GW&K
INVESTMENT MANAGEMENT

INVESTMENT REVIEW
4Q 2023

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ECONOMIC COMMENTARY

BY HAROLD G. KOTLER, CFA

Founder-Chairman, Chief Investment Officer

As we enter GW&K's 50th anniversary year, I reflect on my career and the most enduring lessons I have learned and tried to exhibit and teach — the need to be patient and the willingness to endure volatility. An investor does not learn to be patient from earning an MBA or CFA. Quite the opposite.

Given the instant liquidity of stocks and bonds, there is a tendency to make a lot of decisions. It is all too easy to change course, often at the most inappropriate time. In fact, there are few investment approaches over these last 50 years that would not have been successful if investors had practiced patience and accepted volatility.

It has been four years since the Covid pandemic transformed our way of life. Our view of how we want to spend our time, both working and leisure, has altered dramatically. Drastic economic and monetary policies were implemented, some alleviating pain and suffering, others causing it. In these same four years, we have seen profound changes in international policy: a hasty withdrawal from Afghanistan, China's decision to reverse its economic approach, Russia's invasion of Ukraine, and Hamas' attack of Israel. Yet, with all these very difficult events occurring, the markets provided above-average returns.

Now with the 2024 election upon us, the political debate will heat up and lines in the sand will be incredibly divisive. It is hard to get one's head around all this. How do you stay patient in the face of this real and difficult period of turbulence? Wouldn't it be easier to walk away from stocks and bonds and put cash under the mattress for the 5% return that is now available?

How can one learn to separate what is happening on the world stage from staying committed to a healthy allocation of investments? The lesson is that there is no other game in town. The 5% will sooner or later be 4%, 3%, 2%, or even 1%. One can't live and depend on that shrinking cash flow. It just doesn't work. As I have repeatedly said of the "-ism" of capitalism, it is the one sustaining approach in the world.

In the last two months, returns have been quite dramatic. Long-term government bond yields dropped one full percentage point, from 5% to 4%, in 40 days. The stock market's broad indices posted double-digit returns, some entering bull-market territory. Of course, the catalyst for this dramatic change was the Federal Reserve signaling its expectation to reduce short-term interest rates in 2024. On the other hand, many structural problems remain, and few see a super healthy economy. But let's reflect back to the summer of 2020, when the pandemic was impacting our lives. The stock market turned positive even before a vaccine had been produced. Why? Why does the stock market behave so well in the face of obvious concerns?

"How can one learn to separate what is happening on the world stage from staying committed to a healthy allocation of investments? The lesson is that there is no other game in town."

Continued on next page

I believe it is about the human brain adjusting to the changing world. For example, mortgage rates go from 3% to 7%; when they then decline to 6% or 5%, people will be more accepting and start borrowing again. It might take a year or so, but behaviors change to the next paradigm. Employees and employers are finding a new balance between in-office and work from home, all with a comfortable and respectful accommodation. We all have reflected on who we are, what we want in life, and how we are living our lives. This realignment came out of nowhere. Changes like this are often the result of a war's aftermath, when society is in total upheaval. Maybe Covid was like a war; certainly, too many people died. So now at war's end life gets redefined for all of us. Amidst all this turnaround, however, the economies of the world continue to chug along.

Take a moment and appreciate the magnificence of this experiment called capitalism. We at GW&K have enjoyed being a quarterback for so many clients these last 50 years. We never went to cash, we never panicked, and we never felt we had all the answers. What we did do is stay connected to our founding belief that if you stay engaged without speculation or leverage, our clients will be able to secure a reasonable return. We as a firm have always been patient and have asked our clients to do the same. It has worked. This partnership between client and advisor, so simple to say, but so challenging to adhere to.

I wish you a healthy and happy New Year, and I hope the concerns and anguish we may be feeling in the moment turn into peace and tranquility.

Harold G. Kotler, CFA
Founder-Chairman, Chief Investment Officer

GW&K NEWS

GW&K ONCE AGAIN RECOGNIZED AS A BEST PLACE TO WORK IN MONEY MANAGEMENT

Pensions&Investments BEST PLACES TO WORK IN MONEY MANAGEMENT 2023 MULTIYEAR WINNER 2021 • 2022 • 2023

Pensions & Investments, the global news source of money management, conducts this annual survey and recognition program to identify and recognize the best employers in the money management industry. We are thrilled to announce this is the third consecutive year that GW&K has participated and been recognized with this honor in the 100-499 employee category.

Throughout our company's 50-year history we have nurtured a culture that has been defined by a collegial and collaborative environment. We believe that the highest levels of client service and employee productivity come from creating an environment of trust and respect and we continue to invest in our people to help support and maintain that strong culture. We've always believed that people are our greatest asset, so to be recognized as a Best Place to Work in Money Management for a third consecutive year is an achievement of which we are very proud.

We look forward to continued success and building long-term, mutually rewarding relationships with our clients, employees, and broader community.

GW&K PRODUCT NEWS

Effective this quarter, we are changing the benchmarks for our **Equity Dividend Plus** and **Diversified Equity Strategies** from the S&P 500 Index to the Russell 3000 Value Index and Russell 3000 Index, respectively. This subtle shift allows for greater flexibility in each Strategy's opportunity set. For our Equity Dividend Plus Strategy we believe the Russell 3000 Value Index is better aligned with an all-cap dividend approach. For our Diversified Equity Strategy we believe the Russell 3000 Index is more representative of its market cap range. These changes will have no impact on our management style for these Strategies and the team remains the same.

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38% EMPLOYEES WITH 10+ YEARS AT GW&K

$50.7 BILLION TOTAL ASSETS UNDER MANAGEMENT

FOURTH QUARTER 2023

ECONOMY

- The economy was remarkably resilient in the second half of 2023, with Q3 GDP growth of 4.9% followed by estimated Q4 growth of around 2%.
- Despite Fed tightening, consumer spending found support from a firm labor market and healthy balance sheets, bolstered by ample savings over the past several years.
- Recent Inflation data has moderated, aided by declining energy and goods prices. Over the most recent six months, core PCE inflation posted an annual rate of 1.9%, aligning with the Fed's 2% target.
- The lagged effects of the Fed's tightening may still impact economic activity in upcoming quarters, but recession risks have receded due to easier financial conditions.

FED ACTION

- In December, the Federal Open Market Committee (FOMC) left interest rates unchanged, but unexpectedly projected three quarter-point rate cuts for 2024, anticipating lower inflation.
- Following the Fed's clear shift away from monetary tightening, futures markets have anticipated six quarter-point rate cuts for 2024, with the first expected as early as March.
- Historically, when the Fed cuts rates, it often does so aggressively, usually in response to recessions.
- A pivotal question for financial markets in 2024 is the pace of the Fed's rate cuts, given current expectations. With the Fed remaining vigilant about inflation risks, its actions will hinge on how quickly inflation continues to ease.

BOND MARKETS

- Fixed income markets experienced an extraordinary rally on elevated odds of an economic soft landing and dovish signals from the Fed. The strong performance was a sharp reversal from Q3.
- Treasuries posted their best gains since the onset of Covid. The 10-year Treasury yield fell from a post-GFC closing high of 4.99% in October to 3.88% at yearend — a notable decline in just over two months.
- Corporates significantly outperformed Treasuries, as credit spreads compressed to their tightest levels in two years. The prospect of more accommodative financial conditions boosted sentiment, which was already helped by a benign default outlook and durable profit margins.
- Municipal bonds posted their highest quarterly return in nearly 40 years wiping out prior year-to-date losses and ensuring that 2023 would be remembered as a solid year for bonds.

INDEX PERFORMANCE 12/31/23

	QUARTER	YEAR TO DATE
Bloomberg 10-Year Municipal Bond Index	7.47%	5.78%
Bloomberg Aggregate Bond Index	6.82%	5.53%
Bloomberg High Yield Index	7.16%	13.44%
Dow Jones Industrial Average	13.09%	16.18%
S&P 500 Index	11.69%	26.29%
Russell 2000 Index	14.03%	16.93%
MSCI World Small Cap ex USA Index	10.60%	12.62%
MSCI World Index	11.42%	23.79%

DOMESTIC EQUITY MARKETS

- US equity markets finished Q4 sharply higher, fueled by disinflation, soft landing momentum, and expectations for a Fed pivot to rate cuts.
- Market participation broadened as the quarter progressed. Small cap stocks, as measured by the Russell 2000, advanced 14.0% and outpaced large cap stocks (S&P 500, +11.7%).
- Within the large cap market, Real Estate was the best performing sector followed closely by Information Technology. Energy was the only sector to lose value as oil and gas prices declined. Defensive groups such as Consumer Staples, Health Care, and Utilities also lagged on a relative basis.
- Growth outpaced Value in the large cap market, while Value led within small caps. Investors also demonstrated a preference for low-quality factors.

GLOBAL EQUITY MARKETS

- Non-US developed markets delivered a strong Q4 rally on expectations that softer inflation would lead to 2024 rate cuts in several countries. Currency provided further support as the US Dollar Index fell -4.6%.
- Gains were widespread across market-cap ranges. The MSCI World ex USA Index gained 10.5%, and the MSCI World Small Cap ex USA Index advanced 10.6%.
- Europe, where higher rates have had a more immediate impact on business activity, finished in the lead. Japan underperformed most developed markets, as yen strength curbed local market enthusiasm.
- Sectors were broadly positive, aside from Energy due to plummeting oil and gas prices. Real Estate, Information Technology, and Materials were among the top performers.

INVESTMENT STRATEGIES

MUNICIPAL BOND

We combine a rigorous, research intensive, credit selection process with active management. Our goal is to take advantage of market inefficiencies and find opportunities across the yield curve to protect and grow principal and income.

TAXABLE BOND

Our multi-sector approach takes advantage of the relative valuation among distinct bond sectors and the increased opportunities to generate income and capital appreciation. We build diversified yield advantaged portfolios that generate steady, incremental income and provide downside risk protection.

DOMESTIC EQUITY

We develop a deep understanding of the companies in which we invest through disciplined and intensive fundamental research. Our focus is on finding well-managed, quality companies, which are resilient.

GLOBAL EQUITY

We take advantage of market inefficiencies to find quality growth companies that may be undervalued, underappreciated, or under-researched. Our rigorous, bottom-up process focuses on a company's upside potential and downside risk.

MUNICIPAL BOND STRATEGIES

16 MUNICIPAL INVESTMENT PROFESSIONALS

21 AVERAGE YEARS EXPERIENCE

INVESTMENT TEAM

John B. Fox, CFA	Partner, Director, Fixed Income
Brian T. Moreland, CFA	Partner, Portfolio Manager
Martin R. Tourigny, CFA	Partner, Portfolio Manager
Kara M. South, CFA	Principal, Portfolio Manager

GW&K MUNICIPAL BOND STRATEGIES

SHORT-TERM MUNICIPAL BOND

2–8 YEAR ACTIVE MUNICIPAL BOND

2–8 YEAR ACTIVE MUNICIPAL BOND ESG

MUNICIPAL BOND

MUNICIPAL BOND ESG

MUNICIPAL BOND PLUS

MUNICIPAL ENHANCED YIELD

Municipal bonds posted their best quarterly performance in nearly four decades, transforming 2023 into a year of solid gains after it looked like we were headed for a second consecutive annual loss. The remarkable turnaround was fueled by macro forces that unfolded over the final two months of the year. Recall that in October, interest rates were still in selloff mode, as a stubbornly strong economy and persistently high inflation gave teeth to the Federal Reserve's "higher-for-longer" mantra. Later that month, the yield on the 10-year Treasury had risen to 5%, a 16-year high. From that point on, however, the data began to shift. Job growth softened meaningfully while price pressures eased, increasing the odds of a soft landing and fueling speculation of an impending monetary pivot. Fed officials virtually confirmed this view when they unexpectedly penciled in 75 basis points of cuts for 2024 in the December FOMC projection materials. The bond market, already rallying coming into the meeting, continued to surge into yearend. By the end of December, the 10-year yield had fallen to 3.88%, down almost 70 basis points for the quarter.

While the Treasury rally was the key factor driving performance in the fourth quarter, municipal bonds received additional boosts from limited issuance and sky-rocketing demand. Even during the October selloff, retail investors were jumping at the chance to lock in tax-equivalent yields not seen in over a decade, keeping municipals relatively well bid. When the market then started to turn, a healthy appetite for paper turned into a mad scramble, reflecting a fierce competition for bonds amid an end-of-year slowdown in issuance. The frenzy was amplified by a spike in rollover flows as well as an explosion of tax-loss harvesting, as participants hastened to reinvest proceeds before the market moved away from them. Over the final two months of the year, the 10-year municipal yield fell 133 basis points. And when it was all said and done, you had to go back to 1986 to find a better quarterly return. 2023 now enters the history books as the sixth best annual return in the last two decades, an extraordinary outcome for a year that brought so much handwringing.

With the rapid ascent of yields through the middle of October, we decided it was time to ramp up our trading activity and extend duration. We fueled this move by purchasing bonds with maturities over 10 years and as far out as 25 years, taking advantage of the steepest part of the curve and tapping the additional supply available in that range. The trade produced immediate and impressive results as rates plummeted over the last two months of the year. The longer maturities we accumulated were our best performers. Meanwhile, the shorter, callable bonds were among the worst performers, despite carrying some of the highest yields heading into the trade. This should not have been surprising. The income component of total return is often swamped by price changes, especially over short time frames. The mistake of focusing solely on yield was magnified by the inverted shape of the curve, tempting many investors to stay short and clip coupons. The rally of the last two months showed how costly that seemingly conservative stance can be.

"Looking ahead to January, the combination of seasonally-low supply, still-heavy reinvestment needs and an end to tax-loss selling should continue to foster the momentum built up over the past two months. Demand will be supported by a healthy fundamental backdrop and historically attractive tax-equivalent yields."

Looking ahead to January, the combination of seasonally-low supply, still-heavy reinvestment needs and an end to tax-loss selling should continue to foster the momentum built up over the past two months. Demand will be supported by a healthy fundamental backdrop and historically attractive tax-equivalent yields. The outlook for state and local governments remains solid, with most looking at low-single-digit revenue increases, manageable expense growth and significant financial flexibility, a product of record-high reserves. Investors will need to be alert to future volatility, especially with the market anticipating a sea change in monetary policy followed by a fast-approaching national election. One area to keep an eye on is how expensive valuations to Treasuries have become in the wake of the recent rally. While we don't necessarily expect a quick unwind of these historically stretched ratios, municipal bonds are less likely to outperform Treasuries until we see those metrics improve. Even so, heading into a year with so much uncertainty, the high-quality stability offered by municipal bonds promises to draw even more interest to the asset class in 2024.

TAXABLE BOND STRATEGIES

The fixed income market experienced an extraordinary rally in the fourth quarter on elevated odds of an economic soft landing and dovish signals from the Federal Reserve. The strong performance was a sharp reversal from the prior quarter, which briefly raised the specter of an unprecedented third consecutive loss for the bond market. Sentiment was bolstered first by news that the US Treasury's borrowing needs were lower than feared and then lifted further by a series of upbeat economic readings and moderating price pressure. The final stage of the rally was powered by the arrival of the long-awaited Fed pivot, which left little doubt that the hiking cycle had concluded. Both the rates market and credit swiftly repriced to reflect a more rapid series of cuts and narrower risk premia, lifting asset prices across the board, and broadly easing financial conditions.

The Treasury market posted its strongest gains since the onset of Covid. The closely watched 10-year Treasury yield fell from a post-GFC closing high of 4.99% in October to 3.88% at yearend — a decline of more than a full percentage point in just over two months. Despite the broad-based rally, the slope of the curve was little changed and remained firmly in negative territory. Inflation breakevens drifted slightly lower, but the main driver of lower rates was the decline in real yields as financial conditions eased. Mortgage-backed securities saw their best quarter since the GFC on the back of the Fed's pivot. The sector benefited from the sharp downtick in rate volatility, lower seasonal originations, and increased bank demand.

Corporates significantly outperformed Treasuries as credit spreads compressed to their tightest levels in two years. The prospect of more accommodative financial conditions boosted the outlook for the space, which was already helped by a benign default outlook and durable profit margins. Corporations continue to enjoy low interest expenses as a residual benefit of debt issued when rates were low, while robust economic growth and reliable consumer spending remain supportive of credit metrics. The best performing sectors were the most capital-intensive and interest-rate sensitive, including home construction, communications, and basic materials. The more defensive consumer non-cyclical sector was a relative underperformer. According to Moody's, the US speculative grade corporate default rate over the last 12 months has been 5.3%, but should improve to 4.1% in the year ahead, closer to the historical average.

After a brief period in the second quarter that saw the bond market converge with the Fed's dot plot, a rift has once again formed. The Fed projects three rate cuts in 2024 while the Fed funds futures market expects more than six. Similarly, the persistent inversion of the yield curve suggests the bond market is pricing in elevated odds of a recession, while the Fed's median projections don't see GDP growth falling below 1.4%. The inversion of the yield curve seems less likely to persist indefinitely, especially if rates normalize into a soft landing.

14 TAXABLE INVESTMENT PROFESSIONALS

19 AVERAGE YEARS EXPERIENCE

INVESTMENT TEAM

Mary F. Kane, CFA	Partner, Portfolio Manager
Stephen J. Repoff, CFA	Principal, Portfolio Manager
John B. Fox, CFA	Partner, Director, Fixed Income

GW&K TAXABLE BOND STRATEGIES

- SHORT-TERM TAXABLE BOND
- INTERMEDIATE TAXABLE BOND
- CORE BOND
- CORE BOND ESG
- ENHANCED CORE BOND
- ENHANCED CORE BOND ESG
- TOTAL RETURN BOND
- CORPORATE BOND OPPORTUNITIES
- SHORT-TERM FOCUSED HIGH INCOME

"A soft landing would provide a favorable backdrop for corporate fundamentals. By creating conditions that allow the Fed to cut rates, it would both support topline growth and promote favorable liquidity conditions, thereby easing future refinancing needs."

A soft landing would provide a favorable backdrop for corporate fundamentals. By creating conditions that allow the Fed to cut rates, it would both support topline growth and promote favorable liquidity conditions, thereby easing future refinancing needs. It would also be constructive on a technical basis, given it would enhance the appeal of spread product. Valuations at current levels are less appealing, with breakevens versus Treasuries at the lower end of their historical range and leaving little room for error. As such, we believe this backdrop supports a neutral view of credit. Within the space, we favor names with defensive operating and financial metrics, given that investors do not seem to be assigning a meaningful discount to riskier business profiles. Within the MBS space, we see a continued interest from banks helping support demand as valuations edge closer to long-term averages. We continue to favor seasoned, high-coupon pools that offer higher carry and better convexity profiles.

DOMESTIC EQUITY STRATEGIES

13 EQUITY INVESTMENT PROFESSIONALS

25 AVERAGE YEARS EXPERIENCE

INVESTMENT TEAM

Daniel L. Miller, CFA	Partner, Director of Equities
Joseph C. Craigen, CFA	Partner, Portfolio Manager
Jeffrey W. Thibault, CFA	Partner, Portfolio Manager
Jeffrey O. Whitney, CFA	Partner, Portfolio Manager
Aaron C. Clark, CFA	Principal, Portfolio Manager

GW&K DOMESTIC EQUITY STRATEGIES

- EQUITY DIVIDEND PLUS
- DIVERSIFIED EQUITY
- SMALL/MID CAP CORE
- SMALL/MID CAP GROWTH
- SMALL CAP VALUE
- SMALL CAP CORE
- SMALL CAP GROWTH

What a difference a quarter makes. October continued last quarter's weakness amid disappointingly high inflation readings that supported the higher-for-longer interest-rate scenario. But investor sentiment turned sharply positive in late October as disinflationary signs took hold despite solid economic indicators, with the Federal Reserve signaling in December an end to its tight monetary policy. Global stock markets rose, while interest rates fell dramatically.

The S&P 500 reported an impressive gain of 11.7% for the quarter, pushing the full-year return to 26.3%. Importantly, the fourth quarter's gain was broad-based, with participation by more than just the "Magnificent 7." There was particular strength among the more interest-sensitive and cyclical sectors, including Real Estate, Financials, Information Technology, and Industrials. Lagging sectors included the more defensive Utilities and Consumer Staples sectors, while Energy posted negative returns for the quarter in response to the 20% decline in oil prices. These three sectors were the only ones to post losses for the full year as well. Leading sectors for the year were primarily driven by the sizable returns of the Magnificent 7, with Information Technology, Communication Services, and Consumer Discretionary leading the way. Smaller caps also participated in the quarter's rally, with the Russell 2000 advancing 14.0%, pushing its full-year gain to 16.9%. Small cap sector performance was similar to large caps in the quarter, although a strong rebound among Biotech stocks and Homebuilders placed Health Care and Consumer Discretionary toward the top as well. Full-year returns among small cap sectors were led by the more cyclical and growth-oriented Industrials, Consumer Discretionary, and Information Technology sectors.

Growth and Value styles both posted good fourth-quarter gains among large caps, although, as has been the case all year, Growth was the stronger performer. Among smaller cap stocks, Value regained some relative strength in the quarter, although it was not enough to offset Growth's lead for the year. Given the double-digit quarterly gains, stocks with lower-quality attributes performed well, which is not atypical, especially among smaller cap names, as non-earners, smaller size, and lower ROE names outperformed.

Despite the resilient economy, inflation has slowed meaningfully, and has finally come down toward the Fed's 2% target for many measures of inflation. This has given the Fed confidence to suggest several rate cuts are in store for 2024. Against this backdrop, the setup for 2024 looks quite positive, as labor markets remain solid, consumer confidence has improved, capital spending should be bolstered by Inflation Reduction Act spending, and corporate earnings should grow nicely. On top of this, corporate cash balances remain high, which should support dividend growth, share repurchases, and M&A activity. Investors have also amassed multi-trillion-dollar cash balances that are likely to move back toward risk assets once money market yields begin to wane with the Fed rate cuts.

Yet, lest we just declare victory for the 2024 soft landing, it is wise to consider some of the risks we face in the new year. There are the imponderables of a widening of hostilities in Ukraine or the Middle East, and the unknown outcome of many pivotal elections around the world.

> *"…the setup for 2024 looks quite positive, as labor markets remain solid, consumer confidence has improved, capital spending should be bolstered by Inflation Reduction Act spending, and corporate earnings should grow nicely."*

There is still the risk of recession caused by the typically long lag time between Fed rate hikes, the inverted yield curve, and the reduction in the money supply. The weak ISM Manufacturing survey and sluggish housing demand would support this fear. On the flip side, there is the possibility that the surprisingly strong economy could lead to renewed inflation and a reversal of the recent drop-in interest rates. The low unemployment rate and high housing prices would support this scenario. So, while the market's bias is clearly toward the soft landing/lower-rate scenario, we will keep any eye out for developments that might put us down an alternative path.

While the market's strength would suggest stocks have gotten only more expensive, in fact market gains have been offset by higher earnings expectations going into 2024, leaving US large cap equities selling at about 20.5x earnings, or a 4.9% earnings yield. With the drop in 10-year Treasury yields to about 3.9%, the ratio of equity to fixed income yields has actually improved over the course of the quarter to about 1.25x.

While we are optimistic about prospects for equity markets in 2024, we are aware there are several factors that could derail our favorable outlook. As such, our primary goal remains investing in quality companies that have strong management teams that should successfully guide them through any economic environment and allow them to outperform their less skilled competition.

GLOBAL EQUITY STRATEGIES

Another quarter, another shift in market sentiment. The prior months' selloff continued in October only to dramatically reverse into yearend on dovish comments from the Federal Reserve and expectations that softer inflation would lead to 2024 rate cuts in several countries, particularly the US. The large cap, MSCI World ex-USA (+10.5%), and small cap, MSCI World ex-USA Small Cap (+10.6%), Indices had similarly strong returns in the quarter — helped by a weakening US dollar (-4.5%). As a result, the 2023 return for MSCI World ex-USA was 17.9%, while the MSCI World ex-USA Small Cap trailed with a still respectable gain of 12.6%. Large caps ended the year at record quarter-end levels, while small caps remain below their 2021 highs.

The rate-induced rally carried over to Europe, where monetary tightening has had a more pronounced impact on economic activity. Northern European markets were standouts, such as Sweden, where housing prices are off 10-13% from peak levels following 400 basis points in rate hikes, and the UK, where rates are now sitting at a 15-year high. With short-term rates still standing firm at -10 basis points, Japan lagged most European markets and the US, while the yen strengthened on expectations that the Bank of Japan (BOJ) would tighten policy early next year. This drained some momentum from the local market, with the MSCI Japan Small Cap Index up modestly in local currency, but Japanese equities had a strong 2023, ending the year at a multi-decade high.

As we enter a new year it's tempting to forecast potential events and how the market will react. However, looking back at the predictions made for 2023 with hindsight is humbling. There were four major market moving global events this past year: the SVB and Credit Suisse driven bank melt-down early in the year, followed by the boom in AI stocks, the Israel-Hamas war, and changes in interest rates. Of those four, the first three were total surprises at the start of the year. Many people predicted rates would move this year and they did, but the volatility in interest rates was not in consensus forecasts. The US 10-year Treasury yield moved between 10-20% EACH quarter. Yet, no one would have guessed that with all this intra-year volatility the 10-year would start the year at 3.87% and end the year at…3.87%.

So, this year we'll skip the forecast. However, as we start the new year there are a few areas of interest worth mentioning. First, 2024 will see a large number of potentially market-moving elections. The year starts with the geopolitically important Taiwanese presidential election in mid-January, a three-way race that is currently too close to call, and will end with the US presidential election. In between we expect the EU parliamentary elections to show continued popular discontent and a likely shift to the right in Europe. The UK general election, possibly in the summer, could result in the only major center-left majority government globally. Normally, such an outcome would be worrisome for markets, but we take a contrarian view that it could be seen as a sign of stability, lacking in the fractured electorates seen elsewhere.

9 EQUITY INVESTMENT PROFESSIONALS

24 AVERAGE YEARS EXPERIENCE

INVESTMENT TEAM

Daniel L. Miller, CFA	Partner, Director of Equities
Reid T. Galas, CFA	Partner, Portfolio Manager
Karl M. Kyriss, CFA	Partner, Portfolio Manager

GW&K GLOBAL EQUITY STRATEGIES

GLOBAL SMALL CAP

INTERNATIONAL SMALL CAP

"Despite relatively modest returns in 2023 our view on international markets is constructive. After years of underperforming, primarily due to valuation compression and FX headwinds, not earnings weakness, the set-up for non-US equities in 2024 is positive."

A second contrarian view is that UK inflation has improved its macro environment. The surprise high inflation has resulted in debt-GDP ratios falling to pre-GFC levels, and (while this will change as rates adjust) private non-financial debt service ratios have not actually moved higher. Although the inflation surprise was not good for UK bondholders, it actually makes us positive on UK equity opportunities for the first time in years. Similarly, we see potential opportunities in the EU periphery markets.

Finally, everything in Japan seems to take longer than first thought, but it remains our favorite market for 2024. The focus will be on if/when the BOJ ends the world's last negative rate regime and may even see excitement grow if the Nikkei can approach 1989 highs. If it is true that flows follow sentiment, which is driven by performance, then Japan could become exciting for the first time in decades.

Despite relatively modest returns in 2023 our view on international markets is constructive. After years of underperforming, primarily due to valuation compression and FX headwinds, not earnings weakness, the set-up for non-US equities in 2024 is positive. We'll be on the look-out for what events will surprise the markets this year, knowing that there will be some. However, our approach and recommendation is simple, and remains the same as always: hold a diversified (critically including geographic diversification) portfolio of quality, attractively-valued, and financially-strong companies.

Our passion for providing thoughtful and highly disciplined investment strategies, combined with a deep commitment to personal service, results in long-term relationships built on trust. We believe accessibility, a willingness to listen, and a desire to educate can be just as important as investment acumen. With 50 years' experience managing assets for individuals and families, we are a partner you can trust.

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Individual Investors
InvestorServices@gwkinvest.com

Institutional Services
InstitutionalServices@gwkinvest.com

Financial Advisors
AdvisorServices@gwkinvest.com

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www.gwkinvest.com

GW&K® INVESTMENT MANAGEMENT

Boston Headquarters
222 Berkeley Street
Boston, Massachusetts 02116
617.236.8900

Other Locations
New York, New York
Winter Park, Florida