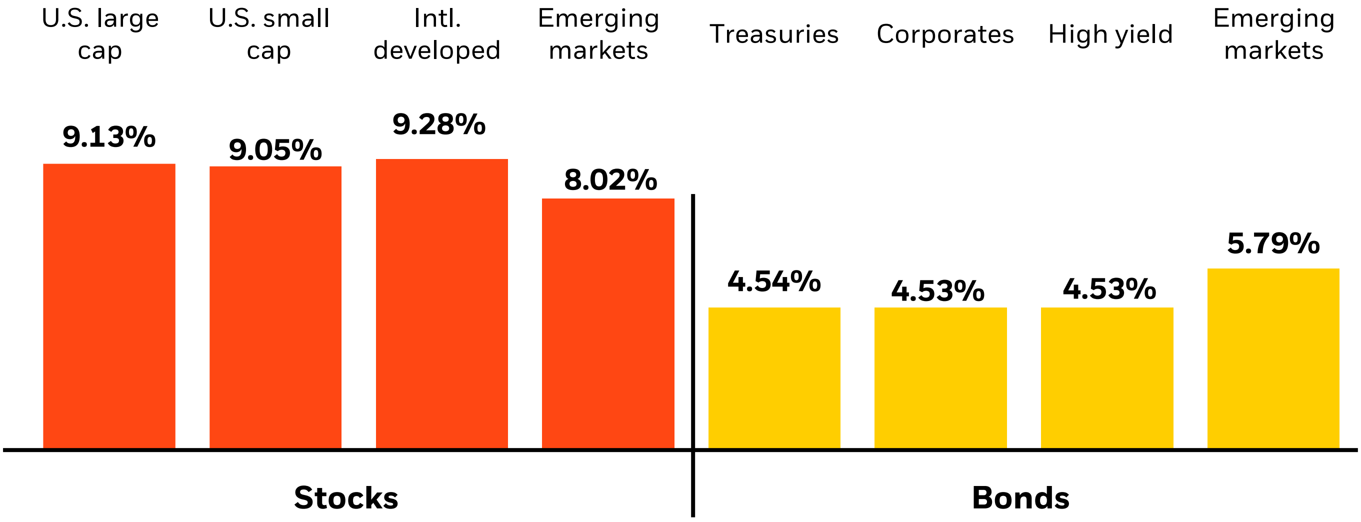
Market Insights

December 2023

Market review

The so-called “Santa Claus rally” came early this season, surprising investors with one of the best monthly returns for both stocks and bonds in years – a welcome gift after three consecutive months of losses. The festive turnaround was fueled by a cocktail of US economic moderation and global easing of inflation, hinting at an impending end to the cold snap of central banks' restrictive monetary policies. The S&P 500 donned its holiday best, soaring nearly double digits, with technology and growth stocks shining brightest, followed by a sharp bounce higher in beaten down small cap stocks. Commodities and energy stocks played Scrooge, retreating from their highs, with oil slipping below $80 per barrel. A diplomatic engagement between the US and China offered a glimmer of hope for reduced global tensions, supporting sentiment in emerging market stocks. The yield on the US 10-year Treasury plummeted from a mid-October peak of 5% to 4.3%, buoying the entire fixed income landscape from government bonds to US high yield and emerging market debt.

Market performance: November 2023



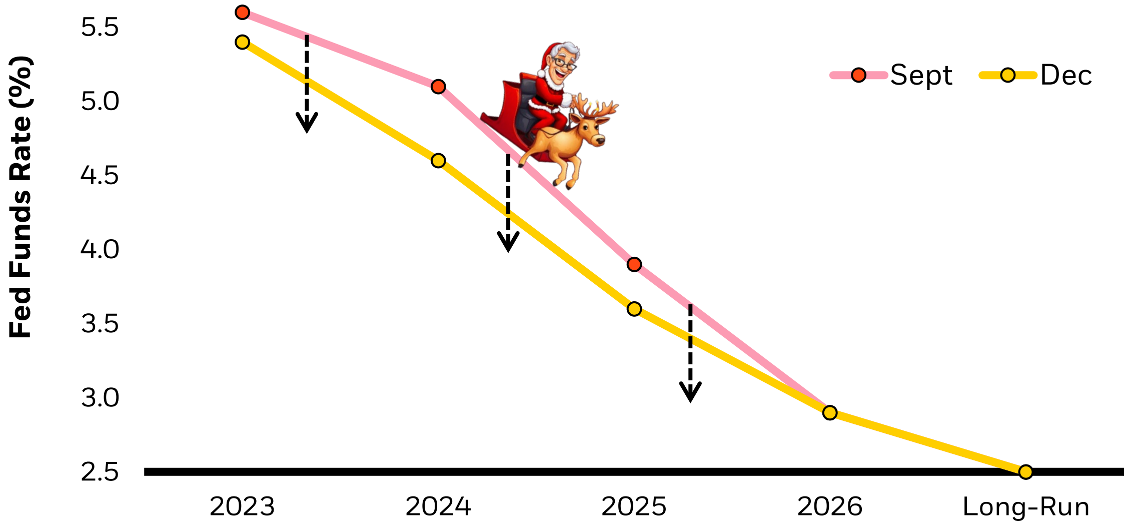
Source: BlackRock. Monthly returns for the period 11/1/23 – 11/30/23. U.S. large cap stocks represented by the S&P 500 Index; U.S. small cap, Russell 2000 Index; international developed, MSCI EAFE Index; emerging market stocks, MSCI Emerging Markets Index; Treasury bonds, Bloomberg U.S. Treasury 7-10 Year Total Return Index; corporate bonds, Bloomberg U.S. Aggregate Bond Index; high yield bonds, Bloomberg High Yield 2 Issuer Capped Index; EM bonds, JP Morgan Emerging Market Bond Index-Global. **Index performance is for illustrative purposes only. Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.**

On… the December FOMC: it's beginning to look a lot like rate cuts

"A surprise gift to investors from Chair Powell at yesterday's decisively dovish press conference, as he explicitly acknowledged rate cuts are "com[ing] into view". The Fed's updated dot plot also revealed 12 of 19 participants marking down their assessment of required tightening for the remainder of this year, with a median expectation of 3 rate cuts by end of next year (vs just 1 rate cut projected at the previous meeting). This now clearly signals a dovish acquiescence to faster-than-previously-anticipated disinflation. Markets are pricing around an 87% chance the number of rate cuts in 2024 will exceed 3 – now expecting more like 6 to 7 (150-175 bps). Our contrarian, long duration fade of the overly crowded 'higher for longer' trade is becoming more fashionable by the hour, as those late to the party scramble to ditch their 'T-Bill and Chill' narratives, move out the curve, and warm up to stocks. We've been well positioned for this scenario since mid-October and expect the rally could continue into year-end. Happy Holidays!"

Michael Gates
Managing Director
Lead portfolio manager

Fed Median Projected Year-End Fed Funds Rate



Source: Federal Reserve, Federal Open Market Committee (FOMC) Summary of Economic Projections, as of December 13, 2023. Santa Powell' custom cartoon generated using Midjourney AI.

Asset class views

Source: BlackRock as of 11/30/2023

Views are subject to change

Positive	**U.S. equities**	We move further overweight U.S. stocks, "buying the dip" on technology and large cap growth companies with strong, quality businesses and robust earnings.
	U.S. treasuries	We are overweight U.S. treasuries with a barbell preference for short- (floating rate) and long-duration nominals for diversification purposes.
Neutral	**Emerging market bonds**	We maintain near benchmark-weight in emerging market bonds in fixed income-heavy models due to attractive yields and potential softening dollar strength
	Factors	We compartmentalize our growth and value factor bets within regions as rate, inflation, and recession outlooks diverge, with continued broad preferences for growth and quality factor exposures.
	High yield credit	We express a slight preference for US high yield bonds, with a targeted tilt toward higher quality and undervalued issues.
Negative	**Non-U.S. Developed equities**	We are underweight international developed market equities due to weakening corporate earnings signals and more pronounced downside vulnerability to potential rising energy prices and geopolitical turmoil.
	Emerging market equities	We remain cautious on emerging market stocks but increase exposure to countries with the most attractive growth prospects (like Taiwan) while also seeking to limit exposure to the litany of mounting headwinds in China.
	U.S. investment grade credit	We hold close to benchmark exposure to investment grade credit and mortgage-backed securities, increasing exposure to credit risk in bond-heavy portfolios for potential upside.

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Fixed income risks include interest-rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in bond values. Credit risk refers to the possibility that the bond issuer will not be able to make principal and interest payments. Non-investment-grade debt securities (high-yield/junk bonds) may be subject to greater market fluctuations, risk of default or loss of income and principal than higher-rated securities. Mortgage-backed securities ("MBS") and commercial mortgage-backed securities ("CMBS") are subject to prepayment and extension risk and therefore react differently to changes in interest rates than other bonds. Small movements in interest rates may quickly and significantly reduce the value of certain mortgage-backed securities. There may be less information on the financial condition of municipal issuers than for public corporations. The market for municipal bonds may be less liquid than for taxable bonds. Some investors may be subject to federal or state income taxes or the Alternative Minimum Tax (AMT). Capital gains distributions, if any, are taxable. An investment in a treasury Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency and its return and yield will fluctuate with market conditions.

International investing involves risks, including risks related to foreign currency, limited liquidity, less government regulation and the possibility of substantial volatility due to adverse political, economic or other developments. These risks often are heightened for investments in emerging/developing markets and in concentrations of single countries. Funds that concentrate investments in specific industries, sectors, markets or asset classes may underperform or be more volatile than other industries, sectors, markets or asset classes and the general securities market. Technology companies may be subject to severe competition and product obsolescence.

A fund's use of derivatives may reduce a fund's returns and/or increase volatility and subject the fund to counterparty risk, which is the risk that the other party in the transaction will not fulfill its contractual obligation. A fund could suffer losses related to its derivative positions because of a possible lack of liquidity in the secondary market and as a result of unanticipated market movements, which losses are potentially unlimited. There can be no assurance that any fund's hedging transactions will be effective.

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A fund's environmental, social and governance ("ESG") investment strategy limits the types and number of investment opportunities available to the fund and, as a result, the fund may underperform other funds that do not have an ESG focus. A fund's ESG investment strategy may result in the fund investing in securities or industry sectors that underperform the market as a whole or underperform other funds screened for ESG standards. In addition, companies selected by the index provider may not exhibit positive or favorable ESG characteristics.

Alternative investments present the opportunity for significant losses and some alternative investments have experienced periods of extreme volatility. Alternative investments may be less liquid than investments in traditional securities.

Commodities' prices may be highly volatile. Prices may be affected by various economic, financial, social and political factors, which may be unpredictable and may have a significant impact on the prices of precious metals.

Actively managed funds do not seek to replicate the performance of a specified index. Actively managed funds may have higher portfolio turnover than index funds.

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