Capital Market Review

June 30, 2023

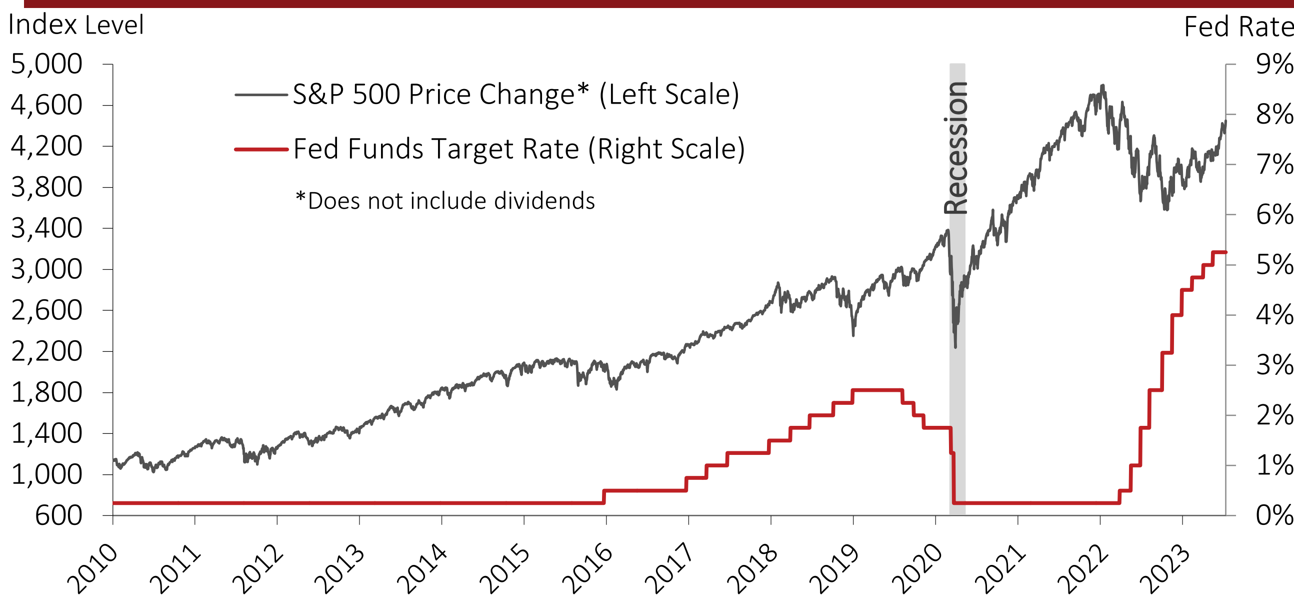


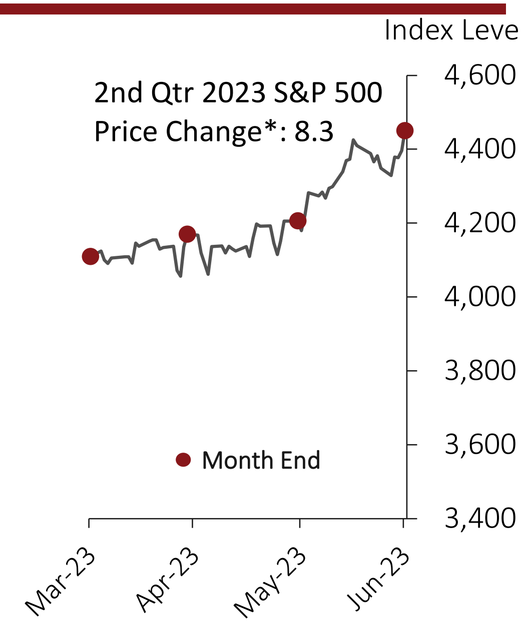

DeMarche

[Watch the Capital Marlets Review Key Takeaways Video]

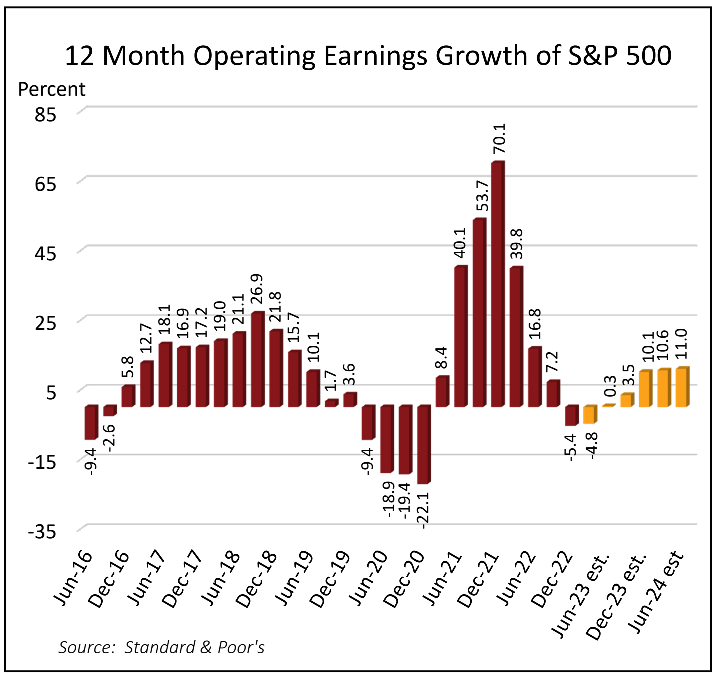
June 30, 2023

Will The Rally Continue?

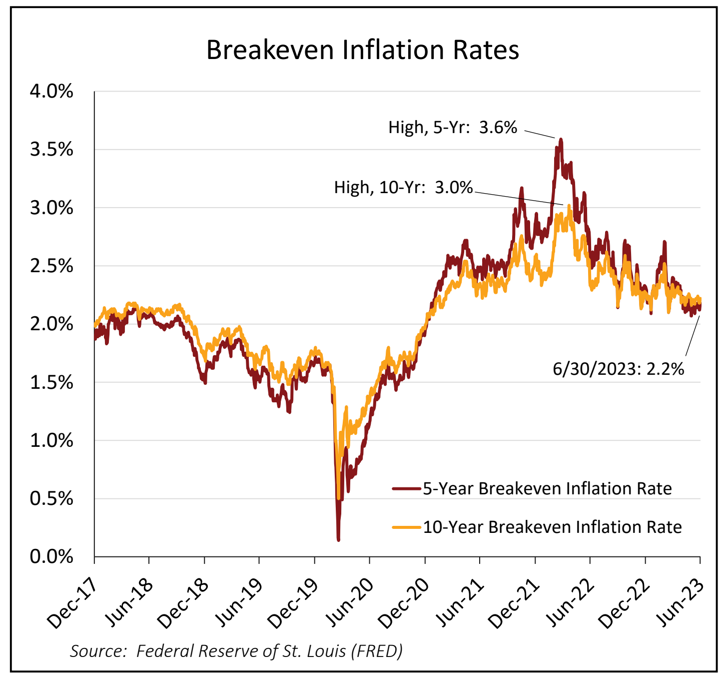




Source: Standard & Poor's, Federal Reserve



The Fed paused on hiking interest rates in June after raising rates in May. The market still expects the Fed to raise rates a couple of more times in 2023. However, with the year-over-year inflation rate slowing in 2023, markets advanced in the second quarter. Markets have now strung together three positive quarters in a row. The S&P 500's P/E ratio has expanded and accounts for most of the return for the quarter. The market expects earnings growth to be flat in 2023, suggesting that equity returns may be subdued for the remainder of the year.



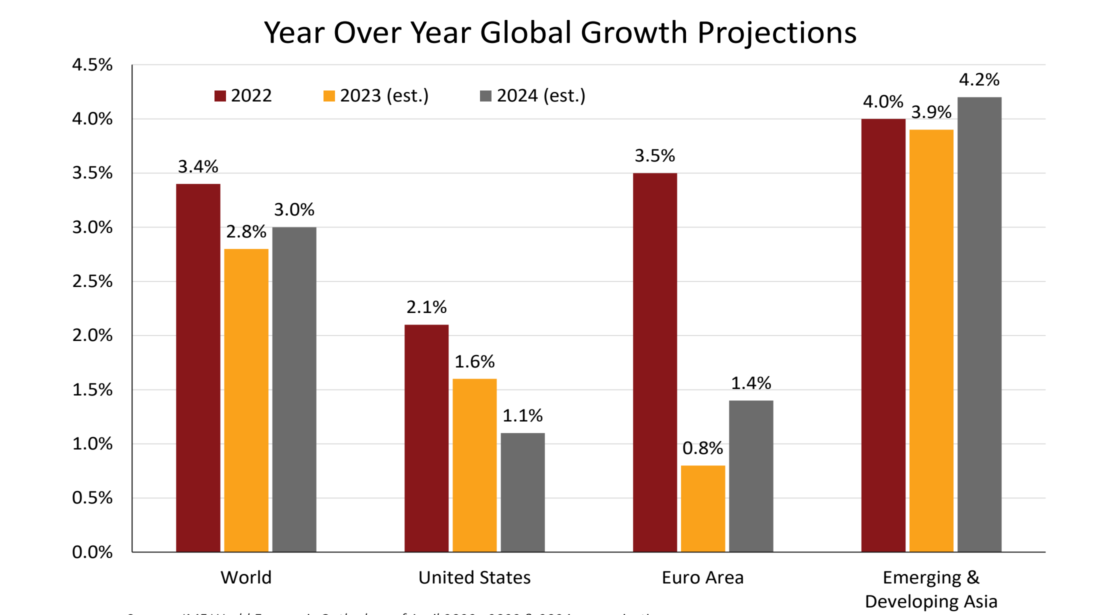
Broad Market Overview

INDEX	2nd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI World	6.8	15.1	18.5	12.2	9.1	9.5
Russell 3000	8.4	16.2	19.0	13.9	11.4	12.3
S&P 500	8.7	16.9	19.6	14.6	12.3	12.9
MSCI EAFE USD	3.0	11.7	18.8	8.9	4.4	5.4
MSCI Emerging Markets USD	0.9	4.9	1.7	2.3	0.9	3.0
Bloomberg Aggregate	-0.8	2.1	-0.9	-4.0	0.8	1.5
Bloomberg Global Aggregate	-1.5	1.4	-1.3	-5.0	-1.1	0.2
FTSE Non-US Gov't Bond	-2.1	1.5	-2.6	-7.8	-3.7	-1.4
NAREIT (Public RE)	1.6	3.1	-4.3	6.2	4.3	6.6
Bloomberg Commodity	-2.6	-7.8	-9.6	17.8	4.7	-1.0

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

U.S. Indicators Yr. Ending 6/30	2023	2022	2021	2020	50-YEAR Average
GDP Annual Growth Rate*	2.4	1.8	12.5	-8.4	2.6
Unemployment	3.6	3.6	5.9	11.1	6.2
Inflation (CPI)	3.0	9.1	5.4	0.6	3.9
10-Year Interest Rates	3.8	3.0	1.5	0.7	6.0

**Note: Prior to the GDP quarterly release from BEA, we show the annual GDP Growth rate from OECD weekly tracker as the most recent year.*



Source: IMF World Economic Outlook as of April 2023. 2023 & 2024 are projections.

- Markets continue the rebound from the dismal 2022 performance. This quarter, global markets advanced and the one-year performance for the developed markets was especially strong. Emerging markets have struggled as index heavyweight, China, has posted negative results for much of the past year.
- Bond yields finished the quarter higher than where they started. The 10 Year Treasury closed the first quarter at 3.49% and finished the second quarter at 3.82%, an increase of 33 basis points. This increase signals that the market expects the Fed to remain vigilant in fighting inflation. When bond yields increase, downward pressure is put on prices, resulting in negative bond returns for the quarter.
- The US dollar only modestly strengthened in the quarter. This action slightly reverses the dollar weakening trend of the past nine months. International stocks underperformed domestic stocks in the quarter but are on par for the past 12 months.
- The chart to the left shows the global growth projections of the US, the Euro Area and Emerging countries. The US is projected to slow its growth rate to about 1% for 2024. It seems that the risk of recession is moderating. However, as we have pointed out, the inverted yield curve suggests that the Fed will be cutting rates in the near future. Emerging countries and Europe are estimated to show a slight pickup in growth in the next few quarters.

DeFact

The labor market has been surprisingly resilient in the face of interest rate hikes. The participation rate for adults aged 25-54 has reached pre-pandemic levels. However, we are seeing cracks as older adults (over 55) have permanently left the workforce, layoffs are becoming more widespread and business surveys show that hiring plans are moderating. This suggests that job growth should continue to decelerate. ~FRED, DeMarche

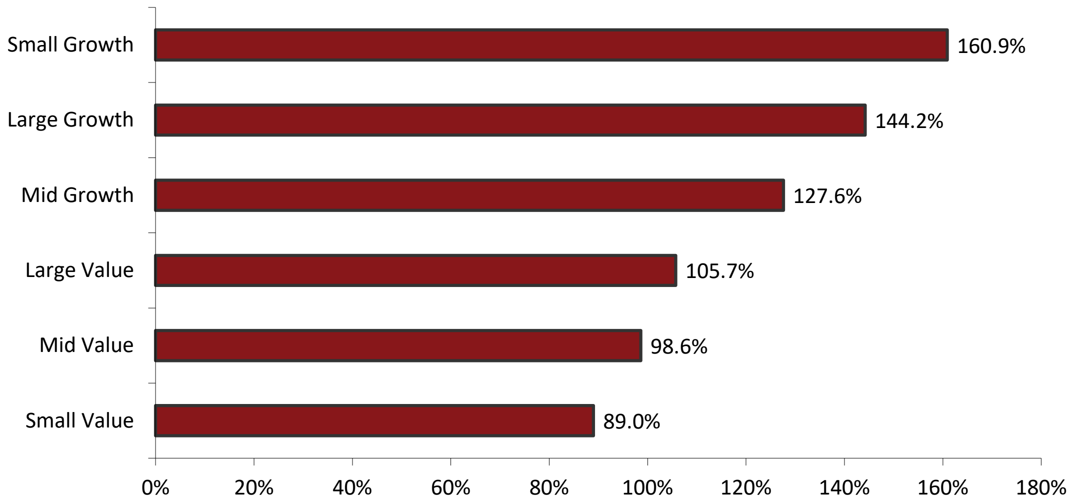
Domestic Equities

INDEX	2nd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
S&P 500	8.7	16.9	19.6	14.6	12.3	12.9
S&P Mid-Cap 400	4.9	8.8	17.6	15.4	7.8	10.2
S&P Small-Cap 600	3.4	6.0	9.8	15.2	5.2	9.8
Russell 1000	8.6	16.7	19.4	14.1	11.9	12.6
Russell 1000 Growth	12.8	29.0	27.1	13.7	15.1	15.7
Russell 1000 Value	4.1	5.1	11.5	14.3	8.1	9.2
Russell 2000	5.2	8.1	12.3	10.8	4.2	8.3
Russell 2000 Growth	7.1	13.6	18.5	6.1	4.2	8.8
Russell 2000 Value	3.2	2.5	6.0	15.4	3.5	7.3

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

Valuation By Asset Class

Current P/E as a Percent of the 20 Year Average P/E as of 6/30/2023



Source: JP Morgan, Russell, Forward P/E ratios calculated and provided by FactSet Market Aggregates

- Large cap growth stocks continue a very strong rebound from a poor 2022. Over the last two quarters, large cap growth stocks are outperforming value stocks and small cap stocks by a wide margin. We have seen this phenomenon happen time and again as the mega cap names, that were hit pretty hard a year ago, have proven to be durable.

- Small cap stocks moved higher during the quarter but lagged behind their large cap brethren. Growth stocks did better than value stocks in the quarter and, now having strung quarters together, have outperformed value by 12.5 percentage points in the past year.

- Small cap value stocks, impacted by larger weights in financials and energy, over 30% of the index, have lagged in performance for the last year. Growth companies from the information technology and industrials sectors, a 40% weight in the small cap growth index, outperformed the broad index this quarter.

- The chart to the left shows current P/E ratios compared to the 20-year average P/E ratio for large, mid, and small growth and value. Small cap value is relatively inexpensive compared to other equity styles and to its history. Growth stocks seem to be expensive. These data remind us that rebalancing and being diversified can improve return metrics as small value has been the best performer over the past three years.

DeFact

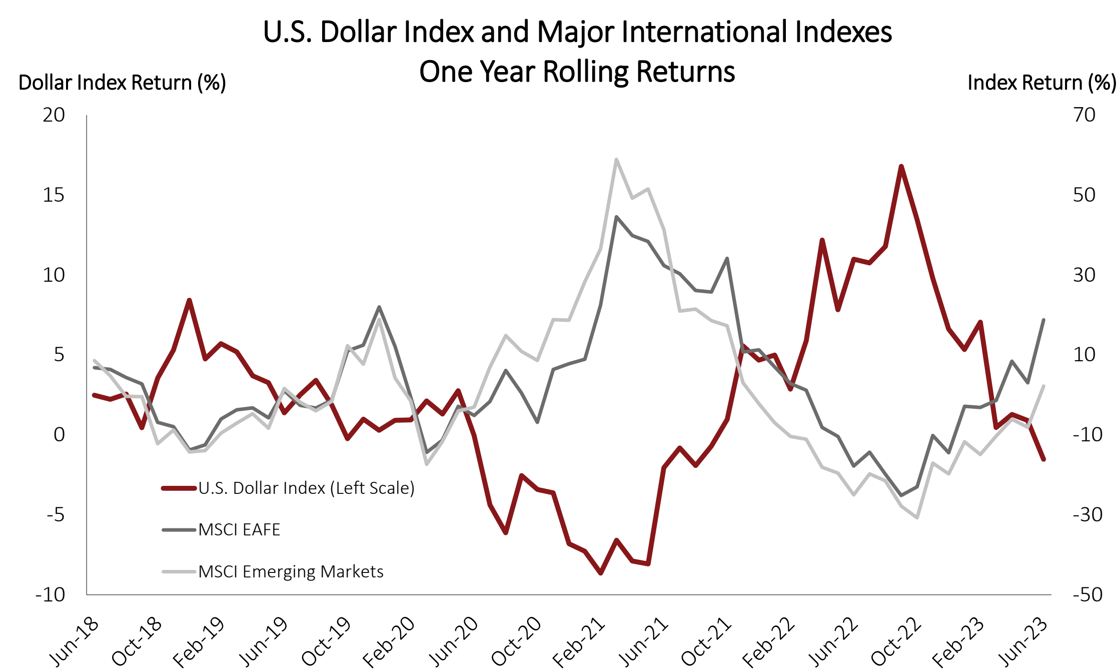
There is a new Sheriff in town, replacing FAANG; the "Magnificent Seven" or Microsoft, Apple, NVIDIA, Meta, Tesla, Amazon, Alphabet. All these names were down significantly in 2022, but have made major reversals so far in 2023. These seven large stocks made up 27.6% of the S&P 500's market cap at the end of the second quarter. NVIDIA led the pack with a return of over 52% for the quarter. ~DeMarche

International Equities

June 30, 2023

INDEX	2nd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI EAFE Local	4.3	12.1	17.5	11.7	6.4	7.7
MSCI EAFE USD	3.0	11.7	18.8	8.9	4.4	5.4
Growth	2.8	14.2	20.2	6.3	5.4	6.4
Value	3.2	9.3	17.4	11.3	2.9	4.1
MSCI All Country-ex US	2.4	9.5	12.7	7.2	3.5	4.7
MSCI AC Asia-ex Japan	-1.3	3.0	-1.1	1.2	0.9	4.5
MSCI Emerging Markets	0.9	4.9	1.7	2.3	0.9	3.0
MSCI EAFE Small Cap	0.6	5.5	10.2	5.7	1.3	6.2
MSCI Japan	6.4	13.0	18.1	5.7	3.1	5.2
MSCI China	-9.7	-5.5	-16.8	-10.3	-5.3	3.0
MSCI Germany	2.8	17.9	28.4	5.2	1.8	4.1
MSCI France	3.2	18.3	31.7	14.9	7.0	7.6
MSCI UK	2.2	8.4	13.2	12.6	2.8	3.9

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



Source: Federal Reserve, S&P, MSCI

- China's equity markets saw renewed selling in the second quarter as market participants digested key data showing business and manufacturing activity losing steam. It seems that the market is losing confidence in the "reopening" trade continuing to run its course. Other countries in the region performed well, posting double digit gains.

- International developed stocks have performed well over the past year, keeping pace with domestic stocks. However, in the past quarter, the index underperformed. Some of the underperformance has to do with the dollar strengthening slightly during the quarter. However, recent data (employment, manufacturing activity) suggests that overseas economies are experiencing slowing growth rates.

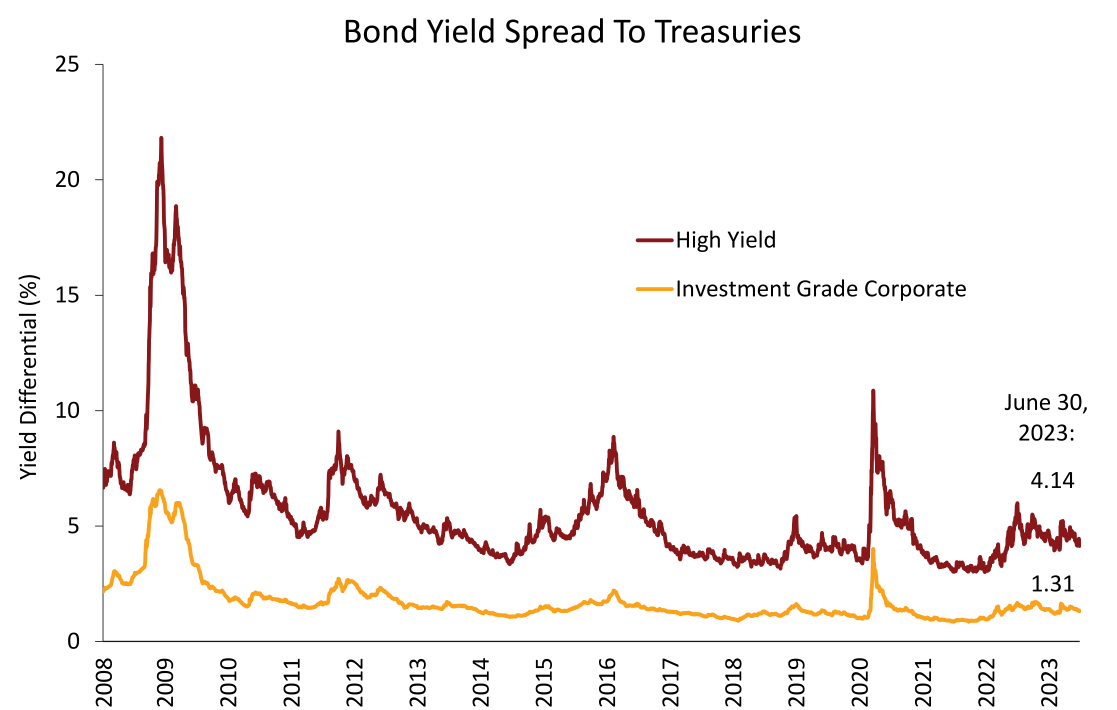
- The chart to the left shows the dollar weakened year over year from a period of strength in 2022. Tightening central bank policy and increasing interest rates bolstered the dollar versus other currencies in 2022. U.S. investors returns, translated into dollars, benefit from a tailwind when the dollar weakens.

DeFact

Not only is the Federal Reserve shrinking its balance sheet (by about 7%, so far), the European Central Bank is also paring back the size of its balance sheet. The ECB has nearly a 5 trillion euro bond portfolio and a large portfolio (2.2 trillion euros at its peak) directly lent to banks. The latter is shrinking fast as banks pay back loans. The former is expected to decline at about 28 billion euros a month due to maturing bonds. ~DWS Group

INDEX	2nd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
Bloomberg Aggregate	-0.8	2.1	-0.9	-4.0	0.8	1.5
Bloomberg 1-3 Gov Credit	-0.4	1.1	0.5	-0.9	1.1	1.0
Bloomberg Gov Credit Long	-1.3	4.4	-2.6	-8.6	0.7	2.9
Bloomberg US TIPS	-1.4	1.9	-1.4	-0.1	2.5	2.1
ICE BofA Merrill Lynch High Yield	1.6	5.3	8.9	3.2	3.2	4.3
CSFB Leveraged Loan (bank loans)	3.1	6.3	10.1	6.2	4.0	4.1
Bloomberg Global Aggregate	-1.5	1.4	-1.3	-5.0	-1.1	0.2
JPM EmgMkt Bd Glbl Dvrsfd (hard)	2.2	4.1	7.4	-3.1	0.6	2.8

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



Source: FRED, ICE BofA US High Yield Index Option-Adjusted Spread and ICE BofA Corporate Index Option-Adjusted Spread

- Lower credit quality fixed income, high yield and bank loans, proved to earn enough yield to offset the negative price pressure of slightly higher interest rates. Yield spreads to Treasuries have remained in a trading range for a number of months.
- The higher yields from emerging market debt also provide a cushion against slightly higher interest rates. Emerging market debt suffered through a poor 2022, and rebounded from its low point a year ago.
- Investment grade corporates and Treasuries posted negative returns for the quarter. Yields have improved over the past 12 months but not yet enough to offset the downward price pressure from slightly increasing rates in the quarter.
- The chart to the left shows credit spreads to Treasuries for both investment grade bonds and high yield bonds. Spreads widen during times of economic and market stress. In the face of rising rates, spreads have widened some but are still below the longer term average of 5.63 and 1.74 percentage points, respectively.

DeFact

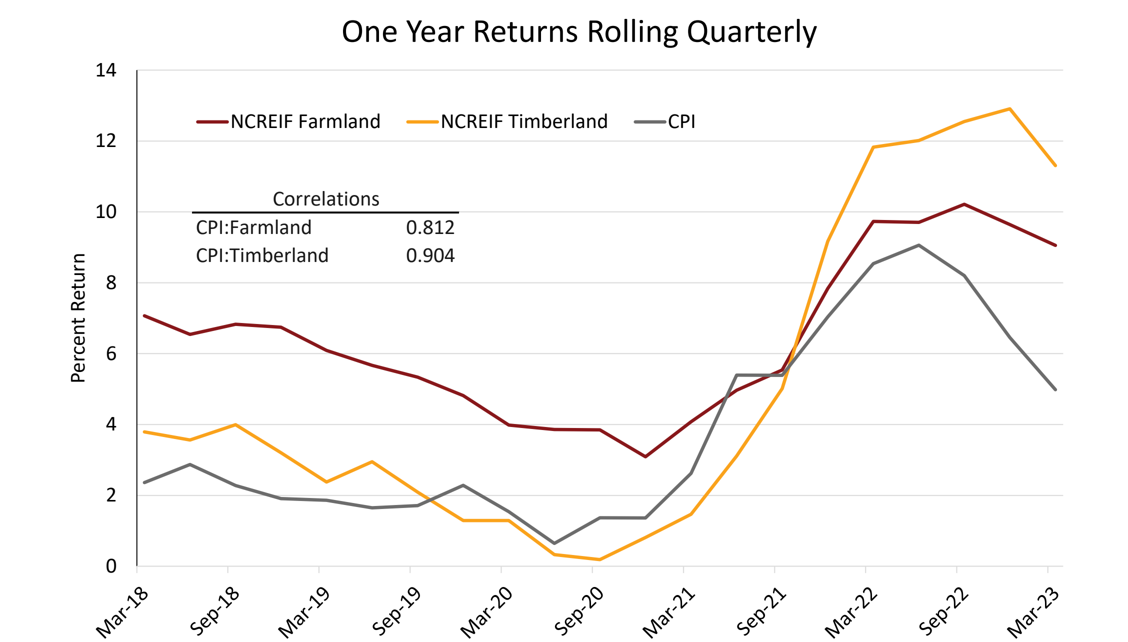
The Treasury curve inverted in the middle of 2022 and continued to invert until it reached a point in early March where the Ten Year Treasury was yielding over 100 basis points less than the Two Year Treasury. The spread quickly narrowed as some banks failed and the fear of bank runs loomed. However, in June, the spread widened back out to where the Two Year note was yielding over 100 basis points more than the Ten Year note as markets digested economic data. ~DeMarche

Less Liquid Strategies – Lagged One Quarter

June 30, 2023

INDEX	Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
NCREIF ODCE	-3.2	-3.2	-3.1	8.4	7.5	9.5
NCREIF Property (Private RE)	-1.8	-1.8	-1.6	7.2	6.7	8.3
Apartment	-2.1	-2.1	-0.4	8.2	7.1	8.1
Industrial	-0.8	-0.8	2.4	21.1	18.0	15.6
Office	-4.1	-4.1	-8.7	-0.4	2.3	5.7
Retail	0.5	0.5	1.0	0.5	0.6	5.4
NCREIF Timberland	1.8	1.8	11.3	8.1	5.5	5.8
NCREIF Farmland	2.1	2.1	9.1	7.6	6.6	8.5
HFR FOF Composite	0.7	0.7	-1.9	7.2	3.1	3.2
Conservative	1.0	1.0	0.9	7.7	3.9	3.5
Diversified	0.6	0.6	-1.0	7.3	3.6	3.4
Strategic	1.3	1.3	-4.8	7.3	2.3	3.1
Preqin Private Equity	1.5	1.5	-2.5	22.2	15.9	15.1
Preqin Private Debt	1.1	1.1	3.8	13.5	8.3	8.5
Preqin Infrastructure	2.0	2.0	10.3	14.7	11.9	11.1

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

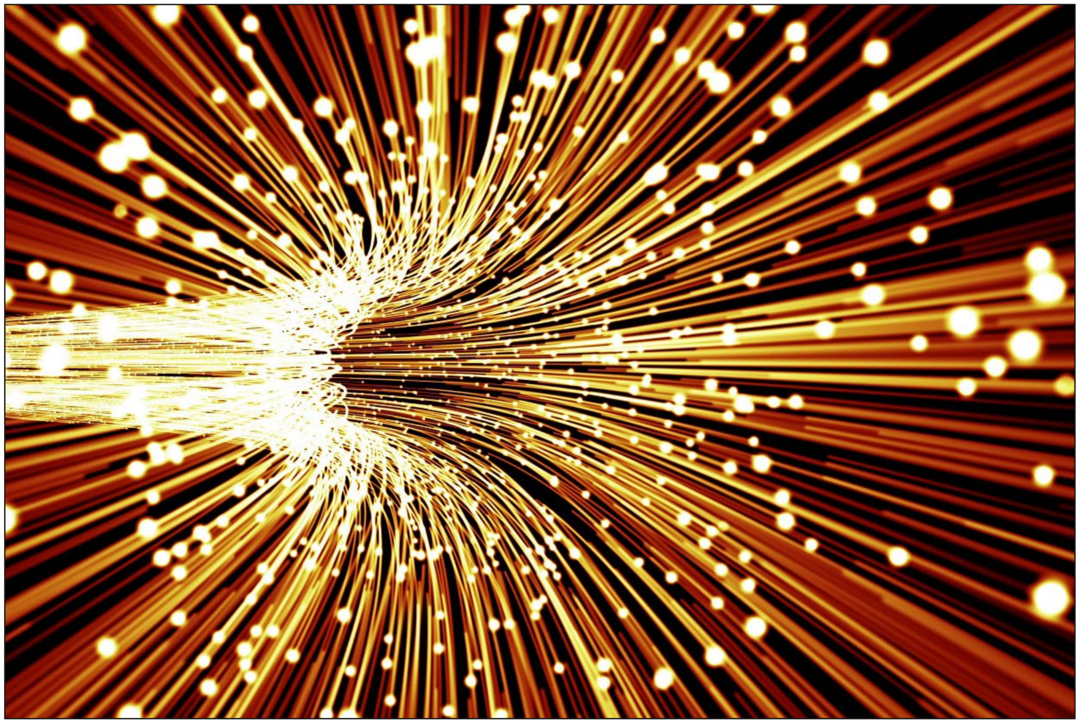


Source: DeMarche, NCREIF, Morningstar

- Real estate continues to reprice downward in the face of higher interest rates. Over the past year, real estate has posted a negative return. Over the longer term, real estate prices have proven to be resilient and provide diversification to portfolios.
- Private real assets have performed well during this time of inflationary pressures. Timber and farmland have advanced in price over the past year. Over the longer term these asset classes have provided more moderate returns.
- Private equity and debt also provide diversification to public market portfolios over the longer run. However, you are beginning to see that private market returns tend to lag public market returns in rebound quarters.
- The chart shows the value of adding private real assets to portfolios. In this case, the returns of real assets move in kind with changes in inflation. Adding said assets to a portfolio will cushion portfolios against inflationary pressures.

DeFact

Over $160 billion in infrastructure capital was raised in 2022, an increase of 30% from the previous record in 2021. Fundraising in 2023 has started slowly. Aggregate capital raised in the first quarter of 2023 stood at a mere 9% of the quarterly average of the last five years. 77% of first quarter deals were in conventional and renewable energy. Analysts project fundraising to pick up pace in the second half of 2023. ~Preqin



40th Annual DeMarche Client and Investor Conference

Back to the Future

September 13 - 15, 2023

Hotel Kansas City
1228 Baltimore Avenue
Kansas City, MO 64105

Scan to register

You're invited to the 40th Annual DeMarche Client and Investor Conference in Kansas City from September 13-15.

This year's theme is **Back to the Future**. But we're not talking about flying DeLoreans and wacky scientists. We're talking about the here and now – an economic and market environment that's very different from where we were just a few years ago. Yet it reminds us a great deal of a past we thought we knew how to navigate. It's an environment where we must again maneuver through inflation, sharply higher interest rates, and pressure on real wages, corporate profits, and the banking system.

The 2023 Conference will feature keynote speaker Christopher Leonard, New York Times bestselling business journalist. His latest book is *The Lords of Easy Money*, which tells the riveting tale of how quantitative easing is imperiling the American economy through the story of the one man who tried to warn us.

During the conference, our trip back to the future will:

- Reveal the anticipated impact from the Fed's interest rate and quantitative policies over the past 15 years
- Explore the vast performance and valuation gap among cap size, style, and world stock indexes
- View new opportunities for yield, growth, and diversification, striving for better policies and stronger portfolios
- Discuss older tools and their place in future uses such as for duration, spread, and risk management

Join us to prepare for the key decisions and important actions that reveal themselves for your organization's own investment priorities.