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Capital Perspectives

Our 2024 Midyear Market and Economic Outlook

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Having rounded the halfway mark of the year, we head into the back half with solid optimism on the economy and equity markets. Recession odds are very low, inflation is on the descent, and the Fed will soon embark on a rate cut cycle. The first six months delivered a stellar 15% return for the S&P 500—a feat that was mainly attributable to just a few of the largest names and is unlikely to be repeated in the second half of the year. Below, I dig deeper into what we got right in the first half and what we expect to unfold in the remainder of the year. In short, we view the easing of monetary policy and ongoing economic cycle as opportunities for equity market leadership to broaden and the bull market to continue, if not with more modest index returns over the next 12 months than we experienced in the prior 12 months. We recently added to our U.S. equity overweight, focusing on higher-quality strategies in U.S. large and small cap. This increase in our U.S. equity position was funded by trimming fixed income and international developed equities. We now hold an underweight to cash and hedge funds (or, in some portfolios, liquid alternatives).

First half recap

Our 2024 Capital Markets Forecast called for a continuation of U.S. economic exceptionalism, with U.S. equities expected to continue leading the pack, and that is exactly what has transpired. Most critical to our optimistic call on the economy has been our expectation that inflation would continue to move lower as the labor market maintains its strength. Despite a stalling of headline inflation in the first quarter—in our view, largely due to seasonal distortions in the data—the overall disinflation trend is intact and in June showed outright deflation of headline CPI on a month-over-month basis. Indeed, we project that headline CPI will be below 2.5% by the end of the second quarter of 2025 (Figure 1).

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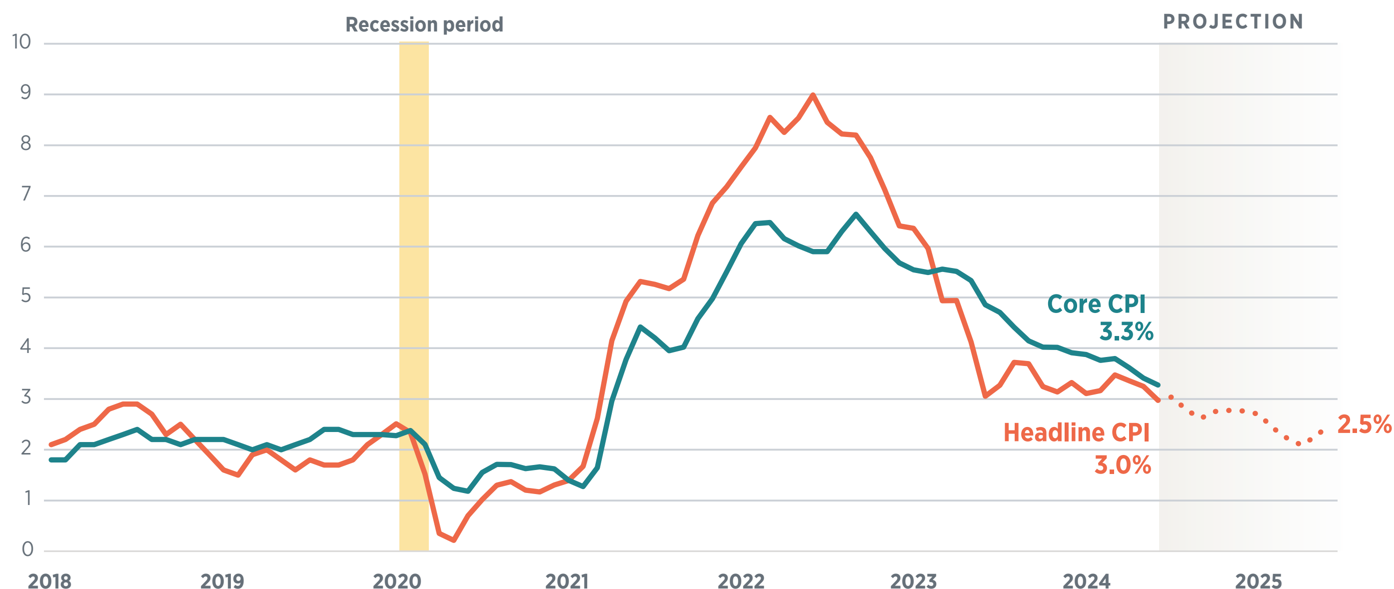
Figure 1

Inflation to continue to slow in 2024

Consumer Price Index (CPI) inflation (year-over-year % change)



Data as of 7/11/24. Sources: Bureau of Labor Statistics, WTIA.

We began the year expecting the Fed to start cutting rates in the first quarter, and by a total of 125 basis points, or bps (1.25%) in 2024. The disappointing inflation progress in the first quarter pushed out that timeline, and we now expect the Fed to cut by a total of 50 bps this year starting with its September meeting. Inflation has not yet reached the Fed's target, but the central bank will need to cut rates before that level is attained in order to avoid the consequences of remaining too tight for too long, namely a recession. In fact, Chair Powell stressed precisely this idea in this month's semi-annual congressional appearance.

As expected, the U.S. economy remains on solid footing relative to the rest of the world, though it is slowing. At the start of the year, we forecasted GDP growth of 1.3% in 2024, which would be a notable slowdown from the 2.5% growth rate in 2023. After a strong first quarter of economic and consumer activity, we upgraded our GDP forecast for the year to 2.1%. We still expect economic activity to moderate, and are seeing signs of the U.S. consumer becoming more discerning with spending—particularly lower-income consumers who have begun to struggle under the weight of elevated credit card debt. Outside of the U.S., the picture is uninspiring. Though Europe has shown some improvement, its recovery has been weak. The mass exodus of capital out of China has slowed, but the country remains mired in structural issues related to a property bubble, lackluster consumer demand, and aging demographics.

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We believe the second half of the year will bring a continuation of the major economic trends witnessed in the first half: slowing economic growth and continued disinflation, but low odds of a recession.

On the markets, we expected U.S. equities to lead the way, but were as surprised as many by the magnitude of the market's strength and its very narrow leadership. We have been positioning portfolios for a broadening of leadership, something that would mean greater participation from the value factor, cyclical sectors, and small cap. However, through the first half of the year, the U.S. equity market has basically been one big momentum, AI-driven trade. The largest, most AI-exposed companies have done the best, including some data-center real estate investment trusts (REITs) and utilities exposed to AI's energy use. Small cap barely eked out a positive return for the first half of the year but, since the start of July, jumped over 10% in the aftermath of inflation data that strongly suggest our expectations for Fed rate cuts. We think the outperformance of small cap can continue—particularly as policy rates start to drop—which we expect to benefit the financials overweight within small cap.

Economy cooling but not icing over

We believe the second half of the year will bring a continuation of the major economic trends witnessed in the first half: slowing economic growth and continued disinflation, but low odds of a recession. Most households have spent or invested the massive pile of excess savings accumulated over the pandemic; and lower-income groups are starting to feel the cumulative burden of high borrowing costs and rents. The higher-income consumer is likely to continue to spend, but we do not think companies have nearly the degree of pricing power that they had in the past few years. And absent a supply-side shock, inflation is very unlikely to reaccelerate while consumer demand is moderating.

One of the key ingredients for a continued economic expansion is a healthy labor market. Over the past year, the labor market has been in a process of normalization, with labor supply and demand coming into better balance. According to the Bureau of Labor Statistics, job openings have fallen 33% from the peak, the number of people quitting their jobs for a better, higher-paying alternative has slowed, and new job creation has settled into a more normal rate of 177 per month for the last three months. While these metrics reflect a relatively weaker market than the red-hot jobs market we have seen since the pandemic, there nonetheless remains a healthy bid for new workers.

While we place low odds on the economy entering recession in the next 12 months, we are monitoring some "spider cracks." Although headline job growth remains sturdy, the decline in labor demand has created challenges on the ground. The number of people looking for work because they lost their previous job is up by more than 200,000 over the past year, a metric that is rarely positive during expansions. At the same time, the number of people who have re-entered the labor force (after a hiatus) but haven't landed a job yet is also up by more than 200,000, reflecting a more challenging labor market. That environment is elongating the job search, with 38% of unemployed workers on the hunt for at least 15 weeks, the highest since January 2022. The services economy has been very strong this year, but the ISM Services PMI just recently dipped negative in two out of the last three months, a slowing that is raising some eyebrows and could signal a contracting

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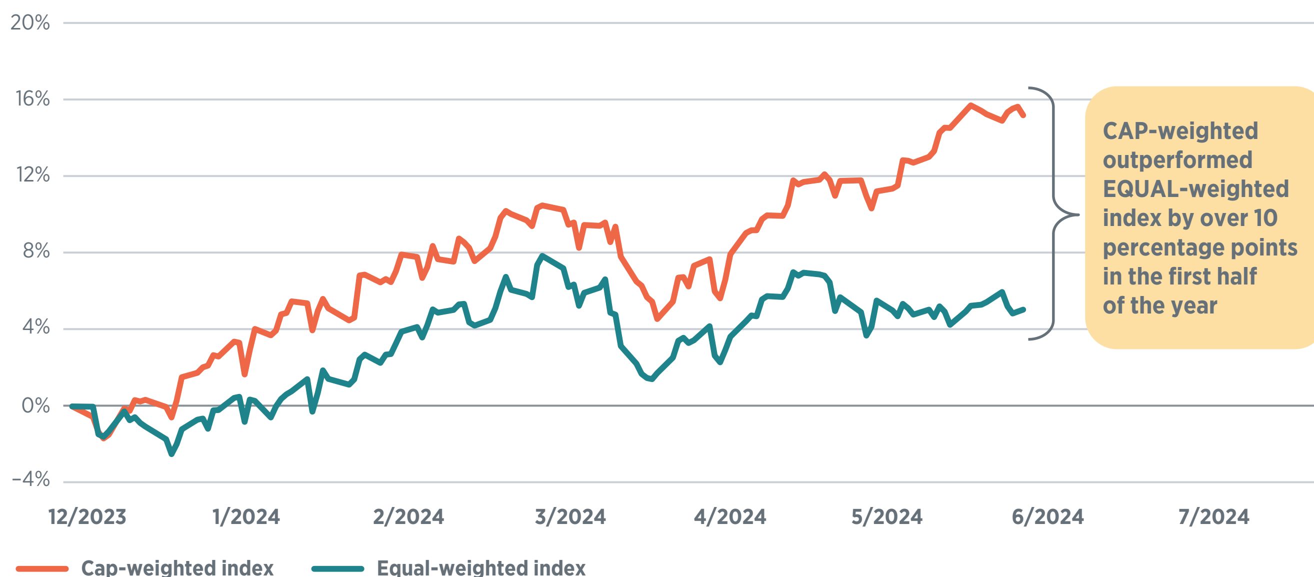
Figure 2

Divergence beneath the surface

Year-to-date returns for cap-weighted and equal-weighted indices (S&P 500)



The cap- and equal-weighted indices are indexed to 0 starting on December 31, 2023.

Sources: Bloomberg, WTIA.

The S&P 500 index value is calculated based on the market cap of each company, which is equal to the share price of the company multiplied by the total number of shares outstanding. The S&P 500 Equal Weight Index (EWI) is the equal-weighted version of the S&P 500 index. The index includes the same components as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight, or 0.2% of the index total, rebalanced quarterly.

Past performance cannot guarantee future results. Indices are not available for direct investment. Investment in a security or strategy designed to replicate the performance of an index will incur expenses such as management fees and transaction costs which will reduce returns.

services economy. If the Fed begins cutting rates soon, these spider cracks need not turn into larger fissures. In addition, relief on the interest rate front along with slowing wage growth and input costs will help companies manage profitability and maintain hiring at a more moderate, sustainable pace.

Top-heavy equity market could stall

History tells us that, given the stretch of strong equity performance since October 2023 and current valuations for the market as a whole, we are due for a bit of a pullback. As mentioned earlier, market leadership has been very narrow, as proxied by the 10 percentage point outperformance of the market-cap-weighted S&P 500 compared to the equal-weighted index (Figure 2). Depending on your outlook, this could be seen as a risk or an opportunity. We certainly appreciate that a selloff in mega-cap tech will make it nearly impossible for the overall index to deliver a positive return. However, we also recognize that valuations for most stocks outside of the largest AI-related names are trading in line with their historical median going back to 2010. These companies tend to be more heavily exposed to cyclical sectors like financials, industrials, and real estate, all of which would benefit from a decline in interest rates and steepening of the yield curve. Rate cuts provide a pathway for the rest of the market to pick up the slack even if mega-cap tech returns moderate, and the market reaction after June's CPI reading is, in our view, the beginning of a long-awaited rotation of leadership.

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We expect better relative performance from the "S&P 493" going forward, and our active managers continue to look for compelling stocks outside of the largest names.

Market volatility tends to increase in the lead-up to U.S. presidential elections. However, we do not expect a correction outside of what is normal in a nonrecessionary period. In other words, equities could hit a patch of turbulence, but as long as the economy remains on solid footing, any pullback should be short, shallow, and a buying opportunity for excess cash on the sidelines. Moreover, we typically see markets drift upward following the election regardless of the political makeup of Washington, as clarity allows investors to breathe a sigh of relief. The strong caveat to that view would be the significant fiscal and market uncertainty that would result from the House, the Senate, and the presidency all being controlled by a single party.

Analyzing historical market behavior around elections is challenging given relatively few data points: There have been only 24 elections since 1928, with 16 of them representing an incumbent, and none of those having two incumbents. This election cycle is anything but normal, and we will be dimensioning the key policy issues for markets in a forthcoming piece. In short, we expect globalization and tax policy to rank supreme in the minds of investors, with a bit more white space between the two candidates on the latter issue as opposed to the former. Other key issues include energy policy and regulation. In our view, a divided government would be the best scenario for markets, as the inherent checks and balances are less likely to result in extreme policy changes and could even bring some progress on one of the most pressing long-term issues: the U.S. fiscal debt.

Positioning for continued market strength

We see the combination of an extended economic cycle, easing monetary policy in the U.S. and globally, as well as reasonable valuations for the majority of stocks as supportive of a continued bull market. Investors should not get used to calendar-year returns in excess of 20%, but we forecast high single-digit returns for equities over the next 12 months. We recently added to our equity overweight, and we favor U.S. over non-U.S. equities (Figure 3). Our U.S. large-cap equity overweight will benefit if current momentum continues, while our modest U.S. small-cap overweight will shine if leadership continues the broadening that we've seen since the start of July.

We expect better relative performance from the "S&P 493" going forward, and our active managers continue to look for compelling stocks outside of the largest names. At the same time, we remain focused on risk management and do not wish clients to miss out if the AI trade continues to dominate, so we are carefully monitoring exposure to the largest names across portfolios and balancing the growth and value factors. Higher-quality companies remain an area of high conviction, as firms generating steady profits with low leverage should continue to benefit in a period of slowing economic growth and elevated rates, particularly in small cap.

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Figure 3

Asset class positioning

High-net-worth portfolios with private markets*

*Private markets are only available to investors that meet Securities and Exchange Commission standards and are qualified and accredited. We recommend a strategic allocation to private markets but do not tactically adjust this asset class.

Data as of 7/17/24.

Positioning reflects our monthly tactical asset allocation (TAA) versus the long-term strategic asset allocation (SAA) benchmark. For an overview of our asset allocation strategies, please see the disclosures.

Investment-grade fixed income is still expected to deliver respectable total returns, and we hold a full allocation compared to our strategic asset allocation benchmark. However, in a period of easing monetary policy and solid economic growth, we expect equities to outperform fixed income. Our recent addition to equities was funded from fixed income. The coming months could deliver some unexpected twists in the market or political cycle. We remain focused on fundamental analysis of the economy and markets as we aim to position our clients for long-term success.

Best,

Tony

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Alternative assets, such as strategies that invest in hedge funds, can present greater risk and are not suitable for all investors.

Any positioning information provided does not include all positions that were taken in client accounts and may not be representative of current positioning. It should not be assumed that the positions described are or will be profitable or that positions taken in the future will be profitable or will equal the performance of those described.

Indices are not available for direct investment. Investment in a security or strategy designed to replicate the performance of an index will incur expenses, such as management fees and transaction costs that will reduce returns.

An overview of our asset allocation strategies:

Wilmington Trust offers seven asset allocation models for taxable (high-net-worth) and tax-exempt (institutional) investors across five strategies reflecting a range of investment objectives and risk tolerances: Aggressive, Growth, Growth & Income, Income & Growth, and Conservative. The seven models are High-Net-Worth (HNW), HNW with Liquid Alternatives, HNW with Private Markets, HNW Tax Advantaged, Institutional, Institutional with Hedge LP, and Institutional with Private Markets. As the names imply, the strategies vary with the type and degree of exposure to hedge strategies and private market exposure, as well as with the focus on taxable or tax-exempt income.

Model Strategies may include exposure to the following asset classes: U.S. large-capitalization stocks, U.S. small-cap stocks, developed international stocks, emerging market stocks, U.S. and international real asset securities (including inflation-linked bonds and commodity-related and real estate-related securities), U.S. and international investment-grade bonds (corporate for Institutional or Tax Advantaged, municipal for other HNW), U.S. and international speculative grade (high-yield) corporate bonds and floating-rate notes, emerging markets debt, and cash equivalents. Model Strategies employing nontraditional hedge and private market investments will, naturally, carry those exposures as well. **Each asset class carries a distinct set of risks, which should be reviewed and understood prior to investing.**

Allocations:

Each strategy group is constructed with target policy weights for each asset class. Wilmington Trust periodically adjusts the policy weights' target allocations and may shift from the target allocations within certain ranges. Such tactical allocation adjustments are generally considered on a monthly basis in response to market conditions.

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Disclosures Continued

The asset classes and their current proxies are:

- Large–cap U.S. stocks: Russell 1000® Index
- Small–cap U.S. stocks: Russell 2000® Index
- Developed international stocks: MSCI EAFE® (Net) Index
- Emerging market stocks: MSCI Emerging Markets Index
- U.S. inflation-linked bonds: Bloomberg US Treasury Inflation Notes TR Index Value Unhedged*
- International inflation-linked bonds: Bloomberg World ex US ILB (Hedged) Index
- Commodity-related securities: Bloomberg Commodity Index
- U.S. REITs: S&P US REIT Index
- International REITs: Dow Jones Global ex US Select RESI Index
- Private markets: S&P Listed Private Equity Index
- Hedge funds: HFRX Global Hedge Fund Index
- U.S. taxable, investment-grade bonds: Bloomberg U.S. Aggregate Index
- U.S. high-yield corporate bonds: Bloomberg U.S. Corporate High Yield Index
- U.S. municipal, investment-grade bonds: S&P Municipal Bond Index
- U.S. municipal high-yield bonds: 60% Bloomberg High Yield Municipal Bond Index / 40% Municipal Bond Index
- International taxable, investment-grade bonds: Bloomberg Global Aggregate ex US
- Emerging bond markets: Bloomberg EM USD Aggregate
- Cash equivalent: 30-day U.S. Treasury bill rate

All investments carry some degree of risk. Return volatility, as measured by standard deviation, of asset classes is often used as a proxy for illustrating risk. Volatility serves as a collective, quantitative estimate of risks present to varying degrees in the respective asset classes (e.g., liquidity, credit, and default risks). Certain types of risk may be underrepresented by this measure. **Investors should develop a thorough understanding of the risks of any investment prior to committing funds.**

Quality ratings are used to evaluate the likelihood of default by a bond issuer. Independent rating agencies, such as Moody's Investors Service and Standard & Poors, analyze the financial strength of each bond's issuer. Ratings range from Aaa or AAA (highest quality) to C or D (lowest quality). Bonds rated Baa3 or BBB and better are considered **Investment Grade.** Bonds rated Ba1 or BB and below are **Speculative Grade** (also **High Yield**.)

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Glossary

30-day U.S. Treasury bill rate Bank of America Merrill Lynch U.S. 3-Month Treasury Bill Index measures the performance of a single U.S. Treasury bill added to the index at the beginning of the month and held for a full month; the issue is replaced with a newly selected issue at each month-end and the index will often hold the Treasury bill issued at the most recent three-month auction, it is also possible for a seasoned six-month bill to be selected.

Alpha is the excess return of an investment, relative to the return of a benchmark index.

Atlanta Fed GDPNow is a nowcasting model for gross domestic product (GDP) growth that synthesizes the bridge equation approach relating GDP subcomponents to monthly source data with factor model and Bayesian vector autoregression approaches. The GDPNow model forecasts GDP growth by aggregating 13 subcomponents that make up GDP with the chain-weighting methodology used by the US Bureau of Economic Analysis.

Basis points refers to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001, and is used to denote the percentage change in a financial instrument.

Beta is a measure of how an individual asset moves when the overall stock market increases or decreases. Thus, beta is a useful measure of the contribution of an individual asset to the risk of the market portfolio when it is added in small quantity.

Bloomberg Agriculture Subindex Total Return (BCOMAGTR), formerly known as Dow Jones-UBS Agriculture Subindex Total Return (DJUBAGTR), is a commodity group subindex of the Bloomberg CITR composed of futures contracts on coffee, corn, cotton, soybeans, soybean oil, soybean meal, sugar and wheat and reflects the return on fully collateralized futures positions and is quoted in USD.

Bloomberg Commodity Index is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM; it combines the returns of the BCOM with the returns on cash collateral invested in 13 week (3 Month) U.S. Treasury Bills.

Bloomberg Commodity Total Return index (BCOMTR) is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM and combines the returns of BCOM with the returns on cash collateral invested in 13 week (3 Month) U.S. Treasury Bills.

Bloomberg Dollar Spot Index tracks the performance of a basket of 10 leading global currencies versus the U.S. Dollar. It has a dynamically updated composition and represents a diverse set of currencies that are important from trade and liquidity perspectives.

Bloomberg Energy Subindex Total Return (BCOMENTR), formerly known as Dow Jones-UBS Energy Subindex Total Return (DJUBENTR), is a commodity group subindex of the Bloomberg CITR composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas and reflects the return on fully collateralized futures positions and is quoted in USD.

Bloomberg Global Aggregate Bond Index measures the performance of global investment-grade fixed-rate debt markets, including the U.S., Pan-European, Asian-Pacific, Global Treasury, Eurodollar, Euro-Yen, Canadian, and investment-Grade 144A index-eligible securities.

Bloomberg Industrial Metals Subindex Total Return Index (BCOMTNT), formerly known as Dow Jones-UBS Industrial Metals Subindex Total Return (DJUBINTR), is a commodity group subindex of the Bloomberg CITR composed of longer-dated futures contracts on aluminum, copper, nickel and zinc and reflects the return on fully collateralized futures positions and is quoted in USD.

Bloomberg Municipal Bond Index covers the four main sectors of the USD-denominated long-term tax-exempt bond market: state, and local, general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.

Bloomberg Precious Metals Subindex Total Return (BCOMPRTR), formerly known as Dow Jones-UBS Precious Metals Subindex Total Return (DJUBPRTR), is a commodity group subindex of the Bloomberg CITR composed of futures contracts on gold and silver. It reflects the return on fully collateralized futures positions and is quoted in USD.

Bloomberg U.S. Aggregate Index measures the performance of the entire U.S. market of taxable, fixed-rate, investment-grade bonds. Each issue in the index has at least one year left until maturity and an outstanding par value of at least $250 million.

Bloomberg US Credit Index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

Bloomberg U.S. High Yield Corporate Index, formerly Lehman Brothers U.S. High Yield Corporate Index, measures the performance of taxable, fixed-rate bonds issued by industrial, utility, and financial companies and rated below investment grade. Each issue in the index has at least one year left until maturity and an outstanding par value of at least $150 million.

Bloomberg U.S. Mortgage Backed Securities Index measures the performance of investment grade fixed-rate mortgage-backed pass-through securities of GNMA, FNMA, and FHLMC.

Bloomberg US Treasury US TIPS TR USD index measures the performance of rules-based, market value-weighted inflation-protected securities issued by the U.S. Treasury. It is a subset of the Bloomberg US Treasury Inflation-Linked Bond Index (Series-L), which measures the performance of the US Treasury Inflation Protected Securities (TIPS) market. Federal Reserve holdings of US TIPS are not index eligible and are excluded from the face amount outstanding of each bond in the index.

Call risk: Call risk is the possibility that an issuer may redeem a fixed income security before maturity (a call) at a price below its current market price. An increase in the likelihood of a call may reduce the security’s price.

Cambridge Global Private Equity Index is a horizon calculation based on data compiled from 2,354 private equity funds, including fully liquidated partnerships, formed between 1986 and 2019. All returns are net of fees, expenses, and carried interest.

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Glossary Continued

Consumer price index measures the price of consumer goods and how they're trending and is a tool for measuring how the economy as a whole is faring when it comes to inflation or deflation.

Coupon, coupon rate, or coupon payment is the annual interest rate paid on a bond, expressed as a percentage of the face value and paid from issue date until maturity.

Credit risk: Fixed income securities carry the risk of default, which means that the security issuer fails to pay interest or principal when due. Many fixed income securities receive credit ratings from services such as Standard & Poor's and Moody's Investor Services, Inc. These services assign ratings to securities by assessing the likelihood of issuer default. Lower credit ratings correspond to higher credit risk.

Dow Jones Global ex. US Select RESI Index tracks the performance of equity real estate investment trusts (REITs) and real estate operating companies (REOCs) traded globally, excluding the U.S.

Drawdown is a peak-trough decline during a specific period for an investment, trading account, or fund and is usually quoted as the percentage between the peak and the subsequent trough.

Drift occurs when an asset or investment diverges significantly from its objective or investment style, such as market capitalization. It can result naturally from capital appreciation in one asset relative to others in a portfolio, a change in a fund's management, or a manager who begins to diverge from the portfolio's mandate. It can be corrected by rebalancing the fund to optimal weights.

Duration risk is the risk associated with the sensitivity of a bond's price to a one percent change in interest rates. The higher a bond's duration, the greater its sensitivity to interest rates changes.

Equity risk premium is the extra return that's available to equity investors above the return they could get by investing in a riskless investment like T-Bills or T-Bonds or cash.

ESG is a strategy that integrates environmental, social, and governance (ESG) factors into the investment process may avoid or sell investments that do not meet criteria set forth by the investment manager. Such investments may perform better than investments selected utilizing ESG factors.

Event-driven hedge fund strategies attempt to take advantage of temporary stock mispricing before or after a corporate event takes place. An event-driven strategy exploits the tendency of a company's stock price to suffer during a period of change.

Federal funds rate is the interest rate at which depository institutions lend reserve balances to other depository institutions overnight on an uncollateralized basis.

Global intangible low-taxed income (GILTI) is a category of income that is earned abroad by U.S.-controlled foreign corporations (CFCs) and is subject to special treatment under the U.S. tax code.

Gold can be significantly affected by international monetary and political developments as well as supply and demand for gold and operational costs associated with mining.

Headline inflation is a measure of the total inflation within an economy, including commodities such as food and energy prices, which tend to be much more volatile and prone to inflationary spikes.

HFR® (HedgeFundResearch) Indices are the established global leader in the indexation, analysis and research of the hedge fund industry. They are broadly constructed indices designed to capture the breadth of hedge fund performance trends across all strategies and regions.

HFRX Absolute Return Index and the HFRX Global Hedge Fund Index represent the overall composition of the hedge fund universe and comprise all eligible hedge fund strategies and selects constituents that characteristically exhibit lower volatilities and lower correlations to standard directional benchmarks of equity market and hedge fund industry performance.

HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe and are asset weighted based on the distribution of assets in the hedge fund industry.

Inflation-linked bonds are a specific type of index-linked securities that are tied to the costs of consumer goods as measured by the Consumer Price Index (CPI) or another index. Their values increase during inflationary periods, which reduces the risk of uncertainty.

Interest rate risk: Prices of fixed income securities rise and fall in response to changes in the interest rate paid by similar securities. Generally, when interest rates rise, prices of fixed income securities fall. However, market factors, such as the demand for particular fixed income securities, may cause the price of certain fixed income securities to fall while the price of other securities rise or remain unchanged. Interest rate changes have a greater effect on the price of fixed income securities with longer durations. Duration measures the price sensitivity of a fixed income security to changes in interest rates.

ISM manufacturing index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at more than 300 manufacturing firms and is considered to be a key indicator of the state of the U.S. economy.

ISM Non-Manufacturing Index is an economic index based on surveys of more than 400 non-manufacturing (or services) firms' purchasing and supply executives and is part of the ISM Report On Business—Manufacturing (PMI) and Services (PMI).

ISM Services Prices Paid Index is a diffusion index calculated by adding the percent of responses indicating they paid more for inputs plus one-half of those responding who paid the same; resulting in a single number that is seasonally adjusted.

LIBOR is the average interbank interest rate at which a selection of banks on the London money market are prepared to lend to one another.

Long, or a long position, describes an investor's expectation of a holding's future value. A position that the investor expects will rise in value and plans to hold for a long period of time is often described as "held long." It is the opposite of short, or a short position.

M2 money supply is a measure of the money supply that includes cash, checking deposits, and other types of deposits that are readily convertible to cash such as CDs.

Macro hedge fund strategies generally focus on financial instruments that are broad in scope and move based on systemic or market risk (not security specific). In general, portfolio managers who trade within the context of macro strategies focus on currency strategies, interest rates strategies, and stock index strategies.

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Glossary Continued

The Magnificent Seven refers to the companies commonly recognized for their market dominance, their technological impact, and their changes to consumer behavior and economic trends: Alphabet (Google), Amazon, Apple, Meta (formerly Facebook), Microsoft, NVIDIA, and Tesla.

MSCI AC Asia ex Japan Index captures large- and mid-cap representation across two of three developed markets countries (excluding Japan) and nine emerging markets countries in Asia. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI All Country World Index (ACWI) is a stock index designed to track broad global equity-market performance. Maintained by Morgan Stanley Capital International (MSCI), the index comprises the stocks of about 3,000 companies from 23 developed countries and 26 emerging markets.

MSCI China Index captures large- and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). The index covers about 85% of this China equity universe. Currently, the index includes large-cap A and mid-cap A shares represented at 20% of their free float adjusted market capitalization.

MSCI EAFE Growth Index captures large- and mid-cap securities exhibiting overall growth style characteristics across developed markets countries around the world, excluding the U.S. and Canada.

MSCI EAFE Index is an equity index which captures large and mid-cap representation across 21 Developed Markets countries around the world, excluding the U.S. and Canada. With 902 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI EAFE® (net) Index measures the performance of approximately 20 developed equity markets, excluding those of the United States and Canada; total returns of the index are net of the maximum tax withholding rates that apply in many countries to dividends paid to non-resident investors.

MSCI Emerging Markets (net) Index captures large- and mid-cap representation across 27 emerging markets countries. With 1,407 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI EAFE Value Index captures large- and mid-cap securities exhibiting overall value style characteristics across developed markets countries around the world, excluding the U.S. and Canada.

MSCI Emerging Markets Index captures large- and mid-cap representation across 26 emerging markets countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI Europe Index captures large- and mid-cap representation across 15 developed markets (DM) countries in Europe. The index covers approximately 85% of the free float-adjusted market capitalization across the European DM equity universe.

MSCI Japan Index is designed to measure the performance of the large- and mid-cap segments of the Japanese market. The index covers approximately 85% of the free float-adjusted market capitalization in Japan.

MSCI United Kingdom Index is designed to measure the performance of the large- and mid-cap segments of the UK market. The index covers approximately 85% of the free float-adjusted market capitalization in the UK.

Personal consumption expenditures is the primary measure of consumer spending on goods and services in the U.S. economy and is the primary engine that drives future economic growth.

Price-to-earnings (P/E) ratio measures a company's current share price relative to its earnings per share (EPS).

Producer Price Index (PPI) is a family of indexes measuring the average change in selling prices received by domestic producers of goods and services.

Real estate investment trusts, or REITs, are companies that own, operate, or finance income-generating real estate. Similar to mutual funds, REITs pool the capital of numerous investors, allowing them to earn dividends from real estate investments without having to buy, manage, or finance properties themselves.

Relative value hedge fund strategies cover a variety of low-volatility trading strategies with the consistent theme of attempting to reduce market risk, i.e., the manager seeks to generate a profit regardless of which direction the markets are moving. All relative value strategies minimize market risk by taking offsetting long and short positions in related stocks, bonds, and other types of securities.

Reverse optimization uses risk estimates and optimal portfolio weights (asset allocations) to derive the forward-looking returns that generate the highest expected risk-adjusted return for the portfolio; in contrast, traditional optimization uses risk estimates and forward-looking return assumptions to derive the portfolio weights (asset allocations) that generate the highest expected risk-adjusted return for the portfolio. Reverse optimization can be used to test or validate market outcomes in addition to (not as a replacement for) other methods of analysis.

Risk assets refers to assets that are not risk-free, such as currencies, equities, and other financial instruments. Treasuries are not included.

Russell 1000® Index measures the performance of the 1,000 largest companies in the Russell 3000 Index, representing approximately 92% of the total market capitalization of the Russell 3000 Index.

Russell 1000 Growth is a market capitalization-weighted index that measures the performance of the large-cap growth segment of U.S. equity securities; it includes the Russell 1000 index companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Value is a market capitalization-weighted index that measures the performance of the large-cap value segment of U.S. equity securities; it includes the Russell 1000 index companies with lower price-to-book ratios and lower expected growth values.

Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

Continued

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Glossary Continued

S&P 493 is a term that was coined to reference the index S&P 500 excluding the "Magnificent Seven" (M7) of Alphabet, Amazon, Apple, Meta (formerly Facebook) Platforms, Microsoft, Nvidia, and Tesla.

S&P 500 index measures the stock performance of 500 large companies listed on stock exchanges in the U.S. and is one of the most commonly followed equity indices.

S&P Developed Property index defines and measures the investable universe of publicly traded property companies domiciled in developed markets. The companies in the index are engaged in real estate related activities, such as property ownership, management, development, rental and investment.

S&P Listed Private Equity Index comprises the leading listed private equity companies that meet specific size, liquidity, exposure, and activity requirements. The index is designed to provide tradable exposure to the leading publicly-listed companies that are active in the private equity space.

S&P Municipal Bond Index is a broad, market value-weighted index that seeks to measure the performance of the U.S. municipal bond marke

S&P US REIT Index measures the investable U.S. real estate investment trust market and maintains a constituency that reflects the market's overall composition.

Short-duration Treasury securities are backed by the full faith and credit of the U.S. government. They typically mature in one year or less.

Short, or short position, refers to a trading technique in which an investor sells a security with plans to buy it later; it is used when an investor expects the price of a security to fall in the short term.

Stagflation is persistent high inflation combined with high unemployment and stagnant demand in a country's economy.

Tail risk is the probability that the asset performs far below or far above its average past performance. Investors are most concerned with "left" tail risk, or the likelihood that observations fall three standard deviations below the average expected return.

Taxable equivalent yield (TEY) = the pretax yield that must be received on a taxable security to provide the holder the same after-tax yield as that earned on a tax-exempt security. The TEY = muni yield/1- highest tax rate.

Value sectors or stocks, generally refer to those trading at levels perceived to be below their fundamentals.

Yield curve plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity.

Yield to maturity is the estimated total return on a bond if the bond is held until it matures.

Yield to worst measures the lowest possible yield that can be received on a bond with an early retirement provision and must always be less than yield to maturity because it represents a return for a shortened investment period.

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