NEW REPUBLIC PARTNERS

MARKET COMMENTARY

1Q 2024

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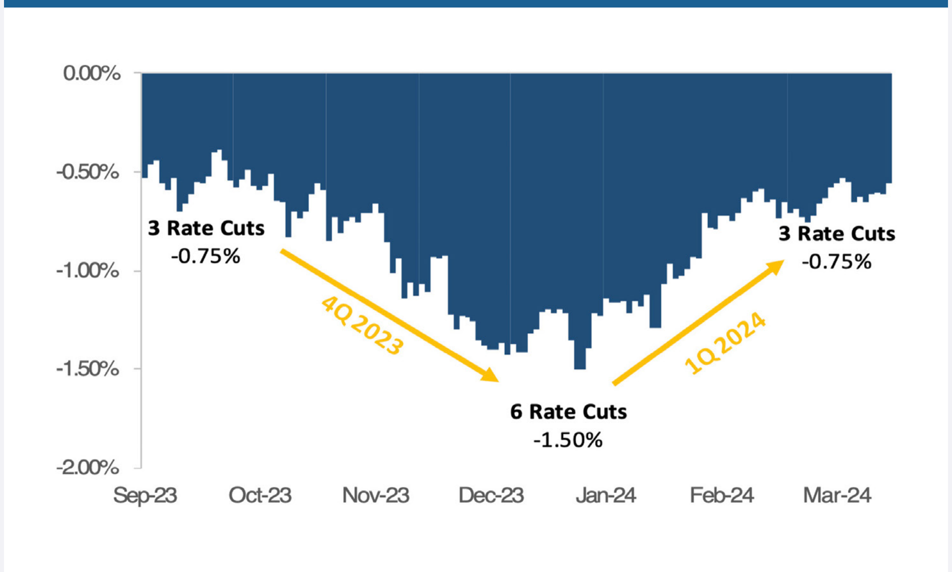
Market Monitor 2024	Q1
MSCI All-Country World Index	8.2%
S&P 500 Index	10.6%
Bloomberg U.S. Agg. Index	-0.8%
Bloomberg Commodity Index	2.2%

Equity Markets Leap Frog Fixed Income in Q1

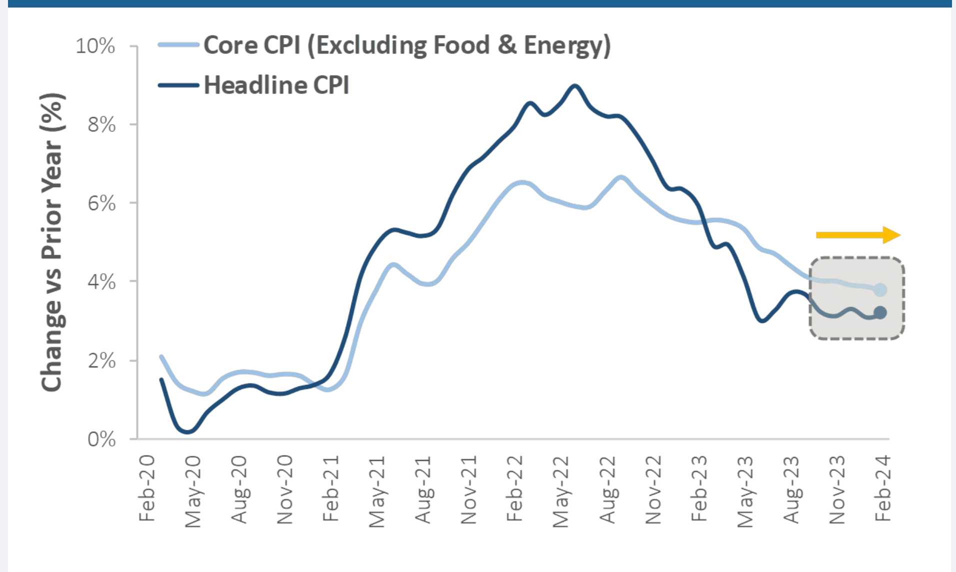
Equity markets continued their upward trajectory in early 2024. The S&P 500 returned more than 10% for a second consecutive quarter, setting multiple new all-time highs along the way. Meanwhile, fixed income markets wavered. Notably, this quarter saw a significant shift in sentiment, as investors now only expect three interest rate cuts in 2024 as compared to six at the start of the year. This change in expectations came as inflation progress slowed and the U.S. economy continued to expand despite higher interest rates, both of which signal a need for fewer rate cuts.

Investors' Forecasted Rate Cuts in 2024



Source: CME. Latest data available as of 3/31/2024.

Headline and Core Consumer Price Index (CPI)



Source: U.S. Department of Labor. Latest available data as of 3/31/2024.

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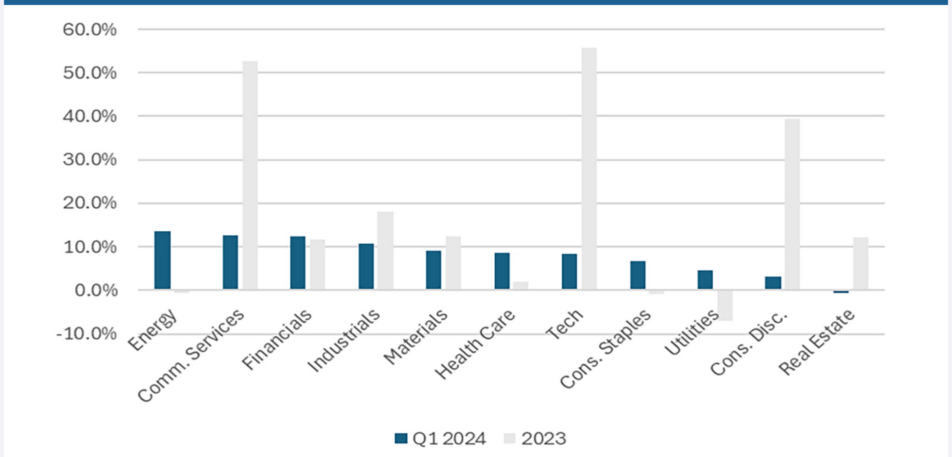
Market Commentary

Broadening Market Participation in the U.S.

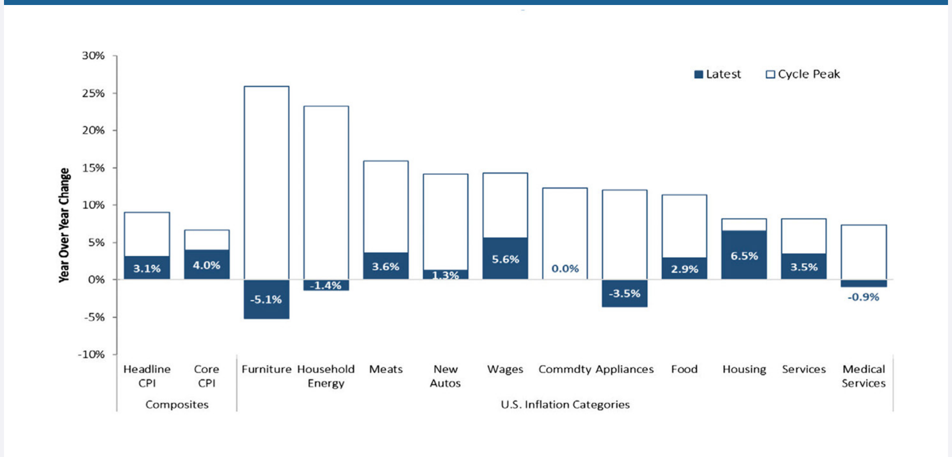
Coming into 2024, we raised our domestic equity targets across portfolios given the combination of disinflation and resilient economic growth in the U.S. We also anticipated "a broadening out" of market performance beyond the Magnificent 7, and while 5 of the Mag 7 continued to churn higher in Q1, market performance did broaden out as highlighted above. The large valuation gap between the Mag 7 and the S&P 493 remains supportive of this broadening trend, even if markets consolidate over the coming weeks. We continue to watch for cracks in the U.S. economic growth profile and for signs of an interruption in the disinflation trend. We would caution against calling two monthly data points on inflation in February and March a trend in the other direction, as several factors support different conclusions. For example, the shelter component of CPI has more downward pressure to exert on the headline CPI number from here. At the same time, wage rates continue to increase at 5.6% year-on-year which will continue to drive inflation in the service economy.

Market Returns - Sector Performance Recap



Source: MarketDesk.

Inflation - Price Pressures Decline from Cycle Peaks



Source: MarketDesk.

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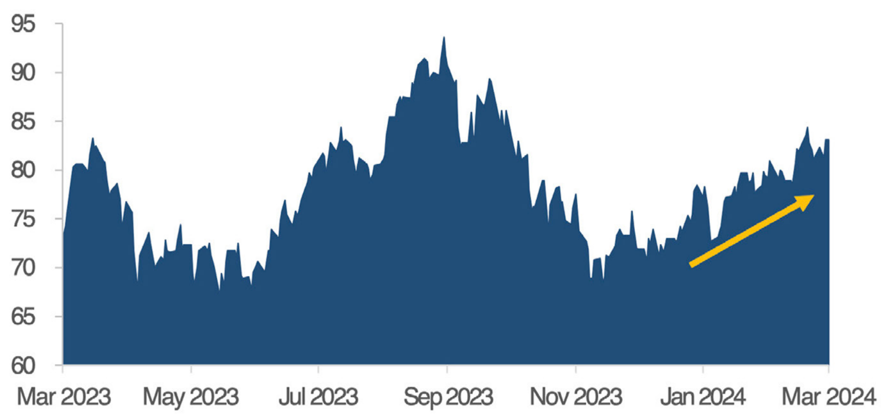
Market Commentary

Broadening Market Participation in the U.S. continued

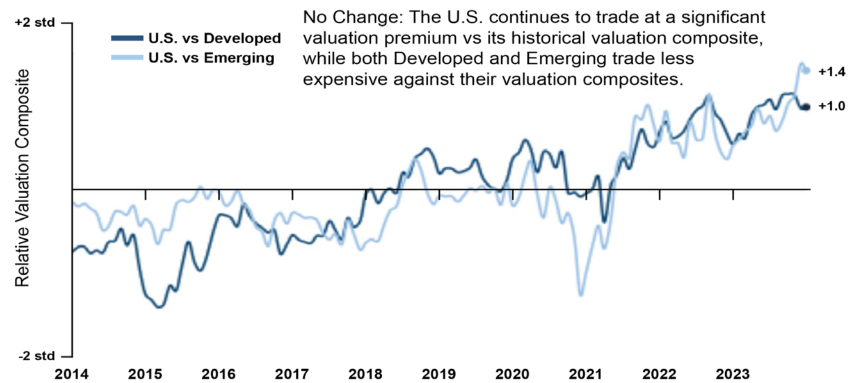
The prior chart demonstrates that getting back to the Fed's 2% inflation target will be bumpy and uneven. The disinflation process won't be a straight line. The latest risk is rising oil prices, with the price of a regular gallon of gasoline jumping by over +20% during Q1. Falling energy prices helped to ease inflation pressures during the past two years, but there is now a question about whether that trend can continue with gas prices rising.

Price of Oil (WTI $/bbl)



Source: U.S. Census Bureau, University of Michigan. Data as of 3/31/2024.

Regional Valuation Composites - U.S. vs Developed & Emerging



Relative valuation of U.S. vs Developed and Emerging Markets. Valuation Composite is an average Z-Score of LTM P/E, NTM P/E, P/B, EV/Sales, and EV/EBITDA using the past 10 years of data.

Source: MarketDesk.

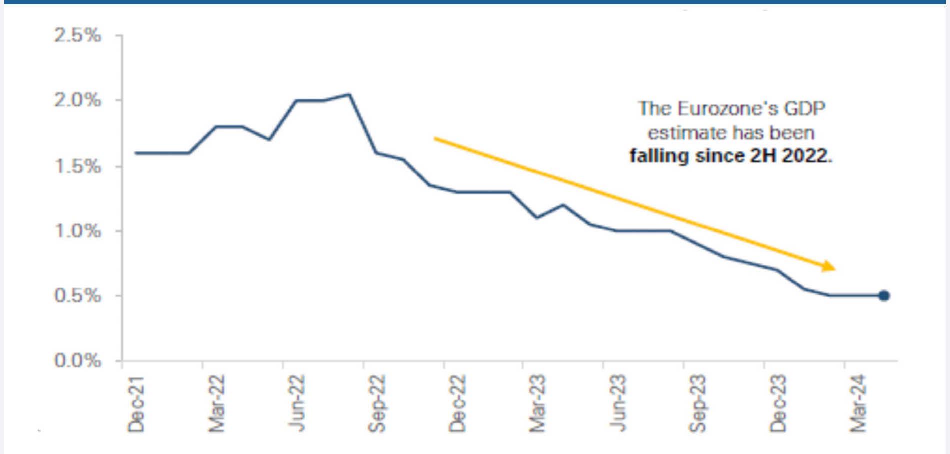
Market Commentary

Finding One's Footing in International Equities

International equities underperformed U.S. equities for a fourth consecutive quarter during Q1. Over the past twelve months, the MSCI EAFE Index of developed market stocks has returned +14.8%, or roughly half of the S&P 500's +29.4% return. International market valuations are notably cheaper than the U.S. but the relative growth differential, both in earnings and economies, still favors the U.S. within a diversified long-only portfolio.

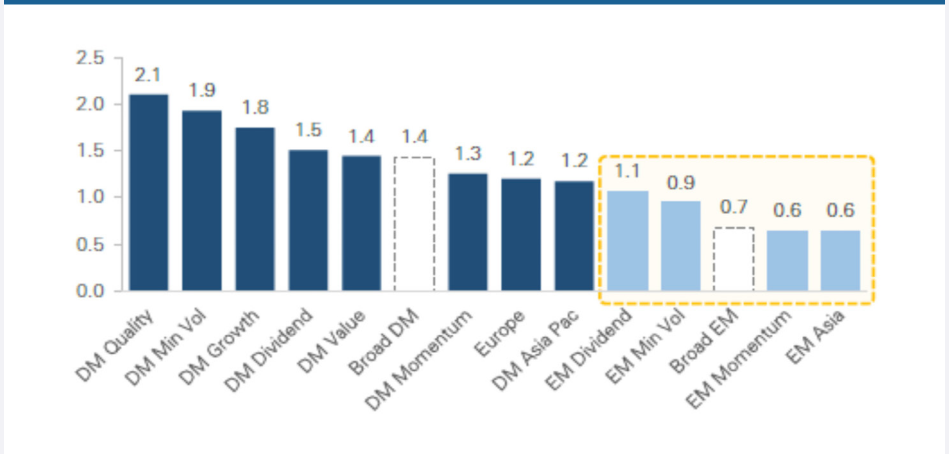
The MSCI Emerging Market Index has returned only +6.8%, or approximately one-fourth of the S&P 500. While PEG ratios look better in Asia, the necessary question is whether those forward earnings prospects translate into value for shareholders. China remains the largest question mark in this regard, which is why we have stayed on the sidelines with new allocations over the past year. Meanwhile, we are currently dedicating resources to work in India to source interesting opportunities. In March, one of our associates spent two weeks visiting managers and having meetings in India. This "on the ground" diligence reinforces our positive opinion on the opportunities in that area of the world. From a macro tailwind standpoint, India still has the elements of a successful EM equity story: an urbanizing, growing middle class driving economic growth, deep capital markets, and a strengthening stock market culture. However, we are aware of India's elevated valuations and risk as an emerging economy.

Eurozone 2024 Real GDP Growth Forecast (% Y/Y)



Source: MarketDesk. Based on median analyst estimate.

PEG Ratio Across Developed & Emerging Factors



Source: MarketDesk. PEG = Ratio of Price/Earnings to Long-term EPS Growth Rate.

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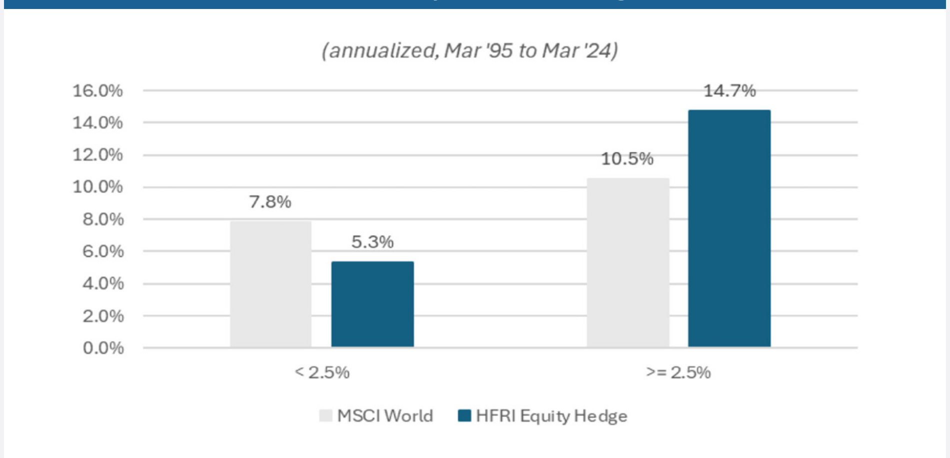
Market Commentary

What's an Allocator to Do? Look at Hedged Equity

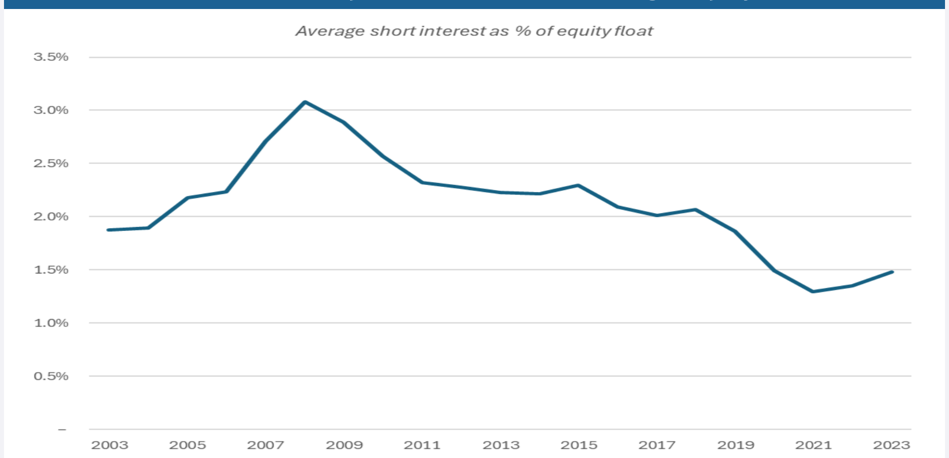
So, what's an allocator to do with an incremental dollar when the equity markets you want to own have more full valuations and the cheap ones seem to lack the catalyst to close the gap? You need another arrow in the quiver, and we believe that Hedged Equity will function as a growth-oriented strategy that is entering into a great market setup: (1) stock borrow costs are down and short rebates are up; (2) short interest has fallen and competition has dropped (as passive money in the market now exceeds active money); and finally, (3) both dispersion and breadth have increased (i.e. more single stock opportunities to go long and short). While it has not been fashionable to invest in Hedged Equity strategies over the past decade, the low rate environment that governed much of that period has given way to a more normal rate environment that is more conducive to long/short equity investing as highlighted in the chart below.

Performance by Interest Rate Regime



Source: HFRI, Maverick Capital.

Attractive Competitive Environment for Hedged Equity



Source: Bloomberg.

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Market Commentary

Maintaining the Barbell in Fixed Income

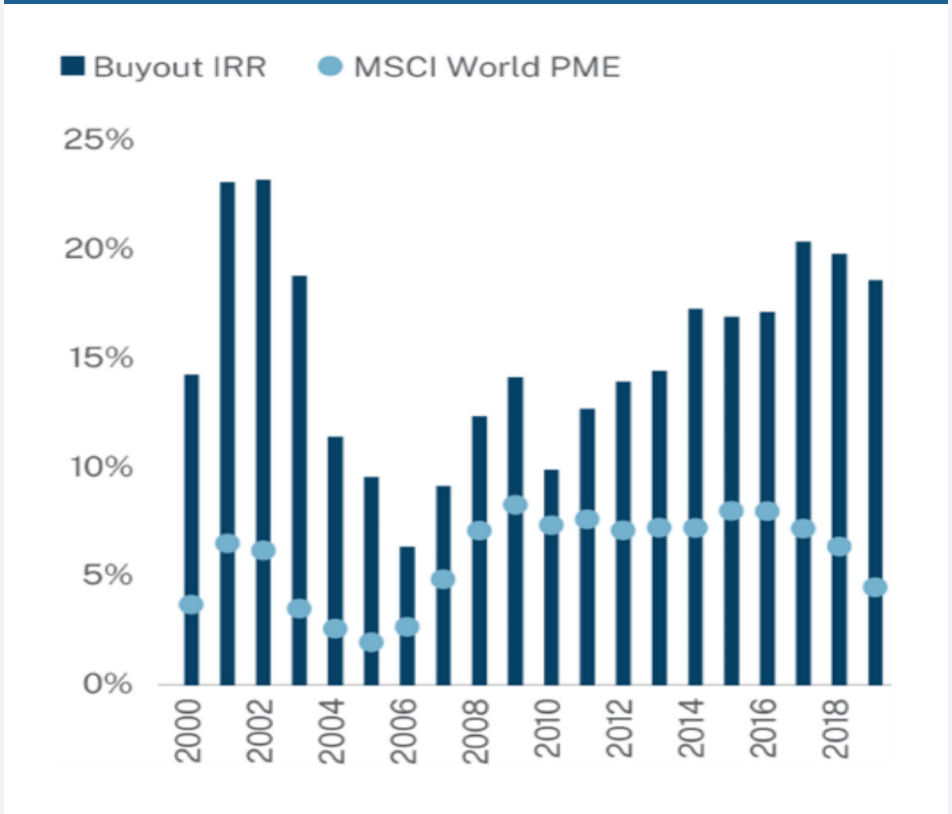
While stocks started the year off with strong gains, bonds traded lower during Q1. The losses came as investors realized that the continued resilience of the U.S. economy meant the Federal Reserve may not need to cut interest rates as much, which caused Treasury yields to rise. The Bloomberg U.S. Bond Aggregate Index, which tracks a broad index of investment-grade rated bonds, posted a total return of -0.7%. It was a sharp reversal from Q4, when the index posted its first quarterly gain since Q1 2023 and its biggest quarterly gain since 1989.

In fixed income, we have maintained a barbelled allocation approach to take advantage of 5+% money market rates that have minimal duration and credit risks while exploiting the attractive risk/reward trade-off in private credit across both direct lending and asset-based lending. This barbelled stance has continued to work in '24 as the phrase "higher for longer" came back into vogue in Q1. We are also mindful of the amount of capital that has flowed into the private credit space and seek to allocate to managers with long track records of experience as mistakes will happen as private credit becomes more mainstream. In the low rate environment post the GFC, many investors said "There is No Alternative" (TINA) to owning equities. But all good acronyms have a defined shelf life, and as rates have moved back to a normal level, there is a lot more to do across asset classes if you are willing to widen your investment lens.

A Final Word on Private Equity

Investors can often get drawn into the noise of interest rate moves and market gyrations on a month-to-month or quarter-to-quarter basis. However, taking a longer view, the outperformance of private equity vs. public market equivalents over time makes a clear case for a consistent, healthy allocation to this asset class in portfolios. As highlighted in the chart below, buyout vintages outperform public market equivalents for every mature vintage dating back to 2000. Notably, PE has outperformed despite a very healthy U.S. public equity environment.

Buyout IRR vs. Public Market Equivalent



Source: Hamilton Lane Data via Cobalt, Bloomberg (January 2024).

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Market Commentary

A Final Word on Private Equity continued

While returns have proven resilient through various environments, conditions over the past two years have created a particularly unique opportunity set in Private Equity. Since 2022, median PE multiples have declined nearly 10% from 11.9x to 11.0x, while higher interest rates have resulted in less debt being used to execute investments.[1] The best PE vintages often come after periods of dislocation such as this. For example, the median gross IRR for buyout deals was 25% in 2001 and 22% in 2009, meaningfully outpacing long-term averages.[2] So aside from its enduring portfolio role, the timing of adding to PE is particularly advantageous today, for the long-run.

—NRP Investment Committee

April 25, 2024

[1] Bloomberg, SPI by Stepstone.
[2] DealEdge powered by CEPRES data.

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