CORBETT ROAD
CAPITAL MANAGEMENT

MACRO MUSINGS

January 17, 2024

2023 Year In Review: A Rebounding Market Led by Big Tech

Rush Zarrabian, CFA®
Corbett Road
Managing Partner, Portfolio Manager

CORBETT ROAD CAPITAL MANAGEMENT

SUMMARY

- **macro**cast™ remains positive and suggests the risk of a recessionary bear market in 2024 is low. Our current **micro**cast™ signal remains at an aggressive allocation. The two models paint a constructive outlook at the start of 2024.
- Despite widespread recession fears, the 2023 economy surprised forecasters with positive growth. A resilient job market and strong consumer spending helped the economy defy expectations.
- Stocks and bonds rebounded in 2023—thanks to a strong economy, the end of Fed rate hikes, and outperformance from Big Tech. Most of the gains occurred in the last two months, after the Federal Reserve signaled rate cuts were coming in 2024.
- Following a positive year for the market, historical data suggests further gains are possible. However, 2024 being an election year adds ambiguity. Election years typically see stronger market performance towards year-end, after election uncertainty has passed.

See content within for additional information on the summary items discussed above

THE MESSAGE FROM **macrocast™**

As a reminder, **macro**cast™ is Corbett Road's proprietary investment model. **macro**cast™ measures the appeal of risk assets by looking at the **VITALS** of the market—**V**aluation, **I**nflation, **T**echnical Analysis, **A**ggregate Economy, **L**iquidity, and **S**entiment. By looking at multiple factors, we seek to better gauge market conditions and the probability of a sustained, recessionary market decline.

The latest score improved due to both positive inflation data and stronger technical indicators.

While the current **macro**cast™ score remains below historical bull market levels, the recent point surge since October marks a notable shift from the cautious stance reflected in the model's negative score over the past year and a half. This rapid increase indicates a potential inflection point in the market outlook, suggesting a more favorable environment for risk assets.

THE U.S. ECONOMY DEFIED EXPECTATIONS AND **AVOIDED RECESSION IN 2023**

Despite worries about rising interest rates, the U.S. economy surprised everyone in 2023 with its resiliency. The Fed aimed to cool inflation by raising borrowing costs, which helped slow down parts of the economy like housing. But overall, the U.S. economy grew faster than expected, driven by strong consumer spending, government investments, and businesses restocking supplies.

Here are three key highlights:

- **Growth surged:** After slowing down in early 2023, the economy roared back in the second half, growing at a 4.9% annualized rate in Q3—the fastest pace since late 2021 (GDP growth rate for Q3 2023 from US Bureau of Economic Analysis).
- **Housing rebounded:** Despite initial worries about higher mortgage rates, construction activity accelerated back in November. Housing starts jumped near the highest levels since early 2022. Home prices also hit record highs by year-end.
- **Job growth continued:** The unemployment rate has remained below 4% for the longest period since the 1960s, showing remarkable strength even as the Fed tightened monetary policy.

Please see important disclosures at the end of this article

These numbers suggest the economy is much more resilient than many thought. Inflation is falling, and investors are optimistic that the Fed can pull off a soft landing, lowering inflation without triggering a recession.

2023 ASSET CLASS REVIEW

The following table highlights major asset class returns over the past 15 years (from Novel Investor):

Asset Class Returns

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
EM 79.0%	REIT 28.0%	REIT 8.3%	REIT 19.7%	Sm Cap 38.8%	REIT 28.0%	REIT 2.8%	Sm Cap 21.3%	EM 37.8%	Cash 1.8%	Lg Cap 31.5%	Sm Cap 20.0%	REIT 41.3%	Cash 1.6%	Lg Cap 26.3%	Lg Cap 610.9%
HY Bnd 57.5%	Sm Cap 26.9%	HG Bnd 7.8%	EM 18.6%	Lg Cap 32.4%	Lg Cap 13.7%	Lg Cap 1.4%	HY Bnd 17.5%	Int'l 25.6%	HG Bnd 0.0%	REIT 28.7%	EM 18.7%	Lg Cap 28.7%	HY Bnd -11.2%	Int'l 18.9%	Sm Cap 398.3%
Int'l Stk 32.5%	EM 19.2%	HY Bnd 4.4%	Int'l Stk 17.9%	Int'l Stk 23.3%	AA 6.9%	HG Bnd 0.6%	Lg Cap 12.0%	Lg Cap 21.8%	HY Bnd -2.3%	Sm Cap 25.5%	Lg Cap 18.4%	Sm Cap 14.8%	HG Bnd -13.0%	Sm Cap 16.9%	REIT 369.4%
REIT 28.0%	HY Bnd 15.2%	Lg Cap 2.1%	Sm Cap 16.4%	AA 11.5%	HG Bnd 6.0%	Cash 0.0%	EM 11.6%	Sm Cap 14.7%	REIT -4.0%	Int'l Stk 22.7%	AA 9.8%	Int'l Stk 11.8%	Int'l Stk -14.0%	HY Bnd 13.5%	HY Bnd 270.3%
Sm Cap 27.2%	Lg Cap 15.1%	AA 0.3%	Lg Cap 16.0%	HY Bnd 7.4%	Sm Cap 4.9%	Int'l Stk -0.4%	REIT 8.6%	AA 14.6%	Lg Cap -4.4%	AA 18.9%	Int'l Stk 8.3%	AA 10.9%	AA -16.5%	AA 12.8%	AA 196.4%
Lg Cap 26.5%	AA 13.5%	Cash 0.1%	HY Bnd 15.6%	REIT 2.9%	HY Bnd 2.5%	AA -1.3%	AA 7.2%	REIT 8.7%	AA -5.6%	EM 18.9%	HY Bnd 7.5%	HY Bnd 5.4%	Lg Cap -18.1%	REIT 11.4%	Int'l 193.3%
AA 24.6%	Int'l Stk 8.2%	Sm Cap -4.2%	AA 12.2%	Cash 0.1%	Cash 0.0%	Sm Cap -4.4%	HG Bnd 2.7%	HY Bnd 7.5%	Sm Cap -11.0%	HY Bnd 14.4%	HG Bnd 6.1%	Cash 0.0%	EM -19.7%	EM 10.3%	EM 173.2%
HG Bnd 5.9%	HG Bnd 6.5%	Int'l Stk -11.7%	HG Bnd 4.2%	HG Bnd -2.0%	EM -1.8%	HY Bnd -4.6%	Int'l Stk 1.5%	HG Bnd 3.5%	Int'l Stk -13.4%	HG Bnd 8.7%	Cash 0.6%	HG Bnd -1.5%	Sm Cap -20.4%	HG Bnd 5.5%	HG Bnd 46.8%
Cash 0.1%	Cash 0.1%	EM -18.2%	Cash 0.1%	EM -2.3%	Int'l Stk -4.5%	EM -14.6%	Cash 0.3%	Cash 0.8%	EM -14.3%	Cash 2.2%	REIT -5.1%	EM -2.2%	REIT -25.0%	Cash 5.1%	Cash 13.5%

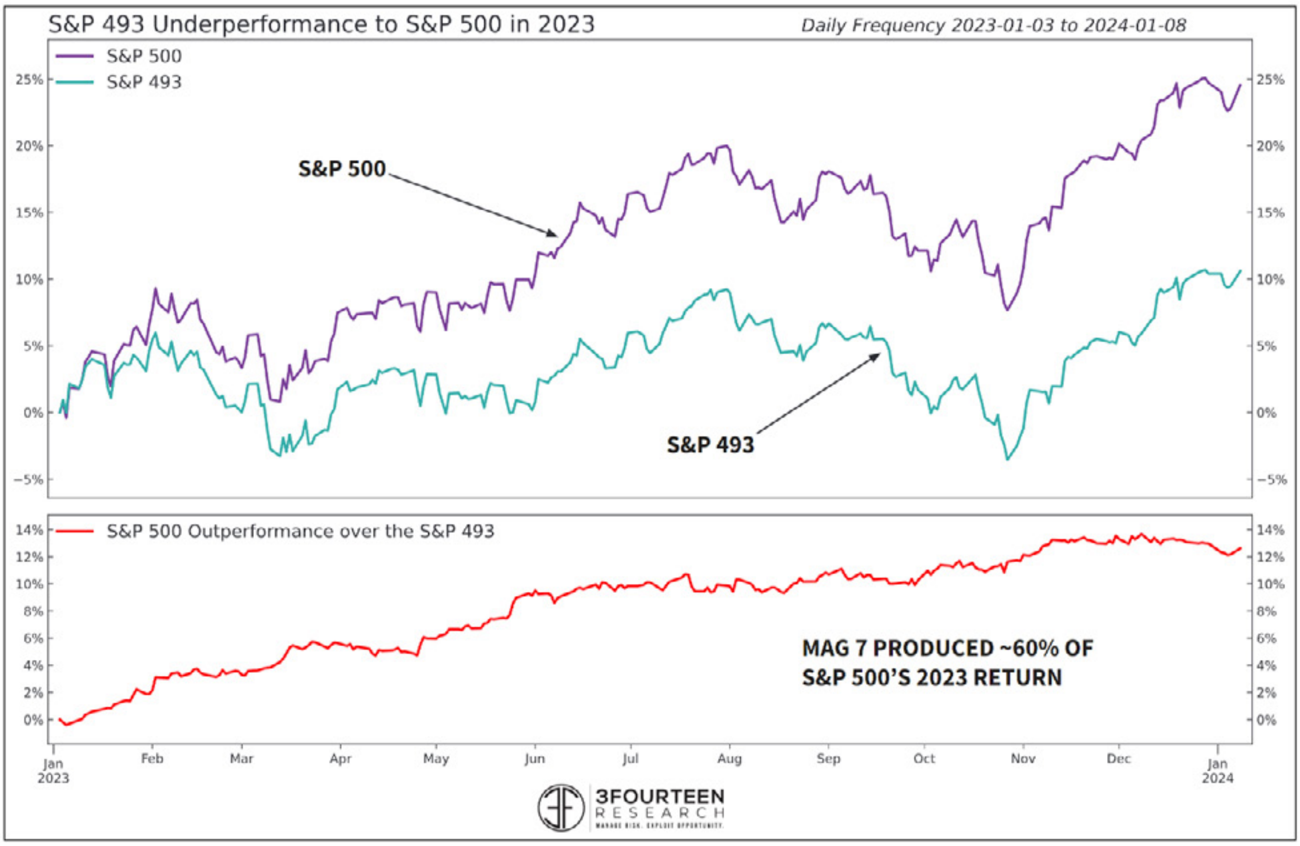
Abbr.	Asset Class - Index	Annual	Best	Worst
Lg Cap	Large Cap Stocks - S&P 500 Index	13.97%	32.4%	-18.1%
Sm Cap	Small Cap Stocks - Russell 2000 Index	11.30%	38.8%	-20.4%
Int'l Stk	International Developed Stocks - MSCI EAFE Index	7.44%	32.5%	-14.0%
EM	EM Stocks - MSCI Emerging Markets Index	6.93%	79.0%	-19.7%
REIT	REITs - FTSE NAREIT All Equity Index	10.86%	41.3%	-25.0%
HG Bnd	High Grade Bonds - Bloomberg Barclays U.S. Agg Index	2.59%	8.7%	-13.0%
HY Bnd	High Yield Bonds - ICE BofA US High Yield Index	9.12%	57.5%	-11.2%
Cash	Cash - S&P U.S. Treasury Bill 0-3 Mth Index	0.85%	5.1%	0.0%
AA	Asset Allocation Portfolio*	7.51%	24.6%	-16.5%

Past performance does not guarantee future returns. The historical performance shows changes in market trends across several asset classes over the past fifteen years. Returns represent total annual returns (reinvestment of all distributions) and does not include fees and expenses. The investments you choose should reflect your financial goals and risk tolerance. For assistance, talk to a financial professional. All data are as of 12/31/23.

*Asset Allocation Portfolio is 15% large cap stocks, 15% international stocks, 10% small cap stocks, 10% emerging market stocks, 10% REITs, 40% high-grade bonds, and annual rebalancing.

Some additional insights from the above table:

1. **Large-cap stocks outperformed all other asset classes, thanks to Big Tech**. After the worst calendar year performance since 2008, large-cap stocks were the best performing asset class in 2023, rising 26.3%. Most of the gains came from seven major tech companies, often called the "Magnificent 7." These seven companies made up ~60% of the market's total return. Without them, the S&P 500 would have only been up ~11% (chart from 3Fourteen on the page 06).



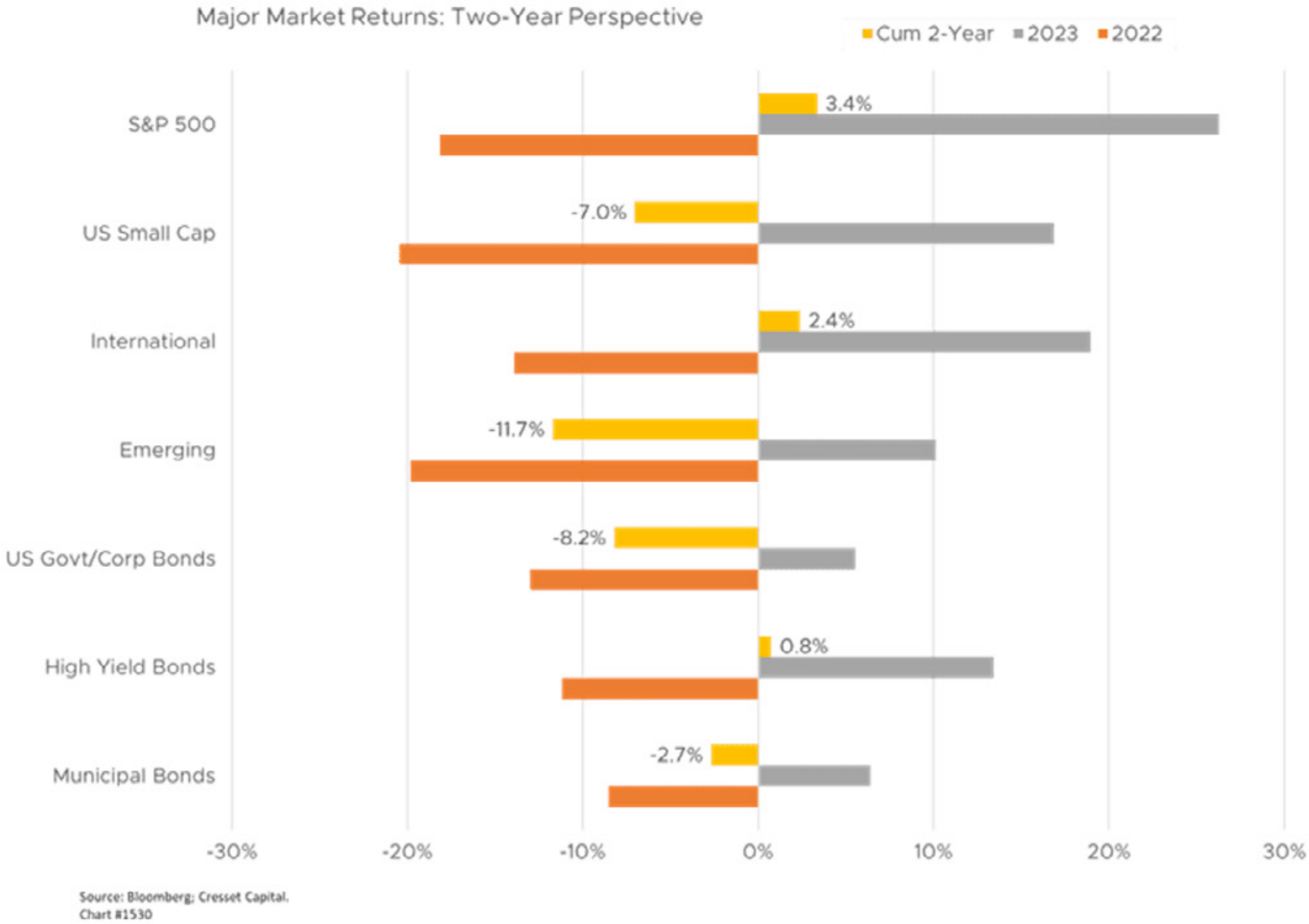
2. **Cash went from first to worst.** In 2022, cash was the top-performing investment and the only asset class to show a positive return with a gain of 1.6%. In 2023, cash returns were higher at 5.1% but lagged all other asset classes.

3. **Emerging markets lagged.** Emerging market stocks didn't perform as well as the US, Japan, or Europe. Concerns about China's economy led to weak performance from Chinese stocks, which were down double digits in 2023. Since China makes up a quarter of the emerging markets index, it dragged down overall performance.

4. **Novel's Asset Allocation portfolio lagged the S&P 500 by double digits.** Novel Investor outlines a basic asset allocation portfolio, which they include in the table on page 4 as indicated by the gray box with the "AA" heading. This portfolio includes a mix of stocks and bonds. From 2000-2008, this portfolio consistently beat the S&P 500, but over the following 15 years, the diversified AA strategy lagged, primarily due to the rise of Big Tech stocks in the US and weaker performance in emerging markets and Europe. The AA portfolio finally broke its losing streak in 2022, but that outperformance was short-lived. In 2023, the AA portfolio lagged the market once again.

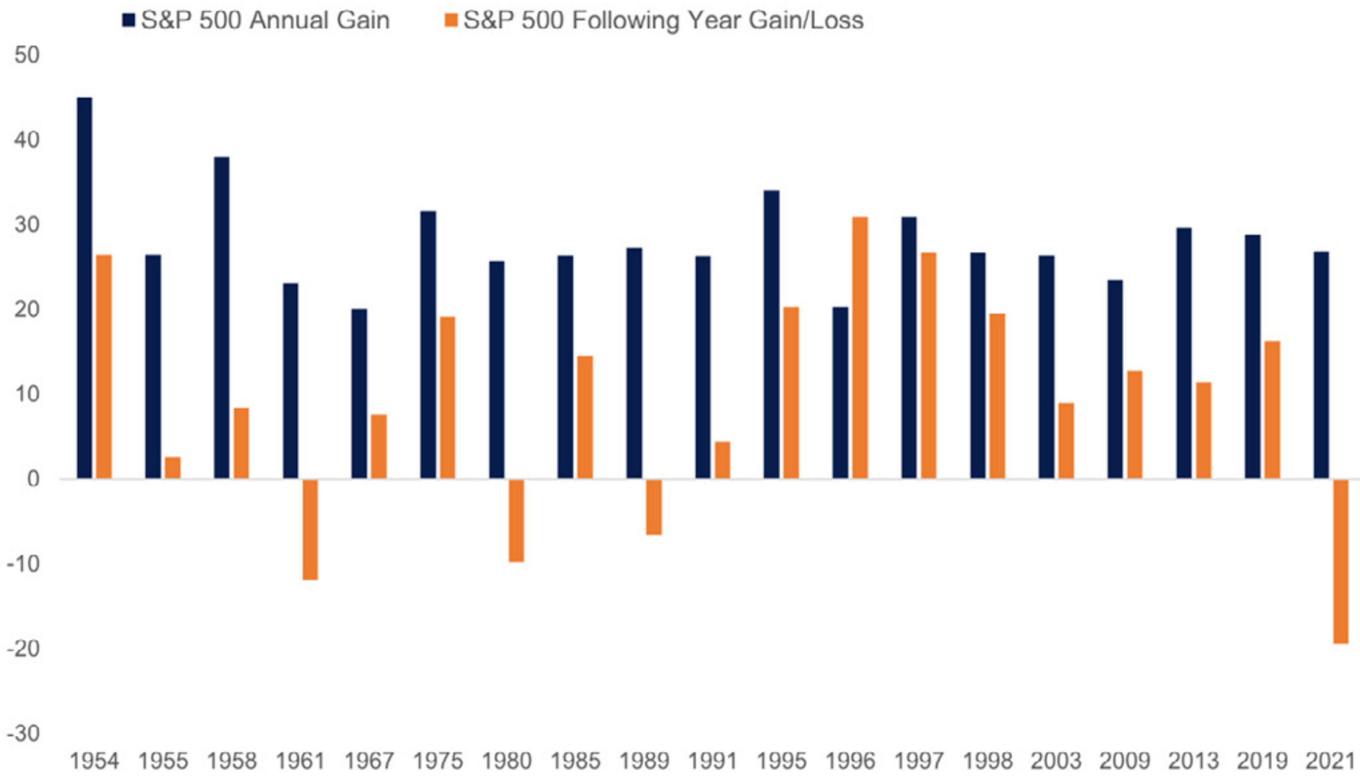
5. **Market performance shifted dramatically in the last two months.** Full year performance numbers do not tell the whole story. The market declined 10% from August through the end of October, but sentiment shifted after another good inflation report and hints of lower interest rates from the Fed. This sparked an end-of-year rally in both stocks and bonds. The S&P 500 rose 16% from the lows, while bonds had their best quarter since 1989.

Despite the 2023 rally, two-year returns across asset classes remain underwhelming, as illustrated by this chart from Cresset Capital. (Yellow bars):



CONTINUED MOMENTUM OR ELECTION TURBULENCE?
NAVIGATING THE MARKET IN 2024

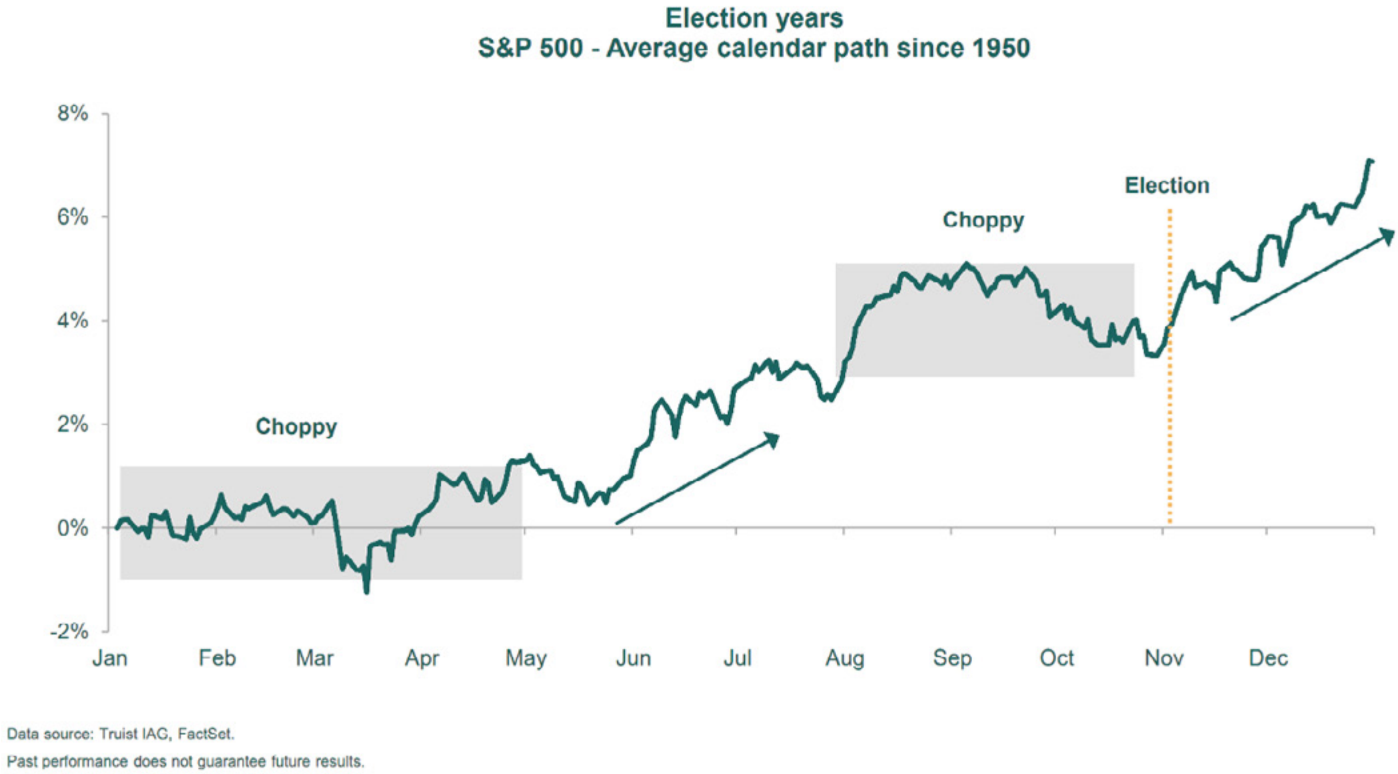
While a strong year like 2023 might tempt some to anticipate a correction, historical data suggests otherwise. As illustrated in this chart from LPL Financial, periods of robust performance often exhibit persistence. In other words, good years have mostly been followed by further gains, not declines.



While the upcoming 2024 presidential election introduces uncertainty, historical data paints a potentially favorable picture. Past election years have, on average, delivered above-average returns.

According to Oppenheimer & Co., when an incumbent candidate is on the ticket the market has gone up an average of 9% and risen in 80% of election years. The last time the market was down when a president was running for re-election was 1948.

There is a tendency for a lot of the gains to materialize after the election, once uncertainty is removed (chart from Truist):



Short-term market gyrations during election cycles might grab headlines. But the long-term trajectory of the market is ultimately determined by the underlying health of the economy and corporate profits.

In summary, the economy demonstrated impressive resilience and avoided a recession in 2023. Despite the record pace of tightening by the Fed through higher interest rates, growth surged in the back half of last year while unemployment has remained low. As a result, all major asset classes saw positive returns in 2023, led by US large-cap stocks and the Magnificent 7. Although stocks saw strong double-digit gains last year, the two-year returns remain underwhelming, and historically, momentum tends to persist after a year of big gains.

Short-term movements may be choppy as the 2024 presidential election introduces some uncertainty, but the average election year tends to see positive returns, especially towards the end of the year, once the election result is known. Ultimately, the long-term trajectory of the market will be driven by the health of the broader economy, and in that regard, the backdrop appears to be improving. The current **macro**cast™ score is positive and improving while **micro**cast™ remains at an aggressive allocation, reflecting a constructive outlook for risk assets in the year ahead.

IMPORTANT DISCLOSURES

Corbett Road Capital Management, LLC ("Corbett Road") is a federally registered investment advisor with the Securities Exchange Commission ("SEC") and has been in business since 2019. Registration with the SEC does not imply their approval or endorsement of any service provided by Corbett Road. This presentation contains information based on the views of Corbett Road. Other organizations or persons may analyze investments and the approach to investing from a different perspective than that reflected in this presentation. Nothing included herein is intended to infer that the approach to investing discussed in this presentation will assure any particular investment results.

Nothing in this presentation is to be considered investment advice and should not be relied upon as the basis for entering any transaction or advisory relationship or making any investment decision. All investments involve the risk of loss, including the loss of principal. Performance information included on this presentation is solely to demonstrate the potential benefits historically associated, with commercial asset classes. Past performance is not an indicator of future results.

Charts and graph depicted in this presentation are for educational purposes only. Investors cannot invest in a market index directly, and the performance of an index does not represent any actual transactions. The performance of an index does not include the deduction of various fees and expenses which would lower returns. Advisory fees charged to Corbett Road clients, whether directly or indirectly through an ETF, are described in Corbett Road's Form ADV Part 2A and Form CRS, available at https://adviserinfo.sec.gov/firm/summary/305063. Past performance is no guarantee of future results.

The presentation includes data, graphs, charts, or other material reflecting the performance of a security, an index, an investment vehicle, a composite or other instrument over time ("Performance Material"). Past performance, and any performance reflected in Performance Material, is not an indication of future results.

All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. **macro***cast™ and* **micro***cast™ are proprietary indexes used by Corbett Road Capital Management to help assist in the investment decision-making process. Neither the information provided by* **macro***cast™ or* **micro***cast™ nor any opinion expressed herein considers any investor's individual circumstances nor should it be treated as personalized advice. Individual investors should consult with a financial professional before engaging in any transaction or strategy. The phrase "the market" refers to the S&P 500 Total Return Index unless otherwise stated. The phrase "risk assets" refers to equities, REITs, high yield bonds, and other high volatility securities.*

Use of Indicators

Corbett Road's quantitative models utilize a variety of factors to analyze trends in economic conditions and the stock market to determine asset and sector allocations that help us gauge market movements in the short- and intermediate term. There is no guarantee that these models or any of the factors used by these models will result in favorable performance returns.

Individual stocks are shown to illustrate market trends and are not included as securities owned by CRCM. Any names held by CRCM is coincidental. To be considered for investment by CRCM, a security must pass the Firm's fundamental review process, meet certain internal guidelines, and fit within the parameters of the Firm's quantitative models.

CORBETT ROAD
CAPITAL MANAGEMENT

McLean, VA
7901 Jones Branch Dr, Suite 800
McLean, VA 22102

Toll Free: 844.878.4897
info@croadcap.com
www.corbettroadcapital.com