



May 2023

Market Update

(all values as of
04.28.2023)

Stock Indices:

Dow Jones	34,098
S&P 500	4,169
Nasdaq	12,226

Bond Sector Yields:

2 Yr Treasury	4.04%
10 Yr Treasury	3.44%
10 Yr Municipal	2.36%
High Yield	8.19%

YTD Market Returns:

Dow Jones	2.87%
S&P 500	8.59%
Nasdaq	16.82%
MSCI-EAFE	10.28%
MSCI-Europe	13.87%
MSCI-Pacific	3.86%
MSCI-Emg Mkt	2.16%

US Agg Bond	3.59%
US Corp Bond	4.29%
US Gov't Bond	3.82%

Commodity Prices:

Gold	1,999
Silver	25.33
Oil (WTI)	76.63

Currencies:

Dollar / Euro	1.10
Dollar / Pound	1.24
Yen / Dollar	133.79
Canadian /Dollar	0.73

Macro Overview

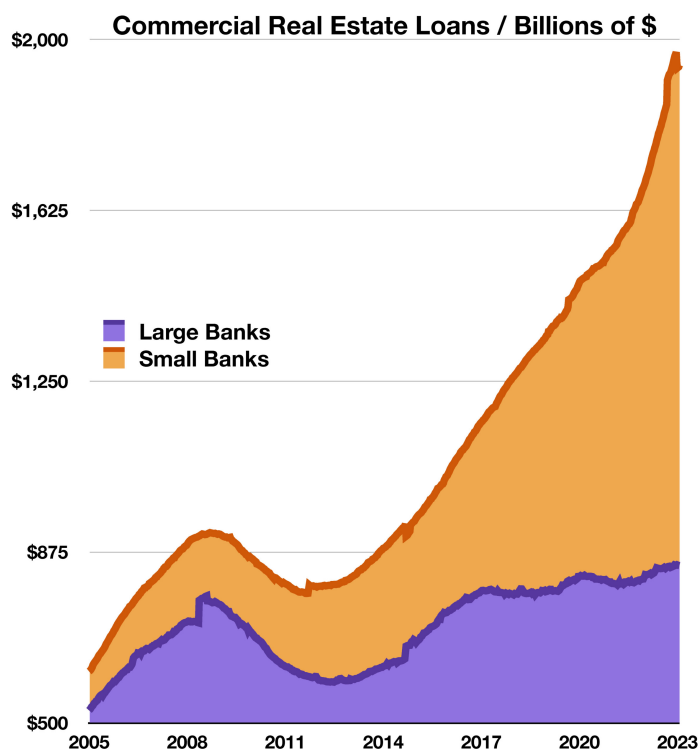
Concern over additional bank failures has created ongoing uncertainty for equity and bond markets, as the collapse of First Republic Bank this past month has become the second-largest bank failure ever, with \$229 billion in assets and over \$100 billion in deposits.

Federal regulators struck a deal with JPMorgan, the nation's largest bank, to take over the failed bank and assume its loans and assets. The FDIC and JPMorgan agreed to a loss-share transaction which is projected to maximize recoveries on the assets by keeping them in the private sector. The FDIC estimates that the cost to the Deposit Insurance Fund will be about \$13 billion.

Following the failures of Silicon Valley Bank, Signature Bank, and First Republic Bank, banks across the nation have been scrambling to maintain their depositors' trust and cover losses of depositors' withdrawals. To acquire short-term funding, many banks have turned to the Federal Reserve's discount window, a backstop for banks that require liquidity assistance. Banks have been borrowing funds from the Fed's discount window at levels not seen since the 2008 banking crisis.

Interest rates held steady in April with shorter-term rates rising somewhat, a result of the Fed expected to make a final rate increase before altering its course. Analysts are carefully tracking economic growth and inflation data to determine what direction the Fed might take. Many believe that the recent interest rate increase has already brought about a retraction in economic activity nationwide.

The commercial real estate market has begun to show trends of shadow banking on the rise. Shadow banks are characterized as firms that issue short-term loans and invest the proceeds into mortgage-backed securities, which were at the forefront of the 2007-2009 financial crisis. Banking regulations have become more stringent since the financial crisis, yet banks still emerged as a weak link within the financial markets due to high-interest rates and speculative investments. Internationally, the International Monetary Fund (IMF) recently communicated concerns surrounding shadow banking practices in both the U.K. and South Korea. (Sources; Bloomberg, IMF, Fed, U.S. Treasury.)





Bond Yields Begin To Pull Back – Fixed Income Overview

As expected, the Federal Reserve announced the execution of its final rate increase in early May. Bond markets reacted with lower long-term yields as the Fed's next move is projected by some analysts to be a reversal of rates. Elevated shorter-term bond yields are also expected to fall should the Fed reverse course.

Long-term bond yields held steady in April, while short-term bond yields rose slightly. Analysts view this as an indication that the Fed may still raise short-term rates a bit more, yet expect inflation to ease longer term. Yields on the 10-year and 30-year Treasuries had nearly no change in April, yet yields on the 3, 4, 6, and 12-month Treasuries all saw increases. (Sources: U.S. Treasury, Bloomberg, Reuters)

Stocks Hold On To Gains – Equity Market Update

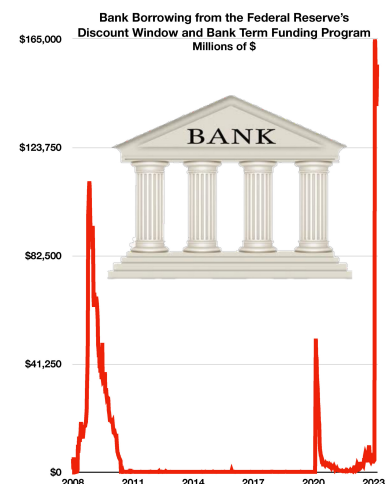
Companies are currently in the process of reporting earnings for the first quarter of 2023, which are expected to greatly influence the direction of stock prices in the coming weeks. Concerns surrounding the banking sector are also weighing on equities as additional regional banks may be vulnerable. Currently, the banking sector represents roughly 14% of total stock market capitalization.

Major equity indices are positive for the year, with three sectors leading the broader market. Consumer Staples, Technology, and Communication Services have been the leading sectors thus far, yet analysts are uncertain as to how sustainable the advances may be. (Sources: S&P 500, Bloomberg)

More Banks Are Borrowing From The Fed – Monetary Policy Update

Widespread uncertainty and difficulties remain persistent for numerous banks, especially smaller regional banks. As investors' trust in banks has recently fallen, depositors have withdrawn funds nationwide. The broad level of withdrawals has led many banks to tap the Federal Reserve for assistance, through the Fed Discount Window and the Fed's new Bank Term Funding Program. Recently released data is showing that banks have increased their access to the Federal Reserve for assistance, primarily from the Fed's Discount Window. Requests for funds from The Federal Reserve's discount window are widely regarded as a last-resort backstop for banks experiencing liquidity issues. To receive short-term, in some cases even overnight,

cash loans through the discount window, banks pledge assets such as loans or securities. This allows banks to process a greater level of withdrawals than they normally would, yet is also a signal to investors and the market that some banks may be struggling. However, with the risks of contagion amidst high-interest rates, banks are turning to the discount window and the Fed's new Bank Term Funding Program at levels that far eclipse the heights of the 2008 banking crisis. While just \$4.5 billion was loaned out from the Discount Window in the week of March 8th, the week of March 15th saw a record-high \$152.8 billion in loans. Historically, the highest level of Discount Window loans ever previously recorded was \$110 billion in late 2008. While the names of borrowers from the discount window are not disclosed until two years after the loan was administered, many banks are self-reporting that they borrowed from the backstop to show depositors that they are proactively addressing their liquidity issues. The historic level of loans through these crisis facilities has highlighted the importance of increasing public trust in banks, while also ensuring that customer withdrawals are minimized. (Sources: Bloomberg, Federal Reserve Bank of New York.)





Smaller Banks' Exposure To Commercial Real Estate – Banking Sector Update

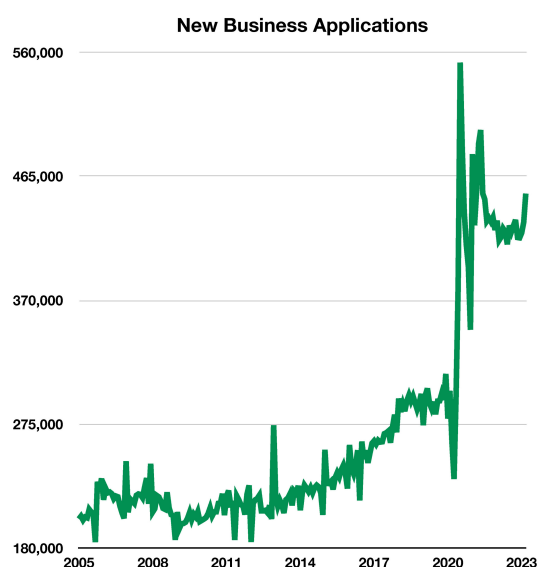
The commercial real estate market, over the past three years, has struggled with a critical factor that is vastly changing the security it previously held. Following the pandemic, there has been a massive change in the way people work, live, shop, and navigate their surroundings. This issue has been furthered by rising interest rates, which have increased the risks of defaults on mortgage loans and may structurally change the market.

Remote work has drastically changed how corporations view the importance of office space, and with more companies shifting toward a permanently remote form of work, office vacancies are expected to rise significantly. With \$2.6 trillion of commercial mortgages expected to mature in the next four years, landlords who previously benefited from long-term leases may begin to find it more difficult to replace their previous tenants.

As mortgages mature, the U.S. office vacancy rate is expected to rise, which some analysts expect to result in a downturn for commercial property. Additionally, since the rise of remote work appears to be cementing itself as a structural change rather than a temporary choice for employers, building values may not rebound as they have in previous downturns. This coupled with the fact that small banks greatly outpace large banks in commercial real estate lending creates a more fragile market. Small banks, which are more susceptible to interest rate changes in today's bond market, historically are more likely to default on mortgage loans than larger banks. (Sources: Wall Street Journal, Federal Reserve Bank of St. Louis, Board of Governors of the Federal Reserve System.)

Self-Employed Workforce Is Still An Expanding Trend – Labor Market Overview

While millions of workers were suddenly faced with unemployment at the spark of the COVID-19 Pandemic, a shift to remote work has shown ripple effects throughout the labor market. One of the primary effects of the ability to work virtually and the need for additional income security has been new business applications, a barometer of the self-employed workforce.



While business applications had been trending upward in the past decade before the pandemic, 2020 saw a historic surge in business applications. Workers, faced with losing their jobs due to the pandemic's vast disruption, looked to open their own businesses in a mass wave. In the summer of 2020, monthly business applications reached a historic level of 550,000. This was nearly double the level of business applications in late 2019 and early 2020, just months before the pandemic struck.

While the expansion of new businesses has slowed since 2020, business applications are still significantly higher than pre-pandemic levels. March of 2023 saw over 450,000 new business applications, an increase of over 60% from pre-pandemic 2020. There has been no month since the pandemic with a lower level of business

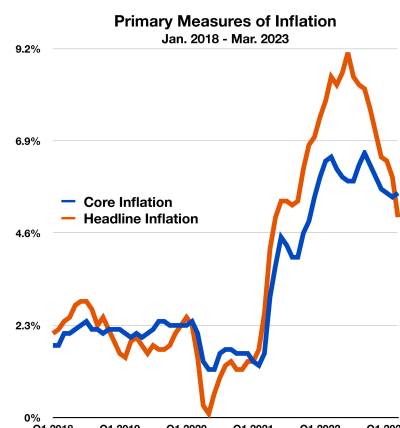
applications than before the pandemic. There have been a minimum of 400,000 new business applications each month for the past 27 consecutive months. (Sources: U.S. Census, Federal Reserve)



Why Headline Inflation & Core Inflation Differ – Inflation Overview

Following historically high inflation throughout 2022, we have now had nine consecutive months of decreases in the Consumer Price Index (CPI), which has driven inflation to its lowest level since May 2021. Inflation in March measured at 5.0%, 1% lower than the month prior and over 4% lower than the highs in 2022. Headline inflation is a broad measure that closely represents the basket of goods and services consumed by most households. Core inflation is the change in the costs of goods and services but does not include those from the food and energy sectors.

Across 2022, volatility in gasoline, food, and housing all played crucial roles in the costs of daily expenses. This drove inflation as high as 9.1% in 2022, a 40-year high last seen in 1981. At its current level, headline inflation is 3.2% greater than core inflation, which does not consider the effects of the more volatile food and energy costs. In March 2023, when headline inflation was 5.0%, core inflation remained at 5.6%, close to its previous highs. March 2023 was also the first occurrence of core inflation being higher than headline inflation since December 2020. (Sources: Bureau of Labor Statistics, Federal Reserve Bank of the U.S.)



Senior Citizen Scams On The Rise – Retirement Awareness

While fraud, in general, has been significantly increasing in recent years, people ages 60 and above have become major targets of fraud. Amidst changing technological advancements, an increasing number of schemes are being employed to target and defraud elderly people. In 2022 alone, people over 60 years old lost \$3.1 billion due to fraudulent schemes. This represents an 84% surge from 2021 and more than triple the level of fraud reported in 2020. In the past five years alone, elderly fraud has skyrocketed by over 800%. Victims have lost \$35,000 on average, yet over 5,400 victims lost more than \$100,000. The single-most disastrous schemes of 2022 were due to call centers and fraudulent customer support calls. Over 17,800 complaints were filed with the FBI concerning these schemes in 2022, affecting victims over the age of 60 and losing more to these scams than all other age groups combined. These scams prey upon elders' lack of familiarity with new technology to successfully defraud. An additional category of fraudulent activity includes the non-delivery or nonpayment of items, specifically those advertised on social media where false advertisements are rampant. Many older adults also fall victim to compromised email accounts, which could be used to conduct an unauthorized transfer of funds. Emerging forms of fraud have also included cryptocurrency schemes, which have defrauded elders of over \$1 billion in 2022. To avoid these schemes, the FBI suggests that elders be cautious of unsolicited phone calls and resist callers' pressure to act immediately. These are both signs of scammers, who create a sense of urgency to produce fear and lure elders to pay. (Sources: Federal Bureau of Investigation, FBI Internet Crime Complaint Center.)

