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Investment Committee Review

Q1 2024

SS&C ALPS Advisors is an open architecture boutique investment manager offering portfolio building blocks, active insight and an unwavering drive to guide clients to investment outcomes across sustainable income, thematic and alternative growth strategies.

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Introduction

First Quarter Review

Equities once again took the spotlight in the first quarter, posting a solid ~10% gain following another double-digit return in the fourth quarter. However, there was a shift in leadership, with Energy, Industrials and Financials all outperforming. Fixed Income returns were modestly negative after a modestly positive 2023. Commodities were modestly positive after a disappointing 8% decline in 2023, and publicly traded Real Estate Investment Trusts (REITs) finished the quarter with a small decline after a strong fourth quarter.

Second Quarter Outlook

Executive Summary
Going forward, a resilient economic backdrop and a potential end to rate hikes inform our outlook, which we would characterize as "Neutral +". In our view, investors should stay invested at target allocations, with appropriate diversification.

Equities
Following a strong fourth quarter, US Equities charged out of the gate in 2024 with another strong showing. The S&P 500 Index gained over 10%, driven by outperformance in cyclical sectors such as Financials, Industrials and Energy.

Looking ahead, we assess the risk/return tradeoff in equities as relatively neutral. The resilient US economy, coupled with a potentially more dovish stance from the Federal Reserve (Fed), should bolster positive returns in the equity market. We see potential within small cap stocks, but advise investors to prioritize quality companies within this segment. Additionally, we maintain a preference for international exposure, driven by attractive valuations and the diversification benefits it offers.

Fixed Income
Fixed Income returns were modestly negative in the first quarter, driven by higher treasury yields in the intermediate and longer-term maturities. Going forward, our Fixed Income view remains the same:

- *Stay Invested* – the current conditions of higher coupon income and moderating policy impacts support continued returns to Fixed Income.
- *Stay Protected* – focus on quality and long Treasuries for protection if the economy enters a recession.
- *Stay Flexible* – shorter-duration assets can provide liquidity for opportunistic investors as the yield curve normalizes.

Our recommended allocation to Fixed Income would emphasize selectively extending duration, upgrading credit quality and sectors with attractive valuations such as Agency Mortgages (MBS) and high-quality Asset Backed Securities (ABS).

Real Estate
Returns to publicly traded REITs were modestly negative in the first quarter, with Lodging and Data Center REITs outperforming. Cell Towers, Industrial and Self-Storage were notably weak.

As we move through 2024, we would continue to prefer public REITs to private real estate, as public assets face fewer refinancing and valuation headwinds. Specifically, we prefer sectors with macroeconomic tailwinds and attractive valuations such as Data Centers, Industrial and Residential REITs.

Commodities
Performance in commodities varied in the first quarter, with robust gains in oil, livestock and precious metals partially counterbalanced by declines in natural gas. After finishing 2023 with a generally neutral stance on commodities, we now see potential for this asset class to outperform in 2024, particularly driven by energy commodities.

While US energy production has been on the rise, it has been somewhat offset by recent OPEC+ production cuts. However, the ongoing growth in energy demand is expected to support oil prices. Furthermore, escalating geopolitical tensions and stubbornly high inflation readings may provide a boost to precious metals.

Summary

Financial conditions significantly improved in the fourth quarter, prompting a rebound in risk assets from the previous quarter. In our perspective, investors should maintain full investment at target allocations. Within equities, we still favor quality dividend-paying stocks and identify potential in high-quality smaller-cap stocks. Regarding Fixed Income, we emphasize the importance of active management to capitalize on emerging opportunities. In Real Estate, we see potential in selected REITs. Lastly, our stance on commodities remains generally neutral, with a focus on precious metals.

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Macro Review

Liquidity Cycle

Financial conditions continued to ease in the first quarter of 2024. Credit remained steady and global equities continued their rally as the Fed reaffirmed lower interest rates expectations in 2024. The rate markets are following a near repeat of 2023. Market participants aggressively priced in rate cuts in the fourth quarter, only to be surprised yet again by a slew of strong economic data. As a result, several Fed officials have vocalized uncertainty regarding the amount and timing of rate cuts.

The liquidity impulse in the United States remained robust, with the Treasury maintaining a nearly 6% fiscal deficit during an expansion phase. This has counterbalanced the Federal Reserve's adoption of a more restrictive policy stance and forward guidance since 2022. Over the past 18 months, our team has closely scrutinized the US fiscal impulse, recognizing its potential to sustain growth relative to other regions. As the US presidential election approaches in six months, our analysis of the political incentive structure and the prevailing economic conditions suggests that the growth trajectory may persist.

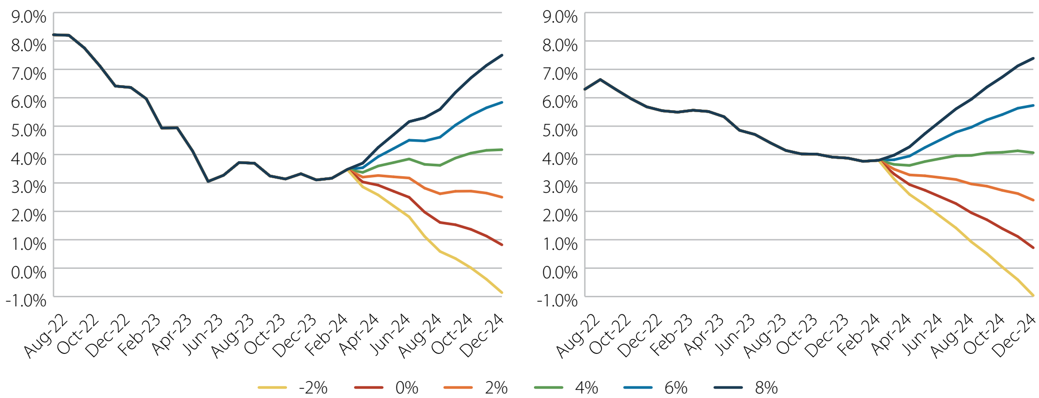
Inflation Cycle

In March, core inflation rose to +0.36% month-over-month (equivalent to a 4.4% annualized run-rate), marking an increase from the previous quarter. Should this inflationary trend persist, core inflation is expected to remain "sticky" within the 3-4% range until the end of the year. Notably, both shelter and core inflation excluding shelter, have demonstrated resilience over the past quarter.

Regarding shelter, it seems that home prices have stabilized. Weekly fluctuations in mortgage applications have surged to levels reminiscent of early 2021, largely in response to reduced interest rates at the beginning of the year. The most recent wage data from Q4 2023 shows a growth rate of 4%, slightly lower than the previous quarter but still surpassing the pre-COVID-19 pandemic average.

Our 2024 outlook suggests both headline and core inflation will likely fall within the 3% to 4% range. There's a possibility of upward pressure on headline inflation, potentially exceeding 4% in late summer, should the commodity complex maintain its strength. Nonetheless, it's important to note that these projected levels of inflation are significantly lower compared to the peaks observed in 2022. If inflation trends towards 2%, albeit at a slower pace than anticipated, interest rate implied volatility is expected to decrease further. This trend would make bonds comparatively more appealing than they have been in recent years.

Expected Headline YoY Inflation at Various MoM Annualized Rates | **Expected Core YoY Inflation at Various MoM Annualized Rates**



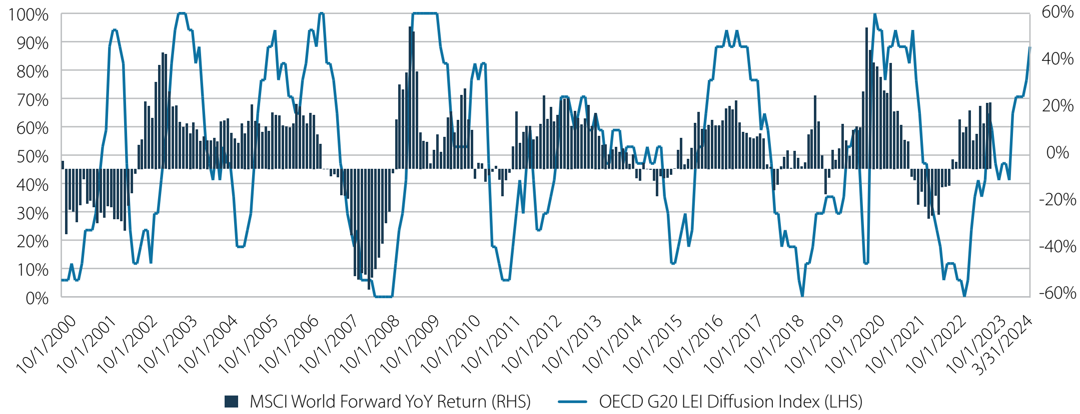
Source: Bloomberg, 8/31/2022 – 1/31/2025
Headline Inflation represented by the Consumer Price Index (CPI) and Core Inflation represented by the Personal Consumption Expenditures Price Index (PCE).

Growth Cycle

The ISM New Orders Less Inventories Index we referred to in last quarter's macroeconomic review proved to be a good leading indicator. March saw the ISM Manufacturing Purchasing Managers' Index (PMI) finally enter expansion territory after enduring 16 consecutive months of contraction. Fiscal dominance, coupled with the existing stock of low-rate, termed-out mortgage debt for consumers and corporates, is fostering additional spending in the US economy—a phenomenon unlikely to occur without the deficits and pandemic financing boom. Consequently, this sustained economic cycle in the United States has outlasted those in other regions.

Looking ahead, economic growth is expanding worldwide. Among the 18 Group of Twenty (G20) countries (excluding Argentina), 88% are reporting positive month-over-month Leading Economic Indicator readings as of the end of March 2024. This diffusion index correlates positively with returns in global equities over the subsequent 12 months. We view this as a potential catalyst for reallocating portfolio exposures towards international developed markets, which offer appealing risk and return prospects relative to the United States.

OECD G20 LEI MoM Diffusion vs Forward 1 Year MSCI World Return



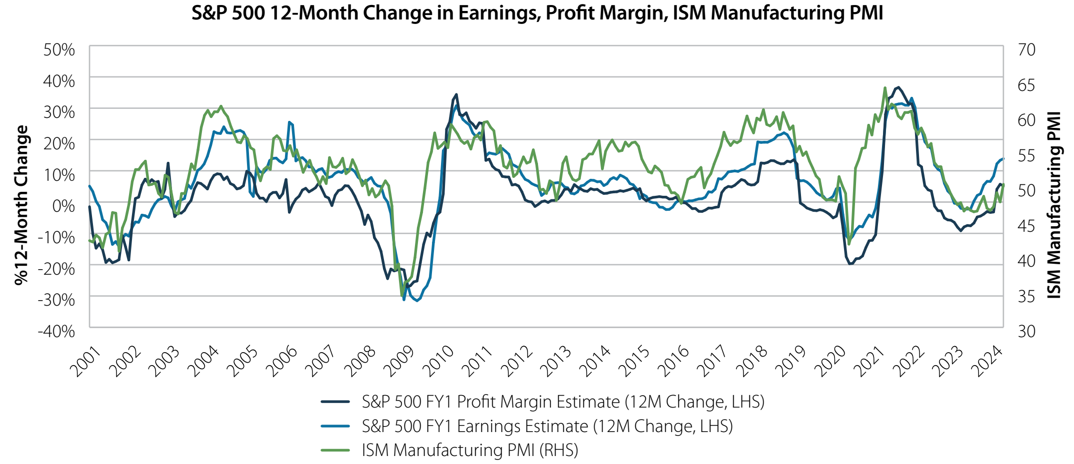
Source: Bloomberg, as of 3/31/2024

Profit Cycle

The earnings recovery continues to show strength. Following an earnings recession in 2022, US Large Cap earnings expectations have surged by +13% over the past 12 months. Similarly, the anticipated profit margin has increased for the first time since Q2 of 2022. With global economic growth poised for acceleration, the profit cycle might be prolonged even further.

However, recent returns and fundamental expectations in equities remain unevenly distributed. While thematic investments in Artificial Intelligence have been prominent, the sustainability of these expectations naturally warrants scrutiny. Portfolios could benefit from judicious employment of active management, particularly as weightings in broad market indices persistently concentrate towards growth companies, potentially at valuations offering less margin for error.

S&P 500 12-Month Change in Earnings, Profit Margin, ISM Manufacturing PMI



Source: Bloomberg, as of 3/31/2024

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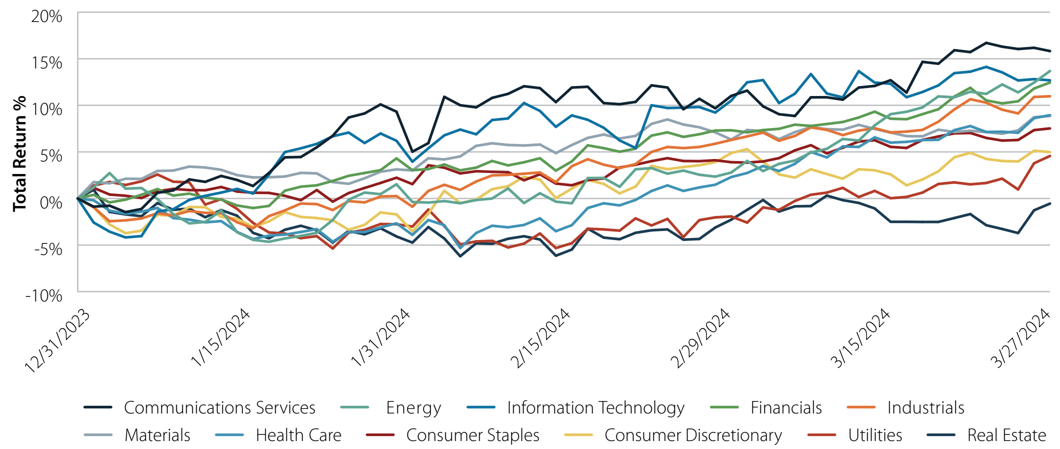
Equities Summary

First Quarter Review

In the first quarter of 2024, a notably favorable climate bolstered stock performance, propelling the S&P 500 into a historically great start to the year. As expected in such a buoyant market, defensive sectors like Real Estate and Utilities trailed their counterparts. Particularly noteworthy was the strong performance of the Energy sector, driven by rising oil prices and the volatile geopolitical landscape. The quarter culminated with the S&P 500 achieving an impressive 10.55% gain, the Nasdaq 100 Index at 8.72% and the Dow Jones Industrial Average recording a solid 6.14% increase.

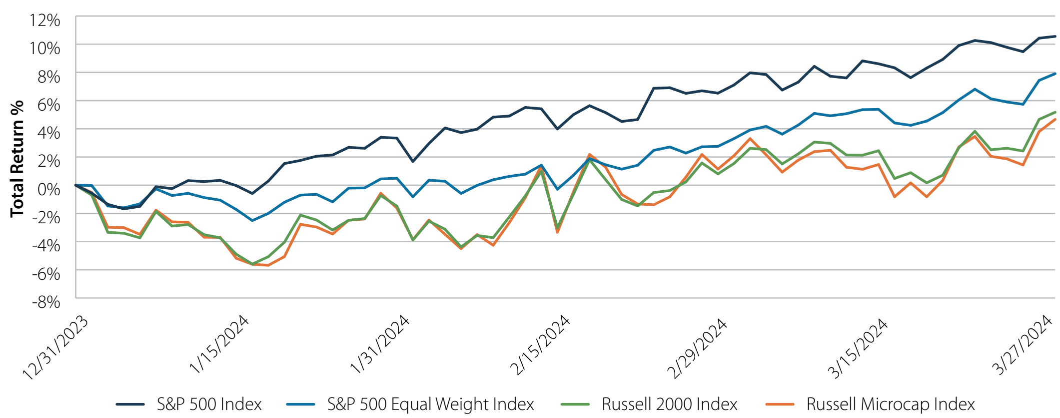
S&P 500 Returns by Sector



Source: Bloomberg, 12/31/2023 – 3/31/2024
Past performance is no guarantee of future results.

In the current environment of elevated interest rates, stocks with larger market capitalizations maintain an advantage over their counterparts due to typically lower leverage, although stocks across the size spectrum performed well this quarter. With oil prices on the rise and inflation persisting above the Federal Reserve's 2% target, we anticipate this trend of outperformance to endure. However, it's important to acknowledge that a shift in monetary policy could potentially reverse the prevailing conditions.

S&P 500 Returns by Market Cap

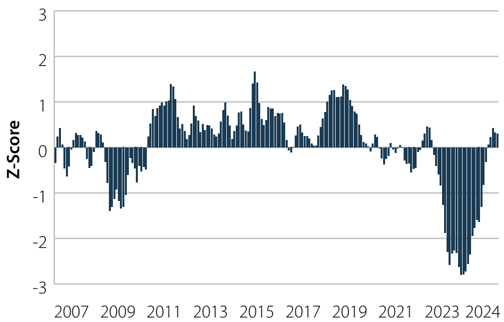


Source: Bloomberg, 12/31/2023 – 3/31/2024
Past performance is no guarantee of future results.

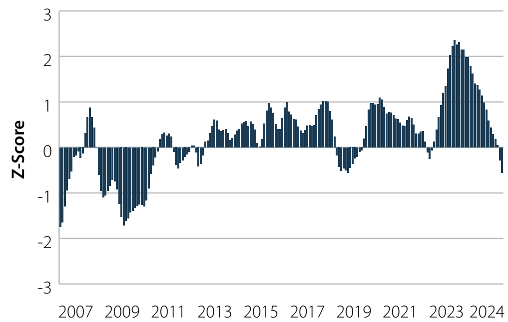
Second Quarter Outlook

Reviewing our factor charts, we observe the overall neutrality of most indicators except for free cash flow volatility and market capitalization. It's evident that higher interest rates have had a detrimental effect on small-cap and cyclical stocks. With inflation showing signs of persistence and the reduced probability of future Federal Reserve interest rate cuts, we anticipate this trend to continue. Spreads have widened sufficiently in both categories, prompting us to adopt a cautious stance and await a policy change before betting on normalization – better to be a little late than wrong. We find higher-quality small-cap stocks compelling, as the valuation gap persists even when filtering for quality.

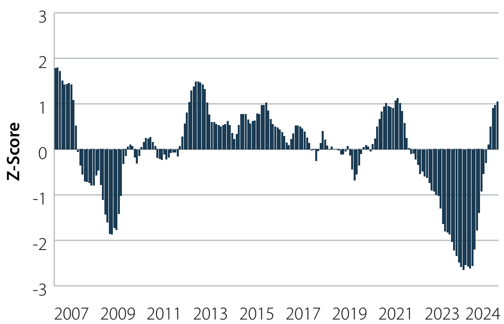
Valuation Spread Between Top and Bottom Quintiles Based on Quality



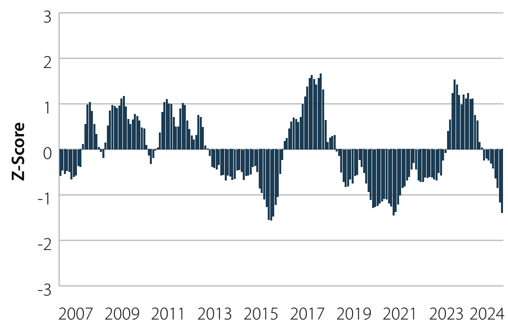
Valuation Spread Between Top and Bottom Quintiles Based on Leverage



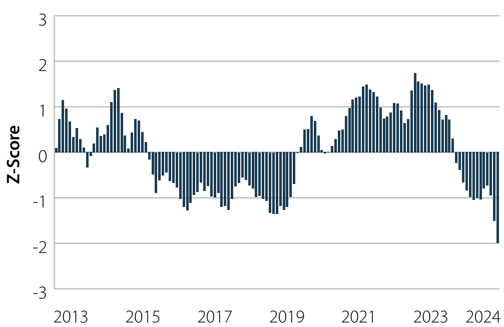
Valuation Spread Between Top and Bottom Quintiles Based on Growth



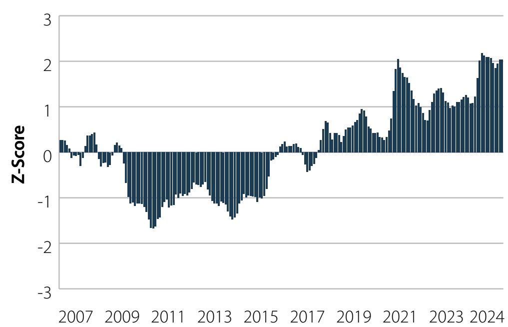
Valuation Spread Between Top and Bottom Quintiles Based on Dividend Yield



Valuation Spread Between Top and Bottom Quintiles Based on FCF Volatility



Valuation Spread Between Top and Bottom Quintiles Based on Market Cap



Source: Bloomberg, Bloomberg US 1000 Index, 12/31/2007 – 3/31/2024

We maintain our belief that a significant difference between the present economic environment and the decade preceding the pandemic is the impact of fiscal policy in shaping markets, contrasting the previous predominant reliance on monetary measures. This transition will likely continue to produce different winners in the future compared to historical trends. While the latest uptick in ISM data reinforces this thesis, we are mindful that we may be approaching the end of a cycle rather than its beginning and are attentive to potential challenges associated with refinancing and the possibility of increasing unemployment. Consequently, we are actively monitoring emerging developments.

Navigating conflicting signals and growth drivers, our focus remains on maintaining a foundation rooted in quality and dividends, irrespective of the sector. Should growth persist or accelerate, these stocks are poised to reap the benefits. Conversely, in the face of potential downside risks materializing, these stocks function as a protective shield.

Additionally, we advocate for a broad preference for international exposure, driven by the advantages of diversification, more appealing valuations and the potential weakening of the dollar following the conclusion of rate hikes. In the event of this scenario unfolding, foreign exchange dynamics could act as a favorable tailwind for international markets.

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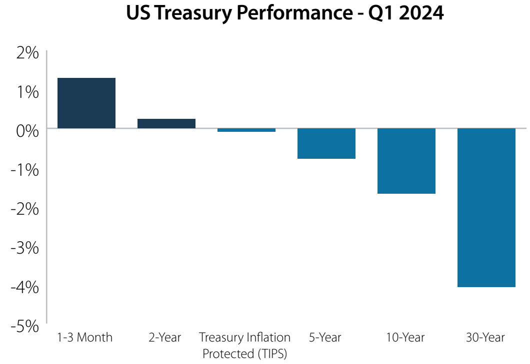
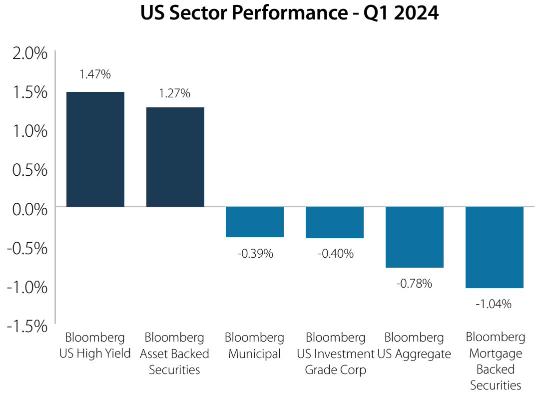
Fixed Income Summary

First Quarter Review

After experiencing strong returns to conclude 2023, most Fixed Income investments saw modestly negative returns in the first quarter of 2024. Losses primarily occurred in longer duration sectors, driven by a resurgence in intermediate and longer-term Treasury yields. The benchmark 10-year Treasury yield rose by 25 basis points, closing the quarter at 4.20%. The catalyst for this yield increase was stronger-than-expected economic data, particularly concerning inflation, consumer spending and economic growth. The core bond market, represented by the Bloomberg US Aggregate Bond Index, declined by -0.78% during the quarter. Nonetheless, shorter-duration rate and credit sectors recorded positive returns:





Source: Bloomberg, total returns 12/31/2023 – 3/31/2024
Past performance is no guarantee of future results.

Policy Analysis and Implications for Q2 2024

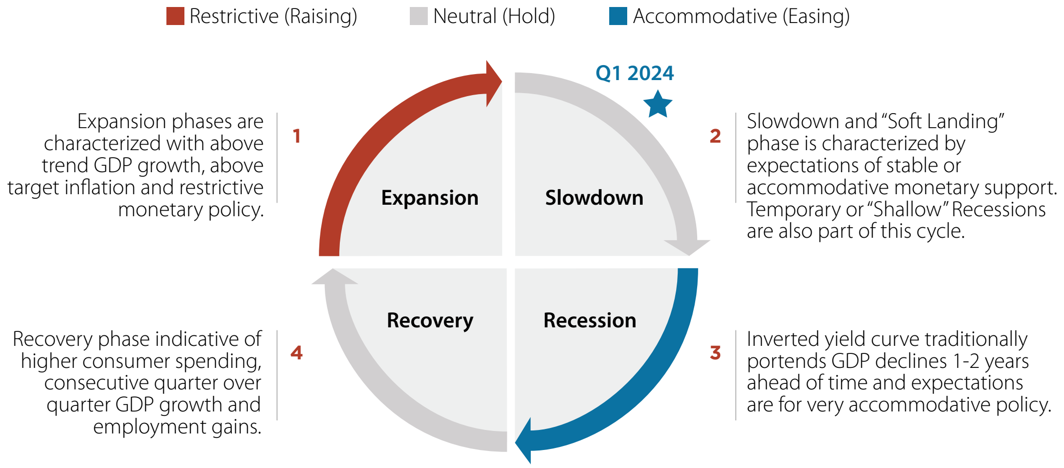
Entering 2024, the Federal Reserve had initially forecast up to 125 basis points in rate cuts for the year. However, by the end of the quarter, the market's expectation for rate cuts had decreased significantly to only 50 basis points. The Fed acknowledged the re-emergence of "stickier" inflation, driven by service-level inflation gauges, which notably include the housing and rental sectors. Additionally, geopolitical risks have heightened the possibility of increased headline energy and food inflation. Consequently, in the first Fed meeting of Q2 on May 1st, the market is now pricing in yet another adjustment of Fed projections, potentially reducing expectations to just one 25 basis point rate cut.

Despite the volatility driven by the Fed's projections, what has truly changed over the past year? Spoiler alert: not much. Short-term rates have remained steady at 5.50% since Q2 of 2023. Many of the same macro and policy risks from last year persist into 2024. Among these, the economy's resilience to support wage gains and spending remains crucial, potentially leading to stickier inflation contrary to expectations and potentially contradicting the Federal Reserve's forward guidance on slower inflation, higher unemployment and/or real GDP growth. Data that supports the Fed's notion that the economy is, or will be, slowing includes statistics in the job market. The unemployment rate seems to have reached its lowest point as job growth has decelerated, coinciding with a resurgence of workers entering the workforce.

There are also new sets of risks for 2024, encompassing concerns regarding the record national debt, the national elections and the level of fiscal spending. We believe that all of these risks will contribute to an environment that could heighten economic risks further and potentially increase volatility in fixed income prices. However, they may also offer a tailwind for bond investors in the long run.

Given a balanced risk baseline, the foundation of an overall constructive outlook for fixed income in 2024 relies on the convergence of the business cycle transition with a shift in monetary policy—whose timing remains uncertain. A broad overview of this framework is depicted in the adjacent chart, indicating an estimate of our position within the cycle:

Federal Reserve Policy and Business Cycle Progression

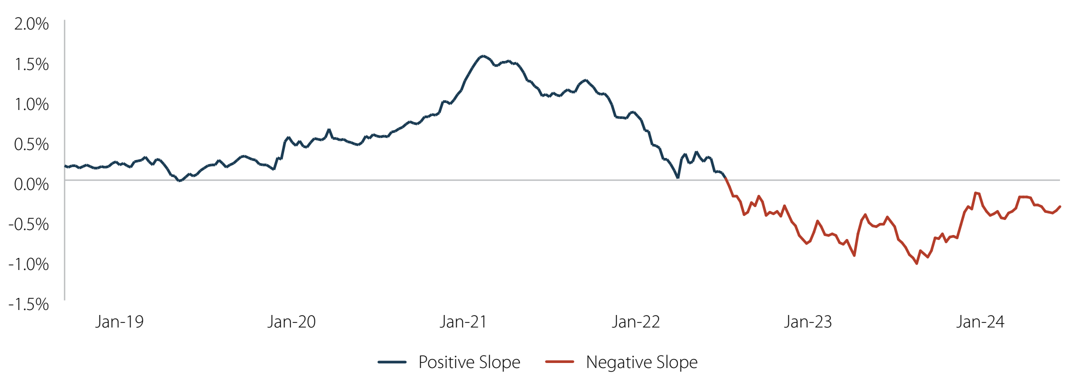


For Illustrative Purposes Only

Yield Curve

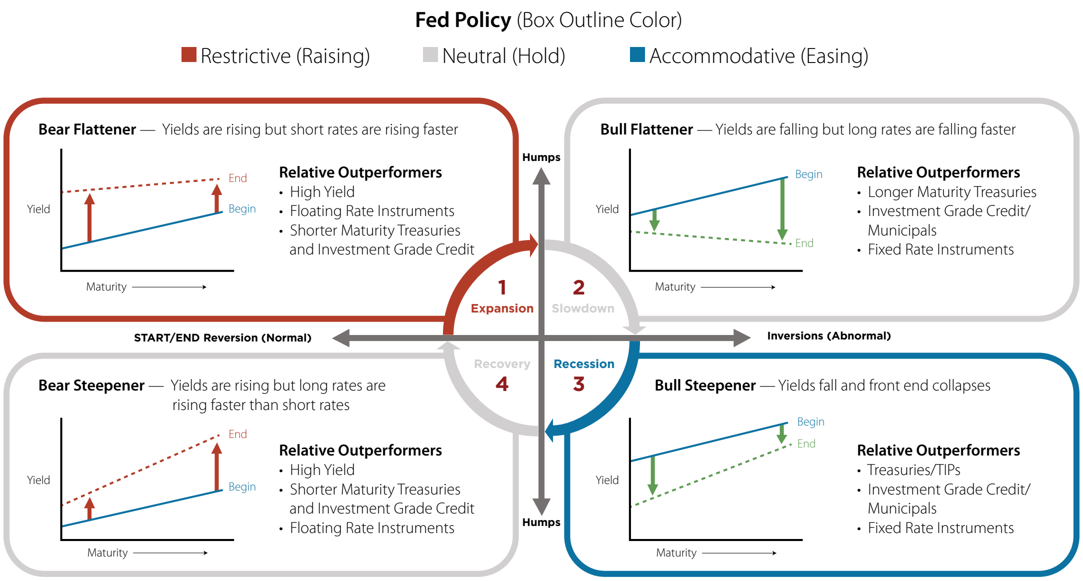
Amidst the flurry of current surprise economic data and Federal Reserve statements, it's important to note that the yield curve persists in flattening as it progresses toward normalization. Although the timing remains highly uncertain and could prolong under a "higher for longer" scenario, market participants anticipate slower growth this year. While short-term rate hikes and 3-4% inflation haven't significantly impacted a robust consumer balance sheet, loan growth has decelerated due to higher interest rates, particularly in the mortgage market. Additionally, new corporate issuance faces higher coupon costs as refinancing needs increase later this year and into 2025. Historically, the optimal annual returns for bonds occur when the yield curve becomes positively sloped and policy is supportive. However, we have not reached that stage just yet.

Slope of the Yield Curve
Constant 10-Yr Maturity Treasury Minus Constant 2-Yr Maturity Treasury



Source: Federal Reserve Economic Data-FRED, 10-Year Treasury constant maturity minus the 2-Year Treasury constant maturity yield, 1/23/2019 – 3/27/2024

Historically, fixed income has delivered positive returns in later business cycle environments, particularly in quadrants 2 and 3 as depicted in the chart below. The implications for positioning in an environment where the yield curve flattens and subsequently begins to steepen are similar:



For Illustrative Purposes Only

While we maintain our belief that 2024 will mark the year of Yield Curve Normalization—wherein the yield curve returns to its typical upward sloping shape—the first half of 2024 is unlikely to witness this transition. The bond market's expectations have oscillated significantly heading into 2024, and it now appears more accurately priced for either quadrant 2 or 3. Furthermore, it is premature to determine whether the Fed will achieve a "soft landing" for the economy, a feat rarely accomplished. Risks of recession persist, along with the potential for additional rate hikes if inflation spikes again. In this scenario, however, strong GDP growth well above trend levels is less likely.

Recommendations

In the current environment characterized by higher rates resulting from changing demographics and persistent inflation, the role of fixed income within an asset allocation framework becomes increasingly vital as an equity stabilizer over intermediate time frames. Moreover, the need for income becomes more pronounced as rates level off, stabilize within a range or potentially decline later in 2024 as predicted by the market. While shorter-term correlations between US Treasuries and the S&P 500 have shown positive trends, longer-term correlations continue to demonstrate the diversifying properties with negative correlations. However, in this evolving landscape (since the COVID-19 Pandemic and given the ongoing rise in Treasury debt), we believe that returns from the Bloomberg US Aggregate Bond Index do not fully capture the benefits of active positioning, the advantages of diversification (especially considering that two-thirds of the Index comprises US Government-related debt) and certainly do not represent the array of options available to investors.

Furthermore, we perceive current valuations as generally expensive across most sectors, albeit with a few exceptions. Given the backdrop of higher inflation and the absence of certainty regarding a soft landing, there appears to be potential for the 10-year benchmark Treasury to revert to recent highs around 5%. In other words, we contend that active fixed income management will be critical in the upcoming year, even more so than in 2023.

Therefore, we reiterate the mantra—stay invested, stay protected and stay flexible. However, we also recommend initiating the following actions in Q2 as market conditions permit:

- Selectively extend duration into the Core (Intermediate sectors)
- Upgrade in Credit Quality
- Move into certain sectors with better valuations (our favorites would be **Agency Mortgages (MBS)** and higher quality (AAA/AA) **Asset-Backed Securities (ABS)**)

Stay Invested – slower economic growth, higher coupon income and moderating policy impacts can support a positive return for Fixed Income in 2024.

Stay Protected – higher quality securities and some longer duration Treasuries can offer protection in the event of a recession scenario.

Stay Flexible – maintaining front-end liquidity through short-duration assets can provide a relatively attractive real rate income stream if inflation persists throughout the quarter and the "higher for longer" phase fully prices out rate cuts for 2024 (which is not currently the case).

While we still advocate for overweighting shorter credit duration securities, we believe it is now appropriate to gradually decrease that allocation and increase exposure to the belly, or core, duration segment of the curve, which we previously underweighted. With the Fed signaling its intention that short rates may have peaked, the odds increase that active management will be able to get back to its knitting – picking the right bonds.

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Real Estate Summary

First Quarter Review

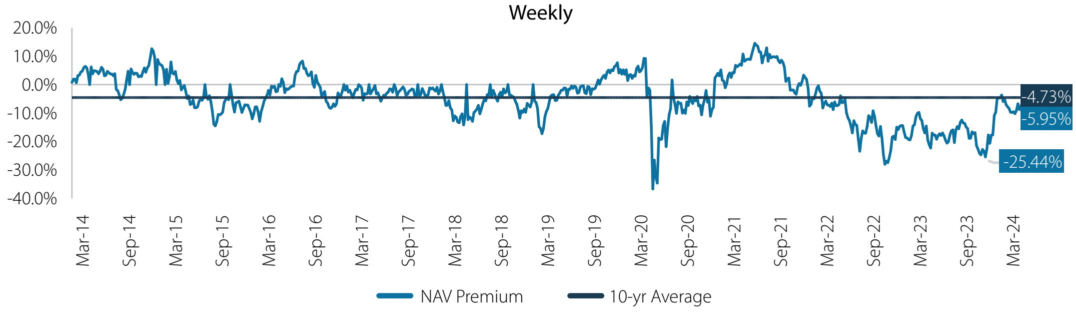
REIT returns were mixed in Q1 2024, with the FTSE NAREIT All Equity REITs returning -1.3% and 8.02% for the prior twelve months. Lodging (5.63%), Data Centers (4.72%) and Specialty (11.47%) were bright spots for the quarter, while Cell Towers (-8.78%), Industrial (-2.51%), Self-Storage (-4.84%) and Diversified (-10.43%) were laggards.

REIT Indices	QTD *1/1/2024 - 3/31/2024*	1 Year *4/1/2023 - 3/31/2024*
FTSE NAREIT All Equity REITs	-1.30	8.02
REIT Sector Indices		
Residential		
FTSE NAREIT Equity Residential	0.30	5.83
Retail		
FTSE NAREIT Equity Retail	0.62	12.92
Lodging		
FTSE NAREIT Equity Lodging/Resorts	5.63	27.10
Office		
FTSE NAREIT Equity Office	-0.49	20.67
Industrial Warehouses		
FTSE NAREIT Equity Industrial	-2.51	5.68
Technology - Cell Towers and Data Centers		
FTSE NAREIT Infrastructure REITs	-8.78	-7.23
FTSE NAREIT Equity Data Centers	4.72	27.36
Health Care		
FTSE NAREIT Equity Health Care	-1.13	12.55
Self-Storage		
FTSE NAREIT Equity Self Storage	-4.84	-0.42
Diversified		
FTSE NAREIT Equity Diversified	-10.43	-16.46
Specialty		
FTSE NAREIT Equity Specialty	11.47	31.93

Source: Morningstar, as of 12/31/2023, returns presented are total return
Past performance is no guarantee of future results.

REIT net asset value (NAV) premiums ended the quarter at -5.95% and appear to have stabilized near the 10-year average of -4.73% as investors adjusted valuations from changes in rates and secular changes in real estate.

Green Street NAV Premium
Weekly

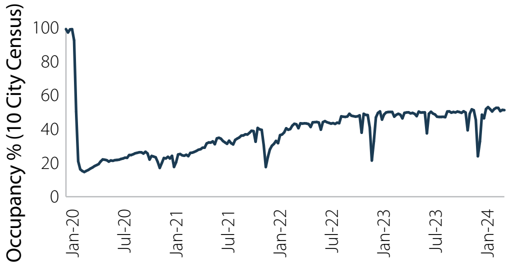


Source: Green Street, as of 3/31/2024

The office market continues to face significant headwinds as workers prefer work-from-home or hybrid arrangements when made available with office occupancies cresting at 50%. Office vacancy rates hit a staggering 19.8% nationally at the end of the quarter, an increase of 50% since 2019, with little indication that the trend has crested. Assuming pre-COVID-19 absorption trends, Green Street estimates an optimistic scenario of five years to refill offices to normalized vacancy levels. Using a less optimistic and more likely projection of pre-COVID-19 absorption and <1% increase in square footage, they estimate an ***eight-year timeframe*** for normalization.[1]

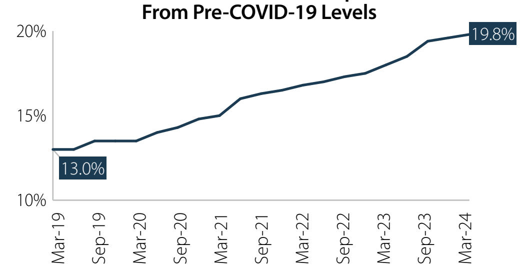
It is highly unlikely that office-to-residential could materially impact vacancies and absorption rates as around 50 million square feet would need to be converted to achieve ~1% improvement in office occupancy. With conversion costs estimated to be $500 per square foot, this effort would require a collective $25 billion investment.

Kastle Back to Work Barometer



Source: Bloomberg, as of 3/31/2024

US Office Vacancies Are Up 50% From Pre-COVID-19 Levels



Source: Moody's, Cushman & Wakefield, as of 3/31/2024

Publicly listed REITs generally have solid balance sheets, with low leverage ratios, healthy debt/EBITDA ratios, a high percentage of fixed debt, low debt costs and sufficient refinancing windows, with Office, Retail, Lodging and Health Care as notable exceptions.

	REIT Sector Balance Sheet Data As of 3/31/2024				
Sector	**Leverage Ratio**	**Debt/EBITDA**	**% Debt Fixed**	**Wtd Avg Time to Maturity**	**Wtd Avg Cost Fixed Rate**
RESIDENTIAL					
Apartment	29.94%	6.03	92.39%	6.04	3.95%
Single-Family Rental	28.07%	5.20	98.84%	6.48	3.90%
Manufactured Home	29.93%	5.57	89.55%	9.07	3.88%
LODGING	39.05%	3.86	62.27%	3.27	4.86%
RETAIL					
Mall	45.35%	6.78	96.23%	5.29	4.54%
Strip Center	37.56%	5.73	91.92%	4.70	4.31%
OFFICE	48.38%	7.68	83.16%	4.51	3.75%
INDUSTRIAL	22.61%	4.58	89.53%	5.40	3.56%
CELL TOWERS	22.61%	4.58	89.53%	5.40	3.56%
DATA CENTERS	34.42%	5.81	88.78%	6.40	2.75%
HEALTH CARE	42.45%	6.58	90.05%	4.89	4.08%
SELF-STORAGE	28.44%	4.73	87.23%	5.63	3.71%

[1] *Sources: CBRE, Green Street, as of 12/31/2023*

Second Quarter Outlook

As we previously noted, public REITs continue to generate healthy operating income growth and we expect this trend to continue over the coming 12 months as real estate operators leverage attractive locations, strong balance sheets, a low cost of capital and rent increases. Residential, Industrial and Data Centers all have structural demand tailwinds and valuations remain attractive. We have a less favorable outlook for Office, Retail and Lodging as they face longer-term capital structure and valuation challenges.

We are noticing more mergers and acquisitions (M&A) and take-private activity, as private equity investors identify mispriced assets with opportunities to recapitalize and enhance Net Operating Income growth. We anticipate that this activity could be favorable for REITs, especially sectors that are currently out of investor favor.

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Commodities Summary

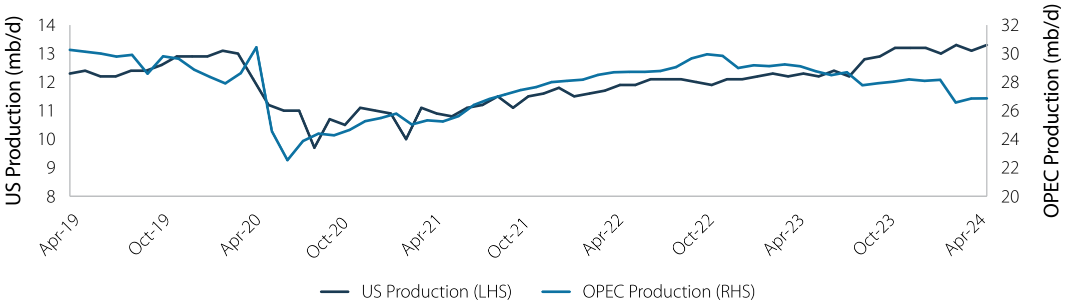
First Quarter Review

In our fourth quarter outlook, we highlighted the International Energy Agency's (IEA) cautious stance on oil alongside our bullish sentiment towards precious metals amidst escalating geopolitical tensions. While precious metals performed as projected, exhibiting a 7% increase in Q1 and a robust 15% year-to-date uptick at the time of this writing, oil surpassed expectations by surging 16% in the front-month WTI contract during Q1. However, a significant decline in natural gas prices dragged down overall returns in energy commodities, resulting in a modest 5% gain for the quarter. Agriculture and industrial metals experienced slight declines, though industrial metals have already rebounded by 7% in April, while livestock recouped its Q4 losses with a solid 10% return in Q1. Despite positive economic growth and persistent inflation pressures, the overall commodity returns for the quarter stood at 2%.[2]

Second Quarter Outlook

We are upgrading our broad commodities outlook to overweight. The sustained strength in the US economy and the potential for heightened tensions in the Middle East suggest that energy commodities, the largest of the five commodities sectors, may be poised for a breakout. The IEA's revised perspective, pointing to a markedly tighter supply/demand equilibrium amidst an optimistic global economic outlook, further reinforces this viewpoint.[3] Although US production has recently reached record highs, OPEC+ has extended production cuts beyond initial expectations, signaling a readiness to yield ground to non-OPEC participants in pursuit of bolstering prices.[4]

As OPEC Extends Cuts, US Production Remains Elevated



Source: Bloomberg, US Department of Energy, 3/31/2019 – 3/31/2024
Note: Angola left OPEC effective January 2024. To avoid misrepresenting oil production as falling due to Angola's exclusion from the data, Angola's production numbers from December 2023 (most recent available) were carried forward through March 2024 and added to the OPEC production numbers shown above.

In the previous quarter, we highlighted precious metals as potential beneficiaries of escalating geopolitical tensions, a forecast that has materialized, resulting in a 15% year-to-date return.[2] Upside inflation surprises are likely contributing to this trend, particularly within the context of potential rate cuts and accommodative monetary policies. Despite gold prices climbing 30% from their lows in October to April 11th, gold as an asset class continues to experience outflows.[5]

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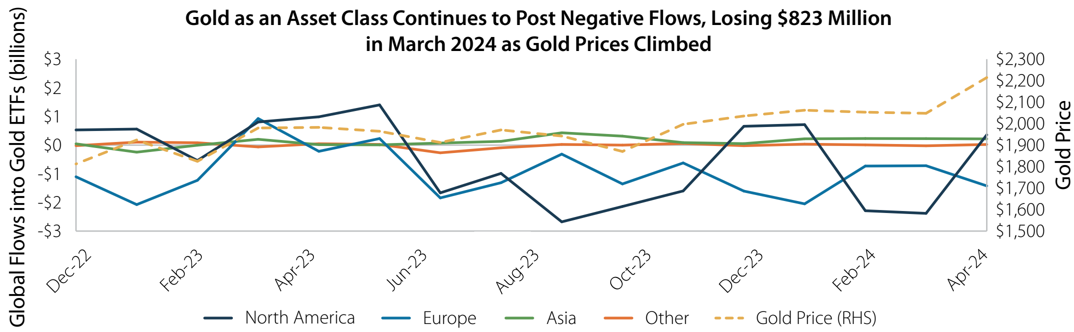
[2] *Performance data source: Bloomberg, Q1: 12/31/2023 - 3/31/2024; YTD: 12/31/2023 - 4/11/2024. The energy sector proxy used for this analysis is the Bloomberg Energy Subindex Total Return (BCOMENTR Index). The precious metals proxy is the Bloomberg Precious Metals Subindex Total Return (BCOMPRTR Index). The industrial metals sector proxy is the Bloomberg Industrial Metals Subindex Total Return (BCOMINTR Index). The agriculture sector proxy is the Bloomberg Agriculture Subindex Total Return (BCOMAGTR Index).*

[3] *IEA forecast and quote source: IEA Oil Market Report, March 2024*

[4] *OPEC+ production cuts source: US Energy Information Administration (US EIA) Short-Term Energy Outlook, April 2024. Record US production data sourced from Bloomberg, with the reading of 13.3mb/d on 1/19/2024 matching previous record set in December.*

[5] *Price change in gold source: Bloomberg, 10/5/2023 - 4/11/2024*

Should this trend reverse, gold could experience another upward surge. Presently, we anticipate that precious metals might undergo a slight pullback in the near term, possibly triggered by a weak inflation figure or news pertaining to the easing of geopolitical tensions. However, this adjustment does not alter our longer-term outlook, which continues to factor in persistent inflationary pressures and escalated geopolitical risks worldwide, both of which typically result in higher prices for precious metals.



Source: World Gold Council, 12/2022 – 3/2024

Risks to Outlook

In the previous quarter, we highlighted the risk of escalation involving state actors in the Middle East, such as Iran or Saudi Arabia, which could result in stronger performance in the energy sector than initially anticipated. While this escalation has manifested in an ongoing tit-for-tat between Israel and Iran, energy markets have largely remained calm despite the looming threat of a significant conflict. With our current forecast factoring in an increase in energy prices, a de-escalation of hostilities now poses a downside risk to our projections.

Recent strong inflation data releases serve as a reminder that the Federal Reserve's dual mandate may not be fully met yet. We maintain a cautious stance regarding the potential risk, albeit seemingly small, of elevated interest rates triggering a crisis within the financial system. Although high inflation frequently aligns with increased commodity prices, crises within the financial sector have a tendency to spill over into the real economy.

Definitions

Basis Point (bps): a unit that is equal to 1/100th of 1% and is used to denote the change in a financial instrument.

Bloomberg Agriculture Subindex (BCOMAGTR Index): formerly known as the Dow Jones-UBS Agriculture Subindex (DJUBAGTR), the index is a commodity group subindex of the Bloomberg CITR. The index is composed of futures contracts on coffee, corn, cotton, soybeans, soybean oil, soybean meal, sugar and wheat. It reflects the return on fully collateralized futures positions and is quoted in USD.

Bloomberg Intermediate US High Yield Index: measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. The intermediate duration segment of the index includes bonds with maturities of 1 to 10 years.

Bloomberg Energy Subindex (BCOMENTR Index): a commodity index composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas. It reflects the return of underlying commodity futures price movements only and is quoted in USD.

Bloomberg Industrial Metals Subindex (BCOMINTR Index): reflects the returns that are potentially available through an unleveraged investment in the futures contracts on industrial metal commodities.

Bloomberg Municipal Index: serves as a benchmark for the US municipal bond market.

Bloomberg Precious Metals Subindex (BCOMPRTR Index): reflects the returns that are potentially available through an unleveraged investment in the futures contracts on precious metals commodities. The Index currently consists of two precious metals commodities futures contracts (gold and silver).

Bloomberg US 1000 Index: a float market-cap-weighted benchmark of the 1000 most highly capitalized US companies.

Bloomberg US Aggregate Bond Index: a broad-based benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, fixed-rate agency MBS, ABS and CMBS (agency and non-agency).

Bloomberg US Asset-Backed Securities Index: a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index only includes ABS securities.

Bloomberg US Corporate Bond Index: measures the investment grade, fixed-rate, taxable corporate bond market.

Consumer Price Index (CPI): a measure of the average change over time in the prices paid by urban consumers for a representative basket of consumer goods and services.

Debt-to-EBITDA Ratio: compares a company's total obligations to the actual cash the company brings in from its operations. It reveals how capable the firm is of paying its debt and other liabilities if taxes and the expenses from depreciation and amortization are deferred.

Dow Jones Industrial Average: a stock market index of 30 prominent companies listed on stock exchanges in the United States. The DJIA is one of the oldest and most commonly followed equity indexes.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA): a measure of a company's overall financial performance.

FTSE NAREIT All Equity REITs Index: a free-float adjusted, market capitalization-weighted index of US equity REITs. Constituents of the index include all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets other than mortgages secured by real property.

FTSE NAREIT Equity Data Centers Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Data Center REITs in the parent index.

FTSE NAREIT Equity Diversified Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Diversified REITs in the parent index.

FTSE NAREIT Equity Health Care Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Health Care REITs in the parent index.

FTSE NAREIT Equity Industrial Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Industrial REITs in the parent index.

FTSE NAREIT Equity Lodging/Resorts Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Lodging/Resorts REITs in the parent index.

FTSE NAREIT Equity Office Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Office REITs in the parent index.

FTSE NAREIT Equity Residential REIT Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Equity Residential REITs in the parent index.

FTSE NAREIT Equity Retail Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Retail REITs in the parent index.

FTSE NAREIT Equity Self Storage Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Self Storage REITs in the parent index.

FTSE NAREIT Equity Specialty Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Specialty REITs in the parent index.

FTSE NAREIT Infrastructure REITs Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Infrastructure REITs in the parent index.

Group of 20 (G20): an intergovernmental forum comprising 19 sovereign countries, the European Union (EU) and the African Union (AU).

Investment Grade (IG): a rating that signifies that a municipal or corporate bond presents a relatively low risk of default. To be considered an investment grade issue, the company must be rated at 'BBB' or higher by Standard and Poor's or Moody's. Anything below this 'BBB' rating is considered non-investment grade.

ISM Manufacturing Inventories Index: a monthly indicator of US inventory levels. A reading over 50 shows inventories have risen from the previous month while a reading below 50 shows a decline in inventories.

ISM Manufacturing New Orders Index: shows the number of new orders from customers of manufacturing firms reported by survey respondents compared to the previous month. A reading over 50 shows orders have risen from the previous month while a reading below 50 shows a decline in orders.

ISM Manufacturing PMI: measures the change in production levels across the US Economy from month to month.

Kastle Back to Work Barometer: a measure of current average weekly (first time a day) swipe activity across a 10-city sample of commercial office buildings which utilize Kastle building security, compared to a weekly average from before office use dropped due to COVID-19. The 10-city sample includes: Houston, Chicago, Austin, New York, Dallas, Los Angeles, San Francisco, Washington D.C., San Jose and Philadelphia.

MSCI World Index: measures the performance of equity markets across developed countries.

NASDAQ 100 Index: one of the world's preeminent large-cap growth indexes. It includes 100 of the largest domestic and international non-financial companies listed on the Nasdaq Stock Market based on market capitalization.

OECD G20 LEI Diffusion Index: reflects the proportion of countries whose composite leading indicators are rising or remain unchanged year over year.

Personal Consumption Expenditures Price Index (PCE): a measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services. The PCE is known for capturing inflation (or deflation) across a wide range of consumer expenses and reflecting changes in consumer behavior.

Definitions (continued)

Purchasing Managers' Index (PMI): an index of the prevailing direction of economic trends in the manufacturing and service sectors. It consists of a diffusion index that summarizes whether market conditions, as viewed by purchasing managers, are expanding, staying the same, or contracting.

Real Estate Investment Trust (REIT): companies that own or finance income-producing real estate across a range of property sectors. Listed REITs have characteristics of both the income potential of bonds and growth potential of stocks.

Russell 2000 Index: measures the performance of the small-cap segment of the US equity universe.

Russell Microcap Index: measures the performance of the microcap segment of the US equity market.

S&P 500 Equal Weight Index: the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the index is allocated a fixed weight.

S&P 500 Index: widely regarded as the best single gauge of large-cap US equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

Z-Score: a numerical measurement that describes a value's relationship to the mean of a group of values, measured as standard deviations from the mean. If a Z-score is 0, it indicates that the data point's score is identical to the mean score. A Z-score of 1.0 would indicate a value that is one standard deviation from the mean.

One may not invest directly in an index.

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