WAYPOINT

2024 Market Outlook

(As of December 31, 2023)

Market Summary

- 2023 proved to be a strong year for most major asset classes. The S&P 500 recouped 2022's losses, returning +26.3% and closed just shy of it's all time high *(1/3/2022)*. The NASDAQ, meanwhile, gained +44.7% in 2023, which was not enough to recapture all of its losses from the previous year. The majority of the S&P 500's return can be attributed to the "Magnificent Seven" *(NVDA, META, AMZN, TSLA,MSFT, GOOG/GOOGL, & AAPL)*, which averaged a return of +111.6% for the year. These names carried US Equities for the first 10 months of the year, as the average stock in the S&P 500 was down -2.4% & small cap stocks *(Russell 2000)* were down -4.5%, compared to an average return of +80.8% for the "Magnificent Seven". Slowing inflation data and dovish comments from the Federal Reserve fueled a torrid rally in the final two months of the year, lead by the average stock *(+16.6%)* and small cap stocks *(+22.4%)*.

- **Much of the following information regarding our outlook for 2024 concerns the Federal Reserve's policy measures to quell inflation, which we believe is the most impactful mechanism at work in capital markets at the present. Appendix I on slides 27 – 30 contains a more detailed write-up *(from December 15)* on the implications of the Fed's apparent shift in policy:**

  - Since inflation peaked *(9.1%)* in April 2022, the Federal Reserve Fed has enacted the fastest rate hiking cycle in history while simultaneously reducing the size of their balance sheet through quantitative tightening. The goal of these tightening measures is to slow inflation without meaningfully impacting employment, thus avoiding a recession *(achieve a "soft landing")*. The lagged effects of these policy tools and the unprecedented nature with which they have been implemented makes this task incredibly difficult, as a policy mistake in either direction would likely result in either a recession or a re-acceleration of inflation.

  - We are dubious that this FOMC will be able to achieve a "soft landing" using the blunt instruments at their disposal and are of the opinion that if the Fed does indeed cut rates this year that it will be due to one of two policy mistakes – 1) the effects of Fed's tightening thus far has yet to be fully realized, and the Fed has overtightened or 2) the Fed prematurely declares victory against inflation.

  - March's bank failures highlighted how such aggressive tightening measures can produce instability in the banking system. Throughout the year, the Treasury and the Federal Reserve enacted measures to backstop liquidity and prevent further disruption, however, we believe that these vulnerabilities will become more pronounced the longer that restrictive monetary policy persists.

  - While inflation has slowed meaningfully, there remain several factors *(deglobalization, supply chain disruptions, and a tight labor market)* that could act as a catalyst for inflation to re-accelerate. The inflation cycle of the 1970's has thus far proven to be a strong analog to the current inflation cycle and provides a cautionary example of the risks of prematurely easing policy, as inflation has historically come in waves.

  - In our opinion, the stock market & the bond market are saying different things. The stock market ripped in the final two months of 2023, pricing in a "goldilocks scenario" in which the Fed lowers rates and earnings grow by +11.5%. During the FOMC meeting in December, the Fed forecasted three rate cuts in 2024, however, the futures market is currently pricing in six rate cuts. As the Fed has historically cut rates in response to economic shocks, the expectation of six rate cuts is not a bullish proposition in our opinion. Yields have collapsed across the curve as well, with the 10-year Treasury yield falling more than 100 bps since peaking at ~5%. Both the response from yields, as well as the pricing in the Fed Funds futures market, imply that the bond market is pricing in a recession.

2024 Asset Class Outlook – Equities

- **US Large Cap:** Underweight
  - Despite the rally broadening out over the final two months of 2023, the top 10 holdings still make up ~32% of the S&P 500 and accounted for almost 67% of the index's YTD return. Index level valuations are stretched; however, the average stock is more reasonably valued *(though valuations are still higher than historical averages)*. Earnings growth for 2023 is expected to be +0.6% *(revenue growth of +2.3%)*, declining for the second consecutive year, which indicates that nearly all the S&P 500's +26.3% return can be attributed to multiple expansion. Current valuation levels reflect +11.5% earnings growth in 2024 as well as six rate cuts from the Federal Reserve, which in our opinion would be necessary to justify trading at 22x forward earnings. +11.5% earnings growth may be optimistic considering forecasted GDP growth for 2024 is expected to slow to +1.2% and recessionary risks continue to persist. History would suggest that it is more likely that these outcomes are mutually exclusive, as such a dramatic reduction in the Federal Funds rate typically occurs in response to an economic shock. Given the uncertainty of the economic environment, we continue to favor companies that can reliably generate cash flow organically and reward their shareholders with dividends. Furthermore, we would overweight the average stock and active managers vs passive, cap-weighted exposure due to concentration risk and valuation concerns at the top of the market.

- **US Small/Mid Cap:** Underweight
  - Small/Mid Cap stocks tend to be more cyclical when compared to Large Cap Equities and may offer clarity as to the direction of the profit cycle should economic growth deteriorate. Should the economy accelerate above expectations, we would expect Small/Mid Caps to outperform. Due to the large percentage of unprofitable companies within the Russell 2000, we also want to emphasize quality within the Small/Mid Cap space.

- **International Equities:** Overweight
  - Like US Equities, most Global Equity markets rebounded significantly from their 2022 lows. Broadly, we maintain a constructive view on International Equity markets due to their attractive relative valuations and diversification to US Equities. Additionally, there are still global economies which have not fully recovered from COVID that have attractive growth opportunities. A structurally weaker Dollar should also provide tailwinds to International Equity returns through currency translation.

- **Reasons for Optimism**

  - **Broadening Rally:** While the stock market is pricing in a "goldilocks scenario", the broadening of the Equity rally in the final 2 months of 2023 is encouraging for the prospects of continued market strength, as it is more in line with previous "new bull markets" *(albeit more tepid by comparison)*.

  - **Sentiment:** We remain dubious that this FOMC can successfully achieve the difficult task of a "soft landing" with the tools at their disposal, however, investor sentiment has shifted since 2022 from bearish to cautious to bullish, which barring a catalyst event, should support Equities in the near term, even if there is a correction in early 2024 from overbought levels.

  - **Election Year:** *"This year marks a presidential re-election year and the S&P 500, measured on a total return basis, has increased in 16 out of 16 re-election years since 1944 (which includes years with recessions, like 2020). We believe this happens because both monetary and fiscal policy becomes more accretive ahead of a President seeking re-election" – Strategas Research*

2024 Asset Class Outlook – Fixed Income

- **Duration: Neutral**
  - If these slides were authored at the end of October, duration would maintain an "overweight" designation, however, the bond rally of the last two months has removed much of the term premium in longer duration yields. Irrespective of whether rate cuts are premature or in response to an economic shock, lower short-term rates will trickle through to the rest of the curve, creating a lower baseline for yields. Some analysts anticipate the Fed to end their balance sheet reduction during 2024 as well, which would remove pressure on rates, however, we expect the Treasury will continue to flood the market with supply, and we expect some volatility in longer duration Treasuries as the market gradually tempers expectations on the magnitude and timing of potential rate cuts. Despite this uncertainty, and potential volatility, a recessionary environment would push yields lower, with duration offering portfolio protection. Currently, we favor a "barbell" approach to duration, implementing short-term Treasury Bills/Notes on the short end of the curve and pairing this exposure with longer duration Treasuries between 7-10 years.

- **Corporate Credit: Underweight**
  - Both High Yield and Investment Grade credit spreads have come in meaningfully from their peak in October 2022, and like Equities, rallied significantly in the final two months of 2023. While they remain above pre-COVID levels, High Yield credit spreads appear tight given the inverted yield curve, and do not reflect the possibility of a weaker economic environment. We would expect spreads to reprice in the near term as the market gradually tempers expectations on the magnitude and timing of potential rate cuts. Supposing the bullish case proves correct, we estimate ~50-75bps of potential further tightening. From an opportunity cost of capital standpoint, we find this less attractive when compared to certain Private Credit strategies, which is where we have preferred to take our credit risk.

- **Municipal Bonds: Overweight**
  - This "overweight" designation deserves a caveat, as intermediate Muni bond yields have rallied significantly alongside Treasuries. We maintain a "neutral" weight to intermediate core municipal bonds and would tactically add exposure *(where appropriate)* to longer duration and higher yielding Munis. Municipal credit quality has steadily improved since COVID, with state and local tax collections at all time highs and low/below investment grade Municipals have historically realized a significantly lower default rate when compared to their taxable corporate counterparts. While the intermediate portion of the curve remains inverted, a lack of institutional investment in the asset class has created a bifurcation between the steepness of the Muni curve vs. the Treasury curve, resulting in longer dated Municipal credits with higher nominal yields compared to Treasuries and significantly higher taxable-equivalent yields compared to similarly rated corporate bonds. The prevalence of call features as well as higher coupons can also mitigate the duration risk of these securities.

2024 Asset Class Outlook – Alternative Investments

- **Alternative Assets –** At Waypoint, we are strong believers in the benefit of Alternative Investments and Private Markets. Alternative Investments have unique risk/return characteristics that do not behave like traditional asset classes and require specialized skill in selection and implementation. An effective portfolio of Alternatives must add diversification, income generation, and the potential for outsized returns while reducing the overall risk profile of the total portfolio. Identifying compelling investments, particularly in private markets, requires underwriting both the market opportunity as well as the manager's skill. As such, we tend to prefer smaller managers with industry specialization who can create value through a differentiated skillset and capitalize on inefficiencies through proprietary deal flow in less trafficked areas of the market. Due to the idiosyncratic nature of each strategy, it can be difficult to "overweight" or "underweight" asset classes, as we may find a compelling theme or strategy within an asset class where we generally have a negative near-term outlook. Therefore, the following outlook will be broad in nature:

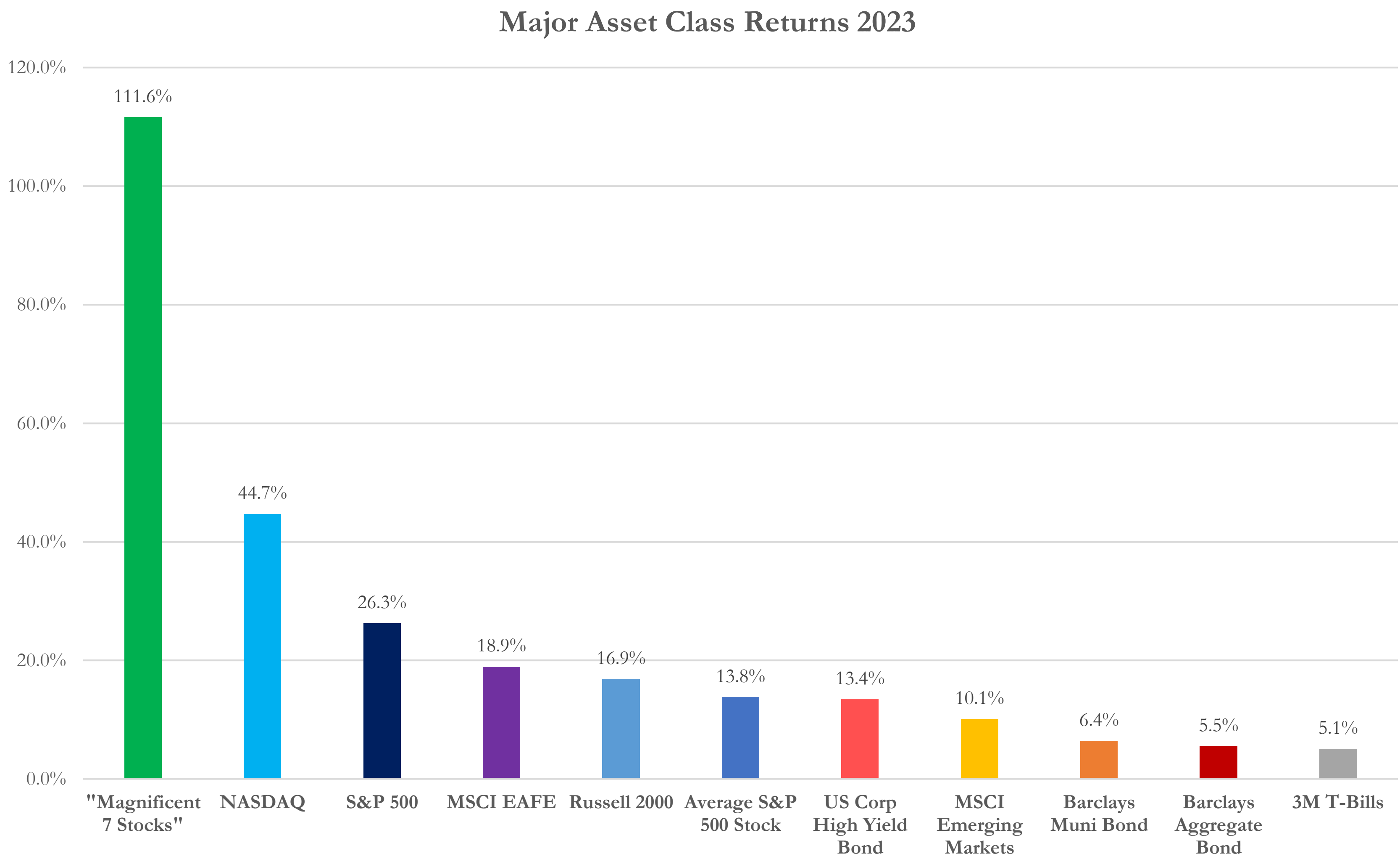
    - **Private Equity: Neutral**
        - We believe the lower middle market offers more attractive valuations and a wider range of prospects for talented operators to create value. We also expect that a recessionary environment would produce an array of distressed or turnaround investment opportunities.

    - **Private Credit: Neutral**
        - While yields remain attractive in Private Credit, we believe that underwriting is paramount in the current environment. Due to the sheer amount of capital which has flowed into these strategies over the past few years, as well as the uncertain economic landscape, we are looking toward diversifying some exposure away from traditional Direct Lending strategies in favor of more idiosyncratic and asset-based lending strategies.

    - **Real Estate Equity: Underweight**
        - Speaking very broadly, Real Estate prices can be highly cyclical, and many Commercial Real Estate projects/purchases require significant debt capitalization, often financed with interest only floating rate loans from a commercial bank or private lender. The rapid increase in interest rates has materially affected valuations over the past two years, and in such an uncertain economic environment, we remain wary of capital-intensive development deals in certain sectors. We do believe there may be opportunities acquire existing assets at an attractive basis, however, we are skeptical of the cap rate assumptions being underwritten in many sectors.

    - **Real Estate Debt: Overweight**
        - The pain that has been observed in Commercial Real Estate Equity has created opportunities in Real Estate Debt. We have allocated to several managers that are adept at sourcing, underwriting, and structuring idiosyncratic off-market deals to originate, or purchase, loans that pay attractive yields, and frequently offer recourse in the event of default to acquire the property for the basis of the loan.

    - **Diversifying Strategies: Overweight**
        - Perhaps the broadest sub-set of Alternative Investments reviewed here, we classify diversifying strategies as a collection of liquid or semi-liquid strategies/assets that exhibit little correlation both to each other and traditional asset classes, maintain a positive expected return over time, and collectively uphold the volatility profile of intermediate Treasury bonds.

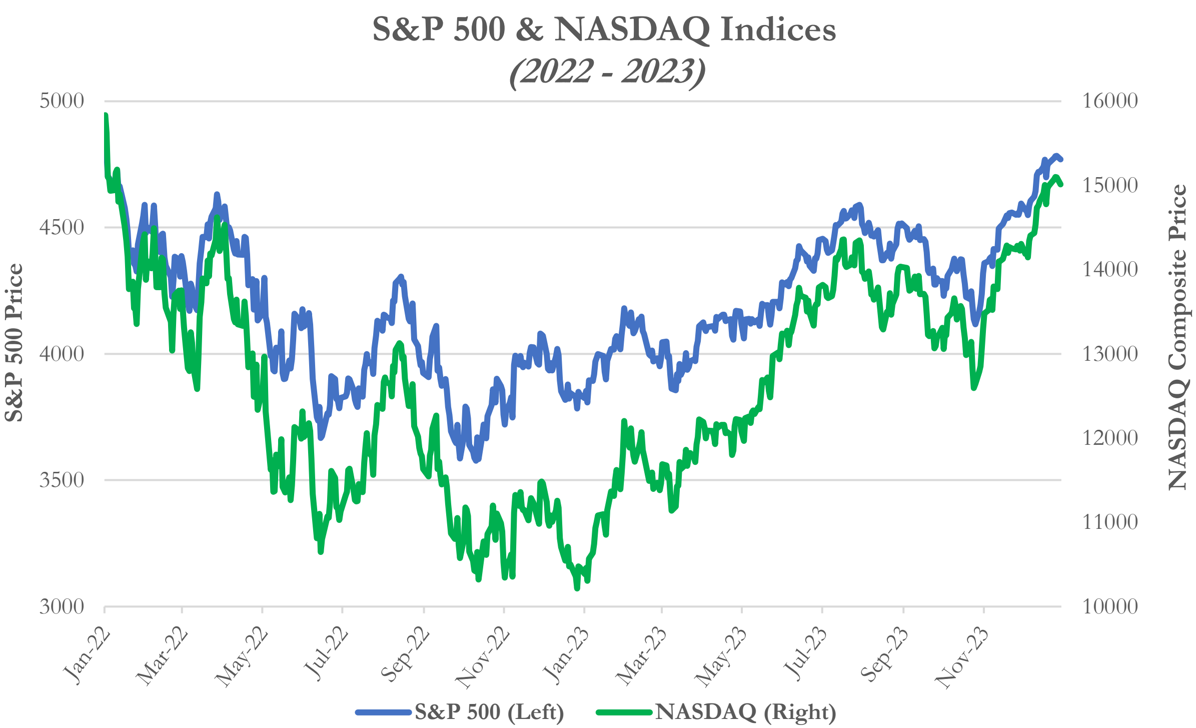


*See slide 31 for disclosures

	"Magnificent 7 Stocks"	NASDAQ	S&P 500	Russell 2000	Avg S&P 500 Stock
First 10 Months	80.8%	23.6%	10.7%	-4.5%	-2.4%
Last 2 Months	16.2%	17.1%	14.1%	22.4%	16.6%

- While most major Equity indices posted double digit gains in 2023, the bulk of the return was realized in the final two months of the year.
- The “Magnificent 7 Stocks” make up ~29% of the index and accounted for almost 85% of the return through 10 months.
- As the market broadened out over the last 2 months, the Russell 2000 & the Average S&P Stock outperformed the “Magnificent 7”, however, the largest seven stocks still accounted for more than 60% of the index return for the year.

Source: Bloomberg data as of 12/31/2023 *(From Left to Right: NVDA; MSFT; AAPL, TSLA; GOOG/GOOGL; META; AMZN; CCMP Index; SPX Index; RTY Index; SPW Index)*



Total Return Since 2021				
	2022 Return	2023 Return	2-Year Return	*Annualized*
S&P 500	-18.1%	26.3%	3.4%	*1.7%*
NASDAQ	-32.5%	44.7%	-2.4%	*-1.2%*

- Even after generating robust returns in 2023, the S&P 500 has yet to eclipse its all-time high of 4796.56 from the first trading day of 2022; and has produced a +3.4% total return over the past two years, which comes to +1.7% on an annualized basis.
- The NASDAQ significantly outperformed the S&P 500 during 2023, but due to the magnitude of its drawdown in the prior year, the tech-heavy index still has a negative total return of -2.4% since 2021 *(-1.2% annualized)*.

Source: Bloomberg data as of 12/31/2023 *(SPX Index; CCMP Index)*

- Valuations for all Growth indices are substantially elevated relative to historical averages.
- Value indices, and the Average S&P 500 stock, boast more reasonable valuations on an absolute basis and relative to Growth and Cap-Weighted Core indices.
- International stocks are in-line with historical averages and more attractive relative to US Stocks.

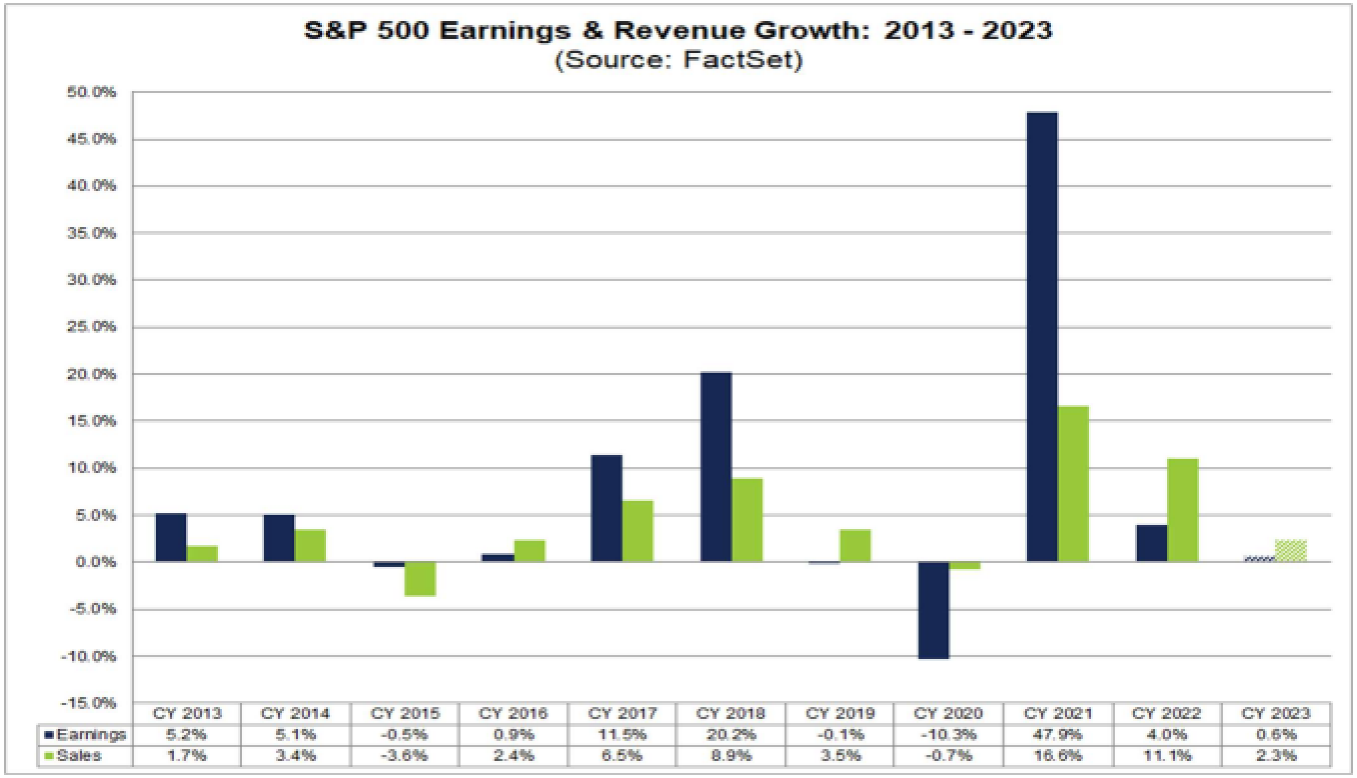
Forward P/E

	Growth	Blend	Value
Mega Cap	30.0	22.9	15.7
	(21.1)	*(17.5)*	*(15.5)*
Large Cap *(Cap-Weighted)*	30.4	22.1	16.9
	(20.7)	*(18)*	*(15.5)*
Large Cap *(Equal-Weighted)*	--	18.3	--
	--	*(17.4)*	--
Small/Mid Cap	39.6	22.8	18.6
	(29.5)	*(22.5)*	*(18.7)*

	EM	All Country	Developed
International	14.1	14.4	14.4
	(12.1)	*(14.1)*	*(14.8)*

**Average P/E valuation since 1999 is italicized.*

*See slide 31 for disclosures



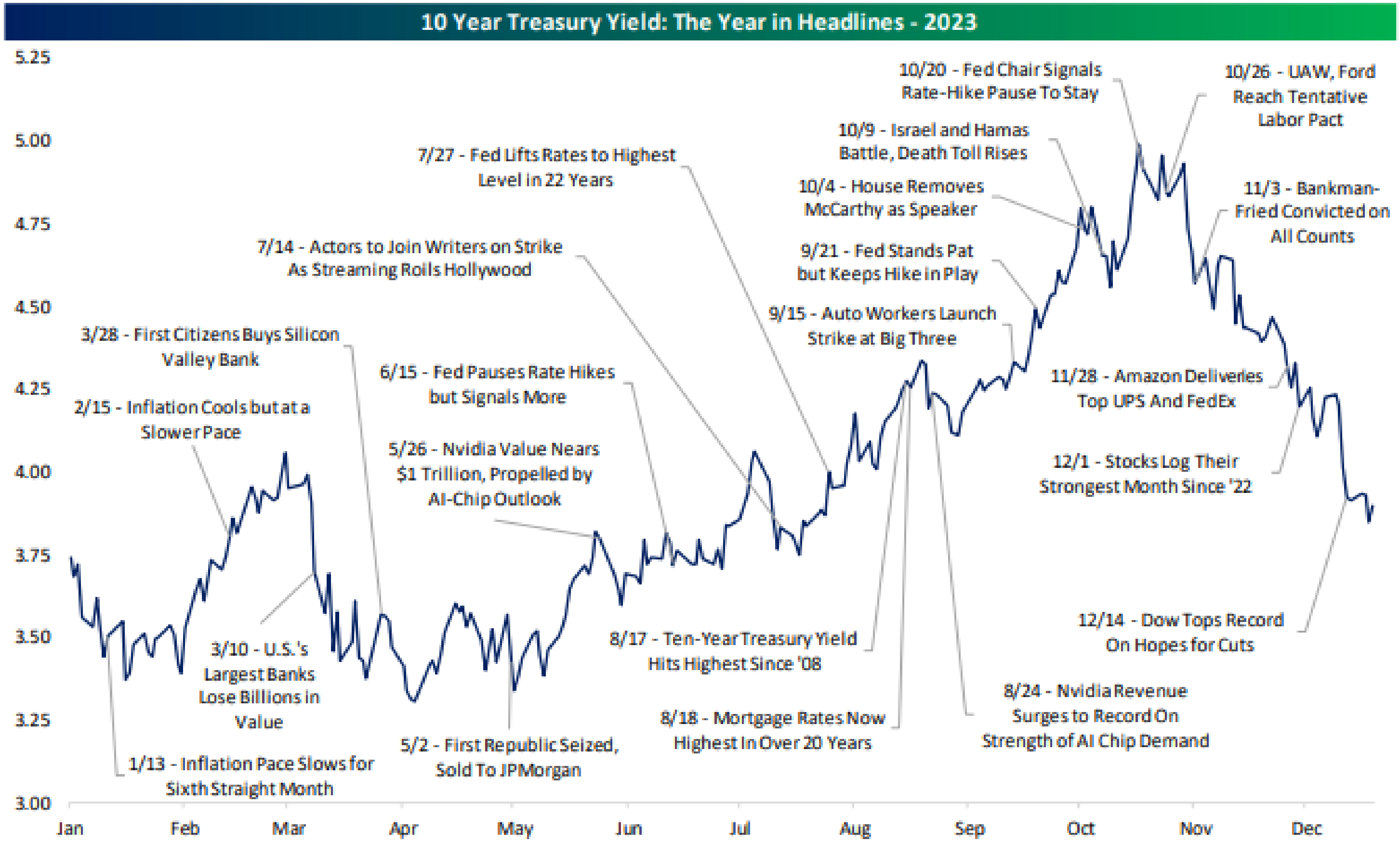
- The S&P 500 is expected to post earnings growth of +0.6% for 2023, with +2.3% Revenue Growth, the second consecutive year of declining earnings growth.

Source: Factset data as of 12/31/2023 *(SPX Index);* EPS growth *(earnings per share growth)* illustrates the growth of earnings per share over time. EPS growth rates help investors identify stocks that are increasing or decreasing in profitability. revenue growth is the amount of money your company makes over a predetermined time compared to the previous, identical amount of time.

		As of 9/30/2023		As of 12/31/2023			
	YTD Return	Forward P/E Ratio	Est 2024 EPS Growth	Forward P/E Ratio	Est 2024 EPS Growth	4Q23 EPS Revision	4Q23 Performance
S&P 500	**26.3%**	**19.7**	**13.0%**	**22.1**	**11.5%**	**-1.5%**	**11.7%**
S&P 500 Consumer Discretionary	42.3%	24.2	22.5%	26.4	12.2%	-10.3%	12.4%
S&P 500 Consumer Staples	0.5%	19.5	8.4%	20.3	5.2%	-3.2%	5.5%
S&P 500 Energy	-1.4%	11.8	-19.1%	10.9	-6.3%	12.8%	-7.0%
S&P 500 Financials	12.1%	13.8	8.0%	15.7	4.6%	-3.4%	14.0%
S&P 500 Health Care	2.1%	18.5	7.9%	21.3	8.6%	0.7%	6.4%
S&P 500 Industrials	18.1%	19.1	14.0%	22.2	6.1%	-7.8%	13.0%
S&P 500 Information Technology	57.8%	28.3	22.0%	32.9	19.1%	-2.9%	17.2%
S&P 500 Materials	12.5%	17.8	-2.7%	20.2	-4.2%	-1.5%	9.7%
S&P 500 Communication Services	55.8%	18.3	30.2%	19.8	29.0%	-1.2%	10.9%
S&P 500 Utilities	-7.1%	15.9	23.9%	17.1	19.4%	-4.5%	8.6%

- The S&P 500 returned +11.7% in 4th Quarter of 2023, with all but one sector *(Energy)* posting gains.
- Despite the strong Equity performance, 2024 EPS growth was revised lower by -1.5% during the quarter, with all but 2 sectors being revised lower *(Energy; Healthcare)*

Source: Bloomberg data as of 12/31/2023 *(From Top to Bottom: SPX Index; S5COND; S5CONS; S5ENRS; S5FINL; S5HLTH; S5INDU; S5INFT; S5MATR; S5TELS; S5UTIL);* each sector index is a cap weighted index segregated by each stocks' Global Industry Classification Standard (GICS) sector; GICS® is an industry analysis framework that helps investors understand the key business activities for companies around the world. MSCI and S&P Dow Jones Indices developed this classification standard to provide investors with consistent and exhaustive industry definitions.



- While the 10-year Treasury yield ended the year +0.01% *(1 basis point)* higher from where it began the year *(3.87%)*, the path to get there was extremely volatile. Yields bottomed at 3.31% *(4/06/23)* following March's bank failures and peaked at 4.99% in October *(10/19/23),* prompting Treasury intervention and a re-pricing from the market after the FOMC meeting in December.

Source: Graph from Bespoke Research as of 12/31/2023; Additional data from Bloomberg as of 12/31/23 *(USGG10YR Index);* the US Generic Govt 10 Year tracks moves in the 10-year Treasury Yield for both new issue and on-the-run securities.

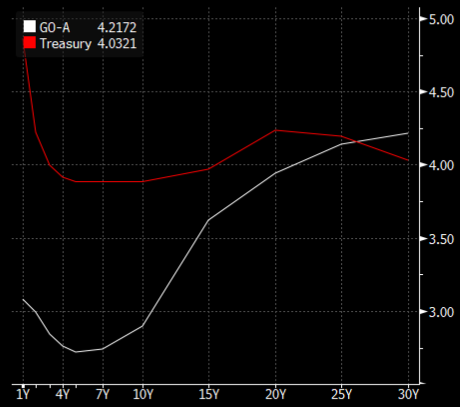
- Both High Yield & Investment Grade Corporate Credit spreads are at their tightest levels since March 2022, which was the beginning of the Fed's tightening cycle.

- Like Equity markets, Credit spreads do not appear to reflect potential for economic weakness in 2024 and may be overbought.

Source: Bloomberg data as of 12/31/2023 *(IBOXHYSE Index [Left Chart]; IBOXUMAE Index [Right Chart]);* Markit CDX North America High Yield Index tracks is composed of 100 non-investment grade credit default swaps on non-investment grade bonds with 5-year maturities, distributed among 2 sub-indices: B, BB. All entities are domiciled in North America; the Markit CDX North America Investment Grade Index is composed on 125 equally weighted credit default swaps of investment grade bonds with 10-year maturities, distributed among 6 sub-indices: High Volatility, Consumer, Energy, Financial, Industrial, and Technology; A credit default swap (CDS) is a type of derivative that transfers the credit exposure of fixed income products. The contract requires the buyer to pay an ongoing premium similar to payments on an insurance policy and are often used as a proxy for the amount of "risk" or credit spread priced into fixed income markets; the credit spread is the difference in yield between bonds of similar maturity but with different credit quality, measured in basis points and calculated as the difference between the yield on a corporate bond and the benchmark rate.

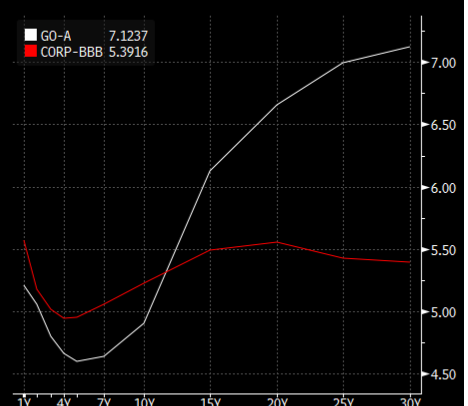
	Curve	Date		Tax (%)
A)	GO A Yields (BS1213)	12/29/23	Close	0.0
B)	US Govt. Treasury Yields (BI550)	12/29/23	Close	0.0

Term	A GO-A 12/29/23	B Treasury 12/29/23	Spread (+/- BPs)	Spread (%)
1 Yr	3.083	4.863	-178	63.4
2 Yr	2.991	4.225	-123	70.8
3 Yr	2.840	3.996	-116	71.1
4 Yr	2.759	3.913	-115	70.5
5 Yr	2.721	3.885	-116	70.0
7 Yr	2.743	3.884	-114	70.6
10 Yr	2.901	3.886	-99	74.6
15 Yr	3.624	3.970	-35	91.3
20 Yr	3.941	4.233	-29	93.1
25 Yr	4.141	4.194	-5	98.7
30 Yr	4.217	4.032	19	104.6



	Curve	Date		Tax (%)	
A)	GO A Yields (BS1213)	12/29/23	Close	40.8	*G/U
B)	Corporate BBB Yields (BS75)	12/29/23	Close	0.0	

Term	A GO-A 12/29/23	B CORP-BBB 12/29/23	Spread (+/- BPs)	Spread (%)
1 Yr	5.208	5.568	-36	93.5
2 Yr	5.053	5.177	-13	97.6
3 Yr	4.798	5.011	-21	95.7
4 Yr	4.661	4.943	-28	94.3
5 Yr	4.596	4.950	-35	92.9
7 Yr	4.634	5.059	-43	91.6
10 Yr	4.900	5.224	-32	93.8
15 Yr	6.122	5.486	63	111.6
20 Yr	6.656	5.556	110	119.8
25 Yr	6.995	5.428	156	128.9
30 Yr	7.124	5.392	173	132.1



- The top chart compares the generic A-Rated GO Muni Curve to the Treasury Curve. Nominally *(before the tax benefit)*, yields longer than 10-years in maturity achieve upwards of 90%, or even exceed, comparable Treasury Yields
- The bottom chart compares the generic A-Rated GO Muni Curve to the generic BBB-Rated Corporate Curve. Taxable-Equivalent yields for these A-GO's offer a significant premium to lower rated corporates past 10-years in maturity.

Source: Bloomberg data as of 12/31/2023 *(Generic General Obligation A-Rated Municipal; Generic US Govt. Yield Curve; Generic Corporate BBB-Rated Yield Curve).* General Obligation Bonds are municipal bonds secured by state or local governments using tax revenues and other available resources generating income that is federally tax exempt. A-Rated denotes a low-grade investment grade rating by bond rating agencies; Corporate Bonds are issued by publicly traded companies to raise financing. BBB-Rating denotes the lowest investment grade rating before non-investment grade classifications from ratings agencies.

		Actual CPI YOY *(%)*	CPI MOM *(%)*	Fed Funds Rate *(%)*
Jun-22	**Peak CPI:**	**9.1%**	**1.4%**	1.6%
Jul-22		8.5%	0.0%	2.3%
Aug-22		8.3%	0.0%	2.3%
Sep-22		8.2%	0.2%	3.1%
Oct-22		7.7%	0.4%	3.1%
Nov-22		7.1%	-0.1%	3.8%
Dec-22		6.5%	-0.3%	4.3%
Jan-23		6.4%	0.8%	4.3%
Feb-23		6.0%	0.6%	4.6%
Mar-23		5.0%	0.3%	4.8%
Apr-23		4.9%	0.5%	4.8%
May-23		4.0%	0.3%	5.1%
Jun-23		3.0%	0.3%	5.1%
Jul-23		3.2%	0.2%	5.3%
Aug-23		3.7%	0.4%	5.3%
Sep-23		3.7%	0.2%	5.3%
Oct-23		3.2%	0.0%	5.3%
Nov-23		3.1%	-0.2%	5.3%

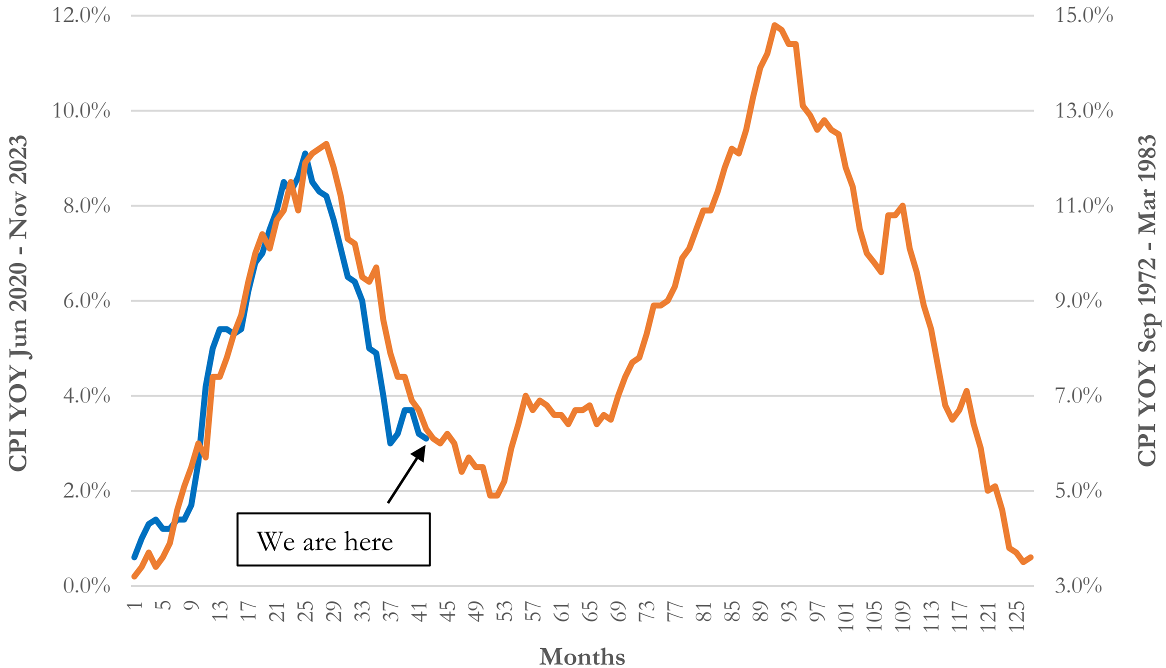
Constant Month-over-Month Changes to CPI ***(Non-Seasonally Adjusted)***

Future YOY CPI	-0.1% MoM	0% MoM	0.1% MoM	0.2% MoM	0.3% MoM	0.4% MoM	0.5% MoM	Fed Funds Futures
Dec-23	3.4%	3.5%	3.6%	3.7%	3.8%	3.9%	4.0%	5.3%
Jan-24	2.4%	2.6%	2.8%	3.0%	3.3%	3.5%	3.7%	5.3%
Feb-24	1.8%	2.1%	2.4%	2.7%	3.0%	3.3%	3.6%	5.3%
Mar-24	1.3%	1.7%	2.1%	2.5%	3.0%	3.4%	3.8%	5.2%
Apr-24	0.7%	1.2%	1.7%	2.2%	2.7%	3.3%	3.8%	5.1%
May-24	0.4%	1.0%	1.6%	2.2%	2.8%	3.4%	4.0%	4.9%
Jun-24	-0.1%	0.6%	1.3%	2.1%	2.8%	3.5%	4.2%	4.7%
Jul-24	-0.4%	0.4%	1.3%	2.1%	2.9%	3.7%	4.5%	4.6%
Aug-24	-0.9%	0.0%	0.9%	1.8%	2.7%	3.7%	4.6%	4.4%
Sep-24	-1.2%	-0.2%	0.8%	1.8%	2.8%	3.8%	4.9%	4.3%
Oct-24	-1.3%	-0.2%	0.9%	2.0%	3.1%	4.3%	5.4%	4.2%
Nov-24	-1.2%	0.0%	1.2%	2.4%	3.7%	4.9%	6.2%	4.0%

- We wrote earlier in 2023 that several months of sub-0.2% MOM CPI would be needed for inflation to fall to acceptable levels. This happened over the last 5 months where CPI averaged +0.1%.
- CPI will need to continue at a pace of +0.2% *(or below)* for inflation to reach the Fed's 2% target and avoid re-accelerating.

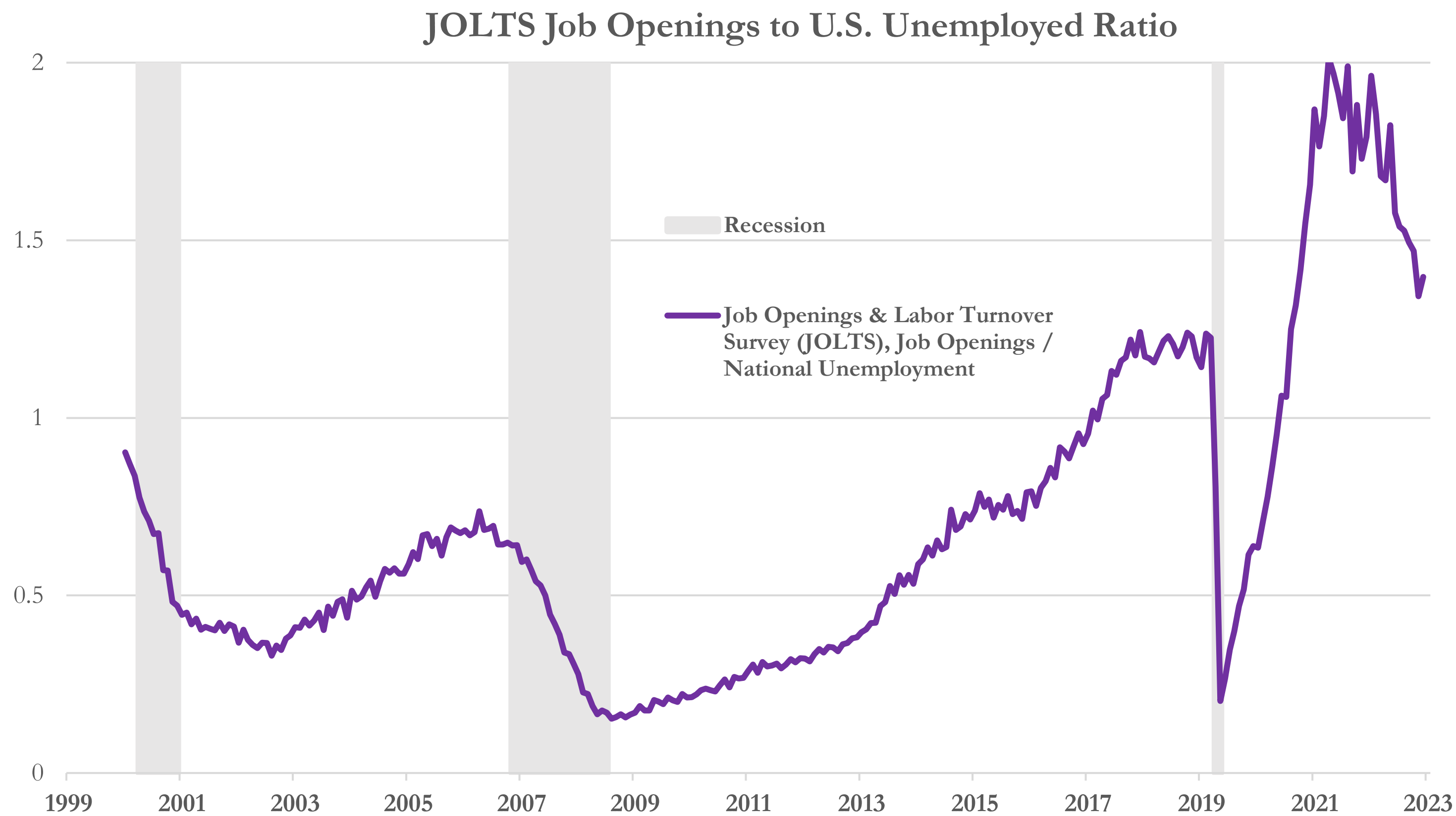
Source: Bloomberg data as of 11/30/2023 *(CPURNSA Index – Year-Over-Year, Month-Over-Month)*; Consumer Price Index *(CPI)* is the most common measure of inflation, published monthly by the US Bureau of Labor Statistics and is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services

Current Inflation Cycle vs 1970's



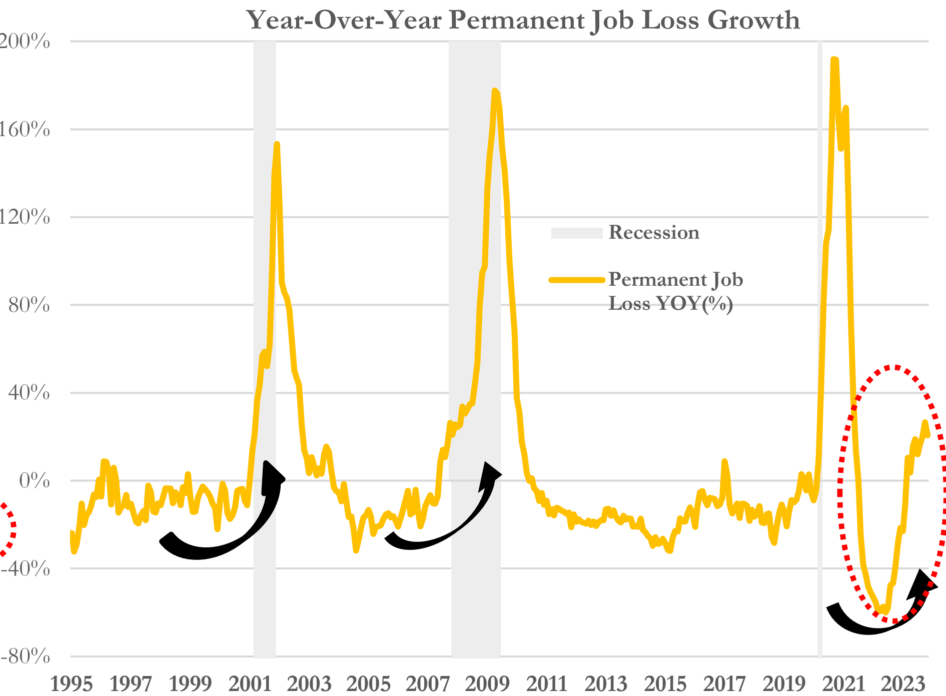
- Chairman Powell was adamant for more than a year that he did not want to engage in the "stop-and-go" monetary policy of the 1970's, which caused the Fed to have to fight inflation 3 separate times.
- Inflation has a history of coming in waves, and pre-mature rate cuts run the risk of adding fuel to the fire.

Source: E.J. Antoni, PhD; Bloomberg data as of 11/30/2023 *(CPURNSA Index – Year-Over-Year, Month-Over-Month)*



- One of the Fed's objectives in achieving a "soft landing" is to eliminate job openings without eliminating jobs. The labor market has loosened significantly from peak levels but remains above Pre-Covid levels, as there is still ~1.4 jobs for every unemployed person.

Source: Bloomberg data as of 11/30/2023 *(JOLTTOTL Index; USUETOT Index)*; Recessions identified by National Bureau for Economic Research *(NBER);* JOLTS Job Openings to US Unemployed Ratio divides the Job Openings & Labor Turnover Survey *(JOLTS)*, Job Openings by the National Employment, and estimates how many jobs are available for every unemployed person in the US; JOLTS Job Openings & Labor Turnover Survey is published monthly by the US Bureau of Labor Statistics and produces data on job openings, hires, and separations; the unemployment rate is released monthly by the Bureau of Labor Statistics and is calculated as the number of people 16 and over actively searching for a job as a percentage of the total labor force

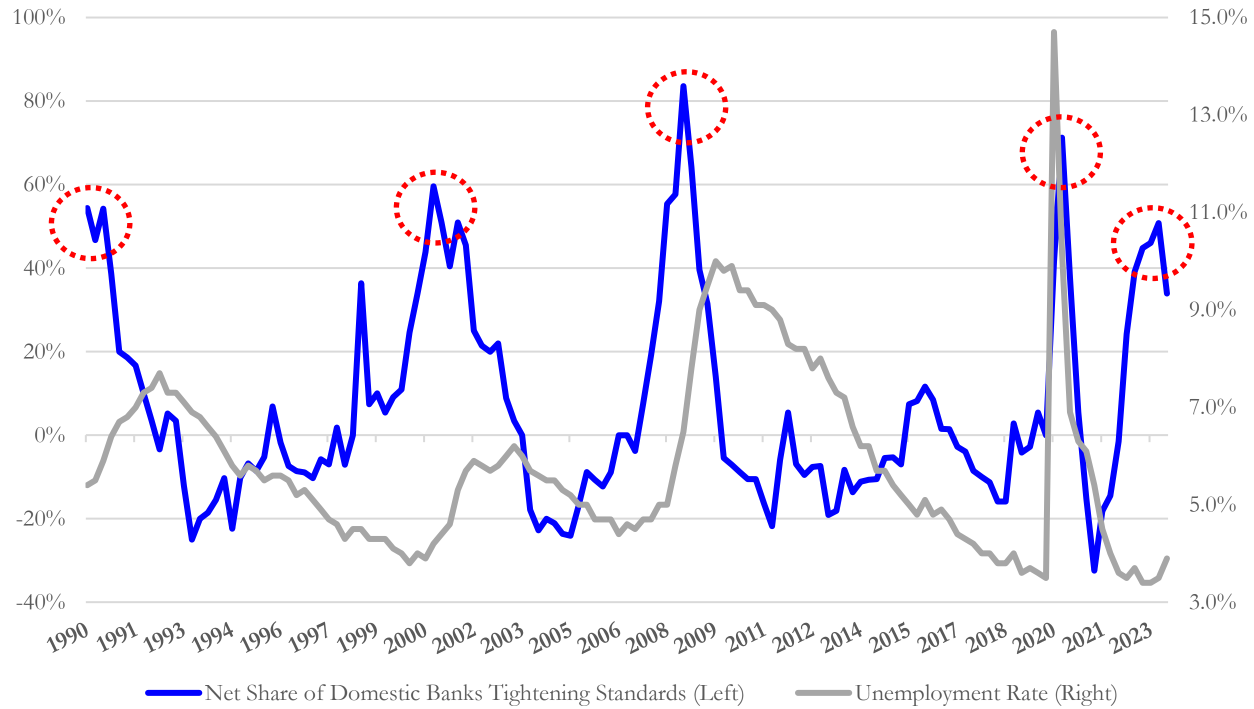


- The left chart shows that the Fed's tightening efforts thus far have largely succeeded in eliminating job openings and had less of an impact on eliminating jobs, but it appears that permanent job losses have bottomed. As observed in the chart, once permanent job losses bottom out, they begin to gradually increase until they reach an inflection point, which drives unemployment sharply higher. While we are not at an inflection point yet, the lagged effects of tighter monetary policy could be the catalyst that that dramatically elevates unemployment.

- While permanent job losses have yet to increase to recessionary levels, it is worth noting that YOY growth has accelerated, and permanent job losses are 20% higher than the previous year.

Source: Game of Trades *(GameofTrades.net)*; US Bureau of Labor Statistics; Federal Reserve Bank of St Louis; as of 11/30/2023 *(Unemployment Level – Permanent Job Losers Seasonally Adjusted)*; Recessions identified by National Bureau for Economic Research *(NBER)*; Permanent Job Losers tracks the number of unemployed people who were not on temporary layoff and is released monthly by the US Bureau of Labor Statistics based on the most recent population survey

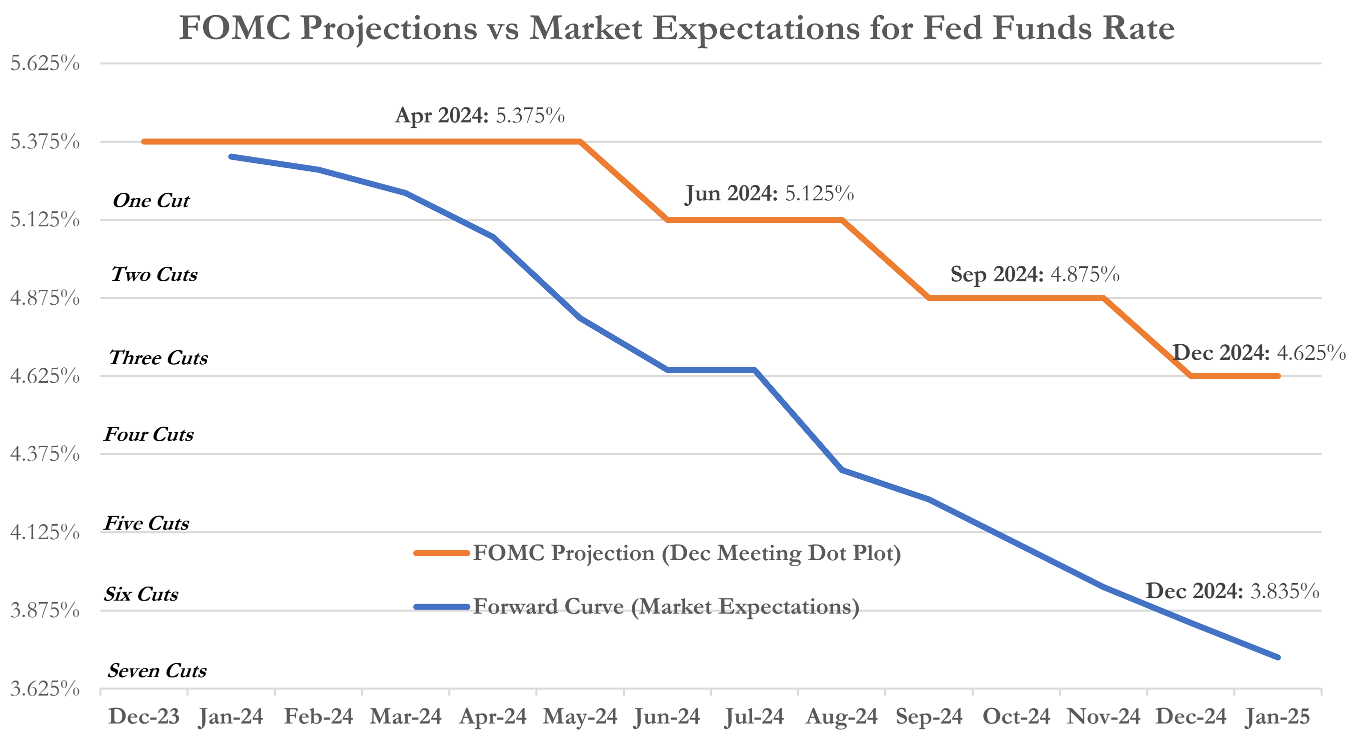
Bank Credit Tightening Leads Unemployment



- The Senior Loan Officer Opinion Survey on Bank Lending Practices is a quarterly survey of 60 or more large domestic banks initiated by the Federal Reserve, that tracks, among other data, the net percentage of banks tightening or easing lending standards for commercial and industrial loans. Over the past two years, banks have materially tightened lending standards in response to the Fed's tightening measures. Historically, bank lending standards have exhibited a positive correlation to the unemployment rate with a lead time of ~1 year.

- With the exception of COVID *(which in many ways is an anomaly)*, when the net percentage of banks tightening lending standards peaks above 40% *(as it did in July 2023)*, it is followed by a rapid increase in the unemployment rate over the next 12 - 18 months.

Source: Game of Trades *(GameofTrades.net)*; Federal Reserve Board; Bloomberg data *(USUETOT Index)*; as of 10/31/2023

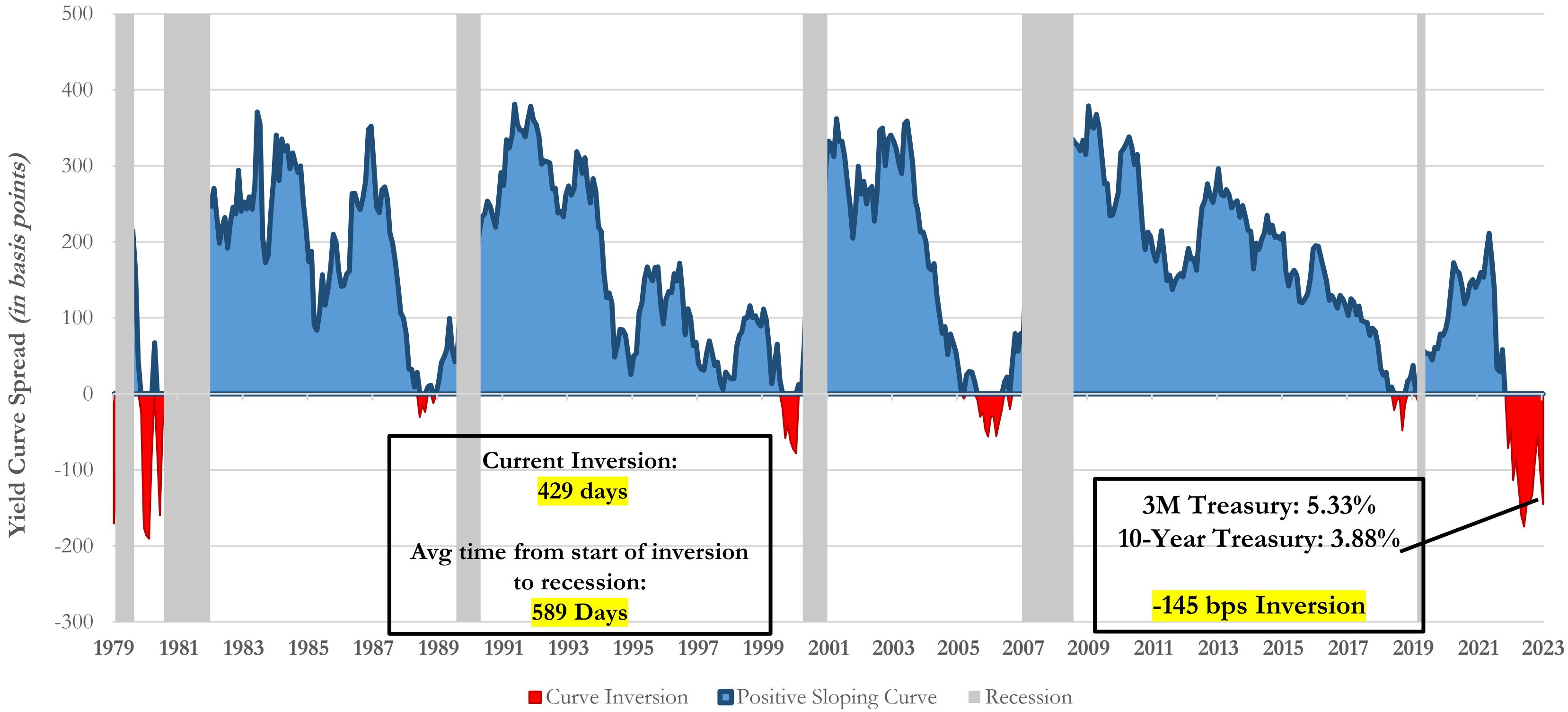


- The futures market is pricing in 6 rate cuts in 2024, with the first cut expected as early as March, which is significantly more than Chairman Powell outlined in his press conference in December.

- History would indicate that it is more likely that such an aggressive policy shift would coincide with a meaningfully weaker economy than what is projected for 2024.

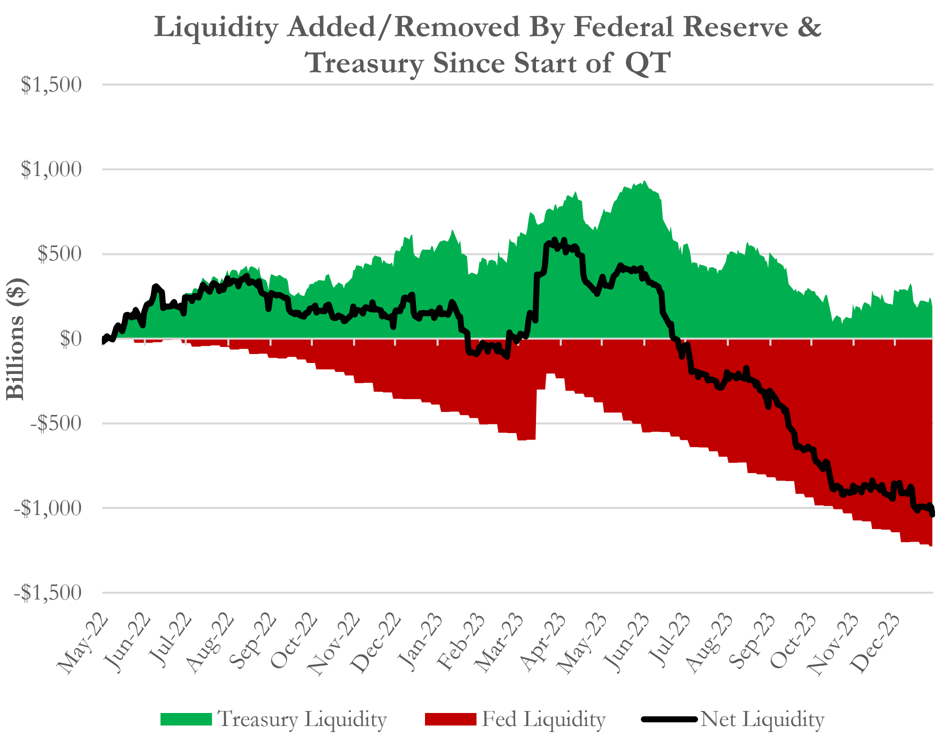
Source: Bianco Research LLC; Bloomberg data as of 12/31/2023; *(Fed Funds Forward Curve)*; Federal Reserve Federal Open Market Committee Dot Plot Projections *(12/13/2023 Meeting)*; the Fed Funds Forward Curve that plots the price of contracts for future delivery on an underlying asset or benchmark *(Federal Funds Rate)* and implies the market expectations of the underlying's price movement over various future time periods.

Yield Curve Inversion
(Spread Between 3-Month Treasury Yield vs. 10-Year Treasury Yield)



- The current inversion of the 3-Month & 10-Year Treasury Yields has persisted for 429 days, and is the deepest inversion since the early 1980's.
- A protracted inversion between the 3-Month & 10-Year Treasury Yields typically leads to weaker economic growth owing to tightening lending standards. A yield curve inversion is widely considered a recessionary indicator *(preceded the past 7 recessions dating back to 1966)* with an average lead time of 589 days.
- It's worth noting that historically, the steepening of the Yield Curve tends to occur in the months preceding recessions.

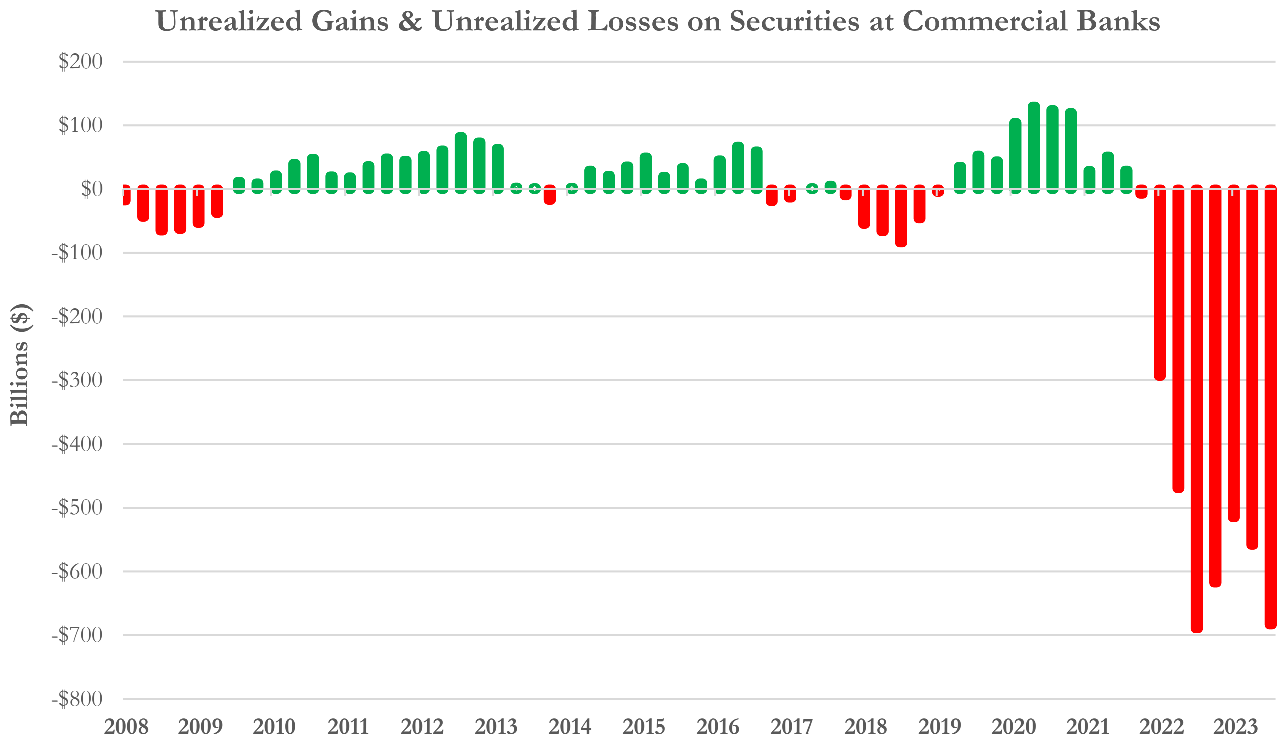
Source: Bespoke Research; Bloomberg data as of 12/31/2023 *(USGG3M Index / USGG10YR Index)* ; Recessions identified by National Bureau for Economic Research *(NBER)*



- The Treasury has stepped in to provide liquidity on 3 separate occasions *(most recently October 2023)* since the Fed began QT, effectively offsetting the Fed's tightening measures. The majority of the combined realized liquidity reduction between the Treasury & the Fed occurred between June and October of 2023 *(~$1T)*, which coincided with a rapid rise in Treasury yields that threatened bank stability.

- This intervention from the Treasury further muddies the data for the Fed as they assess the impact of the cumulative tightening to date.

Source: Data as of 12/31/2023; Treasury.gov *(Daily Treasury Statements);* Bloomberg Data *(FARBAST Index)*; Treasury General Account Net Deposits used to estimate Treasury Liquidity, calculated using Opening Balance, Closing Balance, Deposits, & Withdrawals; Federal Reserve Balance Sheet used for Fed Liquidity



- As of 3Q23, US Commercial banks still maintain $683B in unrealized losses in long duration bonds on their balance sheets due to the Fed's unprecedented tightening measures.

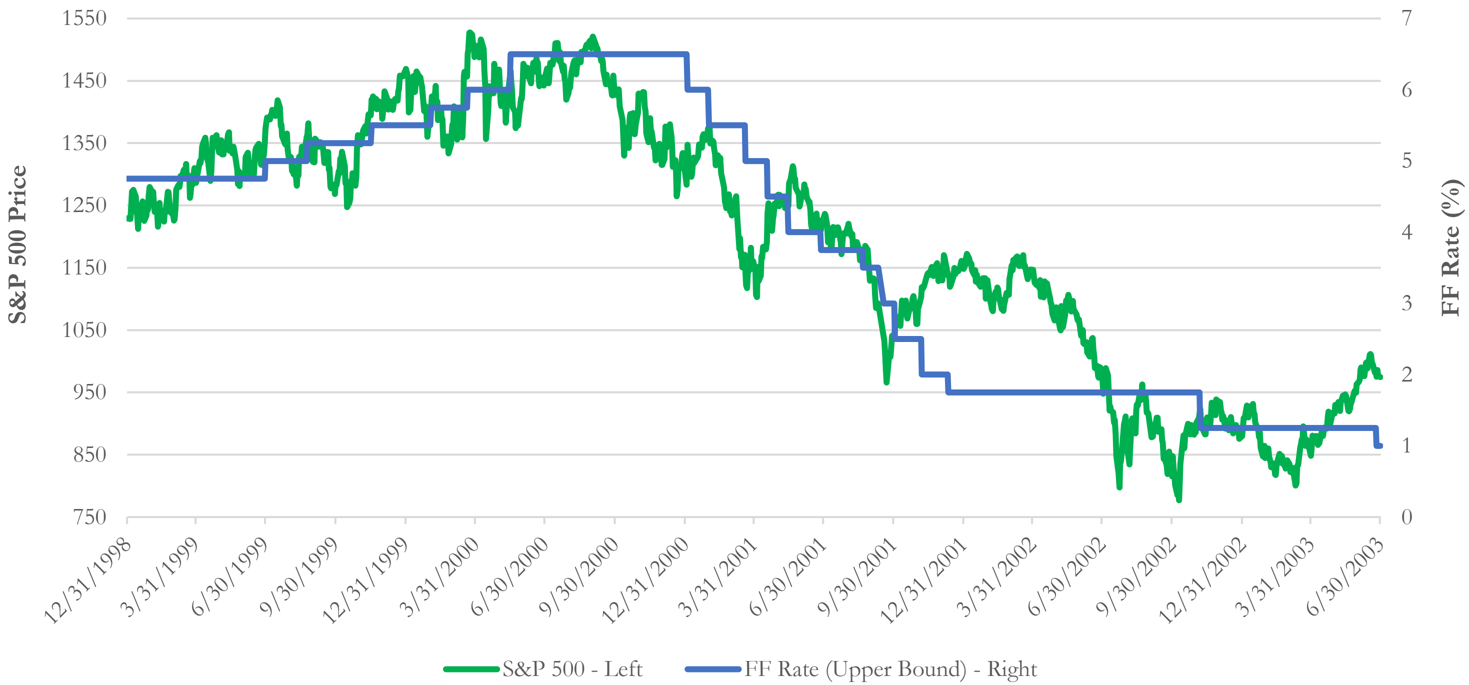
Source: Wolf Richter *(Wolfstreet.com)*; FDIC Quarterly Banking Profile for FDIC Insured Institutions *(as of 9/30/2023)*

- The bank failures in March prompted the Federal Reserve & the Treasury to create the Bank Term Funding Program *(BTFP)*, which provides emergency liquidity to banks to ensure they can support customer deposits.

- Emergency loans from the Fed's Bank Term Funding Program *(BTFP)* facility accelerated to $136B in December. The continued reliance on BTFP and other liquidity backstops underscores the solvency concerns that persist among US Banks. Bank instability will remain a concern so long as restrictive policy necessitates the utilization of such programs.

Source: Federal Reserve; Bloomberg Data as of 12/31/23 *(FARWBTFP Index)*; The additional funding will be made available through the creation of a new Bank Term Funding Program (BTFP), offering loans of up to one year in length to banks, savings associations, credit unions, and other eligible depository institutions pledging U.S. Treasuries, agency debt and mortgage-backed securities, and other qualifying assets as collateral. These assets will be valued at par. The BTFP will be an additional source of liquidity against high-quality securities, eliminating an institution's need to quickly sell those securities in times of stress.

S&P 500 vs Fed Funds Target Rate
Tech Bubble

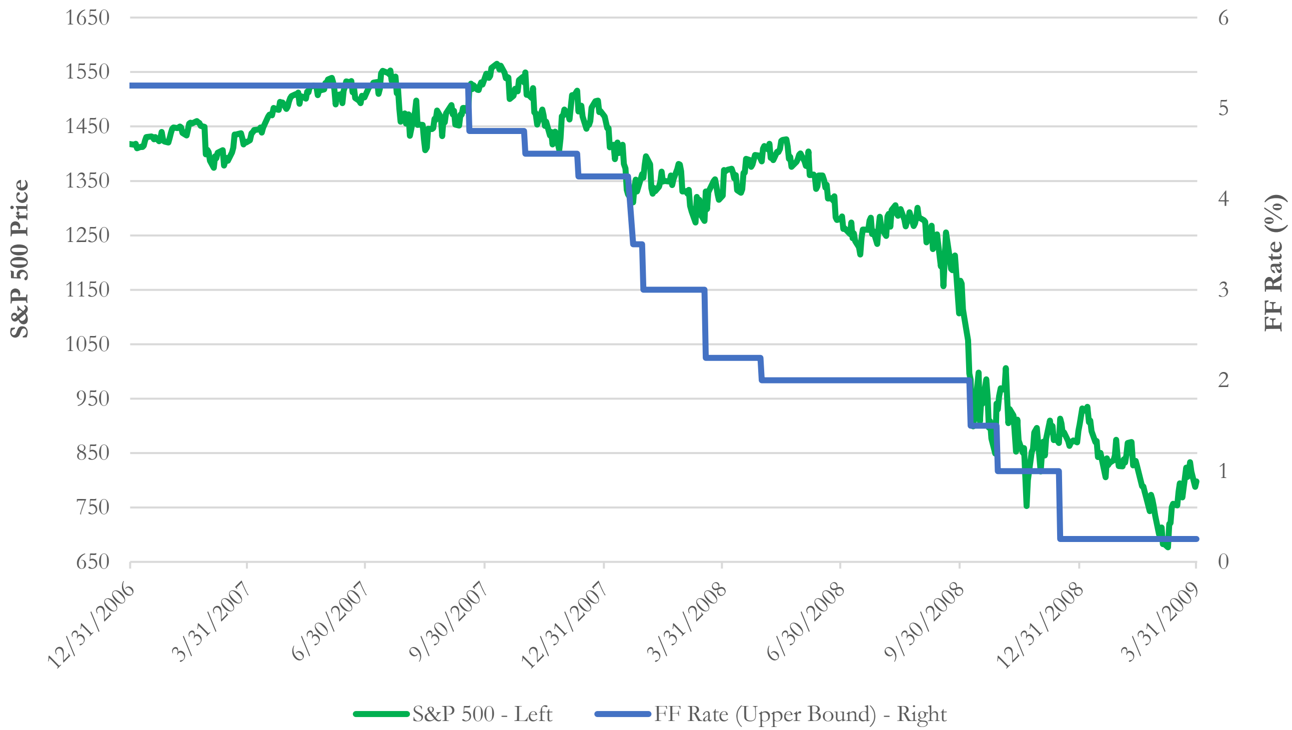


- Equity markets have responded favorably towards the prospect of the Federal Reserve lowering the Federal Funds Rate; however, the Fed historically has cut rates in response to an economic shock which has negatively impacted the stock market.

- During the GFC, from the date of the first cut *(1/2/2001)* to the date of the last cut *(6/25/2003)* the S&P 500 lost -21.1%. During the same period, the NASDAQ fell -29.4%.

Source: Bloomberg data as of 12/31/2023 *(SPX Index; FDTR Index; CCMP Index);* the NASDAQ Composite Index is a market capitalization-weighted index of more than 3,700 stocks and is broadly considered to be a benchmark for Technology stocks.

S&P 500 vs Fed Funds Target Rate
Great Financial Crisis



- Equity markets have responded favorably towards the prospect of the Federal Reserve lowering the Federal Funds Rate; however, the Fed historically has cut rates in response to an economic shock which has negatively impacted the stock market.

- During the GFC, from the date of the first cut *(9/17/2007)* to the date of the last cut *(12/15/2008)*, the S&P 500 lost -39.5%. During the same period, the NASDAQ lost -40.9%.

Source: Bloomberg data as of 12/31/2023 *(SPX Index; FDTR Index; CCMP Index);* the NASDAQ Composite Index is a market capitalization-weighted index of more than 3,700 stocks and is broadly considered to be a benchmark for Technology stocks.

Appendix I: Notes on Federal Reserve (December 15, 2023)

On Wednesday, the Federal Reserve opted to pause and continue to hold the policy rate at 5.50%. Chairman Powell also indicated that slower inflation, slower economic growth and a softer job market opens the possibility for easier policy next year and forecasted a series of three quarter-point cuts in 2024. Powell did caveat this dovish pivot by saying that the committee has not yet ruled out the possibility of additional hikes if the data calls for it. Chairman Powell's speech was embraced by both the stock market and bond market, as Equities rallied and yields fell. Below, we will try to add some context to the market's perception of a possible "pivot" from the Fed:

- **The stock market & bond markets are saying different things.** We've written before about the nature of rate cuts, in that they often come in response to an economic shock or credit event that negatively impacts Equity market returns from the first cut through the last cut. Equity markets are currently pricing in "soft landing" of ~11.5% earnings growth next year and multiples have expanded in anticipation of rate cuts. In contrast, Fed Fund Futures are pricing in 6 rate cuts in 2024 to begin as early as March, and the 10-year Treasury Yield has fallen over 100 bps since peaking at ~5%, indicating that the bond market is pricing in a "hard landing" scenario.
- **Wait… I thought we were going to be "higher for longer**. The last meeting when the FOMC shared their Summary of Economic Projections was September 20. At that meeting, the Fed was projecting a hike during the December meeting, with one member forecasting a 6% Fed Funds rate next year and only three members projecting 3 cuts. On Wednesday, not only did the FOMC hold rates steady, but eleven members projected at least 3 cuts next year. So why the sudden change in tune in a mere 84 days?

    1. **The FOMC is confident that they largely understand the impact of the current tightening cycle and believe we are on track to achieve a "soft landing".**

    1. **The FOMC has seen data that suggests that they have overtightened and are anticipating rates cuts necessitating from a "hard landing".**

    1. **The FOMC is acquiescing to political pressure for lower rates so the Government can refinance its debt.**

    1. **The FOMC has no idea what they are doing.**

- **What's the risk of pre-mature rate cuts?** Chairman Powell has been adamant that he does not want to engage in the "stop-and-go" monetary policy of the 1970's when the Fed was forced to fight inflation 3 separate times. Inflation has a history of coming in waves, and pre-mature rate cuts run the risk of adding fuel to the fire. The chart below highlights the issues of "stop-and-go" monetary policy:

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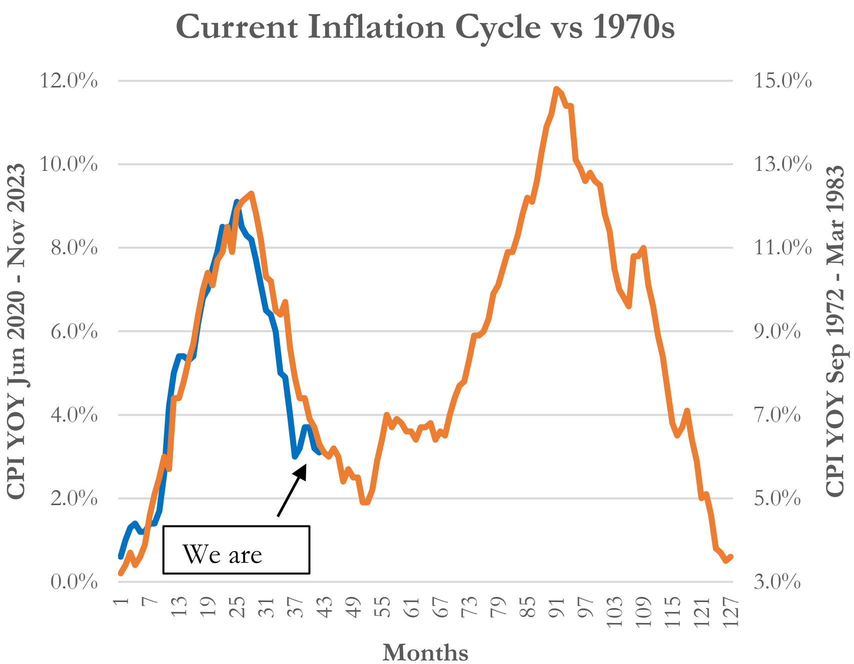
Appendix I: Notes on Federal Reserve (December 15, 2023)



- **The Old Adage: Monetary Policy acts with a lag.** In a sense, the Fed is stuck between a rock and a hard place. Cut pre-maturely, and inflation could accelerate past the April 2022 peak. Overtighten, and the economy could fall into a particularly nasty recession. What makes the task of the "soft landing" even more difficult is the lagged impact of the tools at the Fed's disposal, and the nature with which they implemented them.

  1. **Fasted rate hiking cycle in history.** From March 2022 through July 2023 the Federal Reserve raised the policy rate by 525 bps, which marks the fastest tightening cycle in history.

  2. **All the focus is on rates, but what about the balance sheet?** In addition to raising the Federal Funds rate by 5.25%, the Fed has decreased the size of its balance sheet by $1.2T *(known as Quantitative Tightening)* to remove excess liquidity from capital markets by reducing bank reserves *(resulting in less lending and higher long-term interest rates)*. QT has a very limited history and QT at this scale has almost no historical precedent. The Fed's one previous attempt at QT *(in 2018)* ended less than a year after it began due to fears of bank destabilization. Chairman Powell made no mention ending QT in his speech on Wednesday.

  3. **The Fed is not the only entity that influences liquidity.** The Treasury has stepped in 3 separate times to inject liquidity into capital markets through buybacks and other programs since the Fed started QT in June 2022. Looking at the net liquidity added/removed from both the Fed and the Treasury shows that most of the net liquidity removed occurred in a 5-month period from June 2023 through October 2023. This information is displayed in the below chart:

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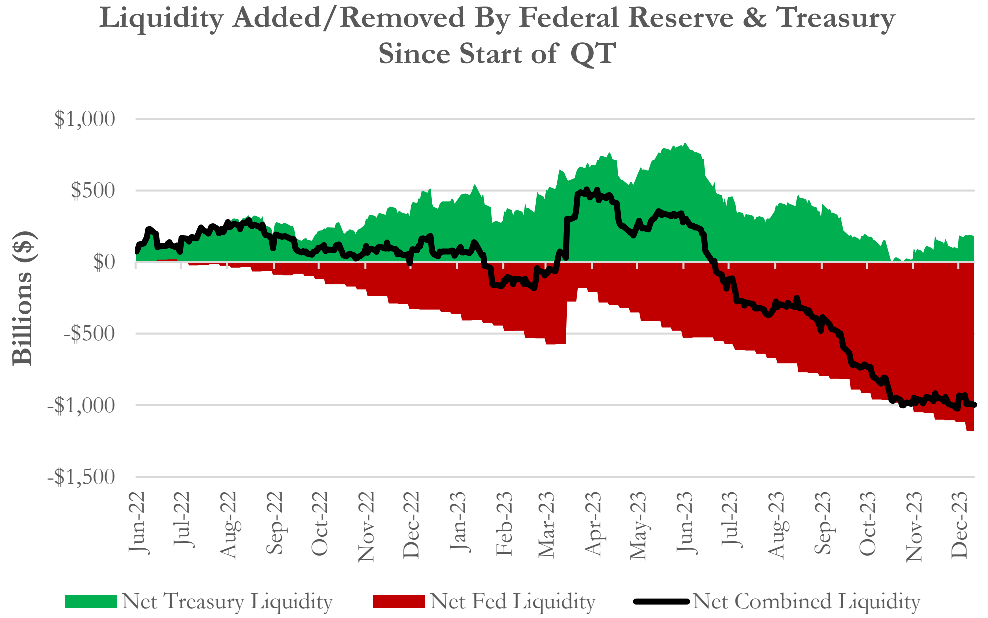
Appendix I: Notes on Federal Reserve (December 15, 2023)



- **Summary of Tightening:**
  1. From March 2022 – July 2023, the Fed engaged in the fastest tightening cycle in history. It has been less than 6 months since the Fed paused raising rates.
  2. In June 2022 the Fed began reducing the size of their balance sheet through Quantitative Tightening, a monetary policy tool with almost no historical precedent, removing ~$1.2T in liquidity to date.
  3. During that time, the Treasury has stepped in on 3 occasions to inject liquidity into capital markets, partially offsetting the Fed's QT, and resulting in most of the net liquidity drain between the two entities to occur in a relatively short time period, which further muddies the waters in evaluating the ultimate impact of QT.

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Appendix I: Notes on Federal Reserve (December 15, 2023)

- **In implementing policy tools in such an unprecedented manner, how can anyone properly estimate the total impact of the tightening thus far?** There was no precedent for the Fed's COVID response in 2020 of increasing M2 money supply by 40%. The full impact of the Fed's COVID response wasn't fully realized for 2 years, in March 2022. Similarly, there is no precedent for magnitude of the Fed's tightening measures thus far.

- **Do we really trust that this FOMC achieved a "soft landing"?** The current FOMC has received criticism for the last several years for their policy missteps, failure in communication, and a lack of transparency. Trusting that the Fed is on track to "land the plane" and achieve a "soft landing", is trusting that the same FOMC responsible for the policy mistakes of the last 3 years, while wielding policy making tools with no historical precedent, can accurately assess the full scope of the tightening to date *(less than 6 months after the date of the last hike no less)*.

- **So going back to the possible reasons for a "pivot", what's the takeaway here?** Given the challenges detailed above, a "soft landing" has not been in our base case of outcomes and Wednesday's meeting has not changed this view. A "hard landing" scenario necessitating rate cuts in 2024 is still a likely outcome, however, the possibility of pre-mature rate cuts opens the door for the exact re-acceleration in inflation that "higher for longer" was supposed to solve.

Appendix II: Disclosures

Slide 6 disclosures: Source: Bloomberg data as of 12/31/2023 *(From Left to Right: NVDA; MSFT; AAPL, TSLA; GOOG/GOOGL; META; AMZN; CCMP Index; SPX Index; MXEA Index; RTY Index; SPW Index; LF98TRUU Index; MXEF Index; LMBITR Index; LBUSTRUU Index; G0B1 Index);* "Magnificent 7" performance reflects the average performance of each holding; the NASDAQ Composite Index is a market capitalization-weighted index of more than 3,700 stocks and is broadly considered to be a benchmark for Technology stocks; the S&P 500 is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The Index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 21 countries. The Russell 2000 Index is a small-cap US stock market index that makes up the smallest 2,000 stocks in the Russell 3000; The Equal Weight S&P 500 Index assigns a uniform weight to all stocks within the S&P 500 and reflects the performance of the average stock in the index; The Bloomberg US Corporate High Yield Bond Index measures the USD-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; The MSCI Emerging Markets Index captures large and mid cap representation across 24 Emerging Markets (EM) countries*. With 1,441 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country; The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 24 Emerging Markets (EM) countries*. With 2,312 constituents, the index covers approximately 85% of the global equity opportunity set outside the US; the Bloomberg U.S. Municipal Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds; the Bloomberg USAgg 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); ICE BofA 0-3 Month US Treasury Bill Index is a subset of ICE BofA US Treasury Bill Index including all securities with a remaining term to final maturity less than 3 months. ICE BofA US Treasury Bill Index tracks the performance of US dollar denominated US Treasury Bills publicly issued in the US domestic market

Slide 9 disclosures: Source: Bloomberg data as of 12/31/2023 *(From Left to Right: NDX Index; OEX Index; RLV Index; DJUSDIV Index; RLG Index; SPX Index; RLV Index; SPW Index; R2500G Index; R2500 Index; R2500V Index; MXEF Index; MXWDU Index; MXEA Index);* the NASDAQ-100 Index is a modified capitalization-weighted index of the 100 largest companies in the NASDAQ Composite Index; the S&P 100 stock market index of US stocks maintained by Standard & Poor; the Dow Jones US Dividend 100 Index is designed to measure the performance of high-dividend-yielding stocks in the US with a record of consistently paying dividends, selected for fundamental strength relative to their peers, based on financial ratios; The Russell 1000® Growth Index measures the performance of the Large Cap growth segment of the US equity universe. The Russell 1000® Growth Index is constructed to provide a comprehensive and unbiased barometer for the large-cap growth Segment; The Russell 1000® Value Index measures the performance of the Large Cap value segment of the US equity universe. The Russell 1000® Value Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment.; The Russell 2500™ Growth Index measures the performance of the small to mid-cap growth segment of the US equity universe. The Russell 2500 Growth Index is constructed to provide a comprehensive and unbiased barometer of the small to midcap growth market; The Russell 2500™ Index measures the performance of the small to midcap segment of the US equity universe, commonly referred to as "smid" cap. The Russell 2500 Index is constructed to provide a comprehensive and unbiased barometer for the small to mid-cap segment; The Russell 2500™ Value Index measures the performance of the small to mid-cap value segment of the US equity universe. The Russell 2500 Value Index is constructed to provide a comprehensive and unbiased barometer of the small to mid-cap value market; The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 24 Emerging Markets (EM) countries*. With 2,312 constituents, the index covers approximately 85% of the global equity opportunity set outside the US; P/E Ratio refers to the ratio of a stock's price relative to its Earnings Per Share indicates the price investors are willing to pay for a company's earnings. It is the most common metric used for determining the valuation of a company's stock.

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