Foundations and Endowments Specialty Practice

# Fourth Quarter and Annual 2022 Review

## Executive Summary

- **Despite a positive return in 4Q22, the S&P 500 recorded its worst year in 2022 since 2008, falling -18.1%.** Global markets came under pressure throughout 2022 as inflation saw a resurgence worldwide, global central banks embarked on the most aggressive tightening cycles in decades, and Russia launched a full-scale invasion of Ukraine with broad-reaching ramifications.
- **U.S. core fixed income, the Bloomberg U.S. Aggregate index, fell -13%, its worst year since its inception in 1976.** Inflation fears dominated the bond market for much of the year as the 10-year U.S. Treasury yield reached as high as 4.2% in the fall and finished 2022 at 3.8% from a starting point of 1.5%.
- **With its singular focus on fighting inflation, the Federal Reserve raised its federal funds rate by 425 basis points in 2022**, its most aggressive tightening in 40 years. Although the Fed may be nearing an end to rate hikes, they're widely expected to hold rates higher for longer than in previous cycles.
- **We expect market volatility to continue in 2023, presenting both challenges and opportunities for the DIT portfolio.** Rising recession risks, global tightening policies, still-firm inflation, and ongoing instability from Russia's invasion of Ukraine are still unresolved issues plaguing the markets. Within the DIT portfolio, we are emphasizing asset class diversification, remaining tactical, and looking for catalysts against this current backdrop.

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## Asset Class Returns Ending December 31, 2022

| US EQUITY | 4Q2022 | YTD |
|---|---|---|
| Large-Cap (S&P 500) | 7.6% | -18.1% |
| Mid-Cap (Russell MidCap) | 9.2% | -17.3% |
| Small-Cap (Russell 2000) | 6.2% | -20.4% |
| Large-Cap Growth (Russell 1000 Growth) | 2.2% | -29.1% |
| Large-Cap Value (Russell 1000 Value) | 12.4% | -7.5% |
| All-Cap (Russell 3000) | 7.2% | -19.2% |
| **NON-US EQUITY** | | |
| Developed Large Cap (MSCI EAFE) | 17.3% | -14.5% |
| Emerging Markets (MSCI EM) | 9.7% | -20.1% |
| **US FIXED INCOME** | | |
| Core Taxable Bonds (Bloomberg US Agg) | 1.9% | -13.0% |
| US Government (Bloomberg US Govt) | 0.7% | -12.3% |
| Investment Grade (BofA US Corporate) | 3.5% | -15.8% |
| High Yield (BofA US High Yield) | 4.0% | -11.2% |
| US Mortgage-Backed (Bloomberg US MBS) | 2.1% | -11.8% |
| Non-US Developed Bonds (BBg Global Agg) | 4.6% | -16.3% |
| **OTHER ASSET CLASSES** | | |
| REITs (FTSE Nareit All Equity REITs) | 4.1% | -25.0% |
| Commodities (Bloomberg Commodity) | 2.2% | 16.1% |
| Gold (S&P GSCI Gold) | 9.5% | -0.7% |

| LEVELS | 12/31/2022 | 9/30/2022 |
|---|---|---|
| 10-year U.S. Treasury Yield | 3.83% | 3.79% |
| Crude Oil | $80.16 | $79.91 |
| Gold/oz | $1,824 | $1,672 |
| CPI (November 2022) | 7.1% | 8.3% |
| CPI ex-Food/Energy (November 2022) | 6.0% | 6.3% |

# Market Outlook: Risks and rewards / challenges and opportunities

## Our Focus for 2023

While 2022 was one of the most challenging years in history for capital markets, we now see the potential for opportunities amid choppiness in 2023

### Maintain *diversification*

Recession risk is elevated but correlations among asset classes is evolving with meaningful implications for portfolio allocations

### Remain *tactical*

The historical playbook may be challenged and a wide range of potential outcomes persists

### Look for *catalysts*

We expect volatile markets that will provide investment opportunities thanks to a reset in asset valuations

## Global Economy: Fading growth / easing inflation

- Many countries, including the U.S., are set to experience recessionary pressures as supersized rate hikes of 2022 start to take stronger hold, though directional shifts in Ukraine crisis, European energy dynamics, and China's reopening have conflicting implications
- Slowing economic growth should result in easing pockets of inflation, albeit remaining above pre-pandemic levels and the Fed's target
- ***Our take*: The post-pandemic backdrop is unprecedented, so the historical playbook may be challenged. The path for a soft landing appears narrow given lagged effect of aggressive monetary policy**

## Equity Markets: Choppy waters for a bit longer

- If the economy continues to weaken, as widely expected, that will likely put pressure on corporate profits and asset prices
- However, if the economy stays stronger, supported by the consumer and the labor market, that will likely keep wage inflation firmer and, as such, keep the Fed's monetary policy tighter for longer
- ***Our take*: Continued macro challenges expected to keep pressure on risk/reward outcomes with potential headwinds for investors near-term. Our focus is on potential catalysts for market trajectory**

## Fixed Income: Providing portfolio ballast again

- Significantly higher interest rates in 2022 resulted in an historically sharp decline in fixed income returns but also made for attractive yields
- ***Our take*: Looking forward, the resulting higher yields for bonds means that fixed income is now more capable of providing critical income and portfolio stability again; maintain high quality focus**

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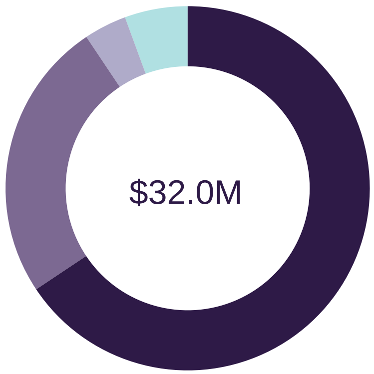
**Truist Performance Report**

Period ending: December 31, 2022
Managed Since: June 01, 2016

## Allocation

| | % of Mkt Val |
|---|---|
| Total Equity | 63.4 |
| Fixed Income | 25.0 |
| Non-Traditional | 6.0 |
| Short Term | 5.6 |
| **Total** | **100.0** |




## Selected Period Performance

| | 4Q22 | 2022 | 1 Yr | 3 Yr | 5 Yr | Inception 5/31/16 | Risk Measure: Standard Deviation |
|---|---|---|---|---|---|---|---|
| **Episcopal Diocese** *(Gross Return)* | **7.58%** | **-14.28%** | **-14.28%** | **3.01%** | **5.38%** | **7.65%** | **12.53%** |
| *Episcopal Diocese (Net Return)* | *7.45%* | *-14.68%* | *-14.68%* | *2.58%* | - | - | |
| **70% Total Equity /30% Fixed Income - Portfolio Benchmark** | **7.74%** | **-15.41%** | **-15.41%** | **3.73%** | **5.45%** | **7.30%** | **13.36%** |

*Benchmark: 52.5% S&P 1500 / 17.5% MSCI EAFE / 30% Barclays Aggregate*

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**Truist Foundations and Endowments Specialty Practice**

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