Financial markets picked up where they left off at the end of 2023, with a strong start to the year in the first quarter of 2024. Numerous U.S. equity benchmarks reached new all-time highs, led by the S&P 500 (large-cap stocks) which was up 10.2% in the quarter and is now up nearly 28% from its lows last November. Foreign stocks, as measured by the MSCI ACWI Ex USA index, were up roughly 4% during the quarter and the shares of smaller U.S. companies (Russell 2000) were up almost 5%. Gold was up 7.6%, U.S. oil prices rose 16%, and Bitcoin surged 65%. Whereas the rally in 4Q23 was due in large part to a dramatic shift lower in the yield curve on expectations of a dovish Fed pivot, the continuation of the rally in 1Q24 came despite the hawkish repricing of monetary policy. Markets began the year expecting roughly seven rate cuts for 2024; by the end of the first quarter expectations were lowered to three cuts amidst a backdrop of improving economic growth and sticky inflation. Bonds were one of the few asset classes that did not participate in this risk-on environment, as the yield on the 10-year Treasury bond rose over 30bps to 4.2% (bond prices move in the opposite direction of yields). The Bloomberg Barclays U.S. Aggregate Bond Index (the benchmark for U.S. bonds) generated a total return of -0.8% in the quarter, as the bond price decline more than offset one quarter's worth of coupon payments.

Equity Indexes	Q1, 2024	2023
S&P 500	10.2%	24.2%
Russell 2000 (Small Cap)	4.8%	15.1%
MSCI EAFE (Developed)	4.9%	15.0%
MSCI Emerging Markets	1.6%	7.0%
MSCI ACWI Ex USA	3.9%	12.6%

Note: All returns exclude dividends

Fixed Income Indexes	Q1, 2024	2023
Bloomberg Barclays US Agg Bond	-0.8%	5.5%
Bloomberg Barclays Municipal Bond	-0.4%	6.4%

Source: Orion

One of the dominant narratives during 2023 was market concentration, particularly the heavy influence of technology stocks and the so-called 'Magnificent Seven' - Apple, Microsoft, Amazon, Nvidia, Alphabet, Meta, and Tesla – on overall stock market returns. We began to see signs of improving market breadth (meaning more stocks were participating in the rally) in December and that continued through the first quarter of this year. Indeed, the technology sector was only the third-best performing sector during the quarter and three of the top five sectors were energy (#2), financials (#4) and industrials (#5). These three sectors were material

laggards in 2023 and are often viewed as economically sensitive, indicating an improving outlook for the economy among investors. We also began to see a divergence among the 'Magnificent Seven' during the quarter, as both Apple and Tesla are down year-to-date while NVIDIA is up over 70% and META is up over 40%. This suggests that investors are paying more attention to the fundamentals of individual companies rather than just chasing recent market momentum.

We view improving market breadth as a positive development, as it indicates that gains in the equity market are less dependent on a small group of companies. Moreover, when markets are rising but only a few sectors or small groups of companies are participating it often indicates rising risk of a reversal. By contrast, when markets are rising, and breadth is improving it often strengthens the case for the current trend to continue. We are still in the early innings of improving market breadth and there are still areas of the market that are not participating (e.g. small cap stocks), but we are encouraged that the current rally is broadening out and including economically sensitive sectors.

Turning to the economy, we note that many major economies, including the U.S., remained in the late-cycle expansion phase and registered hints of stabilization and even reacceleration in some areas. In the U.S., consumer spending has been surprisingly resilient, supported by strength in the labor market. The U.S. economy added an impressive 250,000 jobs per month in 2023 and has sustained this pace into early 2024, and the unemployment rate has remained at or below 4% since December 2022. Business spending has endured tighter lending standards and higher rates better than expected, supported by increased spending on intellectual property with greater emphasis on developing artificial intelligence capabilities. Activity in the housing market (new and existing home sales) has stabilized at depressed levels, and while a boom in the sector seems unlikely given elevated mortgage rates, tight supply suggests a recovery in activity is more likely than another decline. Finally, the Conference Board's Leading Economic Index (LEI) turned positive in February, which ended a 23-month streak of negative readings.

The above paints a pretty favorable picture for the economy, which is admittedly surprising given some of the headwinds we have worried about for the past year. One of the biggest headwinds we have worried about – rising interest rates and tight monetary policy from the Federal Reserve – appears poised to continue as the Fed struggles to get inflation under control. After getting consumer price inflation (CPI) down from a peak of 9% to 3% by June 2023, readings have remained sticky above 3% and recently began to rise again. This problem could make it difficult for the Fed to loosen monetary policy. On the other hand, the U.S. government is running a fiscal deficit of over $1 trillion at a time when unemployment remains low and economic growth is quite good. This spending has helped support the economy and job market (a big portion of incremental jobs have been in the government sector) and appears to have more than offset the Fed's tight monetary policy.

The resilience of the U.S. economy in the face of recessionary risks has clearly emboldened investors, which seem to be pricing in a high probability of a 'soft landing' – continued economic growth along with declining inflation and interest rates. As noted above, the S&P 500 is up over 25% in the past five months, the tenth best 5-month gain since 1940. Equity valuations, by most measures, are at the high end of the historical valuation range (the Forward P/E for the S&P 500 index ended March at 21x vs. an historical average of 16x-17x), and credit spreads are extremely tight.

The prior nine instances of record 5-month performance were all followed by positive twelve-month gains with average total returns of 19.6%. So, the good times could continue. However, when all is going well, we like to

remind investors that while equity markets tend to rise over time, they don't typically go up in a straight line. There are numerous risk factors (rising inflation, rising interest rates, and banking/commercial real estate credit problems etc.) that we have discussed in letters over the past year or so that could easily result in a market correction. There are also often risk factors that are not on the radar that emerge to create volatility. Our advice is to enjoy the good times but to prepare yourself mentally for the inevitable downturn. Investing is a long game with numerous ups and downs. We don't believe anyone can predict when those ups and downs will occur, but we do believe that by following a disciplined, long-term approach you can participate in the great wealth creating phenomenon that the financial markets have been over the past 100+ years and win the game in the end.

As always, please feel free to reach out with any comments, questions, or concerns.

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