

MARKET REVIEW

› 2nd QUARTER 2023

▶ EXECUTIVE SUMMARY

- › In Q2, the stock market was positive, while the bond market provided mixed results.
- › Inflation is trending downward as it has reduced from a high of 8.9% in June of last year to 4.1% in May of this year.
- › The Federal Reserve did not increase rates during the June Fed meeting. However, they signaled additional rate increases may be prudent between now and year end.

Quarterly Market Review

2nd Quarter 2023



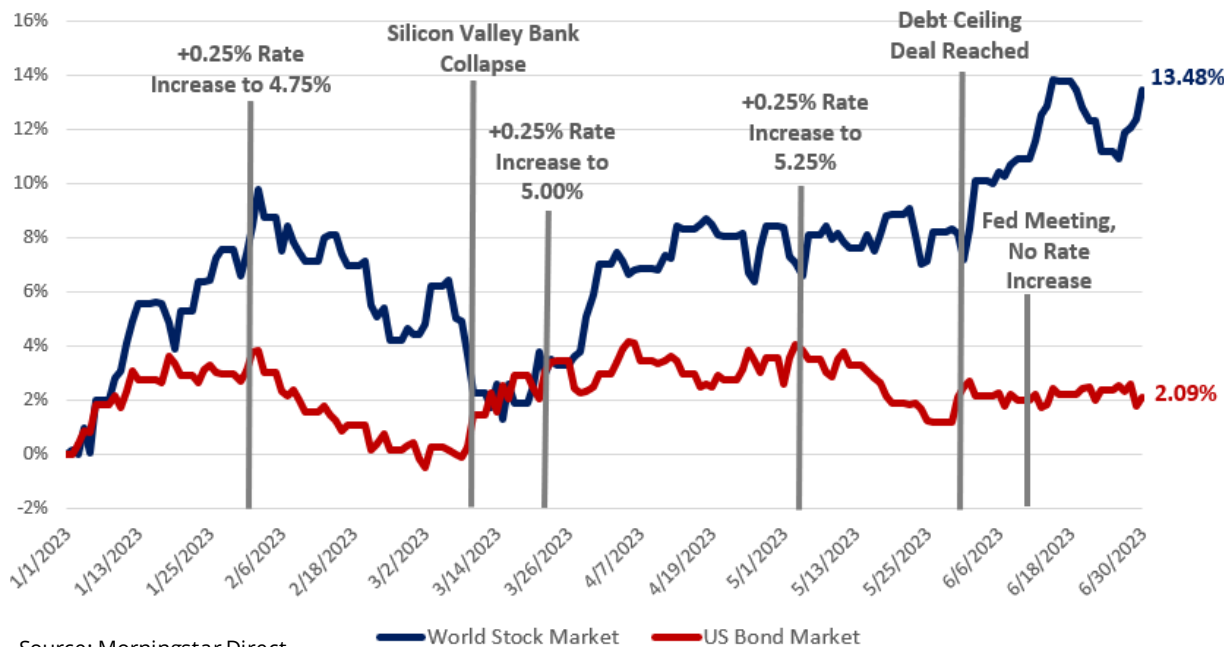
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Director of Investments

“More money has been lost trying to anticipate and protect from corrections than actually in them” – Peter Lynch

The stock market provided strong returns in the second quarter - building on the already positive returns from the first quarter. The majority of growth and positive consumer sentiment were driven by the resilience of the US economy, resolution of the debt ceiling, and slowing inflation.

Stocks - The global stock market clocked in a 6% return in the second quarter for a total return of 13.5% in 2023 thus far. Much of this growth is due to

excitement around the expected benefits of companies adopting artificial intelligence (AI) into their everyday business model. Most of this excitement, and strong investment returns, were narrowly focused on seven tech-focused companies (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla), which represent roughly a quarter of the value of the S&P 500. While these seven stocks returned on average 89% in 2023, the remaining stocks in the index averaged roughly 7.5%, with just under 40% of the companies posting negative returns for the year.



Source: Morningstar Direct

- Overview:
 - › Q2 in Review
 - › Portfolio & Market Review
 - › Economic Update
 - › Stock Market Performance
 - › Global Valuations
 - › Quarterly Asset Class Market Summary
 - › Long-Term Market Summary
 - › World Asset Classes

QMR – Portfolio & Market Review

2nd Quarter 2023

Stocks (Continued) – In years where a handful of stocks provide a large portion of the overall return, investors can second guess themselves for holding a diversified basket of companies. However, for example in 2022, these same seven stocks had a stomach-turning average return of **-46%** as investors were asking why they were holding these same stocks.

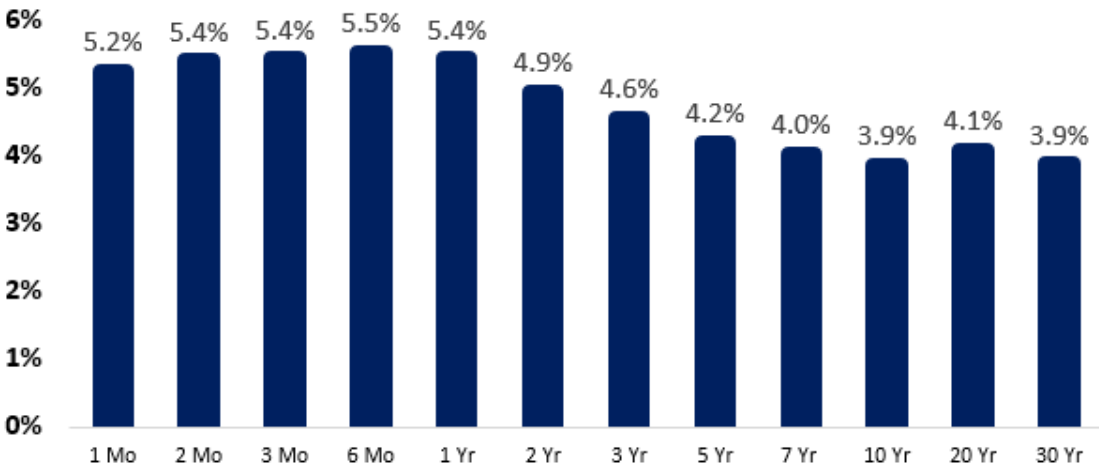
Bonds – The bond market provided mixed returns for the second quarter with returns generally ranging from -0.8% to +1.0%. However, all major bond indices remain positive for 2023 in the +1% to +3% range. The yield curve continues to be inverted with the peak yield of 5.53% at 6 months and a low at 10 years with a yield of 3.86%.

S&P 500 Index (6/30/2023)	S&P 500 Index Weighting	2023 YTD	2022 Return
Apple Inc	7.6%	49.6%	-26.3%
Microsoft Corp	6.7%	42.6%	-27.9%
Alphabet Inc	3.6%	35.7%	-39.1%
Amazon.com Inc	3.1%	55.2%	-49.6%
NVIDIA Corp	2.8%	189.5%	-50.3%
Tesla Inc	2.0%	112.5%	-65.0%
Meta Platforms Inc	1.7%	138.5%	-64.2%

Source: Morningstar Direct

Government Bond Yields

June 30, 2023



Source: www.statista.com/statistics/1058454/yield-curve-usa/

Alternatives – Private alternative investments have generally provided positive returns for the quarter and year depending on an investor’s allocation and asset class exposure. After a positive 2020-2022, private real estate has been repricing downward with a -6% return for 2023 primarily driven by increased interest rates. Lease rates are generally increasing and providing a more favorable cap rate to investors as leases roll over. Overall, vacancies in the properties are low with the majority of the vacancies focused on older buildings in less desirable locations. For example, 90% of all office building vacancies are concentrated in 30% of office buildings. Essentially all the office building investment in the portfolio are considered class A building quality and generally located in desirable business hubs.

Private lending and reinsurance have produced strong returns in 2023 thus far. Private lending returns have ranged between +4% and +5.5% year-to-date due to strong underwriting selection of borrowers and a robust pipeline of loans as traditional lending has slowed.

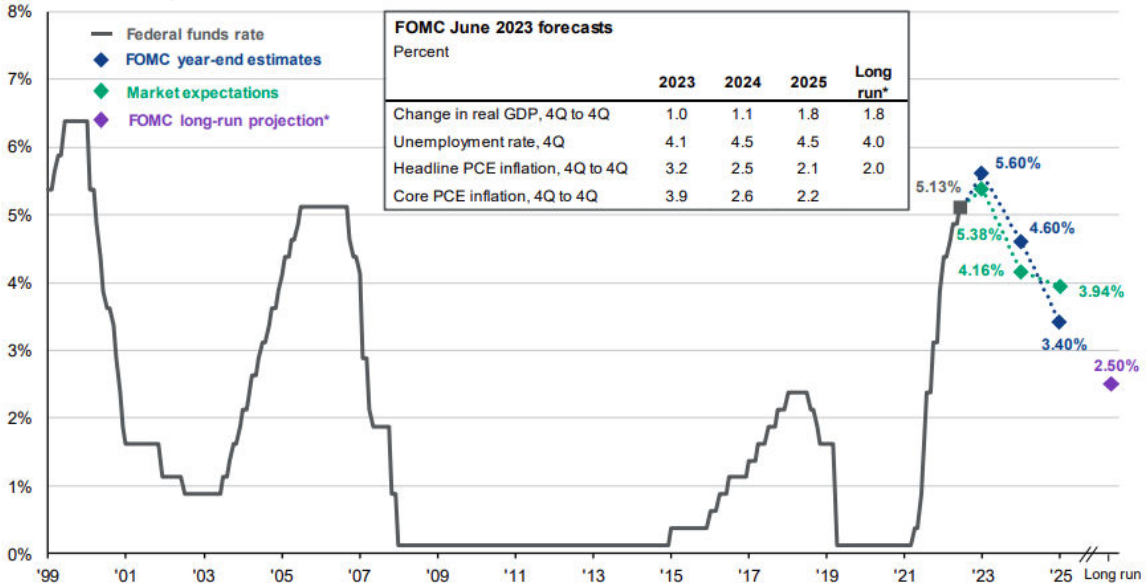
Reinsurance has continued its strong returns for the year, up 5.6% in the second quarter and 10.8% year-to-date. Generally, for reinsurance we’d expect an average annual return between 5% and 10%. The significant outperformance so far for this year has been driven by favorable repricing of claims from Hurricane Ian that were estimated last year, and reinsurance companies have significantly increased insurance premiums.

QMR – Economic Update

2nd Quarter 2023

Federal funds rate expectations

FOMC and market expectations for the federal funds rate



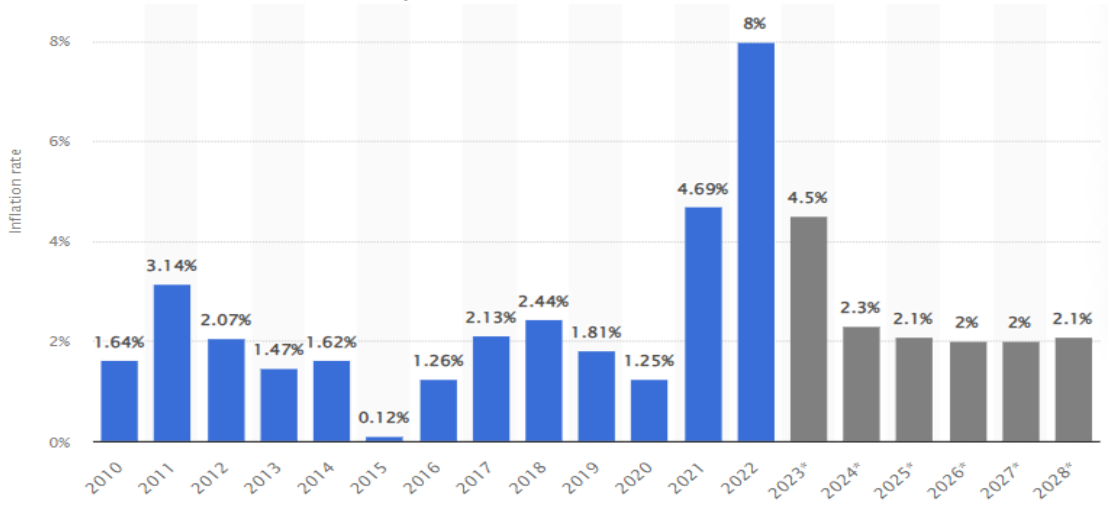
Source: JP Morgan, Q2 Guide to the Markets

Rates – The Federal reserve has hiked rates by a cumulative 5% since the beginning of 2022 in an effort to fight inflation. During the Fed’s June meeting, they voted for the first time since they began tightening to “pause” rates at 5.00% to 5.25%.

The “dot plot” provided by the Fed suggests this may have been a “skip” instead as the median FOMC member expects federal funds rates at year end to be 5.6%, suggesting two more rate hikes this year and no cuts until 2024. The more hawkish outlook by the Fed is due to the resiliency of the US economy with real GDP expectations increasing materially and the unemployment rate falling from 4.5% to 4.1%. The committee acknowledged in the June meeting that inflation is trending in the right direction, but cautioned they need additional evidence that inflation is under control before starting to cut rates.

Inflation – After two years of a seemingly endless money supply, resulting in high inflation and a dramatic increase in interest rates, inflation appears to be sustainably trending downward. Inflation peaked in June of last year at 8.9% and has trended downward to May’s inflation print of 4.1%. Much of this relief is due to energy commodities being down -20.4% year-over-year. Inflation is projected to average 4.5% over 2023, and level off to 2.3% in 2024 and 2.1% afterwards.

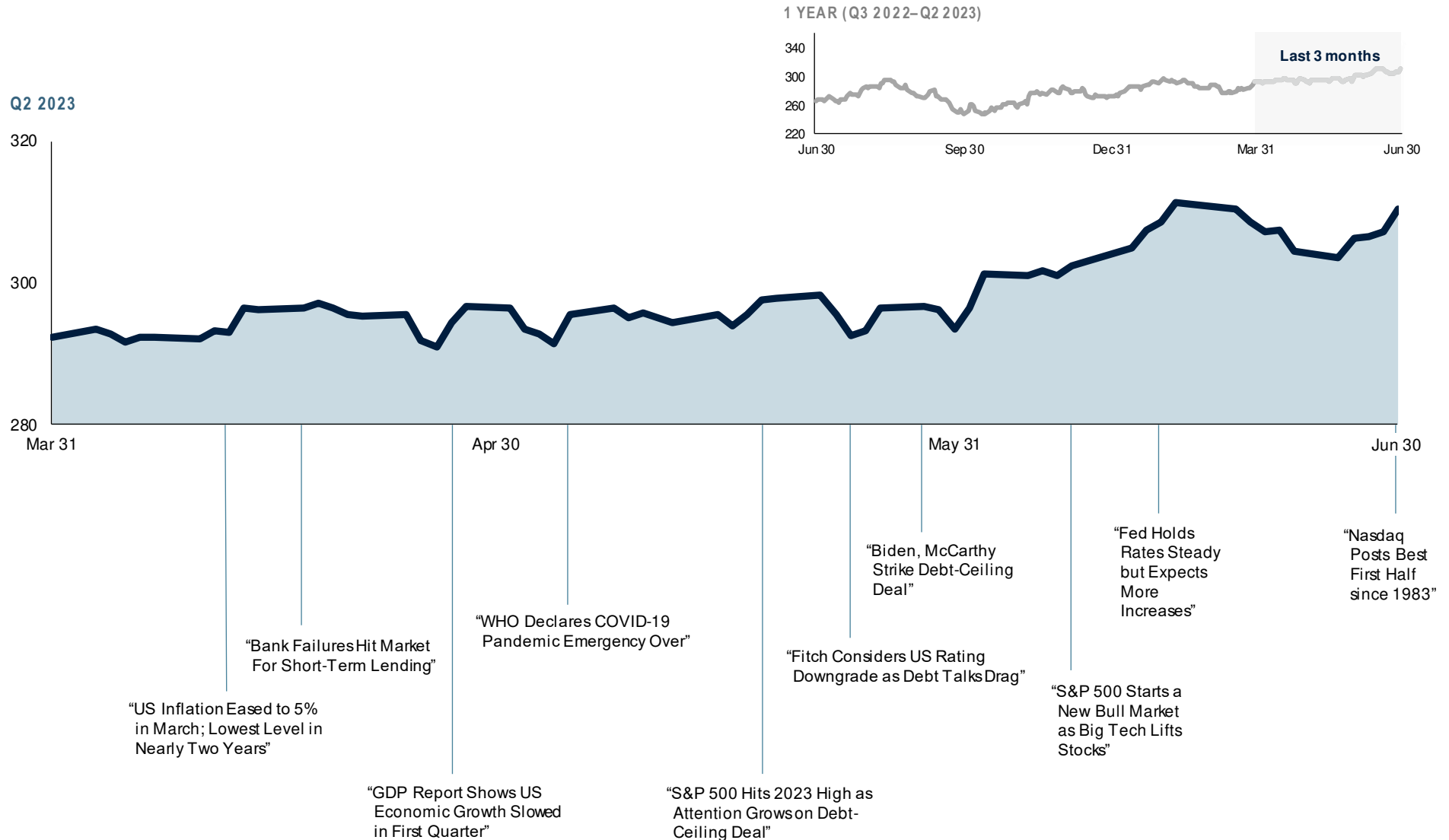
Historical & Projected US Inflation



Source: <https://www.statista.com/statistics/244983/projected-inflation-rate-in-the-united-states/>

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q2 2023



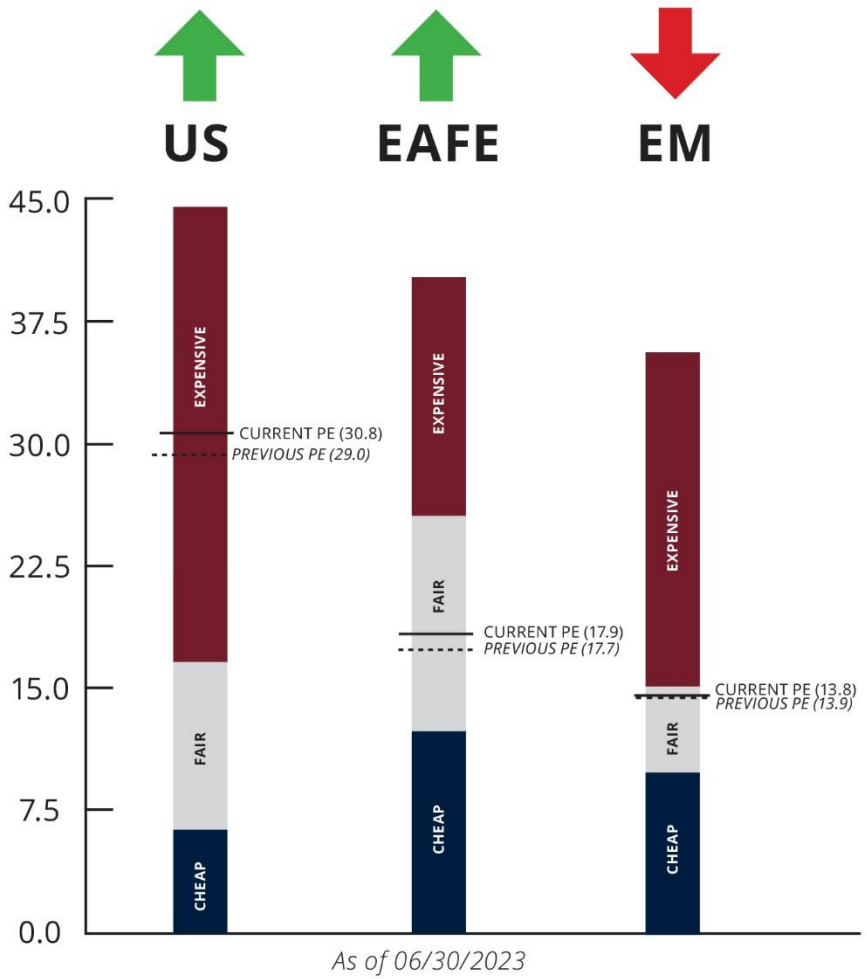
These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2023, all rights reserved. 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.**

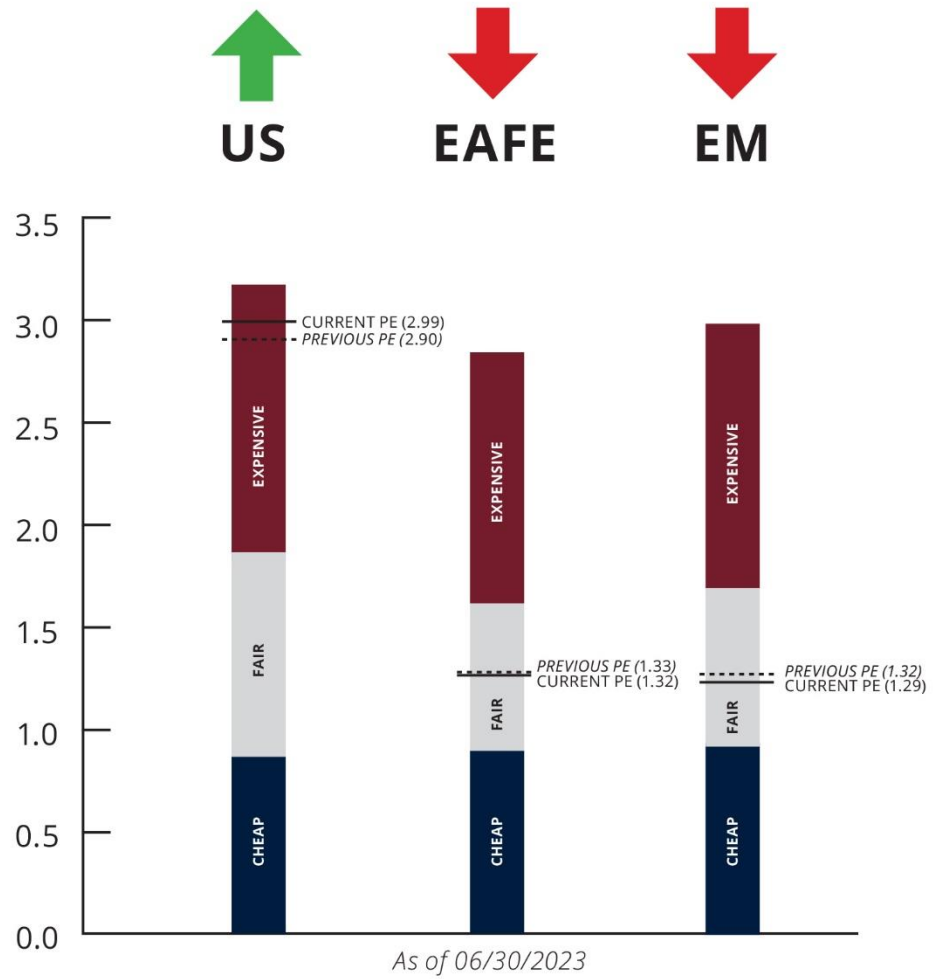
Global Valuations

What is the Investment Climate?

Price-to-Earnings (CAPE)









Price-to-Book Value



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

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Q2 2023	STOCKS				BONDS	
	8.39% 	3.03% 	0.90% 	0.71% 	-0.84% 	0.73% 



















Since Jan. 2001						
Average Quarterly Return	2.3%	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]). S&P data ©2023 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data ©MSCI 2023, all rights reserved. Bloomberg data provided by Bloomberg.

Long-Term Market Summary

Index returns as of June 30, 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	
	18.95%	17.41%	1.75%	-3.02%	-0.94%	1.51%
						
5 Years						
	11.39%	4.58%	0.93%	1.35%	0.77%	0.95%
						
10 Years						
	12.34%	5.40%	2.95%	3.80%	1.52%	2.48%
						

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Let the Compounding Commence!

David Booth, Executive Chairman and Founder, Dimensional Fund Advisors

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Every year, families and friends celebrate students who are graduating from colleges and universities. Parents beam with pride at their children's accomplishments and exhale in relief now that the tuition bills have finally stopped. It's a time when adults give a lot of advice, which is why I have one simple idea I want to pass along to this year's graduating class that I hope you never forget. Parents, take note too, because with college out of the way, you can get back to focusing on retirement.

Let the compounding begin!

In case you didn't come across this idea in an econ class, let me explain compounding simply. It's the process by which the value of an investment increases over time as earnings or interest are reinvested. It's the snowball effect but with money. Here's an example.

If you're a US investor and lucky enough to have up to \$35,000 left over in your 529 college savings plan, you can roll it over into a Roth IRA starting in 2024, provided the account has been open at least 15 years.¹

If you don't touch that \$35,000 for 50 years, and the market averages a 10% annualized return, which is close to its long-term historical average, then guess how much you'll have?²

- A. \$1,584,074
- B. \$2,551,167
- C. \$4,108,680

The answer is C. Over \$4.1 million!

If you were to start this in your mid-20s and invest that same initial amount for only 45 years, you'd end up with B, or \$2.6 million. That's great, but not as great as C.

If you do it for 40 years, you'll end up with A, or \$1.6 million. Also good, but, you know, not C.

1. Laura Saunders, "Your Child Picked a College! Tee Up Your 529 Plan," Wall Street Journal, May 5, 2023.

2. In US dollars. Based on S&P 500 Index annual returns, 1926-2022. S&P data © 2023 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.

Let the Compounding Commence!

Another benefit of compounding is that it can help you pursue financial goals along the way, like making a down payment on a home. But don't worry if you spent your whole college fund or took out student loans. Start with a little and get in the habit of adding when you can. As you can see from this snowballing, having a lot of time can help make up for not having a lot of money.

In addition to increasing the value of your investments, compounding can also be a valuable force in life. For example, you've made an investment in time and money over the last few years that may have an enormous effect on the rest of your life. How much money are we talking about? College graduates, on average, earn 84% more than those with a high-school education, and that adds up to an extra \$1.2 million over a lifetime.³ Parents, I hope you're feeling a little better about your investment too.

But it's more than just money. When you get to be like me, someone who graduated from college more than 50 years ago, you see that you are the result of the compounding of your life's decisions, both good and bad. It's hard to quantify exactly, but it's sure there. For example, in graduate school, I decided I didn't want to be a professor. That one decision continues to have a profound impact on the rest of my life. Instead, I started a company with the people I met in graduate school. Four decades later, I'm still working with some of them. I even got to go watch my former professor and current colleague Eugene Fama receive a Nobel Prize in Economic Sciences. That was not on my bingo card when I graduated from college. Life is full of surprises, and many of them can come from how your decisions compound over decades.

So, start rolling your snowball, both in life and in investing. Let the compounding commence!

- David Booth, Executive Chairman and Founder, Dimensional Fund Advisors

3. "How Does a College Degree Improve Graduates' Employment and Earnings Potential?", Association of Public and Land-Grant Universities.

Investments involve risks. The investment return and principal value of an investment may fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original value. Past performance is not a guarantee of future results. There is no guarantee strategies will be successful.