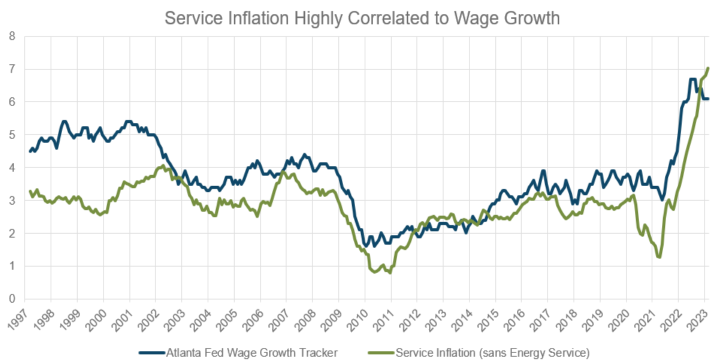
Macro Environment and Current Conditions

The labor market is the key to bring inflation down and to reconcile gloomy economic outlooks with still-resilient consumers. Commodity prices are no longer the driver for inflation. It's now the service sector.

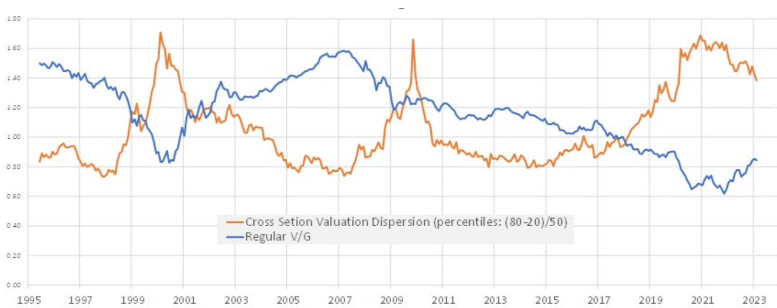
For service inflation to abate, wage growth has to come down. Consumer balance sheets are healthy in the historical context, and households still have a lot of excess savings. But leading economic indicators are pointing to a rising probability of recession in the next 12 months, despite that the nowcast for Q1 real GDP stands at 3.2%. From strong consumers to a recession, there needs to be job losses in between.



March's **banking turmoil** has shown that rate hikes do have consequences. Credit spreads have widened, and economic risks are heightened.

Value Growth Positioning

The cross-section Valuation Dispersion continues to narrow, and Value's relative strength since 2022 appears to be intact. But earnings for value stocks have not improved relative to those for growth stocks, casting doubts on whether this value phase has a fundamental leg. Simulation results underscore the volatilities in small- and mid-cap value stocks in recent months.



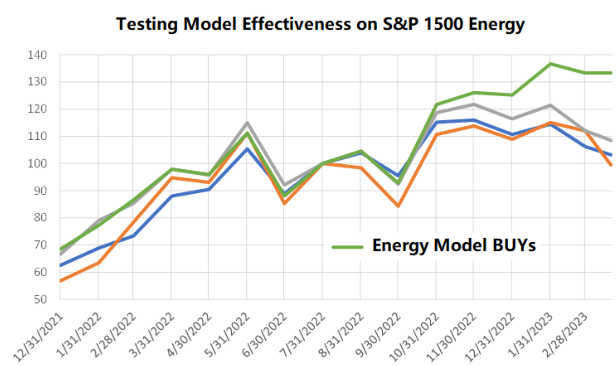
Operating Margins

Margins compressed in 2022. Financials, REITs, and Comm. Services were hit the hardest.

QUARTERLY OPERATING MARGINS	Dec-22	Dec-21
INFORMATION TECHNOLOGY	20.5%	24.4%
FINANCIALS	13.7%	24.0%
ENERGY	13.1%	10.4%
REAL ESTATE*	11.7%	24.3%
COMMUNICATION SERVICES	11.1%	16.8%
INDUSTRIALS	10.4%	8.5%
MATERIALS	8.7%	12.2%
HEALTH CARE	8.3%	9.0%
UTILITIES	8.1%	8.5%
CONSUMER STAPLES	7.3%	7.3%
CONSUMER DISCRETIONARY	5.7%	8.6%
S&P 500	**10.8%**	**13.4%**

Testing Models

Factor models with dynamic weights are being built and tested against current models. Early Effectiveness is encouraging.



[1] **Disclaimer:** The proceeding content is a summary of the discussion and data reviewed during the monthly Investment Committee meeting. It is informational only and based on information available when created. It is not an offer or a solicitation nor is it tax or legal advice. It does not consider your clients' financial circumstances and objectives and may not be suitable for your clients.