VERABANK
WEALTH MANAGEMENT

Q1

Quarterly Market Review

First Quarter 2024

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This report features VeraBank Wealth Management market commentary, global stock and bond market performance data, and a timeline of events for the past quarter.

It begins with our commentary about what has taken place in financial markets and the economy over the prior quarter.

It contains returns data for major asset classes which we include in our client portfolios.

The report concludes with our current views on the market and an article detailing how we maximize after-tax returns for our clients.

Contact a [VeraBank Wealth Management Advisor] with any questions or if you know someone who might benefit from our expert advice.

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Equity markets continue to rally in Q1, despite sticky inflation and a steady Fed

- Q1 kicked off 2024 by continuing the strong rally in global stock markets that we've seen over the last 18 months. U.S. stocks led the way with a gain of 10.02%, International Developed stocks were up 5.59%, and Emerging Markets up 2.37%.

- U.S. large cap company stocks bounced back to lead the rally, outperforming the small cap companies that outperformed to close 2023. Market expectations shifting to higher-for-longer interest rates have been a drag on performance of smaller companies that tend to be more sensitive to interest rates.

- The recent stickiness of inflation continues to delay the potential for rate cuts. From the Federal Reserve's perspective, the strong consumer and labor markets decrease the need for immediacy in cutting the Fed Funds rate.

Interest rates on the rise

- The Federal Reserve continues to hold the Fed Funds rate steady at 5.25-5.50%. The Fed Funds futures market is slowly becoming more pessimistic on expected 2024 rate cuts, now pricing in just 0.50% of cuts in 2024, with the first cut not coming until September. This is a substantial shift in expectations from just a few months ago, when the market was pricing in 1.50% of rate cuts in 2024 and the first potentially beginning in March.

- As a result, interest rates across the yield curve generally increased in Q1 after the steep drop to close out 2023. US Treasury interest rates are currently pushing to 2024 highs.

- In Q1 2024, fixed income investment performance was mixed, with many markets performing slightly negative due to the impact of rising longer term interest rates. The high yield corporate bond market was the top performer, up 1.47% in the quarter.

Quarterly Market Summary

Index returns

Q1 2024	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
	STOCKS				BONDS	
	10.02%	5.59%	2.37%	-1.19%	-0.78%	0.58%

Since Jan. 2001	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Average Quarterly Return	2.4%	1.6%	2.5%	2.2%	0.9%	0.9%
Best Quarter	22.0%	25.9%	34.7%	32.3%	6.8%	5.4%
	2020 Q2	**2009 Q2**	**2009 Q2**	**2009 Q3**	**2023 Q4**	**2023 Q4**
Worst Quarter	-22.8%	-23.3%	-27.6%	-36.1%	-5.9%	-4.1%
	2008 Q4	**2020 Q1**	**2008 Q4**	**2008 Q4**	**2022 Q1**	**2022 Q1**

Past performance **is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.** Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net dividends]), Emerging Markets (MSCI Emerging Markets Index [net dividends]), Global Real Estate (S&P Global REIT Index [net dividends]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2024 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2024, all rights reserved. Bloomberg data provided by Bloomberg.

Long-Term Market Summary

Index returns as of March 31, 2024

	STOCKS				BONDS	
	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
1 Year	29.29%	15.29%	8.15%	7.44%	1.70%	5.92%
5 Years	14.34%	7.48%	2.22%	1.21%	0.36%	1.03%
10 Years	12.33%	4.81%	2.95%	3.89%	1.54%	2.64%

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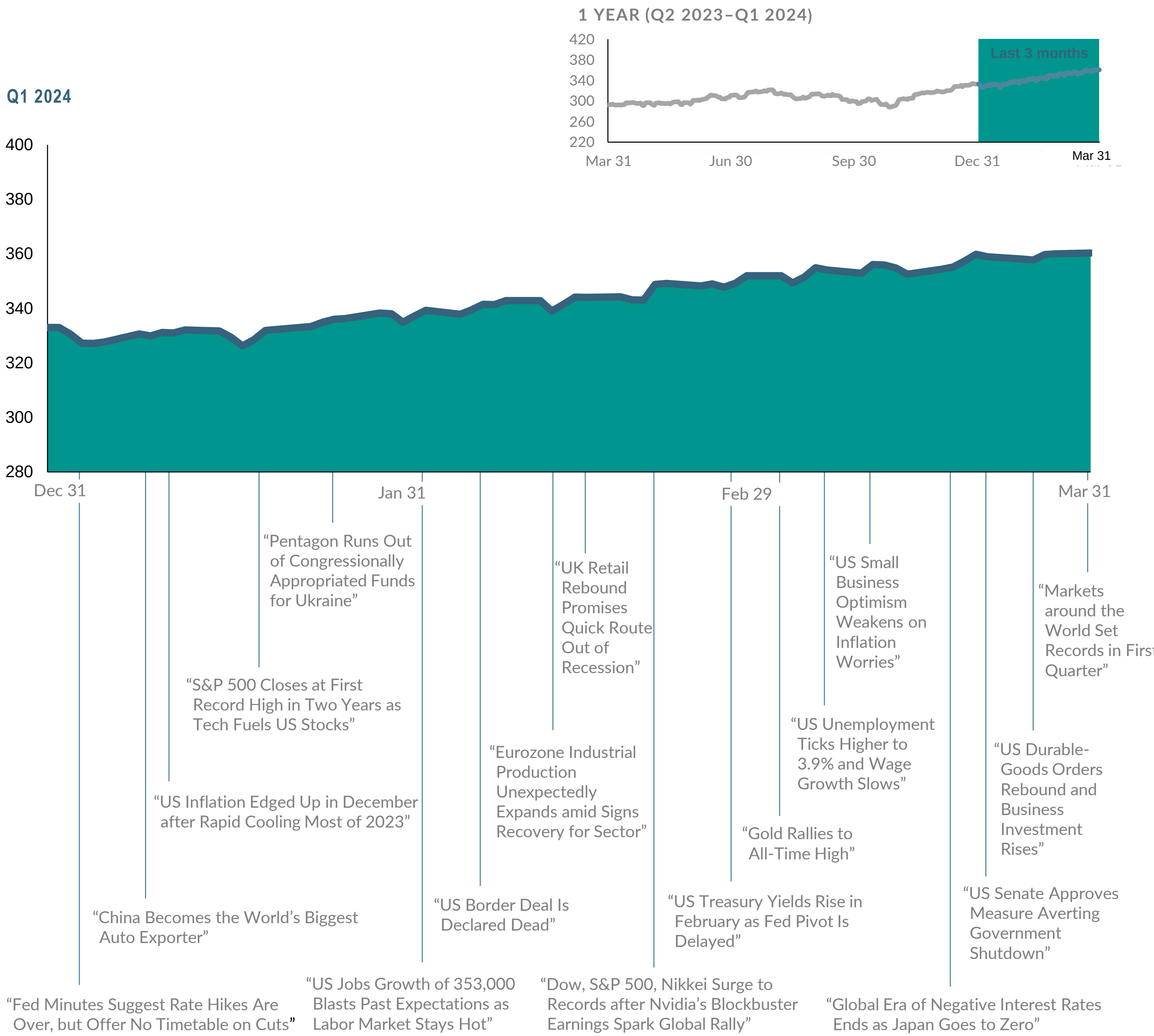
World Stock Market Performance

MSCI All Country World Index with selected headlines from Q1 2024



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2024, all rights reserved. Index level based at 100 starting January 2000.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio.
Past performance is not a guarantee of future results.

US Stocks

First quarter 2024 index returns

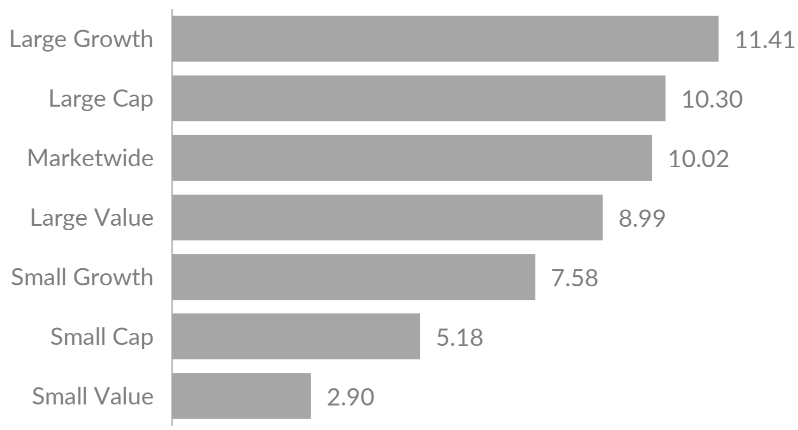
The US equity market posted positive returns for the quarter and outperformed both non-US developed (+5.59%) and emerging markets (+2.37%).

Value underperformed growth.

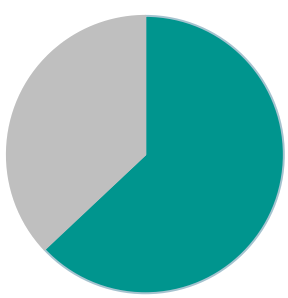
Small caps underperformed large caps.

REIT indices underperformed equity market indices.

Ranked Returns (%)



World Market Capitalization—US



63% US

Market
$50.7 trillion

Period Returns (%)

			Annualized		
Asset Class	QTR	1 Year	3 Years	5 Years	10 Years
Large Growth	11.41	39.00	12.50	18.52	15.98
Large Cap	10.30	29.87	10.45	14.76	12.68
Marketwide	10.02	29.29	9.78	14.34	12.33
Large Value	8.99	20.27	8.11	10.32	9.01
Small Growth	7.58	20.35	-2.68	7.38	7.89
Small Cap	5.18	19.71	-0.10	8.10	7.58
Small Value	2.90	18.75	2.22	8.17	6.87

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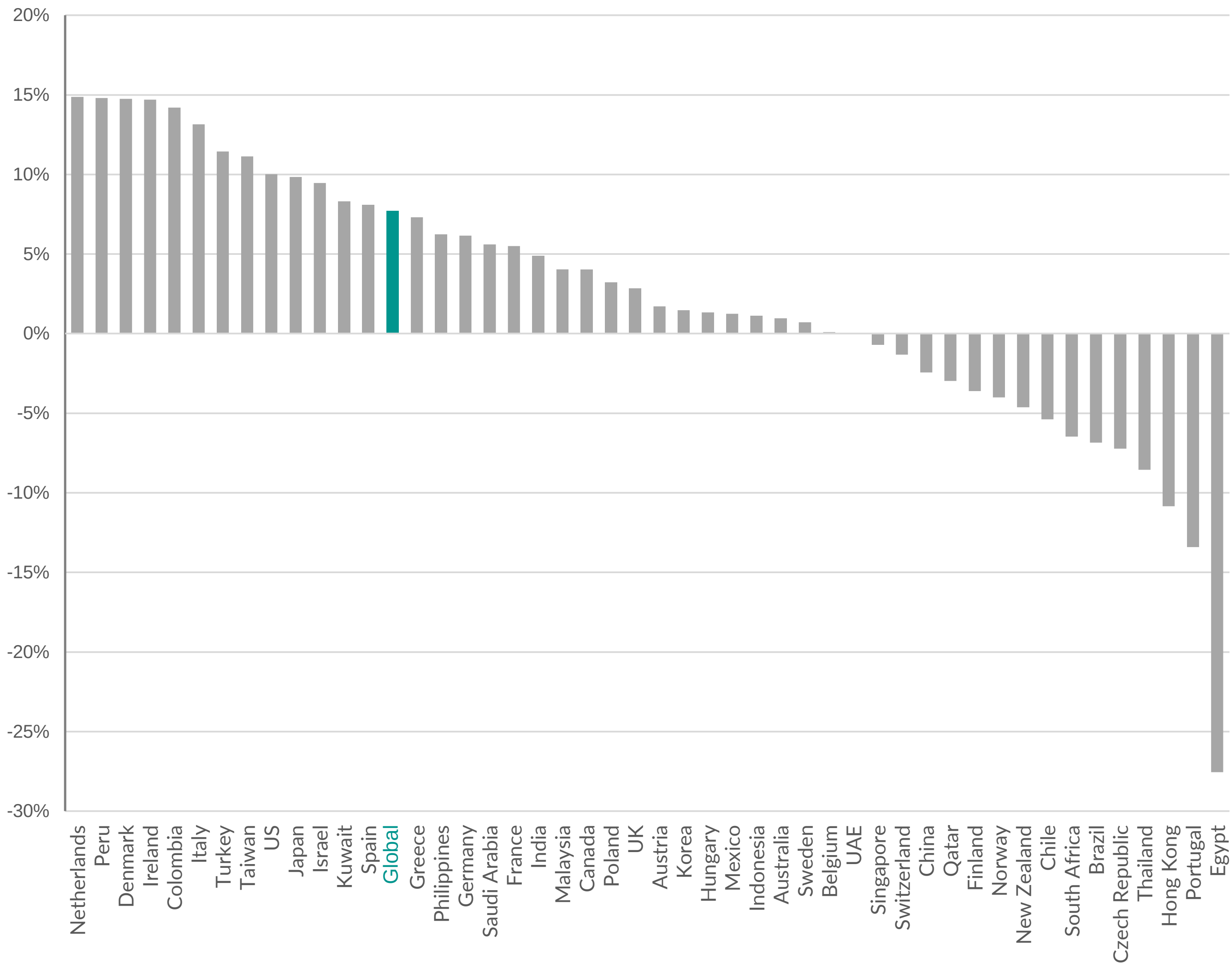
Country Returns

First quarter 2024 index returns



Past performance is no guarantee of future results.

Country returns are the country component indices of the MSCI All Country World IMI Index for all countries except the United States, where the Russell 3000 Index is used instead. Global is the return of the MSCI All Country World IMI Index. MSCI index returns are net dividend. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

Fixed Income

First quarter 2024 index returns

Interest rates generally increased in the US Treasury market for the quarter.

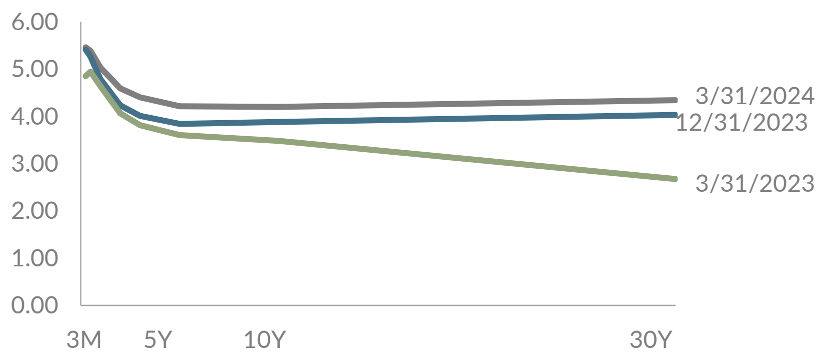
On the short end of the yield curve, the 1-Month US Treasury Bill yield decreased 11 basis points (bps) to 5.49%, while the 1-Year US Treasury Bill yield increased 24 bps to 5.03%. The yield on the 2-Year US Treasury Note increased 36 bps to 4.59%.

The yield on the 5-Year US Treasury Note increased 37 bps to 4.21%. The yield on the 10-Year US Treasury Note increased 32 bps to 4.20%. The yield on the 30-Year US Treasury Bond increased 31 bps to 4.34%.

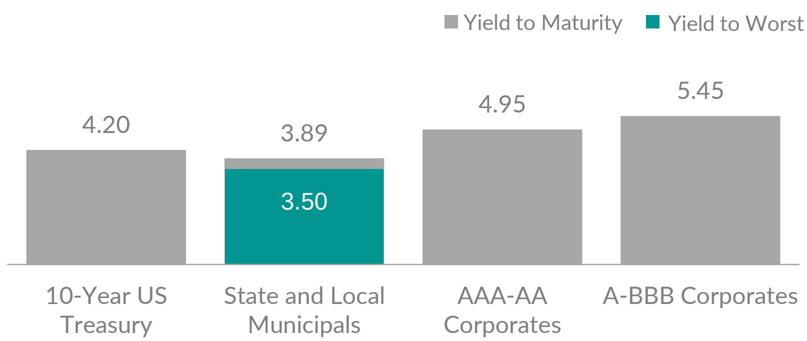
In terms of total returns, short-term US treasury bonds returned -0.05% while intermediate-term US treasury bonds returned -0.36%. Short-term corporate bonds returned +0.60% and intermediate-term corporate bonds returned +0.26%.[1]

The total returns for short- and intermediate-term municipal bonds were -0.19% and -0.52%, respectively. Within the municipal fixed income market, general obligation bonds returned -0.70% while revenue bonds returned -0.27%.[2]

US Treasury Yield Curve (%)



Bond Yields Across Issuers (%)



Period Returns (%)

Asset Class	QTR	1 Year	Annualized 3 Years	Annualized 5 Years	Annualized 10 Years
Bloomberg U.S. High Yield Corporate Bond Index	1.47	11.15	2.19	4.21	4.44
ICE BofA US 3-Month Treasury Bill Index	1.29	5.24	2.58	2.02	1.38
ICE BofA 1-Year US Treasury Note Index	0.83	4.30	1.44	1.66	1.25
FTSE World Government Bond Index 1-5 Years (hedged to USD)	0.26	3.66	0.11	1.16	1.41
Bloomberg U.S. TIPS Index	-0.08	0.45	-0.53	2.49	2.21
Bloomberg Municipal Bond Index	-0.39	3.13	-0.41	1.59	2.66
Bloomberg U.S. Aggregate Bond Index	-0.78	1.70	-2.46	0.36	1.54
FTSE World Government Bond Index 1-5 Years	-1.35	1.27	-2.61	-0.40	-0.68
Bloomberg U.S. Government Bond Index Long	-3.24	-6.03	-8.01	-2.77	1.25

1. Bloomberg US Treasury and US Corporate Bond Indices.
2. Bloomberg Municipal Bond Index.

One basis point (bps) equals 0.01%. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.** Yield curve data from Federal Reserve. State and local bonds, and the Yield to Worst are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the ICE BofA US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA Corporates, BBB-A rated. Bloomberg data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield). FTSE fixed income indices © 2024 FTSE Fixed Income LLC, all rights reserved. ICE BofA index data © 2024 ICE Data Indices, LLC. S&P data © 2024 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Bloomberg data provided by Bloomberg.

Market Perspectives

VeraBank Wealth Management Commentary

Interest Rates: Adjusting Expectations

- Inflationary Pressure: Persistent inflationary pressures, driven by factors like housing prices, supply chain disruptions and rising commodity prices, are keeping inflation stuck above the Fed's target of 2%. The Fed requires confidence supported by economic data that inflation is on a path to their 2% target before taking action that could disrupt the progress already made.

- Economic Resilience: Stronger-than-anticipated economic indicators, such as robust job growth and increased consumer spending, suggest an economy that remains strong, reducing the need for aggressive interest rate cuts.

- Policy Prudence: The Federal Reserve is maintaining its wait-and-see approach to monetary policy, evaluating all incoming relevant economic data. This is leading to fewer anticipated rate cuts in order to prevent overheating the economy and throwing fuel on the inflation fire. Fed Funds futures markets are pricing in just 0.50% of cuts in 2024, with the first cut not coming until September 2024.

What's Next in Markets?

- Uncertainty: Amid numerous uncertainties in 2024 - elections, ongoing geopolitical tensions, inflationary pressures, and the Federal Reserve's cautious stance on interest rates - financial markets are facing an increased possibility of heightened volatility. It is important to have a thoughtfully designed and managed investment process that looks beyond the news headlines and focuses on the important role each asset plays in your overall portfolio.

- Finding the Right Balance: U.S. large cap growth stocks have continued to lead the way in equity markets, as expectations of higher-for-longer interest rates persist. Investors should look beyond the AI/Tech sector, which has accounted for much of the strong stock market performance recently.

- Forward Focus: As the small cap segment of equity markets once again feels the impact of higher for longer interest rates, it should be expected to outperform when markets eventually begin to price in interest rate cuts. By the time "everything looks better" and interest rates are beginning to fall, it's typically too late, and you've missed the rally. Bonds will also likely have strong contributions to overall portfolio performance with high yields and the potential for additional return with decreasing rates. Managing your portfolio to the right balance based on your investment goals and objectives is key.

Contact a VeraBank Wealth Management advisor with any questions or if you know someone who might benefit from our expert advice.

Tax-Savvy Investing

Maximizing Your After-Tax Return

March Madness is over, and for many, the excitement of buzzer beating baskets quickly turns to the frustration of filing taxes. As our pay stub shows, taxes take a big bite out of the money we bring home! Taxes can also eat away substantially at investment returns if you don't have a well-structured plan and tax-aware portfolio management.

- Are your investments structured across taxable/tax-deferred accounts appropriately?
- Are your investments generating unnecessary taxable income each year when capital appreciation would be more efficient?
- When you need to withdrawal cash from an account, which account should it come from and what stocks or bonds should you sell?
- Should I invest in mutual funds or ETFs? Municipal Bonds or US Treasuries? Sell the highly appreciated individual stock or keep holding?
- Is your estate going to owe estate taxes? What can I do about it? How can I gift now? What types of assets should I gift?

The details of investing can be complicated enough, but when you begin to consider the impact of taxes, a wealth of questions need answers. Most importantly, those answers should be specific to your individual circumstances. VeraBank Wealth Management can help, by partnering with you to develop your specific investment plan, deliver expert portfolio management that balances risk and maximizes after-tax return. Each relationship is unique, but there are common elements to tax-efficiency that apply to most.

Capital Gains Management

Every time an asset is sold in a taxable account, it is a taxable event, and when sold at a gain, taxes will be owed. The question is, how much? It depends, and with strategic portfolio management you can keep more of the money you make.

If the asset sold is held for less than a year, it is deemed a short-term gain and taxed as ordinary income, which reach 37% for some investors. If the asset is held for longer than a year before being sold, the gain is long-term and taxed at 15% for households with annual taxable income < $583k. Households with annual taxable income less than $89k have a 0% long term gain tax rate (tax free!)

We minimize (not avoid) long term gains and avoid short term gains when possible. Additionally, assets sold at a loss offset gains, so the strategy of optimizing sells is a factor in our portfolio management process.

Some types of investments are more tax efficient than others. Mutual Funds must distribute capital gains annually to fund holders. This is an issue for many mutual funds, with capital gains often 5-10% of the investment market value annually. A solution, Exchange Traded Funds (ETFs), has the benefits of Mutual Funds, but the structure of ETFs doesn't generally require gain distributions to shareholders. Gains are typically only realized when the individual shareholder sells the ETF, so flexibility and control are added to the portfolio management process.

We generally recommend the use of ETFs in equity investments in client portfolios. Additionally, we thoroughly research all equity mutual funds to ensure we're on top of potential capital gain distributions.

Income Management: Control Cash Flow and Taxable Income

Many people who look to their investment portfolio for cash focus on "income." After all, you can always count on dividends and interest payments, and you're not touching principal, right? Not necessarily. Disproportionately focusing on income instead of total return of the portfolio can hurt performance, increase risk, and ultimately, derail accomplishing your objectives.

Investors focused on income generating assets tend to concentrate in bonds, REITs, and dividend paying stocks that miss out on some sectors (tech stocks, for example), and other income generating assets which are often taxed at high ordinary income rates that reach 37%. (*continued on page 12*)

Continued: Tax-Savvy Investing

A better approach is to begin by defining your true objective (Ex: withdrawal of funds to meet your spending needs) and develop a game plan to best achieve your objective.

Our portfolio management team accomplishes this by taking a more holistic total return approach, which goes beyond singularly focusing on income to meet cash needs. A total return approach includes both income/dividends received and capital appreciation of assets in a client's portfolio so that a sustainable withdrawal rate can be met, and risk can be managed appropriately.

This total return approach allows for control to strategically realize long term gains/losses to meet cash withdrawal needs, rather than rely on interest payments or on a company to maintain a dividend, which tend to be cut during economic downturns - just when you might rely on that income the most. Clients benefit from this by having a more appropriate portfolio based on their investment objective, flexibility to control cash flow, and taking advantage of lower capital gain tax rates.

Investments, income, and taxes can't be discussed without considering Municipal Bonds, which provide tax-free income. Muni Bonds are generally best suited for those with higher marginal tax rates and looking to reduce taxes. However, there is no "free lunch," as the rates on Muni Bonds are lower than similar taxable government and corporate bonds.

As with many investment decisions, there isn't a one size fits all answer, so it's important for us to get to know our clients and their specific circumstances. We work with our client and often their CPA to optimize their portfolio across taxable and tax-deferred accounts, meet their withdrawal needs, achieve growth, and minimize income tax liability.

Estate Planning

An estate planning strategy, such as trusts or gifting strategies, is critical if you want to pass along your hard-earned assets to whom you wish and minimize the assets going to estate taxes.

An estate tax is charged to a decedent's estate, on assets that exceed the exemption level. The good news is the estate tax exemption is currently $13.6mm per person ($27.2mm per couple). Unfortunately, this high exemption is temporary and is set to fall to around $6-7mm per person on December 31, 2025. If your estate exceeds this amount, it is important to take action. Estate tax rates quickly reach 40% of the amount exceeding the exemption.

Don't Let the Tax Tail Wag the Dog

As you can see, maximizing after-tax return is an important goal, but it is only one of many factors to consider in your overall investment plan. Other factors to balance include:

- Diversification – It may be appropriate to sell highly appreciated stock and realize the gain if it accounts for an excessive percent of your portfolio.
- Asset allocation – After periods of strong stock market rally it can be appropriate to strategically sell equities if your allocation exceeds the appropriate range for your investment objective.
- Control of assets – Are you comfortable with a gifting strategy now or in the future? Is a trust appropriate, if so, which type of trust?

It is important to analyze all relevant factors and then weigh the tax cost with the impact potential transactions (or lack thereof) would have on your investment portfolio. A final decision will ultimately be judged against how this aligns with your investment needs and goals.

After considering these variables and understanding what is important to you, we draw on our portfolio management expertise to craft and implement your customized plan.

Our team of experts is here to help you navigate these topics and many others. Please reach out and feel free to share this information with others.

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