Q1 2024

Quarterly Market & Economic Perspective

xypn invest

Keeping a Balanced Approach

SUMMARY

- S&P 500, Nasdaq, Europe's STOXX 600, and Japanese Nikkei indices all hit record highs during the quarter.
- Fed continued to pause but not pivot, keeping rates at the 5.25-5.5% level set in July 2023.
- Daniel Kahneman, Nobel-Winning Pioneer of Behavioral Economics and author of Thinking, Fast and Slow died at age 90.

POSITIVE SIGNALS

- It was a strong quarter for investor returns; MSCI ACWI gained 8.2% over the quarter.
- US large cap stock index returns are being driven by more than just the Magnificent 7, indicating a broader rally.
- Hope for a soft landing remains; Fed still anticipating three interest rate cuts in 2024.

REASONS FOR CONCERN

- Inflation remains elevated; headline CPI and PCE higher in February vs. January; expect a bumpy road towards targeted 2% inflation levels.
- Many geopolitical risks lurk in the background (wars in the Ukraine and Middle East, 2024 is a presidential election year in the US).
- Chinese economy still challenged; impacting emerging market investments.

SOURCE: MORNINGSTAR; RUSSELL, MSCI, DOW JONES, BLOOMBERG, ICE BOA ML BENCHMARKS SHOWN; PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS

COMMENTARY

Q1 2024 by the numbers

- 5.25% - 5.50% was the Fed's policy rate set in July 2023 as they worked to tame inflation, the highest level since 2001. The Fed has paused here as investors await the pivot to lower rates.
- 3 interest rate cuts now expected by the Federal Reserve in 2024; 6 to 7 cuts were expected at the start of 2024.
- 8.2% was the quarterly return for global stocks (MSCI ACWI), highlighting a very strong start to the year.
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- The Japanese Nikkei index reached a new high 34 years after setting its previous high.
- 3.2% and 2.5% were the February 2024 headline CPI and PCE figures, slightly above the 3.1% and 2.4% January figures.
- 5.49% was where the 1-month Treasury closed in March 2024, certainly an attractive yield and higher versus longer term yields. However, reinvestment risk exists if Fed Funds rates start to decline later in the year.

An update on US inflation and the Fed

For at least the last year we have spoken about the three P's of Federal Reserve interest rate policy: pace, pause, and pivot. The Fed continues to pause, trying to strike a balance between a resilient economy and sticky inflation, not signaling any rate reductions until they are comfortable that inflation has met their targeted 2% level.

The Fed says they will continue to be data dependent on making any future changes as inflation is still higher than desired, and with a labor market that remains tight. While many economists still expect inflation to eventually hit 2%, it is also expected to be a bumpy ride.

Interestingly, 2024 is an election year, and some investors may ask if the Fed would make any rate cuts before the election. First, it is important to remember that while the Federal Reserve Chairman is nominated by the US President, the Federal Reserve is not part of the Federal Government and is not directed to act based on the President's wishes. In other words, they are expected to remain independent of politics. In addition, history shows us that since 1984, the Fed has indeed made changes to the Fed Funds rate during almost every election cycle.

Don’t let your political views drive your investments

We understand that regardless of which party you affiliate with, it is possible you have very strong opinions against the other party. However, we would suggest not changing your investment views based on who is in office.

In the past, we have shown how the US stock market has consistently increased over time, regardless of which party is in the White House or which party controls Congress.

Exhibit 1

We wanted to take a little different approach with Exhibit 1, showing exactly what you would miss by investing when only one party is in the White House.

The lines at the bottom of the graph that barely move off the x-axis show how much an investor would have received, going back to 1896, if an investor only invested when there was a Republican or a Democrat in office. Two things stick out: 1) the increase in the original $10K investment is not massive, and 2) they are fairly similar.

However, when you compare that output vs. the other line which represents your $10K investment if you had simply stayed invested, you can see how that would have grown to roughly $10M.

And while Exhibit 1 shows us how staying invested has worked out over time, we also know there will be down markets, and as Exhibit 2 shows, those down markets will occur regardless of whether a Republican or Democrat is in the White House. In other words, stay invested, don’t let politics drive your investments, and let the power of compounding do its thing.

EXHIBIT 1

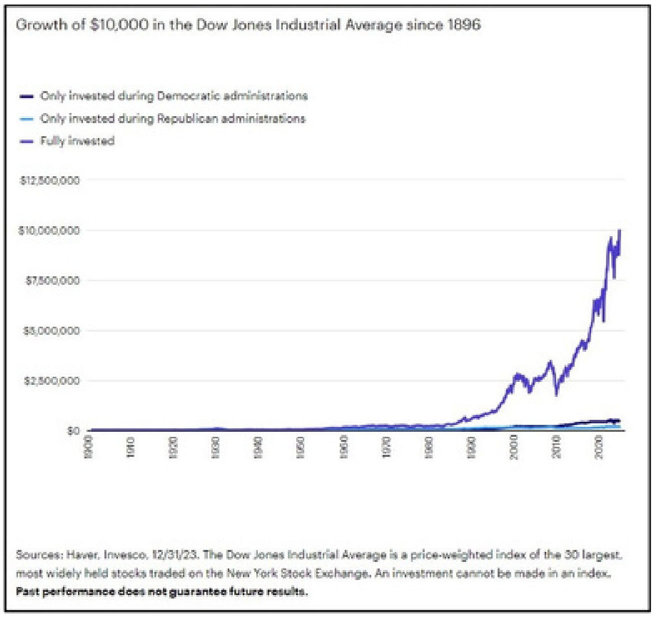


EXHIBIT 2

History happens to presidents

President	Largest decline of term (Dow Jones)	Date of decline
Joe Biden (D)	-21%	Sept. 2022
Donald Trump (R)	-37%	Mar. 2020
Barack Obama (D)	-21%	Mar. 2009
George W. Bush (R)	-46%	Nov. 2008
Bill Clinton (D)	-19%	Aug. 1998
George H.W. Bush (R)	-21%	Oct. 1990
Ronald Reagan (R)	-26%	Oct. 1987
Jimmy Carter (D)	-23%	Mar. 1978
Gerald Ford (R)	-25%	Dec. 1974
Richard Nixon (R)	-34%	May 1970
Lyndon B. Johnson (D)	-25%	Oct. 1966
John F. Kennedy (D)	-27%	Jun. 1962
Dwight D. Eisenhower (R)	-19%	Oct. 1957
Harry Truman (D)	-24%	Jun. 1949
Franklin D. Roosevelt (D)	-52%	Apr. 1942
Herbert Hoover (R)	-86%	Jul. 1932

Source: Factset

U.S. Equity

- All US stock indexes we track had strong gains for the quarter and the last 12 months.
- The Magnificent 7 have been good this year, but not magnificent.

While several of the stocks in the Magnificent 7 have continued to do well during Q1 2024 (e.g Nvidia: +82.5%, Meta: +37.3%, Microsoft: +12.1%), some of the other stocks in that group have not performed as well (e.g. Tesla: -29.3%, Apple:-10.8%).

Separately, in reviewing small cap stocks in the US via the Russell 2000, the most common benchmark for US small cap stocks, note that just over 40% of its holdings are considered unprofitable. Why does this matter? It matters because studies have shown that more profitable companies tend to outperform less profitable companies, which makes intuitive sense. It is also why we prefer to recommend investments that focus on more profitable small cap companies.

Non-U.S. Equity

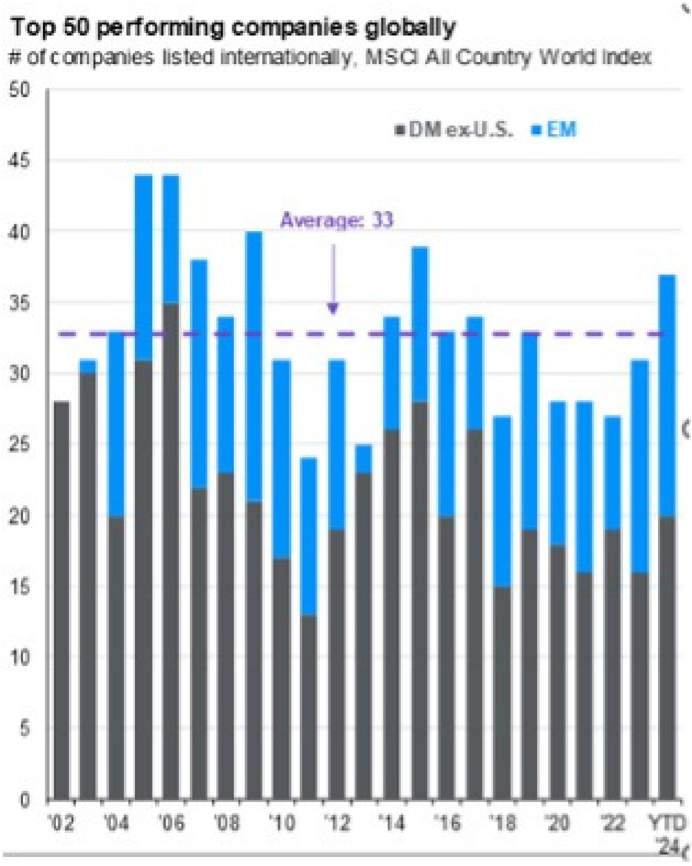
- Like US stocks, non-US stock returns were quite strong in Q1 and for the last 12 months.
- A stronger US Dollar has negatively impacted the return of international developed and emerging market stocks.

Some investors may look at international developed and emerging markets stock returns compared to their US counterparts and simply suggest that non-US companies simply can't keep pace.

However, there is more to the story than just the headline returns. Specifically, if you look at the MSCI World ex-USA in local currency, its Q1 return was 9.6%, very similar to the 10.3 return for the Russell 1000. However, because of a rising US Dollar relative to a basket of other currencies, the MSCI World ex-USA returned just 5.6% in USD terms.

Can non-US stocks keep pace with their US counterparts? Exhibit 3 says yes. The chart clearly shows that, on average, more than half of the top 50 performing companies on an annual basis tend to be listed outside the US.

EXHIBIT 3



SOURCE: FACTSET, MSCI, J.P. MORGAN ASSET MANAGEMENT. GRAPH WAS MADE BY RANKING ALL THE COMPANIES IN THE MSCI ALL COUNTRY WORLD INDEX BY PERFORMANCE ON A YEARLY BASIS AND DETERMINING THE TOP 50 PERFORMERS USING THEIR TOTAL RETURN IN USD. COMPANIES ARE LISTED IN NO PARTICULAR ORDER. EXCLUDED COMPANIES WHOSE MARKET CAPITALIZATION DOES NOT MAKE UP AT LEAST 0.01% OF THE MSCI ALL COUNTRY WORLD INDEX IN THE YEAR LISTED. GUIDE TO THE MARKETS – U.S. DATA ARE AS OF MARCH 31, 2024.

Global REITs

- After a very strong Q4 2023, Global REITs declined -1.6% during Q1 2024.
- In the US, the sectors that performed the best over the quarter were specialty REITs (11.5%) and lodging/resorts (5.6%). Source: NAREIT

Global Fixed Income

- With the Fed holding rates higher for longer, yields rose across Treasury, corporate, and municipal bond yield curves.
- Global bonds ex-US (hedged USD) continued in the positive territory with gains of 0.6%.

Exhibit 4 shows that the Treasury yield curve is still inverted, meaning shorter term bonds are yielding more vs. longer term bonds, which is opposite of what should occur under "normal" conditions. Yields rose slightly as investors changed their expectations about possible Fed plans, with investors now expecting decreases coming towards the second half of the year, when they were previously anticipated to start earlier in the year.

EXHIBIT 4

SOURCE: BLOOMBERG, AVANTIS INVESTORS, DATA AS OF 3/31/2024

Overall, we continue to view our bond allocations as a means of reducing overall portfolio risk (as measured by standard deviation), given that stocks are expected to have much higher volatility. Our portfolio's focus will continue to be on high quality bonds with an emphasis on short to intermediate duration government and corporate bonds, where default risk has historically been relatively low.

AUTHORS

Mario Nardone, CFA

Mario is the Chief Investment Strategist for XYPN Invest and the President & Founder of East Bay Financial Services. Mario began his investment career in 1999 with Vanguard mutual funds in Valley Forge, PA, where he consulted institutions and financial advisors on investment policy, portfolio construction, and Exchange-Traded Funds (ETFs). He also held roles as a research analyst, a municipal bond fund specialist, among others, during his tenure. In 2003 he earned the Chartered Financial Analyst designation, and he continues to mentor aspiring Charter candidates and young investment professionals.

Mario is Past President of CFA Society South Carolina and Former Chairman of the College of Charleston Finance Department Advisory Board. His approach to investments and the industry has been featured in Investment News, NAPFA Advisor Magazine, South Carolina Public Radio, and other publications and media outlets.

Eric Stein, CFA

Prior to joining East Bay, Eric worked for a variety of firms, both large and small. This includes 7+ years with Goldman Sachs Asset Management where he held roles in areas such as performance measurement, client service, risk analysis, and portfolio construction. During his tenure there, Eric had the opportunity to cover many different types of asset classes, vehicles, and client types. Eric also worked at RSM U.S. Wealth Management for 10+ years, serving as the Chief Investment Officer while providing strategic leadership and solutions for their national investment platform.

As a Partner at East Bay, Eric serves a select group of financial advisory firms as their outsourced Chief Investment Strategist. Responsibilities of this role include continuous oversight of advisor clients' investments, bespoke strategies for unique situations, client communications, and more.

DISCLOSURES

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Email support@xyinvestmentsolutions.com with specific questions about models you may be using or considering in your practice.

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Investing in foreign securities may involve certain additional risk, including exchange rate fluctuations, less liquidity, greater volatility and less regulation. Small company stocks may be subject to a higher degree of market risk than the securities of more established companies because they tend to be more volatile and less liquid. Bonds are subject to risks, including interest rate risk which can decrease the value of a bond as interest rates rise. REIT investments are subject to changes in economic conditions and real estate values, and credit and interest rate risks.
Investors cannot invest directly in an index. Indexes are unmanaged and reflect reinvested dividends and/or distributions, but do not reflect sales charges, commissions, expenses or taxes.

An investor should consider a portfolio's investment objectives, risks, charges and expenses carefully before investing. The underlying funds' prospectus contain this and other important information. Please read any applicable prospectus carefully before investing.

DISCLOSURES

Benchmark descriptions: MSCI ACWI Index, MSCI's flagship global equity index, is designed to represent performance of the full opportunity set of large- and mid-cap stocks across 23 developed and 24 emerging markets, covering approximately 85% of the free float- adjusted market capitalization in each market. Russell 3000 Index is a market-capitalization-weighted equity index that tracks the performance of the 3,000 largest U.S.-traded stocks which represent about 98% of all U.S incorporated equity securities. Standard & Poors 500 is an index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. The S&P 500 index components and their weightings are determined by S&P Dow Jones Indices. Russell 1000 Index is an index of approximately 1,000 of the largest companies and is a subset of the Russell 3000, comprising approximately 90% of total market capitalization of all listed US stocks. Russell 1000® Growth Index is a market capitalization weighted index that measures the performance of those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values. Russell 1000® Value Index is a large-cap value index measuring the performance of the largest 1,000 U.S. incorporated companies with lower price-to-book ratios and lower forecasted growth values. Russell 2000® Growth Index measures the performance of the Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. Russell 2000® Value Index is an unmanaged, market-value weighted, value-oriented index comprised of small stocks that have relatively low price-to-book ratios and lower forecasted growth values MSCI EAFE (Europe, Australasia, Far East) Index is designed to measure the equity market performance of developed markets outside of the U.S. & Canada. MSCI EAFE Small Cap Index captures small cap representation across Developed Markets countries around the world, excluding the US and Canada. MSCI Emerging Markets Index captures large and mid cap representation across 24 Emerging Markets (EM) countries and covers approximately 85% of the free float-adjusted market capitalization in each country. MSCI Frontier Markets Index captures large and mid cap representation across 29 Frontier Markets countries and covers about 85% of the free float-adjusted market capitalization in each country. Dow Jones Global Select REIT Index is designed to measure the performance of publicly traded REITs and REIT-like securities and is a sub-index of the Dow Jones Global Select Real Estate Securities Index (RESI), which seeks to measure equity real estate investment trusts (REITs) and real estate operating companies (REOCs) traded globally. The index is designed to serve as a proxy for direct real estate investment. Dow Jones U.S. Select REIT Index tracks the performance of publicly traded REITs and REIT-like securities and is designed to serve as a proxy for direct real estate investment, in part by excluding companies whose performance may be driven by factors other than the value of real estate. The index is a subset of the Dow Jones U.S. Select Real Estate Securities Index. Dow Jones Global ex-US Select REIT Index is designed to measure the performance of publicly traded REITs and REIT-like securities traded globally ex-US. ICE BofAML 3-Month T-Bill Index is an unmanaged index that measures returns of three-month Treasury Bills. ICE BofAML 1-5 Year US Treasury, Corporate and Municipal Indexes are subsets respectively of ICE BofAML US Treasury, Corporate and Municipal Indexes including all securities with a remaining term to final maturity greater than or equal to 1 year and less than 5 years. ICE BofAML 5-10 Year US Treasury, Corporate and Municipal Indexes are subsets respectively of ICE BofAML US Treasury, Corporate and Municipal Indexes including all securities with a remaining term to final maturity greater than or equal to 5 years and less than 10 years. ICE BofAML 10+ Year Treasury, Corporate and Municipal Securities Index are subsets respectively of ICE BofAML US Treasury, Corporate and Municipal Securities Indexes including all securities with a remaining term to final maturity greater than or equal to 10 years. Bloomberg Barclays Global Aggregate Bond Index provides a broad-based measure of the global investment-grade fixed income markets (one version shown with its currency hedged back to the USD and is noted as such). Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed- rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and nonagency). J.P. Morgan Global (ex-US) Government Bond Index: Is the standard unmanaged foreign securities index representing major government bond markets outside the US markets (one version shown with its currency hedged back to the USD and is noted as such). ICE BofAML US Inflation-Linked Treasury Index tracks the performance of U.S. dollar denominated inflation linked sovereign debt publicly issued by the U.S. government in its domestic market. Qualifying securities must have at least one year remaining term to final maturity and no more than 5 years to maturity. Bloomberg Barclays U.S. Corporate High Yield Bond Index is a total return performance benchmark for fixed income securities having a maximum quality rating of Ba1.