

Spring | 2024

Institutional Perspectives

Can the Market Rally Continue?



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In some ways, the first quarter of 2024 represented a continuation of market trends observed last year. The S&P 500 maintained its strong bull run, gaining another 10% in the first quarter. This brings the 12-month total return to 30%—in the top decile going back to 2000. The momentum factor drove the market, meaning that the “winners” kept winning, while the “losing” stocks continued to underperform. The positive momentum extended outside of equities to commodities, notably crude oil and gold, the latter of which hit a new all-time high (in nominal terms; Figure 1).

Data as of March 31, 2024.

Sources: Bloomberg, WTIA.

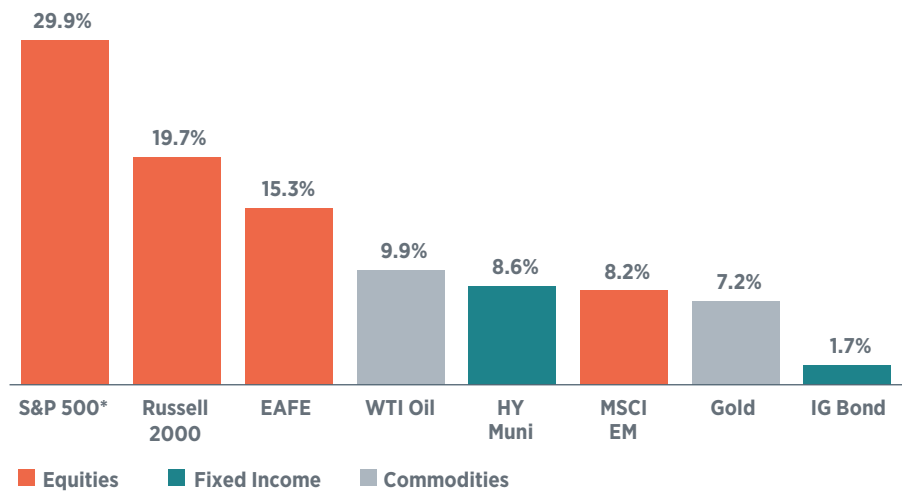
*All indices are defined in the Glossary.

Investing involves risks, and you may incur a profit or a loss. Past performance cannot guarantee future results. Indices are not available for direct investment. Investment in a security or strategy designed to replicate the performance of an index will incur expenses such as management fees and transaction costs which will reduce returns. There is no assurance that any investment strategy will be successful.

Figure 1

U.S. equities still exhibiting momentum

12-month trailing total return (%)



Continued

We expect the second quarter to be defined by two related themes:

1. U.S. economic growth settling in around 2% for the balance of the year.

2. The start of a global monetary policy easing cycle.

Important shifts in the market have occurred, however they have been beneath the market's surface. As expected, the Magnificent Seven has broken apart, though perhaps in more spectacular fashion than we anticipated. Nvidia and Meta finished the quarter among the S&P 500's 10 best-performing companies, while Tesla was the worst-performing stock in the entire index. Value stocks started to make a comeback, particularly in the month of March, and the energy sector outperformed the technology sector for the quarter. We expect a broadening of market leadership to continue this year, though volatility could increase.

The narrative that drove markets in the first quarter—investors adjusting Fed expectations, alongside sticky inflation and robust economic growth—is likely to shift as we move toward the middle of the year. We expect the second quarter to be defined by two related themes: 1) U.S. economic growth settling in around 2% for the balance of the year; and 2) the start of a global monetary policy easing cycle. This environment is constructive for risk assets, though current valuations suggest a lot of good news is already priced. We maintain a full equity allocation and are patiently waiting to add to risk on market pullbacks.

Inflationary hiccup and repricing of the Fed

After seven months of very well-behaved inflation data, the first quarter delivered an inflationary hiccup. Core inflation surprised to the upside in January and stayed elevated in February and March. Many, including ourselves and Fed Chair Powell, recognize that this resurgence was more likely than not the work of poor statistical adjustments to post-Covid seasonality trends than true price pressures.

Meanwhile, the U.S. continues to prove itself to be among the strongest and most resilient economies in the world. As an example, the Atlanta Fed GDPNow is tracking 2.8% growth for the first quarter on strong consumer spending, sentiment, and job data. The combination of disappointing inflation data and robust economic data in the first quarter pushed out the market's projected timeline for the start of the Fed's easing cycle.

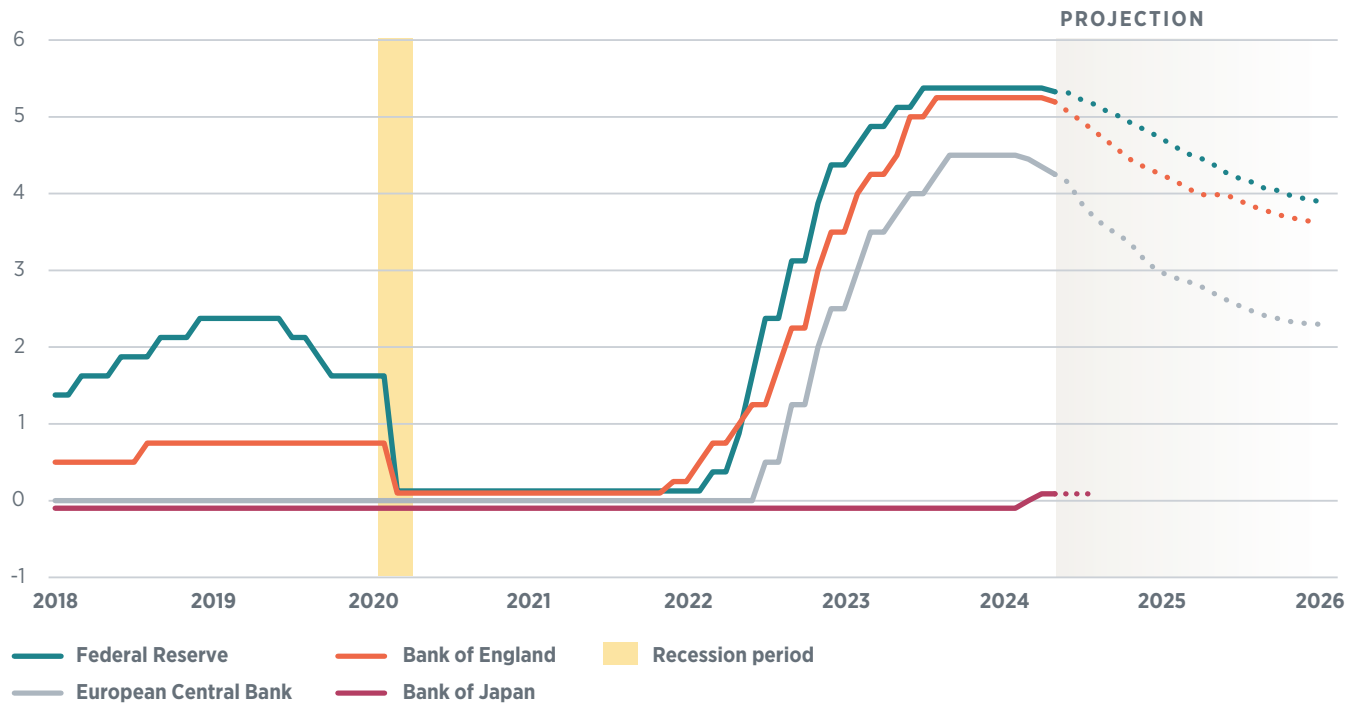
At the start of the year, the fed funds futures market was pricing in more than six cuts of 25 basis points, or bps (0.25%), with the markets now pricing in even less than the Fed's median projection of 75 bps of easing in 2024. Surprisingly, this hawkish adjustment to market expectations occurred without any material increase in equity volatility, even as the 10-year Treasury yield backed up more than 30 bps. The market's orderly digestion of a more hawkish short-term Fed outlook mitigates a key risk heading into the year and is constructive for risk assets.

Continued

Figure 2

Global economy to enter synchronized easing cycle

Global policy rates (%)



Data as of March 31, 2024.

Sources: Bloomberg, WTIA.

Global policy rates are represented by the midpoint of the range (i.e., 5.3275% for the Fed’s current rate). Projections denoted by the dotted line and calculated using central bank futures contracts.

Bank of England contracts are provided quarterly and calculated using interpolation for maturities not provided.

We continue to expect the Fed to cut rates by at least 100 bps this year, beginning in June. As inflation recedes, the Fed’s current policy will become increasingly restrictive. It has become clear to us that a weak economy is not necessary to bring down inflation. Productivity is increasing, driven in part by adoption of technology, including artificial intelligence, which is helping to offset companies’ input costs. We are not surprised that Chair Powell and the rest of the Fed are guiding markets toward a higher policy rate by maintaining somewhat hawkish rhetoric, but we think by midyear it will become clear that the Fed can cut by at least 100 bps, as well as slow or even end quantitative tightening.

Highlighting second-quarter themes

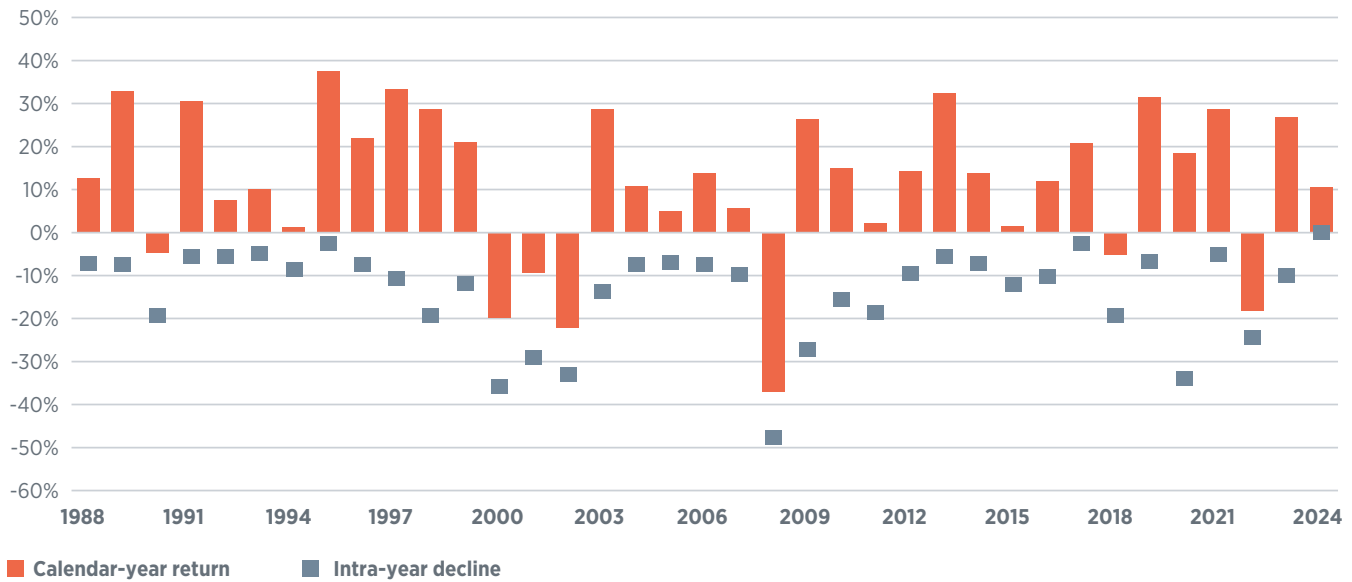
We predict that a different, positive narrative will emerge in the second quarter, driven by two important themes. First, after a series of very robust U.S. GDP prints (4.9% in the third quarter of 2023, 3.4% in the fourth quarter, and tracking close to 3% for the first quarter of 2024), the U.S. economy will settle into a trend-like rate of growth of around 2% that will carry through the balance of the year. This more moderate, sustainable rate of growth will result from a slower consumer but one that continues to be supported by positive real wage growth and a moderating but still-healthy labor market. Certain cohorts of the income spectrum have finally spent down Covid-related excess cash and are facing elevated borrowing costs. The services economy should continue to expand, while the long-beleaguered manufacturing sector is showing signs of bottoming. A “Goldilocks” rate of growth, rather than a more robust expansion, is key to avoiding a second wave of inflation.

Continued

Figure 3

Equity volatility is normal

Historic S&P 500 calendar-year returns, maximum drawdowns, and one-year forward return



Data as of March, 31, 2024.

Sources: Bloomberg, WTIA.

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Second, we expect that the second quarter will be the beginning of a global monetary policy easing cycle extending beyond the Fed to other developed and developing economies' central banks. We outlined our Fed expectations above, and a slew of other major central banks are expected to ease in tandem (Figure 2). The Swiss National Bank has already cut rates, and we expect the European Central Bank, Bank of England, and People's Bank of China to follow suit. Aside from a few emerging markets central banks and the Bank of Japan (which just last month raised interest rates, the final central bank to abandon negative interest rate policy), the global economy will be entering a synchronized easing cycle this year that could extend into 2025.

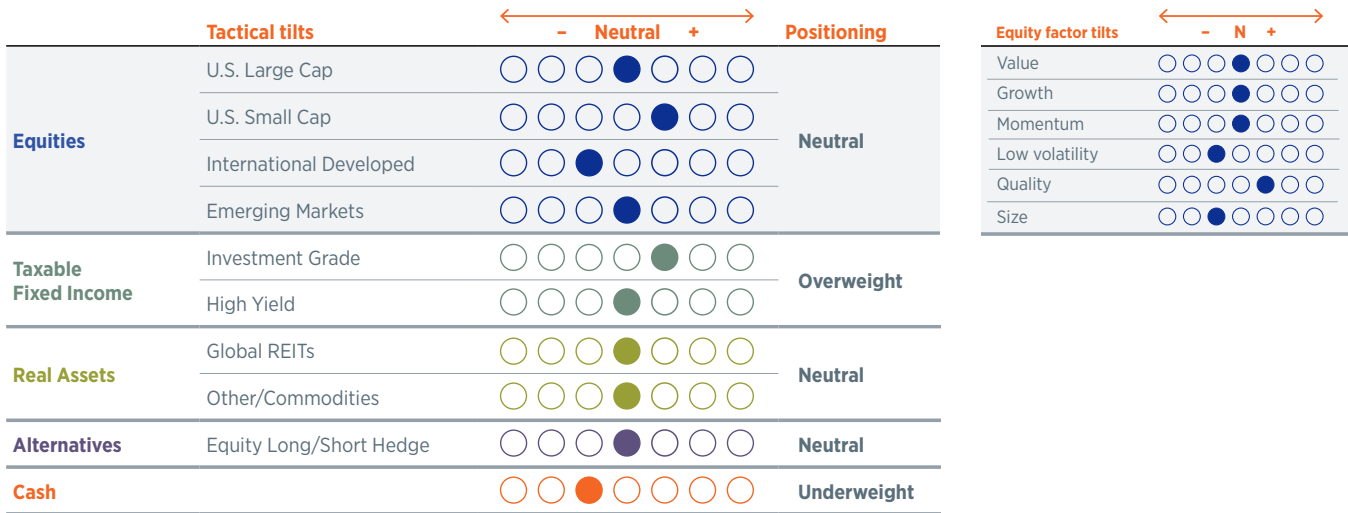
Fully invested, eyeing opportunities to add to risk

These two themes create a constructive setup for risk assets; however, much of this good news appears to be already reflected in current valuations for U.S. large-cap equities. We are now positioned with a full allocation to equities, including U.S. large cap. We expect that returns over the next 12 months for the S&P 500 index, as well as the stocks that have driven most of the gains over the prior 12 months, will be positive but more modest in magnitude. At the same time, with valuations as full as they are, it would not take much of a catalyst for a market correction. Given our positive U.S. economic outlook, we expect any pullback to be short, shallow, and represent a buying opportunity. The average equity market pullback in any given year is approximately 12% (Figure 3). While we are not counting on a pullback of this magnitude, we expect that patience will be rewarded.

Continued

Figure 4

Institutional portfolios with Private Hedge Funds



Data as of March 31, 2024.

Positioning reflects our monthly tactical asset allocation (TAA) versus the long-term strategic asset allocation (SAA) benchmark. For an overview of our asset allocation strategies, please see the disclosures.

Core narrative

Luckily, we are finding opportunities in less-loved parts of the market, including some cyclical sectors, the value factor, and small-cap equities. We are not negative on megacap tech, but we think a trend-like rate of economic growth, easing from the Fed, and shifting of investor sentiment will result in a broadening of equity leadership. We hold a modest overweight to U.S. small-cap equities (Figure 4) and are eyeing opportunities in international equities should global economic and manufacturing momentum continue to improve. Signs of life may be emerging in Germany’s export-driven economy, as well as China’s manufacturing sector. We also continue to hold a modest overweight to investment-grade fixed income, which should act as a hedge against a market correction. Finally, we see attractive total return prospects from fixed income should the yield curve steepen, and long-dated yields remain around 4.25% for the 10-year.

Best,

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Alternative assets, such as strategies that invest in hedge funds, can present greater risk and are not suitable for all investors.

Any positioning information provided does not include all positions that were taken in client accounts and may not be representative of current positioning. It should not be assumed that the positions described are or will be profitable or that positions taken in the future will be profitable or will equal the performance of those described.

Indices are not available for direct investment. Investment in a security or strategy designed to replicate the performance of an index will incur expenses, such as management fees and transaction costs that will reduce returns.

An overview of our asset allocation strategies:

Wilmington Trust offers seven asset allocation models for taxable (high-net-worth) and tax-exempt (institutional) investors across five strategies reflecting a range of investment objectives and risk tolerances: Aggressive, Growth, Growth & Income, Income & Growth, and Conservative. The seven models are High-Net-Worth (HNW), HNW with Liquid Alternatives, HNW with Private Markets, HNW Tax Advantaged, Institutional, Institutional with Hedge LP, and Institutional with Private Markets. As the names imply, the strategies vary with the type and degree of exposure to hedge strategies and private market exposure, as well as with the focus on taxable or tax-exempt income.

Model Strategies may include exposure to the following asset classes: U.S. large-capitalization stocks, U.S. small-cap stocks, developed international stocks, emerging market stocks, U.S. and international real asset securities (including inflation-linked bonds and commodity-related and real estate-related securities), U.S. and international investment-grade bonds (corporate for Institutional or Tax Advantaged, municipal for other HNW), U.S. and international speculative grade (high-yield) corporate bonds and floating-rate notes, emerging markets debt, and cash equivalents. Model Strategies employing nontraditional hedge and private market investments will, naturally, carry those exposures as well. **Each asset class carries a distinct set of risks, which should be reviewed and understood prior to investing.**

Allocations:

Each strategy group is constructed with target policy weights for each asset class. Wilmington Trust periodically adjusts the policy weights' target allocations and may shift from the target allocations within certain ranges. Such tactical allocation adjustments are generally considered on a monthly basis in response to market conditions.

Continued

Disclosures Continued

The asset classes and their current proxies are:

- Large-cap U.S. stocks: Russell 1000® Index
- Small-cap U.S. stocks: Russell 2000® Index
- Developed international stocks: MSCI EAFE® (Net) Index
- Emerging market stocks: MSCI Emerging Markets Index
- U.S. inflation-linked bonds: Bloomberg US Treasury Inflation Notes TR Index Value Unhedged*
- International inflation-linked bonds: Bloomberg World ex US ILB (Hedged) Index
- Commodity-related securities: Bloomberg Commodity Index
- U.S. REITs: S&P US REIT Index
- International REITs: Dow Jones Global ex US Select RESI Index
- Private markets: S&P Listed Private Equity Index
- Hedge funds: HFRX Global Hedge Fund Index
- U.S. taxable, investment-grade bonds: Bloomberg U.S. Aggregate Index
- U.S. high-yield corporate bonds: Bloomberg U.S. Corporate High Yield Index
- U.S. municipal, investment-grade bonds: S&P Municipal Bond Index
- U.S. municipal high-yield bonds: 60% Bloomberg High Yield Municipal Bond Index / 40% Municipal Bond Index
- International taxable, investment-grade bonds: Bloomberg Global Aggregate ex US
- Emerging bond markets: Bloomberg EM USD Aggregate
- Cash equivalent: 30-day U.S. Treasury bill rate

All investments carry some degree of risk.

Return volatility, as measured by standard deviation, of asset classes is often used as a proxy for illustrating risk. Volatility serves as a collective, quantitative estimate of risks present to varying degrees in the respective asset classes (e.g., liquidity, credit, and default risks). Certain types of risk may be underrepresented by this measure. **Investors should develop a thorough understanding of the risks of any investment prior to committing funds.**

Quality ratings are used to evaluate the likelihood of default by a bond issuer. Independent rating agencies, such as Moody's Investors Service and Standard & Poors, analyze the financial strength of each bond's issuer. Ratings range from Aaa or AAA (highest quality) to C or D (lowest quality). Bonds rated Baa3 or BBB and better are considered **Investment Grade**. Bonds rated Ba1 or BB and below are **Speculative Grade** (also **High Yield**.)

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Glossary

30-day U.S. Treasury bill rate Bank of America Merrill Lynch U.S. 3-Month Treasury Bill Index measures the performance of a single U.S. Treasury bill added to the index at the beginning of the month and held for a full month; the issue is replaced with a newly selected issue at each month-end and the index will often hold the Treasury bill issued at the most recent three-month auction, it is also possible for a seasoned six-month bill to be selected.

Alpha is the excess return of an investment, relative to the return of a benchmark index.

Atlanta Fed GDPNow is a nowcasting model for gross domestic product (GDP) growth that synthesizes the bridge equation approach relating GDP subcomponents to monthly source data with factor model and Bayesian vector autoregression approaches. The GDPNow model forecasts GDP growth by aggregating 13 subcomponents that make up GDP with the chain-weighting methodology used by the US Bureau of Economic Analysis.

Basis points refers to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001, and is used to denote the percentage change in a financial instrument.

Beta is a measure of how an individual asset moves when the overall stock market increases or decreases. Thus, beta is a useful measure of the contribution of an individual asset to the risk of the market portfolio when it is added in small quantity.

The Bloomberg Agriculture Subindex Total Return (BCOMAGTR), formerly known as Dow Jones-UBS Agriculture Subindex Total Return (DJUBAGTR), is a commodity group subindex of the Bloomberg CITR composed of futures contracts on coffee, corn, cotton, soybeans, soybean oil, soybean meal, sugar and wheat and reflects the return on fully collateralized futures positions and is quoted in USD.

The Bloomberg Commodity Index is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM; it combines the returns of the BCOM with the returns on cash collateral invested in 13 week (3 Month) U.S. Treasury Bills.

The Bloomberg Commodity Total Return index (BCOMTR) is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM and combines the returns of BCOM with the returns on cash collateral invested in 13 week (3 Month) U.S. Treasury Bills.

The Bloomberg Dollar Spot Index tracks the performance of a basket of 10 leading global currencies versus the U.S. Dollar. It has a dynamically updated composition and represents a diverse set of currencies that are important from trade and liquidity perspectives.

The Bloomberg Energy Subindex Total Return (BCOMENTR), formerly known as Dow Jones-UBS Energy Subindex Total Return (DJUBENTR), is a commodity group subindex of the Bloomberg CITR composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas and reflects the return on fully collateralized futures positions and is quoted in USD

The Bloomberg Global Aggregate Bond Index measures the performance of global investment-grade fixed-rate debt markets, including the U.S., Pan-European, Asian-Pacific, Global Treasury, Eurodollar, Euro-Yen, Canadian, and investment-Grade 144A index-eligible securities.

The Bloomberg Industrial Metals Subindex Total Return Index (BCOMTNT), formerly known as Dow Jones-UBS Industrial Metals Subindex Total Return (DJUBINTR), is a commodity group subindex of the Bloomberg CITR composed of longer-dated futures contracts on aluminum, copper, nickel and zinc and reflects the return on fully collateralized futures positions and is quoted in USD.

Bloomberg Municipal Bond Index covers the four main sectors of the USD-denominated long-term tax-exempt bond market: state, and local, general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.

The Bloomberg Precious Metals Subindex Total Return (BCOMPRTTR), formerly known as Dow Jones-UBS Precious Metals Subindex Total Return (DJUBPRTTR), is a commodity group subindex of the Bloomberg CITR composed of futures contracts on gold and silver. It reflects the return on fully collateralized futures positions and is quoted in USD.

The Bloomberg U.S. Aggregate Index measures the performance of the entire U.S. market of taxable, fixed-rate, investment-grade bonds. Each issue in the index has at least one year left until maturity and an outstanding par value of at least \$250 million.

The Bloomberg US Credit Index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

The Bloomberg U.S. High Yield Corporate Index, formerly Lehman Brothers U.S. High Yield Corporate Index, measures the performance of taxable, fixed-rate bonds issued by industrial, utility, and financial companies and rated below investment grade. Each issue in the index has at least one year left until maturity and an outstanding par value of at least \$150 million.

The Bloomberg U.S. Mortgage Backed Securities Index measures the performance of investment grade fixed-rate mortgage-backed pass-through securities of GNMA, FNMA, and FHLMC.

The Bloomberg US Treasury US TIPS TR USD index measures the performance of rules-based, market value-weighted inflation-protected securities issued by the U.S. Treasury. It is a subset of the Bloomberg US Treasury Inflation-Linked Bond Index (Series-L), which measures the performance of the US Treasury Inflation Protected Securities (TIPS) market. Federal Reserve holdings of US TIPS are not index eligible and are excluded from the face amount outstanding of each bond in the index.

Call risk: Call risk is the possibility that an issuer may redeem a fixed income security before maturity (a call) at a price below its current market price. An increase in the likelihood of a call may reduce the security's price.

Cambridge Global Private Equity Index is a horizon calculation based on data compiled from 2,354 private equity funds, including fully liquidated partnerships, formed between 1986 and 2019. All returns are net of fees, expenses, and carried interest.

Continued

Glossary Continued

Consumer price index measures the price of consumer goods and how they're trending and is a tool for measuring how the economy as a whole is faring when it comes to inflation or deflation.

Coupon, coupon rate, or coupon payment is the annual interest rate paid on a bond, expressed as a percentage of the face value and paid from issue date until maturity.

Credit risk: Fixed income securities carry the risk of default, which means that the security issuer fails to pay interest or principal when due. Many fixed income securities receive credit ratings from services such as Standard & Poor's and Moody's Investor Services, Inc. These services assign ratings to securities by assessing the likelihood of issuer default. Lower credit ratings correspond to higher credit risk.

Dow Jones Global ex. US Select RESI Index tracks the performance of equity real estate investment trusts (REITs) and real estate operating companies (REOCs) traded globally, excluding the U.S.

Drawdown is a peak-trough decline during a specific period for an investment, trading account, or fund and is usually quoted as the percentage between the peak and the subsequent trough.

Drift occurs when an asset or investment diverges significantly from its objective or investment style, such as market capitalization. It can result naturally from capital appreciation in one asset relative to others in a portfolio, a change in a fund's management, or a manager who begins to diverge from the portfolio's mandate. It can be corrected by rebalancing the fund to optimal weights.

Duration risk is the risk associated with the sensitivity of a bond's price to a one percent change in interest rates. The higher a bond's duration, the greater its sensitivity to interest rates changes.

Equity risk premium is the extra return that's available to equity investors above the return they could get by investing in a riskless investment like T-Bills or T-Bonds or cash.

ESG is a strategy that integrates environmental, social, and governance (ESG) factors into the investment process may avoid or sell investments that do not meet criteria set forth by the investment manager. Such investments may perform better than investments selected utilizing ESG factors.

Event-driven hedge fund strategies attempt to take advantage of temporary stock mispricing before or after a corporate event takes place. An event-driven strategy exploits the tendency of a company's stock price to suffer during a period of change.

Federal funds rate is the interest rate at which depository institutions lend reserve balances to other depository institutions overnight on an uncollateralized basis.

Global intangible low-taxed income (GILTI) is a category of income that is earned abroad by U.S.-controlled foreign corporations (CFCs) and is subject to special treatment under the U.S. tax code.

Gold can be significantly affected by international monetary and political developments as well as supply and demand for gold and operational costs associated with mining.

Headline inflation is a measure of the total inflation within an economy, including commodities such as food and energy prices, which tend to be much more volatile and prone to inflationary spikes.

HFR* (HedgeFundResearch) Indices are the established global leader in the indexation, analysis and research of the hedge fund industry. They are broadly constructed indices designed to capture the breadth of hedge fund performance trends across all strategies and regions.

HFRX Absolute Return Index and the HFRX Global Hedge Fund Index represent the overall composition of the hedge fund universe and comprise all eligible hedge fund strategies and selects constituents that characteristically exhibit lower volatilities and lower correlations to standard directional benchmarks of equity market and hedge fund industry performance.

HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe and are asset weighted based on the distribution of assets in the hedge fund industry.

Inflation-linked bonds are a specific type of index-linked securities that are tied to the costs of consumer goods as measured by the Consumer Price Index (CPI) or another index. Their values increase during inflationary periods, which reduces the risk of uncertainty.

Interest rate risk: Prices of fixed income securities rise and fall in response to changes in the interest rate paid by similar securities. Generally, when interest rates rise, prices of fixed income securities fall. However, market factors, such as the demand for particular fixed income securities, may cause the price of certain fixed income securities to fall while the price of other securities rise or remain unchanged. Interest rate changes have a greater effect on the price of fixed income securities with longer durations. Duration measures the price sensitivity of a fixed income security to changes in interest rates.

The ISM manufacturing index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at more than 300 manufacturing firms and is considered to be a key indicator of the state of the U.S. economy.

ISM Non-Manufacturing Index is an economic index based on surveys of more than 400 non-manufacturing (or services) firms' purchasing and supply executives and is part of the ISM Report On Business—Manufacturing (PMI) and Services (PMI).

ISM Services Prices Paid Index is a diffusion index calculated by adding the percent of responses indicating they paid more for inputs plus one-half of those responding who paid the same; resulting in a single number that is seasonally adjusted.

LIBOR is the average interbank interest rate at which a selection of banks on the London money market are prepared to lend to one another.

Long, or a long position, describes an investor's expectation of a holding's future value. A position that the investor expects will rise in value and plans to hold for a long period of time is often described as "held long." It is the opposite of short, or a short position.

M2 money supply is a measure of the money supply that includes cash, checking deposits, and other types of deposits that are readily convertible to cash such as CDs.

Macro hedge fund strategies generally focus on financial instruments that are broad in scope and move based on systemic or market risk (not security specific). In general, portfolio managers who trade within the context of macro strategies focus on currency strategies, interest rates strategies, and stock index strategies.

Continued

Glossary Continued

The Magnificent Seven refers to the companies commonly recognized for their market dominance, their technological impact, and their changes to consumer behavior and economic trends: Alphabet (Google), Amazon, Apple, Meta (formerly Facebook), Microsoft, NVIDIA, and Tesla.

MSCI AC Asia ex Japan Index captures large- and mid-cap representation across two of three developed markets countries (excluding Japan) and nine emerging markets countries in Asia. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI All Country World Index (ACWI) is a stock index designed to track broad global equity-market performance. Maintained by Morgan Stanley Capital International (MSCI), the index comprises the stocks of about 3,000 companies from 23 developed countries and 26 emerging markets.

MSCI China Index captures large- and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). The index covers about 85% of this China equity universe. Currently, the index includes large-cap A and mid-cap A shares represented at 20% of their free float adjusted market capitalization.

MSCI EAFE Growth Index captures large- and mid-cap securities exhibiting overall growth style characteristics across developed markets countries around the world, excluding the U.S. and Canada.

MSCI EAFE Index is an equity index which captures large and mid-cap representation across 21 Developed Markets countries around the world, excluding the U.S. and Canada. With 902 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI EAFE® (net) Index measures the performance of approximately 20 developed equity markets, excluding those of the United States and Canada; total returns of the index are net of the maximum tax withholding rates that apply in many countries to dividends paid to non-resident investors.

MSCI Emerging Markets (net) Index captures large- and mid-cap representation across 27 emerging markets countries. With 1,407 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI EAFE Value Index captures large- and mid-cap securities exhibiting overall value style characteristics across developed markets countries around the world, excluding the U.S. and Canada.

MSCI Emerging Markets Index captures large- and mid-cap representation across 26 emerging markets countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI Europe Index captures large- and mid-cap representation across 15 developed markets (DM) countries in Europe. The index covers approximately 85% of the free float-adjusted market capitalization across the European DM equity universe.

MSCI Japan Index is designed to measure the performance of the large- and mid-cap segments of the Japanese market. The index covers approximately 85% of the free float-adjusted market capitalization in Japan.

MSCI United Kingdom Index is designed to measure the performance of the large- and mid-cap segments of the UK market. The index covers approximately 85% of the free float-adjusted market capitalization in the UK.

Personal consumption expenditures is the primary measure of consumer spending on goods and services in the U.S. economy and is the primary engine that drives future economic growth.

Price-to-earnings (P/E) ratio measures a company's current share price relative to its earnings per share (EPS).

Producer Price Index (PPI) is a family of indexes measuring the average change in selling prices received by domestic producers of goods and services.

Real estate investment trusts, or REITs, are companies that own, operate, or finance income-generating real estate. Similar to mutual funds, REITs pool the capital of numerous investors, allowing them to earn dividends from real estate investments without having to buy, manage, or finance properties themselves.

Relative value hedge fund strategies

cover a variety of low-volatility trading strategies with the consistent theme of attempting to reduce market risk, i.e., the manager seeks to generate a profit regardless of which direction the markets are moving. All relative value strategies minimize market risk by taking offsetting long and short positions in related stocks, bonds, and other types of securities.

Reverse optimization uses risk estimates and optimal portfolio weights (asset allocations) to derive the forward-looking returns that generate the highest expected risk-adjusted return for the portfolio; in contrast, traditional optimization uses risk estimates and forward-looking return assumptions to derive the portfolio weights (asset allocations) that generate the highest expected risk-adjusted return for the portfolio. Reverse optimization can be used to test or validate market outcomes in addition to (not as a replacement for) other methods of analysis.

Risk assets refers to assets that are not risk-free, such as currencies, equities, and other financial instruments. Treasuries are not included.

Russell 1000® Index measures the performance of the 1,000 largest companies in the Russell 3000 Index, representing approximately 92% of the total market capitalization of the Russell 3000 Index.

Russell 1000 Growth is a market capitalization-weighted index that measures the performance of the large-cap growth segment of U.S. equity securities; it includes the Russell 1000 index companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Value is a market capitalization-weighted index that measures the performance of the large-cap value segment of U.S. equity securities; it includes the Russell 1000 index companies with lower price-to-book ratios and lower expected growth values.

Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

Continued

Glossary Continued

S&P 500 index measures the stock performance of 500 large companies listed on stock exchanges in the U.S. and is one of the most commonly followed equity indices.

The S&P Developed Property index defines and measures the investable universe of publicly traded property companies domiciled in developed markets. The companies in the index are engaged in real estate related activities, such as property ownership, management, development, rental and investment.

S&P Listed Private Equity Index comprises the leading listed private equity companies that meet specific size, liquidity, exposure, and activity requirements. The index is designed to provide tradable exposure to the leading publicly-listed companies that are active in the private equity space.

The S&P Municipal Bond Index is a broad, market value-weighted index that seeks to measure the performance of the U.S. municipal bond market.

S&P US REIT Index measures the investable U.S. real estate investment trust market and maintains a constituency that reflects the market's overall composition.

Short-duration Treasury securities are backed by the full faith and credit of the U.S. government. They typically mature in one year or less.

Short, or short position, refers to a trading technique in which an investor sells a security with plans to buy it later; it is used when an investor expects the price of a security to fall in the short term.

Stagflation is persistent high inflation combined with high unemployment and stagnant demand in a country's economy.

Tail risk is the probability that the asset performs far below or far above its average past performance. Investors are most concerned with "left" tail risk, or the likelihood that observations fall three standard deviations below the average expected return.

Taxable equivalent yield (TEY) = the pretax yield that must be received on a taxable security to provide the holder the same after-tax yield as that earned on a tax-exempt security. The TEY = muni yield/1- highest tax rate.

Value sectors or stocks, generally refer to those trading at levels perceived to be below their fundamentals.

Yield curve plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity.

Yield to maturity is the estimated total return on a bond if the bond is held until it matures.

Yield to worst measures the lowest possible yield that can be received on a bond with an early retirement provision and must always be less than yield to maturity because it represents a return for a shortened investment period.