CHARTWELL INVESTMENT PARTNERS

Chartwell Current Outlook and Investment Strategy

Macroeconomic Update

U.S. economic growth in the first quarter of 2024 appears to have moderated from its strong finish in 2023; however, there were signs of acceleration in the data as the period closed. The Atlanta Federal Reserve's GDPNow™ (Federal Reserve Bank of Atlanta, Center for Quantitative Research) estimates annualized first quarter GDP growth of 2.5%, as of April 4, 2024. For reference, fourth quarter 2023 GDP was 3.4% on an annualized basis. Driving the softening in aggregate economic growth in the first quarter was weakness on the demand side of the ledger as early-year storms across the country kept consumers homebound. Despite tepid personal spending, first quarter job growth accelerated from the fourth quarter of 2023 and improved in each of the months of the quarter with non-farm payrolls increasing 829,000 in the first quarter. From the Federal Reserve's point of view, the U.S. economy's performance in the first quarter was a "goldilocks' scenario: slowing demand, moderating wage pressure, and strong job growth. Where it goes from here will determine their interest rate options over the course of the year. A further slowing will lead to the reversal of rates sooner, rather than later, while a continuation of the end-of-quarter acceleration will lead to the reverse. As we see it, high levels of fiscal spending, ample new home construction and industrial capital expenditures, and moderate wage growth should be enough to keep the economic expansion in place over the near term.

Asset Class Returns

	YTD	LTM
Equities		
Large Cap	10.6%	29.9%
Large Cap Growth	11.4%	39.0%
Large Cap Value	9.0%	20.3%
Small Cap	5.2%	19.7%
Small Cap Growth	7.6%	20.4%
Small Cap Value	2.9%	18.8%
Fixed Income	-0.8%	1.7%
High Yield	1.5%	11.2%
Cash	0.5%	5.4%

Equity Market Update and Outlook

Equity markets rallied in the first quarter of 2024, building on the robust gains from last year. In the first three months of 2024, the benchmark S&P 500 gained 10.6% due to several factors. In particular, corporate profits and earnings power continued to grow moderately, inflation seemed to be in a sustained downward trend, and the Federal Reserve remained poised to deliver interest rate cuts that may propel economic growth higher. While the market advance was broad, the biggest gains were seen in Large Cap Growth stocks with the benchmark Russell 1000 Growth index rising 11.4% during the quarter. In part, this was driven by strong moves higher by two of the so-called "Magnificent 7[1]," Meta Platforms and NVIDIA Corporation. Indeed, when Meta Platforms, the parent of Facebook, reported surprisingly robust earnings in early February the market capitalization of the company rose $204 billion in a single day which was, at the time, the biggest one-day increase in stock market history. However, the company did not hold the record for long because when NVIDIA, the leader in producing graphics processing chips for artificial intelligence (AI) applications, reported its own set of blow out earnings numbers at the end of the month, its market value rose a breathtaking $276 billion. To put this into context, the combined increase of $480 billion would roughly equal the current market capitalization of Walmart, Inc. ($479 billion). So, it's almost as if one Walmart was created in two days of trading and perhaps a sign that something important occurred during the first quarter.

Presidential elections bring out strong feelings about the direction of our country and the economy that can be both positive and negative depending on one's point of view. However, we believe that the path of the market is usually governed primarily by the direction of interest rates and the pace of earnings power growth, factors that history has demonstrated to be largely beyond the power of a president. While the timing of Federal Reserve interest rates cuts has been pushed out, we still think that lower interest rates are likely which should be good for the economy and stocks. Similarly, earnings power for the S&P 500 is expected to accelerate to 10.6% in 2024 compared to a paltry 0.5% gain last year. Due to these factors, we remain positive on the market and believe clients should maintain adequate exposure to the market. Specifically, we think investors should continue to own companies that benefit from key themes like the boom in spending on AI and adoption of GLP-1 drugs for obesity. In addition, with Fed rate cuts drawing nearer, we also believe increasing exposure to companies that could see a cyclical bump in earnings power may prove both timely and profitable.

[1] Magnificent Seven- Alphabet (Google), Amazon, Apple Inc., Meta (FaceBook), Microsoft, Nvidia, and Tesla.
Holdings are subject to change. A full listing of portfolio holdings is available upon request.

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Fixed Income Market Update and Outlook

Unlike equities, bond prices weakened during the first quarter and the benchmark Bloomberg Barclays Aggregate index fell 0.8% as investors pushed out expectations for Federal Reserve rate cuts. The shift in investor expectations was a result of the economic conditions described earlier – slowing demand, a stable job market, and stubbornly high inflation.

Going forward, we think many will find comfort in the Consumer Price Index (CPI) data resuming its downward trend in the coming months, but we ultimately see inflation settling in well above the 1.8% it averaged in the 10 years following the Global Financial Crisis. Investors have some options within fixed income to battle higher levels of inflation. We see value in owning a mix of high-quality corporates and mortgages in this environment, though we currently favor the latter. Corporate credit and mortgage-backed securities can offer above expected inflation yields without having to take on the risks of long duration assets. As always, we will focus on collecting current income while attempting to minimize downside risks in the fixed income portfolios.

Chartwell News

It was great to connect with all of you over the past several months as we navigated several organizational adjustments. As we discussed during our calls, we believe a more diversified approach to the equity portfolios should reduce volatility and provide the potential for better returns going forward. In early May, we plan to execute this strategy with non-taxable accounts while the transition will take much longer for taxable clients. For fixed income clients, there was an additional change that occurred during the quarter with the closing of the Carillon Chartwell Short Duration Bond fund. This process is now complete, and the affected clients have been transitioned to a broadly diversified, low-cost ETF, the iShares Core US Aggregate Bond fund. While this certainly has been an eventful period for Chartwell and our clients, we are excited about the new direction and believe the investment portfolios are constructed to have the potential to perform well in a variety of economic environments. We thank you for the continued confidence you've placed in Chartwell Investments. As always, please do not hesitate to call your Chartwell Investment Team; Pete Schofield (610.407.4858) or Mark Tindall (610.407.4835).

Bloomberg US Aggregate Bond Index or the Agg, is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States. Investors frequently use the index as a stand-in for measuring the performance of the US bond market.
Bloomberg US Corporate Index Average Option-Adjusted Spread (OAS) are the calculated spreads between a computed OAS index of all bonds in a given rating category and a spot Treasury curve. An OAS index is constructed using each constituent bond's OAS, weighted by market capitalization. The Corporate Master OAS uses an index of bonds that are considered investment grade (those rated BBB or better).
Dow Jones Industrial Average is the DJIA or "The Dow" is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.
The Nasdaq Composite Index is the market capitalization-weighted index of more than 2,500 common equities listed on the Nasdaq stock exchange.
Russell 1000 Growth Index measures the performance of the US large-cap companies whose earnings are expected to grow at an above-average rate relative to the market. It is a subset of the Russell 1000 Index. To refl ect the growth style characteristics, the index selects the companies that exhibit growth characteristics, i.e. higher price-to-book ratios and higher forecasted growth. Like other growth indexes, the index is largely biased toward the Information Technology sector which represents more than 40% of the index.
Russell 2000 Growth Index is an index measuring the performance approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks. The Russell 2000 serves as a benchmark for small-cap stocks.
Russell 2000 Index: London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). ©LSE Group 2023. FTSE Russell is a trading name of certain of the LSE Group companies. Russell® is a trade mark of the relevant LSE Group companies and is used by any other LSE Group company under license. All rights in the FTSE Russell indexes or data vest in the relevant LSE Group company which owns the index or the data. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company's express written consent. The LSE Group does not promote, sponsor or endorse the content of this communication.
Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.
Russell 1000 Value Index measures the performance of the large-cap value segment of the US equity universe. It includes the Russell 1000 companies with lower price-to-book ratios and lower expected growth values.
S&P 500® Index: (registered trademark of The McGraw-Hill Companies, Inc.) is an unmanaged index of 500 common stocks primarily traded on the New York Stock Exchange, weighted by market capitalization. Index performance includes the reinvestment of dividends and capital gains.

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