Current Investment Strategy and Themes

- ***The higher interest rate policy has slowed the inflation rate, and the outlook for growth remains muddy.***
- ***Sentiment remains strong, but the next phase of the Fed direction will drive future sentiment.***
- ***Volatility protection and inflation protection remain critical components of portfolio construction.***

The Markets in Review: July 2023

- Equity markets followed up their 2nd solid quarter returns in July with gains across all equity regions, sizes, styles, and sectors. Commodity prices rebounded in the month, led by sharp gains in energy prices. The bond market was the only portion of the capital markets that produced negative returns in July. For the second straight month, the broader equity market outperformed the S&P 500. Most stock market behavior analyses in the first five months of 2023 focused on the mega-cap tech effect and how seven companies disproportionately impacted market returns.
- The interest rate policies of the Federal Reserve have been the primary focus of investor analysis and sentiment since early 2022. The straightforward and well-announced goals of the Fed were to raise interest rates to a level that would decelerate inflation and reduce the year-over-year actuals from the high single digits closer to the long-run target of 2%. The Fed expected these increases to reduce inflation with the resultant risk of a recession and labor market contraction. As expected, the Fed raised short-term rates in July from 5.25% to 5.50%. Market participants expected this to be the last rate hike and for the Fed to assess the results.
- But now it seems the recession everyone forecasted for late 2023 seems father off. GDP estimates may have slowed, but recession does not seem imminent. Some data shows no slowdown at all. Now the questions move to can the Fed pause the interest rate hike cycle and maintain a decelerating rate of inflation in a growing GDP environment greater than they forecasted.
- Fed policy and interest rates will continue to be the primary focus of market direction expectations. As the equity markets rallied by over 3% in July, the 10-year Treasury Note yield rose from 3.83% to 3.96%. The 10-year is the crucial determinant from mortgage rates to corporate bonds. Rarely can the equity market rally continue disjointed from the direction of long-term interest rates.
- The equity markets also brushed aside the 16% rise in oil prices in July to shy of $82 bbl. Falling energy prices were one of the reasons that inflation moderated in the first half of 2023. The rising oil and gas prices did propel the Energy sector to the top economic sector return in the S&P 500 for the month.
- The S&P 500 return for the first five months of 2023 was the outlier of capital market returns. All other sectors and factor classifications sharply underperformed the S&P 500 over that period. The diversified equity investor has fared better in the last two months. The balanced investor with both stocks and bonds has struggled in 2023 as the bond market has produced meager single digits returns for the year and sharply lower returns than the equity portion of the portfolio.

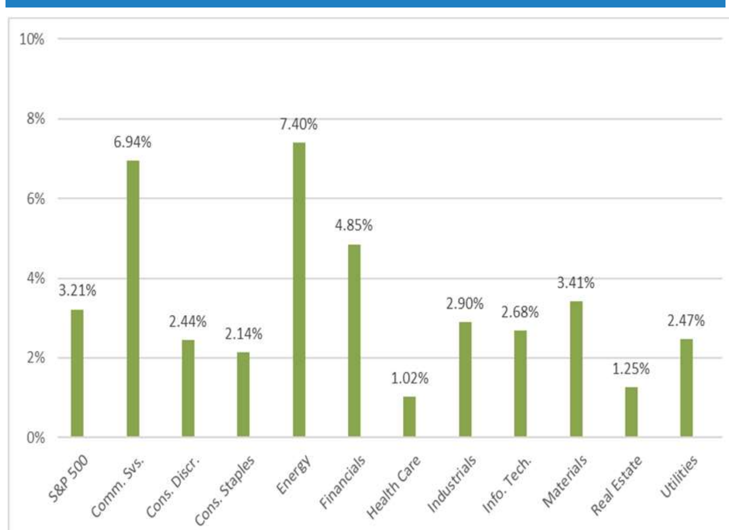
Key Market Indicators

Bullish | Favorable | Neutral | Cautious | Bearish

Equities	July 2023	Year to Date	Last 12 Months	Current View
U.S. Large Cap	3.21%	20.65%	13.02%	Cautious
U.S. Small Cap	6.12%	14.70%	7.91%	Cautious
International Developed	3.24%	15.28%	16.79%	Neutral
Emerging Markets Equity	6.23%	11.42%	8.35%	Cautious
Fixed Income				
U.S. Aggregate	-0.07%	2.02%	-3.37%	Neutral
U.S. Government	-0.34%	1.24%	-3.93%	Neutral
U.S. Corporate	0.31%	3.45%	-1.29%	Neutral
U.S. High Yield	1.38%	6.83%	4.41%	Cautious
Non-U.S. Developed	0.79%	2.16%	-4.01%	Cautious
Emerging Market Debt	2.26%	10.08%	13.57%	Bearish
Alternatives				
REITs	2.85%	8.37%	-5.82%	Cautious
Commodities	6.72%	0.61%	-0.91%	Neutral
Managed Futures	-2.32%	-4.40%	0.25%	Favorable
Hedge Funds	0.52%	1.15%	1.31%	Favorable

Source: Morningstar, data as of 7/31/2023

S&P 500 Sector Returns July 2023



Source: Morningstar, data as of 7/31/2023

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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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