osaic

MARKET VIEW WEEKLY

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ECONOMIC REVIEW[1]

- Gross Domestic Product (GDP) is a country's primary measure of economic output. GDP is revised two times after the initial reading before being considered final. The first revision to the original was released on Wednesday.
- GDP was revised slightly downward, to 3.2%, from 3.3% on an annualized basis.
    - The revision came primarily from a downward move in Private Inventories.[2]
- The fourth quarter revision brought the 2023 cumulative GDP reading to 2.5%, slightly above the long-term growth rate of 2%.
- The Personal Consumption Expenditures Price Index (PCE) increased by 0.3% last month. Excluding food and energy, the core measure of the index rose 0.4%.
- On a year-over-year basis, the headline index figure rose 2.4% and 2.8% for the core number.
    - As a reference, the Federal Reserve's (Fed's) target level of year-over-year inflation is 2.0%.
- PCE continues to see elevated levels of inflation coming specifically from the service side of the economy.
    - Prices for services increased by 3.9% year-over-year, whereas the price of goods decreased by -0.5%.[3]

How does PCE and GDP impact you?

- GDP growth is seen as a positive economic factor, and last quarter's readings, even with the downward revision, are still above the long-term trend for the U.S.
    - Economic growth, however, can provide upward stress on prices, leading to higher inflation.
- The continual downward move in inflation measured by PCE remains a strong signal that inflation is moving in the right direction, although some progress still needs to be achieved.
- When both indicators are taken in conjunction, slowing inflation and a resilient economy, it bodes well for the Fed to achieve its sought-after soft-landing.

A LOOK FORWARD[1]

- Next week, investors will be focused on the labor market, highlighted by the JOLTS and the Jobs Report releases.
- After last month's strong report, consensus expectations are for the labor market to loosen slightly versus last month but remain strong.

How does the labor report impact you?

- A strong labor market was one of the main reasons consumers remained strong throughout 2023 and the start of 2024.
    - A substantial weakening of the consumer as we continue the year could adversely impact economic growth.
- The Fed has a dual mandate to keep price inflation under control and maintain maximum employment. The strength of the labor market, mainly based on demographic changes and hangover hiring from the pandemic, has allowed the Fed to focus on tackling inflation.

MARKET UPDATE[4]

Market Index Returns as of 3/01/2024	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500	0.99%	7.97%	7.97%	31.11%	11.63%	14.78%
NASDAQ	1.76%	8.55%	8.55%	43.12%	7.64%	17.45%
Dow Jones Industrial Average	0.00%	4.09%	4.09%	20.97%	9.79%	10.81%
Russell Mid-Cap	1.63%	4.69%	4.69%	15.35%	5.18%	10.33%
Russell 2000 (Small Cap)	3.00%	2.62%	2.62%	10.86%	-1.05%	6.92%
MSCI EAFE (International)	0.72%	3.23%	3.23%	15.36%	4.23%	6.88%
MSCI Emerging Markets	-0.30%	0.27%	0.27%	7.35%	-6.65%	1.95%
Bloomberg US Agg Bond	0.47%	-1.30%	-1.30%	4.65%	-3.01%	0.68%
Bloomberg High Yield Corp	0.20%	0.47%	0.47%	11.60%	1.80%	4.18%
Bloomberg Global Agg	0.26%	-2.43%	-2.43%	3.93%	-5.48%	-0.94%

OBSERVATIONS

- Major U.S. equity indices finished flat or positive after in-line GDP and inflation data prints continued to point towards a soft economic landing.
- Small caps were the best performer of the week. As inflation comes down, it aids the case for a drop in interest rates, which tends to relieve smaller companies disproportionately.
- International Markets outperformed the Dow Jones, but lagged the NASDAQ and S&P 500, and continued to trail YTD.
- Emerging Markets were the only negative-performing category. China, which is a hub for Emerging Markets, continues its struggle to exit its economic backslide.
- Bonds posted a second consecutive week of positive returns, though they remain negative YTD, excluding High Yield securities, which have performed well thus far.

BY THE NUMBERS

- **Elon Musk Sues OpenAI and Sam Altman for Breach of Contract:** The lawsuit alleges that OpenAI's agreement with Microsoft violated their original mission of building artificial intelligence for the benefit of humanity rather than for profit. Musk alleges that he, who helped co-found OpenAI in 2015, was "induced" to make his contribution which totaled $44 million under the illusion that the company would remain a non-profit. Microsoft is licensed to use OpenAI's "pre-AGI" technology. AGI artificial General Intelligence) is the threshold where computers operate at or above a human's level of intelligence. The case will likely hinge on whether ChatGPT-4 is an AGI model, and therefore in violation of the Microsoft licensing agreement. Since ChatGPT-4 is one of the main focuses of development at OpenAI, if it breaks the threshold for being classified as AGI it may be violating the not-for-profit focus defined by the OpenAI mission statement. [5]

- **Market Leap Day Performance:** Going back to 1952, there have been 14 trading days that occurred on February 29th. Despite Thursday yielding strong market performance, it marked only the 5th positive leap day for markets. The S&P 500 has only been positive on roughly 36% of leap days opposed to the 52% on any given day. In fact, the median market pullback on leap days is -0.3% which is in contrast to the median rise of 0.05% seen on all other days since 1952. The small sample size of data points, however, makes this trend not accurate at forecasting future returns, and is belittled by other seasonal trends witnessed by markets. The positive performance seen on Thursday has been a reflection of strong earnings, and a continuation of the rally that began in late October of 2023 as inflation continues to slowly drift lower, and the economy remains resilient. This year has already ushered in strong performance with the first two months of the year showing the best returns on the S&P 500 since 2019. [6]

Economic Definitions

Federal Reserve (Fed): The Federal Reserve System is the central banking system of the United States of America.

GDP: Gross domestic product (GDP) measures the final market value of all goods and services produced within a country. It is the most frequently used indicator of economic activity. The GDP by expenditure approach measures total final expenditures (at purchasers' prices), including exports less imports. This concept is adjusted for inflation.

Job Openings and Labor Turnover Survey – JOLTS: This concept tracks the number of specific job openings in an economy. Job vacancies generally include either newly created or unoccupied positions (or those that are about to become vacant) where an employer is taking specific actions to fill these positions.

Nonfarm Payrolls: This indicator measures the number of employees on business payrolls. It is also sometimes referred to as establishment survey employment to distinguish it from the household survey measure of employment.

PCE (headline and core): PCE deflators (or personal consumption expenditure deflators) track overall price changes for goods and services purchased by consumers. Deflators are calculated by dividing the appropriate nominal series by the corresponding real series and multiplying by 100.

Unemployment Rate: The unemployment rate tracks the number of unemployed persons as a percentage of the labor force (the total number of employed plus unemployed). These figures generally come from a household labor force survey.

Index Definitions

S&P 500: The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

NASDAQ: The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

Dow Jones Industrial Average: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Russell Mid-Cap: Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represents approximately 25% of the total market capitalization of the Russell 1000 Index.

Russell 2000: The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as
of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

MSCI EAFE: The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

MSCI EM: The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

Bloomberg Barclays US Agg Bond: The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

Bloomberg Barclays High Yield Corp: The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of

Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

Bloomberg Barclays Global Agg: The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Bloomberg Barclays Municipal Bond Index: The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

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[1] Data obtained from Bloomberg as of 3/01/2024.
[2] Gross Domestic Product, Fourth Quarter and Year 2023 (Second Estimate) | U.S. Bureau of Economic Analysis (BEA)
[3] Personal Income and Outlays, January 2024 | U.S. Bureau of Economic Analysis (BEA)
[4] Data obtained from Morningstar as of 3/01/2024.
[5] Elon Musk sues OpenAI and Sam Altman for breach of contract (ft.com)
[6] Is leap year lucky for stocks? What history says about Feb. 29 and the market. | Morningstar