EDGE
CAPITAL GROUP

WHICH WAY?

2024 Q1 Outlook

KEY THEME THAT DROVE 2023

In the first half of 2023, the stock market rally was unusually concentrated. According to an attribution analysis of the Morningstar US Market Index, at the end of June, the returns from only seven stocks accounted for approximately 75% of the total market value return for the first half of the year. At that time, we noted that we thought the Magnificent Seven was running out of steam as those stocks approached our fair value estimates. We also noted that according to our valuations, we expected further gains would broaden out across the rest of the market which remained at much more attractive valuations.

As the market has continued to rise and returns have broadened out, as of December 21, 2023, the same attribution analysis reveals that the Magnificent Seven now only accounts for 52% of the total market return.

Magnificent Seven Responsible for 52% of Gains

Name/ Ticker	Index Weighting %	YTD Return %	YTD Contribution Index Return %
Microsoft MSFT	5.68	55.76	2.78
Apple AAPL	6.23	49.83	2.67
Nvidia NVDA	2.16	235.23	2.32
Amazon.com AMZN	2.63	83.14	1.72
Alphabet GOOGL	3.22	59.15	1.60
Meta Platforms META	1.39	194.24	1.43
Tesla TSLA	1.42	106.61	0.96

Source: Morningstar, data as of December 21, 2023. Please refer to Important Disclosures for additional information.

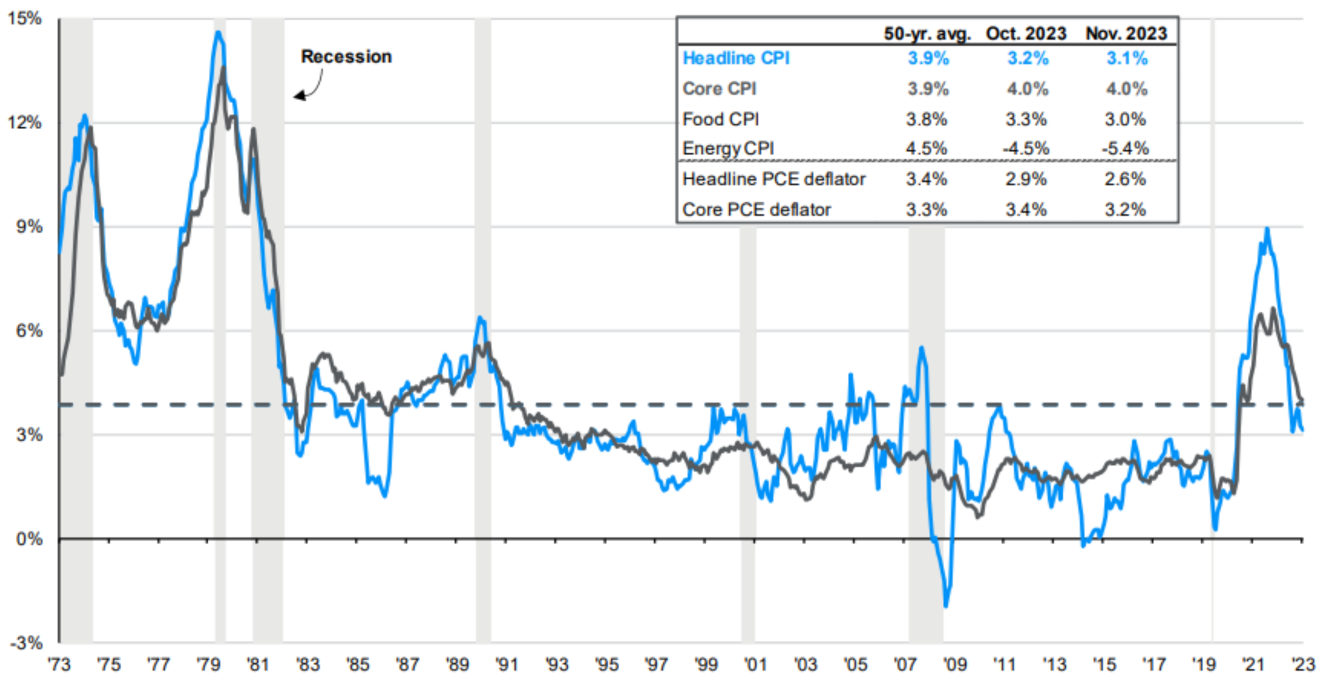
KEY THEMES DRIVING THE 1ST QUARTER

INFLATION

- Inflation has leveled off just above 3%, which is still a ways away from the Fed's 2% target, but getting closer. It will be critical to market performance to see it continue lower rather than level off.
- Where inflation heads over the course of 2024 will have an outsized impact on both stock and bonds markets.

Disinflation continues, but how far?

CPI and Core CPI (% change vs. prior year, seasonally adjusted)



Source: JP Morgan. Please refer to Important Disclosures for additional information.

KEY THEMES DRIVING THE 1ST QUARTER

EARNINGS

- With inflation slowing as well as the economy, can companies realize the kind of corporate earnings growth baked into the stock market? With the market trading at more than 19x forward earnings, things appear priced for continued positive news.
- Expectations are for S&P earnings of about $245/share in 2024. When companies report Q4 2023 earnings this quarter, we'll get an early look into how this year is shaping up.

2023, 2024 and 2025 S&P 500 EPS Progression

Source: FactSet. Please refer to Important Disclosures for additional information.

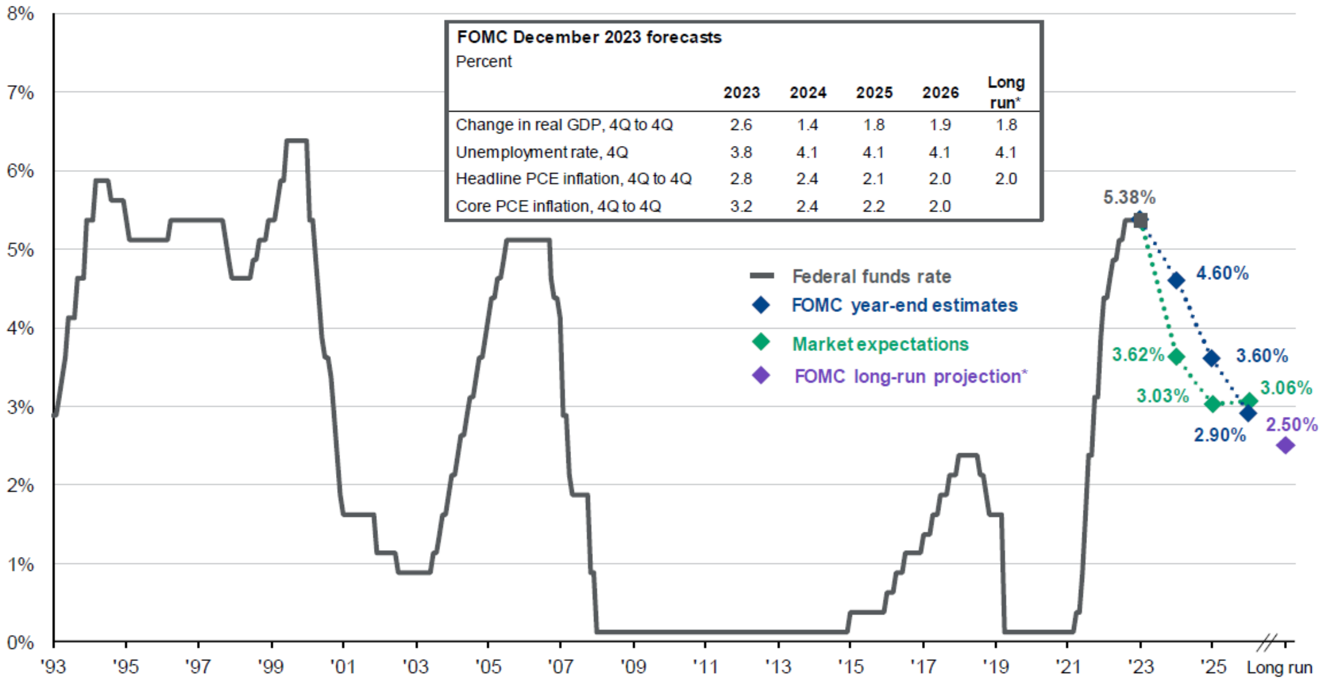
THE FED

- The Fed struck a dovish pivot with Powell's press conference in December, which lifted stocks to fresh highs and extended the recent bond market rally. Meetings in Q1 could dictate which way the market moves next.
- Meetings in January and March should give the market much greater direction on the Fed's plans for rate cuts in 2024. The market is looking for 5-6 cuts, which could actually be a bearish sign for the broader economy.

Market expects a lot of Fed cuts

Federal Funds Rate Expectations

(FOMC and market expectations for the federal funds rate)



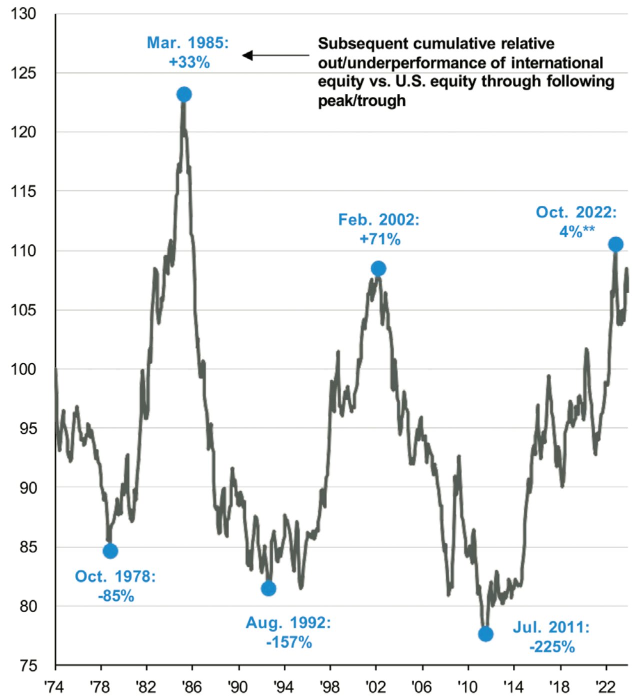
Source: JP Morgan. Please refer to Important Disclosures for additional information.

KEY THEMES DRIVING THE 1ST QUARTER

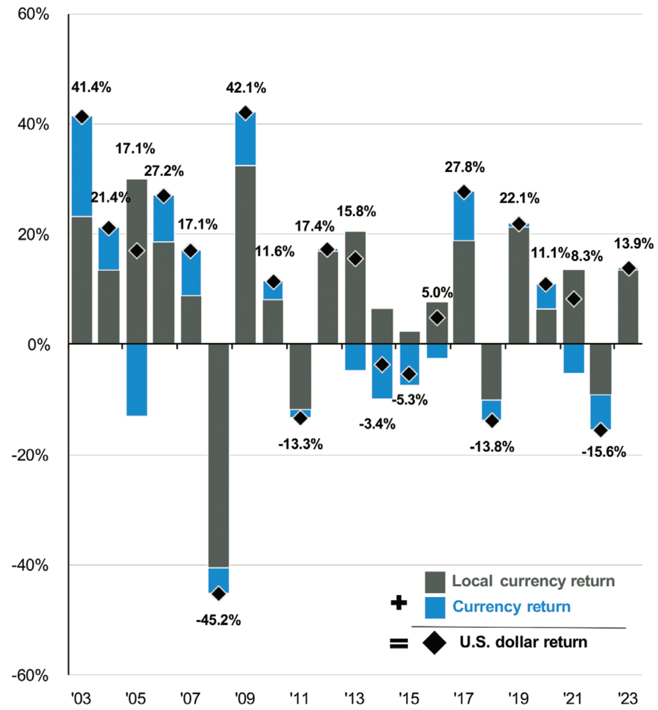
THE U.S. DOLLAR

- With the Fed meeting twice this quarter, further dovish comments from Chairman Powell could help the U.S. Dollar continue to weaken from its October high.
- A weaker dollar traditionally provides a boost to emerging market stocks as well as developed international markets.

U.S. Dollar and Relative International Equity Returns: real broad effective exchange rate, MSCI World ex-U.S. vs. S&P 500*



Currency Impact on International Returns: MSCI All Country World ex-U.S. Index, total return



Source: JP Morgan. Please refer to Important Disclosures for additional information.

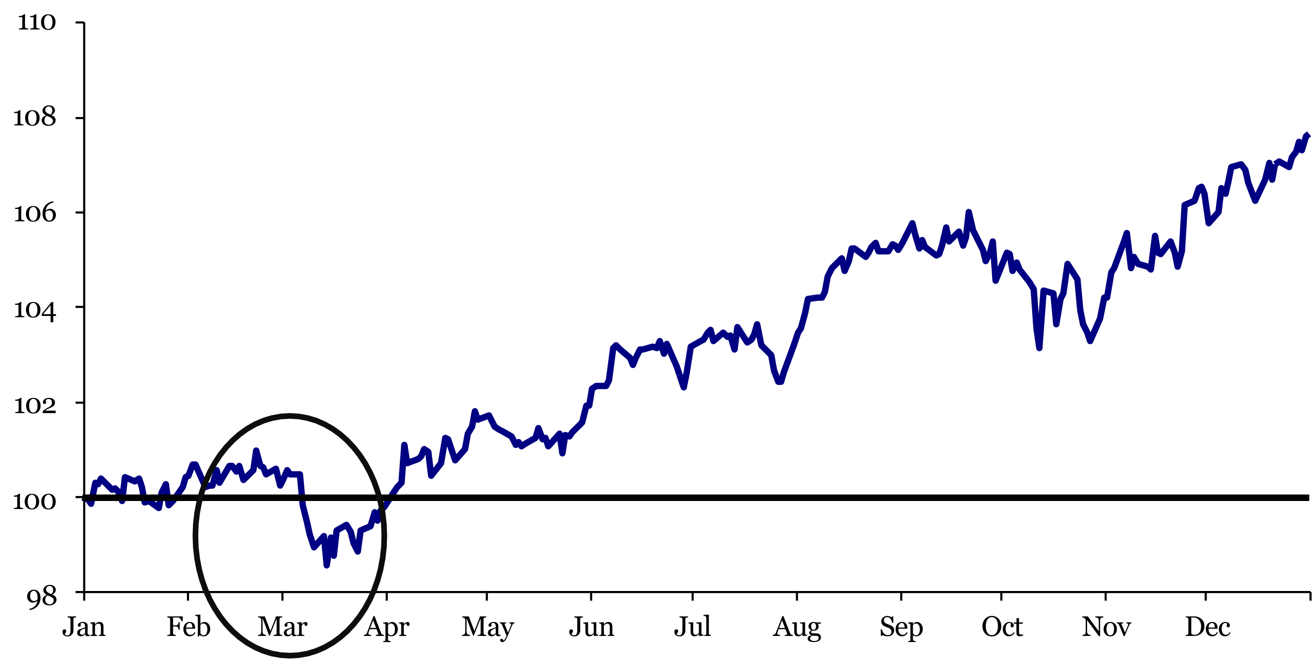
KEY THEMES DRIVING THE 1ST QUARTER

GEOPOLITICS

- We enter the presidential election year and the primaries kick off in earnest in Iowa and New Hampshire in mid-January. After a busy March calendar we should know the Republican nominee by the end of the first quarter.
- War continues in Ukraine and Gaza and risk of escalation remains, which would likely be damaging to global equity markets.

Equity market sells off around Super Tuesday as a presidential challenger emerges

S&P 500 Avg. Performance: All Presidential Election Years 1960 - 2022



Source: Strategas. Please refer to Important Disclosures for additional information.

EQUITY ASSET CLASSES

U.S. LARGE CAP
NEUTRAL

RATIONALE After stumbling in October, large cap stocks rallied throughout November and into December, jumping even higher after the Federal Reserve met in mid-December. Mega cap US stocks continue to lead the market as investors gravitate towards the cash flow generation and technological leadership of the biggest U.S. companies. With the Fed conceding that rate hikes are over and rate cuts are now part of the conversation, stocks look poised for further gains, but lofty valuations could keep gains for U.S. large cap in check vs. other parts of the market.

RISK The top-heavy S&P 500 is trading at a relatively high forward earnings multiple. If the economy weakens and/or corporate earnings come in lighter than expected, stocks could sell off. If the Fed cuts rates at its March meeting or signals that cuts are coming soon the market could rally, however if inflation sticks around and the Fed reiterates the higher for longer narrative, frothy mega-cap stocks could struggle.

U.S. MID & SMALL CAP
FAVORABLE

RATIONALE After bottoming in late-October small cap stocks finally flexed their muscle the last two months of the year starting with a 9% gain in November. There appears to be room for that run to continue as the valuation gap between large and small cap stocks remains even after the Russell 2000s upward swing. The prospect of multiple Fed rate cuts in 2024 is supportive of smaller companies provided the economy continues to grow. Lower interest rates will aid small companies, which tend to carry higher interest costs than larger companies.

RISK Valuation can be an inaccurate mechanism for gauging near-term market performance so small caps could revert to stock market laggards if rates remain high and earnings don't materialize. If rates stay higher for longer, small caps face the prospect of issuing more debt in this higher rate environment. If rates come down, that frees up more capital for investment and growth.

INTERNATIONAL
NEUTRAL

RATIONALE International stocks rallied right alongside their U.S. brethren in the year-end rally, posting strong double-digit returns over the final two months of 2023. Valuations remain compelling, as the sector has lagged for about a decade now. The weakening U.S. dollar provides a further tailwind to returns, however economic growth remains rather anemic and inflation, while trending downward, still shows some signs of stickiness. Like many asset classes at the start of 2024, a compelling case can be made for gains or struggles.

RISK If inflation sticks in the U.S. and rates don't go down as much as anticipated, the U.S. dollar could pivot and start to rise again, hurting overseas equities. Additionally, the economic situation in Europe remains precarious making it difficult to be too bullish on the region, while it's tough to be too bearish when the prospect of central bank rate cuts could set the stage for a stock market rally.

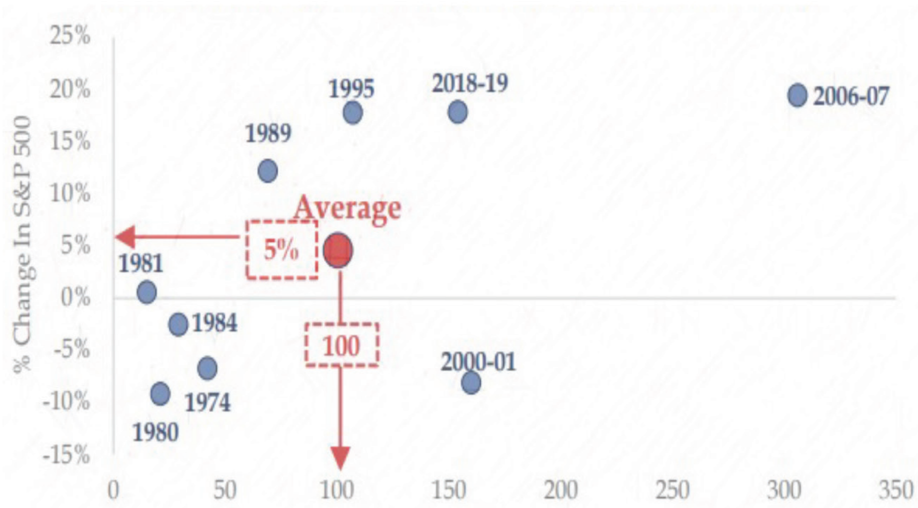
EMERGING MARKETS
NEUTRAL

RATIONALE A beneficiary of the broad-based rally that began in November, we think there remains opportunity within emerging markets equities. China's struggles remain but valuations present opportunities for active managers. In addition, Latin America shows signs of strength and India's economy shares similarities to China's from 10-20 years ago, but with more democratic institutions in place. Add a weakening U.S. dollar and performance could match that of U.S. markets.

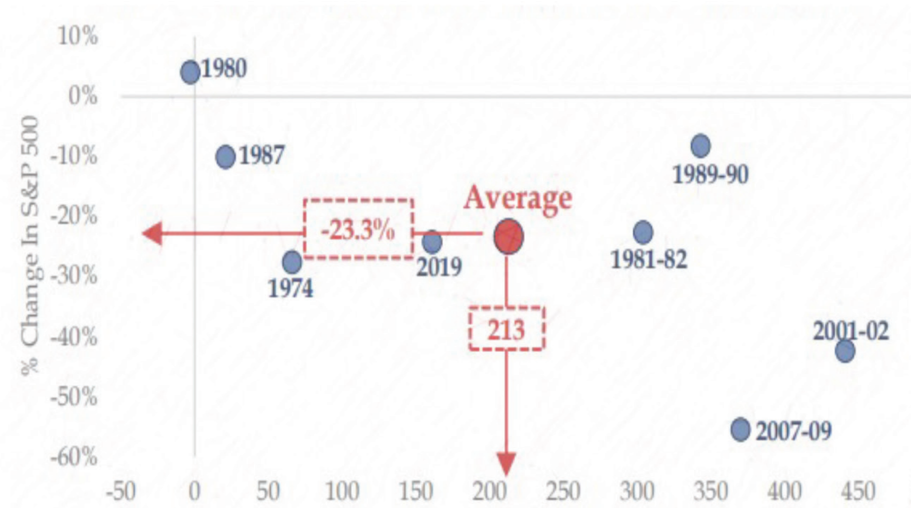
RISK Risks in EM are largely two-fold. First, does the U.S. dollar reverse and move higher? If the dollar remains on its downward trajectory, EM stocks should benefit from that tailwind. Second, China remains about 30% of the index so how the economy and markets there perform continues to have outsized impact on the asset class (though India is increasingly becoming a larger weight in the benchmark, now accounting for about 17% of the market cap).

Fed Cuts Are Not Always A Good Thing

Trading Days From Last Fed Rate Hike to First Cut
Trading Days From Last Fed Rate Hike to First Cut vs.
S&P 500 % Change From Last Fed Rate Hike to First Cut



Trading Days From First Fed Cut to S&P Market Low
Trading Days From First Fed Rate Hike to S&P Market Low vs.
S&P 500 % Change From First Fed Cut to Market Low

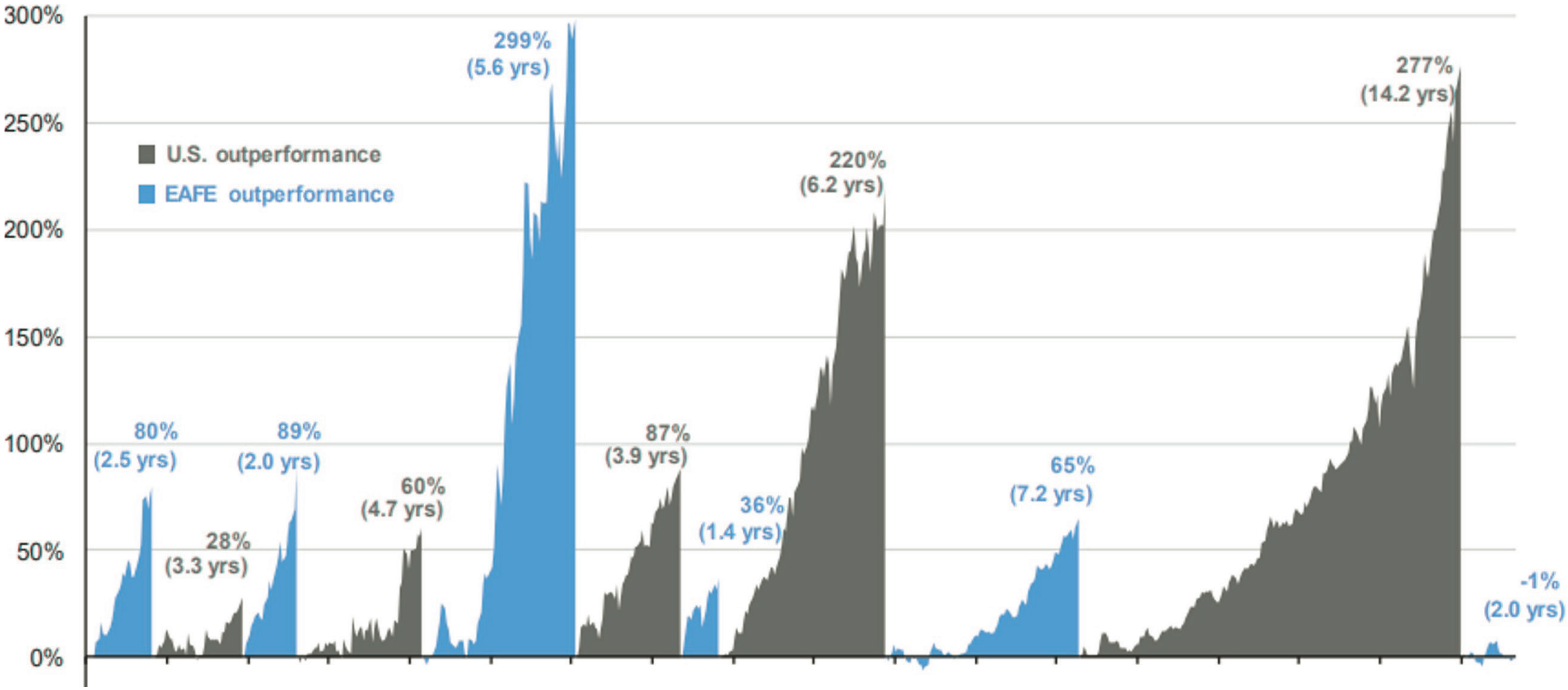


Source: Strategas. Please refer to Important Disclosures for additional information.

EQUITY ASSET CLASSES

Can U.S. Outperformance Continue?

MSCI EAFE and MSCI USA Relative Performance (U.S. dollar, total return, cumulative outperformance)

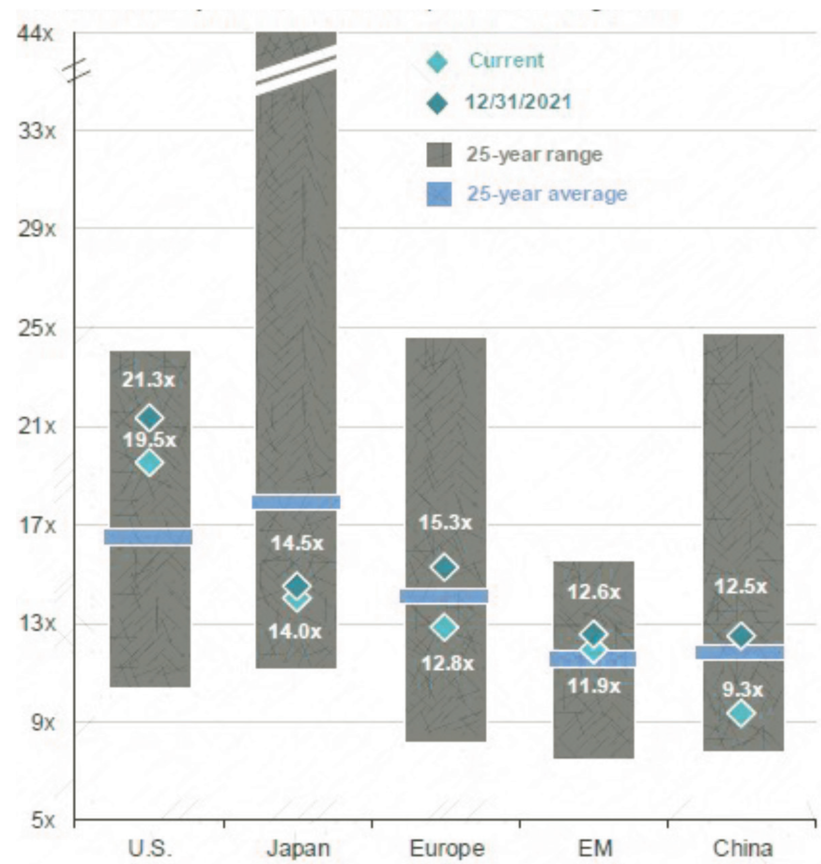


Source: JP Morgan. Please refer to Important Disclosures for additional information.

Non-U.S. Equity Valuations Are Lower Valuations at Surface

International: Price-to-Earnings Discount vs. U.S.
MSCI All Country World-ex-U.S. vs. S&P 500, next 12 months

Global Valuations
Current and 25-year next 12 months price-to-earnings ratio



Source: FactSet, MSCI, Standard & Poor's, JP Morgan Asset Management, Guide to the Markets—U.S. Data as of December 31, 2023. Please refer to Important Disclosures for additional information.

FIXED INCOME ASSET CLASSES

CORE FIXED INCOME
FAVORABLE

RATIONALE Robust coupons remain available. With interest rates remaining at levels not seen in more than a decade, investors are able to clip coupons and spend most of their risk budget within equities. Early economic data has been supportive of increased odds for the Fed to cut interest rates this year, potentially as soon as March, which would likely bolster bond returns.

RISK The main risk to core fixed income is found on the corporate level. Ratings downgrades have increased broadly and may serve as a signal for investors to continue to pursue issues with cash rich balance sheets. In addition, this much excitement around Fed rate cuts introduces increased volatility and the opportunity for markets to quickly move away from investors in a scenario where the Fed maintains rates higher for longer.

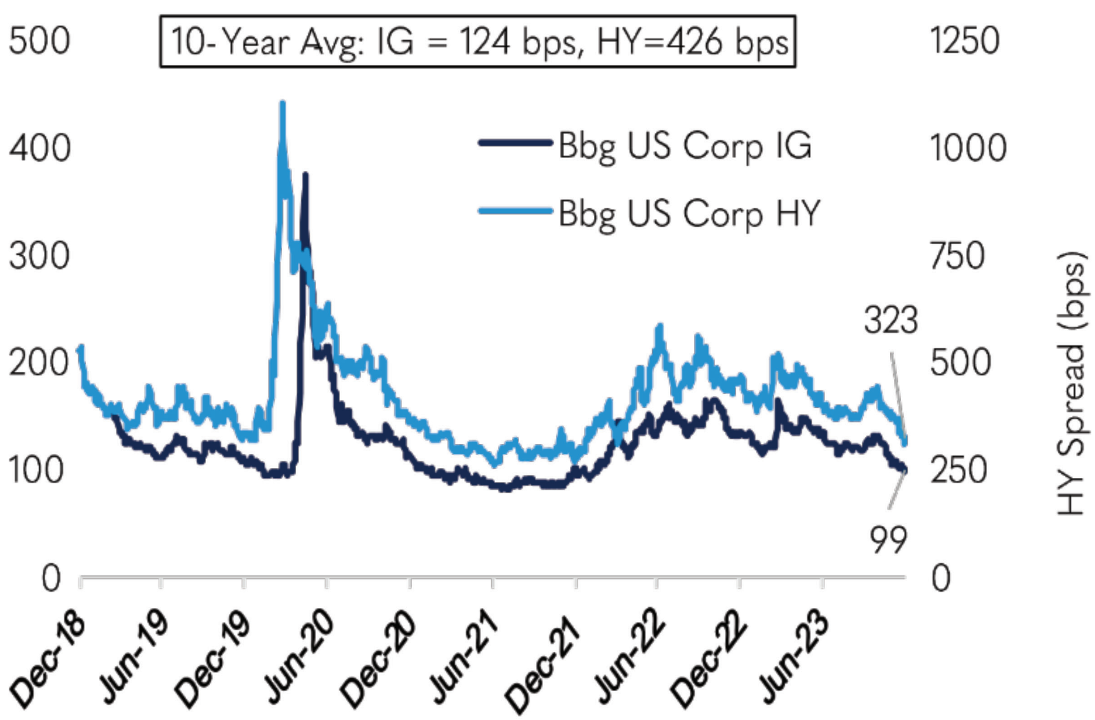
OPPORTUNISTIC CREDIT
UNFAVORABLE

RATIONALE We believe investors are not being compensated for a potential negative surprise to the economic and interest rate outlook and would therefore underweight opportunistic credit. High yield spreads have narrowed to 425 basis points, signaling a U.S. economy that can weather the negative impact of higher interest rates. More supply coming to market along with deteriorating credit fundamentals argues for higher spreads to compensate investors. Within structured credit, spreads came in considerably during the 4th quarter of 2023, and while the Fed has signaled an earlier end to QT, any continued MBS paydowns are expected to go into Treasuries, potentially widening spreads. We would tilt opportunistic credit exposure towards higher quality securities and consider drawdown vehicles to tactically increase exposure during any market dislocation.

RISK An economic scenario where inflation comes down and earnings growth surprises to the upside would likely lead to further spread narrowing and continued strength within opportunistic credit.

Corporate Market Spreads — Trailing 5 Years

Credit spreads continued tightening during the quarter and are well below their 10-year averages. This was driven by continued resilience in fundamentals.



Source: FactSet. Data as of December 29, 2023. Please refer to Important Disclosures for additional information.

NON-CORE ASSET CLASSES

INFRASTRUCTURE
NEUTRAL

RATIONALE Targeted cost controls and supportive funding provides optimism for infrastructure related securities. Utilities and Industrials have strong tailwinds from government investment into renewable energy and climate related initiatives. These tailwinds are left influx, as regulators scrutinize consumer rate increases. Other sectors such as railroads may see volume increases that are supportive of EPS growth following falling profitability amidst rate increases. Cooling inflation and falling interest rates in the "soft landing" scenario will be a welcome catalyst for broad based growth among this politically sensitive asset class.

RISK Key risk considerations for this asset class rely on the Fed's ability to secure the soft-landing scenario. Higher for longer rate policy could further suppress valuations and make dividends less attractive even with strong balance sheets and long-term growth opportunities.

REAL ESTATE
NEUTRAL

RATIONALE After a tremendous rally to end the year it feels like the good news is baked into REIT prices already. But if financial conditions do loosen, there is likely greater upside to valuations. Moreover, if the Fed starts cutting rates soon it could unleash a rebound in real estate property values though the weakness in office vacancies does remain an issue.

RISK If financial conditions remain tight, certain borrowers could struggle to refinance maturing debt, especially in stressed areas like commercial office. However, if rates come down while economic growth remains, it should present the conditions necessary for both publicly traded real estate securities and private real estate to rebound.

ALTERNATIVES
FAVORABLE

RATIONALE The rally in stock and bond prices through the end of the 4th quarter led some alternative strategies to underperform, specifically those managers that were aggressively short or caught off guard by the fall in inflation. Market observers now keenly describe valuations as pricing in a soft-landing scenario, as growth comes in "just right" and inflation decreases to manageable levels. We would caution that Fed speak and inflation readings can be volatile, and the market may be assuming near certainty of a soft-landing. Furthermore, Fed rate hikes are usually felt with a lag and the market is not fully appreciating the extent to which recent tightening will affect company fundamentals going forward. Higher interest costs, combined with high geopolitical uncertainty in an election year, should create ample investment opportunities for macro-aware investors and those who are able to profit from short positions.

RISK The risk to macro or long/short alternative strategies is illuminated by a Federal Reserve that is frequently adjusting their assessment of where inflation and rates should be in the future, and therefore, prone to changing course. The risk of government policy error is high, so hedging strategies should take this into account in overall positioning.

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Index information reflects the reinvestment of dividends and is included merely to show the general trend in the equity markets for the periods indicated. It is impossible to invest directly in an index.

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All figures are estimated and unaudited.

When referencing asset class returns or statistics, the following indices are used to represent those asset classes. Each index is unmanaged and investors can not actually invest directly into an index: Cash - Citigroup 90 Day T-Bill; TIPS - Bloomberg Barclays US Treasury; TIPS; Municipals - Bloomberg Barclays Muni Bond 5-Year; High Yield Municipals - Bloomberg Barclays High Yield Muni Bond; Aggregate Bond - Bloomberg Barclays US Aggregate Bond Index; High Yield - Bloomberg Barclays US Corporate High Yield; Foreign Bond - Bloomberg Barclays Global Aggregate Ex USD; Emerging Debt - JPMorgan GBI-EM Global Diversified Unhedged Index; Large Value - Russell 1000 Value; Large Blend - S&P 500; Large Growth - Russell 1000 Growth; Small Value - Russell 2000 Value; Small Blend - Russell 2000; Small Growth - Russell 2000 Growth; International - MSCI EAFE; Emerging Markets - MSCI EM; Domestic REITs - FTSE NAREIT Equity REITs; Global REITS - S&P Developed World Property; Commodities - Bloomberg Commodity Index; MLP - Alerian MLP; Hedge Funds - HFRI Fund of Funds Composite Index; Balanced^ - 3% Bloomberg Barclays US Treasury TIPS, 31% Bloomberg Barclays US Aggregate Bond Index, 1.5% Bloomberg Barclays Global Aggregate Ex USD, 1.5% Bloomberg Barclays Global Aggregate Ex SD (Hedged), 4% Bloomberg Barclays US Corporate High Yield, 2% JPMorgan GBI-EM Global Diversified Unhedged Index, 17% S&P 500, 6% Russell 2000, 15% MSCI EAFE, 7% MSCI EM, 3% FTSE NAREIT Equity REITs, 2% Bloomberg Commodity Index, 5% Alerian MLP, 2% Citigroup 3 Month T-Bill