Current Investment Strategy and Themes

- ***Markets returned to Risk On in January.***
- ***Portfolios need to be positioned to balance short-term volatility with long-term growth opportunities.***
- ***Inflation protection, broad asset class diversification, and low correlation vehicles remain the focus.***

The Markets in Review: January 2023

- January 1st always appears to do more than just turn the page on a calendar. Despite the protestations that investors are rational and clear-minded, January 1st seems to lift the anchor of the last years negative market news and results. During a bear market year like 2022, investors get frozen into inaction and focusing on the question "How is my portfolio doing THIS year?". We have long written that any one year is irrelevant, bull or bear. But bear market returns should get investors to reexamine the relevant question. Whether an individual, foundation, corporation, or any other plan structure, the true relevant question is "What rate of wealth accumulation will this portfolio need to grow to meet all future liabilities?". Not did my portfolio beat the S&P 500? As painful as stocks and bond portfolio results were in 2022, investors have a renewed sense of risk and volatility. And that will help answer the question if the assumed plan rate of return is too high, and/or only achievable with too much risk.
- Did new data suddenly change the market outlook on January 1, or did the change of calendar allow investors to put behind 2022 results and shift the focus forward to the set of potential outcomes. More likely the latter, the stocks and bonds rallied globally. The data shows the leading sectors of the market were the riskier sectors of the markets. There were two bear market rallies in 2022. Time will tell if this is another bear rally, or the fundamentals have begun to improve.
- The series of macro-economic factors that lead the discussion on the direction capital markets in 2023.
  - 1. The Federal Reserve has consistently stated interest rates will continue to rise in 2023. In bullish month like January, investors are forecasting that the Fed rate hikes will end sooner rather than later.
  - 2. Inflation will likely decelerate. That is likely as it is being compared to a higher base, but it will shift to other sectors of the economy, and the volatile food and energy component will have less impact.
  - 3. To have a recession or not? A consistent forecast is a mid-year recession is imminent. But a just as likely scenario it that the economy remains neutral at the aggregate level, but widely different by industry and region. In the 1980s and 1990s, this was called rolling recessions.
- The is that a very likely outcome is stagflation; that is inflation above the long-term 2% target range, and economic growth below trend. The unsteady state of stagflation means that any negative development can send the markets lower again. Building a portfolio now is a combination of drawdown protection and positioning for a stagflation economy.

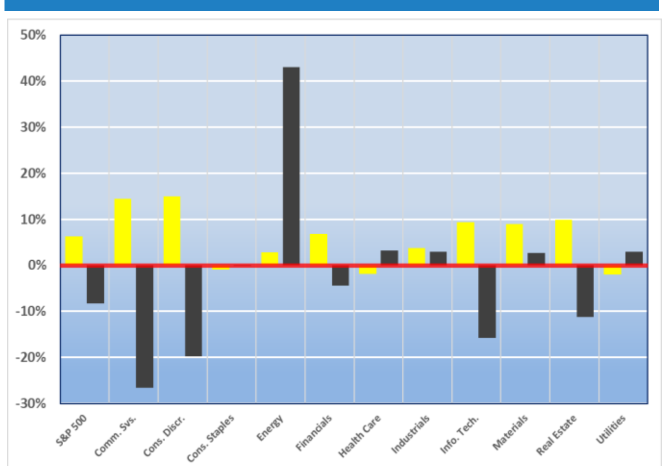
Key Market Indicators

Bullish	Favorable	Neutral	Cautious	Bearish

Equities	Jan 2023	Last 3 Months	Last 12 Months	Current View
U.S. Large Cap	6.28%	5.76%	-8.22%	Cautious
U.S. Small Cap	9.75%	5.02%	-3.38%	Cautious
International Developed	8.10%	20.37%	-2.83%	Cautious
Emerging Markets Equity	7.90%	22.16%	-12.12%	Cautious
Fixed Income				
U.S. Aggregate	3.08%	6.39%	-8.36%	Neutral
U.S. Government	2.48%	4.66%	-8.43%	Neutral
U.S. Corporate	3.81%	8.50%	-9.11%	Neutral
U.S. High Yield	3.81%	5.40%	-5.22%	Neutral
Non-U.S. Developed	3.74%	10.63%	-16.79%	Cautious
Emerging Market Debt	3.64%	12.86%	-7.16%	Bearish
Alternatives				
REITs	10.67%	11.04%	-10.14%	Cautious
Commodities	0.85%	3.56%	11.94%	Favorable
Managed Futures	0.23%	-4.01%	19.50%	Favorable
Hedge Funds	1.67%	1.76%	-1.33%	Favorable

Source: Morningstar, data as of 1/31/2023

S&P 500 Sector Returns Jan. vs Last 12 mo.



Source: Morningstar

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Index definitions:

“U.S. Large Cap” represented by the S&P 500 Index.
“U.S. Small Cap” represented by the Russell 2000 Index.
“International” represented by the MSCI Europe, Australasia, Far East (EAFE) Net Return Index.
“Emerging” represented by the MSCI Emerging Markets Net Return Index.
“U.S. Aggregate” represented by the Bloomberg U.S. Aggregate Bond Index.
“U.S. Government” represented by the Bloomberg U.S. Government Bond Index.
“U.S. Corporate” represented by the Bloomberg U.S. Credit Bond Index.
“U.S. High Yield” represented by the Bloomberg U.S. Corporate High Yield Index.
“Non-U.S. Developed” represented by the S&P International Treasury ex U.S. Index.
“Emerging Market Debt” represented by the JP Morgan GBI-EM Global Core Index.
“REITs” represented by the FTSE North American Real Estate Investment Trust (REIT) Equity REITs Index.
“Commodities” represented by the Dow Jones Commodity Index .
“Managed Futures” represented by the Credit Suisse Managed Futures Index.
“Global Macro” represented by the Credit Suisse Global Macro Index

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