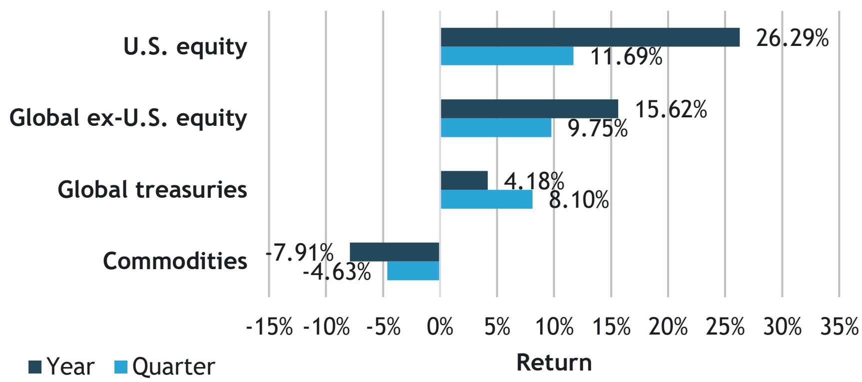
FOURTH QUARTER 2023

SEI Forward.

James Smigiel
Chief investment officer

2023 went out on a high note as the global central bank interest-rate tightening cycle was seemingly brought to a close with a dovish pivot from the U.S. Federal Reserve (Fed) and interest rate hike pauses from the European Central Bank and the Bank of England. The market was quick to celebrate as risk assets rallied, yields fell and financial conditions eased substantially. This latest move higher is a fitting end to a wild year that witnessed aggressive monetary policy tightening through mid-year, a legitimate banking crisis, continued weakness in China, conflict in the Middle East and, most recently, the re-routing of global shipping lanes and heightened tension in the Red Sea. Despite that laundry lists of headwinds, global equities delivered solid returns, with the U.S. as a clear standout. A fever pitch of excitement over artificial intelligence and high expectations for interest rate cuts in 2024 were the key drivers of market performance.

Tales of the tape



Fourth quarter and 2023 notables

	U.S. tech sector	Equal weight S&P 500	U.S. small cap stocks	Gold	Bitcoin
Quarter	17.17%	11.87%	14.03%	9.89%	52.72%
Year	57.84%	13.87%	16.93%	7.14%	158.44%

Outlook: A healthy dose of skepticism

In many ways, we begin 2024 the same way we began 2023…*with skepticism*. Oh, let us count the ways! We remain skeptical that:

- Inflation will return to target levels, or below, in a sustainable way.
- Central banks will meaningfully cut interest rates in 2024—and even more skeptical that they will start cutting in March.
- Earnings will support lofty valuations, particularly with the largest of the large capitalization stocks.
- The potential trajectory of interest rates is anything but symmetrical—we see an equal possibility that rates rise.

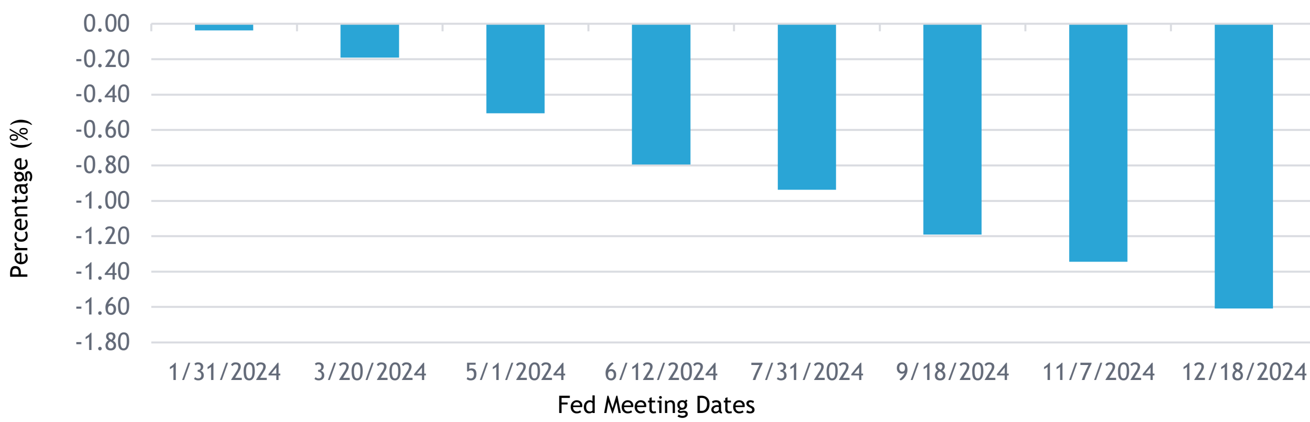
Much of our skepticism is a reaction to what appears to be the extreme confidence of the market itself:

- Equities are not just expected to deliver earnings growth in 2024 but double digit earnings growth.
- The Fed is expected to not just cut interest rates but to double the level of cuts projected by the policy makers themselves.
- Even more interesting is that these two scenarios are priced in simultaneously, which suggests the Central Bank will carry out multiple "normalization cuts" in reaction to falling inflation as opposed to "stimulus cuts" in reaction to a slowing economy.

Unrealistic expectations

The U.S. Fed projecting three 25-basis point reductions. Traders in the futures market are pricing in six (1.50%) of cuts in the federal-funds rate by the end of 2024, as shown below.

Market expectations for federal reserve policy action (cumulative) 2024



OIS Curve, Source: Bloomberg

Somehow the "soft landing" label doesn't quite capture the market's expectations for 2024, which appears closer to perfection. Essentially, we are taking the other side of the perfection trade. We expect to see rate cuts more in line with the Fed's projection than the market's expectations.

The equity rally into year-end may have legs into early 2024; however, we are more focused on *diversity than directionality*. The well documented outperformance of the "Magnificent 7" tech stocks relative to the broader market in 2023 failed to reappear in the fourth quarter even as interest rates declined. We see that trend continuing in 2024, as tech stock multiples look rich and vulnerable. Accordingly, we prefer a more diversified posture across equity exposure, including individual stocks, sectors and geographies.

The factor view: Quality, momentum, and value

Our core approach of favoring high **quality** companies with positive earnings **momentum** at reasonable **values** remains intact. We expect to emphasize value a bit more in 2024 based on historically wide spreads (the relative attractiveness of stocks representing high and low measures of value) and what we see as a supportive macro environment for the coming year. This includes our expectations for a market-disappointing number of developed market Central Bank rate cuts and elevated stock valuations, which can cause even strong earnings to disappoint market participants. Our factor exposures and manager stock selection currently leaves our portfolios leaning into financials and materials (given our preference for value), consumer discretionary (given our momentum and quality exposures), and consumer staples (from our low-volatility positioning).

What we're watching

Outside of North America and Europe, one of the potentially big events of 2024 may be policy reversal from the Bank of Japan and the strengthening of the Japanese yen. Japanese policy makers have thus far resisted the pull of high inflation, refusing to abandon the zero bound (the policy interest rate has been below 0 for six years). We believe that will change early in 2024. This should result in a stronger currency, which may serve to increase volatility in the New Year as the cheap Japanese financing and carry trades start to unwind.

China was a disappointment throughout 2023, as the economy struggled under the weight of a bursting property bubble, equities continued to underperform, and stimulus measures failed to materialize. Despite relatively attractive valuations, we remain patiently underweight.

Regarding fixed income, interest rate volatility remains extremely high as developed market 10-year yields fell roughly 100 basis points from their October highs on perceived dovish turns from policy makers (particularly in the U.S.) Our top-down view has us shunning duration risk as we see the rally in yields as overdone based on our expectation that inflation will not settle below target for long and central bankers will not deliver on the expected number of rate cuts. In addition, we see basic supply and demand as being an underappreciated negative for the coming year. In short, deficits are rising despite the broadly positive economic performance of 2023 and debt issuance in 2024 will be heavy. We see more sellers than buyers as central bank are diversifying their holdings and the fourth-quarter rate rally (prices rose and interest rates fell) may have dampened investor's appetites. From a bottom-up perspective, the interest-rate positioning in our portfolios remains modest and mixed around at index-like levels.

Credit markets look somewhat vulnerable in 2024 as yield spreads remain tight and early warning signs are appearing in the form of rising default levels. Our investment-grade portfolios remain defensively positioned by favoring the securitized sectors over corporate exposures. Our high-yield portfolios also maintain a somewhat defensive posture and continued to shed CCC rated issuers into the year-end rally.

Lastly, we maintain our favorable view of commodities on heightened geo-political risks, OPEC cuts and positive economic growth in the short term along with higher average inflation and the effects of structural underinvestment over the longer term.

In closing, we would like to wish everyone a healthy and happy 2024.

Summary views

Macro/Cross-asset	• Inflation will remain higher than expected, driven by services and wages. • Monetary policy will disappoint investors, with the Fed delivering only a few rate cuts. • A plentiful supply of government bonds will put upward pressure on interest rates. • The BOJ will finally raise rates to stem inflation; A yen rally will induces foreign exchange volatility. • Commodities rebound in 2024 on the strength of economic growth momentum in the first half of the year.
Equity	• We emphasize diversity in equity positions; issuer, sector, and geography. • Strategic holdings in value, quality, momentum, and low volatility are in place. • We anticipate slightly increasing our value exposures relative to 2023. • The sector focus in our portfolios reflects our factor exposures. Broadly, it includes financials and materials (value), discretionary (momentum and quality) and staples (low volatility) • Remain patiently underweight China.
Fixed income	• We see an equal probability for higher interest rates in 2024, leading us to avoid long duration positioning. • Securitized sectors remain a favored (higher-quality) position relative to corporates.

Indexes

U.S. equity=S&P 500 Index, Global ex-U.S. equity=MSCI ACWI ex-U.S. Index, Global treasuries=Bloomberg Global Treasury Index, Commodities=Bloomberg Commodity Index, U.S. tech sector=S&P 500 Information Technology Sector Index, Equal weight S&P 500=S&P 500 Equal Weight Index, U.S. small cap stocks=Russell 2000 Index, Gold=Bloomberg Gold Index, Bitcoin=Coinbase Bitcoin.

Glossary

A **basis point** equals .01%.

Dovish refers to the views of a monetary policy advisor (for example, at a central bank) who has a positive view of inflation and its economic impact and thus tends to favor lower interest rates.

Momentum is a trend-following investment strategy that is based on acquiring assets with recent improvement in their price, earnings, or other relevant fundamentals

OPEC (Organization of the Petroleum Exporting Countries) is a group of 13 of the world's major oil-exporting nations seeking to manage the supply of oil in an effort to set the price of oil on the world market.

Quality comprises a long-term buy-and-hold strategy that is based on acquiring shares of companies with strong and stable profitability with high barriers of entry (factors that can prevent or impede newcomers into a market or industry sector, thereby limiting competition).

Risk assets, such as equities, commodities, high-yield bonds, real estate, and currencies, carry a degree of risk and generally are subject to significant price volatility.

Value is an investment strategy that is based on acquiring assets at a discount to their fair valuations. Mean reversion is a theory that prices and returns eventually move back towards their historical average.

Value stocks are considered to be cheap and trade at lower prices relative to their fundamentals, such as dividends, earnings and sales.

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