

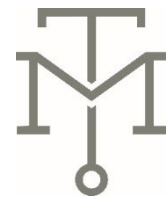
T I M O N I E R

Wealth Beyond Financial

From the Engine Room

Quarterly Market Review

Second Quarter 2023





Quarterly Market Review

Second Quarter 2023

This report features world capital market performance and a timeline of events for the past quarter. It begins with a global overview, then features the returns of stock and bond asset classes in the US and international markets. The report concludes with a quarterly topic.

Overview:

Q2 2023 in Review

Market Summary

World Stock Market Performance

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International Developed Stocks

Emerging Markets Stocks

Country Returns

Real Estate Investment Trusts (REITs)

Commodities

Fixed Income

Global Fixed Income

Quarterly Topic: Let the Compounding Commence!



What Fitch's U.S. Debt Downgrade Means for Investors Q2 2023 in Review

Nicholas Baker, AAMS® | Wealth Planning Advisor

In the second quarter investment markets continued their positive march since their October 2022, market trough, despite Fed rate hikes, market sensitivity, and lingering worries of a recession. And 2023 has had no shortage of provocative headlines. In this letter I'll be discussing the topics of conversation we have experienced in client sessions over the quarter in hopes to bring some context to the chatter.

On August 1st, Fitch, a credit ratings agency, downgraded the U.S. debt from AAA (the highest rating) to AA+. Fitch warned of a possible downgrade during the debt ceiling crisis earlier this year and has sounded alarms since 2011 when a similar crisis occurred. Investors, economists, and business leaders view the downgrade itself as low significance (mostly due to the fact that AA+ still represents an extremely low default risk) that will not materially impact financial markets. What drove the downgrade of the U.S. debt and how can long-term investors maintain a balanced perspective?

With investing, as in life, it's important to know not just *what* to worry about, but *when* to do so. The national debt is rightfully a source of investor worry but this has been the case for decades. As citizens and taxpayers, there are important ways to voice and act on these concerns. As investors, however, focusing too much on these issues, especially at the wrong times, can lead to poor financial and investment decisions in the worst case, and unnecessary anxiety in the best case. Understanding how these issues impact a properly constructed portfolio that meets the needs of a long-term financial plan is what's most important.

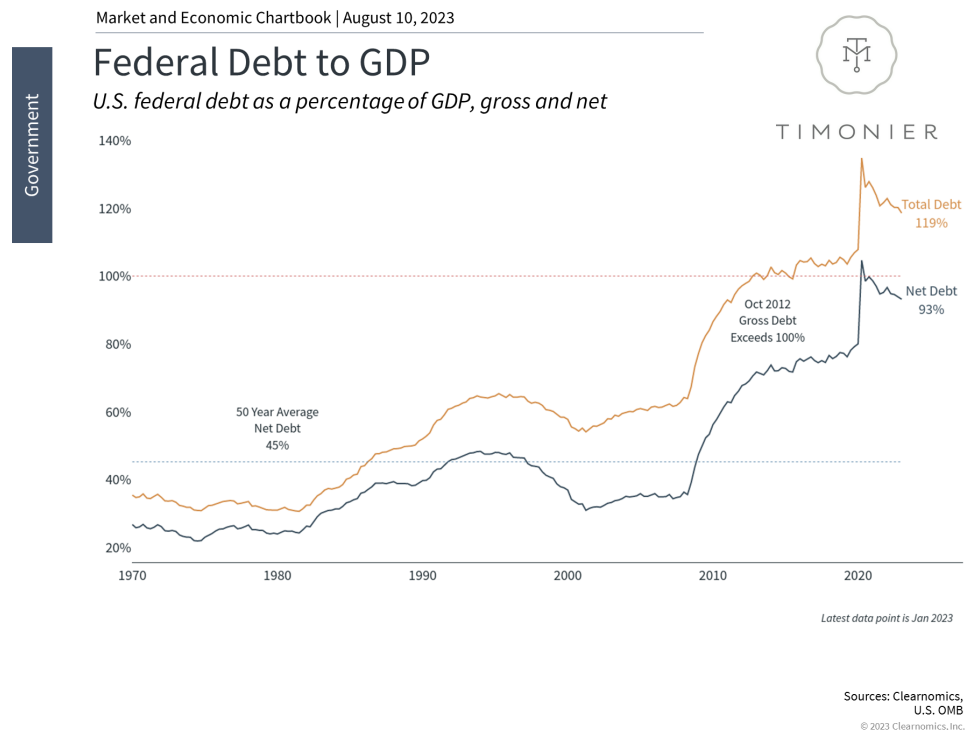
It's no secret that the level of the national debt has grown considerably in recent years, from \$9 trillion in 2008 to over \$31 trillion today. Regardless of how you slice it, debt levels have risen dramatically with little end in sight. This is largely due to periods of economic turmoil, especially the 2008 financial crisis and the 2020 pandemic, that required government stimulus. Unfortunately, there are few examples of the federal government not just running a balanced budget but operating at a surplus. This last occurred during the dot-com boom under the Clinton administration and, before that, in the early 1970s under President Nixon.



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National Debt Levels - 20 Year Chart



Fitch's downgrade reflects the fiscal and political climate with which investors are already familiar. While their decision was based on the familiar factors of worsening government revenues, Fed tightening, and the possibility of a recession, it was largely driven by the "repeated debt-limit political standoffs and last-minute resolutions" in Washington. This is important because it draws a distinction between the *ability* to pay the country's debts versus the *willingness* to do so. Most would agree that national politics has only grown more divisive over the past two decades. It has only been two months since the last debt ceiling standoff was resolved and the agreement only kicked the can down the road to January 2025. Fiscal policy, and emergency government spending must improve in conjunction with the feds monetary policy to right the economic ship in the long term.

The U.S. now has ratings of AAA from Moody's, AA+ from Standard & Poor's, and AA+ from Fitch. Only nine countries, plus the European Union, maintain the top ratings across the three major credit ratings agencies, including Germany, Switzerland, Australia, and Singapore.

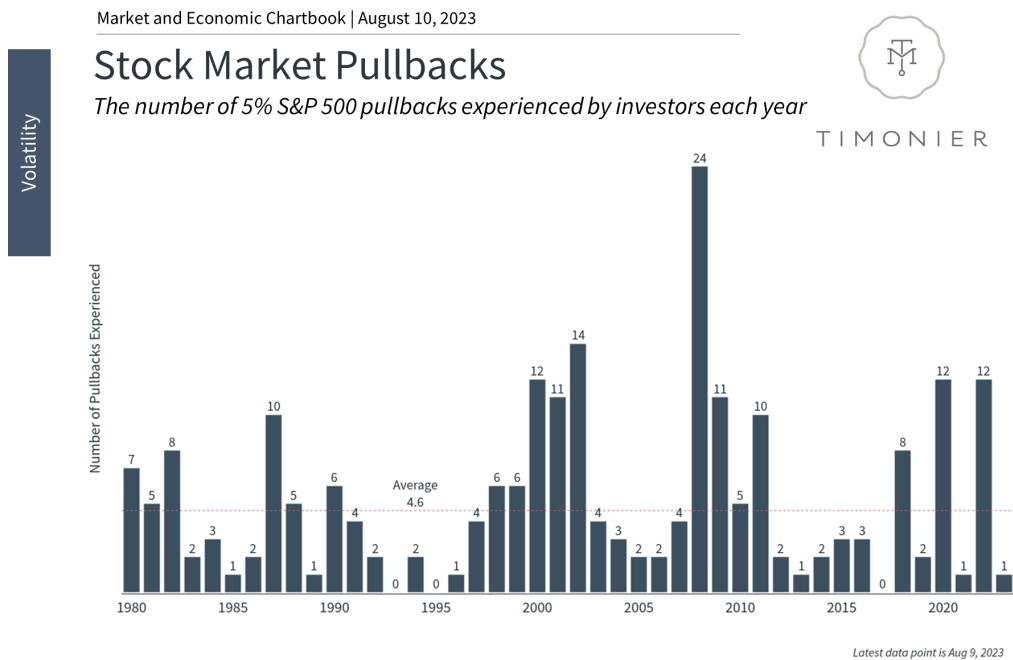


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It is important to note that despite political headwinds, aggressive rate hikes, and credit downgrades the US economy remains strong and labor markets are showing signs resilience. Investors should however always be prepared for periods of market uncertainty, especially given the low level of volatility this year. The accompanying chart shows that there has only been one pullback of 5% or more this year which occurred in March during the banking crisis, compared to the 38-year average of similar happenings 4.6 times per year.

Markets Shaking Off Headlines





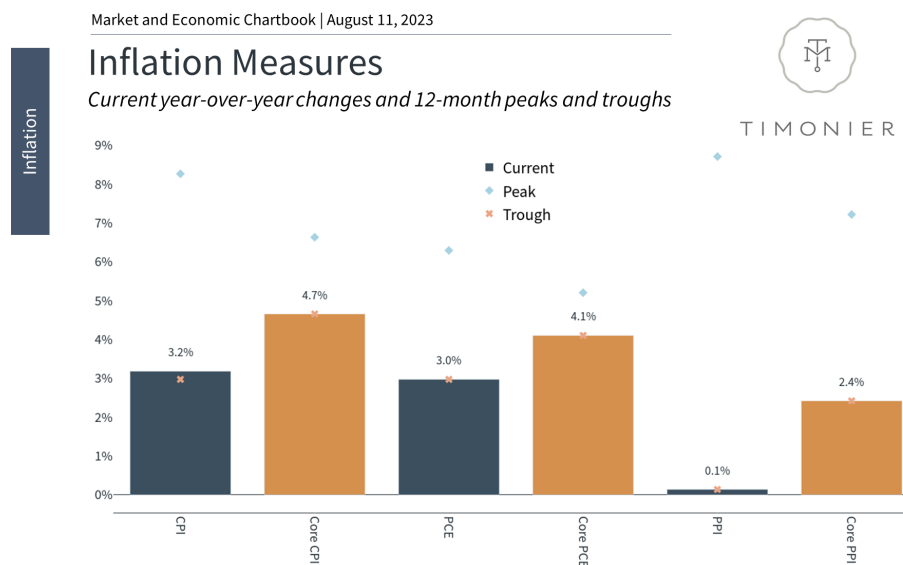
What Fitch's U.S. Debt Downgrade Means for Investors Q2 2023 in Review

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The national debt and the fiscal standing of the U.S. matters for many reasons. But from an investment perspective, the irony is that the best times to invest have been when the deficit has been the worst. This is because government spending increases - both in absolute terms and relative to GDP - during recessions and crises. In hindsight, these periods coincide with the most attractive prices and valuations. Ultimately, history shows that investors are rewarded for investing when others are fearful.

In more positive news, market and economic expectations have shifted 180 degrees since the start of the year when many investors expected a recession and prolonged bear market. Ongoing economic growth, low unemployment, improving price pressures, and slowing Fed rate hikes have spurred a strong market rally, especially across areas that struggled last year. While the economic situation is far from perfect and investors should always be prepared for uncertainty, it's also important to recognize the positive trends that are raising the odds of a "soft landing."

Inflation Showing Improvement Across Many Measures



Sources: Clearnomics, Bureau of Labor Statistics, Bureau of Economic Analysis
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What Fitch's U.S. Debt Downgrade Means for Investors Q2 2023 in Review

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The Fed's challenge since they began raising rates in March 2022 has been to strike a balance between beating inflation and preventing a recession, i.e., achieving a so-called "soft landing." Recent data for both consumer and producer prices show meaningful signs of deceleration toward Fed targets. The Consumer Price Index (CPI) has slowed from a peak year-over-year rate of 8.6% a year ago to only 3.2% today. Core inflation remains elevated when comparing prices this year to last year. However, the monthly pace slowed to only a 1.9% annualized pace. These are all positive signs and suggest that while prices could remain high, there is already far less upward pressure. The absence of a recession so far, alongside these inflation data points, is positive and a big reason for this year's market rally. As we move away from peak year over year inflation comparisons, it will be more important to monitor the month over month changes to gauge how effective this rate hike campaign has been. All eyes will be on Chair Powell as future rate hikes, pauses, skips, or reductions are announced and how the US economy will emerge from this point in history.

While macro and micro economic data can be fundamental tools when assessing and interpreting the strength of financial markets and portfolios, the key to success resides in one's adherence to their long-term investment and financial plan, tracking goal evolution, benchmarking results, and updating on an annual basis. Let's always exercise our ability to control the factors within our control and stress test and/or prepare for the factors unknown.




In closing, I would like to remind everyone that if we have not had the opportunity to conduct a review with you this year, please feel free to reach out as your time allows so we can remedy this situation. Our mission and goal is to ensure the framework of your successful retirement future is build on a solid foundation.

As we move into the second half of the year let's view this time as an opportunity to get re-organized, rejuvenated, and involved in making sure your financial home is in good order. I look forward to our ongoing and future communications and want to express a big THANK YOU, as always, for the opportunity to serve as your team of trusted investment fiduciaries.



Quarterly Market Summary

Index returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Q2 2023	STOCKS				BONDS	
	8.39%	3.03%	0.90%	0.71%	-0.84%	0.73%
						
Since Jan. 2001						
Average Quarterly Return	2.3%	1.5%	2.5%	2.2%	0.9%	0.9%
Best Quarter	22.0%	25.9%	34.7%	32.3%	4.6%	4.6%
	2020 Q2	2009 Q2	2009 Q2	2009 Q3	2001 Q3	2008 Q4
Worst Quarter	-22.8%	-23.3%	-27.6%	-36.1%	-5.9%	-4.1%
	2008 Q4	2020 Q1	2008 Q4	2008 Q4	2022 Q1	2022 Q1

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net dividends]), Emerging Markets (MSCI Emerging Markets Index [net dividends]), Global Real Estate (S&P Global REIT Index [net dividends]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2023 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2023, all rights reserved. Bloomberg data provided by Bloomberg.



Long-Term Market Summary

Index returns as of June 30, 2023

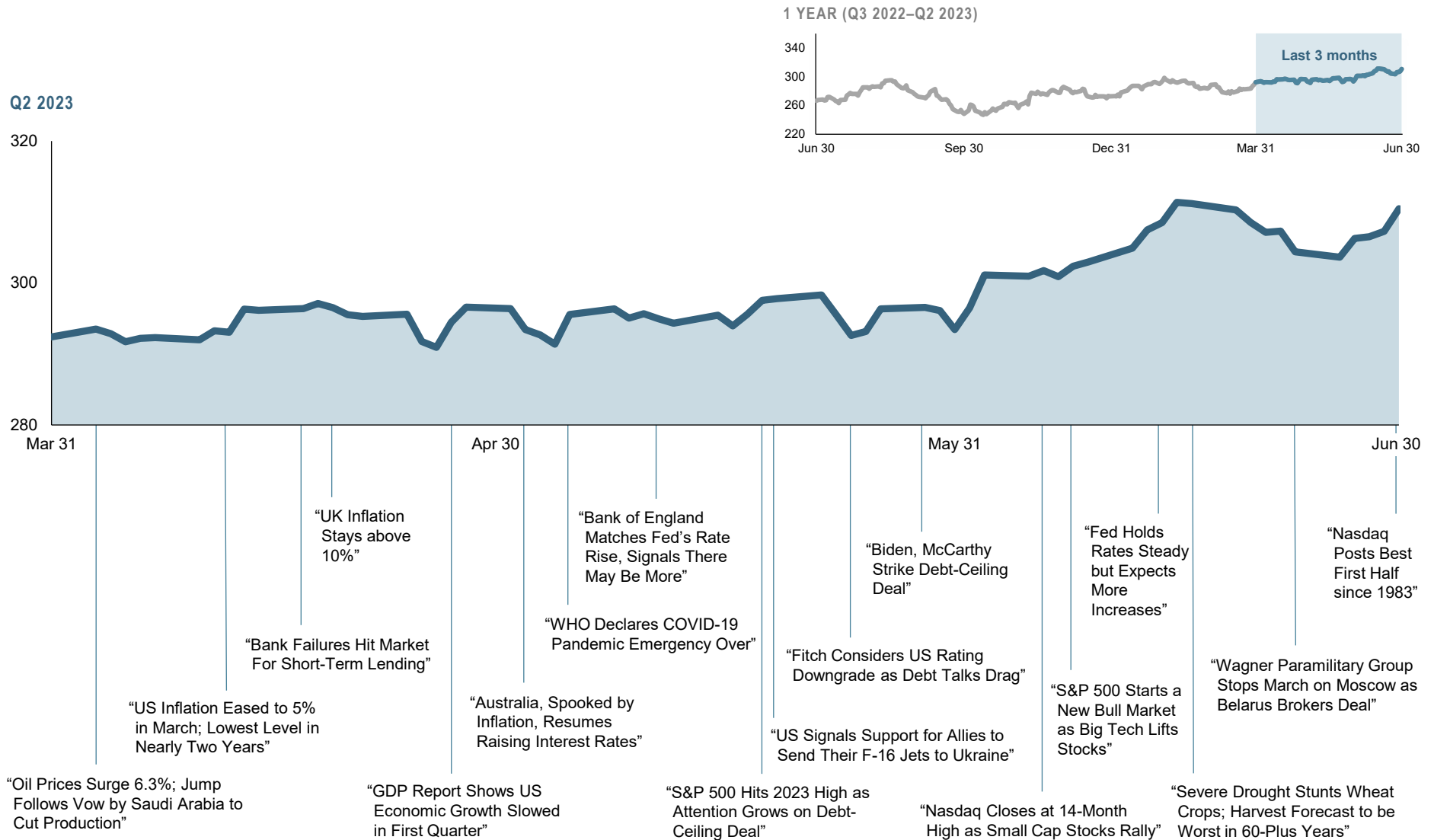
	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
1 Year	STOCKS				BONDS	
	18.95%	17.41%	1.75%	-3.02%	-0.94%	1.51%
5 Years						
	11.39%	4.58%	0.93%	1.35%	0.77%	0.95%
10 Years						
	12.34%	5.40%	2.95%	3.80%	1.52%	2.48%

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World Stock Market Performance

MSCI All Country World Index with selected headlines from Q2 2023



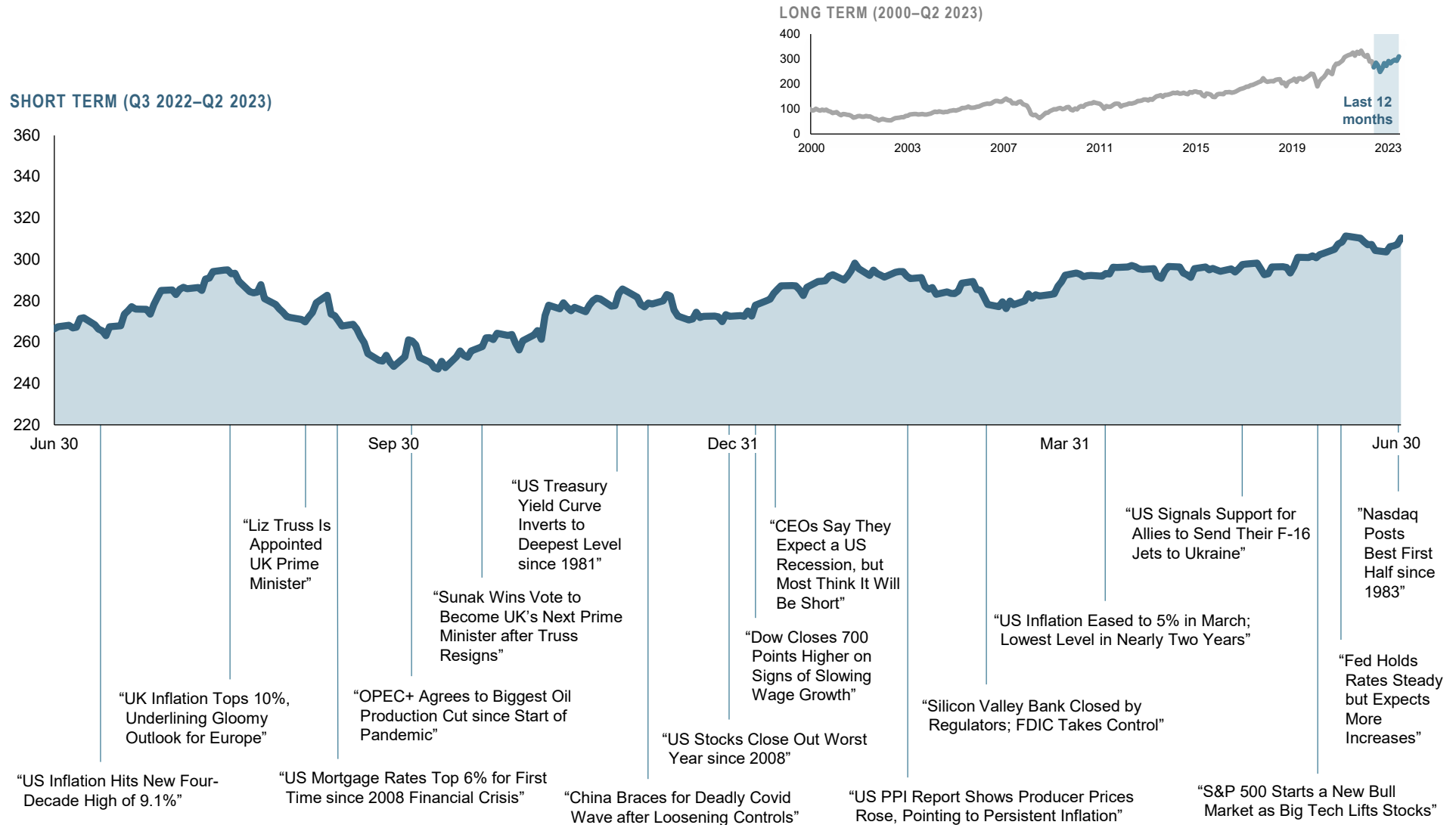
These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2023, all rights reserved. Index level based at 100 starting January 2000. It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**



World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2023, all rights reserved. Index level based at 100 starting January 2000.

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US Stocks

Second quarter 2023 index returns

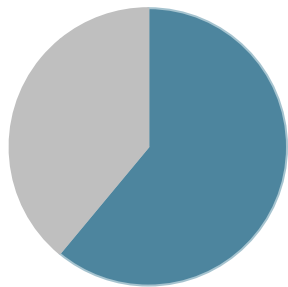
The US equity market posted positive returns for the quarter and outperformed both non-US developed and emerging markets.

Value underperformed growth.

Small caps underperformed large caps.

REIT indices underperformed equity market indices.

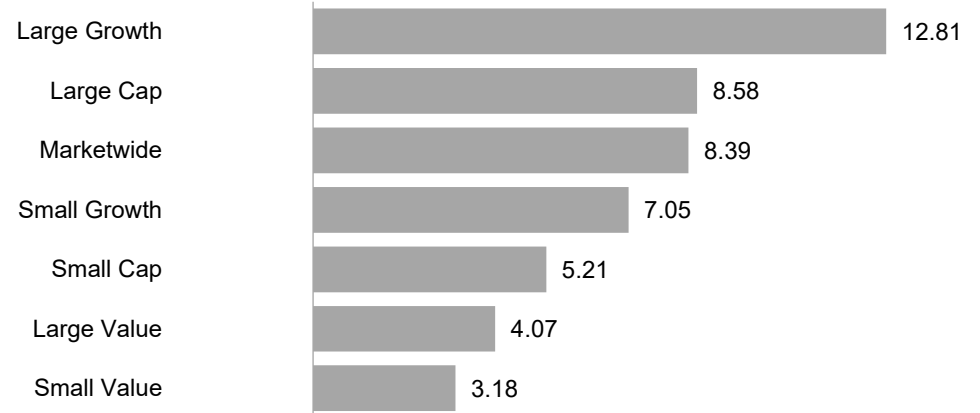
World Market Capitalization—US



61%

US Market
\$43.4 trillion

Ranked Returns (%)



Period Returns (%)

Asset Class	QTR	YTD	1 Year	Annualized		
				3 Years	5 Years	10 Years
Large Growth	12.81	29.02	27.11	13.73	15.14	15.74
Large Cap	8.58	16.68	19.36	14.09	11.92	12.64
Marketwide	8.39	16.17	18.95	13.89	11.39	12.34
Small Growth	7.05	13.55	18.53	6.10	4.22	8.83
Small Cap	5.21	8.09	12.31	10.82	4.21	8.26
Large Value	4.07	5.12	11.54	14.30	8.11	9.22
Small Value	3.18	2.50	6.01	15.43	3.54	7.29

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International Developed Stocks

Second quarter 2023 index returns

Developed markets outside of the US posted positive returns for the quarter and underperformed the US market, but outperformed emerging markets.

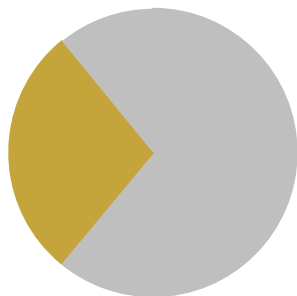
Value outperformed growth.

Small caps underperformed large caps.

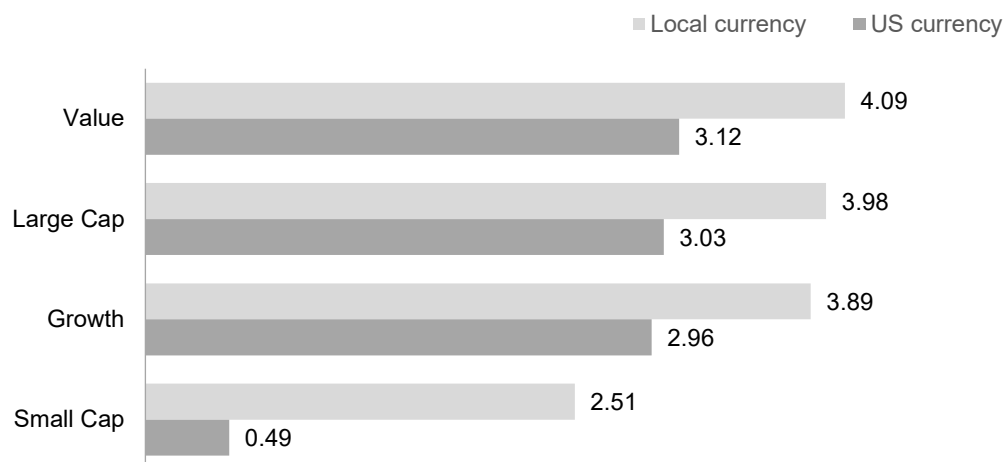
World Market Capitalization—International Developed

28%

International
Developed Market
\$20.0 trillion



Ranked Returns (%)



Period Returns (%)

Asset Class	QTR	YTD	1 Year	Annualized		
				3 Years	5 Years	10 Years
Value	3.12	8.92	15.49	12.07	3.24	4.25
Large Cap	3.03	11.29	17.41	9.30	4.58	5.40
Growth	2.96	13.76	19.40	6.24	5.46	6.28
Small Cap	0.49	5.50	10.05	6.42	1.83	5.97

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Emerging Markets Stocks

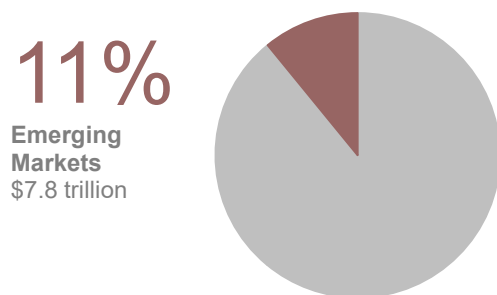
Second quarter 2023 index returns

Emerging markets posted positive returns for the quarter and underperformed both US and non-US developed markets.

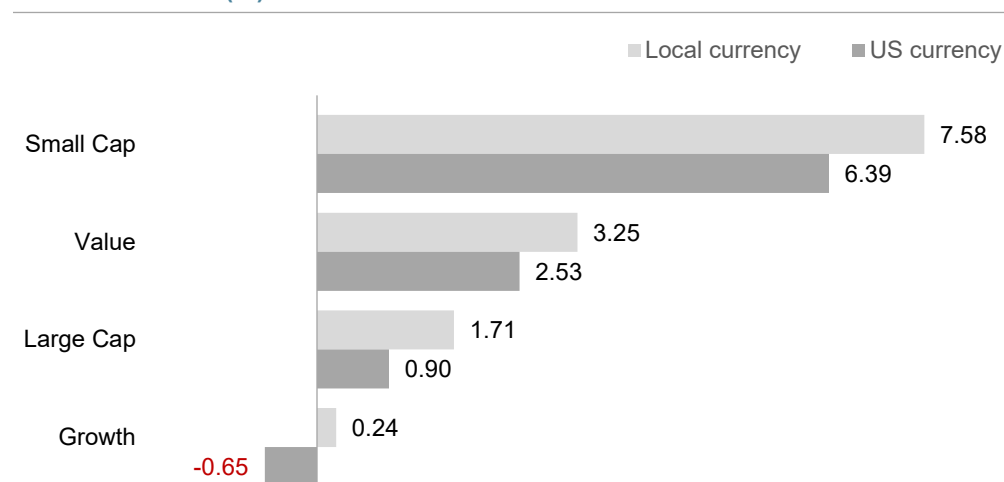
Value outperformed growth.

Small caps outperformed large caps.

World Market Capitalization—Emerging Markets



Ranked Returns (%)



Period Returns (%)

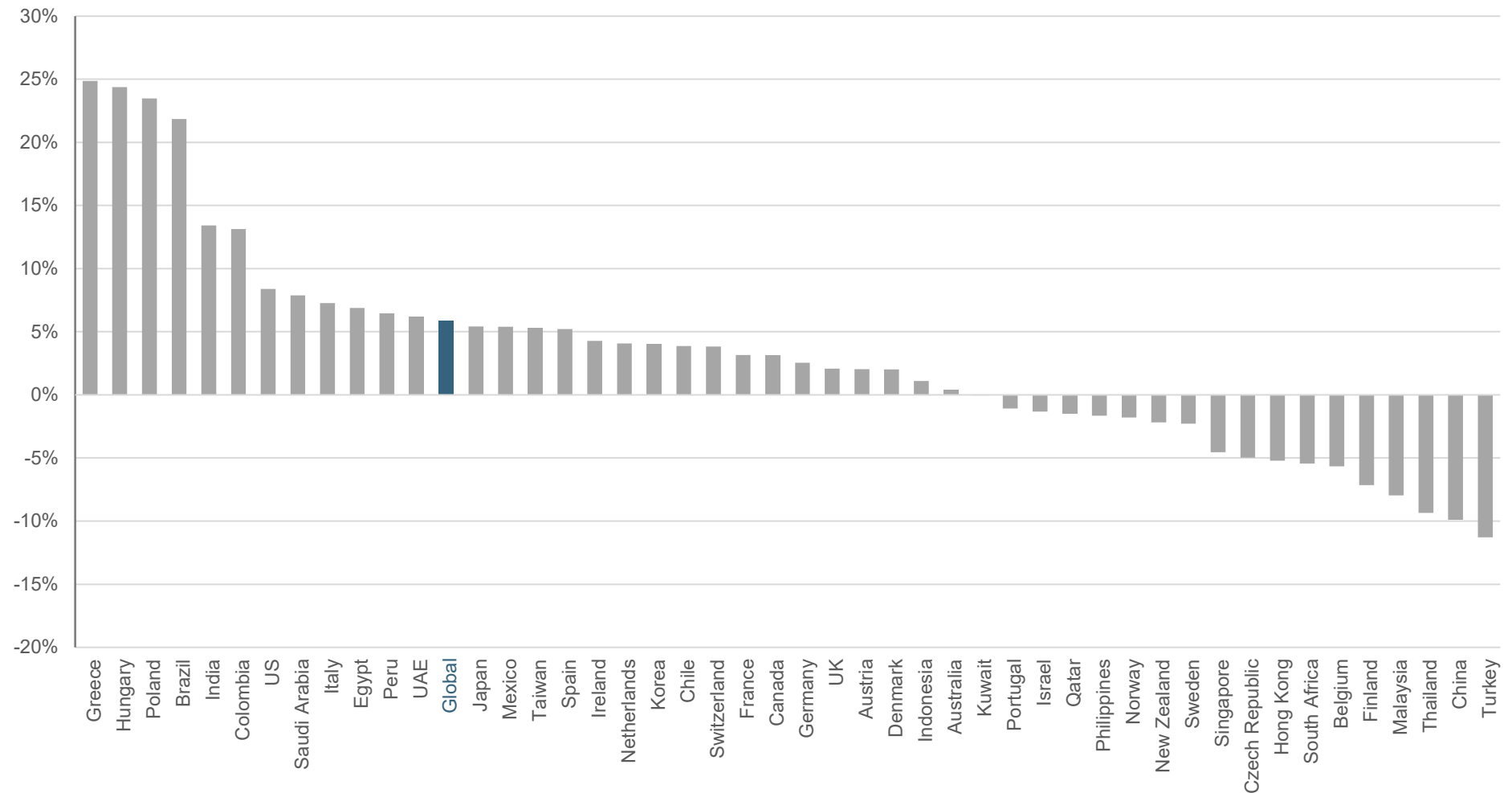
Asset Class	QTR	YTD	1 Year	Annualized		
				3 Years	5 Years	10 Years
Small Cap	6.39	10.50	13.28	13.72	4.93	4.63
Value	2.53	6.53	4.13	6.27	1.22	1.99
Large Cap	0.90	4.89	1.75	2.32	0.93	2.95
Growth	-0.65	3.32	-0.45	-1.36	0.53	3.79

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Country Returns

Second quarter 2023 index returns



Past performance is no guarantee of future results.

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Real Estate Investment Trusts (REITs)

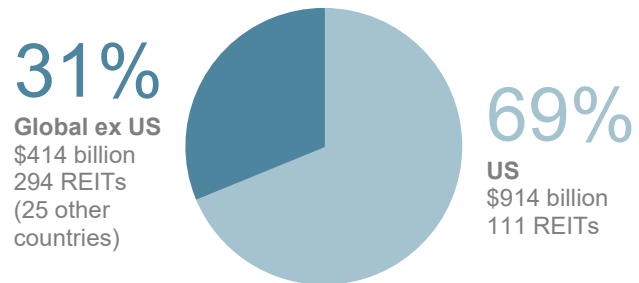
Second quarter 2023 index returns

US real estate investment trusts outperformed non-US REITs during the quarter.

Ranked Returns (%)



Total Value of REIT Stocks



Period Returns (%)

Asset Class	QTR	YTD	1 Year	Annualized		
				3 Years	5 Years	10 Years
US REITS	2.92	5.77	-0.69	9.17	3.28	5.75
Global ex US REITS	-2.98	-3.85	-7.02	0.31	-2.61	1.36

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Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market. Dow Jones and S&P data © 2023 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.



Commodities

Second quarter 2023 index returns

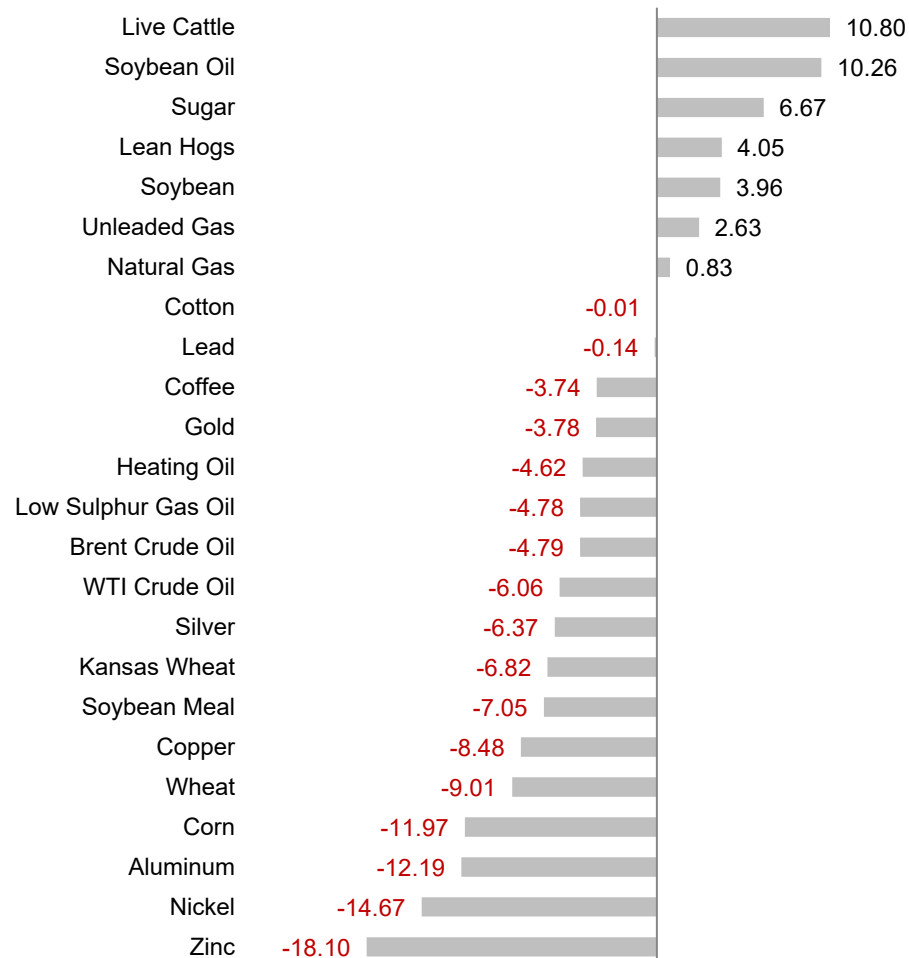
The Bloomberg Commodity Total Return Index returned -2.56% for the second quarter of 2023.

Zinc and Nickel were the worst performers, returning -18.10% and -14.67% during the quarter, respectively. Live Cattle and Soybean Oil were the best performers, returning +10.80% and +10.26% during the quarter, respectively.

Period Returns (%)

Asset Class	QTR	YTD	1 Year	Annualized		
				3 Years	5 Years	10 Years
Commodities	-2.56	-7.79	-9.61	17.82	4.73	-0.99

Ranked Returns (%)





Fixed Income

Second quarter 2023 index returns

Interest rates increased across all bond maturities in the US Treasury market for the quarter.

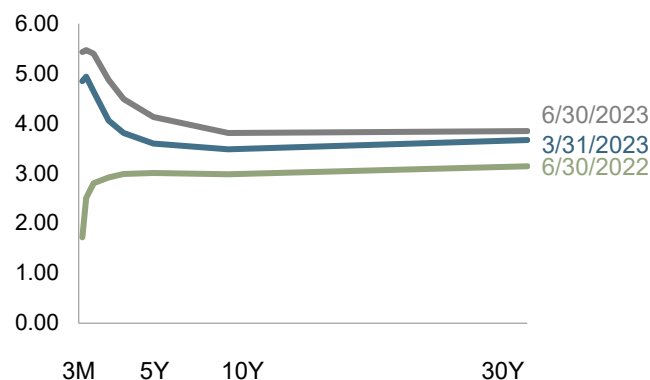
On the short end of the yield curve, the 1-Month US Treasury Bill yield increased 50 basis points (bps) to 5.24%, while the 1-Year US Treasury Bill yield increased 76 bps to 5.40%. The yield on the 2-Year US Treasury Note increased 81 bps to 4.87%.

The yield on the 5-Year US Treasury Note increased 53 bps to 4.13%. The yield on the 10-Year US Treasury Note increased 33 bps to 3.81%. The yield on the 30-Year US Treasury Bond increased 18 bps to 3.85%.

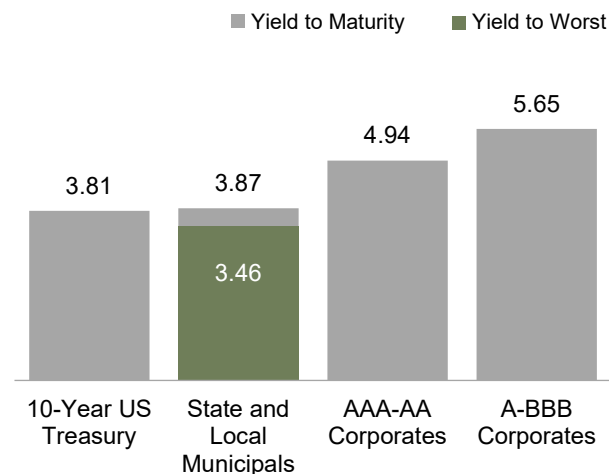
In terms of total returns, short-term US treasury bonds returned -0.90% while intermediate-term US treasury bonds returned -1.15%. Short-term corporate bonds returned +0.07% and intermediate-term corporate bonds returned -0.16%.¹

The total returns for short- and intermediate-term municipal bonds were -0.37% and -0.72%, respectively. Within the municipal fixed income market, general obligation bonds returned -0.41% while revenue bonds returned +0.04%.²

US Treasury Yield Curve (%)



Bond Yield Across Issuers (%)



Period Returns (%)

Asset Class	QTR	YTD	1 Year	Annualized		
				3 Years	5 Years	10 Years
Bloomberg U.S. High Yield Corporate Bond Index	1.75	5.38	9.06	3.13	3.36	4.43
ICE BofA US 3-Month Treasury Bill Index	1.17	2.25	3.59	1.27	1.55	0.98
ICE BofA 1-Year US Treasury Note Index	0.42	1.67	1.93	0.23	1.30	0.89
Bloomberg Municipal Bond Index	-0.10	2.67	3.19	-0.58	1.84	2.68
FTSE World Government Bond Index 1-5 Years (hedged to USD)	-0.27	1.53	0.28	-1.15	0.95	1.14
Bloomberg U.S. Aggregate Bond Index	-0.84	2.09	-0.94	-3.96	0.77	1.52
FTSE World Government Bond Index 1-5 Years	-1.19	0.87	-0.27	-2.84	-0.77	-0.67
Bloomberg U.S. TIPS Index	-1.42	1.87	-1.40	-0.12	2.49	2.08
Bloomberg U.S. Government Bond Index Long	-2.29	3.73	-6.79	-12.02	-0.88	1.81

1. Bloomberg US Treasury and US Corporate Bond Indices.

2. Bloomberg Municipal Bond Index.

One basis point (bps) equals 0.01%. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.** Yield curve data from Federal Reserve. State and local bonds and the Yield to Worst are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the ICE BofA US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA Corporates, BBB-A rated. Bloomberg data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (S&BBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). FTSE fixed income indices © 2023 FTSE Fixed Income LLC, all rights reserved. ICE BofA index data © 2023 ICE Data Indices, LLC. S&P data © 2023 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Bloomberg data provided by Bloomberg.



Global Fixed Income

Second quarter 2023 yield curves

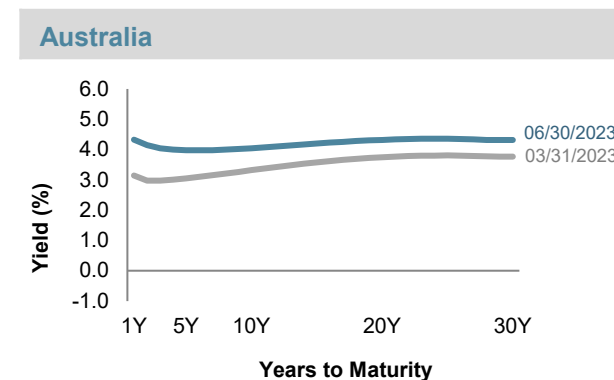
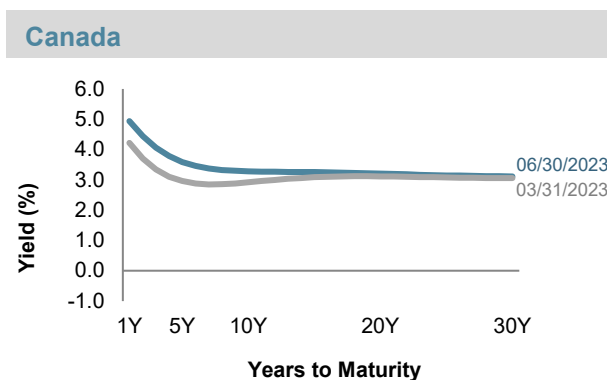
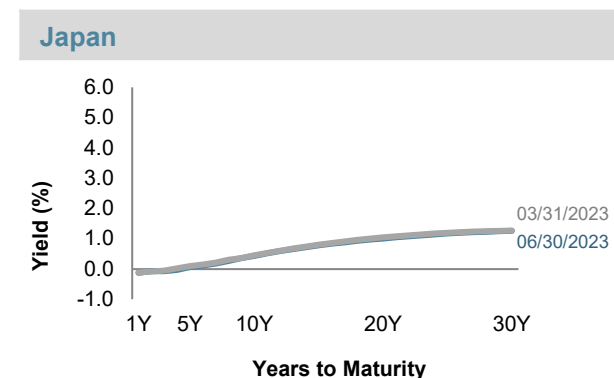
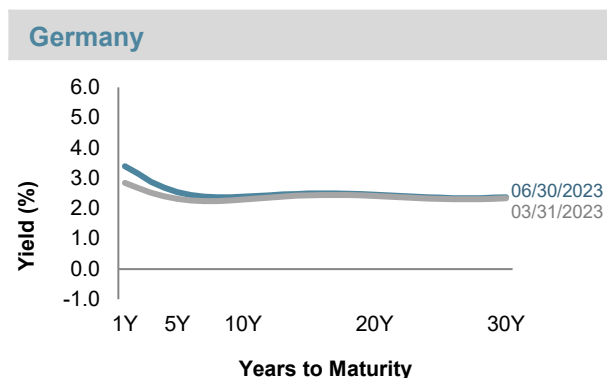
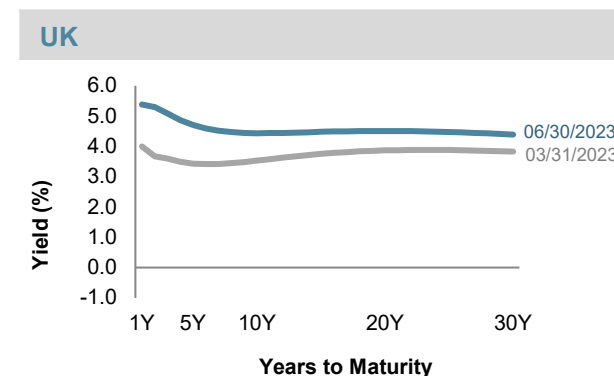
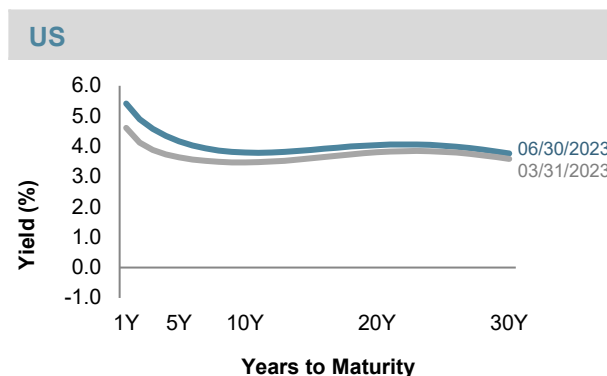
With the exception of Japan, interest rates generally increased across global developed markets for the quarter.

Realized term premiums were broadly negative across global developed markets.

In Japan, ultrashort-term nominal interest rates were negative. In the UK, Germany, Canada, and Australia, the short-term segment of the yield curve was inverted.

Changes in Yields (bps) since 03/31/2023

	1Y	5Y	10Y	20Y	30Y
US	79.6	53.1	32.5	23.9	18.1
UK	138.7	127.0	90.6	64.2	56.6
Germany	54.3	22.2	9.4	4.0	3.8
Japan	-1.0	-3.0	-1.8	-3.3	-1.3
Canada	72.1	63.3	36.3	8.9	6.1
Australia	118.9	92.6	72.3	57.1	54.9





Let the Compounding Commence!

Second quarter 2023

David Booth, Executive Chairman and Founder, Dimensional Fund Advisors

Every year, families and friends celebrate students who are graduating from colleges and universities. Parents beam with pride at their children's accomplishments and exhale in relief now that the tuition bills have finally stopped. It's a time when adults give a lot of advice, which is why I have one simple idea I want to pass along to this year's graduating class that I hope you never forget. Parents, take note too, because with college out of the way, you can get back to focusing on retirement.

Let the compounding begin!

In case you didn't come across this idea in an econ class, let me explain compounding simply. It's the process by which the value of an investment increases over time as earnings or interest are reinvested. It's the snowball effect but with money. Here's an example.

If you're a US investor and lucky enough to have up to \$35,000 left over in your 529 college savings plan, you can roll it over into a Roth IRA starting in 2024, provided the account has been open at least 15 years.¹

If you don't touch that \$35,000 for 50 years, and the market averages a 10% annualized return, which is close to its long-term historical average, then guess how much you'll have?²

A. \$1,584,074

B. \$2,551,167

C. \$4,108,680

The answer is C. Over \$4.1 million!

If you were to start this in your mid-20s and invest that same initial amount for only 45 years, you'd end up with B, or \$2.6 million. That's great, but not as great as C.

If you do it for 40 years, you'll end up with A, or \$1.6 million. Also good, but, you know, not C.

1. Laura Saunders, "Your Child Picked a College! Tee Up Your 529 Plan," Wall Street Journal, May 5, 2023.

2. In US dollars. Based on S&P 500 Index annual returns, 1926–2022. S&P data © 2023 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.



Let the Compounding Commence!

(continued from page 15)

Another benefit of compounding is that it can help you pursue financial goals along the way, like making a down payment on a home. But don't worry if you spent your whole college fund or took out student loans. Start with a little and get in the habit of adding when you can. As you can see from this snowballing, having a lot of time can help make up for not having a lot of money.

In addition to increasing the value of your investments, compounding can also be a valuable force in life. For example, you've made an investment in time and money over the last few years that may have an enormous effect on the rest of your life. How much money are we talking about? College graduates, on average, earn 84% more than those with a high-school education, and that adds up to an extra \$1.2 million over a lifetime.³

Parents, I hope you're feeling a little better about your investment too.

But it's more than just money. When you get to be like me, someone who graduated from college more than 50 years ago, you see that you are the result of the compounding of your life's decisions, both good and bad. It's hard to quantify exactly, but it's sure there. For example, in graduate school, I decided I didn't want to be a professor. That one decision continues to have a profound impact on the rest of my life. Instead, I started a company with the people I met in graduate school. Four decades later, I'm still working with some of them. I even got to go watch my former professor and current colleague Eugene Fama receive a Nobel Prize in Economic Sciences. That was not on my bingo card when I graduated from college. Life is full of surprises, and many of them can come from how your decisions compound over decades.

So, start rolling your snowball, both in life and in investing. Let the compounding commence!

3. "How Does a College Degree Improve Graduates' Employment and Earnings Potential?", Association of Public and Land-Grant Universities.

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