THE PRIVATE CLIENT GROUP
BALANCING LIFE & WEALTH

ECONOMIC & MARKET INSIGHTS

An Executive Summary for First Quarter 2024

The first quarter was a continuation of late 2023, characterized by stronger-than-anticipated growth paired with tamer inflation and restrictive monetary policy. Markets and risk assets welcomed this environment, evidenced by a strong start for equities and tighter credit spreads. Rising rates, however, offset the decline in spreads, resulting in a moderate rise in yields that acted as a headwind for higher-quality fixed income. The U.S. Manufacturing Purchasing Managers Index (PMI) returned to expansionary territory while the services (non-manufacturing) PMI remained above 50, both supportive indicators for growth. The last mile of inflation fighting is proving to be the hardest to combat with stickier (housing, wages, auto insurance) and more volatile (commodities, food) elements contributing to higher levels for longer. The labor market continues to be on solid footing with a sub-4% unemployment rate. Wage growth remains positive but the rate of change has fallen from peak, supporting lower inflation. U.S. large-cap stocks again led markets higher, although market breadth shows some signs of broadening. The magnificent seven has turned into the fab four and ~40% of constituents have outperformed the index YTD. The S&P 500 Index is historically concentrated with ~one-third contained within the top 10 holdings. Notably, top names have been disproportionate positive contributors to EPS growth. International equity markets were positive but lagged U.S. counterparts. Although more compelling valuations offered some support, disappointing growth, and renewed USD strength weighed on relative results. There was a modestly negative start to the year for investment grade fixed income as yields rose. Despite frustrating recent results, higher quality yields and duration are important elements to maintain in diversified portfolios.

Economic Insights

Global growth continued to exceed modest expectations entering the year. Much of the domestic economic resilience is attributed to a strong labor market powering a strong consumer. Labor markets maintain minimal slack and have somehow 'toed the line' of being supportive of growth while not reigniting a surge in inflation – a scenario that defied many economists' predictions. One potential reason is the upswing in immigration which data suggests is plugging the employment gap preventing additional pressure to push wages higher. Strong employment and moderate wage growth pulled consumer sentiment up from historic lows reached mid-2022 to the highest level since immediately following the pandemic.

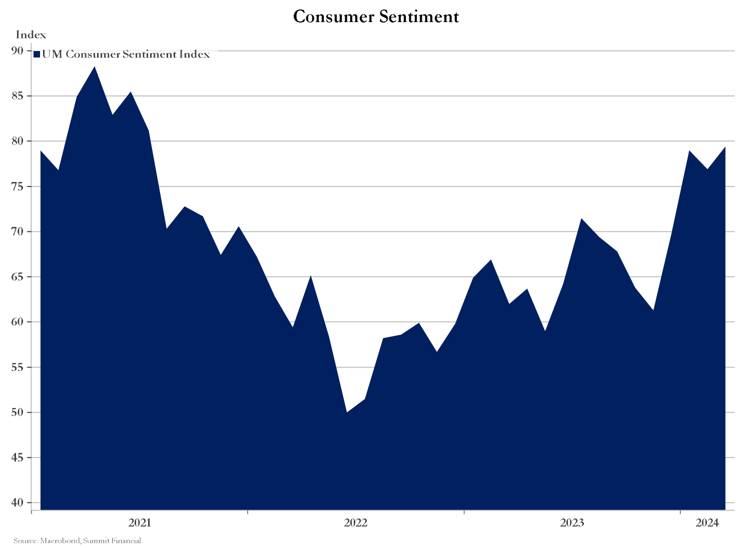
The Fed used messaging as a tool to fine-tune policy and sentiment throughout this transitory policy stage. Hopes for six cuts were quickly dispelled with more questioning if even three cuts are feasible. Ultimately, barring some exogenous shock, one to three small cuts appear most likely to serve as more of a signaling mechanism/course correction versus having a sizeable, direct impact on the economy. Given the criticized pace of raising rates in response to elevated inflation coming out of the pandemic, the Fed will be careful to not ease too quickly and risk reviving inflation.

Economic growth outside of the U.S. is more varied and generally less robust. Momentum in the Eurozone recovery has slowed and is becoming bifurcated. Southern European economies (mainly Italy, Spain, Portugal, and Greece) have well outgrown counterparts while Germany and other North European nations, previously looked to power the region's growth, have barely budged since the pandemic. Within Asia, Japan's growth is showing renewed signs of life as the Bank of Japan is just starting the process of normalizing monetary policy. The combination supported a recent rally in the local equity market, but yen weakness has eroded some of the gains for USD-based investors. China's economy could finally be bottoming with PMIs gaining into expansionary territory and exports rising. Monetary easing also appears to be helping although the property market remains strained and an unwillingness to substantially devalue the yuan puts a cap on government intervention.

The global economy has made significant progress in normalizing following a whipsaw in growth, inflation, and policy during and immediately following the pandemic. The new normal reflects a world of positive, albeit modest, growth, structurally higher but more moderate inflation, and likely greater macro uncertainty.

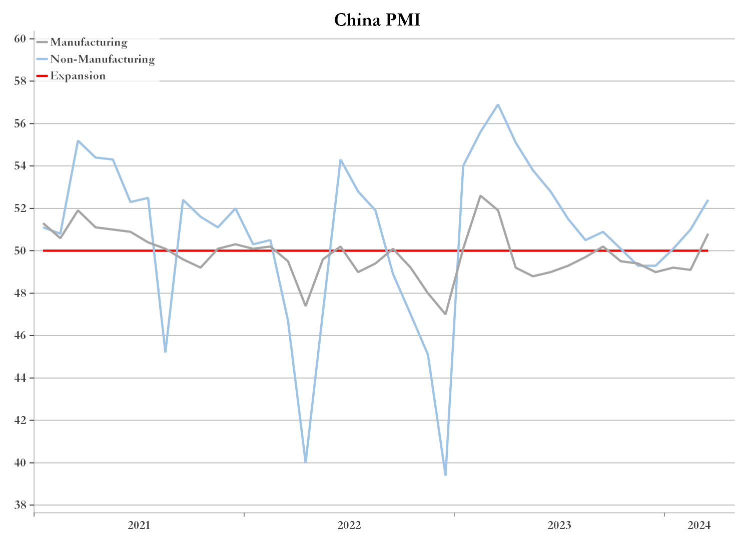
Consumer Sentiment is Back from the Dead

- A strong job and stock market have fueled an impressive rise in sentiment from historic mid-2022 lows.
- Higher sentiment leads to greater spending further supporting the economy and pushing off recessionary concerns, for now.
- Sentiment is particularly important leading into an election year which can impact the results.



China's Economy Finally Bottoming?

- China's manufacturing and service PMIs have returned to expansionary territory (above 50).
- Monetary support has loosened credit conditions, helping markets and consumer confidence.
- Political relations and exports are improving but challenges in the property market remain.
- Reaching the 5% growth target may still be a stretch, but China may be at a positive inflection point.



Equity Markets

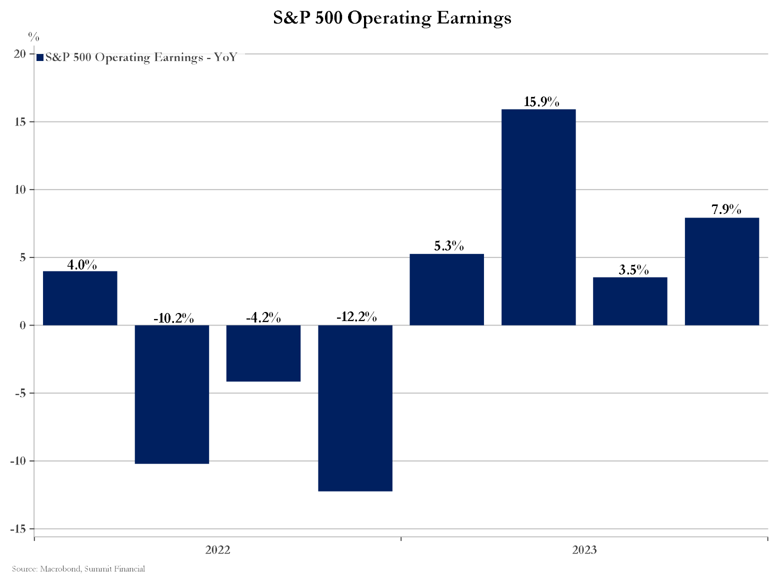
The S&P 500 index posted a positive return for the quarter, mainly driven by valuation expansion stemming from a boost in investor sentiment on the back of strong economic growth, although earnings growth also positively contributed. Developed international markets bested emerging markets, as concerns around China's growth prospects remain. Despite recent positive performance, dollar strength continues to erode international market returns for USD investors and adds a layer of complexity when considering asset allocation decisions.

Growth stocks drove most of the outperformance for developed markets backed by stellar earnings growth from the Magnificent Seven. Japanese stocks boomed during the quarter as the Bank of Japan began normalizing its monetary policy in March and ended its negative interest rate regime. European equities continued to lag U.S. stocks but still offer attractive valuations and a potentially shrinking economic growth gap.

Volatility remained low and contained throughout the quarter which, when coupled with other promising economic data, adds support to the prospect of a soft landing. Valuations remain elevated for US stocks, particularly large caps, while other portions of the market are more reasonably priced. Lofty valuations often leave little room for error or undershooting expectations. Out of favor portions of the market continue to lag but are presenting more compelling valuation opportunities.

What Strong Q4 Earnings Say About Stocks

- S&P 500 operating earnings grew by almost 8% YoY in Q4, flipping the pessimistic script leading into the year.
- Information Technology, Consumer Discretionary, Utilities, and Communication Services all saw growth, while Energy, Materials, Healthcare, and Financials all had declines.
- The boost in earnings may be attributed to companies adapting to a higher rate and inflation environment by cutting costs and boosting efficiency.
- The 2024 forecasted EPS for the S&P 500 index is expected to increase from $220 currently to $244 by year end.

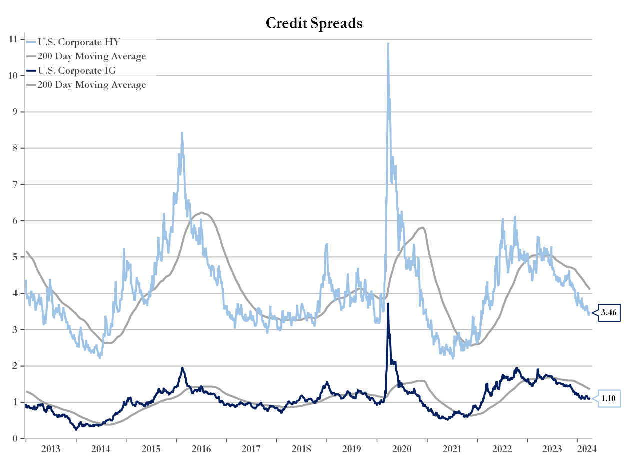


Fixed Income and Alternatives

Overall, fixed income markets entered 2024 a bit more subdued than they finished 2023, with most portions generating modest returns. The Fed continues to suggest that interest rate cuts are coming, but Treasury yields, a key driver of mortgage rates and other borrowing costs, continue to rise. The 10-year Treasury yield ended 0.32% higher for the quarter, despite ticking down 0.05% in March. The yield curve inversion persisted throughout the quarter and has now stretched to a record 21 months, with –0.42% of inversion at quarter end.

Following a strong second half of 2023, many portfolio managers believe bond markets still offer investors good value due to attractive nominal, real, and relative yields. Supply and demand dynamics could be a key theme going forward, as Treasury supply remains heavy and non-Treasury is more modest. High yield continues to benefit from an improving economic picture as predictions of a forthcoming recession have become scarce.

On the municipal side, rates climbed more than short-term Treasury yields as both markets responded to expectations moving from six to three Fed rate cuts by year end. After experiencing outflows in 2022 and 2023, investor demand has returned, with net inflows for the quarter totaling over $7 billion. Most subsectors produced modestly negative returns for the quarter. Similar to the taxable market, credit has been a bright spot and high yield is outperforming broader indices due to credit spreads narrowing despite a rising interest rate environment.

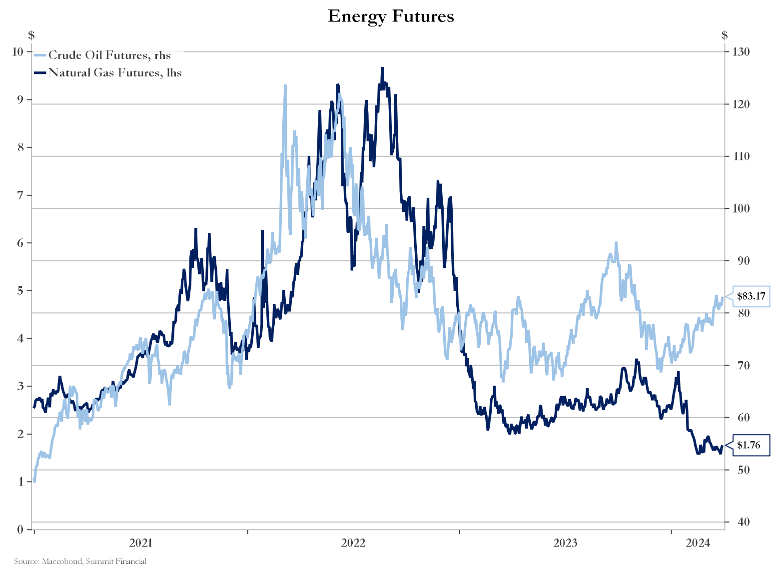


Within real assets, March capped a generally positive start to the year for most commodities, with oil, gold, copper, and cocoa all ending the quarter trading near YTD highs. The strength has been robust, with more than three quarters of commodities posting positive returns in the quarter, the most since Q1 2022. Gold has been on a remarkable rally, even as hopes for near-term rate cuts dwindle. Often treated as a portfolio hedge against a weakening economy, recent economic data coming in stronger than expected couldn't weaken demand. Gold's value as a geopolitical hedge remained intact for some investors as the ongoing uncertainty surrounding the Middle East, Ukraine, and upcoming U.S. election cycle bolstered demand. On the industrial side, copper, often seen as a bellwether for the global economy, ended the quarter up 3.5%

Most Public REIT sectors finished positive in 2023, largely due to the surge that followed the Fed signaling a potential policy shift in Q4, leading many analysts to believe they were well positioned to outperform in 2024. Since then, the asset class has remained mostly flat as the expected timing of a first cut continues to get pushed back and the expected number of cuts continues to decline. Picking up where it left off in 2023, the lodging and resort sector has led the group, while office properties continue to lag, as economic uncertainty and lingering resistance to a return to office remain headwinds.

Oil Surges Higher in Q1

- Oil was on a tear through Q1 as ongoing geopolitical tensions in the Middle East, OPEC production cuts, and strengthening demand led crud e prices above $83 per barrel in late March.
- These higher prices could trickle down and contribute to inflation as consumers continue to get pinched at the pump and within retail sectors.
- On the other hand, higher oil prices acted as a tailwind for the greater energy sector.
- Natural gas futures dropped due to a large current surplus stemming from a milder than expected winter.



Term	Definition
CBOE Volatility Index (VIX)	The CBOE Volatility Index (VIX) reflects the market's real-time expectation of 30-day forward-looking volatility. It is created by the Chicago Board of Options Exchange (CBOE).
Chicago Fed National Financial Conditions Index (NFCI)	The Chicago Fed's National Financial Conditions Index (NFCI) provides a comprehensive weekly update on U.S. financial conditions in money markets, debt and equity markets, and the traditional and "shadow" banking systems
Consumer Confidence Index	The Consumer Confidence Index is a measure based on a survey administered by The Conference Board that reflects prevailing business conditions and likely developments for the months ahead. This monthly report details consumer attitude, buying intentions, vacation plans, and consumer expectations for inflation, stock prices, and interest rates.
Consumer Price Index	The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.
Core Inflation	Core Inflation is a measure of economic inflation that excludes food and energy
Headline Inflation	Headline Inflation is a measure of the total economic inflation that includes food and energy prices
ISM Manufacturing Index	The ISM Manufacturing Index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of executives covering all North American Industry Classification System's businesses in the manufacturing sector.
ISM Non-Manufacturing Index	The ISM Non-Manufacturing Index is a monthly indicator of U.S. economic activity based on a survey of executives covering all North American Industry Classification System's businesses in the services (or non-manufacturing) sector.
Leading economic indicators (LEI)	Leading economic indicators (LEI) are statistics that precede economic events. They predict the next phase of the business cycle;
Merrill Lynch Option Volatility Estimate Index (MOVE Index)	The MOVE index, or Merrill Lynch Option Volatility Estimate Index, is a gauge of interest rate volatility in the U.S. Treasury market. It is calculated from options prices, which reflect the collective expectations of market participants about future volatility. The index measures the implied volatility of U.S. Treasury options across various maturities
OECD Composite leading indicators (CLIs)	The OECD Composite leading indicators (CLIs), designed to anticipate turning points in economic activity relative to trend
Personal Consumption Expenditures Price Index (PCE)	Personal Consumption Expenditures Price Index (PCE) is a measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services. The PCE price index is known for capturing inflation (or deflation) across a wide range of consumer expenses and reflecting changes in consumer behavior
S&P 500 12-Month Forward P/E ratio	S&P 500 12-Month Forward P/E ratio uses the forecasted earnings per share of the company over the next 12 months for calculating the price-earnings ratio. It is calculated by dividing the price per share by forecasted earnings per share over the next 12 months

S&P Case-Shiller Home Price Index	The S&P Case-Shiller Home Price Index measures the value of single-family housing within the U.S. The index is a composite of single-family home price indices for the nine U.S. Census divisions.
The Federal Funds Rate	The Federal Funds Rate is the target interest rate range at which commercial banks borrow and lend their excess reserves to each other overnight, which is set by the Federal Open Market Committee (FOMC)
Treasury Bill (T-Bill)	A Treasury Bill (T-Bill) is a short-term U.S. government debt obligation backed by the Treasury Department with a maturity of one year or less;
U-3 unemployment rate	The U-3 unemployment rate is the most commonly reported rate in the United States, representing the number of unemployed people actively seeking a job
United States Industrial Production	United States Industrial production refers to the output of industrial establishments and covers sectors such as mining, manufacturing, electricity, gas and steam and air-conditioning. This indicator is measured in an index based on a reference period that expresses change in the volume of production output;
National Financial Conditions Index (NFCI)	The National Financial Conditions Index (NFCI) is a weighted average of a large number of variables (105 measures of financial activity) each expressed relative to their sample averages and scaled by their sample standard deviations.
Short Interest Ratio	The short interest ratio is a mathematical indicator of the average number of days it takes for short sellers to repurchase borrowed securities in the open market. The ratio is calculated by dividing the total number of shorted shares of a stock by the average daily trading volume.
Consumer Sentiment	Consumer Sentiment is represented by The University of Michigan Consumer Sentiment Index which rates the relative level of current and future economic conditions.
Building Permits	Building Permits measures the change in the number of new building permits issued by the government. Building permits are a key indicator of demand in the housing market.
Retail Sales	Retail sales are an economic metric that tracks consumer demand for finished goods. This figure is a very important data set as it is a key monthly market-moving event. Retail sales are reported each month by the U.S. Census Bureau and indicate the direction of the economy.
Industrial Production	Industrial production refers to the output of industrial establishments and covers sectors such as mining, manufacturing, electricity, gas and steam and air-conditioning. This indicator is measured in an index based on a reference period that expresses change in the volume of production output.
Initial Claims	Initial claims refers to the government report on the number of workers applying for unemployment benefits for the first time following job loss.

Label	Index	Index Description
Municipal	Bloomberg Municipal Bond Index	The Bloomberg Municipal Bond Index covers the U.S. dollar-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.
S&P 500	S&P 500 Index	The S&P 500 Index is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market. It measures the movement of the largest issues. Standard and Poor's chooses the member companies for the 500 based on market size, liquidity, and industry group representation. Included are the stocks of eleven different sectors.
Europe	MSCI Europe Index	The MSCI Europe Index captures large- and mid-cap representation across developed markets countries in Europe. The index covers approximately 85% of the free float-adjusted market capitalization across the European developed markets equity universe.
U.S. High Yield	Bloomberg U.S. Corporate High-Yield Index	The Bloomberg U.S. Corporate High-Yield Index measures the U.S. dollar-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.
Treasuries	Bloomberg U.S. Treasury Index	The Bloomberg U.S. Treasury Index measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury. Treasury bills are excluded by the maturity constraint but are part of a separate Short Treasury Index. STRIPS are excluded from the index because their inclusion would result in double-counting.
Precious Metals	Bloomberg Precious Metals Subindex	Formerly known as Dow Jones-UBS Precious Metals Subindex (DJUBSPR), the index is a commodity group subindex of the Bloomberg CI. It is composed of futures contracts on gold and silver. It reflects the return of underlying commodity futures price movements only and is quoted in USD.
Industrial Metals	Bloomberg Industrial Metals Subindex	Formerly known as Dow Jones-UBS Industrial Metals Subindex (DJUBSIN), the index is composed of futures contracts on aluminum, copper, nickel and zinc. It reflects the return of underlying commodity futures price movements only. It is quoted in USD.
Energy	Bloomberg Energy Subindex	Formerly known as Dow Jones-UBS Energy Subindex (DJUBSEN), the index is a commodity group subindex of the Bloomberg CI. It is composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas. It reflects the return of underlying commodity futures price movements only and is quoted in USD.
Real Estate/REITs	S&P 500 Real Estate Index	The S&P 500® Real Estate comprises those companies included in the S&P 500 that are classified as members of the GICS® Real Estate sector.