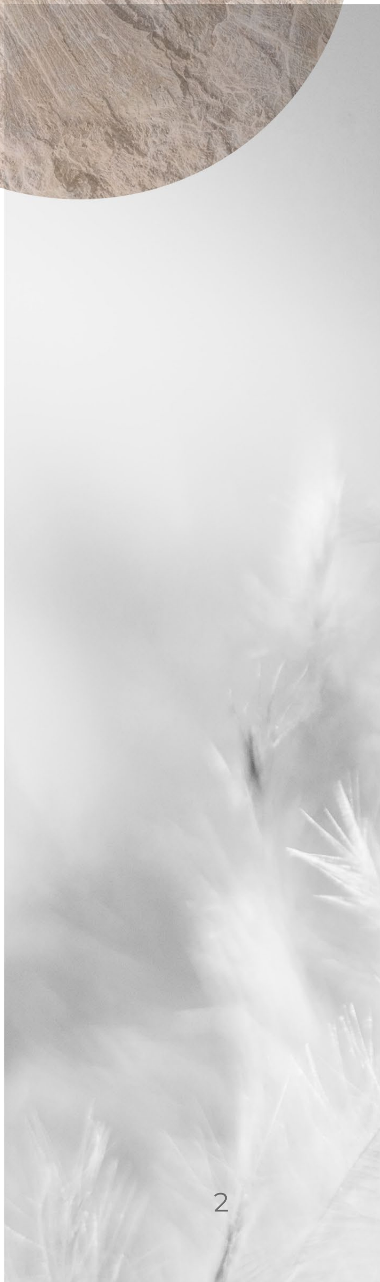
SAGE MOUNTAIN

Sage Mountain Q1 2024 Market Update

ALWAYS LOOKING AHEAD

"Risk-on" assets rose during the first quarter while interest rates rose



In the first quarter, confidence increasingly rose that the US economy would remain strong while inflation concerns persisted, pushing out expectations for the first Federal Reserve rate cut to later in 2024 or even into 2025. The economy not only avoided recession, it has been stronger than expected. Meanwhile, progress on inflation is generating debate. Bulls believe the lagged impact of slower rent growth and supply chain improvements will be enough to get inflation back to the Fed’s 2% target. Bears fear higher commodities and wages will make the “last mile” of the inflation fight the hardest. We believe the Fed will still cut, but at a slower pace. Investors previously priced in five to six cuts in 2024, but expectations now center on two to three.

The AI boom is still onging, as AI bellwether NVIDIA climbed 82% in the first quarter. Other big contributors to equity market gains were Microsoft, Meta, and Amazon. Although growth outpaced value in Q1, cyclical sectors such as energy, financials, and industrials contributed to strong absolute performance for value stocks.

We would be remiss not to mention the performance of Bitcoin as another sign of investor excitement. The approval of the exchange-traded funds propelled a huge rally, as Bitcoin hit a new all-time high, rising more than 60% in the first quarter.

Disappointed hopes that the Fed would quickly cut interest rates hurt the performace of bonds with longer maturities and more duration. On the other hand, the spread investors require to own riskier debt continued to shrink. Investment grade corporate bonds, high yield bonds, and securitizd credit all benefitted from the economy’s continued strength.

We believe it is an encouraging sign that “good news is good news” again in equity markets which rallied despite higher interest rates and the delay in the Fed’s anticipated cutting cycle. Economic fundamentals remained strong, with unemployment low and consumer spending holding up well. After a year of anemic earnings growth in 2023, analysts are forecasting 10% growth in S&P 500 earnings in 2024 and nearly 14% in 2025. Geopolitical concerns are also in the mix, but, while important, typically do not impact the investment landscape much over the medium or long term.

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Market Snapshot

	1Q 2024	2023	3 Year (Annualized)	5 Year (Annualized)	10 Year (Annualized)
Blended Portfolio					
60% S&P 500 / 40% US Aggregate	6.0%	18.0%	6.0%	9.3%	8.5%
Fixed Income					
Bloomberg US Aggregate	-0.8%	5.5%	-2.5%	0.4%	1.5%
Bloomberg Municipal 1-10 Years Blend	-0.4%	4.6%	0.0%	1.4%	2.0%
Bloomberg Municipal Bond High Yield	1.5%	9.2%	0.6%	3.0%	4.5%
S&P Leveraged Loan Index	2.5%	13.3%	6.0%	5.5%	4.5%
Bloomberg US Corporate High Yield	1.5%	13.4%	2.2%	4.2%	4.4%
Equities					
S&P 500	10.6%	26.3%	11.5%	15.0%	12.9%
Russell 1000 Growth	11.4%	42.7%	12.5%	18.5%	16.0%
Russell 1000 Value	9.0%	11.5%	8.1%	10.3%	9.0%
Russell 2000	5.2%	16.9%	-0.1%	8.1%	7.6%
NASDAQ 100	8.7%	55.1%	12.6%	20.9%	18.8%
MSCI EAFE (USD)	5.8%	18.2%	4.8%	7.3%	4.8%
MSCI EAFE (Local Currency)	10.0%	16.2%	9.4%	9.4%	7.7%
MSCI Emerging Markets	2.4%	9.8%	-5.0%	2.2%	2.9%
MSCI All Country World	8.3%	22.8%	7.5%	11.4%	9.2%
Other Assets					
PitchBook Private Equity[1]	0.0%	5.6%	5.8%	13.7%	13.6%
NCREIF NPI Returns - National[2]	0.0%	-7.9%	4.0%	4.0%	6.5%
S&P GSCI Gold	8.0%	13.4%	9.3%	11.5%	5.7%
Crude Oil - WTI Spot	16.8%	-10.4%	12.4%	6.9%	-1.9%
S&P Goldman Sachs Commodity Index	10.4%	-4.3%	18.0%	7.8%	-2.9%
US Dollar Index	3.2%	-2.1%	3.9%	1.4%	2.7%
US CPI - Urban Consumers	1.2%	3.4%	5.4%	4.1%	2.8%
US CPI - All Items Less Food & Energy	0.8%	3.9%	5.1%	3.8%	2.9%
VIX Volatility Index	4.5%	-42.5%	-12.5%	-1.0%	-0.6%

Source: Addepar; data as of 3/31/2024

[1] Returns as of 9/30/2023

[2] Returns as of 12/31/2023

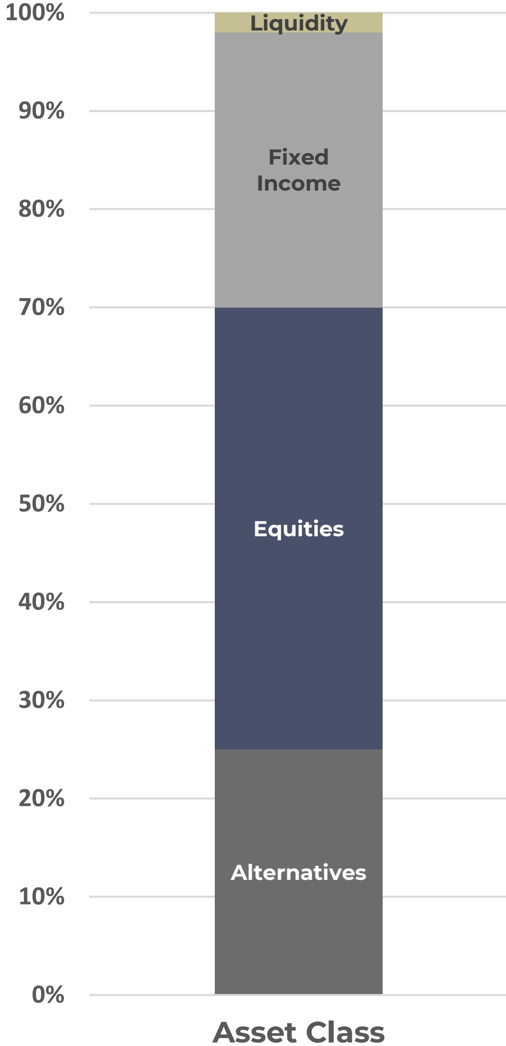
Investment grade fixed income was down in Q1 as markets digested shifting expectations for Fed rate cuts, while high yield outperformed as credit spreads remained tight.

Equities continued their trends from 2023 as US markets led Internationalm Growth outpaced Value, and Emerging Markets lagged.

Oil prices climbed in the first quarter on the back of a tight market outlook. The US Dollar bounced back, rising 3.2% in the first quarter. Volatility saw a small spike in the first quarter coming off a sharp decline in the VIX Index last year.

A 60% equity / 40% bond portfolio rose in Q1, posting a 6.0% driven by positive equity returns.

Illustrative current positioning and asset class views



Cash

- Tactically holding cash remains an attractive option. With yields on money market funds near 5.00% or higher, we strategically utilize those high yielding cash instruments to earn income while ensuring we meet clients' liquidity needs. However, it is important to note the potential opportunity cost of being on the sidelines too long.

Fixed Income

- **Government Bonds:** In the US, the Fed Funds markets have shifted back towards a "higher for longer" outlook. Stubbornly high inflation and rising concerns around the sustainability of US government deficits could be bearish for Treasuries.

- **US Investment Grade:** The strengthening economy has been supportive of credit markets across both high yield and investment grade. Spreads are tight, and thus we expect returns to be driven by yields rather than further spread tightening. We remain tactically allocated to AAA CLOs as they offer higher yields than investment grade corporate bonds and comparable yields to municipal bonds net of taxes.

- **US High Yield & Leveraged Loans:** Most analysts expect an erosion in the economy and corporate fundamentals to slightly push out spreads of higher risk credit investments. However, the economy has experienced less distress and more resiliency than expected. That has pushed high yield bond spreads to near post-Financial Crisis lows, so we prefer opportunities in other parts of the fixed income market.

Equities

- ***US:*** Despite higher interest rates, U.S. equities have remained strong, driven by the mega-cap names and strong earnings. Although we have seen some broadening profit leadership in the market, we remain watchful of the elevated concentration risk, specifically in the "Magnificent seven". We continue to believe global growth will be led by U.S. markets, and thus retain our view of overweighting these markets versus International.

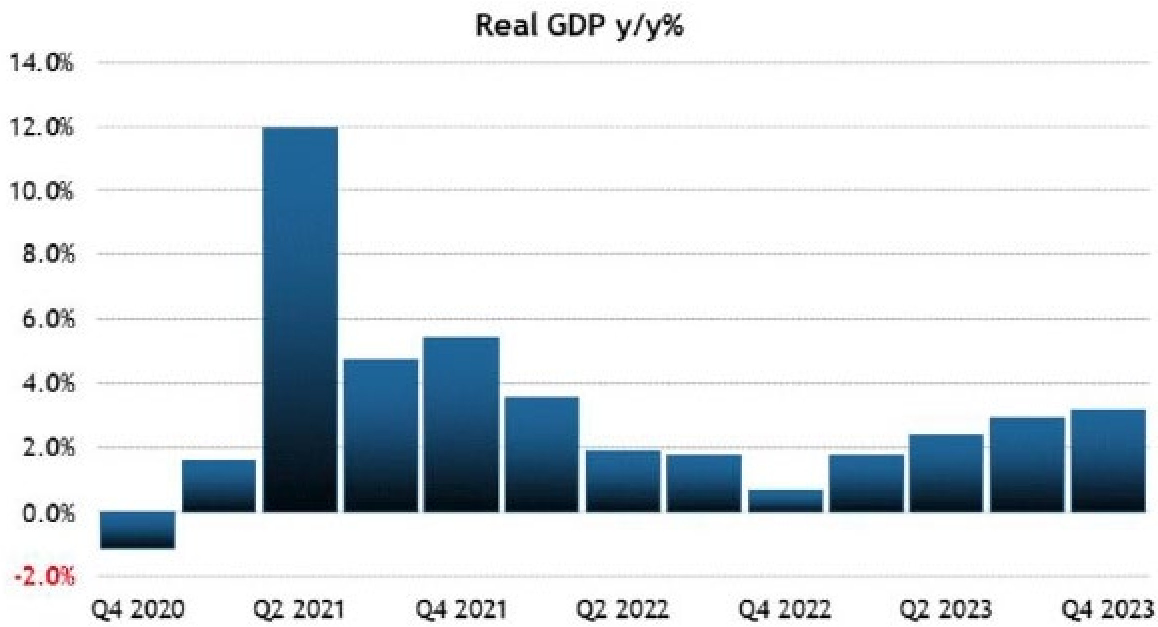
- ***International:*** While valuations for international stocks have remained lower than the U.S., so does their growth outlook. Although U.S. stocks have outperformed global equities over the last 15 years, we are not market timers looking to call the bottom. We recognize there are some potential bright spots outside the U.S., particularly in Japan, Europe, and some select Emerging markets. However, we don't see a reason to suggest getting more bullish on international stocks at this point.

Alternatives

- We have seen a surge into the Private Credit space as higher rates and bank pullbacks inticed investors in early 2023. Unsurprisingly, this area has performed well given the higher rates and increased opportunities but has led to increased crowding and saturation. Additionally, Real Estate debt has been a popular space to be in for similar reasons, and, in our view, offers better risk adjusted returns compared to its equity counterparts. Private Equity and Venture Capital funds have experienced slow downs in capital raising push but see some encouragement for a reversal. We maintain our approach to alternatives to be diversified, both in asset classes and vintage years. Additionally, we maintain a positive outlook on secondaries as there continues to be unique opportunities in a multitude of asset classes.

U.S. economic growth has accelerated and is expected to remain strong through 2024

Real GDP increased 2.5% in 2023 vs. 1.9% in 2022. Real time estimates like the Atlanta Fed's GDPNow forecast 2.8% annualized GDP growth in the first quarter of 2024, and economists anticipate 2.2% for the full year.



Source: bea.gov, Financial Synergies, Atlanta Fed, Bloomberg

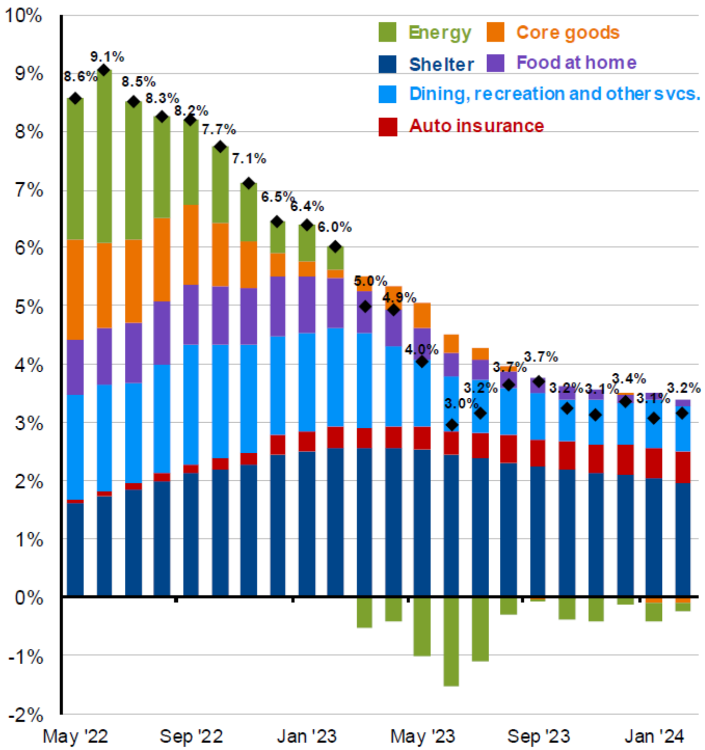
Inflation is holding steady… is this the new norm?

After two years of raging inflation we saw a steady downtrend in the second half of 2023. That progress has halted, at least temporarily, so far this year. **While CPI inflation has fallen to 3.2% from a peak of 9.1%, it has held around that level for several months. Core PCE, the Fed's preferred measure of inflation, increased 2.8% over the past 12 months.**

This has sparked renewed concerns that inflation may remain above the Fed's target of 2% for longer than expected, and the market is now pricing in less than 2 rate cuts in 2024 vs. 6 coming into the year.

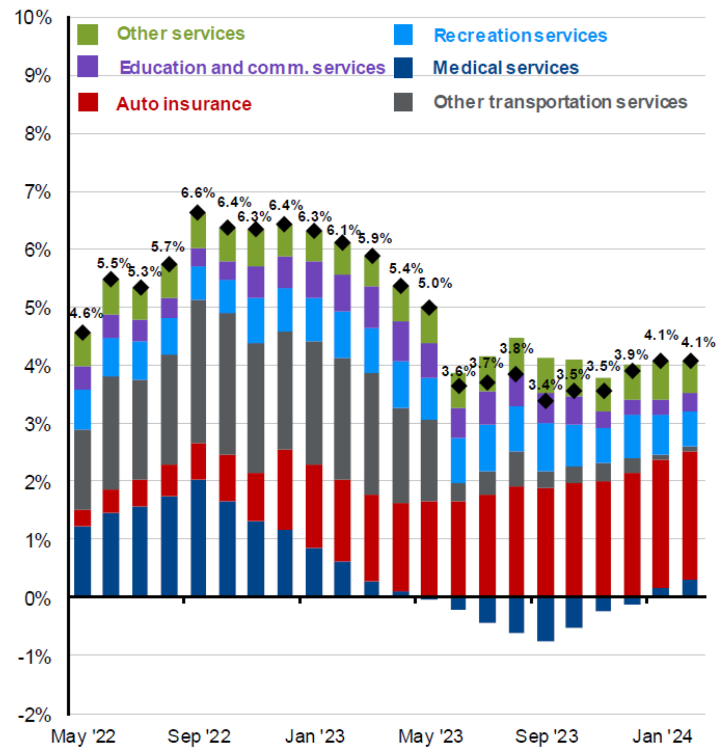
Contributors to headline CPI inflation

Contribution to y/y % change in CPI, non-seasonally adjusted



Contributors to core services ex-shelter CPI inflation*

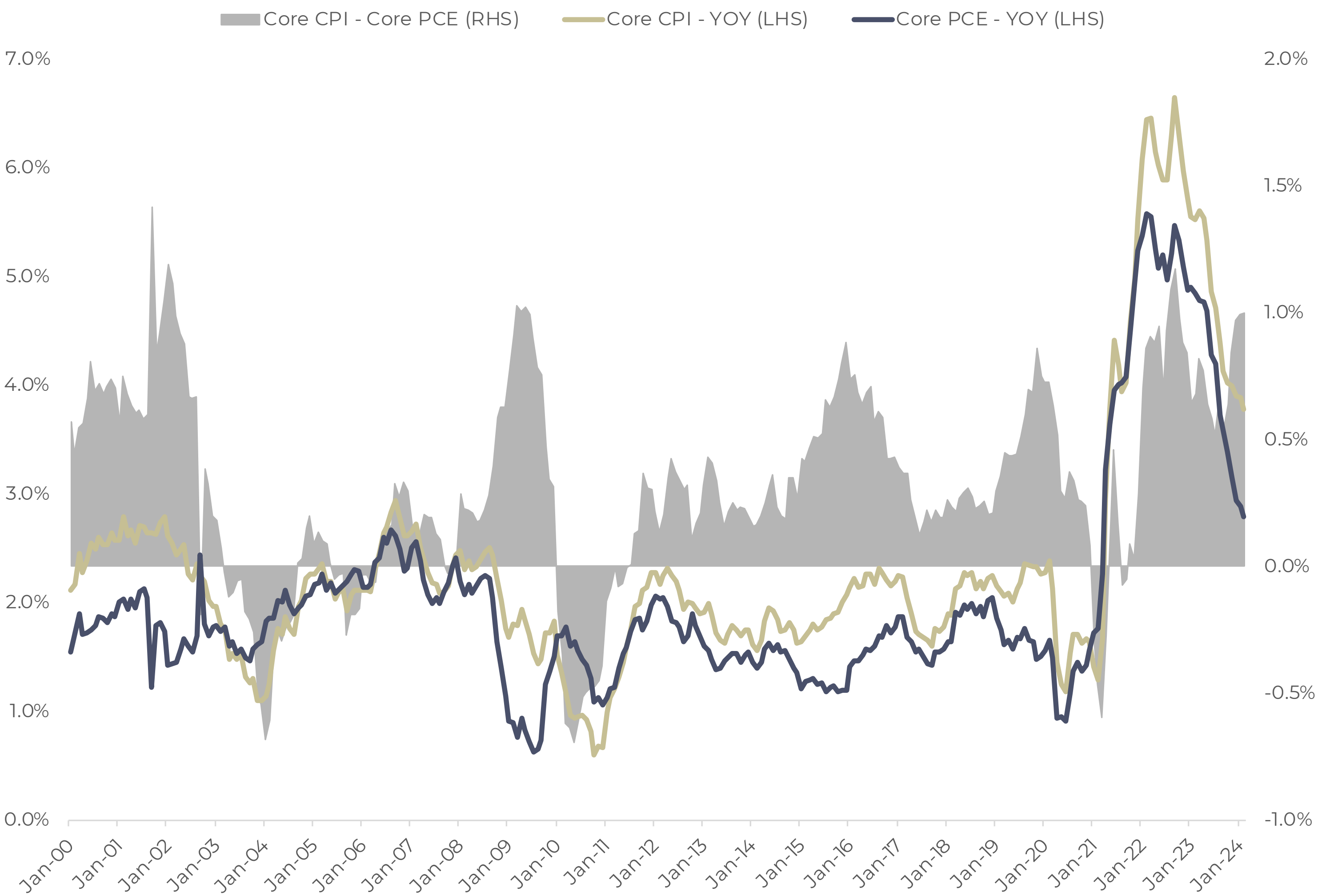
Contribution to y/y % change in custom CPI index, non-seasonally adj.



Source: BLS, FactSet, J.P. Morgan Asset Management, FRED

The gap between CPI and PCE inflation is unusually high

CPI vs. PCE Wedge

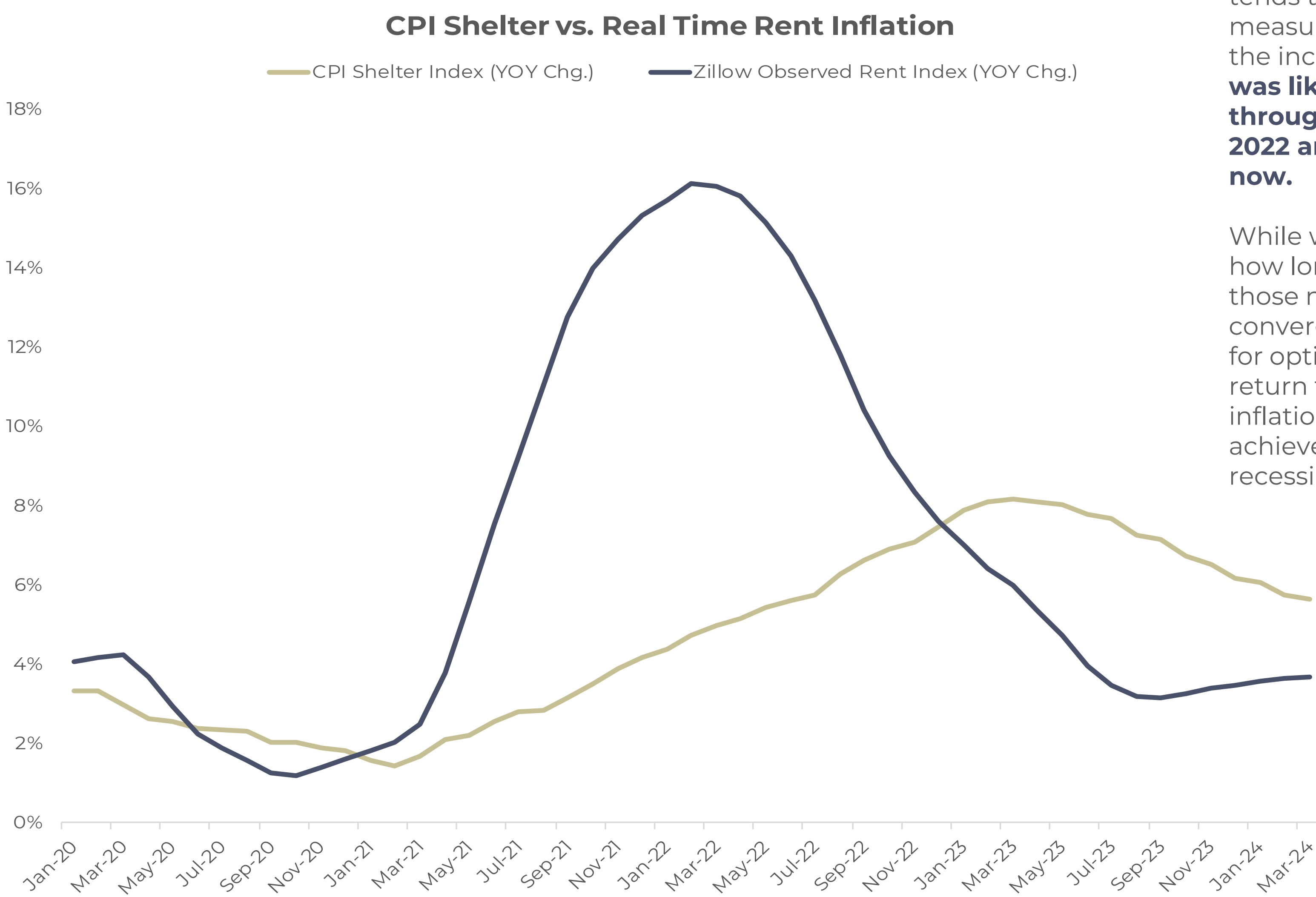


Source: FRED; data as of April 16, 2024.

The Fed's 2% inflation target is based on the Personal Consumption Expenditures Price Index (PCE) rather than the more well known Consumer Price Index (CPI). Historically CPI inflation has been about 0.5% higher than PCE, but that gap, or wedge, has increased to 1% over the past 3 months.

There are many differences in how the indexes are constructed which drive that wedge, but **the dominant factor today is the 17% weight to shelter in the core PCE vs. 40% in the core CPI.**

Shelter inflation has been sticky, but should continue to trend lower

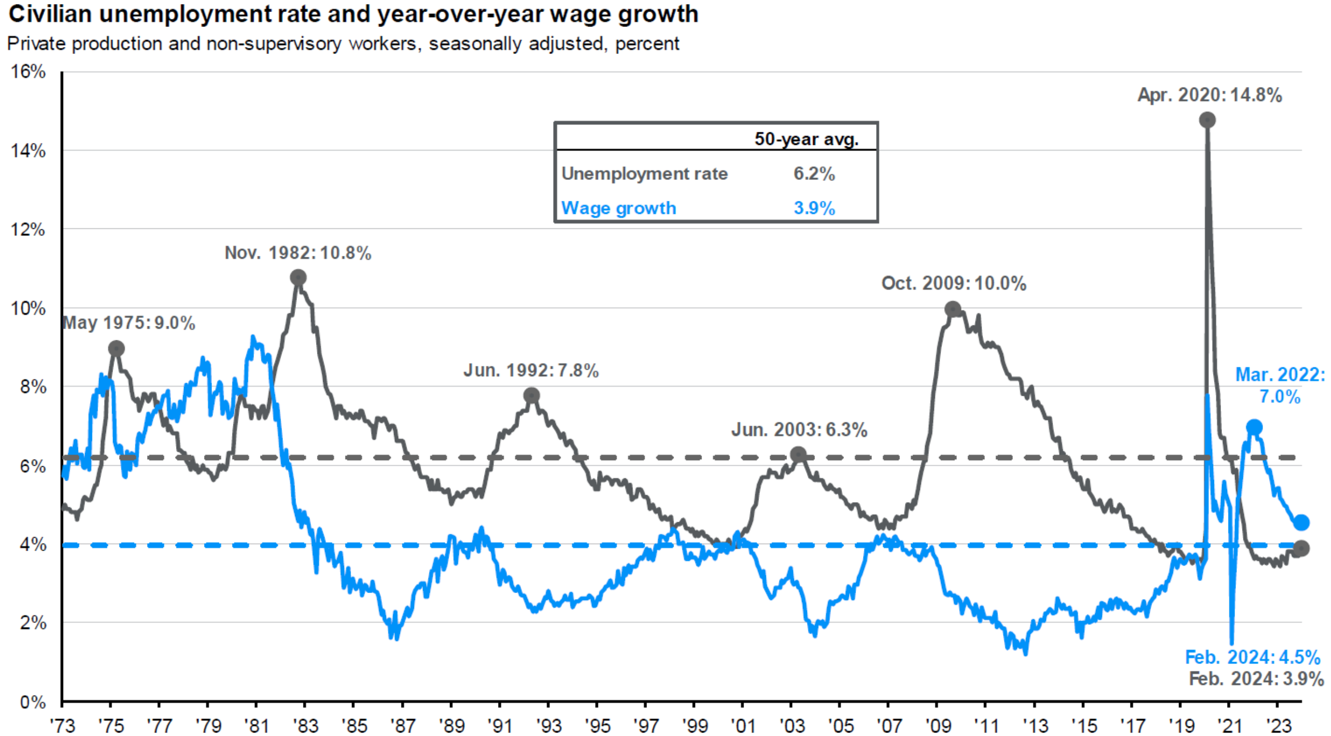


Source: FRED, Zillow; data as of April 15, 2024.

Official shelter inflation tends to lag real time measures. This means the increase in **inflation was likely understated throughout 2021 and 2022 and is overstated now.**

While we don't know how long it will take for those numbers to converge, it is a reason for optimism that a return to the Fed's 2% inflation target can be achieved without a recession.

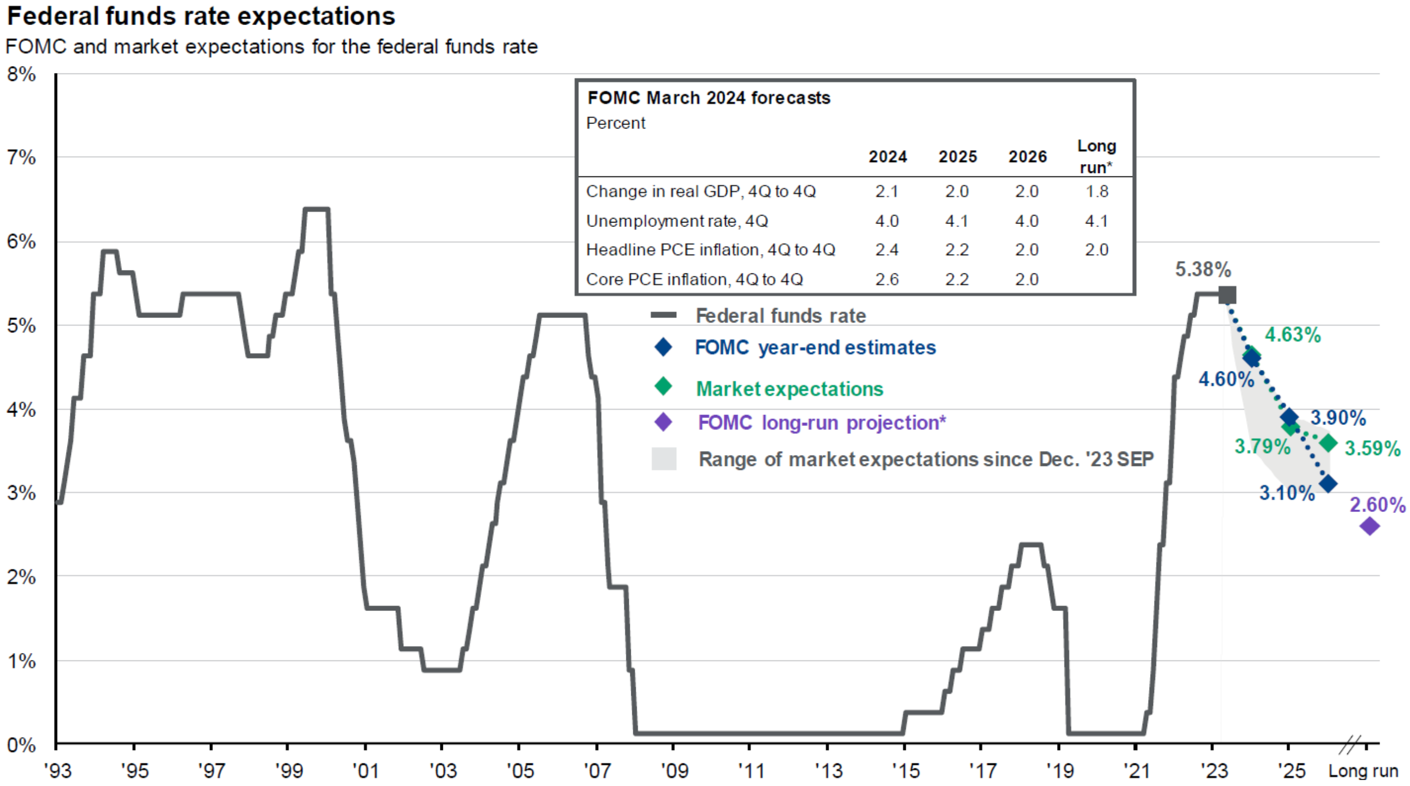
Uneployment and wage growth remain resilient, despite growing concerns



As strong growth remains in the U.S. labor supply, boosted by an increased labor force participation and a surge in immigration, the U.S. economy has experienced impressive job gains without greater inflation. With job openings still elevated, modest economic growth should support steady job gains ahead. While this normally puts downwards pressure on the unemployment rate, the continued inflow of migrants adding to labor supply could keep the unemployment rate within a narrow range of 3.5% to 4.0%.

Source: BLS, FactSet, J.P. Morgan Asset Management

Financial markets are focused on interest rates, as pauses loom and soft-landing woes increase



FOMC March 2024 forecasts

Percent

	2024	2025	2026	Long run*
Change in real GDP, 4Q to 4Q	2.1	2.0	2.0	1.8
Unemployment rate, 4Q	4.0	4.1	4.0	4.1
Headline PCE inflation, 4Q to 4Q	2.4	2.2	2.0	2.0
Core PCE inflation, 4Q to 4Q	2.6	2.2	2.0	

During the quarter, The Federal Reserve continued its cadence of interest rate pauses in both January and March, citing stronger than anticipated economic data.

As GDP growth, inflation, and labor market statistics remained resilient, the Fed saw no indication of a market slowdown or a need to begin cutting interest rates. As we came into the year with a projected 6 quarter-point cuts in 2024, economists have slashed those projections to 2-3 cuts through 2024, with some hypothesizing there may be none.

Analysts are now aligned in expecting no rate cuts until June at the earliest

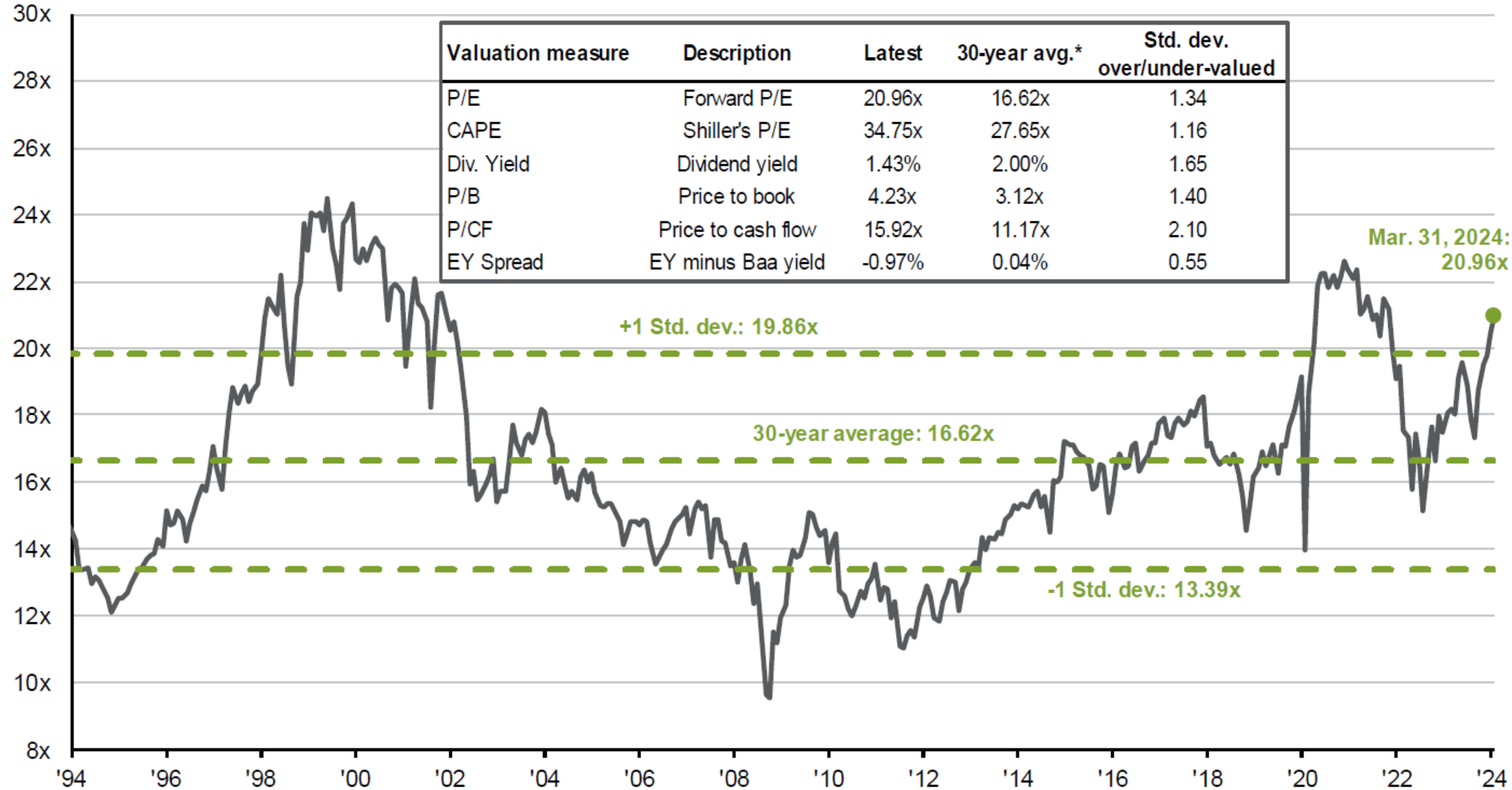
Fed call as of 4/11/2024

	First cut	Cuts in 2024	Publish date
Bank of America	December	25 BPS	4/12/2024
Barclays	September	25 BPS	4/10/2024
BNPP	July	50 BPS	4/10/2024
Citigroup	June	125 BPS	1/12/2024
Deutsche Bank	December	25 BPS	4/11/2024
Evercore ISI	July	50 BPS	4/11/2024
Goldman Sachs	July	50 BPS	4/10/2024
HSBC	June	75 BPS	12/17/2023
Jefferies	June	75 BPS	2/12/2024
JP Morgan	July	75 BPS	4/5/2024
LH Meyer	September	50 BPS	4/10/2024
Mizuho	Not 2024	0 BPS	12/5/2023
Morgan Stanley	June	100 BPS	11/12/2023
MUFG	June	125 BPS	4/1/2024
Nomura	July	50 BPS	3/15/2024
Oxford Economics	June	75 BPS	3/14/2024
RBC	December	25 BPS	4/10/2024
TD Securities	September	50 BPS	4/10/2024
UBS	September	50 BPS	4/10/2024
Wells Fargo	September	50 BPS	4/11/2024

Source: The Wall Street Journal

Valuations are on the rise, as stocks continued to climb on the back of economic data

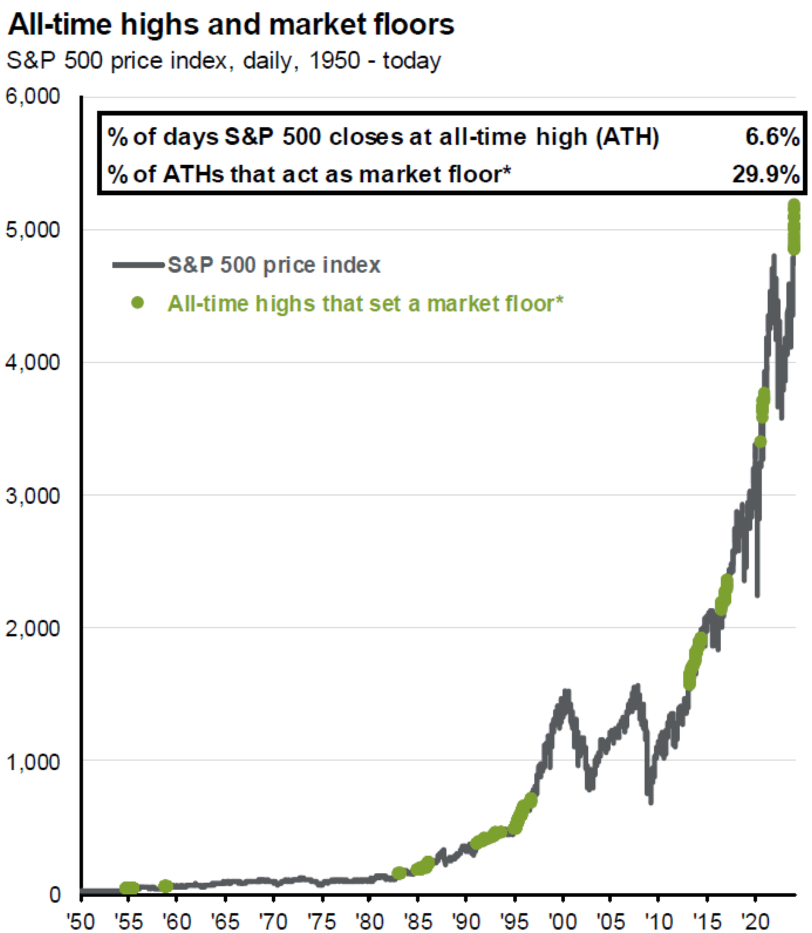
S&P 500 Index: Forward P/E ratio

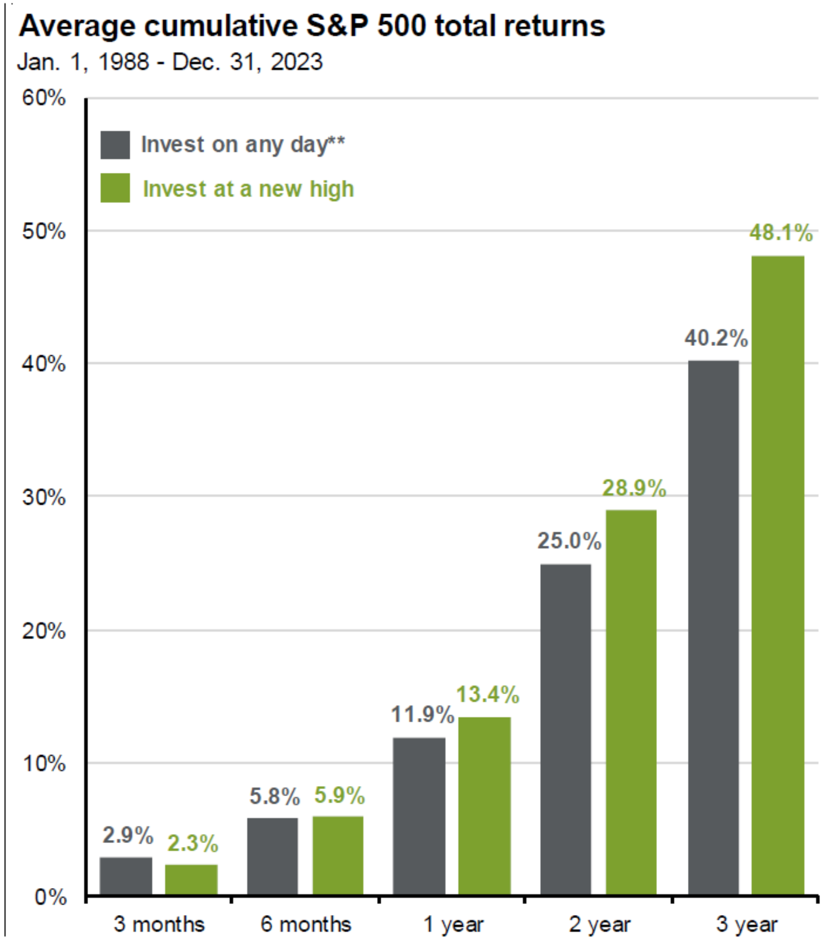


Valuation measure	Description	Latest	30-year avg.*	Std. dev. over/under-valued
P/E	Forward P/E	20.96x	16.62x	1.34
CAPE	Shiller's P/E	34.75x	27.65x	1.16
Div. Yield	Dividend yield	1.43%	2.00%	1.65
P/B	Price to book	4.23x	3.12x	1.40
P/CF	Price to cash flow	15.92x	11.17x	2.10
EY Spread	EY minus Baa yield	-0.97%	0.04%	0.55

Source: JP Morgan

As investors weigh the right time to invest…history shows markets highs lead to more highs





Source: FactSet, Standard & Poor's, JP Morgan

Equities remain concentrated at the top, reinforcing the need for broad market diversification…

P/E ratio of the top 10 and remaining stocks in the S&P 500

Next 12 months, 1996 - present

	Current	Average	% of avg.
Top 10	28.4x	20.3x	140%
Remaining stocks	18.3x	15.7x	117%
S&P 500	21.0x	16.5x	127%

Weight of the top 10 stocks in the S&P 500

% of market capitalization of the S&P 500

Earnings contribution of the top 10 in the S&P 500

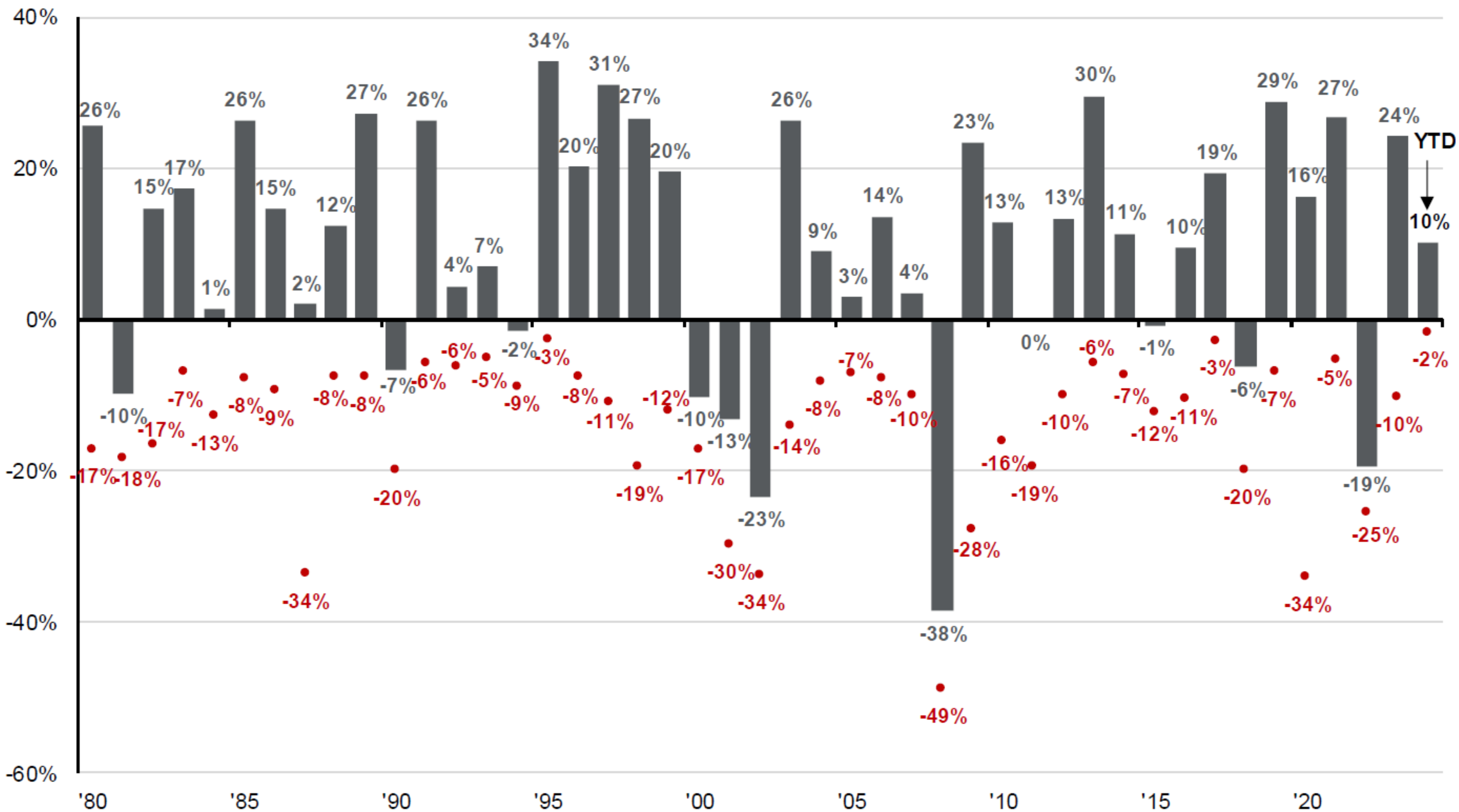
Based on last 12 months' earnings

Source: FactSet, Standard & Poor's, JP Morgan

…but investors must be prepared to endure pullbacks even during years with positive equity market returns.

S&P intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.2%, annual returns were positive in 33 of 44 years



Source: FactSet, Standard & Poor's, JP Morgan

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