

January 2023

Demarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for the Period Ended 1/31/2023

Global Overview

Most asset classes rebounded during the month of January despite continued global economic uncertainty that is linked to inflation and quantitative tightening policy in various countries. Equity markets rallied, reporting gains in high single digits due to improved sentiment in the US and Europe, as well as a strong economic recovery in China the preceding month. The global economy fared better than expected during the fourth quarter as most countries reported GDP growth above expectations. The positive GDP reports combined with improving sentiment helped the MSCI World Index to gain 7.1% and the S&P 500 Index to report a 6.3% return during January.

U.S. Markets & Economy

Domestic markets began the new year with strong returns across all broad asset classes, with the exception of commodities, which lost 0.5% in the month. Although earnings and earnings expectations continue to decline, the January market outlook and sentiment were resilient as consumer confidence increased from 59.7 to 64.9. In addition, both manufacturing PMI and service PMI made strides over the prior month as service PMI increased from 44.7 to 46.8 and manufacturing increased from 46.2 to 46.9. Despite layoffs at big technology firms, unemployment fell to 3.4% in January from 3.5% in December as the steady, low unemployment rates aided consumer sentiment. Overall market gains can further be accredited to the market anticipating rate cuts as early as July. Nevertheless, the rate hiking cycle, although slowing, is not over yet as there is another 25 basis point hike anticipated in February. Although banks and the financial sector took a hit due to lower-than-expected earnings, the S&P 500 still returned 6.3% (but is still down 8.2% over the past year). This represented a more mellow return for January than other indices like the NASDAQ Composite returning 10.7% (which historically holds a greater portion of tech stocks) largely due to the recovery in the technology sector. Despite these market gains, the outlook for businesses was not as positive as the total number of businesses closing is on the rise, which was naturally followed by business confidence decline from 48.4 to 47.4.

Core inflation has been stickier than originally predicted and still remains elevated at 5.7%, but it is still expected to come down within the year, once the Fed's rate hikes begin to fully impact the economy. Although wage growth has lagged inflation, the yearly ECI, which measure workers compensation over the year, rose 5.1%. Furthermore, the Q4 GDP growth rate reported stronger gains than most other countries, growing at an annualized rate of 2.9%, beating expectations of 2.6%. Fixed income markets returned much needed gains with the Bloomberg US Gov/Credit returning 3.0% for the month (still posting a yearly loss of 8.8%). Bond's experienced a boost in the month as the Fed slowed the pacing of their interest rate policy and investor demand strengthened in the wake of higher yields. The US Treasury yield curve's inversion deepened over the last month, portending slowing growth and economic challenges ahead.

International Markets & Economy

As the Russia-Ukraine war wages on, Ukraine continues to be assisted by the financial support of the US and western allies, military casualties on both sides reached 200,000, with a slightly higher proportion on the Russian side. The Russian economy is still experiencing strains brought on by the war, but other parts of Eastern Europe, including the Euro Area, experienced some optimism in January. In addition to European consumer confidence crawling up from previous lows, Q4 GDP beat expectations of -0.1% and expanded by 0.1%. The Eurozone's current account balance is back into surplus after a year of being negative, indicating more exports than imports adding to total reserves, which were aided by rising Eurozone sentiment. Although the quantitative tightening policies persist and many see the ECB

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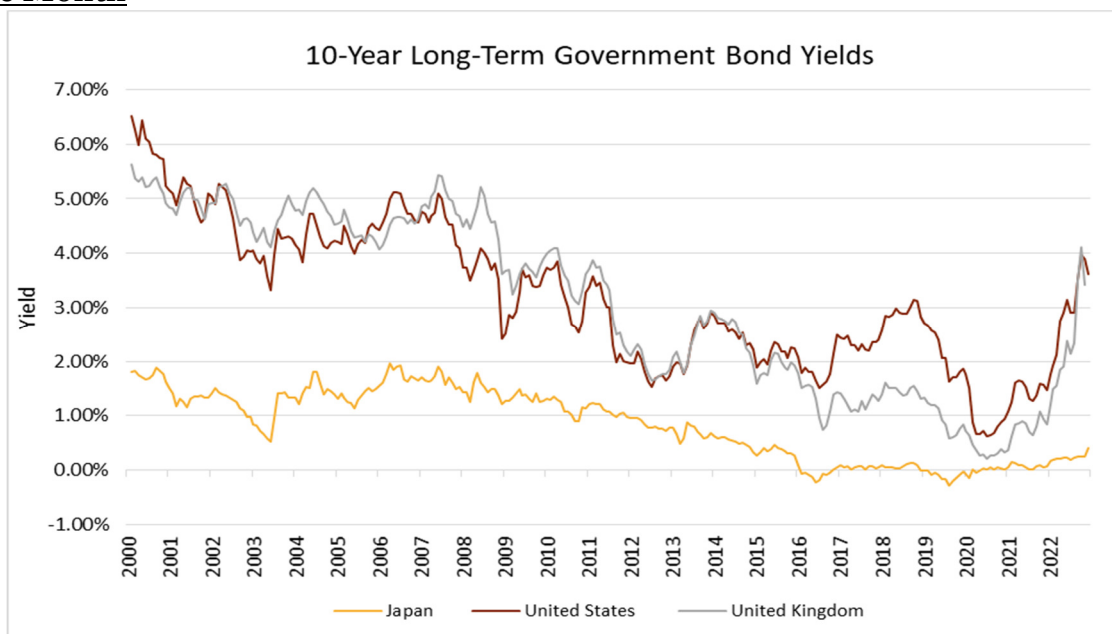
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continuing to hike rates this year, the positive short-term outlook aided in the MSCI Europe Index gaining 8.7% in January. Emerging Markets continued in the stream of optimism, benefitting from many EM countries' early and aggressive central bank policies in 2022 aiding the bullish sentiment in January, as seen by the total Emerging Markets fund flows turning positive last month. This led to the MSCI Emerging Markets Index increasing 7.9% during the month. Some of this growth was assisted by China's technology sector rebounding after being negatively affected by months of Zero COVID policies. In tandem with the restrictive COVID policies in place for much of 2022, China's Q4 GDP was reported at a 0% growth rate, flirting with historic lows. Despite the low economic growth in Q4 China's short-term market outlook remained resilient as the MSCI China Index grew 11.8% in January as COVID restrictions were lifted. Additionally, there is some optimism that China's recent reopening and stock market surge may help positively shape global economies in the year ahead.

In the News

Over the past several years, Japan has been implementing a Yield Curve Control (YCC) monetary policy, a loose policy aimed at achieving price stability by keeping the cost of borrowing low and maintaining an interest rate of -0.1%. The overall effect of this policy, despite keeping loans quite achievable, creates bond yields that have little meaningful return. This is why the Japanese government owns the majority of the outstanding bonds. As seen in the chart below, the Japanese debt has not offered an attractive yield compared to other developed economies especially since the YCC in 2016, but even prior to 2016, yields never broke 2%, Japan's target inflation rate. Other yields, such as the US and UK, typically move jointly, and capture attractive yields above target inflation, very different compared to Japan. Recently, the BoJ has begun to alter their monetary policy, first in December by raising the policy cap for 10-year JGBs (Japanese Government Bonds) to 25 basis points, and once again during January moving the cap to 50 basis points. This change caused foreign investors to dump their JGBs in bulk forcing the BoJ to purchase around \$300 billion worth of bonds over the past two months, representing 7% of Japan's GDP. Although JGB yields are still unattractive, market signals as well as economists suggest a future change ahead in monetary policy in Japan for the first time in years. Due to Japan being the third largest economy, any large change has potential to heighten global risks through increased uncertainty and volatility in an already recessionary environment, and overall decrease confidence in the central bank's monetary policies.

Chart of the Month



Source: St. Louis FRED

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Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	7.08	9.66	7.08	(7.45)	7.58	6.50	9.06
	BBgBarc US Agg Bond TR USD	3.08	6.39	3.08	(8.36)	(2.35)	0.86	1.43
	Russell 3000 TR USD	6.89	5.88	6.89	(8.24)	9.51	9.12	12.28
	DJ Industrial Average TR USD	2.93	4.68	2.93	(0.92)	8.68	7.77	11.98
	NASDAQ Composite PR USD	10.68	5.43	10.68	(18.65)	8.18	9.34	13.94
	MSCI EAFE NR USD	8.10	20.37	8.10	(2.83)	4.25	2.13	4.95
	FTSE Treasury Bill 3 Mon USD	0.37	1.00	0.37	1.87	0.79	1.30	0.78
	Bloomberg Commodity TR USD	(0.49)	(0.27)	(0.49)	6.20	15.37	5.92	(1.57)
Domestic Equities	S&P 500 TR USD	6.28	5.76	6.28	(8.22)	9.88	9.54	12.68
	S&P MidCap 400 TR	9.23	9.49	9.23	2.34	11.41	7.99	10.98
	S&P SmallCap 600 TR USD	9.49	6.40	9.49	(0.94)	10.53	7.28	11.20
	Russell 1000 TR USD	6.70	5.94	6.70	(8.55)	9.66	9.38	12.51
	Russell 1000 Growth TR USD	8.33	4.60	8.33	(16.02)	9.89	11.22	14.53
	Russell 1000 Value TR USD	5.18	7.25	5.18	(0.43)	8.54	6.94	10.15
	Russell Mid Cap TR USD	8.30	8.61	8.30	(3.33)	9.02	8.02	11.11
	Russell Mid Cap Growth TR USD	8.73	7.76	8.73	(8.52)	6.46	8.26	11.67
	Russell Mid Cap Value TR USD	8.08	9.07	8.08	(0.69)	9.31	6.89	10.17
	Russell 2000 TR USD	9.75	5.02	9.75	(3.38)	7.51	5.54	9.36
	Russell 2000 Growth TR USD	9.95	4.56	9.95	(6.50)	4.26	4.68	9.54
Russell 2000 Value TR USD	9.54	5.48	9.54	(0.52)	9.94	5.78	8.84	
International Equities	MSCI ACWI Ex USA NR USD	8.11	19.97	8.11	(5.72)	3.64	1.36	4.20
	MSCI EAFE NR USD	8.10	20.37	8.10	(2.83)	4.25	2.13	4.95
	MSCI EAFE Growth NR USD	8.49	19.65	8.49	(6.60)	3.43	3.23	5.97
	MSCI EAFE Value NR USD	7.72	21.07	7.72	0.66	4.45	0.61	3.68
	MSCI Japan NR USD	6.21	16.80	6.21	(6.73)	1.48	0.54	5.81
	MSCI AC Asia Ex Japan NR USD	8.21	28.32	8.21	(10.29)	2.71	(0.52)	4.21
	MSCI Europe NR USD	8.67	21.02	8.67	(3.26)	5.09	2.49	4.86
	MSCI United Kingdom NR USD	6.51	17.51	6.51	0.45	3.78	1.63	3.33
	MSCI EAFE Small Cap NR USD	7.47	19.39	7.47	(8.85)	2.48	0.40	6.43
	MSCI EM NR USD	7.90	22.16	7.90	(12.12)	1.40	(1.48)	2.07
Fixed Income	BBgBarc US Govt/Credit TR USD	3.01	6.18	3.01	(8.75)	(2.37)	1.04	1.55
	BBgBarc US Govt/Credit Interm TR USD	1.87	3.89	1.87	(5.13)	(1.12)	1.28	1.34
	BBgBarc US Govt/Credit Long TR USD	6.59	13.66	6.59	(18.28)	(5.79)	0.47	2.50
	ICE BofA US High Yield TR USD	3.91	5.06	3.91	(5.14)	1.05	2.77	4.20
	Credit Suisse HY USD	3.70	4.67	3.70	(4.80)	1.03	2.69	4.10
	S&P/LSTA Leveraged Loan TR	2.73	4.47	2.73	1.75	3.28	3.67	3.84
	FTSE WGBI NonUS USD	3.54	10.08	3.54	(17.42)	(7.22)	(4.15)	(1.79)
	BBgBarc Gbl Agg Ex USD TR	3.48	10.68	3.48	(14.18)	(5.10)	(2.98)	(1.20)
REITs	FTSE Nareit All REITs TR	10.30	10.98	10.30	(10.49)	2.37	6.66	7.46
	Wilshire US REIT TR USD	11.27	11.18	11.27	(12.50)	2.86	6.41	7.08

USD - US dollar priced index TR - Total Return PR - Price Return LCL - Local Currency Priced Index NR - Return includes reinvested net dividends

Source: Morningstar

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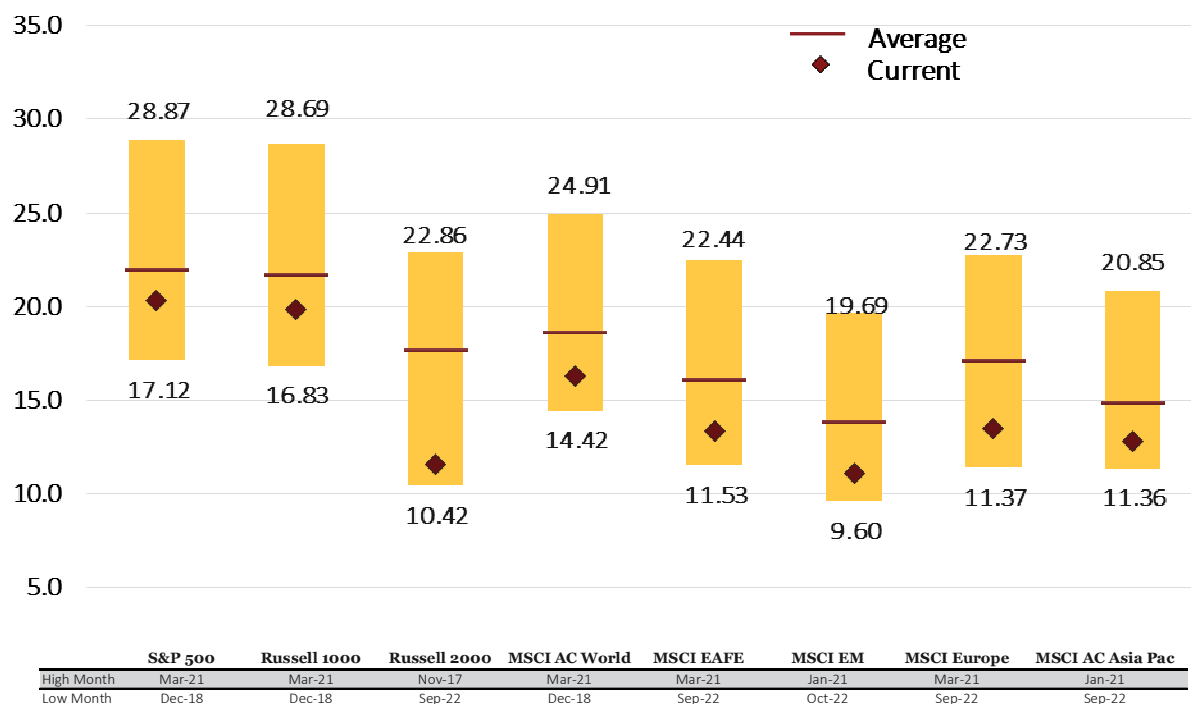
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Current Trailing P/E vs. Trailing 5-Year High, Low, Average



Source: Morningstar

Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates ³ per US \$		Inflation ²
	Latest ¹	2023 ¹	2024 ¹	(Most recently available)	Sovereign Bonds, 10 Year	Current	1 Year Ago	(Most recently available)
United States	2.90	0.50	1.00	3.40	3.55	-	-	5.70
China	0.00	4.60	4.10	5.50	2.96	6.79	6.37	0.70
Japan	-0.20	1.80	0.90	2.50	0.49	129.94	115.47	4.00
United Kingdom	-0.30	0.40	0.20	3.70	3.33	1.24	1.34	6.30
Euro Area	0.10	0.50	1.40	6.60	3.00	1.09	1.11	5.20
Germany	-0.20	0.30	1.50	5.50	2.27	1.06	1.11	5.17
France	0.10	0.60	1.20	7.30	2.75	0.94	1.11	5.30
Italy	-0.10	0.20	1.00	7.80	4.27	1.06	1.11	6.02
Canada	0.70	1.00	1.30	5.00	2.92	1.33	1.27	5.40
India	0.80	5.70	6.90	7.10	7.34	82.47	75.39	5.41
Mexico	0.90	1.60	2.10	2.80	8.67	18.77	20.76	8.35
Brazil	0.40	1.20	1.40	8.10	13.07	5.09	5.43	7.81

Sources: (Most recently available data) St. Louis Federal Reserve, The Wall Street Journal, OECD, Trading Economics

1. Latest GDP is seasonally adjusted annualized rate. 2022 & 2023 is forecasted data from OECD

2. In terms of Core CPI

3. Euro Area and U.K. exchange rates quoted in market standard format (USD/Non-USD currency)

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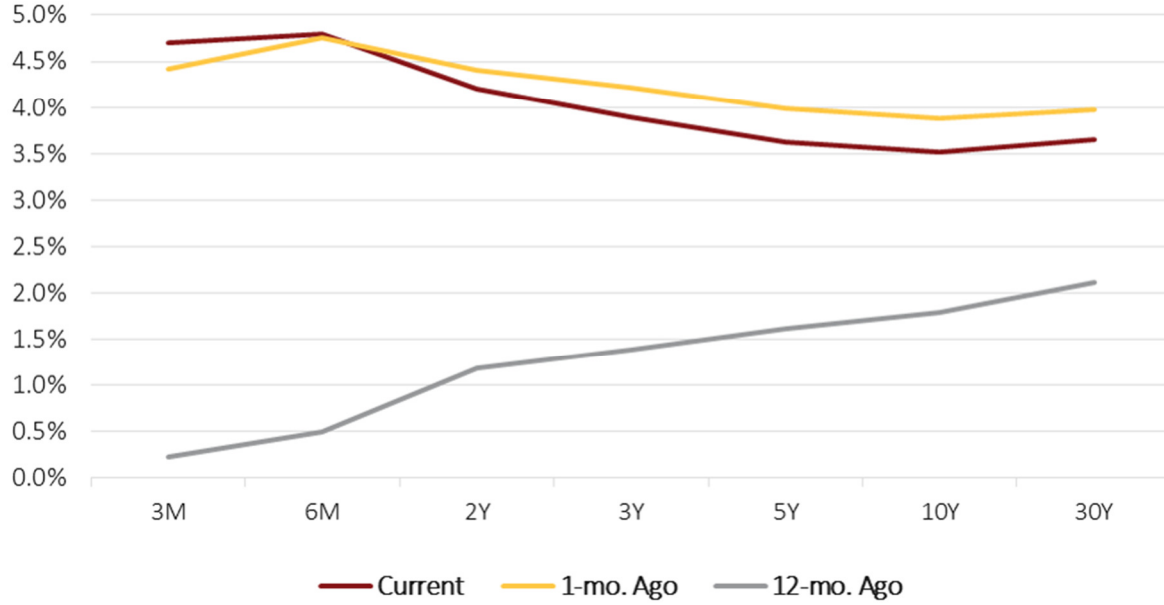
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U.S. Treasury Yield Curves

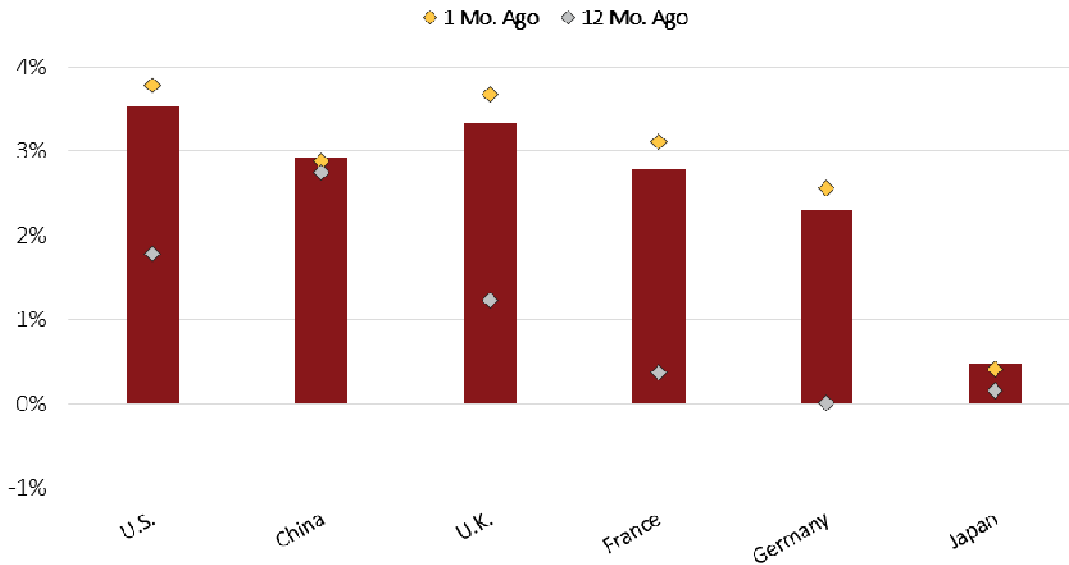
as of 01/31/2023



Source: Federal Reserve Bank

10-Year Sovereign Yields

as of 01/31/2023 (most recently available)



Source: Trading Economics

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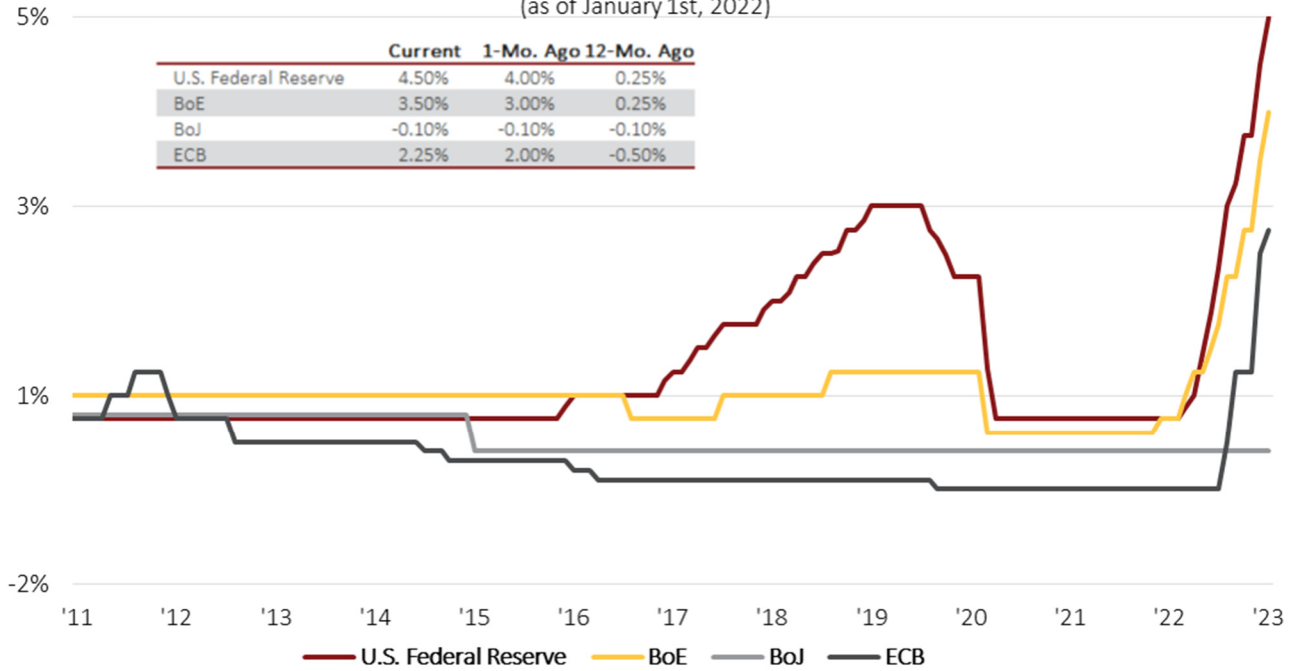
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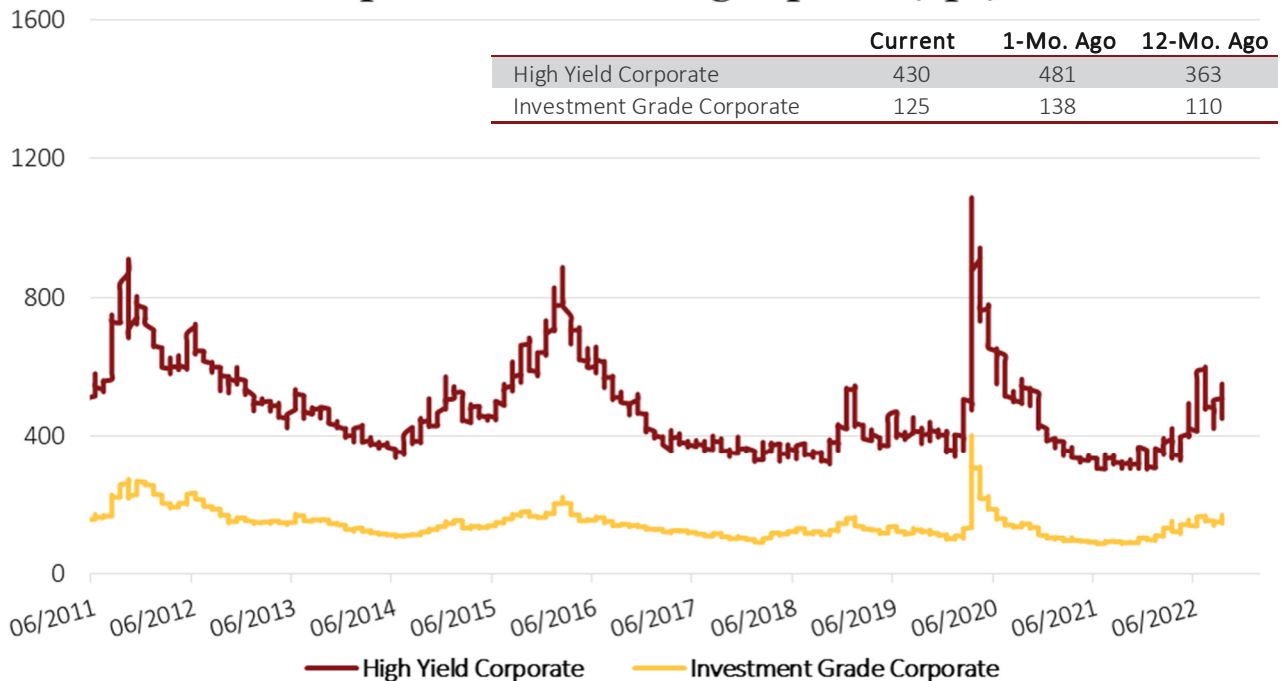
Central Bank Policy Rates

(as of January 1st, 2022)



Source: Federal Reserve Bank, Bank of England, European Central Bank, Trading Economics

Corporate Bond Average Spread (bps)



Source: Federal Reserve Bank