2Q24 Macro and Market Outlook

Chief Investment Office

April 3, 2024

Data as of: April 2, 2024

The 2024 Strange Landing

Strange Landing

Economy:

Growth remains robust even if slower than 2023, but avoids a recession helped by fiscal spending, easy financial conditions, and continued labor market resilience. Data continues to tell conflicting stories, with signs of weakness contrasting with signs of recovery. Potential for rapid changes in data.

Fed Reaction:

The Fed aims to tweak policy lower, but not signal outright easing for fear of stoking growth/inflation. Weak data necessary for confirmation of aggressive easing. Easing could be interrupted if USD weakens and commodities rally, or if wage growth rebounds.

Macro:

Yields volatile but upwardly biased on resilient economic data not confirming Fed rate cut expectations, while further yield downside dependent on weaker economic data. USD lower if Fed perceived as easy vs. peer central banks, but higher if Fed does not deliver easing.

Risk Asset Reaction:

Resilient growth keeps equity credit fundamentals healthy, but interest rates possibly start to bite in 2H24 as refinancing begins at higher rates. Valuations whipsawed by liquidity, positioning/sentiment, and 2025 recession/EPS risks.

Key Themes for 2Q24

Watching Growth Forecasts:

Growth estimates for GDP and earnings have underpinned the 2024 equity and credit rallies. The path of growth forecasts going forward will likely impact overall risk sentiment (i.e., better growth could keep risk on mood) and leadership (i.e., weaker growth could spark better defensive performance).

Cyclical Recovery:

We are seeing signs of a cyclical economic recovery with PMIs back in expansion (above 50), cyclical equity outperformance, and rebounds in commodity prices. This could impact yields (better growth could lead to higher yields) and challenge expectations for Fed cuts.

Liquidity:

Liquidity has been very supportive for risk assets YTD. If it recedes, we could see low quality, high beta, high momentum, speculative assets begin to stall out (we could be seeing early signs of this to start 2Q). Watch items like bank reserves, Fed QT plans, and Treasury funding to gauge the liquidity path.

Rotations:

Rotations began in earnest in March and could continue in 2Q24. Cyclical Value has surged, but looks stretched, while Tech's lagging performance could become a problem if it turns into outright weakness. Note 2023 and early 2024's Tech-heavy leadership is challenged by high valuations and crowded positioning.

Complacency:

We continue to be on "complacency watch", looking for signs of one-sided positioning and expectations. We do see signs of brewing complacency (high valuations, low VIX, bullish sentiment, recession removed from forecasts), to impact risk assets, this complacency likely needs to see a catalyst to unwind.

How Did We Get Here?

What Happened in 1Q24

- **U.S. Economic Data:** continued strong jobs data, while normalization in peripheral jobs data like job openings, quits, wages, and hours worked that should be monitored for outright weakness. Retail sales disappointed in Jan/Feb as well. Inflation surprised to the upside in both January and February driven by a rise in energy prices, sticky services inflation (including and excluding housing), and stabilization in goods deflation.
- **International Economics:** China continued to struggle with lackluster stimulus and continued property/debt challenges; weak growth in Europe as interest rates weigh; excitement around Japan for improved equity performance thanks to better corporate governance
- **Fed Policy:** the Fed kept policy unchanged in the quarter, but continued to signal a willingness to cut rates 3 times in 2024 even as growth and inflation forecasts were revised higher
- **Equities:** broad equity indices had a strong start to the year, with many indices delivering returns expected by consensus for the entire year in just 1Q; these returns have been driven primarily by PE expansion, with a slight increase in earnings estimates for large cap indices; the rally broadened later in 1Q24 to include cyclical value sectors (Industrials, Materials, Energy), while Technology remained strong thanks to AI-related names
- **Fixed Income:** a mixed start to the year for fixed income, with long dated Treasuries losing, but strength in credit, with the riskiest credit performing well thanks to growth optimism
- **Alternatives:** private equity and venture investors are watching for the potential thawing of the IPO market with a couple high profile issues having a welcome reception; competition intensified in private credit, where banks reentered the lending space and capital is racing to be put to work on limited deals

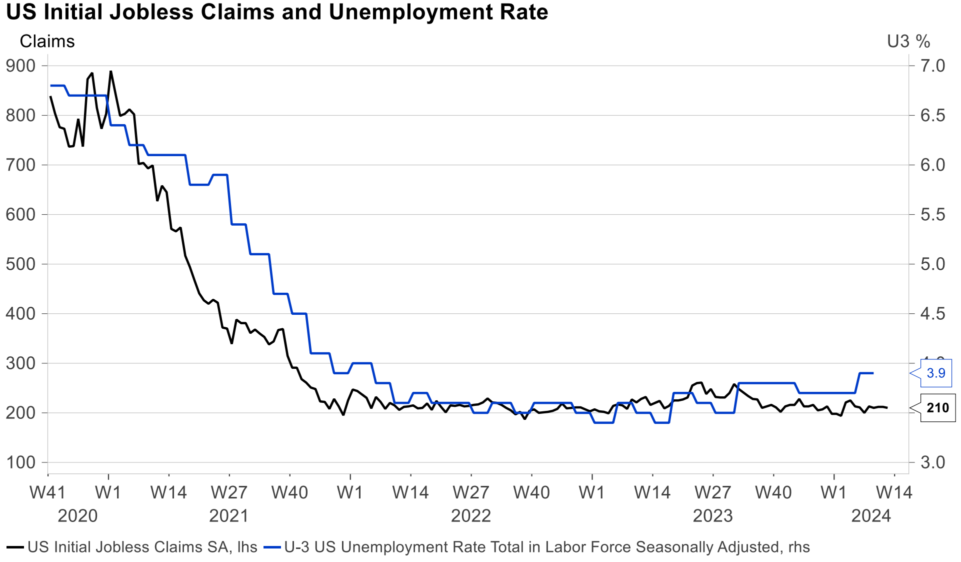
Equities	Current Value	YTD Return %	1 Year %	PE (Current)
S&P 500	5,240	9.9%	30.1%	25.1x
DJ Industrial Average	39,530	4.9%	20.8%	22.7x
NASDAQ Composite	16,367	9.0%	37.2%	39.2x
Russell 2000	2,104	3.8%	18.8%	37.6x
MSCI Int'l Developed	2,349	5.1%	12.3%	15.2x
MSCI Emerging Mkts	1,043	1.9%	5.3%	15.1x
Russell Value	1,758	7.9%	18.9%	19.4x
Russell Growth	3,388	11.0%	41.0%	34.6x
Bonds	**Current Value**	**YTD (value)**	**1 Year (value)**	
US 10 Year	4.33%	44.6 bps	85.8 bps	
US 2 Year	4.71%	46.0 bps	68.4 bps	
10 2 Spread	-39 bps	-1.4 bps	17.5 bps	
BBB IG Spread	128 bps	-6.0 bps	-59.0 bps	
HY OAS Spread	345 bps	-40.3 bps	-138.0 bps	
Commodities, Currencies	**Current Value**	**YTD Return %**	**1 Year %**	
US Dollar	105	4%	2%	
Oil (WTI)	84	17%	11%	
Copper	405	4%	-1%	
Gold	2241	9%	13%	
Bitcoin	69451	63%	144%	

Source: Bloomberg, NewEdge Wealth, as of 4/1/24

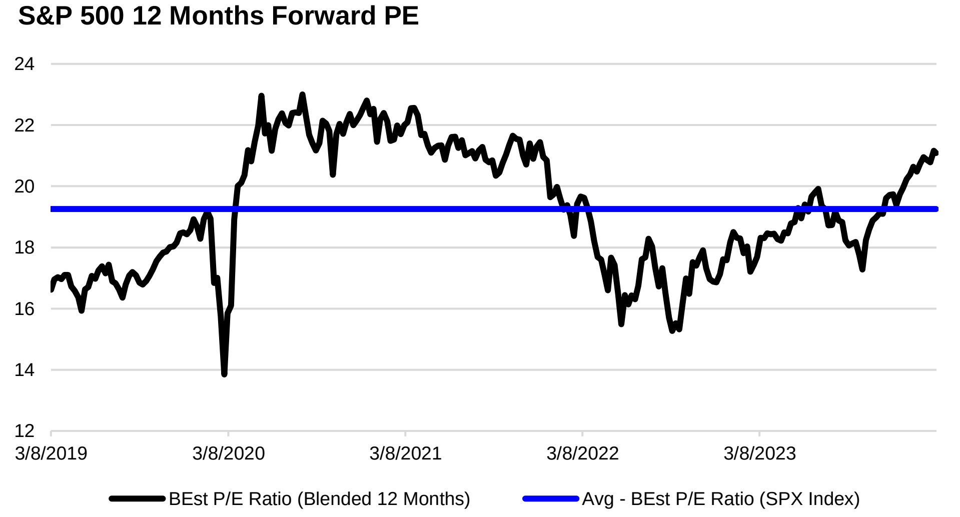
What Are We Watching?

What to Watch in 2Q24

- **U.S. Economic Data:** We continue to monitor jobs data and retail sales for any signs of weakening in the labor market/consumer. Inflation data will be closely watched, with an eye on energy/commodity prices as a potential exogenous challenge. Look for signs of a recovery in manufacturing data to confirm the cyclical rebound. Notably, we question how much higher GDP estimates can go after resetting from 1.2% to 2.2% during 1Q.
- **International Economics:** sentiment surveys point to some stabilization in European economic activity. China deflation and debt challenges should be monitored, with more “muddle through” possibly more likely than a major policy shift. The evolution of Japan’s easy monetary policy monitored as it contrasts with potentially sticky inflation data.
- **Fed Policy:** the Fed meets on May 1 and June 12. We do not expect a cut in May and see a 50/50 chance of a June cut, which will depend on the progression of inflation and labor data. Other global central banks likely continue to cut rates, with Europe and England as key areas to watch.
- **Equities:** after an extraordinarily strong and low volatility 1Q, seasonality becomes a bigger headwind in 2Q, while we would not be surprised to see some digestion of recent gains. Momentum and breadth are entering the quarter strong, but positioning and sentiment are now extended. Valuations at 21.2x forward are very elevated, making liquidity dynamics (reverse repo, Treasury funding, money market balances, bank reserves) important to monitor. Earnings season kicks off in late April.
- **Fixed Income:** we continue to see rates as biased higher, as driven by resilient economic data, large Treasury funding needs, and possibly a Fed that can’t deliver on hoped-for cuts. Watch very tight credit spreads as a reflection of growth optimism. Watch issuance closely in Treasuries and credit, to see if 1Q’s large increase in supply can be sustained and match future demand.
- **Alternatives:** watch for more IPO activity to confirm a thawing in capital markets; monitor private credit spreads and covenants closely; real estate remains a key focus but is more of a slow burn vs. a blow up given easing credit conditions.



Source: NewEdge Wealth, Macrobond, Bloomberg



Source: Bloomberg, NewEdge Wealth

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2Q24 Outlook Summary

U.S. Macro and Policy

- **Growth:** we continue to not expect a recession in 1H24, with a higher probability of recession in 2025 vs. 2H24; we don't think GDP estimates can go *much* higher, but do not see immediate reason for estimate cuts
- **Labor Market/Consumer:** the labor market remains tight, supporting U.S. consumer, but watching signs of peripheral easing in data
- **Inflation:** we see potential for stickiness/reacceleration to continue
- **Fed Policy:** we now expect the Fed to be challenged to deliver 3 cuts if data remains resilient; more cuts likely requires weaker data
- **Treasury Policy:** large deficit spending continues, with funding of the deficit a key influence on liquidity; monitor post tax day

Fixed Income

- **Treasury:** yields biased higher driven by better economic data/stickier inflation/a tighter Fed/Treasury issuance; downside to yields driven by weaker economic growth/soft inflation/an easier Fed; "line in the sand" resistance is 4.33% for the 10 year and 4.75% for the 2 year to set the stage for further yield upside
- **Credit:** all-in yields remain elevated, but already tight spreads and increasing issuance could keep spreads from compressing further
- **Munis:** finding opportunities in selective parts of the muni curve and credit ratings
- **Portfolio Positioning:** opportunistically adding to duration, highly selective about credit exposure, looking outside of the index

Equities

- **Ranges:** consensus price targets for 2024 have already been hit, causing a chase to raise targets; we think 2Q could usher in a period of higher volatility that without a hit to growth expectations could provide and entry point
- **Upside Drivers:** better EPS growth than expected (productivity, M&A, better eco growth), liquidity remains highly supportive to keep valuations elevated
- **Downside Drivers:** weaker EPS growth than currently expected for 2024/2025, liquidity becomes a headwind to already-elevated valuations and crowded positioning
- **Portfolio Positioning:** continued focus on quality; seeing improvement in cyclical value, while watching all-important tech closely for deterioration

Alternatives

- **Themes:** cautious optimism, acknowledging that the higher cost of capital requires greater selectivity across private strategies, while also creating opportunities to benefit from disruption to fundraising
- **Private Equity:** focusing on managers with operational value-add, instead of financial engineering, primarily in lower middle market; secondaries are attractive, along with selective GP stakes
- **Private Credit:** "a golden age *for some*" a keen focus is necessary on underwriting given the proliferation of new entrants, while pricing has compressed, making strong credit underwriting even more important
- **Volatility Strategies:** the potential for higher volatility in 2Q24, while issuer credit remains healthy and an important watch item

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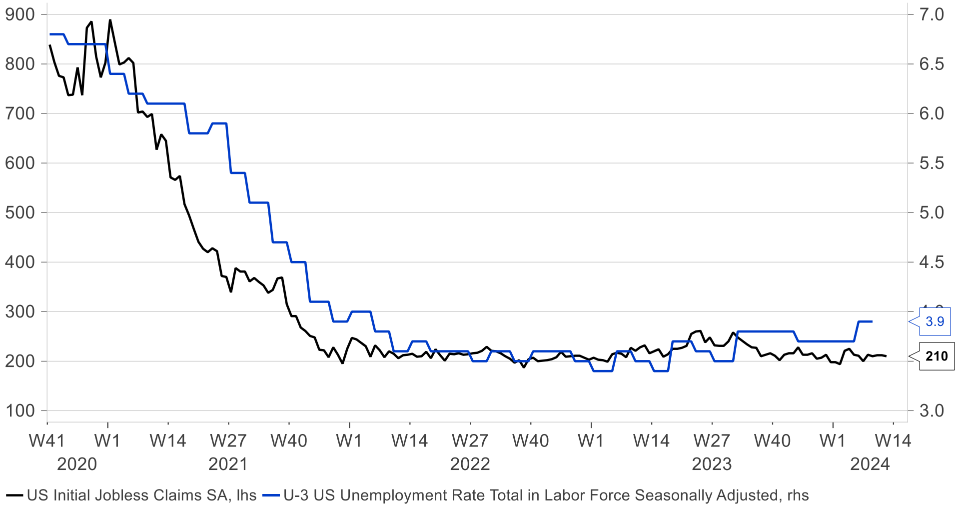
Summary Outlooks

U.S. Economic Outlook

Key Points

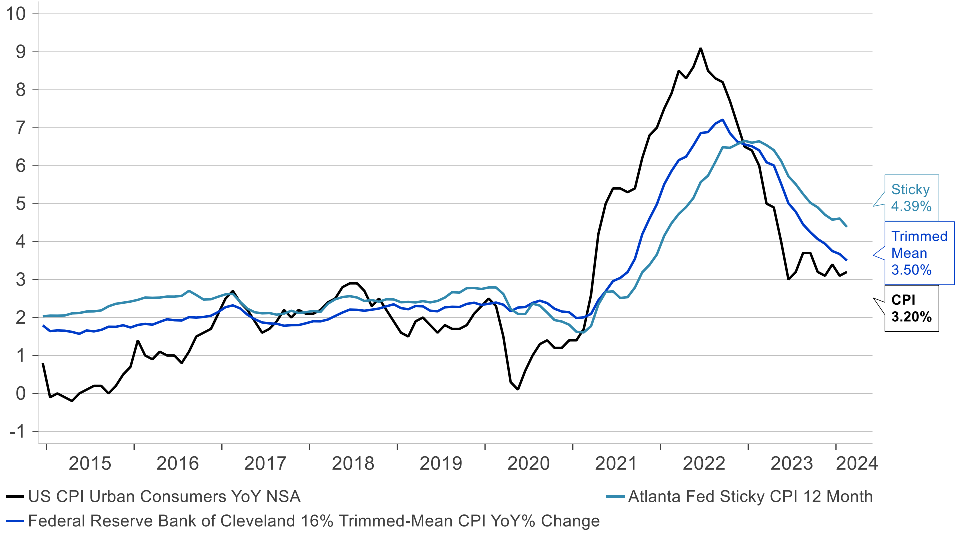
- **Recession?:** We continue to not expect a recession in 1H24 and will continue to monitor data to gauge risk of weakness building into 2H24, or, more likely, 2025; Bloomberg recession probability in next 12 months has now fallen to 35%
- **Growth:** Now that 2024 GDP growth forecasts have been revised higher to start the year (from 1.2% to 2.2% today), we see forecasts as better calibrated. We are monitoring closely what could drive forecasts lower, but do not expect estimate cuts in the near term.
- **Inflation:** 2024 started with signs of sticky inflation, with a slowdown in the progress of disinflation. Watch oil prices and wages.
- **Labor:** As the U.S. economy averts a recession, we expect the labor market to remain tight, though we are monitoring closely for signs of "fraying"/slowing in secondary labor data as a warning sign of potential softness to come
- **Consumer:** With a still-tight labor market, continued healthy wage growth, and moderating inflation, we can expect consumer spending to remain resilient in 1H24 thanks to positive real wage growth; consumer balance sheets in aggregate are healthy, but signs of rising defaults should be monitored closely
- **Manufacturing:** After over a year in contraction, the ISM PMI has finally returned to expansion, showing signs of a cyclical economic recovery.

US Initial Jobless Claims and Unemployment Rate



Inflation Moderated, But Watch Sticky/Broad Inflation Measures

Headline CPI YoY%,Trimmed-Mean CPI YoY%, and Atlanta Fed Sticky CPI YoY%



Source: NewEdge Wealth, Macrobond, Bloomberg

NewEdge WEALTH

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2Q24 Monetary Policy Outlook

Key Points

The Fed Wants to Tweak, Not Ease if Economy Remains Firm

- We continue to take the "under" on Fed rate cuts for 2024; the year started with 6.5 cuts expected, which is now 2.7; as data remains more resilient, 3 rate cuts may not be delivered (though the Fed has a short fuse on reacting to labor weakness)
- The Fed makes rate decisions May 1 and June 12
- We think that economic data would need to weaken to justify the current bond market pricing of policy
- The Fed will likely change its Quantitative Tightening (balance sheet shrinkage) plans in 2024, citing a rundown in Reverse Repo balances (driven by Bill issuance) and a desire to sustain Reserves above a "desired buffer"; QT plans also interplay with Treasury funding decisions

Key Observations:

- **Financial Conditions are Easy:** Financial conditions are back to their easiest levels since 2021; if sustained, this would be stimulative to nominal economic growth.
- **The Full Impact of Interest Rates Have Not Yet Been Felt:** The long-tail of over a decade of QE (with the fever pitch of ultra-easy policy in response to the pandemic) has resulted in many borrowers not feeling the full impact of higher rates after the great refinancing wave of 2020/2021; the end result is a delayed/dulled real economy impact of tighter Fed policy to growth

Financial Conditions Back to Easy Territory

Bloomberg US Financial Conditions Index

Source: NewEdge Wealth, Macrobond, Bloomberg

Fed Cuts Projected for 2024 (WIRP Fed Funds Futures, -1 cut = -25 bps)

Source: NewEdge Wealth, Macrobond, Bloomberg

2Q24 Fiscal Policy Outlook

Key Points

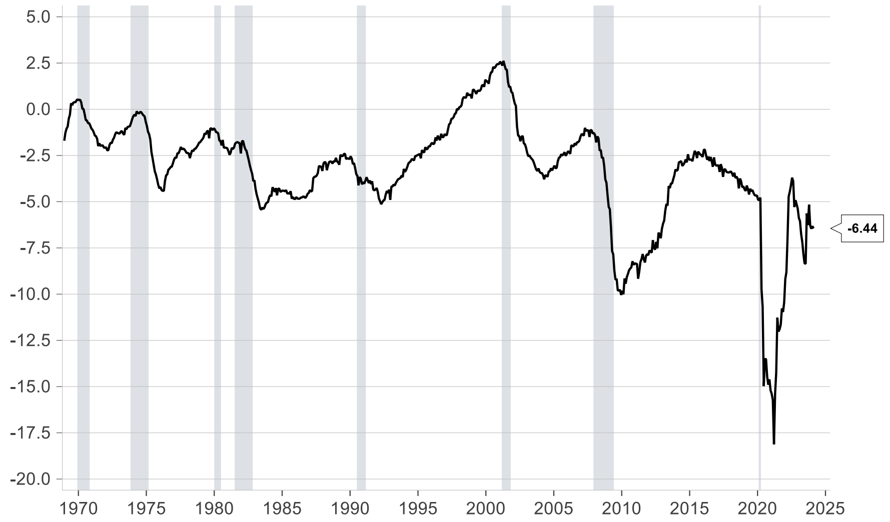
Big Deficits Need Big Funding

- The U.S. budget deficit is expected to reach $2 trillion in fiscal 2024, and is running at 6.5% of nominal GDP, a historically high level without a recession or war (and on a strong numerator of nominal GDP)
- To fund this deficit, the Treasury will issue $2 trillion in debt in 2024 (double from 2023)
- TBAC (Treasury Borrowing Advisor Committee) projects over a 20% increase in coupon issuance across the curve in 2024
- The key watch item is the mix between short-term Bills, and medium/long-term Notes and Bonds: 2023's upside liquidity surprise came from Treasury's move to fund more with Bills as longer-term rates rose, but Bills now make up 22% of Treasury debt outstanding (TBAC has a target of 15-20% for Bills)

Little Indication from Either Party for a Desire to Change Fiscal Trajectory

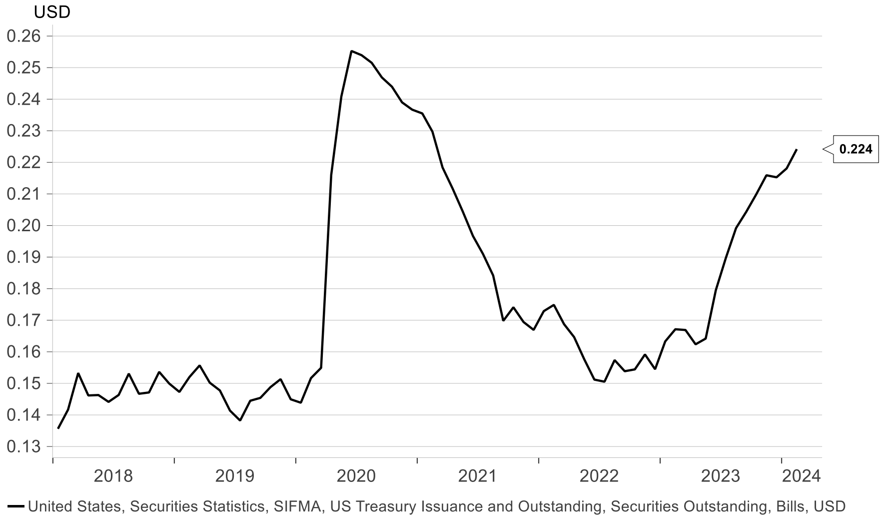
- Compared to coming out of the GFC, there has been a notable shift in voter and legislator sentiment about deficits, exemplified by neither party emphasizing a "fiscal prudence" or "balanced budget" platform (the 2020 observation from Marko Papic about the "median voter" caring less about deficits, so Washington would care less about deficits continues to look prescient)

US Treasury Federal Budget Deficit Or Surplus as a % of Nominal GDP



Source: NewEdge Wealth, Macrobond, Bloomberg

Treasury Bills as a % of Total Treasury Debt Outstanding



Source: NewEdge Wealth, Macrobond, Bloomberg SIFMA (Securities Industry & Financial Markets Association)

Key Equity Themes for 2Q24

Potential for a Healthy Consolidation & Choppier Markets

Elevated valuations, stretched positioning, ebullient sentiment and robust gains over the past five months could lead to a healthy consolidation and choppier markets in Q2. Second half growth expectations are optimistic and may need to be reset lower, which could be a catalyst for volatility.

Rotations, Plus Broadening Performance and Fundamentals

Equity performance has broadened, capital markets activity is recovering, corporate profits are rising, and overall companies are benefitting from increased productivity and generally lower input costs. There are early signs that a cyclical recovery is beginning to take hold, as seen in recovery PMIs, which is sparking leadership rotations. Continued Fed tightness could impact valuations.

Buyers on Weakness & Continue to Prefer Quality

We are selective buyers of market weakness and maintain our preference for high quality companies. While sounding like a broken record, this environment continues to favor businesses with low leverage, durable growth, and resilient profitability. We expect market performance to continue broadening out, however economic conditions remain delicate and renewed upward pressure on interest rates and normalizing volatility could act as an anchor on more cyclical areas.

2Q24 Equity Outlook

Key Points

S&P 500 Range

- Positive drivers: momentum is strong and breadth has improved materially, which is not consistent with a market top; liquidity needs to remain supportive to the positioning chase; GDP and earnings estimates continuing to move higher important
- Negative drivers: softer GDP/EPS estimates that could fuel a switch to risk-off sentiment that is exacerbated by high valuations and crowded positioning; liquidity becoming a headwind
- We would not be surprised to see some digestion/volatility in 2Q, with important support at ~5,000 (50 day) and ~4,750 (2021 high and 100-day moving average)

S&P 500 Earnings

- Current consensus: $243 for 2024 (+9%), $274 for 2025 (+13%); these estimates rose slightly in 1Q24
- Upside Potential: stronger GDP growth than expected (though this may have limited impact on EPS estimates), better margins driven by productivity, or improved sentiment that sparks investment/M&A.
- Downside Risk: Weaker economic growth than expected, or an already high bar for margin expansion baked in.

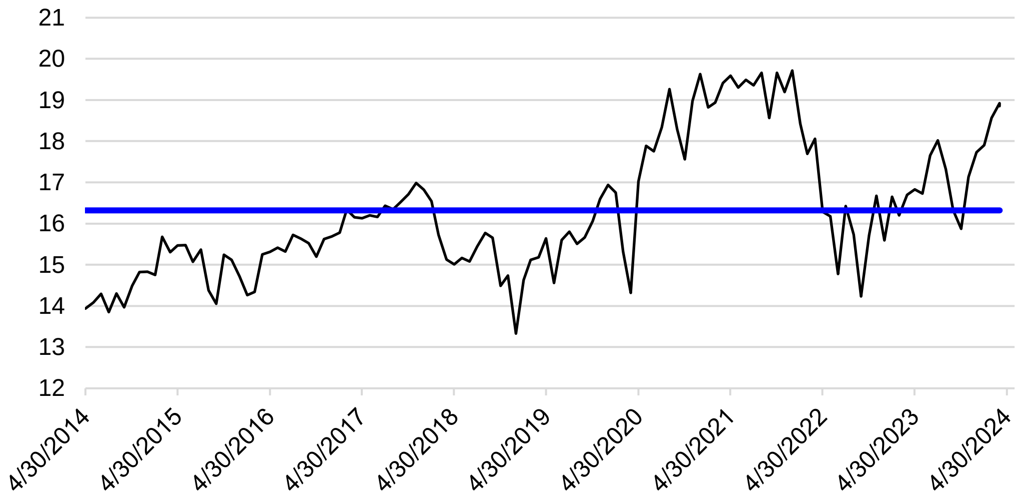
S&P 500 Valuation

- PE is starting 2024 at an elevated 20.1x forward (20x was the ceiling in 2023, 19x was the ceiling in 2018 and early 2020)
- Looking forward 24 month, the S&P is now just 1x away from its 2021 peak valuation
- The "average" stock PE is no longer "cheap" vs. its history at 17.4x (the peak in 2017 was 18x and 2019 17.5x)
- An easier Fed/liquidity helps PE valuations, while a tighter Fed/liquidity could bring valuations back down towards average.

S&P 500 Soars in 1Q24

Source: NewEdge Wealth, Macrobond, Bloomberg

S&P 500 24 Month Forward PE (with 10 yr average)

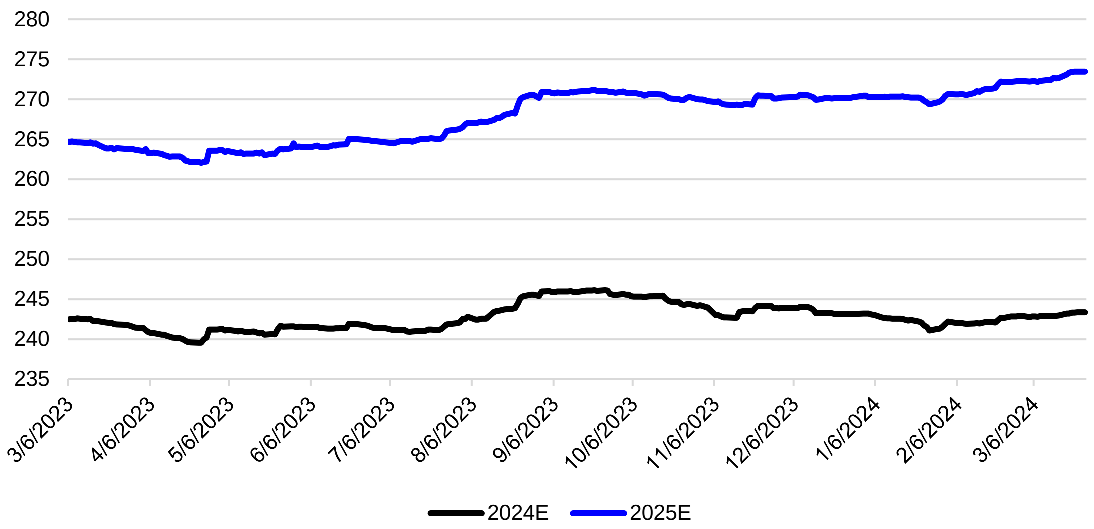


2Q24 Equity Outlook

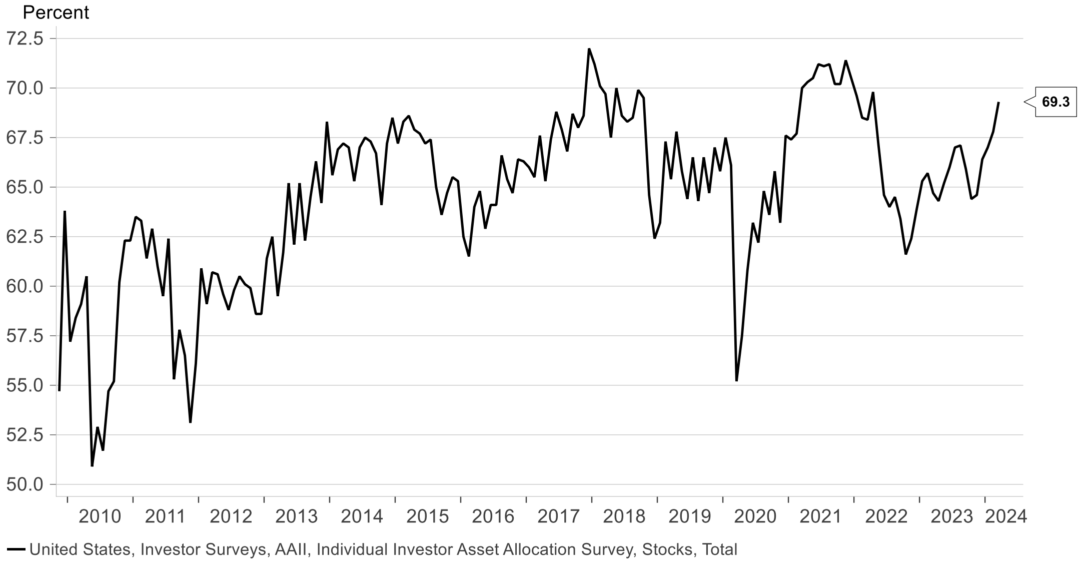
Factors That Will Drive Equities in 2Q24

- **Technicals**: breadth has improved materially, with 86% of the S&P 500 above its 200 day to start the quarter; this is “overbought”, but market tops tend not to coincide with breadth tops
- **Earnings Revisions**: 2024 EPS revisions have been static to start the year, while there has been some upside to 2025 EPS estimates, which now bake in a rosy +13% growth rate
- **Liquidity**: This is the biggest wildcard for 2024, with factors like Fed Balance Sheet/Quantitative Tightening, Treasury funding/cash balance being key drivers of equity valuations/returns. For 1Q24, liquidity was very supportive, explaining lofty valuations.
- **Positioning**: Broad measures of positioning are stretched but not as extreme as early 2018 and late 2021; a chase to extremes would be positive for equities in the short term, but when extremes are reached, this would be downside risk.
- **Sentiment**: Various sentiment measures are nearing optimistic extremes but can persist; once positioning catches up to sentiment, sentiment likely becomes a key risk.
- **Rotations**: signs of rotations began to emerge in late 1Q24, with Tech stalling, and a surge in cyclical Value sectors (Energy, Financials, Materials, and Industrials); Tech lagging is not necessarily a problem for the market, however outright weakness could be a challenge for index returns

S&P 500 EPS Estimates (Bloomberg Consensus)



AAII Individual Investor Asset Allocation Survey: Stocks



Source: NewEdge Wealth, Macrobond, Bloomberg American Association of Individual Investors (AAII)

NewEdge WEALTH

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2Q24 Fixed Income Outlook Themes

Potential for Retracement to the 2023 Highs in Yields

A reduction of rate cuts priced in, large Treasury issuance, and surprisingly strong economic growth could push the 10Y yield to 4.5% to 4.75%. The yield curve may 'bearish steepen' with long-term rates rising relative to short-term rates. This could create "buy the dip" opportunities.

Credit Fundamentals are Solid but Beware of Overvaluation

Credit spreads are near historic tight levels. Default rates are low and companies have been able to roll over debt maturities smoothly. But beware of overvaluation because credit spreads have been driven by strong equity performance while issuance continues to stay robust.

Fixed Income Performance Dispersion

Treasuries may continue to underperform whereas a strong economy that keeps the Fed on a higher for longer hold supports other asset classes such as senior loans, structured credit, bank preferreds, and floating rate notes could outperform. The dispersion in performance could widen in 2Q24.

Diversification Opportunities

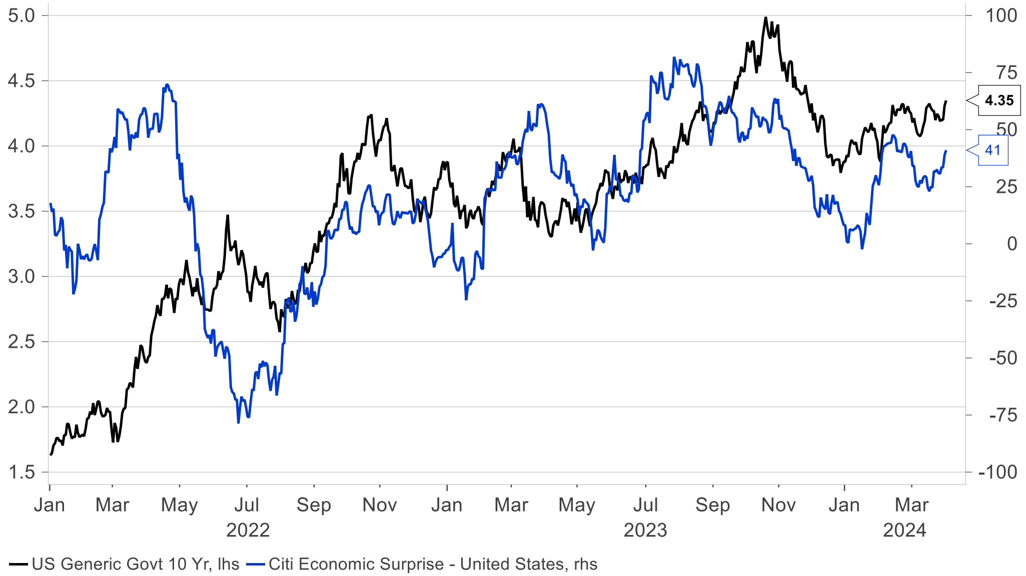
Emerging Markets are less correlated to the dollar because of EM central banks' lowering rates and the uplift in commodities. EM and international fixed-income could be the diversification opportunity to US Treasuries and overvalued Investment Grade Corporates.

2Q24 Fixed Income Outlook

Factors That Will Drive Bonds in 2Q24

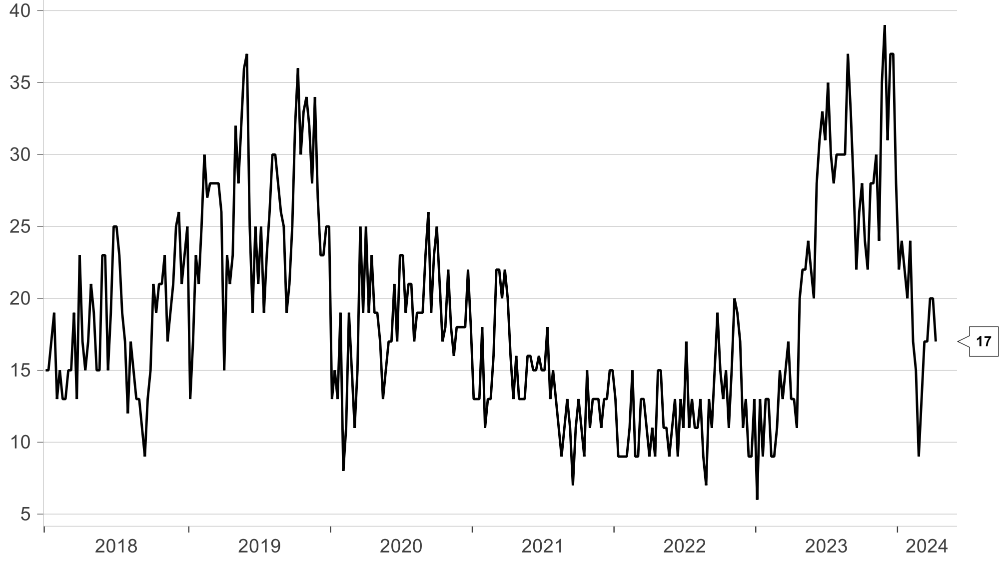
- **Fed expectations**: With now just three rate cuts prices in, bond markets continue to hold the conviction that the Fed won the inflation battle and can still lower rates. But the Fed is persuading markets that it is not in a hurry and there may just be one cut because of the strength of the economy. The "push-pull" between the Fed and markets set a trading range, and unless/until the economy goes into recession, this prevailing range offers elevated coupon returns and modest spread and duration returns.
- **Inflation**: Bond markets have priced inflation expectations to perfection, predicting 2% inflation by the end of 2024. However, there remains a risk of a "bear steepening" occurring in the yield curve (long rates rise faster than short rates), like what was experienced in the summer of 2023.
- **Liquidity**: The Fed is contemplating slowing the pace of QT and this may be decided by May or June. For specific markets – like Treasuries, Munis, MBS, and corporate bonds – structural illiquidity post-GFC means that the "end" of QT may not necessarily bring relief unless combined with rate cuts.
- **Positioning**: Distortions between futures and cash markets will continue to play a dominant role in the pricing of rate cut expectations, which in turn affect valuations across fixed income. The credit overweight could shift to Treasuries, MBS, preferreds, and other sectors when faster rate cuts do eventually follow.
- **Issuance**: Treasury issuance will remain large-scale. IG and HY bond issuance by corporations is expected to increase by $250 billion. Supply indigestion will continue to challenge duration positioning.

10 Year Treasury Yield and Citi Economic Surprise Index



Source: NewEdge Wealth, Macrobond, Bloomberg

U.S. JP Morgan Treasury Investor Sentiment All Client Long



Source: NewEdge Wealth, Macrobond, Bloomberg

2024 Fixed Income Outlook: Credit

Key Points

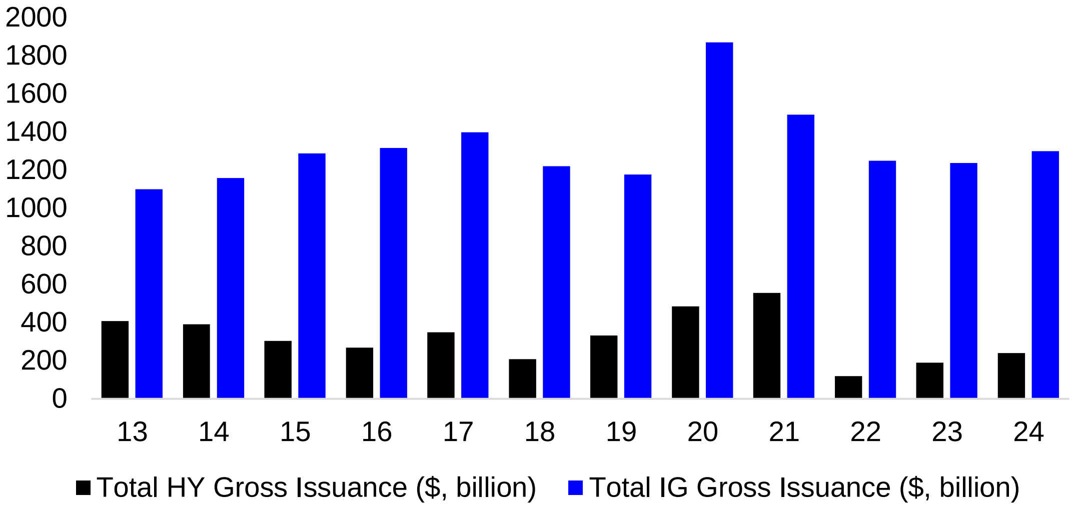
Issuance

- High-yield corporate new issuance may reach $250 billion in 2024 should the current narratives of the soft landing prevail.
- Investment grade new issuance in 2024 may come in at $1.3 trillion, owing to a more active maturity calendar.
- Issuance is concentrated in A and BBB-rated categories for a total of over $1.2 trillion in IG. In High Yield, there is a $30 to $50 billion increase in B and BB-rated issuance. CCC issuance remains low at around $11 billion.

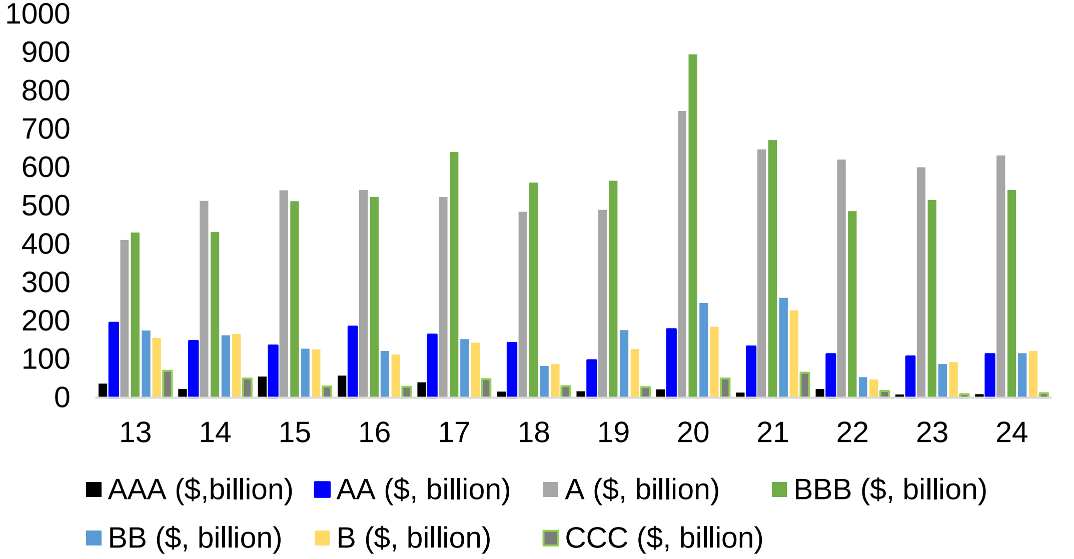
Defaults & Spreads

- IG default is expected to rise to 1-1.5% and HY to 2-2.5%. The implied default from CDS is 2.5% for IG and 4% for HY. The default outlook is benign, but distress is slowly on the rise.
- Upside Potential: issuance is well absorbed; moderate distress in HY attracts investor demand in a lower Treasury yield environment.
- Downside Risk: weaker economic growth than expected can push spreads 200 basis points wider and lead to a decline in HY primary issuance.
- HY starts in a near overvalued state compared to 2022-23. Yet, yields around 8% to 11% across BB to CCC can continue to attract interest via investors "chasing yields."
- The weakest sectors, healthcare, communications, and technology, are also experiencing the largest rise in default rates and are in significant disinflation/deflation. These three sectors represent 34% of the HY index and pose a risk for further deterioration of credit more broadly.

Credit Issuance (with 2024 Bloomberg Estimate)



Issuance by Credit Rating



Source: Bloomberg, NewEdge Wealth

NewEdge WEALTH

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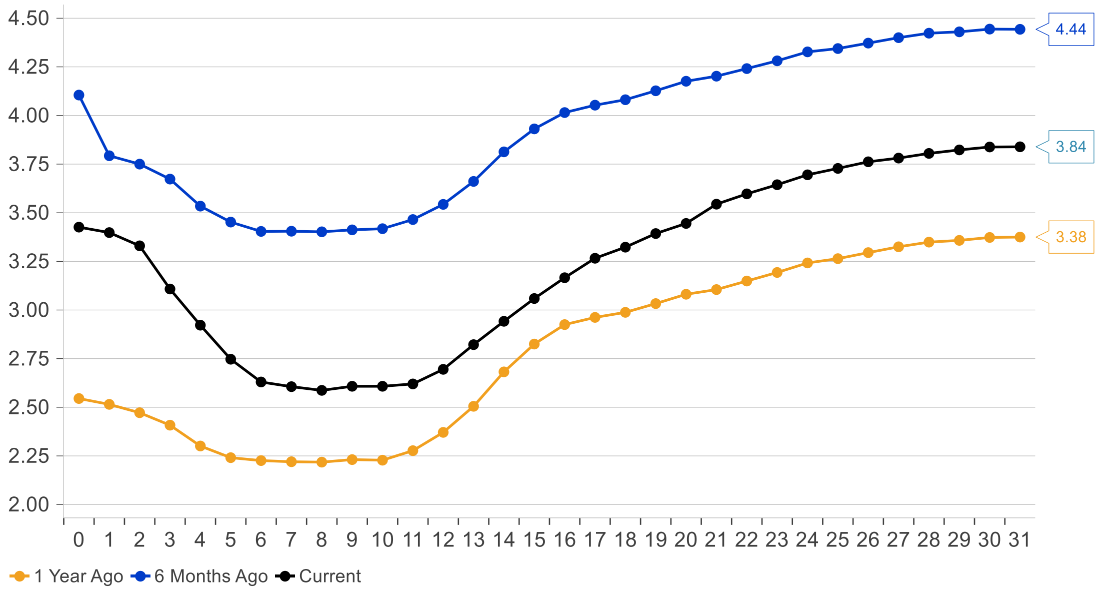
2024 Fixed Income Outlook: Munis

Key Points

- The municipal yield curve currently presents attractive opportunities. Target a barbell maturity structure to capitalize on high front end and intermediate yields which provides less rate risk and a potential for total return. Consider taxable alternatives if buying in 2-10 years.
- Investors will need to be alert to future rate volatility, especially with the market anticipating a major change in monetary policy followed by a fast-approaching national election. We believe investors will be rewarded by adhering to a "buy the dip" mentality when and if this occurs.
- Spread compression in munis was not a dominant theme in 2023 the way it was in 2021 (massive tightening) and 2022 (unwinding of historically tight spreads). In 2024, There has been significant HY spread compression and a tightening of A and BBB rated securities however, spreads still remain attractive on an after tax basis.
- Demand will be supported by a healthy fundamental backdrop and historically attractive tax-equivalent yields while Supply/Demand dynamics should continue to improve.
- Although year-over-year growth of tax receipts slowed for parts of the country in 2023, tax collections are coming off a historic base in 2022 and moderating from the strong growth and stimulus since the pandemic. Municipal credit-rating upgrades significantly outpaced downgrades overall in 2023, and while we expect the positive momentum to continue into 2024, even as we've begun to see a slowing in tax collections.

US AAA Muni Yield Curve Over Time

BVAL Muni AAA Yield Curve 3M-30Y



Source: NewEdge Wealth, Macrobond, Bloomberg

NewEdge WEALTH

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The State of Alternatives: 2Q24 Update

Venture Equity

High quality businesses are still getting funded

Early-stage businesses are being pressed to focus on profitability

Early-stage valuations have been resilient, but a reset is underway

Starting to see a reheating of funding and the fundraising market

The Opportunity: Green shoots are beginning to emerge in venture, and we see opportunities to gain access to higher quality businesses at more attractive entry points with normalized valuations.

Private Equity

The cost of leverage remains elevated, pressuring high leverage/financial engineering strategies

Increasing focus on how return is generated at the company level

As the exit environment has remained tight and return of capital has slowed, so has the pace of new commitments

The Opportunity: We see more opportunities for quality growth across the lower middle market and middle market vs. the upper market where financial engineering tends to be more prevalent.

Manager selection and quality of return generation matter more than ever as the dispersion between winners and losers widens. Managers focused on driving value creation through margin expansion, operational efficiency and building a higher quality cap table to drive returns will prevail over those that lean on financial engineering.

Private Credit

A “golden age” for some (low defaults but starting to see cracks, high base rates) - risk management remains critical

Competition pushing both structures and yields. Some larger players giving up yield to maintain structure

Focus on: underwriting track record, downside protection, stress testing

Over 1,200 funds in the market today - oversaturation risk and manager selection increasingly critical

The Opportunity: As the elevated interest rate environment persists and the syndicated loan markets begin to reopen, we see greater long-term opportunity across private credit with a critical eye towards underwriting and downside protection particularly as new entrants flood the marketplace.

The State of Alternatives: 2Q24 Update

Secondaries

Pickup in secondary activity on both the LP Led and GP Led side

Declining private equity valuations and LP desire to normalize the denominator effect will lead to greater discounts

GPs need to begin to return capital to investors will increasing supply of GP Led deals

Alternative liquidity solutions continue being tested – NAV lending, carve-outs, hybrid facilities

The Opportunity: We expect to continue to see a pickup in secondary deals coming to market as LPs and GPs seek to generate liquidity for investors. Secondary funds will be able to take advantage of attractive pricing as valuations reset.

Growth Equity

Valuations are coming under pressure as the IPO window remains largely closed

Green shoots of investments as valuations normalize and as exit opportunities ramp up (increased M&A activity and IPO window reopening)

Continued focused interest on profitable business models and countercyclical sectors

The Opportunity: Opportunities will present if the IPO window continues to reopen and as M&A activity reaccelerates.

Private Real Estate

Commercial / Office real estate market has already begun to show early signs of recession – but it is a slow burn, not a blow up

Multifamily rent levels are dropping across the country (e.g., New York), painting a tougher picture going forward for the REITs which have focused on that segment of the market

Stress in the space overall has reduced new capital supply

The Opportunity: We continue to see opportunities to invest in high quality assets with stressed capital stacks in both debt and equity. Market dislocations may create attractive pockets of buying opportunity in the next 12-18 months. We will likely see openings particularly in distressed spaces in 2024 such as office and commercial which could cause contagion across the industry.
The opportunity in triple net lease is growing as we are seeing large corporations evaluate how they want to capitalize their balance sheets.

The State of Alternatives: 2Q24 Update

Hedge Funds

Still see value in consistency of returns, in the last cycle we saw inconsistencies which caused rethinking of allocation bases in the space.

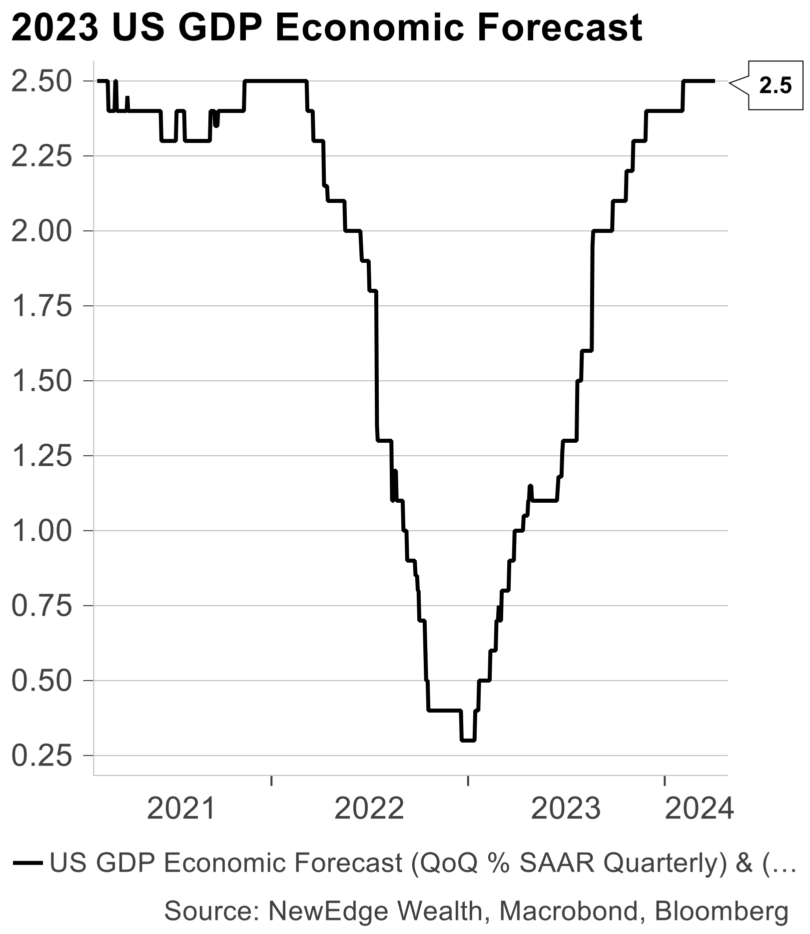
Heightened focus on post tax returns for individuals investing.

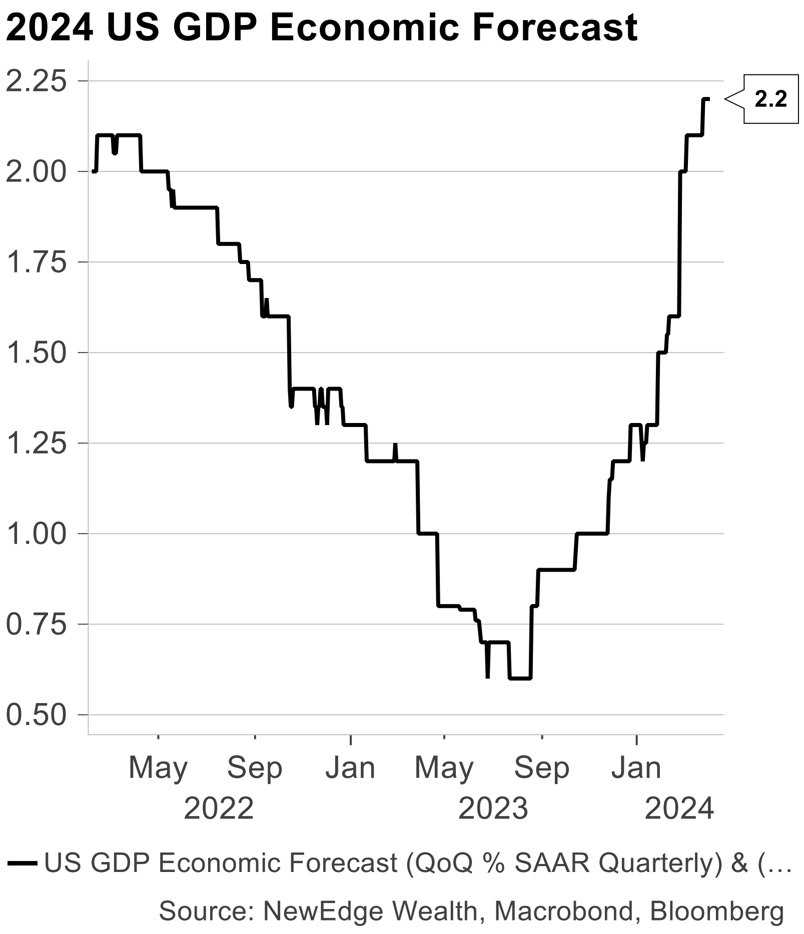
Continue to believe significant opportunity lies within the multi strategy and less correlated strategies.

The Opportunity: Working on forming better quality access points to the space.

Top Charts to Watch

Growth Forecasts Rising Have Been Key for Risk Asset Strength





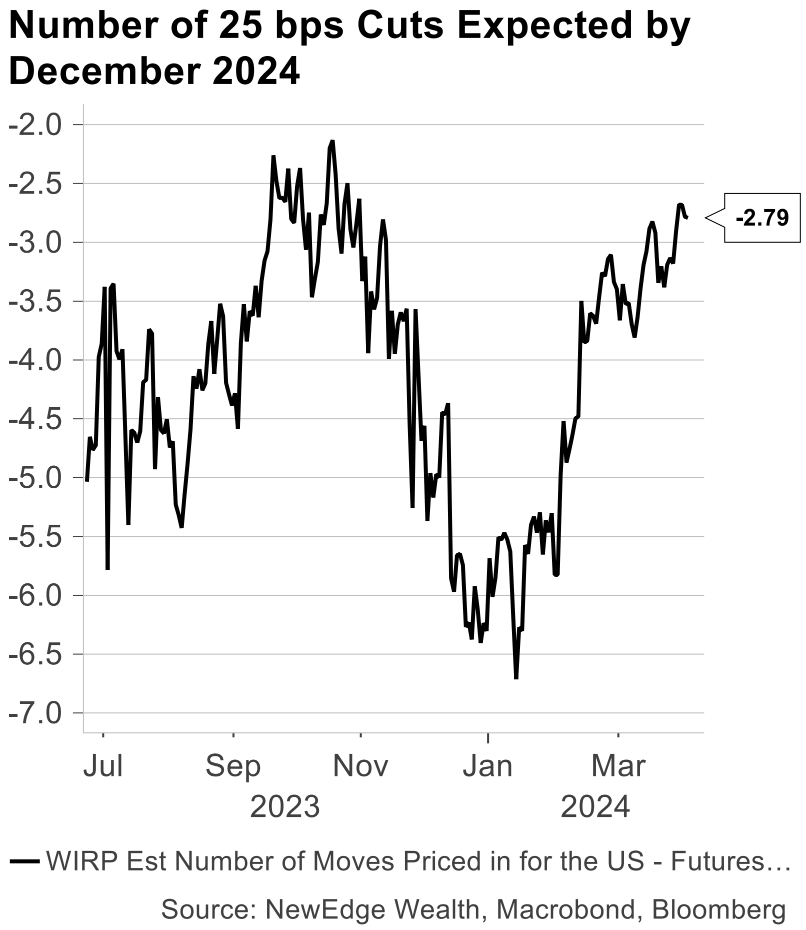
The jump in GDP forecasts for 2023 and 2024 have been a key driver of strong risk asset performance (compared to the cutting of forecasts through 2022, which contributed to weak risk asset performance).

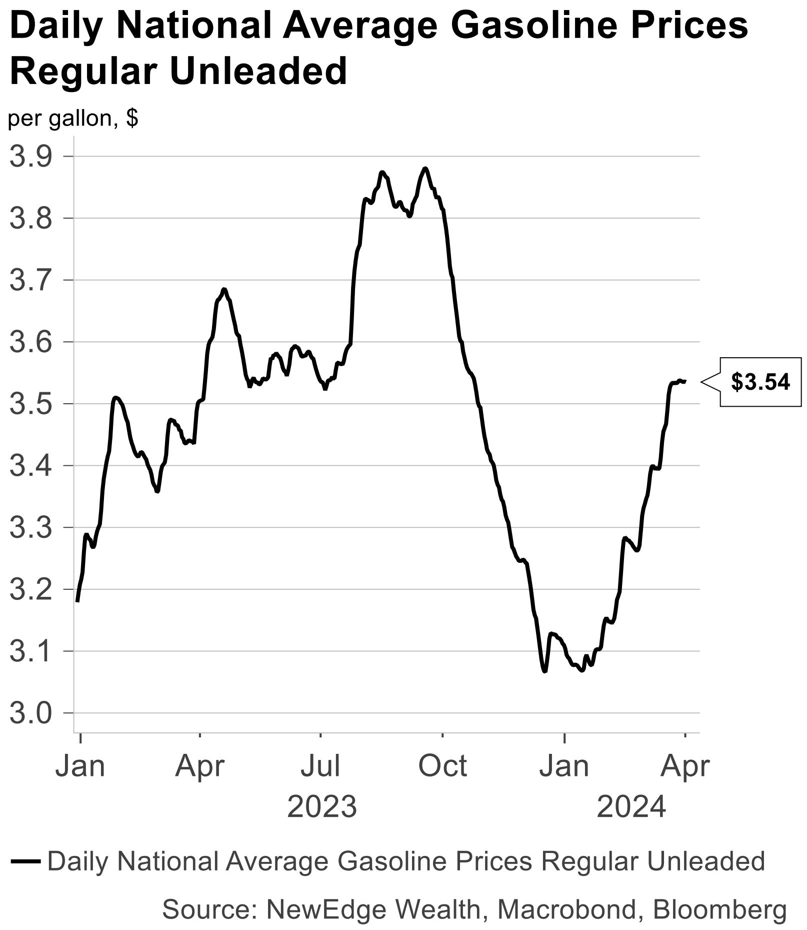
The Fed mirrored the Street's increase in GDP by significantly raising its GDP forecast from 1.4% to 2.1% (in line with consensus).

Growth forecasts are a key watch item, because if they turn lower, it would likely be a negative for risk assets. In the near term, growth looks supported by a strong labor market and stimulus.

Data as of: April 2, 2024

The Path Forward for the Fed





The market has gone from expected nearly 7 cuts from the Fed in 2024 in January to 2.6 cuts today.

We still see the possibility that this pricing of Fed policy cuts is too aggressive *if* economic data is resilient or if inflation data is more persistent.

On inflation, we are watching gas prices closely, as falling gas prices since the summer were an important driver of the Fed's "immaculate disinflation". Gas prices have jumped higher and could be a wrinkle in expectations for continued headline CPI moderation.

Data as of: April 2, 2024

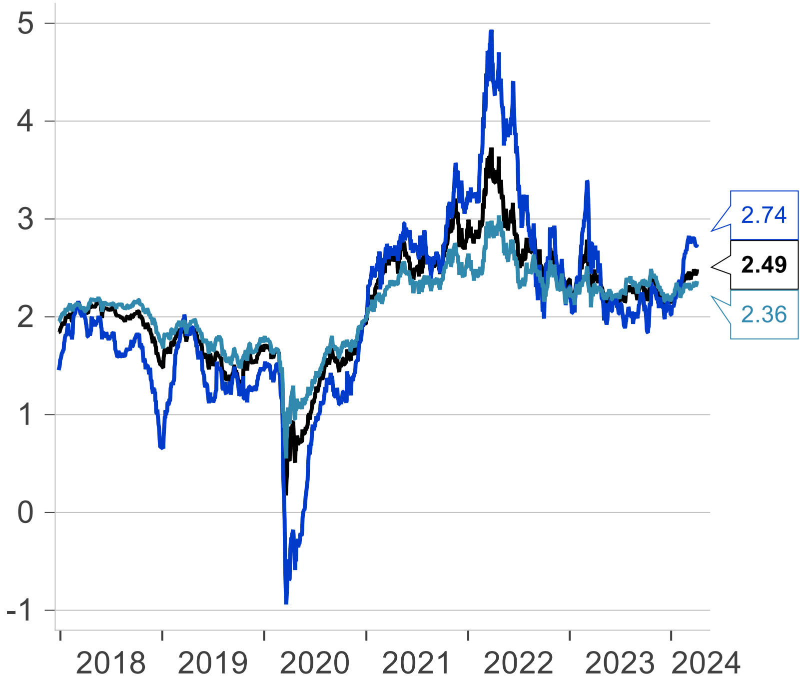
Is an Easier Fed a Green Light for Inflation to Rebound?

Gold Price

Source: NewEdge Wealth, Macrobond, Bloomberg

Inflation Breakevens

US 2, 5, and 10 Year Breakeven Inflation Rate



Source: NewEdge Wealth, Macrobond, Bloomberg

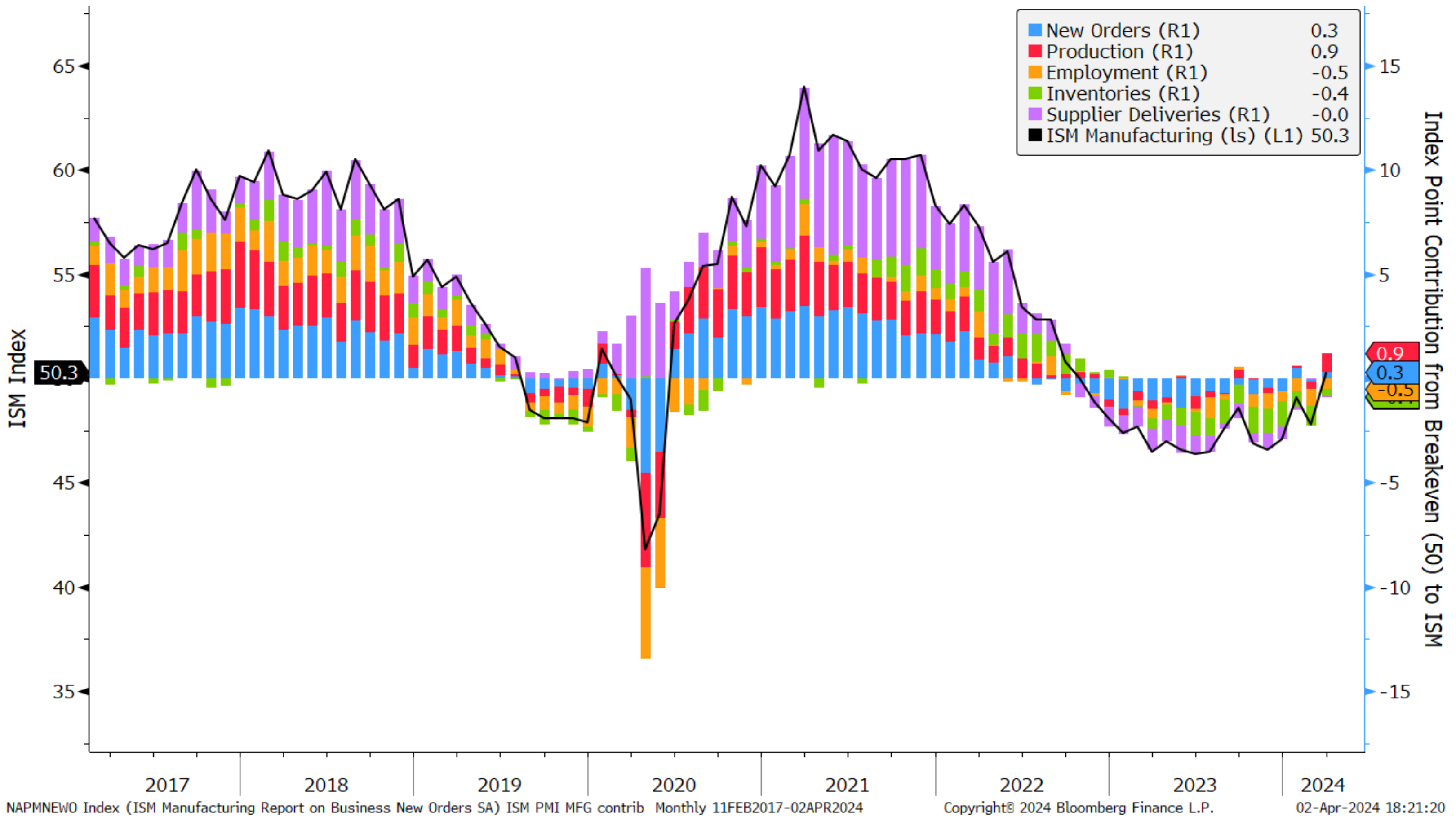
Gold and inflation breakevens (market implied inflation expectations) responded to the Fed's dovish rhetoric by jumping higher.

The Fed signaled a willingness to tolerate inflation above its 2% target.

Gold is taking this bullishly as real yields fall (nominal yields fall and inflation expectations rise).

Cyclical Recovery Underway

ISM Manufacturing PMI with Components



For the first time in 18 months, the ISM Manufacturing Purchasing Managers Index is back above 50.

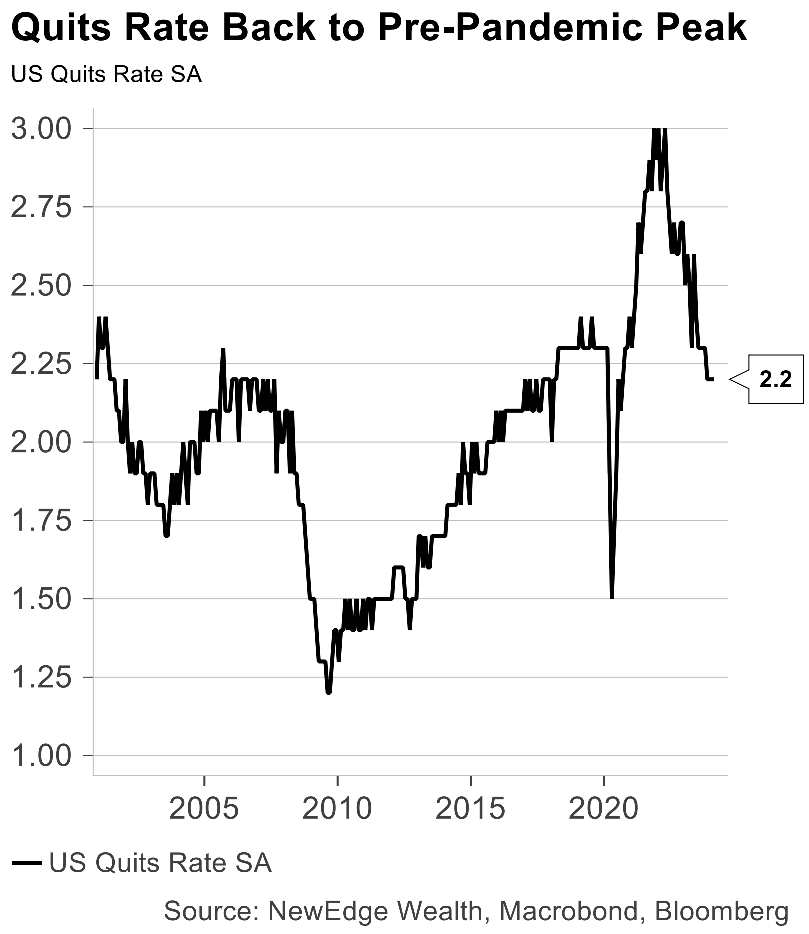
March saw broad based improvement in the measure versus the prior month, with a notable recovery in Production and New Orders, but also a notable jump in Prices Paid to 55.8 (challenging the disinflation narrative?).

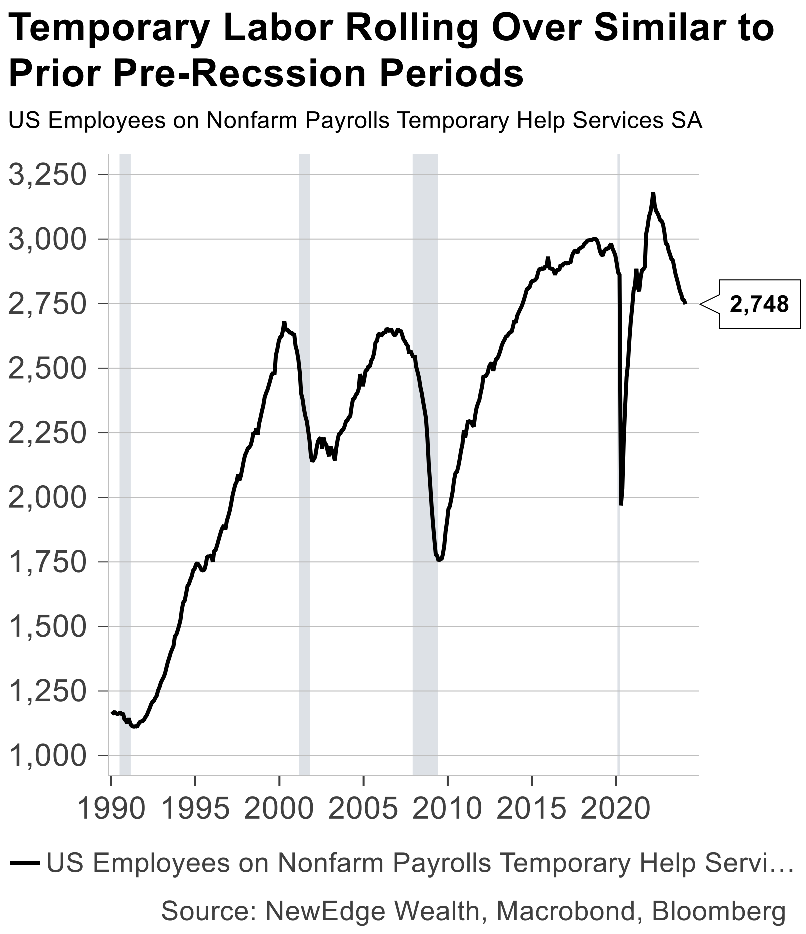
We have been anticipating a rebound in manufacturing, driven by an inventory cycle plus large fiscal spend on manufacturing.

We've noted that, in the past 40 years, the Fed has never started cutting rates during a manufacturing recovery.

Data as of: April 2, 2024

Labor: Softness in Quits and Temporary a Warning Sign?





The Quits rate fell precipitously in 2023, signaling workers' fading confidence that they could easily find another/better job.

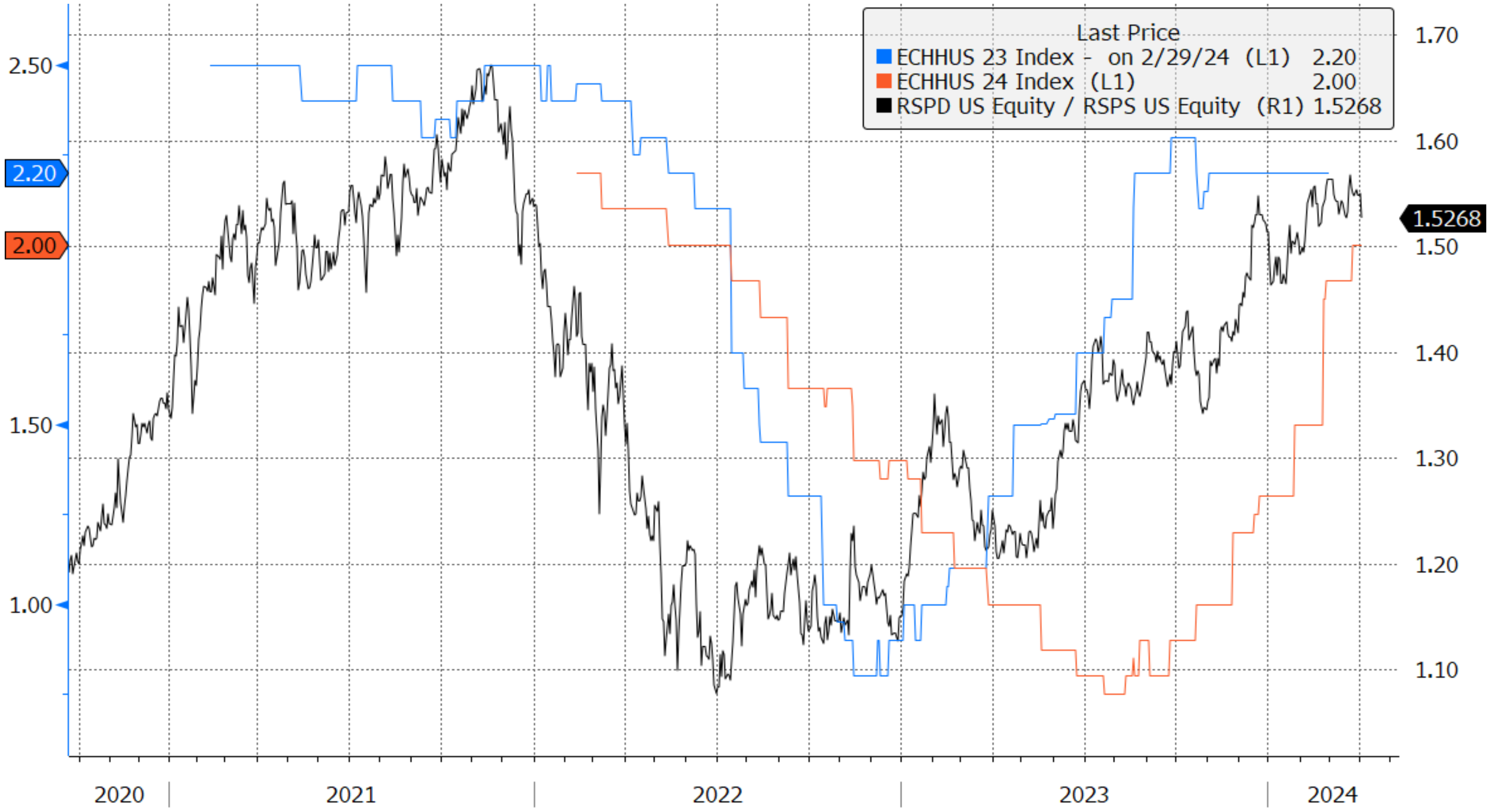
Temporary labor has also rolled over, signaling businesses are looking for ways to cut back on labor expense. This measure could just be normalizing from the pandemic surge, but now that it is below 2019 levels, watchers should be vigilant that this could be an early warning sign of labor demand softening.

Source: NewEdge Wealth, Bloomberg

NewEdge WEALTH Data as of: April 2, 2024

The Equity Market Says the Consumer is Fine, Watch Divergence w/ Retail Sales

Equal Weight Discretionary vs. Staples and GDP Household Consumption Forecasts for 2023 and 2024



RSPD US Equity (Invesco S&P 500 Equal Weight Consumer Discretionary ETF) EW Disc vs. Staples Daily 20SEP2020-02APR2024 Copyright© 2024 Bloomberg Finance L.P. 02-Apr-2024 18:21:28

Source: NewEdge Wealth, Bloomberg

Data as of: April 2, 2024

The equity market has been sending a signal that the consumer is healthy and able to spend, as seen by the outperformance of Discretionary stocks vs. Staples stocks.

Discretionary vs. Staples has been a leading indicator for changes to forecasts for Household Consumption Growth over the past few years.

Note that as consumer growth forecasts have been increased this year, retail sales disappointed both January and February (but Personal Consumption Expenditures were strong in February).

Financial Conditions are Back to 2021 Easy Levels

Source: NewEdge Wealth, Macrobond, Bloomberg

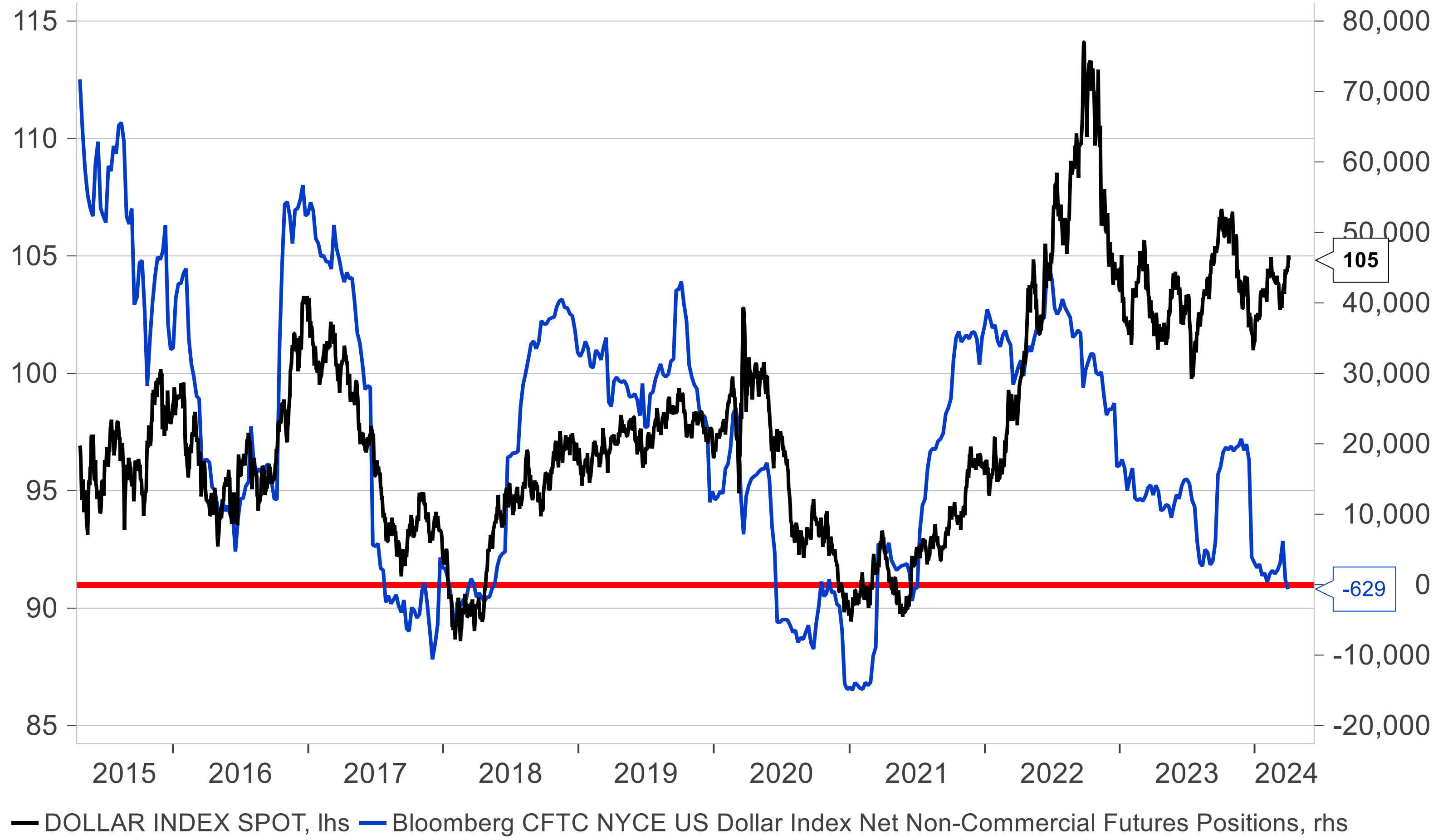
Soaring stocks, low volatility, falling yields, tightening spreads, and a weakening USD have all contributed to a rapid easing in financial conditions back up to levels not seen since before the Fed started cutting rates.

In 2022, the need to tighten financial conditions was seen as an urgent task for the Fed, as it was trying to control elevated inflation.

With inflation lower/moderating, there is less urgency to talk down financial conditions; however, the Fed has acknowledged that easy conditions are stimulative and could work against them in their continued inflation fight.

Watching the USD

U.S. Dollar (DXY) and CFTC Dollar positioning



Source: NewEdge Wealth, Macrobond, Bloomberg

The USD is an all-important factor in financial markets for 2024.

A stronger USD likely benefits U.S. assets over foreign assets, but also has the potential to tighten financial conditions.

A weaker USD would support non-U.S. assets, which typically benefit from major USD bear markets.

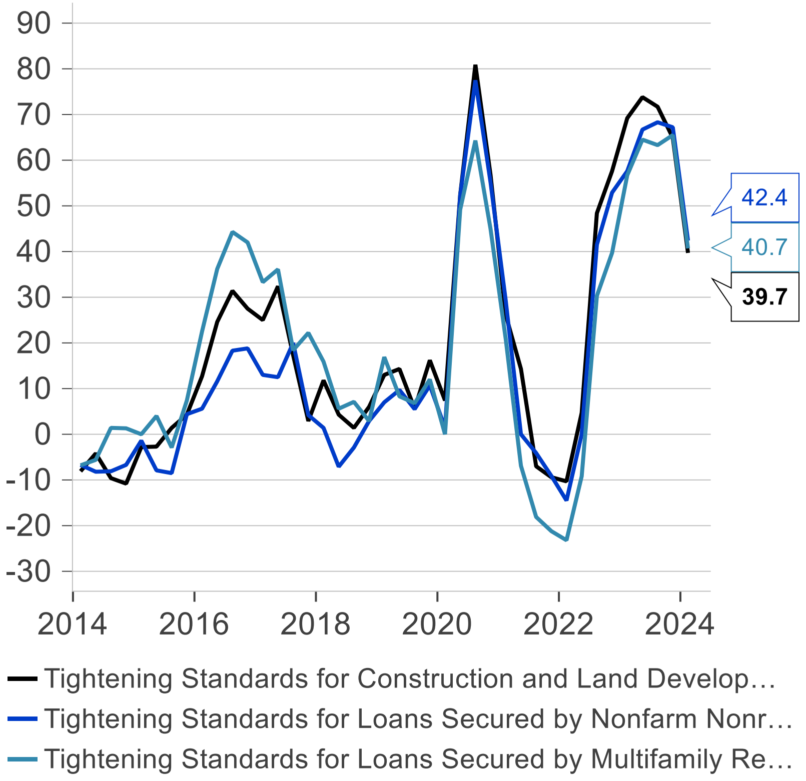
Positioning is an important contraction indicator (positioning is long at peaks and short at troughs). Today, USD positioning is getting close to short levels seen in 2017 and 2021, but not quite there yet. If these short levels are reached, a positive view on the USD would be supported.

NewEdge WEALTH

Data as of: April 2, 2024

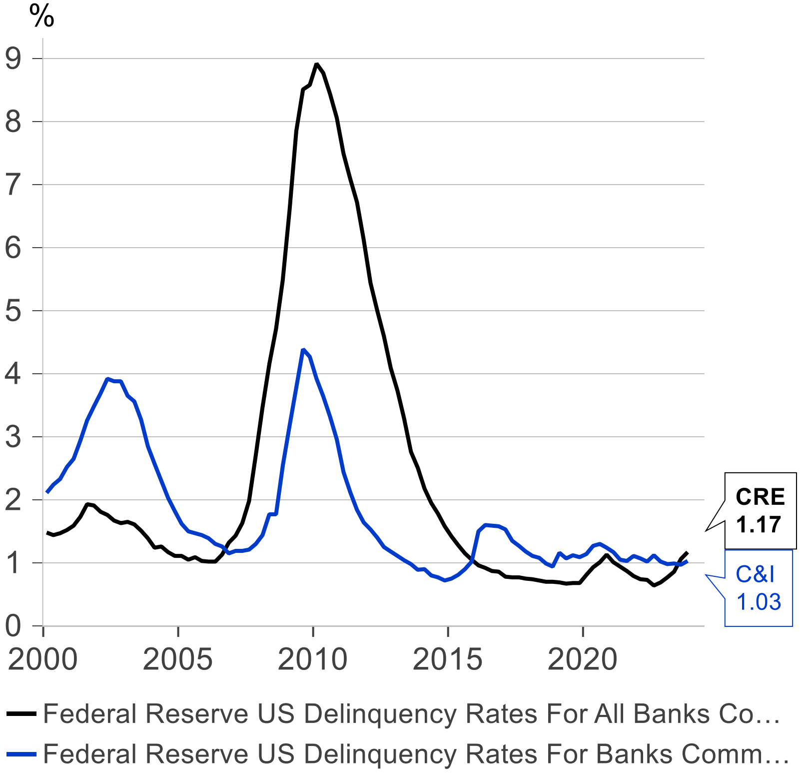
Real Estate: Easing Standards, Delinquency Subdued But Picking UP

Loan Standards for Commerical Real Estate (%)



Source: NewEdge Wealth, Macrobond, Bloomberg

Delinquency Rates for Commercial Real Estate and Commercial & Industrial



Source: NewEdge Wealth, Macrobond, Bloomberg

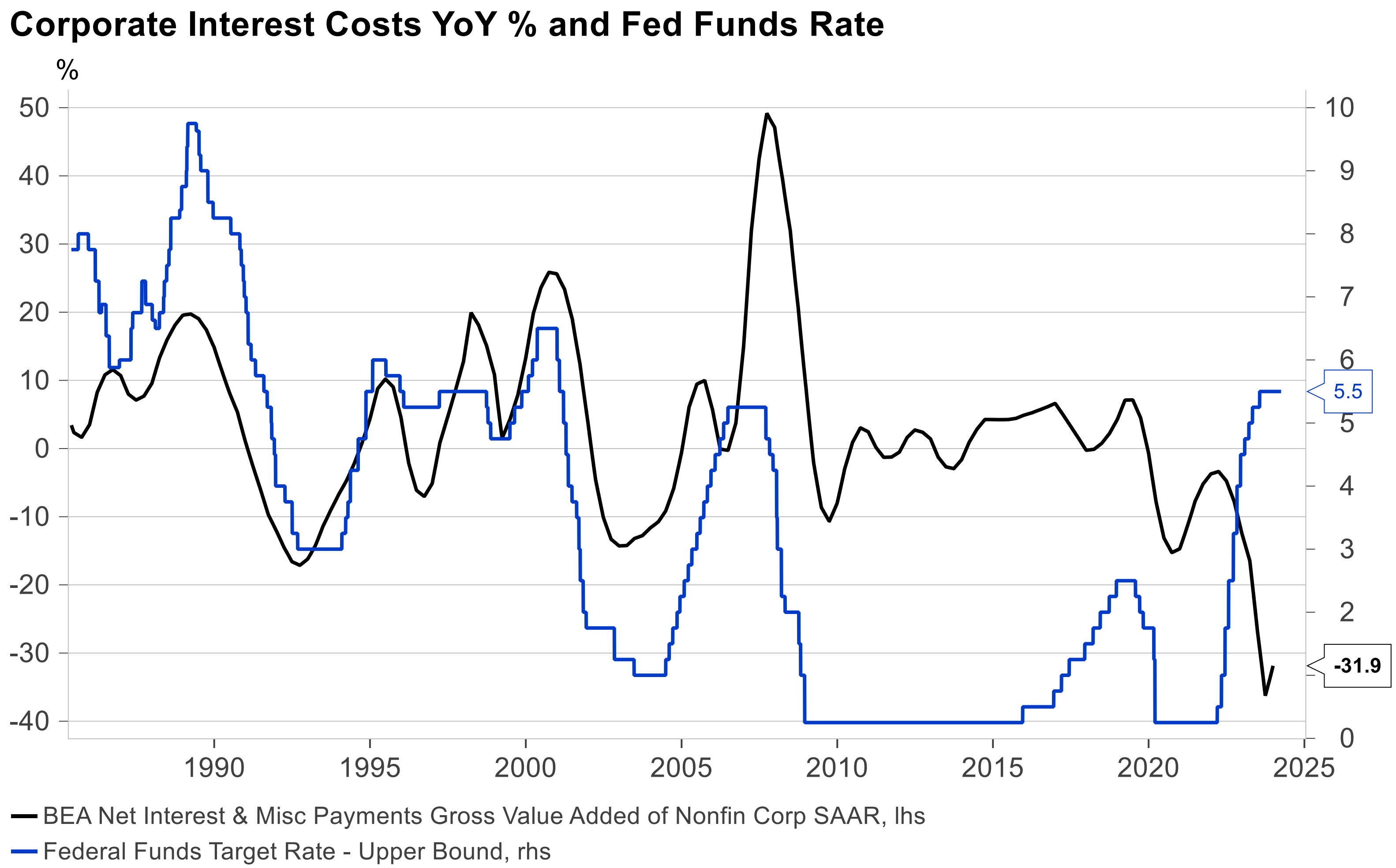
Even for the much-feared commercial real-estate (CRE) sector, loan standards have eased!

These easing loan standards reflect easier access to capital for businesses and a greater appetite to lend by bank.

Note there has been a slight uptick in CRE delinquencies, but nowhere near as bad as "CRE Armageddon" headlines would suggest.

Commercial & Industrial loan delinquencies remain contained, reflecting still robust corporate profit fundamentals.

The Pinch of Higher Rates is Dulled by the Long-Tail of QT



Source: NewEdge Wealth, Macrobond, Bloomberg

We have written extensively about the long-tail impact that prolonged QE has had on U.S. corporate and consumer balance sheets (February 2023, July 2023, November 2023).

This reached a fever pitch in 2020 and 2021, when rates were ultra-low and allowed for a great wave of refinancing.

The result is that as the Fed has raised rates in 2022 and 2023, net interest costs for corporates in aggregate have fallen (according to BEA data), meaning that corporations are seeing a bigger increase in their cash interest income than their interest expense. **Higher rates have been short term stimulative to corporates in a post QE world!**

Refinancings begin to kick in in late 2024 and early 2025, meaning we could begin to see the delayed real economy impact of higher rates (if sustained).

NewEdge WEALTH

Data as of: April 2, 2024

S&P 500 Powerful Rally off October Lows

S&P 500 and Daily RSI

Source: NewEdge Wealth, Bloomberg

The S&P 500 has staged a blistering rally to start 2024.

It has shaken off overbought conditions and continued to plow higher.

Momentum is strong and the trend is up, which is causing positioning chases.

The majority of this rally has been driven by aggregate multiple expansion, with only a slight increase to forward EPS estimates.

The Average Stock Perks Up?

Equal Weight S&P 500 Absolute (Top) and Relative to the S&P 500 (Bottom)

Source: NewEdge Wealth, Bloomberg

The Equal Weight S&P 500 , or the "average stock", is at a new all time high. It lagged the S&P 500 YTD with its Tech/ Communications mega cap winners, however it has recently seen slight relative performance improve.

Equity Breadth Improves

S&P 500 with the % of Members Above Their 200 Day Moving Average

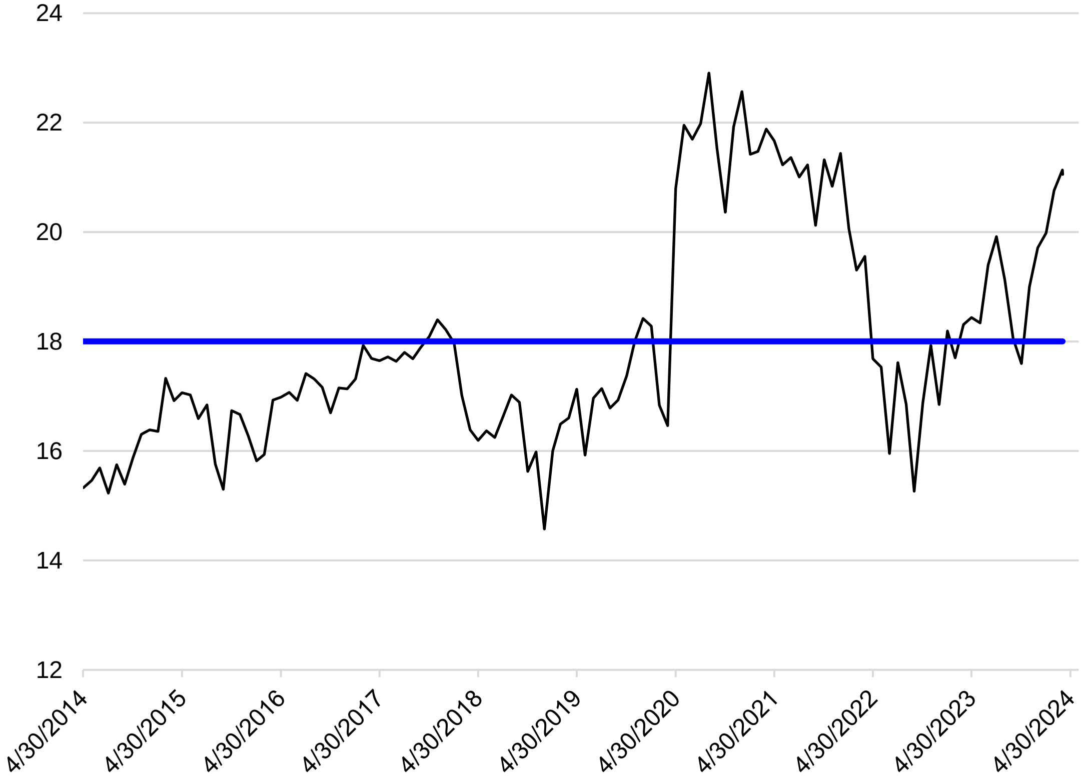
Source: NewEdge Wealth, Bloomberg

86% of S&P 500 names are now trading above their 200 day moving average.

Peaks in breadth often do not coincide with peaks in the market, meaning breadth tends to deteriorate before the market tops (see 2021 as an example, when the market continued to make new highs as breadth deteriorated throughout the year).

S&P 500 is Expensive No Matter How You Cut It

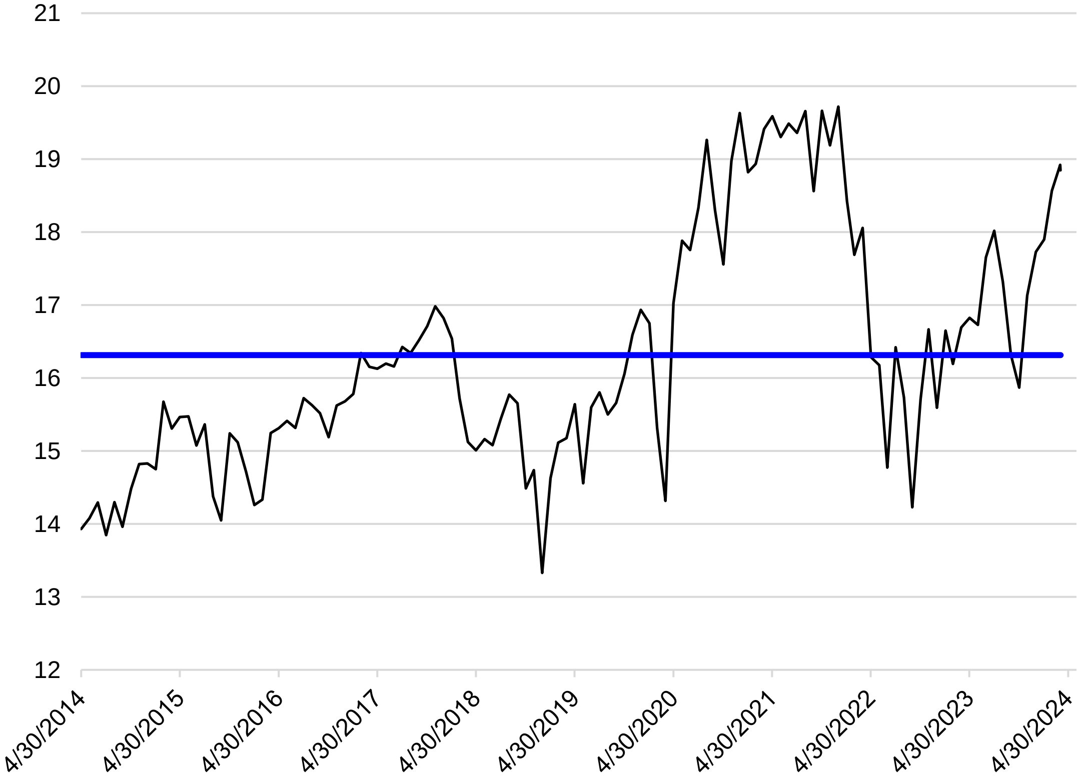
S&P 500 12 Month Forward PE (with 10 yr average)



Source: NewEdge Wealth, Bloomberg

The S&P 500 is trading at 21.2x 12 month forward PE, above the peak reached in July 2023, and back to COVID era levels when policy was far more supportive for markets.

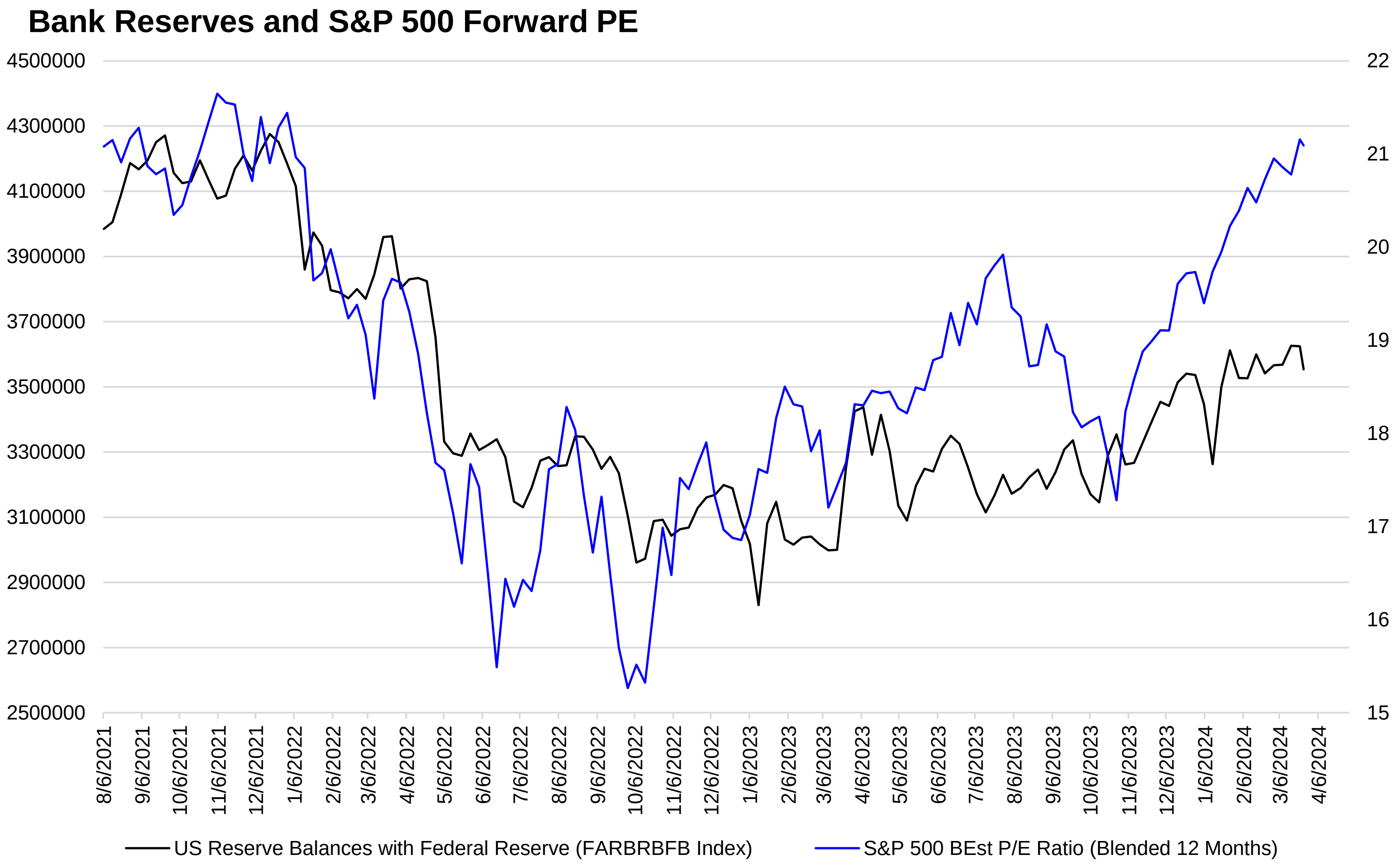
S&P 500 24 Month Forward PE (with 10 yr average)



Source: NewEdge Wealth, Bloomberg

The S&P is trading at nearly 18.9x next 24 months EPS estimates of $273, which is just 1x below the COVID-era peak valuation (which was supported by policy and depressed EPS estimates).

Liquidity is the Darkhorse for 2024



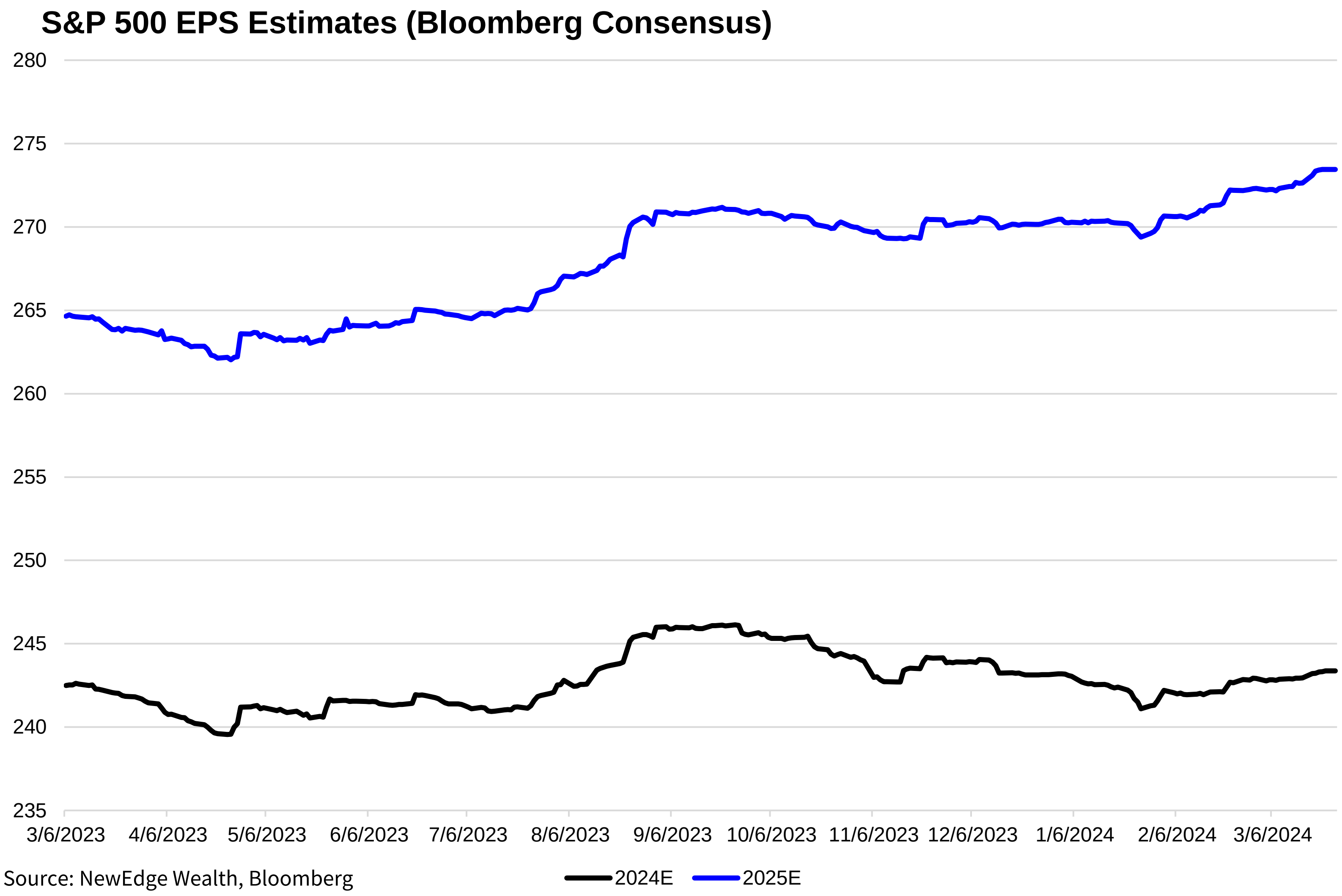
Source: NewEdge Wealth, Bloomberg, as of 3/25/24

Through the lens of bank reserves and valuations, we can see how liquidity was a headwind to valuations in 2022 and was a tailwind in 2023 and to start 2024.

As the Fed winds down the Reverse Repo facility and Treasury sets a plan for large funding needs in coming quarters, liquidity should be watched closely as a potential headwind/tailwind for risk assets.

Watch bank reserves and overall liquidity going into and coming out of the April tax season.

Watch EPS Estimate Progression



Source: NewEdge Wealth, Bloomberg

One of the most fascinating dynamics in 2023 was how EPS estimates were relatively static, despite the wide range of narratives experienced (soft landing, hard landing, no landing, credit crisis, AI/tech renaissance).

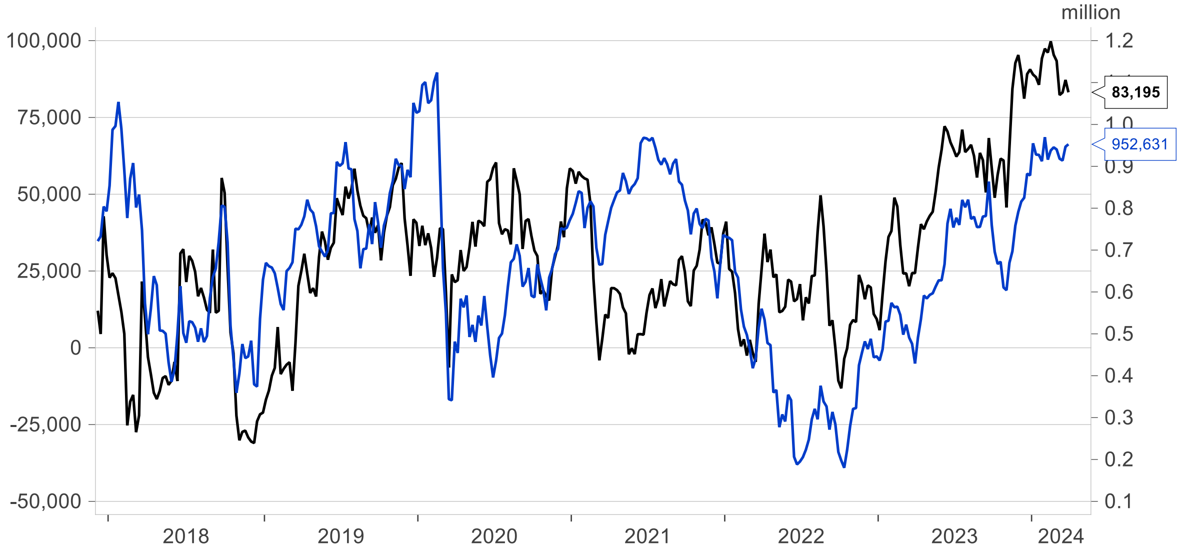
For 2024, we must watch EPS estimates closely, as a key source of upside/downside for equity markets.

Keep a close eye on 2025 estimates, as these will likely become the biggest concern for markets in 2H24.

EPS estimates began drifting higher in recent weeks.

Sentiment: Institutional Positioning Overweight but Not Extreme

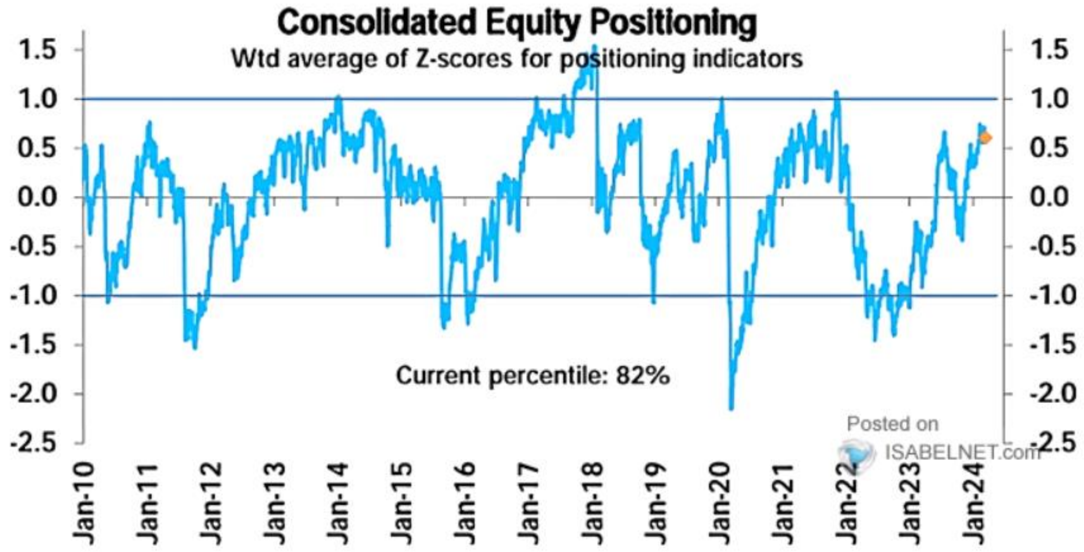
Institutional Investor Futures Positioning



—CFTC CME NASDAQ 100 Mini Asst Mgr Institutional Net Total/Futures, lhs
—CFTC CME E Mini S&P 500 Asst Mgr Institutional Net Total/Futures, rhs

As of 4/2/24

Source: NewEdge Wealth, Macrobond, Bloomberg

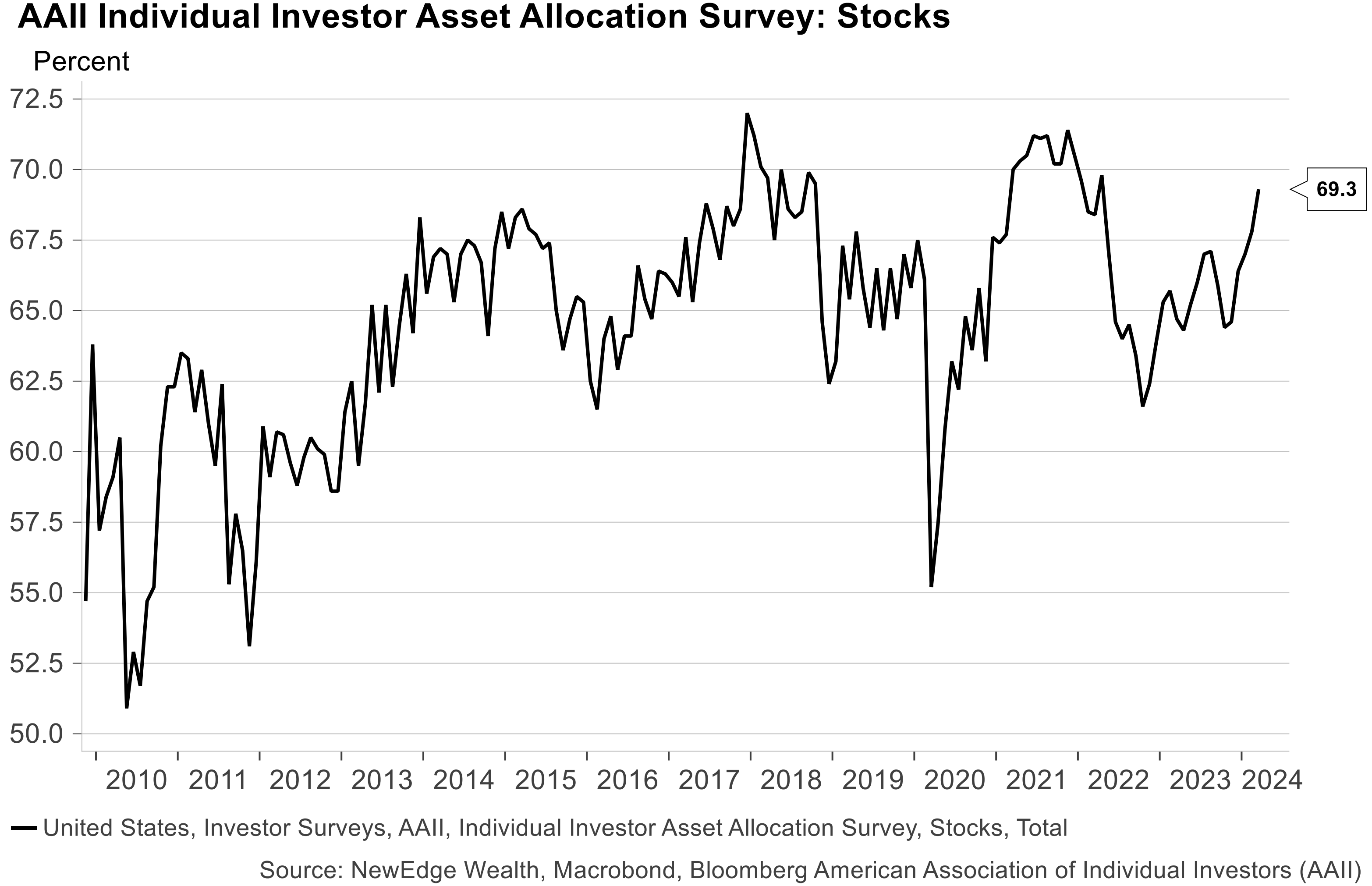


*Weights based on explanatory power in regression of equity performance on indicators

Source : Deutsche Bank Asset Allocation As of 3/14/24

Similar to individual investors, institutional investor positioning went from being underweight to start 2023 to overweight today. This positioning is not yet at extremes; however, the degree of length does suggest a higher bar for upside surprises and incremental investment. As positioning becomes increasingly one-sided, it becomes an increasing risk for equities.

Sentiment: Household Equity Allocations Not Back to Prior Highs, but Close



Despite much-improved sentiment, we have not seen individual investors return equity allocations back up to their 2021 peaks yet, but they are getting close.

Arguably, there is some room left for investors to increase equity exposure back to prior peaks, but note this typically is a contrarian signal: highest exposure at the peaks, lowest exposure at the troughs.

Data as of: April 2, 2024

Animal Spirits Revived, Helped by Liquidity

IPO ETF Absolute (Top) and Relative to the S&P 500 (Bottom)

Source: NewEdge Wealth, Bloomberg

One sign of risk appetite, or "animal spirits", is the performance of recently IPO (initial public offering) companies.

This is boosted by the supportive liquidity environment.

These companies tend to be riskier and more speculative.

After a bruising 2021 and 2022, IPOs began to see improved performance in 2023 and 2024.

Better IPO performance gives private equity firms greater confidence to bring companies to public markets for listing.

Credit Spreads Return to 2021 Range on Growth Optimism

Despite a large increase in supply (issuance of corporate bonds), spreads of Investment Grade (IG) an High Yield (HY) bonds have fallen YTD to tight levels not seen since 2021's ultra-tight, ultra-risk on market.

Eventually this will be a sign of complacency, where investors are not getting properly compensated for the credit risk to which they are exposed. However, spreads can remain at tight levels for some time, likely until there is a growth scare that causes investors to reassess corporate profitability.

The Signal from Yields

U.S. 10 Year Treasury Yield

Source: NewEdge Wealth, Bloomberg

10 Year Treasury yields broke through resistance on recent elevated inflation data.

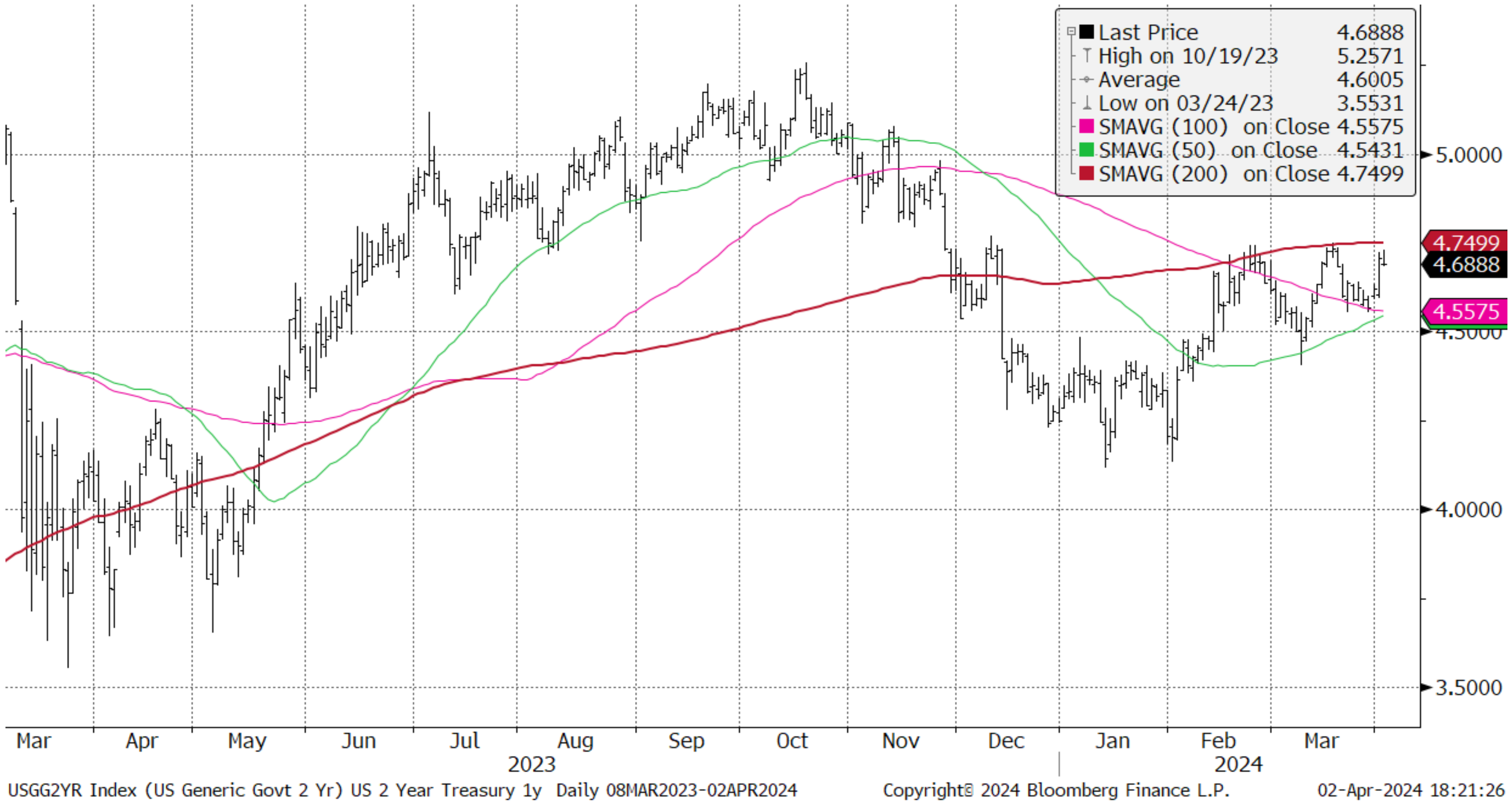
~4.20% likely needs to hold on the 10 year, while 4.30% is resistance.

A break above that range likely is reflective of strong data, a higher for longer Fed, and possibly increased Treasury issuance.

A break below that range could be reflective of rising growth fears and increased expectations for Fed easing.

The Signal from Yields

U.S. 2 Year Treasury Yield



Source: NewEdge Wealth, Bloomberg

2s are in a different spot, still below their 200 day and failing twice to break above this resistance.

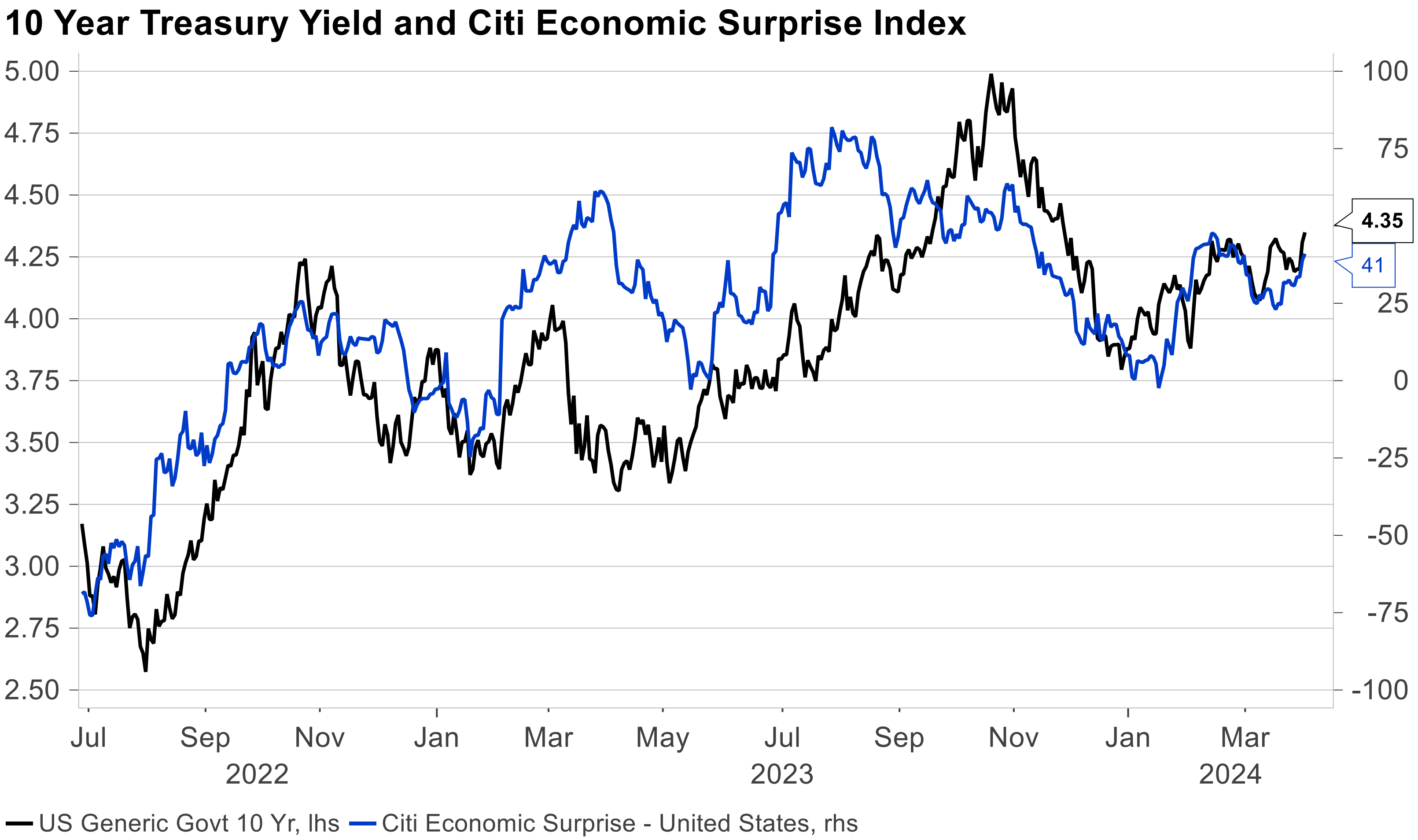
It could take a few tries (like it did for the 10 year), but a break above ~4.75% would be a signal of higher-for-longer policy and hot growth/inflation data.

A break below 4.50% would reflect expectations of an easier/more dovish Fed, and possibly weaker growth.

NewEdge WEALTH

Data as of: April 2, 2024

Watch the Relationship of Economic Surprises and Yields



Source: NewEdge Wealth, Macrobond, Bloomberg

Yields have been tied to economic surprises (an index that measures how economic data is coming in relative to forecasts).

Better data than expected has led to higher yields. Worse data than expected has led to lower yields (roughly).

Data as of: April 2, 2024

Deep Dives

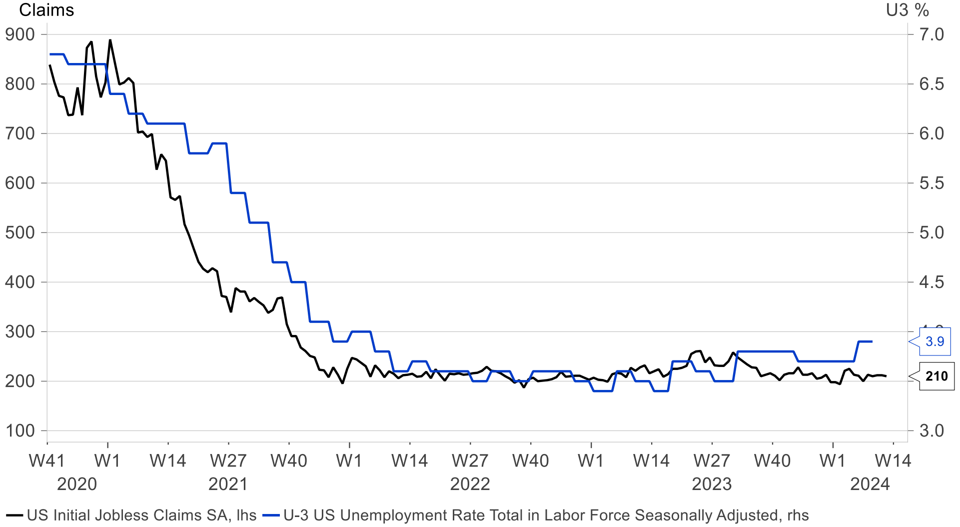
U.S. Economic Outlook

U.S. Economic Outlook

Key Points

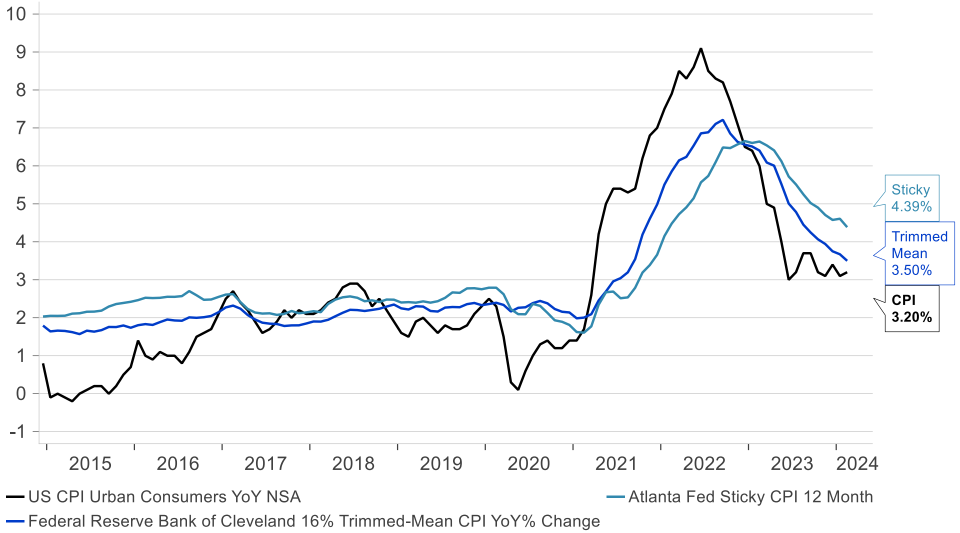
- **Recession?:** We continue to not expect a recession in 1H24 and will continue to monitor data to gauge risk of weakness building into 2H24, or, more likely, 2025; Bloomberg recession probability in next 12 months has now fallen to 35%
- **Growth:** Now that 2024 GDP growth forecasts have been revised higher to start the year (from 1.2% to 2.2% today), we see forecasts as better calibrated. We are monitoring closely what could drive forecasts lower, but do not expect estimate cuts in the near term.
- **Inflation:** 2024 started with signs of sticky inflation, with a slowdown in the progress of disinflation. Watch oil prices and wages.
- **Labor:** As the U.S. economy averts a recession, we expect the labor market to remain tight, though we are monitoring closely for signs of "fraying"/slowing in secondary labor data as a warning sign of potential softness to come
- **Consumer:** With a still-tight labor market, continued healthy wage growth, and moderating inflation, we can expect consumer spending to remain resilient in 1H24 thanks to positive real wage growth; consumer balance sheets in aggregate are healthy, but signs of rising defaults should be monitored closely
- **Manufacturing:** After over a year in contraction, the ISM PMI has finally returned to expansion, showing signs of a cyclical economic recovery.

US Initial Jobless Claims and Unemployment Rate



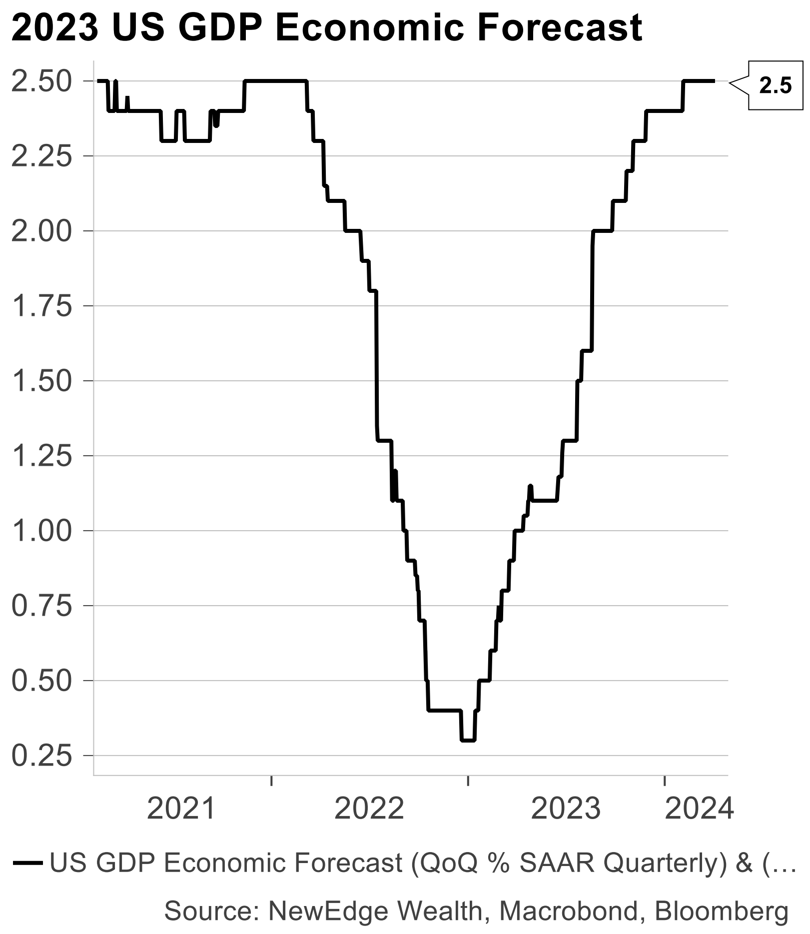
Inflation Moderated, But Watch Sticky/Broad Inflation Measures

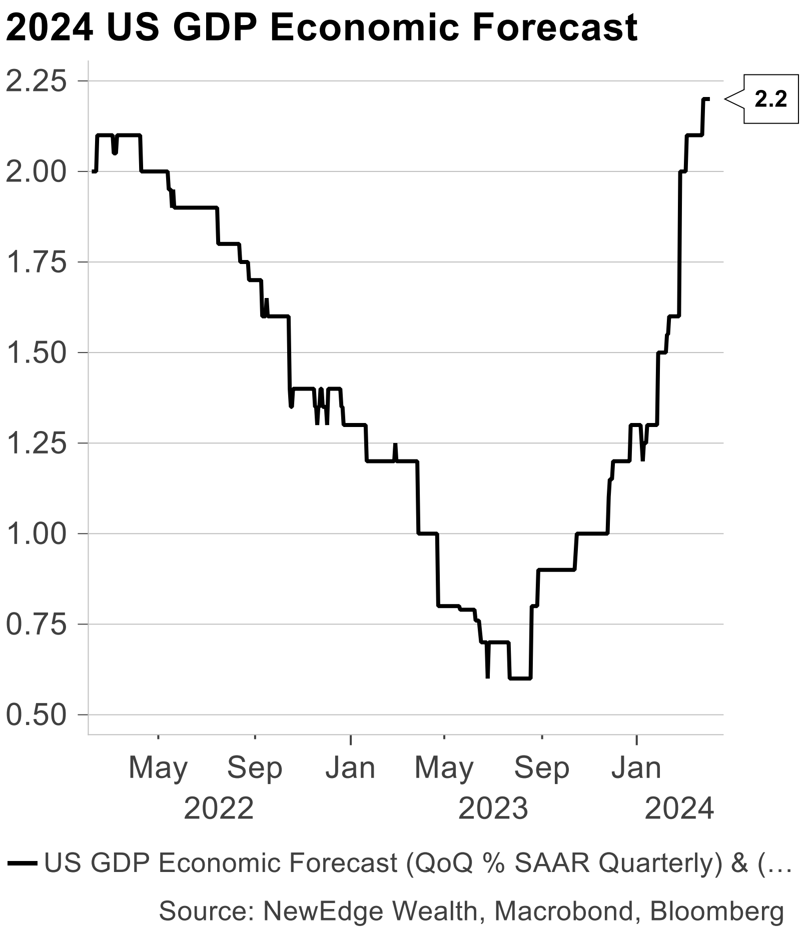
Headline CPI YoY%,Trimmed-Mean CPI YoY%, and Atlanta Fed Sticky CPI YoY%



Source: NewEdge Wealth, Macrobond, Bloomberg

Growth Forecasts Rising Have Been Key for Risk Asset Strength





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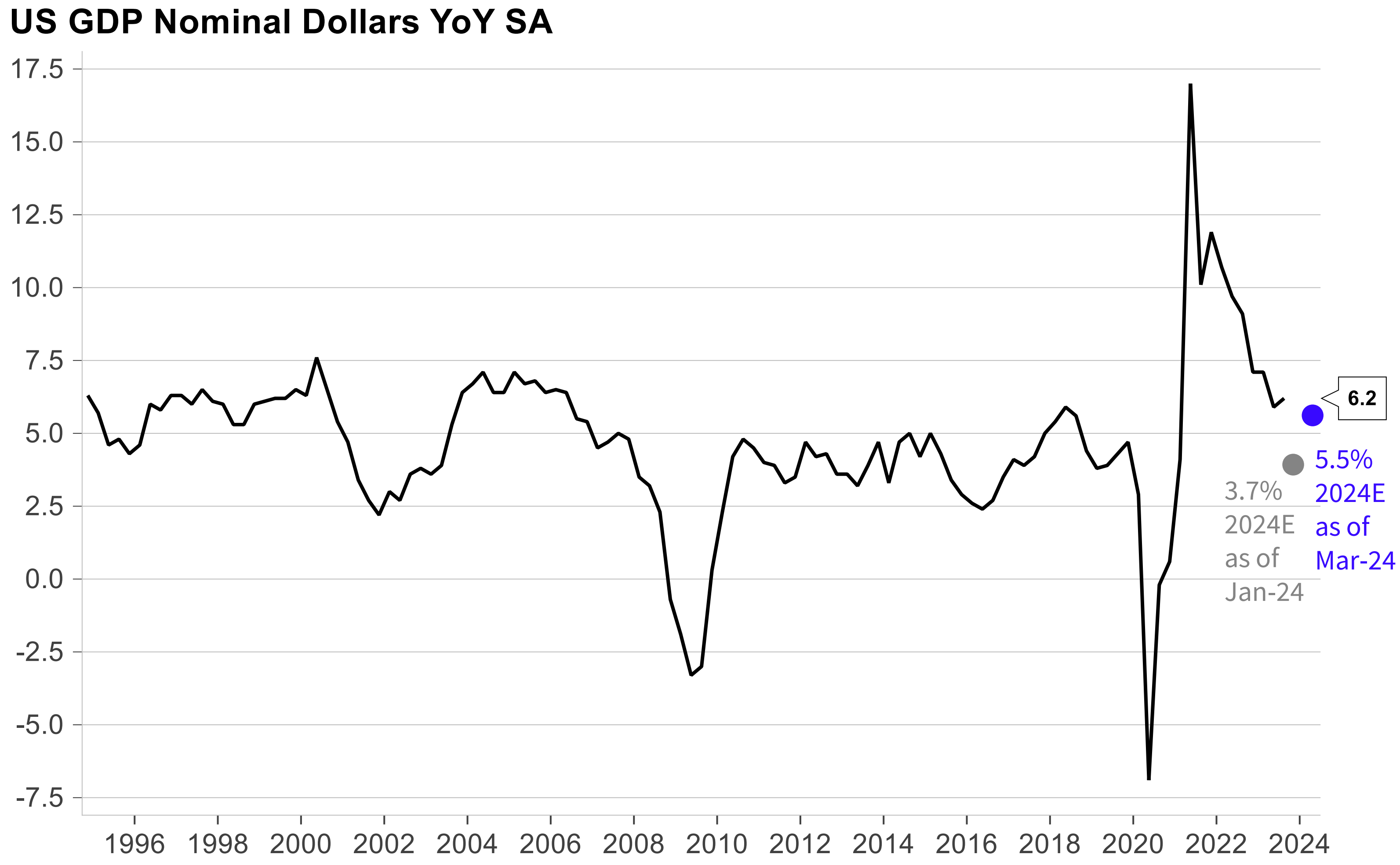
Growth forecasts are a key watch item, because if they turn lower, it would likely be a negative for risk assets. In the near term, growth looks supported by a strong labor market and stimulus.

Data as of: April 2, 2024

Nominal GDP Expected to Slow in 2024



Source: NewEdge Wealth, Macrobond, Bloomberg

With slowing real GDP growth and inflation, the Street is expecting a slowdown in nominal GDP growth in 2024 to 5.5% from 6.2% in 2023.

Notably this forecast has been revised higher from 3.7% to start the year as both growth and inflation forecasts have been pushed higher.

Still, this nominal GDP slowdown is also notable in the context of S&P 500 consensus EPS forecasts that bake in a revenue growth acceleration in 2024 and 2025.

The Path Forward for the Fed

Number of 25 bps Cuts Expected by December 2024

Source: NewEdge Wealth, Macrobond, Bloomberg

Daily National Average Gasoline Prices Regular Unleaded

Source: NewEdge Wealth, Macrobond, Bloomberg

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We still see the possibility that this pricing of Fed policy cuts is too aggressive *if* economic data is resilient or if inflation data is more persistent.

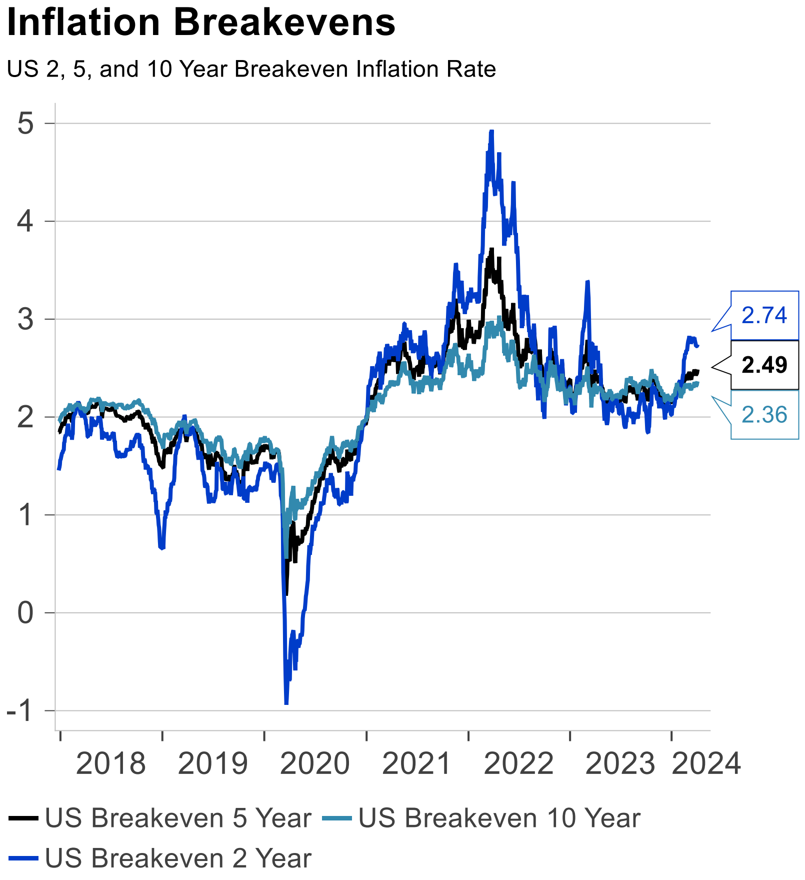
On inflation, we are watching gas prices closely, as falling gas prices since the summer were an important driver of the Fed's "immaculate disinflation". Gas prices have jumped higher and could be a wrinkle in expectations for continued headline CPI moderation.

NewEdge WEALTH

Data as of: April 2, 2024

Is an Easier Fed a Green Light for Inflation to Rebound?

Source: NewEdge Wealth, Macrobond, Bloomberg



Source: NewEdge Wealth, Macrobond, Bloomberg

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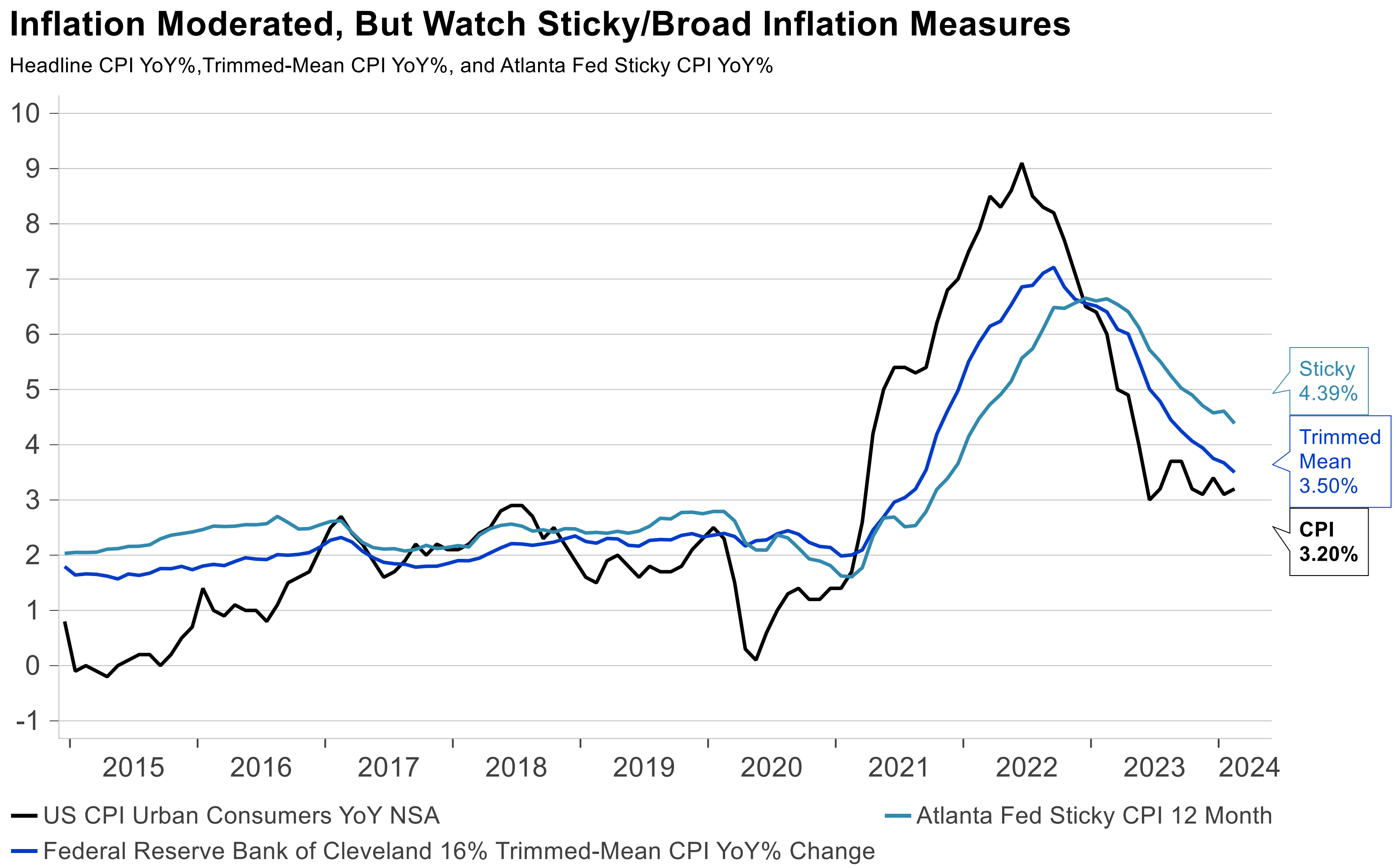
The Fed signaled a willingness to tolerate inflation above its 2% target.

Gold is taking this bullishly as real yields fall (nominal yields fall and inflation expectations rise).

Data as of: April 2, 2024

Inflation Moderating but Not Vanquished



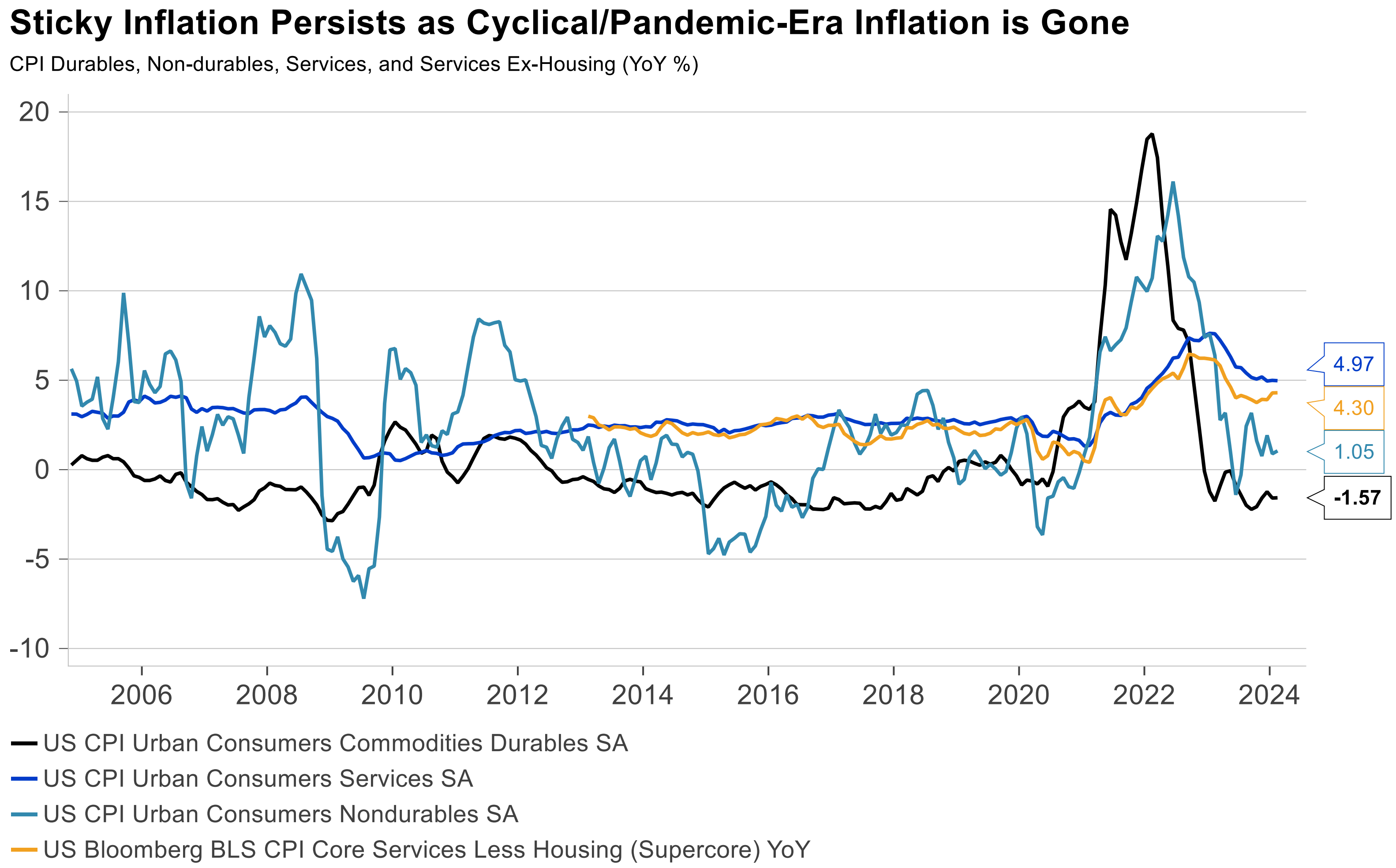
Source: NewEdge Wealth, Macrobond, Bloomberg

Much progress has been made on inflation in the last 18 months, as Headline CPI fell from 9% in the summer of 2022 to 3.2% in the latest February reading.

A significant portion of this decline was driven by falling oil and durable goods prices (detailed next).

A watch item for the Fed to claim "victory" over inflation is the return alternative CPI measures (like Trimmed Mean and Sticky CPI) back closer to pre-pandemic ranges, as they remain elevated today.

Inflation: Breaking it Down Between Goods and Services



Source: NewEdge Wealth, Macrobond, Bloomberg

The pandemic-era surge in durable goods prices ended 2 years ago: durable goods have been in disinflation for 2 year and outright deflation for 1 year.

Non-durable goods prices are highly correlated to oil prices and have benefitted from oil's plunge over the last 18 months.

Services inflation remains elevated at 4.95%, with a large portion due to lagging housing-related statistics.

Even ex-housing, though, services inflation (called SuperCore) of 4.3% remains above pre-pandemic ranges and has recently accelerated.

Labor: Softness in Quits and Temporary a Warning Sign?

Quits Rate Back to Pre-Pandemic Peak

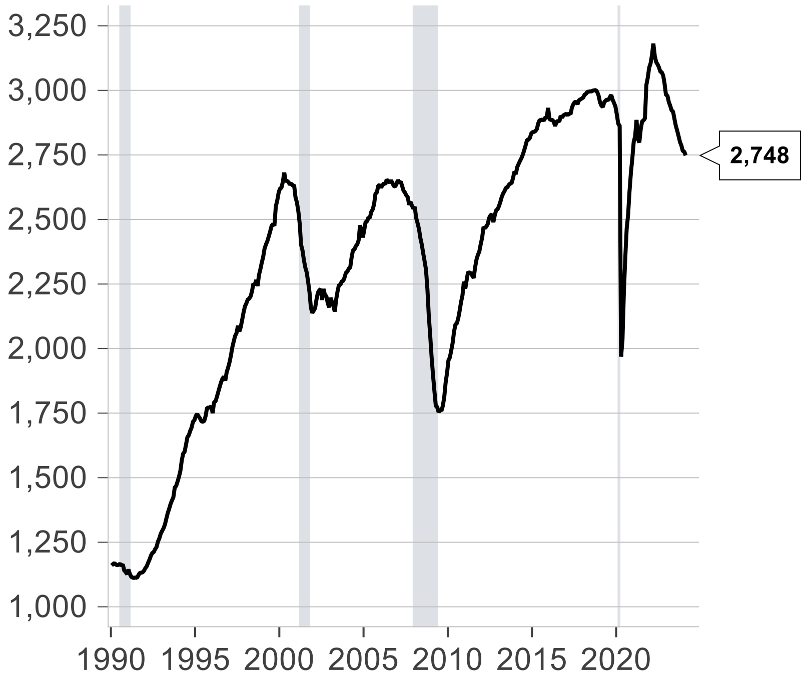
US Quits Rate SA

— US Quits Rate SA

Source: NewEdge Wealth, Macrobond, Bloomberg

Temporary Labor Rolling Over Similar to Prior Pre-Recssion Periods

US Employees on Nonfarm Payrolls Temporary Help Services SA



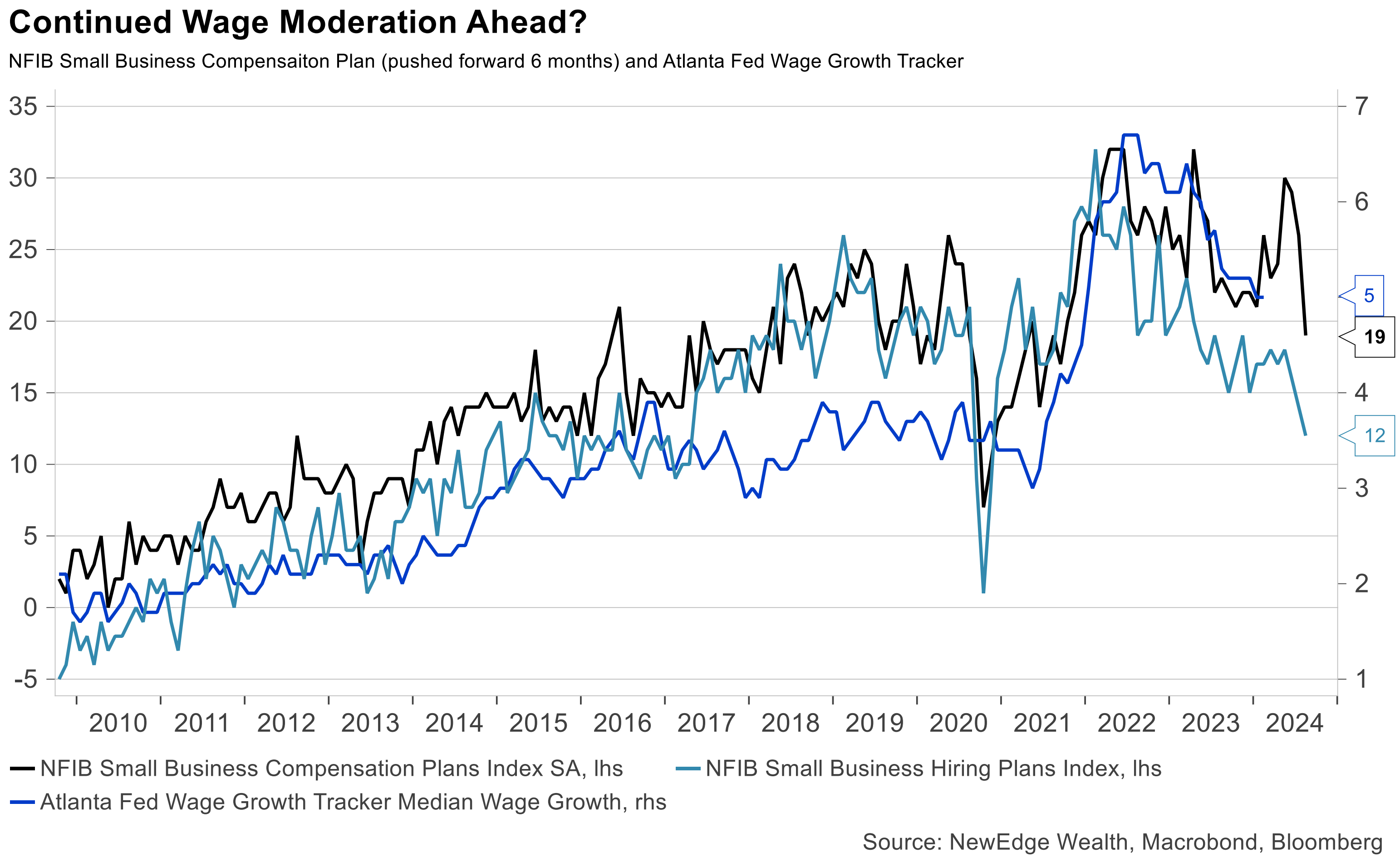
— US Employees on Nonfarm Payrolls Temporary Help Servi…

Source: NewEdge Wealth, Macrobond, Bloomberg

The Quits rate fell precipitously in 2023, signaling workers' fading confidence that they could easily find another/better job.

Temporary labor has also rolled over, signaling businesses are looking for ways to cut back on labor expense. This measure could just be normalizing from the pandemic surge, but now that it is below 2019 levels, watchers should be vigilant that this could be an early warning sign of labor demand softening.

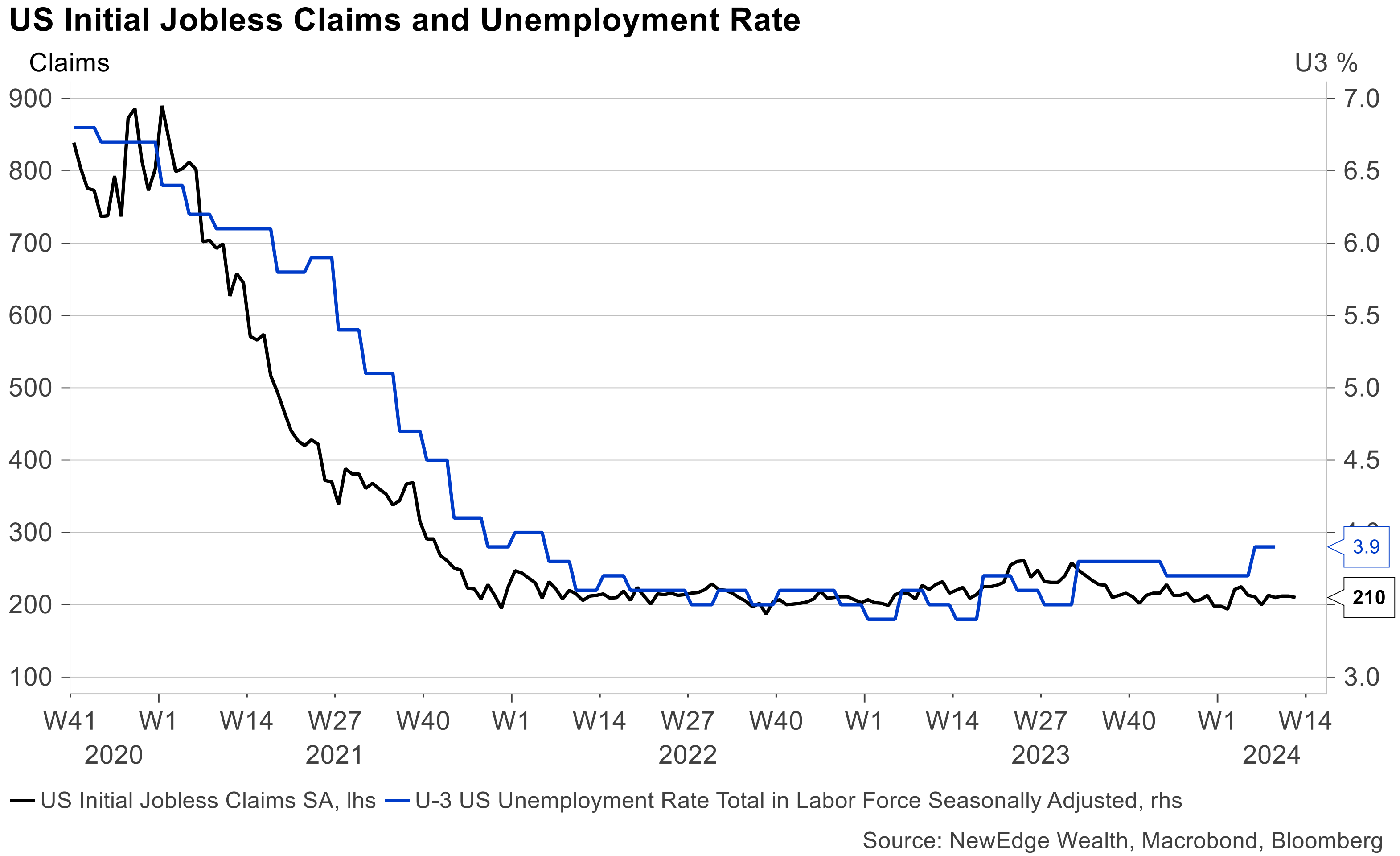
Inflation: Wages Look to Be Moderating, Good News for Services?



Surveys signal continued wage moderation ahead, which is good news for Services inflation, but possibly bad news for consumer sentiment and spending power (watch Real Wage Growth as the most important driver).

Some of this wage moderation has come from an increase in labor supply (a big surge in immigration last year), which is also showing up in productivity data as well.

Labor: Little Stress Seen in Major Labor Data

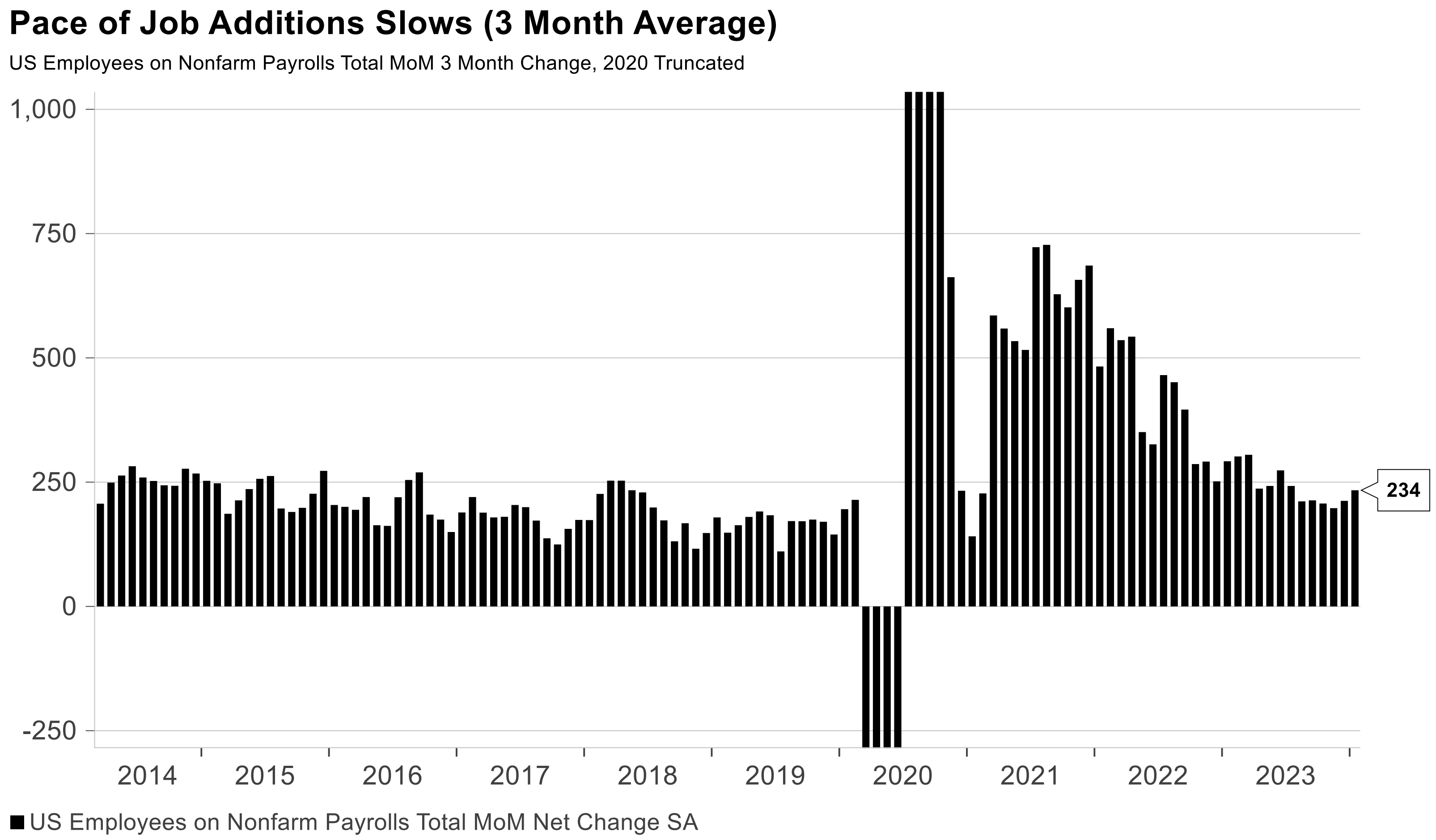


Initial jobless claims remain subdued and near multi-year lows, while the unemployment rate has hovered just above a 50-year low.

The 2023 rise in unemployment was not driven by a deterioration in labor demand, but instead a jump in labor supply (workers rejoining the labor force and new entrants from a wave of immigration). This allowed for the immaculate wage disinflation, as wage growth was able to slow *without* the Fed-feared job losses/pain.

Data as of: April 2, 2024

Labor: Job Additions are Slowing, but Still Healthy



Source: NewEdge Wealth, Macrobond, Bloomberg

Job additions are slowing in the U.S. but are still healthy within the pre-pandemic range.

A dip below 100k would likely garner attention from the market (hoping weaker data would result in an easier Fed), but likely would not be enough to cause the Fed to meaningfully change its policy outline.

We will be fascinated to see how the market interprets a negative nonfarm payrolls print, with the consensus assumption being this would be good for equities due to an easier Fed policy path. However, we think this could be a negative surprise, as it would imply a weaker EPS forecast than what is currently priced in to markets.

Labor: Softness in Quits and Temporary Workers a Warning Sign?

Quits Rate Back to Pre-Pandemic Peak

US Quits Rate SA

Source: NewEdge Wealth, Macrobond, Bloomberg

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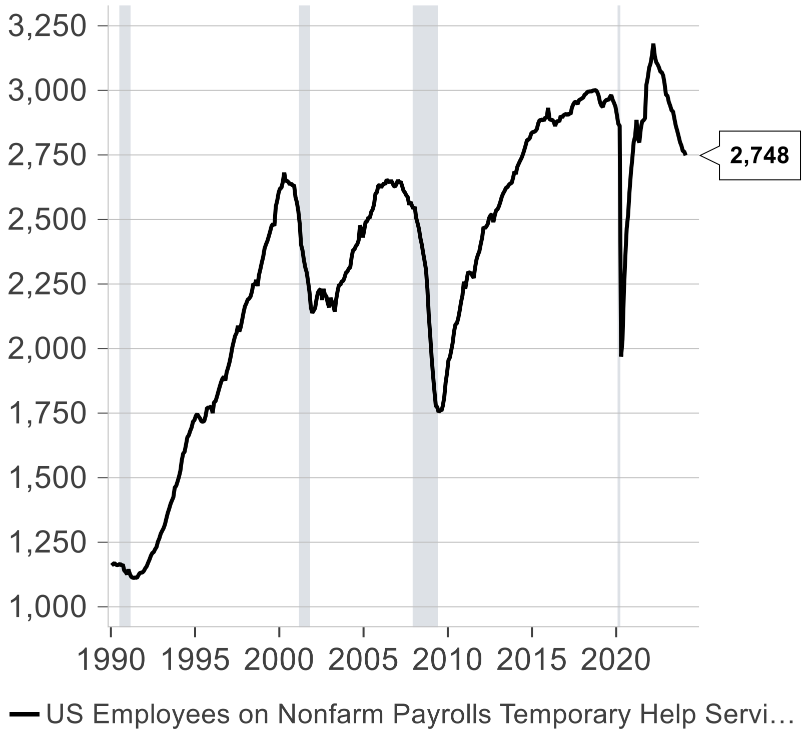

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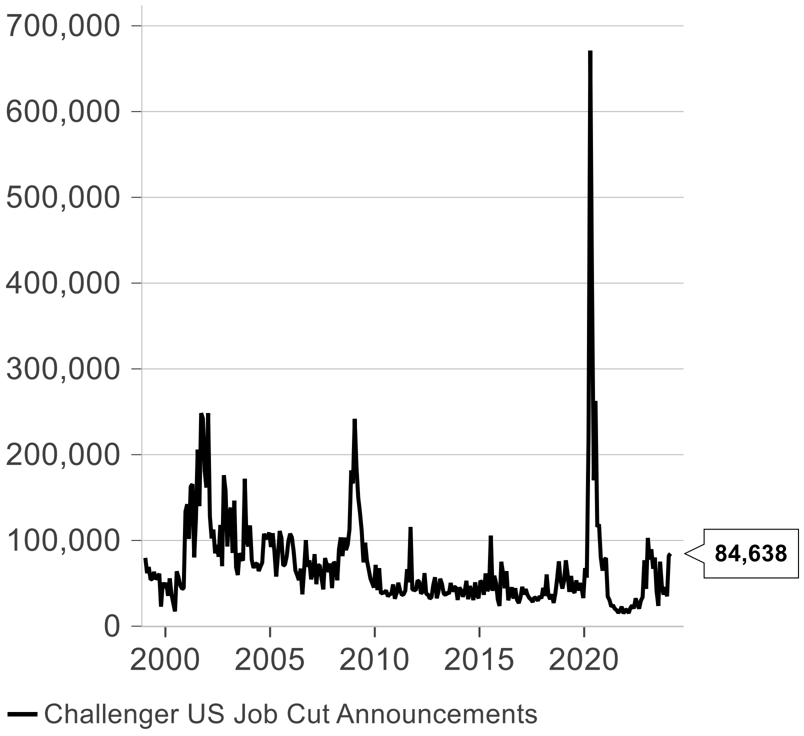
Data as of: April 2, 2024

Labor: Job Cuts Subdued, but Weekly Hours Getting Trimmed

Job Cut Announcements Remain Subdued

Challenger US Job Cut Announcements



Source: NewEdge Wealth, Macrobond, Bloomberg

Weekly Hours Getting Trimmed

US Average Weekly Hours All Employees Total Private SA

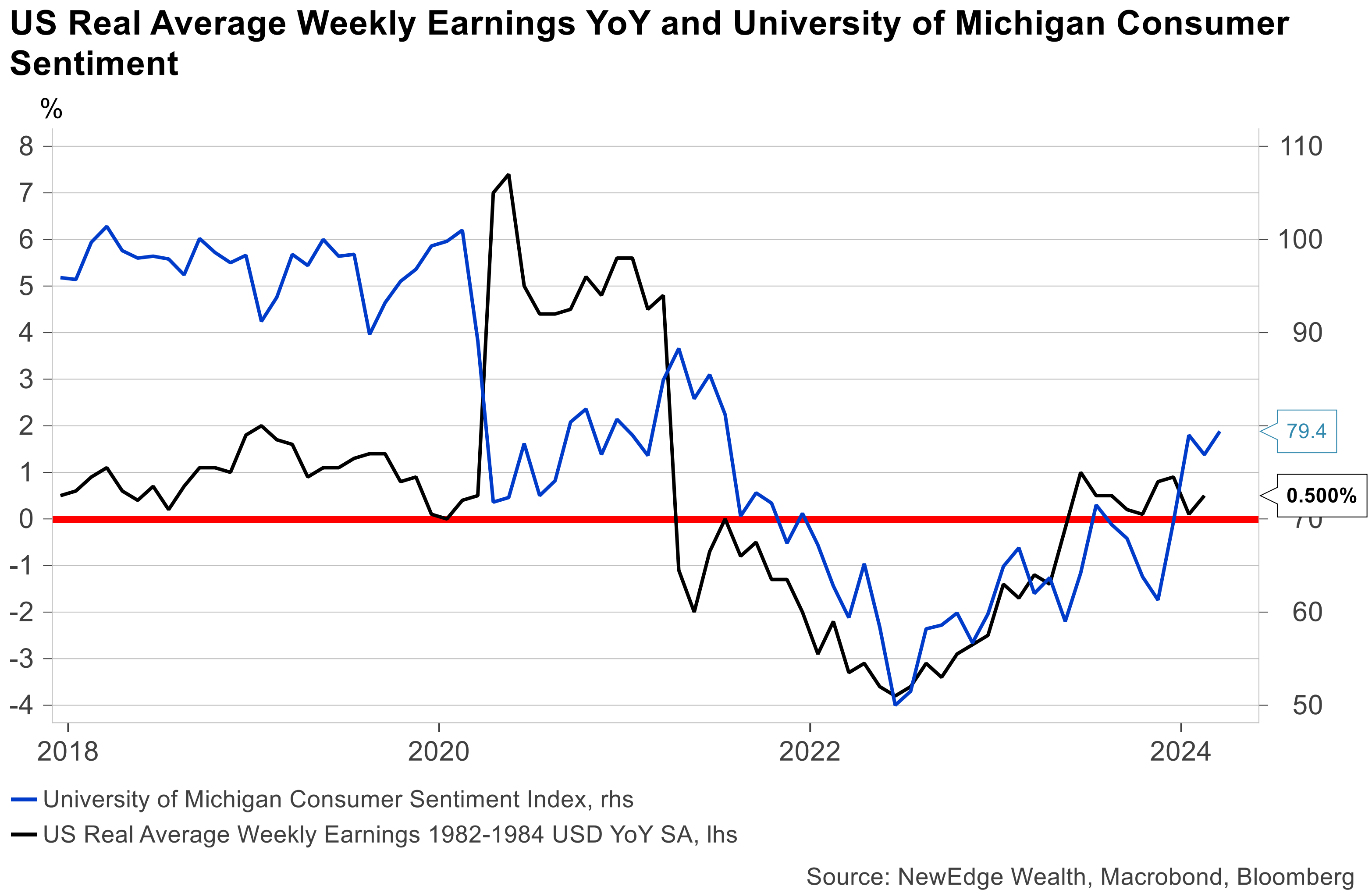
Source: NewEdge Wealth, Macrobond, Bloomberg

In 2023, weekly hours fell to 2016/2017 levels, suggesting employers are making efforts to reduce labor expense without initiating layoffs.

Layoff trackers, like the Challenger Job Cut Announcements, remain tolerable but are up from recent lows.

Data as of: April 2, 2024

Consumer: Real Wage Growth Now Positive is a Tailwind



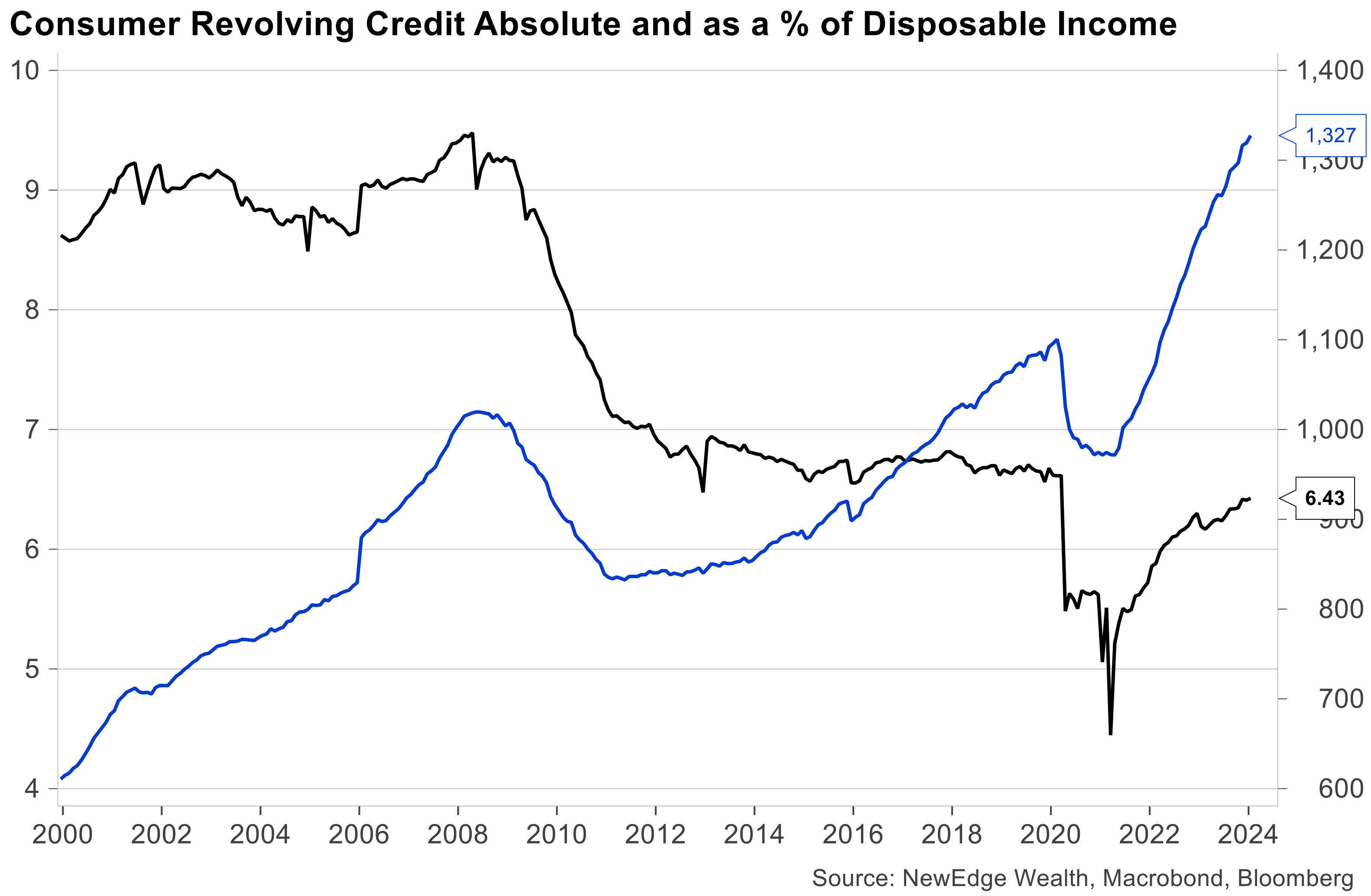
Falling inflation, mainly due to falling gasoline prices, has pushed real wage growth back into positive territory.

This has boosted consumer sentiment, as consumers regain purchasing power after 2 years of pricing rising faster than wages.

Wage growth slowing or inflation jumping higher could disrupt this trend, but for now this is supportive of continued consumer spending.

Data as of: April 2, 2024

Consumer: Absolute Debt is High, but Not Stretched Compared to Incomes

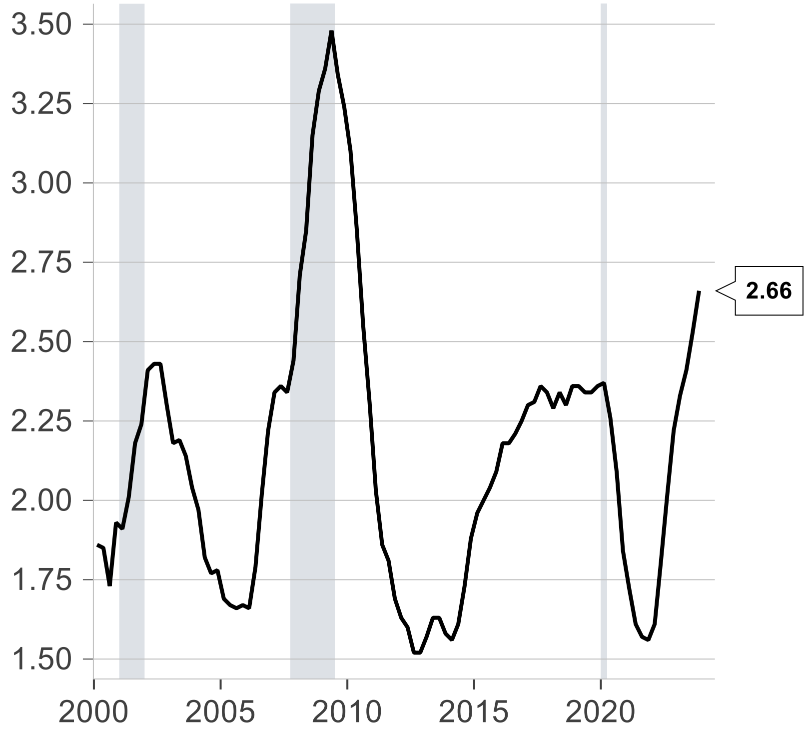


Revolving credit balances (credit card debt) have surged to new all-time highs post pandemic, but thanks to strong disposable income growth, these balances are not stretched vs. income levels.

If/when incomes are challenged in a period of job losses/recession, these large credit card balances could become a greater concern.

Consumer: Watching Delinquencies

US NY Fed Equifax Transition Serious Delinquency 90+ for Auto Loans by Age All



Source: NewEdge Wealth, Macrobond, Bloomberg

US Credit Card Delinquencies 30+ Days Composite

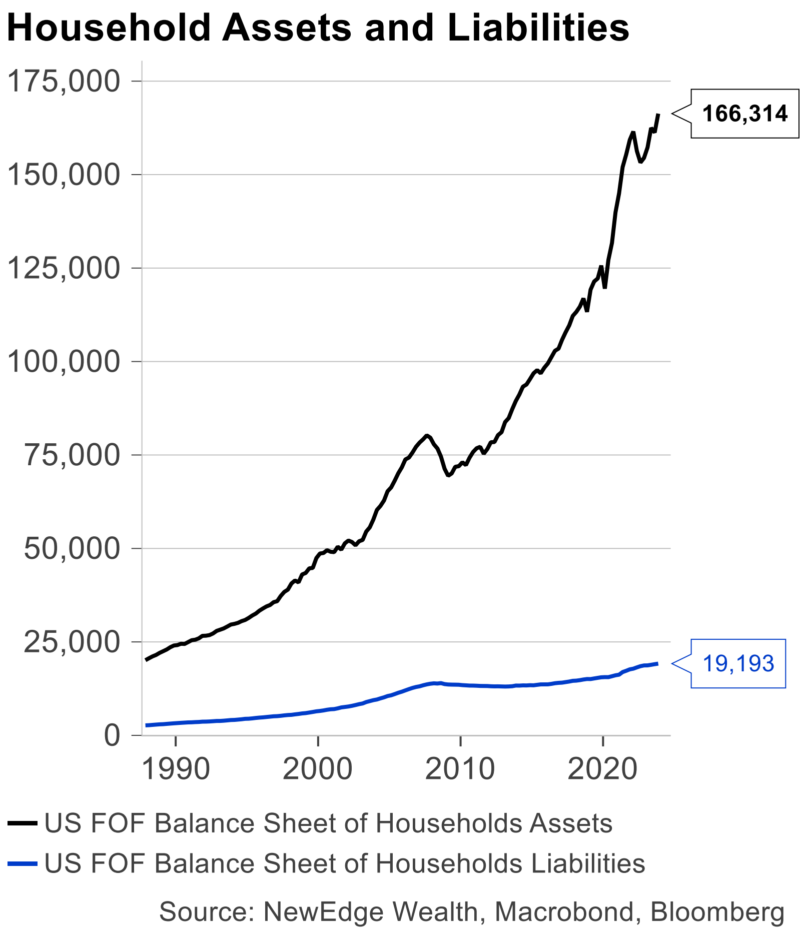
Source: NewEdge Wealth, Macrobond, Bloomberg

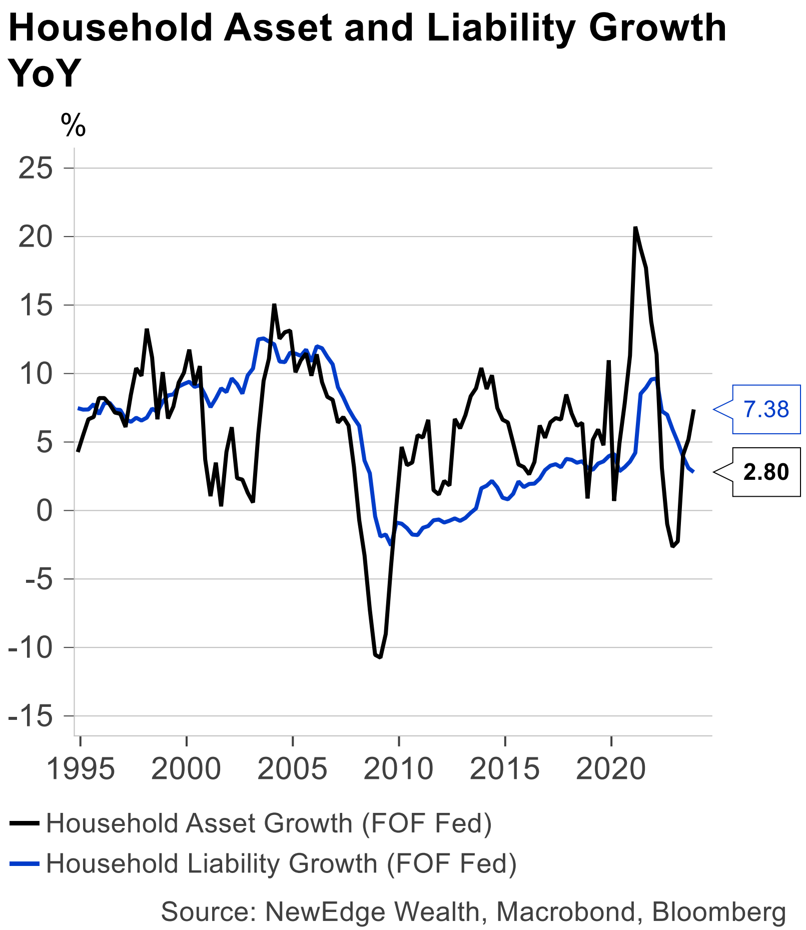
Delinquencies for auto loans and credit cards have been rising, which is notable during a period of strong wage growth and full employment.

Auto loans have been particularly weak given the surge and then fall in car prices that left many consumers with large payments on significantly underwater cars.

Credit card delinquencies have risen but are still below pre-pandemic levels and are well below Great Financial Crisis (GFC) levels.

Consumer: Broad Consumer Balance Sheets OK





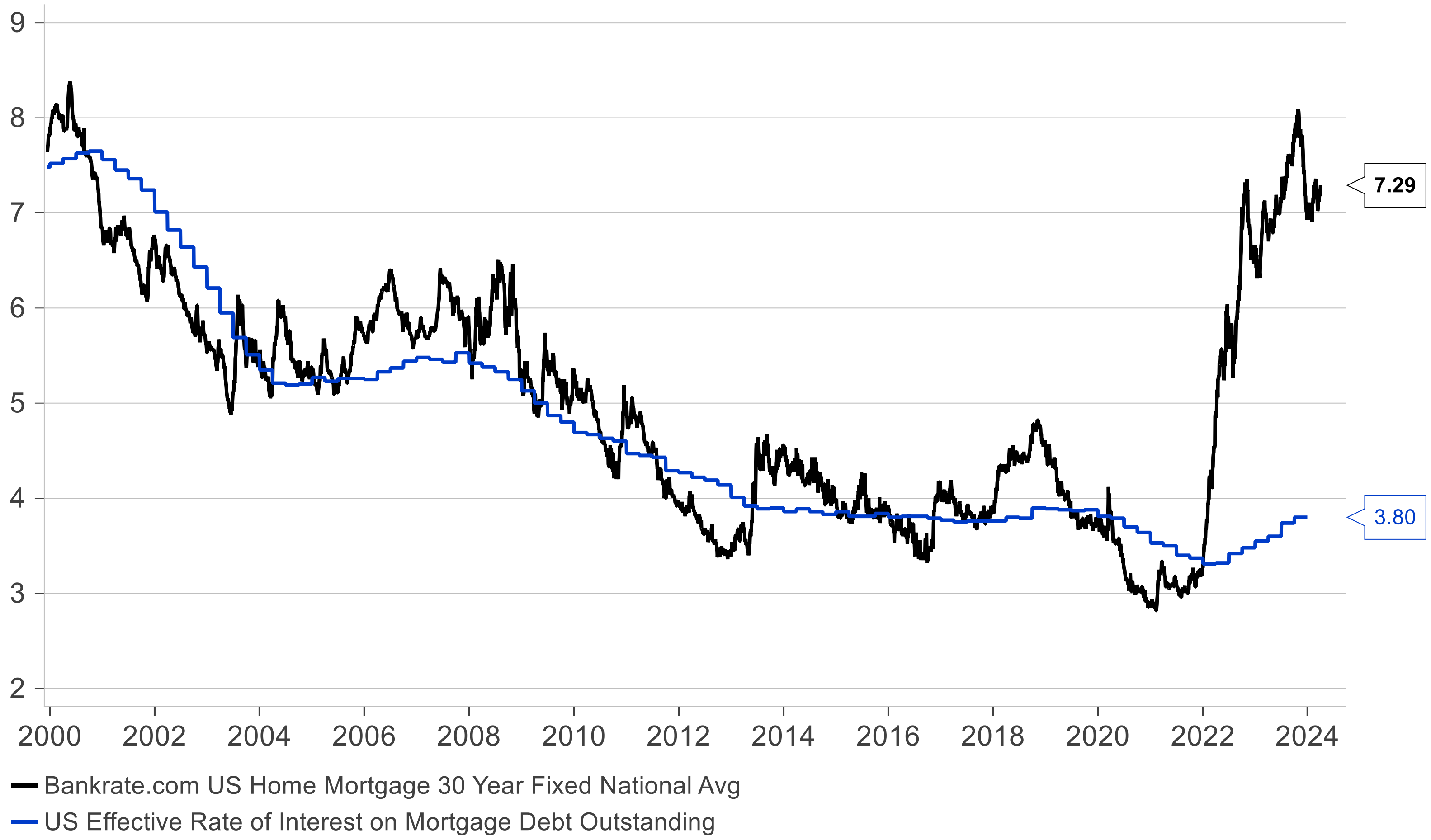
Consumers' assets have been consistently growing faster than liabilities for much of the period post the GFC.

This compares to the lead-up to the GFC, when consumers' liabilities grew faster than assets for multiple years, setting up for the 2008 consumer balance sheet recession.

Recent volatility in asset growth was caused by weaker stock, bond, and housing prices, which have since recovered bringing Household Assets back to new all-time highs.

Consumer/Housing: Low Locked-In Mortgage Rates Create Distortions

Average Rate for New Mortgage and Effective Rate of Existing Mortgages



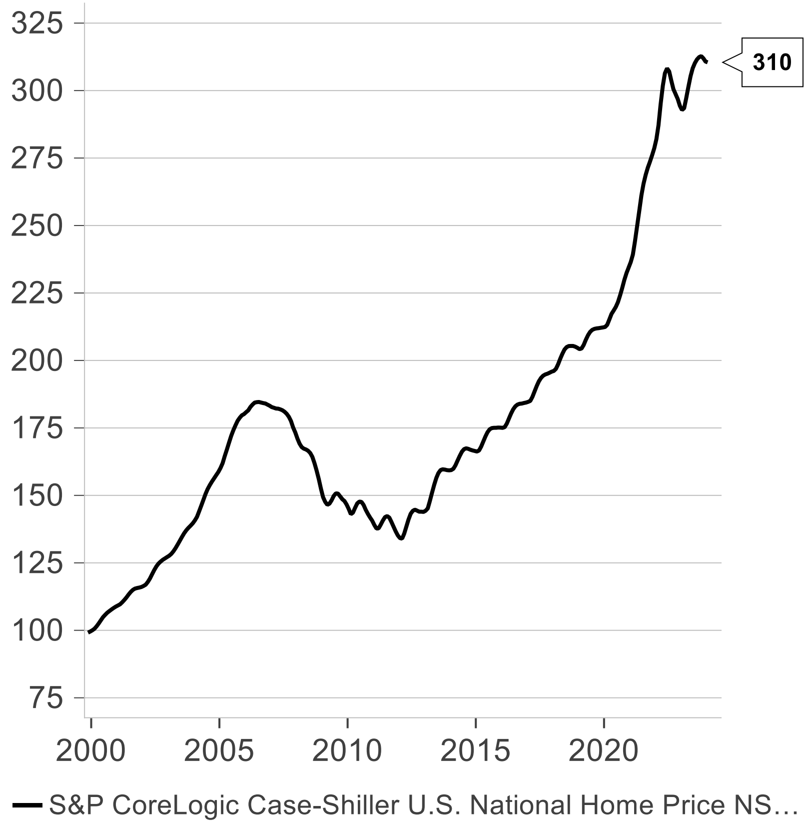
Source: NewEdge Wealth, Macrobond, Bloomberg

The *strangest* cycle of them all has to be U.S. housing, after years of underinvestment and policy distortions have created an imbalanced market.

Housing demand is still robust, but housing supply has been stifled by the good fortune of mortgage borrowers locking in low rates on their existing homes.

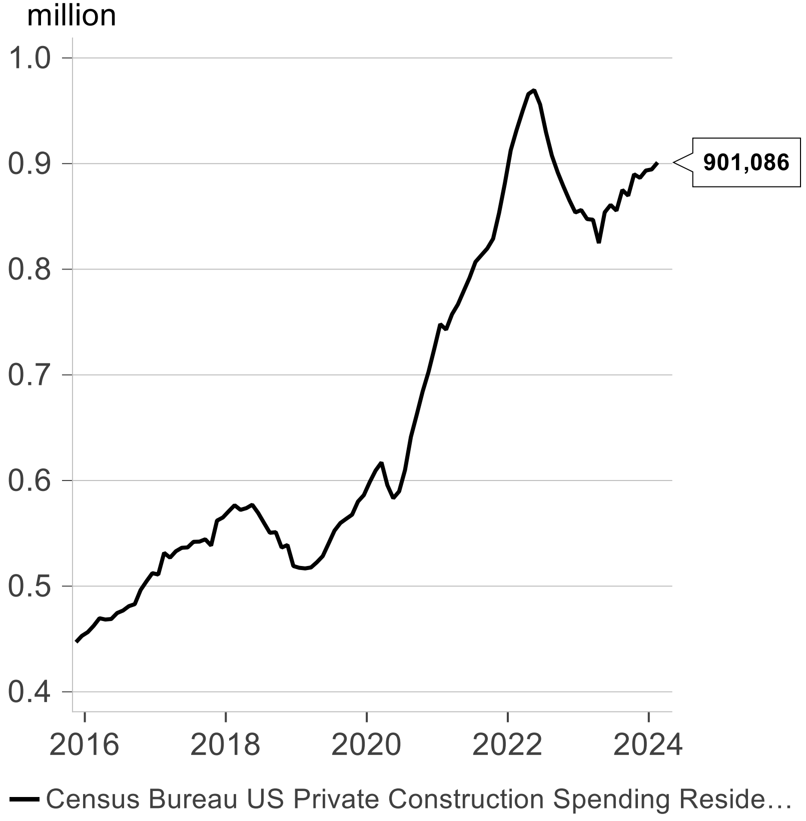
Consumer/Housing: House Prices at New All-Time High, Rebounding Construction

Home Prices Resume Their Ascent



Source: NewEdge Wealth, Macrobond, Bloomberg

Residential Construction Spending



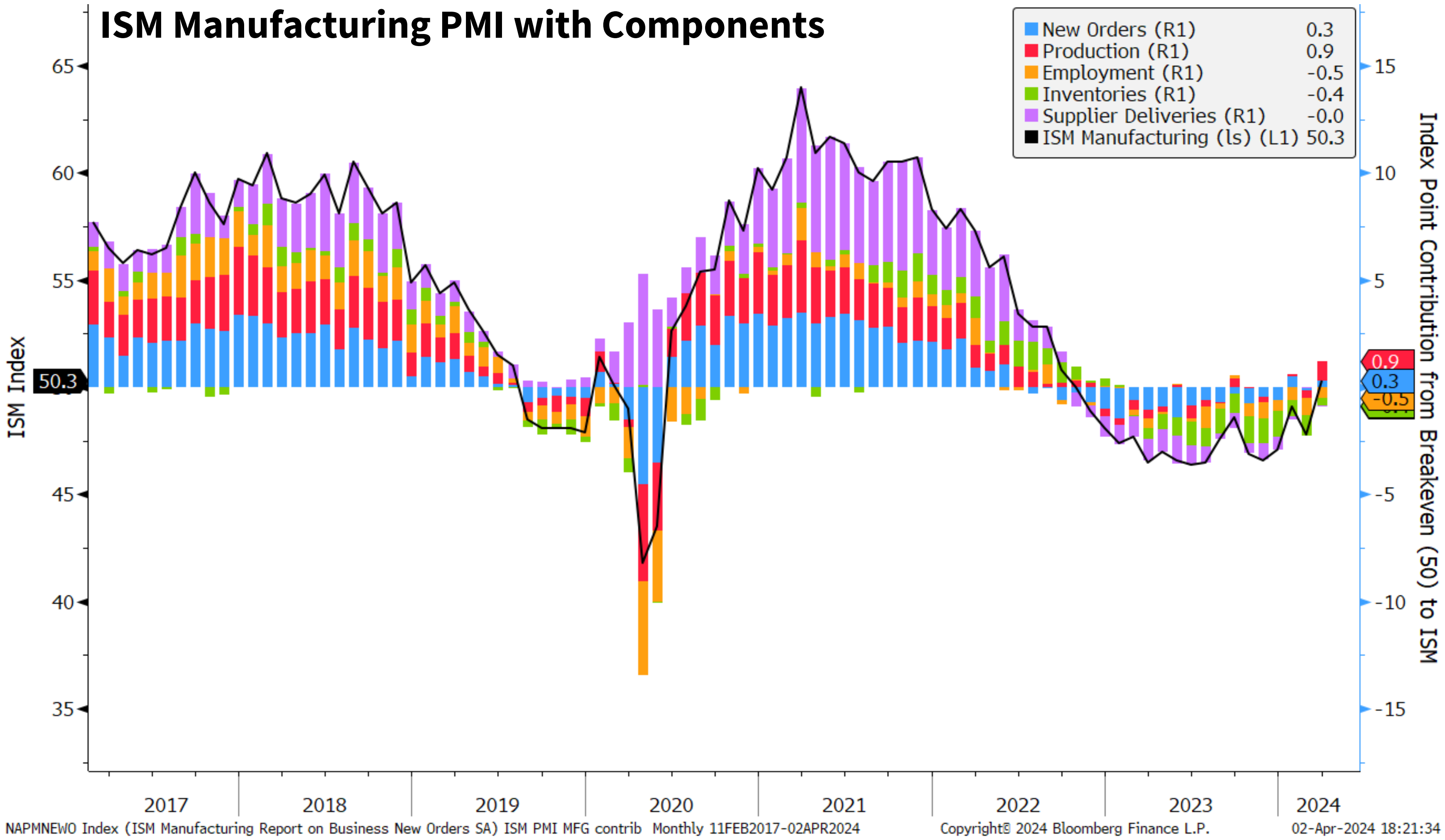
Source: NewEdge Wealth, Macrobond, Bloomberg

After a soft start to 2022, house prices are back to a new all-time high.

Note that house prices do lead housing-related inflation statistics, suggesting that after the disinflation forecasted by 2022's easing, a rebound in housing inflation is possible.

Residential construction is rebounding after a soft 2022/early 2023. This could be an upside driver to 2024 GDP growth.

Manufacturing: Cyclical Recovery Underway



Source: NewEdge Wealth, Bloomberg

For the first time in 18 months, the ISM Manufacturing Purchasing Managers Index is back above 50.

March saw broad based improvement in the measure versus the prior month, with a notable recovery in Production and New Orders, but also a notable jump in Prices Paid to 55.8 (challenging the disinflation narrative?).

We have been anticipating a rebound in manufacturing, driven by an inventory cycle plus large fiscal spend on manufacturing.

We've noted that, in the past 40 years, the Fed has never started cutting rates during a manufacturing recovery.

Manufacturing: Construction Spending and Better EPS Growth

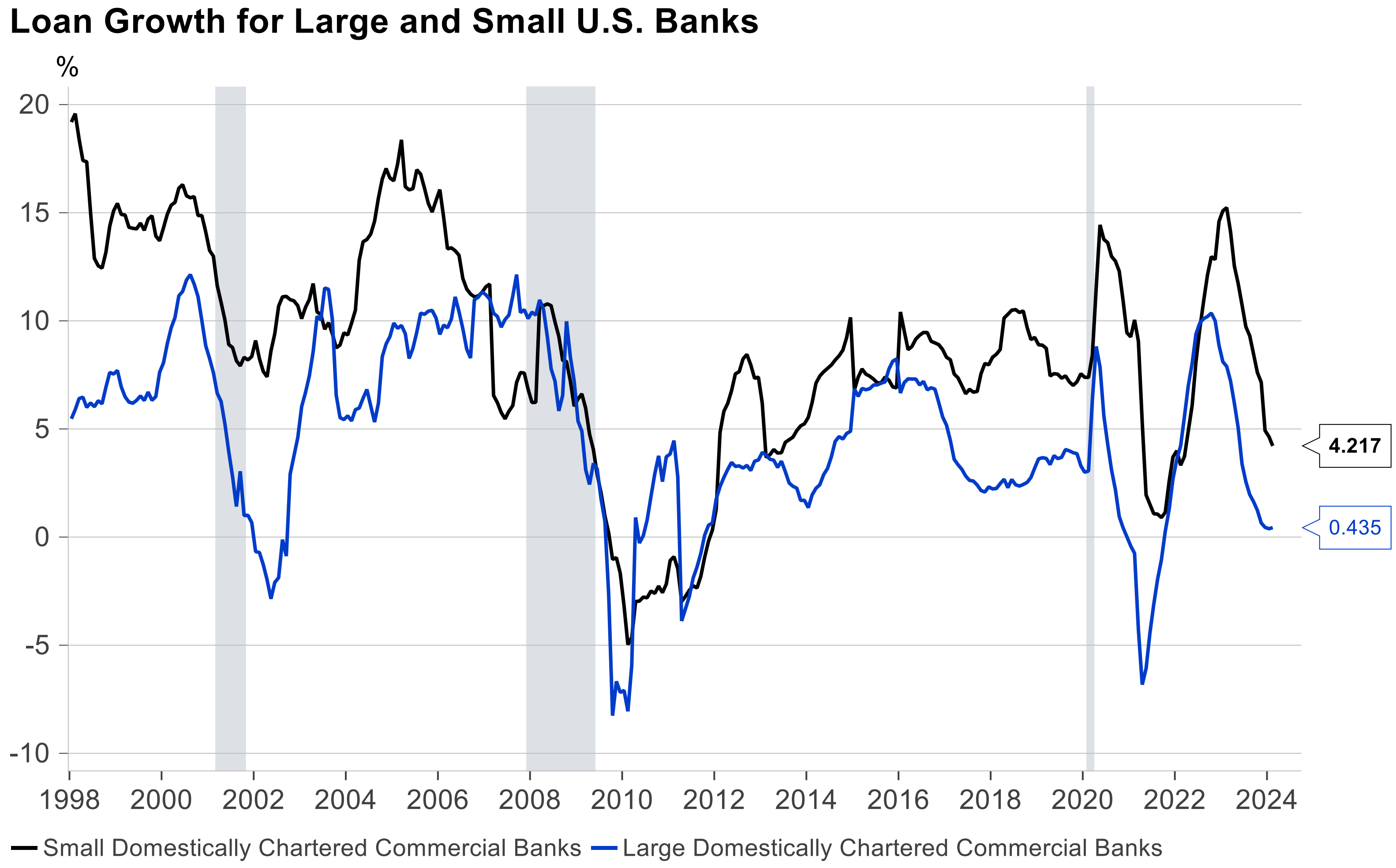
Source: NewEdge Wealth, Macrobond, Bloomberg

Source: NewEdge Wealth, Macrobond, Bloomberg Institute for Supply Management (ISM)

Manufacturing construction spending has surged thanks to fiscal stimulus/CHIPS act. In 2023 this spending did not translate to better manufacturing activity (reflecting how narrow the spending was).

We are now starting to see a rebound in manufacturing activity, with leading components of the ISM rebounding. These leading indictors, like New Orders vs. Inventories have typically led S&P 500 EPS growth as well.

Bank Loans: Loan Growth Still Slowing, Can it Stabilize in 2024?



Source: NewEdge Wealth, Macrobond, Bloomberg Federal Reserve

Post the regional bank issues of 2023, loan growth for both small and large banks has slowed materially.

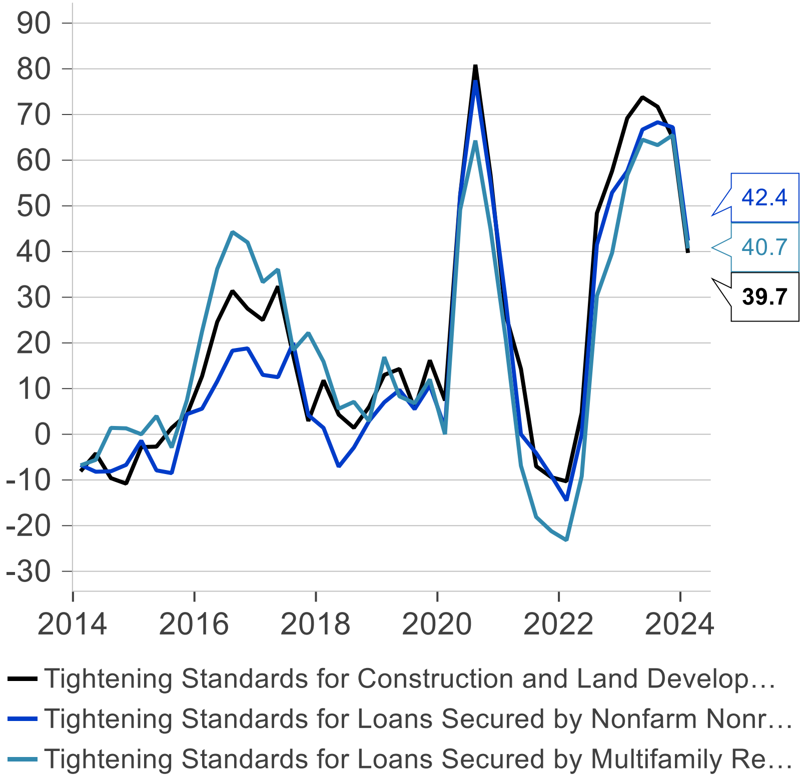
Large bank loan growth slowed from +10% at the start of 2023 to +0.5% at the end of 2023.

Small bank loan growth slowed from +15% at the start of 2023 to +4% to start 2024.

Interestingly, Senior Loan Officer Surveys (SLOOS) have signaled a *easing* in lending standards. Could this easing, plus the benefit lower future interest rate expectations cause loan growth to stabilize in 2024?

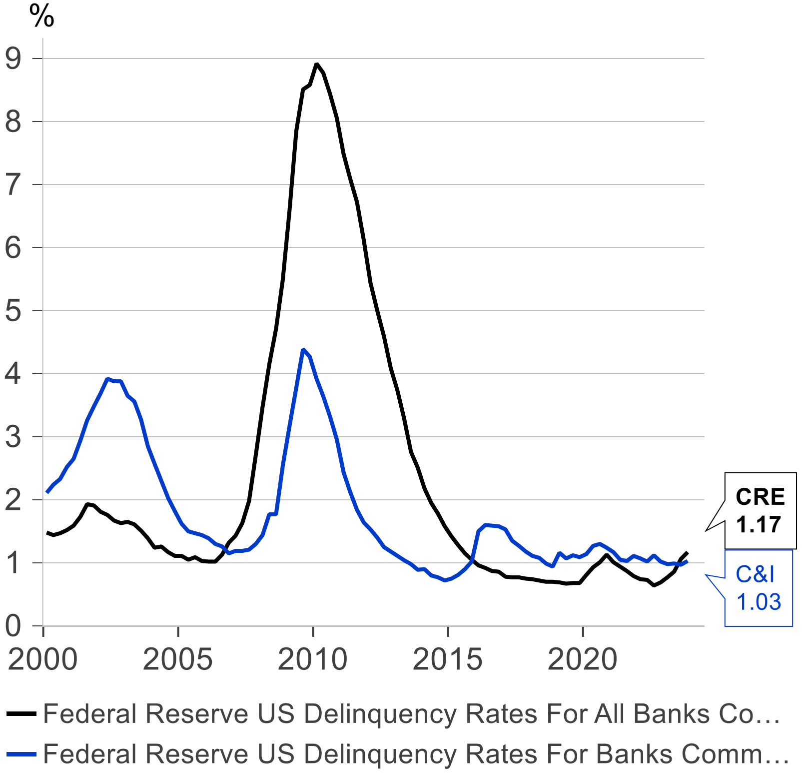
Real Estate: Easing Standards, Delinquency Subdued But Picking UP

Loan Standards for Commerical Real Estate (%)



Source: NewEdge Wealth, Macrobond, Bloomberg

Delinquency Rates for Commercial Real Estate and Commercial & Industrial



Source: NewEdge Wealth, Macrobond, Bloomberg

Even for the much-feared commercial real-estate (CRE) sector, loan standards have eased!

These easing loan standards reflect easier access to capital for businesses and a greater appetite to lend by bank.

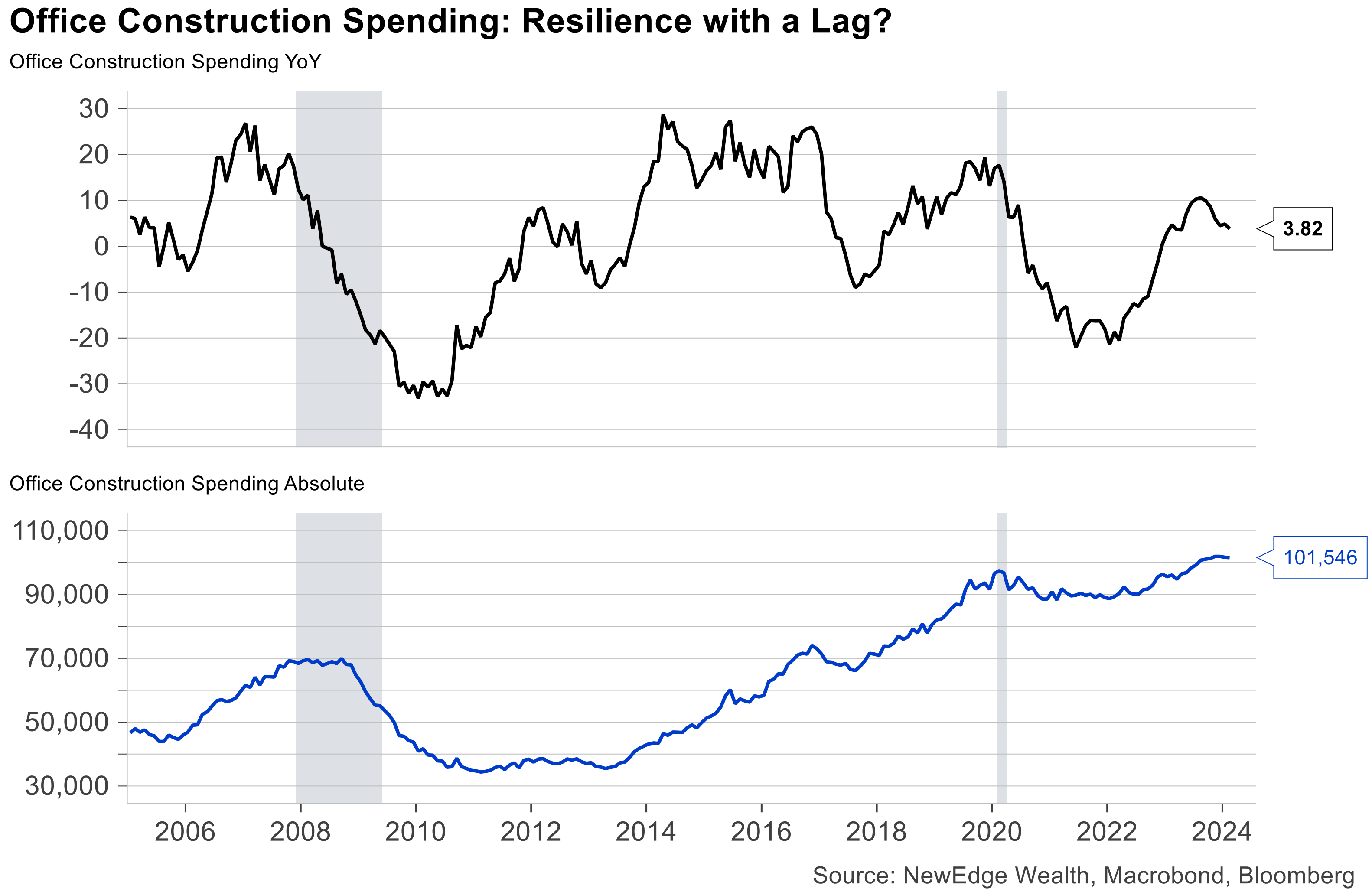
Note there has been a slight uptick in CRE delinquencies, but nowhere near as bad as “CRE Armageddon” headlines would suggest.

Commercial & Industrial loan delinquencies remain contained, reflecting still robust corporate profit fundamentals.

NewEdge WEALTH

Data as of: April 2, 2024

Office Construction Spending Still Near Record Highs!



For all of the angst about office commercial real estate, office construction spending is still near all-time highs and has only just started to see its growth rate slow from +10% YoY in mid-2023 to +5% at the end of 2023.

This data lags significantly, given the long-lead time and cycle of this kind of construction.

This will be interesting to watch in 2024, as it could slow sharply if completed projects are not back-filled with new buildings.

Policy Outlook

2Q24 Monetary Policy Outlook

Key Points

The Fed Wants to Tweak Not Ease if Economy Remains Firm

- We continue to take the "under" on Fed rate cuts for 2024; the year started with 6.5 cuts expected, which is now 2.7; as data remains more resilient, 3 rate cuts may not be delivered (though the Fed has a short fuse on reacting to labor weakness)
- The Fed makes rate decisions May 1 and June 12
- We think that economic data would need to weaken to justify the current bond market pricing of policy
- The Fed will likely change its Quantitative Tightening (balance sheet shrinkage) plans in 2024, citing a rundown in Reverse Repo balances (driven by Bill issuance) and a desire to sustain Reserves above a "desired buffer"; QT plans also interplay with Treasury funding decisions

Key Observations:

- **Financial Conditions are Easy:** Financial conditions are back to their easiest levels since 2021; if sustained, this would be stimulative to nominal economic growth.
- **The Full Impact of Interest Rates Have Not Yet Been Felt:** The long-tail of over a decade of QE (with the fever pitch of ultra-easy policy in response to the pandemic) has resulted in many borrowers not feeling the full impact of higher rates after the great refinancing wave of 2020/2021; the end result is a delayed/dulled real economy impact of tighter Fed policy to growth

Financial Conditions Back to Easy Territory

Bloomberg US Financial Conditions Index

Source: NewEdge Wealth, Macrobond, Bloomberg

Fed Cuts Projected for 2024 (WIRP Fed Funds Futures, -1 cut = -25 bps)

Source: NewEdge Wealth, Macrobond, Bloomberg

2Q24 Fiscal Policy Outlook

Key Points

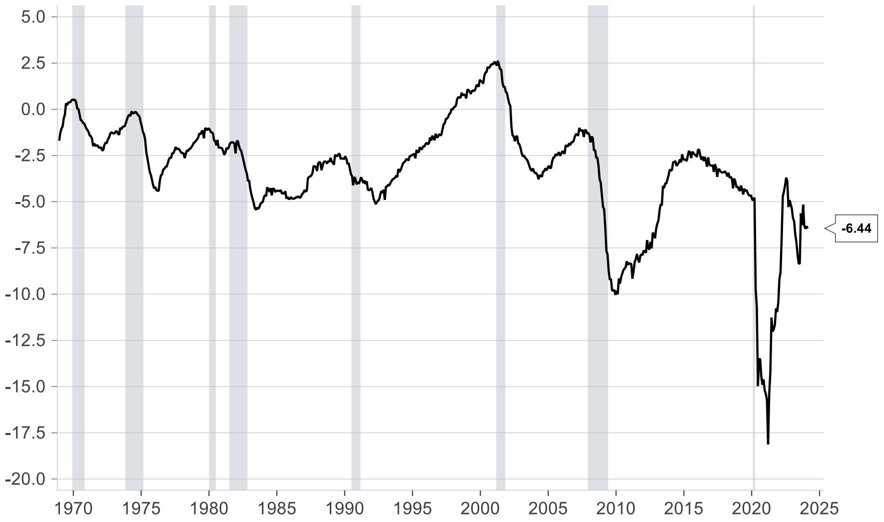
Big Deficits Need Big Funding

- The U.S. budget deficit is expected to reach $2 trillion in fiscal 2024, and is running at 6.5% of nominal GDP, a historically high level without a recession or war (and on a strong numerator of nominal GDP)
- To fund this deficit, the Treasury will issue $2 trillion in debt in 2024 (double from 2023)
- TBAC (Treasury Borrowing Advisor Committee) projects over a 20% increase in coupon issuance across the curve in 2024
- The key watch item is the mix between short-term Bills, and medium/long-term Notes and Bonds: 2023's upside liquidity surprise came from Treasury's move to fund more with Bills as longer-term rates rose, but Bills now make up 22% of Treasury debt outstanding (TBAC has a target of 15-20% for Bills)

Little Indication from Either Party for a Desire to Change Fiscal Trajectory

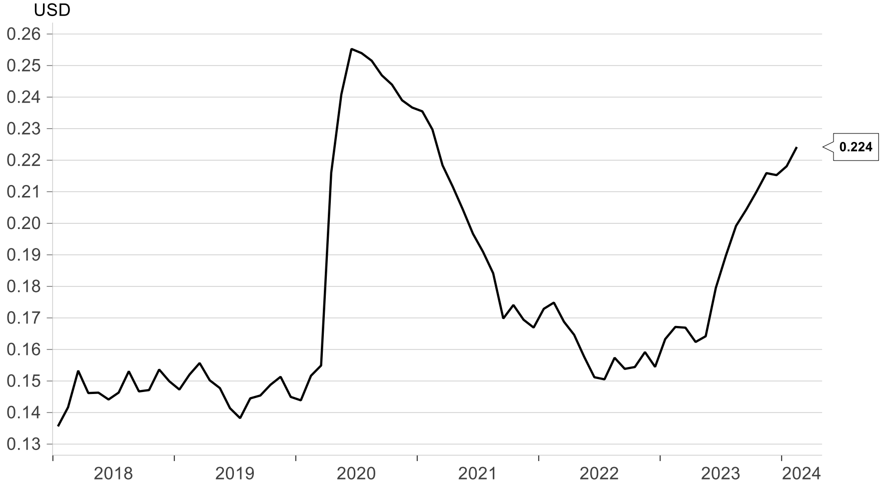
- Compared to coming out of the GFC, there has been a notable shift in voter and legislator sentiment about deficits, exemplified by neither party emphasizing a "fiscal prudence" or "balanced budget" platform (the 2020 observation from Marko Papic about the "median voter" caring less about deficits, so Washington would care less about deficits continues to look prescient)

US Treasury Federal Budget Deficit Or Surplus as a % of Nominal GDP



Source: NewEdge Wealth, Macrobond, Bloomberg

Treasury Bills as a % of Total Treasury Debt Outstanding



— United States, Securities Statistics, SIFMA, US Treasury Issuance and Outstanding, Securities Outstanding, Bills, USD

Source: NewEdge Wealth, Macrobond, Bloomberg SIFMA (Securities Industry & Financial Markets Association)

Financial Conditions are Back to 2021 Easy Levels

Source: NewEdge Wealth, Macrobond, Bloomberg

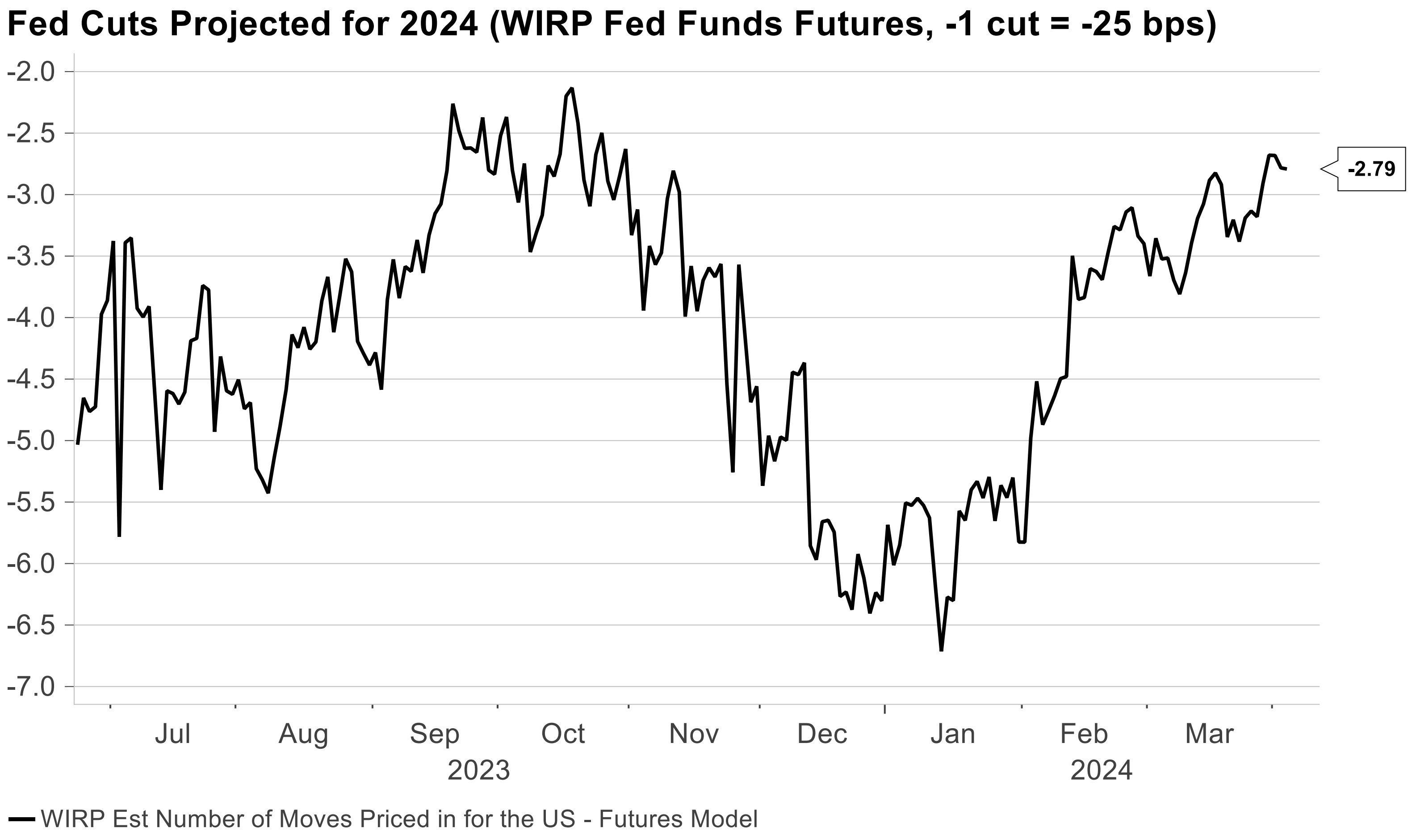
Soaring stocks, low volatility, falling yields, tightening spreads, and a weakening USD have all contributed to a rapid easing in financial conditions back up to levels not seen since before the Fed started cutting rates.

In 2022, the need to tighten financial conditions was seen as an urgent task for the Fed, as it was trying to control elevated inflation.

With inflation lower/moderating, there is less urgency to talk down financial conditions; however, the Fed has acknowledged that easy conditions are stimulative and could work against them in their continued inflation fight.

Data as of: April 2, 2024

The Bond Market Expects Far Fewer Cuts in 2024 Now

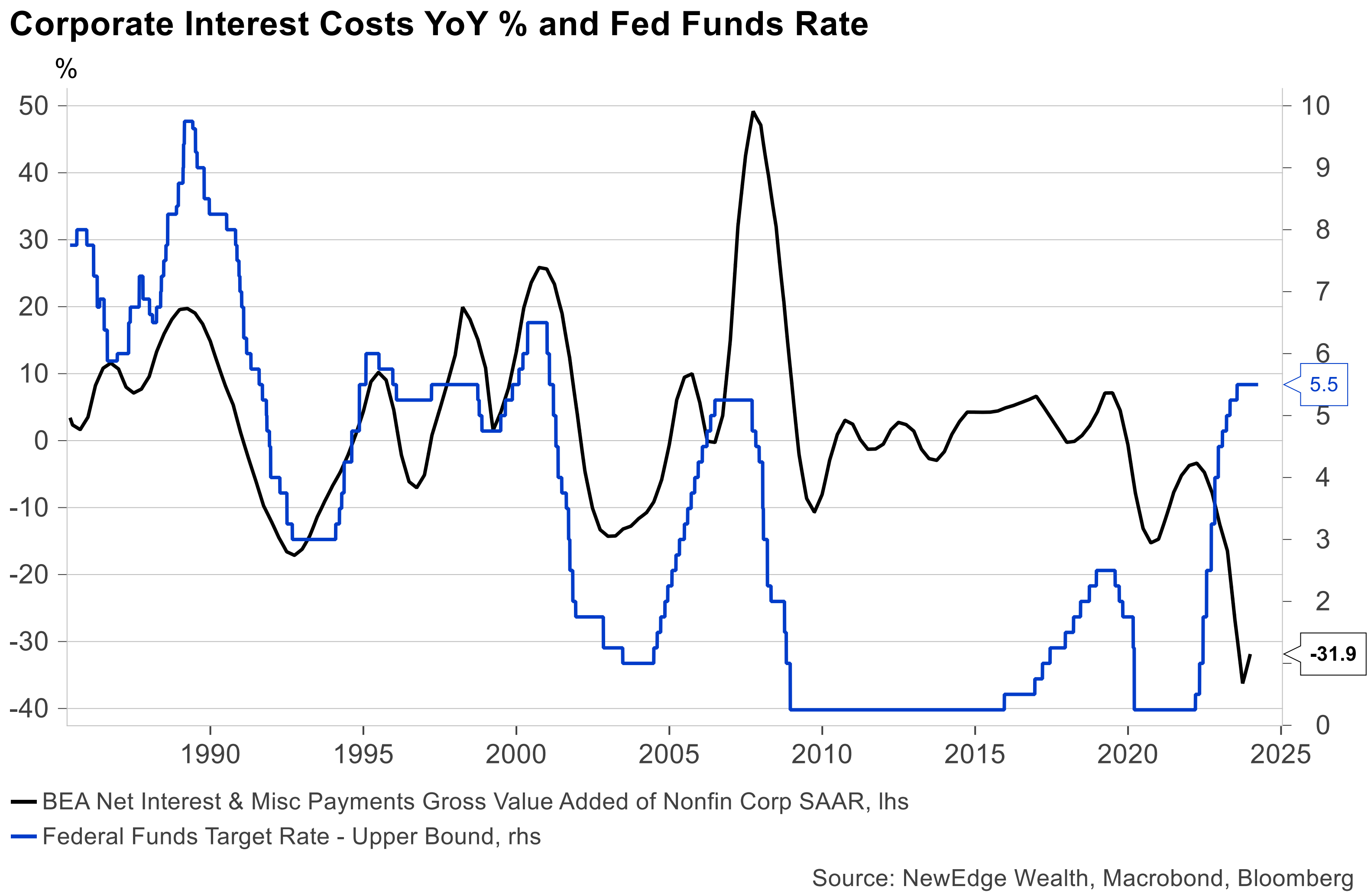


Source: NewEdge Wealth, Macrobond, Bloomberg

After starting the year at 6.5 cuts forecasted for 2024, the bond market is closer to the Fed's 2.7 cuts forecast, though notably there are hawkish members on the Fed (i.e., Bostic) who only see 1 cut this year.

Data as of: April 2, 2024

The Pinch of Higher Rates is Dulled by the Long-Tail of QT



We have written extensively about the long-tail impact that prolonged QE has had on U.S. corporate and consumer balance sheets (February 2023, July 2023, November 2023).

This reached a fever pitch in 2020 and 2021, when rates were ultra-low and allowed for a great wave of refinancing.

The result is that as the Fed has raised rates in 2022 and 2023, net interest costs for corporates in aggregate have fallen (according to BEA data), meaning that corporations are seeing a bigger increase in their cash interest income than their interest expense. **Higher rates have been short term stimulative to corporates in a post QE world!**

Refinancings begin to kick in in late 2024 and early 2025, meaning we could begin to see the delayed real economy impact of higher rates (if sustained).

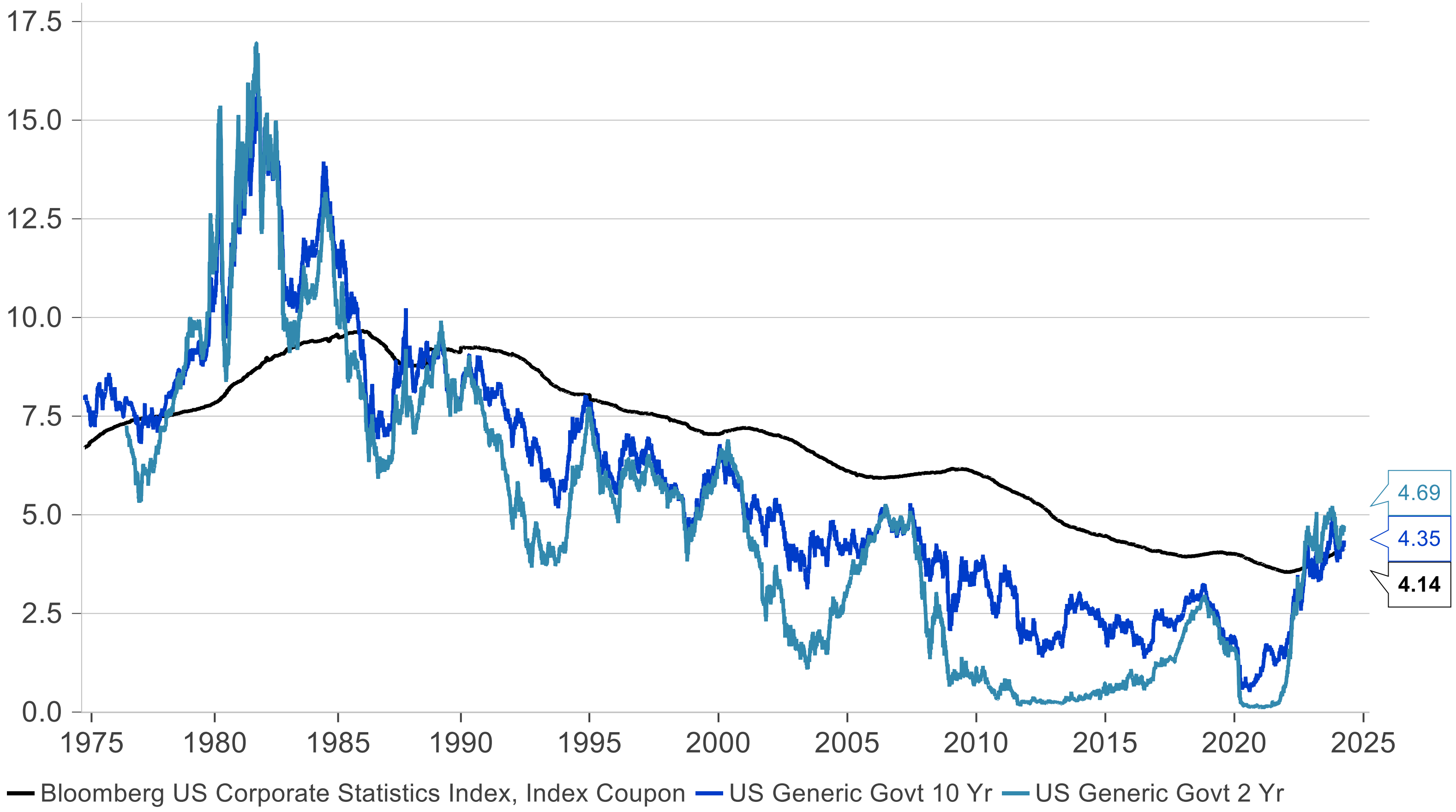
NewEdge WEALTH

Data as of: April 2, 2024

Refinancing: A Watch Item for Late 2024 and 2025

Despite Recent Drop in Yields, Refinancing at Higher Yields is Still a Watch Item

Investment Grade Corporate Bond Index Average Coupon, 10 Year Treasury Yield, 2 Year Treasury Yield



Source: NewEdge Wealth, Macrobond, Bloomberg

The average coupon on corporate bonds is at or below most of the current Treasury curve for the first time since the 1980s.

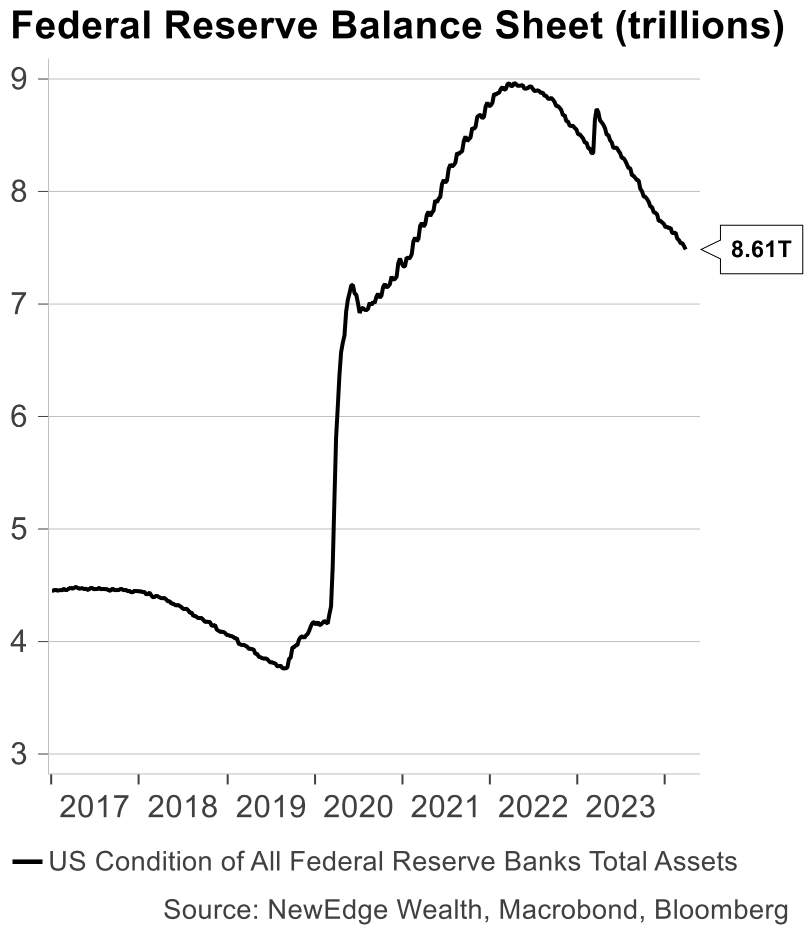
This implies that as corporations need to refinance, they will be doing so at higher interest rates, a notable shift from the past 40 years when interest rates persistently marched lower.

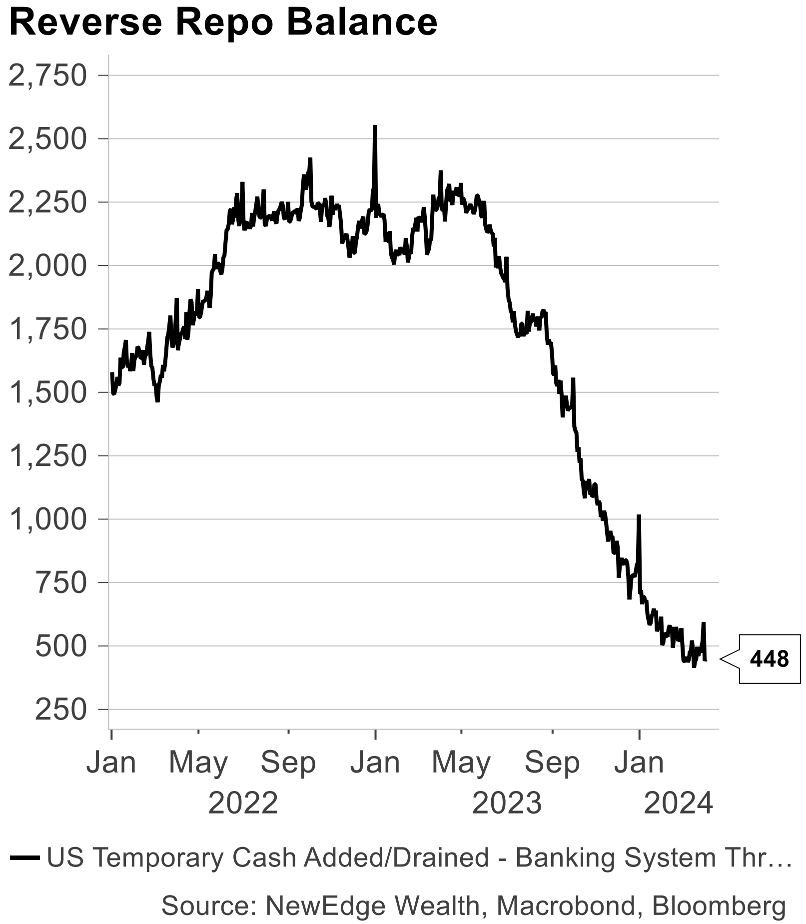
Late 2024 begins the refinancing needs, with a bigger wave in 2025 and 2026. If rates remain elevated, corporates will have to contemplate a brave new world of higher yields.

NewEdge WEALTH

Data as of: April 2, 2024

Changes to QT Coming in 2024





The Fed has signaled coming changes to QT as they look to preserve a "buffer" of Reserves liquidity for the financial system.

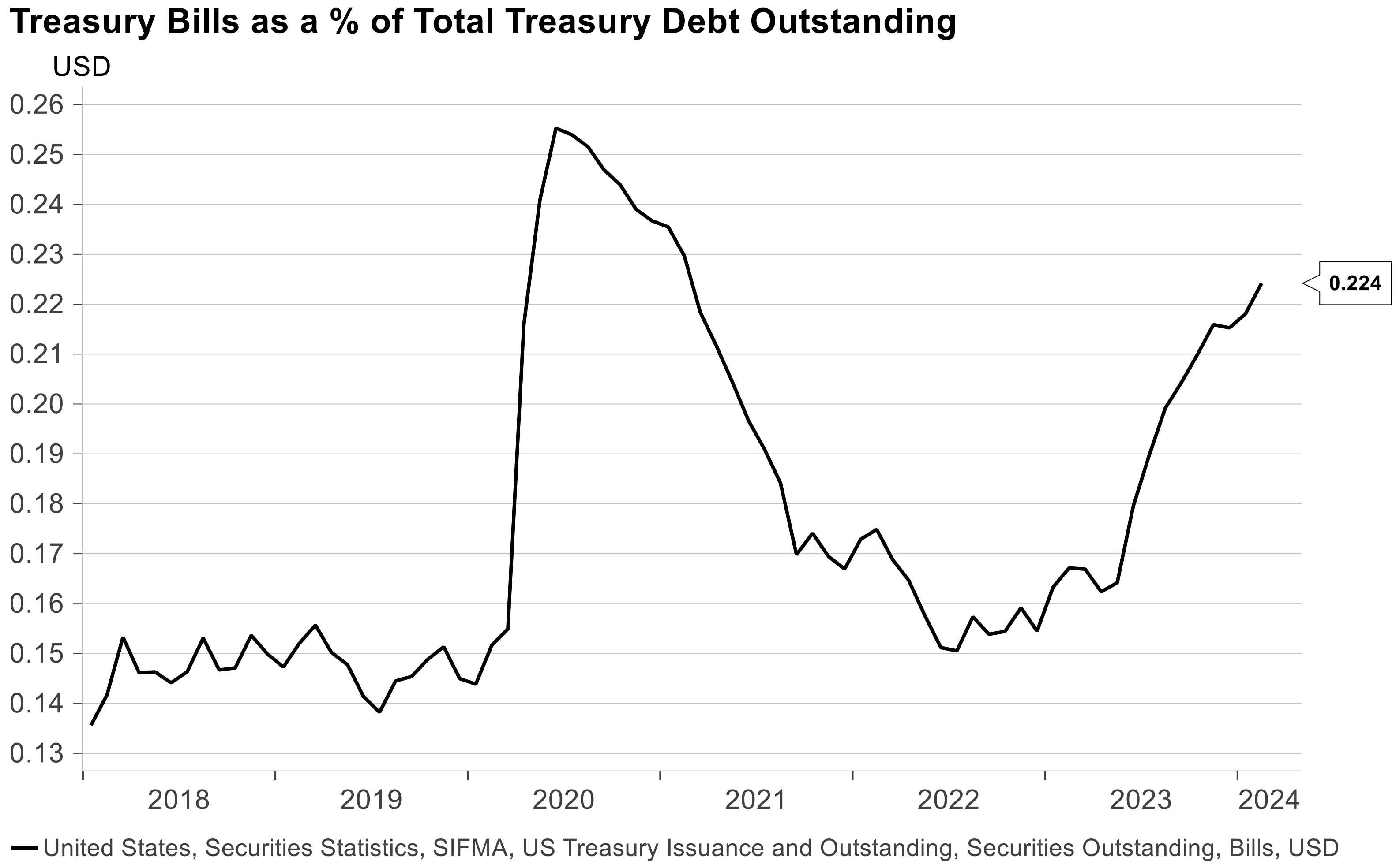
Lorie Logan recently called out the falling Reverse Repo Balance as the watch item for when QT could change. Reverse Repo Balances have been falling as money market funds have been absorbing higher Bills issuance from the Treasury (next slide).

The drawdown of Reverse Repo has injected liquidity into the financial system and helped to boost markets.

NewEdge WEALTH

Data as of: April 2, 2024

Yellen is the Fourth Member of Destiny's Child: Bills, Bills, Bills



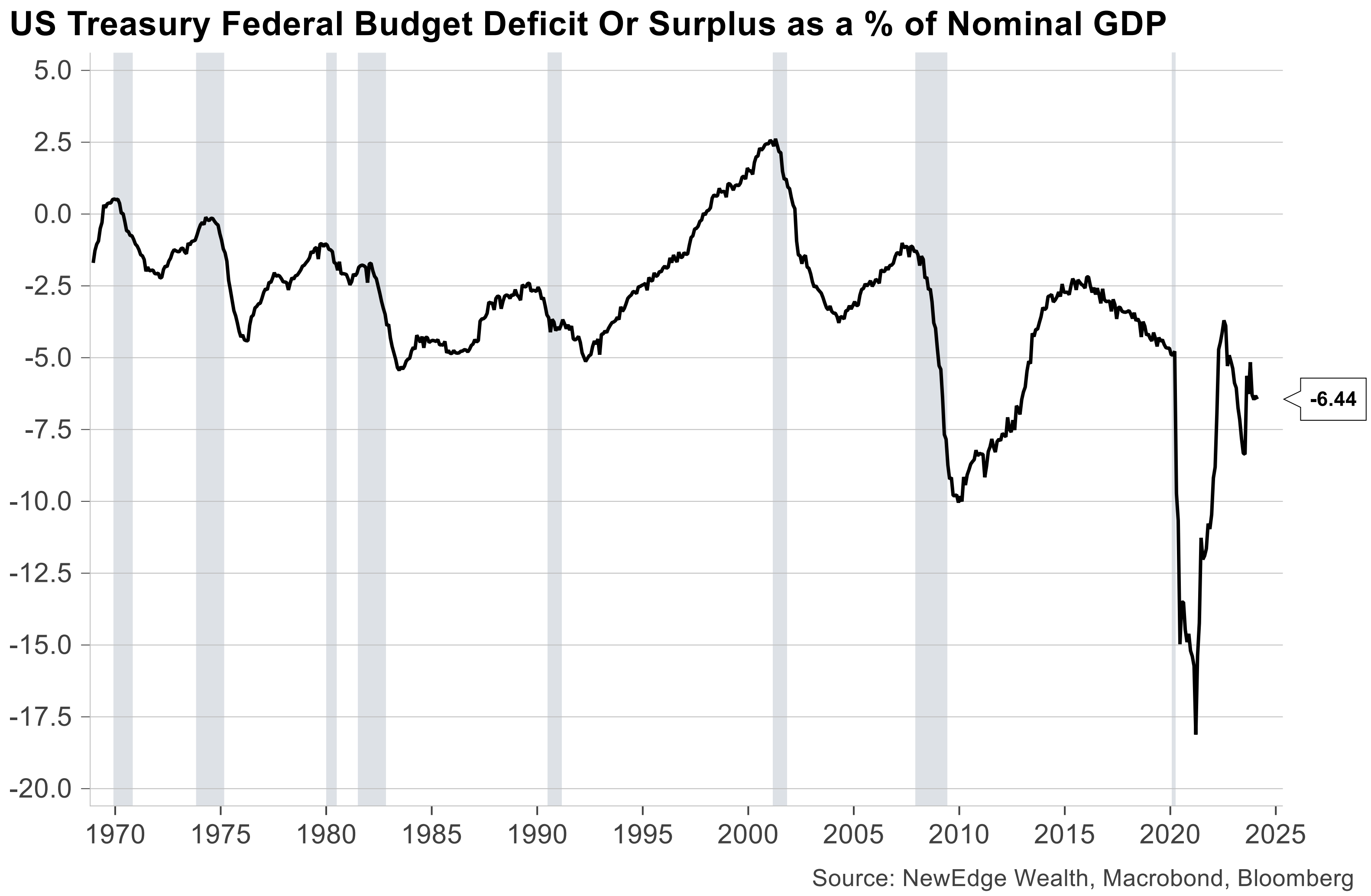
Source: NewEdge Wealth, Macrobond, Bloomberg SIFMA (Securities Industry & Financial Markets Association)

Treasury Secretary Janet Yellen's shift to larger Bill issuance in 2023 likely helped to stave off a larger Treasury market sell-off, as Treasury investors would have had to absorb greater Coupon issuance.

The path for Bills vs. Coupons in 2024 will have an important impact on liquidity, not just impacting financial market plumbing, but also potentially impacting risk asset pricing (which benefits from an ample liquidity backdrop).

Data as of: April 2, 2024

U.S. Budget Deficit Elevated

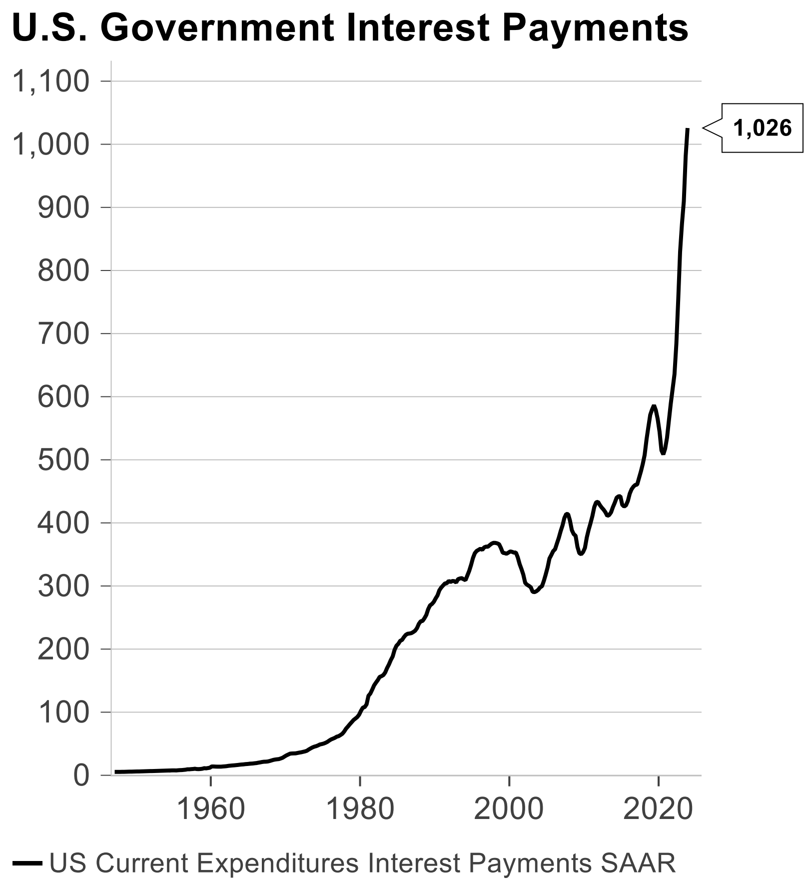


The reason for this large Treasury Bills and Bonds issuance is the large fiscal deficit.

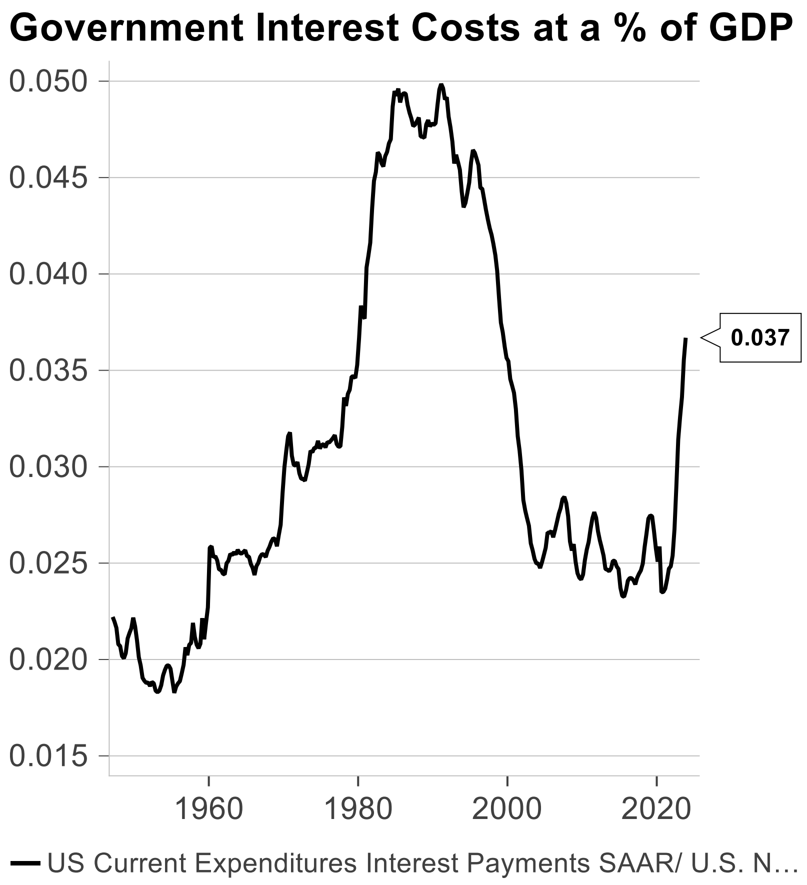
For a non-wartime economy that has strong nominal GDP, U.S. budget deficit spending is historically elevated at 6.5% of GDP.

Data as of: April 2, 2024

U.S. Government Interest Payments Surge on Higher Rates and Higher Deficits



Source: NewEdge Wealth, Macrobond, Bloomberg



Source: NewEdge Wealth, Macrobond, Bloomberg

In a world of low rates and low inflation, running large deficits came at little consequence.

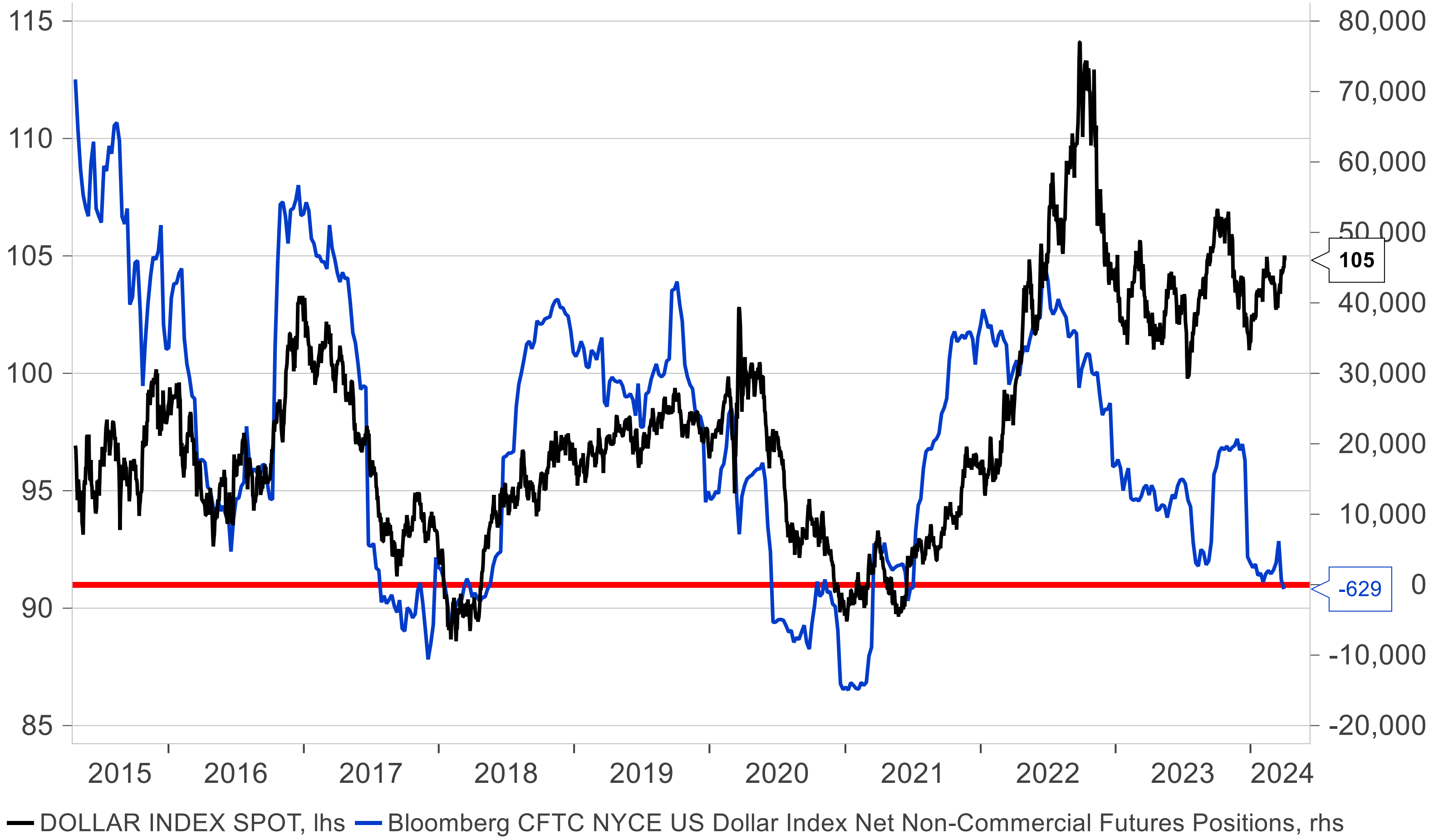
But as inflation has increased and rates have risen, the cost to service large debt balances has ballooned (mostly as low long-term rates were not pursued aggressively when they were present).

U.S. government interest payments on its debt is nearing $1 trillion.

Data as of: April 2, 2024

Watching the USD

U.S. Dollar (DXY) and CFTC Dollar positioning



Source: NewEdge Wealth, Macrobond, Bloomberg

The USD is an all-important factor in financial markets for 2024.

A stronger USD likely benefits U.S. assets over foreign assets, but also has the potential to tighten financial conditions.

A weaker USD would support non-U.S. assets, which typically benefit from major USD bear markets.

Positioning is an important contraction indicator (positioning is long at peaks and short at troughs). Today, USD positioning is getting close to short levels seen in 2017 and 2021, but not quite there yet. If these short levels are reached, a positive view on the USD would be supported.

Equities

Key Equity Themes for 2Q24

Potential for a Healthy Consolidation & Choppier Markets

Elevated valuations, stretched positioning, ebullient sentiment and robust gains over the past five months could lead to a healthy consolidation and choppier markets in Q2. Second half growth expectations are optimistic and may need to be reset lower, which could be a catalyst for volatility.

Rotations, Plus Broadening Performance and Fundamentals

Equity performance has broadened, capital markets activity is recovering, corporate profits are rising, and overall companies are benefitting from increased productivity and generally lower input costs. There are early signs that a cyclical recovery is beginning to take hold, as seen in recovery PMIs, which is sparking leadership rotations. Continued Fed tightness could impact valuations.

Buyers on Weakness & Continue to Prefer Quality

We are selective buyers of market weakness and maintain our preference for high quality companies. While sounding like a broken record, this environment continues to favor businesses with low leverage, durable growth, and resilient profitability. We expect market performance to continue broadening out, however economic conditions remain delicate and renewed upward pressure on interest rates and normalizing volatility could act as an anchor on more cyclical areas.

2Q24 Equity Outlook

Key Points

S&P 500 Range

- Positive drivers: momentum is strong and breadth has improved materially, which is not consistent with a market top; liquidity needs to remain supportive to the positioning chase; GDP and earnings estimates continuing to move higher important
- Negative drivers: softer GDP/EPS estimates that could fuel a switch to risk-off sentiment that is exacerbated by high valuations and crowded positioning; liquidity becoming a headwind
- We would not be surprised to see some digestion/volatility in 2Q, with important support at ~5,000 (50 day) and ~4,750 (2021 high and 100-day moving average)

S&P 500 Earnings

- Current consensus: $243 for 2024 (+9%), $274 for 2025 (+13%); these estimates rose slightly in 1Q24
- Upside Potential: stronger GDP growth than expected (though this may have limited impact on EPS estimates), better margins driven by productivity, or improved sentiment that sparks investment/M&A.
- Downside Risk: Weaker economic growth than expected, or an already high bar for margin expansion baked in.

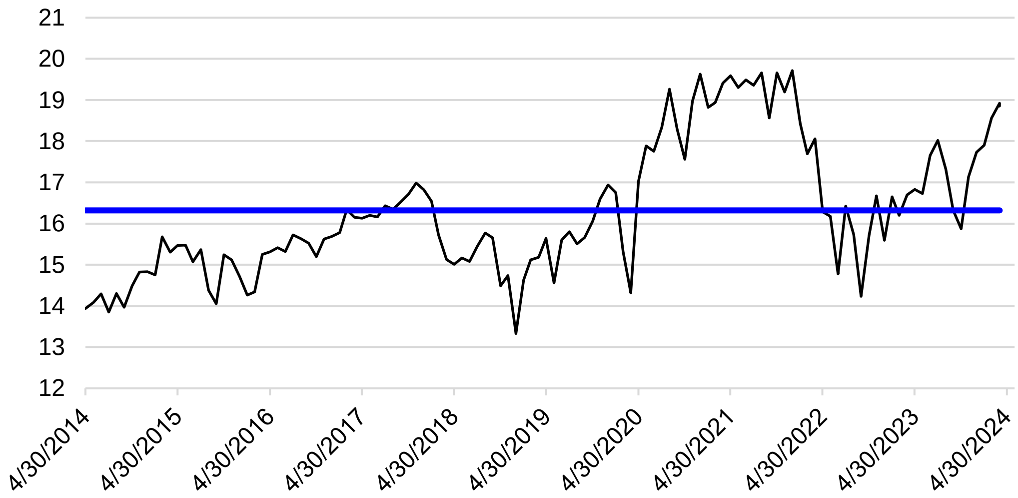
S&P 500 Valuation

- PE is starting 2024 at an elevated 20.1x forward (20x was the ceiling in 2023, 19x was the ceiling in 2018 and early 2020)
- Looking forward 24 month, the S&P is now just 1x away from its 2021 peak valuation
- The "average" stock PE is no longer "cheap" vs. its history at 17.4x (the peak in 2017 was 18x and 2019 17.5x)
- An easier Fed/liquidity helps PE valuations, while a tighter Fed/liquidity could bring valuations back down towards average.

S&P 500 Soars in 1Q24

Source: NewEdge Wealth, Macrobond, Bloomberg

S&P 500 24 Month Forward PE (with 10 yr average)



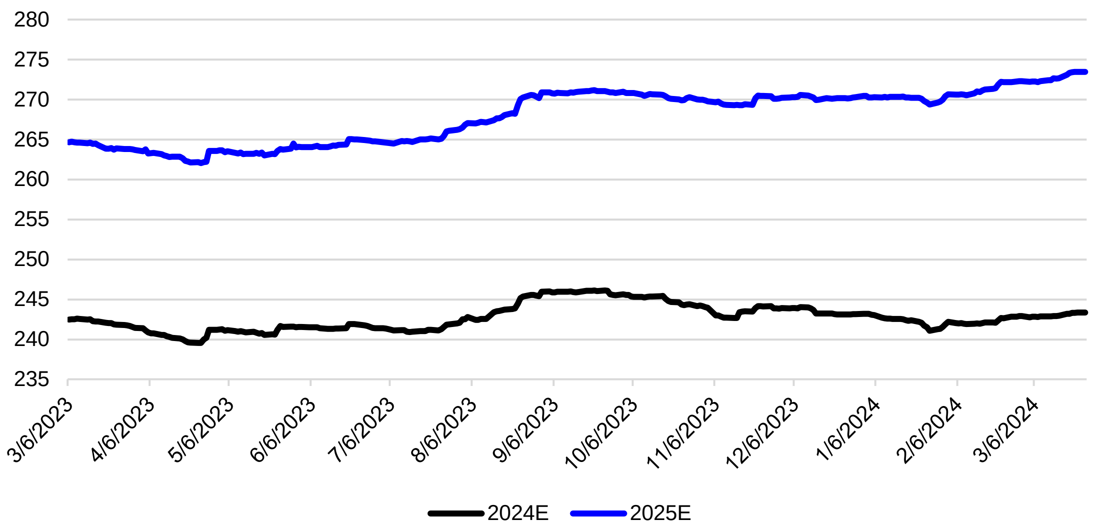
Data as of: April 2, 2024

2Q24 Equity Outlook

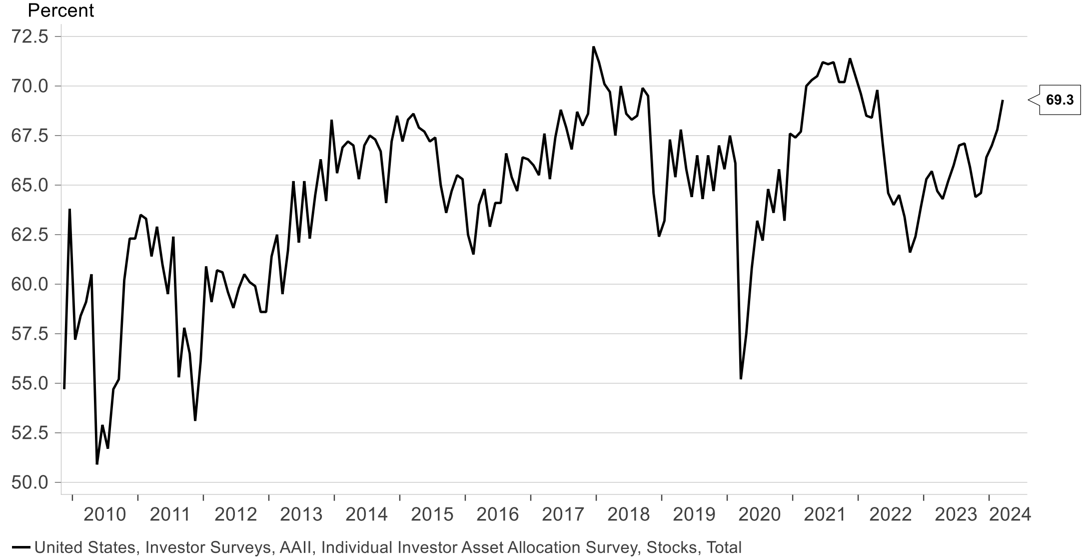
Factors That Will Drive Equities in 2Q24

- **Technicals**: breadth has improved materially, with 86% of the S&P 500 above its 200 day to start the quarter; this is "overbought", but market tops tend not to coincide with breadth tops
- **Earnings Revisions**: 2024 EPS revisions have been static to start the year, while there has been some upside to 2025 EPS estimates, which now bake in a rosy +13% growth rate
- **Liquidity**: This is the biggest wildcard for 2024, with factors like Fed Balance Sheet/Quantitative Tightening, Treasury funding/cash balance being key drivers of equity valuations/returns. For 1Q24, liquidity was very supportive, explaining lofty valuations.
- **Positioning**: Broad measures of positioning are stretched but not as extreme as early 2018 and late 2021; a chase to extremes would be positive for equities in the short term, but when extremes are reached, this would be downside risk.
- **Sentiment**: Various sentiment measures are nearing optimistic extremes but can persist; once positioning catches up to sentiment, sentiment likely becomes a key risk.
- **Rotations**: signs of rotations began to emerge in late 1Q24, with Tech stalling, and a surge in cyclical Value sectors (Energy, Financials, Materials, and Industrials); Tech lagging is not necessarily a problem for the market, however outright weakness could be a challenge for index returns

S&P 500 EPS Estimates (Bloomberg Consensus)



AAII Individual Investor Asset Allocation Survey: Stocks



Source: NewEdge Wealth, Macrobond, Bloomberg American Association of Individual Investors (AAII)

Data as of: April 2, 2024

Equity Returns by Style

Performance by Style (U.S.)

Style	S&P 500	NDAQ 100	Large Cap Core	Large Cap Growth	Large Cap Value	Mid Cap Core	Mid Cap Growth	Mid Cap Value	Small Cap Core	Small Cap Growth	Small Cap Value	Min Vol
2024 YTD	9.2%	7.7%	8.82%	10.1%	7.183%	6.38%	7.25%	6.01%	1.88%	2.38%	-0.592%	6.18%
2023	24%	54%	24.58%	41.5%	8.968%	15.24%	24.95%	10.39%	15.11%	5.44%	12.014%	8.22%
2022	-20%	-33%	-20.39%	-29.9%	-9.695%	-18.74%	-27.44%	-13.92%	-21.62%	-21.19%	-16.489%	-10.88%
2021	27%	27%	24.83%	26.7%	15.9%	21.09%	12.25%	26.22%	13.46%	-1.30%	26.034%	19.18%
2020	16%	48%	18.73%	37.1%	0.183%	14.98%	34.55%	2.31%	18.34%	12.68%	2.465%	3.48%

Returns based on iShares/Vanguard/Invesco ETFs.
Source: Bloomberg, NewEdge Wealth

Equity Scenarios

S&P 500 2024 Scenario Analysis

Change vs. 2023E EPS	2024 EPS	PE on 2024 EPS							
		14x	15x	16x	17x	18x	19x	20x	21x
-10%	$200	2,800	3,000	3,200	3,400	3,600	3,800	4,000	4,200
-5%	$210	2,940	3,150	3,360	3,570	3,780	3,990	4,200	4,410
0%	$220	3,080	3,300	3,520	3,740	3,960	4,180	4,400	4,620
4%	$230	3,220	3,450	3,680	3,910	4,140	4,370	4,600	4,830
9%	$240	3,360	3,600	3,840	4,080	4,320	4,560	4,800	5,040
13%	$250	3,500	3,750	4,000	4,250	4,500	4,750	5,000	5,250
18%	$260	3,640	3,900	4,160	4,420	4,680	4,940	5,200	5,460
22%	$270	3,780	4,050	4,320	4,590	4,860	5,130	5,400	5,670
27%	$280	3,920	4,200	4,480	4,760	5,040	5,320	5,600	5,880

Source: NewEdge Wealth, Bloomberg, as of 4/2/24

What the Bears Say

- **Target:** 4,200
- **Implies:** Slight downside to 2024 and 2025 EPS vs. consensus, possibly due to a "slight" recession, along with trading back towards an average PE valuation on de-risking.
- **Drivers:** A tighter Fed than expected could push valuations back towards average while slowing economic growth (after 2023's upside surprise) could weigh on EPS.

What the Bulls Say

- **Target:** 5,400
- **Implies:** Upside to 2024 and 2025 consensus EPS numbers and trading above PE of 20x; implies no recession in 2024 or 2025.
- **Drivers:** EPS upside from technology/productivity that allows for greater margin expansion; PE upside from an easing Fed and liquidity tailwind.

S&P 500 Powerful Rally off October Lows

S&P 500 and Daily RSI

Source: NewEdge Wealth, Bloomberg

The S&P 500 has staged a blistering rally to start 2024.

It has shaken off overbought conditions and continued to plow higher.

Momentum is strong and the trend is up, which is causing positioning chases.

The majority of this rally has been driven by aggregate multiple expansion, with only a slight increase to forward EPS estimates.

The Average Stock Perks Up?

Equal Weight S&P 500 Absolute (Top) and Relative to the S&P 500 (Bottom)

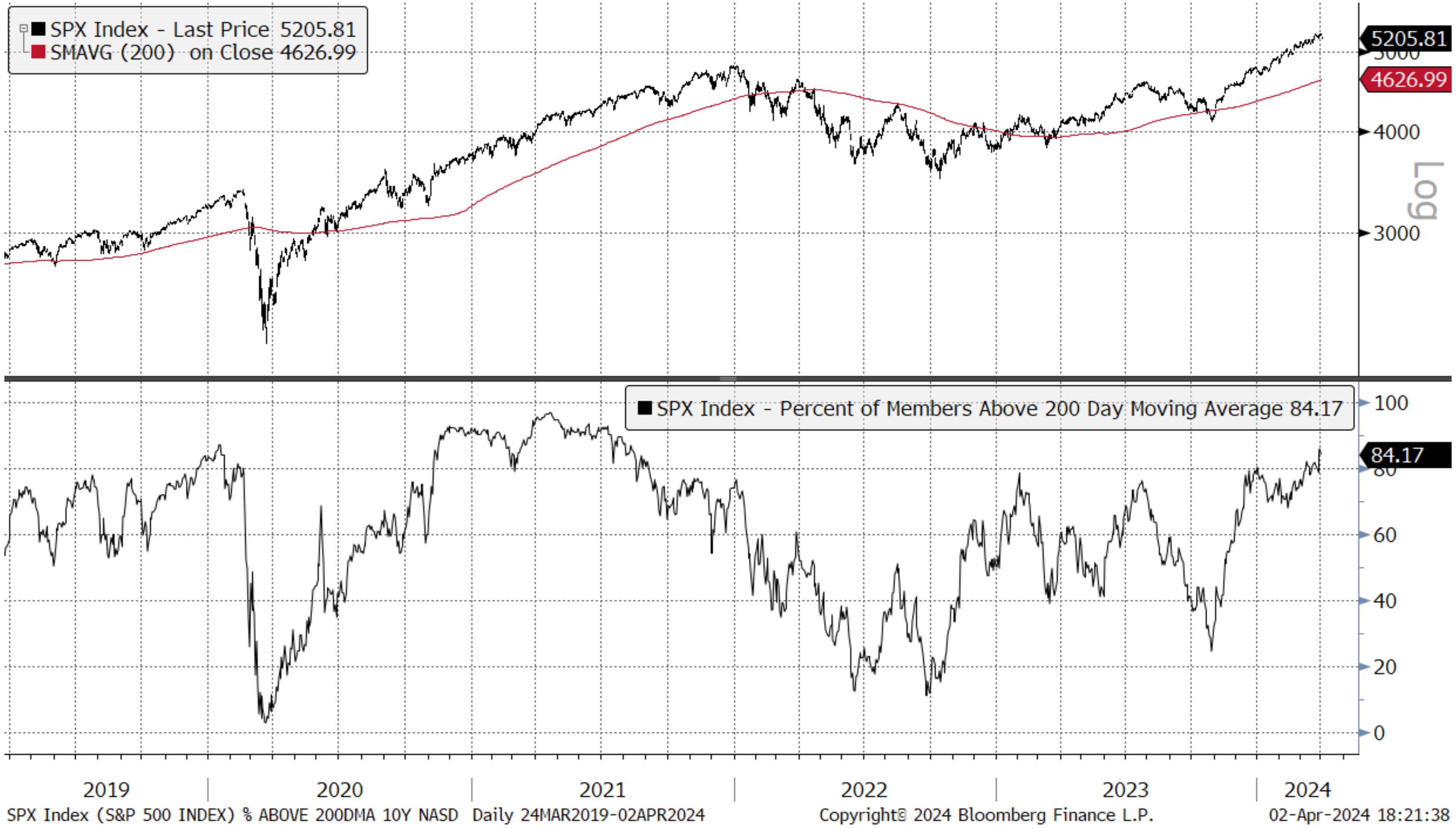
Source: NewEdge Wealth, Bloomberg

The Equal Weight S&P 500 , or the "average stock", is at a new all time high. It lagged the S&P 500 YTD with its Tech/ Communications mega cap winners, however it has recently seen slight relative performance improve.

Data as of: April 2, 2024

Equity Breadth Improves

S&P 500 with the % of Members Above Their 200 Day Moving Average



Source: NewEdge Wealth, Bloomberg

84% of S&P 500 names are now trading above their 200 day moving average.

Peaks in breadth often do not coincide with peaks in the market, meaning breadth tends to deteriorate before the market tops (see 2021 as an example, when the market continued to make new highs as breadth deteriorated throughout the year).

S&P 500 Earnings Power: Healthy Growth Forecasted, No Recession Contemplated

S&P 500 Consensus	2022A	2023E	2024E	2025E
EPS	$223	$223	$243	$273
YoY Change	*13%*	*0%*	*9%*	*13%*
Revenue Growth	11.10%	3.00%	5.30%	6.00%
Operating Margin	15.70%	14.30%	15.60%	17.00%

Source: Bloomberg Consensus, as of 4/1/24

Note the continued strong revenue growth and a new record baked into margin forecasts.

The record margin in 2022 was made possible by huge revenue growth of +11% driven by high inflation enabling strong pricing power.

The "earnings recession" of 2023 was not typical, as it was entirely driven by margin compression and not lower revenues (typically in a recession both revenues and margins fall).

The cause of 2023's falling margins was the normalization of revenue growth as inflation fell and pricing power waned.

We think 2024 estimates are reasonably optimistic after a year of EPS declines but are certainly not a low bar for upside surprises.

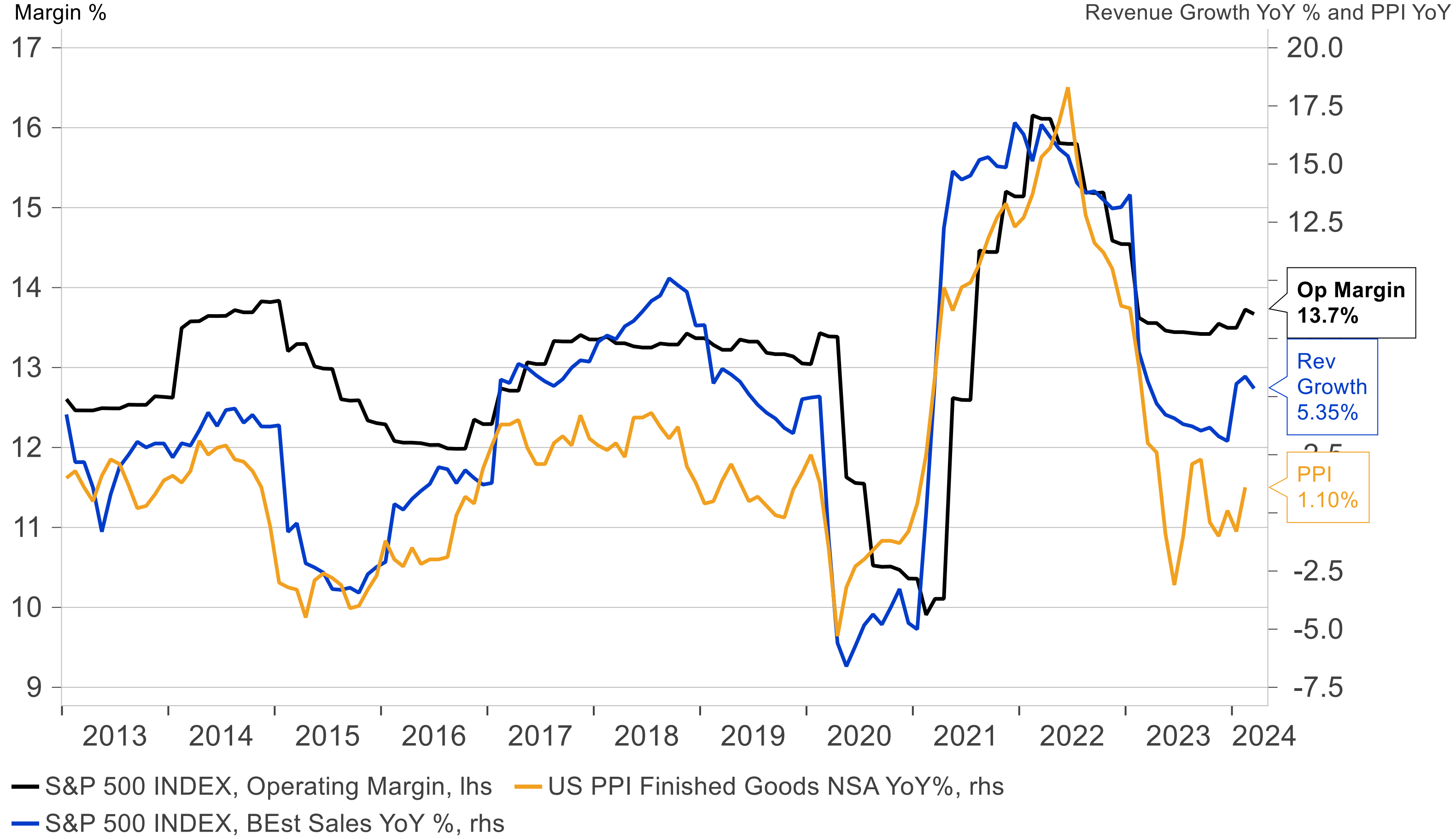
Our biggest watch items in 2024 estimates are both the reacceleration in top line revenue (despite forecasts for falling inflation) and the return to 2022's record margins, which likely either requires strong pricing power/higher inflation *or* a productivity/technology windfall that lifts broad corporate profitability.

Note, 2024 consensus estimates do not incorporate a recession.

<u>Upside scenario</u>: $250 (+13% YoY, productivity lifts margins, animal spirits drives upside to M&A/investment activity)
<u>Downside scenario with no recession:</u> $220 (0% YoY) for the third year in a row driven by lower revenue growth (given nominal GDP deceleration) and flat margins

Margins

S&P 500 Margins Related to Revenue Growth and Inflation



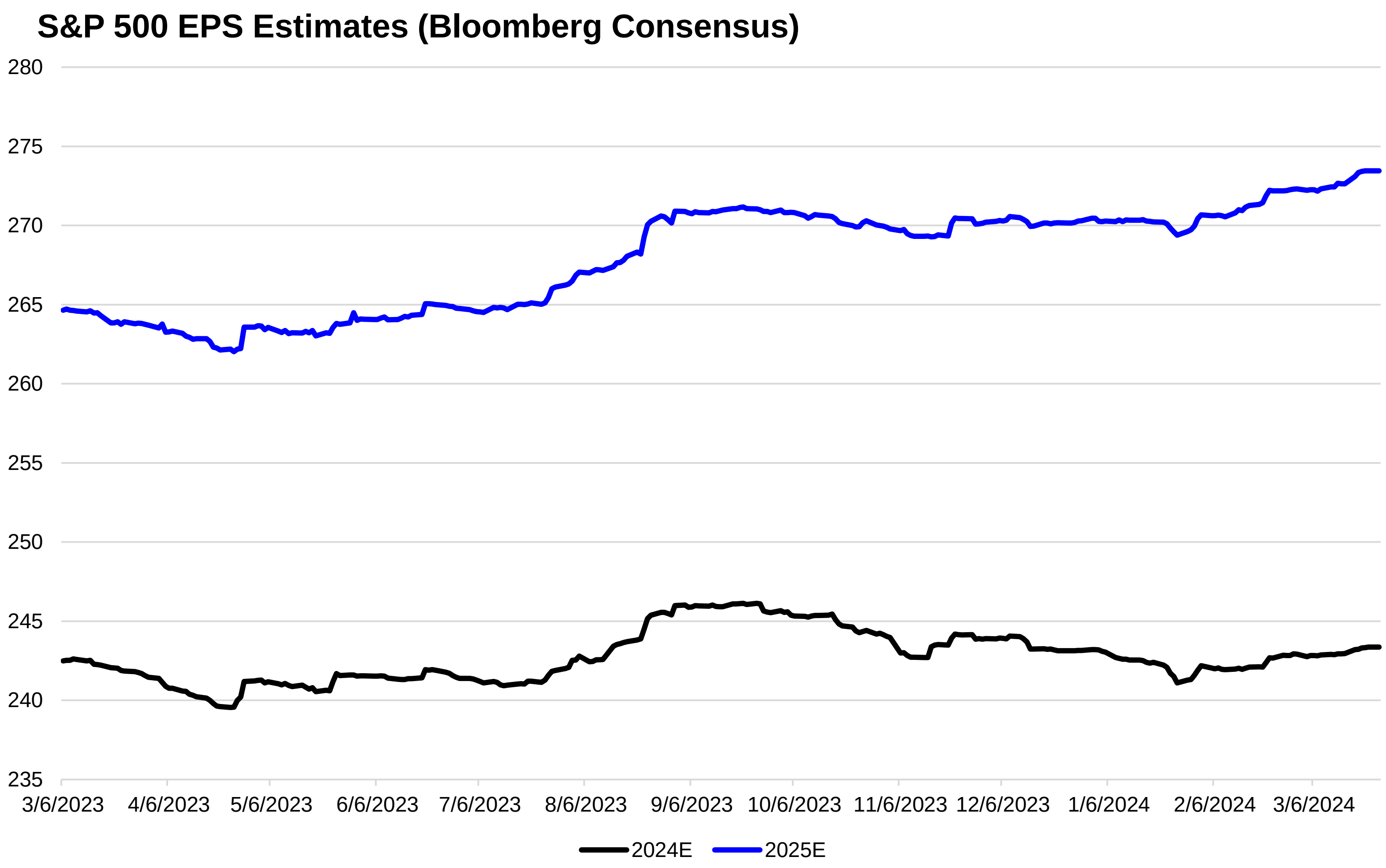
Source: NewEdge Wealth, Macrobond, Bloomberg

2023's EPS downside was driven by margin compression (revenues still grew in 2023 as the U.S. did not experience a recession).

This margin compression was due to the *normalization* of revenue growth following the inflation-driven surge in revenues in 2021 and 2022. High inflation gave companies pricing power, allowing for double digit revenue growth, which created operating leverage that flowed down into strong margins.

Margins have now normalized back to slightly above pre-pandemic levels. The street expects a margin rebound back to 2022 record by the end of 2024.

Watch EPS Estimate Progression

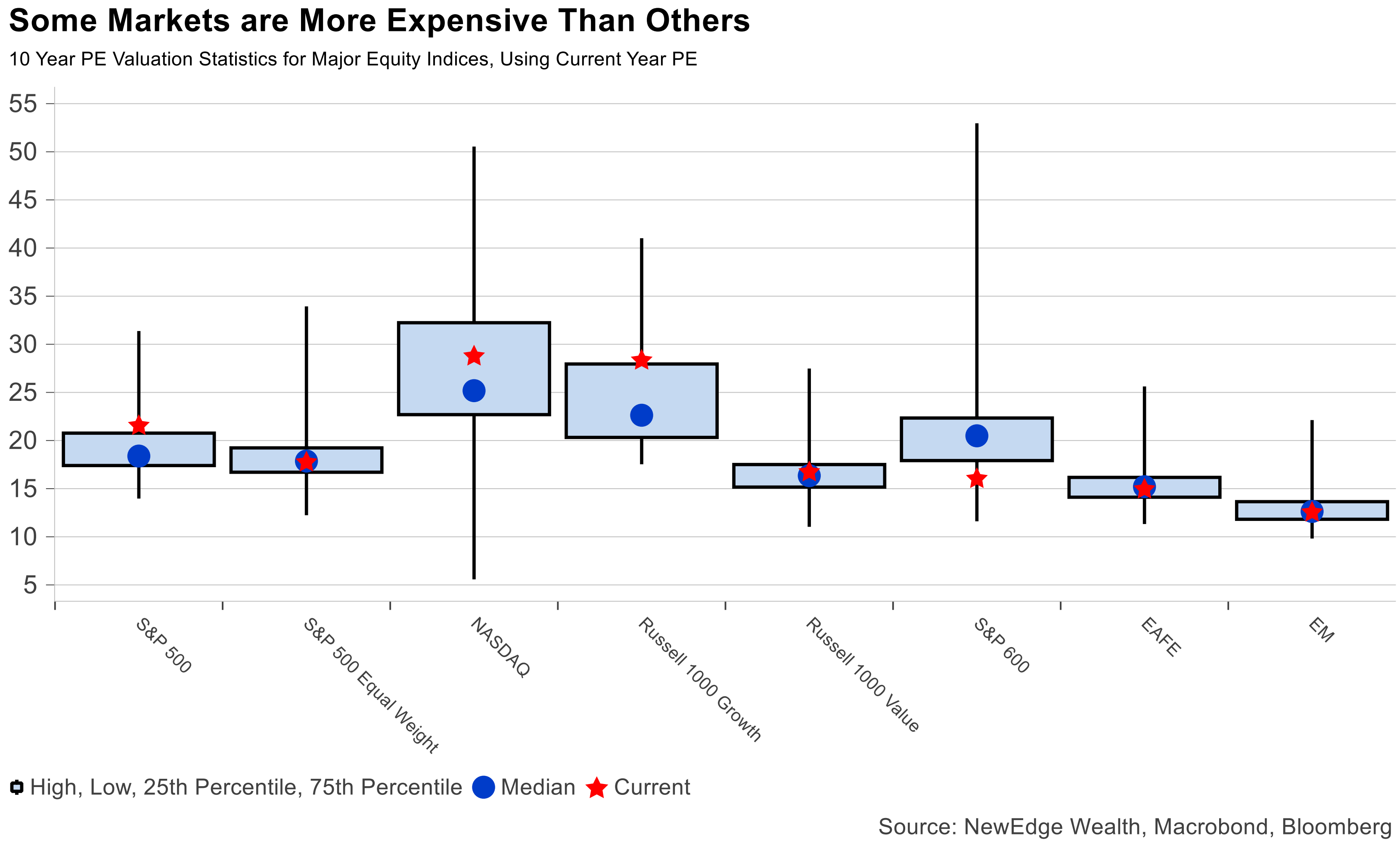


Source: NewEdge Wealth, Bloomberg

EPS estimates for 2024 have been flat to start the year, despite a large jump to 2024 GDP growth forecasts (a dynamic similar to 2023, where GDP was revised significantly higher but EPS estimates were stagnant).

Note there has been a lift to 2025 EPS forecasts, which is likely helping equities move higher. What is baked in to this $273 in 2025 is a acceleration in top line revenue growth to +6% and a surge to record 17% operating margins.

Valuations are Historically Stretched for NASDAQ, Growth, and S&P 500



Just looking at the S&P, with its large exposure to Tech/Growth/Magnificent 7 stocks is misleading on valuation.

The "average stock", or the S&P 500 Equal Weight Index, experienced a sharp 20% rerating at the end of 2023 so is now about average in its valuation.

Versus 10 Year Statistics:

Growth, NASDAQ, and S&P 500 are stretched.

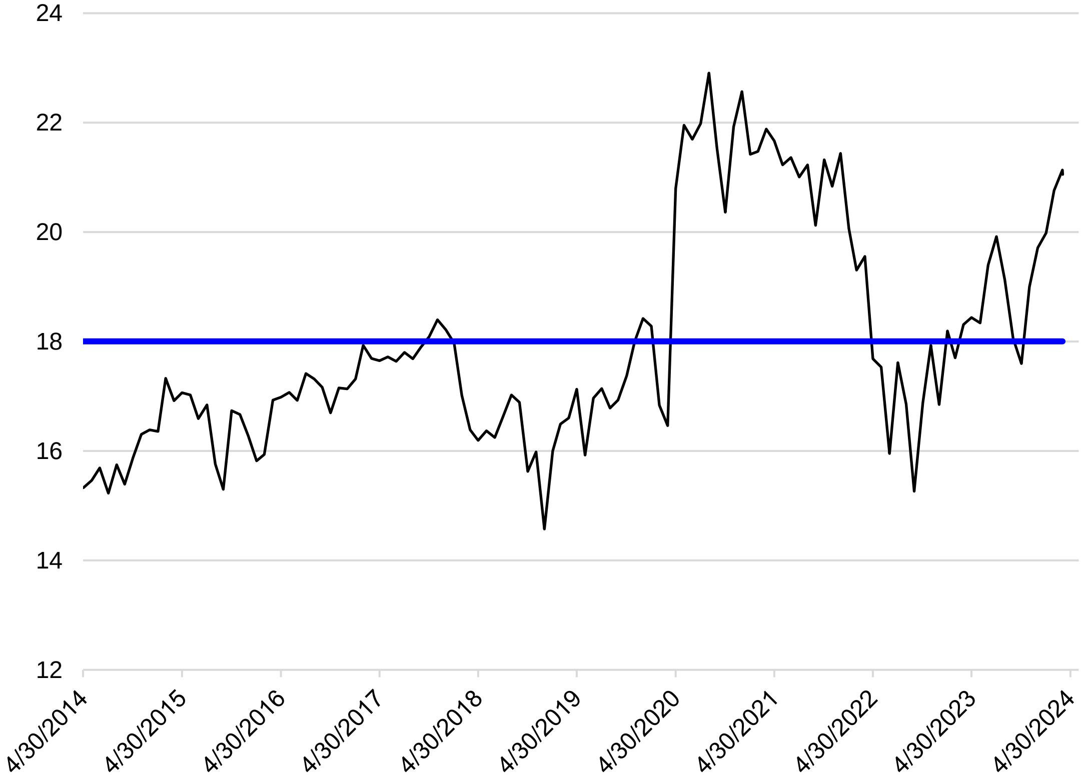
Value, International Developed, and Emerging are average.

Small Caps are below average.

Data as of: April 2, 2024

S&P 500 is Expensive No Matter How You Cut It

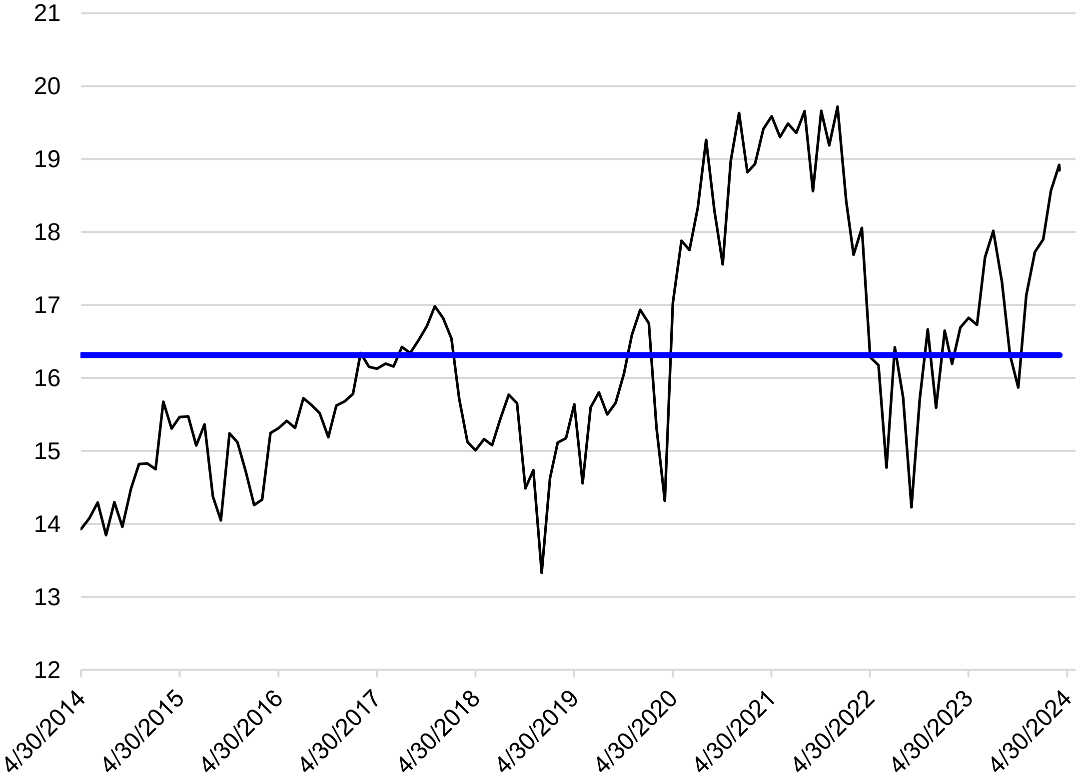
S&P 500 12 Month Forward PE (with 10 yr average)



Source: NewEdge Wealth, Bloomberg

The S&P 500 is trading at 21.2x 12 month forward PE, above the peak reached in July 2023, and back to COVID era levels when policy was far more supportive for markets.

S&P 500 24 Month Forward PE (with 10 yr average)



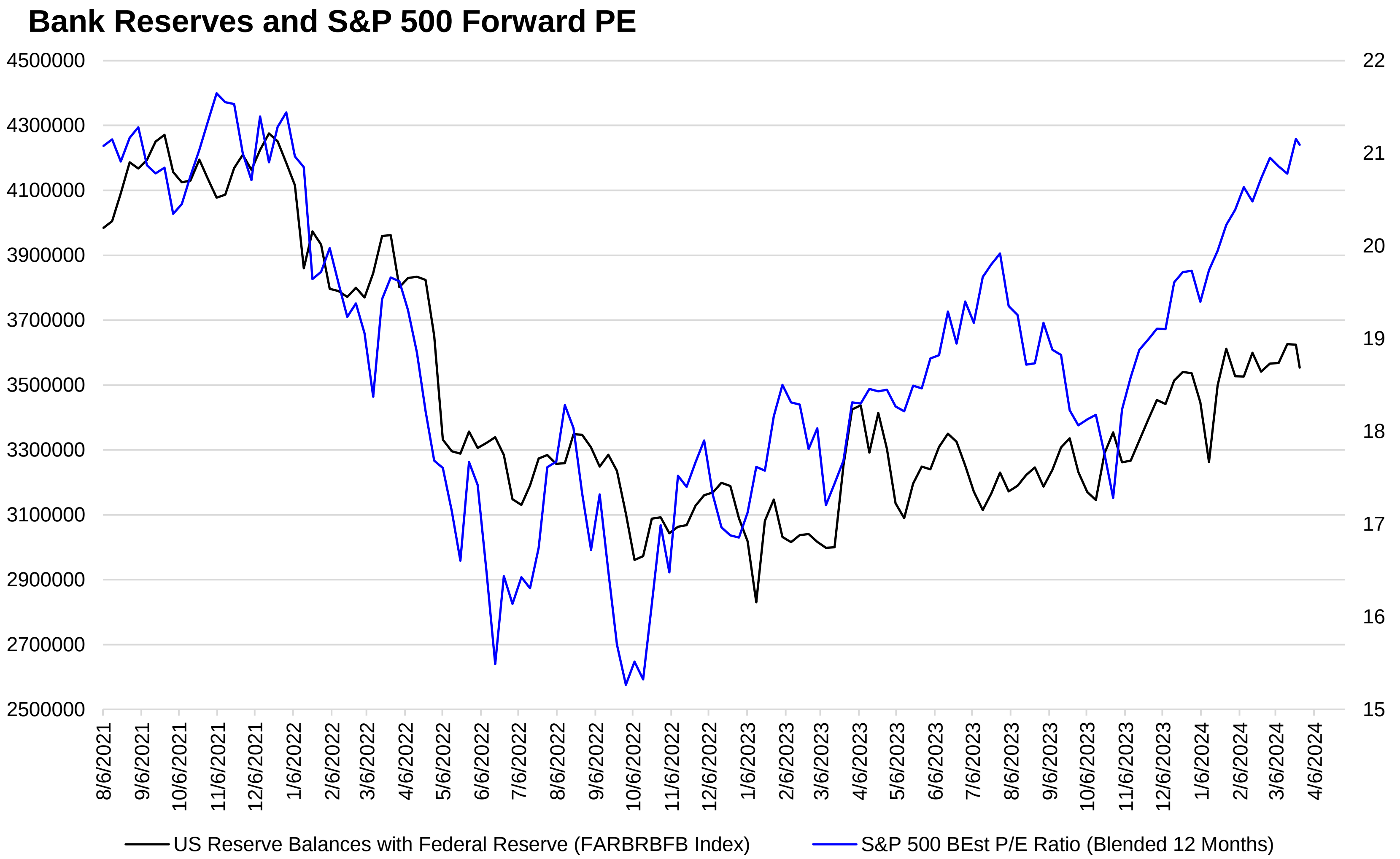
Source: NewEdge Wealth, Bloomberg

The S&P is trading at nearly 18.9x next 24 months EPS estimates of $273, which is just 1x below the COVID-era peak valuation (which was supported by policy and depressed EPS estimates).

NewEdge WEALTH

Data as of: April 2, 2024

Liquidity is the Darkhorse for 2024



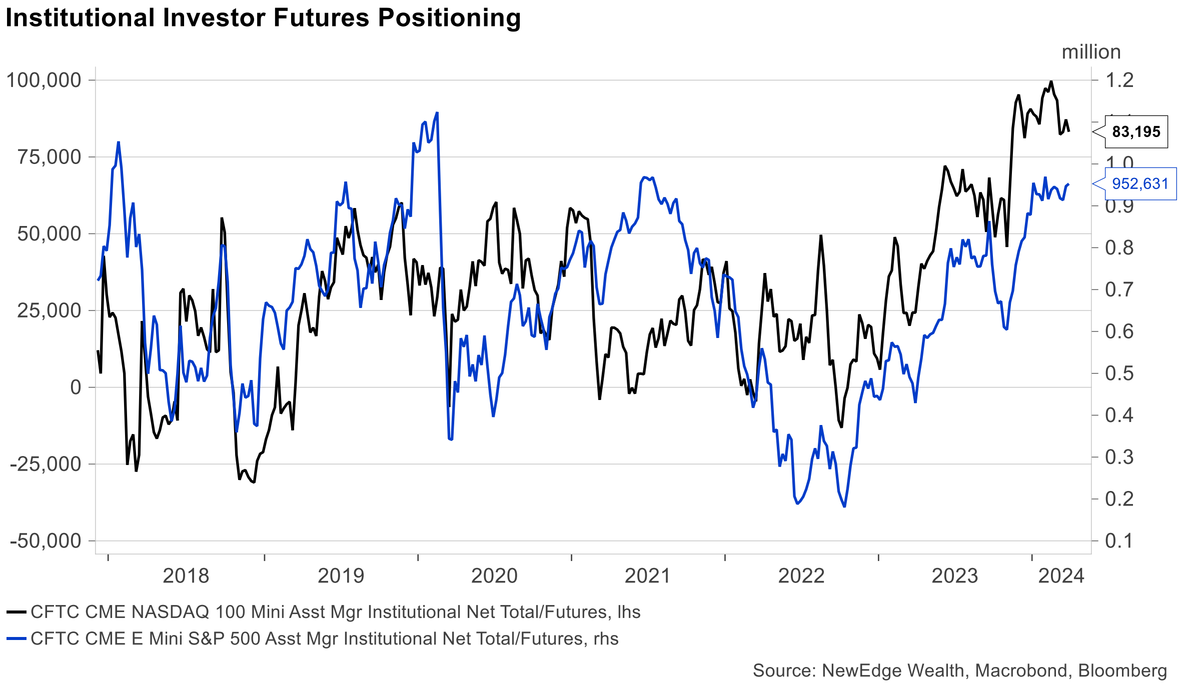
Source: NewEdge Wealth, Bloomberg

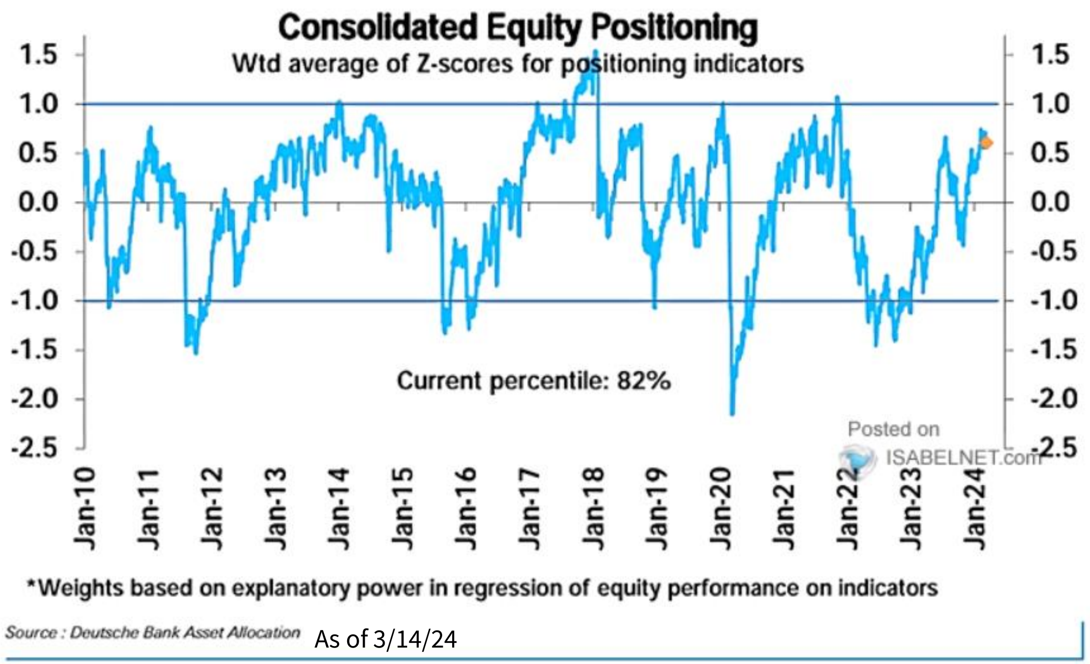
Through the lens of bank reserves and valuations, we can see how liquidity was a headwind to valuations in 2022 and was a tailwind in 2023 and to start 2024.

As the Fed winds down the Reverse Repo facility and Treasury sets a plan for large funding needs in coming quarters, liquidity should be watched closely as a potential headwind/tailwind for risk assets.

Watch bank reserves and overall liquidity going into and coming out of the April tax season.

Sentiment: Institutional Positioning Overweight but Not Extreme

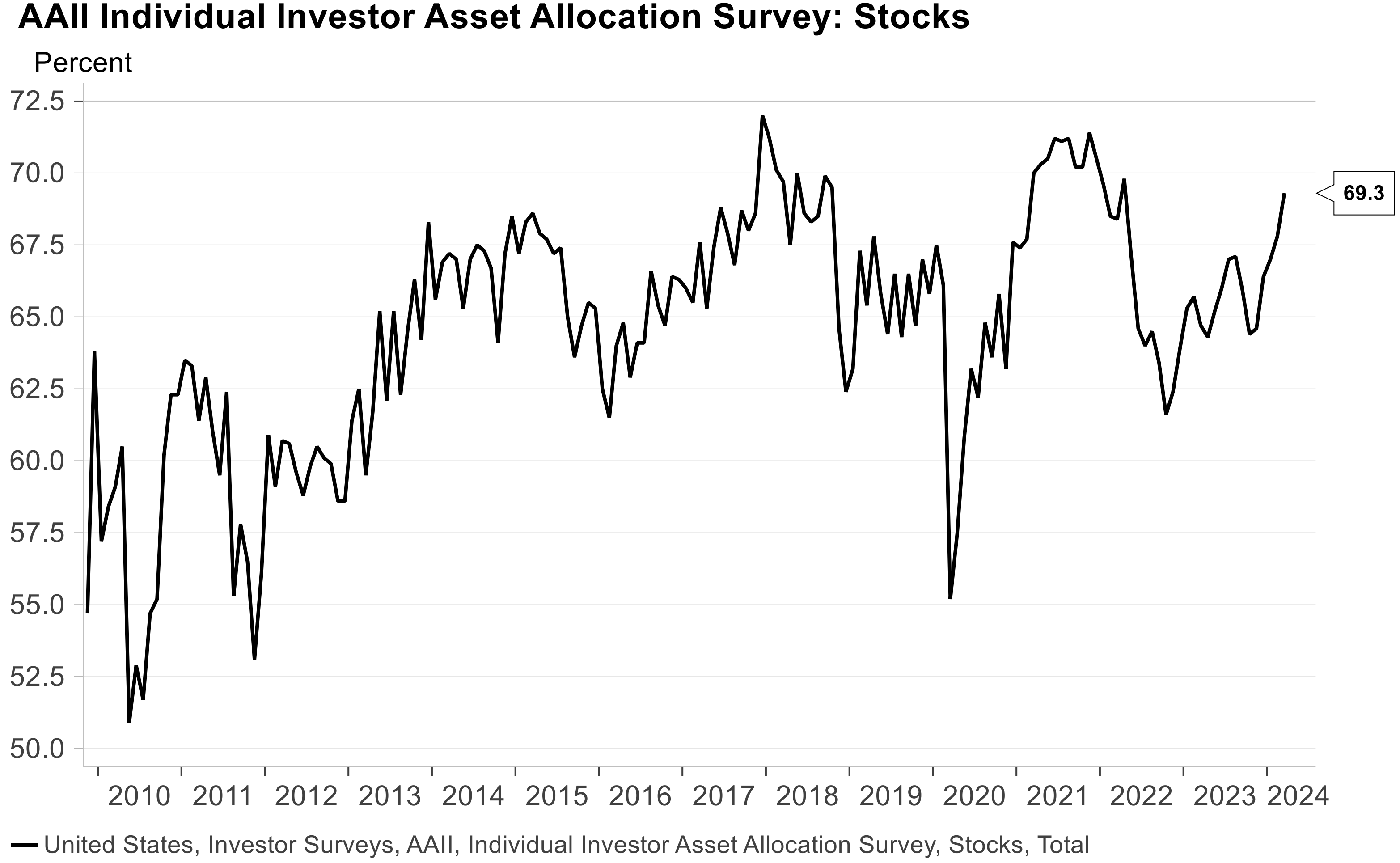




As of 3/14/24

Similar to individual investors, institutional investor positioning went from being underweight to start 2023 to overweight today. This positioning is not yet at extremes; however, the degree of length does suggest a higher bar for upside surprises and incremental investment. As positioning becomes increasingly one-sided, it becomes an increasing risk for equities.

Sentiment: Household Equity Allocations Not Back to Prior Highs, but Close



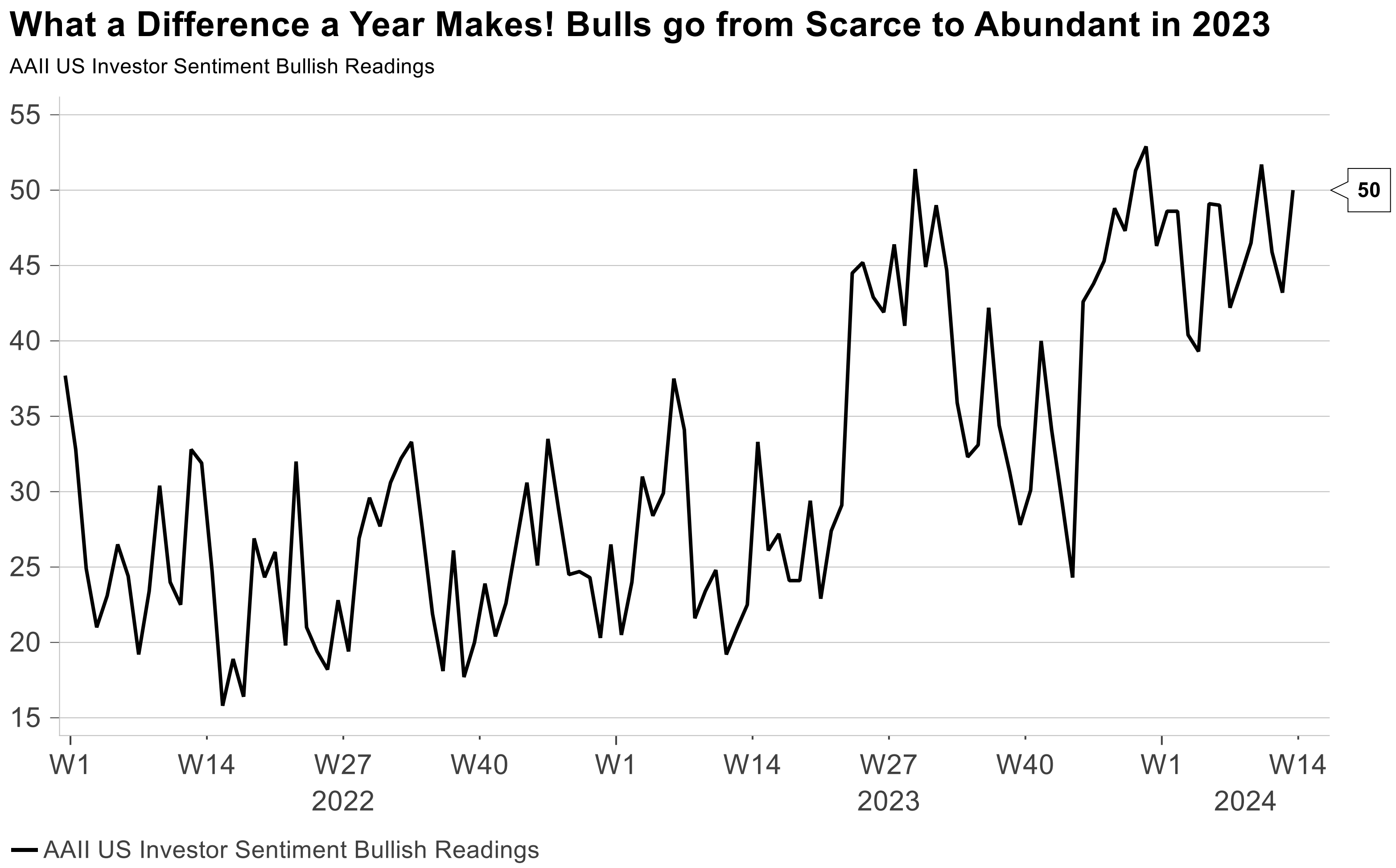
Source: NewEdge Wealth, Macrobond, Bloomberg American Association of Individual Investors (AAII)

Despite much-improved sentiment, we have not seen individual investors return equity allocations back up to their 2021 peaks yet, but they are getting close.

Arguably, there is some room left for investors to increase equity exposure back to prior peaks, but note this typically is a contrarian signal: highest exposure at the peaks, lowest exposure at the troughs.

Data as of: April 2, 2024

Sentiment: Resoundingly Bullish



Source: NewEdge Wealth, Macrobond, Bloomberg

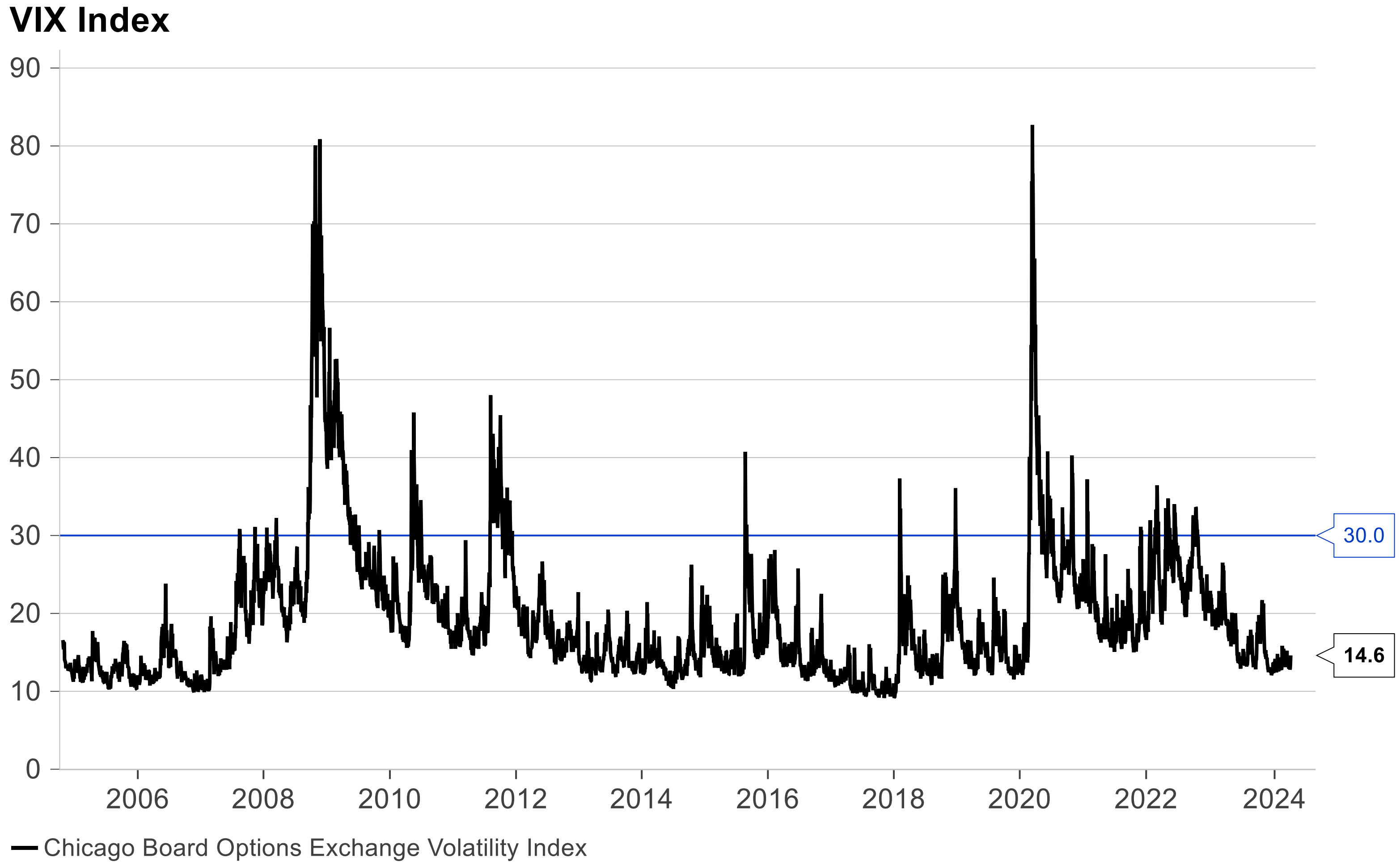
After starting resoundingly bearish in 2023, investor sentiment ended the year resoundingly bullish.

This bullish reading of the AAII Investor Sentiment survey is the highest since 2021.

Sentiment extremes can persist, as they did in 2021, so this is not a great timing tool for a market top.

However, this suggests that the bar for upside surprise is far higher today than the beginning of 2023 when investors had a dour outlook.

Sentiment: Watch for VIX Complacency



Source: NewEdge Wealth, Macrobond, Bloomberg

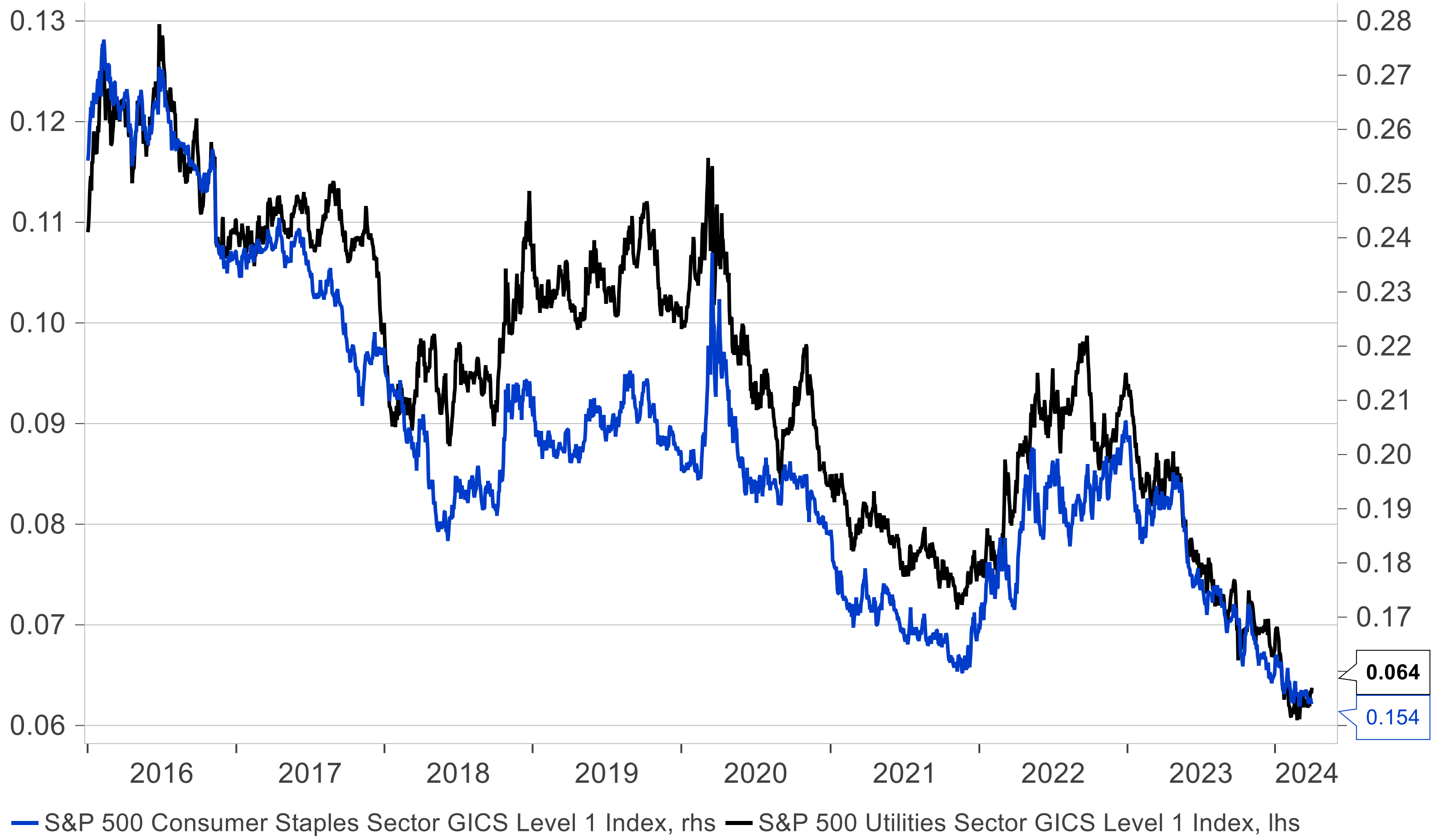
Volatility was markedly subdued all through 2023.

The VIX has not reached the lows of the ultra-low volatility years like 2017/early 2018 (which were followed by a snap higher in volatility in an episode known as "Volmageddon").

Investors should monitor the VIX as a sign of complacency and positioning, which could set up for a snap higher at some point during the year.

Sentiment: Defensives Show No Concern for Growth

Utilties & Staples vs. S&P 500 Showing Few Growth Concerns



Source: NewEdge Wealth, Macrobond, Bloomberg

Defensive sectors (Utilities and Staples) continue to underperform the S&P 500 sharply, reflecting little market concern about economic growth.

Periods of defensive strength (2018, 2020, 2022) have coincided with weaker market environments and rising fears of a weaker growth ahead.

NewEdge WEALTH

Data as of: April 2, 2024

Animal Spirits Revived, Helped by Liquidity

IPO ETF Absolute (Top) and Relative to the S&P 500 (Bottom)

One sign of risk appetite, or "animal spirits", is the performance of recently IPO (initial public offering) companies.

This is boosted by the supportive liquidity environment, making IPO performance a good watch item to gauge liquidity and risk appetite.

These companies tend to be riskier and more speculative.

After a bruising 2021 and 2022, IPOs began to see improved performance in 2023 and 2024.

Better IPO performance gives private equity firms greater confidence to bring companies to public markets for listing.

Data as of: April 2, 2024

Growth vs. Value

Source: NewEdge Wealth, Macrobond, Bloomberg

Both Growth and Value got off to a strong start in 1Q (Russell 1000 Growth +11%, Value +8%), however nearing the end of the quarter, Value started to show stronger performance as Growth stalled.

Value's large weight to Financials, Energy, and Industrials was the key driver of better relative performance; while Growth's large weight to Technology was a drag.

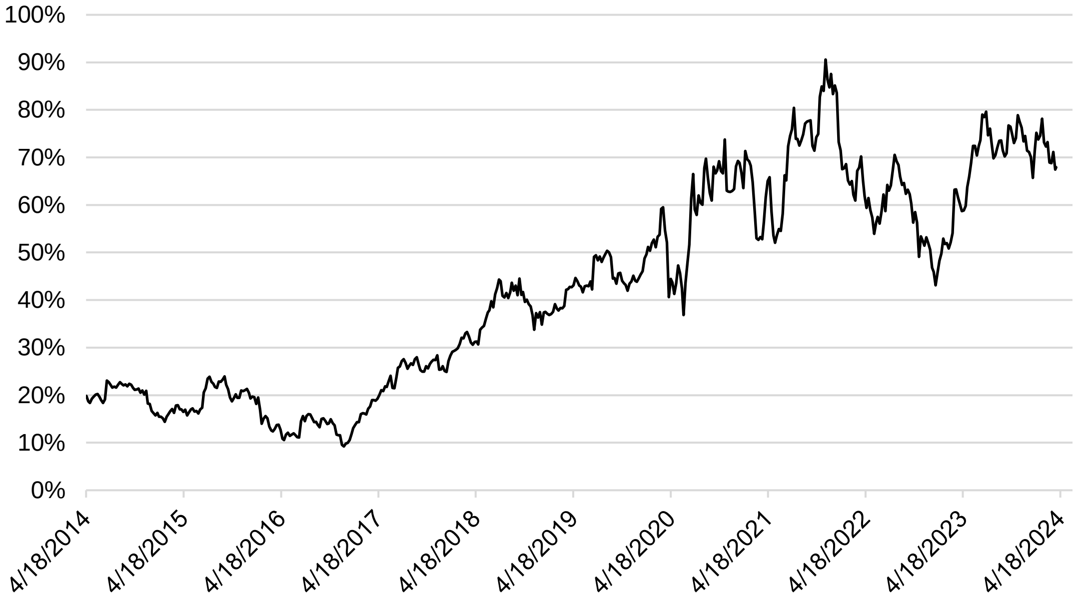
Russell 1000 Sector Weightings

	Growth	Value
Communication Services	11%	5%
Consumer Discretionary	16%	5%
Consumer Staples	4%	8%
Energy	1%	8%
Financials	7%	22%
Health Care	11%	15%
Industrials	6%	14%
Materials	1%	5%
Real Estate	1%	5%
Technology	43%	9%
Utilities	0%	5%

Data as of: April 2, 2024

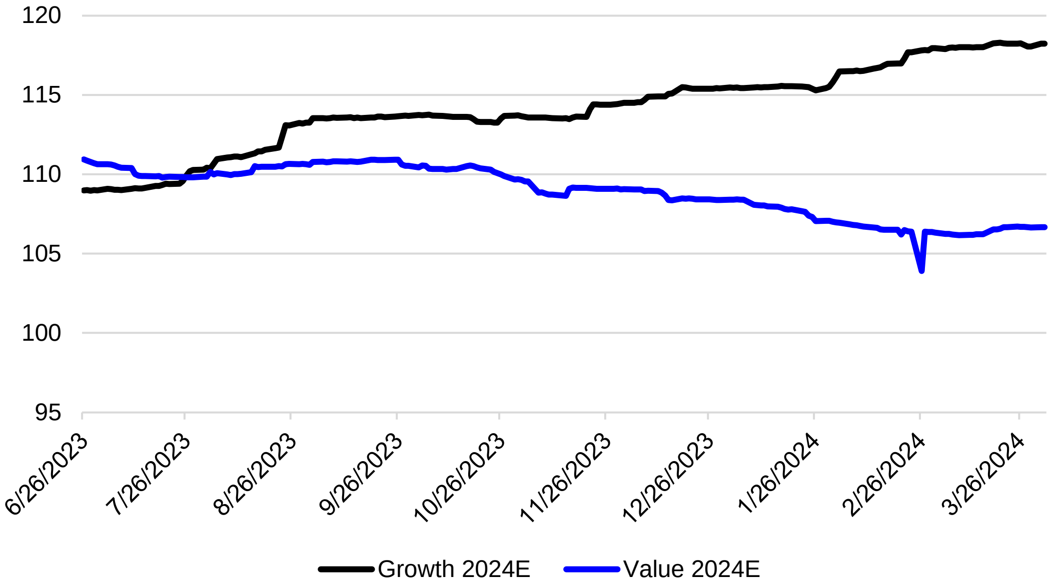
Growth vs. Value

Growth Premium Over Value
Russell 1000 Growth vs. Value Forward PE



Source: NewEdge Wealth, Bloomberg

Growth and Value 2024 EPS Esimate Progression



Source: NewEdge Wealth, Bloomberg

Growth outperformed Value in 2023 thanks to both multiple expansion (Growth trading at an increasingly higher PE ratio vs. Value) and thanks to Growth EPS estimates moving higher vs. Value's which continue to drift lower.

In order to see a sustained rally in Value over Growth, we think Value EPS estimates need to at least stabilize. A higher commodity price environment could help key Value sectors like Energy, Materials, and Industrials.

Data as of: April 2, 2024

International

MSCI World Excluding United States Index vs. S&P 500

Source: NewEdge Wealth, Macrobond, Bloomberg

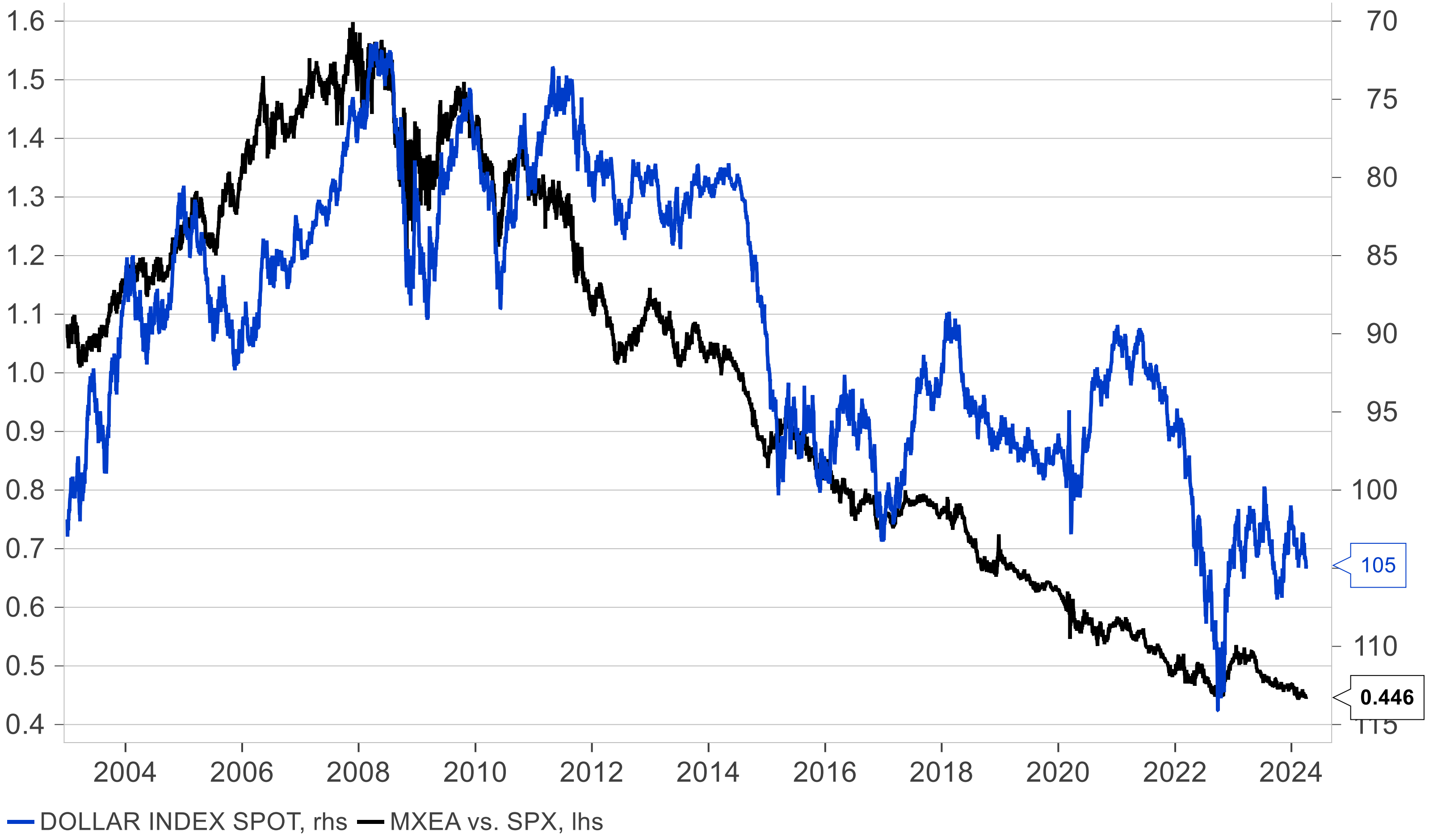
Non-U.S. stocks continue to struggle versus U.S. peers, as seen in the long-term chart that slows the 15 year downtrend that the World-Ex U.S. index has been in vs. the S&P 500.

This underperformance is largely due to weak earnings growth outside of the U.S. (as shown in upcoming slides), which has been notably lower even in emerging markets where economic growth has been much higher.

Always good to remember: the economy is not the market!

International

EAFE International Developed vs. S&P 500 and DXY Inverted



Source: NewEdge Wealth, Macrobond, Bloomberg

The broad trend of a stronger U.S. Dollar since the 2008 low has also contributed to weak non-U.S. performance.

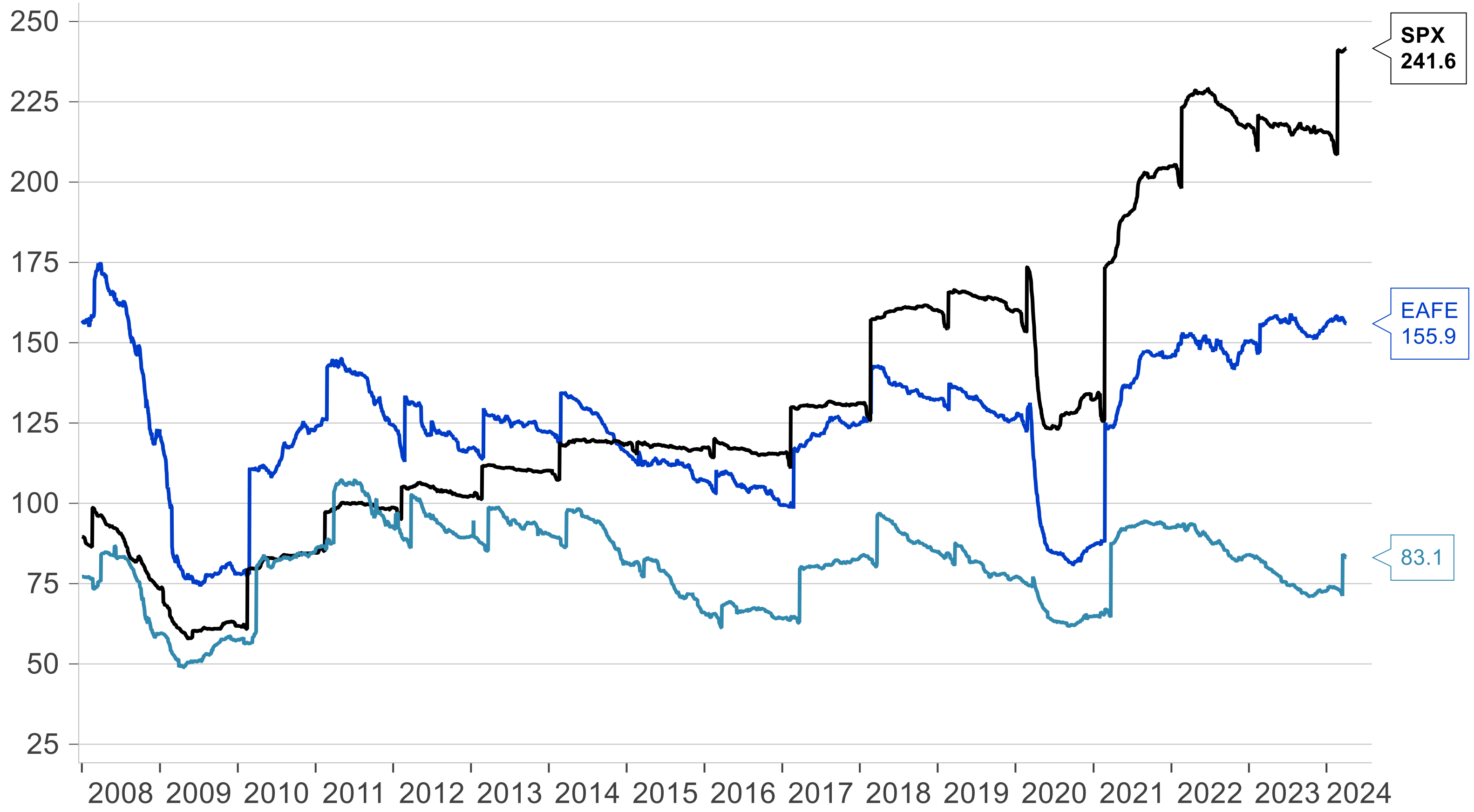
The 2000-2008 period of a weak USD was very supportive on non-U.S. assets, which arguably experienced a bubble in that decade.

Since that 2008 peak, non-U.S. stocks have consistently underperformed U.S. peers.

We see a turn in the USD to a prolonged weakening as a necessary condition for a prolonged non-U.S. period of outperformance.

International

Earnings Per Share S&P 500 and EAFE International Developed



Source: NewEdge Wealth, Macrobond, Bloomberg

Weak earnings growth has also been the key reason why non-U.S. stocks have underperformed U.S. markets.

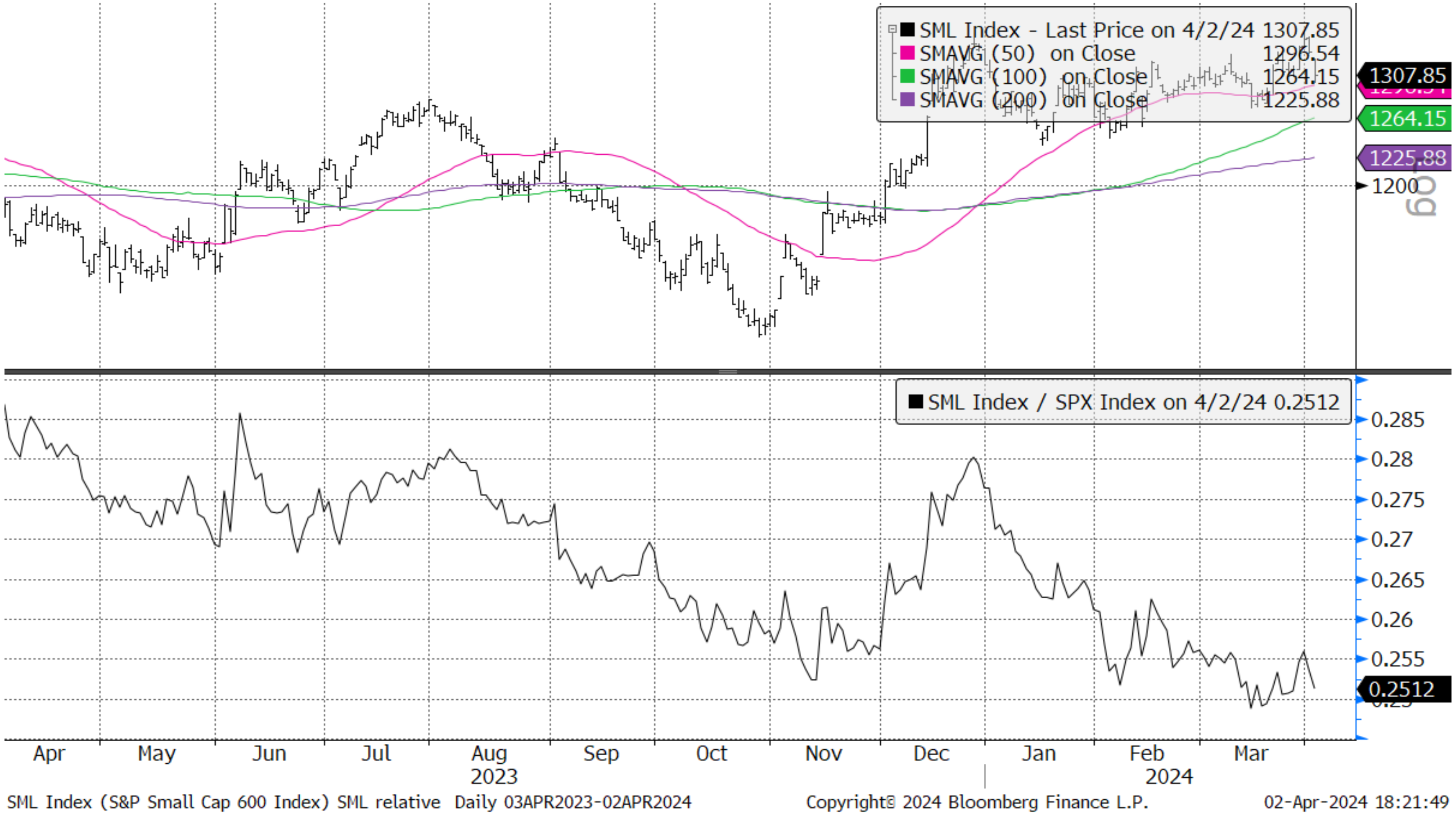
It is incredible- the International Developed and Emerging Markets index EPS are both still below their 2007/2008 peak, while the S&P 500's EPS is nearly 150% higher than this peak.

This brings up the phrase: "cheap for a reason."

Data as of: April 2, 2024

Small Caps

S&P 600 Small Cap (SML Index) Absolute (top) and Relative to S&P 500 (bottom)



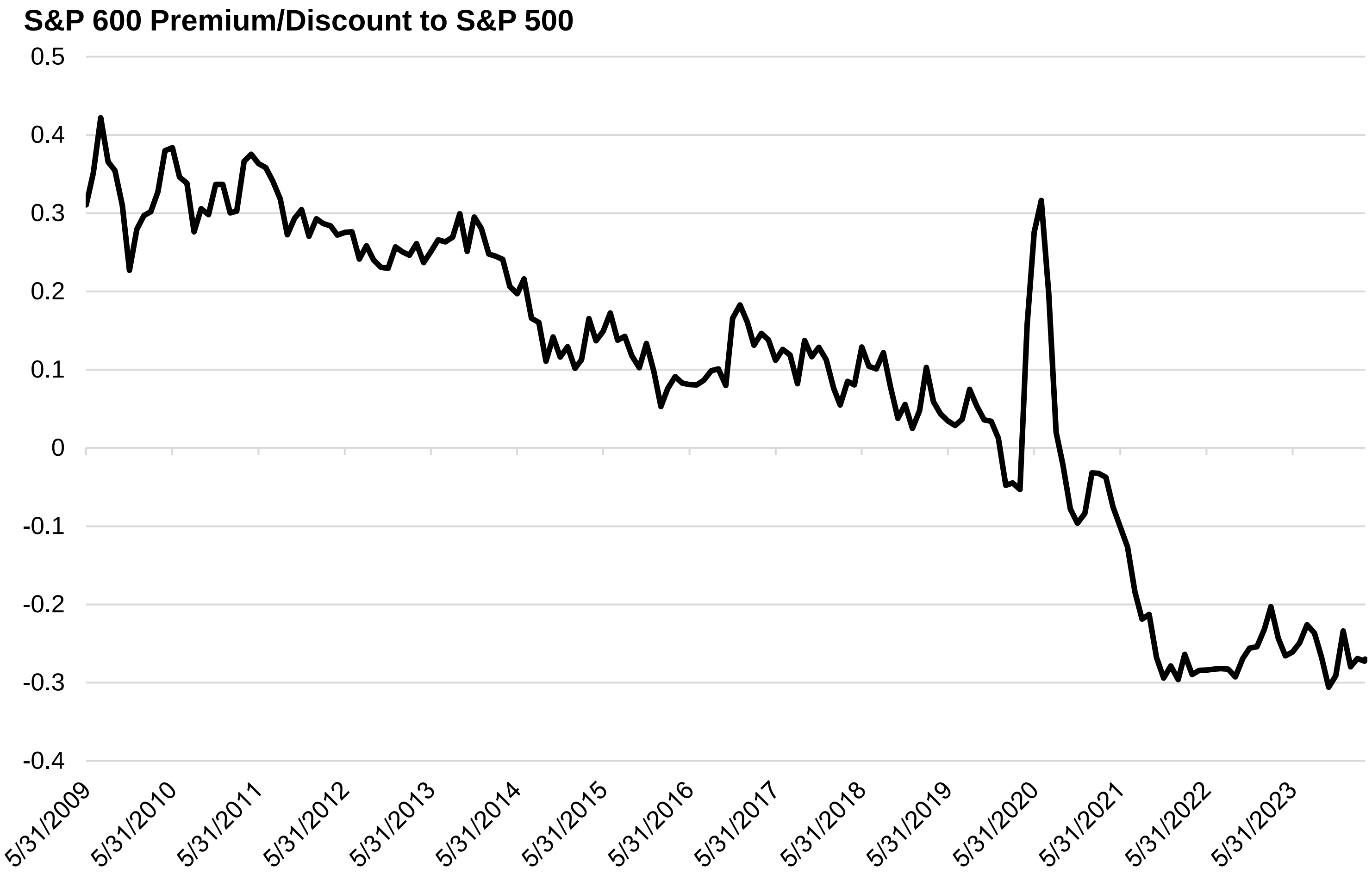
Source: NewEdge Wealth, Bloomberg

Despite the rise in yields YTD, small caps have had somewhat resilient performance (trading above their 50-day moving average).

However, the small cap S&P 600 continues to underperform the S&P 500 (there was a short burst of outperformance at the end of March).

Higher yields are considered a greater challenge for the small cap index given its higher debt levels, greater usage of floating rate debt, and larger portion of companies that are unprofitable (these metrics are even more pronounced with the Russell 2000, which includes smaller names than the S&P 600).

Small Caps



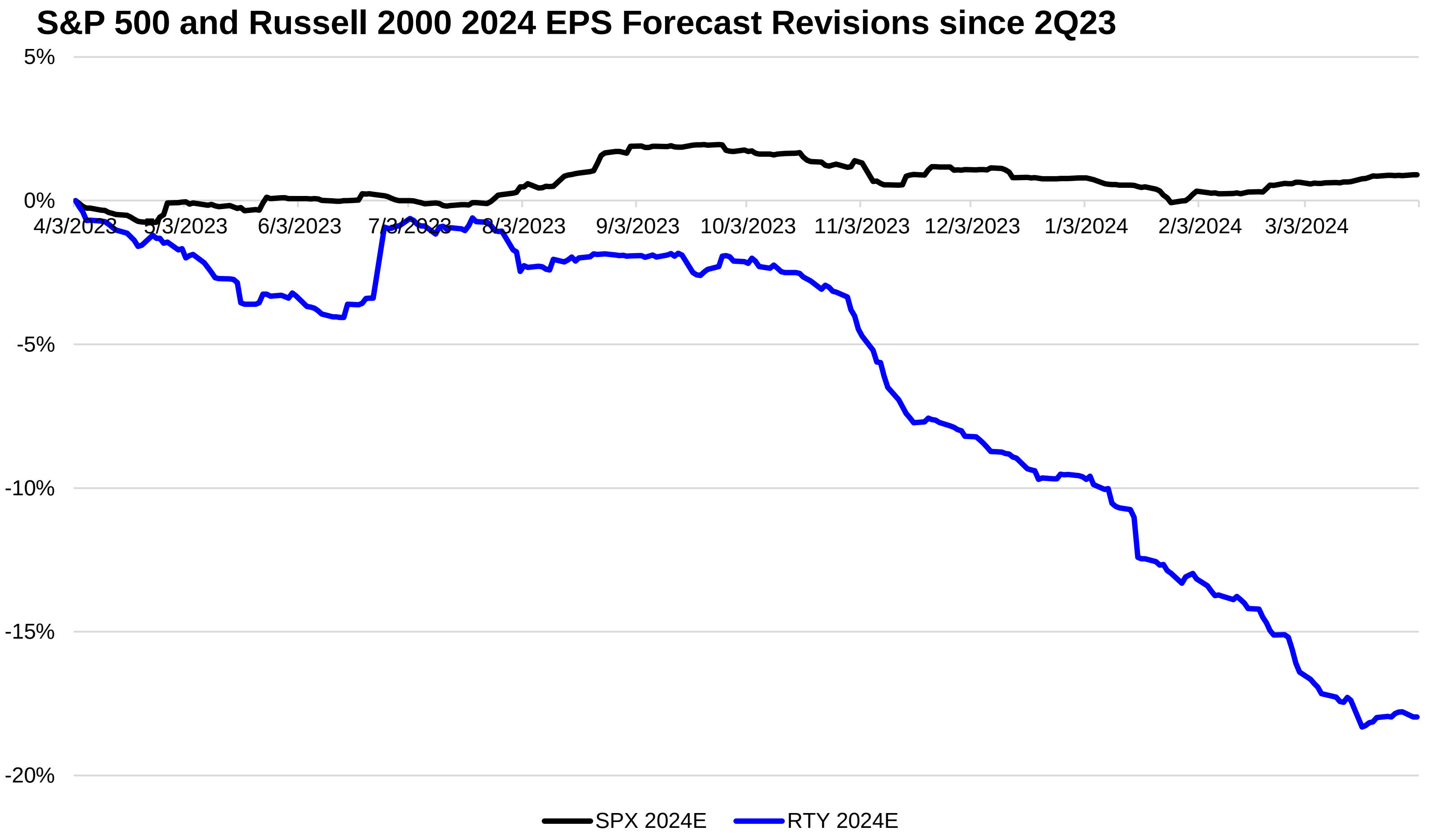
Source: NewEdge Wealth, Bloomberg

Small cap's lower valuation has been cited as a reason for future outperformance, however we continue to note that valuation is not a catalyst.

This is seen with small cap S&P 600 continuing to trade near a 30% discount to the S&P 500. This discount is the result of 15 years of "de-rating" vs. large caps.

This highlights the opportunity within small caps to be selective, finding higher quality companies within this lower quality index (small caps have higher debt levels and higher rates of unprofitability vs. large caps).

Small Caps



Source: NewEdge Wealth, Bloomberg

A key reason for small cap indices' continued underperformance versus large cap indices is EPS revisions.

Since 2Q23, the Street's forecasts for 2024 index EPS for the S&P 500 have been relatively flat. However, for the Russell 2000, estimates have been cut 18% for 2024 earnings.

This partially reflects the greater pressure that small caps feel from high interest rates.

This creates a lowered bar for upside surprise, but also speaks to the need for estimates to stabilize in order to see improved small cap performance.

Fixed Income

2Q24 Fixed Income Outlook Themes

Potential for Retracement to the 2023 Highs in Yields

A reduction of rate cuts priced in, large Treasury issuance, and surprisingly strong economic growth could push the 10Y yield to 4.5% to 4.75%. The yield curve may 'bearish steepen' with long-term rates rising relative to short-term rates. This could create "buy the dip" opportunities.

Credit Fundamentals are Solid but Beware of Overvaluation

Credit spreads are near historic tight levels. Default rates are low and companies have been able to roll over debt maturities smoothly. But beware of overvaluation because credit spreads have been driven by strong equity performance while issuance continues to stay robust.

Fixed Income Performance Dispersion

Treasuries may continue to underperform whereas a strong economy that keeps the Fed on a higher for longer hold supports other asset classes such as senior loans, structured credit, bank preferreds, and floating rate notes could outperform. The dispersion in performance could widen in Q2.

Diversification Opportunities

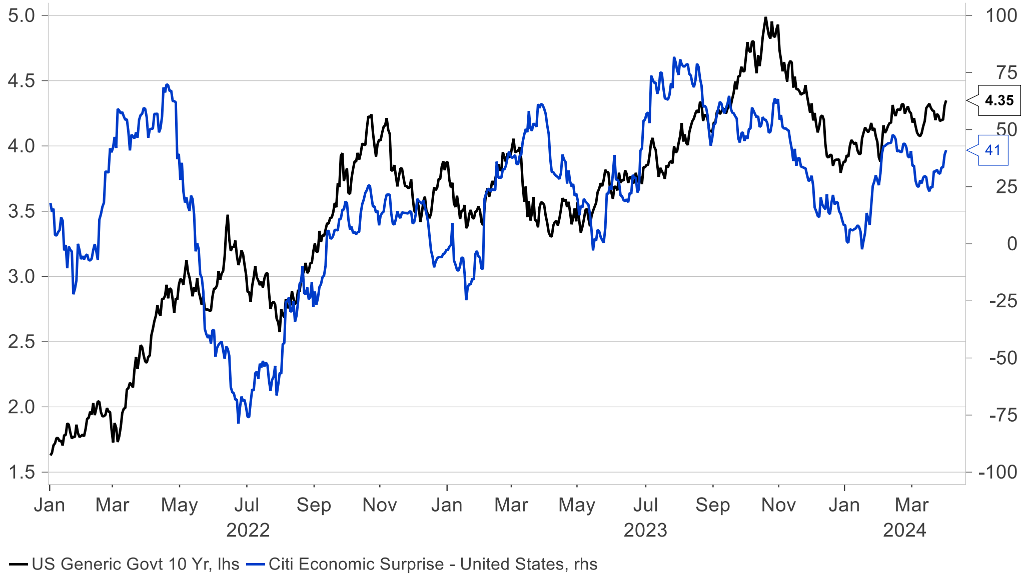
Emerging Markets are less correlated to the dollar because of EM central banks' lowering rates and the uplift in commodities. EM and international fixed-income could be the diversification opportunity to US Treasuries and overvalued Investment Grade Corporates.

2Q24 Fixed Income Outlook

Factors That Will Drive Bonds in 2Q24

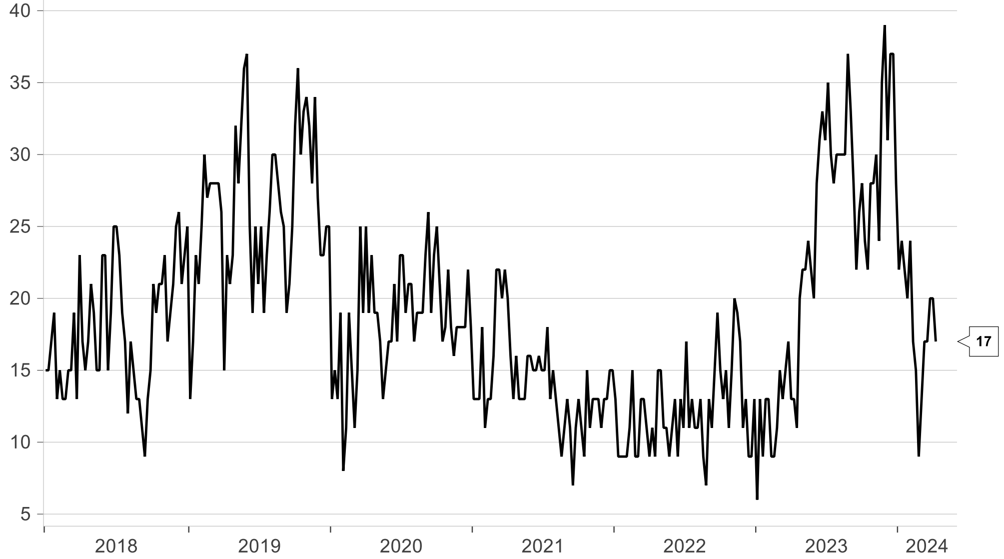
- **Fed expectations**: With now just three rate cuts prices in, bond markets continue to hold the conviction that the Fed won the inflation battle and can still lower rates. But the Fed is persuading markets that it is not in a hurry and there may just be one cut because of the strength of the economy. The “push-pull” between the Fed and markets set a trading range, and unless/until the economy goes into recession, this prevailing range offers elevated coupon returns and modest spread and duration returns.
- **Inflation**: Bond markets have priced inflation expectations to perfection, predicting 2% inflation by the end of 2024. However, there remains a risk of a “bear steepening” occurring in the yield curve (long rates rise faster than short rates), like what was experienced in the summer of 2023.
- **Liquidity**: The Fed is contemplating slowing the pace of QT and this may be decided by May or June. For specific markets – like Treasuries, Munis, MBS, and corporate bonds – structural illiquidity post-GFC means that the “end” of QT may not necessarily bring relief unless combined with rate cuts.
- **Positioning**: Distortions between futures and cash markets will continue to play a dominant role in the pricing of rate cut expectations, which in turn affect valuations across fixed income. The credit overweight could shift to Treasuries, MBS, preferreds, and other sectors when faster rate cuts do eventually follow.
- **Issuance**: Treasury issuance will remain large-scale. IG and HY bond issuance by corporations is expected to increase by $250 billion. Supply indigestion will continue to challenge duration positioning.

10 Year Treasury Yield and Citi Economic Surprise Index



Source: NewEdge Wealth, Macrobond, Bloomberg

U.S. JP Morgan Treasury Investor Sentiment All Client Long



Source: NewEdge Wealth, Macrobond, Bloomberg

NewEdge WEALTH

Data as of: April 2, 2024

2024 Fixed Income Outlook: Credit

Key Points

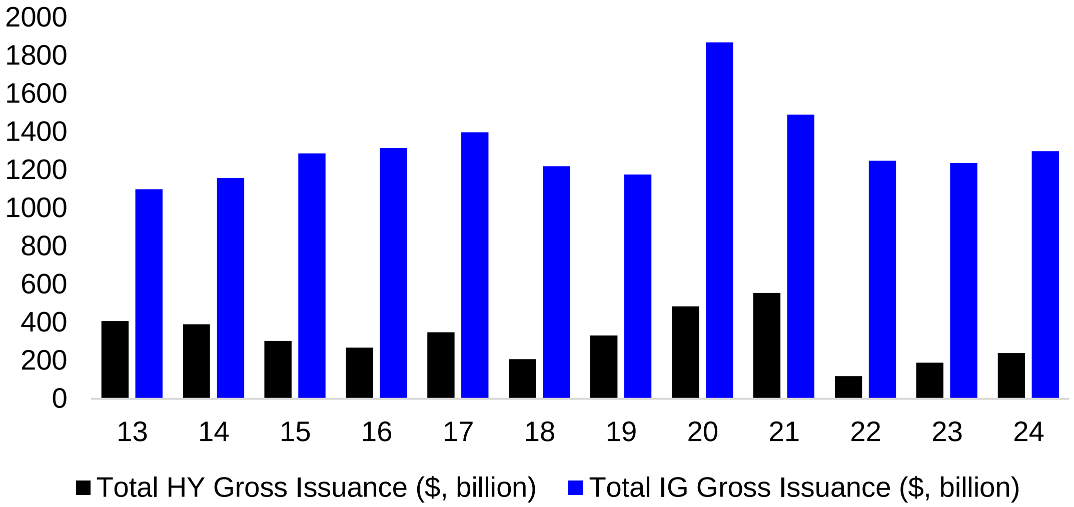
Issuance

- High-yield corporate new issuance may reach $250 billion in 2024 should the current narratives of the soft landing prevail.
- Investment grade new issuance in 2024 may come in at $1.3 trillion, owing to a more active maturity calendar.
- Issuance is concentrated in A and BBB-rated categories for a total of over $1.2 trillion in IG. In High Yield, there is a $30 to $50 billion increase in B and BB-rated issuance. CCC issuance remains low at around $11 billion.

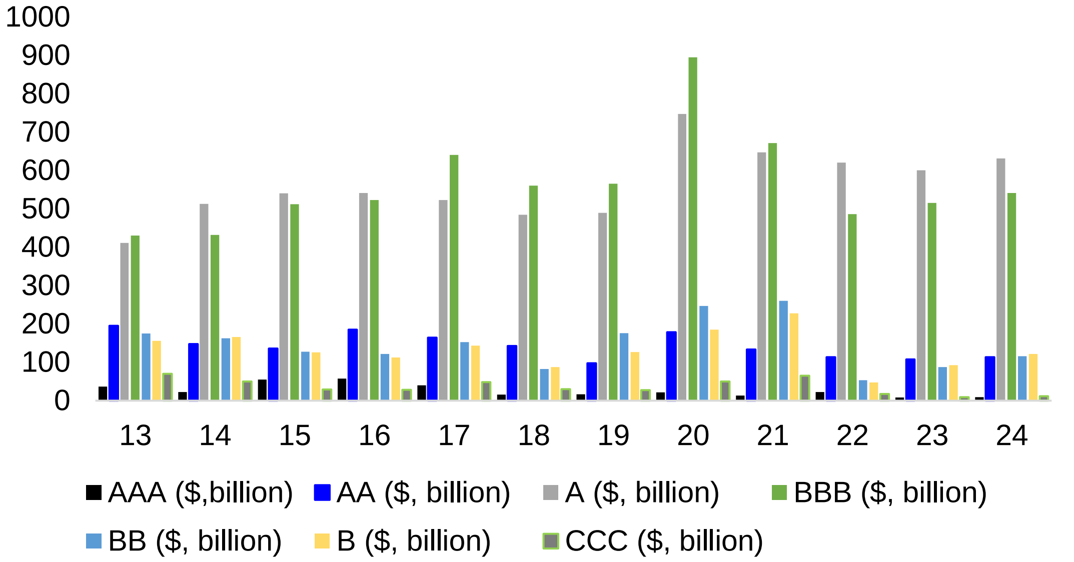
Defaults & Spreads

- IG default is expected to rise to 1-1.5% and HY to 2-2.5%. The implied default from CDS is 2.5% for IG and 4% for HY. The default outlook is benign, but distress is slowly on the rise.
- Upside Potential: issuance is well absorbed; moderate distress in HY attracts investor demand in a lower Treasury yield environment.
- Downside Risk: weaker economic growth than expected can push spreads 200 basis points wider and lead to a decline in HY primary issuance.
- HY starts in a near overvalued state compared to 2022-23. Yet, yields around 8% to 11% across BB to CCC can continue to attract interest via investors "chasing yields."
- The weakest sectors, healthcare, communications, and technology, are also experiencing the largest rise in default rates and are in significant disinflation/deflation. These three sectors represent 34% of the HY index and pose a risk for further deterioration of credit more broadly.

Credit Issuance (with 2024 Bloomberg Estimate)



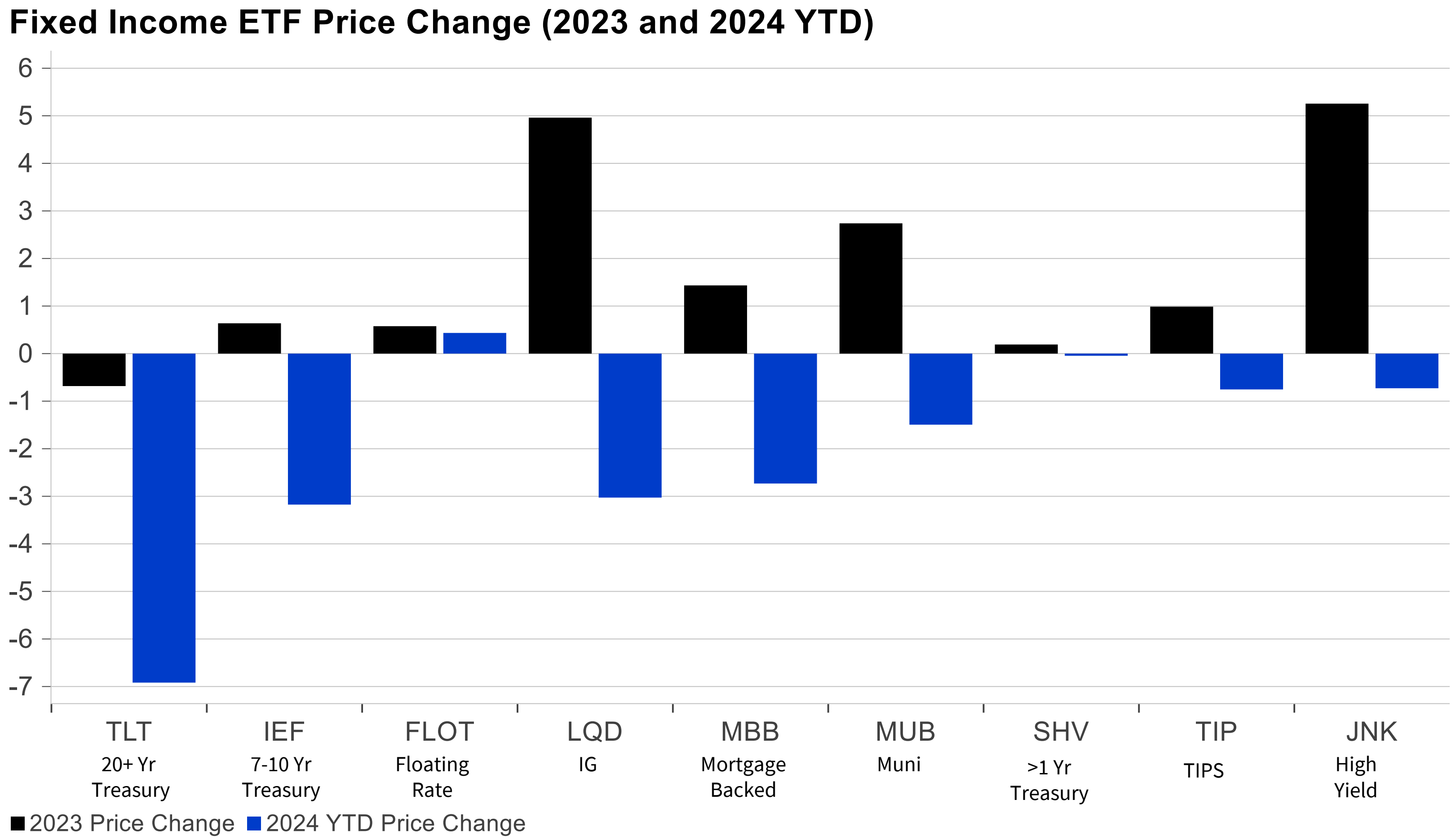
Issuance by Credit Rating



Source: Bloomberg, NewEdge Wealth

Data as of: April 2, 2024

2024 A Challenged Start



Source: NewEdge Wealth, Macrobond, Bloomberg

Bonds are off to a sluggish start to 2024, as price gains for this year are expected to be lower than in 2023 due to lower starting yields for many bonds.

For portfolio management, a tactical range trading strategy is appropriate to manage duration in a politically and economically uncertain year.

The extension of duration should be diversified between intermediate to 10Y-20Y Treasuries, intermediate, high-quality investment grade bonds, and emerging market bonds.

Data as of: April 2, 2024

10 Year Treasury Range: 3.75% to 5%

10 Year Treasury Yield

Source: Bloomberg, NewEdge Wealth

As of 3/30/24

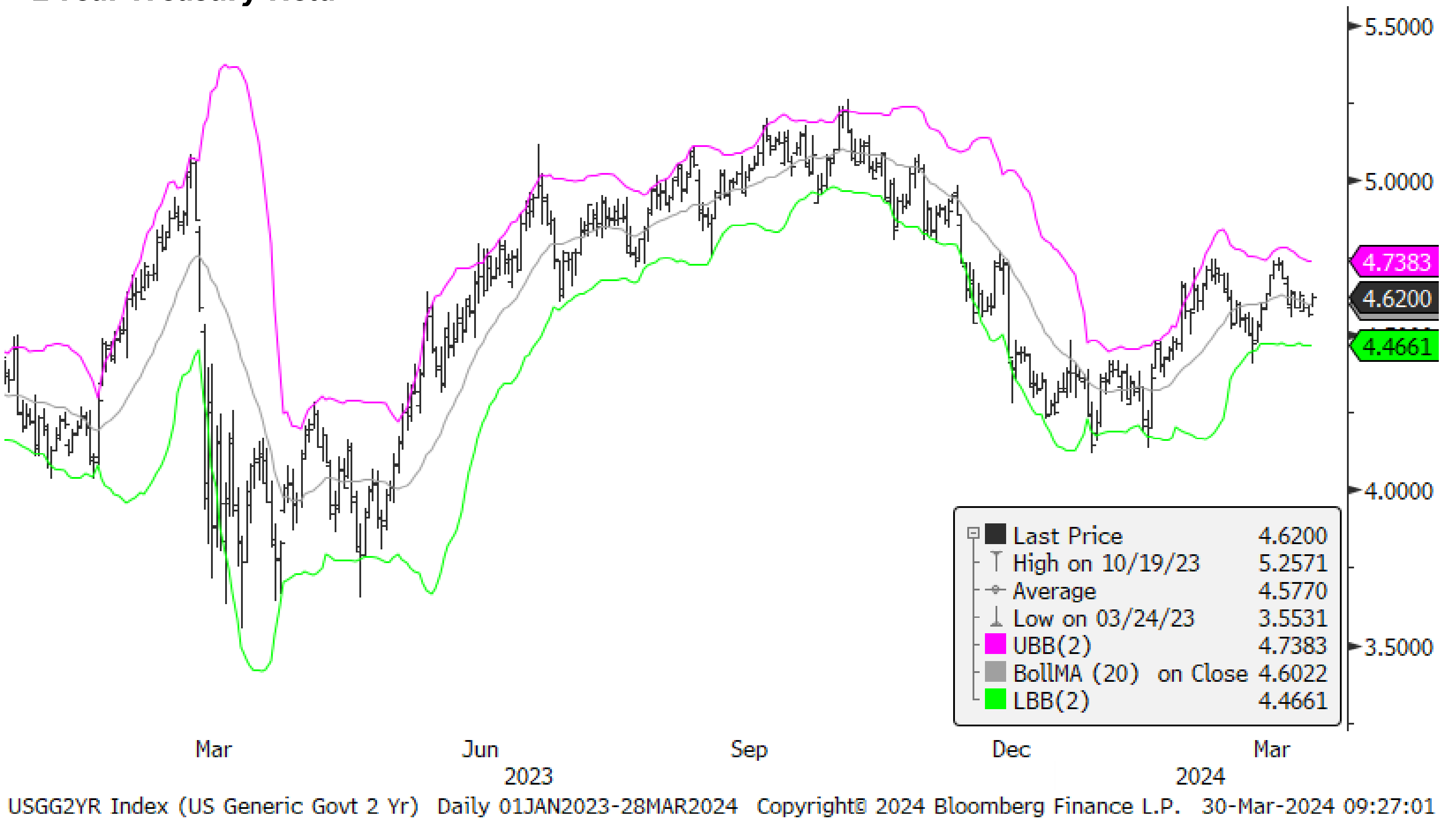
The 10Y yield could trade at the higher end of the 3.75% to 5% range in the first half of 2024 on improving growth data and increased Treasury coupon issuance.

A full retracement to the 2007 highs of 5.32% is still *possible*, provided the 61.8% retracement at 3.46% holds as support.

An interim decline to 3.9% to 4% cannot be excluded if the next CPI and payroll data continue to soften, which can cement the number of rate cuts at 3 for 2024.

2 Year Treasury Range: 4% to 5%

2 Year Treasury Yield



As of 3/30/24

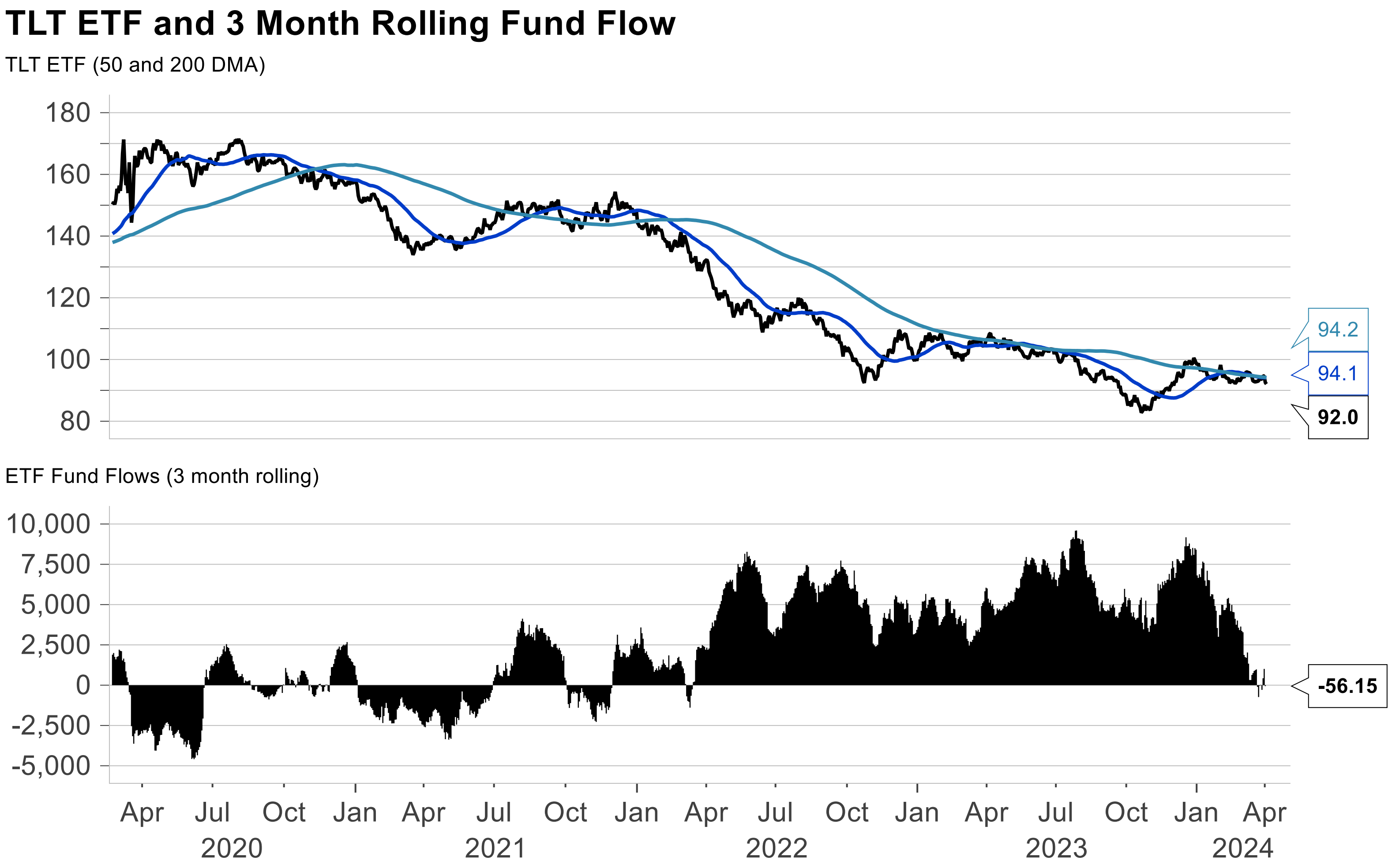
Source: Bloomberg, NewEdge Wealth

The 2Y yield may temporarily drift closer to 4.45% as markets re-attempt to price the start of the easing cycle by June.

Yet, the Fed remains less eager to cut soon and quickly unless (super) core inflation eases faster or if economic growth weakens.

Short-term Treasuries may have to recalibrate the Fed's restrictive stance once again when the economy shows further signs of resilient strength in Q2, which could drive up yields towards 5%.

Investor Bet on Lower Yields Ahead



Source: NewEdge Wealth, Macrobond, Bloomberg

Flows into long-dated Treasury ETFs were robust all through 2022 and 2023, as investors continuously tried to pick the top in yields and the bottom in price for ETFs like TLT.

Data as of: April 2, 2024

Credit Spreads Have Scope to Widen

Credit Spreads Compress to Start 2024

High Yield and Investment Grade (Baa) Credit Spreads

Source: NewEdge Wealth, Macrobond, Bloomberg

Our base case is for a moderately wider IG spread environment on larger issuance, a (bullish) steeper Treasury curve, and rising default rates. The higher end of the IG average spread is 200 basis points vs. the lower end at 110 basis points. A tighter spread would prevail if liquidity were to rise substantially.

The implied range for the High Yield Index option-adjusted spread (OAS) is 400 to 650 bps for year-end 2024 (signaling the potential for spreads to widen). The default rate and weak sectors like Healthcare can contribute to the widening of HY spreads. We believe the risk-on sentiment in equities on rate cuts and a soft landing could push spreads temporarily below 300 basis points.

IG Credit Get Tighter to Start 2024, Led by Financials

IG Spreads by Sector

Our base case is for a moderately wider IG spread environment on larger issuance, a (bullish) steeper Treasury curve, and rising default rates.

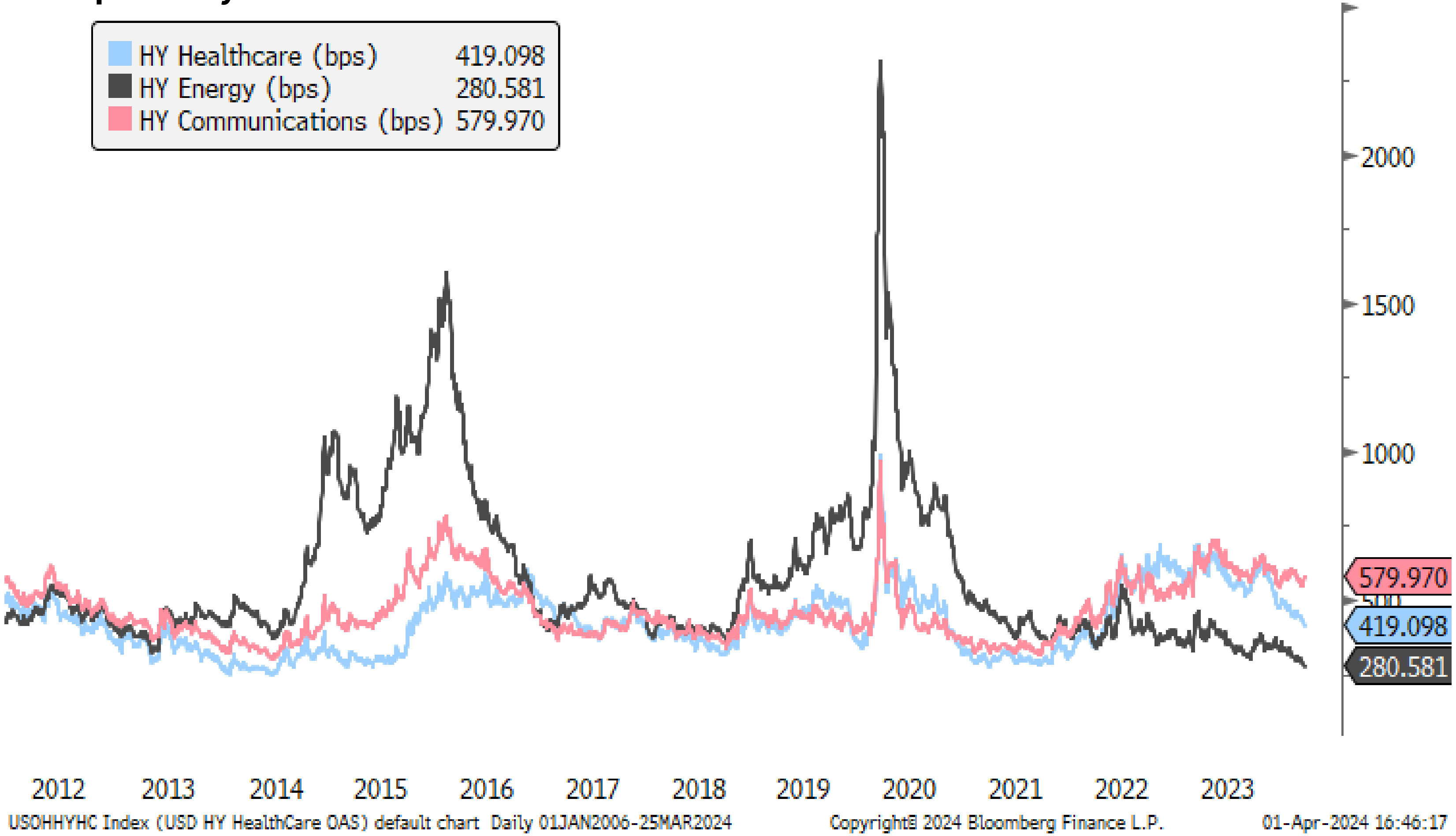
The higher end of the IG average spread is 200 basis points vs. the lower end at 110 basis points. The weakest sector is the Financials/regional banks which have large exposure to CRE write-downs, but even these spreads have tightened materially YTD.

Source: Bloomberg, NewEdge Wealth

As of 3/30/24

HY Credit Spreads by Sector

HY Spreads by Sector



The range for the High Yield Index option-adjusted spread (OAS) is 400 to 650 bps for year-end 2024 (signaling the potential for spreads to widen). Weak sectors like Healthcare and Communications can contribute to the widening of HY spreads.

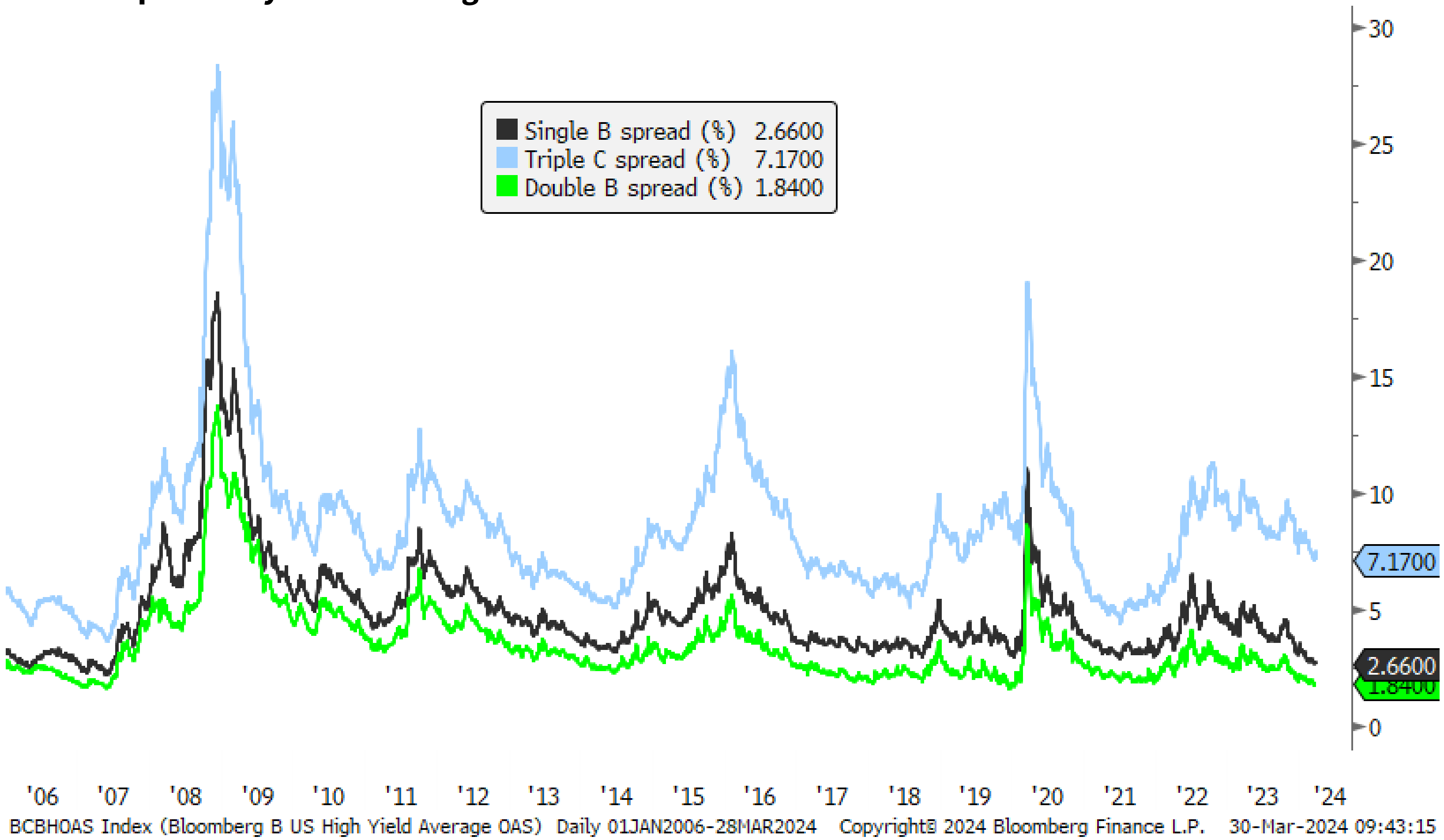
The risk-on sentiment in equities on rate cuts and a soft landing could push spreads temporarily further below 300 basis points. HY Energy is the most overvalued at this stage.

Source: Bloomberg, NewEdge Wealth

As of 3/30/24

High Yield Sector Spreads Compress Even for Riskiest Borrowers

HY Spreads by Credit Rating



Source: Bloomberg, NewEdge Wealth

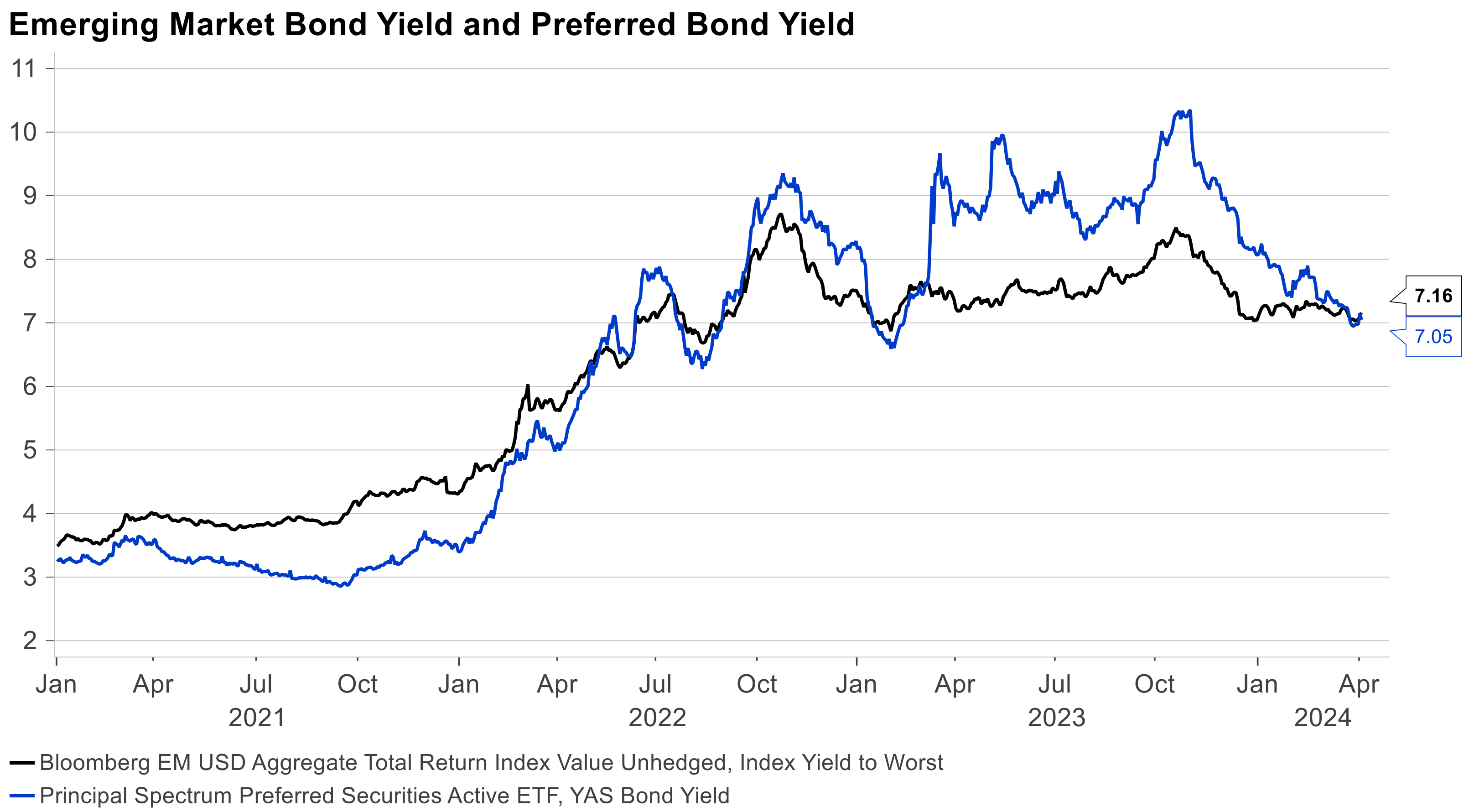
As of 3/30/24

The speculative areas of High Yield such as CCC and B-rated, are drifting to the lower end of the historical range.

Strong equity performance has driven the speculative grades into overvaluation territory.

A correction in spreads would likely to be slow at first but could pick up momentum if equities temporarily pull back or if growth expectations were to soften.

Emerging Market Debt and Preferreds



Source: NewEdge Wealth, Macrobond, Bloomberg

Two of the cheapest fixed-income sectors are emerging markets (EM) and preferreds.

Each has the risk of drawdowns in the event of an equity market selloff and/or a strengthening in the US dollar.

In a higher-for-longer scenario of the Fed slowly lowering rates over an extended period, EM and preferreds could outperform, based on historical performance in similar scenarios.

The yields ranging from 6% to 10% are elevated and could offer diversification against IG credit and High-Yield.

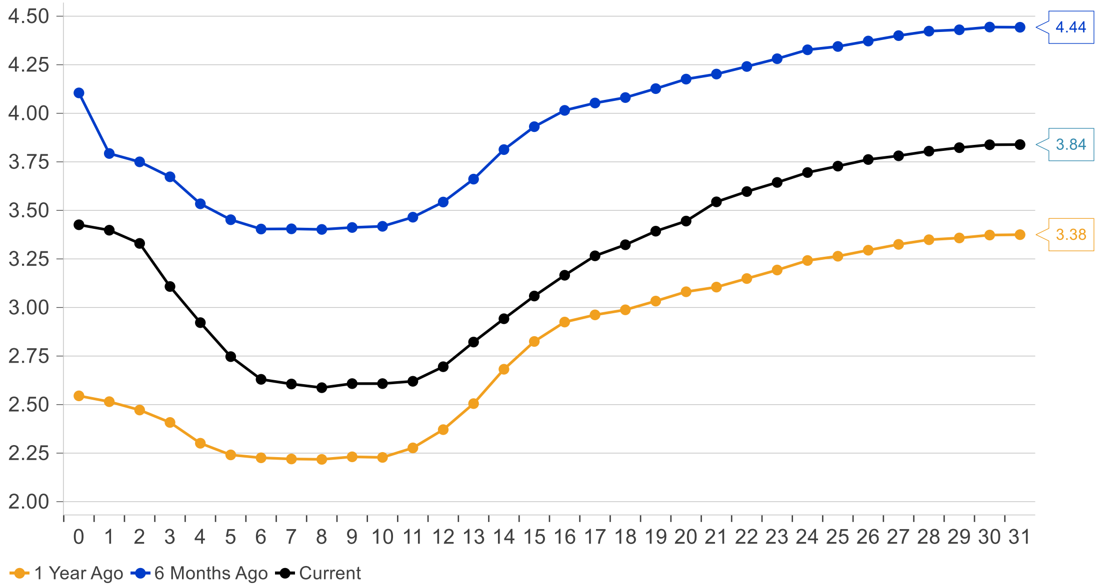
2024 Fixed Income Outlook: Munis

Key Points

- The municipal yield curve currently presents attractive opportunities. Target a barbell maturity structure to capitalize on high front end and intermediate yields which provides less rate risk and a potential for total return. Consider taxable alternatives if buying in 2-10 years.
- Investors will need to be alert to future rate volatility, especially with the market anticipating a major change in monetary policy followed by a fast-approaching national election. We believe investors will be rewarded by adhering to a "buy the dip" mentality when and if this occurs.
- Spread compression in munis was not a dominant theme in 2023 the way it was in 2021 (massive tightening) and 2022 (unwinding of historically tight spreads). In 2024, There has been significant HY spread compression and a tightening of A and BBB rated securities however, spreads still remain attractive on an after tax basis.
- Demand will be supported by a healthy fundamental backdrop and historically attractive tax-equivalent yields while Supply/Demand dynamics should continue to improve.
- Although year-over-year growth of tax receipts slowed for parts of the country in 2023, tax collections are coming off a historic base in 2022 and moderating from the strong growth and stimulus since the pandemic. Municipal credit-rating upgrades significantly outpaced downgrades overall in 2023, and while we expect the positive momentum to continue into 2024, even as we've begun to see a slowing in tax collections.

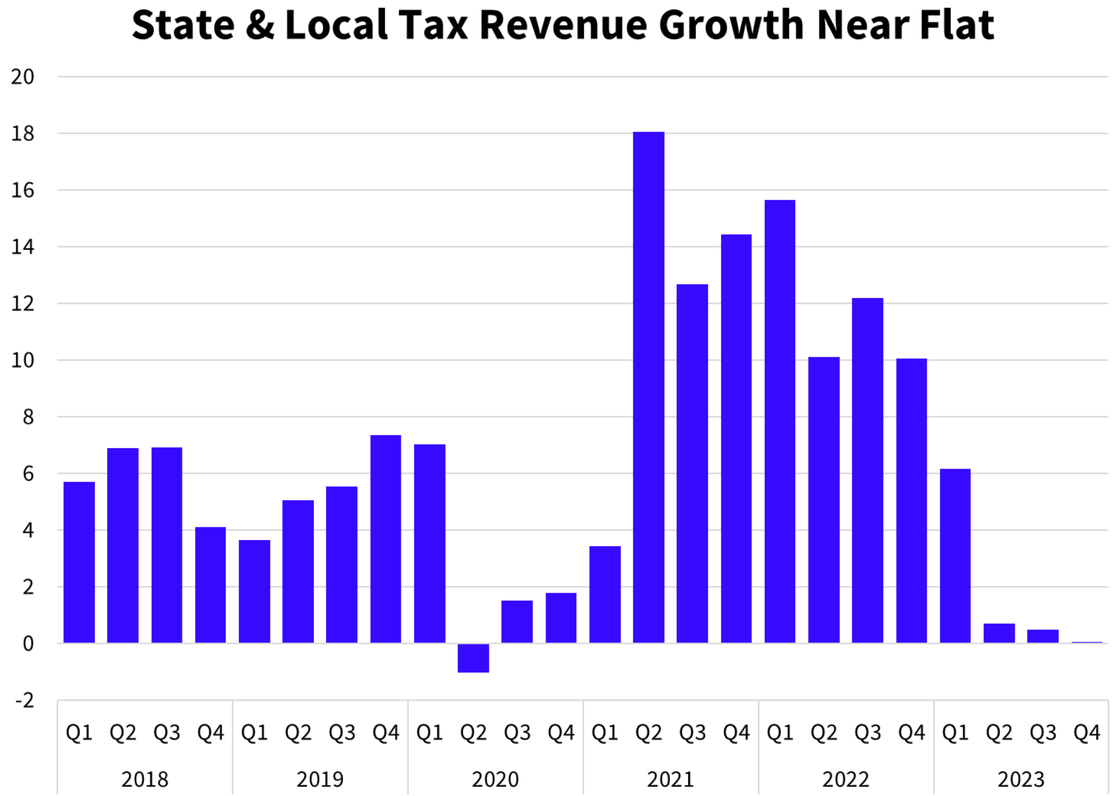
US AAA Muni Yield Curve Over Time

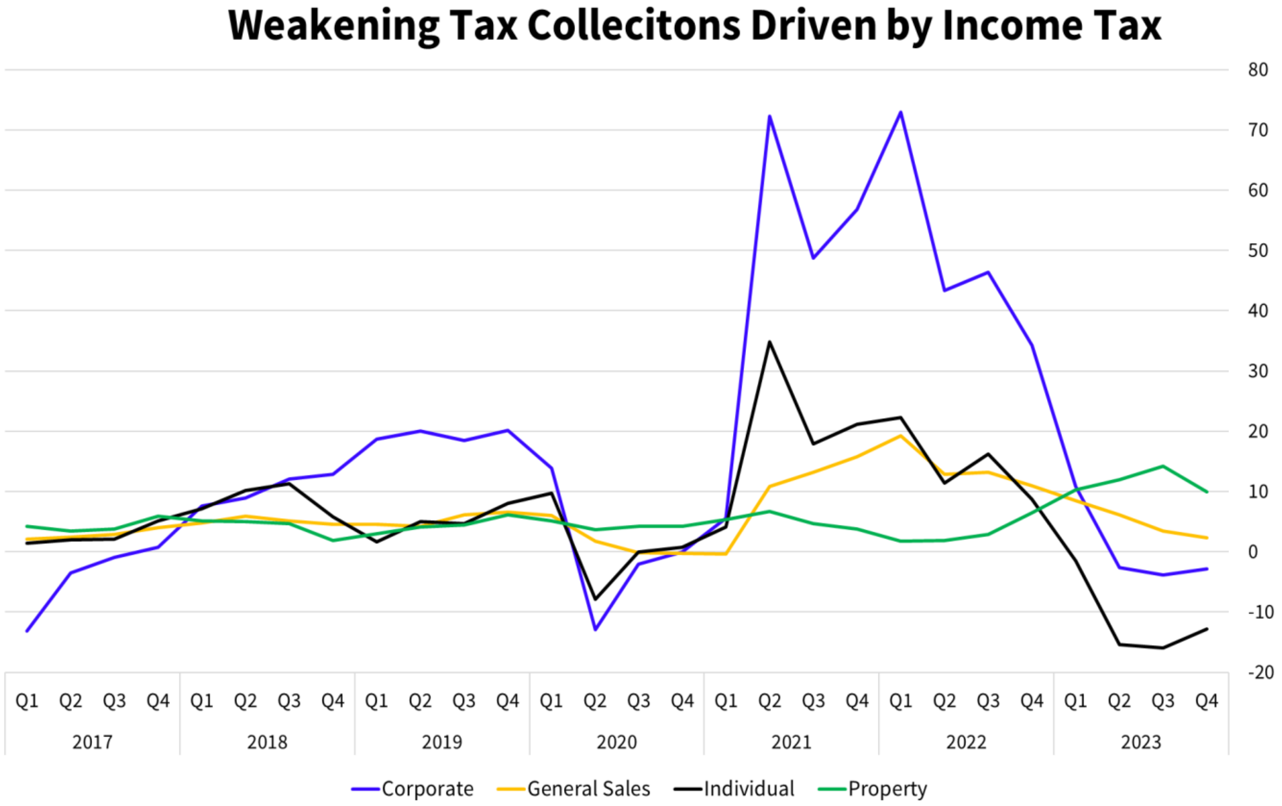
BVAL Muni AAA Yield Curve 3M-30Y



Source: NewEdge Wealth, Macrobond, Bloomberg

Munis: Watching Tax Revenues and Credit Fundamentals





- S&P upgraded 86 ratings vs just 39 downgrades during the first 2 months of the year as credit fundamentals proved resilient during 1Q24.
- Expectations are for ratings to stay positive throughout 2024, but the upgrade to downgrade ratios should moderate as growth slows.
- State and local governments are slowly but surely edging towards a future where they can no longer rely on federal pandemic cash.

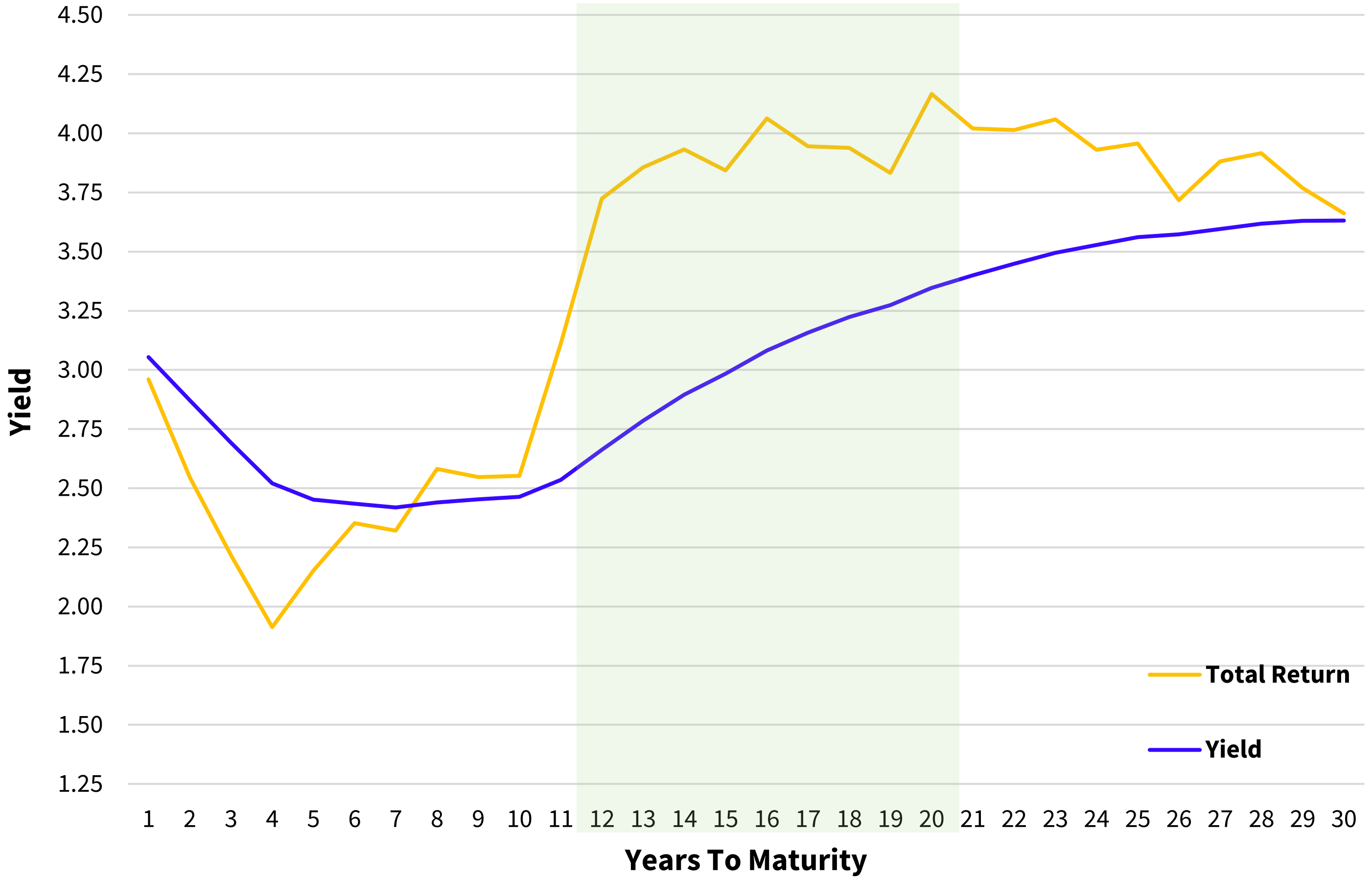
Data as of: April 2, 2024

Municipal Bond Yields Remain Near Multi-Year Highs

Source: NewEdge Wealth, Macrobond, Bloomberg

Data as of: April 2, 2024

Munis: Total Return Opportunities



An investor can achieve additional total return on 12-20 year bonds vs. 30 year bonds without the associated volatility.

Total Return – Yield plus return from roll down over a 1 year period with rates unchanged.

	4	10	12	16	20	26	30
Yield	2.52	2.46	2.66	3.08	3.35	3.57	3.63
Roll	-0.61	0.09	1.06	0.98	0.82	0.14	0.03
Total Return	1.91	2.55	3.72	4.06	4.17	3.72	3.66

Source: NewEdge Wealth/ BVAL Yields 3/21/24
Total Return for a bond with a specific maturity is the 1 year return a bond would have if there were no changes in interest rates over one year. Roll is a calculation of performance contribution as each maturity "rolls" down one year with interest rates unchanged.

NewEdge WEALTH

Data as of: April 2, 2024

Alternative Investments

Alternative Themes for 2024

- **OUR OVERALL SENTIMENT IS CAUTIOUS OPTIMISM**: We are cautiously optimistic throughout private markets as we believe dispersion across managers will continue to widen - manager selection and quality of returns will increasingly matter. Manager Selection matters.
- **THE COST OF CAPITAL MATTERS**: The elevated cost of capital will impact managers who utilize leverage to generate returns. Upper-market private equity funds will be affected disproportionately greater than the lower-market and middle-market funds that traditionally use less leverage and financial engineering.
- **BENEFITTING FROM FUNDRAISING DISRUPTION**: Fundraising will be more challenged as the IPO market and M&A activity have remained under pressure, thus preventing funds from making distributions decreasing the velocity of capital being put back to work. Secondaries have been the beneficiary of this increasing need for liquidity and we will continue to see opportunities across the LP Led and GP Led spaces.
- **NIMBLENESS IS REWARDED**: Investors with dry powder and fresh capital available in 2024 will be able to take advantage of investing in higher-quality assets at more attractive valuations and entry points.
- **AI/TECHNOLOGY CREATE OPPORTUNITIES**: The rapid pace of technological advancement and use of AI will continue to drive opportunities, particularly in sectors like healthcare, fintech, and green tech/decarbonization.
- **THESIS DRIVEN INFRASTRUCTURE:** Infrastructure has begun to emerge as an area of interest, exhibiting resilient cash flows as volatility and inflation have persisted. The acyclical nature of infrastructure assets may present further opportunities through continued market uncertainty. Clean energy infrastructure in particular, as well as electrification, are essential for a transition to decarbonize the economy and environment.
- **BIG TRENDS CREATE BIG OPPORTUNITIES**: With shifting demographics and an aging population, there will be greater opportunities in healthcare, particularly with technology, as well as in real estate as the need for senior living facilities continues to grow.
- **SELECTIVITY IN DEMOCRATIZATION**: Democratization of private markets – we are seeing more vehicles with increased liquidity and with lower investor qualifications as sponsors attempt to expand beyond institutional capital and access private wealth customers.
- **WATCHING REGULATIONS**: Regulatory changes and increasing compliance requirements are influencing market operations, particularly around reporting, transparency, and data privacy, affecting deal structuring and compliance costs.

The State of Alternatives: 2Q24 Update

Venture Equity

High quality businesses are still getting funded

Early-stage businesses are being pressed to focus on profitability

Early-stage valuations have been resilient, but a reset is underway

Starting to see a reheating of funding and the fundraising market

The Opportunity: Green shoots are beginning to emerge in venture, and we see opportunities to gain access to higher quality businesses at more attractive entry points with normalized valuations.

Private Equity

The cost of leverage remains elevated, pressuring high leverage/financial engineering strategies

Increasing focus on how return is generated at the company level

As the exit environment has remained tight and return of capital has slowed, so has the pace of new commitments

The Opportunity: We see more opportunities for quality growth across the lower middle market and middle market vs. the upper market where financial engineering tends to be more prevalent.

Manager selection and quality of return generation matter more than ever as the dispersion between winners and losers widens. Managers focused on driving value creation through margin expansion, operational efficiency and building a higher quality cap table to drive returns will prevail over those that lean on financial engineering.

Private Credit

A “golden age” for some (low defaults but starting to see cracks, high base rates) - risk management remains critical

Competition pushing both structures and yields. Some larger players giving up yield to maintain structure

Focus on: underwriting track record, downside protection, stress testing

Over 1,200 funds in the market today - oversaturation risk and manager selection increasingly critical

The Opportunity: As the elevated interest rate environment persists and the syndicated loan markets begin to reopen, we see greater long-term opportunity across private credit with a critical eye towards underwriting and downside protection particularly as new entrants flood the marketplace.

The State of Alternatives: 2Q24 Update

Secondaries

Pickup in secondary activity on both the LP Led and GP Led side

Declining private equity valuations and LP desire to normalize the denominator effect will lead to greater discounts

GPs need to begin to return capital to investors will increasing supply of GP Led deals

Alternative liquidity solutions continue being tested – NAV lending, carve-outs, hybrid facilities

The Opportunity: We expect to continue to see a pickup in secondary deals coming to market as LPs and GPs seek to generate liquidity for investors. Secondary funds will be able to take advantage of attractive pricing as valuations reset.

Growth Equity

Valuations are coming under pressure as the IPO window remains largely closed

Green shoots of investments as valuations normalize and as exit opportunities ramp up (increased M&A activity and IPO window reopening)

Continued focused interest on profitable business models and countercyclical sectors

The Opportunity: Opportunities will present if the IPO window continues to reopen and as M&A activity reaccelerates.

Private Real Estate

Commercial / Office real estate market has already begun to show early signs of recession – but it is a slow burn, not a blow up

Multifamily rent levels are dropping across the country (ex New York), painting a tougher picture going forward for the REITs which have focused on that segment of the market

Stress in the space overall has reduced new capital supply

The Opportunity: We continue to see opportunities to invest in high quality assets with stressed capital stacks in both debt and equity. Market dislocations may create attractive pockets of buying opportunity in the next 12-18 months. We will likely see openings particularly in distressed spaces in 2024 such as office and commercial which could cause contagion across the industry.
The opportunity in triple net lease is growing as we are seeing large corporations evaluate how they want to capitalize their balance sheets.

The State of Alternatives: 2Q24 Update

Hedge Funds

Still see value in consistency of returns, in the last cycle we saw inconsistencies which caused rethinking of allocation bases in the space.

Heightened focus on post tax returns for individuals investing.

Continue to believe significant opportunity lies within the multi strategy and less correlated strategies.

The Opportunity: Working on forming better quality access points to the space.

Disclosures

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Investing involves risk, including possible loss of principal. Past performance is no guarantee of future results.

All data is subject to change without notice.

Abbreviations/Definitions: AI: artificial intelligence; CB: central banks; CPI: Consumer Price Index; Dot Plot: The Fed dot plot is published quarterly as a chart showing where each of the 12 members of the FOMC expect the federal funds rate to be for each of the next three years and the long term; EBITDA: Earnings before interest, taxes, depreciation and amortization; EM: emerging markets; EPS: earnings per share; GDP: gross domestic product; GFC: great financial crisis; HY: high yield; IG: investment grade; Initial Jobless Claims: measures the number of individuals who filed for unemployment insurance for the first time during the past week; IPO: initial public offering; Mortgage-Backed Security (MBS): an investment similar to a bond that is made up of a bundle of home loans bought from the banks that issued them. Investors in MBS receive periodic payments similar to bond coupon payments; Quantitative easing (QE): refers to the Fed buying assets to lower longer-term interest rates; Quantitative tightening (QT): means the Fed is selling assets to put upward pressure on longer-term rates; PE: price to earnings ratio, the ratio of share price of a stock to its EPS; PMI: Purchasing Managers' Index; Treasury General Account (TGA): Treausry's cash balance held at the Fed; Trimmed mean inflation: a measure that strips out the fastest and slowest growing prices each month, leaving behind a less noisy measure of core inflation; VIX is the ticker symbol for the Chicago Board Options Exchange's CBOE Volatility Index, a popular measure of the stock market's expectation of volatility based on S&P 500 index options.

Disclosures

When referencing asset class returns or statistics, the following indices are used to represent those asset classes, unless otherwise notes. You cannot invest directly in an index. Index returns shown are total returns which includes interest, capital gains, dividends, and distributions realized over a given period of time. An individual who purchases an investment product which attempts to mimic the performance of a benchmark or index will incur expenses such as management fees and transaction costs which reduce returns.

TIPS: Bloomberg Barclays Global Inflation-Linked: U.S. TIPS Total Return Index Unhedged
Municipals 5-Year: Bloomberg Barclays Municipal Bond 5 Year (4-6) Total Return Index Unhedged USD
Core Bond: Bloomberg Barclays US Agg Total Return Value Unhedged USD
U.S. MBS: Bloomberg Barclays US MBS Index
High Yield Municipals: Bloomberg Barclays Muni High Yield Total Return Index Value Unhedged USD
High Yield: Bloomberg Barclays US Corporate High Yield Total Return Index Value Unhedged USD
Foreign Bond: Bloomberg Barclays Global Aggregate ex-USD Total Return Index Value USD (50/50 blend of hedged and unhedged)
EM Debt (unhedged): J.P. Morgan GBI-EM Global Diversified Composite Unhedged USD
U.S. Large Cap: S&P 500 Total Return Index
U.S. Small Cap : Russell 2000 Total Return Index
International Developed: MSCI EAFE Net Total Return USD Index
Emerging Markets: MSCI Emerging Markets Net Total Return USD Index
World: MSCI ACWI Net Total Return USD Index
U.S. Equity REITs: FTSE Nareit Equity REITs Total Return Index USD
Commodities: Bloomberg Commodity Total Return Index
Midstream Energy: Alerian MLP Total Return Index
Hedge Funds: Hedge Fund Research HFRI Fund of Funds Composite Index
U.S.: MSCI USA Net Total Return USD Index

Europe: Euro Stoxx 50
United Kingdom: UK FTSE 100
Japan: Tokyo TOPIX Stock Exchange Index
China: Hang Seng Index
Brazil: Ibovespa Brasil Sao Paulo Stock Exchange Index
India: NSE Nifty Index
South Korea: Korea Stock Exchange KOSPI Index
Taiwan: Taiwan Stock Exchange Index

REITS Diversified: FTSE Nareit Eqty Diversified Total Return Index
REITS Healthcare: FTSE Nareit Eqty Health Care Total Return Index
REITS Industrial: FTSE Nareit Eqty Industrial Total Return Index
REITS Lodging/Resorts: FTSE Nareit Eqty Lodging/Resorts Total Return Index
REITS Office: FTSE Nareit Eqty Office Total Return Index
REITS Residential: FTSE Nareit Eqty Residential Total Return Index
REITS Retail: FTSE Nareit Eqty Retail Total Return Index
REITS Self Storage: FTSE Nareit Eqty Self Storage Total Return Index
REITS Data Centers: FTSE Nareit Equity Data Centers Total Return Index
REITS Specialty: FTSE Nareit Equity Specialty Total Return Index
Real Assets Agriculture: Bloomberg Sub Agriculture Total Return Index
Real Assets Industrial Metals: Bloomberg Sub Industrial Metals Total Return Index
Real Assets Precious Metals: Bloomberg Sub Precious Metals Total Return Index
Real Assets Energy: Bloomberg Sub Energy Total Return Index

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