U.S. Bank

# Q2 2024 investment outlook: A positive outlook amid positive momentum.

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## Executive summary


This year's opening quarter mimicked 2023's final quarter in many respects; most traditionally riskier asset classes moved higher due to a resilient consumer, central banks signaling their intent for lower interest rates, and the lack of negative news within focal areas like geopolitical risk, commercial real estate, or lending markets. While the sharp rally that began in October featured longer-maturity interest rates falling (interest rates fall when bond prices rise), strong stock performance to kick off the year has come with interest rates rising; the 10-year U.S. Treasury yielded less than 4% to start the year and moved to 4.2% as we begin the second quarter.

We retain a glass half-full perspective for diversified portfolios and see potential further gains in asset classes and sectors that have not performed as well as stalwarts like domestic Information Technology and Consumer Discretionary stocks. Corporate earnings growth, ongoing capital expenditures emphasizing artificial intelligence and big data management, and ongoing tailwinds from fiscal policy appear to offset the lagged impacts that higher interest rates may have on consumer spending. Should central banks adopt a glidepath approach to lowering their target interest rates while growth impulses remain robust, that could offer both stock and bond investors a favorable investment backdrop and potentially help Real Estate, which so far has lagged in 2024.

In addition to domestic elections, more than half of the global population will face elections or potentially new leaders. Global trade policy will be a key focus for us as we narrow in on U.S. elections, and geopolitical interactions amid ongoing Middle East and Russia/Ukraine tensions could become more market impactful. As mentioned earlier, commercial real estate and the general lending environment are consequential factors in our more bullish outlook, and while we are encouraged by capital market performance, we will not be complacent should risks emerge.



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Thank you for the opportunity to share our views across the capital market landscape through our team-based approach.

## Global economic views

**The U.S. economy remains exceptional, starting 2024 with solid growth, a strong labor market and moderating inflation.**

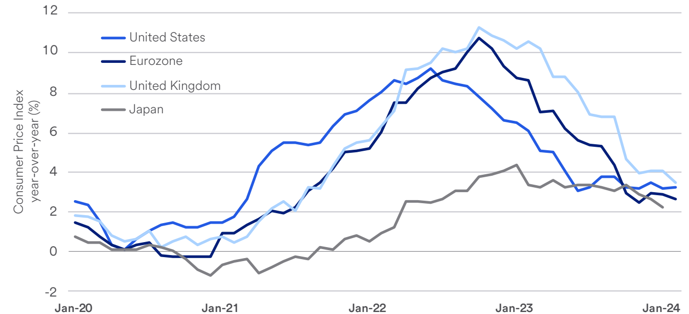
Growth outside the U.S. remains disappointing for other major economies, such as the Eurozone, the United Kingdom, China and Japan. As we progress through 2024, the world economic outlook appears modest; businesses and consumers must adapt to much higher borrowing costs, ongoing regional conflicts in Russia, Ukraine and Gaza, and election uncertainty covering almost half the world's population, including the United States. Inflation remains elevated, though well below 2022 peaks, and continues to trend toward global central bank targets. Global growth likely remains modest in 2024, with key questions around U.S. government spending, potential stimulus measures from China to rekindle consumer activity, relatively tight global energy supplies and ongoing armed conflicts.

U.S. economic growth surprised many in 2023, accelerating on strong consumer and government spending. Bloomberg consensus expectations point to better-than-expected growth in 2024, though the pace should moderate into year-end. The labor market remains strong, but high borrowing costs likely limit consumer spending growth. Additionally, government spending is unlikely to maintain 2023's robust pace. Our U.S. Bank Economics Team believes the U.S. economy is likely to achieve a soft landing, with the path of Federal Reserve (Fed) interest rate policy and tighter credit conditions as key risks.

The Fed's battle against inflation has been a major economic story for the past two years and its path will be key again in 2024. The Consumer Price Index continues its slowing trend since peaking at 9.1% year-over-year in June 2022, standing at 3.2% in February, still well above the 2.2% average for the two decades prior to the COVID pandemic. Slowing shelter inflation should ease price pressures, but ongoing labor market tightness and supply constraints across certain goods mean inflation is unlikely to reach the Fed's 2% target in 2024.

**Inflation year-over-year percent changes**

Source: U.S. Bank Asset Management Group analysis, Bloomberg, Data period: January 31, 2020-March 20, 2024.




In the U.S., 2024 marks a Presidential election year, though it is unlikely to be an investor focus until the middle of the year as key issues and platforms take shape. Consumer and business uncertainty typify election years as they await clarity on the leadership and policy path ahead. Our analysis indicates market returns historically depend more upon the path of the economy rather than election outcomes.

**Developed markets' economic recovery hinges on easing interest rate pressures.**

The European Central Bank ended its negative interest rate policy and pushed target interest rates to their highest level since the inception of the Eurozone to battle inflation. The Bank of Japan and Bank of England are also both pushing interest rates higher to thwart price increases. The Bank of Japan remains somewhat slower to change, reversing decades of below-target inflation and hoping to spur higher consumer inflation expectations. Europe, the United Kingdom and Japan are likely to recover from recent at or near zero economic growth as we move through 2024. Central bank policies remain a key factor along with modest inflation pressures.

**Emerging market economic growth remains diverse as China struggles to reignite activity and India's momentum continues.**

Slow global trade, accumulated inventories, modest consumer spending and an overhanging housing slowdown capped China's growth. Lower interest rates and targeted asset purchases are unlikely to resolve the housing market slowdown or rekindle consumer spending. China's growth appears likely to remain slow through 2024, with much depending on specific measures or reforms to spark a rebound.

Growth has been better for other major emerging market economies. Taiwan and South Korea finished 2023 on a solid note supported by strong global demand for technology infrastructure, which appears likely to extend through the year. India exhibited strength in 2023, and ongoing benefits of demographics and reforms should help it maintain positive economic momentum through the year. Brazil and Mexico are seeing a slower growth trend as oil prices eased, but stable global demand, easing interest rates and solid U.S. growth are supportive.

## U.S. equity markets

**U.S. equities begin the second quarter with expanding performance breadth, one indicator suggesting that stocks are poised to trend higher.**

The S&P 500 (up 10.2%), NASDAQ Composite (9.1%) and small cap-oriented Russell 2000 (4.8%) are all positive for the year through March, and nine of 11 S&P 500 sectors delivered first quarter gains. Technology-oriented Communication Services (15.6%) and Information Technology (12.5%) sectors, along with Energy (12.7%), Financials (12.0%) and Industrials (10.6%), are driving overall performance, while Real Estate (-1.4%) is the only negative sector. We regard broad-based performance gains as an indicator of underlying economic strength, supportive of advancing equity prices.

**Full-year 2024 earnings projections are consistent with a not-too-hot, not-too-cold economic environment.**

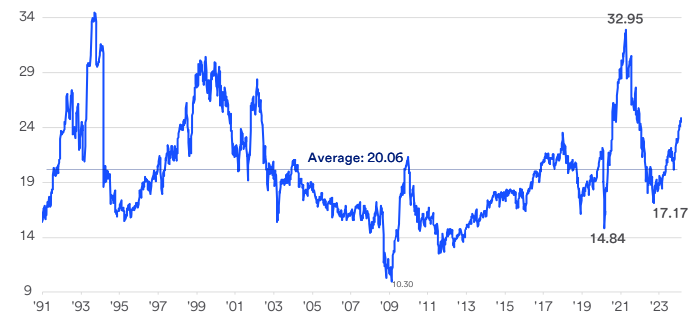
Analysts forecast approximately $242 S&P 500 earnings per share, according to Bloomberg, FactSet and S&P Cap IQ, reflecting 10% year-over-year growth. Better-than-expected fourth quarter 2023 earnings and mostly constructive forward guidance have bolstered relatively stable forward expectations. The release of first quarter earnings beginning in mid-April should improve 2024 earnings visibility.

**Waning inflation, moderating interest rates and stable earnings projections provide valuation support and a basis for U.S. equities to trend higher.**

Earnings growth supports above-historical average valuation and advancing equity prices. Broad market valuation, or the price investors are willing to pay for realized or anticipated earnings, are trending at the high side of fair but remain below extreme highs. The S&P 500 ended the first quarter trading at 23.9 times 2023 earnings and 21.7 times projected 2024 earnings. The historical average price-earnings multiple on trailing 12-month estimates dating back to 1991 is 20.0, suggesting U.S. equities are trading in a "zone of okay," albeit at the high end of that range. Equities could experience a temporary pullback from current levels while remaining in an upward trajectory. The 200-day moving average for the S&P 500, a popular level of downside support, is 4,618 as of March 31, 13% below the closing price of 5,254.

**S&P 500 last 12 months price-earnings ratio**

Source: Bloomberg, FactSet, U.S. Bank Asset Management Group Research.
Data period: January 25, 1991-March 20, 2024.




**Consumer and business spending trends are supportive of higher prices.**

Resilient consumer spending on experiences relative to physical goods remains an ongoing trend as consumers continue to spend on travel and entertainment. Conversely, few companies are noting any meaningful uptick in goods spending, such as home furnishings. Lower interest rates in 2024's second half could spur an uptick in durable goods spending, necessary to sustain widespread economic growth. Additionally, while overall credit and associated delinquencies remain at manageable levels, companies noted that lower-income groups are experiencing some financial stress. Weakening spending trends among upper-income groups could be a catalyst for a broad market pullback.

Demand for artificial intelligence products and services, including processing, cloud computing, security and advertising, continues to bolster technology spending. As with all modern era technological advancements, the total market size of artificial intelligence is a discovery process as applications evolve. Artificial intelligence company NVIDIA is a good example of the relationship between price and an expanding market. The company ended the first quarter up 82% following its 239% gain in 2023.

**We favor exposure to both growth-oriented technology and defensive, income-oriented sectors as a strategy to navigate equity markets that are "priced-to-perfection."**

We favor balanced exposure to both momentum-oriented technology and defensive-oriented sectors that have lagged over the past 15 months. Fast is getting faster, and speed, scale and efficiencies do not occur without technology. While the strong year-to-date Information Technology and Communication Services stocks may experience near-term pullbacks, their longer-term growth theses remain intact, warranting continued exposure even at current elevated valuation levels. Conversely, defensive/income-oriented sectors such as Utilities, Real Estate, Consumer Staples and select Healthcare companies should respond favorably to a less restrictive Fed policy stance. This balanced approach provides exposure to evolving technologies while capitalizing on the favorable risk profiles of sectors and companies that lagged during last year's rising interest rate environment.

## Foreign equity markets

**Strong price momentum and improved geographic breadth propelled foreign developed equity markets to new highs to begin the year. An improved fundamental outlook is key to underpin positive investor sentiment and drive further price appreciation throughout 2024.**

Foreign developed equity markets exited 2024's first quarter exhibiting strong price momentum, with European and Japanese equity markets establishing new all-time highs denominated in their respective local currencies. For U.S.-based investors, the MSCI EAFE Index, representing 21 developed economies across Europe and Asia, delivered a 5.7% return through March 28 following up last year's strong 19.0% gain. Like domestic markets, secular growth sectors such as Technology and Consumer Discretionary paced early 2024 performance, while traditionally defensive sectors such as Utilities and Consumer Staples lagged.

However, recent positive price performance and renewed investor sentiment belies sluggish economic conditions and subdued profit growth expectations across the region. Japan's economy grew at a modest 0.4% annualized rate in the fourth quarter while the United Kingdom entered a technical recession, defined as two consecutive quarters of negative economic growth. Meanwhile, the European economy is stagnant amid higher interest rates and tighter lending conditions to combat entrenched inflation, with the European Commission downgrading its 2024 full-year growth forecast across the 20 euro-member states from 1.2% to 0.8%.

Foreign developed equity analysts incorporated this further downgraded 2024 economic outlook into corporate earnings growth forecasts. Analysts anticipate full-year earnings growth will sharply slow from a positive 10.1% in 2023 to a slight 1.7% contraction in 2024. Rising stock prices and falling forward earnings estimates have increased foreign equity valuation (the price investors are willing to pay for estimated earnings) to slightly above long-term averages, though valuation relative to domestic large-company equities remains near historical lows.

Looking ahead, stabilizing economic growth and earnings estimates represent key catalysts for further price appreciation, with investors looking through a modest 2024 profits contraction toward better conditions in 2025. Sluggish growth and cooling inflation could lead the European Central Bank to begin reducing interest rates, with futures markets pricing in nearly one full (0.25%) rate cut as early as June as of March 28. Economists anticipate easing monetary policy throughout 2024's second half will improve consumer and business conditions, forecasting a European economic growth recovery to 1.5% in 2025. Firming investor expectations for less restrictive monetary policy and improved growth prospects could provide additional valuation support to propel foreign equity prices higher throughout 2024.

**China policy support and broadening global growth drivers represent critical building blocks driving emerging market equity prospects.**

Resilient consumer spending and strong corporate profit growth underpinned U.S. economic and equity market outperformance relative to emerging markets throughout 2023 and in 2024's first quarter. While analysts forecast relatively stronger emerging markets earnings growth of 19% in 2024 and 15% in 2025, equity prospects remain dependent on diverse global growth drivers. Non-U.S. sales comprise more than 90% of emerging market companies' revenue exposure, according to FactSet Research Systems.

Artificial intelligence and cloud-related applications continue to drive global semiconductor demand, underpinning Taiwanese and Korean technology-oriented equity market prospects. Meanwhile, domestic credit

growth and infrastructure spending are key determinants for India's forward outlook, with the general election April 19 through June 4 representing a potential market-moving event.

Finally, China's economic fortunes loom particularly large for emerging markets' 2024 prospects. Authorities enacted several policy measures in early 2024 to stabilize the real estate market, stimulate consumer spending and support a local stock market that has experienced three consecutive annual declines. The central bank reduced five-year prime loan rates to a six-year low, fiscal authorities announced $139 billion special sovereign bond issuance to alleviate local government indebtedness, and state-owned enterprises and other institutional investors added liquidity to equity markets via significant exchange-traded fund purchases.

Global technology demand, India's ongoing economic development and China's stimulus policies represent three keys to achieving emerging market investors' optimistic earnings growth targets in the years ahead. While emerging market equities generated a modestly positive 2.1% return in the first quarter through March 28, valuation remains above long-term averages, suggesting little price support if these growth drivers prove insufficient and analysts downgrade earnings forecasts. Overall, we view emerging markets risk and reward opportunities as evenly balanced, with a broadening of global growth drivers a key focal area for the year ahead.

## Fixed income markets

**The Federal Reserve maintained restrictive policy settings while awaiting further evidence of slower inflation before announcing rate cuts.**

Treasury yields rose in the first quarter, with positive economic growth surprises delaying expectations for Fed rate cuts. Treasury yields reflect investor expectations of three 0.25% cuts in 2024, aligning with recent Fed communication. This presents a more balanced outlook for high-quality bonds, which sport compelling yields. Expectations for slowing growth and inflation with gradually easing monetary policy create a favorable case for bond investors. Risks concentrate on elevated fiscal stimulus that may require high Treasury bond supply and could lead to higher interest rates for investors to absorb the additional bonds.

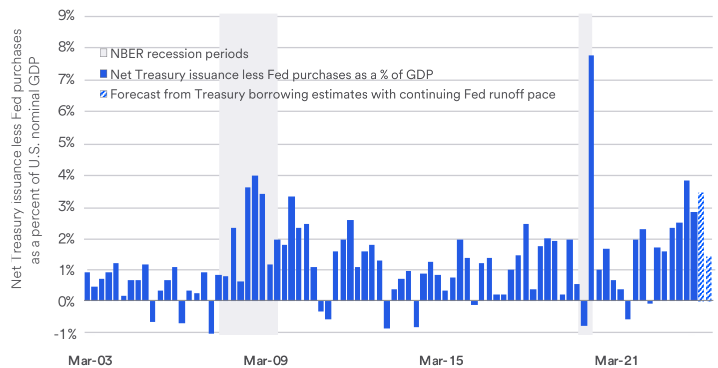
Investment-grade bonds remain important portfolio ingredients, providing more income than they have in years while maintaining solid credit quality. High yield corporate and municipal bond valuations are slightly expensive, but still offer meaningful yields and strong investor demand. Highly taxed investors can benefit from slightly longer-term and lower-quality municipal bonds and their incremental yield. Modest exposures to insurance-linked securities (reinsurance) and non-government agency mortgage bonds can complement traditional fixed income allocations.

**Investor expectations align with policymakers' plans to begin normalizing interest rates this year.**

Despite surprisingly resilient growth and stubborn inflation in the first quarter, Fed officials largely stuck by their projections for three rate cuts in 2024, close to investor expectations. Investors also anticipate the European Central Bank and Bank of England will deliver a similar degree of easing. Aligned expectations between market pricing and central bank expectations reduce bond price risk for now. Yields could adjust higher (and prices lower) if inflation's first quarter uptick persists, but high-quality bonds offer steady income that helps compensate for inflation risk. Ongoing normalization toward long-run inflation trends suggest more upside price risk than downside.

**Treasury net issuance less Fed purchases as a percent of nominal gross domestic product**

Source: U.S. Bank Asset Management Group Research, Bloomberg, U.S. Treasury; Data period: March 3, 2003-December 31, 2023. Forecast assumes net Treasury issuance according to the Treasury's Sources and Uses Table with ongoing $60 billion in Fed Treasury runoff per month.




Elevated U.S. Treasury bond supply remains a potential swing factor for yields. The Fed continues to reduce U.S. Treasury holdings by $60 billion per month, necessitating private investor demand to absorb new U.S. Treasury bond supply. Concurrently, high U.S. government debt issuance

to fund fiscal spending places requires more buyers, though recent investor demand has been sufficient, with the 10-year U.S. Treasury bond yield well below its October 2023 peak near 5%. Treasury supply/demand dynamics will remain an area of focus if elevated deficit spending necessitates elevated government financing needs.

**Corporate and municipal bonds offer opportunities to generate meaningful income despite slightly rich valuations.**

Incremental yield on corporate and municipal bonds over Treasuries fell below their historic averages in the first quarter, with riskier bonds posting larger yield compression. Strong risk appetite and resilient economic growth drove gains in high yield bond valuations. While high valuations limit additional price upside versus Treasuries, corporate and municipal bond prices can stay elevated for long stretches of time while delivering attractive current income. The tax-exempt status of municipal bond income magnifies the extra yield benefit on lower-quality and longer-term bonds, improving long-run return potential.

Corporate and municipal bonds started off 2024 with the highest net issuance of any comparable period since 2020. Issuers took advantage of lower corporate and municipal yields relative to U.S. Treasury yields. Rebounding issuance allows corporate and municipal issuers to refinance upcoming maturities, but they're still borrowing at higher rates than their previous debt costs, weighing on credit fundamentals over time. Lower-quality bonds could benefit if slowing inflation allows the Fed to cut rates as expected.

**Unique corners of the bond market such as mortgage bonds not backed by the government and reinsurance offer attractive income with strong fundamental tailwinds.**

Mortgage bond fundamentals remain favorable, with rising home prices in recent years leading to strong collateral support, historically low delinquencies and powerful incentives for homeowners to stay current on their inexpensive fixed rate loans. Dwindling mortgage bond supply from slower housing market activity and limited cash-out refinancings limit supply and provide a favorable technical tailwind. For qualifying clients, reinsurance, also referred to as insurance-linked securities, offers compelling income opportunities from higher insurance premiums and higher deductibles. This high income provides cushion in the event of higher-than-average insured losses that erode principal. Reinsurance may provide constructive diversification qualities relative to stocks and bonds based on its sensitivity to global catastrophes rather than the business cycle. However, unique investor circumstances and eligibility can dictate availability of reinsurance.

## Real asset markets

**Commercial real estate total returns could improve if the Federal Reserve lowers interest rates later this year.**

Publicly traded real estate securities underperformed the broader market in the first quarter, with interest rates rising and persistent inflation keeping the Fed more hawkish than the market anticipated. Additionally, fear of loan defaults negatively affected commercial real estate investor sentiment. As a result, total returns on Real Estate trailed the broader market by 12% for the quarter.

Nationally, vacancy rates have begun rising but are still below long-term averages across most property types. Income growth has been decelerating but remains slightly above the long-term average, and we expect it to taper off to below average levels through 2024 for most property types. Income relative to property values has increased in the public real estate market due to declining prices, but not yet in the private market. The public market now appears inexpensive compared to current private market prices. However, credit for property investment is no longer cheap, and investors are struggling to find available quality investments.

Publicly traded real estate has re-priced significantly and now trades at much more compelling levels. Additionally, most real estate benchmarks are heavily weighted to property types with positive secular underpinnings. Cell towers, data centers and industrial warehouses continue to experience strong demand. Since other property types trade at significant discounts, we believe these secular growth sectors can drive real estate portfolios even if other property types face deteriorating fundamentals.

**Cash flow and dividends could make infrastructure attractive later in 2024.**

The first quarter was difficult for infrastructure investments, especially the Utilities sector, despite revenues and earnings growth rates exceeding long-term averages. Investors sold off Utilities stocks in favor of assets with more growth

potential. However, we believe there is still opportunity for assets that provide stability and cash flows.

As 2024 progresses, decelerating economic growth and inflation could support infrastructure assets. Utilities should perform well in such an environment as the industry remains in the middle of a positive earnings growth cycle, clawing back cost increases through the regulatory framework. Additionally, midstream energy should continue to produce outsized earnings growth as domestic oil producers continue pumping record amounts of crude to offset production cuts by the Organization of the Petroleum Exporting Countries (OPEC). Dividend yields for midstream energy stocks continue to look attractive.

**Decelerating economic growth and declining inflation are near-term headwinds for commodities.**

Large production cuts and aggressive rhetoric from OPEC led crude oil prices toward the upper end of their five-month price range, but they remain well below 2023 peak prices. The same is true of industrial and precious metals, with gold making new all-time highs. U.S. fiscal deterioration may have increased investor willingness to forego 5% yields on cash to diversify away from the dollar.

The economic backdrop for commodities presents a challenge for the rest of the year. Slowing global growth and inflation nearing the Fed's 2% target should diminish demand. However, such an environment could boost precious metals, such as gold. Gold already trades at all-time highs with interest rates near the highest in decades, and prices could be driven dramatically higher in a globally synchronized recession with declining interest rates.

Over a longer investment horizon, we are more constructive on commodity markets. Investment in productive capacity for numerous commodities has been limited for several years. Additionally, government and investor policy has explicitly made new investment in fossil fuels prohibitive. These policies act as material disincentives to invest in productive capacity. The transition to "green" energy networks will require a material increase in demand for fossil fuels and various metals for an extended period. A "perfect storm" for these commodities and the companies that extract, transport, store and refine them would likely result.

## Alternative investments

**Hedge fund managers are finding ample opportunities amid shifting market dynamics.**

Hedge funds generated modestly positive returns in the first quarter, and industry assets under management reached new highs. Investors view hedge fund allocations positively in the current economic backdrop of ample volatility across interest rates, asset prices and geopolitics. Long/short equity is one of the strongest-performing strategies, generating a roughly 3% return, with managers identifying attractive investments to both buy long and sell short, targeting areas such as U.S. housing as well as high-growth but unprofitable technology companies. Trend-following strategies have also performed well, rising more than 6%, with managers benefiting from long U.S. dollar positions as it appreciated versus most currencies this year. Meanwhile, an event-driven strategy called merger arbitrage is down 1% in a more challenging start to the year. This catalyst-driven approach often provides consistent opportunities but has been a notable performance detractor, with some company acquisition deals this year failing to close. We anticipate the market for event driven strategies to improve, including more initial public offerings, providing hedge fund managers skilled at trading around so-called "hard" catalysts ample opportunities to generate profits.

The current interest rate environment supports an increasing number of idiosyncratic opportunities to surface in credit markets, including distressed debt. Peak interest rates have recently favored hedge funds with carry-oriented strategies that can tactically stay shorter in duration. However, an extended period of high financing costs creates challenges for leveraged companies, separating winners and losers, and relative value hedge fund managers focused on credit markets can position their long and short portfolios accordingly. Shifting market dynamics also change the cost of capital for asset-backed investments and their underlying collateral pools of corporate loans and mortgages. Strategies targeting these securities appear attractive due to the substantial credit analysis required and potential information advantage by astute investors. The predictable cash flows offered by these securities can also diversify client portfolios by offering lower correlations to traditional bond exposures.

Investors allocate to hedge funds to capitalize on the upside and protect capital in down markets. Investor interest increased after hedge funds generated relatively small losses in 2022 and protected much of the downside when markets traded broadly lower. Hedge funds made money when markets rose last year, although performance trailed the S&P 500. We see opportunities across both ends of the hedge fund investing spectrum, including defensively positioned managers and those seeking to exploit turbulent markets. Persistent uncertainty regarding inflation, interest rates and economic growth continues to create opportunities for active traders. Opportunistic hedge fund managers are generally more active traders and focus on more liquid publicly traded securities compared to private markets. Although many investors have placed greater emphasis over the past two years on hedge funds' risk reduction role, we have observed investors trimming outsized hedge fund exposures after recent gains and reallocating into private markets.

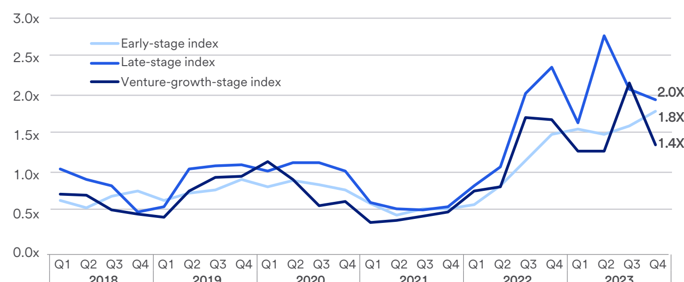
## Private markets

**The current private capital environment favors venture capital relative to startup companies.**

The demand for venture capital dollars remains much higher than the available funding, and the demand-to-supply ratio across all stages of venture capital remains near decade highs. For example, the capital demand/supply illustration below reveals a ratio of 2.0 (for every $2 sought by a startup company, there is only $1 of investor funding available) for late-stage startups as 2023 ended. This marks the sixth consecutive quarter in which demand has outpaced supply, leading to intensifying competition among mature startups contending for a limited supply of capital.

**U.S. venture capital demand to supply ratio**

Source: U.S. Bank Asset Management Group Analysis, PitchBook-NVCA Venture Monitor, as of December 31, 2023.




The increase in interest rates has reduced the need for asset allocators to invest in higher-risk assets to meet return targets, and this dynamic remains a headwind for venture capital fundraising. Hedge funds and mutual funds were willing to pay high prices for illiquid, private companies when public stock market investors were willing to pay even higher prices for public listings of the same companies, allowing these funds to earn handsome arbitrage returns. However, non-traditional private investors have pulled back, now that public stock markets are less willing to pay for unprofitable, high-growth companies, further limiting capital availability and putting downward pressure on prices. We expect nontraditional investors will remain on the sidelines until the public markets begin to return to a more accommodative environment.

Venture-backed company valuations peaked in 2021, and the companies that raised funds during that period have delayed raising additional capital at lower valuations. Instead, these companies are focusing on efficiency by slowing capital expenditure and through layoffs. Ultimately, when these companies raise new capital, investors will have more leverage.

**Private equity deal activity bottomed in 2023 but is showing signs of pickup with plenty of opportunity to invest new capital.**

Mergers and acquisitions (M&A), or deal activity, continued to slow in 2023 as private equity investment managers and corporate buyers awaited the conclusion of the Federal Reserve's interest rate hiking cycle. Despite strong economic growth and substantial appetite for M&A, buyers and sellers chose to postpone activity until there was a clear line of sight on inflation trending toward the Fed's 2% target and a path to interest rate cuts. Debt availability, which is important for M&A financing, was also challenged as banks retreated from lending activity in 2022's second half and through most of 2023.

As deal activity slowed, so did the distributions for private equity investors, often referred to as limited partners (LPs). The distributions back to the LPs hit a low point in 2023 when compared to the prior five years as private equity investment managers continued to hold on to portfolio companies waiting for a better exit environment. Several factors support a pickup in deal activity in 2024, including slowing inflation trends, potential interest rate cuts, ample private equity manager and corporate balance sheet

cash, and pent-up need for investment managers to sell companies held within fund portfolios. Key challenges to accelerating deal activity are a slowdown in economic activity and reaccelerating inflation.

Despite the macroeconomic uncertainties, we continue to source attractive private market opportunities for our clients and our thematic research helps focus our sourcing efforts. For example, we recently backed a private equity manager with focus and expertise in defense and government services — sectors in need of substantial investment in technology upgrades and overall capabilities. Similarly, in real assets, we see opportunity to invest in digital infrastructure assets. We remain cautious about traditional real estate sectors such as residential, office and retail properties due to rich private market valuations and substantial debt overhang that will need to be refinanced at much higher rates. Additionally, real estate debt availability remains challenged as smaller regional and commercial banks that are traditional source of debt capital digest their own commercial real estate exposures and face tighter regulations, further limiting ability of these banks to make real estate loans in the future. With this backdrop, and our thematic views, we remain focused on sourcing opportunities in real estate sub-sectors such as last-mile industrial and self-storage, which continue to benefit from secular tailwinds.

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**Past performance is no guarantee of future results.** All performance data, while deemed obtained from reliable sources, are not guaranteed for accuracy. Indexes shown are unmanaged and are not available for investment. The **S&P 500 Index** is an unmanaged, capitalization-weighted index of 500 widely traded stocks that are considered to represent the performance of the stock market in general. The **NASDAQ Composite Index** is a market-capitalization weighted average of roughly 5,000 stocks that are electronically traded in the NASDAQ market. The **Russell 2000 Index** measures the performance of the 2,000 smallest companies in the Russell 3000 Index and is representative of the U.S. small capitalization securities market. The **Consumer Price Index** is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is one of the most frequently used statistics for identifying periods of inflation or deflation. The **S&P 500 Total Return Index** includes the same stocks but include the reinvestment of dividends. The **MSCI EAFE Index** includes approximately 1,000 companies representing the stock markets of 21 countries in Europe, Australasia and the Far East (EAFE). The **MSCI Emerging Markets Index** is designed to measure equity market performance in global emerging markets. The **PitchBook Venture Capital Dealmaking Indicator** leverages deal-level data to quantify how startup-friendly, or investor-friendly the capital raising environment is. The Indicator incorporates PitchBook's deal term, deal attribute, fundraising, and deal flow data to compose an indicator which compares early-stage, late-stage, and the new venture growth stage deal dynamics.

**Equity securities** are subject to stock market fluctuations that occur in response to economic and business developments. The value of **large-capitalization stocks** will rise and fall in response to the activities of the company that issued them, general market conditions and/or economic conditions. **Stocks of small-capitalization companies** involve substantial risk. These stocks historically have experienced greater price volatility than stocks of larger companies and may be expected to do so in the future. **Growth investments** focus on stocks of companies whose earnings/profitability are accelerating in the short term or have grown consistently over the long term. Such investments may provide minimal dividends, which could otherwise cushion stock prices in a market decline. Stock value may rise and fall significantly based, in part, on investors' perceptions of the company, rather than on fundamental analysis of the stocks. Investors should carefully consider the additional risks involved in growth investments. **Value investments** focus on stocks of income-producing companies whose price is low relative to one or more valuation factors, such as earnings or book value. Such investments are subject to risks that their intrinsic values may never be realized by the market, or such stocks may turn out not to have been undervalued. Investors should carefully consider the additional risks involved in value investments. **International investing** involves special risks, including foreign taxation, currency risks, risks associated with possible difference in financial standards and other risks associated with future political and economic developments. Investing in **emerging markets** may involve greater risks than investing in more developed countries. In addition, concentration of investments in a single region may result in greater volatility. Investing in **fixed income securities** are subject to various risks, including changes in interest rates, credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications, and other factors. Investment in debt securities typically decrease in value when interest rates rise. The risk is usually greater for longer-term debt securities. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. Investments in **high yield bonds** offer the potential for high current income and attractive total return but involve certain risks. Changes in economic conditions or other circumstances may adversely affect a bond issuer's ability to make principal and interest payments. The **municipal bond market** is volatile and can be significantly affected by adverse tax, legislative or political changes and the financial condition of the issuers of municipal securities. Interest rate increases can cause the price of a bond to decrease. Income on municipal bonds is free from federal taxes but may be subject to the federal alternative minimum tax (AMT), state and local taxes. There are special risks associated with investments in **real assets** such as commodities and real estate securities. For commodities, risks may include market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors. Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates and risks related to renting properties (such as rental defaults). **Hedge funds** are speculative and involve a high degree of risk. An investment in a hedge fund involves a substantially more complicated set of risk factors than traditional investments in stocks or bonds, including the risks of using derivatives, leverage and short sales, which can magnify potential losses or gains. Restrictions exist on the ability to redeem or transfer interests in a fund. **Private capital investment funds** are speculative and involve a higher degree of risk. These investments usually involve a substantially more complicated set of investment strategies than traditional investments in stocks or bonds, including the risks of using derivatives, leverage, and short sales, which can magnify potential losses or gains. Always refer to a Fund's most current offering documents for a more thorough discussion of risks and other specific characteristics associated with investing in private capital and impact investment funds. **Private equity investments** provide investors and funds the potential to invest directly into private companies or participate in buyouts of public companies that result in a delisting of the public equity. Investors considering an investment in private equity must be fully aware that these investments are illiquid by nature, typically represent a long-term binding commitment and are not readily marketable. The valuation procedures for these holdings are often subjective in nature. **Private debt investments** may be either direct or indirect and are subject to significant risks, including the possibility of default, limited liquidity and the infrequent availability of independent credit ratings for private companies.