Midwest Methodist Foundation

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Greetings,

As of the end of the 4th quarter of 2023, net of fees, the returns of the fund models are:

As of 12/31/2023	4th Qtr 2023	Year to Date	Last 1 Year†	Last 3 Years†	Last 5 Years†	Last 10 Years†
Aggressive Fund	**10.58%**	**20.13%**	**20.13%**	**5.87%**	**11.79%**	**7.85%**
Agg. Climate	9.73%	21.94%	21.94%	4.89%	n/a	n/a
benchmark*	10.42%	20.19%	20.19%	5.72%	11.35%	7.82%
Moderate Fund	**8.67%**	**15.47%**	**15.47%**	**3.67%**	**8.69%**	**5.97%**
Mod. Climate	8.62%	17.12%	17.12%	3.42%	7.56%	n/a
benchmark*	8.65%	15.82%	15.82%	3.78%	8.60%	6.31%
Conservative Fund	**6.76%**	**11.09%**	**11.09%**	**1.48%**	**5.31%**	**4.00%**
Con. Climate	6.56%	11.38%	11.38%	1.31%	n/a	n/a
benchmark*	6.75%	11.24%	11.24%	1.55%	5.46%	4.54%

*"Benchmark" is a blend of benchmarks for the fund's underlying portfolios of stocks and fixed income, relative to the portfolio allocations within the fund's model. †Rates of return (1+ years) are annualized. See the monthly performance reports online: https://midwestmethodist.org/investment-performance-reports/

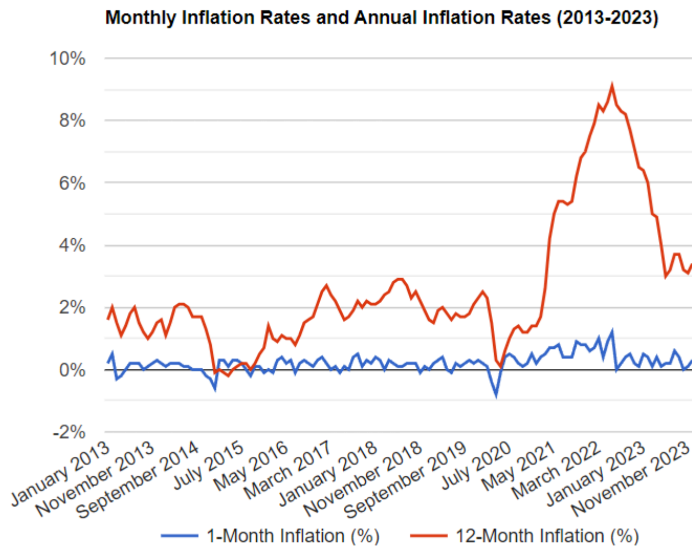
Market Commentary from Envestnet | PMC

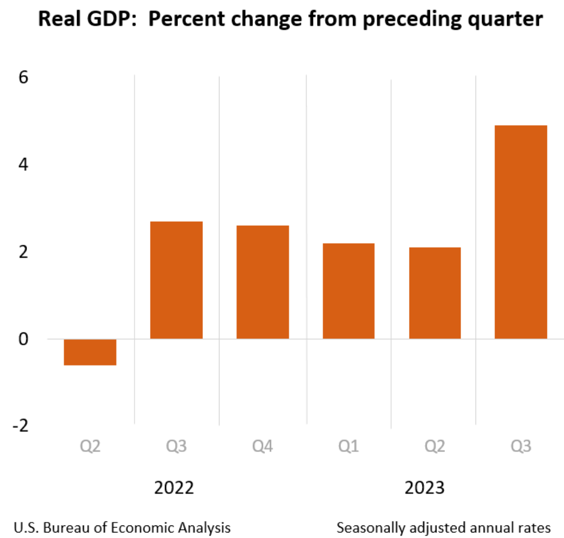
Brandon Thomas, Co-Founder and Chief Investment Officer, Envestnet, concluded their "Economic and Market Overview: Fourth Quarter 2023" report with the following observations and commentary:

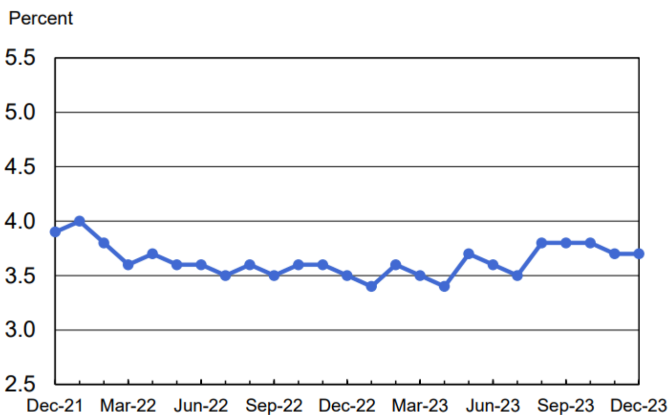
> "The economy has shown signs that it is on a glide-path to a 'soft landing,' where the FOMC increases interest rates to tame inflation, but the economy simultaneously averts recession. The resilient economic growth and job market gains have surprised many economists, and while there remain risks to the downside, conditions are such that some analysts say the economy may also surprise to the upside, and be stronger than expected. Employers are adding jobs in large numbers, even though at levels lower than earlier in 2023, and gains are not so outsized that they are of concern to the FOMC. In addition, the unemployment rate has remained below 4% for two years, the longest period since the 1960s. Another bright spot has been the decline in oil prices, which had remained elevated due to Russian sanctions and the Biden administration's drawdown of the Strategic Petroleum Reserve. Home prices have held up better than expected, although many analysts warn that further declines in the segment are likely. The consensus for 2024 among economists and analysts is one of cautious optimism, as the FOMC is expected to begin lowering interest rates, and inflation is anticipated to continue to trend lower. Risks to the outlook include a monetary policy misstep, an unexpected surge in oil prices, and geopolitical tensions. In addition, the 2024 presidential election campaign will come into increasing focus for investors."[1]

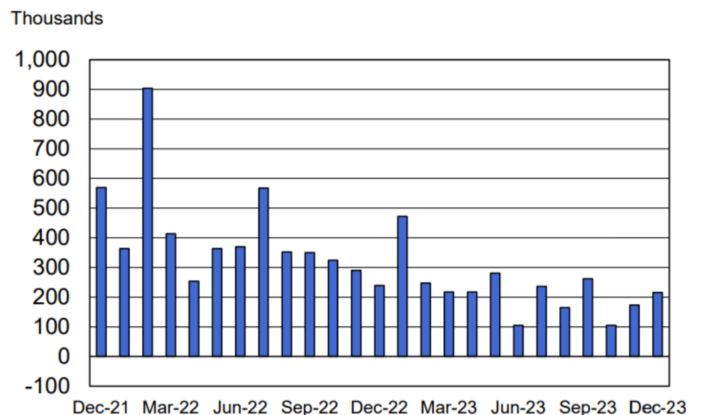
"on a glide-path to a 'soft landing'"

At the Foundation we have been asking the question for six months now, "Soft landing?" That is, will inflation cool down to the Fed's target rate of two percent while the U.S. maintains economic growth and not incur a significant increase in unemployment? Considering these three components–inflation,[2] GDP growth,[3] and unemployment[4]–the answer appears more and more to be "yes" to a "soft" landing.









Third quarter GDP growth of 4.9% was robust. Fourth quarter GDP growth will be reported January 25. The concept of a "soft" landing after the rapid rise in interest rates should not be understood as a "perfect" landing, the analogy being to landing a plane after flying through a storm. We won't really know how "soft" (or not) the landing is because, in the analogy, the "landing" is actually the length and depth of the next recession whenever it comes, which will come eventually.

Who knows? The plane of this healthy economy (healthy by many measures) may keep flying, exiting the storm without needing to land, for longer than many economists have forecast.

"FOMC is expected to begin lowering interest rates"

Below is the "dot plot" from the Federal Reserve as of December 13, 2023, which shows policymakers' expectations of where interest rates will end each year in the near future:[5]

December 2023 FOMC participants' assessment of the appropriate Fed funds target rate
at the end of 2023, 2024, 2025, 2026 and in the longer run

Implied terminal Fed funds rate = 5.4%

Source: Federal Reserve, *Summary of Economic Projections (SEP), December 13*, 2023

Assuming the continuing decline in the rate of inflation and the Fed's future interest rate assumptions, market valuations of debt instruments should rise, decreasing income yields but benefiting patient, diversified investors with stabilizing gains. The year of 2022 was one of the few years in the modern era when bond prices and stock prices were substantially correlated. We should be correcting to a more "normal" time when bonds provide stability for diversified portfolios as stocks persist in their more volatile nature. That is the inherent benefit of the Foundation's portfolios, that through regular rebalancing investors lock-in gains from appreciation in stock prices through rebalancing to more stable bonds, and in down markets for stocks the portfolios capitalize by averaging down on stocks when they are cheaper by rebalancing from bonds to stocks. Rebalancing is subtle, but the long-term effect is less volatility and more stable total returns.

Respectfully,

Chris Walters

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[1] https://www.investpmc.com/sites/default/files/documents/PMC_QuarterlyMarketEnvironment.pdf
[2] https://www.usinflationcalculator.com/inflation/current-inflation-rates/
[3] https://www.bea.gov/data/gdp/gross-domestic-product
[4] https://www.bls.gov/news.release/pdf/empsit.pdf
[5] https://realeconomy.rsmus.com/fed-signals-end-of-rate-hikes-and-projects-cuts-in-2024/

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