CREWCIAL® PARTNERS

Q2 2023 | Global Market Summary

QUARTERLY HIGHLIGHTS

HALF EMPTY OR HALF FULL…

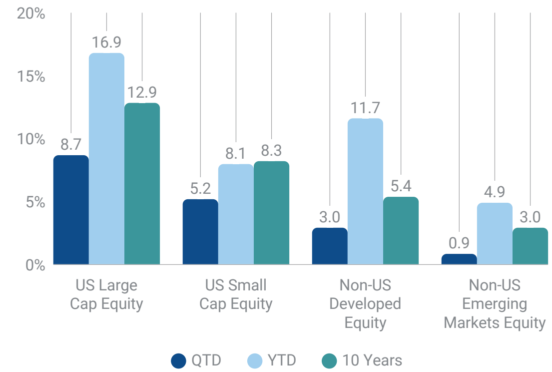
US

It has been over a year since the Federal Reserve (the Fed) made its historic shift from Quantitative Easing (QE) to Quantitative Tightening (QT), yet the recession highly anticipated by pundits has yet to take hold in the US. Economic growth was positive in the first quarter of 2023 and continued to roll along during the second quarter. A low and steady unemployment rate, wage growth, and downward trends in inflation continued to support consumer confidence, with both the Conference Board and University of Michigan surveys up over the quarter. Economic momentum in the services sector also remained robust, with ISM's service PMI ending the quarter at 53.9% (a reading above 50% indicates growth).

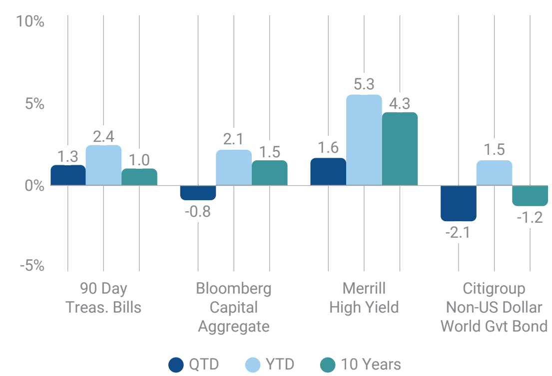
However, the US growth story also showed some cracks, as higher borrowing costs have worked their way through the system. Year to date through May, 286 US companies have filed for bankruptcy protection, including Silicon Valley Bank, Bed Bath & Beyond, and Vice Media—the highest number for the first five months of the year since 2010. ISM's Manufacturing PMI also pointed to a drop in activity, falling to 46% in June, its lowest level since May 2020.

In early June, President Biden signed HR 3746, "The Fiscal Responsibility Act of 2023," suspending the US government's $31.4 trillion debt ceiling and averting default with just two days to spare. The signing marked an end to a slow-burning crisis that vexed lawmakers and added to investor uneasiness about the direction of the economy. The centerpiece of the agreement includes a two-year suspension of the debt ceiling, caps and spending cuts on discretionary spending, permitting reform, and new work requirements for government benefits.

EQUITY MARKET PERFORMANCE



CREDIT MARKET PERFORMANCE



The Federal Open Market Committee (FOMC) met in May and June. It agreed to increase the federal-funds target rate corridor by 25 bps in May and to forego an increase in June; the corridor is currently 5.00-5.25%. At the June meeting, the Summary of Economic Projections (SEP) was updated: Fed officials increased the median projection for the federal-funds target rate at the end of 2023 from 5.1% to 5.6%; they also increased the median projection for real GDP growth in 2023 from 0.4% to 1.0%. The FOMC made no changes to its balance-sheet reduction plans ($95 billion per month); the Fed's balance sheet fell from $8.8 trillion to $8.4 trillion to close out Q2.

Investors continue to scrutinize the commercial real-estate sector as the market assumes the consequences of higher interest rates. Of particular concern is the office sector, which has experienced lower occupancy from the prevalence of remote work. Refinancing office properties has become increasingly difficult, as lenders have withdrawn from the sector and in-place rental incomes struggle to cover rising debt service costs. Recent headlines have highlighted notable office defaults by industry giants such as PIMCO, Brookfield, and Blackstone; however, the reality of the situation is more nuanced. Office owners have reported that the market is experiencing a "flight to quality." Substantial tenant demand exists for high-quality, class-A properties in an attempt by employers to entice employees back to the office. Conversely, leasing lower-quality properties has become considerably more challenging. Although the delinquency rate for office properties in CMBS has more than doubled over the past year, currently standing at 4.5% as of June 2023, it remains well below the all-time peak rate of 10.3% observed in 2012.

EUROPE

The EU's economic footing remained unsteady. According to data from Eurostat, the Eurozone experienced a mild recession starting in late 2022, with GDP declines of -0.1% for both Q4 2022 and Q1 2023. While some countries posted moderate growth, including Poland, Portugal, Croatia, and France, Germany, the region's largest economy, contracted as increases in exports and capital investment were overcome by declines in household consumption. More recently, the Hamburg Commercial Bank Eurozone Composite PMI Output Index compiled by S&P Global also turned negative from weakening demand and an especially steep drop in new orders at manufacturers.

Inflation in the Eurozone has trended downward since the start of the year, falling from 9.2% in December 2022 to 5.5% in June, with declining fuel costs offsetting an acceleration in prices for services. The initial run-up in inflation was driven by Russia's invasion of Ukraine and post-pandemic shortages of parts and raw materials. Energy and wheat prices have fallen back to pre-war levels and supply chain problems have eased, but inflation has persisted and remains above policymakers' targets. A tight labor market across the region has given trade unions more power to demand higher wages, adding to inflationary pressures. Remaining concerned about price stability, the European Central Bank (ECB) raised interest rates at both its May and June meetings, taking the main refinancing rate to 4.0%, its highest level in 22 years. Both the May and June rate increases were 0.25%, smaller than prior hikes, with authorities indicating a shift towards moderating the pace of monetary policy tightening as growth slows. However, ECB President Christine Lagarde maintained a relatively hawkish tone, noting in her speech after the ECB's June meeting that the central bank was unlikely to call a peak in rates any time soon and further hikes are likely.

CHINA

China's economic data, from industrial production and fixed-asset investment to retail sales and trade, fell short of expectations, indicating a potential stalling of the second-largest economy's post-pandemic recovery. Industrial production advanced by 3.5% year on year (YoY) in May, easing from a 5.6% YoY increase in April—falling behind market forecasts due to a lack of soft-goods demand at home and abroad (due to low base effects, a much bigger increase was expected). Retail sales also missed consensus expectations. Part of the reason concerns unemployment among young people aged 16 and 24 (who account for almost 20% of consumption in China), which hit a record high in May at 20.8%, four times the urban jobless rate for people of all ages at 5.2%. Regarding trade, exports fell 7.5% in May from a year earlier, the biggest decline since January, while imports contracted further.

In response to growth concerns, the People's Bank of China (PBOC) cut a key policy rate with a 10-basis-point reduction (from 3.65% to 3.55%) to its one-year loan prime rate (LPR); also, it reduced the five-year rate by the same margin, to 4.2%. These cuts followed the central bank's actions a week earlier, when it lowered its seven-day reverse repurchase rate from 2% to 1.9%, aiming to boost liquidity in the banking system and make short-term loans less expensive. The percentage of lending affected is small, but the move is significant, as it signals that the PBOC is unlikely to stop at monetary easing and likely to cut key interest rates further if necessary.

Beijing's regulatory crackdown on major tech companies in China, which started in late 2020, seems to be ending; Chinese policymakers have had a number of public meetings with large tech companies and highlighted their key role in supporting the economy. Concurrently, regulatory action reinforced the government's intention to promote the healthy development of internet platforms, which means encouraging them to lead economic growth, create more jobs, and compete globally. Nonetheless, the government still intends to exert control over specific applications within the technology sector.

JAPAN

In the first half of 2023, the Japanese economy benefitted from positive trends in domestic demand, capital spending, and inventory growth. Revised data from Japan's cabinet office showed that automaker and semiconductor inventories and manufacturing sector capital expenditure rose faster than previously reported, taking Japan's Q1 growth to 2.7% on an annualized basis. Building on first-quarter momentum, core machinery orders, considered a leading indicator of capital spending, increased by 5.5% in April compared to the previous month, driven by robust demand in the services sector for items like computers. In May, Japan's exports notched their 27th straight month of growth, driven by strong car sales. However, the rate of export growth has slowed considerably in recent months due to slowing demand from China. Meanwhile, the services sector has continued to trend positively following the easing of COVID-19 restrictions.

Sentiment surveys continued to point toward a mixed picture for the Japanese manufacturing sector. After expanding in May, the au Jibun Bank Flash Japan Manufacturing Purchasing Managers' Index fell back into contractionary territory in June. The soft PMI reading was primary due to declining orders from overseas customers. This was juxtaposed with unanimously positive surveys for the services sector.

The Tankan survey for June reported non-manufacturers' business sentiment hit its highest level since June 2019, with sub-indices that focus on hotels and restaurants hitting record highs. Following an easing of COVID-19 travel restrictions, the number of visitors to Japan has climbed back to pre-pandemic levels, reaching 1.9 million in May (according to the Japan National Tourism Organization).

The Bank of Japan (BOJ) maintained its short-term interest rate target at -0.1% and made no changes to its yield-curve control policy at its June meeting. In his first speech as governor, Kazuo Ueda was unwavering in his support for patiently maintaining the BOJ's loose monetary policy and stressed taking a risk-management approach towards policymaking, as premature tightening comes at a high cost. Inflation remains a key focal point for Japanese policymakers and is expected to influence future rate decisions. During speaking engagements later in the quarter, Governor Ueda stressed that the BOJ has seen positive signs that the country's inflation rate is heading towards its target, despite currently being below target, with businesses increasingly comfortable raising prices and wages.

COMMODITIES

The S&P Goldman Sachs Commodity Index (SPGSCI) ended the quarter with a total return of -2.73%, as the majority of all commodity constituents fell for a consecutive quarter. The index's negative performance was attributed to weaker prices in industrial metals and energy, tempered by stronger prices in livestock. In the industrial metals sector (S&PGSCI Industrial Metals), nickel, zinc, and aluminum prices all sharply fell during the quarter. Energy (S&PGSCI Energy) also fell as prices for crude oil, Brent crude, heating oil, and gas oil declined, while prices for unleaded gasoline and natural gas were modestly higher.

Livestock (10.55%, S&P GSCI Livestock) outperformed all other SPGSCI sub-index constituents and was the only positive-performing commodity. In agriculture (S&PGSCI Agriculture), drastically higher prices for soybeans and cocoa failed to offset price declines across sugar, coffee, and corn, with a 3.02% return.

During the quarter, the benchmark digital token Bitcoin returned 6.90%, while the return of the second most popular digital token, Ethereum (ETH), was 6.00% (Bitcoin and ETH have returned 84.30% and 61.60%, respectively, YTD 2023). One of the main narratives continuing to challenge the digital-assets space is regulation (or lack thereof); Q2 brought developments in this space and showcased the various paths different jurisdictions are taking. During the quarter, MiCA, the long awaited European regulatory framework around digital assets, was adopted by the European Union, providing some clarity around investor and consumer protection alongside a system for issuers and service providers. In the US, however, different institutions continue to progress at their own pace, as the House of Representatives and Congress are legislating on various bills that include crypto in various ways. The most notable bills—the Responsible Financial Innovation Act and Digital Asset Market Structure Draft—if passed, would simplify the status of digital assets (largely as commodities).

ECONOMIC INDICATORS

UNEMPLOYMENT

A total of 732,000 jobs were created in the second quarter of 2023, lagging the previous quarter's gains by 302,000. The US economy added 209,000 jobs in June, which falls below the average monthly gains over the last six months (+278,000). June's notable job gains occurred within the following industries: government (+60,000), healthcare (+41,000), social assistance (+24,000), construction (+23,000), leisure and hospitality (+21,000), and professional and business services (+21,000).

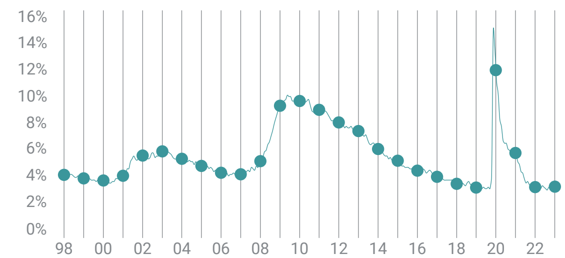
The unemployment rate remains stable, rising by 0.1% from the previous quarter's average to an average of 3.6%. Since March 2022, the unemployment rate has remained within the 3.5% to 3.7% range. The number of unemployed persons (6 million) is following a similar trend, experiencing minimal net movement. Average hourly earnings for all employees on private non-farm payrolls increased by 0.4%, to $33.58. Over the past twelve months, average hourly earnings have increased by 4.4%.

CPI

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.2% in June, following an increase of 0.1% in May. Over the twelve months ending in June, the all-items index increased by 3% before seasonal adjustment. Key contributors to the CPI include the fuel oil index (-36.6%), which tempered increases across the transportation services (+8.2), shelter (+7.8%), and food (5.7%) indices. The index for all items less food and energy rose 0.2% in June and 4.8% over the last twelve months; rising shelter costs were the largest factor in the monthly increase for the index.

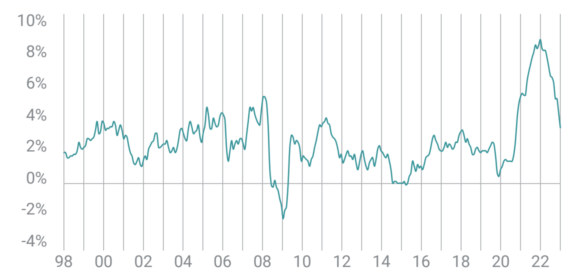
UNEMPLOYMENT RATE

25 YEARS THROUGH JUNE 2023



ROLLING 12 MONTH CONSUMER PRICE INDEX

25 YEARS THROUGH JUNE 2023



VIX

Market volatility had an average close in Q2 2023 of 16.44, trending down from the previous quarter's average of 20.68 and Q4 2022's average of 25.00. According to data from the CBOE, investors traded an average of 850,000 VIX options contracts per day in June, the most since March 2020. The VIX ended the quarter below its five-year average of 20.00; the significant drop in the index since late 2022 indicates an investor shift towards optimism despite heighted economic-development pressures (interest rates and inflation) and geopolitical risks.

GDP

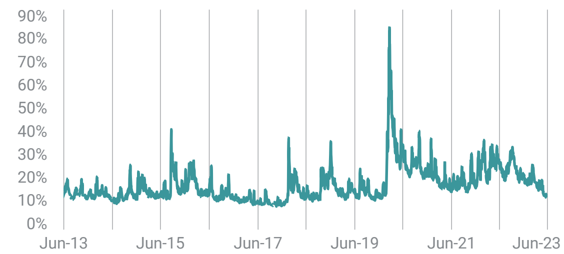
During Q1 2023, real GDP rose at an annual rate of 2.0%, down slightly from Q4's growth rate of 2.6%, driven by consumer spending, exports, state and local government spending, federal government spending, and non-residential fixed investment, and partly offset by decreases in private inventory investment and residential fixed investment. The slowing in the first quarter primarily reflected a downturn in private inventory investment and a drop in non-residential fixed investment only partly offset by an acceleration in consumer spending and an upturn in exports.

RETAIL SALES

Total retail and food sales increased 0.3% in May 2023, up from the previous month and up 0.7% compared to May 2022. The total sales spanning December 2022 through May 2023 were up 3.5% compared to the same period one year ago. Significant contributors included food services and drinking places (up roughly 12.9% from May 2022), and healthcare and personal care (up by roughly 7.7% from last year).

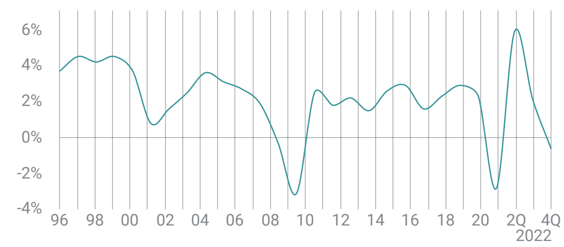
CBOE VIX DAILY CLOSING VALUES

LAST 10 YEARS



REAL GROSS DOMESTIC PRODUCT

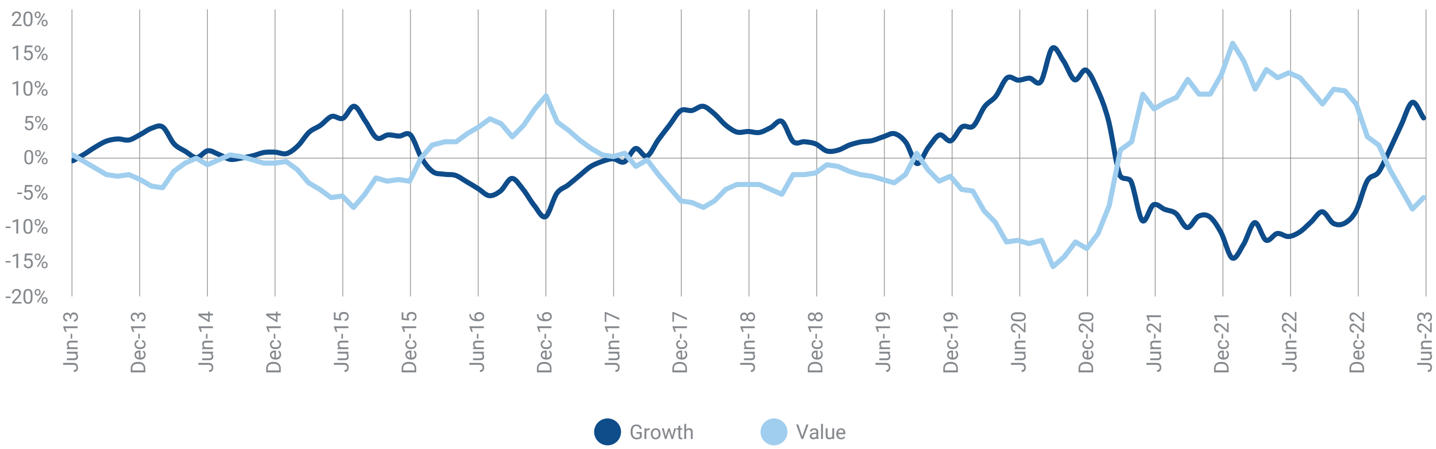
25 YEARS THROUGH 4Q2022



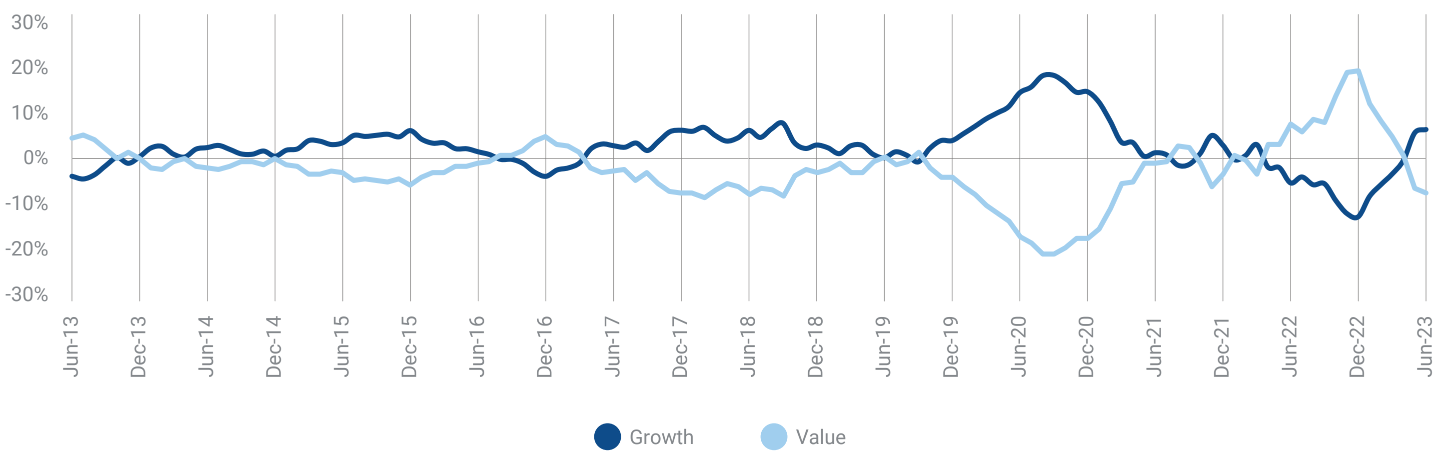
RETURNS BY STYLE

	Q2 2023	YTD		Q2 2023	YTD
Large Cap Value	4.1%	5.0%	Large Cap Growth	14.4%	32.2%
Mid Cap Value	3.9%	5.2%	Mid Cap Growth	6.2%	15.9%
Small Cap Value	3.2%	2.5%	Small Cap Growth	7.1%	13.6%

SMALL CAP VALUE VS. GROWTH
ROLLING 1 YEAR PERFORMANCE VS. RUSSELL 2000
6/30/2013 TO 6/30/2023



LARGE CAP VALUE VS. GROWTH
ROLLING 1 YEAR PERFORMANCE VS. RUSSELL TOP 2000
3/31/2013 TO 3/31/2023



SECTOR RETURNS BY CAPITALIZATION

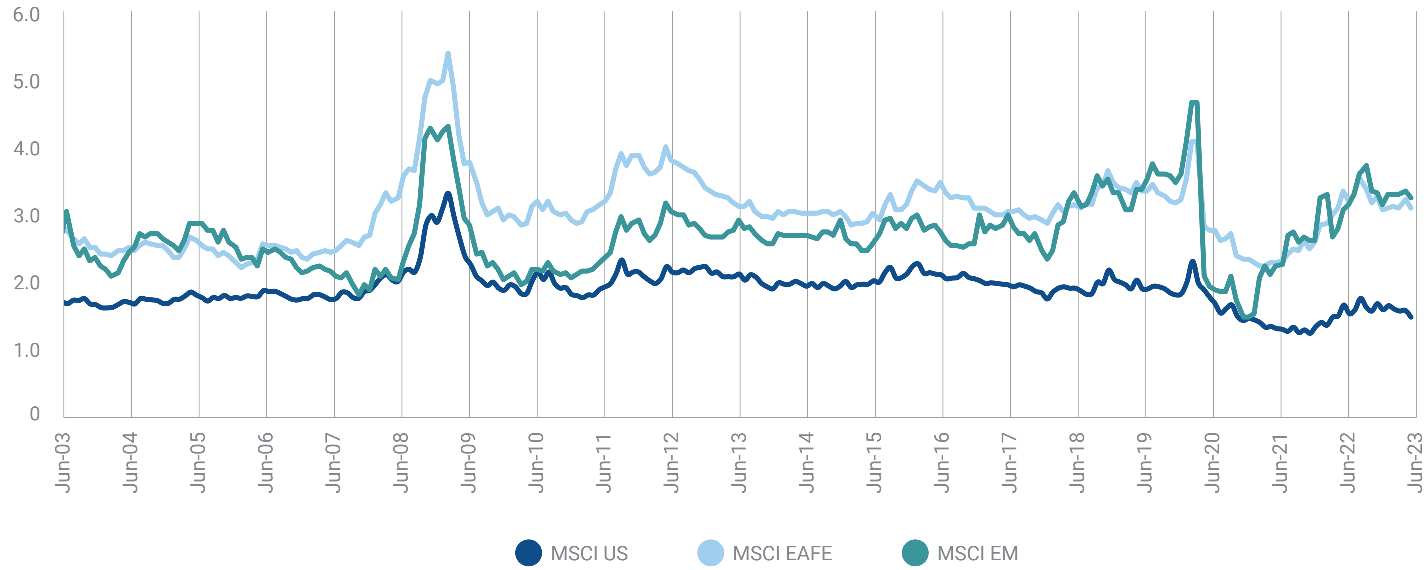
	U.S. Large Cap		U.S. Mid Cap		U.S. Small Cap	
	Q22023	YTD	Q22023	YTD	Q22023	YTD
Basic Materials	3.6	10.7	-1.8	4.7	1.1	8.5
Consumer Goods	1.0	-1.3	1.8	4.3	1.2	4.0
Consumer Services	12.7	31.5	7.5	18.4	3.7	16.0
Financials	6.6	1.9	2.7	-4.2	-1.3	-9.9
Health Care	3.3	-1.8	1.0	4.9	11.2	9.2
Industrials	4.5	7.3	9.1	16.5	9.4	18.4
Oil & Gas	-1.9	-5.9	-0.2	-7.2	4.7	-0.3
Real Estate	-1.0	3.6	3.9	3.8	2.7	3.1
Technology	19.9	52.1	9.3	25.3	8.0	22.6
Telecommunications	-1.4	4.9	-4.4	7.6	3.2	6.3
Utilities	-2.1	-5.8	-1.2	-2.5	-3.1	-0.6

Source: Russell Investments & Industry Classification Benchmark

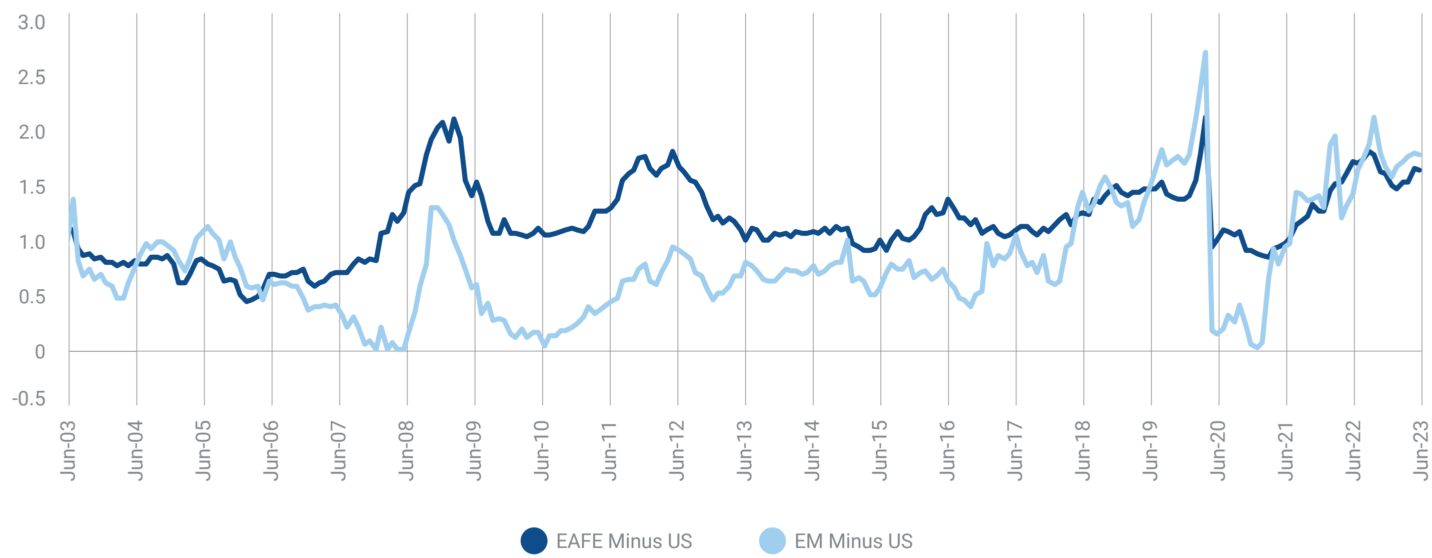
*Large Cap: Russell Top 200 Index Mid Cap: Russell Mid Cap Index Small Cap: Russell 2000 Index

GLOBAL EQUITY RATIOS

DIVIDEND YIELDS

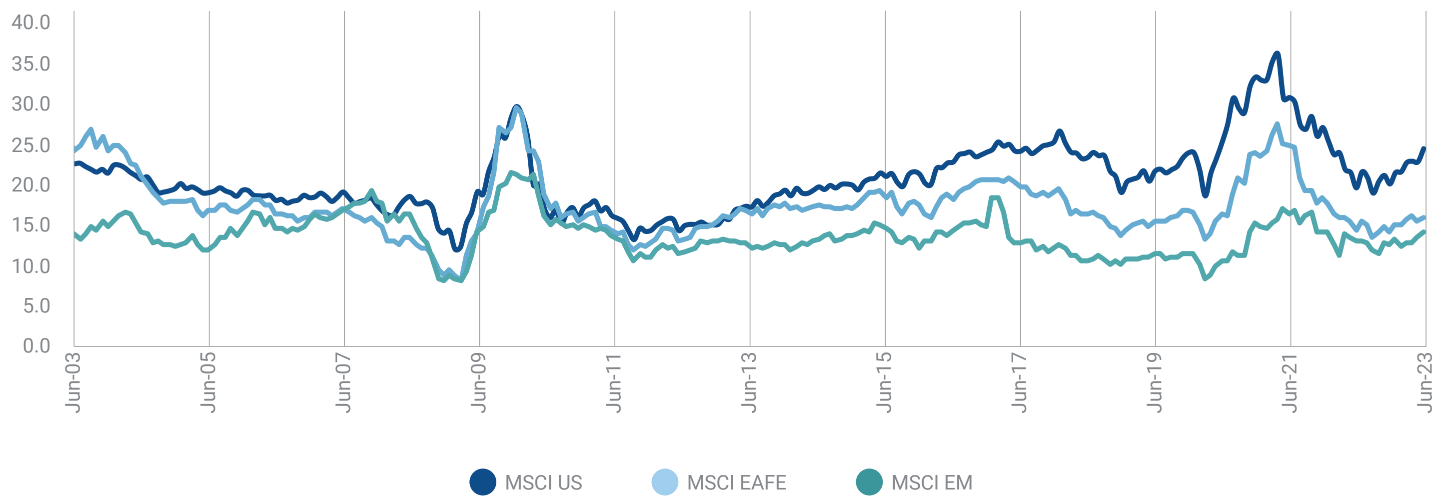


DIVIDEND YIELD DIFFERENTIALS

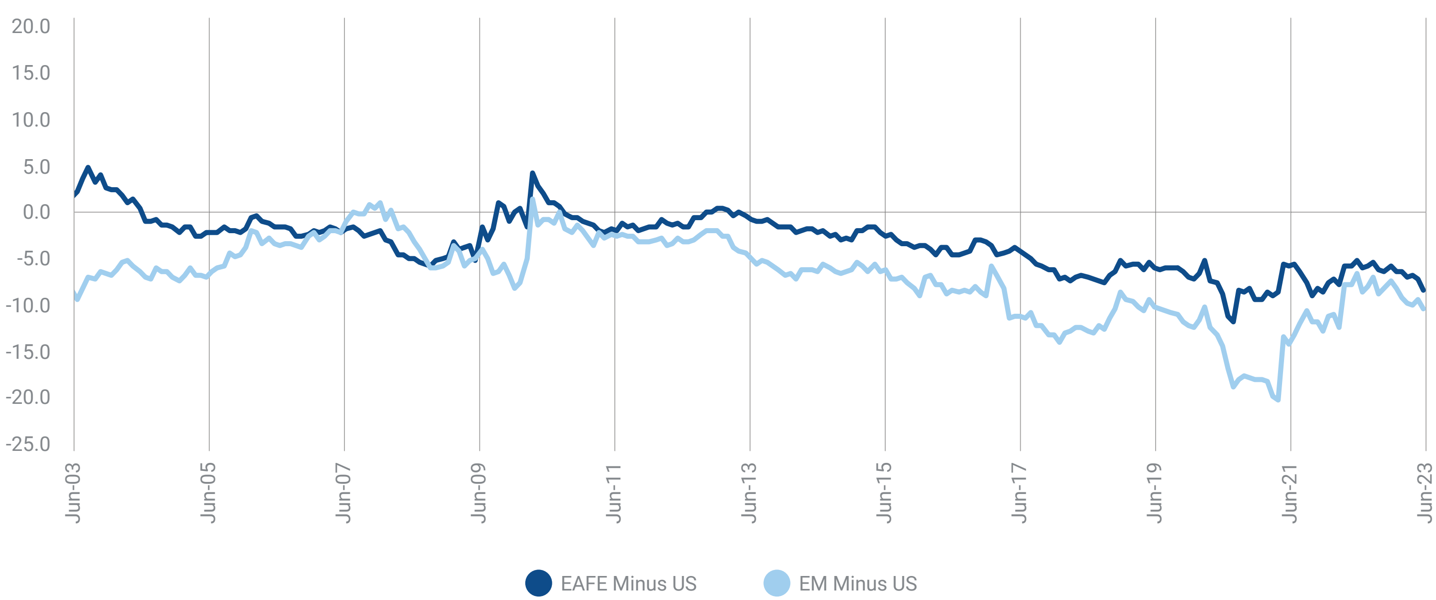


GLOBAL EQUITY RATIOS

PRICE/EARNINGS RATIOS



PRICE/EARNINGS RATIO DIFFERENTIALS



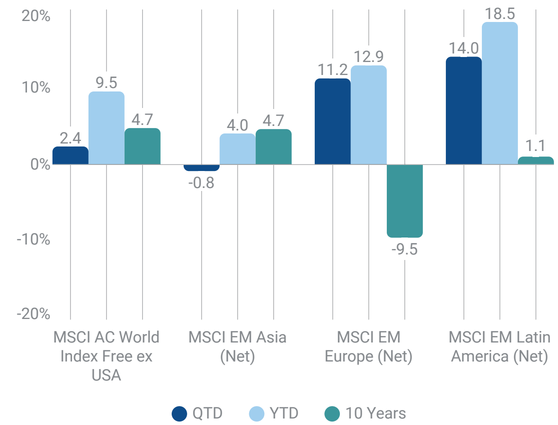
GLOBAL EQUITY PERFORMANCE

The global equity market climbed higher with the S&P 500, MSCI EAFE, and MSCI Emerging indices posting gains of 8.7%, 3%, and 0.9%, respectively. US large-cap equities led; the advance came amid signs of moderating inflation and resiliency despite higher interest rates. Enthusiasm about the impact of AI (artificial Intelligence) boosted technology-related sectors and the tech-heavy Nasdaq had its best first half since 1983.

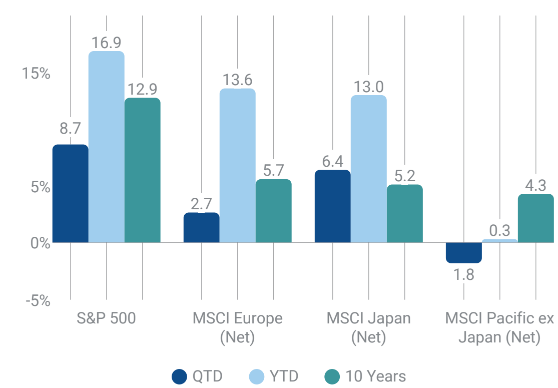
The MSCI All Country World Index (ACWI) finished the quarter 6.18% higher, as US and international developed markets posted positive performance. Europe, Japan, and the emerging markets (ex. China) benefited from falling energy prices and an easing of COVID-related supply chain issues. European equities added to their earlier gains with notable performances from Italy (+8.2%) and Spain (+5.6%). Meanwhile, Finland was the worst-performing European market.

Hungry and Poland were the best-performing EM markets, as both rebounded from a difficult 2022 performance. Brazil (+20.7%) also posted double-digit gains, as President Luiz Inacio Lula da Silva announced plans reemphasizing economic growth as a top priority. Meanwhile, China was among the worst-performing EM markets; equities declined after a cluster of disappointing indicators raised concerns that the country's post-pandemic recovery is losing momentum.

GLOBAL EQUITY MARKET PERFORMANCE



DEVELOPED EQUITY MARKET PERFORMANCE



US VALUATIONS

Price multiples increased across the domestic equity market in Q2. Growth equities experienced the steepest rise in sentiment, as large-, mid-, and small-cap equities each experienced a double-digit percentage increase in forward P/E. Value-style equities also increased across the cap spectrum, but at a more muted rate. On a normalized basis, the S&P 500 Index remains expensively priced, trading at a cyclically adjusted P/E ("CAPE") more than two standard deviations above its long-term average.

US equities are expected to report a year-over-year earnings decline of -7.2% for the second quarter, which would mark its third consecutive quarterly earnings decline. While earnings estimates were lowered over the course of the quarter, the pace of downward revisions has slowed from recent periods. 59% of companies have issued negative earnings guidance while 41% have issued positive guidance; both of these figures are directly in-line with their five-year averages. Overall, seven of the eleven sectors are projected to grow earnings, led by consumer discretionary (+27%) and communication services (+13%), while real estate, industrials, financials, utilities, and consumer staples are expected to grow by 1-6% each. Conversely, energy (-48%), materials (-31%), healthcare (-17%), and tech (-3.7%) are expected to post declines.

INTERNATIONAL VALUATIONS

Multiples across non-US developed equities widened across both value and growth in Q2. On both an absolute and relative basis, international equities continue to trade at a discount relative to historical averages. Emerging-market valuations also trended higher in Q1, although they remain cheap on both an absolute and relative basis.

Europe is expected to grow earnings by 4% in 2023 and 7% in 2024, while Japan is expected to grow 3% and 8%, respectively. The broader emerging markets are expected to see earnings contract by 9% in 2023 before growing by 18% in 2024.

ON A NORMALIZED BASIS, THE S&P 500 INDEX REMAINS EXPENSIVELY PRICED, TRADING AT A CYCLICALLY ADJUSTED P/E MORE THAN TWO STANDARD DEVIATIONS ABOVE ITS LONG-TERM AVERAGE.

US VALUATIONS

US Large Cap Equity	Quarter Ending 06/30/2023		Quarter Ending 03/31/2023	
	Value	Growth	Value	Growth
Price/Earnings Ratio	19.3	38.8	18.6	32.2
IBES LT Growth (%)	6.5	13.1	8.0	12.0
1 Year Forward P/E Ratio	15.0	27.3	14.7	24.0
Negative Earnings (%)	10.7	4.0	6.7	8.6

US Mid Cap Equity	Quarter Ending 06/30/2023		Quarter Ending 03/31/2023	
	Value	Growth	Value	Growth
Price/Earnings Ratio	20.6	48.8	19.0	38.1
IBES LT Growth (%)	8.2	16.5	9.2	15.7
1 Year Forward P/E Ratio	15.0	23.9	14.3	21.3
Negative Earnings (%)	13.6	21.0	12.1	15.8

US Small Cap Equity	Quarter Ending 06/30/2023		Quarter Ending 03/31/2023	
	Value	Growth	Value	Growth
Price/Earnings Ratio	19.5	14.6	20.1	13.7
IBES LT Growth (%)	8.6	14.7	9.2	14.2
1 Year Forward P/E Ratio	11.2	19.2	11.0	16.8
Negative Earnings (%)	25.0	35.3	24.9	29.7

INTERNATIONAL VALUATIONS

International Equity	Quarter Ending 06/30/2023		Quarter Ending 03/31/2023	
	Value	Growth	Value	Growth
Price/Earnings Ratio	10.1	29.1	10.7	26.4
IBES LT Growth (%)	4.7	13.1	5.4	13.0
1 Year Forward P/E Ratio	9.6	21.5	9.3	20.6
Negative Earnings (%)	4.1	4.2	6.4	3.8

Emerging Markets Equity	Quarter Ending 06/30/2023	Quarter Ending 03/31/2023
	Value	Value
Price/Earnings Ratio	14.6	21.6
IBES LT Growth (%)	11.5	9.4
1 Year Forward P/E Ratio	13.8	17.9
Negative Earning (%)	5.4	6.3

Source: Russell Investments Total Equity Profile

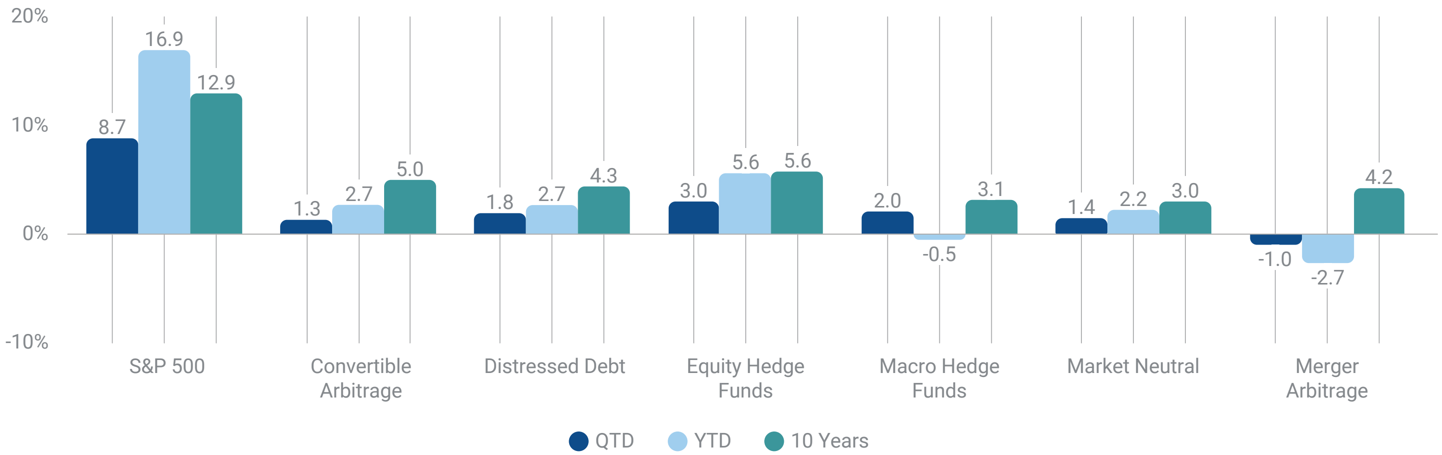
NON-US DEVELOPED/EMERGING CAP & STYLE: MSCI AC WORLD EX - US INDICES (SOURCE: MSCI - DATA SOURCED 'AS IS')

	Q2 2023	YTD		Q2 2023	YTD
Large Cap Value	3.4%	8.7%	Large Cap Growth	2.0%	11.0%
Mid Cap Value	1.2%	6.5%	Mid Cap Growth	1.9%	9.6%
Small Cap Value	2.3%	6.2%	Small Cap Growth	1.8%	7.6%

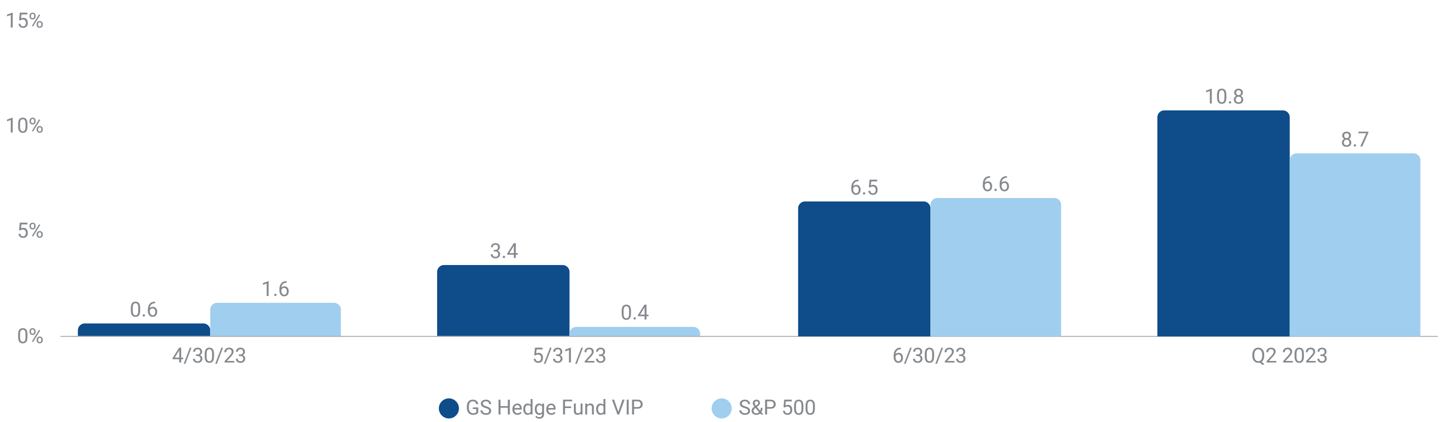
Country	Best Performing Style
Australia	Growth
Brazil	Value
Canada	Growth
China	Value
France	Growth
Germany	Value
Hong Kong	Value
Indonesia	Value
Italy	Value
Japan	Value
Mexico	Value
Singapore	Value
Spain	Growth
Thailand	Value
United Kingdom	Growth

HEDGE FUND PERFORMANCE

HFR HEDGE FUND STRATEGY RETURNS

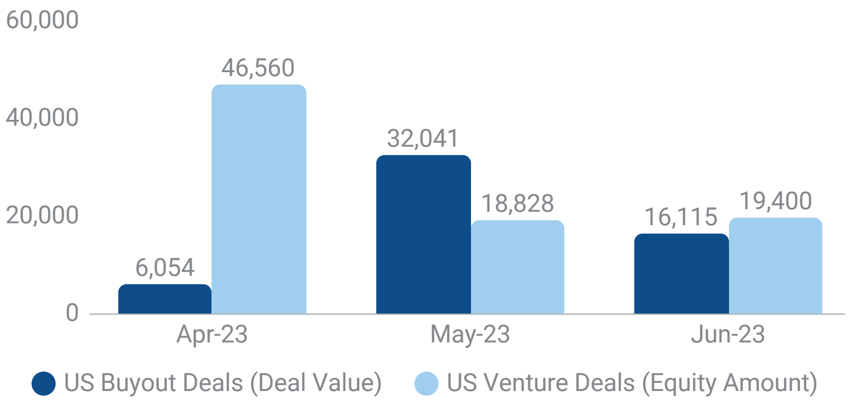


GS HEDGE FUND VIP INDEX
(THE 50 STOCKS MOST WIDELY HELD BY HEDGE FUNDS)

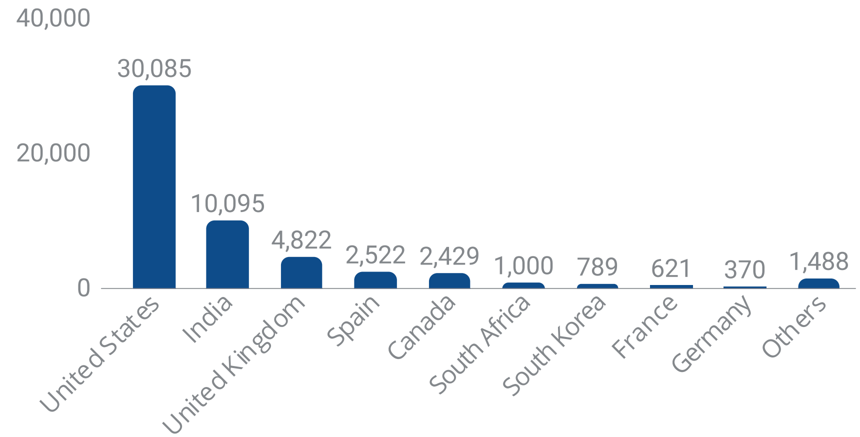


PRIVATE EQUITY PERFORMANCE

Q2 2023 PRIVATE EQUITY DEALS
(USD MIL)



Q1 2023 PE DEALS BY VALUE
(USD MIL)
SNAPSHOT AS OF 7/10/2023

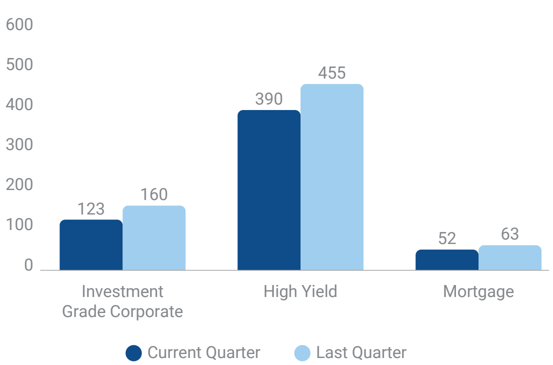


US SPREAD PRODUCTS

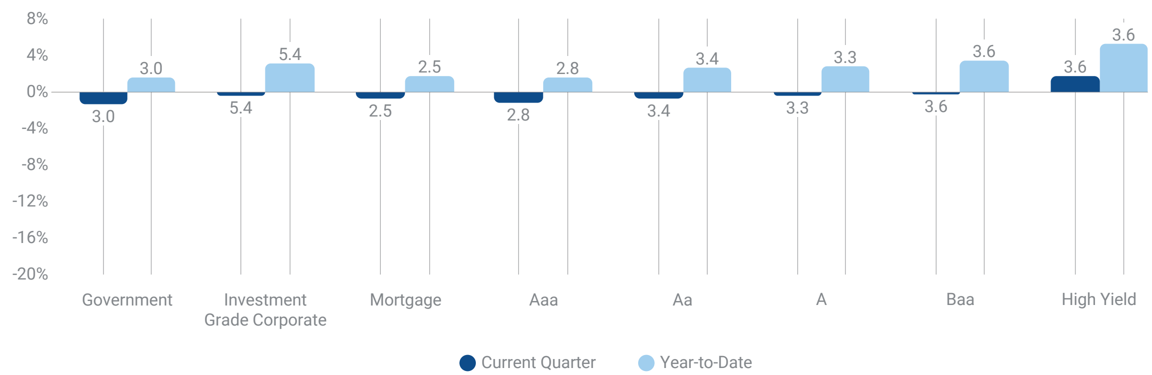
The investment-grade corporate bond market returned -30 bps for the quarter; the return drivers were rates (-), spreads (+), and coupons (+). This market's option-adjusted spread (OAS) tightened by 15 bps to end the quarter at 123 bps, close to the ten-year median of 122 bps. Given the more favorable risk environment, higher-quality credits underperformed for the quarter: Aa-rated corporates, -70 bps; A-rated corporates, -40 bps; and Baa-rated corporates, flat. This market's issuance totaled approximately $333 billion for the quarter, an increase of approximately 18% from the corresponding period in 2022.

The high-yield corporate-bond market returned 1.7% for the quarter; the return drivers were rates (-), spreads (+), and coupons (+). This market's OAS narrowed by 65 bps to end the quarter at 390 bps, which is modestly below the ten-year median of 401 bps. Given the more favorable risk environment, lower-quality credits outperformed for the quarter: Caa-rated corporates, 4.2%; B-rated corporates, 1.9%; and Ba-rated corporates, 0.9%. This market's issuance totaled approximately $56 billion for the quarter, an increase of approximately 115% from the corresponding period in 2022.

YIELD SPREADS
(BASIS POINTS)



RETURNS BY SECTOR AND QUALITY (%)



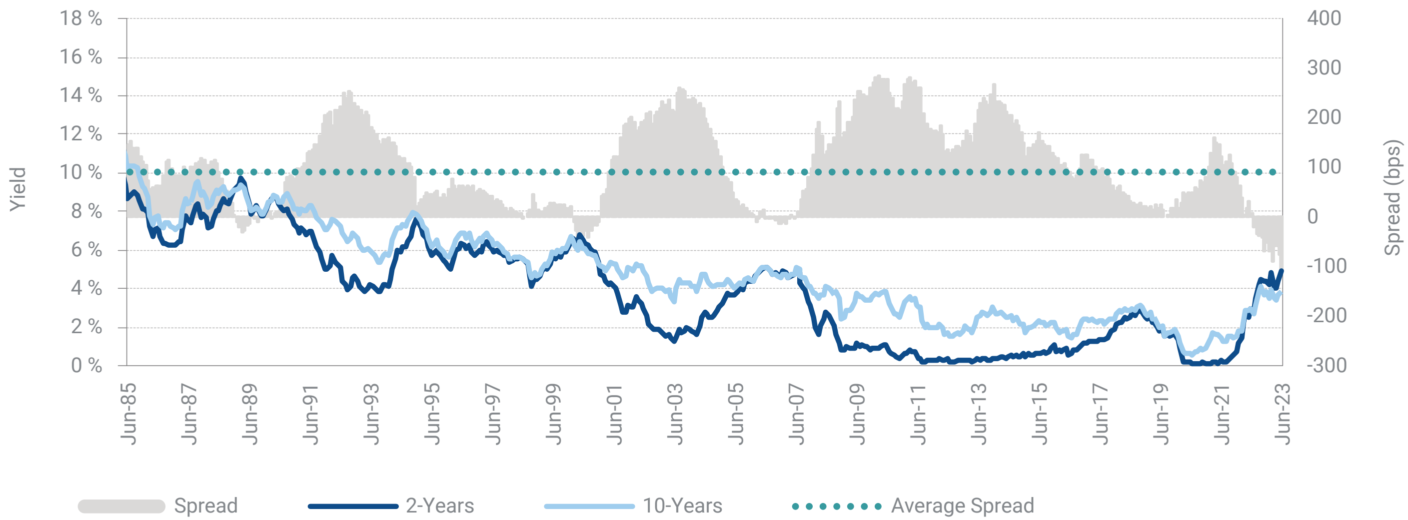
YIELD CURVE

US Treasury yields increased meaningfully across all points on the curve during the second quarter; economic momentum continued apace, while banking-sector concerns receded. Notably, yields increased on the three-month bill (+58 bps to 5.43%), two-year note (+81 bps to 4.87%), ten-year note (+33 bps to 3.81%), and 30-year bond (+18 bps to 3.85%). The two- to ten-year spread fell by 48 bps to -106 bps to reach its deepest inversion since the early 1980s; the spread is currently more than two standard deviations below its historical mean (90 bps). Despite elevated interest-rate volatility, the five- to 30-year part of the curve was little changed to end the first half of the year.

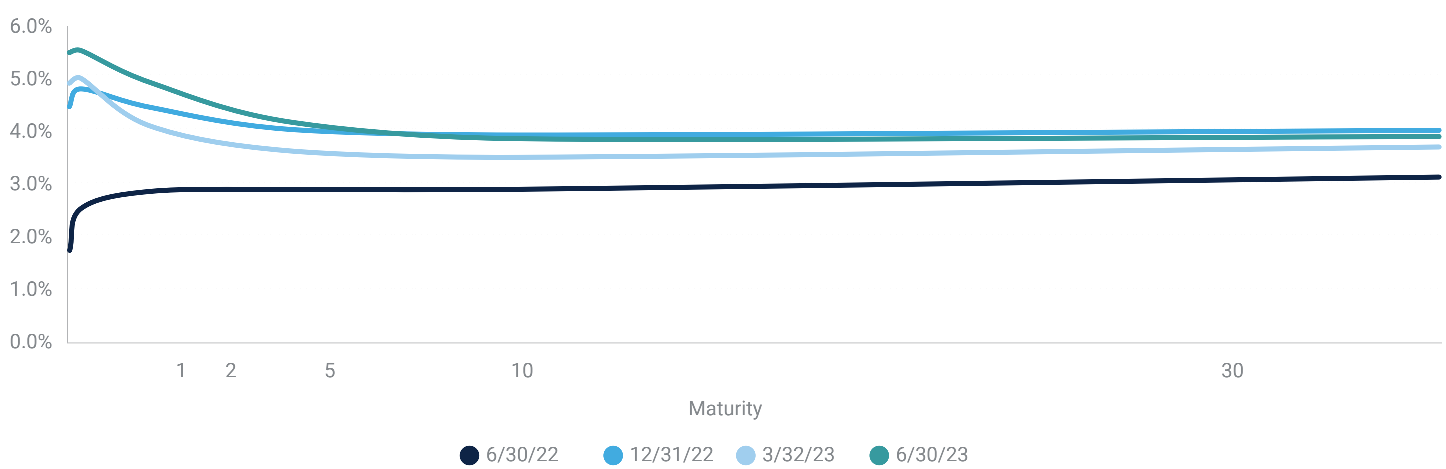
At the end of the quarter, the federal-funds futures market predicted a target rate of 5.4% by the end of 2023, approximately 20 bps below the figure expected by Fed officials.

“DESPITE ELEVATED INTEREST-RATE VOLATILITY, THE FIVE- TO 30-YEAR PART OF THE CURVE WAS LITTLE CHANGED TO END THE FIRST HALF OF THE YEAR.”

2 YEAR VS. 10 YEAR TREASURY YIELDS



TREASURY YIELD CURVE



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