Newport Capital Group

MARKET COMMENTARY & OUTLOOK

U.S. ECONOMY AND THE FEDERAL RESERVE

Capital markets rallied strongly in the fourth quarter on the back of lower interest rates and the potential for interest rate cuts in 2024. Resiliency was the theme for 2023, as markets moved higher despite stubborn inflation, higher interest rates early on, U.S. bank failures, recession fears and heightened geopolitical tensions around the world. Sentiment was negative heading into 2023, with the consensus that a U.S. recession would become a reality. Often, when market consensus is so far to one side, investors who lean against the consensus are rewarded, and 2023 was such a case. Capital markets were supported by an economy that continued to grow above its long-term growth trend, which led to solid corporate earnings. However, we expect economic growth to weaken as the full effects of the Fed's interest rate hikes work their way through the economy. We continue to watch the U.S. consumer and the job market for signs of weakness and the potential for an economic slowdown or contraction.

While showing signs of slowing, the job market continued to add jobs in the fourth quarter. The economy added 494K non-farm jobs in the quarter compared to 663K in the third quarter. The unemployment rate ended the quarter at 3.7%, remaining at November's level but up from 3.5% in December 2022. For the year, the economy added 2.7 million non-farm jobs as compared with 4.8 million in 2022, when the economy was recovering from the pandemic. Wage inflation was up 4.1% yr./yr. in December. Inflationary pressures, while continuing to moderate from forty-year-high levels, remained at elevated levels in the fourth quarter, driven primarily by high shelter costs. The December Consumer Price Index was up 3.4% yr./yr., which compares to a 3.7% yr./yr. increase in September.

The U.S. Federal Reserve maintained its target federal funds rate in the range of 5.25% to 5.50% during the fourth quarter. We believe the Fed has ended its tightening cycle, which increased rates eleven times from a 0.00%-0.25% level in March 2022. The Fed faces the challenging task of attempting to bring down inflation without pushing the economy into a recession. Forward Fed guidance was updated in December to reflect a forecast of three 25 basis points (bps) cuts in 2024. Current market expectations are for six 25 bps cuts this year, which remains a market risk should these cuts not materialize as expected.

CAPITAL MARKETS PERFORMANCE

Longer-term U.S. interest rates were volatile in the fourth quarter of 2023, moving to sixteen-year highs in mid-October before reversing sharply lower into year-end. The 2-year Treasury ended the quarter down 80 bps at 4.23%, while the 10-year Treasury yield ended the quarter down 71 bps at 3.88%. Despite all the

© COPYRIGHT 2024. ALL RIGHTS RESERVED

volatility during the year, the 10-year bond yield ended the year where it started. With the movement lower in rates, the Bloomberg Barclays U.S. Aggregate Index was up 6.82% in the quarter, with all sectors recording gains. For 2023, the Aggregate was up 5.53%, with all the gains coming in the fourth quarter. Higher rated bonds and longer duration bonds were relative outperformers in the fourth quarter.

U.S. equities were up sharply in the fourth quarter on lower interest rates. The S&P 500 ended the quarter up 11.7% and 26.3% for 2023. Small caps outperformed large caps for the quarter, with value leading growth in small caps while growth led in mid and large caps. Small-Cap Value (15.3%) was the best relative performer in the fourth quarter, while Large-Cap Growth (42.7%) led for 2023 on the strength of the "Magnificent Seven." Ten of the eleven S&P 500 sectors were positive performers in the fourth quarter, as Energy was the only negative performer (-1.3%). For 2023, nine of the eleven sectors were positive, led by Technology (57.8%) and Communication Services (55.8%), while Utilities (-7.1%) and Energy (-1.3%) were the only negative performing sectors.

International stocks were slightly negative-relative performers as compared to the S&P 500 in the fourth quarter. The MSCI ACWI ex USA Index gained 9.8%, while the MSCI Emerging Markets Index was up 7.9%. Europe (11.1%) was the strongest-relative performing region in the quarter. For 2023, the MSCI ACWI ex USA was up 15.6%, with the MSCI EM up 9.8%.

Like the U.S. Federal Reserve, both the Bank of England and the European Central Bank have paused their rate hikes as inflationary pressures moderate globally. The Bank of Japan continues to target "yield curve control" despite inflation in their economy. The U.S. dollar (DXY) weakened by 4.6% in the fourth quarter and was down by 2.1% during 2023.

OUTLOOK AND PORTFOLIO POSITIONING

While we expect the U.S. economy to slow in 2024, the odds for a U.S. recession or the Fed engineering a "soft landing" remain balanced in our view. We continue to believe the job market will be the key determinant of whether the U.S. economy will be able to avoid a recession. Geopolitical tensions around the globe remain a market risk.

A balanced outlook is reflected in our equity portfolio positioning between value and growth, small and large stocks, and U.S. and international stocks. A weaker U.S. dollar, improving Chinese economic growth and attractive relative valuations remain potential catalysts for international markets, especially emerging markets. We believe valuation and quality remain the key factors driving global equity performance. We replaced our active Small and Mid-Cap growth managers during the fourth quarter. We believe the new funds are more consistent performers with lower investment costs.

© COPYRIGHT 2024. ALL RIGHTS RESERVED

Our fixed income portfolio is positioned toward intermediate duration and a tilt toward quality consistent with our expectations for economic data to weaken in 2024. While we believe the sharp movement in rates lower during the fourth quarter may be overdone in the short term, we believe interest rates for this economic cycle peaked in mid-October. Investors should focus on the “income” component of fixed income returns in 2024, as we expect interest rate volatility to ease during the year.

Despite market volatility, it is important to stay diversified and invested for the long term. History shows that time in the markets produces better outcomes than attempting to time the markets.

As always, we thank you for your continued support and trust in Newport Capital Group.

DISCLOSURES

The information provided here is for general informational purposes only and should not be considered an individualized recommendation or personalized investment advice. In addition, information presented in this presentation is believed to be factual and up to date, but Newport Capital Group, LLC does not guarantee its accuracy and it should not be regarded as a complete analysis of the subjects discussed.

This presentation includes forward-looking statements and opinions, including descriptions of anticipated market changes and expectations of future activity. Forward-looking statements and opinions are inherently uncertain and actual events or results may differ materially from those reflected in the forward-looking statements. In addition, all expressions of opinion are subject to change without notice in reaction to shifting market conditions. Therefore, undue reliance should not be placed on such forward-looking statements and opinions.

Historical performance results for investment indices are provided for general educational purposes only. Indexes are unmanaged, do not incur fees or expenses (which decrease historical performance returns), and cannot be invested in directly. Therefore, it should not be assumed that future performance of any specific investment, investment strategy (including the investments and/or investment strategies recommended by Newport Capital Group, LLC) or product will be profitable or equal the corresponding indicated performance level(s).

Investing involves risk including a total loss of the principal amount invested. In addition, diversification strategies do not ensure a profit and do not protect against losses in declining markets.

Past performance is not indicative of future returns.

© COPYRIGHT 2024. ALL RIGHTS RESERVED