1st Quarter 2023

Market Summary: Markets remained volatile during the quarter with notable reversals in two key sectors: large growth (Tech) stocks and intermediate/long bonds. Investors looked beyond the challenges of sticky inflation and the Fed's commitment to keep rates higher for longer, and instead have front run a dovish shift in monetary policy. Despite the Fed's expectation of very slow growth through 2024, 'Growth' areas of the stock market are expecting the economy (and earnings) to accelerate, pushing the price of Growth stocks up dramatically this quarter while 'Value' stocks continue to stumble. The table below shows the wide performance gap between Growth and Value for the quarter versus one year time period. Meanwhile, the Bond market has pushed yields lower (prices higher) at one of the fastest paces in history, and is now expecting the Fed to lower rates as soon as August. In sum, the performance across different sectors varied wildly during the quarter as the markets' and the Fed's expectations about the trajectory of the economy, inflation, and interest rates continue to diverge.

Index Returns:	QTD	12 Months		QTD	12 Months		QTD	12 Months
US Blend Equity (Equal Weight)	2.89%	-6.55%	U.S. Growth	17.46%	-12.42%	U.S. Short Bond	1.94%	-0.21%
Foreign Developed	8.68%	0.09%	U.S. Value	-0.05%	-5.74%	Intermediate Corp Bond	3.41%	-6.10%
Emerging Equity	4.12%	-10.51%	Small Blend	2.70%	-11.67%	High Yield Bond	3.73%	-3.09%

Market Outlook: Investor sentiment drives the short term gyrations, but fundamentals dictate the long term trajectory of the financial markets. From 2009-2021, cheap money and easy access to credit fueled incredible gains in financial assets. Today, with interest rates normalizing and credit conditions tightening, the cost of capital (growth) is much higher. Meanwhile, structural tightness in the labor market will likely keep inflation firm. These factors will pressure operating leverage and earnings in nearly every business throughout the economy. Yet, the markets are currently priced for perfection and therefore are vulnerable to disappointment. The risk/return trade off is not favorable at these levels. Looking ahead, we expect stocks to swing in a large trading range for the remainder of the year as the economy transitions to a slower growth trajectory. Interest rates will float above the level of inflation which, if that level remains above 4% (currently at 5.9%), rates will move back up and bond prices will fall.

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