Strategy Newsletter – 1st Quarter 2024

- Inflation drop grabs the attention of policymakers.
- Equities resumed climbing the wall of worry, albeit in a narrow fashion.
- Interest rates fell as bonds post strong results for the year.
- The dispersion among commercial real estate sectors continues.

Economy

All around the world, inflation fell sharply from the high levels in 2022.

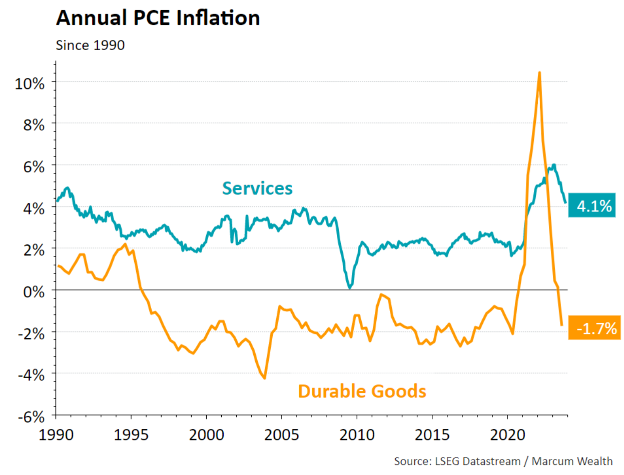
G7 CPI

Country	Canada	France	Germany	Italy	Japan	UK	US
Jun 22	8.1	5.8	6.7	8.0	2.3	9.4	9.1
Jul 22	7.6	6.1	6.7	7.9	2.6	10.1	8.5
Aug 22	7.0	5.9	7.0	8.4	3.0	9.9	8.3
Sep 22	6.9	5.6	8.6	8.9	3.0	10.1	8.2
Oct 22	6.9	6.2	8.8	11.8	3.8	11.1	7.8
Nov 22	6.8	6.2	8.8	11.8	3.8	10.7	7.1
Dec 22	6.3	5.9	8.1	11.6	4.0	10.5	6.5
Jan 23	5.9	6.0	8.7	10.0	4.4	10.1	6.4
Feb 23	5.3	6.3	8.7	9.2	3.3	10.4	6.0
Mar 23	4.3	5.7	7.4	7.6	3.3	10.1	5.0
Apr 23	4.4	5.9	7.2	8.2	3.6	8.7	4.9
May 23	3.4	5.1	6.1	7.6	3.2	8.7	4.1
Jun 23	2.8	4.5	6.4	6.4	3.3	8.0	3.0
Jul 23	3.3	4.3	6.2	5.9	3.3	6.8	3.2
Aug 23	4.0	4.9	6.1	5.4	3.1	6.7	3.7
Sep 23	3.8	4.9	4.5	5.3	3.0	6.7	3.7
Oct 23	3.1	4.0	3.8	1.7	3.3	4.6	3.2
Nov 23	3.1	3.5	3.2	0.7	2.9	3.9	3.1
Dec 23	N/A	3.7	3.7	0.6	N/A	N/A	N/A

High inflation   Low inflation/deflation

Source: LSEG Datastream / Marcum Wealth

A driver prices falling was the healing of supply chains, which we see in durable goods below.

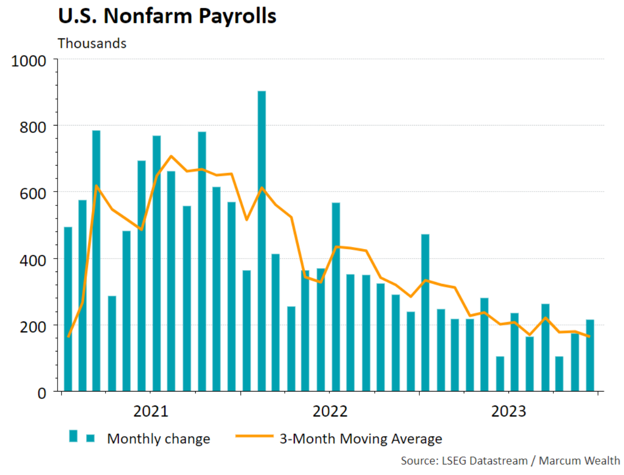


In the prior chart, prices of durable goods fell annually from 1996 to 2020. The shipping delays that slowed delivery times from 2020 to 2022 are back to normal and so is the prior price trend.

Services inflation at remains above the level of the last decade 4%, but it is decreasing.

The Federal Reserve's interest rate hikes that started in March 2022 also helped to curb credit demand and hence, inflation. The Fed finally backed off its hiking rhetoric last month, seeing inflation slowed last year. It now turns attention towards interest rate cuts in 2024, which would be expected timing compared to past economic cycles.

The most surprising aspect of the Fed's rate hiking cycle is that it did not derail jobs growth. While payroll reports for 2023 were revised downward from original estimates, growth was strong enough to avoid the recession that most economists forecasted at the end of 2022.



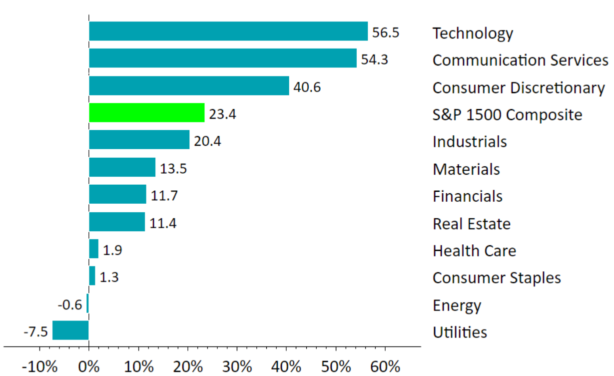
Equity

Stocks bounced back after a down October with one of the best final two months of the year. Small caps beat large caps while value outperformed growth in the US.

U.S. Equity	4Q 2023
Large Cap Stock	
S&P 500	11.7%
Small & Mid Cap Stock	
S&P 400 Mid Cap	11.5%
S&P 600 Small Cap	14.8%
All Cap Style Indices	
S&P 1500 Value	13.7%
S&P 1500 Growth	10.2%
International Equity	**4Q 2023**
MSCI EAFE	10.5%
MSCI EAFE Value	8.3%
MSCI EAFE Growth	12.8%
MSCI Emerging Markets (EM)	7.9%
MSCI EM Value	8.1%
MSCI EM Growth	7.8%

The calendar years 2022 and 2023 were mirror opposites. The only positive sectors in 2022 were utilities and energy (by far the biggest winner, up 68%). In 2023, both of these sectors were down. Technology and communications bounced back in a big way during 2023, led by a narrow list of stocks known as the "Magnificent 7."

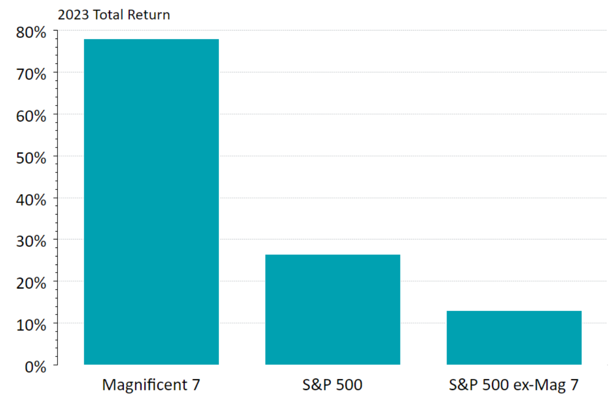
U.S. All Cap Sector Returns - 2023



Source: LSEG Datastream / Marcum Wealth

These seven companies include Apple, Amazon, Microsoft, Nvidia, Meta (Facebook), Google, and Tesla. Many investors worry about the narrow leadership of these stocks and the high valuations. However, the "Magnificent 7" are much more profitable than most, with many operating nearly as monopolies. This gives them much higher profit margins and free cash flow growth than the rest of the S&P 500 Index. In addition, more stocks began to participate in the fourth quarter market rally.

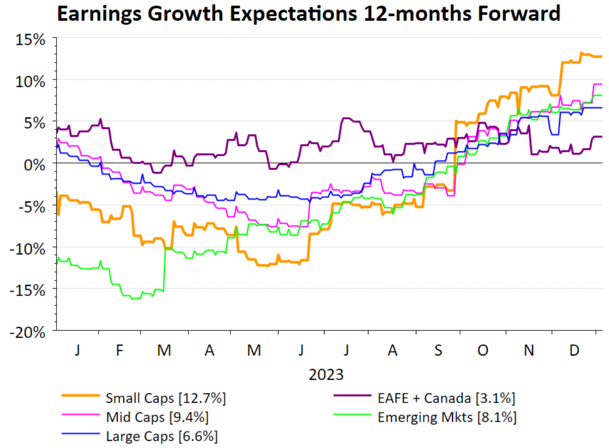
Magnificent 7 stocks Lead the Way for the S&P 500



Source: LSEG Datastream / Marcum Wealth

Earnings were one of the reasons that international and emerging markets did not keep up with the US for the last 15 years. Large caps grew earnings per share by 145% while this hardly grew for international (+6%) and emerging markets (-2%). In the next year, small and mid-caps have the highest expected growth followed by emerging markets.

Earnings Growth Expectations 12-months Forward



Source: LSEG Datastream / Marcum Wealth

The Marcum Wealth Asset Allocation Frameworks moved back to equal weight equities after being overweight the strategic targets.

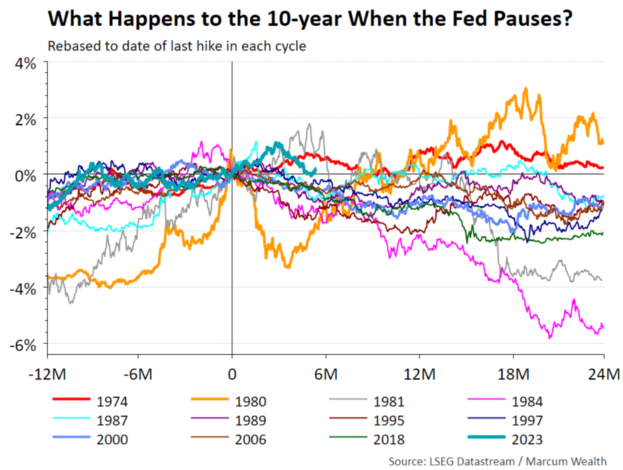
Fixed Income

Yields fell during the quarter providing a strong tailwind for bonds. The 10-year Treasury yield started the quarter at 4.57%, rose to 5%, then fell to 3.87%.

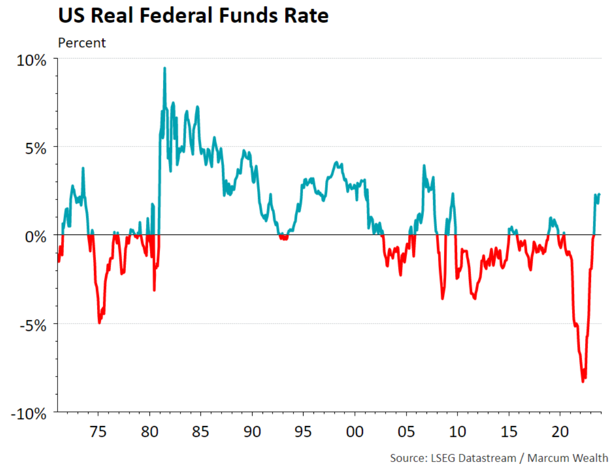
Fixed Income	4Q 2023
Bloomberg U.S. Aggregate Bond	7.2%
Bloomberg Corporate Inv. Grade	8.8%
Bloomberg High Yield Bond	8.2%
Bloomberg Global ex. U.S. Treas.	12.4%
Bloomberg Municipal Bond	8.6%
Bloomberg TIPS	6.8%

The good news is that yields are back to offering investors a decent return. Yields across the Treasury curve are in the 4% range. A spread on top of that base rate for investors willing to buy corporate or high-yield bonds gives options for yields in the 5% to 9% range.

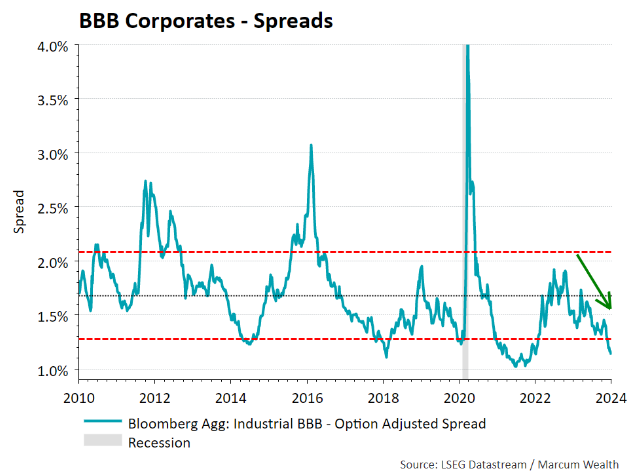
The Fed indicated its willingness to cut interest rates in 2024. Two years after the last interest rate hike during previous cycles, the 10-year Treasury yields fell nine of the last eleven times.



Why would the Fed even think about cutting interest rates now? As inflation continues to come down, the real interest rate (as measured by the Fed funds rate minus the rate of inflation), is at its highest level since 2010. This causes Fed policy to be restrictive. Since the Fed's mandate includes stable employment, being restrictive too long could hinder job growth.



Spreads on corporate bonds became lower over the past quarter. These reached the lowest levels since late 2021. The absolute yield levels are attractive.



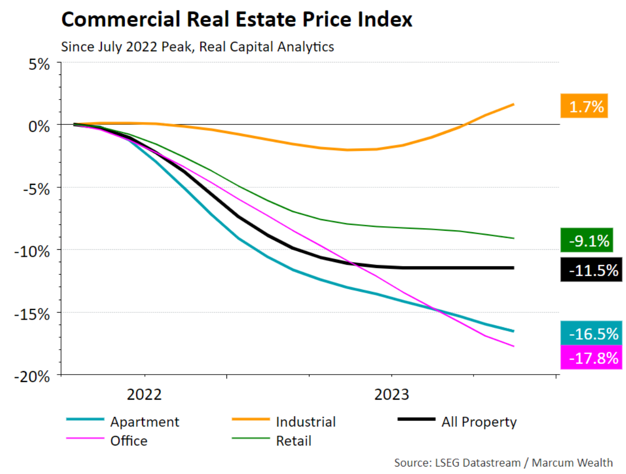
The Marcum Wealth Asset Allocation Frameworks moved back to equal weight fixed income.

Real Estate

REITs bounced with the fall in interest rates during the last quarter.

Real Estate	4Q 2023
Wilshire U.S. REIT	16.3%
Wilshire Int'l REIT	17.6%

The downturn in commercial real estate prices began in July 2022. Returns flattened out over the last six months for the All-Property Index. Under the surface, however, only one sector increased during this time.



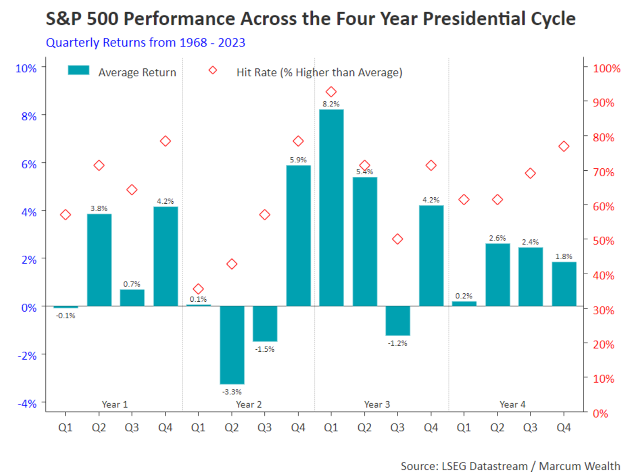
Industrial benefited from the continued e-commerce trends. The office struggles are well known, with work-from-home trends lowering the demand for space. Apartments took a double whammy from lower rent growth and buyers that took on floating-rate debt over the last few years.

There continues to be a wide bid-ask spread with a much lower transaction volume in 2023. The stabilization in interest rates could change this in the year ahead.

The Marcum Wealth Asset Allocation Framework maintains equal weight exposure to REITs.

Summary

The market following the Presidential cycle does not always go according to script. However, the last five quarters were directionally correct with the historical analog. Historically, election years tend to be positive for markets, though the first quarter has the lowest average return.



Marcum Wealth Asset Allocation Frameworks

	Income	Conservative	Balanced	Moderate	Growth
Asset Class	Strategic	Strategic	Strategic	Strategic	Strategic
Equity	**20%**	**35%**	**50%**	**65%**	**80%**
U.S. Equity	12%	21%	30%	39%	48%
International Equity	6%	11%	15%	20%	24%
Emerging Markets Equity	2%	4%	5%	7%	8%
Fixed Income	**77%**	**62%**	**47%**	**32%**	**17%**
US Fixed Income	69%	56%	42%	29%	15%
Global Bonds	8%	6%	5%	3%	2%
Real Estate / REITs	**3%**	**3%**	**3%**	**3%**	**3%**

The risk designations are relative only to the five Strategic Allocation targets and do not represent comparisons with any other investment or risk of the overall strategies.

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