XPYRIA INVESTMENT ADVISORS

Markets at a Glance

Fourth Quarter 2023

Equities

- Global equity markets, as measured by the MSCI World Index, rose 11.42% for the quarter with much of the rally driven by optimism that the Federal Reserve would be able to engineer a soft landing for the U.S. economy. U.S. equities outperformed international developed equities and their emerging market peers. The U.S. dollar depreciated 5.46% versus a basket of EAFE currencies and depreciated 2.28% versus a basket of emerging market currencies during the quarter.

- Large-cap stocks, as measured by the S&P 500 Index, rose 11.69%. Real Estate and Information Technology were the best performing sectors, up 18.83% and 17.17%, respectively. Energy was the worst and only negative performing sector, down -6.94%. As the largest stocks exhibited strong performance, the S&P 500 Equal Weight Index underperformed the S&P 500 Index by 11.7% in 2023, the most in any calendar year since the index's inception. As a result of new orders due to greater advertising spending, upselling additional service lines to clients, and looser financial conditions, U.S. Services Purchasing Managers Index (PMI) remained in expansionary territory for the eleventh consecutive month.

- Small-cap stocks, as measured by the Russell 2000 Index, rose 14.03%. Financials and Health Care were the best performing sectors, up 23.55% and 16.81%, respectively. Energy was the worst and only negative performing sector, down -5.96%. The Russell 2000 Index made a new 52-week-high in December after hitting a 52-week-low just 48 days prior. That's the shortest turnaround time in the index's history dating back to the 1970s.

- International equities, as measured by the MSCI EAFE Index, rose 10.42%. European equities rose during the quarter due to a slowdown in inflation, declining energy prices, and expectations of no additional interest rate hikes. Manufacturing and export-oriented countries, such as the Netherlands, Germany, France, Italy, and Belgium were among the strongest performers. Eurozone unemployment remained near an all-time low of 6.50% in October.

- Emerging market (EM) equities, as measured by the MSCI EM Index, rose 7.86%. India contributed the most to the index's return during the quarter due to robust economic growth, a growing category of urban middle-class consumers, and an increase in foreign investment. Taiwan and South Korea were also strong performers during the quarter. China, which is a 30% weight in the MSCI EM Index, continued to underperform due to weak private and foreign investment, weakness in property prices and property development companies, continuing tensions with Western nations, and the lack of a government stimulus package to support consumer spending. Emerging Market Manufacturing and Services PMI both remained in expansionary territory.

- Global Real Estate, as measured by the EPRA/NAREIT Developed Index, rose 15.59%. U.S. REITS experienced relative outperformance as they rose 17.60%. 30-year mortgage rates declined but remained elevated at 7.05%, while the supply of existing homes in the U.S. remained tight at 3.5 months. Home supply remains tight as there are fewer sellers given that 37% of U.S. homes have no mortgage and 91% of outstanding mortgages have an interest rate of 5% or less. Nontraditional real estate, such as cell towers and self-storage, outperformed vs. more traditional areas, such as office and residential REITs.

Fixed Income Markets

- Core bonds, as measured by the Bloomberg Aggregate Bond Index rose 6.82%, marking the index's best quarter since 1989. Core bonds outperformed Bank Loans (2.87%) but lagged High-Yield Bonds (7.06%). U.S. Corporate Bonds (8.50%) outperformed Agency Mortgage-Backed Securities (7.48%) and U.S. Treasuries (5.66%).

- The Federal Reserve (Fed) paused its interest rate hikes, and Chairman Jerome Powell noted the general expectation is that the central bank will start to discuss rate cuts in coming meetings due to cooling inflation. The intermediate-term and long-end of the Treasury yield curve flattened due to increased expectations of rate cuts in 2024. The ten-year Treasury yield fell from 4.59% to 3.88%, while the two-year Treasury yield fell from 5.03% to 4.23%. The yield differential between a ten and two-year Treasury remained inverted at -0.35%.

- The Fed maintained the fed funds target rate at a range of 5.25% to 5.50%. As previously mentioned, the Fed did not raise interest rates in order to allow the committee to assess additional information and its implications for monetary policy amid tightening credit standards for consumers and businesses. The Fed continued its balance sheet reduction program, which involves allowing $60 billion of U.S. Treasuries and $35 billion of Agency Mortgage-Backed Securities to mature or be sold each month. Employment data (unemployment at 3.70%) remained strong, while inflation (Core PCE at 3.20%) declined but remains well above the Fed's long-term average target of 2.00%.

- The European Central Bank (ECB) maintained its main deposit rate at 4.50%. ECB President Christine Lagarde noted that interest rates will stay high enough to restrict business activity for "as long as necessary" to reduce inflation and that the committee was not discussing rate cuts at its December meeting. In addition, the ECB announced a gradual phasing out of reinvestments under its Pandemic Emergency Purchase Program (PEPP) in the second half of 2024.

Market Performance
As of 12/31/2023

Asset Class	Index	4th Qtr.	YTD
EQUITIES			
Domestic			
Large-Cap	S&P 500	11.69%	26.29%
Large-Growth	R1000 Growth	14.16%	42.68%
Large-Value	R1000 Value	9.50%	11.46%
Small-Cap	Russell 2000	14.03%	16.93%
Small-Growth	R2000 Growth	12.75%	18.66%
Small-Value	R2000 Value	15.26%	14.65%
International			
Developed Mkts.	MSCI EAFE	10.42%	18.24%
Emerging Mkts.	MSCI EM	7.86%	9.83%
Global			
Developed Mkts.	MSCI World	11.42%	23.79%
Real Estate Investments			
U.S. REITs	NAREIT	17.60%	11.52%
Global REITs	EPRA/NAREIT Developed	15.59%	10.85%
FIXED INCOME			
High-Yield	ICE BofA US HY	7.06%	13.46%
Interm.-Term	Bloomberg Agg	6.82%	5.53%
Short-Term	Blmbrg G/C 1-3	2.64%	4.62%