Current Investment Strategy and Themes

- ***Markets continue to adapt to a Federal Reserve intent on fighting inflation with higher interest rates.***
- ***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: February 2023

- Capital markets retreated in February across all asset classes. In January, strategies and assets in all classes rose In the 5% to 10% range as investors turned more hopeful that the worst of the inflation news and interest rate hikes were behind us. But February data showed the market taking more seriously the words of the Federal Reserve that the fight to control inflation would continue resulting in possibly a longer and more challenging fight. And maybe a recession would result from the fight. Economic data often involves revisions and conflicts among the different data points. The inflation data *seems* to be showing a declining rate of advancement; however, the data in the service sector *appears* to be showing sticky upward pressure.

- Global central bankers' lengthy post-2008 financial crisis zero-interest rate policies had numerous consequences on capital market behaviors and allocations. We have written on them continuously. The most consequential is that *risk is mispriced;* neither the *risk of time* nor the *risk of credit* (the two factors of the bond market) is appropriately calculated. That leads to mispricing in equities as ratios such as Price Earnings lurch forward to unsustainable levels. The zero-interest rate policy is officially over at every central bank. Due to the sudden sharp emergence of inflation, the record rate increases put risk back into the investment equation.

- Long investment regimes have a psychological effect on investors and markets. The most famous survivors of the great depression were known to be savers and conservative investors and avoided Wall Street. Many of today's market participants only know zero interest rates and equity prices disconnected from fundamentals. Many see investing via a cellphone app as no different than the cellphone app for betting on sporting events. Both professional investors and hobbyists will be exposed and or bankrupted when the price of risk deflates their holdings.

- Portfolio construction is a series of decisions based on a continuously evolving set of probabilities of future outcomes. Portfolios have tilts and hedges from a basic capital market framework to take advantage of opportunities *and* withstand the losses of those fundamental adverse developments. They take single long strategies or positions without regard to the risk of the downside. The results is typically disastrous on the downside. Without the proper risk price, investors concentrate and forget about diversification in bull markets.

- Investors don't like to hedge or risk manage their portfolios on the upside. Conversely, in down markets, they are afraid to take any risk and sit on the sidelines. But then they never know how to get back in. Portfolios should now be positioned with a lower risk than average profile. The bond portfolio should be shorter and of higher quality than the market. Equities should be allocated across the capitalization spectrum, balancing current quality with future growth opportunities.

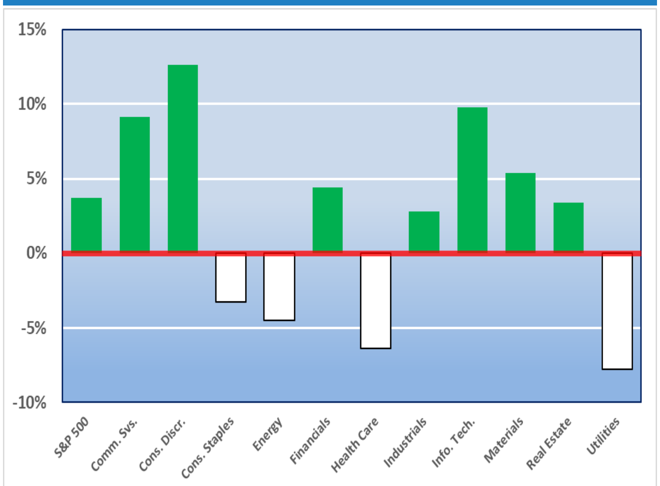
Key Market Indicators

Bullish | Favorable | Neutral | Cautious | Bearish

Equities	Feb 2023	Year to Date	Last 12 Months	Current View
U.S. Large Cap	-2.44%	3.69%	-7.69%	Cautious
U.S. Small Cap	-1.69%	7.89%	-6.02%	Cautious
International Developed	-2.09%	5.84%	-3.14%	Cautious
Emerging Markets Equity	-6.48%	0.90%	-15.28%	Cautious
Fixed Income				
U.S. Aggregate	-2.59%	0.41%	-9.72%	Neutral
U.S. Government	-2.31%	0.11%	-9.96%	Neutral
U.S. Corporate	-3.01%	0.69%	-10.15%	Neutral
U.S. High Yield	-1.29%	2.47%	-5.46%	Neutral
Non-U.S. Developed	-4.62%	-1.05%	-19.67%	Cautious
Emerging Market Debt	-2.58%	0.97%	-5.93%	Bearish
Alternatives				
REITs	-4.80%	5.36%	-11.69%	Cautious
Commodities	-3.97%	-3.15%	0.38%	Favorable
Managed Futures	-1.08%	-0.85%	14.89%	Favorable
Hedge Funds	-0.47%	1.19%	-1.44%	Favorable

Source: Morningstar, data as of 2/28/2023

S&P 500 Sector Returns YTD 2023



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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