Capital Markets Commentary and Quarterly Report:
1st Quarter 2024

Capital Markets Highlights

The U.S. stock market[1] is off to a strong start in 2024. In Q1, the S&P 500® gained 10.56%. Though the leadership groups in 2024 so far have mostly been a continuation of last year's trends, the rally has also significantly broadened, with the equally weighted S&P 500® up 7.91% and all but one of the 11 S&P 500® sectors gaining (real-estate was down modestly). The Technology sector was the most significant contributor to the market's return in Q1, with some of the best gains for companies with businesses related to artificial intelligence. Other leading market sectors in Q1 2024 were Financials, Communications Services, and Healthcare.

In Q1, stocks got no help from the bond market as interest rates rose following stronger-than-expected economic data, some mildly disappointing inflation reports, and higher energy prices. The yield on the 10-year Treasury rose during the quarter from 3.88% at year-end 2023 to 4.20% at the end of Q1 2024. Fixed income returns [2]were generally flat to modestly lower for the quarter, with interest earned mostly offsetting the price declines from higher yields.

U.S. economic growth continues to surprise on the upside. 2023 ended with a Q4 GDP growth rate of 3.2% and a 3.1% gain for the year[3]. Consensus expectations are that the U.S. economy will continue to expand in 2024 but at a slower rate. The Federal Reserve members expect GDP to be in the 2% range over the next two years.

The unemployment rate has been below 4% for more than two years, the longest stretch since the late 1960s[4] and the latest readings on consumer income and spending remain solid. U.S. manufacturing data released on April 1, 2024, showed factory output growth hitting a 22-month high in March, with an uptick in new orders and production[5]. The majority of economists now predict an economic soft landing.

The Fed left interest rates unchanged at its March meeting, keeping the Fed Fund's rate at 5.25%-5.50%, where it has been since July 2023.

Our Thoughts Going Into Q2

Looking ahead, we expect further gains for stocks in 2024 but at a slower pace than in Q1 and with pullbacks along the way. Valuations for stocks in general are fully priced with some pockets of overvaluation (primarily in mega-cap Technology and Growth stocks) but there are also many pockets of undervaluation. At current levels, stocks are more vulnerable to earnings disappointments and changes in psychology about popular concepts and individual names. There are more signs of increasing speculation in several recent IPOs with high valuations and no earnings.

[1] All references to the stock market are the S&P 500® unless otherwise noted.
[2] This and future references to Fixed Income Sector specific returns are from J.P. Morgan Fixed Income Dynamics 1Q/2024 as of March 31, 2024
[3] Federal Reserve Press Release March 20, 2024
[4] Economic & Market Update J. P. Morgan as of March 31, 2024.
[5] S&P Global U.S. Manufacturing PMI April 1, 2024.

Big picture, we think returns from here will be choppier for the balance of the year. However, we continue to find areas of opportunity and expect more to appear as the year progresses. We have been trimming names when they become oversized due to price appreciation and will be opportunistic in adding to existing positions and new names.

We would not chase 2023's winners. We expect some of last year's laggards to provide healthy gains as they close the performance gap and the narrow rally that began in 2023 to broaden, encompassing more stocks, sectors, and asset classes.

Perhaps the most significant positive market event we look forward to is a cut in interest rates, which is expected later this year. With economic data coming in stronger than forecast, guesses about the timing of the first interest rate cut have been moving out to later in the year. After the Fed's last meeting in late March, Chair Powell said the Federal Reserve committee is waiting "until it has gained greater confidence that inflation is moving sustainably towards 2%" before they lower rates. With that caveat, the Fed's updated Fed Funds rate projections show that most members expect multiple cuts this year. While the timing is unknown, we are confident that the Fed will be lowering rates as the year progresses. That, coupled with a healthy economy and good corporate profitability, should provide a favorable environment for stocks.

Though the economy and stock market have adjusted to higher interest rates, the housing market has been in the doldrums[6]. Housing is such an important driver of economic activity that gains and declines in this area have a huge ripple effect on the rest of the economy. Lower mortgage rates should immediately boost housing activity, positively impacting the rest of the economy.

We believe that our Large Cap Value (LCV) and Dividend Income (MDI) strategies are well-positioned to navigate the current economic environment and provide favorable stock market returns this year. The companies in both portfolios have solid financial positions, stable and growing businesses, and strong management teams.

This year's presidential election is expected to be very divisive and may add to market volatility. We caution against letting your political leanings or thoughts about the election influence your investment strategy. Generally, the state of the economy and the interest rate environment have much more impact on investment returns than elections[7].

Large Cap Value Strategy

Matrix's Large Cap Value portfolio (LCV) showed strong performance results in Q1 2024, posting a high single-digit return[8]. While up sharply on an absolute basis, the gains were modestly behind the S&P 500® and the Russell 1000® Value's increases. The solid start to the year added to the portfolio's healthy gains in 2023.

Technology stocks continued to be strong performers for the market and the LCV portfolio, but starting in mid-2023, other sectors made increasing contributions to the portfolio's returns. In Q1 2024, Financials added the

[6] U.S. Economic, Housing and Mortgage Market Outlook Market Outlook" – FreddieMac.Com – February 26, 2024

[7] Historical data shows markets have tended to rise in Presidential election years, with the S&P 500® recording positive returns in 20 of the 24 election years since 1928, or 83.3% of the time. The average return for those election years was 11.58%, according to figures from First Trust. That's well above the S&P 500® average return of 9.81% for all years since 1928. Source: Investopedia December 31, 2023. Economic and inflation trends have demonstrated a stronger relationship with market returns than election results.

[8] This and subsequent references to Matrix performance (LCV and MDI) are net of fees as of March 31, 2024.

most to the portfolio's gain. Looking forward, we expect this to continue with good but less spectacular results from last year's biggest winners in Technology and Communications Services and more contributions from other sectors, including Financials, Healthcare, and Industrials.

In Q1, we started new positions in American Electric Power and Tyson Foods.

American Electric Power (AEP) is a high-quality electric utility company with over 5.5 million customers in 11 states. The Utility sector was the worst-performing market sector in 2023. AEP's share price decline created an opportunity to buy a company with predictable earnings and dividend growth. Historically, Utility companies have been more defensive when the economy slows, and markets become more turbulent. But there is also a growth story emerging for the sector as demand for electricity to power investment in new technology (AI, data centers) is projected to rise rapidly through the end of the decade. The company recently added two new directors nominated by activist investor Carl Icahn, who made a large investment in the company. We are optimistic about the company's appreciation potential.

Tyson Foods (TSN) is one of the world's largest chicken, pork, and beef processors. The company's brands include Tyson, Jimmy Dean, Hillshire Farms, and Ballpark. Tyson shares have declined from a high of over $100 in 2022 to the current mid-$50 range due to unprecedented simultaneous cyclical price pressures in each of its businesses. The company is reducing its costs and making operating improvements to withstand the current downturn. This should allow for a meaningful profit recovery when conditions improve. We believe the demand for protein will remain strong and that Tyson shares have a meaningful upside from the current price. The most recent earnings report showed improving profits.

We also opportunistically added to existing holdings in Federal Express, PayPal, RTX, and UnitedHealth.

We sold the portfolio's positions in eBay, due to concerns about its strategic position and competition, and in Air Products & Chemicals over business performance.

We wanted to give you a quick update on Paramount as it has been a multi-year laggard. While the stock price has been very disappointing, the company is making meaningful positive business progress against management's plan to take out costs, grow revenue, improve profitability, and strengthen the balance sheet. An additional frustration is that controlling shareholder Shari Redstone's other financial commitments are forcing her to monetize her position in Paramount at an inopportune time, which likely results in shareholders not realizing the full value of the company.

After months of takeover speculation, the company recently announced that they had entered exclusive takeover discussions with Skydance, while another entity, Apollo, reportedly made an offer to buy the company at a valuation at a significant premium. Under normal circumstances, Paramount should garner a very attractive price, but it appears that constraints imposed by Redstone will likely limit the value received by other shareholders.

While we think this is ultimately going to be a disappointing investment, depending on how the board proceeds, there is a reasonable chance that the stock could be nicely higher as the auction plays out, so it makes sense to hold for now.

We are optimistic about the portfolio's positioning and prospects in 2024. The portfolio's companies have strong and growing franchises. They are positioned to prosper as the economy settles into a historic trend line of economic growth of around 2% with stable to lower interest rates. If we are right in our market outlook for the upcoming year, we expect the LCV portfolio to build on 2023's strong results with another year of solid gains.

Dividend Income Strategy

The Matrix Dividend Income (MDI) portfolio had a good start to the year with a mid-single digit return. This follows strong relative performance in the 2022 bear market and a nice bounce back in the 2023 rally. Though the portfolio trailed the S&P 500® and Russell 1000® Value Index in the quarter, we are pleased that the strategy continues to deliver on its three objectives: generating high current and growing income, downside protection, and capital appreciation. We look for the portfolio to continue to add to its gains as the year progresses and to be more protective in the choppy environment that we think is likely.

Portfolio performance in the quarter was led by strong gains in Financials, Technology, and Utilities.

In Q1, we scaled back names that had become oversized due to appreciation or approached fair value. These included the pharmaceutical companies AbbVie and Amgen. We also trimmed the holdings in J.P Morgan Chase and Qualcomm after strong gains.

We used the proceeds from these sales to add to undersized names in the portfolio with strong appreciation potential, such as Starbucks and Texas Instruments. We also added to the three utilities in the portfolio, American Electric Power, Duke Energy, and NextEra Energy.

Utilities were the worst-performing sector in 2023. The three utilities we own are well managed and have records of consistently rising earnings and paying high current and growing dividends. All have attractive appreciation potential. Historically, utilities have been good performers during periods of market turbulence because of their predictable growth. Adding to their investment appeal is a developing growth story as electricity demand to power new technology investment is rising much faster than generating capacity growth. At a recent industry conference, NextEra Energy CEO John Ketchum said that after years of relatively flat electric demand he expects a double digit increase over the next five years driven by AI, electrification, cloud capacity, and chip factories. The rapid increase in demand could further strain power grids which are already under pressure due to extreme weather events and the impacts of climate change[9].Our Utility sector exposure in the portfolio is now around 10.5%, up from 4% at the end of 2022.

In Q1, eight of our portfolio holdings raised their dividends by an average of 6.7%. On March 31, 2024, the portfolio had a 2.98% dividend yield, which compares favorably with the 1.36% yield on the S&P 500® and the 2.12% yield on the Russell 1000® Value.

Looking ahead, after a long period of market leadership from growth and low-dividend stocks, we expect a rotation that should benefit the names in our MDI portfolio.

Bonds

In Q1 2024, fixed income performance was flat to down depending on maturity. Shorter-term bonds, with maturities of two years or less, were modestly positive. Treasury bonds 5 years and out showed negative returns

[9] Bloomberg News Story, March 19,2024, NextEra's Boss Says AI Is Going To Shoot Up Our Electric Bills By 81%.

in the quarter[10]. Interest rates rose across the yield curve on stronger economic data than expected and modestly higher inflation numbers than forecast. The yield on the 10-year Treasury rose by 32 basis points to 4.20% on March 31, 2024, from 3.88% on December 31, 2023. From current levels, we believe that interest rates on shorter maturities will trend lower in the back half of the year, resulting in favorable returns for 2024.

The recent stronger economic numbers have pushed out estimates of when the Fed will start cutting interest rates. The Fed is very cautious about the timing of the first cut, wanting to see more evidence that inflation is on the path to their 2% target. We think inflation will continue to recede, and the economy will slow towards a sustainable 2% growth rate. As that becomes more evident, we expect the Fed to cut interest rates this year and the yield curve will start normalizing. We have less conviction about the timing of the first cut and the pace of additional ones.

Matrix's fixed income positioning has been very cautious in recent years, focusing on high-quality Corporates, U.S. Treasuries, Agencies, and Municipals (where appropriate) with nearer-term maturities. In 2023, we extended maturities, first to 2-4 years, and then out as far as 5 to 7 years. We are now mainly investing in bonds with maturities in the 1–6-year area.

With our conservative positioning, our taxable and municipal bond portfolio performance in Q1 2024 was in line to modestly better than their benchmarks.

Balanced Accounts

Balanced accounts were up in Q1, benefiting from our overweight to stocks, during a period of strong gains. Bonds provided good income, but higher rates lowered prices, resulting in flattish to lower fixed-income returns depending on maturity.

At current interest rates and our portfolio's stock appreciation potential, we believe that stocks are more attractive than bonds, but that high-quality short to intermediate-term bonds are also attractive investments and should provide stability, modest growth, and a healthy income stream for balanced portfolios in the upcoming year.

Interest rates are now at levels where we believe Fixed Income can be a meaningful contributor to diversified portfolio returns in addition to their traditional role of offsetting volatility from equities. We are very comfortable with shorter-term bonds, with a preference for maturities in the 1–6-year area. We are still cautious about long-term bonds where we think there is more interest rate risk.

Looking forward, after the strong rally in stocks over the past 15 months, we expect good but more modest gains from equities and a choppier stock market.

For accounts where equity appreciation or account cash flows have brought their stock exposure to above the upper limit of our 10-percentage point band, we will use further rallies as an opportunity to reduce our equity overweight. Overall, we expect to maintain our overweight to stocks but at a slightly lower level.

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[10] J.P Morgan Fixed Income Dynamics March 31, 2024.

We thank you for the trust you have placed in us. Please contact us with any questions about this commentary or your account.

Disclosure:

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All data is through (or as of) 03/31/2024 unless otherwise noted.

For more information about Matrix Asset Advisors, please visit our website at www.MatrixAssetAdvisors.com. Our website includes our firm's Client Relationship Summary document.

Definitions:

***The S&P500® Index** is a broad-based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. You cannot invest directly in an index.*
***The Russell 1000® Value Index** measures the performance of those Russell 1000 Index® companies with lower price-to-book ratios and lower forecasted growth values.*
***Fixed Income** type of investment security that pays investors fixed interest or dividend payments until their maturity date.*
***Inflation** is a sustained increase in the general level of prices for goods and services.*
***Financials** a section of the economy made up of firms and institutions that provide financial services to commercial and retail customers.*
***Health Care** all businesses involved in the provision and coordination of medical and related goods and services.*
***Information Technology** businesses that sell goods and services in electronics, software, computers, artificial intelligence, and other industries related to information technology (I.T.).*
***Consumer Discretionary** an economic sector classification of non-essential consumer goods and services.*
***Communication Services** includes companies that sell phone and internet services via traditional landline, broadband, or wireless. The communications sector also includes companies that create and produce movies, television shows, and other content.*
***Growth Strategy** a collection of business initiatives that seek the maximization of a company's value within a period.*
***Federal Reserve** is the central banking system of the United States. It was created on December 23, 1913, with the enactment of the Federal Reserve Act, after a series of financial panics led to the desire for central control of the monetary system in order to alleviate financial crises.*
***Economic Growth** an increase in the production of economic goods and services, compared from one period of time to another*
***Dividend Income Large Cap Core** - the largest U.S. companies, or those with market capitalizations of $10 billion or more, where neither growth nor value characteristics predominate.*
***Value Strategy** investment strategy that involves picking stocks that appear to be trading for less than their intrinsic or book value.*
***Balanced Accounts** combines asset classes in a portfolio in an attempt to balance risk and return. Portfolios are divided between stocks and bonds, either equally or with a slight tilt, such as 60% in stocks and 40% in bonds. Balanced portfolios may also maintain a small cash or money market component for liquidity purposes.*
***Energy Sector** is the totality of all the industries involved in the production and sale of energy, including fuel extraction, manufacturing, refining and distribution.*

Utility Sector *companies that provide electricity, natural gas, water, sewage, and other services to homes and businesses.*
Manufacturing *the making of goods by hand or by machine that upon completion the business sells to a customer.*
Corporate Profitability *is a measure of an organization's profit relative to its expenses.*
IPO *a company's ownership is transitioning from private ownership to public ownership. For that reason, the IPO process is sometimes referred to as "going public."*
Volatility *is the degree of variation of a trading price series over time, usually measured by the standard deviation of logarithmic returns.*
U.S. Governments *(Treasuries) are debt obligations issued by the United States Government and secured by the full faith and credit (the power to tax and borrow) of the United States.*
Agencies *a low-risk debt obligation that is issued by a U.S. government-sponsored enterprise (GSE) or other federally related entity.*
Municipal Bond *is a bond issued by state or local governments or entities they create such as authorities and special districts. In the United States, interest income received by holders of municipal bonds is often, but not always, exempt from federal and state income taxation.*
10-year Treasury Yield *the yield that the government pays investors that purchase the specific security.*
Net Rate of Return *is the total rate of return on an investment after the deduction of any fees, commissions, or expenses. Often quoted as the rate of return on an investment in strategy marketing materials. Returns for more than a year are often annualized, which provides the geometric average return of an investment for each year over a given time period.*
Interest rates *are the amount a lender charges a borrower and is a percentage of the principal—the amount loaned.*
Bear Market *is defined as sustained periods of downward trending stock prices, often triggered by a 20% decline from near-term highs.*
Operating Results *show what the company has earned in connection with its business activities before deduction of interest and taxes.*
Dividend Yield a financial ratio that tells you the percentage of a company's share price that it pays out in dividends each year.
Industrials *Companies that manufacture machinery, handheld tools, and industrial products. This sector also includes aerospace and defense firms as well as companies engaged in transportation and logistics services.*
GDP (Gross domestic product) *is a monetary measure of the market value of all the final goods and services produced and sold in a specific time period by countries. Due to its complex and subjective nature this measure is often revised before being considered a reliable indicator.*
High Grade Corporate Bonds *that are believed to have a lower risk of default and receive higher ratings by the credit rating agencies, namely bonds rated Baa (by Moody's) or BBB (by S&P and Fitch) or above. These bonds tend to be issued at lower yields than less creditworthy bonds.*
Maturities *are the agreed-upon dates on which the investment ends, often triggering the repayment of a loan or bond, the payment of a commodity or cash payment, or some other payment or settlement term.*
Recession *a significant, widespread, and prolonged downturn in economic activity.*
Housing Data *is a comprehensive source for historical statistics on households, housing, and housing finance.*
Basic Materials *is an industry category made up of businesses engaged in the discovery, development, and processing of raw materials.*
CPI *The Consumer Price Index (CPI) consists of a family of indexes that measure price change experienced by urban consumers. Specifically, the CPI measures the average change in price over time of a market basket of consumer goods and services. The market basket includes everything from food items to automobiles to rent.*
Consumer Spending *the value of the goods and services purchased by, or on the behalf of, U.S. residents.*
2 Year Treasury Yield *is the yield received for investing in a U.S. government issued treasury security that has a maturity of 2 years.*
5 Year Treasury Yield *is the yield received for investing in a U.S. government issued treasury security that has a maturity of 5 years.*
30 Year Treasury Yield *is the yield received for investing in a U.S. government issued treasury security that has a maturity of 30 years.*
Short Term Bonds *are bonds that will pay back your principal, or mature, quickly, typically within four years.*
Intermediate Term Bonds *issued with maturity dates that are between two and 10 years.*
Long Term Bonds *maturities of between 10 years and 30 years.*
Taxable accounts *are accounts where the normal IRS tax rules apply. In a taxable account, you pay taxes on interest, dividends, and capital gains, in the year in which you earn them.*
The Bloomberg Intermediate U.S. Government/Credit Bond Index *is a broad-based flagship benchmark that measures the non-securitized component of the U.S. Aggregate Index with less than 10 years to maturity.*
Core inflation *the change in prices of goods and services, except for those from the food and energy sectors.*
Invesco S&P 500® Equal Weight ETF *is based on the S&P 500® Equal Weight Index (Index). The Fund will invest at least 90% of its total assets in securities that comprise the Index. The Index equally weights the stocks in the S&P 500® Index. The Fund and the Index are rebalanced quarterly.*
Artificial Intelligence *the ability of a digital computer or computer-controlled robot to perform tasks commonly associated with intelligent beings.*
Unemployment Rate *represents the number of unemployed people as a percentage of the labor force.*
Consumer Income *the money that a consumer earns from either work on investment, such as dividends distributed by companies to its shareholders and the gain realized on the sale of an asset, such as a house.*
U.S. Manufacturing P.M.I. *a measure of the prevailing direction of economic trends in manufacturing. The PMI is based on a monthly survey of supply chain managers across 19 industries, covering both upstream and downstream activity.*

Downside Protection *occurs when techniques are employed to mitigate or prevent a decrease in the value of the investment. Downside protection is a common objective for investors and fund managers to avoid losses, and several instruments or methods can be used to achieve this goal.*
Capital Appreciation *is an increase in the price or value of assets.*
Yield Curve *a line that plots yields, or interest rates, of bonds that have equal credit quality but differing maturity dates.*
Balanced Accounts *combines asset classes in a portfolio in an attempt to balance risk and return. Portfolios are divided between stocks and bonds, either equally or with a slight tilt, such as 60% in stocks and 40% in bonds. Balanced portfolios may also maintain a small cash or money market component for liquidity purposes.*