

Market Update

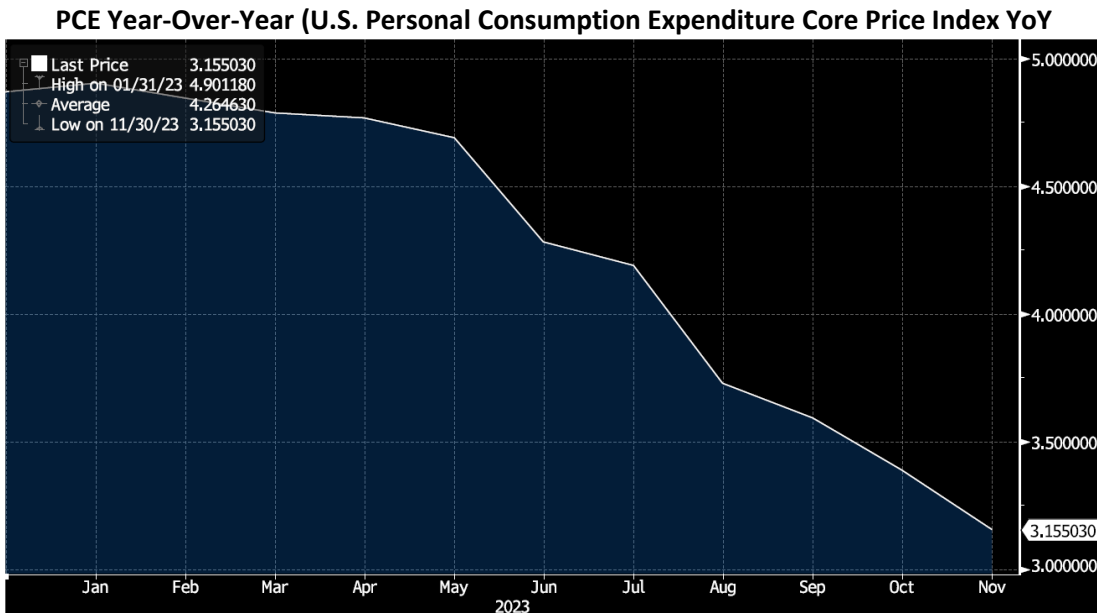
JANUARY 2024

"I don't look to jump over seven-foot bars; I look around for one-foot bars that I can step over."
By Warren Buffett

The year 2023 was dominated by inflation and the Federal Reserve's restrictive policy in response to it. We began with inflation at about 6.5%, with the Fed raising interest rates despite fears of rising unemployment and an economic recession. While the focus remained on inflation, several other events occurred during the year, including the political battle over the debt ceiling and a potential government shutdown, the collapse of several banks, labor strikes, and unrest in the Middle East.

In March 2022, the Federal Reserve began to aggressively raise interest rates as part of a restrictive policy aimed at reining in escalating inflation. In 2023, there were signs that the Fed's monetary policy was paying off. Price growth slowed, apparently without triggering a recession.

The personal consumption expenditures price index (PCE Index), the Fed's preferred measurement of inflation, was 5.4% in January, while core prices, excluding food and energy, were 4.7%. Other than a moderate surge during the summer, the PCE price index trended lower, with the last reading at 2.6% (core prices were 3.2%) for the 12 months ended in November.



Source: Bloomberg

While inflation has turned lower, it remained above the Fed's 2.0% target. However, the progress in moderating price pressures allowed the Fed to refrain from further interest rate hikes since July. In addition, recent Fed projections indicate rate cuts of 75-basis points, or 0.75%, in 2024, possibly in the form of three 25-basis point rate reductions, although changes in the economy or inflation could prompt the Fed to alter its course of action moving forward.

Raising interest rates may have helped drive down inflation, but it also had the unfortunate effect of cooling the housing market. Mortgage rates vaulted higher, peaking at about 8.0% in October. Higher mortgage rates translated to fewer buyers, diminished inventory, and significantly higher prices. Fortunately, mortgage rates have fallen by more than a full point over the last few months of the year, settling at about 6.61% at the end of December.

In a span of a few weeks in March, three U.S. banks failed, which prompted investors to lose confidence in the banking industry and sent bank stocks

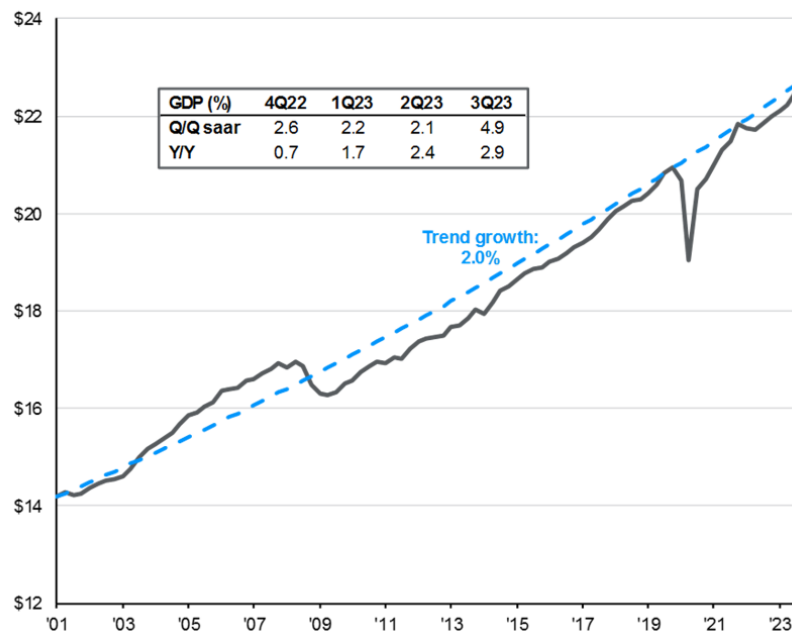
down. Losses on cryptocurrency investments, falling real estate investments, downturns in bond portfolios, and a run on bank deposits triggered the three specific banking collapses. A potential escalation was likely averted by the Federal Reserve and FDIC, which provided emergency loans to distressed banks, while ensuring that all deposits would be honored.

The U.S. economy proved to be resilient in 2023. Gross domestic product expanded during each of the first three quarters of the year, increasing 2.2% in the first quarter, 2.1% in the second quarter, and 4.9% in the third quarter. Consumer spending, the linchpin of the economy, also showed strength, climbing 3.1% in the third quarter. Consumers spent on both goods and services throughout the year.

Economic Growth and the Composition of GDP

Real GDP

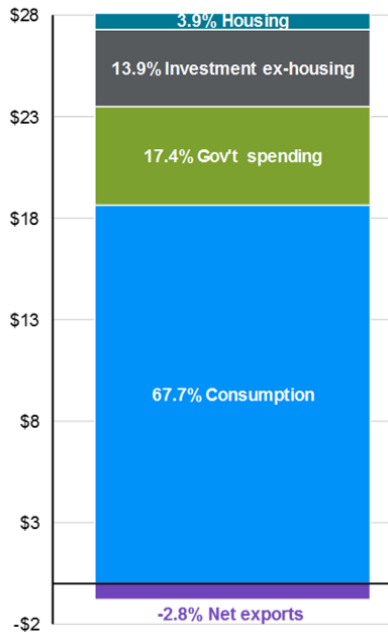
Trillions of chained (2017) dollars, seasonally adjusted at annual rates



Source: JP Morgan Guide to the Markets

Components of GDP

3Q23 nominal GDP, USD trillions

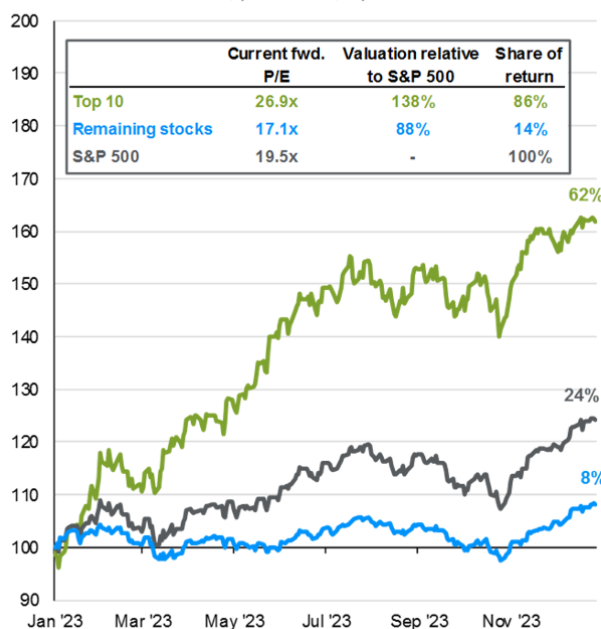


Focusing on economic data, the employment sector, expected by some to slow with rising interest rates, maintained strength throughout the year. The unemployment rate was 3.7% and remained within a range of 3.5%-3.8% for most of the year.

Stocks enjoyed a solid bounce back in 2023 by beginning the year on a positive note and ended the year trending higher. However, the ride for investors throughout the year was not always a smooth one. The Magnificent Seven led the way and make up more than one-quarter of the S&P 500 Index and more than half of the NASDAQ. The chart below reflects the enthusiasm for technology stocks which created a concentration in the S&P 500 Index where the top 10 stocks represent 32% of the index and represent 86% of the index's return.

S&P 500 Index Concentration

Performance of the top 10 stocks in the S&P 500
Indexed to 100 on 1/1/2023, price return, top 10 held constant



Weight of the top 10 stocks in the S&P 500
% of market capitalization of the S&P 500



Earnings contribution of the top 10 in the S&P 500
Based on last 12 months' earnings



Source: JP Morgan Guide to the Markets

Bonds for much of 2023 saw prices decline and yields moving higher. The yield on the 10-Year Treasury reached a high in October at about 4.9% but steadily fell throughout the remainder of the year, ultimately settling right about where they began the year.

Looking ahead, if corporate earnings continue to rebound, that should bode well for stocks in 2024. There are factors that will come into play next year, but how they impact the economy and markets is open to speculation. Will waning inflation and slowing job growth prompt the Federal Reserve to lower interest rates in 2024? If so, what impact will that have on the bond and stock markets? How much longer will the Russia/Ukraine war last, and how much more financial aid will be coming from the United States? The Hamas/Israel conflict could expand to include other countries, impacting other lives and economies. Although crude oil prices and retail gas prices declined in 2023, the ongoing conflict in the Middle East, coupled with a cut in production, could force prices for both commodities higher this year. Lastly, 2024 brings with it a presidential election.

Considering Buffett's quote above, our top priority is risk management. Fundamental analysis is the foundation of our process, helping to identify selective investments that may endure during difficult economic periods and may thrive during prosperous phases. Understanding that the market is emotional in the short-term but rational in the long-term, we recently added a consumer discretionary company as well as a defense contractor to our large cap core model that we believe will thrive in most market scenarios.

As always, we appreciate the opportunity to work with you and wish you a Happy New Year!

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Sources: JP Morgan Asset Management; NASDAQ; FactSet; Bloomberg; Broadridge; Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI, Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e., wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Forecasts are based on current conditions, subject to change, and may not come to pass. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. The principal value of Treasury securities and other bonds fluctuates with market conditions. Bonds are subject to inflation, interest-rate, and credit risks. As interest rates rise, bond prices typically fall. A bond sold or redeemed prior to maturity may be subject to loss. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful. The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 largest,

publicly traded companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks.