



Monthly CIO View

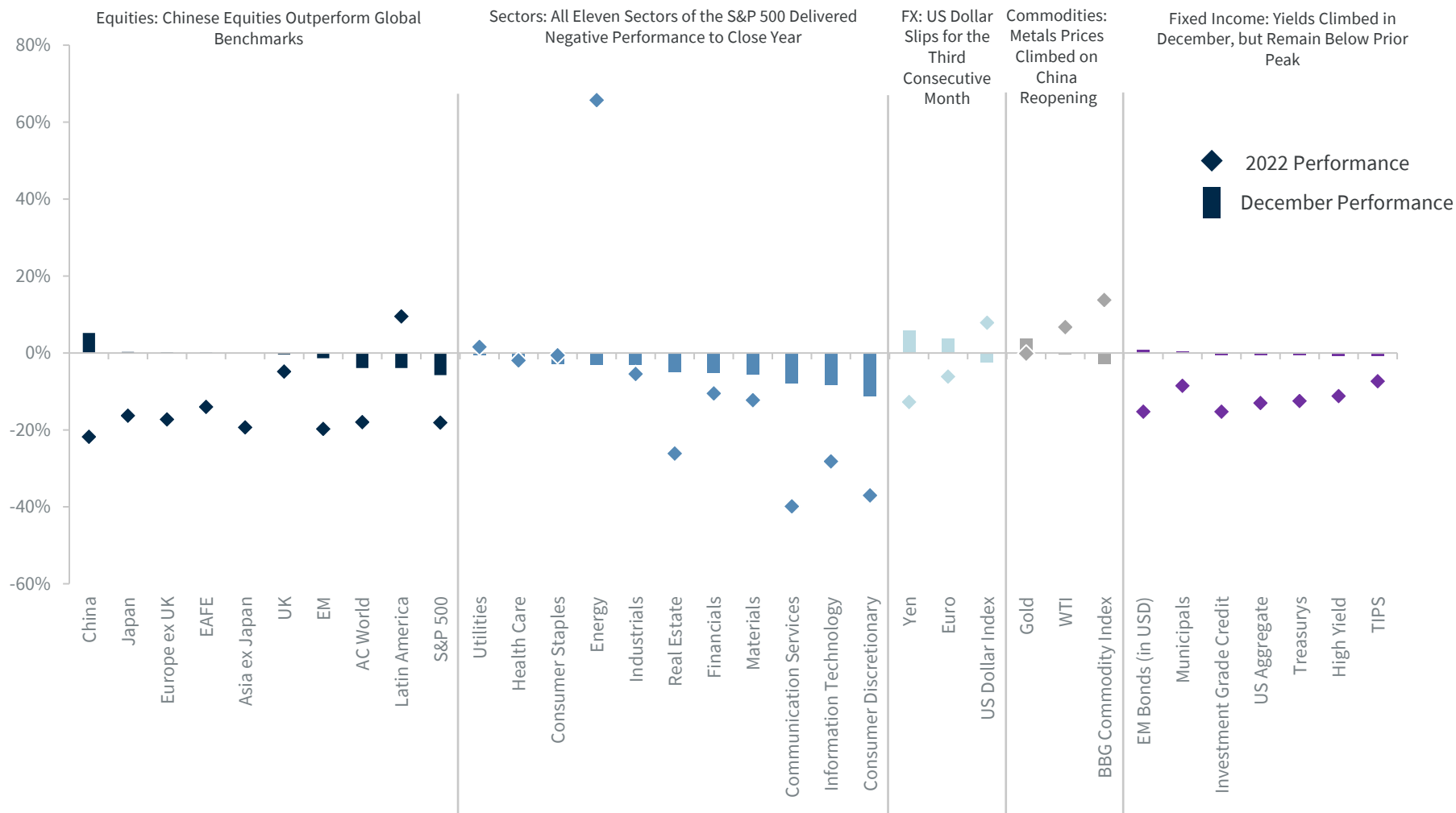
Strategy Snapshot

January 2023

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Chief Investment Officer

Returns By Asset Class | December and 2022

Returns by Asset Class



Data as of 12/31/2022. All international equity indices are MSCI indices and in USD. Diamonds represent the year-to-date total returns and bars represent monthly returns.

Global Economy | Growth is Slowing, Not Collapsing

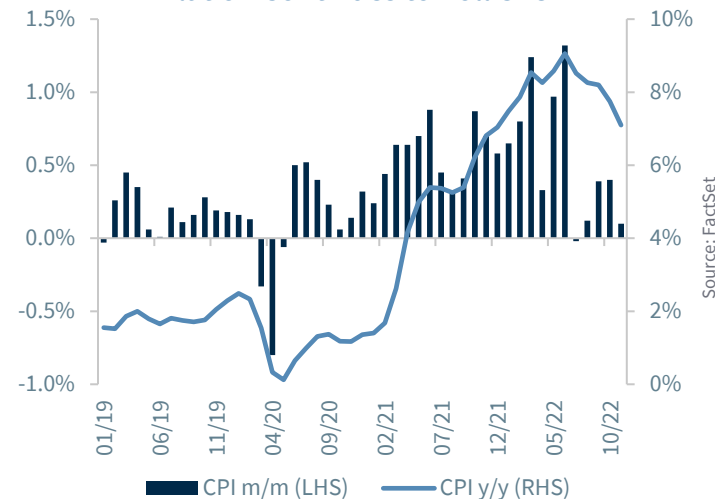
Global Economy | Recent Trends

- **Recession concerns and high inflation did not stop consumers from spending during the holiday season** as sales climbed over 7%. Steep holiday discounts lured consumers. However, consumers went further into debt to support their spending this year.
- **Despite some notable tech layoff announcements, the labor market remained strong** as evidenced by the +263k job gains in November and the 4.3 million jobs added in 2022. Strong job growth and wage gains (+5.1% YoY) have been key factors supporting consumption to date.
- **Inflation pressures continue to ease in the US.** Cooling trends were seen in a number of inflation reports this month, ranging from core CPI, inflation expectations data and the price sub-indices in ISM reports.
- **The Federal Reserve's (Fed) crusade on inflation is taking a toll on the housing sector, which is in the midst of its deepest slump since 2008.** While the recent decline in mortgage rates could provide some near-term relief, many metrics that we follow (i.e., builder confidence, building permits and pending home sales) have fallen to multi-year lows.
- **China is taking significant steps toward reopening its economy after nearly three years of rolling lockdowns.** The government is quickly dismantling its zero-COVID policies which had reverberated across the globe. **Europe's economic growth slowed to 0.3% QoQ, but leading indicators (i.e., business and consumer confidence) still point toward further slowing.**

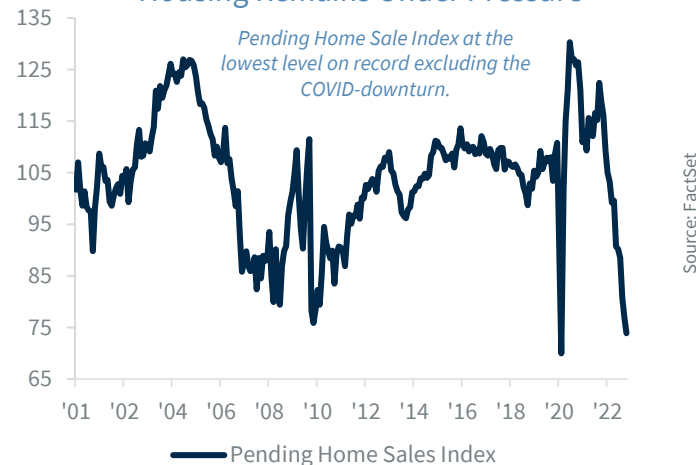
Global Economy | 12-Month Outlook

- **The US economy has been resilient in the face of aggressive monetary tightening by the Fed.** Restrictive monetary policy is weighing on housing activity; however, the robust labor market and excess savings from the pandemic is cushioning the downturn.
- **The US economy will experience a mild recession, with growth slowing to 0% in 2023.** Pockets of weakness in housing, transportation and retail will continue to weigh on growth, however the service sector remains strong. This should moderate throughout the year.
- **The pace of job growth should slow as firms implement further cost cutting measures.** However, job losses will be mild compared to previous downturns as the service sector is still recovering from the pandemic and job openings remain plentiful. We expect the unemployment rate to peak at 5.0% from its current level of 3.7%.
- **We see meaningful disinflation in the pipeline and** expect it to start working its way through the economy in 2023. We expect the headline measure of inflation to fall to 2.4% by year end.
- **China faces near-term risks as rising infections will restrain growth,** but growth will improve as the economy fully reopens and the government provides more support. **Europe's downturn is being cushioned** by well-stocked energy reserves and ongoing fiscal support for households.

Inflation Continues to Roll Over



Housing Remains Under Pressure



Equities | Worst Performance Since 2008; Expect Rebound in 2023

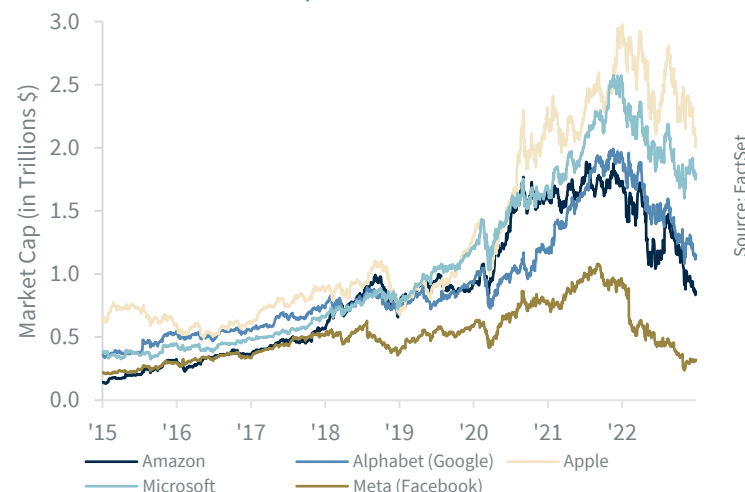
Global Equities | Recent Trends

- **The S&P 500 tumbled 5.8% in December, finishing the year down 18.1%.** This marked the third worst performance in the final month of the year since 1932 and the worst full year performance since 2008. Hawkish central banks and rising concerns about the 2023 earnings outlook weighed on market sentiment.
- **The tech-heavy NASDAQ shed 32.5% in 2022 as tech stocks were the most vulnerable to rising interest rates.** Some of the biggest mega-cap stocks (i.e., Google, Meta, Apple) collectively shed \$4.3 trillion of market cap this year as valuation multiples corrected. Troubles in the Tech sector caused **growth stocks to underperform value stocks by the widest margin since 2000.** (Russell 100 Value: -7.5% vs. Russell 1000 Growth: -29.1%).
- **Despite a challenging economic environment, corporate earnings managed to stay fairly resilient,** with the S&P 500 on track to deliver earnings growth of around 6% in 2022. However, the bulk of the gains were largely driven by the Energy sector and occurred in the first half of the year. Valuations suffered due to the rise in interest rates and inflation.
- **International developed and emerging equities outperformed the US in December and during the final quarter of the year.** Europe benefited from its sector composition differences (overweight value-oriented sectors) as US tech stocks collapsed. Chinese stocks gained for the second month, rising 4.8% as reopening plans continue.

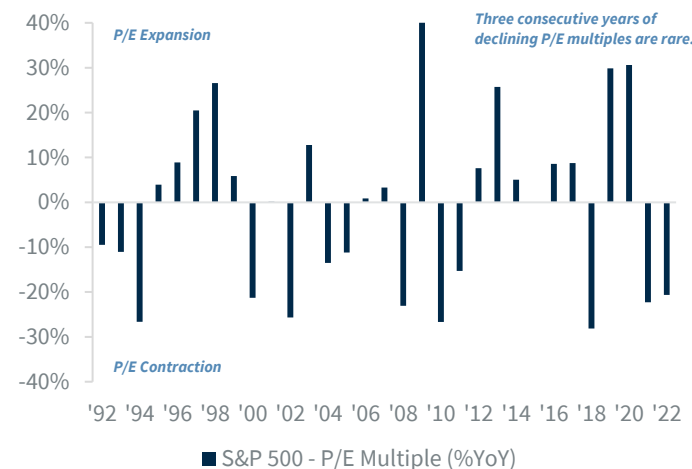
Global Equities | 12-Month Outlook

- Moderating inflation, a normalizing job market and a Fed pause should pave the way for the equity markets to recover and volatility to recede in 2023. **We expect the S&P 500 Index to rise to ~4,400 by year-end 2023** (\$215 EPS and a ~20.5x P/E multiple). Our favorite sectors include **Energy, Financials and Health Care.**
- **We do not foresee a hard landing for corporate earnings in 2023 and expect margins to be more resilient on the back of 'cost cutting.'** The forward-looking nature of the market will allow the valuation multiple to expand this year.
- **We continue to favor US stocks over developed market international equities** given Europe's fragile growth outlook, the ongoing energy crisis and downside risk to earnings. While some of these risks are already reflected in current valuations and investor positioning, we remain cautious in the near term. However, a longer-term opportunity could arise if there is an improvement in the macro backdrop.
- **We are constructive on emerging markets equities, particularly Southeast Asia, given China's surprise pivot away from its zero-COVID policies.** A full reopening in China should boost growth in the region, propel earnings and lift EM valuations in 2023.

Market Cap of Tech Giants Shrink

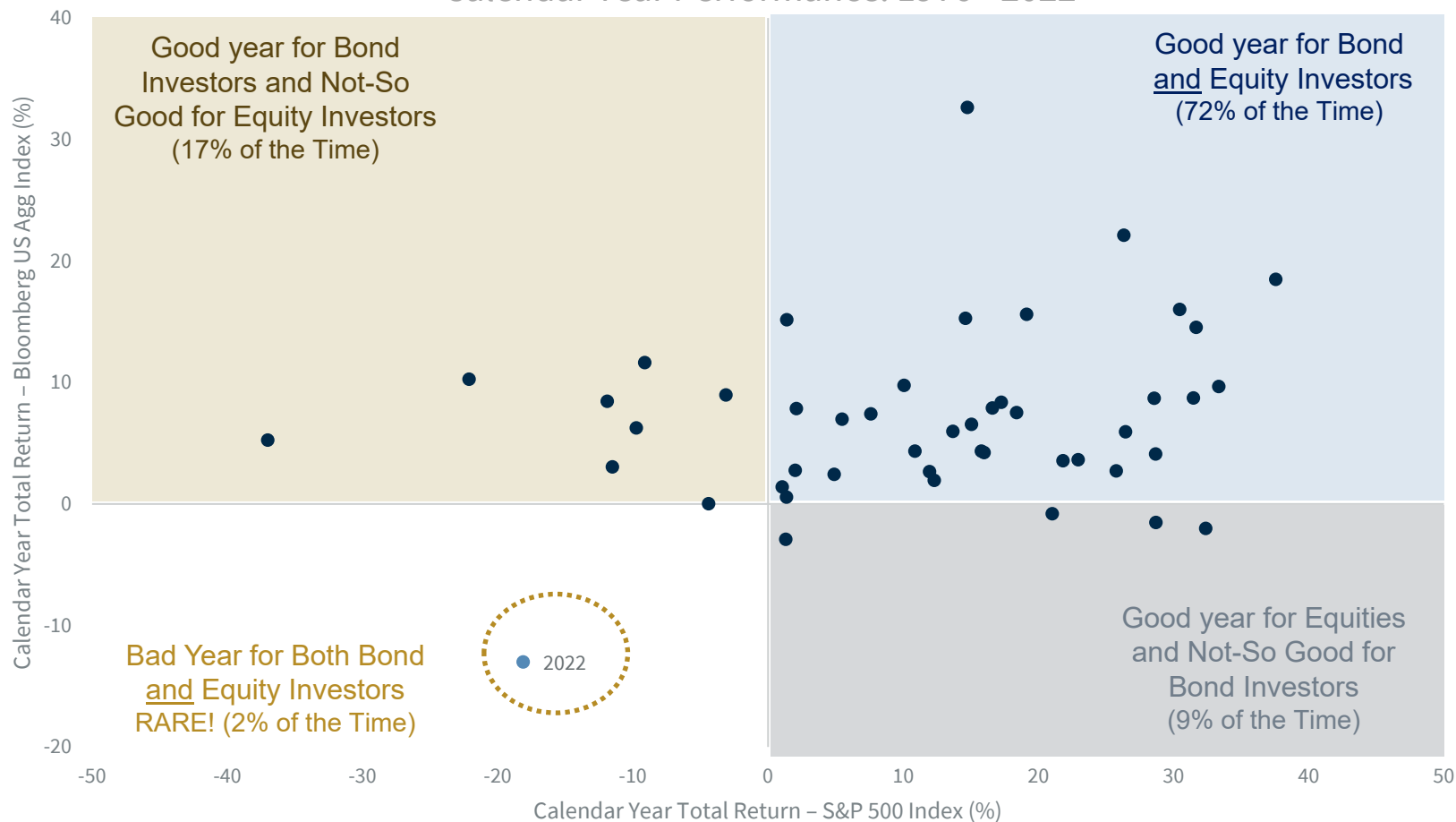


Multiple Contraction Drove Negative Returns



2022 WAS A DISMAL YEAR FOR STOCKS AND BONDS

Calendar Year Performance: 1976 - 2022



Source: FactSet, Data as of 12/31/22.

Fixed Income | Rate Reset Makes Bonds More Attractive

Global Bonds | Recent Trends

- **The Fed raised rates 50 basis points to 4.25% - 4.50% at its final policy meeting of the year.** The Fed also updated its projections for the next few years, raising its terminal rate expectation to 5.1% in 2023, up 50 basis points from its September forecast. Rates are projected to remain in restrictive territory throughout 2023 to tackle inflation.
- **While the Fed had prepared the market for the upward shift in its projections, global bond yields resumed their upward march in December.** The Bank of Japan's surprise decision to widen the band on its 10-year Japanese government bond yield cap, China reopening concerns and more hawkish comments from ECB officials after its 50 basis point rate hike pushed global yields higher.
- In December, the yield on the **10-year Treasury rose from an intra-month low of ~3.4% to ~3.9%**, the 10-year German bond yield climbed nearly 70 bps to ~2.5%, and the 10-year Japanese bond yield hit ~0.4%, its highest level since 2011. **After peaking at nearly \$18 trillion in 2020, the amount of global negative yielding debt nearly evaporated.**
- **Credit spreads appear to be pricing in a soft landing for the economy.** Investment grade (130 bps) and emerging market (339 bps) spreads have narrowed from their recent peaks. High yield spreads (469 bps) are hovering below their 30-year average. However, the amount of distressed debt, bonds with spreads of more than 1000 basis points, continues to climb.

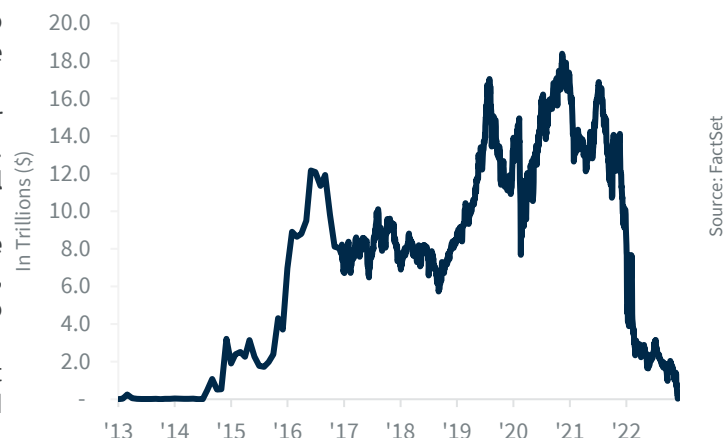
Global Bonds | 12-Month Outlook

- **We expect the Fed to hike interest rates further into restrictive territory, pushing the fed funds rate to 4.75% - 5.0% in early 2023.** Decelerating inflation will allow the Fed to move to the sidelines in early 2023, but a rate cut is not on the horizon yet as policymakers want to be certain that inflation will not stage a comeback if they relax policy too soon.
- With the Fed likely to maintain a restrictive policy stance at the expense of growth, 10-year Treasury yields could temporarily climb higher providing attractive entry points for investors. **Stagnating growth, moderating inflation and the end of the Fed's tightening cycle will drive the 10-year Treasury yield to 3.0% by year-end 2023.**
- With yields across all sectors of the fixed income market at multi-decade highs, **bonds have become a competitive asset class again.** We find high-quality bonds (i.e., Treasuries, investment grade bonds, and municipals), which offer investors yields in the vicinity of 4.0 to 5.5% with minimal risk, quite attractive in this environment.
- **Caution is warranted on the riskiest sector of the bond market (i.e., high yield)** as it typically underperforms high-quality bonds when the economy goes into a recession and defaults start to rise.

10-Year Treasury Yields Climbed into Year End



Negative Yielding Global Debt Evaporated in 2022



Commodities & Currencies | High Volatility in the FX Markets Continues

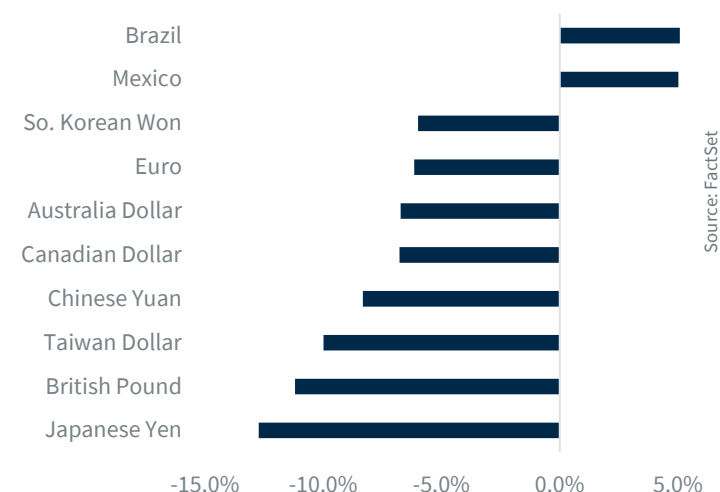
Commodities & Currencies | Recent Trends

- **Energy prices slid 12.6% in December, primarily due to a steep decline in natural gas prices (~39%).** European gas prices fell to pre-Ukraine war levels as mild weather on the continent eased supply concerns and kept inventories at elevated levels. Oil prices ended the month slightly lower (-0.4% MoM) as global growth concerns and rising US crude stockpiles outweighed the China reopening news.
- **The US dollar declined ~2.3% in December, falling to a six-month low against its major trading partners.** The dollar is now down ~9% from its peak in September but is still up 7.9% in 2022. Market expectations that the Fed would begin scaling back its tightening cycle to avert a deeper downturn has been a key factor in the reversal of the trend.
- The Bank of Japan's (BOJ) uber-dovish policy stance has led to significant weakness in the Japanese yen in 2022. However, its **surprise yield curve control widening, repeated interventions and rising inflation have caused the market to reassess the BOJ's current monetary policy stance.** This has led to a huge recovery in the Japanese yen, which soared nearly 12% over the last two months.
- China's COVID containment policies have weighed on metals prices in 2022 as industrial activity ground to a halt and domestic demand slumped. However, **industrial and precious metal prices were up sharply on optimism that China's reopening would boost demand.**

Commodities & Currencies | 12-Month Outlook

- The weaker global economic backdrop has weighed on the price of oil, causing it to fall from its post-Ukraine invasion peak to ~\$75 per barrel. However, **we expect oil prices to climb over the course of the year and have a forecast of ~\$100/barrel by year-end 2023.** The ongoing deterioration in Russian oil exports, increased demand from China's reopening and continued capital discipline from oil producers will lift oil prices from current levels.
- **The downward pressure on metals prices should reverse.** China's relaxation of its zero-COVID restrictions should boost demand for copper, gold and other commodities in 2023.
- **Europe's energy crisis is far from over, despite recent progress on replenishing gas stockpiles.** Even if this winter ends up being milder than expected in Europe, there are still lingering concerns about replenishing energy supplies heading into next winter.
- **Some of the tailwinds (i.e., Fed hawkishness and favorable interest rate differentials) that supported the US dollar in 2022 are fading.** This should benefit the euro and the Japanese yen, which are extremely undervalued. We expect the euro to be range bound in 2023. The euro could rise to 1.10 as interest rate differentials turn in Europe's favor as the ECB plays catch up to the Fed. However, lingering economic concerns could drive it back to parity.

Dollar Gains versus Most Currencies in 2022



Oil Prices Volatile on China Reopening News



Summary | Views and Key 2023 Year-End Targets

1 ECONOMY

2023 US GDP: ~-0.0%

We expect GDP growth to slow to 0.0% in 2023, as the lagged impact of the Fed's past tightening restrains economic activity. The recession should be mild as there are few imbalances in the economy and the consumer is still supported by excess savings and a strong jobs market. Jobs growth will slow in the coming year, with the unemployment rate rising to a peak of 5.0%. Inflation pressures will continue to decline, with headline inflation falling to 2.4% by year-end 2023.

2 BOND MARKET

2023 10-Year Treasury: 3.00%

Moderating inflation and a normalizing jobs market will allow the Fed to move to the sidelines after lifting the fed funds rate to a peak of 4.75 – 5.0% in early 2023. While we don't expect the Fed to cut rates in 2023 as inflation remains elevated, bond yields will decline in anticipation of the turn in the cycle. With bond yields at their highest levels in over a decade, we prefer to remain up-in-quality and favor Treasuries, munis and investment-grade debt over high yield debt.

3 EQUITIES

2023 S&P 500: ~4,400

The global backdrop may remain challenging however, the risk/reward has improved considerably given the sharp declines experienced in 2022. With a lot of the bad news already priced in, we have an ~ 4,400 price target on the S&P 500 for year-end 2023. This assumes a \$215 EPS forecast and ~20.5x multiple. We continue to favor US over international equities in the near term. Our preferred S&P 500 sectors are Health Care, Financials and Energy.

4 DOLLAR DIRECTION

2023 EUR/USD: 1.05

Some of the tailwinds supporting the US dollar (i.e., Fed hawkishness, favorable yield advantage) have faded. This should benefit undervalued currencies, like the euro and Japanese yen. We expect the euro to be range bound in 2023. The euro could get a lift to 1.10 as interest rate differentials turn in Europe's favor as the ECB plays catch up to the Fed in 2023. However, lingering economic concerns, potentially exacerbated by spiking energy prices, could drive the euro to parity.

5 OIL

2023 Oil: ~\$100/barrel

Global growth concerns have pushed oil prices near the lowest levels in nearly a year. Despite concerns about a recession, we think oil demand will remain robust in 2023. We expect oil prices to average around ~\$100/barrel in 2023. Declining Russia production, increased demand from China from the reopening and continued capital discipline from US oil producers will lift oil prices back to our target.

6 VOLATILITY

Volatility:



Volatility should recede in 2023 now that election uncertainty is out of the way, China is dismantling its zero-COVID policies, and the Russia-Ukraine war is no longer front page news. The Fed moving to the sidelines in early 2023 should also help. However, the market may experience interim bouts of volatility until the earnings, inflation and the growth outlook becomes clearer in the coming months.

DISCLOSURES

Diversification does not ensure a profit or guarantee against a loss

INTERNATIONAL INVESTING | International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

SECTORS | Sector investments are companies engaged in business related to a specific economic sector and are presented herein for illustrative purposes only and should not be considered as the sole basis for an investment decision. Sectors are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

OIL | Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

CURRENCIES | Investing in currencies is generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

GOLD | Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated.

FIXED INCOME | Fixed-income securities (or “bonds”) are exposed to various risks including but not limited to credit (risk of default of principal and interest payments), market and liquidity, interest rate, reinvestment, legislative (changes to the tax code), and call risks. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise.

US TREASURYS | US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value.

US DOLLAR | The US Dollar Index is an index (or measure) of the value of the United States dollar relative to a basket of foreign currencies,[1] often referred to as a basket of U.S. trade partners' currencies.[2] The Index goes up when the US dollar gains "strength" (value) when compared to other currencies.

DEFINITIONS

AGGREGATE BOND | **Bloomberg US Agg Bond Total Return Index:** The index is a measure of the investment grade, fixed-rate, taxable bond market of roughly 6,000 SEC-registered securities with intermediate maturities averaging approximately 10 years. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

HIGH YIELD | **Bloomberg US Corporate High Yield Total Return Index:** The index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

CREDIT | **Bloomberg US Credit Total Return Index:** The index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

MUNICIPAL | **Bloomberg Municipal Total Return Index:** The index is a measure of the long-term tax-exempt bond market with securities of investment grade (rated at least Baa by Moody's Investors Service and BBB by Standard and Poor's). This index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

BG COMMODITY INDEX | **Bloomberg Commodity Index** is calculated on an excess return basis and reflects commodity futures price movements.

BLOOMBERG INDUSTRIAL METALS INDEX | **Bloomberg Industrial Metals Index** reflects the returns that are potentially available through an unleveraged investment in the futures contracts on industrial metal commodities.

MSCI EM ASIA INDEX | The **MSCI Emerging Markets (EM) Asia Index** captures large and mid cap representation across 8 Emerging Markets countries*.

With 1,160 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

DATA SOURCES

FactSet as of 12/31/2022.

S&P 500 | The **S&P 500 Total Return Index**: The index is widely regarded as the best single gauge of large-cap U.S. equities.

EMERGING MARKETS EASTERN EUROPE | **MSCI EM Eastern Europe Net Return Index**: The index captures large- and mid-cap representation across four Emerging Markets (EM) countries in Eastern Europe. With 50 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

ASIA EX JAPAN INDEX | **The MSCI AC Asia ex Japan** Index captures large and mid cap representation across 2 of 3 Developed Markets (DM) countries* (excluding Japan) and 9 Emerging Markets (EM) countries in Asia. With 983 constituents, the index covers approximately 85% of the free float adjusted market capitalization in each country.

AC WORLD INDEX | **The MSCI AC World** Index is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI is maintained by Morgan Stanley Capital International (MSCI) and is comprised of stocks from 23 developed countries and 24 emerging markets.

EMERGING MARKETS LATIN AMERICA | **MSCI EM Latin America Net Return Index**: The index captures large- and mid-cap representation across five Emerging Markets (EM) countries in Latin America. With 116 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS | **MSCI Emerging Markets Net Return Index**: This index consists of 23 countries representing 10% of world market capitalization. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 23 countries.

JAPAN | **MSCI Japan Net Return Index**: The index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 319 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

EUROPE EX UK | **MSCI Europe Ex UK Net Return Index**: The index captures large and mid cap representation across 14 Developed Markets (DM) countries in Europe. With 337 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across European Developed Markets excluding the UK.

MSCI EAFE | The **MSCI EAFE** (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations.

MSCI EM | The **MSCI Emerging Markets Index** captures large and mid cap representation across 25 Emerging Markets (EM) countries*. With 1,420 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

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