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# MARKET REVIEW

## › 4th QUARTER 2023

EXECUTIVE SUMMARY

- All major markets had a strong fourth quarter and finished positive for the year.
- Inflation continues to approach the 2% Federal Reserve target with the last reading at 3.1%.
- The Federal Reserve did not increase rates and is anticipated to begin cutting rates in 2024.

# Quarterly Market Review

## 4th Quarter 2023

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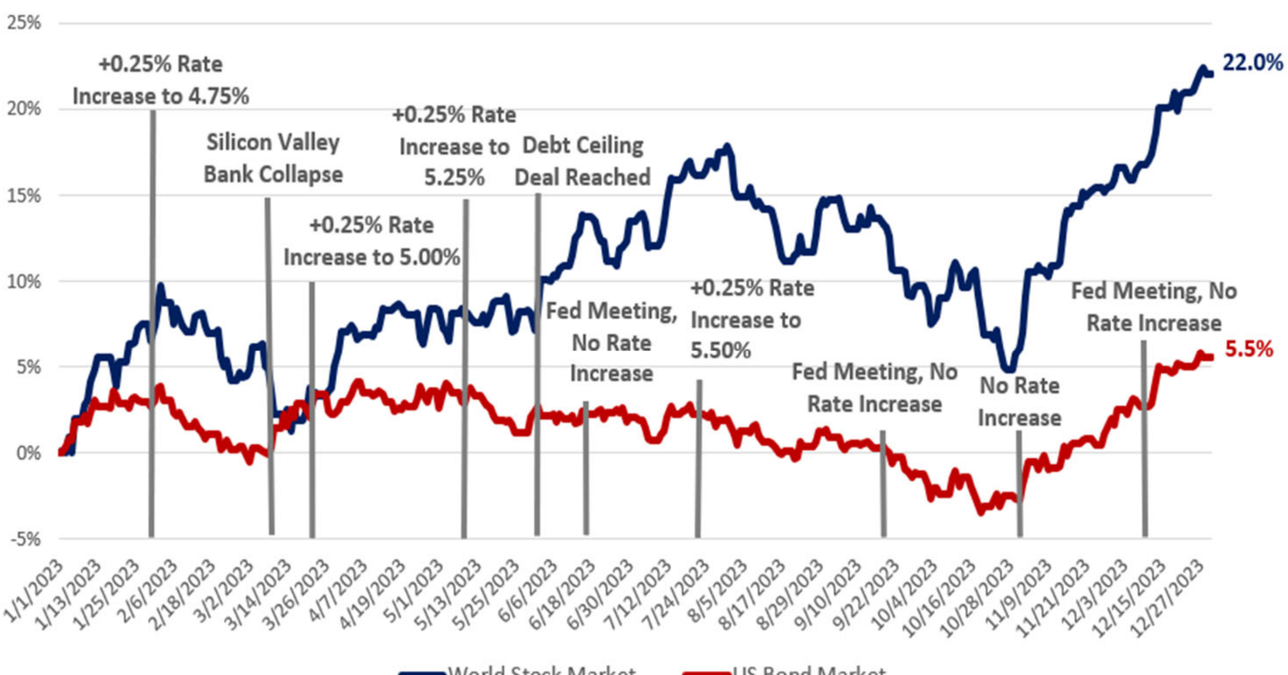
*"The psychological mood of people changes more drastically than anything else in finance. Human nature changes least of all."*

- Benjamin Graham

In 2023, the public equities markets witnessed robust returns, successfully mitigating the losses experienced in 2022. Within the US Equities segment, a surge of 26% was primarily fueled by the performance of the Magnificent Seven, contributing over 58% to the total return of the S&P 500. Meanwhile, non-US equities exhibited a more organized and widespread rally, resulting in an increase of 16% (MSCI World ex US Index). Bond returns, recovering from a challenging 2022, demonstrated positive momentum with a 5.5% return (US Aggregate Bond Index).




Source: Morningstar Direct

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# QMR – Portfolio & Market Review

## 4th Quarter 2023

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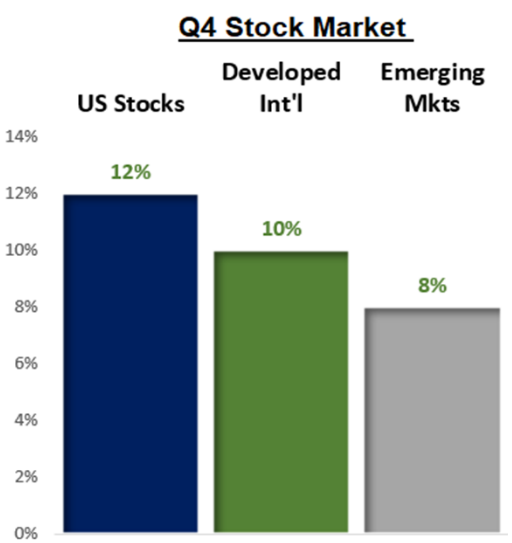
**Stocks** – If we combine the last two years (2022 and 2023), global equities have erased their losses from 2022. The 22% global equity growth in 2023 was across all asset classes with a surge in the fourth quarter of +11%. This was partially driven by an increase in the valuation of large cap growth stocks, which left US value, small companies, and international markets favorably priced. Many Wall Street strategists predicted the stock market would decline in 2023 – continuing to prove even the “experts” can fail to prophesize the future of the markets.

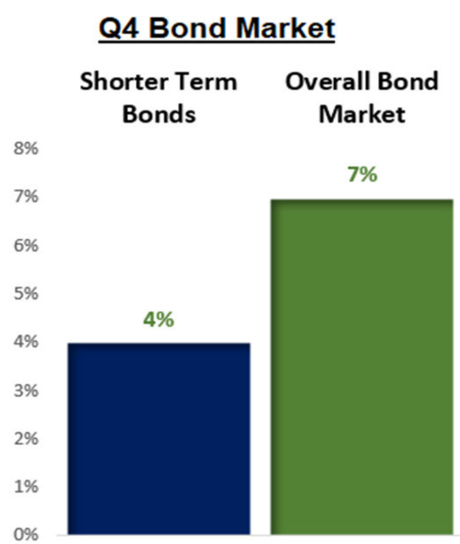
**Bonds** – All major bond indices were positive for the quarter and year. This was driven by the strongest month-over-month returns we’ve seen by bonds (US Agg Bond Index) with a return 4.53% in November and 3.83% in December, mostly due to bond prices increasing and yields decreasing. Much of this excitement was due to the Federal Reserve signaling the possibility for three rate cuts in 2024.

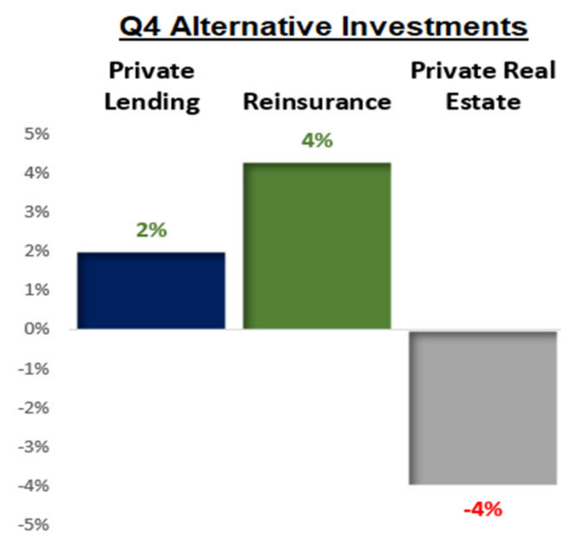
**Alternatives** – Private lending and reinsurance produced strong returns in 2023. Private lending yielded returns ranging from +8% to +12% for the year, primarily attributed to rigorous underwriting selection of borrowers and a robust pipeline of loans, particularly as traditional lending has experienced a slowdown and has comparatively become more expensive.

Reinsurance finished the year with its strongest annual return since there has been a benchmark (year 2008), up +21%. To put this in perspective, the next highest annual return was 13% in 2009.

Private real estate continued its negative trend, experiencing a decline of -4% for the quarter and -14% for the year. As highlighted in the previous quarter, despite rising rents, appraisers have been making modest downward adjustments to valuations. This shift is a response to the market's acknowledgment that interest rates are expected to remain elevated for a more extended period than initially anticipated. However, if rate cuts occur in 2024, aligning with the Federal Reserve's outlook, there is a reasonable anticipation that pricing in private real estate may steady its course.



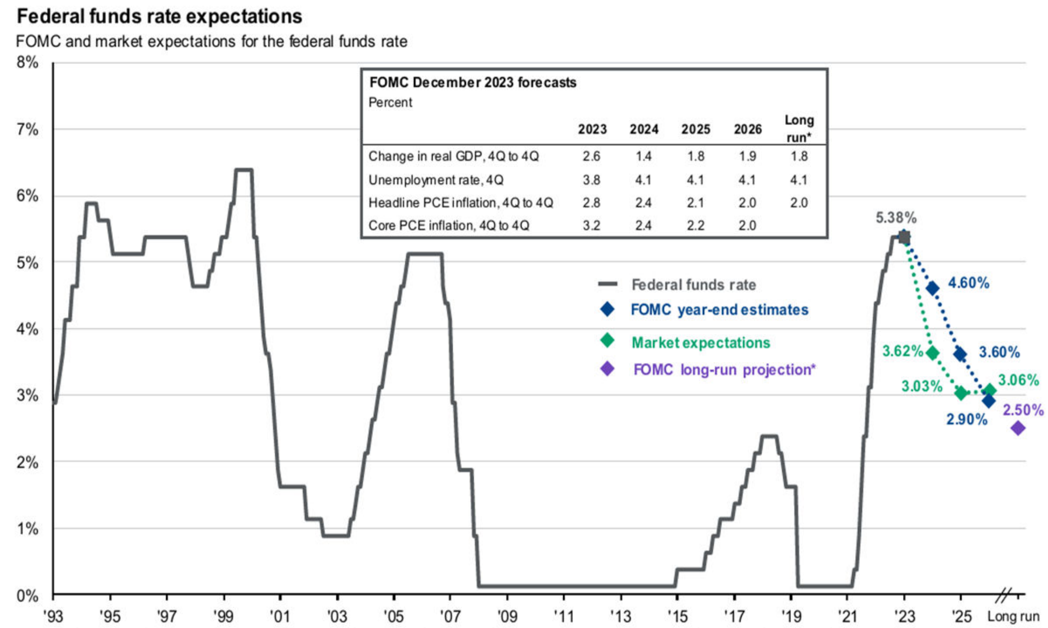
# QMR – Economic Update

## 4th Quarter 2023

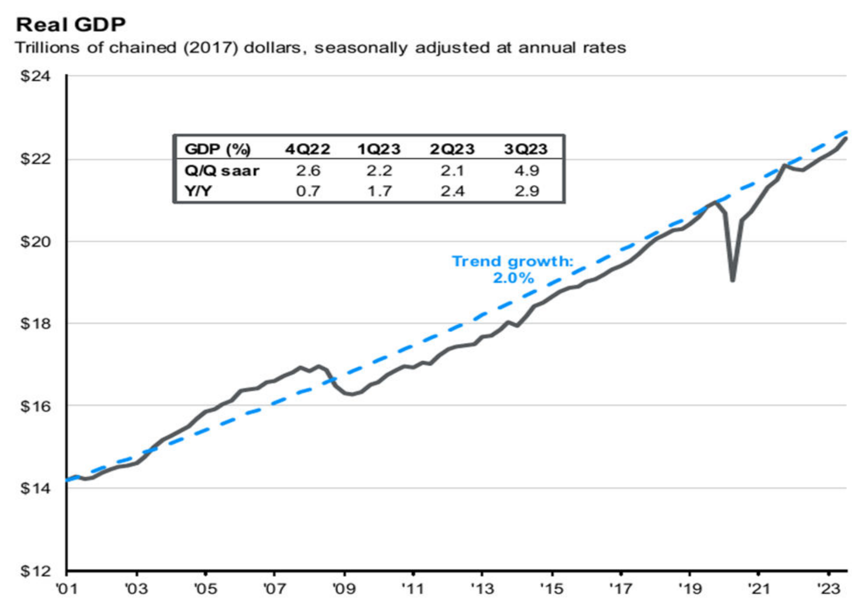
**Rates** – The Federal Reserve has raised interest rates by a total of 5.25% since the start of 2022 in an effort to combat inflation. Nevertheless, as inflation approaches the 2% target and labor market conditions improve, it is probable that the July rate hike marked the conclusion of the current cycle. During their December meeting, the Fed opted to maintain the federal funds rate within a target range of 5.25% to 5.50%, strongly suggesting that rates have peaked for this cycle. In essence, the Fed has likely concluded its series of rate hikes, shifting investor focus to the potential timing and magnitude of future rate cuts. If the economy remains robust, the Fed may implement modest policy cuts.

**Economy** - The resilience of the U.S. economy was evident last year, marked by above-trend real GDP growth in the initial three quarters. The optimism for a soft landing has been fueled by easing inflation and improved growth prospects, underpinned by robust business spending and resilient consumers enjoying increased wages. However, the potential hurdle of decelerating corporate profits may limit the expansion of capital expenditures for businesses, and with stringent lending standards persisting, consumer spending may experience a slower trajectory.

In summary, the U.S. economy is anticipated to sustain a moderate but decelerating pace of growth. Nevertheless, a more sluggish economy becomes increasingly vulnerable to shocks. Whether influenced by factors such as the U.S. election, elevated policy rates, significant geopolitical tensions, or unforeseen circumstances, lingering risks persist that could potentially lead the economy into a recession in 2024.




| | 2023 | 2024 | 2025 | 2026 | Long run* |
|---|---|---|---|---|---|
| Change in real GDP, 4Q to 4Q | 2.6 | 1.4 | 1.8 | 1.9 | 1.8 |
| Unemployment rate, 4Q | 3.8 | 4.1 | 4.1 | 4.1 | 4.1 |
| Headline PCE inflation, 4Q to 4Q | 2.8 | 2.4 | 2.1 | 2.0 | 2.0 |
| Core PCE inflation, 4Q to 4Q | 3.2 | 2.4 | 2.2 | 2.0 | |




| GDP (%) | 4Q22 | 1Q23 | 2Q23 | 3Q23 |
|---|---|---|---|---|
| Q/Q saar | 2.6 | 2.2 | 2.1 | 4.9 |
| Y/Y | 0.7 | 1.7 | 2.4 | 2.9 |

Source: JP Morgan, Q4 2023 Guide to the Markets

# National Debt and Stock Returns

4th Quarter 2023

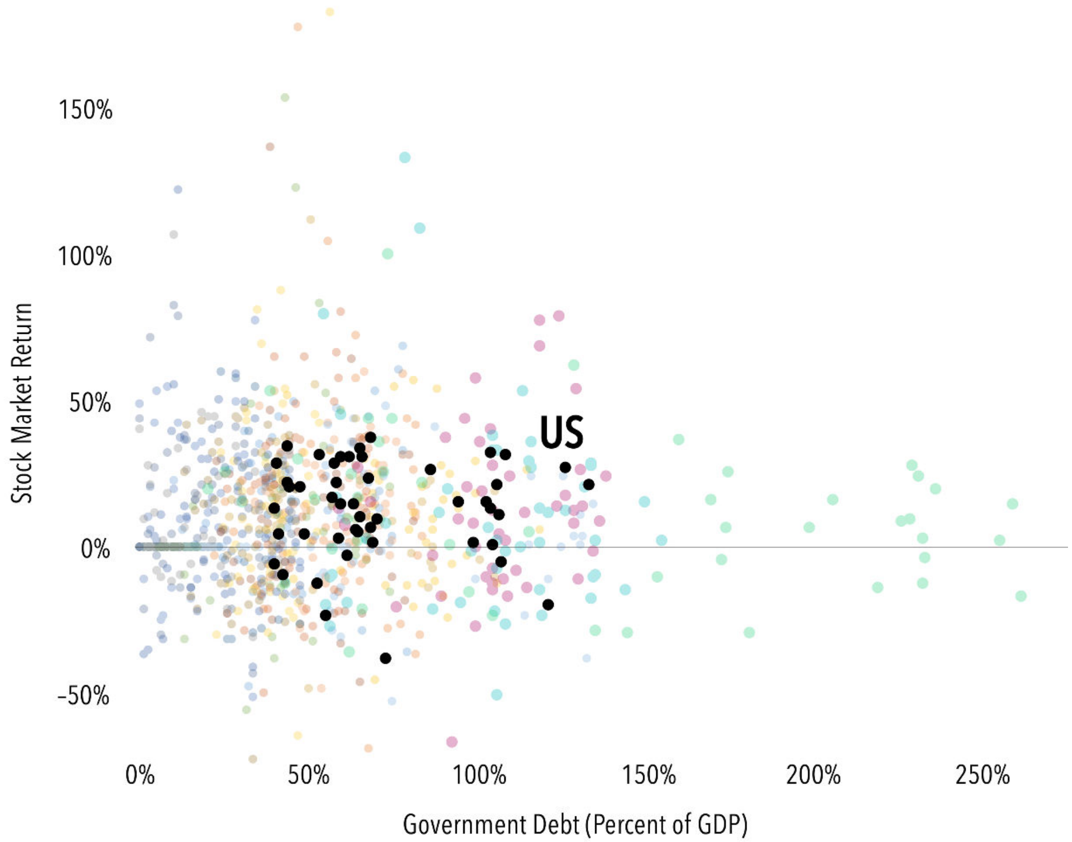
US government debt reached 121% of the value of the country's gross domestic product (GDP) last year. Many investors have expressed concern over the impact that servicing this level of debt could have on the stock market. But the historical data show little relation between the two. Since 1975, there have been 153 observations of a country exceeding 100% debt/GDP for a year. Stocks were up for that country/year in 104 of the 153, or about two-thirds of the time.

There are numerous examples of countries carrying high debt for extended periods. Italy and Belgium have both been over 100% debt/GDP in more than 30 of the past 48 years. Meanwhile, their stock markets have returned an average of 10.8% and 12.0% per year, respectively. Japan has been over 200% since 2010 while its market averaged close to 6% per year over that period.

Stock markets set prices to the point where investors have a positive expected return given current information. Country debt is a slow-moving variable, so it's sensible that current prices reflect expectations about the effect of government debt, and it's unsurprising to see stock performance has generally been positive even amid high-debt conditions.

**INDEBTED**

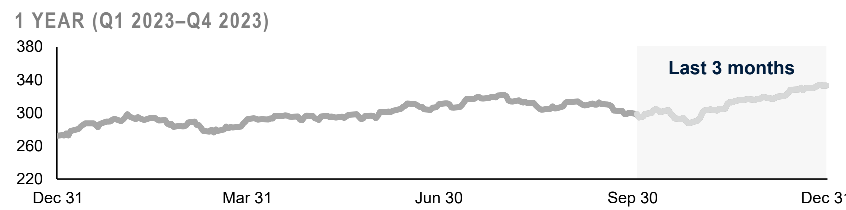
General government debt, percent of GDP vs. stock market return for developed markets, 1975–2022

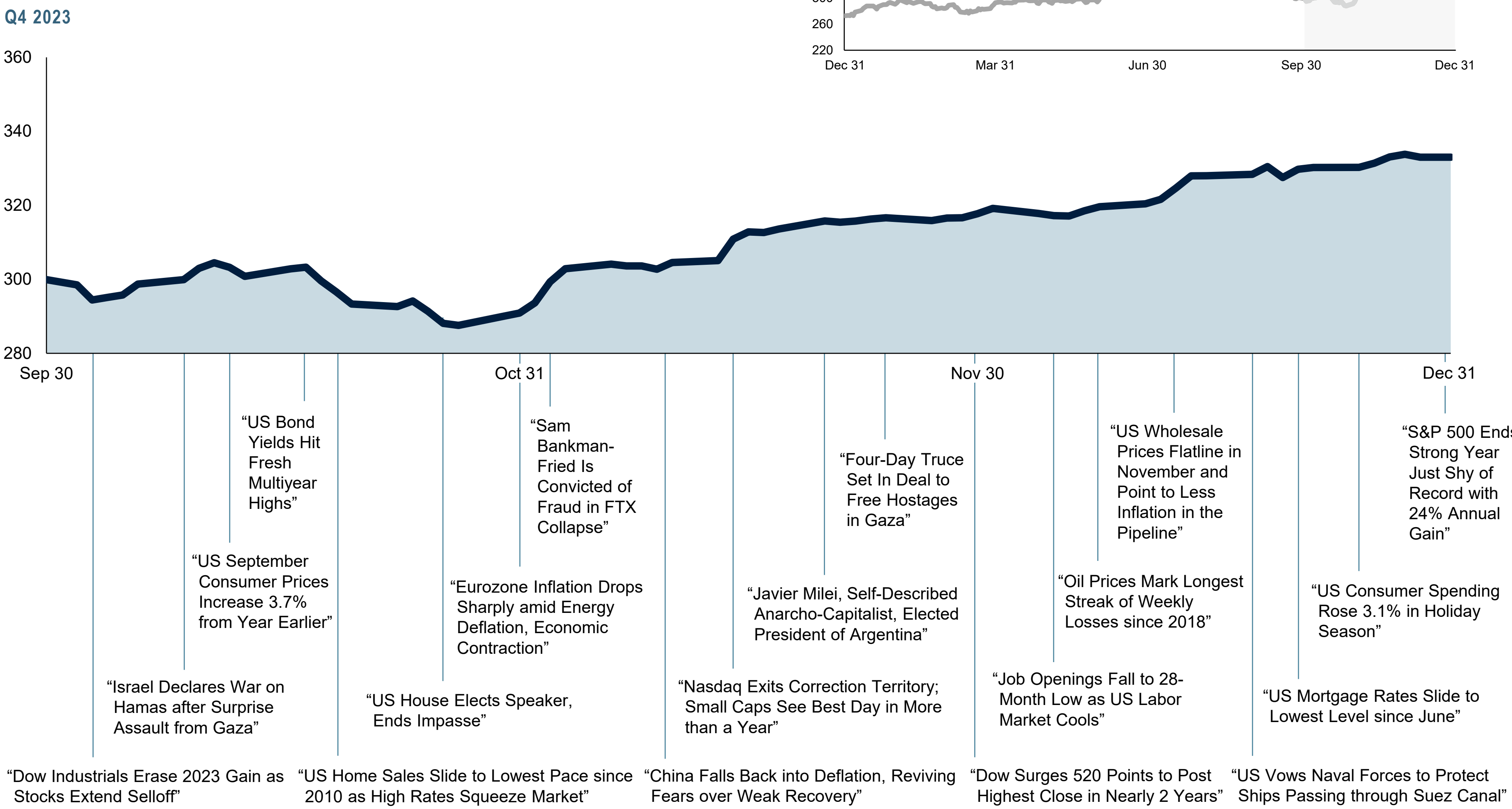



1. "General Government Debt," Global Debt Database, International Monetary Fund, September 2023.

# World Stock Market Performance

## MSCI All Country World Index with selected headlines from Q4 2023




***These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.***

# Global Valuations

## What is the Investment Climate?

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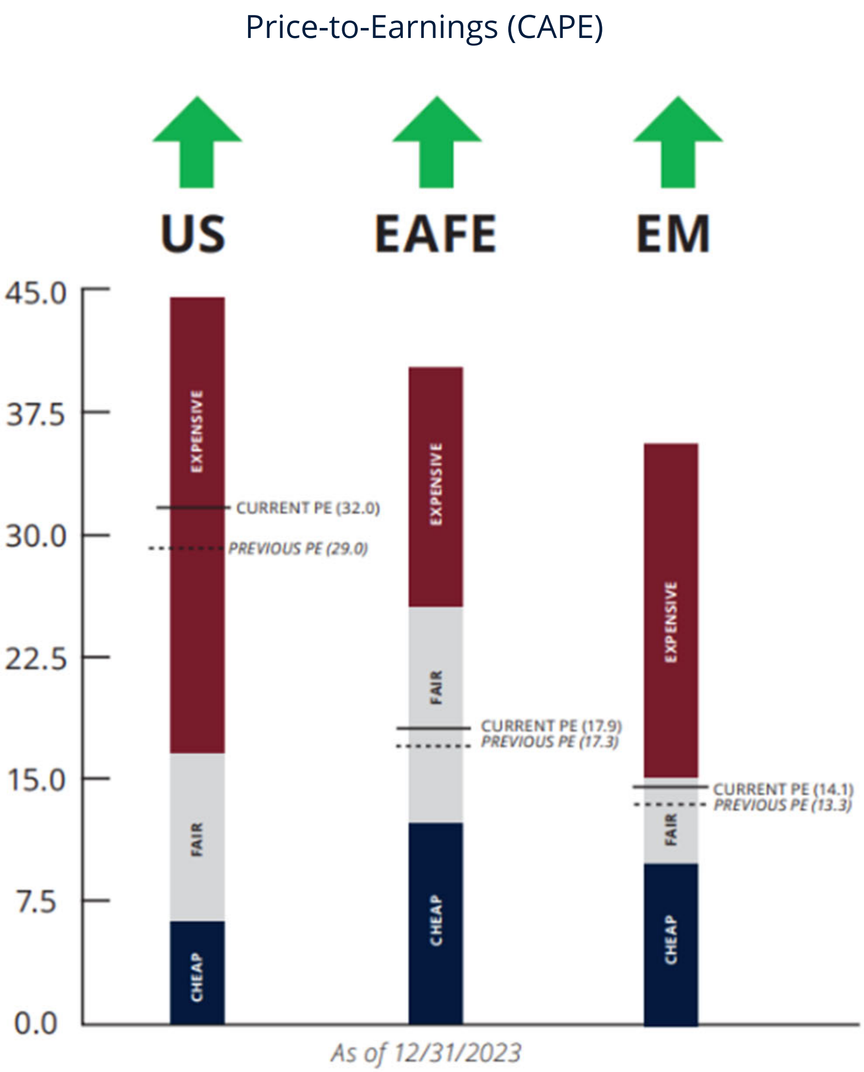


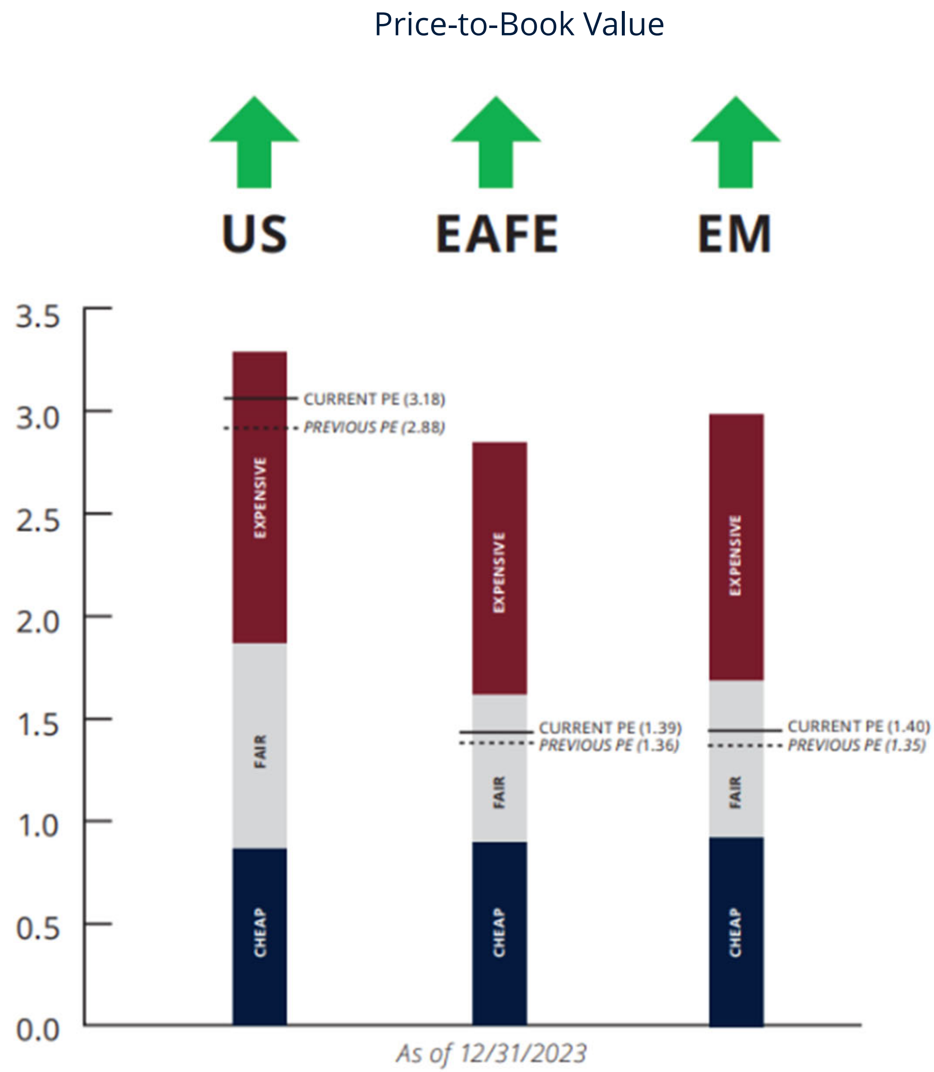


**Cyclically Adjusted Price-to-Earnings** or "CAPE" is a valuation metric, where the current market price is divided by the last ten years of average earnings (adjusted for inflation). The price you pay is what you get, and by utilizing average earnings over a longer period (10 years), we can put into perspective whether the current market price is trending toward expensive, undervalued, or fairly valued historically.

# Quarterly Market Summary

## Index returns



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| Q4 2023 | US Stock Market | International Developed Stocks | Emerging Markets Stocks | Global Real Estate | US Bond Market | Global Bond Market ex US |
|---|---|---|---|---|---|---|
| | STOCKS | | | | BONDS | |
| | 12.07% | 10.51% | 7.86% | 15.47% | 6.82% | 5.36% |

| Since Jan. 2001 | US Stock Market | International Developed Stocks | Emerging Markets Stocks | Global Real Estate | US Bond Market | Global Bond Market ex US |
|---|---|---|---|---|---|---|
| Average Quarterly Return | 2.3% | 1.6% | 2.5% | 2.3% | 0.9% | 0.9% |
| Best Quarter | 22.0% | 25.9% | 34.7% | 32.3% | 6.8% | 5.4% |
| | **2020 Q2** | **2009 Q2** | **2009 Q2** | **2009 Q3** | **2023 Q4** | **2023 Q4** |
| Worst Quarter | -22.8% | -23.3% | -27.6% | -36.1% | -5.9% | -4.1% |
| | **2008 Q4** | **2020 Q1** | **2008 Q4** | **2008 Q4** | **2022 Q1** | **2022 Q1** |

**Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.**

Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net dividends]), Emerging Markets (MSCI Emerging Markets Index [net dividends]), Global Real Estate (S&P Global REIT Index [net dividends]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]). 

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# Long-Term Market Summary

Index returns as of December 31, 2023

| | US Stock Market | International Developed Stocks | Emerging Markets Stocks | Global Real Estate | US Bond Market | Global Bond Market ex US |
|---|---|---|---|---|---|---|
| **1 Year** | STOCKS | | | | BONDS | |
| | 25.96% | 17.94% | 9.83% | 10.23% | 5.53% | 8.32% |
| **5 Years** | | | | | | |
| | 15.16% | 8.45% | 3.68% | 4.16% | 1.10% | 1.50% |
| **10 Years** | | | | | | |
| | 11.48% | 4.32% | 2.66% | 4.72% | 1.81% | 2.80% |

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