INVESTMENT COMMENTARY

U.S. stock and bond market momentum ignited in the fourth quarter, as investor concerns of "higher for longer" melted up to a "Goldilocks" not-too-hot, not-too-cold outlook for economic growth, inflation, and employment. The Federal Open Market Committee (FOMC) met twice in the fourth quarter and monetary policy remained unchanged with the Federal Funds rate "paused" at 5.25 to 5.50%, while Quantitative Tightening (QT) continued to reduce the Federal Reserve (Fed) balance sheet by more than $1 trillion since June 2022. The Fed's Summary of Economic Projections (SEP) raised their expectation for rate cuts in 2024 from two to three 25 basis point cuts. The December FOMC statement highlighted, "Recent indicators suggest that growth of economic activity has slowed from its strong pace in the third quarter. Job gains have moderated since earlier in the year but remain strong, and the unemployment rate has remained low. Inflation has eased over the past year but remains elevated. The U.S. banking system is sound and resilient. Tighter financial and credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation. The extent of these effects remains uncertain. The Committee remains highly attentive to inflation risks." U.S. Real Gross Domestic Product (GDP) increased at an annual rate of +4.9% during the third quarter of 2023, while inflation as measured by the U.S. Consumer Price Index (CPI) rose by 3.1% for the twelve-month period ending November 2023. (Bloomberg) Inflation continues to moderate, but it's still above the Fed's 2% long run inflation target. The Bureau of Labor Statistics (BLS) reported the unemployment rate decreased slightly in December to 3.7%, wage growth declined to 4%, while the U6 measure of total unemployed was at 7.0%, well below its historical average. The Conference Board Consumer Confidence Index increased in December to 110.7.

The S&P 500 rebounded strongly in the fourth quarter returning +11.68% for the quarter and +26.26% for the full 2023 calendar year. The tech-heavy NASDAQ 100 was up +14.60% for the quarter and a strong +55.13% for the year. The Bloomberg U.S. Aggregate Index delivered a strong positive return of +6.82% for the quarter, driven by falling interest rates across the curve coupled with tighter spreads, and +5.53% for the year. The yield curve inversion contracted by 10 bps to 37 bps as the 2-year Treasury yield declined by 79 bps to 4.25%, while the 10-year Treasury yield, despite considerable volatility during the year, dropped 69 bps to finish the year virtually unchanged for 2023 at 3.88%. For the quarter, Treasuries returned +5.66%, while Investment Grade (IG) corporate bonds were the best returning sector and generated a quarterly return of +8.50%. All other major investment grade bond sectors were positive, including U.S. Agency Securities (+3.90%), Government-Related Credit (+5.92%), Mortgage-backed Securities (+7.48%), Commercial MBS (+5.25%) and Asset-backed Securities (+3.48%). U.S. High Yield Corporate Bonds once more generated strong positive returns and returned +7.16% for the quarter.

Market sentiment shifted during the fourth quarter from recessionary concerns to optimism over future rate cuts and a "soft-landing". According to Bloomberg, roughly 85% of economists surveyed in December of 2022 projected a recession in 2023 – one year later, fewer than one-third of the economists surveyed are forecasting a recession in 2024. Interestingly, the December FOMC SEP forecast was for three quarter-point rate cuts in 2024, but Fed Fund Futures (a proxy for market projections) are predicting double the Fed's forecast, or 150 basis points of rate cuts in 2024, which continues the market's disconnect from the Fed's messaging. This recent disconnect has magnified the dispersion across economic and market outlooks during this prolific post-Pandemic rate hike cycle, which has been anything but typical.

Throughout the 2023 rate hike cycle, the PIA Investment Strategy Group (ISG) remained steadfast in its belief that there would be no rate cuts last year, despite market expectations. Going forward, the ISG believes the 2024 market consensus for a "growth recession" (below trend) is a desirable outcome, but market history continues to signal the possibility of a recession looming over the market, as Fed policy continues to work its way through the system. We believe persistent inflationary pressures, while moderating, portend the greatest risk to economic growth and/or credit formation. However, we agree with market sentiment that additional rate hikes and/or a resurgent spike in inflation is a lower probability. While we are pleasantly surprised with the Fed's efficacy in reducing inflation without a commensurate deterioration in GDP and/or employment, PIA continues

to believe, despite all the Fed's good work, the 2% inflation target may be difficult to achieve without a NBER-declared recession. We believe a long-term inflation target above the 2% level is more attainable in the near-term, given the global wave of secular inflation created by wage growth, alternative energy and environmental spending, anti-Covid spending, anti-globalization efforts like re-shoring, increasing global debt levels in the current interest rate environment, and immeasurable geopolitical spending on security, food, and the military. Additionally, we believe one reason the U.S. economy hasn't sunk into a broad NBER recession is the pandemic-related "rolling recessions" that have released economic pressure without taking down the full economy. The U.S. economy has experienced distinct industry-specific contractions and subsequent strong recoveries in the Travel and Leisure and Oil sectors in 2020, the Semiconductor sector in late 2021, and the Housing sector beginning in early 2022.

Looking forward, we believe current market sentiment reflects our most constructive outlook for the U.S. economy in 2024. However, we view the risk of recessionary pressures as the more likely of the tail risks from that consensus view, so we have positioned our portfolios relatively defensively. While we believe the more negative outlook would only lead to a modest recession, we anticipate increased unemployment and inflation closer to the Fed's target in that scenario. We believe the 10-year Treasury will be somewhat rangebound in 2024, with any signs of a recession taking rates lower across the curve and any persistent inflation pushing 10-year yields higher. Lastly, 2024 will likely prove to have more than its share of wildcards, including, but not limited to, a highly contentious election and elevated geopolitical events and tensions.

In the fourth quarter, PIA shifted portfolio duration from neutral to slightly long relative to our respective benchmarks. We continue to overweight corporate debt, with a focus on high quality credits with strong balance sheets. Our Industrial credits provide incremental yield and our Financials are senior domestic debt we believe offer attractive compensation for their sector volatility. We maintained our modest overweight in Agency MBS during the quarter. In our Plus strategies, we maintained our high yield credit exposure given current yield levels.

PIA Investment Strategy Group

KEY **RATES**

	12/31/23	12/31/22	12/31/21
Fed Funds Target Rate	**5.50%**	**4.25-4.5%**	**0.0-0.25%**
3 Month LIBOR	**5.59**	**4.77**	**0.21**
On-the-run Treasuries:			
3 Months	**5.34**	**4.37**	**0.03**
6 Months	**5.26**	**4.76**	**0.18**
2 Years	**4.25**	**4.43**	**0.73**
5 Years	**3.85**	**4.01**	**1.26**
10 Years	**3.88**	**3.88**	**1.51**
30 Years	**4.03**	**3.97**	**1.90**

Source: Bloomberg

KEY **ECONOMIC INDICATORS**

as of	12/31/23	12/31/22
U.S. $ (DXY)	**101.3**	**103.5**
Oil	**71.7**	**80.3**
Gold	**2,063.0**	**1,824.0**
CRB	**263.8**	**277.7**
GDP	**4.9**	**2.6**
CPI	**3.1**	**6.5**
Core CPI (Ex - Food & Energy)	**3.2**	**4.9**
Unemployment Rate	**3.7**	**3.5**
Consumer Confidence	**110.7**	**109.0**
S&P/Case-Shiller – Comp-20	**4.9**	**4.8**

Source: Bloomberg

INDEX **RETURNS**

	4Q'23	YTD	1-Year
Bloomberg –			
Universal	**6.83%**	**6.17%**	**6.17%**
Aggregate	**6.82**	**5.53**	**5.53**
Gov-Credit	**6.63**	**5.72**	**5.72**
Int. Gov-Credit	**4.56**	**5.24**	**5.24**
Corporate	**8.50**	**8.52**	**8.52**
Treasury only	**5.66**	**4.05**	**4.05**
1-3 year Gov	**2.55**	**4.32**	**4.32**
ICE BofA – 1-yr T-Note	**1.79**	**4.74**	**4.74**
High Yield	**7.16**	**13.44**	**13.44**
Global Aggregate	**8.10**	**5.72**	**5.72**
Emerging Markets Debt	**8.10**	**9.09**	**9.09**
S&P 500	**11.68**	**26.26**	**26.26**
DJIA	**13.09**	**16.18**	**16.18**
NASDAQ 100	**14.06**	**55.13**	**55.13**
MSCI EAFE	**10.47**	**18.95**	**18.98**

Source: Bloomberg

SECTOR **RETURNS**

4Q'23	Total Return	Excess Return
U.S. Treasuries	**5.66%**	**0.00%**
Government-related U.S. Agency	**5.47**	**0.33**
Government-related Credit	**5.92**	**0.38**
Corporate	**8.50**	**2.03**
Corporate Financials	**7.27**	**2.06**
Corporate Industrials	**9.03**	**2.03**
Corporate Utilities	**9.69**	**1.94**
Corporate AAA-rated	**9.76**	**0.77**
Corporate AA-rated	**8.29**	**1.00**
Corporate A-rated	**8.21**	**1.75**
Corporate BBB-rated	**8.78**	**2.48**
Corporate High-Yield	**7.16**	**3.31**
Mortgage-backed Securities-FR	**7.48**	**1.33**
CMBS	**5.25**	**0.67**
ABS	**3.48**	**0.37**

Source: Bloomberg

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INDEX DESCRIPTION

Bloomberg U.S. Universal Index represents the union of the U.S. Aggregate Index, U.S. Corporate High-Yield Index, Investment-Grade 144A Index, Eurodollar Index, U.S. Emerging Markets Index, and the non-ERISA eligible portion of the CMBS Index. The index covers USD-denominated, taxable bonds that are rated either investment-grade or below investment-grade. Some U.S. Universal Index constituents may be eligible for one or more of its contributing subcomponents that are not mutually exclusive. These securities are not double-counted in the index.

Bloomberg U.S. Aggregate Bond Index is an unmanaged index that covers the investment grade fixed rate bond market with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. The issues must be rated investment grade, be publicly traded, and meet certain maturity and issue size requirements.

Bloomberg U.S. Government/Credit Bond Index includes securities in the Government and Credit Indices. The Government Index includes treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government). The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

Bloomberg U.S. Intermediate Government/Credit Bond Index is the Intermediate component of the U.S. Government/Credit index. The Government/Credit Index includes securities in the Government and Credit Indices. The Government Index includes treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government). The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

Bloomberg U.S. Corporate Bond Index covers USD-denominated, investment-grade, fixed-rate, taxable securities sold by industrial, utility, and financial issuers. It includes publicly issued U.S. corporate debentures and secured notes that meet specific maturity, liquidity, and quality requirements. Securities in the index roll up to the U.S. Credit and U.S. Aggregate indices. The U.S. Corporate Index was launched on January 1, 1973.

Bloomberg U.S. Treasury Index includes public obligations of the U.S. Treasury. Treasury bills are excluded by the maturity constraint but are part of a separate Short Treasury Index. In addition, certain special issues, such as state and local government series bonds (SLGs), as well as U.S. Treasury TIPS, are excluded. STRIPS are excluded from the index because their inclusion would result in double-counting. Securities in the Index roll up to the U.S. Aggregate, U.S. Universal, and Global Aggregate Indices.

Bloomberg U.S. 1-3 Year Government Bond Index consist of securities in the U.S. Government Index with a maturity from 1 up to (but not including) 3 years. Securities issued by the U.S. Government (i.e., securities in the Treasury and Agency Indices). Inclusions: Public obligations of the U.S. Treasury with a remaining maturity of one year or more. Publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government.

ICE BofA 1-Year US Treasury Note Index is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month that issue is sold and rolled into a newly selected issue. The issue selected at each month-end rebalancing is the outstanding Treasury note that matures closest to, but not beyond, one year from the rebalancing date. To qualify for selection, an issue must have settled on or before the month-end rebalancing date.

Bloomberg Corporate U.S. High Yield Index - covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (e.g., Argentina, Brazil, Venezuela, etc.) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included. The index includes both corporate and non-corporate sectors. The corporate sectors are Industrial, Utility, and Finance, which include both U.S. and non-U.S. corporations. The Yankee sector has been discontinued as of 7/1/00. The bonds in the former Yankee sector have not been removed from the index, but have been reclassified into other sectors.

Bloomberg Global Aggregate Index provides a broad-based measure of the global investment-grade fixed-rate debt markets. The Global Aggregate Index contains three major components: the U.S. Aggregate Index (USD 300 million), the Pan-European Aggregate Index (EUR 300 million), and the Asian-Pacific Aggregate Index (JPY 35 billion). In addition to securities from these three benchmarks (94.4% of the overall Global Aggregate market value), the Global Aggregate Index includes Global Treasury, Eurodollar (USD 300 million), Euro-Yen (JPY 35 billion), Canadian (CAD 300 million), and Investment-Grade 144A (USD 300 million) index-eligible securities not already in the three regional aggregate indices. The Global Aggregate Index family includes a wide range of standard and customized subindices by liquidity constraint, sector, quality, and maturity. The Global Aggregate Index is a component of the Multiverse Index.

The Bloomberg EM USD Aggregate Index is a flagship hard currency Emerging Markets debt benchmark that includes USD denominated debt from sovereign, quasi-sovereign, and corporate EM issuers. The index is broad-based in its coverage by sector and by country, and reflects the evolution of EM benchmarking from traditional sovereign bond indices to Aggregate-style benchmarks that are more representative of the EM investment choice set. Country eligibility and classification as an Emerging Market is rules-based and reviewed on an annual basis using World Bank income group and International Monetary Fund (IMF) country classifications. This index was previously called the Barclays US EM Index and history is available back to 1993.

S&P 500 Index – The S&P 500 index includes 500 leading companies in leading industries of the U.S. economy. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

The Dow Jones Industrial Average (DJIA) is an index used to measure the performance of the U.S. financial markets. Introduced on May 26, 1896 by Charles H. Dow, it is the oldest stock price measure in continuous use. Over the past century "the Dow" has become the most widely recognized stock market indication in the U.S. and probably in the entire world. Most of the stocks included in the index are listed on the New York Stock Exchange, and are all large blue-chip companies that reflect the health of the U.S. economy. All but a handful of these have major business operations throughout the world, thus providing some insight into the economic well-being of the global economy.

The NASDAQ-100 Index is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international issues listed on the NASDAQ. No security can have more than a 24% weighting. The index was developed with a base value of 125 as of February1, 1985. Prior to December 21, 1998 the Nasdaq 100 was a cap-weighted index.

MSCI EAFE Index is a capitalization weighted index that monitors the performance of stocks from Europe, Australiasia, and the Far East.

Indexes are unmanaged, do not incur management fees, costs, and expenses, and cannot be invested in directly.

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