Fourth Quarter 2022 Market Summary

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Fourth Quarter 2022 Market Summary

While 2022 was not predicted to produce the same robust returns as prior years, there were reasons to be cautiously optimistic as the year began. Consumer balance sheets were solid, housing and labor markets were strong and corporate earnings expected growth. However, confidence was tempered by concerns regarding inflation, above-average market valuations, and monetary policy normalization by the Federal Reserve ("Fed"). Russia's invasion of Ukraine and China's ongoing battle with COVID only exacerbated these inflationary pressures. As a result, the Fed raised interest rates an unprecedented 425bps (i.e., 4.25%) in nine months. This exceptionally tight monetary policy resulted in negative performance for almost every asset class except commodities and cash. Thus, most investors were happy to welcome the New Year!

2022 Markets in Review

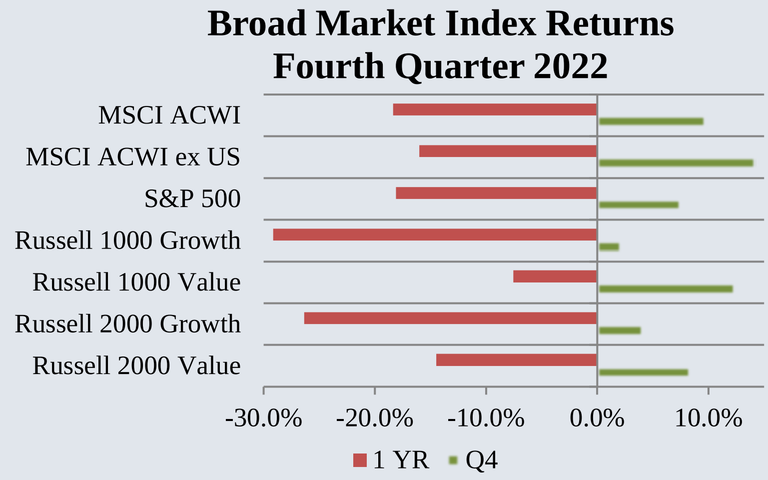
2022 was the worst year since 2008 for a 60/40 portfolio and the third worst since 1950 (depending on the indices used). Fixed income and equities were both negative, which is a rare occurrence. Volatility ran the show, with 2022 experiencing the fourth most +/- 2% days in the S&P 500 since the 1930s. The fourth quarter provided a small reprieve, as equity and fixed income markets saw positive returns, but it was not enough to offset prior losses.

U.S. large company stocks, represented by the S&P 500 Index, were down 18.1% during the year. Though corporate earnings reported positive growth, collapsing valuations and weakening margins ultimately led to a decline in equities. Value stocks have generally benefitted from higher interest rates and commodity prices relative to growth stocks, and have now outperformed growth for the majority of the past two years. International stocks, represented by the MSCI ACWI ex US Index, were down 16.0% during the year, slightly outpacing U.S. equities. International companies had strong earnings growth, but the appreciation of the U.S. dollar detracted from international stock performance for most of the year. It remains to be seen whether international equities will regain leadership relative to U.S. equities; however, low expectations, low valuations, and the potential for the U.S. dollar to continue its recent weakening could be potential tailwinds.

The Bloomberg U.S. Aggregate Bond Index, which represents a broad basket of bonds, was down 13.0% during the year, making 2022 one of the worst years for fixed income. Low initial yields at the beginning of the year were not enough to offset the price loss caused by the Fed's raising interest rates in response to persistent inflation.

Looking Ahead

At this point, a global recession in 2023 is the base case for many economists and investors. The threat of an economic downturn has loomed on the horizon for several quarters, potentially making this the most anticipated recession ever. Monetary policy lags and will take time to ripple through the economy. Consequently, predicting the economy's resilience or whether a "soft landing" is a feasible alternative reality is difficult. Currently, many leading economic indicators have turned negative, manufacturing data has weakened, and corporate earnings are facing more challenges. Yield curves have been inverted for months, which has been a good leading indicator of recessions, historically. Consumption stayed strong over the past year; however, personal savings rates have declined considerably, and consumer credit debt is increasing. Thus, consumption may be less of a tailwind in the future. Consensus estimates for corporate earnings are forecasting double-digit growth, though this figure likely will come down as analysts often overestimate growth particularly at the beginning of the year. In addition, earnings tend to decline in a recession compared to the prior year. Taken together, it is reasonable that the economy should have weak growth and for the market to struggle to find a direction.



Fourth Quarter 2022 Market Summary (continued)

As we begin 2023, the trend of economic data is widely known and debated daily by market participants. The current consensus predicts a 2023 recession, with the beginning of a recovery in the second half. Whether the actual outcome is better or worse will determine how asset prices are impacted. Nonetheless, we can confidently say that the market often does not conform to expectations and a predicted timeline. The markets, economy, and macro events/politics are interconnected; however, they often operate semi-independently and lead to unexpected results.

Positives for the economy include a stable financial system and a solid labor market. Additionally, inflation should continue to decline over the next few quarters after peaking at 9% last June. Supply and demand imbalances have largely normalized, and commodity prices fell in the second half of 2022. The question now is how fast and how far inflation will fall. A smooth ride down to the Fed's 2% target and maintaining that level is unlikely. But the past few years should be a cautionary tale in predicting inflation. The Fed will likely continue to tighten at a slower pace but is nearing the end of its hiking cycle, which should be less of a headwind for financial assets. The market is eager for a Fed pivot. Still, a reversal from the current restrictive policy to the Fed's stimulative playbook that we saw for the past decade may not materialize, especially if inflation remains above their goal and employment remains resilient.

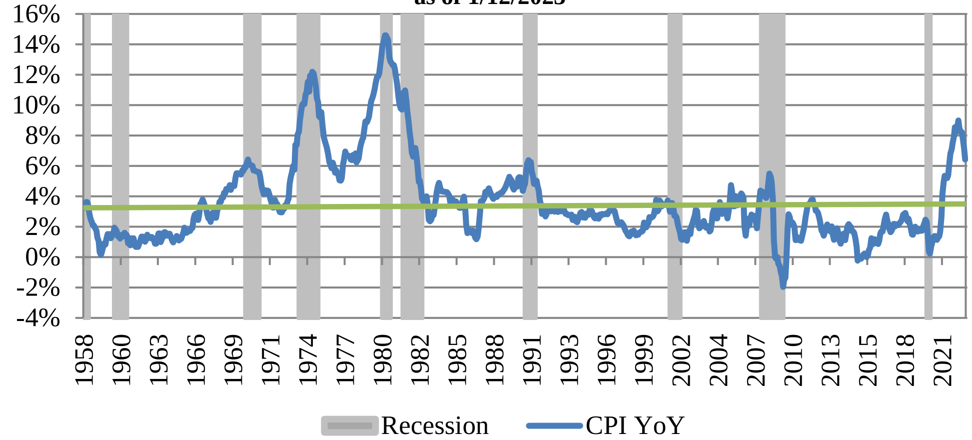
While past year's returns are disappointing, the upside is the resetting of long-term expected returns, which have increased. Fixed income now offers attractive yields, and bonds should benefit portfolios in 2023. Fixed income managers are finding compelling value as bonds are now more attractive than they have been in a decade. Current yields should lead to positive returns over the coming years as interest rates are correlated with future returns. It would not be a surprise if bonds outperformed parts of the equity market in 2023, especially if a recession comes to pass. Equity market valuations have receded, and though the current footing may not seem sturdy enough to support a long-term rally, annual returns often fall well-wide of market forecasters' expectations. Returns tend to be either much stronger than anticipated or much lower. Rarely does the equity market return 8-10%, the long-term historical average and often an anchoring point for forecasts.

As we shift focus to 2023, we may be inclined to hope that last year's troubles are left in the rearview mirror. Though some stories will inevitably follow us into the New Year, the ongoing narrative will likely develop and shift. The range of possibilities seems wide for the quarters ahead. While we do not know the exact timing, we know that bear markets end and recoveries inevitably begin. Thus, it is important to formulate the best plan, maintain long-term optimism and look for opportunities as they arise amongst change.

MACROECONOMICS

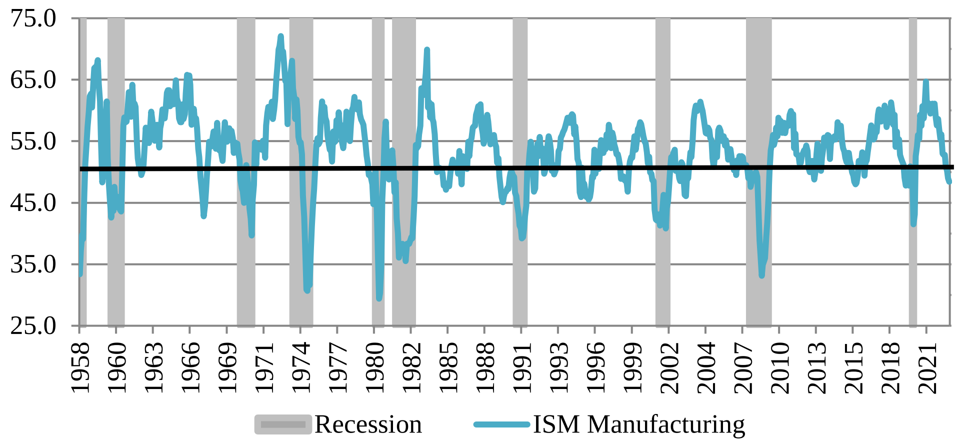
- The Bureau of Economic Analysis released the advanced estimate of fourth quarter 2022 real GDP, an annual rate increase of 2.9% from the preceding quarter.
- Inflation is trending lower after July's peak. In December, headline CPI increased 6.4% year-over-year. Core CPI, which excludes food and energy, had a 5.7% increase.

Inflation - CPI
as of 1/12/2023



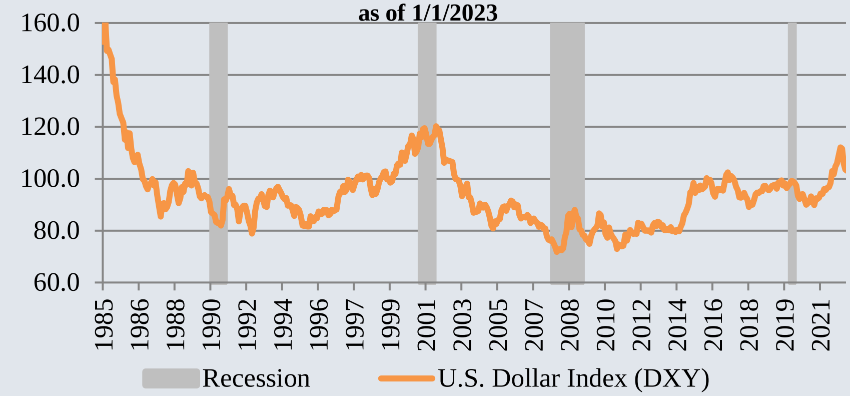
- The ISM Manufacturing Index declined during the quarter, finishing at 48.4 versus 50.9 in September. Typically, when the ISM Index is above 55 it is bullish and when it is below 45 it is bearish. The ISM Non-Manufacturing Index also declined during the quarter and finished at 49.6 in December.

ISM Manufacturing Index
as of 1/4/2023



- In December, the Conference Board Leading Economic Index decreased 1.0% month-over-month to 110.5. The index, which is a composite of leading employment, housing, manufacturing, and market indicators, has declined over the past year.
- The U.S. dollar depreciated over the quarter but rose over the past year.

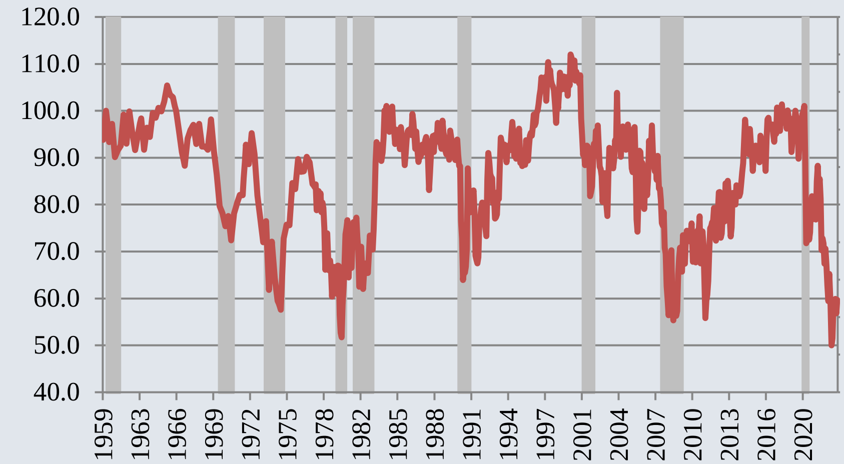
U.S. Dollar Index (DXY)
as of 1/1/2023



CONFIDENCE METRICS

- The Conference Board's Consumer Confidence Index December reading was 108.3, up slightly from 107.8 in September.
- The University of Michigan Consumer Sentiment Index final reading for December was 59.7, down significantly since the beginning of 2022.

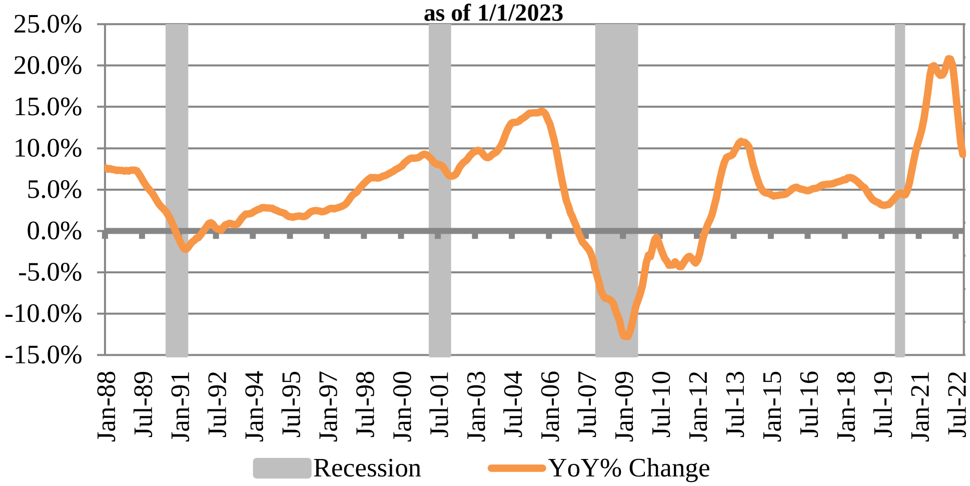
University of Michigan Consumer Sentiment Index
as of 1/1/2023



HOUSING

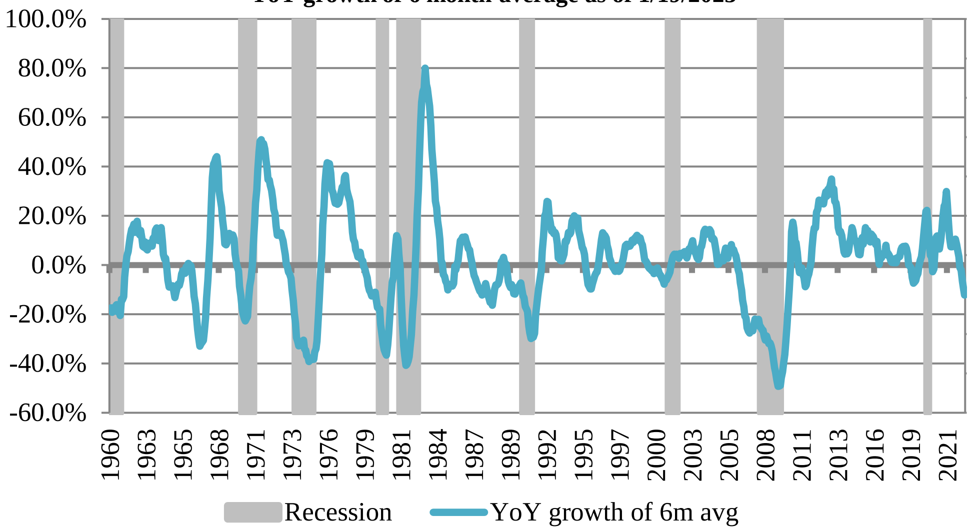
- S&P Case-Shiller U.S. National Home Price Index (seasonally adjusted) showed home prices rose 9.2% year/year in October. But, price growth has slowed in recent months.

S&P Case-Shiller U.S. National Home Price Index, YoY growth
as of 1/1/2023



- Housing starts have stalled, in part, due to weaker demand as mortgage rates and home prices have increased significantly over the past year.

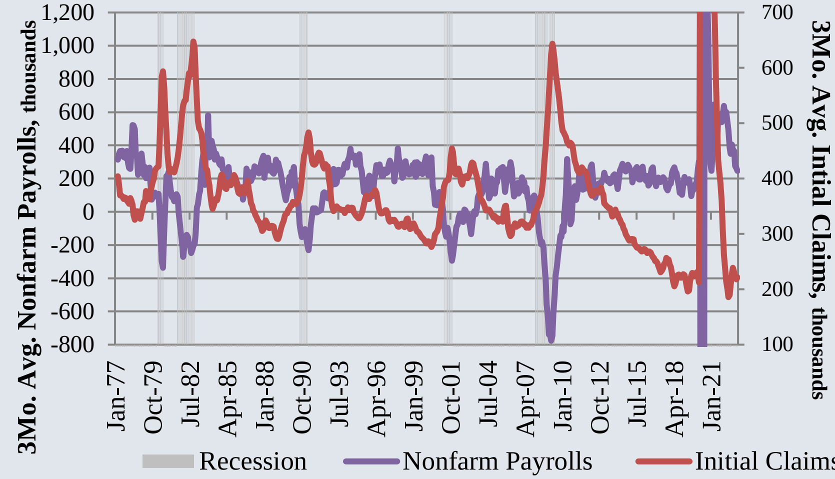
Housing Starts
YoY growth of 6 month average as of 1/19/2023



EMPLOYMENT

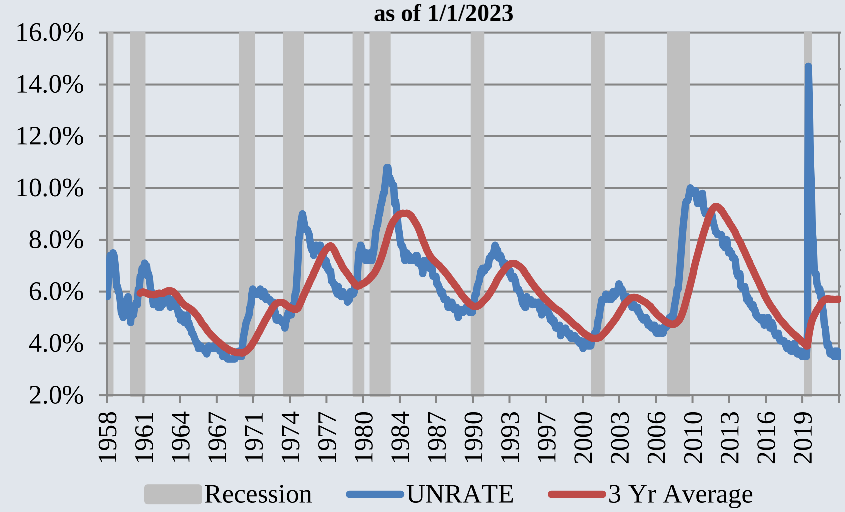
- During the quarter, nonfarm payrolls averaged 247,333 jobs added per month, while initial claims remain low.

3Mo Avg. Nonfarm Payrolls & Initial Claims
as of 1/1/2023



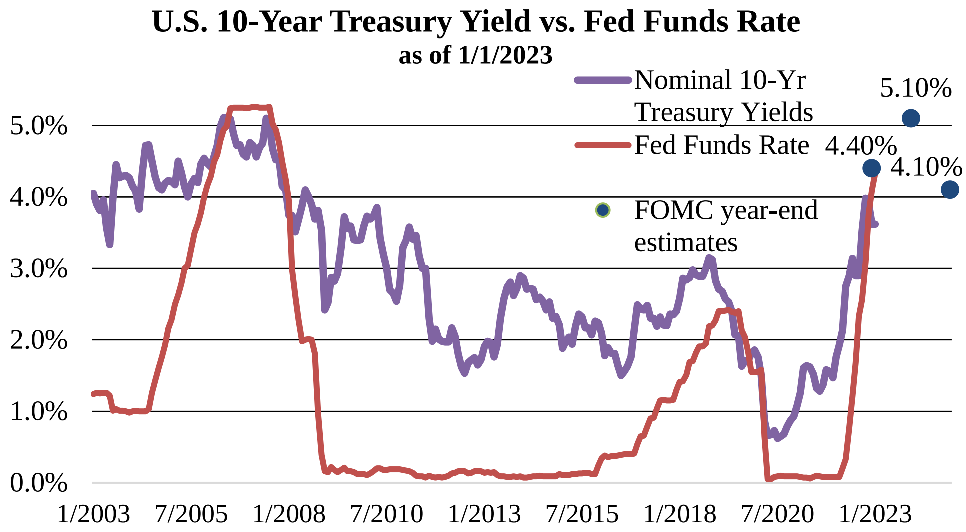
- The unemployment rate was roughly flat during the quarter at 3.5%.

Unemployment Rate
as of 1/1/2023

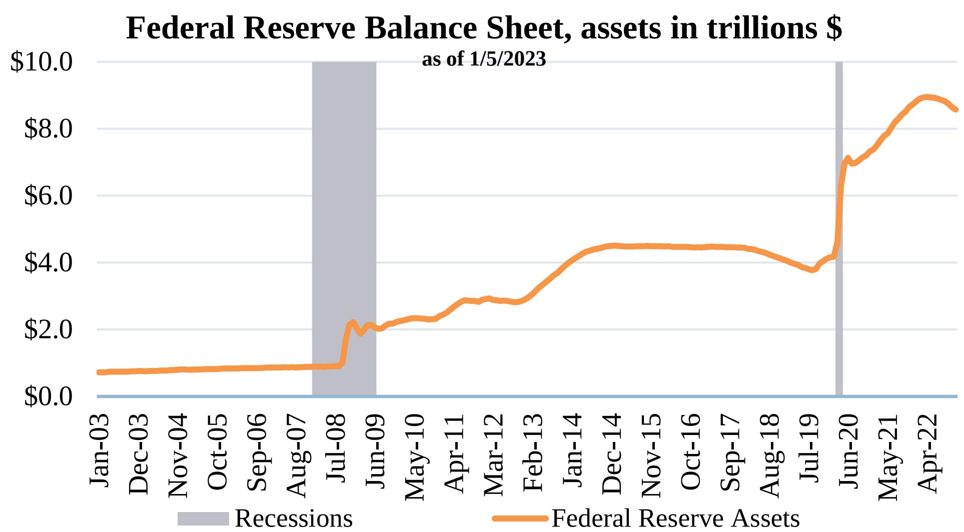


FED POLICY

- The Federal Open Market Committee (FOMC) raised the federal funds rate 0.75% in November and another 0.50% in December. The Fed is expected to continue to raise rates in the first quarter of 2023 as they attempt to bring inflation down to their target.

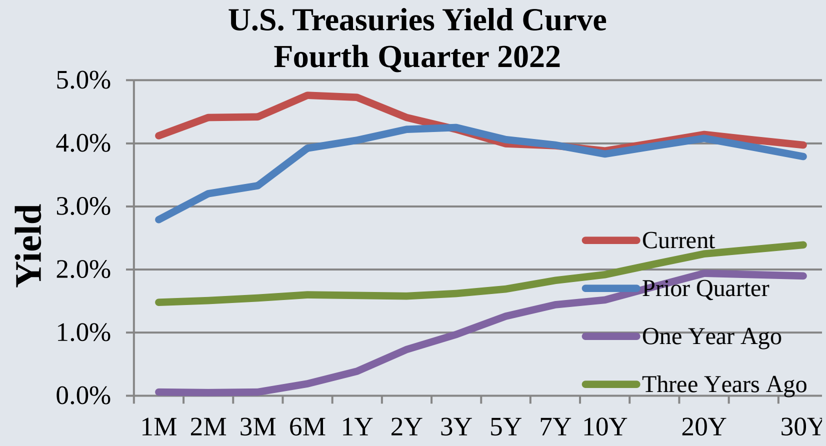


- The Fed has started to reduce its holdings of Treasuries and agency MBS.

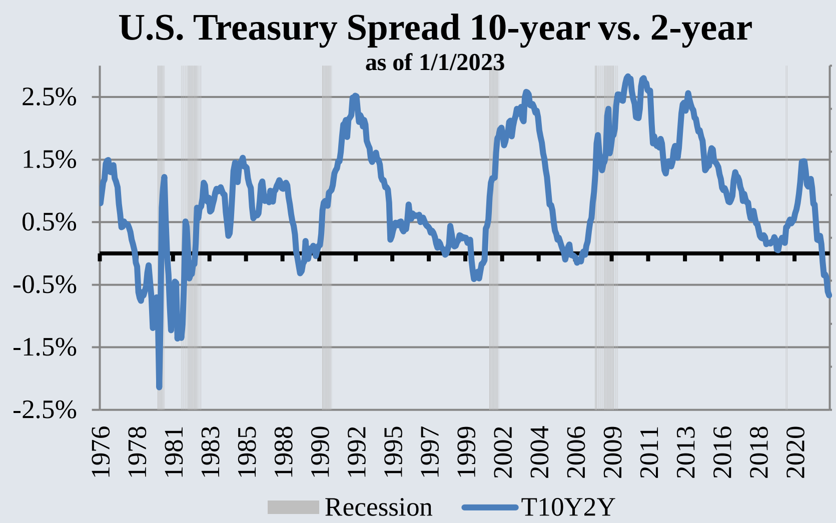


FIXED INCOME

- Short-term U.S. Treasury yields increased significantly causing the yield curve to invert 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 fell during the quarter to negative 67bps in December. Historically, the 10-year to 2-year Treasury curve has "inverted" 6-20 months before recessions.



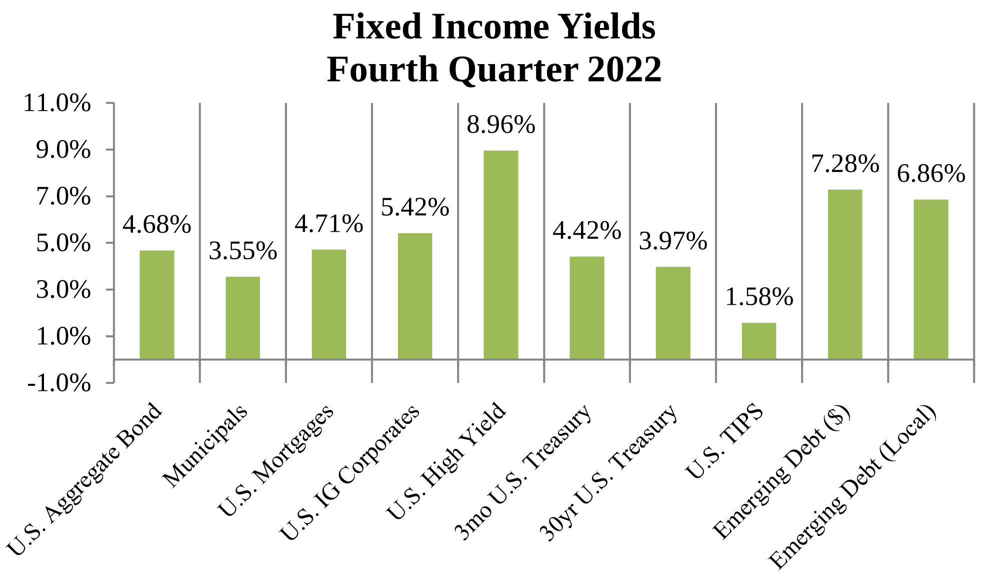
FIXED INCOME (continued)

- During the quarter, the Bloomberg Barclays U.S. Aggregate was up 1.87%. Bonds with more interest rate and credit risk, generally, performed better.

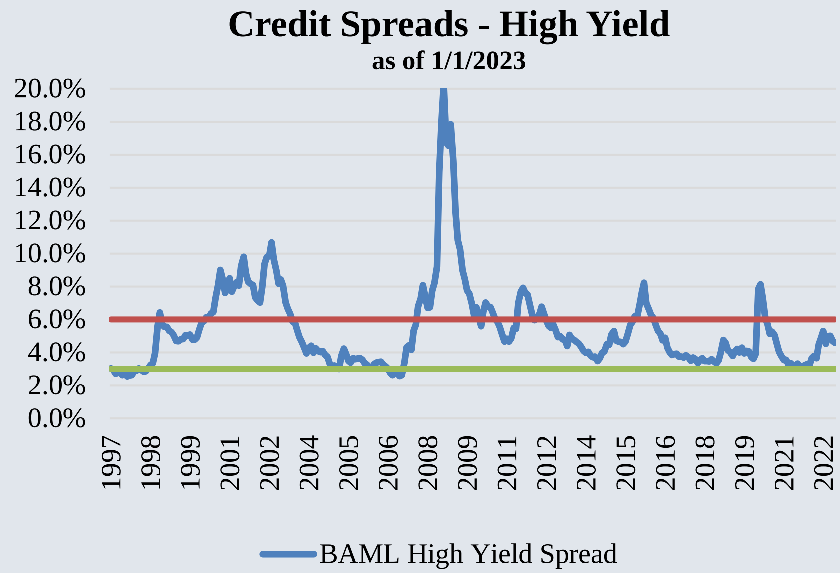
	4Q 22 Return	1-Yr Return	5-Yr Return	10-Yr Return
U.S. Aggregate Bond	1.87%	-13.01%	0.02%	1.06%
Municipals	4.10%	-8.53%	1.25%	2.13%
U.S. Mortgages	2.14%	-11.81%	-0.53%	0.74%
U.S IG Corporates	3.63%	-15.76%	0.45%	1.96%
U.S. High Yield	4.17%	-11.19%	2.31%	4.03%
3mo U.S. Treasury	0.90%	1.51%	1.28%	0.78%
30yr U.S. Treasury	-2.63%	-33.29%	-3.07%	0.03%
U.S. TIPS	2.04%	-11.85%	2.11%	1.12%
Emerging Debt ($)	8.11%	-17.78%	-1.31%	1.59%
Emerging Debt (LCL)	8.45%	-11.69%	-2.51%	-2.03%

Bloomberg and JPMorgan Indices

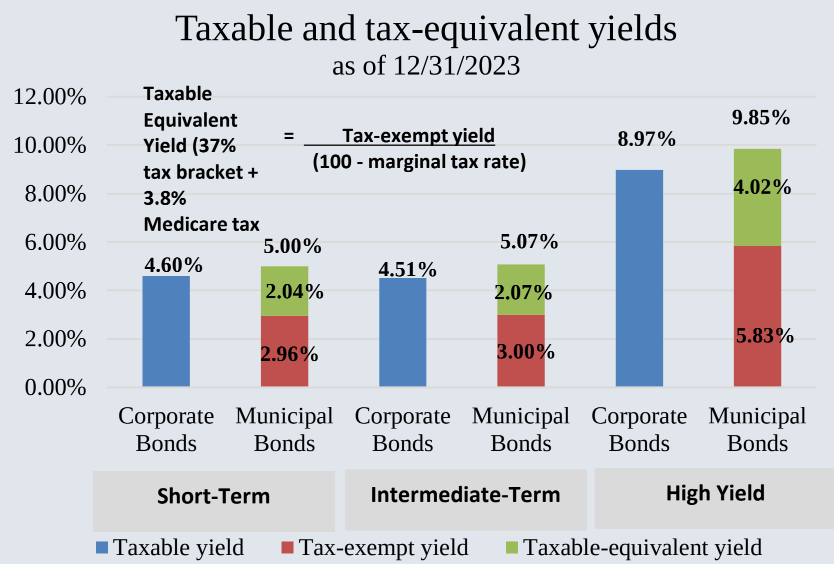
- Yields declined slightly during the fourth quarter but remain at attractive levels.



- 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

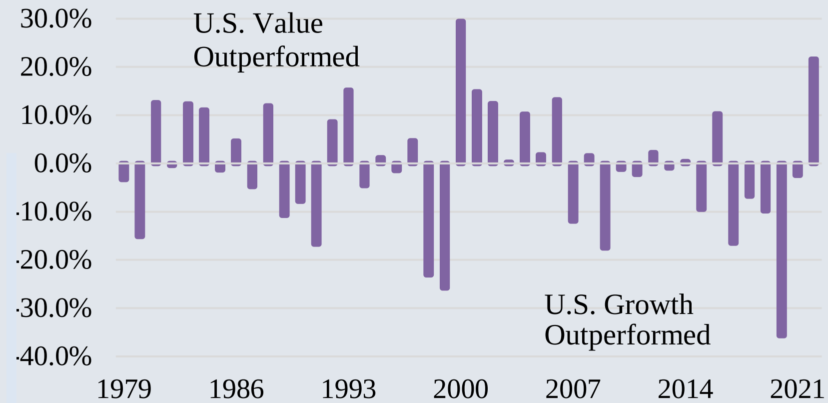
Fourth Quarter 2022 Returns			
	Value	**Core**	**Growth**
Mega Cap		3.2%	
Large Cap	12.4%	7.2%	2.2%
Mid Cap	10.5%	9.2%	6.9%
Small Cap	8.4%	6.2%	4.1%
Micro Cap	6.1%	4.7%	2.7%

- The Russell 1000 Index, comprised of large and mid-capitalization stocks, posted a positive total return of 7.2% during the fourth quarter. On a year-over-year basis, the Russell 1000 Index has decreased 19.1%.
- Small capitalization stocks, as represented by the Russell 2000 Index, increased 6.2% during the fourth quarter. On a year-over-year basis, the index has decreased 20.4%.

	S&P 500 Weight	Russell 1000 Value Weight	Russell 1000 Growth Weight	4Q 22 Return	1-Yr Return	10-Yr Return
Energy	5.2%	8.4%	1.7%	22.8%	65.7%	6.0%
Materials	2.7%	4.3%	1.5%	15.0%	-12.3%	9.8%
Financials	11.7%	20.1%	3.3%	13.6%	-10.5%	12.2%
Industrials	8.7%	10.5%	8.1%	19.2%	-5.5%	11.9%
Cons. Disc.	9.8%	6.0%	14.2%	-10.2%	-37.0%	11.7%
Technology	25.7%	8.3%	43.2%	4.7%	-28.2%	18.3%
Comm. Services	7.3%	7.3%	6.8%	-1.4%	-39.9%	4.3%
Real Estate	2.7%	4.5%	1.6%	3.8%	-26.1%	7.8%
Health Care	15.8%	17.4%	13.5%	12.8%	-2.0%	15.0%
Cons. Staples	7.2%	7.4%	6.1%	12.7%	-0.6%	11.0%
Utilities	3.2%	5.8%	0.1%	8.6%	1.6%	11.1%
S&P 500 Index	100.0%	100.0%	100.0%	7.6%	-18.1%	12.6%

- During the quarter, many sectors had positive performance led by Energy. Over the past year, there has been wider dispersion of returns amongst sectors.

U.S. Value vs. Growth Relative Equity Performance (as of 12/31/22)

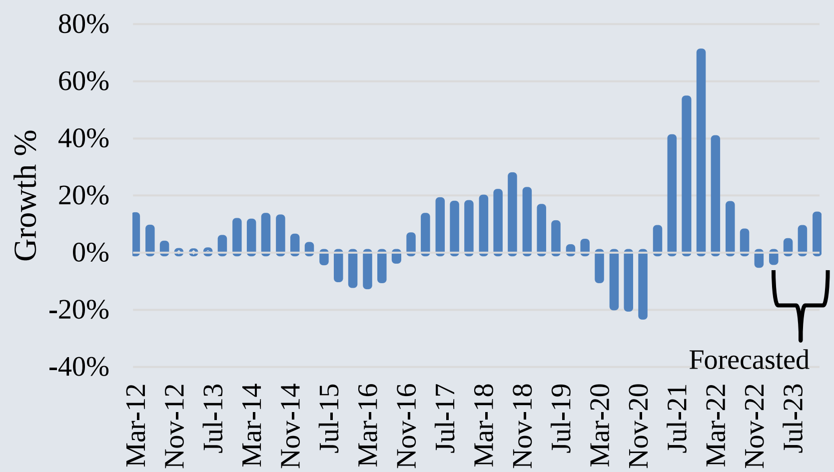


Russell 1000 Value TR vs. Russell 1000 Growth TR

- Value outperformed Growth during the quarter as well as for the year. 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 1/6/2023)



- Corporate earnings growth has slowed in 2022, but analysts are currently expecting growth to continue to expand in 2023.

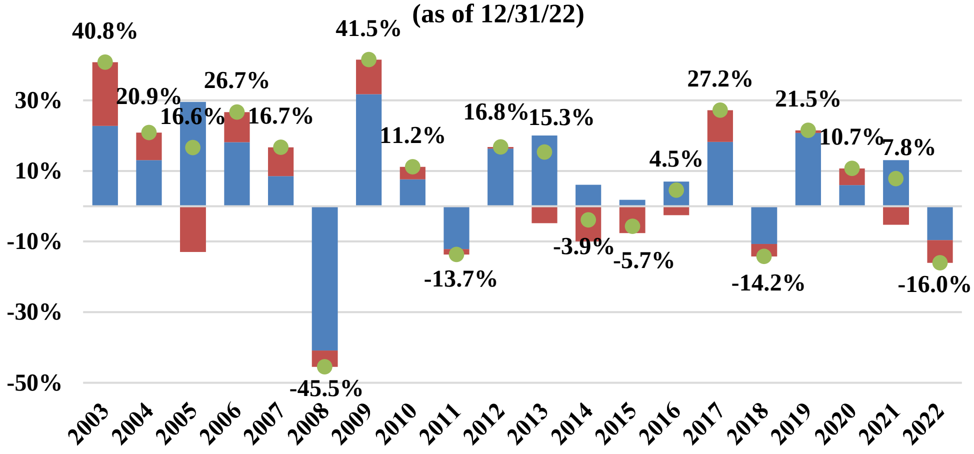
INTERNATIONAL EQUITIES

- Developed international stocks, as represented by the MSCI EAFE, were up 17.3% during the quarter and down 14.5% on a year-over-year basis.
- Emerging market stocks underperformed developed markets during the fourth quarter as the MSCI Emerging Markets Index was up 9.7%. On a year-over-year basis, emerging market stocks are trailing developed markets with a return of negative 20.1%.

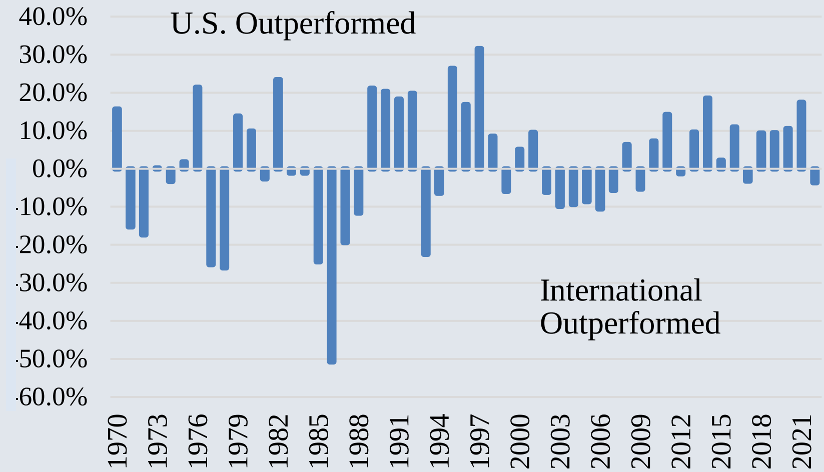
	4Q 22 Return	1-Yr Return	5-Yr Return	10-Yr Return
World	9.8%	-18.4%	5.2%	8.0%
World Ex-US	14.3%	-16.0%	0.9%	3.8%
EAFE	17.3%	-14.5%	1.5%	4.7%
Europe	19.3%	-15.1%	1.9%	4.6%
Japan	13.2%	-16.6%	0.2%	5.6%
Pacific Ex-Japan	15.7%	-5.9%	2.2%	3.8%
Emerging Markets	9.7%	-20.1%	-1.4%	1.4%
EM (Asia)	10.8%	-21.1%	-0.6%	3.6%
EM (Latin America)	5.7%	8.9%	-1.1%	-2.1%
EM (Eastern Europe)	38.4%	-82.2%	-25.0%	-13.7%

- The U.S. dollar appreciated the past year, detracting from international equity returns. The 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 12/31/22)



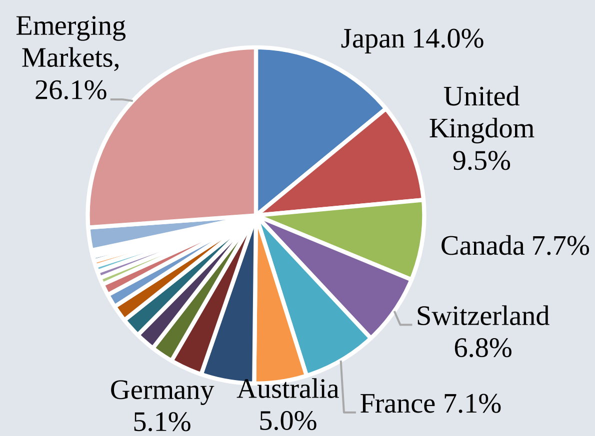
U.S. vs. International Equity Performance (as of 12/31/22)

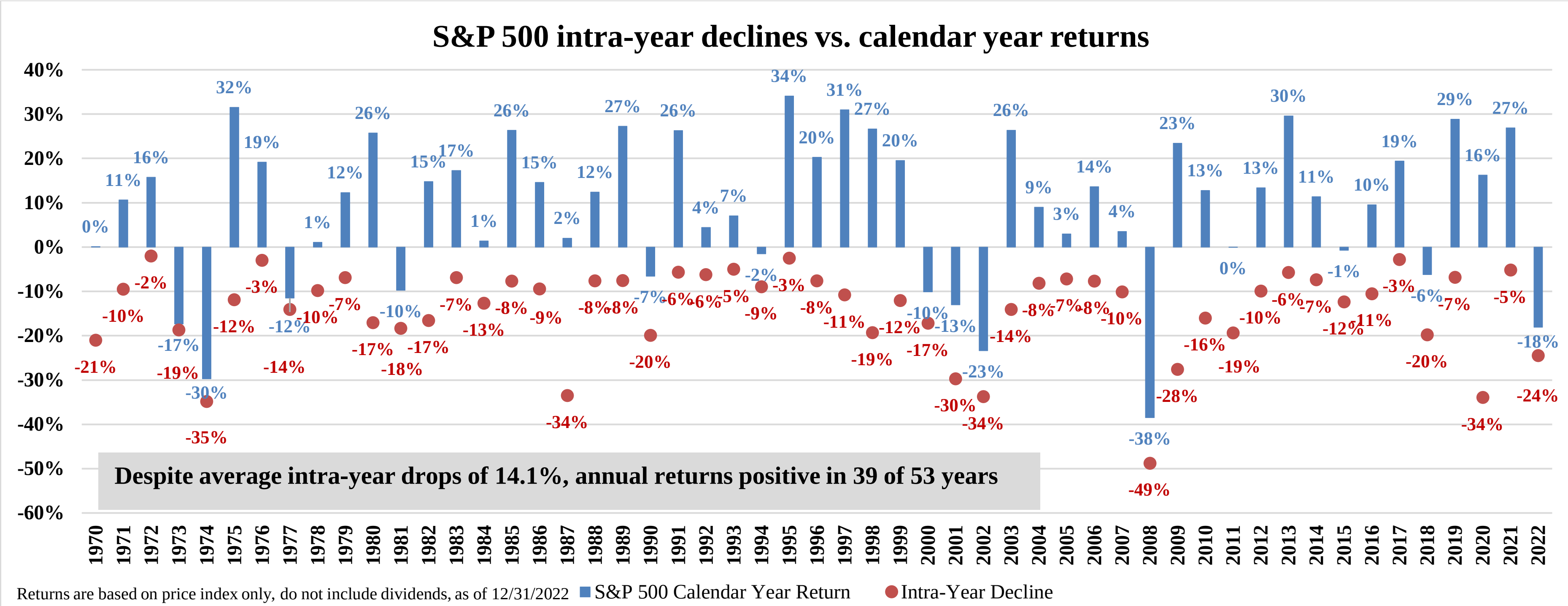


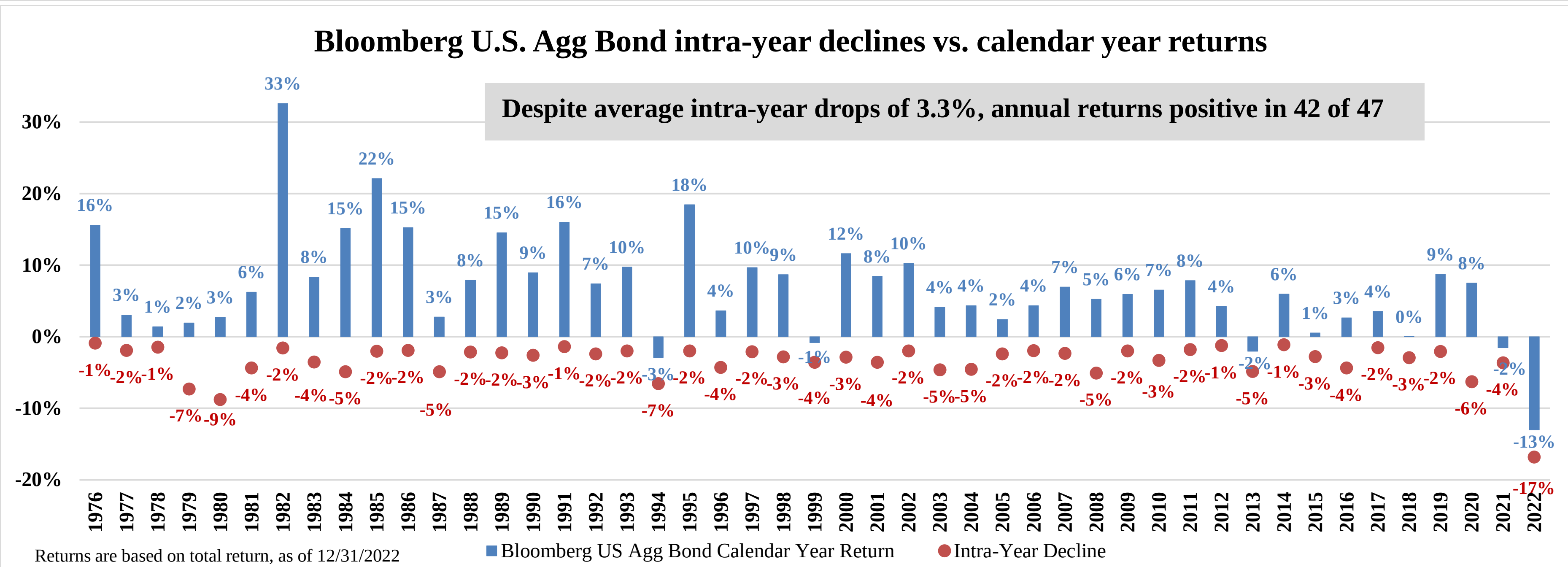
S&P 500 TR vs. MSCI EAFE NR

- International equities performed better than U.S. equities during the quarter as well as for the year. International equities have underperformed U.S. equities in ten out of the last thirteen years; however, performance is cyclical as evidenced by the chart above.

Country Weighting in MSCI ACWI ex US (as of 12/31/2022)




S&P 500 intra-year declines vs. calendar year returns
Despite average intra-year drops of 14.1%, annual returns positive in 39 of 53 years
40%
30%
20%
10%
0%
-10%
-20%
-30%
-40%
-50%
-60%
Returns are based on price index only, do not include dividends, as of 12/31/2022
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 3.3%, annual returns positive in 42 of 47
30%
20%
10%
0%
-10%
-20%
Returns are based on total return, as of 12/31/2022
Bloomberg US Agg Bond Calendar Year Return
Intra-Year Decline

Market leadership changes. Focus on asset allocation and diversification.

Asset Class Performance: Best (top) to Worst (bottom)

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	10-yrs '13-'22 Return	10-yrs '13-'22 Volatility
Real Estate 8.3%	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 12.6%	Small Cap 19.3%
Fixed Income 7.8%	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%	Small Cap 9.0%	Emerging Markets 16.7%
High Yield 3.1%	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%	Real Estate 7.1%	Real Estate 16.5%
Large Cap 2.1%	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 6.0%	International 14.8%
Cash 0.1%	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%	International 5.2%	Large Cap 14.8%
Asset Allocation -0.7%	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%	High Yield 3.0%	Commodities 14.1%
Small Cap -4.2%	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%	Emerging Markets 1.8%	Asset Allocation 9.3%
International -11.7%	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%	Fixed Income 1.1%	High Yield 8.4%
Commodities -13.3%	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%	Cash 0.7%	Fixed Income 4.1%
Emerging Markets -18.2%	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 -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 12/31/2022

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