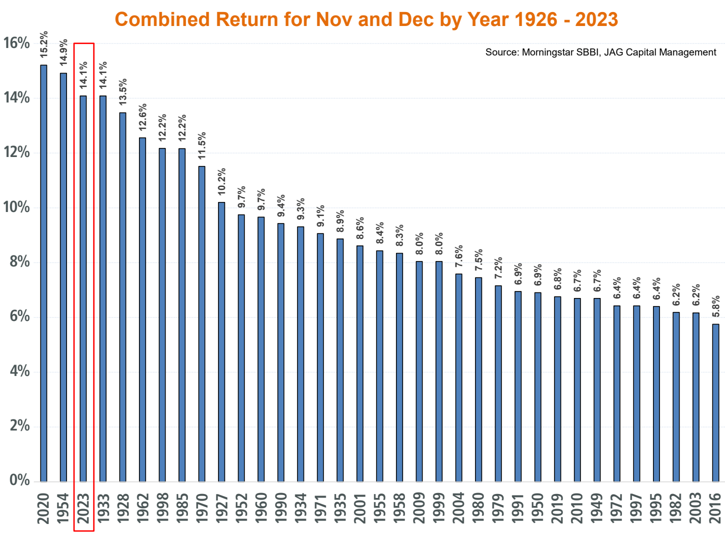
JAG CAPITAL MANAGEMENT LLC

Quarterly Comments

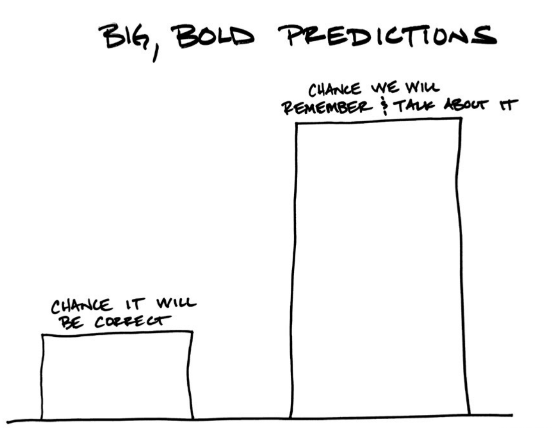
A Catalyst-Driven Rally for Investors

Market Overview

Stocks enjoyed a broad and powerful rally in the fourth quarter as the major US stock indices posted strong quarterly gains, including the 3rd-best combined November and December performance in the almost 100-year history of the S&P 500.



After almost two years of hawkish Fed policy, investors have begun to project rate cuts in 2024. Along with a rebound effect after a 10% stock market correction last summer, this more dovish rate outlook probably contributed to last quarter's strong stock rally. From an investment-style standpoint, growth stocks significantly outperformed value both in the fourth quarter and for the full year. This is the exact opposite of what occurred in 2022, when higher rates and recession fears conspired to clobber shares of growth-oriented companies.



Source: BehaviorGap.com

Firm Highlights

JAG had a great 4th quarter! A valued teammate since 2000, **Bob Berger** was awarded our first quarterly firm Values Award in November in recognition of his exceptionally **Collaborative** approach to his co-workers and client service. Our colleague, **James Sindelar**, received a much-deserved promotion to Senior Vice President, Strategic Relationships.

Our Enhanced Core Fixed Income strategy was recognized as a **Top Gun** by Informa Financial Intelligence, a leading investment industry publication.

And perhaps most importantly, JAG families welcomed three new babies to the world. CEO Norm Conley and his wife Chris were thrilled to announce the birth of their first grandchild (Norman V, "Bennie," to their son Buddy and his wife Abby) on November 9th, in Columbus, Georgia. Maeve O'Rourke, daughter of Fixed Income Analyst Charles O'Rourke and his wife Sam, debuted on December 5th in St. Louis. This Christmas was the best ever for Wealth Advisor Connor Pastoor, his wife Natalie Thrall-Pastoor, and their 2-year-old daughter Bryn, as they celebrated the December 25th arrival of Noelle Thrall-Pastoor in Chicago.

On a sector level, 10 of the 11 S&P 500 sectors finished the fourth quarter with a positive return, while eight of the 11 sectors ended 2023 with gains. Not surprisingly, the dual influences of artificial intelligence (AI) enthusiasm and expectations for rate cuts drove sector trading in the fourth quarter and throughout the year. In the fourth quarter, the influence of expected lower rates was dominant. REITs were the best performing sector, followed by Information Technology. Both groups are considered to be beneficiaries of falling interest rates. Cyclical sectors also outperformed over the past three months, as expectations for stable economic growth rose. For the full year, however, the influence of AI enthusiasm was clearly a dominant influence on sector trading, as the three most "AI sensitive" sectors (Information Technology, Consumer Discretionary, and Communication Services) strongly outperformed the remaining eight S&P 500 sectors and the broader market.

Traditionally defensive sectors - including Consumer Staples and Utilities - lagged last quarter and for the full year, as economic growth was more resilient than expected and higher rates dampened investor appetite for high dividend-yielding sectors.

Source: Clipartof.com

We have been vocal over the past year with our contention that after more than a decade of wandering in the Zero Interest Rate Policy (ZIRP) wilderness, "bonds are back." By this we mean that fixed income assets can once again deliver both meaningful coupon income and lower portfolio volatility for diversified investors. So far, so good on that front. The leading benchmark for bonds (Bloomberg Barclays US Aggregate Bond Index) realized a positive return for the fourth quarter and full year, as falling inflation and expectations for rate cuts in 2024 pushed bond prices higher.

US Bond Indexes	Q4 Return	2023 Return
BBgBarc US Agg Bond	6.8%	5.5%
BBgBarc US T-Bill 1-3 Mon	1.4%	5.1%
ICE US T-Bond 7-10 Year	6.4%	3.4%
BBgBarc Intermediate Corporate	5.9%	7.3%
BBgBarc Intermediate Gov't/Credit	4.6%	5.2%

Source: Bloomberg

The stark disparity between stock market behavior in 2022 and 2023 is yet another example of how bull markets tend to begin during periods of widespread pessimism. During stock market corrections, more and more investors "abandon hope" and raise cash from their investment portfolios. In doing so, they create selling pressure on asset prices, which ultimately causes prices to overshoot to the downside. Precisely timing such bottoms is impossible, but it is possible to recognize the general contours and signposts of a developing bottom in real time. This is what we were attempting to do in our **4th Quarter 2022 Quarterly Comments** when we noted, "While there are undoubtedly economic and corporate challenges ahead in 2023, some of those best-known risks are at least partially priced into markets already… declines of the magnitude we saw in 2022 are usually followed by strong recoveries rather than further weakness."

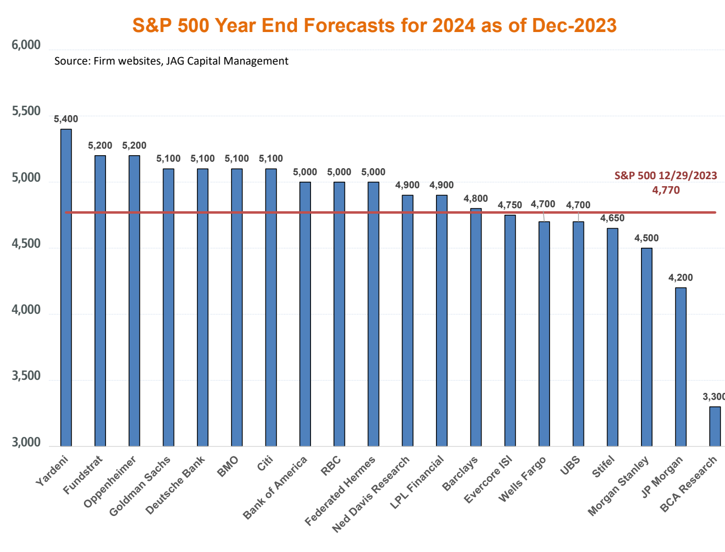
Contrary to the dour expectations that prevailed this time last year, 2023 brought lots of upside surprises for the capital markets. Widespread expectations for a recession have not (yet) materialized, inflation fell faster than forecasts, corporate earnings proved resilient, and the Fed signaled a pivot to more dovish rate policy in 2024. Despite the continuing tragedy of the war in Ukraine and the outbreak of more-recent horrors in the Middle East, long-term investors were rewarded for staying the course last year.

Market Outlook

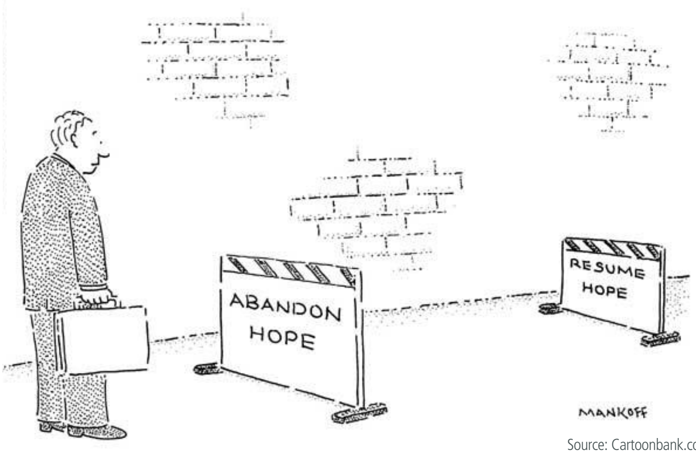
What a difference a year makes!

This time last year, the S&P 500 had just logged its worst annual performance since the financial crisis, the Fed was in the midst of the most aggressive rate hike campaign in decades, inflation was above 6%, and concerns about an imminent recession were pervasive across Wall Street.

As we begin 2024, the market's mood is markedly more positive. The Fed has signaled that they have finished hiking rates, and cuts could be on the way by mid-2024. Economic growth has proven more resilient than most expected and fears of a recession are all but dead. Inflation dropped substantially in 2023 and is not far from the Fed's 2% target, while corporate earnings growth is expected to resume in the coming year. Moreover, as the calendar moves forward, investors will begin to discount 2025 corporate earnings, which should be stronger than this year's – assuming that the economy and inflation stay well-behaved. Finally, Wall Street investment strategist expectations are notably muted for the year ahead, which we view as a potentially positive contrary indicator.



While we are cautiously optimistic on the broader equity market, it is fair to note that retail investor sentiment is much improved compared to the beginning of last year. Similarly, valuation multiples have expanded over the past several quarters. Together, more investor optimism and richer valuations imply that both stock and bond prices have at least partially discounted improving fundamentals. This dynamic creates the possibility of some volatility if events and data fall short of expectations. For example, Fed officials are forecasting three rate cuts in 2024, but investors are currently pricing in six or seven - with the first cut occurring in March or May. If the Fed moves more slowly than investors expect, we could see an increase in asset price volatility.



Source: Cartoonbank.com

Although higher rates have not done too much to slow down the economy or the job market thus far, Fed rate hikes typically take months to have their desired effect. Therefore, we may find out that the Fed's rate policy has remained too restrictive for too long. There is some non-zero probably that the Fed will inadvertently tip the economy into at least a mild recession in 2024 or early 2025. While we are optimistic that the economy will experience a so-called "soft landing" this year, we think it is premature to conclude that we are in the clear. Accordingly, we will be on alert for signs of slowing economic or corporate earnings growth as we progress into the new year.

Norm Conley
CEO, Chief Investment Officer & Portfolio Manager

Disclosures

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A Veteran Owned Business (VOB) is a business owned, (51% ownership or greater) by a Veteran who has met the definition of a veteran. The following represents the criteria that the National Veteran Business Development Council (NVBDC) uses in determining ownership:

Ownership: Fifty-one percent ownership by a Veteran or Veterans. The applicant must share in all risk and profits commensurate with their ownership interest.

Control and Management: Proof of active management of the business. Veteran must possess the power to direct or cause to direct the management and policies of the business.

Contribution of Expertise and Capital: Contribution of capital and/or expertise by Veteran owner(s) to acquire their ownership interest shall be real and substantial and be in proportion of the interest acquired.

Independence: The Veteran owner(s) shall have the ability to perform in their area of specialty/expertise without substantial reliance on non-Veteran-owned businesses.

About JAG

JAG Capital Management (JAG) actively invests for institutions and individuals in highly selective, customizable, and nimble equity and fixed income strategies. JAG is a boutique, independent, employee-owned investment management firm with offices in St. Louis and Chicago.

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