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 yields of 1-year, 2-year, 5-year and 10-year U.S. Treasuries decreased by 69, 80, 76 and 69 basis points, respectively. The yield curve inversion between 2- and 10-year Treasuries contracted by 10 bps to 37 bps.

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.

The fund is currently positioned with a longer duration relative to the benchmark and an overweight in corporate credit. The industrial and financial credits in the fund provide incremental risk-adjusted yield and offer attractive compensation for their sector volatility and the utility credits provide additional portfolio diversification with low sector volatility. We believe the securitized debt in the fund offers value on a risk-adjusted basis.

PIA Investment Strategy Group

Pacific Income Advisers is an investment management firm registered with the U.S. Securities and Exchange Commission under the Investment Advisers Act of 1940. PIA manages a variety of fixed income and equity assets for primarily United States clients. The information contained herein is based on internal research derived from various sources and does not purport to be statements of all material facts relating to the securities mentioned. Fund holdings and/or sector allocations are subject to change at any time and are not recommendations to buy or sell any security. Opinions expressed are subject to change, are not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectus contains this and other important information about the investment company, and it may be obtained by calling 800-251-1970 or visiting www.PIAMutualFunds.com. Read it carefully before investing.

Mutual Fund investing involves risk. Principal loss is possible. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in Asset Backed and Mortgage Backed Securities include additional risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. The Fund may invest in derivatives, which may involve risks greater than the risks presented by more traditional investments. The risk of owning an ETF or mutual fund generally reflects the risks of owning the underlying securities that the ETF or mutual fund holds. It will also bear additional expenses, including operating expenses, brokerage costs and the potential duplication of management fees. These risks are fully disclosed in the Prospectus.

Gross Domestic Product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period. As a broad measure of overall domestic production, it functions as a comprehensive scorecard of the country's economic health.

Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

The Fed's Summary of Economic Projections (SEP) sheds light on the central bank's expectations for economic growth, inflation, employment, and interest rates.

Consumer Confidence Index (CCI) is a survey, administered by The Conference Board, that measures how optimistic or pessimistic consumers are regarding their expected financial situation.

The Bureau of Labor Statistics (BLS) is a federal agency that collects and disseminates various data about the U.S. economy and labor market.

The Conference Board (CB) is a not-for-profit research organization that distributes vital economic information to its peer-to-peer business members.

The Federal Open Market Committee (FOMC) is the branch of the Federal Reserve System (FRS) that determines the direction of monetary policy specifically by directing open market operations (OMOs).

Monetary - consists of the actions of a central bank, currency board or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

Basis point (bp)- A unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument.

Yield - The income return on an investment. This refers to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost.

Duration - A commonly used measure of the potential volatility of the price of a debt security, or the aggregate market value of a portfolio of debt securities, prior to maturity. Securities with a longer duration generally have more volatile prices than securities of comparable quality with a shorter duration.

Benchmark - The ICE BofAML 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. You cannot invest directly in an index.

Quantitative tightening (QT) (or quantitative hardening) is a contractionary monetary policy applied by a central bank to decrease the amount of liquidity within the economy.

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. You can not invest directly in an index.

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. You can not invest directly in an index.

The Bloomberg U.S. Aggregate Bond Index represents securities that are SEC-registered, taxable and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. You cannot invest directly in an index.

Spread - The difference in yields between two fixed-income securities with the same maturity, but originating from different investment sectors.

An inverted yield curve shows that long-term interest rates are less than short-term interest rates.

The National Bureau of Economic Research (NBER) is a private, nonpartisan organization that facilitates cutting-edge investigation and analysis of major economic issues.

Fed funds futures are financial futures contracts based on the federal funds rate and traded on the Chicago Mercantile Exchange (CME) operated by CME Group Inc. (CME).

Past performance is not a guarantee of future results.

The PIA Funds are distributed by Quasar Distributors, LLC

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