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MARKET REVIEW

› 1st QUARTER 2023

EXECUTIVE SUMMARY

- Equity and fixed income asset classes produced positive returns for the quarter
- At a high level, inflation has reduced from 8.9% (year-over-year) last June to 6.0% (year-over-year) in February of this year
- After a year of rate tightening the Federal Reserve signaled during the March meeting that rate increases are coming to an end shortly

Quarterly Market Review

1st Quarter 2023

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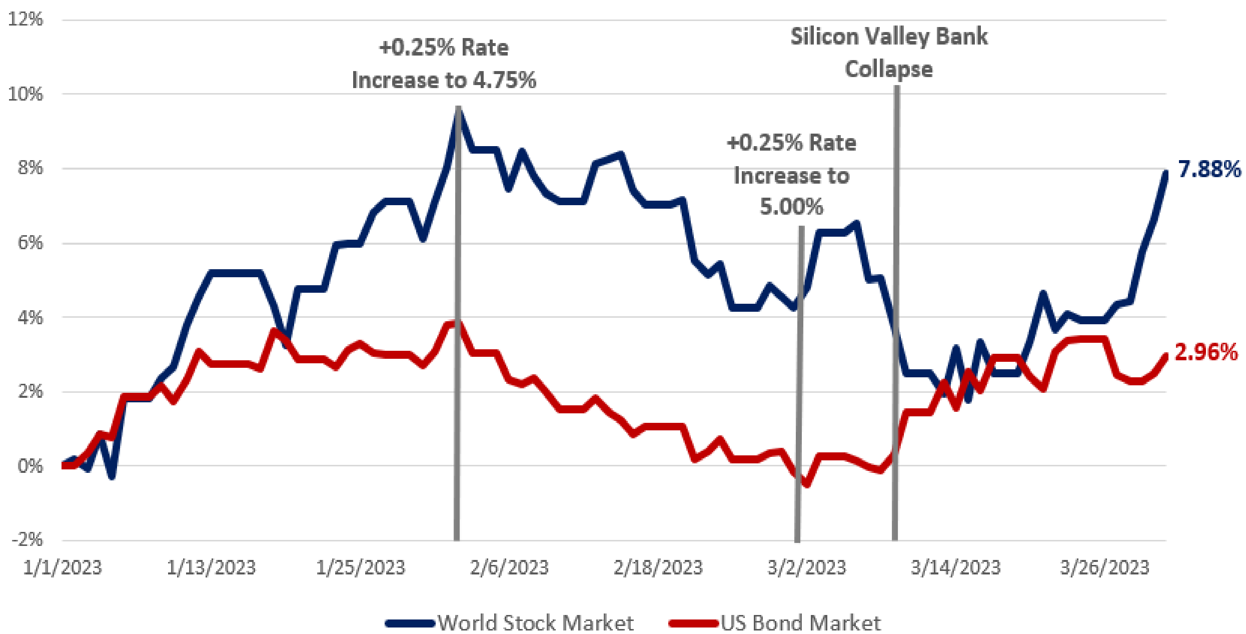
"Beware of the investment activity that produces applause; the great moves are usually greeted by yawns" – Warren Buffett

The US economy continued to prove more resilient than most anticipated in the first quarter of 2023 with stronger than anticipated economic data. However, a slight increase in inflation and a tight labor market stoked fears of elevated interest rates over a sustained period, resulting in a policy-induced recession. The failure of Silicon Valley Bank and a couple other regional banks contributed to additional market volatility and concerns regarding the overall US banking system. However, even with these unexpected headlines, most market sectors posted positive returns for the year thus far. The world stock market is up almost 8%, while still positioned with attractive valuations after last year's drawdown. Fixed income is also positive in 2023, with yields in the 4-6% range depending on the credit quality and maturity. If one only focused on the provocative headlines on the economy, banking, rating increases, Russia/Ukraine war – one would be surprised the market is having a good start to the year.



- **Overview:**
  - Q1 in Review
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  - Global Valuations
  - Quarterly Asset Class Market Summary
  - Long-Term Market Summary
  - World Asset Classes

QMR – Portfolio & Market Review

1st Quarter 2023

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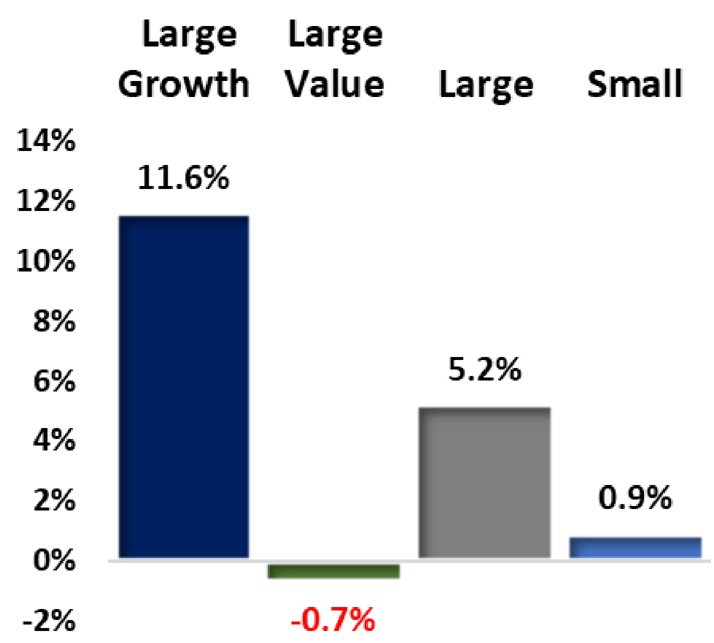
Stocks – After a strong performance in 2022 with value companies outperforming growth companies by 21%, growth has started the year strong. This is driven by investor expectations and what they're willing to pay for "future earnings", not necessarily a fundamental change in company earnings and dividends. Generally, growth companies' valuations fluctuate significantly in the "multiple" of earnings investors will pay – the start of 2023 was no exception. Growth company earnings outlook was projected to be flat, compared to modestly negative for value and small companies. Additionally, the decrease in expected rates compared to year end, also positively affected the price investors are willing to pay for growth companies.

Contribution to YTD Return	US Large Growth	US Large Value	US Large	US Small
Multiple	11.4%	0.8%	6.2%	6.2%
Earnings	-0.1%	-2.0%	-1.4%	-5.6%
Dividends	0.3%	0.5%	0.4%	0.3%
Return	11.6%	-0.7%	5.2%	0.9%



Fixed Income – During the first quarter of 2023, fixed income portfolios generally returned between 1-3% depending on the average term and credit quality. Similar to last year, the yield curve is still inverted with 6-month term government bonds yielding 4.8% compared to a 10-year government bond yielding 3.5%.

In the HFG fixed income portfolio, we're continuing to lean overall shorter-term and higher quality with a current yield in the 5.5% range.

Alternative Investments – Our alternative investment portfolio started the year reasonably strong. Reinsurance companies have dramatically increased their rates after the weather events from last year, which has provided a 5.2% return in Q1 and a strong outlook going forward. Private Real Estate is down 2.5% to start the year after a strong 2020-2022. Current real estate appraisals are reflecting moderately lower prices as they're incorporating the elevated cost to borrow money but are expected to pick up towards the second half of the year as rates are expected to peak, if not slightly decline. Private lending returned around 2% in the first quarter. With banks tightening their lending standards, we expect there to be a surplus of quality loans the private lending market can take advantage of.

QMR – Economic Update

1st Quarter 2023

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The US Banking System Appears Healthy – With the failure of Silicon Valley Bank (SVB) and a couple other regional banks, there has been increased worry about the health of the wider US banking system. While these failures are worrying, investors don't need to fear a 2008 financial crisis encore. The issues pertaining to SVB were unique to them with their customer base and mismanagement of their bank deposits. As illustrated below, bank capitalization ratios are very healthy, and significantly stronger than 2008. However, this volatility in banking will most likely have negative implications for the US economy as lending standards have tightened and will most likely continue to constrict.

Inflation is trending towards more manageable levels – Finally after several years of sizzling inflation, which contributed to the sharp increase in interest rates, an inflation downtrend appears to be sticking. At a high level, inflation has reduced from 8.9% (year-over-year) last June to 6.0% (year-over-year) in February of this year. However, if you look under the hood at the individual components of inflation that were most problematic (energy, commodity and general goods) have cooled down. Shelter inflation is still elevated, but this is primarily due to new rental transactions in the market stalling and producing a lagged reality of the data.

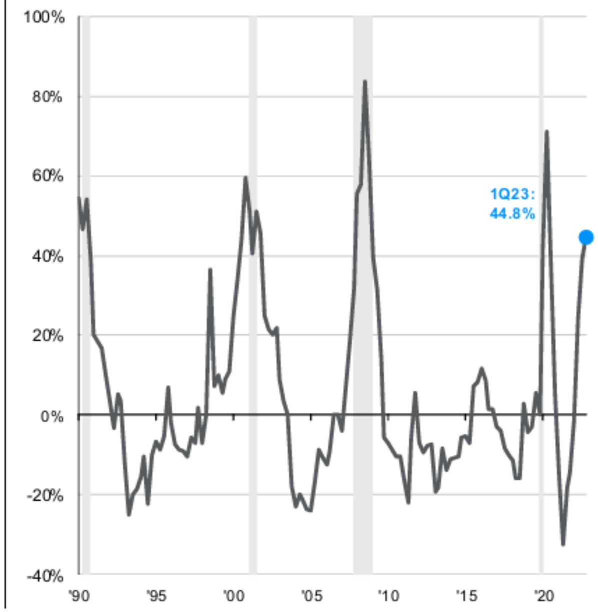
Rate tightening is nearing an end – After a year of aggressively increasing rates by 4.75%, the Federal Reserve signaled during the March meeting that rate increases are coming to an end shortly. Based on the "dot plot" the median expectation for the Federal Reserve member is that rates may increase 0.25% next meeting but fall modestly in 2024.

U.S. bank tier 1 capital ratio

Tier 1 capital as a % of risk-weighted assets

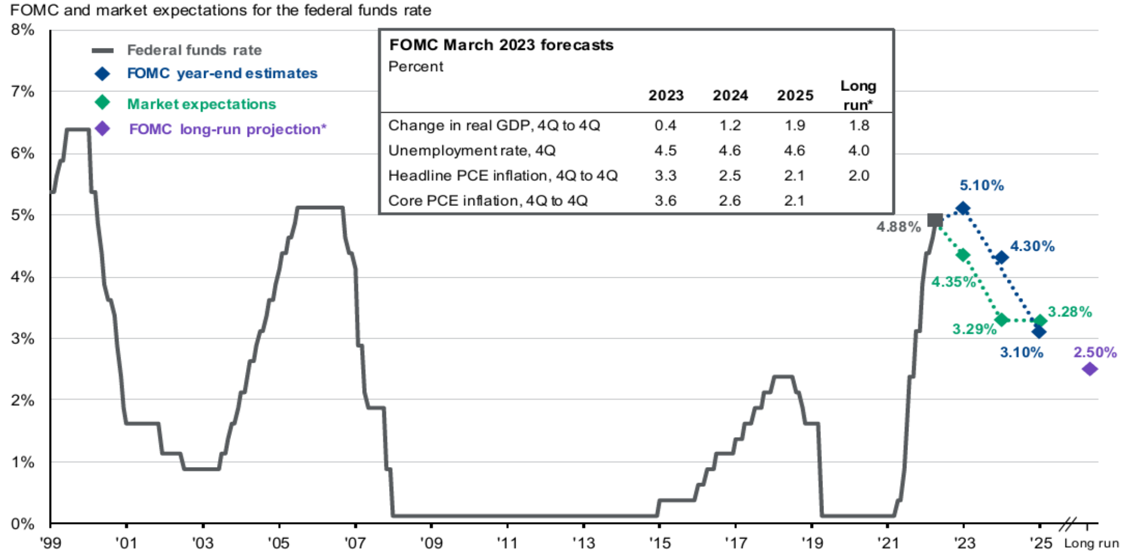
Net percentage of banks tightening lending standards

Commercial and industrial loans for large and middle-market firms



Federal funds rate expectations

FOMC and market expectations for the federal funds rate



FOMC March 2023 forecasts

Percent

	2023	2024	2025	Long run*
Change in real GDP, 4Q to 4Q	0.4	1.2	1.9	1.8
Unemployment rate, 4Q	4.5	4.6	4.6	4.0
Headline PCE inflation, 4Q to 4Q	3.3	2.5	2.1	2.0
Core PCE inflation, 4Q to 4Q	3.6	2.6	2.1	

JP Morgan, Q1 Guide to the Markets

QMR – Economic Update

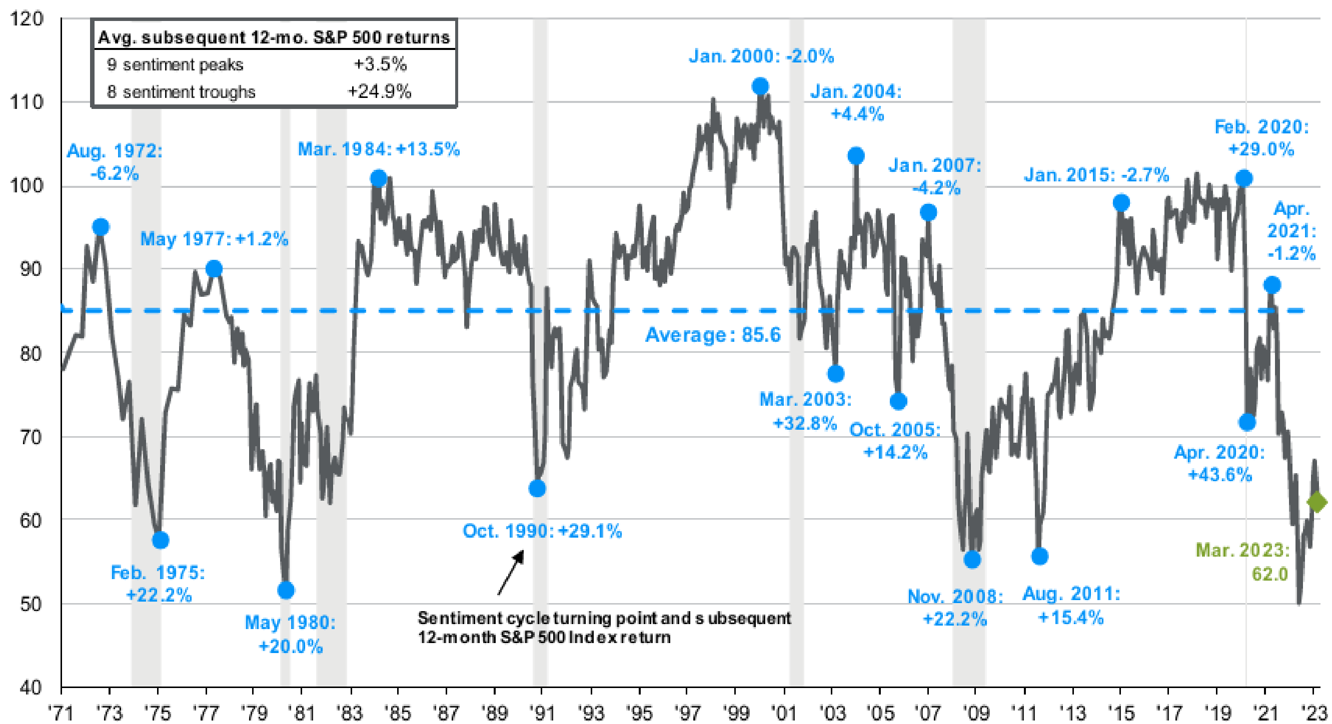
1st Quarter 2023

Shift away from trade in US Dollars? – Over the years there has been much discussion about "de-dollarization" or the trend of the US dollar moving away as the primary world currency for trade and the world reserve currency. This discussion was top of mind towards the end of March after China and Brazil struck a trade deal to settle trades between each other in yuan. While this is hardly the first time this has happened, it is still worth asking, is this the end of the dollar as the world reserve currency? We can't say no with certainty, but indications would say if this is the case, it's a long ways away. Though the US has many issues, it is still considered to have a strong rule of law within a democratic society and the worlds strongest military. Contrast this with Communist China, it still appears general trust would tilt towards the US. Additionally, though China doesn't explicitly "peg" the yuan to the US dollar, they very carefully manage the yuan exchange rate in relationship to the US dollar. De-dollarization is certainly a topic we're paying close attention to; however, it doesn't appear to be imminent especially considering the eligible contenders pundits are discussing as alternatives.

Don't let your viewpoint on the economy override how you feel about investing – Investment sentiment was at record lows in 2022 due to rising inflation, Russian's invasion of Ukraine, and significantly increased rates. Combine those mentioned issues with a banking crisis and slowing economy, it is only natural for investors to feel gloomy and concerned about the future. While our natural tendency is to sell riskier assets and move to safe investments, historically this has consistently been a mistake.

The illustration to the right show's consumer sentiment over the last 50 years with 9 peaks and 8 troughs, along with the amount the S&P 500 gained or lost the following 12 months afterwards. Historically, on average, if an investor invested at the peak they would have returned 3.5%, compared to buying at the trough which would have returned 24.9% the following 12 months. I'm not suggesting the following 12 months we should expect a 24.9% return, but investors should focus on their long-term investment horizon, and less on our day-to-day feelings about where the economy is headed.

Consumer Sentiment Index and subsequent 12-month S&P 500 returns



JP Morgan, Q1 Guide to the Markets

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q1 2023

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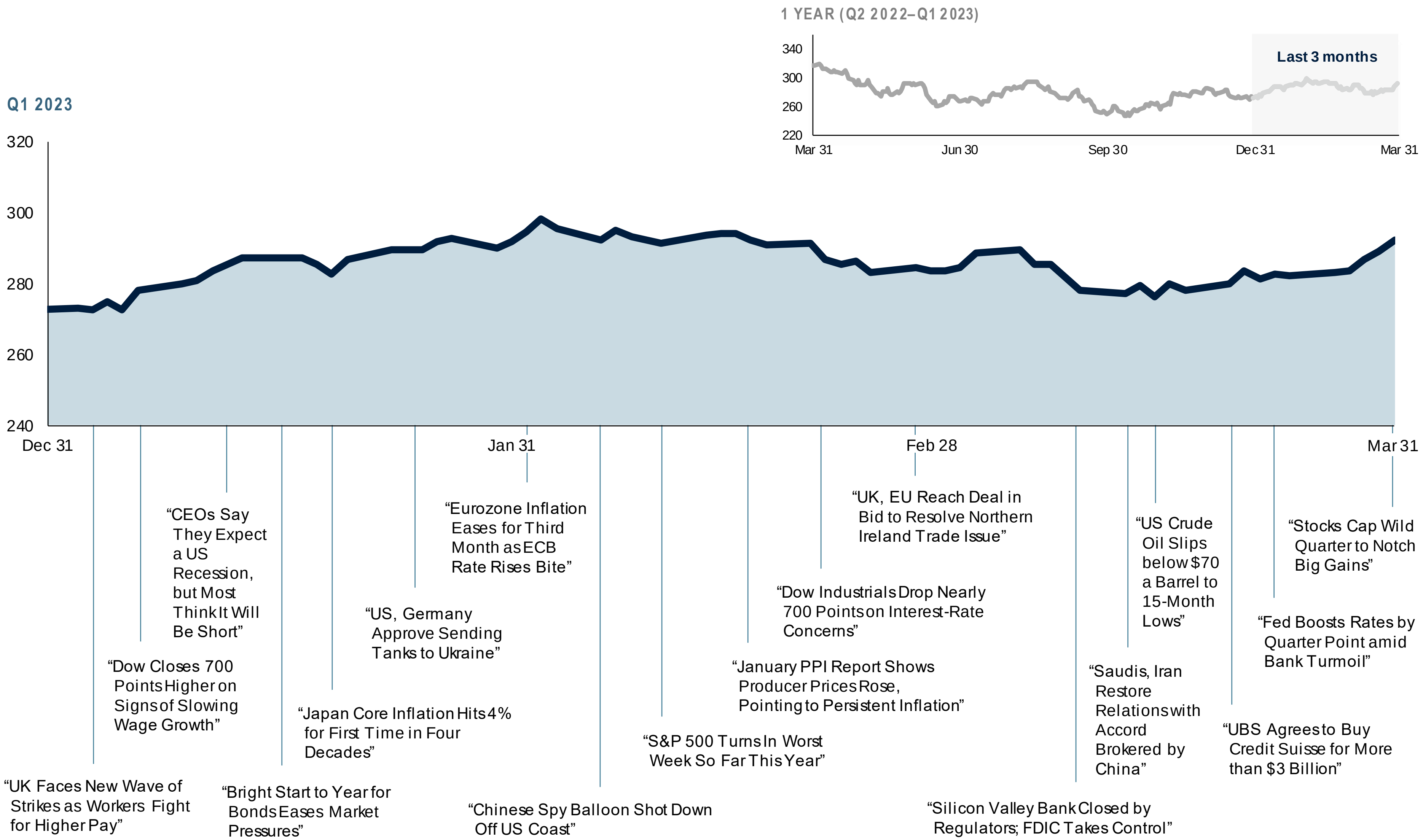


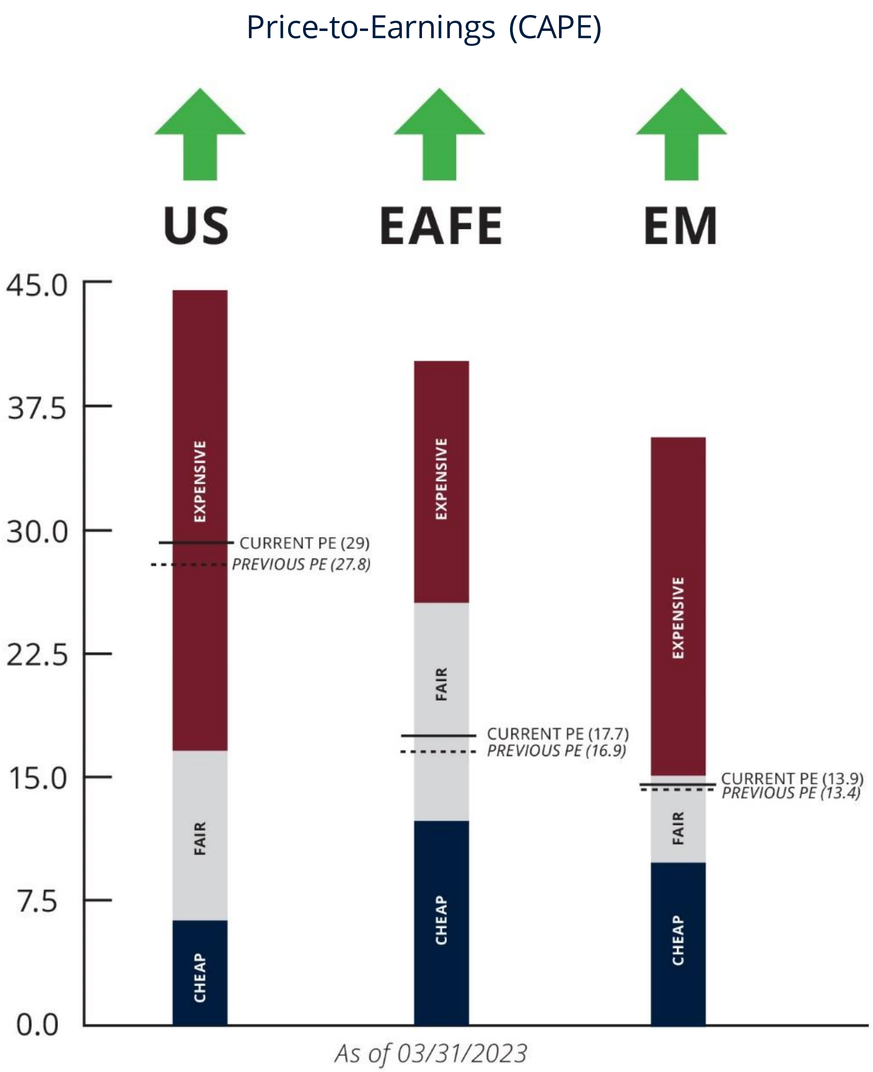
These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

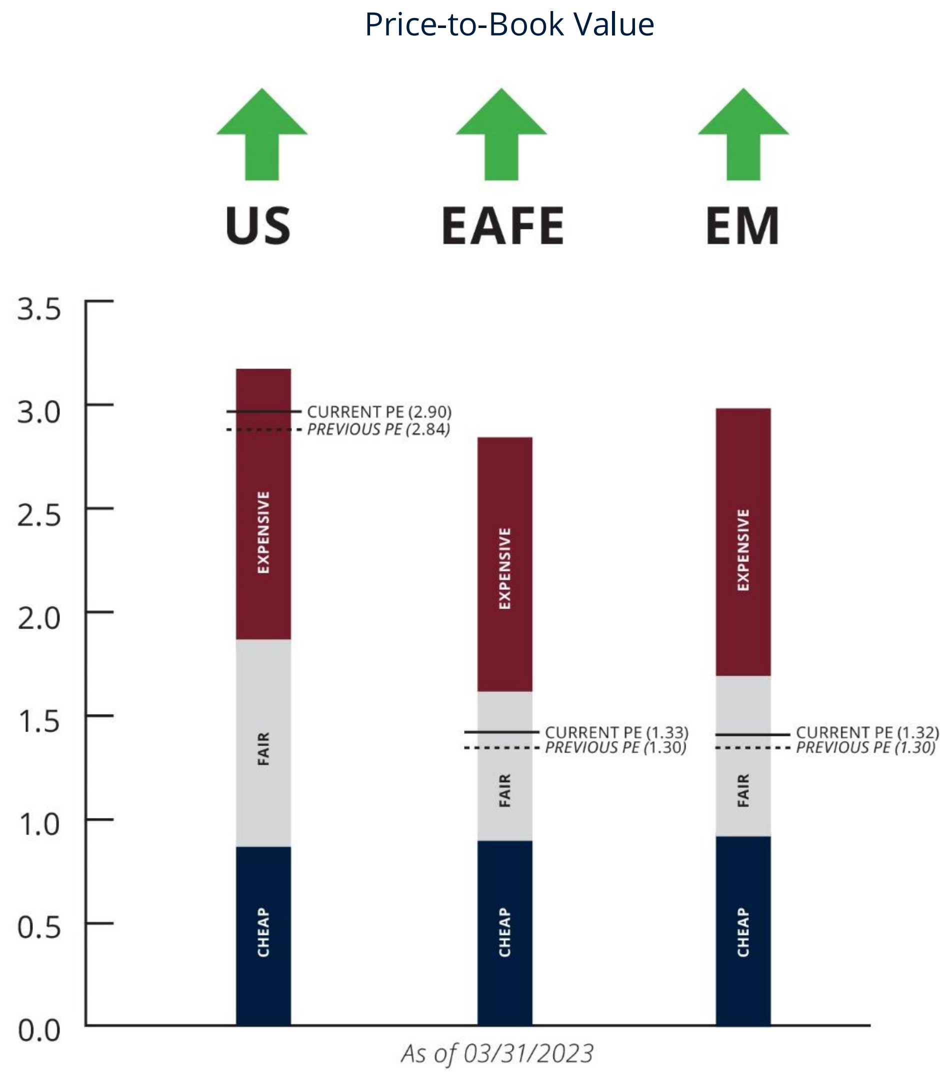
Graph Source: MSCI ACWI Index (net dividends). Index level based at 100 starting January 2000.

It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

Global Valuations

What is the Investment Climate?





Cyclically Adjusted Price-to-Earnings or "CAPE" is a valuation metric, where the current market price is divided by the last ten years of average earnings (adjusted for inflation). The price you pay is what you get, and by utilizing average earnings over a longer period(10 years), we can put into perspective whether the current market price is trending toward expensive, undervalued, or fairly valued historically.

Quarterly Market Summary

Index returns

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	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Q1 2023	STOCKS				BONDS	
	7.18%	8.02%	3.96%	1.37%	2.96%	2.86%
Since Jan. 2001						
Average Quarterly Return	2.2%	1.5%	2.5%	2.2%	0.9%	0.9%
Best Quarter	22.0%	25.9%	34.7%	32.3%	4.6%	4.6%
	2020 Q2	**2009 Q2**	**2009 Q2**	**2009 Q3**	**2001 Q3**	**2008 Q4**
Worst Quarter	-22.8%	-23.3%	-27.6%	-36.1%	-5.9%	-4.1%
	2008 Q4	**2020 Q1**	**2008 Q4**	**2008 Q4**	**2022 Q1**	**2022 Q1**

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.
Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net dividends]), Emerging Markets (MSCI Emerging Markets Index [net dividends]), Global Real Estate (S&P Global REIT Index [net dividends]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]).

Long-Term Market Summary

Index returns as of March 31, 2023

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
1 Year	STOCKS				BONDS	
	-8.58%	-2.74%	-10.70%	-20.29%	-4.78%	-3.27%
5 Years						
	10.45%	3.80%	-0.91%	2.41%	0.91%	0.90%
10 Years						
	11.73%	4.91%	2.00%	3.26%	1.36%	2.28%

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Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net dividends]), Emerging Markets (MSCI Emerging Markets Index [net dividends]), Global Real Estate (S&P Global REIT Index [net dividends]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bo nd Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]).

When Headlines Worry You, Bank on Investment Principles

On Friday, March 10, regulators took control of Silicon Valley Bank as a run on the bank unfolded. Two days later, regulators took control of a second lender, Signature Bank. With increasing anxiety, many investors are eyeing their portfolios for exposure to these and other regional banks.

Rather than rummaging through your portfolio looking for trouble when headlines make you anxious, turn instead to your investment plan. Hopefully, your plan is designed with your long-term goals in mind and is based on principles that you can stick with, given your personal risk tolerances. While every investor's plan is a bit different, ignoring headlines and focusing on the following time-tested principles may help you avoid making shortsighted missteps.

1. Uncertainty Is Unavoidable
Remember that uncertainty is nothing new and investing comes with risks. Consider the events of the last three years alone: a global pandemic, the Russian invasion of Ukraine, spiking inflation, and ongoing recession fears. In other words, it may have seemed as if there were plenty of reasons to panic. Despite these concerns, for the three years ending February 28, 2023, the Russell 3000 Index (a broad market-capitalization-weighted index of public US companies) returned an annualized 11.79%, slightly outpacing its average annualized returns of 11.65% since inception in January 1979. The past three years certainly make a case for weathering short-term ups and downs and sticking with your plan.

2. Market Timing Is Futile
Inevitably, when events turn bleak and headlines warn of worse to come, some investors' thoughts turn to market timing. The idea of using short-term strategies to avoid near-term pain without missing out on long-term gains is seductive, but research repeatedly demonstrates that timing strategies are not effective. The impact of miscalculating your timing strategy can far outweigh the perceived benefits.

3. "Diversification Is Your Buddy"
Nobel laureate Merton Miller famously used to say, "Diversification is your buddy." Thanks to financial innovations over the last century in the form of mutual funds, and later ETFs, most investors can access broadly diversified investment strategies at very low costs. While not all risks—including a systemic risk such as an economic recession—can be diversified away (see Principle 1 above), diversification is still an incredibly effective tool for reducing many risks investors face.

When Headlines Worry You, Bank on Investment Principles

In particular, diversification can reduce the potential pain caused by the poor performance of a single company, industry, or country.[1] As of February 28, Silicon Valley Bank (SIVB) represented just 0.04% of the Russell 3000, while regional banks represented approximately 1.70%.[2] For investors with globally diversified portfolios, exposure to SIVB and other US-based regional banks likely was significantly smaller. If buddying up with diversification is part of your investment plan, headline moments can help drive home the long-term benefits of your approach.

When the unexpected happens, many investors feel like they should be doing something with their portfolios. Often, headlines and pundits stoke these sentiments with predictions of more doom and gloom. For the long-term investor, however, planning for what can happen is far more powerful than trying to predict what will happen.

1. Consider that a study of single stock performance in the US from 1927 to 2020 illustrated that the survival of any given stock is far from guaranteed. The study found that on average for 20-year rolling periods, about 18% of US stocks went through a "bad" delisting. The authors note that delisting events can be "good" or "bad" depending on the experience for investors. For example, a stock delisting due to a merger would be a good delist, as the shareholders of that stock would be compensated during the acquisition. On the other hand, a firm that delists due to its deteriorating financial condition would be a bad delist since it is an adverse outcome for investors. Given these results, there is a good case to avoid concentrated exposure to a single company. Source: "Singled Out: Historical Performance of Individual Stocks" (Dimensional Fund Advisors, 2022).
2. Regional banks weight reflects the weight of the "Regional Banks" GICS Sub-Industry. GICS was developed by and is the exclusive property of MSCI and S&P Dow Jones Indices LLC, a division of S&P Global.