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Q4 2022 MARKET & ECONOMIC REVIEW

Major Equity Market Indexes & Commentary

INDEX	DESCRIPTION	9/30/22	LOW CLOSE	HIGH CLOSE	12/31/22	QTD RETURN*
S&P 500	A market-capitalization weighted index of 500 large U.S companies.	3,586	3,577	4,080	3,840	↑ 7.1%
DJIA	Dow Jones Industrial Average or "The Dow"; A price-weighted average of 30 major U.S. companies.	28,726	28,726	34,590	33,147	↑ 15.4%
Nasdaq Composite Index	A market-capitalization weighted index comprised of over 3,000 companies, mostly in the technology and biotech industries.	10,576	10,213	11,482	10,466	↓ -1.0%
Russell 2000	A market-capitalization weighted index tracking U.S. small-cap stocks.	1,665	1,665	1,893	1,761	↑ 5.8%
NIKKEI 225	A price-weighted index comprised of Japan's top 225 most established companies (in Yen).	25,937	25,937	28,283	26,095	↑ 0.6%
MSCI Emerging Markets	An index comprised of 23 MSCI indices from emerging economies including Brazil, China, India, Mexico, Russia, South Africa, and the UAE.	876	843	984	956	↑ 9.2%
Stoxx Europe 600	An index comprised of 600 companies based in one of 18 EU countries including Austria, Belgium, Denmark, France, Germany, Ireland, Spain, and the United Kingdom (in Euro).	388	386	444	425	↑ 9.6%

*** Excludes effects of dividends** **Sources: FactSet**

EQUITY MARKETS COMMENTARY

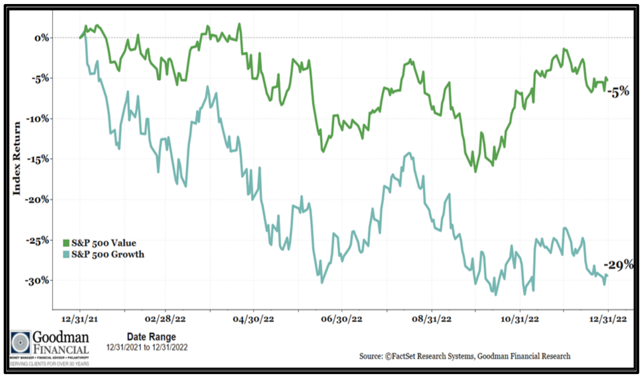
- Equity indexes were mostly higher in the fourth quarter with the exception of the Nasdaq Composite which was brought down by higher exposure to mega cap tech companies. Index concentration in mega caps is a risk we have been highlighting for a while. In fact, US large cap indexes with less exposure to mega cap stocks performed better as seen in the performance of the Dow Jones Industrial which was up 15% for the quarter compared to the S&P 500 which was up 7% and the Nasdaq Composite, having the highest mega cap exposure, was down -1%.
- As seen in the matrix table below, value outperformed across market caps in the fourth quarter, which is a theme that has played out for much of 2022 and has provided a tailwind for GFC equity holdings this year. Large cap value stocks performed the best in the quarter while large cap growth performed significantly worse than all other size and style categories. For the full year, large cap value outperformed large cap growth by 24% (right chart).
- International markets performed surprisingly well during the quarter against the backdrop of a recently weakening US Dollar. Both developed and emerging markets regained ground lost earlier in the year. The Stoxx Europe 600 Index gained 9.6% while the MSCI Emerging Markets Index ended up 9.2% for the quarter.

Table Comprised of the Following Indexes:

S&P 500 Large-Cap Total Return Index
S&P 500 Large-Cap Value Total Return Index
S&P 500 Large-Cap Growth Total Return Index
S&P 400 Mid-Cap Total Return Index
S&P 400 Mid-Cap Value Total Return Index
S&P 400 Mid-Cap Growth Total Return Index
S&P 600 Small-Cap Total Return Index
S&P 600 Small-Cap Value Total Return Index
S&P 600 Small-Cap Growth Total Return Index

Q4 2022 Market Segment Returns

	Value	Blend	Growth
Large	13.6%	7.6%	1.4%
Mid	12.7%	10.8%	8.7%
Small	11.2%	9.2%	7.0%



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Fixed Income Rates & Commentary

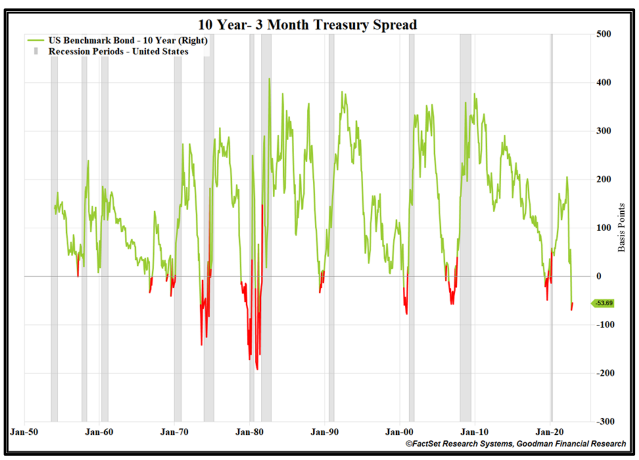
DESCRIPTION	9/30/22	12/31/22	QTD CHANGE IN BASIS POINTS*	DESCRIPTION	9/30/22	12/31/22	QTD CHANGE IN BASIS POINTS*
Federal Funds Target Rate	3.00%-3.25%	4.25%-4.50%	+125	15 Yr. Mortgage Rate	5.96%	5.68%	-28
90 Day Treasury Bill	3.33%	4.42%	+109	30 Yr. Mortgage Rate	6.70%	6.42%	-28
2 Yr. Treasury Note	4.22%	4.41%	+19	Prime Rate (U.S.)	6.25%	7.50%	+125
10 Yr. Treasury Note	3.80%	3.88%	+8	LIBOR (3 Month)	3.75%	4.77%	+102
30 Yr. Treasury Bond	3.79%	3.97%	+18	5-Year CD	0.74%	1.09%	+35

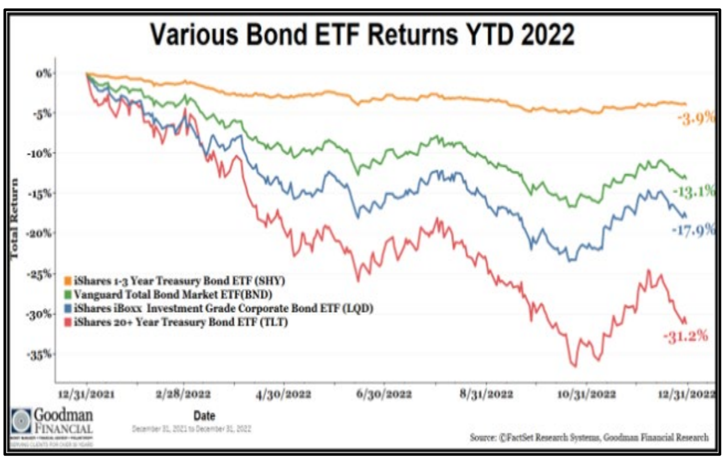
***One basis point is equal to 1/100th of 1% or 0.01%**

Sources: FactSet, Wall St. Journal, U.S. Treasury

FIXED INCOME COMMENTARY

- As seen in the table above, interest rates continued to rise in the fourth quarter as the Fed raised the Federal Funds Target Rate by 125 basis points, or 1.25%, to a target range of 4.25% to 4.50%. The new expectation for the peak Fed Funds rate is now 5.0% to 5.25%, which is projected to be reached by mid-2023.
- The yield curve inverted further during the fourth quarter with both the 3-month Treasury Bill and 2-year Treasury Note now yielding more than the 10-year Treasury Note, indicating higher expectations for a recession. Of note, every recession over the last 50 years has been preceded by an inversion of the 3-month and 10-year Treasury yields (left chart).
- Mortgage rates moderated a bit in the fourth quarter after a dramatic rise during most of 2022. The 30-year fixed rate mortgage fell to 6.4% from 6.7% at the end of last quarter. Despite the quarterly decline, the rapid rise in rates during 2022 has put the brakes on the previously hot housing market.
- Bond ETF returns were mixed in the quarter but ended the year lower across the board (right chart) with the long-dated iShares 20+ Year Treasury Bond ETF (TLT) performing the worst by far. TLT ended the quarter down -1.9% but finished the year down a whopping -31% showing the outsized impact of the rapid rise in rates on longer maturity bonds. GFC purposefully kept bond maturities shorter during the year which proved to be a prudent decision.





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Q4 2022
MARKET & ECONOMIC REVIEW
U.S. Economic Commentary

INDICATOR	DESCRIPTION	9/30/22	12/31/22	QTD CHANGE
Weekly Initial Claims for Unemployment Insurance (in Thousands)	The number of new filings for unemployment insurance benefits. Most economists believe claims below 300,000 indicate a healthy labor market environment. **Weekly initial claims were higher in the last week of the year, but the current level is still historically low, indicating a healthy and resilient labor market.**	193	204	↑ +5.7%
Unemployment Rate	The percentage of total labor force that is unemployed but actively seeking employment. The U.S. Federal Reserve targets a long-run unemployment rate of between 4.5% and 5%. **The unemployment rate stayed at 3.5% indicating a still strong job market, and the lowest rate since 1969.**	3.5%	3.5%	→ 0 bps
Average Weekly Earnings	The average weekly salary earned by private, nonfarm employees. **Wage growth of 0.5% during the quarter and 3.1% over the past year has not kept pace with current inflation rates causing real wage growth to be negative.**	$1,120	$1,125	↑ +0.5%
Index of Consumer Sentiment	This index is published by the University of Michigan and reflects consumer attitudes towards the state of the economy. **Sentiment, while still historically low, increased from the prior quarter and is now well above the low seen in June as consumers expect high inflation may be easing.**	58.6	59.7	↑ +1.9%
ISM Purchasing Managers Index (PMI®)	This index represents economic activity in the manufacturing sector. Any value above 50.0 represents economic expansion. **The index reached its lowest level since the onset of the pandemic indicating the expectation of lower future manufacturing demand.**	50.9	48.4	↓ -4.9%
Existing Home Sales (in Millions) *	This data is provided by the National Association of Realtors®. It is a seasonally adjusted annualized rate and reflects completed transactions in houses, townhomes, and condominiums. **Existing home sales declined further during the quarter and are now well below more normalized levels seen pre-pandemic as rising mortgage rates have cooled the housing market.**	4.80	4.09	↓ -14.8%
US Capacity Utilization: Manufacturing *	The ratio of production capacity being used to produce finished products compared to the total capacity available. **Utilization ticked down from last quarter but has stayed above pre-pandemic levels and the historical long-run average. This lagging indicator suggests pent up demand caused by supply chain issues.**	79.6%	78.9%	↓ -70 bps

***These items are as of 11/30/22, the date of the most recently published statistics**
Sources: FactSet, Federal Reserve Bank of St. Louis, The University of Michigan, U.S. Census Bureau, U.S Department of Labor, Institute of Supply Management

U.S. ECONOMIC HEALTH

- As shown in the table above, weekly initial claims for unemployment insurance and the unemployment rate ended the year near historically low levels, indicating the labor market remains strong, and causing some to speculate that the Fed will need to do more to slow the economy and combat inflation.
- On the other hand, the ISM Purchasing Managers Index indicated a contraction in the manufacturing industry for the second straight month. The PMI readings indicated an expansion for all of 2022 until November and December with the most recent reading of 48.4 being the lowest level since April and May 2020 (left chart). The December reading suggests manufacturing companies are anticipating lower future demand driven by the continued rotation in spending from goods to services and higher borrowing costs.
- The Fed Funds Target Rate now sits at 4.25%-4.50% compared to near zero at the beginning of the year. The recent hiking cycle has been the fastest and steepest since the 1970s. The Fed's efforts to fight inflation can be seen clearly in the chart on the right but the full effects of this hiking cycle will take time to play out.