

# MARKET REVIEW

## › 1<sup>st</sup> QUARTER 2024

### ▶ EXECUTIVE SUMMARY

- › US stocks started the year on a positive note with the S&P 500 up 10.6% and US small/mid cap stocks up 5.2%.
- › International stocks continue to underperform domestic markets. International developed increased 4.8% while emerging markets posted a 2.4% gain.
- › Alternative asset classes experienced mixed results with reinsurance and corporate lending up 4% and 2.9%, respectively. Private real estate was down 3% to start the year.
- › The Federal Reserve is confident that inflation will continue abating (to ~2%) but is not expecting it to happen overnight.

# Quarterly Market Review

First Quarter 2024



**William Wang CFP®**  
Managing Director

*"I trained four years to run nine seconds, and people give up when they don't see results in two months."* – Usain Bolt, eight-time Olympic gold medalist

March Madness holds a special place in the hearts of basketball enthusiasts and professionals alike. Having coached basketball at different levels for over 15 years, I can't help but admire and be inspired by the electrifying atmosphere, and fierce competition. Not dissimilar to Usain Bolt, it is the culmination of years of hard work in darkness for a brief moment on the national stage. The intensity of March Madness is unparalleled, with players and teams giving their all in every 40-minute battle. It's a showcase of both tangible skills and the intangible qualities of determination, resilience, and teamwork. One blink, one slip, and it could all be over, leaving behind memories that will linger for a lifetime.

But as the curtains draw on March Madness, life inevitably moves on. For many elite athletes, particularly in basketball where players can turn professional after just one year of college, attention shifts to the NBA draft. It's a process where professional scouts and coaches meticulously analyze and evaluate talent, sifting through thousands of prospects to identify the select few who possess the potential to excel at the highest level.

As someone deeply intrigued by scouting, coaching, and talent evaluation, I naturally draw parallels between the NBA Draft and the world of stock investing. Just as scouts scrutinize players' skills, attributes, and performance, investors analyze companies, their fundamentals, and their growth potential before adding them to their portfolios.

With over 55,000 listed companies in the global stock market, narrowing down the pool to a manageable size is akin to selecting NBA draft prospects. Most equity portfolios hold a fraction of these companies, each carefully chosen in the hopes of achieving a reasonable return above the risk-free rate.

So, what's the process behind selecting the right players or the right stocks? In both cases, it begins with thorough research and analysis. Scouts and investors review past performance, conduct interviews, and assess key metrics to gauge potential. But perhaps the most critical aspect of the evaluation process is the NBA combine.

## Overview:

Market Summary

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US Stocks

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Emerging Markets Stocks

Fixed Income

# Quarterly Market Review

Continued

The combine serves as a standardized setting for athletes to showcase their physical attributes and skills, providing evaluators with crucial data to inform their decisions. Similarly, investors rely on financial metrics, market trends, and economic indicators to assess the strength and viability of potential investments.

Just as NBA teams have specific criteria for their ideal players, investors have their own set of criteria for selecting stocks based on historical data and characteristics that have led to success in the past. Whether it's height and wingspan for basketball players or profitability and growth potential for companies, these criteria serve as benchmarks for decision-making.

The goal is to identify winners — players or stocks with the highest probability of success. And while the journey may differ, the principles of evaluation and selection remain the same: It's a process rooted in data, analysis, and a deep understanding of the factors that drive success.

As we marvel at the spectacle of March Madness and the excitement of the NBA draft, let's also appreciate their parallels with the world of investing. Whether on the court or in the market, the pursuit of excellence requires diligence, strategy, and a whole lot of help from statistics.

## Criteria Investing

Also commonly known as factor investing, criteria investing is an investment strategy that involves selecting securities based on characteristics that have historically been associated with higher returns and/or reduced risk. Instead of simply investing in the broad market index or selecting one-off companies, criteria investing seeks to systematically capture the excess return (referred to as “investment alpha” or “premium” by finance academics) attributed to specific characteristics — not dissimilar to how the very best talent scouts and evaluators predict and project the next generation of top athletes.

What characteristics have produced academically recognized premiums?

**Value:** Stocks that are undervalued relative to their fundamental measures such as earnings, book value, or cash flow.

**Size:** Stocks of smaller companies have historically outperformed stocks of larger companies, known as the size factor.

**Momentum:** Stocks that have exhibited strong performance in the recent past tend to continue performing well in the short to medium term.

**Quality:** High-quality companies with strong profitability, stable earnings, and low debt levels.

**Low Volatility:** Stocks with lower volatility or risk have historically provided better risk-adjusted returns than higher-volatility stocks.

**Dividend Yield:** Stocks that pay higher dividends relative to their price, indicating income generation potential.

Over the last 50-plus years, Value, Size and Quality have really stood out. Criteria investing is supported by decades of academic data demonstrating result patterns across not only different markets, but regions across the world. Unfortunately, like a sprinter training for the Olympics, the premiums and results don't typically show in two months. ***They can take time to present themselves.***

# How have we performed?

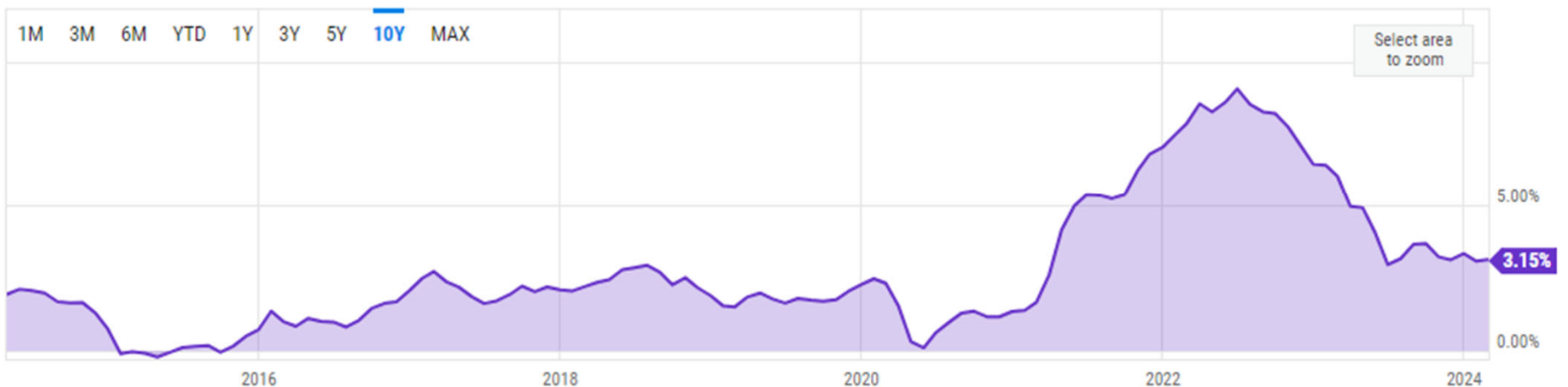
**Alternatives** – In 2021, our investment team introduced the alternative asset class back into our portfolio in order to diversify against risks we saw in traditional equity and fixed income. The primary advantage and allure of the alternative space is the low correlation with traditional asset classes and the attribution of where returns are generated. The alternative investments we have chosen to focus on — Reinsurance, Private Lending, Private Real Estate, and Real Assets — all have an emphasis on predictable income yield, which has historically resulted in far less volatility than assets that rely on expansion of price multiples and forecasting of earnings.

Our private and corporate lending produced strong returns in 2023 and remained positive at the start of the new year. With a strong and steady pipeline of loans, private lending yielded returns of 2.9%, while traditional lending has struggled to navigate the new interest rate landscape. Banks are battling for deposits and increased interest rates have forced them to markdown investment assets on their books. These two headwinds make traditional lending more challenging which has boded well for alternative lending sources funded by investor capital.

Reinsurance finished last year up 20% and started this year with a positive 4% in Q1. Insurance premiums have continued to adjust and increase, which has had a positive impact on returns in that space.

Private real estate remains down, starting the year with a -3% return. Real estate will continue to be a topic of discussion as investors keep an eye on interest rate activity and the federal reserve’s view of the nation’s economic health. Currently, the US consumer price index sits at 3.15%, a major improvement from its peak of 9.06% in June of 2022.

Exhibit 1 - US Consumer Price Index



# The Next BlackBerry?

First Quarter 2024

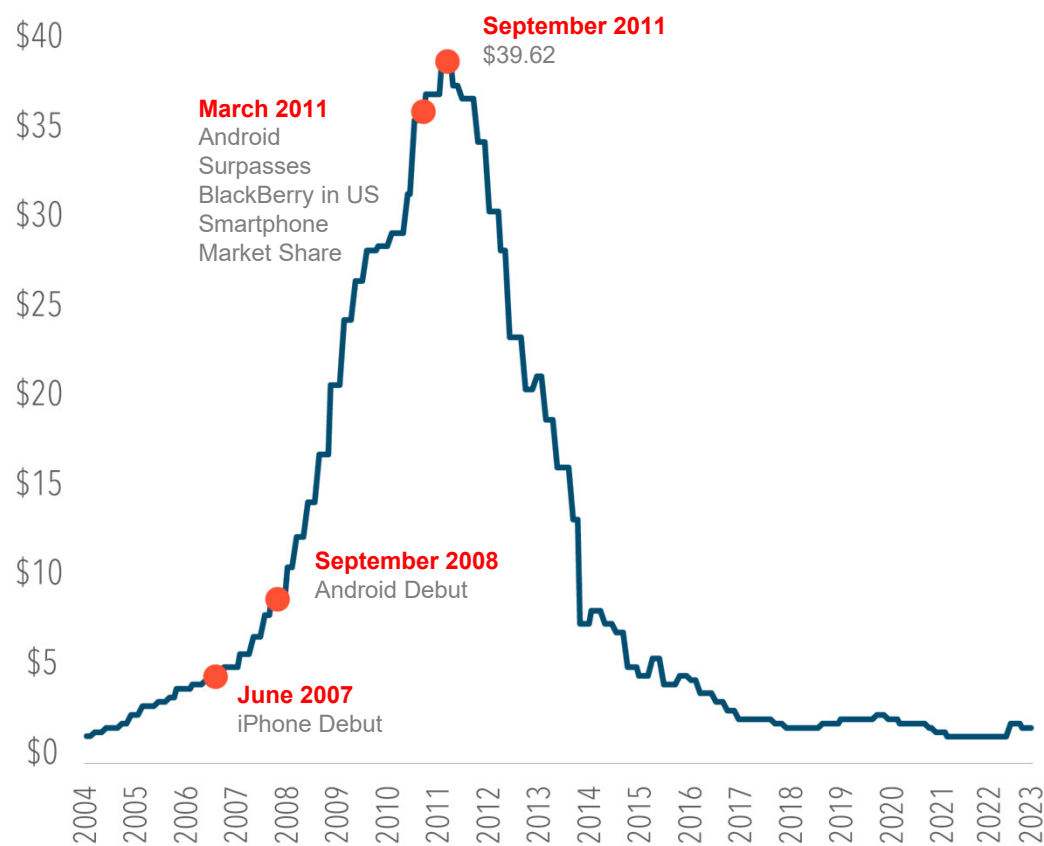
Some investors attribute the Magnificent 7 stocks' dominance to a "winner-takes-all" environment in which a handful of companies achieve sufficient market share to hinder competition.<sup>1</sup> In businesses where gaining users drives success, establishing a strong market share may be like building a moat around profitability. But that doesn't guarantee these companies can stay on top.

Think about the state of mobile phones 15 years ago. In all likelihood, you would have been reading this on a BlackBerry, such as that device's entrenchment for mobile business communication. Then, along came iPhones and Androids, and suddenly, BlackBerry's foothold was eroded.

History is littered with examples of household names that were usurped by the Next Big Thing. Remember, Sears was a Top 10-sized stock in the US once upon a time. AOL was synonymous with internet access in the 1990s. And in 2003, the most popular social media network starting with the letter F was Friendster.

Even the biggest companies have uncertain futures, highlighting the need for broadly diversified investments. And even if these companies stay at the top of the market, that's no assurance higher returns will continue if their success is expected.







**BLACKBERRY TRAILING 12-MONTH SALES PER SHARE**  
February 2004–January 2024



Magnificent 7 include Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla. Named securities may be held in accounts managed by Dimensional.

# Quarterly Market Summary















## Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Q1 2024	STOCKS				BONDS	
	10.02%	5.59%	2.37%	-1.19%	-0.78%	0.58%
						
Since Jan. 2001						
Average Quarterly Return	2.4%	1.6%	2.5%	2.2%	0.9%	0.9%
Best Quarter	22.0%	25.9%	34.7%	32.3%	6.8%	5.4%
	<b>2020 Q2</b>	<b>2009 Q2</b>	<b>2009 Q2</b>	<b>2009 Q3</b>	<b>2023 Q4</b>	<b>2023 Q4</b>
Worst Quarter	-22.8%	-23.3%	-27.6%	-36.1%	-5.9%	-4.1%
	<b>2008 Q4</b>	<b>2020 Q1</b>	<b>2008 Q4</b>	<b>2008 Q4</b>	<b>2022 Q1</b>	<b>2022 Q1</b>

**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]). S&P data © 2024 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2024, all rights reserved. Bloomberg data provided by Bloomberg.

# Long-Term Market Summary

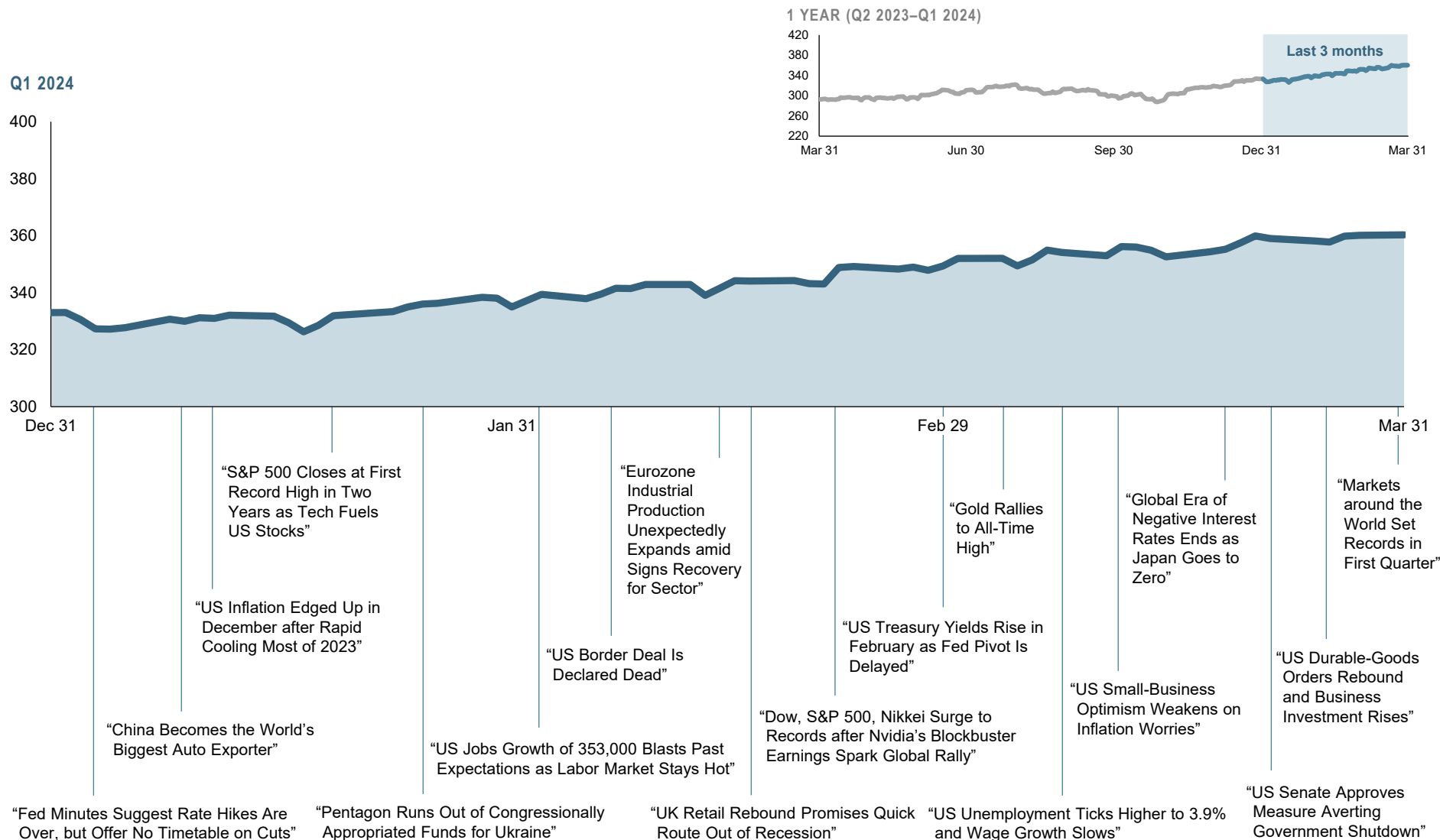
Index Returns as of March 31, 2024

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
1 Year	STOCKS				BONDS	
	29.29%	15.29%	8.15%	7.44%	1.70%	5.92%
						
5 Years						
	14.34%	7.48%	2.22%	1.21%	0.36%	1.03%
						
10 Years						
	12.33%	4.81%	2.95%	3.89%	1.54%	2.64%
						

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# World Stock Market Performance

MSCI All Country World Index with Selected Headlines from Q1 2024



*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.*

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2024, all rights reserved. Index level based at 100 starting January 2000.

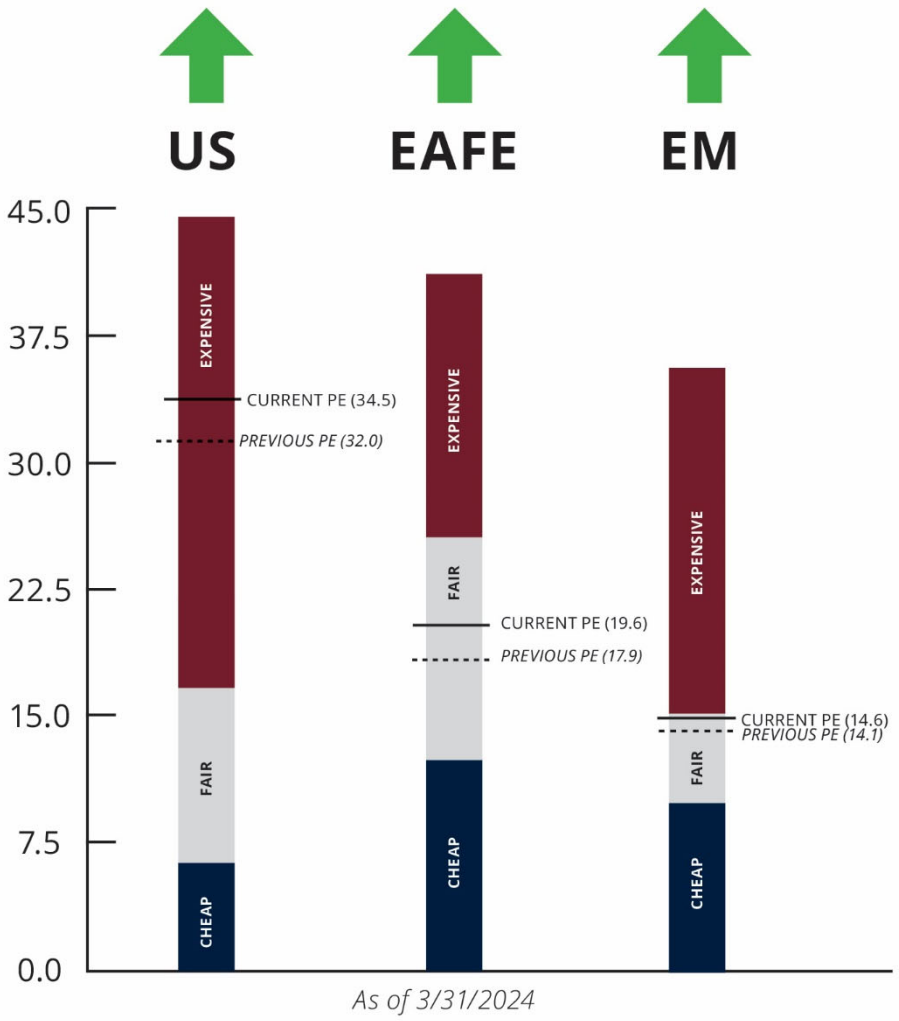
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**



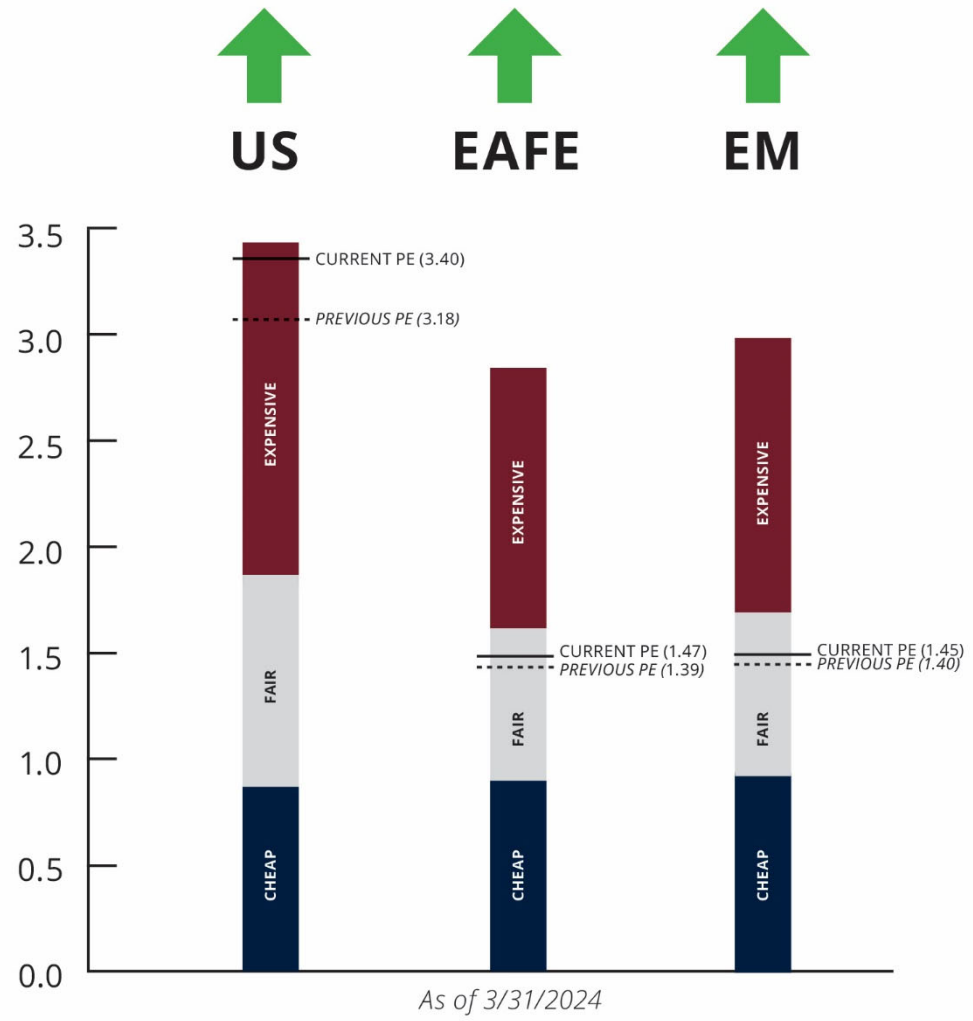
# Global Valuations

What is the Investment Climate?

Price-to-Earnings (CAPE)



Price-to-Book Value



**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.

# US Stocks

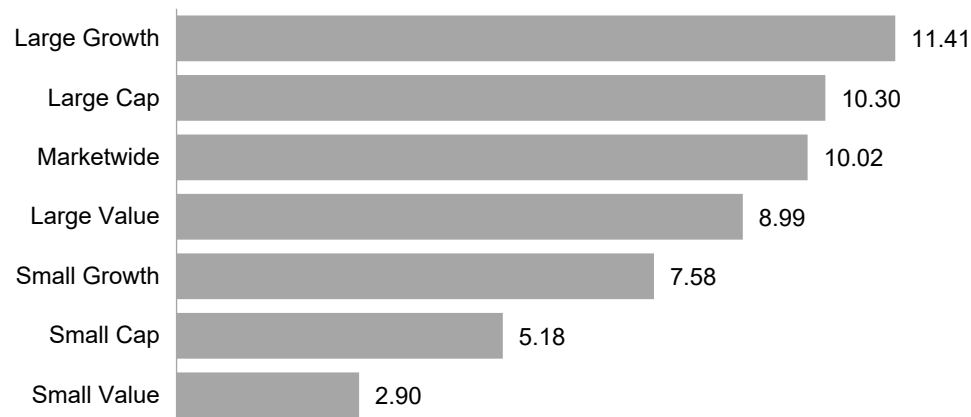
## First Quarter 2024 Index Returns

Global stocks continue to drive forward carrying on the momentum from Q4 of 2023. The 8.3% global equity growth to start Q1 was driven predominantly by strong US equity performance and headlined by large cap growth stocks. The magnificent seven led by Nvidia Corp (82%), Meta Platforms (38%), Netflix (26%) drove a good percentage of market returns proving that looking at the collective result may not actually tell the collective story.

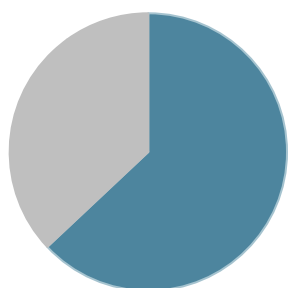
In summary, US stocks outperformed both non-US developed and emerging markets. Value underperformed growth. Small caps underperformed large caps.

REIT indices underperformed equity market indices.

### Ranked Returns (%)



### World Market Capitalization—US



**63%**

US Market  
\$50.7 trillion

### Period Returns (%)

Asset Class	QTR	1 Year	Annualized		
			3 Years	5 Years	10 Years
Large Growth	11.41	39.00	12.50	18.52	15.98
Large Cap	10.30	29.87	10.45	14.76	12.68
Marketwide	10.02	29.29	9.78	14.34	12.33
Large Value	8.99	20.27	8.11	10.32	9.01
Small Growth	7.58	20.35	-2.68	7.38	7.89
Small Cap	5.18	19.71	-0.10	8.10	7.58
Small Value	2.90	18.75	2.22	8.17	6.87

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# International Developed Stocks

## First Quarter 2024 Index Returns

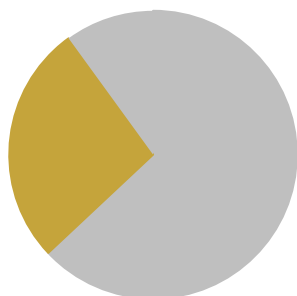
International markets posted a modest 4.8% return for the quarter. While economic activity in major international nations: Germany, Denmark, Italy, France and Netherlands has been healthy, the composition of international developed indexes have an emphasis in the financial and industrial sector. Both sectors have experienced obvious challenges with the pandemic and monetary intervention over the past few years.

Overall, even international stocks carried the common theme. Value underperformed growth and small caps underperformed large caps.

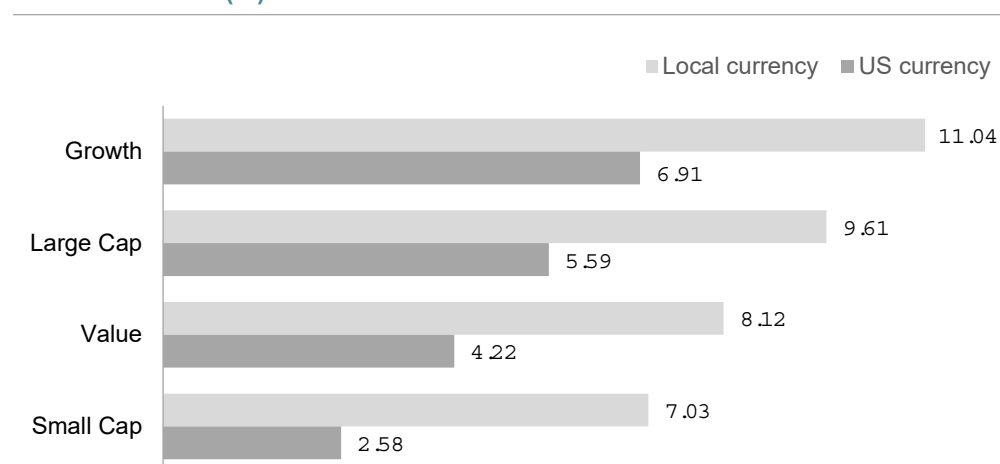
### World Market Capitalization—International Developed

27%

International Developed Market  
\$21.9 trillion



### Ranked Returns (%)



### Period Returns (%)

Asset Class	QTR	1 Year	Annualized		
			3 Years	5 Years	10 Years
Growth	6.91	13.66	2.83	7.86	5.74
Large Cap	5.59	15.29	4.93	7.48	4.81
Value	4.22	16.90	6.80	6.62	3.61
Small Cap	2.58	10.04	-0.93	5.39	4.54

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# Emerging Markets Stocks

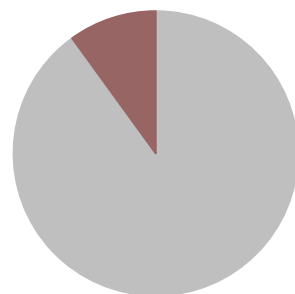
## First Quarter 2024 Index Returns

Emerging markets posted positive returns for the quarter but underperformed both US and non-US developed markets. Historically, Emerging markets have provided positive returns comparable to US and International Stocks over a longer-term period, but over the last decade plus, this region has underwhelmed. Projecting forward, Emerging markets has the lowest valuation of all the equity regions and therefore, offers higher upside statistically, which justifies its allocation to the portfolio.

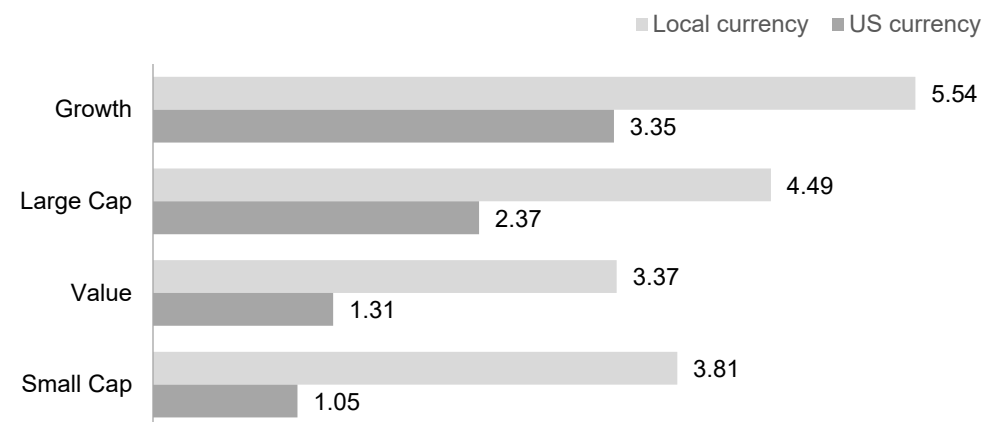
### World Market Capitalization—Emerging Markets

10%

Emerging Markets  
\$8.4 trillion



### Ranked Returns (%)



### Period Returns (%)

Asset Class	QTR	1 Year	Annualized		
			3 Years	5 Years	10 Years
Growth	3.35	5.16	-8.85	2.24	3.63
Large Cap	2.37	8.15	-5.05	2.22	2.95
Value	1.31	11.36	-0.91	2.09	2.15
Small Cap	1.05	20.56	4.23	8.51	5.09

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# Fixed Income

## First Quarter 2024 Index Returns

Interest rates generally increased in the US Treasury market for the quarter.

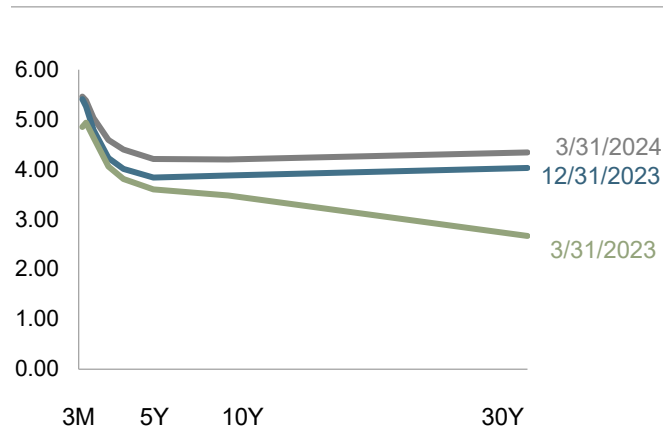
On the short end of the yield curve, the 1-Month US Treasury Bill yield decreased 11 basis points (bps) to 5.49%, while the 1-Year US Treasury Bill yield increased 24 bps to 5.03%. The yield on the 2-Year US Treasury Note increased 36 bps to 4.59%.

The yield on the 5-Year US Treasury Note increased 37 bps to 4.21%. The yield on the 10-Year US Treasury Note increased 32 bps to 4.20%. The yield on the 30-Year US Treasury Bond increased 31 bps to 4.34%.

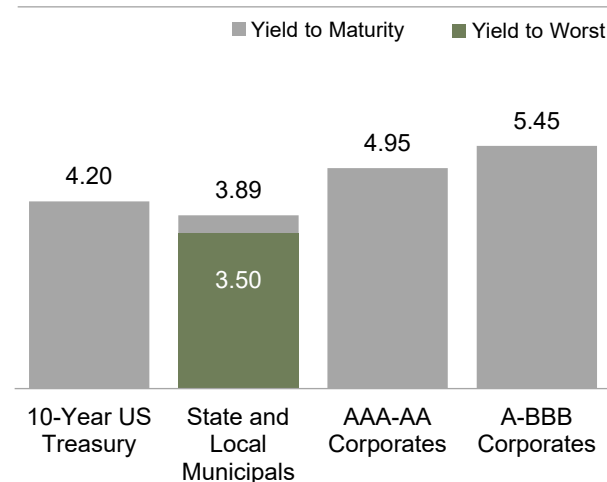
In terms of total returns, short-term US treasury bonds returned -0.05% while intermediate-term US treasury bonds returned -0.36%. Short-term corporate bonds returned +0.60% and intermediate-term corporate bonds returned +0.26%.<sup>1</sup>

The total returns for short- and intermediate-term municipal bonds were -0.19% and -0.52%, respectively. Within the municipal fixed income market, general obligation bonds returned -0.70% while revenue bonds returned -0.27%.<sup>2</sup>

### US Treasury Yield Curve (%)



### Bond Yield Across Issuers (%)



### Period Returns (%)

Asset Class	QTR	1 Year	Annualized		
			3 Years	5 Years	10 Years
Bloomberg U.S. High Yield Corporate Bond Index	1.47	11.15	2.19	4.21	4.44
ICE BofA US 3-Month Treasury Bill Index	1.29	5.24	2.58	2.02	1.38
ICE BofA 1-Year US Treasury Note Index	0.83	4.30	1.44	1.66	1.25
FTSE World Government Bond Index 1-5 Years (hedged to USD)	0.26	3.66	0.11	1.16	1.41
Bloomberg U.S. TIPS Index	-0.08	0.45	-0.53	2.49	2.21
Bloomberg Municipal Bond Index	-0.39	3.13	-0.41	1.59	2.66
Bloomberg U.S. Aggregate Bond Index	-0.78	1.70	-2.46	0.36	1.54
FTSE World Government Bond Index 1-5 Years	-1.35	1.27	-2.61	-0.40	-0.68
Bloomberg U.S. Government Bond Index Long	-3.24	-6.03	-8.01	-2.77	1.25

1. Bloomberg US Treasury and US Corporate Bond Indices.

2. Bloomberg Municipal Bond Index.

One basis point (bps) equals 0.01%. 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. Yield curve data from Federal Reserve. State and local bonds and the Yield to Worst are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the ICE BofA US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA Corporates, BBB-A rated. Bloomberg data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (S&BBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). FTSE fixed income indices © 2024 FTSE Fixed Income LLC, all rights reserved. ICE BofA index data © 2024 ICE Data Indices, LLC. S&P data © 2024 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Bloomberg data provided by Bloomberg.