2024 investment outlook:

The year of "It Ain't Over 'til it's Over"

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Executive summary

As a better-than-expected 2023 investment backdrop concludes, we and all investors are forced to ask if the current growth momentum will extend into 2024, glidepath to a modest slowdown or make an abrupt transition that drives asset prices lower. We anticipate the better-than-expected growth momentum to provide diversified portfolios with a tailwind as we begin 2024 but acknowledge challenges that markets must overcome throughout the year ahead. Our baseline expectation is investors will endure a glidepath to lower economic growth through at least the first half of 2024 based on our U.S. Bank Economics Team's views, and the investment implications will be predicated on interest rate policy and corporate earnings stability. It is premature to anticipate consumer activity will quickly end, but instead we anticipate aggregate consumer cohorts will experience a gradual slowdown due to cumulative interest rate hikes, a tightening labor market and dissipating stimulus-based savings tempered activity. Corporate profit growth expectations for global stocks are a modest 6% but 10% for U.S. large-capitalization stocks. U.S. consumers defied expectations in 2023, and with modest corporate profit growth expectations, decent valuations and central banks shifting from raising interest rates to eventually cutting them, we are reasonably optimistic about the year ahead for diversified portfolios.

While major capital markets react to a mosaic of factors, interest rates remain the key to future asset prices. Global central banks including the U.S. Federal Reserve (Fed) appear to be at or near the end of their inflation-fighting campaigns, which consisted of increasing their interest rate targets. Markets now turn their attention to the timing and magnitude of interest rate cuts, with some investors believing the Fed and other central banks are overly restrictive while others see inflationary pressures remaining sticky, requiring interest rates to remain elevated even if central banks abstain from future increases.

2024's market performance will hinge on consumer and business spending given higher interest rates' cumulative impact. We have used the analogy that higher interest rates act like the ramp on a treadmill; the longer the ramp remains elevated, the more likely the runner (consumers and businesses) will slow. We expect the slowdown to be moderate but perhaps enough to dent corporate profit expectations. An already elongated business cycle is unlikely to stretch indefinitely, but we remain optimistic about diversified portfolios under our base case that slowing growth coincides with lower interest rates and corporate profit growth remains positive and close to current expectations. We wish you and yours great health and happiness as we turn the page to 2024.

Global economic views

The U.S. economy remained robust in 2023 despite Federal Reserve interest rate increases, surprising many prognosticators.

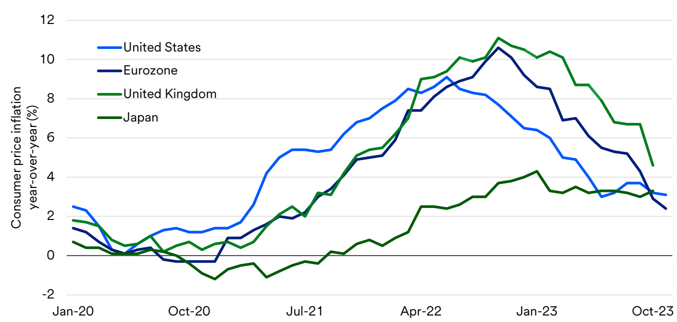
Meanwhile, growth outside the U.S. proved disappointing, particularly China, which reopened from coronavirus lockdowns and travel restrictions. As we look ahead to 2024, the world economic outlook appears modest; businesses and consumers must adapt to much higher borrowing costs, ongoing regional conflicts in Russia, Ukraine and Gaza, and the uncertainty of a Presidential election year in the U.S. Inflation remains elevated, though well below 2022 peaks, and continues to trend toward global central bank targets. Global growth likely remains modest in 2024, with key questions around U.S. government spending, potential stimulus measures from China to rekindle consumer activity, relatively tight global energy supplies and ongoing armed conflicts.

U.S. economic growth surprised many in 2023, accelerating on strong consumer spending into the third quarter. Many economic pundits pushed out recession expectations into 2024, despite high borrowing costs including U.S mortgage rates exceeding 7%, high energy costs and a restart to student loan repayments. A still-strong labor market, with an unemployment rate below 4% and wage growth exceeding 4%, drove the economy in 2023. In 2024, consumer and labor market trends are likely to continue their moderation as consumers deploy pandemic-era savings and satisfy their pent-up demand for experiences. Our U.S. Bank Economics Team believes the U.S. economy is likely to avoid recession, with a relatively strong labor market and sufficient consumer and businesses resilience to adapt to higher borrowing costs.

The Fed's battle against inflation has been a major economic story for the past two years and its path will be key again in 2024. The Consumer Price Index continues its slowing trend since peaking at 9.1% year-over-year in June 2022, now standing at 3.1% in November, though well above the 2.2% average[1] for the two decades prior to the COVID pandemic. Modest economic growth and slowing consumer spending are likely to continue to pressure inflation, but ongoing labor market tightness and supply constraints across certain goods mean inflation is unlikely to reach the Fed's 2% target in 2024.

Inflation year-over-year percent changes

Source: U.S. Bank Asset Management Group analysis, Bloomberg, Data period: January 31, 2020-November 30, 2023.



While 2024 marks a Presidential election year, investors are unlikely to turn their attention in that direction until the middle of the year as candidates and key issues emerge. Consumer and business uncertainty typify election years as they await clarity on leadership and potential policy or legislative changes. Our analysis indicates market returns historically depend more upon the path of the economy rather than election outcomes.

High interest rates continue to challenge developed market economies in 2024.

The European Central Bank ended its negative interest rate policy and pushed target interest rates to their highest level since the inception of the Eurozone to battle inflation. The Bank of Japan and Bank of England are also both pushing interest rates higher in this inflation battle. The Bank of Japan remains somewhat slower to change, reversing decades of below-target inflation and hoping to spur higher consumer inflation expectations. Growth slowed over the course of 2023 as economies adjusted to higher energy costs and consumer spending moderated in response to elevated inflation. Growth rates are likely to remain modest across these economies with upside potential if the Russia/Ukraine conflict resolves or if China's economy rebounds, spurring global trade.

China, the largest emerging market economy, disappointed most economic observers with its slow recovery from pandemic lockdowns.

Slow global trade, accumulated inventories, modest consumer spending and an overhanging housing slowdown capped China's growth. We see little resolution ahead for these issues, including the housing crisis and modest consumer sentiment. Government support for consumers or the housing market could rekindle demand and spark a rebound in economic growth and perhaps global trade. Without such measures, China's growth appears likely to remain slow through 2024.

Relatively aggressive central bank interest rate hikes concluded in 2023 for many other emerging market economies, such as Brazil, South Korea and Mexico. Slowing economic growth is likely to extend into 2024, with some central banks eventually cutting interest rates to maintain economic growth. These economies should also benefit from a relative cost advantage in global trade, since the U.S. dollar enters 2024 higher against foreign currencies. India exhibited strength in 2023, and ongoing benefits of demographics and reforms should help it maintain positive economic momentum through the year.

U.S. equity markets

The tug-of-war between bull and bear 2024 outlooks remains balanced.

Several factors provide a positive setup for U.S. equities in 2024. Recent data indicates inflation's pace is waning, suggesting the Federal Reserve may soon pause its interest rate hiking campaign. Consumer and business balance sheets ended the year in relatively good shape, with companies characterizing overall spending as stable but cautious. Affluent and middle-income consumers continue to spend at stable levels, particularly on travel and entertainment, while lower-income groups are showing signs of financial stress, spending mostly on essentials. Several businesses are referencing "spend optimization," looking to maximize their investment in technology. Retailers are reporting that input costs are declining, a sign of moderating inflation. And, importantly, analysts' consensus projected S&P 500 earnings for 2024 reflect moderate year-over-year growth. In aggregate, waning inflation, positive earnings growth and flat to downward-trending interest rates provide valuation support and the basis for stocks to trend higher.

Conversely, we also observe some factors warranting a cautious bias. Inflation, interest rates and earnings are interrelated keys to equity price movements, with inflation levels persisting above the Fed's price stability target entrenching a period of higher interest rates. Higher interest rates increase competition from bond investments, which pressures valuation measures such as the price-to-earnings ratio (the share price equity investors are willing to pay for realized or future earnings). Additional cautionary factors likely to weigh on equity returns in the new year include narrow equity sector performance leadership in 2023, the potential for economic and corporate earnings pressures to emerge in 2024, already-elevated prices of technology-related companies and geopolitical issues including ongoing conflicts between Russia/Ukraine and Israel/Hamas as well as tensions between the U.S. and China.

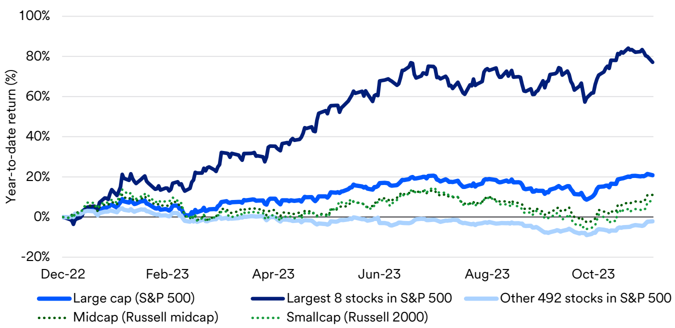
On balance, we hold a cautiously optimistic view as we begin the new year. Softening economic conditions and decelerating inflation could serve as the basis for the Federal Reserve to take a more dovish stance, providing valuation support and spurring equity prices higher.

The market concentration in mega-capitalization stocks is beginning the new year near historical levels, dating back to the early-1980s.

The largest 10 stocks in the S&P 500 currently make up 33% of the S&P 500 total capitalization; the largest 20 stocks make up 42%. Relatedly, performance of the largest companies in 2023 was superb, with the 20 largest companies advancing 65% as of December 11, outpacing the broad index by more than a three-to-one margin. Additionally, the "magnificent seven" (Microsoft, Apple, Alphabet, Amazon, NVIDIA, Meta Platforms and Tesla) advanced between 43% and 219%, evidencing strong momentum among large, technology-oriented companies. While the longer-term outlook for mega-capitalization stocks remains positive, valuations are currently stretched, implying that last year's performance leaders could experience increased volatility in the event of changing growth trends or ongoing economic uncertainty.

Equity year-to-date performance (%)

Source: Bloomberg, FactSet, U.S. Bank Asset Management Group Research. Data period: December 31, 2022-November 30, 2023.



Analysts are forecasting double-digit earnings growth in 2024, albeit with a downside bias.

Consensus analysts' S&P 500 earnings projections for 2023 and 2024 are approximately $220 and $244 per share, respectively, according to Bloomberg, FactSet and S&P Cap IQ, implying a robust 11% year-over-year increase. As of December 11, the S&P 500 trades at 21.0 times projected 2023 and 18.9 times 2024 estimates, in line with 25-year historical averages. Broad market valuations are entering the new year neither at high nor low extremes, implying a balanced risk-reward setup. We anticipate 2024 estimates will trend lower in the year's first half, partially due to softening demand and lower inflation (affecting prices charged to consumers), both of which are likely to weigh on revenue and profitability metrics.

Dividend-paying sectors and companies appear favorably positioned in a moderating macroeconomic growth environment. Utilities, Real Estate, Consumer Staples, Healthcare, Energy and Financials are among the highest dividend-paying sectors. These sectors were also among the worst-performing sectors in 2023, which presents a favorable risk-reward opportunity for investors with time horizons that extend to 2025 and beyond. Dividend-paying sectors and companies have historically underperformed during rising interest rate periods but should perform favorably when the Fed adopts a more dovish interest rate stance.

Similarly, fast is getting faster, and speed, scale and efficiencies do not occur without technology, supporting technology-related companies' continued positive momentum for the foreseeable future even after posting strong performance in 2023. Artificial intelligence (AI) remains salient, impacting how we live, work and play while helping bolster performance of related Information Technology companies. The tailwinds behind AI, cloud computing, software and data security-related spending remains solid as companies leverage revenue and cash flow growth opportunities and enhanced productivity associated with accelerated computing.

Our year-end 2024 price target for the S&P 500 is 4,950, based on a price-earnings multiple of 21 times projected earnings of roughly $235, approximately 7.0% above December 11 levels.

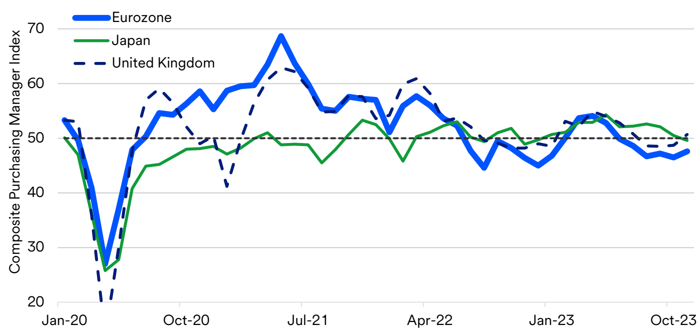
Foreign equity markets

Economic growth headwinds, higher relative dividend yields and compressed valuation provide counterbalancing influences leading to our neutral foreign developed equity outlook.

Higher interest rates and tighter lending conditions lend to a subdued growth outlook across European economies in 2024, representing approximately two-thirds of the foreign developed equity universe. The International Monetary Fund (IMF) forecasts a modest 1.2% economic growth rate next year in the euro area (including Germany, France, Italy, Spain) while anticipating just 0.6% growth in the United Kingdom. Purchasing manager surveys across European manufacturing, construction and service sector industries reflect pessimistic business expectations, while the European Central Bank (ECB) third quarter lending survey highlighted continued tightening bank lending conditions for households and companies and worsening loan demand due to higher rates.

Foreign developed composite purchasing manager indices

U.S. Bank Asset Management Group Research, Bloomberg (uses S&P/Markit PMIs). Weights reflect EFA ETF country of risk 1/31/2020-11/24/2023.



Foreign developed equity analysts have incorporated this muted 2024 economic outlook into corporate earnings growth forecasts. Analysts anticipate full year earnings growth will slow from 10.1% in 2023 to 1.6% in 2024. However, higher relative dividend yields provide additional investor compensation, bolstering modest earnings growth potential. The current dividend yield on foreign developed equities as of December 11 is 3.2%, more than double the 1.5% yield for the S&P 500.

Additionally, valuation, or the price investors are willing to pay for realized or projected earnings, remains attractive. Since year-end 2019, prior to COVID's onset, foreign developed corporate earnings incorporating analysts' full-year 2023 estimates have grown by 25.6%, while equity prices have risen just 3.5% over the same period. Valuation compression, the difference between slower price growth and faster earnings growth, highlights investors' concerns regarding forward growth prospects and post-recovery higher interest rates' impact on the value of future earnings streams. Decelerating growth and cooling inflation across European economies could allow the ECB to begin easing monetary policy next year; futures markets currently price in central bank rate cuts by mid-2024. Less restrictive monetary policy would improve the region's economic and earnings growth prospects while also providing some valuation support as investors discount future earnings streams with a lower interest rate. Collectively, a higher dividend yield relative to domestic peers plus valuation catch up potential balance muted earnings growth expectations, leading to our neutral outlook for foreign developed equities in the year ahead.

Emerging market equities' 2024 prospects hinge on stabilizing earnings estimates, while expectations for a less hawkish Federal Reserve provides some fundamental and valuation support.

Analysts forecast 18.1% earnings growth across emerging markets in 2024, encompassing China, global export powerhouses South Korea and Taiwan, and a developing India. Strong anticipated earnings growth combined with a current dividend yield of 2.9% represents an attractive opportunity for diversified investors. However, analysts have progressively downgraded 2024 earnings forecasts throughout this year, marking growth expectations lower by 8% since the end of March. China continues to struggle to manage excess real estate inventory and consumers remain reluctant to spend accumulated savings, while the Federal Reserve has raised interest rates from 4.5% to 5.5% this year, further increasing emerging market firms' cost of capital when borrowing in U.S. dollars and inhibiting growth.

Emerging market equity valuation is slightly above the long-term median relative to both 2023 and 2024 full-year earnings estimates, suggesting that global investors are willing to look through analysts' earnings markdowns as temporary in anticipation of a potential recovery ahead. If China policymakers' efforts to support the property market and stimulate their economy prove insufficient or if the Federal Reserve holds rates higher than market expectations, keeping dollar financing costs high, analysts may continue downgrading emerging market corporate profit growth forecasts. This would challenge investors' optimistic outlook and place further downward pressure on equity prices. Overall, we view emerging markets risk and reward opportunities evenly balanced, with earnings stability and Federal Reserve interest rate policy key focal areas for the year ahead.

Fixed income markets

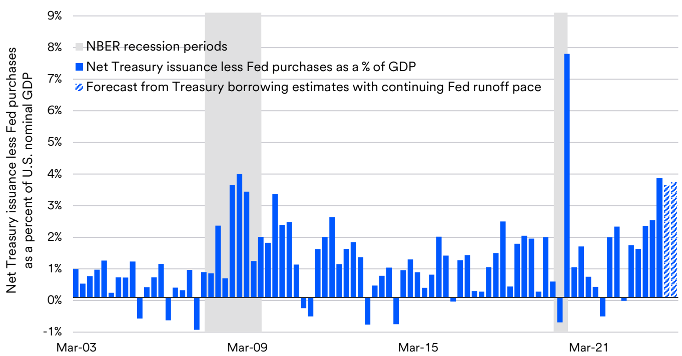
Following 5.25% in cumulative rate hikes since early 2022, the Federal Reserve is likely done raising interest rates.

The prospect of the Fed cutting rates as soon as the first half of 2024, reinforced by the Fed's recent messaging and projections, reduces the headwinds of rising rates on high-quality bond prices. It also provides hope to consumers and businesses facing high financing costs. While elevated

Treasury bond issuance (supply) relative to soft investor demand remains a risk to higher interest rates, policy rates following inflation lower suggests the recent decline in bond yields could persist.

Treasury net issuance less Fed purchases as a percent of nominal gross domestic product

Source: U.S. Bank Asset Management Group Research, Bloomberg, U.S. Treasury; Data period: March 3, 2003-October 31, 2023. Forecast assumes net Treasury issuance according to the Treasury's Sources and Uses Table with ongoing $60bn in Fed Treasury runoff per month.



Investment-grade bonds remain compelling ingredients in diversified portfolios, providing more income than they have in years while maintaining historically average credit quality. High yield corporate and municipal bonds offer fair incremental yield over Treasuries, near long-term averages. Unique bond categories like insurance-backed securities (reinsurance) and mortgage-backed securities not backed by the government offer attractive yields with strong fundamental support. Complementing traditional long-term fixed income allocations with modest exposures to such securities can create well-diversified portfolios with compelling return potential while remaining primarily allocated to high-quality bonds.

Policymakers project three rate cuts in 2024, while interest rate markets indicate investor expectations for up to twice as many.

Encouraged by recent slowing in inflation data and early signs of the labor market cooling, interest rate markets price in Fed rate cuts starting as early as March, with a total of five to six 0.25% cuts in 2024. Recent Fed projections changed from two to three rate cuts next year. Investors expect the European Central Bank and the Bank of England to follow suit with multiple cuts over the next year as well. High-quality bond prices could benefit if central banks transition to more accommodative policies that lower short-term rates. The Fed's preferred inflation measure, Personal Consumption Expenditures (PCE), decelerated meaningfully from higher than 7% year-over-year in mid-2022 to 3.0% in October 2023; however, lingering concerns remain that the Fed may struggle to achieve the "last mile" of reducing inflation down to its 2% target. Yields could rebound from their recent descent if stubborn inflation readings motivate the Fed to maintain the current policy rate for longer.

The Fed also continues to reduce its U.S. Treasury holdings by $60 billion per month. Concurrently, the U.S. Treasury expects to issue more than $800 billion in debt in the first quarter of 2024 to fund federal government fiscal spending. The combination of reduced Federal Reserve demand and rising supply of U.S. Treasury securities places greater pressure on other investors to purchase more Treasury debt, although policy rate trajectory has more than offset investor concerns around elevated Treasury supply.

Near-normal high-quality corporate and municipal bond valuations offer fair compensation for accepting credit risk.

High-quality corporate and municipal borrowers generally exhibit reasonably strong financial positions that should enable them to weather cyclical periods of slower economic growth and tighter borrowing conditions, such as high interest rates. Isolated credit stress appeared in pockets of the lowest-quality issuers that face significantly higher borrowing costs as cheaper debt matures, which borrowers must refinance at higher rates. Corporate default rates consequently trickled higher but remain isolated among lower credit tiers. Investor compensation for investment-grade debt remains reasonable considering extra yield over Treasuries is only slightly below long-term averages and credit risk metrics are near long-term averages based on issuer liquidity and their ability to cover interest costs.

Lower-quality high-yield corporate and municipal bonds also offer near-normal yield spreads over Treasuries but are more sensitive to swings in investor sentiment. While supportive through most of 2023, this sensitivity to sentiment carries price volatility risk as credit rating agencies downgrade debt in recognition of the headwinds from tougher borrowing conditions and slower growth. Lower-quality bonds could benefit if inflation slows without a contraction in economic growth, allowing the Fed to ease monetary policy according to market pricing.

Unique corners of the bond market such as mortgage bonds not backed by the government and reinsurance offer attractive income with strong fundamental tailwinds.

Mortgage bond fundamentals remain favorable, with rising home prices in recent years leading to strong collateral support, historically low delinquencies and powerful incentives for homeowners to stay current on their inexpensive fixed rate loans. Dwindling mortgage bond supply from the slower housing market and limited cash-out refinancings provides a favorable technical tailwind for the category. For qualifying clients, reinsurance, also referred to as insurance-linked securities, offers compelling income opportunities from higher insurance premiums and higher deductibles. This high income provides cushion in the event of higher-than-average insured catastrophe losses that erode principal. Reinsurance may provide constructive diversification qualities relative to stocks and bonds based on its sensitivity to global catastrophes rather than the business cycle. However, the complexities of this asset class, including limited accessibility, make it appropriate for certain client types.

Real asset markets

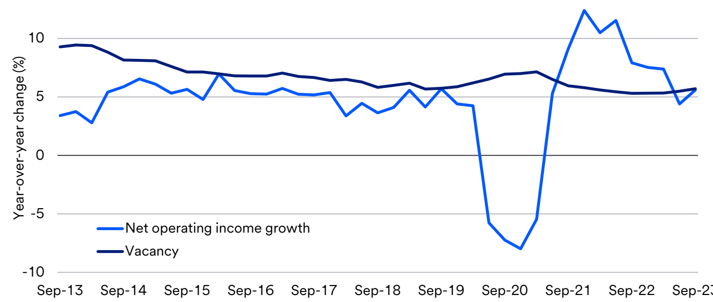
Publicly traded real estate prices are inexpensive relative to private market prices, which must reset in the coming year.

Publicly traded real estate securities underperformed the broader market in 2023, with persistent inflation keeping the Fed vigilant by increasing interest rates. Additionally, fear of defaults on commercial real estate loans negatively affected sentiment. As a result, total returns for Real Estate were roughly flat for the year.

Nationally, vacancy rates are rising from low levels across most property types while income growth is decelerating from high levels. We expect income growth to taper off to below-average levels in 2024 for most property types. Income relative to property values has increased in the publicly real estate investment trust (REIT) market due to declining prices, but not in the private market; the public market now appears inexpensive compared to current private market prices. However, loans for property investment are still available but no longer cheap, making quality investments more difficult to find.

Real estate investment trust income growth and vacancies

Source: National Council of Real Estate Investment Fiduciaries, 9/30/2023.



In 2024, decelerating economic growth should provide headwinds for property market fundamentals and property prices. Appraisals in the private market have been slow to adjust to the shifting economic tides, and we believe 2024 brings further price declines. This is especially true of office and retail properties, since excess capacity makes it highly unlikely landlords can raise rents to offset declining fundamentals.

Publicly traded REITs, on the other hand, have re-priced significantly and now trade at much more compelling levels. Additionally, most REIT benchmarks are heavily weighted to property types with positive secular underpinnings. Cell towers should benefit from the continued need for more data, including streaming services and 5G home internet. The rise in artificial intelligence drives demand for data centers and their larger and more powerful server farms. Finally, industrial warehouses continue to experience strong demand given the continued shift to online shopping. Since other property types trade at significant discounts to net asset value, we believe these sectors can drive real estate portfolios even if other property types face deteriorating fundamentals.

Consistent dividends could make infrastructure more attractive in 2024.

The past year has been difficult for infrastructure investments, especially for Utilities stocks. Higher yields on fixed income investments typically compete with dividend-paying stocks for investor capital. The Utilities sector has been growing revenues and earnings at rates far above long-term averages but still produced negative total returns for the year. Investors sold off Utilities stocks in favor of assets with more growth potential. However, we believe there is still a place in a diversified portfolio for assets that provide stability and cash flows.

Moving into 2024, slowing growth and inflation rates should support infrastructure assets. Utilities are in the middle of an earnings growth cycle by clawing back cost increases through their regulatory framework. Midstream energy stocks should continue to produce outsized earnings growth, with domestic oil producers continuing to pump record amounts of crude to offset production cuts by the Organization of the Petroleum Exporting Countries (OPEC). Dividend yields for these stocks will look attractive if economic growth stalls in 2024.

Decelerating economic growth and declining inflation are a near-term headwind for commodities.

Broad commodity index prices moderated in 2023. Despite large production cuts, crude oil prices declined during the year, as did industrial metals on fears of slowing demand growth. Precious metals increased despite higher interest rates, which increase the opportunity cost of holding gold. However, U.S. fiscal deterioration may have increased investor willingness to forego 5% yields on cash to diversify away from the U.S. dollar.

The macroeconomic backdrop for commodities presents a challenge in 2024. The global economy is slowing and U.S. inflation is trending toward the Fed's target 2% rate, which should diminish demand. However, such an environment could boost precious metals, such as gold, if interest rates decline and investors seek safe havens from a slowing global economy. Gold is nearing all-time high prices, established in 2020, and speculators could push prices dramatically higher if we see a global recession and declining real (net of inflation) interest rates.

We are more constructive on commodity markets over a longer investment horizon. Commodity producers limited investment in productive capacity for numerous commodities for the past several years. Additionally, government and investor policies have explicitly made new investment in fossil fuels prohibitive and act as material disincentives for investment in productive capacity. The transition to "green" energy networks will require a material increase in demand for fossil fuels and various metals for an extended period. The ramping demand for these commodities and their suppliers could provide a significant boost to values and cash flows.

Alternative investments

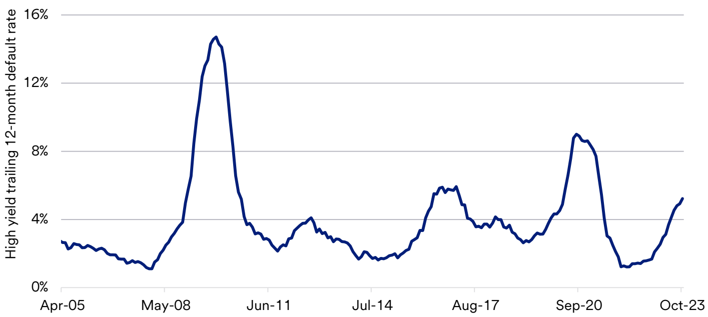
Elevated interest rates drive opportunities for hedge funds.

Hedge funds are well suited for the current market volatility. Opportunistic hedge fund managers are generally more active traders and focus on more liquid publicly traded securities compared to private markets. Investors showed renewed interest in hedge funds in 2023, and positive net inflows this year grew industry assets under management to near historical peaks. Hedge funds generated modestly positive mid-single digits returns this year, trailing the S&P 500, but protected capital in 2022 when markets traded broadly lower. Consequently, we have observed a large investor sentiment shift toward hedge funds during this central bank rate hiking environment. Whereas investors previously prioritized return enhancement, some investors now consider risk reduction as a primary or secondary role for hedge funds in their portfolios. We see opportunities across both ends of the hedge fund investing spectrum, including defensively positioned managers and those seeking to exploit turbulent markets.

The current market environment provides a positive backdrop for several hedge fund strategies. Significant macroeconomic and geopolitical risks are leading to market volatility, creating opportunities for managers to identify attractive investments to both buy long and sell short. Persistent uncertainty regarding the future path for inflation and economic growth also continues to create opportunities for active traders. An extended period of high interest rates creates financing challenges for leveraged companies, with higher costs of capital separating winners and losers, and relative value hedge fund managers are positioning their long and short portfolios accordingly. As we noted in recent quarters, we expect a focal shift to individual security selection, such as stock-specific short selling and similar opportunities emerge among credit securities, including a greater number of high yield bonds and leveraged loans trading at distressed levels. As downgrades increase, we expect hedge fund managers skilled at trading around such events will have ample chances to generate profits. We also anticipate a greater number of idiosyncratic credit opportunities to surface, including distressed debt, while peak interest levels favor hedge funds with carry-oriented strategies that can stay shorter in duration.

Trailing 12-month high yield corporate default rate and Moody's projections

Source: U.S. Bank Asset Management Group Research, Moody's, Bloomberg; 4/30/2005-11/24/2023.



Private markets

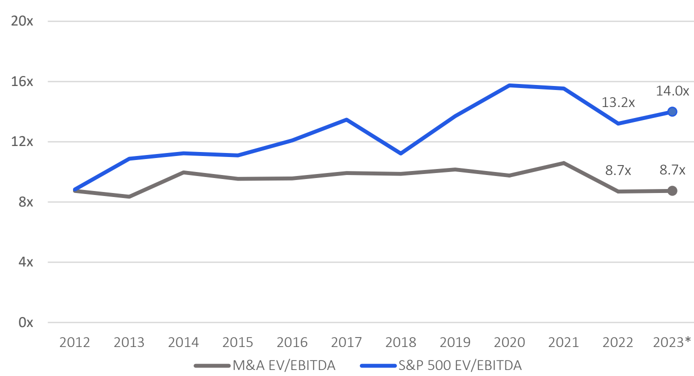
Private markets witnessed few deals, but fundamentals are in place for a pickup in 2024.

September saw a flurry of new public stock listings that included ARM Holdings, Instacart and Klaviyo, with public market investors receptive to high-growth companies. In late September, Klaviyo and Instacart dipped below their market debut prices as investor sentiment turned cautious with the looming threat of a government shutdown and the Fed indicating higher interest rates for longer. Merger and acquisition (M&A) activity similarly slowed in September and October after showing signs of recovery in the months prior. M&A deal activity was down year-to-date compared to the prior year period and fund managers focused on smaller deals to build up their existing portfolio companies, biding their time until market conditions improve. Debt markets, which enable M&A deal financing, were disrupted when the Fed embarked on an aggressive campaign of interest rate hikes in 2022, adding to the challenges. The rolling wall of worry that curtailed private market deal activity resulted in a decade-plus low in distribution rates — defined as the amount of value returned to investors as a percentage of fund net asset values (NAV). Venture capital funds have distributed only 5% of reported NAV this year and private equity buyout funds have distributed just 14%.

However, conditions are present to support a rebound in activity, including $1.4 trillion in global private equity "dry powder" — the amount of private equity fund commitments that have yet to be invested —and $4.1 trillion cash on U.S. corporations' balance sheets. Private market equity valuations are cheap relative to public markets, with the spread between private and public as wide as it was prior to the massive wave of deal activity in 2020 and 2021. Debt markets are showing signs of thawing, with banks and private credit providers starting to lend for new deals. Banks have successfully gathered a group of private lenders, known as syndication, to finance loans from a recent private equity carveout of Worldpay from its parent company Fidelity National Information Services as well as loans from prior deals held on their balance sheets, indicating renewed institutional investors interest. Private credit providers with large capital pools are positioned to take a greater share of lending activity as banks face increasing regulatory pressures. Finally, as inflation shows signs of cooling, the Fed may be nearing the end of its rate hiking cycle, and dealmakers can better project the cost of financing. All these conditions bode well for the resumption of private market deal activity absent major geopolitical or macroeconomic shocks that delay or disrupt deal activity.

Valuation: Public companies versus private markets

Source: U.S. Bank Asset Management Group Analysis; Pitchbook.



EV: Equity value
EBITDA: Earnings before interest, taxes, depreciation and amortization.

Our approach to private market investing involves consistency and a longer-term view.

Private equity has underperformed the public markets over the past 12 months, with public market volatility resulting in wide fluctuations of publicly listed company valuations. However, over a longer time horizon of three, five, 10 and 20 years, private equity has outperformed public equity markets by 8.7%, 6.19%, 4.25%, and 5.14% annualized, respectively (Cambridge Associates US Private Equity Index versus the Russell 3000 Index through June 30, 2023). Patience, taking a longer-term view, is one important element to successful private market investing. A second important element is consistency — portfolio diversification and investment selection. We recommend four factors of diversification within private market portfolios: Vintage year (inception year of a traditional private fund), strategy, industry and geography. Diversification combined with a strong investment selection process that is grounded in expertise leads to favorable outcomes.

Thematic research paired with relative value considerations informs our long-term view. As we enter 2024, we continue to focus on several themes with secular tailwinds agnostic of the current economic environment. Our “big picture” macroeconomic themes include 1) continued permeation of software, enhanced by artificial intelligence, across industries and consumer uses cases; 2) healthcare services optimization and biotech innovation; and 3) data and e-commerce infrastructure. We then overlay our micro themes informed by relative value within the big picture themes. For example, in software, we prefer managers who focus on earlier stages of company formation while in artificial intelligence we plan to partner with managers who invest in vertical applications within industries such as legal, healthcare and financial services. Another example of our micro theme within data infrastructure includes partnering with managers who invest in wireless communications infrastructure, add value and create portfolios of these assets. Finally, we see plenty of opportunities within middle market private debt and capital solutions for fundamentally sound businesses that have short- to medium-term funding needs. Private markets continue to present abundance of opportunities and it takes a thoughtful, expertise driven approach to investing for long-term success.

[1] U.S. Bank Asset Management Group calculations, Consumer Price Index year-over-year average January 2000-December 2019.

Past performance is no guarantee of future results. All performance data, while deemed obtained from reliable sources, are not guaranteed for accuracy. Indexes shown are unmanaged and are not available for investment. **The S&P 500 Index** is an unmanaged, capitalization-weighted index of 500 widely traded stocks that are considered to represent the performance of the stock market in general. **The S&P 500 Total Return Index** includes the same stocks but include the reinvestment of dividends. The **MSCI EAFE Index** includes approximately 1,000 companies representing the stock markets of 21 countries in Europe, Australasia and the Far East (EAFE). The **MSCI Emerging Markets Index** is designed to measure equity market performance in global emerging markets. The **Renaissance IPO Index** is a stock market index based upon a portfolio of U.S.-listed newly public companies, before their inclusion in core equity indices. The index reflects approximately the top 80% of newly public companies in capitalization terms, is weighted by float capitalization and imposes a 10% cap on the weight of large constituents.

Equity securities are subject to stock market fluctuations that occur in response to economic and business developments. The value of **large-capitalization stocks** will rise and fall in response to the activities of the company that issued them, general market conditions and/or economic conditions. **Stocks of small-capitalization companies** involve substantial risk. These stocks historically have experienced greater price volatility than stocks of larger companies and may be expected to do so in the future. **Growth investments** focus on stocks of companies whose earnings/profitability are accelerating in the short term or have grown consistently over the long term. Such investments may provide minimal dividends, which could otherwise cushion stock prices in a market decline. Stock value may rise and fall significantly based, in part, on investors' perceptions of the company, rather than on fundamental analysis of the stocks. Investors should carefully consider the additional risks involved in growth investments. **Value investments** focus on stocks of income-producing companies whose price is low relative to one or more valuation factors, such as earnings or book value. Such investments are subject to risks that their intrinsic values may never be realized by the market, or such stocks may turn out not to have been undervalued. Investors should carefully consider the additional risks involved in value investments. **International investing** involves special risks, including foreign taxation, currency risks, risks associated with possible difference in financial standards and other risks associated with future political and economic developments. Investing in **emerging markets** may involve greater risks than investing in more developed countries. In addition, concentration of investments in a single region may result in greater volatility. Investing in **fixed income securities** are subject to various risks, including changes in interest rates, credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications, and other factors. Investment in debt securities typically decrease in value when interest rates rise. The risk is usually greater for longer-term debt securities. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. Investments in **high yield bonds** offer the potential for high current income and attractive total return but involve certain risks. Changes in economic conditions or other circumstances may adversely affect a bond issuer's ability to make principal and interest payments. The **municipal bond market** is volatile and can be significantly affected by adverse tax, legislative or political changes and the financial condition of the issuers of municipal securities. Interest rate increases can cause the price of a bond to decrease. Income on municipal bonds is free from federal taxes but may be subject to the federal alternative minimum tax (AMT), state and local taxes. There are special risks associated with investments in **real assets** such as commodities and real estate securities. For commodities, risks may include market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors. Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates and risks related to renting properties (such as rental defaults). Hedge funds are speculative and involve a high degree of risk. An investment in a **hedge fund** involves a substantially more complicated set of risk factors than traditional investments in stocks or bonds, including the risks of using derivatives, leverage and short sales, which can magnify potential losses or gains. Restrictions exist on the ability to redeem or transfer interests in a fund. **Private capital investment funds** are speculative and involve a higher degree of risk. These investments usually involve a substantially more complicated set of investment strategies than traditional investments in stocks or bonds, including the risks of using derivatives, leverage, and short sales, which can magnify potential losses or gains. Always refer to a Fund's most current offering documents for a more thorough discussion of risks and other specific characteristics associated with investing in private capital and impact investment funds. **Private equity investments** provide investors and funds the potential to invest directly into private companies or participate in buyouts of public companies that result in a delisting of the public equity. Investors considering an investment in private equity must be fully aware that these investments are illiquid by nature, typically represent a long-term binding commitment and are not readily marketable. The valuation procedures for these holdings are often subjective in nature. **Private debt investments** may be either direct or indirect and are subject to significant risks, including the possibility of default, limited liquidity and the infrequent availability of independent credit ratings for private companies.