Markets at a Glance

XPYRIA INVESTMENT ADVISORS

First Quarter 2024

Equities

- Global equity markets, as measured by the MSCI World Index, rose 8.88% for the quarter with much of the rally driven by optimism that the Federal Reserve would be able to engineer a soft landing for the U.S. economy. U.S. equities outperformed international developed equities and their emerging market peers. The U.S. dollar appreciated 4.17% versus a basket of EAFE currencies and appreciated 2.13% versus a basket of emerging market currencies during the quarter.

- Large-cap stocks, as measured by the S&P 500 Index, rose 10.56%. Communication Services and Energy were the best performing sectors, up 15.82% and 13.69%, respectively. Real Estate was the worst and only negative performing sector, down -0.55%. The S&P 500 Index notched 22 new all-time highs during the quarter and March marked its fifth consecutive month of positive performance. As a result of an increase in output and an increase in new orders due to greater advertising spending, U.S. Services Purchasing Managers Index (PMI) remained in expansionary territory for the fourteenth consecutive month.

- Small-cap stocks, as measured by the Russell 2000 Index, rose 5.18%. Information Technology and Energy were the best performing sectors, up 13.59% and 9.79%, respectively. Financials and Communication Services were the worst performing sectors, down -1.85% and -12.75%, respectively. The Russell 2000 Index remains -13% below its all-time high, which it reached in November 2021.

- International equities, as measured by the MSCI EAFE Index, rose 5.78%. Japan contributed the most to the index's performance due to robust economic growth, a weak yen, and continued corporate governance reform aimed at improving return on equity. Japan's Nikkei 225 Index marked a new all-time high for the first time since 1989. European equities rose during the quarter due to a slowdown in inflation, positive economic growth, and solid corporate earnings. Manufacturing and export-oriented countries, such as the Netherlands, Germany, France, and Italy, were among the strongest performers in Europe.

- Emerging market (EM) equities, as measured by the MSCI EM Index, rose 2.37%. Taiwan contributed the most to the index's return during the quarter as 74% of the MSCI EM Index's performance was driven by one company – Taiwan Semiconductor. India was also a strong contributor due to robust economic growth, a growing category of urban middle-class consumers, and an increase in foreign investment. China, which is a 25% weight in the MSCI EM Index, continued to underperform due to weak private and foreign investment as well as weakness in property prices and property development companies. Emerging Market Manufacturing and Services PMI both remained in expansionary territory.

- Global Real Estate, as measured by the EPRA/NAREIT Developed Index, fell -1.05%. U.S. REITS experienced relative underperformance as they fell -1.28%. 30-year mortgage rates increased to 7.31%, while the supply of existing homes in the U.S. remained tight at 2.9 months. Home supply remains tight as there are fewer sellers given that 37% of U.S. homes have no mortgage and 91% of outstanding mortgages have an interest rate of 5% or less. Data center REITs were the strongest performers during the quarter, while office, self-storage, and cell tower REITs were the worst performers.

Fixed Income Markets

- Core bonds, as measured by the Bloomberg Aggregate Bond Index fell -0.78%. Bank Loans (2.46%) and High-Yield Bonds (1.51%) outperformed core bonds. U.S. Corporate Bonds (-0.40%) outperformed U.S. Treasuries (-0.96%) and Agency Mortgage-Backed Securities (-1.04%).

- The Federal Reserve (Fed) paused its interest rate hikes, and Chairman Jerome Powell noted that the current fed funds rate is likely at its peak for this cycle. The intermediate-term and long-end of the Treasury yield curve steepened due to decreased expectations of rate cuts in 2024. Market participants began the year expecting 1.50% of rate cuts but now expect 0.75% of rate cuts in 2024. The ten-year Treasury yield rose from 3.88% to 4.20%, while the two-year Treasury yield rose from 4.23% to 4.59%. The yield differential between a ten and two-year Treasury remained inverted at -0.39%.

- The Fed maintained the fed funds target rate at a range of 5.25% to 5.50%. The Fed continued its balance sheet reduction program, which involves allowing $60 billion of U.S. Treasuries and $35 billion of Agency Mortgage-Backed Securities to mature or be sold each month. Regarding the balance sheet reduction, Chairman Powell noted "the general sense of the committee is that it will be appropriate to slow the pace of run-off fairly soon." Employment data (unemployment at 3.80%) remained strong, while inflation (Core PCE at 2.80%) slowed but remained above the Fed's long-term average target of 2.00% due to the resilience of "stickier" components, such as shelter and services.

- The European Central Bank (ECB) maintained its main deposit rate at 4.50% as inflation cooled to 2.60%. Marking its first rate increase in 17 years, the Bank of Japan (BOJ) ended its negative interest rate policy by increasing its target rate from -0.1% to 0.1%. In addition, the BOJ ended its yield curve control policy and its purchases of exchange-traded funds and REITS. The BOJ also pledged to slowly reduce its purchases of commercial paper and corporate bonds, aiming to stop these purchases in a year.

Market Performance
As of 3/31/2024

Asset Class	Index	1st Qtr.	1-Year
EQUITIES			
Domestic			
Large-Cap	S&P 500	10.56%	29.88%
Large-Growth	R1000 Growth	11.41%	39.00%
Large-Value	R1000 Value	8.99%	20.27%
Small-Cap	Russell 2000	5.18%	19.71%
Small-Growth	R2000 Growth	7.58%	20.35%
Small-Value	R2000 Value	2.90%	18.75%
International			
Developed Mkts.	MSCI EAFE	5.78%	15.32%
Emerging Mkts.	MSCI EM	2.37%	8.15%
Global			
Developed Mkts.	MSCI World	8.88%	25.11%
Real Estate Investments			
U.S. REITs	NAREIT	-1.28%	8.41%
Global REITs	EPRA/NAREIT Developed	-1.05%	8.57%
FIXED INCOME			
High-Yield	ICE BofA US HY	1.51%	11.04%
Interm.-Term	Bloomberg Agg	-0.78%	1.70%
Short-Term	Blmbrg G/C 1-3	0.47%	3.56%