FINANCIAL MARKETS HIGHLIGHTS

First Quarter 2023

Market participants hoped that the turning of the calendar year would mark a return to normalcy for financial conditions. Volatility remains, but the markets have shown resiliency while climbing their perpetual wall of worry.

Headlining the quarter's events was the near simultaneous collapse of Silicon Valley Bank, Signature Bank, and Credit Suisse. Silicon Valley Bank ("SVB") and Signature Bank were the second and third largest bank failures in US history and the largest since the 2007-2009 Financial Crisis. Both institutions fell victim to bank runs and crises of confidence triggered by losses in their bond portfolios, the result of a historic interest rate hiking cycle by the US Federal Reserve Bank ("Federal Reserve" or "Fed") with the intent of quelling inflation. Investors withdrew their deposits in droves, a process accelerated due to significant customer concentration and, related, a large amount of deposits above the Federal Deposit Insurance Corporation ("FDIC") $250,000 insured level. On March 10, SVB was placed under FDIC receivership and all deposits were quickly guaranteed by the FDIC to protect against contagion in the banking sector. First Citizens of North Carolina emerged as the buyer for the majority of SVB's assets.

It was too late, though, as depositors quickly turned their attention to Signature Bank, which too suffered from a concentrated depositor base (an inordinate amount of which were cryptocurrency companies still licking their wounds from a dreadful 2022 for that industry, in particular) and large losses in its bond portfolio. New York state regulators shuttered Signature Bank in late March, insured its deposits, and the company was folded into New York Community Bancorp.

Inflation lies as the root cause of these failures. US monetary policy makers fell behind and, once that became clear, proceeded with immense and consistent force to cull inflationary pressures. Something broke as a result, that something being a few very large banks, but inflation is easing albeit from elevated levels. The February 2023 Consumer Price Index ("CPI") reading showed a 6.0% annual increase, down from a 6.4% annual increase in the prior month and the lowest since September 2021, which is when Federal Reserve Chairman Jerome Powell still considered inflation *transitory*. Committed to the task, though, "Powell & Co." raised the short-term Federal Funds target rate by 0.25% to a range of 4.75% to 5.00% during the Fed's March confab, noting that the stress in the financial sector may give it pause on future rate increases.

Given this backdrop, stocks surprisingly navigated the quarter quite well with many indices up sharply. The S&P 500 of large and mega-cap stocks returned 7.5%, the Russell 2000 index of smaller company stocks returned 2.7%, and the MSCI EAFE and MSCI Emerging Market indices returned 8.5% and 4.0%, respectively.

Growth stocks outperformed value stocks during the quarter, reversing last year's trend. The broad Russell 3000 Growth index returned 13.9% while the Russell 3000 Value index returned only 0.9%. Large-cap stocks outperformed small-cap stocks. The Russell 1000 index

Selected Index Returns (%) as of March 31, 2023 (Source: Morningstar Direct). 3, 5, 10 year returns are annualized.

	Jan.	Feb.	Mar.	QTR	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500	6.28	-2.44	3.67	7.50	7.50	-7.73	18.62	11.19	12.24
S&P 400	9.23	-1.81	-3.21	3.81	3.81	-5.12	22.10	7.67	9.80
Russell 2000	9.75	-1.69	-4.78	2.74	2.74	-11.61	17.52	4.71	8.04
Wilshire U.S. REIT Index	11.27	-4.78	-2.55	3.25	3.25	-21.33	11.03	5.66	5.89
MSCI EAFE	8.10	-2.09	2.48	8.47	8.47	-1.38	12.99	3.52	5.00
MSCI Emerging Markets	7.90	-6.48	3.03	3.96	3.96	-10.70	7.83	-0.91	2.00
Bloomberg U.S. Aggregate Bond	3.08	-2.59	2.54	2.96	2.96	-4.78	-2.77	0.91	1.36
Bloomberg High Yield	3.81	-1.29	1.07	3.57	3.57	-3.34	5.91	3.21	4.10

of large-cap stocks returned 7.5% for the quarter, nearly five percentage points higher than its small-cap counterpart.

From a sector standpoint, Communication Services and Technology stocks performed well, while Financials and Energy lagged. Technology's rebound drove the NASDAQ 100 20.8% higher during the quarter. Amidst the first quarter's uncertainty and tumult, investors flocked to mega-cap technology stocks, believing them to be secure during uncertain times. As of quarter-end Apple, Microsoft, Alphabet, Amazon, NVIDIA, Tesla and Meta constituted ~25% of the S&P 500 index, and each appreciated more than 17% during the quarter.

Similar to equity markets, bond markets did quite well after their worst year on record. The Bloomberg US Aggregate Bond index returned 3.0%. Comparatively, the Bloomberg High Yield index returned 3.6%.

The bond market had been plagued by interest rates hovering at or around zero percent for years. However, since the Federal Reserve began its quest to subdue inflation, yields on bond have dramatically increased. At the beginning of 2022, the six-month and two-year Treasury bonds were yielding 0.1% and 0.7%, respectively, compared to 4.9% and 4.1% as of March 31. Investors are now getting dramatically more compensation for bearing the risk of bonds, and the presence of opportunity cost has implications on asset prices broadly.

On the commodity front, West Texas Intermediate ("WTI") closed at $76, having traded in a range of $67 to $82 during the quarter. Gold was also quite strong during the quarter, returning 9.2%. Bitcoin, also performed quite well in the face of the Signature Bank collapse and anticipated regulatory crackdowns, returning an eye watering 71.7%. Both Gold and Bitcoin have lived up to their billing as inflation hedges, *at least this quarter*.

Wainwright wishes you a happy spring season.

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