ACADEMY ASSET MANAGEMENT

Market Update

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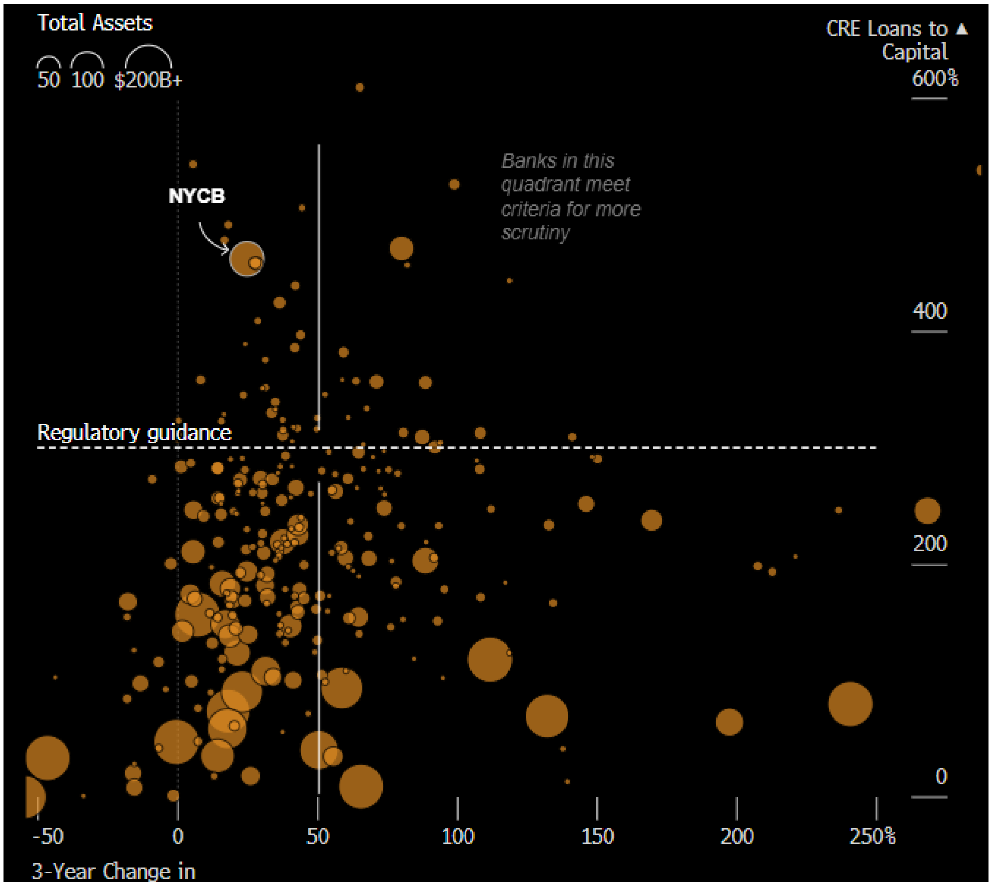
The economic landscape in March 2024 continues to present a complex and nuanced picture, reflecting both resilience and emerging challenges across various sectors. The Federal Reserve's desire to cut rates is hampered by conflicting economic data. February's data, including a 3.1% rise in the Consumer Price Index, suggests persistent inflationary pressures, complicating the Fed's policy decisions. However, a weaker labor report aligns with the Fed's conditions for easing, highlighting the volatility and uncertainty in economic indicators. Market consensus has pulled back the number of cuts anticipated and is now much closer to our continued view of 2-3 cuts in 2024, reflecting cautious optimism that the Fed may find room to maneuver.

The U.S. economy has shown signs of strength, with GDP growth tracking at 3.3% in Q4'23, following robust 4.9% growth in the third quarter. Unemployment remains low at 3.7%, indicating a healthy labor market. However, the economic outlook for 2024 is not without its challenges, as forecasters anticipate slower growth.

Excess savings still remain above pre-pandemic levels, likely enabling consumers to weather negative income shocks. This financial cushion has supported continued consumer spending, albeit with recent signs of weakening in retail sales. Notably, the resilience is more pronounced among upper-income households, which have seen the largest gains in real liquid assets. This divergence underscores the uneven economic recovery and its implications for consumer behavior.

The commercial real estate sector has faced scrutiny and has been elevated due to issues with New York Community Bank's (NYCB) loan portfolio. While the bank's challenges, stemming from a high concentration of rent-regulated multi-family loans, are deemed isolated, they highlight broader concerns in the commercial real estate market amid rising interest rates. The situation underscores the need for vigilance, as further stress in the banking sector will have wider implications.

Despite recent data reflecting cautious optimism that the Fed may find room to maneuver, the market consensus has reduced its expectations for 2024 cuts, which currently stands at 3-4. We continue to hold firm that we will only see 2-3 rate cuts this year unless we see some type of crisis event.



Source: Bloomberg, FRB Y-9 filings

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Product Views

Rates – We maintain a neutral stance on rates, indicating a balanced view of the risks associated with both higher and lower rates. Market expectations of a 100 basis points easing are closer to our view of 2-3 hikes than one month ago. However, the stickiness of inflation could prompt the Fed to hold off on easing policy. Fiscal concerns have subsided from a headline perspective, but they still pose a risk to the back end and term premiums spiking. The significant Treasury issuance combined with QT could create some volatile outcomes.

Public Credit – Demand continues to remain robust in the investment-grade (IG) sector. However, caution should be exercised in this sector. Interest coverage ratios for the broader sector have been weakening, and the number of IG rating agency downgrades outpaced upgrades in Q4'23. Additionally, current spreads are at the bottom quartile and warrant a cautious outlook. Although we expect IG spreads to fluctuate within a range, we emphasize the importance of credit assessment in navigating potential downturns.

Private Credit – Despite being a market favorite, private credit could face challenges if rates remain higher for longer. Private credit feels bubbly, replacing bank lending, which has a longstanding process for evaluating underperforming credits. Larger bank loans undergo a shared credit review to ensure a consistent assessment, unlike in private credit where different holders can have different marks. Additionally, valuations tied to performance and teams' bonuses raise concerns reminiscent of Libor and subprime marks on dealer balance sheets. The is an argument that the lack of price transparency and subsequent volatility could ultimately lead to its downfall.

Securitized - We continue to favor Agency Mortgage-Backed Securities (MBS) as they should serve as a buffer in an economic downturn. Additionally, we believe there is more room for spreads to tighten in a steady environment.

Long Comp Name	$ MTD	Previous 1 Month	1Y Tot Ret	Indx OAD	YTW (1 Year)	Indx Cpn	Avg. Rating
Short Duration							
Bloomberg US Floating Rate Notes TR Ir	.164	.592	6.462	.03	5.88	6.09	AA3/A1
Bloomberg USFRN <18mos Total Return	.173	.562	6.502	.02	5.82	6.21	AA3/A1
Bloomberg Short-term Index 1-3 mo To	.134	.438	5.490	.15	5.43	2.07	AA2/AA3
Bloomberg Short-Term Government/Cor	.149	.309	5.306	.51	5.29	2.32	AA2/AA3
Bloomberg Short-term Index 9-12 mo T	.177	.160	5.267	.85	5.15	2.55	AA1/AA2
Agg Index							
Bloomberg US Agg 1-3 Year Total Returi	.379	-.347	4.588	1.82	4.75	2.84	AA2/AA3
Bloomberg US Agg 3-5 Year Total Returi	.822	-1.020	4.671	3.60	4.57	3.29	AA2/AA3
Bloomberg US Agg Total Return Value Ui	1.205	-1.413	3.497	6.21	4.73	3.18	AA2/AA3
Credit							
Bloomberg Short-term Corporate Index	.163	.378	5.850	.50	5.69	3.10	A2/A3
Bloomberg 1-3 Yr Credit Total Return Ir	.413	-.226	5.335	1.75	5.09	3.30	A2/A3
Bloomberg US Credit 5-10 Yr Total Retu	1.323	-1.463	6.680	6.04	5.11	3.93	A3/BAA1
Bloomberg US Corporate High Yield Tota	.727	.292	12.499	3.14	7.72	6.16	B1/B2
Securitized							
Bloomberg US MBS Index Total Return V	1.549	-1.627	3.374	6.04	4.91	3.11	AA1/AA1
Bloomberg US CMBS 2.0 Aaa Index Total	.865	-.645	5.520	3.81	5.42	3.50	AAA/AAA
Bloomberg ABS Credit Card Total Return	.407	-.301	4.615	2.05	5.01	4.03	AAA/AAA
Bloomberg ABS Auto Total Return Index	.393	-.168	5.223	1.82	5.18	4.66	AAA/AA1
Muni							
Bloomberg Municipal Index Taxable Bon	.388	-.191	4.932	1.71	4.83	2.69	AA2/AA3
Bloomberg Municipal Index Taxable Bon	.627	-.452	5.198	2.54	4.72	3.19	AA2/AA3
Bloomberg Municipal Bond 1 Year (1-2)	.124	.154	3.241	1.33	3.12	4.53	AA2/AA3
Bloomberg Municipal Bond 7 Year (6-8)	.342	.039	4.151	4.51	2.88	4.70	AA2/AA3
Bloomberg Municipal Bond 10 Year (8-1	.379	.049	4.417	5.31	2.89	4.55	AA2/AA3

The following risks could cause the Strategy's portfolio to lose money or perform more poorly than other investments.

Investments in bonds and other debt securities will change in value based on changes in interest rates. If rates rise, the value of these investments generally drops. Some investors may be subject to the Federal Alternative Minimum Tax and to certain state and local taxes.

Investing in fixed income products is subject to certain risks, including interest rate, credit, inflation, call, prepayment, and reinvestment risk. Any fixed-income security sold or redeemed prior to maturity may be subject to substantial gain or loss.

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