

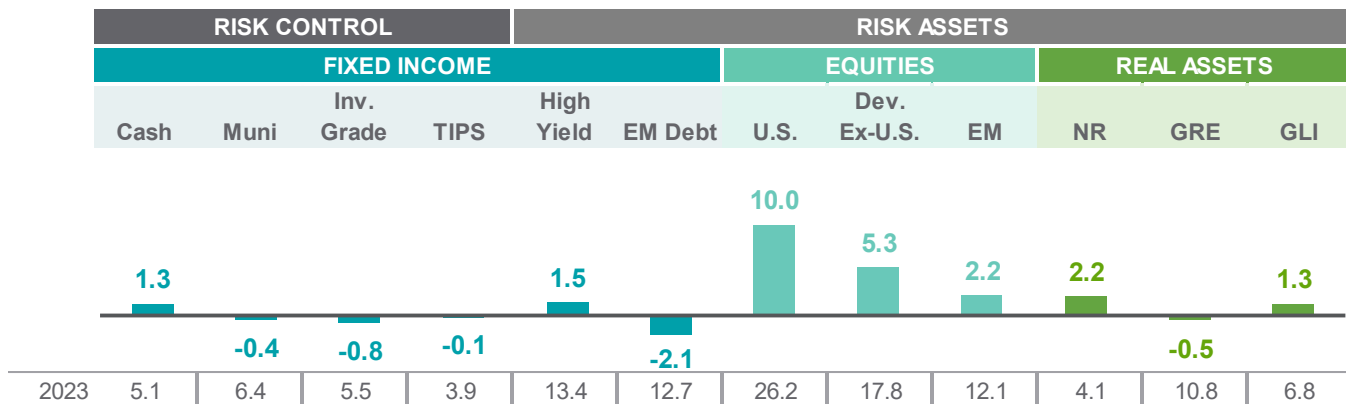
## CONTINUED U.S. EXCEPTIONALISM

2024 saw the strongest start for U.S. large cap stocks since the pandemic. Stocks were up 10.6% as measured by the S&P 500. This was on the heels of strong risk asset returns in the fourth quarter of last year. Returns were positive for equities in most major regions but U.S. stocks continued to outperform international markets. The only major stock market to outperform the U.S. was Japan, which gained 10.6% in U.S. dollar terms and 18.8% in local currency terms. Emerging market stocks saw positive but lackluster returns of 2.2% primarily driven by weakness in China equities which fell 2.2% (in U.S. dollar terms). Strength in the U.S. dollar (up roughly 3%) did not help international equity returns for U.S.-based investors. Within the U.S., large cap stocks continued to outperform more interest-rate-sensitive small cap stocks and growth stocks outperformed value. Nominal Treasury yields rose in the first quarter led primarily by an increase in real yields as economic growth continued to surprise on the upside. Inflation expectations also rose. Except for modestly positive returns for cash and high yield bonds, fixed income sector returns were slightly negative. High yield was the best-performing sector within fixed income, as all-in yields made up for the backup in interest rates. Within real assets, returns were strongest for natural resources while global real estate gave back some of its gains from last year.

Strength in domestic equities was driven by continued resilience of the U.S. economy and the improving earnings outlook. While the prior quarter saw fears of recession recede, this quarter markets were encouraged by the resiliency of the U.S. economy in the face of restrictive monetary policy. The current Fed funds rate is nearly 300 basis points higher than the Fed's estimate of the longer-run neutral policy rate. Markets were also likely encouraged by the dovish narrative from the Fed – which has essentially signaled an end to the hiking cycle and potentially the start of easing this summer. Progress on inflation towards the end of last year was substantial and this led to market expectations of as much as six rate cuts at the beginning of this year. However, progress towards the Fed's stated goal of 2% inflation stalled in the first two months of the year with both January and February experiencing higher than expected inflation. These strong inflation readings forced the forward rates markets to rein in expectations of several cuts and they are now closer to our expectations of three cuts this year. Risk assets have taken the reduction in expected rate cuts in stride but it remains to be seen whether lofty valuations, worries of lingering inflation and therefore higher for longer rates, test the resiliency of stock markets.

### FIRST QUARTER 2024 TOTAL RETURNS (%)

The 60/40 portfolio got off to a strong start to the year with equities continuing to rise and fixed income only slightly lower.



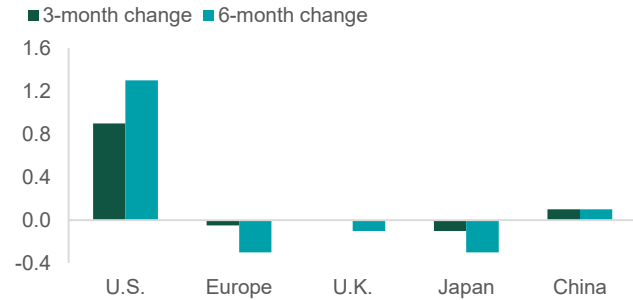
Source: Northern Trust Asset Management, Bloomberg. NR: Natural Resources; GRE: Global Real Estate; GLI: Global Listed Infrastructure. Indexes are gross of fees. Past performance is not indicative or a guarantee of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.

**KEY DEVELOPMENTS**

**U.S. Economic Resilience on Repeat**

U.S. economic resilience is still in the spotlight with solid labor markets and a relatively healthy consumer backdrop. Recession talk has diminished with more bearish economic prognosticators either removing recession predictions or extending to 2025 or later. The U.S. growth trajectory has stood out versus its global peers with noticeable upward revisions to consensus 2024 forecasts and the Fed’s economic projections. Outside the U.S., the economic outlook has stabilized, including a rebound in manufacturing PMI data.

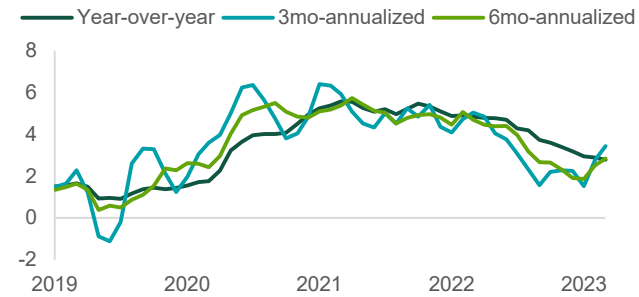
**CHANGE IN 2024 CONSENSUS GDP GROWTH (%)**



**A Bumpy Path to 2% Inflation**

U.S. inflation appears to be on a trajectory towards 2% with some fits and starts along the way. Firmer inflation readings in January and February were relatively well-digested by both central bankers and financial markets. Disinflation in core goods has stalled somewhat while services remains stickier including the long-anticipated (and still waiting) downturn in housing-related inflation. Nonetheless, core inflation has continued to move lower on a year-over-year basis – albeit at a slower pace – from a peak of over 5% to the current level of 2.8%.

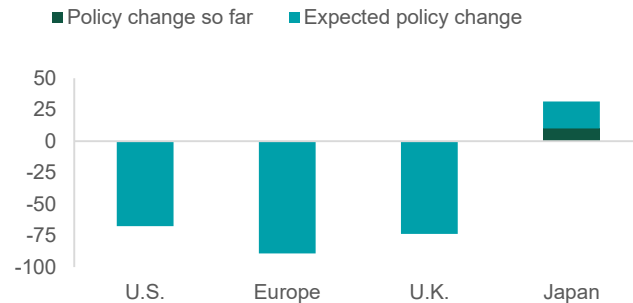
**CORE PCE INFLATION (%)**



**Monetary Policy Patience**

Most major developed market central banks were on-hold in 1Q. Improving economic growth and elevated-but-moderating inflation have allowed central bankers to be patient as they navigate the transition from rate hikes to rate cuts. That being said, Japan is on a different path and the Bank of Japan (BOJ) raised rates by 10 basis points in March to end the era of negative-rate policy. Investors expect about 20 basis points (bps) more of BOJ tightening in 2024 – in contrast to ~70-90 bps of easing from its primary developed market peers.

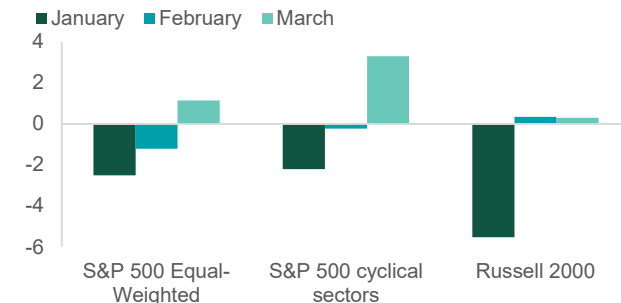
**EXPECTED 2024 CENTRAL BANK ACTIVITY (BPS)**



**Another Double-Digit Quarter for the S&P 500**

Market concentration remains top of mind but a singular focus on the “Magnificent 7” does not capture the full story. On one hand, the “Magnificent 7” gained 17% in 1Q (~36% of the S&P 500’s return) and tech-related earnings growth was a key source of strength in 4Q2023 earnings season. However, equity market breadth improved throughout the quarter with cyclical sectors among the top performers (energy, financials, etc.) – supported by the improving macroeconomic backdrop and declining interest rate volatility.

**RELATIVE RETURNS VS S&P 500 IN 1Q2024 (%)**



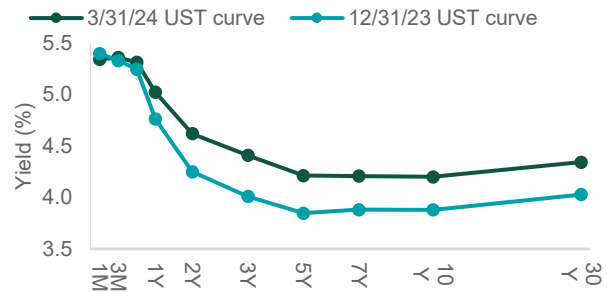
Source: Northern Trust Asset Management, Bloomberg. Data as of 3/31/2024. Note: GDP: gross domestic product; PCE: personal consumption expenditures; Cyclical sectors: energy, materials, industrials, financials. Past performance is not indicative or a guarantee of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.

## MARKET REVIEW

### Interest Rates

Treasury yields two years and out rose ~30-40 basis points (bps) and market expectations for 2024 Fed rate cuts repriced from over six to under three. Investors are split on if the first cut will occur in June versus later in the year. In response to upside surprises on both growth and inflation data during the quarter, monetary policymakers communicated an unhurried transition to rate cuts. Nonetheless, the Fed's base case remains for lower inflation and multiple rate cuts before year end as risks to achieving its goals come into better balance.

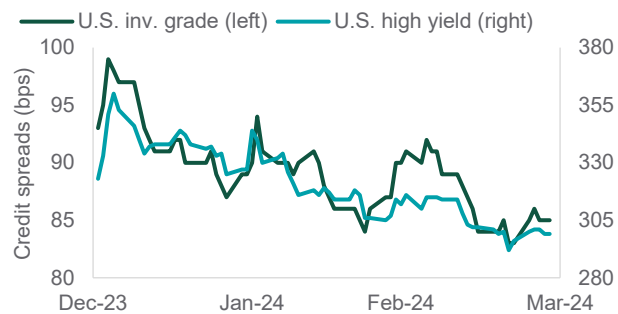
### U.S. TREASURY YIELD CURVE



### Credit Markets

Spreads incrementally tightened across the quarter reflecting a durable macroeconomic backdrop and supportive technicals. Investment grade (IG) spreads tightened 8 bps to 85 bps and high yield (HY) spreads tightened 24 bps to 299 bps. For both asset classes, spreads now sit ~40% below their monthly average since 1999. From a return standpoint, tighter spreads within IG fixed income failed to overcome duration headwinds from higher interest rates and the asset class lost 0.8%. HY still managed to gain 1.5%.

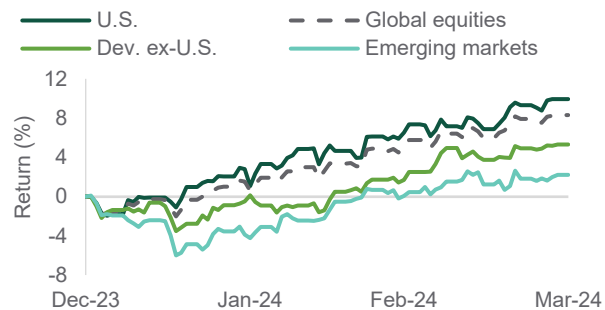
### CREDIT SPREADS



### Equities

Global equities had another robust quarter at +8.3%. U.S. equities led the major regions with a 10.0% gain as equity investors embraced higher odds of a soft landing. Developed ex-U.S. equities were also solid at +5.3% on the quarter. Emerging market equities gained 2.2%, but China equities suffered a roughly 2% loss. For the most part, the global equity gains were driven by valuation expansion. Despite higher interest rates, investor expectations for a global earnings growth acceleration and several central bank easing cycles remain in place.

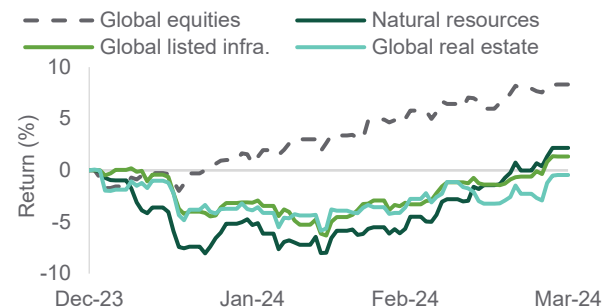
### REGIONAL EQUITY INDICES



### Real Assets

The real assets we track lagged global equities by 6-to-9%. Global real estate (-0.5%) was the only one to end in the red. Listed infrastructure (+1.3%) and natural resources (+2.2%) earned small positive gains. Macro forces were likely at play, including higher rates and risk-on sentiment weighing on relative infrastructure returns. Metals bogged down natural resources, which eventually found its footing on a firmer growth outlook. Idiosyncratic impacts also likely played a role with decent sector-level dispersion within each asset class.

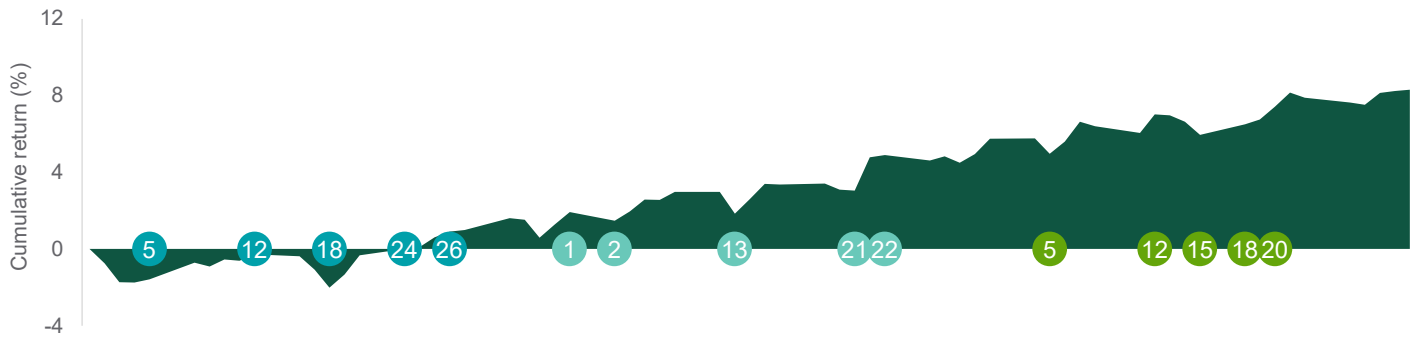
### REAL ASSET INDICES



Source: Bloomberg. Returns in U.S. dollars. Indexes are gross of fees. Past performance is not indicative or a guarantee of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.

## MARKET EVENTS

■ 1Q 2024 global equity total return: 8.3%



JANUARY	FEBRUARY	MARCH
<p><b>5</b> The U.S. December jobs report is solid. More jobs are added than expected (216k versus 175k), the unemployment rate is unchanged (3.7%) and wages grow 4.1% year-over-year.</p>	<p><b>1</b> Concerns of systemic risk in the commercial real estate (CRE) sector resurface after New York Community Bancorp (NYCB; down 42%) reports losses from its CRE portfolio.</p>	<p><b>5</b> At the annual National People's Congress, China reveals 2024 targets mostly consistent with the prior year: ~5% growth, 3% inflation and a 3% fiscal deficit.</p>
<p><b>12</b> Tensions escalate in the Middle East after the U.S. and U.K. carry out joint airstrikes against Houthi targets. Oil prices rise following the operation.</p>	<p><b>2</b> The U.S. releases a strong jobs report with 353k jobs added and upward prior-month revisions. Wages accelerate and the unemployment rate holds.</p>	<p><b>12</b> U.S. CPI comes in warmer than expected for the second month in a row. Energy prices help push up headline CPI to 3.2% y/y from 3.1% y/y.</p>
<p><b>18</b> The European Central Bank and Fed official messaging leans towards being in no rush to cut rates in the very near term while also highlighting the risk of easing policy too soon.</p>	<p><b>13</b> U.S. CPI prints hotter than expected at 3.1% y/y versus 2.9% expected. Core CPI also comes in hotter than expected at 3.9% y/y and is unchanged from the prior reading.</p>	<p><b>15</b> The initial results of the Shunto negotiations show an average wage hike of 5.3%. The initial results point to the biggest Japan wage hikes in over 30 years.</p>
<p><b>24</b> The People's Bank of China delivers a surprise 50-basis point (bp) cut to its reserve requirement ratio as part of a broader effort to stabilize its economy and financial markets.</p>	<p><b>21</b> NVIDIA (NVDA) posts a "beat earnings and raise guidance" quarter that supports broader market enthusiasm surrounding artificial intelligence.</p>	<p><b>18</b> The Bank of Japan raises its target policy rate by 10 bps to 0.0-0.1%. It marks the first hike in 17 years and the end to its negative interest rate regime that had been in place since 2016.</p>
<p><b>26</b> The Fed's preferred price measure, Personal Consumption Expenditures (PCE), contains no major surprises and shows continued progress on disinflation.</p>	<p><b>22</b> The U.S. manufacturing Purchasing Managers' Index (PMI) rebounds to 51.5 while the services PMI eases but remains strong at 51.3.</p>	<p><b>20</b> The Fed maintains a three-cut projected baseline for this year. The median growth forecast is upgraded to 2.1% from 1.4%, while core inflation was slightly raised to 2.6% from 2.4%.</p>

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