



# ECONOMIC AND MARKET REVIEW

SECOND QUARTER 2023



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# Economic indicators dashboard



## Market Volatility

Down to the lower end of the typical range in Q2

%

## Yield Spread

Continued down from -1.37% at the end of Q1



## Unemployment

Stayed below the typical range in Q2



## Consumer Sentiment

Remained low in Q2, but up in June from a low of 59.2 at the end of May

MOST RECENT | 3-MO. TREND | TYPICAL RANGE | ACTUAL RANGE

### ▼ MARKET INDICATORS

Market Volatility (CBOE VIX)

[HISTORICAL DETAILS](#)

10 Yr. U.S. Treasury Yield

[HISTORICAL DETAILS](#)

Yield Spread

[HISTORICAL DETAILS](#)

Home Prices (HPI)

[HISTORICAL DETAILS](#)

### ▼ ECONOMIC INDICATORS

Inflation (CPI)

[HISTORICAL DETAILS](#)

Unemployment

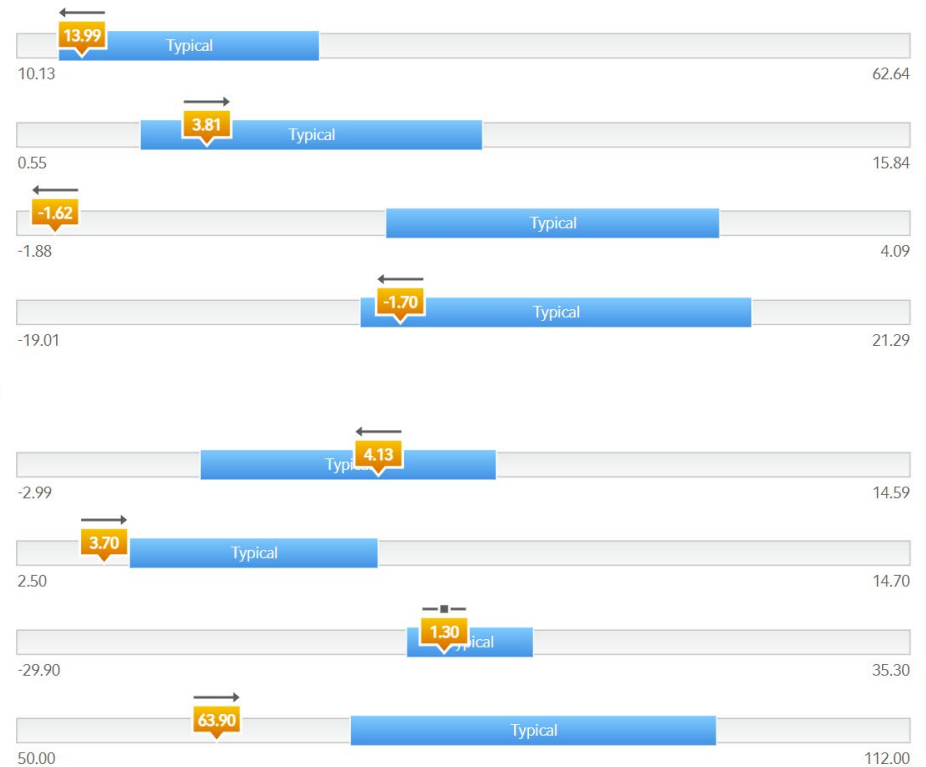
[HISTORICAL DETAILS](#)

Economic Expansion (GDP)

[HISTORICAL DETAILS](#)

Consumer Sentiment (CSI)

[HISTORICAL DETAILS](#)



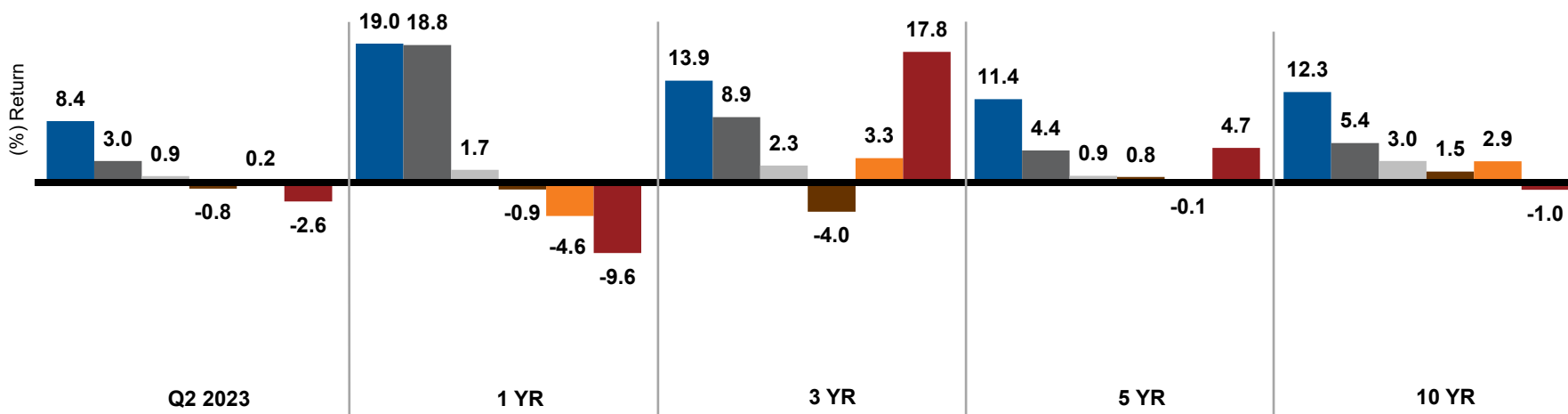
Source: <http://www.russellinvestments.com>, current state as of 7/4/2023. See appendix for category definitions. Russell Investments' Economic Indicators Dashboard charts several key indicators to help investors assess economic and market trends.

# Capital markets

Periods ending June 30, 2023



**Capital market returns (%)**  
(Annualized for periods greater than 1 year)



**U.S. equity:** (Russell 3000® Index) U.S. stock index which includes the 3,000 largest U.S. stocks as measured by market capitalization

**Non-U.S. developed equity:** (MSCI EAFE Index) International market index that includes Western Europe, Japan, Australia

**Emerging markets:** (MSCI Emerging Markets Index) Emerging markets index that includes S. Korea, Brazil, Russia, India and China

**U.S. bonds:** (Bloomberg U.S. Aggregate Bond Index) Broad index for U.S. Fixed Income market

**Global REITs:** (FTSE EPRA/NAREIT Developed Index) Index for global publicly traded real estate securities

**Commodities:** (Bloomberg Commodity Index Total Return) Broad index of common commodities

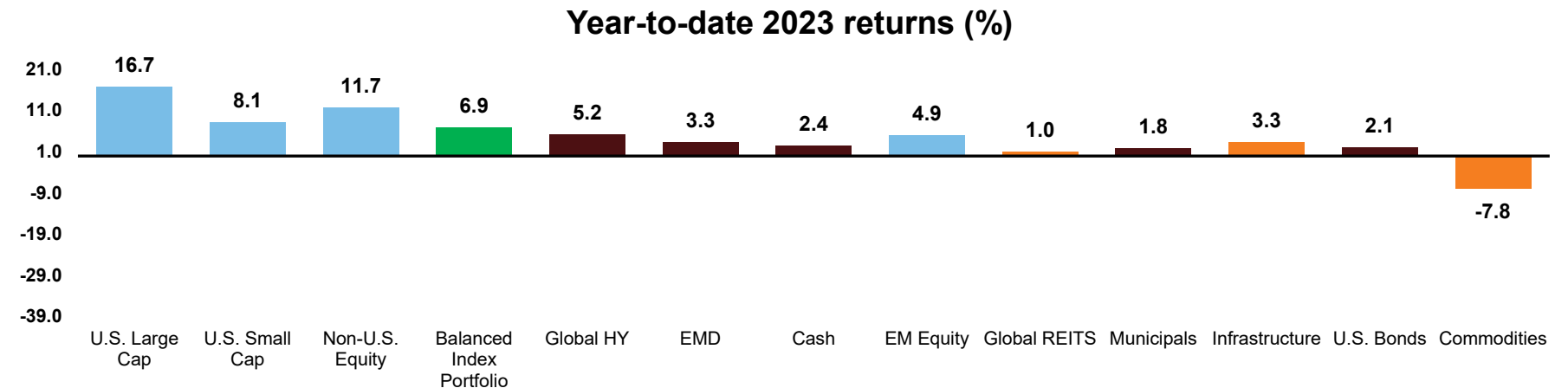
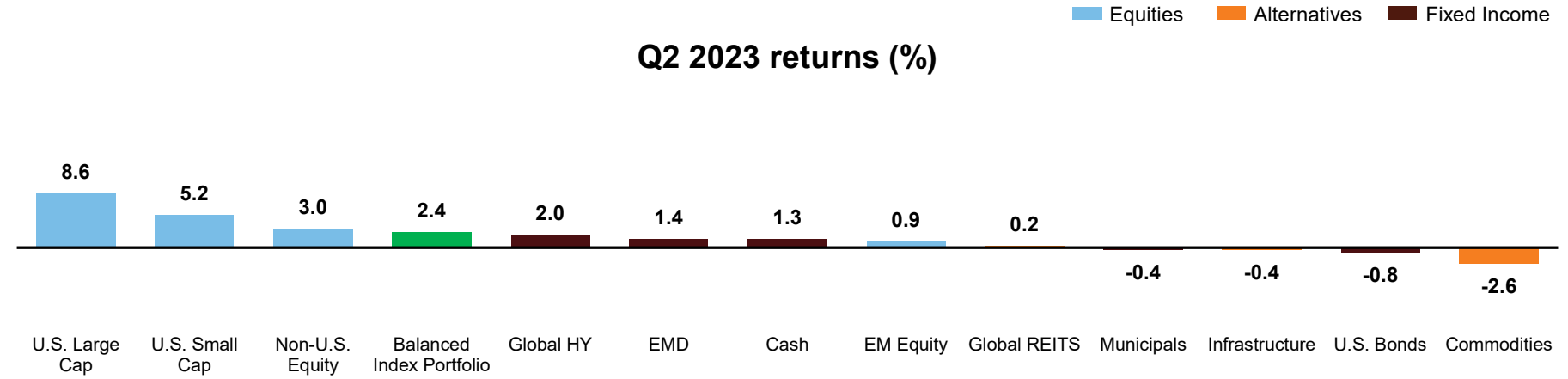
## CAPITAL MARKETS Q2 2023:

- **U.S. equity** up for the quarter with the technology sector leading the charge, positive news on inflation and growth also contributed
- **Non-U.S. developed equity** up despite the European Central Bank raising interest rates twice in the quarter
- **Emerging markets** up slightly but lagged developed markets as tensions between China and the U.S. rose
- **U.S. bonds** down as the yields on Treasuries rose, and uncertainty about the debt ceiling weighed on the sector
- **Global REITs** up marginally as interest rate hikes paused in June
- **Commodities** were negative in Q2 as the top performing sectors were in agriculture and the worst in metals

Source: FTSE/Russell, Bloomberg, MSCI and FTSE NAREIT. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

# What worked and what didn't

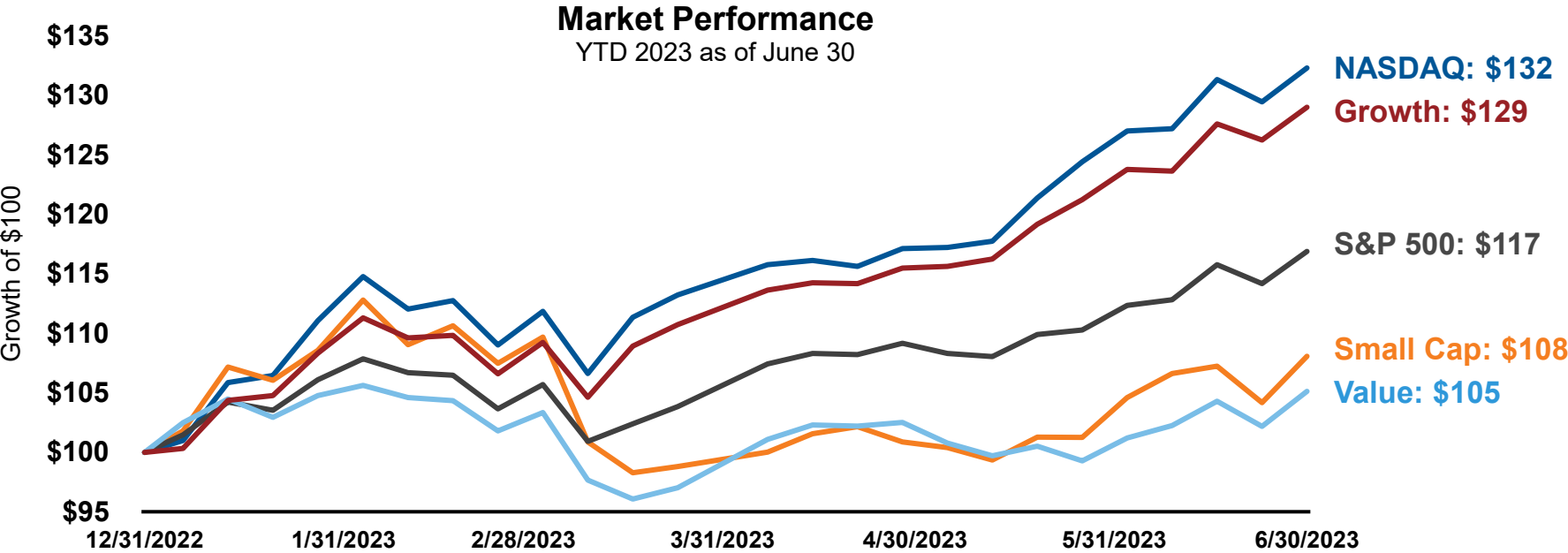
Q2 2023 vs. YTD 2023



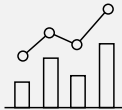
Source: U.S. Small Cap: Russell 2000® Index; U.S. Large Cap: Russell 1000® Index; Global: MSCI World Net Index; Non-U.S.: MSCI EAFE Net index; Infrastructure: S&P Global Infrastructure Index; Global High Yield: Bloomberg Global High Yield Index; Global REITS: FTSE EPRA/NAREIT Developed Index; Municipals: Bloomberg Municipal Index; Cash: FTSE Treasury Bill 3 Month Index; EM Equity: MSCI Emerging Markets Index; U.S. Bonds: Bloomberg U.S. Aggregate Bond Index; EMD: JPM EMBI Plus Bond Index; Commodities: Bloomberg Commodity Index Total Return; Balanced Index: 5% U.S. Small Cap, 15% U.S. Large Cap, 10% Global, 12% Non-U.S., 4% Infrastructure, 5% Global High Yield, 4% Global REITS, 0% Cash, 6% EM Equity, 30% U.S. Bonds, 5% EMD and 4% Commodities. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

# U.S. equity market highlights

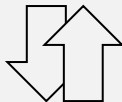
Markets positive overall, however wide differences between market segments remain



NASDAQ off to best start in 40 years



Growth outpacing value by nearly 25%

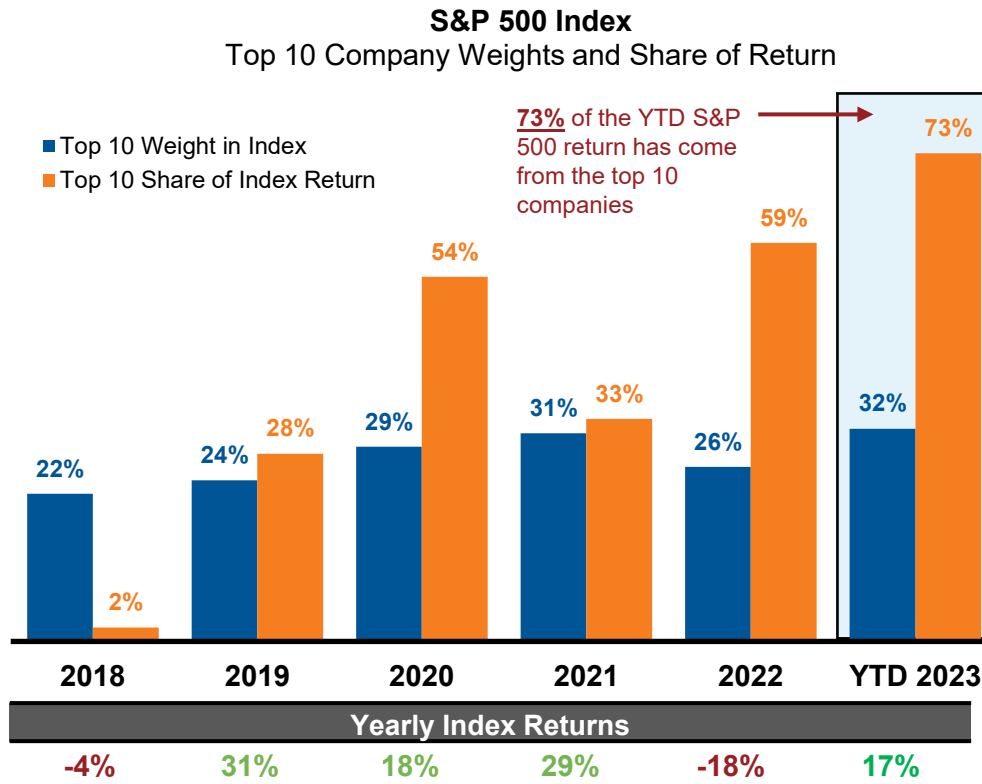


Small cap up from March lows but continues to lag

Source: Morningstar. U.S. Small Cap: Russell 2000 Index; NASDAQ: Nasdaq Composite; Growth: Russell 1000 Growth Index; Value: Russell 1000 Value Index. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

# Narrow market leadership drives U.S. stocks higher

Indexes have become more concentrated with strong returns near the top



**S&P 500 Index**  
2023 YTD Return Summary

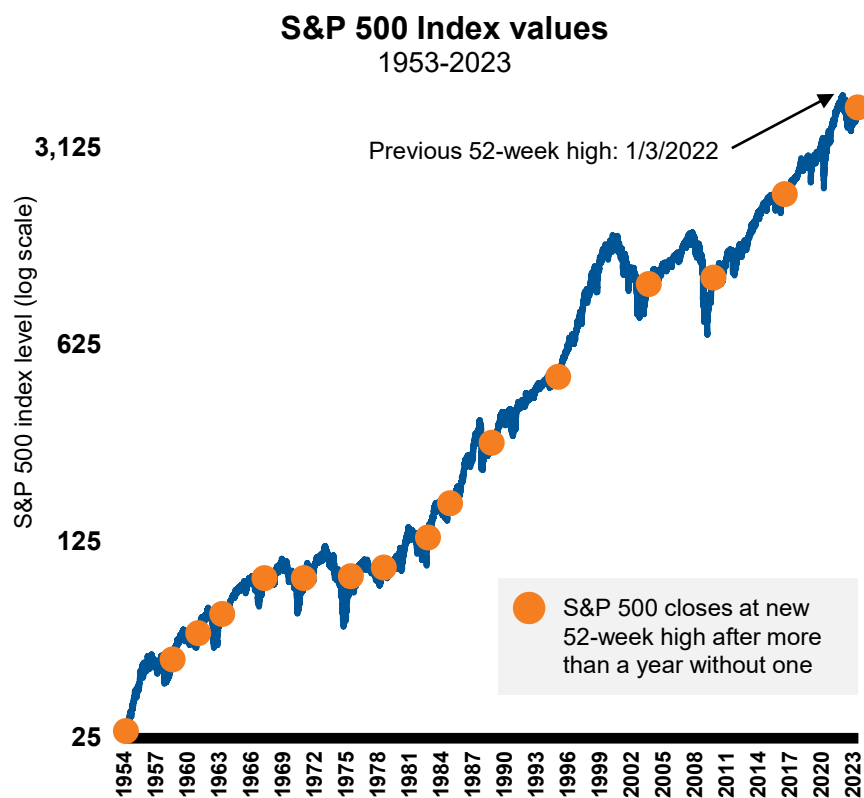
Company	6/30/23 S&P 500 Weight %	YTD Return %	Share of S&P 500 YTD Return %
Apple	7.7	49.7	17.8
Microsoft	6.8	42.7	14.0
Alphabet	3.6	36.0	6.8
Amazon.com	3.1	55.2	7.8
NVIDIA	2.8	189.5	12.8
Tesla	1.9	112.5	6.8
Meta Platforms	1.7	138.5	7.0
Berkshire Hathaway	1.6	10.4	1.1
UnitedHealth Group	1.2	-8.7	-0.8
Exxon Mobil	1.2	-1.2	-0.1
<b>Top 10 Total</b>	<b>32%</b>		<b>73%</b>
<b>Rest of Index</b>	<b>68%</b>		<b>27%</b>
<b>Total S&amp;P 500</b>	<b>100%</b>	<b>17%</b>	<b>100%</b>

- Large technology focused companies continue to produce outsized gains in 2023
- Despite strong results from U.S. stocks, the majority of returns have come from the 10 largest names
- Staying diversified remains important to capture returns as leadership widens out

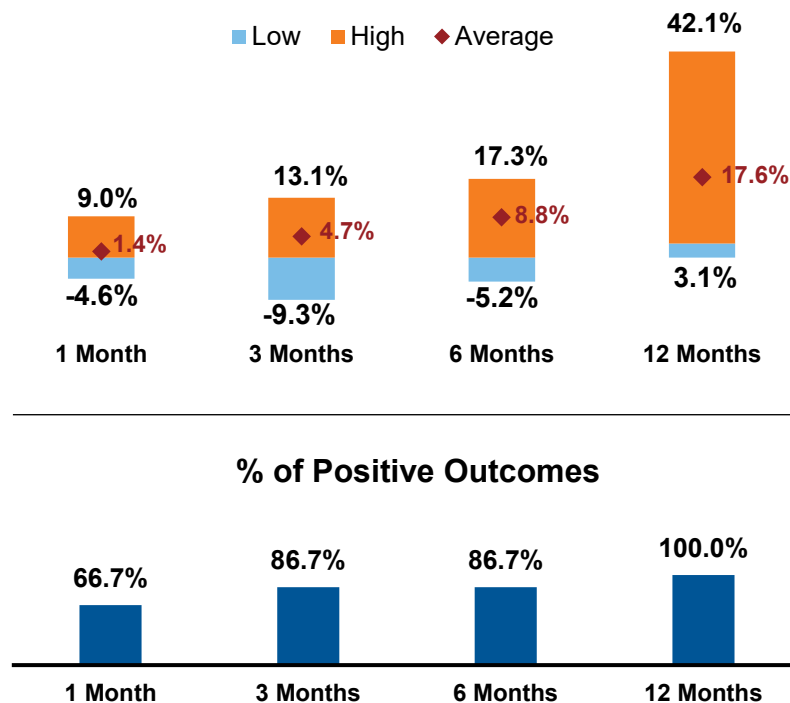
Source: Morningstar and Russell Investments. As of 6/30/2023. Alphabet represents combined A&C shares. Top 10 weights based on calendar year end. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

# Market showing signs of strength

The S&P 500 index reached its highest point in over a year



## S&P 500 returns after a new 52-week high after more than a year without one



- Prior to June 12, 2023, the S&P 500 Index last hit a new 52-week high seventeen months ago
- The market has gone over a year without achieving a new 52-week high sixteen times since 1953
- In all previous instances, the 12-month returns after hitting that new 52-week high have been positive

Source: Nasdaq; S&P 500 returns after new 52-week high after more than a year without one are price returns. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

# Diversified portfolios can help manage risk and enhance returns

U.S. large cap has dominated recently but that's not always the case

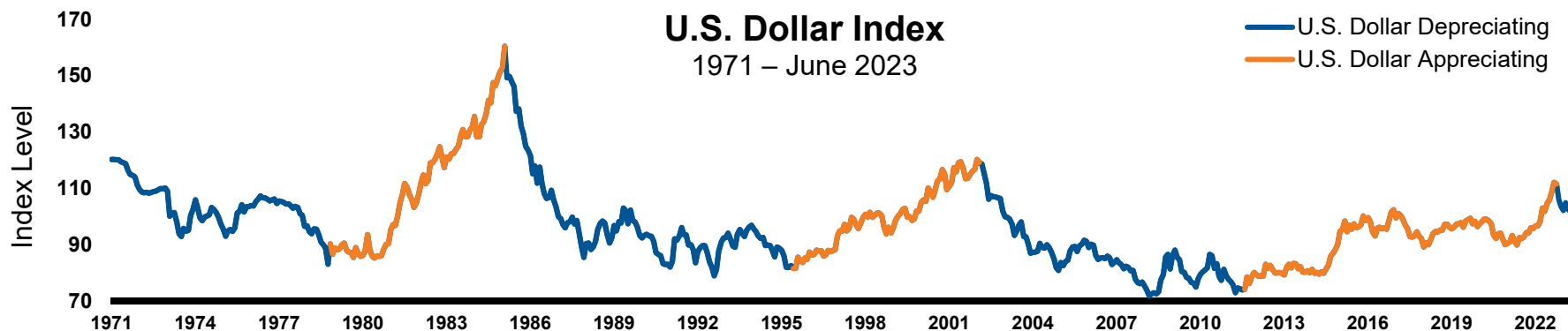
10-Yrs Ending 2012, Annualized	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	10-Yrs Ending 2022, Annualized
Emerging Markets 16.9%	U.S. Small Cap 38.8%	U.S. Large Cap 13.7%	U.S. Large Cap 1.4%	U.S. Small Cap 21.3%	Emerging Markets 37.8%	U.S. Bonds 0.0%	U.S. Large Cap 31.5%	U.S. Small Cap 20.0%	U.S. Large Cap 28.7%	U.S. Bonds -13.0%	U.S. Large Cap 12.6%
U.S. Small Cap 9.7%	U.S. Large Cap 32.4%	U.S. Bonds 6.0%	U.S. Bonds 0.6%	U.S. Large Cap 12.0%	International Developed 25.6%	U.S. Large Cap -4.4%	U.S. Small Cap 25.5%	Emerging Markets 18.7%	U.S. Small Cap 14.8%	International Developed -14.0%	U.S. Small Cap 9.0%
International Developed 8.7%	International Developed 23.3%	U.S. Small Cap 4.9%	International Developed -0.4%	Emerging Markets 11.6%	U.S. Large Cap 21.8%	U.S. Small Cap -11.0%	International Developed 22.7%	U.S. Large Cap 18.4%	International Developed 11.8%	U.S. Large Cap -18.1%	International Developed 5.2%
U.S. Large Cap 7.1%	U.S. Bonds -2.0%	Emerging Markets -1.8%	U.S. Small Cap -4.4%	U.S. Bonds 2.7%	U.S. Small Cap 14.7%	International Developed -13.4%	Emerging Markets 18.9%	International Developed 8.3%	U.S. Bonds -1.5%	Emerging Markets -19.7%	Emerging Markets 1.8%
U.S. Bonds 5.2%	Emerging Markets -2.3%	International Developed -4.5%	Emerging Markets -14.6%	International Developed 1.5%	U.S. Bonds 3.5%	Emerging Markets -14.3%	U.S. Bonds 8.7%	U.S. Bonds 7.5%	Emerging Markets -2.2%	U.S. Small Cap -20.4%	U.S. Bonds 1.1%

- U.S. Large Cap equity has been the best performer in four of the previous ten years
- In the decade prior this did not occur once, and Emerging Market equity had an annualized return more than double that of U.S. Large Cap
- A diversified portfolio spreads your funds across available asset classes, so you don't miss out on each year's leader

Source: S&P 500® Index, Russell 2000 Index, MSCI EAFE Index, MSCI EM Index, and Bloomberg US Aggregate Bond Index. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

# How much more bang for the buck?

Currency movements have been cyclical and influenced regional returns



## U.S. Dollar cycles and regional cumulative returns (%)

JAN. 1971 – OCT. 1978	NOV. 1978 – MAR. 1985	APR. 1985 – MAY 1995	JUNE 1995 – FEB. 2002	MAR. 2002 – JULY 2011	AUG. 2011 – OCT. 2022	NOV. 2022 – JUNE 2023
Japan 540	S&P 500 169	Europe 444	S&P 500 131	Emerging 329	S&P 500 274	Europe 26
Non-U.S. Stocks 179	Japan 96	Non-U.S. Stocks 350	Europe 69	Non-U.S. Stocks 103	Japan 47	Japan 24
Europe 102	Non-U.S. Stocks 72	Japan 315	Non-U.S. Stocks 15	Europe 91	Europe 41	Non-U.S. Stocks 23
S&P 500 38	Europe 49	S&P 500 312	Emerging -19	Japan 61	Non-U.S. Stocks 41	Emerging 19
			Japan -44	S&P 500 40	Emerging -2	S&P 500 16

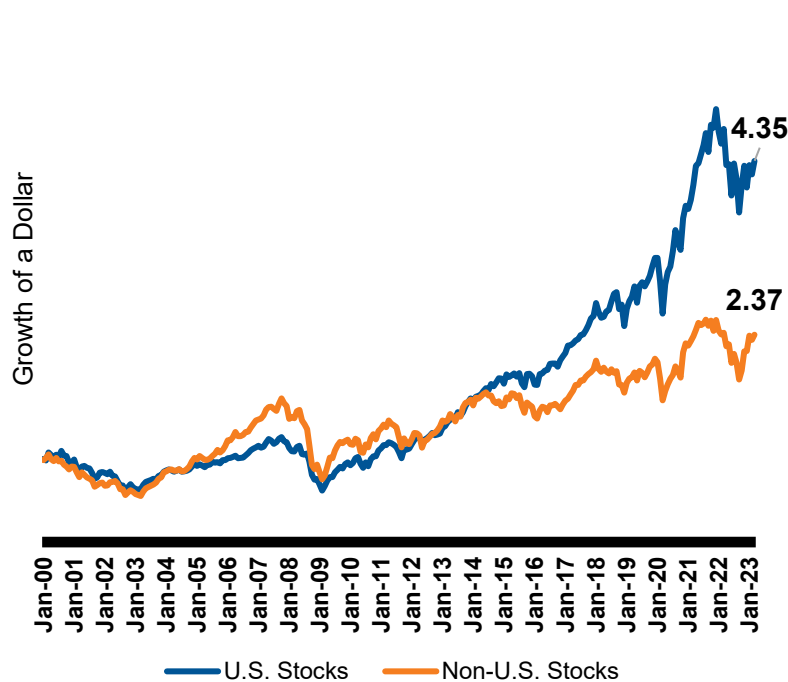
- An appreciating U.S. dollar has favored U.S. stocks, while a depreciating dollar has favored non-U.S.
- After several years of strength, a weakening dollar may be a tailwind for non-U.S. stocks

Source: Morningstar and Ycharts. Non-US Stocks: MSCI World ex-USA Index. Regional returns represent MSCI Indexes. Returns in U.S Dollars. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

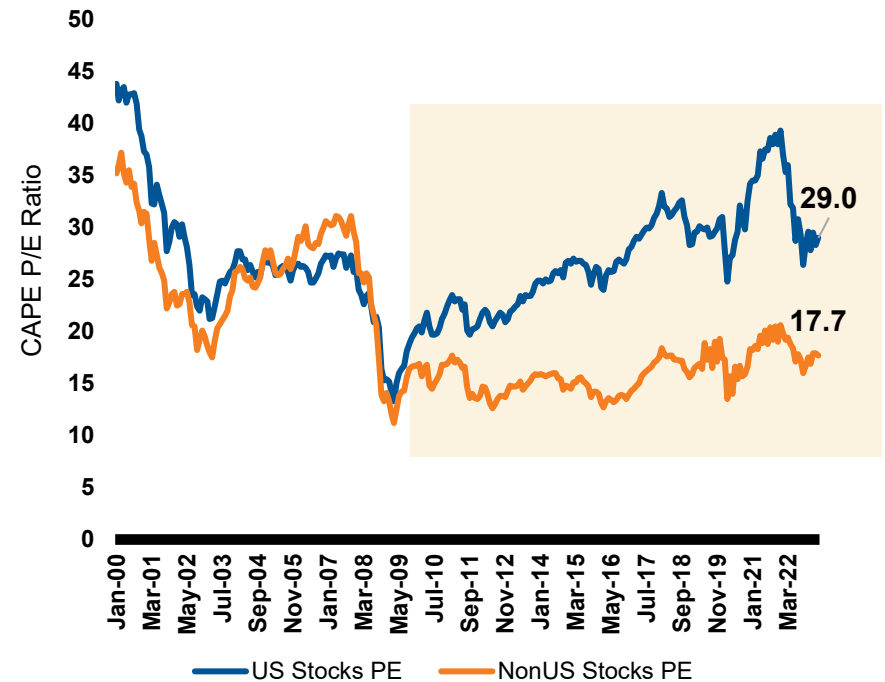
# U.S. stocks have driven global markets post-GFC

Do the fundamentals suggest this will continue?

**U.S. and non-US Stock Returns**  
Growth of a Dollar 2000 - Present



**Equity Market Valuations**  
U.S. and nonUS Stock P/E Level



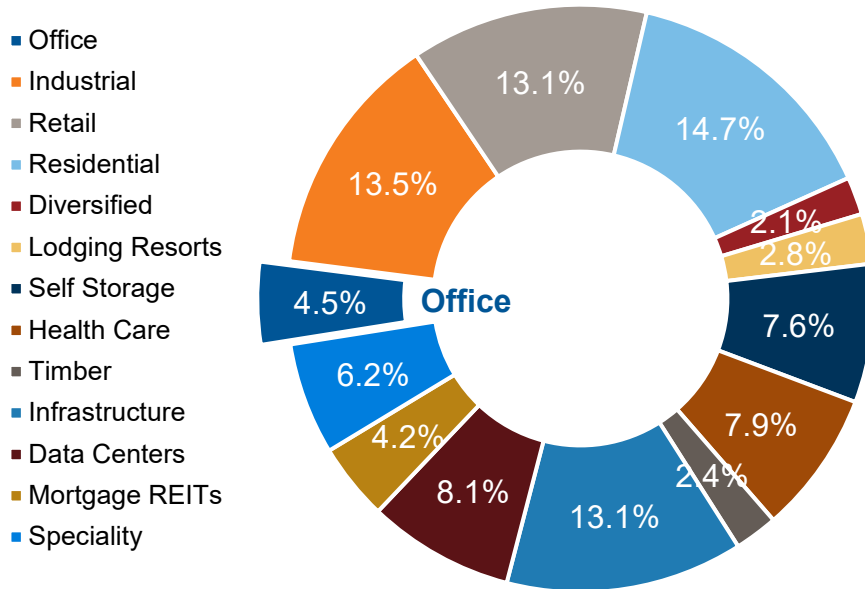
- U.S. stock market run has coincided with significant valuation expansion
- Historical valuations have been more aligned across international markets

Source: US Stocks: S&P 500 Index, NonUS Stocks: MSCI EAFE Index, U.S. Stocks PE: Shiller U.S. Large Cap CAPE P/E, Non-US Stocks PE: Shiller MSCI EAFE CAPTE P/E. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

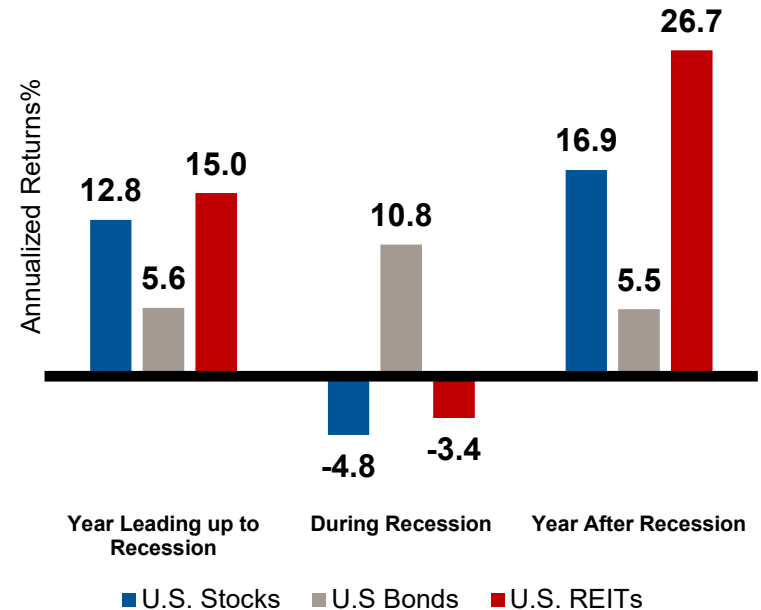
# REITs represent a diversified mix of properties

Historically these assets have tended to perform well late in the cycle

**U.S. Real Estate Sectors**  
May 31, 2023



**Average Asset Class Returns**  
Surrounding the Six U.S. Recessions Since 1980



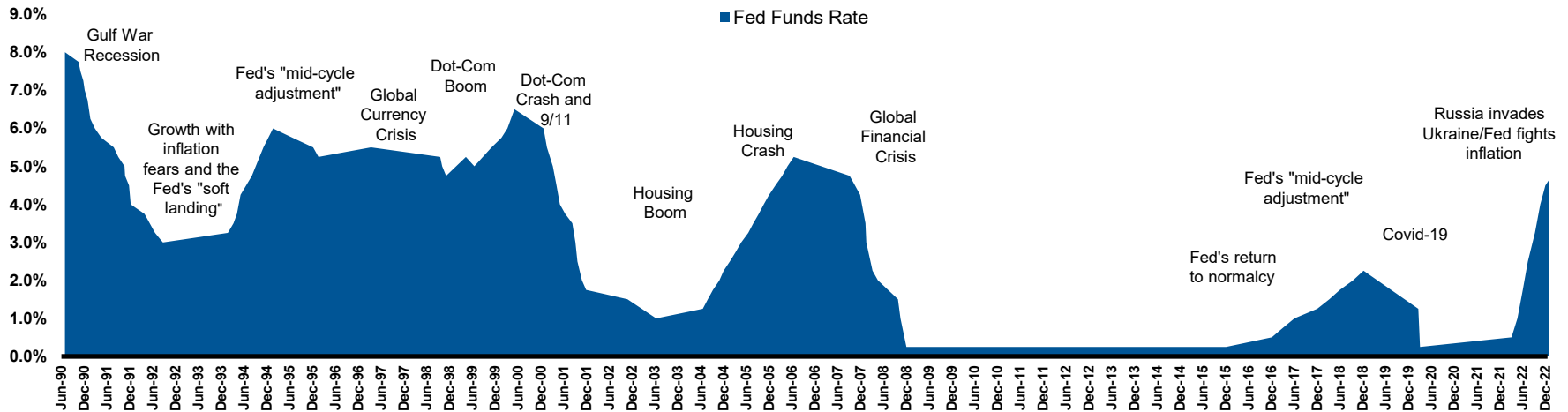
- Higher interest rates and “back to work” concerns have driven negative REIT sentiment
- Despite limited representation, office space seems to be casting the largest shadow
- As we move later into the economic cycle, lower interest rates could be on the horizon, which would bode well for real estate, which has been competitive around downturns

Sources: U.S. Stocks: S&P 500 Index, U.S. Bonds: Bloomberg U.S. Aggregate Bond Index, U.S. REITs: FTSE NAREIT All Equity REITS Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. REIT sectors from FTSE NAREIT Index data; Recession Periods: Jan 1980-July 1980, July 1981 – Nov 1982, July 1990-Mar 1991, Mar 2001-Nov 2001, Dec 2007-June 2009, Feb 2020-April 2020.

# Fed policy has impacted returns in the past

Historically stocks and bonds have done well following a pause in rate hikes

**Federal Reserve Bank Historical Rate Cycles**



Last Rate Hike	Ending Fed Funds Rate
2/2/1995	6.00%
3/25/1997	5.50%
5/16/2000	6.50%
6/29/2006	5.25%
12/20/2018	2.25%

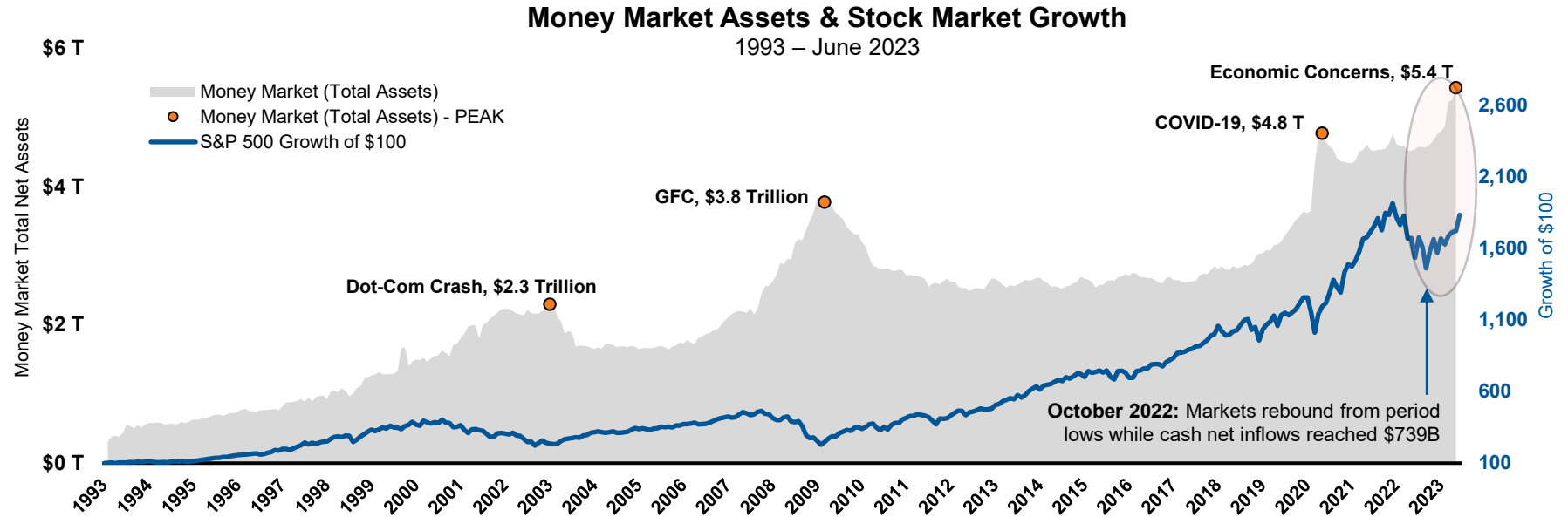
1-year return							
3Mo T-Bills	60/40 Blend	U.S. Agg Bonds	U.S. IG Corps	U.S. HY Corps	Muni Bonds	HY Munis	
6.0%	29.9%	16.8%	19.6%	19.7%	14.9%	-	
5.4%	29.4%	11.2%	12.0%	12.5%	12.3%	11.5%	
6.2%	-0.69%	14.0%	14.6%	1.9%	16.1%	7.4%	
5.2%	17.2%	6.7%	7.6%	12.4%	5.1%	8.0%	
2.3%	22.1%	8.8%	13.8%	12.7%	7.9%	10.8%	

- Overall, fixed income has performed well following a pause in Fed rate hikes providing income and total return
- Following the 2000 rate hike cycle U.S. Large Cap stocks were down -10.5% in the one-year return, but Balanced portfolios were helped by positive performance from investment grade bonds and Munis, which provided ballast to portfolios amidst equity volatility

Performance is based on index data: ICE BofA US 3M Treasury Bill TR, Bloomberg US Agg Bond TR, Bloomberg U.S. Corporate Index TR, Bloomberg High Yield Corporate TR, Bloomberg HY Muni TR, Bloomberg Muni 1-15 (1-17). Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly. 60/40 Blend is calculated based on 60% S&P 500 Total Return index and 40% Bloomberg U.S. Aggregate Total Return index.

# Cash craze

## Money market assets reach highest historical level



Time Period	Asset Class Flows (\$ Billions)			Average Historical Returns After Market Bottom*			Recent Returns
	Jan '22–Sept '22	Oct '22–Jun '23	Year-to-date	1 Mo	3 Mo	1 Year	Oct 13, '22 – June 30, '23
<b>Cash</b>	-\$209	\$739	\$584	0.1	0.2	0.5	3.1
<b>Diversified Portfolio</b>	-\$103	-\$64	\$38	13.8	15.6	36.4	16.6

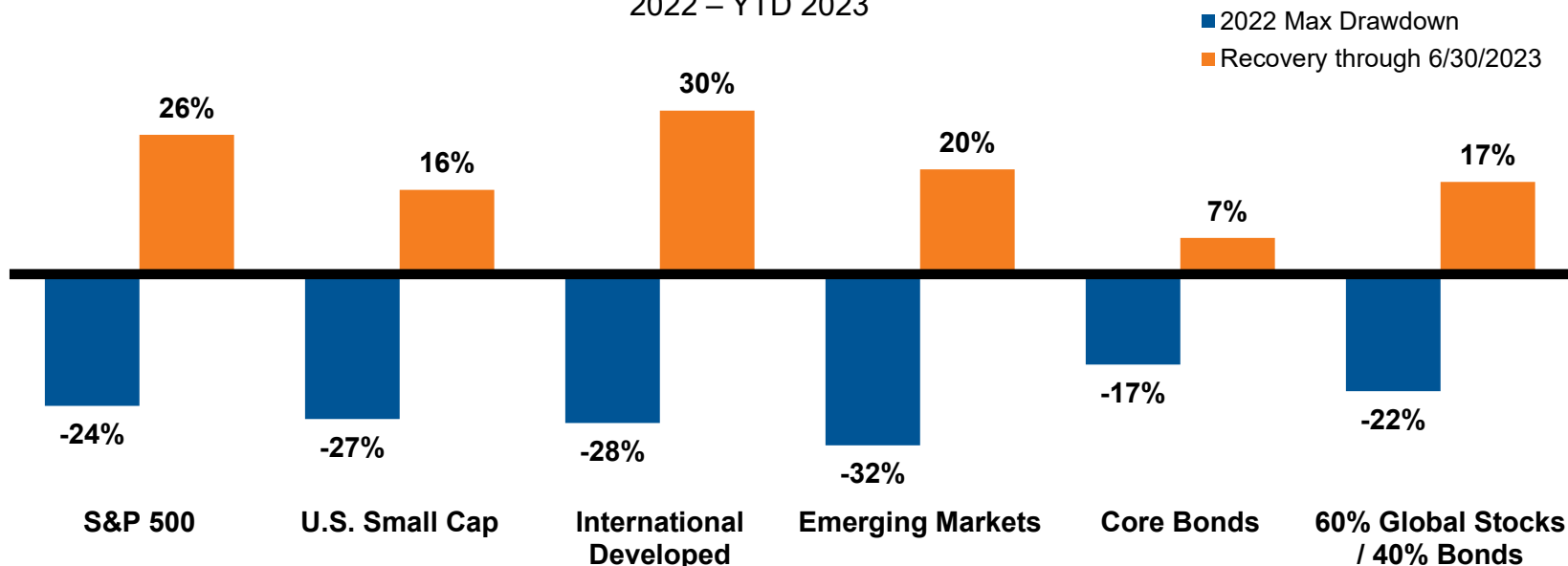
- Historically, market recoveries begin before cash balances fall
- Despite current uncertainty and cash inflows, a diversified portfolio has been rewarded

Source: Morningstar Direct & Refinitiv as of 6/30/2023. U.S. Equity: Russell 3000 index, Non-U.S. Equity: MSCI ACWI ex-USA Index; Bonds: Barclays U.S. Aggregate Bond Index; Real Assets (40%): FTSE NAREIT Equity Index; Infrastructure (30%): S&P Global Infrastructure Index 11/30/2001-Present and 50% DataStream World Gas Water & Multi Utilities, 30% DataStream World Pipelines, 20% Data Stream World Railroads prior. Natural Resources (30%): S&P Global Natural Resources Index 12/31/2002-Present and 50% DataStream World Oil & Gas, 50% DataStream World Basic Materials prior. Cash: ICE BofA US 3M Trsy Bill Index. Diversified Portfolio: 39% U.S. Equity, 17% Non-U.S. Equity, 39% U.S. Bonds, 5% Real Assets. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly. Inflationary periods are selected based on quartile, see appendix for methodology. Avg Historical Returns After Market Bottom\*: Excludes Economic Concerns.

# Recovery from 2022 continues

Markets have rebounded strongly from last year's low points

**Asset Class Drawdowns and Recoveries**  
2022 – YTD 2023



<b>Drawdown End Date</b>	10/12/22	6/16/22	10/12/22	10/24/22	10/24/22	10/14/22
<b>Recovery Start Date</b>	10/13/22	6/17/22	10/13/22	10/25/22	10/25/22	10/17/22

- Many asset classes experienced large downturns in 2022
- Despite uncertainty, markets have bounced back significantly from last year's drawdowns
- Staying invested is critical to participating in market recoveries when they occur

Source: Morningstar. U.S. Small Cap: Russell 2000 Index; International Developed: MSCI World ex-USA Index; Emerging Markets: MSCI Emerging Markets Index; Core Bonds: Bloomberg U.S. Aggregate Bond Index; 60% Global Stocks / 40% Bonds: 60% MSCI ACWI Index, 40% Bloomberg U.S. Aggregate Bond Index. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

# Russell Investments' global market outlook

## ECONOMIC VIEWS



### U.S. ECONOMY

- Mild U.S recession seems probable over the next 12-18 months
- Strong household and corporate finances may limit downturn
- Uneven economic data means further Fed rate hike cannot be ruled out



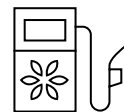
### EUROZONE

- The outlook is turning more negative
- ECB has taken policy into restrictive territory
- The fading recovery in China is another challenge
- The Euro remains cheap based upon purchasing power parity



### PACIFIC BASIN

- Chinese economy is decelerating after strong 1Q
- Chinese consumer consumption is slowing
- Reopening is picking up speed and domestic spending is picking up in Japan



### INFLATION

- Headline inflation has peaked in most regions
- Biggest contributor being the decline in energy prices after peak related to Russian invasion
- Nearly 6% wage growth remains the main barrier to return to Fed's 2% target

## ASSET CLASSES



### GLOBAL EQUITIES

- Potentially limited upside given recession risk
- Non-US developed stocks are cheaper than U.S. equities, although uncertainty has us neutral
- Quality factor, low debt and stable earnings, is preferred overweight
- China's economy is holding back the performance of the emerging markets



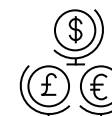
### FIXED INCOME

- Government bonds appear attractive in the U.S., UK, and Germany
- The poor cycle outlook makes credit less attractive in both investment grade, near long-term average spreads; and high yield which is below historical credit spread levels



### REAL ASSETS

- REIT valuations remain attractive relative to global equities and other real assets



### CURRENCIES

- USD has trended lower as investors have speculated that US rate hikes are near the end
- Yen is offering attractive cycle, value, and sentiment perspective

There is no guarantee the stated expectations will be met.

As of 6/26/2023. Forecasting represents predictions of market prices and/or volume patterns utilizing varying analytical data. It is not representative of a projection of the stock market, or of any specific investment.

# Economic risks continue to elevate

The latest recession dashboard shows increasing warning signs

MEDIUM-TERM RISK INDICATORS	JUNE 2022	JUNE 2023
Slope of the curve (10y-2y)	Orange	Red
Labor market slack	Red	Red
Stance of Fed policy	Yellow	Red
Output Gap	Red	Red
Corporate financing gap	Green	Green
Household debt levels	Green	Green
Household debt services	Green	Green
Corporate debt levels	Red	Red
Corporate debt services	Green	Green

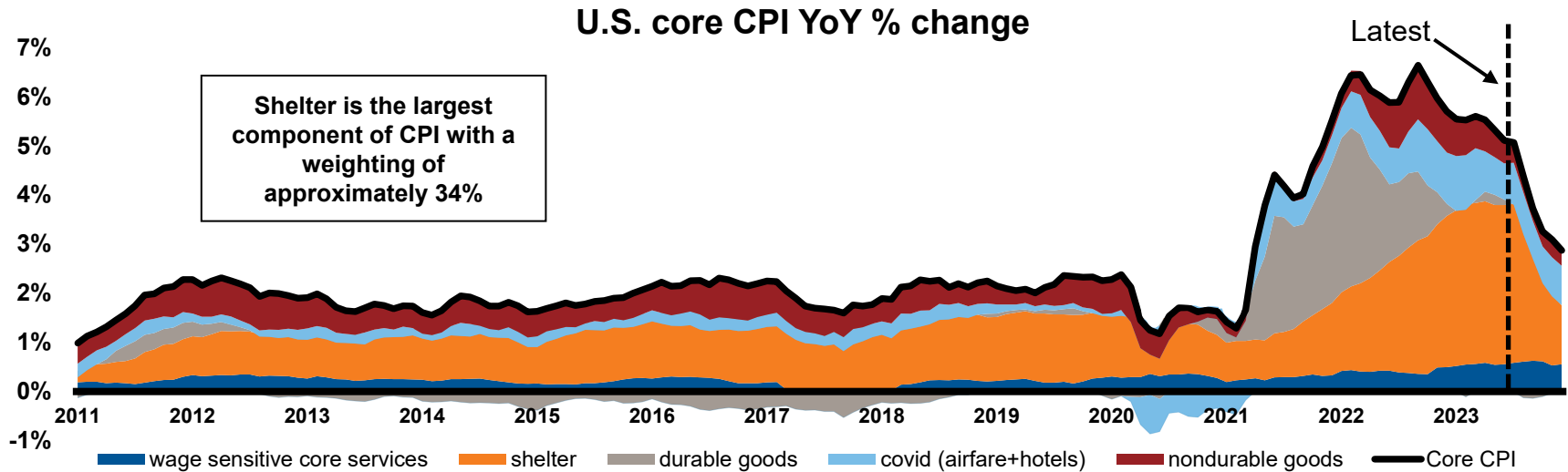
REAL TIME ACTIVITY INDICATORS	JUNE 2022	JUNE 2023
Business Cycle Index	Green	Orange
Yield Curve (10y – 3m)	Green	Red
Employment Growth	Green	Green
Consumption Growth	Yellow	Yellow
Ted Spread	Yellow	Yellow
Credit Spread	Yellow	Yellow
Temporary help employment	Green	Red
Cyclical v stable spending index	Yellow	Orange
Architectural billings	Yellow	Red
Financial Conditions Index	Orange	Orange
Banking lending standards	Green	Red
ISM Manufacturing	Yellow	Red
ISM non-manufacturing	Yellow	Orange
Initial jobless claims	Green	Yellow
Bank loan demand	Green	Green

- Economic data indicators have weakened over the last year
- Recession risks are elevated, but bright spots remain

Source: Russell Investments, June 2022 and June 2023. Red denotes areas of high risk, yellow and orange denote areas of intermediate risk, and green denotes areas of low risk. Approx recession dates are based on historical lead-lag times associated with each indicator.

# U.S. core inflation slowing but still elevated

Shelter inflation showing signs of moderation, but wages remain elevated



Sub-Category YoY % Change	Jun '22	Jul '22	Aug '22	Sep '22	Oct '22	Nov '22	Dec '22	Jan '23	Feb '23	Mar '23	Apr '23	May '23
New Tenant Rents	11.9%			10.1%			3.5%			0.0%		
Wholesale Used Vehicle Prices	9.7%	12.5%	8.4%	-0.1%	-10.6%	-14.2%	-14.9%	-12.8%	-7.1%	-2.4%	-4.4%	-7.6%
Wages	6.7%	6.7%	6.7%	6.3%	6.4%	6.4%	6.1%	6.1%	6.1%	6.4%	6.1%	6.0%
Core CPI	5.9%	5.9%	6.3%	6.6%	6.3%	6.0%	5.7%	5.6%	5.5%	5.6%	5.5%	5.3%

- Potentially a better barometer of current shelter costs, rents on new leases have declined significantly
- Prices that dealerships pay for used cars have experienced a persistent reversal
- However, elevated wage growth remains a concern for the Fed

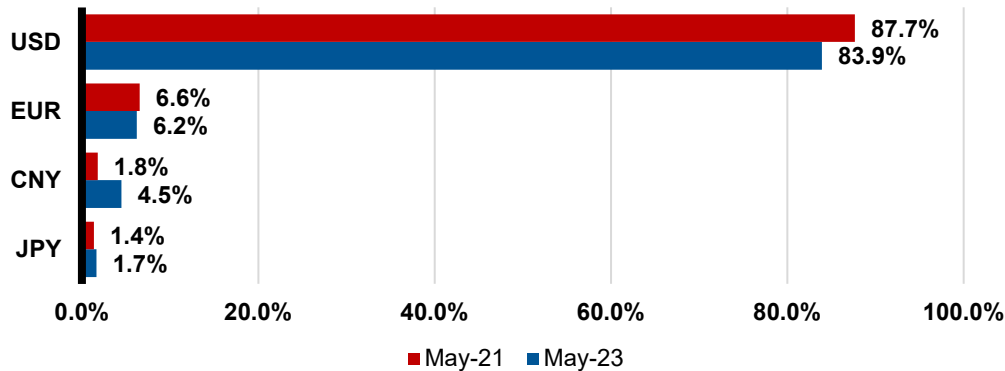
Source: Russell Investments, U.S. Bureau of Labor Statistics, Federal Reserve Bank of Atlanta, Federal Reserve Bank of Cleveland, Manheim Inc. June 2023. New Tenant Repeat Rent data released by Cleveland Federal Reserve is quarterly only. Shelter inflation is projected to moderate according to its lead-lags with the Cleveland Fed's New Tenant Repeat Rent and All Tenant Repeat Rent indices. Used car inflation is projected to moderate based on its lead-lags with the Manheim Used Vehicle Auction Price Index. All other subcomponents are projected forward at their most recent 12-month average pace.

# Has the dollar lost its dominance?

The U.S. dollar remains the most prominent world reserve currency

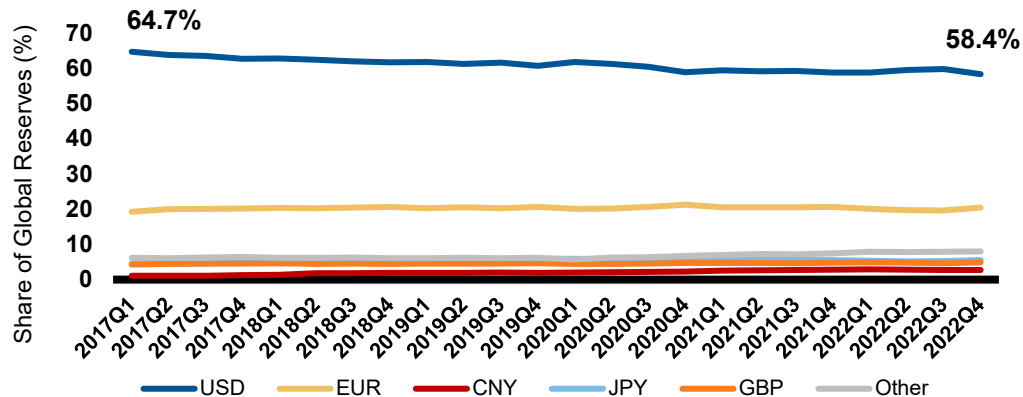
## Top 4 Currency Share in Trade Finance Market

Live and delivered, MT 400 and MT 700. Messages exchanged on Swift. Based on value.



Source: Swift RMB Tracker June 2023 Edition

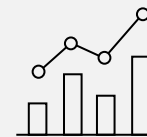
## Share of Global Reserves by Currency (2017-2022)



Source: Currency Composition of Official Foreign Exchange Reserves (COFER), International Financial Statistics (IFS); Data extracted from <http://data.imf.org/>



Central banks diversifying their currency holdings has reduced the dollar's portion of global reserve assets



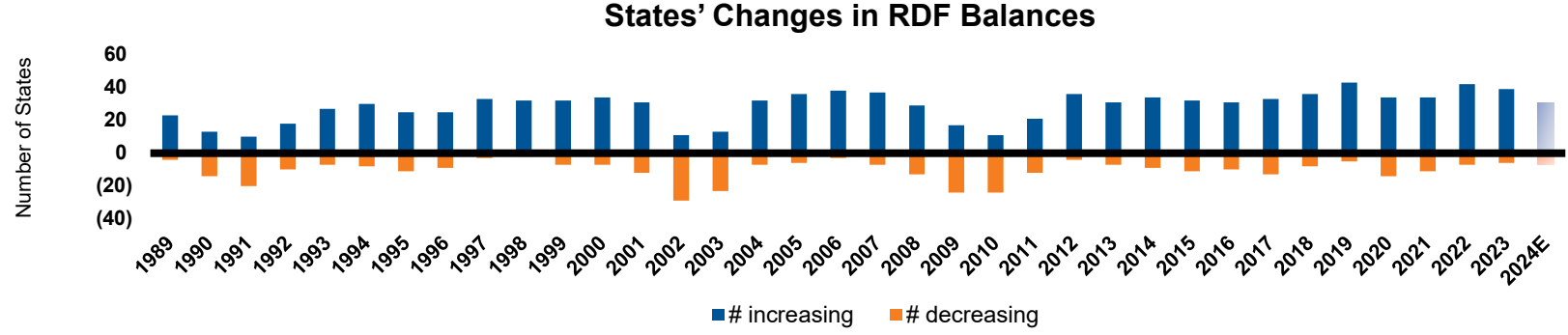
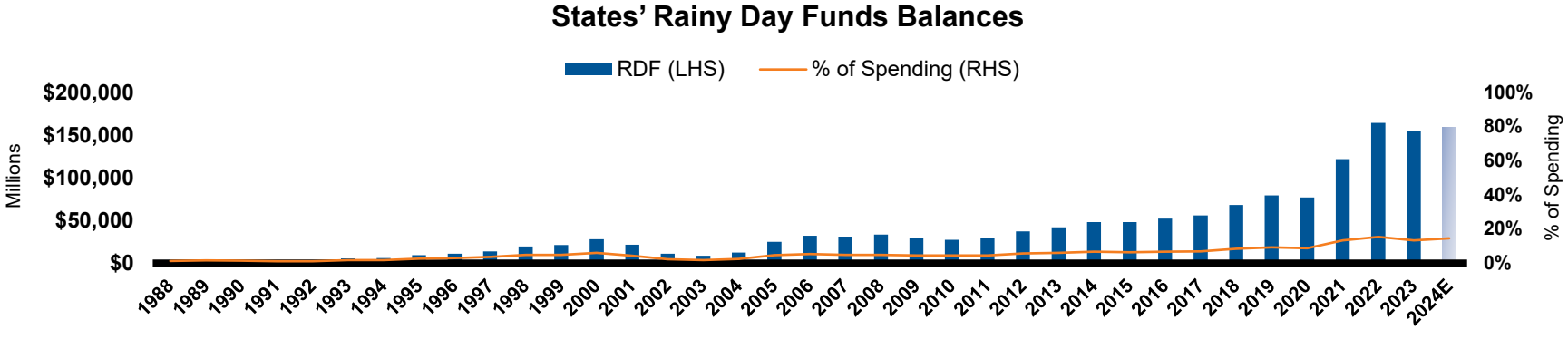
The U.S. dollar continues to be the primary medium for international commerce



The U.S. dollar may gradually lose its preeminence but will likely remain one of the dominant currencies for some time

# Municipal bond fundamentals remain strong

States' Rainy-Day Funds are at all-time highs, but not all their balances are increasing



- Many states used federal support during the pandemic to pay down debt, which has helped boost rainy day funds
- Most states entered 2023 with strong balance sheets and with higher tax receipts boosted by higher wages, with only a few outliers moving from an overall budget surplus to a deficit

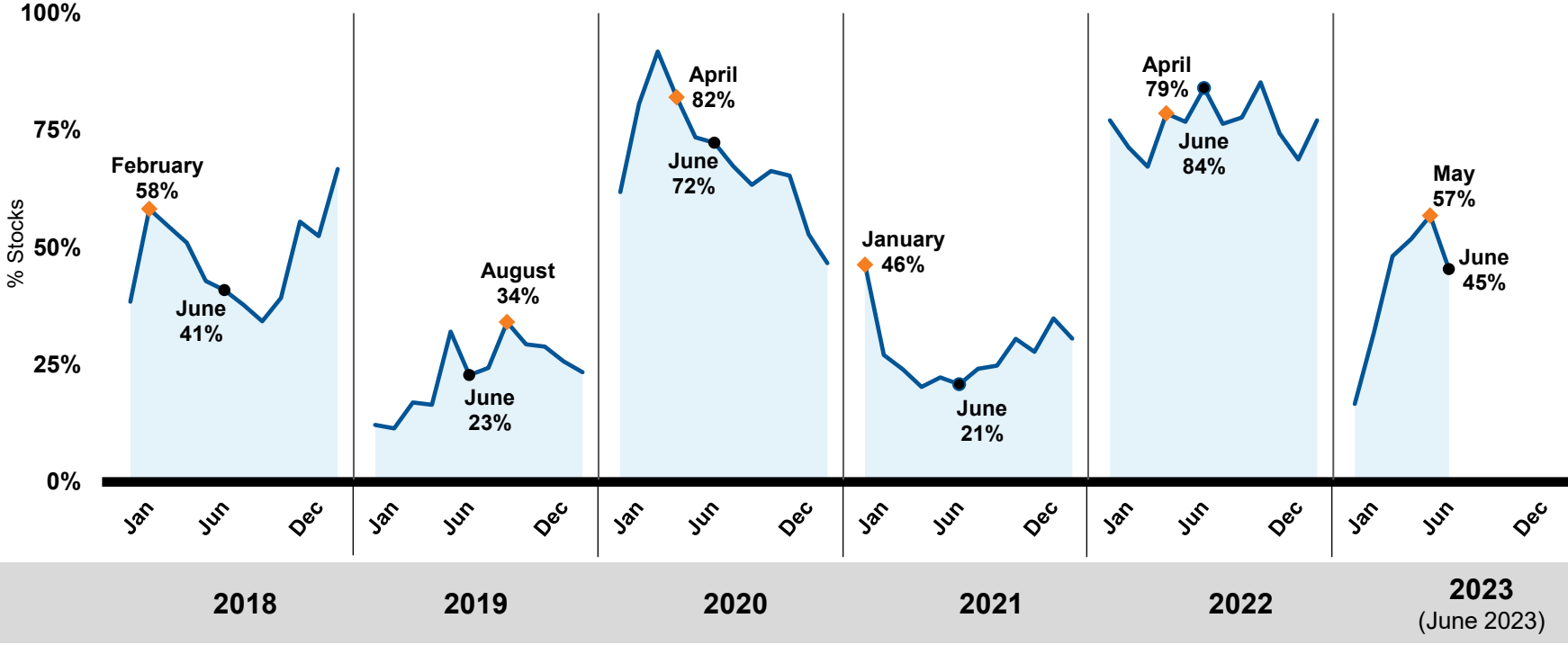
Source: National Association of State Budget Officers

# Harvesting opportunities

% of Stocks with negative YTD returns

## Monthly Tax Loss Harvesting Opportunities

— % Stocks with Negative YTD Returns    ◆ Intra-Quarter High



- Even in up markets, opportunities to tax-loss harvest have been attractive
- A more frequent approach prevents opportunities from slipping through the cracks

Source: Morningstar Direct. Stocks: Russell 3000 Index constituents. Returns are year-to-date using previous year end index weights. Stocks that do not have full year returns were excluded.

# Importance of rebalancing a diversified portfolio

Don't just let it ride...



	Jan 2020	Jan 2021	Jan 2022	Jan 2023	June 2023
U.S. LARGE CAP	30%	32%	36%	36%	38%
U.S. SMALL CAP	5%	6%	5%	5%	5%
NON-U.S. EQUITY	15%	14%	14%	15%	15%
EMERGING MARKETS	5%	5%	5%	4%	4%
REITS	5%	4%	5%	5%	5%
<b>TOTAL EQUITY AND REAL ASSETS</b>	<b>60%</b>	<b>62%</b>	<b>65%</b>	<b>66%</b>	<b>67%</b>
<b>TOTAL FIXED INCOME</b>	<b>40%</b>	<b>38%</b>	<b>35%</b>	<b>34%</b>	<b>33%</b>

- As stock concentration in the S&P 500 continues to rise, the importance of rebalancing your portfolio also increases
- A 60/40 portfolio that has not rebalanced since 2020 now has almost 6% in two stocks. That two-stock allocation is now greater than allocations to real assets, EM, and U.S. small cap

Source: U.S. Large Cap: S&P 500; U.S. Small Cap: Russell 2000® Index; Non-U.S. Equity: MSCI EAFE NR; REITs: FTSE NAREIT All Equity; EM Equity: MSCI EM NR; Bonds: Bloomberg U.S. Aggregate Bond Index. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Totals in table may not sum to 100% due to rounding.

# You are already “doing something”...you have a plan

Doing nothing with the portfolio is a conscious decision



- Remember – volatility comes with being invested in the market
- Learn from research on soccer goalies and penalty kicks
  - 94% of goalies dove for the ball....
  - They caught 30% diving left
  - They caught 25% diving right
  - They caught **60%** when they stayed in the center
- *When uncertainty strikes...stay centered on your plan!*

Source: “Action Bias Among Elite Soccer Goalkeepers: The Case of Penalty Kicks”, Bar-Eli, Michael and Azar, Ofer, H. and Ritov; 2005

# Important information and disclosures

## RISKS OF ASSET CLASSES DISCUSSED IN THIS PRESENTATION:

**Global, International and Emerging markets** return may be significantly affected by political or economic conditions and regulatory requirements in a particular country. Investments in non-U.S. markets can involve risks of currency fluctuation, political and economic instability, different accounting standards and foreign taxation. Such securities may be less liquid and more volatile. Investments in emerging or developing markets involve exposure to economic structures that are generally less diverse and mature, and political systems with less stability than in more developed countries.

**Real Assets:** Investments in infrastructure-related companies have greater exposure to adverse economic, financial, regulatory, and political risks, including, governmental regulations. Global securities may be significantly affected by political or economic conditions and regulatory requirements in a particular country. Declines in the value of real estate, economic conditions, property taxes, tax laws and interest rates all present potential risks. Investments in international markets can involve risks of currency fluctuation, political and economic instability, different accounting standards, and foreign taxation.

**Commodities:** Commodities may have greater volatility than traditional securities. The value of commodities may be affected by changes in overall market movements, changes in interest rates or sectors affecting a particular industry or commodity, and international economic, political and regulatory developments.

**Bonds:** With fixed income securities, such as bonds, interest rates and bond prices tend to move in opposite directions. When interest rates fall, bond prices typically rise and conversely when interest rates rise, bond prices typically fall. When interest rates are at low levels there is risk that a sustained rise in interest rates may cause losses to the price of bonds. Bond investors should carefully consider these risks such as interest rate, credit, repurchase and reverse repurchase transaction risks. Greater risk, such as increased volatility, limited liquidity, prepayment, non-payment and increased default risk, is inherent in portfolios that invest in high yield ("junk") bonds or mortgage-backed securities, especially mortgage-backed securities with exposure to sub-prime mortgages. Investment in non-U.S. and emerging market securities is subject to the risk of currency fluctuations and to economic and political risks associated with such foreign countries. When interest rates are at low levels there is risk that a sustained rise in interest rates may cause losses to the price of bonds.

**Small capitalization (small cap) investments** involve stocks of companies with smaller levels of market capitalization (generally less than \$2 billion) than larger company stocks (large cap). Small cap investments are subject to considerable price fluctuations and are more volatile than large company stocks. Investors should consider the additional risks involved in small cap investments.

**Large capitalization (large cap) investments** involve stocks of companies generally having a market capitalization between \$10 billion and \$200 billion. The value of securities will rise and fall in response to the activities of the company that issued them, general market conditions and/or economic conditions.

Although stocks have historically outperformed bonds, they also have historically been more volatile. Investors should carefully consider their ability to invest during volatile periods in the market.

**Growth:** Growth investments focus on stocks of companies whose earnings/profitability are accelerating in the short-term or have grown consistently over the long-term. Such investments may provide minimal dividends which could otherwise cushion stock prices in a market decline. A stock's value may rise and fall significantly based, in part, on investors' perceptions of the company, rather than on fundamental analysis of the stocks. Investors should carefully consider the additional risks involved in growth investments.

**Value:** Value investments focus on stocks of income-producing companies whose price is low relative to one or more valuation factors, such as earnings or book value. Such investments are subject to risks that the stocks' intrinsic values may never be realized by the market, or, that the stocks may turn out not to have been undervalued. Investors should carefully consider the additional risks involved in value investments.

An **Investment Grade** is a system of gradation for measuring the relative investment qualities of bonds by the usage of rating symbols, which range from the highest investment quality (least investment risk) to the lowest investment quality (greatest investment risk).

**Gross domestic product (GDP)** refers to the market value of all final goods and services produced within a country in a given period. It is often considered an indicator of a country's standard of living.

**Trailing price-to-earnings (P/E)** is a relative valuation multiple that is based on the last 12 months of actual earnings. It is calculated by taking the current stock price and dividing it by the trailing earnings per share (EPS) for the past 12 months.

**Forward price to earnings (forward P/E)** is a quantification of the ratio of price-to-earnings (P/E) using forecasted earnings for the P/E ratio.

**Price-to-book ratio** compare a firm's market to book value by dividing price per share by book value per share.

# Index definitions

**Bloomberg Global High-Yield Index:** An index which provides a broad-based measure of the global high-yield fixed income markets. The Global High-Yield Index represents that union of the U.S. High-Yield, Pan-European High-Yield, U.S. Emerging Markets High-Yield, CMBS High-Yield, and Pan-European Emerging Markets High-Yield Indices.

**Bloomberg High Yield Municipal Bond Index:** An unmanaged index considered representative of noninvestment-grade bonds. FactSet Research Systems Inc. Intermediate U.S. Credit Index is an unmanaged index of dollar-denominated, investment-grade, publicly issued securities with maturities of one to 10 years.

**Bloomberg Intermediate Treasury Index:** Measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years.

**Bloomberg Short Treasury Index:** Is composed of all treasuries that have a remaining maturity between one and twelve months.

**Bloomberg U.S. Aggregate Bond Index:** An index, with income reinvested, generally representative of intermediate-term government bonds, investment grade corporate debt securities, and mortgage-backed securities. (specifically: Bloomberg Government/Corporate Bond Index, the Asset-Backed Securities Index, and the Mortgage-Backed Securities Index).

**Bloomberg U.S. Credit Bond Index:** Measures the performance of investment grade corporate debt and agency bonds that are dollar denominated and have a remaining maturity of greater than one year.

**Bloomberg US Corporate Bond Index:** Measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

**Bloomberg U.S. Municipal Index:** Covers the USD-denominated long-term tax-exempt bond market.

**Bloomberg Commodity Index Family:** Represents the major commodity sectors within the broad index: Energy (including petroleum and natural gas), Petroleum (including crude oil, heating oil and unleaded gasoline), Precious Metals, Industrial Metals, Grains, Livestock, Softs, Agriculture and Ex-Energy. Also available are individual commodity sub-indices on the 19 components currently included in the DJ-UBSCI<sup>SM</sup>, plus Brent crude, cocoa, feeder cattle, gas oil, lead, orange juice, platinum, soybean meal and tin.

**Bloomberg Commodity Index Total Return:** Composed of futures contracts on physical commodities. Unlike equities, which typically entitle the holder to a continuing stake in a corporation, commodity futures contracts normally specify a certain date for the delivery of the underlying physical commodity. In order to avoid the delivery process and maintain a long futures position, nearby contracts must be sold and contracts that have not yet reached the delivery period must be purchased. This process is known as "rolling" a futures position.

**BofA Merrill Lynch Global High Yield Index:** Tracks the performance of USD, CAD, GBP and EUR denominated below investment grade corporate debt publicly issued in the major domestic or Eurobond markets.

**Citigroup 1-3 Month T-Bill Index:** An unmanaged index that tracks short-term U.S. government debt instruments.

**FTSE NAREIT:** An Index designed to present investors with a comprehensive family of REIT performance indexes that span the commercial real estate space across the U.S. economy, offering exposure to all investment and property sectors. In addition, the more narrowly focused property sector and sub-sector indexes provide the facility to concentrate commercial real estate exposure in more selected markets.

**FTSE NAREIT all Equity Index:** Measures the performance of the commercial real estate space across the U.S. economy offering exposure to all investment and property sectors.

**FTSE EPRA/NAREIT Developed Index:** A global market capitalization weighted index composed of listed real estate securities in the North American, European and Asian real estate markets.

# Index definitions (cont'd)

**Ibbotson Intermediate Bond Index:** Measures the performance of U.S. Dollar denominated treasury and government-related bonds

**JPM Emerging Market Bond Index (EMBI):** Dollar-denominated sovereign bonds issued by a selection of emerging market countries.

**JPM EMBI Plus Bond Index:** Tracks total returns for traded external debt instruments in the emerging markets.

**MSCI AC World ex-USA Index:** An index that tracks global stock market performance that includes developed and emerging markets but excludes the U.S.

**MSCI AC World ex-USA Equal-weighted Index:** An equal weighted index that tracks global stock market performance that includes developed and emerging markets but excludes the U.S.

**MSCI country indices:** Indices which include securities that are classified in that country according to the MSCI Global Investable Market Index Methodology, together with companies that are headquartered or listed in that country and carry out the majority of their operations in that country.

**MSCI EAFE (Europe, Australasia, Far East) Index:** A free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

**MSCI Emerging Markets Index:** A float-adjusted market capitalization index that consists of indices in 24 emerging economies.

**MSCI Europe Index:** A free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the developed markets in Europe. The MSCI Europe Index consists of the following 15 developed market country indexes: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom.

**MSCI World Index:** A broad global equity index that represents large and mid-cap equity performance across 23 developed markets countries.

**Russell 3000® Index:** Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market.

**Russell 2000® Index:** measures the performance of the 2,000 smallest companies in the Russell 3000 index.

**Russell 1000® Growth Index:** Measures the performance of the broad growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

**Russell 1000® Value Index:** Measures the performance of the broad value segment of U.S. equity value universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

**The S&P 500® Index:** A free-float capitalization-weighted index published since 1957 of the prices of 500 large-cap common stocks actively traded in the United States. The stocks included in the S&P 500® are those of large publicly held companies that trade on either of the two largest American stock market exchanges: the New York Stock Exchange and the NASDAQ.

**The S&P Global Infrastructure Index:** Provides liquid and tradable exposure to 75 companies from around the world that represent the listed infrastructure universe. To create diversified exposure across the global listed infrastructure market, the index has balanced weights across three distinct infrastructure clusters: Utilities, Transportation, and Energy.

**S&P Global Natural Resources Index:** The index includes 90 of the largest publicly-traded companies in natural resources and commodities businesses that meet specific investability requirements, offering investors diversified and investable equity exposure across 3 primary commodity-related sectors: agribusiness, energy, and metals & mining.

# Economic Indicators Dashboard definitions

## **Market Indicators**

**HOME PRICES** – The S&P/Case-Shiller Home Price Index is a measurement of U.S. residential real estate prices, tracking changes in top 20 metropolitan regions. This indicator value represents the trailing year over year % change in the home prices index as of last month-end. Residential real estate represents a large portion of the U.S. economy, and the Home Price index helps us monitor the value of real estate.

**MARKET VOLATILITY(VIX)** – CBOE VIX (Chicago Board Options Exchange Volatility Index) measures annualized implied volatility as conveyed by S&P 500 stock index option prices and is quoted in percentage points per annum. For instance, a VIX value of 15 represents an annualized implied volatility of 15% over the next 30-day period. The VIX measures implied volatility, which is a barometer of investor sentiment and market risk.

**10 YR. U.S. TREASURY YIELD** – The yield on the 10-year U.S. Treasury note issued by the U.S. Government. It is important because it is seen as a benchmark for interest rate movements and borrowing costs in the economy.

**YIELD SPREAD** – The spread between 3-month Treasury bill yields and 10-year Treasury note yields measures the market outlook for future interest rates. A normal or upward-sloping yield curve, can imply that investors expect the economy to grow and inflation to eat into asset returns. They thus demand a higher yield for long-term Treasuries. An inverted yield curve has often been an indicator of coming recessions, but not always. For example, reduced inflation expectations could cause the yield curve to flatten.

## **Economic Indicators**

**CONSUMER SENTIMENT** – The University of Michigan Survey of Consumer Sentiment Index is an economic indicator which measures the degree of optimism that consumers feel about the overall state of the economy and their personal financial situation.

**ECONOMIC EXPANSION (GDP)** – GDP (Gross Domestic Product) measures the total market value of a nation's output of goods and services during a specific time period. It is usually measured on a quarterly basis. Current GDP is based on the current prices of the period being measured. Nominal GDP growth refers to GDP growth in nominal prices (unadjusted for price changes). Real GDP growth refers to GDP growth adjusted for price changes. Calculating Real GDP growth allows economists to determine if production increased or decreased, regardless of changes in the purchasing power of the currency.

**INFLATION** – The Consumer Price Index (CPI) NSA (non-seasonally adjusted) measures changes in the price level of a market basket of consumer goods and services purchased by households. This indicator value represents the trailing year over year % change in the CPI index as of last month-end.

**UNEMPLOYMENT** – The Bureau of Labor Statistics measures employment and unemployment of all persons over the age of 15 using two different labor force surveys conducted by the United States Census Bureau (within the United States Department of Commerce) and the Bureau of Labor Statistics (within the United States Department of Labor) that gather employment statistics monthly. The data reported here is seasonally adjusted (SA) to account for seasonal gains in employment leading up to Christmas.