

A decorative geometric pattern of overlapping triangles in shades of blue and green is overlaid on the left side of the image. A prominent white triangle is positioned to the left of the main title text.

**PERSPECTIVES  
THAT DRIVE  
ENTERPRISE  
SUCCESS**

DECEMBER 2023  
Capital Markets Update



# Market commentary

## U.S. ECONOMICS

- Nonfarm payrolls showed 216,000 jobs added in December, similar to November. Over the past year, unemployment rose from 3.5% to 3.7%, while the long-term unemployed (27 weeks or more) increased by 261,000. Additionally, the most recent Job Openings and Labor Turnover Survey (JOLTS) showed a decrease of nearly 2 million job openings from November 2022 to November 2023.
- The ISM Manufacturing PMI Index increased +0.7 to 46.7 but remains in contractionary territory. Among the sub-indexes, the Prices Index fell -4.7 points to 45.2 - the eighth consecutive month of raw materials price decreases - while the Backlog Orders and New Export Orders indexes advanced to 45.3 and 49.9, respectively. The readings are indicative of future manufacturing stability rather than contraction.
- The University of Michigan index of Consumer Sentiment rose to 69.7, reversing the prior four months of declines. The sharp increase was driven in part by an improved consumer outlook around inflation. One-year inflation expectations fell to 3.1% from 4.5% last month.

## U.S. EQUITIES

- The S&P 500 gained +4.5% in December to close out the year +26.3%. Consumer Discretionary (+17.7%) and Real Estate (+22.2%) led the market over the final two months of the year. Energy was the only sector to report a decline for the month, albeit marginally (-0.02%), as the sector struggles amid price decreases in oil and natural gas.
- The Information Technology and Telecom sectors were the best performers for the year. While both sectors posted modest gains in December, they finished the year +57.8% and +55.8%, respectively. The “Magnificent Seven” stocks played a large role in driving the market higher as they averaged +104.7% for the year and accounted for nearly two-thirds of the S&P 500 +26.3% return.

## U.S. FIXED INCOME

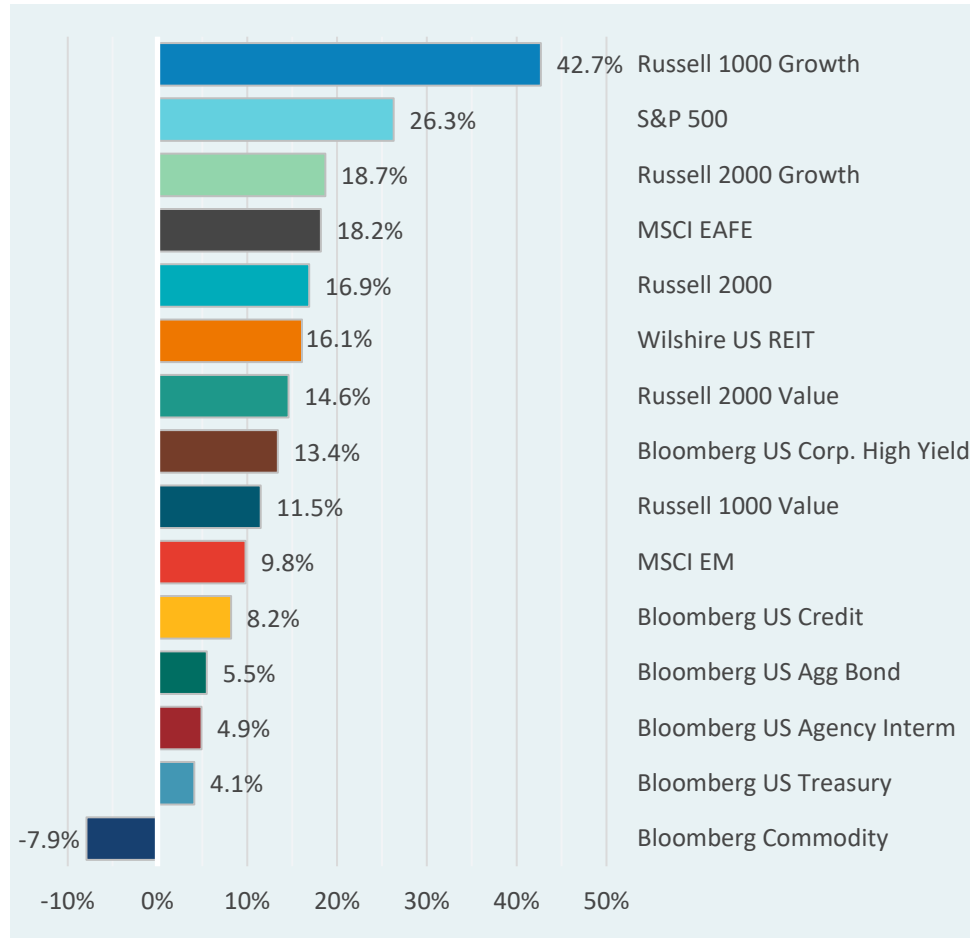
- The December 12<sup>th</sup>-13<sup>th</sup> FOMC meeting and Chairman Powell’s comments were well received by investors, particularly the agreement among Federal Reserve officials that interest rate cuts are likely in 2024. Although the benchmark rate was left unchanged at 5.25%-5.50%, members indicated that they expect three 0.25% rate cuts by the end of 2024. Those rates cuts are expected to begin by mid-year.
- Reinforced expectations of 2024 rate cuts led to U.S. Treasury yields falling in the days following the FOMC meeting. Over the month, tenors from the 2-year to the 30-year each fell by between -47bps and -52bps.
- Similar to November, falling yields led to a broadly positive month for fixed income. The Bloomberg U.S. Aggregate Index posted +3.8% and the Bloomberg U.S. Treasury Long – which was the only broad index still negative for the year in November – led the asset class with +8.6%, bringing performance to +3.1% for the year.

## INTERNATIONAL MARKETS

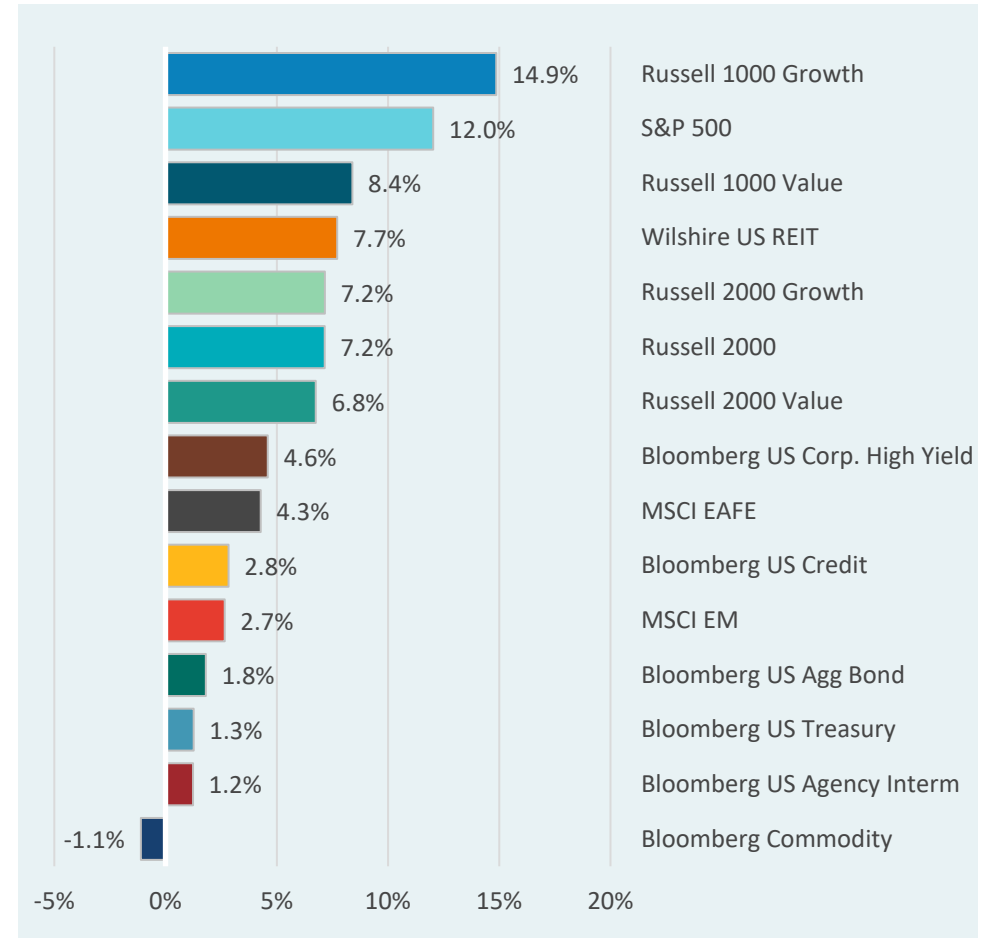
- The European Central Bank (ECB) held the last meeting of the year on December 14<sup>th</sup> and announced a similar stance to that of U.S. Fed officials. The ECB opted to hold rates unchanged and noted that inflation is expected to gradually decline in the coming year. President Christine Lagarde announced that the council did not discuss rate cuts, though investors appear to be optimistic that disinflation will in fact lead to cuts in 2024.
- In its final meeting of the year, the Bank of Japan (BOJ) unanimously voted to keep interest rates at -0.1%. Bank of Japan Governor Ueda stated that the outlook remains extremely uncertain and that unless inflation sustainably hits their 2% target, the bank cannot justify a safe exit from ultra-loose monetary policy. Following the decision, both the yen and 10-year Japanese government bond yields fell.

# Major asset class returns

ONE YEAR ENDING DECEMBER



TEN YEARS ENDING DECEMBER



\*Only publicly traded asset performance is shown here. Performance of private assets is typically released with a 3- to 6-month delay.

Source: Morningstar, as of 12/31/23

Source: Morningstar, as of 12/31/23

# U.S. large cap equities

- December closed out a strong year for the S&P 500, increasing +4.5% to bring calendar year returns to +26.3%. The *soft landing* narrative has been reinforced, as the Fed signaled three rate cuts in 2024 on the back of easing inflation and cooling employment data.
- Earnings growth is expected to decline to 1.3% year-over-year in Q4, from Q3 earnings of +4.9%. Despite a decrease in forecasted earnings growth and a greater number of companies providing negative guidance, the S&P 500 is trading at 19.5x forward earnings - higher than its 10-year average of 17.6x.
- 10 out of 11 S&P 500 sectors gained in December. Real Estate (+8.7%) and Industrials (+7.0%) were the top performers, while Energy (0.0%) was flat. Broad gains in the S&P 500 were supported by a continual decline in treasury yields and rising stock valuations across the board.
- U.S. equity volatility remained low in December, with the VIX falling to 12.5, and trading down to 11.8 intramonth. This decline in volatility was supported by optimistic Fed comments and steady market gains.

**S&P 500 PRICE INDEX**



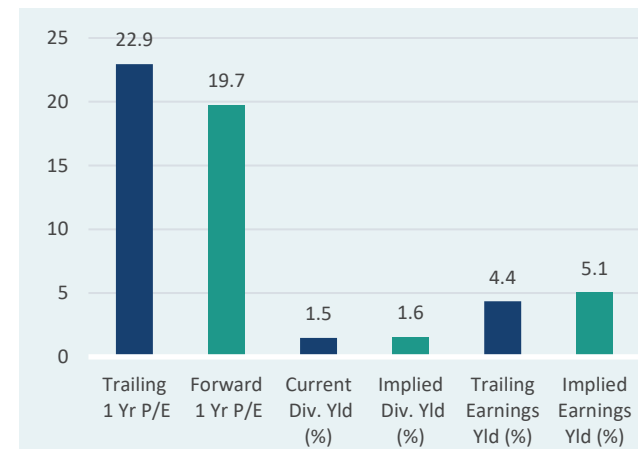
Source: Bloomberg, as of 12/31/23

**IMPLIED VOLATILITY (VIX INDEX)**



Source: Cboe, as 12/31/23

**S&P 500 VALUATION SNAPSHOT**



Source: Bloomberg, as of 12/31/23

# Domestic equity size and style

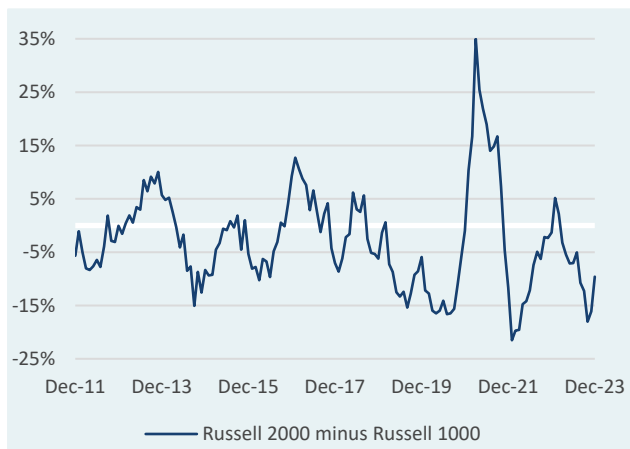
- While December delivered another month of gains across the board, small-cap stocks (Russell 2000 +12.2%) were able to reverse some of their underperformance on the year relative to large-cap (Russell 1000 +4.9%). A greater likelihood of near-term rate cuts had an outsized impact on small cap stocks which tend to be more interest rate-sensitive.
- Small-cap value slightly outperformed growth (Russell 2000 Value +12.4% vs Russell 2000 Growth +12.0%). This brought small-cap growth's outperformance on the year to +4.1%.
- Growth outperforming value in the large-cap space was the biggest style investing story this year, with the Russell 1000 Growth (+42.7%) beating the Russell 1000 Value (+11.5%) by +31.2%, the second largest margin in 20 years (next to year 2020).
- Relative valuations continued to increase in December. The S&P trades at 19.5x forward earnings – a 10.8% premium to the historical average. The Russell 2000 Index is trading closer to the historical average at 21.9x forward earnings, now at a -10.2% discount.

**VALUE VS. GROWTH 1-YR ROLLING RELATIVE PERFORMANCE**



Source: FTSE, Bloomberg, as of 12/31/23

**SMALL VS. LARGE 1-YR ROLLING RELATIVE PERFORMANCE**



Source: FTSE, Bloomberg, as of 12/31/23

**1-YEAR SIZE & STYLE PERFORMANCE**

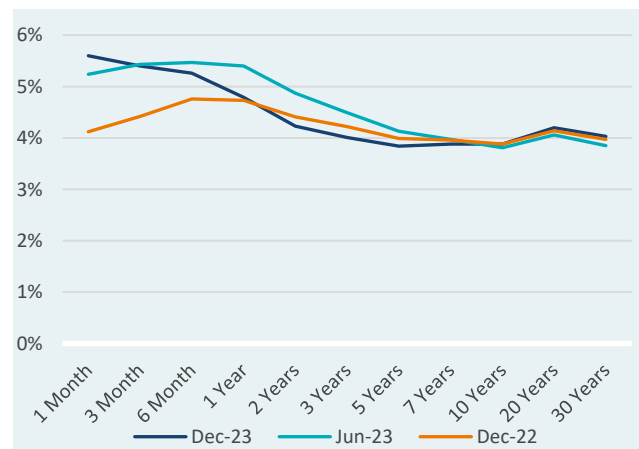
	Value	Core	Growth
Large Cap	11.5%	26.5%	42.7%
Mid Cap	12.7%	17.2%	25.9%
Small Cap	14.6%	16.9%	18.7%

Source: FTSE, Bloomberg, as of 12/31/23

# Fixed income

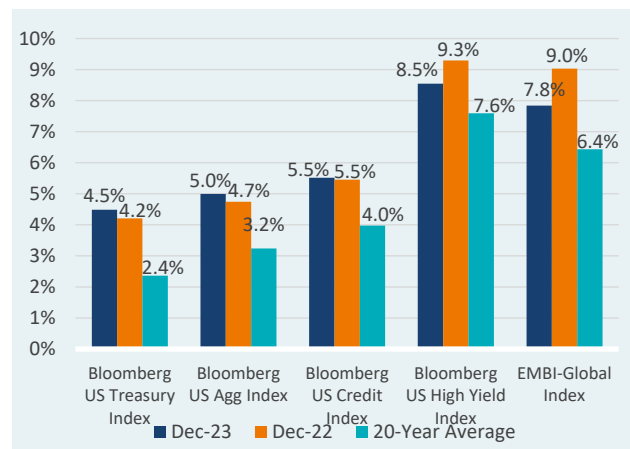
- U.S. bonds posted gains for the second straight month (Bloomberg U.S. Aggregate Index +3.8%), to end the year +5.5%. Easing inflation and rate cuts announced by the Fed contributed to declining yields and higher bond valuations.
- Yield curve shifts were evenly spread between 2- and 10-year yields, decreasing -50bps and -49bps, respectively. Curve inversion as defined by the 2yr minus 10yr bond yield remained stable at approximately -35bps. Due to the large shift in yields, long-dated treasuries were the best performers for the second straight month (Bloomberg U.S. Treasury Long +8.6%).
- Spreads continued to narrow for High Yield and Bank Loans, by -45bps and -35bps, to 339bps and 490bps, respectively. The CS Leveraged Loan Index (+1.6%) and Bloomberg US Corporate High Yield (+3.7%) built on strong performance, ending the year up +13.0% and 13.4%, respectively.
- The Bloomberg U.S. MBS Index (+4.3%) outperformed the Aggregate Index, as mortgage rates continued to decline, further reinforcing investors' expectation that peak rates are in the past. 30-year fixed mortgage rates fell to 6.6% to close the month, the lowest level since May.

**U.S. TREASURY YIELD CURVE**



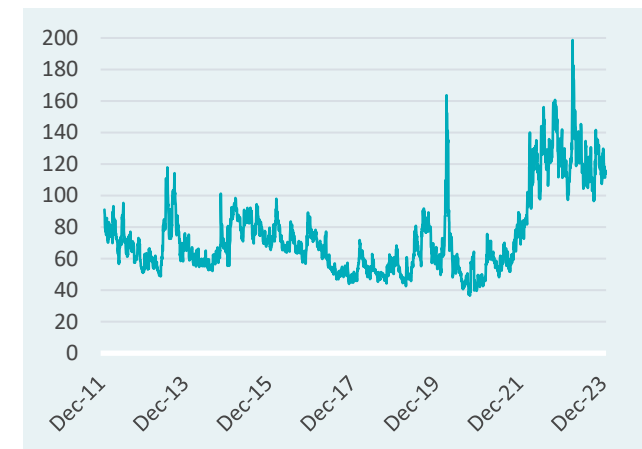
Source: Bloomberg, as of 12/31/23

**NOMINAL YIELDS**



Source: Morningstar, as of 12/31/23

**U.S. TREASURY IMPLIED VOL ("MOVE" INDEX)**

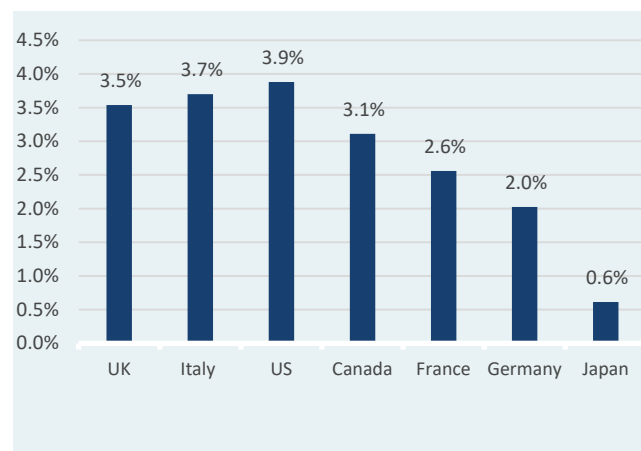


Source: Bloomberg, as of 12/31/23

# Global markets

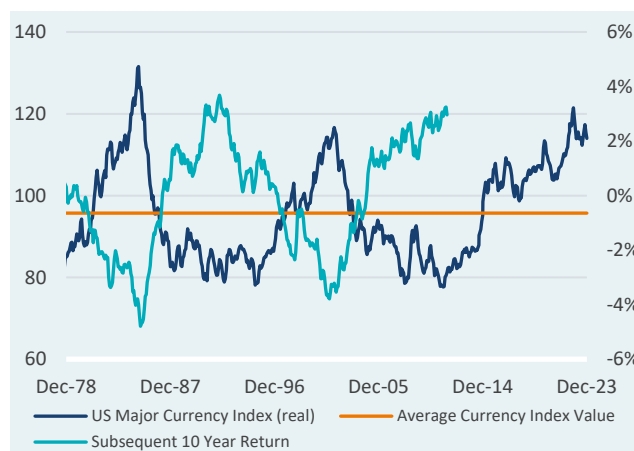
- International equities outperformed the U.S. (MSCI ACWI ex U.S. + 5.0%), amid cooling global inflation and expected easing from central banks. The Fed signaling future rate cuts has led to expectations that other central banks may follow suit.
- European equities slightly underperformed (MSCI Euro +4.4%), as the ECB is expected to be slower than the Fed to cut rates. Economic signals were mixed, as unemployment reached its lowest level since 2000, but manufacturing (Eurozone PMI) ventured further into contractionary territory. Inflation came in at 2.4%, dropping closer to the bank's long-term 2% target.
- China continues to be among the worst performers (MSCI China Index -2.4%), bringing total return on the year down to -11.2%. The outlook is poor, as domestic demand has missed expectations, and the second straight month of deflation was reported in November. Price decreases are potentially responsible for increasing exports, as China has maintained fiscal stimulus.
- The MSCI Latin America Index (+8.3%) continued its strong performance, with Mexico (+9.5%) and Columbia (+13.5%) reacting positively to the prospect of rate cuts around the world, and Brazil (+7.2%) opting to cut rates.

## GLOBAL SOVEREIGN 10-YEAR YIELDS



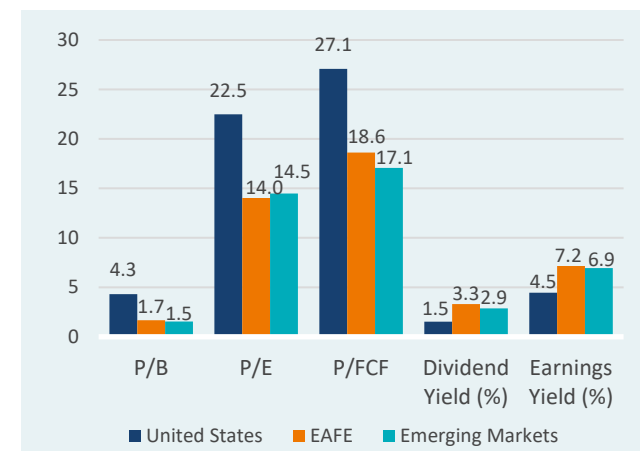
Source: Bloomberg, as of 12/31/23

## U.S. DOLLAR MAJOR CURRENCY INDEX



Source: Federal Reserve, as of 12/31/23

## MSCI VALUATION METRICS (3-MONTH AVG)



Source: Bloomberg, as of 12/31/23

# Commodities

- Commodities were one of the few pain points among asset classes. The Bloomberg Commodity Index ended the month down -2.7% as every sub-index besides Industrial Metals (+4.0%) was negative. Energy (-6.0%) and Petroleum (-4.8%) - which make up a larger weight in broad commodity index - faced pricing pressures and a less certain outlook.
- Natural Gas (-10.3%) was the worst performer in the Energy sub-index (-6.0%). Mild weather and warmer temperatures that were predicted months prior came to fruition. This amplified the existing oversupply dynamics that had been weighing on prices for several months.

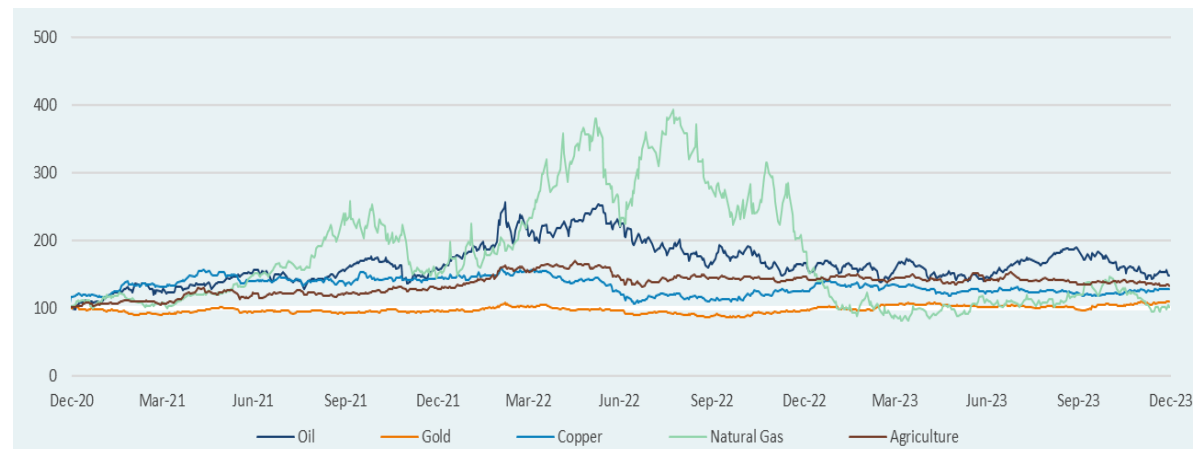
- The Bloomberg Industrial Metals sub-index gained +4.0%. Performance was largely driven by spikes in Aluminum (+8.6%) and Zinc (+6.8%) prices. Copper and Nickel lagged their counterparts, posting +1.0% and -0.3%, respectively.
- The Bloomberg Softs sub-index (-7.5%), which includes sugar, coffee and cotton, was weighed down by a -21% decline in sugar prices. Sugar prices fell on record high production in Brazil which eased supply pressures across the global supply chain. Coffee and cotton posted modest gains of +1.9% and +1.2%, respectively.

## INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	(2.7)	(4.6)	(7.9)	(7.9)	10.8	7.2	(1.1)
Bloomberg Agriculture	(4.4)	(0.3)	(4.4)	(4.4)	11.8	10.6	0.3
Bloomberg Energy	(6.0)	(18.1)	(21.6)	(21.6)	17.5	0.8	(9.4)
Bloomberg Grains	(1.4)	0.9	(13.0)	(13.0)	7.5	7.9	(1.7)
Bloomberg Industrial Metals	4.0	0.2	(9.1)	(9.1)	4.9	7.5	2.0
Bloomberg Livestock	(2.4)	(9.0)	(1.9)	(1.9)	4.6	(3.8)	(3.0)
Bloomberg Petroleum	(4.8)	(15.4)	(0.1)	(0.1)	33.3	13.6	(3.9)
Bloomberg Precious Metals	(0.4)	10.4	9.6	9.6	1.0	8.7	3.8
Bloomberg Softs	(7.5)	(0.3)	18.5	18.5	18.1	12.1	0.7

Source: Morningstar, as of 12/31/23

## COMMODITY PERFORMANCE



Source: Bloomberg, as of 12/31/23



# Appendix

# Periodic table of returns

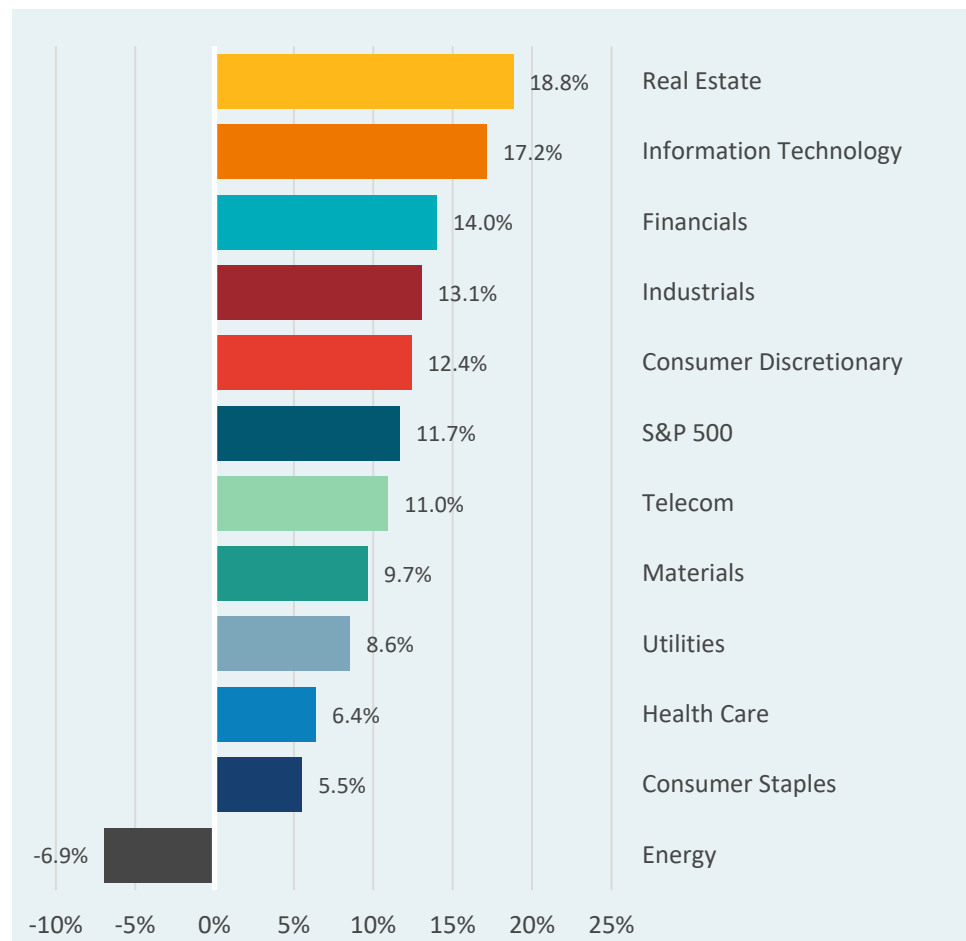
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	YTD	5-Year	10-Year
Large Cap Growth	56.3	26.0	34.5	32.6	39.8	5.2	79.0	29.1	14.3	18.6	43.3	13.5	13.3	31.7	37.3	6.7	36.4	38.5	28.3	16.1	42.7	19.5	14.9
Large Cap Equity	48.5	22.2	21.4	26.9	16.2	1.4	37.2	26.9	7.8	18.1	38.8	13.2	5.7	21.3	30.2	1.9	31.4	34.6	27.6	9.4	26.5	15.5	11.8
Small Cap Growth	47.3	20.7	20.1	23.5	15.8	-6.5	34.5	24.5	2.6	17.9	34.5	13.0	0.9	17.3	25.0	0.0	28.5	21.0	27.1	1.5	18.7	10.9	8.4
International Equity	46.0	18.3	14.0	22.2	11.8	-21.4	32.5	19.2	1.5	17.5	33.5	11.8	0.6	12.1	22.2	-1.5	26.5	20.0	26.5	-4.7	18.2	10.0	7.4
Small Cap Equity	39.2	16.5	7.5	18.4	11.6	-25.9	28.4	16.8	0.4	16.4	33.1	6.0	0.0	11.8	21.7	-3.5	25.5	18.3	25.2	-7.5	16.9	10.0	7.2
60/40 Global Portfolio	30.0	14.5	7.1	16.6	10.9	-28.9	27.2	16.7	0.1	16.3	32.5	5.6	-0.4	11.3	17.1	-4.8	22.4	14.0	17.7	-13.0	15.4	9.2	7.2
Small Cap Value	29.9	14.3	6.3	15.5	10.3	-33.8	23.3	16.1	-2.1	15.3	23.3	4.9	-0.8	11.2	14.6	-6.0	22.0	10.3	14.8	-14.5	14.6	8.2	6.8
Large Cap Value	29.7	12.9	5.3	15.1	7.0	-35.6	20.6	15.5	-2.9	14.6	12.1	4.2	-1.4	8.0	13.7	-8.3	18.6	7.8	11.3	-14.5	11.5	7.2	5.1
Emerging Markets Equity	25.2	11.4	4.7	13.3	7.0	-36.8	19.7	13.1	-4.2	11.5	11.0	3.4	-2.5	7.1	7.8	-9.3	18.4	7.5	8.9	-17.3	9.8	7.0	4.3
Hedge Funds of Funds	23.9	9.1	4.6	10.4	5.8	-37.6	18.9	10.2	-5.5	10.5	9.0	2.8	-3.8	5.7	7.7	-11.0	8.7	4.6	6.5	-19.1	6.3	5.3	3.3
US Bonds	11.6	6.9	4.6	9.1	4.4	-38.4	11.5	8.2	-5.7	4.8	0.1	0.0	-4.4	2.6	7.0	-11.2	7.8	2.8	2.8	-20.1	5.5	5.1	2.7
Cash	9.0	6.3	4.2	4.8	-0.2	-38.5	5.9	6.5	-11.7	4.2	-2.0	-1.8	-7.5	1.0	3.5	-12.9	7.7	0.5	0.0	-20.4	5.0	3.7	1.8
Real Estate	4.1	4.3	3.2	4.3	-1.6	-43.1	0.2	5.7	-13.3	0.1	-2.3	-4.5	-14.9	0.5	1.7	-13.8	6.4	0.5	-1.5	-26.4	-5.1	1.8	1.2
Commodities	1.0	1.4	2.4	2.1	-9.8	-53.2	-16.9	0.1	-18.2	-1.1	-9.5	-17.0	-24.7	0.3	0.9	-14.6	2.1	-3.1	-2.5	-29.1	-7.9	1.1	-1.1



Source Data: Morningstar, Inc., Hedge Fund Research, Inc. (HFR), National Council of Real Estate Investment Fiduciaries (NCREIF). Indices used: Russell 1000, Russell 1000 Value, Russell 1000 Growth, Russell 2000, Russell 2000 Value, Russell 2000 Growth, MSCI EAFE, MSCI EM, Bloomberg US Aggregate, T-Bill 90 Day, Bloomberg Commodity, NCREIF Property, HFRI FOF, MSCI ACWI, Bloomberg Global Bond. NCREIF Property Index performance data as of 9/30/23.

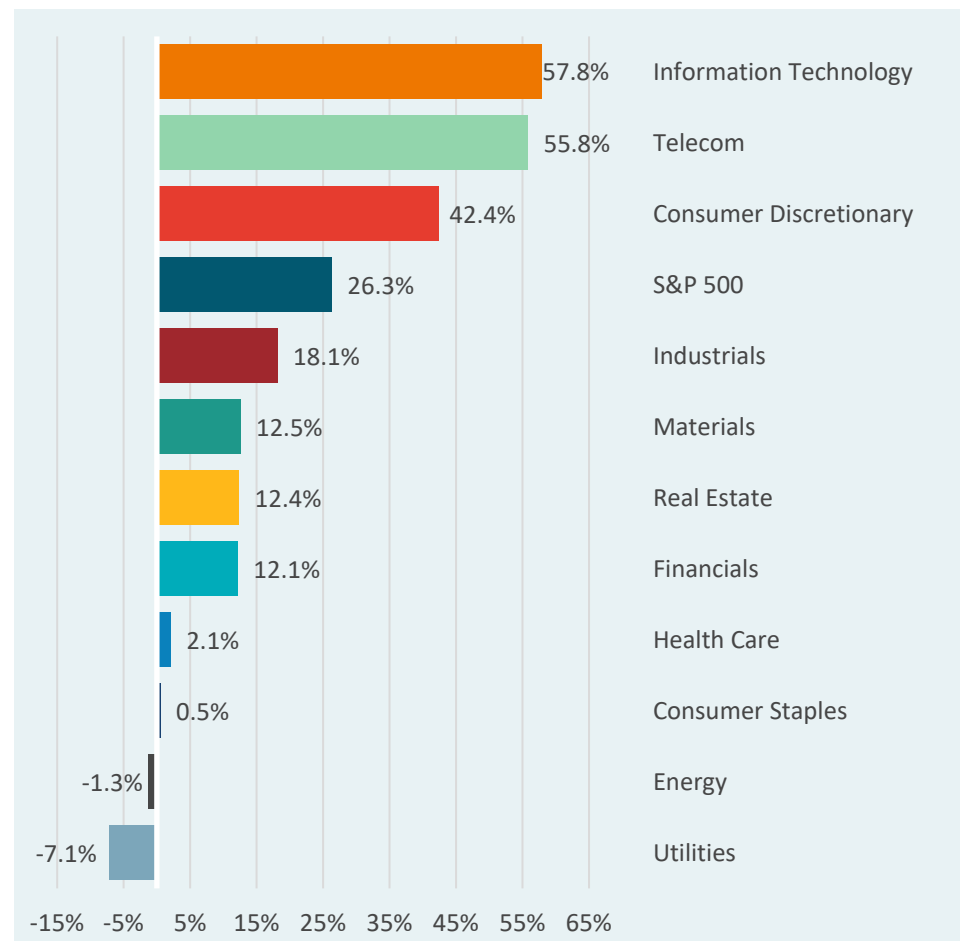
# S&P 500 sector returns

QTD



Source: Morningstar, as of 12/31/23

ONE YEAR ENDING DECEMBER



Source: Morningstar, as of 12/31/23

# Detailed index returns

## DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Core Index</b>							
S&P 500	4.5	11.7	26.3	26.3	10.0	15.7	12.0
S&P 500 Equal Weighted	6.9	11.9	13.9	13.9	9.3	13.8	10.4
DJ Industrial Average	4.9	13.1	16.2	16.2	9.4	12.5	11.1
Russell Top 200	4.1	11.7	29.9	29.9	10.0	16.5	12.7
Russell 1000	4.9	12.0	26.5	26.5	9.0	15.5	11.8
Russell 2000	12.2	14.0	16.9	16.9	2.2	10.0	7.2
Russell 3000	5.3	12.1	26.0	26.0	8.5	15.2	11.5
Russell Mid Cap	7.7	12.8	17.2	17.2	5.9	12.7	9.4
<b>Style Index</b>							
Russell 1000 Growth	4.4	14.2	42.7	42.7	8.9	19.5	14.9
Russell 1000 Value	5.5	9.5	11.5	11.5	8.9	10.9	8.4
Russell 2000 Growth	12.0	12.7	18.7	18.7	(3.5)	9.2	7.2
Russell 2000 Value	12.4	15.3	14.6	14.6	7.9	10.0	6.8

## INTERNATIONAL EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Broad Index</b>							
MSCI ACWI	4.8	11.0	22.2	22.2	5.7	11.7	7.9
MSCI ACWI ex US	5.0	9.8	15.6	15.6	1.5	7.1	3.8
MSCI EAFE	5.3	10.4	18.2	18.2	4.0	8.2	4.3
MSCI EM	3.9	7.9	9.8	9.8	(5.1)	3.7	2.7
MSCI EAFE Small Cap	7.3	11.1	13.2	13.2	(0.7)	6.6	4.8
<b>Style Index</b>							
MSCI EAFE Growth	5.7	12.7	17.6	17.6	0.3	8.8	5.1
MSCI EAFE Value	4.9	8.2	19.0	19.0	7.6	7.1	3.2
<b>Regional Index</b>							
MSCI UK	4.5	6.9	14.1	14.1	8.8	6.9	2.5
MSCI Japan	4.4	8.2	20.3	20.3	0.7	6.9	5.0
MSCI Euro	4.4	12.9	25.2	25.2	6.0	9.3	4.1
MSCI EM Asia	3.3	6.7	7.8	7.8	(6.9)	4.3	4.1
MSCI EM Latin American	8.3	17.6	32.7	32.7	9.9	6.1	2.1

## FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Broad Index</b>							
Bloomberg US TIPS	2.7	4.7	3.9	3.9	(1.0)	3.2	2.4
Bloomberg US Treasury Bills	0.5	1.4	5.1	5.1	2.1	1.9	1.3
Bloomberg US Agg Bond	3.8	6.8	5.5	5.5	(3.3)	1.1	1.8
Bloomberg US Universal	3.8	6.8	6.2	6.2	(3.0)	1.4	2.1
<b>Duration</b>							
Bloomberg US Treasury 1-3 Yr	1.2	2.6	4.3	4.3	(0.1)	1.3	1.0
Bloomberg US Treasury Long	8.6	12.7	3.1	3.1	(11.4)	(1.2)	2.3
Bloomberg US Treasury	3.4	5.7	4.1	4.1	(3.8)	0.5	1.3
<b>Issuer</b>							
Bloomberg US MBS	4.3	7.5	5.0	5.0	(2.9)	0.3	1.4
Bloomberg US Corp. High Yield	3.7	7.2	13.4	13.4	2.0	5.4	4.6
Bloomberg US Agency Interm	1.6	3.2	4.9	4.9	(1.1)	1.1	1.2
Bloomberg US Credit	4.2	8.2	8.2	8.2	(3.2)	2.4	2.8
<b>OTHER</b>							
<b>Index</b>							
Bloomberg Commodity	(2.7)	(4.6)	(7.9)	(7.9)	10.8	7.2	(1.1)
Wilshire US REIT	10.2	16.3	16.1	16.1	7.5	7.6	7.7
CS Leveraged Loans	1.6	2.9	13.0	13.0	5.6	5.6	4.4
S&P Global Infrastructure	4.2	10.9	6.8	6.8	6.0	7.4	5.7
Alerian MLP	(3.4)	3.0	23.8	23.8	31.8	10.9	1.6
<b>Regional Index</b>							
JPM EMBI Global Div	4.7	9.2	11.1	11.1	(3.6)	1.7	3.2
JPM GBI-EM Global Div	3.2	8.1	12.7	12.7	(3.2)	1.1	0.1
<b>Hedge Funds</b>							
HFRI Composite	2.6	3.6	7.5	7.5	4.3	7.0	4.5
HFRI FOF Composite	2.3	3.4	6.3	6.3	2.3	5.1	3.3
<b>Currency (Spot)</b>							
Euro	1.2	4.3	3.5	3.5	(3.4)	(0.7)	(2.2)
Pound Sterling	0.7	4.4	6.0	6.0	(2.3)	0.0	(2.6)
Yen	4.9	5.9	(6.4)	(6.4)	(9.9)	(4.9)	(2.9)

Source: Morningstar, HFRI, as of 12/31/23



# Detailed private market returns

## Comparison to public market index returns

Private Equity Pooled IRRs	1 Year	3 Year	5 Year	10 Year
Global Private Equity FoFs & Secondary Funds	(2.2)	21.4	15.3	13.9
<i>MSCI World Index (PME)</i>	18.7	12.8	9.3	9.8
Global Private Equity Direct Funds <sup>1</sup>	2.2	20.1	16.4	15.8
<i>MSCI World Index (PME)</i>	19.0	12.0	9.2	9.7
U.S. Private Equity Direct Funds <sup>1</sup>	2.0	22.4	18.3	17.2
<i>Russell 3000 Index (PME)</i>	19.5	13.8	11.5	12.6
Europe Private Equity Direct Funds <sup>1</sup>	7.6	20.2	15.8	14.6
<i>MSCI Europe Index (PME)</i>	22.4	10.2	5.8	6.3
Asia Private Equity Direct Funds <sup>1,4</sup>	(1.3)	10.1	9.2	12.8
<i>MSCI AC Asia Pacific Index (PME)</i>	6.3	3.0	2.0	4.4

Private Credit Pooled IRRs	1 Year	3 Year	5 Year	10 Year
U.S. All Private Debt <sup>2,4</sup>	7.1	18.0	12.2	11.3
<i>Morningstar LSTA U.S. Leveraged Loan 100 Index (PME)</i>	11.8	5.4	4.2	3.9

Private Real Estate Pooled IRRs	1 Year	3 Year	5 Year	10 Year
U.S. All Private Real Estate	(2.3)	14.1	9.7	12.0
<i>FTSE NAREIT Equity REIT Index (PME)</i>	0.4	10.3	5.4	7.4

Private Real Assets Pooled IRRs	1 Year	3 Year	5 Year	10 Year
Global Nature Resources <sup>3,4</sup>	5.9	21.0	4.3	3.6
<i>S&amp;P Global Natural Resources Index (PME)</i>	7.9	19.7	5.4	6.0
Global Infrastructure <sup>4</sup>	8.3	12.8	10.6	10.9
<i>S&amp;P Global Infrastructure Index (PME)</i>	4.5	9.9	5.5	6.4

Source: Pooled IRRs and Public Market Equivalents (PMEs) are both from Refinitiv C/A, as of June 30<sup>th</sup>, 2023. All returns in U.S. dollars.

1. Includes Buyout, Growth Equity and Venture Capital.

2. Includes Control-Oriented Distressed, Credit Opportunities, Senior Debt and Subordinated Capital.

3. Includes Private Equity Energy, Timber and Upstream Energy & Royalties.

4. Due to limited history of the PME, only the funds with the same vintage years as PMEs are included.

# Notices & disclosures

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