Capital Market Review

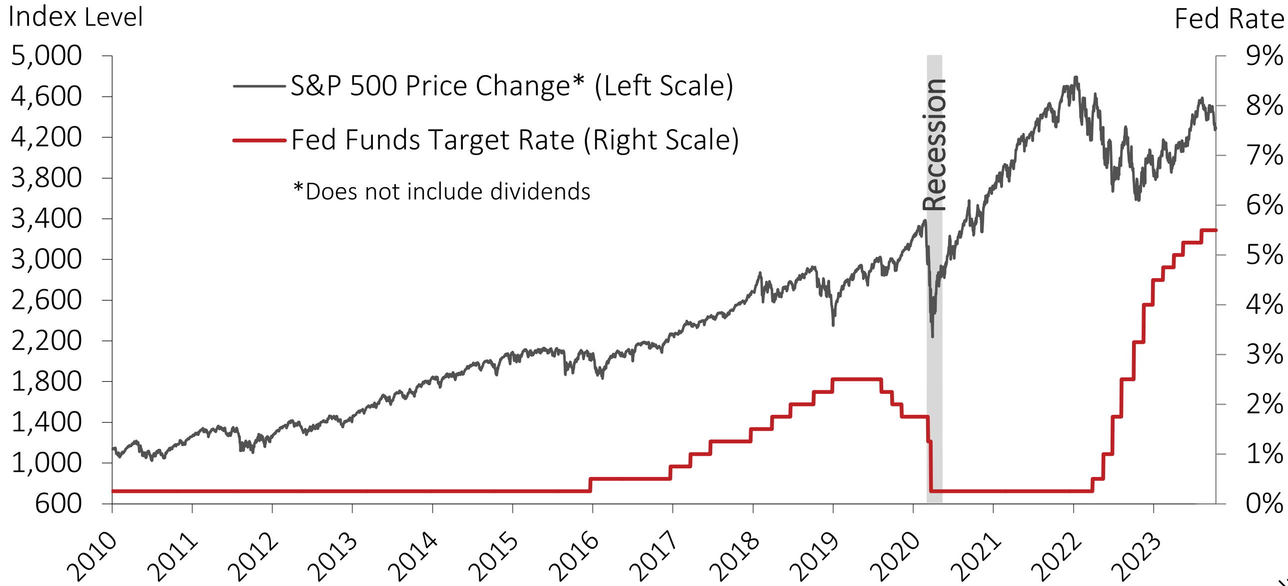
September 30, 2023

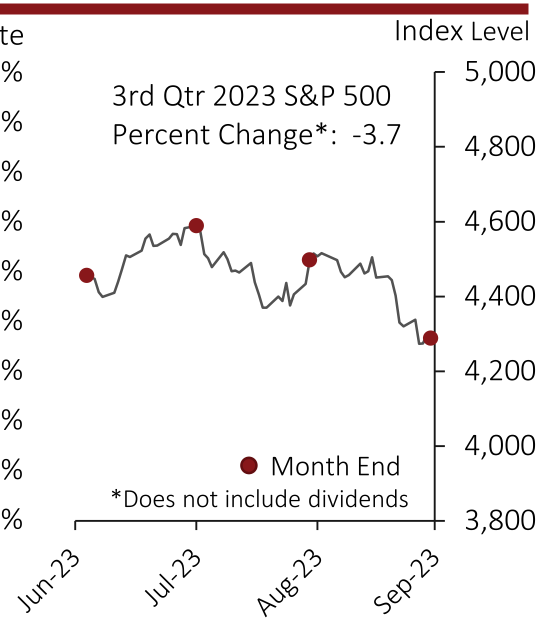



DeMarche

[Watch the Capital Markets Review Key Takeaways Video]

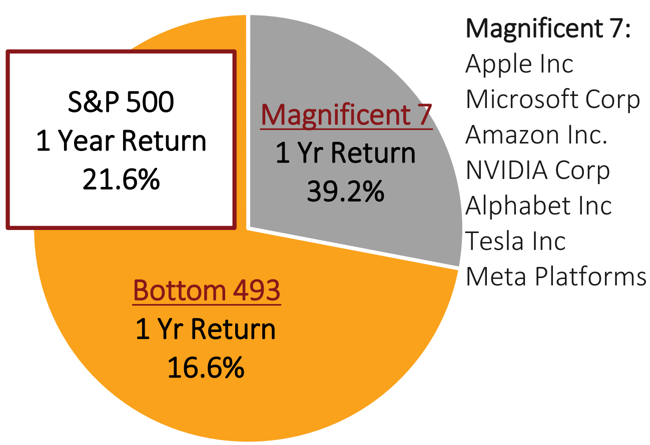
Risk Reprices as Rates Rise





Source: Standard & Poor's, Federal Reserve

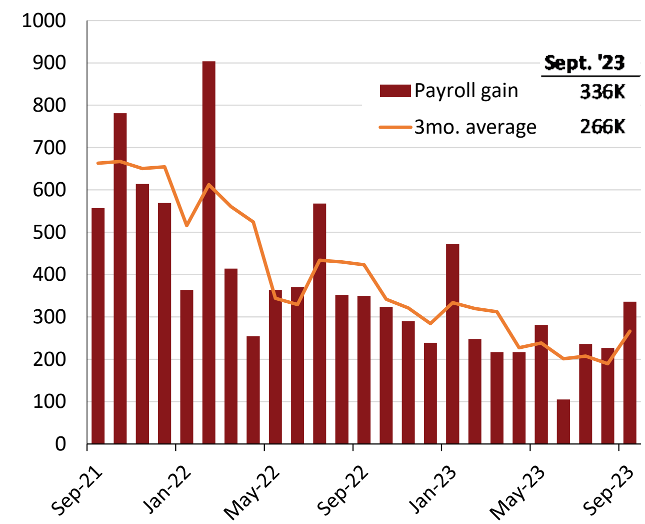
Magnificent 7 Now Over 25% of S&P 500
As of 9/30/2023



Source: DeMarche, Morningstar

Interest rates moved higher over the quarter as market participants began to realize that the economy is a bit more resilient than previously thought. Employment has remained strong but there is still room to pull workers off the sidelines. Labor force participation is still below pre-COVID levels. Higher rates have prompted indexes to slightly correct across the globe. Still twelve-month returns look robust. The pie chart shows that the mega cap "Magnificent Seven," have been driving the index while the remaining stocks in the index have not performed as well over the last twelve months.

Nonfarm Payroll Gains
Monthly Change & 3Mo Rolling Average



Source: FRED, Bureau of Labor Statistics

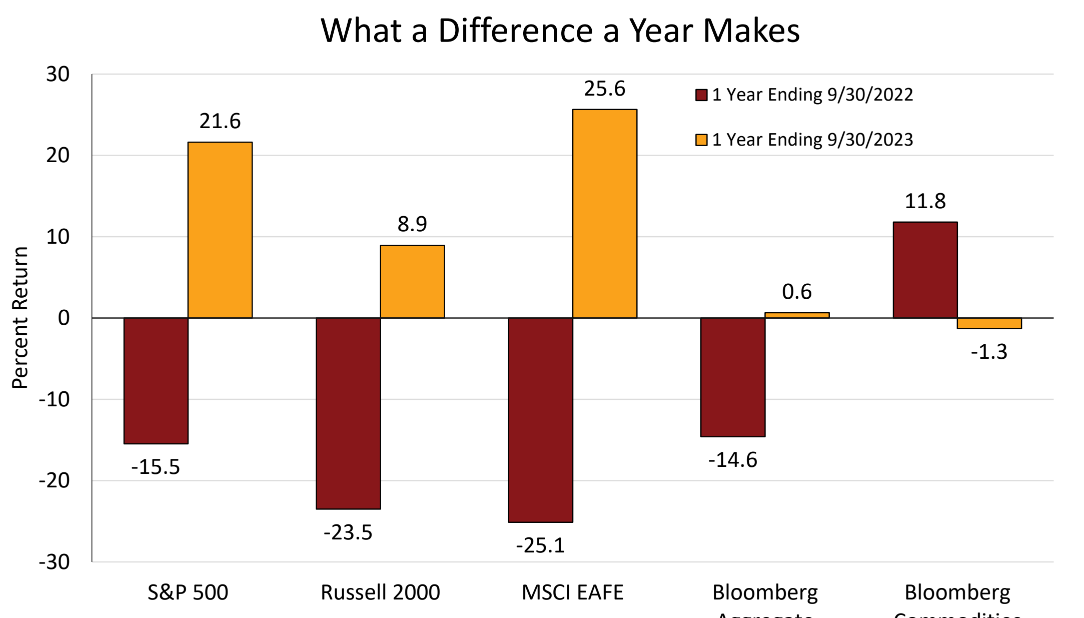
Broad Market Overview

INDEX	3rd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI World	-3.5	11.1	22.0	8.1	7.3	8.3
Russell 3000	-3.3	12.4	20.5	9.4	9.1	11.3
S&P 500	-3.3	13.1	21.6	10.2	9.9	11.9
MSCI EAFE USD	-4.1	7.1	25.6	5.8	3.2	3.8
MSCI Emerging Markets USD	-2.9	1.8	11.7	-1.7	0.6	2.1
Bloomberg Aggregate	-3.2	-1.2	0.6	-5.2	0.1	1.1
Bloomberg Global Aggregate	-3.6	-2.2	2.2	-6.9	-1.6	-0.4
FTSE Non-US Gov't Bond	-5.2	-3.7	2.5	-	-4.3	-2.3
NAREIT (Public RE)	-8.0	-5.2	-0.9	2.7	2.4	6.0
Bloomberg Commodity	4.7	-3.4	-1.3	16.2	6.1	-0.7

Notes: Data are presented as percent returns. All 3-, 5-, and 10-year returns are annualized.

U.S. Indicators Yr. Ending 9/30	2023	2022	2021	2020	50-YEAR Average
GDP Annual Growth Rate*	5.4	1.7	4.7	-2.0	2.6
Unemployment	3.8	3.5	4.7	7.8	6.2
Inflation (CPI)	3.7	8.2	5.4	1.4	3.9
10-Year Interest Rates	4.6	3.8	1.5	0.7	6.0

**Note: Prior to the GDP quarterly release from BEA, we show the annual GDP Growth rate from GDP Now from the Atlanta Fed. as the most recent year.*



Source: DeMarche

- Markets gave up some of their year-to-date gains due to concerns that the Federal Reserve would keep interest higher for a longer period of time. The Aggregate Bond index fell over 3% in the quarter in response to higher rates and is barely positive for the past year. The 10-year benchmark Treasury increased in yield from 3.82% to 4.57% by the end of the third quarter.
- Most markets are positive for the trailing twelve months ending September. Remember that the equity markets bottomed in September of 2022 before rallying in the first half of 2023. The broad MSCI World index is up 22% for the last twelve months, but lost 3.5% during the quarter.
- The chart to the left is a graphic representation of the concept that "starting point matters." In the past year, as the stock market has rebounded from a dismal 2022, multiple indexes have posted strong returns. The Aggregate index, which suffered through a terrible 2022 as rates increased, eked out a positive return. As interest rates rose to combat inflation, we saw commodity prices correct slightly in the past twelve months as compared to the previous twelve months.

DeFact

As we have seen post COVID, households have been spending down the excess savings squirrelled away from COVID relief programs in 2020 and 2021. At the peak, households had over $2.1 trillion in excess savings (above trend line according to the BEA). The current excess savings stands at $200 billion. This information, coupled with job and employment related data, suggests that more and more people will reenter the workforce to fill open jobs.

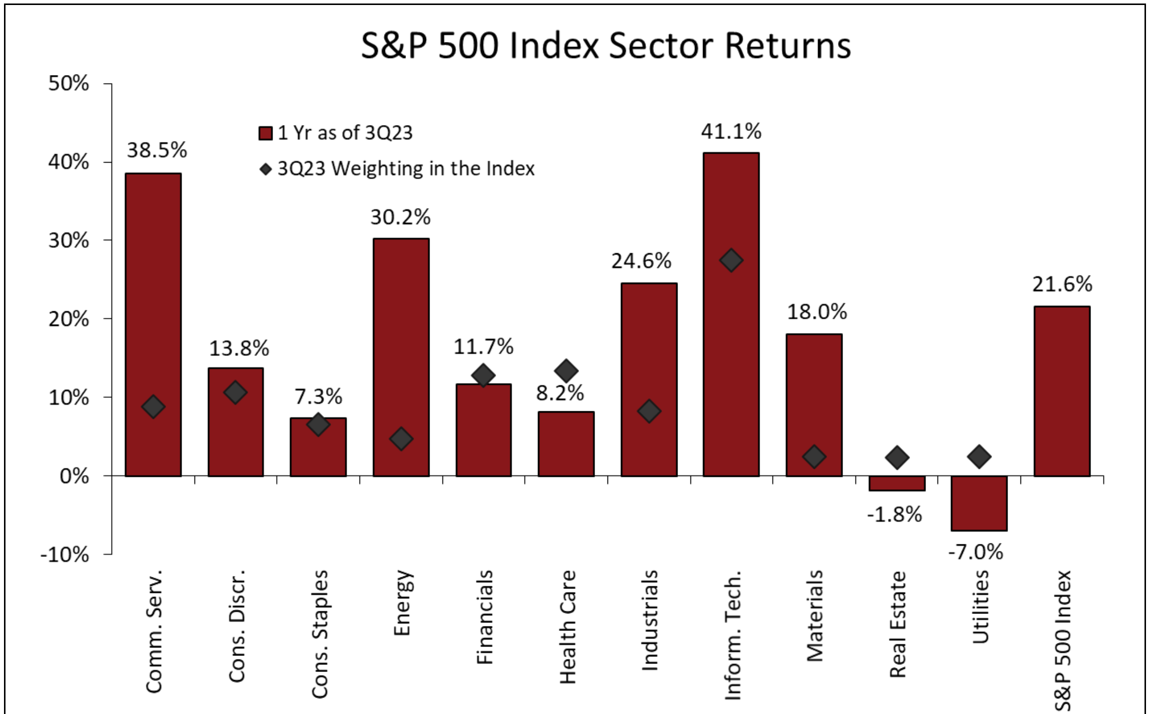
~BEA, U.S. DOL, Federal Reserve.

Domestic Equities

September 30, 2023

INDEX	3rd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
S&P 500	-3.3	13.1	21.6	10.2	9.9	11.9
S&P Mid-Cap 400	-4.2	4.3	15.5	12.0	6.1	8.9
S&P Small-Cap 600	-4.9	0.8	10.1	12.1	3.2	8.1
Russell 1000	-3.1	13.0	21.2	9.5	9.6	11.6
Russell 1000 Growth	-3.1	25.0	27.7	8.0	12.4	14.5
Russell 1000 Value	-3.2	1.8	14.4	11.1	6.2	8.4
Russell 2000	-5.1	2.5	8.9	7.2	2.4	6.6
Russell 2000 Growth	-7.3	5.2	9.6	1.1	1.6	6.7
Russell 2000 Value	-3.0	-0.5	7.8	13.3	2.6	6.2

Notes: Data are presented as percent returns. All 3-, 5- and 10-year returns are annualized.



Source: DeMarche, Morningstar

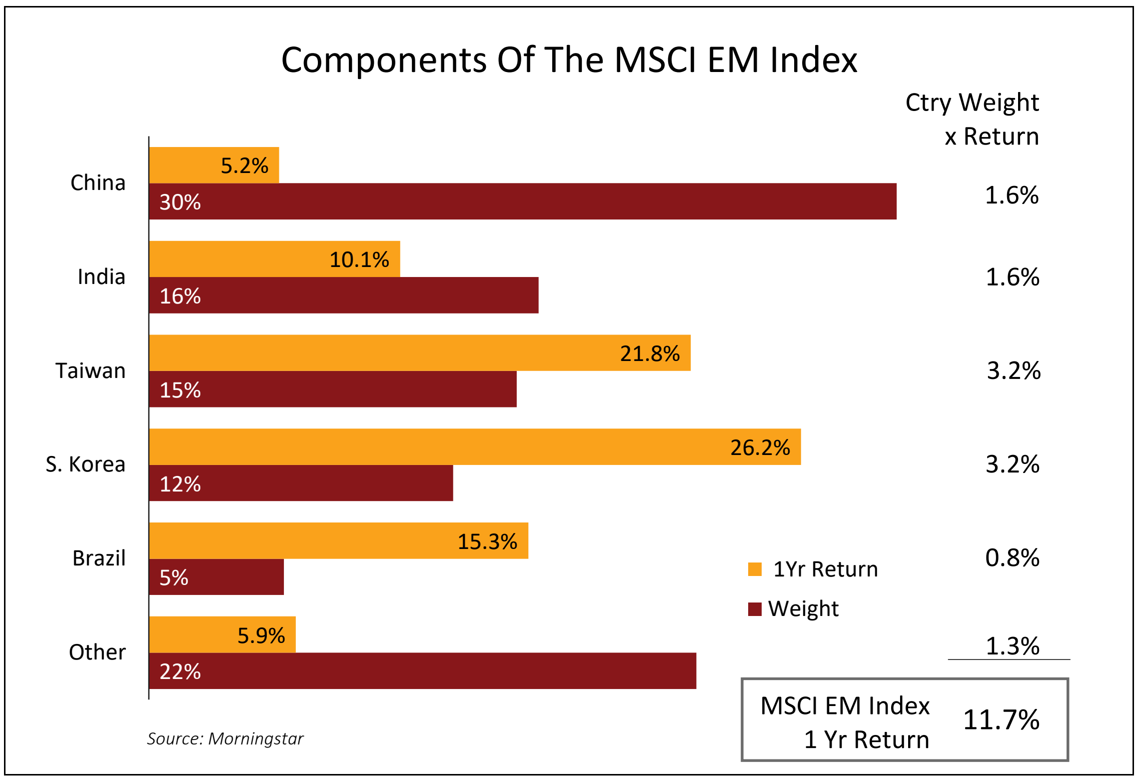
- In the past three months, all equities indexes have declined. But when we look at the past year, large cap growth outperformed other styles. As we have already noted, starting point matters, so when looking at large cap growth stocks, the rebound from the bottoming out in September 2022 looks impressive. Over the past three years, value stocks lead the way in both large and small cap, primarily due to a sub-par 2022 for growth stocks.
- We have talked a lot about large cap growth stocks dominating the landscape over the years, however small cap growth stocks have not experienced the same love from investors. Over the past quarter, small growth suffered in comparison to large cap. And over the longer term, three and five year returns are the lowest of the domestic large and small styles. This is primarily due to poor performing small cap healthcare stocks, which now have the second largest weight in the small cap growth index.
- The chart to the left shows the dominance of technology within the S&P 500 index. Technology, which includes Apple, Microsoft and NVIDIA, comprises 30% of the index and generated a 41% return off the market bottom in 2022. Communication services, including Alphabet and Meta, generated 38.5% in return. These are a few of the names that corrected significantly in 2022 and then rebounded.

DeFact

Over the past 43 years (1980 to 2022) of S&P 500 price returns, 32 years were positive and 11 years were negative. Every year had some sort of a peak to trough event, ranging anywhere from negative 3% to negative 49%, and averaging a negative 14.3%. For context, so far in 2023, the market's largest intra-year decline has been 8%, but the index is up 12% year-to-date (price, not including dividends). ~JP Morgan

INDEX	3rd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI EAFE Local	-1.3	10.7	20.3	10.8	5.6	6.8
MSCI EAFE USD	-4.1	7.1	25.6	5.8	3.2	3.8
Growth	-8.6	4.3	20.0	0.4	3.2	4.4
Value	0.6	9.9	31.5	11.1	2.8	3.0
MSCI All Country-ex US	-3.8	5.3	20.4	3.7	2.6	3.3
MSCI AC Asia-ex Japan	-3.3	-0.4	10.9	-3.3	0.6	3.6
MSCI Emerging Markets	-2.9	1.8	11.7	-1.7	0.6	2.1
MSCI EAFE Small Cap	-3.5	1.8	17.9	1.1	0.8	4.3
MSCI Japan	-1.6	11.2	25.9	2.8	2.1	4.4
MSCI China	-1.9	-7.3	5.2	-14.3	-4.2	1.7
MSCI Germany	-7.7	8.8	35.5	-0.3	0.3	2.0
MSCI France	-7.0	10.1	34.5	11.1	4.8	5.3
MSCI UK	-1.5	6.8	24.9	12.1	2.9	2.5

Notes: Data are presented as percent returns. All 3-, 5- and 10-year returns are annualized.



- China's equity market has been suffering post COVID and it has returned a negative 14.3% for the past three years. Over the quarter, China continued to struggle but managed to outperform the broad EM index due to corrections in South Korea (down 8.2%) and Taiwan (down 6.2%). As in the US, growth companies across the globe declined and in this case, Samsung and Taiwan Semiconductor both fell in the quarter.

- International developed markets also fell in the quarter and were led down by growth stocks. While technology is a smaller weight in the EAFE Growth index than in the US (about 14.5%), it was the worst performing sector for the quarter.

- The European Central Bank hiked interest rates in the quarter as the inflation fight is global in nature. But the ECB hike did not deter the dollar from strengthening. The dollar strengthened versus a trade-weighted basket of currencies in the quarter after a weaker first half of the year. The translation of local currency into dollars was a headwind to returns for US investors.

- The chart to the left shows the country weights of the largest contributors to the Emerging Market index. China leads the way at 30% weight and generated a 5.2% return for the past year. The primary contributors to the index performance for the past year have been Taiwan and South Korea. As we already mentioned, Taiwanese and South Korean stocks were the primary drivers of underperformance for the quarter.

DeFact

While India did not contribute as significantly to the Emerging Market Index as other Asian countries for the past year, India has been growing its weight in the index as its return has outpaced others over the past three years. The IMF predicts India's economy will grow faster than China in 2024, at 6.4% versus 4.5%, respectively. India's population is also growing faster and is now the most populous country in the world, having passed China earlier this year. ~IMF, DeMarche

INDEX	3rd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
Bloomberg Aggregate	-3.2	-1.2	0.6	-5.2	0.1	1.1
Bloomberg 1-3 Gov Credit	0.7	1.9	2.8	-0.7	1.2	1.0
Bloomberg Gov Credit Long	-9.4	-5.4	-2.9	-11.9	-1.2	1.9
Bloomberg US TIPS	-2.6	-0.8	1.2	-2.0	2.1	1.7
ICE BofA Merrill Lynch High Yield	0.5	5.9	10.2	1.8	2.8	4.2
CSFB Leveraged Loan (bank loans)	3.4	9.9	12.5	5.9	4.3	4.3
Bloomberg Global Aggregate	-3.6	-2.2	2.2	-6.9	-1.6	-0.4
Bloomberg EM Sovereign Bd (hard)	-2.9	0.6	8.7	-5.1	-0.5	2.1

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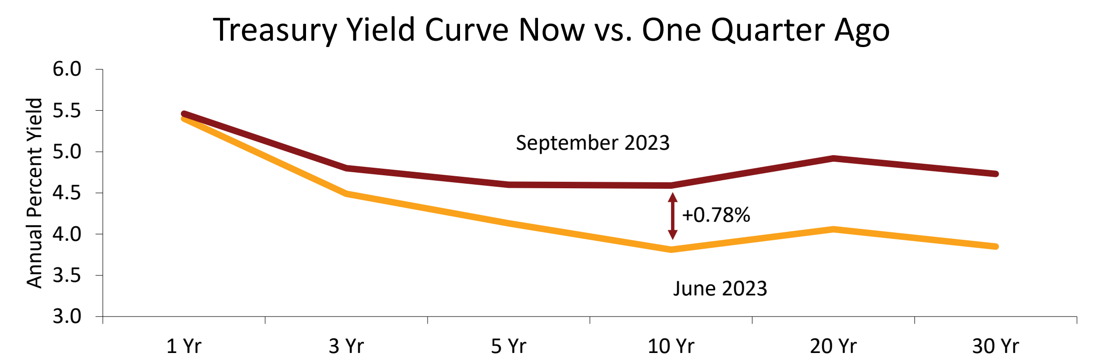
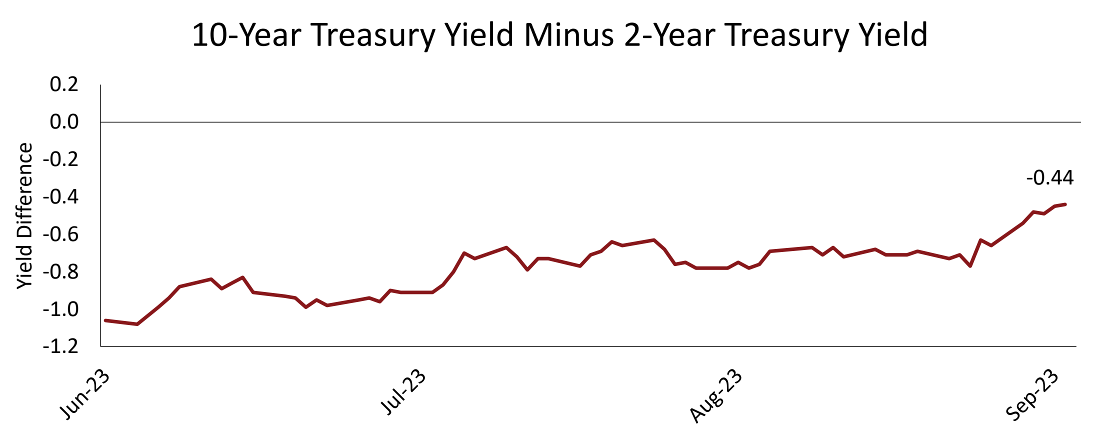




Source: Federal Reserve Bank of St. Louis (FRED)

- The seemingly no-end-in-sight higher interest rate environment is weighing down the returns of all bond sectors. The higher inflation prints of the past two months are also impacting investor psyche. Longer duration indexes have borne the brunt of the risk repricing, while floating rate loans were the sole bright spot in the fixed income market. The Aggregate fell over 3%, and the Gov/Credit Long Index fell over 9% in the quarter.
- High yield bonds outperformed the Aggregate by 370 basis points for the quarter. The higher coupons on the High Yield index cushioned the blow from rates moving higher. The current yield on the high yield index is over 9.0% as compared to about 4.7% for the Aggregate. The High Yield index also has a shorter duration than the Aggregate index 3.6 to 6.0, respectively.
- The charts to the left show the repricing of the bond market from the beginning to the end of the quarter. The market has pushed up the 10-year Treasury rate by 78 basis points. While the Treasury curve is still inverted (but not as much), the move in rates signals to investors that rates will be "higher for longer." As we have seen this quarter, stock prices also struggled in this higher rate environment.

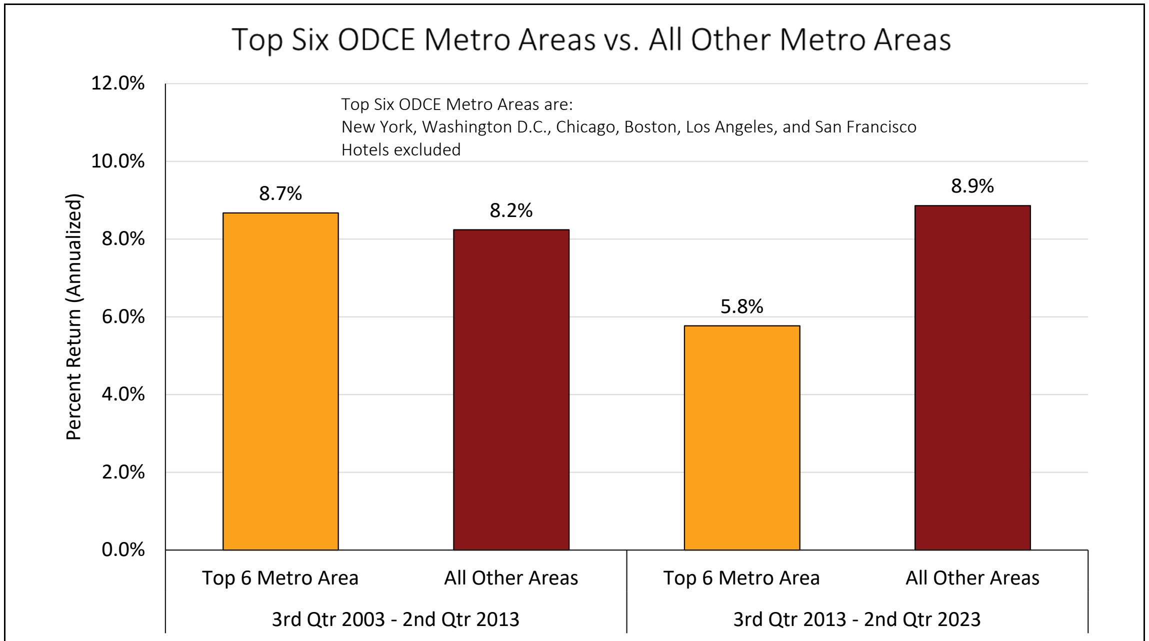
DeFact

Let's look at the Bloomberg Aggregate peak to trough events. Since its creation 47 years ago, the Aggregate has had 42 positive years and 5 negative years (measured as total return, with 2022 being by far the worst). Over the time span the range of intra-year negative return is 1% to 17% (2022), averaging a negative 3.3%. So far in 2023, the largest intra-year decline is 5%, but the year-to-date return is negative 1%. ~Bloomberg, Factset, JPMorgan

Less Liquid Strategies – Lagged One Quarter September 30, 2023

INDEX	Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
NCREIF ODCE	-2.7	-5.8	-10.0	8.0	6.5	8.7
NCREIF Property (Private RE)	-2.0	-3.8	-6.6	6.8	5.9	7.8
Apartment	-1.0	-3.1	-5.1	8.1	6.6	7.7
Industrial	-0.7	-1.6	-4.0	20.4	17.0	15.2
Office	-5.8	-9.6	-14.5	-2.2	0.7	4.7
Retail	-0.2	0.3	-0.9	1.8	0.3	5.1
NCREIF Timberland	1.7	3.5	11.1	8.7	5.8	5.9
NCREIF Farmland	0.8	2.9	8.4	7.7	6.5	8.4
HFR FOF Composite	1.5	2.3	3.7	5.0	3.3	3.4
Conservative	1.1	2.0	3.7	6.1	3.9	3.5
Diversified	1.5	2.0	3.6	5.4	3.7	3.5
Strategic	2.0	3.3	4.2	4.4	2.7	3.4
Preqin Private Equity	0.9	3.0	3.4	20.1	15.9	15.2
Preqin Private Debt	2.1	4.8	9.8	13.3	8.7	8.7
Preqin Infrastructure	2.0	3.8	11.8	15.4	11.9	11.3

Notes: Data are presented as percent returns. All 3-, 5- and 10-year returns are annualized.
All data in the table above are as of the previous quarter.



Source: Manulife, ODCE, DeMarche

- Real estate continued its retrenching in the first half of 2023. The Office sector suffered the most pain as higher interest rates and lower occupancy impacted the sector. The industrial sector remains the bright spot, but it too has a negative one-year return.
- Private equity returns lag in the rebound from 2022 as compared to public equity returns. Over the longer term, the private equity returns have outperformed their public market counterparts.
- We have talked a lot about how the mega cap stocks are driving large cap index returns; however, we have seen the opposite event within private real estate. Over the past decade, the chart below shows that the real estate in the largest metro areas in the U.S. are not delivering as much return to investors as smaller metro areas. Real estate managers attribute this result to more significant post-COVID markdowns in the value of office and retail buildings located in very large cities.

DeFact

The private equity space is heavily weighted to technology companies. According to JP Morgan, over 37% of the private equity space is made up of technology companies. As these companies stay private for longer, the size of the average IPO has increased. Over the past 20 years, the average size of an IPO was over $250 million with a median age of just over 11 years. In the 1990s the average size was about $50 million with a median age of 9 years. ~JP Morgan, Russell

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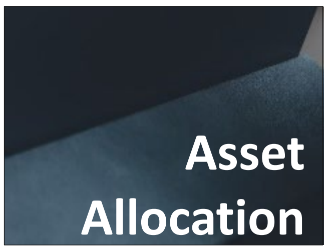

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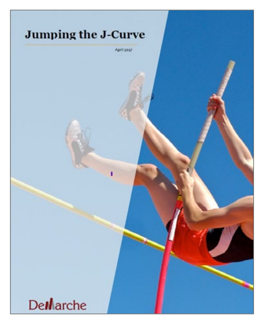

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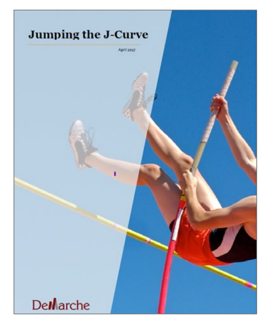

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