SANCTUARY

Chart book

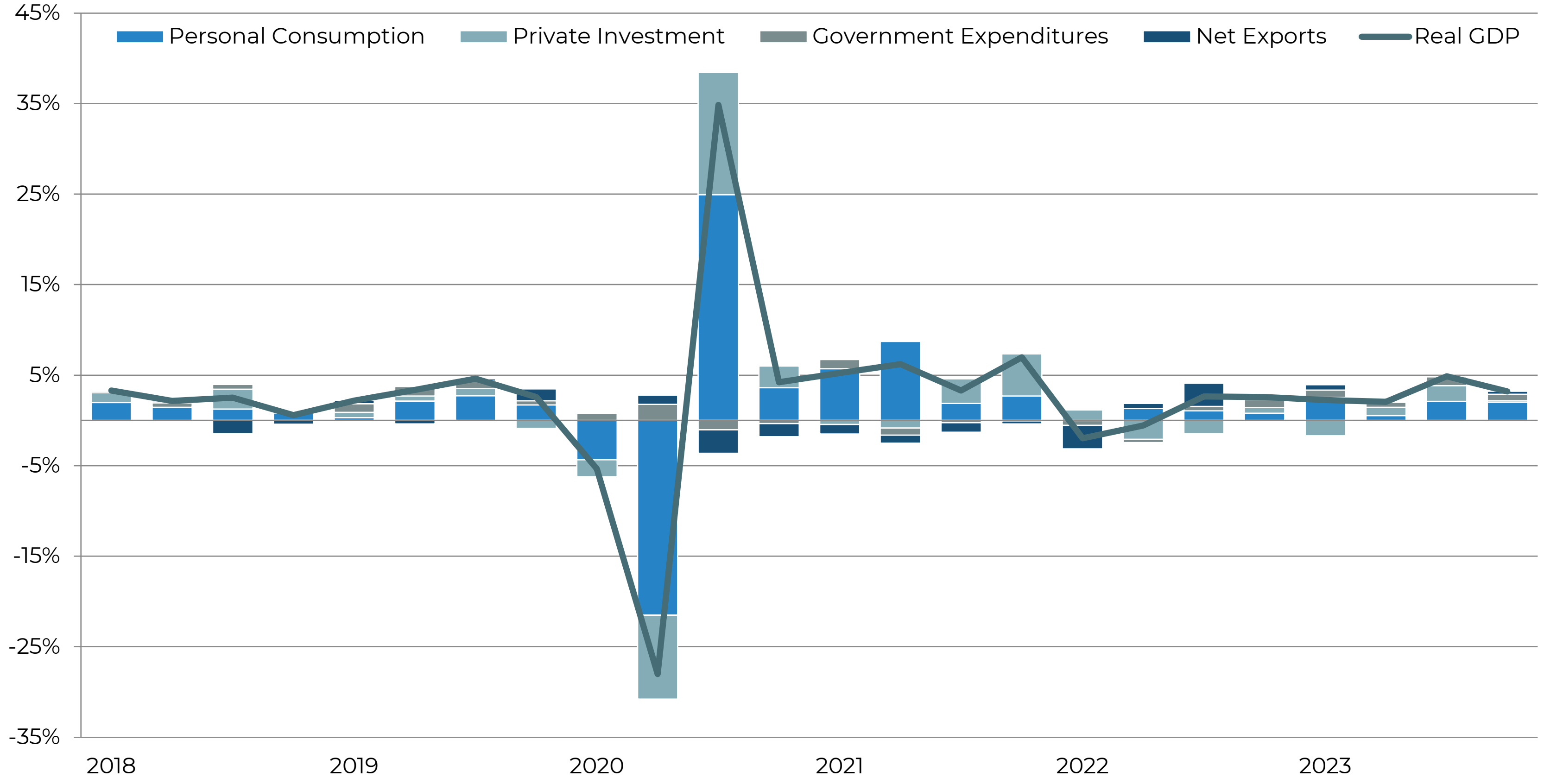
As of February 29, 2024

ECONOMIC PERSPECTIVE

U.S. economic growth in the fourth quarter was revised slightly lower to a 3.2% annualized rate, but its was not all bad news as growth was wider spread than expected, which bodes well for the near-term outlook. The Commerce Department's slight downward revision to gross domestic product growth reflected a downgrade to inventory investment. There were upgrades to consumer spending, state and local government investment as well as residential and business outlays. So far, the economy has defied predictions of a recession after the Federal Reserve aggressively raised interest rates to tame inflation, thanks to a tight labor market that is keeping wages elevated and supporting consumer spending.

Economic Growth

Contributions to Percent Change in Real GDP (Annualized Q/Q % Change)

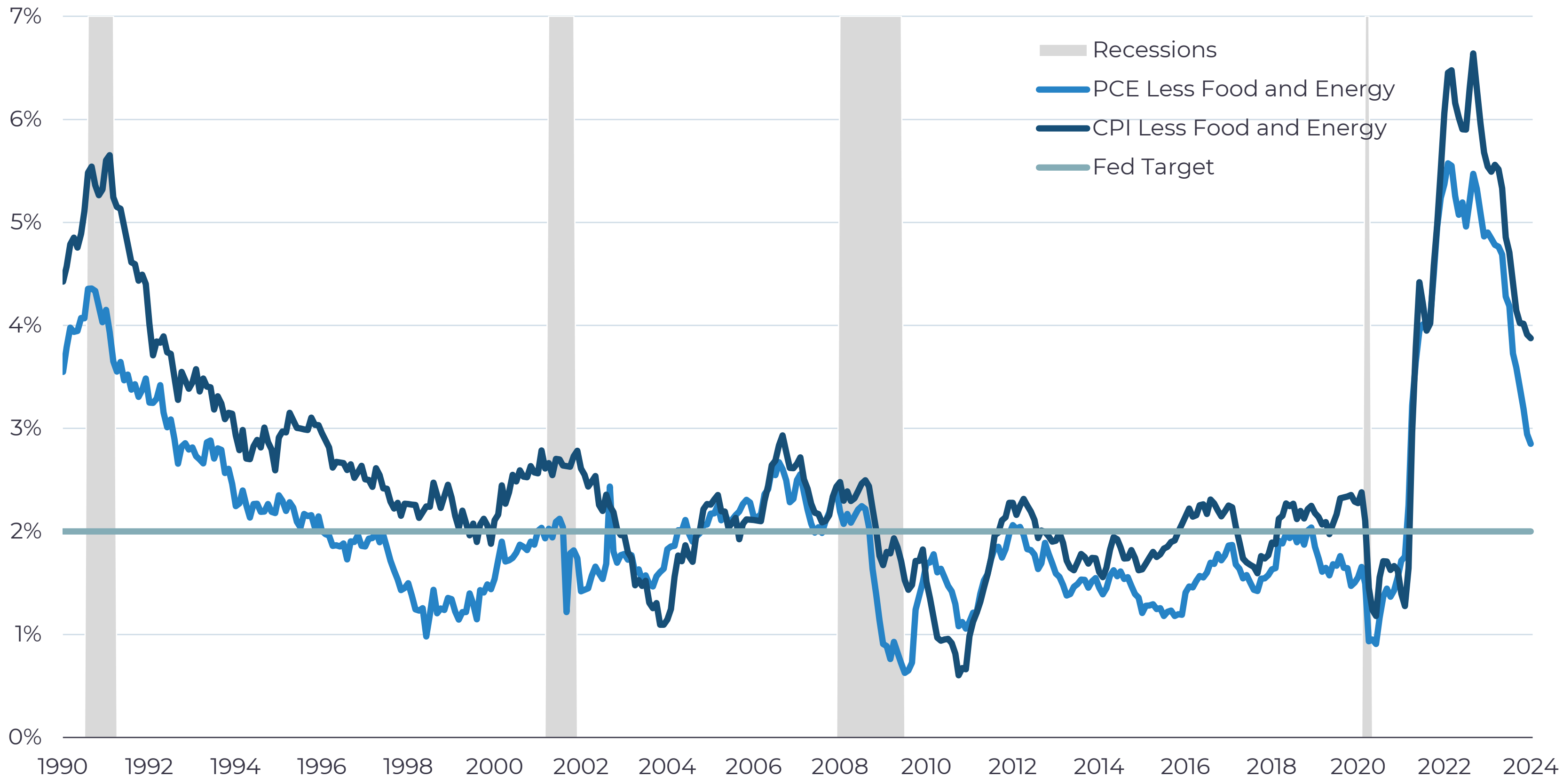


Source: U.S. Bureau of Economic Analysis (Reported quarterly)

U.S. consumer prices rose more than expected in January amid a surge in the cost of rental housing, but the pick-up in inflation did not change expectations the Federal Reserve will start cutting interest rates this year. The increase in prices reported by the Labor Department was the largest in four months and occurred against the backdrop of labor market strength and economic resilience. But January is typically a strong month for inflation readings as businesses push through prices increases at the start of the year. CPI advanced at a 3.1% year-over-year basis while Core CPI advanced at a 3.9% year-over-year basis. Both are still well above the Fed's target of 2%.

Inflation Outlook

Consumer Price Index (Core) and Personal Consumption Expenditures Price Index (Core) (Y/Y % Change)

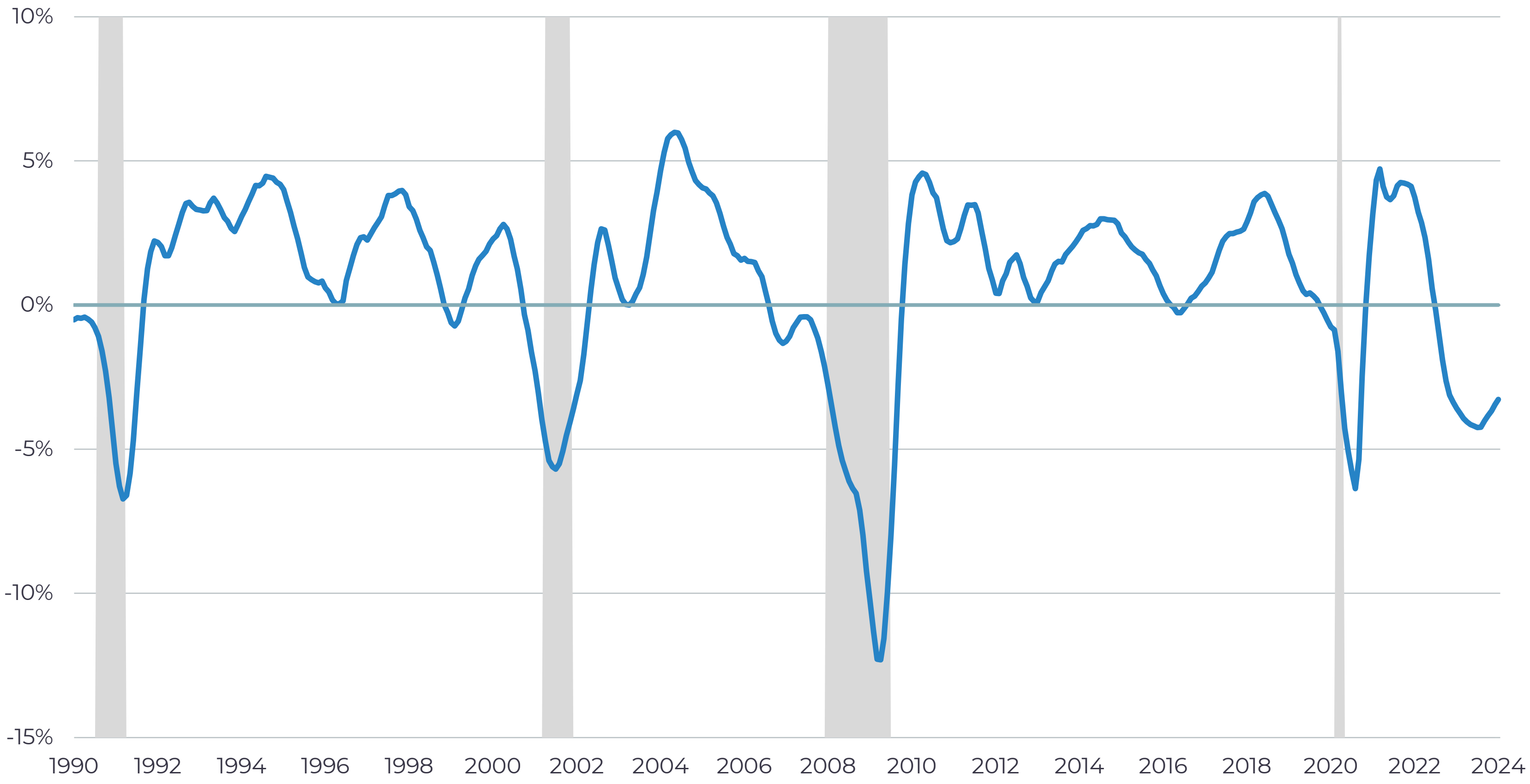


Source: U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis (Reported monthly)

According to the Conference Board, the LEI for the U.S. fell further in January, as weekly hours worked in manufacturing continued to decline and the yield spread remained negative. While the declining LEI continues to signal headwinds to economic activity, for the first time in the past two years, six out of its ten components were positive contributors over the past six-month period. As a result, the leading index currently does not signal recession ahead. While no longer forecasting a recession in 2024, the Conference Board does expect real GDP growth to slow to near zero percent over Q2 and Q3.

U.S. Economic Outlook

Leading Economic Index (Six-Month Moving Average of the Six-Month Rate of Change)

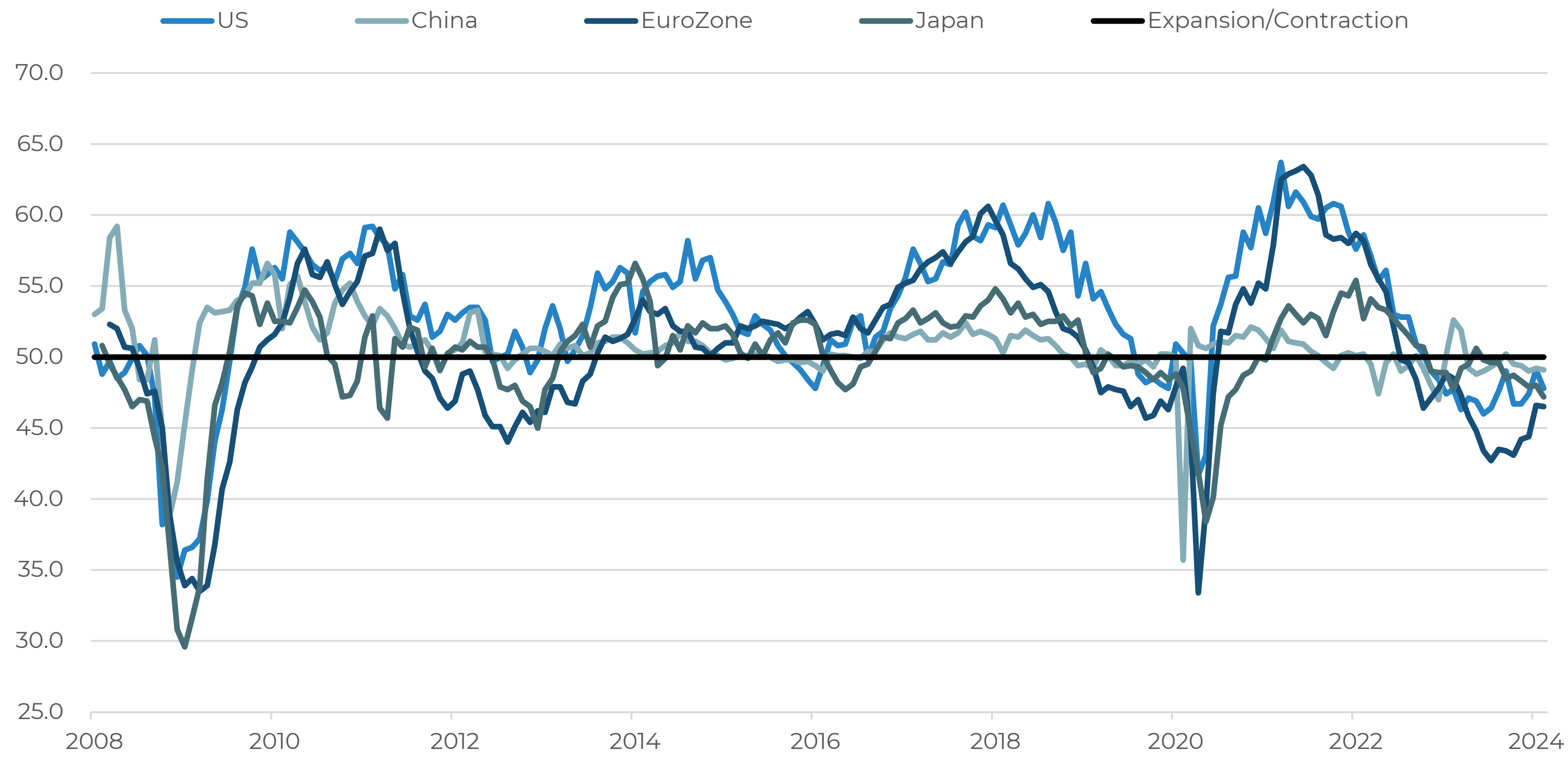


Source: Conference Board (Reported monthly)

February saw the upturn in global economic activity gather momentum. Output rose for the fourth successive month. The latest expansion was underpinned by improved intakes of new business and efforts to complete backlogs of work. Growth was registered in both the manufacturing and services sectors during February. There were also signs of the upturn broadening, with all six of the sub-sectors covered by the survey (business services, consumer goods, consumer services, financial services, intermediate goods and investment goods) seeing output rise concurrently for the first time since May 2023.

Global Economic Outlook

Manufacturing Purchasing Managers Index (PMI) (A PMI over 50 represents growth in manufacturing)

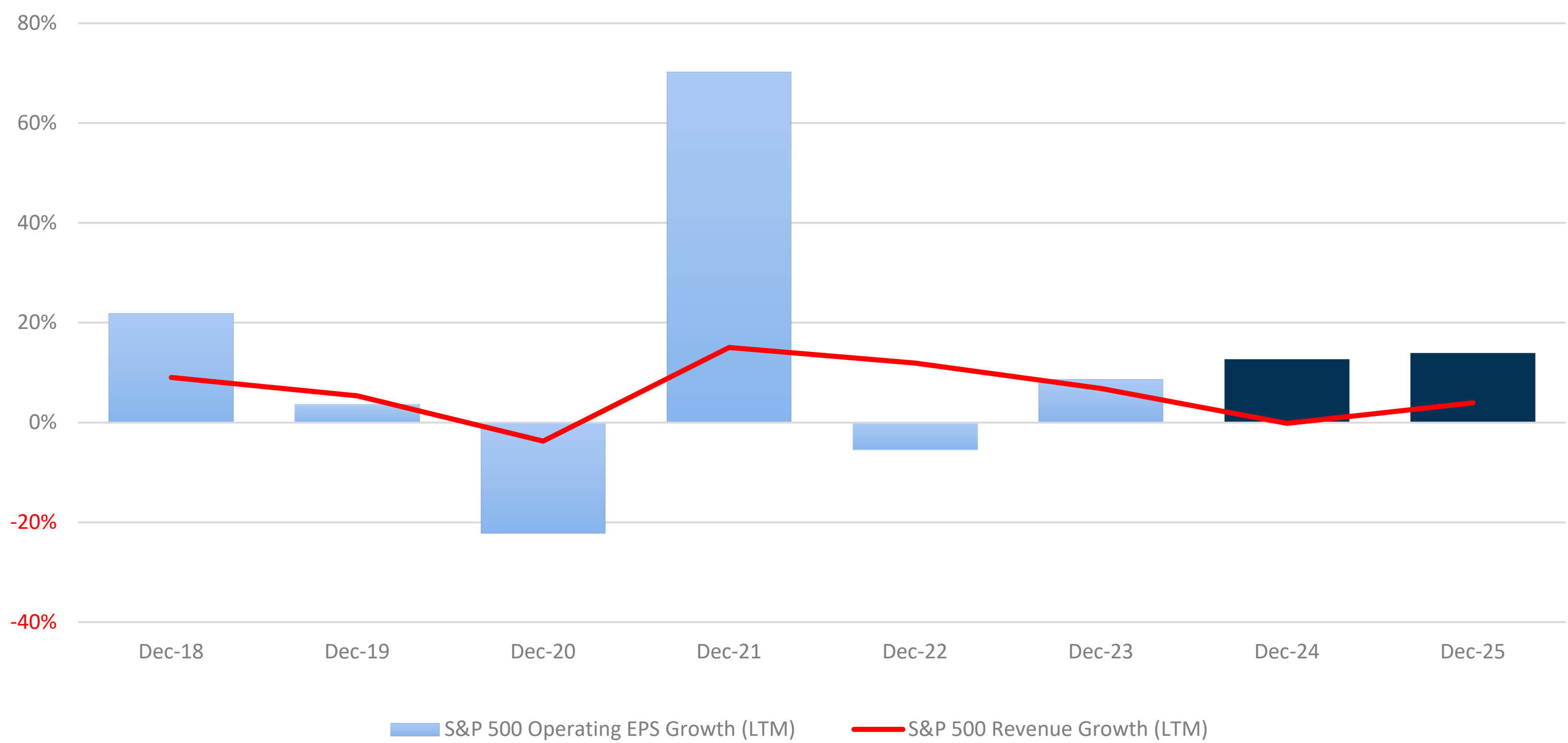


Source: ISM, Markit

According to FactSet, the bottom-up target price target for the S&P 500 over the next 12 months is 5,557, which is 7.8% above the closing price of 5,157. At the sector level, the Energy (+14.1%) sector is expected to see the largest price increase. On the other hand, the Materials (+2.2%) sector is expected to see the smallest price increase. Of the 11,472 ratings on stocks in the SP500, 53.8% are Buy ratings, 40.5% are Hold ratings, and 5.7% are Sell ratings. At the sector level, the Energy (64%) and Communication Service (62%) sectors have the highest percentages of Buy ratings, while the Consumer Staples (45%) and Materials (46%) sectors have the lowest percentages of Buy ratings.

Corporate Profitability

S&P 500 Operating Earnings Per Share and Revenue Per Share Growth (Y/Y % Change)

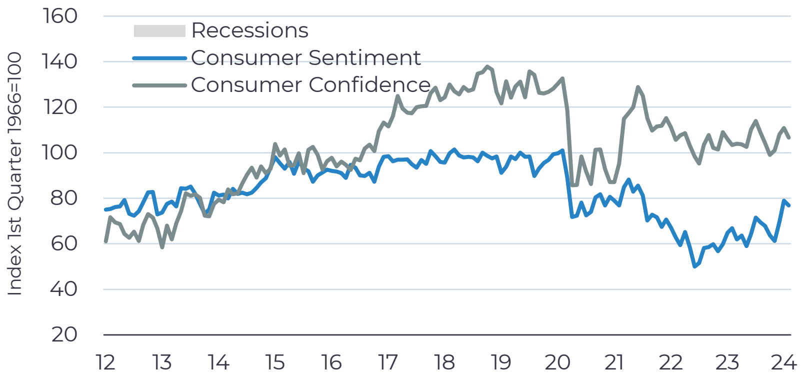


Source: S&P Dow Jones Indices (Reported monthly)

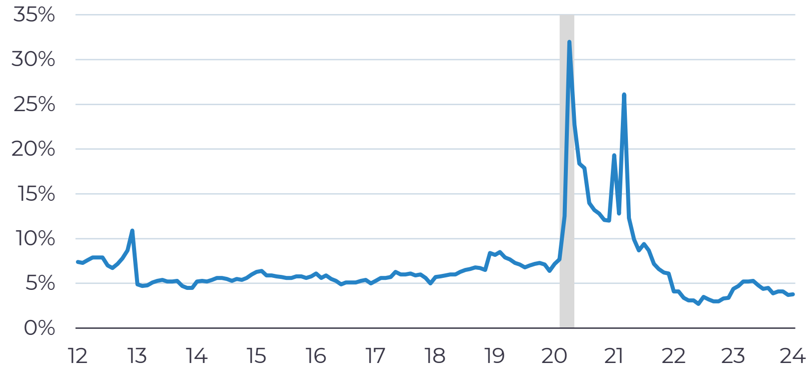
As reported by the Conference Board, the decline in consumer confidence in February interrupted a three-month rise, reflecting persistent uncertainty about the U.S. economy. The drop in confidence was broad-based, affecting all income groups except households earning less than $15,000 and those earning more than $125,000. Confidence deteriorated for consumers under the age of 35 and those 55 and over, whereas it improved slightly for those aged 35 to 54. February's write-in responses revealed that while overall inflation remained the main preoccupation of consumers, they are now a bit less concerned about food and gas prices, which have eased in recent months. But they are more concerned about the labor market situation and the U.S. political environment.

Consumer Outlook

Consumer Sentiment & Confidence Indexes

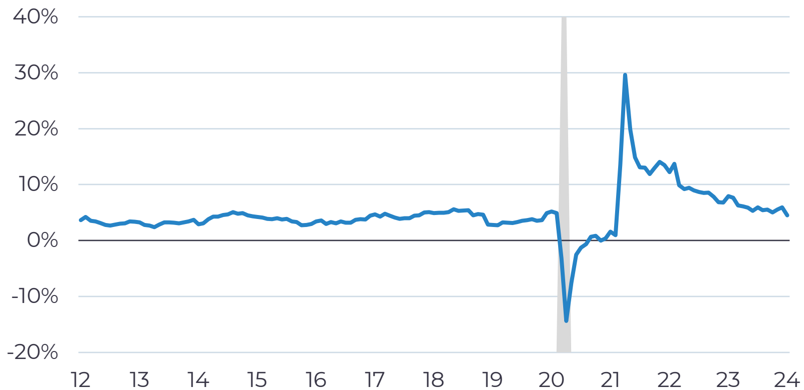


Personal Saving Rate (Seasonally Adjusted Annual Rate)



Disposable Personal Income (Y/Y % Change)

Personal Consumption Expenditures (Y/Y % Change)



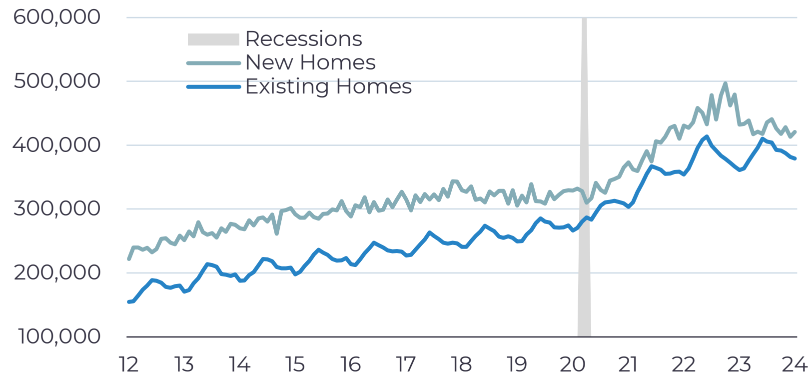
Source: Thomson Reuters/University of Michigan, Conference Board, U.S. Bureau of Economic Analysis (Reported monthly)

Although the housing market traditionally thaws every spring, aspiring homebuyers may consider an extended hibernation given what is an exceptionally tough market this year. Home prices last year rose an average of 6.7% in the country's 20 biggest metro areas, according to the latest S&P CoreLogic Case-Shiller data. Driving the increase are higher mortgage rates, which makes homeowners reluctant to sell their properties given the elevated costs of finding a new place, coupled with a dearth of homes on the market. The average rate on a 30-year mortgage is now 6.90%, up from 6.77% last week, according to Freddie Mac. The difficult conditions have cast a distinct chill on the market as only 4.8 million homes changed hands in 2023, the lowest level since 2011.

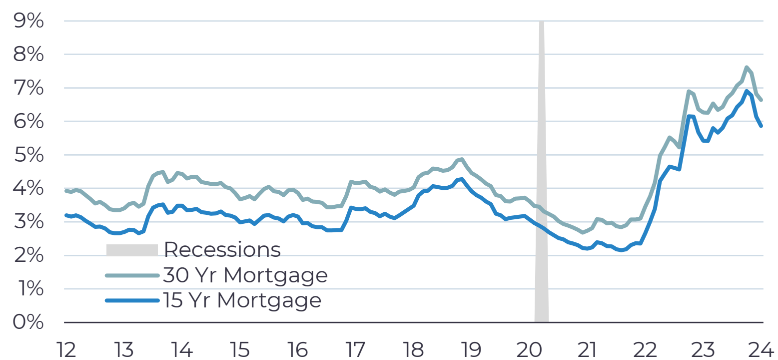
Housing Market Outlook

Housing Affordability (higher = more affordable)

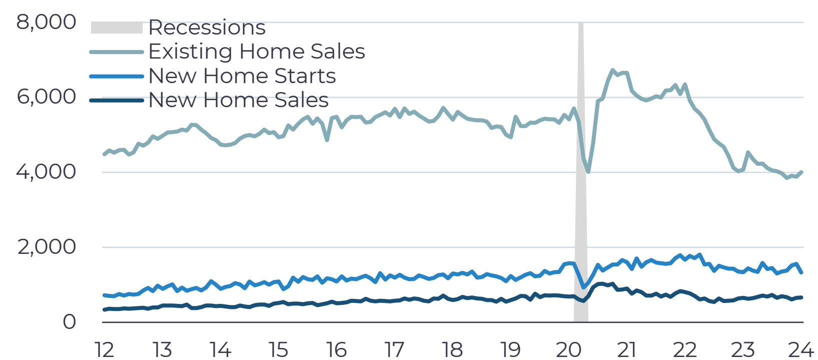
Median Selling Price of New and Existing Homes



Average Fixed Rate Mortgage in the U.S.©



Housing Starts, Existing Home Sales and New Home Sales (000's)

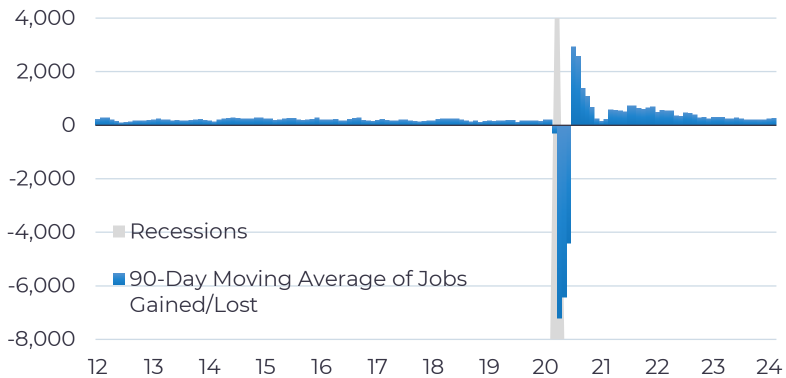


Source: National Association of Realtors, Freddie Mac, U.S. Bureau of the Census (Reported monthly)

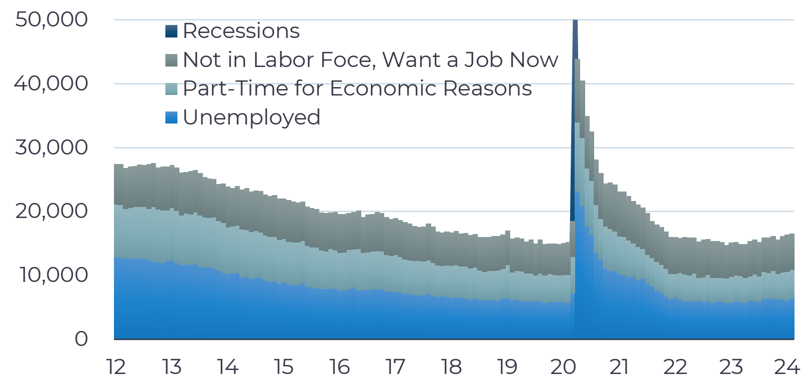
U.S. job growth accelerated in February, but that likely masks underlying softening labor market conditions as the unemployment rate increased to a two-year high of 3.9%. The Labor Department's employment report on Friday also showed wages rising moderately last month. The jump in the unemployment rate after holding at 3.7% for three straight months reflected a further decline in household employment. The mixed report boosted the odds of the Federal Reserve cutting interest rates by June. Nonfarm payrolls increased by 275,000 jobs last month, the survey of establishments showed. However, revisions to December and January show the economy created 167,000 fewer jobs than previously estimated.

Labor Market Outlook

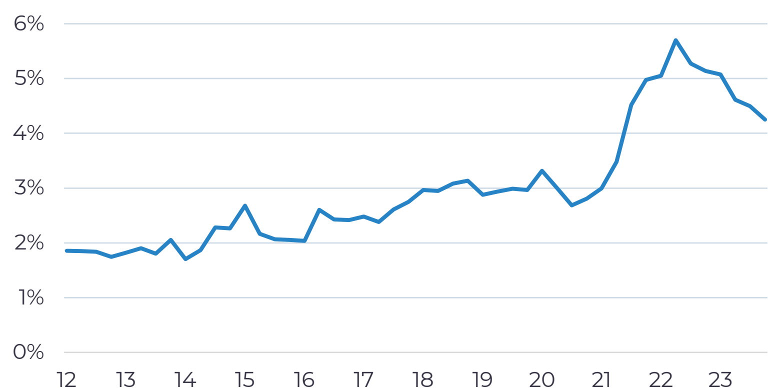
Jobs Gained/Lost (000's) with 12-Month Moving Average



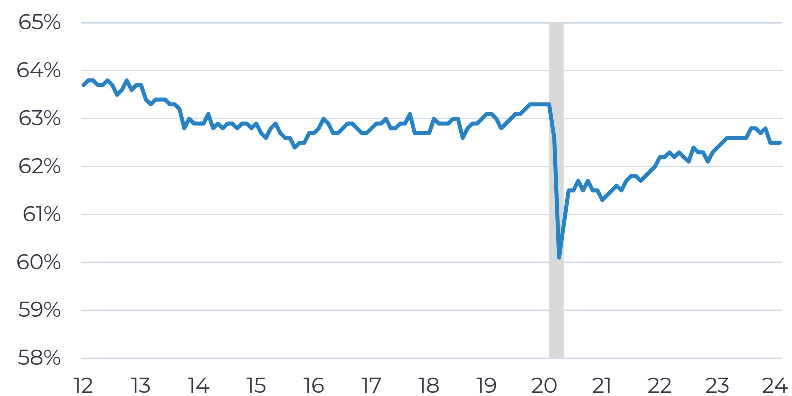
Labor Market Slack (000's)



Wage Growth (Y/Y % Change)



Labor Force Participation Rate



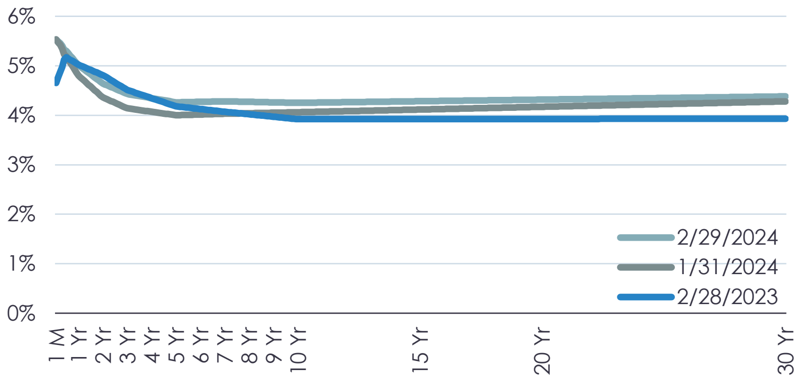
Source: U.S. Bureau of Labor Statistics, (Reported monthly, Wage Growth reported quarterly)

BOND MARKET PERSPECTIVE

The discourse on policy adjustments, particularly the Fed's cautious stance on interest rate cuts, has led to a recalibration of market expectations. Initially anticipated rate cuts have been scaled back, with the market now expecting fewer reductions over the year. This adjustment reflects a broader skepticism towards rapid easing by central banks, considering the economy's resilience and ongoing inflation pressures. The yield on the 10-year U.S. Treasury bond increased from 3.88% at the beginning of February to 4.25% by month's end. The Bloomberg U.S. Aggregate Bond Index, a comprehensive measure of the bond market, declined by 1.41%. As we look ahead, the financial landscape remains dynamic, influenced by a mix of economic data, corporate earnings, and policy decisions.

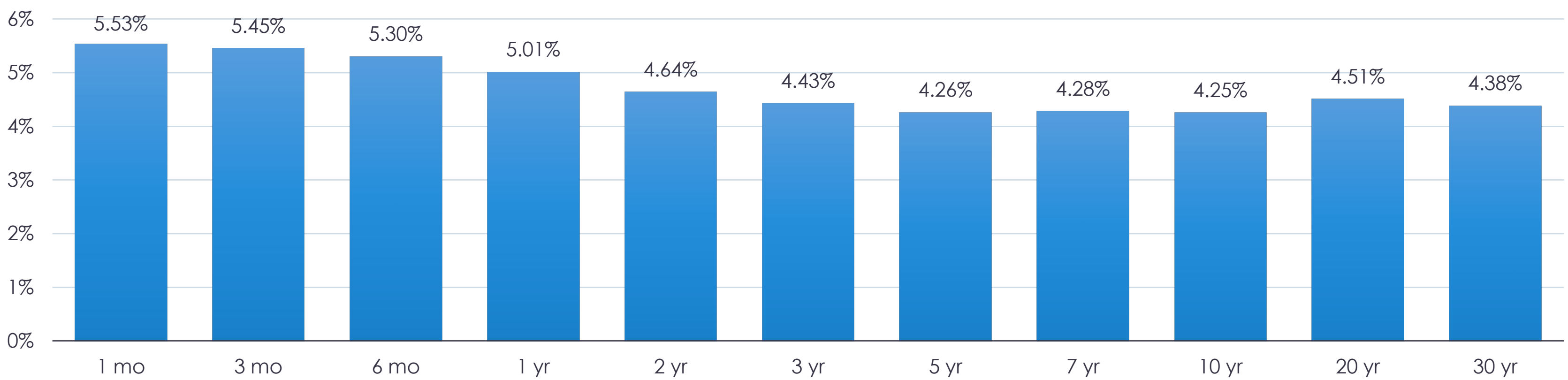
U.S. Treasury Market

U.S Treasury Yield Curve



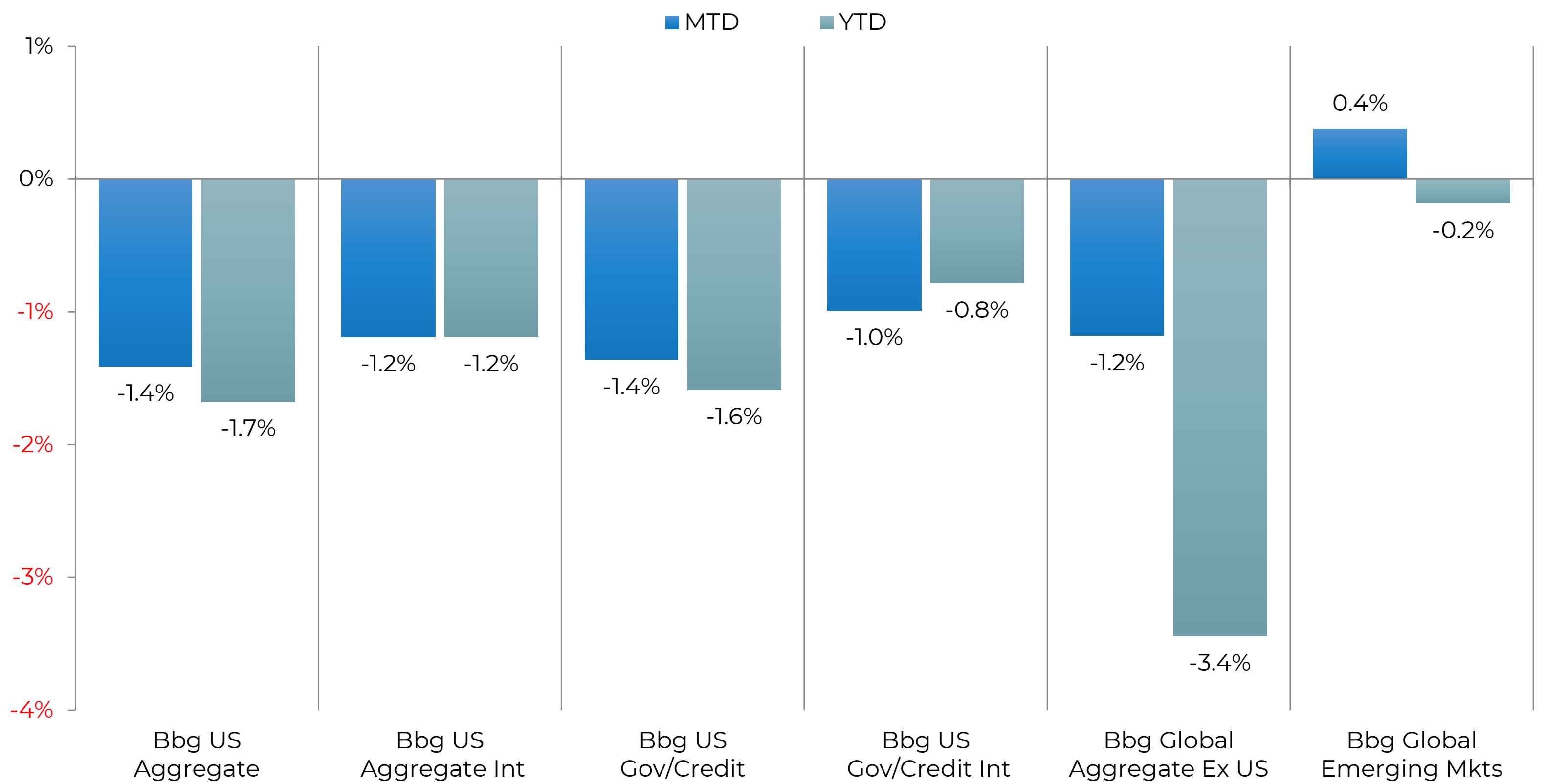
Historical U.S. 10-Year Treasury Rate

Current U.S. Treasury Yields by Maturity



Source: U.S. Department of Treasury

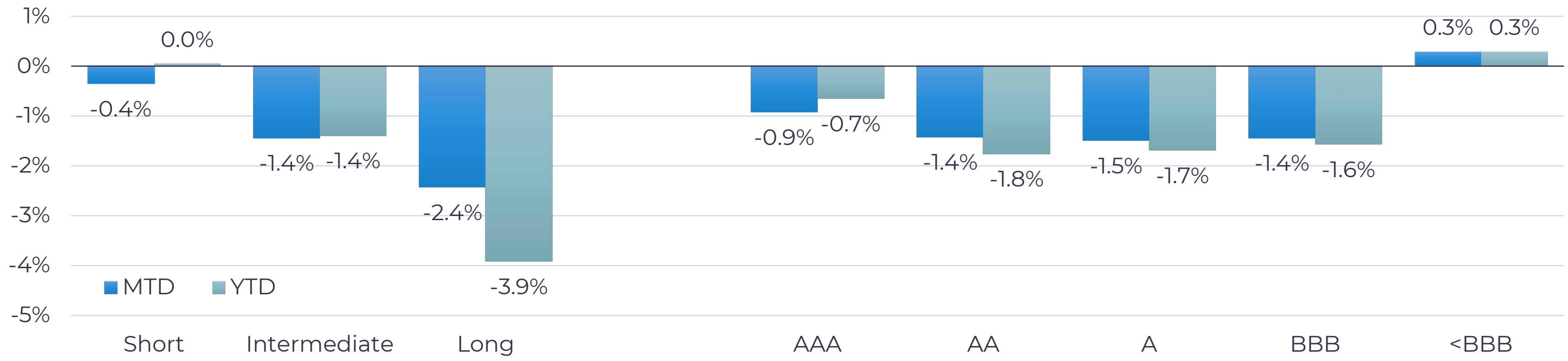
Global Fixed Income Returns by Bellwether Index



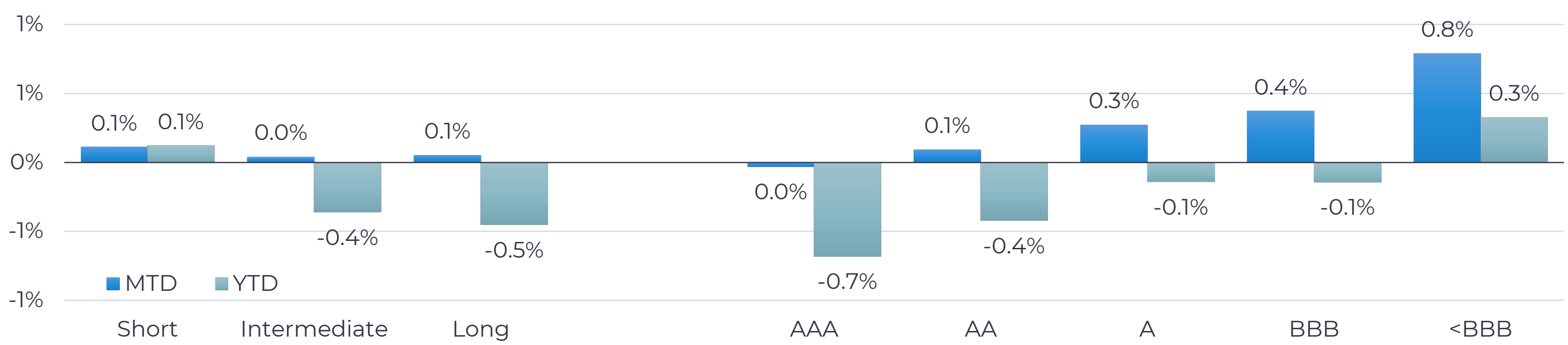
Source: Bloomberg Barclays (BB)

Domestic Fixed Income Returns by Maturity and Credit Quality

Domestic Bond Market - Taxable



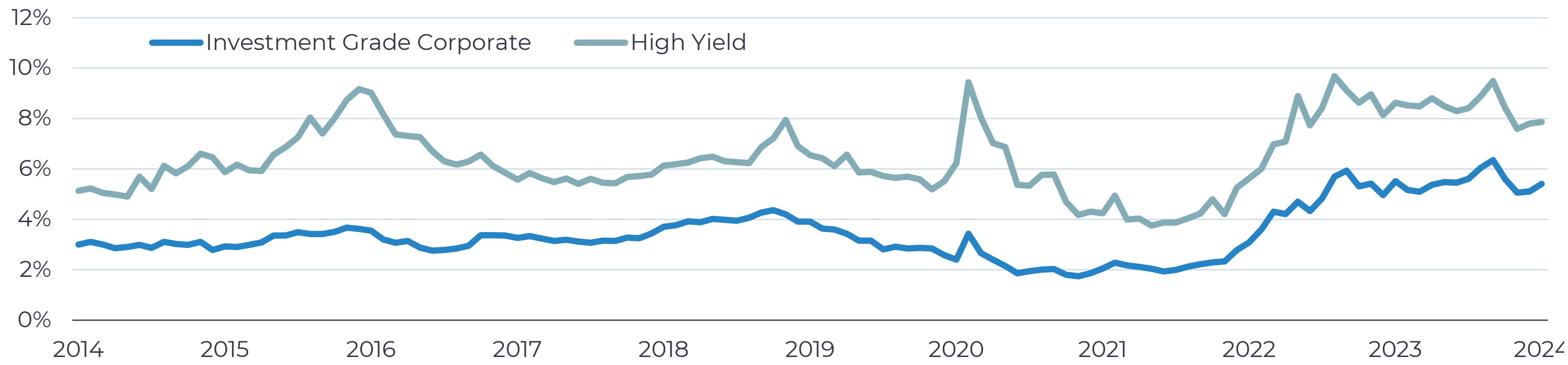
Domestic Bond Market - Municipal



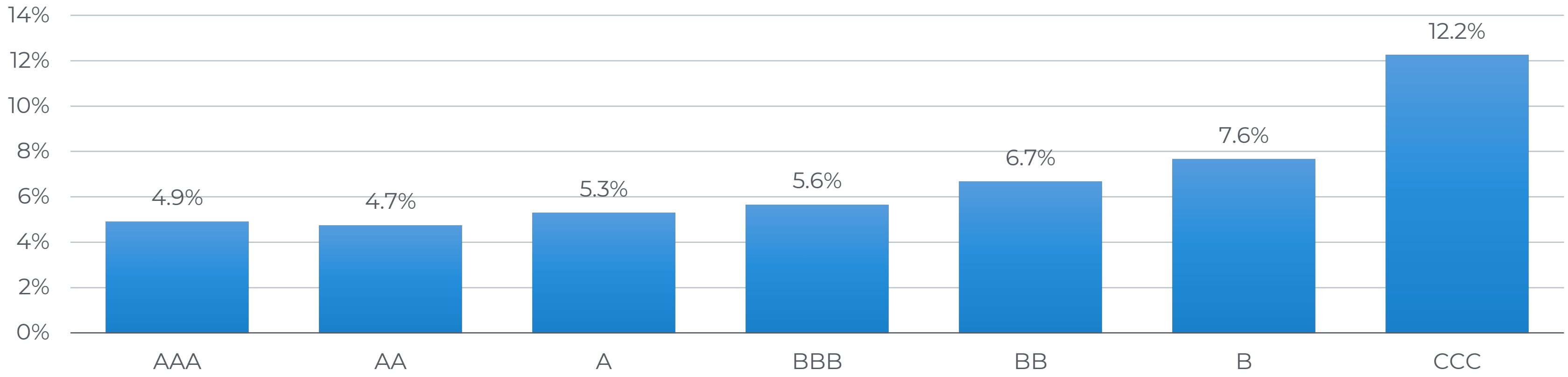
Short is defined as 1-3 years for taxable and 3 years for municipal, Intermediate is 5-7 years for taxable and 6-8 years for municipal, Long is 10+ years for taxable and 8-12 years for municipal. Source: Bloomberg Barclays Aggregate Bond Index (taxable bond market) and Bloomberg Barclays Municipal Index (municipal bond market).

Domestic Fixed Income Bond Yields

Historical Corporate Bond Market Yield to Worst



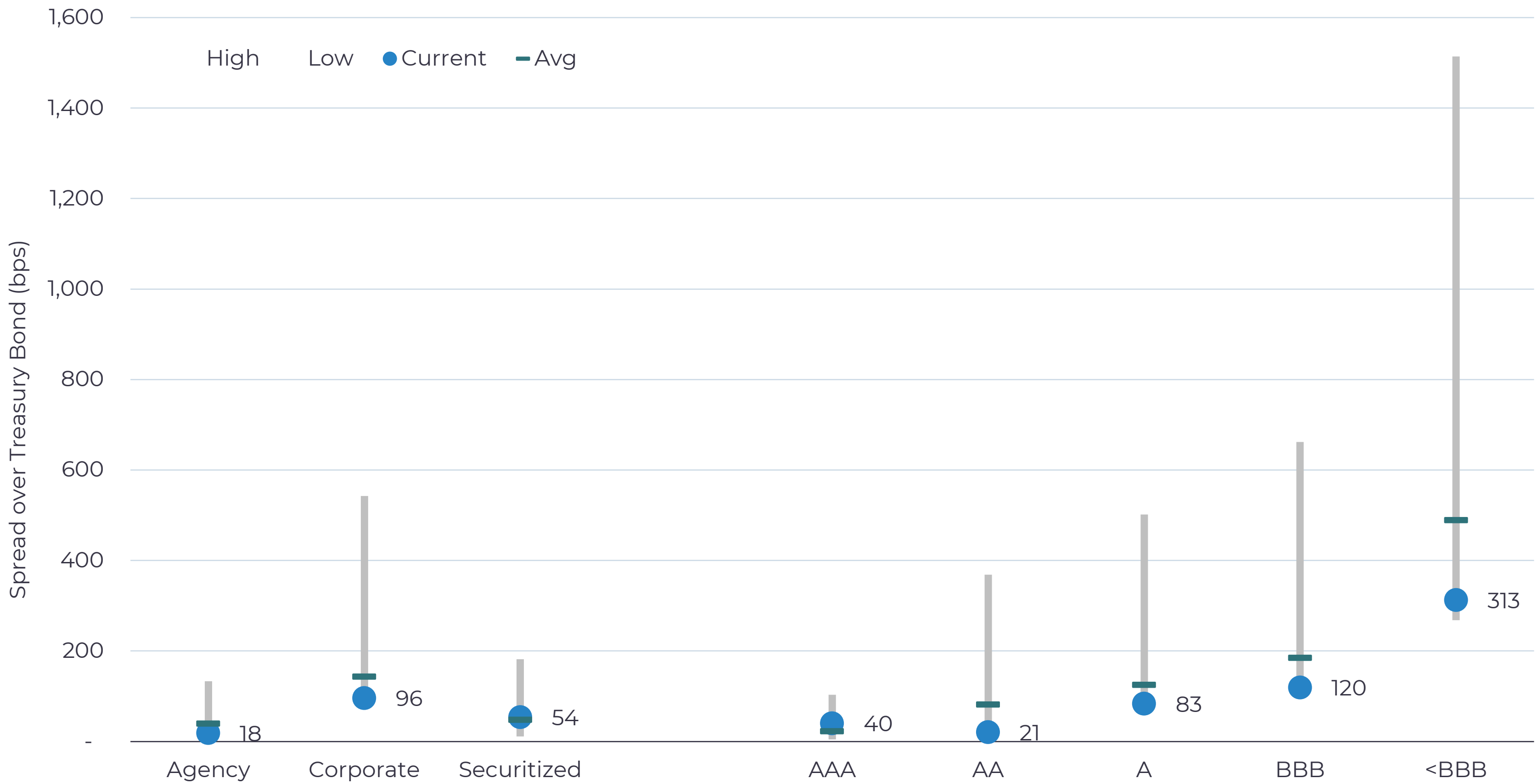
Current Corporate Bond Market Yields by Credit Quality



Investment Grade Corporate bonds are represented by the Bloomberg Barclays U.S. Corporate Investment Grade index. High Yield bonds are represented by the Bloomberg Barclays U.S. Corporate High Yield index. Source: Bloomberg Barclays

Domestic Fixed Income Bond Spreads

Current Bond Spreads Compared to 15-Year Range and 15-Year Average



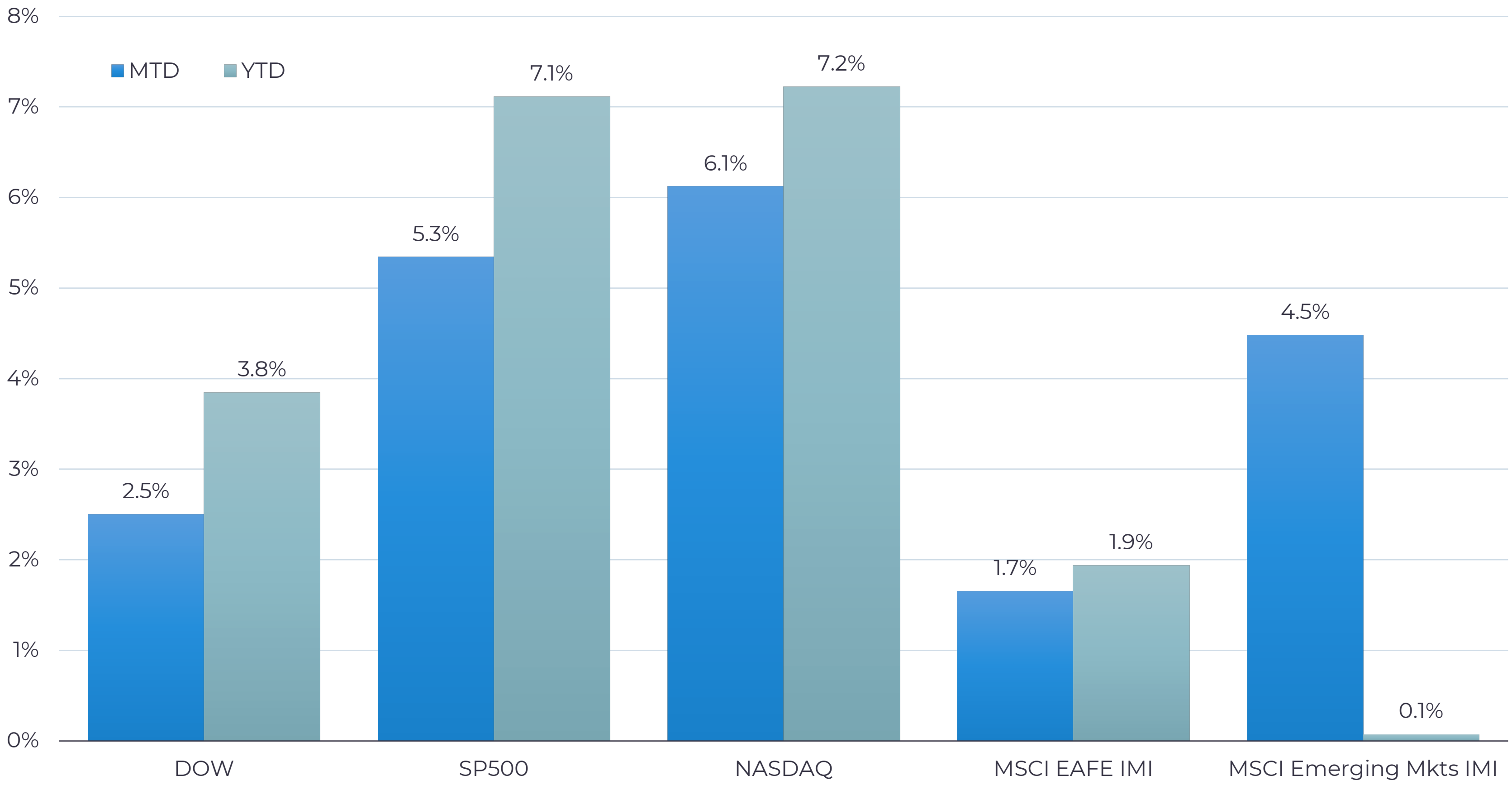
The length of each bar represents the Range of the highest and lowest spread to the Treasury benchmark over the past 15 years. Average represents the average spread over the past 15 years. Current represents the most recent month. Source: Bloomberg Barclays

EQUITY MARKET PERSPECTIVE

U.S. equity indexes experienced a remarkable surge in February, with the S&P 500 Index increasing by 5.3%, reaching a new all-time high. February's rally was characterized by broad participation across sectors, as all eleven sectors reported positive gains. Contrary to expectations, the top-performing sectors were not the Technology and Communications sectors, but rather the Consumer Discretionary and Industrial sectors, which advanced by 8.7% and 7.2% in February. Growth stocks continued to surpass value stocks in performance by a considerable margin in February although both experienced significant gains. International stocks lagged their U.S. peers, yet still posted positive performance for the month.

Global Equity Returns by Bellwether Index

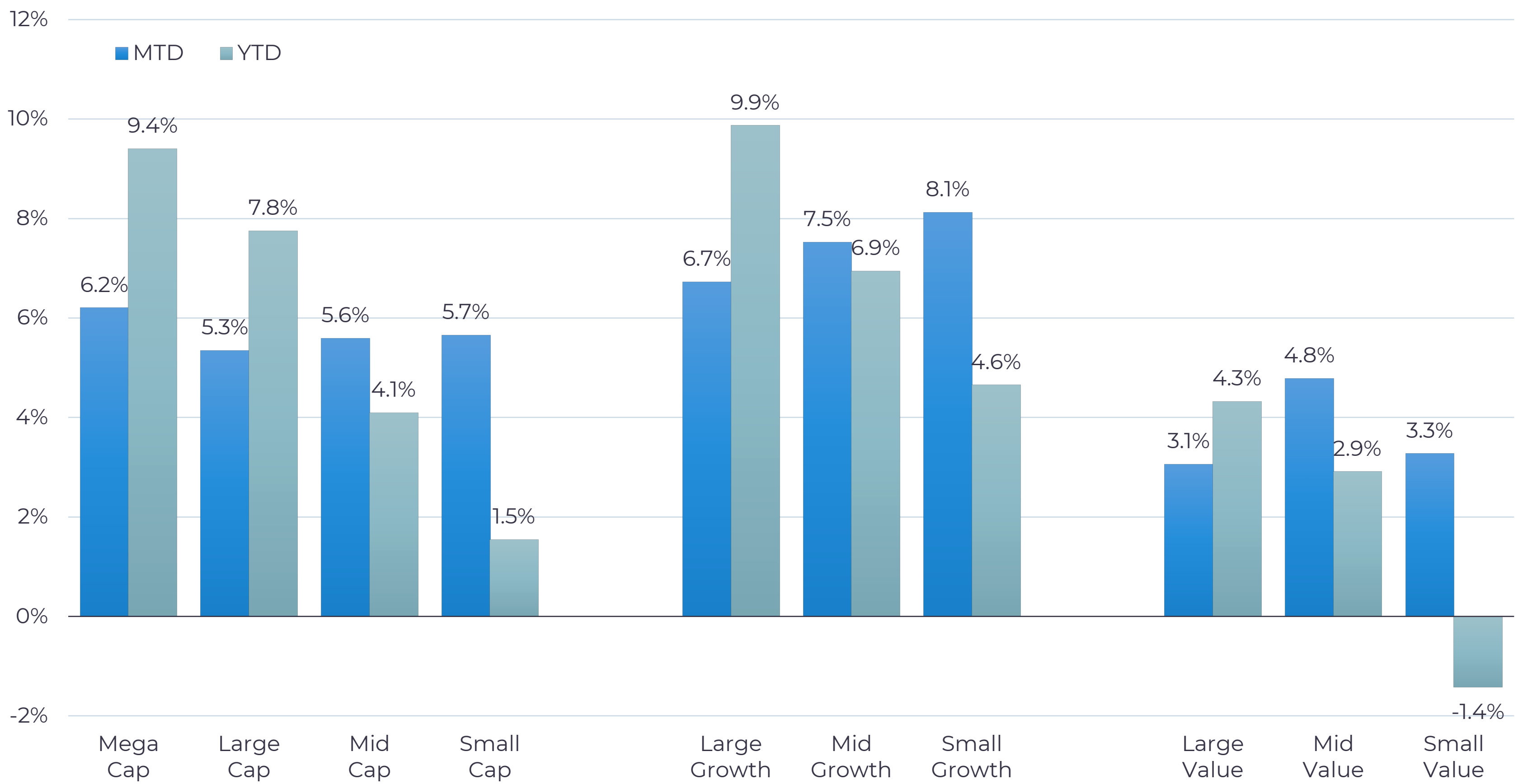
Global Equity Markets



Source: S&P Dow Jones, NASDAQ, MSCI

Domestic Equity Returns by Market Cap & Style

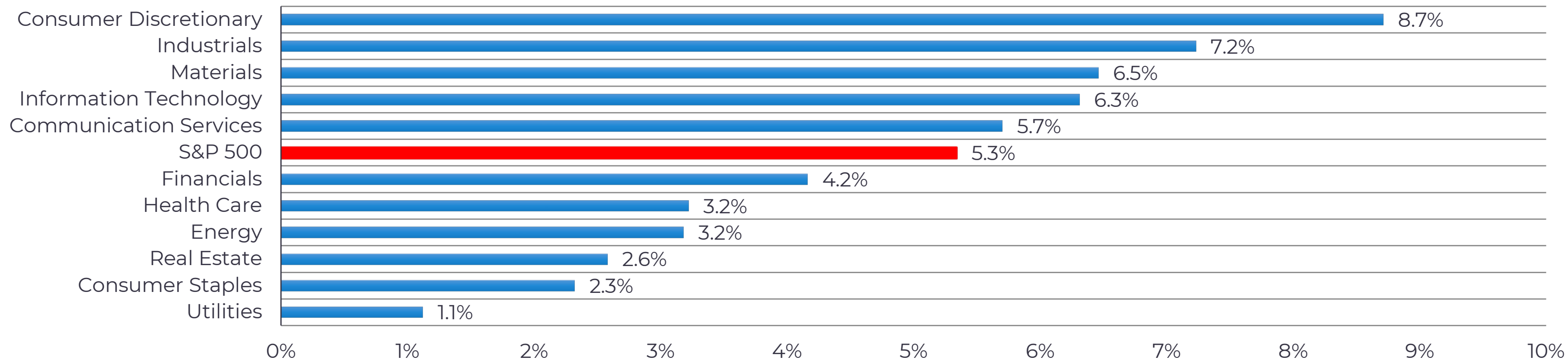
Domestic Equity Markets



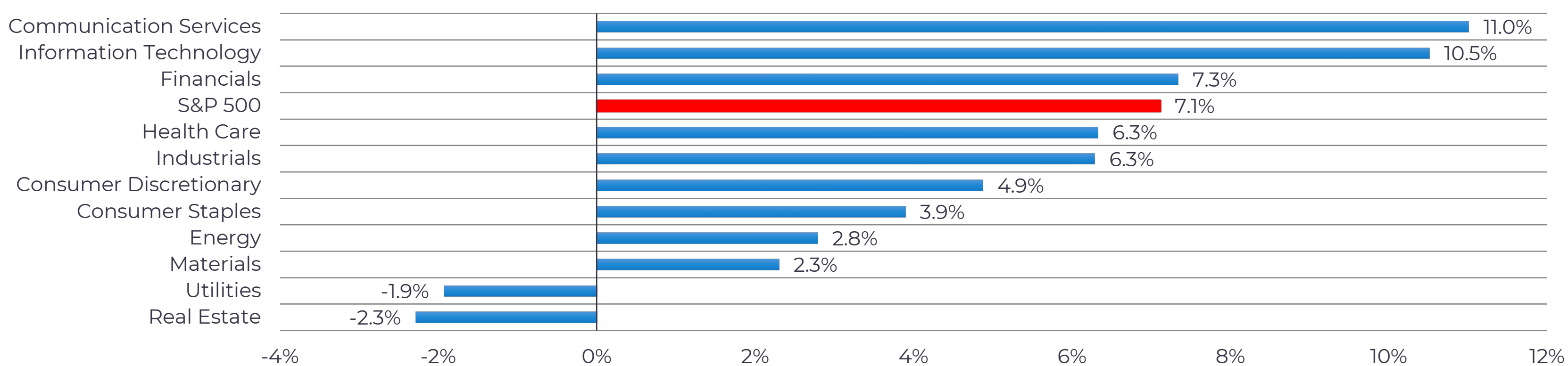
Asset classes are represented by the following benchmarks: Russell Top 50 (Mega), Russell Top 200 (Large), Russell Midcap (Mid), Russell 2000 (Small). Source: Russell

Domestic Equity Returns by Sector

MTD S&P 500 Returns by Sector



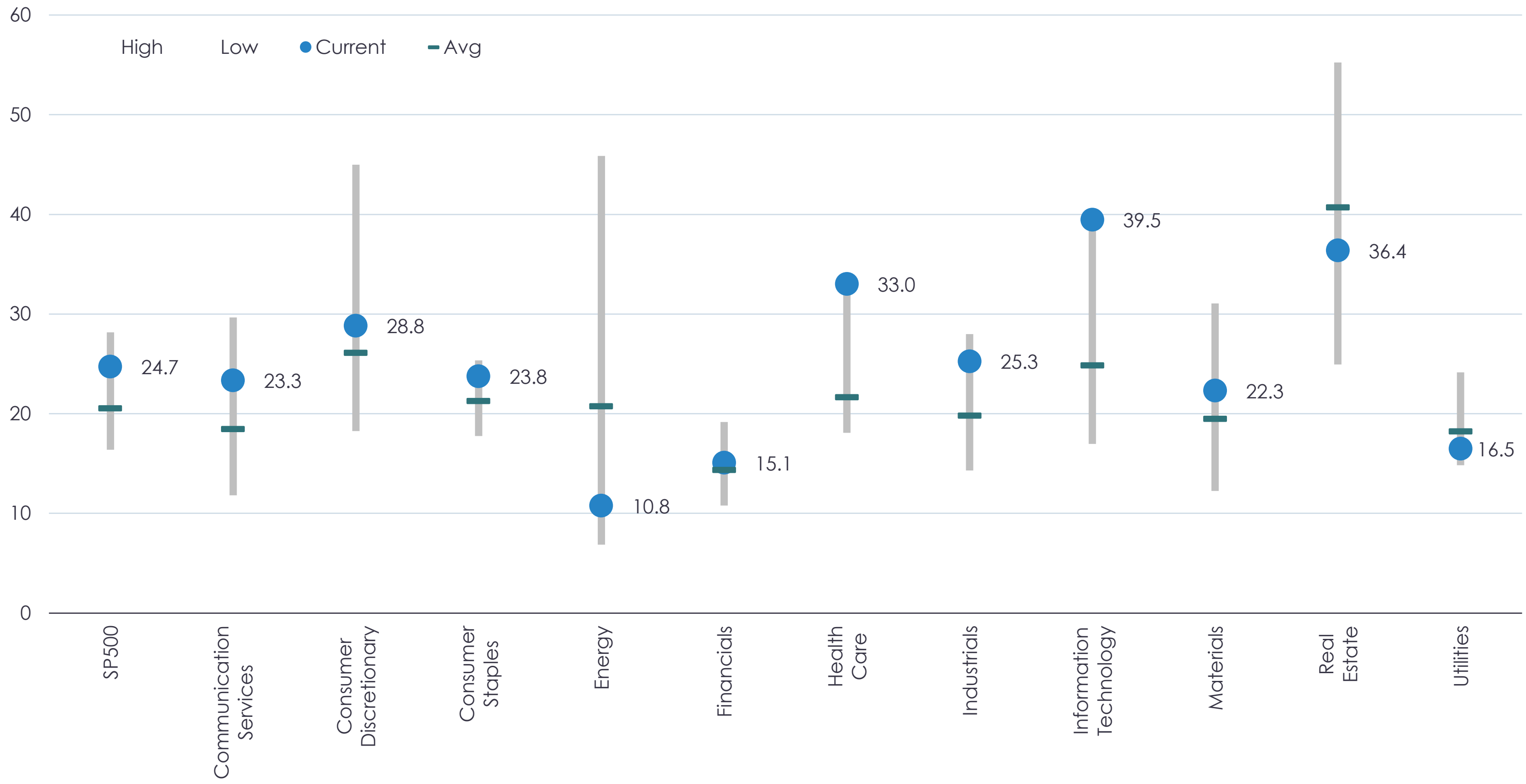
YTD S&P 500 Returns by Sector



Source: S&P Dow Jones

Domestic Equity Valuations by Sector

Trailing 12 Month P/E Ratio Compared to 10-Year Range and 10-Year Average



P/E ratios are based on trailing 12 months earnings (LTM) excluding negative earnings. The length of each bar represents the Range of the highest and lowest P/E ratio over the past 10 years. Average represents the average P/E ratio over the past 10 years. Current represents the most recent month. Source: Bloomberg

Economic Indicator Descriptions

- Real Gross Domestic Product (GDP): GDP is a basic measure of U.S. economic output adjusted for inflation. Alternatively, it can be thought of as the final value of all goods and services produced within the U.S. Positive GDP growth signals an expanding economy.
- Consumer Price Index (CPI): Measuring the change in the CPI provides an estimate for inflation. The CPI tracks the price of a basket of consumer goods and services. High inflation or deflation (negative inflation) can be signs of economic worry. CPI is typically reported in two ways: headline and core CPI. Headline CPI includes all categories that comprise the CPI basket of goods and services.
- Personal Consumption Expenditure Chain-type Price Index (PCEPI): Measuring the change in the PCEPI provides an estimate for inflation. In comparison to CPI, which uses one set of expenditure weights for several years, this index uses expenditure data from the current period and the preceding period. This price index method assumes that the consumer has substituted from goods whose prices are rising to goods whose prices are stable or falling. Core PCEPI, which is closely monitored by the Fed, strips out the more volatile Food and Energy categories.
- Conference Board Index of Leading Economic Indicators (LEI): The LEI is designed to signal peaks and troughs in the business cycle. The ten components include: average weekly manufacturing hours; average weekly initial claims for unemployment insurance; manufacturers' new orders for consumer goods and materials; ISM® Index of New Orders; manufacturers' new orders for nondefense capital goods excluding aircraft orders; building permits for new private housing units; stock prices of 500 common stocks; Leading Credit Index™; interest rate spread on 10-year Treasury bonds less federal funds and average consumer expectations for business conditions.
- The Institute for Supply Management (ISM) PMI Index: The PMI is a composite index of five "sub-indicators", which are extracted through surveys to purchasing managers from around the country. The five sub-indexes are: Production, New orders, Supplier deliveries, Inventories and Employment level. An Index value over 50 indicates expansion; below 50 indicates contraction.
- The Institute for Supply Management (ISM) Non-manufacturing Index (NMI): The NMI is a composite index of four "sub-indicators", which are extracted through surveys to purchasing managers. The four sub-indexes: Business activity, New orders, Employment, Supplier deliveries. An Index value over 50 indicates expansion; below 50 indicates contraction.
- Consumer Confidence Index (CCI): The Consumer Confidence Index is a well-known proxy for the attitudes of U.S. consumer towards the business climate, personal finances and spending. This index attempts to measure the confidence that consumers have in the overall economy. This is important because consumer spending accounts for a large portion of U.S. GDP.
- Consumer Sentiment Index (MCSI): The MCSI uses telephone surveys to gather information on consumer expectations regarding the overall economy. The MSCI is becoming more useful for investors because it gives a monthly snapshot of whether consumers feel like spending money by accessing their views on the business climate, personal finance, and spending in order to judge their level of optimism/pessimism. This is important because consumer spending accounts for a large portion of U.S. GDP.
- Disposable Personal Income per Capita (DPI): DPI is the amount of money that households have available for spending and saving after income taxes have been accounted for. DPI is monitored to gauge the overall state of the economy.
- Personal Consumption Expenditures (PCE): PCE consists of the actual and imputed expenditures of households including durables, non-durables and services.
- Retail Sales: The retail sales report captures in-store sales as well as catalog and other out-of-store sales. The report also breaks down sales figures into groups such as food and beverages, clothing, and autos. The results are often presented two ways: with and without auto sales being counted, because their high sticker price can add extra volatility to the data.
- Housing Affordability Index (HAI): Published monthly by the National Association of Realtors, the HAI index has a value of 100 when the median-income family has sufficient income to purchase a median-priced existing home. A higher index number indicates that more households can afford to purchase a home.
- Unemployment Rate: Calculated monthly by the Bureau of Labor Statistics, the unemployment rate is a gauge of the health of the U.S. labor market. High unemployment can stifle the growth of the economy.
- Wage Growth: Calculated quarterly by the Bureau of Labor Statistics, the employment cost index measures the growth of employee compensation (wages and benefits). The index is based on a survey of employer payrolls in the final month of each quarter. The index tracks movement in the cost of labor, including wages, fringe benefits and bonuses for employees at all levels of a company. We are using the wage component of this index.

Benchmark Descriptions

- U.S. Aggregate Bond: The Barclays U.S. Aggregate Bond Index measures the performance of USD-denominated, SEC-registered, investment-grade, fixed-rate or step up, taxable bonds. The index includes bonds from the Treasury, Government-Related, Corporate and MBS, ABS, and CMBS sectors. Securities included in the index must have at least one year until final maturity.
- U.S. Treasury: The Barclays Capital U.S. Treasury Index measures the performance of public obligations of the U.S. Treasury with a remaining maturity of one year or more.
- U.S. Agency: The Barclays Capital U.S. Agency Bond Index measures the performance of the agency sector of the U.S. government bond market and is comprised of investment-grade USD-denominated debentures issued by government and government-related agencies, including FNMA. The index includes both callable and non-callable securities that are publicly issued by U.S. government agencies, quasi- federal corporations, and corporate and foreign debt guaranteed by the U.S. government.
- U.S. Corporate: The Barclays Capital U.S. Corporate Bond Index measures the performance of publicly issued USD-denominated corporate and Yankee debentures and secured notes that meet specified maturity, liquidity, and quality requirements.
- U.S. MBS: The Barclays Capital U.S. Mortgage Backed Securities Index measures the performance of mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).
- U.S. Municipal Bond: The Barclays Capital Municipal Bond Index measures the performance of the USD-denominated, investment grade, fixed-rate tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and pre-refunded bonds. Securities included in the index must have at least one year until final maturity.
- General Obligation Bond Index: The Barclays General Obligation Bond Index measures the average market-weighted performance of general obligations securities that have been issued in the last five years with maturities greater than one year.
- Revenue Bond Index: The Barclays Revenue Bond Index measures the average market- weighted performance of revenue backed securities that have been issued in the last five years with maturities greater than one year.
- Investment Style: Performance of different types of stocks will vary over time. A common way to characterize a stock is by market capitalization (e.g., large cap or small cap) or style (e.g., value or growth).
- Large Cap vs. Small Cap: Large companies tend to be more established companies and therefore exhibit lower volatility. Over an extended period of time, expected returns of small cap companies are often higher due to the risks associated with smaller, less established companies.
- Value vs. Growth: Value companies typically trade at discount valuations and may pay a dividend. Growth companies are those that are experiencing greater earnings growth prospects.
- Mega Cap: The Russell Top 50 Index measures the performance of the top 50 largest companies in the Russell 1000 Index, which represents approximately 40% of the total market capitalization of the Russell 1000 index.
- Large Cap: The Russell Top 200 Index measures the performance of the 200 largest companies in the Russell 1000 Index, which represents approximately 68% of the total market capitalization of the Russell 1000 index.
- Mid Cap: The Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 36% of the total market capitalization of the Russell 1000 Index.
- Small Cap: The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.
- Large Cap Growth: The Russell 1000 Growth Index measures the performance of those Russell 1000 index companies with higher price-to-book ratios and higher forecasted growth values.
- Large Cap Value: The Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.
- Mid Cap Growth: The Russell Midcap Growth Index measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values.
- Mid Cap Value: The Russell Midcap Value Index measures the performance of those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth values.
- Small Cap Growth: The Russell 2000 Growth Index measures the performance of those Russell 2000 Index companies with higher price-to-value ratios and higher forecasted growth values.
- Small Cap Value: The Russell 2000 Value Index measures the performance of those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values.

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