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Bird's Eye View for Q3 2023

1. Q2 2023 performance review
2. Risks and opportunities
3. Looking ahead

ANNOTATED CHARTS

Investment performance as of June 30, 2023

Stock returns		Trailing 1 Yr	Q2 2023
U.S.			
Large-Cap	S&P 500	19.6%	8.7%
Growth	Russell 3000 Growth	26.6%	12.5%
Value	Russell 3000 Value	11.2%	4.0%
Small-Cap	S&P 600	9.7%	3.4%
International			
International Developed	MSCI Europe Australasia & Far East	19.5%	3.2%
Emerging Market	MSCI Emerging Markets	2.1%	1.0%

Interest rates		30-Jun-2023	31-Mar-23
Federal Funds	Upper Target	5.25%	5.00%
Prime		8.25%	8.00%
2-Year Treasury		4.90%	4.03%
10-Year Treasury		3.84%	3.47%
30-Year Fixed Mortgage		7.15%	6.81%

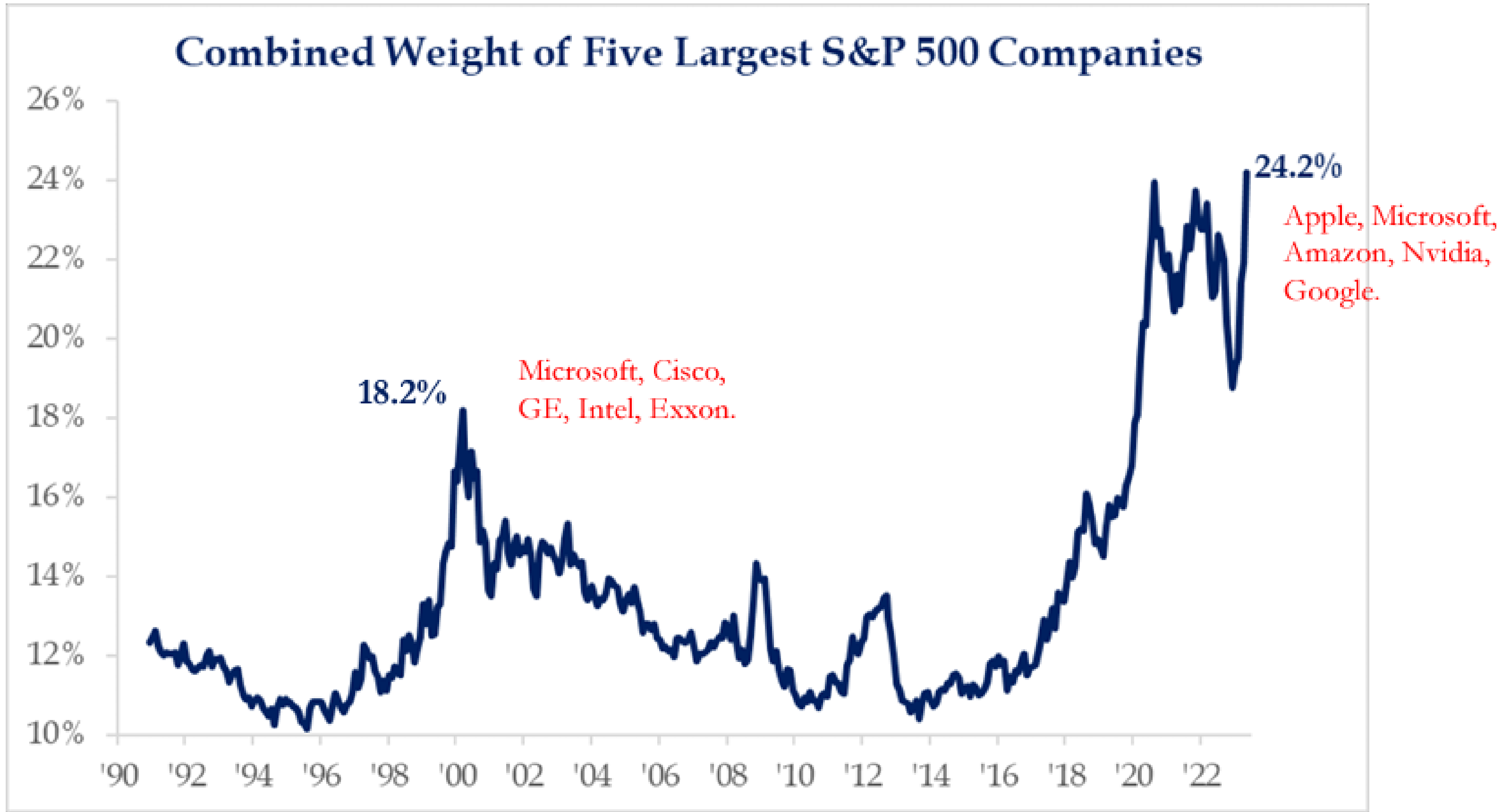
Bond returns		Trailing 1 Yr	Q1 2023
Taxable	Bloomberg Barclays Aggregate	-0.9%	-0.8%
Municipal	Bloomberg Municipal Bond	3.2%	-0.1%

Looking back at the first half of 2023 in the last twelve months, the equity markets have been strong despite continued concerns about the future of the economy, with growth stocks dramatically outperforming value stocks. Similarly, the developed international equity markets have been strong, outpacing emerging markets.

Interest rates continue to move higher as the Federal Reserve took rates up during the quarter to 5.25% for the overnight Fed Funds rate. And the ten-year treasury rate drifted higher as the banking crisis is seemingly behind us.

Source: Bloomberg; YTD returns, and Trailing-Year returns as of 6/30/2023

Returns narrow & largest companies in S&P 500 still pose risk



A fairly narrow group of stocks has led equity markets. When we look at the S&P 500 Index, 5% of the companies, or the top five stocks, represent over 24% of the value of the index.

This same phenomenon to a different degree occurred in the early 2000s, where the top five companies represented about 18% of the index.

Source: Strategas, July 2, 2023

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2000's top five stocks had poor returns over next decade

Looking at what happened in the 2000s to those five stocks, we see that returns were not very good for those companies for the decade following the market narrowness.

With the exception of ExxonMobil, these stocks were down between 20% to 60% on a cumulative basis and on an average annual basis, they were down as much as 10% annually.

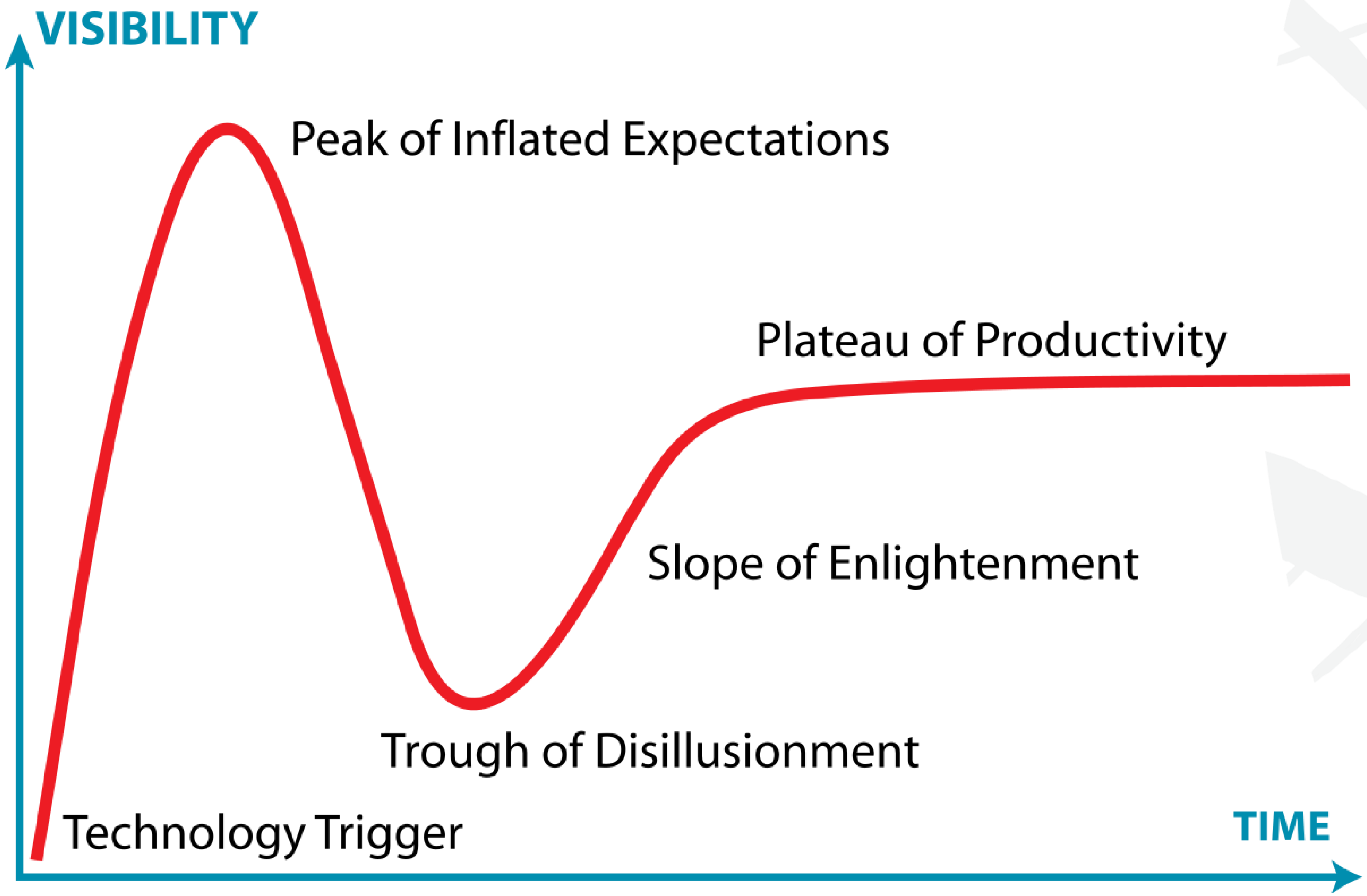
In the late 1990s, the driving force was enthusiasm over the Internet. Today it's artificial intelligence.

Investment	Cumulative Stock Price Change (excluding dividends) March 2000 to March 2010	Average Annual Total Return (price + dividends) March 2000 to March 2010
S&P 500®	-21.96%	-0.65%
GE	-64.86%	-7.22%
CISCO	-66.33%	-10.31%
Microsoft	-44.87%	-3.84%
EXXON	+72.23%	7.91%
intel	-66.21%	-9.02%

Source: Bloomberg March 31, 2000 to March 31, 2010, Standard & Poor's, General Electric, Microsoft, Exxon Mobile, Intel, Cisco Systems.

Investor enthusiasm for artificial intelligence

Gartner Hype Cycle



Recently the enthusiasm for artificial intelligence has been very positive for risk assets.

As this chart from Gartner shows, the public tends to overestimate technology in the short term with inflated expectations, and then goes through what Gartner calls a "trough of disillusionment."

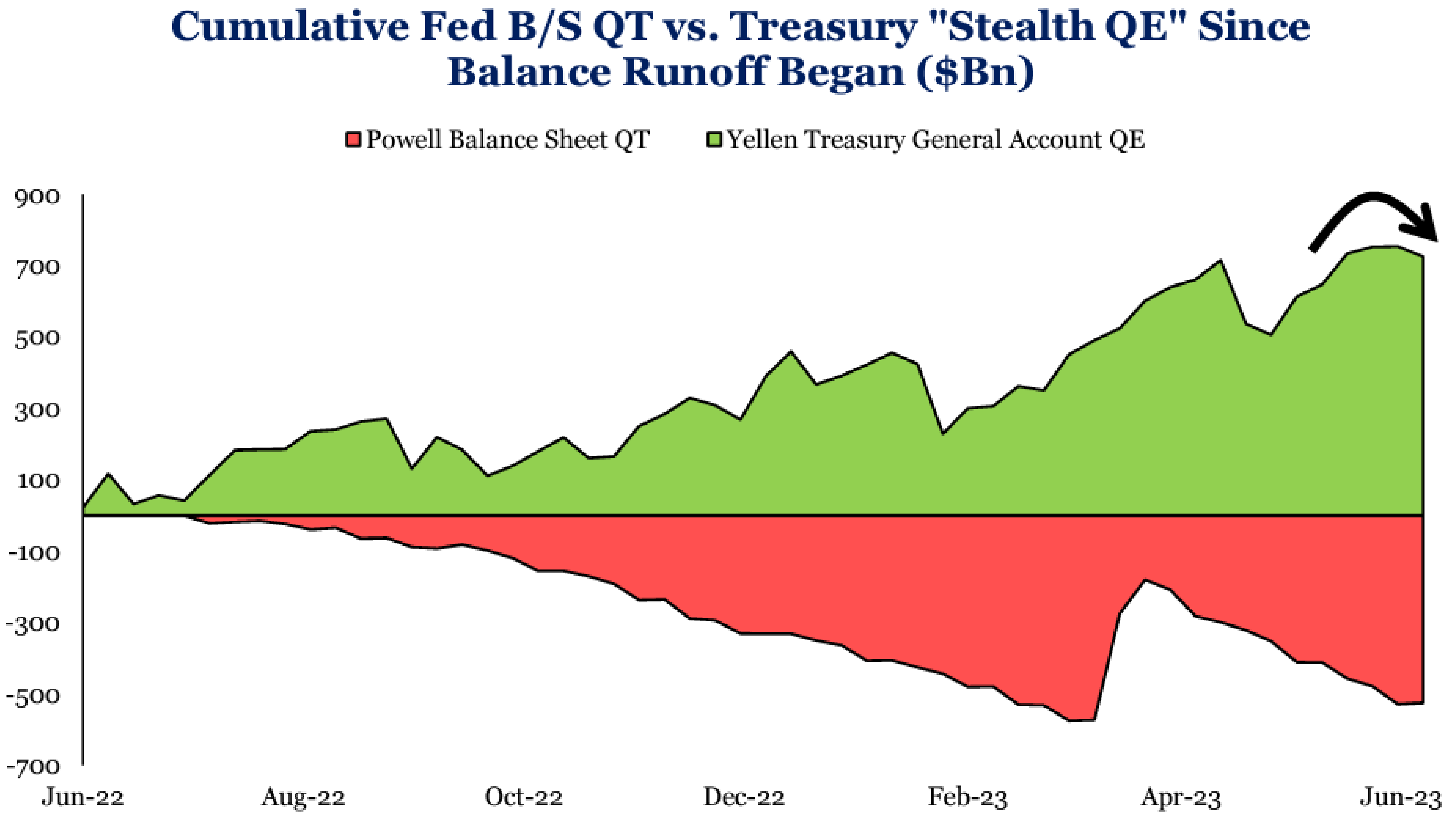
And then the public really tends to underestimate technology in the longer term.

Source: Gartner Group

Treasury efforts to stem bank failures added market liquidity

Another factor that's been important is that the Treasury Department added a significant amount of liquidity, as represented by the cumulative green portion of this chart, which has largely offset the quantitative tightening by the Federal Reserve. The Treasury added this much liquidity to the market to stave off a banking crisis, which has been so far successful.

This type of additional liquidity in the market is supportive of risk assets.



Source: Strategas, June 6, 2023.

Historical recession indicators

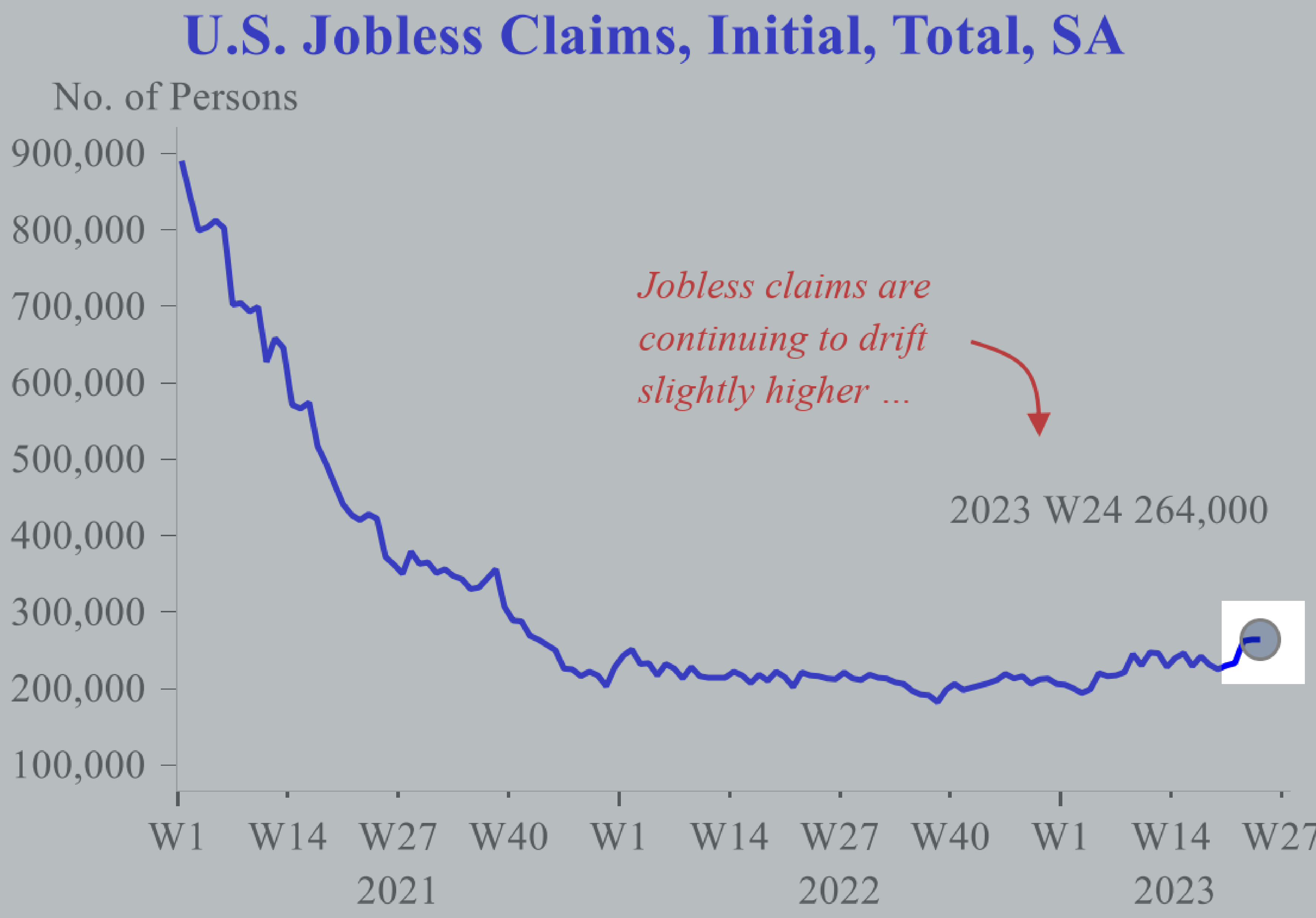
If we look at the progression of the economy, these eight factors have, when they've declined, typically been indicative of a weaker economy and a potential recession moving forward. Of the eight, five are still flashing red.

The strong part of the economy has clearly been the labor market, but we've also seen some improvement in single family housing during the quarter as well as industrial durable good orders.

Indicator	Movement	Check	Explanation
Single Unit Housing Permits	Decline		After weakening in 2022, single-unit permits have picked up in recent months & housing starts have bounced.
Non-Defense Capital Goods ex Aircraft Orders	Decline		Core cap goods orders bounced m/m in April. Business confidence & profits turning lower still give us concern, but this indicator has been performing a bit better recently. Stay tuned.
U of Mich Consumer Expectations	10 Point Decline	X	History has shown expectations drops of 10 or more points lead to recessions. We've registered this signal.
Weekly Initial Jobless Claims	Rising 4-Wk Avg./Trend		We're close to checking this box based on other labor market data (eg, layoff announcements, WARN notices). But we need to see clear evidence that jobless claims keep trending higher.
ISM New Orders	Below 50	X	The ISM as well as some regional surveys have shown notable weakness. This variable has signaled a downturn.
2's-10's Yield Curve	Below 0	X	The U.S. 2yr/10yr curve remains inverted, and is a leading indicator. Other curves have inverted as well including Fed Funds/2yr. We've registered this signal.
Baa Spreads	Increase	X	BAA spreads are still up vs. recent tight readings.
Financial Conditions	Tightening	X	We've had a notable shock to the banking system in 2023. This is likely to stall risk taking & economic activity.

Source: Strategas, June 26, 2023.

Labor market stable, but jobless claims rising slightly

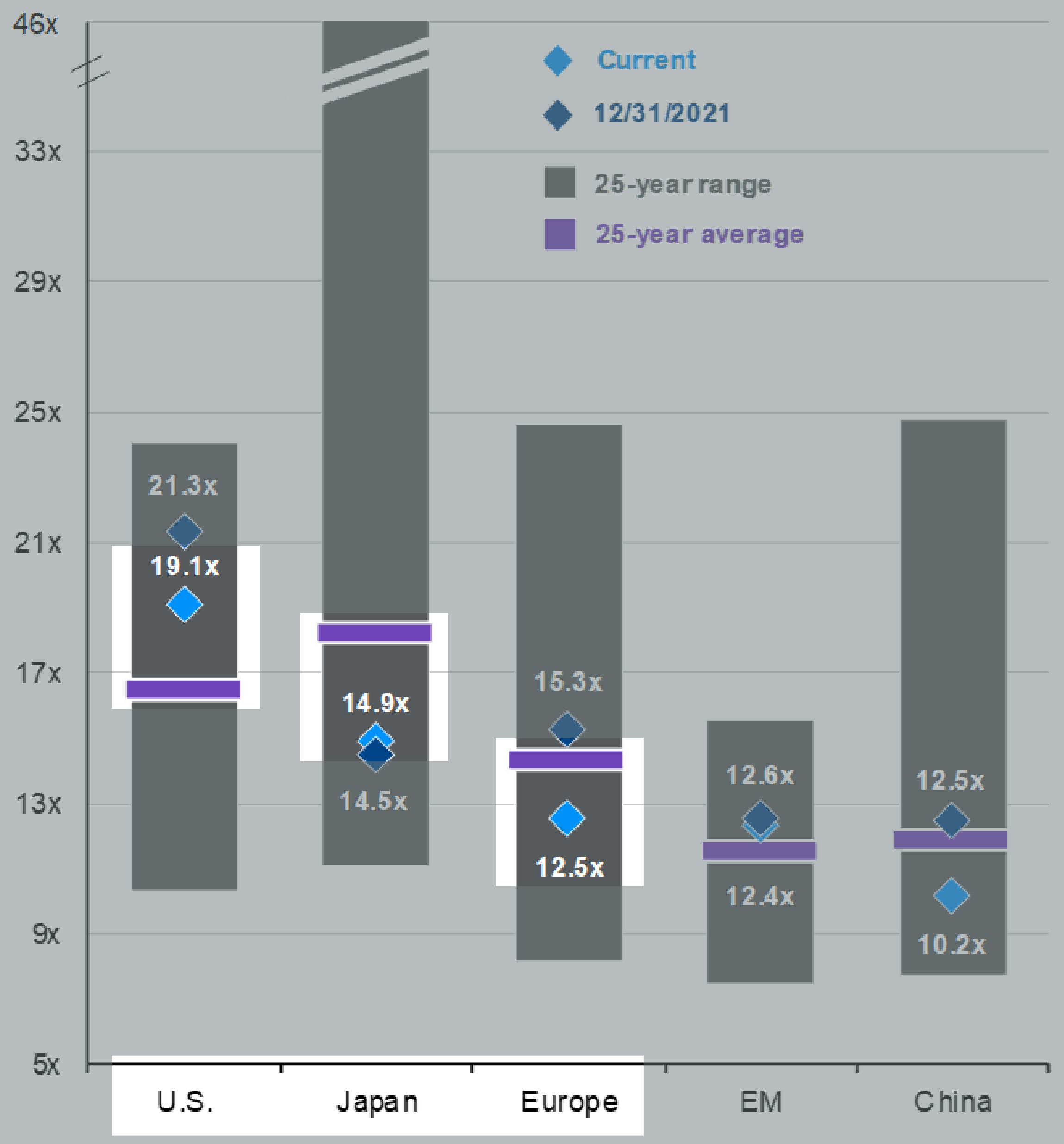


When we look further at the strength of the labor market, we are starting to see a slight uptick in weekly jobless claims. So while the labor market has been fairly resilient, we're going to continue to keep our eye on jobless claims as a leading indicator.

Source: BLS, Strategas, Macrobond, June 22, 2023.

Valuations across equity markets

Current and 25-year next 12 months price-to-earnings ratio



Source: Bloomberg, Bloomberg Index Services Ltd., JPMorgan. As of 11/30/22. Sector yields above include Bloomberg U.S. Aggregate Index, Bloomberg U.S. Corporate Investment Grade Index, Bloomberg U.S. Corporate High Yield Index, 50% J.P. Morgan EMBI Global Diversified Index/50% J.P. Morgan GBI-EM Global Diversified Index blend and Bloomberg Municipal Bond Index. Period of time considered from 2020 to present. Dates for recent lows from top to bottom in chart shown are: 8/4/20, 12/31/20, 7/6/21, 1/4/21 and 7/27/21. Yields shown are yield to worst. Yield to worst is the lowest yield that can be realized by either calling or putting on one of the available call/put dates or holding a bond to maturity. "Change" figures may not reconcile due to rounding.

A critical component for forward return are valuation for each of the markets that we invest in. This chart shows the 20-year history of valuation for markets across the world.

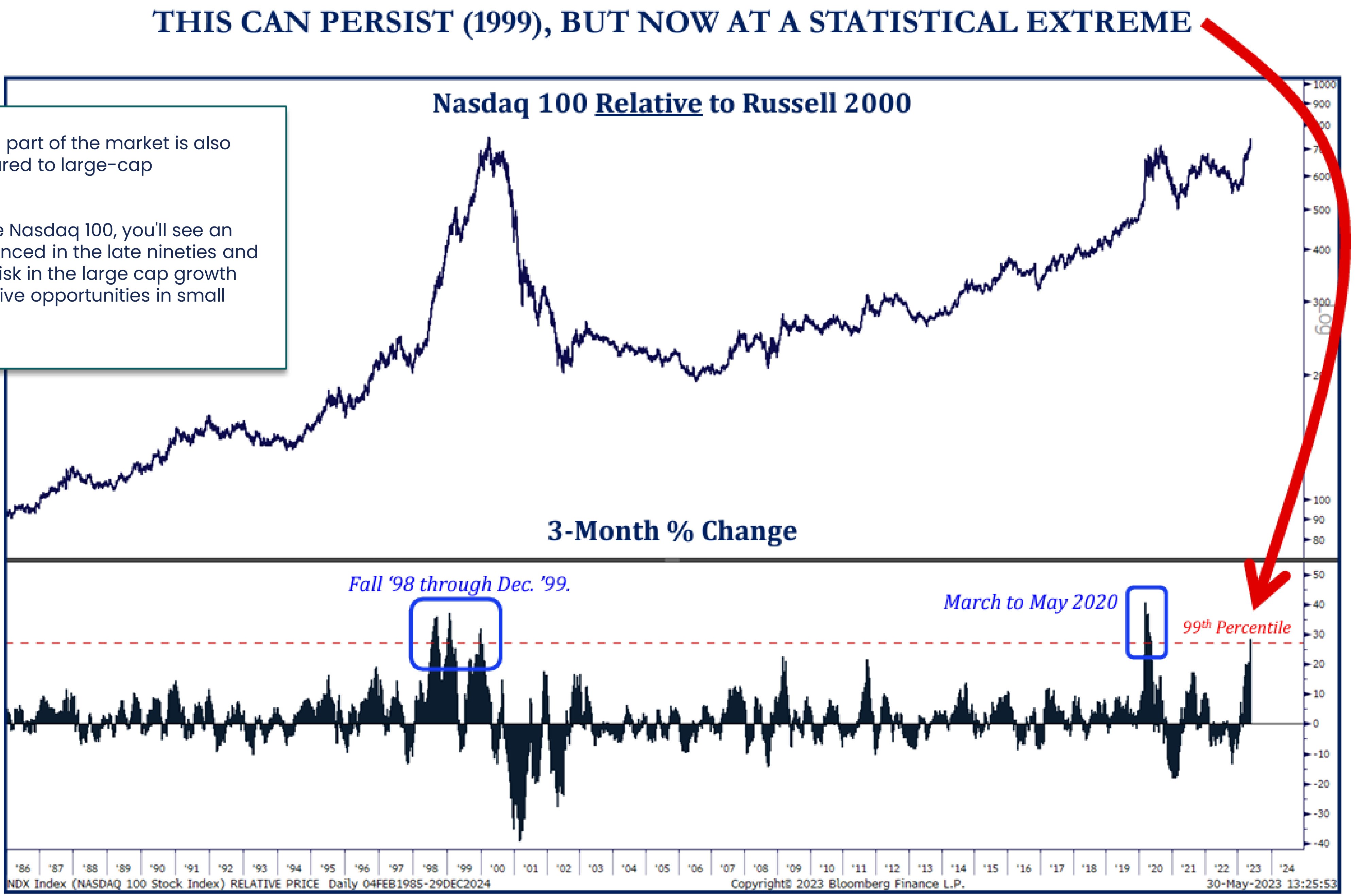
As shown, the U.S. market is well above its long-term average. The long-term average represented by the purple line, with the US stock market at over 19 times earnings. That contrasts with the developed international markets both in Japan and Europe, which are well below their long-term averages.

As we're looking at the U.S. equity markets, we will focus on those areas that not only have solid growth prospects but attractive valuations.

Small cap valuations are relatively attractive

This chart shows that the small-cap part of the market is also relatively attractively valued compared to large-cap technology.

Comparing the Russell 2000 and the Nasdaq 100, you'll see an extreme similar to what was experienced in the late nineties and early 2000s, showing that there's a risk in the large cap growth part of the market and more attractive opportunities in small caps.



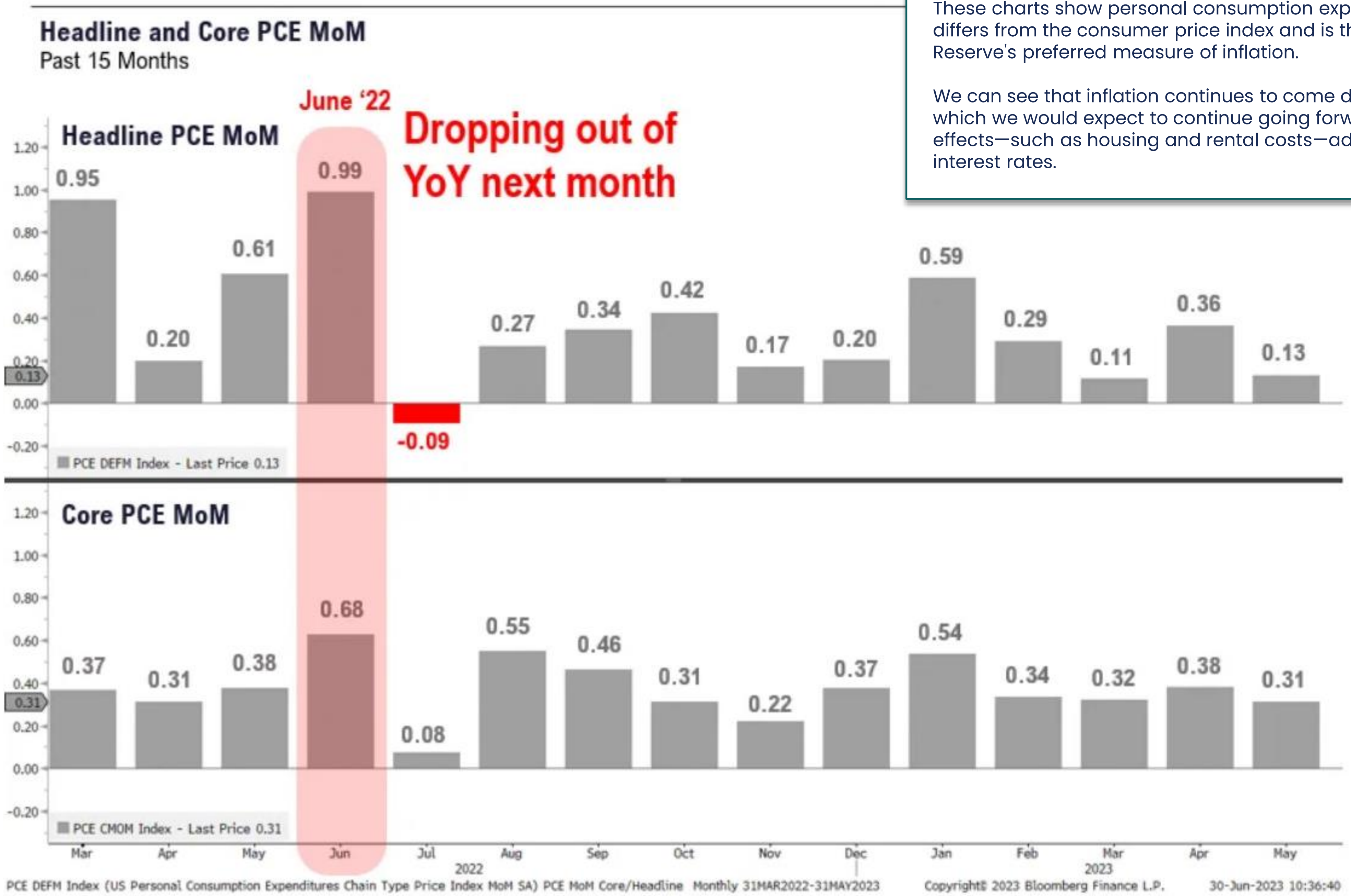
Source Bloomberg, Bloomberg Index Services Ltd., JPMorgan. As of 11/30/22. Sector yields above include Bloomberg U.S. Aggregate Index, Bloomberg U.S. Corporate Investment Grade Index, Bloomberg U.S. Corporate High Yield Index, 50% J.P. Morgan EMBI Global Diversified Index/50% J.P. Morgan GBI-EM Global Diversified Index blend and Bloomberg Municipal Bond Index. Period of time considered from 2020 to present. Dates for recent lows from top to bottom in chart shown are: 8/4/20, 12/31/20, 7/6/21, 1/4/21 and 7/27/21. Yields shown are yield to worst. Yield to worst is the lowest yield that can be realized by either calling or putting on one of the available call/put dates or holding a bond to maturity. "Change" figures may not reconcile due to rounding.

Inflation path moving forward

Finally, as we look ahead at inflation, we see in this chart that the peak of inflation was June 2022. As that data falls off the twelve-month calculation for inflation, we expect inflation to be moving lower into the 3% to 4% range.

These charts show personal consumption expenditure, which differs from the consumer price index and is the Federal Reserve's preferred measure of inflation.

We can see that inflation continues to come down off the peak, which we would expect to continue going forward as lagged effects—such as housing and rental costs—adjust to higher interest rates.



Source: Fundstrat, Bloomberg, BEA June 30, 2023.

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