



Economic Update and Investment Strategy Review

1st Quarter 2023

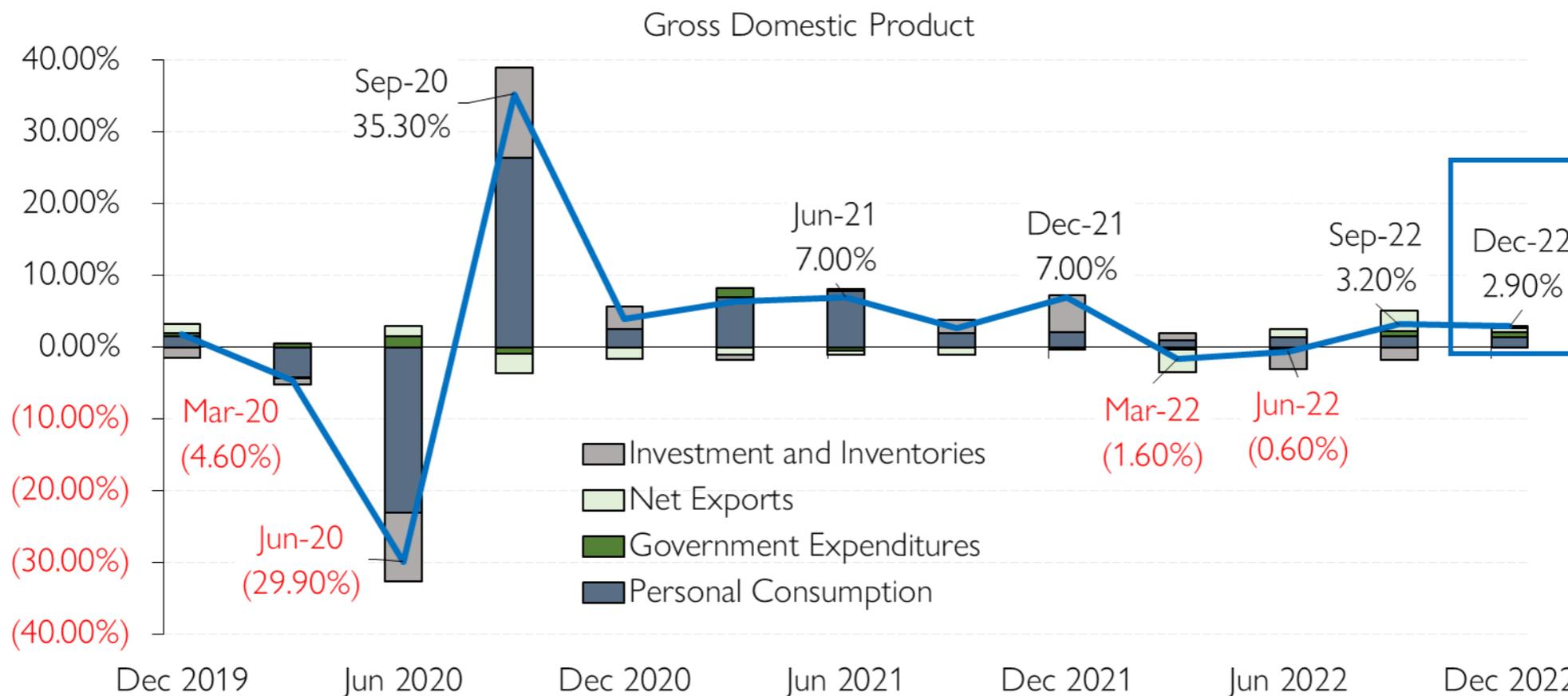


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Economic Indicators

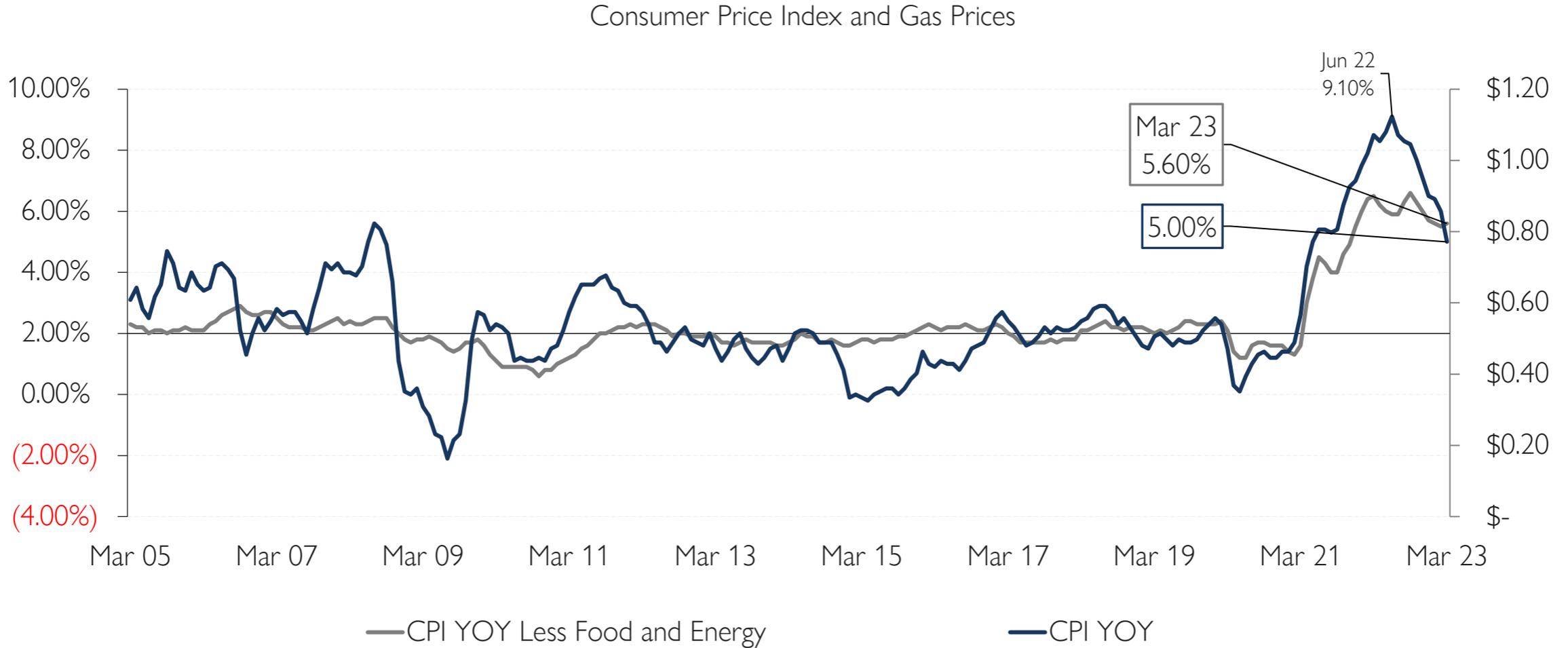
U.S. Gross Domestic Product

- The U.S. economy grew 2.90% during the fourth quarter. While all sectors were positive contributors to the economy, the two largest contributors, consumer spending and business spending signaled a potential slowdown in the economy for 2023. Consumer spending represented the majority of growth at 1.42%, although average Consumer Expenditures growth for 2022 was 1.31%, the lowest calendar year average since 2013. After two quarters of contraction in the business spending, this sector of the economy grew 0.27% during the quarter. Government spending and Net Exports grew nominally at 0.64% and 0.45%, respectively.



Inflation - CPI

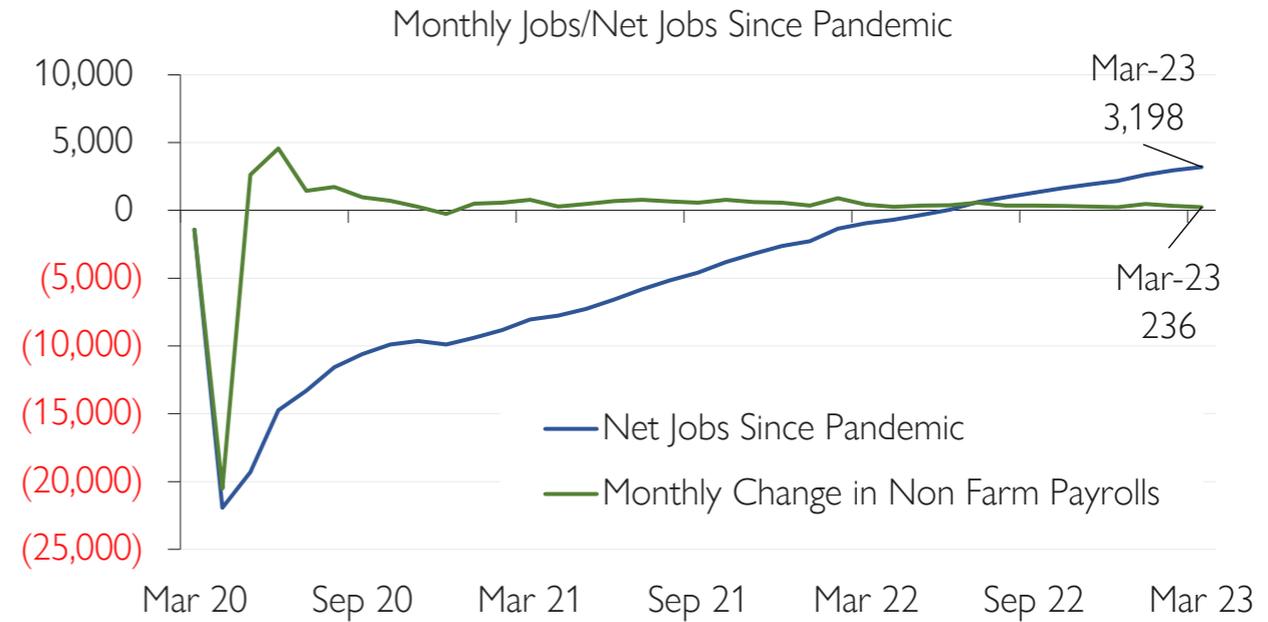
- The year over year Consumer Price Index trend continued in a positive direction, declining for the eighth straight month in March, declining by a full percentage point to 5.0%. Core inflation, less food and energy, increased +0.10% to 5.6%. Core inflation, less food and energy, increased +0.10% to 5.6%, likely due to elevated housing costs.



Jobs

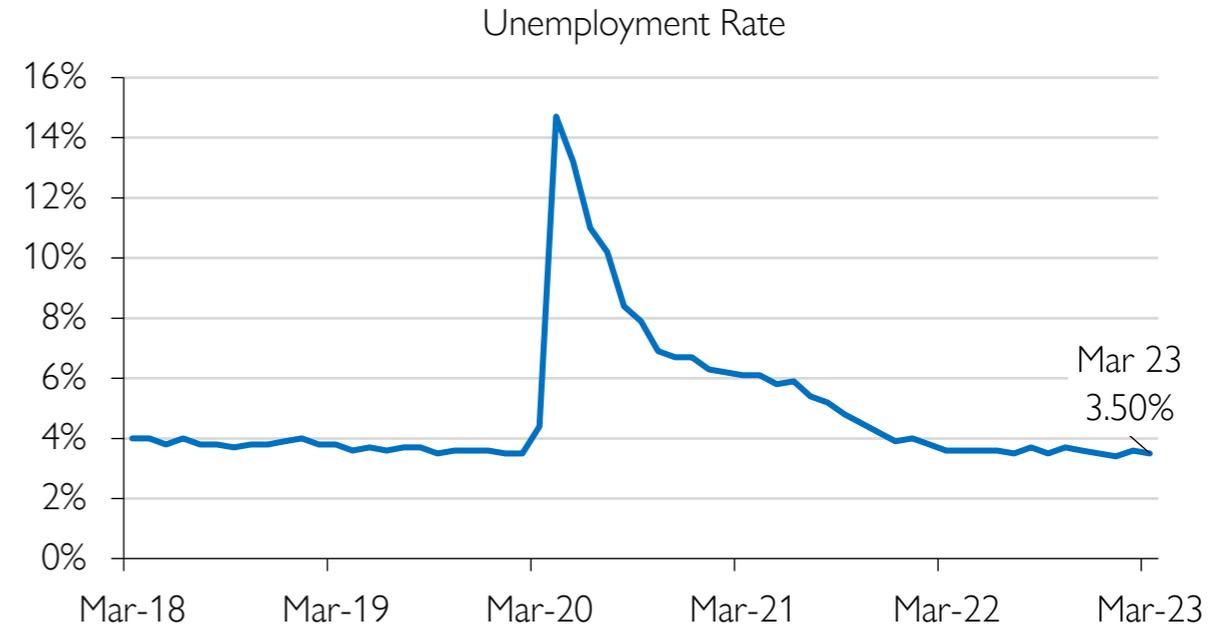
Job Growth continues into 1st Quarter

- March jobs growth of 236k jobs created suggests a possible colling of the labor markets.
- Job growth started strong in 2023 with more than 1mm new jobs created through March.
- Net jobs since the pandemic reaches almost 3.2 million although the labor force has grown to 266 million, an increase of more than 6.5 million since March 2020.



Unemployment Levels Remain Low

- The national unemployment rate remained near a 50 year low at 3.5% in March, a 0.1% improvement over February unemployment.
- Unemployment for persons with a Bachelor degree or higher was 2.0%, compared to 4.8% for individuals with without a high school diploma.



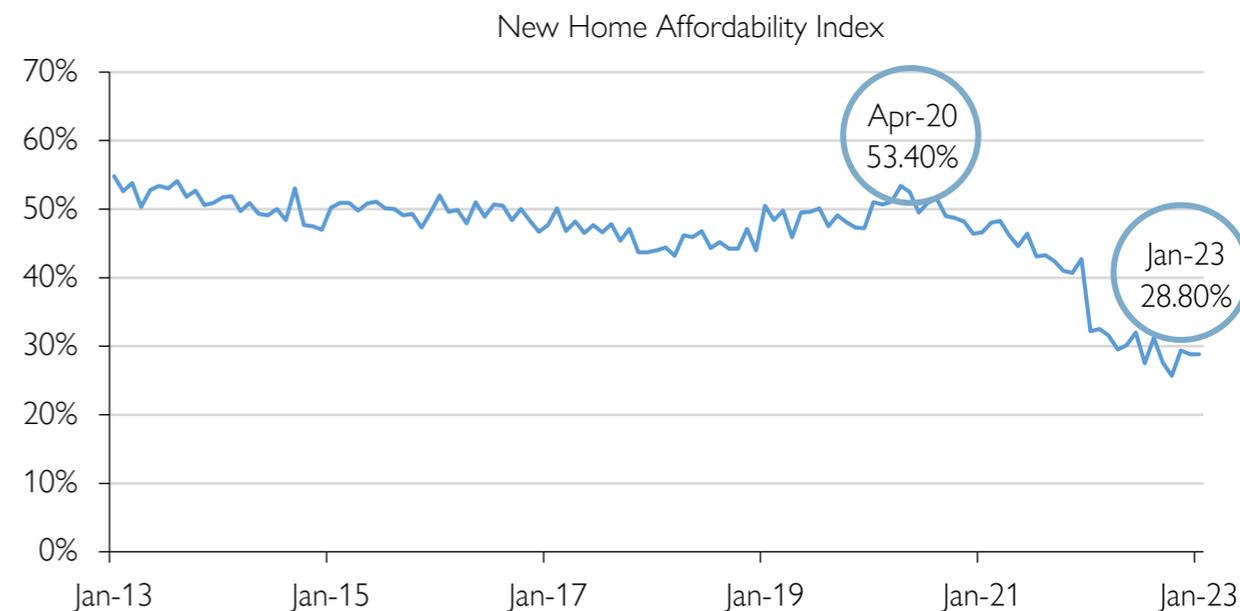
The Housing Market

Median Housing Prices

- Nationally, home prices increased slightly year over year in December as interest rates put pressure on home buyers.
- The median home price in December 2022 was 31% higher than March 2020 when the median price home was \$280.7k.
- There continues to be a Tale of Two Cities in housing as prices in areas experiencing out-migration have stalled or declined, while areas that continue experience in-migration have maintained prices or even continue to experience increases.

New Home Affordability

- The housing affordability index measures the percentage of new housing units for sale that are deemed affordable to those with a median household income or below.
- As of January 2023, less than 30% of new homes across the US are affordable to buyers with a median income, compared to more than 50% in April of 2020.



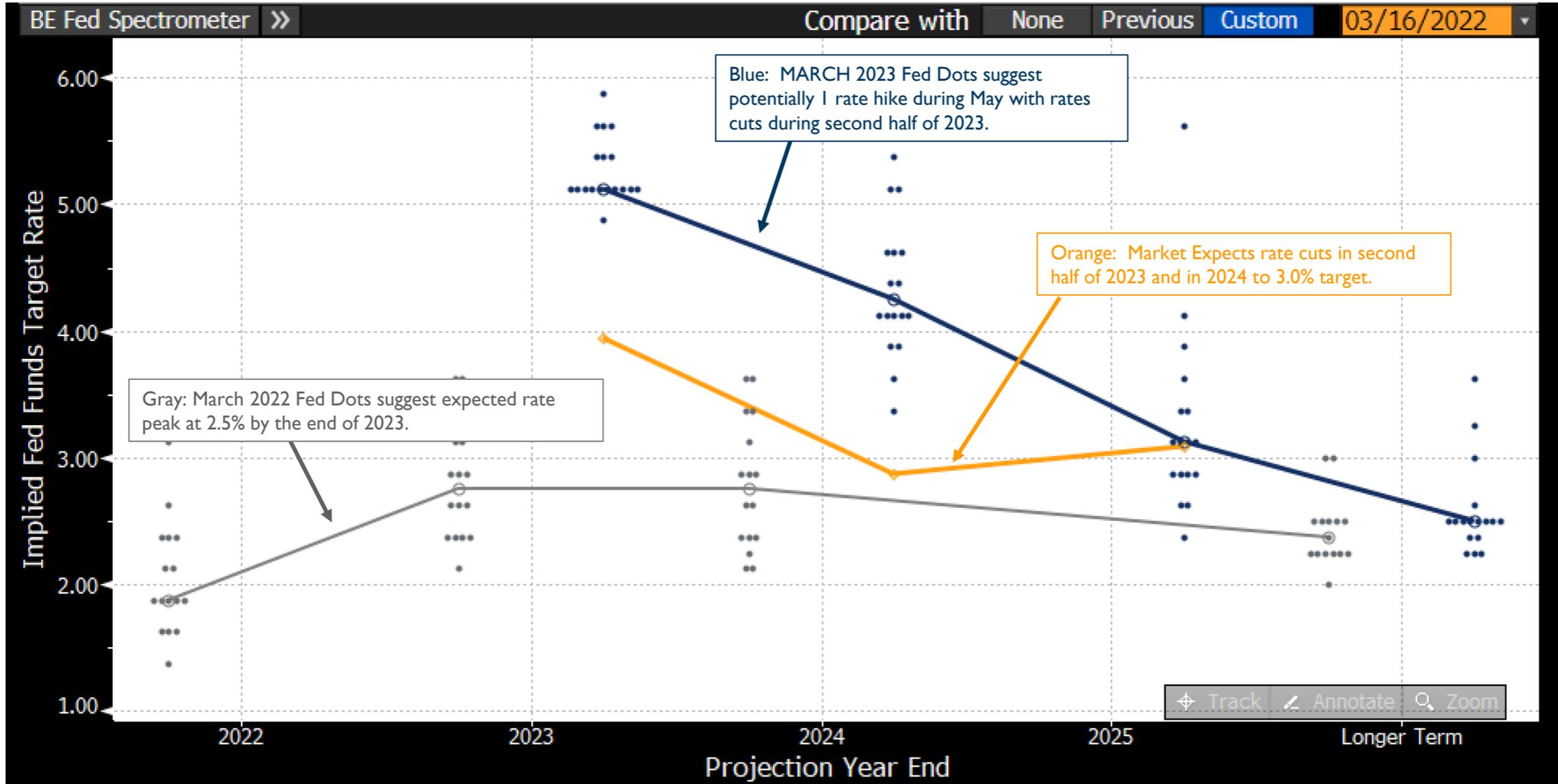
Bloomberg Survey Forecast – April 2023

- GDP forecast increased to 1.1% during April, while inflation expectations for 2023 also increased, to 4.3%. The recent bank failures and uncertainty in the financial systems have resulted in higher expectations of a recession during 2023 and the probability of a recession during the year has reached 65% based on recent polls.

Indicator	Actual / Forecasts					Probability of Recession					65.0%
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	
Economic Activity											
Real GDP (YoY%)	1.7	2.2	2.9	2.3	-2.8	5.9	2.1	1.1	1.0	2.0	
Consumer Spending ...	2.5	2.4	2.9	2.0	-3.0	8.3	2.7	1.3	1.0	2.0	
Government Spendin...	2.0	0.4	1.7	3.3	2.6	0.6	-0.6	1.7	1.0	1.0	
Private Investment ...	-1.0	4.1	5.7	2.8	-5.3	9.0	4.0	-2.5	1.0	3.5	
Exports (YoY%)	0.4	4.3	2.8	0.5	-13.2	6.1	7.1	3.0	2.2	3.0	
Imports (YoY%)	1.5	4.5	4.2	1.1	-9.0	14.1	8.1	-1.2	1.3	3.1	
Industrial Production (Yo...)	-2.2	1.4	3.2	-0.7	-7.0	4.9	3.4	-1.0	0.2	2.3	
Price Indices											
CPI (YoY%)	1.3	2.1	2.5	1.8	1.2	4.7	8.0	4.3	2.6	2.4	
PCE Price Index (YoY%)	1.0	1.8	2.1	1.5	1.1	4.0	6.3	3.9	2.4	2.1	
Core PCE (yoy%)	1.6	1.7	2.0	1.7	1.3	3.5	5.0	4.0	2.5	2.0	

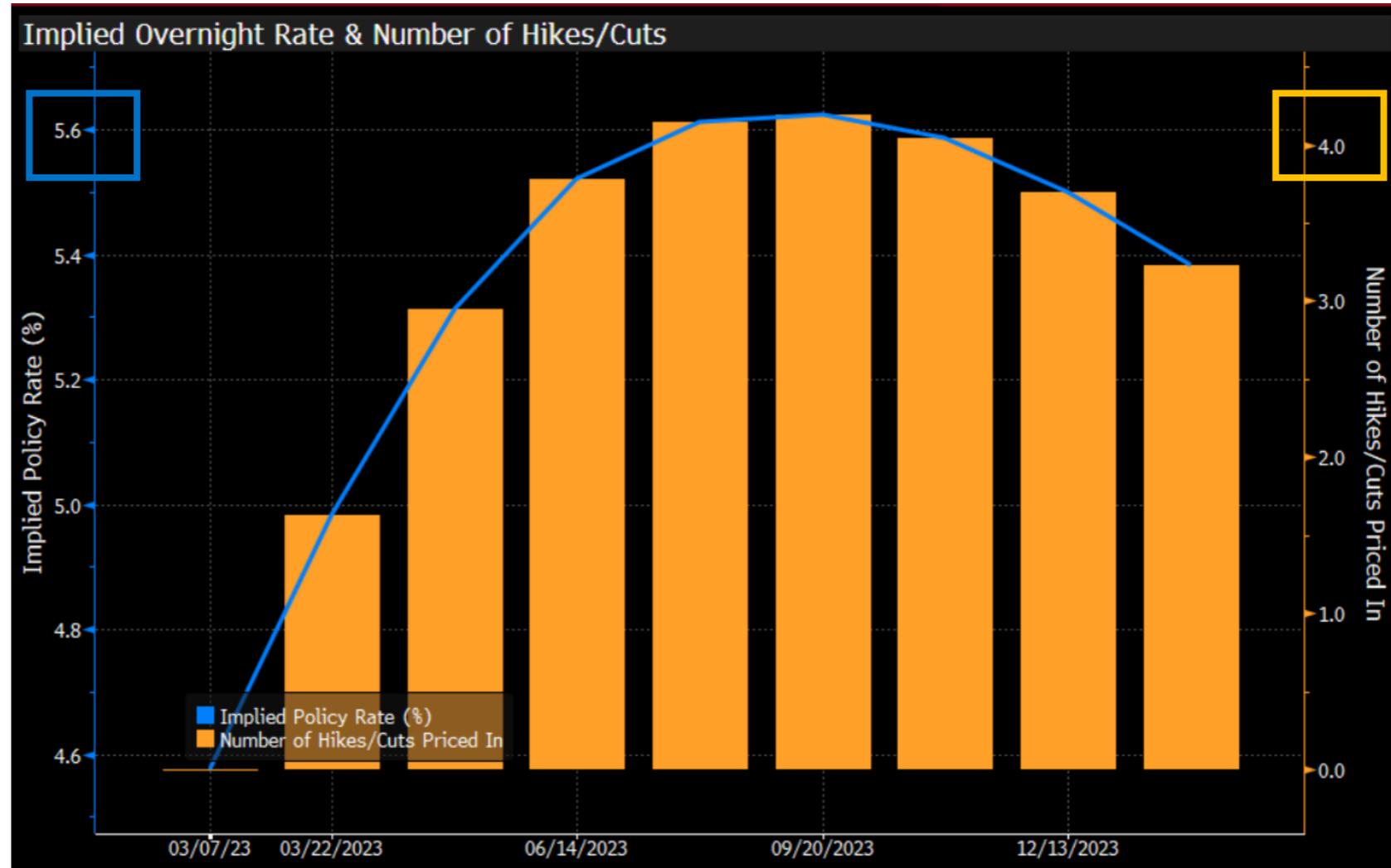
Yield Curves and Interest Rates

FOMC Dot Plot –March 2022 vs. March 2023



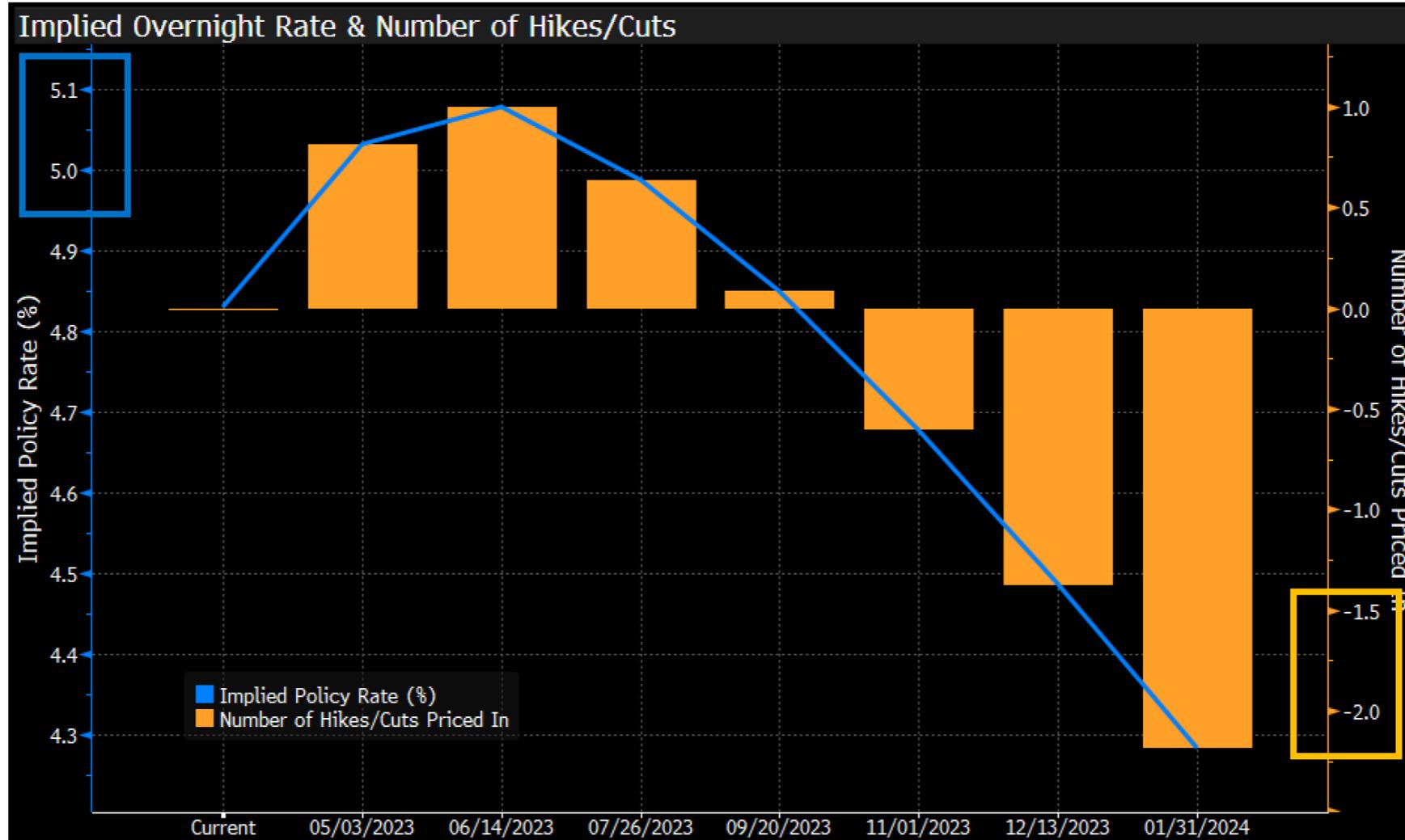
Federal Funds Rate Hike Expectations – March 7, 2023

- Strong jobs reports and other consumer economic data suggest the FOMC needs to remain aggressive with interest rate hikes to bring down inflation from the current 6.4% to the longer term target rate of 2.0%.



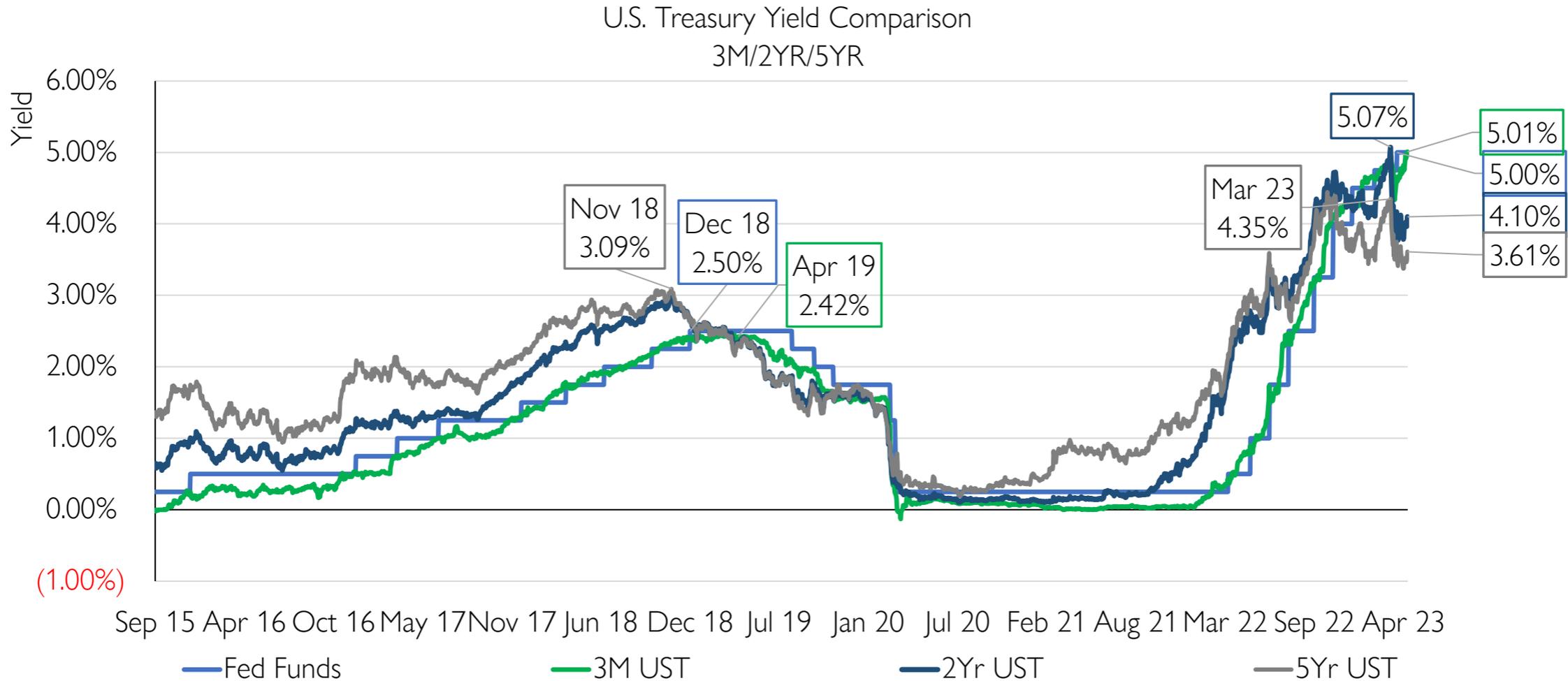
Federal Funds Rate Hike Expectations – April 14, 2023

- Concerns over the macro economic impact of the bank failures and the banking industry in general have shifted Federal Fund rate expectations.



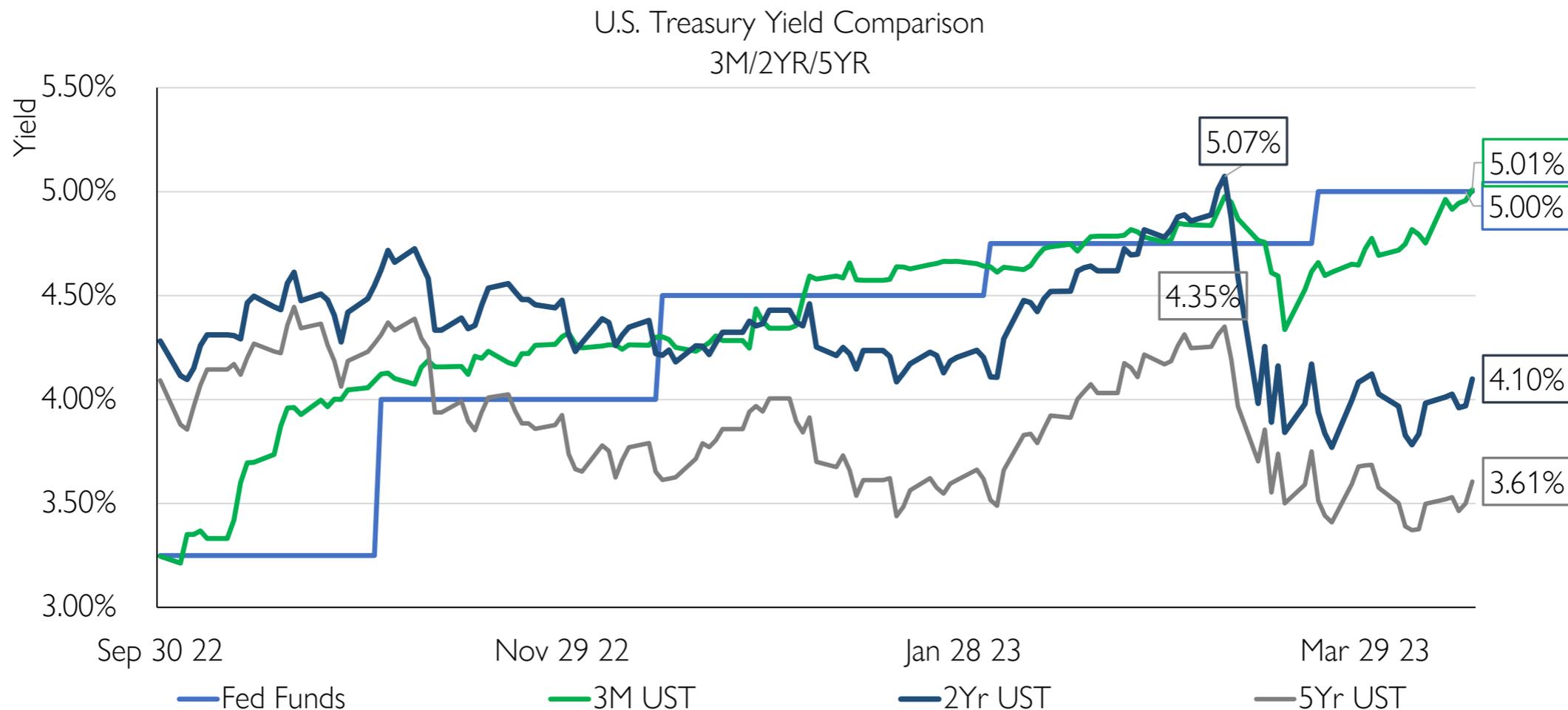
Longer Term Rates Lower Than Federal Funds Rate

- U.S. Treasuries with maturities longer than 3 Months and longer are yielding lower than the Federal Funds over night rate, although interest rates have rebounded following the banking crisis in early March. The Federal Funds rate is 2X the peak of December 2018.



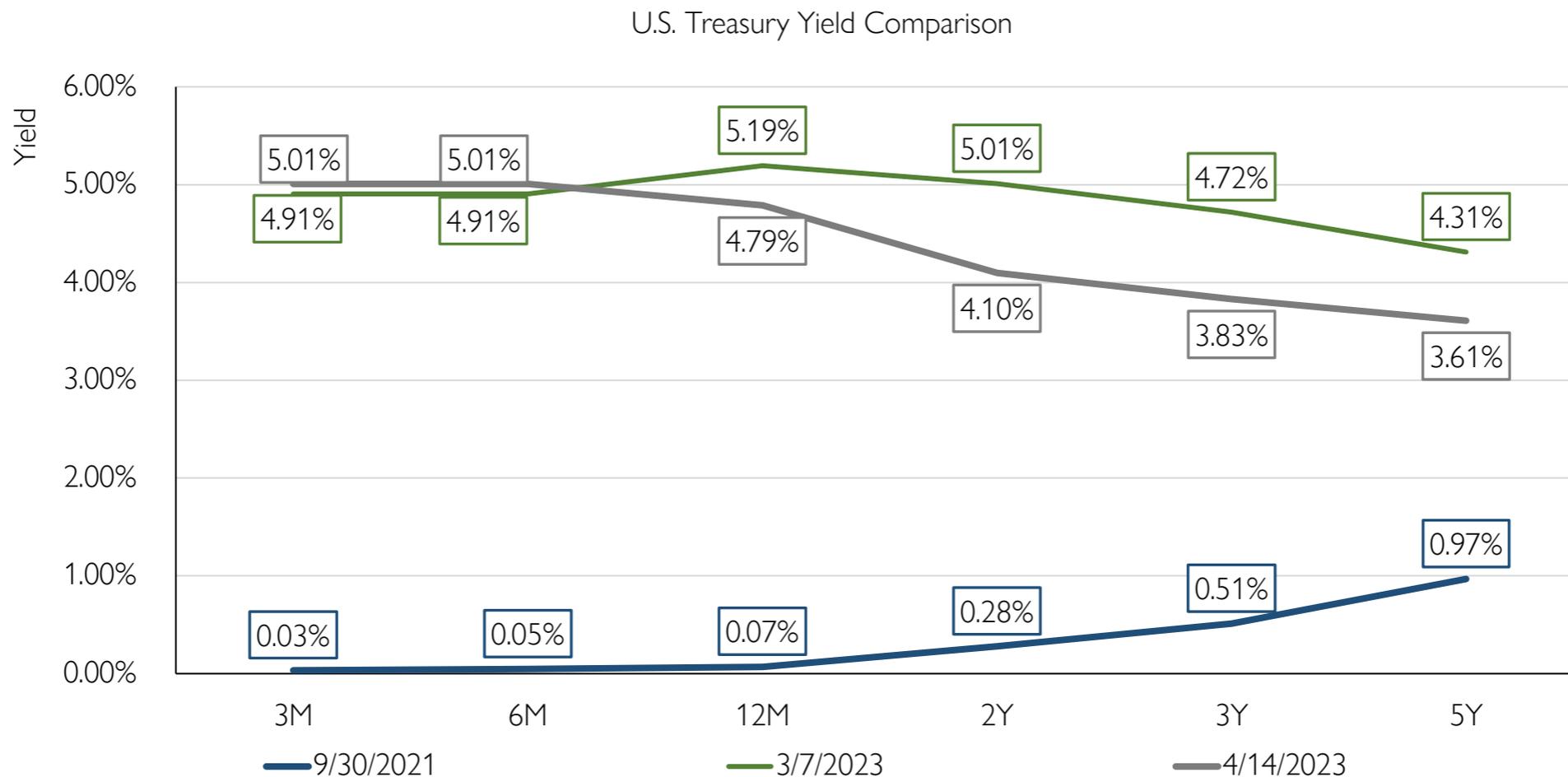
Significant Volatility in 2023

- Persistent inflationary indicators in January sent yields higher through February. The Silicon Valley and the fear of additional bank failures and widespread concern of the stability of the global banking system pushed rates lower as investors sought a safe haven, although rates have rebounded from March lows.



Banking System Concerns Result in Dramatic Rate Decline

- U.S. Treasury rates have plummeted in recent days as investors moved into U.S. Treasury bonds over banking system concerns and expectations of slower economic growth.



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