

Investment Report 1Q2023

The market turmoil led to a forceful and apparently successful policy response that now highlights the competing forces of financial fragility vs. resilience of the real economy. In spite of two rate rises and the largest bank failures since the financial crisis, the S&P 500 concluded the first quarter of 2023 with a solid gain thanks to expectations for a "soft landing" in the economy and the Fed's indication that its historic rate-hike campaign is coming to an end.

Markets saw significant gains in January 2023, partly as a result of a continuing fall in widely watched inflation measures. Even with that decrease in pricing pressures, the economy's data showed surprising resilience, particularly in the labor market. The likelihood of an economic "soft landing," in which the economy slows but avoids a painful recession and inflation approaches the Fed's objective, rose as a result of the interaction of these forces. Also, the "better than feared" corporate earnings for the fourth quarter of 2022, which were announced in January, added to the growing optimism that both an economic and an earnings recession may be avoided. The S&P 500 experienced significant gains in January, climbing by more than 6%.

Growing optimism for a soft landing in the economy experienced a setback in February, however, as economic data suggested that the labor market was still extremely tight and that the rate of inflation fall had paused. Early February saw the release of the January jobs report, and it revealed a significant increase in employment, suggesting that the labor market will continue enormously tight (something the Fed believes is contributing to inflation). Inflation measurements that are closely watched, such as the CPI and the Core PCE Price Index, showed minor additional price drops later in the month, suggesting that the decline in inflation that had driven the gains in equities was coming to an end. Investors priced in much higher interest rates in the future months as a result of the positive economic data and the leveling off of inflation indicators, which affected both equities and bonds in February. The S&P 500 ended the month with a slight loss, falling by slightly over 2%.

Investor attention initially turned to inflation and potential interest rate increases as the first quarter's final month got underway, but the unexpected failure of Silicon Valley Bank—at the time the 16th-largest bank in the United States—shifted attention to a potential banking crisis that was just beginning to develop. Days after the collapse of Signature Bank of New York, concerns about a local banking crisis intensified. In response, the Federal Reserve and the Treasury Department established new lending initiatives with the goal of supporting neighborhood banks and halting bank runs, but concerns about the stability of the financial system lingered and weighed on markets through the middle of March. Even though the Federal Reserve increased interest rates once more at its meeting in March, decision-makers gave a strong indication that they were extremely near to calling an end to the current rate hike campaign. This revelation as well as the fact that there were no other significant bank failures allayed fears of a developing banking crisis, and the S&P 500 was able to rally in the last two weeks of March to end the month with a marginal gain.

First Quarter Performance Review

When compared to the first quarter of 2022, index and sector performance took a sudden turn for the worst in 2023. In terms of an index, the Nasdaq (which underperformed significantly in 2022) easily excelled in the first quarter and ended with incredibly strong results. Growth-oriented tech and consumer

companies were more appealing to investors due to falling bond yields, while mega-cap tech companies like Apple, Alphabet, Amazon, and others were seen as "safe havens" during the late-quarter banking turmoil. The Dow Industrials and Russell 2000 recorded more modest but still positive gains through the first three months of the year, compared to the S&P 500, which has a significant portion of its weight in tech.

Large companies outperformed small caps in terms of market capitalisation, as they did in 2022. Smaller companies have historically been more dependent on finance to maintain operations and support expansion, so worries about funding sources, should the banking crisis intensify, and higher interest rates impacted on small caps.

Growth easily surpassed value in terms of investment strategy, which is a major flip from 2022. The previously indicated decrease in bond yields and a late-quarter "flight to safety" due to the regional banking crisis were advantageous for tech-heavy growth funds. Concerns about a potential wider banking crisis dragged down value funds, which have higher weightings towards financials.

Seven out of the 11 S&P 500 sector groups posted positive returns for the first quarter. Notably, the top three performing sectors from the first quarter were the bottom three in 2022. Thanks to significant gains from internet-focused tech equities and the rotation to mega-cap tech companies, communication services was one of the best performing sectors in the first quarter. These two factors certainly benefited the technology industry as well, as it increased marginally more than the communications sector in Q1. Last but not least, consumer discretionary, which has a higher weighting towards tech-based consumer companies like Amazon and others, also recorded a significant positive gain as a result of the same general outperformance of tech stocks and as the labor market continued to be more resilient than anticipated, improving the prospects for consumer spending in the months to come.

The financial sector had the worst performance in the first quarter due to the regional banking crisis, which also had an impact on financials as a whole and bank stocks specifically. Energy saw significant reductions throughout the first quarter as a result of weakening consumer demand and mounting worries about the global economy's expansion. More generally, the remaining S&P 500 sectors experienced modest quarterly gains or losses due to the continued high level of uncertainty surrounding future economic growth and earnings, as well as the fact that the March-emerging banking strains will only serve as a further drag on economic development.

US Equity Indexes	Q1 Return	YTD
S&P 500	7.50%	7.50%
DJ Industrial Average	0.93%	0.93%
NASDAQ 100	20.77%	20.77%
S&P MidCap 400	3.81%	3.81%
Russell 2000	2.74%	2.74%

Source: YCharts

Internationally, foreign markets saw good returns in the first quarter and mostly traded in line with the S&P 500. Through the first three months of the year, foreign developed markets outperformed the S&P 500 due to better-than-anticipated economic data from Europe and perceptions of European banks as mostly immune to the regional bank crisis in the United States. Despite marginally positive returns through March, emerging markets underperformed the S&P 500 due to persistently high geopolitical tensions that

arose as a result of the Chinese spy balloon scandal between the United States and China. The Czech Republic was the market that performed the best. Against a backdrop of strengthening economic statistics, Mexico outperformed, while Taiwan and Korea benefited from optimism about global development. Peru, Indonesia, and Chile also did well.

International Equity Indexes	Q1 Return	YTD
MSCI EAFE TR USD (Foreign Developed)	8.62%	8.62%
MSCI EM TR USD (Emerging Markets)	4.02%	4.02%
MSCI ACWI Ex USA TR USD (Foreign Dev & EM)	7.00%	7.00%

Source: YCharts

Overview

Total returns (net) % – to end Q1 2023

Equities	3 months			12 months		
	USD	EUR	GBP	USD	EUR	GBP
MSCI World	7.7	5.8	4.8	-7.0	-4.8	-1.0
MSCI World Value	0.9	-0.9	-1.8	-5.0	-2.8	1.1
MSCI World Growth	15.1	13.1	12.0	-9.8	-7.7	-4.0
MSCI World Smaller Companies	4.3	2.4	1.5	-9.4	-7.2	-3.5
MSCI Emerging Markets	4.0	2.1	1.1	-10.7	-8.6	-4.9
MSCI AC Asia ex Japan	4.3	2.5	1.5	-8.9	-6.7	-3.0
S&P500	7.5	5.6	4.6	-7.7	-5.5	-1.7
MSCI EMU	14.2	12.2	11.1	5.6	8.1	12.4
FTSE Europe ex UK	11.7	9.7	8.6	2.1	4.6	8.7
FTSE All-Share	6.0	4.1	3.1	-3.4	-1.0	2.9
TOPIX*	6.3	4.4	3.4	-3.5	-1.2	2.8

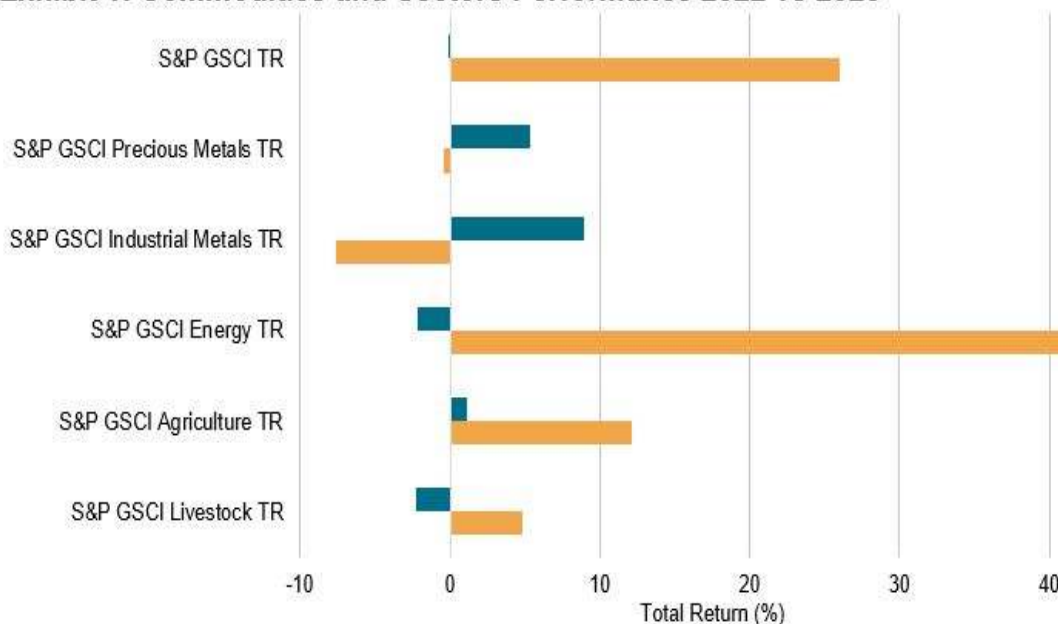
Commodities

The first quarter saw a significant decrease in commodities, largely as a result of the considerable weakness in oil prices, which touched new 52-week lows. The first quarter saw a decline in oil prices as demand expectations were dampened by growing concerns about the world economy and geopolitical risks were insufficient to make up for these fears. But despite the regional banking crisis, gold saw a strong increase in value as investors flocked to the yellow metal as a store of value. The performance of each of the 24 individual commodities that make up the S&P GSCI in the first month of 2023 varied. This echoed the hazy future in terms of inflation projections. Industrial metals led the way in the half that fared best, while natural gas underperformed as European nations filled their tanks to the brim. The agriculture and livestock sectors closed nearly flat for the month, masking the volatility of the underlying commodities, while gold had one of its best starts to a year in a decade as mentioned above.

Commodity Indexes	Q1 Return	YTD
S&P GSCI (Broad-Based Commodities)	-4.94%	-4.94%
S&P GSCI Crude Oil	-6.15%	-6.15%
GLD Gold Price	8.00%	8.00%

Source: YCharts/Koyfin.com

Exhibit 1: Commodities and Sectors Performance 2022 vs 2023



Source: S&P Dow Jones Indices LLC. 2022 performance in yellow. 2023 performance in blue. Data as of January 2023. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

In the first quarter of 2023, the primary benchmark for bonds (Bloomberg Barclays US Aggregate Bond Index), although being volatile at the beginning of the year, realized a positive return. A broad bond market rally in the first quarter was sparked by the Fed signaling an impending end to rate hikes and worries that the regional banking crisis would increase the likelihood of a recession.

In the first quarter, longer-duration bonds outperformed those with shorter durations, according to a closer examination of the fixed income markets, as bond holders embraced further falls in inflation and sought out long-term yield in the face of a cloudy forecast for future economic development. Both higher-quality, investment-grade bonds and higher-yielding, "junk"-rated corporate debt saw positive returns. Following decreases in inflation and as corporate earnings results were generally better than anticipated, investors began to shift to both types of corporate debt.

US Bond Indexes	Q1 Return	YTD
BBgBarc US Agg Bond	2.96%	2.96%
BBgBarc US T-Bill 1-3 Mon	1.09%	1.09%
ICE US T-Bond 7-10 Year	3.55%	3.55%
BBgBarc US MBS (Mortgage-backed)	2.53%	2.53%
BBgBarc Municipal	2.78%	2.78%
BBgBarc US Corporate Invest Grade	3.50%	3.50%
BBgBarc US Corporate High Yield	3.57%	3.57%

Source: YCharts

	3 months			12 months		
Government bonds	USD	EUR	GBP	USD	EUR	GBP
JPM GBI US All Mats	3.1	1.3	0.3	-4.4	-2.1	1.8
JPM GBI UK All Mats	5.1	3.2	2.2	-21.8	-19.9	-16.7
JPM GBI Japan All Mats**	1.5	-0.2	-1.2	-10.4	-8.3	-4.6
JPM GBI Germany All Traded	3.7	1.9	0.9	-13.5	-11.5	-7.9
Corporate bonds	USD	EUR	GBP	USD	EUR	GBP
BofA ML Global Broad Market Corporate	3.4	1.6	0.6	-6.9	-4.6	-0.8
BofA ML US Corporate Master	3.5	1.6	0.6	-5.2	-2.9	1.0
BofA ML EMU Corporate ex T1 (5-10Y)	3.9	2.0	1.1	-12.5	-10.4	-6.8
BofA ML E Non-Gilts	5.2	3.4	2.4	-15.7	-13.7	-10.3
Non-investment grade bonds	USD	EUR	GBP	USD	EUR	GBP
BofA ML Global High Yield	3.6	1.8	0.8	-4.4	-2.1	1.8
BofA ML Euro High Yield	1.8	0.0	-1.0	-2.4	0.0	4.0

Source: Thomson Reuters DataStream.

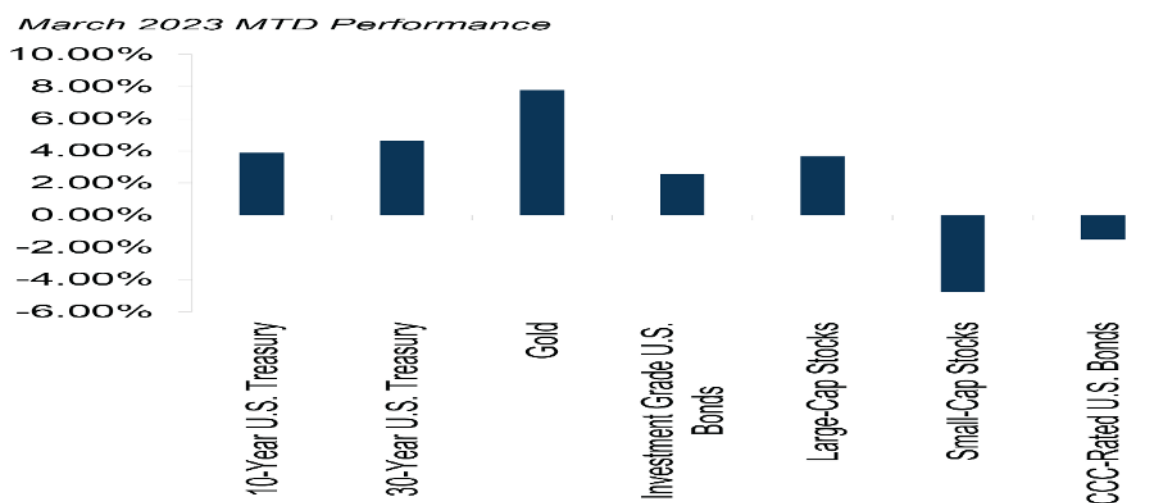
Local currency returns in Q1 2023: *7.2%, **2.4%.

Past performance is not a guide to future performance and may not be repeated.

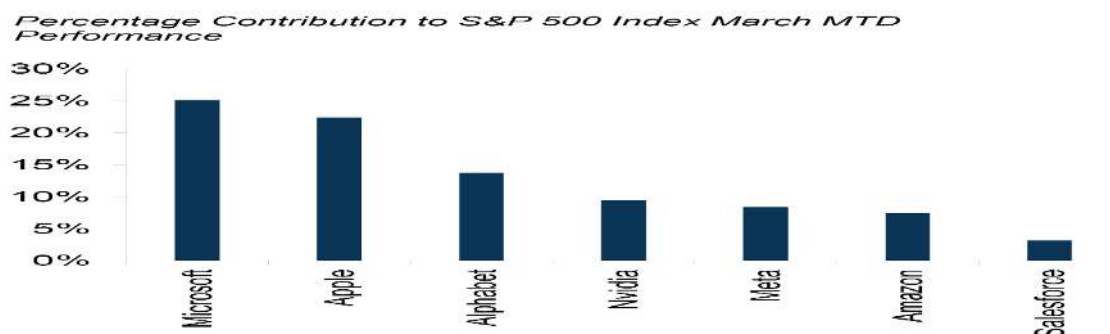
Global bonds

Energy prices fell and China's economy reopened in the first quarter of the year, which contributed to a good forecast for growth. The core inflation indicators, meanwhile, continued to inch up, providing further evidence that the favorable inflation picture was beginning to change. Despite some changes in policy, central banks kept raising interest rates. Two rate increases of 25 basis points each were announced by the Federal Reserve (Fed) in the quarter, signaling a slowdown. The Bank of England (BoE) authorized two rate increases, each of which was 25 and 50 basis points. In contrast, the European Central Bank (ECB) maintained its hawkish stance and increased rates twice in increments of 50 basis points. The 10-year yield for the US decreased from 3.92% to 3.47%, and the two-year yield decreased from 4.82% to 4.03%. The yield on Germany's 10-year note dropped from 2.65% to 2.29%. The UK 10-year yield decreased from 3.71% to 3.49%, while the yield on the two-year bond went from 4.07% to 3.44%. The positive impact of the equity market tailwind on convertibles may be limited. In terms of US dollars, the Refinitiv Global Focus Convertible Bond Index increased 2.9%. When liquidity in the financial industry dried up in February

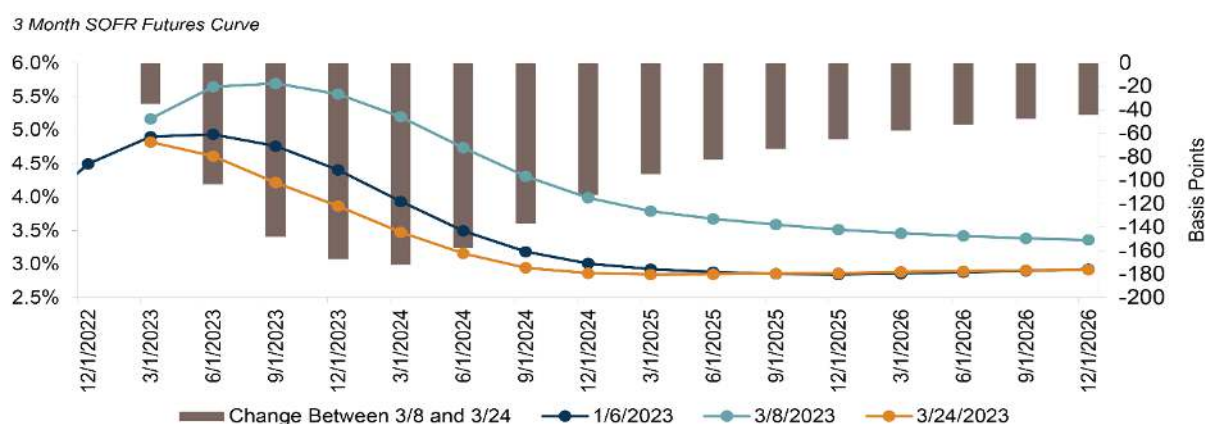
and again later, convertibles offered good protection against losses. However, just 40% of the stock upside was shared across the asset class. Total new issuance volume for the first quarter is US\$22.5 billion, which is significantly higher than the record lows of the previous year.



By the end of the quarter, the crisis appeared to have been avoided: worries about deposit flight had subsided, the Federal Reserve and the European Central Bank had both moved forward with their anticipated interest rate increases, and the majority of markets had strengthened. But given that this rally was motivated by a flight to quality, it might be rather misleading. About 90% of the S&P 500 Index's return in March was contributed by seven large corporations, while small cap equities, which are traditionally thought of as being riskier, suffered significant losses. Investors flocked to investment-grade bonds during this time and kept pricing in numerous interest rate reductions before the year's end.



The ICE Bank of America MOVE Index, which gauges bond market volatility, hit its greatest level since 2008 on March 15; this level surpassed that of early 2020, when Covid-19 was shutting down the world economy. Two days earlier, the 2-year Treasury yield had dropped by 61 basis points, the most in a single day since 1987.⁴ For comparison, consider that since January 2000, the yield on the 2-year Treasury has only experienced net daily changes of 20 bps or more on 46 occasions; 15 of those occurrences occurred in 2008, and 10 have already happened in 2023.



This year, both the U.S. and the eurozone GDP are increasing by modest but positive amounts, up from zero the year before. Both are anticipated to expand by 0.3% and 0.7%, respectively. Germany continues to be the worst performance in the eurozone, with flat output. The U.K. is even weaker, and we continue to see a 0.5% decline in output there this year. China's growth forecast increased by 70 basis points to 5.5%, while maintaining 6.0% prediction for India. Global growth should increase by 40 basis points to 2.7% in 2023.

GDP Growth Forecasts

	Latest forecast			
(%)	2023	2024	2025	2026
U.S.	0.7	1.2	1.8	2.0
Europe				
Eurozone	0.3	1.0	1.7	1.6
Germany	0.0	0.9	1.8	1.7
France	0.4	1.2	1.6	1.4
Italy	0.4	1.0	1.4	1.4
Spain	1.1	1.6	2.3	2.2
U.K.	(0.5)	1.5	1.8	1.6
Asia-Pacific				
China	5.5	5.0	4.7	4.5
Japan	1.0	1.1	1.1	1.0
India*	6.0	6.9	6.9	7.1
Other emerging market economies				
Mexico	1.3	1.7	2.1	2.1
Brazil	0.8	1.7	2.0	2.0
South Africa	0.8	2.1	1.7	2.2
World\$	2.7	3.1	3.4	2.9

Change from previous forecast

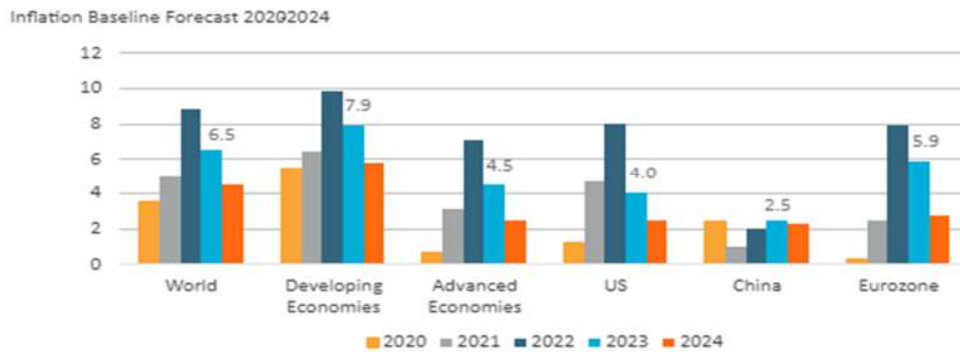
	2023	2024	2025
U.S.	0.8	(0.2)	0
Europe			
Eurozone	0.3	(0.4)	0.2
Germany	0.5	(0.1)	0.5
France	0.2	(0.4)	0.1
Italy	0.5	(0.4)	0.2
Spain	0.2	(0.3)	(0.2)
U.K.	0.5	0.2	0.3
Asia-Pacific			
China	0.7	0.3	0.1
Japan	(0.2)	0	0
India*	0	0	0
Other emerging market economies			
Mexico	0.5	(0.3)	(0.1)
Brazil	0.2	(0.2)	(0.2)
South Africa	(0.7)	0.5	0
World\$	0.4	0	0.1

*Fiscal year, beginning April 1 in the reference calendar year. \$World is in PPP terms, based on the sample of 33 countries we cover. Sources: S&P Global Market Intelligence (model) and S&P Global Ratings (forecasts). Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

Global Inflation

In Q1 2023, it was anticipated that global inflationary pressures will continue to decrease. The baseline scenario predicts that global inflation would peak at 6.5% in 2023 and then decline to 4.5% in 2024. In significant measure, slower global economic development and the resulting weaker demand have helped to restrain price growth. However, because of the continuing high US dollar exchange rate, weaker foreign exchange reserves, and the protracted pass-through of increased energy and commodity costs, inflationary pressures in the emerging economies are predicted to continue in 2023. Possible increases in energy prices, ongoing deglobalization, structural issues with the labor market, and a quicker-than-expected economic recovery in China continue to be the main dangers and might speed up price inflation

in 2023. Additionally, it is anticipated that rising interest rates and the persistently high cost of necessities will further reduce consumer purchasing power in 2023.

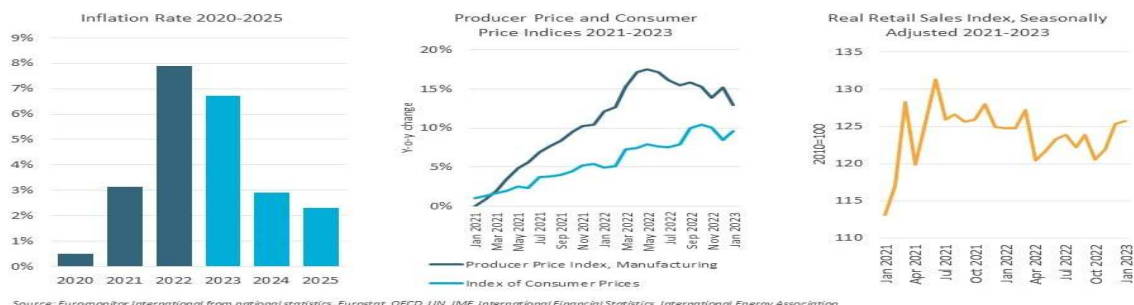


According to forecasts, US inflation will be 4.0% in 2023 and 2.5% in 2024. Lower prices for manufactured goods and energy as well as the impact of increased interest rates all contribute to controlling inflation. However, due to continually high core inflation in 2023, which excludes the effects of food and energy price increases, price pressures in the US will continue to be high. Price stability in the US is at danger due to issues with the labor market and the resulting imbalances in labor supply and demand.

Even while high energy costs continue to increase the inflationary pressures, the chances of inflation in the Eurozone have marginally decreased. Inflation rates of 6.7%, 7.2%, and 4.5%, respectively, are predicted for the major economies in the Eurozone—Germany, Italy, and Spain—which are also the ones that depend most heavily on energy imports. One of the largest inflationary concerns in the Eurozone is the cascading effects of increasing energy prices on other industries and the probable elimination of energy subsidies for families. The exclusion of Russia from the European gas market and the rising gas consumption in China are additional potential risk factors to take into account because they could heighten inflationary pressures in 2023.

In India, inflation is anticipated to be 5.2% in 2023 and 5.0% in 2024. In major measure, tighter monetary policy and lower food costs contribute to price stabilization. In 2023, it is anticipated that higher borrowing costs, weaker pent-up demand, and lower commodity prices will restrain the rise in consumer prices.

Germany: Elevated energy prices create second round effects that keep inflation high



Performance across regions

UK

UK equities increased during the period. In accordance with previous markets, economically sensitive areas performed well. This took place amid expectations that central banks would be able to "pivot" toward lowering interest rates in late 2023. The consumer discretionary sector and the industrials both performed well. The latter showed that many domestically oriented areas were seeing a very robust revival. These recovered as it became out that the UK economy was performing well during the energy crisis. Contrary to general forecasts, the Office for National Statistics' most recent quarterly GDP data showed that the UK economy expanded in Q4 2022. By averting two consecutive quarters of fall (after the contraction seen in Q3 2022) the economy was able to avoid a technical recession. The Bank of England (BoE) stated in its most recent quarterly predictions that it continued to anticipate that the country would experience a recession later in 2023.

US

Investor optimism drove US stocks up over the quarter despite the brief market turmoil that followed the failure of Silicon Valley Bank (SVB) in March. Rates were increased twice by the Federal Reserve (Fed), and data showed that inflation was slowing, raising hopes that the cycle of rate increases would soon come to a stop. Stocks fell significantly in March as a result of the collapse of SVB, which was swiftly followed by additional financial sector disruption in Europe. However, they soon recovered to close the month and the quarter higher. The Fed increased the policy rate by 25 basis points in both February and March as a sign of its faith in the strength of the US financial sector. Due to this, borrowing costs reached their highest level since 2007.

Japan

The Topix index of Japanese stocks increased 7.2% in yen terms during the first quarter. Following the unexpected modification to the yield curve management strategy that was revealed in mid-December, investors' attention remained on the Bank of Japan (BoJ) for the entire month of January. Despite speculation from investors, BoJ governor Mr. Kuroda did not adjust the policy at the January policy meeting. The topic of the new governor, Mr. Kazuo Ueda, who will succeed Mr. Kuroda in early April, was brought up. Inconsistent quarterly earnings numbers were reported from late January through mid-February.

Asia (ex Japan)

With significant gains by Taiwan, Singapore, and South Korea countering lower performances by Hong Kong, India, and Malaysia, Asia ex-Japan equity markets performed well in the first quarter. Following Beijing's relaxation of the Covid-19 limitations that had been limiting the country's economic growth, Chinese shares saw significant increases at the beginning of the quarter. Investor confidence was also boosted by supportive measures for the real estate sector and a relaxation of the regulatory restrictions on Chinese technology companies. While India closed the month in the red due to a sell-off by foreign investors and investor caution as economic development stagnated, South Korea and Taiwan both made significant gains in January. Investor apprehension about the region was eased in February by worries about a worldwide recession; as a result, Thailand, Malaysia, and South Korea all saw significant drops in

value as investors took profits after the region had performed well in January due to investor optimism spurred by China's reopening. Despite this, all benchmark markets performed favorably in March as concerns about market contagion following the failure of Silicon Valley Bank subsided.

Going into second quarter 2023 with a number of unknowns, including the direction of inflation, expected pace of economic growth, number of prospective Fed rate hikes, and degree of containment of the local banking problem. Even still, since their lows in October 2022, markets have shown resilience over the past six months despite all of this uncertainty. Therefore, there is still a path for future good returns even though there are still obstacles and markets are expected to remain volatile.