



**Global Strategic**  
**NextGen OCIO**

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# 1ST QUARTER LETTER 2024

**EQUITY RALLY  
CONTINUES, BONDS  
DECLINE AS RATES  
RISE.**

# Top 4 Takeaways

## 1. 2024 – EQUITIES RALLY DESPITE STUBBORN FEDERAL RESERVE | BONDS DECLINE

Public market equities continued to rally in 2024 despite reduced earnings per share guidance (S&P 500) in Q1. A balanced, public-only 60% global equity / 40% fixed income strategy returned **4.4%**. US Equities gained **10.0%**, driven by AI chipmaker NVIDIA **+82%**, which accounted for more than 35% of the U.S. Large Cap Growth total return. Non-US equities rose **4.7%**. Bond returns declined as market expectations for future dovish Fed Action was tempered. The Bloomberg US Aggregate Bond index returned **-0.8%** while the Bloomberg Municipal Index lost **-0.4%**.

## 2. FEDERAL RESERVE MONETARY POLICY

For the past several quarters, our firm has believed in the higher for longer positioning. As we expected, the Federal Reserve held the Fed Funds rate at 5.33% during both 2024 meetings, despite market expectations that the Fed Funds rate would be lower by this point. Inflation remains a key gauge to Chairman Powell who reinforced after the March 2024 Meeting, *“The Committee does not expect it will be appropriate to reduce the (Fed Funds) target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent.”*

## 3. VALUATIONS

Global Equity valuations ticked higher (became more expensive) in 2024 driven by global large cap stocks. Market valuations in US Large Cap Value, US Small Cap, and International Markets are more favorably priced on a relative basis. Public fixed income yields rose in 2024 even though the Fed and the market now expect 3 rate cuts by the year end. Bond valuations relative to public equities remain competitive. The equity risk premium hasn't been this favorable to bonds since 2002.

## 4. SEMI-LIQUID PRIVATE MARKETS

Semi-liquid private market returns continue to provide strong risk-adjusted returns and diversification to public allocations. Private Equity was the best performing private market asset class producing +3.9% returns (GSIS Model Weights).

# 1. 2024 – Equities Rally Despite Stubborn Federal Reserve | Bonds Decline

+4.4%

2024 Q1 Return for a 60% Global Equity and 40% U.S. Core Bond Portfolio

## 60/40 BALANCED PORTFOLIO

A public only balanced 60% Equity and 40% Fixed Income portfolio returned **4.4%** in Q1 2024, driven by the 6th best quarter return for the S&P 500 over the last 10 years.

## STOCKS

U.S. Equities returned **10.0%** in Q1, already eclipsing the most optimistic 2024 Wall Street forecasts. Earnings are only expected to increase by 3.6% in Q1 and 11.0% for the full calendar year (Factset Earnings Insight 3/28/24). Non-U.S. equities gained **4.7%** but have not benefited from a P/E expansion similar to the U.S. market. Since November, global equities have produced over a **22%** return.

## BONDS

Core bond indices posted negative returns in 2024 driven by higher interest rates. The U.S. 10yr Treasury yield rose from 3.9% to 4.2%. High yield spreads narrowed and are tight (expensive) relative to similar duration U.S. Treasuries.

## PRIVATE MARKETS (GSIS MODEL WEIGHTS)

Semi-liquid private market returned **~2.0%** during the quarter, contributing positively to portfolio returns.

## Market Returns (Period Ending 3/31/24)

Asset Class	Index	QTD	1 Year	2 Year	3 years	5 Years
Global Equity	MSCI ACWI	8.2%	23.2%	6.8%	7.0%	10.9%
US Large Cap	S&P 500	10.6%	29.9%	9.5%	11.5%	15.1%
US Large Cap Growth	Russell 1000 Growth	11.4%	39.0%	11.3%	12.5%	18.5%
US Large Cap Value	Russell 1000 Value	9.0%	20.3%	6.4%	8.1%	10.3%
US Small Cap	Russell 2000	5.2%	19.7%	2.9%	-0.1%	8.1%
International	MSCI EAFE	5.8%	15.3%	6.6%	4.8%	7.3%
Emerging Markets	MSCI Emerging	2.4%	8.2%	-1.7%	-5.1%	2.2%
Commodities	S&P Global Natural Resources	2.3%	5.1%	-0.1%	8.8%	8.5%
Real Estate	CRSP US REIT	-1.3%	8.6%	-6.9%	1.7%	3.7%
Muni Bonds	Bloomberg Municipal Bond	-0.4%	3.1%	1.7%	-0.4%	1.6%
Taxable Bonds	Bloomberg Aggregate Bond	-0.8%	1.7%	-1.6%	-2.5%	0.4%
High Yield Bonds	Bloomberg High Yield Bond	1.5%	11.2%	3.7%	2.2%	4.2%

65%

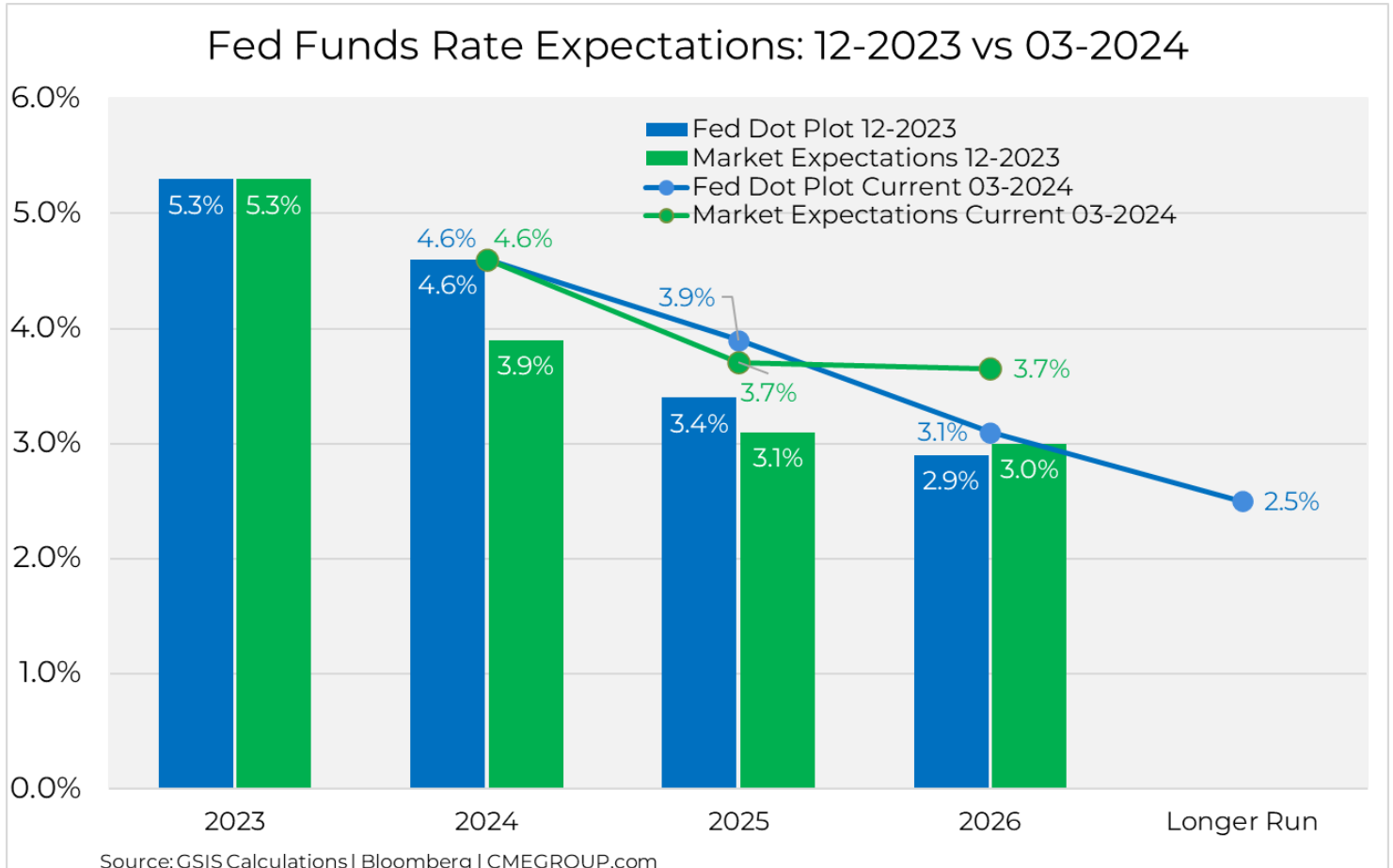
of the Q1 U.S. Equity Market Return came from the Magnificent Seven Stocks.

## 2. Federal Reserve Monetary Policy

The Fed did not change the Fed Funds Rate at either the January or March meetings. The markets reacted favorably to Powell's comments implying the Fed Funds Rate will be cut 3 times in 2024. The actual Fed Dot Plot, which reflects the forward expectation of the Fed members, moved directionally to a more hawkish stance. The market expectations have shifted from expecting 6 cuts (2023) to pricing in 3 cuts, the same level as the Fed by the end of 2024.

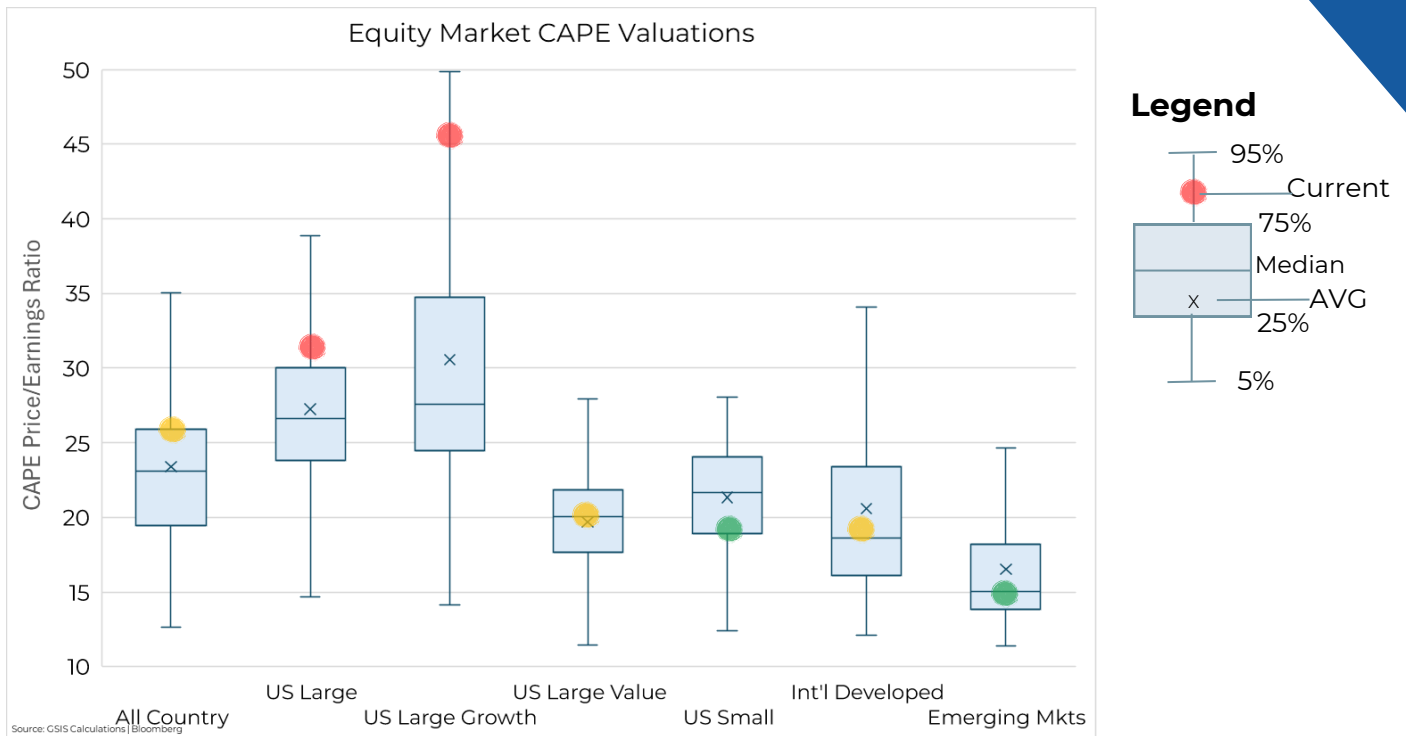
### Fed Hawkish Shift

The March 2024 Federal Reserve Dot Plot exhibits a slightly more hawkish stance compared to the December 2023 report. The projected year-end Federal Funds rates for both 2025 and 2026 in the March 2024 plot are estimated to be 0.5% and 0.2% points higher, respectively, than those projected in the December 2023 Dot Plot. By the conclusion of 2026, 11 out of the 19 Federal Open Market Committee (FOMC) members forecasted a range for the Fed funds rate between 2.75% and 3.25%.

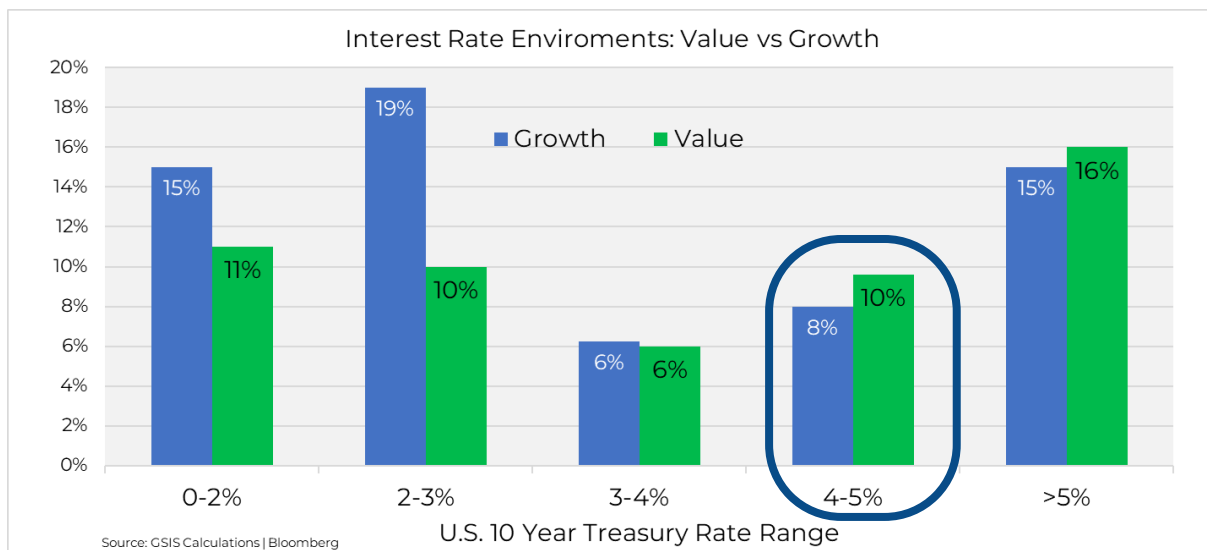


### 3. Valuations

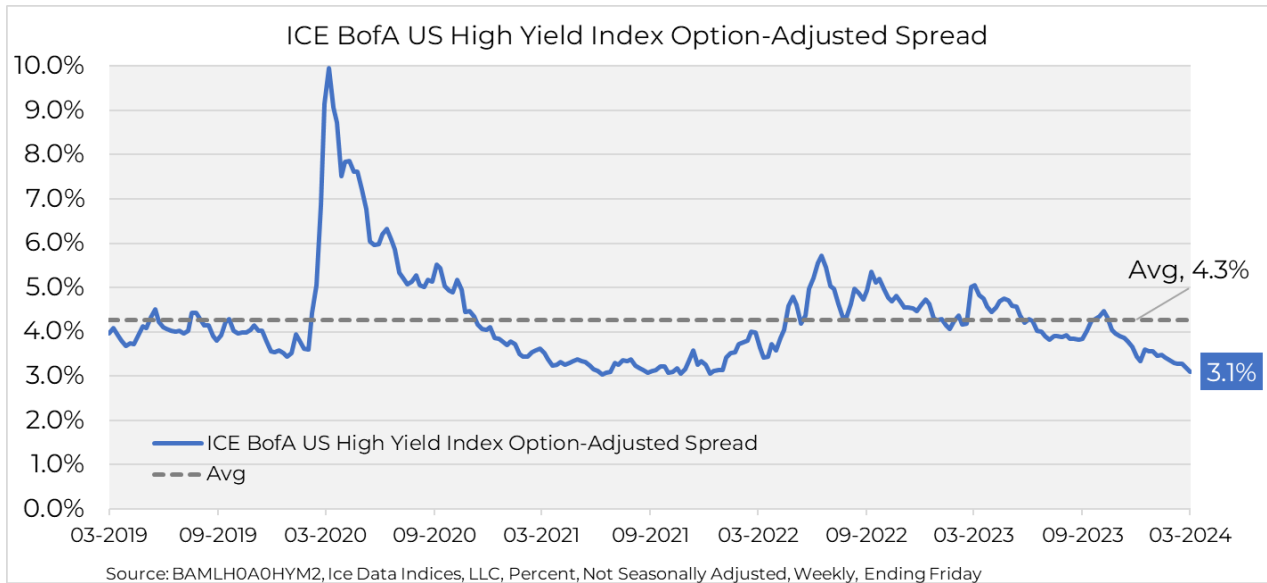
Global Equity valuations continue to tick higher (became more expensive) in 2024 driven by Global Large Cap stocks. U.S. Large Cap continues to be the most overvalued major equity asset class.



**U.S. LARGE CAP STYLES PERFORMANCE BY INTEREST RATE**  
 Value stocks tend to outperform growth stocks in higher rate environments. Value stocks current earnings are more valuable while growth stock prices based on future earnings become less valuable.



- Buffered equity strategies continue to be a risk reduction strategy tool in client portfolios. These investments are structured to capture a majority of positive returns while protecting up to 15% of negative returns over a 12 month period.
- Public fixed income high-yield interest rates are losing their attractiveness as the excess yield relative to a similar duration U.S. Treasury has declined.



## 4. Semi-Liquid Private Markets

- Private Credit again significantly outperformed public fixed income. The asset class continues to benefit from the higher interest rate environment while the correlation to public fixed income remains low.
- Private Equity posted a strong return in Q1 2024. Late-stage venture capital has started the year out on the right foot as the IPO and M&A markets reopen after a quiet 2023. We believe Private Equity valuations are more favorable to Public Equity valuations especially in the U.S.
- After a slow 2023, Private Real Assets are showing signs of turning the corner as the bulk of the cap rate increases have been priced in and there are signs of rents once again moving higher.

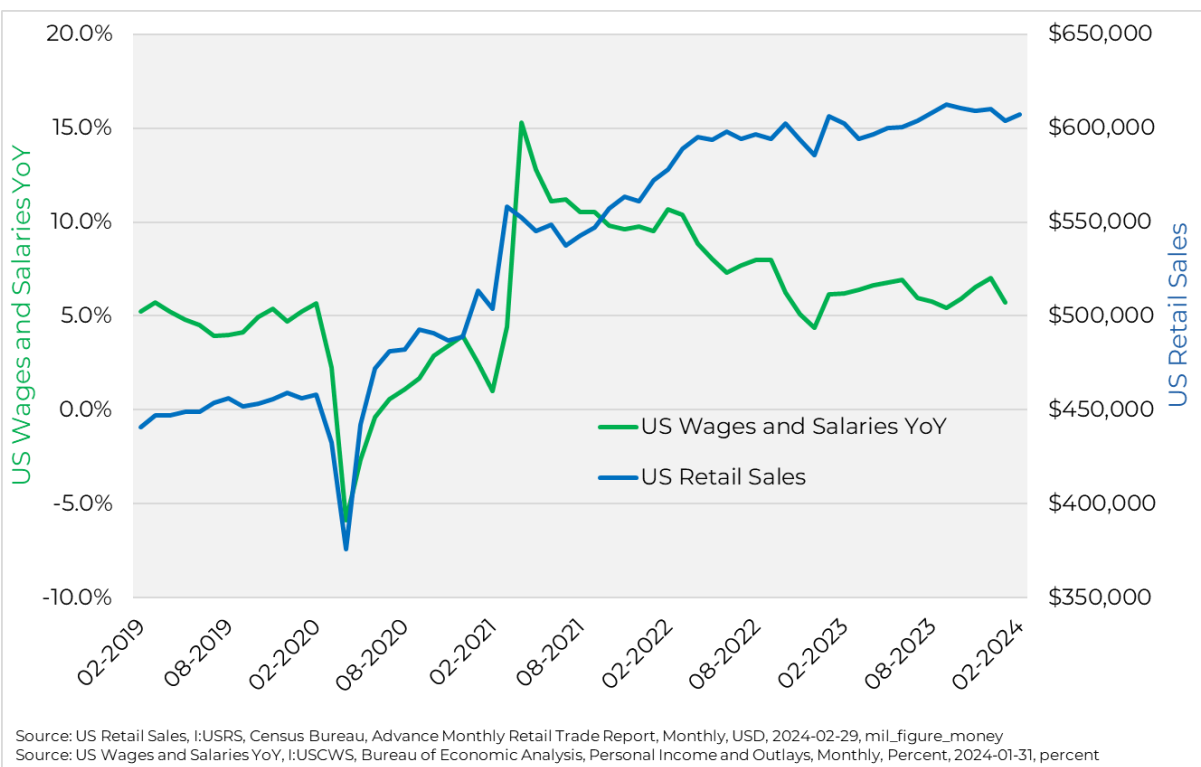
# Looking Ahead

The market news has been dominated by Fed policy and the potential implications of Artificial Intelligence. In the near-term, the weakness of the US consumer, the ballooning US deficit and persistent service inflation are key factors that should impact market returns.

## CONSUMERS

The U.S. consumer may be showing signs of slowing down as retail sales have plateaued amid price increases. The slowdown aligns with our research the last few quarters highlighting that the consumer is getting stretched as they spend down their savings while breaking records with the amount of credit card debt usage. The consumer makes up a substantial part of the U.S. economy and a continued slowdown in spending could start impacting corporate profits.

**+3.2%**  
Consumer price growth driven by price increases for services.



## US FEDERAL DEBT - \$10T IN ISSUANCE 2024

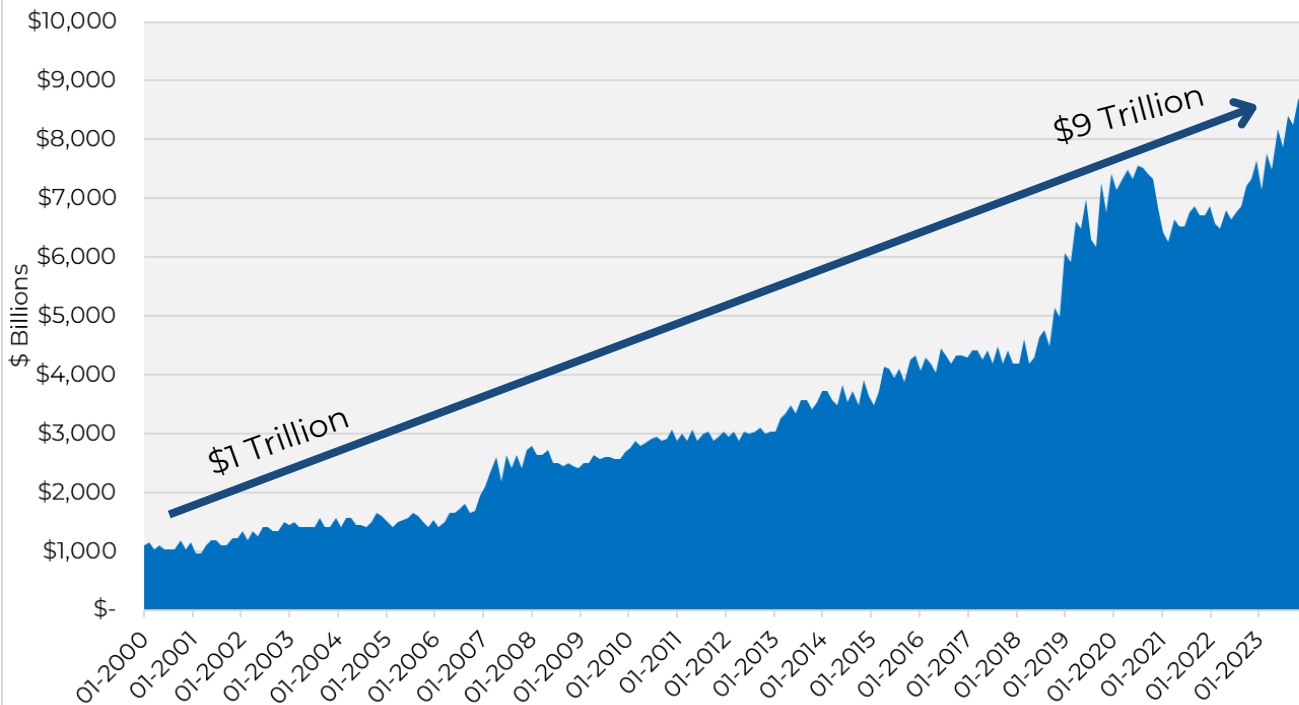
An all-time high of \$8.9 Trillion of US government debt will mature over the next 12 months. The US will need to issue over \$10 Trillion of Treasuries to offset the maturities when factoring in the \$1.4 Trillion deficit.

The big question is who will buy all the US Treasury issuance. Foreign buyers have shrunk their relative share, while pensions and insurers picked up the slack in 2023.

**\$10T**

Amount of US Gov't Issuance Needed in Next 12 Months.

U.S. Debt Maturing in Next 12 Months

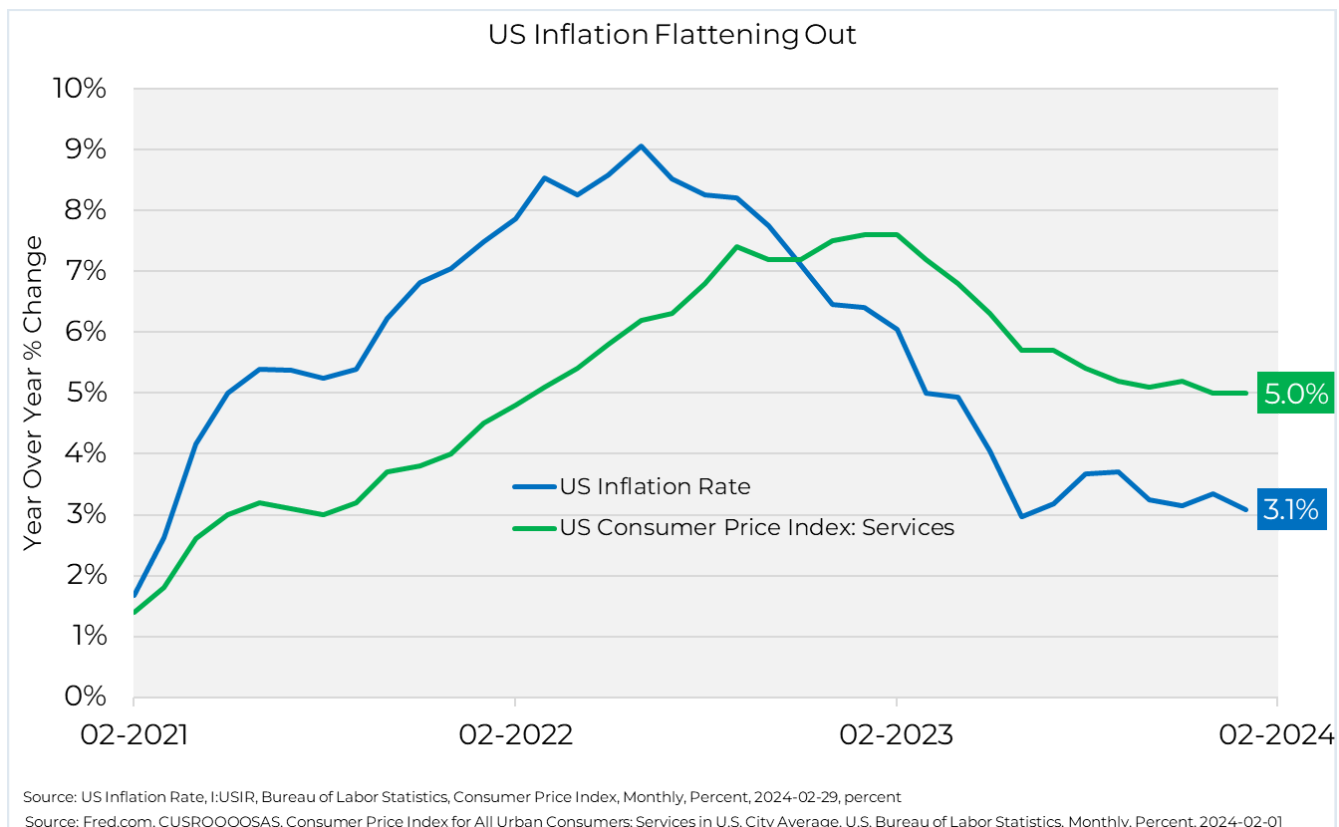


GSIS Calculations | Apollo Chief Economist

## US INFLATION

The US Consumer Price Year over Year Index has declined to 3.1%, a substantial change from the 9.1% in the summer of 2022. There is still room to go in order to hit the Fed's 2% long-term inflation target, which some question if it's even possible. In his March 2024 comments, Fed Chairman Powell stated that the Fed is *"fully committed"* to bringing inflation down to 2% over the long-term. He also noted that *"economy has made considerable progress"* and that *"inflation has eased substantially while the labor market has remained strong, and that is very good news."*

Recently, improvements to overall inflation and specifically services inflation have remain elevated. The Fed may be cautious before implementing rate cuts.



# Thank you for your Trust and Confidence.



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GSIS is hosting a national conference for our clients, prospects and partners on Thursday, April 11 in Scottsdale that is devoted to Semi-liquid Private Markets. We believe this is a great opportunity to interact with these firms and learn more about their specific strategies.

Event Registration site:

<https://www.gsisus.com/events/2024-nextgen-ocio-investment-summit>

**Global Strategic NextGen OCIO**

**2024 NextGen OCIO Private Market Investment Summit**  
Thursday April 11, 2024

**OUR GUEST SPEAKERS**

 <b>Christian Munafo</b> CHIEF INVESTMENT OFFICER 	 <b>David Stubbs</b> MANAGING DIRECTOR 	 <b>Andrew Park</b> MANAGING DIRECTOR 	 <b>J.B. Hayes</b> PRINCIPAL & CO-FOUNDER 	 <b>Jake Kelsall</b> PRINCIPAL 	 <b>Brian Gildea</b> HEAD OF EVERGREEN PORTFOLIOS 
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