



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



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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

Performance Data from Morningstar Direct and FactSet Financial Data and Analytics, and the following indices: Commodities – S&P GSCI TR USD, US Equity – S&P 500 TR USD, Fixed Income – Bloomberg US Agg Bond TR USD, Foreign Developed Equity – MSCI EAFE GR USD, Emerging Market Equity – MSCI EM GR USD, Communication Services – S&P 500 Sec/Commun Services TR USD, Cons Discret – S&P 500 Sec/Cons Disc TR USD, Cons Staples – S&P 500 Sec/Cons Staples TR USD, Energy – S&P 500 Sec/Energy TR USD, Financials – S&P 500 Sec/Financials TR USD, Healthcare – S&P 500 Sec/Healthcare TR USD, Industrials – S&P 500 Sec/Industrials TR USD, Info Tech – S&P 500 Sec/Information Technology TR USD, Materials – S&P 500 Sec/Materials TR USD, Real Estate – S&P 500 Sec/Real Estate TR USD, Utilities – S&P 500 Sec/Utilities TR USD. Main Management, LLC (“Main Management”, or the “firm”) is an investment adviser registered under the Investment Advisers Act of 1940. The firm was founded in 2002 and provides investment management services primarily to high net worth, family groups, foundations/endowments, and serves as a sub-advisor to third-party investment advisors & broker-dealers. The information contained herein was prepared using sources that the firm believes are reliable, but the firm does not guarantee its accuracy. The information reflects subjective judgments, assumptions and the firm's opinion on the date made and may change without notice. The firm is not obligated to update this information. Nothing herein should be construed as investment advice or a recommendation to purchase or sell securities. The information is not intended as an offer to provide advisory services in any state or jurisdiction where such offer would not be permitted under applicable registration requirements. All equity investing entails risk of loss. The firm cannot assure any potential client that it will achieve the investment objectives discussed in these materials. In addition, potential clients should not assume that their returns, if any, will be comparable to returns that the firm earned in the past. The firm and its clients, affiliates and employees may, from time to time, have long or short positions in, and buy or sell, the securities or derivatives (including options) thereof, of the ETFs mentioned in these materials and may increase or decrease their positions. Upon request, Main Management will furnish additional information regarding the firm's policies for calculating and reporting returns. Past performance does not guarantee future results. Indices are unmanaged and do not take transaction costs or fees into consideration. It is not possible to invest directly in an Index. Performance figures assume reinvestment of dividends and capital gains.