

Dividend Growth Commentary

December 31, 2023

4Q MARKET REVIEW

During the fourth quarter of 2023, investors completely changed their view on the direction of U.S. interest rates, causing both stock and bond prices to rally into year end. The Federal Reserve's (Fed) decision on November 1 to leave the targeted Fed funds rate unchanged for the second consecutive meeting convinced investors that rate cuts were imminent. This was despite Federal Open Market Committee (FOMC) Chairman Jerome Powell's insistence that the Fed still had work to do on inflation and would remain vigilant. Investors would have none of it, however, as the S&P 500® Index returned +11.7% for the quarter and +26.3% for the year. Domestic investment grade bonds, which had spent much of the year flirting with their third consecutive year of negative returns, managed to return an impressive +6.8% for the quarter, bringing the total return for the year to +5.5% as represented by the Bloomberg U.S. Aggregate Bond Index.

In contrast to the first three quarters of the year, the rally in stocks was broad-based with the small cap Russell 2000® Index returning +14.0% for the quarter. This eclipsed the NASDAQ Composite Index, which returned +13.8% for the quarter. For the entire year, however, the NASDAQ beat all of the major stock indices with a +44.7% return while the broad S&P 500 Index returned +26.3%.

As interest rates fell globally, most fixed income markets showed impressive returns. The Bloomberg Global Aggregate Index (ex-USD) returned +9.2% for the quarter, while the Bloomberg U.S. Corporate High Yield Bond Index returned +7.2%. Commodities struggled during the quarter with the S&P Goldman Sachs Commodity Index returning -12.1% based on slow growth in Europe and China. At the December 13 Fed meeting, Powell and the FOMC delivered a "dovish hold," sending the 10-year Treasury yield tumbling an additional 32 basis points (bps) to end the year at 3.88%.

As 2024 unfolds, we are left to question whether the market has gotten ahead of itself in projecting nearly six interest rate cuts from the Fed. Both the market and the Fed should be concerned with inflation still running above the Fed's target. Additionally, the U.S. government continues to run unsustainable deficits and must bring \$816 billion in new Treasury issuance to market during the first quarter. With no obvious recession looming on the horizon, the Fed does not need to cut rates. While some may question valuations in the equity markets, the Street consensus forecast for earnings growth in 2024 is a robust 11%. This should help buoy the equity market as the year progresses.

DIVIDEND GROWTH PORTFOLIO REVIEW

The Dividend Growth Composite (Composite) returned 10.71%, gross of fees, for the quarter ending December 31, 2023. The strategy's benchmark, the S&P 500 Index, returned 11.69% during the same time period.

The fourth quarter commenced with constrained financial conditions, which changed in November when Powell started discussions about cutting rates to prevent further tightening as inflation approaches the Fed's desired target. This resulted in decreasing bond yields and the dollar, quickly restoring stocks, and initiating a nine-week rally that extended to year-end.

Additionally, economic growth and S&P 500 earnings showed to be more resilient than expected, driven by the U.S. consumer and backed by a healthy job market, rising wages, and the benefit of the fixed-rate housing mechanism.

The move lower in yields triggered the bounce back in REITs, growth, and small cap stocks that struggled in the face of higher rates. Returns for the full year were dominated by the Magnificent Seven—Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla—tech and AI stocks, which contributed around 80% of the Index returns. But over the fourth quarter, the rally broadened with 33% of the Index reaching new 52-week highs in December led by cyclical corners of the market.

STRATEGY INFORMATION

Benchmark	S&P 500® Index
Business Minimum	\$1M
Number of Holdings	49
Assets	\$123.94M

PORTFOLIO MANAGEMENT TEAM



Julia Batchenko, CFA

Senior Portfolio Manager
Industry start date: 2011
Joined Red Cedar: 2019



David L. Withrow, CFA

Senior Market Strategist
Industry start date: 1988
Joined Red Cedar: 2018



John L. Cassidy III, CFA

Co-Chief Investment Officer
Industry start date: 1987
Joined Red Cedar: 2018



Conor P. Davis

Investment Analyst
Industry start date: 2020
Joined Red Cedar: 2021



INVESTMENT PHILOSOPHY

"We seek companies that possess a combination of three essential criteria: growth of dividends, consistency of earnings and enhanced profitability."

—Julia Batchenko

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Our security selection in the technology sector, underweight of the communications sector, and overweight of the industrials sector were the largest contributors to performance.

Our overweight and security selection in the energy sector and security selection in financials sector were the largest detractors.

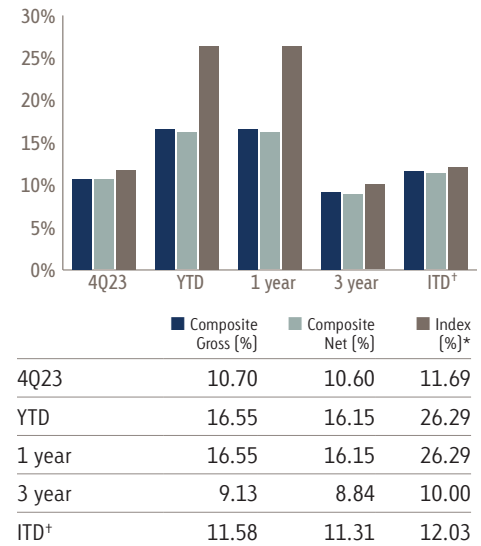
DIVIDEND GROWTH POSITIONING & OUTLOOK

We are constructive on the equity markets in 2024. S&P 500 earnings are expected to increase by 11.5% in 2024 and we expect the U.S. will likely avoid recession albeit deliver slower growth with lower inflation. Markets are now expecting almost six rate cuts from the Fed and will likely be left disappointed due to the absence of reasons for such drastic moves.

In the past year, the S&P 500's performance has been driven by 10 companies, comprising over 30% of the Index. However, the valuations of the other 490 stocks in the Index have not kept pace with the top 10. We expect the last year's positive market performance to broaden out as investors gain confidence in continued resiliency of the U.S. economy and corporate earnings. In addition, 2024 is an election year in the U.S., which could add unexpected curve balls.

As a result, we are looking for opportunities to add to the lagging parts of the market that would benefit from economic expansion and earnings growth.

PERFORMANCE



[†]Inception Date 1/1/2020

Periods greater than 12 months are annualized

*S&P 500[®] Index

Source: Bloomberg, Clearwater Analytics

DISCLOSURES

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All information and performance are reported in U.S. dollars.

The "Net" returns presented are net of fees. Investing involves the risk of loss and investors should be prepared to bear potential losses. Past performance is not indicative of future results.

The "Gross" returns presented are gross of fees. The results do not reflect the deduction of investment management fees. The client's return will be reduced by the management fees and any other expenses incurred in the management of the account. For example, a US \$100 million account, paying a 0.50% annual fee, with a given rate of 10% compounded over a 10-year period would result in a net of fee return of 9.5%. Management fees are described in Part 2A of RCIM's Form ADV Part 2A. Investing involves the risk of loss and investors should be prepared to bear potential losses. Past performance is not indicative of future results.

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RCIM Dividend Growth Composite (Composite) includes all fully discretionary institutional portfolios that invest in common stocks with market capitalization of \$2 billion and higher. The strategy is focused on investing at least 80% of the portfolio in high quality dividend paying and dividend raising stocks and up to 20% in non-dividend paying lower quality stocks. The Composite was created January 1, 2020. The inception date of the Composite was January 1, 2020.

Benchmark Definition: The S&P 500 is widely regarded as the best single gauge of the U.S. equities market. The index includes a representative sample of 500 leading companies in industries of the U.S. economy.

Index Definitions: The Bloomberg U.S. Aggregate Bond Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. The Russell 2000 Index (Small Cap) measures the performance of the 2,000 smallest companies in the Russell 3000 Index. It is generally representative of US Equity Small and Mid-Cap Performance. The NASDAQ Composite Index is a market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. The Bloomberg Global Aggregate ex USD Index is a measure of investment grade debt from 24 local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from developed and emerging markets issuers. The Bloomberg U.S. Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond markets. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. The S&P Goldman Sachs Commodity Index is widely recognized as a leading measure of general price movements and inflation in the world economy. It provides investors with a reliable and publicly available benchmark for investment performance in the commodity markets.

An index is an unmanaged portfolio of specific securities, the performance of which is often used as a benchmark in judging the relative performance of certain asset classes. Investors cannot invest directly in an index. An index does not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown.

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