

# December 2023 Investment Report

## Highlights

- Fixed income and equity markets ended the month higher after the Federal Reserve signaled a change toward monetary easing.
- The S&P 500 Index of U.S. stocks increased 4.5%, while non-U.S. stocks, represented by the MSCI ACWI ex-U.S. IMI Index, jumped 5.2%. The Bloomberg U.S. Aggregate Bond Index increased 3.8%.
- In December, U.S. employers added 216,000 non-farm jobs with the unemployment rate remaining the same at 3.7%.
- The U.S. Equity Fund, Inflation Protection Fund, and Multiple Asset Fund outperformed their respective benchmarks this month, while the International Equity Fund and Fixed Income Fund underperformed their benchmarks.

## Monthly Overview

### Markets Finish the Year Strong

Decelerating inflation and a potential shift in monetary policy from the Federal Reserve (“Fed”) resulted in a rise in both equity and fixed income markets. The Core Personal Consumption Expenditures Price Index, the Fed’s preferred inflation gauge, increased 3.2% year over year, below the consensus estimate of 3.4%.

The S&P 500 ended the month up 4.5% and finished the year up 26.3%. International markets also finished strong with the MSCI ACWI ex USA IMI up 5.2% for the month of December and ended the year up 15.6%. Fixed income markets also closed higher with the Bloomberg U.S. Aggregate up 5.5% for the year. Commodities declined for a second consecutive month with the Bloomberg Commodity Index down 2.7%. The University of Michigan Survey of Consumers recorded a 13.7% increase in consumer optimism for the month and 16.6% for the year. The survey’s measure of consumers’ year-ahead inflation expectations decreased to 3.1% this month from 4.5% last month, the lowest reading since March 2021.

### A Dovish Fed

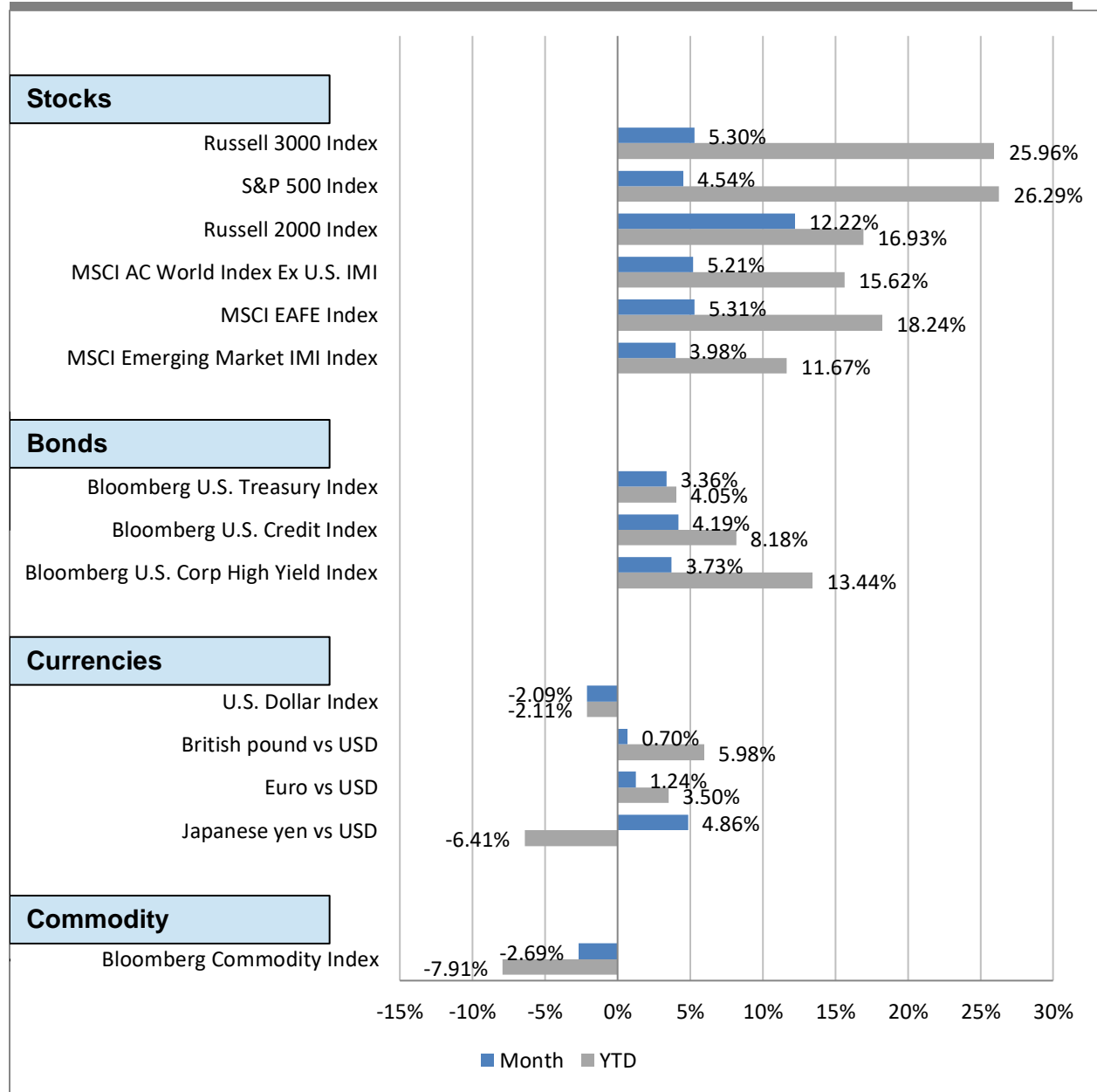
Federal Reserve Chair Jerome Powell signaled the beginning of a pivot toward monetary easing following the Fed’s meeting in December. He indicated the central bank was now focused on rate cuts because inflation has declined much faster than expected. The Fed projected the Core Personal Consumption Expenditures (PCE) price index to rise 3.2% this quarter, down from their previous projection of 3.7%. Core PCE, the Fed’s preferred measure of inflation, excludes the more volatile food and energy components. For 2024, the central bank currently projects three rate cuts according to their median rate estimate.

### Energy Prices Decline

Energy prices continued to decline, with West Texas Intermediate crude oil (WTI) down 5.7% for the month and down 10.7% for the year. U.S. oil output reached record levels, surpassing Saudi Arabia and Russia as OPEC+ continued to slash production. At the same time, mild winter weather has caused the price of natural gas to fall 17% for the month, bringing its decline to 43.3% for the year.

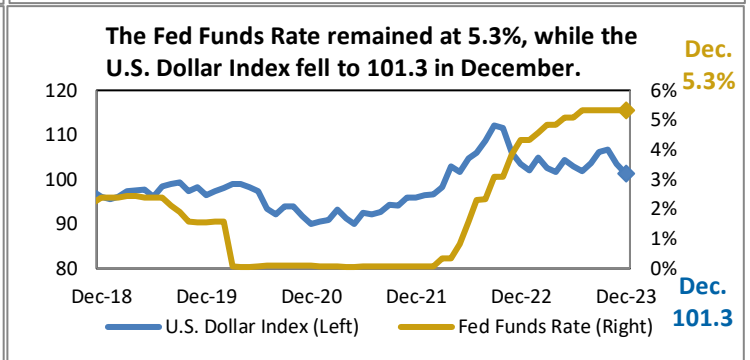
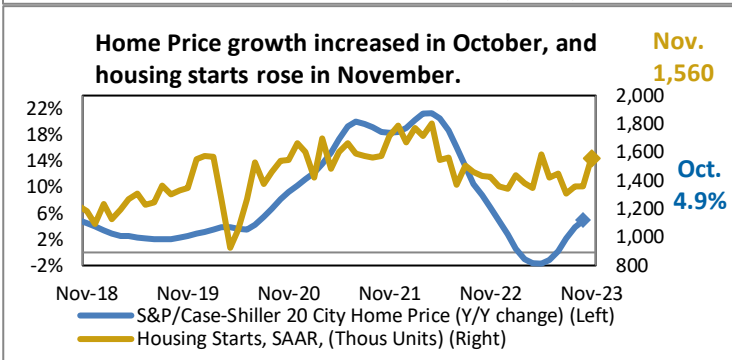
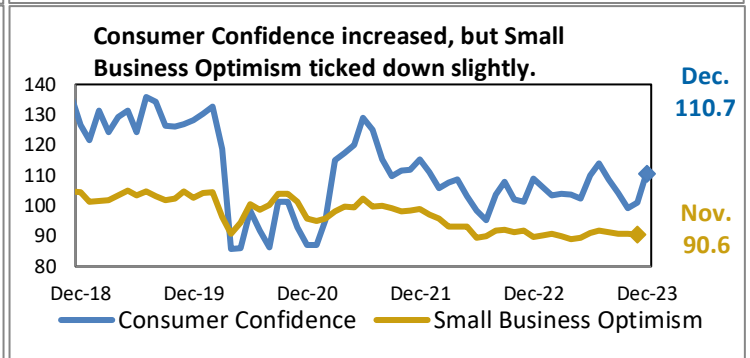
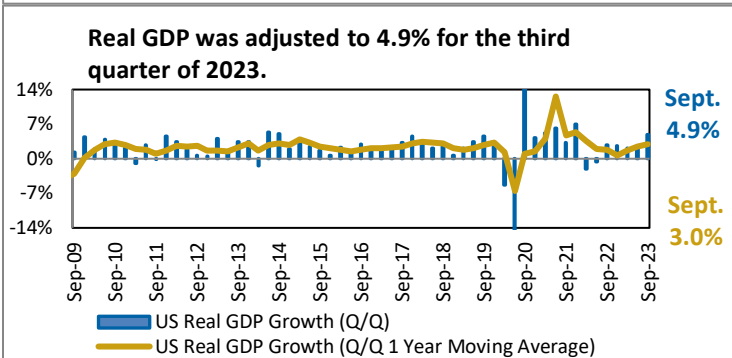
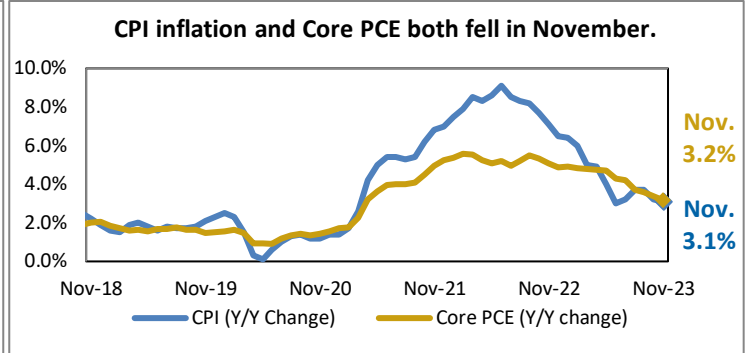
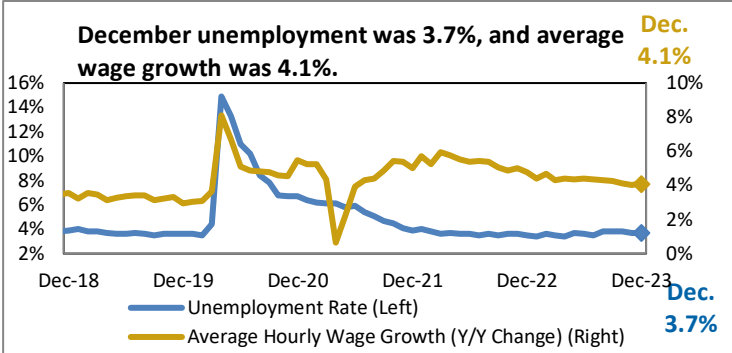
Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Seeking Alpha, Wall Street Journal and FactSet.

## Market Performance



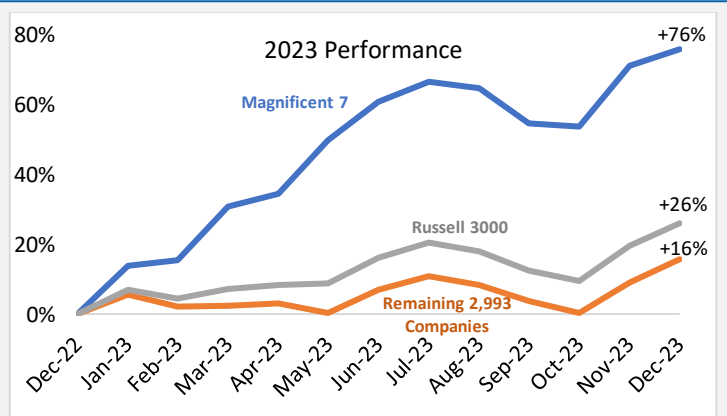
Source: FactSet, as of December 31, 2023.

### Key Monthly Economic Statistics



### Chart of the Month

- Seven companies, called the “Magnificent 7,” largely drove domestic equity performance for the year: Microsoft, Amazon, Tesla, Meta, Apple, Alphabet and Nvidia.
- They are all focused on technological growth trends involving artificial intelligences, cloud computing or cutting-edge hardware/software to develop those technologies.
- The seven companies ended the year with a combined market capitalization of more than \$12 trillion.



Source: FactSet, U.S. Bureau of Labor Statistics, The Conference Board, Federal Reserve Bank of St. Louis, Bureau of Economic Analysis, National Association of Realtors, U.S. Census Bureau, S&P Global, Bloomberg, Redfin.

## Investment Fund Review (Net-of-Fees Performance)<sup>i</sup>

### Equity Funds

#### U.S. Equity Fund

Fund	December	QTD	YTD
U.S. Equity Fund	6.12%	10.25%	22.20%
Russell 3000 Index	5.30%	12.07%	25.96%
Difference (percentage points)	+0.82	-1.82	-3.76

- During December, the fund outperformed its benchmark mainly due to underweighting poor performing mega-cap companies and overweighting better performing small- and mid-cap stocks. In addition, the majority of active managers outperformed their respective benchmarks.
- During the quarter, the fund underperformed its benchmark as a result of underweighting strong performing mega-caps stocks, underperforming alternative investments and the majority of active managers underperforming their respective benchmarks.
- For the year, the fund's holdings in private markets and an underweight to strong performing mega-tech growth companies were key detractors from relative performance. To a lesser extent, the fund benefited from active managers' investments, particularly growth-oriented strategies, and excluding certain stocks in accordance with Wespath's Investment Exclusions policies (described [here](#)).

#### International Equity Fund

Fund	December	QTD	YTD
International Equity Fund	4.57%	8.88%	11.97%
MSCI ACWI ex U.S. Investable Market Index (Net)	5.21%	9.81%	15.62%
Difference (percentage points)	-0.64	-0.93	-3.65

- During December, the fund underperformed its benchmark due to underperforming investments in private equity and private real estate.
- During the quarter, the fund benefited from the majority of active strategies outperforming their respective benchmarks; however, the fund ultimately underperformed its benchmark due to poor performing private equity and private real estate investments.
- For the year, the fund underperformed its benchmark due to investments in private equity and private real estate and underperforming active managers. Active managers' underperformance is primarily attributable to investments in the emerging markets and investments in companies best positioned to benefit from the transition to a low-carbon economy.

## U.S. Equity Index Fund

Fund	December	QTD	YTD
U.S. Equity Index Fund	5.40%	12.05%	26.11%
Russell 3000 Index	5.30%	12.07%	25.96%
Difference (percentage points)	+0.10	-0.02	+0.15

- The U.S. Equity Index Fund is a passively managed fund designed to closely match the fund benchmark, less fees and expenses. For the year, the underperformance of certain stocks excluded in accordance with Wespath's Investment Exclusion policies (described [here](#)) positively impacted relative performance.

## Fixed Income Funds

### Fixed Income Fund

Fund	December	QTD	YTD
Fixed Income Fund	3.45%	6.70%	7.84%
Bloomberg U.S. Universal (ex MBS) Index	3.64%	6.65%	6.51%
Difference (percentage points)	-0.19	+0.05	+1.33

- For December, the fund had strong absolute returns, but modestly underperformed the benchmark. While core plus manager issue selection added to relative returns, it was more than offset by the overweight allocation to Agency commercial mortgage-backed securities (CMBS) and allocation to, and selection within, investment grade credit.
- For the quarter, the fund had strong absolute performance and modestly outperformed the benchmark. The overweight allocation to, and issue selection within, emerging market debt was the biggest positive contributor to relative results. Core plus manager issue selection and the allocations to global bonds also positively contributed. Positive relative results were offset by the overweight to Agency CMBS and the allocation to the Positive Social Purpose Lending Program. The allocation to, and selection within, investment grade credit also detracted.
- For the year, the fund had strong absolute and benchmark relative performance. The overweight allocation to, and security selection within, emerging market debt was the biggest positive contributor followed by the overweight allocation to high-yield bonds. The allocation to, and issue selection within, investment grade credit as well as core plus manager issue selection also positively contributed. Corporate credit, allocations to global bonds and Wespath's Positive Social Purpose Lending Program also helped. The overweight allocation to Agency CMBS detracted.

### Extended Term Fixed Income Fund

Fund	December	QTD	YTD
Extended Term Fixed Income Fund	8.00%	12.37%	9.81%
Bloomberg U.S. Government/Credit Long Term Index	7.90%	13.24%	7.13%
Difference (percentage points)	+0.10	-0.87	+2.68

- The fund had a policy of maintaining a lower sensitivity to interest rate movements until the 30-year U.S. Treasury bond yield reached 5%, which occurred in October. Wespath extended the duration of the fund at the end of November and into December to approximate the same duration as the fund's benchmark.
- For the month, the fund outperformed the benchmark due to asset manager security selection.
- For the quarter, the fund's shorter benchmark relative duration was the largest negative driver of relative performance.
- For the year, the fund's shorter relative duration helped results. The well diversified fund's allocations to high yield, emerging market and securitized debt also positively contributed.

### Inflation Protection Fund

Fund	December	QTD	YTD
Inflation Protection Fund (IPF)	2.29%	3.98%	4.76%
IPF Benchmark <sup>ii</sup>	2.15%	3.76%	3.28%
Difference (percentage points)	+0.14	+0.22	+1.48

- For December, the allocation to emerging market inflation-linked securities contributed positively to benchmark-relative results, as did the allocation to alternatives. Relative results were partially offset by the dedicated allocation to, and selection within, senior secured floating rate bank loans.
- For the quarter, the allocation to, and selection within, emerging market inflation-linked securities contributed meaningfully to relative results, as did the allocation to developed market inflation-linked bonds. Results were modestly offset by the allocation to, and selection within, senior secured floating-rate bank loans.
- For the year, the fund had strong absolute and benchmark relative performance. Allocations to emerging market inflation-linked securities, senior secured floating-rate bank loans, developed market inflation-linked bonds, and real assets and alternatives contributed, as did security selection within the emerging markets strategy. January's underweight to UK inflation-linked bonds modestly detracted.

### Short Term Investment Fund

Fund	December	QTD	YTD
Short Term Investment Fund	0.50%	1.45%	5.17%
BofA Merrill Lynch 3-Month U.S. Treasury Bill	0.47%	1.38%	5.05%
Difference (percentage points)	+0.03	+0.07	+0.12

- The fund outperformed the benchmark for the month-, quarter- and year-to-date periods due to the out-of-benchmark exposures to non-U.S. Government sectors including U.S. corporate debt and asset-backed securities. Broadly, most fixed income sectors outperformed government bonds.

### Balanced Fund

#### Multiple Asset Fund

Fund	December	QTD	YTD
Multiple Asset Fund (MAF)	4.62%	8.33%	13.72%
MAF Benchmark <sup>iii</sup>	4.54%	9.22%	15.59%
Difference (percentage points)	+0.08	-0.89	-1.87

- For the month, the U.S. Equity Fund and Inflation Protection Fund contributed positively to benchmark-relative performance, while the Fixed Income Fund and International Equity Fund detracted from relative performance.
- Quarter to date and year to date, the Fixed Income Fund and Inflation Protection Fund contributed positively to benchmark-relative performance, while the U.S. Equity Fund and International Equity Fund detracted from relative performance.

## Social Values Choice Suite of Funds

### Social Values Choice Equity Fund

Fund	December	QTD	YTD
Social Values Choice Equity Fund (SVCEF)	4.72%	12.32%	26.02%
SVCEF Benchmark <sup>iv</sup>	4.78%	12.06%	25.73%
Difference (percentage points)	-0.06	+0.26	+0.29

- The Social Values Choice Equity Fund is a passively managed fund designed to closely match the fund benchmark, less fees and expenses. The fund's fair market valuation policy (described [here](#)) negatively impacted benchmark-relative performance for the month, but positively impacted performance for the quarter and year to date.

### Social Values Choice Bond Fund

Fund	December	QTD	YTD
Social Values Choice Bond Fund	3.70%	6.73%	6.75%
Bloomberg U.S. Universal (ex MBS) Index	3.64%	6.65%	6.51%
Difference (percentage points)	+0.06	+0.08	+0.24

- Overweight allocations to, and selection within, Agency MBS and investment grade financials contributed to relative performance during the month. Interest rate strategies detracted from relative performance. The underweight to emerging market debt also detracted from benchmark-relative performance.
- For the quarter, interest rate strategies helped relative results, especially the overweight to U.S. interest rates. The overweight to agency mortgage-backed securities and the overweight to, and selection within, investment grade financials and utilities also helped. Positive results were partially offset by the underweight to emerging market debt.
- Year to date, the fund's interest rate strategies contributed positively to benchmark-relative performance. The overweight to, and selection within, investment grade financials and utilities also contributed. Positive results were partially offset by the underweight to, and selection within, high yield. Selection within emerging markets also detracted.



**U.S. Treasury Inflation Protection Fund**

Fund	December	QTD	YTD
U.S. Treasury Inflation Protection Fund	2.59%	4.57%	3.24%
Bloomberg U.S. Inflation Linked Bond Index	2.74%	4.75%	3.84%
Difference (percentage points)	-0.15	-0.18	-0.60

- The U.S. Treasury Inflation Protection Fund is a passively managed fund designed to closely match the performance of the fund benchmark, less fees and expenses.
- The performance differences are due to a modest difference between fund and benchmark durations. The modest difference resulted in underperformance given the meaningful volatility in real yields.

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<sup>i</sup> Historical returns are not indicative of future performance. Fund returns are net of fees. Please refer to the [Investment Funds Description – P Series](#) for more information about the funds. This is not an offer to purchase securities.

<sup>ii</sup> The benchmark for the Inflation Protection Fund was comprised of 80% Barclays World Government Inflation Linked Bond Index (Hedged), 10% Barclays Emerging Market Tradeable Inflation Linked Bond Index (Unhedged) and 10% Bloomberg Commodity Index through January 31, 2023. Effective February 1, 2023, the benchmark for the Inflation Protection Fund is 90% Bloomberg U.S. Treasury Inflation-Linked Bond Index and 10% Bloomberg Commodity Index.

<sup>iii</sup> The benchmark for the Multiple Asset Fund is comprised of 35% Russell 3000 Index, 30% MSCI All Country World Index (ACWI) excluding USA Investable Market Index (IMI), 25% Barclays Capital U.S. Universal Index ex-Mortgage Backed Securities and 10% Inflation Protection Fund (IPF) Benchmark.

<sup>iv</sup> The benchmark for the Social Values Choice Equity Fund is the MSCI World Environmental, Social and Governance (ESG) ex Fossil Fuels Index.