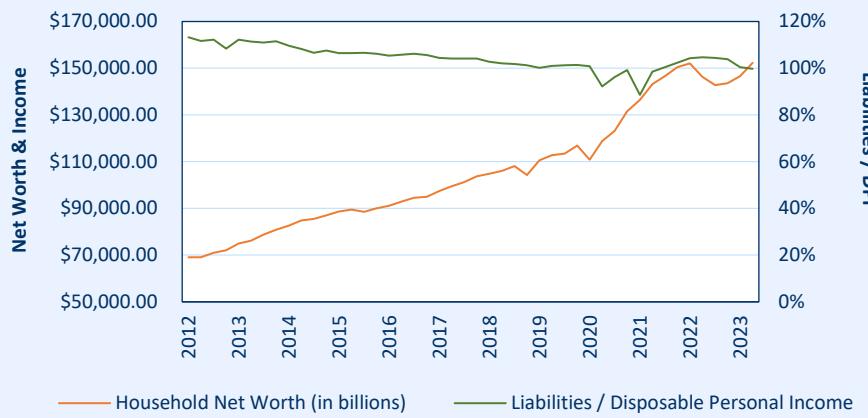


U.S. Economic Conditions

Given the degree to which the Federal Reserve has tightened monetary conditions, the U.S. economy displayed an unexpected level of resiliency in 2023. For much of the year, the consensus was that a recession was unavoidable, which was reflected in a 10-year Treasury yield that was well below the Federal Funds Rate in the 1st half of the year. However, when it became clearer that a recession was less probable (due to durability in areas like employment and consumer spending), market-based rates rose meaningfully - and this hit markets. Fortunately for investors, the move up in rates reversed quickly in the 4th quarter as the Fed signaled that due to cooling economic data, the interest rate hiking cycle may be finished - this triggered a strong market response late in the year. Regarding the overall resiliency of the U.S. economy in 2023, we continue to believe that the flow-through impact of higher rates may be less broad than many realize. As mentioned in prior commentaries, we feel there is a meaningful percentage of Americans who have been holding on to their houses, cars and other assets that were financed at lower rates prior to the interest rate spike - reducing the consumer impact of current rates. Moving forward, we are optimistic about the Fed loosening monetary conditions and the impact this may have on markets in 2024, but we are aware of the distraction and dividedness that may come with the upcoming election.

U.S. Gross Domestic Product and Unemployment

Interest Rates and Yields

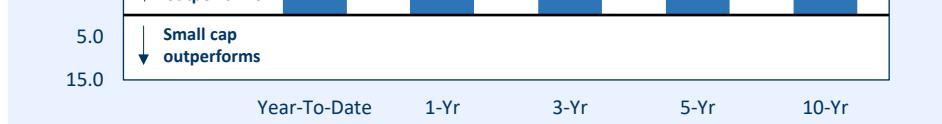
Consumer Finances

Corporate Earnings


U.S. Stock Market

The U.S. stock market rebounded from a volatile and difficult year in 2022 with solid gains in 2023. However, the strongest returns were concentrated in the so-called “Magnificent Seven” (made up of Apple, Amazon, Microsoft, Google, Nvidia, Tesla, and Meta) whose average return in 2023 was 105% vs. 26% for the overall S&P 500 Index. *The primary driver behind this was enthusiasm related to artificial intelligence (AI) and the potential impacts this could have on the earnings of these companies in future years.* This being said, the rally spread into a more broad-based market recovery as it became clear that the Federal Reserve had reached the end of their monetary tightening cycle. Regarding intramarket results, value stocks underperformed after a two-year period of market leadership, and large caps outperformed mid and small caps by a noticeable margin - even though smaller cap companies bounced back late in the year when rates fell (AI enthusiasm affected both market trends). Regarding market prices relative to fundamental value, the 4th quarter rally stretched valuations, but the decline in current and expected interest rates and the rise in corporate earnings has provided some justification for higher stock prices.

Market Segment	YTD	1-Year	3-Year	5-Year	10-Year
Russell 3000	Broad Indices	26.0%	26.0%	8.5%	15.2%
S&P 500		26.3%	26.3%	10.0%	15.7%
Russell 2000		16.9%	16.9%	2.2%	10.0%
Large Growth	Category	36.7%	36.7%	4.7%	15.7%
Large Blend		22.3%	22.3%	8.8%	14.3%
Large Value		11.6%	11.6%	9.7%	11.4%
Mid Growth		21.4%	21.4%	-0.9%	12.5%
Mid Blend		16.0%	16.0%	6.8%	12.0%
Mid Value		13.9%	13.9%	10.4%	11.8%
Small Growth		16.7%	16.7%	-2.3%	11.0%
Small Blend		16.2%	16.2%	6.3%	10.9%
Small Value		16.9%	16.9%	11.3%	11.9%
					6.9%

Sector	YTD Return	Forward Price-to-Earnings Ratio		
		Dec. 31 2023	20-yr Avg	Relative to 20-yr Avg.
S&P 500 Index	26.3%	19.5	15.6	125%
Basic Materials	15.0%	19.5	14.8	132%
Consumer Cyclical	39.5%	25.4	19.5	130%
Financial Services	16.1%	14.6	12.5	117%
Real Estate	11.8%	17.6	17.0	104%
Comm. Services	46.1%	17.3	18.6	93%
Energy	-0.2%	10.8	13.6	79%
Industrials	20.9%	19.9	16.3	122%
Technology	59.1%	26.7	17.9	149%
Consumer Defensive	2.4%	19.2	17.4	110%
Healthcare	2.2%	17.9	15.0	119%
Utilities	-7.0%	15.8	15.6	101%



Foreign Economic Conditions & Stock Markets

The outlook for foreign economies remains mixed, but broadly speaking, it appears that many regions overseas have had a tougher time absorbing the impact of tighter financial conditions (relative to the U.S.). With this said, some headwinds have started to fade (e.g., inflation has cooled more than expected recently in the Euro area) and economists are expecting more accommodative policies from foreign central banks in 2024. From an equity market perspective, foreign stocks underperformed domestic stocks again in 2023 (this has been the case for the past decade - *see the bottom right chart below*). However, the various categories within the foreign equity market still posted double-digit returns. Regionally, Developed Markets outperformed Emerging Markets by a wide margin (mostly due to weakness in China) - even though certain emerging countries like India and Brazil did post strong gains. From a style standpoint, value stocks outperformed growth stocks, which was opposite of what occurred in the U.S.

Currency Impact on Foreign Investment (made by U.S. investors)



Return	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
In Local Currency	6.0%	1.9%	7.0%	18.2%	-10.6%	20.8%	6.0%	13.0%	-9.6%	14.1%
Currency Impact	-9.9%	-7.6%	-2.5%	9.0%	-3.6%	0.7%	4.7%	-5.2%	-6.4%	1.5%
Net In U.S. Dollars	-3.9%	-5.7%	4.5%	27.2%	-14.2%	21.5%	10.7%	7.8%	-16.0%	15.6%

Global Gross Domestic Product



Foreign Stock Performance

Market Segment	YTD	1-Year	3-Year	5-Year	10-Year
MSCI ACWI ex-U.S. IM	15.6%	15.6%	1.5%	7.2%	4.0%
	17.5%	17.5%	3.3%	7.9%	4.3%
	11.7%	11.7%	-3.7%	4.5%	3.0%
Developed Markets	16.2%	16.2%	-2.0%	8.4%	5.0%
	16.3%	16.3%	2.4%	7.6%	4.0%
	17.5%	17.5%	6.0%	7.4%	3.4%
Emerging Markets	12.6%	12.6%	-5.0%	6.9%	4.6%
	14.4%	14.4%	0.8%	6.9%	4.3%
	16.8%	16.8%	6.3%	7.9%	4.6%
Foreign Large Growth	16.2%	16.2%	-2.0%	8.4%	5.0%
	16.3%	16.3%	2.4%	7.6%	4.0%
	17.5%	17.5%	6.0%	7.4%	3.4%
Foreign Large Blend	12.6%	12.6%	-5.0%	6.9%	4.6%
	14.4%	14.4%	0.8%	6.9%	4.3%
	16.8%	16.8%	6.3%	7.9%	4.6%
Foreign Large Value	16.2%	16.2%	-2.0%	8.4%	5.0%
	16.3%	16.3%	2.4%	7.6%	4.0%
	17.5%	17.5%	6.0%	7.4%	3.4%
Foreign Small/Mid Growth	12.6%	12.6%	-5.0%	6.9%	4.6%
	14.4%	14.4%	0.8%	6.9%	4.3%
	16.8%	16.8%	6.3%	7.9%	4.6%
Foreign Small/Mid Blend	16.2%	16.2%	-2.0%	8.4%	5.0%
	16.3%	16.3%	2.4%	7.6%	4.0%
	17.5%	17.5%	6.0%	7.4%	3.4%
Foreign Small/Mid Value	12.6%	12.6%	-5.0%	6.9%	4.6%
	14.4%	14.4%	0.8%	6.9%	4.3%
	16.8%	16.8%	6.3%	7.9%	4.6%

Foreign vs. U.S. Performance and Allocation

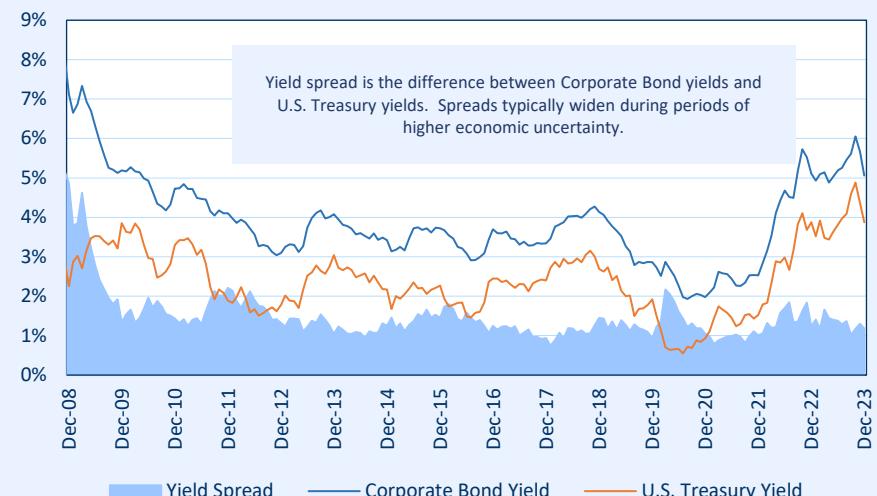


Fixed Income Markets

Following a two-year period of weaker performance caused by rising rates, bonds bounced back in 2023. However, the path to a favorable 12-month return wasn't consistent by quarter - since rates rose for much of the year (especially during the 3rd quarter), before falling in the 4th quarter and fueling a rally that saved the year. Regarding market leadership, lower-quality and higher-yielding bonds outperformed higher quality bonds in 2023, and medium and longer-term maturities outperformed shorter-term bonds (not a surprise with rates being flat for the full year). With regard to the interest rate outlook, the consensus forecast is that the Federal Reserve has completed their tightening process and will start to cut rates this year. *This was the primary reason for the 4th quarter rally in bonds.* However, FOMC members have been pushing back on the market expectations that fueled the rally - signaling that the cuts in 2024 may not be as meaningful as expected.

Fixed Income Performance

Sector, Maturity, Region	Avg. Yield	Avg. Maturity	YTD	1-Year	3-Year	5-Year	10-Year
Agency MBS	4.68%	7.5	5.1%	5.1%	-1.5%	1.3%	1.6%
U.S. Treasuries	4.26%	6.8	4.4%	4.4%	-3.1%	0.7%	1.2%
U.S. TIPS	4.24%	7.1	3.9%	3.9%	-1.0%	3.2%	2.4%
Municipals	3.22%	13.3	6.4%	6.4%	-0.4%	2.3%	3.0%
Invest. Grade Corporate	5.06%	10.8	8.5%	8.5%	-3.3%	2.6%	3.0%
High-Yield Corporate	7.59%	4.9	13.4%	13.4%	2.0%	5.4%	4.6%
Emerging Markets	4.75%	11.8	9.1%	9.1%	-3.1%	1.8%	3.0%
Short-Term Bond	3.54%	3.3	5.7%	5.7%	0.1%	1.9%	1.6%
Intermediate-Term Bond	3.75%	9.2	6.2%	6.2%	-3.0%	1.5%	1.9%
Long-Term Bond	4.30%	19.0	9.2%	9.2%	-6.5%	2.1%	3.6%
Foreign Bond	2.87%	8.8	8.3%	8.3%	-1.2%	1.5%	2.8%
U.S. Bond	4.53%	8.5	5.5%	5.5%	-3.3%	1.1%	1.8%

Yield Spreads

Federal Reserve Balance Sheet and 10-Year Treasury Yield

Year-Over-Year Inflation Data and Real Yield


Definitions:

Federal Funds Rate - The interest rate set by the Federal Open Market Committee (FOMC), the governing body of the Federal Reserve Bank, which determines the amount banks charge for overnight lending of their reserve balances to other financial institutions. **Disposable Personal Income (DPI)** - The amount of total discretionary income received by a household net of taxes. **Liabilities / DPI** - The amount of total debt owed by households in relation to their DPI, measured as the aggregate of the entire U.S. population.

Data Sources:

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Gross Domestic Product (GDP): Third quarter 2023 GDP is an estimate from the Federal Reserve Bank of Atlanta. **Unemployment:** U.S. Bureau of Labor Statistics, Unemployment Rate, retrieved from FRED, Federal Reserve Bank of St. Louis. **10-Year Treasury:** U.S. Treasury, Daily Treasury Yield Curve Rates. **30-Year Mortgage Rates:** FreddieMac, Monthly Average Commitment Rate And Points On 30-Year Fixed-Rate Mortgages Since 1971. **Fed Funds Rate:** The effective federal funds rate (EFFR) is calculated as a volume-weighted median of overnight federal funds transactions reported in the FR 2420 Report of Selected Money Market Rates. Data from the Federal Reserve Bank of New York. **Household Net Worth:** Board of Governors of the Federal Reserve System (US), Households and Nonprofit Organizations; Net Worth, Level [TNWBSHNO], retrieved from FRED, Federal Reserve Bank of St. Louis. **Median Household Income:** U.S. Census Bureau, Real Median Household Income in the United States [MEHOINUSA672N], retrieved from FRED, Federal Reserve Bank of St. Louis. **Liabilities / Disposable Personal Income:** Board of Governors of the Federal Reserve, Balance Sheet of Households and Nonprofit Organizations, 1952 - 2023. **Earnings:** Standard & Poor's Global.

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Index Data: Source - Morningstar Direct. Indices listed are as follows: Russell 3000 Index (broad U.S. market), S&P 500 (U.S. large cap), Large Growth (Russell 1000 Growth), Large Blend (Russell 1000), Large Value (Russell 1000 Value), Mid Growth (Russell Mid Cap Growth), Mid Blend (Russell Mid Cap), Mid Value (Russell Mid Cap Value), Small Growth (Russell 2000 Growth), Small Blend (Russell 2000), Small Value (Russell 2000 Value). **Sector Performance Data:** Source - Morningstar Direct. Represents Morningstar sector index performance. **Price to Earnings Data:** J.P. Morgan Guide to the Markets, p.14. **Factor Performance Data:** Source - Morningstar Direct. U.S. Stock vs. Foreign Stock (Russell 3000 vs. MSCI ACWI ex-U.S. IM Index), Growth vs. Value (Russell 3000 Growth vs. Russell 3000 Value Index), Large Cap Stock vs. Small Cap Stock (S&P 500 vs. Russell 2000 Index), Quality Stock vs. Low Quality Stock (S&P 500 Quality Index vs. S&P 500 Index).

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Gross Domestic Product: Source - imf.org. Gross Domestic Product (GDP) for Developed markets (advanced economies), Emerging markets (emerging and developing economies), and World represent year-over-year economic growth data. **Foreign Stock Performance:** Source - Morningstar Direct. In order from top to bottom, the indices used are as follows: the MSCI ACWI ex-U.S. IM Index (broad foreign market), the MSCI EAFE IM Index (Developed Markets), the MSCI EM IM Index (Emerging Markets), the MSCI ACWI ex-U.S. Large Growth Index, the MSCI ACWI ex-U.S. Large Blend Index, the MSCI ACWI ex-U.S. Large Value Index, the MSCI ACWI ex-U.S. Small/Mid Growth Index, the MSCI ACWI ex-U.S. Small/Mid Blend Index, and the MSCI ACWI ex-U.S. Small/Mid Value Index. **Currency Impact on Returns:** Source - Morningstar Direct. Represents the yearly returns for the MSCI ACWI ex-U.S. Local Currency Index (Local Currency) and the MSCI ACWI ex-U.S. USD Index (U.S. Dollar). The currency data represents the difference between the yearly returns of the MSCI ACWI ex-U.S. Index in U.S. dollars versus Local Currency. **Foreign vs. U.S. Performance and Allocation:** Source - Morningstar Direct. Represents 1) the 10-year rolling return difference between the Russell 3000 Index (domestic) and the MSCI ACWI ex-U.S. IM Index (foreign) and 2) the U.S. historical weight within the MSCI ACWI ex-U.S. Index.

[Page 4:](#)

Fixed Income Performance: Source - Morningstar Direct. Indices/categories listed are as follows: Agency MBS (Bloomberg US MBS Index), U.S. Treasuries (S&P/BGCantor U.S. Treasury Bond Index), U.S. TIPS (Bloomberg U.S. Treasury U.S. TIPS Index), Municipal (Bloomberg Municipal Index), Invest. Grade Corporates (Bloomberg US Corp Bond Index), High-Yield Corporates (Bloomberg High Yield Corporate Index), Emerging Markets (JPM EMBI Global Diversified Index), Short-Term Bond (Morningstar Short-Term Bond Category), Intermediate-Term Bond (Morningstar Intermediate Core-Plus Bond Category), Long-Term Bond (Morningstar Long-Term Bond Category), Foreign Bond (Bloomberg Global Agg ex USD Hedged USD), U.S. Bond (Bloomberg U.S. Aggregate Bond). **Yield Spreads:** Corporate Bond Yield - U.S. Department of the Treasury, 10-Year High Quality Market (HQM) Corporate Bond Par Yield [HQMCB10YRP], retrieved from FRED, Federal Reserve Bank of St. Louis. Treasury Yield / Real Yield - U.S. Treasury, Daily Treasury Yield Curve Rates. **Federal Reserve Balance Sheet Size & 10-Year Treasury Yield:** Fed Balance Sheet - Board of Governors of the Federal Reserve System (US), Assets: Total Assets: Total Assets (Less Eliminations from Consolidation): Wednesday Level [WALCL], retrieved from FRED, Federal Reserve Bank of St. Louis. **Inflation Data & Real Yield:** Source - inflationdata.com. U.S. Treasury, Daily Treasury Yield Curve Rates. Real yield represents the 10-Year Treasury Bond Yield less the year-over-year change in the Consumer Price Index (CPI).

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