

February 2023

Demarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for the Period Ended 2/28/2023

Global Overview

Ongoing global inflation coupled with central bank rate hikes continues to be the story amongst many developed countries. Almost all domestic asset classes declined in the month of February, primarily driven by sentiment around rate-hiking cycles extending longer than the market originally predicted. Europe outperformed other developed markets in large part due to easing of recessionary fears in Europe compared to previous months. The Emerging Markets underperformed developed, with performance tanking, due to a stronger US dollar and a sizable decline in the Chinese stock market. All in all, the mixed bag of economic news resulted in the MSCI World Index losing 2.4%.

U.S. Markets & Economy

In February, U.S. equities gave back half of January's hefty gains primarily due to a shift in the interest rate environment. The large shift in rate markets included the Fed raising rates another 25 basis points, bringing the federal funds rate to 4.75%, but also the FOMC minutes revealed that the federal funds rate could operate under a "higher for longer" narrative. Fed Chair Powell noted that the rate-hiking cycle will end soon, but restoring price stability will require rates to maintain a "restrictive stance for some time," which has been interpreted to mean that Powell does not see rates being cut this year. To no surprise, this caused the S&P 500 to lose 2.4% during February. Inflation has been stickier than once predicted, as seen by CPI (Consumer Price Index) which rose 6.4% year over year in January, slightly above the 6.2% that was anticipated by the market. The PPI (Producer Price Index) remained sticky as well with a 6.0% year-over-year increase, as opposed to the consensus expectation of 5.4%. Nevertheless, employment numbers remained robust as initial jobless claims declined once again, falling to 190,000, and unemployment levels remained near historic lows. Business confidence along with PMI data remains strong as composite PMI rose from 46.8 to 50.1 in February, suggesting growth in businesses over the last month.

The fixed income markets remained challenging this month, as nearly all sectors declined over the last month largely due to concern regarding Fed keeping rates high through the end of the year. Corporate credit spreads varied as investment-grade spreads slightly widened while high yield spreads tightened. Although high yield bonds posted negative results, with the ICE BofA US High Yield Index declining 1.3% in February, they outperformed the investment grade Bloomberg US Gov/Credit Index's -2.6% return for the month. Despite the strong relative performance, the market outlook for high yield remains uncertain as high yield fund flows have been decreasing and put options for high yield bonds are surging. Finally, as seen in many months before, the Treasury yield curve inversion remains deep with the 2-year to 10-year spread at 89 basis points, continuing to signal expectations of a recession.

International Markets & Economy

The conflict between Ukraine and Russia continued as February marks the one year anniversary of the Russia-Ukraine war. Over the last month Russia has been pushing their way into the city of Bakhmut, which had become a symbol of Ukrainian resistance. As the Russian winter comes to a close, fears arise that Ukraine may give up Bakhmut, giving Russia a tactical advantage. The Eurozone posted better news as worries of recessions subsided with business and consumer confidence continuing to improve and composite PMI increasing from 50.3 to 52.3 in February. Despite the rise in sentiment, the ECB's fight against inflation continued with another 50 basis point rate hike (placing the interest rate at 3%). Although modest, money supply (M1) declined in tandem with the headline inflation rate, which shrank from 8.6% to 8.5%. The MSCI Europe Index only lost 0.6%, outperforming other equity markets in the month. China's stock market rebound of the last number of months came to close in February, with

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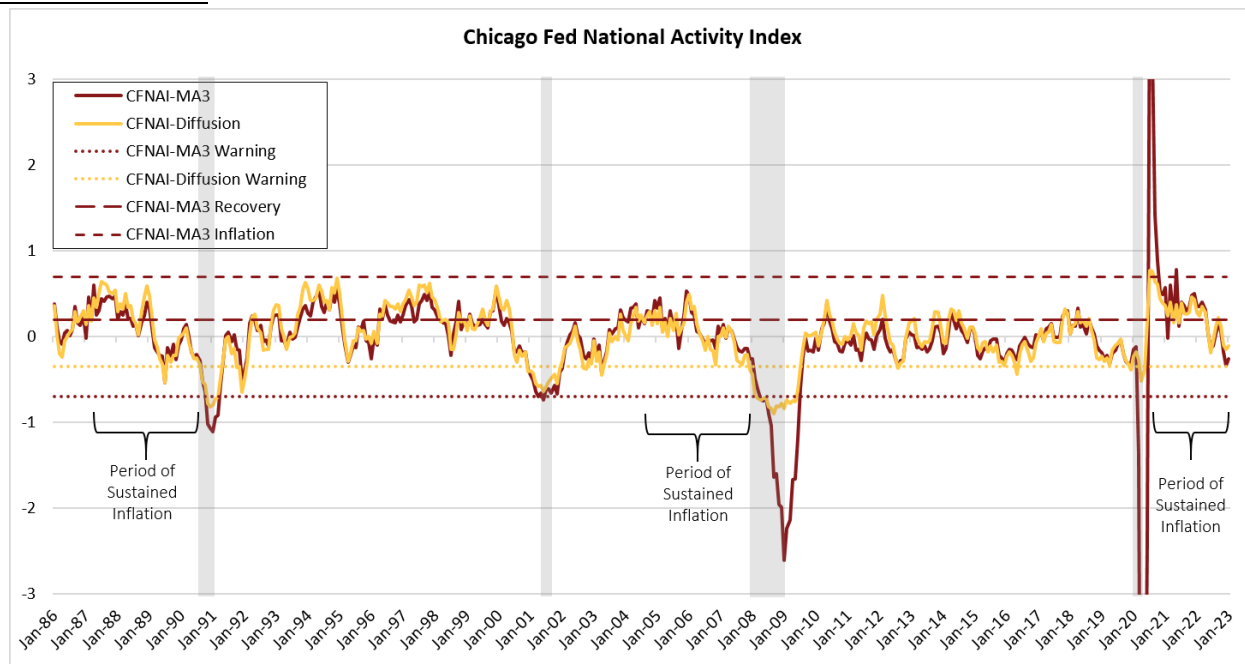
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the MSCI China Index losing 10.4%. Although China's stock market struggled, economic data on sales and PMI remained strong. The emerging markets lagged other equities in February with the MSCI EM Index down 6.5%. EM was dragged down in large part due to some of the index's largest constituents, China and South Korea, both declining over 9%.

In the News

The Chicago Fed National Activity Index (CFNAI) is an index used to measure national economic activity. The four large categories the index draws from include: production and income; employment/unemployment levels; personal consumption and housing; and sales, orders, and inventories. The weighted average of all the economic indicators is used to create the CFNAI Diffusion and CFNAI MA3. The major difference between these two is the CFNAI MA3 is the three month moving average of the Diffusion and creates a coincident indicator for economic expansions and contractions, meaning the MA3 should be able to successfully determine when the economy is in a recession, and by extension, when there is a recession warning. Furthermore, it operates as a tool for tracking sustained inflation. Examples of sustained inflation periods are represented in the chart below in the consistent decline of the Diffusion and MA3 Index in periods like 1987-91, 2004-08, and 2021-present day. In addition to pointing out inflationary periods, the index distinguishes when the economic state is approaching a contraction, and therefore predicted a recession. The critical value for an increasing chance of recession is when the red line crosses below -0.7. Although the US has not yet approached this critical value, historic trends (particularly during periods of constant inflation), tend to continue their downward trend until passing the MA3 Warning line of -0.7. According to the chart, the US is still in a period of expansion, which is further supported by the positive real GDP growth over Q3 and Q4, following two quarters of negative growth. Nevertheless, there still is some possibility that the indicators will collectively rebound, reversing the downtrend, as indicators like PMI and unemployment levels remain healthy.

Chart of the Month



Source: FRED and Federal Reserve Bank of Chicago

*Shaded Grey Boxes indicate recessionary periods

Key:

CFNAI-MA3 below -0.7 = increasing chance of recession

CFNAI-MA3 above -0.7 = characteristic of economic expansion

CFNAI-MA3 above 0.2 = significant chance of recovery

CFNAI-MA3 above 0.7 = increasing chance of sustained rising inflation

CFNAI Diffusion Index above -0.35 = characteristic of economic expansion

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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	(2.40)	0.06	4.50	(7.33)	9.90	6.88	8.77
	BBgBarc US Agg Bond TR USD	(2.59)	(0.04)	0.41	(9.72)	(3.77)	0.53	1.12
	Russell 3000 TR USD	(2.34)	(1.72)	4.39	(8.07)	11.79	9.42	11.87
	DJ Industrial Average TR USD	(3.94)	(5.18)	(1.13)	(1.59)	10.96	7.77	11.34
	NASDAQ Composite PR USD	(1.11)	(0.11)	9.45	(16.70)	10.17	9.51	13.74
	MSCI EAFE NR USD	(2.09)	5.93	5.84	(3.14)	6.84	2.64	4.83
	FTSE Treasury Bill 3 Mon USD	0.35	1.06	0.72	2.22	0.86	1.35	0.81
	Bloomberg Commodity TR USD	(4.70)	(7.49)	(5.17)	(4.72)	15.51	5.27	(1.63)
Domestic Equities	S&P 500 TR USD	(2.44)	(2.28)	3.69	(7.69)	12.15	9.82	12.25
	S&P MidCap 400 TR	(1.81)	1.31	7.25	(0.62)	14.47	8.58	10.67
	S&P SmallCap 600 TR USD	(1.23)	0.89	8.15	(3.50)	13.84	7.86	10.91
	Russell 1000 TR USD	(2.38)	(1.89)	4.17	(8.21)	11.92	9.68	12.09
	Russell 1000 Growth TR USD	(1.19)	(1.15)	7.05	(13.34)	12.06	11.54	14.26
	Russell 1000 Value TR USD	(3.53)	(2.62)	1.47	(2.81)	10.96	7.22	9.60
	Russell Mid Cap TR USD	(2.43)	(0.03)	5.68	(4.99)	11.46	8.40	10.68
	Russell Mid Cap Growth TR USD	(0.99)	1.19	7.65	(8.31)	8.66	8.74	11.45
	Russell Mid Cap Value TR USD	(3.20)	(0.70)	4.62	(3.42)	11.96	7.27	9.62
	Russell 2000 TR USD	(1.69)	0.89	7.89	(6.02)	10.08	6.01	9.06
	Russell 2000 Growth TR USD	(1.08)	1.78	8.76	(7.92)	6.51	5.06	9.31
	Russell 2000 Value TR USD	(2.31)	(0.00)	7.02	(4.40)	12.87	6.38	8.46
International Equities	MSCI ACWI Ex USA NR USD	(3.51)	3.54	4.32	(7.19)	5.27	1.62	3.94
	MSCI EAFE NR USD	(2.09)	5.93	5.84	(3.14)	6.84	2.64	4.83
	MSCI EAFE Growth NR USD	(2.80)	4.27	5.46	(7.15)	5.59	3.55	5.62
	MSCI EAFE Value NR USD	(1.40)	7.55	6.21	0.61	7.46	1.31	3.79
	MSCI Japan NR USD	(3.84)	2.41	2.14	(9.30)	3.42	0.06	5.12
	MSCI AC Asia Ex Japan NR USD	(6.82)	0.64	0.83	(14.40)	1.30	(0.91)	3.49
	MSCI Europe NR USD	(0.62)	8.01	8.00	(1.07)	8.33	3.61	5.09
	MSCI United Kingdom NR USD	0.25	6.35	6.78	(0.08)	8.36	3.04	3.61
	MSCI EAFE Small Cap NR USD	(2.17)	6.26	5.13	(9.68)	5.29	0.68	6.08
	MSCI EM NR USD	(6.48)	(0.52)	0.90	(15.28)	0.97	(1.87)	1.52
Fixed Income	BBgBarc US Govt/Credit TR USD	(2.59)	(0.14)	0.34	(10.06)	(3.89)	0.73	1.22
	BBgBarc US Govt/Credit Interm TR USD	(1.80)	(0.14)	0.04	(6.22)	(2.17)	1.01	1.11
	BBgBarc US Govt/Credit Long TR USD	(4.96)	(0.10)	1.30	(20.31)	(8.59)	0.09	1.87
	ICE BofA US High Yield TR USD	(1.29)	1.79	2.56	(5.52)	1.14	2.70	4.02
	Credit Suisse HY USD	(1.13)	1.99	2.52	(5.10)	1.30	2.62	3.92
	S&P/LSTA Leveraged Loan TR	0.58	3.68	3.26	2.62	3.86	3.70	3.85
	FTSE WGBI NonUS USD	(4.11)	(0.46)	(0.71)	(19.79)	(8.49)	(4.83)	(2.01)
	BBgBarc Gbl Agg Ex USD TR	(3.99)	0.65	(0.65)	(16.69)	(6.32)	(3.61)	(1.41)
REITs	FTSE Nareit All REITs TR	(6.04)	(1.64)	3.64	(12.47)	2.75	6.89	6.66
	Wilshire US REIT TR USD	(4.78)	0.03	5.95	(13.74)	3.98	7.07	6.46

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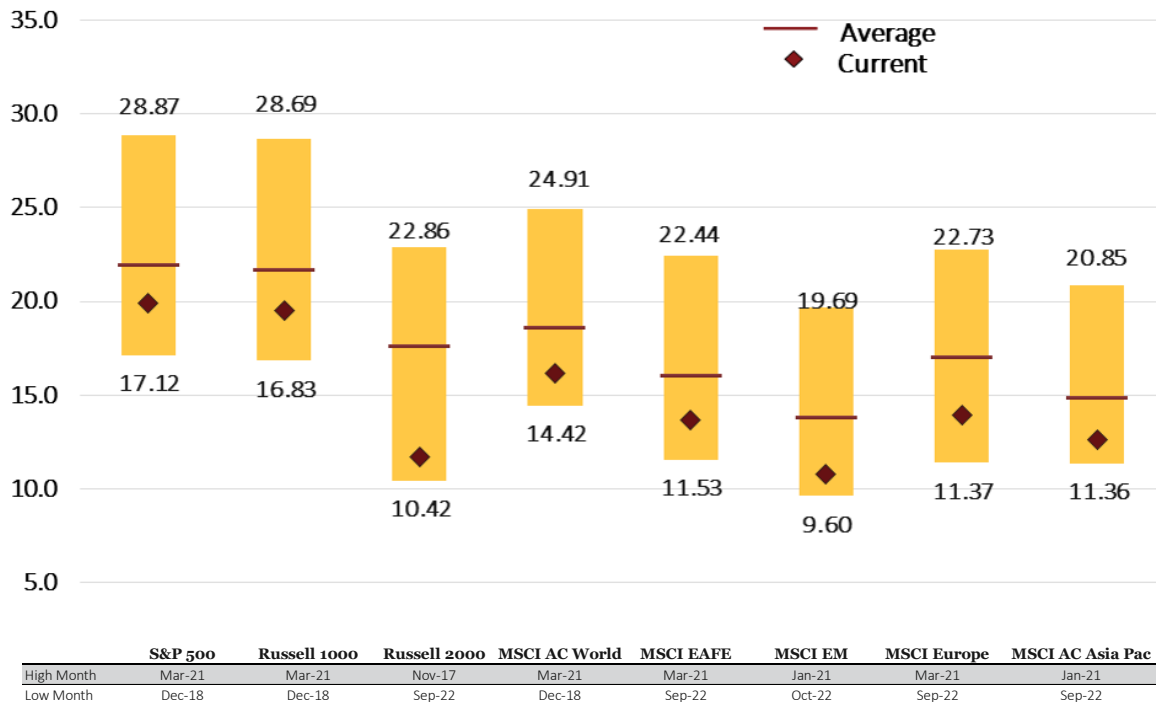
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Current Trailing P/E vs. Trailing 5-Year High, Low, Average



	S&P 500	Russell 1000	Russell 2000	MSCI AC World	MSCI EAFE	MSCI EM	MSCI Europe	MSCI AC Asia Pac
High Month	Mar-21	Mar-21	Nov-17	Mar-21	Mar-21	Jan-21	Mar-21	Jan-21
Low Month	Dec-18	Dec-18	Sep-22	Dec-18	Sep-22	Oct-22	Sep-22	Sep-22

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	2.70	0.50	1.00	3.40	3.91	-	-	5.60
China	0.00	4.60	4.10	5.50	2.93	6.95	6.33	1.00
Japan	0.20	1.80	0.90	2.40	0.50	136.36	115.45	4.20
United Kingdom	0.00	0.40	0.20	3.70	3.82	1.19	1.34	5.80
Euro Area	0.10	0.50	1.40	6.70	3.04	1.05	1.12	5.60
Germany	-0.40	0.30	1.50	5.50	2.63	1.06	1.12	5.60
France	0.10	0.60	1.20	7.20	3.12	0.94	1.12	5.60
Italy	-0.10	0.20	1.00	7.90	4.57	1.06	1.12	6.38
Canada	0.00	1.00	1.30	5.00	3.33	1.36	1.28	5.00
India	0.80	5.70	6.90	7.10	7.46	81.74	74.41	6.52
Mexico	0.50	1.60	2.10	3.00	9.30	18.40	20.64	8.45
Brazil	-0.20	1.20	1.40	7.90	13.31	5.19	5.12	7.73

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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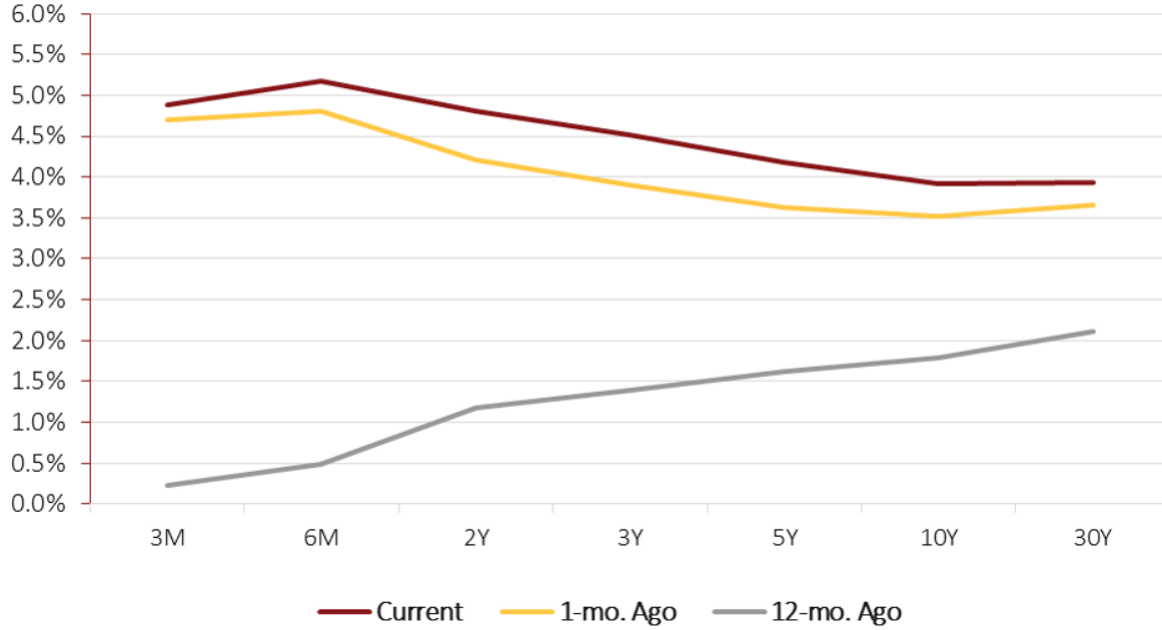
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U.S. Treasury Yield Curves

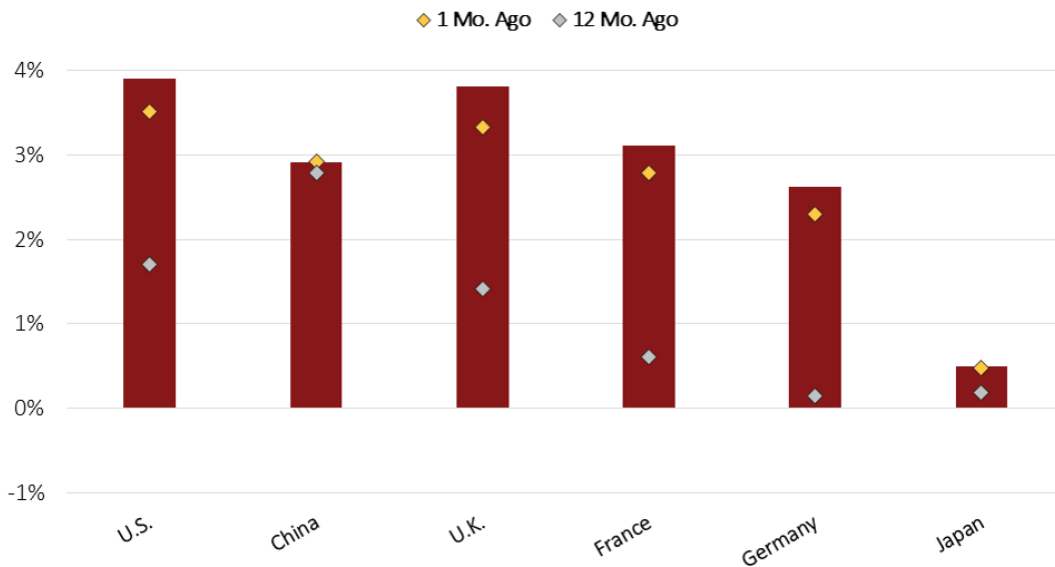
as of 02/28/2023



Source: Federal Reserve Bank

10-Year Sovereign Yields

as of 02/28/2023 (most recently available)



Source: Trading Economics

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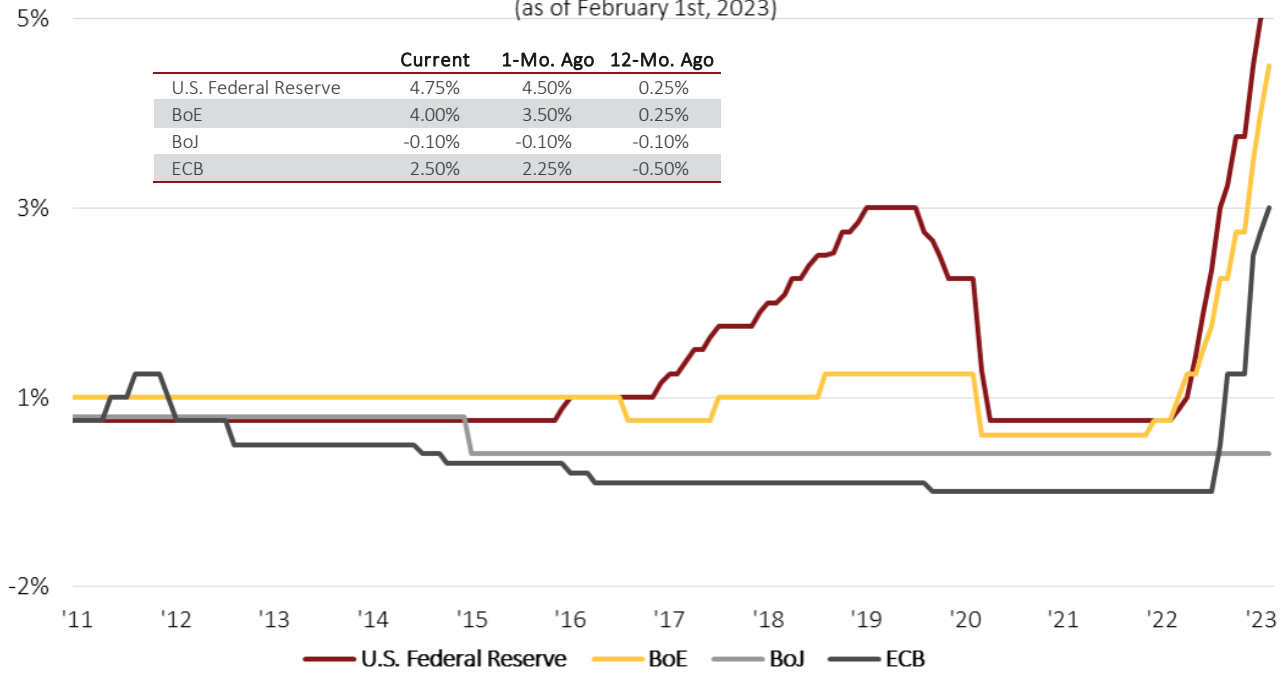
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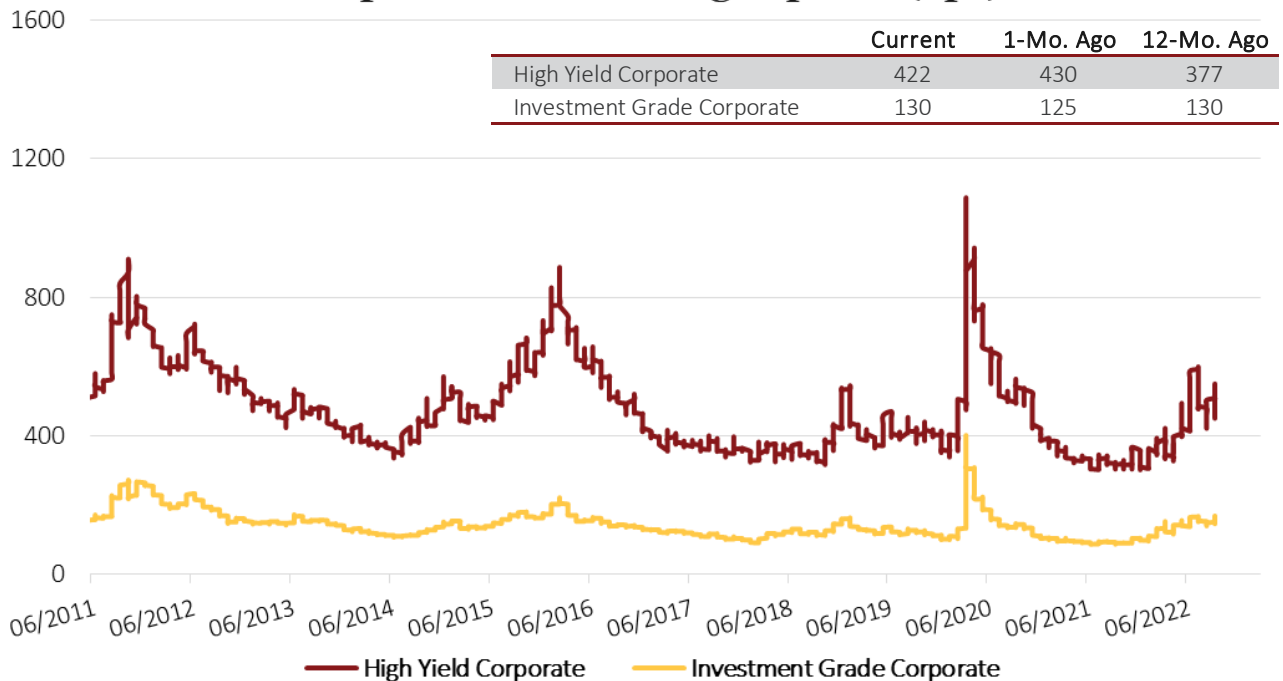
Central Bank Policy Rates

(as of February 1st, 2023)



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

Corporate Bond Average Spread (bps)



Source: Federal Reserve Bank