Market & Economic Outlook – 2024: More Gains Ahead But New Bull Market Must Wait

2023 Returns*	Value	Price Return	Total Return	All-Time High	% from High
S&P 500	4,769.83	24.2%	26.3%	4,796.56	0.6%
Dow Jones Industrial Average	37,689.54	13.7%	16.2%	37,710.10	0.1%
NASDAQ Composite	15,011.35	43.4%	44.6%	16,057.44	7.0%
Russell 2000	2,027.07	15.1%	16.9%	2,442.74	20.5%
MSCI EAFE (USD)	2,236.16	15.0%	18.9%	2,398.71	7.3%
MSCI Emerging Markets (USD)	1,023.74	7.0%	10.3%	1,444.93	41.1%
Bloomberg Commodity Index	98.65	-12.6%	-7.9%	237.95	141.2%
Barclays U.S. Aggregate Bond	91.70	3.2%	5.5%	112.07	22.2%

**From 12/31/2022 to 12/31/2023; Total returns include dividends paid* *Data Source: FactSet*

Outlook Summary:

Investor sentiment is elevated entering 2024 as economic data and corporate results defied our more cautious 2023 outlook. Despite prospects for slowing U.S. economic growth in 2024, corporate earnings growth is expected to accelerate, inflation trends are lower, and the Federal Reserve Bank (Fed) is set to begin lowering short-term interest rate targets. This provides a positive backdrop that could drive equities above current levels. However, the powerful equity rally in November and December has led to elevated valuations and the potential for profit-taking following strong annual returns. In 2024, we expect investors to encounter numerous challenges that may test resolve but that can also create opportunity. These challenges include an expected moderating pace of new job creation, an uncertain path for consumer spending growth, normalizing interest rate levels that create higher interest expense for consumers and businesses, and U.S. budget and debt issues that are also negatively impacted by relatively high interest rates. The new year is also a presidential election year; while this is likely to be a contentious cycle, election years are often positive for investors.

Given market volatility and unpredictable timing of tops and bottoms, we advocate that investors maintain equity exposure and monitor portfolios to upgrade quality (defendable market positions, resilient profitability, and strong balance sheets) and maintain desired diversification. Outsized market moves also create opportunities to rebalance portfolios, by trimming overweight positions and adding to underweight (relative to objectives) positions. Below is a summary of our 2024 outlook.

1. Our S&P 500 fair value estimate is 4,700 and we see a potential 2024 range of 4,200 to 5,200.
2. Elevated valuations could limit equity market upside but expect improved relative performance for the "average" stock.
3. We look for year-over-year S&P 500 earnings growth in 2024 and 2025, but below current consensus estimates.
4. After a 2023 positive surprise for the U.S. economy, we believe that GDP growth will slow in 2024.
5. We expect lower short-term interest rates in 2024 but believe that lower long-term yields could be a negative for equities.

Year in Review. U.S. equities generated strong returns in 2023, bouncing back from market declines in 2022 as consumer spending drove economic growth above expectations at the same time that inflation pressures eased considerably. Popular calls for an economic slowdown and possible recession did not materialize. Not all equity market gains were equal, however, as large capitalization, technology- and growth-centric companies led the way, and for most of the year a narrow group of companies generated the bulk of equity market gains. This narrative changed in the fourth quarter (4Q23) as equity participation widened, driving improved performance from market sectors and indices that had lagged year-to-date (YTD) through the end of October. At year-end, the S&P 500 index closed at 4,770, just below the highest closing price of 2023, and a hair below the index's all-time closing high of 4,796 set on 1/3/22, nearly two years earlier. The 2023 price gain for the S&P 500 was +24.2%. Since 12/31/21 (two years), the S&P 500 was basically unchanged.

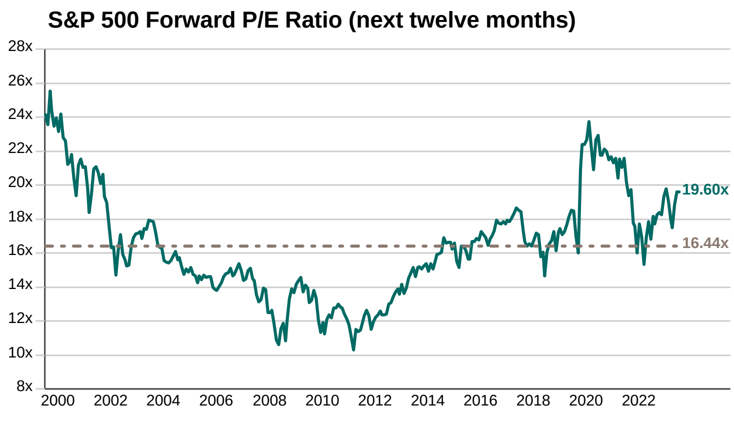
Data Source: FactSet as of 12/31/23. S&P 500 Daily Closing Prices 12/31/19 to 12/31/23. Price change does not include dividends.

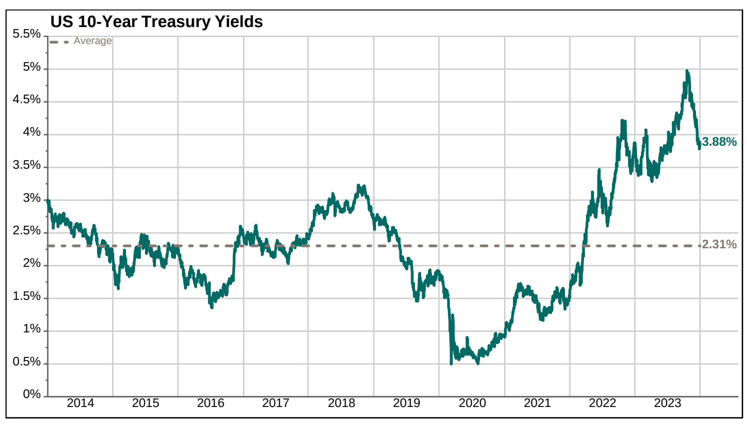
In January 2023, the S&P 500 rallied +6.2% (price return, not including dividends) and +7.1% in 1Q23. The market rally to start the year defied cautious expectations as consumer spending had slowed in the fourth quarter of 2022, and the Fed (in December 2022) had lifted its fed funds target range to 4.25% to 4.50% in an attempt to slow economic growth in the face of inflation (the December 2022 consumer price index increased +6.5% from the year prior). Consumer spending, however, rebounded in early 2023 and market gains tracked that improvement. Equities traded higher despite a March scare in regional banks caused by an increase in short-term interest rates. At the same time, investors began to recognize substantial technology spending to support investment in generative artificial intelligence (GenAI), driving technology and growth stocks higher. The rally continued and the S&P 500 gained +8.3% in 2Q23 and another +3.1% in July. On 7/31/23, the S&P 500 closed at 4,589, which, until December, was the high point of the year (as of 7/31, the S&P 500 YTD gain was +19.5%). When interest rates continued to rise in August and September to multi-decade highs, equity investors worried that the rate levels could finally begin to slow the economy and also create challenges for the U.S. Treasury's debt issuance. The S&P 500 dropped -3.6% in 3Q23 and another -2.3% in October. From 7/31/23 to 10/27/23, a period of about three months, the S&P 500 decreased -10.3%, and represented the year's largest peak-to-trough decline. Beginning in November, the index rallied as the summer fears receded. Interest rates pulled back, U.S. 3Q23 economic growth was better than expected, and S&P 500 quarterly Y/Y earnings grew for the first time in four quarters. This set the stage for the fourth quarter gains.

At year-end, equity indices reflected a wide range of positive 2023 returns. The Nasdaq Composite increased +43.4%, the Dow Jones Industrial Average rose +13.7%, and the Russell 2000 small cap index gained +15.1%. U.S. interest rates (as measured by U.S. Treasury yields across maturities) mostly moved higher through October, but then moved lower in November and December. As of 12/31/23, the U.S. 2-year Treasury yield was 4.25% compared to 4.42% on 12/31/22 (high closing level of the year was 5.21%), and the U.S. 10-year Treasury yield was 3.88% vs. 3.88% on 12/31/22 (high closing level of the year was 4.99%). The U.S. Fannie Mae 30-year fixed mortgage rate started 2023 at 6.67%, was 8.09% on 10/25/23, and was back down to 6.99% as of 12/31/23.

Our S&P 500 fair value estimate is 4,700 and we see a potential 2024 range of 4,200 to 5,200. Our fair value is modestly below the year-end index level of 4,770, but the high-end of our range is nearly 9% higher (conversely, the low-end of our fair value range is 12% lower). Our 4,700 fair value reflects a level that is 19.3x the 2024 FactSet consensus (as of 12/27/23) S&P 500 earnings estimate of $244 (this is the price-to-earnings, or P/E, ratio). Over the past 24 years (2000 to 2023), the S&P 500 has traded at an average of 16.4x the one-year forward earnings estimate. Current valuations also are above the past 10-year P/E average, a period of relatively low interest rates, of 17.2x. A key factor, in our view, driving higher valuation ratios today is the late 2023 pullback in long-term interest rates (as measured by the U.S. 10-year Treasury yield) from the 15-year high levels seen in October as lower interest rates increase the present value of future cash flows. Interest rate expectations remain favorable as the Federal Reserve Bank appears poised to begin lowering its overnight interest rate targets in 2024. In addition, better-than-expected economic data has increased the chances that the U.S. economy will be able to avoid a recession in this cycle, leading to investors not only looking to expected earnings growth in 2024, but in 2025 as well. Our 4,700 fair value is 17.2x the consensus 2025 earnings estimate (S&P 500) of $274, in-line with the 10-year average. It is rare for S&P 500 P/E valuations to sustain valuations above 19x estimated earnings, thus, market gains from current levels will be tied more to earnings growth and not to multiple expansion.

The 5,200 high-end of our fair value range reflects 21.3x the 2024 EPS estimate and 19.0x the 2025 estimate. Upside to that value, in our opinion, would require either earnings estimates to exceed +11.9% and +12.3% (2024 and 2025, respectively) for the next two years, or for long-term interest rates to move well below current levels of 3.88%. At this point, we assign a low probability to those outcomes. The 4,200 low-end of our valuation range reflects 17.2x the S&P 500 2024 EPS estimate and 15.3x the 2025 estimate. Since 1980 (44 years), the average annual peak-to-trough decline for the S&P 500 was -14.3%. A pullback to 4,200 would be within the range of an expected average year. Market weakness could be caused by lower-than-expected earnings results, a halt or reversal of improving inflation trends, or other factors such as worsening geopolitical tensions or a failure of Congress to pass spending bills. A worse outcome might be expected if a recession comes in 2024, but without an economic slowdown creating significant earnings growth challenges, a market pullback is likely to be met with support (buying interest) as investors look to 2025.





Data source: FactSet, using exchange data, as of 12/31/23 (see Other Disclosures on page 8 for further discussion of P/Es and Treasury yields)

Elevated valuations could limit equity market upside but we expect improved relative performance for the "average" stock. Despite broad participation in equity market gains in 4Q23, full-year returns were relatively concentrated in the favor of large-company, technology-centric growth companies. This helped drive the large-company growth indices higher (including the Nasdaq Composite and S&P 500) which increasingly reflect larger index weightings to the largest constituents. We estimate (FactSet data as of 12/31/23) that the ten largest constituents (by market capitalization) of the S&P 500 comprised 31% of the total capitalization of the index. Other indices include the Russell 2000 (small company), the Russell 1000 Growth (large company, higher-than-average valuation and expected earnings growth), Russell 1000 Value (large company, lower-than-average valuation and expected earnings growth) and the Equal-Weight S&P 500 (which assigns an equal weight to all 500+ index constituents). In 2023, large cap stocks outperformed small cap stocks and growth stocks outperformed value stocks

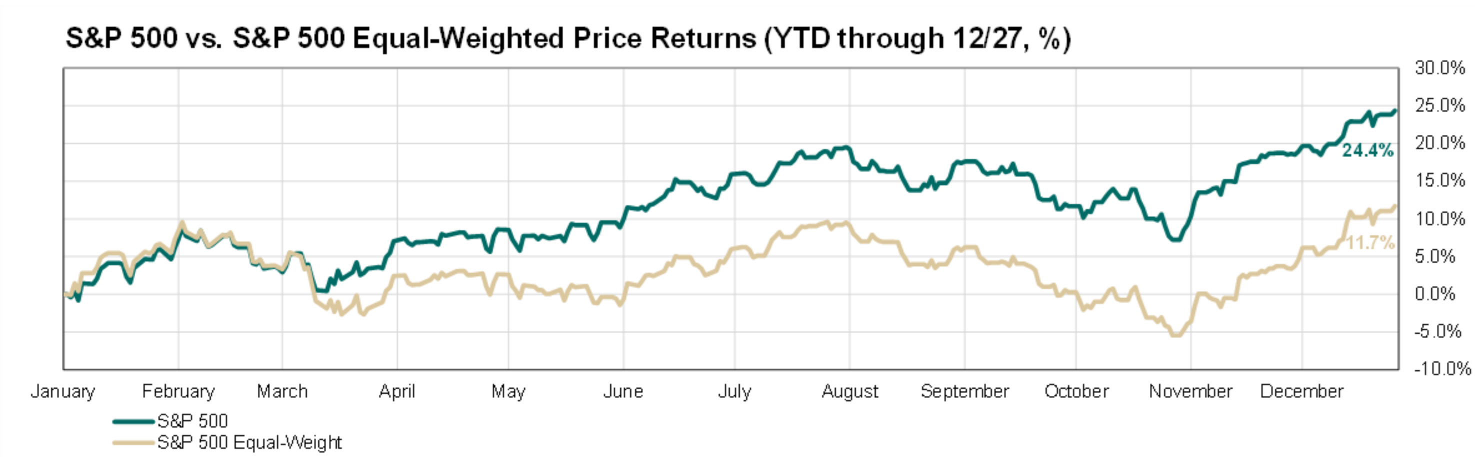
(Russell 1000 Growth index price return of +41.4% vs. Russell 1000 Value price return of +8.8%). In addition, within the S&P 500, the Equal-Weight S&P 500 in 2023 gained just +11.6% in 2023, compared to +24.2% for the broader index. While the Equal-Weight underperformance of 1,260 basis points is not unprecedented, the magnitude is rare, and 2023 was the largest underperformance since 1998 (1,630 basis points). From 2000 to 2023, however, when including dividends, the Equal-Weight S&P 500 (EW-S&P) has delivered a compounded annual return (CAGR) of +9.4%, compared to +7.0% for the S&P 500 index. Similarly, over the same period, the Russell 1000 Value index compounded annually at +7.1% compared to the Russell 1000 Growth index at +6.9%. Over this 24-year period, the average stock in the S&P 500 has outperformed the broader index, and large cap value stocks have outperformed large cap growth stocks.

Major Equity Indices Compounded Annual Returns (CAGR) 2000 to 2023

Index	Price Return	Total Return
S&P 500	5.0%	7.0%
Equal-Weight S&P 500	7.4%	9.4%
Russell 1000 Growth	5.6%	6.9%
Russell 1000 Value	4.5%	7.1%
Russell 2000	6.0%	7.5%

Data Source: FactSet as of 12/27/23. Price Return calculates the annual price change of the index. Total Return includes the contributions from dividends. Compounded return calculates the annualized return including price gains and dividends reinvested. Covered period is 12/31/99 to 12/27/23.

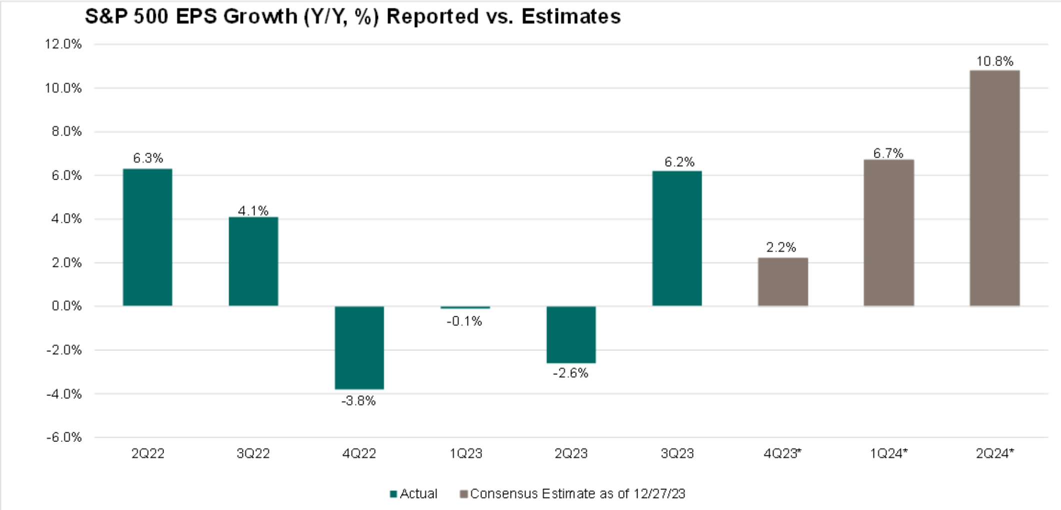
While the timing of the inevitable rotation back to the EW-S&P (average stock) and value stocks remains uncertain, in our view, we do believe that the elevated valuations for major indices at the end of 2023 will create challenges for continued, above-trend gains. This is likely to drive investors to search for perceived opportunity in undervalued sectors. While the S&P 500 index trades at 19.6x 2024 estimated earnings (20% above its 16.4x average since 2000), the EW-S&P trades at just 16.2x. In addition, as of 12/27/23, the Russell 1000 Value index traded at 15.0x 2024 consensus EPS estimates, vs. 26.5x for the Russell 1000 Growth index.



Data Source: FactSet as of 12/27/23. S&P 500 Daily Closing Prices 12/31/22 to 12/27/23

We look for year-over-year S&P 500 earnings growth in 2024 and 2025, but below current consensus estimates. After two years of lackluster earnings growth for the S&P 500 (+4% EPS growth in 2022 vs. 2021, and +2% growth expected in 2023, with 4Q23 not yet reported), consensus estimates reflect +12% growth in both 2024 and 2025. The green bars in the chart below show the Y/Y S&P 500 reported earnings growth for each of the past six quarters; the gray bars show the consensus Y/Y estimates for the next three quarters. Recent S&P 500 earnings trends turned positive as 3Q23 earnings increased +6.2% vs. 3Q22, following three consecutive quarters (4Q22, 1Q23, 2Q23) of Y/Y earnings declines. The conventional wisdom is that generating earnings growth becomes easier over the next few quarters, principally due to comparing to negative growth in the prior year (i.e. "easy comps"), and also because after two years of low-single-digit percentage growth, companies have become adept at cost-cutting where they can. However, the 4Q23 earnings growth rate is expected to slow from 3Q as revenue growth faces a slowing economy and wages grow faster than inflation. Beginning in the first quarter of 2024, earnings growth is expected to regain momentum and then accelerate throughout the year. In our view, earnings growth is probable in 2024, but +12% appears aggressive. Just over one year ago, in December 2022, the FactSet consensus 2023 EPS estimate was $228, reflecting growth of +5%. 2023 earnings have trended below that initial forecast as the current estimate (as of 12/27/23) is $218, a growth rate of +2% (earnings results for 4Q23 will begin in earnest in January).

We typically see quarterly earnings estimates that are revised lower as the most current quarterly reporting season approaches, with numbers as reported (actual) exceeding those downward revisions. The estimates for 4Q23 have trended lower in recent months, currently forecasting +2.2% growth, down from +4.9% estimated at the end of October. We believe the 2024 estimated S&P 500 earnings growth of +12% is aggressive given expectations for slowing economic trends, including tepid demand for exports due to weakening economies across Europe and China. On the other hand, lower inflation (especially for commodities including oil) and supply chain efficiencies can help to offset wage increases to support margin improvement. In addition, two of the three largest S&P 500 sectors (by market capitalization), Information Technology and Health Care (comprising 28.9% and 12.9% of the index value as of 12/28/23), show 2024 estimated earnings growth of +16.7% and +18.3%, respectively. If those estimates prove accurate, those two sectors alone will boost overall index earnings, but we see limited evidence to support double-digit percentage earnings growth in 2024. A more likely outcome, in our opinion, is mid-single-digit percentage (4% to 6%) earnings growth that could further highlight elevated valuations and limit equity market upside.

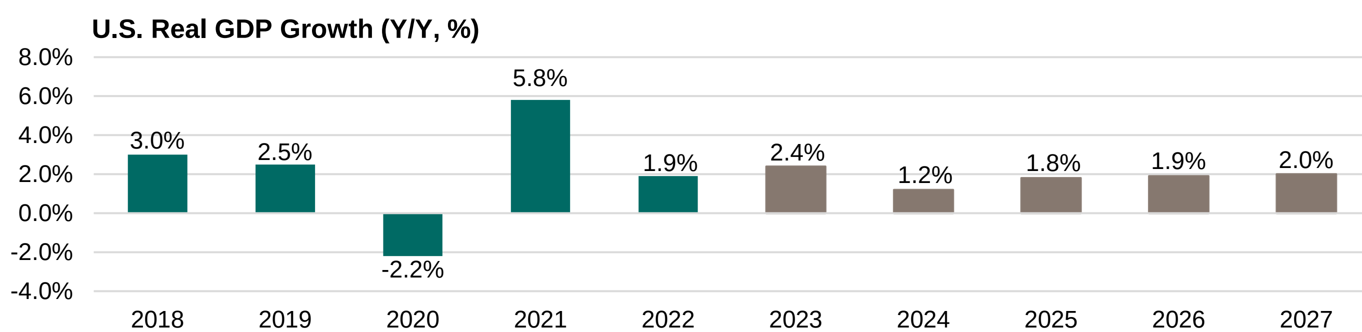


S&P 500 Earnings
Earnings per share (EPS)

	EPS	% Growth
2021 A	$ 205	50%
2022 A	$ 214	4%
2023 E	$ 218	2%
2024 E	$ 244	12%
2025 E	$ 274	12%

Data Source: FactSet. Consensus earnings estimates from Wall Street analysts (bottom-up compilation of estimates, weighted by market cap). Annual earnings data compiled by FactSet are actual reported (A) numbers for 2021 and 2022, and consensus estimates 'E' for 2023, 2024 and 2025.

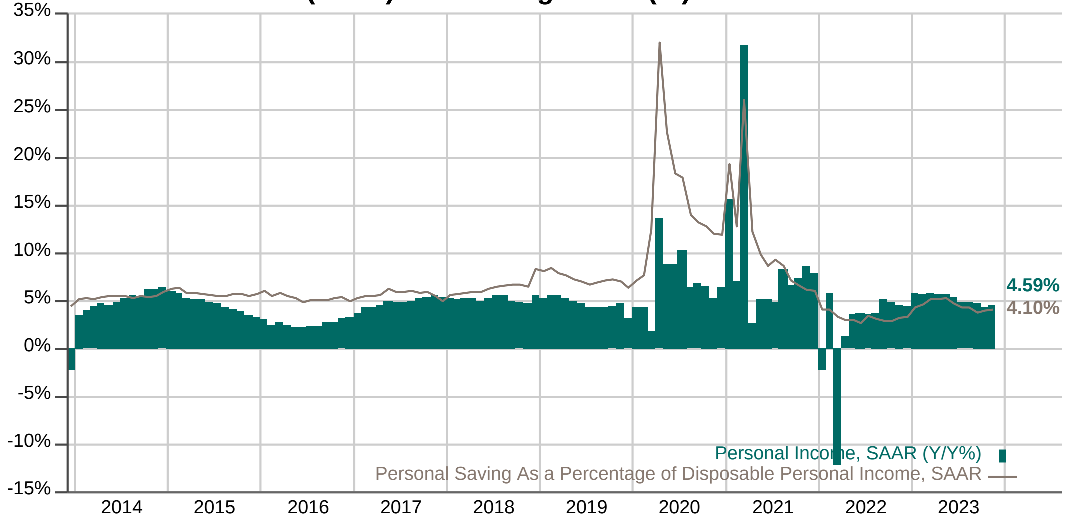
After a 2023 positive surprise for the U.S. economy, we believe that U.S. gross domestic product (GDP) growth will slow in 2024. Through the first three quarters of 2023, the U.S. economy is on pace to grow +2.4% (as measured by inflation-adjusted, or real, GDP) for the year, which is significantly better than the 2023 FactSet consensus estimate of +0.3% on 12/31/22 (one year ago). Even the Federal Reserve Bank, in its own December 2022 Summary of Economic Projections (SEP), estimated that 2023 U.S. GDP would increase just +0.5%. Economic expectations were low because CPI inflation in December 2022 was still at +6.5% and the Fed was committed to using short-term interest rate increases to restrict credit and slow economic growth. Since the impact of tighter credit can filter through the economy over many months, the timing of a slowdown is hard to predict. As U.S. GDP reports beat expectations (2023 annualized quarterly GDP: 1Q +2.2%, 2Q +2.1%, 3Q +4.9%), full-year estimates moved higher throughout the year, moving to +1.0% by April 2023, +1.3% by July, and +2.1% in October. In the current environment, as we look ahead to 2024, economic forecasts are again conservative. Despite the strength of 2023, the 2024 consensus GDP estimate is +1.2%, suggesting substantial moderation from recent trends. The upside GDP surprise last year was mostly attributed to resilient consumer spending, especially in 1Q23 and 3Q23, as consumer data in those quarters were better than any quarter in 2022, and included strength not only on consumer services, but from goods as well. GDP upside in 2Q23 (and 1Q23 to a lesser extent) was helped by business investment growth, which included increases in intellectual property (software/research and development), equipment, and structures. While business spending for GenAI-related investment was only a modest component of U.S. GDP, it did create upside to business investment expectations. Government spending (Federal and state, and local as well) since the second half of 2022 has also exceeded multi-year averages, contributing to additional GDP growth upside. Our view for moderating growth in 2024 is primarily due to slowing consumer spending as job growth eases, and still-high interest rates creating credit headwinds. In addition, business investment could be tepid as many companies have made cautious comments regarding capital expenditure budgets, and the pace of GenAI from large technology companies could slow. While government spending is likely to remain elevated, especially during a presidential election year, we believe growing spending will be difficult following a Federal budget deficit of $1.7 trillion in fiscal 2023 (the U.S. government fiscal year ended 9/30/23).



Data Source: FactSet consensus estimates and Bureau of Economic Analysis, as of 12/27/23, chart shows annual real GDP reported by the BEA 2018-2022 (green bars), and FactSet consensus estimates 2023-2027 (gray bars).

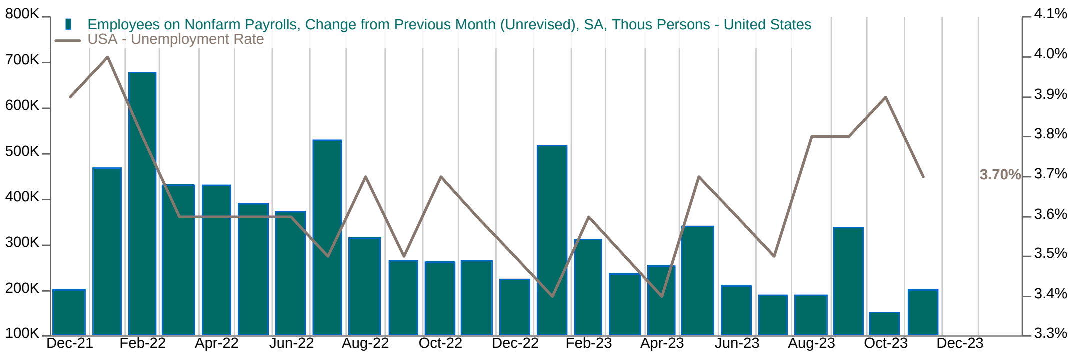
Consumer data across the U.S. economy was relatively strong in 2023, feeding better-than-expected consumer spending. Personal income measures monthly Y/Y changes in most forms of income, including income-producing assets and government payments, but not capital gains, with the dominant component income from wages and salaries. Most recently, in November 2023, income grew +4.59% vs. November 2022, and throughout 2023, income growth was at or above pre-pandemic levels in 2018 and 2019. In addition, since May 2023, when CPI inflation eased to +4.0% Y/Y, "real" personal income (personal income less the inflation rate) was positive, giving consumers more purchasing power. The personal savings rate, at 4.1% in 11/23, remained below pre-pandemic levels above 7.0%, indicating that consumers are saving less to support spending. While not an immediate concern, it could lead to a faster-than-expected spending pullback if consumer confidence slips. According to the Bureau of Labor Statistics (BLS), monthly growth in nonfarm payrolls (jobs) averaged 232 thousand (K) in the 11 months through November. We view this as a healthy number that, along with an unemployment rate of 3.7% (unchanged from 3.7% in 11/22 and vs. 4.2% in 11/21), has supported solid consumer finances and provided a positive backdrop for the strength in spending in 2023.

Personal Income (Y/Y%) and Savings Rate (%)



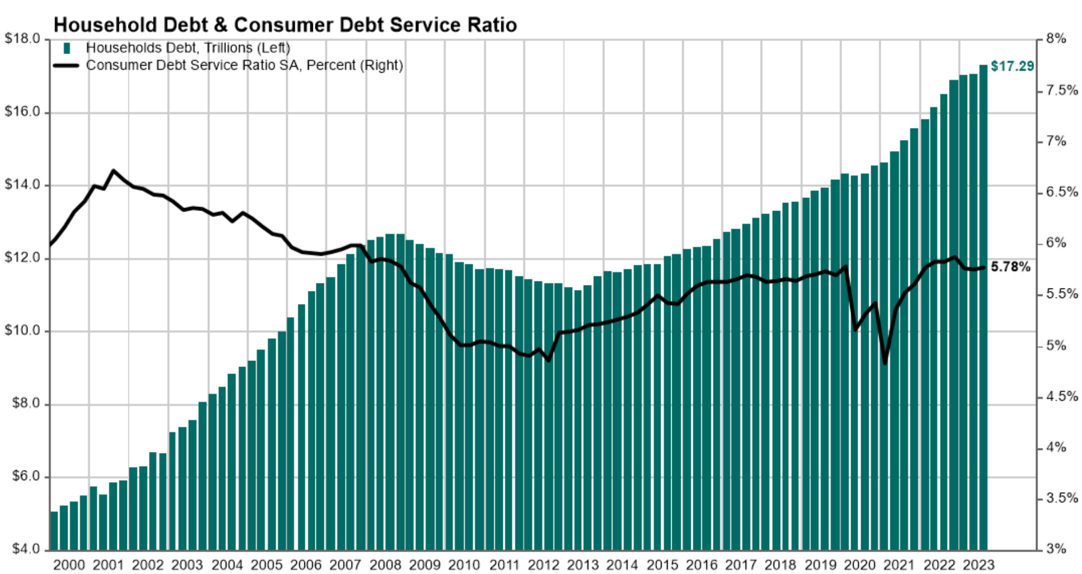
Data Source: FactSet and Bureau of Economic Analysis (BEA) through 11/30/23, reported monthly. SAAR is seasonally adjusted annual rate, Savings Rate is personal saving as a percentage of disposable income. Y/Y is year-over-year.

Monthly Nonfarm Payrolls (SA, Thousands) / U.S. Unemployment Rate



Data Source: FactSet and Bureau of Labor Statistics (BLS) through 11/30/23, reported monthly. SA is seasonally adjusted. Nonfarm payrolls (jobs) are the net change reported in the BLS/Establishment Survey. Unemployment Rate is from the BLS Household Survey.

In our view, consumer spending growth is likely to slow in 2024, with less potential for the upside surprises of 2023**.** This is reflected in the cautious 2024 GDP estimates and thus is largely expected by investors. If spending slows or declines, however, expectations for an economic soft landing (no recession) could erode, creating the potential for equity market declines as GDP and earnings estimates decline.



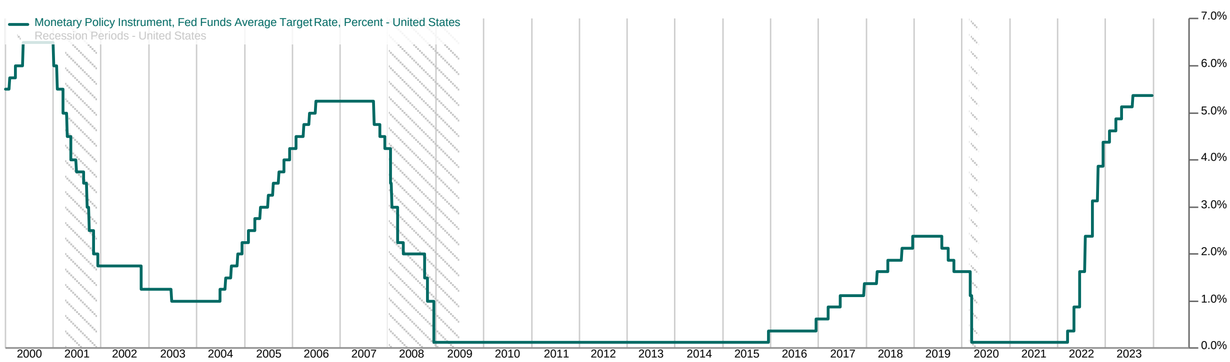
Data Source: Board of Governors of the Federal Reserve and FactSet, as of 9/30/23. SA is seasonally adjusted.

2023's monthly jobs growth of +232K was below the monthly average of +399K in 2022, and the average over the past four months (August through November) was +194K**.** In March and April 2020, when pandemic-related shutdowns caused the unemployment rate to jump to 14.7% (with 23.1 million (M) people unemployed), the U.S. civilian labor force (people searching for work or who wanted to work) dropped by 8.0M as people able to work left the jobs market. As of November 2023, the civilian workforce was 11.8M above the April 2020 low, indicating that, along with eligible workforce population growth, many of those uninterested workers have returned to the market. While this could continue for a while as labor force participation remains below pre-pandemic levels, we believe that jobs growth will continue to slow and could disappoint investors. In our view, lower-than-expected jobs growth can create challenges for sustained growth in GDP.

We are also watching total household debt (includes mortgages, student loans, car loans, credit cards, and personal loans), which reached a record $17.29 trillion (T) in 3Q23, according to the Federal Reserve Bank of New York. Compared to 3Q21 (2 years), total household debt increased by $2.05T (from $15.24T). At the same time, total U.S. annual nominal GDP (according to the BEA) increased $4.4T to $27.6T, and the consumer spending component (68% of GDP) increased $2.7T to $18.7T. This means that consumer household debt financed a large part of the increase in spending. In addition, the consumer debt service ratio, which measures the percentage of monthly disposable income earmarked for credit cards and car loans, is running just below 5.8%, which is above pre-pandemic levels. In the current environment, consumer debt levels are rising, savings rates are below long-term averages, excess savings accumulated during the pandemic are lower, and interest rates remain elevated vs. the past several years. In our view, this creates headwinds to sustained spending and we are watching closely. Jobs gains, wage growth, and continued trends in lower interest rates could ease this pressure and, for now, consumer trends appear healthy.

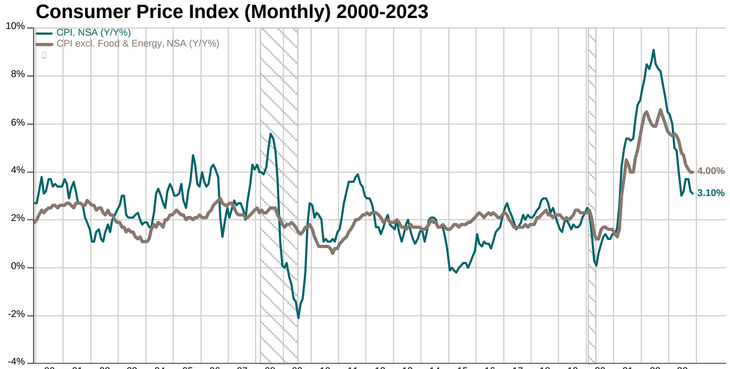
We expect lower short-term interest rates in 2024 but believe that lower long-term yields could be a negative for equities. The U.S. Federal Reserve Bank (Fed) uses monetary policy to address its statutory mandate to promote maximum employment, stable prices, and moderate long-term interest rates. The Fed's primary tool is to make changes in the target range for the federal funds (fed funds) rate. The fed funds rate is the overnight interest rates at which commercial banks borrow and lend excess reserves. A higher fed funds target should restrict credit and, over time, reduce lending and slow economic growth. A lower rate should be accommodative or neutral (depending on the level) and stimulate economic growth if low enough. Generally, short-term (2-years and under) U.S. Treasury yields will track, and often lead, expected fed funds moves. In late 2021, 2-year Treasury yields began surging higher before the Fed, in March 2022, finally made its first fed funds target increase (in this cycle). In our view, long-term Treasury yields (10-years and longer), while sometimes influenced by Fed policy, reflect future economic expectations. After raising the fed funds target at 10 consecutive Federal Open Market Committee (FOMC) meetings (six scheduled per year) in 2022 and 2023, the Fed ended 2023 with no changes to the target rate at its final three meetings. The last fed funds hike was in July 2023 (+0.25%), taking the target range to 5.25% to 5.50%. With the consumer inflation (CPI) level back to +3.1% in November 2023 (it was +7.1% in November 2022), the Fed has acknowledged that inflation has eased without a significant increase in unemployment, both better than the Fed expected at the beginning of 2023. As of 12/29/23, the U.S. 2-year Treasury yield was 4.25% and the November 2023 CPI was +3.10%. This made the "real" (inflation-adjusted) 2-year yield 1.15%. From mid-2019 to mid-2023 (4-years), real interest rates were negative (inflation was higher than Treasury yields), a condition that we view as an accommodative monetary policy. With inflation now well-below the 2-year Treasury yield, and significantly below the fed funds target of 5.25% to 5.50%, monetary policy is excessively restrictive and gives the Fed room to begin lowering interest rates. With the 2-year yield more than 100 basis points (bp) below the fed funds target already, the Fed's outlook contemplates narrowing that gap.

Federal Reserve Bank Fed Funds Average Target Rate 2000 - 2023

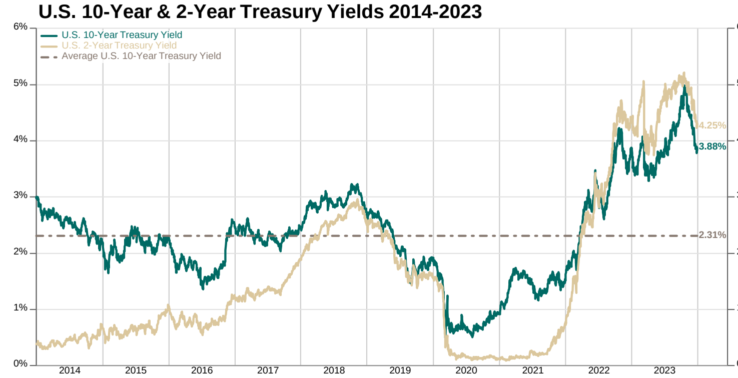


Data source: FactSet and Board of Governors of the Federal Reserve System, as of 12/21/23. Prior to December 2008, the Fed provided a single point fed funds target (shown on the chart). Since December 2008, the fed funds target is given in a 25 bp range (chart shows the average).

Consumer Price Index (Monthly) 2000-2023



U.S. 10-Year & 2-Year Treasury Yields 2014-2023

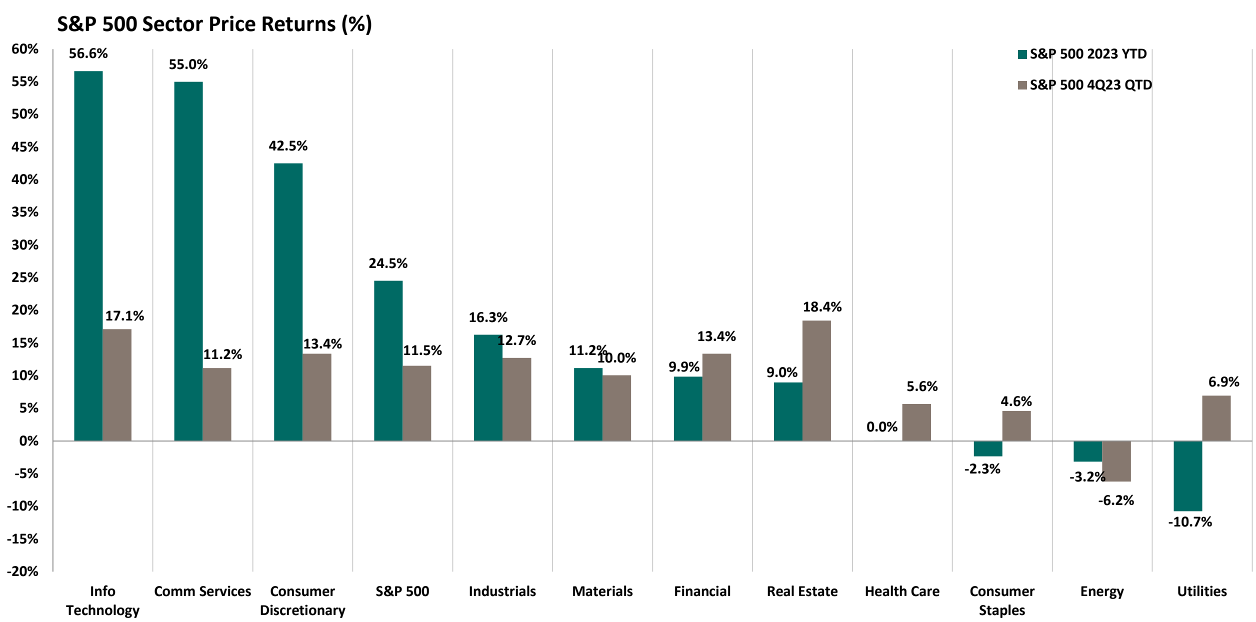


Data Source: FactSet, Bureau of Labor Statistics, U.S. Treasury market. Dashed line is average 10-year Treasury yield over the period. As of 12/29/23.

The fed funds futures market (according to the CME FedWatch Tool) has priced in expectations for the first rate cut to come at the second 2024 FOMC meeting on 3/20/24 (the first 2024 FOMC meeting is scheduled 1/31/24). By December 2024, the futures market (as of 12/29/23) predicts an 81% chance that the lower band of the fed fund target will be 3.75% or lower, suggesting 150 bp of fed funds cuts (six 25 bp cuts) in 2024. We question where the 10-Year Treasury yield will be, or should be, if the Fed aggressively cuts rates throughout 2024. As of the end of December, the 10-year yield was 3.88%. This was unchanged from 12/31/22 (Y/Y), but down substantially from the 2023 closing high yield of 4.99% just ten weeks earlier on 10/19/23. The 10-year yield remains 37 bp below the 2-year yield, an inverted yield curve (when short-term yields are higher than long-term yields) that has existed for 18 months (since July 2022). If the yield curve remains inverted, we believe that it would reflect renewed recession fears from fixed income investors as a weak economy requires easier monetary policy. If the Fed is able to lower rates due to additional inflation progress (lower), allowing lower real interest rates so that monetary policy becomes neutral and not restrictive, that most likely would reflect an economic soft landing (no recession). In that case, we believe that long-term interest rates should be higher as the yield curve moves back to a normal positive slope, including 10-year yields higher than 2-year yields. A move above 4.00% for the U.S. 10-year Treasury yield creates potential headwinds for equities as borrowing rates for consumers, businesses, and the government could stay higher than expected. If the 10-year yield drops substantially below current levels, that could also create headwinds for equities if the recession fears rekindle.

Sector Performance. For the full-year 2023, a year where the price return (not including dividends) was an impressive +24.5%, three of the 11 macro sectors (as defined by MSCI's global industry classification standards, or GICS) decreased (8 were positive) and only three showed gains above the overall index. The top-performing 2023 sectors, Information Technology, Communication Services, and Consumer Discretionary, contain all of the "Magnificent 7" stocks and the large market capitalization from those stocks in those sectors drove significant outperformance. Large technology- and growth-centric stocks performed well throughout the year, benefitting from better-than-expected financial results, as well as perceived benefit from the global investment in GenAI technology. In addition, those three sectors were the worst-performing sectors during the prior year, in 2022, when the S&P 500 decreased -19.4%. Among the three sectors that declined in 2023, Utilities and Consumer Staples are typically "defensive" (that can generate more stable financial results during an economic slowdown) and were out of favor as economic growth exceeded expectations. Energy declined in 2023 after leading all sectors in 2022. The relatively narrow leadership that existed for most of the year reversed quite a bit in the fourth quarter as ten of the eleven sectors rallied (only Energy was negative in 4Q23) and five sectors beat the performance of the broader index. While the tech-centric growth sectors continued to move higher, Real Estate surged to lead the market, gains that we attribute to rapidly declining interest rates, which make higher dividend yields more attractive. Financials (mostly banks) also rallied in 4Q23, erasing YTD declines through September and finishing positive for the year. Consensus 2024 earnings estimates for the S&P 500 Financials sector reflect +7% Y/Y growth but have trended lower since mid-2023, reflecting some investor caution.

S&P 500 Sector Performance – 2023 Full-Year & Fourth Quarter 2023



Data Source: FactSet as of 12/27/23, S&P 500 GICS sector indices maintained by S&P Global & MSCI. Price return does not include dividends.

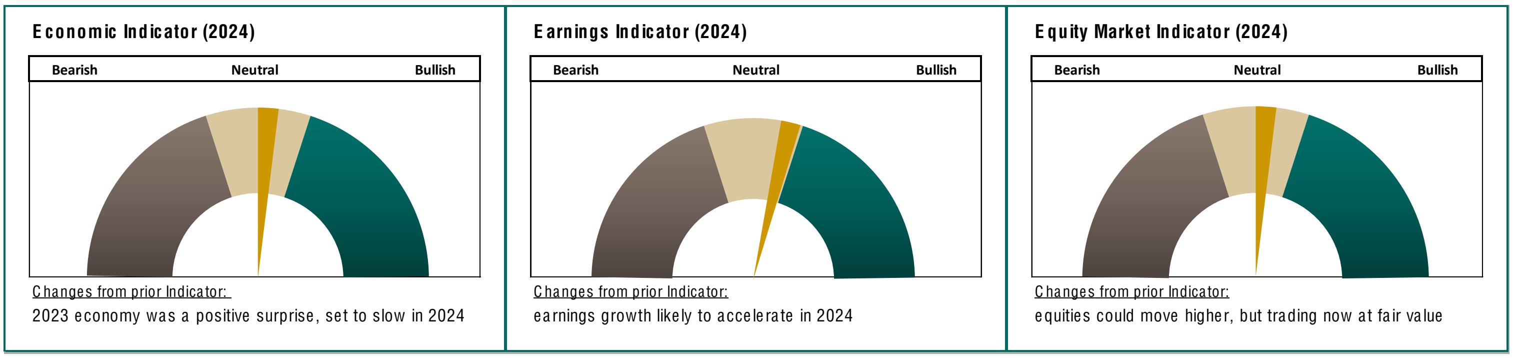
Sector weightings. 2023 was a strong year for public equities, although gains were relatively concentrated in favor of very large capitalization "growth" stocks as small companies and "value" stocks lagged. Market concentration eased considerably in 4Q23 as sector participation broadened, and the S&P 500, Dow Jones Industrials Average, and Russell 2000 index posted their best quarters of the year. Despite evidence that economic growth is slowing and that consumers are more stretched, investor optimism for earnings growth and more equity market upside has increased. This could lead to higher volatility at some point in 2024. In addition, we expect a contentious presidential election year (aren't they all now?), which could add to market uncertainty. On balance, however, the election year could be good for stocks as incumbents look to support pro-growth policies. We continue to advocate for investors to maintain portfolios of high-quality companies (market leadership, generating profits and cash flow, and strong balance sheets) that are broadly diversified across sectors. After the strong fourth quarter rally, many positions may be out of balance with allocation targets and early 2024 could be a good time to evaluate and rebalance portfolios as needed.

S&P 500 Sector Recommendations - January 2024

GICS Sector	S&P 500 Weight by Market Cap	WM Research 2024 Outlook	Notes (reflect current expectations and are subject to change)	Change
Technology	28.9%	marketweight	high relative valuations, expect average returns after big year	was underweight
Financials	13.0%	underweight	cautious after strong 4Q23 performance, better opportunity after Fed rate cuts start	was marketweight
Health Care	12.6%	marketweight	mixed performance in 2023, expect some caution in an election year	was overweight
Consumer Discretionary	10.9%	marketweight	be selective, stick with leaders, will be opportunity post-slowdown	
Industrials	8.8%	marketweight	stay diversified in this group, sector is fairly valued	
Communications Services	8.6%	marketweight	look beyond the large-cap leaders, digital ad spending to accelerate (election year)	
Consumer Staples	6.1%	overweight	valuations more attractive after a down year, dividends attractive, defensive	was marketweight
Energy	3.9%	marketweight	have maintained waiting for a pullback, balance sheets are solid, consolidation possible	
Real Estate (REITs)	2.5%	underweight	valuations are stretched after big year-end (2023) rally, debt costs are rising	was marketweight
Materials	2.4%	marketweight	lower inflation helps input users (specialty chemicals), gold near highs	
Utilities	2.3%	overweight	valuations relatively low, dividends attractive, defensive earnings component	was marketweight

Data Source: D.A. Davidson Wealth Management Research as of 1/2/24.

Wealth Management Research Investment Cycle Gauge



Source Data: D.A. Davidson & Co. as of 1/2/24

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Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market. Today the NASDAQ Composite includes over 3,000 companies. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. Bloomberg Commodity Index (BCOM) is calculated on an excess return basis and reflects commodity futures price movements. 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. The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The Russell 1000 index is a large company index compiled by the FTSE Russell Group and represents the largest 1000 companies (by market capitalization) in the Russell 3000 index. The Russell 1000 Growth index includes the Russell 1000 companies that exhibit relatively higher price-to-book ratios, and higher expected earnings and sales growth. The Russell 1000 Value index includes the Russell 1000 companies that exhibit relatively lower price-to-book ratios and lower than average expected earnings and sales growth.

Other Disclosures:

The forward S&P 500 price-to-earnings ratio (P/E) is a valuation measure, calculated by dividing the price of the S&P 500 index over the weighted average earnings per share (EPS) estimate of each company in the index. Earnings are based on "forward" consensus estimates expected over the next 12 months (NTM), using quarterly analyst estimates as provided by FactSet.

Fair value refers to a valuation method based on our view of the intrinsic value of an asset or index, determined by macroeconomic factors and earnings expectations rather than current market prices. This is our view of intrinsic value as of the date of this report.

Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. GDP numbers are compiled by the Bureau of Economic Analysis (BEA), a division within the U.S. Department of Commerce. Quarterly GDP is reported as a percentage change from the prior quarter, annualized. The BEA also reports data on a year-over-year percentage change from the same period one year prior. The most recent GDP report can be found at www.bea.gov.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet Consensus refers to the aggregate of all analyst estimates from firms that submit estimates to FactSet for a given financial metric.

The annual price returns of the S&P 500 index are calculated using index closing value on 12/31 of one year to 12/31 of the next year. 2023 returns are calculated as of 12/31/2023. Intra-year peak-to-trough percentage declines are calculated using the index closing prices from an intra-year high date to a subsequent low date. Closing prices are provided by S&P Global through FactSet. Averages across years are calculated using the arithmetic mean.

S&P 500 earnings growth reflect the year over year change in operating earnings on a per share basis. Earnings data are aggregated for all S&P 500 constituents and are measured according to the relative market capitalization weights for each company. Estimated earnings are the combined FactSet estimates of analysts covering each company included in the index.

The Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members--the seven members of the Board of Governors of the Federal Reserve System; the president of the Federal Reserve Bank of New York; and four of the remaining eleven Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth.

The Federal Reserve Summary of Economic Projections (SEP) is sourced from federalreserve.gov, as of 12/14/22. Projections of change in real gross domestic product (GDP) and projections for both measures of inflation are percent changes from the fourth quarter of the previous year to the fourth quarter of the year indicated. Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated. Each participant's projections are based on his or her assessment of appropriate monetary policy. The projections for the federal funds rate are the value of the midpoint of the projected appropriate target range for the federal funds rate or the projected appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run. The Summary of Economic Projections is compiled from Federal Reserve Board members and Federal Reserve Bank presidents.

The term "monetary policy" refers to the actions undertaken by a central bank, such as the Federal Reserve, to influence the availability and cost of money and credit to help promote national economic goals. The Board of Governors of the Federal Reserve System is responsible for the discount rate and reserve requirements, and the Federal Open Market Committee is responsible for open market operations. The Federal Reserve influences the demand for, and supply of, balances that depository institutions hold at Federal Reserve Banks and in this way alters the federal funds rate. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury bonds, indicating the relationship between the interest rate and the time ("term") to maturity. The yields of the 2-year and 10-year U.S. Treasury bonds are widely followed barometers of the current U.S. interest rate environment. Treasury bond data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet.

U.S. Personal Consumption Expenditures (PCE) is an indicator of the growth in consumer spending and measures the value of goods and services purchased by persons who reside in the U.S. It is reported monthly by the Bureau of Economic Analysis.

The National Bureau of Economic Research (NBER) is a private non-profit research organization. The NBER is widely used as an organization that analyzes U.S. economic data and the business cycle and determines the start dates and end dates of economic recessions. The NBER defines recession as "a significant decline in economic activity that is spread across the economy and that lasts more than a few months;" and also looks at the depth, diffusion, and duration of the downturn.

The Bureau of Labor Statistics (a division of the U.S. Department of Labor) publish a monthly employment report, The Employment Situation. It presents statistics from two monthly surveys to report labor force status, including unemployment and demographics. The unemployment rate is the number of unemployed as a percent of the labor force.

The consumer price index (CPI) is a measure of average change over time in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics.

PCE inflation is the percentage rates of change in the price index for personal consumption expenditures (PCE). The index is published monthly by the U.S. Bureau of Economic Analysis.

Volatility is how much and how quickly prices move over a given span of time. In the stock market, increased volatility, in the form of rapidly falling prices is often a sign of rising uncertainty.

The U.S. Census reports annualized monthly data on housing starts, permits and completions. It is a widely followed measure to track construction activity in the residential housing market. New Home sales measures sales of new single family homes and is a measure of the demand for housing. Home price data is monitored from the S&P CoreLogic Case-Shiller Home Price Index.

We define a Bear Market as a peak-to-trough decline (using closing prices) of 20% or more. We generally use the S&P 500 index as a proxy for the broad market for large, leading U.S. companies.

Daily prices for West Texas Intermediate (WTI) crude oil from Cushing, Oklahoma are quoted daily on a price per barrel basis and are available from the U.S. Energy International Administration. Data can also be found from the St. Louis Federal Reserve Bank at fred.stlouisfed.org.

The Bureau of Labor Statistics (BLS) compiles U.S. labor statistics from two monthly surveys. The household survey measures labor force status by demographics; the establishment survey measures nonfarm employment and data by industry. The nonfarm payrolls component of the establishment survey are drawn from private businesses and government entities. The nonfarm payrolls number is among the most widely used data points to assess U.S. employment trends. The unemployment rate is the percentage of the labor force that is jobless and actively willing and available to work.

Personal Income and Savings is reported monthly by the Bureau of Economic Analysis for individuals and is defined as personal income less personal outlays and taxes. The personal savings rate is personal savings as a percentage of disposable personal income.

The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity.

The CME FedWatch Tool is published by the CME Group. CME analyzes the probability of FOMC rate moves for upcoming meetings. It uses 30-day fed funds futures prices, as a tool calculate market views (probabilities) on the likelihood of changes in Fed rate policy.