GIA PARTNERS

4th Quarter 2023

Highlights

- **Interest rates declined and credit markets rallied after the Fed "pivoted" in November. Our portfolios benefited from their positioning, and investment grade sectors outperformed.**
- **The economy delivered robust economic performance in 2023 despite monetary policy headwinds. We think the momentum and solid fundamentals will likely help avoid a recession in 2024.**
- **Strategists got most forecasts wrong last year. We believe the reason was the pandemic's role in altering government policy and consumer behavior. What might happen next?**

Markets

		Returns (%)			
GIA	Average Quality	4Q23 Gross	4Q23 Net	12 Months Gross	12 Months Net
Core Plus Composite	**(A+)**	**6.90**	**6.81**	**7.51**	**7.14**
Global Investment Grade Composite	**(A-)**	**7.74**	**7.64**	**8.84**	**8.40**
Global Credit Plus Composite	**(BBB+)**	**6.97**	**6.84**	**9.29**	**8.74**
High Yield Composite	**(BB-)**	**7.69**	**7.55**	**13.56**	**12.93**
Emerging Market Corporate Debt Composite	**(BB+)**	**6.16**	**6.00**	**9.77**	**9.11**
Benchmark Bonds					
Bloomberg U.S. Agg. Index	(AA)	6.82		5.53	
Treasury	(AA+)	5.66		4.05	
Corporate	(A-)	8.50		8.52	
Mortgage	(AA+)	7.48		5.05	
Government/Credit	(AA)	6.63		5.72	
ICE BofA U.S. Corporate & Yankees	(A-)	7.62		8.03	
ICE BofA U.S. Corporate	(A-)	7.91		8.40	
ICE BofA U.S. High Yield	(B+)	7.06		13.46	
ICE BofA EM Corporate Plus	(BBB)	5.95		7.51	
ICE BofA Global Gov't ex-US	(AA-)	4.83		3.94	
JPM Emerging Markets EMBI GD	(BB+)	9.16		11.09	
JPM CEMBI Broad Diversified	(BBB-)	5.52		9.08	
JPM GBI-EM Global Diversified	(BBB+)	8.07		12.70	
Benchmark Equities					
S&P 500	NA	11.65		26.08	
Nasdaq Composite	NA	13.56		43.42	
Russell 2000	NA	13.56		15.09	
MSCI EAFE	NA	10.09		15.03	
MSCI Europe	NA	10.99		16.44	
MSCI Japan	NA	8.27		17.11	
MSCI Emerging Markets Equity	NA	7.45		7.04	

* Please refer to the respective factsheets for the long-term composite and benchmark returns for each strategy.

Markets

Investors will likely remember Q4 of 2023 for two "monumental" events: the Fed's rate cycle pivot, and the massive rally in financial markets. After dismal performance in 2022 when the Fed was forced to raise rates at an unprecedented pace, stocks and bonds turned in a surprisingly strong year. Much of this occurred in the last two months of the year. Results surprised because investors and strategists spent the year anticipating a recession that never arrived, and second-guessing a Fed scarred by its dismissal of inflationary pressures in 2021. Trusted indicators like an inverted yield curve, eroding consumer confidence, tightening financial conditions, and elevated mortgage rates presaged economic deterioration that did not justify the performance of higher risk assets. Nevertheless, during the fourth quarter, the Dow Jones Industrial Average hit a new record high and the S&P 500 came near one with both indexes closing the year with huge gains. The Nasdaq also posted a remarkable year. Respectively the Dow, the S&P 500, and the Nasdaq returned 12.49%, 11.24%, and 13.56% for the quarter and 13.70%, 24.23%, and an eye-popping 43.42% for the year. In dollar terms, European and Japanese stocks also performed well with Europe gaining 16.44% for the year and Japan up 17.11%. In bonds, 10-year U.S. rates declined an impressive 111 b.p. in the final two months following the Fed's early November "pivot." The move propelled the Bloomberg Aggregate from negative year-to-date returns in October to a 5.53% full year gain. The index's quarterly return was 6.82%. In a further surprise to many, high yield bonds returned 7.06% in 4Q and a healthy 13.46% for all of 2023.

Investment grade credit continued its resilient performance during the fourth quarter as solid creditworthiness combined with enthusiasm related to the likely end of the Fed's rate hiking cycle to squeeze spreads further. For the quarter, the investment grade corporate bond index, the ICE BofA U.S. Corporate Index (C0A0), was up 7.91%, and finished the year up 8.40%. Corporate bonds generated 203 b.p. of duration adjusted excess returns for the quarter and 455 b.p. for the year as the U.S. treasury index (G0Q0) gained 5.72% during the quarter and 3.87% for the year. Corporate option adjusted spreads (OAS) narrowed 19 b.p. to 104 b.p., while the yield to worst of the index declined from 6.05% to 5.14%. Investment grade issuance continued at a solid clip with borrowers raising $236.3 billion for the quarter, which exceeded last year's $222.8 billion. For the full year, issuance totaled $1.45 trillion, surpassing last year's total of $1.40 trillion.

The high yield market continued to outperform expectations with another stellar quarter. Despite higher rates and refinancing concerns, the sector experienced favorable fund flows and limited availability of new issuance. The ICE BofA U.S High Yield Index (H0A0) was up 7.06% for the quarter and 13.46% for the year. At year-end the spread to worst for the sector was narrower by 54 b.p., from 415 b.p. to 361 b.p. For the full year, the high yield market was boosted by the riskiest securities. By ratings, the sector's 2023 returns were: BB 11.44%, B 13.96%, and CCC 20.36%. Supporting the market, investors added funds to high yield (primarily via ETFs) for six consecutive weeks at the end of the year. For the quarter, inflows totaled $5.3 billion which brought the year's outflow to -$7.9 billion. The default rate including distressed exchanges increased to 2.84% from 2.11% at the end of the third quarter (2.08% not including distressed exchanges), which remained well below the historical average of 3.1%. The new issue market remained tepid at $42.1 billion for an annual total of $175.9 billion. While this exceeded 2022's comparable periods, the total remained well below the nearly $0.5 trillion raised in 2021.

Emerging markets bonds joined the "risk on" rally that followed the Fed's early November meeting. Despite challenging geopolitics with the eruption of the Israel/Hamas war and no progress in the Ukraine/Russia conflict, many countries experienced favorable policy developments and investor support as rates declined. President Xi Jinping struck a conciliatory tone during his San Francisco trip for the Asia-Pacific Economic Cooperation Summit. The JPM Emerging Market Bond Index – Global Diversified (EMBIGD), a dollar denominated sovereign index, was up 9.16% for the quarter and ahead 11.09% for the year. The JPM Corporate Emerging Markets Broad Diversified Index (CEMBI BD) rose 5.52% during the quarter and gained 9.08% for the full year. The JPM Global Bond Index – Emerging Markets Global Diversified (GBI-EM Global Diversified), a local markets index, returned 8.07% for the quarter and was higher by 12.70% in 2023.

Economy

Economic performance in 2023 was remarkable due to its vigor, resilience, and durability in the face of consistent headwinds. Like others, we repeatedly underestimated the economy's strength. Upon review, the momentum from government programs combined with pent-up demand offset the Fed's contractionary measures. While economists and investors spent the year expecting for the Fed's contractionary measures to kick in, we believe they already have. Data released during the fourth quarter showed slowing activity in interest rate sensitive sectors like housing and autos combined with softening inflationary pressures. With consumers and companies in solid financial condition, slowing sectors are being offset by strong ones to generate reasonable growth. In essence, we believe we are in the soft landing.

Looking forward, we think countervailing forces will likely feature prominently in 2024. Supporting a positive growth rate, unemployment remains low with wages providing real gains after two years of negative real compensation. However, trying to ensure inflationary pressures do not return, the Fed will likely keep their policy rate on hold through May or June. Inflationary pressures in goods subsided during the year as production bottlenecks cleared. Services inflation also began to subside, although the rent component remained elevated. That should decline as housing prices adjust to paltry home sales.

Conditions abroad showed sluggish growth during 2023 and a limited lift in the fourth quarter. Europe failed to grow at a faster clip despite resolving its 2022 energy crisis. China performed below expectations after exiting Covid due to tepid consumer demand, which was likely precipitated by the housing sector crisis. Despite this, we believe most regions are poised to perform better in 2024. Inflation is declining globally as obstacles to production and commerce cleared up. Energy and commodity prices remain healthy, although well below the levels reached after the Ukraine/Russia war. Furthermore, many countries still have policy flexibility which is likely to be employed as the U.S. economy slows.

Scenarios

We propose three scenarios for the U.S. economy over the next 6 months:

1. Our most likely case has the U.S. economy growing about 1.0% in 2Q and at a slower annual rate of 0.0 to 0.5% in 3Q 2024. Momentum from a better-than-expected year and 4Q 2023 will likely keep the economy growing at a modest pace. The Fed will likely keep rates on hold until the second quarter and then begin to cut. Inflation will likely remain well behaved as the areas of concern, like rents, have begun to decline. PROBABILITY 60%

2. A second scenario has the economy slowing to a rate of 0.0% to -1.0% at an annual rate during the next six months. In this scenario, the Fed keeps rates on hold through the third quarter and financial conditions worsen at a rapid pace. Longer-term rates remain elevated, lending becomes more restrictive, and consumers downshift their expenditures. In addition, unemployment rises further dampening consumer confidence. PROBABILITY 20%

3. A third scenario has the economy expanding at the same or even stronger pace of 2.0% to 2.5% at an annual rate during the next six months. In this scenario, personal consumption remains robust aided by low unemployment and reasonable wage growth. Inflation remains contained allowing the Fed to lower rates by May and housing sales recover with lower mortgage rates. Furthermore, China and Europe achieve better growth rates which help power the global economy to better performance. PROBABILITY 20%

Market Outlook

The economic outlook remains in flux as solid employment and wages battle with tighter financial conditions for direction. Ultimately, we believe the economy will slow to below potential, although it does not fall into recession. Valuations in financial markets imply the economy will continue to perform at a sufficiently healthy clip to sustain earnings and creditworthiness, yet not stoke inflation or higher rates. While we agree with the economic outlook, we believe markets may be complacent on the likely performance of higher risk assets. With this in mind, we continue to hold an overweight position in credit, including in high yield and emerging markets, although we are leaning portfolio exposures to higher quality names that still offer some spread.

January 15, 2024

Important Information

GIA Partners, LLC ("GIA") is an SEC registered investment adviser.

This material is for information purposes only. It does not constitute an offer to or a recommendation to purchase or sell any shares in any security. Investors should consider the investment objectives, risks and expenses of any strategy or product carefully before investing.

Past Performance: The performance data quoted represents past performance. Past performance is not an indication of future performance provides no guarantee for the future and is not constant over time. The value of an investment may fluctuate and may be worth more or less than its original cost when redeemed. Current performance may be lower or higher than the performance data quoted.

Forecasts and Market Outlook: The forecasts and market outlook presented in this material reflect subjective judgements and assumptions of the investment manager and unexpected events may occur. There can be no assurance that developments transpire as forecasted in this material. Certain assumptions made in the preparation of the material may be subject to change without notice and GIA is under no obligation to update the information contained herewith.

Management Fees, as well as account minimums and other important information are described in GIA's Form ADV - Part IIA. Since management fees are deducted quarterly, the compounding effect will be to increase the impact of such fees by an amount directly related to the account's performance. For example, an account with a 10% gross annual return and a 1% annualized management fee that is deducted quarterly will have a net annual return of about 8.9%.

Index Definitions

Bloomberg U.S. Aggregate Index
The Bloomberg U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

Bloomberg U.S. Treasury Index
This index is the U.S. Treasury component of the U.S. Government index. Public obligations of the U.S. Treasury with a remaining maturity of one year or more.

Bloomberg U.S. Government/Credit Index
The Government/Credit Index includes securities in the Government and Credit Indices. The Government Index includes treasuries and agencies. The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

Bloomberg U.S. Corporate Index
This index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers. (Future Ticker: I02765US)

Bloomberg U.S. Mortgage Backed Securities Index
This index is the U.S. MBS component of the U.S. Aggregate index. The MBS Index covers the mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

ICE BofA U.S. Corporate & Yankees Index
The ICE BofA U.S. Corporate & Yankees Index tracks the performance of US dollar denominated investment grade debt publicly issued in the US domestic market by US and non-US corporations and non-US quasi-governments.

ICE BofA U.S. Corporate Index
The ICE BofA U.S. Corporate Index tracks the performance of US dollar denominated investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch) and an investment grade rated country of risk (based on an average of Moody's, S&P and Fitch foreign currency long term sovereign debt ratings).

ICE BofA U.S. High Yield Index
The ICE BofA U.S. High Yield Index tracks the performance of below investment grade US dollar-denominated corporate bonds publicly issued in the US domestic market.

ICE BofA US Emerging Markets Corporate Plus Index (EMUB)
The ICE BofA US Emerging Markets Corporate Plus Index is a subset of The ICE BofA Emerging Markets Corporate Plus Index including all securities denominated in US dollars.

ICE BofA Global Government Excluding the U.S. Index (N0G1)
The ICE BofA Global Government Excluding the U.S. Index tracks the performance of publicly issued investment grade sovereign debt denominated in the issuer's own domestic currency. N0G1 excludes U.S. government bonds.

Emerging Markets Bond Index Global Diversified (EMBI® Global Diversified):
The EMBI Global Diversified is a uniquely-weighted version of the EMBI Global. It limits the weights of those index countries with larger debt stocks by only including specified portions of these countries' eligible current face amounts of debt outstanding. The countries covered in the EMBI Global Diversified are identical to those covered by the EMBI Global.

JP Morgan Corporate Emerging Markets Bond Index Broad Diversified (CEMBI Broad Diversified)
The CEMBI tracks total returns of US dollar-denominated debt instruments issued by corporate entities in Emerging Markets countries. Two variations are available: CEMBI Broad and CEMBI. The CEMBI Broad is the most comprehensive corporate benchmark followed by the CEMBI, which consists of an investable universe of corporate bonds. The CEMBI Broad Diversified limits the weights of those index countries with larger corporate debt stocks by only including a specified portion of these countries' eligible current face amounts of debt outstanding.

JP Morgan Government Bond Index-Emerging Markets (GBI-EM)
The GBI-EM is the first comprehensive, global local Emerging Markets index, and consists of regularly traded, liquid fixed-rate, domestic currency government bonds to which international investors can gain exposure. Variations of the index are available to allow investors to select the most appropriate benchmark for their objectives.

S&P 500 Index
An index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

Nasdaq Composite Index
An index that tracks the change in the total market value of all companies listed on the Nasdaq Stock Market.

Russell 2000 Index
An index measuring the performance of the 2,000 smallest companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks. The Russell 2000 serves as a benchmark for small cap stocks in the United States.

MSCI EAFE Index
The index is a capitalization weighted index that monitors the performance of stocks from Europe, Australasia and the Far East.

MSCI Europe Index
The index is a free-float weighted equity index measuring the performance of Europe Developed Markets.

MSCI Japan Index
The index is a free-float weighted equity JPY index.

MSCI Emerging Markets Equity

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.