Trust and Asset Management Market Outlook

February 2023

Market Update

(all values as of 1.31.2023)

Stock Indices:

Dow Jones	34,086
S&P 500	4,076
Nasdaq	11,584

Bond Sector Yields:

2 Yr Treasury	4.21%
10 Yr Treasury	3.52%
10 Yr Municipal	2.24%
High Yield	8.02%

YTD Market Returns:

Dow Jones	2.83%
S&P 500	6.18%
Nasdaq	10.68%
MSCI-EAFE	8.05%
MSCI-Europe	8.61%
MSCI-Pacific	7.09%
MSCI-Emg Mkt	7.85%
US Agg Bond	3.78%
US Corp Bond	4.73%
US Gov't Bond	3.63%

Commodity Prices:

Gold	1,943
Silver	23.81
Oil (WTI)	79.09

Currencies:

Dollar / Euro	1.08
Dollar / Pound	1.23
Yen / Dollar	130.10
Canadian / Dollar	0.74

Macroeconomic Overview

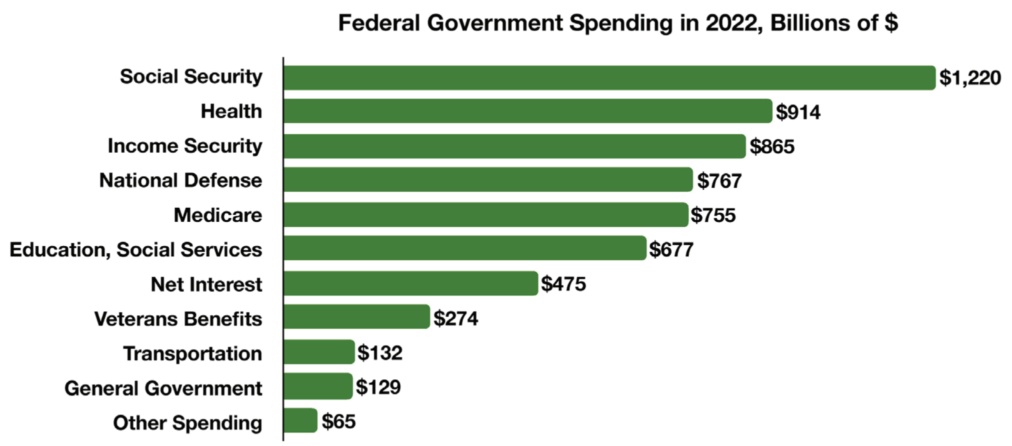
Inflation became less of a concern in January as the most recent data revealed six consecutive months of falling prices. The most recent inflationary data, as measured by the Consumer Price Index (CPI), fell to 6.5% after reaching 9.1% in June.

Surveys of banks conducted by the Federal Reserve have revealed that lending is slowing down markedly, with banks tightening credit scoring and steadily bolstering their cash reserves. Major banks are building protection against what they predict are upcoming economic woes in the form of asset and cash consolidation.

Recently passed legislation will allow millions of taxpayers the ability to reap tax benefits on electric vehicles and 529 college savings plans. Provisions from the Inflation Act as well as the SECURE Act will benefit mostly middle-income earners across the country.

Equity markets rebounded with the new year, as major equity indices were positive year to date at the end of January. The S&P 500 index was up 6.18% as technology-related companies led most gains and the Dow Jones Industrial Index gained 2.83% for the month.

Recent comments by Fed Chair Jerome Powell signaled that the Fed intends to continue rate hikes due to a strong labor market. Some economists and analysts differ in their view surrounding the strength of the labor market and instead note a decreasing hiring trend by companies as well as stagnant wages.



With recent concerns surrounding the debt ceiling and funding for different governmental agencies, the Office of Management & Budget identifies where the federal government allocates funds. The biggest expense in 2022 was Social Security, which was the only spending category of over $1 trillion. $770 billion was appropriated for National Defense, with other notable categories including Health, Income Security, and Medicare. In total, the federal government spent $6.27 trillion throughout 2022, nearly double what it did just a half-decade ago.

(Sources: Bureau of Labor Statistics, Board of Governors of the Federal Reserve, IRS, U.S. Congress, U.S. Office of the President, Office of Management & Budget)

THE BALTIC INDEX REACHED LEVELS AS LOW AS $393 IN 2020

Demand For Bonds Rose in January – Fixed Income Review

Demand for bonds is increasing as investors have a seemingly endless appetite for debt amid signs inflation is cooling and central banks worldwide are slowing their pace of tightening. Yields fell across the yield curve in January with lower yields on shorter and longer-term bonds, in turn elevating bond prices which move higher as yields head lower. Housing was buoyed as the average rate on a 30-year conforming mortgage fell to 6.09% on Feb 2nd, the lowest since September.

(Sources: U.S. Treasury, Bloomberg, Freddie Mac)

Major Equity Indices Post Gains So Far This Year – Domestic Equity Overview

Major equity indices were positive year to date at the end of January, with the S&P 500 index was up 6.18% as technology-related companies led the gains. The Dow Jones Industrial Index gained 2.83% for the month and the technology-heavy Nasdaq advanced 10.68%. Expanding earnings and containing expenses continue to be objectives for companies throughout all sectors and industries.

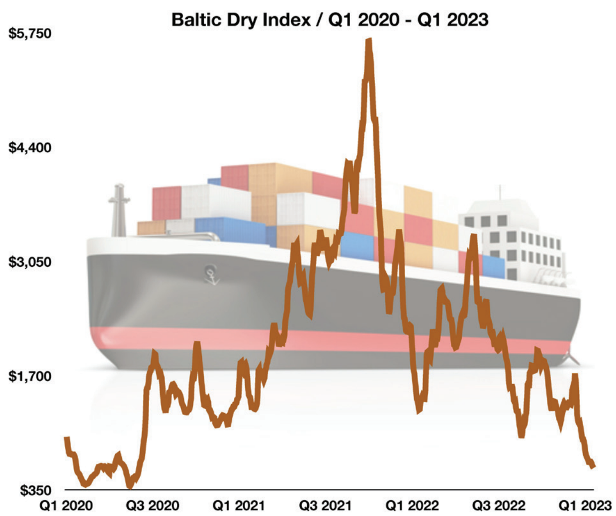
(Sources: S&P, Bloomberg, Nasdaq, Dow Jones)

Shipping Costs Fall From Historic Highs – International Trade

In late 2021, post-pandemic shipping costs skyrocketed, forcing the prices of containers to become unaffordable for many businesses that rely on importing or exporting products. However, costs have since fallen dramatically and have recently reached pre-pandemic levels after 2.5 years of abnormally elevated prices.

The Baltic Dry Index reflects these global shipping costs and portrays the average prices paid to transport dry bulk material across the globe. The index reflects changes in the global supply and demand for materials used in manufacturing and finished products such as televisions and clothing. In the early months of the COVID-19 pandemic, global lockdowns and financial instability greatly reduced demand for shipping as consumers took on extremely conservative approaches to spending and corporations postponed countless projects. The index reached levels as low as $393 in 2020 and hovered around $500 until late 2020.

However, the index skyrocketed quickly into late 2021, reaching historic highs of $5,650 in October of 2021. High prices spelled turmoil and uncertainty for businesses that rely on shipping products, especially smaller businesses that did not have the spare capital to absorb higher costs. Since this peak, shipping costs have mellowed significantly, down nearly 90% in the past 15 months. As of February 6th, the Baltic Dry Index stands at a 32-month low of $608, which may cement its decrease back to prepandemic norms and pose an optimistic sign for corporations who rely on shipping products worldwide.



(Sources: Baltic Dry Index, Baltic Exchange)

U.S. INFLATION HAS DECREASED TO 6.5%

SECURE Act 2.0's Benefits ROTH IRAs & 529 Savings Plans – Financial Planning

The SECURE Act 2.0, passed by Congress on December 29 as part of a new 1.7 trillion spending bill, instituted a wide array of changes in retirement planning. While much focus has been placed on changes to Required Minimum Distributions (RMDs) and company-sponsored retirement plans, a key highlight of the act lies in its changes to Roth plans, which will go into effect in January 2024.

The most major of these changes is introducing the ability for individuals to roll over funds from a 529 college savings plan into a Roth IRA. Households will be able to transfer a lifetime maximum of $35,000 as penalty-free and tax-free rollovers into their Roth IRA plans.

The annual limit of these rollovers will be equal to the IRA contribution limit, which is currently $6,500 per year for those under the age of 50 and $7,500 for those 50 and older. Further restrictions include that the 529 accounts must have been open for at least 15 years and that contributions made within the last five years are barred from being rolled over. It should be noted that this is an entirely new rule created by the act, and thus further guidance from the IRS should be expected in the coming months on specific guidelines for these rollovers.

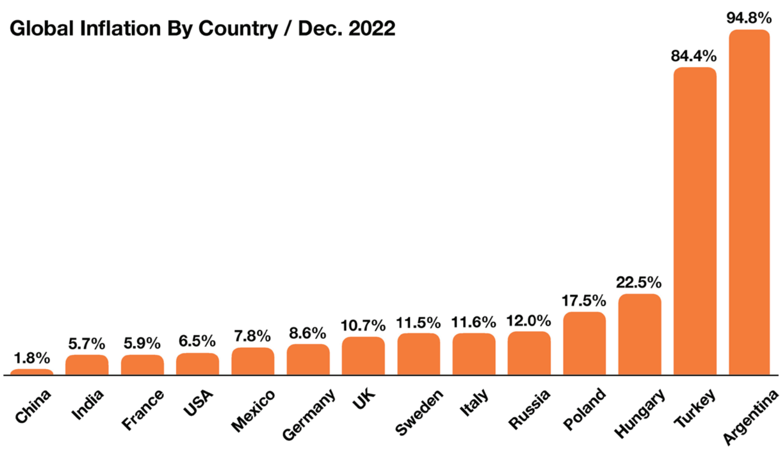
Additionally, the SECURE ACT 2.0 delayed Required Minimum Distributions for 401(k) plans and eliminated RMDs for original account owners of Roth 401(k) plans. These new changes are expected to assist the wave of primarily Baby Boomer Americans who will approach the age of retirement in the upcoming decade.

(Sources: U.S. Congress, Internal Revenue Service)

U.S. Inflation Cools While Global Inflation Persists – Global Inflation Trends

Following 40-year highs in inflation, the Fed's aggressive rate hikes and a slowing economy have begun cooling inflation. For the 6th consecutive month, U.S. Inflation has decreased, reaching 6.5% in December 2022. For the United States, this stands as an optimistic sign of easing inflationary pressures on consumers, corporations, and small businesses. While 6.5% inflation is still abnormally high, and over 4% greater than the Fed's target rate, it is also the lowest inflation has been since October of 2021. However, the Fed's monetary policy that lowered inflation has also introduced a recessionary environment, which might continue to unfold throughout 2023.

At the same time American inflation cools, nations worldwide are continuously struggling with high inflation. Argentina is facing 94.8% inflation as of December 2022 and is expected to reach 98% inflation by the end of 2023. This is the highest inflation Argentina has observed in three decades and comes amidst political turmoil. Other nations with notably high inflation include Turkey at 84%, Russia at 12%, the UK at nearly 11%, and Poland at 17.5%.



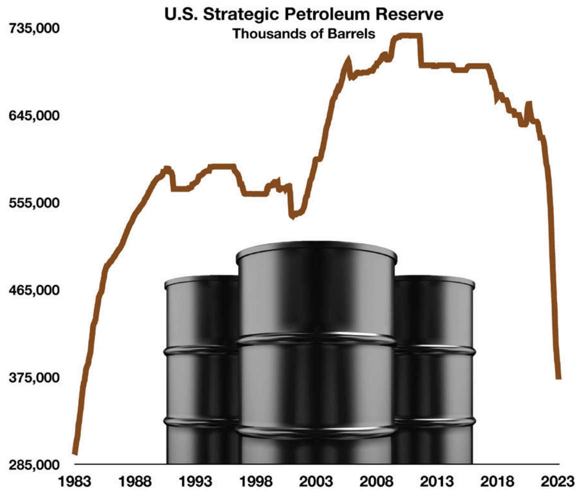
(Sources: Bureau of Labor Statistics, IMF, WorldBank)

DOE WILL NEED TO ALLOT AROUND $15.5 BILLION TO REPLENISH RESERVES

Refilling Depleted Oil Reserves From Four Decade Lows – Oil Industry Update

As a result of surging fuel costs reflective of OPEC constraints and the Ukraine war, the U.S. government withdrew over 220 million barrels of oil over the course of 2022. The withdrawal caused American crude oil reserves to run dry, with reserves falling to their lowest level in four decades. Entering 2023, plans are being put in place by the Department of Energy (DOE) to replenish oil reserves.

With prices of oil eclipsing $120 per barrel in 2022, oil reserves were sold at an average price of $96 per barrel by the government to demonstrate relief for the American people. However, this resulted in U.S. oil reserves reaching 40-year lows that had last been exhibited in 1983, when the U.S. was just starting to fill its reserves. By withdrawing over 280 million barrels in the past two years, the U.S. government depleted what took nearly seven years to fill during the 1980s, the period of the most rapid reserve filling. With the U.S. producing around 11 million barrels of crude oil per day, it would take about 20 days of total U.S. oil production to replenish reserves from their 2022 depletion.



The Department of Energy is now announcing plans to refill the reserves by purchasing barrels of oil priced around $70. In January of 2023, the DOE finalized contracts to purchase 3 million barrels of crude oil. At its target price of $70 per barrel, the DOE will need to allot around $15.5 billion toward replenishing the emergency reserves to their pre-2022 levels.

(Sources: Energy Information Administration; U.S. Department of Energy)

Tax Breaks for EVs with the Inflation Reduction Act – Tax Planning

The Inflation Reduction Act (IRA) passed by Congress in 2022 may have opened a unique opportunity to lessen the burden of home renovations and upgrades. The ten-year plan to counteract inflation and emphasize a switch toward environmentally-friendly energy could lead to possible savings and tax breaks.

The most well-known savings from the IRA are within the field of electric vehicles (EVs). New EVs priced under $80,000 for trucks, vans, and SUVs and $55,000 and under for sedans qualify for a $7,500 tax credit. Restrictions on this credit include that the vehicle is manufactured and assembled in North America, requirements surrounding the sourcing of the car battery and that household income is under $150,000 for individuals or $300,000 for joint filers. Used EVs provide a tax credit of $4,000 for vehicles priced under $25,000, with income limits of $75,000 for individuals or $150,000 for joint filers. Beginning in 2024, this credit will change into a point-of-sale discount on the price of the EV provided by dealers.

(Sources: U.S. Congress, Internal Revenue Service, U.S. Department of Energy)

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