1)	(0.2)
U.S. Aggregate	Barclays US Aggregate	(1.4)	(1.7)	3.9	(3.1)	0.6	1.4
U.S. TIPS	Bloomberg US TIPS	(1.1)	(0.9)	2.8	(0.8)	2.7	2.1
Tax Exempt	S&P Municipal Bond Index	0.1	(0.1)	5.6	(0.0)	2.0	2.7
U.S. Corp High Yield	Bloomberg US Corporate High Yield	0.3	0.3	11.2	1.8	4.1	4.3
U.S. Floating Rate	S&P/LSTA Leveraged Loan	0.9	1.6	11.5	5.7	5.3	4.5
International	FTSE Non USD WGBI	(1.3)	(3.7)	2.5	(9.3)	(3.6)	(1.9)
Emerging Markets	JPM Emerging Markets	1.0	(0.1)	10.5	(2.5)	0.6	3.0
REAL ASSETS							
Benchmark	Gold	(0.6)	(0.8)	11.3	6.0	9.6	4.5
Inflation	*Consumer Price Index (CPI)*	0.0	0.5	2.7	5.5	4.1	2.8
Commodities	Bloomberg Commodities	(1.5)	(1.1)	(5.0)	7.4	5.8	(1.8)
ALTERNATIVES							
Benchmark	LIBOR + 3	1.4	2.1	10.4	4.2	4.5	3.6
Multi-Strategy	Credit Suisse Multi-Strategy I		2.3	9.6	5.8	5.9	4.9
Global Macro	Credit Suisse Global Macro Ind		1.4	(1.7)	6.5	7.3	4.6
Managed Futures	Credit Suisse Managed Futures		1.2	(0.7)	7.6	7.4	4.3