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Greetings,

As of the end of the 1st quarter of 2024, net of fees, the returns of the fund models are:

As of 3/31/2024	1st Qtr 2024	Year to Date	Last 1 Year†	Last 3 Years†	Last 5 Years†	Last 10 Years†
Aggressive Fund	**5.84%**	**5.84%**	**18.32%**	**6.48%**	**10.69%**	**8.36%**
Agg. Climate	6.95%	6.95%	19.90%	5.94%	n/a	n/a
benchmark*	7.16%	7.16%	20.66%	6.44%	10.49%	8.43%
Moderate Fund	**4.27%**	**4.27%**	**13.96%**	**4.31%**	**7.88%**	**6.28%**
Mod. Climate	5.10%	5.10%	15.59%	4.35%	7.02%	n/a
benchmark*	5.00%	5.00%	15.41%	4.43%	7.87%	6.67%
Conservative Fund	**2.32%**	**2.32%**	**9.24%**	**2.02%**	**4.73%**	**4.09%**
Con. Climate	2.73%	2.73%	9.59%	2.00%	n/a	n/a
benchmark*	2.76%	2.76%	9.87%	2.17%	4.87%	4.65%

*"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

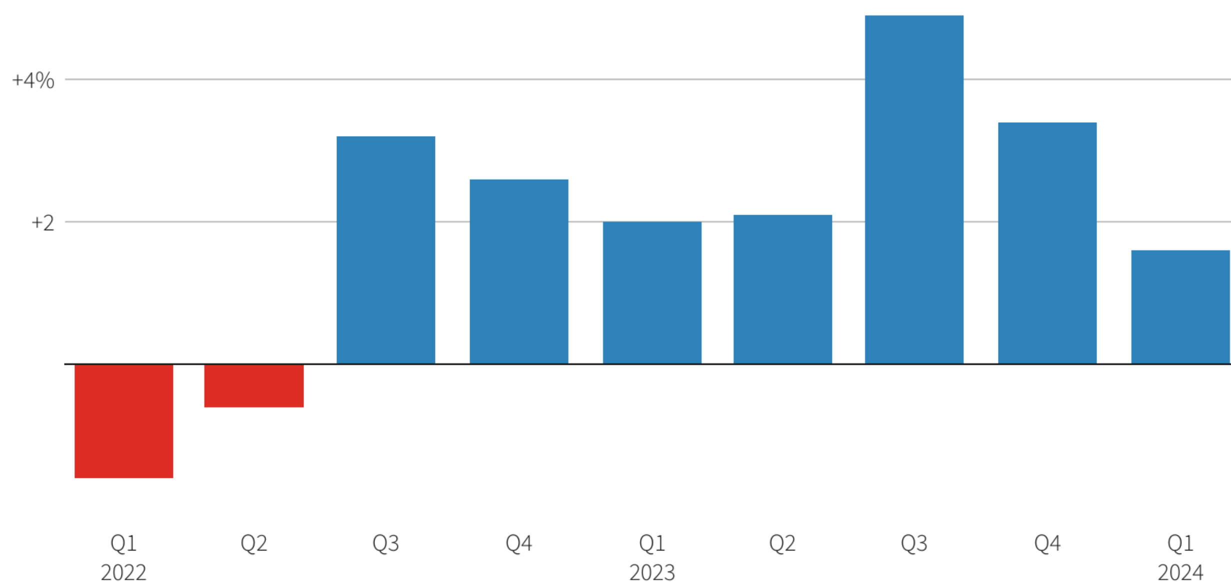
Brandon Thomas, Co-Founder and Chief Investment Officer, Envestnet, concluded their "Economic and Market Overview: First Quarter 2024" report with the following observations and commentary:

> "The US economy has recently performed above-trend and at unsustainable levels, and while the consensus among economists is that there will be an inevitable slowing in the months ahead, it will still perform better than most of the rest of the world. The global economy has been hampered by the lingering effects of the pandemic and its aftershocks, and while the US has come out of it fairly well, Europe, Canada, and Southeast Asia have struggled. Economists are maintaining a cautiously optimistic outlook for the US economy, and are considering several key factors that might influence growth trajectories. The first is the FOMC's monetary policy, which analysts expect to become more accommodative in coming months following two years of aggressive interest rate increases to combat inflationary pressures. The FOMC will attempt to bring about a so-called "soft landing" for the economy, aiming to continuing to bring inflation down to its target level of 2% while at the same time sustaining consumer spending and business investment, critical drivers of economic activity. Second, the labor market continues to recover steadily and admirably from the pandemic-induced downturn, with employers adding jobs at levels exceeding expectations. The unemployment rate remains low, even though it has recently begun to tick up ever so slightly. Third, fiscal policies, including infrastructure investment initiatives and targeted stimulus measures, are expected to bolster aggregate demand and foster long-term productivity gains. These efforts aim to address infrastructure deficiencies, enhance competitiveness, and promote sustainable growth. Economists

cite several risks to the generally positive outlook, including persistent supply chain disruptions which are exacerbated by geopolitical tensions and natural disasters, uncertainties surrounding trade policies, and unexpected geopolitical developments. In addition, while the presidential election cycle does not directly impact the economy, markets will be paying increasing attention to developments in that arena. Overall, while economists believe the US economy is poised for continued growth in the remainder of 2024, policymakers and investors would be wise to remain vigilant in navigating the evolving and emerging challenges."[1]

"consensus among economists is that there will be an inevitable slowing in the months ahead"

Mr. Thomas started his commentary: "The US economy has recently performed above-trend and at unsustainable levels, and while the consensus among economists is that there will be an inevitable slowing in the months ahead, it will still perform better than most of the rest of the world." As I write this letter, the Bureau of Economic Analysis released the Q1 2024 GDP annualized rate of growth at 1.6%,[2] lower than the rate of growth in recent quarters and lower than economists' consensus expectations of 2.4% as polled by Reuters, "with estimates ranging from a 1.0% pace to a 3.1% rate."[3]



Reuters Graphics

Major stock indices in the U.S. recovered dramatically in 2023 from the declines in 2022 and continued to rise in Q1 2024. Market sentiment still revolves around forecasting the actions of the Federal Reserve regarding future rate decreases (or increases). On April 3, 2024, Fed Chair Jerome Powell said, "We do not expect that it will be appropriate to lower our policy rate until we have greater confidence that inflation is moving sustainably down toward 2 percent. Given the strength of the economy and progress on inflation so far, we have time to let the incoming data guide our decisions on policy."[4] With Q1 2024 GDP growth lower than expectations, Fed watchers are now likely wondering about Powell's statement about "the strength of the economy."

"bring inflation down to its target level of 2% while at the same time sustaining consumer spending"

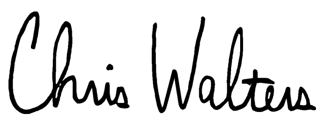
Of course the target level of 2% inflation is an arbitrary target. It may be based on historical experience and driven by solid economic models, but in the end there is nothing objectively ordained about 2% inflation being optimal to maintain the Fed's dual mandate to promote maximum employment and stable prices. At best, I am an armchair economist, and in recent years as this discussion of macroeconomic responsibilities has carried on about the role of the Federal Reserve, I have wondered what the optimal rate-setting policy is if inflation persists at around 3% while unemployment remains low and wage gains remain consistent with or even outperform inflation? If economic growth stagnates yet inflation remains above 2% and unemployment remains low, then what is the Fed to do? At some point, the pressure will mount (is mounting?) on the Fed to lower rates to stimulate the economy, but that is not technically their statutory mandate, to stimulate the economy.

This is the conundrum we have lived with this century post-dotcom bubble more than 20 years ago and post-2008 financial crisis. The Fed reacted swiftly in both cases to dramatically lower rates to near zero, which is where rates remained, in the latter case, for nearly a decade. Time will tell where we go from here regarding Fed policy actions and the market's feedback to their actions.

"investors would be wise to remain vigilant in navigating the evolving and emerging challenges"

The question for investors remains, as always, given everything we know now, are our investments allocated optimally for our circumstances, our needs to distribute (or not) from our investments in the near-and-mid-term, and our tolerance of volatility? The investment allocations of the Foundation's portfolios are optimized so our clients can lower their concern about potentially making adverse allocation decisions because the portfolios have broad exposure to diverse asset classes. For example, nearly 37% of the stock holdings in the Foundation's Moderate Fund are in international and small cap stocks. These asset classes have substantially lower price-to-earnings (PE) ratios than, for example, the S&P 500. This is, in part, the explanation for why the one-year performance of the Foundation's portfolio's underperformed. The large cap benchmark has more concentration in the so-called "Magnificent Seven:" Microsoft, Apple, Nvidia, Alphabet, Amazon, Meta, and Tesla. Many of these stocks have benefited from dramatic PE expansion compared to the rest of the market. Over longer terms, the Foundation's portfolios are performing as they are designed, to provide a return in line with the benchmarks while mitigating downside risk.

Respectfully,



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[1] https://www.investpmc.com/sites/default/files/documents/PMC_QuarterlyMarketEnvironment.pdf
[2] https://www.bea.gov/news/blog/2024-04-25/gross-domestic-product-first-quarter-2024
[3] https://www.reuters.com/markets/us/us-economic-growth-slows-more-than-expected-first-quarter-2024-04-25/
[4] https://www.federalreserve.gov/newsevents/speech/powell20240403a.htm

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