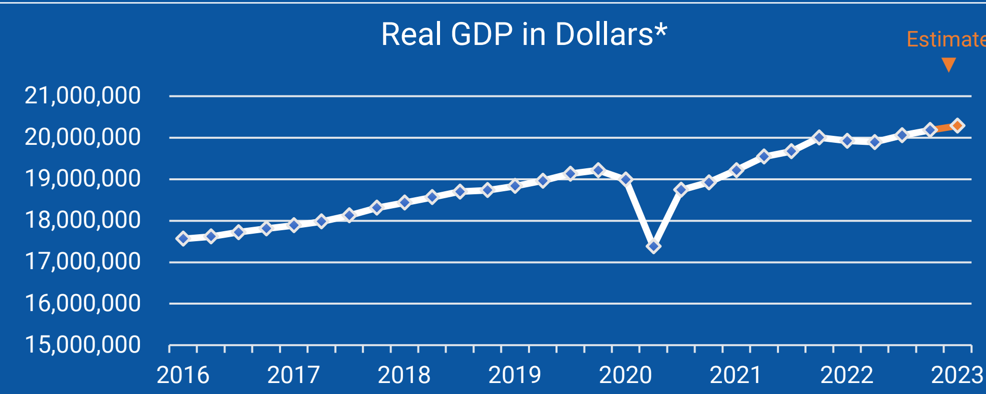
Economic Commentary

As of March 31, 2023

Bolton INVESTMENT

Other Indicators

	CPI	Unemployment	Sentiment	Crude Oil
Q1: 2022	8.5%	3.6%	59.4	$107
Q4: 2022	6.4%	3.5%	59.7	$83
Q1: 2023	5.0%	3.5%	62.0	$79



*Billions

Outlook

- Conventional wisdom says it takes between 12 and 18 months for higher interest rates to begin to affect the economy, and certain segments have already buckled under the weight of higher borrowing costs. The single-family housing market, for instance, has been brought to a virtual standstill, and several measures of manufacturing activity indicate a sharp slowdown over the first few months of 2023.

- Panic related to the banking crisis in early March has started to subside, while the extent of the fallout remains unclear. A particularly sharp tightening of credit conditions could be devastating for small businesses already being squeezed by inflation and labor shortages. The most recent NFIB survey of small business owners showed their assessment of credit conditions at its lowest level since the Great Financial Crisis.

- Although the 236,000 increase in payroll employment observed in March was the smallest monthly gain since December 2020, it was still above average hiring by historical standards. The more than 1 million jobs added in the first quarter of 2023 was greater than in any three-month period between 1998 and the start of the pandemic.

- Tech companies continue to lay off employees and swapping tech jobs for lower wage jobs will dampen real growth of personal consumption, which is the biggest component of GDP.

- Inflation is still running hot—the Consumer Price Index showed a 5.0% year-over-year rate of inflation in March 2023, well above the Fed's 2% target—and the demand side of the economy has yet to show a meaningful sign of weakening.

- The Federal Reserve's most recent economic projections are virtually unchanged. This could be a function of the high level of uncertainty, or it could be due to the push and pull effects of a banking crisis and hotter than expected inflation data. For now, the Fed still expects the federal funds rate to peak at over 5.0% in 2023 before declining to 4.3% in 2024.

- After the highest inflation in four decades, a shallow and brief recession would be viewed as a win, but there are still downside risks.

First Quarter Market Review

U.S. stocks rose overall in the first quarter but returns varied significantly across styles and market capitalization. The S&P 500 Index closed at 4109, up from 3839 on December 31. The index rose 6.3% in January, fell 2.4% in February, and rose 3.7% in March.

In the U.S., growth outperformed value, and larger capitalizations outperformed smaller.

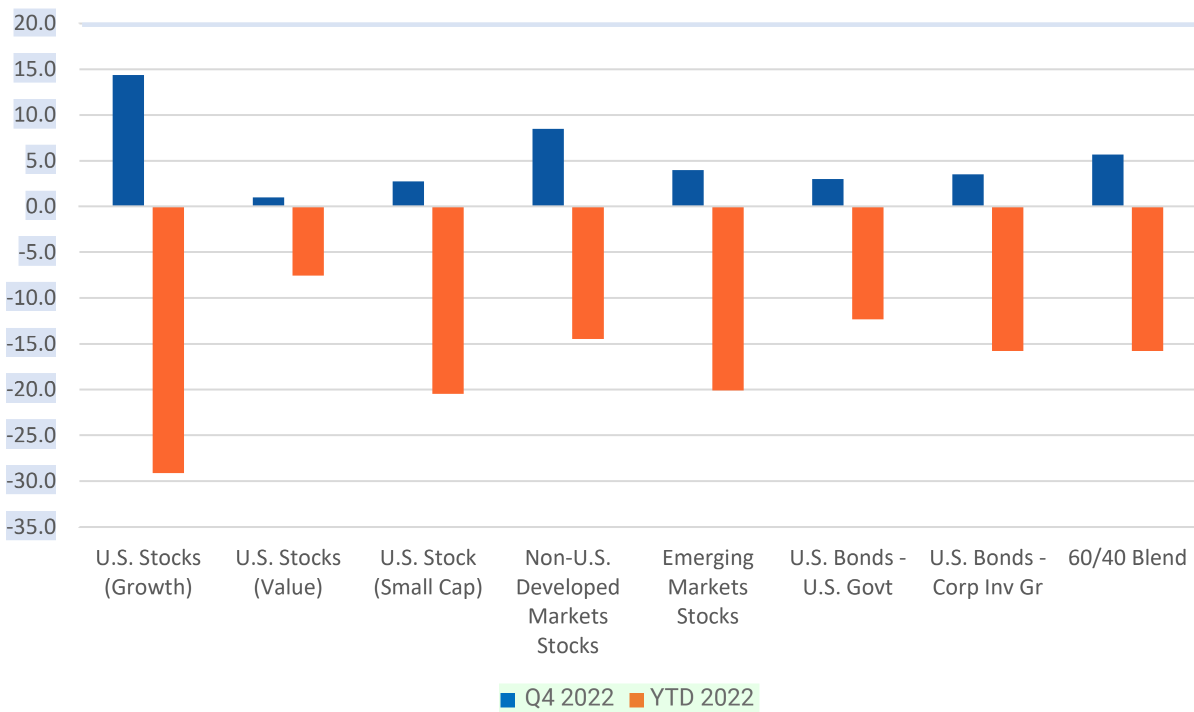
The best performing sectors of the S&P 500 were Information Technology (+24.1%) and Communication Services (+20.5%). Four sectors had negative returns – Energy, Health Care, Utilities, and Financials.

The top contributors to the index return were predominantly mega-cap, technology or technology-related companies. Six of the top 10 contributors were also Top 10 markets caps – Apple, Microsoft, NVIDIA, Tesla, Amazon, and Alphabet (Google). NVIDIA rose 90.1% over the quarter to become the #6 market cap in the S&P 500.

In the U.S., stocks had positive returns, but were uneven across style and market cap.

Outside the U.S., developed markets performed well; currency was a neutral factor. Emerging markets lagged; the Hong Kong-based China 50 Index rose 3.9%.

Within U.S. fixed income markets, interest rates on U.S. Treasury bonds moderated across the yield curve. The US Aggregate Index rose 3.0%. The index had its worst return ever in 2022.



Asset class returns are represented by the following indexes: Russell 1000 Growth and Value, and Russell 2000 Index (U.S. Stocks), MSCI EAFE Index (Non-U.S. Developed Stocks), MSCI Emerging Markets Index (Emerging Market Stocks), Bloomberg Barclays U.S. Government Index (U.S. Bonds - Govt), and Bloomberg Barclays US Corporate Bond Index (U.S. Bonds – Corp IG). The Blend is 60% S&P 500/40% US Aggregate.

Drivers of Capital Markets Returns

- Fixed income investments are debt instruments typically issued by governments and corporations. They generally pay a periodic fixed amount of interest until maturity, at which time the principal is repaid. Investors in fixed-income instruments are **lenders**.
- Corporations can also raise capital by selling shares, also known as equity. Equity investors share in a company's success or failures over time. Investors in equity are **owners**.

The price of the S&P 500 Index as of March 31, 2023, was 4,109.31.

Returns to Lenders

Inflation ⬇ 5.0%

March CPI was 5.0% above the month a year ago. Core CPI was higher at 5.6%, because energy prices became a negative contributor of about -40 bps.

Interest Rates ⬇ 0.40%

The yield of a 10-year U.S. Treasury bond fell from 3.88% on December 30 to 3.48% on March 31. The rate for a 2-year note fell 35 bps.

Credit Spreads ➡ 0.04%

The yield spread of a generic A/BBB-rated corporate bond rose by 4 basis points to 193 basis points. The yield spread measures the yield of 10 – 15-year corporate debt compared to U.S. Treasury Bonds of equivalent maturity.

Returns to Owners

Growth (GDP)

4Q 2022	1Q 2023E
2.6%	2.2%*

The Atlanta Fed's GDPnow forecast indicates positive real growth of GDP of 2.2% in the first quarter. Personal consumption is projected to grow faster than in the December quarter, while real private investment is declining.

Profitability

2023E	2024E	%Change24E
$221.50	$248.24	4.5%

The consensus estimate of 2023 earnings for the S&P 500 *declined* by 3.8% during the first quarter, which would put 2023 earnings only 1.2% above 2022. The estimate for 2024 was 4.5% above 2023.

Valuation

2023E P/E	2024E P/E
18.6	16.6

On March 31, the price of the S&P 500 was 18.6x its estimated 2023 earnings. The multiple increased as the price rose, and the earnings estimate fell.

**April 10, 2023 – Federal Reserve Bank of Atlanta GDPnow forecast*