Q1

Economic & Market Review

First Quarter 2023

Gould Asset Management

Economic Review

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US Growth Intact but Risks Remain

The US economy grew at a 2.6% annualized rate in the fourth quarter. First quarter consumer spending picked up, but higher interest rates (to fight still high inflation) and a slowing manufacturing sector are headwinds as we enter the second quarter of 2023.

The labor market remains robust as employers continued to add jobs and more people entered the workforce. **Unemployment dropped to 3.5% in March** and labor force participation ticked up to 62.6%. Additionally, wage pressure appears to be easing with year-over-year wage gains slowing to 4.2% in March.

Consumer spending increased at its fastest pace in nearly two years in January, followed by moderate growth in February. First quarter activity so far points to a healthy consumer segment after sluggish spending in the fourth quarter.

Manufacturing activity slowed in March to its lowest level in nearly three years. All components of the monthly manufacturing survey pointed to contraction, especially new orders, which plunged amid cooling demand and tighter credit conditions.

Fed Hikes Rates Despite Banking Turmoil

The Federal Reserve raised the federal funds rate by 0.25% twice in the first quarter despite elevated stress in the regional banking sector. Fed Chair Powell reiterated the Fed's commitment to restoring price stability and asserted the banking sector is sound and resilient.

Fed Chair Powell also acknowledged the recent banking turmoil will likely tighten credit conditions for businesses and households, meaning there could be less of a need to raise interest rates going forward.

Updated Fed projections show the federal funds rate topping out at 5.1% by year-end, implying one more 0.25% rate hike. GDP growth for 2023 is expected to expand 0.4%, little changed from the previous projection.

European and Japanese Economies Stall

The Eurozone economy stagnated in the fourth quarter, failing to register any growth (0.0% in Q4) as household consumption declined against a backdrop of high inflation, rising borrowing costs, and supply chain bottlenecks. Germany, the bloc's largest economy, contracted 0.4%, faring worse than expectations and now likely entering a technical recession.

The European Central Bank (ECB) hiked its key interest rate by 0.50% twice in the first quarter and promised emergency support for eurozone banks if needed. Like the Fed, the ECB's main priority continues to be tackling sticky inflation, but ECB President Lagarde stressed the central bank is going to be more cautious about further rate increases.

Japan also registered no economic growth during the fourth quarter. Like Europe, weak consumption was the main culprit as rising inflation curbed spending.

Unlike most of the world, The Bank of Japan (BOJ) remains accommodative, keeping its interest rate targets unchanged. In his last meeting, BOJ Governor Kuroda said Japan needs still more monetary stimulus and that inflation (3.3% in February) will nonetheless drop below the bank's 2% target.

Emerging Markets Economies Slow Amid Weaker Global Demand

China's GDP grew 2.9% year-over-year in the fourth quarter to close out one of its weakest years in the last half century. Economic activity appears to have picked up to start the new year, but the country's manufacturing sector—accounting for one-third of the entire economy—has been slow to rebound.

India's economy decelerated in the final quarter of 2022 as demand softened and the manufacturing sector showed signs of weakness. Year-over-year growth was 4.4% in the fourth quarter, down from 6.3% in the third quarter.

Brazil's economy contracted 0.2% quarter-over-quarter to end 2022. Brazil's new President Lula placed blame for the slow economic recovery on the country's central bank, which kept its target interest rate at 13.75% to combat stubborn inflation.

Market Review: Stocks

First Quarter 2023

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Stocks Rise in Q1 Amid a Resilient Economy and Easing Inflation

After a challenging 2022, **domestic and international stocks advanced in the first quarter as headline inflation continued to moderate and global economies expanded.** It was a welcome and somewhat surprising result in the face of continued recession concerns and a challenging geopolitical situation--war in Ukraine enters its second year, while tensions between the US and China steadily grow. Silicon Valley Bank's collapse in early March also strained markets, but the crisis has been mostly contained to the financial sector.

Against this backdrop, **US stocks got off to a nice start in 2023, with large cap stocks rising 7.5%,** as measured by the S&P 500 index. It was a bit of a bumpy ride, however, with stocks rising in January, falling in February and early March, only to surge again near quarter-end.

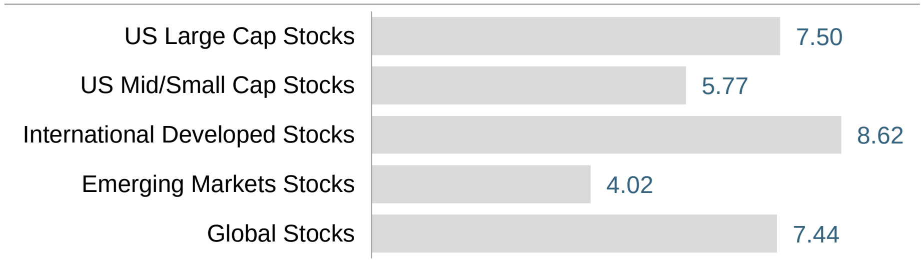
Technology (up 21.7%) **and Consumer Discretionary** (up 16.2%) **were the best performing sectors, while Financials** (down 5.6%) **and Energy** (down 4.4%) **fared worst.** The resurgence in growth stocks boosted index returns, while the banking crisis weighed on the returns of the financial sector.

Mid and small cap US stocks modestly underperformed large cap stocks to start the year, with the Wilshire 4500 stock index rising 5.8% in Q1. Tighter lending standards for smaller companies and fewer non-dollar denominated assets are likely factors adversely impacting mid and small cap stocks last quarter.

International developed and emerging market stocks also got off to a positive start for the year, with the MSCI EAFE index rising 8.6% and the MSCI Emerging Markets index gaining 4.0% in Q1. In Europe, economic growth surprised on the upside, supporting stock prices in the face of two 0.50% rate hikes (one in February and another in March) from the European Central Bank. A decline in the US dollar (down 1.7%) also modestly improved foreign stock returns.

Market volatility, as measured by the VIX volatility index, **mostly stuck near its long-term average, hovering between 18 and 22 over the quarter,** except for a couple weeks in March when it spiked to 26 at the height of the banking crisis. It finished the quarter around 19 as fears of banking contagion subsided.

Returns for the Quarter (%)



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*
US Large Cap Stocks	7.50	-7.73	18.60	11.19
US Mid/Small Cap Stocks	5.77	-12.95	19.60	7.43
International Developed Stocks	8.62	-0.86	13.52	4.03
Emerging Markets Stocks	4.02	-10.30	8.23	-0.53
Global Stocks	7.44	-6.96	15.90	7.46

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

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Bonds Rally in Q1 as Interest Rates Move Lower; Fed Slows Pace of Rate Hikes

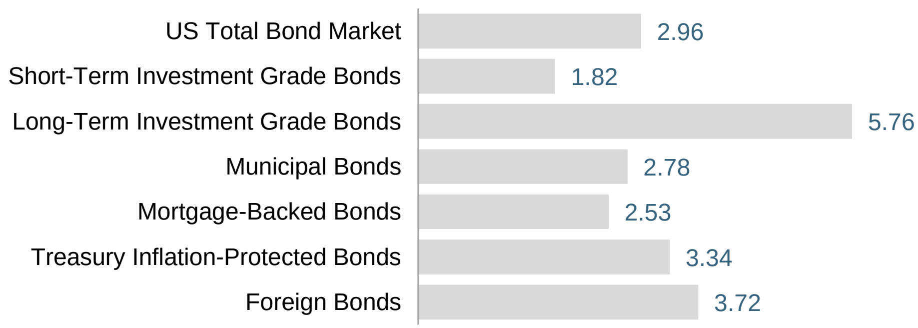
US bonds started the year on a strong note, turning the corner on a forgettable 2022 in which bonds recorded their worst performance ever**.** It was a volatile quarter for bond investors, as sentiment swung between optimism that the Fed might pause or even reverse its interest rate hikes, and fear of global banking contagion. The latter prompted the Fed to adopt a more dovish tone, raising its lending rate by a modest 0.25% in February and again in March, despite inflation numbers still running hot. Treasury yields fell against the backdrop of weakening economic growth and the softening in the Fed's policy stance. The 2-year US Treasury yield declined from 4.41% to 4.06% at quarter end, while the 10-year US Treasury yield dropped from 3.88% to 3.48%.

US bonds gained a robust 3.0% (Bloomberg US Aggregate Bond index) in the first quarter despite elevated volatility and big price swings. Changing interest rate expectations and the outlook for the Fed dominated the bond market at the start of the year. The collapse of Silicon Valley Bank in March and a potential spread beyond regional banks sparked fears of a credit crunch, resulting in a flight to higher quality bonds that lifted overall performance.

High yield bonds gained 3.6% and saw a record inflow at the start of the year, but ended up lagging behind higher quality bonds, as investors switched from higher risk to safer assets amid the banking turmoil. **Treasury Inflation-Protected Securities** (TIPS) **gained 3.3%,** providing a hedge for investors as inflation readings continued to run above the Fed's target rate.

The tax-exempt municipal bond market rebounded from one of its worst years, gaining 2.8% in the first quarter. However, its returns still trailed both US Treasurys and corporate bonds.

Returns for the Quarter (%)



Period Returns (%) **Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*
US Total Bond Market	2.96	-4.78	-2.77	0.91
Short-Term Investment Grade Bonds	1.82	-0.33	-0.79	1.32
Long-Term Investment Grade Bonds	5.76	-13.40	-6.33	0.63
Municipal Bonds	2.78	0.26	0.35	2.03
Mortgage-Backed Bonds	2.53	-4.85	-3.31	0.20
Treasury Inflation-Protected Bonds	3.34	-6.06	1.75	2.94
Foreign Bonds	3.72	-12.96	-6.24	-4.34

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Market Review: Alternatives

First Quarter 2023

Gold Glitters and REITs Advance, While Lower Energy Prices Weigh on Commodities and Energy Stocks

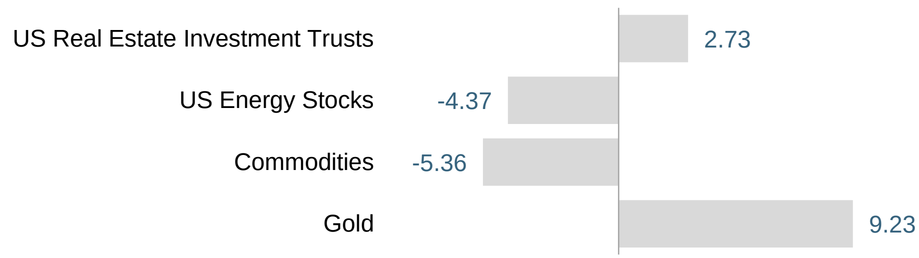
Performance of alternative investments was mixed in the first quarter, with gold and REITs continuing to rebound off their October lows, while commodities and US energy stocks cooled after a strong 2022 showing.

Gold (up 9.2%) **posted the strongest Q1 gains of the alternative asset classes, benefiting from elevated (but cooling) inflation levels and tremors in the banking sector.** Silicon Valley Bank's collapse reignited investor concerns over the safety of bank deposits, fueling demand for gold which some perceive as the safest "hard" asset (i.e., a physical or tangible asset that holds value).

Real estate investment trusts maintained their fourth quarter momentum to start the year, rising 2.7% in the first quarter despite a challenging interest rate environment in which the Fed continued to raise rates in hopes of putting the brakes on inflation. REITs can be sensitive to higher interest rates and often benefit when rates decline, so it likely helped that longer bond yields declined on the quarter. It's encouraging to see progress in REITs after a dismal 2022 in which the asset class declined 24.5%.

After gaining an eye-popping 65.7% in 2022, **US energy stocks took a breather,** retreating 4.4% in the first quarter **with lower energy prices weighing on the sector. Commodities were similarly impacted,** declining 5.4% in Q1. Prices for natural gas and oil were sharply lower on the quarter, helping to dampen inflationary pressures. Within industrial metals, the price of nickel fell sharply in the first quarter, while copper and aluminum prices both advanced.

Returns for the Quarter (%)



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	Years*	Years*
US Real Estate Investment Trusts	2.73	-19.17	11.99	6.02
US Energy Stocks	-4.37	13.15	48.76	9.60
Commodities	-5.36	-12.49	20.82	5.36
Gold	9.23	1.93	7.96	8.87

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Market Summary

Index Returns

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	US Large Cap	US Mid/Small Cap	International Developed	Emerging Markets	US Bond Market	US Dollar
Q1 2023	**STOCKS**				**BONDS/DOLLAR**	
	7.50%	**5.77%**	**8.62%**	**4.02%**	**2.96%**	**-1.58%**
Since Jan. 2001						
Avg. Quarterly Return	2.1%	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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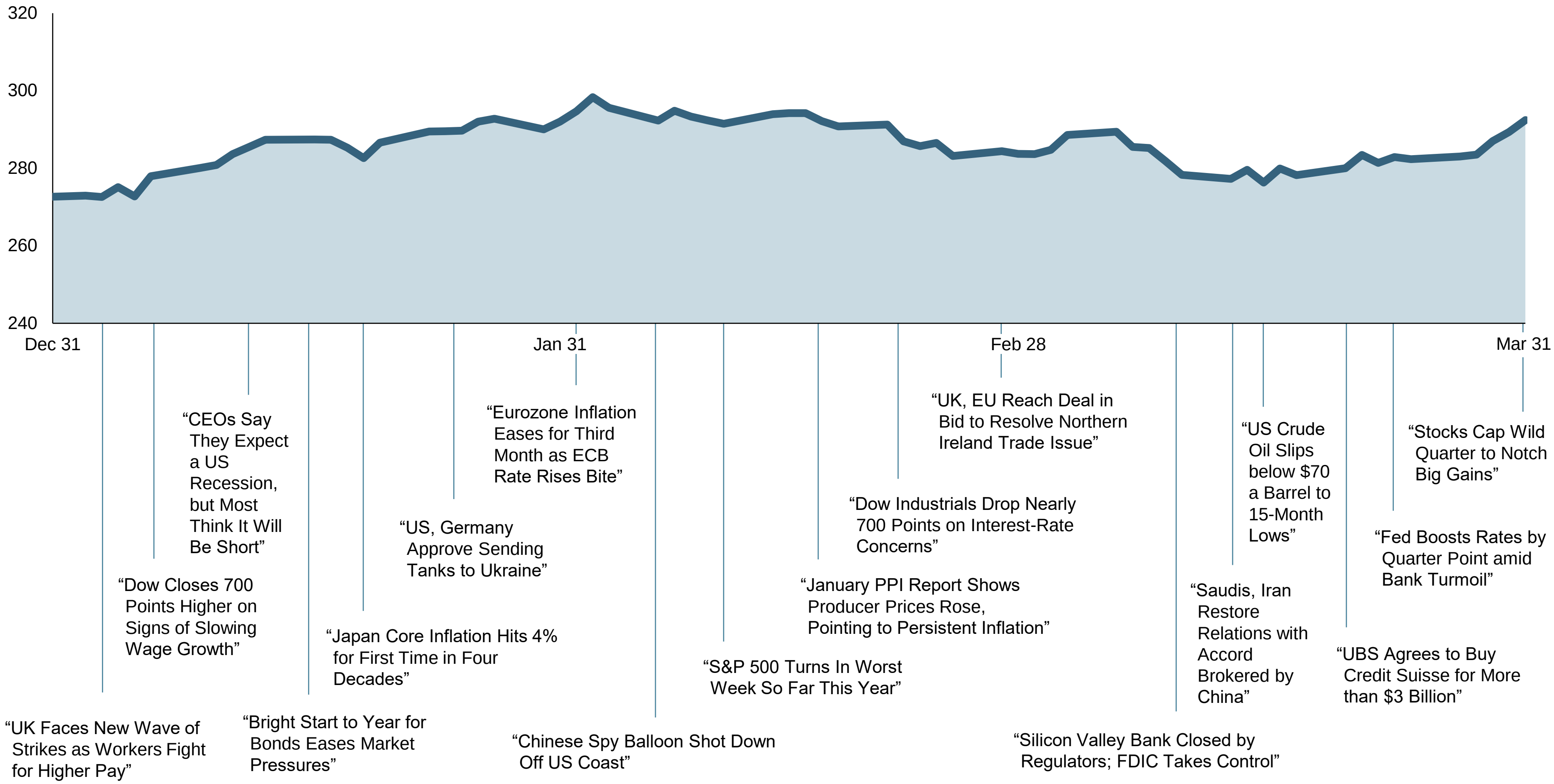
Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data Bloomberg data provided by Bloomberg.

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q1 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.**

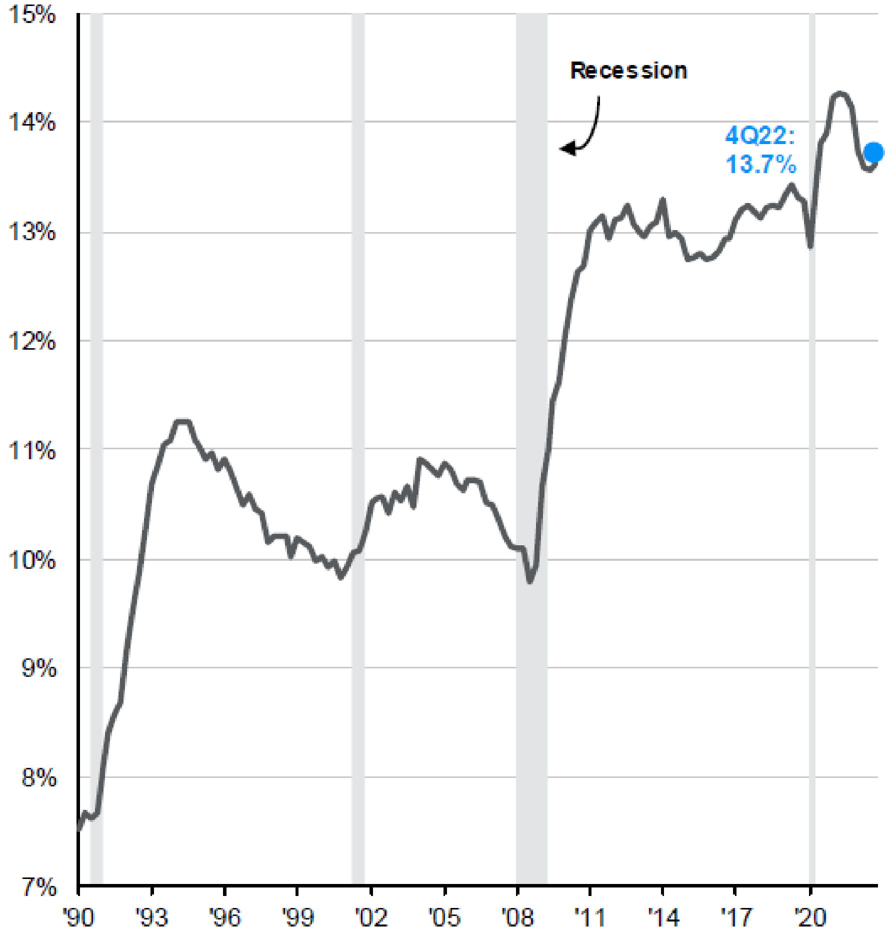
Bank Capitalization and Lending Sentiment

First Quarter 2023

The collapse of Silicon Valley Bank raised concerns about the stability of the banking sector. The left chart shows one measure of bank capitalization, which remains well above 2008 levels due to stricter banking regulations. The chart on the right shows banks have tightened lending standards substantially since mid-2022; recent banking turmoil likely continues this trend. A stricter lending environment will slow economic growth by reducing debt capital available to businesses.

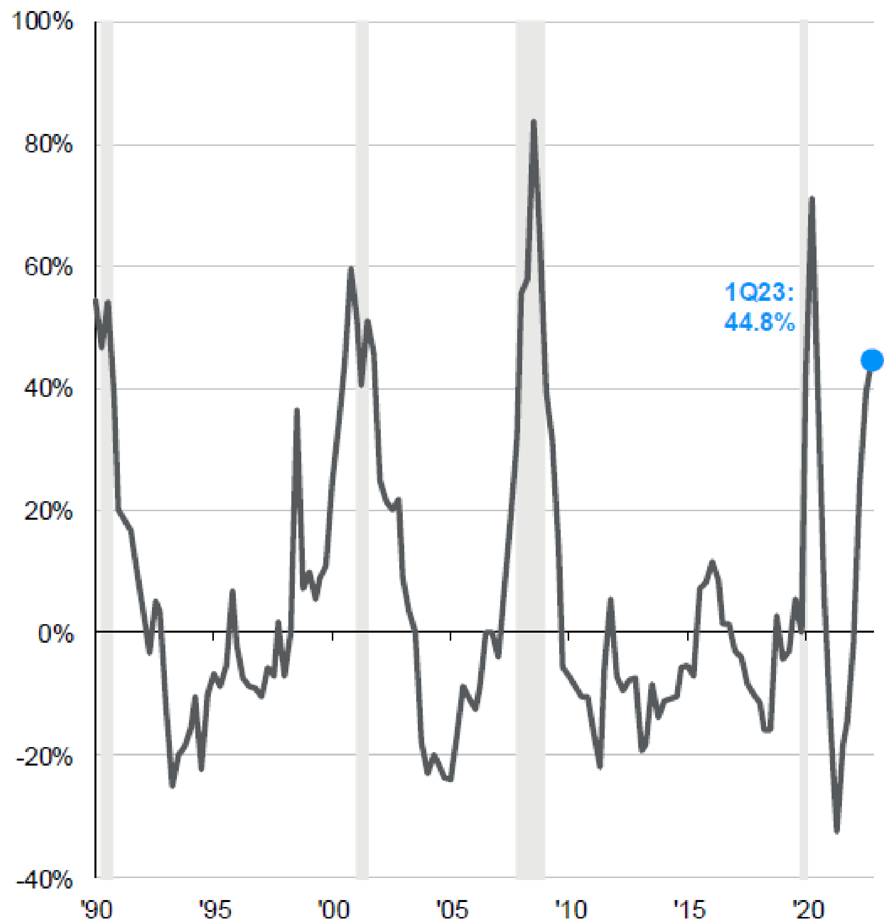
U.S. bank tier 1 capital ratio

Tier 1 capital as a % of risk-weighted assets



Net percentage of banks tightening lending standards

Commercial and industrial loans for large and middle-market firms

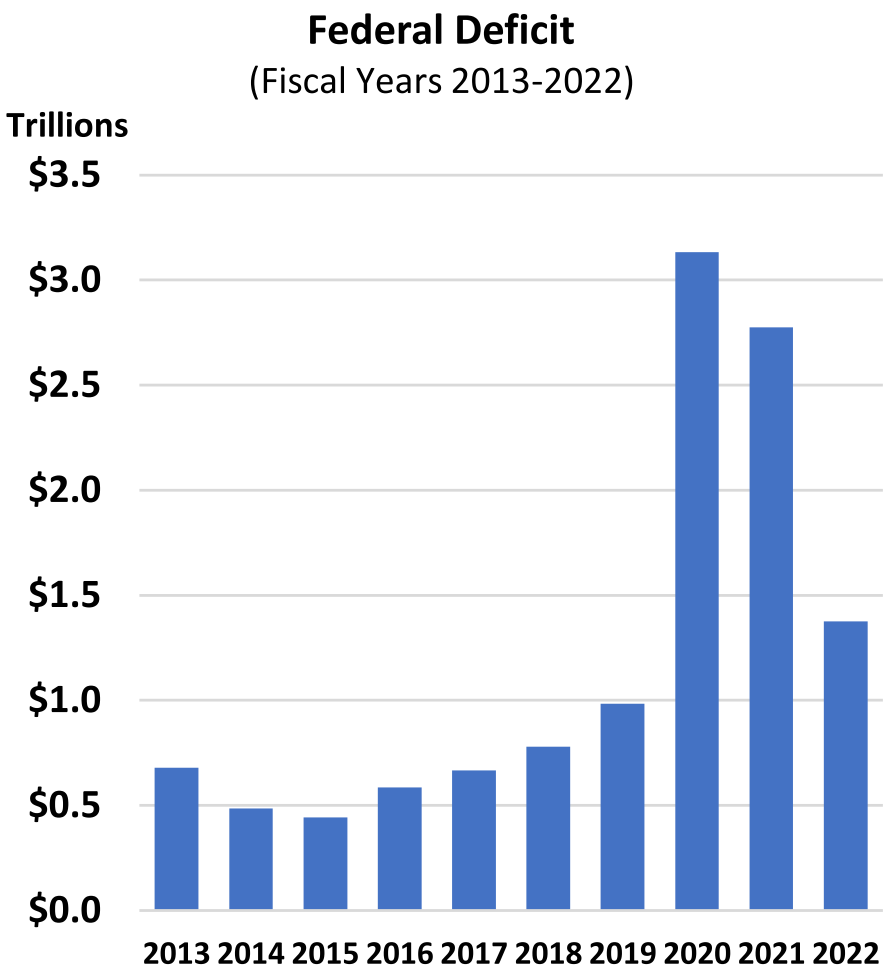


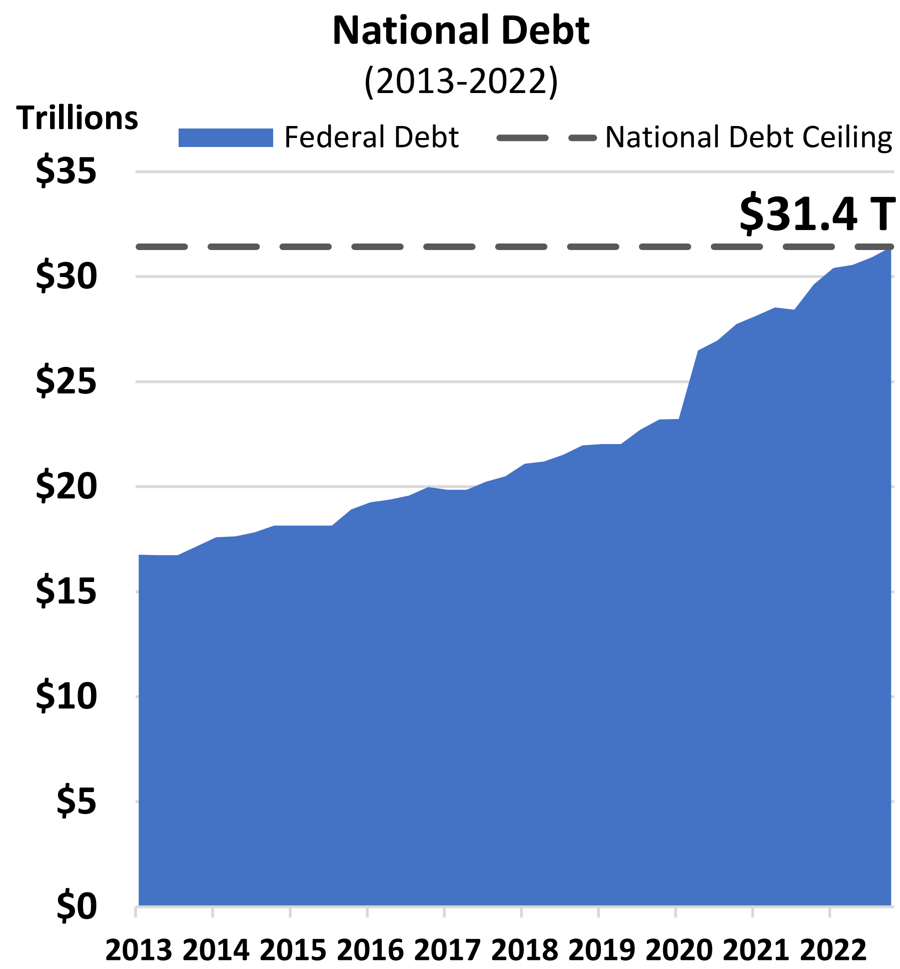
Source: J.P. Morgan Asset Management. The tier 1 capital ratio is the ratio of a bank's core tier 1 capital (equity capital and disclosed reserves) to its total risk-weighted assets. It is a key measure of a bank's financial strength that has been adopted as part of the Basel III Accord on bank regulation.
Guide to the Markets – US Data are as of March 31, 2023.

Federal Deficit and National Debt

First Quarter 2023

The left chart shows the annual federal deficits, which is the amount the government needs to borrow each year because its spending exceeds the taxes it collects. The cumulative effect of the deficits is the government's national debt (shown in the right chart). The debt ceiling currently stands at $31.4 trillion. For the US government to continue paying its bills in full, new legislation to lift the debt ceiling will need to be in place by sometime this summer. We expect this will happen, but probably not before the last minute or even a bit after.





Source: Federal Reserve Bank of St. Louis (FRED)..