WESCOTT
FINANCIAL ADVISORY GROUP LLC

First Quarter 2024
Economic and Market Outlook

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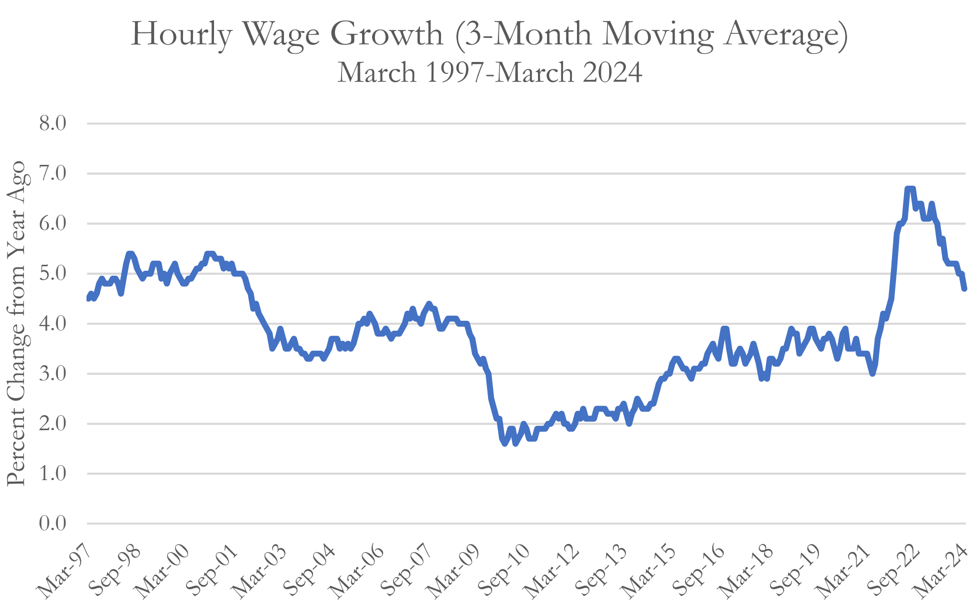
FIRST QUARTER 2024 ECONOMIC OUTLOOK

Expectations that the Federal Reserve would aggressively cut rates as inflation pressures eased drove the stock market higher over the last six months. Although, that outlook began to change by the end of the first quarter 2024. A series of stronger than expected inflation reports challenged the prevailing view and essentially pushed back the timing for any rate cuts until later in the year. As a result, bond markets weakened anew in the first quarter and the benchmark 10-Year Treasury bond yield rose above 4.5% (yields rise as bond prices fall).

A "higher-for-longer" interest rate environment was not priced into markets at the beginning of the year. Thus, hopes for the elusive "soft landing", where inflation returns to trend and the economy remains at full employment, are beginning to fade. *Essentially, the U.S. economy continues to run at full capacity despite the rapid increase in borrowing costs since June of 2022.* Many existing homeowners locked in low fixed-rate mortgage rates when borrowing costs were low. Also, most large companies took advantage of the decade long near zero interest rate environment to restructure their debt. As a result, it seems the Federal Reserve's monetary policy has had less of an impact on consumption and capital expenditure than in the past.

That being said, there are signs that the hot U.S. labor market is beginning to cool. Wage growth is moderating as shown in **Figure 1**, with fewer employees quitting and the number of job openings falling. Each of these suggest that consumer confidence and therefore consumption may slowing.

Figure 1: The Labor Market Remains Strong, but Wage Growth is Moderating



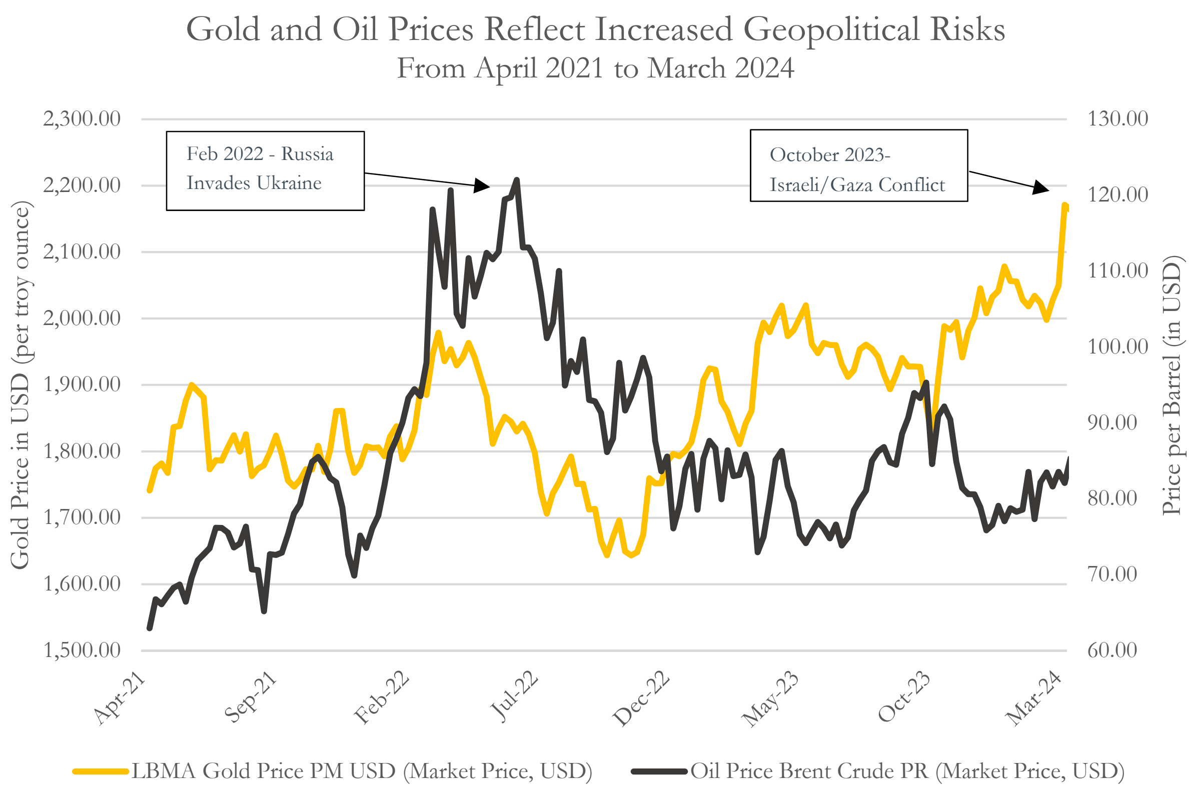
Source: Federal Reserve Bank of Atlanta, 3-Month Moving Average of Unweighted Median Hourly Wage Growth: Overall [FRBATLWGT3MMAUMHWGO], retrieved from FRED, Federal Reserve Bank of St. Louis; FRBATLWGT3MMAUMHWGO, April 10, 2024. Median of the year-over-year percent change in hourly wage rates computed at the individual level using linked wage records. Reported as a 3-month moving average.

GEOPOLITICAL RISKS ARE RISING

In addition to the inflation and interest rate dynamics of the domestic economy, increased geopolitical risks have the potential to negatively impact markets as well. Tensions in the Middle East have escalated, particularly with Iran's potential direct involvement in the conflict beyond its proxies of Hamas in Gaza, Hezbollah in Lebanon and the Houthis in the Red Sea.

Oil and gold prices have been rising of late and reflect, among other factors, the increasing geopolitical risk premium being priced into markets.

Figure 2: Rising Geopolitical Risks Impact Gold and Oil Markets



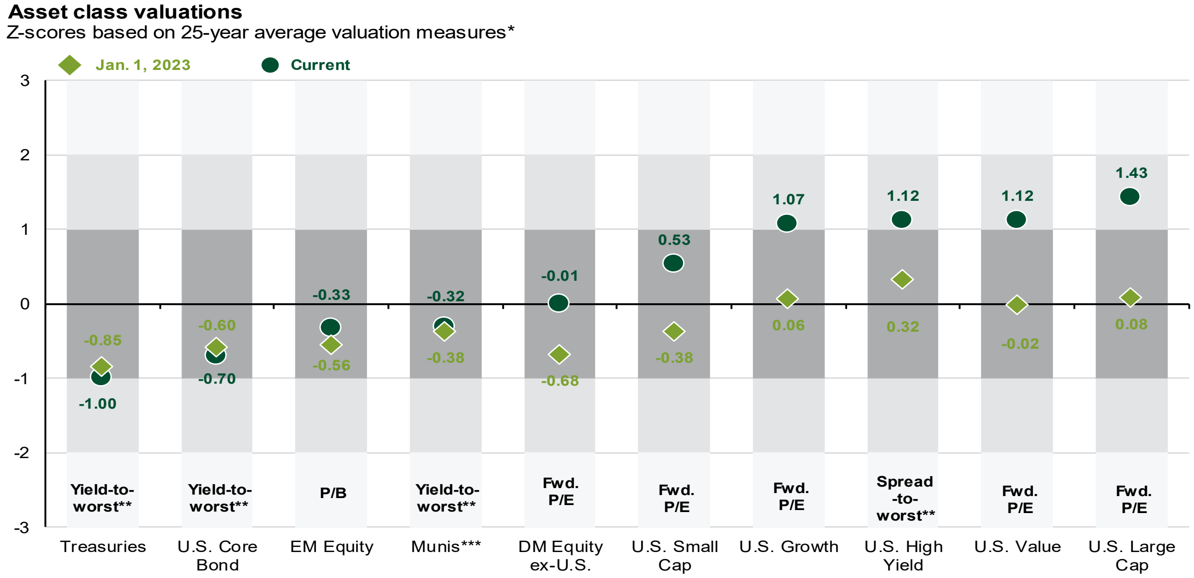
Source: Morningstar Direct. As of March 31, 2024. Past Performance is Not a Guarantee of Future Performance

By their nature, geopolitical risks are unpredictable and can be disruptive to markets. The Duane Morris Asset Allocation Model Portfolios include asset classes and strategies that have defensive characteristics, such as short and intermediate-term investment grade bonds, treasuries, along with utilities stocks and gold, via the funds and managers to which we allocate. In addition, portfolios have exposure to oil via a broadly diversified allocation to the energy sector. While these sectors have been "out of favor" recently given the technology rally, they play an important balancing role in diversified portfolios.

GLOBAL MARKETS VALUATIONS AT A GLANCE

We have included an updated chart (**Figure 3**) that shows how a variety of asset classes are priced relative to their own histories and relative to each other. The asset classes on the left side of the chart are those that are trading cheaper than their long-term averages, while those on the right side of the chart are trading at the higher end of their historical range. *It is not a surprise, given the strength of the U.S. technology sector, that U.S. growth and U.S. large cap stocks are among the most expensive asset classes relative to small cap, international and emerging markets.* Treasuries and investment grade bonds remain attractively valued given their historically high yields and potential for price appreciation in the event of interest rate cuts. The chart also shows how these asset classes compare to where they were at the start of 2023.

Figure 3: A Look at Valuations Across Multiple Asset Classes - Updated



*Source: J.P. Morgan Asset Management., Bloomberg, BLS, CME, FactSet, MSCI, Russell, Standard & Poor's, U.S. Large Cap: S&P 500, U.S. Small Cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, U.S. Value: Russell 1000 Value, U.S. Growth: Russell 1000 Growth, U.S. High Yield: J.P. Morgan Domestic High Yield Index, U.S. Core Bond: Bloomberg US Aggregate, Treasuries: Bloomberg U.S. Aggregate Government – Treasury, Munis: Bloomberg Municipal Bond. *Averages for U.S. High Yield and U.S. Small Cap are since January 1999 and November 1998, respectively, due to limited data availability. **Yield-to-worst and spread-to-worst are inversely related to fixed income prices. ***Munis yield-to-worst is based on the tax-equivalent yield-to-worst assuming a top-income tax bracket rate of 37% plus a Medicare tax rate of 3.8%. Guide to the Markets – U.S. Data are as of March 31, 2024.*

OUR OUTLOOK

The decline in headline inflation in the U.S. has stalled at a level higher than the Federal Reserve would prefer. However, underlying components of the inflation index show signs of weakening and could result in the resumption of the recent disinflationary trend later this year. We have seen the equity market broaden and expect it will continue as economic, geopolitical and market forces shift. Bonds provide diversification benefits to stocks and are offering attractive yields today. They play an important role in portfolios given pockets of lofty valuations, higher borrowing costs, sticky inflation and rising political and geopolitical risks. **All of these introduce more uncertainty into the outlook, which supports having a diversified portfolio given how quickly leadership can change.**

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