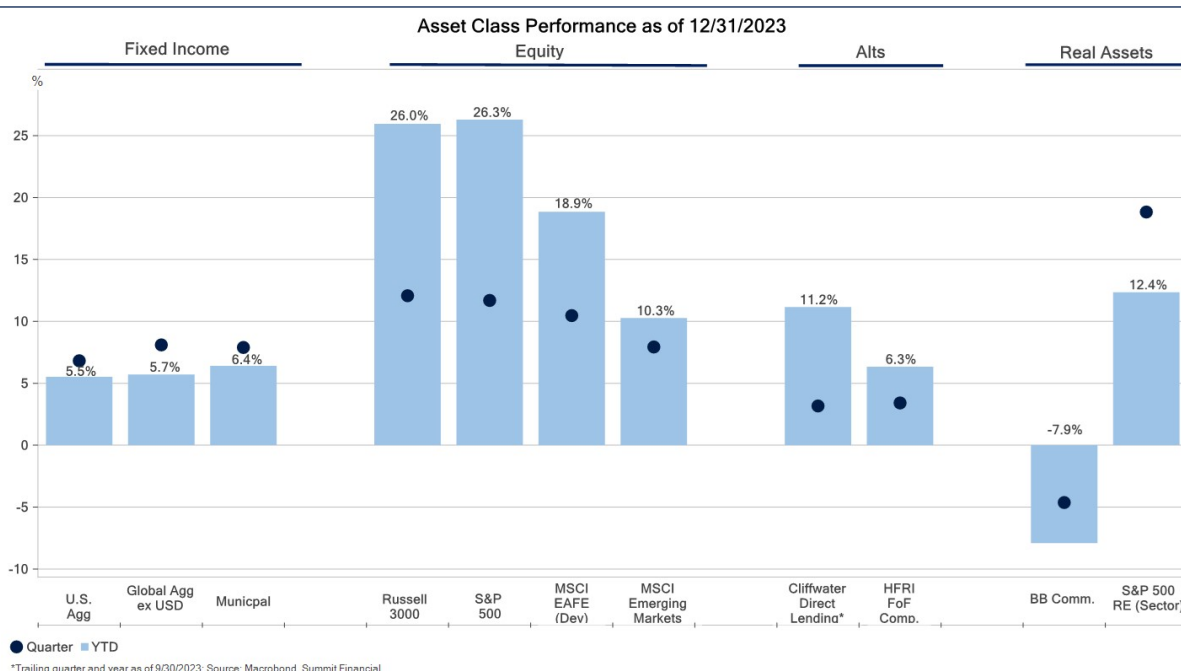


Key Takeaways

- Global growth bested pessimistic expectations coming into the year and the widely anticipated recession of 2023 never came to fruition.
- The labor market has been a consistent source of economic growth despite a tempering of hiring and a small uptick in the domestic unemployment rate.
- The Fed entered the year committed to fighting inflation above all else, following through with four rate hikes resulting in a Fed Funds rate of 5.5%. Consensus indicates policy rates peaked and cuts are now on the table.
- Inflation fell precipitously across the developed world, bringing more recent year-over-year changes closer to target levels. The focus going forward will likely pivot to prioritize maintaining growth while keeping inflation at bay.
- Miraculously, the U.S. Treasury 10-year yield ended the year little changed from the start. This incremental change dramatically understates the volatility as the 10-year yield reached ~5%, its highest level since October 2007.
- Defying outlooks, 2023 turned out to be a robust year for investment assets. Global stocks had strong momentum throughout the year, while bond markets benefitted from higher yields and declining rates late in the year.
- U.S. market leadership remained historically narrow and the top 10 securities within the S&P 500 now make up over 30% of the index. This is among the highest concentration levels ever.
- Looking forward to 2024, global equity market valuations have risen and, in many cases, are at or above long-term average levels translating to a neutral view on many stock asset classes.
- Bond markets defied the odds producing healthy results in 2023. Starting yields are still compelling in many cases and support a traditional level of exposure to fixed income and duration relative to the past two years.
- Private assets mostly delivered on offering stability and/or enhancing returns in diversified portfolios. Real estate was a notable laggard, but neutral results served to reset valuations and could support forward performance.
- Expectations for 2024 are in stark contrast to 2023 when a recession was expected with near certainty from many experts. Higher valuations across asset classes and known events, such as the U.S. presidential election, will likely keep investors on their toes once again, but a long-term focus and strategy is often the best assurance for achieving financial goals.



Economy

One of the most anticipated recessions in history never came to fruition in 2023. Defying consensus, economic growth remained resilient and in select key cases, accelerated. In the U.S., the GDP quarterly growth rate entered the year at 2.6%, peaked at nearly 5% in Q3, and is expected to end Q4 at roughly 2.5% (according to GDPNow at the time of writing). The labor market served as a key source of strength for the economy.

While the unemployment rate rose modestly to 3.7%, it has remained under 4% for just over two years – the longest streak for this metric since the 1960s and a demonstration of labor market strength. In addition to low unemployment, nearly 3 million new jobs were created last year and labor force participation expanded, helping alleviate some of the shortages created by the pandemic. Productivity also realized outsized gains likely stemming from pandemic-era changes – a rare ‘free lunch’ when it comes to GDP growth. Combined, these dynamics paint the picture of a healthy and more ‘normalized’ labor market that has helped moderate the pace of wage growth, in turn normalizing inflation.

Rampant fears about inflation started to fade into the background as key measures (ex. CPI) were roughly cut in half during the year. Fed Chair Powell entered the year committed to taming inflation as a core goal above all else, distilling prior doubts that there would be a premature pivot. Throughout the year, the Fed raised its policy rate four times culminating in a terminal upper bound of 5.5% - a level that hasn't been seen in more than 20 years.

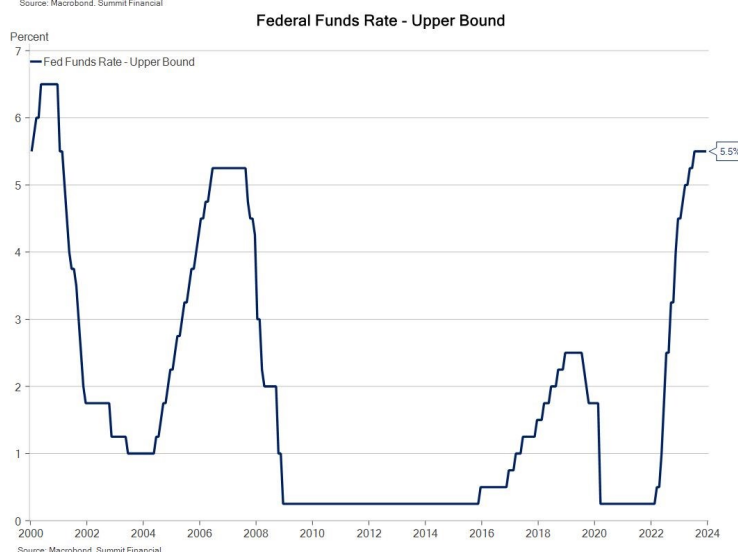
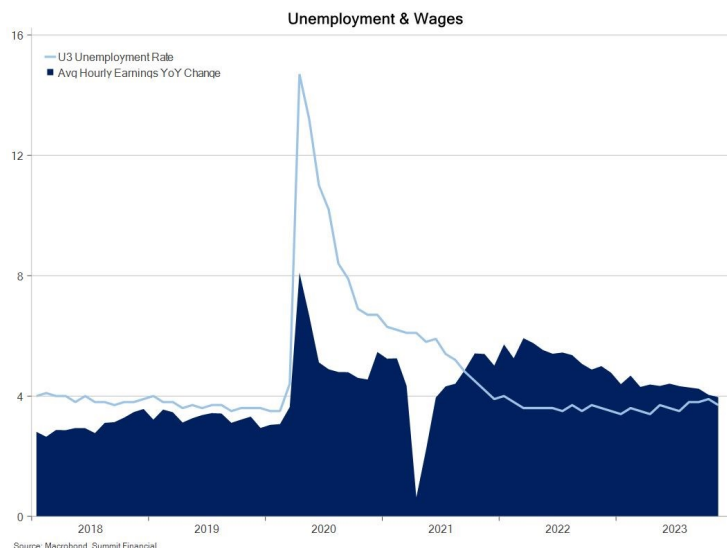
So far, U.S. central bank actions have served to slow inflation and the economy without derailing growth – achieving the illusive ‘soft landing’ scenario. An outcome that was aided by further normalizations of supply chain/COVID overhangs and less economic interest rate sensitivity, partially due to a high percentage of fixed-rate mortgages locked in at more tenable levels. Outside of the U.S., international economies are more varied but follow the same rhythm with China so far presenting a notable exception. Despite heightened levels of uncertainty around China's recovery, more accommodative policy and pessimistic expectations could fuel upside surprise for the region in 2024, barring unforeseen geopolitical uncertainty.

U.S. Labor Market Defied Expectations of a Slow-down

- The domestic labor market threaded a needle in 2024.
- Job growth cooled enough to ease wage growth (and inflation) while remaining resilient enough to support growth.
- Unemployment rose modestly but maintained a sub-4% level for over two years and counting.
- Labor productivity made significant strides over the year, potentially benefitting from adjustments made during the pandemic era.

Fed Funds at Highest Level Since 2000 but Likely to Trend Lower

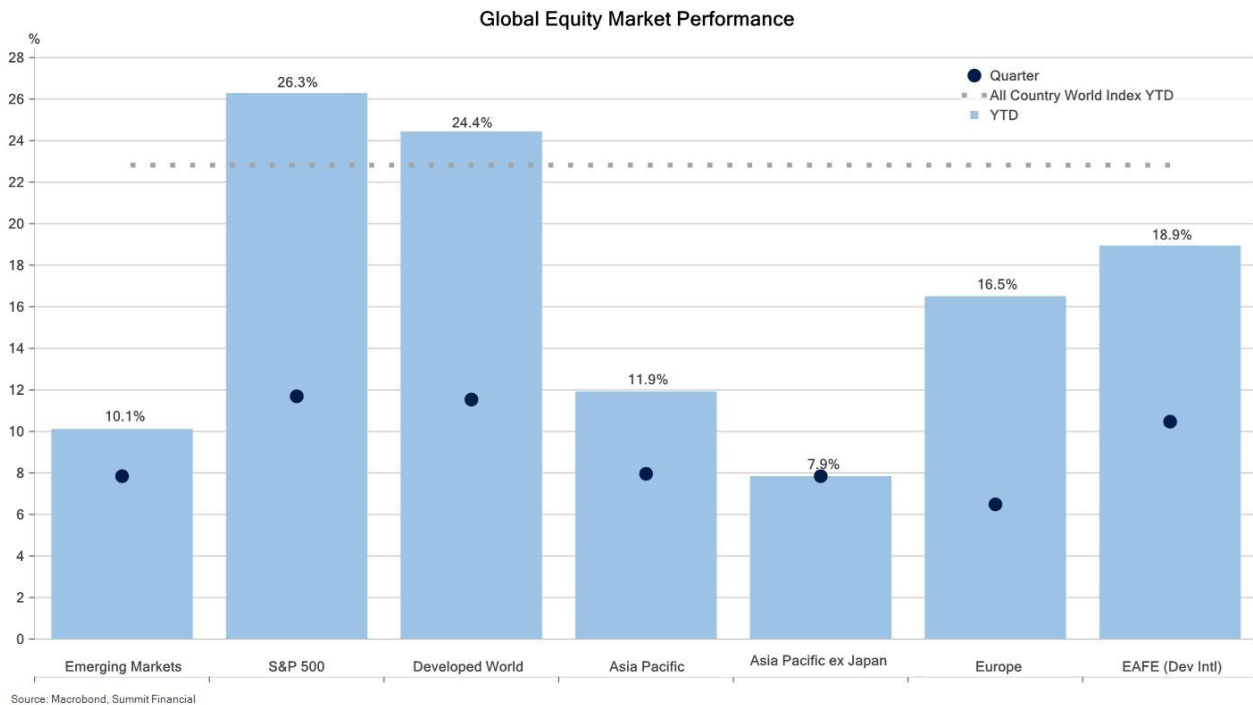
- The Fed's commitment to fighting inflation translated to a 5.5% fed funds rate.
- Consensus suggests U.S. policy rates have peaked and are likely to decline during 2024.
- On the margin, Fed rhetoric shifted from containing inflation to supporting growth.
- Assuming still supportive growth and modest inflation, cuts may underwhelm expectations.



Equity Markets

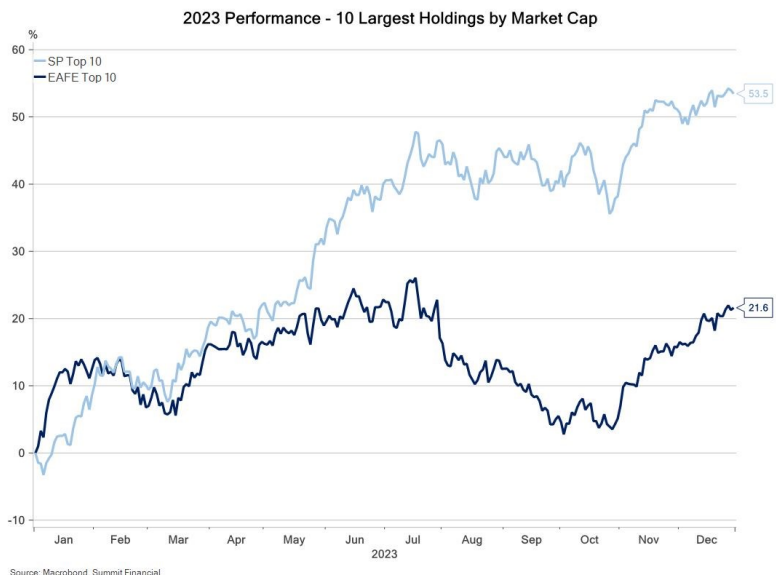
The S&P 500 index posted a 26.3% return for the 2023 calendar year, the biggest rally in the index since 2019. Stocks were up 11.7% in the fourth quarter led by the Technology and Communications Services sectors which posted over 50+% returns each for the year. Growth strongly outperformed value for the year by 31%, the second largest advantage for growth in 25 years. The majority of broad U.S. index returns came from a handful of mega-cap securities, but small cap stocks posted strong gains in the final two months of the year. International markets rallied in Q4, recovering from a sharp selloff in the beginning of fall, finishing up 10.4% for the quarter. Global economic growth is expected to slow further in 2024 as most economies continue to undershoot their growth trend rates.

The VIX took a sharp drop in Q4, settling in at 12.5 at year end, furthering the consensus forecast of a soft landing in 2024. Looking into 2024, besides rapid Fed easing, the macro-outlook for equities next year looks to be challenging. Earnings growth is expected to increase from 5.2% in Q4 to 7.4% in Q1 of 2024; However, equities are richly valued with the S&P 500 index trading at 19.8 times forward 12-month earnings, well above its long-term average of ~16 times.



Developed International Markets are Much Less Concentrated than U.S. Markets

- The Magnificent Seven (META, AMZN, MSFT, GOOGL, AAPL, TSLA, NVDA) accounted for about 60% of the S&P 500's return for the year.
- The top ten names in the S&P 500 index now comprise over 30% of the total index, marking the highest concentration since the 1970s.
- In 2023, Developed international markets were much less concentrated than U.S. markets due to more diversified sector composition and also offered stronger corporate earnings growth and dividends.
- Compared to U.S. equities, developed international equities offer discounted valuations and strong fundamentals heading into 2024.

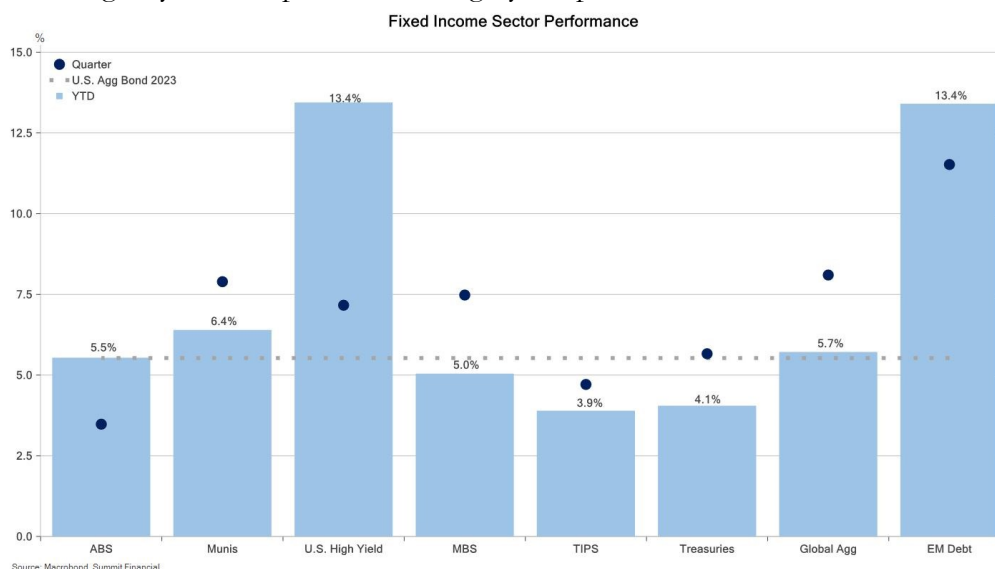


Fixed Income Markets

In a fitting end to a year marked by volatility, the global bond market had one of its best two-month runs in history during November and December. The rally, fueled by a resilient U.S. economy and cooling inflation, marks the latest in a series of swings of the 10-year U.S. Treasury over the past twelve months. Fears of interest rates staying higher for longer pushed Treasury yields to decade-plus highs, while stress on the banking system and then signs of a Fed pivot pulled it back down. Since topping 5% in October, the yield on the 10-year U.S. Treasury has fallen a full percentage point and is back within 20bps from where it started 2023. While the rapid decline suggests investors are less concerned that high Fed policy rates will be a long-term drag on the economy, additional challenges lie ahead in 2024: more companies will need to refinance low-rated debt, a growing fiscal deficit could spur a flood of new Treasury issuance, and the final stages of the Fed's fight against inflation could prove to be the most difficult.

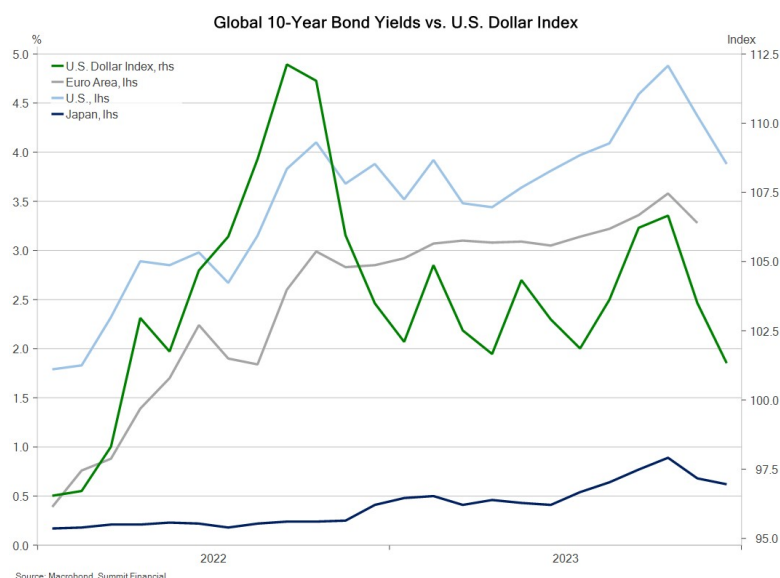
For the quarter, fixed income markets were up across the board with expectations of central bank cuts, tightening spreads, and a weakening USD supporting the positive returns of non-U.S. bonds. Driven by the unexpected strength of the economy in 2023, investors fared best in credit-sensitive portions of the market with U.S. high yield gaining 13.4% - it's best annual performance since 2019. Risk-taking was also rewarded in municipals, where lower-quality issues outperformed AAAs for the quarter and year, while the broad index returned 6.4%.

Emerging Market Debt also outperformed for the year (13.4%), getting a boost from a weakening USD driven by lower rates. Within MBS, spreads narrowed modestly for agency issues, while lingering concerns over post-Covid office demand led to non-agency CMBS spreads widening by 24bps.



Potential Weakening of USD in 2024

- Since the start of Fed rate hikes in 2022, the U.S. Dollar Index has closely tracked 10-Year U.S. Treasury yields.
- Along with higher relative rates, a resilient U.S. economy had been an additional source of strength for the USD.
- Falling rates are generally seen as a headwind for USD, as U.S. assets become less attractive to yield-seeking investors.
- With rate cuts on the horizon and U.S. economic growth expected to slow in 2024, the USD started to show signs of weakness in Q4.
- The path forward remains up for debate, but the implications could be significant in 2024.

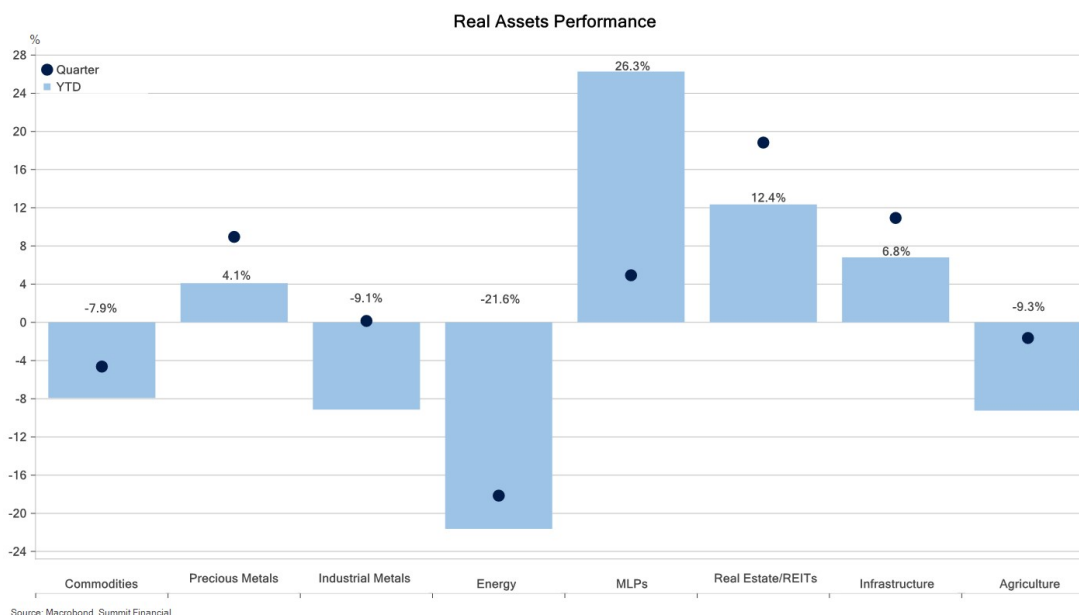


Real Assets

In contrast to equity and fixed income markets which broadly performed well during 2023, performance across real asset sectors has been more varied. MLPs (+26.3%) outperformed due to strong fundamentals and healthy balance sheets, while infrastructure (+6.8%) posted solid returns despite rising interest rates acting as a headwind for long-duration assets. Energy (-21.8%) was dragged down by natural gas futures which lost ~40% for the year due to strong U.S. production and a mild start to winter.

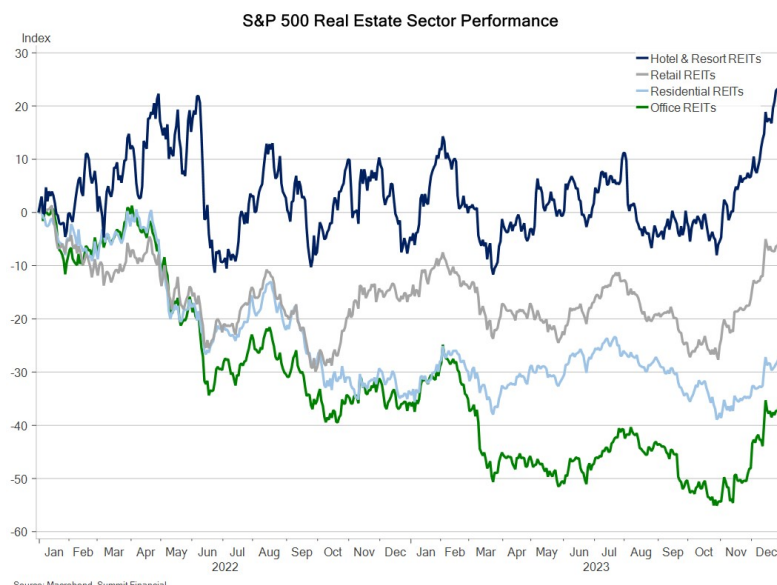
In a sharp reversal from its 8.9% drop in Q3, U.S. REITs jumped ~19% in Q4 and finished the year up 12.4%. The rally was broad with all sector indices closing Q4 in the black, driven by the expectation of multiple rate cuts in 2024. The regional mall, self-storage and office sectors led the way, while healthcare, residential, and apartments finished the year positive but lagged the group in Q4.

Geopolitical risks continued to be the biggest story in commodity markets throughout 2023. Oil prices spiked in October following the outbreak of war in the Middle East, but quickly retreated as slowing demand has been the key price driver. Gold prices ended the year near its record high set earlier in December, driven by concerns of a potentially expanding war and the possibility of U.S. rate cuts. Copper, often seen as bellwether for global economic activity, fluctuated throughout the year and finished slightly higher but pricing has been muted by concerns about the Chinese economy as well as the expectation for slower U.S. growth in 2024.



REITs See Broad Rally in Q4, 2024 Outlook Positive

- The Fed signaling the end of rate hikes provided the catalyst needed for REITs to reverse their extended downturn and has them favorably positioned for 2024.
- Overall, REITs have maintained solid balance sheets by keeping leverage ratios low and focusing on fixed rate and unsecured debt, which should allow them to navigate ongoing economic uncertainty.
- The current divergence between public REIT and private real estate valuations will likely continue to converge in 2024.



Alternatives

Private assets and hedge funds were additive to investor portfolios in 2023, with weakness in private real estate. Most directional and credit-oriented hedge funds had a strong year. Macro strategies provided stability during bouts of market volatility, but otherwise struggled to navigate shifting market trends. Activist funds that acquired investments at low valuations during market downturns had a stellar year, despite a slowdown in M&A activity.

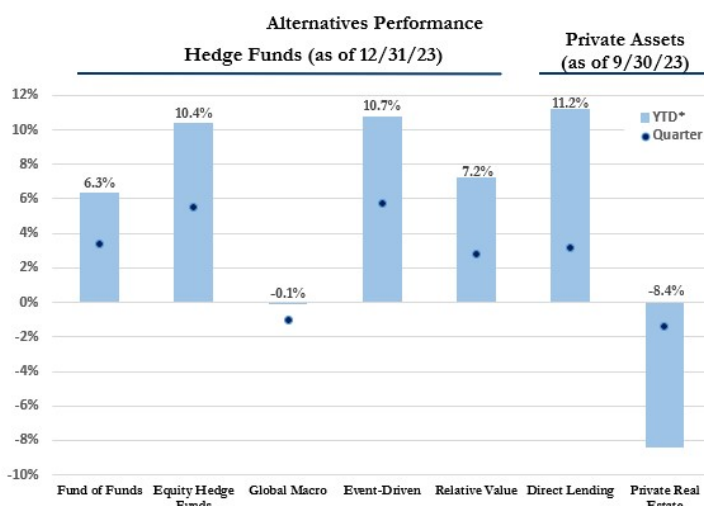
Private credit continues to expand as banks pull back and borrowers shift away from the public debt markets. Private corporate and real estate debt have been supported by the sharp rise in interest rates and credit spreads. Newly issued loans are more conservative with lower leverage and stronger covenants. Tighter financial conditions and a slowing economy have led to an uptick in defaults and loan modifications, which is expected to accelerate. The growing universe of distressed debt is an opportunity for managers with skilled workout teams.

Private real estate has been challenged by rising interest rates and climbing costs. Lower valuations and slower rental income growth led to weakness across all sectors. The office and retail sectors, which were devastated during the pandemic, have stabilized based on cash flow growth and vacancy rates. More recently, multi-family has faced steep insurance costs and a supply overhang in some markets. High quality properties with strong demand growth and conservative leverage are well positioned and should benefit as inflation and interest rates moderate.

Private equity valuations have held up better than expected due to the tailwind from public equity markets and strong cash flow growth. Highly leveraged deals and late-stage buyout and venture capital have struggled due to the dearth of exit activity. Elevated dry powder is a concern but a pick-up in deal flow and a fundraising slowdown should help absorb the excess. Secondary investments have provided attractive return opportunities and injected liquidity.

Hedge Funds Post Healthy Returns After Strong Q4

- Higher interest rates supported hedge fund and direct lending returns, but were a headwind for real estate and private equity valuations.
- Hedge funds ended the year with a strong run, posting healthy returns for the fourth quarter and year in all categories except for global macro which did provide stability during market downturns.
- Directional hedge fund strategies benefited from rising equity markets and strength in the technology sector and activist strategies.

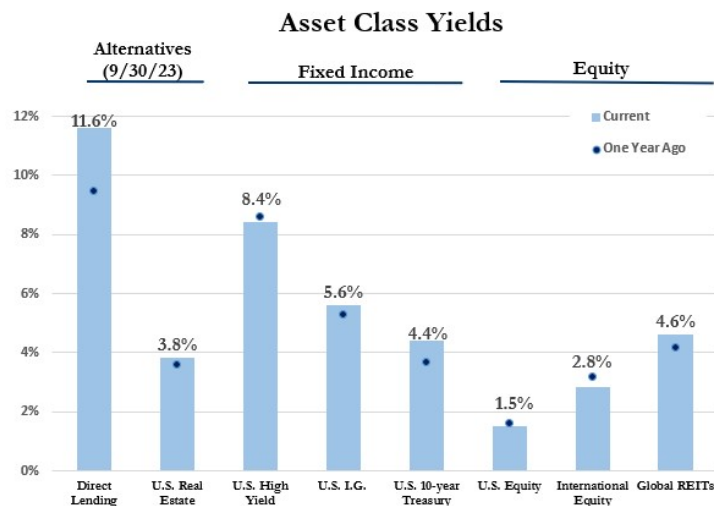


Bloomberg and Hedge Fund Research, Inc. (HFRI)

*Private Asset Returns are trailing quarter and year as of 9/30/2023

Where to Find Yield?

- Credit-oriented investments including direct lending and high yield are at their most attractive levels in years, both in absolute terms and relative to public equity.
- Direct lending offers yields that rival expected equity returns primarily due to elevated short-term rates. Due to their floating rate nature, yields on private debt will moderate if slowing economic growth causes the Federal Reserve to loosen financial conditions.
- Real estate yields have been impacted by slowing cash flow growth due to lower rental income and rising costs, but may move higher as property valuations reprice to reflect higher cap rates.



J.P.Morgan Asset Management as of 11/30/2023 (Alts Data as of 9/30/2023)

Growth	12/31/2023	9/30/2023
GDP Now Estimate (Q4 2023)	2.5%	-
Blue Chip Consensus Estimate (Q4 2023)	2.6%	-
U.S. Leading Economic Indicator (YoY%)*	-7.6%	-7.9%
Unemployment Rate (%)	3.7%	3.8%
Initial Claims (Weekly as of 12/29/23, thousands)	203.0	209.0
Industrial Production (YoY%)*	-0.4%	-0.2%
Consumer Sentiment	69.7	67.9
ISM Manufacturing Index	47.4	49.0
ISM Non-Manufacturing Index	50.6	53.6
Retail Sales (YoY%)*	4.1%	4.0%
Building Permits (mil)*	1.5	1.5

Market Sentiment	12/31/2023	9/30/2023
MOVE Index	114.6	113.6
VIX	12.5	17.5
Short Interest Ratio for Russell 3000	5.7	6.4
National Financial Conditions Index (NFCI)	-0.5	-0.4

*As of 11/30/2023

Source: Bloomberg and Federal Reserve Bank of Atlanta

Inflation	12/31/2023	9/30/2023
Headline CPI (YoY)	3.4%	3.7%
Core CPI (YoY)	3.9%	4.1%
Core PCE (YoY)*	3.2%	3.6%
Forward Breakeven Inflation Expectation (5-year)	2.2%	2.2%

Rates & Credit Conditions	12/31/2023	9/30/2023	10-Year Average
3-M U.S. Treasury	5.3%	5.5%	1.3%
10-YR U.S. Treasury	3.9%	4.6%	2.3%
Spreads over 10-YR U.S. Treasuries (bps)			
U.S. Corporate Investment Grade	119	147	113
U.S. Corporate High Yield	372	431	412
U.S. Municipal	-65	-25	-2.9

Federal Reserve Economic Projections	2023	2024	2025
Real GDP (YoY%)	2.4%	1.3%	1.7%
PCE Price Index (YoY%)	3.8%	2.4%	2.1%
Core PCE (YoY%)	4.2%	2.6%	2.2%
Unemployment %	3.6%	4.2%	4.3%

Disclaimer

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It is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership; The Russell 1000 Index measures the performance of the large-cap segment of the US equity universe. It is a subset of the Russell 3000 Index representing approximately 90% of the total market capitalization of that index. It includes approximately 1,000 of the largest securities based on a combination of their market-cap and current index membership; The Russell Midcap Index measures the performance of the mid-cap segment of the US equity universe. The Russell Midcap Index is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap Index represents approximately 31% of the total market capitalization of the Russell 1000 companies; the S&P 500 Index is a market capitalization-weighted Index of 500 widely held stocks often used as a proxy for the stock market. It measures the movement of the largest issues. Standard and Poor's chooses the member companies for the 500 based on market size, liquidity and industry group representation. Included are the stocks of eleven different sectors; the MSCI EAFE Index (Europe, Australasia, Far East) captures large- and mid-cap representation across developed markets countries around the world excluding the US and Canada. The index covers approximately 85% of the free float-adjusted market capitalization in each country; the MSCI Emerging Markets Index captures large- and mid-cap representation across emerging markets countries across the world. The index covers approximately 85% of the free float-adjusted market capitalization in each country; The MSCI World Index captures large- and mid-cap representation across developed markets countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country; the Bloomberg Commodity Index (BB Comm Index, Commodities) reflects commodity futures price movements and is calculated on an excess return basis. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production, and weight-caps are applied at the commodity, sector, and group level for diversification. Roll period typically occurs from the 6th-10th business day based on the roll schedule; the Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment-grade, US dollar-denominated, fixed-rate taxable bond market. The index includes treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency); the Bloomberg Barclays Global Aggregate Ex US Index is a measure of investment-grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. Bonds issued in US dollars are excluded; the Bloomberg Barclays Municipal Bond Index covers the US dollar-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds; the Dow Jones US Real Estate Index measures the performance of real estate investment trusts (REITs) and other companies that invest directly or indirectly in US real estate through development, management, or ownership, including property agencies; The Bloomberg Barclays US Corporate High-Yield Index measures the US dollar-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded; The HFRX Global Hedge Fund Index is comprised of funds representing the overall hedge fund universe. Constituent funds include but are not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, even driven, macro, merger arbitrage, and relative value arbitrage. The underlying strategies are asset weighted based on the distribution of assets in the hedge fund industry; MLPs, or Master Limited Partnerships, are represented by the Alerian MLP Index, which is the leading gauge of energy infrastructure Master Limited Partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index constituents earn the majority of their cash flow from midstream activities involving energy commodities; The S&P 500® Real Estate comprises those companies included in the S&P 500 that are classified as members of the GICS® Real Estate sector; The S&P Case-Shiller Home Price Index measures the value of single-family housing within the US The index is a composite of single-family home price indices for the nine US Census divisions. Leading economic indicators (LEI) are statistics that precede economic events. They predict the next phase of the business cycle. The OECD Composite leading indicators (CLIs), designed to anticipate turning points in economic activity relative to trend, continue to strengthen in most major economies. The MOVE Index measures US interest rate volatility. The index tracks the movement in US treasury yield volatility implied by current prices of 1-month OTC options. The Cboe Volatility Index (VIX) is a real-time index that represents the market's expectations for the relative strength of near-term price changes of the S&P 500 Index. The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Core CPI excludes food and energy, while headline CPI includes all items. The Consumer Confidence Index is a measure based on a survey administered by The Conference Board that reflects prevailing business conditions and likely developments for the months ahead. This monthly report details consumer attitude, buying intentions, vacation plans and consumer expectations for inflation, stock prices and interest rates. A treasury bill (T-Bill) is a short-term US government debt obligation backed by the treasury Department with a maturity of one year or less. Treasury Inflation-Protected Securities, or TIPS, are inflation-protected bonds (IPBs) that are issued by the U.S. Treasury. Their face value is pegged to the CPI and adjusted in step with changes in the rate of inflation. The National Financial Conditions Index (NFCI) is a weighted average of a large number of variables (105 measures of financial activity) each expressed relative to their sample averages and scaled by their sample standard deviations. The short interest ratio is a mathematical indicator of the average number of days it takes for short sellers to repurchase borrowed securities in the open market. The ratio is calculated by dividing the total number of shorted shares of a stock by the average daily trading volume. CBD stands for central business district, which is the commercial and business center of a city. The Personal Consumption Price Index (PCE) is a measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services. EM Debt refers to Emerging Market Debt, which is represented by the Bloomberg Emerging Markets Tradeable External Debt Index. Precious metals are represented by the Bloomberg Precious Metals Subindex. The Bloomberg Precious Metals Subindex, is a commodity group subindex of the Bloomberg Commodity Index. It is composed of futures contracts on gold and silver. It reflects the return of underlying commodity futures price movements only and is quoted in USD. Industrial metals are represented by the Bloomberg Industrial Metals Subindex, which is composed of futures contracts on aluminum, copper, nickel and zinc. It reflects the return of underlying commodity futures price movements only. It is quoted in USD. Energy is represented by the Bloomberg Energy Subindex which is a commodity group subindex of the Bloomberg CI. It is composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas. It reflects the return of underlying commodity futures price movements only and is quoted in USD. Infrastructure is represented by the S&P global Infrastructure Index, which is designed to track 75 companies from around the world chosen to represent the listed infrastructure industry while maintaining liquidity and tradability. To create diversified exposure, the index includes three distinct infrastructure clusters: energy, transportation, and utilities. Agriculture is represented by the Bloomberg Agriculture Subindex, which is a commodity group subindex of the Bloomberg CI. It is composed of futures contracts on coffee, corn, cotton, soybeans, soybean oil, soybean meal, sugar and wheat. It reflects the return of underlying commodity futures price movements only and is quoted in USD. High-Yield Bonds that invest in lower-rated debt securities (commonly referred to as junk bonds) involve additional risks because of the lower credit quality of the securities in the portfolio. The investor should be aware of the possible higher level of volatility, and increased risk of default. Private Credit Investments (Direct Lending) involve a high degree of risk, including the loss of the entire investment. International investments carry additional risks, which include differences in financial reporting standards, currency exchange rates, political risks unique to a specific country, foreign taxes and regulations, and the potential for illiquid markets. Investing in emerging markets may accentuate these risks. The PCE price index is known for capturing inflation (or deflation) across a wide range of consumer expenses and reflecting changes in consumer behavior. The ISM manufacturing index, also known as the purchasing managers' index (PMI), is a monthly indicator of US economic activity based on a survey of executives covering all North American Industry Classification System's businesses in the manufacturing sector. Consumer Sentiment is represented by The University of Michigan Consumer Sentiment Index which rates the relative level of current and future economic conditions. The ISM Non-Manufacturing Index is a monthly indicator of US economic activity based on a survey of executives covering all North American Industry Classification System's businesses in the services (or non-manufacturing) sector. Data in this newsletter is obtained from sources which we, and our suppliers believe to be reliable, but we do not warrant or guarantee the timeliness or accuracy of this information. Consult your financial professional before making any investment decision. Past performance is no guarantee of future results. Diversification/asset allocation does not ensure a profit or guarantee against a loss. Economic and market forecasts presented herein reflect our judgment as of the date of this presentation and are subject to change without notice. These forecasts are subject to high levels of uncertainty that may affect actual performance. Accordingly, these forecasts should be viewed as merely representative of a broad range of possible outcomes. These forecasts are estimated, based on assumptions, and are subject to significant revision and may change materially as economic and market conditions change. These forecasts do not take into account the specific investment objectives, restrictions, tax and financial situation or other needs of any specific client.