

ASSETMARK.

2024 Market Insights

New Year,
Quality Resolutions



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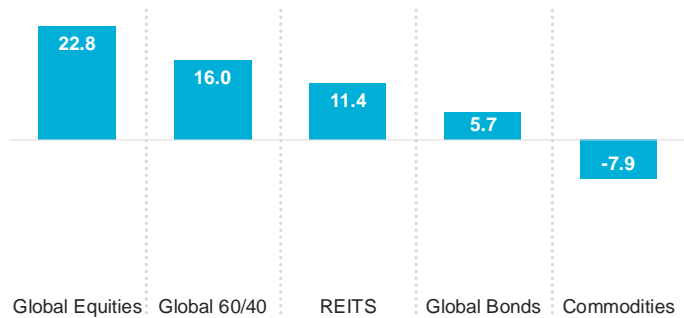
Agenda

- 2023 Market Recap
- Inflation: The Road to 2%
- Economy: Recession or Soft Landing?
- Investment Opportunities and Risks



Markets Summary

Asset Class Returns (%) in 2023



Source: FactSet. Data as of 12/31/2023
It is not possible to invest directly in an index. Indexes are unmanaged, do not incur management fees, costs, and expenses and cannot be invested in directly. Index performance assumes the reinvestment of dividends.
Global Equities: MSCI ACWI Index; Global Bonds: Bloomberg Global Aggregate Index; Commodities: Bloomberg Commodities Index; REITS: NAREIT; Global 60/40 comprised of 60% in Global Equities and 40% in Global Bonds.

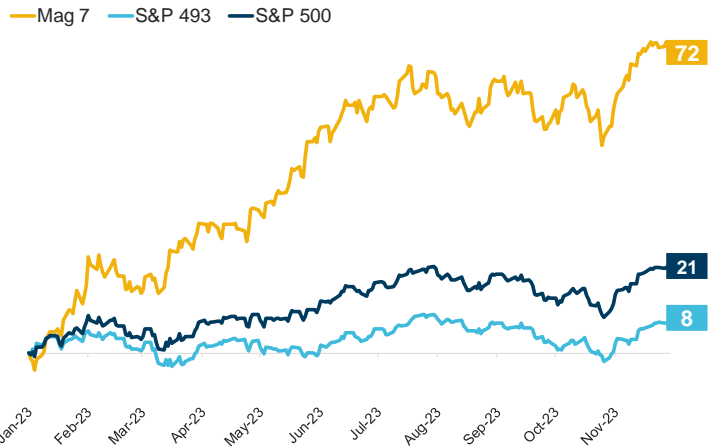
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After a brutal 2022, stocks and bonds posted strong gains in 2023. The globally diversified 60/40 portfolio of stocks and bonds gained 16% for the year, with global stocks having their best year since 2019. Global bonds also gained 5.7% as interest rates retreated.

All major asset classes except for commodities gained in 2023.

Magnificent 7 Dominated 2023 Returns



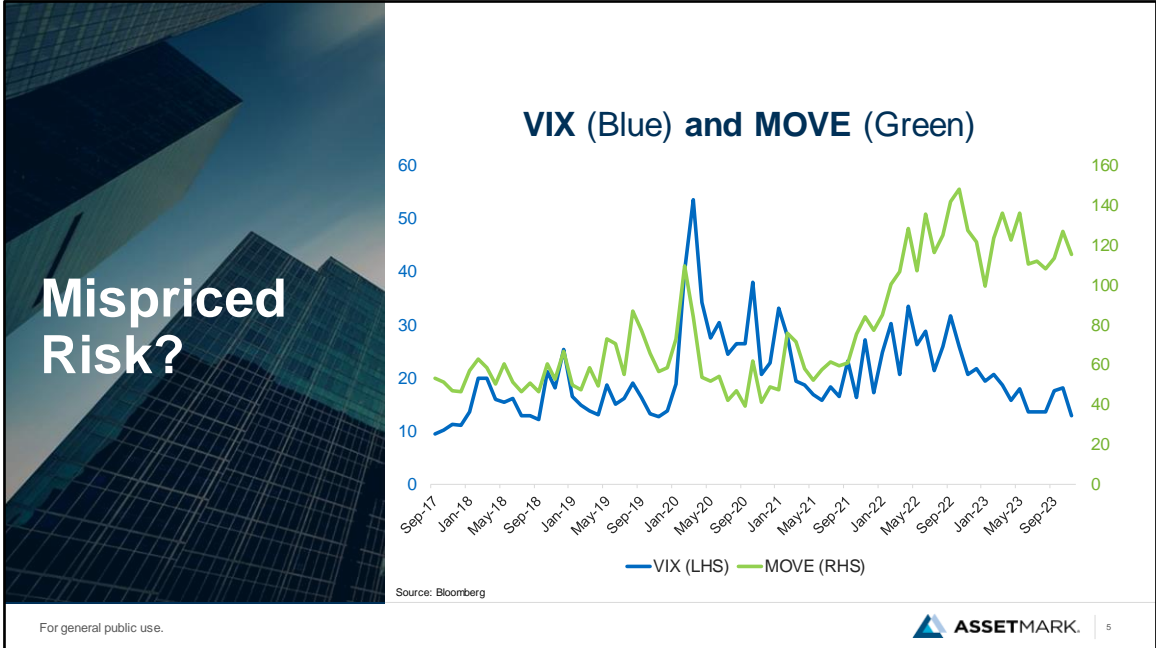
Source: Bloomberg; trailing 3 months
Magnificent 7 includes Apple, Amazon, Alphabet, Meta, Microsoft, Nvidia, Tesla

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2023 has been a banner year for the S&P 500 stocks. However, it's been very narrow, with gains in 2023 dominated by the so-called Magnificent Seven cohort of mega-cap tech stocks that have been associated with the artificial intelligence boom.

The "[Magnificent Seven](#)" tech stocks — Apple ([AAPL](#)), Alphabet ([GOOGL](#), [GOOG](#)), Microsoft ([MSFT](#)), Amazon ([AMZN](#)), Meta ([META](#)), Tesla ([TSLA](#)), and Nvidia ([NVDA](#)) — make up 29% of the S&P 500's market cap.



2023 was also a year where the stock market's "fear gauge," called the VIX, is at its lowest level since the pandemic. When it spikes, market participants tend to pull back on investments, but when it falls, they tend to put more money to work and are often seen as a green light for stocks. On the other hand, this has not been reflected in the most closely watched measure of Treasury volatility expectations, the MOVE index, which remains near its recent high. That could be a problem if Treasury yields - which move inversely to bond prices remain persistently high. The MOVE index is nearly eight times higher than its equity-focused counterpart. That compares to a three-decade average in which the MOVE has been just under five times the value of the VIX.

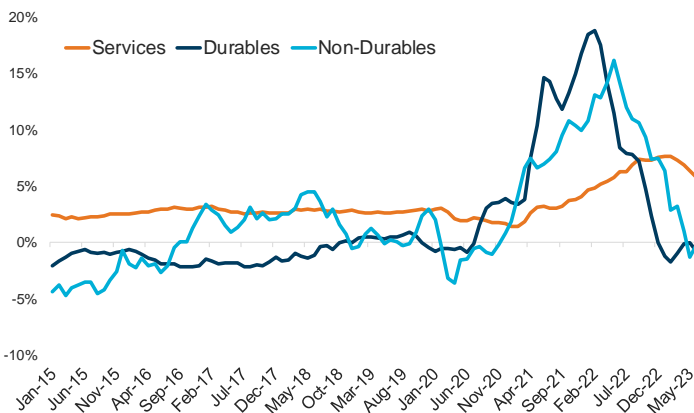
Inflation: The Road to 2%

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Getting to 2% Inflation Won't Be Easy

Components of Inflation (CPI)



Source: Bloomberg

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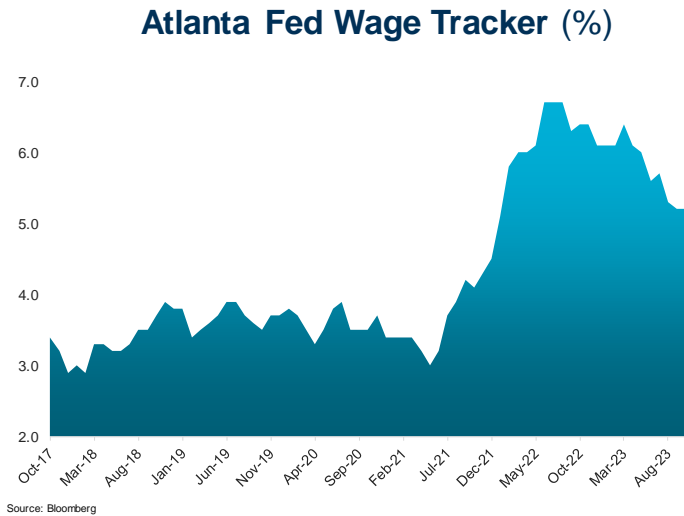
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Data released by the Bureau of Labor Statistics on Dec. 12 showed that prices, as measured by CPI, rose 3.1% in November over the year before. Though higher than normal, it is a vast improvement since the CPI peaked at 9.1% in June 2022. After a historic run-up in inflation, Americans are now starting to see something they haven't in three years: deflation. To be sure, deflation—that is, falling prices—is largely confined to appliances, furniture, used cars, and other goods. Economywide deflation, when prices of most goods and services continuously fall, isn't in the cards.

Goods prices likely have further to fall, which will ease inflation returns to the Federal Reserve's 2% target, perhaps as early as the second half of next year. Prices for long-lasting items, known as durable goods, have fallen on a year-over-year basis for five straight months. That has helped bring down core inflation, which excludes the volatile food and energy categories.

The prices of services, which include wages and items such as home rental and car insurance, continue to climb, albeit at a slowing pace, but remain well above their pace before the pandemic.

Wage Growth Is Extending a Slow Decline



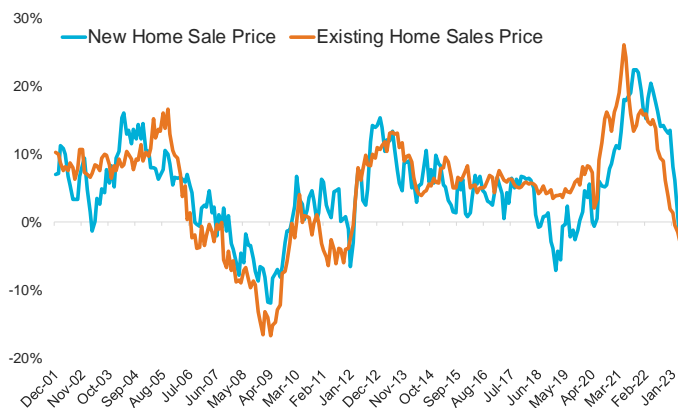
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The Atlanta Fed's Wage Growth Tracker is a measure of the nominal wage growth of individuals. The Atlanta Fed's Wage Growth Tracker was 5.2% in November, unchanged from October. For job switchers, wages were up 5.7% from 5.6% in October. For job stayers, wages grew 4.6% from 4.8% in October. In short, wage growth, while continuing to rise, is extending a slow decline in the pace of pay increases but still remains above the 3% level policymakers view as consistent with their 2% inflation target.

Shelter: The Last Remaining Obstacle for Inflation

Housing Sales and Prices (%)



Source: Bloomberg

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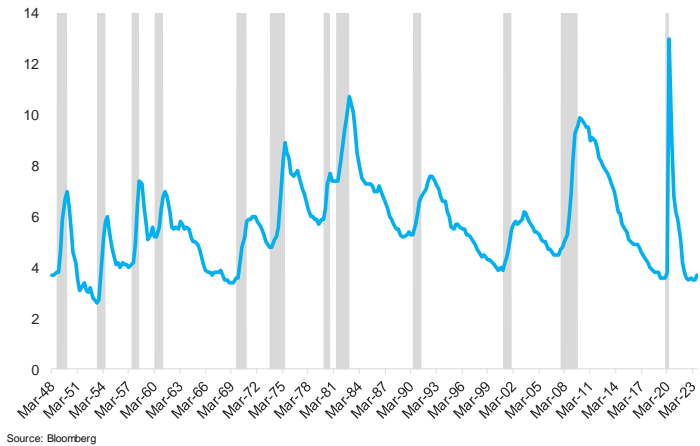
The [fight against inflation](#) has reached its proverbial “last mile,” and the biggest remaining obstacle is shelter. The shelter category, which includes housing costs, continues to be a major contributor to the CPI’s monthly all-items increase. It rose 0.1 percent month-over-month and 6.5 percent over the last year, according to the November data. Given constrained inventories of homes for sale, the housing market will likely see a firm foundation under the prices of existing homes for sale. However, for new homes, builders see a sweet spot, providing new homes for sale that include better value and lower price points.

Shelter inflation is based on rents, not housing prices, and rent growth over the past year has fallen to 3.3% through November, according to [Zillow](#), lower than the average during 2018-19. Moreover, this slowing takes time to show up in the CPI. Most tenants’ rents change just once a year and thus lag what tenants pay on new leases. To capture what the typical tenant experiences, the CPI measure of tenant rent includes new and existing leases and, therefore, will tend to lag behind measures of new leases only.

Economy: Recession or Soft Landing?

Unemployment Rate Shows Strong Job Market

Unemployment Rate (%)



Source: Bloomberg

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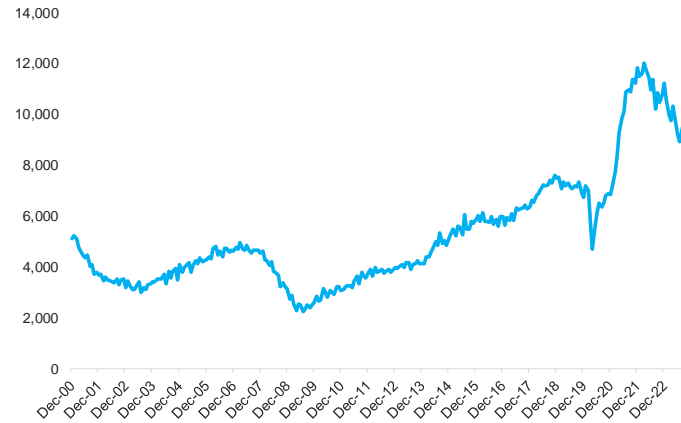
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US job growth accelerated in November while the unemployment rate fell to 3.7%, showcasing signs of underlying labor market strength. The drop in the jobless rate from a nearly two-year high of 3.9% in October alleviated fears that the economy was close to tipping into recession.

Jobs Openings Fall as Labor Market Cools

Job Openings (000)



Source: Bloomberg

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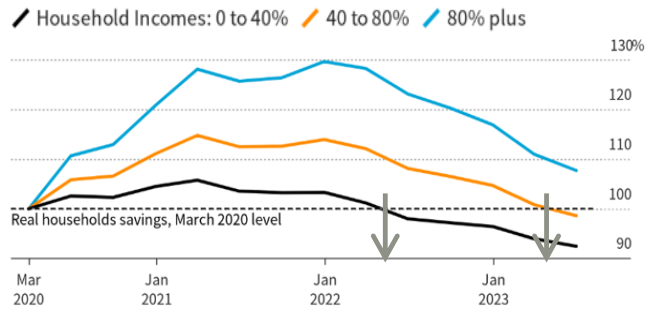


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Still, the labor market is cooling. While the number of open jobs has fallen, it remains above the historic average. The likely impact reduces the blow to the economy should the Fed's soft-landing scenario not play out.

The Consumer Is Getting Tapped Out

Excess Savings



Source: Bloomberg

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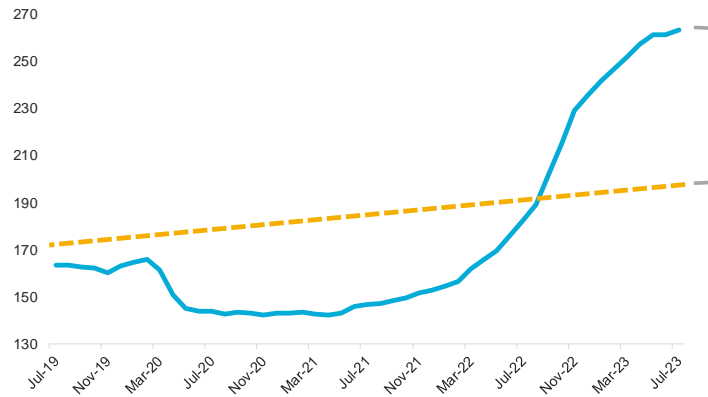
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Let's talk about the consumer. This chart shows excess savings for different income cohorts. This is from the San Francisco Fed. They estimated that lower-income households (below the 40th percentile in income) ran out of stimulus money in March of 2022. That's the white line. The 40th to 80th percentile households ran out of stimulus money in March of this year; that's the pink line. And only the top 20% of household incomes still have some stimulus money, probably because they don't need it.

So, sometime between March of 2022 and March of 2023, the median US household ran out of excess savings.

Credit Card Debt Hits a New Record

Credit Card Balances * Interest Rates (\$B)



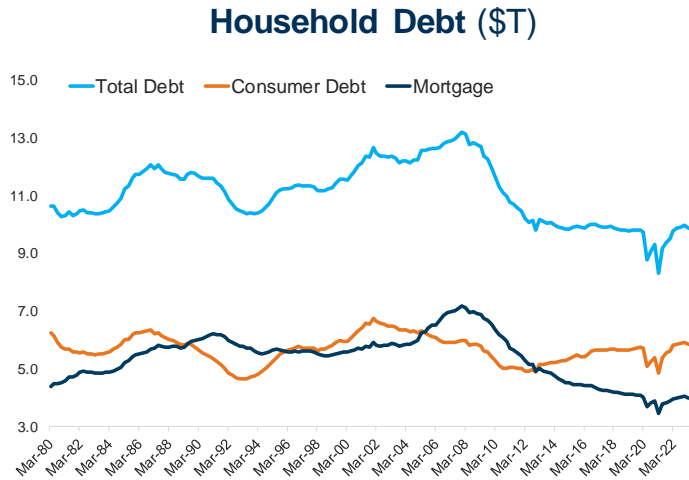
Source: Bloomberg

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While consumers' credit card debt dropped during COVID, signs point to it crawling back to pre-pandemic levels. And over the summer, credit card usage in the U.S. reached a new milestone—with balances totaling over \$1 trillion. In addition, higher interest rates are likely to take a greater toll on consumers' ability to spend. In addition to student loans and mortgage payments restarting—they have also included the return of higher credit card use and, potentially, more cardholders slipping into debt.

Household Debt Remains Low



Source: Bloomberg

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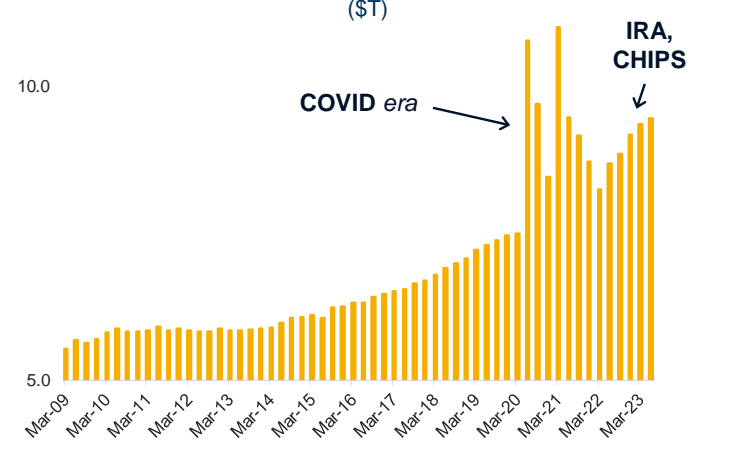
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But the percentage of "all debt balances that are seriously delinquent stood at just 1.28%, well below the pre-pandemic rate of 2.38%," he wrote. "Mortgage loan balances that are seriously delinquent remain pinned to the floor."



More Fiscal Stimulus – Government Spending

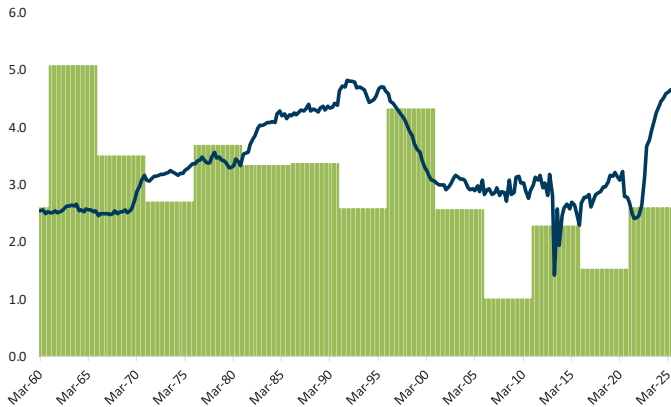


Source: Bloomberg

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Government Debt Remains a Hurdle

Interest Expense as % of GDP and GDP



Source: Bloomberg; trailing 3 months

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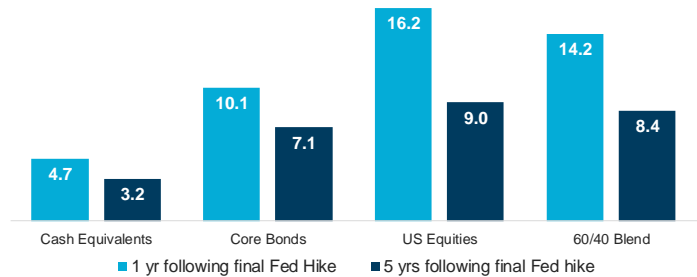
Interest expense is close to the highs seen in the early '90s. Experienced above-trend growth during that period. But still need to get debt under control.

Investment Opportunities & Risks

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Window of Opportunity for Cash on Sidelines

Average Annual Return (%) After Fed Hikes End



Source: Sources: Capital Group, Morningstar. Chart represents the average returns across respective sector proxies in a forward extending window starting in the month of the last Fed hike in the last four transition cycles from 1995 to 2018 with data through June 30, 2023. Benchmarks represent U.S. 3-month T-bill (cash), Bloomberg U.S. Aggregate Index (core bonds), S&P 500 Index (U.S. stocks) and a blend of 60% of the S&P 500 Index and 40% of the Bloomberg U.S. Aggregate Index (60/40 blend). Past results are not predictive of results in future periods.

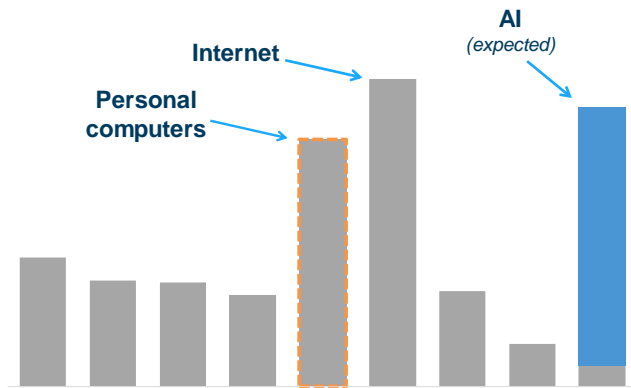
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Holding cash may have been a good idea in 2023 as interest rates rapidly skyrocketed and banks offered savings rates at levels not seen for years. But following the Federal Reserve's last meeting, the tone of their message softened, and the question shifted from how much will they raise to when will they start cutting rates. This will obviously impact the savings rates offered by banks, and cash may no longer be the best place to be. Looking at the chart below, we can see that cash equivalents still offer a healthy return after the end of Fed hikes, but there have been better returns available in bonds and equities. There is a large opportunity cost to portfolios if assets sit in cash rather than getting invested into the markets.

Technology and Innovation

Productivity Growth – 5 Year Averages (%)



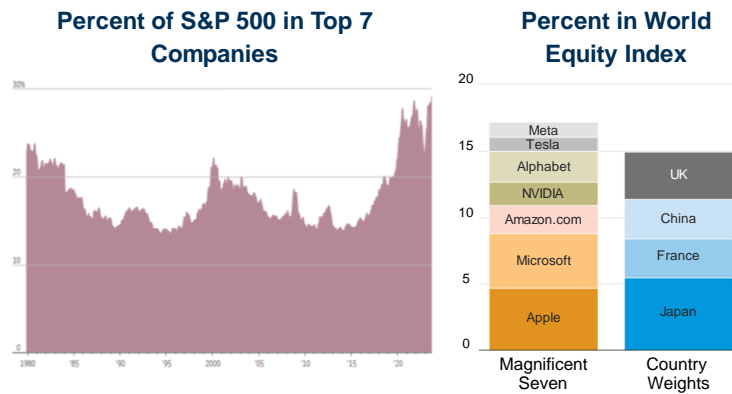
Source: BLS, Brookings Institute, chart shows trailing five-year growth of total factor productivity

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We're still very early in this cycle of unleashing the productivity growth from technology and innovation. Just like the internet sparked a renaissance in productivity, we expect Artificial Intelligence to have a similar impact at a faster speed. It took AOL nine years to reach 1 million users. It took Facebook 9 months. It took ChatGPT just five days, with much of the productivity still to be understood fully.

Be Mindful of Passive Investing



Source: Wall Street Journal, "It's the Magnificent Seven's Market. The Other Stocks are Just Living in It," December 17, 2023.

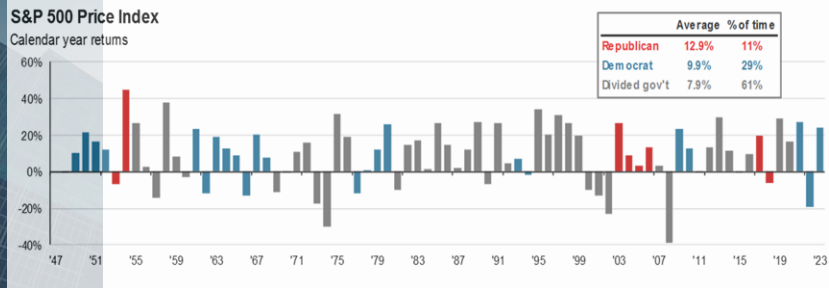
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Once upon a time, buying an index would afford a level of diversification, but today, we've seen high levels of concentration in the US markets. As shown in the chart below, the magnificent seven comprise almost 30% of the S&P 500 index, the highest level we've seen for seven stocks going back to at least 1980. Compare that to international indices, where the top 10 stocks comprise 11-15% of the index.

Government Control and Stock Market

Election
Year



Source: JPMorgan Guide to the Markets. Q1'2024

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2024 is an election year. Many argue that the economy and markets perform better under one party or the other, but over the long run, both tend to fare well under a variety of configurations of government. In this chart, we show the S&P 500 performance under different government control configurations. The most common configuration of government is divided, which has produced 2.7% annualized real GDP growth since World War II and 7.9% annualized returns on the S&P 500.

Index Information

	Asset Class	Index	Definition
EQUITIES	US Equity / Large Cap	S&P 500	Measures the performance of 500 leading companies in the U.S. weighted by market cap. Constituents generally have a market-cap above \$5 billion and represent approximately 80% of the investable market.
	International Developed Equity	MSCI EAFE	Measures the equity performance of countries considered to represent developed markets, excluding the US and Canada.
	Emerging Markets (EM) Equity	MSCI Emerging Markets	Measures the equity market performance of countries considered to represent emerging markets.
BONDS	US Fixed Income	Bloomberg US Aggregate	measures the performance of USD-denominated, investment-grade, fixed-rate taxable bond market of SEC-registered securities. The index includes Treasury bonds, Government-related Corporate, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS sectors.
	US High Yield	Bloomberg US Corporate High Yield	measures the performance of USD-denominated, non-investment-grade, fixed-rate taxable corporate bonds. "High-yield" securities have the middle rating from Moody's, Fitch or S&P of Ba1/BB+/BB+ or below. Index excludes emerging market debt.
OTHER	Commodities	Bloomberg Commodity	measures the price of physical commodities futures contracts traded on US exchanges, except aluminum, nickel and zinc, which trade on the London Metal Exchange. Weightings are determined by rules designed to insure diversified commodity exposure.

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Investments in bonds and fixed income related securities involve market and interest rate risk (prices can decline, if interest rates increase), and default risk (an issuer being unable to repay principal and interest). High-yield bonds are generally subject to greater risk of default than investment-grade bonds. Real estate investments are subject to credit and market risks, typically based on changes in interest rates and varied economic conditions. Investing in alternative investments, including managed futures, commodities, and currencies is not appropriate for all persons, as the risk of loss is substantial.

Investments in futures involve market, counterparty, leverage, liquidity, interest rate, foreign currency, commodity, volatility, and other risks.

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