MAIN
MANAGEMENT, LLC

Q4 2023 – MAIN MANAGEMENT MARKET RECAP

ASSET CLASS RETURNS	Q4 '23	2023
US EQUITY	11.7	26.3
FOREIGN DEVELOPED EQUITY	10.5	18.9
EMERGING MARKET EQUITY	7.9	10.3
FIXED INCOME	6.8	5.5
COMMODITIES	-10.9	-5.3

SECTOR	Q4 '23	2023
REAL ESTATE	18.8	12.4
INFO TECH	17.2	57.8
FINANCIALS	14.0	12.2
INDUSTRIALS	13.1	18.1
CONS DISCRET	12.4	42.4
COMM SVCS	11.0	55.8
MATERIALS	9.7	12.6
UTILITIES	8.6	-7.1
HEALTHCARE	6.4	2.1
CONS STAPLES	5.5	0.5
ENERGY	-6.9	-1.3

As we exit 2023, we reflect upon the remarkable progress that's occurred during this period. A year ago, the prevailing view was that a recession was imminent, and that the Fed's aggressive rate hike cycle would likely be at the root of it. And yet that did not come to pass - not even close. We survived the SVB/regional bank crisis in March, which thankfully remained contained, and even with 3 more rate hikes from the Fed, managed to post a strong 5% GDP reading in Q3, with Q4 forecasted to come in between 2% and 3%. The war against inflation appears to be behind us, with the October/November inflation data coming in mostly below expectations as Headline CPI fell to 3.1% (remember it was 6.4% a year ago). As a result, markets appear to be pricing in multiple rate cuts in 2024 as inflation is expected to continue to grind lower, allowing the Fed to ease with less fear of inflation returning. The labor market has remained solid, with no material signs of deterioration. That continued strength really allowed the Fed to normalize rates without excessively worrying about the collateral impacts. In past years the Fed has at times gone beyond "normal" with a significant economic impact being the result.

The slowing pace of rate hikes transitioning to forecasted rate cuts favored a risk-on environment for equities, reflected by the massive gain of around 45% in the tech-heavy Nasdaq. The S&P 500 was up over 26% as it doesn't have the same concentration as the Nasdaq, and this was a big story throughout the year – the concentration of gains among a few stocks. For the S&P 500, the top 7-8 mega-cap Tech names were responsible for the vast majority of the strong performance while the remaining 490+ names were up single digits on aggregate. Being diversified was a penalty this year, as evidenced by the equal-weight S&P 500 (RSP) being up "only" 13.6%. The good news is that we have started to see some broadening out of performance gains over the last few months, which bodes well heading into 2024.

Among broad equity markets, the U.S. led the way, outperforming both broad Developed Markets and Emerging Markets alike. Emerging Markets were adversely affected by China and its ongoing real estate crisis, which, for the time being, appears relatively contained. Fixed income markets rebounded from their atrocious 2022, aided by the end of the Fed rate hike cycle. Initially, it appeared as though the Bloomberg U.S. Aggregate Bond Index ("Agg") was on track for another negative year until late in 2023, when the 10yr Treasury yield peaked at 5% in mid-October before retreating back below 4% by the end of the year, providing a tailwind for bonds. As we mentioned earlier, markets seem to be pricing in multiple rate cuts for 2024, which would likely be a favorable backdrop for fixed income.

Moving into 2024, the economic backdrop appears more favorable than it was a year ago. Inflation is down. The labor market is normalizing and has yet to show any major cracks. Equity markets have seen a broadening in performance, which generally portends well for future returns. The S&P 500 EPS consensus growth forecast is around 11%, which is robust. We have increasing productivity and continued real wage gains which are good for the US consumer. Our price target for the S&P 500 is around 5,100, which would be a 9% total return for the year. For some perspective, the median strategist has a target of 4,970 while the three most accurate strategists from last year have an average target of 5,167 for 2024. Still, we are now closer to the next recession than we were last year, so we remain on the lookout for possible pitfalls along the way. Potential headwinds include the Fed's forecast of 3 rate cuts in 2024 versus Fed Funds Futures pricing in 6 cuts. Continued government disfunction is also a concern, as Washington has a big spending problem and with the election in November, we will likely have some volatility before we see new highs. We would also remind investors that time in the market is what matters most, not timing the market. Here at Main Management, we firmly believe that our investors should keep more of their returns. We hope that you and your loved ones are healthy and safe and please let us know if we can answer any questions that you may have.

Sincerely,

Kim David Arthur

CEO and Portfolio Manager