



Market Environment

JUNE 30, 2023 | CONFIDENTIAL. NOT FOR DISTRIBUTION.

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Market Environment 2Q23: U.S. Equity

LARGE CAP GROWTH STOCKS LEAD BROAD INDICES HIGHER

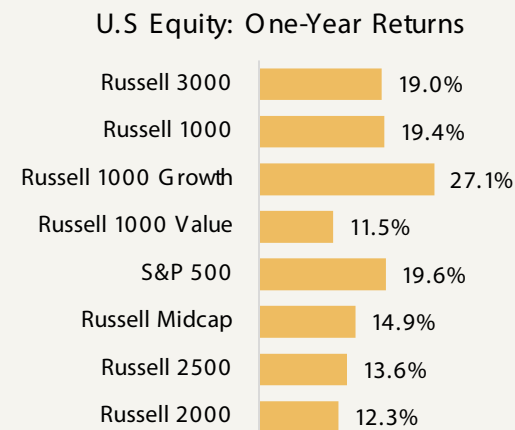
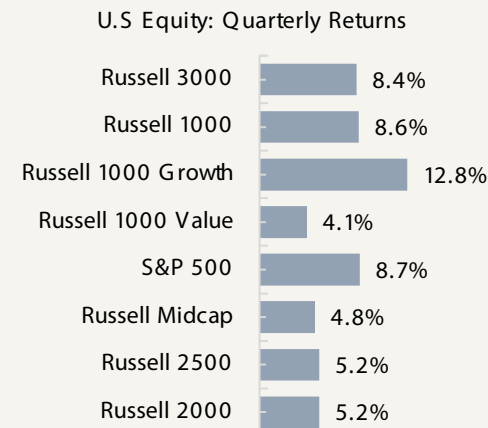
- The S&P 500 posted a second straight quarter of positive performance, gaining 8.7%; large cap growth led all styles, advancing 12.8%.
- All U.S. equity indices produced positive returns; small value and low volatility produced the lowest 2Q returns.
- Nine of the 11 S&P Index sectors produced a positive 2Q23 return.
- Similar to 1Q23, small caps (Russell 2000) underperformed large caps (Russell 1000) and growth outperformed value during the quarter, a reversal of trend from 2022.
- Financials (-1.1%) detracted from returns for the Russell 2000 (+5.2%) while Health Care was the only small cap sector to produce double-digit returns (+11.2%).

INDEX CONCENTRATION IS A SIGNIFICANT 2Q THEME

- 10 stocks within the S&P 500 Index contributed 80% of the 16.9% return YTD through 6/30; average appreciation is 82%, and these stocks had an average forward price/earnings ratio of 36x.
- 2Q return for the S&P 500 Index was 8.7%; the equal weight S&P 500 Index returned 4%.
- The YTD return difference is nearly 10 percentage points; if this gap holds through year-end, it would be the largest since 1998.

SMALL CAP VALUATIONS POINT TO POTENTIAL OPPORTUNITY

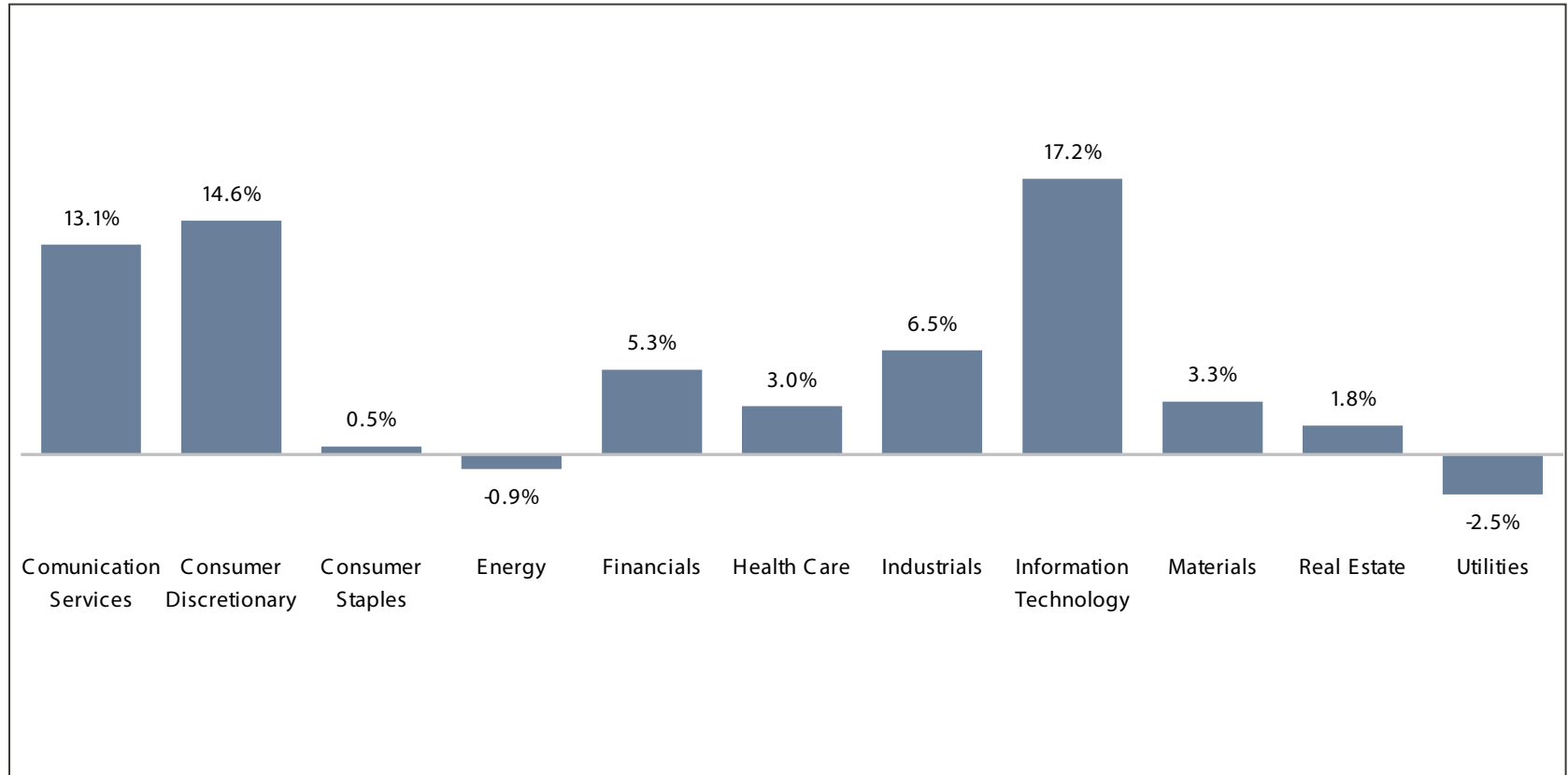
- Small cap continues to trade at a meaningful discount to its historical valuations; large cap (particularly growth) continues to trade at a premium to its historical valuations.
- Favorable developments in the inflation data could give the small cap market a boost in performance.
- One recent issue that caused this relative valuation gap is debt; on average, small cap companies have a higher exposure to variable rate debt than large cap counterparts.



Source: Callan

Market Environment 2Q23: U.S. Equity (cont.)

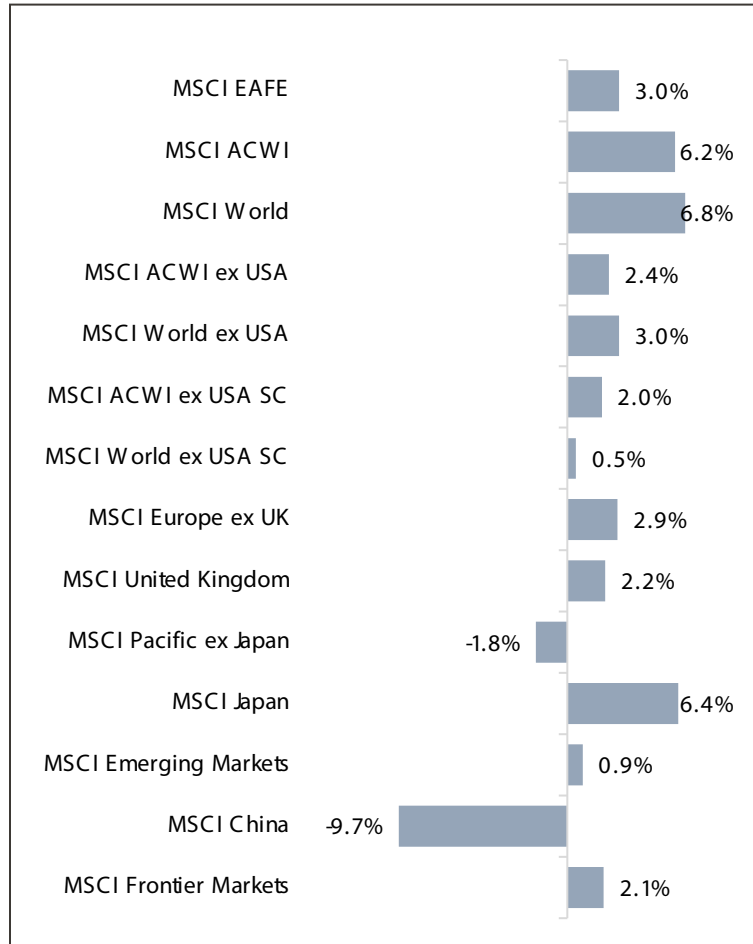
S&P SECTOR RETURNS, QUARTER ENDED 6/30/23



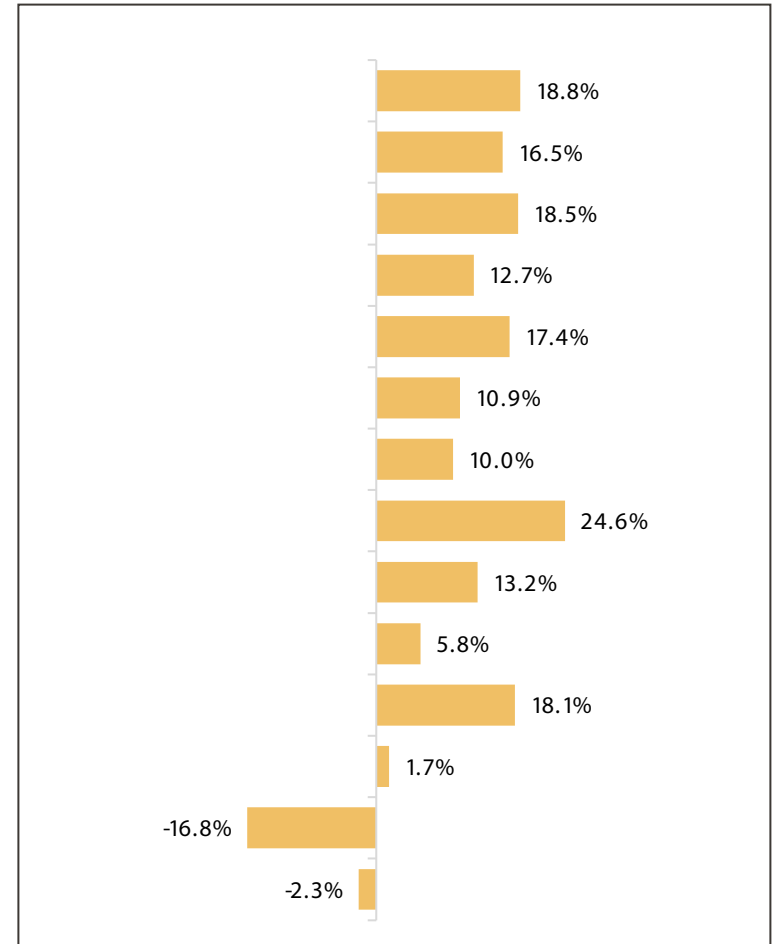
Source: Callan

Market Environment 2Q23: Global EX-U.S. Equity

GLOBAL EQUITY: QUARTERLY RETURNS



GLOBAL EQUITY: ONE-YEAR RETURNS



Source: Callan

Market Environment 2Q23: Global EX-U.S. Equity

TECHNOLOGY STOCKS LEAD MARKETS HIGHER

- 2Q23 saw global markets led higher by mega cap technology stocks, in part due to increased optimism around artificial intelligence advancements.
- Market expectations of a recession decreased as inflation showed signs of abating while the Fed kept rates unchanged in June.
- Japan outperformed other regions in local currency as valuations continued to be attractive alongside the Bank of Japan's easy monetary policy.

DEVELOPED VS. EMERGING MARKETS

- Developed markets outperformed emerging markets as China weighed on EM indices.

GROWTH VS. VALUE

- Mega cap technology companies, which are primarily U.S.- based, led markets higher and resulted in large dispersions between U.S. growth and value indices. However, outside of the U.S., growth and value index returns were relatively balanced.

JAPAN'S TURN

- Valuation below historical levels
- Economic recovery; in 1Q Japan transitioned out of a recession as GDP grew 2.7%.
- Next 12 months consensus earnings estimates show Japan outpacing China, EM, and Europe, and only trailing the U.S.

INDIA VS. CHINA

ECONOMICS

- Chinese geopolitical tensions have, in part, driven outside investment elsewhere compared to India, with Prime Minister Modi's visit to the U.S. highlighting its place in the world economy.
- China's New Espionage Law (effective July 2023) likely contributing to less foreign investment; \$20 billion ended 1Q23 versus \$100 billion ended 1Q22.

ASSET FLOWS

- India's equity market has more than doubled since 2010.

GROWTH

- India surpassing China with % of population in the middle class in 2030, and from 2023 to 2030 will contribute twice as much growth from this group than China in the Asia Pacific region.

Source: Callan

Market Environment 2Q23: U.S. Fixed Income

BLOOMBERG AGGREGATE DOWN AS RATES ROSE

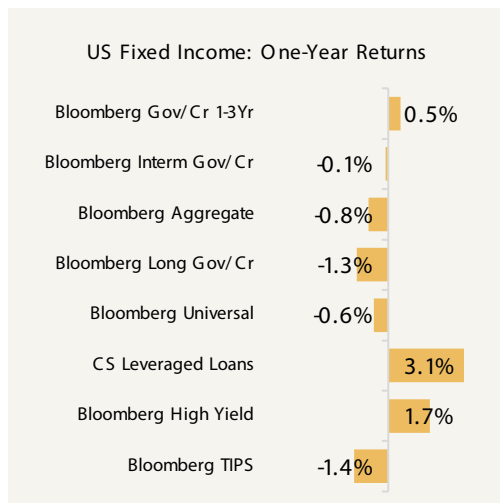
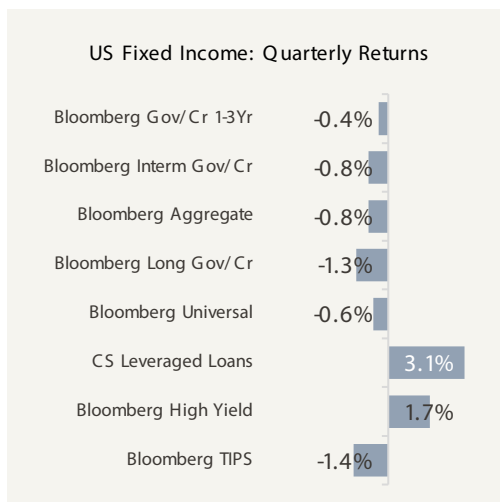
- Corporate excess return: +131 bps
- Mortgage excess return: +76 bps
- High yield corporates excess return: +279 bps
- AA excess return: +84 bps
- BBB excess return: +157 bps

YIELD CURVE INVERSION STEEPENED

- 2-year U.S. Treasury: 4.87%; 10-year: 3.81%

TIPS PERFORMED IN LINE WITH NOMINAL U.S. TREASURIES

- Five-year breakeven spreads narrowed to 2.18% from 2.40% on 3/31.
- Fed and markets expect inflation to trend down over longer periods.
- Fed Funds target raised to 5.00% - 5.25%
- Paused at June meeting but suggested that further hikes are likely
- Median expectation from Fed: 5.6% for year-end 2023
- Market expectations are similar at 5.4%; up sharply from expectations for cuts at the end of 1Q.



VALUATIONS FAIR

- Credit spreads have not widened materially and are close to historical averages.
- Demand has remained robust with muted issuance.

MUNICIPAL BONDS

MUNICIPAL BONDS OUTPERFORMED U.S. TREASURIES IN 2Q

- Bloomberg Municipal Bond Index: -0.1%; Bloomberg U.S. Treasury Index: -1.4%
- Lower quality munis outperformed (AAA: -0.4%; AA: -0.2%; A: +0.2%; BBB: +0.7%)

VALUATIONS RELATIVE TO U.S. TREASURIES REMAIN RICH

- 10-year AAA Muni/ 10-year U.S. Treasury yield ratio 67%; below 10-year median of 87%
- After-tax yield 5.95% (Bloomberg Municipal Bond Index)

FUNDAMENTALS REMAIN SOUND

- "Rainy Day" fund balances and state tax revenues continued to be robust
- Upgrades continued to significantly outpace downgrades in 1Q.

Source: Callan

Market Environment 2Q23: Global Fixed Income

GLOBAL AGGREGATE DOWN UNHEDGED BUT UP HEDGED

- Rates mixed; up in the U.S., Great Britain, and Australia and flat to slightly down across other developed markets
- Japan (-8%) worst performer on sharp yen depreciation
- Bank of England surprised markets with 50 bps increase to combat sticky inflation.

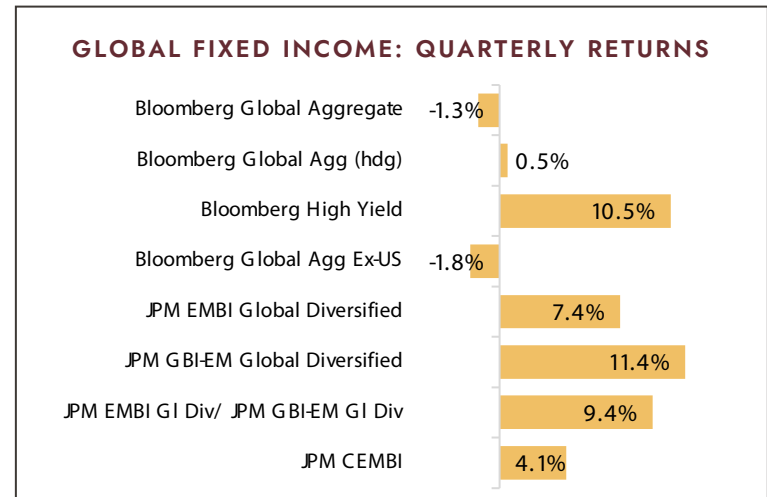
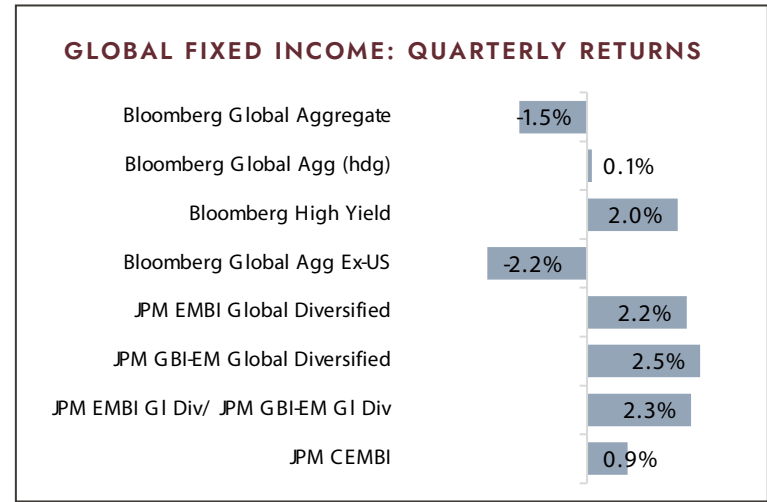
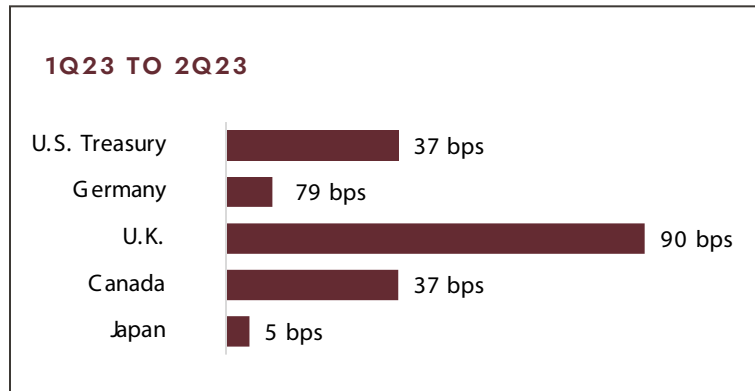
U.S. DOLLAR MIXED

- Euro: +0.4% vs dollar
- British pound: +2.8% vs dollar
- Canadian dollar: +2.3% vs dollar
- Japanese yen: -7.9% vs dollar
- Australian dollar: -0.6% vs dollar
- Chinese yuan: -5.4% vs dollar
- Mexican peso: +5.3% vs dollar
- Brazilian real: +5.1% vs dollar

EMERGING MARKET DEBT DELIVERED SOLID RESULTS

- Growth differentials have improved as inflation has peaked in many markets.

Market Environment 2Q23: Global Non-U.S. Fixed Income



Source: Callan

Historical Investment Performance

RETURNS FOR PERIODS ENDED JUNE 30, 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	8.4	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	8.6	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	4.1	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	12.8	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	4.8	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	3.9	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	6.2	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	5.2	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	3.2	(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	7.1	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	3.0	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	2.4	6.9	(5.1)	(3.3)	11.8	4.2	2.5	5.9	4.2	2.6	7.5	-	-
MSCI:EM	0.9	4.0	(10.7)	(11.0)	7.8	0.8	(0.9)	4.9	2.0	1.7	9.3	-	-
MSCI:EAFE Small Cap	0.6	4.9	(9.8)	(6.8)	12.1	3.6	0.9	5.3	5.9	4.6	9.5	-	-
MSCI:Frontier Markets	2.1	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	(0.8)	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	1.7	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	(0.1)	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	(0.4)	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	(1.4)	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	(2.2)	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	0.7	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	2.2	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	2.5	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

2014	2015	2016	2017	2018	2019	2020	2021	2022	2 Qtrs. 2023
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
28.0%	2.8%	21.3%	37.7%	0.0%	31.5%	20.0%	41.3%	16.1%	16.9%
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	MSCI:EAFE
13.7%	1.4%	12.0%	25.0%	(4.0%)	28.7%	18.4%	28.7%	(13.0%)	11.7%
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	Russell: 2000 Index
6.0%	0.5%	11.8%	21.8%	(4.4%)	25.5%	18.3%	27.1%	(14.5%)	8.1%
Russell: 2000 Index	MSCI: EAFE	MSCI: EM	Russell 2000 Index	Russell 2000 Index	MSCI: EAFE	MSCI: EAFE	Russell 2000 Index	S&P 500	MSCI: EM
4.9%	(0.8%)	11.2%	14.6%	(11.0%)	22.0%	7.8%	14.8%	(18.1%)	4.9%
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	FTSE: NAREIT All Eq Index
(2.2%)	(4.4%)	8.6%	8.7%	(11.2%)	18.4%	7.5%	11.3%	(20.1%)	3.0%
MSCI: EAFE	MSCI: EM	Bloomberg Aggregate	Bloomberg Aggregate	MSCI: EAFE	Bloomberg Aggregate	Bloomberg: Commodity TR Index	Bloomberg Aggregate	Russell: 2000 Index	Bloomberg Aggregate
(4.9%)	(14.9%)	2.6%	3.5%	(13.8%)	8.7%	(3.1%)	(1.5%)	(20.4%)	2.1%
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
(17.0%)	(24.7%)	1.0%	1.7%	(14.6%)	7.7%	(5.1%)	(2.5%)	(24.9%)	(7.8%)

Source: Callan

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