

January 2024

DeMarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for the Period Ended 1/31/2024

Global Overview

Despite the U.S. witnessing several reports of positive economic data, only a handful of asset classes posted positive returns in January. Large-cap growth was the domestic asset class with the highest returns, which continued to be driven by the “Magnificent 7” and market momentum. On the international front, returns were bolstered by the strong market performance in Japan. All in all, the strength in the U.S. economy aided in the MSCI World Index posting positive returns of 1.2% last month.

U.S. Markets & Economy

Momentum in domestic equities continued to drive the market in January, with most large-cap indices posting positive returns last month while small-caps struggled. While momentum carried some market returns, positive economic data throughout the month gave market returns a further boost. On the production side, Manufacturing PMI unexpectedly jumped to 50.3 in January, the highest level since April 2023. The Service PMI grew as well to 52.9 (from 51.4), providing consumers with hope that the economy has remained resilient amid higher interest rates. Although the Fed Funds rate held at 5.5%, the market is still anticipating five cuts throughout 2024 despite initial pushback from Fed officials. At the beginning of January, the market-implied chance of the Fed cutting rates in March was just above 80%, but it dropped to 35% following a month-over-month inflation report showing an increase of 0.3% and Fed Chair Powell asserting a March cut is not likely. Shifting focus, consumer confidence increased to a two-year high of 78.8, and was driven by strong market gains, firmer home prices, and a robust labor market. While initial jobless claims crept up from 203 thousand to 224 thousand, they remain low. Additional positive economic data includes the initial release of the U.S. fourth-quarter GDP, which grew at an annualized rate of 3.3%, crushing expectations of 2% growth. The momentum and the optimism around the economy led to the S&P 500 Index to reach a new all-time high of 4,839.8, and gain 1.7% in January. However, small-caps floundered once more due to their heightened sensitivity to the uptick in inflation. Furthermore, small/regional bank stocks plummeted in the last days of the month as they are more vulnerable to the deteriorating conditions of commercial real estate loans, leading the Russell 2000 Index to fall 3.9%. To no surprise, the sectors that led the large-cap returns were technology and communication services (the sectors that the Magnificent 7 reside in), but financials helped drive returns as well with a notable return posted by Citigroup. Real estate continues to experience challenged returns as fears around higher interest rates and record level of occupant vacancy in the office sector negatively impact performance. Value-oriented stocks still lagged their growth counterparts in January as the Magnificent 7 and hopes that rates have reached their peak spearheaded returns as seen by the Russell 1000 Growth Index returning 2.5% while the Russell 1000 Value Index only posted a 0.1% positive return.

Fixed income returns varied across credit quality and duration. While longer duration indices like the Bloomberg U.S. Govt/Credit Long Index fell 1.5%, the shorter duration had a more modest reaction to the decreased likelihood of rate cuts soon causing the Bloomberg U.S. Govt/Credit Intermediate Index to gain 0.2%. Also adjusting to the economic and GDP data, 10-year Treasury yields increased slightly throughout the month rising from 395 basis points to 399 basis points. Investment grade corporate spreads continued to tighten from 104 basis points to 100 basis points as soft landing expectations grew more optimistic. In tandem with corporate spreads, high yield spreads tightened as well boosting the Credit Suisse HY Index by 0.2%. In spite of the positive returns and tight spreads, default rates for high yield bonds continue to rise and reached 2.9% by the end of 2023.

International Markets & Economy

Europe faced challenges relative to the U.S. in January, experiencing generally weaker economic data and duller broad-market returns. Despite Euro Area unemployment hovering near record lows of 6.4%, month-over-month inflation

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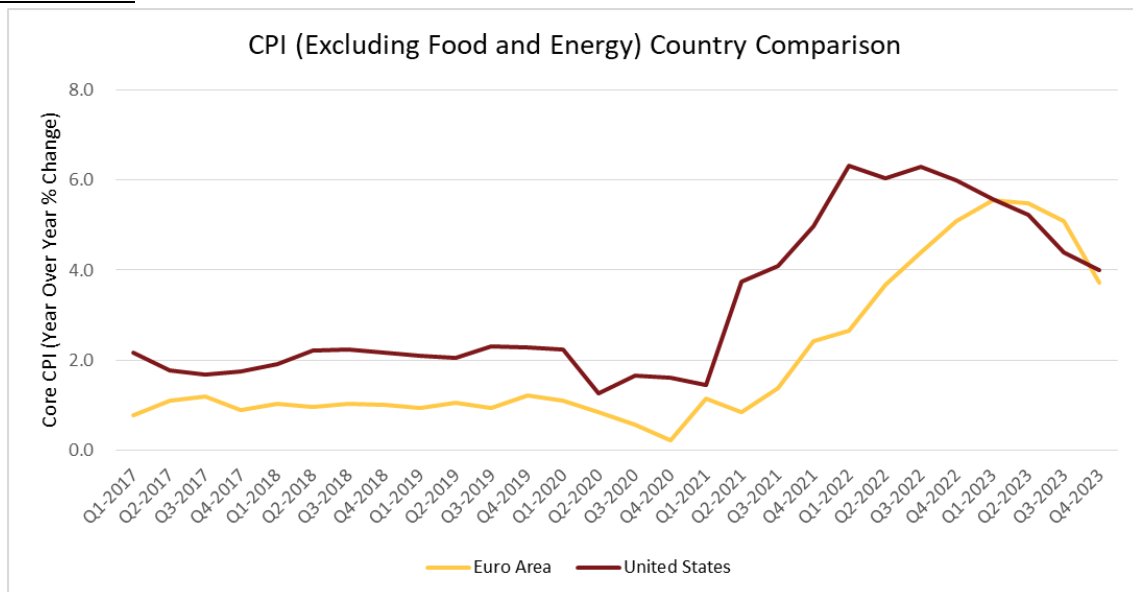
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rose 0.2% in December, a reversal from the 0.6% fall the previous month. Manufacturing and industrial production continue to decline, and Composite PMI remained contractionary (<50) totaling 47.9 in January. This aligns with their initial fourth-quarter GDP report of 0% quarter-over-quarter growth, narrowly escaping a second consecutive quarter of negative GDP growth. Germany's shrinking economy weighed on the Euro Area GDP, but positive surprises from Italy and Spain uplifted overall growth. Notably, the ECB did not cut rates during the January meeting, but ECB President Christine Lagarde still projected the message that rate hikes have concluded and "the worst part is behind us." This mixed bag of economic news contributed to the MSCI EAFE Index gaining 0.6% in January, but the largest driver of the index's returns was Japan's broad-market returns. Despite Japan ringing in the New Year with an earthquake that wreaked havoc on the economy, it further delayed the Bank of Japan in altering its negative interest rate policy. In addition to this advantageous monetary policy, further market returns came from the weakening yen, which boosted Japan's exports, driving MSCI Japan Index up 4.6%. Within emerging markets, despite some central banks cutting rates, the MSCI Emerging Markets fell 4.6% at the hand of depressing returns from the MSCI China Index, which declined 10.6% last month. Despite the mid-month optimism from China's rescue package, contracting factory activity, fourth-quarter GDP falling below expectations, and persistently negative inflation depressed markets further.

In the News

Both the Fed and ECB have made their stances clear that they value bringing inflation down beyond other goals. However, so far Europe has been closer to winning the inflation battle. The chart below depicts that inflation in Europe, as measured by core CPI, has been falling faster than in the U.S. One reason for this is that unemployment and wage growth, closely tied to inflation, have been more robust in the U.S. compared to Europe. When examining wage growth throughout 2023, U.S. wages grew at an accelerated rate. While Euro Area wages also grew, the growth has remained relatively flat throughout the year. Because unemployment is low and wages are improving, consumers have additional income to spend. December retail sales in the U.S. surged month-over-month by 0.6%, surpassing expectations of 0.3% growth. Moreover, U.S. retail sales grew every month in 2023 (except October), while the Euro Area had declining retail sales in nine of the twelve months last year. The robust spending in the U.S. and increased wage growth, despite boosting consumer confidence, paves the way for stickier inflation. Inflation has had a more dramatic impact on Europe in terms of production, which has been contracting for the last year, and has impeded GDP growth. In contrast the U.S. GDP continues to beat analyst expectations. This could be why the ECB President alludes to a more positive sentiment around rate cuts soon, while the Fed does not foresee rate cuts in the near-term.

Chart of the Month



Source: OECD

Data as of 12/31/2023

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Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	1.20	16.12	1.20	16.99	8.06	11.39	9.14
	Bloomberg US Agg Bond TR USD	(0.27)	8.23	(0.27)	2.10	(3.17)	0.83	1.63
	Russell 3000 TR USD	1.11	16.40	1.11	19.15	9.10	13.53	11.96
	DJ Industrial Average TR USD	1.31	16.04	1.31	14.36	10.58	11.19	11.82
	NASDAQ Composite PR USD	1.02	18.00	1.02	30.90	5.08	15.80	13.96
	MSCI EAFE NR USD	0.58	15.75	0.58	10.01	4.59	6.92	4.77
	FTSE Treasury Bill 3 Mon USD	0.47	1.40	0.47	5.36	2.40	1.97	1.30
	Bloomberg Commodity TR USD	0.40	(4.50)	0.40	(7.09)	9.96	6.18	(1.10)
Domestic Equities	S&P 500 TR USD	1.68	16.01	1.68	20.82	10.99	14.30	12.62
	S&P MidCap 400 TR	(1.71)	15.95	(1.71)	4.78	6.94	10.02	9.32
	S&P SmallCap 600 TR USD	(3.95)	17.30	(3.95)	1.81	3.72	7.93	8.65
	Russell 1000 TR USD	1.39	16.34	1.39	20.23	9.78	13.99	12.32
	Russell 1000 Growth TR USD	2.49	18.70	2.49	34.99	10.03	18.04	15.48
	Russell 1000 Value TR USD	0.10	13.62	0.10	6.08	9.23	9.28	8.80
	Russell Mid Cap TR USD	(1.42)	17.06	(1.42)	6.70	5.50	10.08	9.48
	Russell Mid Cap Growth TR USD	(0.54)	20.06	(0.54)	15.14	1.24	11.24	10.75
	Russell Mid Cap Value TR USD	(1.79)	15.84	(1.79)	2.42	7.80	8.61	8.25
	Russell 2000 TR USD	(3.89)	17.62	(3.89)	2.40	(0.76)	6.80	7.03
	Russell 2000 Growth TR USD	(3.21)	18.25	(3.21)	4.46	(6.03)	6.17	7.00
	Russell 2000 Value TR USD	(4.54)	17.00	(4.54)	(0.09)	4.48	6.74	6.68
International Equities	MSCI ACWI Ex USA NR USD	(0.99)	13.34	(0.99)	5.88	1.14	5.32	4.21
	MSCI EAFE NR USD	0.58	15.75	0.58	10.01	4.59	6.92	4.77
	MSCI EAFE Growth NR USD	1.19	18.43	1.19	9.66	1.12	7.71	5.76
	MSCI EAFE Value NR USD	(0.07)	13.12	(0.07)	10.35	7.85	5.69	3.53
	MSCI Japan NR USD	4.62	18.53	4.62	18.51	2.53	6.61	5.86
	MSCI AC Asia Ex Japan NR USD	(5.45)	4.67	(5.45)	(7.40)	(9.68)	1.09	3.81
	MSCI Europe NR USD	(0.12)	15.22	(0.12)	10.19	6.28	7.68	4.53
	MSCI United Kingdom NR USD	(1.34)	10.02	(1.34)	5.69	8.36	5.14	2.80
	MSCI EAFE Small Cap NR USD	(1.65)	16.13	(1.65)	3.56	(1.12)	4.59	4.79
MSCI EM NR USD	(4.64)	7.01	(4.64)	(2.94)	(7.50)	0.99	2.86	
Fixed Income	Bloomberg US Govt/Credit TR USD	(0.23)	7.92	(0.23)	2.39	(3.27)	1.13	1.80
	Bloomberg US Govt/Credit Interm TR USD	0.21	5.26	0.21	3.53	(1.47)	1.46	1.65
	Bloomberg US Govt/Credit Long TR USD	(1.53)	16.76	(1.53)	(1.03)	(8.23)	0.36	2.66
	ICE BofA US High Yield TR USD	0.02	8.42	0.02	9.21	1.88	4.27	4.44
	Credit Suisse HY USD	0.17	8.34	0.17	9.68	2.21	4.32	4.36
	Morningstar LSTA US LL Index TR USD	0.68	3.58	0.68	11.12	5.58	5.41	4.42
	FTSE WGBI NonUS USD	(2.46)	8.30	(2.46)	(0.31)	(9.67)	(3.63)	(1.63)
	Bloomberg Gbl Agg Ex USD TR USD	(2.29)	7.70	(2.29)	(0.18)	(7.61)	(2.37)	(1.09)
REITs	FTSE Nareit All REITs TR	(4.83)	15.97	(4.83)	(3.81)	3.64	3.76	6.80
	Wilshire US REIT TR USD	(3.78)	17.24	(3.78)	0.41	5.96	4.45	6.89

USD - US dollar priced index TR - Total Return PR - Price Return LCL - Local Currency Priced Index NR - Return includes reinvested net dividends

Source: Morningstar

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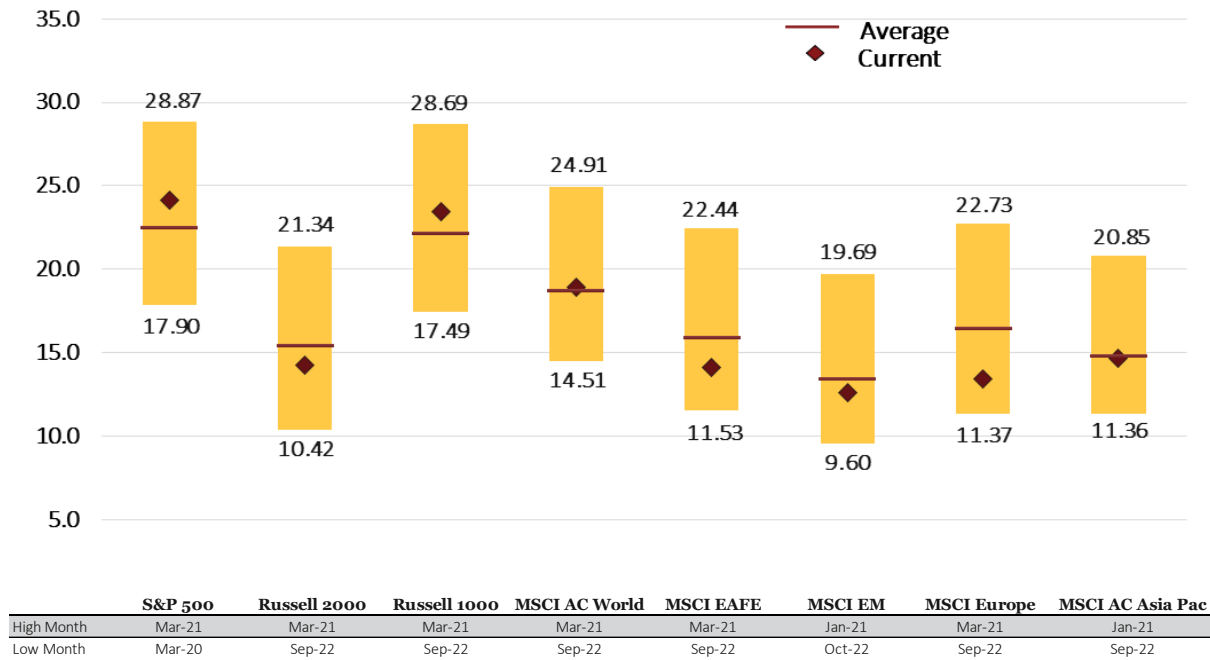
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Current Trailing P/E vs. Trailing 5-Year High, Low, Average



Source: Morningstar

Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates ³ per US \$		Inflation ²
	Latest ¹	2024 ¹	2025 ¹	(Most recently available)	Sovereign Bonds, 10 Year	Current	1 Year Ago	(Most recently available)
United States	3.30	1.54	1.74	3.70	4.03	-	-	3.90
China	1.00	4.70	4.24	5.10	2.49	7.18	6.79	0.60
Japan	-0.70	1.04	1.18	2.40	0.66	147.94	130.40	2.30
United Kingdom	-0.10	0.68	1.15	4.20	3.92	1.27	1.24	5.10
Euro Area	0.00	0.90	1.50	6.40	2.87	1.09	1.09	3.30
Germany	-0.30	0.64	1.24	5.80	2.23	1.11	1.09	3.40
France	0.00	0.75	1.15	7.40	2.74	0.92	1.09	3.40
Italy	0.20	0.66	1.23	7.20	3.82	1.11	1.09	2.79
Canada	-0.30	0.82	1.91	5.80	3.39	1.35	1.33	2.60
India	1.70	6.06	6.48	8.65	7.05	83.25	82.47	5.69
Mexico	0.10	2.53	2.04	2.60	9.24	17.14	18.84	5.09
Brazil	0.10	1.80	2.04	7.40	10.66	4.91	5.09	5.39

Sources: (Most recently available data) St. Louis Federal Reserve, The Wall Street Journal, OECD, Trading Economics

1. Latest GDP is seasonally adjusted annualized rate. 2024 & 2025 is forecasted data from OECD

2. In terms of Core CPI

3. Euro Area and U.K. exchange rates quoted in market standard format (USD/Non-USD currency)

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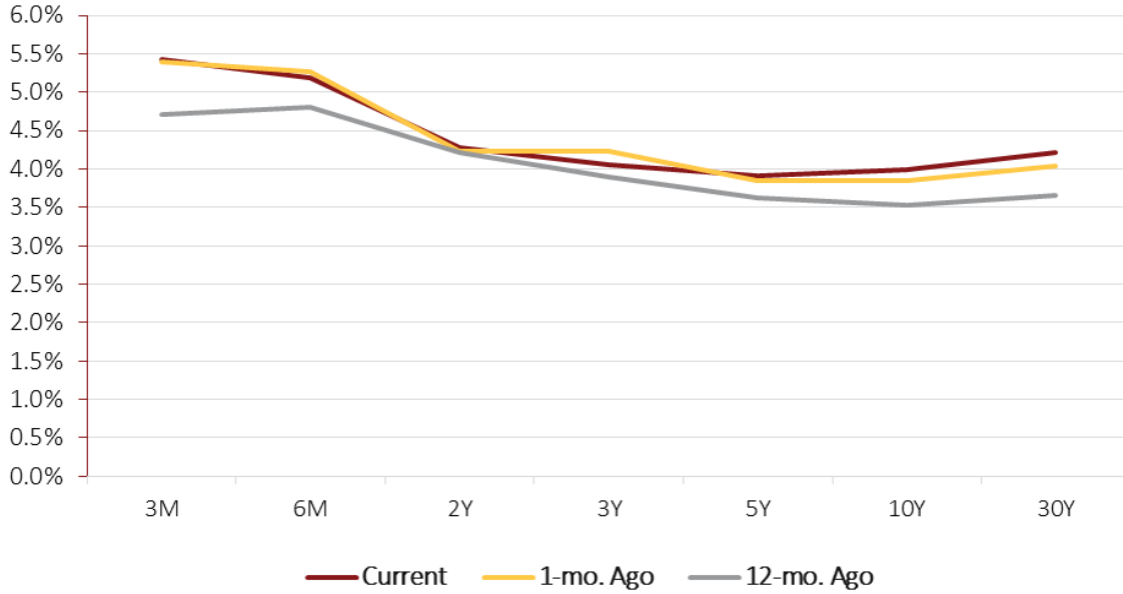
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U.S. Treasury Yield Curves

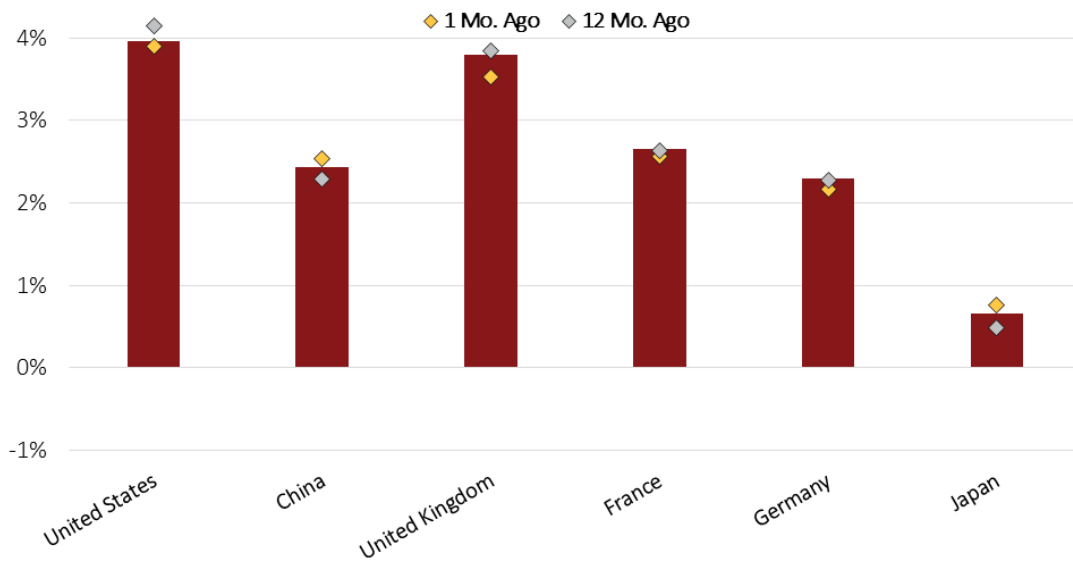
as of 1/31/2024



Source: Federal Reserve Bank

10-Year Sovereign Yields

as of 1/31/2024 (most recently available)



Source: Trading Economics

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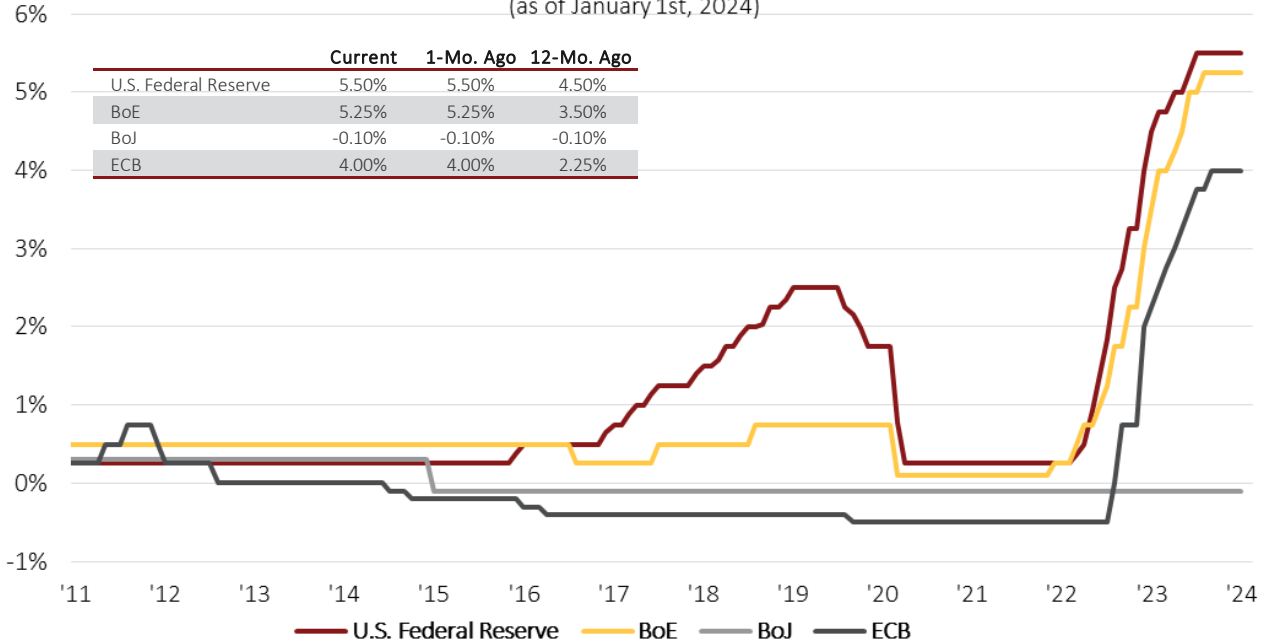
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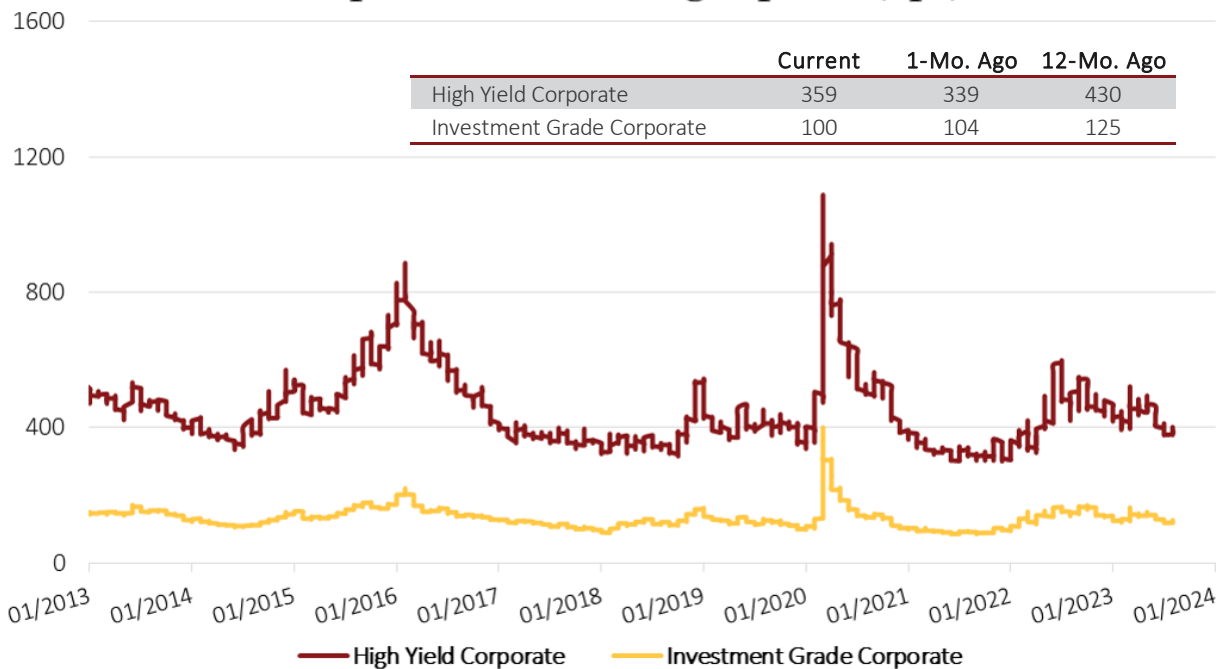
Central Bank Policy Rates

(as of January 1st, 2024)



Source: Federal Reserve Bank, Bank of England, European Central Bank, Trading Economics

Corporate Bond Average Spread (bps)



Source: Federal Reserve Bank, Bank of America