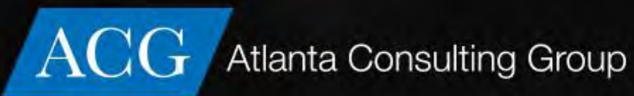

ACG Market Review

First Quarter 2023

Global Highlights:

- **Economy** – Investor focus shifted from declining inflation and a potential Fed pivot to the health of the banking sector and overall economy
- **Equities** – An early quarter stock rally was quelled by hotter than expected inflation and further Fed tightening
- **Fixed Income** – Higher rates often indicate higher returns, however, risks remain in certain areas of fixed income

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Economic Uncertainty and Market Volatility

Equity and fixed income markets began 2023 on a smooth upward trajectory with surprisingly resilient economic growth, declining inflation, and the possibility of looser monetary policies going forward. Towards the middle of the quarter, optimism appeared to wane as investors began interpreting strong employment and consumer confidence data not as a sign of economic strength but rather as a green light for the Federal Reserve to continue to hike rates. In early March, banking sector turbulence dominated the news, with a focus on regional bank deposit flight and unrealized losses on bank balance sheets. The volatile quarter ended with somewhat of a reprieve through stabilizing measures provided by the Fed, Treasury, and FDIC; however, uncertainties remain around the health of the economy and further rate hikes.

Shifting Inflation Dynamics

The outlook on inflation is beginning to improve, as the Consumer Price Index (CPI) rose +6% year-over-year in February. While still historically elevated, this is the eighth consecutive monthly decline and a significant improvement from the recent high of +9.1% in June 2022. In tandem with steady price moderation, the underlying drivers of inflation are shifting as well. An interesting pattern emerges when components are separated into fast-changing “flexible” and more stable “sticky” price segments. “Flexible” constituents such as food and energy have already declined, while “sticky” constituents such as services and particularly shelter have continued to increase.

It is notable that shelter is responsible for around one-third of the CPI and more than 70% of the most recent total CPI increase. However, the shelter CPI calculation uses rents which are slow to re-price, historically lagging actual home price changes by roughly a year. So, a significant portion of the current inflation data is based on past rent increases, whereas more recent data indicates that rent increases have generally slowed and home prices are under pressure. It is reasonable to assume that the future trajectory of rents and house prices will likely be the road forward for inflation as well.

To combat inflation, the Federal Open Market Committee raised rates twice during the quarter, conducting 25 basis point rate hikes in both February and March to reach the target range of 4.75%-5.00%. In the March press conference, Chair Powell maintained the message that interest rates would remain elevated for an extended period of time while also softening the language around the need for further rate hikes. With the emerging disinflationary trend and tumult following the Silicon Valley and Signature Bank failures, the Fed appears comfortable taking a pause to consider price stability versus financial stability risks.

Equity Market Rebound and Recoil

Largely positive index performance numbers mask what was a volatile and event-filled Q1. The S&P 500, following a strong Q4 2022, returned +7.5% on a total return basis for Q1 2023. The 2022 trend of value outperforming growth strongly reversed to start the year, with the Russell 1000 Growth Index gaining +14.4% for the quarter compared to +1.0% for the Russell 1000 Value. In March especially, lower long-term bond yields and Fed pivot

expectations provided an outsized tailwind for growth equities as these are generally viewed as longer duration investments. The Information Technology and Communication Services heavy Nasdaq was a standout performer, finishing the quarter up +20.8%. Contrarian investors faded the perhaps overly bearish sentiment following a four-quarter losing streak. Notable outperformers include tech giants Meta and Apple, which returned +76.1% and +26.9%, respectively, for the quarter. Financials were understandably the worst-performing sector to start the year, finishing the quarter down -5.6%.

The Russell 2000 Index, which tracks U.S. small-company equities, was disproportionately affected by the banking crisis. First, by a higher Financials sector weighting in the index relative to the S&P 500. Second, regional banks such as Zions Bank and KeyCorp received outsized scrutiny compared to their large cap peers for the risk of contagion and deposit flight. The Russell 2000 index finished the quarter up +2.7%, giving up earlier gains of nearly +14%.

Throughout the quarter, international markets had their own set of problems associated with failing financial institutions, one of which was the high profile forced takeover of Credit Suisse by UBS. Although levels are still lower than the highs of 2022 and during the COVID sell-off in 2020, the cost of insurance against credit default, as measured by the pricing of credit default swaps (CDS), saw a significant increase across European banks. Aided by a slightly weaker dollar, international equity returns were among the highest of the quarter, with the MSCI EAFE index gaining +8.5% in Q1. While international stocks have lagged the US for much of the post-Global Financial Crisis market environment, an extreme relative valuation discount and a declining US dollar could prove to be major tailwinds for foreign assets going forward.

Despite the challenging economic environment, consensus earnings forecasts predict growth in each remaining quarter of 2023. In addition, markets tend to do well after an inflationary peak and a trough in consumer confidence. Much will depend on the impact of the banking crisis on economic growth and whether the Fed’s tightening cycle has officially concluded.

Bond Market Defensiveness

In concert with the stock market, the bond market saw an exceptionally volatile quarter, with the MOVE index, which measures the implied volatility of the Treasury Bond market, reaching levels not seen since the Global Financial Crisis of 2008. Throughout the quarter, the interest rate on the 2-year Treasury note fluctuated between a wide range of 5.08% and 3.55%, ultimately finishing around 35 basis points lower than at the start of the year. With short-term interest rates lower, it appears that investors now anticipate a lower terminal fed funds rate than they had anticipated before the failure of Silicon Valley Bank. Long-term Treasury yields finished lower as well, serving investors as a safe haven asset during the market stress.

How should bond investors position their fixed income portfolios given the very uncertain future of interest rates and the economy? In general, uncertainty tends to be favorable for fixed income. And with considerably higher current yields than in the recent past, bonds should resume their capital preservation and portfolio diversification functions. There is, however, a risk of an

inflationary resurgence because of the historically tight labor market. A situation worth monitoring. Even though higher interest rates were very unpleasant in 2022, they have increased the appeal of fixed income for investors with a longer time horizon as they imply better future returns. The overall bond market, represented by the Bloomberg US Aggregate bond index, finished the quarter up +3.0%.

The Fed's Predicament

To start 2023, equity and bond markets have proven remarkably resilient in the face of a confluence of negative macro factors. Uncertainty around the banking sector and interest rates could lead markets to be range bound and volatile for some time. How the Fed can simultaneously achieve economic and price stability is quite a dilemma. Following such aggressive rate increases over such a short period of time, the cure (higher rates) looks to be worse than the condition (inflation). Markets are doubting the Fed can maintain this level of financial tightness through year end, with the futures implied rate for December 2023 at only 4.22%. The conversation is gradually transitioning to when and how quickly the Fed will begin cutting interest rates. A policy misstep at this point could prove costly for Fed credibility and financial markets.

Market Index Review – March 2023

Major Market Indices	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
S&P 500	3.67	7.50	7.50	-7.73	18.60	11.19	12.24
Russell 2000	-4.78	2.74	2.74	-11.61	17.51	4.71	8.04
Russell 3000	2.67	7.18	7.18	-8.58	18.48	10.45	11.73
MSCI ACWI	3.08	7.31	7.31	-7.44	15.36	6.93	8.06
MSCI ACWI ex USA	2.44	6.87	6.87	-5.07	11.80	2.47	4.17
Bloomberg US Aggregate TR	2.54	2.96	2.96	-4.78	-2.77	0.90	1.36

International Indices	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
MSCI EAFE	2.48	8.47	8.47	-1.38	12.98	3.52	5.00
MSCI Europe	2.37	10.56	10.56	1.38	15.00	4.35	5.36
MSCI Pacific	2.72	4.71	4.71	-6.02	9.49	2.02	4.40
MSCI EAFE Small Cap	-0.21	4.92	4.92	-9.83	12.07	0.87	5.86
MSCI Emerging Markets	3.03	3.96	3.96	-10.70	7.83	-0.91	2.00
MSCI Frontier Markets	1.16	3.10	3.10	-17.55	7.90	-2.85	2.73

Russell Indices	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Russell 1000	3.16	7.46	7.46	-8.39	18.55	10.87	12.01
Russell 1000 Growth	6.84	14.37	14.37	-10.90	18.57	13.66	14.59
Russell 1000 Value	-0.46	1.01	1.01	-5.91	17.93	7.50	9.13
Russell MidCap	-1.53	4.06	4.06	-8.78	19.20	8.05	10.05
Russell MidCap Growth	1.38	9.14	9.14	-8.52	15.20	9.07	11.17
Russell MidCap Value	-3.15	1.32	1.32	-9.22	20.69	6.54	8.80
Russell 2000 Growth	-2.47	6.07	6.07	-10.60	13.36	4.26	8.49
Russell 2000 Value	-7.17	-0.66	-0.66	-12.96	21.01	4.55	7.22

Bond Indices	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
FTSE T-Bill 3 Months	0.40	1.12	1.12	2.61	0.95	1.40	0.85
Bloomberg US Municipal TR	2.22	2.78	2.78	0.26	0.35	2.03	2.38
Bloomberg US Govt/Credit TR	2.82	3.17	3.17	-4.81	-2.63	1.16	1.50
Bloomberg US Govt/Credit Int TR	2.30	2.33	2.33	-1.66	-1.28	1.40	1.32
Bloomberg US Credit 1-3 Yr TR	1.05	1.33	1.33	0.35	0.67	1.64	1.46
Bloomberg US Credit Long TR	4.13	5.42	5.42	-11.28	-2.57	1.07	2.85
Bloomberg US Corporate High Yield TR	1.07	3.57	3.57	-3.35	5.91	3.21	4.10
FTSE WGBI	3.78	3.51	3.51	-9.55	-5.29	-2.35	-0.60

Sector Indices	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
S&P 500 Materials	-1.04	4.29	4.29	-6.28	23.93	9.60	9.75
S&P 500 Consumer Discretionary	3.12	16.13	16.13	-19.62	14.54	8.70	12.13
S&P 500 Consumer Staples	4.23	0.83	0.83	1.22	14.69	10.63	9.62
S&P 500 Energy	-0.17	-4.67	-4.67	13.63	48.43	9.53	4.44
S&P 500 Financials	-9.55	-5.56	-5.56	-14.24	18.11	5.41	10.32
S&P 500 Health Care	2.22	-4.31	-4.31	-3.70	15.41	11.82	13.14
S&P 500 Industrials	0.66	3.47	3.47	0.17	21.72	8.43	11.19
S&P 500 Information Technology	10.93	21.82	21.82	-4.55	24.35	19.64	20.14
S&P 500 Real Estate	-1.40	1.95	1.95	-19.70	10.06	7.42	--
S&P 500 Communication Services	10.38	20.50	20.50	-17.76	9.44	6.43	5.27
S&P 500 Utilities	4.92	-3.24	-3.24	-6.21	10.34	9.59	9.37

Other Indices	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
HFRI FOF: Diversified Index	0.02	1.32	1.32	-0.32	7.59	3.73	3.47
HFRI FOF: Conservative Index	-0.54	0.91	0.91	0.83	7.63	3.93	3.45
HFRI Equity Hedge (Total) Index	0.89	3.38	3.38	-2.88	12.71	5.18	5.41
Wilshire Liquid Alternative Equity Hedge	0.98	2.59	2.59	-1.70	8.23	2.84	2.36
Wilshire Liquid Alternative TR USD	0.10	1.28	1.28	-2.68	4.07	1.22	1.26
FTSE EPRA/NAREIT Global TR USD	-2.91	0.75	0.75	-20.33	6.30	0.77	2.92
FTSE EPRA/NAREIT Developed NR U:	-3.26	0.78	0.78	-21.40	6.60	0.85	2.46
Alerian MLP TR USD	-1.18	4.09	4.09	14.70	47.08	7.42	0.57
Bloomberg Commodity Index TR USD	-0.21	-5.36	-5.36	-12.49	20.82	5.36	-1.72
S&P Global Infrastructure TR USD	2.39	3.94	3.94	-3.45	15.59	5.88	6.37
Consumer Price Index *	0.56	1.36	1.36	6.04	5.16	3.86	2.63

* Consumer Price Index returns will be reported as of the previous month end due to the delayed release of data.

Source: Morningstar, ACG
Returns include dividends; 3-year, 5-year and 10-year returns are annualized. Indices are unmanaged.
You cannot invest directly into an index. Past performance is not indicative of future results

ACG Atlanta Consulting Group

Q1 2023: Fed Moderates Rate Hikes

Source: Hedgeye, ACG

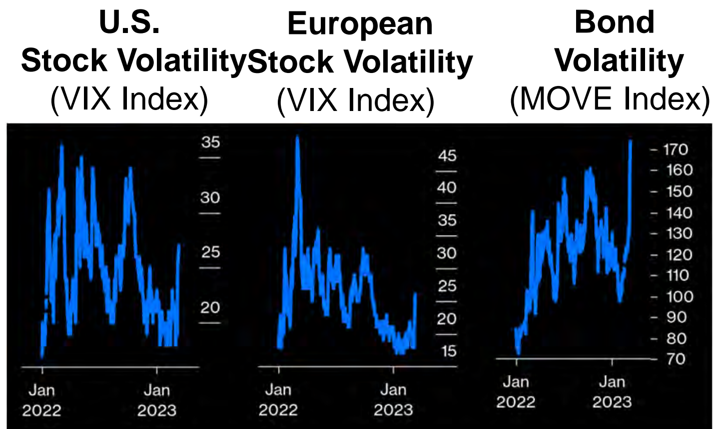
Beware the Ides of March

- With a high degree of uncertainty around the path of future interest rate hikes and recent banking industry issues, markets have been more volatile than normal. In addition to equities, this has been particularly notable in the bond market where the MOVE index (which measures the implied volatility of the Treasury Bond market) has hit levels last seen during the 2008 Global Financial Crisis

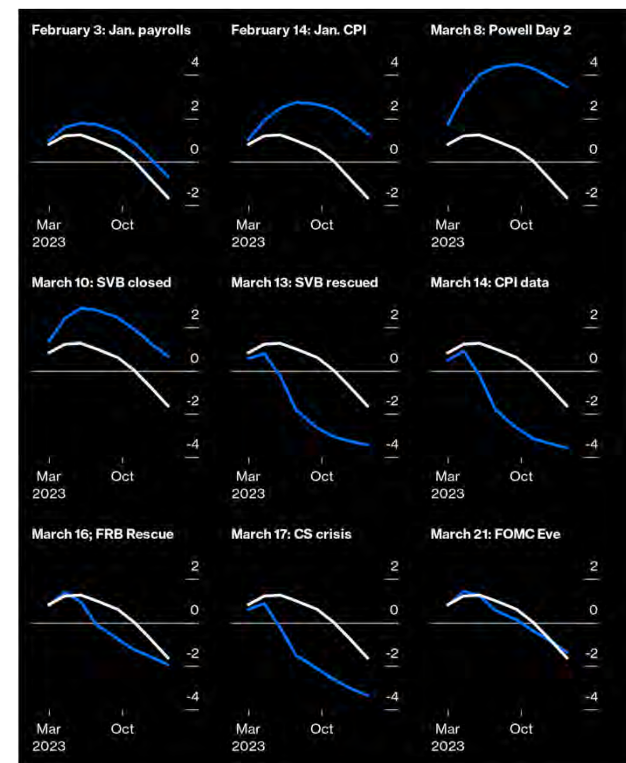
- In early March, before the recent issues in the banking industry, Jerome Powell talked about the importance of the Fed not relenting in their fight against inflation and increasingly committed to a higher terminal Fed Funds rate. As news of Silvergate Capital, Silicon Valley Bank, Signature Bank and Credit Suisse roiled financial markets, Fed Funds futures declined as investors started to price in the potential for rate cuts as focus shifted from inflation to the banking sector and the health of the overall economy. The only other months to see such extreme volatility in Fed funds futures were: January 2001 (when the Fed started to hike rates); September 2001, (9/11 terrorist attacks); January and October 2008 (Global Financial Crisis); and March 2020 (COVID)

- With a coordinated stabilization effort on the part of the FDIC, Fed, Treasury and other central banks to support banks, Fed Funds futures eventually returned to close to where they were at the start of March.

- At the end of March, the FOMC decided to hike rates by a quarter-percentage point to a range of 4.75% to 5%. While the Fed is saying that rates will be above 5% in December 2023, the market is betting against this with a futures implied rate for December 2023 of only 4.22%



Fed Funds Futures Expectations
(# of 25 bps hikes expected at future FOMC Meetings)

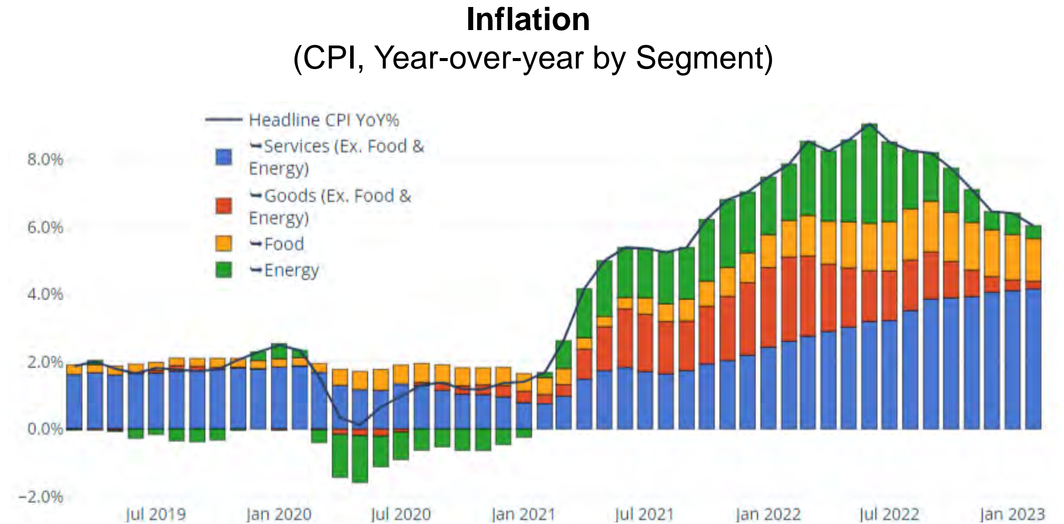


Source: Bloomberg, Merrill Lynch, ACG
Note: "Beware the ides of March" is from William Shakespeare's play Julius Caesar

Inflation Slowly Declining, But Also Becoming More "Sticky"

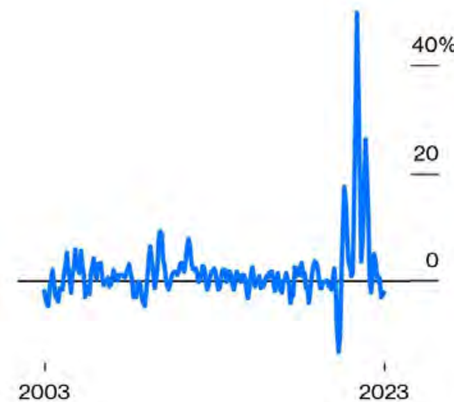
- Year-over-year measures of overall inflation have started to decline, but the underlying drivers are changing. While Goods and Energy prices have declined and Food prices have been flat, Services prices have increased

Inflation
(CPI, Year-over-year by Segment)

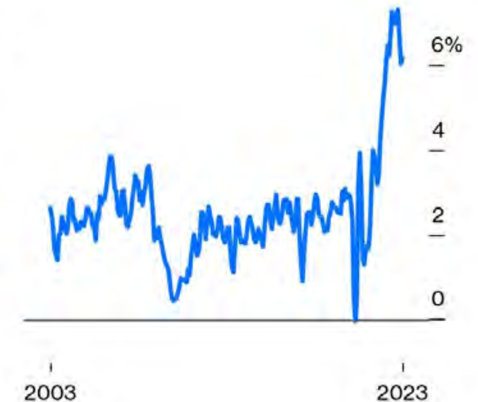


- If one divides inflation into Flexible and Sticky categories, a varied picture emerges. The areas that typically change price quickly ("flexible"), have already declined while the areas that are much slower to move ("sticky") remain elevated. This has been a key reason the Fed remains concerned about persistent inflation and they continue to fight inflation with additional rate hikes

"Flexible" Core Inflation
(Yea-over-year Change)



"Sticky" Core Inflation
(Yea-over-year Change)



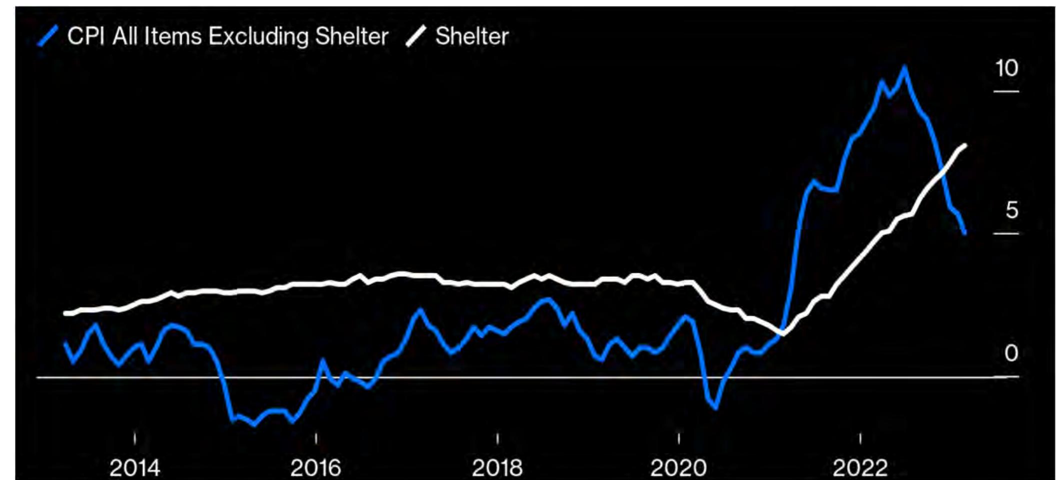
Source: Bloomberg, Bureau of Labor Statistics, Federal Reserve Bank of Atlanta, ACG

"Gimme Shelter" – The Rolling Stones

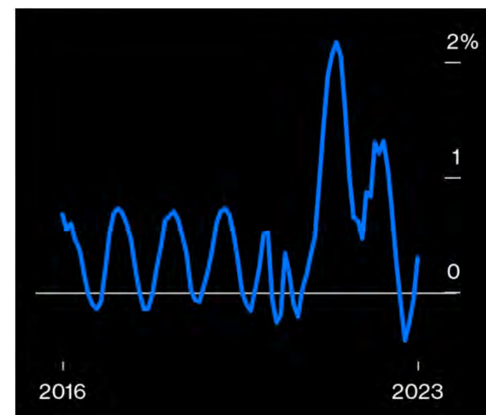
Ooh, a storm is threatening
My very life today
If I don't get some shelter
Ooh yeah I'm gonna fade away

- Overall, shelter makes up roughly a third of the entire Consumer Price Index (CPI). It is continuing to rise and is still a key driver of higher inflation
- The CPI measures of rents, however, are backward-looking in their construction. They estimate changes by looking at all current leases – even those that haven't changed in 12 months – so they lag real-time changes and adjust very slowly to short-term changes in the trend
- If one uses the Zillow Rental Index, which is based on only new leases, a different story emerges. By this measure, shelter inflation is already dropping. This effect could have a large effect on the headline number as the next few months go by

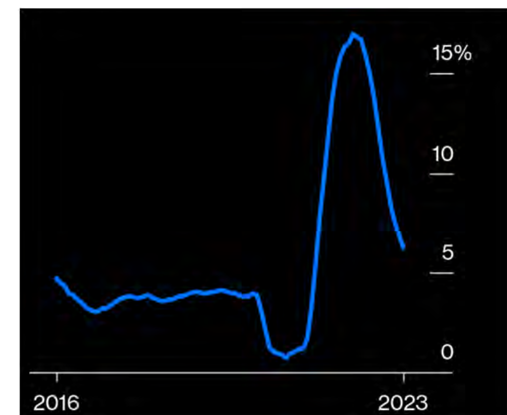
Shelter Component of CPI
(Year-over-year Change)



Zillow Rental Index
(Month-over-month Change)



Zillow Rental Index
(Year-over-year Change)



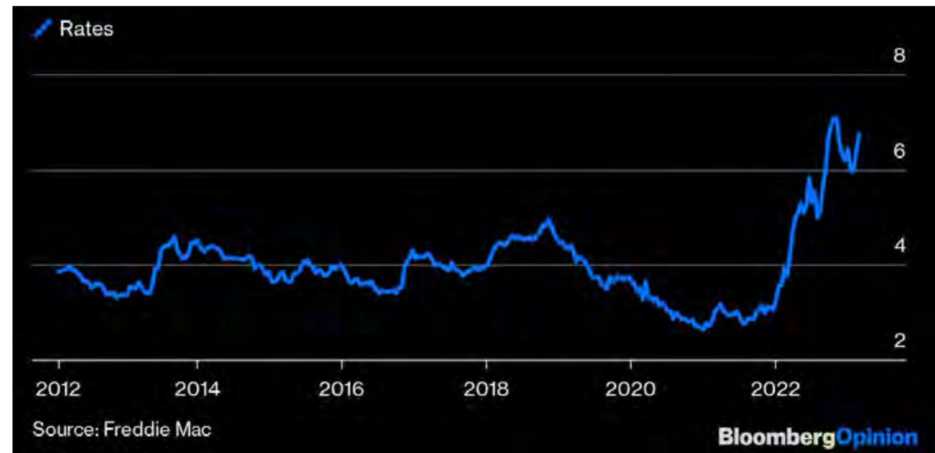
Source: Bloomberg, Bureau of Labor Statistics, Federal Reserve Bank of Atlanta, ACG

Mortgage Rates Up & Home Prices Down

- After more than a decade when mortgage rates were 4% or less, rates spiked over the last year. Potential home buyers are now faced with significantly higher mortgage rates after a period in which home prices increased significantly. As an illustration, the monthly principal and interest payment on a $300k house with a 20% down payment at 3% is $1,320. Conversely, the monthly principal and interest payment on a $400k house (also with a 20% down payment) at 6% is $2,227.

- An additional complicating factor related to home prices is the fact that more than half of all U.S. mortgages were originated in 2020 or after as many homeowners refinanced. As a result, many homeowners now feel "trapped" by their current low rate and are reluctant to move – bringing the volume of home sales down sharply. Even so, transaction prices have started to reflect the new reality in home prices. For example, the S&P CoreLogic Case Shiller Index already shows double digit declines in some markets

30-Year Fixed Mortgage Rate



S&P CoreLogic Case Shiller Home Prices

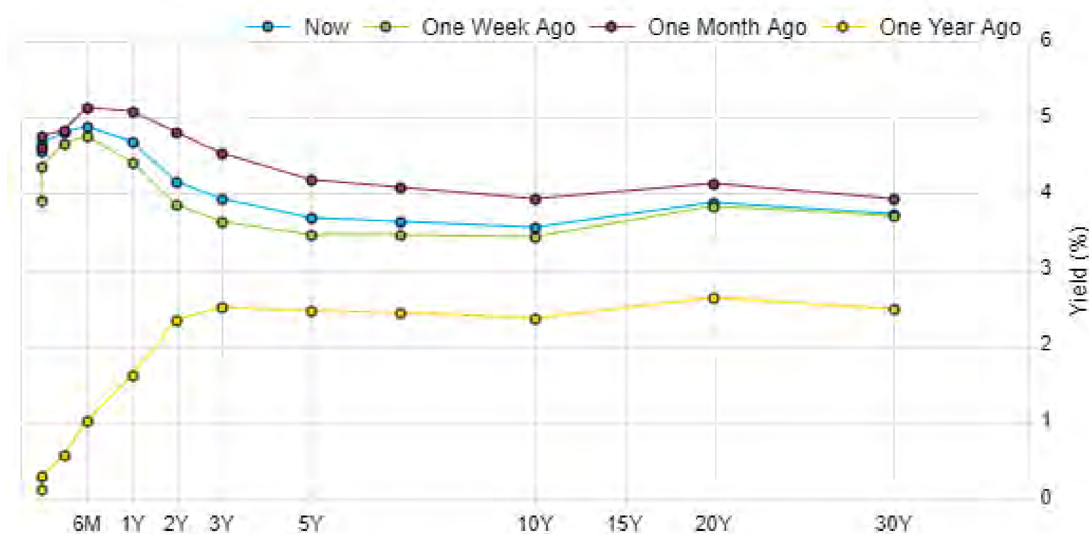
Region	MoM %	YoY %	Post-COVID % Chg (Since Feb. 2020)	% From Post-COVID Peak
San Francisco	-1.82	-4.19	23.08	-15.99
Seattle	-1.81	-1.78	35.32	-15.05
San Diego	-1.32	1.59	43.22	-11.09
Phoenix	-1.87	2.91	54.38	-9.44
Las Vegas	-1.84	3.58	39.05	-8.76
Denver	-1.32	3.55	34.73	-8.70
Los Angeles	-0.80	2.70	33.84	-8.06
Portland	-1.89	1.10	29.72	-7.90
Dallas	-1.08	7.95	47.10	-7.62
Boston	-0.90	5.20	33.40	-5.49
Minneapolis	-1.23	3.17	25.47	-4.66
Detroit	-1.07	4.50	30.40	-4.30
DC	-0.43	4.33	25.93	-4.30
Charlotte	-0.99	9.88	49.56	-4.06
Tampa	-0.94	13.93	62.20	-4.01
Chicago	-1.19	5.88	28.04	-3.34
Cleveland	-0.78	6.02	34.02	-3.25
Atlanta	-0.74	10.42	45.50	-3.21
Miami	-0.28	15.90	60.31	-2.62
New York	-0.20	6.65	33.08	-1.84
Composite 10	**-0.77**	**4.43**	**33.65**	**-5.92**
Composite 20	**-0.93**	**4.65**	**35.87**	**-6.25**
National	**-0.81**	**5.76**	**38.19**	**-4.44**

Source: Bloomberg, Bankrate.com, Standard & Poor's, CoreLogic, Case Shiller, ACG

Not All Bonds Are The Same

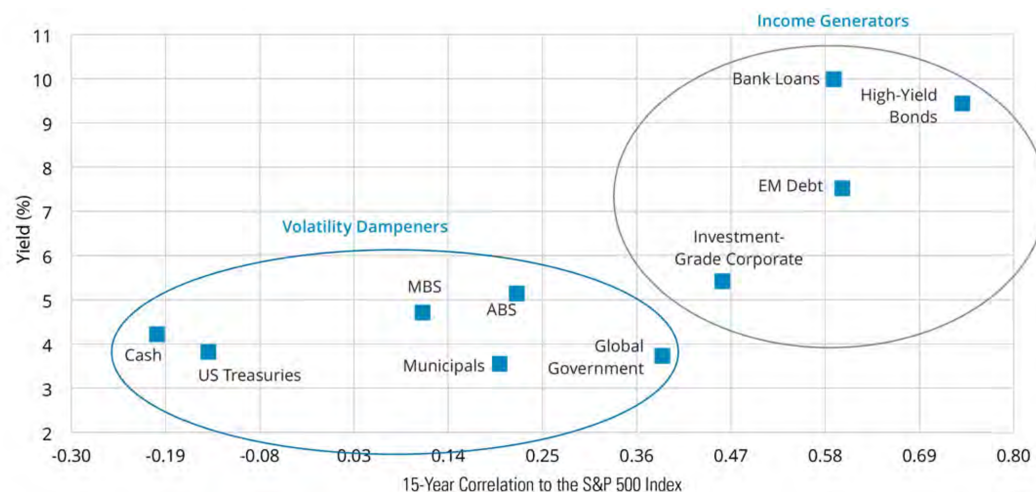
- The short end of the yield curve remains elevated as it is directly influenced by the Fed Funds rate. For a brief period during the first quarter, short-term rates rose above 5% as additional Fed hikes were priced in over the next 12 months. As the banking sector issues hit the market, however, future expectations for hikes quickly flipped as the market priced in future rate cuts

Yield Curve
(U.S. Treasuries by Maturity)



- The fixed income market is made up of a variety of bond types including all of those displayed in the chart on the right. Broadly, they fall into two categories – volatility dampeners & income generators. Volatility dampeners have a larger diversification benefit through lower correlation to stocks, but the cost of that diversification is lower yield. Income generators have higher yields but are much more likely to trade in lockstep with stocks

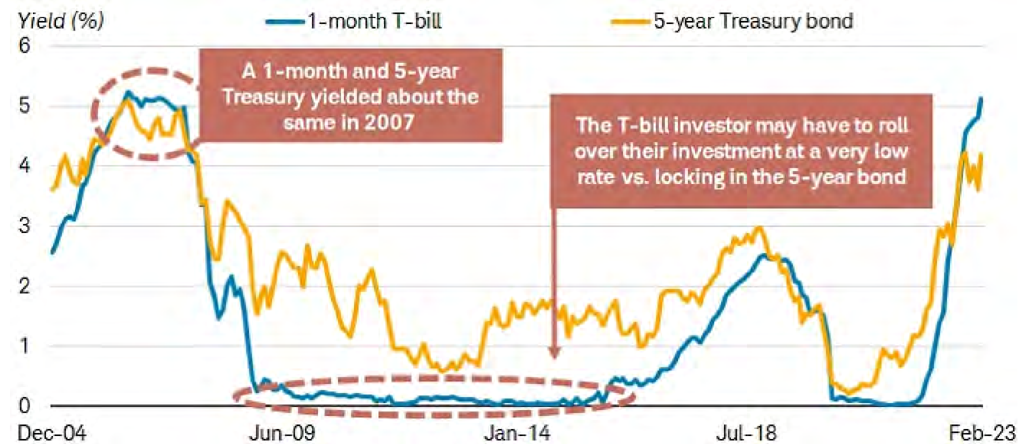
Yield vs. Correlation
(By Bond Type)



Source: FactSet, Hartford Funds, ACG

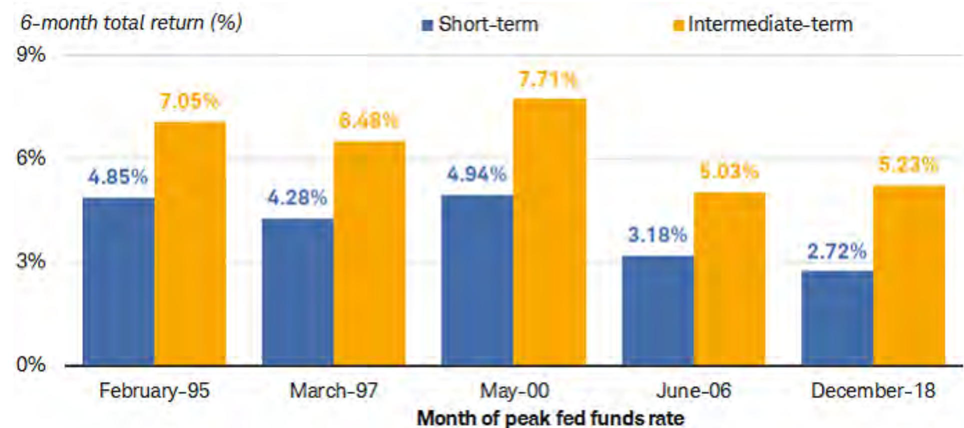
Duration Risk Vs. Reinvestment Risk

1 Month T-bill vs. 5-Year Treasury



- The Federal Reserve has increased rates by approximately 5% over the last year. This compares to 2005-2007 in terms of magnitude, but those hikes were accomplished over a period of three years. Bond investors are now faced with a choice of investing in short-term or intermediate-term bonds. The risk to intermediate-term bonds is duration (a risk that was realized in 2022) while the risk to short-term bonds is reinvestment risk (which we may see in 2023)

Return Comparison
(6 Month After Peak Fed Funds Rate)

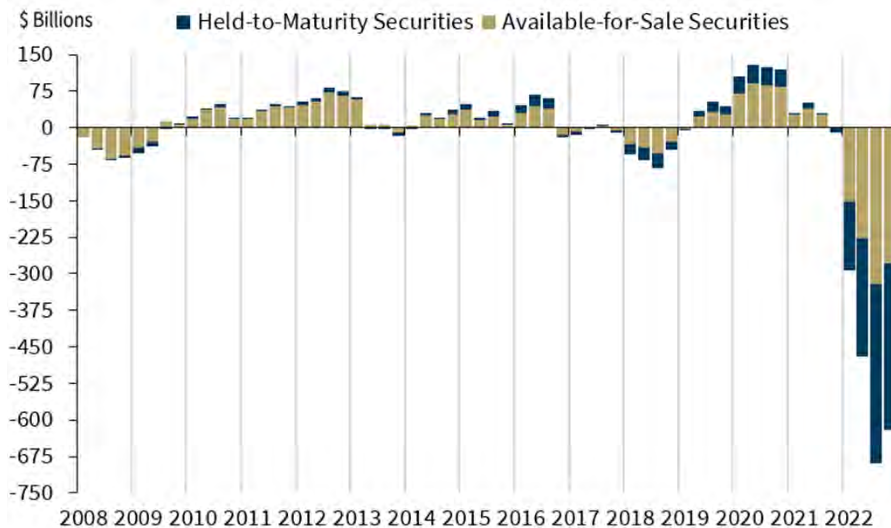


- Historically, intermediate-term bonds have outperformed shorter-term bonds when the Fed is done hiking interest rates. This is an important point for investors who invest in bond funds rather than individual bonds, because if this pattern holds, intermediate-term bond funds may outperform shorter-term funds going forward – assuming the Fed is close to done hiking rates

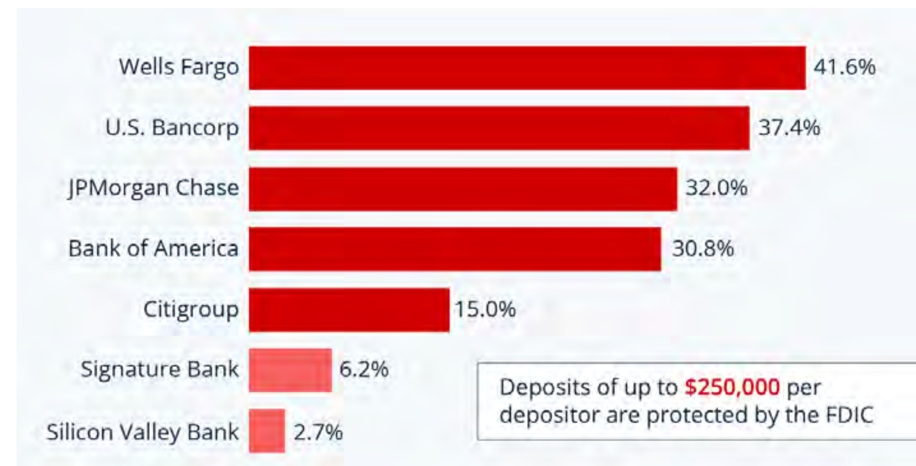
Source: Charles Schwab, Bloomberg, Federal Reserve, ACG

Banking Sector Issues

Unrealized Gains (Losses) at U.S. Banks



Share of Deposits < $250k
(Silicon Valley & Signature Bank)



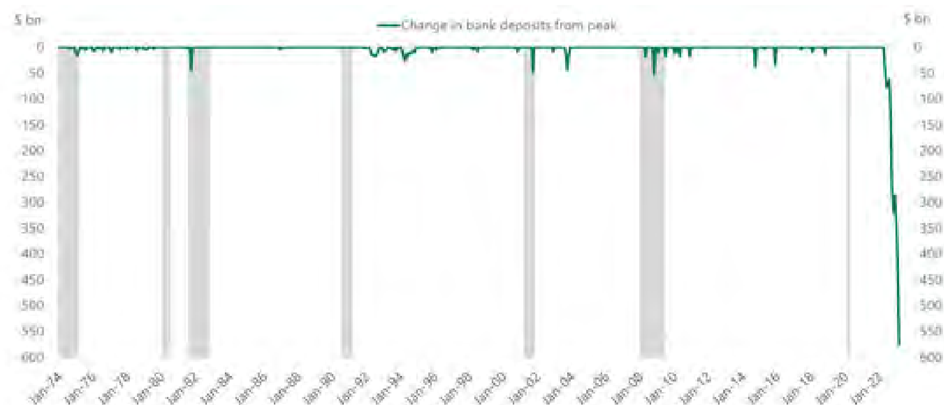
- One consequence of the Fed's rate hikes over the last year is that many U.S. banks are now sitting on large unrealized losses as their bond holdings, including Treasuries and Mortgage-backed securities, have fallen in value. This doesn't matter much if they can hold them to maturity, but it becomes a problem if the banks need to sell them or mark them to market. Silicon Valley Bank (SVB) didn't adequately hedge this risk and was exposed to a run on the bank

- SVB was also highly concentrated in the Venture Capital industry. SVB's average deposit size was approximately $4 million vs. an industry average of under $50k. Signature Bank was similarly over-exposed to cryptocurrency. This leverage paid off when VCs and crypto were flush with cash, but it exposed the banks to the recent declines in those industries. Ultimately, investors lost confidence and things quickly spiraled for both banks

Source: FDIC, Bloomberg, Standard & Poor's, Statista, ACG

Money Market Mayhem

Bank Deposits
(Change from Peak Level, $ Billion)



- In the trailing year, as the Federal Reserve has increased interest rates, almost $600 billion has left bank deposits. Many investors, frustrated with less competitive yields vs. Treasuries and Money Market funds, have decided to move their deposits. In the current era of constant social media connectivity, events like this can evolve quickly and create added complexity for bank executives and regulators

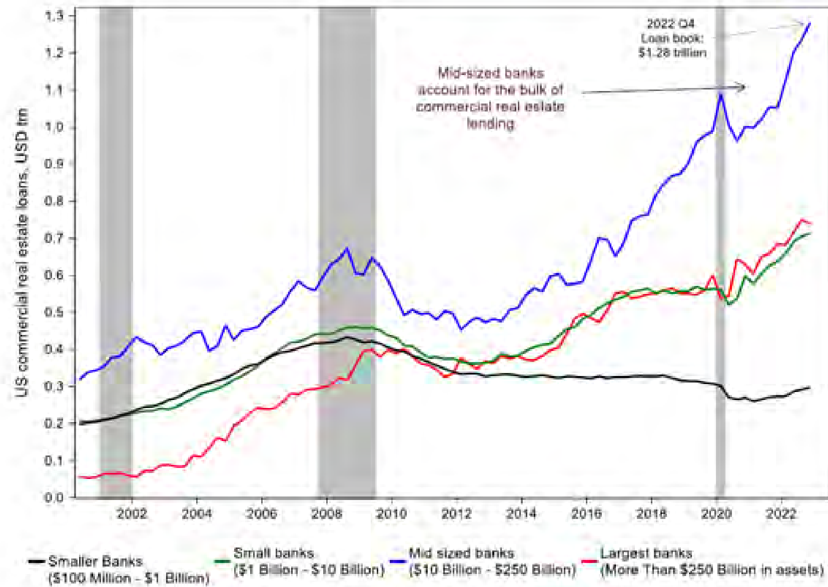
Money Market Fund Assets
($ Trillion)

- Money market funds, which are not guaranteed by the government, but offer a basket of relatively safe securities (as compared to bank deposits) and an attractive yield, were the recipient of much of the cash flows out of banks. According to the Investment Company Institute, the total assets of such funds has now topped $5 trillion for the first time

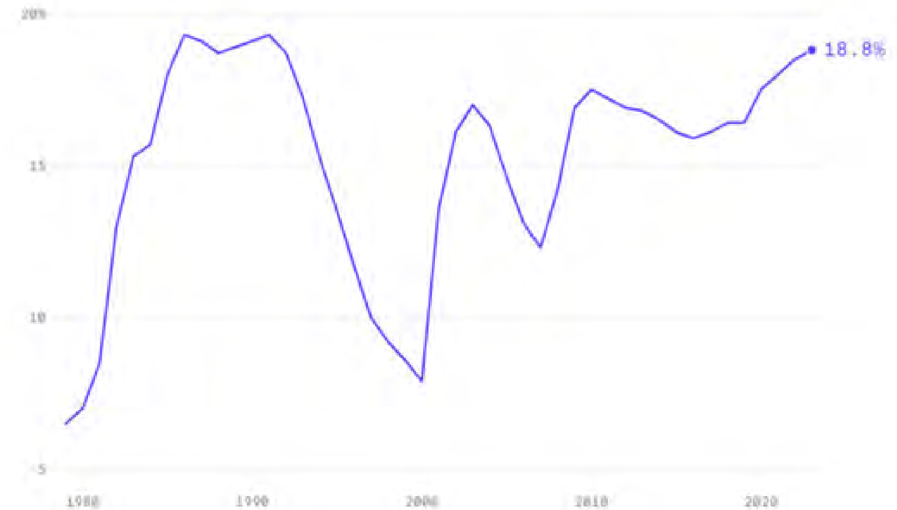
Source: Federal Reserve, Bank of America Merrill Lynch, ACG

Commercial Real Estate Lending

Bank Lending to Commercial Real Estate
(By Bank Size)



Share of Vacant Office Space
(50 Largest U.S. Metro Areas)



- Mid-size commercial banks, which have come under pressure in 2023, are also the largest lenders to the commercial real estate sector. Since the Global Financial Crisis, they have doubled their lending to the sector. Many strategists worry that this exposure, totaling over $1.3 trillion, could be a potential area for concern within the Banking industry

- Commercial real estate, specifically office properties, has come under pressure recently as trends like work from home and hybrid work have reduced overall demand and lead to historically high vacancy rates. As a result, many of the banks with the large exposures to commercial real estate have started to come under pressure in the markets

Source: Longview Economics, Moody's, ACG

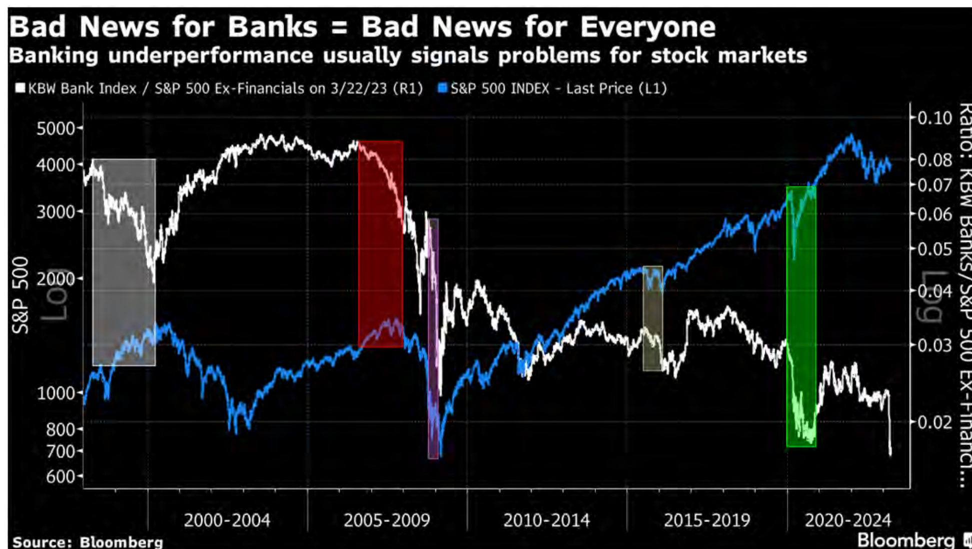
European Banking Issues

Credit Default Swaps
(European Banks, 5 Years, Bps)

- The cost to insure against credit default, captured through the pricing of derivatives called credit default swaps (CDS), increased sharply for many banks during Q1. In particular, many European banks saw their CDS rise sharply after the issues with Credit Suisse. Despite the rise, the overall levels remain below the 2002 highs and the highs seen during the COVID sell-off of 2020

Bank Performance vs. Broad Market Performance
(KBW Bank Index vs. S&P 500)

- One of the key reasons that investors worry about the banking sector is that it can often portend trouble in the broader markets. For example, when banks were weak in the late 1990s, a broader market decline soon followed. Unfortunately, this same pattern occurred multiple times over the last 25 years leading some to view the issues with banking as the proverbial “canary in the coalmine”



Source: LPL Research, Bloomberg, ACG

Fundamentals & Corporate Earnings

Quarterly Earnings vs. GDP Estimates
(S&P 500 & U.S. GDP Consensus Growth)

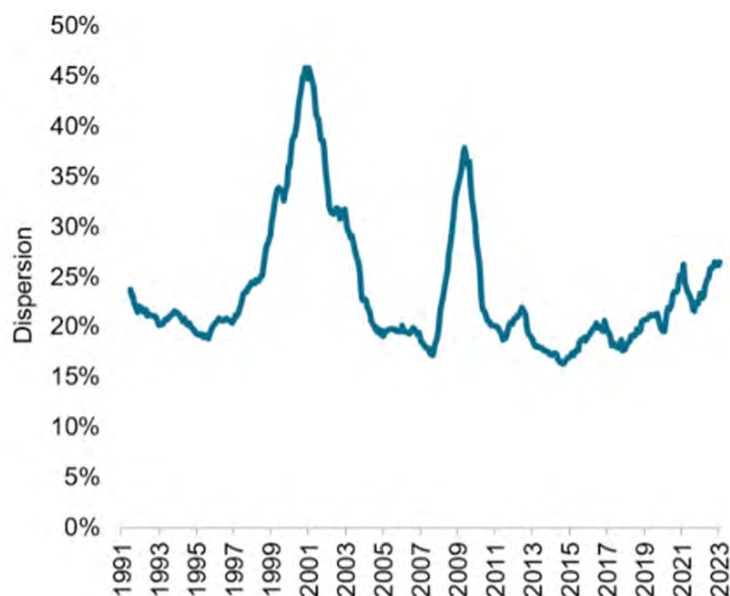
- There is currently a large disconnect between consensus earnings estimates and economic growth. Earnings are expected to grow in Q2, Q3 and Q4 of 2023 while GDP is expected to decline. It is impossible to envision a world in which both projections are correct. This dynamic makes the Fed's job particularly difficult and highlights the uncertainty surrounding the path of markets in 2023

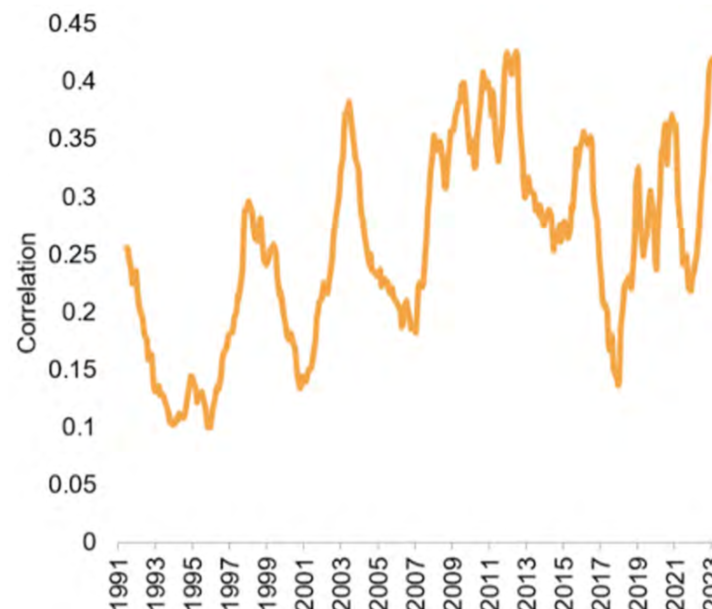
S&P 500 Operating Profit Margins
(Year-over-year change)

- After a brief decline and recovery during the COVID sell-off in 2020, operating margins at U.S. corporations, which had been at all-time highs, have started to decline. If this metric comes under continued pressure, it could put pressure on earnings in 2023

Source: Bloomberg, FactSet, ACG

Environment for Active Managers is Mixed





- Dispersion, measured as the annualized, index-weighted standard deviation of the index constituents' full-month total returns, increased over the last few years. Higher dispersion typically results in better relative returns for active managers due to more differentiation in stock returns across individual issues

- Correlation, measured as the average pairwise correlation across individual stocks, is significantly elevated. Typically, higher correlation makes it more difficult for active managers to benefit from individual security selection as most stocks are rising and falling together due to reasons other than fundamentals

Source: Standard & Poor's, ACG

Are We In "Bizzaro" World?

- The Bizarro World, also known as Htrae ("Earth" spelled backwards), is a fictional planet appearing in Superman comic books – part of the DC Comics universe.
- Htrae is a cube-shaped planet, home to Bizarro and companions, all of whom were mirror images of Superman, Lois Lane, etc.
- In popular culture, "Bizarro World" has come to mean a situation or setting which is weirdly inverted or opposite to expectations.

Data Point	Normal Market Reaction	Current "Bizzaro" Market Reaction
Employment	• Equity market typically rallies on strong jobs data which is a sign of economic strength	• Equity market worried that strong employment will allow Fed to continue to hike rates
GDP / Economic growth	• Equity market typically rallies when economic growth is strong	• Equity market worried that strong economic growth will allow Fed to continue to hike rates
Consumer Confidence	• Equity market typically rallies when confidence increases as consumer are likely to spend more	• Equity market worried that higher levels of consumer confidence will allow Fed to continue to hike rates

Source: DC Comics, ACG

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This report is based on transaction records, portfolio valuations, and performance supplied by the client, the custodian, the investment manager, and investment databases including Bloomberg and Morningstar. Due to the timeliness of this report performance information may be preliminary and therefore subject to audit. This report is complete and accurate to the best of our knowledge.

We urge you to take a moment to compare the account balances contained in this report to those balances reflected on the statements that you receive directly from your account's custodian. Please contact us or the account custodian with any questions you may have. Also, please notify us promptly if you do not receive statements on all accounts from the custodian on at least a quarterly basis.

INDEX DEFINITIONS

Asset class and reference benchmarks:

ASSET CLASS	BENCHMARK
U.S. Equity	S&P 500 TR
International Developed Equity	MSCI EAFE NR
Emerging Market Equity	MSCI EM NR
U.S. Fixed Income	Bloomberg U.S. Aggregate Bond TR
Cash & Cash Alternatives	Citi Treasury Bill 3 Mon USD

Alerian MLP: The Alerian MLP Index is the leading gauge of large- and mid-cap energy Master Limited Partnerships (MLPs). The float-adjusted, capitalization- weighted index, which includes 50 prominent companies and captures approximately 75% of available market capitalization, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX).

Bloomberg 10-Year U.S. Treasuries: Measures the performance of U.S. Treasury securities that have a remaining maturity of 10 years.

Bloomberg U.S. Aggregate Index: Represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment- grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

Bloomberg Global Aggregate ex-U.S. Dollar Bond Index: Tracks an international basket of bonds that currently contains 65% government, 14% corporate, 13% agency and 8% mortgage-related bonds.

Bloomberg High Yield: Covers the universe of fixed-rate, non-investment grade debt. Pay-in-kind (PIK) bonds, Eurobonds, and debt issues from countries designated as emerging markets (e.g., Argentina, Brazil, Venezuela, etc.) are excluded, but Canadian and global bonds (SEC-registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures and 144-As are also included.

Bloomberg U.S. Corporate High Yield: Composed of fixed-rate, publicly issued, non-investment grade debt.

The Dow Jones Industrial Average is an unmanaged index of 30 widely held securities.

Dow Jones U.S. Total Stock Market Index, which comprises all U.S. equity securities with readily available prices.

FTSE 3-Month Treasury-Bill Index: This is an unmanaged index of three-month Treasury bills.

FTSE EPRA/NAREIT Global Real Estate Index: Designed to represent general trends in eligible listed real estate stocks worldwide. Relevant real estate activities are defined as the ownership, trading and development of income producing real estate.

INDEX DEFINITIONS

Gross Domestic Product (GDP) is the annual market value of all goods and services produced domestically by the US.

HFRI Fund of Funds Conservative: FOFs classified as 'Conservative' exhibit one or more of the following characteristics: seeks consistent returns by primarily investing in funds that generally engage in more 'conservative' strategies such as Equity Market Neutral, Fixed Income Arbitrage, and Convertible Arbitrage; exhibits a lower historical annual standard deviation than the HFRI Fund of Funds Composite Index. A fund in the HFRI FOF Conservative Index shows generally consistent performance regardless of market conditions.

HFRI Fund of Funds Diversified: FOFs classified as 'Diversified' exhibit one or more of the following characteristics: invests in a variety of strategies among multiple managers; historical annual return and/or a standard deviation generally similar to the HFRI Fund of Fund Composite index; demonstrates generally close performance and returns distribution correlation to the HFRI Fund of Fund Composite Index. A fund in the HFRI FOF Diversified Index tends to show minimal loss in down markets while achieving superior returns in up markets.

HFRI Fund of Funds Strategic: FOFs classified as 'Strategic' exhibit one or more of the following characteristics: seeks superior returns by primarily investing in funds that generally engage in more opportunistic strategies such as Emerging Markets, Sector specific, and Equity Hedge; exhibits a greater dispersion of returns and higher volatility compared to the HFRI Fund of Funds Composite Index. A fund in the HFRI FOF Strategic Index tends to outperform the HFRI Fund of Fund Composite Index in up markets and underperform the index in down markets.

MSCI All Country World Index Ex-U.S Index.: A market-capitalization-weighted index maintained by Morgan Stanley Capital International (MSCI) and designed to provide a broad measure of stock performance throughout the world, with the exception of U.S.-based companies. It includes both developed and emerging markets.

MSCI EAFE Index (Europe, Australasia, Far East): A free-float adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States and Canada. The EAFE consists of the country indices of 21 developed nations.

MSCI EAFE Growth Index: Represents approximately 50% of the free-float adjusted market capitalization of the MSCI EAFE index, and consists of those securities classified by MSCI as most representing the growth style.

MSCI EAFE Small-Cap Index: An unmanaged, market-weighted index of small companies in developed markets, excluding the U.S. and Canada.

MSCI EAFE Value: Represents approximately 50% of the free-float adjusted market capitalization of the MSCI EAFE index, and consists of those securities classified by MSCI as most representing the value style.

MSCI Emerging Markets Index: Designed to measure equity market performance in 25 emerging market indexes. The three largest industries are materials, energy and banks.

The NASDAQ Composite Index is an unmanaged index of all stocks traded on the NASDAQ over-the-counter market. Price Earnings Ratio (P/E) is the price of the stock divided by its earnings per share.

INDEX DEFINITIONS

Russell 1000 Index: Measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 90% of the investible U.S. equity market.

Russell 1000 Value Index: Measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

Russell 1000 Growth Index: Measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell Mid-Cap Index: Measures the performance of the 800 smallest companies of the Russell 1000 Index, which represent approximately 30% of the total market capitalization of the Russell 1000 Index.

Russell Mid-Cap Value Index: Measures the performance of those Russell Mid-cap companies with lower price-to-book ratios and lower forecasted growth values.

Russell Mid-Cap Growth Index: Measures the performance of those Russell Mid-cap companies with higher price-to-book ratios and higher forecasted growth values.

Russell 2000 Index: Measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.

Russell 2000 Value Index: Measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

Russell 2000 Growth Index: Measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 3000 Index: Measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

Standard & Poor's 500 (S&P 500): Measures changes in stock market conditions based on the average performance of 500 widely held common stocks. Represents approximately 68% of the investable U.S. equity market.

Wilshire Liquid Alternative Index: The Wilshire Liquid Alternative IndexSM measures the collective performance of the five Wilshire Liquid Alternative strategies that make up the Wilshire Liquid Alternative Universe. The Wilshire Liquid Alternative Index (WLIQA) is designed to provide a broad measure of the liquid alternative market by combining the performance of the Wilshire Liquid Alternative Equity Hedge IndexSM (WLIQAEH), Wilshire Liquid Alternative Global Macro IndexSM (WLIQAGM), Wilshire Liquid Alternative Relative Value IndexSM (WLIQARV), Wilshire Liquid Alternative Multi-Strategy IndexSM (WLIQAMS), and Wilshire Liquid Alternative Event Driven IndexSM (WLIQAED).