PARTNERS

MAY 2024

&Partners Prism

Investment Outlook and Recommendations

SPECIAL ELECTION EDITION

Stay on Course: Prepare to Steer Through Volatility

An investment commentary collaboration
&Partners Investment Team
and LSV Asset Management

About &Partners

&Partners was founded by a team of experienced executives dedicated to building a wealth management firm where advisors and their clients can thrive.

Our passion for putting advisors and their clients first defines &Partners. It fuels our commitment to exacting service standards, innovative technology and a robust, flexible investment platform.

The founders of &Partners are leveraging their knowledge and experience to create a firm that is aligned around a singular goal: to change lives for the better by empowering financial advisors to deliver effective advice and planning.

— &Partners Investment Team

Please review the Additional Important Disclosures on the last page(s) of this issue of Prism, which address the opinions, strategies, investments, indexes and other topics addressed herein.

Stay on Course: Prepare to Steer Through Volatility

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&Partners Prism: Our perspective, informed by collaboration

At &Partners, we take a distinctive approach to developing our views. That approach includes testing and refining our forecasts through conversations with market strategists and economists across the industry. These discussions, guided by our investment framework, help to ensure that our recommendations and market commentary offer unique, actionable insights.

Reflecting this collaborative spirit, &Partners Prism will regularly feature commentary from one or more of our expert partners. Spotlighting their perspectives will help provide a well-rounded view of the markets and transparency into the range of views within our network.

We'll revisit our market outlook regularly to help advisors and clients adjust portfolios intelligently over time. We welcome your feedback and ideas as we refine our approach to sharing insights, information and solutions.

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Stay on Course: Prepare to steer through volatility

The February edition of Prism recommended preparing for unpredictable markets. The events of the year's first half validated that advice.

The U.S. economy gained momentum, surprising us and many other observers. Although first-quarter GDP growth fell short of forecasts,[1] the Federal Reserve (the Fed), the International Monetary Fund and other organizations raised their 2024 GDP projections.[2,3] The improving economic environment has reduced the risk of recession[4] and supports a healthy outlook for corporate earnings, but also has contributed to higher-than-anticipated inflation.

The combination of solid growth and sticky inflation forced investors to recalibrate their expectations for interest rate cuts, roiling equity markets in April. The bond market started the year pricing in six cuts in 2024;[5] as of May 10, the markets priced in between one and two rate reductions this year.[6]

> **Elections always create noise in the markets, as uncertainty fuels higher volatility.**

This edition of Prism includes our investment recommendations for the remainder of 2024. Also in this issue, Josef Lakonishok, CEO of LSV Asset Management, offers his perspective on the Magnificent Seven, equity-market valuations and opportunities in today's markets.

This issue also features a special section on the U.S. elections. Election years always create noise in the markets, as uncertainty fuels higher volatility. With a tight contest for the White House and little certainty around which party will control Congress, this year is unlikely to be an exception. For our view on what the election means for investors, please turn to page 10. The main takeaway: investors should not be looking to time markets or make significant changes to their portfolios based on who they think will win key races. However, it may be advisable to adjust exposures modestly to capture opportunities and manage risks that emerge as political sentiment shifts ahead of November 5.

Investment Recommendations

We continue to endorse the investment recommendations offered in the last issue of Prism: rebalance out of cash and into a diversified bond portfolio; in U.S. equities, reduce concentrations in the Magnificent Seven; and seek international diversifiers selectively. In addition, new investment opportunities have emerged over the last few months, leading us to advise that investors also:

1	2	3
Overweight exposure to higher-quality, attractively priced small-cap stocks.	Take steps to insulate portfolios from potential equity-market declines.	Explore investments among less-obvious beneficiaries of mega-themes.

1. **Overweight higher-quality, attractively priced small-cap stocks.** As LSV's Josef Lakonishok notes in "A Partner's Perspective" (next page), small-cap stocks trade at a considerable discount to their own history[7] with certain segments of this universe, such as value names, trading near the bottom 25% of their historical ranges.[8] Due to attractive relative valuations, we recommend overweighting small-cap stocks at this time. However, because four out of every 10 small-cap companies are unprofitable,[9] investors should be selective about the names they own. We favor using active managers that employ disciplined processes to identify stocks with both low valuations and strong fundamentals.

2. **Take steps to insulate portfolios from equity-market declines.** In periods marked by uncertainty and increased volatility, investors, particularly those with lower tolerance for risk, should consider allocating to strategies that seek to limit downside exposure. There is a wide spectrum of investment approaches that offer some measure of protection, including:
   - Owning shares of companies with relatively high recent dividends and the financial strength to grow them, which investors tend to appreciate in declining markets.
   - Allocating to strategies that sell out-of-the-money calls, where upside potential is exchanged for a buffer against market losses in the form of enhanced yield.
   - Purchasing structured products or collars, which can reduce market exposure as equities fall or protect against losses below a certain threshold.

3. **Explore less-obvious beneficiaries of mega-themes.** Major forces — developments like artificial intelligence (AI), the energy transition and GLP-1 drugs such as Ozempic — are shaping the future and affecting the outlook for a wide range of assets. The obvious beneficiaries of these trends tend to get expensive very quickly, but more attractively priced investments may benefit as well. For example, Nvidia shares trade at more than 35 times next-12-months' earnings,[10] but many companies that will help meet AI's surging electricity demand remain very reasonably valued. (See "To Invest in AI, Look Outside AI" page 7.)

A Partner's Perspective

A conversation with **Josef Lakonishok, Ph.D**, founder and CEO, LSV Asset Management

Legendary value investor Josef Lakonishok founded LSV in 1994. Here he offers his take on the Magnificent Seven ("like sugar in the modern diet"), the particular importance of diversification today and the case for small-cap value stocks.

LSV's Recommendations

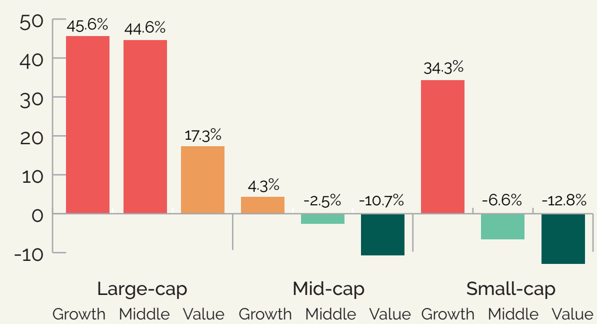
Diversify

Diversification is key in the current environment. Look for exposure to neglected segments of the market, particularly sectors connected to the real economy, such as manufacturing, energy and industrials. Investing in international equities can also help to enhance diversification, as these investments provide exposure to economic dynamics and growth opportunities that historically have been less correlated to U.S. equities.

Small cap value

In our view, small-cap value stocks are cheap in absolute terms and relative to their own history. They present investment opportunities in firms with strong cash flows, robust balance sheets and shareholder-friendly actions. Moreover, their lower correlations to the overall equity market can help enhance portfolio diversification.

P/E premium/discount vs 20yr median[11]



Source: LSV, LSEG (formerly Refinitiv), 4/30/24

"

What do you think more investors should understand?

1. **Investors often struggle to separate a good company from a good investment.** Undoubtedly, the members of the Magnificent Seven are good companies that have had tremendous success, but investors should be cautious about paying earnings multiples that hinge on extrapolating extraordinary past growth rates too far into the future.

2. **Style indices may not deliver the exposures they claim.** For instance, large-cap value indices often include many expensive companies.

3. **Index P/Es (price-to-earnings ratios) may not tell the whole story.** Many small-cap indices are littered with unprofitable companies; since indices' earnings-based valuation multiples generally are calculated only from profitable firms, investors can draw the wrong conclusion about small-caps' overall valuations and relative attractiveness.

How do you think about the Magnificent Seven?

It's important to examine their impact on market dynamics. These companies represent approximately 30% of the S&P 500 and 10% of all publicly traded companies globally.[12] In the last year, their collective market cap has increased by more than $4 trillion, matching the total combined value of the S&P MidCap and SmallCap indices.[13] Many investors would be surprised to know that the Magnificent Seven stocks also represent 40% of consumer discretionary and communications exchange-traded funds (ETFs) and above 20% of the weight in thematic ETFs ranging from Quality to Momentum to ESG.[14] Like sugar in the modern diet, these rich ingredients are in everything investors consume today.

The Magnificent Seven's extraordinarily high multiples pose a significant risk of overvaluation. Another risk to these companies comes from increased regulation — one of the few issues in today's charged political climate with strong bipartisan support.

Growth rates and valuation multiples tend to revert to the mean over time. History is filled with examples of companies that investors thought would be invincible forever, only to be disappointed in the long run.

About LSV Asset Management

LSV Asset Management is a leading quantitative value equity manager, overseeing approximately $100 billion in assets. LSV incorporates insights from behavioral finance to systematically exploit mispricings caused by investors' biases. LSV's contrarian investment philosophy draws on advanced quantitative techniques to implement a deep value strategy, leveraging its expertise in identifying accounting distortions to build sophisticated valuation measures. The firm enhances this process by using other signals from the market and company management teams to orient the portfolio toward improving companies and to avoid value traps. LSV believes that superior long-term results are achieved by consistently delivering diversified, deep-value exposure focused on healthy, shareholder-friendly companies.

$100 bn in assets under management

Specializes in value equity management

1994 Has maintained a consistent investment process since founding in 1994

JOSEF LAKONISHOK, PH.D.
Chief Executive Officer
LSV Asset Management

Investment Outlook Second Half 2024

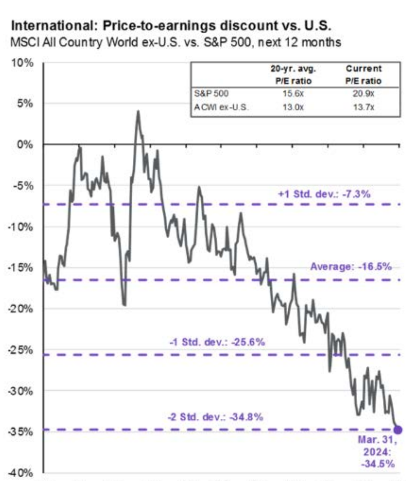
&Partners second half investment outlook for major asset classes

	Unfavorable	Cautious	Neutral	Somewhat Favorable	Favorable
U.S. Equities		●			
International Equities			●		
Fixed Income				●	
Alternatives				●	

U.S. equities: Cautious
U.S. large-cap stocks look priced for perfection, with the S&P 500 trading at 20.0 times forward earnings as of May 6.[15] And although we anticipate healthy earnings growth this year, we think earnings-growth forecasts of approximately 11% for 2024 are overly optimistic.[16] In our view, continued margin expansion from already record levels is unlikely, nor do we see revenues expanding beyond 5%–6%. By contrast, many small- and mid-cap stocks look inexpensive to us. Although the high percentage of unprofitable small companies suggests cheapness is justified for certain small- and mid-cap stocks, we believe disciplined investors should be able to find attractive opportunities. (See “A Partner’s Perspective” on page 4.)

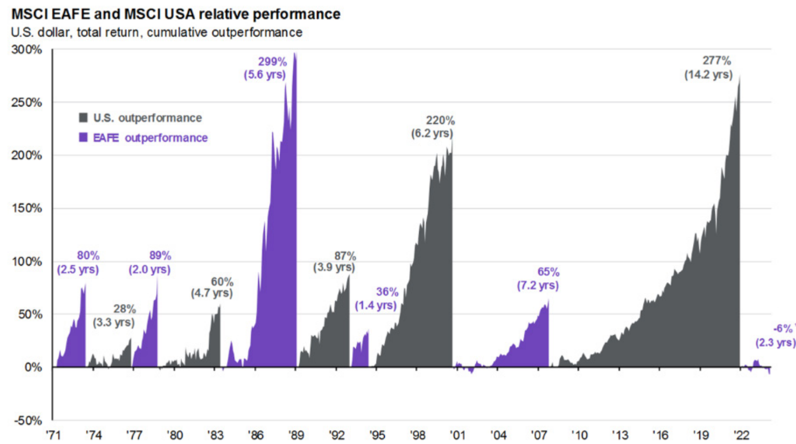
International equities: Neutral (increased from “Cautious”) International stock markets are much less expensive than U.S. stocks, with lower price-to-earnings ratios and higher dividend yields.[17] International and U.S. stocks historically have traded long periods of leadership, and a change may be due after a decade and a half of U.S. outperformance.[18] International markets also offer different sector, geographic and factor exposures than U.S. stocks, giving them the potential to enhance diversification for U.S.-heavy portfolios. Since we believe the U.S. dollar is likely to continue strengthening, investors with sizable international allocations may want to consider hedging the currency risks associated with non-U.S. exposure.

Stocks are much cheaper outside the U.S.



Source: JP Morgan, 4/30/24

Will international equities take the baton?



Source: JP Morgan, 4/30/24

To invest in AI, look outside AI

Artificial intelligence (AI) is exploding. S&P Global expects the market for AI to grow from less than $200 billion in 2023 to almost $650 billion in 2028.[19] Such powerful growth has driven stocks of AI-related tech companies to astronomical heights — most notably Nvidia, which has gained more than 500% since the beginning of 2023.[20]

But technology companies aren't the only way to invest in the AI theme. AI's rapid expansion will drive escalating demand for electricity. Boston Consulting Group expects data centers' electricity consumption to roughly triple between 2022 and 2030,[21] while growth in electric vehicle ownership and other decarbonization efforts add further to electricity demand. Morgan Stanley predicts that a large portion of the new capacity required to satisfy AI's incremental power needs will be powered by zero- or low-carbon sources such as wind and solar, requiring investments in alternative energy.[22]

The rise in electricity demand creates fertile terrain for companies involved with electricity production and distribution, from utilities to equipment manufacturers. Many of these stocks appear to trade at reasonable valuations, particularly compared to shares of AI-related tech companies. They also tend to offer compelling historical dividends and dividend growth potential.

By 2027, generative AI could use as much energy as Spain needed to power itself in 2022.

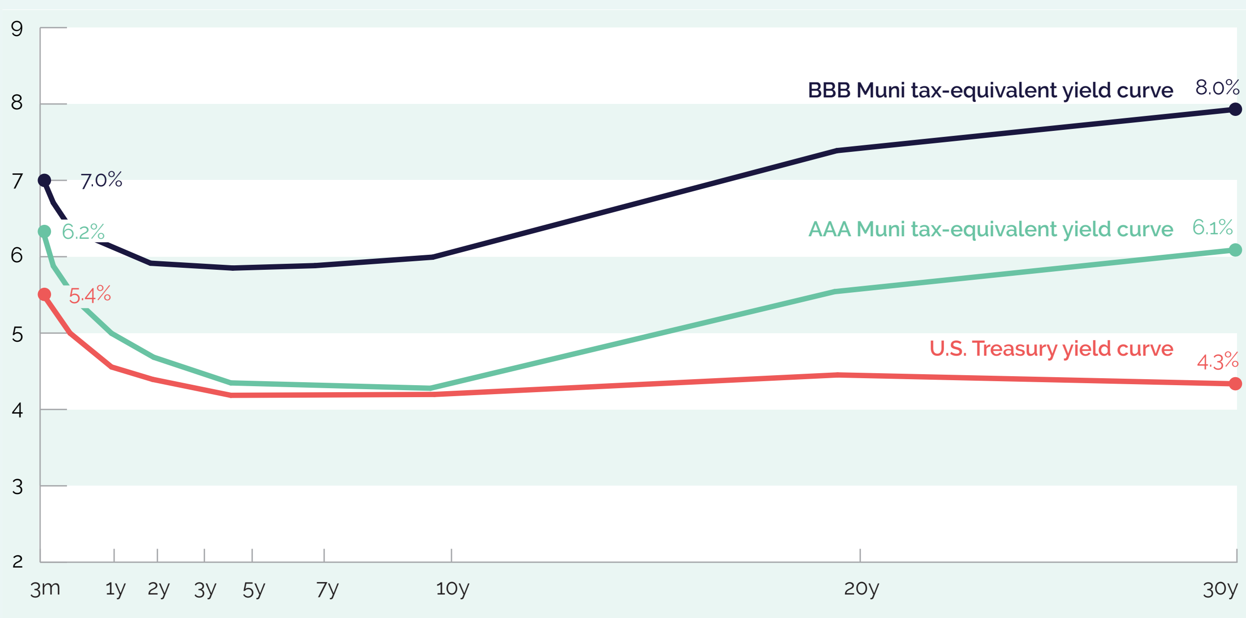
Morgan Stanley, "Powering the AI Revolution"

Fixed income: **Somewhat favorable**
Interest rates remain well above their 20-year averages,[23] creating opportunities for investors who seek additional yield. Factoring in our view on future interest rates, inflation and credit spreads, we believe several fixed-income sectors are attractive, including Treasury Inflation-Protected Securities (TIPS) and, for taxable investors, both short- and long-term municipal bonds (see chart below). In our view, investors should be highly selective in credit, given that spreads have narrowed from already-tight levels. Among high-yielding credit sectors, we favor senior loans and short-maturity, high-quality high-yield bonds.

Alternatives: **Somewhat favorable**
A well-diversified basket of alternatives can enhance diversification and potentially increase the efficiency of the overall portfolio. While these types of investments are not suitable for everyone, we currently see appealing opportunities in private equity, private debt and private real estate. Managers in these segments have the flexibility to capitalize on market dislocations: for example, in today's higher-for-longer interest rate environment, private equity firms can benefit from reduced company valuations, private credit managers can capture high yields and private real estate funds can engage in attractive lease-back arrangements.

Short- and long-term munis look appealing

Muni tax-equivalent and Treasury yield curves



Source: JP Morgan, 4/30/24

Macroeconomic Outlook Second Half of 2024

We build our investment outlook on our expectations for economic growth and inflation. From there, we estimate central banks' short-term rates and real (after-inflation) interest rates and develop return expectations for risk assets such as equities and corporate bonds.

The following analysis informs our outlook:

Economic growth
Like many observers, we have been surprised by the U.S. economy's strength. We now expect slightly above-normal economic growth this year, as a resilient job market helps consumers continue spending. In March, the Fed increased its 2024 GDP growth forecast from 1.8% to 2.1%.[24] The International Monetary Fund followed suit later in the month, raising its estimate from 2.1% to 2.7%.[25]

Our optimism about the U.S. economy is tempered by several factors. While strong employment has boosted consumer incomes,[26] household balance sheets have become more fragile, as households have consumed about two-thirds of the cash cushion they built up during the pandemic, while interest payments, delinquencies and the number of 401(k) loans have risen.[27] Further, inflation, geopolitics and Fed policy all sit at a crossroads. Unexpected developments in any of these spheres could affect the others in unpredictable ways.

Other developed countries are experiencing more challenging economic conditions. Over the last several months, GDP forecasts have been revised downward across much of Europe and Asia, with the eurozone, Japan and the United Kingdom likely to fall short of 1% growth for 2024.[28]

Inflation
Inflation continues to trend down, but more slowly than expected. Inflation's stickiness in the first half of 2024 has resulted from stronger-than-expected economic growth and a number of supply chain problems — including the collapse of Baltimore's Francis Scott Key Bridge, low water in the Panama Canal, an earthquake in Taiwan and disruptions to shipping in the Persian Gulf due to intensifying conflicts in the Middle East. These kinds of disruptions may continue, given the volatile geopolitical climate, changing weather patterns and aging infrastructure.

Real rates
Real interest rates are the difference between current interest rates and inflation. The real rate on the 10-year Treasury note approached 2% in April, near its highest level since 2007,[29] while TIPS offered yields between 2% and 2.25% across the yield curve.[30] The Fed looks likely to leave interest rates unchanged until the fourth quarter. Higher rates could persist for even longer should monetary authorities' desire to stay out of the political fray lead them to delay action until well after the November elections.

If rates do stay elevated and inflation declines slowly, real interest rates will remain attractive. That said, conditions could change quickly. In the event of a major economic disruption, such as a significant escalation of conflicts in the Middle East, the Fed might cut sooner and more forcefully than anticipated, potentially bringing real rates down sharply.

Risk assets
Valuations are mixed for risk assets. Despite recent declines, U.S. large-cap stocks appear priced for perfection, especially given the prospect for heightened volatility ahead of U.S. elections (see "What the Election Does and Doesn't Mean for Your Portfolio" on page 10). Relative to the largest names in broad U.S. equity indices, many smaller stocks look very inexpensive. Likewise, international equities look historically cheap in comparison to U.S. stocks.

What the Election Does and Doesn't Mean for your Portfolio

Five Key Takeaways

1. Elections' impact on markets tends to be modest, temporary and unpredictable, so we caution against big shifts in your long-term investment strategy.
2. Because electoral uncertainty typically leads to heightened market volatility, consider strategies that can help buffer market declines.
3. Take advantage of delayed Fed action, which could extend until well after Election Day, by moving out of cash and money markets into a diversified set of fixed-income investments.
4. Review exposure to the U.S. dollar, which we believe will remain strong, and limit foreign exchange risk by hedging international exposures.
5. For new capital, consider ways to play both parties' focus on infrastructure spending.

There is little consensus about which party will prevail in the 2024 U.S. presidential and congressional elections. With tight races in critical battleground states and the retirement of leading members in both houses of Congress, we're likely to have little clarity ahead of ballot box day.[31]

It's natural to be concerned about the ways electoral uncertainty might affect your investments. But remember that elections are just one of many factors that influence economies and markets.[32]

With the caveat that investors should refrain from making large changes based on who they think will win key races, we offer five observations and investment recommendations related to this election season.

"Elections are just one of many factors that influence economies and markets."

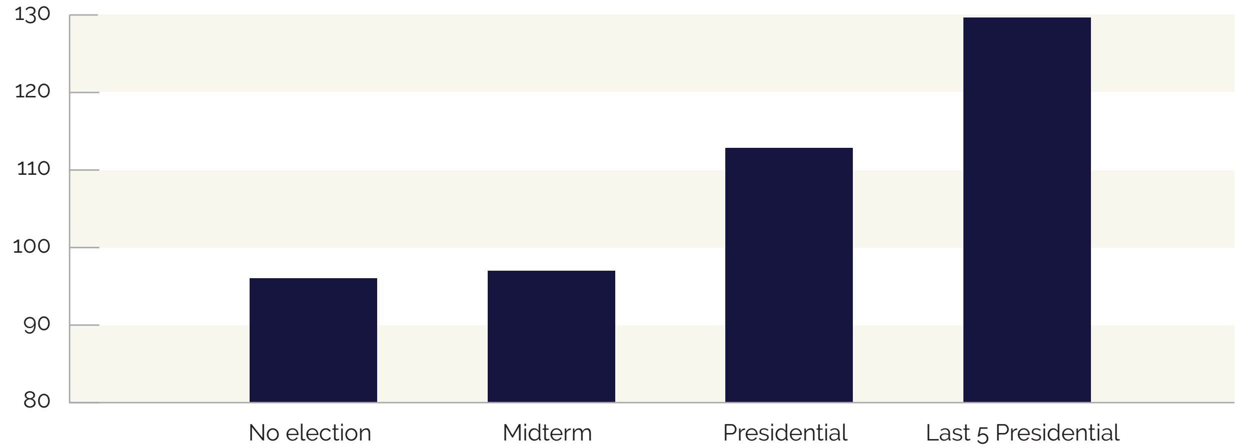
1. Uncertainty around elections tends to dampen both economies and markets, but typically normalize after elections are decided.[33]

Elections' impact on economic growth is real, but the effect is relatively small and short-lived. Both corporations and individuals tend to respond to the lack of clarity around future public policy by delaying spending.[34] Researchers at Goldman Sachs have attempted to quantify this uncertainty impact by examining the connection between policy uncertainty indices, which have been especially elevated in the last five presidential election cycles, and GDP growth. Their research implies a 0.2 to 0.3 percentage point drag on GDP growth during quarters around elections, with a smaller impact on full-year growth.

That said, it's important to remember that other, more powerful forces — notably interest rates and fiscal spending — also influence the economy's trajectory and growth rate. Moreover, elections' impact on GDP growth is transitory, subsiding as uncertainty decreases.[35]

Presidential elections drive uncertainty

U.S. economic policy uncertainty index (Long-term average = 100)

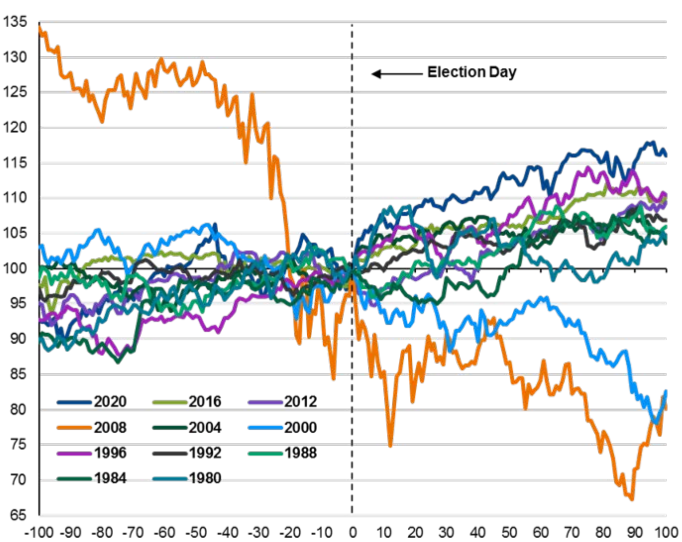


Source: Guggenheim Investments, Haver. Data as of 12/31/2023. The Economic Policy Uncertainty Index tracks geopolitical events and associated risks based on a tally of newspaper articles covering geopolitical tensions.

Markets generally have performed fairly well in election years, with much of their returns coming after elections have been decided.[36] The chart on the right illustrates the path of the S&P 500 before and after the past eight presidential elections. As you can see, apart from 2000 (the bursting of the dot-com bubble) and 2008 (the onset of the Great Recession), returns tended to improve after the election. Since 1936, stocks have posted median returns of 1.9% in the first three quarters of an election year and 3.1% in the fourth quarter.

S&P 500 Price index 100 days prior to and following a presidential election

Election Day = 0, 1980–2020



Source: JP Morgan

Recommendation

Maintain your investment strategy while considering tactical adjustments that may enhance returns or help manage risk.

Why: Although the economy and stock market tend to exhibit certain patterns around elections, other factors typically have greater influence.[37] Moreover, markets can be very erratic around an election, making it challenging to time entries or exits.[38] Consider 2016: the S&P 500 rallied 3% between the preceding Friday and election day;[39] futures dropped sharply in the early hours of November 9 as election results trickled in; and the S&P 500 closed 1.1% higher the day after the final results were confirmed.

Making major changes based on emotional responses to uncertainty can lead to costly mistakes. It can take years to recover from ill-timed market exits or entries. Adhering to a disciplined approach is critical to achieving long-term investment goals. Rather than implement large shifts, consider whether modest tactical adjustments may help you either capitalize on current investment opportunities or manage risks more effectively.

> "Making major changes based on emotional responses to uncertainty can lead to costly mistakes."

How: Maintain a well-diversified portfolio with an appropriate level of risk based on your age, goals and preferences. If political uncertainty makes you uncomfortable about your investments, consider speaking with your advisor about strategies that may help reduce volatility or offer protective features. (See observation 3, next page.)

2. The Fed is active in election years, but it may avoid making monetary policy changes immediately prior to elections.

History demonstrates that the Fed focuses on its primary mandate of price stability and maximum employment whether it is an election year or not. In fact, since 1980, the Fed has either raised or lowered rates in every election year except 2012.[40] That said, the Fed may look to avoid the suggestion of interference or bias by trying not to initiate policy changes close to election day.[41]

This year, higher-than-expected inflation readings have pushed out potential rate decreases. As noted above, the Fed may delay action until December or even wait until 2025, unless the economy shows signs of greater-than-expected weakening and/or inflation cools significantly.[42]

Recommendation

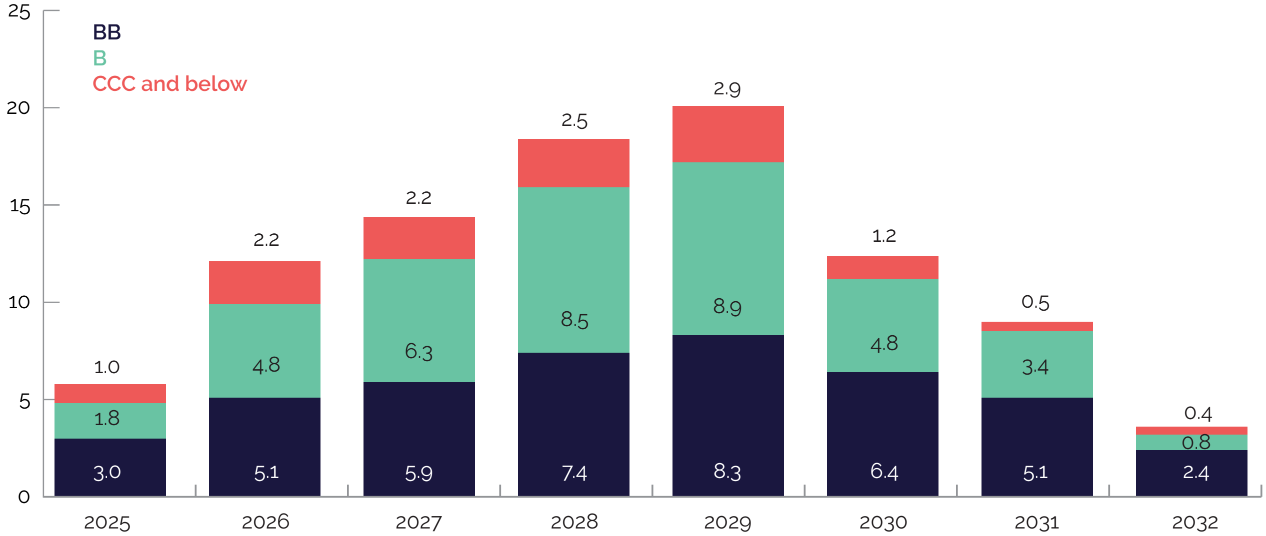
Take advantage of recent changes in interest rate expectations by moving out of money market funds or brokered other cash equivalents and locking in higher yields on bonds.

Why: We believe the reset of market expectations has created opportunities for investors to extend in maturity and participate in higher rates for a longer period. Because we still expect the Fed to begin a rate-cutting cycle later this year or early next, we recommend a combination of short- and intermediate-term exposures across high-yield and municipal securities. Note that because their prices are more responsive to interest-rate moves, intermediate-term municipal fixed income securities are often more diversifying to an overall investment portfolio than shorter-duration or higher-coupon bonds.[43]

How: Consider shorter-term, high-quality, high-yield debt or loans. Shorter-term high-yield exposures offer opportunities to capitalize on high interest rates but with less volatility than is typical for longer-dated securities.[44] We believe investors can mitigate the risk associated with lower-quality borrowers by investing in higher-rated securities within the high-yield, short-duration universe. Because much of this issuer base-secured financing was placed when spreads and overall rates were much lower, supply should not overwhelm demand in the near term. (See chart on the next page showing that the refinancing cliff remains several years away.)

A high-yield maturity wall is several years away

Percentage of Bloomberg U.S. Corporate High Yield Index maturing by calendar year



Source: Pinebridge

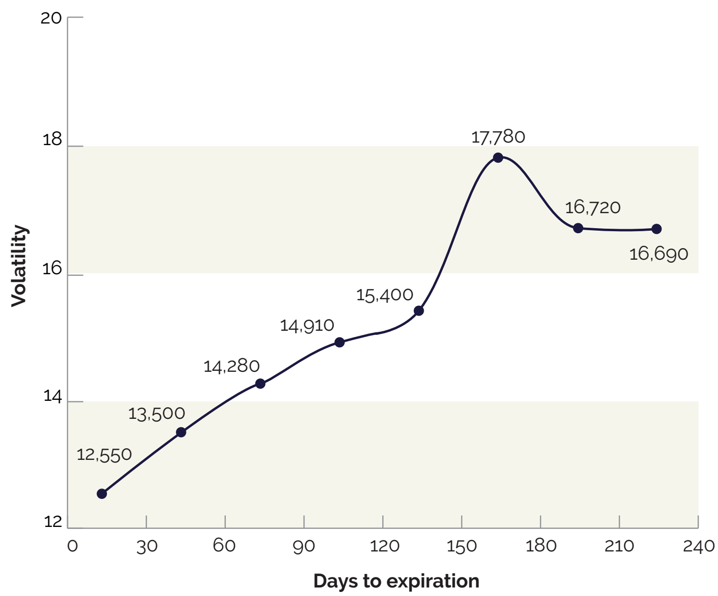
Taxable investors should also consider barbelled exposure to municipal bonds. Allocating to a mix of shorter- and longer-dated municipals enables investors to achieve tax-equivalent yields of approximately 5.5% while enhancing the diversification of their overall portfolios. (See chart on page 8.)

3. The markets are pricing in uncertainty earlier than usual this year.[45]

The VIX index indicates forward expectations for market volatility, based on the price of S&P 500 index options. It is sometimes called a fear gauge because it tends to rise when markets experience major dislocations.[46] The VIX has moved higher since the start of the year, as questions about monetary policy and unrest in the Middle East have unsettled the markets.[47] In addition, expectations for market volatility around the election have increased. While a rise in implied volatility is typical in an election year, traders have acted earlier than usual this year to secure protection against gyrations in stock indices.[48] (See the chart on the right.)

VIX futures

vixcentral.com



Source: Vixcentral.com, May 20, 2024

Recommendation

Consider implementing buy-write strategies, which combine index exposure with options sales to increase income and create a buffer against market declines.

Why: We favor remaining fully invested over election cycles. That said, we expect heightened volatility due to electoral uncertainty, geopolitical concerns, changing inflation expectations and high relative valuations. We believe recent increases in the VIX — particularly the spike in the price of futures near the election — offer opportunities to generate income by selling calls. While these strategies reduce upside potential, they can also help buffer potential stock price declines.[49]

> "We expect heightened volatility due to electoral uncertainty, geopolitical concerns, changing inflation expectations and high relative valuations."

How: A number of active, indexed and ETF strategies offer exposure to U.S. equity markets while seeking to provide enhanced income — over and above dividends and market appreciation — through the sale of calls. Covered calls also can be written against existing index and individual stock exposures.

4. Corporate borrowers are taking action to insulate themselves from election uncertainty.[50]

Debt issuance has been strong this year, as corporations have leveraged demand for fixed-income securities to finance their capital needs. Blue-chip corporations issued approximately $190 million in debt in January alone, breaking the monthly issuance record set in 2017.[51] We believe the accelerated pace of debt-raising in the first quarter should reduce supply later in the year.

Recommendation

Maintain a core allocation to broader U.S. fixed income for total portfolio diversification and consider boosting income through an allocation to short-duration high-yield bonds.

Why: Fixed income plays a vital role in portfolio diversification. And if the Fed does initiate a rate-cutting cycle in late 2024 or early 2025, fixed income should perform well relative to assets with lower interest-rate sensitivity.[52]

How: Many ETFs and mutual funds invest across the U.S. fixed-income market. Because credit spreads are currently very tight, we prefer extending duration through exposure to municipal bonds or TIPS. As mentioned above, investors may also want to pursue greater income with tactical positions in high-yield bonds, while managing default risk by selecting managers that focus on short-term, relatively high-quality securities within this universe.

5. Sector plays based on expected policy decisions may not go as planned.

It can be tempting to compare candidates' policy agendas and try to pick sectors that would benefit from specific election outcomes. Such predictions do not always play out as intended, however. For example, many investors believed the Biden presidency would lift the value of "green" energy stocks, and the 2022 passage of the climate-focused Inflation Reduction Act seemed to validate that stance. Yet from President Biden's inauguration date through the end of 2023, the S&P 500 Energy Index nearly doubled, while the S&P 500 Global Clean Energy Index fell by 50%.[53]

In this case, macroeconomic forces trumped policy action. Oil prices rebounded as the global economy emerged from the pandemic; Russia's invasion of Ukraine caused oil prices to spike 33% in just two weeks; and supply limitations — possibly resulting from policy-driven restraints on investment — supported higher oil prices and increased energy companies' profitability.

This is just one example. Historically, it has been difficult to invest in sector themes related to election outcomes. As the table below illustrates, there have been few if any clear connections between sector performance and the party that wins the White House.

Relative sector performance in presidential election years since 1976

Election years in which each sector underperformed or overperformed the S&P 500

	Underperforming years	Outperforming years
Energy	‘20 ‘12 ‘92 ‘84	‘76 ‘80 ‘88 ‘96 ‘00 ‘04 ‘08 ‘16
Communication services	‘12 ‘00 ‘96 ‘80	‘76 ‘84 ‘88 ‘92 ‘04 ‘08 ‘16 ‘20
Financials	‘20 ‘08 ‘04 ‘80 ‘76	‘84 ‘88 ‘92 ‘96 ‘00 ‘12 ‘16
Industrials	‘20 ‘12 ‘08 ‘88 ‘84	‘76 ‘80 ‘92 ‘96 ‘00 ‘04 ‘16
Consumer discretionary	‘16 ‘00 ‘96 ‘80 ‘76	‘84 ‘88 ‘92 ‘04 ‘08 ‘12 ‘20
Consumer staples	‘20 ‘16 ‘12 ‘04 ‘92 ‘80 ‘76	‘84 ‘88 ‘96 ‘00 ‘08
Utilities	‘20 ‘12 ‘96 ‘92 ‘88 ‘80 ‘76	‘84 ‘00 ‘04 ‘08 ‘16
Technology	‘12 ‘08 ‘04 ‘00 ‘92 ‘88 ‘84 ‘80	‘76 ‘96 ‘16 ‘20
Materials	‘12 ‘08 ‘00 ‘96 ‘88 ‘84 ‘80 ‘76	‘92 ‘04 ‘16 ‘20
Health care	‘20 ‘16 ‘04 ‘96 ‘92 ‘88 ‘84 ‘80 ‘76	‘00 ‘08 ‘12

Democrat elected   Republican elected

Source: Fidelity, Strategas Research Partners, 11/5/23

Recommendation

Instead of sectors, focus on existing trends that the election could accentuate. These trends include a stronger U.S. dollar and investments in infrastructure, particularly the power infrastructure needed to support AI.

Why: We believe certain themes will gain strength regardless of who takes the White House. We advise overweighting exposure to the U.S. dollar and increasing allocations to infrastructure.

Both monetary and trade policy look likely to support a stronger dollar. In the United States, a strong economy and uncomfortably high inflation are likely to keep interest rates high, even as much of the rest of the world starts reducing interest rates to promote economic growth. From a policy perspective, both parties' embrace of more forceful industrial policy could drive higher tariffs and other protectionist measures. Given the likelihood of such policies, markets may anticipate a stronger U.S. dollar against European and North Asian currencies.[54]

Infrastructure investments also figure prominently in the agendas of both parties. The Biden administration has been a strong promoter of federal infrastructure investment, securing more than a trillion dollars in federal funds to support infrastructure improvements across the United States.[55] During his term, Donald Trump pushed for funding of infrastructure projects through "infrastructure weeks," and his current rhetoric calls for a combination of public and private capital.[56] Infrastructure has a well-established multiplier effect: a dollar spent on it creates two dollars of GDP over a 10-year period. This economic impact contributes to its bipartisan appeal, supporting our expectation that investments in roads, airports, schools and other infrastructure projects will continue. Investments in the power infrastructure needed to support the growth of AI look especially appealing (see "To Invest in AI, Look Beyond AI" on page 7).

“Infrastructure’s multiplier effect contributes to its bipartisan appeal.”

How to invest for a stronger dollar: Many individual U.S. investors have home-country biases that provide a natural overweight to the U.S. dollar. When investing in international fixed income or international equities, investors can also select strategies that track hedged indices. Many ETF providers offer index funds designed to replicate international market returns hedged back to the U.S. dollar.

How to invest in infrastructure: The small-cap value universe includes healthy exposure to industrials and basic materials companies, many of which stand to benefit from greater spending on physical infrastructure. Spending flowing from government programs is likely to include “buy American” requirements that favor smaller, domestic companies. The expansion of digital infrastructure will drive demand for products and services provided not just by mega-cap tech companies, but also by certain small-cap value firms, including engineering and construction service companies and specialized electronics suppliers. And to the extent the infrastructure build-out drives economic growth, it is likely to benefit banks, which make up 16% of the Russell 2000 Value Index.

To capitalize on the AI-driven expansion in power capacity, we recommend private infrastructure funds that include an allocation to clean energy generation. These types of investments also offer a number of other attractive qualities: they can serve as a hedge against rising inflation, and historically they have had favorable volatility and correlation characteristics relative to fixed income, equities and other alternative asset classes (see the table below).[57]

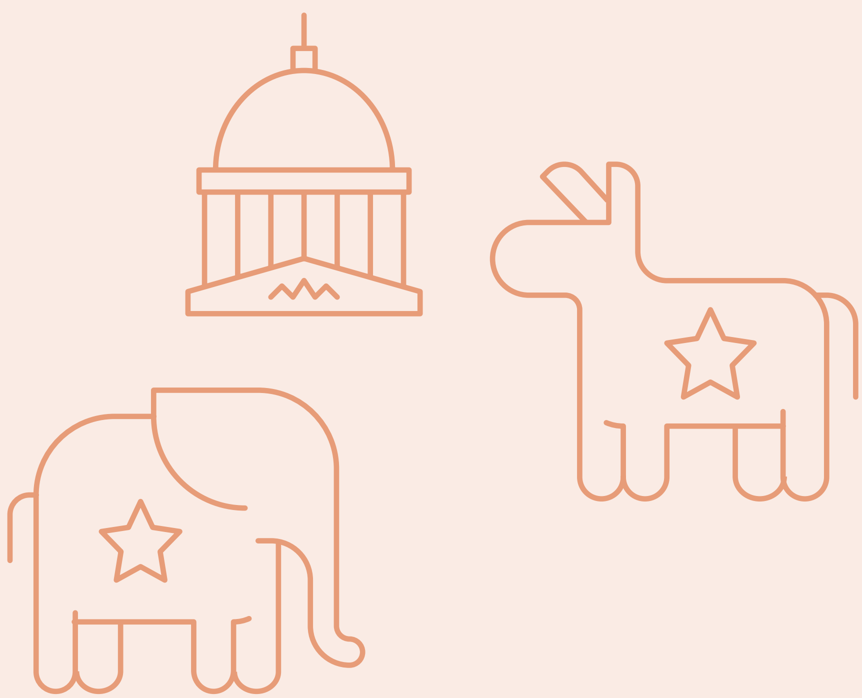
Infrastructure: a valuable piece of a diversified portfolio

Correlation Matrix	Global Fixed Income	U.S. Equity	Global Equity	Private Real Estate	Global Private Equity	Private Infrastructure Equity
Global Fixed Income	1.00	0.00	0.10	0.01	0.12	**0.24**
U.S. Equity	0.00	1.00	0.95	0.39	0.75	**0.54**
Global Equity	0.10	0.95	1.00	0.39	0.79	**0.60**
Private Real Estate	0.01	0.39	0.39	1.00	0.71	**0.62**
Global Private Equity	0.12	0.75	0.79	0.71	1.00	**0.70**
Private Infrastructure Equity	0.24	0.54	0.60	0.62	0.70	**1.00**
Annualized Volatility	**5.8%**	**16.5%**	**18.0%**	**9.4%**	**11.2%**	**9.1%**

Source: Bloomberg, Cambridge Associates. Correlations and volatilities are estimated from quarterly historical return series from Q1 2000 to Q3 2021. Bloomberg Global-Aggregate Total Return Index used to represent global fixed income, S&P 500 Index for U.S. equity, and MSCI ACWI Index for global equity. The data source of private real estate, private equity and private infrastructure equity is Cambridge Associates.

Conclusion

Elections historically have had smaller impacts on market returns than factors such as interest rates and corporate profits. They do create uncertainty — but uncertainty's dampening effects, and its tendency to heighten volatility, are likely to be transitory. These insights suggest that the key to navigating the market during election years is to stay the course with your investment strategy. In our view, investors should avoid attempting to time markets or overweight sectors based on the policy agenda of the prevailing party. Instead, more modest adjustments should be considered, including tactical and longer-term investments designed to reflect both election-year dynamics and also the impact of more powerful forces, such as the state of the economy and monetary policy, which are likely to be the primary drivers of markets over time.



Appendix

Investment framework
The Investment Team at &Partners takes a distinctive approach to developing our views. Our approach includes testing and refining our forecasts through conversations with market strategists and economists across the industry. These discussions, guided by our investment framework, help to ensure that our recommendations and market commentary offer unique, actionable insights.

As illustrated below, we build our investment outlook by:

- Setting our expectations for economic growth and inflation
- Estimating central banks' short-term rates and real interest rates
- Using these insights to develop return expectations for risk assets such as equities and corporate bonds

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&Partners Investment Philosophy Framework

Economic Growth 1
- Indicators
- Trend
- Predictability

2 Inflation
- Indicators
- Trend
- Drivers

Real Asset Outlook 4
- Equity
- Term and credit
- Illiquidity

3 Real Rates
- Monetary policy
- Fiscal policy
- Slope of yield curve

Asset Allocation
- U.S. equities
- International equities
- Fixed income
- Alternatives

Risk Budget
- Directional — Across asset classes
- Relative value — Within asset classes

Conviction
1. Unfavorable
2. Cautious
3. Neutral
4. Somewhat favorable
5. Favorable

Additional Important Disclosures

Within Prism, we discuss a number of considerations and different types of investments, strategies and programs that are neither suitable for nor available to all investors. Consequently, this material does not intend to address the financial objectives, situation or specific needs of any individual investor. You should consult with your financial professional before investing and with your accounting and tax advisors to understand the tax implications of any investment or investment transaction(s) in connection with your specific situation.

Different types of investments and investment strategies inherently carry different or greater risks than others. With all investments, past performance may not be indicative of future results, and it is possible that you may lose some or all of your investment. Additionally, certain investments may have limited liquidity, or may become illiquid, so you should consider your potential capital and liquidity needs before investing.

The information and opinions herein are point-in-time, as of the date of publication, and are based on certain current assumptions and views that are all subject to change. Before acting on any information in Prism, please consult with your financial professional(s) to assure any changes to your portfolio are appropriate for your goals and circumstances at that time.

Investment and portfolio diversification is generally recommended to reduce the overall volatility of a portfolio, but diversification will not assure a gain or prevent a loss (especially in declining markets). Diversification is generally more effective to reduce volatility when a portfolio includes investments that are uncorrelated or negatively correlated with one another from a performance and investment risk standpoint. Historical correlation of investment performance correlation (or lack thereof) is, by its nature, backward-looking and does not guarantee the correlation (or lack thereof) will continue or remain constant.

This material has been prepared on the basis of publicly available information, internally developed data and other third-party sources believed to be reliable, but &Partners, nor any of its affiliates, guarantee its accuracy. &Partners has not sought to independently verify information taken from public and third-party sources. Charts and graphs provided herein are for illustrative purposes only.

Small-cap, mid-cap, high-yield fixed income, options, international, currencies, commodities and commodities-based securities (including, but not limited to, commodity-related and/or real estate-related securities) investments will typically have greater volatility and carry other unique risks that may make them more susceptible to loss.

All bonds have risk of default that historically has varied based on the creditworthiness of the issuer. Please consider the historic default risk for any bonds you may be considering for your portfolio before you invest. For municipal securities, you should consult the Municipal Securities Rulemaking Board's Electronic Municipal Market Access (EMMA) website for material event disclosures concerning municipal security investments and issuers you are considering or holding.

When discussing "high-yield" bonds in this article, we are referring to securities where the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

When we refer to "high-quality" bonds in this article, we are referring to securities rated investment grade (Baa3/BBB-/BBB- or higher) using the middle rating of Moody's, S&P and Fitch.

Interest income from most, but not all, municipal securities is exempt from state and/or federal taxation, but in certain situations, tax-exempt income may be subject to the alternative minimum tax (AMT). Before investing in municipal securities, consult your tax professional. Similarly, many municipal securities offer lower pre-tax yields than federal taxable equivalents. As such, we recommend them for investors only where investors are in high tax brackets where the post-tax return is as good or better than the taxable equivalent.

Additional Important Disclosures (continued)

Investments in fixed-income securities, including bonds and municipal securities, are subject to issuer, credit rate, interest rate, liquidity, inflation, prepayment, extension and other similar risks that will affect the market price of those investments. Bond pricing will generally fluctuate inversely with changes to interest rates, but not all bonds follow the same patterns depending on specific bond terms and other risk considerations.

It is important that you review any prospectus or other offering materials for applicable investments prior to investing.

Indexes are unmanaged and cannot be invested in directly. Index performance does not include fees and expenses an investor would normally incur when investing in a mutual fund. Diversification and strategic asset allocation do not assure profit or protect against loss in declining markets. Returns represent past performance, are not a guarantee of future performance and are not indicative of any specific investment.

MSCI AC (All Country) Index: Captures large- and mid-cap representation across 23 developed market (DM) and 24 emerging market countries. With 2,791 constituents, the index covers approximately 85% of the global investable equity opportunity set.

MSCI EAFE (Europe, Australasia, Far East) Index: A free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

Russell 2000® Index: The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

S&P 500® Index: A free-float capitalization-weighted index published since 1957 of the prices of 500 large-cap common stocks actively traded in the United States. The stocks included in the S&P 500® are those large publicly held companies that trade on either of the two largest American stock market exchanges: the New York Stock Exchange and the Nasdaq.

Nasdaq Composite: A stock market index that includes almost all stocks listed on the Nasdaq stock exchange. Along with the Dow Jones Industrial Average and S&P 500, it is one of the three most followed stock market indices in the United States. The composition of the Nasdaq Composite is heavily weighted toward companies in the information technology sector.

Tokyo Stock Price Index (TOPIX): A free-float adjusted market capitalization-weighted index of all the companies listed on the First Section of the Tokyo Stock Exchange. The First Section contains the larger companies in the index, while the Second Section is composed of smaller companies. TOPIX, because of its nearly 2,000 constituents, is widely regarded as a broad benchmark for Japanese stock prices.

KOSPI 200: A capitalization-weighted stock market index that is composed of the 200 largest publicly traded common stocks traded in Korea and tracks roughly 70% of the market value of the overall Korean Stock Exchange.

MSCI Emerging Markets Index: Captures large- and mid-cap representation across 24 EM countries. With 1,440 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

S&P SmallCap 600® Index: A float-adjusted market-cap weighted index measures the performance of the small-cap segment of the U.S. market. The index is composed of 600 constituent companies considered small-cap based on their total market capitalization. The 600 constituent companies cover approximately 2.5% of the U.S. equities market and fall within 11 sectors.

Bloomberg U.S. Corporate Index: A fixed-income index that measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers that have a remaining maturity of at least one year.

Bloomberg U.S. Corporate High Yield Index: A fixed-income index that measures the performance of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds, including corporate bonds, fixed-rate putable and callable bonds, SEC Rule 144A securities, Original issue zeros, Pay-in-kind (PIK) bonds, Fixed-rate and fixed-to-floating capital securities.

Additional Important Disclosures (continued)

CBOE Volatility Index (VIX): An options index that estimates expected stock market volatility by aggregating the weighted prices of S&P 500 Index (SPX℠) puts and calls over a wide range of strike prices. The VIX is intended to serve as a barometer for market uncertainty, providing a 30-day measure of the expected volatility of the broad U.S. stock market.

Merrill Lynch Option Volatility Estimate (MOVE) Index: An options index that measures the implied volatility of U.S. Treasury options across 2-, 5-, 10- and 30-year maturities. The MOVE Index is intended to gauge of interest rate volatility in the U.S. Treasury market.

U.S. Dollar Index (DYX): A currency index that measures the value of the U.S. dollar relative to a basket of six foreign currencies (euro, Swiss franc, Japanese yen, Canadian dollar, British pound and Swedish krona).

Additional Important Disclosures (continued)

End notes

1 Barron's, 4/26/24

2 Federal Reserve, 3/20/24

3 "World Economic Outlook," p10. International Monetary Fund 4/16/24

4 Grant Thornton, 3/21/24

5 Reuters, 1/19/24

6 CME FedWatch Tool, 5/10/24

7 LSV, LSEG (formerly Refinitiv), 4/30/24

8 LSV, LSEG, 4/30/24

9 JP Morgan, 4/30/24

10 FactSet, 5/22/24

11 The Large-cap/Mid-cap/Small-cap categorization is sorted with the first 500 U.S.-listed companies by market capitalization defined as large-cap; the next 500 companies by market capitalization defined as mid-cap; and the next 1,000 companies by market capitalization defined as small-cap. The Growth/Middle/Value categorization is sorted by a comprehensive set of valuation measures as follows: 30% of the market capitalization in Growth; 40% in Middle; and 30% in Value. REITS are excluded and companies with negative earnings are limited to max 20% of the portfolio. The effect of outliers have been reduced.

12 LSV, Bloomberg, 5/9/24

13 LSV, Bloomberg, 5/9/24

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19 S&P Global, 4/8/24

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22 "Powering the AI Revolution," Morgan Stanley, 3/8/24

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31 U.S. Bank, 4/9/24

32 Fidelity, 3/6/24

33 Goldman Sachs, 2/22/24

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41 Los Angeles Times, 9/19/16

42 Yahoo Finance, 4/16/24

43 Pimco

44 PineBridge Investments, 3/5/24

45 Morningstar, 2/12/24

Additional Important Disclosures (continued)

46 Yahoo Finance, 1/26/24

47 IG, 4/19/24

48 Morningstar, 2/12/24

49 Fidelity

50 Reuters, 2/5/24

51 Bloomberg, 1/29/24

52 Pimco

53 JP Morgan, 1/10/24

54 Goldman Sachs, 2/1/24

55 Politico, 11/6/22

56 Bloomberg, 11/16/20

57 Neuberger Bergman, 5/22

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