Quarterly Outlook

APRIL 2024

Tandem Collective Funds®
Tandem ETF Portfolios®

First Quarter 2024

The first quarter of 2024 was strong for most stocks as many indices reached new highs, including the S&P 500 which posted a total return of 10.6% for the quarter. Recession fears continued to subside, and investors focused on the timing of future short-term rate cuts. Like last year, US large-company stocks outperformed small-company stocks, while growth outperformed value. Bond returns were mixed as yields climbed higher in response to the Fed's steadfast fight against inflation.

The remarkable strength of the economy in the face of higher rates puts the Fed in a holding pattern, waiting for either better inflation data or a weaker economy.

Index/Instrument	**Category**	**Q1 2024 Total Return**	**Total Return Trailing 1 Year** (as of 3/31/2024)
S&P 500	Large-capitalization stocks	10.55%	29.86%
S&P 400 MidCap	Mid-capitalization stocks	9.94%	23.29%
S&P 600 SmallCap	Small-capitalization stocks	2.45%	15.83%
NASDAQ 100	Large-capitalization stocks	8.72%	39.65%
Russell 2000	Small-capitalization stocks	5.17%	19.66%
MSCI World ex USA	Developed markets international stocks	5.75%	15.95%
MSCI Emerging Market	Emerging markets international stocks	2.41%	8.50%
Bloomberg Barclays US Aggregate Bond Index	Investment-grade US bonds	-0.78%	1.70%
Bloomberg Barclays US Investment Grade Corps	US investment-grade corporate bonds	-0.40%	4.43%
Bloomberg Barclays US Corporate High-Yield Bond Index	US corporate high-yield bonds	1.47%	11.15%
Bloomberg Barclays Investment Grade US Convertibles	US high-grade convertible bonds	1.71%	7.06%

Source: Bloomberg

Communication Services, Energy, and Technology provided leadership for large US stocks, while the most interest-rate-sensitive sectors, Real Estate and Utilities, underperformed the broad index the most. Thematically, quality (strong fundamentals) and momentum were the leading factors driving returns across stocks.

The concentration of mega-cap stocks within the S&P 500 has never been higher, with some of the largest, most innovative US companies delivering exceptional performance and profitability. The ten largest companies currently account for about 32% of the index and produced half of its first-quarter returns.

The remnants of pandemic-era stimulus continue to influence the economy. GDP grew at 3.2% in the last quarter of 2023, with expectations for 2%+ growth over the next year. At the beginning of 2024, investors expected enough of a slowdown in growth or waning of inflation for the Fed to deliver six to seven rate cuts by year end. Investors now expect only one or two.

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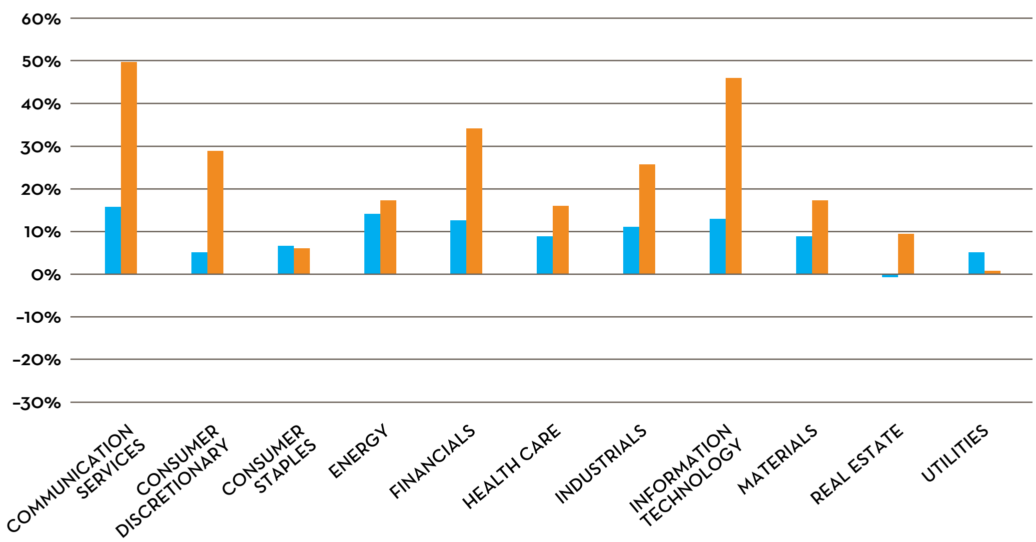
S&P 500 Sector Returns



Source: Bloomberg

The economy has outpaced most forecasts. Mammoth government spending and a vibrant labor market have helped. Job growth has been persistent, with the unemployment rate remaining under 4% since the beginning of 2022. The labor market is tight.

Consumers are showing some signs of stress yet continue to spend, mostly on services and experiences. The savings rate is beginning to climb, often a sign of declining job security, yet rising 401(k) balances and high home values bolster real net worth, fueling confidence and spending. For corporations, pricing power and record nominal revenues are supporting spending on capital expenditures (technology) and compensation. The manufacturing economy is showing signs of emerging from its two-year slump.

The remarkable strength of the economy in the face of higher rates puts the Fed in a holding pattern, waiting for either better inflation data or a weaker economy. The consumer price index (CPI) has fallen from a high of 9.1% in June of 2022 to its current 3.5% rate where it appears to have plateaued and in some instances accelerated over the past three months.

Fed Chair Jerome Powell remains cautiously optimistic that the Fed will be able to bring inflation down to its 2% target by 2025 without destroying the labor market, a task most consider to be more art than science. But without job losses and a sustained change in spending power, we expect inflation to remain sticky and above target. For now, income growth has given consumers the ability to pay higher prices.

The S&P 500 is up about 25% from its October lows and trading at the higher end of its valuation range. Disinflation, the prospect of rate cuts, and AI investing have driven stocks higher. After nearly two years without earnings growth, large companies' earnings are expected to grow 10% this year and 13% next year, predominantly driven by the Technology and Communication Services sectors. Large, cash-rich, profitable companies can continue to thrive in this economy without rate cuts. Small stocks, while relatively cheaper, remain susceptible to

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tight lending standards and falling earnings estimates. Other, more cyclical and credit-sensitive industries will be pressured by higher yields—especially banks and housing-related industries. In the long run, stocks follow earnings, and earnings remain solid within a growing economy. Meanwhile, bond investors have an opportunity to lock in higher yields as the Fed continues to work against inflation.

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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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