XPYRIA INVESTMENT ADVISORS

Markets at a Glance

Fourth Quarter 2022

Equities

- Global equity markets, as measured by the MSCI World Index, rose 9.77% for the quarter. International developed equities outperformed both emerging market and U.S. equities. In a major reversal from the previous eighteen months, the U.S. dollar weakened as it depreciated 8.62% versus a basket of EAFE currencies and depreciated 8.52% versus a basket of emerging market currencies during the quarter.

- Large-cap stocks, as measured by the S&P 500 Index, rose 7.56%. Energy and Industrials were the best performing sectors, up 22.81% and 19.22%, respectively. Consumer Discretionary and Communication Services were the worst performing sectors, down -10.18% and -1.38%, respectively. The S&P 500 experienced a volatile year, as noted by nearly half of the trading days (122 out of 251) exhibiting performance of at least +/-1%. In 2022, there were 59 days where the index was up 1% or more versus 63 days down -1% or more. U.S. Services Purchasing Managers Index (PMI) data remained in contractionary territory for the fifth consecutive month, primarily driven by a slowdown in new orders. On a positive note, service sector firms indicated optimistic expectations regarding the year ahead.

- Small-cap stocks, as measured by the Russell 2000 Index, rose 6.23%. Energy and Industrials were the best performing sectors, up 14.03% and 11.69%, respectively. Health Care was the worst performing and only negative sector, down -3.66%. Higher-quality small-cap companies outperformed: companies with negative earnings before interest and taxes (EBIT) lagged those with earnings, while dividend payers outperformed non-dividend payers. The Russell 2000 Value Index outperformed the Russell 2000 Growth Index by 4.29% during the quarter, marking the eighth quarter out of the last nine in which small-cap value has outperformed its growth counterpart.

- International equities, as measured by the MSCI EAFE Index, rose 17.34%, with nearly half of this performance due to currency strength vs. the U.S. dollar. U.K. equities rose strongly after the resignation of Prime Minister Liz Truss and the abandonment of her plans for fiscal spending and tax cuts. Eurozone Services PMI data remained in contractionary territory, but underlying trends improved during the quarter. For example, the rate of job creation increased, the pace of inflation decreased, and business confidence rose. Eurozone unemployment reached an all-time low of 6.50% in October.

- Emerging market (EM) equities, as measured by the MSCI EM Index, rose 9.70%. China was one of the strongest performers due to its relaxation of COVID regulations, which had constrained the country's economic growth since 2020. As China comprises 32.31% of the MSCI EM Index, investors welcomed the easing of strict pandemic-related regulations and a pivot towards pro-growth policies. In addition, the depreciation of the U.S. dollar boosted global economic sentiment.

- Global Real Estate, as measured by the EPRA/NAREIT Developed Index, rose 7.11%. U.S. REITS experienced relative underperformance as they rose 4.49%. As a result of 30-year mortgage rates remaining elevated at 6.62%, home prices declined for the fourth consecutive month and the supply of existing homes in the U.S. increased to 3.3 months. In a reversal from last quarter, nontraditional real estate, such as data centers and cell towers, outperformed vs. more traditional areas, such as office and residential REITs.

Fixed Income Markets

- Core bonds, as measured by the Bloomberg Aggregate Bond Index rose 1.87%, while Bank Loans (2.71%) and High-Yield Bonds (3.98%) outperformed. U.S. Corporate Bonds (3.63%) outperformed Agency Mortgage-Backed Securities (2.14%) and U.S. Treasuries (0.72%).

- Federal Reserve (Fed) Chairman Jerome Powell reiterated that he is "strongly committed" to bringing down inflation, but he also indicated that the pace of rate hikes should slow down as the committee "feels its way" towards the end of the hiking cycle. The short-end of the Treasury yield curve steepened due to continued rate hikes and the increased expectations of higher interest rates. Despite a wide range during the quarter – a low of 3.42% and a high of 4.24% – the ten-year Treasury yield rose modestly from 3.83% to 3.88%. The yield differential between a ten and two-year Treasury inverted further as the two-year Treasury yield rose from 4.22% to 4.41%.

- The Fed raised the fed funds rate by 1.25% during the quarter, bringing its target rate to a range of 4.25% to 4.50%. The Fed continued its balance sheet reduction program, with its total assets declining by $288 billion during the quarter. The balance sheet reduction program involves allowing $60 billion of U.S. Treasuries and $35 billion of Agency Mortgage-Backed Securities to mature or be sold each month. Employment data (unemployment at 3.50%) remained strong, while inflation data (Core PCE at 4.70%) decelerated but remains well above the Fed's long-term average target of 2.00%.

- The European Central Bank (ECB) raised its main deposit rate by 0.75% in October and 0.50% in December, bringing the main deposit rate to 2.50%. The ECB noted that it expects to raise rates "significantly" further to tame inflation, which was 9.2% in December and as high as 10.7% in October. In December, the Bank of Japan (BOJ) modified its yield curve control policy to allow ten-year bonds to trade within a +/- 0.50% band around the 0.00% target (vs. the previous +/- 0.25% band).

Market Performance
As of 12/31/2022

Asset Class	Index	4th Qtr.	1 Year
EQUITIES			
Domestic			
Large-Cap	S&P 500	7.56%	-18.11%
Large-Growth	R1000 Growth	2.20%	-29.14%
Large-Value	R1000 Value	12.42%	-7.54%
Small-Cap	Russell 2000	6.23%	-20.44%
Small-Growth	R2000 Growth	4.13%	-26.36%
Small-Value	R2000 Value	8.42%	-14.48%
International			
Developed Mkts.	MSCI EAFE	17.34%	-14.45%
Emerging Mkts.	MSCI EM	9.70%	-20.09%
Global			
Developed Mkts.	MSCI World	9.77%	-18.14%
Real Estate Investments			
U.S. REITs	NAREIT	4.49%	-25.02%
Global REITs	EPRA/NAREIT Developed	7.11%	-24.41%
FIXED INCOME			
High-Yield	ICE BofA US HY	3.98%	-11.22%
Interm.-Term	Bloomberg Agg	1.87%	-13.01%
Short-Term	Blmbrg G/C 1-3	0.89%	-3.69%