



PEDAL TO THE METAL

2024 Q2 Outlook

Topics of Discussion

- ▲ Highlights of Q1 Performance
- ▲ Key Themes Driving Q2
- ▲ Key Wealth Strategy Reminders Q2

PEDAL TO THE METAL



We have started the 2nd quarter with a decline in both equity and bond markets, as investors show renewed concern surrounding the trajectory of inflation. Investors are slowly digesting a Fed signaling a higher for longer stance on interest rates. Markets were hoping for a more lenient monetary policy and are now disappointed in the projection for 1 or maybe 2 interest rate cuts, as opposed to an expectation of 6 earlier this year. This shift in interest rate expectations can be seen beneath the surface of markets. Areas such as small cap equity that are more sensitive to higher interest rates have suffered a larger decline in the month of April.

According to a recent Bank of America global fund manager survey, expectations for a “no landing” scenario have surged in recent months. Leading economic indicators have strengthened, and the labor market shows very few signs of loosening. It should therefore not come as a surprise that the election betting markets have increased their wagers on a Biden victory come November. After all, it’s the economy that matters...right?

Strap on your seat belts and get ready for a fun ride! This year’s election is bound for twists and turns and should create attractive entry points for those looking to add market exposure. The current administration has the pedal to the metal to keep the economy humming along – from student loan cuts to stimulative Treasury liquidity measures. As the markets digest recent earnings and economic data, being selective in adding risk and opportunistic as volatility increases, is a prudent theme for the remainder of the year.

HIGHLIGHTS OF Q1 PERFORMANCE



The S&P 500 Index reached new highs in the first quarter and valuations moved higher. Strong price movement, as opposed to earnings, accounted for a meaningful portion of the valuation jump. Concentrated leadership within the index has created a valuation gap between the top 10 names and the rest of the index.

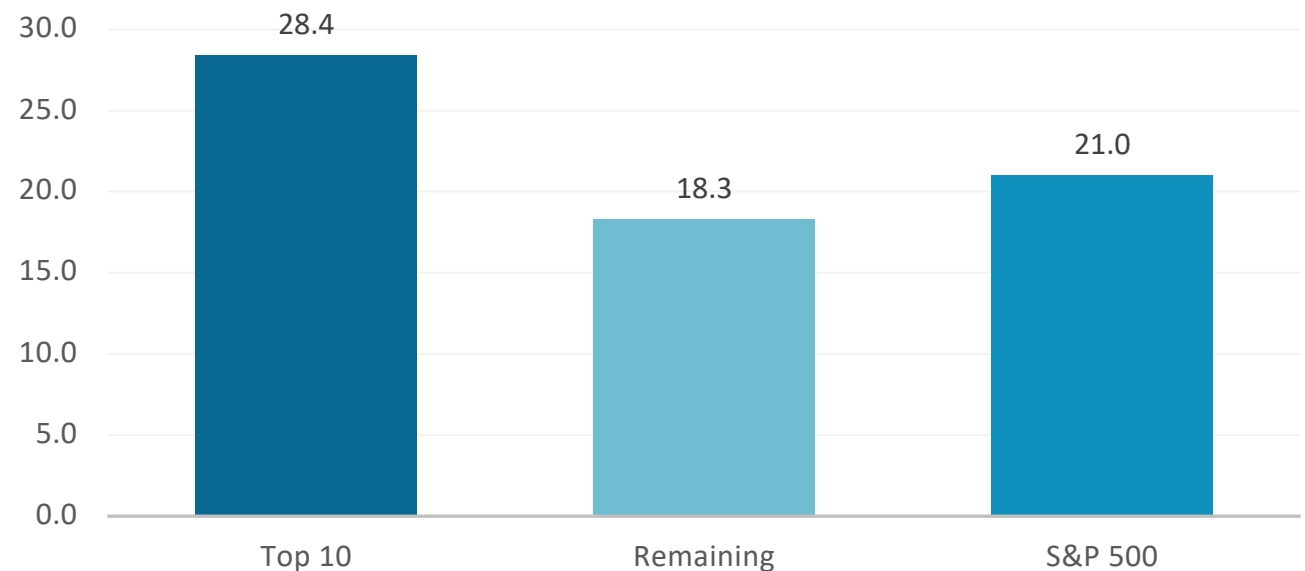
At the index level, profit margins have been trending lower as input costs (higher rates and higher wages) have moved higher. This implies companies will need to exceed revenue expectations, cut costs, or both to meet expectations and justify multiples.

Fixed income valuations look favorable relative to equities and with expected rate cuts on the horizon, the expected return prospects for fixed income look attractive.

Concentrated Leadership In The S&P 500 Has Driven Valuations Higher

Forward P/E Ratio – Top 10 Constituents vs. S&P 500

Concentrated leadership in the S&P 500 has driven valuations higher. The top ten constituents trade at a significant premium to the remaining stocks in the index, creating potential opportunities outside of these expensive large cap names.



EARNINGS SHOWING RESILIENCE



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 close to 21x forward earnings, things appear priced for continued positive news.

Expectations are for S&P 500 earnings of about \$244/share in 2024 and \$276/share for 2025, implying double digit earnings growth for both years.

Annual EPS Projections Are Holding Steady Thus Far For 2024 & 2025

2023, 2024 & 2025 S&P 500 EPS Progression



POSITIVE EARNINGS: REVISIONS MADE A DIFFERENCE

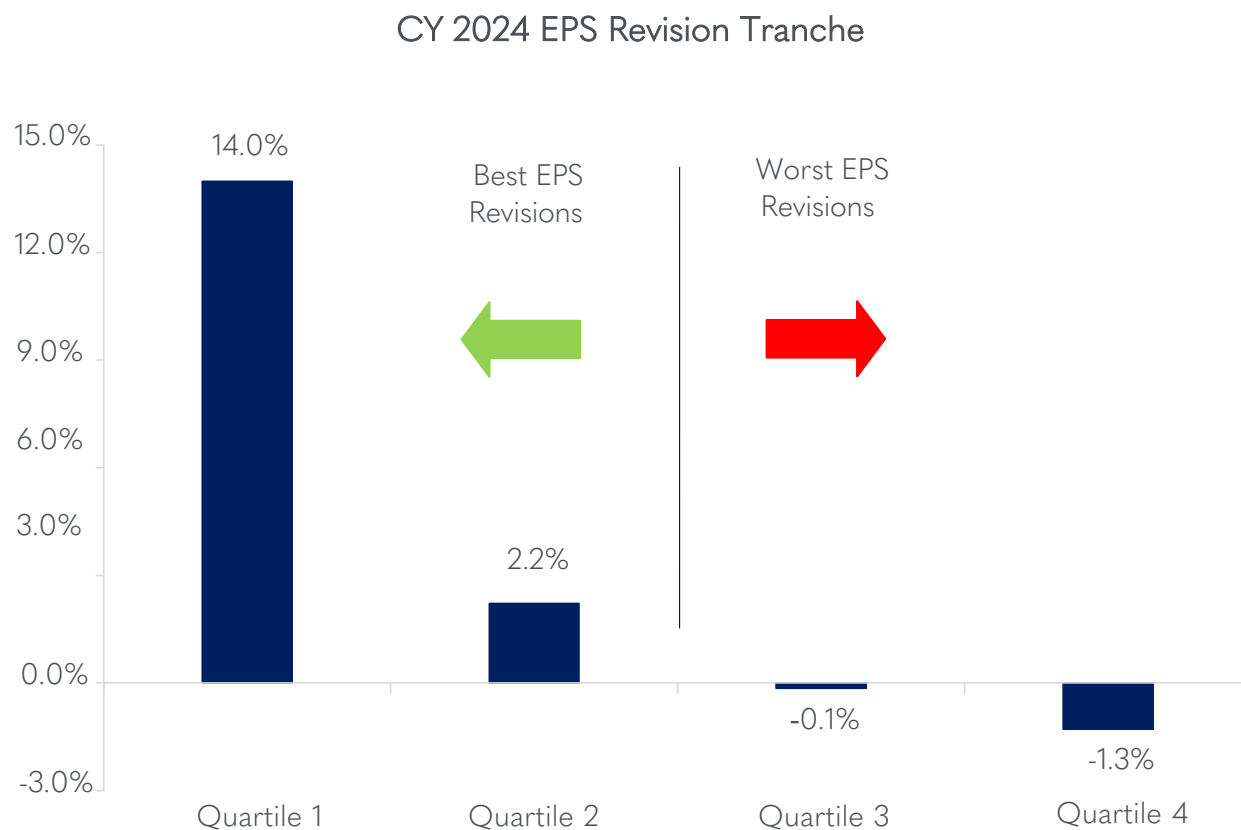


EARNINGS

Breaking down the S&P 500 by earnings momentum quartiles shows a strong correlation between returns and earnings growth.

On average, the companies with the best EPS revisions have seen the strongest returns YTD and vice versa.

YTD Total Return By % Change In 2024 EPS Revisions



VALUATION PREMIUM FOR BIG CLOUD COMPUTING



VALUATION PREMIUMS

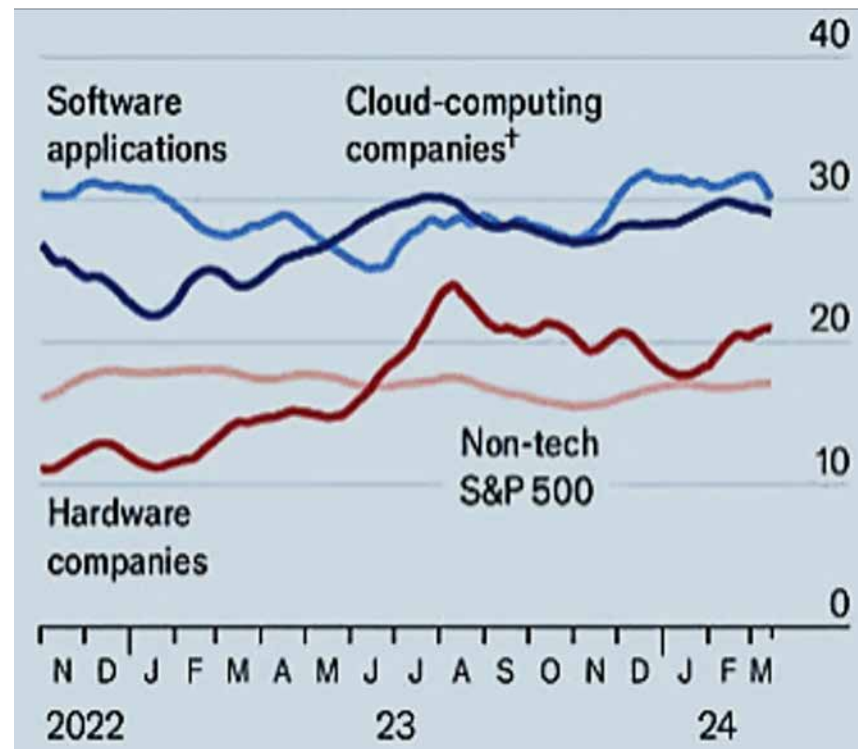
The combined market value of the biggest 3 cloud players - Google, Amazon, and Microsoft - has increased by \$2.5 trillion during the Artificial Intelligence (AI) boom. On a relative basis when compared to estimated revenues coming from AI, the valuation increase exceeds other segments of the AI market, implying that investors expect the 3 cloud giants to be the biggest winners.

The 3 companies have an average forward P/E ratio of 29, approximately 50% higher than non-tech firms in the S&P 500.

An early advantage in data, computing power, market position (large commercial partners prefer to do business with the big 3), and the ability to control the entire AI tech stack may justify the P/E premium.

The Market Is Betting On Large Cloud Computing Companies

Worldwide Median-Price-To-Earnings Ratio*



Sources: Bloomberg; The Economist. *One-month moving average. Average weighted by market capitalization.

Source: The Economist. "Just how rich are businesses getting in the AI gold rush." March 17th, 2024. Please refer to Important Disclosures for additional information.

INFLATION: GOODS LEVELING OFF, SERVICES STICKIER



INFLATION

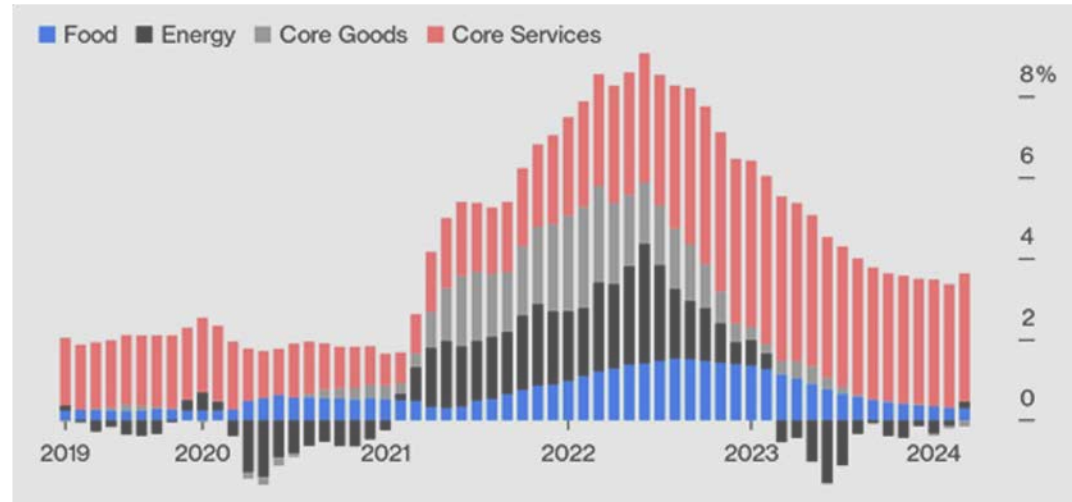
Recent U.S. inflation data has not helped markets. The U.S. CPI surprised to the upside at +0.4% m/m (3.5% y/y) & core (ex food & energy) was also up +0.4% m/m (3.8% y/y) in March.

Services inflation has increased more recently, creating upward pressure on yields.

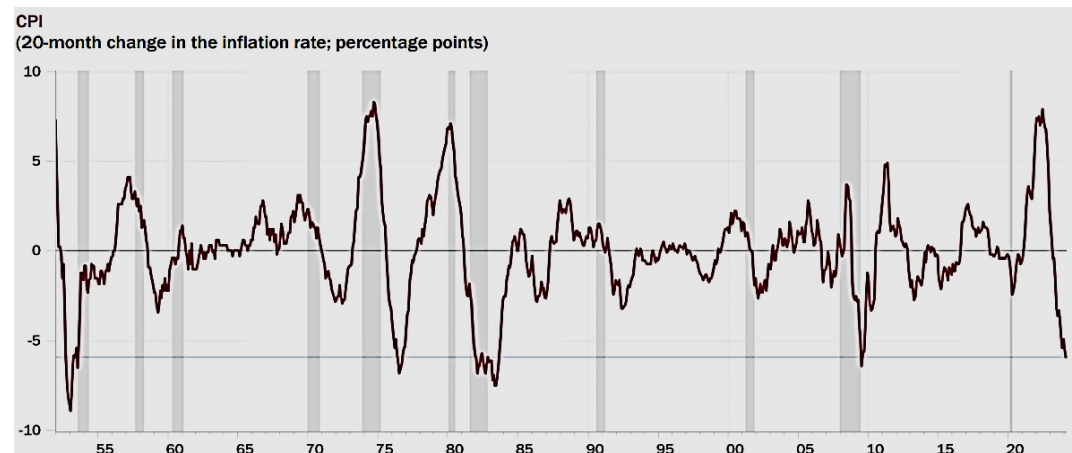
Recent strength in economic data (e.g., retail sales) provides cover for the Fed to delay cuts a bit further.

The 20-Month decline in inflation has shown meaningful progress, partially explaining the market's optimism.

Services Driving The CPI More Recently



The 20-month Change Showing Meaningful Progress



RECENT ECONOMIC DATA PUTTING THE FED ON PAUSE



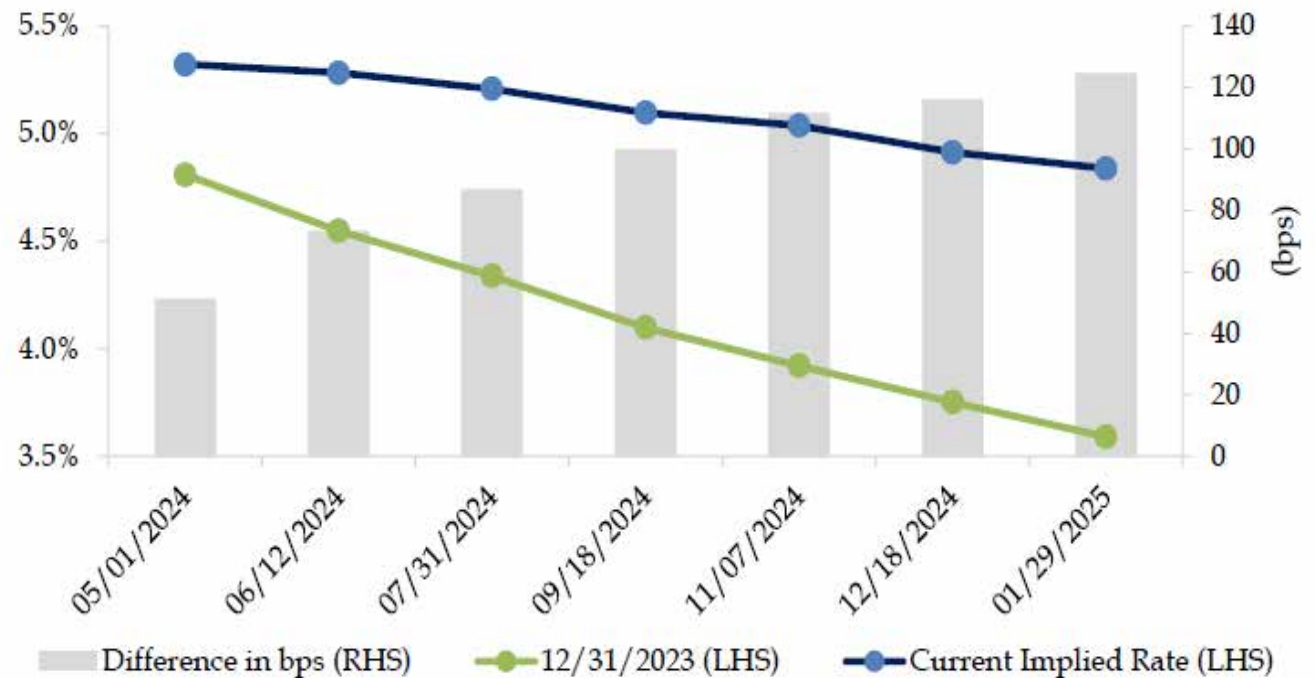
THE FED

While always volatile, the Fed Fund Futures show that odds of the Fed cutting rates this year continue to dwindle. The market is now pricing in just two cuts by the end of the year with one of those two cuts not fully priced in.

The Fed needs to see some signs of slowing economic growth before cutting rates more aggressively. Thus far YTD, the opposite is happening. Recent retail sales and inflation data have come in stronger than expected, putting the Fed on pause for longer.

A Fed on hold is not necessarily a bad thing and may be due to economic strength. A Fed cutting rates implies a deterioration in economic growth, which can negatively impact company earnings.

Implied Fed Funds Futures Rate vs. Change in Rates in Basis Points



LEADING ECONOMIC INDICATORS

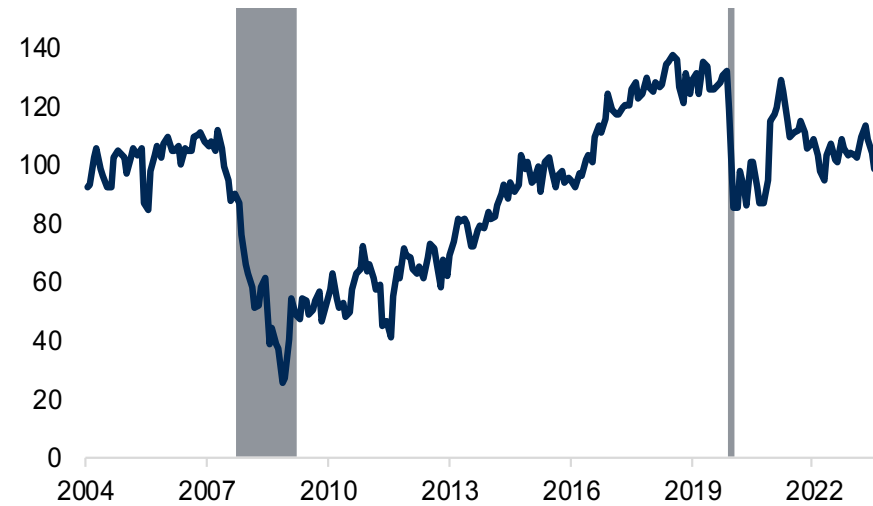


US ECONOMY

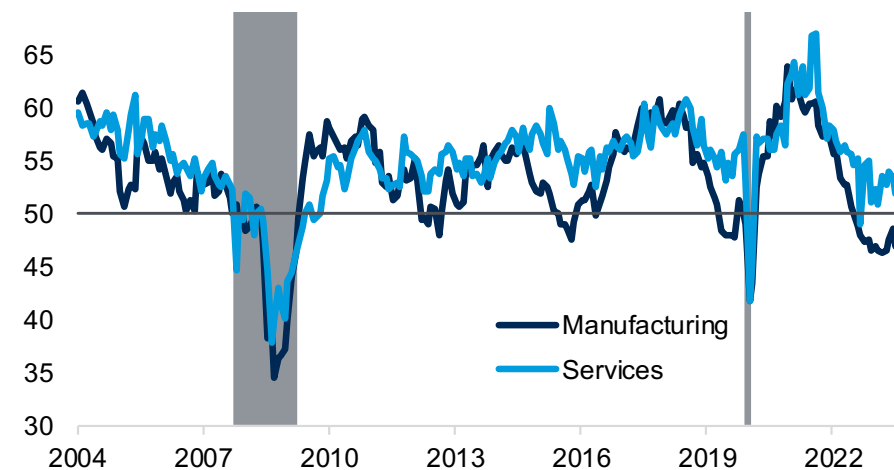
Recession fears have waned as leading economic indicators have begun to turn up, signaling further strength in the U.S. economy.

The ISM purchasing manager's index is a measure of demand for products and services. An acceleration in this measure, as we have seen more recently, may indicate a lower likelihood of recession.

U.S. Consumer Confidence¹



U.S. ISM PMI Levels²



¹Sources: FactSet, Conference Board, ECRI: as of March 29, 2024. Grey bars indicate recession period.

²Sources: FactSet, ISM, ECRI: as of February 29, 2024. Grey bars indicate recession period. A level of 50 indicates expansion.

Please refer to Important Disclosures for additional information.

VOLATILITY SHOULD PRESENT OPPORTUNITY IN 2024



POLITICS

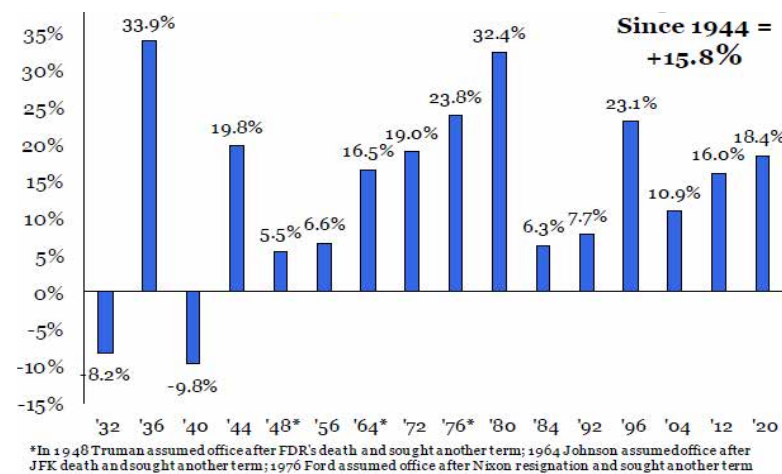
While volatility increases as the election nears, the total return for the S&P 500 has averaged +15.8% since 1944 in election years with the incumbent President running for re-election.

Volatility Increases as Election Day Approaches

Average monthly volatility (VIX 1990-present, monthly average of daily S&P 500 return volatility 1928-1989) for US election years since 1928



Average S&P Total Return in Election Years With Incumbent President Running



U.S. EQUITY HIGHLIGHTS



Factors Driving U.S. Equity Performance Through The First Quarter

Domestic (Russell)

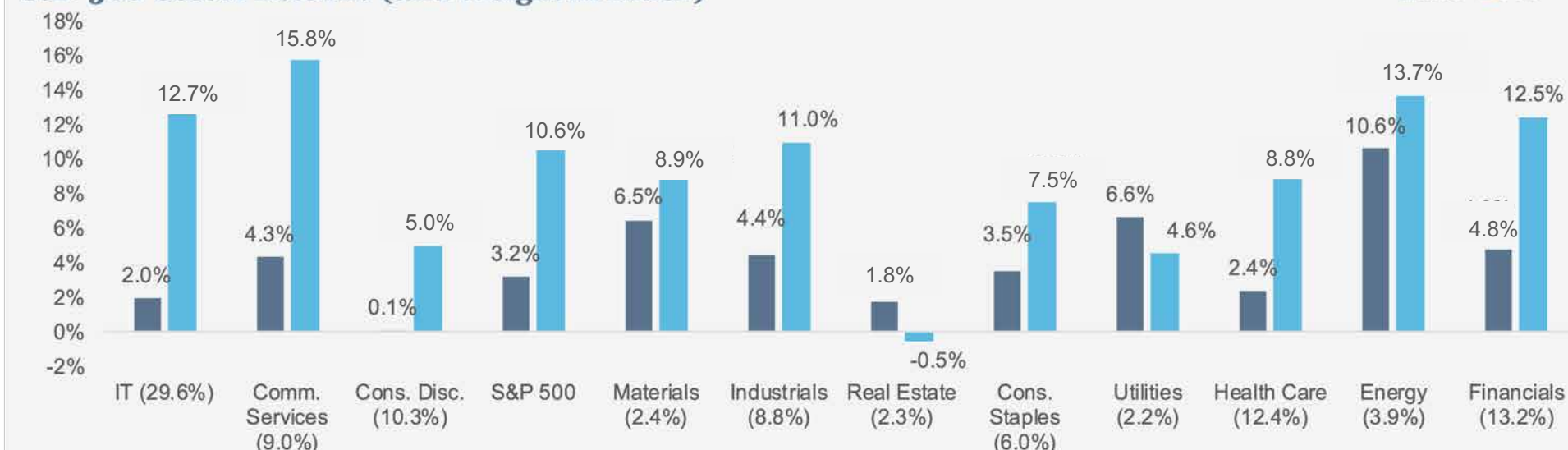
MTD				YTD			
	Value	Blend	Growth		Value	Blend	Growth
Lrg	5.0%	3.2%	1.8%	Lrg	9.0%	10.3%	11.4%
Mid	5.2%	4.3%	2.4%	Mid	8.2%	8.6%	9.5%
Sml	4.4%	3.6%	2.8%	Sml	2.9%	5.2%	7.6%

Source: Morningstar Direct. As of March 31, 2024.

Factor Returns	MTD	QTD	YTD	1Yr
Earnings Yield	4.6%	12.1%	12.1%	35.2%
Low Leverage	3.2%	10.6%	10.6%	28.5%
Low Volatility	2.2%	10.3%	10.3%	21.0%
Momentum	4.0%	18.7%	18.7%	46.6%
Value	3.6%	10.0%	10.0%	29.4%

Source: Morningstar Direct. As of March 31, 2024.

S&P 500 Sector Returns (and Weight in Index)



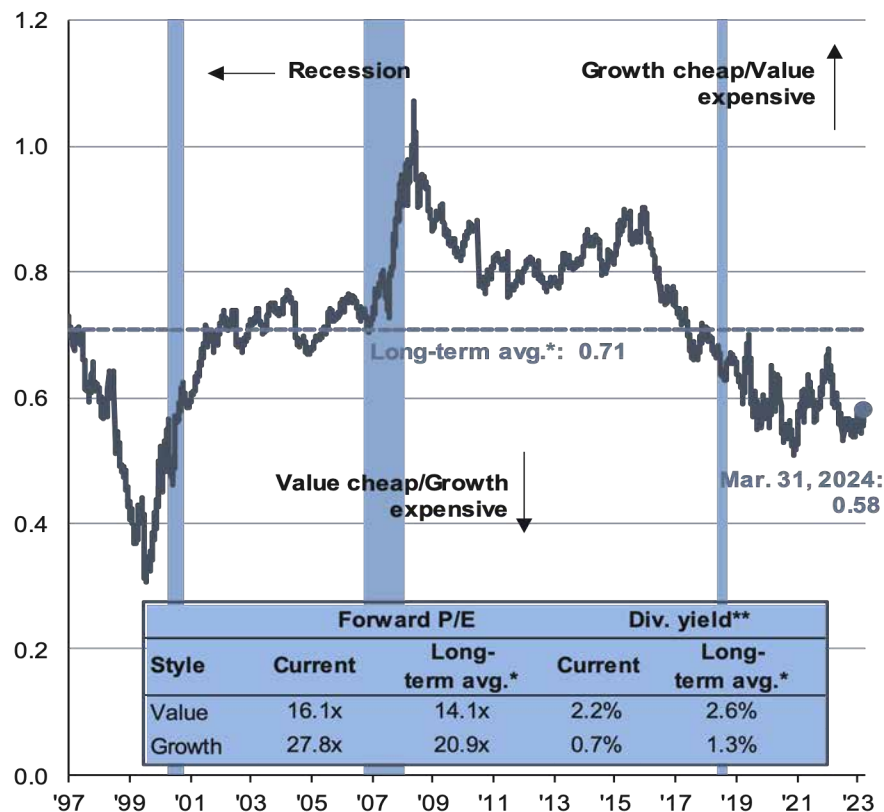
Source: FactSet, Morningstar. As of March 31, 2024. Please refer to Important Disclosures for additional information.

VALUE VERSUS GROWTH



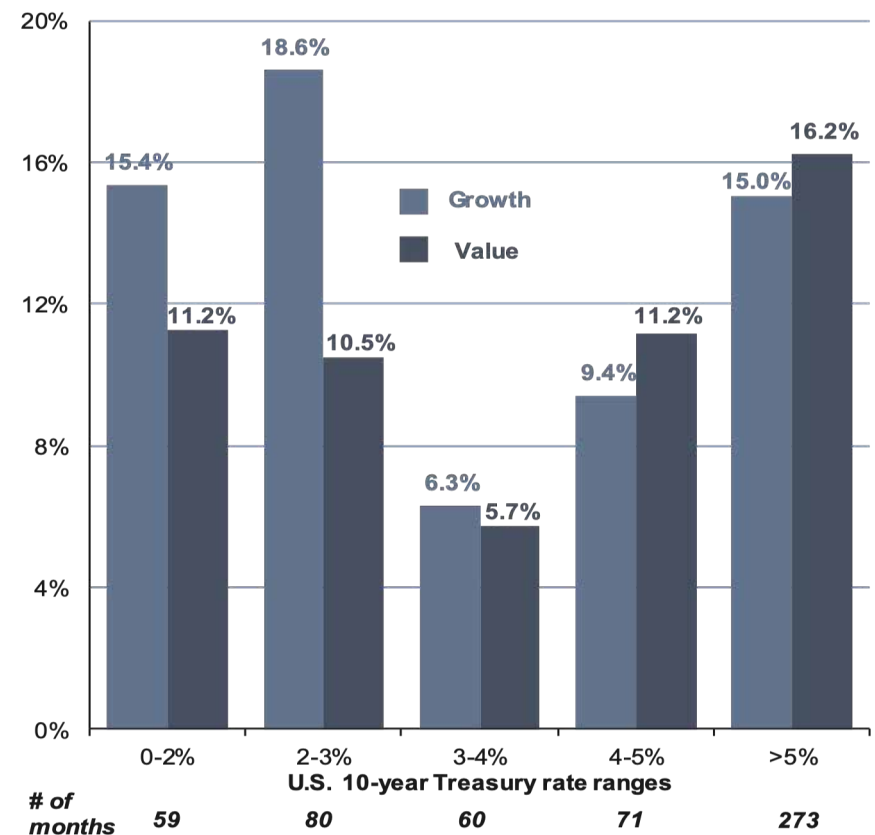
Value Vs. Growth Relative Valuations

Rel. Fwd. P/E Ratio Of Value Vs. Growth, 1997 - Present



Value Vs. Growth In Various Interest Rate Environments

Annualized Total Return By 10-year Treasury Rate Ranges, 1979 - Present



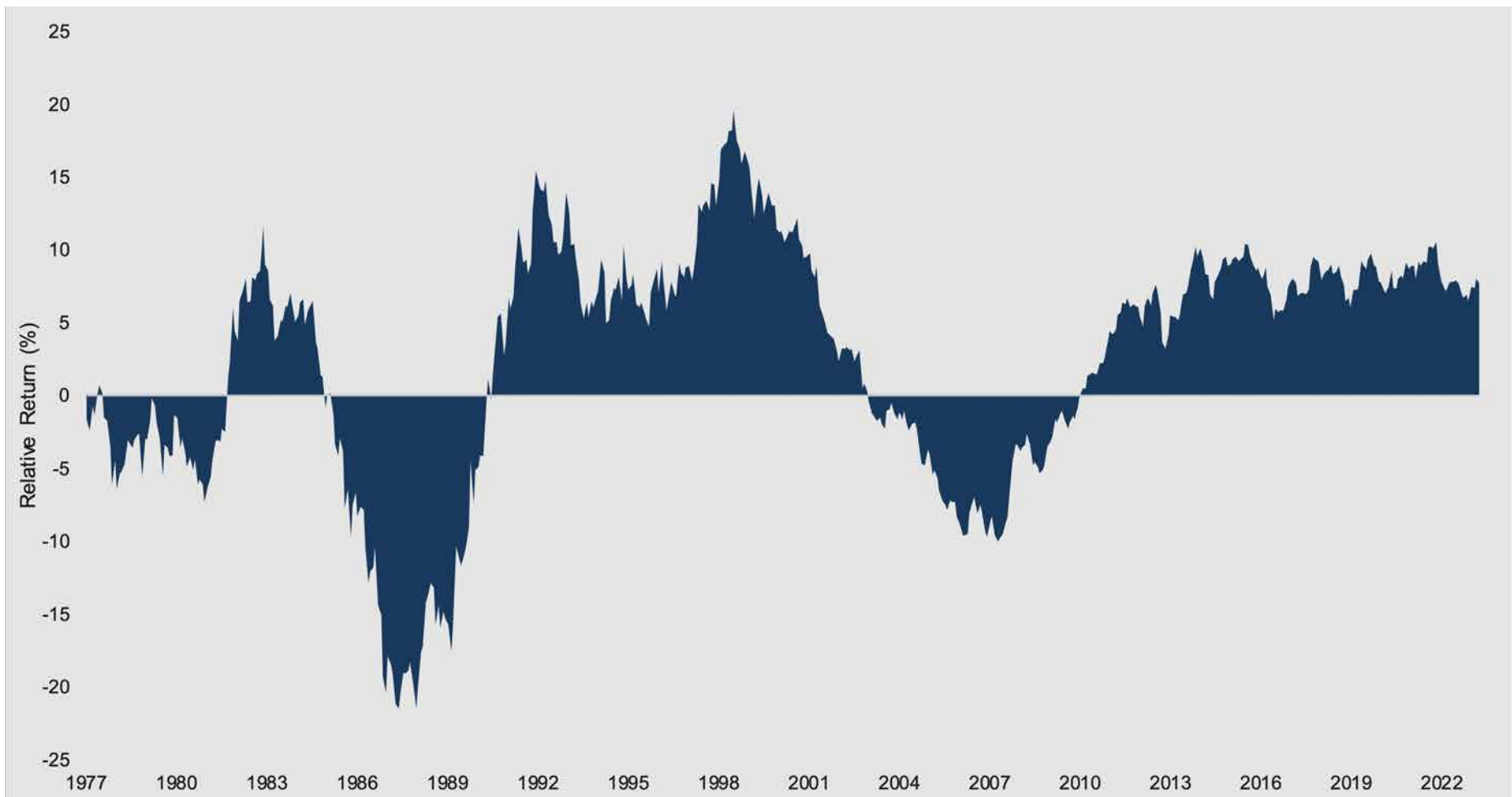
Source: FactSet, FTSE Russell, NBER, J.P. Morgan Asset Management. Growth is represented by the Russell 1000 Growth Index and Value is represented by the Russell 1000 Value Index. (Left) *Long-term averages are calculated monthly since December 1997. **Dividend yield is calculated as the next 12-month consensus dividend divided by most recent price. (Right) Returns are calculated by annualizing the average monthly performance during each interest rate range. Guide to the Markets – U.S. Data are as of March 31, 2024. Please refer to Important Disclosures for additional information.

U.S. VERSUS INTERNATIONAL EQUITY PERFORMANCE



Can U.S. Outperformance Continue?

U.S. Vs. International – Rolling 5-year Relative Performance

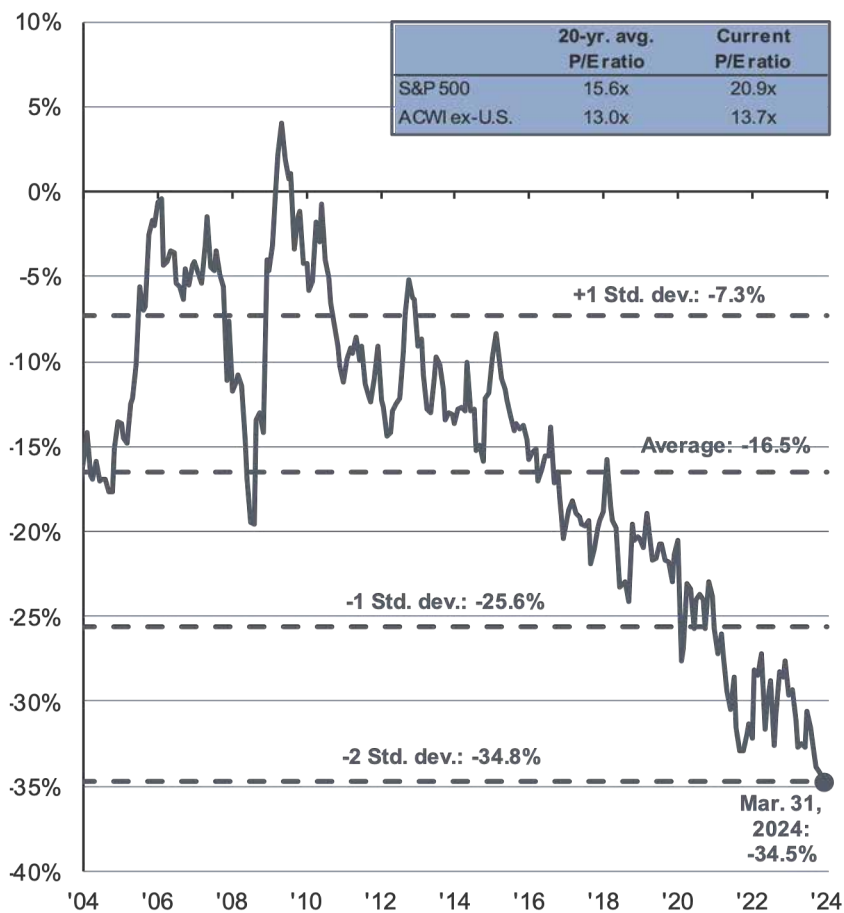


INTERNATIONAL VALUATIONS



International: Price-To-Earnings Discount Vs. U.S.

MSCI All Country World Ex-U.S. Vs. S&P 500, Next 12 Months



International: Difference In Dividend Yields Vs. U.S.

MSCI All Country World Ex-U.S. Minus S&P 500, Next 12 Months

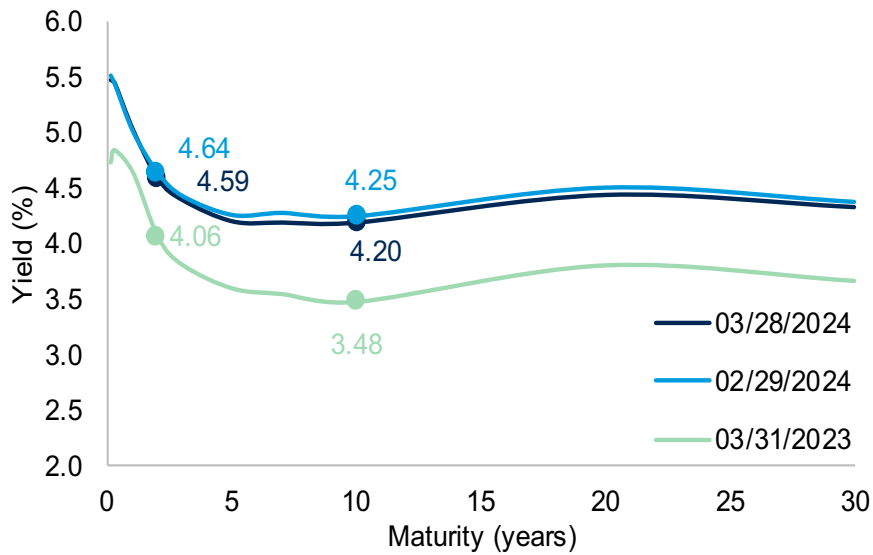


FIXED INCOME HIGHLIGHTS

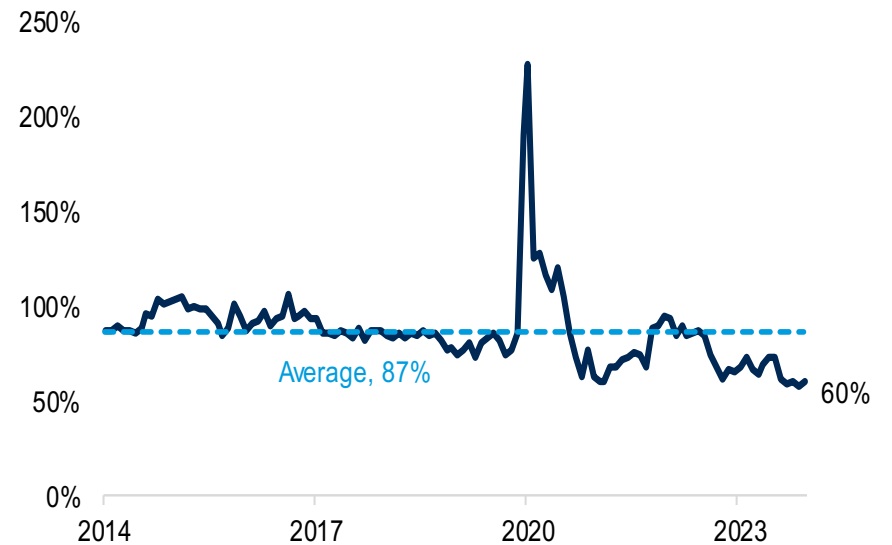


Yields have moved up month over month, as economic and inflation data has come in stronger than expected. Munis are trading at attractive yields relative to Treasuries.

U.S. Treasury Yield Curve¹



10-Year Muni/Treasury Yield Ratio²

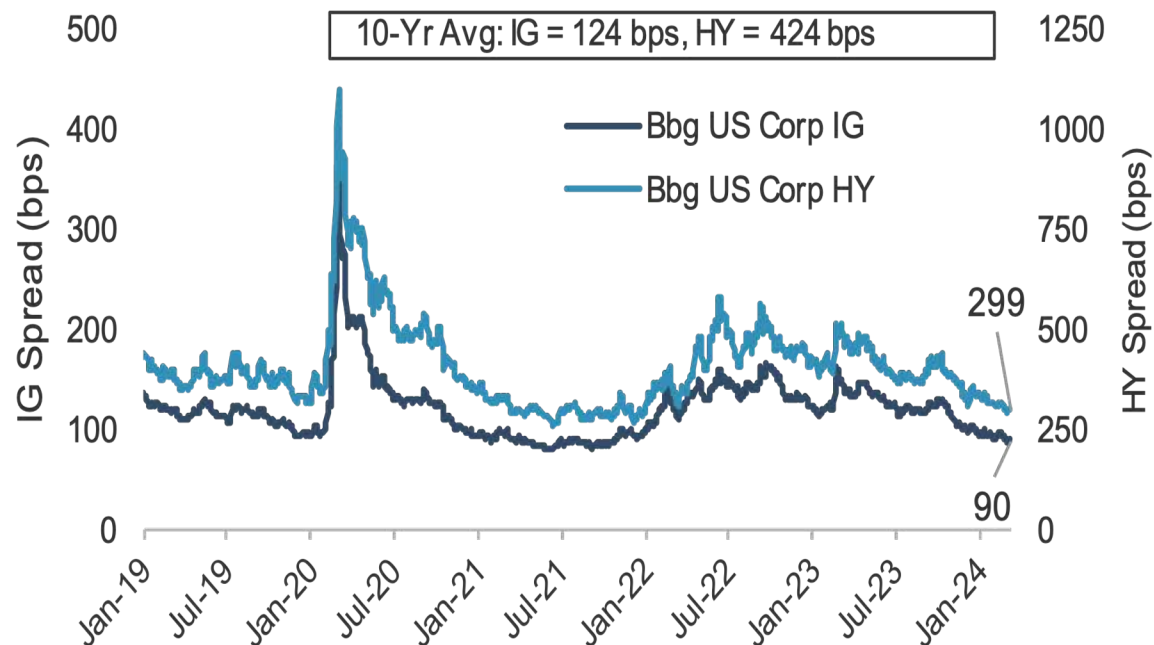


CORPORATE BOND SPREAD ANALYSIS



The corporate bond market continues to perform well and credit spreads have moved below longer-term averages. A resilient economy, favorable corporate fundamentals and strong demand have been supportive of the sector.

Corporate Market Spreads — Trailing 5 Years¹

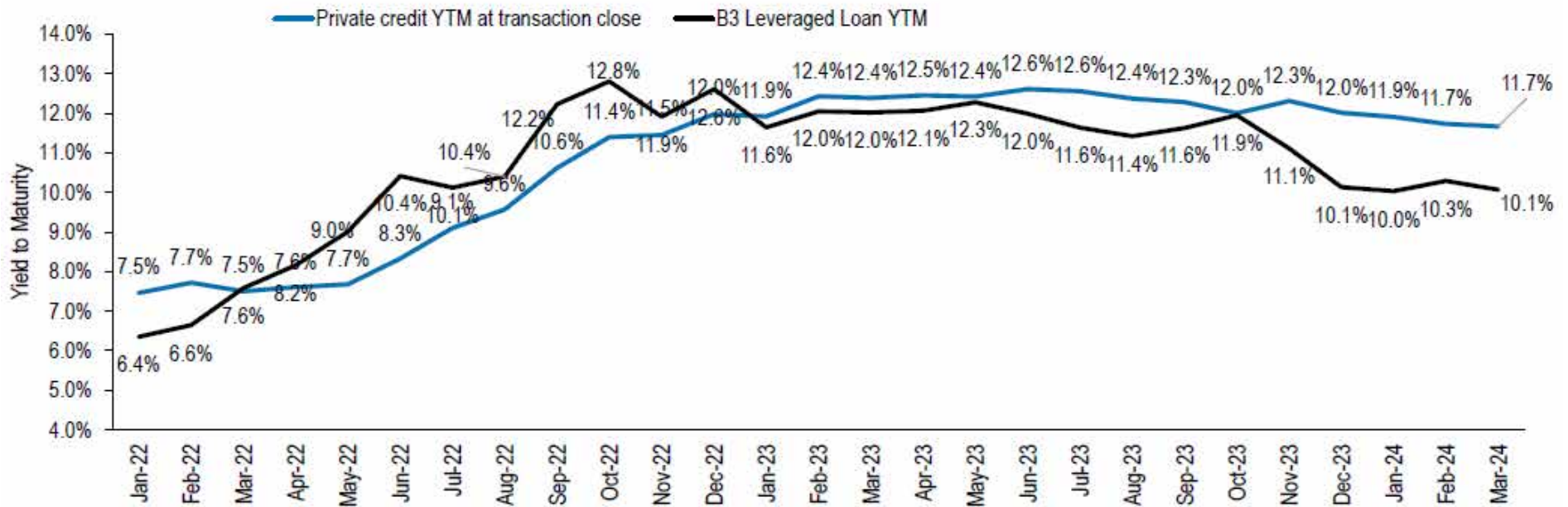


Source: FactSet, Fiducient Advisors. ¹Data as of March 28, 2024. Please refer to Important Disclosures for additional information.



While the recent spread over loans is down from 188 basis points at the end of 2023, it is still double the 2023 average.

Private Credit Transactions Providing a Positive Spread Over Syndicated Loans



EQUITY ASSET CLASSES



U.S. LARGE CAP NEUTRAL

RATIONALE Enthusiasm for the Magnificent 7 waned over the course of the quarter, with the new “Fab 4” stocks – Amazon, Nvidia, Microsoft, and Meta – driving returns for the overall index. Large cap equities are now trading at a premium to historical averages on a forward P/E basis, lowering expected returns over a longer time frame. We would favor areas that have not participated as much in the rally, particularly large cap value stocks with strong cash flow fundamentals, lower implied duration, and lower sensitivity to the “higher for longer” rate backdrop we see for the remainder of the year.

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 inflation sticks around and the Fed reiterates the higher for longer narrative, frothy mega-cap stocks could struggle.

U.S. MID & SMALL CAP NEUTRAL

RATIONALE Cheaper relative valuation vs. large cap equities should provide some pricing support for companies with lower market capitalization. However, a higher proportion of small companies reliant on debt financing and the increased cost of capital associated with it means that small caps are vulnerable to a Fed that’s higher for longer on rates. Small caps have rallied from their lows last year, narrowing the valuation gap. We would be selective in our exposure and tilt towards earnings quality and balance sheet strength.

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.

INTERNATIONAL FAVORABLE

RATIONALE Recent strengthening of leading indicators in certain international developed markets, combined with attractive valuations relative to the U.S., argues for a more favorable backdrop for international developed equities. Total shareholder yield within the Eurozone, including dividends and buybacks, is now projected to be higher than the U.S. A more lenient central bank may add momentum to the region. Japan’s recent emphasis on shareholder friendly policies and an attractive valuation versus its long-term average further emphasizes the favorable position.

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. Increased geopolitical uncertainty and its effect on commodity prices may have an outsized impact on the Eurozone.

EMERGING MARKETS UNFAVORABLE

RATIONALE Emerging market exporters trading at cheap levels relative to their earnings growth should provide opportunities for patient investors that can withstand volatility. A potentially weakening U.S. dollar provides a tailwind to many of these countries, as stronger local currencies can translate into higher earnings. China casts a shadow on the asset class, as it represents roughly 25% of the market at the index level. For the broad emerging market index to outperform meaningfully, it will be a challenge without China improving. We would take a mostly active approach to this space, leaning into strong exporters with pricing power and underweighting countries with high policy uncertainty.

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 is a large portion of the index, so how the economy and markets perform there continues to have outsized impact on the asset class.



CORE FIXED INCOME FAVORABLE

RATIONALE A recent uptick in Treasury yields along with high tax equivalent yields in the municipal bond market create a relative tailwind for core fixed income. Two year treasury yields are now the furthest above S&P 500 dividend yields since the dot-com bubble. Investors have become more concerned on the inflation front as economic data has come in stronger than expected, which in turn has pushed up yields on treasuries. While yields may increase from here especially if economic data continues to come in hot, investors are being compensated to a greater degree vs. the prior quarter. In the municipal bond market on a tax equivalent basis, certain yields across maturities can be had for 6% to 7%.

RISK 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. Longer duration bonds are more vulnerable in this scenario. Risk is also found on the individual corporate bond level. Spreads have come in meaningfully over treasuries. Ratings downgrades have increased broadly and may serve as a signal for investors to continue to pursue issues with cash rich balance sheets.

OPPORTUNISTIC CREDIT UNFAVORABLE

RATIONALE Spreads over reference rates for the high yield market have come in considerably, down to their lowest level in 2 years. High yield issuance has also accelerated, rising 64% year over year to \$62 billion, the highest in 3 years. We would underweight high yield and are more favorable on structured credit and private vehicles that can draw down capital during market dislocations. Lower rated securitized credit is attractive relative to high yield on a spread basis. An economy that continues to show resilience provides a tailwind for non-agency mortgage backed securities. To be sure, lower quality securities including non-agency MBS can trade down in a risk off market. We would underweight opportunistic credit overall until spreads across the asset class widen a bit further from here.

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.

NON-CORE ASSET CLASSES



REAL ASSETS NEUTRAL

RATIONALE A Fed that's potentially behind the curve on monetary discipline, combined with rampant fiscal spending across the globe, could be a boon to commodities and real assets. If inflation is harder to stomp than the market currently expects, this could give way to a secular shift in pricing for real assets. 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. On the other hand, REITs are now facing more of a headwind on the interest rate outlook. Lenders have more leverage and this doesn't bode well for the equity holders.

RISK Key risk considerations for this asset class rely on the Fed's ability to secure the soft-landing or no-landing scenario. In a recessionary or deflationary scenario, hard assets could be vulnerable. Within REITs, 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 twists and turns in market volatility expected over the next year should create opportunities for hedge fund investors. Market participants have begun the 2nd quarter with upside surprises to economic data, spoiling the party for the Fed. Higher for longer rates will make investors more discerning - balance sheet quality will become paramount and investors who can go long and short will have more opportunities to profit.

The secular change in the interest rate environment is starting to feel more permanent, and with this, companies with heavy debt burdens will begin to feel strain. Dislocations and capital structure arbitrage opportunities should increase and we would use drawdown credit vehicles and relative value strategies to take advantage of mispricing.

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.

KEY WEALTH STRATEGY REMINDERS Q₂



Now that the April 15th tax planning deadline has passed, we look ahead to additional tax planning in 2024.

In addition to estate tax planning items changing at the end of 2025, there are income tax related items in the Tax Cuts and Jobs Act (TCJA) of 2017 that will also “sunset” at the end of 2025.

The TCJA lowered marginal rates for most tax brackets. At the end of 2025, those rates will return to previous levels.

The TCJA almost doubled the standard deduction, eliminated the personal exemption, capped the SALT (state and local tax) deduction, and limited mortgage and home interest deductions. These changes will also expire.



Taxable Income 2024 Married Filing Jointly \$	Current Marginal Rate (2018-2025 per TCJA) %	Pre and Post Marginal Rate (to resume in 2026) %
0 – 23,200	10%	10%
23,201 – 94,300	12%	15%
94,301 – 201,050	22%	25%
201,051 – 383,900	24%	28%
383,901 – 487,450	32%	33%
487,451 – 731,200	35%	35%
731,201+	37%	39.6%

KEY WEALTH STRATEGY REMINDERS Q2



Tax Cuts and Jobs Act (TCJA) Back in Focus

With the Tax Cuts and Jobs Act (“TCJA”) set to expire Jan 1, 2026, we expect an increased focus on tax legislation both on Capitol Hill and across the airwaves given the upcoming 2024 Election Cycle.

From our perspective, 2024 presents a window of opportunity for taxpayers to re-evaluate and adjust their planning strategies with current law, with the possibility of certain tax provisions expiring after 2025.

Additional Opportunities For Gifting

The lifetime gift tax exemption increases in 2024 by \$690,000, to a new limit of \$13,610,000 per person.¹

Individuals who had previously exhausted their lifetime gifting exemption may now find capacity to remove additional assets from their taxable estate.

Keep in mind the much-elevated exemption amount is scheduled to “sunset” at the end of 2025 to a potentially much lower amount, beginning in 2026 (possibly estimated at an inflation-adjusted amount of ~\$7 million per person).

Charitable “Bunching” Remains Effective

Given the sharp increase in the standard deduction under the Tax Cuts and Jobs Act (TCJA), charitably inclined taxpayers who itemize deductions should review the net tax savings from their charitable giving and should consider whether “bunching” a higher proportion in a single tax year could be beneficial.²

Utilizing a donor-advised fund or private foundation for this purpose can be an effective strategy.

Business Deductions

Certain pass-through entities such as partnerships, limited liability companies (LLC), and S-Corporations can deduct up to 20% of Qualified Business Income (QBI). This deduction is scheduled to expire at the end of 2025.

The bonus depreciation deduction for businesses is scheduled to decrease to 60% for 2024 and phase out through 2027. This is a worthy tax benefit for businesses that own machinery, vehicles, and equipment.

¹ Source: Kiplinger. “Estate Tax Exemption Amount Increases for 2024” (November 15, 2023)

² Source: Schwab Charitable. “Bunching Charitable Contributions”

Please refer to Important Disclosures for additional information.

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