Gould Asset Management®

Q4

Economic & Market Review

Fourth Quarter 2023

Economic Review

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GOULD ASSET MANAGEMENT®

US Economy Fueled by Strong Consumer Spending and Resilient Labor Market

The US economy surged at a robust 5.2% annualized growth rate in the third quarter, underpinned by strong consumer spending and rising consumer confidence.

The labor market continued its march, with nonfarm payrolls expanding steadily in 2023, averaging 225,000 new jobs per month, and unemployment holding steady at 3.7% in December. **Average hourly wages grew 4.1% year-over-year** in December, a slight uptick from November.

In contrast, **US manufacturing activity contracted for the 14th straight month in December, its longest stretch since 2002.** Manufacturing comprises about 10% of the US economy.

The housing market recovered a bit as mortgage rates retreated from their peak, spurring an uptick in housing starts. However, the market remains constrained by high prices and limited supply.

Fed Signals a Pivot

The Federal Reserve maintained its federal funds target range between 5.25% and 5.50%, marking the third consecutive meeting without a change. The Fed cited recent data indicating **slowing in both economic growth and inflation.** However, with inflation still above target, the Fed did not feel a rate cut was warranted yet.

Fed Chair Jerome Powell reiterated the Fed would let inflation and other data dictate its rate decisions, **keeping open the option to raise rates again if necessary, but also giving the clearest signal yet that rates have likely peaked,** stating that policymakers are now more focused on the timing of the first rate cut.

Updated Fed projections show three 0.25% rate cuts in 2024 (0.75% total), a much steeper decline than was forecast as recently as September. The updates also project inflation at 2.4% and GDP growth at 1.4% in 2024.

Economic Review

Fourth Quarter 2023

Eurozone and Japan Contract; ECB and BOJ Hold Rates Steady

The Eurozone economy contracted marginally (-0.1%) in the third quarter, slowed by persistent inflation and high interest rates. At best, economists expect European growth to stagnate in the fourth quarter, suggesting a **possible recession on the horizon.** Germany, the bloc's largest economy, continues to struggle on softening consumer spending.

The European Central Bank (ECB) maintained its key interest rates, signaling a steadfast approach to combating inflation despite the market's speculation of rate cuts. ECB President Christine Lagarde emphasized vigilance in the inflation fight, diverging from the Fed's hints of a pivot toward lower rates.

Japan's economy took a U-turn in the third quarter, contracting by 0.7% on declines in private consumption and capital expenditures. Net trade was also a drag on the economy, as exports rose less than imports.

The Bank of Japan (BOJ) maintained its key policy rate (at -0.1%), but for the opposite reason as the US Federal Reserve. Japan has long battled flat or falling prices. At 2.8%, Japan's inflation is now above the BOJ's 2% target. Still fearing deflation, however, Governor Kazuo Ueda won't raise rates without more evidence that inflation will remain at or slightly above the bank's 2% target. Many analysts expect the BOJ to end its negative interest rate policy sometime in early 2024.

China Slows, India Soars, Brazil Stabilizes

China's economy expanded by 4.9% year-over-year in the third quarter of 2023, slower than the previous quarter's 6.3% growth and reflecting persistent challenges in the property sector and subdued consumer confidence—this despite government stimulus through infrastructure spending and monetary easing.

India's economy grew 7.6% year-over-year in the third quarter, boosted by strong industrial output and increased government spending on infrastructure projects.

Brazil's economy showed tepid growth in the third quarter, expanding by 0.1%. The central bank began cutting its benchmark interest rate in August and signaled further cuts in its next two meetings to help stimulate the economy.

Market Review: Stocks

Fourth Quarter 2023

Stocks Surge in Q4, Capping Strong Year, as Fed Signals Possible Rate Cuts

US stocks finished the year on a strong note, nearing all-time highs in late December, as inflation continued to moderate and the Fed suggested lower interest rates could be in store for 2024. The prospect of more accommodative monetary policy seemed to be the spark investors needed, resulting in US large cap stocks, as measured by the S&P 500 stock index, rising 11.7% in Q4, and finishing 2023 with a robust 26.3% gain.

A market cap-weighted indexed approach proved best in 2023, with a small number of large cap growth stocks accounting for a significant portion of US stock gains. This was evidenced by the top 10 stocks of the S&P 500 accounting for 86% of the S&P 500's 26.3% gain.

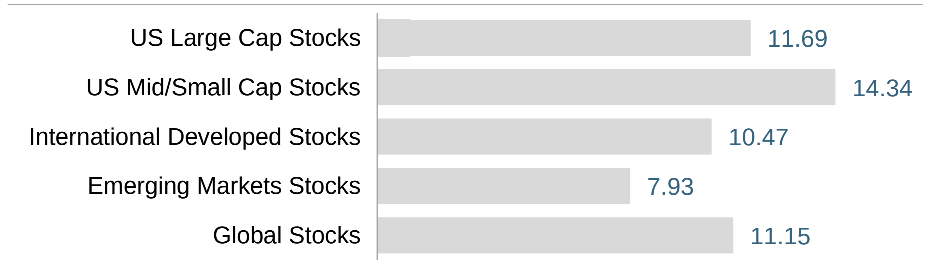
Mid and small cap US stocks, as measured by the Wilshire 4500 index, **outperformed large caps on the quarter, rising 14.3% in Q4 to cap a very strong year** (up 24.9%). Lower interest rates and moderating inflation weighed positively on investor sentiment, increasing the belief among many that a "soft landing" might be within sight.

Except for Energy, all US sectors rallied sharply in the fourth quarter, led by Technology stocks (up 17.7%), **followed by Financials** (up 14.0%), **and Industrials** (up 13.0%). After underperforming in 2022, tech stocks were back on top once again, rising a remarkable 56.1% in 2023 and accounting for much of the S&P's year-to-date gain.

International stocks were unable to keep pace with US equities, lagging for both the quarter and the year, despite a weak US dollar. The MSCI EAFE index, a measure of international developed market performance, rose 10.5% in the fourth quarter, finishing the year up 18.9%—noticeably lower than the 26%+ returns of US stocks. Emerging market stocks fared even worse, rising 7.9% on the quarter and 10.3% year-to-date, marking another year in which they trailed developed markets stocks.

Market volatility expectations were subdued on the quarter, common in strongly rising markets. The VIX volatility index fell from 17.5 at the start of the quarter to 12.5 by year end, levels not seen since before the pandemic.

Returns for the Quarter (%)



Period Returns (%)

** Annualized*

Asset Class	1 Year	3 Years	5 Years
US Large Cap Stocks	26.29	10.00	15.69
US Mid/Small Cap Stocks	24.87	3.33	13.27
International Developed Stocks	18.85	4.53	8.69
Emerging Markets Stocks	10.27	-4.71	4.08
Global Stocks	22.81	6.25	12.27

Past performance is not a guarantee of future results. Returns for periods longer than one year are annualized. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Large Cap (S&P 500 Index), US Mid/Small Cap (Wilshire 4500 Completion Index), International Developed (MSCI Europe Australasia Far East Index), Emerging Markets (MSCI Emerging Markets Index), and Global Stocks (MSCI All Country World Index). Growth of $1,000 chart market segmentations as follows: US Stocks (Wilshire 5000 Index) and Foreign Stocks (All Country World Index ex US).

Market Review: Bonds

Fourth Quarter 2023

Bonds Surge in Q4 to Finish 2023 in Positive Territory, Spurred by Dovish Fed Talk

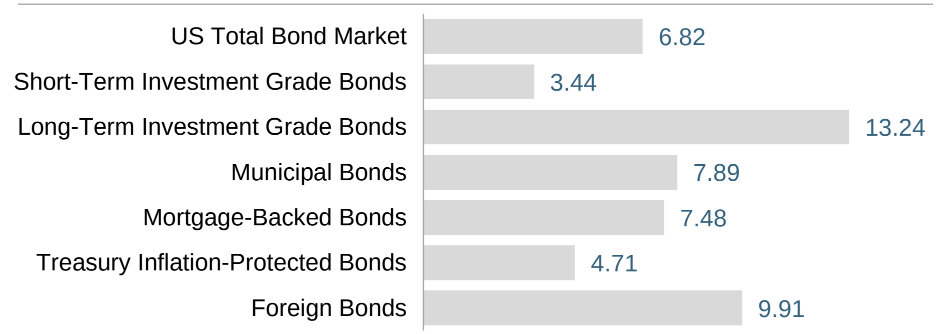
US bonds rallied in the fourth quarter as the Fed took a more accommodative tone, signaling the potential for interest rate cuts in 2024. This caused rates across the yield curve to fall, pushing up the price of bonds, with 2-year US Treasury rates falling from 5.03% on September 30th to 4.23% at year-end, while the 10-year Treasury yield dropped from 4.59% to 3.88%, both big moves for such a short span.

Against this backdrop, **US bonds,** as measured by the Bloomberg US Aggregate Bond Index, **rose 6.8% in Q4, wiping out earlier losses on the year and securing a positive return of 5.5% in 2023.** This was a welcome relief after 2022, the worst year on record for bond markets, in which US bonds fell 13.0%. As of year-end, the Fed seems more comfortable that inflation is trending closer to target, and it is now projecting three rate cuts in 2024, up from the previously expected one.

Long-duration US bonds (up 13.2%), **international government securities** (up 9.9%), **and high-yield bonds** (up 7.2%) **were among the best performing fixed income sectors for the quarter.** For the year, high-yield bonds led the pack, rising 13.4% as a resilient economy and lower interest rates provided a nice tailwind for this risky corner of the bond market.

Tax-exempt municipal bonds also had a robust fourth quarter, rising 7.9% in Q4 and finishing 2023 6.4% higher. Munis outperformed taxable bonds even on a pre-tax basis, so after-tax performance was particularly stellar when factoring in the tax-exempt nature of the interest they earn.

Returns for the Quarter (%)



Asset Class	1 Year	3 Years*	5 Years*
US Total Bond Market	5.53	-3.31	1.10
Short-Term Investment Grade Bonds	4.89	-0.62	1.54
Long-Term Investment Grade Bonds	7.13	-8.68	1.12
Municipal Bonds	6.40	-0.40	2.25
Mortgage-Backed Bonds	5.05	-2.86	0.25
Treasury Inflation-Protected Bonds	3.90	-1.00	3.15
Foreign Bonds	5.83	-9.35	-2.77

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Market Review: Alternatives

Fourth Quarter 2023

REITs Rebound and Gold Glitters to Close Strong Year, While Energy Fizzles

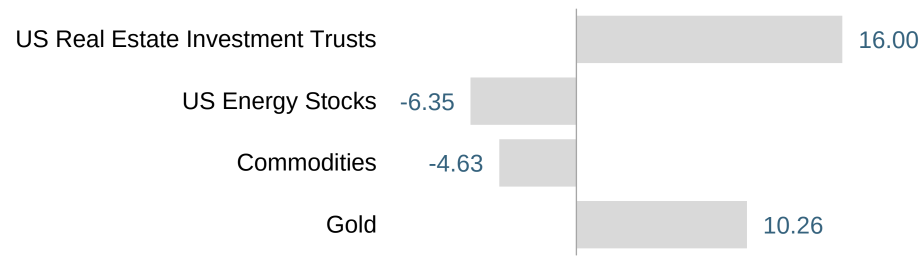
Real estate investment trusts (REITs) posted their best quarter in nearly two years, rising 16.0% in the fourth quarter, buoyed by lower interest rates, modest inflation, and a resilient US economy. It was the perfect recipe of positive news for an asset class that can be quite sensitive to interest rates and the economy. REITs finished the year up 13.7% in 2023, with the entirety of their return earned in the final 3 months of the year.

Gold finished the year on a strong note, up 10.3% in Q4, as investors digested the possibility of more accommodative monetary policy in 2024. For the year, gold rose 13.8% in 2023, its best annual return since 2020 when pandemic-era stimulus money propelled the precious metal 27.0% higher. Gold often performs well during periods of monetary easing, so the Fed's projection of three rate cuts in 2024 was well received by gold investors. Some also hypothesize that inflation may not cool as quickly as expected, which could make gold attractive as a hedge.

US energy stocks were among the worst performing asset classes for both the quarter (down 6.4%) **and the year** (down 0.6%). It's often boom or bust with energy stocks and unfortunately, 2023 was a bust as the industry was among the very few losers last year. Sharply lower prices for crude oil and natural gas, despite cuts in output from OPEC, were the main culprit.

Commodities fared modestly better on the quarter (down 4.6%), **but worse for the year** (down 7.9%). Price declines in sugar, cotton, corn, and wheat drove declines in the agricultural components of the commodities index, while oil, nickel, and lead declined in the energy and industrial metals sectors. Commodities often perform well in inflationary environments, so the declines seen in 2023 are consistent with inflationary pressures easing.

Returns for the Quarter (%)



Period Returns (%)

** Annualized*

Asset Class	1 Year	3 Years*	5 Years*
US Real Estate Investment Trusts	13.74	7.10	7.40
US Energy Stocks	-0.59	35.90	13.57
Commodities	-7.91	10.76	7.23
Gold	13.80	2.93	10.48

Market Summary

Index Returns

	US Large Cap	US Mid/Small Cap	International Developed	Emerging Markets	US Bond Market	US Dollar
Q4 2023	**STOCKS**				**BONDS/DOLLAR**	
	11.69%	**14.34%**	**10.47%**	**7.93%**	**6.82%**	**-3.15%**
Since Jan. 2001						
Avg. Quarterly Return	2.3%	2.8%	1.6%	2.4%	1.0%	0.3%
Best Quarter	20.5% **Q2 2020**	30.3% **Q2 2020**	25.8% **Q2 2009**	34.8% **Q2 2009**	6.8% **Q4 2023**	7.1% **Q1 2020**
Worst Quarter	-21.9% **Q4 2008**	-27.9% **Q1 2020**	-22.7% **Q1 2020**	-27.6% **Q4 2008**	-5.9% **Q1 2022**	-5.8% **Q2 2009**

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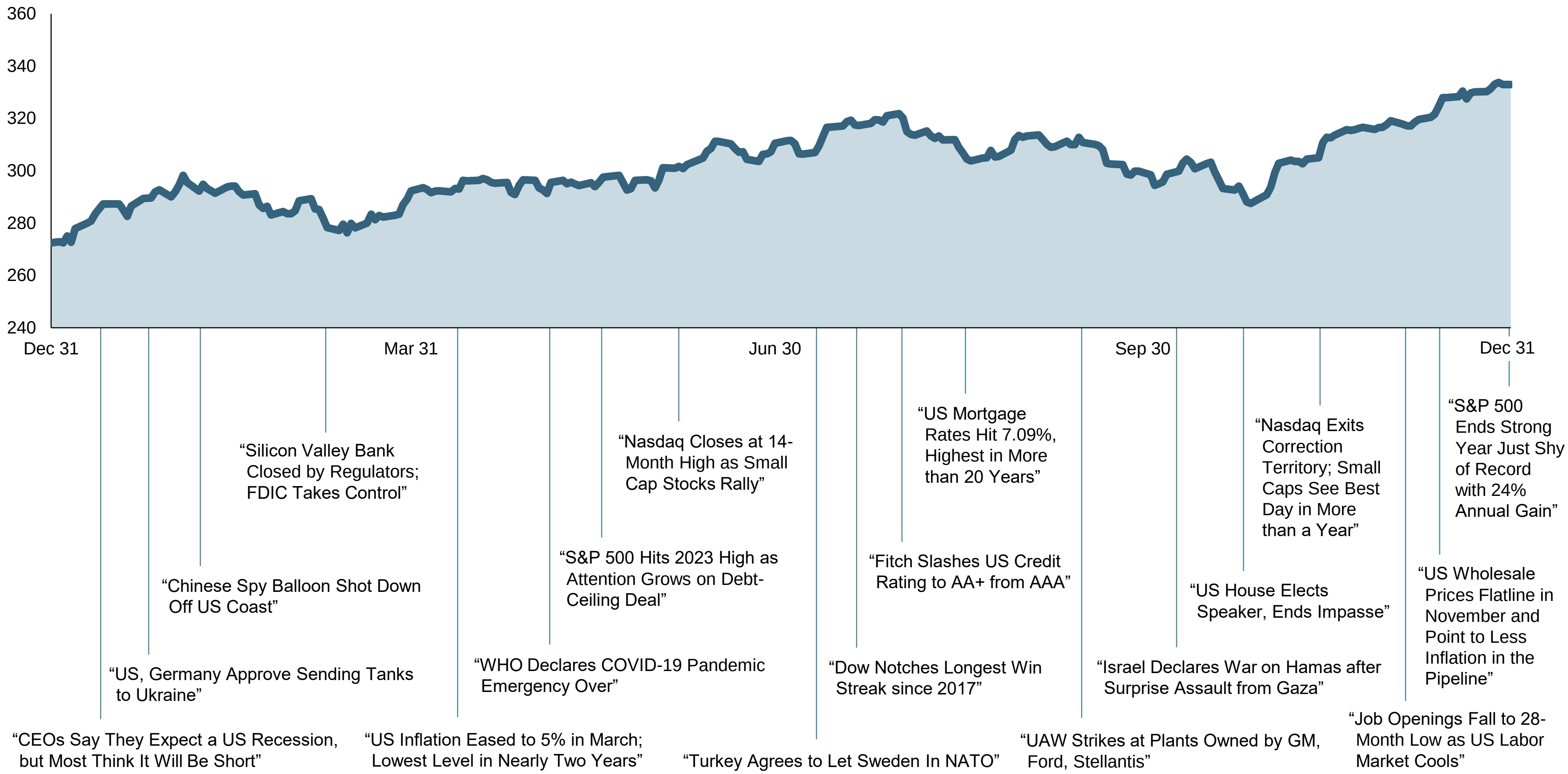
Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data Bloomberg data provided by Bloomberg.

World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2024, all rights reserved. Index level based at 100 starting January 2001.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

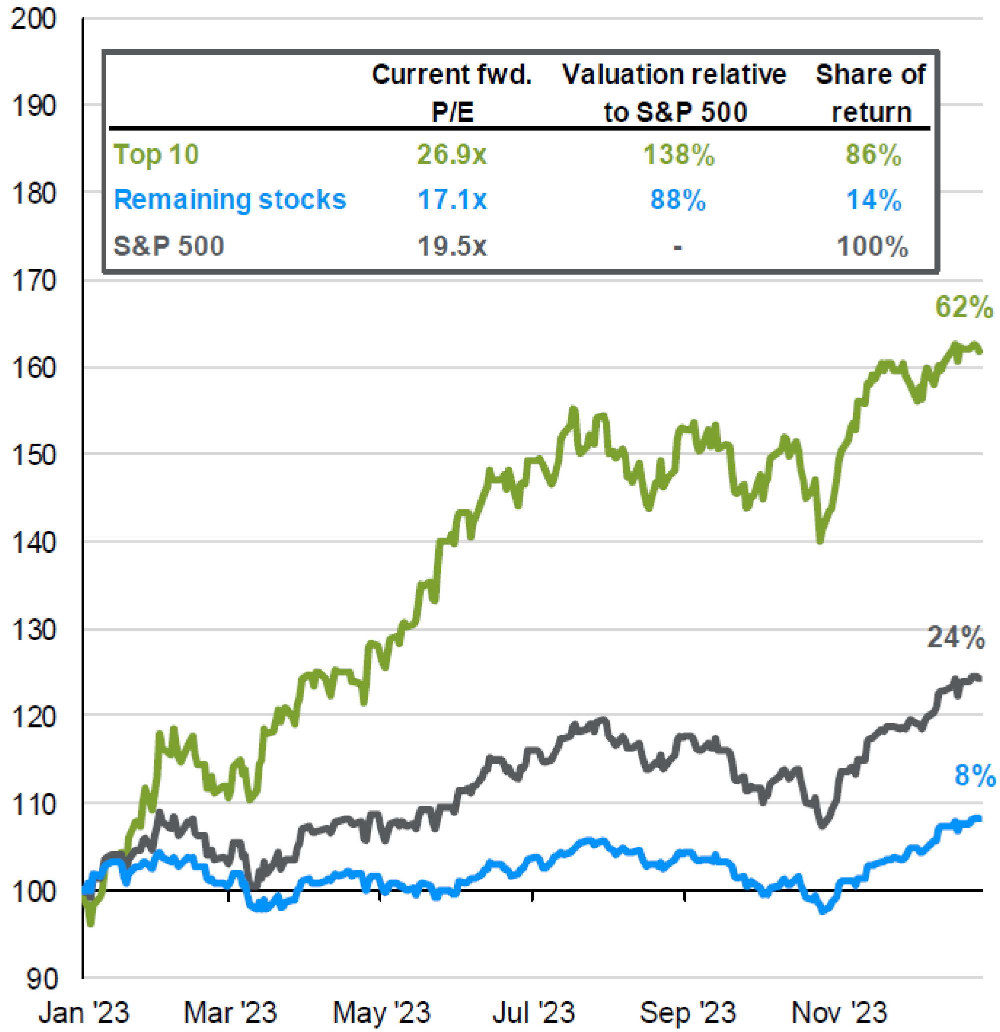
S&P 500: Index Concentration

Fourth Quarter 2023

Gould Asset Management

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

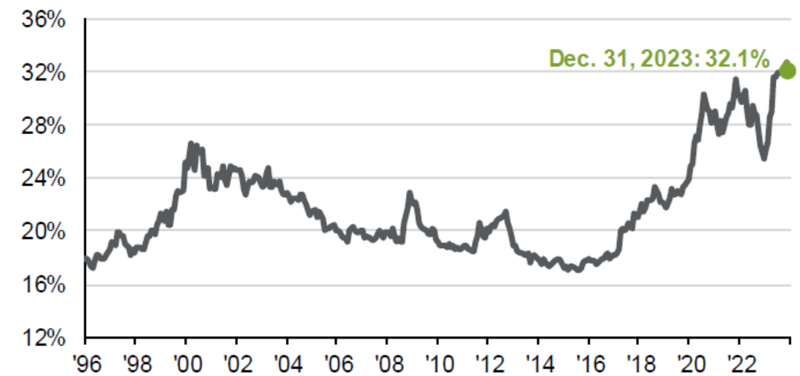
Indexed to 100 on 1/1/2023, price return, top 10 held constant



	Current fwd. P/E	Valuation relative to S&P 500	Share of return
Top 10	26.9x	138%	86%
Remaining stocks	17.1x	88%	14%
S&P 500	19.5x	-	100%

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

% of market capitalization of the S&P 500



The left chart shows how the 10 largest stocks in the S&P 500 vastly outperformed the other 490 in 2023, 62% vs. 8%. Representing "only" 30% of the index value, these 10 accounted for 86% of the index return. The two largest companies, Microsoft and Apple, now make up about 14% of the index, with a combined value approaching $6 trillion.

The chart above shows the combined weight of the top 10 stocks over time. For about 15 years following the end of the dot-com bubble (early 2000), their share mostly declined. Since 2016, however, the biggest have gotten bigger at a faster clip, now comprising about 32% of the index value, an all-time high.

Omitting just a few of last year's biggest winners would have seriously hampered performance. The only sure way to keep up with the index is to own it.

Source: J.P. Morgan Asset Management. The top 10 companies used for this analysis are held constant and represent the S&P500's 10 largest constituents at the start of 2023. *Guide to the Markets – US* Data are as of December 31, 2023.

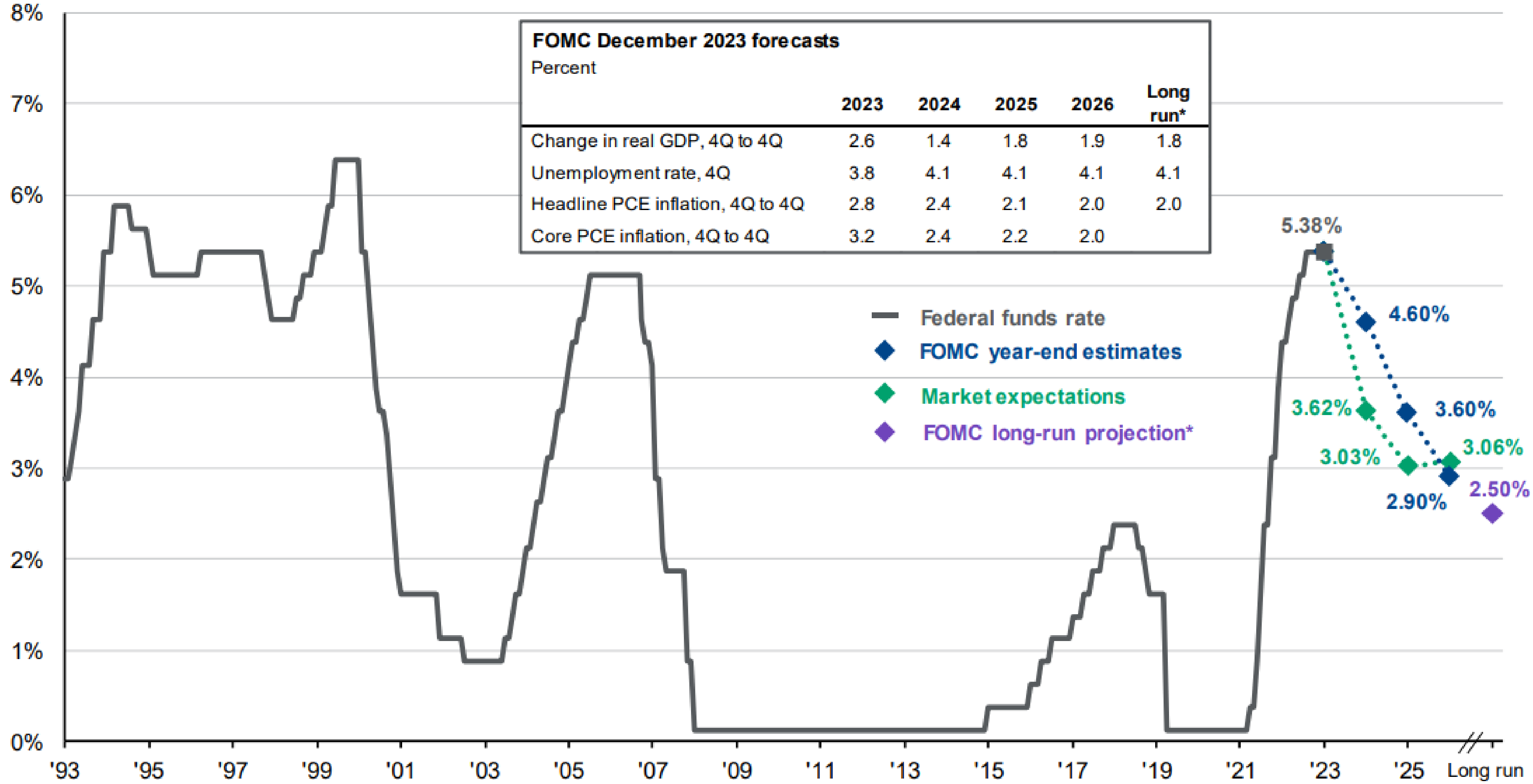
The Fed and Interest Rates

Fourth Quarter 2023

This chart shows the fed funds rate, the overnight interest rate set by the Federal Reserve that drives short-term borrowing costs across the economy. The Fed uses this rate as an indirect lever for managing inflation, stimulating or subduing the economy as needed. Note the sharp hikes from early 2021 in response to a pandemic-related inflation spike. At the far right are projected rates for the next two years—by the Fed itself and by financial markets. Both forecast a sizable decline, an expectation reflected in 2023's big year-end rally in both stocks and bonds.

Federal funds rate expectations

FOMC and market expectations for the federal funds rate



FOMC December 2023 forecasts

Percent

	2023	2024	2025	2026	Long run*
Change in real GDP, 4Q to 4Q	2.6	1.4	1.8	1.9	1.8
Unemployment rate, 4Q	3.8	4.1	4.1	4.1	4.1
Headline PCE inflation, 4Q to 4Q	2.8	2.4	2.1	2.0	2.0
Core PCE inflation, 4Q to 4Q	3.2	2.4	2.2	2.0	

Source: J.P. Morgan Asset Management. Market expectations are based off of USD Overnight Index Swaps. *Long-run projections are the rates of growth, unemployment and inflation which a policymaker expects the economy to converge over the next five to six years in absence of further shocks under appropriate monetary policy. *Guide to the Markets – US* Data are as of December 31, 2023.

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Periodic Table of Returns

Fourth Quarter 2023

The Periodic Table of Returns shows annual returns over the last 20 years for various asset classes, ranked best to worst (top to bottom). Notice how different asset classes take turns in the spotlight. The balanced portfolio (in white) represents a diversified portfolio, which gives the long-term investor steadier relative performance. Never at the extremes, instead it sits reliably in the middle over time.

Annual Total Returns % of Selected Indices (2004-2023) In Order of Performance

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Best	REIT 31.48%	EMERG MKTS 34.54%	REIT 35.92%	EMERG MKTS 39.82%	US BONDS 5.24%	EMERG MKTS 79.02%	REIT 28.48%	GOLD 8.93%	EMERG MKTS 18.63%	US MD/SM CAP 38.39%
	EMERG MKTS 25.95%	GOLD 17.77%	EMERG MKTS 32.55%	GOLD 31.92%	INTL BONDS 4.40%	US MD/SM CAP 36.99%	US MD/SM CAP 28.43%	REIT 8.69%	US MD/SM CAP 17.99%	US LG CAP 32.39%
	INTL STKS 20.70%	INTL STKS 14.02%	INTL STKS 28.86%	INTL STKS 11.63%	GOLD 4.32%	INTL STKS 32.46%	GOLD 29.24%	US BONDS 7.84%	INTL STKS 17.90%	INTL STKS 23.29%
	US MD/SM CAP 18.01%	REIT 12.13%	GOLD 23.20%	INTL BONDS 11.03%	BALANCED -23.07%	REIT 28.61%	EMERG MKTS 19.20%	INTL BONDS 4.36%	REIT 17.77%	BALANCED 15.52%
	INTL BONDS 12.55%	US MD/SM CAP 10.03%	US LG CAP 15.80%	BALANCED 9.86%	US LG CAP -37.00%	US LG CAP 26.46%	US LG CAP 15.06%	US LG CAP 2.11%	US LG CAP 16.00%	REIT 2.47%
	BALANCED 12.17%	BALANCED 6.95%	US MD/SM CAP 15.28%	US BONDS 6.97%	REIT -37.97%	GOLD 25.04%	BALANCED 13.14%	BALANCED 0.85%	BALANCED 12.26%	US BONDS -2.02%
	US LG CAP 10.88%	US LG CAP 4.91%	BALANCED 15.00%	US LG CAP 5.49%	US MD/SM CAP -39.03%	BALANCED 23.88%	INTL STKS 8.21%	US MD/SM CAP -4.10%	GOLD 8.26%	EMERG MKTS -2.27%
	US BONDS 4.34%	US BONDS 2.43%	INTL BONDS 8.16%	US MD/SM CAP 5.39%	INTL STKS -43.06%	INTL BONDS 7.53%	US BONDS 6.54%	INTL STKS -11.73%	US BONDS 4.21%	INTL BONDS -3.08%
Worst	GOLD 4.65%	INTL BONDS -8.65%	US BONDS 4.33%	REIT -16.82%	EMERG MKTS -53.18%	US BONDS 5.93%	INTL BONDS 4.95%	EMERG MKTS -18.17%	INTL BONDS 4.09%	GOLD -27.33%

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Best	US LG CAP 13.69%	REIT 2.52%	US MD/SM CAP 18.54%	EMERG MKTS 37.75%	US BONDS 0.01%	US LG CAP 31.49%	US MD/SM CAP 31.99%	REIT 43.06%	GOLD -0.43%	US LG CAP 26.69%
	REIT 30.38%	US LG CAP 1.38%	US LG CAP 11.96%	INTL STKS 25.62%	GOLD -1.15%	US MD/SM CAP 28.06%	GOLD 24.17%	US LG CAP 28.71%	US BONDS -13.01%	US MD/SM CAP 24.87%
	US MD/SM CAP 7.97%	US BONDS 0.55%	EMERG MKTS 11.60%	US LG CAP 21.83%	INTL BONDS -2.15%	REIT 25.84%	EMERG MKTS 18.69%	US MD/SM CAP 16.03%	INTL STKS -14.01%	INTL STKS 18.85%
	BALANCED 6.83%	INTL STKS -0.39%	GOLD 9.35%	US MD/SM CAP 17.84%	US LG CAP -4.38%	INTL STKS 22.66%	US LG CAP 18.40%	BALANCED 12.42%	BALANCED -16.50%	BALANCED 16.62%
	US BONDS 5.97%	BALANCED -1.10%	REIT 8.60%	BALANCED 16.30%	REIT -4.57%	BALANCED 20.73%	BALANCED 14.15%	INTL STKS 11.78%	US LG CAP -18.11%	GOLD 13.80%
	GOLD 0.12%	US MD/SM CAP -2.65%	BALANCED 7.69%	GOLD 11.85%	BALANCED -5.02%	EMERG MKTS 18.90%	INTL BONDS 10.11%	US BONDS -1.54%	INTL BONDS -18.70%	REIT 13.74%
	EMERG MKTS -1.82%	INTL BONDS -6.02%	US BONDS 2.65%	INTL BONDS 10.51%	US MD/SM CAP -9.53%	GOLD 18.83%	INTL STKS 8.28%	EMERG MKTS -2.22%	EMERG MKTS -19.74%	EMERG MKTS 10.27%
	INTL BONDS -3.08%	GOLD -12.11%	INTL STKS 1.51%	REIT 5.07%	INTL STKS -13.36%	US BONDS 8.72%	US BONDS 7.51%	GOLD -3.75%	US MD/SM CAP -23.86%	INTL BONDS 5.72%
Worst	INTL STKS -4.48%	EMERG MKTS -14.60%	INTL BONDS 1.49%	US BONDS 3.54%	EMERG MKTS -14.25%	INTL BONDS 5.09%	REIT -7.57%	INTL BONDS -7.05%	REIT -24.51%	US BONDS 5.53%

- S&P 500 TR USD Index (US LG CAP)
- Wilshire 4500 Completion TR Index (US MD/SM CAP)
- Barclays US Aggregate Bond TR Index (US BONDS)
- Barclays Global Aggregate Ex USD TR Bond Index (INTL BONDS)
- Balanced Portfolio Index (BALANCED)
- MSCI EAFE GR USD Index (INTL STKS)
- MSCI Emerging Markets GR USD Index (EMERG MKTS)
- LBMA Closing PM Gold Price (GOLD)
- MSCI REIT GR USD Index (REIT)