SARATOGA CAPITAL MANAGEMENT, LLC

THE ASSET ALLOCATION SPECIALISTS© 12/31/23

MIVI | ABOUT THE ANALYTICAL TOOL

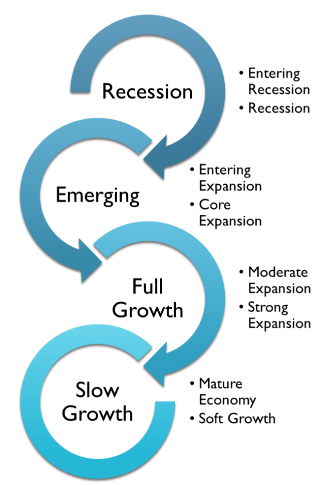
The statistics that comprise MIVI are the foundation of Saratoga Capital Management, LLC's asset allocation research. MIVI is an analytical tool comprised of over 50 macro-economic statistics, and is an acronym for the four main categories these underlying statistics fall into: monetary policy, interest rates, valuations and inflation statistics.

To analyze the capital markets, Saratoga primarily studies the historical and current relationships between economic developments and capital market trends. Our goal is to understand how various asset classes that make up the capital markets (e.g., large capitalization growth, financial services, international equity, etc.) might react in the current economic environment. MIVI helps paint a data-driven picture of current and past economic environments which we can use to shed light on the dynamic between various asset classes. This guides us in our determination for when it is appropriate to adjust our asset allocation strategies. Should the large capitalization growth sector be overweighted versus large capitalization value? Should equity sectors be underweighted versus fixed income sectors, in general? MIVI helps us answer these questions, and more.

GENERAL ECONOMIC OVERVIEW FOR 4Q23

As measured by Real Gross Domestic Product (GDP), the value of the production of goods and services in the United States grew by 4.9% during the third quarter of 2023, up from 2.1% during the previous quarter (all quarterly GDP growth rates discussed are seasonally-adjusted annualized rates unless otherwise noted). Within the main components of GDP, consumer spending as measured by Personal Consumption Expenditures (PCE) advanced by 3.1%, while private sector investment as measured by Gross Private Domestic Investment (GPDI) grew 10%, as both one- and two-year trends turned positive. Government spending, which accounts for both consumption and gross investment, rose 5.8%. Both State & Local and Federal Government spending increased for the fifth consecutive quarter. While imports were up 4.2% for the quarter, exports were up even more, at 5.4%, driving Net Exports to yet another positive quarter and keeping a streak alive that began in the first quarter of 2022.

SARATOGA ECONOMIC STAGES



There was little not to like in this GDP report; though, if we're going to nitpick, consumer spending on services remains muted. That being said, PCE Services spending growth has been positive for thirteen straight quarters and, at 2.2% for the quarter, was above 12- and 24-month trends. Such was the broad story in consumption data, where Services and both Durable and Nondurable Goods spending posted figures in excess of their recent trends.

After a brutal stretch from 2Q22 to 2Q23, private sector investment has bounced back, growing 5.2% in the second quarter of 2023 and nearly doubling that in Q3. Within GPDI, corporate spending on structures was up 11.2% following 30.3% and 16.1% figures in Q1 and Q2, respectively; a boom in spending on Manufacturing facilities led the way again, helped along during the quarter by increased spending on Commercial & Health Care structures. Intellectual Property spending also improved, led by spending on Software. Perhaps unsurprisingly, commercial investment in Software IP has been positive for most extended periods since its addition to GDP in the first quarter of 1961. Since that time, Software IP has been the second-best performing headline sector in GDP, averaging 16.9% growth for the past 62 years and bested only by Computer Equipment investment. For the first time in over two years, private investment in the residential sector was positive, gaining 6.7% and possibly reflecting some softening in borrowing rates as the average 30-Year Fixed Rate Mortgage fell from a cycle-high of 7.79% to end the quarter at 6.61%. Within the sector, Single Family housing led the way, up 27.3%. Multifamily investment has carried water for the sector for the past year; though investment there remained a robust 7.4%, a downtrend has taken hold as a transition to Single Family investment seems to be under way.

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Generally Positive

Generally Neutral

Generally Negative

ASSET CLASS IMPACT

STOCKS

BONDS

SHORTER TERM

LONGER TERM

MONETARY POLICY COMMENTARY & IMPACT

The Federal Reserve continues its tapering program into year two. The Fed balance sheet peaked at roughly $8.96 trillion in April 2022, and has dropped to $7.71t at the end of December 2023. Notwithstanding a $400 billion uptick in March of 2023, as the collapse of SVB drove banks to take advantage of Fed liquidity programs, the balance sheet has marched steadily downwards for the past 20 months. The Fed is shedding US Treasury securities, down over $700b since January 2023, and Mortgage-backed securities, down over $200b over the same period.

The Fed remains persistent in squeezing the country's money supply, though certain elements of this policy have hit a lower gear. As of November, the monetary base is up 5.8% year-over-year; we would consider a rate closer to the 7-8% range as neutral and appropriate for current circumstances. Within the monetary base, we see the Fed is still manipulating policy considerably via currency in circulation (CiC). CiC hit a pandemic-high growth rate of 17% y-o-y in 2020; that figure has now dropped to 1.5% y-o-y, far below its modern historical y-o-y growth rate of roughly 6.9%. M2, one of the most widely used monetary figures for measuring liquidity in the economy, is also down massively from its cycle-high 22% y-o-y growth in February 2021 to -2.95% y-o-y currently; like CiC, M2 is also well below its modern historical growth rate of 7.0% y-o-y.

This somewhat mixed picture results in a slight upgrade to monetary policy's impact on stocks, which we now view as neutral, and to both bond categories, which we now view as slightly positive.

ASSET CLASS IMPACT

STOCKS

BONDS

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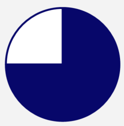
INTEREST RATES COMMENTARY & IMPACT

After extremely volatile trading in February and March, the one-year treasury rate grew towards 5.5% during the summer and settled into a range between 5.3 - 5.5% before breaking 5.3% to the downside in November and ending the year at 4.8%. We generally see this treasury issue move up when inflation is high and the market is anticipating the Fed will move their target rates higher to fight said inflation; conversely, when the bond market believes a disinflationary environment has taken hold and the Fed may be motivated to lower rates, it is common to see the one-year rate move down. After posting strong gains in 2022, three-, five-, and ten-year treasury rates were relatively flat for 2023, though the ten-year did finish the year with better gains than the shorter term rates. That dynamic was good news for the longer end of the yield curve, where we saw a bit of normalization during the last part of the year, though the yield curve remains nearly entirely inverted.

Regarding long-term corporate bonds, the quality spread as measured by Moody's-rated Baa bonds minus Aaa bonds is reflecting a similar sentiment as yield spreads. The quality spread has historically been a good predictor of confidence in the corporate bond market and helps us establish a baseline expectation for corporate earnings. The quality spread approached a long-term low of 0.65 during June 2021 and steadily moved up for the next year and a half, reaching 1.16 in December 2022. A move back to 0.90 this quarter is an improvement, and we view this level as positive with regard to future corporate earnings.

ASSET CLASS IMPACT	EQUITY VALUATIONS COMMENTARY & IMPACT

STOCKS



BONDS

N/A

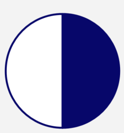
EQUITY VALUATIONS COMMENTARY & IMPACT

As of December 31, 2023, the S&P 500 index was at 4,783. Our proprietary valuation work suggests a fair value for the S&P 500 at 4,767, factoring in present earnings at a 24.5 price-to-earnings ratio (P/E). Earnings growth has stabilized for now, and projections are on their way back up; after negative earnings dominated the landscape in 2022, 2023 has seen three consecutive quarters of positive earnings growth. We believe PE levels are likely to stay slightly below their modern historical mean of roughly 25, though only slightly so; improving inflation data has pushed our P/E estimates upward, while intermediate-to-long-term interest rates are still presenting a headwind to valuations.

To create a range of equity market outcomes, we use a valuation tool which we refer to as our Proper PE Valuation™ tool. Among other things, this analysis provides us with a set of ranges above and below which we consider the S&P 500 overvalued or undervalued, respectively. Our proprietary valuation work currently sets an appropriate S&P 500 PE from 23 to 26. This produces a fair value range of 4,783 to 5,163 over the next six months. Earnings growth remains soft, but much of the underlying macro data reflects the potential for multiple growth. As such, we have moved up our equity valuations rating for stocks.

ASSET CLASS IMPACT	INFLATION COMMENTARY & IMPACT

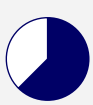
STOCKS



BONDS

SHORTER TERM

LONGER TERM



INFLATION COMMENTARY & IMPACT

Headline inflation was up slightly during the quarter, with the Consumer Price Index (CPI) nearly flat for October and November before jumping 0.3% in December. On the producer side of the economy, the Producer Price Index was negative for the three-month period.

Our past few inflation reports have focused on the clarity wage data brought to our analysis of inflation, however wage data has become more complicated over the past half-year. Where it was clear for much of 2022 and early 2023 that wages were likely "pulling down" inflation, the end of 2023 has been a mixed bag. A number of our favored wage datapoints are now near or solidly above headline inflation rates, meaning that they could potentially begin pushing inflation back up, as opposed to pulling it down. Production-line workers producing goods, whom we have referenced in a number of our recent reports as Goods Workers, have seen wage gains remain steady around 5%, with a y-o-y figure of 6.04% in November, well above 3% inflation. On the other side of the leading wage argument, another important wage datapoint, Private Service Providing Hourly Wages, is a significant outlier to the downside.

Looking beyond wages, PCE inflation, one of the Fed's favored measures, dropped all the way to 2.6%, cutting two-thirds off of its cycle high as it rolled down a steep trend for 2023.

After months of data confirming inflation's downtrend, the picture has become a bit more cloudy. That being said, we believe the current inflation environment remains muted.

Asset allocation does not assure a profit or guarantee that investors will not incur a loss. *Information contained herein was obtained from recognized statistical services and other sources believed to be reliable and we therefore cannot make any representation as to its completeness or accuracy. Any statements not of a factual nature constitute only current opinions which are subject to change without notice. Saratoga Capital Management, LLC does not provide investment advice to individual investors.*

[1]The S&P 500 is an unmanaged, capitalization-weighted index. It is not possible to invest directly in the S&P 500.

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SARATOGA
CAPITAL MANAGEMENT

The Asset Allocation Specialists©
Founded 1994

American Revolutionary War - The Battles of Saratoga, 1777 | *Surrender of General Burgoyne by John Trumbull*

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