UA 11-16-2012 Congregational Investment Trust Corp for NACCC of The US

Quarterly performance report

Period ended December 31, 2023

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Market commentary

For the quarter ended December 31, 2023

Quarterly Commentary 12/31/2023

Equities – AI Boom, cooling inflation, and expectations for rate cuts drive market gains.

While the equity markets saw a spike in volatility and declines early in the quarter, they bounced back from a dismal 2022 performance and finished strongly positive for the quarter and the year. For the fourth quarter, U.S. equities[1] returned 12.1% and International equities[2] returned 9.77%, which contributed to annual returns of 26% and 15.8%, respectively. Most of the annual return for U.S. equities was driven by the exceptionally robust 46.9% return of large cap growth stocks[3]. However, in the fourth quarter, dynamics shifted as small-cap[4] equities outperformed mid-cap[5] and large-cap equities[6] with a 13.4% return, compared to 12.3% for mid-cap, and 11.9% for large-cap. Growth stocks[7] continued their dominance over value stocks[8] in the fourth quarter with a 14.1% return compared to a 9.8% return for value stocks, which supported 2023 returns of 41.2% and 11.7%, respectively.

Real Estate, Information Technology, Financials, and Industrials were the best performing sectors in the US market, all with double-digit gains for the quarter. Energy[9] was the worst performing US market sector with the only negative return, dropping -6.7% for the quarter.

International equity performance was driven by developed markets[10], which returned 10.8% for the quarter and 18% for the year. Comparatively, emerging markets[11] returned 6.8% for the fourth quarter and 9.5% in 2023.

Fixed Income – bonds are back!

Like equities, U.S. and International fixed income markets saw a strong rebound in the fourth quarter and for the year as well. International fixed income[12] outperformed the U.S. bond market with a 6.4% fourth quarter return and 8.7% for the year, while the U.S. fixed income market[13] returned 6.7% in the fourth quarter and 5.6% during the past 12 months.

Central banks held rates steady in the fourth quarter and signaled rate cuts may be ahead. As a result, rates dropped across the curve, most notably at the 2 and 3-year maturities, declining 80 basis points since September 30, 2023. The long end of the curve saw declines as well, dropping to levels similar to those at year-end 2022. As a result, long-term Treasurys[14] led the maturity spectrum with at 12.7% return, compared to a 6% return for intermediate-term Treasurys[15], and a 3.2% return for short-term Treasurys[16].

Financial markets have priced in earlier and more significant European Central Bank (ECB) rate cuts, moving forward their expectations of the timing of the first rate cut, amid downside surprises to both inflation and growth. Over the quarter, 10-year rates fell globally; Canada (-93bps), United Kingdom (-87bps), Germany (-81bps), Australia (-53bps), Japan (-15bps), China (-11bps). Unhedged international bonds (+9.8%)[17] outperformed U.S. bonds (+6.7%)[13] for the quarter, mostly due to the weakening of the US dollar.

Monetary Policy

At the December meeting, the Federal Reserve held rates steady, maintaining the current range of 5.25-5.50% for the third consecutive time, aligning with market expectations. The most recent Summary of Economic Projections (SEP) suggested that the terminal policy rate has been reached and that the recent disinflation trajectory may facilitate a slightly steeper path to the neutral or equilibrium policy rate. The SEP continues to project a near perfect soft landing, where inflation returns to its target level without a recession, with still-restrictive rates.

Past performance is not a guarantee of future returns. Indexes are unmanaged; therefore direct investment is not possible.

Our view remains unchanged in that we see relatively low probabilities of achieving these economic conditions simultaneously, and our baseline outlook continues to expect that ‘higher-for-longer’ interest rates will produce a slowdown in economic activity in the second half of 2024.

Economic Outlook

The U.S. economy grew faster than expected in Q3 2023 at an annualized rate of 5.2%, revised higher from the previously reported 4.9%. This pace of growth was the fastest in nearly two years. Current market expectations include an increase in annual, real GDP of around 2% amid diminishing excess savings, slowing gains in wages, and moderation in consumer demand. With the resumption of repayments on loans for higher education as well as the slight increase in delinquency rates in subprime auto and credit card debt, there are signs of certain groups of consumers feeling the effects of tighter financial conditions. On the positive side, we continue to see healthy household balance sheets with low unemployment and steady wage growth, facilitated by a strong labor market.

In the final quarter of 2023, U.S. employers added a total of 565,000 jobs, surpassing the preliminary forecast of 510,000. The Government and Health care sectors were the top two contributors, accounting for just over two-thirds of the recorded additions to the job market. The unemployment rate increased to 3.9% in October, up from September’s 3.6%, before retreating to 3.7% at year end. Considering our modestly bullish view of December’s labor market report, along with other recent data points, Vanguard is decreasing our probability of recession in 2024 from 60% to 50%, however our forecast for a soft landing scenario has remained steady at 20%.

Inflation, as measured by the Consumer Price Index (CPI), decelerated year-over-year to 3.4% in December, down from the 3rd quarter’s 3.7%. Services inflation continues to drive headline CPI while the prices of goods declined during the last twelve months. Real wages rose by 0.8% in 2023, reversing the trend of declining inflation-adjusted pay in 2021 and 2022, and posting better gains than prior to the onset of the pandemic.

Reporting on a one-quarter delay, the Eurozone saw a decline of -0.1% in seasonally adjusted GDP according to Eurostat, the statistical office of the European Union. Industrial production in Germany was down during November, for the sixth consecutive month, in a continuation of a period of sluggishness for the largest European economy. According to the consensus forecast by FactSet, GDP in the Eurozone is expected to revert to positive territory at 0.1% in the fourth quarter. Unemployment in the region declined from 6.5% to 6.4% in the last three months of 2023 and the inflation rate in December is expected to tick up to 2.9% from 2.4% in November.

The economy in China presented a mixed in picture in Q4 of 2023. Retail sales jumped to a 10.1% year-over-year increase in November from 7.6% in October, but well below market expectations, reflecting subdued private demand and weaker-than-expected CPI inflation. Industrial production growth improved significantly, reaching 6.6% for the year ending in November, compared to 4.6% in October. Meanwhile, the property sector remained in deep contractionary territory as property values and sales volumes declined by -21.3% and -16.9% on a year-over-year basis as of November.

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Market commentary (continued)

For the quarter ended December 31, 2023

References (Index Returns)

1. CRSP U.S. Total Stock Market Index
2. FTSE Global All Cap ex U.S. Index
3. CRSP Large Cap Growth Index
4. CRSP U.S. Small Cap Index
5. CRSP U.S. Mid Cap Index
6. CRSP U.S. Large Cap Index
7. Russell 3000 Growth Index
8. Russell 3000 Value Index
9. MSCI U.S. IMI Energy 25/50
10. FTSE Developed All Cap ex U.S. Index
11. FTSE Emerging Index
12. Bloomberg Global Agg Index ex USD RIC Cap Float Adjusted (USD-Hedged)
13. Bloomberg US Agg Float Adjusted Index
14. Bloomberg Barclays US Long Year Treasury Index
15. Bloomberg Barclays US 5-10 Treasury Index
16. Bloomberg Barclays US 1-5 Treasury Index
17. Bloomberg Global Agg Index ex USD

Sources:
Vanguard, U.S. Treasury, Trading Economics, FactSet, Bureau of Economic Analysis, Department of Labor, Wall Street Journal, Nuveen, Goldman Sachs, JP Morgan, St. Louis Fed Economic Database, Morningstar, FactSet

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Client and investment activity

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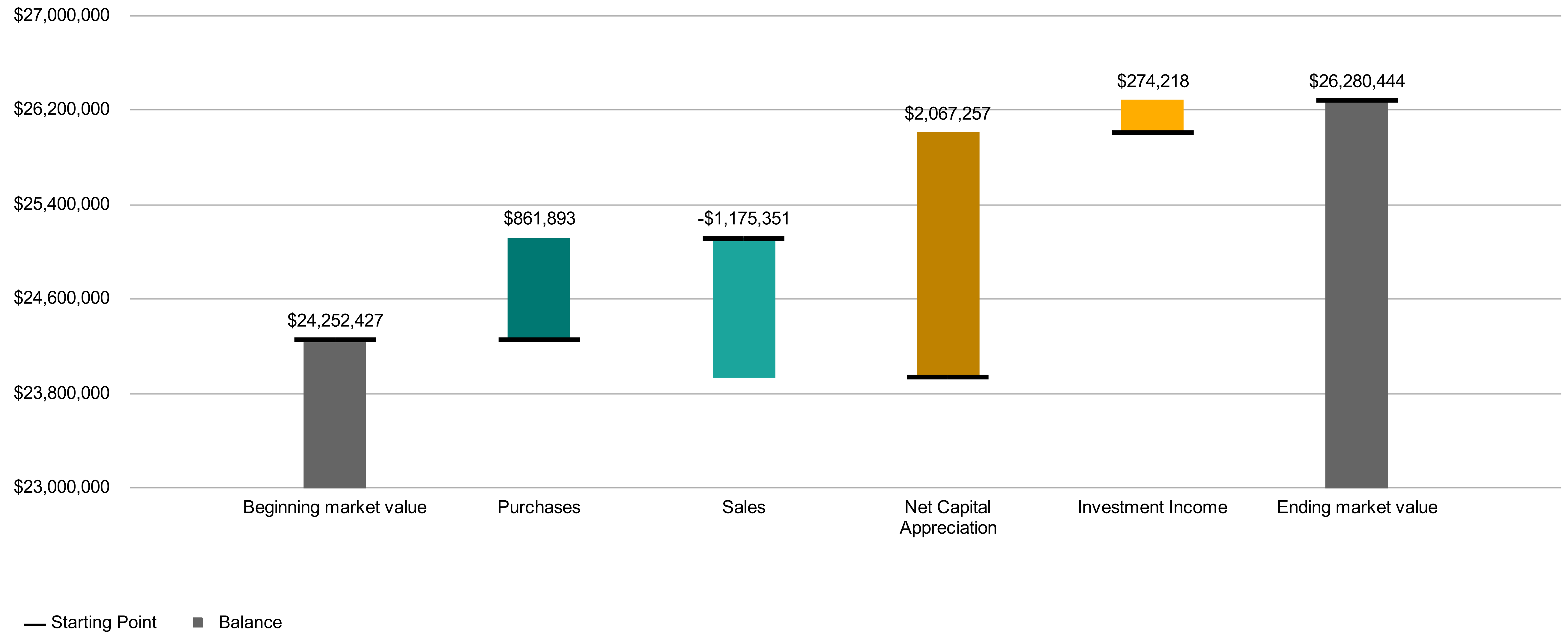

Beginning and ending portfolio market values are net of all advisory fees and trading expenses. Purchases represent all new purchases and exchanges to securities within the plan, less any trading expenses. Sales represent all new sales and exchanges from securities, less any advisory fees and trading expenses.

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Performance attribution by sub-asset class

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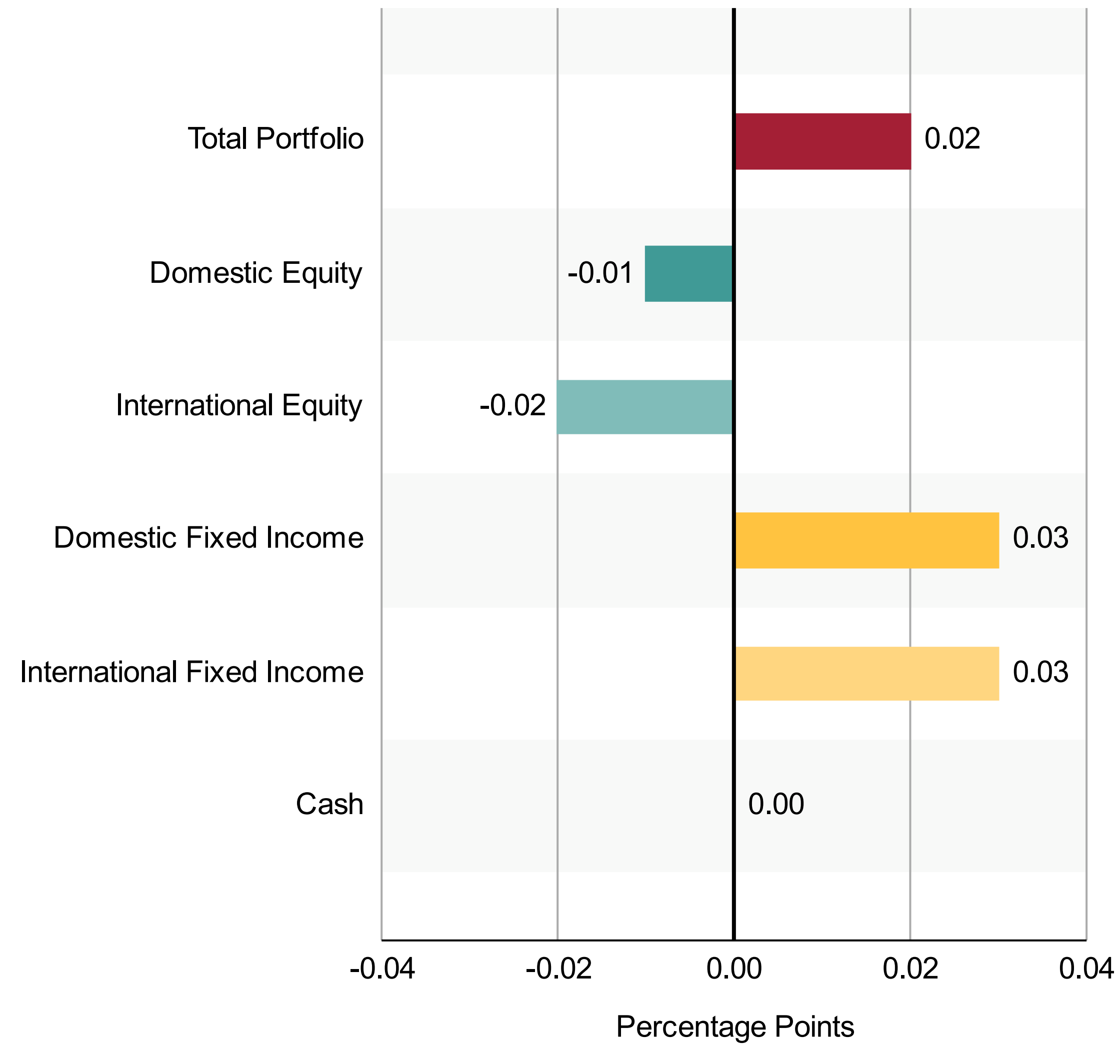
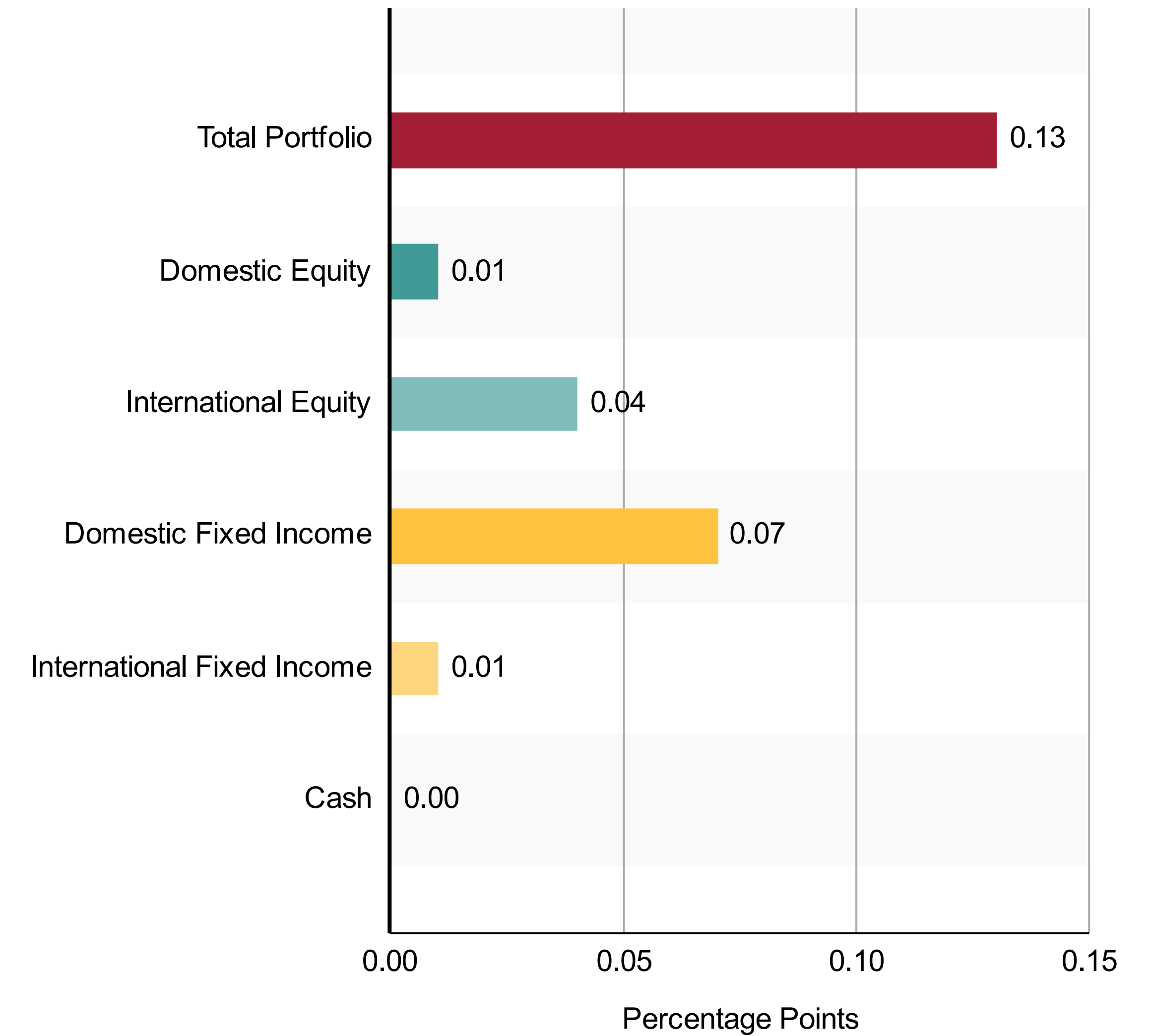
Broad Allocation Impact



Fund Selection Impact



The standard Brinson-Fachler method is used, and explains portfolio performance against its overall benchmark. See Benchmark allocation history for description of what the policy benchmark represents. Returns used are gross of advisory fees and are time-weighted. **Past performance is not a guarantee of future results.** Diversification and asset allocation can not ensure profit or prevent loss.

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Excess returns by time periods

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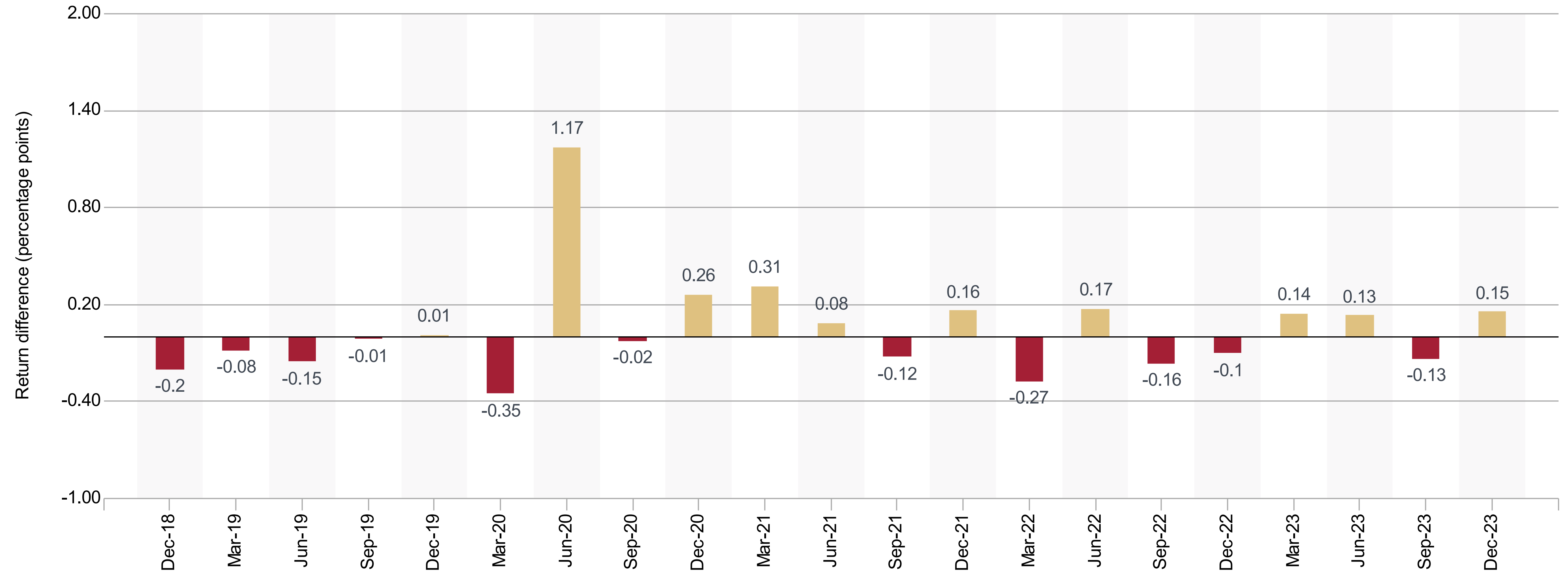
For the periods ended December 31, 2023

Quarterly calendar excess returns



Each time period in the Quarterly calendar returns chart represents one quarter of performance as of that date. Each time period in the Quarterly rolling 5-year returns chart represents 60 quarters of annualized performance as of that date. Returns used are gross of advisory fees and are time-weighted. Excess returns are the arithmetic return difference between the Total Plan versus Policy Benchmark. See Benchmark allocation history for description of what the policy benchmark represents. **Past performance is not a guarantee of future results.**

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Excess returns by time periods

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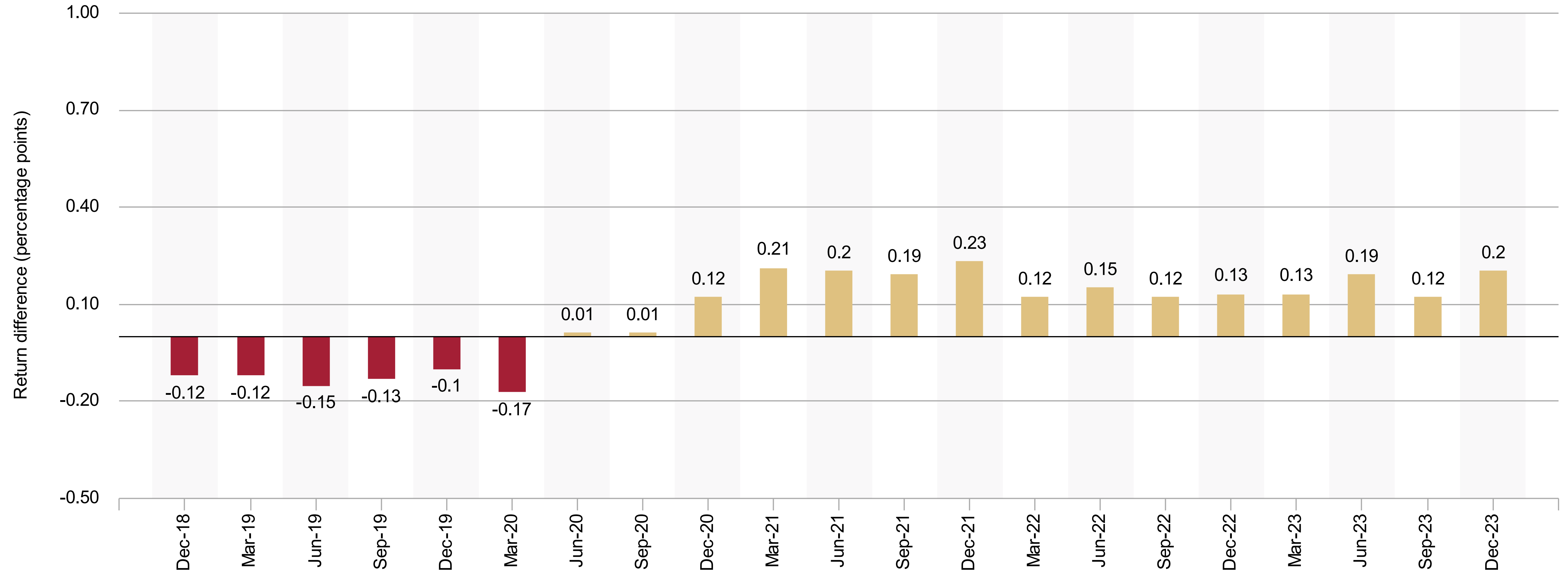
For the periods ended December 31, 2023

Quarterly rolling 5-year annualized excess returns



Each time period in the Quarterly calendar returns chart represents one quarter of performance as of that date. Each time period in the Quarterly rolling 5-year returns chart represents 60 quarters of annualized performance as of that date. Returns used are gross of advisory fees and are time-weighted. Excess returns are the arithmetic return difference between the Total Plan versus Policy Benchmark. See Benchmark allocation history for description of what the policy benchmark represents. **Past performance is not a guarantee of future results.**

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Risk control - rolling quarter returns

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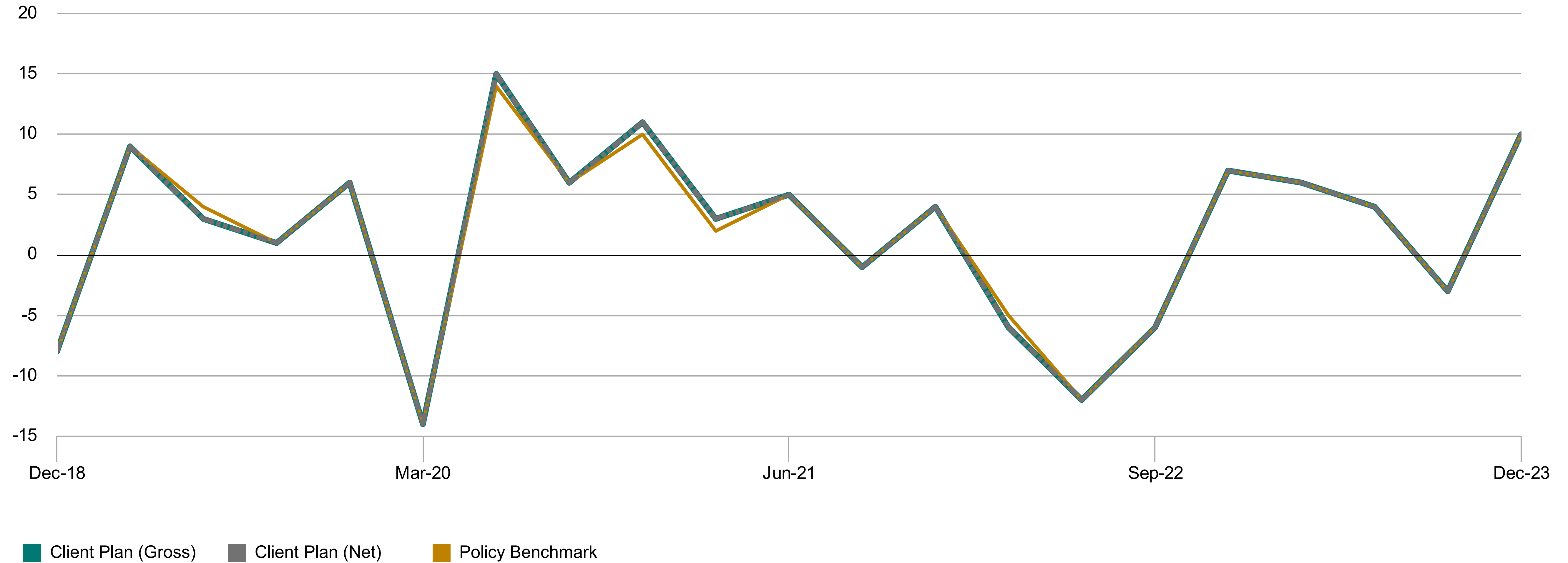
Client plan versus policy benchmark



This charts show how the portfolio has performed against its benchmark in up and down markets. See Benchmark allocation history for description of what the policy benchmark represents. Returns included on this page are Time-Weighted Returns (TWR) and net of Vanguard Institutional Advisory Services (VIAS) advisory fees, fund expense ratios, and other expenses unless otherwise indicated. A client cannot invest directly in a benchmark. **Past performance is not a guarantee of future results.**

Benchmark allocation history

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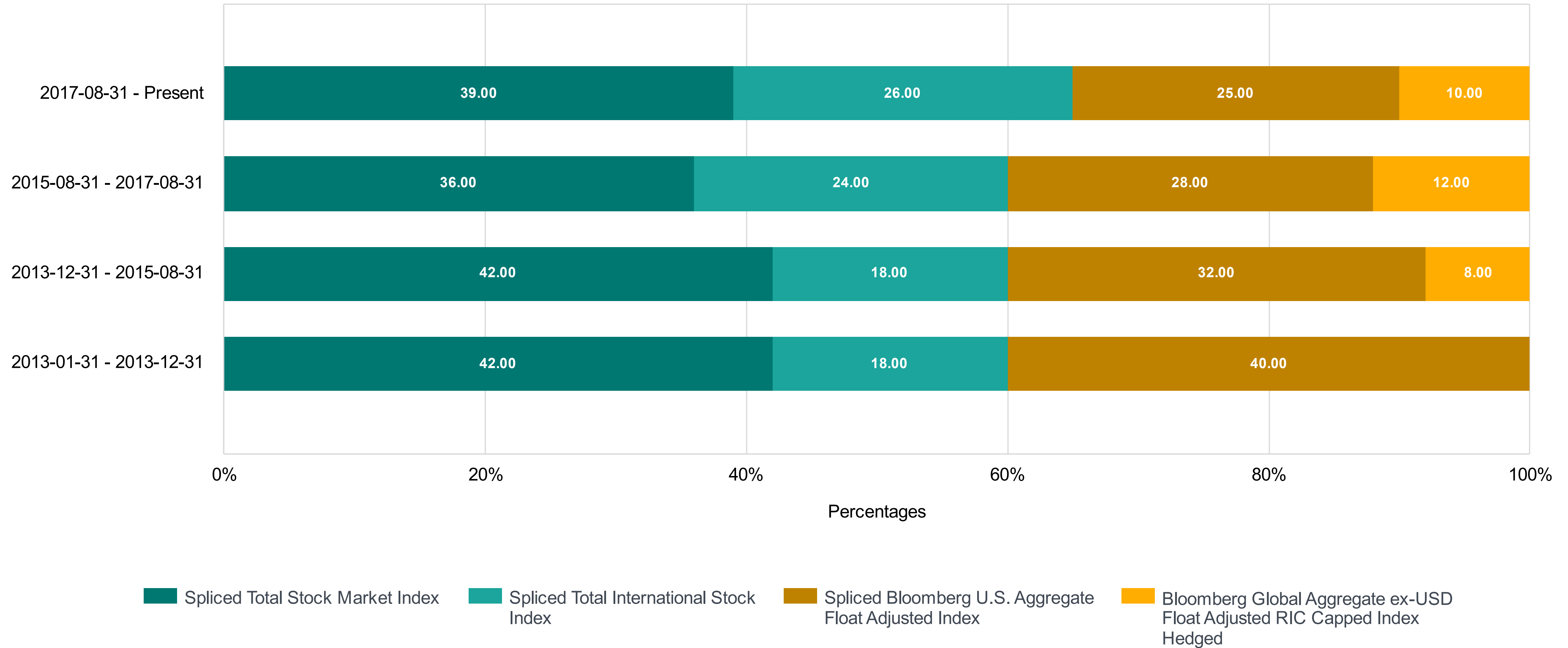
Policy benchmark allocations up to December 31, 2023



Policy Benchmark is a weighted set of indices that align to the Investment Management Agreement Schedule B which sets forth the strategic asset allocation for the client portfolio. The Policy Benchmark is rebalanced monthly. Allocations may change overtime as the investment strategy changes. The most recently policy benchmark composition is in the top row. Neither asset allocation nor diversification can guarantee a profit or prevent loss. Indexes are unmanaged; direct investment is not possible. **Please read additional information in Benchmark and Disclosure sections.**

Disclosures

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The performance data shown represents past performance, which is not a guarantee of future results. Investment returns and principal value will fluctuate, so investors' shares, when sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data cited. For performance data current to the most recent quarter-end, visit our website at www.vanguard.com/performance.

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