

December 2023

Demarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for the Period Ended 12/31/2023

Global Overview

Market returns in 2023 ended on a high note as both equities and fixed income continued to rally in December. The domestic market was primarily influenced by increased consumer confidence due to optimism around future inflation. This led small-cap indices to lead significantly over large-caps, outpacing them by around 7% last month. The bond market saw positive returns as well due to tightening spreads with investors anticipating rate cuts in 2024. Internationally, while Europe continues to experience lower inflation at the expense of decreased economic activity, their market remained bullish, further helping the MSCI EAFE Index grow 5.3% in December, and marking an 18.2% return in 2023.

U.S. Markets & Economy

Domestic equities extended their winning streak in December, buoyed by a shift towards a more bullish investor sentiment. This optimism, coupled with favorable views on inflation, lower mortgage rates, and cheaper gas, aided in consumer confidence jumping from 101 to 110.7 points during the month. Inflation-wise, the Fed revised inflation projections for 2024, now at 2.4%, which warranted optimism for rate cuts and aiding in overall sentiment. Furthermore, the PCE Index declined in November to 0.1%, despite U.S. real personal spending displaying resiliency throughout the holiday season. Declines in energy prices acted as a tailwind for lower inflation, resulting in year-over-year headline inflation declining to 3.1% while core inflation remained unchanged at 4%. In the labor market, unemployment maintained its low level at 3.7%, and initial jobless claims in December remained low as well at 218,000. The federal funds rate held steady at 5.5% while investors grew more confident in rate cuts in 2024, with the futures market anticipating 150 basis points in cuts. While the market remains optimistic about looming cuts, some Fed officials persist in their opinion that it is premature to be thinking about cuts. In the wake of the improving economic and inflation outlook, small-cap indices made strides over large-cap counterparts. For instance, the Russell 1000 Index increased 4.9% in December, while the Russell 2000 Index posted a positive return of 12.2%. Last month, growth-oriented indices fared similarly to value-oriented indices, with value outperforming slightly due to sectors such as industrials, financials, and real estate being the top sectors in December. This led the Russell 1000 Value Index to outperform the Russell 1000 Growth Index by 1.1% (5.5% vs. 4.4%).

December marked another triumphant month for fixed income returns. While many of the return drivers mirror those of the equity market, such as cooling inflation and rebounding consumer confidence, credit spreads tightened as well providing an additional tailwind for returns. Investment-grade credit provided competitive performance in December and tightened further from 111 basis points to 104 basis points. Longer-duration products bounced back at the end of the year as the 10-year Treasury yield continued its decline from the year-to-date peak in October. This is reflected in the Bloomberg U.S. Govt/Credit Long Index which gained 7.9% in December, while the Bloomberg U.S. Govt/Credit Intermediate returned just 2.3%. This bounce back in long bonds in December placed the Bloomberg U.S. Govt/Credit Long as one of the highest performing bond indices year-to-date at 7.1%. Despite the relatively volatile 10-year Treasury yield throughout 2023, including a significant drop of 43 basis points in December, the 10-year Treasury yield ended up only one basis point lower than the beginning of 2023. Unsurprisingly, high-yield products were the highest returning fixed income strategies due to tight credit spreads and high fixed rate coupons in 2023 as indicated by the Credit Suisse HY Index returning 13.6% in 2023.

International Markets & Economy

The European stock market performed comparably to the large-cap indices in the U.S., primarily driven by markets predicting rate cuts in the first half of 2024. The market has priced in the ECB leading the rate cutting cycle among

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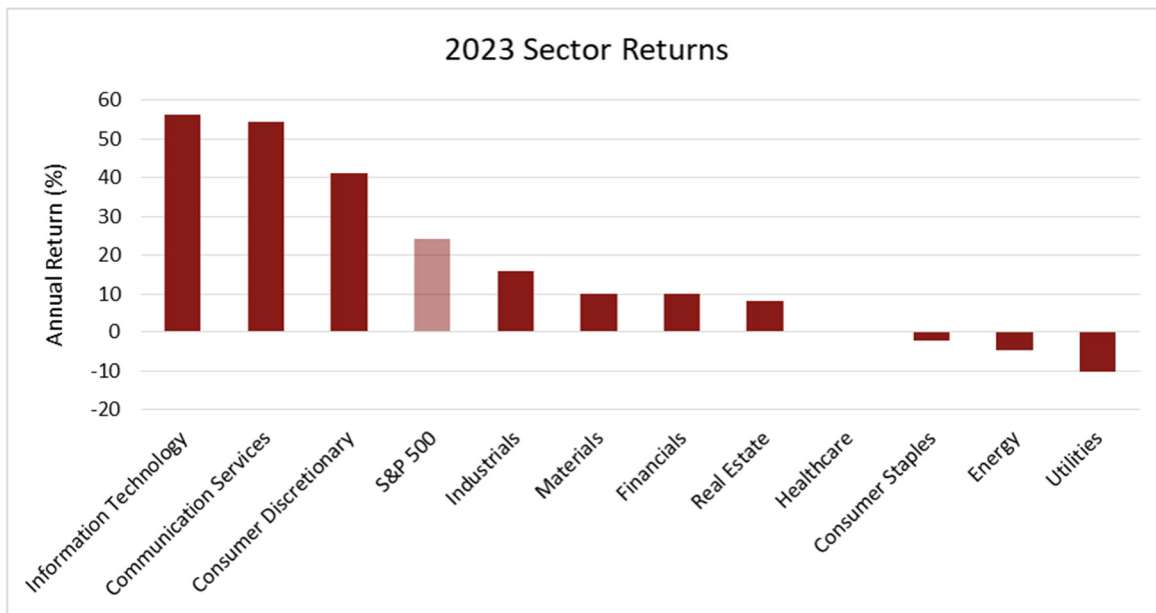
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other developed nations, despite the ECB pushing back against talk of rate cuts. However, persistent elevated interest rates continue to eat into inflation as well as economic activity. Year-over-year headline inflation has been ticking down, now sitting at 2.4% while production numbers have been faltering. Manufacturing PMI remains in a deep contraction (<50) at 44.2 points, while Service PMI fell further into contraction as well to 48.1 points. Japan struggled comparatively to other broad-based developed markets due to investor worries that Japan's loose monetary policy is undergoing some pushback causing the MSCI Japan Index to gain 4.4% compared to the MSCI Europe Index which increased 5.0%. The emerging markets nearly reached positive return territory, but were hindered by turmoil in China. To list a few challenges the country has faced over the last month, Moody's changed their China debt rating to a "negative outlook" while the Chinese government announced new restrictions on the gaming sector, which dragged stocks down mid-December. Although later in the month the government announced online game approvals that eased gaming sector concerns and provided a modest rebound in stocks, the MSCI China Index still declined 2.4% in December. Alongside business challenges, China continues to grapple with deflation as the inflation rate now rests at -0.5%. Despite China's struggles, India continued their dominant performance in the emerging markets sector and helped the MSCI EM Index to gain 3.9% in the month.

In the News

After a lousy end to 2022, the stock market in 2023 rebounded, largely fueled by three sectors: Technology, Communication, and Consumer Discretionary. As it happens, the "Magnificent 7" are spread across these sectors, with Amazon and Tesla in Consumer Discretionary, Meta and Alphabet in Communication and Apple, Microsoft and Nvidia in Technology. Those three sectors drove most of the returns and aided in the 80% of S&P 500 companies surpassing their EPS expectations. While some sectors within the S&P 500 Index were bullish throughout all of 2023, some sectors experienced dips in their earnings. For example, in the third quarter four S&P sectors saw EPS shrink: Real Estate by 44.3%, Energy by 33.7%, Healthcare by 5.1%, and Materials by 4.3%. However, despite some of these sectors' lags in earnings, the S&P 500 Index was still able to advance 26.3% for the year. So, while some sectors, like Healthcare, Real Estate, and Energy, had poor earnings growth in 2023, they might have already undergone an "earnings recession," while the bullish sectors of 2023 may yet have a lapse in earnings in 2024. Nevertheless, the bullish 2023 returns were able to help rebound the three-year annualized S&P 500 Index return, which is now 10%.

Chart of the Month



Source: S&P

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	4.91	11.42	23.79	23.79	7.27	12.80	8.60
	Bloomberg US Agg Bond TR USD	3.83	6.82	5.53	5.53	(3.31)	1.10	1.81
	Russell 3000 TR USD	5.30	12.07	25.96	25.96	8.54	15.16	11.48
	DJ Industrial Average TR USD	4.93	13.09	16.18	16.18	9.38	12.47	11.08
	NASDAQ Composite PR USD	5.52	13.56	43.42	43.42	5.21	17.74	13.65
	MSCI EAFE NR USD	5.31	10.42	18.24	18.24	4.02	8.16	4.28
	FTSE Treasury Bill 3 Mon USD	0.47	1.41	5.26	5.26	2.25	1.91	1.26
Bloomberg Commodity TR USD	(2.69)	(4.63)	(7.91)	(7.91)	10.76	7.23	(1.11)	
Domestic Equities	S&P 500 TR USD	4.54	11.69	26.29	26.29	10.00	15.69	12.03
	S&P MidCap 400 TR	8.72	11.67	16.44	16.44	8.09	12.62	9.27
	S&P SmallCap 600 TR USD	12.80	15.12	16.05	16.05	7.28	11.03	8.66
	Russell 1000 TR USD	4.94	11.96	26.53	26.53	8.97	15.52	11.80
	Russell 1000 Growth TR USD	4.43	14.16	42.68	42.68	8.86	19.50	14.86
	Russell 1000 Value TR USD	5.54	9.50	11.46	11.46	8.86	10.91	8.40
	Russell Mid Cap TR USD	7.73	12.82	17.23	17.23	5.92	12.68	9.42
	Russell Mid Cap Growth TR USD	7.58	14.55	25.87	25.87	1.31	13.81	10.57
	Russell Mid Cap Value TR USD	7.79	12.11	12.71	12.71	8.36	11.16	8.26
	Russell 2000 TR USD	12.22	14.03	16.93	16.93	2.22	9.97	7.16
	Russell 2000 Growth TR USD	11.98	12.75	18.66	18.66	(3.50)	9.22	7.16
Russell 2000 Value TR USD	12.45	15.26	14.65	14.65	7.94	10.00	6.76	
International Equities	MSCI ACWI Ex USA NR USD	5.02	9.75	15.62	15.62	1.55	7.08	3.83
	MSCI EAFE NR USD	5.31	10.42	18.24	18.24	4.02	8.16	4.28
	MSCI EAFE Growth NR USD	5.72	12.72	17.58	17.58	0.26	8.81	5.15
	MSCI EAFE Value NR USD	4.88	8.22	18.95	18.95	7.59	7.08	3.16
	MSCI Japan NR USD	4.37	8.19	20.32	20.32	0.66	6.91	4.97
	MSCI AC Asia Ex Japan NR USD	3.52	6.43	5.98	5.98	(6.74)	3.69	3.86
	MSCI Europe NR USD	5.00	11.05	19.89	19.89	5.80	9.09	4.13
	MSCI United Kingdom NR USD	4.52	6.86	14.09	14.09	8.76	6.87	2.49
	MSCI EAFE Small Cap NR USD	7.28	11.14	13.16	13.16	(0.69)	6.58	4.80
MSCI EM NR USD	3.91	7.86	9.83	9.83	(5.08)	3.69	2.66	
Fixed Income	Bloomberg US Govt/Credit TR USD	3.68	6.63	5.72	5.72	(3.53)	1.41	1.97
	Bloomberg US Govt/Credit Interm TR USD	2.32	4.56	5.24	5.24	(1.63)	1.59	1.72
	Bloomberg US Govt/Credit Long TR USD	7.90	13.24	7.13	7.13	(8.68)	1.12	3.22
	ICE BofA US High Yield TR USD	3.69	7.06	13.46	13.46	2.00	5.21	4.51
	Credit Suisse HY USD	3.51	6.79	13.55	13.55	2.33	5.20	4.42
	Morningstar LSTA US LL Index TR USD	1.65	2.87	13.32	13.32	5.76	5.80	4.42
	FTSE WGBI NonUS USD	4.80	9.91	5.83	5.83	(9.35)	(2.77)	(1.26)
	Bloomberg Gbl Agg Ex USD TR USD	4.46	9.21	5.72	5.72	(7.21)	(1.56)	(0.79)
REITs	FTSE Nareit All REITs TR	8.88	17.56	11.48	11.48	5.31	7.08	7.69
	Wilshire US REIT TR USD	10.19	16.30	16.10	16.10	7.52	7.56	7.72

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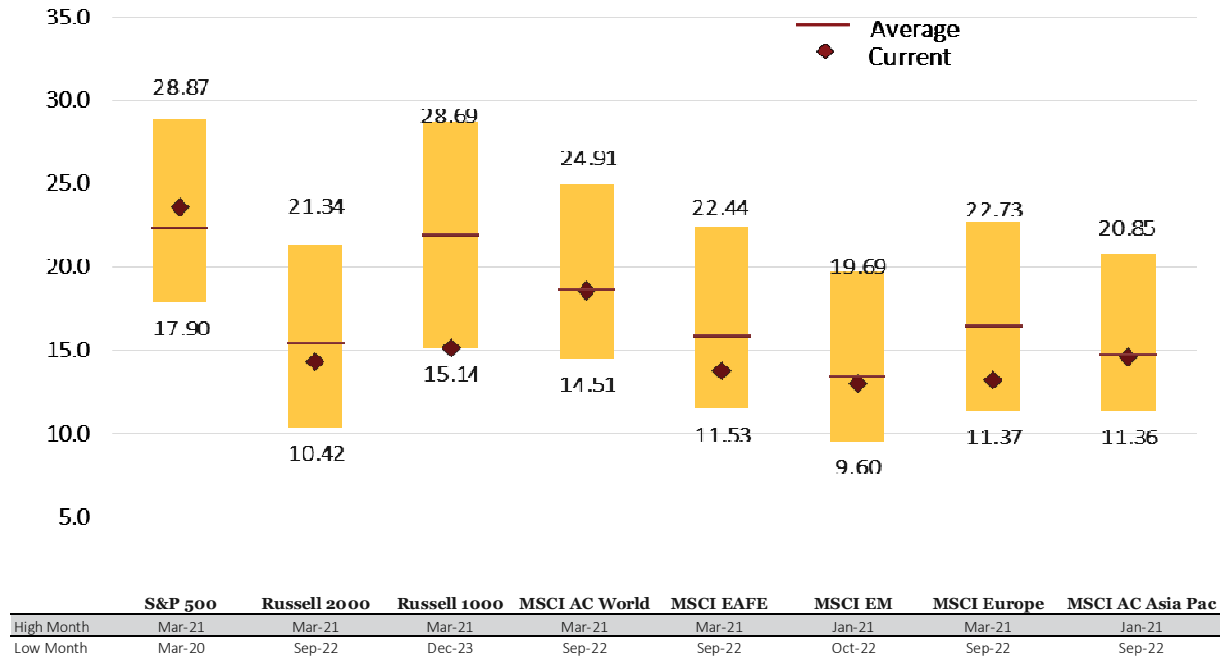
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Current Trailing P/E vs. Trailing 5-Year High, Low, Average



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	4.90	1.54	1.74	3.70	4.00	-	-	4.00
China	1.30	4.70	4.24	5.00	2.57	7.10	6.96	0.60
Japan	-0.70	1.04	1.18	2.50	0.62	140.92	133.16	2.50
United Kingdom	-0.10	0.68	1.15	4.20	3.73	1.27	1.21	5.10
Euro Area	-0.10	0.90	1.50	6.50	3.42	1.11	1.07	3.60
Germany	-0.10	0.64	1.24	5.90	2.11	1.09	1.07	3.50
France	-0.10	0.75	1.15	7.40	2.65	0.92	1.07	3.60
Italy	0.10	0.66	1.23	7.80	3.80	1.09	1.07	3.56
Canada	-0.30	0.82	1.91	5.80	3.24	1.32	1.35	2.80
India	1.90	6.06	6.48	7.10	7.22	83.25	82.47	5.60
Mexico	1.10	2.53	2.04	2.70	9.08	16.90	19.36	5.30
Brazil	0.10	1.80	2.04	7.50	10.47	4.85	5.25	5.66

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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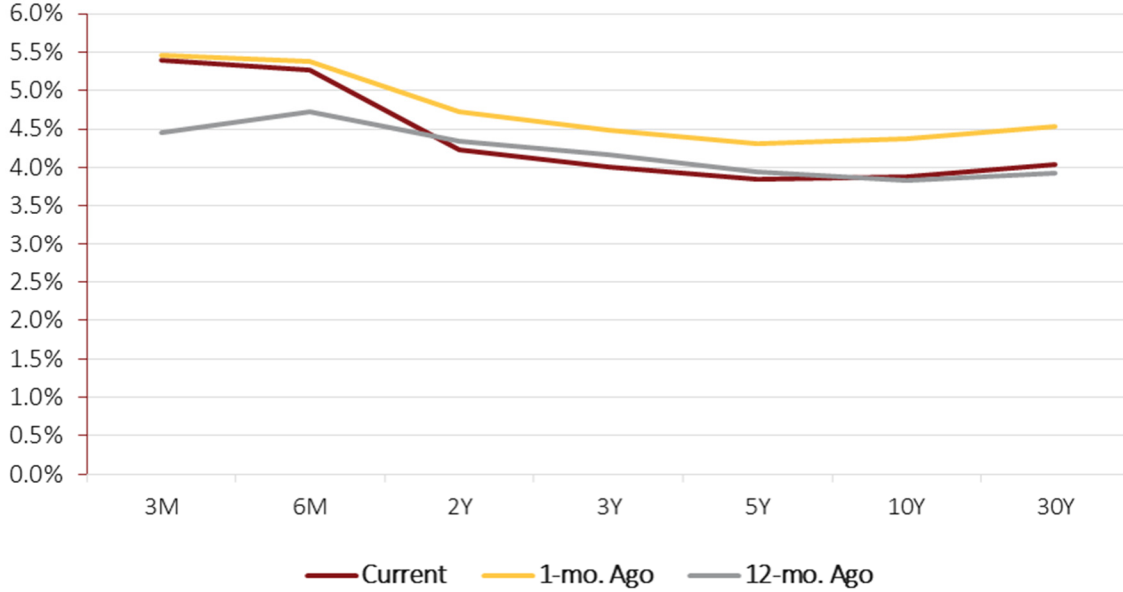
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U.S. Treasury Yield Curves

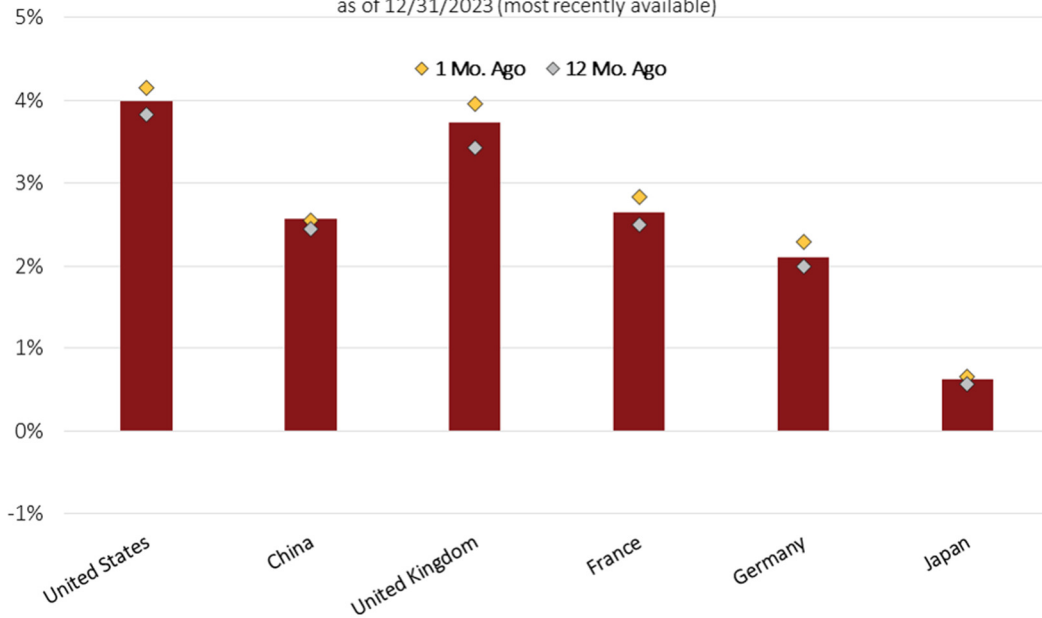
as of 12/31/2023



Source: Federal Reserve Bank

10-Year Sovereign Yields

as of 12/31/2023 (most recently available)



Source: Trading Economics

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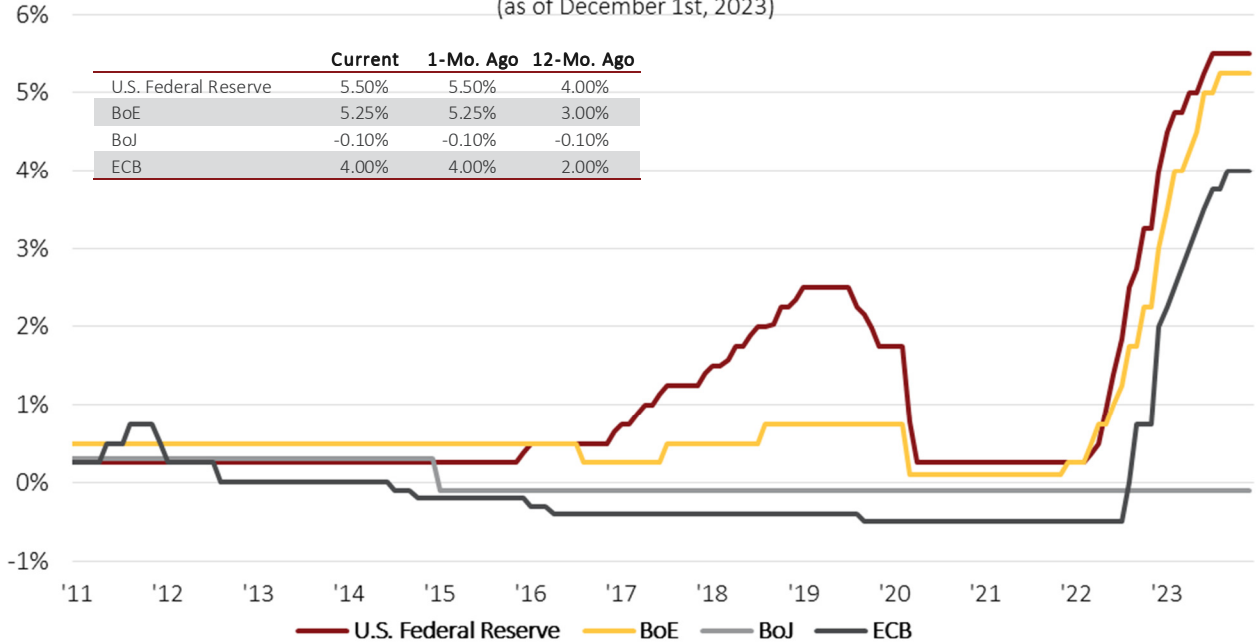
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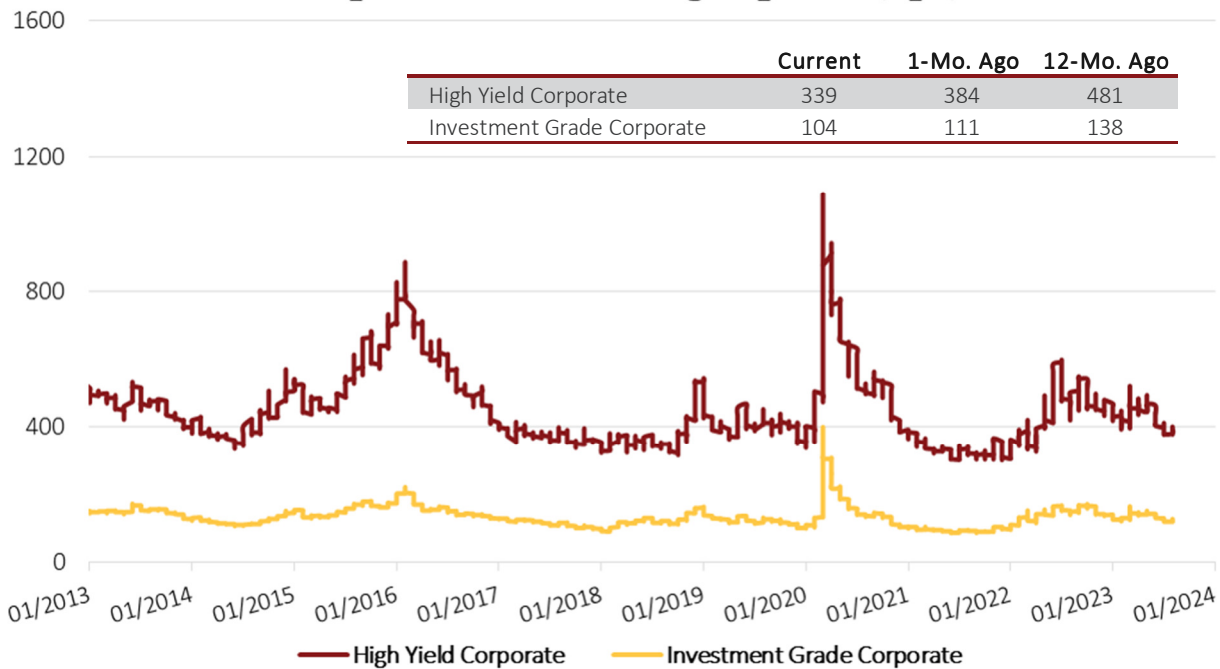
Central Bank Policy Rates

(as of December 1st, 2023)



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

Corporate Bond Average Spread (bps)



Source: Federal Reserve Bank, Bank of America