Capital Market Review

December 31, 2023

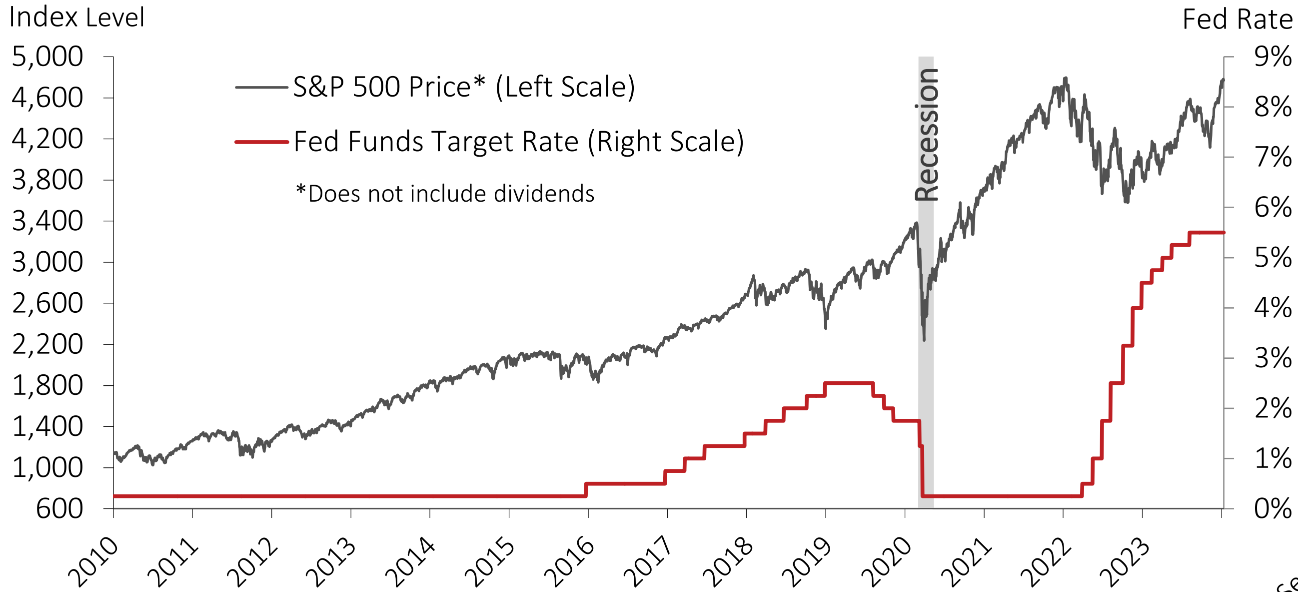


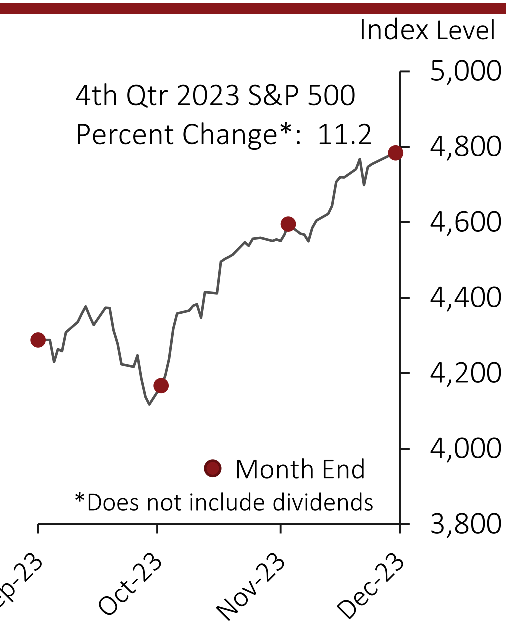

DeMarche

[Watch the Capital Markets Review Key Takeaways Video]

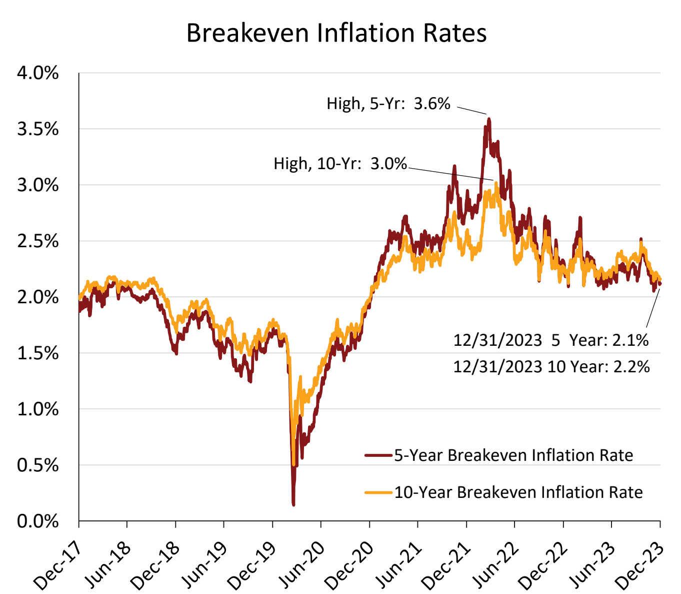
Market / Economic Overview

Reversal of Fortune



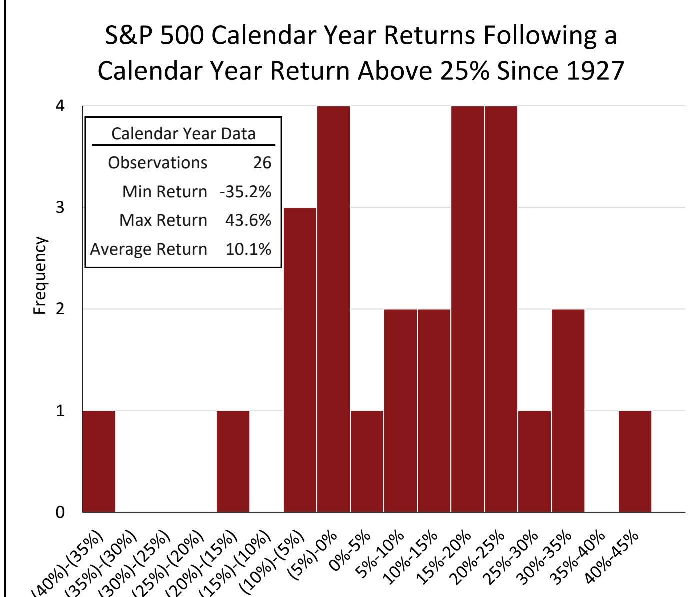


Source: Standard & Poor's, Federal Reserve



Source: Federal Reserve of St. Louis (FRED)

For 2023, the capital markets navigated choppy seas reflecting economic uncertainties and market volatility. However, the markets ended on a high note, a reversal from the dismal 2022 results. The Fed stayed on the sideline for the second half of the year after increasing the Fed Funds rate four times at 25 basis points apiece. In the last two months of the year, rates fell and the markets rallied as inflation fears subsided. This was a welcome respite from an October that brought higher rates and falling markets. After a great annual return of over 25%, which has happened 26 times since 1927, the subsequent annual return for the S&P 500 has been all over the place ranging from negative 35% to positive 44%.



Source: DeMarche Based on 97 calendar year reutrns of the S&P 500

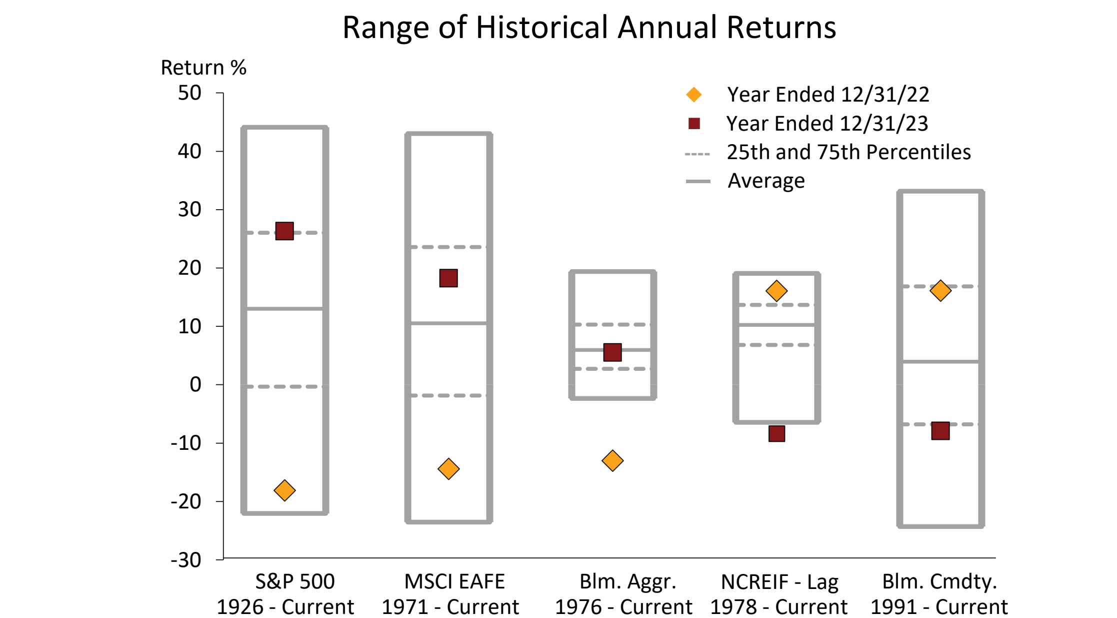
Broad Market Overview

INDEX	4th Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI World	11.4	23.8	7.3	12.8	8.6
Russell 3000	12.1	26.0	8.5	15.2	11.5
S&P 500	11.7	26.3	10.0	15.7	12.0
MSCI EAFE USD	10.4	18.2	4.0	8.2	4.3
MSCI Emerging Markets USD	7.9	9.8	-5.1	3.7	2.7
Bloomberg Aggregate	6.8	5.5	-3.3	1.1	1.8
Bloomberg Global Aggregate	8.1	5.7	-5.5	-0.3	0.4
FTSE Non-US Gov't Bond	9.9	5.8	-9.3	-2.8	-1.3
NAREIT (Public RE)	17.6	11.5	5.3	7.1	7.7
Bloomberg Commodity	-4.6	-7.9	10.8	7.2	-1.1

Notes: Data are presented as percent returns. All 3-, 5-, and 10-year returns are annualized.

U.S. Indicators Yr. Ending 12/31	2023	2022	2021	2020	50 Yr. Average
GDP Annual Growth Rate*	2.2	0.7	5.4	-1.5	2.6
Unemployment	3.7	3.5	3.9	6.7	6.2
Inflation (CPI)	3.4	6.5	7.0	1.4	3.9
10-Year Interest Rates	3.9	3.9	1.5	0.9	6.0

**Note: Prior to the GDP quarterly release from BEA, we show the annual GDP Growth rate from OECD weekly tracker as the most recent year.*



Source: DeMarche

- The S&P 500 returned over 26% for 2023 ending the year within 26 index points of the record high of 4,796 from January 2022 - almost two years ago. One year returns are attractive given the drawdown in 2022. Three year returns are more modest when the drawdown of 2022 is included.
- Bond returns were boosted by the drop in interest rates in the 4th quarter. The yield on the 10 year Treasury fell from 4.57% to 3.89% by the end of 2023. While one year returns for bonds are attractive, the longer term returns reflect the large increase in rates that occurred in 2022.
- The last two months of the year provided a tailwind to international stocks as the dollar weakened. However, international stocks did not outperform domestic equities. International stocks, as measured by MSCI EAFE, still have not made it back to the all-time high from September 2021. The index ended the year within eight percentage points of the all-time high level.
- The chart to the left shows the range of historical returns for various asset classes since the inception of their respective indexes. The returns for domestic and international stocks are above average and in the first and second quartile, respectively. The return for bonds is back to average after a long road of below average returns. Real estate and commodities are struggling in the higher interest rate environment, albeit where inflation is moderating.

DeFact

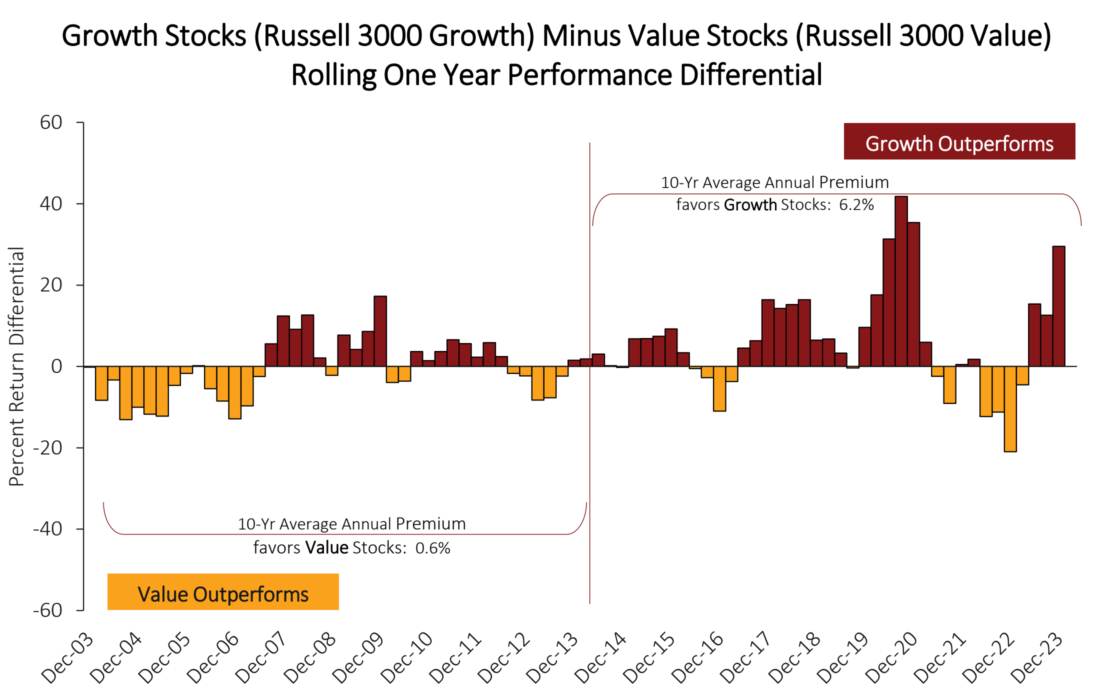
The mega cap stocks in the S&P 500 drove the bus this year. The top ten stocks by market cap in the S&P 500 contributed 86% of the total return for 2023. The remaining 490 stocks contributed only 14%. The top ten stocks make up 32% of the total market capitalization, the highest point of the past 25 years. ~JPMorgan

Domestic Equities

December 31, 2023

INDEX	4th Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
S&P 500	11.7	26.3	10.0	15.7	12.0
S&P Mid-Cap 400	11.7	16.4	8.1	12.6	9.3
S&P Small-Cap 600	15.1	16.1	7.3	11.0	8.7
Russell 1000	12.0	26.5	9.0	15.5	11.8
Russell 1000 Growth	14.2	42.7	8.9	19.5	14.9
Russell 1000 Value	9.5	11.5	8.9	10.9	8.4
Russell 2000	14.0	16.9	2.2	10.0	7.2
Russell 2000 Growth	12.7	18.7	-3.5	9.2	7.2
Russell 2000 Value	15.3	14.6	7.9	10.0	6.8

Notes: Data are presented as percent returns. All 3-, 5-, and 10-year returns are annualized.



Source: DeMarche

- Small cap stocks also rebounded in 2023, but still fell short of the all-time high from November 2021. Small caps performed well in the 4th quarter and finally outperformed large caps for the period. In just December alone, small caps outperformed by over seven percentage points. Over the longer term, small caps still lag in performance, primarily due to the underwhelming returns of the health care and financial sectors, both large weights in the index.

- It was a rebound of the "Magnificent Seven" that drove large cap returns, particularly in growth stocks as evidenced by the large increase in the return of the Russell 1000 Growth index. The weight of the tech sector of the Growth index is over 44%, which returned almost 67% in 2023. More broadly, the Russell 1000 Growth was up 42.7% for 2023, a nice rebound from a dismal 2022. Over the last three years, the growth and value index returns are the same.

- The chart to the left shows the dominance of growth stocks over the past decade. However, the past decade has been one of very low interest rates. We see that value stocks have the ability to lead during times of increasing rates (2022) and other uncertain times, such as the 2016 credit crunch and the COVID pandemic in 2020.

DeFact

The S&P 500 is a market-cap weighted index. One way to gain perspective on the dominance of the big names in the Index is to look at the returns of the Equal-Weighted S&P 500 Index (where all the stocks have about a 22 basis point weight). In 2023, the equal-weighted index returned 13.9% versus 26.3% for the market-cap weighted index. However, in 2022, the equal weighted index returned -11.5% as compared to the -18% for the market-cap weighted index. Those big names really can swing around the index. ~DeMarche

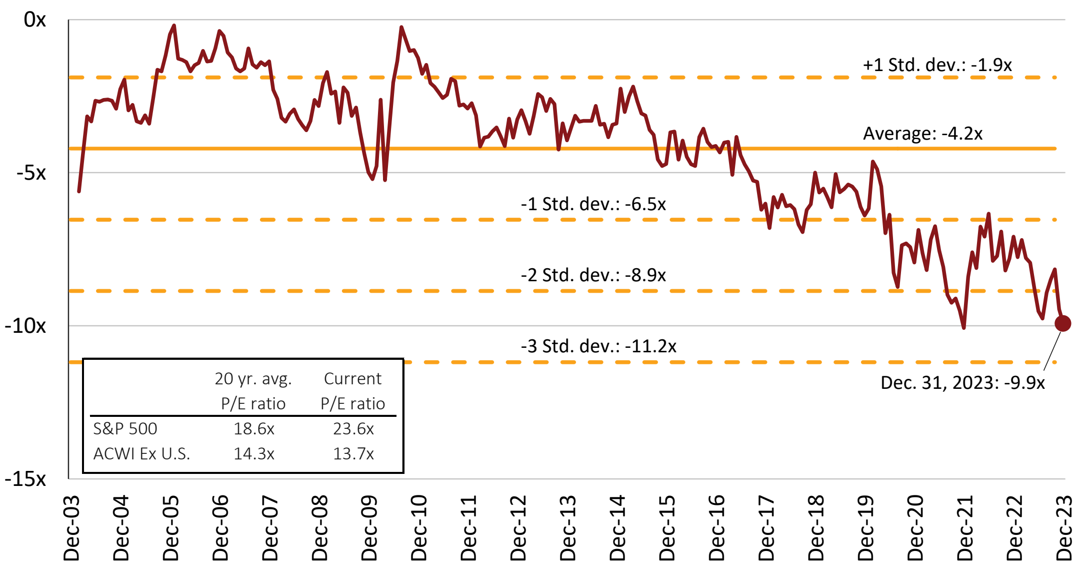
International Equities

December 31, 2023

INDEX	4th Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI EAFE Local	5.0	16.2	8.6	9.5	6.6
MSCI EAFE USD	10.4	18.2	4.0	8.2	4.3
Growth	12.7	17.6	0.3	8.8	5.1
Value	8.2	19.0	7.6	7.1	3.2
MSCI All Country-ex US	9.8	15.6	1.5	7.1	3.8
MSCI AC Asia-ex Japan	6.4	6.0	-6.7	3.7	3.9
MSCI Emerging Markets	7.9	9.8	-5.1	3.7	2.7
MSCI EAFE Small Cap	11.1	13.2	-0.7	6.6	4.8
MSCI Japan	8.2	20.3	0.7	6.9	5.0
MSCI China	-4.2	-11.2	-18.4	-2.8	0.9
MSCI Germany	13.0	23.0	0.2	6.3	2.0
MSCI France	10.3	21.4	7.9	10.5	5.7
MSCI UK	6.9	14.1	8.8	6.9	2.5

Notes: Data are presented as percent returns. All 3-, 5-, and 10-year returns are annualized.

ACWI xUS vs. S&P 500 - Trailing 12-Month P/E



	20 yr. avg. P/E ratio	Current P/E ratio
S&P 500	18.6x	23.6x
ACWI Ex U.S.	14.3x	13.7x

Source: Morningstar, DeMarche

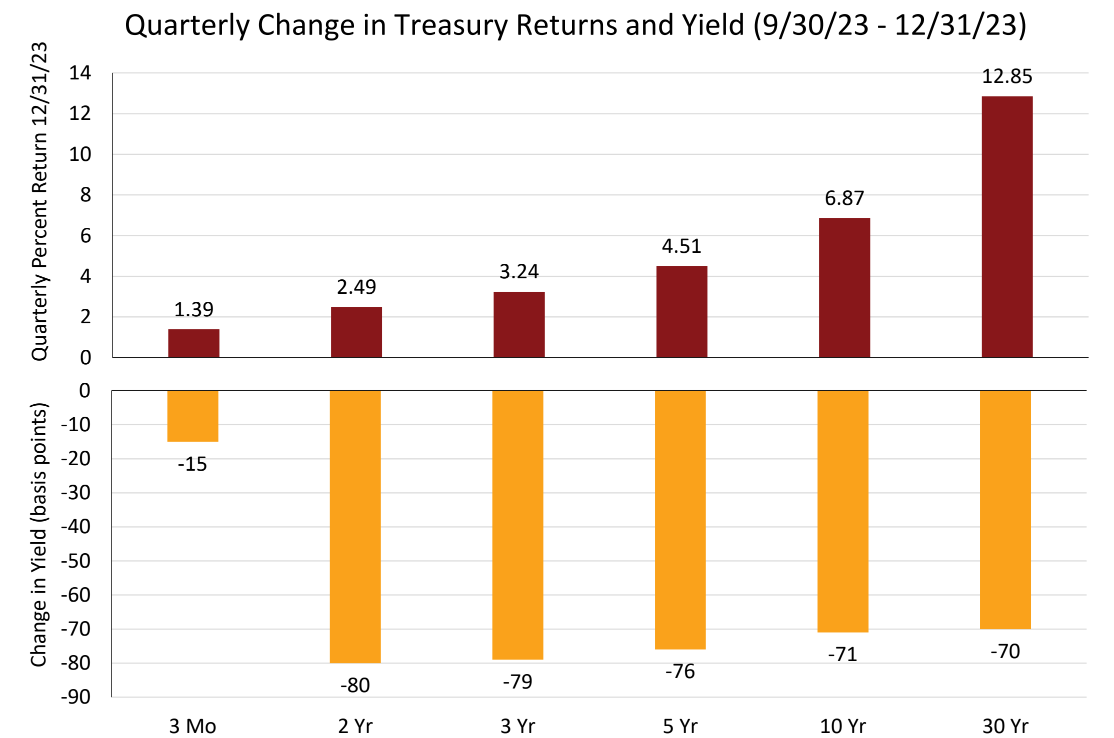
- International stocks did well in the quarter and were buoyed by the dollar weakening as interest rates fell. Over the longer term, the dollar has strengthened against other global currencies as reflected in more modest longer term returns of the USD priced index. The three year return is just 4% in USD vs. 8.6% in Local.
- Emerging market stocks, outside of Chinese stocks, also performed well in the 4th quarter. Stocks of other countries in Asia, (India, Taiwan and South Korea) account for a 49% weight in the index and returned over 21% for the year.
- Chinese stocks fell over 4% in the quarter and over 11% for the past year. The weight of China in the emerging markets index has fallen to 26%, down from 30% at the end of third quarter.
- The chart to the left shows the dominance of US large cap stocks vs. others around the globe. The MSCI All-Country World ex US Index (ACWI xUS), which includes both international and emerging market stocks, is "cheap" relative to US stocks. Not only are international stocks inexpensive to US stocks, they are inexpensive relative to their own history. The current P/E of the index is 13.7x, which is 0.6x less than its 20 year average.

DeFact

The Bank of Japan seems to be the outlier among current interest rates regimes around the globe. Japan's central bankers kept the benchmark rate at a negative 0.1% in December. Their central bank is continuing to purchase trillions of dollars in government bonds. Other central banks (Fed, ECB and BOE) have hiked rates aggressively and are letting previous bond purchases mature. Expectations now suggest interest rate cuts beginning in 2024 from these three central banks. ~AP, JPMorgan

INDEX	4th Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
Bloomberg Aggregate	6.8	5.5	-3.3	1.1	1.8
Bloomberg 1-3 Gov Credit	2.7	4.6	0.1	1.5	1.3
Bloomberg Gov Credit Long	13.2	7.1	-8.7	1.1	3.2
Bloomberg US TIPS	4.7	3.9	-1.0	3.2	2.4
ICE BofA Merrill Lynch High Yield	7.1	13.4	2.0	5.2	4.5
CSFB Leveraged Loan (bank loans)	2.9	13.0	5.6	5.6	4.4
Bloomberg Global Aggregate	8.1	5.7	-5.5	-0.3	0.4
JPM EmgMkt Bd Glbl Dvrsfd (hard)	9.7	10.4	-3.7	1.5	3.0

Notes: Data are presented as percent returns. All 3, 5-, and 10-year returns are annualized.



Sources: St. Louis Federal Reserve- Constant Maturity Treasury Yields, Morningstar- Bloomberg U.S. Treasury Bellwethers Returns

- The 4th quarter began with a spike in rates in October that subsequently dropped precipitously during the last two months of the year. The rate drop coupled with higher starting yields earned a 6.8% return of the Bloomberg Aggregate in the quarter. The return was more than enough to move the one-year return to a rather nice 5.5%.
- Higher starting yields and falling interest rates have proven to be a potent combination for returns in the high yield space also. High yield bonds generated over a 13% return for the year, way above the longer term returns of the last three, five and ten years.
- Higher rates across the globe coupled with a weakening dollar drove international bond and emerging market bond returns higher for the quarter. Longer term global returns show the same theme as domestic returns – increasing interest rates decrease bond prices and therefore, total return.
- The chart to the left shows how changes in interest rates impact returns. Let's look at the ten year Treasury. The ten year U.S. Treasury hit its highest yield since July 2007 on October 19th. It then rallied strongly as market expectations changed rapidly in November. The ten year returned 6.87% as rates fell fast.

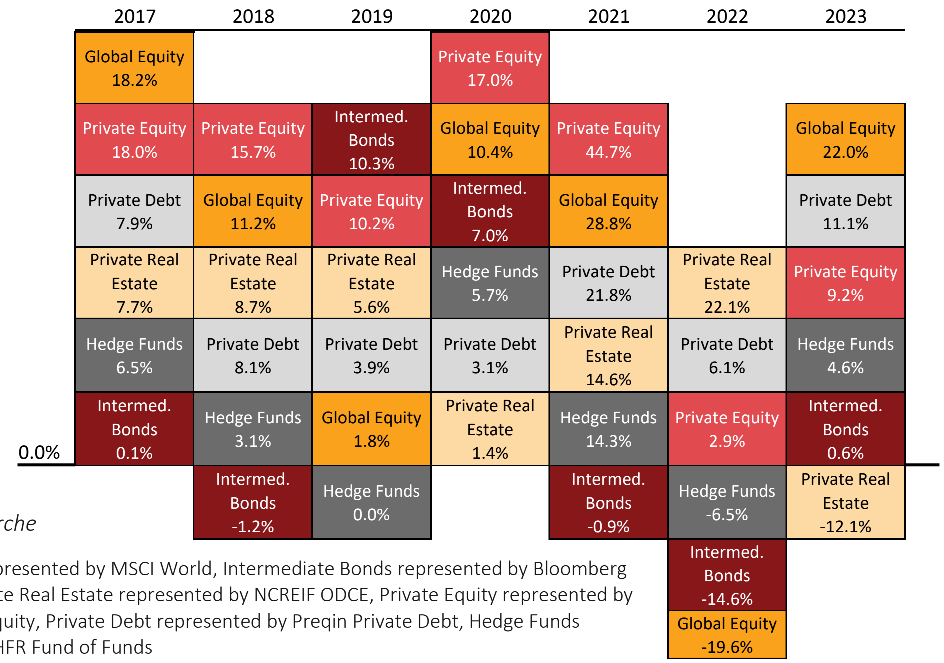
DeFact

The turn-around for the Bloomberg Aggregate index was rather dramatic in the last quarter of the year. At the end of the third quarter the index posted a negative 3.2% return for the quarter. Then in the fourth quarter the index returned 6.8%, a turn-around of ten percentage points (-3.2% to 6.8%) from quarter to quarter. Since 1976 (192 quarters), there have been only 5 times that the quarter to quarter move was greater than these past two quarters. ~DeMarche

INDEX	4th Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
NCREIF ODCE	-1.9	-12.1	7.1	5.7	8.2
NCREIF Property (Private RE)	-1.4	-8.4	6.0	5.3	7.4
Apartment	-1.4	-7.6	7.4	6.0	7.3
Industrial	-0.3	-5.3	19.1	16.1	14.8
Office	-3.7	-17.1	-3.6	-0.3	4.1
Retail	-0.1	-1.4	1.9	0.1	4.8
NCREIF Timberland	1.4	10.0	9.2	5.9	5.9
NCREIF Farmland	-0.3	6.0	7.2	6.2	8.0
HFR FOF Composite	0.5	4.6	3.8	3.4	3.3
Conservative	1.6	5.2	5.7	4.1	3.5
Diversified	0.7	4.0	4.3	3.7	3.4
Strategic	-0.3	5.9	2.3	2.7	3.1
Preqin Private Equity	2.1	9.2	17.6	16.0	15.1
Preqin Private Debt	2.3	11.1	12.8	9.0	8.6
Preqin Infrastructure	3.0	12.1	15.9	12.3	11.2

Notes: Data are presented as percent returns. All 3-, 5-, and 10-year returns are annualized.
All data in the table above are as of 9/30

Asset Class Leaders and Laggards
One Year as of 12/31/2023 Lagged One Quarter



Source: DeMarche

Global Equity represented by MSCI World, Intermediate Bonds represented by Bloomberg Aggregate, Private Real Estate represented by NCREIF ODCE, Private Equity represented by Preqin Private Equity, Private Debt represented by Preqin Private Debt, Hedge Funds represented by HFR Fund of Funds

- Real estate continues to reprice in the face of a slowing economy and higher interest rates. Over the past year, real estate values have declined over 12%. The office sector continues to readjust due to lower occupancy rates and was down over 17% in 2023. Now even the hot industrial sector is also beginning to reprice. As you can see from the returns, different sectors are repricing at different times.
- Private equity returns lag public equity returns. You see in the chart that the third quarter returns are slightly positive. Returns for public equities in the third quarter were negative before turning positive in the fourth quarter, so the expectation is that private equities returns will be positive in the fourth quarter. Private equity returns also usually do not experience the high highs and the low lows of public equities quarter to quarter.
- The chart to the left shows the wide range of returns of various private market assets versus broad public market indexes. The chart also shows that while private equity has been a leader in return it can lag public markets in momentum type "up" markets and protect on the downside in "down" markets. A similar return stream is evident with private debt versus the Aggregate. Real estate, while never the "winner", has shown a steady return stream with the exception of 2023.

DeFact

Property investors sat on the sidelines last year waiting for opportunities. Just $374 billion of real estate sold in the U.S. last year, according to MSCI data, a 51% fall compared with 2022. Office buildings in oversupplied business districts such as San Francisco have fallen up to 40% in value since 2022. ~WSJ

SAVE

THE

DATE

41st Annual DeMarche Client and Investor Conference

September 17-19, 2024

Sheraton Overland Park

Mark your calendars for the 41st Annual DeMarche Client and Investor Conference on September 17-19 at the Sheraton Overland Park.

As one of the country's premier institutional investor educational events, the DeMarche Client and Investor Conference is designed to keep you on top of the critical investment topics, market forces, and developing industry trends that shape investment strategies and portfolio returns.

2024 marks our 50th anniversary, and we look forward to welcoming you to an exceptional conference. Please plan to join us this September to prepare for the market cycles to come. Learn from our consultants, analysts, and invited industry experts while networking with investment leaders, colleagues, and other institutional investors.

Registration and hotel reservations will begin in June.