Quarterly Outlook

JANUARY 2024

Tandem Collective Funds®
Tandem ETF Portfolios®

Fourth Quarter 2023

So far, the economy has absorbed an aggressive campaign of 11 rapid interest rate increases without destroying the labor market, which added 4.8 million jobs in 2022 and 2.7 million jobs in 2023.

Most asset classes surged in the fourth quarter with the exception of commodities. Fueled by the Fed's surprise pivot at their December policy meeting, both stocks and bonds rose in anticipation of lower interest rates. All sectors of the S&P 500 were positive except Energy. Small-company stocks, cyclical stocks, and lower-quality stocks led the fourth quarter rally in a reversal from the first three quarters of the year which were led by high-quality, large companies. At the peak of rates in October, the US 10-year Treasury yield hit 4.98% before retreating to 3.87%, exactly where it began the year. The average 30-year fixed rate mortgage climbed to 8.09% before falling to 6.99%.

Index/Instrument	Category	Q4 2023 Total Return	2023 YTD Total Return (as of 12/31/2023)
S&P 500	Large-capitalization stocks	11.68%	26.26%
S&P MidCap 400	Mid-capitalization stocks	11.66%	16.39%
S&P SmallCap 600	Small-capitalization stocks	15.07%	15.94%
NASDAQ 100	Large-capitalization stocks	14.60%	55.13%
Russell 2000 Index	Small-capitalization stocks	14.02%	16.88%
MSCI World ex USA	Developed markets international stocks	10.57%	18.68%
MSCI Emerging Market	Emerging markets international stocks	7.84%	10.12%
Bloomberg Barclays US Aggregate Bond Index	Investment-grade US bonds	6.82%	5.53%
Bloomberg Barclays US Investment Grade Corps	US investment-grade corporate bonds	8.50%	8.52%
Bloomberg Barclays US Corporate High-Yield Bond Index	US corporate high-yield bonds	7.16%	13.45%
Bloomberg Barclays Investment Grade US Convertibles	US high-grade convertible bonds	5.94%	5.20%

Source: Bloomberg

For the full year, only the classic growth sectors (Consumer Discretionary, Communication Services, Technology) outperformed the S&P 500. Cyclical sectors (Financials, Industrials, Materials) and defensive sectors (Utilities, Staples) lagged the index. High-quality factors (profitability, strong balance sheet) and artificial intelligence euphoria helped propel large-cap Technology and Communication Services sector returns.

There was significant economic uncertainty to start the year, but expectations have become more widespread that the economy can avoid a deep recession or significant job losses. The Fed's proactive language regarding lowering rates before inflation reaches its 2% target was a clear change in policy and acknowledges the dual objectives of their mandate – both stable prices and full employment. So far, the economy has absorbed an aggressive campaign of 11 rapid interest rate

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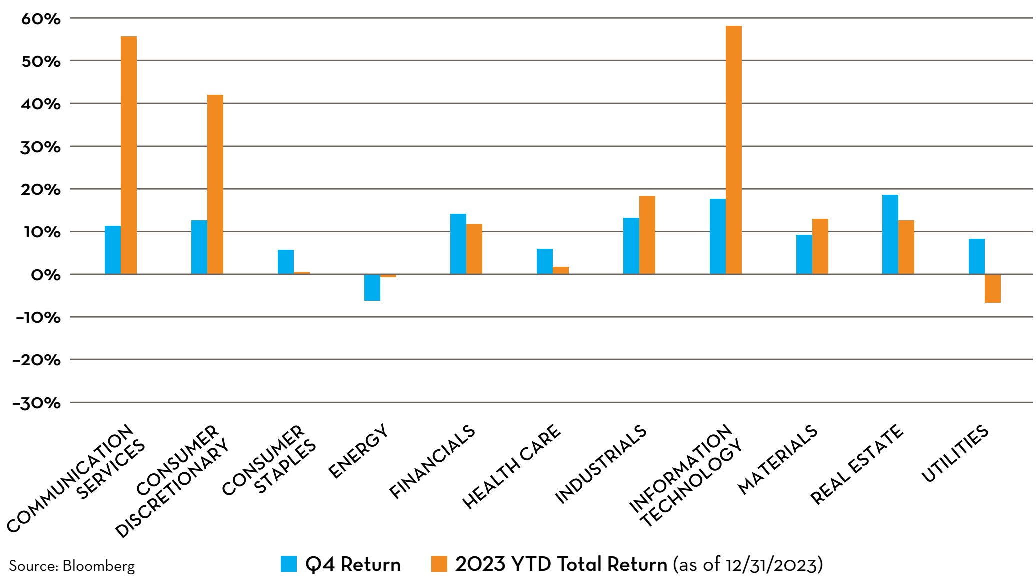
S&P 500 Sector Returns



increases without destroying the labor market, which added 4.8 million jobs in 2022 and 2.7 million jobs in 2023. The unemployment rate has remained under 4% for nearly two years, while inflation (CPI) has slowed from 6.5% to 3.1% in the past year. Still, the labor force participation rate remains below its pre-pandemic rate, indicating a workforce still in flux, heavily influenced by baby boomer losses.

Risks remain for the economy. First, investors have more aggressive expectations for rate cuts than the Fed's own forecast. In addition, the lagged effect of higher rates will continue to pressure those businesses and consumers with near-term credit needs. Considering tighter bank lending standards, corporate capital expenditures are expected to fall. Personal consumption, the bulk of our economy, was unexpectedly strong in 2023. Support for spending will likely weaken as job and wage gains slow while borrowing and excess savings decrease.

Falling inflation is good news for consumer purchasing power and bad news for corporate revenues, profit margins, and employment. It remains unclear whether the Fed will decrease interest rates because inflation has fallen or because the economy has slowed too much (job losses, too slow, or negative GDP). Notably, the Fed has signaled a willingness to move quickly to preserve a normalizing yet slowing economy.

The S&P 500 has regained the value lost starting with the commencement of the rate hiking cycle in March 2022. Stock returns in 2023 were propelled by valuation multiples (PE ratio) moving higher (a reversal of 2022), while earnings growth was mostly absent. Consequently, stocks enter 2024 valued highly compared to historical standards. Earnings growth must materialize this year as expected (+10% consensus) for stocks to continue to move higher.

The uniqueness of the COVID pandemic led to unprecedented monetary and fiscal stimulus. The unwind continues to impact the economy and investment markets four years later. Supply chains are largely repaired. Inflation is trending towards its target, inflation expectations are falling, and consumers have used their savings

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and credit beyond expectations. Going forward with a less antagonistic Fed and a normalizing economy, both rates and bond yields can move lower which is a positive for bond returns. Stocks can deliver positive returns, too, but companies will be challenged to maintain high margins and deliver better than expected earnings growth with fewer tailwinds behind them.

Index Definitions

The S&P 500 Index measures the performance of the large-cap segment of the US equity market. The S&P MidCap 400 Index measures the performance of the mid-cap segment of the US equity market. The S&P SmallCap 600 Index measures the performance of the small-cap segment of the US equity market. The Nasdaq 100 is a basket of the 100 largest, most actively traded US companies listed on the Nasdaq stock exchange. The Russell 2000 Index measures the performance of the small-cap segment of the US equity market. The MSCI World Ex USA Index captures large- and mid-cap representation across 22 of 23 developed markets countries, excluding the US. The MSCI Emerging Markets Index captures more than 1,400 large- and mid-cap securities in 24 countries spanning across five regions. The Bloomberg Barclays US Aggregate Bond Index is a broad-based benchmark that measures the investment-grade, US dollar-denominated, fixed-rate taxable bond market. The Bloomberg Barclays Investment Grade Corporates index measures the investment-grade, fixed-rate, taxable corporate bond market. The Bloomberg Barclays Corporate High Yield Index measures the USD-denominated, high-yield, fixed-rate corporate bond market. The Bloomberg Barclays Investment Grade US Convertibles Index tracks the performance of investment-grade, USD-denominated convertible securities. S&P 500 Sectors measure segments of the US stock market as defined by GICS®. All index performance data sourced from Bloomberg.

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