ACG Market Review

Second Quarter 2023

Global Highlights:

- **Economy** – A much anticipated recession has yet to materialize despite aggressive Fed policy over the past few quarters
- **Equities** – A handful of U.S. Mega Cap companies drove returns in what has been a bounce-back first half of the year for stocks
- **Fixed Income** – Volatility remained high relative to history amid uncertainty around inflation, economic growth, and Fed policy

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Optimism Returns to Equity Markets

After a painful 2022, the second quarter built on what has been a rebound first half of the year for stocks. The quarter began with some lingering worry over broader repercussions from stress in the regional banking sector, ongoing uncertainty around the pace and direction of U.S. Federal Reserve ("Fed") policy, and the threat of a recession that has been hanging over the economy for several months. Fed rate hikes, despite a pause in June, have failed to outweigh the bullish sentiment driving markets so far in 2023. Stock indexes across the globe were universally positive in Q2 driven by multiple catalysts including declining inflation, resilient company earnings, enthusiasm over the prospects for artificial intelligence ("AI"), and economic data that has buoyed hopes for a soft landing. The second half of the year will likely test the strength of the recent rally as the Fed is expected to resume rate hikes in its ongoing battle against inflation and markets look for breadth to support performance that has been driven by a handful of mega cap companies.

Inflation, the Fed, and Recession Predictions

Inflation metrics exhibited further progress towards the Fed's 2.0% target. After peaking around 8.0% year-over-year during the middle of 2022, recent readings have marked CPI around 4.0% with expectations for continued declines into the second half of 2023 and 2024. Energy prices and new/used vehicles, which were key contributors to high inflation readings a year ago, have normalized and recently been net detractors to monthly headline CPI in some cases. The difficulty for the Fed is that inflation remains above target and has remained sticky in places like shelter costs or shifted to service-oriented sections of the economy.

Given improving inflation numbers and an unemployment rate that has remained low at 3.7% among other factors, the FOMC voted to hold policy rates steady at their June 2023 meeting after ten consecutive hikes. An additional explanation for the pause is that the committee was wary to roil markets that had priced-in a pause based both on market indicators and comments from Fed governors leading up to their June meeting. Expectations are that this pause will be temporary. Comments by Chairman Powell and the committee's dot plot suggest that the Fed will remain hawkish over the intermediate term and likely raise rates 1-2 more times before year-end. Interestingly, the market has yet to fully trust Fed guidance, with market-implied pricing suggesting that the Fed Funds Rate will remain at current levels before declining in 2024 and 2025.

The trajectory of rate hikes over the past several quarters has naturally led to predictions for a recession that has remained squarely on the horizon rather than the present. To be fair, recessionary indicators and signs of stress are flashing in some areas of the economy. The 3-month/10-year yield curve, often cited as a harbinger of recession, has been inverted for months. Leading economic indicators are in their longest streak of declines since 2008. Credit standards have tightened, bankruptcy filings have increased, and credit card delinquencies are in a prolonged upswing. On the flip side the aggregate consumer has remained strong and willing to spend and GDP estimates point to solid growth in the U.S. Recessions are a natural part of the economic cycle so predictions will be proven true at some point, but aside from an exogenous shock like COVID it is hard to see a recession in the short-term.

Stocks Continue 2023 Rally

The themes that drove poor performance for equity markets in 2022 are starting to feel like a distant memory as stocks regained ground towards all-time highs. Q2 2023 saw the S&P 500 rise +8.7% to bring the year-to-date total to +16.9%. The index is now up approximately +24.0% from recent lows hit in October 2022. And while Value stocks enjoyed a period of relative outperformance over Growth in 2022, Growth has led the market rebound. The Russell 1000 Growth index was up +12.8% in Q2 and has increased +29.0% this year compared to +4.1% and +5.1% in the same periods for the Russell 1000 Value. Much of the performance of the S&P 500 can be attributed to a few of the largest companies by market capitalization that are also generally classified as Growth stocks. The top seven stocks in S&P 500 (Apple, Microsoft, Amazon, NVIDIA, Tesla, Alphabet, Meta) have accounted for approximately 85.0% of the index performance in 2023.

The outsized performance of these giant U.S.-based companies has kept U.S. Large Cap in the lead over domestic small capitalization and foreign equities over most trailing timeframes. June was a rare month of relative outperformance for U.S. Small Caps, measured by the Russell 2000, with the index rising +8.1%. For Q2 in aggregate, the Russell 2000 rose +5.2% to bring the YTD total to +8.1%, only about half of the S&P 500's increase this year. An interesting datapoint to show some of the historic discrepancies between the largest stocks and their smaller capitalization counterparts is that Apple's market cap alone is now larger than the entire Russell 2000.

International and Emerging Markets shares continued to trail their U.S. counterparts despite tailwinds building from cheap relative valuations and a weaker U.S. Dollar. The MSCI EAFE Index was up +3.0% while the MSCI Emerging Markets Index rose +0.9%. Developed International stocks have quietly had a strong trailing 12-months with the MSCI EAFE up +18.8%, which trails the S&P 500 by less than 1.0% over the same period. Emerging Markets stocks have struggled to keep pace with other equity markets due to multiple factors including weakness from China, multiple years of U.S. Dollar strength, and geopolitical friction. Despite challenges the backdrop for International and Emerging Markets remains favorable. Most valuation metrics relative to the U.S. show foreign companies near multi-decade lows. 10+ years of U.S. Dollar appreciation has started to show signs of reversing as well, with the Euro appreciating +11.0% relative to the Dollar since Q3 2022. A prolonged period of U.S. Dollar depreciation would provide a strong boost to foreign market returns.

Bond Market Remains Volatile

Continuing a theme from Q1 2023, fixed income markets remained volatile relative to history in Q2. Morningstar figures show bond market volatility measured by standard deviation at around double normal levels. Yields generally moved higher during the quarter across the curve, which hurt performance in most sectors of the market. The Bloomberg U.S. Aggregate Bond Index fell -0.84% during the quarter but remains positive YTD at +2.09%. Some spread tightening and a general appetite for risk helped the Bloomberg U.S. High Yield Index increase +1.75%.

Longer-term treasuries were one of the largest victims of higher yields during the quarter, with 20+ year treasuries falling more than -2.0%.

Fixed income allocations have become much more attractive compared to the past several years due to higher starting yields. The short to intermediate portions of the curve appear especially attractive now as yield curves remain inverted. Investors will need to pay close attention to reinvestment risk with shorter term bonds as any meaningful pause or pivot from the Fed will likely shift the short end of the yield curve lower. Credit quality should also be in focus if the economy begins to slow meaningfully. 2023 has already seen an increase in bankruptcy filings compared to previous years, and historically tight credit spreads mean that any stress in the broader economy could cripple debt-laden companies in lower quality areas of the market.

In the Headlines: Commercial Real Estate and AI

Commercial real estate has been under pressure and garnered a good deal of media attention as the U.S. workforce has settled into hybrid or work-from-home models. There have been and will almost certainly be more write-downs of office portfolios for many real estate investors who were doing deals pre-COVID. There will also likely be opportunities for investors in pockets of the country that are seeing population growth and/or for distressed investors that are willing to take risks on extremely impaired assets. Property type will also be important.

Transitioning from a challenged to an optimistic piece of the investment landscape is the recent attention on Artificial Intelligence (AI). AI has been the buzzword of 2023, replacing the Metaverse and Cryptocurrency in terms of search activity. NVIDIA was the big winner of the first half of the year with the stock spiking nearly +200.0% in a few months, mostly after a blowout earnings call touting the future possibilities of AI. Like any hot new technology, no one can be certain what the end use cases will be or who will benefit the most as an investment. In the short term there will surely be companies that make meaningful strides to advance the technology along with companies that simply want to ride the wave by referencing AI on their websites or pitch decks.

Market Index Review – June 2023

Major Market Indices	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
S&P 500	6.61	8.74	16.89	19.59	14.60	12.31	12.86
Russell 2000	8.13	5.21	8.09	12.31	10.82	4.21	8.26
Russell 3000	6.83	8.39	16.17	18.95	13.89	11.39	12.34
MSCI ACWI	5.81	6.18	13.93	16.53	10.99	8.10	8.75
MSCI ACWI ex USA	4.49	2.44	9.47	12.71	7.22	3.52	4.75
Bloomberg US Aggregate TR	-0.36	-0.84	2.09	-0.94	-3.97	0.77	1.52

International Indices	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
MSCI EAFE	4.55	2.95	11.67	18.77	8.93	4.39	5.41
MSCI Europe	4.79	2.74	13.59	21.81	10.68	5.19	5.70
MSCI Pacific	4.14	3.50	8.38	13.68	5.97	3.00	4.95
MSCI EAFE Small Cap	2.89	0.58	5.53	10.18	5.70	1.30	6.19
MSCI Emerging Markets	3.80	0.90	4.89	1.75	2.32	0.93	2.95
MSCI Frontier Markets	2.26	2.13	5.29	-2.34	3.79	0.83	2.67

Russell Indices	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Russell 1000	6.75	8.58	16.68	19.36	14.09	11.92	12.64
Russell 1000 Growth	6.84	12.81	29.02	27.11	13.73	15.14	15.74
Russell 1000 Value	6.64	4.07	5.12	11.54	14.30	8.11	9.22
Russell MidCap	8.34	4.76	9.01	14.92	12.50	8.46	10.32
Russell MidCap Growth	7.73	6.23	15.94	23.13	7.63	9.71	11.53
Russell MidCap Value	8.67	3.86	5.23	10.50	15.04	6.84	9.03
Russell 2000 Growth	8.29	7.05	13.55	18.53	6.10	4.22	8.83
Russell 2000 Value	7.94	3.18	2.50	6.01	15.43	3.54	7.29

Bond Indices	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
FTSE T-Bill 3 Months	0.43	1.25	2.39	3.75	1.33	1.57	0.98
Bloomberg US Municipal TR	1.00	-0.10	2.67	3.19	-0.58	1.84	2.68
Bloomberg US Govt/Credit TR	-0.32	-0.93	2.21	-0.70	-4.11	1.03	1.66
Bloomberg US Govt/Credit Int TR	-0.68	-0.81	1.50	-0.10	-2.46	1.23	1.41
Bloomberg US Credit 1-3 Yr TR	-0.18	0.11	1.44	1.39	-0.37	1.58	1.49
Bloomberg US Credit Long TR	1.45	-0.43	4.97	1.06	-6.06	1.53	3.48
Bloomberg US Corporate High Yield TR	1.67	1.75	5.38	9.06	3.13	3.36	4.43
FTSE WGBI	-0.01	-1.79	1.66	-2.49	-6.49	-2.04	-0.48

Sector Indices	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
S&P 500 Materials	11.05	3.31	7.74	15.12	15.99	9.75	10.31
S&P 500 Consumer Discretionary	12.07	14.58	33.06	24.73	9.03	9.96	12.93
S&P 500 Consumer Staples	3.24	0.45	1.28	6.60	11.91	11.07	9.61
S&P 500 Energy	6.65	-0.89	-5.52	18.76	35.42	6.61	4.39
S&P 500 Financials	6.69	5.33	-0.53	9.50	15.65	7.19	10.12
S&P 500 Health Care	4.36	2.95	-1.48	5.37	11.69	11.79	13.04
S&P 500 Industrials	11.29	6.49	10.18	25.16	17.96	10.52	11.58
S&P 500 Information Technology	6.59	17.20	42.77	40.26	19.96	21.82	21.86
S&P 500 Real Estate	5.59	1.81	3.79	-4.13	6.23	6.53	--
S&P 500 Communication Services	2.58	13.06	36.24	17.28	7.28	9.28	6.46
S&P 500 Utilities	1.65	-2.53	-5.69	-3.68	8.42	8.23	9.40

Other Indices	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
HFRI FOF: Diversified Index	1.59	2.08	2.62	4.20	5.58	3.85	3.58
HFRI FOF: Conservative Index	0.07	0.24	1.16	2.84	5.79	3.76	3.39
HFRI Equity Hedge (Total) Index	2.94	2.97	5.55	7.49	8.91	5.44	5.64
Wilshire Liquid Alternative Equity Hedge	2.94	3.66	6.20	7.45	6.92	3.58	2.68
Wilshire Liquid Alternative TR USD	1.35	1.38	2.60	2.41	2.67	1.60	1.46
FTSE EPRA/NAREIT Global TR USD	3.36	0.32	1.08	-3.93	3.04	0.16	3.41
FTSE EPRA/NAREIT Developed NR USI	3.00	0.24	1.02	-4.56	3.33	-0.10	2.89
Alerian MLP TR USD	4.14	5.38	9.70	30.51	30.70	6.16	0.90
Bloomberg Commodity Index TR USD	4.04	-2.56	-7.79	-9.61	17.82	4.73	-0.99
S&P Global Infrastructure TR USD	3.03	-0.12	3.82	4.17	10.65	5.31	6.67
Consumer Price Index *	0.25	0.76	2.47	4.05	5.86	3.87	2.70

* 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

Q2 2023: Economic Resilience Sparks Rally

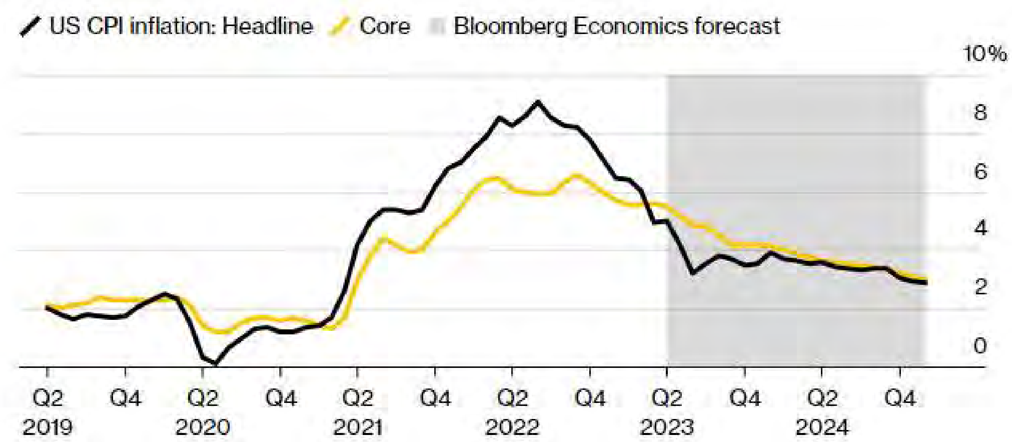
Source: Hedgeye, ACG

Slowing Inflation Allows Fed to Pause Rate Hikes

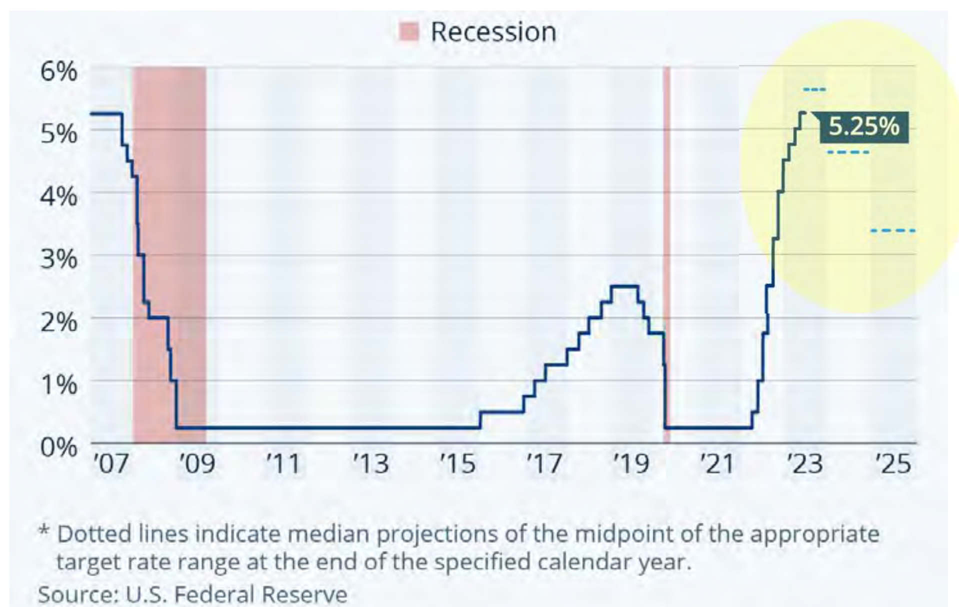
- The most recent reading on inflation as of the end of the second quarter of 2023 shows an annual headline Consumer Price Index (CPI) rate near 4%, which is down significantly from the 8% plus annual rate at the same time last year. This decline has allowed the Federal Reserve to slow the pace of rate hikes and effectively pause rate hikes at their June 2023 meeting

- Despite the Fed's recent "pause," Federal Open Market Committee (FOMC) members, who set policy, remained hawkish over the intermediate term and raised their "dot plot" projections for 2023 year-end rates to 5.50 to 5.75%, implying two additional rate hikes of 25 bps in 2023. The market, however, disagrees with the most recent market implied pricing, suggesting rates stay at their current levels through 2023 and then decline in 2024 and 2025

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



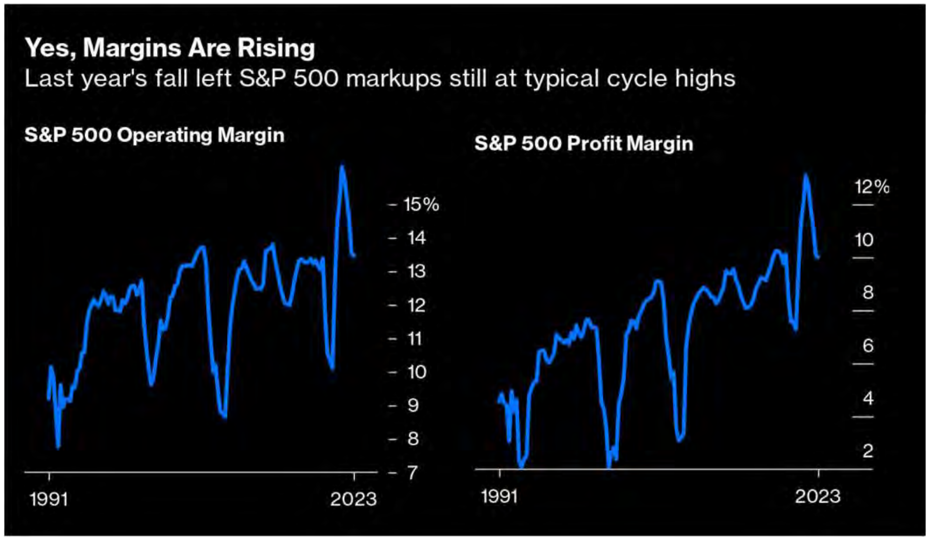
Fed Funds Rate
(Upper Range of Target)



Source: Bloomberg, Federal Reserve, ACG

2023 Equity Market Strength Driven by Earnings Recovery

S&P 500 Margins
(Operating and Profit Margins, %)



S&P 500 Earnings and Sales
(Per Share, Indexed to 100 as of Jan 1, 2022)

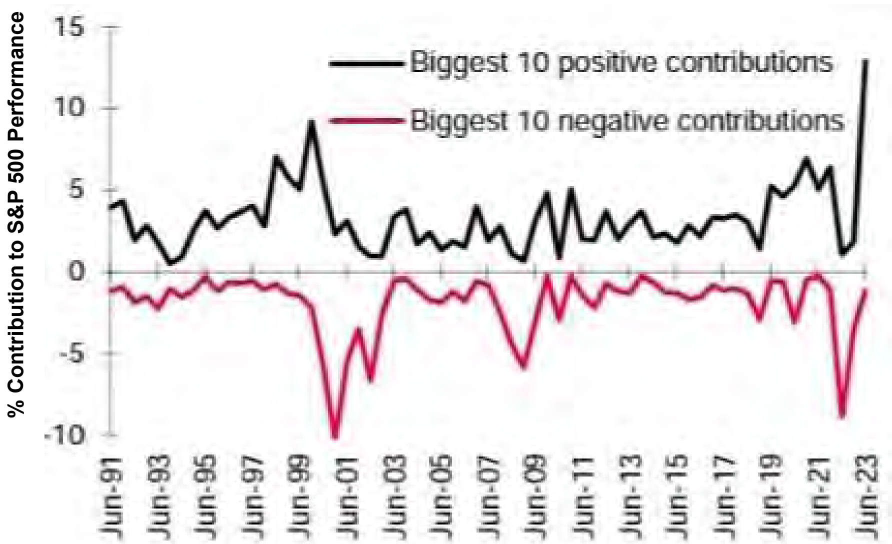
- Margins, which had been at historical highs, came down significantly in 2022 mostly as a result of inflationary pressures and logistic and supply chain challenges. Recently, however, margins have shown signs of stabilization which suggests companies have strong pricing power and have successfully passed on many of their higher costs. Even after the fall in margins last year, levels remain near all-time highs

- Despite the steep sell-off in equity markets in 2022, sales continued to rise throughout last year. Some of this increase was, of course, due to high inflation, which boosted sales numbers. Earnings, however, were impacted in 2022 but have already started to recover. The equity market, which tends to follow earnings over the long-term, has begun to price in this nascent earnings recovery in 2023

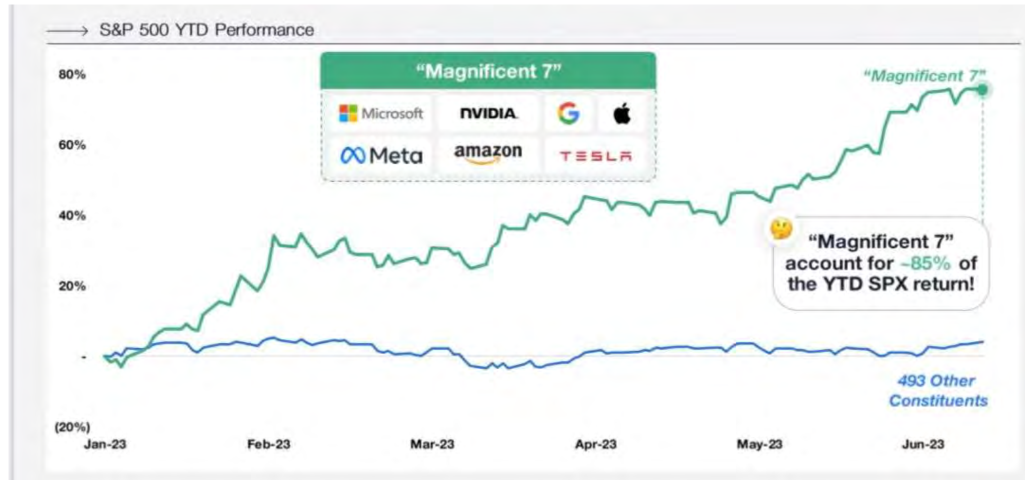
Source: Bloomberg, ACG

U.S. Equity Market Breadth Remains Very Narrow

Top & Bottom 10 Contributors to Performance
(Overall % Impact on S&P 500, 6 Months)



Return of Top 7 Stocks vs. S&P 500
(First half 2023, Cumulative Return)



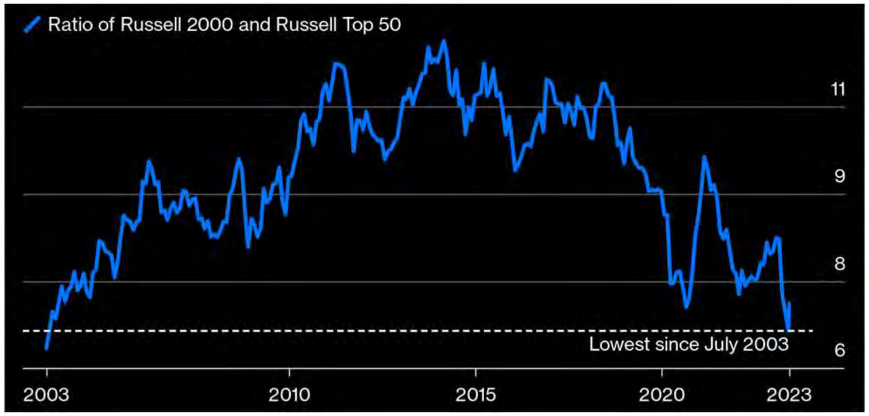
- When the S&P 500 return is driven by a wide range and number of stocks, the index is said to have good "breadth." When the market is driven by only a few stocks, market breadth is said to be "narrow." During the first six months of 2023 the top 10 contributors accounted for approximately 14 points of the +16.9% year-to-date S&P 500 return. This was the highest contribution seen for the top 10 over the last 30+ years

- The top seven stocks (the so called "Magnificent 7") in the S&P 500 Index make up over 30% of the index by market capitalization but were responsible for approximately 85% of the return through the first half of 2023. In addition, many of these larger stocks are classified as growth stocks and have played a large part in driving the year-to-date recovery in growth stocks vs. value

Source: Stand & Poor's, FactSet, Societe Generale, Coatue, ACG

Small Caps Get Smaller

Russell 2000 vs. Russell Top 50
(Market Cap Ratio: 2000/Top 50)



S&P 500 Equal Weight Minus Cap Weight Index
(Annual Performance)

- Small capitalization stocks have trailed large capitalization stocks significantly thus far in 2023. As a result, the capitalization ratio of the Russell 2000 vs. the largest 50 stocks is at the lowest level in twenty years
- The equal-weighted S&P 500 underperformance year-to-date in 2023 vs. the traditional S&P 500 capitalization-weighted index is more extreme than anything seen over the last 30 years
- Apple's market capitalization alone is now bigger than the entire Russell 2000 Index or all the stocks on the Toronto stock exchange

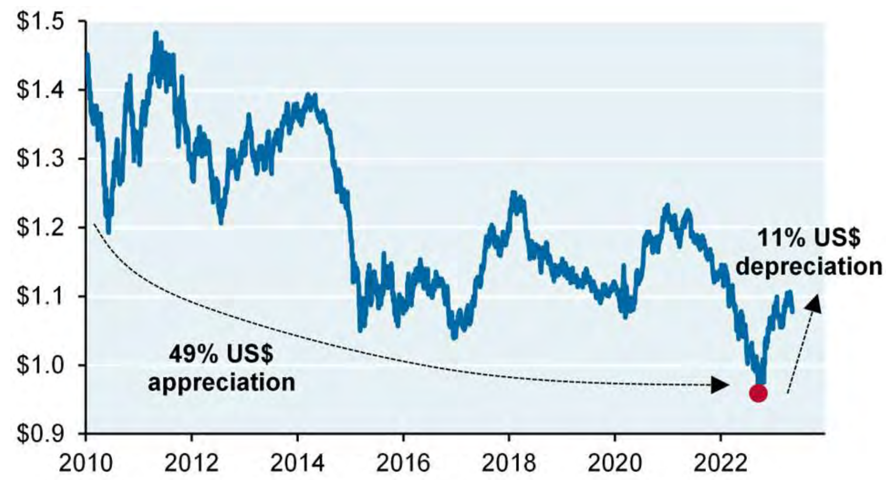
Capitalization Comparison
($ Trillion)

Source: Bloomberg, Russell Investment Group, FTSE, Standard & Poor's, ACG

International Stocks Poised to Rebound?

U.S. vs. European Equity Performance
(Decomposition Indexed to 100 as of Jan 2010)

Currency Performance
(U.S. Dollar vs. Euro)



- Since 2010, European stocks have lagged U.S. stocks. From an attribution perspective, the following five factors explained almost all of the relative performance difference:

1. Outperformance of the U.S. Dollar vs. the Euro
2. U.S. sector weights are larger in Technology and lower in Financials, Energy, Industrials and Staples
3. U.S. Technology outperformance
4. U.S. Consumer Discretionary outperformance
5. U.S. Financials outperformance

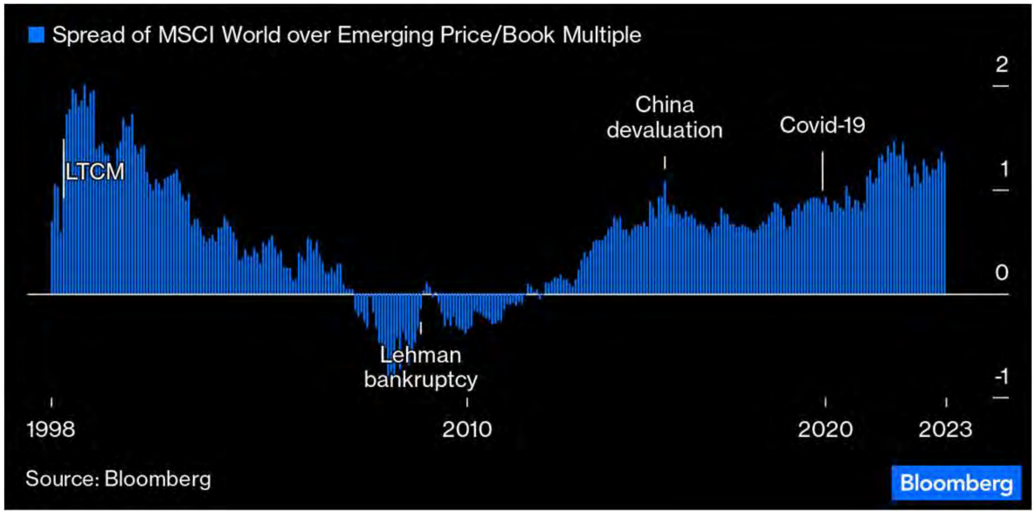
- Since 2010, the U.S. dollar appreciated +49% vs. the Euro. Since the third quarter of 2022, the Euro has staged a strong rebound and the U.S. dollar has depreciated by -11% and provided a significant boost to U.S. investors holding European shares. Looking forward, many economists point to the recent change as potentially indicative of change in the long-term trend. Despite the strong move in the last 9 months, many suggest this move has additional room to run

Source: JP Morgan, Morgan Stanley Capital International, ACG

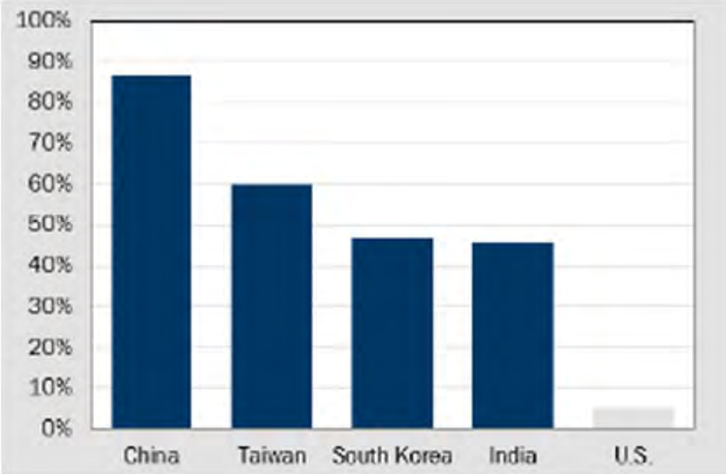
Emerging Markets: Historically Cheap (and Still Inefficient)

- Emerging Market stocks have struggled to keep up with U.S. and even developed foreign equity returns over the last decade.
- Looking forward, however, there are a number of reasons to maintain an allocation to this geographic segment of the market:
  - After a decade of U.S. dollar strength, currency is more likely to be a tailwind to EM returns going forward
  - Significant valuation discount vs. history. On a price-to-book metric, EM is as cheap as it has ever been over the last 25 years
  - Inefficiencies vs. developed markets
    - China has 80% retail traders vs. less than 10% in U.S. (where most investors are professional money managers)
    - Example: After the 2016 US presidential election, Chinese investors piled into a stock whose name sounds like "Trump Wins Big," as they sold off a stock whose name sounds like "Aunt Hillary."

Price-to-Book Spread
(MSCI World vs. MSCI Emerging Markets)



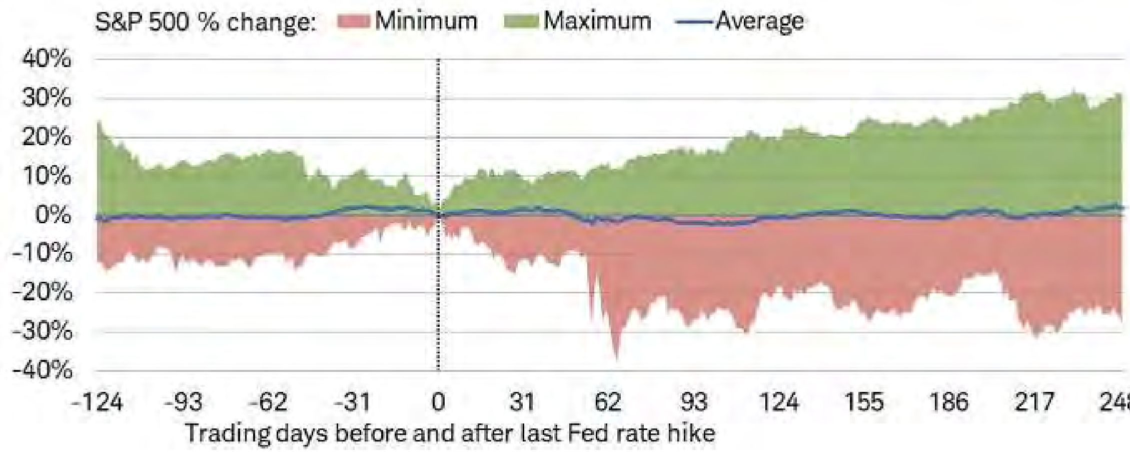
Retail Traders as % of Total Trading Volume
(By Country)



“Analysis of an Average Leads to Average Analysis”

- There has been an extraordinarily wide range of outcomes in terms of equity market performance around changes in rate hiking cycles. For example, in the 14 rate hike cycles since the S&P 500's inception in 1928, there has been a range of +30% to -30% over the subsequent 12 months following the final hike

S&P 500 Returns Around Changes in Rate Cycle
(1928-current, # of Days Before and After)



- The accompanying table details the last 8 Fed rate cycles and tracks performance of various asset classes over the following two years. As one can see, there is not an easily discernable pattern to the performance. This highlights the myriad influences on market behavior beyond simply monetary policy. It is notable, however, that a diversified 60/40 portfolio was positive following 7 of the 8 periods

Returns Following Last Fed Rate Hike of Cycle
(Annualized Return, 2 Years Following Last Hike)

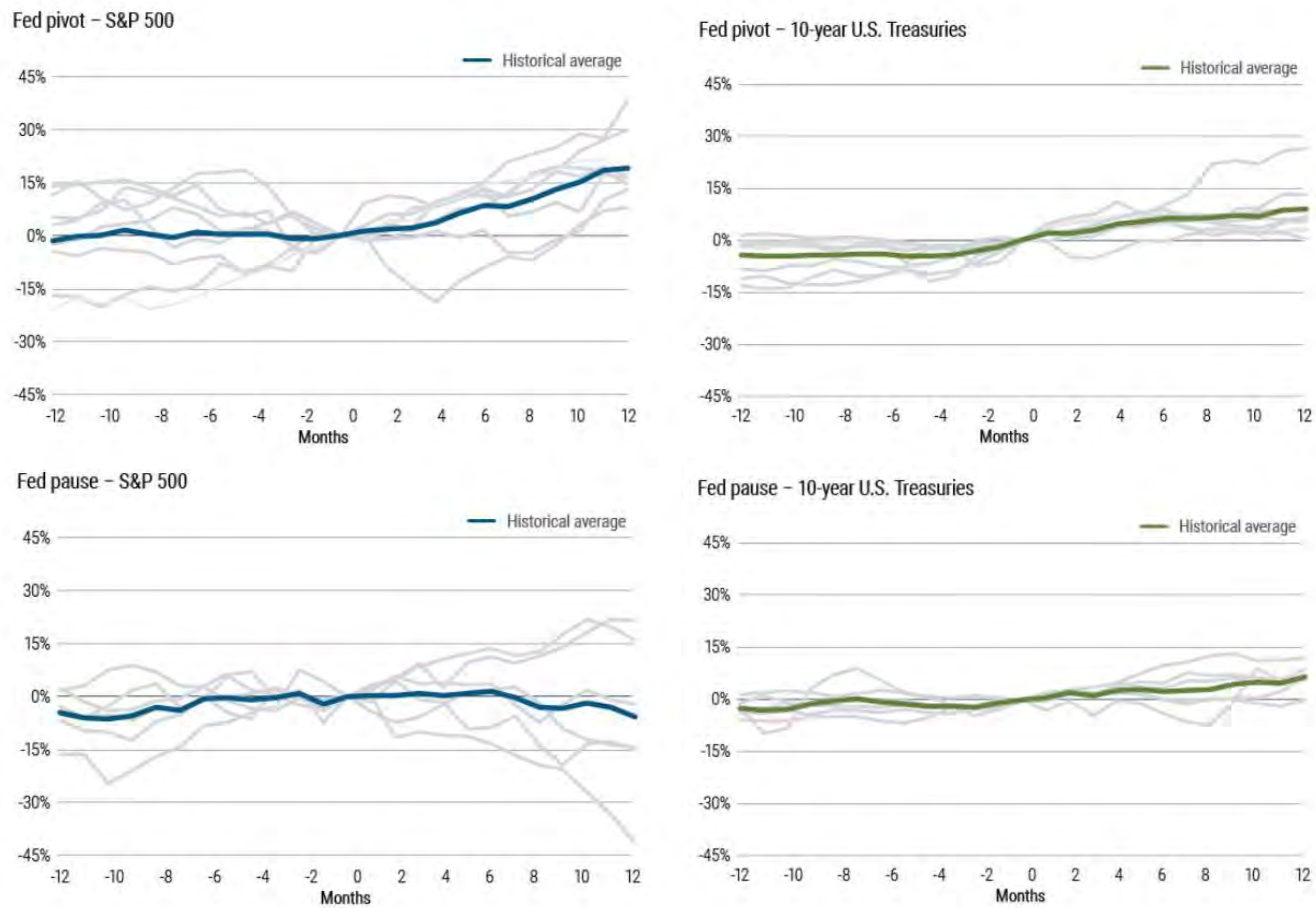
	May 80 - Apr 82	Jul 81 - Jun 83	Sep 84 - Aug 86	Apr 89 – Mar 91	Mar 95 - Feb 97	Jun 00 – May 02	Jul 06 - Jun 08	Jan 19 – Dec 21	Average
U.S. Equity	10.3	19.4	28.2	16.8	30.4	-12.2	2.4	26.1	15.2
Non- U.S. Equity	5.2	4.7	63.6	-4.8	9.8	-13.5	6.5	13.5	10.6
U.S. Bonds	7.1	21.5	23.2	12.6	8.7	10.6	6.6	4.8	11.9
Real Assets	8.8	14.7	33.0	6.7	21.5	10.7	13.6	14.3	15.4
60/40 Portfolio	8.1	17.3	32.9	10.8	17.8	-2.4	5.3	14.9	13.1
Cash	13.4	11.5	7.8	8.0	5.5	4.2	4.2	1.0	6.9

Source: Federal Reserve, Standard & Poor’s, Charles Schwab, ACG

Fed Pause vs. Fed Pivot

Fed Pivot
- Defined as the Federal Reserve cutting rates less than 6 months after their last hike

Fed Pause
- Defined as the Federal Reserve cutting rates more than 6 months after their last hike

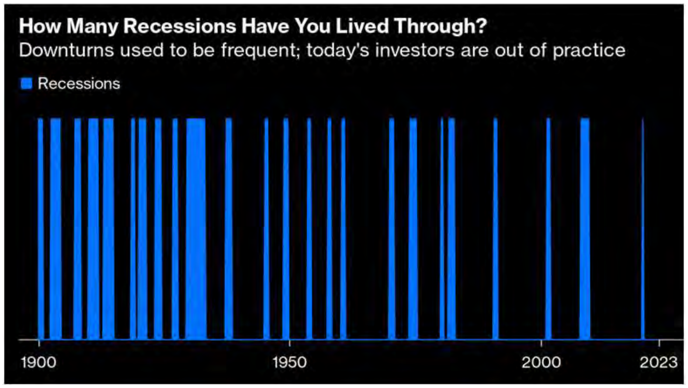


- In a data set going back to 1950, PIMCO looked at performance 12 months after interest rates peaked
  - Equity returns ranged from −41% to +38% while bonds were broadly positive across all observations
  - During years when the Fed pivoted, stocks always rallied
  - During years when the Fed paused, stocks saw significant variation in outcomes
    - For example, equity markets had strong gains over the ensuing 12-month period in 2019, but in 1981 (when inflation was high and a recession materialized), stocks fell

Source: Bloomberg, Federal Reserve, PIMCO, ACG

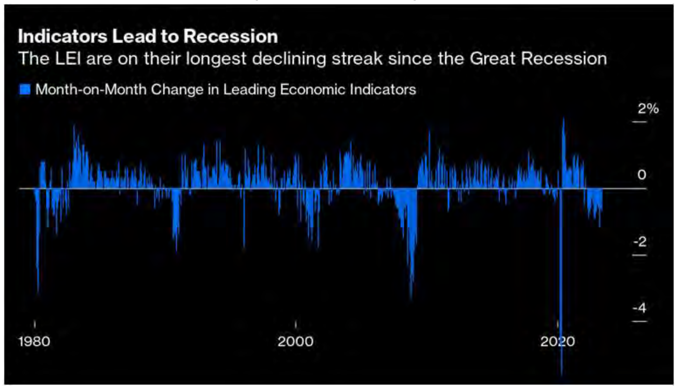
Will We See a Recession?

Recessionary Periods
(1900-2023)



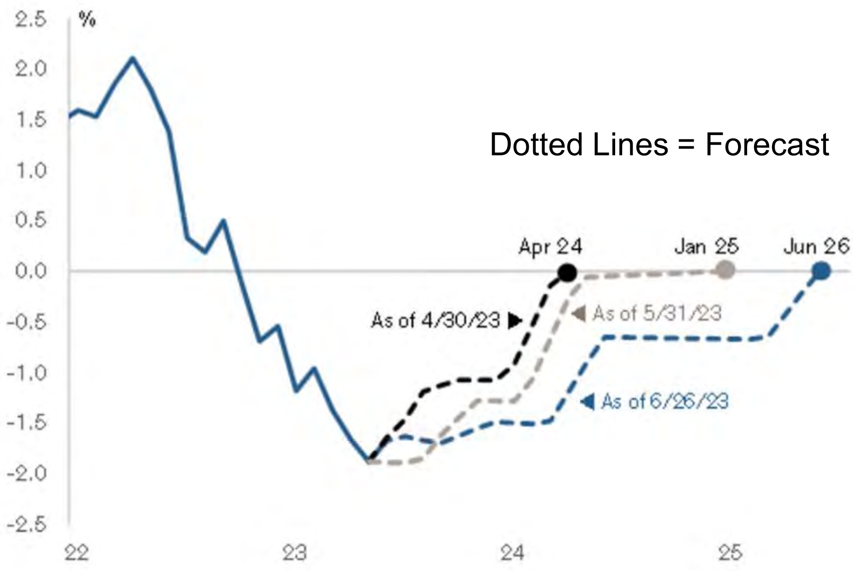
- Historically, recessions used to be more frequent. With that said, many of the recent recessions have been more severe (2002, 2008)

Leading Economic Indicators
(1980-2023)



- The Index of Leading Economic Indicators is in the middle of the longest negative streak since the Global Financial Crisis in 2008, causing many economists to call for an immanent recession

Yield Curve Inversion
(3-Month Minus 10-Year Treasury Yield)



- The 3-Month vs. 10-Year yield curve, which has strong predictive power regarding recessions, has been inverted since the middle of 2022 when the Fed started hiking rates in earnest. Many strategists, however, are now predicting the curve remains inverted for an extended period of time, as the "looming" recession continues to be pushed out further into the future

Source: Standard & Poor's, Bloomberg, NY Federal Reserve, UBS, ACG

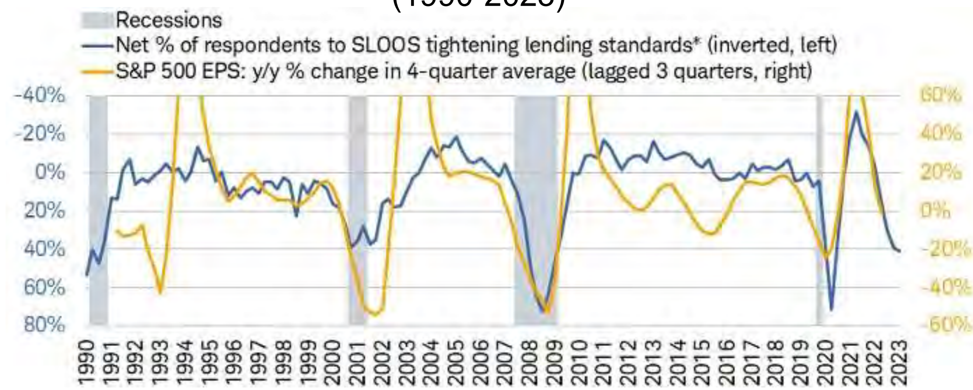
A Looming Credit Crunch?

- The Fed's quarterly Senior Loan Officer Opinion Survey ("SLOOS") indicates that banks were beginning to pull back on lending even before the recent banks failures. Given continued worries about the potential outflows of deposits, lenders are likely to remain cautious. Historically, when banks tighten standards, the number of loans issued decreases and can put pressure on overall economic growth. In addition to credit contraction and tightening credit conditions, the SLOOS data shows that there is a strong correlation to equity earnings. Over time, as credit standards tighten, earnings typically decline and vice versa. Many strategists worry that the Fed's quick move to a more restrictive monetary policy could tip the economy into recession

- Corporations are also seeing additional stress. U.S. corporate bankruptcy filings have increased significantly year-to-date in 2023

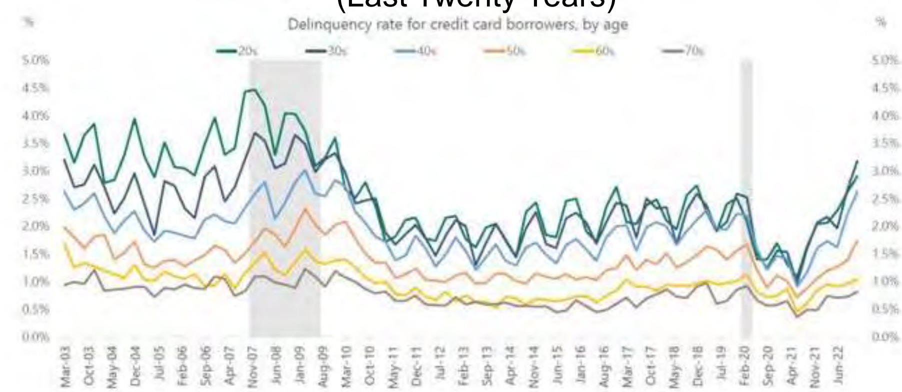
- Consumers, many of whom were flush with cash during the COVID period, are now under increasing financial pressure and credit card delinquencies are on the rise

Lending Standards vs. S&P 500 Earnings
(1990-2023)



U.S. Corporate Bankruptcy Filings
(2010-2023)

Credit Card Delinquency Rates
(Last Twenty Years)

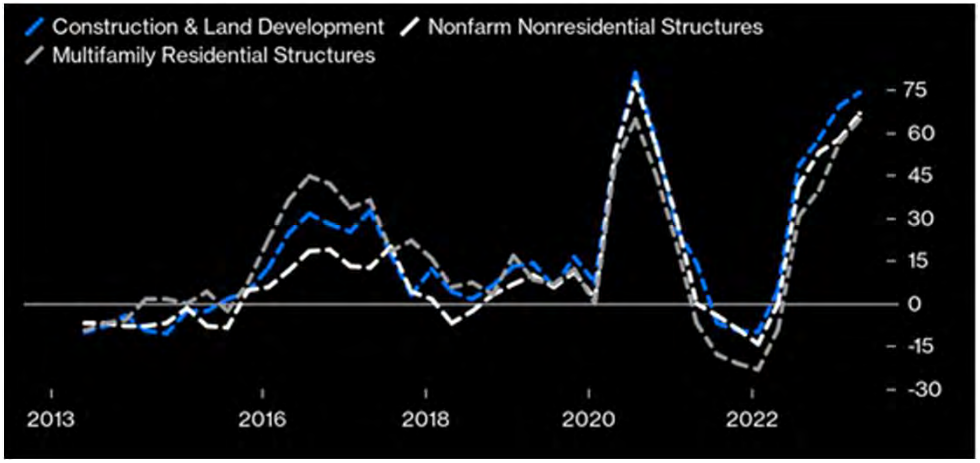


Source: Bloomberg, Schwab, Standard & Poor's, NY Federal Reserve, ACG

Real Estate Update

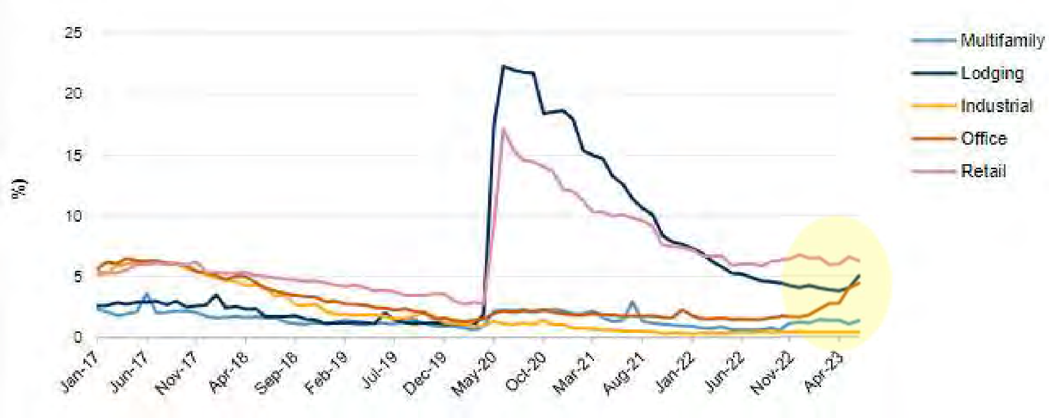
- The share of banks that are tightening their lending criteria continues to rise. After a sharp increase following the COVID period in 2020, lending standards broadly declined in 2021 as markets normalized and the Fed provided many backstops across the economy. But, beginning in 2022, however, the share of banks tightening standards began to rise again

Share of Banks Tightening Lending Standards
(by Real Estate Segment)



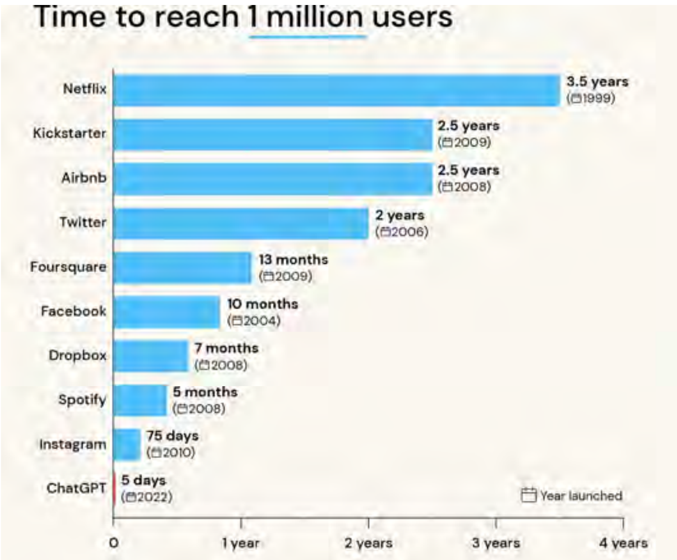
- While delinquencies among the Lodging and Retail segments have declined significantly following the pandemic, delinquencies in the Office segment are increasing. This trend has caused many real estate investors to take note. Investors worry that economic softness as well as the increasingly "sticky" trend towards virtual and hybrid work could significantly impact future demand for office space

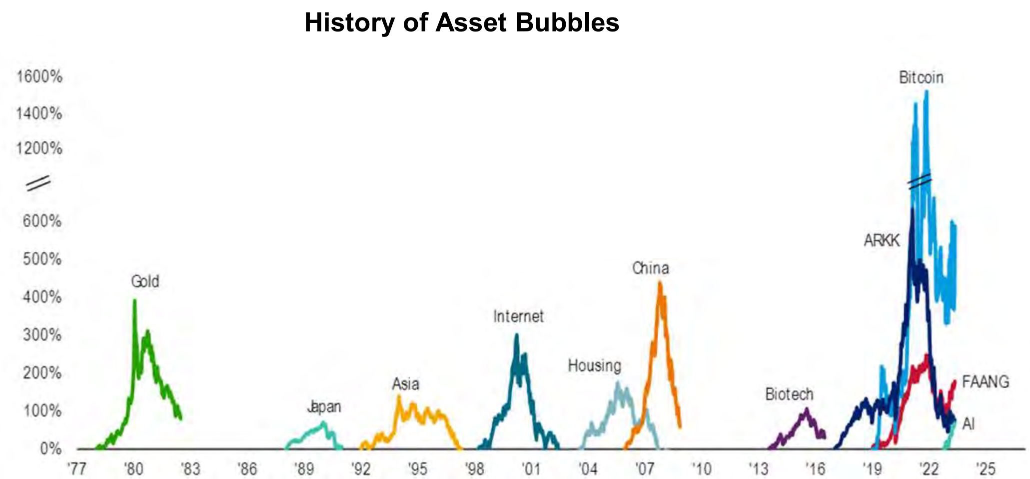
Delinquency Rate by Property Type
(%, 2016-2023)

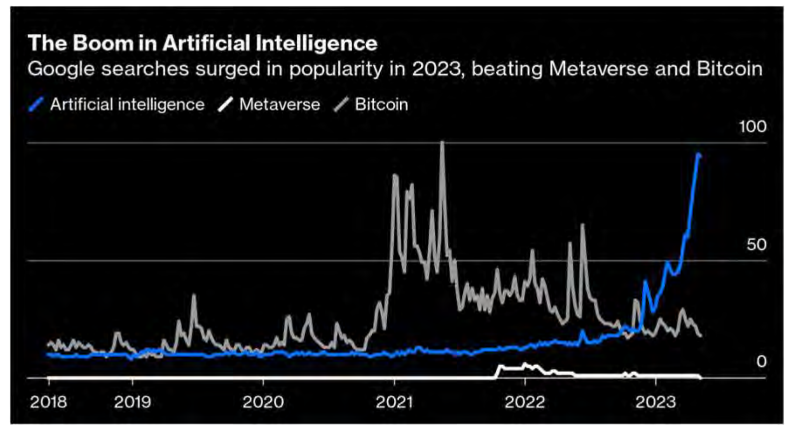


Source: Bloomberg, Standard & Poor's, ACG

Risks: Is Artificial Intelligence (“A.I.”) the Next Bubble?







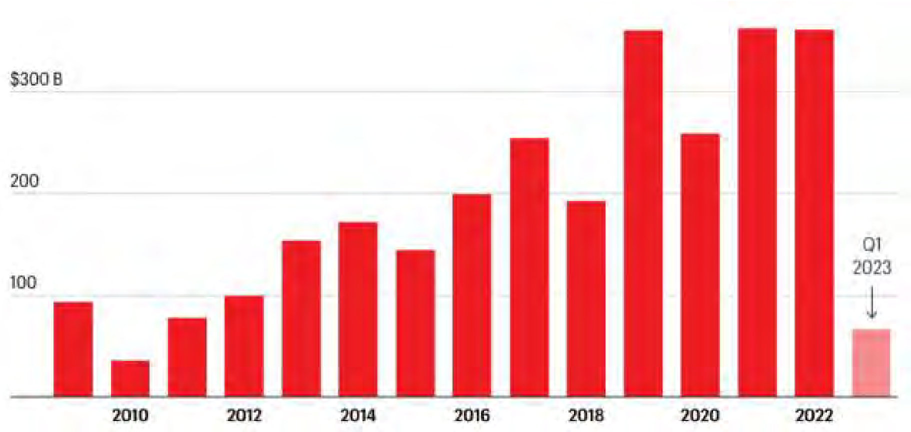
- Loosely defined, Artificial Intelligence (or “AI”) is “the science and engineering of making intelligent machines, especially intelligent computer programs,” according to a 2007 paper authored by John McCarthy, the computer scientist who coined the term and established the Stanford Artificial Intelligence Laboratory

- Michael Hartnett, investment strategist of Bank of America Corp., offers this comparison of the bubbles of the last half-century in terms of final percentage appreciation before peaking. Note that Bitcoin doesn’t even fit on the same chart as all the rest. AI, if it is indeed a bubble, is only just getting started.

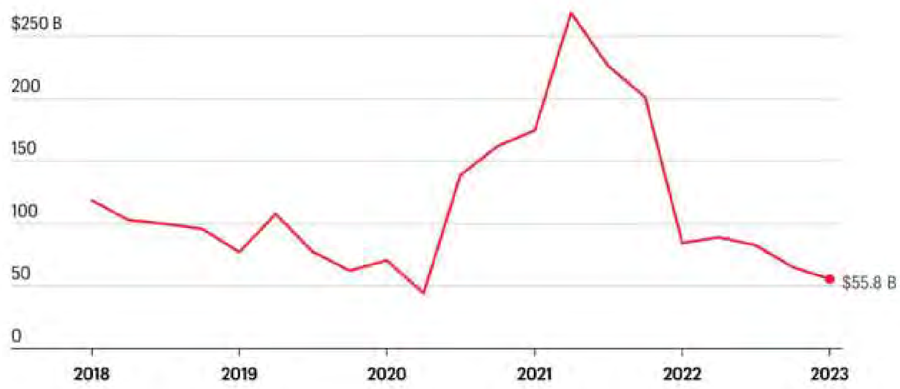
Source: UBS, Google Trends, Bank of America, ACG

Appendix: Private Markets Update

U.S. Private Equity Capital Raised
(By Year)



U.S. Private Equity Exit Values
(By Quarter)



- After multiple years of very strong capital raising for private market strategies (despite the COVID sell-off in 2020), thus far 2023 has seen a slow down in activity. Many of the funds that were in the market to raise capital in 2022 extended their final closes due to market volatility last year. In addition, many of newer strategies have been relatively slow to call recently committed capital

- Exit values, which tend to rise and fall broadly in tandem with public markets, declined as a result of the market volatility in 2022. IPOs, mergers, and other forms of exits declined during 2022 and have yet to rebound meaningfully. More mature private market investments are carefully managing their exit strategies while more recent vintages, that are in their acquisition phase, are likely to benefit from lower prices

Source: Pitchbook, ACG

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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).