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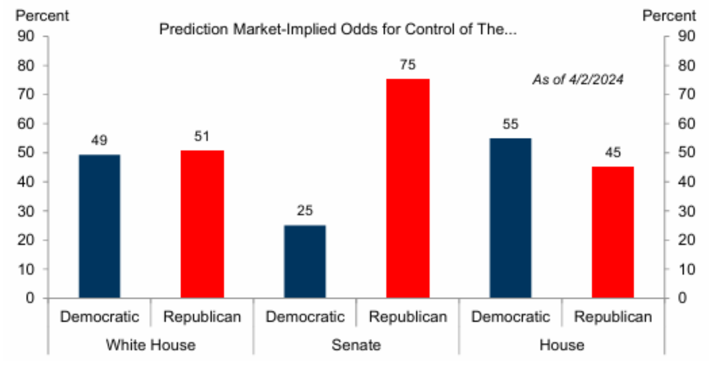
Harpswell's Market Outlook

We have opined many times about the tendency for the market to preverbally "whistle by the graveyard." It's safe to say the markets' posture towards impending events has not changed. Below are some of the issues that we face and the market seems to shake off.

Global Concerns in 2024	
War in Middle East	War in Asia
War in Europe	Virus 2.0
Inflation	Global / sovereign det
Climate issues/natural disasters	Elections
Public policy	Interest rates
Crime	Chinese economic slowdown
Cyber security	AI disruption

The reasoning behind the lack of volatility associated with such a pronounced list of worries is multifaceted, to say the least. For one, many of these events can be considered to be constructive for short-term economic growth (e.g., wars, natural disasters, political promises).

With respect to the US election, the markets favor gridlock, and it looks as though we are heading for another era of political marksmanship with divided party control among the House, Senate and Executive branch.



While any one of these factors can potentially trigger a market sell-off, Harpswell focusses on a few key factors that are more likely to generate near-term bumps in the road. We focus on inflation, interest rates, and market concentration as nearer-term concerns worth monitoring.

INFLATION

Some key data this week suggested inflation is stubbornly holding its grip on prices. The Federal reserve is less likely to lower rates if inflation doesn't subside. The forces behind inflation are very complex. The main drivers for inflation are the money supply and new Treasury debt (which essentially results in more dollars out there). One way to think about it is "if you have a set amount of goods in an economy which are commensurate with a set number of dollars, prices will remain stable. However, if the amount of dollars fluctuate materially above the growth in goods, the result is more dollars chasing the fewer goods. In other words, if you had a closed economy with 4 widgets and $16, each widget would presumably be worth $4. However, if you doubled the amount of dollars in that economy and still had 4 widgets, each widget would be worth one quarter of $32, or $8.

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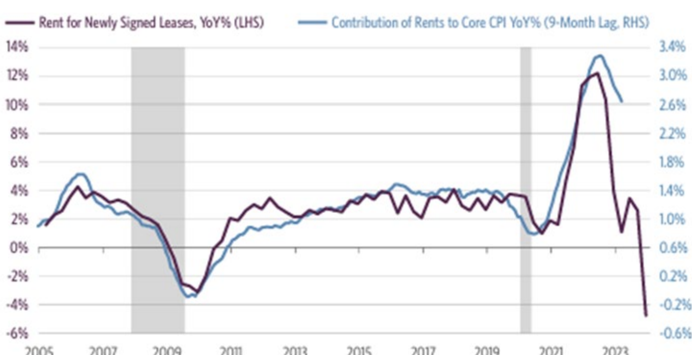
Harpswell's Market Outlook *(continued from page 1)*

Inflation is often an intangible concept that is hard for some folks to conceptualize. With that said, deflation, which is a real long-term risk, is even more opaque. Deflation is a real concern because it amplifies the impact of debt. The US government prays for inflation because that makes it easier to pay off debts (at the expense of consumers). Here's another analogy. If you had an apartment building that you bought for $1,000,000 and you borrowed $800,000 to buy it, you would be focused on the income you receive to pay it off. If your payment is $4,000 a month and rent is $5,000, things look good. If we experience inflation and now you get $6,000, you will be better equipped to pay your loan off. However, if we experience deflation and now the rent drops below $4,000, finances are going to get stressed.

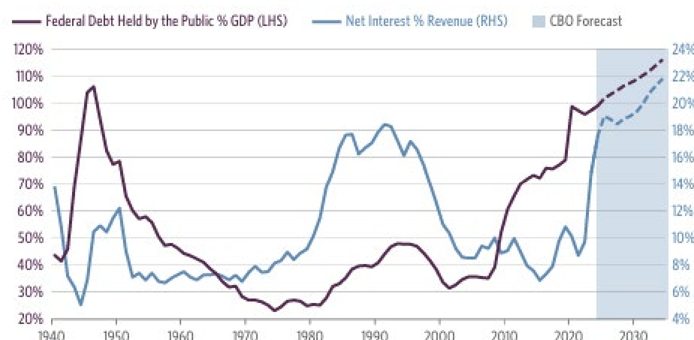
The most significant factor that drives deflation (which was a real concern prior to COVID) is technology advancement. The prices of phones, TVs, computers has all plummeted over the last decade and the technological advancement itself makes the economy able to produce more goods with fewer imports (putting downward pressure on prices). AI could likely be a large catalyst for this phenomenon.

While inflation, in the face of rising debt levels, has trended higher than the Fed's target rate (2%-3%), some longer-term datapoints suggest prices have room to fall.



INTEREST RATES

Harpswell had highlighted variations of this graph (below) for over a decade. When we first published it, the US Federal debt as a percentage of GDP was 60-70%. We cautioned our clients that when you approach 90%, you are taking on the financial profile of a banana republic. It is very safe to say we have blown past the banana republic thresholds. Currently, the USA pays 18%+ of its revenue in interest expense and this could rapidly increase if interest rates continue to rise. One factor that exacerbates this risk is the fact that our treasury prefers to issue very short-term bonds and thus we have to refinance our debts on a much faster timeline. Other countries (e.g., the UK) took advantage of the lower rates and extended their debts out years beyond ours.



One tangential risk to the rising rates and extraordinary supply of short-term bonds is the flow of assets into money market funds. Money market funds maintain, like the US Treasury, a focus on very short-term bonds. With short-term bonds paying more than long-term bonds, investors are flocking to money markets and sidestepping bank deposits. Thus our banking system is now even more stressed because banks can not generate profits in this environment by paying customers lower short-term rates on deposits and charging borrowers more on longer-term loans.

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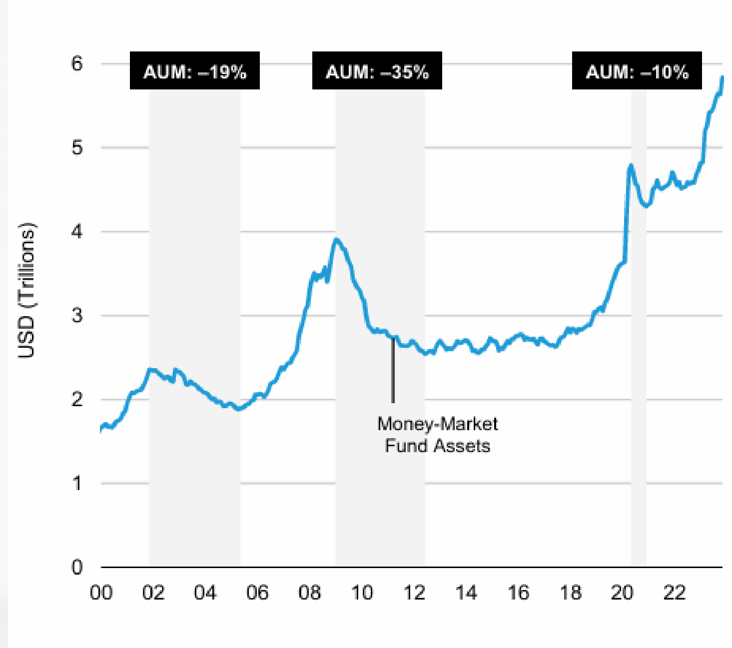
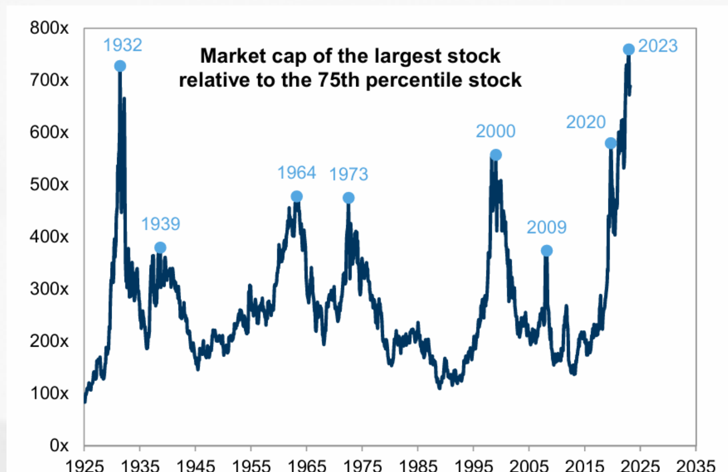
Harpswell's Market Outlook *(continued from page 2)*



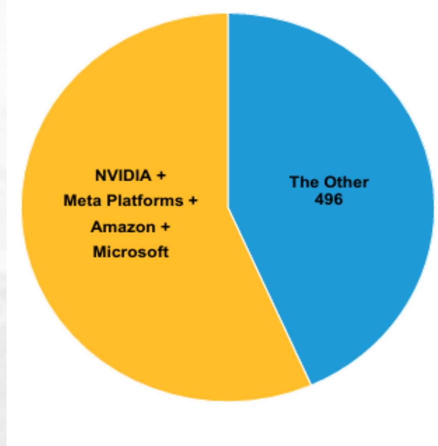
The following graph illustrates how the market concentration is at historic highs. It also illustrates how the concentration peaks tend to coincide with periods of "volatile" market conditions.



	Worst Years	Prior Year	Next Year
1931	-43.3%	-24.9%	-8.2%
2008	-37.0%	5.5%	26.5%
1937	-35.0%	33.9%	31.1%
1974	-26.5%	-14.7%	37.2%
1930	-24.9%	-8.4%	-43.3%
2002	-22.1%	-11.9%	28.7%
1973	-14.7%	19.0%	-26.5%
2001	-11.9%	-9.1%	-22.1%
1941	-11.6%	-9.8%	20.3%
1957	-10.8%	6.6%	43.4%

Source: Returns 2.0

MARKET CONCENTRATION IN THE US



It is little news to all that just a handful of names have been driving the overall market indices returns. The so call "Magnificent Seven" (which is now the "Fabulous Five" as Tesla and Apple have sold off this year over competition concerns for Tesla and anti-trust and revenue growth issues for Apple (Note: most for the "Magnificent" companies have both anti-trust and longer-term revenue growth overhangs).

OUTLOOK FOR BIG TECH

Big tech stocks have certainly been the primary driver for broader market returns over the last few years and some of the key drivers for their performance seem to be waning. The graph on the next page shows how earnings growth for the 6 largest tech companies was 42.2% in 1Q24 yet it is expected to drop to 15.5% in 1Q25. While 15% growth is still good, these stocks have had an exceptional run and there are a lot of high expectations embedded into their stock prices. Furthermore, the rest of tech is expected to grow at over 25% and their valuations are much more reasonable.

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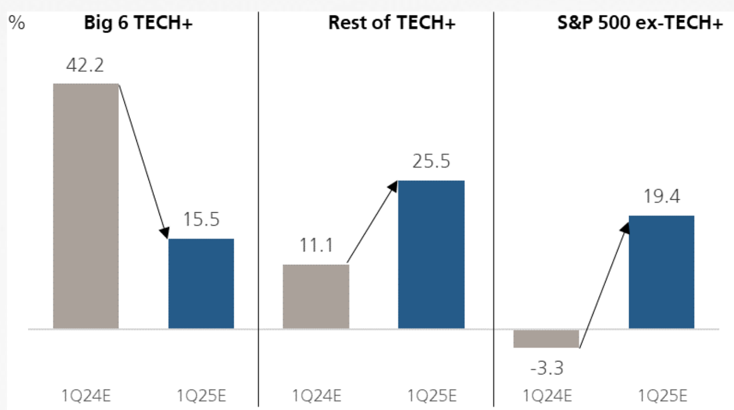


Many market prognosticators compare the run in todays tech stocks to that in 2000 and even 1987. Just before the year 2000, large tech stocks were generating exceptional returns based on revolutionary technologies. The comparisons are eerily concerning. For example, Intel, a chip producer, saw its stock race up from single digits to over $70. Intel made THE chip for gaming and their growth was expected to dwarf that for other tech stocks Eventually, growth slowed, and their stock plummeted. In fact, Intel's stock price is still far from that $70 peak ($32).

Nvidia, like intel, makes THE chip for AI. And, they too have been experiencing exceptional growth.

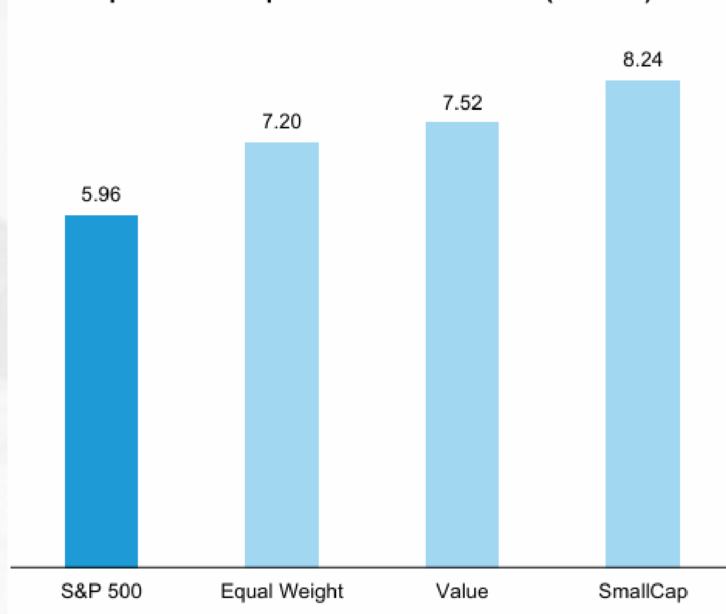
Dot Com Boom beneficiaries						
		Sales CAGR (as of Jan. 2000)		NTM P/E		
Company	Ticker	1999-2001	Realized	Jan. 2000	Jan. 2001	Change
Cisco	CSCO	**28 %**	11 %	97 x	43 x	(55)%
Microsoft Corp	MSFT	**16**	10	65	22	(66)
Intel	INTC	**17**	(5)	31	19	(40)

AI Adoption beneficiaries						
		Sales CAGR		NTM P/E		
Company	Ticker	2023E-2025E	Realized	Mar. 2024	Jan. 2025	Change
NVIDIA Corp	NVDA	**70 %**		37 x		
Microsoft Corp	MSFT	**14**		33		
Amazon.com, Inc.	AMZN	**12**		40		
Alphabet Inc.	GOOGL	**10**		21		

DIVERSIFYING BEYOND LARGE

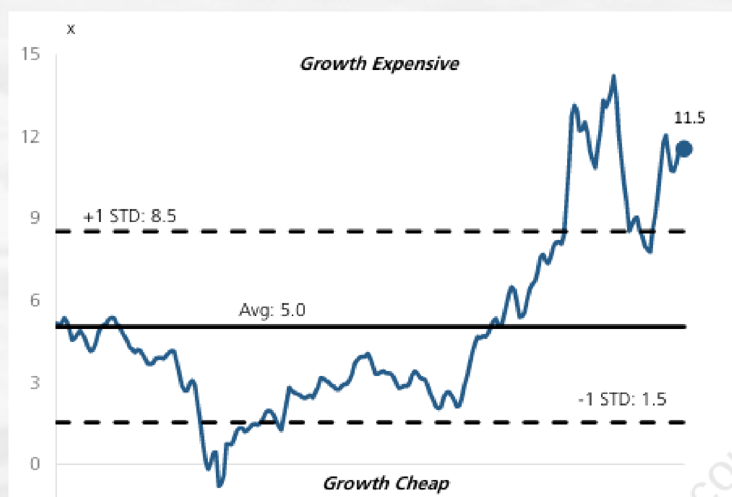
Harpswell is a proponent of diversification. While in some short-term periods, large concentrations can generate outsized returns in portfolios, over the long-run diversification has always demonstrated its merits.

We saw large tech selloff by almost 40% in 2022 (versus 19% for the overall market) yet it came back strong in 2023. For 2024, diversification is paying off again.



Growth stocks' valuations are a stretch relative to their more value orients peers highlighting another reason to diversify.

Furthermore, large cap stocks are expensive relative to smaller stocks.



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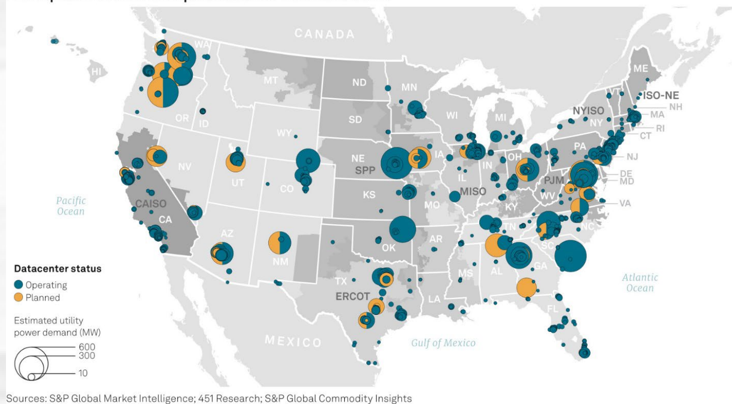
We Don’t Like Oil or Coal or Nuclear Power….We Like Electricity.

Between the steadfast climate movement and the advancement of AI, electric vehicles and data centers, electricity demand is expected to continue to soar over the next decade.

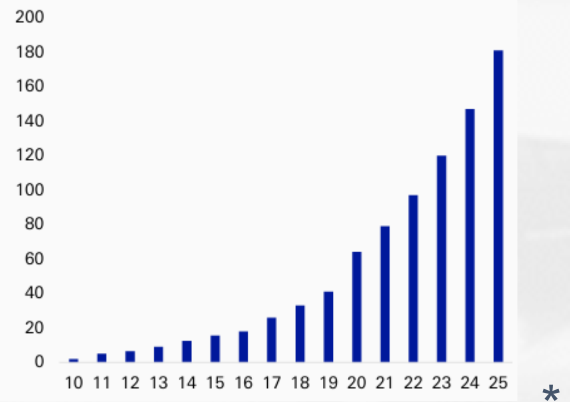
The exponential rise of AI and the accelerating adoption of electric vehicles (EVs) are reshaping the energy landscape, driving up electricity demand worldwide. By 2030, AI could increase global electricity consumption by over 8%, with data centers alone consuming 20% of global electricity by 2025. Concurrently, EVs are projected to surge, with sales expected to reach 54 million annually by 2040, boosting electricity demand by 11%. As these technologies integrate deeper into our lives, meeting the growing energy needs becomes imperative, necessitating innovative solutions for sustainable power generation and distribution.



Sources: S&P Global Market Intelligence; 451 Research; S&P Global Commodity Insights

The anticipated growth of electric vehicles (EVs) presents a dual challenge for the grid and charging infrastructure. With EV sales projected to skyrocket, the strain on the power grid could be significant. Current infrastructure may struggle to accommodate mass charging, leading to grid instability and increased demand during peak hours. Moreover, the availability and accessibility of charging stations remain a hurdle, especially in rural and underdeveloped areas.

Addressing these challenges requires substantial investment in grid modernization, expansion of charging networks, and integration of smart grid technologies to manage demand effectively while ensuring equitable access to charging infrastructure for all drivers.



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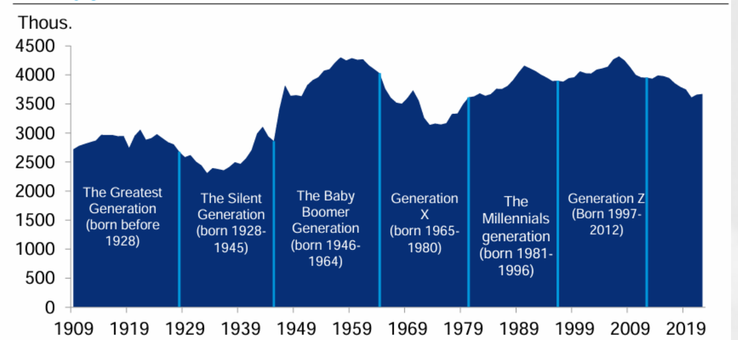
Demographic Shifts and Trends

The shifting demographics in the United States, marked by an aging population and increasing diversity, significantly influence financial markets. As the baby boomer generation retires, it alters investment patterns, driving demand for retirement assets and healthcare services. Simultaneously, the rise of younger, more diverse cohorts reshapes consumer preferences and spending habits, fueling growth in technology, healthcare, and sustainable industries. This demographic evolution prompts investors to reassess long-term strategies, favoring sectors catering to emerging needs and preferences.



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Demographic Shifts and Trends

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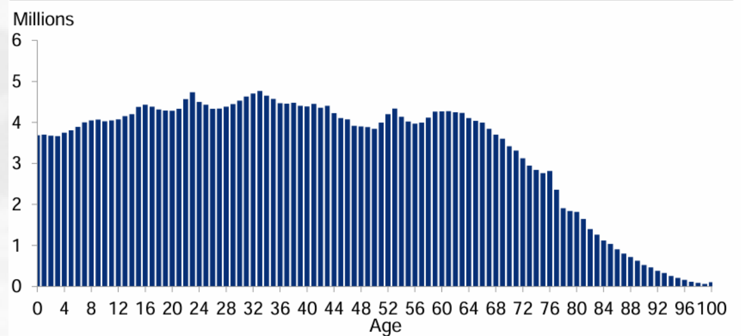
The aging workforce in the US profoundly impacts financial markets and investment trends. As older workers retire, there's a strain on pension funds and social security systems, influencing government policies and fiscal decisions. This demographic shift also alters consumer behavior, with seniors prioritizing healthcare, leisure, and retirement services. Consequently, industries catering to these needs, such as pharmaceuticals and senior living facilities, experience increased demand, driving investment in these sectors. Moreover, companies adapt their strategies to attract and retain older employees, leading to innovations in healthcare benefits and workplace accommodations. Investors recognize these trends, reallocating funds to companies positioned to benefit from the aging population, while also considering the potential challenges posed by healthcare costs and labor market dynamics.

When the number of retirees grows rapidly, it exerts notable impacts on both the economy and financial markets. Increased retiree populations strain social security systems and pension funds, prompting adjustments in government spending and policies.

This demographic shift alters consumer behavior, with retirees prioritizing healthcare and leisure, influencing investment trends towards healthcare, retirement services, and leisure industries. Additionally, it may lead to labor shortages in certain sectors, driving wage inflation and affecting corporate profitability. Overall, managing the implications of a rapidly growing retiree population requires careful planning and adaptation across various economic sectors and financial markets.



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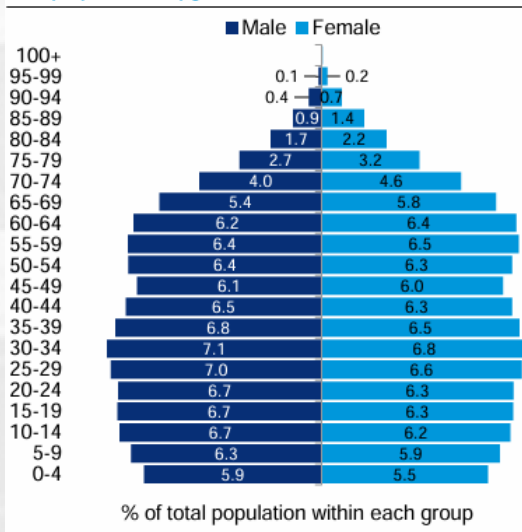
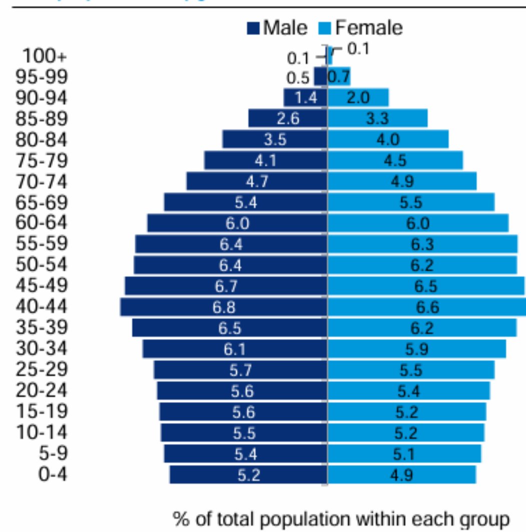




Inflation and the Fed

Over the past year, investors have been speculating when and if the Federal Reserve will pivot and cut rates. There is concern that the current high rates will hinder economic growth and prolong the housing crisis as high housing costs discourage buyers and sellers alike.

Each month, investors look to the inflation report for a downward trend, hopefully meeting the Fed's 2% target and giving it leeway to cut rates. The markets react accordingly given each report, increasing volatility whether the reports are encouraging or disappointing.

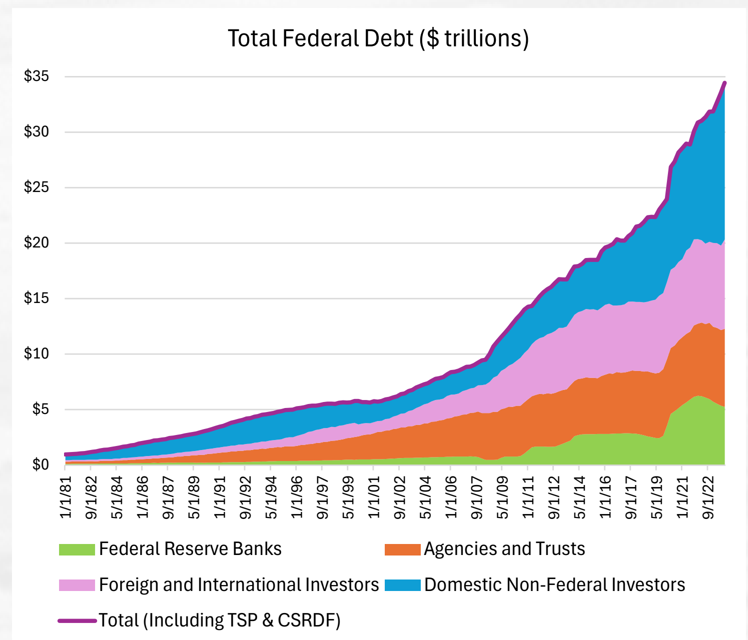
Given this trend, the April report from the Bureau of Labor Statistics showed inflation (CPI index) had risen at a 3.5% annual rate in March, higher than expected. Not surprisingly, the equity markets fell more than 1% while 10-year Treasury yields rose to 4.5%, the highest since November 2023.

Investors are now concerned that a rate cut in 2024 is less likely since the Fed's prime concern is to tame inflation even if it translates to an economic slowdown. However, the difficulty in predicting the Fed's response results from how the CPI is calculated and what it represents. Although one number, 3.5%, is reported, the index is comprised of thirty separate components with each weighted to calculate the overall index. For example, auto insurance had the largest increase, 22%, in the reporting period. Other large increases were also reported for housing, rents and restaurants. In contrast, groceries only increased by 1.2% while costs for automobiles, airfare, appliances, hotels and car rentals all declined.

Everyone is impacted differently from price increases and setting policy based on one composite number does not make much sense and the Fed Board members recognize this fact. A few have made public statements that rate cuts are still on the table, perhaps as many as two in 2024. Although markets often react to headlines, at the moment, decisions made by policy makers in the long run are difficult to predict. Investors need to remain patient and take measured steps along the way rather than make rash decisions based on when and if the Fed will cut rates. *

Who Holds the Debt?

The United States federal debt reached $34.4 trillion dollars in the 4th quarter of 2023. Most news sources cite the number at $34 trillion, but that leaves out a small bit of accounting magic used to solve the debt ceiling episode of 2013. In that year, the federal government's unfunded obligations to the Thrift Savings Plan and the Civil Service Retirement & Disability Plan were swapped out for the explicit obligation of treasury bonds. Those treasury bonds were then reclassified as "Not Held by the Public" and therefore not part of the debt ceiling.



In any case, who owns this debt? Currently, 41% of the total ($14 trillion) is owned by domestic non-federal investors, including individuals, financial institutions, and state/local governments. 23% ($8 trillion) is owned by foreign government and non-government investors. 20% ($7 trillion) is owned by Federal Agencies and Trusts, and 5% is owned by Federal Reserve Banks.

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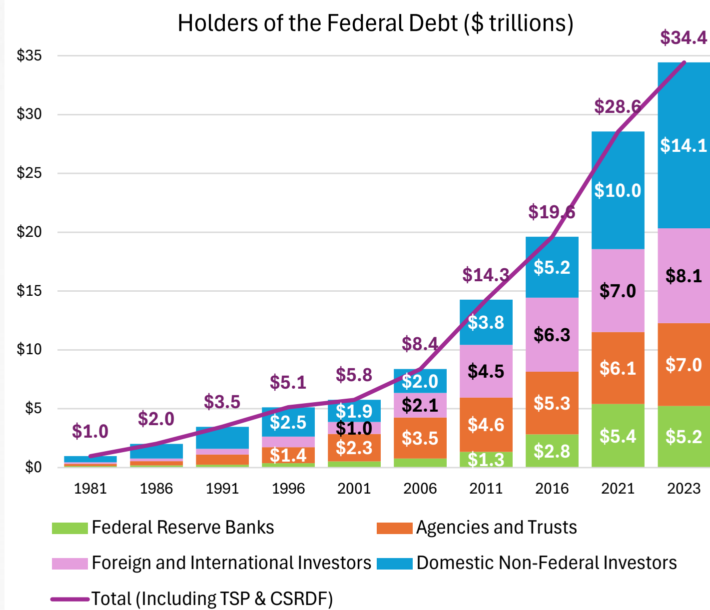
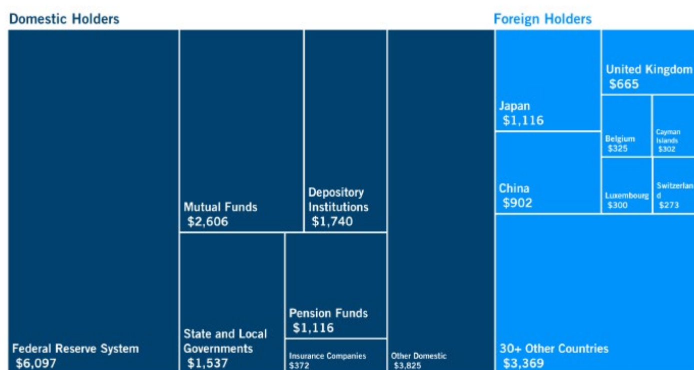
Who Holds the Debt? *(continued from page 7)*



More specifically, with regard to foreign owners, Japan holds 3.2% of the total and 15% of the foreign ownership ($1.1 trillion), China owns 2.6% of the total and 12% of the foreign ownership ($900 billion), the UK owns 1.9% of the total and 9% of the foreign ownership ($665 trillion), and 30+ other countries own 9.8% of the total and 46% of the foreign ownership.

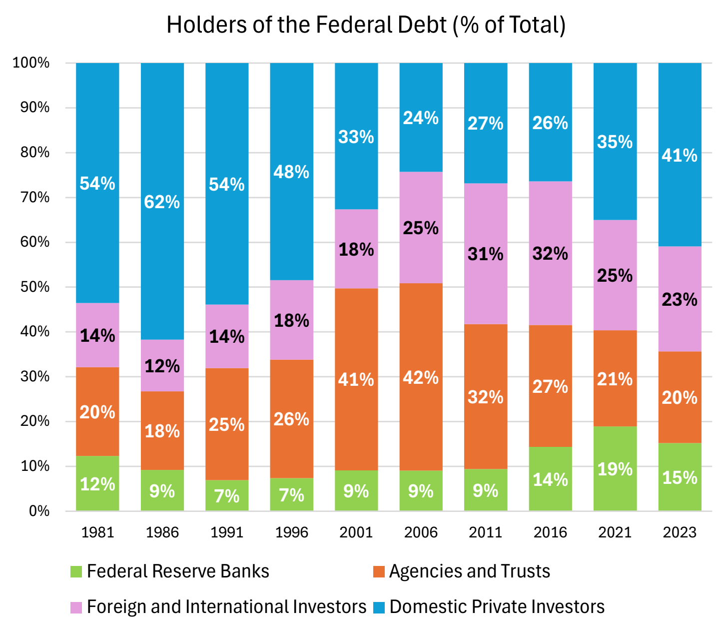


There are four countries with outsized holdings relative to their economies because they host off-shore banking centers. Belgium, Luxembourg, Switzerland, and the Cayman Islands each hold 1% of the total US debt and 4% of the foreign ownership ($300 billion each).

An equivalent-sized portion of the totals from Japan and the UK also belongs in this off-shore category, as institutions in Japan and the City of London are allowed to function as international banks, strictly serving non-domestic clients.

The Federal Reserve Banks' holdings peaked at $6.25 trillion in the 1st quarter of 2022 and are now down to $5.24 trillion due to quantitative tightening. In quantitative tightening, the Fed sells bonds back into the market and thereby removes bank reserves from the banking system, the opposite of quantitative easing.

Foreign share of the debt peaked at 34% in 2012, more than double the 14% share that was held in the 1980s. Amazingly, as pessimistic as Americans are about their government, it has been domestic non-federal institutions that have taken the most share of ownership post-GFC, from a low of 22% in 2007 to the current level of 41%.



The rise in domestic non-federal ownership of the debt could be explained by several factors that don't stem from enthusiasm for US fiscal and monetary policies. Pension funds, financial advisors employing balanced portfolios, and the target date funds in 401Ks have all been forced to rebalance into bonds as the stock market has roared higher throughout the post-GFC period and now the post-COVID period.

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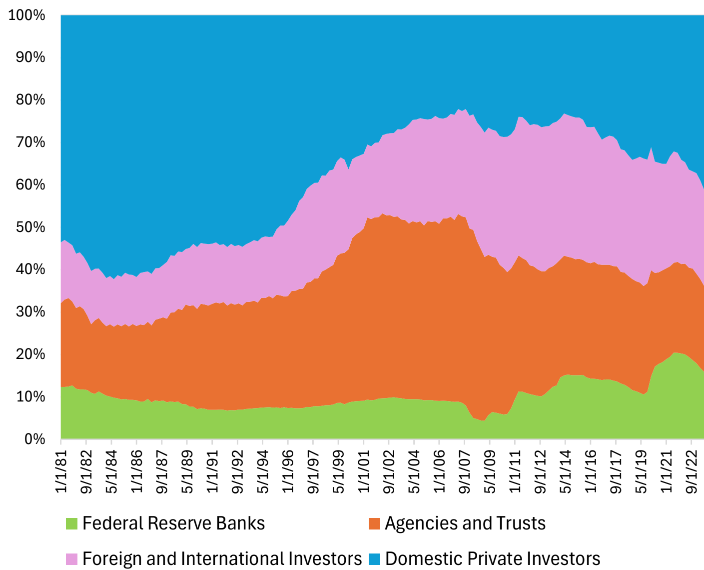
Who Holds the Debt? *(continued from page 8)*

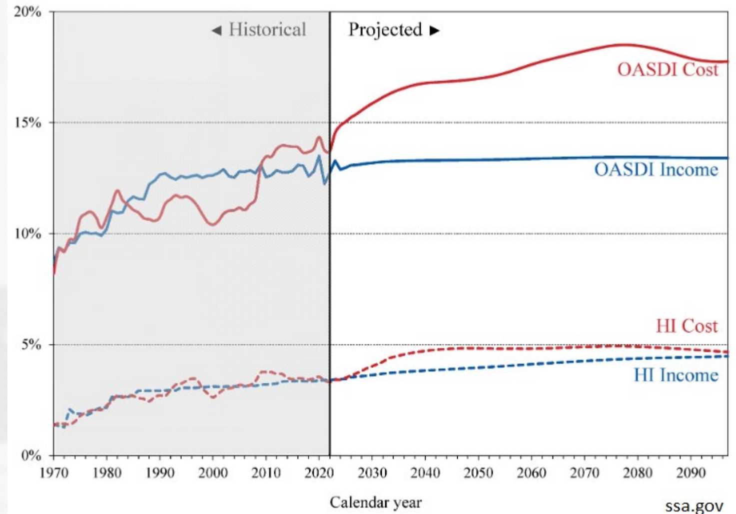


An aging baby-boom also has a higher demand for treasuries, if not by their own admission than through their life insurance policies and annuity contracts. Additionally, there is a demand from domestic commercial banks driven by regulations to hold more HQLA (high-quality-liquid-asset) and by aversion to taking on credit risk in the real economy.

For any bond buyer, what determines the credit worthiness for a country? A government's promise to bond investors is the promise to actually collect taxes in a currency whose value is not inflated out of existence. What makes a government's debt attractive for any investor, foreign or domestic, is the political and administrative ability of the government to make good on its promise to collect taxes and not just pile on more debt to solve its problems.

Aside from the $34.4 trillion in explicit treasury obligations, the federal government also has to collect taxes for the Old-Age and Survivors Insurance (OASI) Trust Fund for Social Security and the Hospital Insurance (HI) Trust Fund for Medicare. These trusts recently estimated their long-term obligations at $78 trillion over the next 75 years, based on economic and demographic projections.

Social Security and Medicare are unfunded by any definition used in the private sector, but the "assets" offsetting their liabilities are the federal government's claim on future payrolls. Hence, the cost of the programs is presented by the Trusts in terms of percentage of taxable payrolls.



Taxable payroll is the income that is subject to the Social Security tax. Amounts over $168,600/year are exempt from the payroll tax in 2024. What's clear from the projections is that the payroll tax will have to increase from 13% of taxable payrolls to something like 17% of all taxable payrolls by the end of this decade, or the maximum income that can be taxed will have to be increased.

Social Security and Medicare, while not funded by the national debt, are going to be a prior claim on the tax base before bond investors. The cost of those programs and the political wrangling over payroll taxes will be a deciding factor in how investors view treasuries over the coming years. *

Cocoa

Chocolate is an everyday luxury today. The average person in a developed country consumes over 2 kilograms of cocoa per year, with cocoa usually making up 45% of the mass of milk chocolate and 70% of the mass of dark chocolate.

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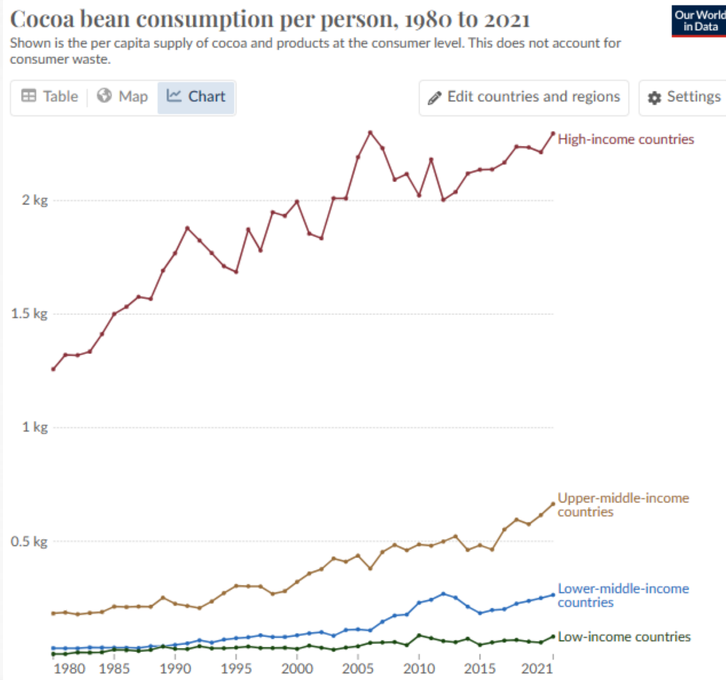
Cocoa *(continued from page 9)*

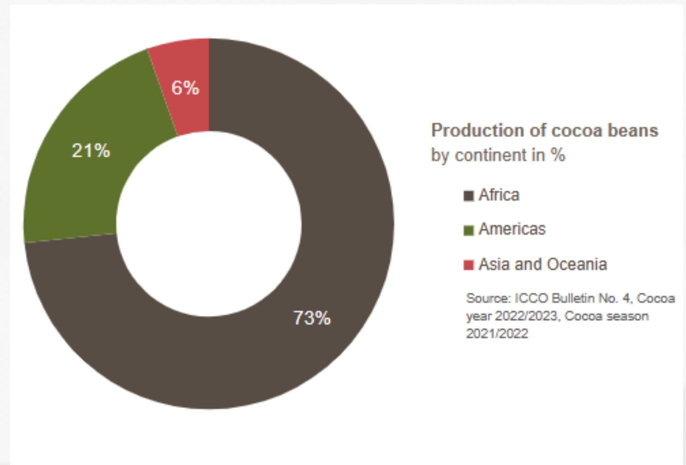


Before cocoa was a global commodity, it was used by the Mayans for a ceremonial drink, and they also used the dried cocoa beans as money. Cocoa beans met the same criteria as other commodity money throughout history. It was highly valued, relatively durable, portable, and the units were discrete and interchangeable (making them fungible and countable).

The portability of a commodity is best thought of as a relationship between its value in use and the cost of logistics. Blocks of granite have a much lower value-to-weight ratio than gems, precious metals, or ivory, for example. The same is true for food commodities. The Mayans had kernels of corn, but they had a much lower value-to-weight ratio than cocoa. Blocks of stone and staple crops are more likely to be produced and used locally, and less likely to serve as a form of money.

Cocoa production spread to west Africa in the post-Columbian period, where over 73% of cocoa is now grown. Cocoa remains a successful cash crop because the growing conditions are relatively rare throughout the world. The scarcity of cocoa continues to give it a high price relative to the cost of logistics.

However, the high value-to-weight property that makes cocoa a successful export also makes the global supply vulnerable to local weather conditions.



Cocoa producing countries in west Africa had extreme weather in 2023, causing a shortage in the 2023/2024 harvest season. Heavy rains at the start of the growing season in July damaged the plants' flowers. Excessive moisture then made them vulnerable to disease. As harvest time arrived in February, unusually hot El Nino winds dried out the crops in the fields.

As a result, cocoa prices soared from $2,500 in January 2023 to $10,000 per ton by the end of March, a 300% rise from one harvest to the next. The gains would have been truly mouth-watering for a trader of cocoa futures who was in the know.

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Cocoa *(continued from page 10)*

Cocoa future contracts trade in sizes of 10 tons per contract, meaning a single contract purchased at the beginning of 2023 would have a value of $25,000 and it would have had a value of $100,000 in March 2024.

The trader wouldn't have needed $25,000 to enter the position, though, because futures positions are taken by posting collateral, referred to as margin, of typically 3%-12% of the contract's value. This type of leverage is different from the leverage of buying stocks on margin, where the trader uses borrowed money. The margin in futures is the trader's money that must be deposited at the exchange.

As of now, the exchange requires margin of $4,480 per cocoa contract, about 18% of the contract's value, which is a higher percentage than usual due to elevated risk in cocoa trading. Putting that aside and pretending that the margin requirement was $4,480 a year ago, we can compare the profits of a long position in a single futures contract (where $4,480 is at risk) and the profit from investing $4,480 in cocoa beans themselves.

Cocoa Futures May 2024 (CCK24), Contract Size: 10 tons, Margin $4,480	1/1/23	3/31/24
Price/ton of commodity	$2,500	$10,000
Rise in the commodity since January 2023		300%
P/L if you invested the margin amount in the commodity		**$13,440**
Value of 1 futures contract	$25,000	$100,000
Return on 1 futures contract since January 2023		1674%
P/L if you were long 1 futures contract		**$75,000**

The cocoa futures contract returned 1,674% of the trader's capital, compared to 300% from being the long the commodity itself. That's a gain of $75,000 for the futures contract and only $13,440 for the commodity.

Leverage is a double-edged, sword though. If a trader put up the same margin today in cocoa futures, and the price of the commodity collapsed by 50%, that would be a 1,116% loss on the futures contract. That's a loss of $2,240 on the commodity and $50,000 on the futures contract.

Cocoa Futures May 2024 (CCK24), Contract Size: 10 tons, Margin $4,480	Starting Price	Down 50%
Price/ton of commodity	$10,000	$5,000
Possible loss on the commodity after March 2024		-50%
P/L if you invested the margin amount in the commodity		**-$2,240**
Value of 1 futures contract	$100,000	$50,000
Possible loss on 1 futures contract after March 2024		-1116%
P/L if you are long 1 futures contract		**-$50,000**

That's not to say the trader would actually lose $50,000. The futures exchange would have initiated a margin call when the value of the position dipped below the margin requirements. Only if the trader had repeatedly met the margin call, by posting more cash, would he be able to lose $50,000. At this point, the possibility of getting shaken out, and walking away from the trade empty handed, is a strong influence in keeping the commodity price from increasing by another 300% from here. *

When Does Summer Start?

Summer officially arrives in North America with the summer solstice on Thursday, June 20, 2024, at 4:51 pm EDT—the earliest start in 128 years!

The Farmers' Almanac Summer Weather Forecast 2024 calls for a warm, hot, and muggy summer for most of the nation, except for the Northwest region where more seasonable summer temperatures are expected. The muggy temperatures are predicted to bring a plethora of moisture and thunderstorms to most areas east of the Mississippi River.

The forecast for Summer 2024 from the Maine Farmers' Almanac predicts a range of weather patterns across different regions of the United States:

- **Northeast (New England)**: Another wet summer is expected, with plentiful thunderstorms.
- **Great Lakes and Midwest**: Thunderstorms are predicted to be plentiful.
- **Southeast and Mid-Atlantic**: Expect soaking showers and steamy days.
- **Texas**: Sizzling temperatures are forecasted, with more storms expected in July than August.
- **North Central region**: Anticipate a mix of warm temperatures with occasional cold Canadian air.
- **Southwest**: Hot and dry conditions are expected.
- **Pacific Northwest**: Dry conditions, but not as extreme temperatures as in the Southwest.

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March 2024 Flash Report

Overview: the Commerce Department reported that the U.S. economy grew at a revised 3.4% annual rate for the 4th quarter of 2023, an upgrade from the previous estimate of 3.2%. For all of 2023, the U.S. economy grew by 2.5%, up from 1.9% in 2022.
The latest PCE inflation report, an annual inflation measure watched closely by the Federal Reserve, moved higher in February, its first increase in five months raising concerns that the central bank could delay cutting interest rates. Consumer prices increased by 2.5% from a year earlier, above the 2.4% rise in January but well below the 40-year high of 7% last year. However, Fed Chair Powell said policymakers would not "overreact…to the two months of data."

Equities: Domestic – Equity markets rallied in March based on favorable earnings reports and anticipation that the Fed will cut rates sometime in 2024 although Investor concerns about when began to surface.

The **S&P 500** rose 3.2% in March resulting in a 3 month return of 10.6%. Energy, Materials and Utilities were the leading sectors in the month. Value companies gained 5% well ahead of the 1.8% return for Growth companies.

The **R2000** earned 3.6% in the month as Small Value companies gained 4.4%, moving into positive territory for 2024, posting a 2.9% return YTD.

International – **EAFE** gained 3.4% in March as the rising Dollar partially offset local gains. On a local currency basis, EAFE rose 4.0%. Spain had a strong month, posting an 11% gain while Hong Kong and Portugal reported losses in the month, offsetting overall gains. Portugal is down 18% in 2024.

Emerging Mkts gained 2.5% in March where China earned 1.0% in the month, ending with a YTD loss of 2.2%. Taiwan, Mexico and Korea posted strong gains in the month partially offset by a significant 33% loss in Egypt.

Fixed Income: US rates remained stable in March as inflation reports showed moderating price increases. However, Investors' optimism regarding Fed rate cuts in the near term was tempered somewhat during the month as sustained progress in lowering inflation remains elusive.

The **90 Day T-bill** rate remained at 5.4% as well as the **10 Year Treasury** rate which closed at 4.3%. The **30 Year Treasury** rate moved down by 10bps to 4.3%. In general, the March yield curve closely matched February's curve.

In contrast, Short-term tax-exempt yields rose while longer term yields remained stable. The **Municipal 1 Year rate** rose 20bps to 3.2% while the **10 Year Municipal** rate remained at 2.5%.

International: **German** yields fell modestly in March, falling 10bps to close at 2.8% for the **2 Year Bund** and down 10bps to 2.3% for the **10 Year. UK** rates rose where the **10 Year Gilt** moved up 20bps to yield 3.9% and the **2 Year Gilt** fell by 10bps to yield 4.2%. The **Japanese 10Yr Bond** yield remained unchanged at 0.7% as well as the **2Yr Bond** which closed at 0.2%.

High Yield bonds gained 1.2% in the month while the Aggregate Bond Index rose by 0.9% as yields remained relatively stable throughout the month.

	1 Month	3 Months	YTD	1 Year	3 Years	5 Years
Domestic Equities						
Dow Jones	2.2%	6.1%	6.1%	22.2%	8.7%	11.3%
S&P 500	3.2%	10.6%	10.6%	29.9%	11.5%	15.1%
Russell LG Value	5.0%	9.0%	9.0%	20.3%	8.1%	10.3%
Russell LG Growth	1.8%	11.4%	11.4%	39.0%	12.5%	18.5%
Russell 2000	3.6%	5.2%	5.2%	19.7%	-0.1%	8.1%
NASDAQ	1.8%	9.3%	9.3%	35.1%	8.2%	17.2%
MLP Index	4.5%	13.9%	13.9%	38.5%	29.4%	11.5%
REIT Index	1.8%	-1.3%	-1.3%	8.0%	2.5%	4.0%
International Equities						
EAFE	3.4%	5.9%	5.9%	15.9%	5.3%	7.9%
EAFE Small Companies	3.8%	2.5%	2.5%	11.0%	-0.9%	5.4%
Emerging Markets	2.5%	2.4%	2.4%	8.6%	-4.7%	2.6%
China	1.0%	-2.2%	-2.2%	-16.9%	-18.8%	-6.2%
Fixed Income						
US Agg	0.9%	-0.8%	-0.8%	1.7%	-2.5%	0.4%
US High Yield	1.2%	1.5%	1.5%	11.2%	2.2%	4.2%
Municipal Bonds	0.0%	-0.4%	-0.4%	3.1%	-0.4%	1.6%
Currencies						
EURO	-0.2%	-2.4%	-2.4%	-0.8%	-2.8%	-0.8%
British Pound	0.0%	-0.8%	-0.8%	2.2%	-2.9%	-0.6%
Japanese Yen	-0.9%	-6.8%	-6.8%	-12.2%	-9.9%	-6.0%
Commodities						
Bloomberg Commodity	3.3%	2.2%	2.2%	-0.6%	9.1%	6.4%
S&P GSCI Crude Oil	7.3%	18.3%	18.3%	20.2%	24.4%	-0.8%
Gold	8.3%	7.4%	7.4%	12.1%	8.5%	10.2%

Commodities: WTI Crude Oil prices rose by $4.9/barrel to $83.2/barrel in March resulting from rising tensions in the Middle East, drone attacks against Russian refineries and the expectation that OPEC+ will maintain its production cuts until June or longer.

Gold prices increased in the month by $183/oz, closing at $2238/oz. Speculation about the Federal Reserve cutting rates spurred the rise in gold prices. Also, China's central bank's significant purchases of gold signaled its faith in the metal as a safeguard against global financial uncertainties putting further upward pressure on prices.

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Index Definitions

The S&P 500 Stock Index is an unmanaged market capitalization index of 500 US equities generally considered to be representative of US stock market activity. The Morgan Stanley Capital International World Index is a market capitalization-weighted equity index of over 1,500 stocks traded in 22 world markets. The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on the NASDAQ Stock Market. The Index is market value-weighted. The SB World Bond Index is a market capitalization weighted index of 18 Government bond markets composed of sovereign debt denominated in the domestic currency. The Lehman Aggregate Index is a benchmark index made up of the Lehman Brothers. The Hennessee Hedge Fund Indices® are calculated from performance data obtained from publicly available information, internally developed data and other third party sources believed to be reliable. MSCI EAFE is a stock market index that is commonly used as a benchmark for the performance of major international equity markets. The MSCI Emerging Market Index is an index created by Morgan Stanley Capital International (MSCI) that is designed to measure equity market performance in global emerging markets. The Russell 1000 seeks to track the investment results of an index composed of large- and mid-capitalization U.S. equities. The Russell 2000 seeks to track the investment results of an index composed of small-capitalization U.S. equities. The Russell 2500™ Index measures the performance of the small to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap. The Barclays Capital Global Aggregate Bond Index is designed to be a broad based measure of the global investment-grade, fixed rate, fixed income corporate markets outside the United States. The Barclays Capital US Gov/Credit bond Index measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year.

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