



Investments in harmony with youSM

Quarterly Commentary

Executive Summary



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MARKET COMMENTARY

After negative returns for equities and fixed income over the summer, investors were concerned that economic data would support further rate hikes by the Federal Open Market Committee (FOMC) despite the rapid increase in Treasury yields that were placing additional pressures on real estate and bank financial holdings. Thankfully, and perhaps fortunately, data releases regarding inflation, job growth, and consumer spending showed signs of moderating and reduced the risk of further rate hikes by the central bank. As a result, at the November and December meetings the FOMC decided to hold the short-term rate steady with the upper bound remaining at 5.50%. The FOMC's battle against higher inflation and the ensuing 525 basis point increase in the federal funds rate in many ways were the source of market volatility, and with the fight potentially over, markets performed exceptionally well heading into year end. For fixed income investors, Treasury yields precipitously declined and risk premiums shrank resulting in a 6.82% return for the Bloomberg U.S. Aggregate Bond Index – its highest quarterly return since June 1989.

Heading into the December FOMC meeting, investors were eagerly awaiting an update to the Summary of Economic Projections which provides guidance on the future path of short-term interest rates projected by the meeting participants along with estimates for growth, inflation, and unemployment. Although future rate hikes can't be ruled out, the refreshed "dot plot" indicated that short-term rates have peaked and that the FOMC anticipates three rate cuts by the end of 2024 – 50bps lower than its previous guidance. Though economic activity exceeded expectations in 2023, the FOMC cited slowing economic activity and easing inflationary pressures as reasoning for altering the rate path which was further supported by the FOMC's lowered inflation forecast and Chair Powell's commentary following the meeting. The decision to hold interest rates steady, the revised economic projections, and the post-meeting commentary from Chair Powell were widely viewed as dovish which supported the capital markets into year end.

So where does this leave investors for 2024? Many recent economic releases have implied that growth is moderating but remaining in positive territory. This should be expected after the third quarter's above trend real GDP growth rate of 4.9%. It has been widely suggested that the U.S is in a sweet spot – activity is strong enough to avoid a recession, but weak enough to allow the FOMC to cut rates – and many market prognosticators reflect this expectation calling for low single digit growth in 2024. We are sympathetic to this view with unemployment remaining at low levels, consumer spending looking resilient through the holiday season, and consumer confidence rebounding. Though, this is balanced by the uneven impact higher rates and inflation have had on lower income households, shifting consumer spending, and reduced savings rates.

Complicating matters, markets may have already priced in this "goldilocks scenario" following the strong equity and fixed income returns of the fourth quarter. Besides the significant reversal in Treasury yields, compensation for risk taking has diminished as evidenced by corporate bond risk premiums matching levels from early 2022 – equivalent to before the FOMC began raising rates. This is not meant to sound dire as investment grade yields are still higher than where they were over the last decade; rather, it's to suggest that focusing on quality and thoughtful risk taking would be prudent.

Bill

Economic Outlook

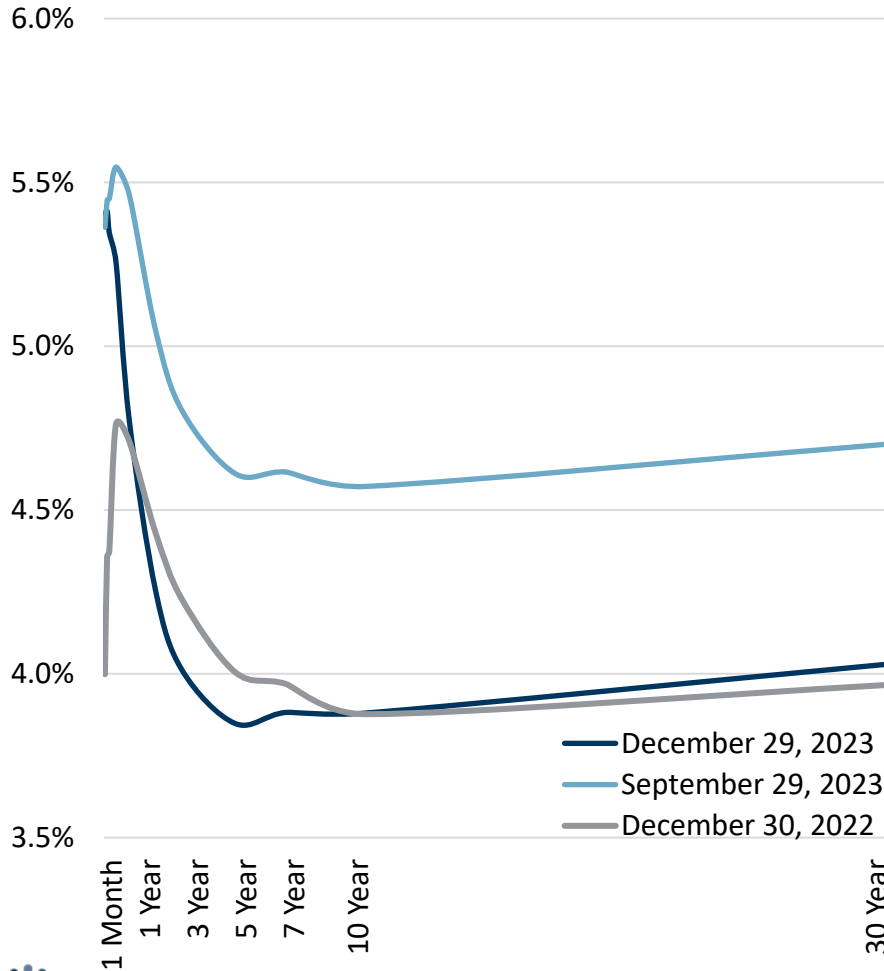
Despite significant volatility during the year, market returns in 2023 were strongly positive

| <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2023</u> | |
|------------------------|------------------------|------------------------|-------------------------|------------------------|---|
| 31.5%, Large Cap | 21.2%, Large Cap | 42.1%, Commodities | 8.7%, Commodities | 27.3%, Large Cap | Large Cap CRSP Large Cap Index |
| 28.1%, Mid Cap | 19.0%, Small Cap | 29.3%, Mid Cap | -11.1%, Govt Related | 18.1%, Small Cap | Small Cap CRSP Small Cap Index |
| 27.4%, Small Cap | 9.9%, IG Corporate | 27.1%, Large Cap | -11.2%, HY Corporate | 13.5%, HY Corporate | HY Corporate Bloomberg U.S. High Yield Corporate |
| 17.6%, Commodities | 8.0%, Treasuries | 18.2%, Small Cap | -11.7%, Securitized | 9.8%, Mid Cap | Mid Cap CRSP Mid Cap Index |
| 14.5%, IG Corporate | 7.1%, HY Corporate | 5.3%, HY Corporate | -12.5%, Treasuries | 8.5%, IG Corporate | IG Corporate Bloomberg U.S. Agg. Corporate |
| 14.3%, HY Corporate | 5.9%, Govt Related | -1.2%, Securitized | -15.8%, IG Corporate | 5.8%, Govt Related | Govt Related Bloomberg U.S. Agg. Government Related |
| 9.0%, Govt Related | 4.2%, Securitized | -1.2%, IG Corporate | -17.5%, Small Cap | 5.1%, Securitized | Securitized Bloomberg U.S. Agg. Securitized |
| 6.9%, Treasuries | 2.5%, Mid Cap | -1.3%, Govt Related | -18.6%, Mid Cap | 4.1%, Treasuries | Treasuries Bloomberg U.S. Agg. Treasuries |
| 6.4%, Securitized | -23.7%, Commodities | -2.5%, Treasuries | -19.6%, Large Cap | -4.3%, Commodities | Commodities Standard & Poor's GSCI Index |

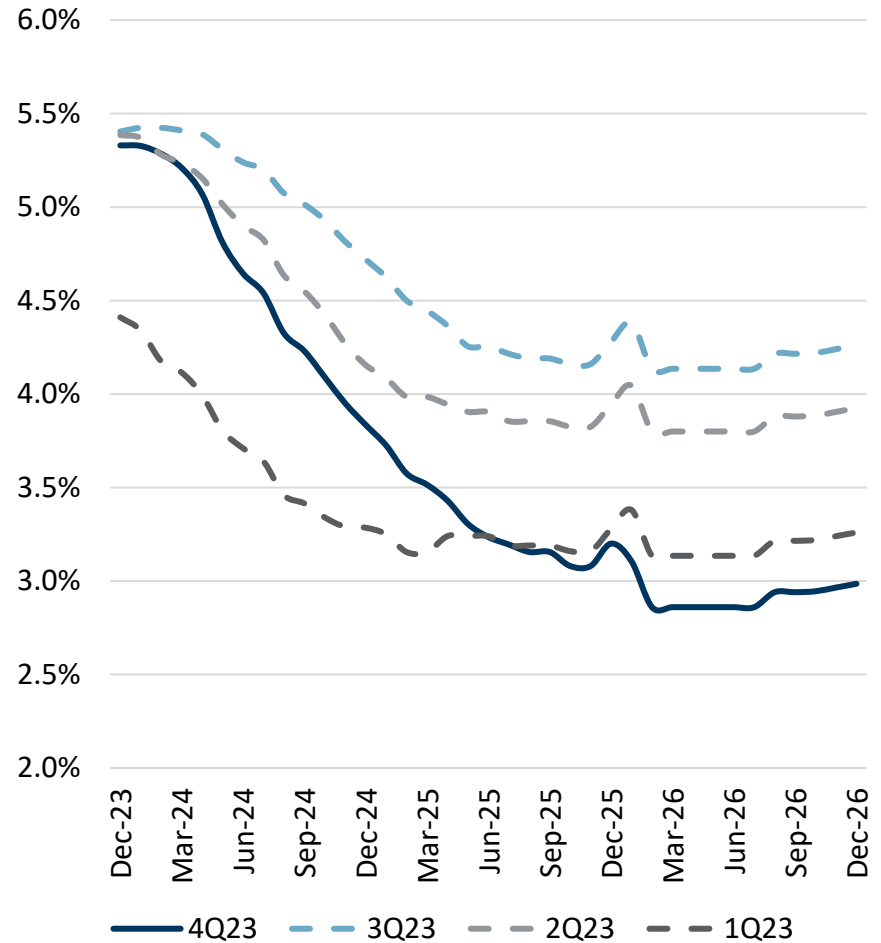
Economic Outlook

After reaching a 15-year high in October, interest rates across the curve shifted lower as markets began pricing in multiple rate cuts in 2024

U.S. Yield Curve



Market Implied Future FOMC Overnight Target Rate



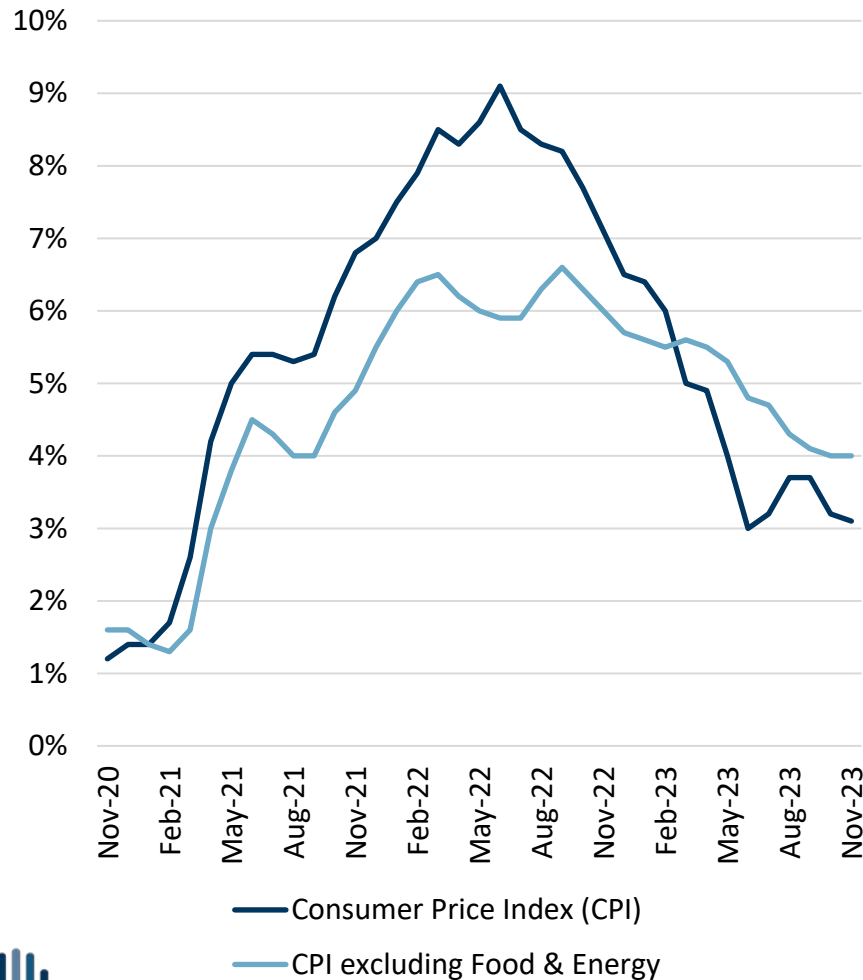
Source: Opus, Bloomberg

Economic Outlook

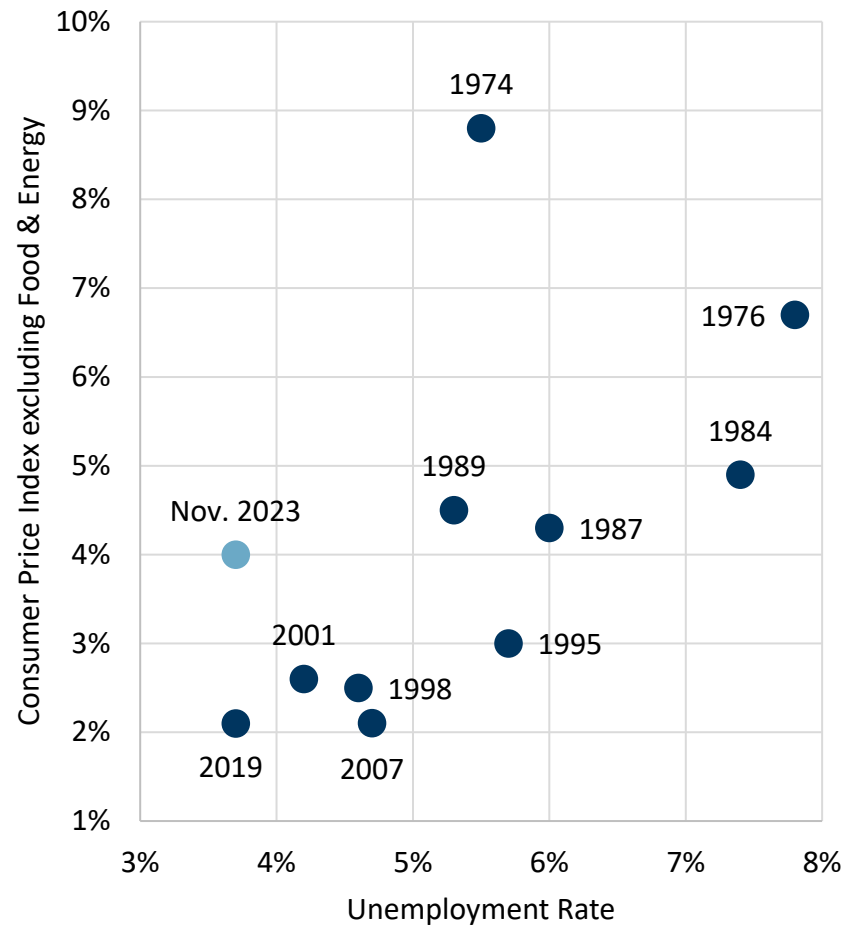
Inflation has moderated, but given labor market strength, more progress may be needed prior to the first rate cut by the FOMC

Consumer Price Index (CPI)

Year-over-Year Change



FOMC Dual Mandate at the Beginning of Past Cutting Cycles



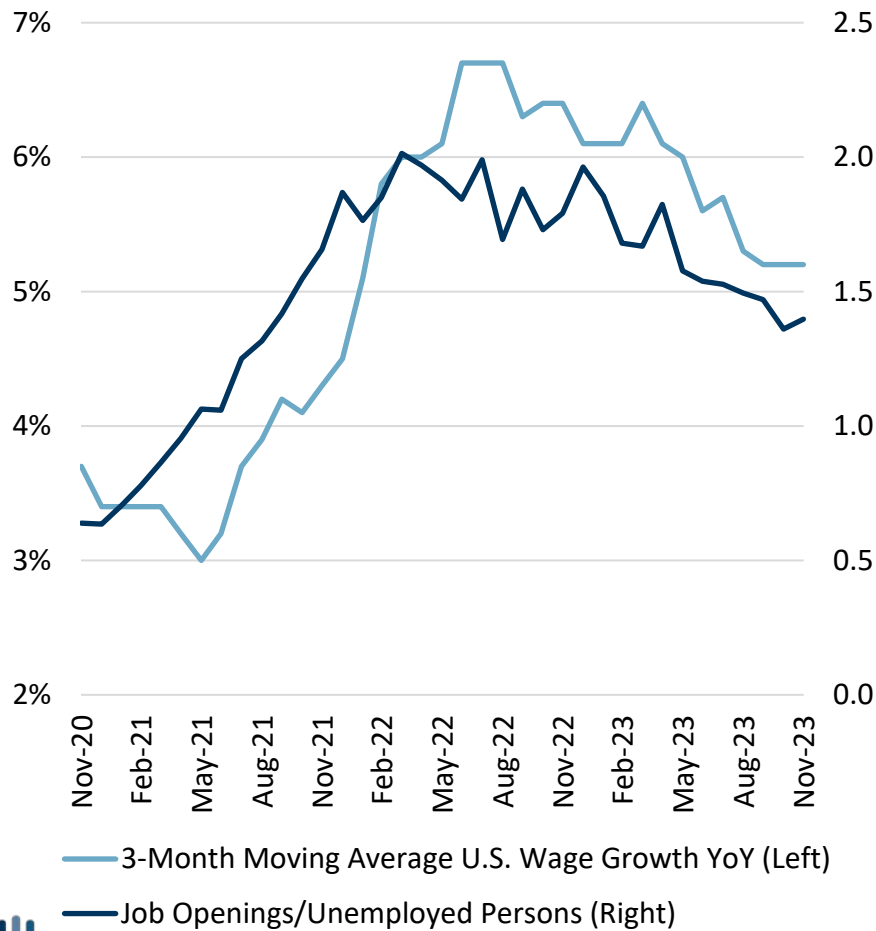
Source: Opus, Bloomberg, U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis

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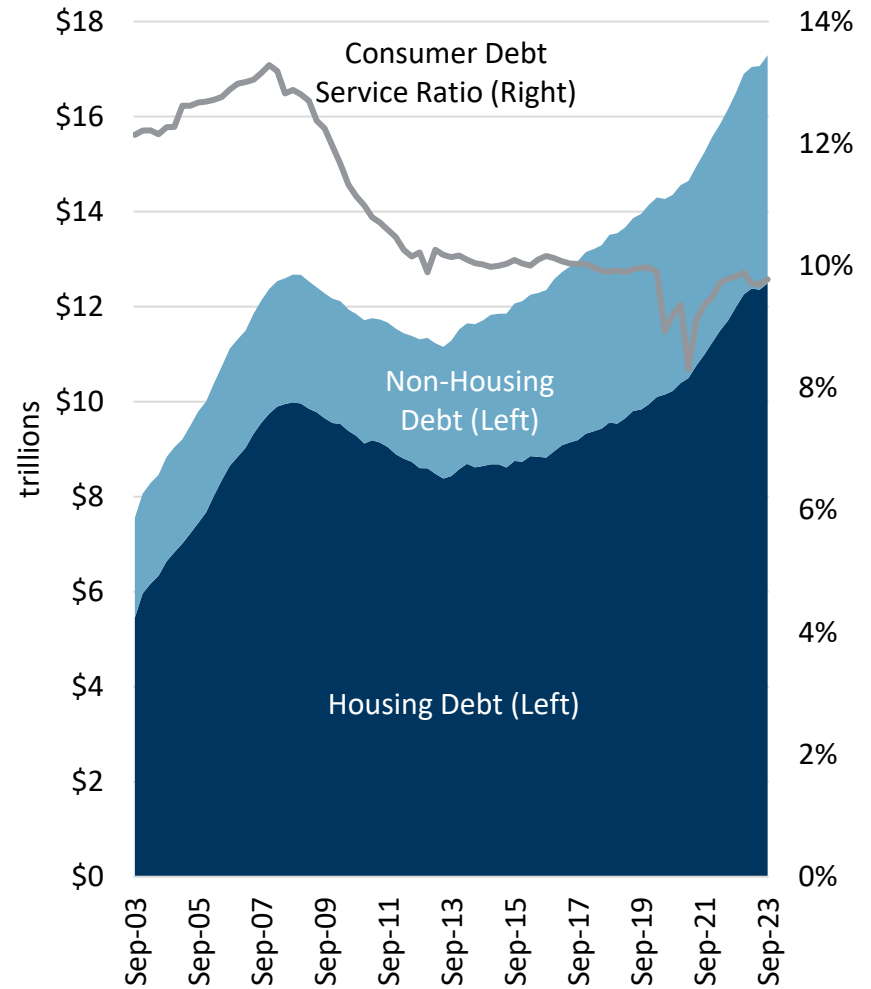
Economic Outlook

Low unemployment and elevated wage growth have offset increasing consumer debt obligations

Wage Growth vs. Job Openings per Unemployed Persons



Consumer Balance Sheet Health

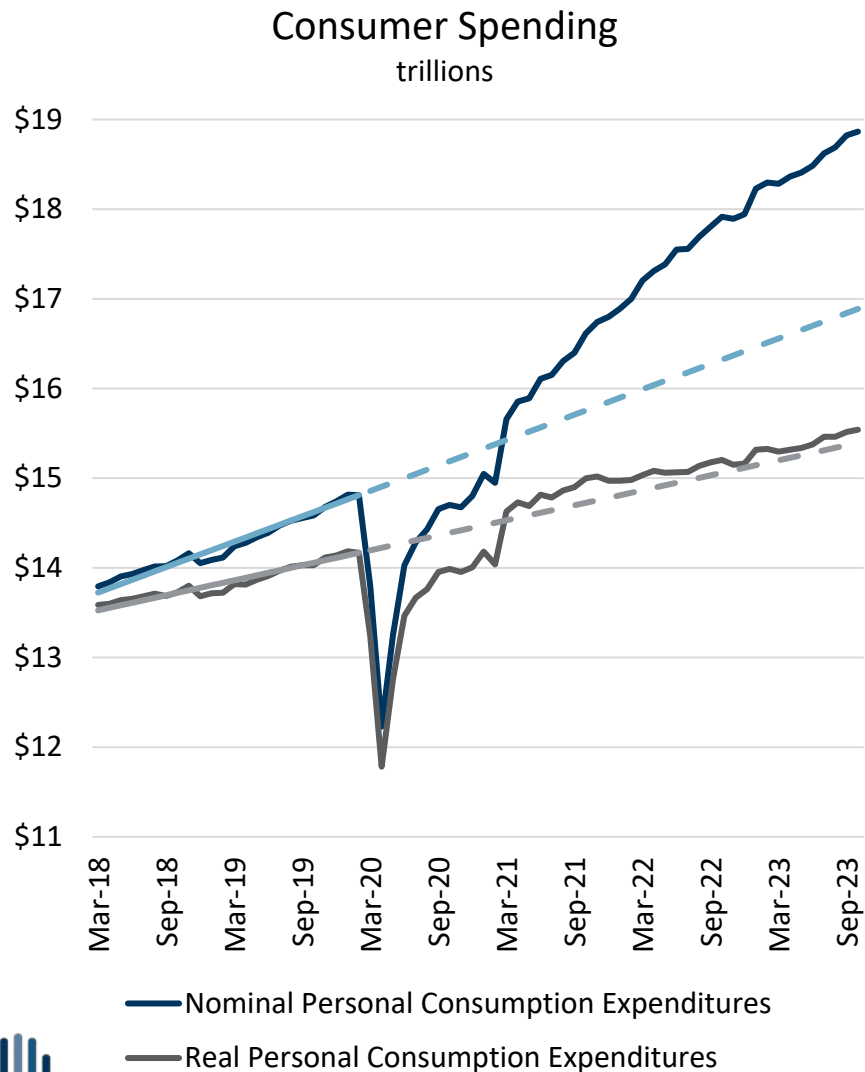


Source: Opus, Bloomberg, U.S. Bureau of Economic Analysis, Federal Reserve Bank of New York, Atlanta Federal Reserve

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Economic Outlook

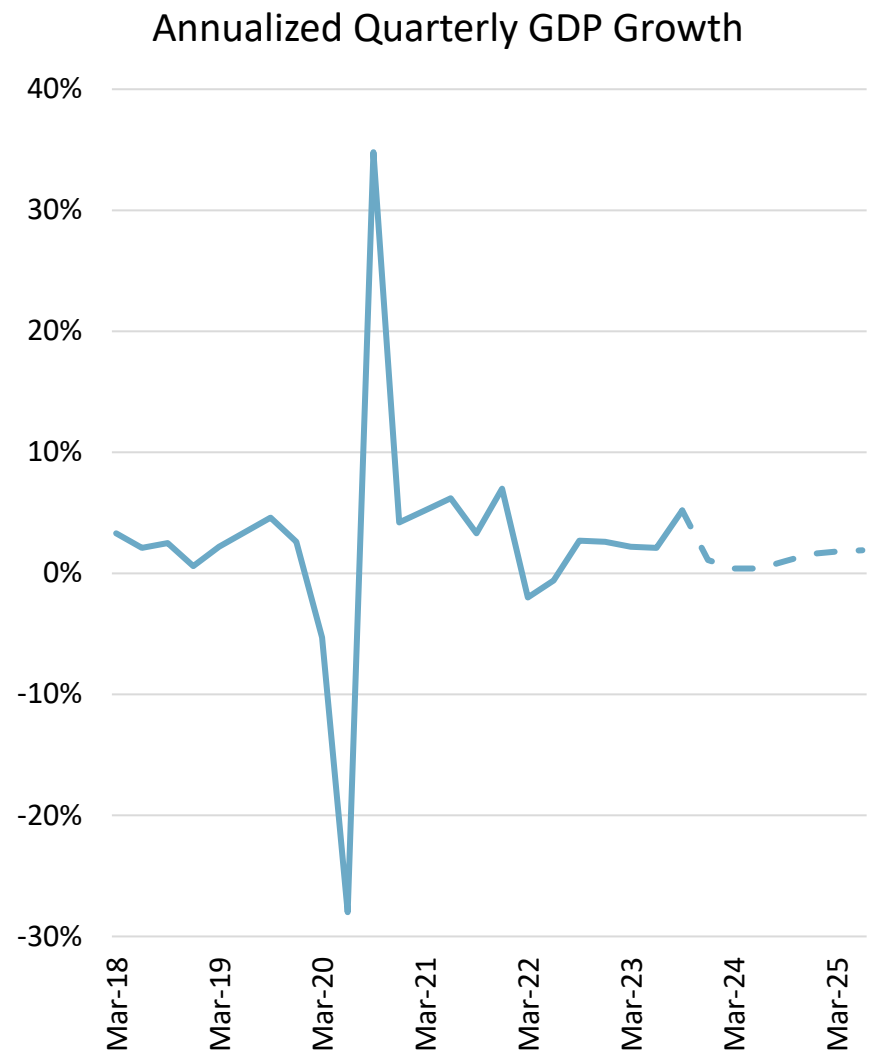
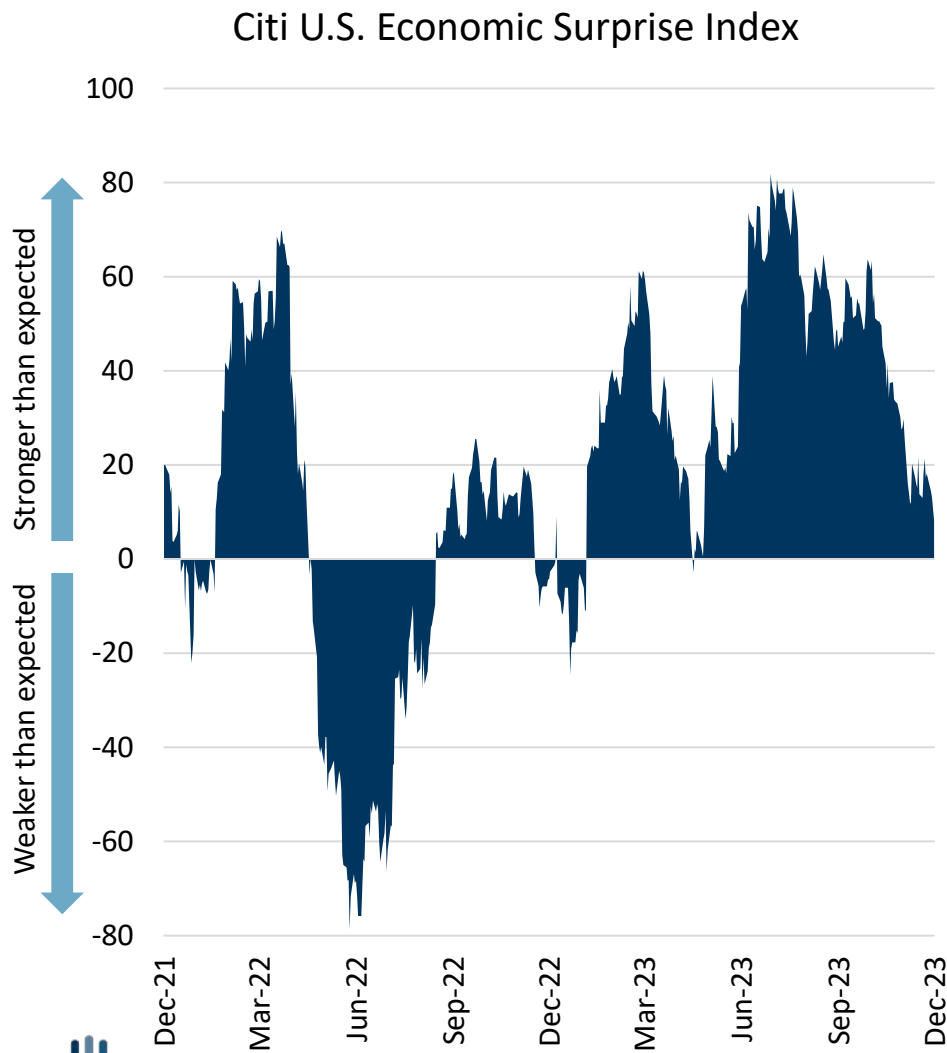
While consumer spending has been resilient, there are signs behaviors are shifting and consumers are increasingly cautious



| Company | Management Highlights on Q3 Earnings |
|------------|--|
| Amazon | Management highlighted continued growth in consumables and everyday essentials. It also noted that consumers remained cautious on price and were trading down or looking for deals, when possible, while decreasing spending on discretionary items. |
| Best Buy | From a merchandising perspective, the largest drivers of its sales decline were appliances, computing, home theater and mobile phones , partially offset by growth in gaming. Consumer demand weakened through 3Q, with sales declining the most in October. |
| Home Depot | Customers focused on smaller, less expensive projects compared with several years ago when they were taking on major big-ticket renovations at home. |
| Lowe's | DIY big ticket performance continued to moderate with consumers postponing purchases in areas like appliances, decor, flooring, and bath. |
| Walmart | While the company posted a strong quarter and raised its guidance, investors were focused on the company's concerned tone on the outlook for U.S. consumers after signs of weakness at the end of October . The retailer pointed to strong sales in groceries and pharmacy goods, offsetting weakness in discretionary items including apparel, home, and toys. |

Economic Outlook

U.S. economic data surprised to the upside throughout most of 2023, though forecasts for 2024 are more muted



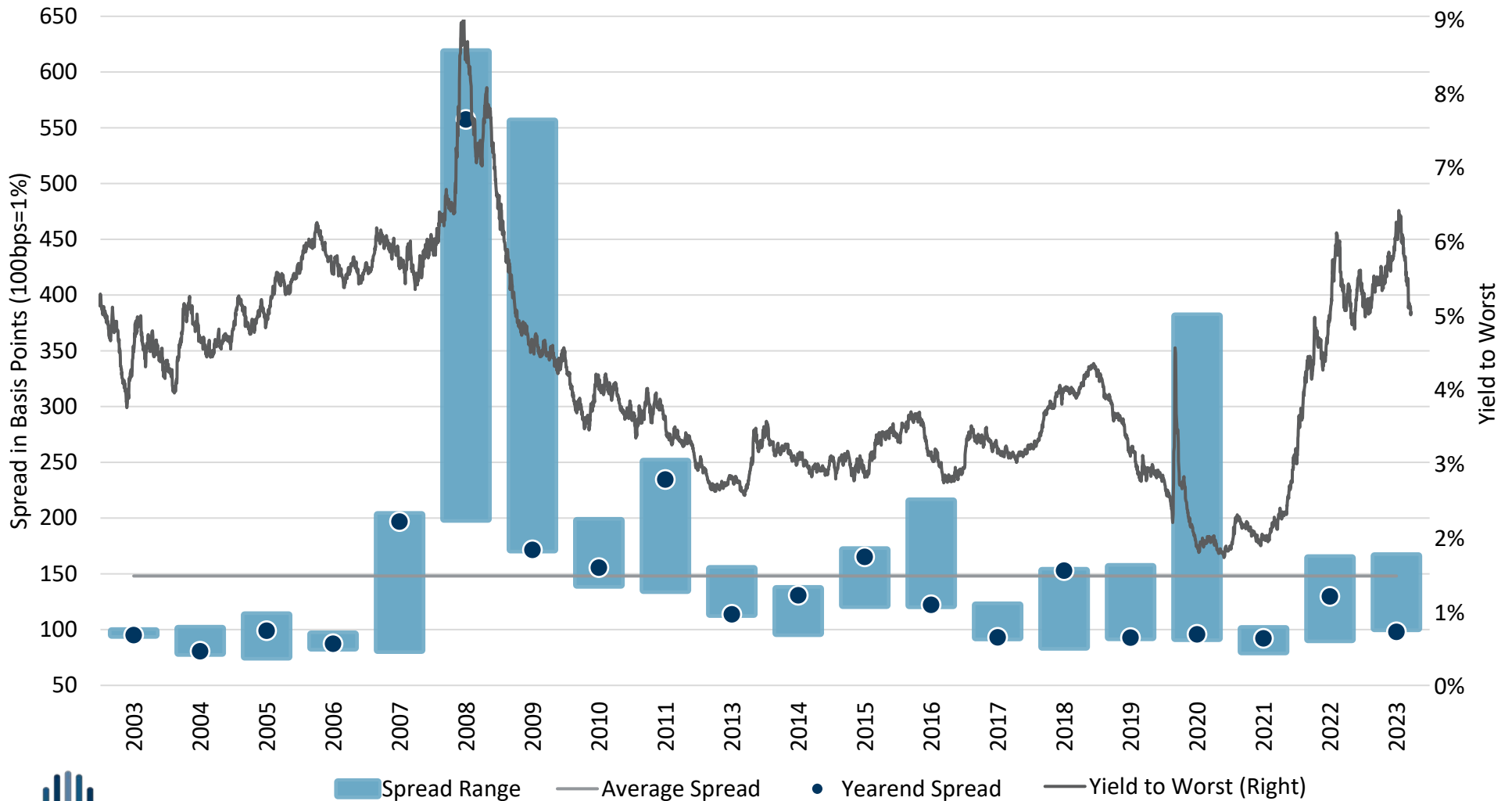
Source: Opus, Bloomberg, Citi, Bureau of Economic Analysis

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Economic Outlook

The risk-premium on corporate bonds ended 2023 at the year's lows; however, all-in-yields remain elevated relative to the last decade

Historical Investment Grade Corporate Yield and Spreads



Source: Opus, Bloomberg

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Economic Outlook

Moderating economic data and a less aggressive FOMC make a “soft landing” more likely

FOMC hiking cycle may be at an end as their next move is widely expected to be a cut

- Core inflation continues to moderate but remains above the FOMC’s long-term target, while unemployment remains low
- FOMC sentiment seems to have shifted to a more dovish stance with projections of additional rate cuts in 2024
- Market participants are pricing in more aggressive rate cuts than the FOMC which could lead to continued volatility

Consumers have been the ballast of the U.S. economy, though they are becoming more cautious

- Consumer spending has remained stronger than expected though consumers are becoming more price sensitive
- Consumer credit fundamentals suggest the current debt burden is manageable, although elevated interest rates make debt more costly
- Labor market strength persists with unemployment remaining near the 50-year low, however job openings are declining

Strong market performance to end the year may already incorporate a soft landing

- The S&P 500 rose 11.7% during the fourth quarter, predominantly driven by a belief that the FOMC hiking cycle has peaked
- All-in corporate bond yields pushed to 15-year highs before falling precipitously late in the quarter; investment grade risk premiums also declined
- Other potential sources of volatility and geopolitical risk remain; such as U.S. election, Russian Ukrainian war, Israel Hamas conflict

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