Trust and Asset Management Market Outlook

April 2023

Market Update

(all values as of 02.28.2023)

Stock Indices:

Dow Jones	33,274
S&P 500	4,109
Nasdaq	12,221

Bond Sector Yields:

2 Yr Treasury	4.06%
10 Yr Treasury	3.48%
10 Yr Municipal	2.11%
High Yield	8.31%

YTD Market Returns:

Dow Jones	0.38%
S&P 500	7.03%
Nasdaq	16.77%
MSCI-EAFE	7.65%
MSCI-Europe	9.89%
MSCI-Pacific	3.61%
MSCI-Emg Mkt	3.55%
US Agg Bond	2.95%
US Corp Bond	3.50%
US Gov't Bond	3.16%

Commodity Prices:

Gold	1,977
Silver	24.01
Oil (WTI)	80.60

Currencies:

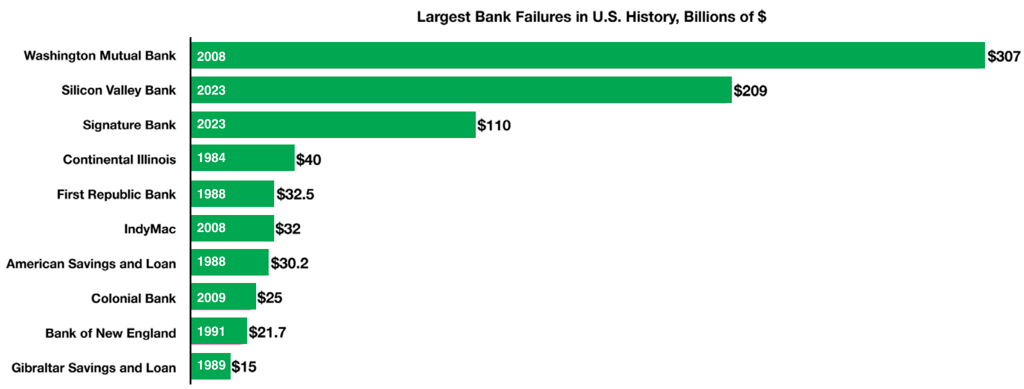
Dollar / Euro	1.08
Dollar / Pound	1.23
Yen / Dollar	136.60
Canadian / Dollar	0.73

Macro Overview

The failure of two regional banks unsettled equity and fixed-income markets globally in March. Financial contagion risks were at the forefront of the financial markets as the closure of Silicon Valley Bank and Signature Bank fostered turmoil throughout the banking sector. The recent banking crisis may alter the Fed's rate increase trajectory, as various analysts believe that the Fed's rapid rate increases may have triggered the banking mayhem.

Various bank analysts believe that the recent bank failures are more centralized than widespread in the banking sector, different from the crisis in 2008 when numerous institutions were affected. Some economists are forecasting the likelihood of a heightened recessionary environment should additional banks fail and if the Fed continues to hike rates.

What occurred in 2008/2009 was systemic, which means that there was a broad effect across many institutions with the same exposure, such as Mortgage Backed Securities (MBS). This so far has not been the case and is contained to just a handful of regional banks catering to a select group of depositors and customers.



The events in March precipitated a migration to bonds, creating a drop in interest rates which is advantageous to offset inflationary pressures. The concern is that falling rates may also be indicative of a slowing economic environment, with a possible recession should economic activity significantly curtail. The Fed may or may not continue to "fight" inflation by raising rates, depending on economic data and how the bank crisis unfolds. There is a growing consensus that the Fed may be ready to halt raising rates because new data is showing that inflation is beginning to cool off.

The Fed's latest survey on the economy, the Beige Book, reported that overall loan demand is falling, bank credit standards are tightening and delinquency rates are edging higher. The survey also identified rising rates as a factor in diminishing loan quality as well as inhibiting consumer borrower sentiment.

Millions of taxpayers are expected to file for an extension this year. The deadline for 2022 tax filings is April 18th, yet those requesting an extension will have until October 16, 2023. As always, the IRS reminds taxpayers that an extension is for filing and is not an extension to pay taxes owed.

(Sources: Bureau of Labor Statistics, Federal Reserve Bank of St. Louis, Federal Reserve Bank of New York, U.S. Treasury)

LUMBER & NATURAL GAS PRICES ARE OFF 70% FROM THEIR HIGHS

Demand For Treasuries Drives Rates Lower – Fixed Income Update

As a result of the bank failures, there has been an increased demand for Treasury bonds as a safe haven while the turmoil unfolds and volatility increases. The surge in bond buying has in turn brought down interest rates and has driven bond prices higher. The flight to U.S. Treasury bonds drove bond yields down across fixed-income markets, simultaneously alleviating rates on mortgages and consumer loans. The average rate for a 30-year conforming mortgage loan fell to 6.32% on March 30th, a welcome drop for homebuyers nationwide.

(Sources: U.S. Treasury, FreddieMac)

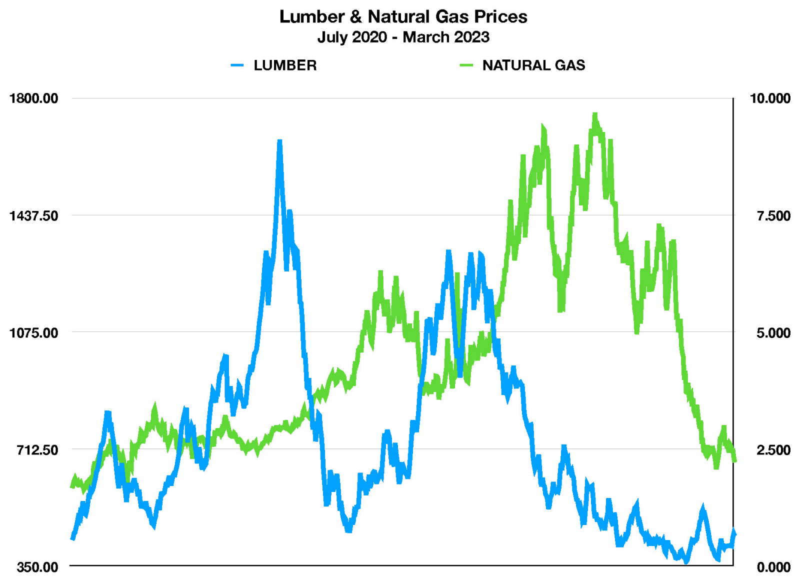
Bank Concerns Send Stock Volatility Higher – Domestic Equity Overview

Despite the bank failures in March, all three major equity indices posted positive returns for the first quarter of the year. The Dow Jones Industrial Average, S&P 500 Index, and the Nasdaq all saw upward trends towards the end of March. Volatility did rise in mid-March as banking turmoil spread throughout the equity markets. Financial and bank stocks saw the most volatility as concerns about contagion became an increasing focus. Companies that provide essential goods and services continue to be beacons for investors, as smaller technology and speculative stocks became undesirable with the bank failures.

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

Lumber & Natural Gas Show Signs Of Deflation – Commodity Overview

The past year has been one of turmoil for natural resources, especially due to global instability amidst the war in Ukraine and supply constraints. Two vital commodities affected, lumber and natural gas, have seen heightened price volatility. As of this past month, both commodities are off 70% from their highs which were reached in 2022. Economists view lumber and natural gas as leading indicators in their respective industries, signaling that dropping prices are expected to present a deflationary trend that may evolve over the coming months. In spring 2021, lumber surpassed $1600 per thousand board feet, with this essential housing material serving as a catalyst for inflation throughout 2022. Now, lumber's falling prices are expected to once again reflect the future state of the housing market. The market for lumber is now seeing demand for lumber fall, with its price falling accordingly. Since the primary use of lumber in the U.S. is for housing, a continuation of falling prices may indicate that demand in the housing market may continue to fall in the coming months. Another resource exhibiting similar trends is natural gas, with increasing supplies along with falling demand. As European nations cut off Russian gas as a result of the war in Ukraine, the export of U.S. natural gas rose significantly and raised prices for natural gas domestically. In the U.S., natural gas consumption fell throughout March, with diminishing demand for natural gas expected to continue to drive a return to normal prices, following similar trends as lumber.



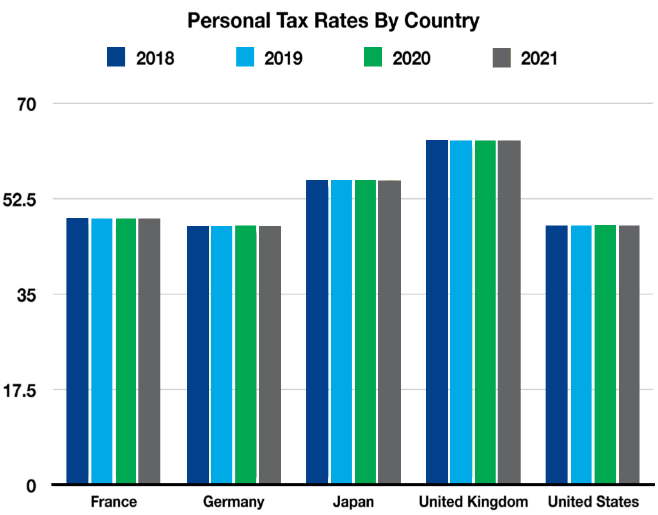
(Sources: U.S. Energy Information Administration, NASDAQ, S&P Global Commodity Insights)

IN BELGIUM, INCOME TAX RATES REACH AS HIGH AS 79.5%

U.S. Taxes Lower Than Other Developed Countries – Taxation Overview

The notion that taxes in the United States are excessive compared to other countries, is somewhat misleading. Relative to other developed countries, the U.S. maintains some of the lowest tax rates globally. U.S. tax rates were much higher in the 1940s, reaching a top marginal tax rate of 94% in 1944, yet have fallen substantially over the decades in comparison to other countries.

Since the Tax Cuts and Jobs Act of 2017, the top marginal federal tax rate in the U.S. is 37%, applying to incomes of over $578,125 for individuals and $693,750 for married couples filing jointly in 2023. In France, on the other hand, the top income tax rate currently reaches upwards of 45% for any individual earning €250,000 and 49% for individuals earning €500,000. In the UK, marginal income taxes can even reach 63.25% for certain individuals earning over £100,000. In Belgium, income taxes reach as high as 79.5%, more than double the highest marginal rates in the United States.

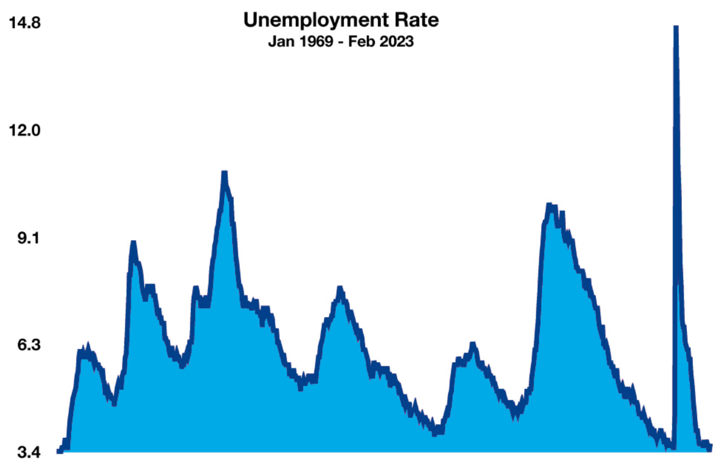


Another interesting note is that U.S. top marginal tax rates kick in at much higher incomes, with most European taxpayers paying the top marginal rate with incomes between €100,000 to €200,000. Across the board, the U.S. has lower income tax rates than its European counterparts.

(Sources: OECD, Internal Revenue Service, Belgian General Administration of Taxation, HM Revenue & Customs, French Ministry of Finance)

Recent Unemployment Data May Be Misleading – Labor Market Update

In January, unemployment reached a 54-year low of just 3.4% which presented a positive sign for the economy. However, many analysts agree that this low unemployment rate may be misleading and artificially low for the true state of the economy.



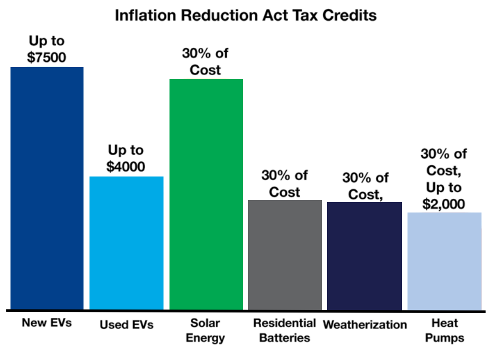
January's labor market was notably strong in December, adding 504,000 jobs as compared to 239,000 the prior month. The job market cooled slightly in February, with 311,000 jobs added. Economists believe that this could be a product of seasonality or a strong labor force. The labor force participation rate has risen steadily since its 47-year low in April 2020, yet is still significantly lower than average participation rates throughout the 1990s and 2000s. Ultimately, this makes the Federal Reserve's battle against inflation much more complicated, as their efforts of reducing hiring to lower inflation have still not proven effective. Historically, low unemployment rates tend to drive inflation higher, and with the recent cooling of inflation data, these historic lows are not expected to last.

(Sources: U.S. Bureau of Labor Statistics, Federal Reserve Bank)

HOMEOWNERS CAN GET A TAX CREDIT OF 30% UP TO $1,200 FOR WEATHERIZATION

Inflation Reduction Act Provides Tax Breaks For Environmentally Friendly Energy Projects – Taxpayer Focus

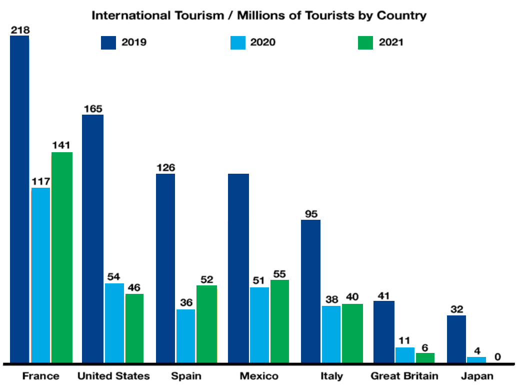
With Congress passing the Inflation Reduction Act (IRA) in 2022, consumers are expected to see new tax savings centered around environmentally-friendly energy. Throughout the ten-year plan, home renovations and upgrades are expected to generate savings for households. The most significant of these credits is a 30% tax credit against federal income taxes for the cost of installing solar energy equipment. This credit has no limit, and 30% will apply regardless of the amount spent on installation. The credit will remain until the end of 2032, then decrease to 26% in 2033, 22% in 2034, and eventually phase out in 2035. Heat pumps are also receiving sizable incentives through the act. Low-income households will receive a rebate of 100% for the cost of a heat pump, while moderate-income households will receive 50% of the heat pump expense. Homeowners can qualify for a 30% tax credit up to $2,000 for home energy efficiency projects, which covers heat pumps. For weatherization, homeowners can receive a tax credit of 30% for up to $1,200 per year. For households installing residential batteries, a tax credit of 30% is available for the equipment and installation cost.



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

Travel Industry Rebounding From Pandemic Slump – Travel & Tourism Industry

With March passing, it has officially been three years since the initial surge of the COVID-19 pandemic that shut down schools, in-person meetings, and disrupted most of the norms of daily life. While some industries benefited from the new landscape created by the pandemic, the tourism industry entered into a major slump due to widespread travel restrictions. The world's leader in tourism, France, saw 211 and 217 million tourists in 2018 and 2019 respectively. That number fell to just 117 million in 2020, a 46% drop that was apparent in countries across the world. The United States saw continuous declines in tourism since 2018, dropping over 72% from 169 million people in 2018 to 46 million in 2021. Other notable decreases include Spain, which saw a 71% fall in tourism between 2019 and 2020, Great Britain with an 85% drop between 2019 and 2021, and Japan with a 99% decrease between 2019 and 2021. Despite international tourism still suffering the effects of the pandemic, both 2021 and 2022 saw improvements. As for domestic travel within the United States, the TSA reported the most domestic travelers in July 2022 since December 2019, a dramatic rise from the abnormal lows of mid-2020.



(Sources: Transportation Security Administration, OECD, Federal Reserve Bank of St. Louis, World Tourism Organization)

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