QUARTERLY UPDATE

LETTER FROM OUR CIO

APRIL 4, 2023

WE TURN OUR EYES TO WASHINGTON

The first quarter of 2023 has started much as we expected, and we laid out in the Year End letter. Inflation continues to come down, albeit at a relatively slow pace. As a result, the inverted yield curve has begun to flatten out. As a result of the general fall in interest rates, we have seen an acceleration of the decline in the overall US dollar index as well as the return of investor interest in growth assets. Here is what we experienced thus far in Q1 2023:

- Overall markets are higher this year, led by tech heavy NASDAQ (+16%). US has been strong with the S&P500 +7%, driven by the mega cap names like Apple and Microsoft. Value was higher, though modestly (+1%). Small-caps (+2.5%) and mid-caps (+3.5%) lagged their larger counterparts.
- But there were some cracks in the story, led by the collapse of some large regional banks. We have not yet heard the full story yet, as the Fed is completing a review of Silicon Valley Bank, but it would appear that the run on bank deposits unveiled a failure to properly manage their asset/liability risk.
- With the weakening US dollar, we saw a resurgence of International Equities, with Europe +11%.

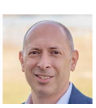
So where do we stand today?

- Interest rates are “normal” once again with taxable rates approximately 4%. There is value in high yield and private debt still, where yields are double that. But the majority of interest rate hikes are largely behind us. The Fed raised their benchmark rate in February and March by .25% each. Another .25% hike is priced in for the May meeting, and I believe they pause after that.
- Equity markets are fully valued here, with the S&P500 trading at 18X forward earnings. We will begin earnings season in mid-April. It remains to be seen whether Q1 earnings will justify the expansion of such multiples. We reduced equities in February and will look to possibly do so again on strength.
- The biggest risk may potentially be the debt ceiling debate, which will be front and center as we near June. While we do not anticipate the debt ceiling to have a material negative impact on the economy, we do expect some stock market volatility like we have seen in previous debt ceiling debates.

As we wrote in January, this will be a pivotal year for the US economy, as we absorb the rate hikes over the past 12 months. While the trend seems favorable and optimistic, the risk exists that the tightening policy proves too much to handle. A recession is not out of the question, and a slowdown is likely. However, we still believe it will be mild.

Regards.

Jason



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