



Market Environment

DECEMBER 31, 2022

Market Environment 4Q22: U.S. Equity

MARKETS FALL IN FINAL MONTH OF QUARTER AFTER GAINS

- The S&P 500 Index posted positive returns in both October and November but fell in December. The index was up 7.6% during 4Q22 but ended 2022 down 18.1%.
- Energy was the best-performing sector during the quarter and 2022, returning 23% and 66% respectively. Consumer Discretionary and Communication Services were the only two sectors that posted negative returns in 4Q.
- Value stocks outperformed growth across the market capitalization spectrum, and for both 4Q and the full year.
- Large cap stocks (Russell 1000) outperformed small caps (Russell 2000) last quarter and for the year.
- Continued macroeconomic concerns (e.g., inflation, potential recession, geopolitical issues) led to higher volatility and a down-year for U.S. equities.

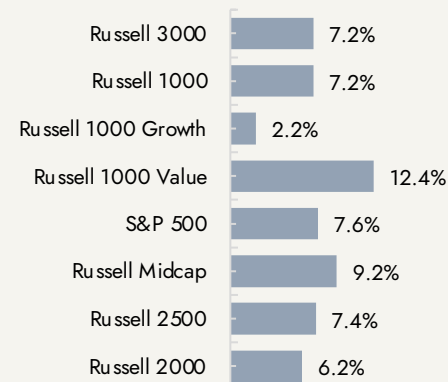
MARKET VALUATIONS HAVE RESET WITH THE BROAD-BASED SELL-OFF

- The drop for equities in 2022 was broad-based, and almost every sector experienced negative returns. Higher interest rates impacted the growth-oriented sectors the most (e.g., Technology, Communication Services).
- Mega-cap technology stocks have underperformed, ending an extended period of market leadership.
- Large cap stocks are now trading around their average P/E ratio, but they are not yet “cheap.”
- Despite the recent outperformance of value stocks, value still looks attractive relative to growth heading into 2023.

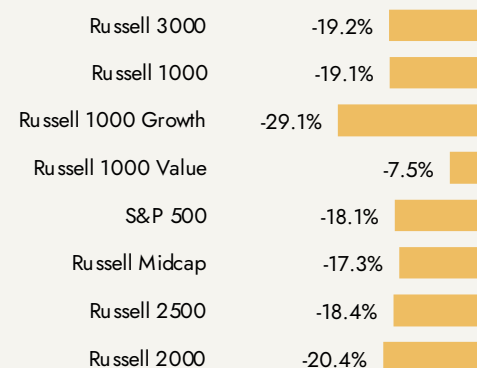
SMALL CAP VALUATIONS ARE ATTRACTIVE RELATIVE TO LARGE CAP

- During 4Q22, the Russell 2000 was trading at a 30% discount to its historical P/E average.
- Relative to large caps, the Russell 2000's forward 12 months P/E is trading at the lowest level versus large cap stocks since the Dot-Com Bubble.
- Relative to large and mid caps, small caps have looked significantly cheaper on various valuation metrics recently.

U.S Equity: Quarterly Returns



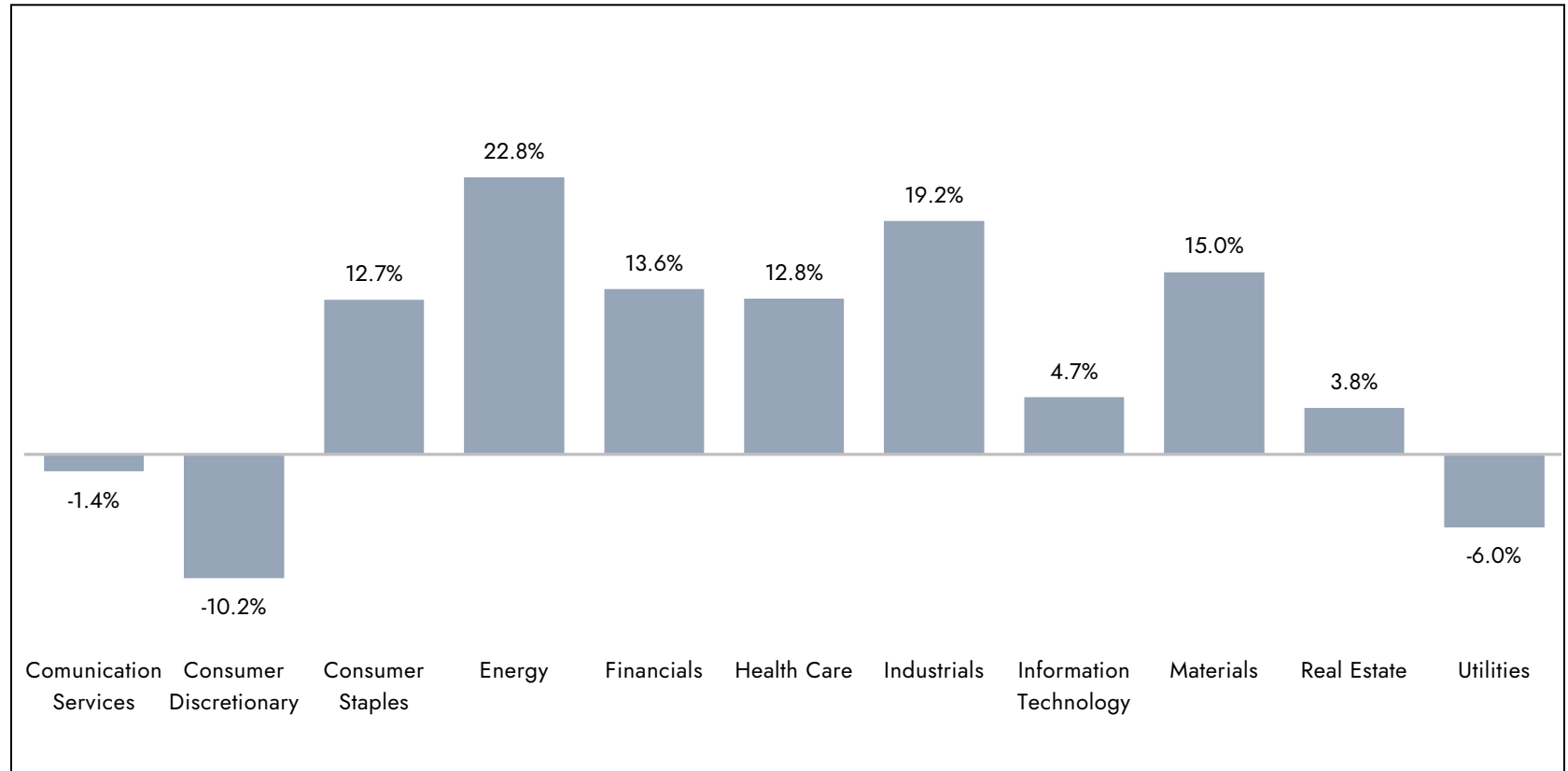
U.S Equity: One-Year Returns



Source: Callan

Market Environment 4Q22: U.S. Equity (cont.)

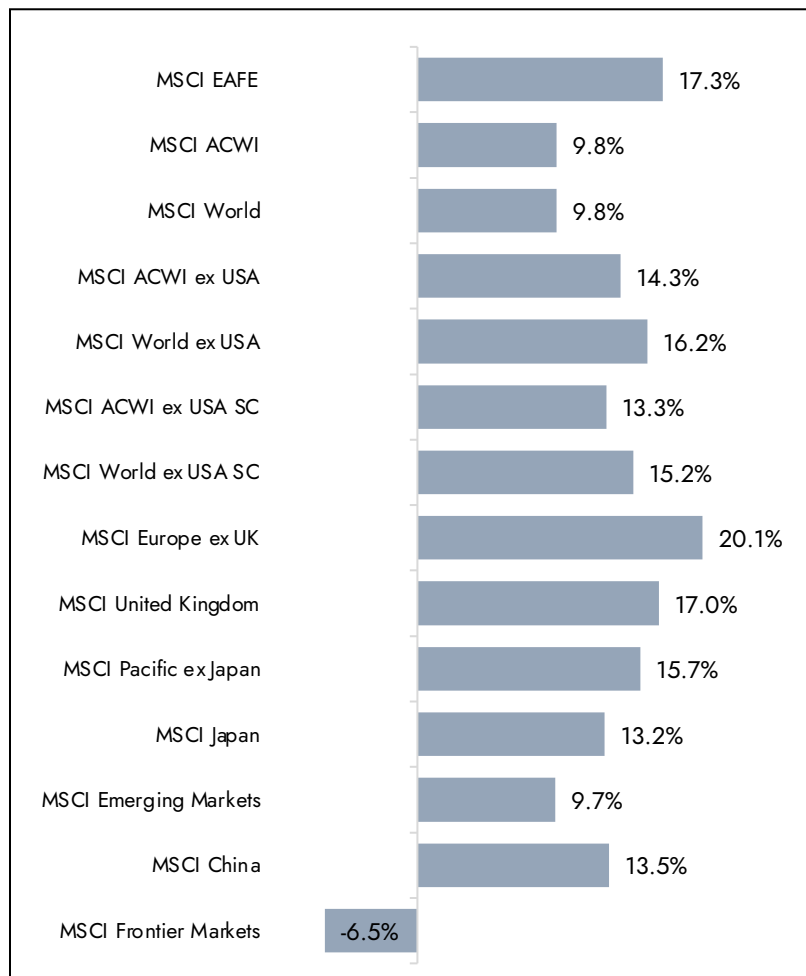
S&P SECTOR RETURNS, QUARTER ENDED 9/30/22



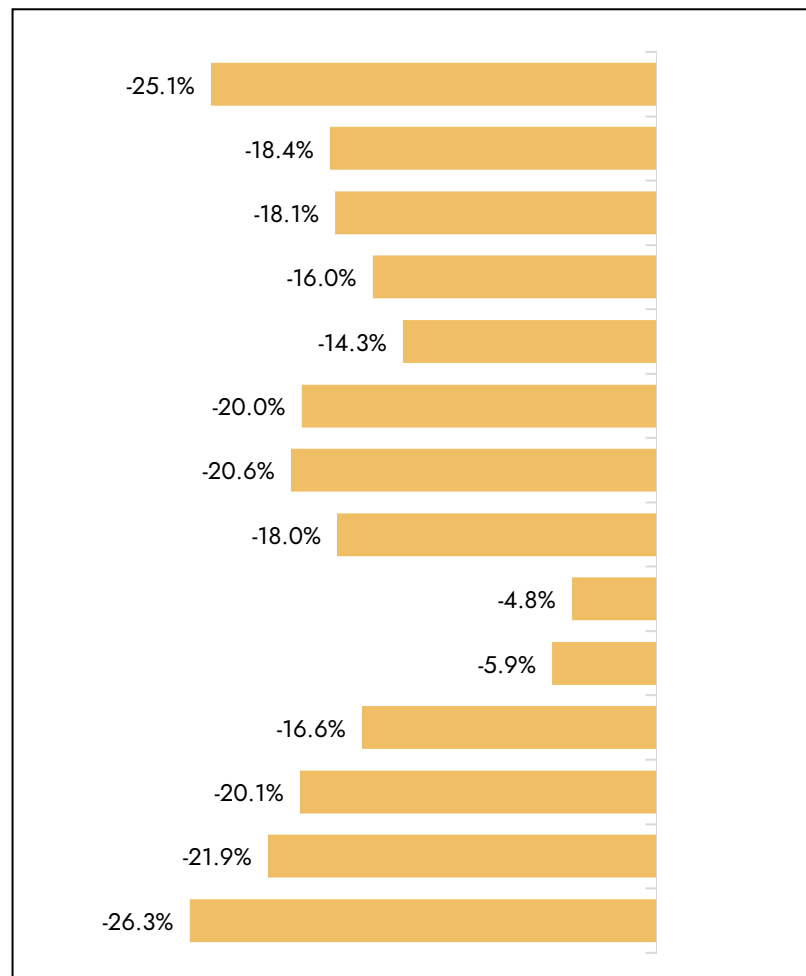
Source: Callan

Market Environment 4Q22: Global EX-U.S. Equity

GLOBAL EQUITY: QUARTERLY RETURNS



GLOBAL EQUITY: ONE-YEAR RETURNS



Source: Callan

Market Environment 4Q22: Global EX-U.S. Equity

ENCOURAGING SIGNS

- Lower-than-expected U.S. inflation data buoyed market optimism at the end of the year.
- The Fed slowed its pace of tightening, with further slowing expected in 2023.
- China reversed its zero-COVID policies, prompting exuberance from investors.

VALUE OUTPACES GROWTH

- Value outpaced growth in developed and emerging markets. Economically sensitive sectors (e.g., Financials and Industrials) benefited from the anticipation of improved growth; Energy was the largest outperformer.

U.S. DOLLAR VS. OTHER CURRENCIES

- After reaching a multi-decade high, the dollar fell against all major currencies with signs of inflation easing.
- Despite the 7.7% decline in 4Q22, the dollar still gained nearly 8% over the full year.
- Global central banks' rate hikes and the U.S. Federal Reserve's slowing pace of tightening could prolong U.S. dollar decline.
- Continued weakening of the U.S. dollar would be a tailwind for non-U.S. equities.

CHINA'S REOPENING SPURS HOPES FOR EMERGING MARKETS

- In addition to pivoting from its zero-COVID policy, Chinese regulators shifted to supportive policies to stabilize the property sector and tech/platform industry.

REOPENING IS EXPECTED TO JUMP-START CHINESE ECONOMY

- China's real GDP growth is estimated to reach 5.5% in 2023 and nearly 7% on a 4Q/4Q basis.
- Real consumption is projected to grow by 8.5% in 2023 as Chinese households have amassed \$2.6 trillion in savings.

RECOVERY IN CHINA WILL SPILL OVER TO OTHER EM REGIONS

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- Real consumption is projected to grow by 8.5% in 2023 as Chinese households have amassed \$2.6 trillion in savings.

Source: Callan

Market Environment 4Q22: U.S. Fixed Income

BONDS WERE UP IN 4Q BUT 2022 RESULTS REMAIN NEGATIVE

- Gain for the Bloomberg US Aggregate Bond Index driven by coupon income and spread tightening; interest rates rose modestly.

RATES WERE VOLATILE INTRA-QUARTER

- U.S. Treasury 10-year yield: high 4.22% on 11/7; low 3.42% on 12/7
- Curve remained inverted at quarter-end: 10-year yield 3.88% and 2-year yield 4.41%; most since 1981

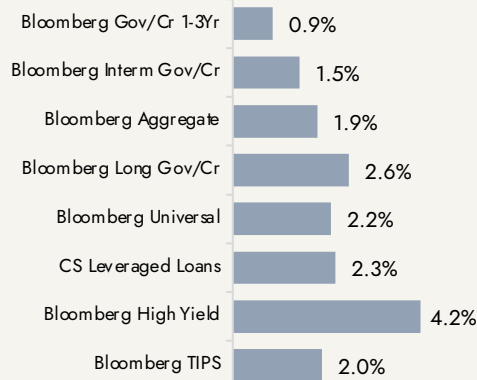
FED RAISED RATES BRINGING TO 4.25% - 4.50%

- Median expectation from Fed is 5.1% for year-end 2023.
- Inflation showed signs of moderating but job market remained tight with solid wage growth.

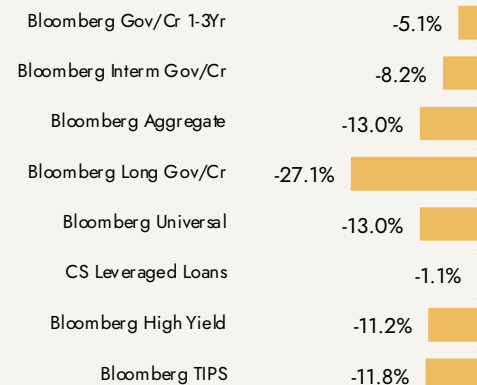
CORPORATES AND MORTGAGES OUTPERFORMED TREASURIES

- 4Q: Corporates +289 bps excess return; residential mortgage-backed securities (RMBS) +110 bps
- 2022: Corporates -125 bps excess return; RMBS -223 bps
- RMBS had worst month ever (September: -191 bps) and best month ever (November: +135 bps) in excess returns.

US Fixed Income: Quarterly Returns



US Fixed Income: One-Year Returns



VALUATIONS FAIR

- While absolute yields are higher, spreads have not widened materially, and most are close to historical averages.
- An economic slowdown could impact credit spreads.
- Higher yields have boosted forward-looking returns across sectors.

ECONOMIC SLOWDOWN CLOUDS THE CORPORATE CREDIT PICTURE

- Despite prospects for an economic slowdown in 2023, fundamental credit metrics for many issuers are strong.
- Default rates are expected to tick up, albeit not to the same extent as in previous recessions.
- Investors may be biased toward higher-quality investment grade issuers as they weigh the threat of a looming recession and potential implications for increased volatility in lower quality corporate credit markets.

CREDIT QUALITY REMAINS STABLE TO IMPROVING

- State revenues up more than 18% vs. 2021.
- Number of defaults lower than 2021 and concentrated in senior living and industrial revenue bonds.

Source: Callan

Market Environment 4Q22: U.S. Fixed Income (cont.)

TIPS: BEWARE OF DURATION

- Despite a rise in inflation, TIPS saw marked declines in 2022 amid rising interest rates.
- TIPS, like nominal Treasuries, are sensitive to changes in interest rates, and as a result, shorter-duration TIPS fared better than full spectrum TIPS in 2022.
- Shorter-term TIPS exhibit a higher correlation to realized inflation but also provide a similar risk-adjusted return as that of full spectrum TIPS.

MUNICIPAL BONDS

GAINS IN 4Q BUT MOST 2022 RESULTS REMAIN NEGATIVE

- Municipal Bond Index calendar year return worst since 1981
- Higher quality outperformed in 4Q (AAA: +4.3%; AA: +4.1%; A: +4.0%; BBB: +3.9%; High Yield: +3.5%) and in 2022
- Munis outperformed most other fixed income sectors in 4Q and in 2022

VALUATIONS RELATIVE TO U.S. TREASURIES ON THE RICH SIDE

- 10-year AAA Muni/10-year U.S. Treasury yield ratio 68%; below 10-year average of 88%
- After-tax yield of Muni Bond Index = 6.0% (Source: Eaton Vance)

SUPPLY / DEMAND

- Mutual fund outflows hit a record \$122 billion in 2022, with tax loss harvesting being a key driver.
- ETFs saw inflows as some investors reinvested in them.
- Supply also down; \$71 billion in 4Q and the lowest in 13 years; 2022 issuance off roughly 20% from 2021.

CREDIT QUALITY REMAINED STABLE

- State and local tax collections robust and reserves elevated; state revenues up 16% on average vs. 2021

GLOBAL FIXED INCOME

4Q RETURNS DRIVEN LARGELY BY U.S. DOLLAR WEAKNESS

- U.S. dollar down 9% vs. euro, 10% vs. yen, 8% vs. pound
- For the year, dollar up 6% vs. euro, 13% vs. yen, and 11% vs. pound
- Rates up across most of Europe and in Japan
- Rates fell in the U.K.

EMERGING DEBT ALSO DID WELL

- Returns varied across countries but most were positive

Source: Callan

Market Environment 4Q22: Global Non-U.S. Fixed Income

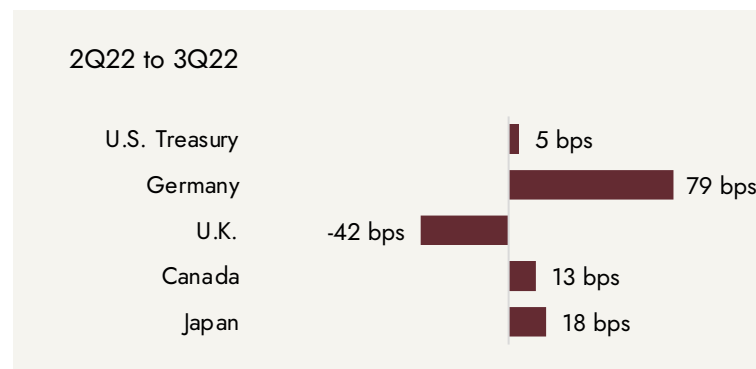
GLOBAL FIXED INCOME

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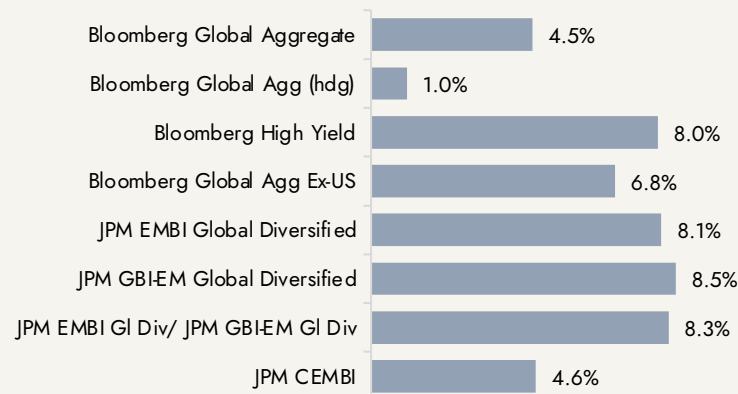
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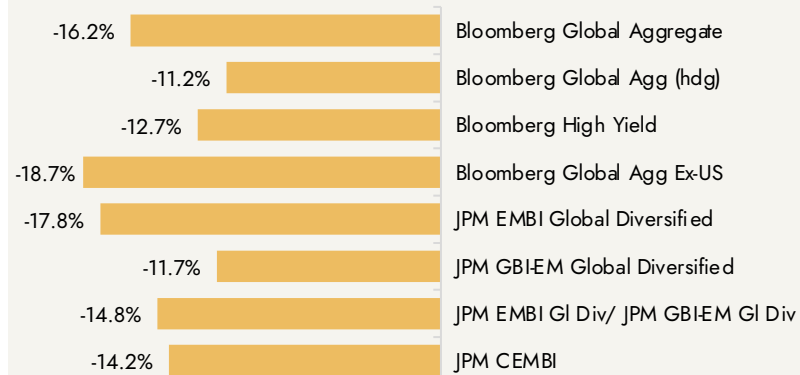
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US Fixed Income: Quarterly Returns



US Fixed Income: One-Year Returns



Source: Callan

Historical Investment Performance

RETURNS FOR PERIODS ENDED DECEMBER 31, 2022

	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	(19.2)	(19.2)	0.8	7.1	12.6	8.8	11.0	12.1	8.7	9.9	7.7	9.6
Russell: 1000 Index	7.2	(19.1)	(19.1)	1.1	7.3	12.9	9.1	11.3	12.4	8.8	9.9	7.7	9.7
Russell:1000 Value	12.4	(7.5)	(7.5)	7.6	6.0	10.8	6.7	9.1	10.3	7.0	8.8	7.2	9.5
Russell:1000 Growth	2.2	(29.1)	(29.1)	(4.9)	7.8	14.3	11.0	12.9	14.1	10.3	10.8	7.7	9.4
Russell:Midcap Index	9.2	(17.3)	(17.3)	0.7	5.9	11.6	7.1	9.6	11.0	8.4	10.8	9.0	10.5
Russell:Midcap Value	10.5	(12.0)	(12.0)	6.3	5.8	10.8	5.7	8.7	10.1	8.0	10.4	8.8	10.6
Russell:Midcap Value	6.9	(26.7)	(26.7)	(9.1)	3.9	11.0	7.6	10.0	11.4	8.6	10.9	8.2	9.5
Russell:2000 Index	6.2	(20.4)	(20.4)	(4.4)	3.1	8.3	4.1	7.9	9.0	7.2	9.4	7.1	8.6
Russell:2000 Value	8.4	(14.5)	(14.5)	4.7	4.7	8.9	4.1	8.2	8.5	6.8	9.0	7.7	9.6
Russell:2000 Growth	4.1	(26.4)	(26.4)	(13.0)	0.6	7.0	3.5	7.1	9.2	7.3	9.5	6.1	7.2
Domestic Equity Benchmarks													
MSCI:EAFE	17.3	(14.5)	(14.5)	(2.4)	0.9	5.8	1.5	4.5	4.7	1.8	6.4	4.5	5.6
MSCI:ACWI ex US	14.3	(16.0)	(16.0)	(4.8)	0.1	5.0	0.9	4.8	3.8	1.5	6.7	-	-
MSCI:EM	9.7	(20.1)	(20.1)	(11.8)	(2.7)	2.2	(1.4)	5.2	1.4	0.6	8.7	-	-
MSCI:EAFE Small Cap	15.8	(21.4)	(21.4)	(7.0)	(0.9)	5.0	0.0	4.4	6.2	3.8	9.0	-	-
MSCI:Frontier Markets	(0.8)	(26.3)	(26.3)	(6.1)	(3.6)	1.4	(2.5)	2.6	3.2	(1.7)	5.7	-	-
Domestic Fixed Income Benchmarks													
Blmbg:Aggregate	1.9	(13.0)	(13.0)	(7.5)	(2.7)	0.0	0.0	0.9	1.1	2.7	3.1	4.0	4.5
Blmbg:HY Corp	4.2	(11.2)	(11.2)	(3.3)	0.0	3.4	2.3	5.0	4.0	6.1	7.3	5.9	6.8
Blmbg:Municipal	4.1	(8.5)	(8.5)	(3.6)	(0.8)	1.2	1.3	1.7	2.1	3.4	3.6	4.1	4.6
Blmbg:Gov/Cred 1 - 3 Yr	0.9	(3.7)	(3.7)	(2.1)	(0.3)	0.8	0.9	1.0	0.9	1.5	2.0	2.9	3.4
Blmbg:TIPS	2.0	(11.8)	(11.8)	(3.4)	1.2	3.0	2.1	2.6	1.1	3.1	3.8	4.8	-
Non-US Fixed Income Benchmarks													
Blmbg:Glb Agg xUSD	6.8	(18.7)	(18.7)	(13.1)	(5.2)	(3.3)	(3.1)	(0.6)	(1.6)	0.5	2.4	2.7	3.6
Blmbg:Glb Agg xUSD Hdg	0.2	(9.8)	(9.8)	(5.7)	(2.6)	(0.1)	0.5	1.4	2.1	3.0	3.3	4.0	5.0
JPM:EMBI Global Divsfd	8.1	(17.8)	(17.8)	(10.1)	(5.3)	(0.6)	(1.3)	1.8	1.6	4.3	6.2	6.8	-
JPM:GBI-EM Global Divsfd	8.5	(11.7)	(11.7)	(10.2)	(6.1)	(1.6)	(2.5)	1.6	(2.0)	1.5	4.9	-	-

Source: Callan

Periodic Table of Investment Returns

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
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
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
38.8%	28.0%	2.8%	21.3%	37.3%	0.0%		20.0%	41.3%	16.1%
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
				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
	6.0%	0.5%					18.3%	27.1%	(14.5%)
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
		0.8%	11.2%						
MSCI: EM	MSCI: EAFE	MSCI: EM	Bloomberg Aggregate	Bloomberg Aggregate	MSCI: EAFE	Bloomberg Aggregate	Bloomberg: Commodity TR Index	Bloomberg Aggregate	Russell: 2000 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
(2.6%)		(14.9%)	2.6%				(3.1%)		

Source: Callan

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