# Q1

## Quarterly Market Review

First Quarter 2023

TRINITY
FINANCIAL ADVISORS LLC

# Quarterly Market Review

First quarter 2023

Global stocks gained nearly 7 percent in the first quarter, continuing their upward momentum that began in the fourth quarter of last year. Market volatility was relatively muted until March, when concerns about the stability of the banking sector made headlines. Following last year when value stocks beat growth by 20 percent, the first quarter saw value stocks lag growth by 12 percent.

Information technology names led for the quarter, lifting the returns of large growth stocks. Less profitable growth stocks especially outperformed, with stocks like Nvidia that returned 90 percent.

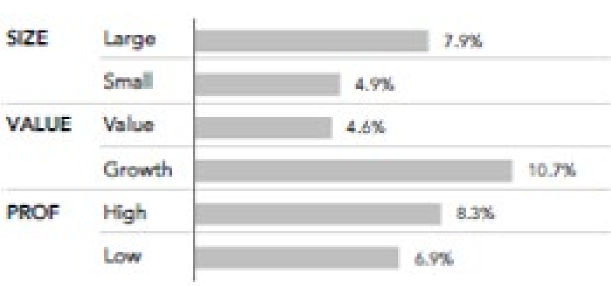
Energy stocks, many of which were still within the value side of the market despite a strong run-up last year, dropped by -3.0 percent. Financials, after being hit hard in March, ended the quarter down - 1.8 percent.

Small cap stocks generally underperformed, especially in the US, but not universally. While large cap stocks with lower profitability generally outperformed, the opposite was true in small caps where higher profitability stocks outperformed.

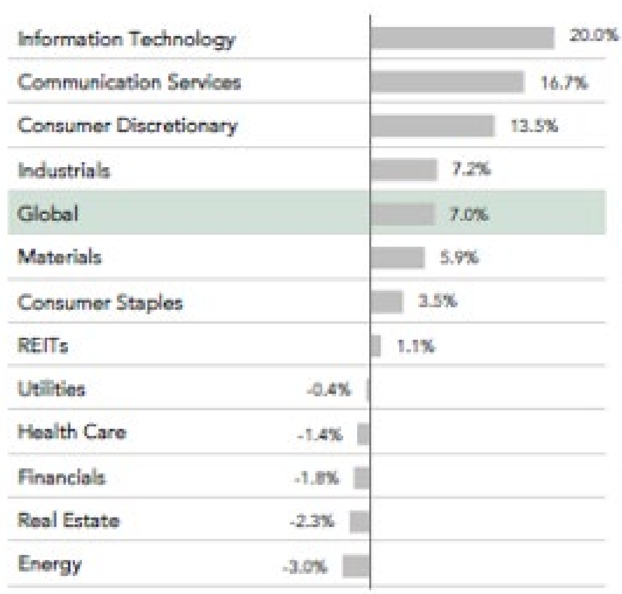
## GLOBAL ASSET CLASS RETURNS *Q1 2023*

| | | |
|---|---|---|
| **STOCKS** | US | **7.18%** |
| | Developed ex US | **7.58%** |
| | Emerging Markets | **3.94%** |
| **BONDS** | US | **2.96%** |
| | Global ex US | **2.86%** |

## GLOBAL PREMIUM RETURNS *Q1 2023*




## GLOBAL SECTOR RETURNS *Q1 2023*



# Quarterly Market Review

First quarter 2023

## FIXED INCOME

Despite turmoil in the banking sector, the Federal Reserve (Fed) continued to raise rates for the ninth and tenth time respectively. However, it recently signaled that a pause in future rate increases is a possibility. Yields on high credit longer term quality bonds fell sharply as investors sought perceived safe havens. Thus, for the quarter the Bloomberg U.S. Government Bond Long Index had the highest returns, up +6.16 percent for the period. The US Aggregate Bond Index was up +2.96 percent respectively.

Short Term Treasury yields fell as the market started to price in the expectation (really just hope) that the Fed would actually cut rates later this year. Even with the fall in short term yields, the yield curve remained inverted, where short term rates are higher than longer term.

## ALTERNATIVES

Commodities continued their decline from previous quarters with the Bloomberg Commodity Total Return Index down -5.36 percent for the period. Nickel and Natural Gas were the worst performers for the quarter, returning -50.9 and -21.4 percent respectively.

After a terrible 2022, U.S. Real Estate Investment Trusts (REITs) bounced back returning a positive +2.77 percent for the quarter.

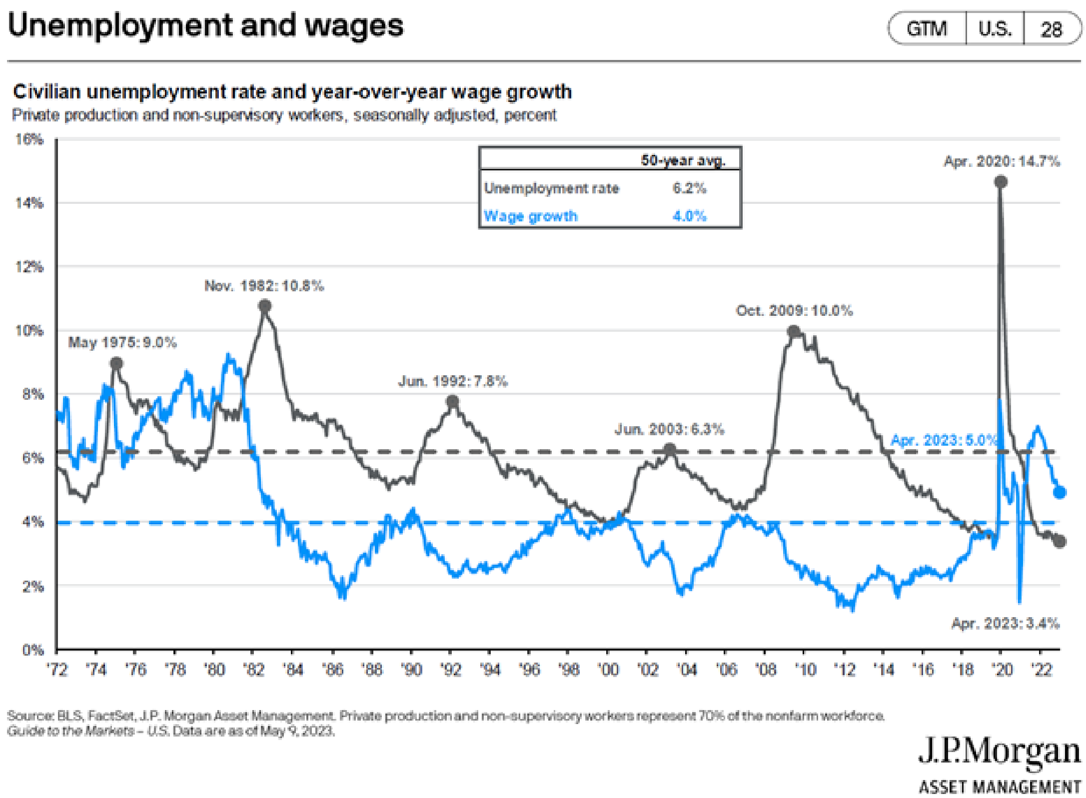
## ECONOMY

The labor market is strong and continues to be a bright spot that is inconsistent with the consensus forecast of an imminent recession. As noted in the chart below, the unemployment rate stood at 3.4 percent as of April 30$^{th}$, just 0.1 percent above the 50 year low achieved in 2019 right before the COVID pandemic hit. With roughly 80 percent of our workforce in service-related businesses, many companies are still looking for good talent making unemployment more stable than expected.

In addition, we are seeing a trend of "onshoring". COVID related global supply chain challenges have pushed more companies to bring manufacturing back to the U.S. For the first time since 1970s, U.S. manufacturing is above prior peak levels and appears poised for further growth. Recent laws such as the CHIPS Act have resulted in more than $200 Billion of announced domestic semiconductor manufacturing spend since 2020.

# Quarterly Market Review

First quarter 2023




However, the broader economy is losing momentum. Job openings have come down, overtime hours and temporary staffing employment have dropped back to where they were two years ago. Outside of the semiconductor industry, business spending is expected to pull back due to recessionary worries. Rising costs, rather than deteriorating sales have caused weakness in earnings. Earnings of the S&P500 companies declined over 10 percent from the same period a year ago. Any recession would lead to a further decline in profits. The University of Michigan consumer survey readings are ominous. Spending intentions by the consumer are ***below*** the worst level among all recessions since 1982.

Even though inflation is on the decline, coming in at 4.9 percent for April down from a high of 9.1 percent in July, costs are still elevated but starting to cool with energy prices declining each month since the middle of 2022. In all likelihood, it will be mid to late 2024 before interest rates fall back into the 2 to 3 percent range targeted by the Fed. The fallout from the recent banking crisis will likely accelerate the tightening in credit conditions.

The Fed was clearly “behind the curve” in reacting to inflation which began in earnest mid 2021. As noted on the chart below, the 500 basis points of increases over the last year typically happen over a three or even four-year period. There have been 14 rate-hiking cycles since World War II and 11 of them caused a recession. The three instances when rate hikes did not trigger a recession was when the Fed stopped tightening before the yield curve became inverted (rate curve has been inverted now for well over a year).

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# Quarterly Market Review

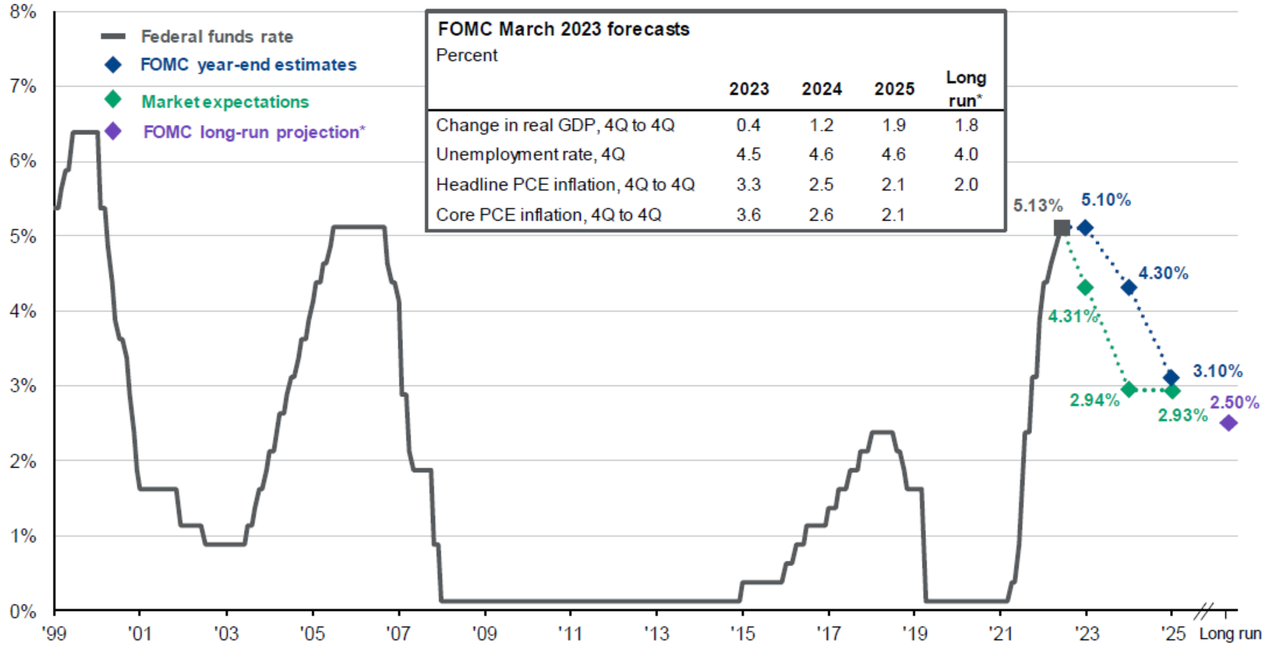
First quarter 2023

## The Fed and interest rates

GTM | U.S. | 34

### Federal funds rate expectations

FOMC and market expectations for the federal funds rate




**FOMC March 2023 forecasts**
Percent

| | 2023 | 2024 | 2025 | Long run* |
|---|---|---|---|---|
| Change in real GDP, 4Q to 4Q | 0.4 | 1.2 | 1.9 | 1.8 |
| Unemployment rate, 4Q | 4.5 | 4.6 | 4.6 | 4.0 |
| Headline PCE inflation, 4Q to 4Q | 3.3 | 2.5 | 2.1 | 2.0 |
| Core PCE inflation, 4Q to 4Q | 3.6 | 2.6 | 2.1 | |

Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.
Market expectations are based off of the respective Federal Funds Futures contracts for December expiry. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.
*Guide to the Markets – U.S.* Data are as of May 9, 2023.

J.P.Morgan
ASSET MANAGEMENT

**LOOKING FORWARD**

Looking ahead, equities may face further trials. Volatility continues to challenge investors and the first quarter was no different. On Friday, March 10th, while many were focused on the NCAA basketball tournament, regulators took control of Silicon Valley Bank as a run on the bank unfolded. Two days later, regulators took control of a second lender, Signature Bank. On May 1, First Republic Bank was sold in a FDIC managed fire sale to JPMorgan Chase. With increasing anxiety, many investors are eyeing their portfolios for exposure to these and other regional banks.

At times like these, instead of panicking, the best action is to instead turn to your investment plan. Your plan is designed with your long-term goals in mind and is based on principles that you can stick with, given your personal risk tolerances. While every investor's plan is different, ignoring headlines and focusing on time-tested principles can help avoid making shortsighted missteps.

# Quarterly Market Review

First quarter 2023

**Uncertainty Is Unavoidable** Remember that uncertainty is nothing new and investing comes with risks. Consider the events of the last three years alone: a global pandemic, the Russian invasion of Ukraine, spiking inflation, and ongoing recession fears. In other words, it may have seemed as if there were plenty of reasons to panic. Despite these concerns, for the three years ending February 28, 2023, the Russell 3000 Index (a broad market-capitalization-weighted index of public US companies) returned an annualized 11.79 percent, slightly outpacing its average annualized returns of 11.65 percent since inception in January 1979. The past three years certainly make a case for weathering short-term ups and downs and sticking with your plan.

**Market Timing Is Futile** Inevitably, when events turn bleak and headlines warn that the worst is to come, some investors' thoughts turn to market timing. The idea of using short-term strategies to avoid near-term pain without missing out on long-term gains is seductive, but research repeatedly demonstrates that timing strategies are not effective. The impact of miscalculating your timing strategy can far outweigh the perceived benefits.

**Diversification Is Your Friend** Nobel laureate Merton Miller famously used to say, "Diversification is your friend." While not all risks—including a systemic risk such as an economic recession, can be diversified away, diversification is still an incredibly effective tool for reducing many risks investors face.

In particular, diversification can reduce the potential pain caused by the poor performance of a single company, industry, or country. As of February 28, Silicon Valley Bank (SIVB) represented just 0.04 percent of the Russell 3000, while regional banks in total represented less than 1.70 percent.

When the unexpected happens, many investors feel like they should be doing something with their portfolios. Often, headlines and pundits stoke these sentiments with predictions of more doom and gloom. For the long-term investor, however, *planning for what can happen is far more powerful than trying to predict what will happen.*

Remember, we're here to help. This also is where the time invested upfront with each of you shows its value. Formulating a solid and adaptable financial plan together and discussing liquidity, cash flows, and reserves, provides the solid footing needed for times like these with many changing facets.

We appreciate the opportunity to work with each of you. We recognize that each client's situation is unique and incorporates different factors into their investment and financial plan.

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# Quarterly Market Review

First quarter 2023

As always, if you have any questions or concerns about current market trends and the impact on your personal situation and plan, please contact us and we would be happy to discuss.

All the best,

Geoff

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# Long-Term Market Summary

Index returns as of March 31, 2023

| | US Stock Market | International Developed Stocks | Emerging Markets Stocks | Global Real Estate | US Bond Market | Global Bond Market ex US |
|---|---|---|---|---|---|---|
| 1 Year | STOCKS | | | | BONDS | |
| | -8.58% | -2.74% | -10.70% | -20.29% | -4.78% | -3.27% |
| 5 Years | | | | | | |
| | 10.45% | 3.80% | -0.91% | 2.41% | 0.91% | 0.90% |
| 10 Years | | | | | | |
| | 11.73% | 4.91% | 2.00% | 3.26% | 1.36% | 2.28% |

**Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.** Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net dividends]), Emerging Markets (MSCI Emerging Markets Index [net dividends]), Global Real Estate (S&P Global REIT Index [net dividends]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]). 

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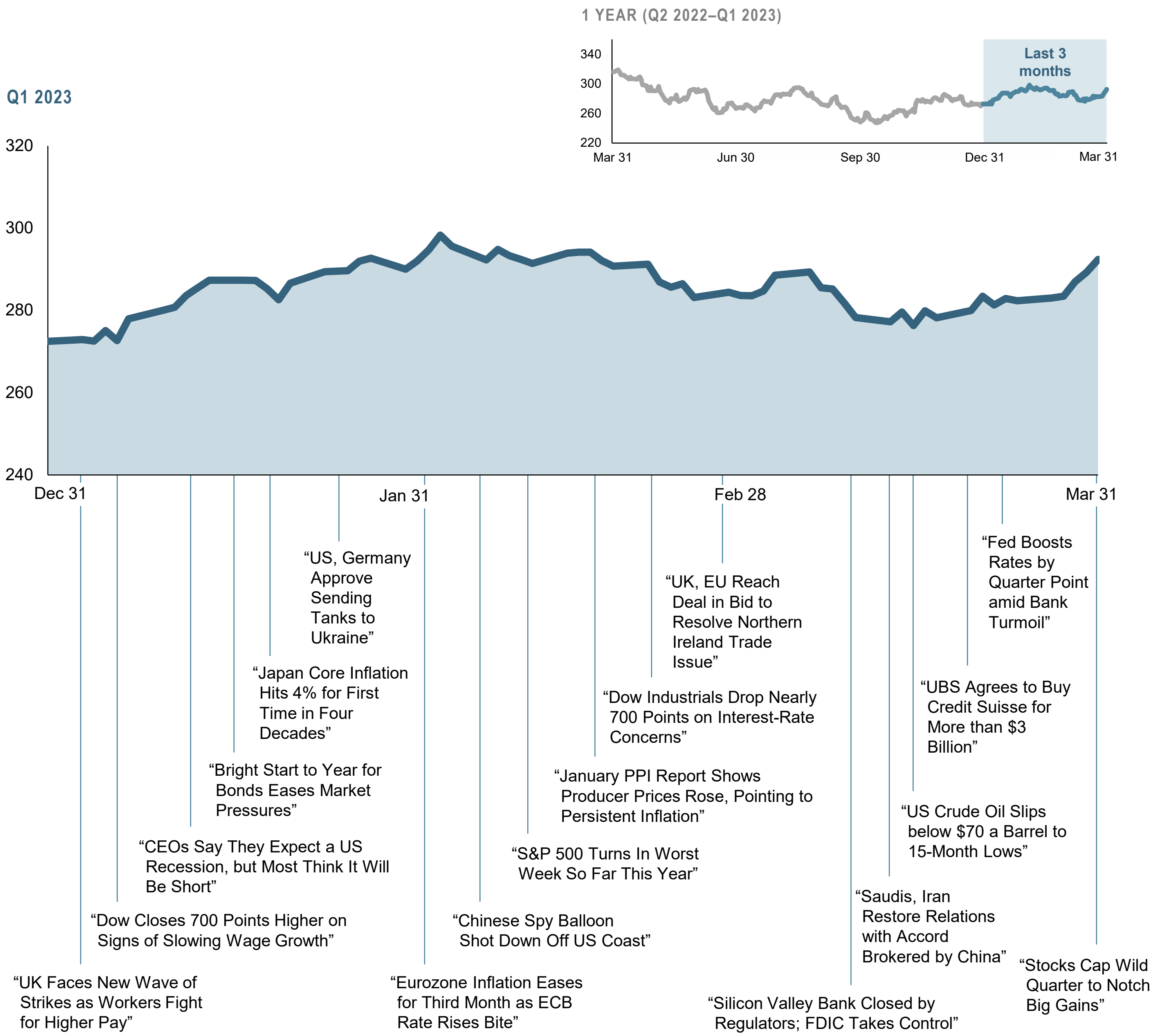
# World Stock Market Performance

## MSCI All Country World Index with selected headlines from Q1 2023




***These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.***

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2023, all rights reserved. Index level based at 100 starting January 2000.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio.
**Past performance is not a guarantee of future results.**

# US Stocks

First quarter 2023 index returns

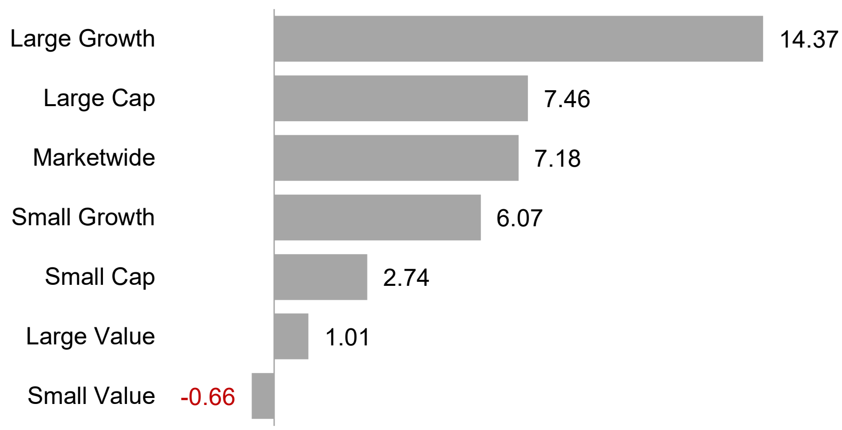
The US equity market posted positive returns for the quarter and underperformed non-US developed markets, but outperformed emerging markets.

Value underperformed growth.

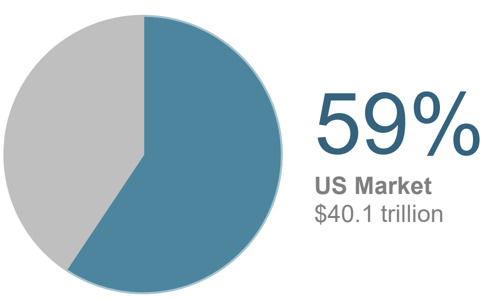
Small caps underperformed large caps.

REIT indices underperformed equity market indices.

### Ranked Returns (%)




### World Market Capitalization—US




### Period Returns (%)

| Asset Class | QTR | 1 Year | 3 Years (Annualized) | 5 Years (Annualized) | 10 Years (Annualized) |
|---|---|---|---|---|---|
| Large Growth | 14.37 | -10.90 | 18.58 | 13.66 | 14.59 |
| Large Cap | 7.46 | -8.39 | 18.55 | 10.87 | 12.01 |
| Marketwide | 7.18 | -8.58 | 18.48 | 10.45 | 11.73 |
| Small Growth | 6.07 | -10.60 | 13.36 | 4.26 | 8.49 |
| Small Cap | 2.74 | -11.61 | 17.51 | 4.71 | 8.04 |
| Large Value | 1.01 | -5.91 | 17.93 | 7.50 | 9.13 |
| Small Value | -0.66 | -12.96 | 21.01 | 4.55 | 7.22 |

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# International Developed Stocks

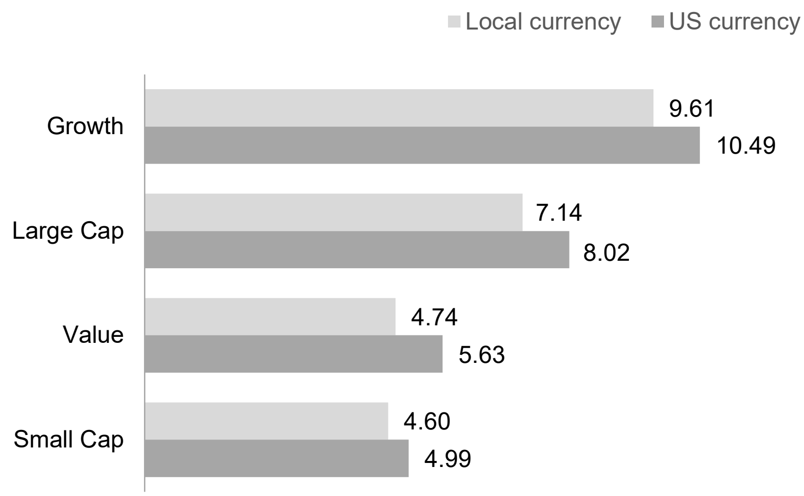
First quarter 2023 index returns

Developed markets outside of the US posted positive returns for the quarter and outperformed both US and emerging markets.

Value underperformed growth.

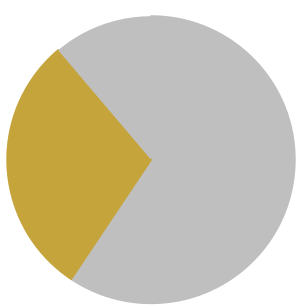
Small caps underperformed large caps.

## Ranked Returns (%)




## World Market Capitalization—International Developed

29%
International Developed Market
$19.9 trillion



## Period Returns (%)

| | | | Annualized | | |
|---|---|---|---|---|---|
| Asset Class | QTR | 1 Year | 3 Years | 5 Years | 10 Years |
| Growth | 10.49 | -4.04 | 11.15 | 4.96 | 5.77 |
| Large Cap | 8.02 | -2.74 | 13.49 | 3.80 | 4.91 |
| Value | 5.63 | -1.85 | 15.32 | 2.18 | 3.80 |
| Small Cap | 4.99 | -10.13 | 13.43 | 1.54 | 5.54 |

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# Emerging Markets Stocks

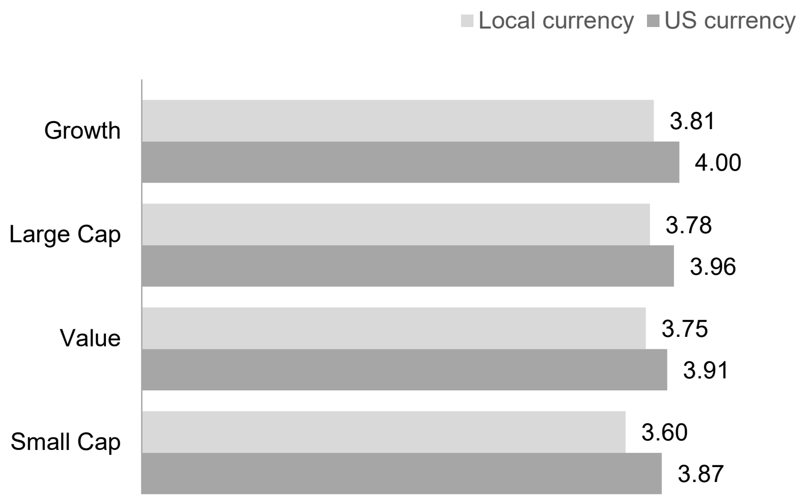
## First quarter 2023 index returns

Emerging markets posted positive returns for the quarter and underperformed both US and non-US developed markets.

Value underperformed growth.

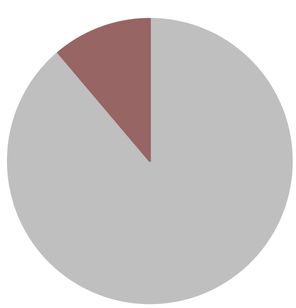
Small caps underperformed large caps.

### Ranked Returns (%)




### World Market Capitalization—Emerging Markets

11%
Emerging Markets
$7.6 trillion



### Period Returns (%)

| | | | Annualized | | |
|---|---|---|---|---|---|
| Asset Class | QTR | 1 Year | 3 Years | 5 Years | 10 Years |
| Growth | 4.00 | -11.87 | 5.65 | -0.79 | 3.18 |
| Large Cap | 3.96 | -10.70 | 7.83 | -0.91 | 2.00 |
| Value | 3.91 | -9.44 | 10.04 | -1.15 | 0.69 |
| Small Cap | 3.87 | -10.99 | 20.68 | 1.80 | 3.18 |

**Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.** Market segment (index representation) as follows: Large Cap (MSCI Emerging Markets Index), Small Cap (MSCI Emerging Markets Small Cap Index), Value (MSCI Emerging Markets Value Index), and Growth (MSCI Emerging Markets Growth Index). All index returns are net of withholding tax on dividends. World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. MSCI Emerging Markets IMI Index used as the proxy for the emerging market portion of the market. 

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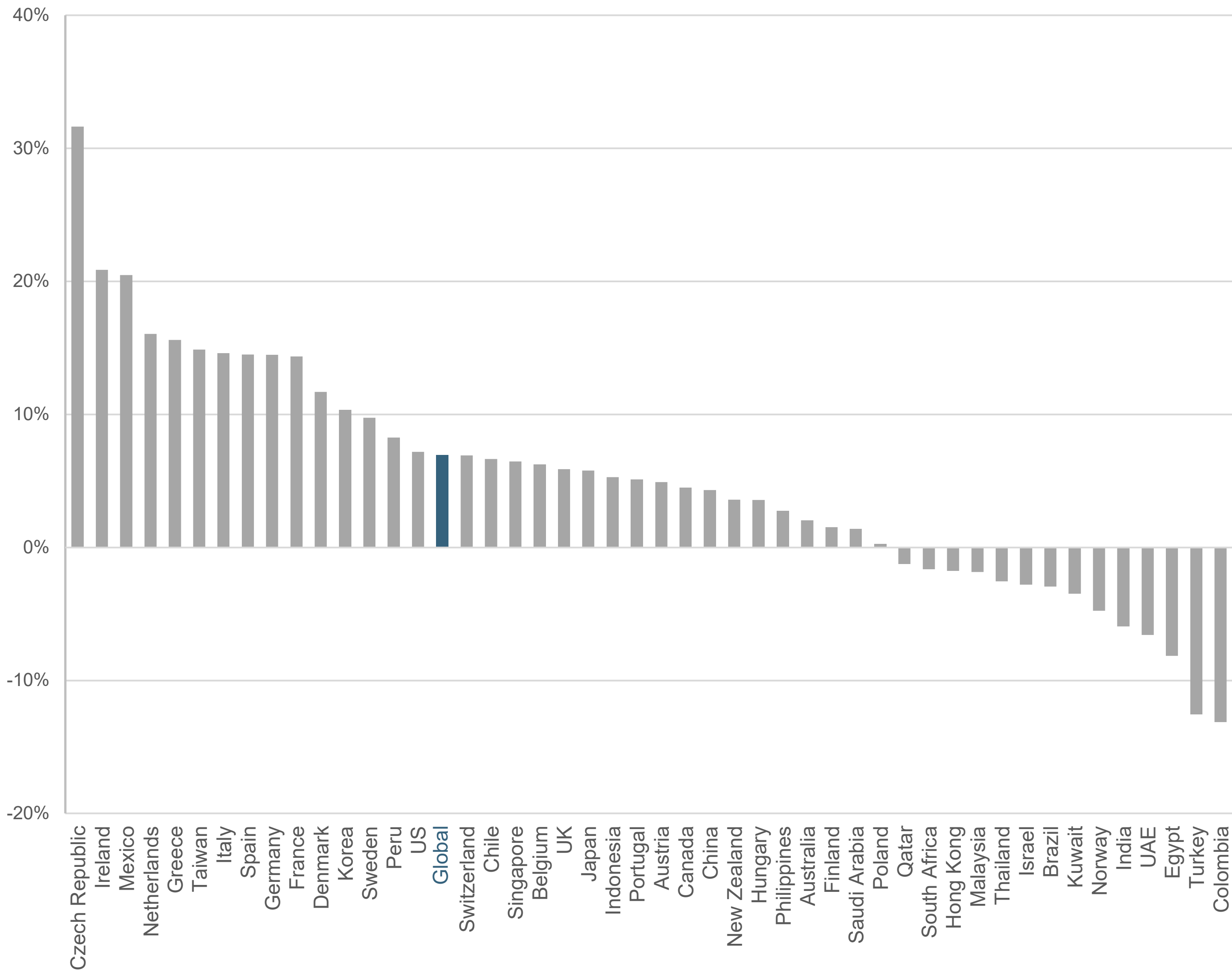
# Country Returns

First quarter 2023 index returns




**Past performance is no guarantee of future results**.

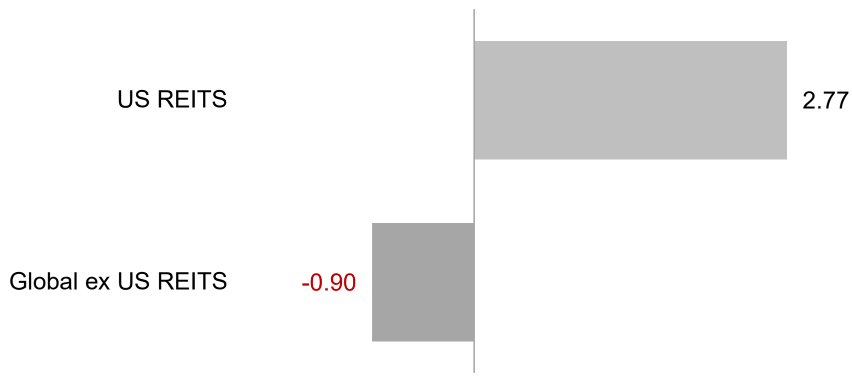
Country returns are the country component indices of the MSCI All Country World IMI Index for all countries except the United States, where the Russell 3000 Index is used instead. Global is the return of the MSCI All Country World IMI Index. MSCI index returns are net dividend. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Frank Russell Company is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. 

# Real Estate Investment Trusts (REITs)

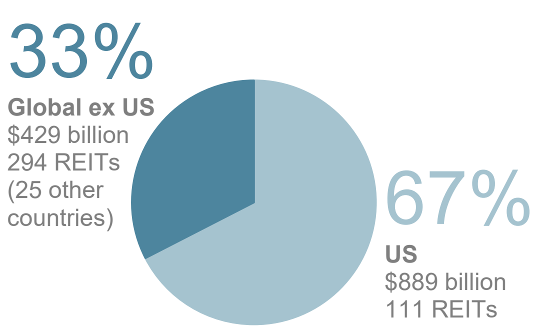
First quarter 2023 index returns

US real estate investment trusts outperformed non-US REITs during the quarter.

**Ranked Returns (%)**




**Total Value of REIT Stocks**




**Period Returns (%)**

| | | | Annualized | | |
|---|---|---|---|---|---|
| Asset Class | QTR | 1 Year | 3 Years | 5 Years | 10 Years |
| US REITS | 2.77 | -20.98 | 11.32 | 4.66 | 5.31 |
| Global ex US REITS | -0.90 | -20.93 | 4.83 | -2.06 | 0.79 |

**Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.** Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market. 

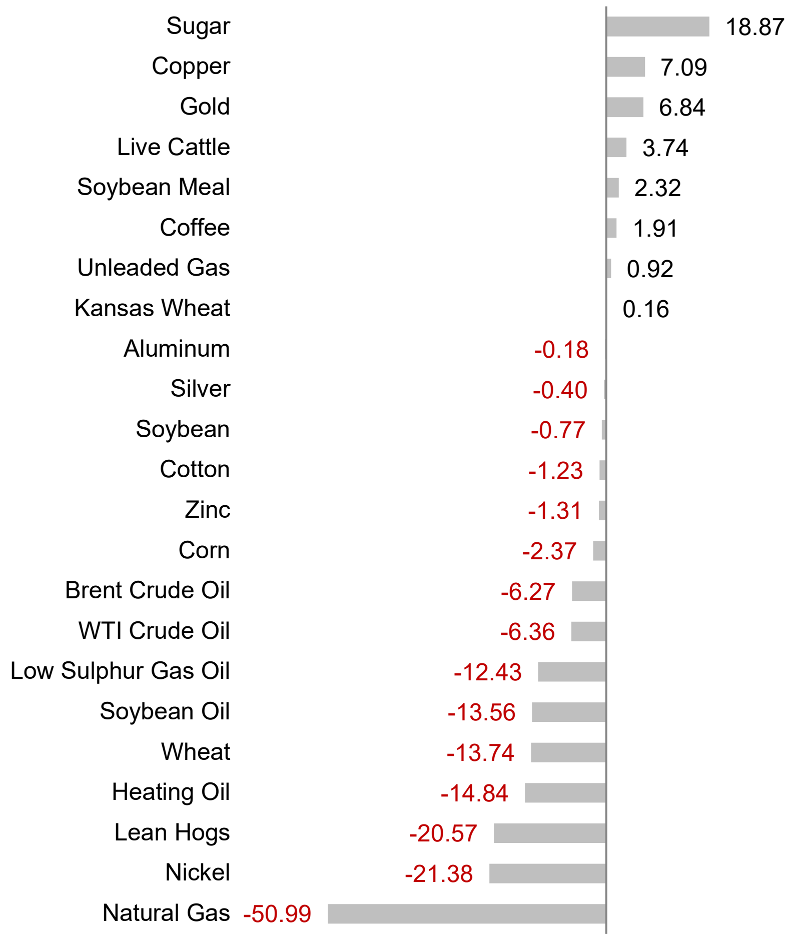
# Commodities

First quarter 2023 index returns

The Bloomberg Commodity Total Return Index returned -5.36% for the first quarter of 2023.

Natural Gas and Nickel were the worst performers, returning -50.99% and -21.38% during the quarter, respectively. Sugar and Copper were the best performers, returning +18.87% and +7.09% during the quarter, respectively.

## Ranked Returns (%)




## Period Returns (%)

| | | | Annualized | | |
|---|---|---|---|---|---|
| Asset Class | QTR | 1 Year | 3 Years | 5 Years | 10 Years |
| Commodities | -5.36 | -12.49 | 20.82 | 5.36 | -1.72 |

# Fixed Income

## First quarter 2023 index returns

Within the US Treasury market during the first quarter of 2023, interest rates generally increased in the ultrashort-term segment and decreased in the short- to long-term segment.

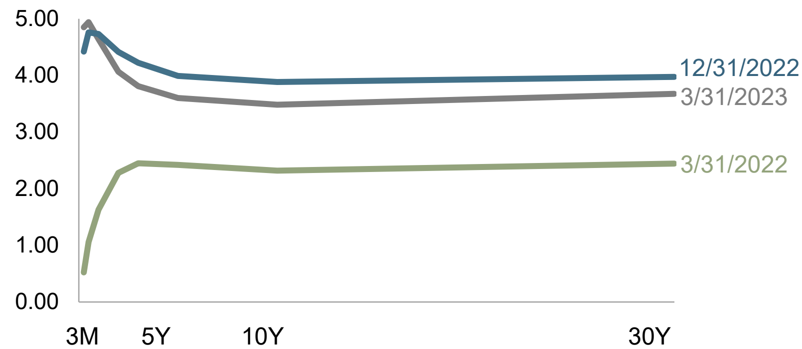
On the short end of the yield curve, the 1-Month US Treasury Bill yield increased 62 basis points (bps) to 4.74%, while the 1-Year US Treasury Bill yield decreased 9 bps to 4.64%. The yield on the 2-Year US Treasury Note decreased 35 bps to 4.06%.

The yield on the 5-Year US Treasury Note decreased 39 bps to 3.60%. The yield on the 10-Year US Treasury Note decreased 40 bps to 3.48%. The yield on the 30-Year US Treasury Bond decreased 30 bps to 3.67%.

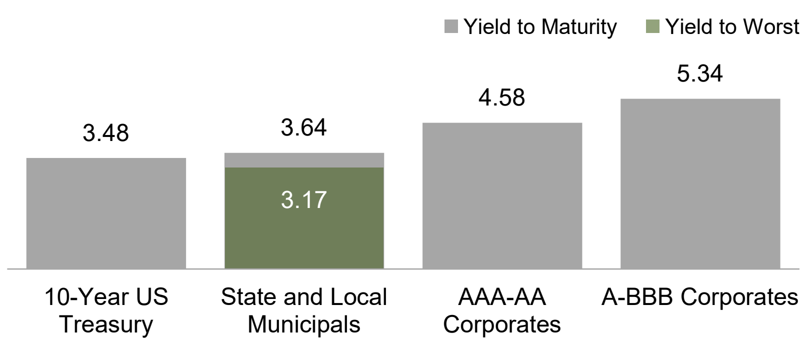
In terms of total returns, short-term US treasury bonds returned +1.87% while intermediate-term US treasury bonds returned +2.27%. Short-term corporate bonds returned +1.68% and intermediate-term corporate bonds returned +2.50%.[1]

The total returns for short- and intermediate-term municipal bonds were +1.37% and +2.35%, respectively. Within the municipal fixed income market, general obligation bonds returned +2.59% while revenue bonds returned +2.96%.[2]

### US Treasury Yield Curve (%)




### Bond Yields Across Issuers (%)




### Period Returns (%)

| | | | Annualized | | |
|---|---|---|---|---|---|
| Asset Class | QTR | 1 Year | 3 Years | 5 Years | 10 Years |
| Bloomberg U.S. Government Bond Index Long | 6.16 | -15.94 | -11.25 | -0.36 | 1.44 |
| Bloomberg U.S. High Yield Corporate Bond Index | 3.57 | -3.34 | 5.91 | 3.21 | 4.10 |
| Bloomberg U.S. TIPS Index | 3.34 | -6.06 | 1.75 | 2.94 | 1.49 |
| Bloomberg U.S. Aggregate Bond Index | 2.96 | -4.78 | -2.77 | 0.91 | 1.36 |
| Bloomberg Municipal Bond Index | 2.78 | 0.26 | 0.35 | 2.03 | 2.38 |
| FTSE World Government Bond Index 1-5 Years | 2.08 | -3.38 | -1.99 | -1.06 | -0.71 |
| FTSE World Government Bond Index 1-5 Years (hedged to USD) | 1.81 | -0.40 | -0.89 | 1.06 | 1.14 |
| ICE BofA 1-Year US Treasury Note Index | 1.25 | 1.02 | 0.08 | 1.29 | 0.85 |
| ICE BofA US 3-Month Treasury Bill Index | 1.07 | 2.50 | 0.89 | 1.41 | 0.87 |

1. Bloomberg US Treasury and US Corporate Bond Indices.
2. Bloomberg Municipal Bond Index.

One basis point (bps) equals 0.01%. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.** Yield curve data from Federal Reserve. State and local bonds, and the Yield to Worst are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the ICE BofA US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA Corporates, BBB-A rated. Bloomberg data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield).  Bloomberg data provided by Bloomberg.