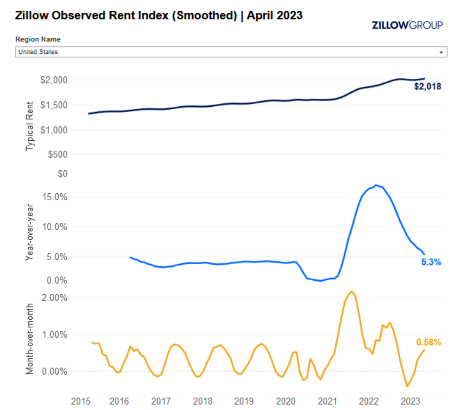
Macro Environment and Current Conditions

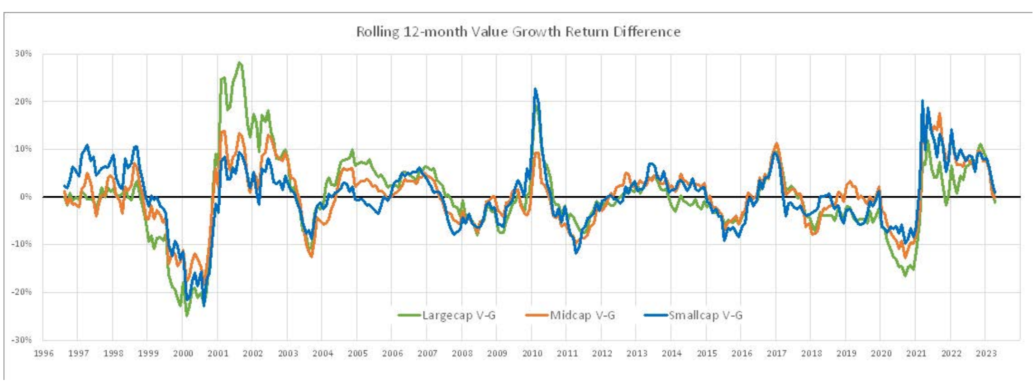
The Committee reviewed data on growth, inflation, and the labor market. Currently, the 10yr-3m term spread is at its most negative level since 1980, but a ***recession*** had never started while the yield curve was inverted, indicating that the economy might still have some time to run, as the ***labor market*** and the U.S. PMI Composite continue to show strength.



Inflation has peaked but is well above the Fed's 2% target. A big component of today's inflation is service inflation, which is different from what we had in 2021 when goods and commodity prices pushed up inflation. Service inflation is closely tied to wage inflation and shelter inflation. In recent months, we do see that the latter started to roll over, but in real time, the decline in rent growth has also slowed down. The year-over-year rent increase in April sat at 5.3%, bringing into question how much moderation we will see in shelter inflation going forward.

Stock Market Rotations

It becomes increasingly clear that the ***stock market rotations started after January***. Initially, it was triggered by the blowout jobs report released on February 3rd, which was a rude reality check for investors hoping for a swift drop of inflation and soon-to-follow rate cuts. ***The red hot labor market increased policy and economic uncertainties*** and dampened the risk-on sentiment. High beta stocks immediately began to lag, so did value stocks. In early March, when the SVB episode took hold, recession fears grew. Earnings have been driving stock returns since then and ***Quality has become a more influential factor***. The Committee saw exhaustion in the Value momentum, and updated its Size and Style allocation guidance by ***shifting 10% from Value to Growth*** for a more balanced posture.



Debt Ceiling and Special Events

The Committee had a discussion around whether and how we should react to risks posed by special events like the debt ceiling negotiation. There are viewpoints shared that our fiduciary duty requires us to investigate these risks and protect our portfolios, but the consensus also emphasized that as long term investors, we stay fully invested and do not time the market, which has been proven historically by practitioners and academics to be prudent.

[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.