

A healthy economy encourages investment in a broad range of business ventures and investment options. However, an excessively accommodative economic environment can decrease the value of money, leading to inflationary pressures as consumers and investors prioritize trends over fundamental value.

This is the current challenge of the Federal Reserve. Despite the Fed increasing short-term rates over 500 basis points between 2022 and 2023 to stem inflation, the economy continues to show vibrancy and strength. The unemployment rate remains less than 4%, nearly 9 million jobs are available, and claims for financial assistance are manageable. Up to this point, the Fed has been able to reduce inflation while still allowing for economic growth. However, reducing short-term rates too soon risks another period of pronounced inflation, requiring further rate increases and potentially leading to a recession.

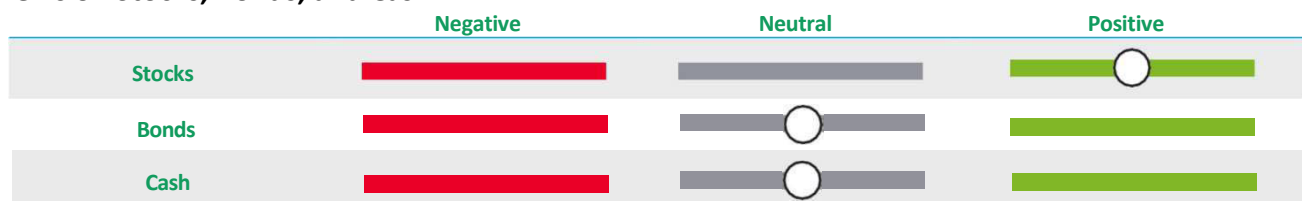
The Fed’s cautious approach of maintaining current rates appears to be the preferable policy. Our investment team is actively allocating capital to areas valued in the current environment, while carefully considering the impact of any changes to the Fed’s future path. The market has embraced this sentiment, and we believe this trend will continue.

INVESTMENT TAKEAWAYS

- Although interest rates may not be as low as they were at the end of 2023, they are still low enough to motivate investors to allocate capital into a variety of risk-oriented investment classes. Since year-end, the 1-year rate has increased nearly 40 basis points to just under 5.20% while the 10-year rate has increased over 60 basis points to around 4.50%. Both rates are considerably higher than in years past, but they are not high enough to deter the many investors willing to take on some additional risk in exchange for higher returns. Most established domestic equity benchmarks experienced returns in excess of annualized Treasury returns in the first quarter alone. So did the price of oil, gold, and many commodities and digital currencies.
- The general expectation that rates will not go appreciably higher has led to the acceptance and assumption of higher levels of market risk. This, combined with almost certain knowledge the Fed will eventually lower interest rates in 2024, has created an elevated risk-on condition. Investors and consumers are experiencing an actionable wealth effect by both spending and investing more. As a result, equity prices are regularly setting new highs and investors are feeling invincible. This can be a concern if the economy’s upward growth trajectory does not continue to follow suit, though we believe the fundamentals remain strong.
- In a partial repeat of 2023, many mega-cap technology and communications companies are performing well and carrying indexes to new highs. Yet, unlike 2023, more companies are participating in this rally than just several mega-caps, and general market breadth is healthier. Growth stocks remain in favor, though mid-caps and (to a lesser degree) small-caps have shown positive momentum.
- The Fed has made no changes to rate policy since July of 2023. Chairman Powell has reemphasized future Fed actions will be data-dependent and, if inflation rises again, as it has done recently, the Fed will be unable to reduce rates until it is no longer a sustained threat. With that being said, we believe 2 to 4 rate reductions, at most, will occur this year.
- We maintain our commitment to risk-managed portfolios and protecting asset values in times of uncertainty and volatility. We feel a global economic transition will continue to develop, which ultimately favors technological advancement. This universal trend will impact and advance all corporate enterprises. To this end, we have adjusted our allocation and now slightly favor growth companies in our domestic mid-cap, small-cap, and international developed allocations. In our large-cap segment, we also increased exposure to growth, yet maintained our value overweight.
- International developed nations' equity markets outperformed emerging markets during the first quarter. Much like 2023, the U.S. economy is still outperforming those of almost every other developed nation. The U.S. Dollar has shown periods of strength and weakness depending on the success of domestic inflation-fighting efforts. When stronger, the U.S. markets have done well; when weaker, the opposite. The dollar has been range-bound, nullifying any pronounced trend. We expect developed markets will continue to be preferred over emerging markets, and changes in the dollar will be heavily tied to inflation reports and economic output. Our Emerging Market ex-China position has been timely and profitable since we implemented it in 2023.
- Inflation is unlikely to decrease in a linear fashion. Nonetheless, we do not believe interest rates will experience significant upward pressure. Some degree of volatility and trading uncertainty is expected. The current yield curve is favorable for a well-balanced, moderate duration position. We favor intermediate maturities with some exposure to shorter-term maturities and high-yield segment.

BROAD ASSET CLASS VIEWS

Views on Stocks, Bonds, and Cash



EQUITY ASSET CLASSES

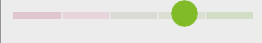

With very few exceptions, the first quarter of 2024 provided quality equity returns for investors. When combined with the last quarter of 2023, the stock market has generated some of the best five-month sequential returns in its history. Federal Reserve Chairman Jerome Powell’s commentary after the release of the November 1, 2023 FOMC interest rate decision provided investors a clear vision for the future. It was as if the Fed provided a GPS mapping algorithm from start to finish. With that knowledge, investors climbed back into their investment vehicles, added new fuel in the form of investment dollars, and have stayed on course with little hesitation and not so much as a rest break. Volatility is extremely low, and this entire bullish leg higher has not generated even a 2.5% pullback. On another positive note, market leadership is less narrow. Breadth and participation are more inclusive and encompass more industries and companies. United has previously expressed concern in this area. We are moderately encouraged by investor interest in previously undervalued segments and will continue to monitor breadth as we move forward. Expanding breadth is a sign of a healthy market. Though the S&P 500 has continued to set new highs, we should also recognize it has increased meaningfully over this five-month period. Equity markets may benefit from some price consolidation. First quarter earnings will be reported in a few weeks. Initial estimates are positive but unlikely to set records. Nonetheless, the future looks quite bright, with 2024 earnings estimates currently growing almost 9%. We remain committed to both an intermediate and longer-term positive outlook. The same can be said for international companies. Although we are slightly overweight small-cap stocks, the overwhelming portion of our equity allocation has been, and will remain, in large-cap domestic companies, which have led performance over the last twelve months.

	View	Relative Trend	Rationale
Market Capitalization	Large-Caps		Through Q1 2024, U.S. large-cap stocks are among the leading global equity performers. Growth companies, particularly mega-cap tech and communications companies, performed exceedingly well in 2023 and are doing the same this year. Broad participation, or breadth, is expanding to other segments and industries, which increases a market’s bullish longevity. Some tech companies may have a more difficult time attracting as much capital as they did in 2023 as valuations are stretched. We will maintain our large commitment to the large-cap segment.
	Mid-Caps		Mid-cap companies are having a solid year and are nearly keeping pace with their large-cap cousins. Similar to the large-cap segment, investors are showing a preference for the growth style, but leadership is broadening. Earnings are stable and valuations are attractive. We expect more sustained gains as interest rate stability is restored. Earnings should be very healthy in 2024.
	Small-Caps		The small-cap sector was disproportionately impacted by the banking crises in early 2023, and then by rising rates through the summer. Although small-cap companies recovered nicely into year-end, the rate fears in early 2024 are serving as a current obstacle to investors. We expect this will change with lower inflation reports as the year progresses. Earnings reports and valuations are very attractive.
Style	Growth		Large-cap growth stocks were the primary driver of 2023 equity market performance. First quarter 2024 was much the same. While more companies are participating in the current upside move and more segments of the economy are being represented, growth remains dominant. Investors are being rewarded by diversifying their growth holdings as market performance is not as narrow as in 2023. United has recently increased our growth weighting across all domestic segments.
	Value		Although United recently lowered our value exposure, we still maintain a slight value overweight to protect portfolios from known and unknown risks. The companies held in our value-based Large Cap Dividend Strategy are known for their perennial healthy balance sheets and their favorable attitude towards investors. Value companies have attracted more attention of late due to attractive valuations and reliable earnings. We anticipate further gains in 2024 as lower rates prompt a broadening expansion.
Region	United States		It is our continued position that better relative performance will be generated from the U.S. stock market than from international markets for the foreseeable future. The U.S. market is preferred, as it has more consistent and predictable outcomes. However, valuations are reasonable only in the large-cap segment, and large-cap growth valuations are raising some concerns after the first quarter bullish leg. Both mid- and small-cap companies remain attractive despite the last six months of quality performance. The strength of the U.S. employment environment has led to continued overall consumer health. Inflation is now much less of an obstacle. We see the U.S. continuing to take the lead in this regard and in propelling future growth.
	Developed International		Much like the U.S., most developed countries have shown significant progress in battling inflation and stabilizing interest rates. Nonetheless, collaboration has proven difficult to implement due to global factions, interdependence, and segmentation. For this reason alone, the U.S. has an economic advantage. We do believe the world is collectively getting stronger and more disciplined, even as bad actors continue to be disruptive. We see continued global progress against inflation and international interest rates eventually declining, which will permit further growth opportunity. We maintain our baseline weight to all international equity exposures.
	Emerging Markets		Although we foresee emerging market growth over the long term, uncertainties stemming from international conflicts create obstacles to consistency and predictability. Our removal of direct exposure to China has been timely and profitable. We are encouraged by recent communications between the U.S. and China but are in no hurry to commit additional funds to this space. We continue to maintain our baseline weight.

FIXED INCOME

Steady, Stable and not Surprising

Interest rates were modestly higher during the first quarter, and little changed during the month of March. Apart from the short end of the yield curve, which has been constant for the better part of nine months, the rest of the yield curve has remained elevated as investors digest consistently healthy economic figures. These better economic conditions have prevented inflation from falling closer to the 2% Fed target. While major progress has been made in reducing inflation from its 2022 peak, the final push to the Fed’s targets has been a struggle. It is conceivable, if not probable at this point, that the only way to reach 2% inflation will be through economic contraction, which would likely lead to a recession of limited magnitude. Should that unlikely path be established, bond investors would realize net gains in current holdings but lower rates in the future. United anticipates the yield curve will remain fairly stable over the foreseeable future, experiencing only marginal variance. Our decision to extend duration in early October 2023 was timely and remains profitable. We generally returned to “average” duration portfolios but kept a slight bias to short-term securities as a precaution against a strong economy and inflation that might not fall as rapidly as hoped, which has been the case. Unless another dramatic global event triggers additional inflationary fears, we do not anticipate a change in the lower inflation/lower rate environment, but it is taking more time to achieve than the Fed anticipated. Further, rate declines in 2024 will not be as significant as had been estimated only three months ago. We currently recommend a blend of high-quality, intermediate-term bonds in all fixed income portfolios with appropriate exposure to the shorter-end where applicable. Quality companies and municipalities continue to perform well across the quality and size spectrum. High-yield bonds issued by stable but growing entities continue to be a productive use of fixed income capital. We remain committed to a modest high-yield position in both corporate and municipal bonds. In tax-sensitive accounts, we favor municipal bonds, as infrastructure spending, strong state revenues, and the potential for higher personal tax rates provide support to municipal markets.

		Low	Medium	High	Rationale
Positioning	Credit Quality				To protect asset values, United prefers fixed income portfolios dominated by high-quality bonds. Credit spreads have normalized despite higher rates.
	Duration				United believes short-term rates are stable, near their peak, and locked into place due to Fed policy. Longer rates are range bound with minor variance.

COMMODITIES

Our general view towards commodity prices is neutral. This assessment is based on historic relationships between commodity prices, monetary policy and relative interest rate levels. However, we are aware that speculative influences are pushing demand for precious metals and the energy sector to recent trading highs. Spot gold has risen to new all-time highs with one ounce trading over \$2,300. This is somewhat of a departure from trading norms. We attribute gold’s rise to a few factors: global geo-political concerns, the excess wealth effect created by equity price performance, and substantially higher residential home values. Both factors are fueling speculative purchases, including digital currency. West Texas Intermediate and Brent Crude Oil prices have increased more than 20% this year with little quantitative data suggesting materially higher demand or lower supply. Broad commodity benchmarks increased about 10% during Q1. On the other hand, most agricultural prices have fallen precipitously. Higher relative domestic interest rates typically strengthen the U.S. dollar, which in turn should reduce demand for gold, but not so far this year. Interest rates are higher, the dollar is higher and so is gold by an appreciable amount. We expect the historical relationships between these assets to re-establish themselves, but this transition may not happen overnight.

CONCLUSION

Nearly all markets have performed exceptionally well since late October 2023 and long-term interest rates have fallen around 50 basis points, giving bondholders a sizable value boost. It is rare to experience an economic environment in which nearly all asset classes rise in unison. Although mortgage rates are substantially higher than in recent memory, residential home prices continue to increase as supply remains limited. As the saying goes - “something has to give.” We expect the prices of some asset classes to correct in time. Although we do not anticipate major corrections, we do believe an adjustment in prices that better reflects economic realities and less speculative fever is inevitable.

Disclosures

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual security. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing.

All performance referenced is historical and is no guarantee of future results. All indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

Economic forecasts set forth may not develop as predicted.

Investing involves risks including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments. Some research material was sourced through the Fund Evaluation Group, LLC and Strategas Securities, LLC.