FIRST QUARTER 2024

Matt's Market Update

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Market Review

The momentum for global equities that began last November continued uninterrupted in Q1 as the S&P 500 index logged its fifth consecutive month of gains to finish with a Q1 return of 10.56%. As has been the case for much of the past five years, US equities outperformed foreign competitors, large-caps were superior to small-caps and growth strategies beat value. Fixed-income sectors generally struggled in Q1 as active core and index-based strategies posted small losses for the quarter. Bond managers operating in more aggressive sectors (High Yield, Multisector) managed to produce modest gains. Rising interest rates and concerns that inflation is far from defeated provided headwinds for bonds in Q1.

Alternative asset classes garnered much attention from investors in Q1. Commodities as a group were mixed with the Bloomberg Commodity TR index gaining 2.19% in Q1. Crude oil prices rose above $83 per barrel in late March for a quarterly gain of 18.2% primarily due to geopolitical concerns. Gold prices rose 7.4% in Q1 as investors sought safe-havens and as global central banks were large buyers. Bitcoin finished the quarter up 64.8% powered by the approval in early January of the first spot Bitcoin exchange-traded funds.

The powerful rally across most asset classes in Q1 was especially surprising considering the increasingly hawkish tone from the Federal Reserve as the quarter unfolded. Speaking at a public event at the end of March, Fed Chair Jerome Powell said, "There's no reason to think that the economy is in a recession or is at the edge of one. That means we don't need to be in a hurry to cut." The market estimate of six rate cuts in 2024 from the start of the year has clearly proven false. More evidence of cooling inflation and weakness in the job market (both of which are largely not present today) will be required to move the Fed into rate cutting mode. From a contrarian perspective, it's worth noting that investor sentiment is very jubilant at quarter-end. Per the Investors Intelligence survey of institutional investors, 60.6% are bullish compared to only 15.2% in the bear camp. Spreads greater than 40 points are considered extreme and often precede turns in the market. Food for thought as we enter Q2.

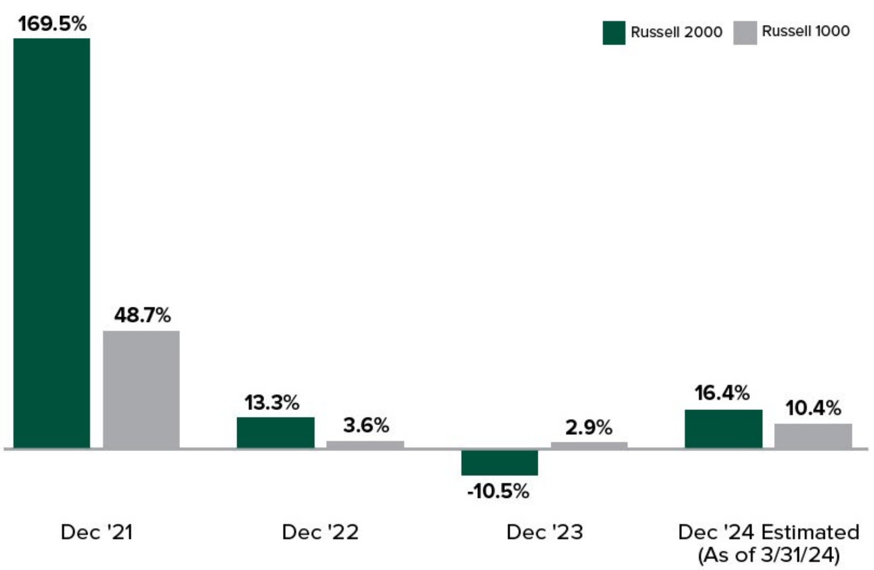
Revisiting Small-Caps

One year ago in this report we wondered whether there was an opportunity for investors to consider small-cap stocks in their portfolio after an extended period of superior performance from large company stocks. While acknowledging this isn't an either / or topic as a diversified portfolio should contain both large and small-cap stocks, how would adding more small exposure to a portfolio have worked out one year ago? The good news is that the Russell 2000 index of small-cap stocks returned 19.71% over the trailing twelve months. The bad news is that this return once again significantly lagged the large-cap return as the Russell 1000 index gained 27.89% over the same period.

As a result, the performance gap between large and small has rarely been wider. Investors have continued to bid up prices of large-cap stocks with the Russell 1000 index never being more concentrated at the top (with the top five stocks making up nearly 22% of the index). In terms of comparable valuations, the Russell 1000 trades at 21.4 times forward earnings (compared to the 25 year average of 15.9 times) while the Russell 2000 currently trades at 15.6 times forward earnings (below the 25 year average of 16.9

times). Finally, in addition to the valuation advantage, small-caps are estimated to have superior earnings growth versus large-caps in 2024.

ONE-YEAR EPS GROWTH



Earnings per share (EPS) is calculated as a company's profit divided by the outstanding shares of its common stock. The EPS Growth Estimates are the pre-calculated mean long-term EPS growth rate estimates by brokerage analysts. Long Term Growth (LTG) is the annual EPS growth that the company can sustain over the next 3 or 5 years. Both estimates are the average of those provided by analysts working for brokerage firms who provide research coverage on each individual security as reported by FactSet. All non-equity securities, investment companies, companies without brokerage analyst coverage are excluded. Source: FactSet.

Getting back to basics, here are three benefits and three risk factors to consider when considering small-cap exposure for your portfolio.

Potential for Growth: Small-cap stocks often have greater growth potential compared to large-cap stocks. These companies are usually in their early stages of development, and if they succeed in expanding their market share or introducing innovative products/services, their stock prices can experience significant appreciation over time.

Diversification: Adding small-cap stocks to a portfolio can enhance diversification. Since small-cap stocks tend to have lower correlations with large-cap stocks and other asset classes like bonds, real estate, and international stocks, they can reduce overall portfolio risk and improve returns through diversification benefits.

Access to Emerging Opportunities: Small-cap stocks often represent companies operating in niche markets or emerging industries. Investing in small caps allows investors to gain exposure to these opportunities early on, potentially capturing significant value as these companies grow and mature.

Higher Volatility: Small-cap stocks tend to experience higher volatility compared to large-cap stocks. This volatility can lead to more significant price fluctuations, which may be uncomfortable for some investors, especially those with a lower risk tolerance.

Liquidity Concerns: Small-cap stocks may have lower liquidity, meaning there can be challenges in buying or selling large quantities of shares without impacting the stock price. Fund managers pay very close attention to this issue.

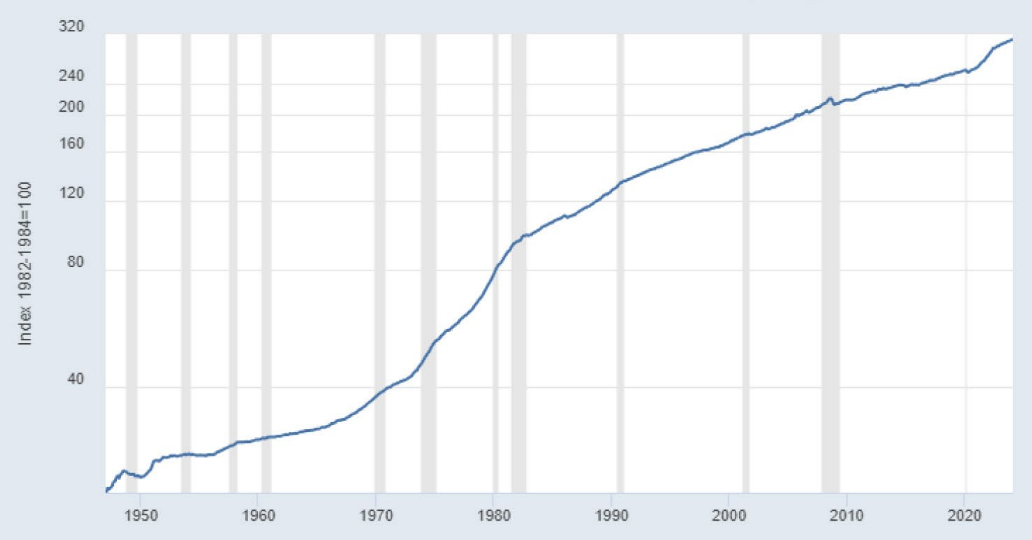
Higher Risk of Business Failure: Smaller companies can be more vulnerable to economic downturns, industry disruptions, or operational challenges. This higher risk of business failure compared to larger, more established companies underscores the importance of thorough research and due diligence when selecting individual small-cap stocks.

In summary, including small-cap stocks in a long-term portfolio can offer a variety of benefits, but not without risks. It's crucial for investors to assess their risk tolerance, investment objectives, and time horizon carefully before deciding to allocate to small-cap stocks or funds within a portfolio.

Our Portfolio Strategy & Allocation Outlook

We made no changes within our retirement plan or private wealth models in Q1. We remain in the camp of maximum diversification as we expect market volatility to ramp up this year. Interest rate cuts from the Fed have seemingly been pushed out to later this year, if in fact they come at all. The prime issue markets are contending with is the future path of inflation. The recent improvement in inflation statistics like the CPI was halted in Q1 and this gave the Fed pause. Was this just a temporary bump in the road on the path to lower inflation in the future? Or will conquering the inflation problem not be as easy as keeping rates higher for longer? If inflation persists, how should portfolios be positioned to deal with this? These are some of the questions we've been thinking about as we consider future portfolio moves.

CONSUMER PRICE INDEX FOR ALL URBAN CONSUMERS: ALL ITEMS IN U.S. CITY AVERAGE



Source: U.S. Bureau of Labor Statistics

Take a look at the chart on this page. It shows the absolute level of the Consumer Price Index (CPI) inflation over the past eighty years. As the chart makes crystal clear, sometimes prices rise fast and sometimes they rise slow, but prices are almost always going up. As you can see, the cost of living has inflated over 20% since Covid. Prices are still rising too fast today and that's why inflation sensitive assets like gold are currently breaking out to new highs. We've owned gold in our private client portfolios for many years as both a hedge against geopolitical disruption (to which there is no shortage today) and as an asset that tends to hold its own during inflationary periods. We're spending time these days on researching other assets classes that can add inflation hedging capabilities to portfolios. In our view, the need for inflation protection will persist for the foreseeable future.

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Market Scoreboard

Index Returns (%)	Q1 2024	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500	10.56	10.56	29.88	11.49	15.04	12.96
DJIA	6.14	6.14	22.18	8.65	11.30	11.76
NASDAQ	9.11	9.11	34.02	7.33	16.20	14.58
Russell 2000	5.18	5.18	19.71	-0.10	8.10	7.58
MSCI ACWI Ex USA	4.69	4.69	13.26	1.93	5.96	4.25
Barclays Aggregate Bond	-0.78	-0.78	1.70	-2.45	0.36	1.54

**As of 03/31/2024*
Source: Morningstar
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TAX PLANNING IDEAS FOR 2024

Wealth Management Corner

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It may seem odd to discuss taxes in May, but that's exactly what I am about to do (while most of us don't want to think about them until next year, hear me out). By now, most of us have filed our 2023 taxes (unless you filed an extension). Some people got money back, some people owed money. In an ideal world, my view is you want to owe/receive back as little as possible. Not getting much back means you didn't provide the government with an interest-free loan for the year, and not owing much means you're not in danger of income tax penalties.

Some people like getting a large lump sum in April for overpaying. They think it helps them learn to live on less. If you're disciplined in your spending, you could potentially be better off putting that money to work and investing it throughout the year. In any event, the key goal is to make sure you don't underpay your taxes. Aside from the aforementioned penalties, it is stressful trying to figure out how to pay a big tax bill you didn't expect. If that was the case for you this year, careful planning can help you avoid these potential issues in future years.

A major reason clients underpay their taxes is they do not withhold enough. If your only income throughout the year is from your employer, the fix may be as simple as updating your exemptions to withhold more. If you have other sources of income, such as rental income, your own business, or personal investments, that is where this could get more complicated. Having higher income than anticipated is certainly a good problem, but it also comes with more tax liability. Here are some income tax ideas to think about in 2024 that may better prepare you for next April:

- ✓ Itemize your deductions. Most people have not itemized their deductions in the past few years because of how high the standard deduction is. However, depending on personal deductions you might have (i.e. business expenses, charitable donations), it may make sense to itemize instead. When the TCJA sunsets in 2025, the standard deduction will return to its prior levels, which may make itemizing more attractive.

- ✓ Review concentrated stock. Concentrated stock positions can come in the form of personal holdings or compensation packages. This stock comes with concentration risk and large potential tax liabilities down the road. Exit strategies can take years to execute and may be something you want to explore well in advance of when you plan to sell.

- ✓ Realize tax losses to reduce taxable gains. Capital losses may not be plentiful, considering how the market has performed over the last five quarters, but they can be used to offset potential tax liabilities when you do have them. Capital losses must be used to offset capital gains first then can be used to offset a portion of ordinary income.

- ✓ Maximize charitable giving opportunities. This ties into the itemization strategy. Oftentimes, donations are given as the opportunity arises. One strategy that would allow you to maximize the tax efficiency of your donations would be "bunching" donations, where you deliberately make donations in one calendar year that would have otherwise been made over several years. The goal is to try and take advantage the itemized deduction in that one year versus the standard deduction over several years.

- ✓ Identify the right tax advantaged accounts. A key way to reduce income is to take advantage of the tax-advantaged accounts that are available to you. These can include employer retirement plans, individual retirement accounts (IRAs), and Health Savings Account (HSAs), to name a few. These types of accounts allow you to save pre-tax for retirement or health care expenses while reducing your tax liability for the current year.

[1] Chen, Anqi, Siyan Liu, and Alicia H. Munnell. 2023. "What Are the Implications of Rising Debt for Older Americans?" Issue in Brief 23-20. Chestnut Hill, MA: Center for Retirement Research at Boston College.

Dollar cost averaging does not ensure a profit and does not protect against loss in declining markets. It involves continuous investing regardless of fluctuating price levels. Investors should consider their ability to continue investing through periods of fluctuating market conditions. This information is intended to be educational and is not tailored to the investment needs of any specific investor.

Diversification and asset allocation do not ensure a profit or protect against loss.

S&P 500 TR: A market capitalization-weighted index of 500 widely held stocks often used as a proxy for the large-cap segment of stock market.

Russell 2000 TR: Consists of the smallest 2000 companies in the Russell 3000 Index, representing approximately 7% of the Russell 3000 total market capitalization often used as a proxy for the small-cap segment of the stock market.

Barcap Aggregate Bond TR: The Barclays Capital Aggregate Bond Index is a market capitalization-weighted index, meaning the securities in the index are weighted according to the market size of each bond type. Most U.S. traded investment grade bonds are represented. The index includes Treasury securities, Government agency bonds, Mortgage-backed bonds, Corporate bonds, and a small amount of foreign bonds traded in U.S.

MSCI EAFE NR USD: Widely accepted as a benchmark for international stock performance, the EAFE Index is an aggregate of 21 individual country indexes that collectively represent many of the major markets of the world.

DJ US Industrials TR USD: Computed by summing the prices of the stocks of 30 U.S. companies and then dividing that total by an adjusted value--one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies.

NASDAQ: Measures the performance of all issues listed in the Nasdaq Stock Market and is often used as a proxy for the large-cap technology segment of the U.S. stock market.

DJ/UBS Commodity: The DJ-UBSCI is composed of futures contracts on physical commodities and is often used as a proxy for broad-based exposure to the commodity markets.

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