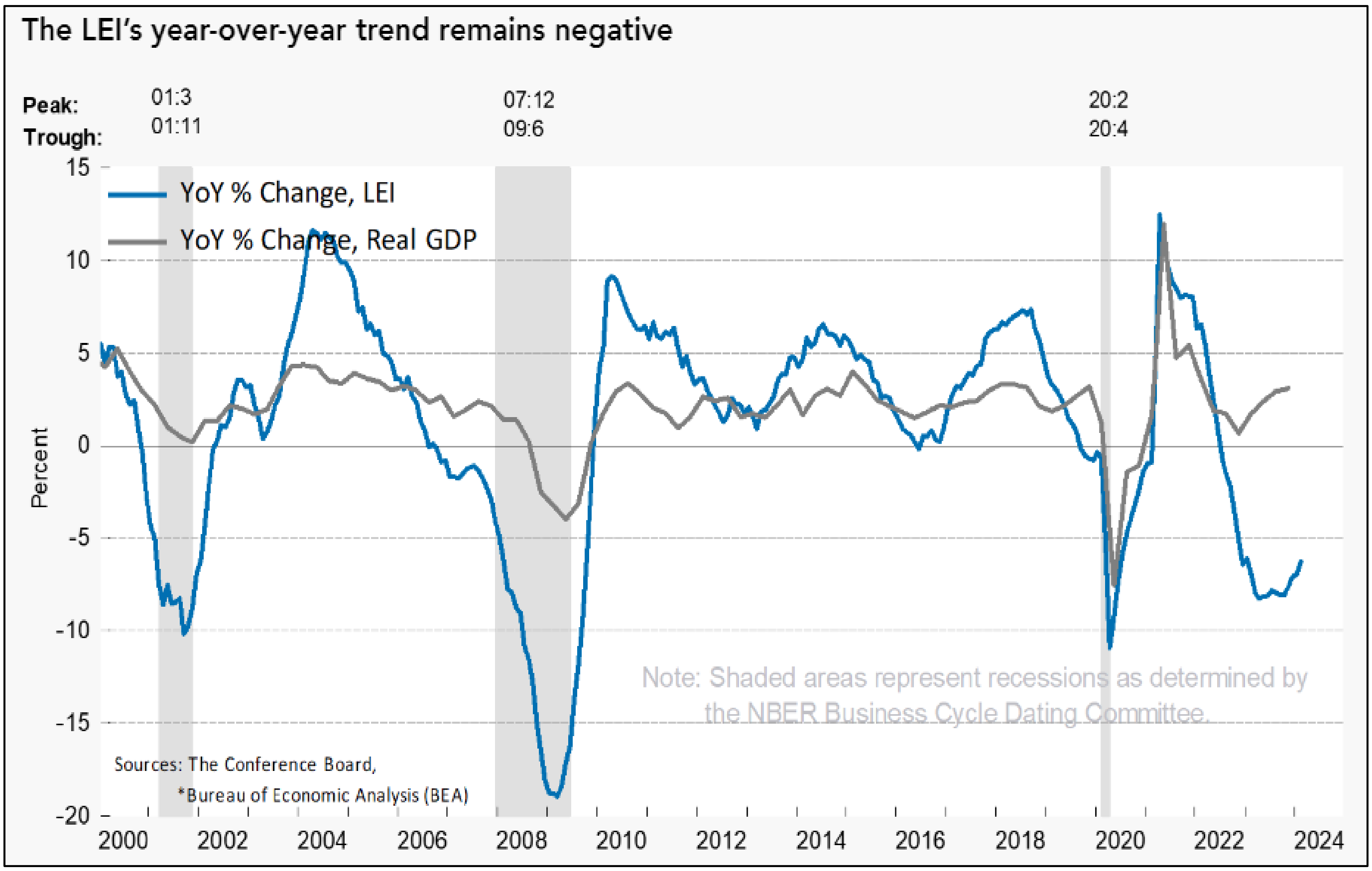
MARKET UPDATE

Fiduciary Financial Group

In Q1’2024, the market exhibited varied performance across asset classes and sectors, presenting both opportunities in some areas and challenges in others. Notably, U.S. stocks surged ahead, with the All-Cap Russell 3000 Index posting a year-to-date (YTD) return of +10.02%, underpinned by improving, although still relatively weak, leading economic indicators (“LEIs”)[i]. This performance was starkly contrasted by renewed pains in the Bond & REIT markets.

indexes fared poorly in 2022, both the Russell 3000 and MSCI All-World Ex-US indexes are back in the green over that same 27-month timeframe, which highlights the underperformance of public real estate stocks since the beginning of the 2022 downturn. Higher interest rates, rapidly declining office demand, and inflation in the construction category are putting an enormous strain on many of these companies.

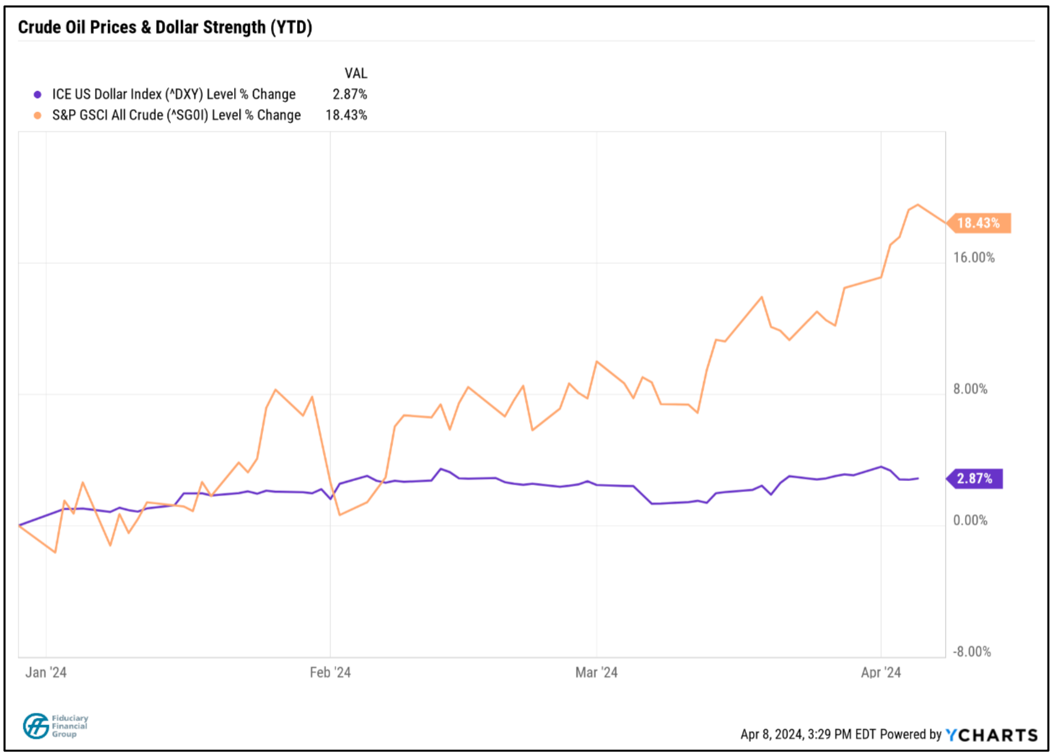


The Bloomberg Aggregate U.S. & International Bond Indexes saw declines of <0.78%> & <2.07%> YTD, reflecting moderating expectations on the size and scope of Central Bank interest rate cuts in 2024 as compared to what was expected at the onset of the calendar year.

A $10,000 investment in the FTSE Global REITs Index made on 1/1/2022, would now only be worth $8,250 (inclusive of dividends) – a cumulative loss of ~17.5% in 27 months. While almost all US & Foreign stock

On the residential real estate side, while some markets remain strong, the median price of an existing home has dropped ~7% from the peak set in Jun’22. Some of this decline may be driven by seasonality as prices tend to be highest in the summer months, but elevated mortgage rates and painful inflation in consumers’ other spending categories has also decreased demand. Many real estate economists view that the downturn would be far worse, but unemployment rates and listing inventories have remained VERY low thus far in 2024, which tend to bolster demand and restrain supply.

Globally, the divergence in performance was evident as stocks outside the U.S. experienced more moderate gains, with a YTD return of 4.53% for the MSCI All World Ex-US Index. Emerging markets posted a modest gain of 2.09% YTD, facing headwinds from the ongoing recession in China (the largest country weighting in most EM Indexes) and a stronger dollar. The ICE US Dollar Index increased ~3% in the first quarter. Emerging economies, which are often forced to borrow in dollars, tend to struggle when the U.S. Dollar strengthens against their sovereign currencies.



Sector-wise, the energy segment of the S&P 500 led with an impressive 13.51% YTD return, fueled by rising oil prices (+18%) and supply constraints. The technology sector, while significant in market weight, produced an 8.38% YTD return, slightly below that of the broad market.

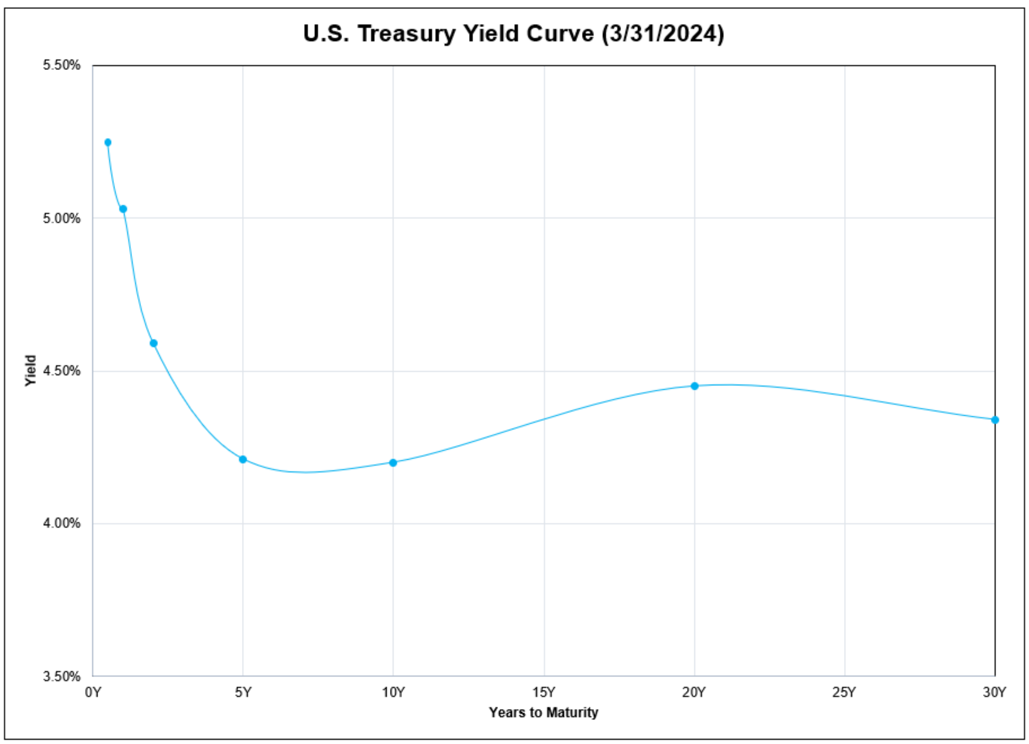
After "across the board" dominance from the Mag 7 in 2023 (Apple, Microsoft, Nvidia, Amazon, Google, Tesla, and Meta), only 5 of these companies were positive in Q1'24, with AAPL and TSLA giving up ground as investors reassessed valuations amidst shifting consumer demand and regulatory risks. Overall, an equal weight allocation to the Mag 7 still outperformed in the first 90 days of 2024, having produced a 16.87% return. These companies are often referred to as our country's "tech giants", but just how fitting is that description? The combined market capitalization of the Mag 7 has eclipsed $13.5 trillion as we write this letter, more than the collective value of any other country's entire public stock market. [ii]

US Large Cap Growth stocks such as the Mag 7 possess valuations that are well above historical norms which fuels greater downside risk. Further, their already unprecedented size presents a challenge for them in being able to maintain the above average growth rates needed to sustain their hefty price tags. While the phrase "law of large numbers" means something different in the medical and insurance industries, it refers to growth getting harder with size in the investing world.

Even without the abnormal price tags of these Mag 7 names, ~100 years of historical data shows that Large Cap Growth stocks have produced lower annualized returns vs. smaller companies and value stocks on average. [iii] When looking at this in conjunction with the abnormal disparity in valuations between large/small stocks and growth/value stocks that currently exists, the case to be made for lackluster expected returns in traditional US stock indexes, that are overweight large cap & growth stocks, has only grown stronger.

While we remain cautious with our outlook on US large cap growth stocks, but do see attractive opportunities for investors in other areas:

- US Treasuries present attractive risk-adjusted return potential with state income tax-free yields between 4.2%-5.3%, a range well above the current inflation rate. These investments can be a great place to "sit and wait" with opportunistic capital that investors may want to earmark for US stock indexes like the S&P 500 should there be a meaningful pullback in valuations.



- Foreign stock market indexes trade at historically reasonable valuations with meaningful dividend yields (2.29% on the MSCI All-World Ex US index). Long-run returns on these core International indexes have averaged ~8-9% over our available history.[iv] If we are paying average or below-average multiples for earnings/book value for these stocks, we don't see any reason why they can't produce 8-9% average rates of return looking ahead. Referencing recently published 10-year return outlooks from BlackRock and Vanguard (the world's two largest money managers), it appears they would be aligned with this statement. For more info on foreign stock markets, check out **our video** – **Why Foreign Stocks? Why Now?**

- While public REITs are a mixed bag, we do feel there are outstanding opportunities in the private equity REIT and mortgage REIT markets. We favor managers that have a track record of being responsible with leverage and development risk on the equity side, who can take advantage of the plethora of "distressed sales" that exist right now in the commercial market (particularly in the office sector). With real estate lending, we are focused on investing in funds that loan at high single-digit or even low double-digit rates, in first lien positions, and with low loan-to-value ratios. When rates were lower, these types of investments were harder to come by without taking on significant credit (i.e. default) risks. Today, these yields are available on many 1st position commercial loans with Loan-to-Value ratios ("LTV"s) below 60%. To us, this is an opportunity to potentially earn "equity-like returns" with lower expected downside risk.

- While we caution investors about loading up on traditional US Stock indexes like the S&P 500 or Nasdaq 100 for the reasons stated previously, it's hard to argue with their long-term track record in building wealth for patient investors. While we have our concerns, we can't neglect exposure to this asset class entirely. Rather, we continue to advocate for broad US stock market exposure, but prefer the following vehicles in achieving it:

- 'Factor-based' US stock ETFs that offer broad US stock market exposure but with higher weightings to small cap stocks, value stocks, and those with higher profitability as compared to market-cap weighted index funds. Most of our clients will see "Dimensional Fund ETFs" in their portfolios which deploy these strategies. To view our recent webinar with Dimensional, please visit **this link**.

- Our in-house individual stock portfolio leverages a ~ 60-year-old ranking system developed by **Value-Line Research**. Companies receive rankings for Timeliness, Safety, and Financial Strength. This portfolio is maintained by emphasizing companies that possess defensive characteristics which we like amidst high recession risk and high index valuations.

- Hedged Market ETFs offer capped exposure to core indexes like the S&P 500 in exchange for the benefit of meaningful downside protection should the core index's price dive. To view our **latest video** on these instruments, **click here**.

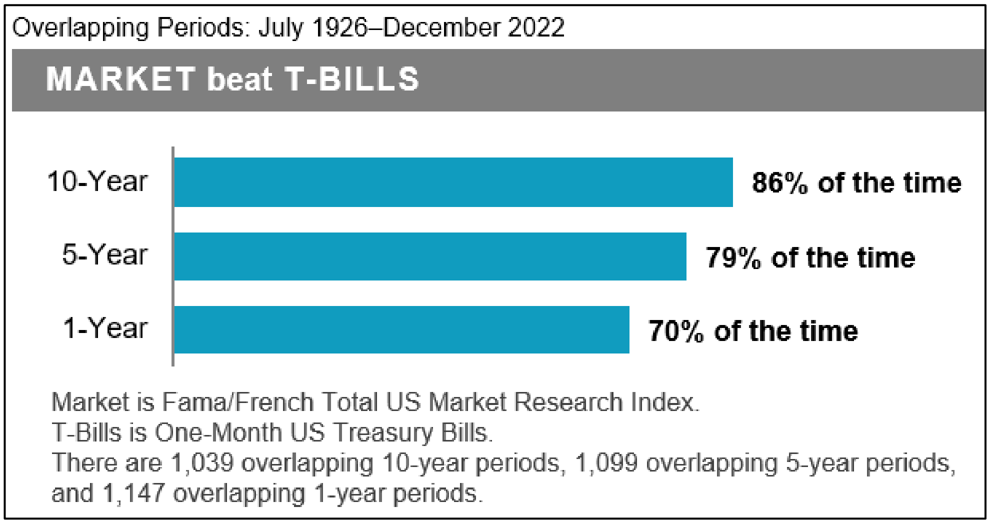
- ETFs that emphasize the most undervalued "wide economic MOAT" companies in the Morningstar Wide Economic Moat Index™. For more information on this strategy, **click here**.

Conclusions: As always, each investor's circumstances are unique. Cash-flow-based financial planning, done as a precursor to making asset allocation decisions, is always recommended vs relying solely on risk tolerance assessments. It's important for investors to maintain adequate reserves in cash and very liquid investment grade bonds to weather any extended downturns in stocks and/or real estate. Afterall, we only espouse investing in these riskier asset classes with "long-term" funds. You'll see on the following page, why this exercise is so important. Diversified stock portfolios have proven to be the most reliable wealth building vehicles when we refer back to ~100 years of historical data but that "reliability" breaks down when holding periods drop below 5 years. So, how do we know what portion of your funds can be invested with a long-term view? It's difficult to quantify a suitable level of reserves without doing cash-flow modeling and stress testing for job losses, unexpected health expenses, and/or other unfortunate events.

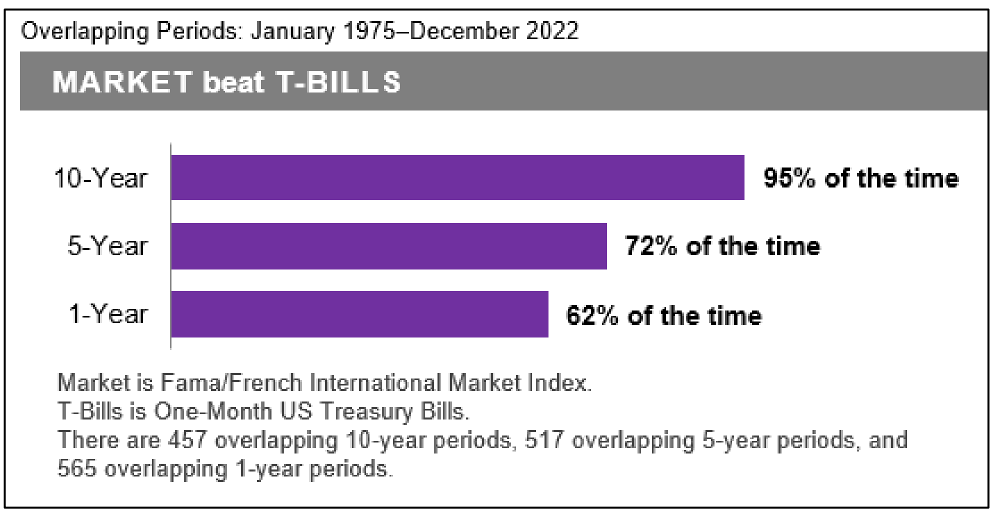
For younger investors in the accumulation phase, we recommend having a baseline of a 6-month raining day fund prior to investing in stocks. It's also wise to avoid overextending on home costs and other major obligations. In this same age cohort, we encourage closer to 9-12 months reserves for folks with less stable employment situations.

For our clients near-or-in retirement, our baseline recommendation involves earmarking the next 8-10 years' worth of expected distributions from portfolios in cash & investment grade bonds. Sequence of returns risk flips the volatility equation on its head. While accumulators benefit from market volatility, buying more shares of companies when prices decline, our clients distributing funds amidst market downtowns exacerbate their losses. For this reason, we must be increasingly focused on capital preservation and consistent income for these investors.

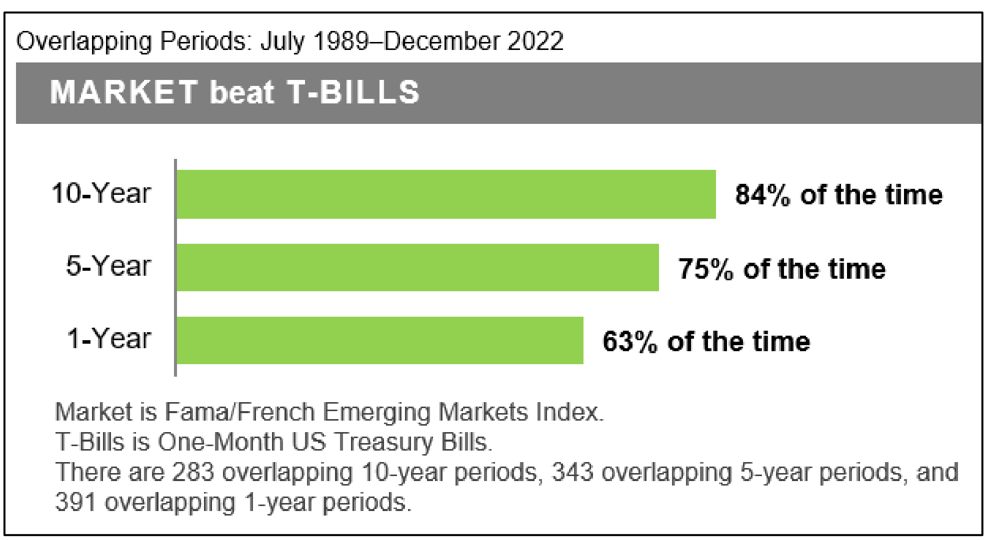
Stock Market Batting Averages vs. Cash/T-Bills: Moral of the Story? The game of stock investing is increasingly fixed in your favor, the longer you can hold onto your shares. This dynamic has been true across the USA, Foreign Developed, and Emerging markets.[v]



United States



Foreign Developed



Emerging

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Asset Class Snapshot	3/31/24
Asset Class	**YTD Return**
U.S. Stock	10.02%
Global Stock Ex U.S.	4.53%
U.S. Bond	-0.78%
U.S. Real Estate	-1.17%
Global Bond	-2.07%

Region Snapshot	3/31/24
Region	**YTD Return**
U.S. Stock	10.02%
Europe Stock	5.23%
Asia Pacific Stock	4.69%
Global Stock Ex U.S.	4.53%
Emerging Markets	2.09%
Latin America Stock	-3.96%

Equity Style Snapshot			3/31/24
YTD	Value	Blend	Growth
Large	9.75%	10.38%	10.91%
Mid	8.10%	7.85%	7.57%
Small	7.14%	7.51%	7.98%

Asset Class Summary							3/31/24
Asset Class	**1 Week**	**1 Month**	**3 Month**	**YTD**	**1 Year**	**3 Year**	**5 Year**
U.S. Stock	0.35%	3.79%	9.57%	10.02%	33.87%	9.78%	14.48%
Global Stock Ex U.S.	-0.26%	3.22%	4.42%	4.53%	15.94%	1.91%	6.08%
U.S. Bond	0.56%	1.07%	-0.79%	-0.78%	2.37%	-2.49%	0.34%
Global Bond	0.24%	0.79%	-2.36%	-2.07%	0.72%	-4.87%	-1.18%
U.S. Real Estate	1.00%	2.74%	-2.32%	-1.17%	15.44%	1.99%	3.74%

Region Summary							3/31/24
Region	**1 Week**	**1 Month**	**3 Month**	**YTD**	**1 Year**	**3 Year**	**5 Year**
U.S. Stock	0.35%	3.79%	9.57%	10.02%	33.87%	9.78%	14.48%
Global Stock Ex U.S.	-0.26%	3.22%	4.42%	4.53%	15.94%	1.91%	6.08%
Emerging Markets	-0.67%	2.43%	2.18%	2.09%	10.10%	-4.91%	2.42%
Europe Stock	0.10%	3.62%	4.92%	5.23%	17.88%	6.28%	8.08%
Asia Pacific Stock	-0.75%	2.93%	4.70%	4.69%	13.38%	-2.50%	4.56%
Latin America Stock	0.34%	0.61%	-4.34%	-3.96%	25.73%	11.15%	4.14%

Equity Style Summary							3/31/24
Region	**1 Week**	**1 Month**	**3 Month**	**YTD**	**1 Year**	**3 Year**	**5 Year**
Large Growth	-0.48%	2.17%	10.48%	10.91%	44.99%	11.22%	18.15%
Large Blend	0.24%	3.62%	10.05%	10.38%	35.05%	10.73%	15.10%
Large Value	1.10%	5.38%	9.55%	9.75%	24.27%	9.92%	11.66%
Mid Growth	0.58%	3.67%	6.87%	7.57%	26.88%	4.06%	11.55%
Mid Blend	1.05%	4.90%	7.32%	7.85%	25.03%	5.65%	11.10%
Mid Value	1.45%	5.99%	7.70%	8.10%	23.32%	7.11%	10.30%
Small Growth	0.53%	3.72%	6.54%	7.98%	26.19%	-0.98%	8.44%
Small Blend	1.06%	5.13%	6.32%	7.51%	26.72%	3.70%	10.03%
Small Value	1.47%	6.24%	6.14%	7.14%	27.14%	7.09%	10.62%

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Sector Snapshot	3/28/24
Sector	**YTD Return**
Energy	13.51%
Comm. Services	12.68%
Financials	12.44%
Industrials	10.84%
Materials	8.98%
Health Care	8.71%
Technology	8.38%
Consumer Defensive	6.79%
Utilities	4.52%
Consumer Cyclical	3.06%
Real Estate	-0.65%

S&P 500 Sector Weights*	1/3/24
Sector	**Weight**
Technology	30.65%
Financials	12.62%
Health Care	12.45%
Consumer Cyclical	10.54%
Comm. Services	8.99%
Industrials	8.32%
Consumer Defensive	5.93%
Energy	3.91%
Real Estate	2.26%
Utilities	2.19%
Materials	2.15%

Sector Summary							3/28/24
Sector	**1 Week**	**1 Month**	**3 Month**	**YTD**	**1 Year**	**3 Year**	**5 Year**
Cyclical							
Consumer Cyclical	-0.24%	0.61%	2.43%	3.06%	30.78%	4.29%	11.21%
Financials	0.53%	4.75%	12.08%	12.44%	36.48%	9.04%	12.72%
Materials	1.03%	7.28%	8.55%	8.98%	21.93%	7.40%	13.38%
Real Estate	1.15%	2.57%	-1.73%	-0.65%	16.08%	2.95%	5.21%
Sensitive							
Comm. Services	0.01%	4.09%	12.01%	12.68%	47.51%	5.09%	12.83%
Energy	1.95%	11.02%	13.26%	13.51%	20.89%	28.28%	12.96%
Industrials	0.25%	4.74%	10.71%	10.84%	30.39%	10.36%	13.09%
Technology	-0.75%	1.91%	8.05%	8.38%	45.65%	17.21%	24.47%
Defensive							
Consumer Defensive	0.46%	3.15%	7.01%	6.79%	6.93%	6.39%	9.38%
Health Care	1.44%	1.54%	8.83%	8.71%	18.18%	9.77%	12.19%
Utilities	2.95%	6.62%	4.38%	4.52%	2.96%	4.33%	5.89%

Market Indicators							
Name	**As of**	**Latest****	**1 Month Ago**	**1 Mo. % Change**	**1 Year Ago**	**1 Year % Change**	**Freq.**
Key Interest Rates							
1 Month Treasury	3/28/24	5.49%	5.50%	▼ -0.2%	4.24%	▲ 29.5%	Daily
2 Year Treasury	3/28/24	4.59%	4.64%	▼ -1.1%	4.02%	▲ 14.2%	Daily
10 Year Treasury	3/28/24	4.20%	4.27%	▼ -1.6%	3.55%	▲ 18.3%	Daily
30 Year Mortgage	3/28/24	6.79%	6.90%	▼ -1.6%	6.42%	▲ 5.8%	Weekly
US Corporate AAA	3/27/24	4.78%	4.90%	▼ -2.4%	4.42%	▲ 8.1%	Daily
US Corporate BBB	3/27/24	5.53%	5.69%	▼ -2.8%	5.63%	▼ -1.8%	Daily
US Corporate CCC	3/27/24	12.89%	13.26%	▼ -2.8%	15.35%	▼ -16.0%	Daily
Effective Federal Funds	3/28/24	5.33%	5.33%	▲ 0.0%	4.83%	▲ 10.4%	Daily
U.S. Economy							
Consumer Sentiment	2/29/24	76.90	69.70	▲ 10.3%	66.90	▲ 14.9%	Monthly
Unemployment Rate	2/29/24	3.90%	3.70%	▲ 5.4%	3.60%	▲ 8.3%	Monthly
Inflation Rate	2/29/24	3.15%	3.35%	▼ -5.9%	6.04%	▼ -47.8%	Monthly
Manufacturing PMI	2/29/24	47.80	47.10	▲ 1.5%	47.70	▲ 0.2%	Monthly
Non Manufacturing PMI	2/29/24	52.60	50.50	▲ 4.2%	55.10	▼ -4.5%	Monthly
Retail Sales	2/29/24	607,425	610,322	▼ -0.5%	602,624	▲ 0.8%	Monthly
Building Permits	2/29/24	1,518	1,493	▲ 1.7%	1,482	▲ 2.4%	Monthly

END NOTES / REFERENCES

[i] US Leading Indicators, The Conference Board, 21 Mar. 2024, www.conference-board.org/topics/us-leading-indicators.

[ii] Lu, Marcus. "The World's Biggest Stock Markets, by Country." Visual Capitalist, 13 Mar. 2024, www.visualcapitalist.com/the-worlds-biggest-stock-markets-by-country/.

[iii] "2023 Dimensional Funds Master Slide Library." MyDimensional, Dimensional Fund Advisors, Jan. 2023, my.dimensional.com.

[iv] "2023 Dimensional Funds Matrix Book." MyDimensional, Dimensional Fund Advisors, Jan. 2023, my.dimensional.com

[v] 2023 Dimensional Funds Master Slide Library." MyDimensional, Dimensional Fund Advisors, Jan. 2023, my.dimensional.com.

Special Note – Data not specifically cited is pulled from Fiduciary Financial Group's YCharts Terminal.