WASATCH
GLOBAL INVESTORS

Quarterly
Commentary

Investor
WHOSX

Wasatch-Hoisington U.S. Treasury Fund

DECEMBER 31, 2023

The Saving Constraint: Living Beyond the National Means

FUND MANAGERS

Van R. Hoisington
Lead Portfolio Manager

27
YEARS ON FUND

V.R. Hoisington Jr.
Portfolio Manager

7
YEARS ON FUND

David Hoisington
Portfolio Manager

7
YEARS ON FUND

The views expressed in this commentary are those of Hoisington Investment Management Company (HIMCo), the sub-advisor to the Fund, and may differ from the views of Wasatch Global Investors.

DETAILS OF THE QUARTER

The long-term Treasury bond market rallied strongly in the fourth quarter of 2023, with the thirty-year yield dropping to 4.00% from 4.71% at the close of the third quarter. Three notable developments occurred. First, all key measures of inflation continued to decline sharply, resulting in a record decrease for a year in which the GDP rose. Second, the rate of economic growth was materially weaker in the fourth quarter. Third, Federal Open Market Committee (FOMC) projections indicated that the members, on average, expect three 25-basis point reductions in the federal-funds rate in 2024. The FOMC raised their policy rate to a target range of 5.25%–5.50% in July and kept the rate at that level throughout the fourth quarter.

The Wasatch-Hoisington U.S. Treasury Fund, which is invested in long-dated U.S. Treasury securities, returned 13.96% for the fourth quarter of

The performance data quoted represents past performance. Past performance does not guarantee future results. Current performance may be lower or higher than the data quoted. For the most recent month-end performance data, visit wasatchglobal.com. Investment returns and principal value will fluctuate and shares, when redeemed, may be worth more or less than their original cost. The Advisor may absorb certain expenses, without which total returns would have been lower. Wasatch Funds will deduct a 2% redemption fee on Fund shares held 60 days or less. The performance data does not reflect this redemption fee or taxes. ***Total Expense Ratio: 0.67% The Advisor has contractually agreed to limit certain expenses to 0.75% through at least 1/31/2024.***

2023, compared with 6.82% for the Bloomberg US Aggregate Bond Index. For the calendar year, the Fund was up 1.36% while the benchmark increased 5.53%.

OVERVIEW

In 2023, the federal budget deficit exceeded private and foreign saving, resulting in only the eighth year since 1929 with negative net national saving (NNNS). In direct contrast to last year, all the previous NNNS cases took place during extremely severe economic contractions. Four occurred during the Great Depression (1931 through 1934), and the other three occurred during the global financial crisis recession and its immediate aftermath (2008 through 2010). The emergence of NNNS is occurring at a very disadvantageous time for the economy, because the Federal Reserve's actions intended to return inflation to their target are resulting in an increasing number of recessionary signposts in both monetary and cyclical indicators. In addition, the insufficiency of saving strongly suggests that a sustained downtrend in the market neutral rate (R*) will prevail well beyond 2024.

Connecting the Production Function and the Circular Flow

The profound consequences of NNNS can be demonstrated by linking two universal concepts in economics—the aggregate production function and the circular flow. The production function states that output is determined by technology and the three factors of production—capital, labor and natural resources. The circular flow means that, in aggregate, an economy's earnings and spending must be equal, or GDP (gross domestic product) equals GDI (gross domestic income). By algebraic substitution, GDP equals GDI, which is the same as net national investment (I), or gross physical investment less depreciation, equaling net national saving (S), or private saving, foreign saving, and government saving, net of depreciation. Investment (I) equal to net national saving (S) leads to an increase in the capital stock. Thus, positive net saving, which is a requirement for an increase in the capital stock and a better way of life, by substitution also enters the production function.

Private saving is the sum of household and corporate saving, and foreign saving equals the inverse of the current account deficit, which is also the capital account of the international sector. *NNNS thus serves as a constraint or special condition that prevents the production function from operating over a full range of conditions*. J.M. Keynes's "paradox of thrift"—the notion that thrift is a good standard for the individual but not for the economy as a whole—does not apply during periods of NNNS. Without the thrift essential for national saving, resources are insufficient to cover depreciation, and the capital stock, critical for the standard of living, shrinks.

Fiscal policy has tools that could be useful over time in promoting saving and investment, but the subject is not even under consideration, and options are contentious and unlikely to be enacted. The Federal Reserve has great flexibility to act, but its tools are counterproductive for ending the saving constraint. For instance, increasing money-supply growth does not provide additional tangible assets for growing the capital stock, but it would accelerate inflation, rendering most households less able to save, enlarging NNNS and further boosting the likelihood of a lower standard of living.

Demographics and Natural Resources

During NNNS, achieving increases in real GDP becomes dependent upon changes in demographics or natural resource availability. Today, those factors are below trend and exceedingly slow to shift.

DEMOGRAPHICS

Population growth is a factor, but the birthrate, household formation and average age of an economy all matter to economic performance. The latest demographic trends in the U.S. and the other three major economies—the EU, China and Japan—have all been considerably weaker than the historical and long-run averages. Young and rapidly growing economies with high birth rates and household formation generate a higher demand for goods than slow-growing economies with older households and lower birth rates.

The U.S. population grew 0.5% in 2023, which is approximately 42% of the long-term average growth rate. However, the fertility rate for the past two years was the lowest on record, and household formation was very low. The demographics are worse in the other three major economies. The population was virtually unchanged in China—the weakest showing since 1949. In Japan, the population fell 0.4% and the EU increased a scant 0.06%. The data are not entirely consistent, but it is fair to say that the birth and household-formation rates are far worse in China, Japan and the EU than in the U.S.

At an average age of 38.9 years, the U.S. population is now the oldest it has ever been. The average ages of other major economic powers around the world are increasing at an even faster pace than the U.S., with China at an average age of 40 years, the EU at 44.5 and Japan at 49.5.

NATURAL RESOURCES

Mining discoveries have occurred in recent years, but at the same time, output from older mines has been depleted. Also, economic growth has reduced the amount of land available for agricultural production across the globe. The aggregate production function is unlikely to be affected by the availability of natural resources until raw materials can be retrieved from outer space, a development that is not yet imminent.

THE STANDARD OF LIVING

The standard of living is either real per capita GDP or real per capita GDI since they are equal measures. On an annual basis through Q3, there was a record divergence in growth rates of 217 basis points (-0.35% for real per capita GDI versus 1.82% for real per capita GDP). In such divergent situations, the approach of the economics profession is to average the two series. This average grew at just a 0.6% annual rate in the past four quarters, far below the twenty-year average of 1.3% per annum and much worse than the post-1970 average of 2.2%.

Under prevailing conditions, the aggregate production function indicates the United States and its major competitors face a prolonged period of subpar economic growth until net national saving turns positive. Indeed, these prospects will likely prompt calls for more deficit spending that will, in turn, serve to worsen NNNS, further impairing resources required for a rising capital stock and, in turn, prohibiting a reversal of this six-plus-decade decline in the growth of living standards.

Too Little Money, Too Many Goods

ODL AND M2

The most basic definition of inflation is too much money chasing too few goods. Now, the opposite is the case. The status of supply chains can be debated, but clearly they are considerably better than in 2020 and 2021. Whether or not they have returned to where they were in 2019 is impossible to know. Money does not pose such ambiguity. Our preferred measure of money, real other deposit liabilities (ODL), fell at a record pace last year (data through November), with the two-year rate of decline also a record. Indeed, over the past three years, real ODL fell at a 4% annual rate, a dramatic undershooting of the long-term trend growth rate of 3% per annum. Real M2 shows a virtually identical pattern. The two-year rate of decline is the greatest since the unwinding of wartime conditions in the late 1940s, and the three-year rate of change is negative and far below the historical average.

Consistent with money measures, all the major measures of inflation recorded unprecedented decreases for an economy in expansion. The latest 12-month change in the headline and core CPI was approximately 600 basis points below and 260 basis points below, respectively, the peaks in 2022, while the drop in the CPI excluding the problematic shelter component was in the vicinity of 930 basis points below its peak. The fall in headline CPI inflation in 2022–23 was so massive that it exceeded the full and extended cyclical declines in inflation associated with five of the eight recessions since the late 1950s, excluding the highly abnormal pandemic recession of 2020.

The irony of the Fed's explanation for the fall in inflation in 2023 is immense. They make no mention of money, for which they have a constitutional responsibility and which they have great capacity to determine. In 2020 and 2021, the Fed ignored money and did not see the dramatic surge in inflation coming. In 2022 and 2023, although they continued to ignore money, inflation dropped spectacularly faster than the FOMC predicted.

REAL BANK CREDIT

Bank loans and investments, adjusted for inflation, also show a contraction similar to that of money. This is highly unusual since bank deposits lead bank assets, with money growth being a leading economic indicator and bank credit lagging. Over the latest 12-, 24- and 36-month intervals, real bank credit declined by annual rates of 3.8%, 1.8% and 0.9%. In a very extreme development, real commercial and industrial loans (which are commonly referred to as business loans and are a component of the Composite Index of Lagging Indicators) fell in 2023, even though the economy expanded.

THE REAL FEDERAL-FUNDS RATE

Due to a fall in inflationary expectations, the real federal-funds rate registered a new monthly peak in December, even though the nominal funds rate was last changed in August. Loans tied to SOFR (the Secured Overnight Financing Rate) would also be higher in real terms. Nominal credit card, automobile and personal loan rates jumped sharply to new peaks in November. Credit card and six-year new-auto loan rates reached 21.47% and 8.67%, respectively, as deposit growth continued to contract. In real terms, these key consumer-loan rates are substantial and will impair household finances significantly, especially since credit-card debt surged dramatically in November.

Increases in the real cost of credit tied to the real federal-funds rate are very ill-timed. The Fed's Beige Book released in conjunction with the FOMC's December meeting indicated that credit demand continued to weaken. The Fed's Senior Loan Officer Opinion Survey on Bank Lending Practices has shown a sharp increase in credit standards. This situation is not likely to change anytime soon since total bankruptcy filings advanced 11.8% and business bankruptcy filings jumped 33.5% in the 12 months ending September 30, 2023. Residential property foreclosures in the fourth quarter advanced 12.8% from a year ago. Consumer-loan delinquencies doubled over the last four quarters, according to the Federal Reserve Bank of New York.

Behaving Like a Recession

Over the past year, inflation, real GDI, hours worked by all non-agricultural employees, national saving, delinquencies, foreclosures and bankruptcies portrayed a recessionary environment even though real GDP and payroll employment continued to rise. Key indicators derived mainly from industry sources rather than the government statistical mill exhibited characteristics of a hard landing. New-vehicle sales, new-home and existing-home sales, respectively, were 15%, 43% and 42% below their peak levels of the past five years.

Prescient cyclical indicators point to an expanding list of recessionary conditions. Not only did the long-running inversion of the yield curve persist through the fourth quarter, but it also became even steeper. A prolonged drop in the Composite Index of Leading Indicators was extended. The high multiplier manufacturing sector moved further below the cyclical peak it reached last October, and the deep drop in world trade volume has never historically happened without a global recession since the series originated in 1992.

The Neutral Rate (R*) and Inflationary Expectations

The massive 60% drop in the twenty-year moving average of real per capita GDP growth from 1970 to the present is a strong signal that R* has experienced a similar decrease and is now less than 1%. The movement of the financial, GDP and price/labor cycles will continue to cause shorter-term fluctuations in R*'s trend, as will productivity, risk attitudes, demographics, natural resources, and the ability of businesses and households to hedge risks. Factoring in these cyclical and other influences, R* could range from 0.65% to 1.25%, excluding truly extraordinary events like pandemics or major global supply disruptions. A reversal, however, is unlikely until net national saving reverses powerfully into positive territory, a pathway now even more difficult to achieve due to the proliferation of “buy now, pay later” programs.

With regard to inflationary expectations, the best approach is to stick to basics. History indicates that cutting the federal-funds rate will not provide a quick remedy for the effects of the post-2021 contraction in the real stock of money even if $1 trillion of very low-cost debt were not to be repriced in 2024. Since this maturing debt was secured when credit ratings were generally much higher, poorer ratings will add to interest costs. Some borrowers may not be able to find financing at all. R* and inflationary expectations suggest the rally in long-dated Treasury bonds will continue through 2024, with a strong prospect for an even longer horizon for this trend.

Thank you for the opportunity to manage your assets.

Sincerely,

Van Hoisington, V.R. Hoisington Jr. and David Hoisington

TOTAL RETURNS

FOR PERIODS ENDED DECEMBER 31, 2023

	Quarter*	1 Year	3 Years	5 Years	10 Years
U.S. Treasury Fund	13.96%	1.36%	-14.07%	-2.25%	2.07%
Bloomberg US Aggregate Bond Index**	6.82%	5.53%	-3.31%	1.10%	1.81%

**Returns less than one year are not annualized.*

The performance data quoted represents past performance. Past performance does not guarantee future results. Information in this document regarding market or economic trends, or the factors influencing historical or future performance, reflects the opinions of management as of the date of this document. These statements should not be relied upon for any other purpose. Current performance may be lower or higher than the data quoted. To obtain the most recent month-end performance data available, please visit wasatchglobal.com. The Advisor may absorb certain Fund expenses, without which total returns would have been lower. Investment returns and principal value will fluctuate and shares, when redeemed, may be worth more or less than their original cost. **Total Expense Ratio: 0.67%**

Total Annual Fund Operating Expenses include operating expenses, including the management fee, before any expense reimbursements by the Advisor. **The Advisor has contractually agreed to limit certain expenses to 0.75% through at least 1/31/2024.** See the prospectus for additional information regarding Fund expenses.

Wasatch Funds will deduct a 2.00% redemption fee on Fund shares held 60 days or less. The performance data does not reflect the deduction of fees or taxes, which if reflected, would reduce the performance quoted. For more complete information including charges, risks and expenses, read the prospectus carefully.

Investing in bonds, you are subject, but not limited to, the same interest rate, inflation and credit risk associated with the underlying bonds owned by the Fund. Return of principal is not guaranteed. Interest rate risk is the risk that a debt security's value will decline due to changes in market interest rates. The interest rate is the amount charged, expressed as a percentage of principal, by a lender to a borrower for the use of assets. Even though some interest-bearing securities offer a stable stream of income, their prices will fluctuate with changes in interest rates. Inflation risk is the possibility that inflation will reduce the purchasing power of a currency, and subsequently reduce the value of a security or asset, and may result in rising interest rates. Inflation is the overall upward price movement of goods and services in an economy that causes the value of a dollar to decline. Credit risk is the risk that the issuer of a debt security will fail to repay principal and interest on the security when due. Credit risk is affected by the issuer's credit status, and is generally higher for non-investment grade securities.

An investor should consider investment objectives, risks, charges and expenses carefully before investing. To obtain a prospectus, containing this and other information, visit wasatchglobal.com or call 800.551.1700. Please read the prospectus carefully before investing.

The Wasatch-Hoisington U.S. Treasury Fund's investment objective is to provide a rate of return that exceeds the rate of inflation over a business cycle by investing in U.S. Treasury securities with an emphasis on both income and capital appreciation.

***The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, mortgage-backed securities (MBS) (agency fixed-rate and hybrid adjustable-rate mortgage [ARM] pass-throughs), asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS) (agency and non-agency).*

Indexes are unmanaged. Investors cannot invest directly in this or any index.

Sources: Hoisington Investment Management Co.; Federal Reserve Board; Bureau of Economic Analysis; Haver Analytics; Bureau of Labor Statistics; National Bureau of Economic Research; and St. Louis Federal Reserve.

The capital stock of a country indicates the level of production that the country can carry out at any given point in time. It's a measure of a nation's wealth that expectedly increases as a country develops and grows richer.

The Composite Index of Lagging Indicators is an index published monthly by the Conference Board. It's used to assess the direction of the economy's movements, including turning points or trends, over recent months.

The Composite Index of Leading Indicators, also known as the Leading Economic Index (LEI), is an index published monthly by The Conference Board. It's used to predict the direction of global economic movements in future months.

Gross domestic product (GDP) is a basic measure of a country's economic performance and is the market value of all final goods and services made within the borders of a country in a year.

The current account records a nation's transactions with the rest of the world. It represents a country's imports and exports of goods and services, payments made to foreign investors and transfers such as foreign aid. A country that is a net exporter will have a positive current account (a surplus), and a net importer will have a negative current account (a deficit).

The federal-funds rate is the interest rate that banks with excess reserves at a Federal Reserve district bank charge other banks that need overnight loans. The real federal-funds rate is the federal-funds rate adjusted for inflation.

GDP per capita is a measure of the total output of a country that takes the GDP and divides it by the number of people in the country.

Real gross domestic product (GDP) is a macroeconomic measure of the value of economic output adjusted for price changes (i.e., inflation or deflation). This adjustment transforms the money-value measure, nominal GDP, into an index for quantity of total output.

Gross domestic income (GDI) is the sum of all income earned while producing goods and services within a nation's borders. GDI is a lesser-known calculation statistic used by the Federal Reserve Bank to gauge economic activity based on income.

Gross domestic product (GDP) is a basic measure of a country's economic performance and is the market value of all final goods and services made within the borders of a country in a year.

Net national savings is equal to gross national savings less the value of consumption of fixed capital.

Other deposit liabilities (ODL) equal M2 minus currency in circulation and money market mutual fund shares.

The consumer-price index (CPI), also called the cost-of-living index, is an inflationary indicator that measures the change in the cost of a fixed basket of products and services, including housing, electricity, food and transportation. The CPI is published monthly. The headline CPI includes volatile food and energy prices, while the core CPI excludes food and energy.

The yield curve is a line on a graph that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. The most frequently reported yield curve compares three-month, two-year, five-year and 30-year U.S. Treasury securities. This yield curve is used as a benchmark for other interest rates, such as mortgage rates or bank lending rates. The curve is also used to predict changes in economic output and growth.

Real per capita GDP is a measure of the total economic output of a country, adjusted for inflation and divided by the number of people.

Real per capita GDP growth measures the rate of change in real GDP per capita from one period to another. It's used to compare the average economic productivity or standard of living between countries and over time.

WASATCH
GLOBAL INVESTORS

U.S. TREASURY FUND—TOP 10 HOLDINGS

AS OF SEPTEMBER 30, 2023

Security Name		Percent of Net Assets
U.S. Treasury Bond, 1.250%, 5/15/2050		25.6%
U.S. Treasury Bond, 1.375%, 8/15/2050		22.0%
U.S. Treasury Bond, 1.875%, 11/15/2051		16.0%
U.S. Treasury Bond, 2.250%, 8/15/2046		14.7%
U.S. Treasury Bond, 3.000%, 8/15/2048		14.0%
U.S. Treasury Bond, 2.500%, 2/15/2045		6.3%
	Total	98.6%

Portfolio holdings are subject to change at any time. References to specific securities should not be construed as recommendations by the Fund or its Advisor. Current and future holdings are subject to risk.