KEY POINTS

The first quarter ended on a strong note as all three major stock indices (S&P 500, Dow, and NASDAQ) hit record highs and are positive for five months in a row. The stock market rally has been driven by improving U.S. economic data, mega-cap tech stocks, a broadening of the market, and optimism about rate cuts by the Federal Reserve and foreign central banks. The evidence of a widening economic expansion and a soft landing (which is very rare) is becoming clearer, which is supportive of corporate earnings. The growing optimism has likely been priced into the stock market as valuations are stretched above long-term averages. A pullback in the stock market of 5 to 8% would be normal after the recent advance.

RESILIENT U.S. ECONOMY: The global economy has shown signs of strength since the beginning of the year as growth estimates for 2024 have been revised higher. Green shoots include global manufacturing PMIs moving higher from sub-50 levels. The U.S. economy remains firm with a strong labor market, improving consumer spending, and the tailwind from fiscal stimulus of a $2 trillion deficit. U.S. GDP growth is on track to be around 2% for 2024.

THE FEDERAL RESERVE, INFLATION AND RATE CUTS: Globally, it is becoming clear that short-term policy rates have peaked in this cycle and G10 central banks are poised to begin lowering rates by summer. The recent Fed meeting in March contained a few surprises. The message was despite the hot inflation data in January and February that keeps inflation above the 2% target, the Fed is likely to start cutting rates in June and deliver 2 to 3 cuts this year. This comes despite the Fed revising up growth and inflation (PCE) forecasts, as well as the terminal rate in 2025. The key takeaway is the Fed is going to allow the economy to run hotter with higher growth and inflation. Combined with the upcoming high Treasury bond issuance, this may pressure nominal bonds with higher yields.

FIXED INCOME POSITIONING: The good news is that income is back in the fixed-income market with yields in the mid-4% to 5% range. Our portfolio positioning has several allocations to take advantage of higher yields. Core investment grade bonds yield mid-4% plus and provide income for portfolios. TIPS (inflation-linked bonds) protect against rising inflation. Floating-rate loans benefit from high and rising yields. Emerging market debt is benefiting by improving global growth and some EM central banks cutting interest rates. Floating rate debt and EM debt have higher yields (6 to 8%+) and have led fixed-income returns over the last fifteen months.

CORPORATE EARNINGS AND EQUITY VALUATIONS: Analysts expect corporate earnings to grow 11% this year to $243 for the S&P 500, which would be welcome after flat growth in 2023. Estimates for 2024 have stopped declining as growth picks up. Profit margins are likely to moderate as revenue growth softens, and higher interest costs filter through the economy. With valuations stretched at 21 times forward earnings (long-term average 16-17 times), 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 the Middle East creating shipping disruptions and higher energy prices. The U.S. election in November may result in important policy changes with market implications. Overall, we see greater macro volatility leading to a higher dispersion of returns across geographies and sectors, creating opportunities for active portfolio management.

POSITIONING: We favor balanced positioning with a quality tilt as valuations are elevated and bond yields are near decade highs. 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 is broadening and is supportive for earnings and risk assets.
- Rate cuts by the Federal Reserve and other Central Banks with likely start in the 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**

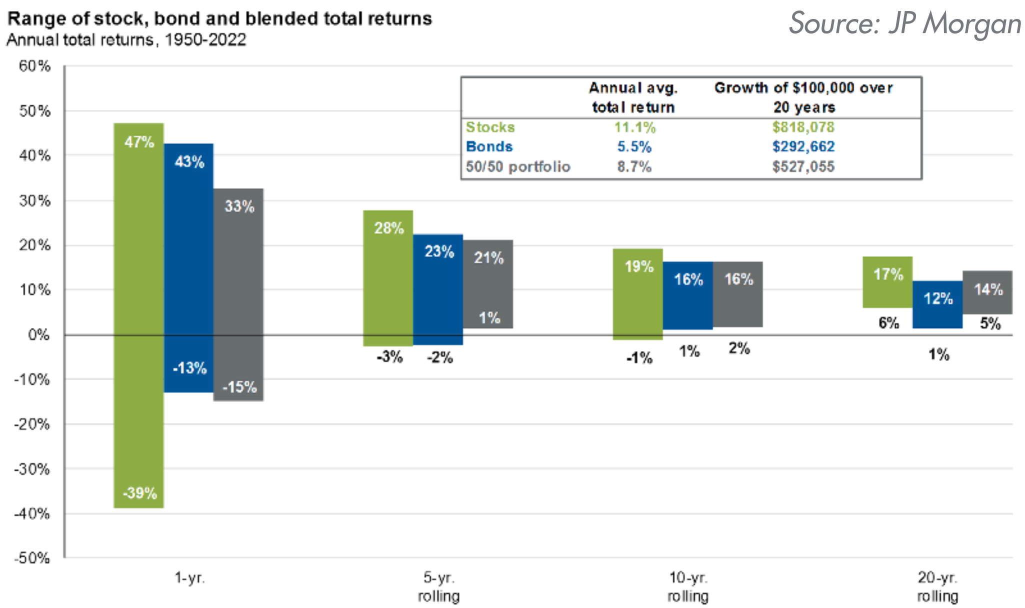
Successful investors maximize the odds of success by focusing on the long term and maintaining a long-term investment plan based on their goals. Studies show individual investors significantly underperform the broad stock market. Individuals are more likely to be driven by emotions that lead to reducing 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 never been a twenty-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 5, 10, 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 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

Source: JP Morgan



	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 is forecasted to be lower yr.-over-yr. in 2024 and remain below the long-term trend due to high debt levels, higher for longer interest rates, and deglobalization. However, for 2024, estimates have been revised higher since the start of the year with estimates for the U.S. of 2.2% and global growth of 2.4%.
- 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 23.6 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 17.7 times earnings and above the 30-year average of 16.6 times earnings.

MONTHLY **INVESTMENT OUTLOOK** | APRIL 2024

MARKET RECAP (AS OF MARCH 31, 2024)

- March was a strong month for risk assets with new highs in the major U.S. equity indices. The S&P 500, Dow Jones Industrial Average and NASDAQ closed at all-time highs. The stock market is broadening as the Russell 2000 (small caps) outperformed large caps in March.
- Year-to-date, U.S. stocks continue to lead international equities as the S&P 500 gained 10.6%, while internationally developed equities were 5.0% higher, and emerging markets gained 1.9%. Large-cap stocks continue to lead small and mid-caps but the gap is narrowing. A stronger dollar and weaker growth have been a headwind for international stocks. The Growth style momentum has begun to slow with a gain of 11.4%, while Value is improving with a 9.0% gain, year-to-date.
- Bond yields rose 50 basis points year-to-date on stronger-than-expected economic and inflation data. The Bloomberg U.S. Aggregate Bond Index fell 0.8%. Floating rate loans was higher by 2.4% for the year. Emerging market debt was 2.0% higher for the year.
- Gold broke out to an all-time high and was higher 8% year-to-date after a gain of 13% in 2023, proving its value as a hedge against geopolitical conflict and excess money printing. Oil prices rebounded 15% on firmer demand and geopolitical concerns.
- Alternatives in 2024: Fixed-income substitutes performed well, while unconstrained alternatives had positive returns except for commodity-related strategies.

Period Ending March 31, 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	3.1	7.6	26.2	6.3	10.7	8.5
Large Cap	S&P 500	3.2	10.6	34.4	11.5	15.2	13.0
Long-Short	S&P 500 / LIBOR plus 3	1.8	5.9	19.9	7.1	8.6	7.2
Small/Mid Cap	Russell 2500	4.1	6.9	25.5	2.9	10.0	9.0
International	MSCI World Ex US IMI (net)	3.3	5.0	17.5	3.9	7.3	4.8
Emerging Markets	MSCI Emerging Markets IMI (net)	1.9	1.9	11.8	(3.8)	3.2	3.3
FIXED INCOME							
Benchmark	FTSE World Broad Investment Grade	0.7	(1.9)	1.4	(5.1)	(1.3)	(0.1)
U.S. Aggregate	Barclays US Aggregate	0.9	(0.8)	2.4	(2.5)	0.3	1.5
U.S. TIPS	Bloomberg US TIPS	0.8	(0.1)	1.2	(0.7)	2.5	2.2
Tax Exempt	S&P Municipal Bond Index	(0.0)	(0.1)	3.6	(0.2)	1.7	2.7
U.S. Corp High Yield	Bloomberg US Corporate High Yield	1.2	1.5	13.1	2.3	4.3	4.5
U.S. Floating Rate	S&P/LSTA Leveraged Loan	0.8	2.4	13.1	6.0	5.5	4.5
International	FTSE Non USD WGBI	0.4	(3.4)	(1.6)	(8.6)	(3.8)	(1.9)
Emerging Markets	JPM Emerging Markets	2.1	2.0	12.3	(1.5)	0.8	3.1
REAL ASSETS							
Benchmark	Gold	8.9	8.0	12.5	8.9	11.6	5.6
Inflation	*Consumer Price Index (CPI)*	0.0	1.0	3.2	5.7	4.2	2.8
Commodities	Bloomberg Commodities	3.3	2.2	0.6	8.8	6.4	(1.6)
ALTERNATIVES							
Benchmark	LIBOR + 3	1.0	3.2	11.2	4.4	4.7	3.7
Multi-Strategy	Credit Suisse Multi-Strategy I		2.8	10.1	6.0	6.0	4.9
Global Macro	Credit Suisse Global Macro Ind		2.7	(0.4)	6.9	7.6	4.8
Managed Futures	Credit Suisse Managed Futures		6.3	4.3	9.4	8.4	4.8