MARKET
INSIGHT
MONTHLY

December Update

MONTHLY COMMENTARY

The conclusion of one year and the beginning of the next provides an opportunity to reflect, evaluate, and prepare for the new year. New Year's resolutions allow us to refresh our priorities and establish new habits. Earnest attempts to focus on one's health are cleansing and welcoming. As is consistent with our ongoing quest to provide clients with the latest developments in wealth and investment planning, we offer the following thoughts and considerations as you take inventory of your financial health moving into the new year.

First, investment portfolios are comprised of more than just securities. Are all of your assets serving their intended purpose? Different assets play different roles in your total net worth, and each asset should be uniquely contributing to your overall financial well-being.

Second, are too many of your assets subject to the same economic risks? For example, if interest rates rise or fall, is it likely your entire net worth will change? Our team works to ensure clients are appropriately diversified by region, style, and asset type. We also consider non-correlated assets in your portfolio, which may help mitigate risk to your financial health.

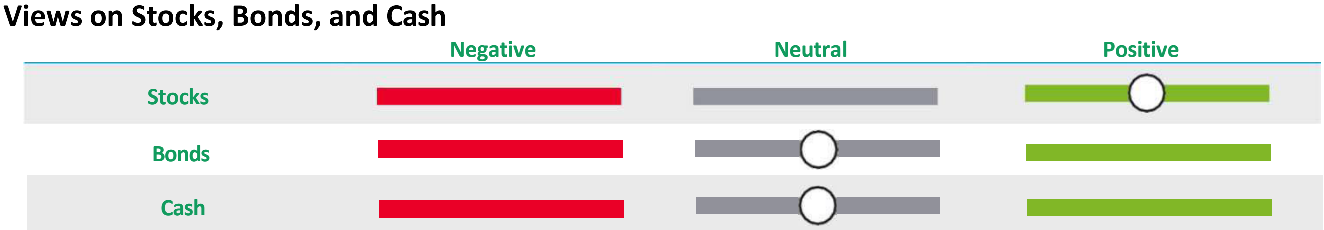
Third, how do you define risk? Our team works to consider your entire asset composition and to ensure your risk appetite is accurately reflected. As part of the on-going dialogue with your trusted fiduciaries here at United Bank, we can offer additional insight and provide guidance as to how risk may impact your goals and your financial condition. One of our primary goals is to completely understand our client's risk tolerance. We then confirm the assets held match the appropriate level of risk. If there is an imbalance, we offer alternative investment options. The key to long-term prosperity is maintaining a long-term perspective and owning assets that conform to your risk appetite.

INVESTMENT TAKEAWAYS

- Throughout our history, but particularly over the last two years, United has stressed the importance of maintaining one's long-term plan. Reviewing your plan, examining potential changes and modifying when appropriate is always important and useful. If your plan is well constructed and well-implemented, only minor changes should need to be made from time to time.
- The same can be said for the United Bank Wealth Management Investment Committee. Though we review and analyze a tremendous amount of data, we also make every attempt to adhere to time-tested, fundamental, economic truths. We examine historical relationships and apply what is known to our current environment. We do not try to oversimplify, but we also do not try to overcomplicate. We decipher differences between real and nominal, analyze relative versus absolute, distinguish between subjective versus objective criteria, and examine macro versus micro trends. We perform this analysis to confirm our asset allocation, weightings, and tactical adjustments are achieving the appropriate level of return given the amount of risk taken.
- With inflation and interest rates declining, we believe that investors will continue to benefit from exposure to both the equity and the fixed income markets. For investors wishing to further diversify, we encourage them to consider an allocation to liquid alternatives.
- The Fed has made no changes to rate policy since July. Recent comments by Chairman Powell signaled that the Fed was finally pleased with its efforts to reduce inflation. He did not suggest the Fed was finished with restrictive policies, but he did suggest inflation would continue its gradual decline into 2024 and beyond. The Fed Funds Futures market is now predicting short-term rates will start to decline by Q2 of 2024. We then expect further moves lower for the rest of the year and into 2025.
- We maintain our modest value bias within large-, mid-, and small-cap companies, which better protects portfolios during volatile periods. Companies with strong, less-leveraged balance sheets are often preferred during uncertain environments. After stronger economic reports and unexpected energy supply threats propelled interest rates to multi-year highs just last month, a clear reversal has been established. Lower anticipated inflation along with the Fed seeming to validate its own efforts has led investors to buy bonds in anticipation of lower future rates. In turn, this has propelled equities higher with U.S. large-, mid- and small-cap companies staging an impressive recovery.
- International developed nations' equity markets have outperformed emerging markets thus far in 2023. Much like the large-cap segment in the U.S., predictability has prevailed over uncertainty. However, the U.S. economy is still outperforming international economies. In addition, the U.S. Dollar has shown periods of strength and weakness depending on the success of domestic inflation-fighting efforts. When stronger, the U.S. markets have done well; when weaker, the opposite. The dollar has been range-bound, nullifying any pronounced trend. We expect developed markets will continue to be preferred over emerging markets, and changes in the dollar will be heavily tied to inflation reports and economic output.
- In fixed income, the interest rate curve has been appealing for the past several months, which prompted our tactical duration extension. We favor intermediate maturities with some exposure to shorter-term maturities and the high yield segment.

BROAD ASSET CLASS VIEWS

Views on Stocks, Bonds, and Cash



EQUITY ASSET CLASSES

U.S. and global equity markets have staged an impressive recovery from the October lows. The last two months have provided uncommon but warranted equity returns, given the positive direction of interest rates. The reality of lower interest rates has been considerably more influential than any disturbing domestic or geopolitical event. Market breadth and market leadership has expanded, which is always a healthy sign. Energy prices—a major concern that is always vulnerable to international tension—have noticeably declined and remained subdued. Despite the late summer and fall correction, the S&P 500 has recently set new high prices for 2023 and is only a shade under its all-time high. As we continue to reiterate, history has proven that selling stocks in periods of duress may reduce immediate anxiety, but it is rarely a successful long-term strategy. We remain committed to both an intermediate and longer-term positive outlook. However, we also acknowledge this furious rise in equity prices over such a short period of time likely cannot be sustained at this accelerated rate. We will continue to evaluate both global and domestic events and their impacts as they become evident. Q3 earnings surprised to the upside once again and final reports will likely lead to the highest quarterly operating earnings ever reported. Q4 earnings reports will begin in mid-January and, although we do not expect Q4 earnings to eclipse the earnings reported in Q3, total earnings for the calendar year are expected to be the highest ever reported. The future looks quite bright with 2024 earnings estimates growing at 10% year-over-year. Small-cap and mid-cap companies have both staged an impressive Q4 recovery given the lower rate environment. The same can be said for international companies. Though we are slightly overweight small-cap stocks, the overwhelming portion of our equity allocation has been and will remain in large-cap domestic companies, which have led performance over the last twelve months.

		View	Relative Trend	Rationale
Market Capitalization	Large-Caps			Year-to-date, U.S. large-cap stocks are among the leading global equity performers. The large-cap segment has consistently proven to be a magnet for global investors during both uncertain and prosperous times. While value-oriented stocks held appeal last year with markets under duress, growth companies, particularly mega-cap tech and communications companies, have demonstrated dramatic resiliency in 2023. Recently, all large-cap styles have performed well. We will remain overweight in this segment.
	Mid-Caps			Mid-cap companies are having a solid year, but returns were reduced by unexpected late summer and early fall interest rate increases. However, as rates declined throughout Q4, mid-caps performed extraordinary well. Earnings are stable and valuations are attractive. We expect more sustained gains as stability is restored within the fixed-income markets. Earnings should be very healthy in 2024.
	Small-Caps			The small-cap sector was disproportionately impacted by dual concerns in 2023. They were more heavily affected by the banking crises earlier this year, and then by rising rates. While small-cap companies had recovered nicely after the initial banking issues, the rate fears prevented additional buying until recently. Rate reductions afforded investors a buying opportunity as small-cap stocks have had an impressive Q4. We predict attractive valuations and earnings growth in 2024.
Style	Growth			Large-cap growth stocks have staged an impressive recovery since Q4 2022, though not all growth stocks have performed equally well. Much of the market's performance is heavily tied to seven mega-cap companies. This sector benefitted greatly from the perception that inflation has less of an impact and is better absorbed by these notable companies. This segment continues to perform well as market leadership now extends to many more companies. United maintains an appropriate and healthy weighting to growth companies of all sizes.
	Value			United maintains a core value stock overweight to protect portfolios from known and unknown risks. The companies held in our value-based Large Cap Dividend Strategy maintain healthy balance sheets and remain preferred by experienced and disciplined investors. Value companies have staged impressive performance in Q4. Our experience has proven select value companies exceed expectations while simultaneously reducing portfolio risk.
Region	United States			We believe better relative performance will be generated from the U.S. stock market over the foreseeable future, with more consistent and reliable outcomes. This has been the case during the recent correction and recovery. Although large-cap U.S. stocks have considerably outperformed, valuations remain reasonable given lower anticipated inflation and interest rates levels. Both mid- and small-cap companies remain relatively undervalued and attractive despite the recent Q4 equity recovery. The strength of the U.S. employment environment has led to continued overall consumer health. Inflation is now much less of an obstacle and there is no question the U.S. has made progress in reducing both actual and prospective inflationary fears. We see the U.S. continuing to take the lead in this regard and in propelling future growth.
	Developed International			Most developed nations' central banks follow the monetary policies of the Fed. As such, both international monetary policy and the global fight to combat excessive inflation have lagged that of the U.S. Success has been gradual, and foreign countries have been slower to contain inflation but have made progress. For U.S. investors, this is a double- edged sword. Lower relative rates may lead to a weaker dollar, but higher inflation reports lead to the reverse. This results in brief periods in which international equity markets may under or outperform the U.S. based on exchange rates rather than economic performance. We expect a range bound dollar that will be generally stable going into 2024.
	Emerging Markets			Although we foresee emerging market growth over the long term, uncertainties stemming from international conflicts create obstacles to consistency and predictability. Lack of stability has led to a lack of quantitative data and subjective faith. Our removal of direct exposure to China has been timely and prosperous. We are encouraged by more recent productive communications between the U.S. and China but will wait for more information before altering allocations further. We continue to maintain our baseline weight.

FIXED INCOME

Investors pivot. When will the Fed follow suit?

Bond investors have clearly responded to the change in perceived Fed policy. Though the Fed has taken no action to reduce rates, they have indicated they will begin this process at some point in 2024. Investors have been left to speculate as to the timing and magnitude of these changes. The Fed Fund Futures market is currently indicating reductions should begin in Q2 2024 and perhaps between 75 and 125 basis points will be shaved off the current rate by year's end. Consistently lower headline and core inflation through most of December, as measured by CPI, PPI, and PCE reports, suggest the Fed is likely to remain on track with this less restrictive policy path. When our October Market Insight publication was written, the 10-year Treasury yield was trading between 4.90 and 4.95%. As of this writing, the yield is just below 4.0%. Thus, bond prices have increased as a result of lower rates, and our decision to extend duration in early October was extremely timely and profitable. We returned to generally "average" duration portfolios, anticipating most investors would do the same, and they have. Unless another dramatic global event triggers inflationary fears once again, we do not anticipate a change in the lower inflation/lower rate environment forecasted into next year. We currently suggest a blend of high-quality, intermediate-term bonds in all fixed income portfolios with less exposure to the shorter-end where applicable. Quality companies and municipalities continue to perform well across the quality and size spectrum. High yield bonds issued by stable but growing entities continue to be a productive use of fixed income capital. We remain committed to a modest high-yield position in both corporate and municipal bonds. In tax-sensitive accounts, we favor municipal bonds, as infrastructure spending, strong state revenues, and the potential for higher personal tax rates provide support to municipal markets.

Positioning		Low · Medium · High	Rationale
	Credit Quality		To protect asset values, United prefers fixed income portfolios dominated by high-quality bonds. Credit spreads have normalized despite higher rates.
		Short · Int. · Long	
	Duration		United believes rates are near their peak. As the curve is flattening, opportunity exists in extending duration in anticipation of eventual rate reductions in 2024.

COMMODITIES

Our general view towards commodity prices is neutral. Most of the well-known commodity benchmarks and indices are heavily influenced by price movement in energy and/or precious metals. In more granular terms, oil and gold prices are typically weighted the heaviest. As Federal Reserve policies directly impact the value of the U.S. Dollar, which in turn impacts various commodity complexes, commodity price direction is not only tied to global supply and demand factors, but also to government policy. This makes price forecasting even more precarious. Year-to-date, broad baskets of commodities are generally flat to down, while the volatile price of oil is down in the mid-single digits. Gold has increased nearly 10% per ounce, influenced by a now weaker dollar and its flight to safety perception given world events. Generally, commodity indexes remain substantially below their highs from 2022. With global interest rates remaining relatively high, we cannot make the case for higher commodity prices.

Over the past eighteen months, the world has had to adjust in many ways. How the world produces, manufactures, and transports various items, including commodities, has changed due to the ongoing conflicts in Eastern Europe and the Middle East. The long-term lack of any consistent U.S. energy policy stems from the absence of political compromise. This leaves the U.S. and the world dependent on the winds and whims of multiple undemocratic and often uncooperative regimes. As new and stable supply chains develop and mature, prices are likely to be better understood and underlying value better predicted.

CONCLUSION

As we approach the new year, financial markets are much more stable than they were one year ago. At the end of 2022, there was no end in sight to Fed rate increases. Rates are now expected to be lower in 2024. Under normal circumstances, lower rates are generally attributed to weaker economic conditions. However, in this case, rates were purposefully driven higher by the Fed to bring down inflation and were not directly driven by normal economic activity. Inflation is now lower and moving closer to Fed targets. Despite the nay-sayers, corporate earnings are expected to set record highs in 2023 and grow by 10% next year. Markets went through a reasonable correction mid-year, but the Fed's rate "pivot" has made all the difference. Now, the promise of stable rates over the next twelve months should solve multiple issues, resulting in significantly reduced anxiety and, ultimately, more reliable financial market behavior and performance.

Disclosures

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual security. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing.

All performance referenced is historical and is no guarantee of future results. All indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

Economic forecasts set forth may not develop as predicted.

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