Trust and Asset Management Market Outlook

March 2023

Market Update
(all values as of 02.28.2023)

Stock Indices:

Dow Jones	32,656
S&P 500	3,970
Nasdaq	11,455

Bond Sector Yields:

2 Yr Treasury	4.81%
10 Yr Treasury	3.92%
10 Yr Municipal	2.64%
High Yield	8.51%

YTD Market Returns:

Dow Jones	-1.48%
S&P 500	3.40%
Nasdaq	9.45%
MSCI-EAFE	5.65%
MSCI-Europe	7.78%
MSCI-Pacific	1.78%
MSCI-Emg Mkt	0.80%
US Agg Bond	0.41%
US Corp Bond	0.70%
US Gov't Bond	0.34%

Commodity Prices:

Gold	1,833
Silver	21.02
Oil (WTI)	76.84

Currencies:

Dollar / Euro	1.05
Dollar / Pound	1.19
Yen / Dollar	136.22
Canadian / Dollar	0.73

Macro Overview

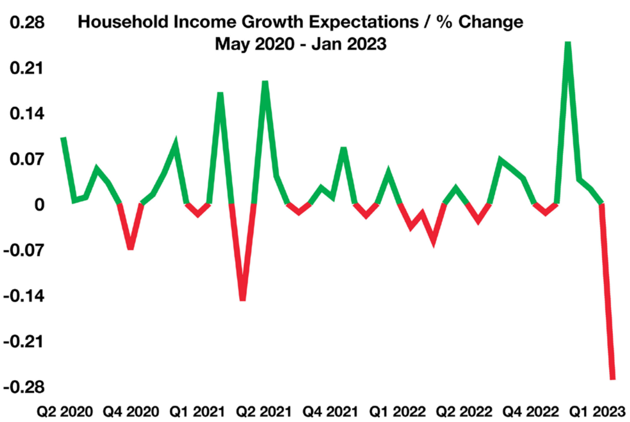
Inflation worries persisted in February as government data revealed stubbornly elevated prices for food and energy. As a result, the Federal Reserve's policy on additional rate increases continues to bombard the equity and bond markets. The Fed's concern is that it might relent too soon in combating inflation, so it is expected to continue on its rate increase trajectory until economic data proves otherwise.

Recent economic terms highlighted in the media include soft landing and hard landing. A soft landing indicates a non-recessionary outcome after the Fed stops raising rates, while a hard landing denotes a recessionary environment. Many economists believe that it is too soon to determine which may occur, yet believe that an extended period of rate hikes likens the possibility of an eventual hard landing.

Stronger-than-expected employment data along with surprisingly resilient consumer demand drove the Federal Reserve to raise short-term rates, resulting in rates rising this past month. Mortgage and consumer loan rates rose in February, adversely affecting housing and consumer durables, where interest rates pose a significant factor.

Recently released data from the Bureau of Labor Statistics reveals that consumers are pulling back on cyclical goods such as clothes and electronics while focusing on food and essential products like toilet paper and toothpaste. Larger ticket items, which are more expensive products such as appliances and autos, are seeing a drop in sales as consumers redirect funds.

Internationally, the European Union continues to see inflation at 10% alongside a 6.1% unemployment rate, translating into economic stagnation per the most recent data releases. As in the U.S., stubbornly high food and energy prices continue to divert consumers from buying what they want versus buying what they need. The Russian invasion of Ukraine continues to pose a challenge to global supply chains and inflationary pressures. Reduced trade with Russia has led numerous countries to replace inexpensive Russian imports with other pricier sources.



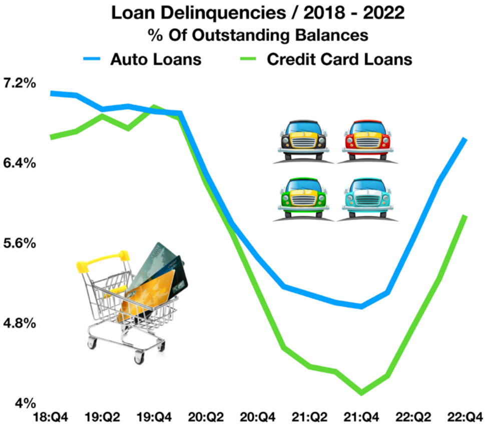
A renewed concentration on consumer incomes and inflation is materializing, as average income growth continues to fall behind inflation, meaning that consumers are struggling to maintain regular spending habits without an immediate pay raise. A Federal Reserve Bank of New York survey showed that households expect income growth to drop, creating additional uncertainty for consumers as well as creating a detrimental impact on consumer confidence.

(Sources: Eurostat, U.S. Treasury, Federal Reserve, BLS, Labor Department)

CREDIT CARD DELINQUENCY RATES ARE AT 5.87% OF OUTSTANDING BALANCES

Loan Delinquencies On The Rise – Consumer Credit

Following the 2008 financial crisis, consumers began defaulting on loans across the board. Since then, loan delinquencies have fallen steadily, with some dropping lower than half of their crisis peaks. However, recent data show that this trend has been reversing, with loan delinquencies on the rise throughout 2022. Economists closely follow delinquency rates as an indicator of possible faltering consumer finances.



The two most significant increases in delinquencies have been with credit cards and auto loans. Auto loans headed into the end of 2021 with nine consecutive quarterly decreases, reaching as low as just 4.9%. However, they have since increased steadily up to 6.64% as of the fourth quarter of 2022. The current delinquency rate is nearly at a 3-year high. Credit card loans have also reached a 2.5-year high following two years of decreases in loan payment delinquencies, with current credit card delinquency rates at 5.87% of outstanding balances.

(Sources: Bureau of Labor Statistics)

Why Some Taxpayers Might See Smaller Tax Refunds This Year – Tax Planning

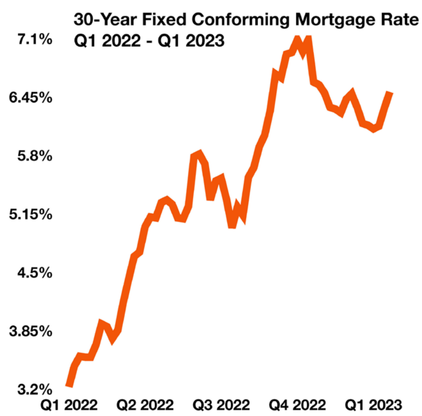
Some taxpayers will likely receive a significantly smaller refund compared with the previous tax year. Changes include amounts for the Child Tax Credit (CTC), the Earned Income Tax Credit (EITC), and the Child and Dependent Care Credit which will revert to pre-COVID levels. For 2022, the CTC is worth $2,000 for each qualifying child. A child must be under the age of 17 at the end of 2022 to be a qualifying child. For the EITC, eligible taxpayers with no children may get $560 for the 2022 tax year. Tax credits and deductions can affect the amount of tax owed, so the amount of taxes owed might be reduced for certain taxpayers. Tax credits allow certain taxpayers to subtract the amount of the credit they have accrued from the total owed. A tax deduction is distinctive from a tax credit in that it lowers taxable income and thus reduces tax liability.

(Sources: Internal Revenue Service)

Higher Mortgage Rates Keep Homebuyers From Buying – Housing Market

With interest rates breaching higher levels, mortgages are becoming less affordable for millions of Americans. As a result, demand for new mortgages continues to reach decades-long lows, influencing homebuyers to either wait for rates to fall or for home prices to drop significantly. The 30-year fixed mortgage rate reached 6.65% in early March, its highest point since November of last year. This comes amidst continuously higher mortgage loan rates that reached as high as 7.08% in October and November of 2022, a 20-year high that the housing market last saw in 2002.

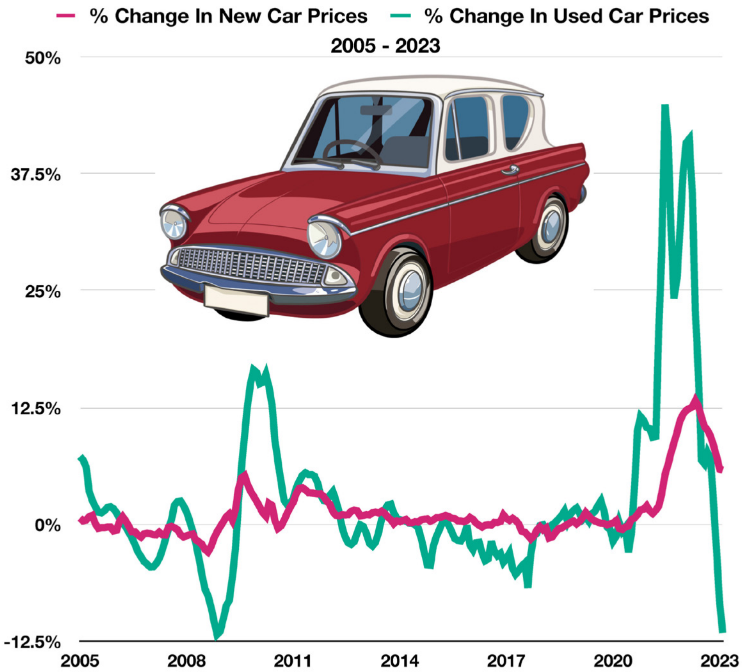
(Sources: ederal Reserve of St. Louis, Freddie Mac)



AVERAGE MONTHLY LOAN PAYMENTS ON NEW CARS ROSE PAST $700

Rising Car Payments Become Less Affordable For Many – Automotive Industry

Since the pandemic ushered in a widespread global shortage of semiconductor chips that are vital to new vehicles, car prices have risen to historic highs. Three years later, the supply issue hasdissipated somewhat, yet prices for new vehicles remain abnormally high.



The average monthly loan payments on new cars rose past $700 in 2022, while used vehicles surpassed $500 on average. Despite years of fairly constant prices, the costs of new vehicles have skyrocketed following chip shortages and a reinvigorated demand for cars following the pandemic. While new car prices never surpassed yearly price growth of over 2% for 9 years, they increased over 10% during 10 consecutive months in 2022.

Used vehicles saw much more dramatic price changes, with prices increasing as high as 45% in late 2021 and throughout 2022. Used car prices have historically fluctuated more than new car prices, yet 2022 saw historic price jumps. In trend with used vehicles' volatility, their prices have been falling rapidly in recent months, dropping nearly 12% in January of 2023 alone. So, while used car prices are still higher than pre-pandemic levels, their prices have finally begun trending toward normalcy. Albeit, the same cannot be said for new car prices, which have steadily increased for 30 consecutive months.

(Sources: Bureau of Labor Statistics, St. Louis Federal Reserve)

REAL ID Deadline Postponed Until 2025 – Travel & Regulations

The Department of Homeland Security has announced that it will extend the REAL ID full enforcement date back 2 years from the original date of May 3, 2023, to May 7, 2025.

This extension grants states the ability to work through the backlogs created by the COVID-19 pandemic. The additional time should allow states to complete the transition towards driver's licenses and identification cards that meet the security standards passed by the REAL ID Act.

The REAL ID Act, passed by Congress in 2005, established air travel security standards for state-issued identification cards, including driver's licenses. These standards include anti-counterfeiting technology, preventing insider fraud, and checking records to ensure people do not claim to be someone other than themselves. After the enforcement date in 2025, every traveler must have a REAL ID-compliant identification card to pass through security checkpoints for air travel.

(Sources: U.S. Department of Homeland Security)

AVERAGE PRICE FOR A DOZEN EGGS IS $4.25, UP FROM $1.32 IN 2020

U.S. Equities Remain Cautious in February – Equity Overview

Domestic equities continued to react to higher overall costs while also projecting lower earnings growth heading into the rest of 2023. Nearly all sectors of the S&P 500 Index posted negative returns for February, pointing to an overall pullback across all industries of the market. The technology-heavy Nasdaq index saw stronger performance relative to the Dow Jones Industrial Index and the S&P 500 Index. A stronger dollar continues to weigh on U.S. multinational firms whose incomes are heavily reliant on international sales.

(Sources: Standard & Poor's, Bloomberg, Reuters, Nasdaq, Dow Jones)

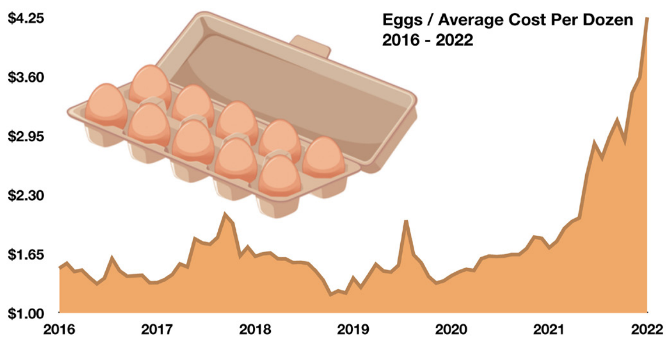
Rates Rise In February – Fixed Income Overview

Rates rose across all bond maturities, also known as the yield curve, which has remained inverted in recent months due to the Fed's monetary policy. The 4-month, 6-month, and 1-year Treasuries all surpassed 5% yields in late February and early March. The 10-year and 30-year Treasury bonds are producing the lowest yields concurrently as short-term Treasuries produce higher yields than long-term Treasuries, representing the inverted nature of the yield curve.

Interest rates moved up abruptly in February as markets assessed the Fed's rate increase policy as more vigorous than anticipated. The bond sell-off this past month has translated into mortgage rates reverting to the 7% level, the highest since November 10th. Mortgage rates were still at 4% at this same time last year.

(Sources: U.S. Department of the Treasury, Freddie Mac)

Eggs Continue To Get More Expensive – Food Sector Review



Amidst high food inflation throughout 2022, eggs have emerged as particularly costly goods at the grocery store in recent months. Egg consumption has been rising in recent years as compared to other protein sources, yet production has recently fallen due to an ongoing bird flu epidemic.

This bird, or "avian" flu, has infected 58 million birds, making it the largest outbreak of the flu in U.S. history. These birds must immediately be slaughtered once infected, which has caused the price of eggs to spike 60% in the past year alone. As of December 2022, the average price for a dozen eggs was $4.25, up from just $1.32 in late 2020. Higher prices might remain for an extended period until the number of hens returns to its pre-flu norms.

(Sources: USDA, Bureau of Labor Statistics, Federal Reserve Bank of St. Louis)

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