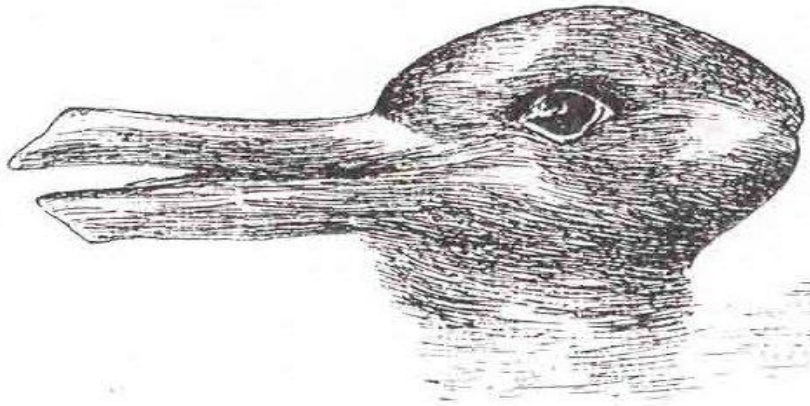


Winter 2024

In October of 1892, *Fliegende Blätter*, a German humor magazine, published an image of duck. Or a rabbit. It depended on whom you asked. And whatever answer you got was correct.

Take a look at the image below and see what you think:



Is it a duck or a rabbit? The image itself doesn't change. If you stop reading this *folio* to grab a glass of wine, the image will be exactly the same when you return. What changes is your perception of the image. To different folks, at different times, it's either a duck or rabbit.

Over the last century-plus, the rabbit-duck illusion has appeared in scads of magazines and books, including Ludwig Wittgenstein's "Philosophical Investigations." The famed philosopher used the image to show the difference between perception and interpretation. So, if you see a duck, you declare, "It's a duck." But once you're shown that it could be a rabbit, you declare, "I see it as a duck."

Studies have also shown that which animal you see may have to do with sociological and psychological factors. For example, when the image is shown to people on or around Easter, they are far more likely to see the rabbit (bunny?). In October, the duck.

In many ways, how we perceive and interpret the iconic illusion, and the sociological and psychological factors that play into that, mirrors how we perceive or interpret the economy. Depending on a number of factors (time of year, geography, personal employment status, consumed media, etc.), we can see the same thing in two very different ways—and both can be right.

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Those who see a promising 2024 global economy (let's say, a rabbit) will point to the latest monthly inflation data: Consumer Price Index (CPI) showed a 0.1% increase for the month of November (the most recent data available as of this writing). Extrapolate that over 12 months and the annual rate is approximately 1.2%, well below the Fed's goal of 2%.

Those who see a struggling economy (say, a duck) will note that if you exclude food and energy from the latest CPI, you get a 0.3% increase for the month of November. That's an annualized rate of 3.6%, which is well above the Fed's goal.

To see a rabbit, just look at the latest data showing job growth continuing at a healthy pace. The unemployment rate remains low, well below historic norms, in both the U.S. (3.7%) and Canada (5.8%).

The duck will come into focus if you zero in more closely on employment. Most of those jobs are in the services sectors or increased government hiring, while jobs in manufacturing are coming along at a slower pace.

Notice the Purchasing Managers' Index (PMI). See the strength of the service industry? Twelve consecutive months of growth. It's a rabbit.

But, the Institute for Supply and Management (ISM) Manufacturing Index showed a value of 47.4 for December, and a reading below 50 signifies contraction in manufacturing. And the index has been below 50 for the past 14 months. Canada's Manufacturing PMI is also contracting at 45.4 and has been since August of 2022, with the exception of January and February. It's a duck.

We could go on.

Here's where viewing the rabbit-duck illusion and the economy differ. With the image, it's impossible to see both animals at the same time. The perception of one voids the perception of the other. Not so with the economy. If we want to, and we do, we're able to take in the full picture. (The rabbiduck? There's such thing as a turducken, so why not?)

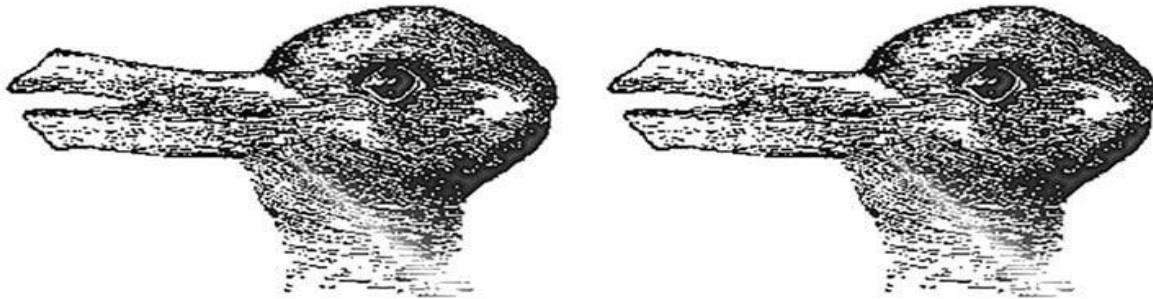
And here's what we see: Inflation is on the decline and well off the peak of over 9% set in June 2022. It's also stubbornly above the 2% goal set by central banks. And most economists expect it to stay above 3% in 2024. The labor market is in a good place, though Federal Reserve Chairman Jerome Powell believes wage growth must cool in order to show inflation is truly under control. Slowdowns in manufacturing and capital goods production may cause the U.S. and Canadian economies to shrink slightly in the first half of 2024, but a recovery could immediately follow.

Smart investing requires absorbing the entirety of the economic picture. This allows us to know when and how to diversify. How to manage risk. How to look toward the horizon, not just the viewable stretch ahead. Economies are extremely complex entities. Seeing it from all angles and viewpoints gives

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us perspective on what we do with your investments. Current economic reality creates opportunity as markets react (or overreact as they tend to do), failing to look forward over the long term. Remember, investors are not buying last year's profits, they are buying next year's expected profits.

One final point: Take a look at the image below, two rabbit-duck illusions next to one another.



When asked, most people, not surprisingly, see either two rabbits or two ducks sitting side by side. But when given the cue "duck eats rabbit," the brain is given the context it needs to distinguish two identical images. The study, according to University of Alberta neuroscientist Kyle Mathewson, demonstrates that we can control the brain's way of interpreting information with just a few words or with an image. "We should all be mindful of that when, for example, we're reading a news story," says Mathewson. "We're often interpreting and understanding information the way we want to see it."

For all of us, this is useful advice to kick off the new year. We wish you a healthy and prosperous one.