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INVESTMENT SUMMARY
12/31/2022

Index Name	QTD Return	YTD Return
Dow Jones Industrial Average	16.01%	-6.86%
S&P 500 (Large Co. index)	7.56%	-18.11%
Russell 2000 (Small Co. index)	6.23%	-20.44%
MSCI EAFE (Int'l Equity index)	17.34%	-14.45%
Bloomberg U.S. Aggregate Bond	1.87%	-13.01%

Market Commentary

The fourth quarter of 2022 was positive for nearly all asset classes (U.S. Stocks, Int'l Stocks, Real Estate, and Bonds). The S&P 500 rose 8% for the quarter, pulling out of bear market territory down 18% for the full year. International markets were up more than U.S. equities in Q4, with Developed Market stocks finishing 2022 down 14% and Emerging Market stocks down 20%. Small Cap U.S. equities were down 20% for the year. Real Estate Investment Trusts (REITs) rose 5% in the quarter, and were down 24% for the year. Bonds rose 2% in Q4 as interest rates dropped causing bond values to increase during the quarter. The Bloomberg U.S. Aggregate Bond index had its worst year in index history, down 13%, as rates rose substantially in 2022. Market interest rates rose given the Fed's 4.25% hike in short-term rates and tightening of financial conditions.

Late in the quarter, growing recessionary fears took hold capping the equity advance and limiting the upward momentum. However, those recessionary fears coupled with slowing inflationary data allowed the Fed to slow the pace of rate hikes. Rather than an additional 75bps hike, the Fed settled for a 50bps adjustment at their December meeting. Slowing inflation and softening of many economic indicators renewed fears that the U.S economy would be unable to avoid a recession, and bonds rallied. While not enough to significantly soften the pain of three quarters of negative price impact, the nearly 2% rise in the Bloomberg U.S. Aggregate Bond Index was a welcome relief for investors. The worst performance in modern history in the bond market led to the worst performance by the traditional 60/40 asset allocation mix since the Great Recession. Utilizing the S&P 500 and the Bloomberg U.S. Aggregate Bond Index to construct the allocation yielded a negative return of just over 16%. When considered on the global basis, the results are even worse. A portfolio comprising 60% MSCI ACWI and 40% Bloomberg Global Aggregate Bond Index declined 17.51%, and that was with a nearly five percentage point rally in the Global Aggregate Bond index during the fourth quarter. In many ways, the fourth quarter of 2022 was a fitting end to a volatile year. Like much of the year, inflationary concerns and monetary policy drove market results occasionally interspersed with outside events like the FTX bankruptcy and U.S. mid-term elections.

When coupled with still rising rates and a basketful of negative economic indicators, it is difficult to see the U.S. economy avoiding a recession in the upcoming year. However, corporate profit margins have not yet contracted significantly, and unemployment remains at historic lows, so some hope remains that a "softish" landing might still be attainable. As we enter 2023, we are more optimistic regarding the fixed income side of the market. We expect positive bond returns, and we continue to monitor Fed activity. We are less optimistic regarding equity markets. We expect earnings to continue to fall and continued volatility as markets seek to determine when the Fed will pivot and if a recession can be avoided. Therefore, since markets are unpredictable we believe diversification, manager expertise and continued investor patience are the keys to long-term investment success.

Market Highlights

- In 4Q 2022, bonds reversed their negative course with a 2% return
- In 2022, Church Loans were the leading portfolio sub-asset class, with the strategy up +1.8%
- Proper asset allocation, diversification, and manager value continue to be the focus of our fund management program

Market commentary provided in partnership with Cornerstone Management, Inc.