



Market Environment

MARCH 31, 2023

Market Environment 1Q23: U.S. Equity

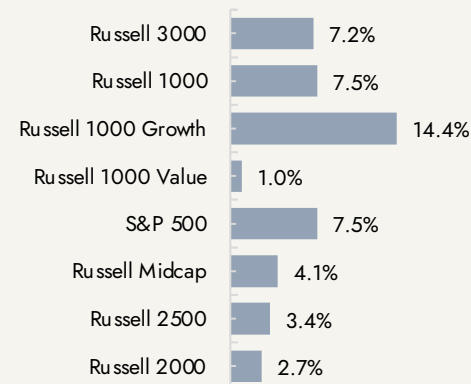
MARKETS GAIN, WITH EXCEPTION OF SMALL CAP VALUE

- The S&P 500 posted a second straight quarter of positive performance, gaining 7.5% in 1Q23; large cap growth led all style and cap indices higher, advancing 14.4%.
- Russell 2000 Value was a notable exception and experienced a slight decline of 0.7% due to greater exposure to Financials, specifically banks.
- During the quarter, three sectors comprising 44% of the S&P 500 (and 63% of the Russell 1000 Growth Index) drove performance: Technology (+21.8%), Communication Services (+20.5%), and Consumer Discretionary (+16.1%).
- Financials, Energy, and Health Care posted negative returns for the quarter but had only a modest impact on total returns given smaller weights in respective benchmarks.
- Small caps (Russell 2000) underperformed large caps (Russell 1000) and growth outperformed value during the quarter, a reversal from 2022. Greater exposure to banks in Russell 2000 (8.3%) versus Russell 1000 (3.3%) was one differentiator for returns; strong returns for mega-cap Technology also increased divergence.

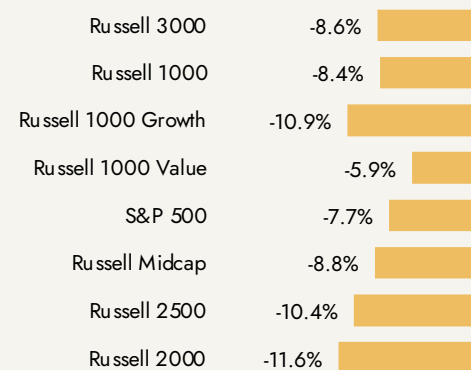
LARGE CAP GROWTH OUTPERFORMANCE DRIVERS

- The large cap growth outperformance was driven by increased valuations as interest rates declined and expectations of a more dovish Fed emerged.
- Asset managers may take a more cautious approach in equity markets into coming quarters as earnings estimates decline; expect a focus on quality, cash flow, defensive value names, and profitable growth stocks. Price multiples continue to be important as elevated valuations may compress if markets anticipate that monetary easing is not on the near-term horizon.
- Analyst estimates for future earnings are diverging, typically a sign of elevated economic turbulence.
- Investors “bought the dip” as stock performance reversed from the prior year; the worst-performing stocks for 2022 became best-performing stocks during 1Q23.

U.S Equity: Quarterly Returns



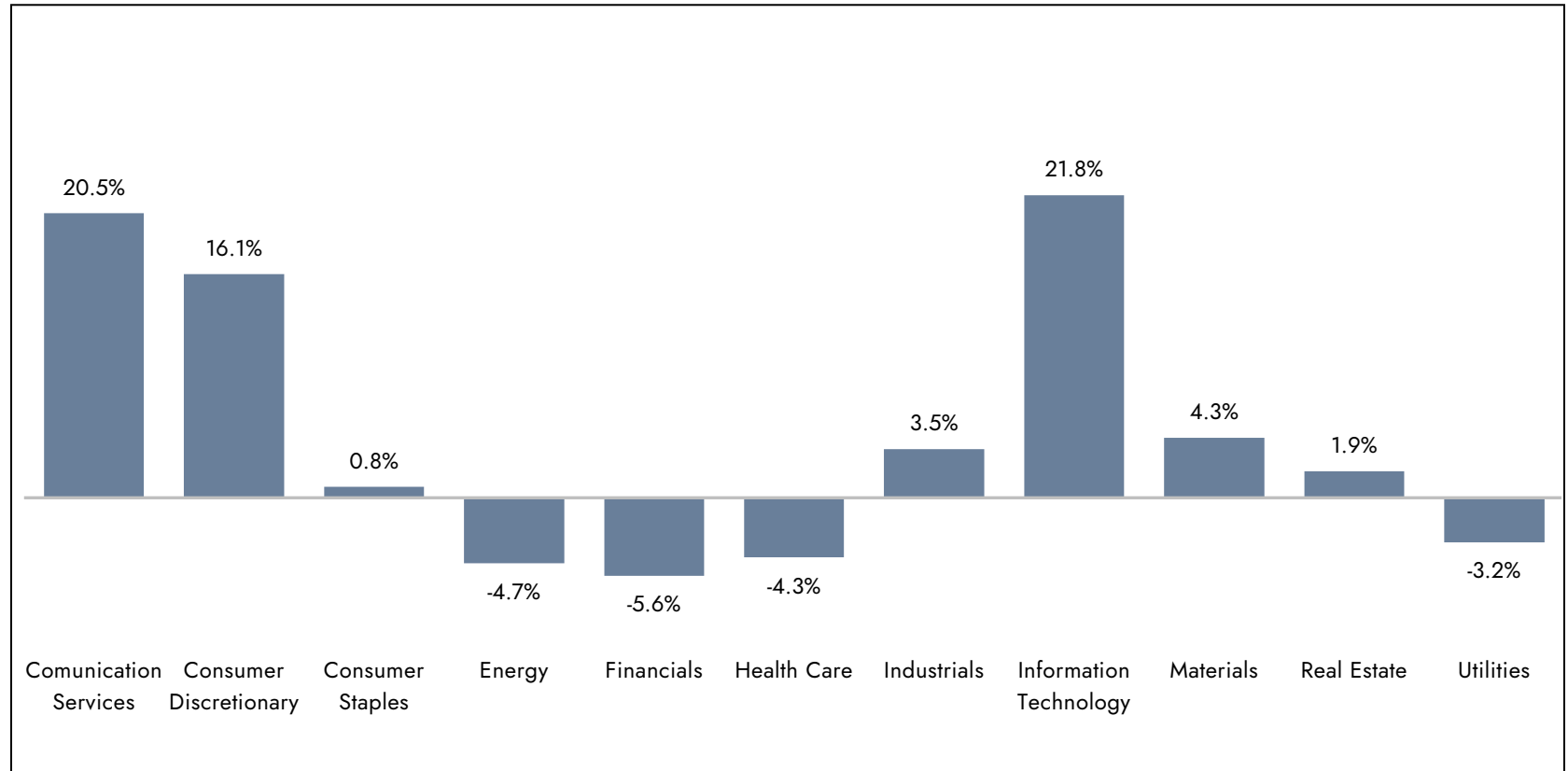
U.S Equity: One-Year Returns



Source: Callan

Market Environment 1Q23: U.S. Equity (cont.)

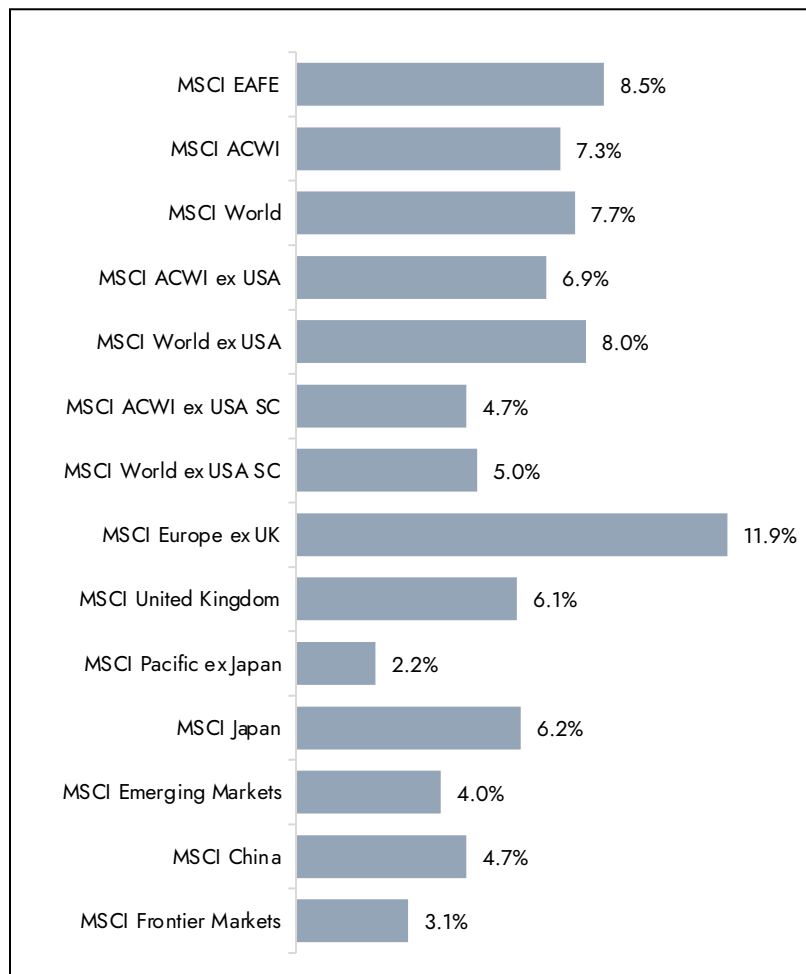
S&P SECTOR RETURNS, QUARTER ENDED 9/30/22



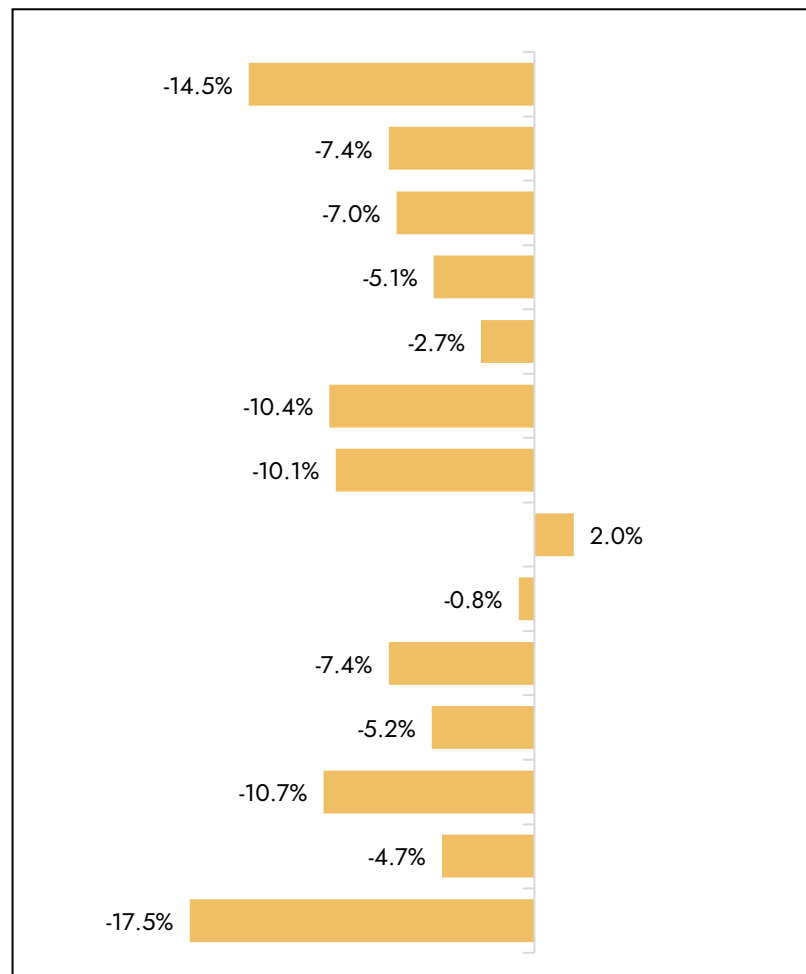
Source: Callan

Market Environment 1Q23: Global EX-U.S. Equity

GLOBAL EQUITY: QUARTERLY RETURNS



GLOBAL EQUITY: ONE-YEAR RETURNS



Source: Callan

Market Environment 1Q23: Global EX-U.S. Equity

1Q23 BROUGHT GLOBAL EQUITY MARKETS BACK TO BLACK

- Positive results despite hiccups
- 1Q23 was marked by the collapse of Silicon Valley Bank and Credit Suisse, which sent fears of a banking crisis across global markets.
- Despite a Fed hike during the period, investors began to price in lower rate expectations.
- Europe outperformed other regions, making up ground lost in 2022 as inflation eased and recession fears lessened.

GROWTH V. VALUE

- Growth outpaced value across developed and emerging markets.
- In a reversal from 2022, investors preferred growth alongside a drawdown in banks; Information Technology was the largest outperformer.

U.S. DOLLAR VS. OTHER CURRENCIES

- After some strength early in the quarter, the U.S. dollar declined 1% as interest rate differentials narrowed globally.

WILL EUROPE CONTINUE TO BE A SOURCE OF RETURN?

- EPS growth expectations have fallen for both S&P 500 (-7%) and Europe (-9%).
- However, euro zone provides valuation support relative to the U.S.
- Euro zone trades at a 30% discount vs. the U.S.

DEVELOPED MARKETS OUTPACE U.S.

- Outperformance of developed markets over the past year has been driven by Europe.
- Europe beat U.S. as the worst fears in the wake of the Russia-Ukraine War were not realized.
- Europe benefited from falling gas prices and China reopening.
- Value-growth dispersion was impacted less in developed markets relative to U.S. given the composition of the markets.
- EAFE Value outperformed Growth by 2.5 percentage points.
- S&P 500 Value outperformed Growth by 15.2 percentage points.
- Weak dollar in recent quarters helped global ex-U.S. equities.
- Since DXY Index reached a 20-year high in September 2022, it has fallen by 10%.

Source: Callan

Market Environment 1Q23: U.S. Fixed Income

BLOOMBERG AGGREGATE WAS POSITIVE IN 1Q BUT MIXED

- January: +3.1%
- February: -2.6%
- March: +2.5%

U.S. TREASURY VOLATILITY WAS PRONOUNCED

- 2-year U.S. Treasury yield high was 5.08% on 3/8 and low was 3.77% on 3/24
- MOVE Index highest since 2008

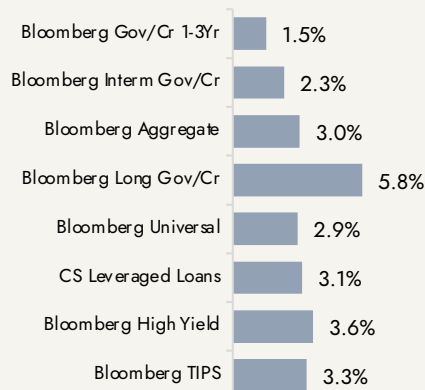
YIELD CURVE REMAINED INVERTED BUT ALSO VOLATILE

- 2yr/10yr | 3/31: -58 bps; max 3/8: -109; min 3/23: -38
- 1yr/10yr | 3/31: -116 bps

FED RAISED RATES, BRINGING TARGET TO 4.75% – 5.00%

- Median expectation from Fed is 5.1% for year-end 2023; market pricing in Fed cuts by year-end
- Inflation moderated but still high and job market tight

US Fixed Income: Quarterly Returns



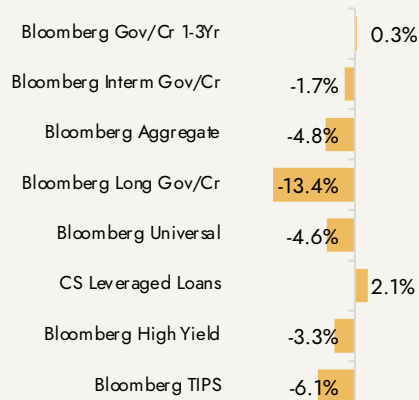
SECTOR PERFORMANCE MIXED

- Corporate Industrials excess return: +58 bps
- Corporate Financials excess return: -39 bps
- RMBS excess return: -50 bps
- CMBS excess return: -74 bps
- High yield excess return: +123 bps

VALUATIONS FAIR

- Credit spreads have not widened materially and are close to historical averages.

US Fixed Income: One-Year Returns



MUNICIPAL BONDS

INDICES GAINED IN 1Q23

- Lower quality outperformed (AAA: +2.5%; AA: +2.7%; A: +3.0%; BBB: +3.7%)
- Muni curve inverted but less so than U.S. Treasuries
- 2-year AAA yield: 2.41%; 10-year AAA yield: 2.28%
- Valuations relative to U.S. Treasuries are rich

Source: Callan

Market Environment 1Q23: U.S. Fixed Income (cont.)

SUPPLY / DEMAND

- Outflows nearly \$2 billion but lower than the \$22 billion in 1Q22
- Supply about 25% lower year-over-year
- Munis not immune to turmoil in banking, but fundamentals remain sound
- Banks are third largest holder of munis (about 15%) but thus far have not been sellers
- Municipals could be affected by tighter lending standards but likely result would be more public issuance
- “Rainy Day” fund balances and state tax revenues robust

GLOBAL FIXED INCOME

GLOBAL AGGREGATE WAS POSITIVE IN 1Q BUT MIXED

- January: +3.3%
- February: -3.3%
- March: +3.2%
- ECB and UK hiked rates; Japan held steady

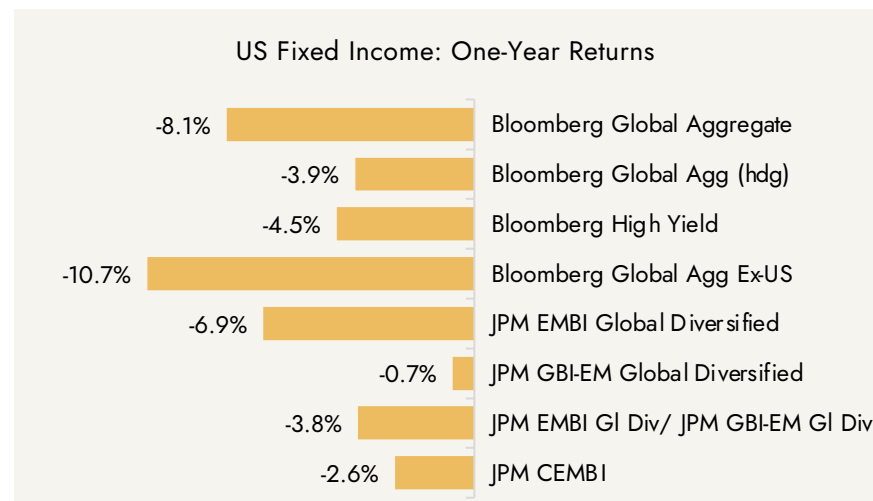
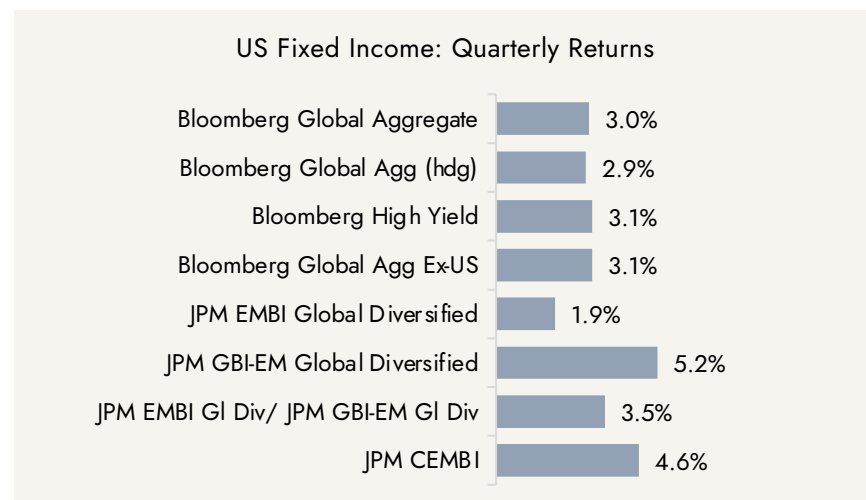
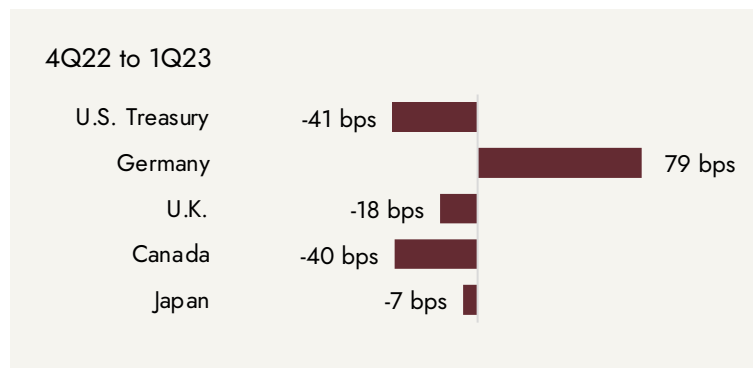
U.S. DOLLAR WAS MIXED BUT MOSTLY LOWER

- Euro: +2% vs dollar
- British pound: +3% vs dollar
- Japanese yen: -1% vs dollar
- Australian dollar: -1% vs dollar
- Mexican peso: +8% vs dollar
- Brazilian real: +4% vs dollar

EMERGING MARKET DEBT DELIVERED SOLID RESULTS

- EM currencies did well versus U.S. dollar, especially in Latin America; Latin America local currency return: +4.1%; unhedged in \$US: +9.8%

Market Environment 1Q23: Global Non-U.S. Fixed Income



Source: Callan

Historical Investment Performance

RETURNS FOR PERIODS ENDED MARCH 31, 2023

	Last Quarter	Year to date	Last Year	Last 2 Years	Last 3 Years	Last 4 Years	Last 5 Years	Last 7 Years	Last 10 Years	Last 15 Years	Last 20 Years	Last 25 Years	Last 30 Years
Domestic Equity Benchmarks													
Russell: 3000 Index	7.2	7.2	(8.6)	1.2	18.5	10.9	10.5	12.0	11.7	9.9	10.4	7.4	9.7
Russell: 1000 Index	7.5	7.5	(8.4)	1.9	18.6	11.3	10.9	12.2	12.0	10.0	10.5	7.5	9.8
Russell:1000 Value	1.0	1.0	(5.9)	2.5	17.9	8.0	7.5	9.0	9.1	7.7	9.2	6.8	9.2
Russell:1000 Growth	14.4	14.4	(10.9)	1.2	18.6	13.9	13.7	15.0	14.6	12.1	11.6	7.6	9.9
Russell:Midcap Index	4.1	4.1	(8.8)	(1.2)	19.2	8.5	8.1	9.9	10.1	9.5	11.2	8.8	10.5
Russell:Midcap Value	1.3	1.3	(9.2)	0.6	20.7	7.5	6.5	8.3	8.8	8.7	10.7	8.5	10.3
Russell:Midcap Value	9.1	9.1	(8.5)	(4.8)	15.2	8.5	9.1	11.2	11.2	10.1	11.4	8.1	9.7
Russell:2000 Index	2.7	2.7	(11.6)	(8.7)	17.5	5.4	4.7	8.6	8.0	8.1	9.8	6.8	8.6
Russell:2000 Value	(0.7)	(0.7)	(13.0)	(5.2)	21.0	5.7	4.5	7.9	7.2	7.2	9.2	7.3	9.2
Russell:2000 Growth	6.1	6.1	(10.6)	(12.5)	13.4	4.4	4.3	8.7	8.5	8.7	10.0	5.8	7.4
Domestic Equity Benchmarks													
MSCI:EAFE	8.5	8.5	(1.4)	(0.1)	13.0	5.4	3.5	6.2	5.0	3.0	7.3	4.3	5.5
MSCI:ACWI ex US	6.9	6.9	(5.1)	(3.3)	11.8	4.2	2.5	5.9	4.2	2.6	7.5	-	-
MSCI:EM	4.0	4.0	(10.7)	(11.0)	7.8	0.8	(0.9)	4.9	2.0	1.7	9.3	-	-
MSCI:EAFE Small Cap	4.9	4.9	(9.8)	(6.8)	12.1	3.6	0.9	5.3	5.9	4.6	9.5	-	-
MSCI:Frontier Markets	3.1	3.1	(17.5)	(5.0)	7.9	0.5	(2.8)	3.2	2.7	(1.4)	5.7	-	-
Domestic Fixed Income Benchmarks													
Blmbg:Aggregate	3.0	3.0	(4.8)	(4.5)	(2.8)	0.0	0.9	0.9	1.4	2.7	3.2	4.0	4.5
Blmbg:HY Corp	3.6	3.6	(3.3)	(2.0)	5.9	2.5	3.2	5.1	4.1	6.6	7.1	5.9	6.7
Blmbg:Municipal	2.8	2.8	0.3	(2.1)	0.3	1.2	2.0	1.9	2.4	3.6	3.7	4.2	4.6
Blmbg:Gov/Cred 1 - 3 Yr	1.5	1.5	0.3	(1.3)	(0.4)	0.8	1.3	1.0	1.0	1.5	2.0	2.9	3.3
Blmbg:TIPS	3.3	3.3	(6.1)	(1.0)	1.8	3.0	2.9	2.4	1.5	2.9	3.9	4.9	-
Non-US Fixed Income Benchmarks													
Blmbg:Glb Agg xUSD	3.1	3.1	(10.7)	(9.3)	(4.1)	(2.9)	(3.2)	(1.3)	(1.0)	0.1	2.3	2.8	3.6
Blmbg:Glb Agg xUSD Hdg	2.9	2.9	(3.3)	(3.4)	(1.8)	(0.2)	0.9	1.3	2.3	3.1	3.3	4.0	5.0
JPM:EMBI Global Divsfd	1.9	1.9	(6.9)	(7.2)	0.0	(1.8)	(0.6)	1.4	2.0	4.4	6.0	6.6	-
JPM:GBI-EM Global Divsfd	5.2	5.2	(0.7)	(4.7)	0.9	(1.0)	(2.4)	0.8	(1.5)	1.7	5.0	-	-

Source: Callan

Periodic Table of Investment Returns

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	1 Qtr. 2023
Russell: 2000 Index	FTSE: NAREIT All Eq Index	FTSE: NAREIT All Eq Index	Russell: 2000 Index	MSCI:EM	Bloomberg Aggregate	S&P 500	Russell: 2000 Index	FTSE: NAREIT All Eq Index	Bloomberg: Commodity TR Index	MSCI: EAFE
S&P 500	S&P 500	S&P 500	S&P 500	MSCI: EAFE	FTSE: NAREIT All Eq Index	FTSE: NAREIT All Eq Index	S&P 500	S&P 500	Bloomberg Aggregate	S&P 500
38.8%	28.0%	2.8%	21.3%	37.3%	0.0%		20.0%	41.3%	16.1%	8.5%
MSCI: EAFE	Bloomberg Aggregate	Bloomberg Aggregate	Bloomberg: Commodity TR Index	S&P 500	S&P 500	Russell: 2000 Index	MSCI:EM	Bloomberg: Commodity TR Index	MSC: EAFE	MSCI: EM
				25.0%	(4.0%)	28.7%			(13.0%)	
FTSE: NAREIT All Eq Index	Russell: 2000 Index	MSCI: EAFE	MSCI: EM	Russell 2000 Index	Russell 2000 Index	MSCI: EAFE	MSCI: EAFE	Russell 2000 Index	S&P 500	Bloomberg Aggregate
	6.0%	0.5%					18.3%	27.1%	(14.5%)	4.0%
Bloomberg Aggregate	MSCI: EM	Russell: 2000 Index	FTSE: NAREIT All Eq Index	FTSE: NAREIT All Eq Index	Bloomberg: Commodity TR Index	MSCI: EM	Bloomberg Aggregate	MSCI: EAFE	MSCI: EM	Russell: 2000 Index
		0.8%	11.2%							3.0%
MSCI: EM	MSCI: EAFE	MSCI: EM	Bloomberg Aggregate	Bloomberg Aggregate	MSCI: EAFE	Bloomberg Aggregate	Bloomberg: Commodity TR Index	Bloomberg Aggregate	Russell: 2000 Index	FTSE: NAREIT All Eq Index
	2.2%				(11.2%)	18.4%			(20.1%)	
Bloomberg: Commodity TR Index	Bloomberg: Commodity TR Index	Bloomberg: Commodity TR Index	MSCI: EAFE	Bloomberg: Commodity TR Index	MSCI: EM	Bloomberg: Commodity TR Index	FTSE: NAREIT All Eq Index	MSCI: EM	FTSE: NAREIT All Eq Index	Bloomberg: Commodity TR Index
(2.6%)		(14.9%)	2.6%				(3.1%)			

Source: Callan

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