Market Review Commentary

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Investment Management

STOCK RALLY CONTINUES IN FEBRUARY

The major stock indexes rallied in February, continuing to boost the returns of the largest stocks, and set new records in the process. January and February marked the two best months to start a year for the Dow Jones Industrial Average and the S&P 500 Index since 2019. Looking more closely across indexes, small capitalization stocks, as measured by the Russell 2000 Index, delivered a strong rebound of 5.65%, up from last month's negative return, and outpaced the S&P 500 Index return of 5.34%. Growth stocks, as measured by the Russell 1000 Growth Index, gained 6.82% and continued to outperform value stocks, which gained 3.69% as measured by the Russell 1000 Value Index. The 10-year U.S. Treasury yield edged higher in February, beginning the month at 3.85% and ending at 4.24%.

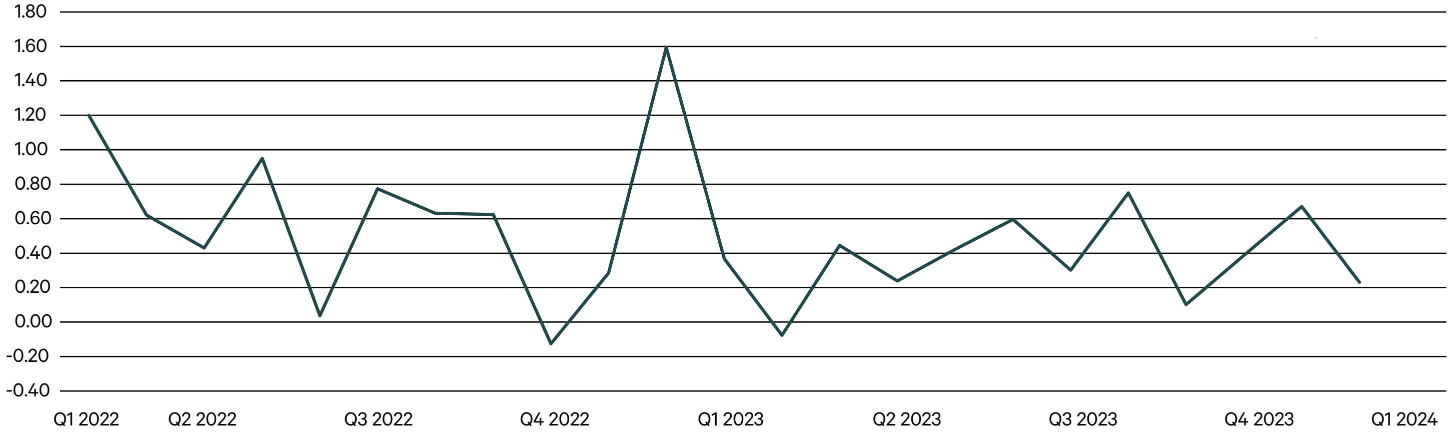
IMPROVING INFLATION DATA SUPPORTS MARKET RALLY

Markets were encouraged by improving inflation data and a resilient economy that continues to grow along with a strong labor market. At the start of the year, expectations were that the Federal Reserve would cut interest rates at least six times in 2024. That news helped accelerate stock gains along with inventor enthusiasm for artificial intelligence. Artificial intelligence continues to be a dominant theme propelling technology stocks higher, but there were some speed bumps along the way, as the Fed appeared to be in no rush to cut interest rates. While economic data supports a continued decline in inflation, the Fed said it will continue to watch the data to be sure the downward trend is sustainable before committing to rate cuts. This triggered a re-evaluation by market participants of how many interest rate cuts may occur in 2024. Once the market digested fewer rate cuts than expected, the major stock indexes resumed moving higher.

GRADUAL INTEREST RATE CUTS EXPECTED

At the end of the month, the Personal Consumption Expenditures (PCE) Index, an inflation measure closely watched by the Fed, continued to show signs of cooling, which matched Wall Street's expectations. As has been the case over the past two years, any inflation data not within expectations of the Central Bank weighs negatively on stocks.

FIGURE 1: PCE INDEX



Data as of February 29, 2024. Data is obtained from FactSet and is assumed to be reliable. ***Past performance is no guarantee of future results.***

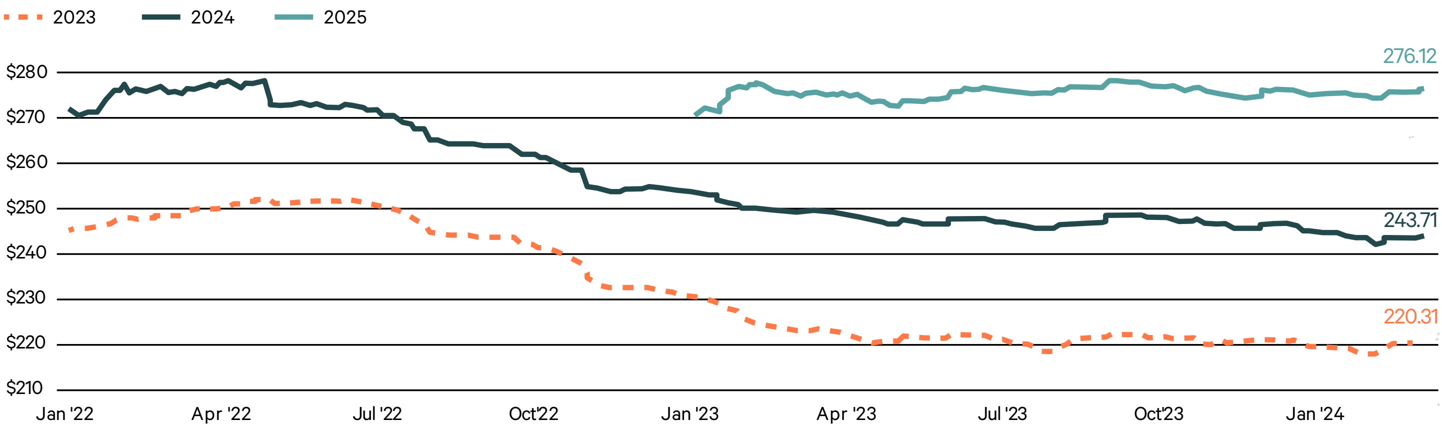
With news that the PCE Index came in lower than the prior month, stocks rallied to close out the month. Meanwhile, the fed funds rate continues to be in the range of 5.25% and 5.50%. While we are early in 2024, economic data seems to indicate that the Fed can contain inflation without triggering an economic slowdown. Talk of recession, which was a dominant theme last year, has receded to the background.

RATE CUTS SHOULD SUPPORT EARNINGS

While we have discussed the concern that market breadth has been narrow with the largest stocks dominating the performance of their respective indexes, we believe lower interest rates should allow better participation among a broader group of stocks. As rates move lower, that will help reduce the cost of capital for companies to grow and compete more effectively. Importantly, for the market to continue to rally, earnings growth will need to keep pace and not be revised down.

FIGURE 2: EARNINGS PER SHARE PROGRESSION

2023, 2024 & 2025 S&P 500® Index EPS Progression



Data presented is as of February 27, 2024 and is obtained from FactSet and Strategas and is assumed to be reliable. ***Past performance is no guarantee of future results.***

Rate cuts should help support earnings in 2024 and hopefully broaden participation across equity capitalization ranges.

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