Market Review
Fourth Quarter 2023

The fourth quarter put the exclamation point on an excellent year for stocks. The sharp year-end push also finally broadened the rally. However, it was still very much a Large Cap-driven market.

During the quarter, the S&P 500 and Russell 2000 indices gained 11.69% and 14.03%, respectively. For the full year, the Large Cap benchmark increased 26.29% while the Small Cap index climbed 16.93%. The large discrepancy in annual performance, which was driven by exceptional returns in a small number of Mega Cap Growth stocks, was even more pronounced in November. Seven stocks generated nearly two-thirds of the yearly gain in the S&P 500 Index.

Importantly, stocks took their cue from the bond market all year long. This made for a much shakier journey than is evident in the aggregate returns. The 10-Year U.S. Treasury Bond Yield began the year at 3.88%, slunk to a low of 3.29% in the fallout from the banking crises, and then climbed to 4.99% …all before finishing the year back where it started (3.88%). The final 111 basis point decline in yield corresponded with an 11.50% advance in the S&P 500 and a 19.05% increase in the Russell 2000.

The primary cause for the stock (and bond) market rally was continued evidence of waning inflation, which signaled the beginning of the end of the policy tightening cycle. Over the course of the year, the Core PCE Price Index steadily declined from 4.7% in January to a much more acceptable 3.2% in November. This marked the lowest annual increase since April 2021. The decline in inflation was also aided by falling oil prices, which posted their first annual decline since 2020.

The much bigger surprise, however, was the resilience of the domestic economy. Despite a protracted inversion in the yield curve, the recession that most investors expected never came. The primary ballast was a stable jobs market. In Q3, GDP grew at a 4.9% annualized pace, led by a 3.6% increase in personal consumption. This data raised hopes that the Federal Reserve could in fact stick the soft landing, which would have been unthinkable earlier in the year.

While these trends set the tone, the final spark for the year-end vigor was born out of the December Federal Open Markets Committee meeting. Although the decision to hold interest rates was widely expected, there were several dovish tweaks to the statement and in the commentary. In addition, the new Summary of Economic Projections showed median policymaker forecasts for 75 basis points of easing for 2024, up from 50 basis points in September. The modifications were widely interpreted as an "official" consent for the burgeoning bullish narrative. It also unleashed a more aggressive and speculative component to the final push.

At this point, the obvious question for investors is, are the roaring gains justified? Additionally, what does it portend for stocks in the new year?

As the team looks ahead to 2024, the volatility in the market has begun to increase and we expect some of the speculative excess to unwind accordingly. But we believe in the core foundation of the rally and recovery.

After 11 interest rate hikes in 17 months, we agree that the Federal Reserve is on the cusp of a major policy shift that will pave the way for a broader cyclical recovery. As a result, we see a lot of opportunity for growth and acceleration …without having to make aggressive assumptions. The team is excited about the prospect of a broader market, which bodes well for our profitability-focused, valuation-sensitive growth philosophy and process. We also remain particularly enthused about the opportunity in Small Cap stocks, which afford the same cyclical and secular growth exposure, but have significantly underperformed the Large Cap indices and are more attractively valued.

Sources: *FactSet, GICS Sector Classification, Briefing.com, Investing.com, Forbes*

Past performance is no guarantee of future results. This commentary represents the portfolio managers' opinions as of the date of this presentation, and may change based on market and other conditions. This commentary is provided for informational purposes only and is not intended to forecast future events, guarantee future results, serve as investment advice, or serve as a recommendation to buy or sell any types of securities. Rice Hall James obtained some of the information provided herein from third party sources believed to be reliable but such is not guaranteed. There is a risk of loss from an investment in securities, including the risk of loss of principal. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will be profitable or suitable for a particular investor's financial situation or risk tolerance. Any forward looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts and the information contained in these materials should not solely be relied upon when making any investment decision.

Indices are provided for comparative purposes only. Broad-based securities indices are unmanaged and are not subject to fees and expenses typically associated with managed accounts or investment funds. An investor cannot invest directly in an index. This is an actively managed strategy that does not invest in all of the securities of an index, and will have some associated concentration risk. Comparisons have limitations because indices may have volatility, investment and other characteristics that may differ from an investment account strategy to which it is compared. Indices are unmanaged, include the reinvestment of dividends, and do not reflect transaction costs, management, or other fees. See the following for a description of each index used in this material.

The S&P 500 is widely regarded as the best single gauge of U.S. large cap equities. The index includes 500 leading companies spanning all sectors of the U.S. stock market. It covers approximately 80% of the U.S. equity market capitalization and over 50% of the global equity market.

The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 7% of the total market capitalization of that index, as of the most recent reconstitution. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000 is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small cap opportunity set.

The 10 Year Treasury Yield is the yield that the government pays investors that purchase the specific security. Purchase of the 10-year note is essentially a loan made to the U.S. government.

The Personal Consumption Expenditures (PCE) Price Index is a measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services. The PCE price index is known for capturing inflation (or deflation) across a wide range of consumer expenses and reflecting changes in consumer behavior.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by Rice Hall James & Associates, LLC. GICS® is used for all portfolio characteristics involving sector and industry data such as benchmark, active and relative weights, and attribution. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classification have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Index Definition Sources: *Standard & Poor's, FTSE Russell, Investopedia, Bureau of Economic Analysis*

Mutual fund investing involves risk including the possible loss of principal. There are specific risks inherent in small cap investing, such as greater share volatility as compared to other funds that invest in stocks of companies with larger and potentially more stable market capitalizations. Products of technology and biotech companies may be subject to severe competition and rapid obsolescence.

To determine if a Fund is an appropriate investment for you, carefully consider the Fund's investment objectives, risk factors and charges and expenses before investing. This and other information can be found in the Fund's full and summary prospectuses, which may be obtained on the website at www.rhjfunds.com or by calling 1-866-474-5669. Please read it carefully before investing.

Rice Hall James Funds are distributed by SEI Investments Distribution Co., 1 Freedom Valley Dr., Oaks, PA 19456, which is not affiliated with the advisor.