SUMMIT FINANCIAL

Investment Newsletter

Year-End 2022

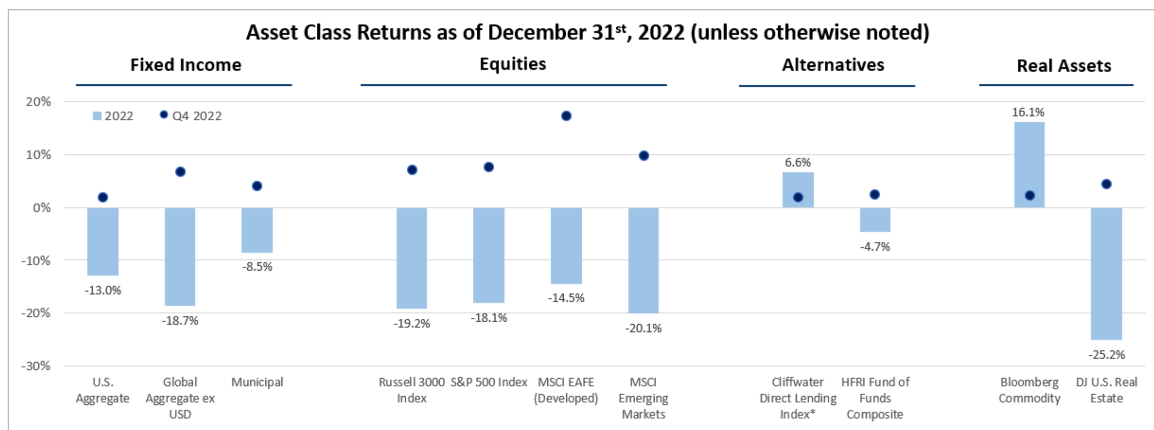
Executive Summary

Heading into 2022, investors were optimistic. The economic recovery from the coronavirus pandemic had exceeded expectations and risk-assets had positive momentum after a year of robust gains. Even the Federal Reserve did not foresee the sharp and sustained rise in inflation and the aggressive policy response that would trigger tighter financial conditions and send the capital markets into one of the the worst downturns since the Global Financial Crisis. Russia's invasion of Ukraine and China's harsh COVID lockdowns were two unforeseen events that caused a spike in commodity prices and turmoil in global supply chains that fueled inflation. However, domestic forces were also factors, including the Fed's slow response to the inflation threat and the overhang from the high fiscal spending during the COVID crisis. The ongoing struggle to subdue inflation and the risk of new shocks to commodity prices from geopolitical or idiosyncratic events will continue to be a major concern for investors in 2023.

The past year has once again shown that the investment markets can behave in unexpected ways. Investors were disappointed as the historic relationship between stocks and bonds, the typical mix in a diversified portfolio, fell apart. High quality bonds are typically a ballast during stock market downturns, helping to stabilize an investor's portfolio. This time spiking interest rates drove stocks and bonds downward in tandem. Bond markets experienced the worst return in modern history. However, another investment tenant, mean reversion, proved to be useful as sectors such as technology that soared during the COVID crisis plummeted and out of favor sectors such as energy and value stocks gained ground or at least declined less than other investments. Going forward, investors now face a new investment regime marked by higher interest rates, inflation and volatility than has been experienced in many years. It is imperative to think about portfolio positioning with a forward view and to not focus on past performance. Dispersion across asset classes, strategies and individual securities should be higher going forward, expanding diversification opportunities, and help to protect portfolios from elevated volatility. Higher volatility makes high quality assets more attractive versus assets that are highly leveraged with less reliable cash flows but also unleashes dislocations that can be exploited in less liquid markets.

This is an opportune time to revisit your investment portfolio to ensure it is in line with your financial goals and is effectively diversified across and within asset classes. Fixed income now offers attractive yields and if rates stabilize, extending duration could be a tailwind in 2023. For taxable investors, municipal bonds look appealing with higher tax-adjusted yields versus Treasuries and less volatility than other credit sectors. For those investors that do not need liquidity, private credit is exploiting the dislocation in public markets and offers a yield premium with less volatility than public credit. Real estate and infrastructure offer high income, inflation protection, and price stability relative to other risk asset classes. Real estate is benefiting from supply shortages in certain sectors and geographic regions while infrastructure is linked to the green energy transition and the fast-growing renewable energy sector.

Finally, while equity valuations have reset, U.S. equities are not particularly cheap and earnings estimates may prove to be too optimistic. U.S. investments have outperformed, but international equities offer attractive relative value and may reassert themselves. While Europe faces short-term headwinds, greater fiscal support and more favorable financial conditions than in the U.S. could buoy this region. Asian markets are poised to benefit from the opening up of China and the expected upswing in growth after a lengthy period of COVID lockdowns. High interest rates may sustain the U.S. dollar a while longer, but the current overvaluation is not sustainable over the long-term and a weaker dollar will support non-U.S. assets, particularly emerging markets. A global equity portfolio with a material allocation to international stocks, including emerging markets and active strategies that can exploit valuation disparities, should be well positioned as the linkages between countries evolve and individual stock markets are shaped by local economic conditions and market factors.



Morningstar & Hedge Fund Research, Inc.; Bond indices from Bloomberg, * trailing quarter and year as of 9/30/2022

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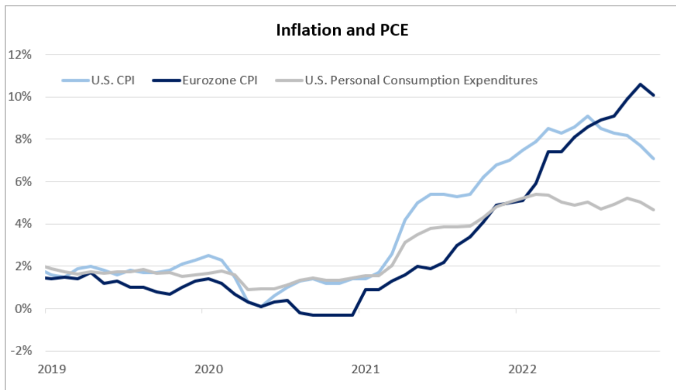
Economic Growth

2022 will go down as a transitionary and challenging year for the global economy. A period that can be characterized by surging inflation, a subsequent hawkish response from global central banks, and the end to a decade-long period of abundantly easy financial conditions. The Fed Funds upper bound rate started the year at just 0.25% but ended 2022 at 4.50% following seven consecutive rate hikes ranging in magnitude between 0.25% and 0.75%. This reverberated throughout the economy and quickly pulled down asset prices and depressed activity in important economic sectors such as housing.

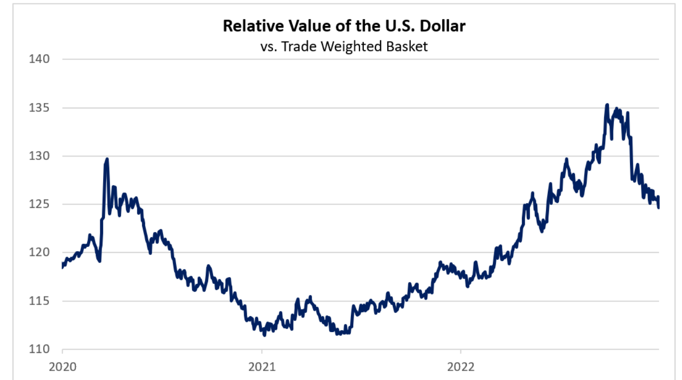
Predictions for some form of recession in 2023 are becoming more common as the economy faces a variety of challenges to growth going forward. On the surface, there appears to be limited areas of clear excess and overbuilding in the economy hopefully paving the way for a milder recession were one to occur. The consumer has remained resilient given the backdrop, likely supported by a still strong labor market. While jobless claims and unemployment are trending higher, they remain historically low and there continues to be an undersupply of labor relative to the number of open positions. Wage growth has also stayed positive, although the unsustainable pace of increase has moderated greatly. The biggest uncertainty will likely remain the massive unwinding or moderation of modern monetary theory employed in many developed nations.

Changes globally in monetary policy also had important implications within currency markets. A flight to quality and higher relative, real interest rates contributed to extensive U.S. dollar (USD) strength over much of the year. Despite the USD giving back some gains more recently, the currency hit its highest level on a relative basis in about two decades over the course of the year. Dollar strength has left its mark on domestic growth, worsening the current account deficit, and limiting the competitiveness of U.S. manufacturing relative to overseas producers.



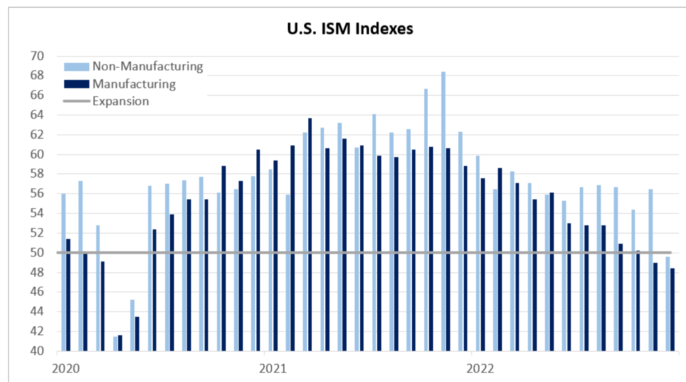
Bureau of Labor Statistics

Inflation surged to multi-decade highs over 2022. Luckily, it has shown signs of peaking and should continue to fall in the coming months. Going forward, the path of inflation might become more varied within different portions of the economy.



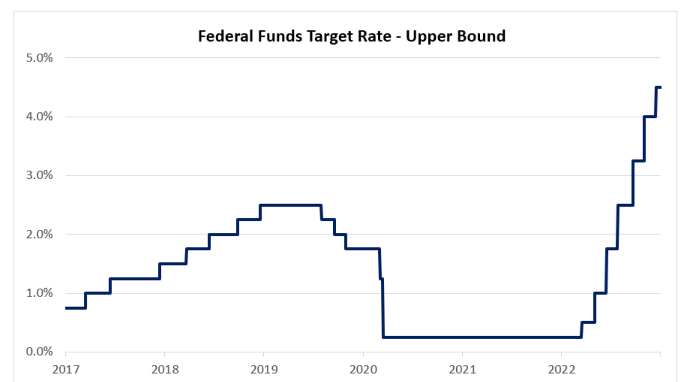
Bloomberg

The USD reached new heights over the year. While it has since fallen, it remains at a historically elevated level relative to other major global currencies. The potential end or moderation of Fed tightening paired with hawkish actions from other global central banks could be a headwind to the currency in 2023.



Institute for Supply Management

Both ISM indexes fell into recessionary territory (below 50) in late 2022. This follows a historically strong economic period reflecting pent-up demand coming out of the pandemic. December was the first time the services index fell below 50 since the pandemic. Both metrics demonstrate that the economy is slowing and faces fresh headwinds in 2023.



Bloomberg

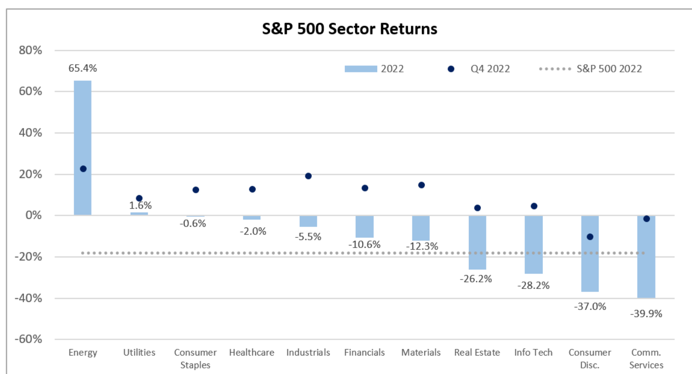
After policy rates went to 0 during the pandemic, 2022 saw a rapid rise in the Fed Funds rate. Over the course of the year, the Fed raised its policy rate seven times resulting in an ending level of 4.5%. There are expectations for additional hikes in early 2023, although futures markets are predicting that rates will be lowered by the end of the year.

Equity Markets

Volatility was elevated across equity markets in 2022 and many major indexes posted losses for the calendar year. This comes after the draining of excessive liquidity lowered valuations and overly zealous expectations for future corporate performance. While always painful to experience, lower starting valuations should contribute to more encouraging forward returns relative to the start of the year. Even with the recent performance, the S&P 500 Index has risen nearly 60% over the past 5 years through the end of 2022, translating to an annualized return of more than 9%. As always, it's important to take a longer-term view and acknowledge the compounding power of equity allocations within diversified portfolios.

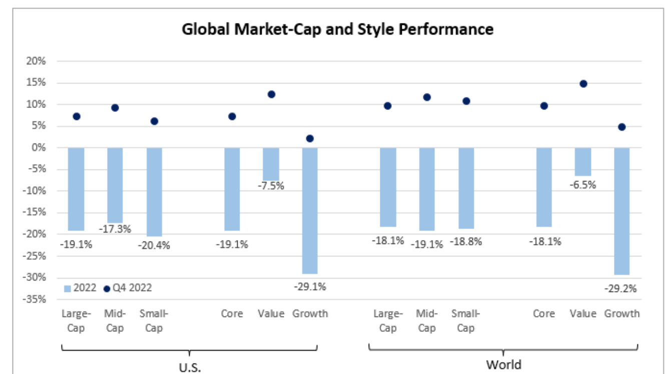
2022 brought a swift change in market leadership. After nearly a decade of outperformance, growth shares vastly lagged value stocks due to fundamental factors, but more impactfully a re-rating of future (versus current) cash flows and profits. International equity markets outpaced U.S. counterparts in many cases in local terms. That said, the strength of the USD throughout much of the year diminished the magnitude of the relative outperformance. Within U.S. equities, more defensive portions of the market (such as utilities, staples, healthcare) were among the top relative performers, being close to flat. The energy sector was a standout, rising over 65%, driven by a stark recovery in commodity prices and demand without an equivalent rise in supply.

S&P 500 earnings finished at a similar level to where they started after a miraculous 70% rise in 2021. While revenues were higher, in part due to inflation, profits and margins came under pressure due to higher costs and a normalization of demand coming out of the pandemic. Current consensus analysts' expectations for double-digit earnings growth in 2023 might prove to be overly optimistic which could lead to continued volatility for equity markets. First-quarter results should offer additional visibility into the path of corporate profits for this year.



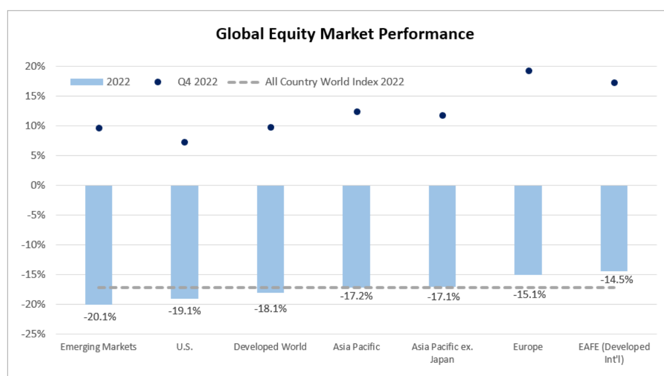
Bloomberg

There was unusually high dispersion between sectors last year. Within the S&P 500 Index, there was more than a 100% gap between the top-performing (energy, +65.4%) and bottom performing (communication services, -39.9%) sectors. Outside of energy, more defensive portions of the market fared the best.



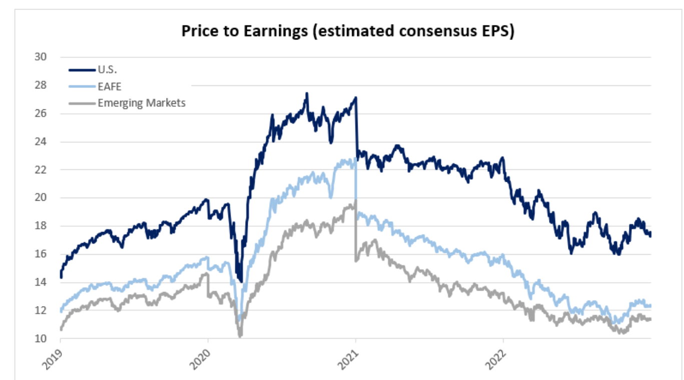
Bloomberg, U.S. indices from Russelll and World Indices from MSCI

2022 brought the reversal of nearly a decade-long trend in the outperformance of growth stocks. A rapidly rising risk-free rate brought a dramatic re-rating to all portions of the market, but particularly to longer duration cash flows that usually accompany higher growth companies. Developed international equities also outpaced U.S. large-cap stocks for the first time in several years.



Bloomberg, U.S. indices from Russelll and World Indices from MSCI

China's commitment to zero-COVID for much of the year weighed on EM equities. Many developed, international markets outpaced U.S. counterparts in local currencies. A strong USD hurt international equity returns for U.S. investors but could serve as a tailwind were USD strength to reverse.



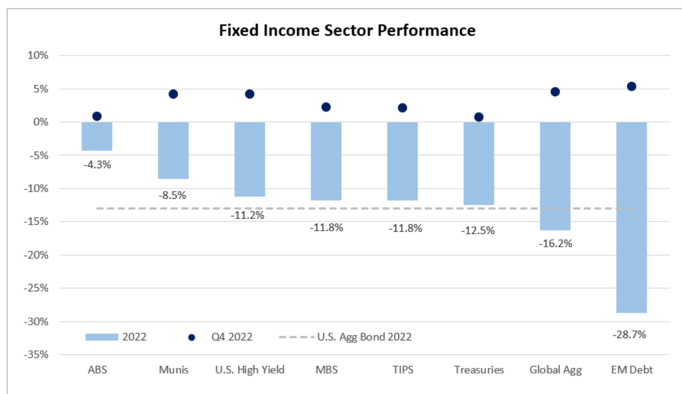
Bloomberg

Equity market valuations have fallen dramatically across the board, relative to the start of 2022. In many cases, markets are either near long-term average valuations (U.S.) or lower (developed, international, emerging markets). While it's impossible to predict short-term results, lower starting valuations have historically translated to enhanced medium-to-long-term returns.

Fixed Income Markets

Fixed income experienced historic losses during the year as rampant inflation led the Federal Reserve to sharply hike policy rates while reducing its bond portfolio. The low level of starting yields did little to counteract bond price declines caused by the Fed's efforts to tighten monetary policy. Treasury prices saw the highest level of volatility since the Global Financial Crisis, negatively affecting liquidity and pushing up credit spreads. The result was double-digit losses across most major bond sectors. Non-U.S. bonds had a similar outcome and were further hampered by weakening currencies. The bond market appears to believe that the pain is almost over. The yield curve has been inverted with short-term rates higher than long-term rates, a recessionary signal suggesting that lower interest rates are expected in the future. By November, signs that inflation might be abating and signals from the Fed that the pace of rate hikes would slow created a positive backdrop. In the fourth quarter, bond yields declined, paring losses from earlier in the year. The yield on taxable U.S. investment grade bonds reached 5%, before modestly pulling back. Current yields are a good predictor of future returns and the reset in bond yields during 2022 provides investors with the highest level of income in years.

Municipal bonds, which tend to be a defensive sector, topped all other U.S. bond sectors for the year and in the fourth quarter. Fourth quarter relative returns were particularly strong due to favorable supply/demand trends with limited new supply and a downturn in outflows driven by tax loss harvesting activity. Municipal bonds overall are fundamentally healthy due to COVID stimulus and better than expected revenues. Defensive taxable bond sectors such as non-mortgage government agencies also outperformed. Treasuries and mortgage-backed securities were hampered by the pullback in demand from the Fed while a high level of sensitivity to interest rates hurt Treasury Inflation Protected bonds (TIPs). Two riskier sectors, high yield bonds and emerging market debt, saw the greatest widening in spreads. Default rates on corporate bonds have ticked up slightly but remain historically low and credit fundamentals are overall healthy, although lower quality segments such as sub-prime are showing signs of weakness.



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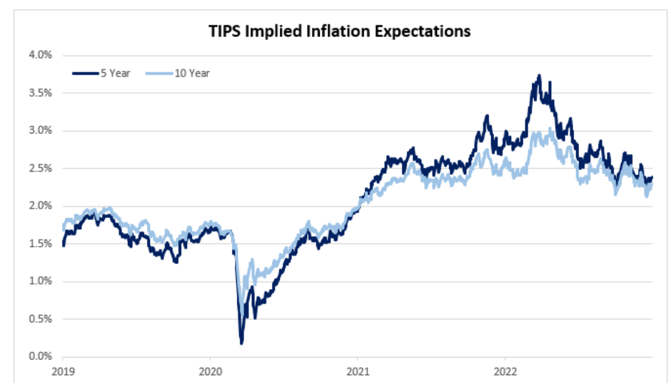
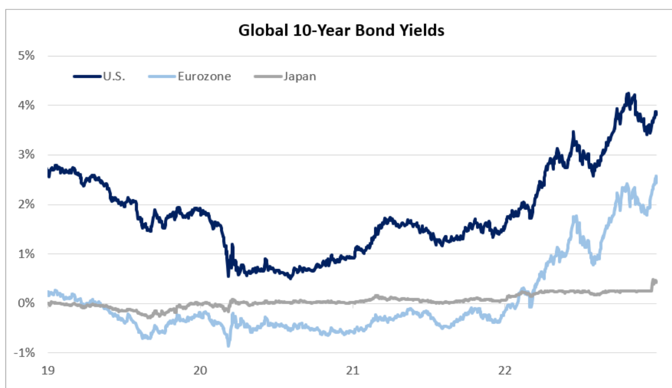
Most fixed income asset classes performed well over the last quarter of 2022, aided by flat or falling yields, modest spread compression, and higher levels of income. Despite the positive results over Q4, 2022 remained one of the worst years for the asset class in recent memory.



Bloomberg

TIPS breakevens, which indicate inflation expectations, are elevated above 2% but have moderated relative to earlier in the year. Many inflation indicators are lagged to a degree and its likely that core inflation has peaked and will trend down over time. Inflation's retreat would be further accelerated by a potential recession.



Bloomberg

Global yields across most developed nations marched substantially higher over the course of the year. Higher yields reflected a variety of hawkish actions by global central banks to fend off historically high inflation. The Bank of Japan has been an outlier but recently allowed its 10-year yield to move up slightly.

Bloomberg

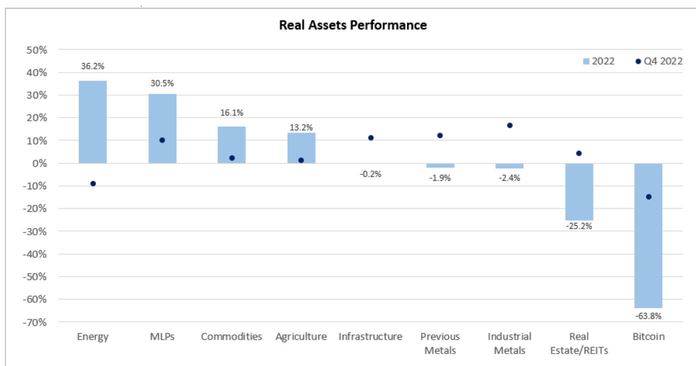
Corporate high yield spreads were higher throughout the year but were below prior levels indicating widespread financial distress. Higher rates and spreads would greatly increase the borrowing rates for many corporations which could contribute to higher interest burdens for indebted companies going forward.

Real Assets

Most real assets performed well over 2022, acting as a natural hedge to historically high levels of inflation. While still enduring significant volatility, energy-focused commodities were among the top performers last year. A massive whiplash in supply and demand within and coming out of the pandemic fueled excessive volatility in the space. Over 2022, the military conflict in Ukraine paired with more normalized demand was met with more constrained supply. At its peak last year, oil (WTI) soared to over $120/barrel and natural gas prices in the U.S. reached their highest level since 2008. Both commodities have settled at lower prices, particularly natural gas which has been aided by a seasonably warm winter. MLPs, which own energy infrastructure assets such as pipelines, also performed well benefitting from elevated volumes and scarcity.

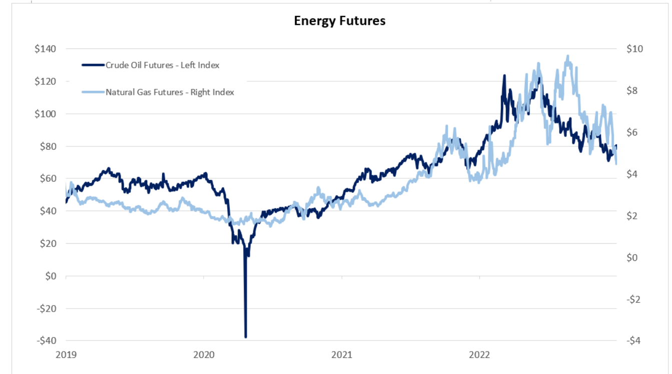
2022 was a sobering year for many cryptocurrency investors. Perceived as a digital store of value, Bitcoin fell more than 60% over the year. In addition to the implosions of several notable crypto exchanges and projects (Terra, Celsius, FTX, etc.), the value of many tokens appears to be more highly correlated to excess liquidity in the global monetary system than believed. Putting price action aside, the cryptocurrency industry offers an exciting promise of a new technology but still struggles to find a pertinent use cases. Time will tell if the massive level of capital and talent that has flowed into the space will result in a productive innovation or will fall by the wayside. While gold handily outperformed nearly all cryptocurrencies, it failed to deliver on the inflation hedge many have employed it for in the past due to a strong-USD and higher yields elsewhere.

After a miraculous rise in 2021, public REITs came back to earth in 2022. The downward pressure of REIT returns came from a variety of factors including high starting valuations, higher borrowing costs (and subsequently cap rates), and recessionary fears. The sell-off has been broad-based, although office remains a negative outlier based on the greatest level of uncertainty of future demand. After a challenging year, many public REITs went from trading at premium valuations to discounts. Although the public REIT space is smaller and concentrated in different sectors relative to the private commercial real estate space, there could be pockets of opportunity going forward given the magnitude of dislocations.



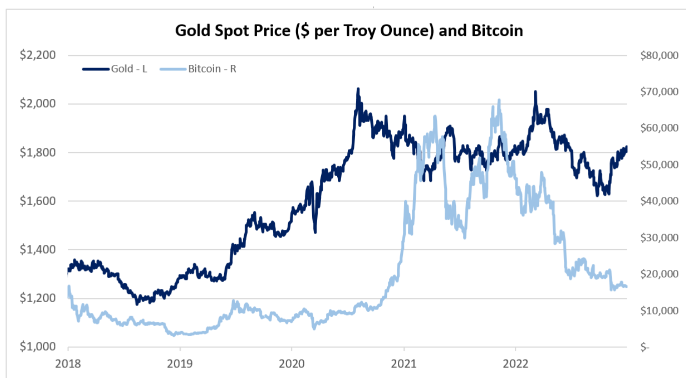
Bloomberg

Many real assets performed well in 2022, benefitting from higher inflation and rising demand for many commodities. Energy was a top performer, partially supported by production disruptions following the war in Ukraine. Cryptocurrencies were notable laggards as use cases have yet to be fully realized.



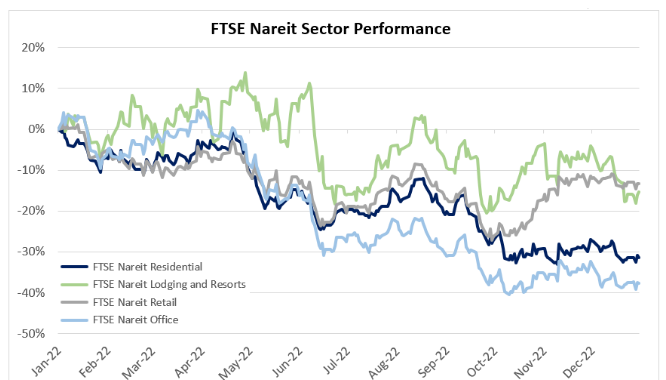
Bloomberg

Despite reaching multiyear highs throughout 2022, oil (WTI) and natural gas ended the year ahead but much closer to where they started. Pandemic-related supply and demand anomalies paired with the conflict in Ukraine have contributed to excessive volatility over the past several years in both commodities.



Bloomberg

Both considered a store of value by many, bitcoin and gold had very different outcomes last year. While many would have expected gold to have performed better in the current inflation regime, it ended the year close to flat held back by higher rates and a strong USD. Bitcoin declined precipitously likely influenced by tightening liquidity conditions.



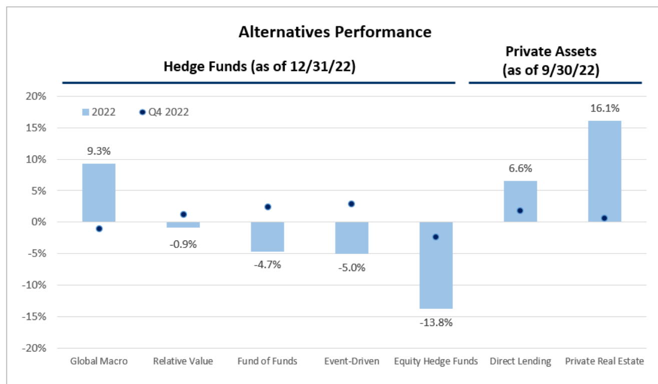
National Association of Real Estate Investment Trusts

Public REITs had a difficult year after an impressive 2021. While rents continue to increase in select areas like multi-family housing and industrial, the pace of increase has greatly leveled off. Office-oriented REITs have been notable laggards as the future of physical work continues to be redefined.

Alternatives

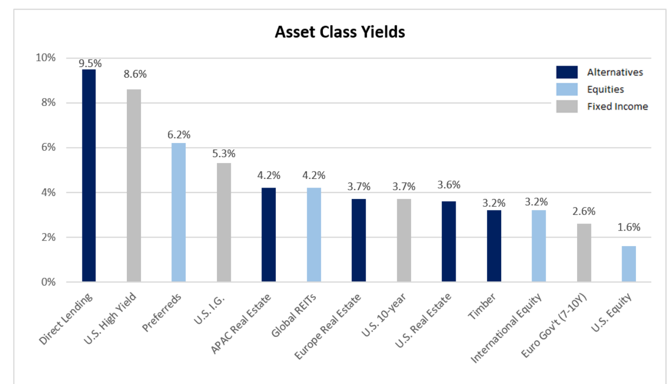
Private assets provided a buffer during a turbulent year for public stocks and bonds, although valuations, which typically lag public markets, may have further room to adjust. Both private real estate and credit generated positive returns for the year and private equity is expected to sharply outperform public companies. Private credit, which typically has floating rates, saw a sharp rise in yields, buoyed by higher interest rates and credit spreads. Higher rates and a slowing economy have raised concerns about private real estate, resulting in rising cap rates and lower valuations. Sharp increases in rental income driven by supply shortages helped to offset higher cap rates. Private equity secondaries have seen exponential growth. Secondaries allow general and limited partners to sell their holdings, providing flexibility to respond to volatility and opportunities from market dislocation. Wider discounts have provided a good entry point for investors. Private equity deal flow and exits plummeted, although there recently have been signs of improvement. Private credit has filled the gap to fund private equity deals after traditional lenders pulled back, helping to maintain a healthy supply.

Hedge funds provided downside protection relative to stocks and bonds during a difficult year for the capital markets. Several strategies proved their value as diversifiers delivering uncorrelated returns to equity markets. Global macro funds and CTAs (Commodity Trading Advisors) benefited from upward trends in the U.S. dollar, interest rates, and energy prices. Global macro funds advanced over 9% for the year. Low beta strategies such as relative value and market neutral also posted strong relative performance. Equity hedge strategies declined, but the drawdown was almost half that of the U.S. stock market. Cryptocurrencies were volatile following the collapse of the FTX exchange which had contagion effects on other crypto platforms. The HFR Cryptocurrency Index plummeted 55% for the year. Larger funds had the advantage in terms of both performance and asset flows as investors sought out established managers with proven track records. The largest Global Macro and Multi-strategy Credit funds were top performers for the year. Hedge fund selection is critical, with a 72% return differential between the best- and worst-performing funds for the year.



Bloomberg and Hedge Fund Research, Inc. (HFRI)

Alternatives shined in 2022 during a period when there were few places to hide in public markets. Within hedge funds, non-directional strategies (global macro, RV, etc.) produced positive returns. Private assets, as a group, also produced positive results. Direct lending strategies orientation towards floating rate loans insulated it from rising rates.



JPMorgan Asset Management as of 11/30/2022; Alternatives as of 9/30/22

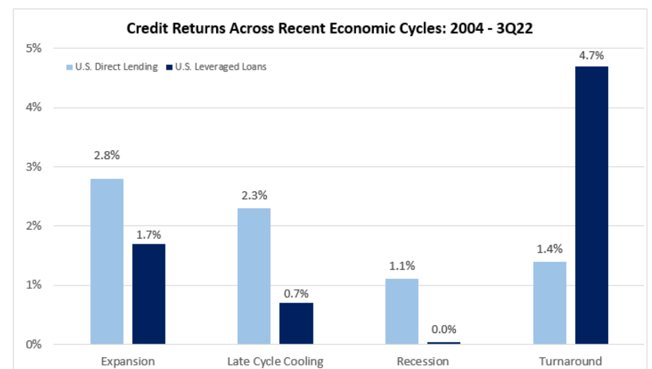
Yields across nearly all public and private asset classes rose throughout the year. Direct lending strategies were a direct beneficiary of higher yields based on an orientation towards floating rate loans. Yields on real estate also rose, although valuations have been brought down by higher cap rates.

Quarterly Public and Private Market Correlations (2008 - 2Q '22)

	Global Bonds	Global Equity	U.S. Core Real Estate	Global Core Infra	Direct Lending	Venture Capital	Private Equity
Global Bonds	1.0	0.4	-0.2	-0.1	0.0	0.1	0.1
Global Equity	0.4	1.0	0.0	0.4	0.7	0.6	0.8
U.S. Core Real Est	-0.2	0.0	1.0	0.3	0.3	0.3	0.3
Global Core Infra	-0.1	-0.1	0.3	1.0	0.2	0.1	0.1
Direct Lending	0.0	0.7	0.3	0.2	1.0	0.5	0.9
Venture Capital	0.1	0.6	0.3	0.1	0.5	1.0	0.8
Private Equity	0.1	0.8	0.3	0.1	0.9	0.8	1.0

JPMorgan Asset Management as of 11/30/2022

Lower correlations and enhanced diversification are a key benefit to introducing private assets to diversified portfolios. In particular, private real estate and direct lending strategies have low correlations to many traditional asset classes. The diversification advantage for many of these strategies was on display in 2022, when public stocks and bonds both struggled to produce results.



JPMorgan Asset Management as of 11/30/2022

Direct lending has demonstrated an all-weather resilience across most parts of the economic cycle, but particularly shine at the tail-end – where we may be today. Leveraged loans tend to do well coming out of a recession and can be utilized as a more tactical allocation.

Capital Market Returns

	Q4 2022	2022
Cash and Fixed Income		
U.S. Treasury Bills	0.9%	1.5%
Bloomberg Barclays U.S. Aggregate Bond	1.9%	-13.0%
Bloomberg Barclays Municipal Bond	4.1%	-8.5%
Bloomberg U.S. Treasury Inflation-Link Bond	2.0%	-11.8%
Bloomberg Barclays Global Aggregate ex. USD	6.8%	-18.7%
Bloomberg Emerging Markets Tradeable Debt	5.3%	-28.7%
Real Assets		
Bloomberg Commodity	2.2%	16.1%
DJ U.S. Real Estate	4.4%	-25.2%
S&P Global Infrastructure Index	11.0%	-0.2%

	Q4 2022	2022
U.S. Equity		
S&P 500	7.6%	-18.1%
Russell 3000	7.2%	-19.2%
Russell 2000	6.2%	-20.4%
International Equity		
MSCI ACWI ex. U.S.	14.1%	-16.6%
MSCI EAFE (Developed)	17.3%	-14.5%
MSCI Emerging Markets	9.7%	-20.1%
Alternatives		
HFRI Fund of Funds Composite	2.4%	-4.7%
Cliffwater Direct Lending Index*	1.8%	6.6%
NCREIF Property Index*	0.6%	16.1%

Morningstar, Bloomberg, and Hedge Fund Research, Inc. (HFRI), * trailing quarter and year as of 9/30/2022

Disclaimer

This commentary was written by Noreen Brown, CFA®, Deputy Chief Investment Officer and Steven Melnick, CFA®, Associate Director of Investment Management at Summit Financial, LLC., an SEC Registered Investment Adviser ("Summit"), headquartered at 4 Campus Drive, Parsippany, NJ 07054, Tel. 973-285-3600. It is provided for your information and guidance and is not intended as specific advice and does not constitute an offer to sell securities. Summit is an investment adviser and offers asset management and financial planning services. Indices are unmanaged and cannot be invested into directly. The Russell 3000 Index measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market. The Russell 3000 Index is constructed to provide a comprehensive, unbiased and stable barometer of the broad market and is completely reconstituted annually to ensure new and growing equities are reflected; The Russell 2000 Index measures the performance of the small cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership; The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index representing approximately 90% of the total market capitalization of that index. It includes approximately 1,000 of the largest securities based on a combination of their market-cap and current index membership; The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap Index is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap Index represents approximately 31% of the total market capitalization of the Russell 1000 companies; the S&P 500 Index is a market capitalization-weighted Index of 500 widely held stocks often used as a proxy for the stock market. It measures the movement of the largest issues. Standard and Poor's chooses the member companies for the 500 based on market size, liquidity and industry group representation. Included are the stocks of eleven different sectors; the MSCI EAFE Index (Europe, Australasia, Far East) captures large- and mid-cap representation across developed markets countries around the world excluding the U.S. and Canada. The index covers approximately 85% of the free float-adjusted market capitalization in each country; the MSCI Emerging Markets Index captures large- and mid-cap representation across emerging markets countries across the world. The index covers approximately 85% of the free float-adjusted market capitalization in each country; The MSCI World Index captures large- and mid-cap representation across developed markets countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country; the Bloomberg Commodity Index reflects commodity futures price movements and is calculated on an excess return basis. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production, and weight-caps are applied at the commodity, sector, and group level for diversification. Roll period typically occurs from the 6th-10th business day based on the roll schedule; the Bloomberg U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency); the Bloomberg Global Aggregate Ex U.S. Index is a measure of investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes Treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. Bonds issued in U.S. dollars are excluded; the Bloomberg Municipal Bond Index covers the U.S. dollar-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds; the Dow Jones U.S. Real Estate Index measures the performance of real estate investment trusts (REITs) and other companies that invest directly or indirectly in U.S. real estate through development, management, or ownership, including property agencies; The Bloomberg U.S. Corporate High-Yield Index measures the U.S. dollar-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded; The HFRI Fund of Funds Composite Index is an equally weighted hedge fund of funds benchmark composed of global constituent funds. The underlying constituents are typically diversified among multiple managers and styles to provide a comprehensive representation of the hedge fund of funds investment space.; The HFRI Equity Hedge Index is an equally weighted hedge fund benchmark composed of investment managers who maintain both long and short positions, primarily in equity and equity derivative securities. Equity hedge managers typically maintain at least 50% exposure to, and may in some cases be entirely invested in, equities, both long and short; The HFRI Event-Driven Index is an equally weighted hedge fund benchmark composed of investment managers who maintain positions in companies currently or prospectively involved in corporate transactions of a wide variety including but not limited to mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance or other capital structure adjustments. Event-driven exposure includes a combination of sensitivities to equity markets, credit markets, and idiosyncratic, company-specific developments; The HFRI Macro Index is an equally weighted hedge fund benchmark composed of investment managers which trade a broad range of strategies in which the investment process is predicated on movements in underlying economic variables and the impact these have on equity, fixed income, hard currency, and commodity markets. Managers employ a variety of techniques, both discretionary and systematic analysis, combinations of top-down and bottom-up theses, quantitative and fundamental approaches, and long- and short-term holding periods. The HFRI Relative Value Index is an equally weighted hedge fund benchmark composed of investment managers who maintain positions in which the investment thesis is predicated on the realization of a valuation discrepancy in the relationship between multiple securities. Managers employ a variety of fundamental and quantitative techniques to establish investment theses, and security types can range broadly across equity, fixed income, derivative, or other security types. The Cliffwater Direct Lending Index seeks to measure the unlevered, gross of fee performance of U.S. middle-market corporate loans, as represented by the asset-weighted performance of the underlying assets of Business Development Companies (BDCs), including both exchange-traded and unlisted BDCs, subject to certain eligibility requirements. The NCREIF Property Index is a quarterly, unleveraged composite total return for private commercial real estate properties held for investment purposes only. Constituents include operating apartment, hotel, industrial, office, and retail properties. The S&P Case-Shiller Home Price Index measures the value of single-family housing within the U.S. The index is a composite of single-family home price indices for the nine U.S. Census divisions. Leading economic indicators (LEI) are statistics that precede economic events. They predict the next phase of the business cycle. The OECD Composite leading indicators (CLIs), designed to anticipate turning points in economic activity relative to trend, continue to strengthen in most major economies. The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. The Consumer Confidence Index is a measure based on a survey administered by The Conference Board that reflects prevailing business conditions and likely developments for the months ahead. This monthly report details consumer attitude, buying intentions, vacation plans and consumer expectations for inflation, stock prices and interest rates. A Treasury Bill (T-Bill) is a short-term U.S. government debt obligation backed by the Treasury Department with a maturity of one year or less. The ISM manufacturing index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of executives covering all North American Industry Classification System's businesses in the manufacturing sector. The ISM Non-Manufacturing Index is a monthly indicator of U.S. economic activity based on a survey of executives covering all North American Industry Classification System's businesses in the services (or non-manufacturing) sector. Data in this newsletter is obtained from sources which we, and our suppliers believe to be reliable, but we do not warrant or guarantee the timeliness or accuracy of this information. Consult your financial professional before making any investment decision. Past performance is no guarantee of future results. Diversification/asset allocation does not ensure a profit or guarantee against a loss. Economic and market forecasts presented herein reflect our judgment as of the date of this presentation and are subject to change without notice. These forecasts are subject to high levels of uncertainty that may affect actual performance. Accordingly, these forecasts should be viewed as merely representative of a broad range of possible outcomes. These forecasts are estimated, based on assumptions, and are subject to significant revision and may change materially as economic and market conditions change. These forecasts do not take into account the specific investment objectives, restrictions, tax and financial situation or other needs of any specific client.