

# 2024 Capital Markets Forecast

SYNTRINSIC INVESTMENT COMMITTEE

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# Executive Summary

If 2022 was about a global economy closed off due to war and pandemic, 2023 was about opening. If 2022 was tough medicine from the Federal Reserve, 2023 was that tonic at work. If 2022 was a disappointment, 2023 was a pleasant surprise ending with a cherry on top for investors who stayed the course.

Early in the year, February and March triggered all-too-fresh memories of the Global Financial Crisis as Silicon Valley Bank, then Signature Bank, then First Republic failed, each in their own way. Markets and media feared that 2022's quick and dramatic rate hikes went too far too fast with too little preparation, many observers certain that we were on the verge of a cavalcade of bank failures reminiscent of 2008 - 2009. But we were not and they did not. While many local and regional banks face a difficult road ahead, the rate hikes exposed poor bank leadership and regulation that was idiosyncratic rather than systemic.

Still, it would be short-sighted to underestimate the task at hand facing many of the country's local and regional banks, the ones that are most likely to support local small businesses and real estate investors. As we described in [Banks: Moving Forward](#), this highly regulated sector spent 2023 balancing the delicate act of managing the paper losses in their reserve bond portfolios, paying enough interest to retain depositors, satisfying stockholders or private partners, and planning for risks inherent in their commercial real estate loan portfolios. This precarious balancing act occurred—and continues to occur—in the context of higher-than-recent-history interest rates and secular changes in how our society interfaces with important parts of the commercial real estate market. We appreciate the critical role these financial institutions play in the nation's economy and hope that regulators and bank leaders can find creative ways to protect depositors and borrowers while strengthening the financial institutions they both depend upon.

If the banking crisis was the first shoe to drop, then the second shoe—the universally-anticipated 2023 recession—never materialized. And it does not seem to be on the near-term horizon as we dive into 2024. Despite expectations amongst many that the Fed would go too far too fast, year-end 2023 data points to an economy that seems to be bringing inflation under control without crashing the economy. The labor market has softened but is healthy by historic standards. Consumer spending has softened but remains strong enough to sustain our consumer-centric economy. And most unexpectedly, inflation is stabilizing at closer to target levels in the European Union and United Kingdom as well, again without causing the economies to hard land.

For the past decade, Syntrinsic has developed our annual Capital Markets Forecast to inform long-term strategic asset allocations and near-term tactical shifts. Our long-term return assumptions for each asset class are based on quantitative building blocks that are less prone—but not immune to—our subjective musings. Of course, we continue to learn from experience, refining our process as we access new information.

Our approach provides a rational and measurable way to anticipate the returns available from equity, fixed income, real estate, commodities, hedge fund strategies, and private investments. We also realize that from time-to-time, economic and/or market conditions create opportunities to add value on the margins by modestly reducing or increasing asset class and segment allocations. As a result, we craft a near-term sentiment to complement our long-term forecast. Our near-term sentiment evaluates opportunities and measurable risks to adjust allocations with a three-year perspective in mind.

As we head into 2024, some of the major issues are obvious. Here at home, we are contending with presidential and congressional elections and the ongoing fight against inflation taking place at the big table where the governors of the Federal Reserve confer and at kitchen tables around the country. Meanwhile, geopolitical crisis in Eastern Europe and the Middle East, as well as potential conflict in the South China Sea intensify uncertainty and are a headwind to our globalized economy.

But the past four years have reminded us that some of the most significant issues in the year ahead are not yet obvious. When we write the 2025 Forecast, it is almost certain that we will discuss tragedies and triumphs that are not yet in the predictive models. It is a humbling reminder of the challenges of this work.

With that in mind, we hope that 2024 brings wisdom, good decision-making, and prosperity enough for all.

Sincerely,

**Ben Valore-Caplan**

Co-President

Syntrinsic

# Near-Term Sentiment Overview

| Asset Class/Segment          | 1Q 2024 Near-Term Sentiment | 3Q 2023 Near-Term Sentiment |
|------------------------------|-----------------------------|-----------------------------|
| <b>Global Equities</b>       | Neutral/ <b>Positive</b>    | Neutral/ <b>Positive</b>    |
| US                           | Neutral/ <b>Positive</b>    | Neutral/ <b>Positive</b>    |
| Non-US Developed             | Neutral                     | Neutral                     |
| Emerging Markets             | Neutral                     | Neutral                     |
| <b>Global Fixed Income</b>   | Neutral/ <b>Positive</b>    | Neutral/ <b>Positive</b>    |
| Short-Term Bond              | <b>Positive</b>             | <b>Positive</b>             |
| Core Bond                    | <b>Positive</b>             | Neutral/ <b>Positive</b>    |
| Core Plus Bond               | <b>Positive</b>             | Neutral/ <b>Positive</b>    |
| Non-US Developed Bond        | Neutral/ <b>Negative</b>    | Neutral/ <b>Negative</b>    |
| Emerging Markets Bond        | Neutral                     | Neutral                     |
| <b>Real Assets</b>           | <b>Neutral</b>              | <b>Neutral</b>              |
| Real Estate                  | Neutral                     | Neutral                     |
| Commodities                  | Neutral/ <b>Negative</b>    | Neutral/ <b>Negative</b>    |
| Infrastructure               | Neutral/ <b>Positive</b>    | NA                          |
| <b>Hedge Fund Strategies</b> | Neutral/ <b>Negative</b>    | Neutral/ <b>Negative</b>    |
| <b>Private Equity</b>        | Neutral/ <b>Positive</b>    | Neutral/ <b>Positive</b>    |
| <b>Private Debt</b>          | Neutral/ <b>Positive</b>    | Neutral/ <b>Positive</b>    |

Syntrinsic has upgraded our near-term sentiment on Core Bond and Core Plus Bond to **Positive** from **Neutral/Positive**, reflecting the improved forward-looking prospects for the broad asset class given that US interest rates have reached at or near what we anticipate will be the peak in this most recent rate-hiking cycle. With inflation trending downward, it does not appear that further rate hikes will be necessary this year.

In addition, we have added Infrastructure to the asset classes that we forecast and for which we provide a Near-Term Sentiment. Our initial sentiment is **Neutral/Positive** because we anticipate that the asset class will be more compelling to investors due to the transition to a low carbon economy, technological innovation, the potentially growing role of “onshoring,” and historic underinvestment. An expanding array of infrastructure investment opportunities will enable more investors to participate in the asset class, though at this time most worthwhile infrastructure funds are limited to qualified investors.

# I. Near-Term Sentiment

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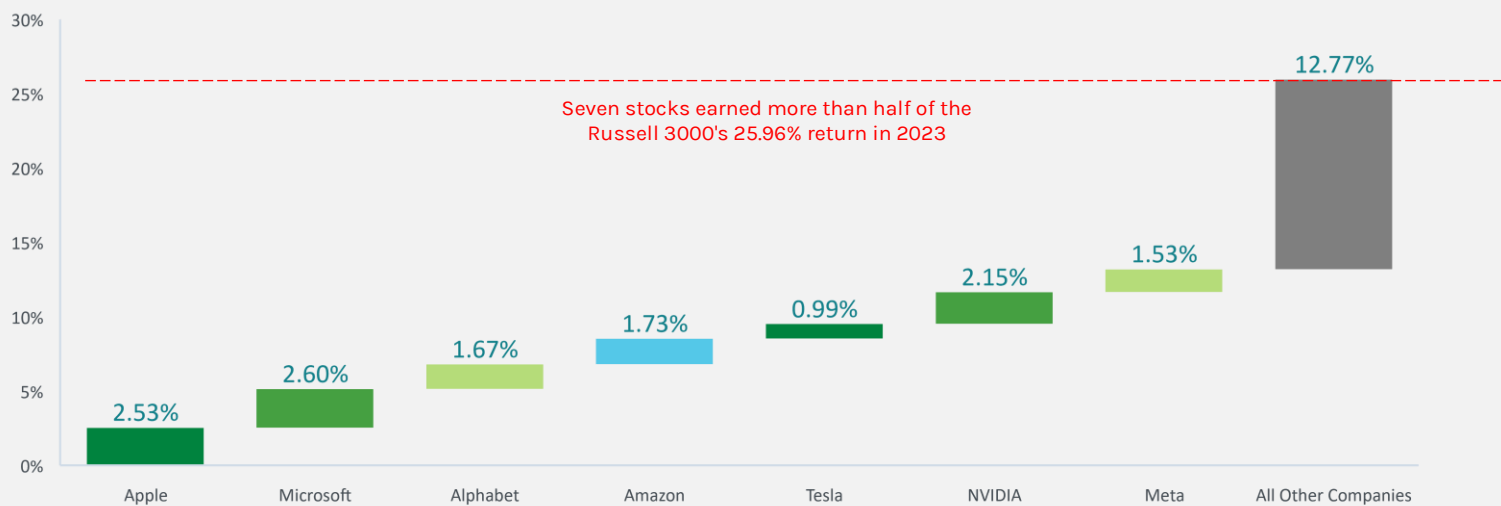
# Global Equities Outlook

BEN VALORE-CAPLAN, CO-PRESIDENT

Before looking forward, we must acknowledge what an unexpected year 2023 turned out to be in the equity markets. With high inflation, geopolitical crisis, supply chain difficulties related to onshoring and war, rising interest rates, a distracted China, and anticipated global recession, it made all the sense in the world to focus on defensive companies with healthy balance sheets in less consumer-sensitive sectors. And yet the market thought otherwise. Year-to-date through September 2023, seven high-growth, tech-adjacent companies that represented 18% of the US equity market on January 1, 2023<sup>1</sup>, were responsible for a whopping 77.2% of the return of the Russell 3000, a broad market index of 3000 US domiciled companies sorted by market cap.

By year-end 2023, after a robust November – December, those companies had continued to rise, but the rest of the market caught up a bit. Still, Apple, Microsoft, Alphabet (i.e., Google), Amazon, Tesla, NVIDIA, and Meta were responsible for 50.8% of the US equity market's +25.96% return in 2023.

Contribution to Total Return of US Equity Market  
Year to Date through December 31, 2023



Sources: Morningstar, Bloomberg, FinanceCharts, Syntinsic

<sup>1</sup> Market capitalization by company provided by Financecharts.com. As of January 1, 2023, Apple represented 5.2% of US broad market capitalization, followed by Microsoft (4.5%), Alphabet (2.9%), Amazon (2.1%), Tesla (1.0%), NVIDIA (0.9%), and Meta (0.8%).

Outside the US, high quality companies performed well through May, then seemingly took a long summer holiday while companies with high debt and low earnings stepped to the fore. Quality returned from its break in time for the fourth quarter, and ultimately ended the year strong. Indeed, for a year that started with a lot of trouble, equity returns proved much stronger—and broader based—than many expected.

### Global Equity Returns 2023

■ US Large Cap ■ US SMID Cap ■ Non US Developed ■ Emerging Markets

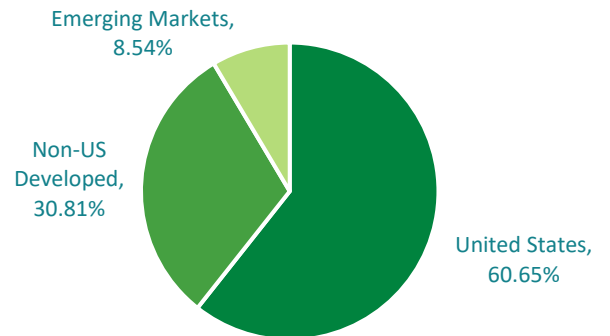


Source: Russell, MSCI, BlackDiamond

Our outlook for Global Equities remains **Neutral/Positive**, driven by steadily improving inflationary conditions, resilient consumer spending, and the reasonable likelihood of declining interest rates in most parts of the world over the next few years.

Within Global Equities, we continue to break out companies domiciled in the United States, developed countries outside the US, and in the emerging markets. While imperfect given the (still) globalized economy dominated by multinational firms, the structure recognizes important differences in rule of law, central banking, regulatory environment, maturity of the banking system, and wealth of consumers and businesses. With US domiciled companies representing over 60% of global market capitalization, the **Neutral/Positive** outlook we have for the US equity market offsets the more **Neutral** outlook we have for both Non-US Developed and Emerging Market equity markets.

### Equity Market Cap by Regions December 2023



Source: Morningstar



Before we dive into discussing each region, we note that equities have become pricier in the US this year as measured by the Price-to-Earnings ratio, the US market reaching 20.0 by year-end 2023. That movement toward more expensive stocks has been driven by the companies that have dominated the US market in 2023, such as MSFT (Year-end PE: 36.31), Apple (31.41), NVIDIA (65.33), and Tesla (80.15).<sup>2</sup>

For comparison purposes, the Dow Jones 100 Index of high dividend growth stocks ended the year with a P/E of 15.44.<sup>3</sup>

Meanwhile, while on the topic of valuations, Price-to-Earnings ratios outside the US are much more favorable. Still, sometimes stocks are cheaper for a reason; we think that is the case today.

### Forward Price to Earnings Ratio (P/E) December 31, 2023

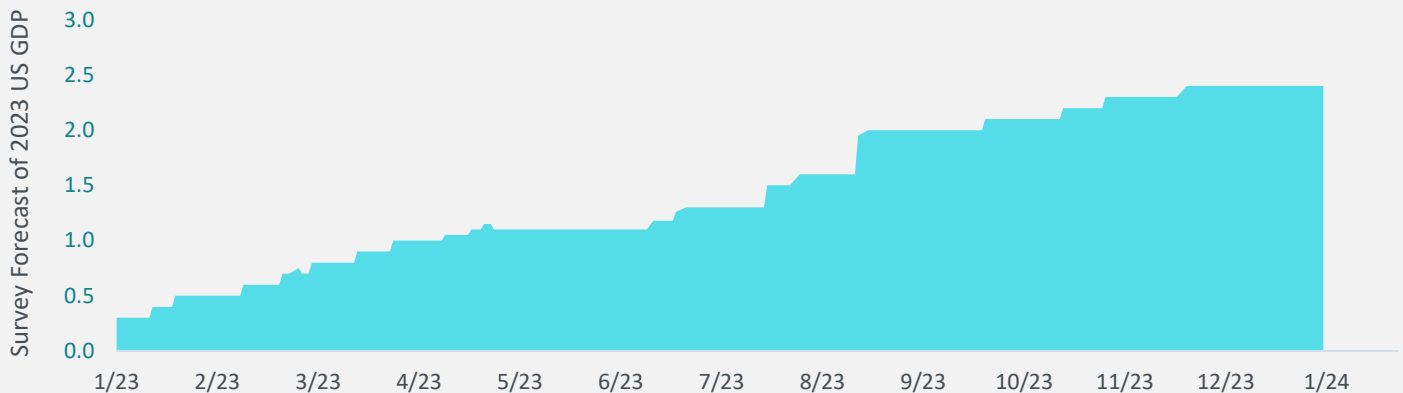
■ United States ■ Non-US Developed ■ Emerging Markets



Source: Morningstar

## US Equities

### US 2023 GDP Forecast Trend



Source: Bloomberg Survey of 71 Economists

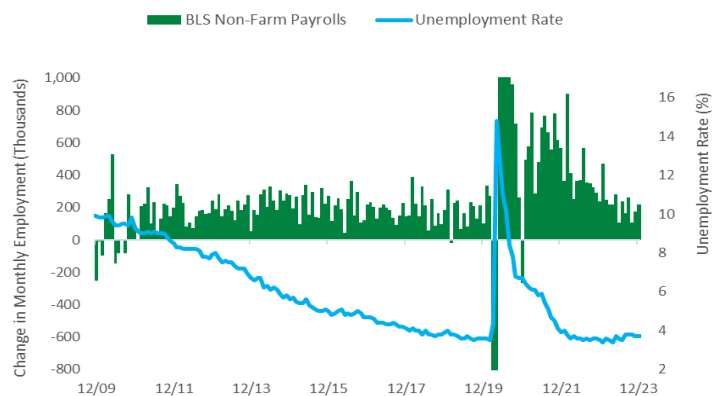
<sup>2</sup> Current Price-to-Earnings ratios for individual companies provided by Morningstar.

<sup>3</sup> The Dow Jones 100 is investable through the Schwab US Dividend ETF and other products.

We all know that economies and markets are highly behavioral, and that data, decisions, and sentiment can fall into a virtuous—or disastrous—cycle of self-reinforcing movements. This year provides ample evidence of this subjective nature on many fronts. We find the Bloomberg survey of 71 leading economists to be particularly instructive. Over the course of the year, these respondents were asked to predict 2023 GDP for the US. Recalling that the year started with near-universal expectations of some sort of recession this year, it is no surprise that the consensus started at less than 0.5% anticipated GDP growth. As the year progressed, inflation trended downward faster than many had expected and equity markets proved resilient, if narrow, in their returns. And of course, the US GDP Forecast Trend progressed along the way, ending the year at a healthy 2.4% expectation. The Bureau of Economic Analysis will provide their preliminary update on actual GDP in January, with more robust estimates in February and March.<sup>4</sup>

Despite the best efforts of the Fed to pump the brakes on the economy, unemployment has remained stubbornly low. While a strong labor market puts upward pressure on wages, it also provides more robust cash to help people keep up with inflation and keep our consumer-driven economy moving forward. Much ado had been made about the low unemployment rate pre-COVID, with unemployment hitting 3.5% in February 2020 just before the March COVID-related lockdowns and layoffs. The rate since early 2022 has been hovering in the 3.5 – 3.7% range, essentially back to a trendline that was interrupted by COVID but perhaps not fundamentally altered by it.

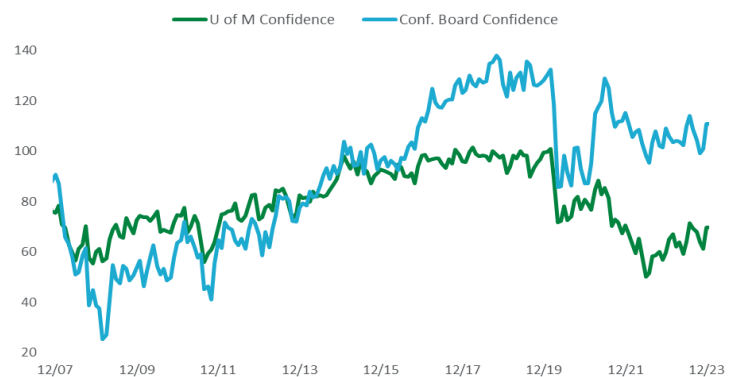
### US Monthly Payroll Change and Unemployment Rate



Source: Bloomberg; US Department of Labor

Interestingly, even as unemployment has returned to pre-COVID norms, consumer confidence today remains stubbornly lower than it was in February 2020 as measured by the University of Michigan (-31.0%) and by the Conference Board (-16.5%).

### US Consumer Confidence



Source: Bloomberg

While another valid data point, it is also important to recognize that consumer confidence numbers in late 2019 into early 2020 were at or near 20-year highs, so perhaps they were not the best representation of a “normal” environment.<sup>5</sup>

<sup>4</sup> [Bureau of Economic Analysis Release Schedule](#)

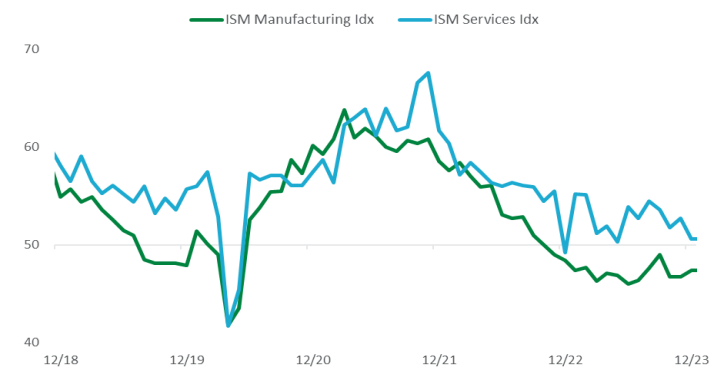
<sup>5</sup> Source: Bloomberg: Conference Board Index of Consumer Confidence, University of Michigan Consumer Confidence

## Lower Purchasing Managers Index: Bad News or Good?

More concerning with regards to the US economy are mediocre results from recent surveys of corporate business officers regarding anticipated spending. Purchasing Managers Index scores above 50.0 predict economic growth while scores below 50.0 reflect the anticipated slowdown in business investment. We end 2023 with ISM estimating PMIs for Services at 50.6 and for Manufacturing at 47.4 – not the kind of numbers we want to see and not what one might expect given the excitement about potential “onshoring” or “reshoring” of manufacturing facilities due to COVID and geopolitical challenges. However, taken in a different light, these numbers reflect the successful

result of the Fed’s aggressive efforts to slow business investment to stem inflation. Indeed, it would be exceedingly difficult to have businesses making big investments while striving to bring inflation back toward 2%. While gloomy numbers get big play in an election cycle, these particular data points are entirely logical and even desirable given the inflation-related challenges at hand.

### US Manufacturing and Services PMIs



Source: Bloomberg

## The US Small Cap Premium Conundrum

Many investors were raised on the supposed truism that there is a premium for investing in smaller publicly traded companies because they can grow faster than their larger capitalized cousins, providing ample reward in exchange for a bit more volatility. The data bore out that relationship for several decades after World War II.

As you will note later in this document when we forecast US equities, the perception has not been echoed by the reality over the past decade—not even close. Comparing the Standard & Poor’s 500, a large cap US index, to the Russell 2000, a commonly referenced small cap US index, reveals a ten-year small cap performance discount of almost 5% per year.

Cumulating that differential over 10 years, large cap stocks have more than doubled their small cap peers. In other words, while small cap equities achieved 100% cumulative growth in value over a decade, large cap earned 212% cumulatively over the same period.

### Large Cap versus Small Cap Ten-Year Returns through December 31, 2023



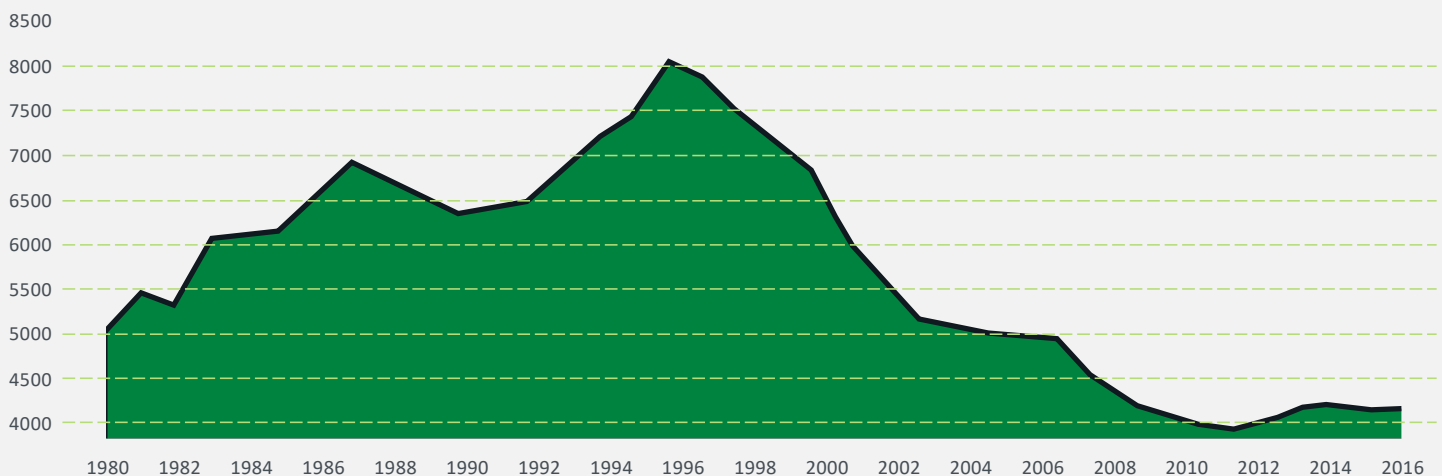
Source: Russell, Standard & Poor’s, BlackDiamond, Syntrinsic

There are many potential reasons for this reversal of fortune, some of which are temporal in nature and might argue for a reversion to the mean. Perhaps the era of low interest rates disproportionately supported larger companies, enabling them to invest and expand at a greater rate. In this scenario, a normalized interest rate environment could potentially even the playing field. However, could argue that the cost of funds for small and large companies will simply adjust proportionately as the yield curve normalizes.

Some analysts point to the growing importance of technology as a differentiator to boost productivity, scale operations, and to accelerate creativity and innovation, especially with Artificial Intelligence. Larger companies have more cash and can better scale the cost and implementation challenges of technology across a larger workforce and cost structure. That said, technology was rapidly changing in the 50s - 90s when the small cap premium was most present, so it is hard to see how technology in a vacuum would be the primary factor in recent small cap underperformance.

We have to consider that there may be structural forces at work that have been a headwind for small cap relative to large cap this past decade and could remain so. Since the real turning point in under performance appears to have occurred in the 2000's we cannot help but wonder if the more rigorous regulatory environment wrought by Sarbanes Oxley Act of 2002 may have created a climate that made it more onerous to be a publicly traded company, discouraging innovators from listing their companies and thus joining the small cap indexes.

**Number of US Listed Companies**



Source: ceicdata.com, World Bank

Interestingly, the past twenty years has also seen the evolution of a highly sophisticated private marketplace for securing capital, monetizing equity, and otherwise providing many of the capital-related functions that the public stock market provided to smaller companies in previous decades.

Whatever the reason, we consider it important to honestly assess whether allocations to the smaller US companies are best made in the public markets or in the private markets. Given that private markets have provided a steady premium over public markets for the past few decades and that small, listed companies have meaningfully underperformed larger ones, and given that we do not see a catalyst on the horizon that might change either situation for the worse, we recommend that growth-oriented and risk-tolerant investors pivot out of small cap equity for large cap or private equity.

As we pivot to look outside the US, we continue to see divergent though not necessarily conflicting data the world's other two largest economies, the Eurozone and China.

## Economic Indicators

### Purchasing Manager's Index (PMI)

|              | Q/Q | 12/31/23 | 9/30/23 | 6/30/23 | 3/31/23 | 12/31/22 | 9/30/22 | 6/30/22 |
|--------------|-----|----------|---------|---------|---------|----------|---------|---------|
| US Composite | ↑   | 50.9     | 50.2    | 53.2    | 52.3    | 45.0     | 49.5    | 52.3    |
| DM Composite | ↑   | 49.8     | 49.6    | 52.1    | 52.5    | 47.1     | 49.2    | 54.4    |
| EM Composite | ↑   | 53.1     | 52.0    | 53.5    | 54.6    | 50.0     | 50.1    | 55.2    |

### Retail Sales, Annual % Change

|                          | Q/Q | 12/31/23 | 9/30/23 | 6/30/23 | 3/31/23 | 12/31/22 | 9/30/22 | 6/30/22 |
|--------------------------|-----|----------|---------|---------|---------|----------|---------|---------|
| US *As of 11/30/23       | ↑   | 4.1      | 4.0     | 1.5     | 2.2     | 6.0      | 9.0     | 9.5     |
| Eurozone *As of 11/30/23 | ↑   | -1.1     | -2.9    | -0.8    | -3.2    | -2.9     | 0.2     | -2.6    |
| China *As of 11/30/23    | ↑   | 10.1     | 5.5     | 3.1     | 10.6    | -1.8     | 2.5     | 3.1     |

### Consumer Confidence

|                       | Q/Q | 12/31/23 | 9/30/23 | 6/30/23 | 3/31/23 | 12/31/22 | 9/30/22 | 6/30/22 |
|-----------------------|-----|----------|---------|---------|---------|----------|---------|---------|
| US                    | ↑   | 110.7    | 104.3   | 110.0   | 104.0   | 109.0    | 107.8   | 98.4    |
| Eurozone              | ↑   | -15.0    | -17.7   | -16.1   | -19.1   | -22.0    | -28.6   | -24.1   |
| China *As of 11/30/23 | ↓   | 87.0     | 87.2    | 86.4    | 94.9    | 88.3     | 87.2    | 88.9    |

### Unemployment Rate

|                          | Q/Q | 12/31/23 | 9/30/23 | 6/30/23 | 3/31/23 | 12/31/22 | 9/30/22 | 6/30/22 |
|--------------------------|-----|----------|---------|---------|---------|----------|---------|---------|
| US                       | ↑   | 3.7      | 3.8     | 3.6     | 3.5     | 3.5      | 3.5     | 3.6     |
| Eurozone *As of 11/30/23 | -   | 6.5      | 6.5     | 6.5     | 6.5     | 6.7      | 6.7     | 6.7     |
| China *As of 11/30/23    | -   | 5.0      | 5.0     | 5.2     | 5.3     | 5.5      | 5.5     | 5.5     |

### US Financial Conditions

|    | Q/Q | 12/31/23 | 9/30/23 | 6/30/23 | 3/31/23 | 12/31/22 | 9/30/22 | 6/30/22 |
|----|-----|----------|---------|---------|---------|----------|---------|---------|
| US | ↑   | 0.7      | 0.1     | 0.3     | -0.4    | -0.3     | -1.2    | -1.2    |

Sources: Bloomberg, Markit, US Census Bureau, Eurostat, National Bureau of Statistics China, US Conference Board, European Commission, and US Bureau of Labor

## Non-US Equities

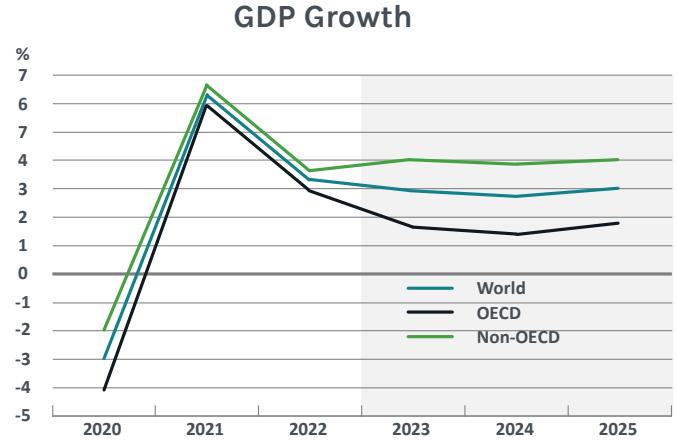
While a complicated place, the United States represents a single economy with one central bank, one currency, one primary taxation authority, and one regulatory framework. As we look outside the US, both developed and emerging markets often are evaluated in concert with several peers, each with their own banking, finance, taxation, and regulatory bodies. On one hand, aggregated data reflects real-world trading blocks and makes modeling easier; on the other hand, nuances are easily lost in terms of analyzing Europe or Latin America, let alone faster growing Asia.

Still, we find the Organization for Economic Cooperation and Development (OECD) to provide reasonable data on global economic conditions, though the organization is comprised exclusively of 38 democracies with market-based economies, including the US.<sup>6</sup> Each year, the OECD provides an [Economic Outlook \(2023\)](#) with what we have found to be a mid-point forecast on how economies are likely to function over the subsequent few years. Far from a long-term forecast, the guidance is nonetheless useful.

<sup>6</sup> [OECD Members and Partners](#)

## Global Growth

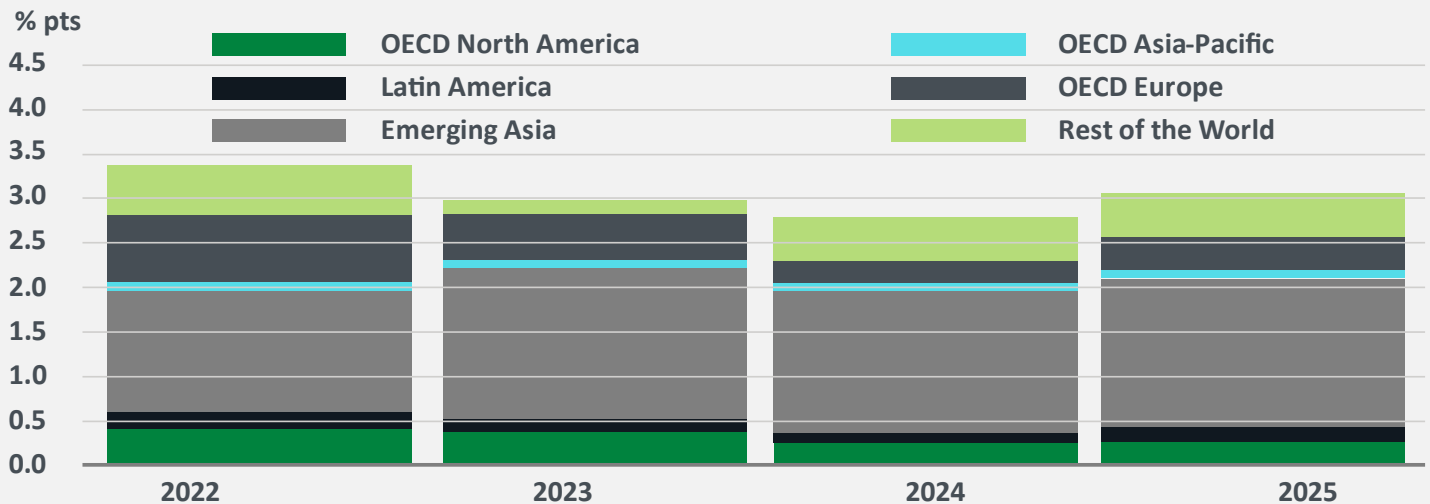
The more mature economies of the OECD have been—and are expected to continue—growing at a slower pace than their less developed peers. The OECD anticipates developed economies to slowly move toward 2.0% growth in 2025 from roughly 1.5% estimated GDP growth in 2023. Non-OECD economies are expected to double that growth rate at 4.0%, though importantly, that 4.0% growth rate is already in place in 2023 and largely expected to hold steady in 2024. While a steady state growth rate of 4.0% is not shabby, it pales in comparison to the 6-8% growth rates that emerging economies saw prior to the pandemic.



Source: 2023 OECD Economic Outlook 114 databases and OECD Calculations

Most significantly, the OECD reminds us that most of the global growth taking place is occurring outside OECD countries, even if companies based in the OECD are benefitting from that economic activity. Only about 25% of anticipated global growth in 2025 will be based on contributions from OECD countries.

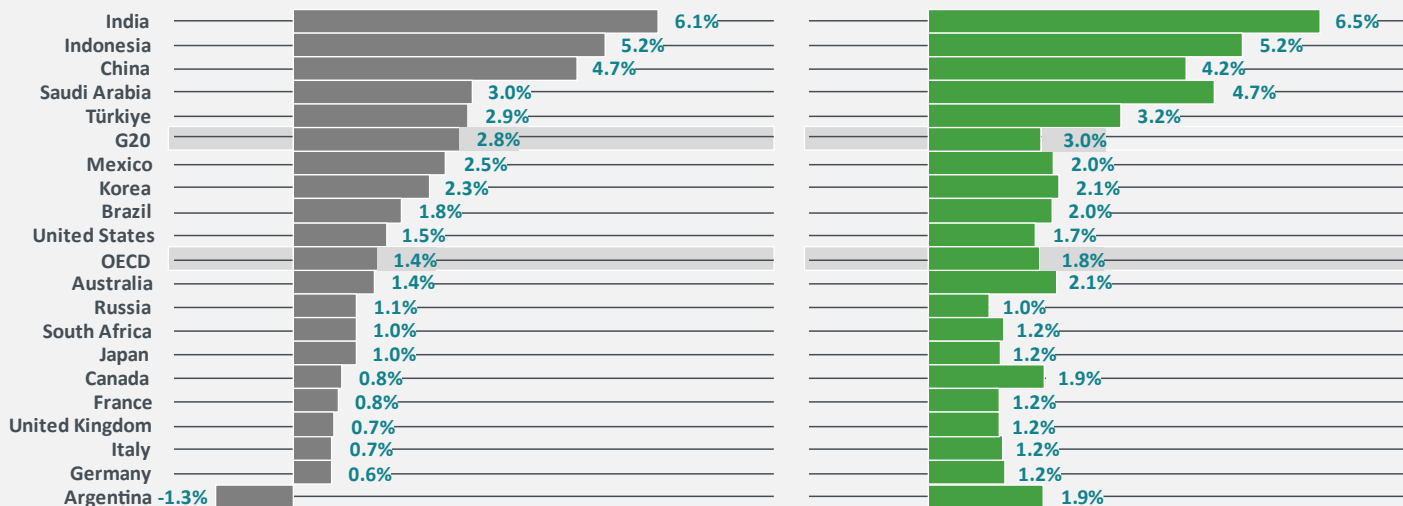
## Contributions to Global Growth



Source: 2023 OECD Economic Outlook 114 databases and OECD Calculations

Unsurprisingly, the primary emerging economies continue to be based in Asia; however, two large countries have overtaken China as the dominant growth stories, India and Indonesia.

### OECD Forecast of 2024 and 2025 Real GDP Growth



Source: 2023 OECD Economic Outlook, November 2023

With India recently surpassing China in population<sup>7</sup> if not yet in economic heft, and with Indonesia’s population on track to surpass the US over the next few decades, their economic ascendancy potentially further diversifies global growth, could elevate millions from poverty, and potentially creates more compelling investment opportunities for foreign capital. Importantly, they remind us that China is not the only growth story in the emerging markets, nor even the most important growth constituent over the decade ahead.

If companies outside the US have higher dividend yields than their US peers, more attractive P/E valuations, and are located in faster growing economies, then why would we maintain a less attractive sentiment and persist in our underweight to equities based outside the US?

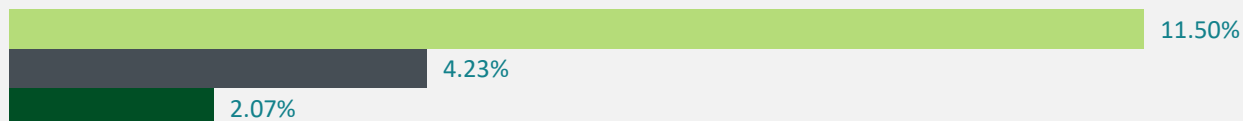
First, it’s important to acknowledge that the same conditions outlined above have been in place for at least the past ten years. However, higher dividends, lower P/E valuations, and faster growing economies have NOT led to Non-US equity market outperformance—or even comparable performance relative to US markets. For the ten years ending December 31, 2023, the US equity market has earned annualized returns over 2x that of Non-US developed markets and 5x that of emerging markets.

<sup>7</sup> Based on 2021 estimates from the World Bank and US Census Bureau, India was believed to have 1.408 billion people, China 1.412 billion. India is currently undergoing a census even as China’s population growth slows. It is widely expected that India has surpassed China in population.

While the situation could change, we do not see what catalyst would cause the “reversion to the mean” that at least some investors have been anticipating since about 2011.

### Global Equity Returns Annualized Ten Years Ending December 31, 2023

■ US Equities ■ Non US Developed ■ Emerging Markets



*Source: Russell 3000 represents US Equities, MSCI - EAFE represents Non-US Developed Markets, and MSCI Emerging Markets represents Emerging Markets. Morningstar*

## Building a Global Equity Portfolio

Our sentiment about US and Non-US equity markets leads to a general view that investors should continue to overweight US equities versus their weight in the global equity indexes, tilt toward large and mid-cap in the US, avoiding small cap, and focus on companies with the highest growth prospects outside the US, controlling for good governance and transparency that can protect outside investors.



# Global Real Estate Outlook

MATT KUKLA, SENIOR ANALYST

Syntrinsic is maintaining our **Neutral** sentiment on Real Estate. Given that assets classes such as Equities, Fixed Income, Private Debt, Infrastructure, and Private Equity are all at least **Neutral/Positive**, we are not enthusiastic about the relative value of making a call-out allocation to real estate at this time. Most if not all our clients maintain some real estate exposure through active and passive equity managers and securitized mortgage-backed securities in the fixed income markets.

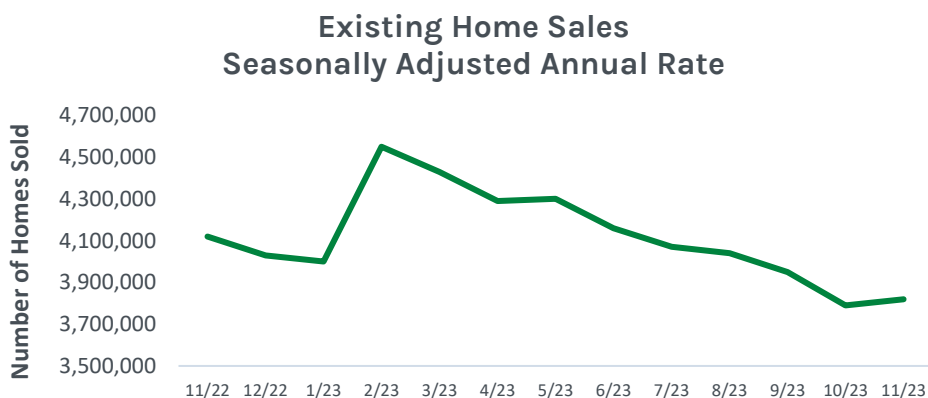
The primary cause for our muted outlook is the effect—mostly intentional—of the Federal Reserve’s rapid increase in the Fed Funds Target Rate since 2022 on the residential and commercial real estate markets.

## Residential Real Estate Market

Economic theory would suggest that the rise in interest rates and, in turn, mortgage rates would cause a decrease in demand for existing homes. Lower demand would lead to a decline in home prices and an increase in affordability. However, demand is just one side of the equation.

Higher interest rates can also make potential sellers of existing homes less willing to sell their homes so they can keep the low mortgage rates they may have locked in over the past several years of unusually low interest rates. The resulting low inventory of existing homes<sup>8</sup> in the market is keeping home prices at record highs with the national median existing home price at \$387,600 in November.<sup>9</sup>

While existing home sales<sup>10</sup> have declined to record lows not seen since the 2008 financial crisis, existing home prices remain at record levels, leading to historically low affordability for homeowners, according to the St. Louis Federal Reserve.<sup>11</sup>



Source: St. Louis Federal Reserve (FRED)

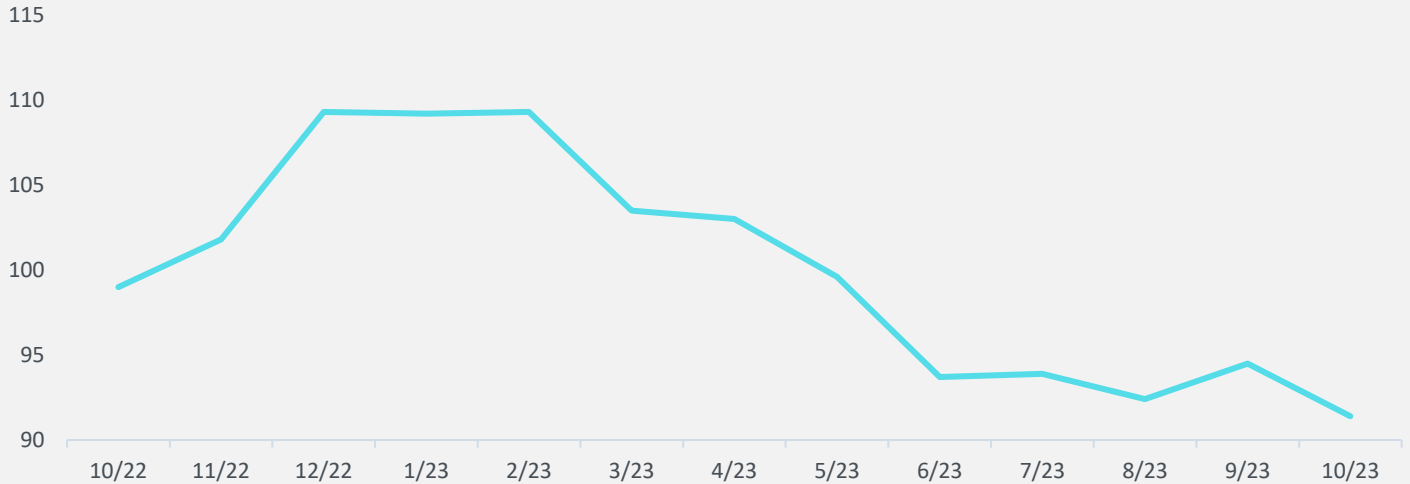
<sup>8</sup> National Association of Realtors, [Existing-Home Sales Expanded 0.8% in November, Ending Five-Month Slide \(nar.realtor\)](#), December 20, 2023

<sup>9</sup> Bankrate, [Median Home Prices in Every State | Bankrate](#), David McMillin and Michele Petry, January 03, 2024

<sup>10</sup> National Association of Realtors, [Existing-Home Sales Expanded 0.8% in November, Ending Five-Month Slide \(nar.realtor\)](#), December 20, 2023

<sup>11</sup> FRED, Federal Reserve Bank of St. Louis, [Housing Affordability Index \(Fixed\) \(FIXHAI\) | FRED | St. Louis Fed \(stlouisfed.org\)](#), January 8, 2024

## Housing Affordability Index



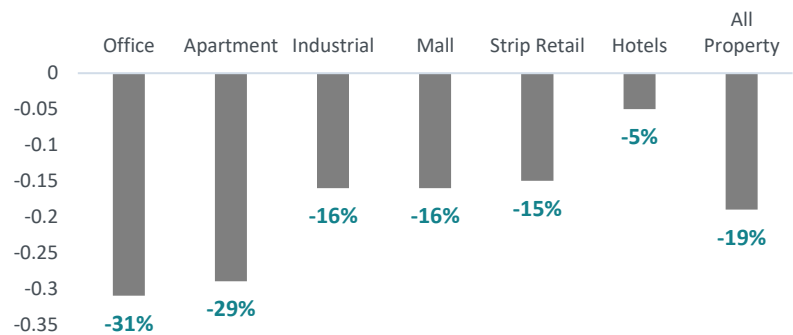
Source: St. Louis Federal Reserve (FRED)

Even though we currently expect the economy to achieve a soft landing in 2024 with a modest decline in interest rates, we do not expect the deep freeze in the residential real estate market to completely thaw. Existing home prices likely will soften though remain at elevated levels causing a modest increase in the supply of existing homes in the market and an uptick in demand. Unless there is a meaningful decline in interest rates in 2024, existing home sellers and buyers will remain in a tug-of-war.

## Commercial Real Estate Market

From when the Fed started its rate-hiking cycle in March 2022 to year-end 2023, commercial property values<sup>12</sup> in the aggregate have declined significantly. The most troubled sector of the commercial real estate market is the office sector due to an increase in vacancies from remote work, difficulty refinancing due to an increase in interest rates, high levels of leverage, declining loan-to-value (LTV) ratios and falling property values.

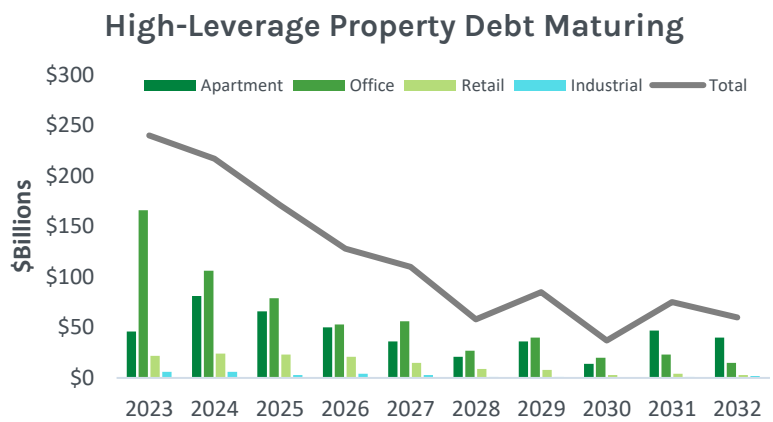
### Change in Commercial Property Values December 2023 vs. March 2022 % Change



Source: Bloomberg

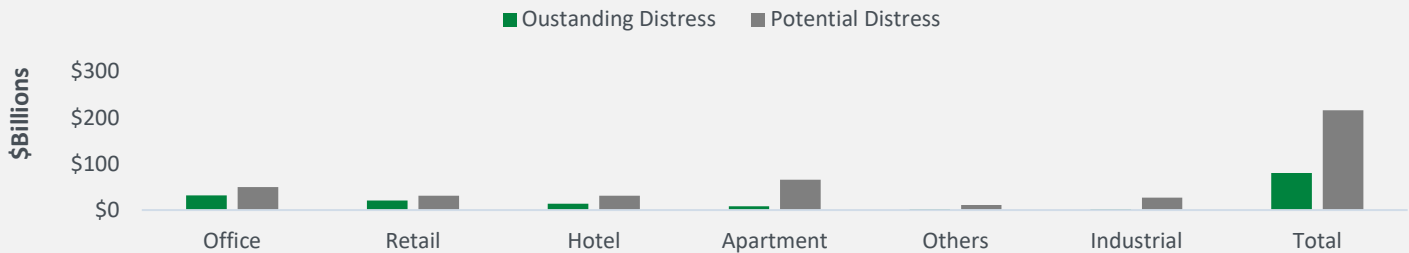
<sup>12</sup> Wall Street Journal, [Squeezed Property Owners Put Their Faith in the Fed - WSJ](#), Carol Ryan, November 16, 2023

Extending out to 2032, about \$1.2 trillion of US commercial real estate is potentially troubled given their loan-to-value ratios.<sup>13</sup> More immediately, offices account for more than half of the \$626 billion of at-risk commercial real estate debt set to mature by the end of 2025.<sup>14</sup> While MSCI Real Assets index estimates that offices have the highest levels of current outstanding distress, apartments account for more than one third of potential distressed commercial real estate as a result of increased rents in 2020 and 2021 and an increase in supply, both leading to increased vacancy rates for multi-family.<sup>15</sup>



Source: NewMark Group Inc

### Distressed Commercial Real Estate 3Q 2023



Source: MSCI Real Assets

Given that many of the loans extended to the office sector are from smaller regional banks, liquidity is hard to come by as regional banks shore up their balance sheets. However, this credit crunch is not limited to smaller regional banks; non-bank lenders continue to sit on the sidelines as well.

Although many landlords were able to extend their loans by putting in more capital, those extensions are now expiring.<sup>16</sup> This means that many office landlords could be compelled to pay off their mortgages, sell properties at steep discount, or hand their buildings over to their creditors.

Like the residential real estate market, the most obvious saving grace for the office sector would be a rapid decline in interest rates in 2024 and 2025. Although lower rates would not address structural changes in how people work, they would buy owners and lenders time. The Federal Reserve is expected to cut rates; however, it is not clear if those rate cuts would be enough to buy lenders and borrowers the time or flexibility they need.

<sup>13</sup> Bloomberg, [Landlords With \\$1.2 Trillion of Debt Face Rising Default Risks - Bloomberg](#), John Gittelsohn, August 23, 2023

<sup>14</sup> Bloomberg, [US Distressed Commercial Real Estate Nears \\$80 Billion, Its Highest in a Decade - Bloomberg](#), John Gittelsohn, October 18, 2023

<sup>15</sup> Bloomberg, [The Big Real Estate Short Targets Apartments as Distress Emerges - Bloomberg](#), Neil Callanan and Immanuel John Milton, January 6, 2024

<sup>16</sup> Wall Street Journal, [The Office Market Had It Hard in 2023, Next Year Looks Worse. - WSJ](#), Peter Grant, December 19, 2023

# Commodities Outlook

MATT KUKLA, SENIOR ANALYST

Currently, we maintain a **Neutral/Negative** sentiment on Commodities reflecting our lack of conviction about the asset class over the next few years. There are better diversification tools that have more favorable return potential and better risk/return profiles.

While commodity-related investments manifest within equity and debt markets as well as some hedge fund strategies, we can make dedicated allocations to commodity-based investments when the opportunity presents. For example, while infrastructure and industrial development in China was driving the global economy up until about 2012, Syntrinsic maintained allocations to commodity indexes and dedicated natural resource stocks.

The case for commodities is often linked to hedging the risk of near-term environmental and geopolitical events that can trigger spikes or dips in certain commodities. Such an event occurred in the first half of 2022 when Russia invaded Ukraine, creating massive spikes in energy and food-based commodity prices. Using commodities to hedge against such short-term possibilities can be expensive given how the assets often perform outside of a crisis. We prefer to invest in commodities when long-term fundamentals are supportive.

# Private Investments Outlook

MATT KUKLA, SENIOR ANALYST

Barring a global financial contagion as we saw during the Global Financial Crisis, we do not expect a decade of zero interest rates going forward, but a more normalized interest rate environment consistent with a normalized business cycle. Very low interest rates encouraged risk taking in private markets but they also caused distortions in valuations that are still moving toward more appropriate expectations.

Changes in the market environment create a nice opportunity to build or grow exposures to private markets for long-term investors who can accept the illiquidity and are comfortable investing in a less regulated segment of the economy. While private equity is correlated to public market equity (i.e., the stock market), the timing and methodology of valuing portfolios creates additional diversification within a portfolio context.

Some argue that private investments are only worthwhile if one invests in the top decile of managers; however, our modeling points toward the value of asset class Beta. We expect that if investors can earn even just the average returns in the asset class, the investment should prove worthwhile relative to other options. Top tier managers then potentially provide more icing on the cake rather than the cake itself.

# Private Equity Outlook

We maintain our sentiment of **Neutral/Positive** on private equity, recognizing that the asset class is at an important crossroads. Massive deal flow and capital raises through mid-2022 came to a screeching halt in the last part of 2022 and through much of 2023. Higher interest rates increased the cost of funds, reducing valuations of current portfolio companies, causing potential sellers to pause in the hopes of a return to higher valuations, and making new deals far more expensive.<sup>17</sup>

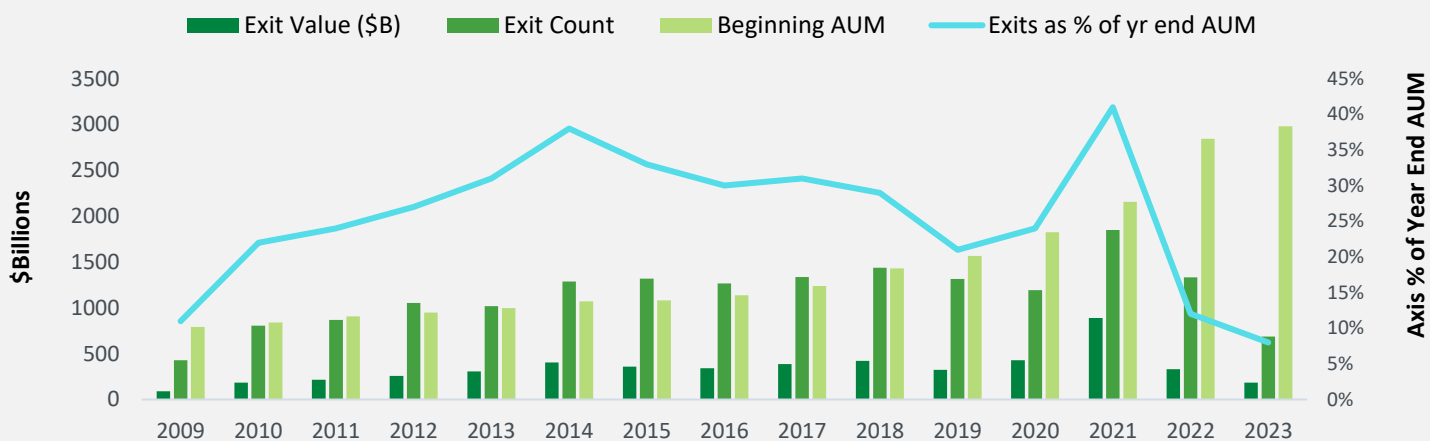
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<sup>17</sup> Pitchbook, [PE firms rely on organic growth for returns | PitchBook](#), Jessica Hamlin, October 23, 2023

Having a higher cost of funds keeps our long-term return outlook for private equity below average returns over the past decade. Still, we believe that the potential to earn an illiquidity premium of roughly 3% above public equities is adequate given the risk and time horizon of private equity. We think it a long-term positive that going forward, returns will be driven more by operating performance from EBTIDA growth rather than financial engineering and multiple expansion as in the past decade.

Despite the long-term return potential of private equity, we recognize that some headwinds may persist heading into 2024. The rapid increase in interest rates in 2023 ground the machinations of the private equity market to a halt with a decline in deal activity, exits, fundraising, valuations, and distributions to limited partners (LPs) leading to an increase in negative cash flows.<sup>18</sup>

### US Private Equity Exit Value and Share of AUM



Source: Pitchbook

The only bright spot for private equity in 2023 was the secondary private equity market where at least some General Partners were acquiring secondaries at discounts of 20% or more as Limited Partners scrambled to rebalance portfolios and generate liquidity.

However, all is not lost. Should interest rates begin to decline in 2024 as we think probable, there likely will be a pickup in merger and acquisition activity from both public companies and private equity buyers. We could also see some pickup in the Initial Public Offering (IPO) market which will improve exits, distributions, deal activity, and fundraising. Additionally, private equity managers able to deploy capital in the 2023 and 2024 vintages could experience strong returns going forward given the valuation discounts.

While the flywheel of the private equity market may not enter full swing in 2024, we also anticipate continued growth in access points to private equity managers, as firms go down market to raise more capital from smaller investors. An expanded array of structures such as continuation funds, interval funds, and evergreen funds will allow for more participants in the Private Equity markets.

<sup>18</sup> Pitchbook, [PE trends for Q3 explained in five charts | PitchBook](#), Madeline Shi, October 14, 2022

## Private Debt Outlook

Given the closely linked nature of Private Equity and Private Debt, we maintain our sentiment of **Neutral/Positive** on private debt. With the rapid rise in interest rates, private credit lenders had a banner year in 2023 as they were able to earn yields on new loans of 10 - 12%.<sup>19</sup> When interest rates were near zero over the past decade, private credit lenders were able to achieve yields on their loans of 5 - 6% and needed to use leverage to cover fees and secure returns in the 8- 9% range for their investors. Having seen both extremes over the past decade, we get a sense of the range within which private debt operates under extreme scenarios.

As rates begin to come down in 2024, there will be a decline in yields on newly originated loans given their floating rate nature. Over time, we expect the private credit market to normalize and achieve returns of 7 - 8%, which is in line with the 400-500 bps spread the industry has been able to achieve above short-term rates which we estimate to be 3 - 4% over the coming decade.

Even with higher interest rates, we have not seen a material deterioration in private debt portfolio companies' revenue, EBITDA, or interest expense ratios in 2023, at least amongst managers focused on senior secured lending. Additionally, defaults remain at low levels though they have been increasing modestly. We would expect portfolio companies' financials to improve further in 2024 under a soft-landing scenario. That said, many new managers are entering the private credit space and some of them will have to underwrite loans that have been passed over by well-established credit managers. For these new private credit managers, this could lead to lower yields, a deterioration in covenants, or an increase in defaults.<sup>20</sup>

## Hedge Fund Strategies Outlook

### SYNTRINSIC INVESTMENT COMMITTEE

Syntrinsic maintains our **Neutral/Negative** sentiment on hedge fund strategies. While higher forecasted equity and bond returns bodes well for hedge funds strategies, we continue to see better relative opportunities in other asset classes, especially private equity and private debt. The greatest challenges to the hedge fund space remains the extreme active manager risk and high fees. To overcome these hurdles while consistently outperforming investment grade bonds that can earn 5.0 - 6.0% per year creates a higher hurdle than many hedge fund managers are able to confidently overcome. On top of that, hedge funds introduce structural risks as most managers are illiquid and provide little transparency. Taken together, we generally do not recommend hedge funds at this time.

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<sup>19</sup> Pitchbook, [2024 US Private Credit Outlook: PE sponsors, investors eye busier year, along with defaults | PitchBook](#), Abby Latour, December 20, 2023

<sup>20</sup> Pitchbook, [How long can the 'golden age' of private credit last? | PitchBook](#), Madeline Shi, November 22, 2023

# Global Fixed Income Outlook

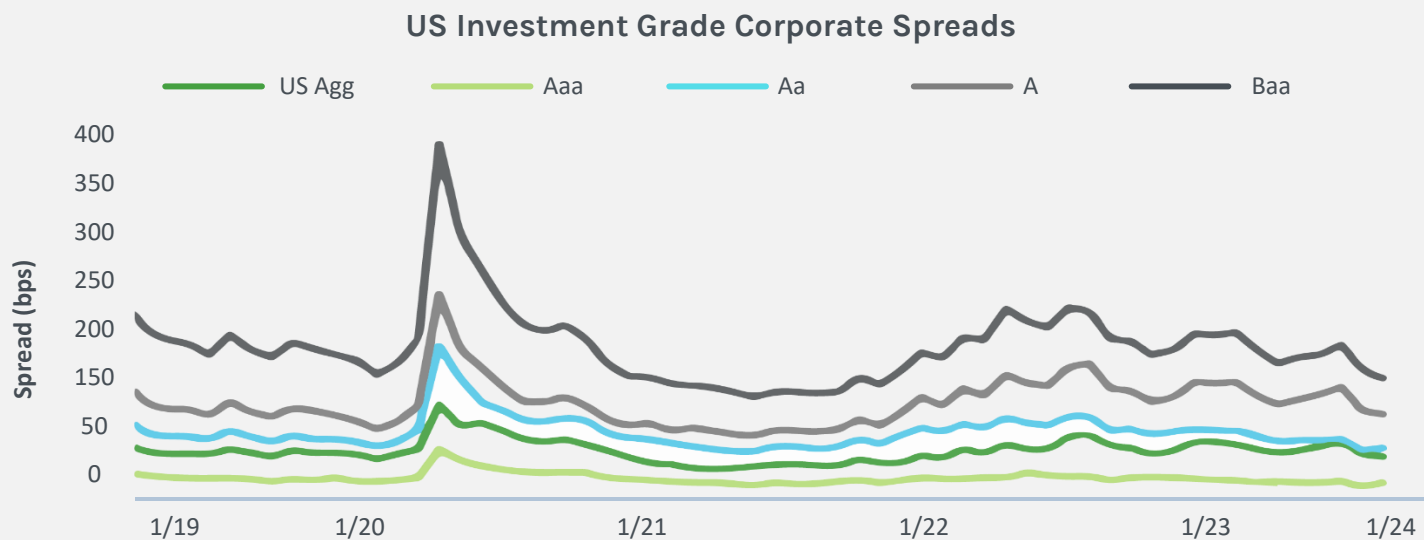
ROBIN MEYER, CFA, SENIOR ANALYST

## Bond Market Sentiment

Our near-term sentiment on Global Fixed Income remains **Neutral/Positive** entering 2024. Lingering headwinds persisted among the Global Fixed Income asset class as central bank interest rates moved higher within the largest debt markets during 2023. We are encouraged by the forward-looking prospects for the broad asset class given higher yields, less upward pressure on market interest rates and the potential return to a lower positive correlation between equity and fixed income markets in the coming years. Yields across bond markets increased in attractiveness throughout 2023 primarily due to higher Treasury rates across the US yield curve. Real returns from fixed income are now positive due to moderating inflation and expectations for forward real returns continue to be attractive reflecting both higher absolute bond yields and lower forward inflation expectations.

## Credit Spread Opportunity and Risk

Credit spreads tightened across the majority of spread sectors during the course of 2023, aiding the absolute performance of credit securities.



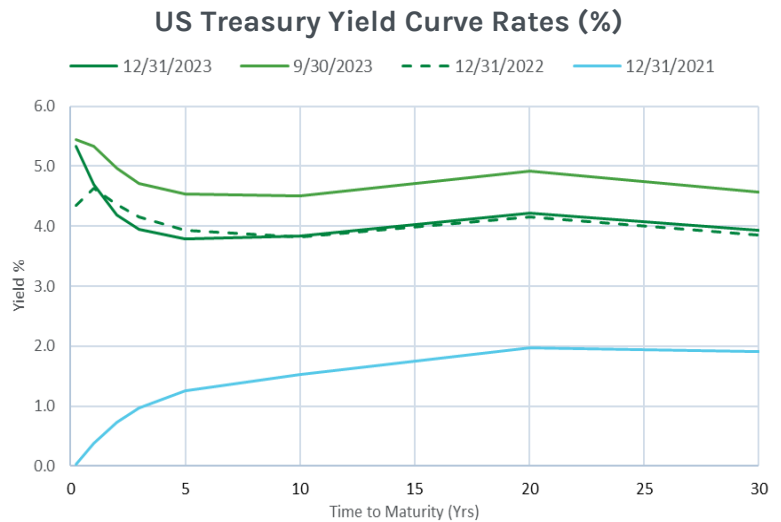
Source: Bloomberg

Select pockets of weakness saw spreads widen against the grain, specifically within securitized CMBS segments, which may come as no surprise given the struggles from commercial office property. Agency MBS segments spreads, although having ended the year roughly flat, saw large swings throughout the year beginning with the March 2023 regional banking crisis. Entering 2024, the path for spreads toward long-term averages could pose select total-return headwinds, yet the carry (or coupon) earned from credit exposures remains a very strong offset. Our exposures in credit are derived primarily from active management teams with capable credit underwriting staff.



## Short Term Fixed Income

Bonds with short-term maturities, including both government bonds and credit bonds, continue to earn a **Positive** sentiment from Syntrinsic because they offer compelling current yields with a lower structural level of interest rate risk. The Fed Funds Rate ended 2023 at a more than twenty-year high, which has remained static since August 2023 in the 5.25 - 5.50%<sup>21</sup> policy range. The US Treasury yield curve remains inverted, with short-term rates higher than longer-term rates. We conclude some total return opportunity among short-term bonds could exist as the path toward policy rate cuts becomes clearer.



We recognize this opportunity could be fleeting as investors recognize and seek to neutralize their reinvestment risk. We believe the market is gradually incentivizing investors to begin to extend duration at current US Treasury rates but continue to remain Positive on Short Term Bonds.

## Core Bonds

We have upgraded our Core Bond sentiment to **Positive** from **Neutral/Positive** as the retreat of inflation reveals healthy real yield opportunities among the components of the Core Bond asset class. Government-guaranteed bonds have become more palatable to hold as defensive positioning with yields at present levels. Broad corporate credit fundamentals remain healthy despite a slight uptick in defaults. While spreads tightened across investment-grade corporate debt in 2023, they widened across Agency MBS securities revealing relative-value opportunities going forward. In addition, some technical headwinds experienced by Agency MBS securities following the brief regional banking crisis in March of 2023 could abate.

## Core Plus Bonds

We have upgraded our Core Plus Bond sentiment to **Positive** from **Neutral/Positive** given the compelling coupons offered outside of traditional core bond exposures (namely below investment grade credit, both fixed rate high yield debt as well as floating rate loans). We are mindful of the compression among corporate debt spreads through the course of 2023, including among lower quality segments, and continue to pursue exposures to the asset class through investment managers with strong credit underwriting capabilities. Avoiding the poorest-quality credits remains of strong importance when navigating this asset class later in credit cycles, as we are today.

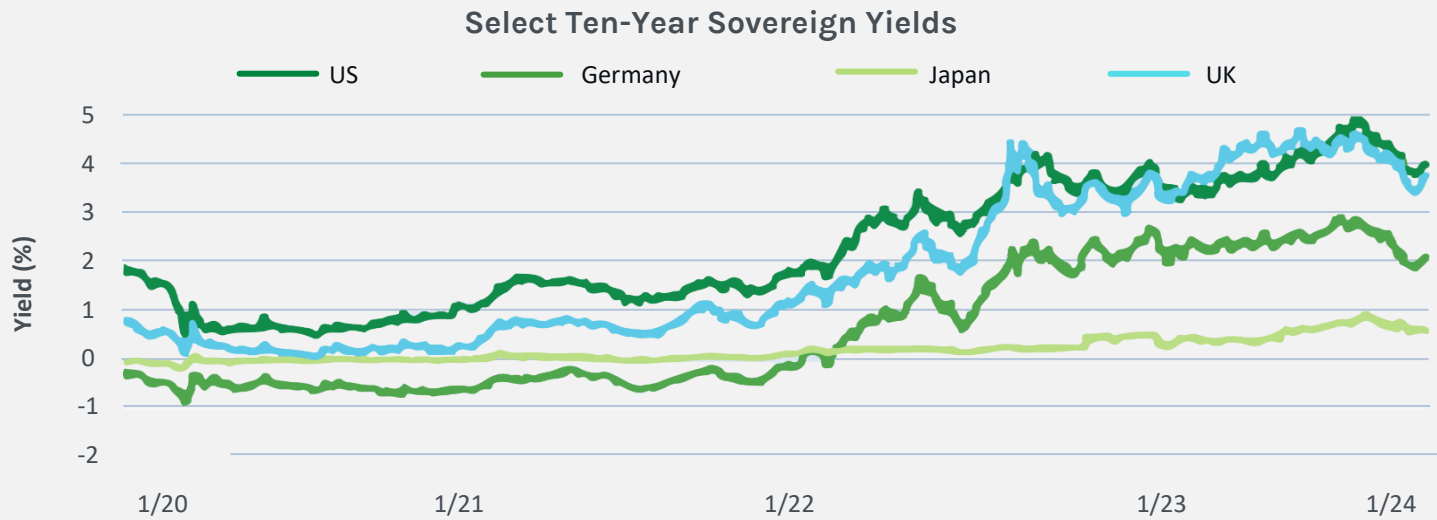
## Non-US Developed Fixed Income

Non-US developed sovereign bond yields generally followed the movement of US Treasury rates during 2023 with some variability on a country-specific basis. Japan remains a notable outlier with 10-year sovereign rates much lower than peers on an absolute basis. This comes as no surprise given Japan's entirely unique experience with inflation during the last 18-months. All G-10 developed countries now have positive yielding sovereign 10-year bonds, with increasing opportunity to find positive real yield (yield net of inflation). Most major foreign central banks remain directionality in sync with regard to monetary policy goals.

<sup>21</sup> Federal Reserve Bank of St. Louis. FRED, Federal Reserve Economic Data. St. Louis, MO.



We remain wary of larger macroeconomic risks and the associated potential for localized events to drive the performance of Non-US debt exposures in the near-term. We are retaining our sentiment for the Non-US developed bond segment at **Neutral/Negative**. On a relative basis, we continue to prefer the US bond market to the Non-US bond market for both government and credit exposures.



Source: Bloomberg

## Emerging Market Debt

Emerging Market bonds, both hard currency and local currency denominations, currently are offering compelling yields, with some well into the double digits. However, risk in the emerging market debt segment is highly idiosyncratic and while a strong active manager can find compelling opportunities, the overall opportunity set remains **Neutral**. We do not consider this market segment worthy of a dedicated investment allocation and continue to embrace delegating the pursuit of emerging market debt opportunities to those fixed income managers that have flexibility in portfolio allocations.

# Infrastructure Outlook

MATT KUKLA, SENIOR ANALYST

Given what we anticipate will be increasing importance and greater investment accessibility, Syntrinsic is adding Infrastructure to our Capital Markets Forecast. Our near-term sentiment for infrastructure starts at **Neutral/Positive**. We anticipate introducing infrastructure on a client-by-client basis over the year ahead.

Infrastructure covers a diverse array of subsectors, including digital infrastructure, transport, energy and utilities, power transmission, and renewable. While a broad opportunity set, infrastructure assets generally share a common commitment to providing essential services that ensure the everyday functioning of society while supporting economic growth and quality of life.

High barriers to entry exist for most infrastructure assets due to the high fixed-investment costs that can result in monopolistic or duopolistic market positions where regulation is a factor. In turn, regulating authorities typically provide fixed prices or minimum payment guarantees and contracted revenues that may have a direct or indirect inflation link. This relationship can mitigate some investment risk and potentially provide infrastructure assets with stable and predictable cash flows throughout economic cycles.

There are also long-term structural tailwinds supporting infrastructure demand including demographics, decarbonization, urbanization, digitalization, and global fiscal policy. Estimates suggest that the population will grow to nearly 10 billion people by 2050. To keep up with economic growth, the needed amount of infrastructure assets is nearly \$100 trillion. An additional 2.3 billion people are expected to live in urban areas by 2050. The required energy infrastructure investment needed by 2050 to achieve net zero ranges from \$100-\$200 trillion.<sup>22</sup>

Unlisted or private infrastructure within the broader infrastructure sector has a valuation surpassing \$10 trillion and growing. There are many different types of infrastructure asset investment strategies depending on an investor's risk/return profile ranging from debt, super-core, core, core-plus, value-add, and opportunistic.

Investors can include infrastructure to solve different problems, such as hedging inflation, diversifying sources of return, lowering correlation to traditional asset classes, and gaining exposure to essential services that are less sensitive to economic cycles. Return patterns for infrastructure vary significantly depending on the nature of the investment (debt v. equity), use of leverage, time horizon, geographic focus, and other considerations.

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<sup>22</sup> Macquarie Asset Management, The Case for Infrastructure, October 3, 2022

# **II. Global Macro-Economic Themes**

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# Themes and Effects

| Themes                                     | Syntrinsic Perspective  | Allocation Effects  |
|--|---|---|
| <b>Inflation</b>                           | Inflation in the US and other developed markets is stabilizing at levels much closer to the 2% stated target of many central banks, including the US Federal Reserve. We expect that process to continue in 2024.   | <ul style="list-style-type: none"> <li>• Maintain broadly diversified approach to US equities.</li> <li>• Take advantage of higher bond yields across maturities.</li> </ul>  |
| <b>Monetary Policy</b>                     | The US Federal Reserve likely has finished monetary tightening to combat inflation. We anticipate that they will lower the Fed Funds Target Rate in 2024. Just as the Fed was cautious initially in raising rates, we expect that they will be slow to start cutting rates, slower than some investors and economists may want or think necessary.                                | <ul style="list-style-type: none"> <li>• Maintain core and core plus US fixed income exposure to capture benefits of higher interest rates.</li> <li>• Reduce weighting to shorter duration fixed income.</li> <li>• Lower interest rates support private equity and infrastructure deal activity, which should buoy private debt markets.</li> </ul> |
| <b>Fiscal Policy</b>                       | Given that 2024 is an election year for the White House and Congress, we do not expect significant changes in Fiscal Policy and recognize that the results of these elections could impact the implementation of some policies already in place with regards to taxes and government spending.  | <ul style="list-style-type: none"> <li>• Maintain allocations to industrial and technology companies positioned to benefit from energy and infrastructure investments.</li> </ul>   |
| <b>Global Growth</b>                       | While we have seen some modest softening in aspects of developed market economies, both developed markets and many emerging markets appear to be experiencing healthy growth and declining inflation rates at the same time, an ideal scenario. China continues to face growth challenges exacerbated by government policies, a situation to which markets have already adjusted. | <ul style="list-style-type: none"> <li>• Maintain robust global public market equity exposure.</li> <li>• Take advantage of private equity and private debt to participate in non-public elements of the economy.</li> </ul>  |
| <b>Geopolitics</b>                         | Geopolitical crises will continue to influence the investment markets and macroeconomic themes such as inflation and interest rates.  | <ul style="list-style-type: none"> <li>• Maintain a diversified portfolio across asset classes and geographies.</li> </ul>  |
| <b>Environmental Social and Governance</b> | Strong absolute and relative performance amongst active and passive ESG strategies reaffirmed the validity of this approach to risk management.   | <ul style="list-style-type: none"> <li>• Consider ESG managers to meet financial or values-based objectives.</li> </ul>   |

# Inflation in Check

MATTHEW KUKLA, SENIOR ANALYST

In our [2023 Syntrinsic Capital Markets Forecast](#), we imagined that near-term, the markets would continue to be driven by the interplay between inflation and US Federal Reserve policy, with some attention to long-term economic growth potential. In January 2023, there had been close-to-consensus on Wall Street that the US would experience a recession in 2023, with the primary differences in opinion centering around the timing and whether the economy ultimately would achieve a “hard” or “soft” landing. Shifts in these expectations created alternating periods of “risk on” and “risk off” trades throughout 2023. Despair in June turned to joy in July; fear from August through October transformed to enthusiasm to end the year.

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**Markets continue to be driven by the interplay between inflation and US Federal Reserve policy.**

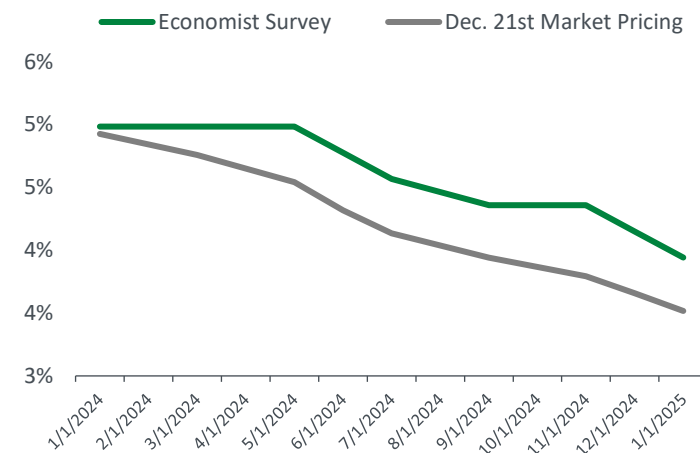
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In last year’s Forecast, we also expected that inflation would continue trending towards the Federal Reserve’s 2% target. We had anticipated a somewhat sticky journey toward lower inflation given continued strength in US consumer spending, particularly for more labor-intensive services, as households were flush with cash from fiscal stimulus and strong wage growth was underpinned by a tight labor market. While we had not predicted a specific timeframe, the Fed’s progress in reining in inflation has occurred quickly.

As we head into 2024, a key question is whether anything has fundamentally changed? While the underlying economic dynamics have not, expectations certainly have.

The supply-chain and supply shocks from the COVID-19 pandemic have abated while the Federal Reserve’s tightening cycle has led to some softness in consumer spending, wage growth, and the labor market. Additionally, households have largely spent their savings from the fiscal stimulus. All of this suggests the Federal Reserve will not have to increase rates heading into 2024 to continue the fight against inflation. We know that rates cannot remain at current levels indefinitely because of the harsh impact high interest rates have on consumers, businesses, and government entities. The Federal Reserve will eventually have to decrease rates regardless, but rates could decline for different reasons. As far as the market is concerned, it is pricing in a “soft” landing with almost near certainty. However, this should give us pause.<sup>23</sup>

**Economist Rate Cuts vs. The Market**



Source: Bloomberg

In 2023, investors were certain we would enter a recession that never materialized. In 2022, many investors had thought that big tech would be immune to rate increases and yet the sector was pummeled. In 2021, many investors paid high prices for the stocks that were hardest hit in 2022.

Investor expectations were incorrect in all three years. While the historical precedent for the Federal Reserve to pull off a “soft” landing amid a tightening cycle is essentially nil, this cycle is atypical due to the continued strength in the labor market. Moreover, the economic data underpinning the strength in the labor market and wages, or lack thereof, will determine if rate cuts are necessary in 2024.

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<sup>23</sup> Bloomberg, [Fed Rate Cuts Pit Economists Versus Market on Timing, Depth](#), Augusta Saraiva and Kyungjin Yoo, December 22, 2023

While the current fundamentals support a healthy equity market, there is some risk of investor disappointment given that investor expectations are pricing in more rate cuts in 2024 than the Federal Reserve is anticipating. Any surprise on the downside versus consensus expectations could lead to a meaningful decline in public equities and a concurrent increase in bond yields. Stocks and bonds traded together in November – December 2023 to many investors’ benefits; the inverse could happen should the Fed fail to meet market expectations.

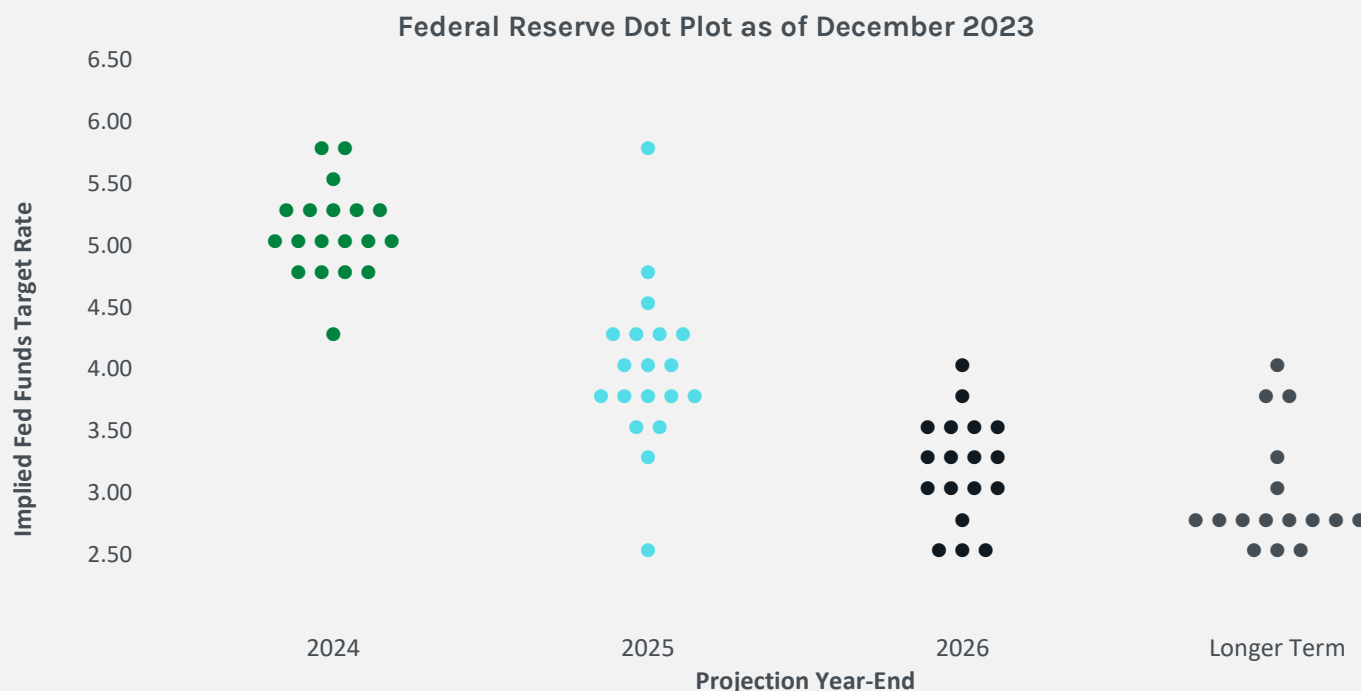
## Monetary Policy: The Fed Remains in the Driver’s Seat

ROBIN MEYER, CFA, SENIOR ANALYST

In considering our enthusiasm for global fixed income markets as we enter 2024, we find ourselves turning first to the US Federal Reserve (“the Fed”), the orchestrator of the ongoing policy of restricting financial conditions here at home in the US. In his most recent public appearance, Fed Chair Jerome Powell delivered what were widely considered dovish remarks, highlighting the strong progress already made in taming inflation without drastic disruptions to the broad economy. Indeed, other than the not insignificant challenges in the banking sector that emerged dramatically in early 2023 (see: [Syntrinsic Commentary: Banks: Moving Forward](#)), the Fed’s efforts to tame inflation have been relatively effective thus far.

**Even the Bloomberg US Aggregate Bond Index gained 6.82% in 4Q 2023.**

Chair Powell’s public remarks were backed by the Fed’s [Summary of Economic Projections \(December 2023\)](#), which details votes among individual Fed governors indicating where they believe economic data are trending in the near future. Importantly, the Summary highlighted a shared expectation for a lower Fed Policy Rate during and through 2024-2025.



Source: The US Federal Reserve, Syntrinsic

These signs were taken by financial markets to ramp up risk appetite, and risk assets rallied to close out the year. Even the Bloomberg US Aggregate Bond Index gained 6.82% in 4Q 2023.<sup>24</sup> Consensus expectations for the magnitude of interest rate cuts to occur in 2024 (and beyond) priced up to and beyond 1.00%<sup>25</sup> worth of cuts to occur within a matter of months, though markets in early January have not been so sanguine. We will continue to monitor guidance from the Fed to drive any potential re-posturing of client fixed income portfolios. Currently, the Fed indicates less interest rate easing in magnitude and less swiftly in timing than is priced by the market to start the year.

We continue to expect monetary policy to impact asset class returns, though since our [2023 Syntrinsic Capital Markets Forecast](#), the theme has changed directionally to one of monetary pausing or potentially future easing from what had been a focus on monetary tightening. Globally, this policy pivot is shared among some of our G-7 peers, as progress fighting inflation has occurred on a global basis, although not in unison. Due to credit and currency risk, as well as relative yields, our focus lies first and foremost within the domestic bonds markets. Our primary risks within the monetary policy arena include strength or persistence of inflation and policy over-tightening. Threading the needle between the two, as the Fed seemingly has achieved to-date within the US, remains a fine balancing act.

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<sup>24</sup> Bloomberg L.P. (2024). Total returns of the Bloomberg US Aggregate Bond Index. Bloomberg Professional.

<sup>25</sup> CME Group Inc. (2024). CME FedWatch Tool.

# III. 2024 Long-Term Capital Markets Forecast

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# Global Equity Forecast

AKASHA ABSHER, CO-PRESIDENT

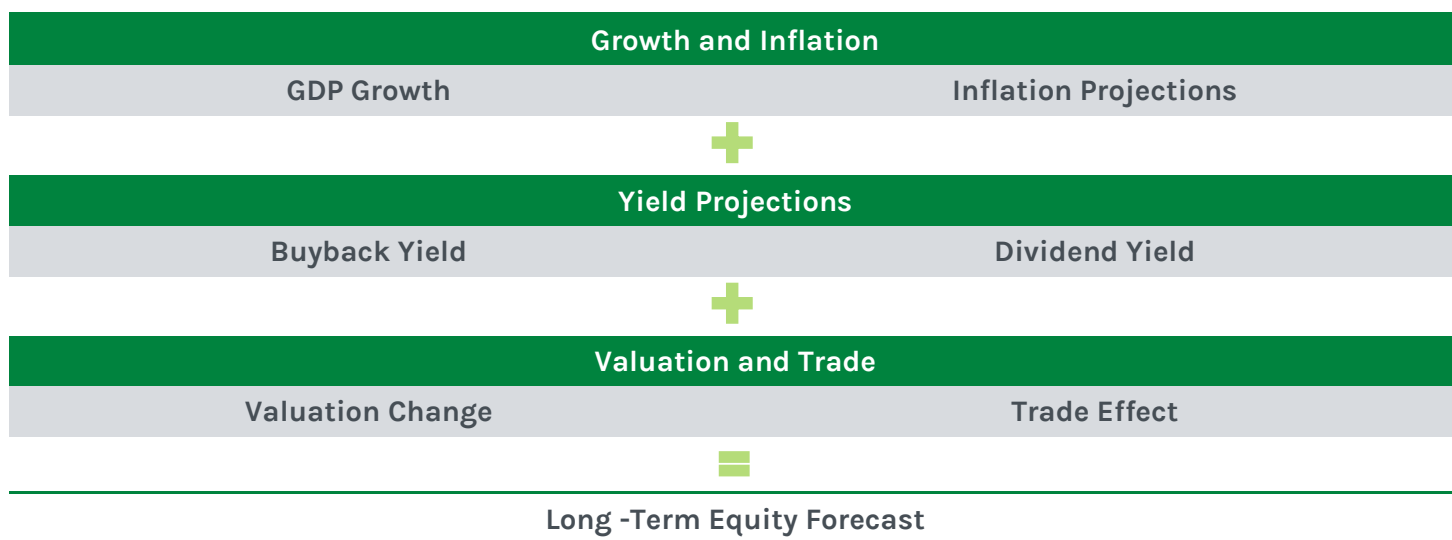
Global equity forecasts remain largely unchanged from 2023. Higher projections for global GDP growth offset lower inflation expectations. Within Non-US equity, positive Price/Earning (PE) valuation changes support higher return expectations.

## Exhibit 1: Syntrinsic Global Equity Forecast

| Asset Class/Segment     | Index                | 2024 Ten-Year Forecast | 2023 Ten-Year Forecast | Change |
|-------------------------|----------------------|------------------------|------------------------|--------|
| <b>Global Equity</b>    | <b>MSCI ACWI</b>     | <b>8.35%</b>           | <b>8.35%</b>           | 0.00%  |
| US Large Cap            | S&P 500              | 7.65%                  | 7.65%                  | 0.00%  |
| US SMID Cap             | Russell 2500         | 8.00%                  | 8.05%                  | -0.05% |
| Non- US Dev. Large Cap  | MSCI EAFE            | 7.35%                  | 7.20%                  | 0.15%  |
| Non- US SMID Cap        | MSCI ACWI ex-US SMID | 8.95%                  | 8.90%                  | 0.05%  |
| Emerging Markets Equity | MSCI EM              | 9.25%                  | 9.05%                  | 0.20%  |

Source: Syntrinsic, Bloomberg, OECD

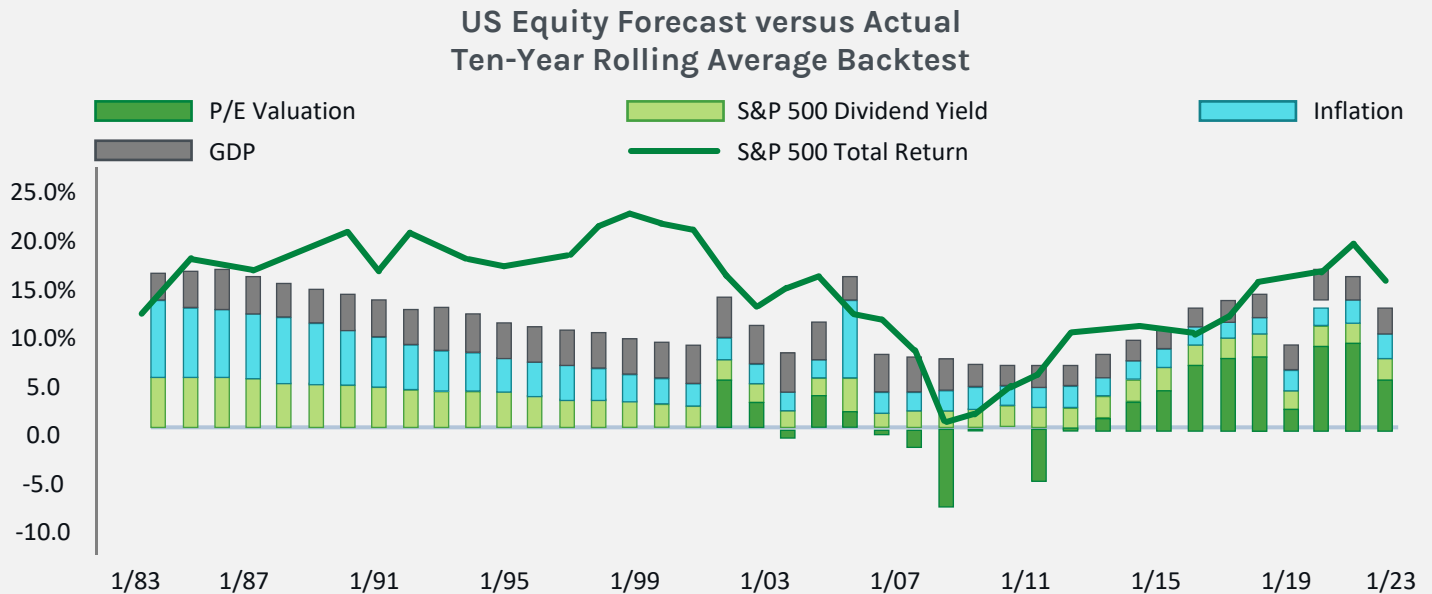
## Forecasting Global Equities



## Long-Term Equity Forecast

Syntrinsic’s public market large-cap equity forecasts are based on expectations for real economic growth, inflation, and yields, with adjustments made for trade, valuation changes, and market capitalization.

Our research and experience indicate that these factors have been highly correlated to actual returns over long sweeps of time, particularly in US equity markets. The chart below illustrates how the growth of US Gross Domestic Product, plus inflation, dividend yield, and P/E valuation change of the US equity market have trended on a rolling ten-year basis. The solid light green line indicates the annual total return of the Standard & Poor’s 500, a reliable proxy for the US large cap equity market.



Source: Bloomberg, Syntrinsic

## Forecasting Real Growth in Gross Domestic Product (GDP)

Growth in Gross Domestic Product (GDP) should manifest in the public equity markets as companies derive additional earnings, buy materials, make capital investments, and pay employees, contractors, and vendors.

Syntrinsic takes a two-pronged approach to forecasting real growth in GDP. We rely, in part, on forecasts for productivity and working age population growth from key governmental and quasi-governmental sources such as the Organization for Economic Cooperation and Development (OECD) and International Monetary Fund (IMF). In addition to these forecasts, we review Bloomberg consensus estimates and factor that into our analysis. The Bloomberg consensus estimates are timely, incorporate a diverse set of assumptions and expectations, and provide complementary insights. We have used these data to check our internal research efforts.

### Exhibit 2: Ten Year Real Economic Growth

| Region           | 2024 Ten-Year Forecast | 2023 Ten-Year Forecast | Change |
|------------------|------------------------|------------------------|--------|
| US               | 2.10%                  | 1.65%                  | 0.45%  |
| Non-US Developed | 0.70%                  | 0.55%                  | 0.15%  |
| Emerging Markets | 4.30%                  | 3.55%                  | 0.75%  |

Source: Morningstar

## Forecasting Inflation

Syntrinsic relies upon global central bank target rates of inflation as a starting point for our inflation assumptions, as do many other analysts. Indeed, long-term inflation forecasts from the IMF and OECD closely match the central bank stated targets for most countries.

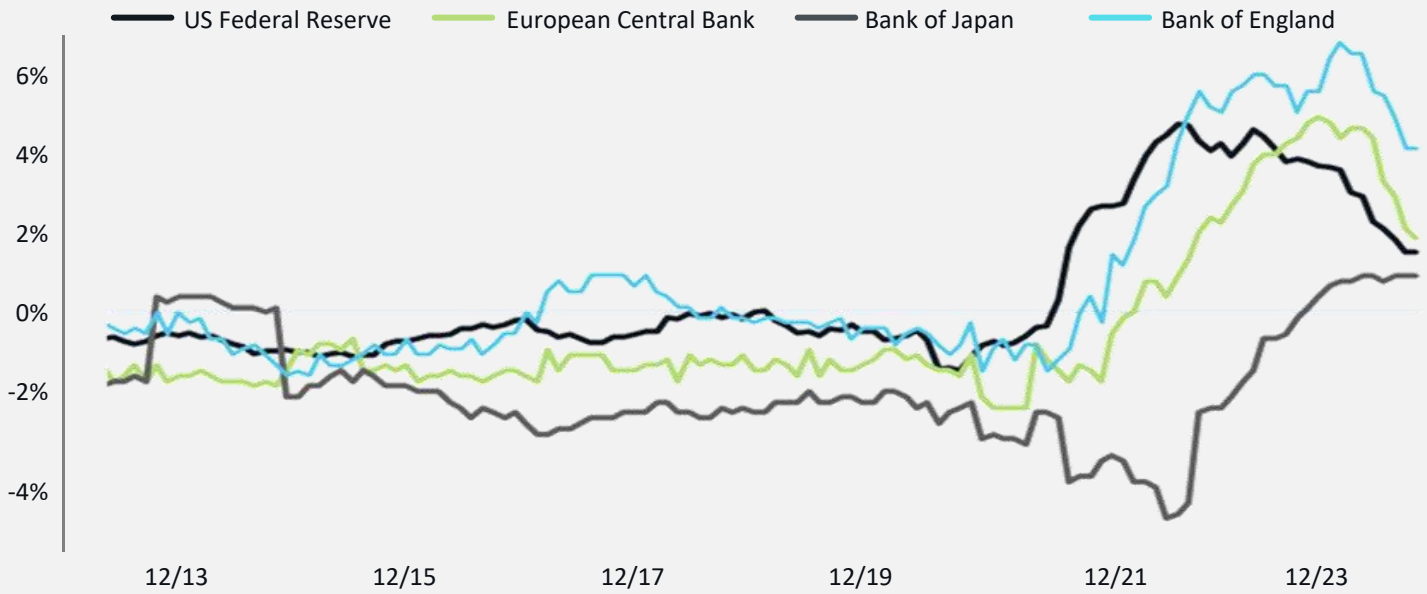
### Exhibit 3: Syntrinsic's Inflation Expectations

| Central Bank                                 | Inflation Target | 10 Yr. Spread | PCE vs. CPI Spread | Weighting | Weighted Contribution |
|--|------------------|---------------|--------------------|-----------|-----------------------|
| United States                                | 2.00%            | -0.18%        | 0.44%              | 100.00%   | 2.25                  |
| <b>United States Inflation Assumption</b>    |                  |               |                    |           | <b>2.25%</b>          |
| <b>Non-US Developed</b>                      |                  |               |                    |           |                       |
| European Central Bank (ECB)                  | 2.00%            | -0.61%        | –                  | 66.45%    | 0.92%                 |
| Bank of Japan (BOJ)                          | 2.00%            | -1.34%        | –                  | 13.91%    | 0.09%                 |
| Bank of England (BOE)                        | 2.00%            | 0.21%         | –                  | 9.78%     | 0.22%                 |
| Bank of Canada                               | 2.50%            | -0.14%        | –                  | 5.37%     | 0.13%                 |
| Bank of Australia                            | 2.50%            | -0.12%        | –                  | 4.49%     | 0.11%                 |
| <b>Non-US Developed Inflation Assumption</b> |                  |               |                    |           | <b>1.45%</b>          |
| <b>Emerging Markets</b>                      |                  |               |                    |           |                       |
| Central Bank of Brazil                       | 3.75%            | –             | –                  | 7.88%     | 0.30%                 |
| People's Bank of China                       | 3.00%            | –             | –                  | 67.55%    | 2.03%                 |
| Reserve Bank of India                        | 4.00%            | –             | –                  | 12.52%    | 0.50%                 |
| Bank of Indonesia                            | 3.00%            | –             | –                  | 4.68%     | 0.14%                 |
| Bank of Russia                               | 4.00%            | –             | –                  | 5.92%     | 0.24%                 |
| South African Reserve Bank                   | 4.50%            | –             | –                  | 1.45%     | 0.07%                 |
| <b>Emerging Markets Inflation Assumption</b> |                  |               |                    |           | <b>3.25%</b>          |

\*The US Federal Reserve uses the Personal Consumption Expenditures (PCE) price index to set its inflation target. Most US investors use the Consumer Price Index (CPI) to measure inflation, which on average tracks 0.30% above PCE. Syntrinsic has adjusted our inflation forecast similarly.

However, as Exhibit 3 indicates pre-pandemic, many developed world central banks—particularly the US Federal Reserve, European Central Bank, and the Bank of Japan—failed to achieve their inflation targets. Despite the significant recent uptick in inflation, we believe central banks will be relentless with monetary tightening until inflation is under control.

## Central Bank Tightening versus Actual Inflation



Source: Bloomberg, US Federal Reserve = US Core PCE YoY - 2% Fed Inflation Target, Bank of Japan = Japan CPI YoY - 2% BOJ Inflation target, European Central Bank = Eurozone Core MUICP YoY - 2% ECB Target, Bank of England = UK Core CPI YoY - 2% BoE Inflation Target

Above and beyond central bank tightening, we believe changing demographics, labor dynamics, and ongoing technological innovation, will anchor inflation on a secular basis slightly above the central banks' long-term inflation targets. Our inflation assumptions factor in the spread from stated inflation targets and actual inflation. This spread is included to incorporate the consistent inability of developed countries to reach their inflation targets over the past decade as we believe this will persist over the next decade. However, given the extreme supply chain shocks and disruptions from the COVID-19 crisis and the Russian/Ukraine war we excluded the 2021 and 2022 data from the analysis as we deemed the inflation data to be transitory.

Given that the emerging markets are represented by a much more diverse array of central banks and that there are significant limits on the reliability of data regarding actual inflation rates, Syntrinsic has not applied a similar discount to forward-looking emerging market inflation.

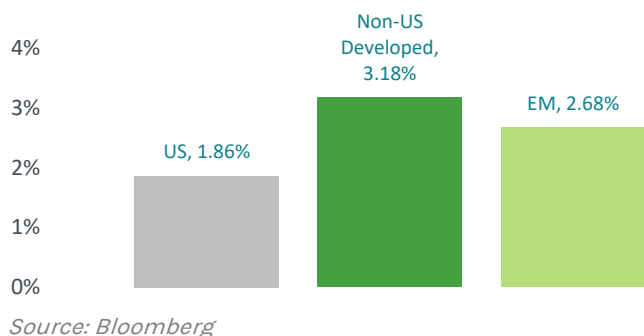
## Forecasting Equity Dividend and Buyback Yields

Equity yields over the past decade have been stable across regions. We expect dividend yields to follow current trends going forward as we do not see a meaningful catalyst that would propel yields of the major indexes positively or negatively. Our expectations for equity dividend yields are based on the ten-year rolling average as we believe it is more indicative of an economic cycle and better reflects the potential trajectory for yields coming out of this crisis.

Dividend yields have been on a downward trend resulting in a slightly lower yield assumption from our 2023 forecast update. The dividend yield is a particularly important part of equity return in Non-US developed markets, with almost half of anticipated equity total return.

We also include buyback yields in our US equity forecast as it is a meaningful aspect of the return potential. At the end of 2023, the current buyback yield was 1.9%. In our 2022 forecast, we had discounted the buyback yield to factor in higher interest rates and the addition of the new Federal excise tax of 1.0% on buybacks. We removed that discount in 2024.

### Equity Dividend Yield Forecast by Region



Source: Bloomberg

## Forecasting Adjustments Due to International Trade

While growth forecasts across regions directly impact the anticipated earnings of equity markets in those regions, Syntrinsic considers it essential to account for where companies are securing their revenues. For example, a company that is dependent on revenues from a developed economy such as the US or France will be operating in slower growth economies than a competing company that may be growing its revenues in China or India where economic growth rates are likely to be higher.

### Exhibit 4: Equity Index Revenue Exposure by Region

| Index     | United States | Non-US Developed | Emerging Markets | Trade Effects |
|-----------|---------------|------------------|------------------|---------------|
| S&P 500   | 60%           | 22%              | 19%              | 0.09%         |
| MSCI EAFE | 21%           | 54%              | 24%              | 1.15%         |
| MSCI EM   | 13%           | 19%              | 68%              | -0.96%        |

Source: Morningstar

To account for the impact of trade on anticipated economic growth, Syntrinsic incorporates regional revenue sources for the MSCI All-Country World Index. As indicated in the Exhibit, S&P 500 companies recently have derived 60% of revenues from US sales, with 22% coming from trade with non-US Developed markets and 19% from emerging markets. These non-US revenue sources end up adding an additional 0.10% per year in anticipated growth for the US equity market.

Similar exercises for non-US Developed and emerging market indices result in a 1.15% for non-US Developed companies while companies based in the emerging markets subtract 0.95% from projected growth due to revenues derived from slower growing developed economies.

## Forecasts for Large Cap Equities by Region

By summing the forecasts for real economic growth, inflation, dividend yield, P/E valuation change, and then adjusting for trade effects, Syntrinsic calculates the baseline results for large cap equities in each region.

### Exhibit 5: Syntrinsic Large Cap Equity Forecasts by Region\*

| Assumption                              |          | United States |              |          | Non-US Developed |             |          | Emerging Markets |              |
|---|----------|---------------|--------------|----------|------------------|-------------|----------|------------------|--------------|
|   |          | 1Q 2024       | 1Q 2023      |          | 1Q 2024          | 1Q 2023     |          | 1Q 2024          | 1Q 2023      |
| Growth                                  | ↑        | 2.10%         | 1.65%        | ↑        | 0.70%            | 0.55        | ↑        | 4.30%            | 3.55%        |
| Inflation                               | ↓        | 2.25%         | 2.50%        | ↓        | 1.45%            | 1.55        | ↓        | 3.25%            | 3.30%        |
| Dividend Yield                          | ↓        | 1.85%         | 1.91%        | ↓        | 3.20%            | 3.20        | ↑        | 2.70%            | 2.65%        |
| Buyback Yield                           | ↑        | 1.60%         | 1.25%        | –        | 0.00%            | 0.00        | –        | 0.00%            | 0.00%        |
| P/E Valuation Change                    | ↓        | -0.25%        | 0.23%        | ↑        | 0.85%            | 1.00        | ↓        | 0.00%            | 0.35%        |
| Trade Effect                            | –        | 0.10%         | 0.09%        | ↑        | 1.15%            | 0.95        | ↑        | 0.95%            | 0.80%        |
| <b>Large Cap Equity Return Forecast</b> | <b>↑</b> | <b>7.65%</b>  | <b>7.65%</b> | <b>↑</b> | <b>7.35%</b>     | <b>7.25</b> | <b>↑</b> | <b>9.30%</b>     | <b>9.05%</b> |

Source: Syntrinsic

\*Red arrows indicate a decline, while green indicates an increase. “–” represents no change in forecast.

## Forecasts for Small and Small/Mid (SMID) Cap Equities by Region

Syntrinsic recognizes that small and midcap equities have historically tended to earn an equity risk premium relative to large cap equities. Our research confirms that the SMID cap premium has approximated 0.35% per year for US equity markets but the historical small cap premium has been negative at roughly 1.65% per year for 30 years. Therefore, we anticipate a return of 8.00% for SMID cap and well below large cap forecasts for small cap US equities.

Recognizing that most non-US SMID managers invest in both non-US developed and emerging market equity, we used the SMID cap premium to the MSCI-ACWI ex US index of 1.60% and added that to the forecast returns of the Non-US Large Cap equity markets, bringing the forecast return to 8.95%.

## Listed Real Estate Forecast

Real estate as an asset class is highly idiosyncratic, with tremendous variation across types of exposures, particularly in private real estate. For forecasting purposes, Syntrinsic uses different methodologies for private real estate (See Private Investments) and real estate accessed through securities listed on public market exchanges, what is known as listed real estate.

### Exhibit 6: Listed Real Estate Forecast

| Asset Class                     | Index                          | 2024 Ten-Year Forecast | 2023 Ten-Year Forecast | Change |
|---------------------------------|--------------------------------|------------------------|------------------------|--------|
| Global Listed Real Estate       | FTSE NAREIT/EPRA Global        | 6.50%                  | 6.10%                  | 0.40%  |
| US Listed Real Estate           | FTSE NAREIT/EPRA United States | 6.25%                  | 6.45%                  | -0.20% |
| Global ex-US Listed Real Estate | FTSE NAREIT/EPRA Global        | 6.25%                  | 6.25%                  | 0.20%  |

Source: Syntrinsic

## Forecasting Listed Real Estate

Investors that gain exposure to real estate through public markets generally invest in Real Estate Investment Trusts (REITs) and Real Estate Operating Companies (REOCs). While trading like equities, the structural differences and historic correlations of these securities result in Syntrinsic treating listed real estate as an asset class distinct from other equity sectors.

To forecast listed real estate returns, we start with current REIT yields.

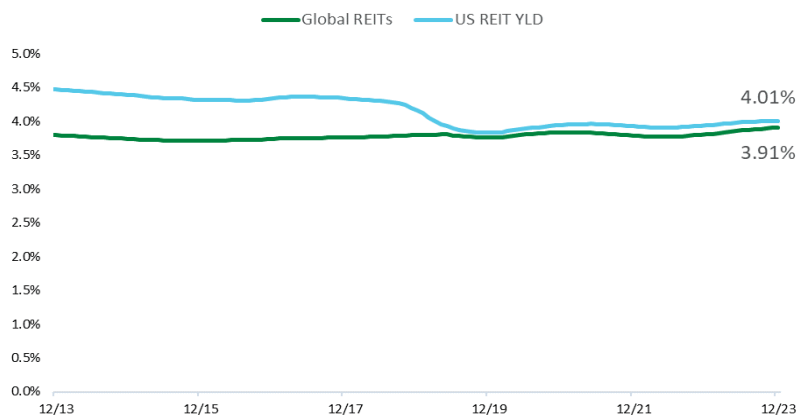
Current global yields of 3.91% are slightly higher than 2023 yields. We then add a return component to account for anticipated growth in Net Operating Income (NOI), the “earnings” of a REIT. We estimate this premium to be zero globally due to downward pressure on Real Estate demand. We apply that spread to listed real estate in each region and then proportionately calculate the global listed real estate forecast.

### Exhibit 7: Listed Real Estate Forecast by Region

|                                    | United States | Non-US Developed | Global       |
|------------------------------------|---------------|------------------|--------------|
| Yields                             | 4.00%         | 3.85%            | 3.90%        |
| Inflation                          | 2.25%         | 2.40%            | 2.45%        |
| Spread: NOI less inflation         | 0.00%         | 0.00%            | 0.00%        |
| <b>Real Estate Forecast Return</b> | <b>6.25%</b>  | <b>6.25%</b>     | <b>6.35%</b> |

Source: Syntrinsic

### REIT Yields



Source: Bloomberg

## Infrastructure Forecast

Syntrinsic views infrastructure as a distinctive asset class within Real Assets that can provide inflation resilience and consistent returns within a portfolio. This year, we are introducing a 10-year forecast for infrastructure based on current yields and global inflation projections similar to how we forecast real estate returns.

We started with current global infrastructure yields of 4.05% based on 12/31/2023 values, which are higher than 2022 yields. We then add our global inflation expectation to account for cash flow growth we anticipate over the next 10 years.

### Exhibit 8: Global Infrastructure Return Forecast

| Infrastructure Return Expectations    |              |
|---------------------------------------|--------------|
| Global Inflation Forecast             | 2.45%        |
| Current Global Infrastructure Yields  | 4.05%        |
| <b>Infrastructure Return Forecast</b> | <b>6.50%</b> |

Source: Syntrinsic, S&P

## Commodities Forecast

While commodity-related investments manifest within equity and debt markets—and some hedge fund strategies—Syntrinsic views commodities as a distinctive asset class that might be worth dedicated investment depending on market conditions and investment objectives. Commodities include industrial metals (e.g., iron, copper), precious metals (e.g., gold, platinum), energy (e.g., oil, natural gas) agricultural products (e.g., wheat, soybeans), and softs (e.g., coffee, cotton).

Syntrinsic assumes that commodity returns will closely match global inflation. Given our regional inflation forecasts, we anticipate global inflation of 2.45% over the coming decade. We recognize that near-term environmental and geopolitical events can trigger price spikes or dips in certain commodities; however, we do not see such events as driving long-term fundamentals.

We discount or add to global inflation based on supply/demand dynamics and current demand trends for commodities. We use the historic 10 year rolling average spot premium over inflation, as a proxy for this premium or discount. That spot premium has averaged -1.32% over the last 50 years. However, we anticipate that the premium will turn positive over the next decade transition to a low carbon economy heightening volatility and prices from pre-2020 levels. To determine the forward premium, we evaluated the premium seen during the last commodity Supercycle (2000 - 2014) and added in a discounting factor as we do not anticipate that this cycle will be as extreme as the previous cycle based on demographics and technological factors.

### Exhibit 9: Commodity Forecast

| Commodity Return Expectations    |              |
|----------------------------------|--------------|
| Global Inflation Forecast        | 2.45%        |
| Premium/Discount above inflation | 1.20%        |
| <b>Commodity Return Forecast</b> | <b>3.65%</b> |

Source: Syntrinsic



## Private Investments Forecast

Syntrinsic’s forecast enables investors to model reasonable long-term return expectations; however, private equity, debt, and real estate investments exhibit so much dispersion in terms of strategy, style, sector, leverage, and other factors, that investors must strive to understand how specific investments might compare to the broad universe to a much greater degree than in traditional public market equity and debt investments.

### Exhibit 10: Private Investments Forecast

| Asset Class                   | Index                       | 2024 Ten-Year Forecast | 20234 Ten-Year Forecast | Change |
|-------------------------------|-----------------------------|------------------------|-------------------------|--------|
| Private Equity                | Cambridge US Private Equity | 10.10%                 | 10.25%                  | -0.15% |
| Private Debt                  | Cliffwater Direct Lending   | 7.65%                  | 7.35%                   | 0.30%  |
| Private Core Real Estate      | NCREIF ODCE                 | 5.95%                  | 5.70%                   | 0.25%  |
| Private Core Plus Real Estate | NCREIF ODCE + Premium       | 7.70%                  | 7.45%                   | 0.25%  |

Source: Syntrinsic

## Forecasting Private Equity

Investors typically access private equity markets over public equity markets to earn a return premium in exchange for the additional risks and costs inherent in private equity, including liquidity. As such, Syntrinsic forecasts private equity returns by analyzing the historic risk premium of the Cambridge Associates US Private Equity Index over the S&P 500 Index. In addition, we added a valuation adjustment to account for the public market adjustments as result of the 2022 drawdown and the higher interest rate environment.

### Exhibit 11: Private Equity Forecast

| Private Debt Return Expectations    |               |
|-------------------------------------|---------------|
| US Large Cap Equity Forecast        | 7.65%         |
| Premium Over Large Cap US Equity    | 3.55%         |
| Valuation Adjustment                | -1.10%        |
| <b>Private Debt Forecast Return</b> | <b>10.10%</b> |

Source: Syntrinsic, JP Morgan

## Forecasting Private Debt

Private debt investment funds represent a pool of loans made to companies. Specific funds will vary in terms of sector, credit quality, and use of leverage, thus creating great dispersion across the asset class. Recognizing this, Syntrinsic's private debt forecast relies on the historical weighted average direct lending spread of the Cliffwater Direct Lending Index over our forecast for cash (US 3 Month-T-bills). The Cliffwater index represents a broad array of private debt strategies and is recognized as a proxy for the asset class. In addition, we factor in credit costs with assumed defaults and losses net of recoveries based on the historical Cliffwater Direct Lending Index. Given the higher interest rate environment, it is anticipated that defaults will rise over the next decade. We used Fitch's 2024 default rate expectations for 2024.<sup>26</sup> This return forecast is unlevered; we do not factor in leverage which is commonly used by many private debt managers to cover fees and which can potentially enhance long-term returns while increasing risk.

## Forecasting Private Real Estate

Syntrinsic organizes private real estate most broadly into two categories, core, and core plus. In this context, core private real estate represents diversified pools of high quality, mature US real estate properties diversified across sectors and geography. Returns are driven primarily by cash flows of those properties and some return due to realized gains. Core plus private real estate includes core properties as well as some more aggressive properties that strive to add value through improvements, resale, and other activities.

For core private real estate, Syntrinsic adjusts current capitalization rates for the valuation changes in property prices as result of rising interest rates. Despite the decline in property values, we anticipate that Net Operating Income (cashflows) will remain strong given supply demand dynamics in real estate and higher cashflows as rents reprice from higher inflation.

Meanwhile, core plus private real estate strategies have a historical premium of 1.80% over the Core Real Estate as measured by the NCREIF Property Index. While there may be times when investing in core private real estate makes sense, we recommend that investors in private real estate focus their efforts on core plus investments that could add value.

## Hedge Fund Strategies Forecast

Hedge fund strategies encompass myriad trading methodologies across multiple asset classes and with different investment and risk management objectives. Syntrinsic draws upon industry practices in concentrating our forecast on equity and fixed income beta with additional support from cash returns.

### Exhibit 12: Private Debt Forecast Calculation

| Private Debt Return Expectations       |              |
|--|--------------|
| Cash Return Forecast                   | 3.25%        |
| Weighted Average Direct Lending Spread | 9.45%        |
| Credit Cost                            | -1.30%       |
| Increase in Default Rates              | -3.75%       |
| <b>Private Debt Forecast Return</b>    | <b>7.65%</b> |

*Syntrinsic, Cliffwater Direct Lending Index, Moody's*

### Exhibit 13: Private Core and Core Plus Real Estate

| Private US Real Estate Expectations                  |              |
|--|--------------|
| <b>Private Core Real Estate Forecast Return</b>      | <b>5.95%</b> |
| Core Plus Premium                                    | 1.75%        |
| <b>Private Core Plus Real Estate Forecast Return</b> | <b>7.70%</b> |

*Source: Syntrinsic, NCREIF*

<sup>26</sup> December 8, 2023, "Fitch Ratings US Leveraged Finance Outlook: Default Rates to Rise in 2024", FitchRatings

## Exhibit 14: Hedge Fund Strategies Forecast

| Asset Class                  | Index                     | 2024 Ten-Year Forecast | 20234 Ten-Year Forecast | Change        |
|------------------------------|---------------------------|------------------------|-------------------------|---------------|
| <b>Hedge Fund Strategies</b> | <b>HFRI FoF Composite</b> | <b>4.60%</b>           | <b>4.75%</b>            | <b>-0.15%</b> |
| Hedge Fund Strategies        | HFRI FoF Composite        | 4.60%                  | 4.75%                   | -0.15%        |
| Equity Hedge                 | HFRI Equity Hedged        | 5.80%                  | 5.80%                   | 0.00%         |

Source: Syntrinsic

The equity and fixed income beta components recognize that while hedge funds represent a highly diverse universe, historically their bottom-line results as an asset class have had consistent correlation with equity and fixed income markets. To determine the appropriate beta for the different hedge fund strategies, we analyze the historic beta and correlations to global equity markets, fixed income markets, and the Hedge Fund of Fund universe. We then apply those beta estimates to our long-term return forecasts for equity and fixed income to establish a return forecast for different hedge fund strategies.

The cash component of our forecast considers the elements of hedge fund return attributable to short rebates and interest earned on cash being held as an investment or as collateral for leverage.

## Forecasting Hedge Fund of Fund

Hedge fund of fund expected return speaks to strategies that represent multiple hedge fund methodologies such as equity hedge, global macro, relative value, and fixed income arbitrage. In practice, some strategies are developed by a single firm that incorporates multiple third-party managers, while other times a single manager will apply multiple strategies within a single investment fund.

## Forecasting Equity Hedge

Approximately half of the hedge fund universe is represented by equity hedge strategies. Even within that more limited segment, strategies vary in terms of long, short, and gross positioning, concentration risk, regional exposure, use of leverage, sector exposure and other factors. Nonetheless, equity hedge strategies overall have expressed a beta to the equity markets of 0.50, providing a useful reference point for forecasting the market segment.

## Exhibit 15: Hedge Strategies Forecast Calculation

| Hedge Fund Strategies Return Expectations       |              |
|---|--------------|
| Equity Beta                                     | 0.26         |
| <b>Equity Beta Contribution to Return</b>       | <b>1.35%</b> |
| Fixed Income Beta                               | 0.02         |
| <b>Fixed Income Beta Contribution to Return</b> | <b>0.00%</b> |
| Equity + Fixed Income Beta Return               | 1.35%        |
| Cash Return                                     | 3.24%        |
| <b>Hedge Fund Strategies Forecast Return</b>    | <b>4.59%</b> |

Source: Syntrinsic. Morningstar

## Exhibit 16: Equity Hedge Forecast Calculation

| Equity Hedge Return Expectations                |               |
|---|---------------|
| Equity Beta                                     | 0.50          |
| <b>Equity Beta Contribution to Return</b>       | <b>2.56%</b>  |
| Fixed Income Beta                               | (0.01)        |
| <b>Fixed Income Beta Contribution to Return</b> | <b>-0.02%</b> |
| Equity + Fixed Income Beta Return               | 2.54%         |
| Cash Return                                     | 3.24%         |
| <b>Equity Hedge Forecast Return</b>             | <b>5.80%</b>  |

Source: Syntrinsic. Morningstar

## Global Fixed Income Forecast

Syntrinsic recognizes that ten-year fixed income returns will be closely aligned with the average yield received over that ten-year period. While our forecasting process does allow for modest adjustments to current yields, we account for cyclical factors such as potential credit spread tightening, timing of interest rate increases, and/or expansion in our near-term sentiment. To anchor our scenarios with reasonable assumptions, we consider long-term structural drivers of interest rates (growth and inflation), the path of the Fed Funds rate, and the term premium of interest rates. Over the last decade, other factors such as supply/demand dynamics that are a result of Fed intervention, structural changes in the economy, fiscal stimulus, and the relative attractiveness of US debt have influenced the level of long-term interest rates. Previously, we forecasted the US 10-year risk-free rate using the Fed projections for short term Fed Funds rates as a baseline and adding in the term premium. This premium reflects the amount investors expect to be compensated in yield for lending for longer periods. However, given that we anticipate that the Fed will lower the Fed funds rate down to the long-run policy rate as inflation moderates, we use our expectations for 10-year growth and inflation to determine the US 10-year risk free rate.

Exhibit 17: Global Fixed Income Forecast

| Asset Class                | Index                            | 2024 Ten-Year Forecast | 20234 Ten-Year Forecast | Change       |
|----------------------------|----------------------------------|------------------------|-------------------------|--------------|
| <b>Global Fixed Income</b> | Barclays Global Aggregate        | <b>3.75%</b>           | <b>3.50%</b>            | <b>0.25%</b> |
| Short-Term Bond            | Barclays G/C 1-5 Year            | 3.60%                  | 2.00%                   | 1.60%        |
| US Core Bond               | Barclays                         | 4.90%                  | 4.80%                   | 0.10%        |
| US Core Plus Bond          | Barclays 80% US Aggregate/20% HY | 5.40%                  | 5.40%                   | 0.00%        |
| High Yield Bond            | Barclays US HY Corporate         | 7.25%                  | 7.75%                   | -0.50%       |
| Non-US Developed Bonds     | FTSE WGI ex-US                   | 2.20%                  | 2.10%                   | 0.10%        |
| Emerging Markets Bond      | JPM EMBI                         | 8.25%                  | 8.65%                   | -0.40%       |

Source: Syntrinsic

Syntrinsic's current projection for growth over the next ten years is 2.10%. Adding our 10-year inflation expectations of 2.25%, we anticipate the long-term risk-free rate at approximately 4.35%. The risk-free rate in this case is represented by the ten-year US Treasury Bond. For comparison, we also analyzed the Federal Reserve's projections for interest rates to establish a 10-year risk rate. The Federal Reserve's projections imply a long-run policy rate of 2.50%. The historical 10-year rolling average spread between a 2-year treasury bond and a 10-year treasury bond has been approximately 1.42%. Which would imply a 10-year risk-free rate of 3.92%.



## Forecasting US Core Bond

US core bonds are represented by the Bloomberg Barclays US Aggregate Bond Index, which includes approximately 80% to US Government bonds and 20% to investment grade US corporate bonds. Thus, to forecast reasonable returns for US core bonds, it is important to understand the premium (spread) of the US Aggregate over the risk-free rate, as well as likely scenarios for the movement of ten-year yields from where they are today to the expectations for the Fed Funds Rate and movement of the term premium.

Given our expectation that US Treasury yields should be approximately 4.39% ten years from now and adding the historic 0.20% spread of the US Aggregate over US Treasury yields, it is reasonable to expect that US core bonds will yield 4.58% ten years from now. With yields currently at about 5.02%, our forecast would require interest rates to decline over the decade. We expect that moderate inflation pressures will drive central banks to decrease interest rates over the next two years. In certain parts of the curve declining rates will also positively impact bond values, particularly in the next two years, leading to an annualized forecast that is higher than our forecast for 2023.

## Forecasting US High Yield Bonds

US high yield bonds follow a similar pattern except that the spread between high yield bonds and the US Treasury Bond is higher to account for the additional risk inherent in below investment grade bonds.

## Forecasting US Core Plus Bonds

In practice, many active fixed income managers strive to add value through incorporating more aggressive, higher yielding bonds into a portfolio of primarily investment grade securities. Syntrinsic considers such an approach to be “core plus” with the “plus” acknowledging the additional risk and potential return of such a strategy. While every fixed income manager is unique, we find that US core plus can be represented by 80% US core bond and 20% US high yield bond. Given the forecasts outlined above and the 80/20 weighting, Syntrinsic forecasts 5.82% total return per year for US core plus bond.

### Exhibit 18: Core Bond Forecast Calculation

| US Core Bond Return Forecast          |              |
|---------------------------------------|--------------|
| 10 Year US Treasury Yield Expectation | 4.39%        |
| U.S Aggregate Spread                  | 0.20%        |
| US Core Bond Expected Yield           | 4.58%        |
| Current US Core Bond Yield            | 5.02%        |
| <b>US Core Bond Forecast Return</b>   | <b>4.90%</b> |

Source: Syntrinsic. Federal Reserve Bank of St. Louis, Bloomberg

### Exhibit 19: Core Bond Forecast Calculation

| US High Yield Bond Return Forecast    |              |
|---------------------------------------|--------------|
| 10 Year US Treasury Yield Expectation | 4.39%        |
| High Yield Bond Spread                | 4.76%        |
| US High Yield Expected Yield          | 9.15%        |
| Current High Yield Bond Yield         | 8.40%        |
| <b>US High Yield Forecast Return</b>  | <b>7.25%</b> |

Source: Syntrinsic. Federal Reserve Bank of St. Louis, Bloomberg

## Forecasting US Short-Term Bonds and Cash Alternatives

Creating a ten-year forecast for short-term bonds and cash is inherently challenging due to the mismatch in time horizon. Nonetheless, it is important for investors using short-term bonds and cash to have guidance regarding reasonable return expectations for an asset class often used to keep pace with inflation.

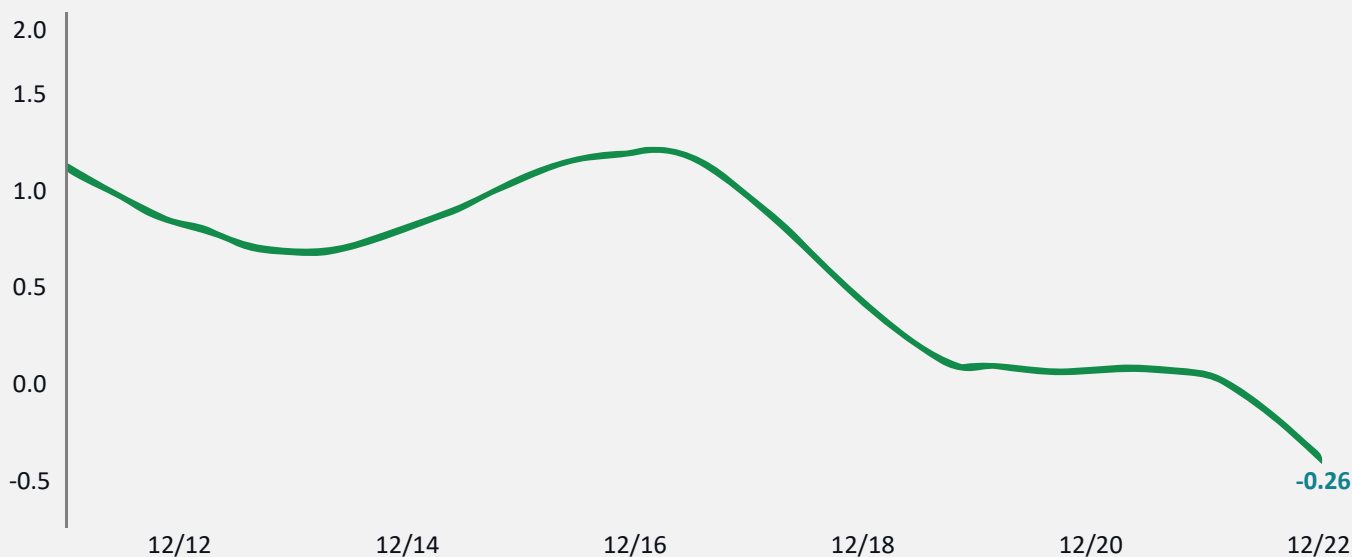
To anchor our approach, Syntrinsic relies on historic spread relationships between the 10-year US Treasury Bond, 2-year US Treasury Note, Fed Funds Target Rate, and 3-month US Treasury Bill.

### Exhibit 20: Cash Yield Forecast Calculation

| US Treasury Yield and Spread Expectations <sup>0</sup> |              |
|--|--------------|
| 10 Year Yield Expectation                              | 4.39%        |
| 10 Year – 2 Year Spread                                | -1.42%       |
| 2 Year Yield Expectation                               | 2.97%        |
| 2 Year Fed Funds Rate Spread                           | -0.21%       |
| Fed Funds Rate Expectation                             | 2.76%        |
| Fed Spread – 3 Month T-Bill                            | -0.20%       |
| <b>Expected Cash Yield</b>                             | <b>2.55%</b> |

Source: Syntrinsic. Federal Reserve Bank of St. Louis, Bloomberg

### Short-Term Bond vs. Two-Year US Treasury (%) Ten-Year Rolling Average



Source: Bloomberg

While these relationships are not set in stone and can vary over the short-term, they provide reasonable guidance for longer-term planning.

Syntrinsic short-term bond yield expectations extend spread analysis from above to include credit.

### Exhibit 21: Cash Forecast Return

| Cash Forecast Return          |              |
|-------------------------------|--------------|
| 3-Month T-Bill Expected Yield | 2.56%        |
| Current Cash Yield            | 5.39%        |
| <b>Cash Forecast Return</b>   | <b>3.25%</b> |

Source: Syntrinsic. Bloomberg





## Forecasting Non-US. Developed and Emerging Market Bonds

Syntrinsic develops forecasts for non-US Developed bonds starting with components of expected inflation and real GDP growth of non-US Developed nations. As with the US, we anticipate that interest rates will decline as inflation moderates and expect that current yields to move towards our long-term expected yields over the next two years.

Bonds have become an increasingly useful tool in the emerging markets and represent many diverse economies and currencies. As such, the calculus for anticipating return requires a different approach. For our emerging market bond forecast, we utilize the long-term historical spread of emerging market debt to the 10-Year US Treasury Bond. Based on our expectations for emerging market debt yields to move from current levels to our expected yield over the next five years, we anticipate ten-year returns of 8.32% per year, in line with current yields.

### Exhibit 22: Non-US Developed Bond Forecast

| Non-US Developed Bond                        |              |
|--|--------------|
| Non-US Developed Expected Growth             | 0.72%        |
| Non-US Developed Expected Inflation          | 1.47%        |
| Non-US Developed Expected Yield              | 2.19%        |
| Current Non-US Developed Bond Yield          | 2.93%        |
| <b>Non-US Developed Bond Forecast Return</b> | <b>2.90%</b> |

Source: Syntrinsic, Bloomberg, OECD

### Exhibit 23: Emerging Market Bond Forecast

| Emerging Market Bond                        |              |
|---|--------------|
| 10-Year US Treasury Yield Expectation       | 4.39%        |
| EM Bond Spread to 10-Year Treasury          | 3.72%        |
| Emerging Market Bond Expected Yield         | 8.10%        |
| Current Emerging Market Bond Yield          | 8.25%        |
| <b>Emerging Market Bond Forecast Return</b> | <b>8.25%</b> |

Source: Syntrinsic, Bloomberg, OECD

# 2024 Ten-Year Asset Class Expected Returns

| Asset Class/Segment             | Index                             | 2024 Ten-Year Forecast | 2023 Ten-Year Forecast | Change |
|---------------------------------|-----------------------------------|------------------------|------------------------|--------|
| <b>Global Equity</b>            | <b>MSCI ACWI</b>                  | <b>8.35%</b>           | <b>8.35%</b>           | 0.00%  |
| US Large Cap                    | S&P 500                           | 7.65%                  | 7.65%                  | 0.00%  |
| US SMID Cap                     | Russell 2500                      | 8.00%                  | 8.05%                  | -0.05% |
| US Small Cap                    | Russell 2000                      | 6.60%                  | 8.55%                  | -1.95% |
| Non- US Dev. Large Cap          | MSCI EAFE                         | 7.35%                  | 7.20%                  | 0.15%  |
| Non- US SMID Cap                | MSCI ACWI ex-US SMID              | 8.95%                  | 8.90%                  | 0.05%  |
| Emerging Markets Equity         | MSCI EM                           | 9.25%                  | 9.05%                  | 0.20%  |
| <b>Private Investments</b>      |                                   |                        |                        |        |
| Private Equity                  | Cambridge US Private Equity       | 10.10%                 | 9.05%                  | 1.05%  |
| Private Debt                    | Cliffwater Direct Lending         | 7.65%                  | 7.80%                  | -0.15% |
| Private Core Real Estate        | NCREIF ODCE                       | 5.95%                  | 5.70%                  | 0.25%  |
| Private Core-Plus Real Estate   | NCREIF ODCE + Premium             | 7.70%                  | 7.45%                  | 0.25%  |
| <b>Real Estate</b>              |                                   |                        |                        |        |
| Global Listed Real Estate       | FTSE NAREIT/EPRA Global           | 6.40%                  | 6.10%                  | 0.30%  |
| US Listed Real Estate           | FTSE NAREIT/EPRA United States    | 6.25%                  | 6.45%                  | -0.20% |
| Global ex-US Listed Real Estate | FTSE NAREIT/EPRA Global ex-US     | 6.30%                  | 6.05%                  | 0.25%  |
| <b>Infrastructure</b>           |                                   |                        |                        |        |
| Global Infrastructure           | S&P Global Infrastructure         | 6.50%                  | 6.12%                  | 0.38%  |
| <b>Commodities</b>              |                                   |                        |                        |        |
| Commodities                     | S&P GSCI                          | 3.70%                  | 3.50%                  | 0.20%  |
| <b>Hedge Fund Strategies</b>    |                                   |                        |                        |        |
| Hedge Fund Strategies           | HFRI FoF Composite                | 4.60%                  | 4.75%                  | -0.15% |
| Equity Hedge                    | HFRI Equity Hedged                | 5.80%                  | 5.80%                  | 0.00%  |
| <b>Global Fixed Income</b>      | <b>Barclays Global Agg</b>        | <b>3.70%</b>           | <b>3.50%</b>           | 0.20%  |
| Short-Term Fixed Income         | Barclays G/C 1-5 Yr.              | 3.60%                  | 2.00%                  | 1.60%  |
| US Core Bond                    | Barclays US Agg                   | 4.90%                  | 4.80%                  | 0.10%  |
| US Core Plus Bond               | Barclays 80% US Agg/20% HY        | 5.40%                  | 5.40%                  | 0.00%  |
| High Yield Bond                 | Barclays US High Yield Corporate  | 7.25%                  | 7.75%                  | -0.50% |
| Non-US Developed Bond           | FTSE WGI ex-US                    | 2.20%                  | 2.10%                  | 0.10%  |
| Emerging Markets Bond           | JPM EMBI                          | 8.25%                  | 8.65%                  | -0.40% |
| <b>Cash</b>                     | <b>3 Mo Treasury</b>              | <b>3.25%</b>           | <b>4.00%</b>           | -0.75% |
| <b>US Inflation</b>             | <b>CPI: Consumer Price Index</b>  | <b>2.25%</b>           | <b>2.50%</b>           | -0.25% |
| <b>Global Inflation</b>         | <b>Weighted Regional Forecast</b> | <b>2.48%</b>           | <b>2.11%</b>           | 0.37%  |

Source: Syntrinsic

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# Syntrinsic's Investment Philosophy

## Time is of the Essence

Recognizing that investors often destroy capital when they try to time the markets, we are patient investors. To that end, we construct portfolios on a foundation of our long-term capital markets forecast, recognizing that the secular building blocks of long-term economic growth, yield, and inflation will drive the long-term potential of the capital markets.

## Quality Matters

Syntrinsic focuses on thoughtful analysis, reasonable assumptions, intensive due diligence, and nuanced portfolio development. When conducting due diligence on investment managers—both active and passive strategies—we seek to identify those with ethical ownership, strong diverse teams that work well together and have done so through multiple market cycles, and investment strategies that are sound, proven, and repeatable.

## Objectivity Over Emotion

While on the lookout for unexpected trends and risks, our data-driven process keeps us from getting distracted by emotional headlines or less meaningful data points. We pride ourselves on the quality of our economic analysis and investment due diligence. Much of the value we have added over the years has involved being a source of calm and objectivity in the face of fear, hype, greed, ego, and anger. While we, too, are emotional, we have constructed an investment process that drives us toward objectivity.

## All Investing has Impact

Syntrinsic sees impact investing as a possible way to mitigate the risk in portfolios, enhance long-term performance, and potentially create a positive impact in society. As an investment advisor, we believe it is our responsibility to guide clients through the process of defining the values that they hold most important and help them manifest those values in their portfolios to the degree they wish.

# Disclosures

The information in this document is not intended as a recommendation to invest in any particular asset class or strategy or as a promise of future performance. The opinions expressed in this document are the combined work of Syntrinsic's Investment Committee. Our research comes from a multitude of sources, but any opinions expressed are our own.

Given the complex nature of risk-reward trade-offs involved in portfolio construction, we advise clients to consult with financial professionals on specific investment-related decisions. References to future returns are not promises or even estimates of actual returns a client portfolio may achieve. In addition, past performance is not a guarantee of future results.

Assumptions, opinions, and estimates are provided for illustrative purposes only and are subject to significant limitations. Expected return estimates are subject to uncertainty and error. Expected returns for each asset class can be conditional on economic scenarios to which actual returns could be significantly higher or lower than forecasted. They should not be solely relied upon as recommendations to buy or sell securities.

Forecasts of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. We believe the information provided here is reliable, but do not warrant its accuracy or completeness.

This material has been prepared for information purposes only and is not intended to provide, and should not be relied on for, accounting, legal, or tax advice.