Grant Street Asset Management, Inc.

INVESTMENT ADVISORS

GRANT STREET ASSET MANAGEMENT, INC.
QUARTERLY LETTER
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The momentum that led the markets to a stellar finish in 2023, continued through the first three months of 2024. Macroeconomic data remains mostly positive amid the highest interest rate environment in over two decades. Over the last twelve months, investors have been heavily focused on the movement of The Federal Reserve Bank ("The Fed"). Initially, investors were seeking a pause in The Fed's rate hikes. Once that became a reality, all eyes were focused on timing of rate cuts. In January, investors were anticipating a handful of rate cuts through 2024, starting in March. However, as March came and went, the consensus shifted to potentially three rate cuts, with the first one coming in June or July. Most recently these expectations have also come into question due to a persistently solid economy. Although that means higher rates for a while longer, we are also pleased with the strength and stability of the economy following such an aggressive rate-hiking campaign.

The Fed Funds rate now sits at 5.25-5.50%, a range in which The Fed has held steady since June 2023. The Fed Funds rate influences all other market interest rates, from U.S. Treasury bonds to mortgages and car loans. Typically, higher interest rates suppress borrowing for consumers and businesses, which in turn reduces spending and demand. The goal of this suppression is to slow economic growth and therefore slow inflation. Despite the high interest rate environment, consumers and businesses have continued to perpetuate economic growth, all while inflation eased. The Grant Street investment committee continues to observe positive readings among many macroeconomic sub-components, including the following highlights:

- The Leading Economic Index measures ten underlying indicators that provide forward-looking insight as to where the economy is heading. The LEI declined for all of 2023, even as the stock market posted double-digit returns. The weakness was primarily driven by a manufacturing recession, as manufacturing makes up over 25% of this index. In February, the monthly LEI reading increased for the first time in nearly two years, and manufacturing hours worked and new orders of consumer and capital goods showed signs of life.
- Year-over-year inflation measurements have continued to trend downward from the highpoints reached in 2022. The most recent headline Consumer-Price-Index (CPI) reading of 3.2% shows that the pace of inflation has slowed by nearly 50% from one year ago, when the February 2023 reading came in at 6.0%. There is still work to be done in the eyes of The Fed to revert the pace of inflation back to their 2% target. The remaining percentage point may prove to be the most difficult for The Fed, and they remain dependent on economic data to inform their decision-making process regarding the Fed Funds rate.
- The U.S. labor market continues to be a bright spot as well. Although the unemployment rate for February ticked up to 3.9%, it remains below 4% for the 25th consecutive month. Job openings remain elevated from pre-Covid levels, and there are still more job openings than there are available workers to fill those vacancies. The number of job openings has been reduced over the last twelve months, but this is viewed as a positive because the reduction has taken pressure off wage growth and helped in the battle against inflation.

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- Although retail spending has been somewhat stagnant over the last year, after accounting for inflation, it has remained consistently positive. Spending continues to be devoted to experiences (concerts, cruises, restaurants, etc.) instead of material goods. The most expensive area for consumers is shelter expense. For many who have been enjoying low fixed-rate mortgages, the recent increase in shelter expense is not a burden. It is potential new homeowners and those that must make a move that are most affected. Home prices for existing homes have steadily increased over the past year due to the lack of supply, making a move or new purchase more expensive. The positive twist to this price increase is that homeowners have also benefited from the appreciation.

A glimmer of recovery in manufacturing, controlled inflation, a stable labor market and a consumer that is holding its own in a world of higher prices are all good signs for the economy and investors over the near term.

Another significant 2024 event on the horizon is the upcoming U.S. Presidential election. Our research partners have mined the market returns of prior elections to search for any consistency of returns based on election outcomes. Interestingly, of the 24 elections since 1928, 20 (or 83%) of the calendar year returns were positive. The average return was 11.58%, and both Republican and Democratic presidential wins resulted in positive returns north of 8% for that year. A similar story can be told regarding Congressional election outcomes in Presidential election years. Regardless of which party won the presidency or which parties took control of either house of Congress, the average return was more than 7% in any combination. This provides valuable historical reference for investors facing sensationalized headlines and polarizing political views. The takeaway is to stay the course with a long-term investment strategy. Markets react more to economic and valuation factors than which parties control our government. We believe the consistently positive market returns have much to do with investors being relieved once the uncertainty of the election is behind us.

Shifting our thoughts toward capital markets and away from the economy, equities continued to produce sizeable gains, while fixed income struggled to start the year. Returns are referenced below.

Equity Index	**1Q 2024**	**Last 12 Mos. thru 3/31/24**
S&P 500 (Large Companies)	10.6%	31.8%
Nasdaq 100 (Technology-heavy)	8.7%	42.0%
S&P 400 (Mid-sized Companies)	10.0%	25.5%
Russell 2000 (Small-sized Companies)	5.2%	22.0%
MSCI EAFE (Europe, Australia & Far East)	5.8%	15.8%
MSCI Emerging Markets	2.4%	8.7%
MSCI ACWI (All Country World Index)	7.7%	23.7%

Source: Morningstar Direct

The Dow Jones Industrial Average, S&P 500, and the Nasdaq all reached record highs in the first quarter. The former two have produced positive performance in five of the last six quarters. For much of 2023, the top ten names in the S&P 500 were responsible for a large portion of the return. Those ten names still account for more than one-third of the entire index, but in the first quarter, market performance broadened out beyond those household tech names. Four of the eleven sectors in the S&P 500 (information technology, health care, materials, and industrials) reached all-time highs. Mid-sized companies, measured by the S&P 400, kept pace with the large cap names, and returned double digits for the first three months of 2024.

Fixed Income Index	1Q 2024	Last 12 Mos. thru 3/31/24
Morningstar US Core Bond	-0.8%	2.0%
U.S. 10-year Treasury	-1.6%	-1.9%
ICE BofA 1-3 Yr. U.S. Treasury	0.3%	3.1%
U.S. 3-month T-Bills	1.3%	5.3%
ICE BofA U.S. High Yield	1.5%	12.0%
ICE BofA 7-10 Yr. Municipal Bond	-0.3%	2.4%

Source: Morningstar Direct

In fixed income, the yield curve between the 10-year and the 2-year U.S. treasury bonds remains inverted for the 21st consecutive month. An inverted yield curve has historically been associated with recessions, and it reflects investors' expectations of slower growth over the next year or two. As the length of the inversion approaches the record of twenty-four months, recession concerns have abated. Throughout the quarter, the yield on the 10-year U.S. Treasury fluctuated from 3.86% in mid-January to the current yield of 4.21% as of the end of March. The 2-year U.S. Treasury Yield is currently 4.63%. The performance of the 10-year and 2-year Treasury bonds has been muted over the last twelve months, whereas lower-quality bonds have performed quite well. Those who have been willing to hold riskier bonds have been rewarded thus far, but we expected to see an uptick in defaults due to the high lending rates companies have had to endure. That said, any pressure companies are facing has yet to materialize in prices.

Grant Street's investment committee was active within their best thinking strategy portfolio in the first quarter. On the equity side, Grant Street reduced international stocks in favor of adding to an existing U.S. small-cap strategy focused on quality and elevated cash flow yields. Despite the attractive valuations in international equity indexes, broad-based foreign stocks have lacked a catalyst to outpace U.S. markets, especially in light of a recent recession in Europe. Overall, our investment committee remains optimistic about the return potential for equities over the next twelve months.

On the fixed income side, our committee has been active in monitoring rates and looking for opportunity to lock in higher rates at the peak of this cycle. In the current environment, we believe it is key to simplify the bond strategy and focus on quality. We continue to believe that core quality bonds offer outperformance compared to cash over the next twelve months, despite elevated money market interest rates. Once interest rates begin to trend lower, the appreciation captured in bonds will far outpace the interest paid on cash today. Investors currently holding long-term reserves in cash-like vehicles have a unique opportunity to capture higher reward with limited addition to risk.

The continued growth of equities and the opportunity set in fixed income has propelled markets thus far in 2024. Grant Street maintains a positive overall outlook for both equities and fixed income over the next twelve months. Fixed income should contribute to positive portfolio performance in the second half of the year as The Fed gradually softens rates. In the meantime, the asset class serves as the defensive ballast when equities encounter volatility. Grant Street's investment committee continues to monitor the trends and data of the macro economy that drive fundamentals and influence our portfolio positioning. As always, we value your trust and confidence in the Grant Street team, and we thank you for allowing us to serve you.