Q2

Economic & Market Review

Second Quarter 2023

Gould Asset Management®

Economic Review

Second Quarter 2023

US Chugs Along Despite Weak Manufacturing Sector

The US economy grew at a 2.0% annualized rate in the first quarter, boosted by a robust labor market and cooling inflation.

The unemployment rate ticked down to 3.6% in June. This was the 30th straight month of job gains, but the pace slowed in June. The 209,000 jobs added last month was the slowest pace since the streak began.

Construction of new homes surged in May to its second-highest level since 2006 despite the strain of higher interest rates on both builders and home buyers.

Manufacturing activity slumped further in June to its lowest level since May 2020 and marked the eighth straight month of contraction for the sector. Lower activity levels led to factory layoffs. One silver lining is input price pressures continue to abate.

Fed Hikes in May but Pauses in June

The Fed finally paused after ten consecutive meetings of rate hikes, holding the federal funds rate steady between a range of 5.00% to 5.25%. However, they signaled more rate hikes are on the table if inflation does not continue to cool.

Fed officials are in favor of slowing down the pace of rate hikes rather than stopping them altogether, as the economy and labor market remain strong. Interest rate hikes do their work with a lag, so the Fed will be careful to balance its desire to cool the economy against the risk of overdoing it. Most forecasts suggest the Fed is nearing the end of its rate hiking cycle.

Updated Fed projections show 1-2 more interest rate hikes in 2023, topping out at a range of 5.50% to 5.75%. 2023 GDP is expected to grow by 1.0%, modestly higher than the 0.4% figure reported in the March forecast. Core inflation in 2023 is also expected to be modestly higher (3.9%) than previous projections (3.6%).

Economic Review

Second Quarter 2023

Europe Enters Recession, Japan's Economy Picks Up

The Eurozone economy contracted 0.1% over the first quarter and entered a small technical recession, with many economists expecting a further contraction in the coming months. Household consumption declined as high inflation and borrowing costs weighed on consumers.

The slowing European economy poses a challenge for the European Central Bank (ECB), which continues to hike its target rate to combat high inflation. A shrinking economy could limit the ECB's ability to implement further rate hikes. However, ECB President Lagarde has stressed it is more important to rein in inflation than to avoid an economic slowdown.

Japan's economy surprised to the upside, expanding 0.7% over the first quarter, thanks to a tourism recovery as the country's tough border controls were fully lifted.

In their latest meeting, **the Bank of Japan (BOJ) continued to defy global central bank trends by remaining accommodative.** BOJ Governor Ueda is opting to wait for signs that inflation will remain elevated before changing direction from the ultra-loose monetary policy.

Solid Start to the Year for Emerging Markets

China's economy grew 4.5% year-over-year in the first quarter, though challenges persist. Economic momentum is waning as the pandemic reopening boost fades, global demand for Chinese exports softens, and the real estate sector continues to struggle. The central bank recently cut its benchmark rate to avoid a stalled recovery.

India's economy expanded 6.1% year-over-year in the first quarter. Consumer demand and investment activity are strong and should support stable growth in the second quarter. However, this year's El Niño weather pattern could have negative effects on the country's agricultural harvest, a key driver of the Indian economy.

Brazil's economy recorded a 1.9% quarter-over-quarter expansion in Q1, driven by a record harvest that boosted the agriculture sector. Growth is expected to cool in the second quarter as the bump from agriculture subsides, higher interest rates work their way through the economy, and global demand softens.

Market Review: Stocks

Second Quarter 2023

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Stocks Move Higher in Q2 Amid a Resilient Economy and a Red-Hot Tech Sector

Stocks climbed for the third straight quarter despite a variety of challenges, including high interest rates, ongoing geopolitical turmoil, high (but declining) inflation, a regional banking crisis, and a US debt ceiling showdown. Developed markets performed best, led by strong returns in the technology sector.

US large cap stocks, as measured by the S&P 500 stock index, **rose 8.7% in the second quarter and are up 16.9% for the year-to-date through June.** This puts the S&P 500 officially in bull market territory, up more than 20% from its October 2022 low. A small number of very large cap tech stocks led the charge, as investors cheered advances in artificial intelligence (AI).

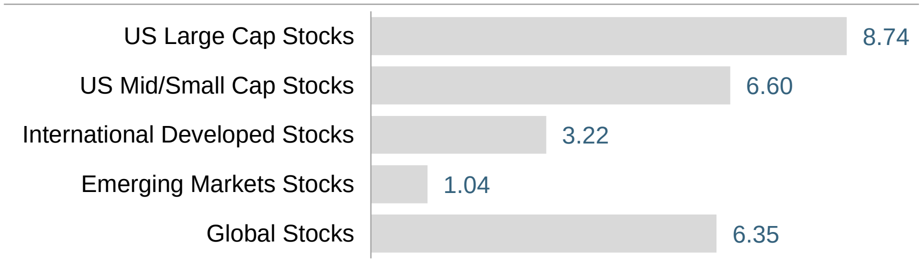
Technology (up 15.4%) **led all sectors for the second straight quarter** and has risen 40.4% year-to-date. The consumer discretionary sector wasn't far behind, rising 13.9% in Q2 and 32.3% year-to-date. These were the two worst performing sectors in 2022, illustrating how quickly market sentiment can change and why investors should be wary of chasing short-term performance.

Mid and small cap US stocks continued to lag large caps in 2023, with the Wilshire 4500 stock index returning 6.6% in Q2 and 12.8% year-to-date. Technology makes up a smaller component of mid and small cap stocks, which explains some underperformance. Higher borrowing costs and tighter lending standards are additional headwinds.

International developed and emerging market stocks also rose in Q2, but gains were more subdued, with the MSCI EAFE index rising 3.2% (up 12.1% year-to-date) and the MSCI Emerging Markets index gaining 1.0% (up 5.1% year-to-date). Most emerging market regions finished higher in the quarter, but overall performance was restrained by slowing momentum in China's economic recovery.

Despite the US debt ceiling showdown in May, market volatility was subdued in the quarter, with the VIX volatility index dropping from about 18 to 13 at quarter-end, a level not seen since before the pandemic.

Returns for the Quarter (%)



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*
US Large Cap Stocks	16.89	19.59	14.60	12.31
US Mid/Small Cap Stocks	12.75	15.83	11.84	7.54
International Developed Stocks	12.13	19.41	9.48	4.90
Emerging Markets Stocks	5.10	2.22	2.72	1.32
Global Stocks	14.26	17.13	11.51	8.64

Past performance is not a guarantee of future results. Returns for periods longer than one year are annualized. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Large Cap (S&P 500 Index), US Mid/Small Cap (Wilshire 4500 Completion Index), International Developed (MSCI Europe Australasia Far East Index), Emerging Markets (MSCI Emerging Markets Index), and Global Stocks (MSCI All Country World Index). Growth of $1,000 chart market segmentations as follows: US Stocks (Wilshire 5000 Index) and Foreign Stocks (All Country World Index ex US)

Market Review: Bonds

Second Quarter 2023

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Bonds Fall Modestly in Q2 as Yields Rise and the Fed Takes a Break from Rate Hikes

US government bond yields rose in the second quarter as the US economy proved more resilient than expected, overcoming yet another self-inflicted debt ceiling crisis, as well as continued stress in the banking sector.

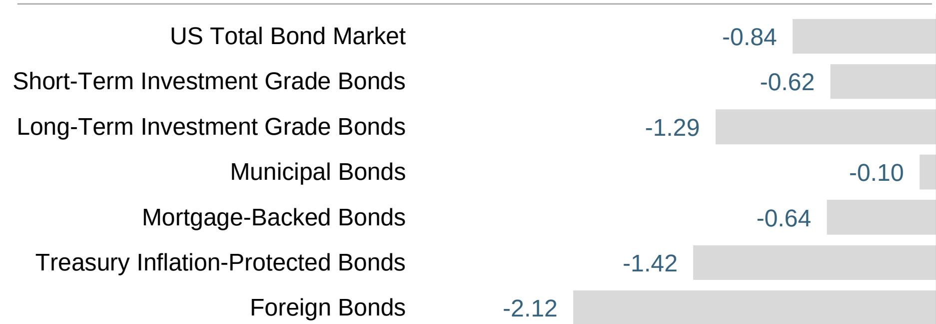
The Fed held its lending rate at 5.00% to 5.25% last month, marking the first pause after ten consecutive increases since March 2022. For the fifth successive quarter, short-term yields ended the second quarter well above long-term yields, an indicator of potential recession ahead despite the economy's current strength. The US 10-year yield rose from 3.48% to 3.81% on the quarter, while the 2-year US Treasury yield went from 4.06% to 4.87%, widening the spread to levels not seen since the 1980s.

Despite a modest pullback in Q2, US bonds remain in positive territory for the year, with the Bloomberg Aggregate Bond index up 2.1%. While indicators suggest that inflation is cooling, a tight labor market and better-than-expected US growth has bond investors concerned the Fed will stick to its hawkish tone, putting further upward pressure on yields. The Fed currently expects two more rate hikes will be necessary later this year, although markets now lean towards just one after June's favorable inflation report.

Treasury Inflation-Protected Securities (TIPS) were among the weakest performers on the quarter as inflation expectations cooled, with longer-dated TIPS declining 1.4%, while short-term TIPS declined a more modest 0.7%. Recall that in a rising yield environment, long-term bonds fare worse than short-term bonds. High yield bonds were among the best performers, gaining 1.8% in Q2, tacking onto strong first quarter results, as better-than-expected corporate earnings boosted returns.

Municipal bonds were flat on the quarter (down 0.1%) and are up 2.7% year-to-date. Munis have outperformed Treasurys so far in 2023, particularly on a tax-adjusted basis, with the high yield corner of the muni market posting the largest gains.

Returns for the Quarter (%)



Period Returns (%) *Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*
US Total Bond Market	2.09	-0.94	-3.96	0.77
Short-Term Investment Grade Bonds	1.19	0.19	-1.57	1.15
Long-Term Investment Grade Bonds	4.39	-2.56	-8.60	0.66
Municipal Bonds	2.67	3.19	-0.58	1.84
Mortgage-Backed Bonds	1.87	-1.52	-3.73	0.03
Treasury Inflation-Protected Bonds	1.87	-1.40	-0.12	2.49
Foreign Bonds	1.52	-2.63	-7.81	-3.75

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Market Review: Alternatives

Second Quarter 2023

REITs Advance; Other Alternatives Disappoint

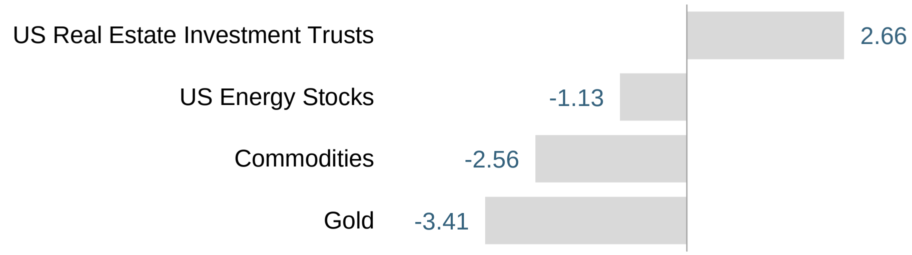
Alternative investment returns were lackluster in Q2, with energy, commodities, and gold all falling in the quarter. **Real estate investment trusts (REITs) were the lone bright spot,** rising modestly and continuing to rebound from their 2022 debacle.

US energy stocks and commodities continued to decline in Q2, falling 1.1% and 2.6% respectively in the quarter. Year-to-date, energy stocks have fallen 5.5% and commodities are down 7.8%. You may recall these were two of the best performing asset classes in 2022, so it's not too surprising to see them cooling off in 2023 as energy and commodity markets continue to normalize, post-pandemic.

Real estate investment trusts (REITs) continued to make progress in the second quarter despite the headwinds of higher yields and borrowing costs in 2023. REITs returned 2.7% in Q2 and are up 5.5% year-to-date. Returns lagged developed market stock returns, but bested bonds, which fell as yields rose in the second quarter. We expect REITs to continue to be a somewhat volatile asset class as the sector adjusts to higher interest rates and new realities in the real estate market.

After a strong first quarter, gold retreated, dropping 3.4% in Q2, putting year-to-date returns at 5.5%. Easing inflation expectations and a resilient global economy weighed on the precious metal. It's worth noting that although gold offers a unique store of value that is attractive to many, it does not pay interest or dividends, making it less attractive to yield-focused investors, particularly in an environment with Treasury bills yielding in excess of 5%.

Returns for the Quarter (%)



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*
US Real Estate Investment Trusts	5.46	-0.09	8.88	4.55
US Energy Stocks	-5.45	18.08	35.05	6.62
Commodities	-7.79	-9.61	17.82	4.73
Gold	5.51	5.24	2.65	9.36

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Market Summary

Index Returns

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Q2 2023	US Large Cap	US Mid/Small Cap	International Developed	Emerging Markets	US Bond Market	US Dollar
	STOCKS				BONDS/DOLLAR	
	8.74%	6.60%	3.22%	1.04%	-0.84%	0.34%

Since Jan. 2001	US Large Cap	US Mid/Small Cap	International Developed	Emerging Markets	US Bond Market	US Dollar
Avg. Quarterly Return	2.2%	2.7%	1.6%	2.4%	1.0%	0.4%
Best Quarter	20.5% **Q2 2020**	30.3% **Q2 2020**	25.8% **Q2 2009**	34.8% **Q2 2009**	4.6% **Q3 2001**	7.1% **Q1 2020**
Worst Quarter	-21.9% **Q4 2008**	-27.9% **Q1 2020**	-22.7% **Q1 2020**	-27.6% **Q4 2008**	-5.9% **Q1 2022**	-5.8% **Q2 2009**

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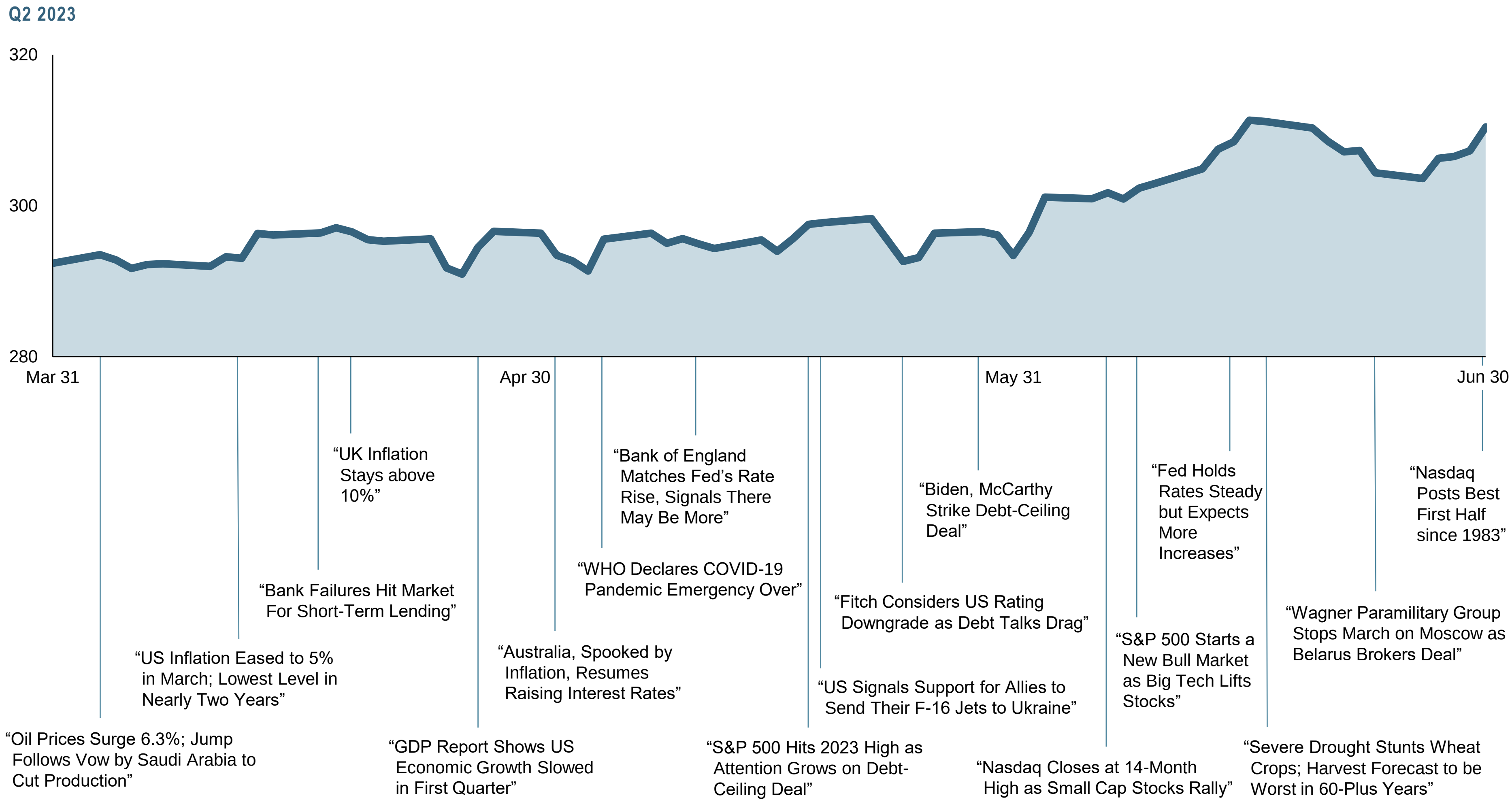
Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data S&P data © 2023 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2023, all rights reserved. Bloomberg data provided by Bloomberg.

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q2 2023



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2023, all rights reserved. Index level based at 100 starting January 2001.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

Economic Growth

Second Quarter 2023

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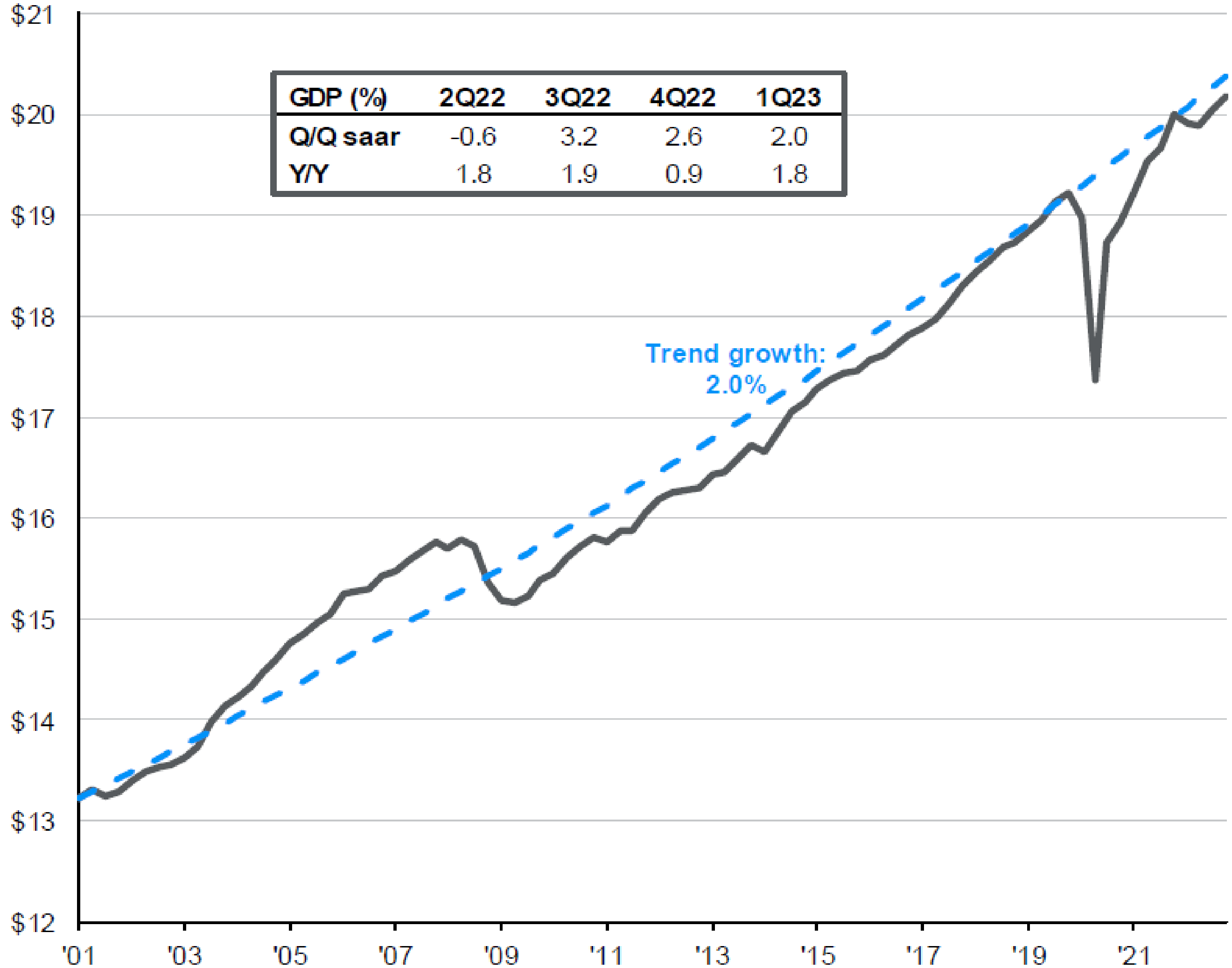
Real GDP

Trillions of chained (2012) dollars, seasonally adjusted at annual rates



GDP (%)	2Q22	3Q22	4Q22	1Q23
Q/Q saar	-0.6	3.2	2.6	2.0
Y/Y	1.8	1.9	0.9	1.8

This chart shows US real GDP growth since 2001. After the rapid recovery in 2021 and return to the long-term 2% trendline, growth moderated in 2022. While the economy showed resilience in the first half of 2023, there are signs momentum is slowing as higher interest rates work their way through the economy. The manufacturing sector has been in contraction all year, consumers are still feeling the effects of high inflation and less government stimulus, the commercial real estate sector is laboring under the weight of higher interest rates, and the jobs market, while still strong, is not quite as hot as it was a year ago.

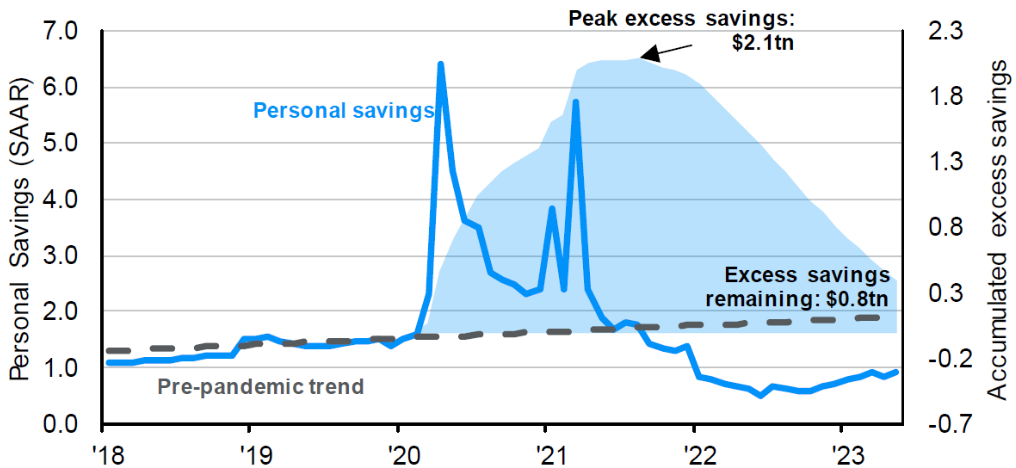
Source: J.P. Morgan Asset Management. Trend growth is measured as the average annual growth rate from business cycle peak of 1Q01 to business cycle peak 4Q19. *Guide to the Markets – US* Data are as of June 30, 2023.

Consumer Finances

Second Quarter 2023

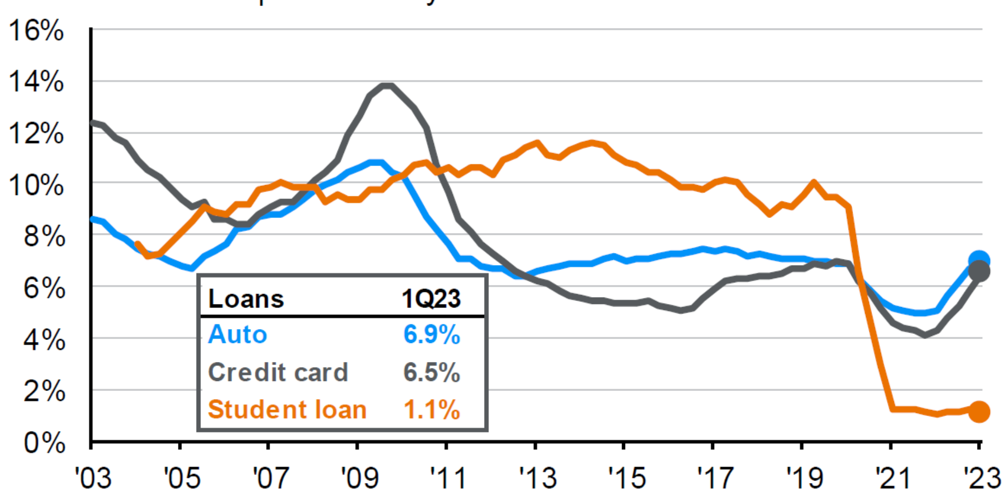
Household excess savings

Trillions of USD



Flows into early delinquencies

% of balance delinquent 30+ days



Source: J.P. Morgan Asset Management.. *Guide to the Markets – US* Data are as of June 30, 2023.

The top chart shows the personal savings rate (the jagged blue line), which spiked in 2020 and again in 2021, each the result of massive federal pandemic stimulus payments. Absent more stimulus, the personal savings rate has since plunged. Household excess savings (the light blue shaded area, which shows the cumulative effect of changes in personal savings) climbed as households banked much of the stimulus. As bank accounts have been spent down, excess savings has dwindled.

The bottom chart shows delinquency rates for different types of consumer loans. Student loan delinquencies dropped drastically at the onset of the Covid pandemic after the government suspended federal student loan payments. With the moratorium coming to an end later this year, the delinquency rate on those loans will likely jump, following the recent trend in auto loans and credit card debt.

Both charts point to a weakening in household balance sheets and potentially lower consumer spending, which accounts for nearly 70% of US GDP.

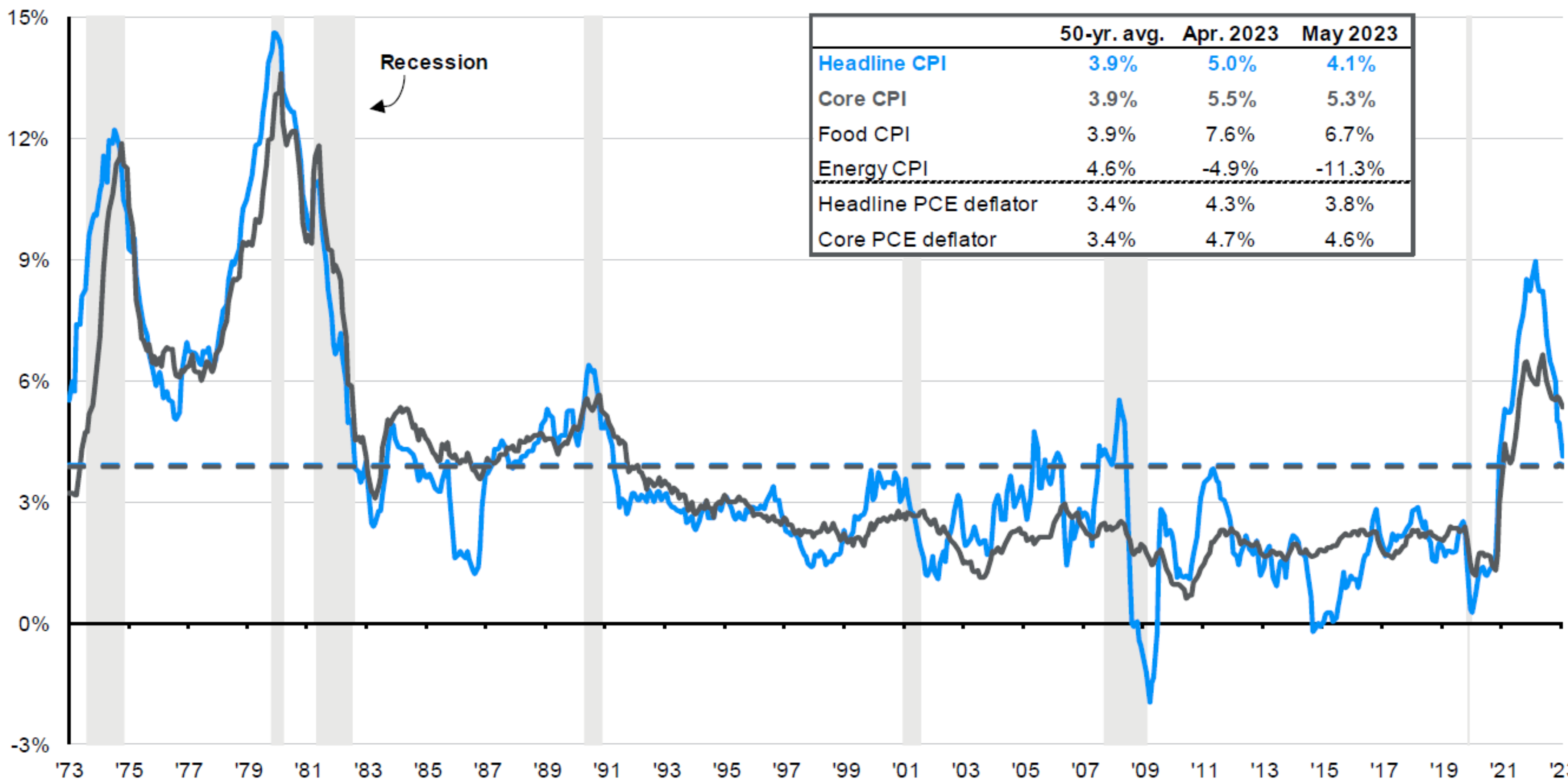
Inflation

Second Quarter 2023

The chart below shows two measures of inflation, headline and core Consumer Price Index (CPI). Each jumped to its highest level in 40 years in 2022. This prompted the Fed to raise the federal funds rate from close to zero to a current rate of about 5.0%, while gradually reducing the size of its balance sheet. The Fed is making substantial progress, with inflation peaking at 9.1% last June and now sitting at 3.0%. However, core inflation, which excludes the more volatile food and energy sectors, remains stubbornly high (4.8%), suggesting the Fed has more work to do.

CPI and core CPI

% change vs. prior year, seasonally adjusted



	50-yr. avg.	Apr. 2023	May 2023
Headline CPI	3.9%	5.0%	4.1%
Core CPI	3.9%	5.5%	5.3%
Food CPI	3.9%	7.6%	6.7%
Energy CPI	4.6%	-4.9%	-11.3%
Headline PCE deflator	3.4%	4.3%	3.8%
Core PCE deflator	3.4%	4.7%	4.6%

Source: J.P. Morgan Asset Management. *Guide to the Markets – US* Data are as of June 30, 2023.