Second Quarter 2023 Market Summary

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Second Quarter 2023 Market Summary

This summer certainly feels different than last year's, when high inflation and declining asset values across equities, fixed income and housing converged. Last year's troubles led to gloomy outlooks for 2023, providing the opportunity for this year's performance to exceed expectations thus far, despite some ongoing concerns. The market has been climbing a "wall of worry" as asset prices have had a strong and largely underappreciated recovery.

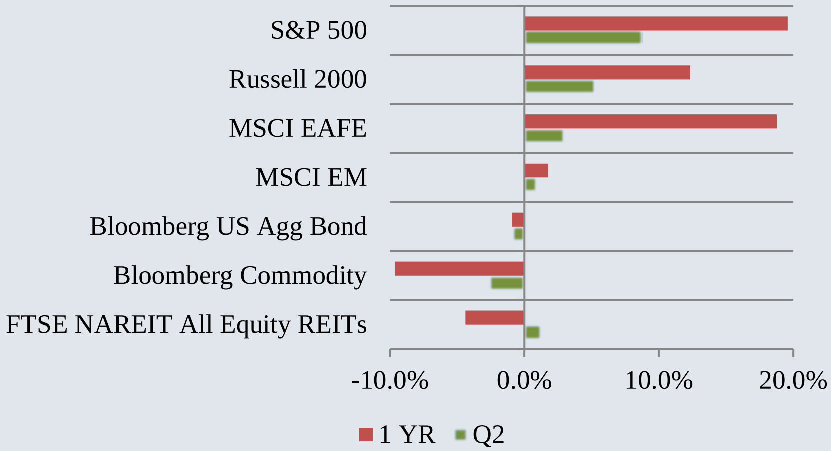
During the quarter, the market found some resolution to the banking turmoil from earlier in the year, and U.S. legislators passed a bill to suspend the debt ceiling until 2025. The current economic cycle and asset price action continue to confound market forecasters. The economy has been slowing, but there has not been a declaration of a recession. In fact, many economists are now walking back their "hard landing" call in favor of merely a low growth environment. Thus, forecasts are wide, ranging from "impending recession" to the "worst is behind us".

It is important to remember that economic data and market returns are not perfectly correlated. We saw a significant decline in asset prices last year before economic data turned negative. Now it appears some leading indicators and manufacturing activity have bottomed. Despite higher mortgage rates, the housing market has also started to rebound with a supportive supply/demand dynamic. Nonetheless, economic growth is expected to remain low, with the exuberance of consumer spending likely to fade as we get further away from the impact of past fiscal stimulus. In addition, parts of the commercial real estate market could pose economic challenges over the next few years.

The Federal Open Market Committee (FOMC) raised the federal funds rate 25bps in May but paused in June. The Fed is likely nearing the end of the rate hiking cycle as they monitor the impact of prior rate increases on the economy. Yet, the Fed expects to raise rates one or two more times in 2023 as they focus on their dual mandate – low inflation and maximum employment. Inflation remains above long-term targeted levels; however, the inflation rate should continue declining as rents and Owners' Equivalent Rent (OER) are rolling over and transportation service prices should ebb as well. The labor market has seen some deterioration, but it largely remains resilient. Historically, when leading economic indicators deteriorate, a weakening of the labor market follows. Thus far, however, job openings and wage growth remain high, which has led personal income to fuel consumer spending. The strength in employment is another reason the Fed is still looking to raise rates.

As shown in the chart below, during the 2nd quarter, U.S. large company stocks (i.e. S&P 500 Index) were up 8.7% and U.S. small company stocks (i.e. Russell 2000 Index) were up 5.2%. There was limited volatility intra-quarter as sales and earnings came in better than expected. The U.S. equity markets have been powered by a few large tech companies, that some have called the "magnificent seven". Investors have favored these companies as they have strong cash flows but also have exposure to future trends such as AI, which was a notable news story this quarter. Much of the returns in the quarter can be attributed to valuation expansion rather than current earnings growth. After the strong outperformance of the large cap growth companies, it is very possible we could see a rotation or a broadening of market leadership over the next few quarters.

Broad Market Index Returns
Second Quarter 2023



International stocks, represented by the MSCI ACWI ex US Index, were up 2.4% during the quarter. Global growth has paused, including in China, which has halted the decline of the U.S. dollar in the short-term.

Second Quarter 2023 Market Summary (continued)

That being said, some countries produced strong returns. Japanese equities have appreciated to their highest levels in over three decades as companies have improved corporate governance, optimized capital allocation, and focused on returning capital to shareholders.

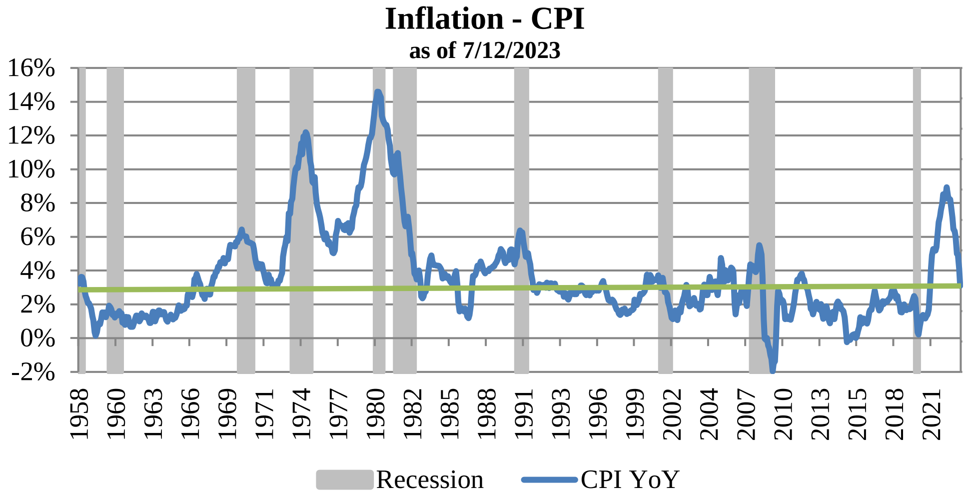
The Bloomberg Barclays U.S. Aggregate Bond Index, representing a broad basket of bonds, was down 0.84% during the quarter. Sectors with more credit risk outperformed as credit spreads narrowed in the quarter. With the Fed near the end of the rate hiking cycle and inflation receding, fixed income remains attractive longer-term, despite the 2nd quarter results.

Though we have become accustomed to predictions of an imminent recession, current sentiment appears to be mixed. Certainly, the mood is not nearly as negative as last year when high inflation pressured asset prices and household budgets. The more upbeat view is due in part to the strong rally in equities prices, high available yields on fixed income and cash, and a stabilizing of the housing market. However, sentiment has not turned completely positive, as some investors are still waiting for the next shoe to drop in the economy. Though in doing so, those waiting on the sidelines may miss out on opportunities. Since the October 2022 lows, the S&P 500 has rallied over 20%. While we do not know how long this current bull market will continue, they can last for several years and have significant gains, even with periodic corrections along the way.

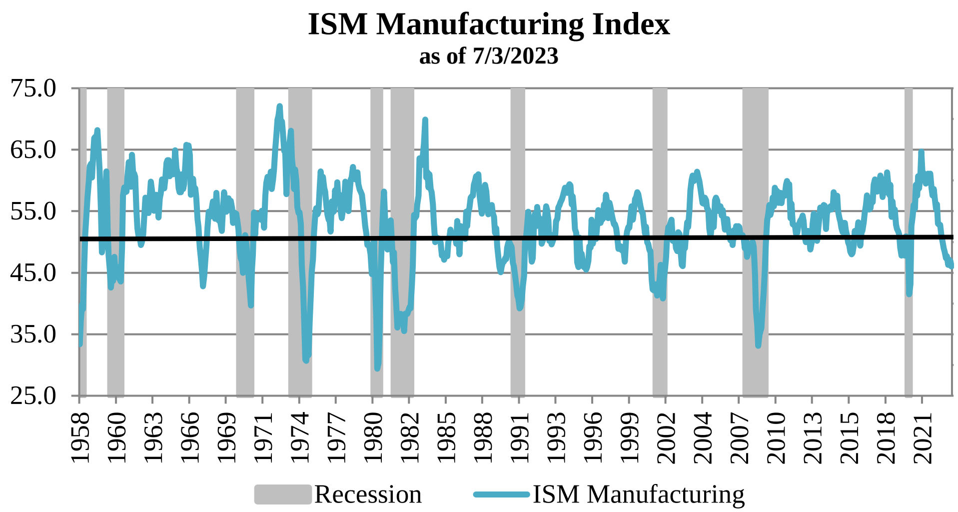
There are many risks to be considered and navigated when investing. These include reinvestment risk, market risk, interest rate risk, liquidity risk, and most importantly, the risk of not meeting long-term goals (which can seem less tangible). This juggling act between risk and return can be difficult and may lead investors to make less desirable decisions. In fact, over the short-term, it may feel more palatable to earn 5% on cash and wait to invest until the environment seems more inviting. However, this often turns out not to be the most prudent approach for long-term investors. Cash is susceptible to reinvestment risk and does not keep up with inflation.

MACROECONOMICS

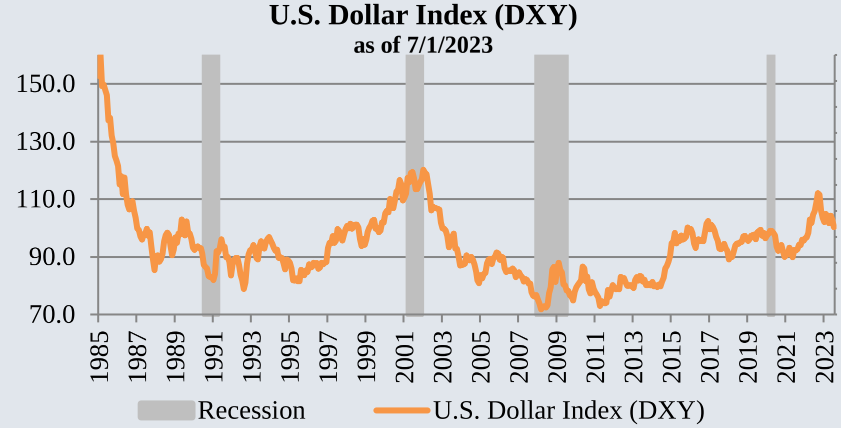
- The Bureau of Economic Analysis released the advanced estimate of second quarter 2023 real GDP, an annual rate increase of 2.4% from the preceding quarter.
- Inflation continues to trend lower after last July's peak. In June, headline CPI increased 3.0% year-over-year. Core CPI, which excludes food and energy, had a 4.8% increase.



- The ISM Manufacturing Index declined during the quarter, finishing at 46.0 versus 46.3 in March. Typically, when the ISM Index is above 55 it is bullish and when it is below 45 it is bearish. The ISM Non-Manufacturing Index rebounded slightly during the quarter and finished at 53.9 in June.

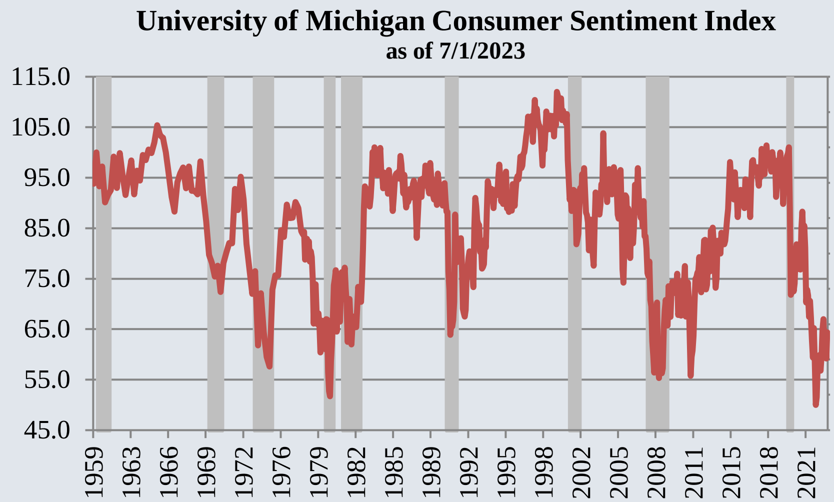


- In June, the Conference Board Leading Economic Index decreased 0.7% month-over-month to 106.1. The index, which is a composite of leading employment, housing, manufacturing, and market indicators, has declined significantly over the past year.
- The U.S. dollar depreciated over the past three quarters.



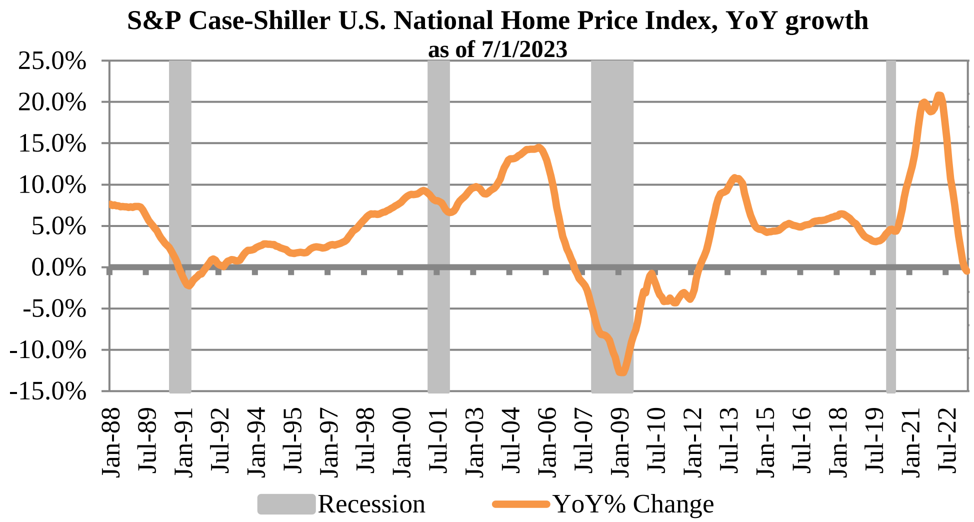
CONFIDENCE METRICS

- The Conference Board's Consumer Confidence Index June reading was 109.70, up from 104 in March as employment remains strong and inflation is receding.
- The University of Michigan Consumer Sentiment Index final reading for March was 64.4, up from the lows in June of 2022.

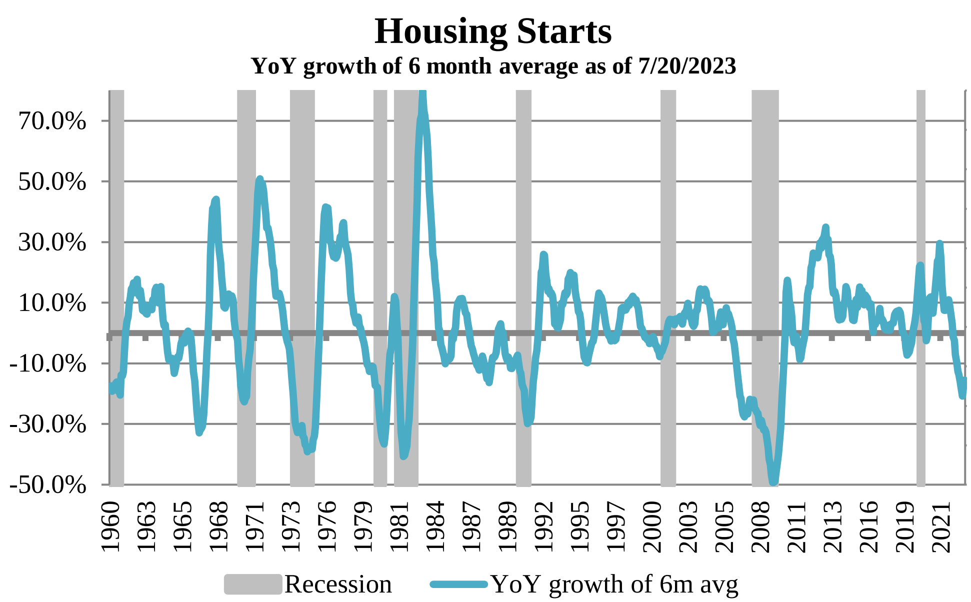


HOUSING

- S&P Case-Shiller U.S. National Home Price Index (seasonally adjusted) showed home prices declined 0.5% year/year in May. Price growth has slowed since mid-2022.

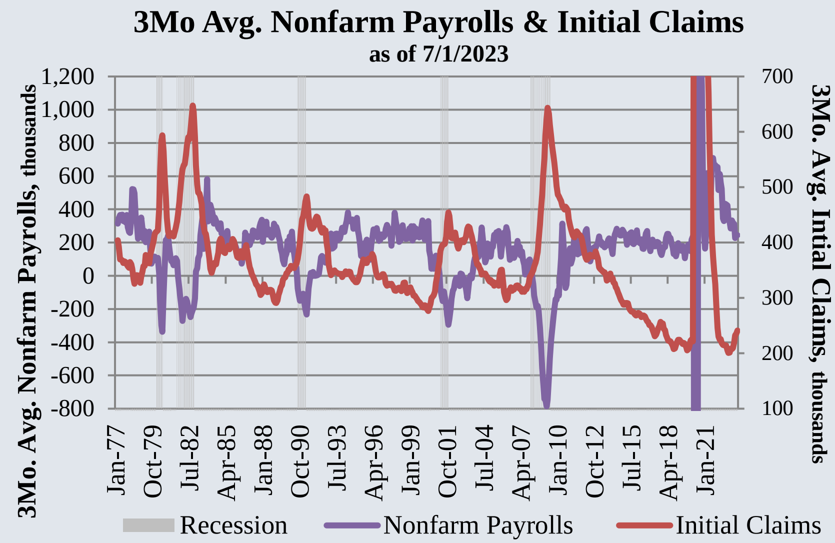


- Housing starts have declined over the past few quarters, in part, due to higher financing costs. However, the stronger May and June data may indicate the trend is reversing.

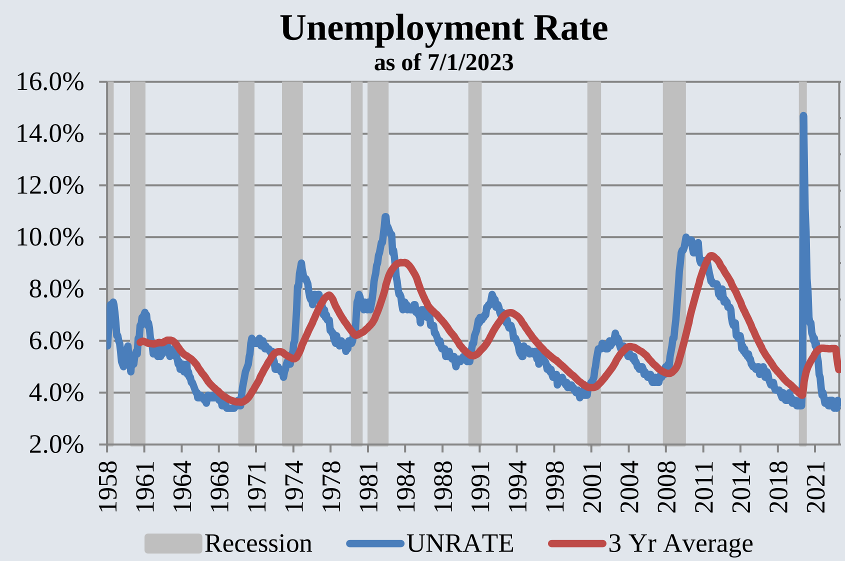


EMPLOYMENT

- During the quarter, nonfarm payrolls averaged 244,000 jobs added per month, while initial claims remain low.

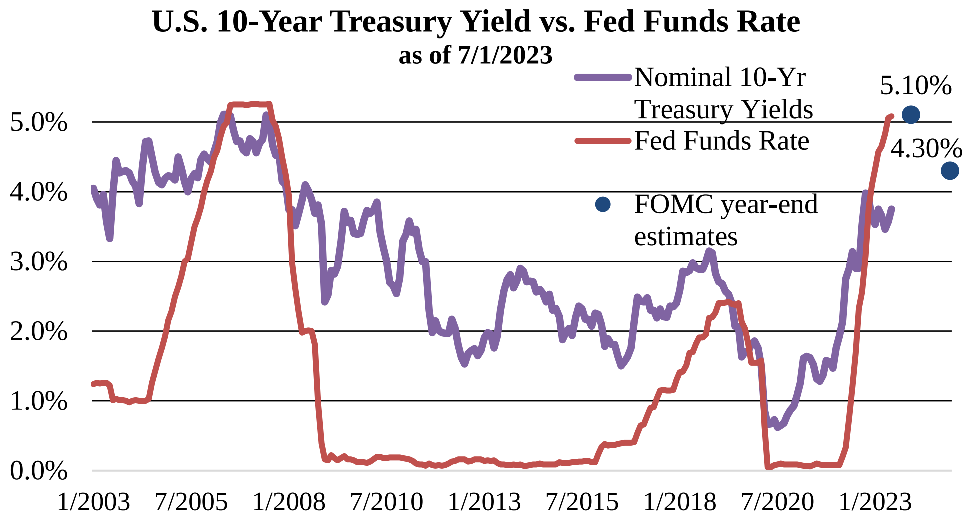


- The unemployment rate rose slightly during the quarter to 3.6%.

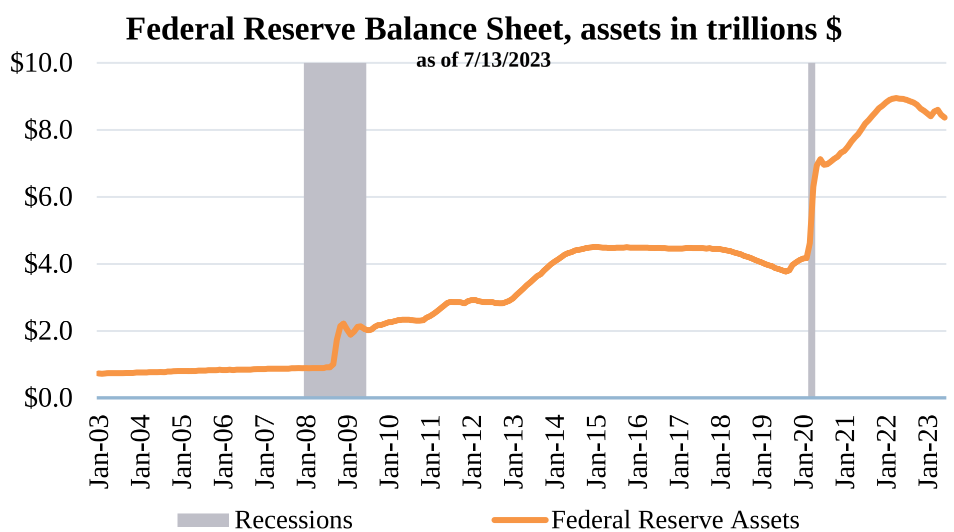


FED POLICY

- The Federal Open Market Committee (FOMC) raised the federal funds rate 0.25% in May but paused in June. The Fed expects to keep rates high throughout 2023 and may even look to raise rates another 25-50bps, depending on the economic data.

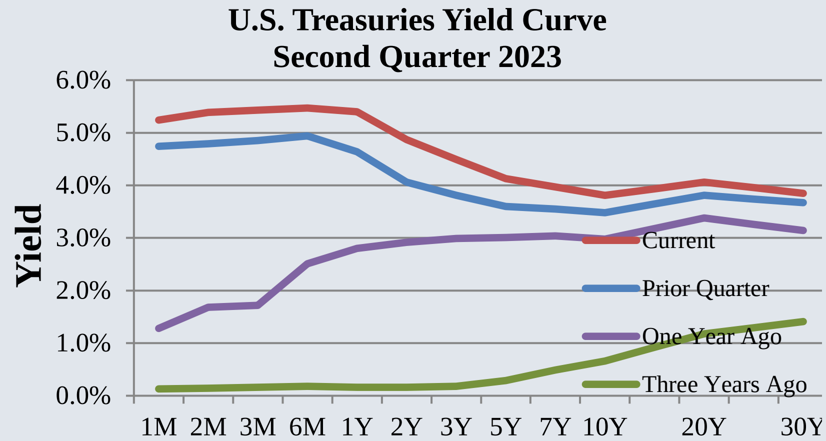


- In 2022, the Fed started to reduce its holdings of Treasuries and agency MBS. Other central banks have been reducing their balance sheets as well.

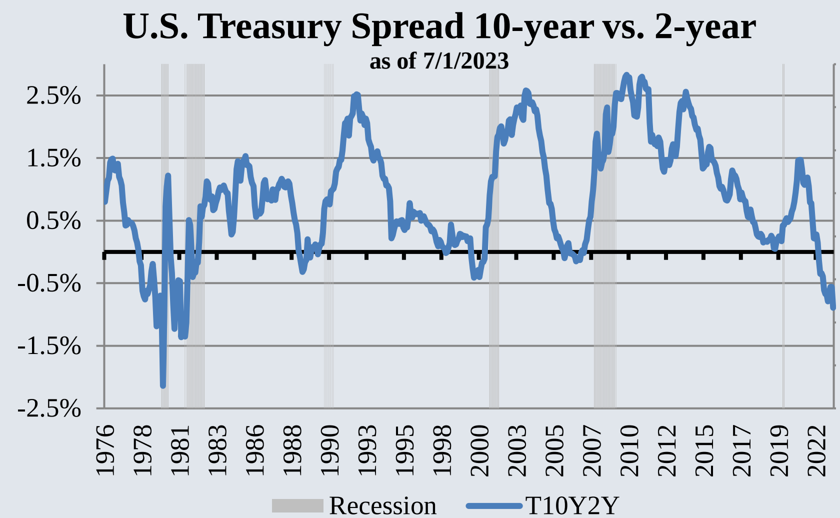


FIXED INCOME

- Yields across the U.S. Treasury curve increased during the quarter. Short-term interest rates are controlled or heavily influenced by central banks, whereas long-term interest rates are affected by market forces and economic growth.



- The spread between short and intermediate-term Treasuries has remained inverted since July 2022, and finished at negative 89bps in June. Historically, the 10-year to 2-year Treasury curve has "inverted" 6-20 months before recessions.



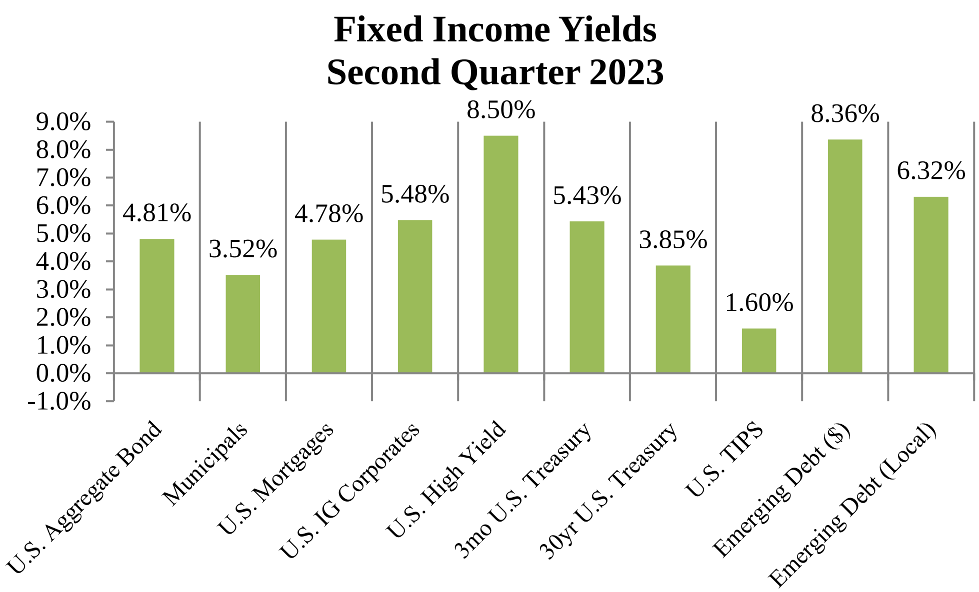
FIXED INCOME (continued)

- During the quarter, the Bloomberg Barclays U.S. Aggregate was down 0.84%. Bonds with more credit risk, generally, performed better.

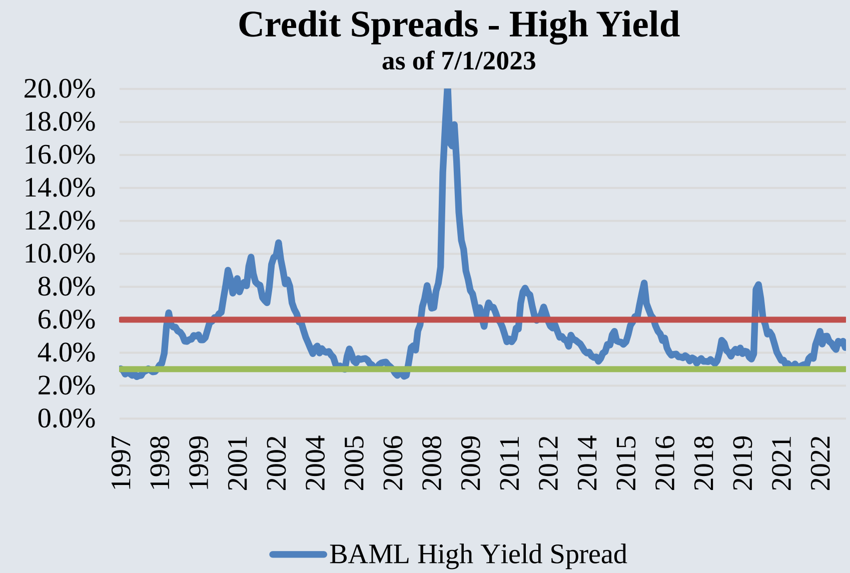
	2Q 23 Return	1-Yr Return	5-Yr Return	10-Yr Return
U.S. Aggregate Bond	-0.84%	-0.94%	0.77%	1.52%
Municipals	-0.10%	3.19%	1.84%	2.68%
U.S. Mortgages	-0.64%	-1.52%	0.03%	1.13%
U.S IG Corporates	-0.29%	1.55%	1.76%	2.63%
U.S. High Yield	1.75%	9.06%	3.36%	4.43%
3mo U.S. Treasury	1.22%	3.74%	1.59%	1.01%
30yr U.S. Treasury	-2.36%	-9.68%	-1.73%	1.32%
U.S. TIPS	-1.42%	-1.40%	2.49%	2.08%
Emerging Debt ($)	2.19%	7.39%	0.55%	2.82%
Emerging Debt (LCL)	2.51%	11.38%	0.29%	-0.56%

Bloomberg and JPMorgan Indices

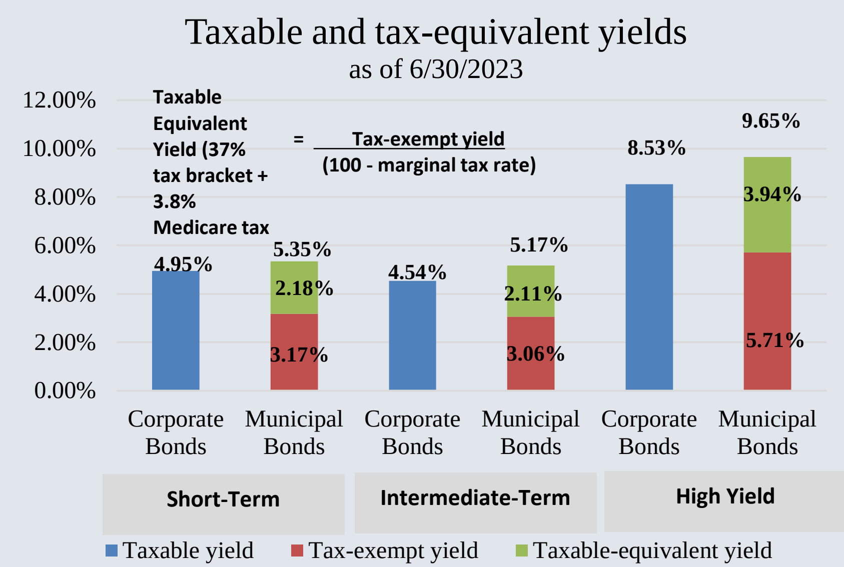
- Yields increased during the second quarter and remain at attractive levels.



- Credit spreads remained near historical averages during the quarter.



- Municipals are currently more attractive relative to taxable bonds on an after-tax basis for investors in the highest marginal tax bracket.



DOMESTIC EQUITIES

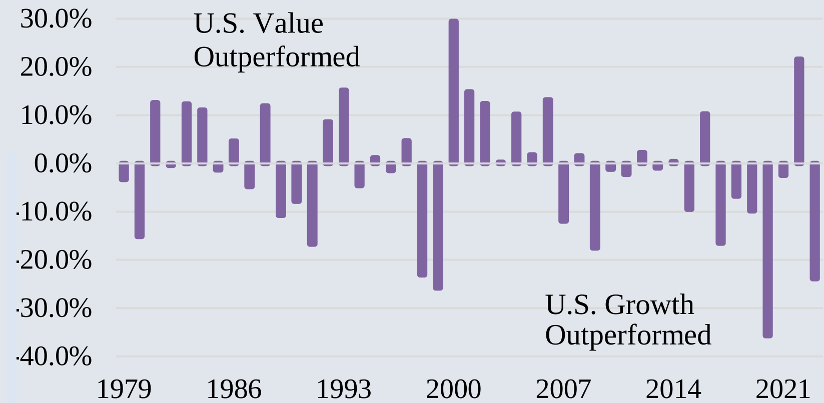
Second Quarter 2023 Returns			
	Value	Core	Growth
Mega Cap		13.2%	
Large Cap	4.1%	8.6%	12.8%
Mid Cap	3.9%	4.8%	6.2%
Small Cap	3.2%	5.2%	7.1%
Micro Cap	4.5%	5.3%	6.4%

- The Russell 1000 Index, comprised of large and mid-capitalization stocks, posted a positive total return of 8.6% during the second quarter. On a year-over-year basis, the Russell 1000 Index has increased 19.4%.
- Small capitalization stocks, as represented by the Russell 2000 Index, increased 5.2% during the second quarter. On a year-over-year basis, the index has increased 12.3%.

	S&P 500 Weight	Russell 1000 Value Weight	Russell 1000 Growth Weight	2Q 23 Return	1-Yr Return	10-Yr Return
Energy	4.6%	7.9%	1.4%	-0.9%	18.8%	4.4%
Materials	2.6%	4.5%	1.3%	3.3%	15.1%	10.3%
Financials	12.9%	20.1%	6.7%	5.3%	9.5%	10.1%
Industrials	8.7%	10.9%	8.2%	6.5%	25.2%	11.6%
Cons. Disc.	10.1%	5.9%	14.3%	14.6%	24.7%	12.9%
Technology	26.1%	8.0%	41.8%	17.2%	40.3%	21.9%
Comm. Services	8.1%	8.6%	7.1%	13.1%	17.3%	6.5%
Real Estate	2.6%	4.5%	1.5%	1.8%	-4.1%	7.7%
Health Care	14.2%	16.4%	11.7%	3.0%	5.4%	12.8%
Cons. Staples	7.2%	7.6%	6.0%	0.5%	6.6%	9.6%
Utilities	2.9%	5.6%	0.0%	-2.5%	-3.7%	9.4%
S&P 500 Index	100.0%	100.0%	100.0%	8.7%	19.6%	12.9%

- During the quarter, the Technology, Communication Services and Consumer Discretionary sectors outperformed. There continues to be wide dispersion of returns amongst sectors.

U.S. Value vs. Growth Relative Equity Performance (as of 6/30/23)



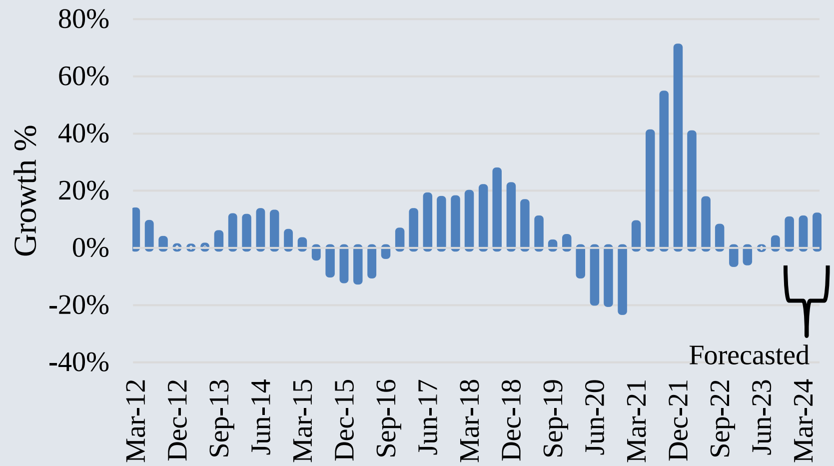
Russell 1000 Value TR vs. Russell 1000 Growth TR

- Growth has significantly outperformed Value during the quarter and YTD. Growth has outperformed for eleven out of the past sixteen years, during which interest rates and inflation were generally low.

S&P 500 Earnings Growth

Trailing 12-Month Operating Earnings Growth YoY

(as of 7/12/2023)



- Corporate earnings growth has slowed over the past year but earnings are expected to rebound over the next year.

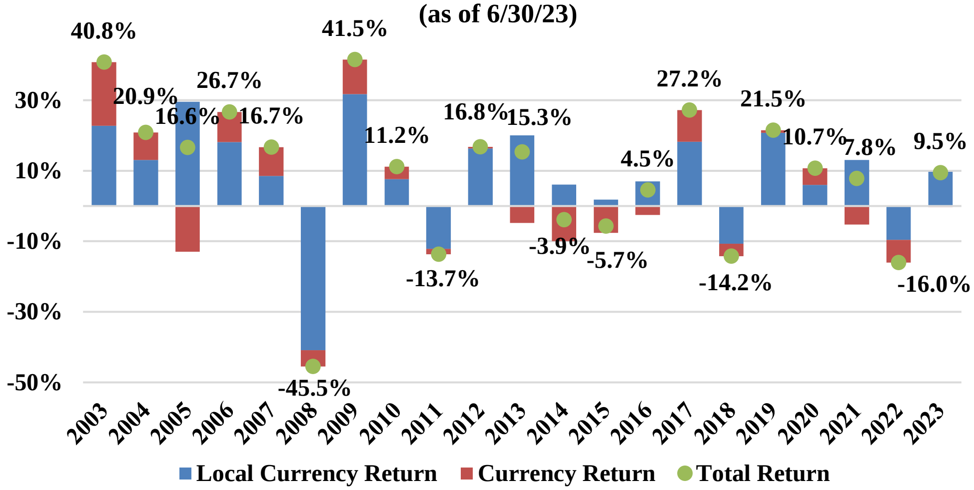
INTERNATIONAL EQUITIES

- Developed international stocks, as represented by the MSCI EAFE, were up 3.0% during the quarter, and are up 18.8% on a year-over-year basis.
- Emerging market stocks underperformed developed markets during the second quarter as the MSCI Emerging Markets Index was up 0.9%. On a year-over-year basis, emerging market stocks are trailing developed markets with a return of 1.8%.

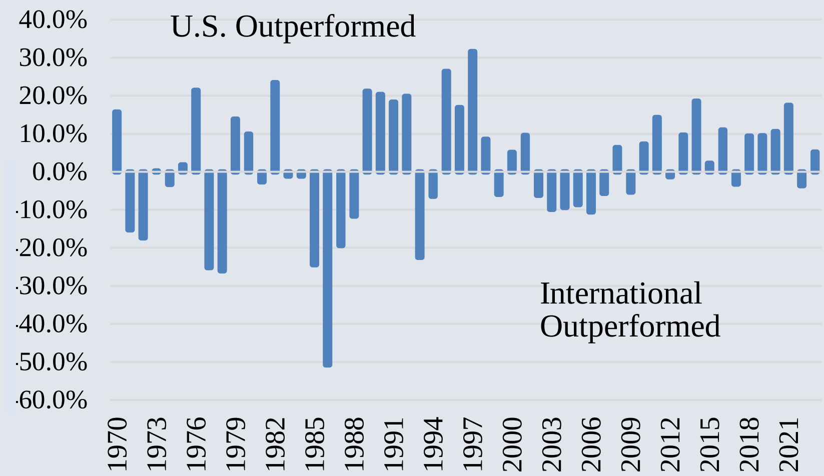
	2Q 23 Return	1-Yr Return	5-Yr Return	10-Yr Return
World	6.2%	16.5%	8.1%	8.8%
World Ex-US	2.4%	12.7%	3.5%	4.7%
EAFE	3.0%	18.8%	4.4%	5.4%
Europe	2.7%	21.8%	5.2%	5.7%
Japan	6.4%	18.1%	3.1%	5.2%
Pacific Ex-Japan	-1.8%	5.8%	2.7%	4.3%
Emerging Markets	0.9%	1.7%	0.9%	3.0%
EM (Asia)	-0.8%	-0.9%	1.2%	4.7%
EM (Latin America)	14.0%	29.8%	4.8%	1.1%
EM (Eastern Europe)	19.6%	33.9%	-21.0%	-10.6%

- Currency has been a slight drag to international equity returns. The U.S. dollar has been very strong the past ten years but currency trends tend to be cyclical.

MSCI ACWI ex US Index, total return and currency impact (as of 6/30/23)



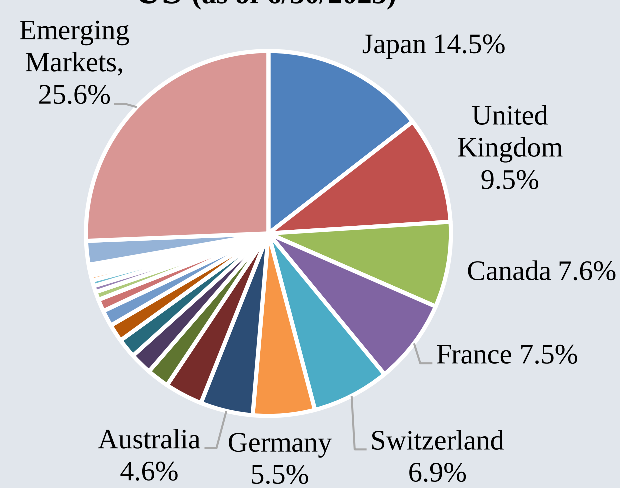
U.S. vs. International Equity Performance (as of 6/30/23)

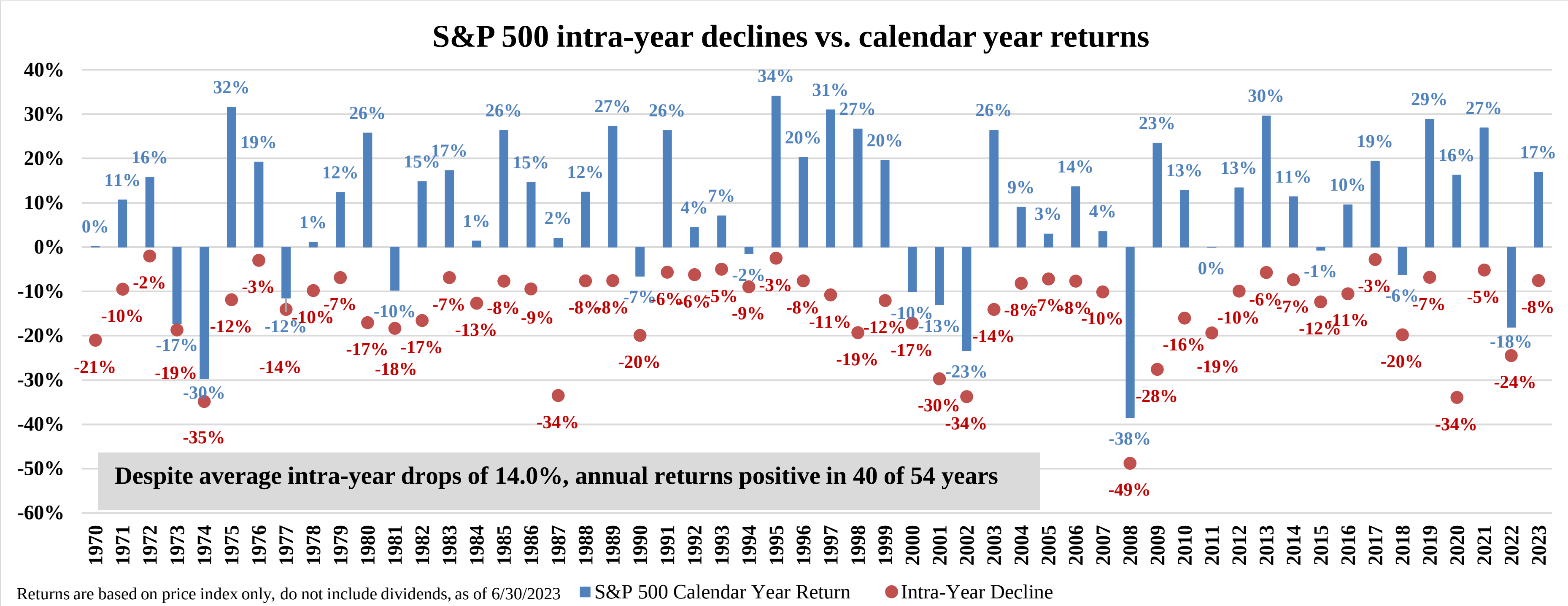


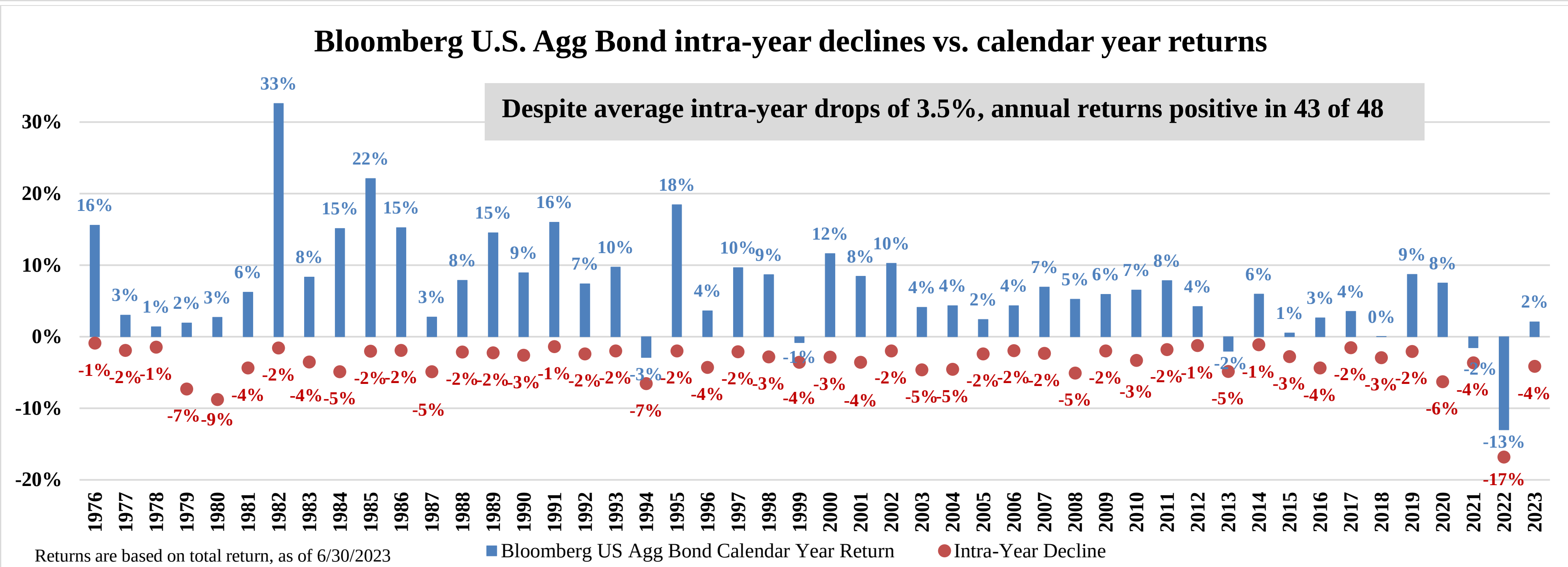
S&P 500 TR vs. MSCI EAFE NR

- International equities performed worse than U.S. equities during the quarter; however, they have outperformed since November 2022. International equities have underperformed U.S. equities in ten out of the last thirteen years. Performance is cyclical as shown in the chart above.

Country Weighting in MSCI ACWI ex US (as of 6/30/2023)




S&P 500 intra-year declines vs. calendar year returns
Despite average intra-year drops of 14.0%, annual returns positive in 40 of 54 years
Returns are based on price index only, do not include dividends, as of 6/30/2023
S&P 500 Calendar Year Return
Intra-Year Decline


Bloomberg U.S. Agg Bond intra-year declines vs. calendar year returns
Despite average intra-year drops of 3.5%, annual returns positive in 43 of 48
Returns are based on total return, as of 6/30/2023
Bloomberg US Agg Bond Calendar Year Return
Intra-Year Decline

Market leadership changes. Focus on asset allocation and diversification.

Best

Asset Class Performance

Worst

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 YTD	10-yrs '13-'22 Return	10-yrs '13-'22 Volatility
Real Estate 19.7%	Small Cap 38.8%	Real Estate 28.0%	Real Estate 2.8%	Small Cap 21.3%	Emerging Markets 37.8%	Cash 1.8%	Large Cap 31.5%	Small Cap 20.0%	Real Estate 41.3%	Commodities 16.1%	Large Cap 16.9%	Large Cap 12.6%	Small Cap 19.3%
High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	International 25.6%	Fixed Income 0.0%	Real Estate 28.7%	Emerging Markets 18.7%	Large Cap 28.7%	Cash 1.5%	International 12.1%	Small Cap 9.0%	Emerging Markets 16.7%
Emerging Markets 18.6%	International 23.3%	Fixed Income 6.0%	Fixed Income 0.6%	Large Cap 12.0%	Large Cap 21.83%	Real Estate -4.0%	Small Cap 25.5%	Large Cap 18.4%	Commodities 27.1%	High Yield -12.7%	Small Cap 8.1%	Real Estate 7.1%	Real Estate 16.5%
International 17.9%	Asset Allocation 14.9%	Asset Allocation 5.3%	Cash 0.0%	Commodities 11.8%	Small Cap 14.7%	High Yield -4.1%	International 22.7%	Asset Allocation 10.5%	Small Cap 14.8%	Fixed Income -13.0%	Asset Allocation 7.9%	Asset Allocation 6.0%	International 14.8%
Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	International -0.4%	Emerging Markets 11.6%	Asset Allocation 14.5%	Large Cap -4.4%	Asset Allocation 19.4%	International 8.3%	Asset Allocation 13.5%	Asset Allocation -13.9%	High Yield 5.2%	International 5.2%	Large Cap 14.8%
Large Cap 16.0%	Real Estate 2.9%	Cash 0.0%	Asset Allocation -2.0%	Real Estate 8.6%	High Yield 10.4%	Asset Allocation -5.8%	Emerging Markets 18.9%	Fixed Income 7.5%	International 11.8%	International -14.0%	Emerging Markets 5.1%	High Yield 3.0%	Commodities 14.1%
Asset Allocation 12.1%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Allocation 8.3%	Real Estate 8.7%	Small Cap -11.0%	High Yield 12.6%	High Yield 7.0%	High Yield 1.0%	Large Cap -18.1%	Real Estate 3.0%	Emerging Markets 1.8%	Asset Allocation 9.3%
Fixed Income 4.2%	Fixed Income -2.0%	Emerging Markets -1.8%	Small Cap -4.4%	Fixed Income 2.7%	Fixed Income 3.5%	Commodities -11.3%	Fixed Income 8.7%	Cash 0.5%	Cash 0.0%	Emerging Markets -19.7%	Cash 2.3%	Fixed Income 1.1%	High Yield 8.4%
Cash 0.1%	Emerging Markets -2.3%	International -4.5%	Emerging Markets -14.6%	International 1.5%	Commodities 1.7%	International -13.4%	Commodities 7.7%	Commodities -3.1%	Fixed Income -1.5%	Small Cap -20.4%	Fixed Income 2.1%	Cash 0.7%	Fixed Income 4.1%
Commodities -1.1%	Commodities -9.5%	Commodities -17.0%	Commodities -24.7%	Cash 0.3%	Cash 0.8%	Emerging Markets -14.3%	Cash 2.2%	Real Estate -5.1%	Emerging Markets -2.2%	Real Estate -25.0%	Commodities -7.8%	Commodities -1.3%	Cash 0.3%

Performance of all sited indices is calculated on a total return basis and includes dividend reimbursement. Indices are not available for direct investment. Past performance is not indicative of future results. It is important to remember that there are risks inherent in any investment and there is no assurance that any asset class or index will provide positive performance over time.

* Large Cap – S&P 500 Index
* Small Cap – Russell 2000 Index
* International – MSCI EAFE GR Index
* Emerging Markets – MSCI EM GR Index
* Fixed Income – Barclays Capital Aggregate Bond Index
* Real Estate – FTSE NAREIT All Equity REIT Index
* Commodities – Bloomberg Commodity Index
* High Yield – Barclays Global High Yield Index
*Cash – Barclays 1-3m Treasury Index

The "Asset Allocation" portfolio assumes the following weights: 25% S&P 500, 10% Russell 2000, 15% MSCI EAFE, 5% MSCI EM, 25% Barclays Agg, 5% Barclays 1-3m Treasury, 5% Barclays Global High Yield Index, 5% Bloomberg Commodity Index, 5% FTSE NAREIT All Equity REIT Index

Source: Morningstar, through 6/30/2023

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