BANK OF MILLBROOK TRUST AND INVESTMENT SERVICES

REVIEW AND OUTLOOK

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"You don't have a lot of envy, you don't have a lot of resentment, you don't overspend your income, you stay cheerful in spite of your troubles, you deal with reliable people and you do what you're supposed to do. All these simple rules work so well to make your life better." — Charlie Munger, 1924-2023, Vice Chairman, Berkshire Hathaway

The past four years have been quite a wild ride for the economy and the markets. Just a year ago, most economists and financial advisors put the chance of a recession in 2023 at over 50% for the year. With an expectation of a recession last year, the consensus was for negative returns in the stock market. The resilience of the US consumer, and hence the economy, is impressive.

With inflation coming closer to the Fed target rate of 2%, 2024 has begun with the bets on when and how often the Fed will lower interest rates this year. The concept of a soft-landing for our economy is coming closer to a reality. Which is truly a remarkable occurrence.

While it is comforting to begin the year with optimism, we remain cautious due to concerns of a series of large events that are in the works that could derail the economic steam.

On an economic front, foremost is sticky inflation. If inflation continues to stay above the 2% Fed target, they may leave current interest rates higher for longer. Which has long-term implications, due to the high cost of borrowing. Which is difficult on the budgets for both families and companies.

Geopolitically, we have deep concerns about two significant wars and their impact. In addition, 2024 is a year that more than 50% of the world is going to the polls to vote. Despite the strong US economic numbers, the uncertainty from abroad and at home is bound to create volatility.

We are confident in how we have picked up good opportunities in equities and bonds amongst the turbulence. We continue to look for opportunities.

This year is also an exciting year for us, as we look forward to an upgrade in our technology. Our department will be converting to a new cloud-based trust accounting software system in early June. This new software has many enhanced features and additional security controls. For our client's, access to accounts will be clearer and easier to navigate. As we get closer to the conversion, we will send more detailed information.

With Best Regards,

Meredith

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The Strength of Relationships

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MARKET REVIEW
MARCH 2024

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The Strength of Relationships

PHARMA'S GOLD RUSH FOR OBESITY DRUGS

– Shares of early entrants into the burgeoning GLP-1 market, NVO and LLY, skyrocketed around 150% over the last 18 months.

– Over 40% of U.S. adults are obese, up from 31% in 1999, which translates to more than 100 million potential patients.

– Morningstar's equity research team projects GLP-1 drug sales for diabetes and obesity could surpass $90 billion by 2030.

A new class of weight loss drugs known as GLP-1 has led to Wall Street's soaring excitement for pharmaceutical companies' blockbuster opportunity to capitalize on the obesity problem in the U.S. and to a lesser extent in other countries. According to the Centers for Disease Control and Prevention (CDC), over 40% of U.S. adults were clinically obese in a survey period from 2017-2020, up from 31% in 1999. This translates to more than 100 million potential patients for GLP-1 drugs in just the U.S. Morningstar's health care equity research team projects GLP-1 drug sales for the treatment of diabetes and obesity could surpass $90 billion by 2030, more than double last year's sales.

The injectable drugs aim to mimic the hormone glucagon-like peptide 1, or GLP-1, that is secreted primarily in the gastrointestinal tract to signal the brain when food has been eaten. The hormone also stimulates insulin release from the pancreas which lowers blood sugar levels. While GLP-1 drugs were first approved to treat diabetes in 2005, pharmaceutical companies seek to broaden their application to treat obesity given clinical trials showed they can reduce people's appetite, lower their blood sugar level, and reduce body weight by between 10% and 20%. The studies also showed the drugs can improve blood pressure and cholesterol levels, thus reducing the risk of heart attacks and strokes.

Some doctors have been using GLP-1 drugs approved for diabetes, such as Danish drugmaker Novo Nordisk's (NVO) Ozempic and Eli Lilly's (LLY) Mounjaro, as off-label prescriptions to treat obesity. As of February, the Food and Drug Administration (FDA) has approved three GLP-1 drugs for obesity treatment including Wegovy and Saxenda from NVO and Zepbound from LLY. Pharmaceutical companies Amgen (AMGN) and Pfizer (PFE) have ongoing GLP-1 clinical trials and their drugs are projected to become available within a few years.

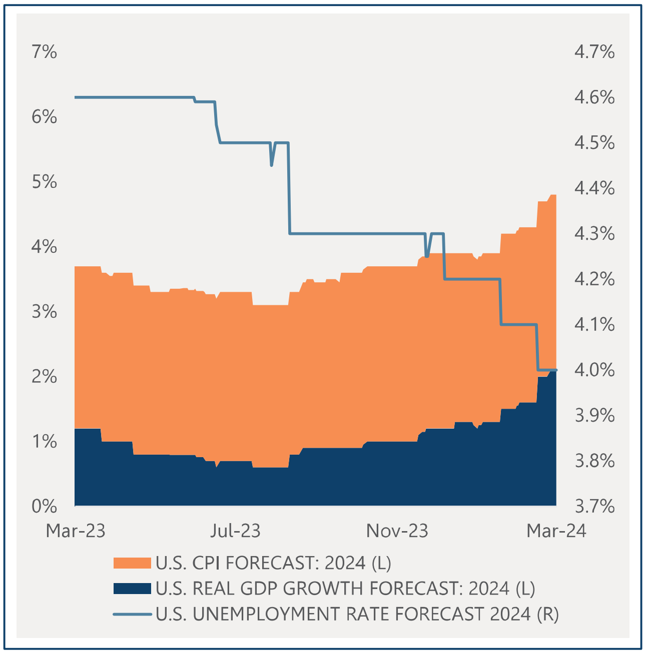
Shares of early entrants into the burgeoning GLP-1 market, NVO and LLY, skyrocketed around 150% over the last 18 months compared to the S&P 500 Pharmaceutical industry's 25% gain. Over the last year, NVO's market capitalization surpassed food and beverage conglomerate Nestle, consumer electronics and appliance maker Samsung, and auto manufacturer Toyota to become the second largest non-U.S. stock behind Taiwan Semiconductor Manufacturing Company. Meanwhile, LLY has become the second-largest non-technology or technology-adjacent stock in the S&P 500, behind only Berkshire Hathaway (BRK/B).

GLP-1 drugs' hype led to stocks in other industries declining as investors considered the drugs' secondary effects. Investors inferred that the potential for reduced appetites and lower body weights could hurt sales for food companies, joint replacement products, and glucose monitors and insulin pumps for diabetics. However, many of these stocks have rebounded as investors' concerns appeared to have been overstated and some company executives pushed back on the gloomy narrative while highlighting their healthy earnings growth.

The drugs likely face a variety of hurdles for widespread adoption including high cost, side effects, and patients' commitment to lifelong use to avoid weight regain. For many people the biggest constraint is the drugs' considerable cost at over $1,000 per month. This mostly falls on patients since only 20% to 30% of privately-insured Americans have coverage for GLP-1 drugs and Medicare does not cover obesity drugs. A growing number of employer insurance plans that offer the drugs are discontinuing reimbursement or adding patient requirements such as a high body-mass index (BMI) because they cannot sustain the cost and are suspicious about inappropriate use for non-obese patients trying to lose only a few pounds. The cost of the drugs is expected to come down over time as competitive pressure increases from new companies entering the market. The most common side effects are unpleasant gastrointestinal symptoms including nausea, vomiting, diarrhea, and constipation. Muscle loss typically accompanies patients' weight loss, which poses a greater risk for older patients. The side effects are important because patients need to remain on the drugs to avoid weight regain. Recent studies found that discontinuation of the drugs resulted in patients regaining around two-thirds of their lost weight. The studies have also shown that patients' weight loss peaks after six to nine months on the drugs. The high cost, unpleasant side effects, and indefinite use even after their weight loss stopped might be prompting some patients to discontinue their use. A large Wegovy study had a high discontinuation rate among the 17,000 patient population. Despite these hurdles, the long-term growth trajectory of GLP-1 drugs still looks encouraging given the multitude of societal health benefits that accompany a reduction in obesity.

"FOR MANY PEOPLE THE BIGGEST CONSTRAINT IS THE DRUGS' CONSIDERABLE COST AT OVER $1,000 PER MONTH."

THE 2024 SOFT LANDING CONSENSUS
GDP, INFLATION, UNEMPLOYMENT RATE EXPECTATIONS



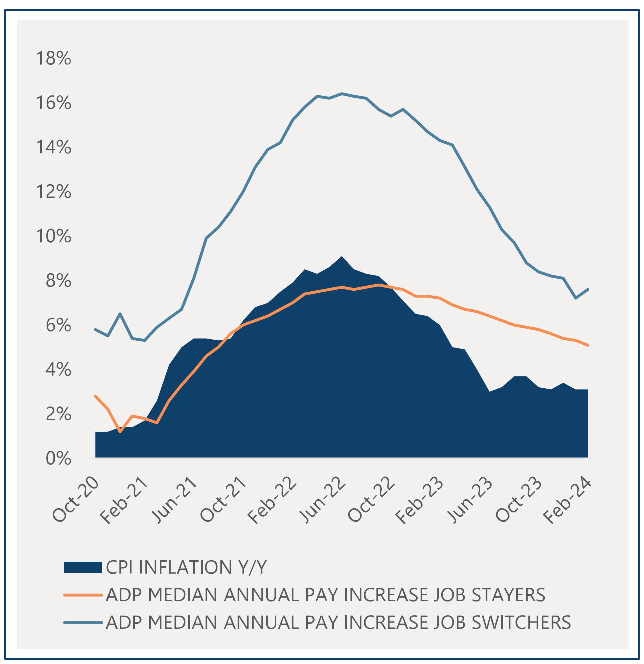
Source: Bloomberg. Data as of 3/8/24. Projections are based on the median estimates of forecasters in ongoing Bloomberg surveys.

According to the median estimate in an ongoing Bloomberg survey of economic forecasters, U.S. gross domestic product (GDP) is expected to grow at a clip of 2.1% in 2024, up from a nearly-comatose consensus expectation of 0.6% in July of last year. Although 2.1% growth would mark a deceleration from a 2.5% expansion in 2023, it suggests market participants expect the domestic economy to avoid any broad-based weakness this year.

Current expectations are for a continued cooling in the consumer price index (CPI) measure of inflation from 3.3% in 2023 to 2.7% in 2024 and only a slight increase in the unemployment rate from 3.7% in December 2023 to 4.0% by the end of 2024.

The combination of expectations in 2024 for slightly slower economic growth, additional cooling of inflation, and an unemployment rate that does not move much higher than 4% fits the definition of a goldilocks economic environment. In this (now consensus) outcome, the Fed can deliver a so-called soft landing in which aggressive interest rate hikes subdue inflation without driving a surge in unemployment.

PRIVATE SECTOR WAGE GROWTH TRENDS
MEDIAN ANNUAL PAY INCREASES > HEADLINE INFLATION



Source: Bloomberg. Data as of 2/29/24. ADP Research Institute bases its findings on payroll data covering more than 25 million private sector employees.

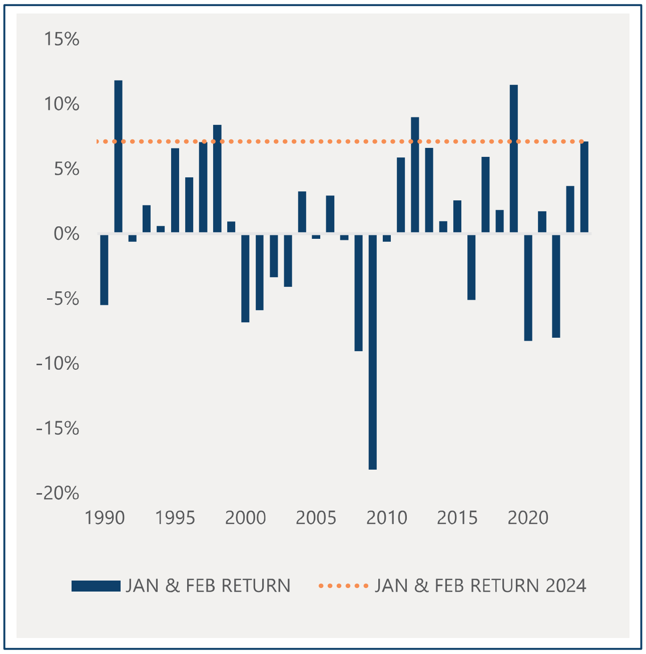
According to ADP Research Institute data, annual wage growth for workers employed by private companies in the U.S. declined to 5.6% in February, the slowest year-over-year pace since August 2021. Workers who changed jobs experienced an average annual wage increase of 7.6% last month, nearly half the 14.3% increase they enjoyed in February 2023.

The ADP report is viewed by some economists and market participants as a more useful gauge of underlying employment trends in the U.S. than the Labor Department's monthly nonfarm payrolls report because the former bases its findings on payroll data covering more than 25 million private-sector employees.

Although the rates of annual wage growth for job-stayers and job-changers have steadily decelerated since the summer of 2022, they have both remained above the year-over-year rate of headline consumer inflation for 14 straight months. This indicates American workers, in aggregate, have enjoyed a measure of real, or inflation-adjusted, wage gains over the last 4-5 quarters. This dynamic might help explain the surprising resiliency of the U.S. economy over this period despite the surge in interest rates over 2022 and 2023.

STRONG START TO THE YEAR

S&P 500 RETURN FIRST TWO MONTHS OF THE YEAR



Source: Morningstar.

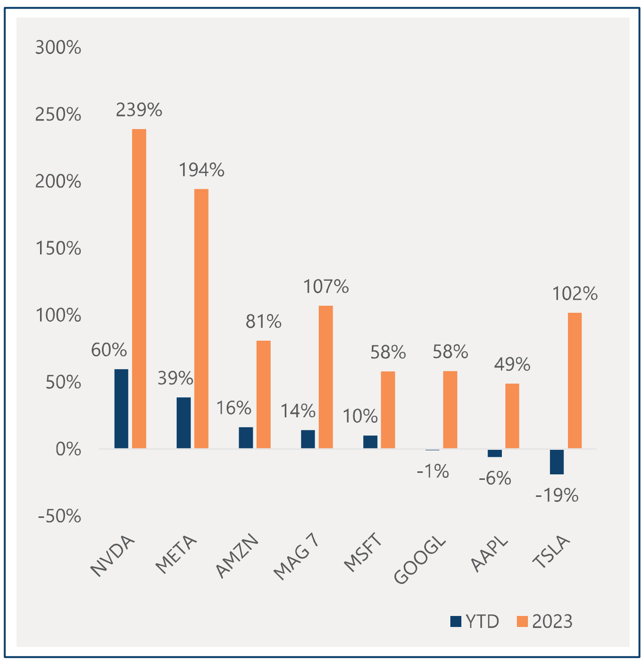
Surprisingly strong fourth quarter earnings led by the Magnificent Seven stocks and resilient U.S. economy helped the S&P 500 gain 5.34% in February despite higher bond yields and investors pushing out their projection for the Fed's first rate cut. The S&P 500's 7.11% gain over the last two months was the index's best first two months of a year since 2019 and fifth strongest since 1990.

The S&P 500 has rebounded almost 25% from its October 27 low through the end of February. The index's mostly uninterrupted rally since last fall was the second strongest four-month return since 1970 that was not part of a rebound from an economic recession. The strongest four-month span occurred in the late 1990's technology bubble. The technology, financials, and communication services sectors led the market rebound from the October 27 low with each sector gaining close to 30% or more, while utilities and energy sectors trailed with returns below 10%.

Market performance broadened in February with the mid cap S&P 400 and small cap Russell 2000 indexes rebounding 5.94% and 5.65%, respectively, after declining in January. Foreign equities have trailed the U.S. this year with the MSCI EAFE up 2.42% and MSCI Emerging Markets down 0.11%.

MAGNIFICENT SEVEN DIVERGE

MAGNIFICENT SEVEN YTD AND 2023 RETURN



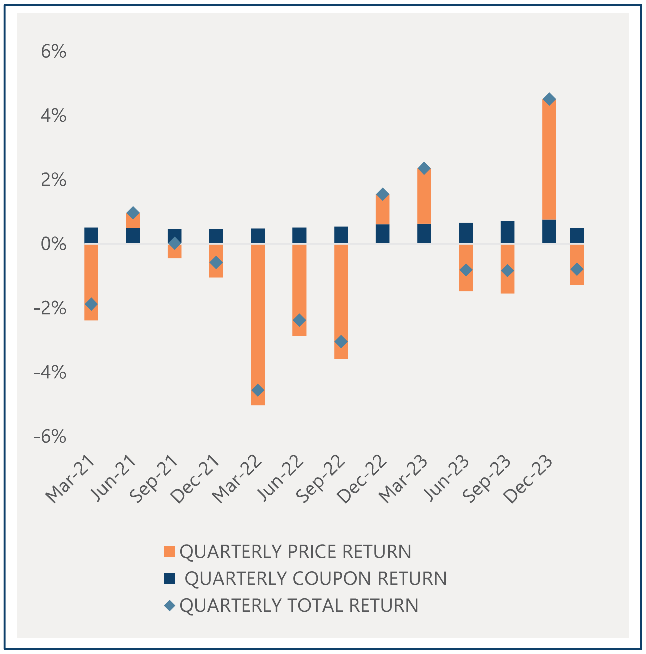
Source: Morningstar. Magnificent Seven: Apple (AAPL), Microsoft (MSFT), Alphabet (GOOGL), Amazon (AMZN), Nvidia (NVDA), Meta Platforms (META), and Tesla (TSLA)

The Magnificent Seven stocks have seen a stark divergence in performance thus far in 2024. Nvidia (NVDA), Meta Platforms (META), Amazon (AMZN), and Microsoft (MSFT) have maintained positive momentum this year and together account for around half of the S&P 500's year-to-date return. Meanwhile, Apple (AAPL), Tesla (TSLA), and Alphabet (GOOGL) are all down this year.

Nvidia and Meta are up 60% and 39%, respectively, in the first two months of the year on the back of white-hot demand for Nvidia's AI-enabled chips and Meta's combination of efficiency gains and AI-supported digital ad strength. Amazon and Microsoft have recorded more pedestrian gains of 16% and 10%.

Alphabet, Apple, and Tesla have declined 1%, 6%, and 19% this year, respectively. Apple shares have been pressured by concerns about stalling sales growth and a lack of an immediate AI catalyst. Alphabet's underperformance has been driven by some softness in core search and YouTube ad sales combined with several stumbles in rolling out its AI product (recently rebranded to Gemini from Bard). Tesla has been weighed down by declining margins amid competition from Chinese electric vehicle makers selling aggressively in most major markets outside the U.S.

THE COUPON BUFFER IS SLOWLY GROWING
BLOOMBERG INT. GOV/CREDIT INDEX RETURNS



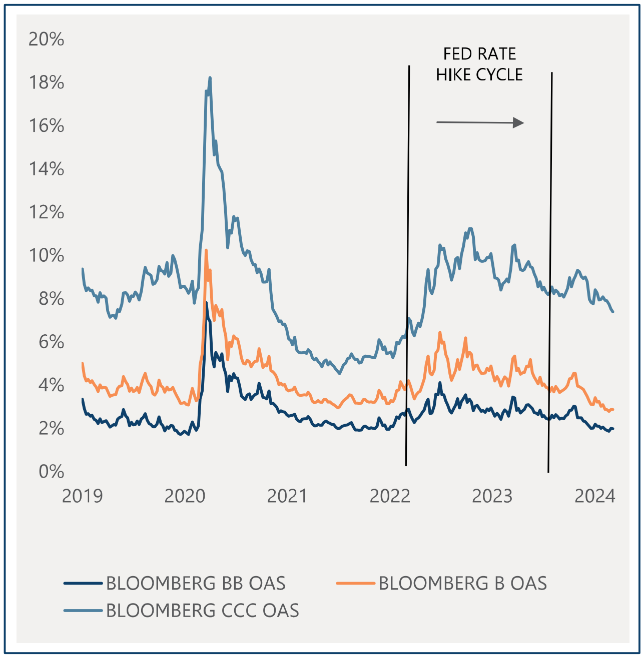
Source: Bloomberg. Data as of 2/29/24.

From the first quarter of 2021 to the fourth quarter of 2023, the coupon component of the Bloomberg Intermediate Government/Credit Index's quarterly return has increased from 0.51% to 0.76%. On an annualized basis, this translates to an increase in the so-called coupon cushion from about 2% to 3%. The coupon cushion can be thought of as the ability of the income paid to bondholders to offset potential price declines in the underlying security.

Coupons on U.S. government and corporate bonds issued over the last two years have generally trended higher as the Federal Reserve lifted its benchmark policy rate by 5.25% from March 2022 through July 2023. All other things equal, higher-coupon bonds can help reduce the interest rate sensitivity of a bond portfolio and provide downside protection in a rising rate environment.

During a historically poor stretch for high-quality bonds from January 2021 through September 2022, coupon income offset only a small percentage of negative total returns. With the sharp upward reset in yields likely behind us and a Fed that looks finished hiking rates, gradually growing coupon income is set to become a more important component of fixed income returns in 2024.

HIGH YIELD CREDIT SPREADS AT 2-YEAR LOWS
BB, B, AND CCC-RATED OPTION-ADJUSTED SPREADS



Source: Bloomberg. Data as of 3/8/24. OAS =Option-adjusted spread. High yield bonds generally receive credit ratings from BB (most creditworthy) to C (least creditworthy).

During the first nine months of 2022, high yield spreads retraced about half of the tightening from their peaks in spring 2020 to their lows in summer 2021. This period in 2022 coincided with economic uncertainty created by the beginning phase of the Fed's aggressive rate hike campaign, including four consecutive 0.75% hikes from June through September of 2022.

High yield spreads peaked between July and October of 2022 and have generally trended lower against a backdrop of decelerating inflation, a resilient U.S. economy, and a Fed that slowed its pace of rate hikes before the presumptive final hike in July 2023. Limited new issuance in 2023 and the foresight of corporate management teams in 2020 and 2021 to extend or "term out" their debt beyond 2024 also contributed to narrower credit spreads over the last 15-18 months.

While refinancing risk has been deferred, it has not been eliminated. The inability of CCC-rated high yield credit spreads (the least creditworthy segment of the market before entering the realm of substantially impaired businesses) to revisit their 2021 levels suggests some lingering default concerns remain in market pricing.

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