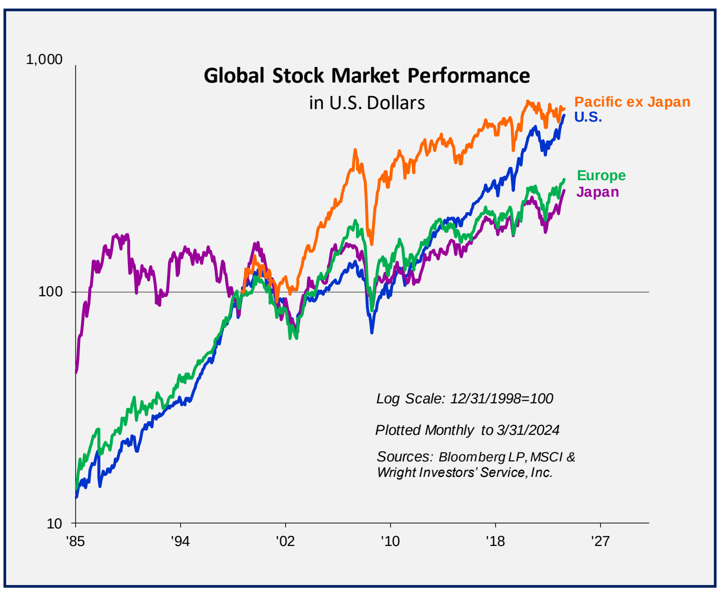
Quarterly Investment Report

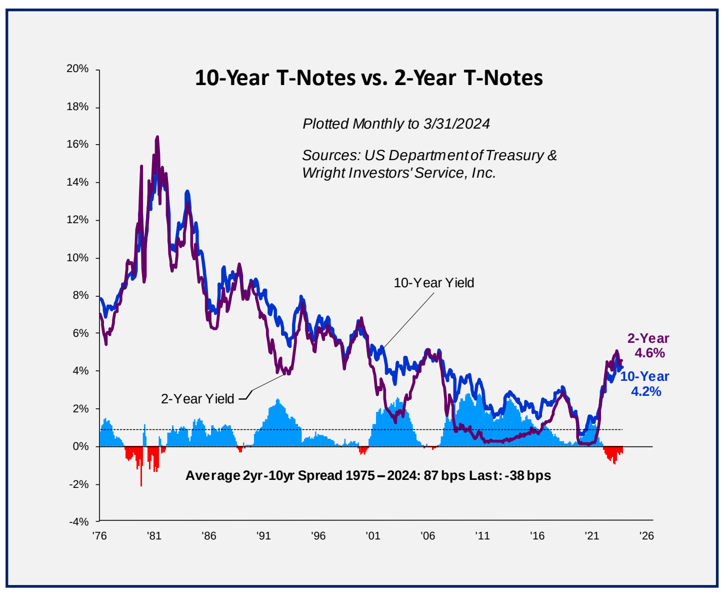
April 2024

SUMMARY*: During the first quarter of 2024, the US stock market experienced broad gains. The S&P 500 index surged by +10.6%, with March showing a notable increase of +3.2%. The Dow Jones Industrial Average and Nasdaq Composite also saw gains, rising by +6.1% and +9.3%, respectively. Growth stocks outperformed value stocks across various market capitalizations. The energy sector rebounded significantly, rising +13.7%. Internationally, US equities generally outperformed most major developed and emerging markets, except Japan, which recorded an impressive increase of +11.0%. The US dollar strengthened against most currencies, except the Canadian dollar. Within the bond market, the Bloomberg US Aggregate index decreased by -0.8%, while the Bloomberg US High Yield Bond index rose by +1.5%. Treasury yields increased across most maturities, leading to an upward shift in the yield curve. Commodities generally outperformed bonds but lagged equities. The MSCI US REIT Net Total Return Index experienced a slight drop of -0.6%. According to S&P Global, US service providers reported a slightly slower pace of expansion, while the manufacturing sector witnessed its fastest growth since May 2022. Year-over-year, core PCE, which excludes volatile food and energy prices, fell to 2.8% from the previous month's revised reading of 2.9%. However, headline PCE inflation rose to 2.5% from 2.4%. Recent indicators suggest robust economic activity, with strong job gains and a low unemployment rate. While inflation has moderated over the past year, it remains elevated relative to the Federal Reserve's target of 2%.

STOCK MARKET

In In the first quarter of 2024, the US stock market exhibited robust gains across all sectors except Real Estate. The S&P 500 index increased by +10.6% during the quarter, with a particularly strong showing in March, which saw a rise of +3.2%. Similarly, the Dow Jones Industrial Average and the tech-heavy Nasdaq Composite posted gains of +2.2% and +1.8%, respectively, for the month. In terms of market capitalization, mid-cap stocks stood out as the top performers, surging by +5.6% in March alone. Throughout the quarter, growth stocks consistently outperformed their value counterparts across all market capitalizations. While equities rose across all sectors for the month, Energy experienced a notable rebound. After a negative growth rate of -6.9% in the previous quarter, Energy stocks soared +13.7% in the quarter, largely driven by the strength in crude oil prices. Among other sectors, Telecoms led the pack with a significant increase of +15.8%, closely followed by Information Technology and Financials rising +12.7% and 12.5%, respectively. Looking specifically at March, Energy stocks continued their surge with an impressive growth rate of +10.6%. Utilities followed suit





with an increase of +6.6%, alongside Materials which rose by +6.5%. Earnings growth was particularly strong in sectors such as Communication Services (+48.7%), Utilities (+42.9%), and Consumer Discretionary (+29.1%) during the quarter. However, some sectors experienced a decline in earnings, with Energy, Materials, and Healthcare seeing decreases of -25.2%, -20.6%, and -16.2% respectively.

Internationally, US equities demonstrated strong performance, outpacing most major developed and emerging markets, except for Japan, which advanced +11.0% in US dollar terms for the quarter. While most major developed markets and emerging markets saw positive returns, the Chinese markets continued to face challenges, declining -2.2% for the quarter. Additionally, the Pacific ex Japan markets saw a decrease of -1.7% during this period. The US dollar appreciated against all currencies during the quarter, moving most against the Yen by +7.3% and Swiss Franc by +7.1% during this period.

BOND MARKET

The Bloomberg US Aggregate, an index of taxable investment-grade, dollar-denominated bonds, decreased -0.8% during the quarter but increased +0.9% in March. It underperformed the Bloomberg US High Yield Bond index, which rose +1.5% for the quarter and +1.2% for the month. Non-US Dollar bonds, as represented by the Bloomberg Global Aggregate ex-US Index, had a significant decline of -3.2% in the quarter and was adversely impacted by strength in the US Dollar. Treasury yields rose across maturities (except for 1-month and 2-month), causing the yield curve to shift upward for the quarter, although it remains inverted with yields on maturities less than three years exceeding yields on longer maturities. The 10-year Treasury yield rose from 3.88% at the end of December 2023 to 4.20% at the end of the first quarter of this year while the 2-year yields rose from 4.25% to 4.62%. This increase in yields produced negative returns in the bond market for this quarter. During the quarter, Treasury yields rose more compared to the TIPS, indicating higher inflation expectations than at the end of 2023.

ALTERNATIVES

Commodities outperformed bonds but underperformed equities. The Bloomberg Commodities Index, a widely recognized benchmark for gauging commodity performance, rose +2.2% for the quarter. Crude oil prices surged +16.1% while metal prices, including gold and copper, recorded gains of +7.0% and +3.0%, respectively, during the quarter. Unleaded Gasoline saw the largest rise at +31.3%. In comparison, natural gas prices saw the greatest decline in the quarter at -29.9% and prices of food commodities such as wheat (-10.8%) and corn (-6.2%) also fell. The MSCI US REIT Index dropped -0.6%, reflecting the impact of rising interest rates during the same period.

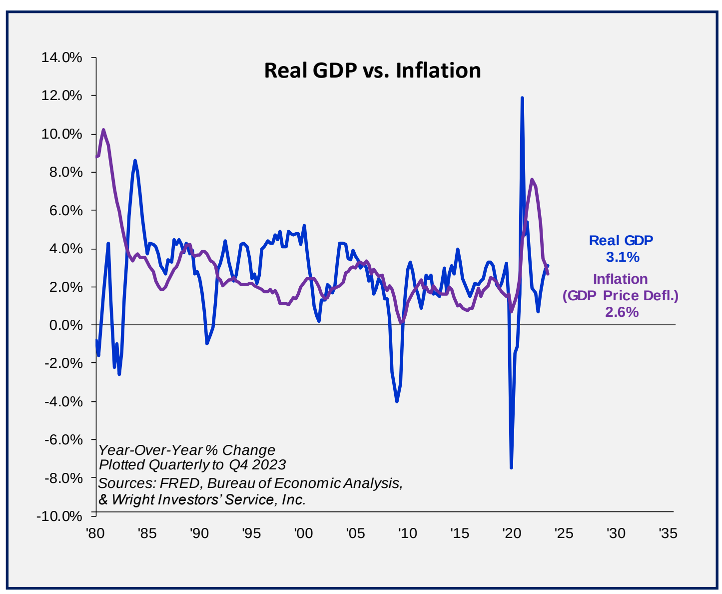
US ECONOMY

In March, the PMI Composite Index saw a notable rise driven by the strength of the US manufacturing sector, although the services sector displayed some weakness. The S&P Global US PMI Composite Output Index recorded a reading of 52.2 in March, slightly down from February's 52.5, yet still indicating a significant monthly improvement in business activity among US companies. A reading above 50 signals expansion in business activity. The S&P Global US Services PMI fell from 52.3 in February to 51.7 in March. Despite this dip, output has been on the rise for the past 14 consecutive months. The slowdown in output growth was primarily attributed to a slowdown in the service sector, which saw activity increasing at the slowest pace in three months. Price pressures hindered customers' willingness to commit to new projects, consequently softening the rate of new business growth within

Global Investment Returns
In U.S. Dollars

	Q1 2024		Trailing 12 Months	
	Stocks	Bonds	Stocks	Bonds
U.S.	**10.3%**	**-0.8%**	**29.7%**	**1.7%**
Canada	4.0%	-4.0%	15.1%	0.6%
Mexico	0.5%	1.0%	17.7%	7.4%
Japan	**11.0%**	**-7.4%**	**25.8%**	**-14.2%**
Pacific ex Japan	-1.7%	-1.0%	2.4%	0.4%
Australia	0.8%	-3.5%	12.6%	-2.3%
China	-2.2%	0.5%	-17.1%	1.7%
Hong Kong	-11.7%	-0.8%	-22.9%	2.4%
Europe	**5.2%**	**-2.6%**	**14.1%**	**4.0%**
France	5.9%	-3.5%	12.1%	0.0%
Germany	7.1%	-3.6%	14.8%	1.5%
Italy	13.7%	-0.8%	35.9%	5.5%
Netherlands	15.5%	-3.5%	24.6%	2.3%
Spain	8.2%	-2.2%	23.4%	4.2%
Switzerland	-1.3%	-6.1%	7.0%	8.0%
U.K.	3.1%	-2.2%	10.9%	3.5%
World	**8.9%**	**-2.1%**	**25.1%**	**0.5%**
World ex U.S.	5.6%	-3.2%	15.3%	-0.7%

Sources: MSCI Stock & Bloomberg Barclays Bond Indexes as of 3/31/2024



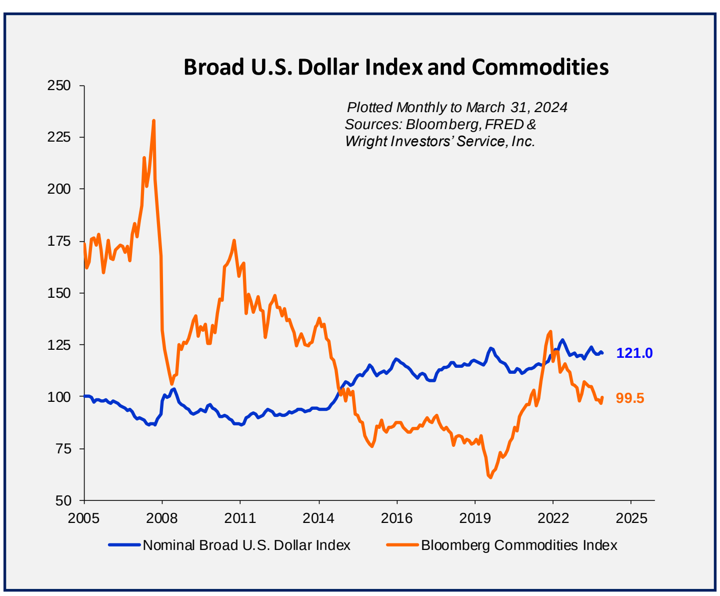
the service sector. On the other hand, there was a sharp and accelerated expansion in manufacturing output during this period, marking the fastest growth rate since May 2022. Although new orders increased at a slower pace compared to February, business confidence reached a near two-year high by the end of the first quarter.

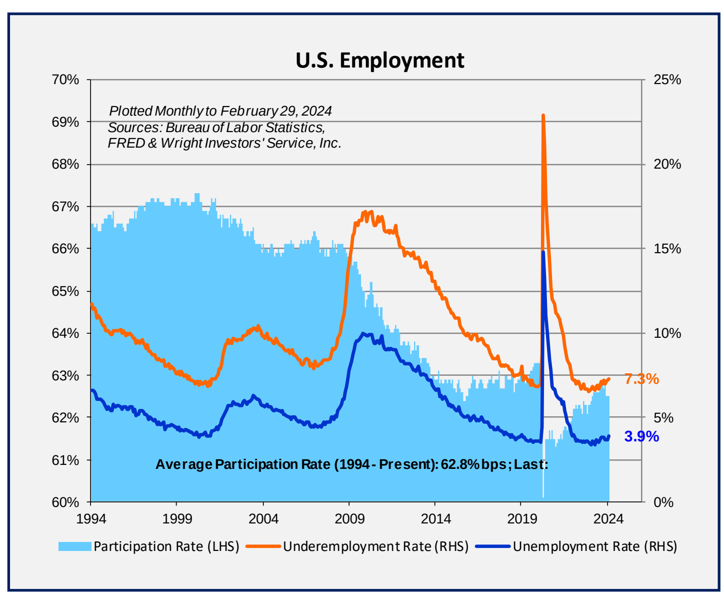
The S&P Global US Manufacturing PMI reached a 21-month high of 52.5 in March, indicating a strong improvement in the sector's overall health. This uptick reflects three consecutive months of strengthened business conditions, with the latest improvement attributed to sharper expansions in both output and employment. Supplier delivery times have continued to recover from previous supply chain disruptions, although the rate of improvement in vendor performance was slightly less pronounced compared to February. Firms adjusted their purchasing activity in March, reducing stocks of both purchases and finished goods. Anecdotal evidence suggests that inventories have been strategically built to support existing workloads, prompting efforts to draw down on these stockpiles. These shifts in inventory management reflect the sector's response to current market conditions and operational requirements, contributing to the overall narrative of a resurgent manufacturing sector in the US.

In March, there was a slowdown in expansion rates of both output and new orders, although employment grew at the fastest rate in 2024. Across both sectors, staffing levels increased, with the manufacturing sector reaching an eight-month high in job growth. The combination of capacity improvements and a deceleration in new business growth allowed firms to reduce their backlogs for the second consecutive month. Although the decline in outstanding business was modest, it was faster compared to February. Input cost inflation increased significantly in March, reaching a six-month high across both manufacturing and services. Service providers cited higher operating expenses due to increased wages, while manufacturers pointed to rising cost of oil and gasoline. US companies responded by raising their selling prices at a quicker pace, resulting in the sharpest inflation rate in nearly a year, surpassing the series average. Output price inflation also accelerated across manufacturing and services, reaching 13- and eight-month highs, respectively.

In terms of labor market dynamics, the unemployment rate increased from 3.7% to 3.9%, with the number of unemployed individuals rising by 334,000 to 6.5 million. Despite this, total nonfarm payroll employment saw a rise of 275,000 jobs in February. The labor force participation rate remained steady at 62.5% for the third consecutive month. Job gains were notable in health care, government, food services and drinking places, social assistance, and transportation and warehousing. The most significant increase was in the health-care sector, which added 67,000 jobs in February, above the average monthly gain of 58,000 over the previous 12 months. FOMC members anticipate the ongoing rebalancing in the labor market to continue, thereby alleviating upward pressure on inflation. The median unemployment rate projection in the Fed's Summary of Economic Projections (SEP) is 4.0% at the close of 2024 and 4.1% at the end of following year. These projections reflect the expected trajectory of the labor market and its implications for inflation moving forward.

The Federal Reserve has maintained its long-term Personal Consumption Expenditures (PCE) inflation projection unchanged from the previous quarter. Economic activity has been expanding at a steady pace, with strong job gains and low unemployment rates. Inflation has eased but remains high. Core PCE, the Fed's preferred gauge of inflation, fell to 2.8% from last month's revised reading of 2.9%. The headline PCE inflation rose to 2.5% from 2.4%. The Federal Reserve Committee has set a target of achieving maximum employment





and a 2% inflation rate in the long run. Although the risks to achieving these goals are becoming more balanced, the economic outlook remains uncertain. If the economy evolves as projected, the median of FOMC members projects that the appropriate level of the Fed funds rate will be 4.6% at the end of 2024, 3.9% at the end of 2025, and 3.1% at the end of 2026. According to CME's FedWatch tool, 99.1% of market participants believe that the Federal Reserve will opt to keep the Fed Funds rate steady at 5.25%-5.50% at the upcoming May FOMC meeting. By comparison, 62.1% expect a rate cut in the June meeting.

In the Fed's SEP, committee members generally expect GDP growth to slow from last year's pace, with a median projection of 2.1% for 2024 and 2% over the next two years. Members mostly revised their growth projections higher since December, reflecting the strength of economic data, including data on labor supply. GDP growth in the fourth quarter of last year came in at 3.2%. For the year 2023, GDP expanded by 3.1%, boosted by strong consumer demand as well as improved supply conditions.

As of March 28, the average rate for a 30-year fixed mortgage stood at 6.8%, a +0.2% increase from the previous quarter. The sales of existing homes increased by +9.5%, reaching an annual rate of 4.38 million units in February. Housing starts in February were at a seasonally adjusted annual rate of 1,521K, 10.7% above the revised January estimate of 1,374K. Building permits in February were at a seasonally adjusted annual rate of 1,518K, 1.9% above the revised January estimate of 1,489K.

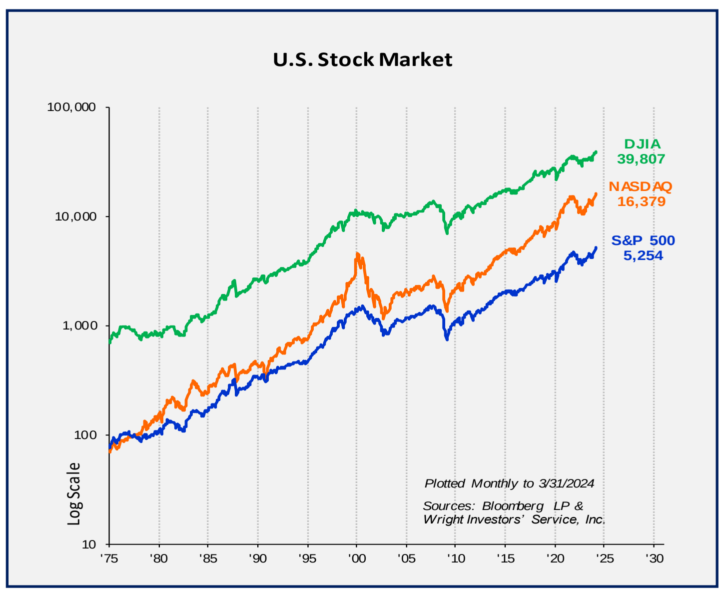
INVESTMENT OUTLOOK

Given the Federal Reserve's commitment to inflation and employment targets, investors are anticipating rate cuts starting no earlier than June. However, the Fed's ability to reduce rates may be limited if inflation exceeds their target. Despite a tight labor market, supply and demand are moving toward equilibrium. The housing market remains robust, indicating ongoing consumer confidence. The economy and markets appear much healthier than a year ago, hinting at a possible "soft landing" scenario. This could shift the market's focus from interest rates to corporate earnings growth. However, uncertainties persist amid evolving economic conditions. It will be crucial to monitor inflation, labor market trends, and global developments for investment decisions. Some major economies are facing challenges, and geopolitical tensions such as the Russia-Ukraine conflict, Israel-Palestine issues, China-Taiwan relations, and recent incidents like the Port of Baltimore bridge collapse may impact supply chains and inflation. While the US economy continues to expand, managing risk prudently, flexible investment strategies, and diversified portfolios will be essential to navigating potential market fluctuations in the months ahead.

The U.S. Economy 2022–2025

		% Change In			End of Period Rates	
		Real GDP*	PCE Core Deflator*	Profits from Operations#	90-Day T-Bills	10-Year T-Notes
2022	Q1	-2.0%	6.0%	46.8%	0.5%	2.3%
	Q2	-0.6%	4.7%	35.9%	1.6%	3.0%
	Q3	2.7%	5.0%	19.9%	3.2%	3.8%
	Q4	2.6%	4.7%	11.8%	4.3%	3.9%
2023	Q1	2.2%	5.0%	5.2%	4.7%	3.5%
	Q2	2.1%	3.7%	2.2%	5.3%	3.8%
	Q3	4.9%	2.0%	-0.9%	5.4%	4.6%
	Q4	3.4%	2.0%	-0.6%	5.3%	3.9%
2024	Q1 e	2.0%	2.7%	1.0%	5.4%	4.2%
	Q2 e	1.4%	2.4%	2.0%	5.1%	4.0%
	Q3 e	1.2%	2.5%	5.2%	4.8%	3.9%
	Q4 e	1.5%	2.4%	6.3%	4.4%	3.9%
2025	Q1 e	1.8%	2.3%	8.0%	4.1%	3.8%
	Q2 e	2.0%	2.2%	10.8%	3.8%	3.8%
	Q3 e	2.0%	2.1%	11.9%	3.6%	3.7%
	Q4 e	1.9%	N/A	12.7%	3.4%	3.7%

e: Bloomberg Consensus Estimates; *: Quarter-Over-Quarter Annual Rates; #: Year-Over-Year Change in S&P500 EPS
Sources: Bloomberg LP, Wright Investors' Service, Inc.



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