Capital Markets Review
February 29, 2024

STRATEGIC ASSET ALLIANCE
THE INSURANCE INVESTMENT SPECIALIST

REVIEW & OUTLOOK

REVIEW - Summary Capital Market Commentary – February 2024

- **Global stock markets gained in February with emerging markets performing strongly as Chinese shares experienced a rebound. By contrast, fixed income market yields were generally higher as investors pushed out the timeframe for central banks to cut interest rates.**

- Equity Markets
  - US shares gained strongly in February, supported by some well-received corporate earnings. These included good results from some of the so-called "Magnificent Seven" companies - (Alphabet (GOOGL), Amazon (AMZN), Apple (AAPL), Meta Platforms (META), Microsoft (MSFT), NVIDIA (NVDA), Tesla (TSLA). Gains were led by the consumer discretionary and industrials sectors, while defensive sectors underperformed.
  - Eurozone stocks also advanced but lagged the gains made by US markets. Top performing sectors included consumer discretionary, industrials and information technology. Real estate and utilities lagged; these are sectors that had rallied in late 2023 on hopes of imminent rate cuts. Data for February showed that eurozone inflation (as measured by the consumer price index) eased to 2.6% from 2.8% in January. There were also some signs of improving business activity. The flash eurozone purchasing managers' index (PMI) rose to 48.9 from 47.9 in January (PMI data is based on surveys of companies in the manufacturing and service sectors.
  - The rally of the Japanese equity market accelerated during February and produced another strong total return of +4.9% for the TOPIX index. The Nikkei 225 finally exceeded the all-time high of 38,915 yen which was recorded during bubble era of December 1989. The Nikkei finished the month at 39,166 yen with a 7.9% return. Strong appetite toward Japan from global investors continued and has driven this much faster than expected market rally in Japan. The long-term story of Japan - including return of inflation and corporate governance reforms - has been well received and accepted by global investors.
  - Asia ex-Japan equities gained in February, with share prices bouncing back from recent lows and investors cautiously optimistic that the gloom surrounding China may be starting to lift. All markets in the MSCI AC Asia ex Japan index ended the month in positive territory, with China, South Korea, and Taiwan among the strongest markets. In China, official figures showed that tourism revenues over the Lunar New Year holidays in February were higher than in the period before the Covid-19 crisis. While this may offer some relief to the Chinese government as it continues to battle weak consumer demand, falling factory output and a real estate crisis, the sustainability of the tourism boost remains uncertain.

Source: Schroders & SAA

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- Bond Markets
  - Major global government bond market yields increased across the board, with the US 10-year yield rising by 29 basis points to 4.24% and the German 10-year yield by 24 basis points to 2.40%. The market continued to anticipate interest rate cuts, although not immediately as labor markets remained strong and inflation data surprised to the upside.
  - Uncertainty surrounding the US inflation outlook led the market to dial back some of its enthusiasm for immediate rate cuts. January's consumer price index (CPI) rose more than expected, driven mainly by the shelter component. The core measure registered the largest increase since April 2023. This data, in addition to January's robust labor market report and concerns over wage pressure reacceleration, were sufficient catalysts for yield increases. The Federal Reserve (Fed) had held a policy-setting meeting at the very end of January. This resulted in interest rates remaining on hold at 5.25-5.5%, and Fed chair Jerome Powell indicated that a March rate cut was unlikely.
  - In the eurozone, inflation news was comparatively encouraging, with regional reports indicating easing price pressures in Germany, France, and Spain. The growth outlook for the region also improved, with the services PMI moving into expansionary territory and the overall composite index reaching an eight-month high. Although the European Central Bank board did not meet in February, President Lagarde continued to underscore the risks of premature interest rate cuts
  - Credit markets outperformed, with the economic outlook remaining relatively positive and the rate environment providing longer-term support. European investment grade (IG) outperformed its US counterpart, and within both markets, the financial sector excelled. High yield (HY) was once again the standout performer, generating positive returns both relatively and on a total return basis.

Source: Schroders & SAA

REVIEW - Capital Markets' Performance

Index	Asset Class	Jan-24	Feb-24	QTD	Trailing QTR	Fiscal YTD for 6/30	Trailing 1 Yr	Trailing 2 Yr	Trailing 3 Yr	Trailing 5 Yr	Trailing 10 Yr
S&P GSCI Crude Oil	Commodity	6.24%	3.74%	**10.21%**	4.05%	18.49%	10.28%	1.92%	20.01%	-1.33%	-10.95%
S&P Composite 1500 Growth	U.S. Equity	2.58%	7.36%	**10.12%**	14.64%	18.11%	36.87%	7.48%	9.90%	15.44%	13.83%
Alerian MLP	Master Limited Partnerships	4.43%	4.33%	**8.96%**	6.59%	25.70%	30.90%	24.52%	30.42%	11.23%	2.74%
S&P 500	U.S. Equity	1.68%	5.34%	**7.11%**	11.98%	15.72%	30.45%	9.74%	11.91%	14.76%	12.70%
S&P Composite 1500	U.S. Equity	1.34%	5.32%	**6.73%**	12.04%	15.29%	28.75%	9.31%	11.35%	14.31%	12.37%
MSCI World Ex. US Index	World Equity	1.22%	4.28%	**5.55%**	10.77%	13.77%	25.59%	8.15%	9.17%	12.22%	9.64%
S&P GSCI Commodities	Commodity	4.47%	0.87%	**5.38%**	1.89%	9.10%	4.99%	2.31%	15.41%	7.18%	-3.36%
S&P MidCap 400	U.S. Equity	-1.71%	5.94%	**4.13%**	13.20%	11.39%	13.05%	5.99%	6.65%	10.38%	9.43%
Dow Jones Industrial Average	U.S. Equity	1.31%	2.50%	**3.84%**	8.96%	14.97%	22.03%	9.58%	10.25%	10.86%	11.62%
S&P Composite 1500 Value	U.S. Equity	-0.07%	2.96%	**2.89%**	9.08%	12.08%	20.07%	10.44%	12.21%	12.16%	10.22%
MSCI EAFE (Net)	International Equity	0.58%	1.84%	**2.44%**	7.90%	8.58%	15.01%	5.81%	4.97%	7.29%	4.89%
MSCI EAFE Index	International Equity	0.58%	1.83%	**2.42%**	7.86%	8.44%	14.41%	5.27%	4.45%	6.77%	4.39%
MSCI World Index	World Equity	0.45%	1.72%	**2.18%**	7.79%	8.43%	14.64%	5.33%	5.21%	7.43%	4.94%
S&P/LSTA US Leveraged Loan Index	U.S. Fixed Income	0.68%	0.91%	**1.59%**	3.26%	8.12%	11.49%	6.96%	5.69%	5.26%	4.49%
Citigroup 3-month T-bill	Cash/Cash Equivalent	0.47%	0.44%	**0.91%**	1.39%	3.74%	5.46%	3.83%	2.55%	2.02%	1.35%
Barclays Capital U.S. Corporate High Yield	U.S. Fixed Income	0.00%	0.29%	**0.29%**	4.03%	7.97%	11.03%	2.45%	1.84%	4.16%	4.34%
BofA Merrill Lynch US Convertibles	U.S. Convertible Bond	-1.16%	1.20%	**0.02%**	6.20%	4.11%	8.22%	-0.86%	-2.74%	9.80%	8.27%
MSCI EM (Emerging Markets)	International Equity	-4.63%	4.77%	**-0.08%**	3.86%	4.83%	9.18%	-3.62%	-5.93%	2.28%	3.39%
Barclays Capital Municipal Bond	U.S. Fixed Income	-0.51%	0.13%	**-0.38%**	1.93%	3.24%	5.42%	0.02%	-0.21%	1.91%	2.68%
S&P SmallCap 600	U.S. Equity	-3.95%	3.32%	**-0.75%**	11.94%	8.62%	6.50%	1.38%	2.31%	7.72%	8.53%
Barclays Intermediate U.S. Government/Credit	U.S. Fixed Income	0.21%	-0.99%	**-0.79%**	1.51%	2.87%	4.38%	-1.06%	-1.53%	1.24%	1.51%
Barclays U.S. Treasury: U.S. TIPS	U.S. Fixed Income	0.18%	-1.07%	**-0.90%**	1.77%	1.07%	2.52%	-4.16%	-0.87%	2.69%	2.08%
5-Year US Treasury	U.S. Treasury	0.23%	-1.45%	**-1.22%**	1.05%	1.84%	3.02%	-2.88%	-2.92%	0.32%	0.75%
Merrill Lynch US Treasury Master	U.S. Fixed Income	-0.18%	-1.35%	**-1.53%**	1.83%	0.64%	2.16%	-4.32%	-3.43%	0.11%	0.99%
Barclays U.S. Government/Credit	U.S. Fixed Income	-0.23%	-1.36%	**-1.59%**	2.04%	1.80%	3.69%	-3.43%	-3.14%	0.87%	1.60%
Barclays Capital U.S. Corporate Investment Grade	U.S. Fixed Income	-0.17%	-1.50%	**-1.67%**	2.59%	3.39%	5.97%	-2.57%	-2.85%	1.77%	2.49%
Barclays Capital U.S. Aggregate	U.S. Fixed Income	-0.27%	-1.41%	**-1.68%**	2.08%	1.63%	3.33%	-3.42%	-3.16%	0.56%	1.43%
10-Year US Treasury	U.S. Treasury	-0.17%	-2.06%	**-2.23%**	1.73%	-1.15%	0.69%	-6.97%	-5.24%	-0.53%	0.69%
Dow Jones U.S. Select REIT	U.S. Real Estate	-4.04%	1.86%	**-2.25%**	7.55%	5.32%	5.58%	-4.40%	4.61%	3.18%	5.81%
Citigroup WorldBIG Index	World Fixed Income	-1.18%	-1.37%	**-2.54%**	1.56%	1.49%	3.68%	-5.55%	-5.76%	-1.16%	-0.22%

Key Take Aways:

- ❑ **US shares gained strongly in February, supported by some well-received corporate earnings. These included good results from some of the so-called "Magnificent Seven" companies.**
    - ❑ **The trailing one-year return of the S&P 500 index was up over 30% or approximately 10x the return of the U.S. Aggregate Bond index.**
- ❑ **Fixed income yields were generally higher as investors pushed out the timeframe for central banks to cut interest rates as labor markets remained strong and inflation data surprised to the upside.**

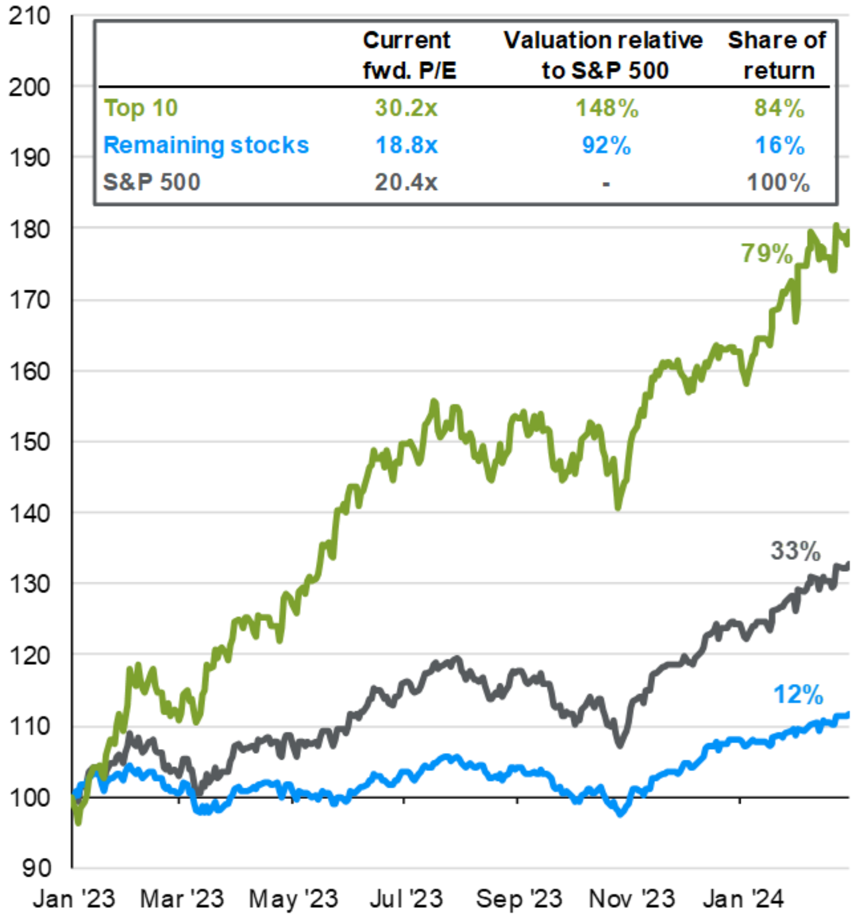
Indices sorted high/low by 1st QTD performance.

Source: Zephyr StyleAdvisor

REVIEW - A Tale of Two Markets

Performance of the top 10 stocks in the S&P 500

Indexed to 100 on 1/1/2023, price return, top 10 held constant



	Current fwd. P/E	Valuation relative to S&P 500	Share of return
Top 10	30.2x	148%	84%
Remaining stocks	18.8x	92%	16%
S&P 500	20.4x	-	100%

Weight of the top 10 stocks in the S&P 500

% of market capitalization of the S&P 500

Earnings contribution of the top 10 in the S&P 500

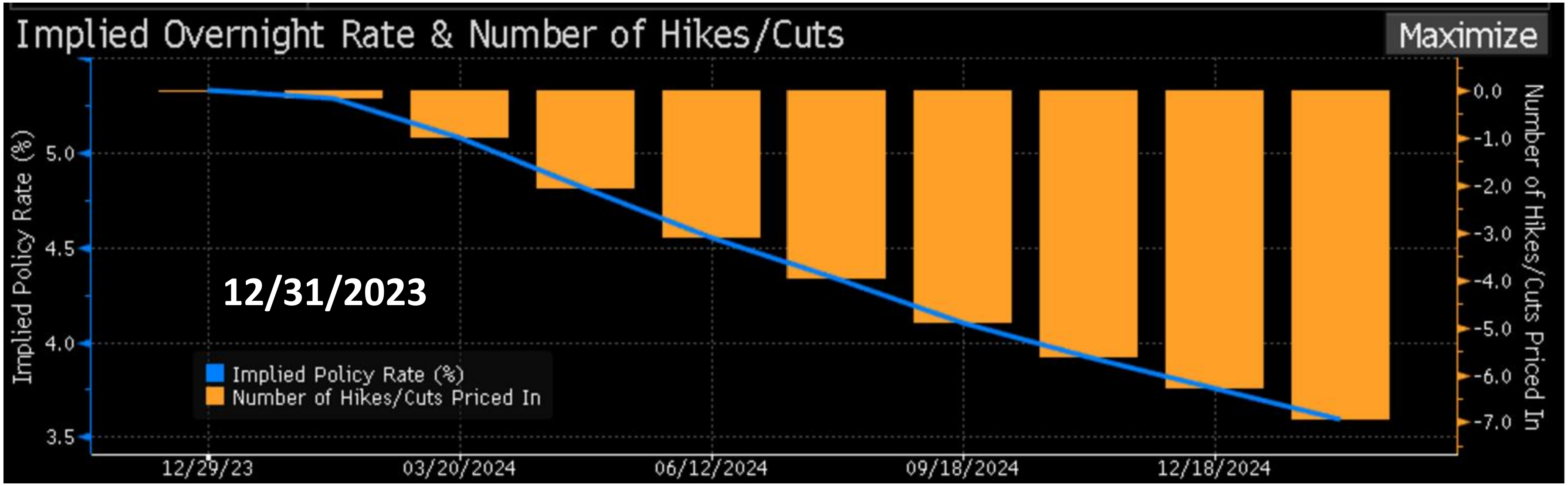
Based on last 12 months' earnings

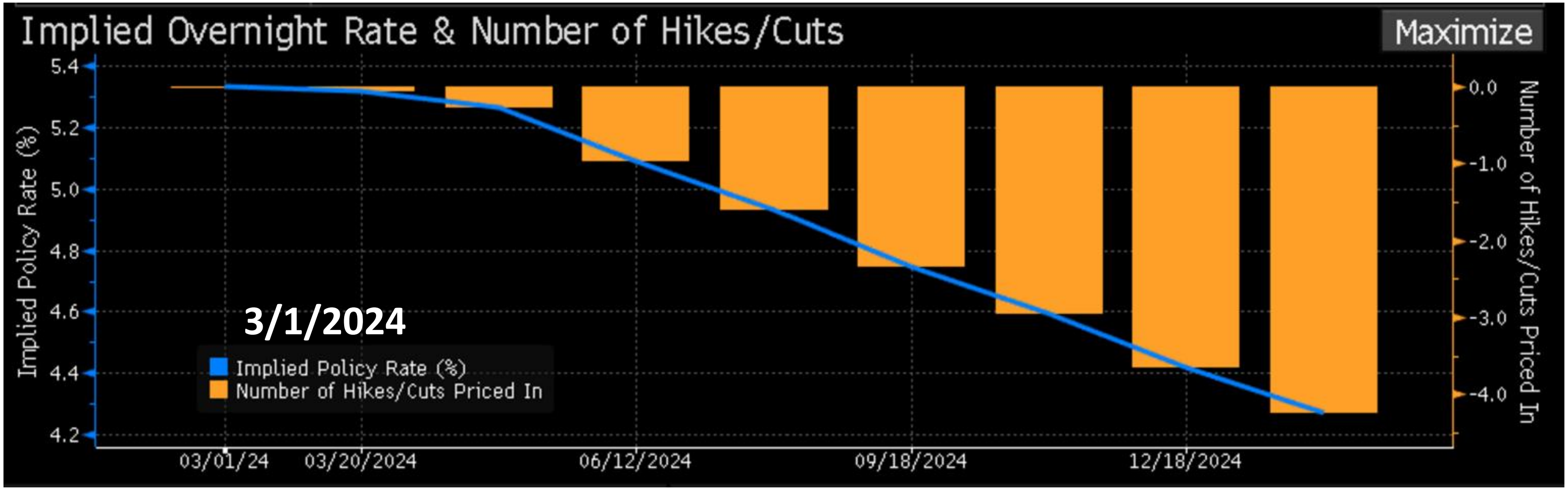
Key Take Aways:

- ❑ **Index performance is not always an accurate gauge as to what's really driving returns. In today's US Equity markets, it is truly a tale of two markets: 1) Large Cap, Big Tech, and 2) Everyone else…**

Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
(Left) The top 10 companies used for this analysis are held constant and represent the S&P 500's 10 largest index constituents at the start of 2023.
The top 10 stocks are: AAPL, MSFT, AMZN, NVDA, GOOGL, BRK.B, GOOG, META, XOM, UNH, and TSLA. The remaining stocks represent the rest of the 494 companies in the S&P 500. (Right) The top 10 companies used for these two analyses are updated monthly and are based on the 10 largest index constituents at the beginning of each month. As of 1/31/2024, the top 10 companies in the index were MSFT (7.3%), AAPL (6.6%), NVDA (3.7%), AMZN (3.5%), META (2.1%), GOOGL (2.0%), GOOG (1.7%), BRK.B (1.7%), TSLA (1.3%), AVGO (1.3%) and LLY (1.3%).
Guide to the Markets – U.S. Data are as of February 29, 2024

OUTLOOK - Fed Funds Expectation Mania





Key Take Aways:

- The ongoing saga of how quickly market expectations can change regarding the path of interest rates with any new economic data or changes in the Federal Reserve rhetoric.

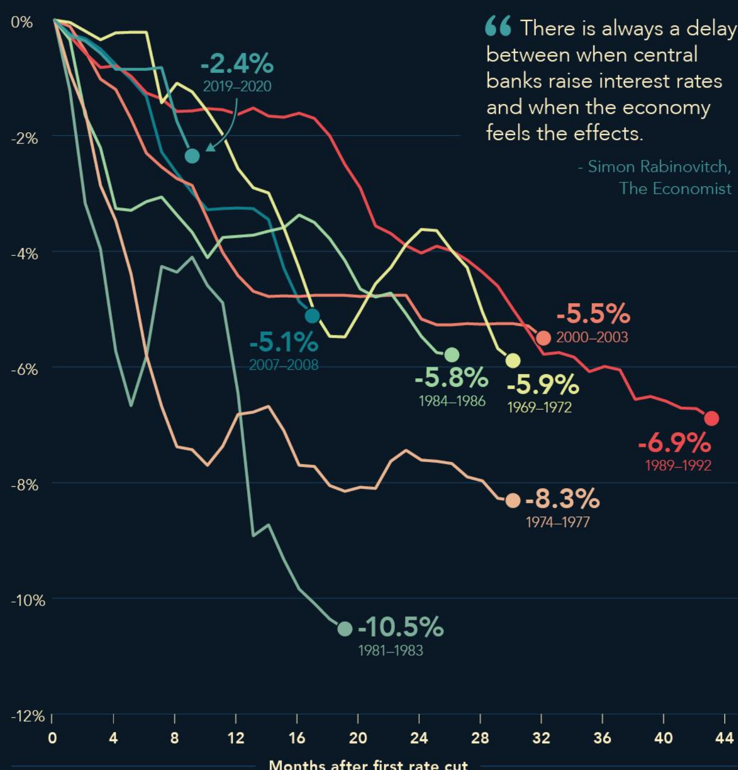
OUTLOOK - Historic Interest Rate Cycles

Global Forecast Series

Looking Back at Past Rate Cut Cycles

Past interest rate easing cycles indicate that once the Fed starts cutting, deep cuts can come swiftly.

Past Interest Rate Easing Cycles



Rate Cut Forecast by Institutions

Most institutions are expecting rate cuts to begin in June with 100 basis points of cuts by the end of 2024.

Federal Reserve Meeting Months	Number of institutions	Institutions
March	5	MUFG, Jefferies, UBS, Bank of America, Goldman Sachs
May	1	TD Securities
June	8	Wells Fargo, Nomura, HSBC, Evercore ISI, Deutsche Bank, Barclays, Morgan Stanley, J.P. Morgan
July	2	Oxford Economics, Citi

Total Value of Cuts Institutions Expect by EOY 2024

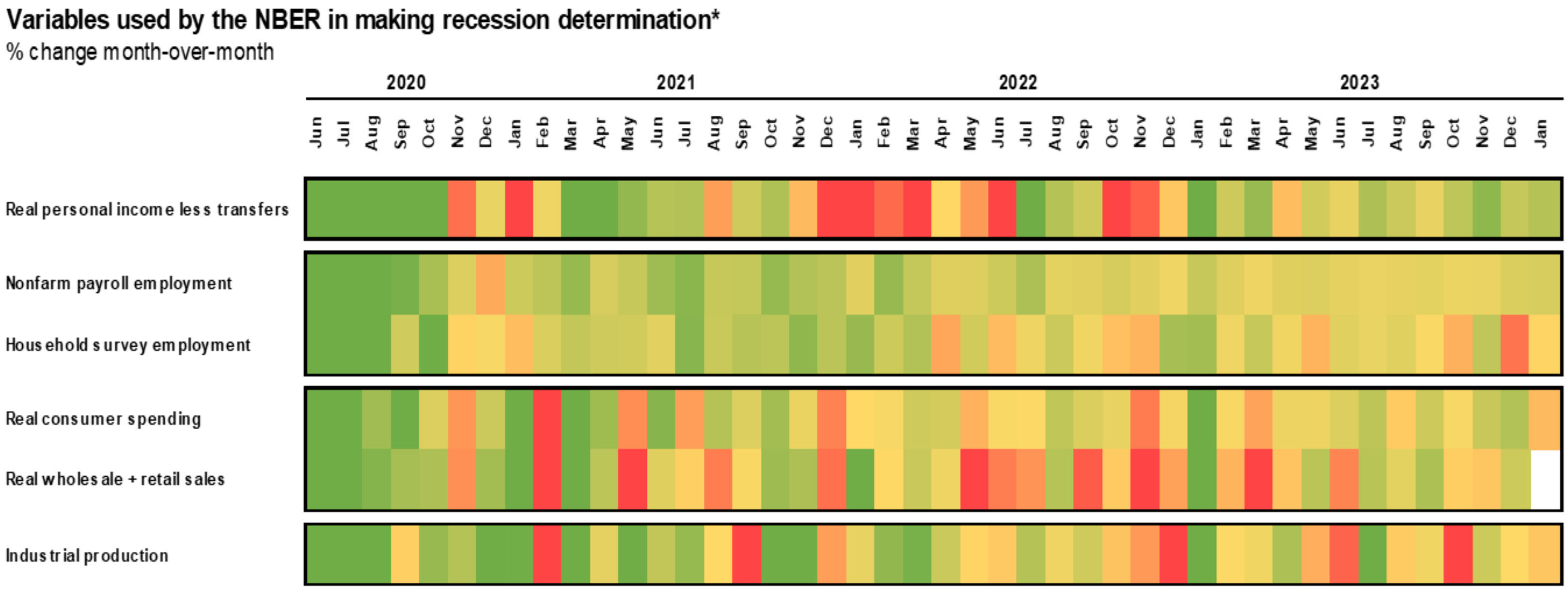
Basis points	Institutions	Number of institutions
50	Oxford Economics	1
75	HSBC, Barclays	2
100	Morgan Stanley, Bank of America, Citi, Nomura	4
125	Goldman Sachs, J.P. Morgan, Evercore ISI	3
175	MUFG, Deutsche Bank	2
200	TD Securities	1
225	Wells Fargo, Jefferies	2
275	UBS	1

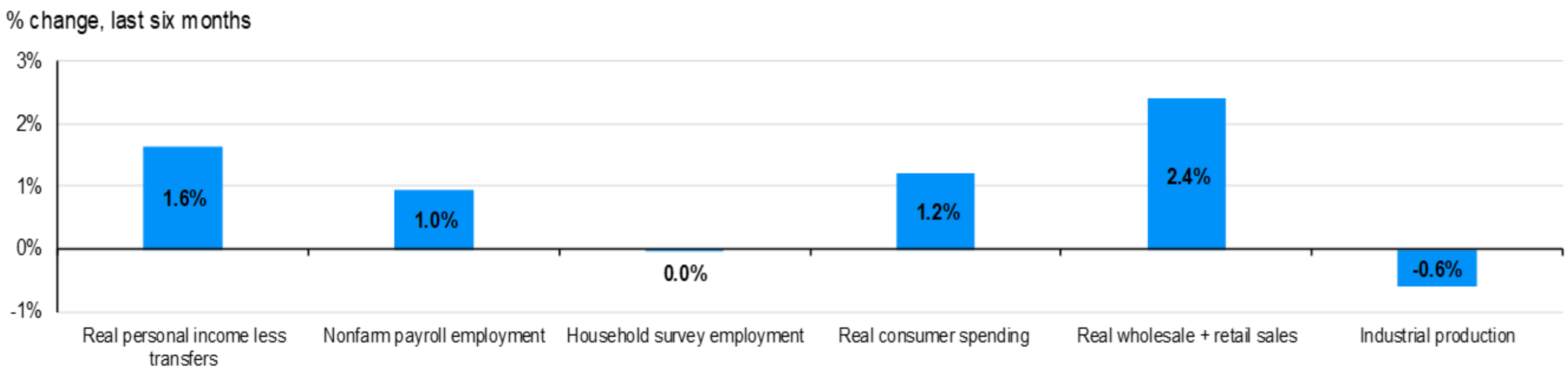
“We think the most probable risks are for more (rather than less) interest rate cuts.
– UBS

Sources: Federal Reserve, Goldman Sachs, Wells Fargo, J.P. Morgan, Morgan Stanley, UBS, Bank of America, Barclays, Citi, Deutsche Bank, Evercore ISI, HSBC, Jefferies, MUFG, Nomura, Oxford Economics, TD Securities

Source: The Virtual Capitalist (graphic)
As of January 31, 2024

OUTLOOK - Recession Variables for NBER





Key Take Aways:

- ❑ **Using the various economic metrics utilized by the NBER, there is currently no recession or "hard landing" in sight for the time being.**

Source: BEA, BLS, Census Bureau, NBER, J.P. Morgan Asset Management. Heatmap shading reflects 10 years of data, with green and red reflecting a range of +/- 0.5 standard deviations from a baseline of 0% monthly growth. *The NBER's definition of a recession involves a significant decline in economic activity that is spread across the economy and lasts more than a few months. Specifically, they consider real personal income less transfers, nonfarm payroll employment, employment as measured by the household survey, real personal consumption expenditures, wholesale-retail sales adjusted for price changes and industrial production. There is no fixed rule about which measures contribute to the process or how they are weighted, but the committee notes that "in recent decades, the two measures we have put the most weight on are real personal income less transfers and nonfarm payroll employment."
Guide to the Markets – U.S. Data are as of February 29, 2024.

OUTLOOK - UST Yield Curve & Expectations (Work with what you got!)

Index	YTW @ 12/31/2021	YTW @ 2/29/2024	Chg In YTW	YTW Multiple relative to 12/31/2021	Additional Annual Income per $1M $ 1,000,000
Aggregate	**1.75%**	**4.92%**	**3.17%**	**2.81**	**$ 31,700**
Intermediate Aggregate	**1.55%**	**4.89%**	**3.34%**	**3.15**	**$ 33,400**
U.S. Treasury	1.23%	4.46%	3.23%	3.63	$ 32,300
U.S. 3-Month Treasury	0.05%	5.39%	5.34%	107.80	$ 53,400
U.S. 2-Yr Treasury	0.73%	4.63%	3.90%	6.34	$ 39,000
U.S. 5-Yr Treasury	1.26%	4.25%	2.99%	3.37	$ 29,900
U.S. 10-Yr Treasury	1.50%	4.24%	2.74%	2.83	$ 27,400
U.S. 30-Yr Treasury	1.89%	4.36%	2.47%	2.31	$ 24,700
U.S. Agency MBS	1.98%	5.12%	3.14%	2.59	$ 31,400
ABS	1.13%	5.21%	4.08%	4.61	$ 40,800
CMBS	1.88%	5.44%	3.56%	2.89	$ 35,600
U.S. Credit	2.25%	5.36%	3.11%	2.38	$ 31,100
A-Rated Corporates	2.11%	5.27%	3.16%	2.50	$ 31,600
BBB-Rated Corporates	2.55%	5.63%	3.08%	2.21	$ 30,800
Municipal Bond	1.11%	3.40%	2.29%	3.06	$ 22,900
Taxable Municipal Bond	2.33%	5.11%	2.78%	2.19	$ 27,800
U.S. High Yield	4.21%	7.86%	3.65%	1.87	$ 36,500
Global Agg. (USD)	1.31%	3.80%	2.49%	2.90	$ 24,900

Key Take Aways:

- **Materially higher reinvestment yields continue as fixed income portfolios turnover (especially for fixed income securities purchased before 12/31/2021), which will increase the investment income per-dollar-invested and help offset mark-to-market volatility prospectively.**
- **With lower rate expectations along the short-end of the yield curve, especially, organizations may want to review their cash positions for longer-term deployment.**

Source: Bloomberg Barclays & ICE Fixed Income Indices