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# Q1 2023 MARKET & ECONOMIC REVIEW

## Major Equity Market Indexes & Commentary

| INDEX | DESCRIPTION | 12/31/22 | LOW CLOSE | HIGH CLOSE | 3/31/23 | QTD RETURN* |
|---|---|---|---|---|---|---|
| S&P 500 | A market-capitalization weighted index of 500 large U.S companies. | 3,840 | 3,808 | 4,180 | 4,109 | ↑ 7.0% |
| DJIA | Dow Jones Industrial Average or "The Dow"; A price-weighted average of 30 major U.S. companies. | 33,147 | 31,819 | 34,303 | 33,274 | ↑ 0.4% |
| Nasdaq Composite Index | A market-capitalization weighted index comprised of over 3,000 companies, mostly in the technology and biotech industries. | 10,466 | 10,305 | 12,222 | 12,222 | ↑ 16.8% |
| Russell 2000 | A market-capitalization weighted index tracking U.S. small-cap stocks. | 1,761 | 1,720 | 2,001 | 1,802 | ↑ 2.3% |
| NIKKEI 225 | A price-weighted index comprised of Japan's top 225 most established companies (in Yen). | 26,095 | 25,717 | 28,623 | 28,041 | ↑ 7.5% |
| MSCI Emerging Markets | An index comprised of 23 MSCI indices from emerging economies including Brazil, China, India, Mexico, Russia, South Africa, and the UAE. | 956 | 941 | 1,052 | 990 | ↑ 3.5% |
| 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). | 425 | 425 | 465 | 458 | ↑ 7.8% |

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

## EQUITY MARKETS COMMENTARY

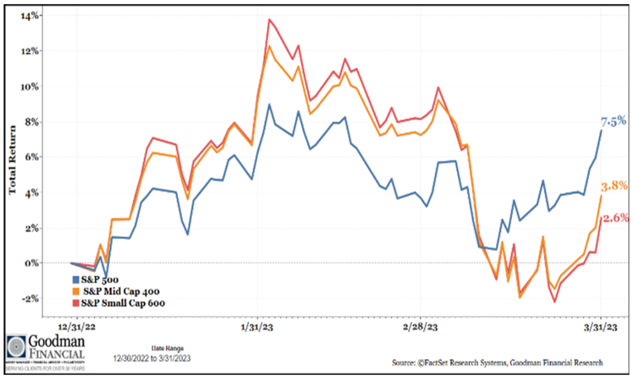
- As seen in the chart below on the right, US equity indexes ended the first quarter broadly higher despite taking an indirect route. The market rallied to start the year as investors hoped the Federal Reserve (Fed) might soon pause interest rate hikes. Those hopes were dashed when February economic data came in stronger than expected, but attention quickly turned to the failure of two US banks triggering fears of a global contagion. However, as the quarter came to an end, those fears eased, and investors once again drove the market higher on hopes of a more dovish Fed and falling long-term interest rates (more on that below).
- Large cap growth stocks outperformed all other segments in the first quarter (matrix table below), largely fueled by a rally in mega-cap technology stocks. The mega-cap rally pushed the Nasdaq Composite up 16.8% in the quarter compared to gains of 7.0% for the S&P 500 and 0.4% for the Dow Jones Industrial Average (all before dividends).
- International markets performed (surprisingly) well during the quarter with developed markets outperforming emerging markets as investors sought quality and stability. The Stoxx Europe 600 Index gained 7.8% supported by economic strength in Germany and France, while the MSCI Emerging Markets Index ended up 3.5% for the quarter on the reopening of China after the country lifted zero-Covid policies.

**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

**Q1 2023 Market Segment Returns**

| | Value | Blend | Growth |
|---|---|---|---|
| Large | 5.2% | 7.5% | 9.6% |
| Mid | 2.5% | 3.8% | 5.0% |
| Small | 3.0% | 2.6% | 2.1% |

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# Q1 2023
# MARKET & ECONOMIC REVIEW
## Fixed Income Rates & Commentary

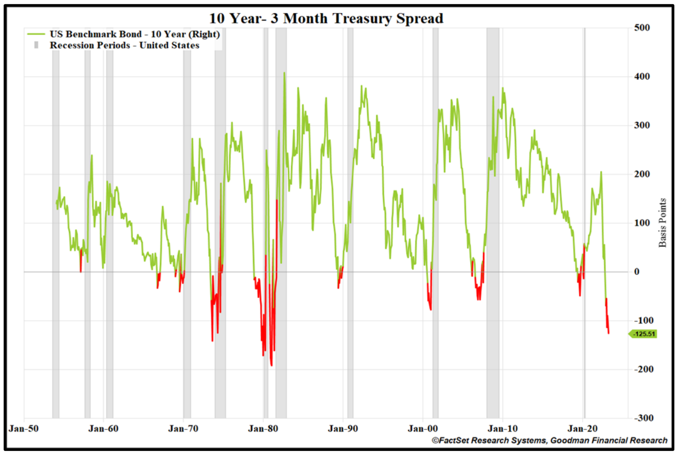
| DESCRIPTION | 12/31/22 | 3/31/23 | QTD CHANGE IN BASIS POINTS* | DESCRIPTION | 12/31/22 | 3/31/23 | QTD CHANGE IN BASIS POINTS* |
|---|---|---|---|---|---|---|---|
| Federal Funds Target Rate | 4.25%-4.50% | 4.75%-5.00% | +50 | 15 Yr. Mortgage Rate | 5.68% | 5.56% | -12 |
| 90 Day Treasury Bill | 4.42% | 4.85% | +43 | 30 Yr. Mortgage Rate | 6.42% | 6.32% | -10 |
| 2 Yr. Treasury Note | 4.41% | 4.06% | -35 | Prime Rate (U.S.) | 7.50% | 8.00% | +50 |
| 10 Yr. Treasury Note | 3.88% | 3.48% | -40 | LIBOR (3 Month) | 4.77% | 5.19% | +42 |
| 30 Yr. Treasury Bond | 3.97% | 3.67% | -30 | 5-Year CD | 1.09% | 1.35% | +26 |

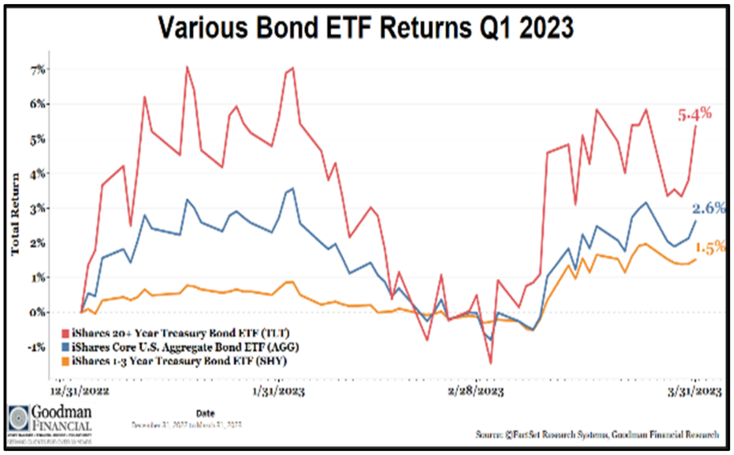
***One basis point is equal to 1/100th of 1% or 0.01%**

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

## FIXED INCOME COMMENTARY

- The Fed raised the Federal Funds target rate twice during the first quarter of this year, each time by 25 basis points. The target rate range is now 4.75% to 5.00%, which is the highest since 2007. One more rate hike of 25 basis points is expected in 2023 which would bring the terminal Federal Funds rate to 5.00% to 5.25% and sets the stage for potential rate cuts heading into 2024.
- Yields on longer-dated maturities continued to decline and the yield curve inverted further as the banking crisis reignited fear of a recession. The spread between the 10-year and 3-month Treasuries widened during the quarter (left chart) and reached the deepest level since 1981 in the immediate aftermath of the Silicon Valley Bank collapse. As a result, longer-dated maturity bond ETFs outperformed shorter-dated maturities. As seen in the chart below on the right, the iShares 20+ Year Treasury ETF returned 5.4% in the quarter compared to 2.6% for the iShares Core U.S. Aggregate Bond ETF, and only 1.5% for the iShares 1-3 Year Treasury ETF.
- Mortgage rates dropped for the second straight quarter with the average rate for a 30-year fixed-rate mortgage dropping 10 basis points to 6.32%. The recent decline in mortgage rates coupled with the start of the spring buying season has brought many buyers back to the market but those buyers will still need to contend with low affordability and tight inventory.



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# Q1 2023
# MARKET & ECONOMIC REVIEW
## U.S. Economic Commentary

| INDICATOR | DESCRIPTION | 12/31/22 | 3/31/23 | 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 are still historically low, indicating a healthy and resilient labor market.** | 204 | 198 | -2.9% |
| 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 remained historically low at 3.5% indicating a still strong job market.** | 3.5% | 3.5% | +0 bps |
| Average Weekly Earnings | The average weekly salary earned by private, nonfarm employees. **Wage growth of 1.5% during the quarter and 3.3% over the past year has not kept pace with current inflation rates causing real wage growth to be negative.** | $1,125 | $1,141 | +1.5% |
| Index of Consumer Sentiment | This index is published by the University of Michigan and reflects consumer attitudes towards the state of the economy. **Sentiment rose from the prior quarter but fell markedly from 67.0 in February as the banking crisis renewed concerns about a recession.** | 59.7 | 62.0 | +3.9% |
| ISM Purchasing Managers Index (PMI®) | This index represents economic activity in the manufacturing sector. Any value above 50.0 represents economic expansion. **The index continued to decline to the lowest level since the onset of the pandemic implying that rising interest rates and growing recession fears are weighing on businesses.** | 48.4 | 46.3 | -4.3% |
| 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 rose for the first time in 12 months likely due to a drop in mortgage rates and pent-up demand.** | 4.09 | 4.58 | +12.0% |
| 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 and remains slightly below the historical long-run average suggesting higher borrowing costs may be reducing demand.** | 78.9% | 78.3% | -60 bps |

***These items are as of 2/28/23, 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

- The US labor market continues to show strength despite mounting economic headwinds. The unemployment rate of 3.5% remains at 50-year lows. Average weekly earnings rose 1.5% in Q1, a 6% annualized rate. The resilient labor market is making it harder for the Fed to manage high inflation.
- Job openings fell below 10 million for first time since June 2021 in a sign that labor demand may have peaked (left chart). There were an estimated 9.9 million job openings at the end of February which equates to nearly 1.7 jobs for every job seeker, despite recent high-profile job cuts in the tech sector.
- The March consumer sentiment index reading of 62.0 was up 4% from December of last year but represented the first monthly decline in the last four months. Consumer sentiment fell 8% from February partly due to turmoil in the banking sector but more likely consumers are increasingly expecting a recession later this year.
- Existing home sales jumped by 12% in Q1, driven by moderating mortgage rates and pent-up demand snapping a 12-month slide and representing the largest monthly percentage increase since July 2020 (right chart). Inventories of existing home available for sale remain at historically low levels.