Markets at a Glance

Second Quarter 2023

Equities

- Global equity markets, as measured by the MSCI World Index, rose 6.83% for the quarter with much of the gain coming in June due to headlines regarding advances in artificial intelligence and a bill to suspend the U.S. debt ceiling until 2025. U.S. equities outperformed their international developed and emerging market peers. The U.S. dollar appreciated 1.33% versus a basket of EAFE currencies and appreciated 0.81% versus a basket of emerging market currencies during the quarter.

- Large-cap stocks, as measured by the S&P 500 Index, rose 8.74%. The eight largest stocks in the S&P 500 Index were responsible for 67.5% of the index's gain during the quarter. Information Technology and Consumer Discretionary were the best performing sectors, up 17.20% and 14.58%, respectively. Energy and Utilities were the worst and only negative performing sectors, down -0.89% and -2.53%, respectively. U.S. Services Purchasing Managers Index (PMI) remained firmly in expansionary territory, primarily driven by a sharp rise in new orders and upbeat output expectations for the year ahead.

- Small-cap stocks, as measured by the Russell 2000 Index, rose 5.21%. Health Care and Industrials were the best performing sectors, up 11.18% and 9.40%, respectively. Financials and Utilities were the worst and only negative performing sectors, down -1.33% and -3.13%, respectively. Despite strong year-to-date performance of 8.09%, the Russell 2000 Index has only notched positive returns in two months this year – January (9.75%) and June (8.13%).

- International equities, as measured by the MSCI EAFE Index, rose 2.95%. Japan contributed the most to the index's return during the quarter as the Japanese economy was relatively slower to reopen after the pandemic. In addition, the Tokyo Stock Exchange earlier this year called for structural change whereby listed companies should focus on achieving sustainable growth and enhancing corporate value via higher return on equity. Eurozone Services PMI data remained in expansionary territory for the sixth consecutive month due to a rise in employment and wages. Eurozone unemployment remained near an all-time low of 6.50% in May.

- Emerging market (EM) equities, as measured by the MSCI EM Index, rose 0.90%. The modest gain masked volatility, as the index rose by 7.50% from June 1st to June 16th before declining and finishing the quarter up 0.90%. India contributed the most to the index's return during the quarter due to robust economic growth and a growing category of urban middle-class consumers. China, which is a 30% weight in the MSCI EM Index, underperformed due to weak private and foreign investment, continuing tensions with Western nations, and the lack of a government stimulus package to support consumer spending. Emerging Market Manufacturing and Services PMI both remained in expansionary territory.

- Global Real Estate, as measured by the EPRA/NAREIT Developed Index, rose 0.54%. U.S. REITS experienced relative outperformance as they rose 1.57%. As a result of 30-year mortgage rates remaining elevated at 7.17%, home prices declined for the tenth consecutive month and the supply of existing homes in the U.S. remained tight at 2.9 months. Nontraditional real estate, such as cell towers and self-storage, underperformed vs. more traditional areas, such as office, retail, and residential REITs.

Fixed Income Markets

- Core bonds, as measured by the Bloomberg Aggregate Bond Index fell -0.84%, while Bank Loans (3.15%) and High-Yield Bonds (1.63%) outperformed. U.S. Corporate Bonds (-0.29%) outperformed Agency Mortgage-Backed Securities (-0.64%) and U.S. Treasuries (-1.38%).

- Despite the Federal Reserve (Fed) pausing its interest rate hikes in June, Chairman Jerome Powell noted that "nearly all committee participants view it as likely that some further rate increases will be appropriate this year" to bring down inflation. The short-end of the Treasury yield curve steepened due to continued rate hikes. The ten-year Treasury yield rose from 3.48% to 3.81%, while the two-year Treasury yield rose from 4.06% to 4.87%. The yield differential between a ten and two-year Treasury inverted further and now sits near a 42-year record low at -1.06%.

- The Fed raised the fed funds rate by 0.25% in May, bringing its target rate to a range of 5.00% to 5.25%. As previously mentioned, the Fed did not raise interest rates at its June meeting in order to allow the committee to assess additional information and its implications for monetary policy amid tightening credit standards for consumers and businesses. The Fed continued its balance sheet reduction program, which 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 3.60%) remained strong, while inflation data (Core PCE at 4.60%) remains well above the Fed's long-term average target of 2.00%.

- The European Central Bank (ECB) raised its main deposit rate by 0.25% in May and 0.25% in June, bringing the main deposit rate to 4.00%. ECB President Christine Lagarde noted that "we are not thinking about pausing" and signaled additional rate hikes in the coming months. The central bank is determined to return inflation back to 2.0% in the medium-term, as Eurozone inflation remained elevated at 6.1% in May.

Market Performance
As of 06/30/2023

Asset Class	Index	2nd Qtr.	YTD
EQUITIES			
Domestic			
Large-Cap	S&P 500	8.74%	16.89%
Large-Growth	R1000 Growth	12.81%	29.02%
Large-Value	R1000 Value	4.07%	5.12%
Small-Cap	Russell 2000	5.21%	8.09%
Small-Growth	R2000 Growth	7.05%	13.55%
Small-Value	R2000 Value	3.18%	2.50%
International			
Developed Mkts.	MSCI EAFE	2.95%	11.67%
Emerging Mkts.	MSCI EM	0.90%	4.89%
Global			
Developed Mkts.	MSCI World	6.83%	15.09%
Real Estate Investments			
U.S. REITs	NAREIT	1.57%	3.16%
Global REITs	EPRA/NAREIT Developed	0.54%	1.58%
FIXED INCOME			
High-Yield	ICE BofA US HY	1.63%	5.41%
Interm.-Term	Bloomberg Agg	-0.84%	2.09%
Short-Term	Blmbrg G/C 1-3	-0.37%	1.13%