# Second Quarter 2023 Review Asset Class Returns 6.30.23

## Executive Summary

- **The S&P 500 gained 8.7% in 2Q23, bringing its YTD gain to +16.9%**. Leadership was extremely narrow as the Top 10 stocks outperformed the rest of the market by wide margins, accounting for a whopping 78% of that YTD return.

- **Returns were again uneven, showing disparities among styles, market caps, and sectors.** Large caps outperformed smaller market caps, growth dominated value, and the Tech-heavy Nasdaq's strong YTD gains have now erased all of its 2022 losses.

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- **U.S. core fixed income, the Bloomberg U.S. Aggregate index, gave back -0.8% in 2Q, bringing its YTD gain to +2.1%.** Bond yields rose along with reports of economic resilience. The 10-year U.S. Treasury yield moved up to 3.9%. The yield curve remains inverted.

- **The Federal Reserve raised its federal funds rate once more in 2Q23, bringing its range to 5.00%-5.25%** though, importantly, skipped a June rate hike for the first time in 11 meetings. However, further increases are still likely in 2023.

- The markets and economy have proved far more resilient than anticipated going into 2023. **However, the lagged impact of the Fed's aggressive rate hikes, tighter credit availability, and a consumer who is spending down savings keep us prudently cautious going into 2H23.**

| US EQUITY | 2Q2023 | YTD | 2022 |
|---|---|---|---|
| NASDAQ Composite | 13.1% | 32.3% | -32.4% |
| All-Cap (Russell 3000) | 8.4% | 16.2% | -19.2% |
| Large-Cap (S&P 500) | 8.7% | 16.9% | -18.1% |
| Large-Cap Growth (Russell 1000 Growth) | 12.8% | 29.0% | -29.1% |
| Large-Cap Value (Russell 1000 Value) | 4.0% | 5.0% | -7.5% |
| Mid-Cap (Russell MidCap) | 4.8% | 9.0% | -17.3% |
| Small-Cap (Russell 2000) | 5.2% | 8.1% | -20.4% |
| **NON-US EQUITY** | | | |
| Developed Large Cap (MSCI EAFE) | 3.0% | 11.7% | -14.5% |
| Emerging Markets (MSCI EM) | 0.9% | 4.9% | -20.1% |
| **US FIXED INCOME** | | | |
| Core Taxable Bonds (BBg Aggregatre) | -0.8% | 2.1% | -13.0% |
| US Government (BBg US Govt) | -1.4% | 1.6% | -12.3% |
| Investment Grade (BofA US Corporate) | -0.2% | 3.2% | -15.8% |
| High Yield (BofA US High Yield) | 1.6% | 5.4% | -11.2% |
| US Mortgage-Backed (BBg US MBS) | -0.6% | 1.9% | -11.8% |
| Non-US Dev'd Bonds (BBg Global Agg) | -1.5% | 1.4% | -16.3% |
| **OTHER ASSET CLASSES** | | | |
| REITs (FTSE Nareit All Equity REITs) | 1.2% | 3.0% | -25.0% |
| Commodities (BBg Commodity) | -2.6% | -7.8% | 16.1% |
| Gold (S&P GSCI Gold) | -2.5% | 5.4% | -0.7% |

| LEVELS | 6/30/2023 | 3/31/2023 | 12/31/2022 |
|---|---|---|---|
| 10-year U.S. Treasury Yield | 3.87% | 3.47% | 3.88% |
| Crude Oil | $70.64 | $75.67 | $80.16 |
| Gold/oz | $1,920 | $1,979 | $1,812 |
| CPI (June 2023) | 3.0% | 5.0% | 6.5% |
| CPI ex-Food/Energy (June 2023) | 4.8% | 5.6% | 5.7% |

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# Crosscurrents frame our portfolio positioning: Tactically cautious for 2H23

## Reflections on 1H23 – Unexpected Resilience

- On the surface equity markets surged, however closer analysis reveals that the Top 10 largest companies accounted for a whopping 78% of the YTD's +16.9% return. The average return for the remaining 490 was roughly 5%.
- Equity valuations rose to unreasonable, and historically high, levels as the S&P 500's P/E of 19.1x surged well above October's low of 15.2x and its 20-year average of 17.3x.
- Our cautiously defensive positioning benefited client portfolios in 2022, but we overstayed our welcome in our 1H23 positioning as key market segments rebounded quickly and dramatically to start the year
- Despite perceived warning signals emanating from tight global monetary policy, the economy, markets, and earnings surprised to the upside in the first half of the year

## Considerations for 2H23 – Tactically Cautious

- Despite the relative-underperformance impact caused by extreme concentrated market returns in 1H23, history shows this kind of narrow leadership and market breadth to be fleeting
- The lagged impact of aggressive central bank tightening, only now fifteen months in, remains a valid risk to the economy, earnings, and equity valuations. Recession or not, sub-par growth is a likely condition of 2H23 and with broad reach.
- We don't expect an easing of Federal Reserve's tight policy, nor its resolve to fight price and wage pressures within Services. As such, high flying pockets of the markets seem vulnerable to a give-back as the lagged effects unfold
- There are some pockets of the market which, while having surged, may continue to warrant investor favor. That said, we believe that a tactical yet prudently cautious approach is still very much warranted for 2H23.

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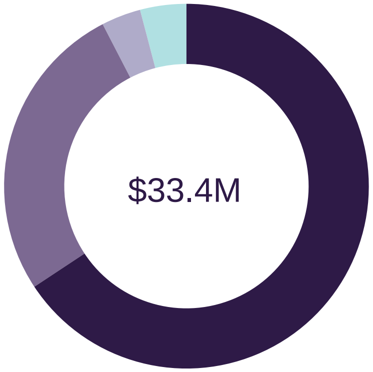
**Truist Performance Report**

December 31, 2022 to June 30, 2023
Managed Since: June 01, 2016

## Allocation

| | % of Mkt Val |
|---|---|
| Total Equity | 65.7 |
| Fixed Income | 26.7 |
| Non-Traditional | 3.5 |
| Short Term | 4.1 |
| **Total** | **100.0** |




## Selected Period Performance

| | Market Value | 2Q23 | Year to Date (6 Months) | 1 Year | 3 Years | 5 Years | Inception to Date 06/01/2016 | 2022 | Standard Deviation |
|---|---|---|---|---|---|---|---|---|---|
| **EPISCOPAL DIT** | **33,417,248** | **3.61** | **7.78** | **10.19** | **6.83** | **6.67** | **8.23** | **DIT -14.28%** | **12.81** |
| *BENCH*: 70% Equities / 30% Fixed Income* | | *4.70* | *11.14* | *13.16* | *8.16* | *7.56* | *8.37* | **Bench -15.41%** | **13.60** |

**Does not include cash*

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Standard Deviation is a measure of the volatility and risk of your portfolio. A low Standard Deviation indicates a portfolio with less volatile returns and therefore less inherent risk.

## ECONOMY / FEDERAL RESERVE

- Ongoing central bank firming, inflation fighting, and tighter lending conditions continue
- U.S. consumer has begun spending down its massive pandemic-savings stockpile
- The lagged impact of fifteen months of historically aggressive global tightening is likely to start weighing on economic resilience

## EQUITY MARKETS

- Narrow market breadth and leadership dominated 1H but pose concentration risk in 2H
- The Top 10, large and growthy, stocks accounted for 78% of S&P 500's YTD return – typically unsustainable longer term
- Market leaders seem overvalued relative to recent and historical P/E trends

## FIXED INCOME MARKETS

- Levels on high quality yields continue to provide ballast in balanced portfolios
- Treasury yields have likely peaked, reducing downside price risks
- Emphasis remains focused on high-quality fixed income as corporate bond spreads don't yet reflect possible slowing to economy or corporate balance sheets